Council Special Meeting

Purchase Power Financial Impacts

March 2, 2021

Georgetown Texas
EST. 1848

Electric Fund Financial Conditions

GEORGETOWN TEXAS EST. 1848

Electric Fund Financial Conditions Pre-Event

- **S&P Rated AA-**
- **Meet combined debt coverage ratio requirements: 2.48x**
- **Total annual purchased power budget: $60 million**
- **Total outstanding Electric utility debt principal $34.6 million**
- **FY2021 amended budget ending fund balance $18.1 million**
  - 90 day operating contingency reserve $4.0 million
  - Non-operating reserve $10.6 million
  - Restricted debt service reserve $3.5 million

EST. 1848
GEORGETOWN
TEXAS

Electric Fund Financial Conditions Post-Event

- **S&P put us on “negative watch”; additional action possible**
- **Owe a $47.8 million payment April 1**
- **Need to preserve existing cash reserves**
  - Liquidity to bolster bond rating
  - Liquidity for other unknown emergencies

Electric Fund Financial Conditions Post-Event Cont’d

- **Will not meet revenue bond covenant debt coverage requirements in 2021**
  - Purchase Power operating expenses will increase by $47.8 million
  - Operating revenue will not be able to cover operating expenses
  - Coverage falls below minimum required 1.35x
  - Triggers a new “springing reserve” that equals the average annual payment of water and electric outstanding revenue debt combined
  - Must be completely separate and restricted from other reserves
  - 2021 springing reserve amount is $6.4 million
    - Monthly contribution of $106,666 for 5 years
    - Water share 66%; $71K
    - Electric share 34%; $36K

Funding the Springing Reserve $6.4M

- **May purchase a surety policy**
  - One-time up-front cost as percent of coverage
  - Recommended first step to try as overall lowest cost option
- **May be funded with increase in revenue from rates/fees, sale of assets, or operational savings**
  - Increase electric rates only
  - Increase electric and water rates based on their pro-rata share of the reserve
  - When reserve is no longer needed, funds can be used to pay off existing debt

EST. 1848
GEORGETOWN
TEXAS

Recommendation for Springing Reserve

- **Initiate steps to cover the $6.4M Springing Reserve**
  - Seek a surety policy and pay one-time fee

Purchase Power Debt Financing Options

Two main options to finance $47.8 million

Revenue Bond

Tax Supported Debt

Should we “buy down” the $47.8M with cash?

- Not recommended
- Need to preserve liquidity to bolster ailing bond rating
- Need to preserve reserves for other unknown emergencies
- Don’t have enough cash to buy down a significant amount

Timeline of Debt Financing

Same timeline for either instrument

- Recommendation today March 2
- Financial Advisor Distribute term sheets to banks March 5
- Bond Counsel Prefile with Attorney General's Office March 15
- Finance Advisor Receive bank bids March 19
- Council approve sale March 23
- Close and receive proceeds no later than March 31
- Invoice to Shell due April 1

Repayment Source

Same repayment source for both instruments

- Power Cost Adjustment on electric bills to customers
- Current PCA is 1.375 cents per kWh
- 1 cent of PCA generates ~$6 million in revenue per 12 month period
- 1 cent PCA = ~$10 per month per average residential utility bill
- As Electric fund was recovering pre-event, we planned to continue reducing PCA through summer 2022 when the gas contract terminates
- Need to leave 1.375 cent PCA in place and review potential increase

Example Annual Debt Payment Amount (P&I)

Revenue Bond or Tax Supported; estimates only

- 7 year term - $7.4M
- 10 year term - $5.4M

Revenue Bond Option

- **Bank placement – max term 15 years**
- **Rating agencies put negative watches on several entities, surveying each one for possible downgrade**
- **Higher interest rate because utility revenue is pledged**
- **Strict bond covenants**
  - Adds burden to revenue bond debt coverage ratio
  - Increases the amount needed in the Springing Reserve by another ~$4 million ($6.4M + $4M = $10.4M)

Tax Supported Option

- **Bank placement – max term 15 years**
- **Property taxes are pledged (still repay with Electric revenue)**
  - Better interest rate
  - No requirement to meet additional utility bond springing reserve
  - Relieves pressure on debt coverage ratio
- **Will require disclosure on the regular CO/GO spring sale**
  - Based on historical treatment of CO’s, not anticipated to affect rating or interest rates as long as we demonstrate self-supporting with Electric revenue from PCA

