

## Chapter 6 – Refinancing Debt

On the Friday before Thanksgiving in 1991, Doug Porter spent his final day at work. Porter, Superintendent of the Harbor Springs Electric Department, retired with 30 years of service. Porter had watched the Harbor Springs Electric Department make giant strides in three decades. He estimated that the utility's load had doubled every 10 years during his tenure as superintendent.

"It used to be that after Labor Day, the load dropped off and everyone went home," Porter told a reporter from the Michigan Municipal Electric Association's monthly newsletter, *Currents*. "But now, the utility is kept busy the year around, and electric usage is less cyclical."<sup>1</sup>

Porter had been among the handful of Michigan municipal utility superintendents who had banded together in the late 1970s to investigate the feasibility of creating a joint action agency to protect public power customers in the state from predatory pricing. Now, in 1991, Porter noted, the number of old-timers was dwindling fast. "Red Reinhold of Sebawaing Light & Water and Joe Wolfe of the Lansing Board of Water & Light are about the only ones left," he said.<sup>2</sup>

The joint action agency Porter and his colleagues had fought for the decade before was proving to be an outstanding success in 1991. That year, MPPA managed nearly \$83.5 million in revenues derived from the sale of electricity, mostly to its members.<sup>3</sup> The Agency's Campbell No. 3 project generated nearly 200,000 megawatt-hours of electricity during the year. MPPA's Belle River project, located across the state on the St. Clair River, generated nearly 1.7 million megawatt-hours of electricity, 90 percent of which was sold back to Detroit Edison under provisions in the ownership agreements.

Both plants were fully compliant with tough new federal clean air standards. Following a decade of sometimes acrimonious debate, Congress passed amendments to the Clean Air Act late in 1990 that were scheduled to take effect immediately. The amendments targeted sulfur dioxide emissions from coal-fired power plants for a 10-million-ton decrease during the 1990s.<sup>4</sup> Campbell No. 3 was fueled by low-sulfur Eastern coal. Belle River's fuel source was low-sulfur coal from eastern Montana and Wyoming, some of the most environmentally compliant coal in North America.<sup>5</sup>

MPPA's power pool project was within months of going operational, and the Agency's Power Supply Project, in which MPPA purchased peak-shaving capacity and energy from the Lansing Board of Water & Light for delivery to Charlevoix, Chelsea, Harbor Springs and Petoskey, was saving each of those members an estimated \$525,000 a year.<sup>6</sup>

If there was any cloud hanging over MPPA at the beginning of the 1990s, it was debt. As of December 31, 1991, the Agency had a total of almost \$490 million face value in municipal bond debt outstanding, most of it incurred for the purchase of the ownership shares in Campbell No. 3 and Belle River.<sup>7</sup> Changing financial conditions in the 1990s would create a favorable interest rate climate that would allow MPPA to refinance much of its debt.

### Dave Naberhuis

MPPA's longest-serving employee is a soft-spoken accountant from Holland. Dave Naberhuis reflects the Dutch heritage of western Michigan where he grew up. Twenty years after leaving Holland, and a decade after moving to Lansing, Naberhuis still pines for his beloved Lake Michigan.

Naberhuis wistfully noted that "in Michigan, Lansing is about as far away from water as you can get. I miss the water. Other things about Lansing I find very acceptable and fine, but missing the water is a hard struggle for me because I grew up playing in it all the time."<sup>1</sup>

In October 2003, Dave Naberhuis celebrated 20 years with the Michigan Public Power Agency. At the time he joined the newly-formed joint action agency, Naberhuis was a veteran of 10 years accounting experience in the private sector. A 1973 graduate of Hope College in Holland, Naberhuis accepted a job with one of the city's major accounting firms shortly after graduation.

