Arizona Power Authority Bond History

Through the years the Arizona Power Authority has actively pursued debt when appropriate as a vehicle to reduce rates for our customers. In 1985, the Bureau of Reclamation was presented with the opportunity to uprate the generating capacity of the Hoover Dam by 528 MW. However, the BOR was unable to procure affordable financing. The contractors of the power, including the APA, provided the financing. Some provided cash, but in the case of the APA our portion was issued through Power Resource Revenue Bonds. The principal, interest, and other bond costs were repaid to the APA via credits on the monthly power bills throughout the life of the bonds. In pursuit of interest savings, in subsequent issues the original bonds were remarketed, refunded, and reissued. These bonds and all credits due were extinguished as of September 30, 2017.

In 2014, the APA and all other contractors were presented with another opportunity to reduce debt service costs at the BOR. The existing bonds, which were used to construct the visitors' center and upgrade the air slots, were high interest debt held by the Federal Government. The refinancing by the contractors cut the interest rates by approximately half, extended the length of the bonds, and resulted in $10 million in present value savings (37%). These bonds will be retired September 30, 2045.

The Authority's credit rating has consistently improved from A Moody's/Not Rated by S&P to current bond ratings of Aa1 Moody's/AA S&P. Moody's rating is particularly noteworthy since it is the highest rating of any public power or investor-owned utility assigned to only 5 utilities, including one Federal power administration, and these entities have revenue and staff more than 100 times that of the Authority. Achieving this high rating level has not required the Authority or its customers to change significantly the conduct of its operational or financial activities. This high rating will enable the Authority to discharge its financial responsibilities efficiently, seize opportunities and, when needed and advisable, access funding in the most cost-effective manner possible, resulting in lower rates for its customers.

The APA continues to monitor the markets, but interest savings opportunities are unavailable in the current bond environment.

Arizona Power Authority Bond History

(1) Power Resource Revenue Bonds, 1985 Series
  (a) Principal Amount $98,425,000
  (b) December 19, 1985
  (c) Purpose: Uprating of the Generating Capacity of the Hoover Dam
  (d) Remarketed in 1987 Series Bonds

(2) Fixed Rate Conversion, Power Resource Revenue Bonds, 1985 Series
  (a) Principal Amount $89,820,000
  (b) Issued April 1, 1987
  (c) Purpose: Refund Power Resource Revenue Bonds, 1985 Series
  (d) Refunded in 1993 Series Bonds

(3) Power Resource Revenue Refunding Bonds, 1993 Series
  (a) Principal Amount $81,410,000
  (b) Issued June 3, 1993
  (c) Purpose: Refund Power Resource Bonds, 1987 Series
  (d) Refunded in 2001 Series Bonds

(4) Special Obligation Bonds, Crossover Series A and Power Resource Revenue Refunding Bonds, 2001 Series
  (a) Principal Amount $57,520,000
  (b) Issued September 12, 2001
  (c) Purpose: Refund Power Resource Bonds, 1993 Series
  (d) Retired September 30, 2017

(5) Power Resource Revenue Bonds, 2014 Series
  (a) Principal Amount $26,365,000
  (b) Issued March 27, 2014
  (c) Purpose: Hoover Prepayment Project for Air Slots & Visitors Center
  (d) Retirement Date September 30, 2045

Arizona Power Authority
Financial Policy Guidelines
April, 2021

Background

The APA has four interest bearing accounts; Hoover Operating Fund, APA Fund, Debt Service Reserve, and Debt Service. The HOA and APA funds are deposited with the Arizona State Treasurer in interest bearing accounts. The Debt Service Reserve and Debt Service trustee accounts are held with the Bank of New York (BONY) and also bear interest.

The HOA Operating Fund reflects operating activity of the Authority including power revenues, purchases, administrative expenses, and debt service funding. It is where typical utility transactions and related rate activity would occur. The cash balances are pledged toward future expenses in addition to the planned gross margin of $400,000 as the year progresses for debt service coverage.

