



Quick Co-op Facts:

Debt and Capital Projects

OPALCO debt is healthy and well managed. Debt is how co-ops finance growth and capital projects. In 2019, OPALCO comes to the end of a period of intensive capital projects that pushed the debt ratio up higher. This is the pattern over the decades: 1) build equity for capital projects, 2) borrowing and construction, 3) pay loans off over 30 years, 4) do it all over again.

- Recent capital projects include: \$15M Submarine Cable project, major substation rebuilds, a new mainland power feed, grid modernization and replacement of aging direct buried cables.
- OPALCO conducts a comprehensive review and forecast of debt, equity and cash balances to fund all of our capital project needs each year in the budgeting process, and works from a four-year Construction Work Plan that is reviewed and approved by USDA/Rural Utilities Service (RUS), our lender. 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.

1) How do we pay for this debt? Each year's budget includes a share of the depreciation and interest on the 30-year loan – so each member pays for the system that they are using themselves.

2) 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, USDA/RUS. RUS consistently finds OPALCO's TIER to be acceptable and healthy.

3) 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.

4) 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).

5) Rock Island's debt is independent of OPALCO and covered by Rock Island subscriber revenue over the course of the 30-year loan term. As the parent organization of a wholly-subsidary, OPALCO guarantees their loan and has Rock Island's assets and value as collateral to more than cover the guarantee.

Debt charts - published in quarterly financial reports:

www.opalco.com/resource-library/#rlfinancequarterlyreports2019

2019 Budget:

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