



# MEMORANDUM

EUGENE WATER & ELECTRIC BOARD  
GENERAL ACCOUNTING

*Rely on us.*

TO: Commissioners Farmer, Brown, Cunningham, Ernst, and Cassidy  
FROM: Cathy Bloom  
DATE: April 14, 2009  
SUBJECT: Resolution #0916 Harvest Wind Project Financing

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## **Issue Statement**

Attached is Resolution #0916 requesting the authorization of 1) a line of credit agreement for interim financing and 2) issuance of long-term bonds for the Harvest Wind Project in an amount not to exceed \$46,355,000.

## **Background**

In November of 2008 the Board approved the use of \$13 million from reserves to provide interim financing for the project through April of 2009. The plan was to have a construction manager by May and the money invested in the project was to be returned to EWEB. In the fall of 2009, a private investor was expected to buy the project and receive the tax benefits. As a result, EWEB would then issue tax-exempt bonds to enter into a long-term contract for the pre-purchase of power.

Currently, EWEB is continuing to seek a private investor (tax owner) to buy the project and receive the tax benefits (see Dick Varner's update on the status of the project). In the interim, the partners are continuing to provide short-term financing. The project is still expected to be completed by year-end and staff is planning to issue tax-exempt bonds for the project.

To continue providing short-term financing for the project we contacted the local commercial banks. In the current economic climate, commercial banks are offering a line of credit for these types of project financings only to customers where they have a primary commercial banking relationship. EWEB's commercial bank, Bank of America, has offered to provide a line of credit.

We are requesting a line of credit for \$46,300,000 be available from May 28, 2009 through December 31, 2009 exclusively for the Harvest Wind Project. The interest rate would be a fixed LIBOR rate or floating BBA LIBOR rate plus 1.20% with a minimum rate of 1.95%. The LIBOR rate, London Interbank Offering Rate, is the floating prime rate, which set in London, is used as a benchmark for short-term borrowing by corporations. For example, if we were to borrow today, the fixed 30 day LIBOR rate is .45%, so with the additional 1.20%, the total would be 1.65%, which is below the minimum rate of 1.95%. Therefore, if we were to draw on the line of credit under this agreement today, the borrowing rate would be 1.95% for 30 days.

The project costs incurred through May 2009 for the Harvest Wind project are expected to be approximately \$21.1 million. If a line of credit is approved, we will reimburse EWEB at that time for project costs incurred

to date, including the \$13 million previously taken from reserves. The \$13 million will be transferred to the Power Reserve to offset price volatility in regard to the future price of wholesale power in the coming years.

**Recommendation / Requested Action**

Staff recommends approval of Resolution #0916 requesting the authorization of 1) a line of credit agreement for interim financing and 2) issuance of long-term bonds for the Harvest Wind Project in an amount not to exceed \$46,355,000. Contact person is Cathy Bloom ext. 3277.

## **RESOLUTION NO. 0916**

### **EUGENE WATER & ELECTRIC BOARD**

#### **A RESOLUTION REQUESTING THE CITY OF EUGENE, OREGON TO AUTHORIZE AN ELECTRIC UTILITY SYSTEM LINE OF CREDIT AGREEMENT IN THE MAXIMUM PRINCIPAL AMOUNT OF NOT TO EXCEED FORTY-SIX MILLION THREE HUNDRED FIFTY-FIVE THOUSAND DOLLARS (\$46,355,000), AND ANY REFUNDING BONDS THEREFOR, FOR THE PURPOSE OF FINANCING AND REFINANCING CAPITAL PROJECTS FOR RENEWABLE ENERGY RESOURCES AND PROVIDING FOR RELATED MATTERS**

