Arizona Power Authority Refunding Update

August 30, 2021

PFM Financial Advisors LLC

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Series 2014 Bonds Overview

- The Series 2014 Bonds were issued on March 27, 2014
- Taxable Bonds
- Final maturity October 1, 2045
- Make-whole call
- APA has indicated a desire to explore a refinancing of the Series 2014 Bonds to provide near-term cost relief in preparation for impacts of the drought on its customers
- Given the make-whole call associated with the bonds, refunded bonds will be defeased at a premium based on current market rates, increasing the cost of the refinancing

Issuer Name	Arizona Power Authority		
Series Name	Series 2014 Power Resource Revenue Bonds (Federally Taxable)		
Par Size	$26,565,000		
Dated Date	3/27/2014		
Delivery Date	3/27/2014		
First Interest Pmt	10/1/2014		
Due Date	1-Oct		
Optional Redemption	Make Whole Call		
2021	580,000		3.058%
2022	595,000		3.329%
2023	615,000		3.509%
2024	635,000		3.679%
2025	660,000		3.829%
2026	685,000		3.979%
2027	715,000		4.109%
2028	745,000		4.209%
2029	775,000		4.309%
2030	805,000	*	4.918%
2031	845,000	*	4.918%
2032	885,000	*	4.918%
2033	930,000	*	4.918%
2034	975,000	*	4.918%
2035	1,025,000	*	4.918%
2036	1,075,000	*	4.918%
2037	1,125,000	*	4.918%
2038	1,180,000	*	4.918%
2039	1,240,000	*	4.918%
2040	1,300,000	*	4.918%
2041	1,365,000	*	4.918%
2042	1,430,000	*	4.918%
2043	1,500,000	*	4.918%
2044	1,575,000	*	4.918%
2045	1,655,000	T	4.918%
Par Outstanding	$24,915,000		

Refunding Overview

- In order to provide near-term cost relief, PFM analyzed three separate refinancing scenarios:
  1. Refunding of 2022 – 2026 maturities, refinancing debt on a level basis 2027 – 2045
  2. Refunding of 2022 – 2031 maturities, refinancing debt on a level basis 2032 – 2045
  3. Refunding of 2022 – 2031 maturities, refinancing debt on a level basis 2032 – 2065
  4. Refunding of 2022 – 2031 maturities, refinancing debt on a level basis 2032 – 2045 with interest capitalized through 2031
  5. Refunding of all maturities, refinancing debt on a level basis through 2032 – 2065

