



Quick Co-op Facts:

Debt and Capital Projects

Debt is how co-ops finance growth and capital projects. OPALCO is coming off several years of big capital projects so the debt ratio is high right now but levels off starting in 2019, as is the historical pattern. OPALCO is financially healthy including its debt equity ratio.

- Recent capital projects include: \$15 million dollar Submarine Cable project, grid modernization, and storm hardening with buried cables.
- OPALCO conducts a comprehensive review and forecast of debt, equity and cash balances to fund all of our capital project needs. The Board of Directors reviews the status of this plan on a quarterly basis.
- There is a very consistent rise and fall pattern of debt and equity throughout OPALCO's history and that is typical among rural cooperative utilities:
 - 1) rising equity to build toward major capital expenses – particularly submarine cable projects – during which the debt ratio falls;
 - 2) a cycle of rising debt as each project gets funded with loans, built and capitalized – during which the equity ratio falls; and
 - 3) followed by a recovery period of rising equity ratio and falling debt ratio as we prepare for the future capital projects.
- OPALCO's ability to borrow funds for capital projects is based on its TIER (times interest earned ratio), which is closely monitored by OPALCO's primary lender, the USDA/Rural Utilities Service (RUS). RUS consistently finds OPALCO's TIER to be acceptable and healthy.
- Our current forecast (2019 Budget Executive Summary) shows equity trending upward and borrowing slowed (2018-2022) as we prepare for the next submarine cable replacement project post 2030.
- Note the 2018 budget financial metrics below (as well as the recently completed 20-year long-range financial plan) forecasts debt decreasing in upcoming years as we build equity in preparation for our future major capital expenditures (i.e. local generation resources).

Reference links from OPALCO's online Resource Library:

Debt charts - June Board Materials - page 14:

www.opalco.com/wp-content/uploads/2018/06/June-Board-Materials-1.pdf

2019 Budget:

www.opalco.com/wp-content/uploads/2018/12/2019-Budget-Report-FINAL-rev-12.14.18.pdf