"I worked in public accounting doing a lot of different things, tax returns, write-ups, audits for about six years or so," Naberhuis said. "And then I decided to make a change, and just resigned my position and went to Michigan State University full-time to get an MBA degree. Now my undergraduate degree was in accounting, so when I got my MBA, I had

a concentration in finance.”<sup>2</sup>

Naberhuis took his new MBA degree to Detroit, where he joined the staff of the National Bank of Detroit downtown. “I was in the controllers division there for a period of about two years as an officer of the bank,” Naberhuis recalled. “At that time, NBD was going through a lot of acquisitions. They were buying up a lot of the smaller community banks in Michigan, and I was involved in that.”<sup>3</sup>

In 1983, Naberhuis and his wife “were thinking of having a family. Detroit, although it was a nice area, was not where we wanted to raise a family.”<sup>4</sup>

Having grown up in a public power community, Naberhuis was familiar with municipal utilities. His uncle, Marty Hieftje, was the longtime superintendent of the Zeeland municipal utility, one of the founders of MPPA. Naberhuis recalled Hieftje discussing with him the job opening at the Agency.

“I think he might have been the one who told me about my position when it became available,” Naberhuis reflected. “They may have even had a hard time finding someone for the position, I am not sure. But he said, ‘Don’t mention you know me, and I am not going to be involved in deciding if you are hired or not. I will just tell you about it.’ He was very conscientious about favoritism and didn’t want any hint of that.”<sup>5</sup>

Naberhuis’ career at MPPA spanned bond financings, refinancings, audits

## The Move to Lansing



Ever since Dick Gorman was named MPPA’s first general manager in 1980, the Agency’s headquarters had been located in Kentwood, a suburb of Grand Rapids. For the next 12 years, MPPA leased a series of offices in Kentwood. By the time that Gary Zimmerman replaced Gorman as MPPA’s general manager in 1990, the Agency was facing the prospect of moving again.

“We just rented office space,” Zimmerman recalled, “and as the Agency grew with personnel, it would rent larger spaces as it evolved into a larger organization.”<sup>8</sup>

There had been good, solid reasons to locate the offices in Grand Rapids. Zimmerman explained that “the original thought of the membership of this organization was that since Lansing was its largest member, the MPPA should not be located in Lansing but on neutral ground. That was Grand Rapids, which is not a municipal electric utility at all, but it is a sizeable city and had good airport facilities. When you go through your formation, you have a lot of consultants, lawyers and investment bankers who need to get in and out from the East Coast, New York primarily. So the convenience of air travel and being on neutral ground were some of the reasons why the decision was made to have the location in Grand Rapids.”<sup>9</sup>

By the early 1990s, those reasons were no longer as valid as they were a decade before. For one thing, the major projects requiring visits by attorneys, bankers and other consultants essentially were completed. For another, MPPA was in the process of unveiling its new power pool project, which would be dispatched through the Lansing Board of Water & Light’s energy control center. Finally, and perhaps most importantly, MPPA and the Michigan Municipal Electric Association (MMEA) had effectively merged in 1990 following the retirement of longtime MMEA executive director Don Potter.

“MMEA and MPPA in one year’s time had put together a service agreement between the two groups,” Zimmerman explained. “The association was looking for the Agency to provide its services, not only in a business address but also with personnel requirements. Secretarial, billing, and accounting services would be handled by the Agency under a service agreement.”<sup>10</sup>

MMEA, however, in 1990 was a trade association for 38 Michigan municipal utilities, and as such, a major part of the services it provided to its utility clients involved interaction with the Michigan Legislature and regulatory agencies. Zimmerman noted that MPPA’s board of directors understood that MMEA’s “primary purpose here in Michigan, and it remains to this day, is that of lobbying. So, for lobbying efforts, you really need to be close to the state capital.”<sup>11</sup>

In 1991, MPPA’s board of directors gave Zimmerman the go-ahead to find a new office for the Agency and MMEA. Only this time, MPPA wanted to buy an office building rather than lease space. Zimmerman recalled that “we were looking around Grand Rapids, and then the board made the decision to come here to Lansing. At that time, we acquired the property here. We designed the building and did a turnkey with a developer and moved into this building in May of 1992.”<sup>12</sup>

