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WA-18

The Importance of Debt Management

Klickitat PUD recently refinanced a portion of its debt. This refinancing will significantly lower our overall interest rate and near-term debt payments, resulting in substantial savings. It also allows KPUD to access roughly \$10 million currently held in restricted funds. These funds will be used to pay off the remaining debt associated with our share of both the McNary Hydro and White Creek Wind projects.

Another benefit of this refinance includes access to additional borrowing to fund a portion of future capital expenditures. KPUD has used bond or bank financing—typically every three to five years—to fund the purchase of assets, which will provide long-term value to our ratepayers. Some of these assets include system improvements and the labor required to complete the improvements. Other assets include the various generation projects owned by the district.

Using long-term debt financing to fund the capital needs of a utility is a common practice in the industry. This ensures the cost is spread over time to those who will benefit from the capital investment. The alternative is to fully fund annual capital needs with cash in the year they occur. This approach would require significant rate increases. For example, funding capital expenditures of \$6 million would require roughly a 20% rate increase in a single year.

Repayment of debt comes from a variety of sources. Debt related to the RNG facility is repaid through the fixed price portion of our agreement with BP North America. Debt related to our 230-kilovolt transmission system is repaid through agreements with other utilities and power businesses that hold transmission rights on our system. Repayment of remaining debt comes from the revenue of the utility, which includes revenue from ratepayers and excess revenue from other business lines.

In the coming years, the overall debt level of KPUD will continue to fall. During 2019, Klickitat PUD will repay roughly \$20.5 million of debt including debt related to our RNG facility and payoff of McNary and White Creek Wind. From 2020 to 2023, KPUD will repay, on average, \$11.5 million of debt principal annually. The RNG facility will be fully paid off in 2023.

As mentioned previously, it is common practice to borrow funds at regular intervals to fund a portion of capital purchases. This will result in Klickitat PUD always having some level of debt with repayment spread over time. Overall debt levels are governed by the financial policies of the district, which are set by the board. This sets a target that no more than 60% of the value of capital assets held by the district will be funded by debt. An example of how this could work outside of the district would be your personal property. If your home was worth \$100,000, under this policy you would seek to never owe more than \$60,000 on your home.

We would be happy to speak with you regarding the recent debt refinancing should you have any questions.

Mike DeMott
Power Manager