MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Carlson, Mital, Helgeson, Schlossberg and Brown

FROM: Sue Fahey, Assistant General Manager/CFO; Deborah Hart, Financial Services Manager; Aaron Balmer, General Accounting & Treasury Supervisor

DATE: November 22, 2019

SUBJECT: Bond Financing

OBJECTIVE: Board Direction

Issue

Financial market conditions provide EWEB the opportunity to achieve interest savings by refunding currently issued Electric and Water Utility Revenue Bonds. Additionally, both the Water and Electric Utility would benefit from issuing bonds for new construction given the current low interest rate environment. Both EWEB Board and City Council authorization are required to issue bonds.

Background/Discussion

In the past, EWEB has achieved significant savings by paying off high interest rate debt through the issuance of lower interest rate debt (debt refunding). The 2017 Tax Cuts and Jobs Act eliminated the option to refund tax-exempt debt by issuing new tax-exempt debt which is how prior savings were achieved. Although market conditions have been volatile, interest rates remain historically low. Current market conditions indicate that both the Electric and Water Utility could refund bonds and achieve savings by issuing taxable bonds.

	Electric	**Water**
Refunded Bond Par Amount	$15.9 million, 2012 bonds	$13.8 million, 2011 bonds
Interest Savings (Net Present Value)	$1.3 million	$1.2 million
Annual Savings (over life of bonds)	$90,000	$80,000

When refunding bonds in a favorable interest rate environment, Management also considers whether it would be prudent to issue new construction bonds. The Water Utility is projected to spend all current bond funds by the end of 2019. If the Water utility issues $20 million in bonds in 2020, the impact to the 10 year rate trajectory when combined with the taxable refunding is an overall decrease of 2% as the cost of construction is spread over the life of the bonds. This would also reduce the planned bond issuance in 2024.

Existing bond funds for the electric utility will be nearly depleted in 2020 based on projected Carmen-Smith construction costs. Additionally, the 2019 capital overrun and the higher 2020 capital budget are projected to drive capital reserves $8.5 million below target unless bond funding is used for Type 2 rehabilitation and expansion projects. Accelerating the planned 2021 issuance to 2020 and borrowing $46 million allows the Electric Utility to take advantage of favorable market conditions and maintain capital reserve balances above target. Additionally, use of rate stabilization funds to support capital spending could be deferred until 2023. The taxable refunding combined with the revised debt issuance schedule results in a slightly favorable rate trajectory in the long term financial plan.

In 2017 the City Council authorized an additional $46 million of Electric Utility bonding authority in anticipation of future issuances primarily for Carmen-Smith work. Accordingly, management does not need to request City Council approval for the issuance of new Electric bond.

Recommendation / Requested Board Action

If Board feedback supports this approach, Management will request the Board approve a resolution requesting the City Council to authorize the issuance and sale of Electric and Water Utility Revenue Refunding bonds, as well as Water Utility bonds for new construction, at the January 7, 2020 meeting.