2020 Plan of Finance
Bond Issuance

March 16, 2020

This document contains certain information which constitutes forward-looking statements. Such statements and projections are necessarily subject to various risks and uncertainties. Actual results could, and likely will, differ materially from those projected, in part as a result of differences between assumptions utilized in making such forward-looking statements and actual outcomes and certain other risks. Financial forecasts are as of year end 2019.

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CHELAN COUNTY

Timeline to Pursue Debt Optimization

December

- **BOARD ACTION:** Adopted Reimbursement Resolution to preserve flexibility

Today

- **BOARD INPUT**: Receive market update, conditions more favorable
- Discuss next steps, preview documents

Late March

- **GO/NO GO DECISION POINT**
- **BOARD ACTION**: Consider adopting Bond Resolution – 3/30
- **BOARD INPUT**: Review District offering documents – 3/26 – 4/6

CHELAN COUNTY

Finance Team

Kelly Boyd	Chief Financial/ Risk Officer
Debbie Litchfield	Director of Treasury/Treasurer
Heather Irelan	Lead Treasury Analyst
Sarah Hale	Senior Treasury Analyst

Doug Goe	Bond Counsel
Greg Blonde	Bond Counsel
Christine Reynolds	Disclosure Counsel
John Stanley	Tax Counsel

Michael Berwanger	Financial Advisor
Jack Medall	Financial Advisor

Sean Keatts	Investment Banker
Chris Roberts	Investment Banker

<u>Internal Working Group (ALCO Members)</u>

Kelly Boyd, CFO/CRO
Debbie Litchfield, Treasury
Heather Irelan, Treasury
Sarah Hale, Treasury

Mark Mullins, ERM
Craig Kunz, ERM
Kurt Carlson, ERM
Ingrid Miller, ERM

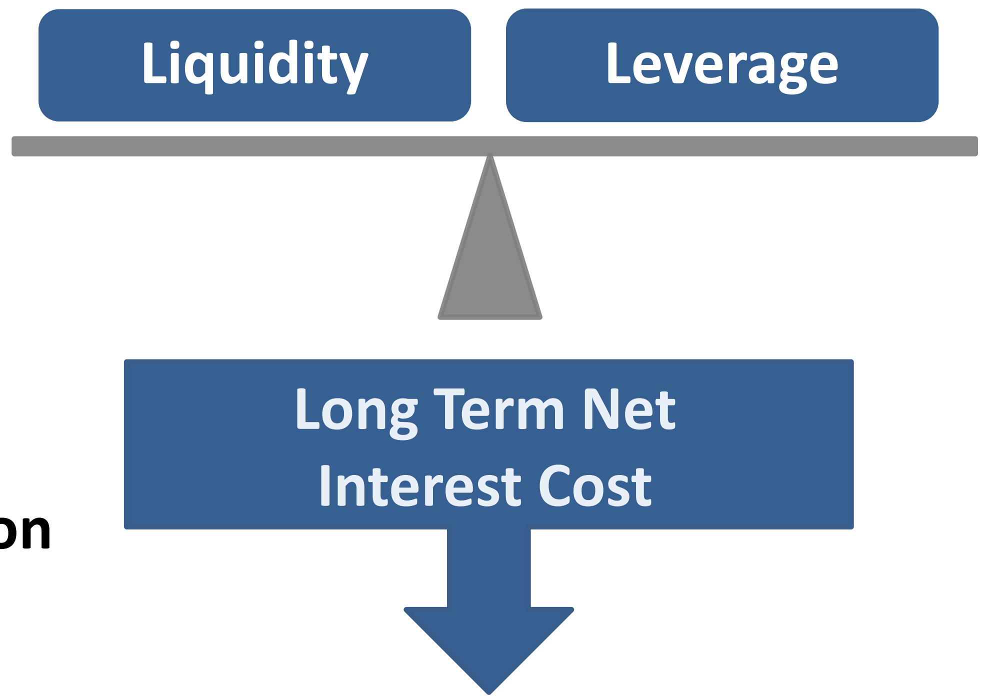
Diane Syria, Accounting
Amy Smith, Accounting
Dave Nelson, Business Advisor
Lindsey Mohns, Business Advisor

2020 Plan of Finance from Fall 2019

Debt Philosophy: Manage debt to create financial flexibility that supports low and stable electric rates even if lower than expected financial results are experienced

Balancing Financial Health…

…Drives Portfolio Optimization



Strategic Priority 2: Sustaining excellent financial resiliency while mitigating the risk of large rate increases