Also in the cash balance is the prior year customer refund which was calculated at September 30th and is payable in August of the ensuing year. This refund is paid eleven months after incurred per the customer contracts to provide cash flow throughout the year as well as comprise an add back to the debt service coverage ratio computation as of September 30th. Historically the refunds have ranged from $600,000 - $1.0 million, or 2% - 4%, of power revenues.

The APA Fund represents excess cash that was built up over decades from steam sales and interest income (particularly in high interest rate years until the recession of 2007-2009 and subsequent low interest bearing years). The major credit reporting agencies, S & P and Moody's, although not requiring, have strongly recommended a minimum balance of $3.0 million in cash in order to provide debt service coverage in the traditional sense rather than the minimal calculation provided by the HOA operations as a standalone fund. Secondly, the fund provides liquidity in order to purchase supplemental power on behalf of the customers prior to the Authority being reimbursed. Finally, this fund was originally designed to also fund nonoperational projects as they might arise.

The Debt Service funds are trustee accounts designed to provide for future and current debt service requirements. The Debt Service Reserve Fund was endowed with rate collections in OY 2017 which equal the highest individual year's liability throughout the life of the bonds. The Debt Service Fund is funded during the operating year to provide for current year interest (April 1 and October 1) and principal (October 1) payments.

APA Fund Policy

(1) It is our opinion for solid cash flow that we must maintain a minimum balance of $3.5 million to provide for cash flow and debt service coverage.

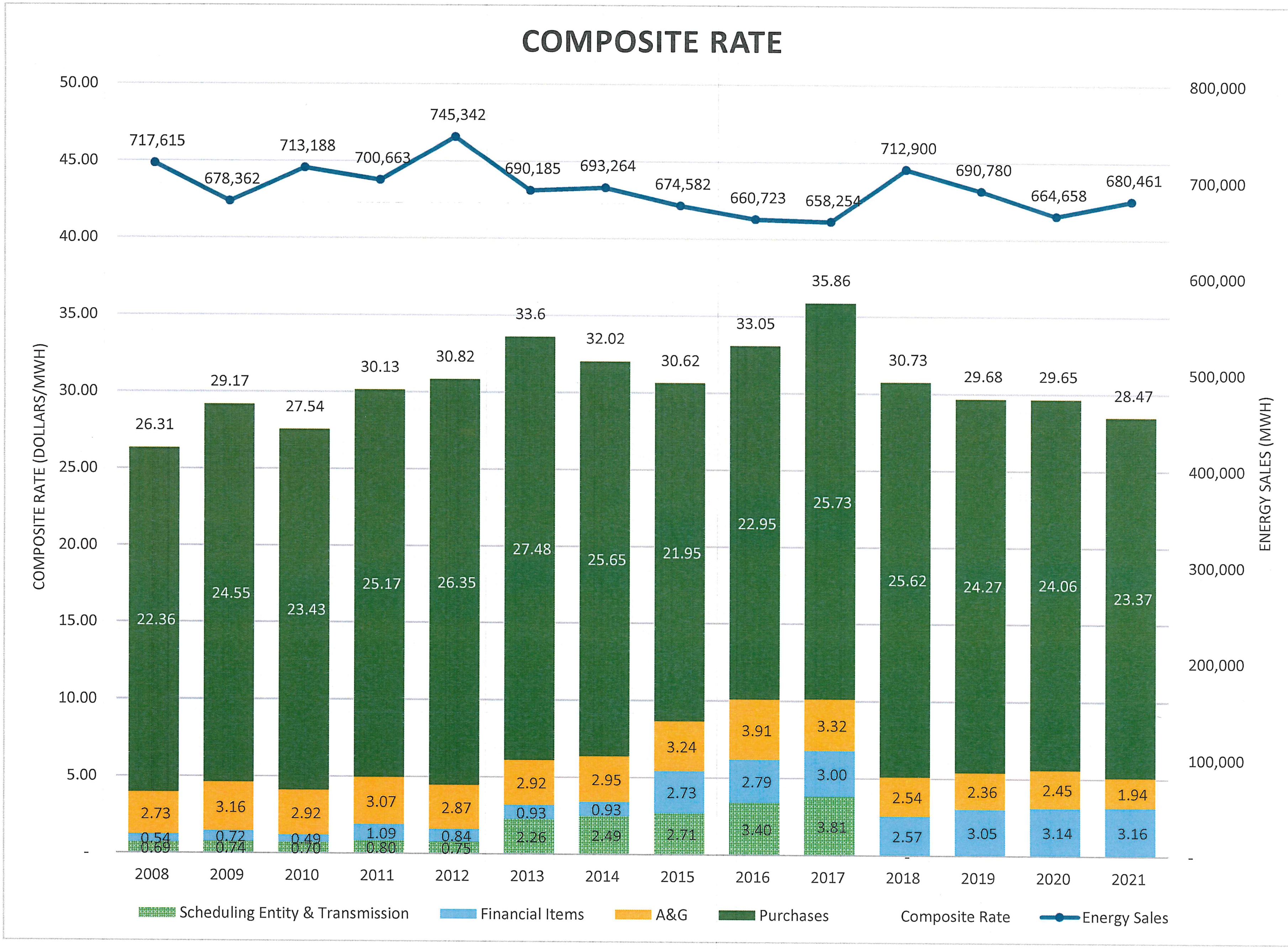
(2) Can utilize excess balances (currently $400,000) as needed for Rate Stabilization, Future Projects, or Other Uses.

