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INCREASE OF COMMERICAL PAPER PROGRAM

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Commercial Paper Program Background

- Commercial Paper (CP) program originally established in 1983 to provide a short-term variable rate funding mechanism.

- CP is a variable rate debt mechanism that allows OPPD to issue short-term debt at rates that are, generally, less than long-term debt (LTD).

- CP authorization increased in 2021 from $250 million to $350 million.

- Due to the increase in OPPD's capital expenditure program, OPPD's outstanding LTD (senior and subordinated bonds) has increased from $2.4 billion in 2021 to $4.4 billion in 2026. The District's financial advisor, PFM, recommends increasing the authority to issue variable rate debt (which includes CP) up to 15% of outstanding LTD.
  - ➢ 15% of OPPD's current LTD is approximately $660 million.

Variable Rate Debt Limits

- Although the rating agencies do not set a strict limit on the percentage of variable rate debt (VRD) to total LTD, 20% is, generally, considered a guideline. Therefore, the 15% limit proposed is considered conservative.

- OPPD also maintains liquid reserves, which earn interest that fluctuates with short to medium term rates.
  - As interest rates increase, the investment earnings on the liquid reserves will also increase acting as a hedge against rising VRD interest expense.

Liquidity Facility Support

- Risk: Distressed market conditions could result in no interest from investors to buy or reinvest in maturing CP maturities. This would result in OPPD having to redeem (pay off) CP maturities.

- Mitigation: OPPD has credit lines that could be used to assist in redeeming CP maturities, if needed.

- The District has credit lines in place to support additional CP up to a total $569 million.

- Currently evaluating additional credit lines with existing providers to continue to support CP issuance up to $600 million while also providing additional liquidity.
  - ➢ Would need additional Board authorization to increase credit lines (likely October)

Commercial Paper Program Proposed Increase

- CP provides access to a flexible, low-cost form of financing.
  - Cost of CP is more economic than accessing a credit line.

- Ability to issue up to $250 million of additional CP to provide funds for:
  - Additional liquidity support to support Days Cash on Hand metric
  - Short-term funding option for capital projects

- Interest expense is frequently optimized by periodically refunding CP with long term fixed rate debt or other financings periodically.

- The threshold amount for variable rate debt would increase as additional long term debt issuances occur to support capital program.

Strong Financial Position

- ‘Aa2’ and ‘AA’ Stable credit ratings from Moody’s and S&P, respectively.
- ‘P-1’ and ‘A-1+’ CP ratings from Moody’s and S&P, respectively.
- Minimum projected debt service coverage of 2.0 times through 2026.
- The District has credit lines in place to support additional CP up to $569 million.

Future Variable Rate Debt and Credit Lines

- Obtain additional credit lines for support of CP program and to provide an additional source of liquidity, if needed.

- Analyze other VRD products.

- Other VRD products may need dedicated credit lines specifically required by that product.

- The total VRD will not exceed 15% of LTD outstanding.

CP Program Recommendation

- OPPD staff recommends increasing the CP program authorization by $250 million up to a maximum of $600 million total.
  - ➢ Provides financial flexibility
  - ➢ Provides an alternative source of capital with low borrowing costs
  - ➢ Supports liquidity and 'AA' credit rating

- Monitor opportunities to refund CP portfolio with LTD or other VRD products.

- Evaluate other VRD products to supplement or replace CP.