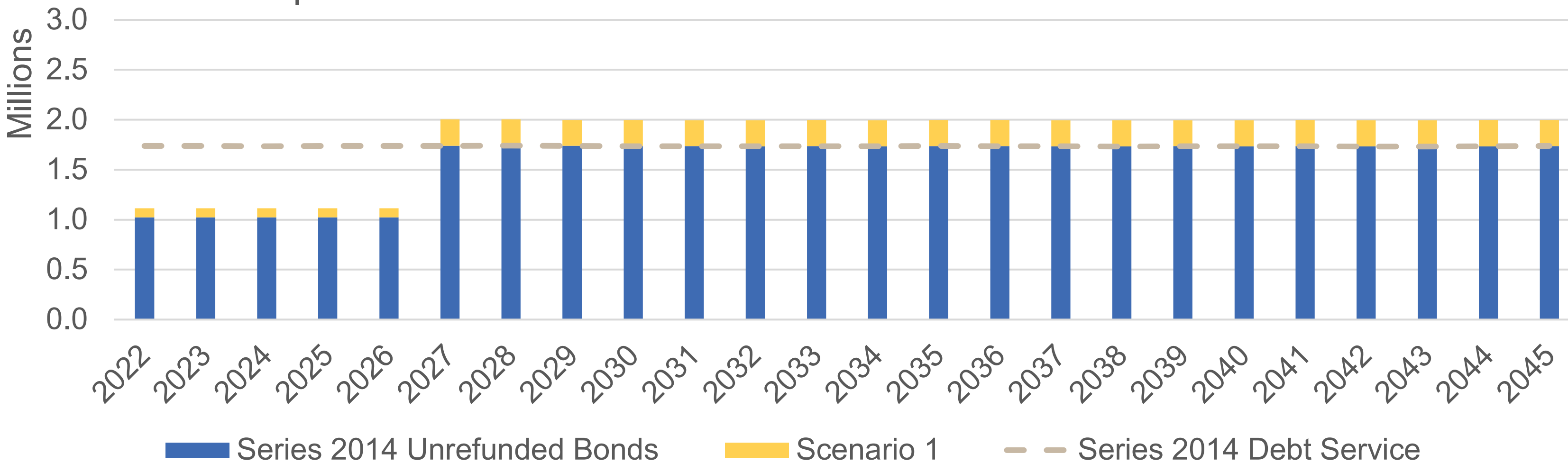
	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Dated Date	10/1/2021	10/1/2021	10/1/2021	10/1/2021	10/1/2021
Refunding Par	$3,905,000	$9,045,000	$9,045,000	$12,130,000	$35,025,000
Refunded Par	$3,190,000	$7,075,000	$7,075,000	$7,075,000	$24,335,000
Refunded Maturities	2022 - 2026	2022 – 2031	2022 – 2031	2022 – 2031	2022 – 2045
PV Savings ($)	-$588,000	-$1,307,000	-$1,434,000	-$1,307,000	-$5,382,000
PV Savings (%)	-18.4%	-18.5%	-20.3%	-18.5%	-22.1%
Savings through 2026	$3,110,000	$3,290,000	$3,135,000	$4,440,000	$3,650,000
Increase in debt service	$1,860,000	$4,394,000	$8,231,000	$5,838,000	$24,600,000

Scenario 1: Refunding of 2022 – 2026 Maturities

- To provide near-term cost relief over the next five years, one option available to APA is to refinance the 2022 through 2026 maturities
  - Refunding bonds can be amortized from 2027 – 2045
  - Doing so generates cashflow savings of $620,000 annually from 2022 through 2026

	Scenario 1
Dated Date	10/1/2021
Refunding Par	$3,905,000
Refunded Par	$3,190,000
Refunded Maturities	2022 - 2026
PV Savings ($)	-$588,000
PV Savings (%)	-18.4%
Savings through 2026	$3,110,000
Increase in debt service payments	$1,860,000

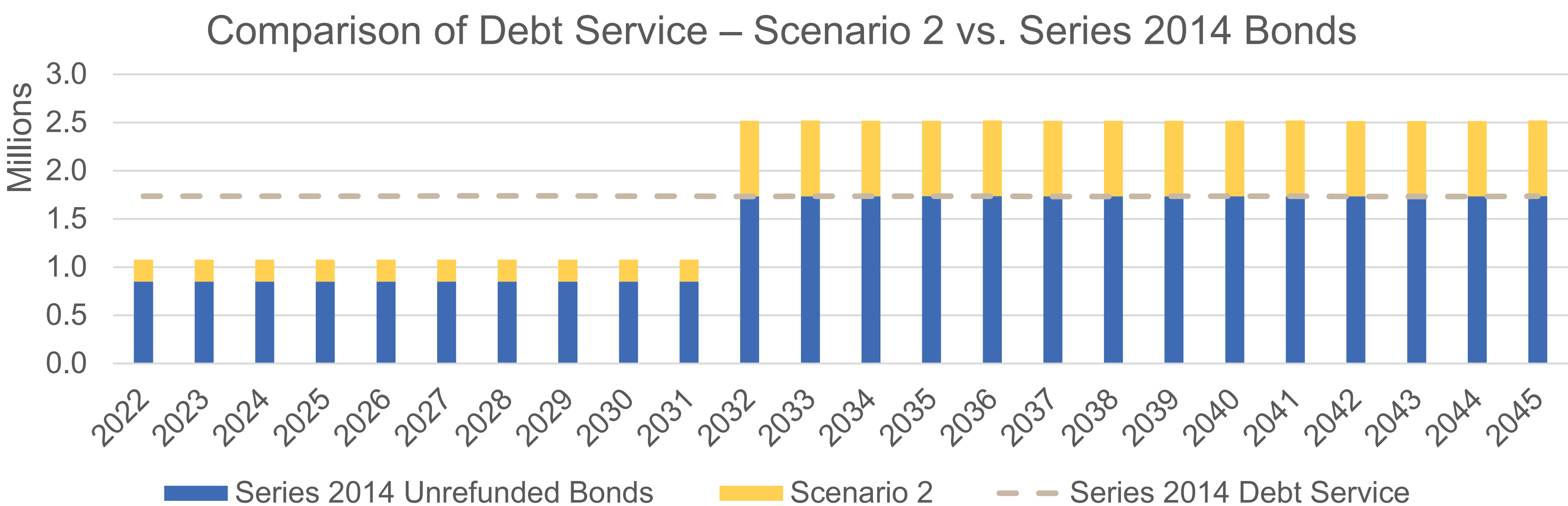
Comparison of Debt Service – Scenario 1 vs. Series 2014 Bonds