Debt Service Funds Policy

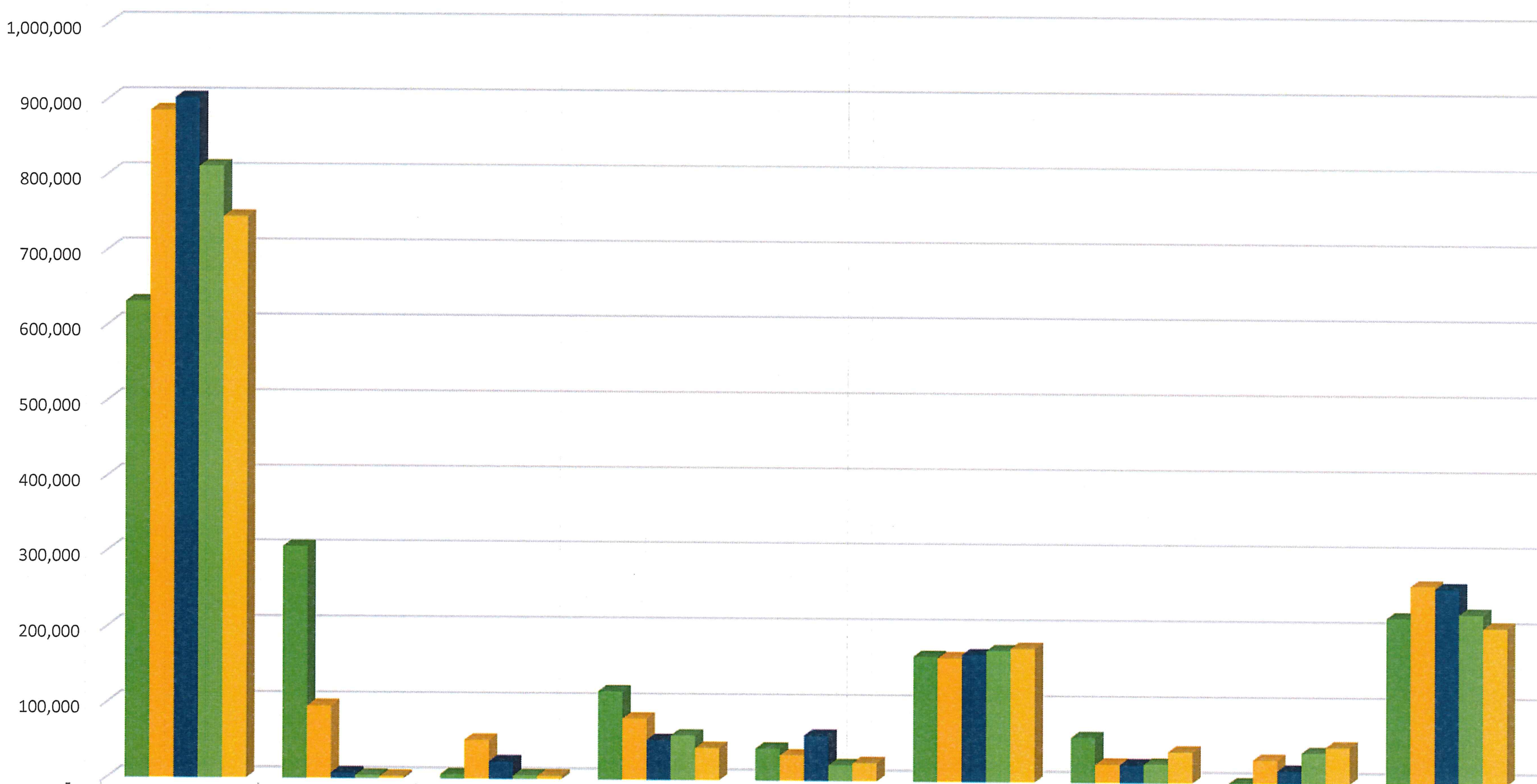
(1) Maintain in the Debt Service Reserve Fund the required $1.74 million reserve for operating year 2028 (maximum liability during the life of the bonds).

