



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Simpson, Brown, Helgeson, Manning and Mital
FROM: Sue Fahey, Finance Manager; Susan Eicher, Accounting & Treasury Supervisor
DATE: March 25, 2016
SUBJECT: Defeasance of Electric Bonds
OBJECTIVE: Approval of Resolution No. 1611

Issue

The Board has approved the sale of the Smith Creek Hydro Project. Upon closing of the sale, EWEB will receive a cash payment and is required to defease the bonds outstanding for Smith Creek. This requirement provides a unique opportunity to reduce outstanding debt and realize additional ongoing debt service savings by defeasing other bonds during the same transaction. Staff worked with EWEB's bond counsel and financial advisor to develop this recommendation.

Discussion

The sale of Smith Creek is on schedule to close in April, at which time EWEB will receive proceeds (which is not the actual sales price) of approximately \$22.5 million. Upon receipt of the sale proceeds, EWEB will have 90 days to defease outstanding bonds for Smith Creek from the 2012 Electric Utility Bonds. To defease the bonds, EWEB will deposit funds sufficient to make the remaining principal and interest payments into an escrow account, and remove the principal and interest payable from EWEB's books. Cash flow savings resulting from defeasance of these outstanding bonds is estimated to be \$13 million (approximately \$1.8 million annually) over the next eight years. The exact amount required to be deposited in escrow will depend on the interest rate and other market factors at the time the transaction is finalized. The defeasance of Smith Creek bonds was anticipated in the development of the 2016 budget and in the Electric Long-term Financial Plan (LTFP).

After evaluating other outstanding bonds, management has found that significant additional savings can be achieved by defeasing portions of the 2005 and 2006 Electric Utility Bonds which have coupon rates of 4% and higher. The 2005 bonds are past the first optional redemption date and can be retired from the market within 30 days. The first optional redemption date on the 2006 bonds is August 1, 2016. The short period of time that money would be in an escrow account prior to the bonds being refunded provides significant economic savings. This would require using sales proceeds and working cash of approximately \$5 million and would result in a total reduction of up to \$31.4 million debt service costs. Attachment 1 provides information on the 12/31/15 Electric Utility cash balances which indicates that there is sufficient working cash to defease debt.

Bonds Defeased, in Millions	Cash Required	Debt Service Cost Reduction	
2012 Electric Utility	\$ 12.4	\$	13.0
2005 Electric Utility	6.5		7.9
2006 Electric Utility	8.6		10.5
	\$ 27.5	\$	31.4

The Electric Utility continues to be challenged in meeting the debt service coverage (DSC) financial metric and in recent years, budgeted revenues exceeded budgeted operations & maintenance costs in order to maintain the Board's 1.75 DSC target. Under current LTFP assumptions, defeasing additional bonds provides projected debt service coverage ratios of 1.90 or higher for all years except 2021, when the ratio is slightly below the DSC target. DSC improves by 10 to 18 basis points over the life of the LTFP by defeasing the additional debt.

Management believes it is in EWEB's best interest to use the sales proceeds and approximately \$5 million working cash to defease additional bonds and achieve debt service savings of \$31million (up to \$3.5 million annually). The positive impact of reducing debt service costs is more favorable for the Electric Utility than retaining cash in reserves given its debt load. Combining the additional defeasance with the required Smith Creek defeasance will result in lower transaction costs than a separate defeasance or refunding the bonds in conjunction with the planned 2017 bond issuance.

Recommendation

Management recommends that the Board approve the use of working cash to supplement the Smith Creek sale proceeds and approve Resolution No. 1611 to defease 2005, 2006 and 2012 Electric Utility Bonds.

Requested Board Action

Approval of the use of approximately \$5 million working cash to defease Electric Utility Bonds and approval of Resolution No. 1611.