WHEREAS, on February 17, 1993, the City Council of the City of Eugene, Oregon (the "City") adopted Resolution No. 4360 (the "Authorizing Resolution"), to authorize the City, acting through the Eugene Water & Electric Board ("EWEB"), to borrow money and issue, from time to time, revenue bonds (the "Bonds") in the aggregate principal amount of \$150,000,000, for the purpose of financing certain improvements to the City's electric utility system and related facilities and systems (the "Electric Utility System"), which is operated by EWEB, and setting forth certain other terms and conditions for issuance, including the requirement for approval by the City's electors at an election to be held on May 18, 1993 (the "1993 Election"), and the requirement that the terms of each series of the Bonds shall be prescribed by a supplemental bond resolution or resolutions of EWEB;

WHEREAS, on May 18, 1993, the City's electors approved the issuance of the Bonds at the 1993 Election (such electors' approval and the Authorizing Resolution are collectively referred to herein as the "Bond Authorization");

WHEREAS, as of the date hereof, the aggregate principal amount of Bonds issued pursuant to the Bond Authorization is \$103,645,000, consisting of \$27,000,000 principal amount of Electric Utility System Revenue Bonds, Series 1994, issued under City Council Resolution No. 4394, \$31,500,000 principal amount of Electric Utility System Revenue Bonds, Series 1994C, issued under City Council Resolutions No. 4370 and No. 4405, \$19,890,000 principal amount of Electric Utility System Revenue Bonds, Series 1996, issued under City Council Resolution No. 4425, \$12,455,000 principal amount of Electric Utility System Revenue Bonds, Series 1998A, issued under City Council Resolution No. 4571, \$1,800,000 principal amount of Bonds pursuant to a Revolving Line of Credit issued under City Council Resolution No. 4616, and \$11,000,000 principal amount of Electric Utility System Revenue Bonds, Series 2002B, issued under City Council Resolution No. 4719;

WHEREAS, as of the date hereof, \$46,355,000 of authorized but unissued debt remains under the Bond Authorization;

WHEREAS, on October 7, 2008 EWEB adopted Resolution No. 0827 requesting the City to authorize the issuance and sale of Electric Utility System Revenue Bond Anticipation Notes in an amount not to exceed \$46,355,000 for interim financing for the acquisition of an interest in and construction of new capital facilities in the State of Washington, to be known as the Harvest Wind Project (the "Project");

WHEREAS, because of the turmoil in the financial markets, the City was never asked to approve the issuance of the Electric Utility System Revenue Bond Anticipation Notes in an amount not to exceed \$46,355,000 and EWEB provided the requisite interim financing from its own resources;

WHEREAS, pursuant to the Bond Authorization and Oregon Revised Statutes (“ORS”) 287A.180(b), EWEB now intends to enter into an electric utility system line of credit agreement or other evidence of indebtedness, in a principal amount of not to exceed \$46,355,000 (the “Harvest Wind Project Interim Financing”), on a tax-exempt or taxable basis, on a parity with or subordinate to the lien of Bonds issued under the Bond Authorization, for the purpose of providing interim financing for the acquisition of an interest in and construction of the Project, whether through an output prepayment contract, acquisition of an undivided interest in the Project or otherwise, and to the extent any proceeds remain available, toward the capital costs of any EWEB-designated project or program permitted under the terms of the Bond Authorization (such improvements and the Project are collectively referred to herein as the “Capital Projects”);

WHEREAS, pursuant to ORS 287A.180(1)(c) and 287A.360, EWEB intends to issue as soon as practicable after the entering into the Harvest Wind Project Interim Financing, refunding revenue bonds, notes, certificates, warrants or other evidences of indebtedness (the “Refunding Bonds”) on a taxable or tax-exempt basis, on a parity with or subordinate to the lien of Bonds issued under the Bond Authorization, for the purpose of refinancing such Harvest Wind Project Interim Financing and financing the Capital Projects;

WHEREAS, on June 16, 1986, EWEB adopted a resolution authorizing and providing for the issuance, from time to time, of City of Eugene, Oregon Electric Utility System Revenue Bonds to be equally and ratably secured by the pledge of revenues, funds and accounts thereunder (as amended and supplemented, the “Bond Resolution”);

