


ROCKY REACH AND ROCK ISLAND BOND RESOLUTIONS



Presented by
Debbie Litchfield, Treasurer
October 13, 2008



Overview

- Information only – no Board action today
- Seeking approval of Bond Resolutions 10/20/08
- Bond Finance Team
 - District Staff – Finance, Senior Team
 - Orrick Herrington - Bond Counsel
 - Public Financial Management - Financial Advisor
 - Barclays - Bond Underwriter
 - Hawkins Delafield – Underwriter’s Counsel



Why Now?

- Interest rate opportunities
 - Began process in June 2008
 - Interest rates have been low – refinance opportunity
 - However, rate volatility and access concerns in the current market – contingencies to be discussed later
- Rock Island need for capital funding
- Expectations
 - Develop master documents for project debt issuance
 - Reduction in overall expense through refinancing
 - Provide funding for hydro modernization
- Be prepared to issue if conditions are right



Revenue Bonds Outstanding

By Issuing System as of 6/30/08 (\$millions)

Consolidated Senior 1995-2005	\$ 490	
Consolidated Subordinate 2007-date	<u>\$ 174</u>	
Total Consolidated		\$ 664*
Rocky Reach 1968 (5.125% to 2014)		\$ 10
Rock Island 1955 (3.75% to 2011)		\$ 11
Rock Island 1997		\$ 263
Wastewater 1998 (LUD purposes)		<u>\$ 1</u>
Total Revenue Bonds Outstanding		\$ 949

*Proceeds of Consolidated System bonds loaned to other systems

Rocky Reach	\$ 351	
Rock Island	\$ 171	
Lake Chelan	\$ 56	
Utility Services	<u>\$ 86</u>	
Total Consolidated		\$ 664



Framework For Debt Issuance

- Same framework used for Consolidated System Debt
- Master Bond Resolution
 - General terms & conditions of the lien
 - Authorization, issuance & redemption of bonds
 - Funds & payment process
 - Investment parameters
 - Covenants
 - Defaults & remedies
 - Bond trustee
- Series or Supplemental Resolution
 - Specific terms & conditions of the bond series
 - Authorize amount of bonds to be issued
 - Purpose of such bonds
 - Approve bond purchase contract, official statement, related documents
 - Cure ambiguity or clarify provisions of the Master Resolution



New Resolution Purpose

- Issue specific as Project debt, not Consolidated System
- Strengthen covenants & protections provided to investors
- More closely conforms to industry standards
- Conforms to provisions commonly included in resolutions and agreements of other public power issuers
- Credit positives for District – address rating agency concerns
- Modernization of covenants and provisions
 - Existing hydro resolutions are 50+ years old



Principal Changes

- Substantially similar to the new 2007 Consolidated System Master Bond Resolution
 - But, does not include a Rate Stabilization Fund
- Adds flow of funds provisions (none in existing reso)
- Retains effective 1.0 debt service coverage requirement
- Requires third party bond trustee
 - Typical rights, obligations and default remedies
 - Debt payments flow through trustee
 - Trustee holds Reserve Funds
- Closes off existing Senior Lien



2008 Plan of Finance

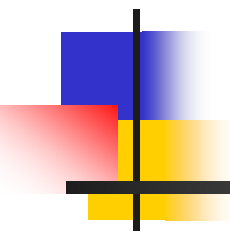
- Rocky Reach
 - Refinance Rocky Reach 1968 series bonds (\$10MM)
 - Refinance CS 1998A bonds as Rocky Reach project debt (\$23.8MM)
- Rock Island
 - Up to \$75MM new money (taxable)
 - Cover 2009 & 2010 Capital
 - Hydro Modernization
 - Refinance Rock Island 1955 series bonds (\$11MM)
- Schedule
 - 10/20 Board approves Master and Supplemental Resolutions
 - 11/18 Bond pricing (market contingent)
 - 11/24 Board update and signing of closing documents
 - 12/4 Bond closing – proceeds received, escrows funded



Questions?



CONTINGENCY PLANNING CONSOLIDATED SYSTEM NOTES RESOLUTIONS



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Overview

- Action requested today or Tuesday
- Seeking approval of Notes Resolutions & related documents
- Contingency Planning is needed
- Bond Finance Team
 - District Staff – Finance, Senior Team
 - Orrick Herrington - Bond Counsel
 - Public Financial Management - Financial Advisor
 - Barclays - Bond Underwriter
 - Hawkins Delafield – Underwriter’s Counsel



Contingency Planning Needed

- Continued Financial Market Concerns
- Liquidity challenges – global issue
 - Access to capital
 - Ability to raise capital
- Issuers facing difficulty in selling bonds
 - Flight to quality (cash/Treasuries) – limited liquidity
- Variable Rate Demand Bond (VRDB) programs
 - Bonds put back to liquidity providers
 - And in some cases, issuers



Potential Impact to District

- New money/capital needs
 - Rock Island \$75MM (2009-2010) modernization
 - Other District capital programs
 - Inability to sell bonds in the market to fund programs
- VRDB – challenges in remarketing bonds
 - \$93MM – reset weekly (1.8%...7.7%...4.7%)
 - Action - remarket, inventory, liquidity, cash tender
 - VRDBs to liquidity provider could be expensive
 - VRDBs tendered to District impacting reserves/liquidity
- Prudent to have options to maintain liquidity



Notes - A Contingency Plan

- Access to liquidity through Notes market
 - Investors include money funds, institutional investors (bond funds, insurance companies, fund managers)
- Notes – written acknowledgement of debt due
- Short term – interest bearing obligations
- Very similar to how bonds are issued/treated



Framework For Notes Issuance

- Same framework used for Consolidated System Bond Debt
- Master Bond Resolution – Third Lien – Notes Structure
 - General terms & conditions of the lien
 - Authorization, issuance & redemption of bonds
 - Funds & payment process
 - Investment parameters
 - Covenants, defaults & remedies
 - Trustee
- Series or Supplemental Resolution
 - Specific terms & conditions of the notes series
 - Authorize amount of notes to be issued
 - Purpose of such notes
 - Approve notes purchase contract, official statement, related documents
 - Cure ambiguity or clarify provisions of the Master Resolution



Notes Resolutions

- Same documents Board approved with 2007/2008 Consolidated System Bond Resolutions
- Key Exceptions:
 - Notes will be subordinate, in terms of payment from Consolidated System Revenues, to Bonds issued pursuant to the Bond Resolution.
 - Notes debt service coverage reduced to 1.0x, typical for subordinate obligations like Notes, Bond Resolution requires 1.25x
 - Three Covenants Deleted From Notes Resolution
 - Two of them are effectively covered already by the corresponding covenants in the Bonds Resolutions (regarding future power sales agreements and take-or-pay contracts)
 - One is not necessary in the context of the Notes (regarding sinking funds for certain bond maturities)



Approval Requested

- Consolidated System Master Subordinate Resolution
 - Creation of a third lien for notes structure
- Consolidated System Supplemental Resolution
 - Authorize up to \$175MM Notes (\$93MM VRDB, \$75MM New \$)
 - Form of documents authorized
 - Trust Agreement, Escrow Agreement, Preliminary Official Statement, Investment Agreement, Notes Purchase Agreement
- Reimbursement Resolution
 - To allow reimbursement of certain expenses incurred prior to notes issuance



Next Steps

- Options and flexibility to react to the changing market are important
- Upon advice of legal counsel and financial advisors, it is prudent to have the Notes tool as an option
- Additional analysis is being conducted to determine when, and if, we would actually use this tool
- Any action taken would be reported back to the Board as soon as reasonably possible
- Questions?