



Independence Power & Light

Refunding of the 2010 B Infrastructure Facilities Leasehold Revenue Bonds

August 20, 2020

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Debt Overview & 2010 B Refunding



Debt Portfolio Review (As of August 1, 2020)

Power & Light Fund Debt

	<u>Series</u>	<u>Original Par Amount</u>	<u>Outstanding Par Amount</u>	<u>Coupons</u>	<u>Maturities</u>	<u>Call Date</u>
Refunding Opportunity →	2010B*	\$33,645,000	\$10,615,000	4.00% - 5.25%	June 1, 2025 - 2035	June 1, 2020
	2012A*	55,185,000	53,615,000	4.00% - 5.00%	June 1, 2021 - 2037	June 1, 2022
	2012F*	52,525,000	39,740,000	3.00% - 4.00%	June 1, 2021 - 2037	June 1, 2022
	2016D	47,180,000	<u>47,180,000</u>	3.50% - 4.00%	June 1, 2038 - 2046	June 1, 2026
	Total Power & Light Debt		\$151,150,000			

Water Fund Debt

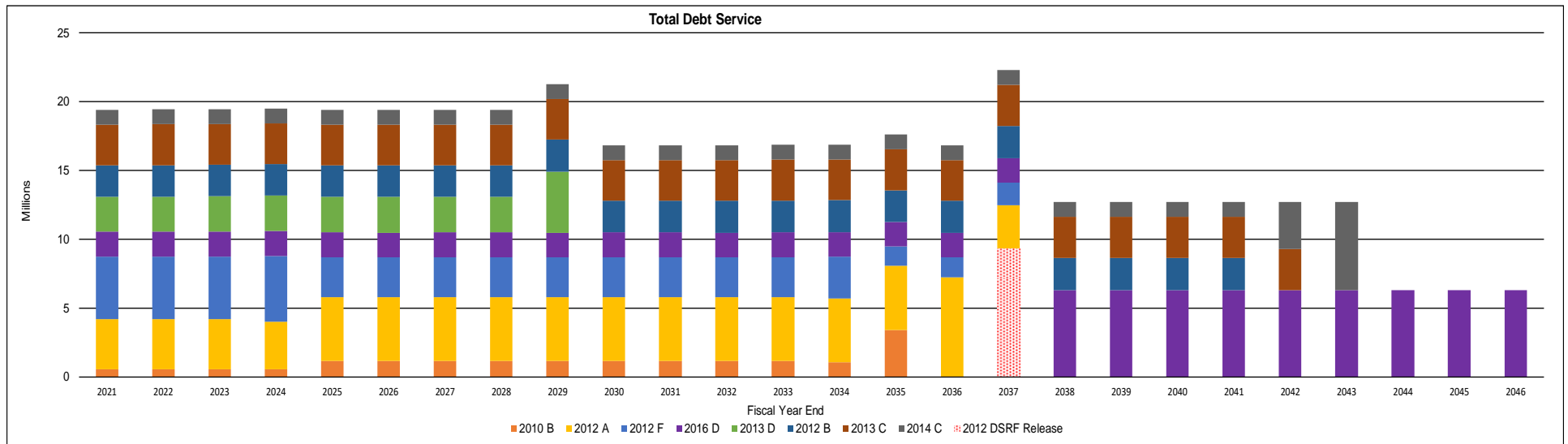
<u>Series</u>	<u>Original Par Amount</u>	<u>Outstanding Par Amount</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Call Date</u>
2013D	\$36,240,000	\$21,870,000	3.00% - 5.00%	November 1, 2020-2029	November 1, 2023

WPC Debt

<u>Series</u>	<u>Original Par Amount</u>	<u>Outstanding Par Amount</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Call Date</u>
2012B	\$37,035,000	\$31,345,000	3.00% - 5.00%	November 1, 2020-2041	November 1, 2021
2013C	43,800,000	39,645,000	3.00% - 5.25%	November 1, 2020-2042	November 1, 2023
2014C	21,170,000	<u>19,585,000</u>	2.00% - 5.00%	November 1, 2020-2043	November 1, 2024
	Total Sewer Debt		\$90,575,000		

