

USDA Rural Development RUS Electric Programs

Tribal Renewable Energy Business
Development & Finance Workshop

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Today's Topics

- **RUS Electric Programs – authorization, loan programs, eligibility**
- **Requirements for First Time RUS Borrowers**
- **RUS Loan Compliance and Administration**



RUS ELECTRIC PROGRAMS

All Federal regulations can be found at [Regulations.gov](http://www.regulations.gov) and customers can search, review and submit comments on Federal documents that are open for comment and published in the [Federal Register](http://www.federalregister.gov)
<http://www.gpoaccess.gov/fr/>.

The direct link to the Code of Federal Regulation (CFR) Title 7 Agriculture, Subtitle B, Volumes 11 &12, Parts 1700-1799, governing the RUS Electric Programs is:

<http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=6c8f47d1af5f28c4894678b8682b7088&rgn=div5&view=text&node=7:11.1.2.1.1&idno=7>



RUS ELECTRIC PROGRAMS

Since its origin in May 1935, the Electric Programs, has made loans and guarantees of loans to the Federal Financing Bank (FFB) to rural nonprofit and cooperative associations, public bodies, and other utilities. For program purposes rural is presently defined as a city, town or unincorporated area with less than 20,000 population. Areas that are determined to be urban are not eligible for RUS Electric Programs financing.



RUS ELECTRIC PROGRAMS

The Electric Programs maintain a staff of General Field Representatives (GFR) around the country, a single point of contact type program delivery system which has been part and parcel of the program since its inception. In addition to assisting in the development of loan applications and handling of other loan related matters, GFRs are available to discuss a wide range of business matters which may be of interest to a borrower.



RUS ELECTRIC PROGRAMS

As of FYE 2010 there were about 620 active borrowers in the program representing total historical loan obligations of about \$100 B:

- about \$54 B has been obligated since 2008;
- about \$37 B total in current outstanding;
- about 1/2 with Distribution entities, 1/2 with Generation & Transmission (G&T) entities.



RUS ELECTRIC PROGRAMS

Since 2008 only two types of loan programs have been authorized for RUS:

FFB (Federal Financing Bank) Guarantee Loan and Hardship Loan.

In Fiscal Year 2010 RUS Electric Programs obligated \$6.5 B in loans - \$6.5B of FFB guarantee plus \$100M Hardship loans.

About 70% of outstanding loan obligations are FFB, 15% Hardship and 15% all other loan types previously authorized for RUS.



RUS ELIGIBILITY

FFB Guaranteed Loans

Eligible Facilities: Distribution, transmission (bulk and sub-transmission), generation and headquarters (office, service and warehouse) facilities

Eligible Borrowers: Retail and power supply providers

Interest Rate: Interest rates will be established daily by the United States Treasury. Added to that rate is 1/8 of one percent. The interest rate is determined at the time of each advance

Supplemental Financing Required: No

Loan Term: Term of loan not to exceed useful life of the facilities being financed, with a maximum term of 35 years. Power supply borrowers' loan term is also based on the term of its wholesale power contracts.

Hardship Loans

Eligible Facilities: Distribution, sub-transmission and headquarters (service & warehouse) facilities

Eligible Borrowers: Retail providers that meet rate disparity thresholds and whose consumers fall below average per capita and household income thresholds or that have suffered a severe, unavoidable hardship, such as a natural disaster, as determined by the RUS Administrator

Interest Rate: 5%

Supplemental Financing Required: No

Loan Term: Term of loan not to exceed useful life of the facilities being financed, with a maximum term of 35 years



RUS ELECTRIC PROGRAMS

Through February 2011 a total of about \$628 M has been obligated by RUS Electric Programs for renewal energy projects, all but \$84 M to G&T entities. RUS expects an additional \$90 M renewal energy project for a distribution entity will be obligated by the end of FY 2011 (9/30/2011).



Requirements for First Time RUS Borrowers



Process of Becoming A RUS Borrower

- Seeking an Eligibility “Determination Letter”
- Determination of Eligible Portions of Service Area
- RUS Audit Review of Financials & Acct. System
- Engineering Certification of National Electric Safety Code (NESC) Compliance
- Development & Approval of Primary Planning Docs.
- Development of Primary Loan Application Docs.



