



# County of Los Alamos

## Council Meeting Staff Report

May 7, 2019

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<b>Agenda No.:</b>	C.
<b>Indexes (Council Goals):</b>	* 2019 Council Goal - Other
<b>Presenters:</b>	Bob Westervelt
<b>Legislative File:</b>	RE0402-19

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### Title

Incorporated County of Los Alamos Resolution No.19-05; A Resolution Relating to the Natural Gas Supply Agreement Between the Incorporated County of Los Alamos and the New Mexico Municipal Energy Acquisition Authority, As Amended by a First Amendment; Authorizing Action Necessary or Advisable to Obtain a Gas Discount Pursuant to the Supply Agreement, As Amended, Including the Execution and Delivery of Certificates and Agreements Relating to the Foregoing; Ratifying, Approving and Confirming Prior Action Taken Related to the Foregoing; and Repealing Action Inconsistent Herewith

### Recommended Action

**I move that Council approve Incorporated County of Los Alamos Resolution No.19-05; A Resolution Relating to the Natural Gas Supply Agreement Between the Incorporated County of Los Alamos and the New Mexico Municipal Energy Acquisition Authority, As Amended by a First Amendment; Authorizing Action Necessary or Advisable to Obtain a Gas Discount Pursuant to the Supply Agreement, As Amended, Including the Execution and Delivery of Certificates and Agreements Relating to the Foregoing; Ratifying, Approving and Confirming Prior Action Taken Related to the Foregoing; and Repealing Action Inconsistent Herewith.**

### Utilities Manager Recommendation

The Utilities Manager recommends that Council approve the motion as presented.

### Board, Commission or Committee Recommendation

The Board of Public Utilities recommends that Council approve the motion as presented.

### Body

In 2009, the Department entered into a gas prepay arrangement through The New Mexico Municipal Energy Acquisition Authority (NMMEAA) for approximately 80% of our historical gas usage. Although all of our gas is purchased at the first of the month San Juan index price, the prepay arrangement generates a discount on those purchases. NMMEAA has one gas supply contract, the special 2009 prepaid gas contract with Royal Bank of Canada (RBC). RBC has entered into an interest rate swap transaction through which RBC is able to use the rate difference between taxable and nontaxable securities to generate the discount.

Under section 7.02(c)(1) of the original Prepay Agreement, RBC was allowed to terminate the agreement upon a change to regulatory or accounting regulations which materially adversely affects the economics of the transaction. By letter to NMMEAA's General Council dated October 1, 2013, NMMEAA received notice of RBC's opinion that RBC had the legal right to terminate the 2009 prepayment transaction, based upon changes to the Canadian banking regulations known as the Basel III Accord. In November 2013 RBC met with NMMEAA and proposed a restructuring that would maintain the relationship and provide for a continuing discount, although somewhat more modest than the discount previously available.

The original agreement locked the participants into a set discount formula for the term of the agreement, originally 30 years. The revised agreement adopted in 2014 was for a five-year term.

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This gave both RBC and the NMMEAA participants to opportunity to seek other alternatives every five to seven years should market conditions change. If the revised deal is still economically viable, renewal is possible. If conditions have changed, the deal can be collapsed and NMMEAA or the participants can seek other market opportunities.

After conducting appropriate due diligence, the NMMEAA Board is prepared to proceed with renewal of the revised deal. Because of fluctuating market conditions, both in markets for taxable and tax-exempt bonds, and in the gas commodity futures market, the exact discount available cannot be determined until within days of actual closing. Thus, the resolution presented includes language that the transaction will not close unless the NMMEAA Board receives written representation from the Board's Financial Advisor on the deal, The Majors Group, that the discount offered meets or exceeds any potential alternative discount that may be obtained from other sources. The Majors Group represented NMMEAA as Financial Advisor both in the original deal in 2009 and in the restructuring in 2014 and has thorough knowledge and understanding of the industry and Gas Prepay Agreements such as this.

There is mention in the resolution of a "2019 New Money Transaction". This is an option under investigation by RBC and the NMMEAA Board, whereby the transaction could be extended to achieve an additional discount on current and future gas purchases. This is available because interest rates in 2014 were significantly lower than in 2009 when the original bonds were issued, so more of the payments made went to principle, shortening the remaining term of the deal. Although to a lesser degree, the same has occurred with the 2014 refinancing. RBC has proposed issuing new, additional bonds, increasing the prepaid gas quantities, and extending the gas supply agreement back out to the original term, which action would provide a few more cents per therm potential discount on the entire deal. The Tax Attorneys on the Bond Issue have indicated that under certain circumstances such action would not affect the tax-exempt status of the NMMEAA Bonds upon which the economics of the deal are based. NMMEAA, RBC, the Tax Attorneys, NMMEAA's general Counsel, and The Majors Group are evaluating the proposal and would move forward only if doing so would be in the best economic interests of the participants. The language in the resolution simply provides for proceeding with the "New Money Transaction", and any requisite amendment to the Gas Supply Agreement, should such extension be determined feasible and beneficial.

#### **Alternatives**

Should the County elect not to adopt the resolution and participate in the refinancing and potential extension, the alternative is to make a Remarketing Election, essentially withdrawing from the deal, and simply accept market prices with no discount, or pursue other potential prepay arrangements with other counterparties.

#### **Fiscal and Staff Impact**

While, as noted, it is not possible to know the exact fiscal impact until at or near closing, NMMEAA has taken steps to ensure the discount offered will be the best reasonably attainable for this type of prepay transaction. Historic savings to Los Alamos from the original and the restructured deal are shown on Attachment 2. It would be reasonable to expect savings to the rate payers along the lines of those seen since the 2014 restructuring.

#### **Attachments**

- A - Resolution 19-05 Relating to the NMMEAA Gas Supply Agreement
- B - Life to date savings derived from the prepay agreement