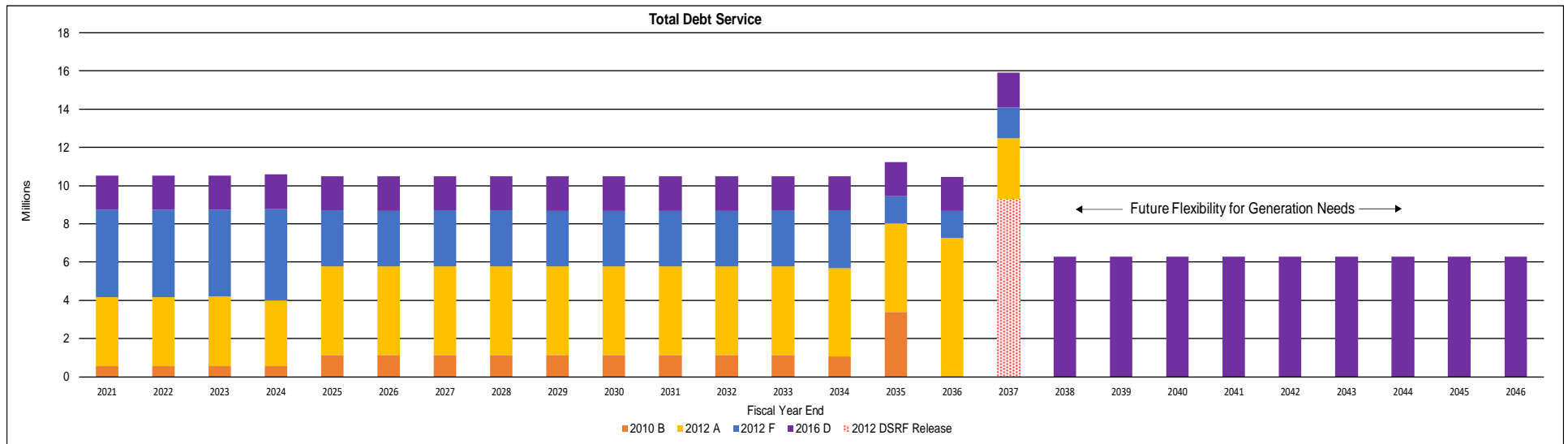


Debt Portfolio Review (As of August 1, 2020) All Utility Systems





Debt Portfolio Review (As of August 1, 2020) Power & Light





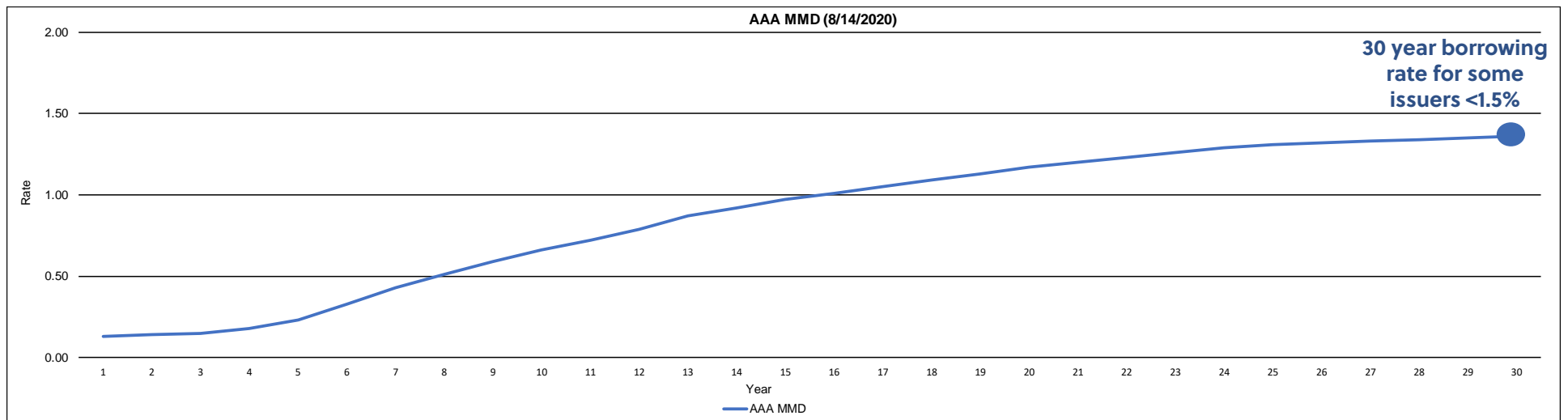
Background Information: 2010 B Bonds

- ◆ IPL issued \$33.6 million in bonds in November of 2010 (2010 Series B Bonds)
- ◆ Currently, \$10.6 million of these bonds can be called from investors at any time (call date of June 1, 2020)
- ◆ IPL can refund these bonds with a tax-exempt issuance (the 2020 Bonds)
- ◆ Interest rates are at historical lows
- ◆ The refunding 2020 transaction is expected to produce ~\$2.3 million in net present value cashflow savings representing ~22% savings
- ◆ IPL has several options for conducting the refunding
