

MEMORANDUM

August 28, 2024

TO: Richard Wallen, General Manager/Chief Executive Officer

VIA: Bonnie Overfield, Chief Financial Officer/Treasurer
Angelina Johnson, Senior Manager of Treasury and FP/Deputy Treasurer *Angelina Johnson*

FROM: Amy Thompson, Senior Financial Analyst *Amy Thompson*
Cesar Castro-Leon, Financial Analyst *Cesar Castro-Leon*

SUBJECT: 2024 August Debt Transaction Summary

Purpose: To summarize the Priest Rapids Project (PRP) Transaction Activity and Closing

Discussion: On September 4, 2024, the District will close the refunding of the 2010-L (BABs) and portions of the 2020 Z and 2020 Z-2 series with the new debt series, 2024 B.

The District issued the BABs (originally \$173.9 million par) in April 2010. BABs were authorized to be issued under the American Recovery and Reinvestment Act of 2009. BABs are taxable bonds that are eligible for an interest rate subsidy payment paid from the U.S. Treasury equal to 35% of the interest due on each interest payment date. Due to the interest subsidy payment, BABs were expected to result in an overall net lower cost of borrowing. The District issued its BABs with the assurance that the Federal government would subsidize the interest payments. However, after the District issued the BABs, certain federal budget control legislation modified and amended the relevant sections of the Federal Tax Code in a manner pursuant to which the District's cash subsidy payments from the U.S. Treasury have been reduced due to sequestration (reduction and permanent cancellation). Aggregate reductions in federal credit payments to date and projected reductions at the current sequestration rate amount to approximately \$4.26 million. As a result of the budget sequestration and reduction in subsidy, the District concluded (in Resolution 9060) that an "Extraordinary Event" had occurred which qualified the BABs to be redeemed at an "Extraordinary Optional Redemption Price," which lowers the price the District pays to redeem those bonds.

A portion of the 2020 Z and 2020 Z-2 were eligible for refunding from taxable debt to tax-exempt debt (interest rate savings). Because the series were not yet eligible for a 10-year call and other refunding options did not produce savings, District staff was presented with an option to tender a portion of the outstanding debt. Savings could be realized depending on the participation of bond holders.

During the original analysis and presentation to the Commission (Resolution 9060), District staff estimated potential savings of \$16.5 million of Gross Cashflow Savings. See Exhibit A for final results, which totaled \$18.1 million in Gross Cashflows Savings.

Justification/Sale Parameters: Below are the sale authorization parameters outlined in Resolution 9060 and final results of the debt transaction.

- Principal amount of the Bonds (in the aggregate) to not exceed \$375.0 million
 - Final: \$180.8 million (*met*)
- Final Maturity of the Bonds to be no later than January 1, 2044 (a 20-year term structure)
 - Final: 1/1/2044 (*met*)

- The Bonds of each series must be sold (in the aggregate) at a price not less than 90%
 - Final: 112.735437% (*met*)
- Maximum True Interest Cost (in the aggregate) to not exceed 5.0%
 - Final: 3.368796% (*met*)
- Aggregate debt service to be paid on any Bonds shall be less than the aggregate debt service on the Refunded Bonds to be refunded or acquired
 - Final: New debt service \$268.1 million compared to original \$315.1 million (*met*)

Financial Considerations (Progression):

6/5/2024 Kick-off meeting with Finance Team with initial schedule

- Treasury quotes on 7/15-7/17 for the BABs Make Whole Call Redemption
- Post Invitation to Tender 7/18; expire Invitation to Tender 8/2
- Price Bonds on 8/6

7/18/2024 Updated schedule due to District document diligence

- Treasury quotes on 7/29-8/1 for the BABs Make Whole Call Redemption
- Post Invitation to Tender 8/5; expire Invitation to Tender 8/19
- Price Bonds on 8/21

7/29/2024 Tender/Spread meeting

- Offering 45 basis points (0.45%) spread/difference premium over market yields to entice investors to tender while generating savings on refunding.

7/30/2024 Extraordinary redemption for the BABs

- Set the Treasury benchmark and Extraordinary Redemption prices (favorable) before Treasury market became more volatile and rates declined, which would have resulted in higher redemption prices

8/13/2024 Pre-Market Meeting

- Challenge for the week of 8/5-8/9 for issuers (would have been original pricing week)
- ~\$15 billion set to price; only \$13 billion completed
- Issuers had challenges with coupons and needed to diversify
 - Used 5.25% and 5.50% coupons
- Lower inflation reports moved well with the Fed and helped the market
- Tremendous amount of volatility with the Treasury market, with MMD following Treasuries
- Financial Advisor specifically said, "Tuesday was an ugly day." (Referring to prior week's market)
 - A few clients had elected to step out and not price due to the unfavorable environment
- Only about \$1.2 million in accepted tenders received (0.42% participation)

8/16/2024 Pre-Market Meeting (Friday before Pricing)

- Sell-off in the Treasury space
- Underwriter summarized that there were challenges selling deals on the long end of the curve
- Issuers needed to utilize varying coupons on the long end of the curve
- Looking into the next week, the District set to be the only Washington entity and only Western utility in the market on pricing day
- 10-15 year part of the curve very flat in demand
- \$45.7 million in accepted tenders received (16.50% participation)

8/20/2024 Pre-Pricing Meeting (Day before Pricing)