2020 Plan of Finance from Fall 2019

- Aligns with **Long-Term Debt Strategies** to borrow:
  - For long-term needs
  - In 2 – 3 year intervals
  - For modernization and expansion capital and
  - Manage to lowest net interest costs

- Additional Benefits (reduced administrative risks/processes)

Refinance Old	Payoff Old	Issue New	*Combined Potential NPV Savings*	
~$45M	~$85M	~$70M	*15%*	*$10M - $15M*

Projected Impact of Actions Compared to Year End 2019 ***Expected AND Unusual Cases***		
Liquidity (>$175M)/DCOH (>250)		*Reduction in 2020-21, then neutral to positive*
Debt Leverage (<35%)		*Improves in 2020-21, then neutral to positive*
Debt Service Coverage (>2.0x)	↑	*Improves due to reduced debt service* *Mitigates some unusual case stress* *Less volatile post 2026*

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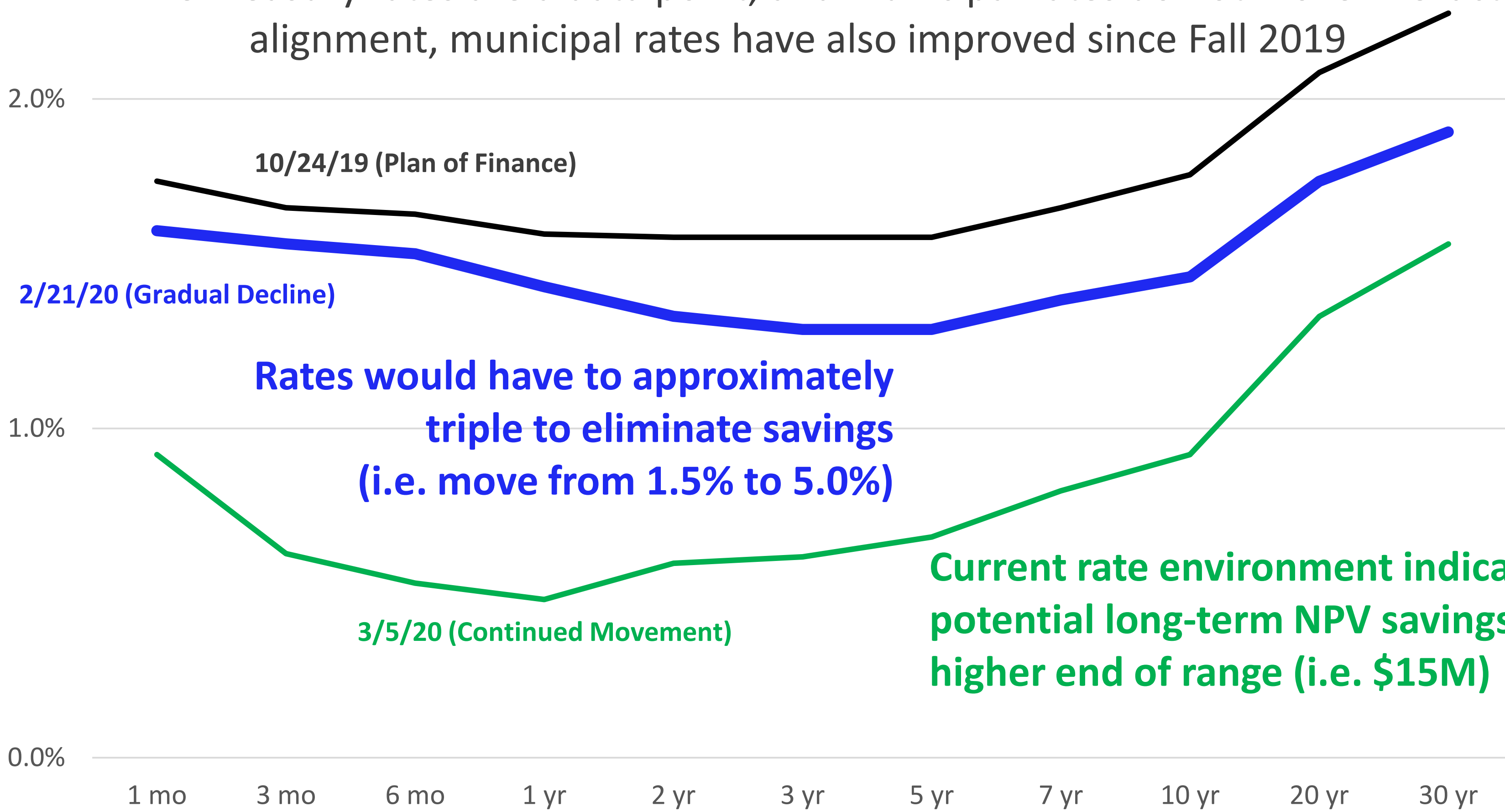
Market Conditions