 - Negotiated sale with an underwriter
 - Competitive sale
 - Direct purchase by a bank



Current Rate Environment

- ◆ The COVID pandemic and the U.S. government's responses have resulted in low borrowing rates
- ◆ Tax-exempt rates are at or near their historic lows – the lowest point since inception (1981) of the tax-exempt bond index
- ◆ These historically low rates have created an opportunity for IPL to refund the 2010 bonds for savings





Current Refunding of the 2010B Electric Revenue Bonds

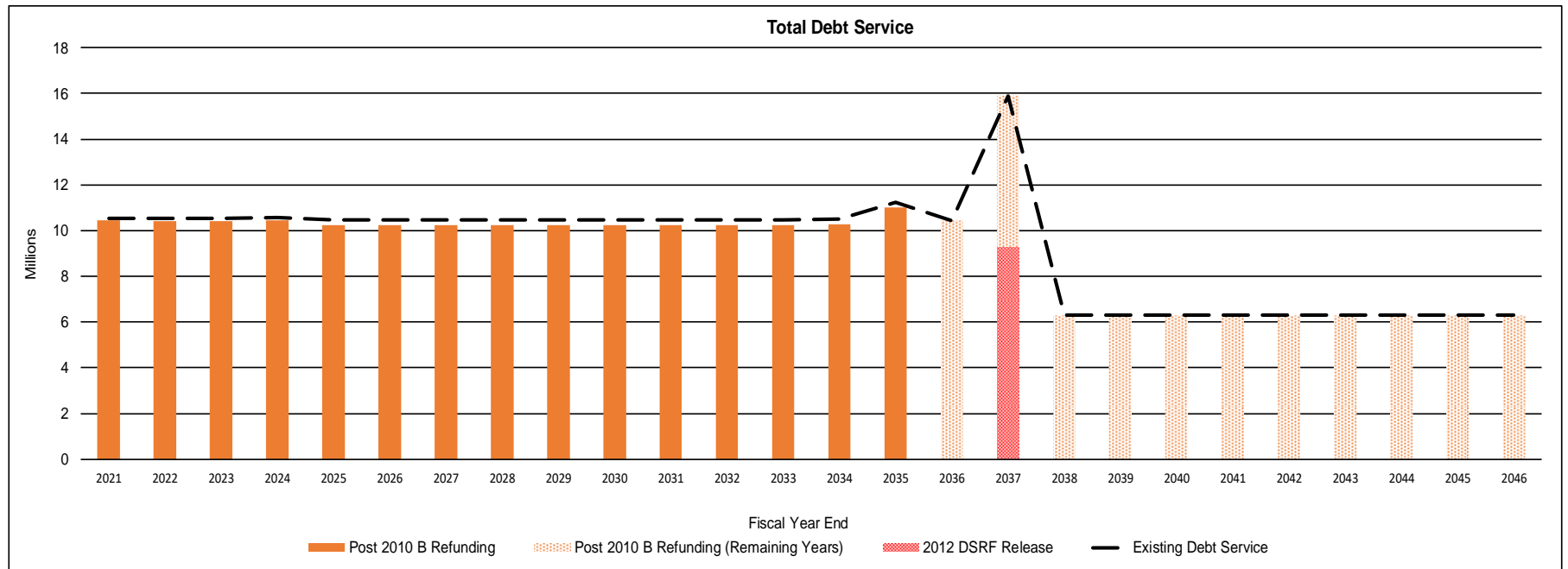
- PFM reviewed the current refunding of IPL's outstanding 2010B Electric Revenue Bonds
- Based on current rates, the refunding produces approximately \$2.3 million in NPV savings