Recommendation for Purchase Power

- **Initiate steps for a $47.8M tax instrument**
  - Can still repay with Electric revenue
  - Property tax pledge secures better interest rate and does not count toward revenue debt coverage reserve requirements

A: 7 year term; Flat PCA

PCA: 1.38						
		Target Cash Balance	Projected Cash Balance	Difference	Target Debt Coverage	Projected Debt Coverage
	2022	20,529,045	18,347,510	(2,181,535)	1.35	1.86
	2023	22,876,807	18,538,864	(4,337,943)	1.35	1.87
	2024	24,756,108	19,008,726	(5,747,382)	1.35	1.80
	2025	26,542,197	19,708,375	(6,833,821)	1.35	1.78
	2026	28,704,130	19,978,737	(8,725,393)	1.35	1.77

B: 7 year term; PCA increase .50 cents

PCA: 1.88						
		Target Cash Balance	Projected Cash Balance	Difference	Target Debt Coverage	Projected Debt Coverage
	2022	20,529,045	21,348,454	819,409	1.35	2.11
	2023	22,876,807	24,608,273	1,731,467	1.35	2.12
	2024	24,756,108	28,215,378	3,459,270	1.35	2.06
	2025	26,542,197	32,122,328	5,580,131	1.35	2.03
	2026	28,704,130	35,671,348	6,967,218	1.35	2.04

C: 10 year term; Flat PCA

PCA: 1.38						
		Target Cash Balance	Projected Cash Balance	Difference	Target Debt Coverage	Projected Debt Coverage
	2022	18,869,045	20,347,510	1,478,465	1.35	2.23
	2023	21,216,807	22,548,864	1,332,057	1.35	2.24
	2024	23,096,108	25,038,776	1,942,668	1.35	2.16
	2025	24,882,197	27,768,576	2,886,379	1.35	2.12
	2026	27,044,130	30,079,238	3,035,108	1.35	2.12

GEORGETOWN TEXAS EST. 1848

D: 10 year term; PCA Increase .50 cents

PCA: 1.88						
		Target Cash Balance	Projected Cash Balance	Difference	Target Debt Coverage	Projected Debt Coverage
	2022	18,869,045	23,348,454	4,479,409	1.35	2.54
	2023	21,216,807	28,618,273	7,401,467	1.35	2.55
	2024	23,096,108	34,245,428	11,149,320	1.35	2.46
	2025	24,882,197	40,182,528	15,300,332	1.35	2.42
	2026	27,044,130	45,771,850	18,727,719	1.35	2.43

What if things keep changing?

- **Can back out of the sale up until the approval date March 23 - would lose $9,500 in Attorney General fees**
- **Will try to negotiate call options – the ability to refinance or repay sooner than the maturity**
- **Have the ability to change the amount financed up until approval date March 23**
  - increase (uplift charges) – uncertainty around AG opinion to debt fund uplift charges
  - decrease (government intervention)

Recommendations for Regular 2021 Debt

- **Continue on schedule with rating meeting and regular GO/CO competitive sale April 27**
  - Parks, roads, facilities, public safety equipment for $31.4 million
- **Move Water projects $16.3 million and Electric projects $6.6 million from Revenue Bond private placement to public CO sale on May 11**
  - Council approves public notice of CO's on March 9
  - Better interest rate because property tax pledge and competitive sale
  - Longer terms likely (20 years as desired)
  - CO's not included in test for debt coverage reserve of utility revenue bonds

EST. 1848
GEORGETOWN
TEXAS

Recommendations for Regular 2021 Debt Cont'd

- **Continue on schedule for refinancing May 13**
  - Delegated from Council to staff on April 27
  - 2012 GO/CO's, $2.7 million total estimated savings ($170K per yr.)
- **If the mobility bond is approved by the voters, continue summer sale of first ~$20 million in July/August**

Direction Needed from Council

- **Funding source for springing reserve $6.4 million?**
  - Staff recommendation is to seek surety policy first and research revenue impacts as a back-up
- **Buy down the $47.8 million amount with cash?**
  - Staff recommendation is No
- **Tax Instrument or Revenue Bond for the $47.8 million?**
  - Staff recommendation is tax supported debt
  - *7 or 10-year term?; Assumed PCA treatment?*
- **Water and Electric regular project sales Revenue Bond or CO’s?**
  - Staff recommendation is CO’s