WHEREAS, the Bond Resolution provides in part that the principal of, premium, if any, and interest on the bonds issued thereunder shall not be payable from any funds of the City nor constitute a general obligation of the City or create a charge upon the tax revenues or any other property or revenues of the City;

WHEREAS, the Bond Resolution does not prohibit, and EWEB shall authorize and provide for in a supplemental bond resolution, the issuance, from time to time, of bonds, notes, certificates, warrants or other evidences of indebtedness for any corporate use or purpose relating to the Electric Utility System payable as to principal and interest from the Revenues (as defined in the Bond Resolution) subject and subordinate to the deposits and credits required to be made to the Bond Resolution, or from securing such bonds, notes, certificates, warrants or other evidences of indebtedness and the payment thereof by a lien and pledge on the Revenues junior and inferior to the lien and pledge on the Revenues in the Bond Resolution created for the payment and security of the Bonds issued under the Bond Resolution;

WHEREAS, EWEB shall undertake to provide in a supplemental bond resolution that the principal of, premium, if any, and interest on such subordinate lien obligations shall not be payable from any funds of the City nor constitute a general obligation of the City or create a charge upon the tax revenues or any other property or revenues of the City.

WHEREAS, EWEB hereby finds it in the best interest of the City to request that the City Council adopt a resolution to authorize and set the terms for the Harvest Wind Project Interim Financing in the principal amount of not to exceed \$46,355,000, and any Refunding Bonds therefore, in one or more series, on a tax-exempt or taxable basis, as parity or subordinate lien obligations, for the purpose of financing and refinancing the Capital Projects, whether through an output prepayment contract, acquisition of an undivided interest in the Project or otherwise, refunding the Harvest Wind Project Interim Financing, funding necessary reserves for each financing and paying the costs of issuance of the Harvest Wind Project Interim Financing and the Refunding Bonds;

WHEREAS, the Harvest Wind Project Interim Financing and the Refunding Bonds will not be general obligations of the City, nor a charge upon its tax revenues, but will be payable solely from revenues of the Electric Utility System which EWEB pledges to the payment of such Harvest Wind Project Interim Financing and Revenue Bonds pursuant to ORS 287A.310 and ORS 287A.325, the Bond Authorization, applicable City Council resolutions, this resolution and in accordance with supplemental resolutions to be adopted by EWEB prior to entering into the Harvest Wind Project Interim Financing and the Refunding Bonds;

WHEREAS, EWEB shall cause to be prepared a plan showing that EWEB's estimated Electric Utility System revenues are sufficient to pay the estimated debt service on the Refunding Bonds authorized by resolution of the City Council;

**NOW THEREFORE, BE IT RESOLVED BY THE EUGENE WATER & ELECTRIC BOARD OF THE CITY OF EUGENE, OREGON,** as follows:

**Section 1.**      Resolution No. 0827 Rescinded. The Board hereby rescinds Resolution No. 0827 and it shall be of no further force and effect.

**Section 2.**      Request for Authorization of Harvest Wind Project Interim Financing and Refunding Bonds; Purpose of Issue. Based on the above findings, EWEB hereby requests the City Council to authorize EWEB, on behalf of the City, to (a) enter into the Harvest Wind Project Interim Financing in the aggregate principal amount of not to exceed \$46,355,000, and (b) issue Refunding Bonds therefore designated as the "City of Eugene, Oregon Electric Utility System Revenue Refunding Bonds" (or such similar designation as necessary to adequately describe the Refunding Bonds), in one or more series, on a tax-exempt or taxable basis, as parity or subordinate lien obligations, for the purpose of (w) financing and refinancing the Capital Projects, whether through an output prepayment contract, acquisition of an undivided interest in the Project or otherwise, (x) refund the Harvest Wind Project Interim Financing, (y) fund necessary reserves for each financing and (z) pay the costs of issuance of the Harvest Wind Project Interim Financing and the Refunding Bonds.