**Eugene Water & Electric Board
Schedule of Cash Reserves
December 31, 2015**

ATTACHMENT 1

CASH ACCOUNT	FINANCIAL POLICY REFERENCE	ELECTRIC SYSTEM	
		PERFORMANCE STANDARD	BALANCE 12/31/2015
<u>CASH FOR OPERATIONS</u>			
1) Working Cash McKenzie River Trust	Rate Sufficiency Policy	\$ 24,000,000	\$ 33,760,985
<u>DESIGNATED FUNDS</u>			
2) Operating Reserve	Rate Stability Policy	\$ 2,000,000	\$ 2,082,704
3) Self-Insurance Reserve	Rate Stability Policy	1,720,000	1,773,975
4) Power Reserve	Rate Stability Policy	22,100,000	27,359,486
5) Capital Improvement Reserve	Capital Reserve Policy	20,000,000	23,173,022
6) Rate Stabilization Fund		-	12,426,316
Economic Development Loan Pilot Program Fund		-	1,940,293
Carmen-Smith Fund		-	15,790,304
7) Pension & Post Retirement Medical Fund		-	8,236,889
DESIGNATED FUNDS SUBTOTAL		\$ 45,820,000	\$ 92,782,989
CASH TARGETS & BALANCES TOTAL		\$ 69,820,000	\$ 126,543,974
<u>LEGALLY RESTRICTED</u>			
8) Bond Funds - Type II & III Reserves & Investments for Debt Service			\$ 18,280,487
RESTRICTED FUNDS TOTAL			\$ 37,867,821

Financial Policy - Total Targets included in ceiling

- 1) Working Cash - amount of cash needed to pay for ongoing operational costs during the year.
- 2) Operating Reserve - for emergency operating costs.
- 3) Self-Insurance Reserve - reserve to pay for claims incurred during the year and target is based on the \$2 million self-insurance coverage limit.
- 4) Power Reserve - amount of reserves to offset fluctuations in purchased power costs related to market price variability, uncertainty in regard to hydro generation, customer load and annual budgeted reserve draws.
- 5) Capital Improvement Reserve - reserve for capital improvements and target is based on one years depreciation. Balance reflects current year activity through December.
- 6) Rate Stabilization Fund - funds available for one time expenditures. To be allocated based on Board direction.
- 7) No Target - Amount designated to fund Supplemental Retirement Plan, and PERS or OPEB Trust.
- 8) Bond Funds used to pay for board directed capital projects/subprojects. Balance reflects current year activity through December.

RESOLUTION NO. 1611

A RESOLUTION AUTHORIZING THE DEFEASANCE OF ALL, A PORTION OF, OR NONE OF THE CITY OF EUGENE, OREGON ELECTRIC UTILITY SYSTEM REVENUE BONDS, SERIES 2005, ELECTRIC UTILITY SYSTEM REVENUE BONDS, SERIES 2006, AND ELECTRIC UTILITY SYSTEM REVENUE AND REFUNDING BONDS, SERIES 2012; AUTHORIZING THE EXECUTION AND DELIVERY OF AN ESCROW DEPOSIT AGREEMENT; AUTHORIZING APPOINTMENT OF AN ESCROW AGENT;

WHEREAS, on October 4, 2012, the City of Eugene, Oregon (the “City”), acting by and through the Eugene Water & Electric Board (“EWEB”), issued its Electric Utility System Revenue and Refunding Bonds, Series 2012 in the original principal amount of \$71,230,000 (the “Series 2012 Bonds” of which \$64,665,000 is currently outstanding; and

WHEREAS, \$13,010,000 of the Series 2012 Bonds was allocated to the refunding of bonds issued to refund bonds issued to acquire the Smith Creek Hydro Project (the “Smith Creek Bonds”); and

WHEREAS, currently \$11,140,000 of the Smith Creek Bonds is outstanding; and

WHEREAS, EWEB intends to sell the Smith Creek Hydro Project; and

WHEREAS, Treasury Regulation §1.141-12 requires, among other things, the redemption or defeasance of bonds which become “nonqualified bonds” due to the sale of a bond financed facility within 90 days of the date the bonds become “nonqualified bonds,” which requires the redemption or defeasance of the outstanding Smith Creek Bonds upon the sale of the Smith Creek Hydro Project; and

WHEREAS, the Smith Creek Bonds are first subject to optional redemption on August 1, 2022; and

WHEREAS, EWEB desires to use cash and proceeds from the sale of the Smith Creek Hydro Project to defease all, a portion of, or none of the City of Eugene, Oregon Electric Utility System Revenue Bonds, Series 2005 (the “Series 2005 Bonds”), City of Eugene, Oregon Electric Utility System Revenue Bonds, Series 2006 (the “Series 2006 Bonds”), and Series 2012 Bonds; and

WHEREAS, currently \$6,385,000 of Series 2005 Bonds is outstanding and are subject to optional redemption on August 1, 2015.

