

RESOLUTION NO. 13-13830

A RESOLUTION REPLACING RESOLUTION NO. 93-9540 AND ESTABLISHING REVISED INTERNAL LOAN PROCEDURES

FACTUAL BACKGROUND AND REASONS FOR ACTION

Historically, the District has bond financed the majority of its capital costs. The prior Rocky Reach and Rock Island Power Sales Contracts and related agreements, (the "Prior Power Sales Contracts") which expired in October 2011 and June 2012, respectively, required bond financing for most of those systems' improvements. In some cases, bonds have been issued by separate District systems such as Rocky Reach and Rock Island. In addition, bonds have also been issued on a "Consolidated System" basis with proceeds loaned to systems based on the procedures contained in Resolution No. 93-9540. The Consolidated System is a funding mechanism that allows the District to combine, or consolidate, many of its individually accounted for Systems into a single system for bond issuance purposes. Consolidated System bonds allow the District to more efficiently structure bond issues to reduce overall issuance and interest expenses. Consolidated System bonds are accounted for and reported in the District's Financing Facilities System. The Financing Facilities System is a shared services accounting system used to report financing related revenues and expenses, and is a part of the Consolidated System.

Under the Prior Power Sales Contracts, financing costs conformed to the terms of the contract and were consistent with the terms of the actual bonds. If actual bond terms and costs changed due to refinancing or early retirements, financing costs under the Prior Power Sales Contracts were also changed. Under the new Rocky Reach and Rock Island Power Sales Contracts, (the "New Power Sales Contracts") the District has much more financing flexibility. The New Power Sales Contracts established a fixed schedule of charges for financing costs based on the terms of previously issued system-specific bonds and internal loans of Consolidated System bonds. Future financing costs will be based on the terms of the New Power Sales Contracts. Those charges do not change if underlying bond terms and costs change. This allows the District to make financing decisions that are in its best interests without adjusting internal loan terms. Due to New Power Sales Contracts financing charge differentials and other 'plus' components of the contract charges, the District has accumulated cash in the Financing Facilities System.

In addition, under the New Power Sales Contracts, the District is not required to bond finance capital costs and can elect to use bonds, accumulated New Power Sales Contract funds, or other internally available cash. The District's current strategy regarding funding of most capital projects is to "pay-as-you-go" and use internal funds when available and economically feasible. This strategy supports the District's financial metrics and avoids external borrowing (with associated costs). In

order to fund system-specific capital projects, internal loans may need to be issued from cash accumulated in the Financing Facilities System, which are not bond proceeds.

The loan procedures contained in Resolution No. 93-9540 contemplate internal loans from the District's Financing Facilities System with terms based primarily on the structure of external Consolidated System bond issues. Due to the District's current strong financial position and stated intent to cash-fund capital projects, it is less likely that future internal loans of bond proceeds will be made. It is more likely that future internal loans will be made from available cash accumulated in the Financing Facilities System or other District systems as prudent. Therefore, staff recommends and the Chief Finance/Risk Officer and General Manager concur, that revised loan procedures be established.

ACTION

IT IS RESOLVED BY THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF CHELAN COUNTY, WASHINGTON (THE "DISTRICT") as follows:

Section 1. The District's Financing Facilities System shall be the primary issuer of loans between District systems. Loans may be issued from other District systems if prudent. Authorizing resolutions shall identify the issuing system, the borrowing system and the specific loan terms.

Section 2. Determination of loan needs or loan repayments shall be made upon the review of the District's Asset Liability Management (ALM) Committee with consideration for District Strategic Plans, forecasted capital funding requirements of each system, and in accordance with debt guidelines adopted by the ALM Committee.

Section 3. Terms of loans, whether from bond proceeds or other available funds of the District, shall hereafter be determined by the District's Treasurer and shall be as follows, unless otherwise specified by the Commission:

For loans to Rocky Reach or Rock Island, the terms and conditions will follow those approved by the Commission under the New Power Sales Contracts.

For loans to all other District systems:

- (a) The principal amount of the loan shall be equal to the construction proceeds of the loan.
- (b) The loan will be a term loan with duration no greater than 20 years.
- (c) The fixed interest rate shall be a market based rate determined by the Treasurer in consultation with the District's independent investment banker as of the effective date of the loan assuming a tax-exempt AA revenue bond with a 20-year term maturity.

- (d) Loan payments shall consist of a principal and interest component and be calculated on an annual level debt service basis. One-twelfth of the annual loan payment shall be made monthly.
- (e) Systems may repay any internal loan at any time for any reason without penalty. Early repayment does not require Commission action.

Section 4. The District's Treasurer shall manage loans and is hereby authorized to modify existing loan terms to conform to the terms prescribed by this Resolution including consolidation and simplification of such prior loans where prudent to do so.

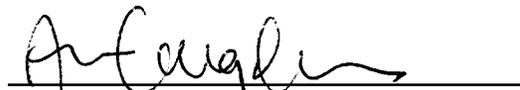
Section 5. The District's Treasurer is hereby authorized to take such other action as may be necessary to implement this Resolution.

Dated this 2nd day of December 2013.

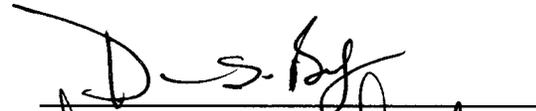


President

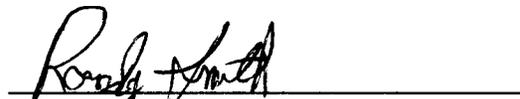
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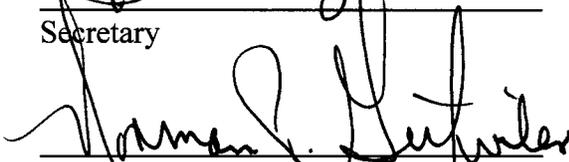
Vice President



Secretary



Commissioner



Commissioner

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