- Discussion about investor relations for a tender and refunding
- Savings options for First In First Out (FIFO) and Pro Rata curve for maturities
 - Underwriter highly stressed Pro Rata due to market demand
 - Difficulty selling bonds if using the FIFO on curve
 - Financial Advisor indicated historical Power Purchaser and bond refunding curves used Pro Rata
- Discussed the pre-marketing wire to be sent to potential investors
 - Washington State Retail as priority
- \$62.9 million in accepted tenders received (22.73% participation)-**final**

8/21/2024 Pricing Day

- Reviewed Read Sheet/responses from prior day's wire from interest investors
 - Received request from two investors to offer 4.00% coupons for the maturity years 2042, 2043, and 2044
 - Difficult years to fill orders during the last few weeks
 - The Finance Team determined that the maturities 2025-2041 would have 5.00% coupons and 2042-2044 would have 4.00% coupons to have a better opportunity of selling the bonds
 - Responses from interested investors and which maturities they would watch
- The District's Bonds were oversubscribed (more orders were entered than available Bonds to sell) by over 5.57x for the entire Bond series.
- Over 40 Investors ordered \$1.07 billion worth of Bonds (Par was \$180.8 million)
- Oversubscription ranged from 1.0x to 15.1x indicating the District would be able to further negotiate the spreads in favor of the District's ratepayers
 - The lower credit spreads negotiated for final pricing increased gross cashflows savings by nearly \$1 million
- Final negotiations with the FA, Underwriter, and District Representatives resulted in a favorable Debt Service Cost to the District
- Substantial participation from "real retail" and a diverse set of investors placed orders
- The deal was flat (zero credit spread) to the Bloomberg Valuation Service (BVAL) AAA curve for 2026 and 2029 maturities
 - Not this tight since at least 2008
- The tender had interest and participation from the insurance industry which caused good results and indicated better interest (not typical participants in a tender offer)

Bond Purchase Agreement/Contract Specifics: All Resolution 9060 requirements were met.

Legal Review: Original approval with memorandum for Resolution 9060.

Exhibit A

Summary of Financing Results												
	Pre-Marketing (1)				Pre-Pricing (2)				Re-Pricing (3)			
	Tender 2020Z	Tender 2020Z-2	Series L BABs	Aggregate	Tender 2020Z	Tender 2020Z-2	Series L BABs	Aggregate	Tender 2020Z	Tender 2020Z-2	Series L BABs	Aggregate
Par Amount	20,775,000	30,115,000	130,015,000	180,905,000	20,775,000	30,725,000	129,965,000	181,465,000	20,685,000	30,655,000	129,465,000	180,805,000
Premium	2,506,725	3,805,982	17,347,660	23,660,367	2,506,986	3,189,227	17,395,416	23,091,629	2,593,701	3,265,264	17,890,875	23,749,840
Accrued Interest	118,616	183,653	1,525,017	1,827,286	118,616	183,653	1,525,017	1,827,286	118,616	183,653	1,525,017	1,827,286
Reserve Fund Release	-	-	10,761,534	10,761,534	-	-	10,761,534	10,761,534	-	-	10,761,534	10,761,534
Total Sources	23,400,341	34,104,635	159,649,211	217,154,187	23,400,601	34,097,880	159,646,967	217,145,449	23,397,316	34,103,918	159,642,426	217,143,660
Cash Deposit	23,197,483	33,802,059	158,838,441	215,837,983	23,197,483	33,802,059	158,838,441	215,837,983	23,197,483	33,802,059	158,838,441	215,837,983
COI & UWD	140,958	207,126	810,770	1,158,854	141,219	200,371	808,526	1,150,116	137,934	206,409	803,985	1,148,327
Dealer Manager Fee	61,900	95,450	-	157,350	61,900	95,450	-	157,350	61,900	95,450	-	157,350
Total Uses	23,400,341	34,104,635	159,649,211	217,154,187	23,400,601	34,097,880	159,646,967	217,145,449	23,397,316	34,103,918	159,642,426	217,143,660
All-in TIC	3.39%	3.75%	3.38%	3.45%	3.37%	3.73%	3.37%	3.44%	3.31%	3.70%	3.32%	3.40%
Arbitrage Yield	3.09%	3.09%	3.09%	3.09%	3.12%	3.12%	3.12%	3.12%	3.06%	3.06%	3.06%	3.06%
Total Debt Service	29,313,094	48,340,619	191,533,494	269,187,206	29,293,486	48,312,014	191,460,181	269,065,681	29,158,589	48,196,908	190,733,306	268,088,803
Gross Savings (\$)	1,318,107	3,330,000	12,370,291	17,018,398	1,337,714	3,358,605	12,443,604	17,139,923	1,472,612	3,473,712	13,170,479	18,116,802
Gross Savings (%)	5.32%	8.72%	8.22%	7.97%	5.40%	8.80%	8.27%	8.03%	5.95%	9.10%	8.75%	8.49%
PV Savings (\$)	941,514	1,767,853	9,662,588	12,371,956	955,940	1,812,624	9,697,260	12,465,824	1,061,016	1,920,860	10,308,786	13,290,662
PV Savings (%)	3.80%	4.63%	6.42%	5.80%	3.86%	4.75%	6.44%	5.84%	4.29%	5.03%	6.85%	6.23%

Financing Results: Progression of Pre-Marketing, Pre-Pricing, and Re-Pricing