(2) We could transfer $66,000 (excess = interest income) as of March 31, 2021 from the Debt Service Reserve account into the HOA Operating Fund to mitigate rate increases due to the DCP or for other purposes.

(3) Similarly, we could transfer $23,000 (excess = interest income) as of March 31, 2021 from the Debt Service account into the HOA Operating Fund to mitigate rate increases due to the DCP or for other purposes.


COMPOSITE RATE
COMPOSITE RATE (DOLLARS/MWH)
ENERGY SALES (MWH)
50.00
45.00
40.00
35.00
30.00
25.00
20.00
15.00
10.00
5.00
-
800,000
700,000
600,000
500,000
400,000
300,000
200,000
100,000
-
717,615
678,362
713,188
700,663
745,342
690,185
693,264
674,582
660,723
658,254
712,900
690,780
664,658
680,461
26.31
29.17
27.54
30.13
30.82
33.6
32.02
30.62
33.05
35.86
30.73
29.68
29.65
28.47
22.36
24.55
23.43
25.17
26.35
27.48
25.65
21.95
22.95
25.73
25.62
24.27
24.06
23.37
2.73
3.16
2.92
3.07
2.87
2.92
2.95
3.24
3.91
3.32
2.54
2.36
2.45
1.94
0.54
0.72
0.49
1.09
0.84
0.93
0.93
2.73
2.79
3.00
2.57
3.05
3.14
3.16
0.69
0.74
0.70
0.80
0.75
2.26
2.49
2.71
3.40
3.81
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
Scheduling Entity & Transmission
Financial Items
A&G
Purchases
Composite Rate
Energy Sales

A&G Actual



	Salary & Related	Miscellaneous Outside Services	Building Maintenance	Legal Expenses	Commision Expenses	MSCP	Computer Expenses	Other Bond Costs	All Other
OY 2017	631,208	306,133	5,650	116,593	42,170	164,945	59,145	-	219,469
OY 2018	884,975	96,173	51,288	81,179	33,466	163,400	24,200	30,750	261,604
OY 2019	901,791	7,568	23,348	52,735	59,915	167,865	23,678	16,940	258,161
OY 2020	811,070	4,500	4,982	58,850	21,251	173,454	24,935	40,550	225,186
OY 2021*	744,475	3,000	4,765	42,456	23,955	176,673	40,970	48,000	206,930