**Section 3.**      Delegation of Authority for Terms of Harvest Wind Project Interim Financing and Refunding Bonds; Provisions for Issuance. Pursuant to ORS 287A.300, EWEB hereby designates that its Treasurer or Assistant Treasurer may determine, with respect to the Harvest Wind Project Interim Financing and Refunding Bonds, the form of the obligation and series designation, the manner of disbursement of proceeds, the maturity date, principal amount, redemption provisions, interest rates or the method for determining a variable or adjustable inter-

est rate, denominations, form and authorized signatory and other terms and conditions of the Harvest Wind Project Interim Financing because the same cannot be determined by EWEB at this time. Prior to entering into the Harvest Wind Project Interim Financing and the Refunding Bonds, EWEB shall: (i) prepare a plan showing that the estimated Electric Utility System revenues are sufficient to pay the estimated debt service on the Refunding Bonds; (ii) adopt supplemental bond resolution(s) and provide a copy of such resolution(s) to the City; and (iii) provide to the City a resolution determining that any and all acts, conditions and things required to exist, to happen and to be performed precedent to and in entering into Harvest Wind Project Interim Financing, exist, have happened and have been performed in due time, form and manner as required by the Constitution and statutes of the State of Oregon, the Charter of the City of Eugene and this Resolution. The Harvest Wind Project Interim Financing shall (i) mature not later than one (1) year from its dated date; (ii) have an interest rate per year equal to (1) the BBA LIBOR Daily Floating Rate (as defined in the Harvest Wind Project Interim Financing) plus 1.20% (subject to a floor of 1.95%), or (2) the LIBOR Fixed Rate (as defined in the Harvest Wind Project Interim Financing) plus 1.20% (subject to a floor of 1.95%); and (iii) not exceed \$46,355,000 in aggregate principal amount.

**Section 4.** Declaring Intent To Reimburse. EWEB reasonably anticipates that the City and EWEB may incur preliminary expenditures, cost of issuance and other project expenditures that qualify as “Original Expenditures” under Treasury Regulation §1.150-2 prior to the date of entering into the Harvest Wind Project Interim Financing, and hereby declares its official intent to reimburse itself with proceeds of the Harvest Wind Project Interim Financing or of the Refunding Bonds in an amount not to exceed \$46,355,000.

**Section 5.** Statement on Form of Harvest Wind Project Interim Financing and Refunding Bonds. The Harvest Wind Project Interim Financing and Refunding Bonds documentation shall include a statement on its face to the effect:

(a) That it does not in any manner constitute a general obligation of EWEB or of the City, or create a charge upon the tax revenues of the City, or upon any other revenues or property of the City, or property of EWEB, but are charges upon and are payable solely from the revenues of the Electric Utility System operated by EWEB, or any portion thereof, pledged to the payment thereof; and

(b) That the holder thereof may look for repayment only to the revenues of the Electric Utility System (or, in the case of the Harvest Wind Project Interim Financing, the proceeds of the Refunding Bonds) which are pledged for the payment thereof, and may not directly or indirectly be paid or compensated through the property of the City, or EWEB, or by or through the taxing power of the City.

**Section 6.** Harvest Wind Project Interim Financing and Refunding Bonds Payable Solely from Revenues. The Harvest Wind Project Interim Financing and Refunding Bonds shall not be general obligations of the City, nor a charge upon its tax revenues, but shall be payable solely from the revenues and funds which EWEB pledges to the payment thereof pursuant to ORS 287A.310 and ORS 287A.325, the Bond Authorization, applicable City Council resolutions and in accordance with this Resolution and any supplemental bond resolutions of EWEB.

**Section 7.** Harvest Wind Project Interim Financing and Refunding Bonds Reporting. EWEB shall submit to the City by May 1 of each year the following annual reports commencing after the Harvest Wind Project Interim Financing and Refunding Bonds are entered into and each year thereafter until the Harvest Wind Project Interim Financing and Refunding Bonds have been paid and retired:

(b) A report on the funds for the Harvest Wind Project Interim Financing and Refunding Bonds describing the funds established, the amounts in each fund, expenditure from each fund, the manner in which the monies in each fund have been invested, the income from such investments and the application of such income; and

(c) A report on Harvest Wind Project Interim Financing and Refunding Bond payments describing amounts paid and amounts scheduled to be paid and the source of such payments.