Scenario 2: Refunding of 2022 – 2031 Maturities

- If debt service relief is desired for a long-period of time, APA can refund additional bonds such as the 2022 – 2031 maturities
- Refunding bonds amortized from 2032 – 2045
  - Doing so generates cashflow savings of $660,000 annually from 2022 through 2031

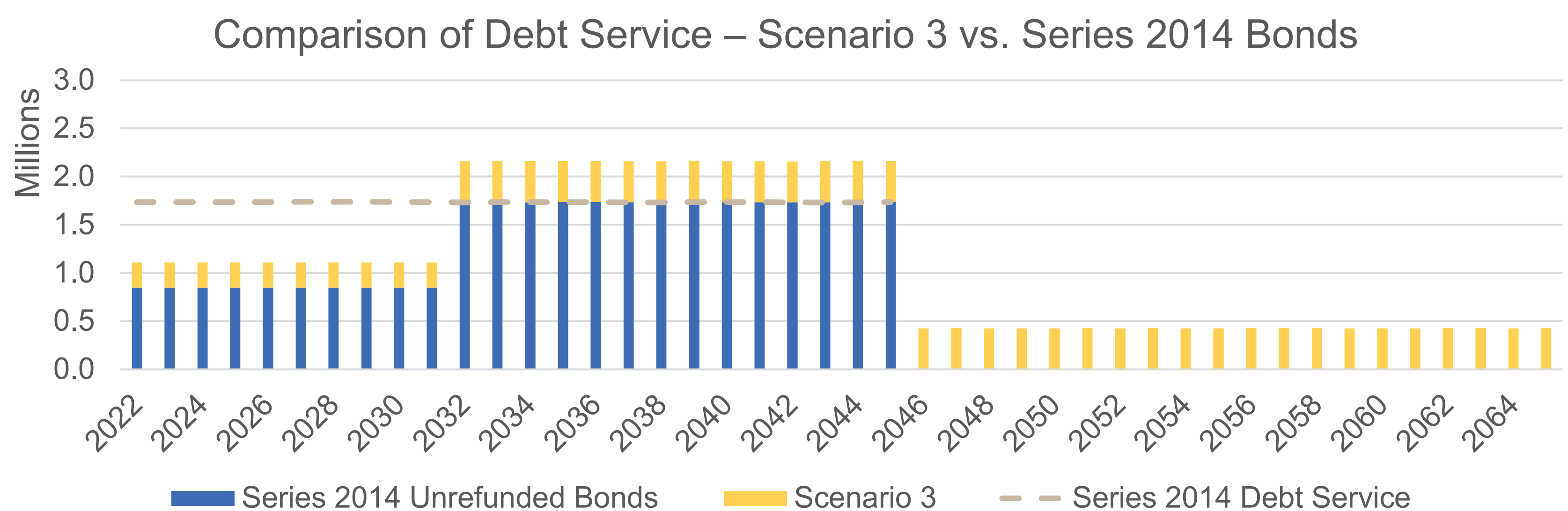
	Scenario 2
Dated Date	10/1/2021
Refunding Par	$9,045,000
Refunded Par	$7,075,000
Refunded Maturities	2022 – 2031
PV Savings ($)	-$1,307,000
PV Savings (%)	-18.5%
Savings through 2031	$6,580,000
Increase in debt service payments	$4,394,000