RUS Planning Requirements

- Required Utility Planning Documents
 - Load (and Resource) Forecast Study
 - Long Range System Plan
 - Construction Work Plan
 - Environmental Report
- Long Range Financial Forecast

RUS Electrical System Requirements

- Existing Electrical System Code Compliance
- Electric System Design Standards & Approvals
- Electric System Construction Standards
- Electric System Materials Standards
- Electric System Operations and Maintenance (O&M) Standards & Reviews
- Professional Engineering & Architect's Requirements

RUS Financial Reporting

- RUS Uniform System of Accounts
- RUS Financial Reporting Requirements
- RUS Plant Accounting Requirements
- RUS External Auditing Requirements
- RUS Field Audits





Loan Application Highlights

- Relatively simple process
- Need normal documents such as a construction work plan – 2, 3 or 4 year
- Updated Load Forecast Study
- Financial Forecast
- Current System Operations and Maintenance Review
- Attorney Opinion Letter
- Miscellaneous borrower certifications and documents



Loan Timing

- RUS funds will take longer to be made available than private sector sources of financing.
- Generally speaking 12-18 months from time of loan submission – therefore borrowers need to plan ahead and submit a loan 12-18 months before funds are needed.
- In funds needed in the interim, borrowers typically use short term borrowings from other lending institutions which are repaid by the long-term RUS loan funds.

Other Business Considerations

- Multiple Funding Sources vs. “Sole Sourcing”
- Short-term lending vs. Reimbursement Lending
- Utility’s “Corporate Culture”
- Employee Attitudes toward change
- Non-Financial Benefits of RUS Participation



RUS Loan Compliance and Administration



RUS LOAN CONTRACT – THE BIG FOUR

Section 5.4 Rates To Provide Revenue Sufficient to Meet Coverage Ratios Requirements

- **(a) Prospective Requirement.** The Borrower shall design and implement rates for utility service furnished by it to provide sufficient revenue (along with other revenue available to the Borrower in the case of TIER and DSC) (i) to pay all fixed and variable expenses when and as due, (ii) to provide and maintain reasonable working capital, and (iii) to maintain, on an annual basis, the Coverage Ratios. In designing and implementing rates under this paragraph, such rates should be capable of producing at least enough revenue to meet the requirements of this paragraph under the assumption that average weather conditions in the Borrower's service territory shall prevail in the future, including average Utility System damage and outages due to weather and the related costs.



RUS LOAN CONTRACT – THE BIG FOUR

Section 5.4 Rates To Provide Revenue Sufficient to Meet Coverage Ratios Requirements

- **(b) The average Coverage Ratios achieved by the Borrower in the 2 best years out of the 3 most recent calendar years must be not less than any of the following:**

TIER (Times Interest Earned Ratio)=1.25

DSC (Debt Service Coverage)=1.25

OTIER (Operating TIER)=1.1

ODSC (Operating DSC)=1.1



RUS LOAN CONTRACT – THE BIG FOUR

Section 5.4 Rates To Provide Revenue Sufficient to Meet Coverage Ratios Requirements

Times Interest Earned Ratio” (“TIER”) shall have the meaning provided in the Mortgage.

Times Interest Earned Ratio (“TIER”) shall mean the ratio determined as follows: for each calendar year: add (i) patronage capital or margins of the Mortgagor and (ii) Interest Expense on Total Long-Term Debt of the Mortgagor and divide the total so obtained by Interest Expense on Total Long-Term Debt of the Mortgagor, provided, however, that in computing Interest Expense on Total Long-Term Debt, there shall be added, to the extent not otherwise included, an amount equal to 33-1/3% of the excess of Restricted Rentals paid by the Mortgagor over 2% of the Mortgagor's Equity.