If the contents of the reports required by subsections (a) and (b) above are included in the yearly audit report of EWEB, then EWEB may comply with this Section 6 by transmitting a copy of its yearly audit report to the City.

**Section 8.** Harvest Wind Project Interim Financing and Refunding Bonds Documents. EWEB hereby designates its Treasurer or Assistant Treasurer to direct the preparation and distribution of any of one or more preliminary official statement(s) or other disclosure document(s) for the Harvest Wind Project Interim Financing and Refunding Bonds as determined to be necessary by EWEB, to obtain bond insurance or other credit enhancement or commitments therefor, if required, to obtain a rating on any or all of the Harvest Wind Project Interim Financing and Refunding Bonds from Moody's Investors Service, Inc., Standard & Poor's and/or Fitch Ratings, if required, and to select trustees, registrars, paying agents, financial advisor, bond counsel, disclosure counsel and any other professional assistance that may be necessary or convenient to accomplish the Harvest Wind Project Interim Financing and the Refunding Bonds; and to determine any other terms, conditions or covenants regarding the Harvest Wind Project Interim Financing and Refunding Bonds which are necessary or desirable to enter into the Harvest Wind Project Interim Financing and Refunding Bonds.

**Section 9.** Effective Date of Resolution. This Resolution shall become effective immediately upon its adoption.

ADOPTED this 21 day of April, 2009.



## INTEROFFICE MEMO

EUGENE WATER & ELECTRIC BOARD  
POWER RESOURCES DIVISION

*Rely on us.*

TO: Commissioners Farmer, Brown, Cassidy, Cunningham, and Ernst

FROM: Dick Varner

April 14, 2009

RE: Harvest Wind Project

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### ISSUE

What is the status of the Harvest Wind project?

### BACKGROUND

EWEB was approached a few years ago about being a partner in the White Creek wind project in Washington. Coming off the energy crisis, EWEB was not ready to provide equity to projects and thus chose to pass on that project. In the fall of 2007, EWEB was approached about its interest in a follow up project that has turned out to be Harvest Wind. After some due diligence, staff got authorization from the Board in May 2008 to move forward on the project. In July, staff came back to the Board with a resolution authorizing the General Manager to enter into a Joint Ownership Agreement with other entities. In the fall, the Board confirmed EWEB participation at the 20 MW level and authorized a project budget of \$32 million on EWEB's part. While the authorized expenditure level on the project is \$32 million, the Board was informed that it share of the project could cost approximately \$50 million if tax equity investors could not be found. (This \$50 million is approximately equal to the reserves and borrowing authority which has been committed to resource acquisition.)

EWEB is one of four joint owners of a 100 MW wind project located in southeast of Goldendale, Washington. The other owners are Cowlitz PUD, Lakeview Green Energy (a subsidiary of Lakeview Light and Power), and Peninsula Light (PenLight). The parties intend to follow the same business model as the White Creek project. In that instance, the utilities sold the project to some investors with an option to purchase the project back in the future. The investors supplied a little less than 50 percent of the capital in return for the tax benefits and some output guarantees. The utilities provided the remainder of the capital through a pre-purchase of power for the project output for 20 years. The cost of project output for the utilities is essentially the debt service on their pre-purchase of power payment plus actual O&M cost.

The team for this project includes many of the same consultants and contractors have been used to take advantage of the White Creek project experience. This includes the project management firm, construction management firm, attorneys, financial advisor, and project engineering firm.