Scenario 3: Refunding of 2022 – 2031 Maturities Through 2065

- Given the post 2017 contracts run through 2067, APA could potentially refund 2022 – 2031 maturities and amortize the refunding bonds from 2032 - 2065
  - Doing so generates cashflow savings of $630,000 annually from 2022 through 2031

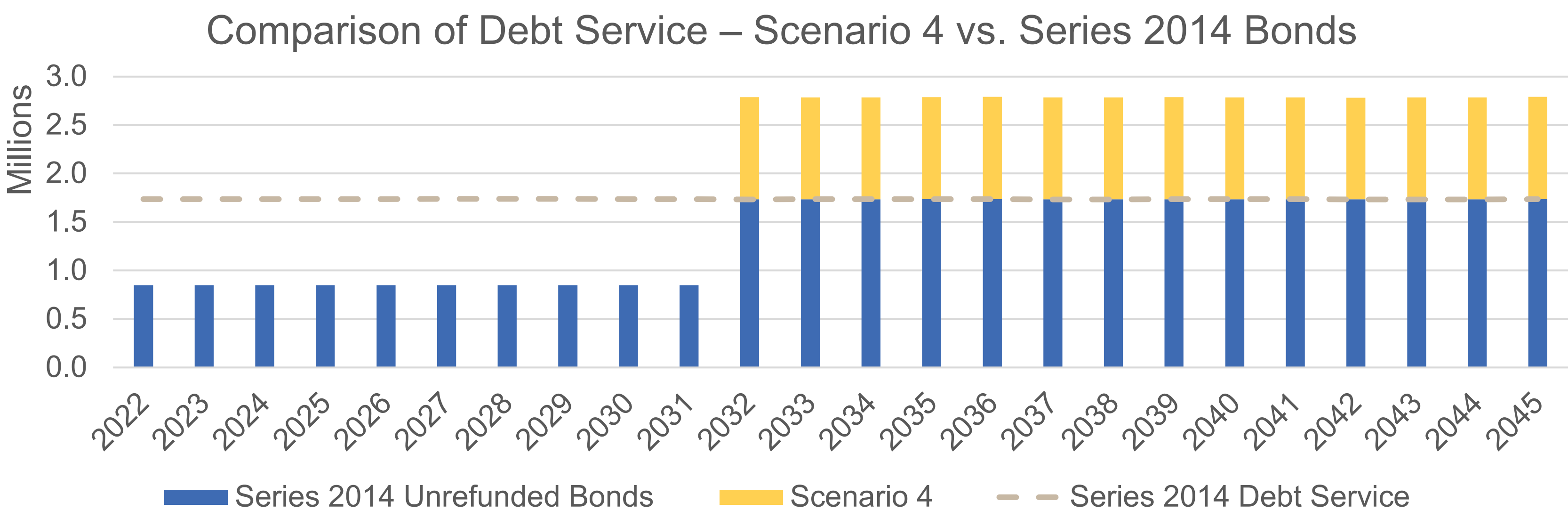
	Scenario 3
Dated Date	10/1/2021
Refunding Par	$9,045,000
Refunded Par	$7,075,000
Refunded Maturities	2022 – 2031
PV Savings ($)	-$1,434,000
PV Savings (%)	-20.3%
Savings through 2031	$6,270,000
Increase in debt service payments	$8,231,000



Scenario 4: Refunding of 2022 – 2031 Maturities With Capitalized Interest

- While Scenarios 1-3 provide near-term rate relief, they do not completely eliminate debt service payments in these years from the refunding bonds
- To provide even further rate relief, one option available is to debt finance interest (capitalized interest) on the refunding bonds through 2031

