

LIGHTNING ROUND

February/March 2020

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Planned Refunding of \$7 Million Completed

Savings on Bond Indebtedness Anticipated to Exceed \$370,000

Following up from discussion in January, the KPP Board of Directors again considered a refunding of a portion of its existing of tax-exempt bonds through the use of a taxable channel. With a formally-approved refunding of approximately \$7 million of bond indebtedness, a savings favoring KPP members is anticipated in an amount slightly more than \$370,000.

Described as “convertible electric utility refunding revenue bonds”, the more casual term used has been “Cinderella” bonds. The refunding bonds are taxable but convert to the lower tax-exempt rate at the point when the original bonds would have been callable. Funds received from this direct placement are used to purchase SLGs (State and Local Government Securities). Because bonds refunded have different call dates, securities are to be placed into separate defeasance accounts.

In the Board’s February meeting, General Counsel J.T. Klaus explained, “while that portion of the bonds are still legally outstanding, they will be defeased by an escrow funded by federal securities.” He added that auditors will no longer recognize the original bonds as debt. However, the refunding debt will be repaid coincident to the debt repayment schedule of the original bonds. Counsel also noted that KPP assets have not been collateralized against the bonds but rather KPP revenues are the collateral.



KPP Members may recall that with fairly recent changes in federal law, tax-exempt advance refundings are now disallowed by the tax code. However, taxable refundings are still allowed. In this case, the interest rate and savings on a taxable proposal were determined to be sufficiently attractive to benefit KPP members. Advance refunding was part of a “bond modernization” message recently carried to Washington DC by a contingency of

Kansans representing Public Power. See a related article in this edition of the *Lightning Round*.



Beginning last fall, KPP Staff and General Counsel worked with KPP’s bond underwriter, Raymond James Company, to investigate the possibility of such a refunding. After traditional approaches did not yield sufficient opportunities, the underwriter proposed a direct

placement approach. This expedient method resulted in debt held by only one bond holder – INTRUST Bank. Two competing bids had also been received.

Kingman Direct Connection Project Making Progress

Project Completion Hoped for in Early 2021

Progress continues on KPP's "Kingman Direct Connection" project. Plans for constructing and directly connecting a short 34.5 kV transmission line to the grid at a 115 kV voltage are moving along according to a report given to the KPP Board of Directors at their February monthly meeting.

Assistant General Manager, Larry Holloway, noted that KPP is now in the process of initiating right of way acquisition for the lines. Director of Engineering Services, James Ging, provided more detail on the anticipated route for construction as well as an update on communications with landowners.

KPP's engineering consultant, Electric-Comm, has issued requests for proposals for a transformer that will ultimately connect the 34.5 kV line to the transmission grid. Those proposals are expected to be



KPP Staff members (L-R) Vickie Matney, Mark Chesney, Larry Holloway and James Ging



KPP's substation site NW of Cunningham. 115kV line is shown.

evaluated in the very near future. Another project engineer, Geotech, is soon commencing analysis for further engineering design before scheduling a formal project kickoff. In the meantime, land for the substation has been acquired. An outer substation fence has been constructed and the access road has been further prepared to accommodate construction-related travel and future access.

With plans years in the making, unnecessary delays were caused by complaints at the Kansas Corporation Commission and litigation in district court. Having prevailed at each of those venues, KPP soon anticipates avoiding expensive local 34.5 kV access charges that were imposed years ago and which have steadily increased to the point of making a direct connection economically attractive and beneficial to all KPP members.

ANNUAL MEMBERSHIP APPRECIATION DINNER

Wednesday, April 29,
6:30 PM

Hyatt Regency,
Wichita

PLEASE JOIN US!



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ANNUAL MEMBERSHIP APPRECIATION DINNER
Wednesday, April 29, 2020, 6:30 PM
HYATT REGENCY, WICHITA

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Bond Modernization Messages Carried to Washington

Tax-Exempt Refunding and Small Issuer Exemption Especially Noted

When a Kansas delegation of Public Power representatives recently visited Washington DC, bond modernization was among the principal messages carried. Among a 15-member contingency were Gus Collins of Winfield, Larry Paine of Hillsboro, Stan Luke of Burlington, Taggart Wall of Winfield and Mark Chesney of KPP.

Reinstating tax-exempt advance refunding was a primary ask to lawmakers. Tax exempt refunding was removed from the tax code in the Tax Cut and Jobs Act of 2017. Although there is talk on Capitol Hill that a reinstatement could happen, it is not expected during the current session.



Consequently, KPP's most recent foray into refunding has been through a taxable vehicle completed in February. That refunding will result in a savings of more than \$300,000 but its tax consequence nevertheless makes for a more expensive cost to KPP members and retail electric rate payers generally.



KPP Members toured Dogwood in 2011 prior to purchase

A related tax request within the bond modernization framework pertained to limits on small issuers. Issuers like KPP, and other municipal utilities, are limited to \$10 million when seeking capital through bank-qualified bonds. Raising that limit to \$30 million is sought by Public Power throughout the country. Congressional visits on Capitol Hill asked lawmakers to support the Municipal

Bond Market Support Act of 2019 introduced by U.S. Reps. Terry Sewell (AL-07) and Tom Reed (NY-23). Both are members of the House Committee on Ways and Means.

KPP members will recall a tax-exempt refunding accomplished in 2017 before the change in the tax code. That refunding was structured through the bank-qualified channel allowing KPP to advance refund slightly less than \$10 million of its original 2012 A bond of approximately \$29 million that was used to purchase KPP's initial portion of the Dogwood plant.

DID YOU KNOW?

Representatives of KPP were recently in Washington D.C. advocating for Public Power and all KPP members (related story in this edition). See their greeting to KPP members from Washington. Watch [here](#).



L-R: Mark Chesney, Stan Luke, Taggart Wall, Gus Collins and Larry Paine

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Early this month KPP engaged Great Blue Research to conduct member satisfaction surveying. If you have not completed the survey yet, please click on the link provided to you earlier and do that. We want to know what you think!

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March 31st in McPherson is the date and location of the next KPP Quarterly Cyber Working Group. Meeting time is 11:00 at the KMU Training Center with lunch to follow. How you are doing on MIL 1? Do you have a disaster recovery plan? Are you familiar with the future cyber insurance requirements of underwriters? It may be critical that you attend. Contact Brooke Carroll for more details. bcarroll@kpp.agency

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KPP Staff are conducting New Governing Body Member Orientations. Staff comes to your city at an agreeable time. Many "not-so-new" governing body members are also finding it to be a great overview of all things KPP. Contact Brooke for more information. bcarroll@kpp.agency

January 2020 Distribution of Energy Resources