The project development timeline has pointed toward the end of 2009 as the deadline for commercial operation to take advantage of federal production tax credits for renewable energy projects. While this is still the target for the project, it is not as critical since the stimulus bill has extended the

deadline for qualifying for federal tax incentives

## **DISCUSSION**

The utilities have selected Siemens 2.3 MW turbines for the project after soliciting proposals from a number of manufacturers. They were determined to be the best combination of price and performance. The total contract price including delivery and set-up is about \$162 million. Siemens is in the process of manufacturing the components. The nacelles (the power generating component that sits on top of the tower) are manufactured in Denmark and have now been completed. They will be shipped in the second quarter of 2009. The blades which are manufactured in Iowa are under construction and also should be shipped in Q2 2009. The towers are to be manufactured in China. They are scheduled to be completed in May and should be shipped in Q2 2009. The utilities are making progress payments to Siemens as components are manufactured and installed. At this point, Siemens has been paid for about half the cost of the turbines.

The contract for the remainder of the construction was competitively bid and RES America was selected as the prime contractor. While the project budget for this work was almost \$32 million, the actual contract price is less than \$24 million

The two cooperatives (Lakeview and PenLight) have formed a Limited Liability Company (LLC) and have taken the lead on building the transmission lines between the project and the existing White Creek substation as well as the east side collector substation. They have worked with Klickitat PUD (the local utility) and the owners of a neighboring wind project (enXco) to find the most economical way to connect the project. They have a design/build contract for this work and the work should be completed by the fall of 2009. These facilities will likely be eventually sold to Klickitat PUD when completed with a contract for use of these facilities.

Interconnection with the Bonneville Power Administration has been contracted and BPA plans to do the work necessary at BPA's Rock Creek substation to meet the project completion date.

The Harvest Wind utilities and the owners of the neighboring White Creek project have conceptual agreement about a joint operations and maintenance contract which will save both projects significant O&M and capital costs.

There is a provision in Washington's renewable portfolio standards legislation (I-937) which gives a bonus for projects which meet certain prevailing wage and apprenticeship standards. The utilities have included provisions in the construction contracts to be in compliance with this provision. If we are successful in meeting those standards, then we will get a 20 percent bonus in renewable energy certificates. For EWEB, these bonus RECs probably won't help us with our Oregon RPS compliance but probably will have value for sale in Washington.

The final and most problematic major project component is financing the project. The passage of the stimulus legislation included some new provisions which make finding a tax owner for the project more likely. The utilities are planning on contracting with Meridian Capital to put together a consortium of private parties to own the project and take advantage of the federal tax benefits. There is also one large private entity which has expressed interest. The private equity investment provides the lowest capital investment by the utilities since the private equity parties will likely provide 40 to 55 percent of project cost. The new stimulus legislation allows private parties to take grants or investment tax credits in-lieu of production tax credits so there is more certainty for a private party to get the federal tax benefits.

The current financing plan has the tax owners being identified by June 2009 with contracts in place by September 2009 for a closing by the end of 2009.

The original financing plan for the project had the utilities getting interim construction financing as a group. With the financial meltdown, this kind of financing is not very available. Each of the utilities is now doing its own construction financing. EWEB will need something in the \$45 to \$50 million range to finance its portion of the construction. (Currently \$46 million based on the latest budget projection.) At financial closing, EWEB would get about half of this amount back. Later, if EWEB wants to take ownership of its share of the project, it may need to pay \$5 to \$10 million to the tax owners for the fair market value of the project at that point in time.

The attorneys have identified an alternative financing strategy which could be used if tax ownership does not come through. In this strategy, the utilities could get the federal grant but would not be eligible for the accelerated depreciation tax benefits. However, there would not be a later buyout of the tax owner. This would make the ultimate price of power a bit more expensive.

### **RECOMMENDATION/BOARD ACTION**

There is no action required by the Board at this time. This memo is provided to as background for the financing authorization action on April 21, 2009. In addition, it is likely the staff will be coming back in May or June for authorization to spend up to \$50 million (up from the current \$32 million authorization) during construction. At that time, staff should also be better able to provide the Board with an estimate of the ultimate project cost to EWEB.

If you have questions, please contact Dick Varner at [dick.varner@eweb.org](mailto:dick.varner@eweb.org) or 484-2411 ext. 3299.