WHEREAS, currently \$8,440,000 of Series 2006 Bonds are outstanding and are subject to optional redemption on August 1, 2016.

WHEREAS, in order to effectuate the defeasance of all, a portion of, or none of the Series 2005 Bonds, Series 2006 Bonds and Series 2012 Bonds, it is necessary and appropriate that the City acting through EWEB authorize the execution and delivery of an Escrow Deposit Agreement between EWEB and the Escrow Agent; and

WHEREAS, it is necessary and appropriate that the City acting through EWEB authorize the appointment of an Escrow Agent to serve as such under the Escrow Deposit Agreement.

NOW THEREFORE, BE IT RESOLVED BY THE EUGENE WATER & ELECTRIC BOARD OF THE CITY OF EUGENE, OREGON, AS FOLLOWS:

Section 1. Authorization of Defeasance. The defeasance of all, a portion of, or none of the Series 2005 Bonds, Series 2006 Bonds, and Series 2012 Bonds upon the sale of the Smith Creek Hydro Project with proceeds from the sale of Smith Creek Hydro Project and cash is hereby authorized. The Treasurer or the Assistant Treasurer of EWEB, or any such officer's designee (the "Authorized Representative"), is hereby authorized and directed, for and in the name and on behalf of EWEB and the City, to determine whether all, a portion of, or none of the Series 2005 Bonds, Series 2006 Bonds and Series 2012 Bonds are to be defeased with proceeds from the sale of Smith Creek Hydro Project and/or cash. Effective upon and subject to the execution and delivery of an Escrow Deposit Agreement and the deposit with the Escrow Agent an amount sufficient to defease the Series 2005 Bonds, Series 2006 Bonds and Series 2012 Bonds being defeased, the City acting through EWEB (1) does hereby call that portion of the Series 2005 Bonds determined to be defeased for redemption on the earliest practical redemption date, at a price of par value, plus accrued interest to the redemption date; (2) does hereby call that portion of the Series 2006 Bonds determined to be defeased for redemption on August 1, 2016, the first optional redemption date, at a price of par value, plus accrued interest to the redemption date; (3) does hereby call that portion of the Series 2012 Bonds determined to be defeased for redemption on August 1, 2022, the first optional redemption date, at a price of par value, plus accrued interest to the redemption date, and (4) does hereby give irrevocable instructions to U.S. Bank National Association, successor Trustee, Paying Agent and Registrar, to give notice of such call for redemption of the Series 2005 Bonds, Series 2006 Bonds and Series 2012 Bonds determined to be redeemed in the manner provided in the Master Resolution.

Section 2. Authorization of Execution and Delivery of Escrow Deposit Agreement. The Authorized Representative is hereby authorized and directed to execute and deliver an Escrow Deposit Agreement entered into to effectuate the defeasance of the Series 2005 Bonds, Series 2006 Bonds and Series 2012 Bonds to be defeased.

Section 3. Appointment of Escrow Agent. The Authorized Representative is authorized to appoint an Escrow Agent and Verification Agent in connection with the defeasance of the Series 2005 Bonds, Series 2006 Bonds and Series 2012 Bonds to be defeased.

Section 4. Authorization of Execution of other Certificates and Documents. The Authorized Representative is hereby authorized and directed to execute and deliver certificates certifying such facts as Bond Counsel shall require in connection with the defeasance of the Series 2005 Bonds, Series 2006 Bonds and Series 2012 Bonds to be defeased and to execute and deliver such other documents as shall be necessary or desirable to perform EWEB's obligations under this resolution and to consummate the defeasance of the Series 2005 Bonds, Series 2006 Bonds and Series 2012 Bonds to be defeased.

Section 5. Effective Date. This resolution shall take effect immediately upon its adoption.

PASSED AND ADOPTED this 5th day of April, 2016

EUGENE WATER & ELECTRIC BOARD

President

I, Anne M. Kah, the duly appointed, qualified and acting Assistant Secretary of the Eugene Water & Electric Board, do hereby certify that the above is a true and exact copy of the resolution adopted by EWEB at its April 5, 2016 Board Meeting.

Assistant Secretary