



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Helgeson, Brown, Mital, Simpson and Carlson
FROM: Sue Fahey, Chief Financial Officer; Aaron Balmer, Interim Accounting Supervisor
DATE: April 21, 2017
SUBJECT: Highest and Best Use of Reserves - Defeasance of Electric Bonds
OBJECTIVE: Approval of Resolution No. 1709

Issue

In 2016, the Electric Utility's long-term debt profile significantly improved by the Board's approval to defease debt using the proceeds from the sale of Smith Creek and cash reserves, as well as refinancing bonds to reduce future interest payments. The Board also approved a new Master Resolution which provides EWEB flexibility in determining the amount of debt service reserve funds for future bond issuances and simplifies several required calculations. Even with these approvals, the Electric Utility's financial challenge continues to be the debt service coverage ratio (DSC), and the new Master Resolution has not yet taken effect. Staff worked with EWEB's bond counsel and financial advisor to develop this recommendation to defease additional debt.

Discussion

The Electric Utility has over \$20 million of principal outstanding for the 2001 bonds which represents approximately \$42 million of debt service payments through 2027 consisting of principal, interest and compounded interest. The bonds have interest rates that range from 6.3% to 7.2% and per the bond agreement are not eligible for refinancing. The only way to retire these bonds early is to defease them. To accomplish that, funds sufficient to make the remaining principal and interest payments would be deposited into an escrow account, and the principal and interest payable would be removed from EWEB's books. Present value savings resulting from defeasance of these outstanding bonds is estimated to be in excess of \$2.3 million. EWEB has approximately \$2 million set aside for the August 1, 2017 principal and interest payment on the 2001 bonds. In addition to those funds, approximately another \$35 million will be needed to defease the debt. The exact amount to be deposited in escrow will depend on the interest rate and other market factors at the time the transaction is finalized.

At the end of 2016, the Electric Utility had over \$137 million in non-legally restricted cash, and cash targets were approximately \$68 million. With Management's recommended changes to increase cash targets by \$3 million, reserves in excess of cash targets exceed \$60 million.

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. DSC improves by 25 to 47 basis points over the long term financial plan by defeasing the 2001 debt. The positive impact of reducing debt service costs is more

favorable for the Electric Utility than retaining cash in reserves given its debt load and funds in excess of targets. Additionally, defeasing the debt will allow the new Master Resolution to take effect which will be beneficial for future bond issuances.

Management has also discussed with EWEB's financial advisor the timing of bond issuances primarily related to Carmen-Smith project costs. Given the current rising interest rate environment and the national level conversations about eliminating tax-exempt status for municipal bonds, we believe it is in EWEB's best interest to issue Electric Utility Bonds this year instead of 2018. At the June 6, 2017 Board meeting, Management will recommend that the Board approve a resolution to request the City to authorize issuance of Electric Utility bonds.

Recommendation and Requested Board Action

Management recommends and requests that the Board approve Resolution No. 1709 to defease the 2001 Electric Utility Bonds.

RESOLUTION NO. 1709

A RESOLUTION AUTHORIZING THE DEFEASANCE OF ALL OR A PORTION OF THE CITY OF EUGENE, OREGON ELECTRIC UTILITY SYSTEM CURRENT INTEREST REVENUE BONDS, SERIES 2001A AND ELECTRIC UTILITY SYSTEM CAPITAL APPRECIATION REVENUE BONDS, SERIES 2001A; AUTHORIZING THE EXECUTION AND DELIVERY OF AN ESCROW DEPOSIT AGREEMENT; AUTHORIZING APPOINTMENT OF AN ESCROW AGENT;

WHEREAS, on November 20, 2001, the City of Eugene, Oregon (the “City”), acting by and through the Eugene Water & Electric Board (“EWEB”), issued its Electric Utility System Current Interest Revenue Bonds, Series 2001A in the original principal amount of \$25,930,000 (the “Series 2001A Current Interest Bonds”) of which \$16,415,000 is currently outstanding; and

WHEREAS, on November 20, 2001, the City, acting by and through EWEB, issued its Electric Utility System Capital Appreciation Revenue Bonds, Series 2001A in the original principal amount of \$4,067,555.95 (the “Series 2001A Capital Appreciation Bonds”) all of which, together with accrued interest, is currently outstanding; and

WHEREAS, the Series 2001A Current Interest Bonds and Series 2001A Capital Appreciation Bonds are not subject to optional redemption; and

WHEREAS, EWEB desires to use cash to effectuate the in-substance defeasance of all or a portion of the Series 2001A Current Interest Bonds and Series 2001A Capital Appreciation Bonds; and

WHEREAS, in order to effectuate the in-substance defeasance of all or a portion of the Series 2001A Current Interest Bonds and Series 2001A Capital Appreciation 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 or a portion of the Series 2001A Current Interest Bonds and Series 2001A Capital Appreciation Bonds with 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 or what portion, if any, of the Series 2001A Current Interest Bonds and Series 2001A Capital Appreciation Bonds are to be defeased with 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 2001A Current Interest Bonds and Series 2001A Capital Appreciation Bonds being defeased, the City acting through EWEB does hereby give irrevocable instructions to U.S. Bank National Association, successor Trustee, Paying Agent and Registrar, to give notice of such

defeasance of the Series 2001A Current Interest Bonds and Series 2001A Capital Appreciation Bonds 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 2001A Current Interest Bonds and Series 2001A Capital Appreciation 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 2001A Current Interest Bonds and Series 2001A Capital Appreciation 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 2001A Current Interest Bonds and Series 2001A Capital Appreciation 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 2001A Current Interest Bonds and Series 2001A Capital Appreciation Bonds to be defeased.

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

PASSED AND ADOPTED this 2nd day of May 2017

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 May 2, 2017 Board Meeting.

Assistant Secretary