Continued low long-term rates offer greater savings opportunities

Significant Recent Treasury Rate Movement

While Treasury rates are a data point, and municipal rates do not move in exact alignment, municipal rates have also improved since Fall 2019



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Further Potential Opportunities

- 2020 Plan of Finance (adopted Fall 2019)
  - Neutral to positive impacts on District financial metrics
- Current market conditions opportunity
  - Extend new money repayments over longer-term
  - Reduces pressure on forecasted future borrowings
  - Still achieve anticipated savings levels
- *Evolving market conditions may present a NEW opportunity to convert $61M variable rate bonds to fixed rate*
  - *Long-term interest rates near total cost of short-term variable interest rate plus ancillary fees, NPV savings may be neutral*
  - *Locks in low rates, reduces administration and mitigates contract renewal risks*

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Go/No Go Decision Point March 30

- Consider Bond Issuance Resolution for Adoption
- Key provisions
  - Authorizes retirement of bonds $97M ($12M was already scheduled to mature 7/1/2020)
  - Authorizes issuance not to exceed *$170M** (includes refinancing, new money, and flexibility for potential opportunities)
  - Sets forth the terms and conditions of the bonds, use of proceeds
  - Approves documents in form
    - Draft Official Statements, Purchase Contract, Escrow Agreement
  - Approves not to exceed $275,000 for bond and tax counsel services in connection with issuance
  - Authorizes District Officers to take other actions required
- Consider Resolution for Adoption for amended audit service agreement associated with bond issuance, not to exceed $60,000

*$61M variable rate bonds under consideration

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Timeline to Pursue Debt Optimization

Dec
- **BOARD ACTION:** Adopted Reimbursement Resolution ✓

Mar 16
- **BOARD INPUT:** Receive market update, discuss next steps ✓

Late Mar
- **GO/NO GO DECISION POINT**
- **BOARD ACTION**: Consider adopting Bond Issuance Resolution – 3/30
- **BOARD INPUT**: Review District offering documents – 3/26 – 4/6

Early Apr
- Payoff higher rate bonds – Target date 4/1
- Publish offering documents with 2019 financials – Target date 4/10

Late Apr
- Price and sell refinancing and new bonds – Target date 4/21
- **BOARD ACTION**: Sign closing documents – April 27

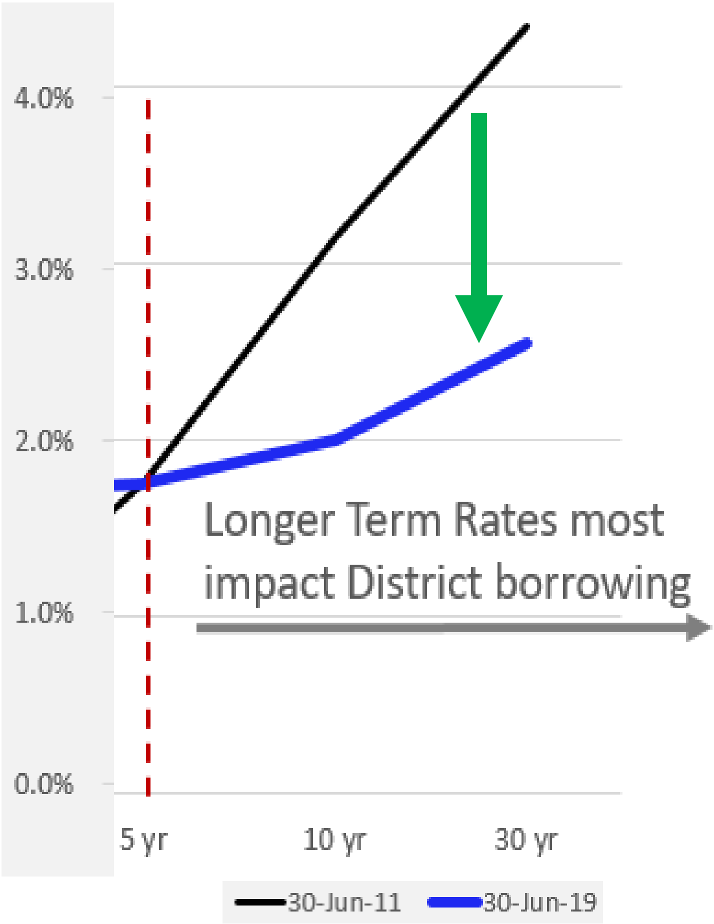
May
- Staff completes closing and delivers bonds – Target date 5/1

Appendix
Information from Fall 2019

(may not reflect current market conditions and opportunities)

The information in the appendix contains forward-looking information and projections. Such projections are necessarily subject to various risks and uncertainties. Actual results could, and likely will, differ materially from those projected, in part as a result of differences between assumptions utilized in making such projections and actual outcomes and certain other risks.