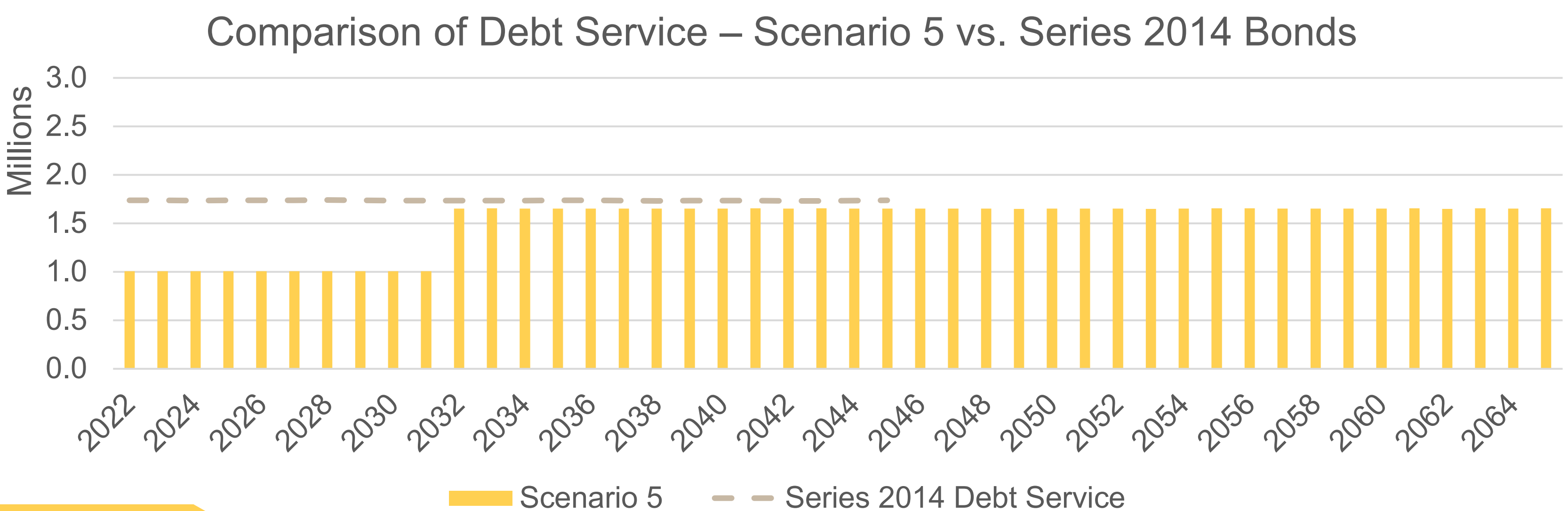
	Scenario 4
Dated Date	10/1/2021
Refunding Par	$12,130,000
Refunded Par	$7,075,000
Refunded Maturities	2022 – 2031
PV Savings ($)	-$1,307,000
PV Savings (%)	-18.5%
Savings through 2031	$8,880,233
Increase in debt service payments	$5,838,000



Scenario 5: Refunding of All Maturities, Reamortizing Through 2065

- Given the post 2017 contracts run through 2067, another option could be to restructure all Series 2014 Bonds and reamortize the bonds through 2065 (2 years prior to expiration)
- Interest only for 10 years
- However, the 20-year extension of final repayment significantly increases total debt repayment

	Scenario 5
Dated Date	10/1/2021
Refunding Par	$35,025,000
Refunded Par	$24,335,000
Refunded Maturities	2022 – 2045
PV Savings ($)	-$5,382,000
PV Savings (%)	-22.1%
Savings through 2031	$7,300,000
Increase in debt service payments	$24,600,000



Considerations

- As part of this analysis, we believe thorough vetting of the considerations to be important:
  - Series 2014 make-whole call adds significant cost to the restructuring;
  - The restructurings will not save APA money in the long-run, these restructurings only provide near-term cash-flow relief; total debt service over the life of the restructuring would increase
  - The restructuring bonds could be structured with a 10-year par call to add future refinancing flexibility;
  - Par sizes of the various scenarios may affect yields at pricing
    - In the taxable market, investors often prefer larger maturities which provide greater liquidity
    - Smaller maturities could result in higher yields
    - While a direct purchase could potentially be an alternative to a public sale, the direct purchase market is opaque, volatile and often more focused in shorter duration loans
  - Interest rates at pricing will affect the ultimate economics of any restructuring