



# COMMUNITY CHOICE AGGREGATION

## DISCUSSION REGARDING ASSESSING CREDIT WORTHINESS AND FINANCING OPTIONS

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## TRADITIONAL MUNICIPALLY OWNED UTILITIES VS. CCAs

### Traditional Municipally Owned Utilities

- Monopoly on its customer base
- Rate setting authority
- Limited, if any, competition
- Ability to develop strong financials

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- Generally high credit ratings
- Access to tax-exempt financing via bonds
- **Take-away: they have it “easy”**

### CCAs

- Opt-out risk
- Rate setting authority
- Competition with existing IOU
- Initially ‘shoe-string’ operation

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- “Start-up” like credit profile
- Challenging access to significant financing
- **Take-away: you have to get creative!!**

## ASSESSING CREDIT WORTHINESS

**A financial counterparty will focus on several key areas to assess whether to lend to a CCA effort:**

- Start-up nature of the CCA
  - Where is the initial support coming from?
- Opt-out risk and exit fees
- Ongoing legal / regulatory risk
- Competitiveness and rate setting mechanisms
  - Discount to IOU
  - Cost pass-throughs from CCA to customer base
  - Willingness to raise rates



## ASSESSING CREDIT WORTHINESS (CONT'D)

**A financial counterparty will focus on several key areas to assess whether to lend to a CCA effort:**

- Governance
  - Establishing an oversight body that is experienced and capable
  - Formal financial, risk management and operating policies: provides a functional framework for how system financial and operational risks will be addressed
- Organization / management structure and competence
  - Includes experience of hired outside contractors
- Power resource management
  - Procurement plan and resulting costs
- Financial Metrics
  - Cash on hand
  - Debt burden



## FINANCING OPTIONS

### **CCA financial options align with the various stages of the enterprise:**

- Start-up
  - Seed money is required prior to existence of revenues and customers
  - Necessary funds are limited and so is the pool of dollars potentially
  - Sponsoring local municipal entity (City, County, Water Authority, other)
  - Environmentally oriented grant / loan programs
  - Other (well funded citizens, activist groups, etc.)
  
- “Ramp-up” Period
  - Program is in place with customers and revenues, but still new and growing
  - Required funds are growing causing the need to approach deeper pockets
  - Sponsoring local municipal entity (City, County, Water Authority, other)
  - Local banks

## FINANCING OPTIONS (CONT'D)

### CCA financial options align with the various stages of the enterprise:

- Going Concern
  - Program is success with expanding customer base and desire to grow beyond PPAs
  - Purpose and size of funding has expanded to asset ownership and larger collateral requirements on PPAs
  - National / local banks
  - Traditional tax-exempt bond markets (rating will be required)
  - Cash reserves



## QUESTIONS?