Traditional Refinancing Candidates

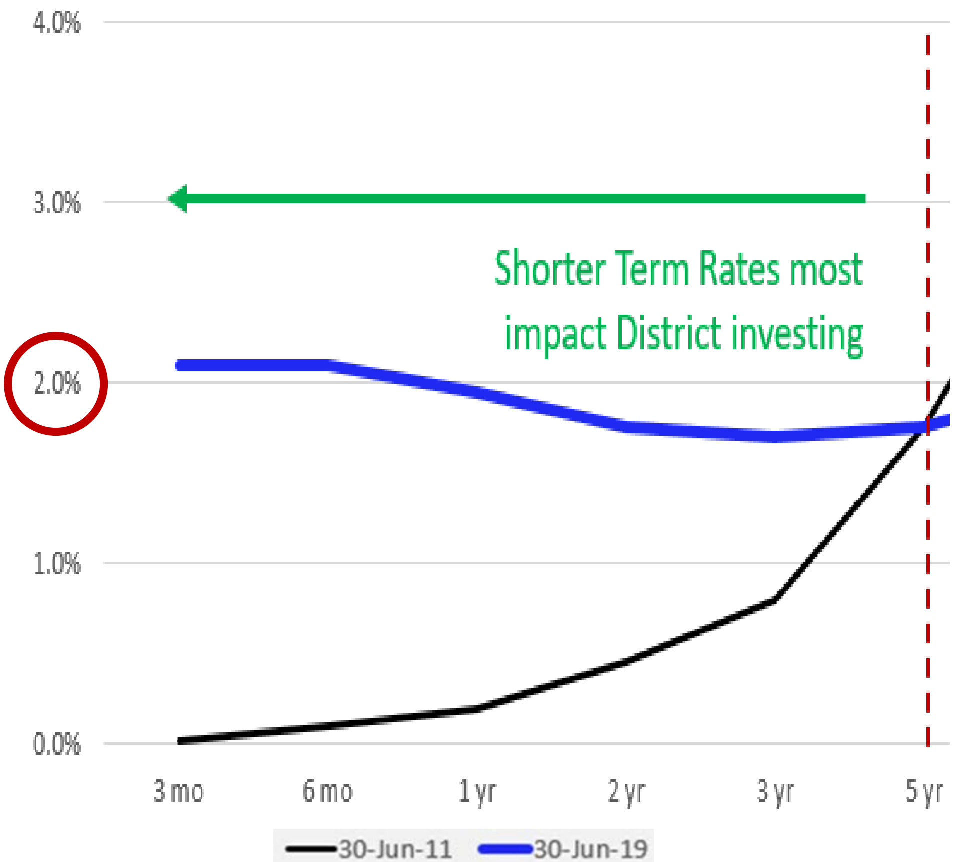


- Bonds issued over 10 years ago
- $45 million of par outstanding
- Current bond rates 4.5% - 5.0%
- Current market rates 1.5% - 3.0%
- Net Present Value Savings (NPV) range $5 million - $8 million
- Additional Benefits:
  - Fewer outstanding liens
  - Eliminates exposure to federal sequestration
  - Simplified administration

Proposed Action: Refinance ~$45M Higher Rate Bonds in Lower Rate Environment

In Current Market: A Better Use of Cash?