RUS LOAN CONTRACT – THE BIG FOUR

Section 5.4 Rates To Provide Revenue Sufficient to Meet Coverage Ratios Requirements

- **“Operating TIER” or “OTIER” shall mean Operating Times Interest Earned Ratio calculated as: $OTIER = (A+B)/A$**

Where:

- **All amounts are for the same calendar year and are computed pursuant to RUS Accounting Requirements and RUS Form 7;**
- **A=Interest Expense on Total Long-Term Debt of the Electric System, except that such Interest Expense shall be increased by 1/3 of the amount, if any, by which Restricted Rentals of the Electric System exceed 2 percent of the Mortgagor's Equity; and**
- **B=Patronage capital & operating margins of the Electric System, (which equals operating revenue and patronage capital of Electric System operations, less total cost of electric service, including Interest Expense on Total Long-Term Debt of the Electric System) plus cash received from the retirement of patronage capital by suppliers of electric power and by lenders for credit extended for the Electric System.**



RUS LOAN CONTRACT – THE BIG FOUR

Section 5.4 Rates To Provide Revenue Sufficient to Meet Coverage Ratios Requirements

Debt Service Coverage Ratio” (“DSC”) shall have the meaning provided in the Mortgage.

Debt Service Coverage Ratio (“DSC”) shall mean the ratio determined as follows: for each calendar year add (i) Patronage Capital or Margins of the Mortgagor, (ii) Interest Expense on Total Long Term Debt of the Mortgagor (as computed in accordance with the principles set forth in the definition of TIER) and (iii) Depreciation and Amortization Expense of the Mortgagor, and divide the total so obtained by an amount equal to the sum of all payments of principal and interest required to be made on account of Total Long-Term Debt during such calendar year increasing said sum by any addition to interest expense on account of Restricted Rentals as computed with respect to the Times Interest Earned Ratio herein.



RUS LOAN CONTRACT – THE BIG FOUR

Section 5.4 Rates To Provide Revenue Sufficient to Meet Coverage Ratios Requirements

- **Operating DSC” or “ODSC” shall mean Operating Debt Service Coverage calculated as:**

ODSC = (A+B+C)/D Where:

- **All amounts are for the same calendar year and are computed pursuant to RUS Accounting Requirements and RUS form 7;**
- **A=Depreciation and Amortization Expense of the Electric System;**
- **B=Interest Expense on Total Long-Term Debt of the Electric System, except that such Interest Expense shall be increased by 1/3 of the amount, if any, by which the Restricted Rentals of the Electric System exceed 2 percent of the Mortgagor's Equity;**
- **C=Patronage capital & operating margins of the Electric System, (which equals operating revenue and patronage capital of Electric System operations, less total cost of electric service, including Interest Expense on Total Long-Term Debt of the Electric System) plus cash received from the retirement of patronage capital by suppliers of electric power and by lenders for credit extended for the Electric System; and**
- **D=Debt service billed which equals the sum of all payments of principal and interest required to be made on account of Total Long-Term Debt of the Electric System during the calendar year, plus 1/3 of the amount, if any, by which Restricted Rentals of the Electric System exceed 2 percent of the Mortgagor's Equity.**



RUS LOAN CONTRACT – THE BIG FOUR

Section 5.4 Rates To Provide Revenue Sufficient to Meet Coverage Ratios Requirements

- ***(c) Prospective Notice of Change in Rates.*** The Borrower shall give thirty (30) days prior written notice of any proposed change in its general rate structure to RUS if RUS has requested in writing that it be notified in advance of such changes.
- ***(d) Routine Reporting of Coverage Ratios.*** Promptly following the end of each calendar year, the Borrower shall report, in writing, to RUS the TIER, Operating TIER, DSC and Operating DSC levels which were achieved during that calendar year.
- ***(e) Reporting Non-achievement of Retrospective Requirement.*** If the Borrower fails to achieve the average levels required by paragraph (b) of this section, it must promptly notify RUS in writing to that effect.