Infrastructure Facilities Leasehold Revenue Bonds, Series 2010B	
Tax Exempt Current Refunding	
Pricing Date	August 2020
Dated/Delivery Date	September 2020
Par of Refunding Bonds	\$11,025,000
Par of Refunded Bonds	\$10,615,000
Maturities Refunded	June 2025 - 2035
Average Life	10.95 years
True Interest Cost (TIC)	2.75%
1 NPV Saving	\$2,332,317
2 NPV Savings as % of Refunded Par	21.97%



Financial Impact of 2010 Refunding



Forecast	Debt Service Coverage				
	2021	2022	2023	2024	2025
Previous	3.07	2.98	3.05	3.31	3.34
New	3.10	3.01	3.47	3.76	3.85

Year	Current Refunding 2010 B First 5 Years	
	Gross Savings	PV Savings (9/1/2020 @ 2.75%)
2021	180,975	177,192
2022	241,300	231,618
2023	241,300	225,377
2024	241,300	219,304
2025	136,300	121,172



Resiliency and Cash Balance Policy



Resiliency and Cash Balance Policy

Area	Discussion of Risk	Reserve Levels		
		Less Conservative	Moderate	More Conservative
Revenue Risk				
General Sales Decrease	Macro-economic factors (economic growth) that influence overall demand and flow. Assumes economic downturn.	6 month impact	12 month impact	18 month impact
Large Customer Exposure	Risk that one of the top customers experiences financial difficulty, resulting in revenue loss. Customer or Class	6 month impact	12 month impact	18 month impact
Wholesale Sales Exposure	Reviews off system sales revenue risk to the utility	10% reduction in wholesale sales	25% reduction in wholesale sales	50% reduction in wholesale sales
Other Revenues Exposure Investment Income	Measures the reliance of other income sources (e.g. interest, grant)	10% reduction in "Other Income"	25% reduction in "Other Income"	50% reduction in "Other Income"
Power Supply Risk				
O&M Expense Exposure - Labor	Labor costs and union agreements outside expected inflationary changes	10% increase in labor costs	20% increase in labor costs	25% increase in labor costs
O&M Expense Exposure - Fuel and Purchased Power	Cost of unhedged gas and electricity in the event market prices unexpectedly rise	Market prices higher by 1 standard deviation	Market prices higher by 2 standard deviations	Market prices from summer day, peak
O&M Expense: Renewable energy Expense	Additional cost of renewable energy if the wind is stronger than budgeted (or higher capacity factors)	10% higher capacity factor	20% higher capacity factor	25% higher capacity factor
O&M Expense Exposure - Transmission & Distribution	Additional and unexpected maintenance needs	5% higher cost	10% higher cost	15% higher cost
Operational Risks/ Working Capital				
Working Capital	Represents days cash that are part of the billing cycle. Typically, utilities incur the expense, bill at the end of the month and then collect the following month	30 days operating expenses	45 days operating expenses	60 days operating expenses
Total General Operating Reserves**		Recommended Level =		



Recommendation



Recommendation

- ◆ Current interest rate environment has historically low rates
- ◆ IPL and the City should move quickly to capture refunding savings
- ◆ Refunding of the 2010 B Bonds, at expected rates, will produce strong savings statistics for the transaction (~22% savings)
- ◆ A direct purchase with a bank offers many advantages:
 - Speed of execution
 - Low cost of issuance and other fees (legal and advisory)
 - Updated disclosure not required
 - Updated ratings not required
 - An RFP process can be utilized to select a bank (provided to national and regional banks) for this direct purchase – similar to a competitive transaction
- ◆ PFM Financial Advisors will engage the bank to ensure that the yields on the refunding bonds are “fair” and “market-based” for IPL, the City and ratepayers



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