Attractive environment for current borrowers **but not investors**



The District pays a "storage fee" for cash when existing bond rates are higher than investment rates

- Cash is necessary for liquidity needs: operating, planning and contingency reserves
- Some bonds are not able to be retired or refunded
- Actions to minimize gaps when economic and prudent

Proposed Action: Apply ~$85M Lower Yielding Available Liquidity to Retire Higher Rate Bonds

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Proactive Capital Funding Strategies

How and When We Borrow Matters

- Debt Policy Guidelines
  - Capital investments have long-term benefits, costs can be allocated over time
  - Most cost effective means (structure, duration, tax advantages, interest rate environment)

Potential Tax-Exempt Eligible Projects	Estimated Costs	2020 – 2022 Funding Considerations	
Service Center	$120M	Not to Exceed $70M Combined	$50M already Board Designated
Distribution Expansion/ Modernization	$60M		Primarily new substations, AMI

Proposed Action: Borrow up to ~$70M for <u>Portion</u> of Long-Lived Assets in Low Rate Environment

Reduced Net Interest Costs Support Resiliency

Improved results in both expected and unusual cases

Combination of actions support:

- Strategic Priority 2: Sustaining excellent financial resiliency while mitigating the risk of large rate increases
- Debt Philosophy:
  - — Creates financial flexibility
  - — Supports low and stable electric rates
  - — Even if lower than expected financial results are experienced

Projected Impact of Actions Compared to Year End 2019 ***Unusual Case***		
Liquidity (>$175M)/DCOH (>250)	●	*Reduction in 2020-21, then neutral to positive*
Debt Leverage (<35%)	●	*Improves in 2020-21, then neutral to positive*
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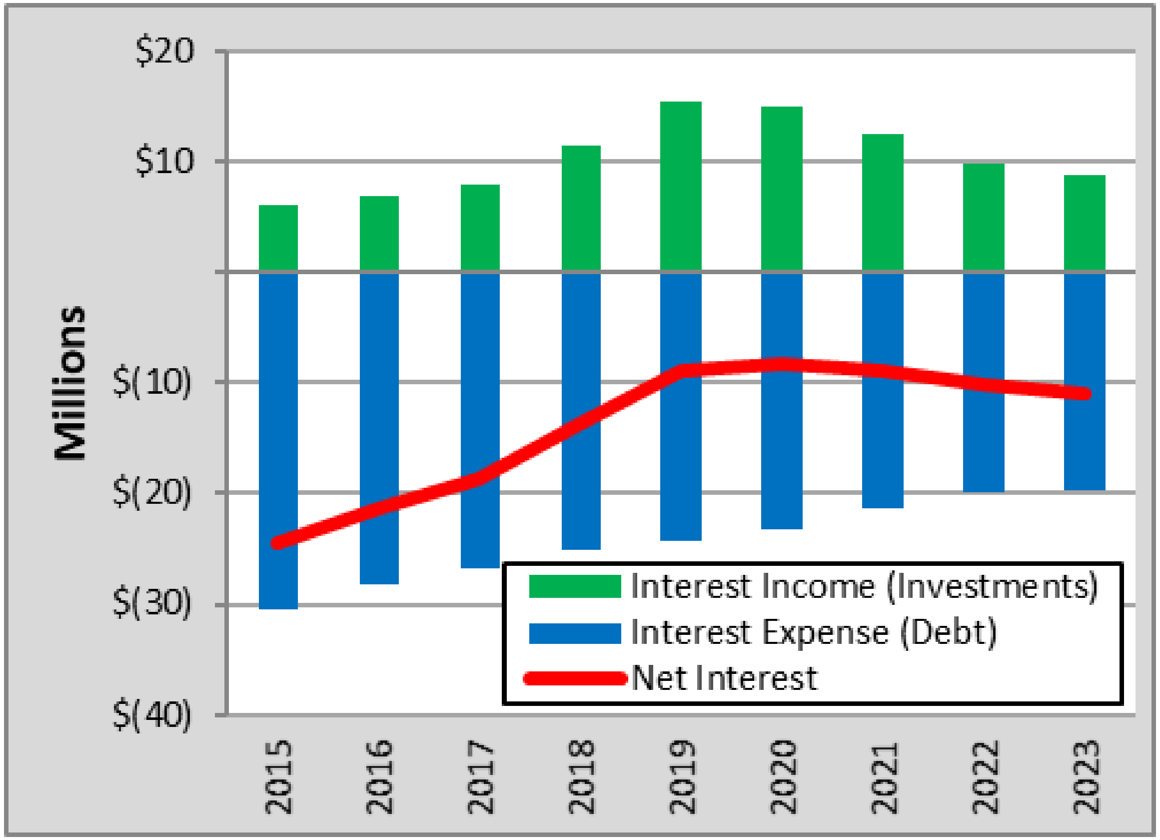
Net Interest Expense

Reducing net interest expense (interest income – interest expense) reduces rate pressure

- Interest income is forecast to decline slightly due to lower cash balances and interest rates
- Reducing interest expense through debt portfolio optimization supports lower net interest expense



Does not include 2020 Plan of Finance