

Rock Island Capital Funding

2019 Internal Loan



CHELAN COUNTY

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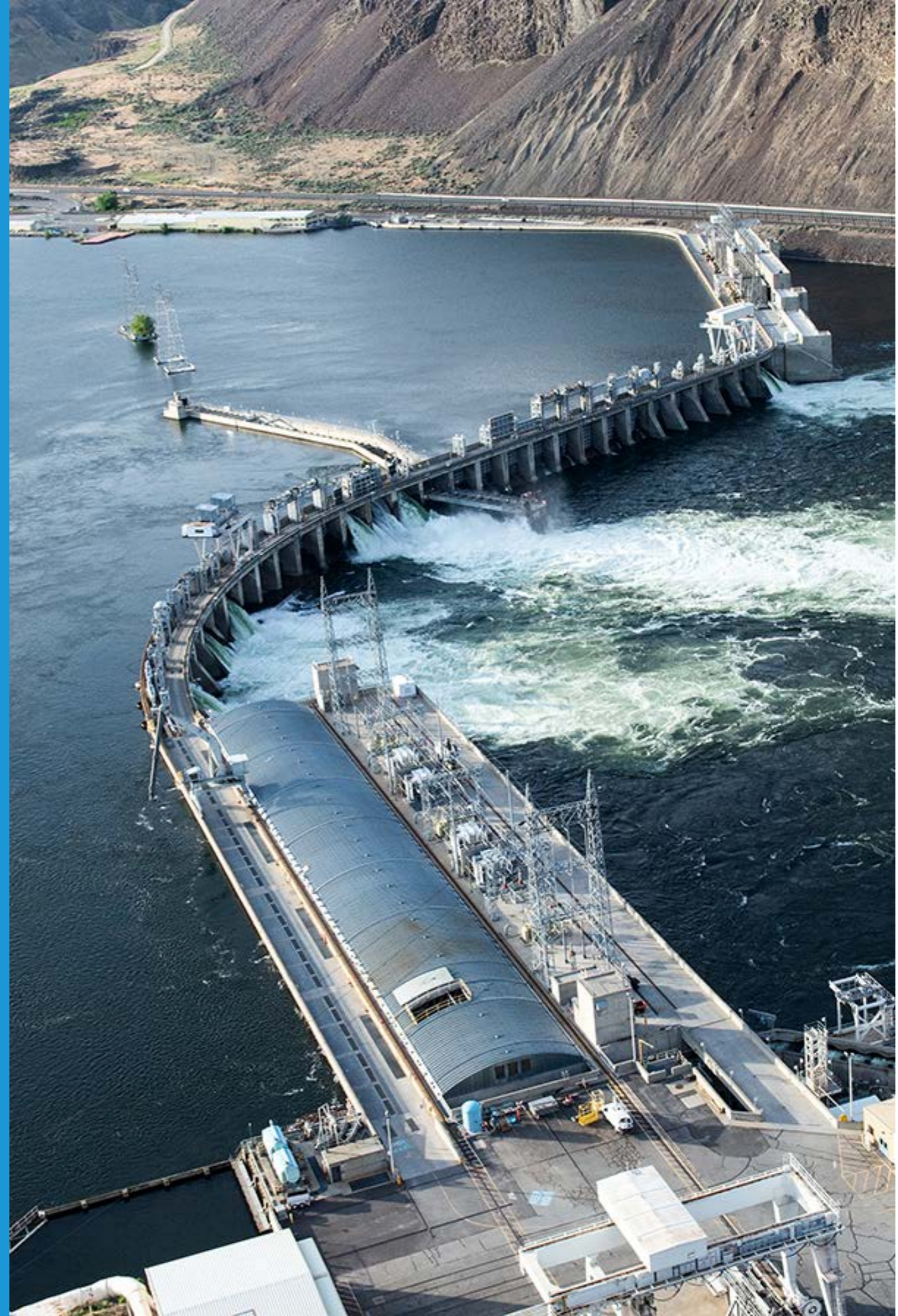
March 4, 2019

Presentation Purpose

No action requested today

Review accounting and
internal loan structure

Discuss Rock Island
capital funding needs



District Systems

Separate accounting for multiple systems

- Requirement of FERC licenses and some bond covenants

- Examples: Rocky Reach, Rock Island, Lake Chelan

- External financial reporting includes both system and combined

Internal loans

- Match system funding need with available system cash

- Loan cash from one District accounting system to another

- Principal and interest paid back over time per schedule

Financing system

- Shared system to record bond and loan related activity

Rock Island Capital Funding

Historically, hydro capital has been funded with bond proceeds

Since 2011/12, current long-term Power Sales Contracts cost plus adders have been utilized for pay-as-you-go capital

2019/20 Rock Island capital plans of approximately \$128M will exceed available power sales contract funds and require additional funding



Capital Funding Sources

Capital projects can be funded with:

- Available system cash

- Internal loans

- External bond proceeds

Board affirmed Debt Philosophy and Planning Strategies:

- First, internal loans from unrestricted funds, when available

Customer benefits:

- Supports debt leverage and coverage metrics

- Avoids external bond issuance and interest costs

- Uses available unrestricted cash earning interest at lower rate

Internal Loans

Resolution 13-13830 established internal loan procedures

Loan needs determined by Asset Liability Management Committee

Financing System primary issuer of loans

Authorizing loan resolutions identify: issuing and borrowing systems, specific loan terms

Rocky Reach and Rock Island terms per Power Sales Contracts

Power Sales Contract loan terms

Monthly payments over 25 years

Fixed interest rate based on: 110% of taxable market rate
assuming District's credit rating
set on the date of issuance

2019 Rock Island Internal Loan

Recommending 2 years of capital funding from Financing System

2019 unrestricted cash forecast impact due to 2 year funding

Still well above metrics and no material impact to 2020 forecast

Power purchaser impacts (cost-plus contracts)

Share of annual principal and interest

Some contract adders increase with debt balance increases

Approximately 4% increase compared to 2018 costs

Purchaser outreach plan

Courtesy notice has been provided to power purchasers

In accordance with contracts, charges will begin in April

Loan Terms:
**Per Contracts, to be
set by Resolution
considered March 18**

Term:
25 years

Interest Rate:
**to be set March 29
(estimated at around 4.5%)**

Amount:
Not to exceed \$87M



- March 4 - 17 Commissioner questions and power purchaser outreach
- March 18 Request Board approval of internal loan resolution
- March 29 Issue internal loan