RUS LOAN CONTRACT – THE BIG FOUR

Section 5.4 Rates To Provide Revenue Sufficient to Meet Coverage Ratios Requirements

- **(f) Corrective Plans. Within 30 days of sending a notice to RUS under paragraph (e) of this section, or of being notified by RUS, whichever is earlier, the Borrower in consultation with RUS, shall provide a written plan satisfactory to RUS setting forth the actions that shall be taken to achieve the required Coverage Ratios on a timely basis.**
- **(g) Noncompliance. Failure to design and implement rates pursuant to paragraph (a) of this section and failure to develop and implement the plan called for in paragraph (f) of this section shall constitute an Event of Default under this Agreement in the event that REA so notifies the Borrower to that effect under section [7.1(d)] of this Agreement.**



RUS LOAN CONTRACT

Article VII—Default, *Section 7.1. Events of Default*

- The following shall be Events of Default under this Agreement:
- (a) *Representations and Warranties.* Any representation or warranty made by the Borrower in Article II hereof or any certificate furnished to RUS hereunder or under the Mortgage shall prove to have been incorrect in any material respect at the time made and shall at the time in question be untrue or incorrect in any material respect and remain uncured;
- (b) *Payment.* Default shall be made in the payment of or on account of interest on or principal of the Note when and as the same shall be due and payable, whether by acceleration or otherwise, which shall remain unsatisfied for five (5) Business Days;
- (c) *Borrowing Under the Mortgage in Violation of the Loan Contract.* Default by the Borrower in the observance or performance of any covenant or agreement contained in Section 6.14 of this Agreement.
- (d) *Other Covenants.* Default by the Borrower in the observance or performance of any other covenant or agreement contained in any of the Loan Documents, which shall remain unremedied for 30 calendar days after written notice thereof shall have been given to the Borrower by RUS;
- (e) *Corporate Existence.* The Borrower shall forfeit or otherwise be deprived of its corporate charter, franchises, permits, easements, consents or licenses required to carry on any material portion of its business;
- (f) *Other Obligations.* Default by the Borrower in the payment of any obligation, whether direct or contingent, for borrowed money or in the performance or observance of the terms of any instrument pursuant to which such obligation was created or securing such obligation;



RUS LOAN CONTRACT

Article VII—Default, *Section 7.1. Events of Default*

- **(g) *Bankruptcy.*** A court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Borrower in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of ninety (90) consecutive days or the Borrower shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or under any such law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian or trustee, of a substantial part of its property, or make any general assignment for the benefit of creditors; and
- **(h) *Dissolution or Liquidation.*** Other than as provided in the immediately preceding subsection, the dissolution or liquidation of the Borrower, or failure by the Borrower promptly to forestall or remove any execution, garnishment or attachment of such consequence as shall impair its ability to continue its business or fulfill its obligations and such execution, garnishment or attachment shall not be vacated within 30 days. The term “dissolution or liquidation of the Borrower”, as used in this subsection, shall not be construed to include the cessation of the corporate existence of the Borrower resulting either from a merger or consolidation of the Borrower into or with another corporation following a transfer of all or substantially all its assets as an entirety, under the conditions permitting such actions.



RUS LOAN CONTRACT

Article VIII—Remedies

- *Section 8.1. Generally*
- Upon the occurrence of an Event of Default, then RUS may pursue all rights and remedies available to RUS that are contemplated by this Agreement or the Mortgage in the manner, upon the conditions, and with the effect provided in this Agreement or the Mortgage, including, but not limited to, a suit for specific performance, injunctive relief or damages. Nothing herein shall limit the right of RUS to pursue all rights and remedies available to a creditor following the occurrence of an Event of Default listed in Article VII hereof. Each right, power and remedy of RUS shall be cumulative and concurrent, and recourse to one or more rights or remedies shall not constitute a waiver of any other right, power or remedy.
- *Section 8.2. Suspension of Advances*
- In addition to the rights, powers and remedies referred to in the immediately preceding section, RUS may, in its absolute discretion, suspend making Advances hereunder if (i) any Event of Default, or any occurrence which with the passage of time or giving of notice would be an Event of Default, occurs and is continuing; (ii) there has occurred a change in the business or condition, financial or otherwise, of the Borrower which in the opinion of RUS materially and adversely affects the Borrower's ability to meet its obligations under the Loan Documents, or (iii) RUS is authorized to do so under RUS Regulations.





Committed to the future of rural communities.

www.usda.gov/rus/electric

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