The property acquired in Lansing was in an office park on the suburban west side of the community, located with convenient access to Interstates 69, 96 and 496. The freestanding building at 809 Centennial Way sat immediately across Creyts Road from the capital city’s Sheraton

Hotel. The move from Kentwood went extremely well, and was accomplished during one weekend in mid-May 1992. MPPA and MMEA staff reported for their first day of work in the Centennial Way office on May 26, 1992.<sup>13</sup>

The decision to buy rather than lease occasioned a restructuring of MPPA's dues arrangement. "When they decided to relocate our offices here to Lansing," Zimmerman said, "membership at that time was a token amount of \$1,000 a year. The idea was to get as many members as we could, but as we were maturing and evolving, what became more and more clear was that if members weren't investing in a project, they really had no financial stake in the organization."<sup>14</sup>

Zimmerman noted that interest in the Agency might be radically different for those members who did have a stake in MPPA and the risk it entailed than for those who didn't. "When it was decided by the board to locate here in Lansing, we folded into the annual dues the amortized cost of our office building which we were acquiring at that time," Zimmerman explained. "The decision kicked the dues up for the smaller cities about five times what they had been. So it went from about \$1,000 to \$5,000 a year for dues, whether the member was in a project or not. The three cities not in projects just could not see making that kind of commitment to the Agency when they were satisfied with the power supplies they had from the serving investor-owned utilities."<sup>15</sup>

MPPA was reduced to 13 members as a result of the 1992 dues increase. Zimmerman noted that the current membership has stayed remarkably stable since 1992. "They all have a stake in what we are doing," he said, "and it is a much closer, hard-working and better working board than it had been prior to the dues increase."<sup>16</sup>

The move to Lansing and the combination of MPPA and MMEA into one office gave Michigan's municipal utility community an effective voice in the state capital. "It has been very beneficial for both MPPA and MMEA to be under the same roof here in Lansing," Zimmerman said. "The strengths of the two groups can be directed to their maximum effectiveness by having the common management and common services here under one roof. One thing we do is that we give equal status to the association as to the Agency. But the association's share of cost of our facilities and staff is about 16 percent currently."<sup>17</sup>

Zimmerman added that "the association in Lansing gets a lot of bang for its buck by having its offices and business arrangements the way they are. On the other hand, the Agency, on issues that are important to lobby, is able to get a tremendous amount of influence by having the interests of 37 cities throughout the state. So it all works very well. It has worked very well over the years."<sup>18</sup>

## Much Better Rates



The early 1990s ushered in a new era of economics in American society. After struggling with inflation and high interest rates through the late 1970s and early 1980s, the economy entered a period of stability and job growth that brought interest rates down to levels not seen since the 1960s. For MPPA, the steady decline in interest rates was an opportunity to save Michigan's municipal utility customers millions of dollars.

Rates began declining from record high levels during the late-1980s. MPPA had financed the Campbell No. 3 purchase in May 1980 with bonds carrying an 8.375 percent interest rate. By

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"They were always thinking of the common good and putting their efforts into that," Naberhuis said. "They need to be suitably proud of their accomplishments because some of these things were not easy to do. Sometimes doing what is right is not the easy thing to do, and they would always go for what was right."<sup>6</sup>

### Endnotes

1. Dave Naberhuis Interview, pp.4-5
2. Ibid., p.1
3. bid., p.2
4. Ibid., p.2
5. Ibid., p.11
6. bid., pp.14-15

## Chapter 6 Endnotes

1. "Harbor Springs' Porter to Retire in November," *MMEA Currents*, v.24, no.11, November 1991, p.5
2. *Ibid.*, p.5
3. Michigan Public Power Agency, 1991 Annual Report, p.1
4. Jonathan Hofman, "Amendments to Clean Air Act Finalized," *MMEA Currents*, v.23, no.12, December 1990, p.1
5. Michigan Public Power Agency, 1991 Annual Report, p.9
6. *Ibid.*, p.11
7. *Ibid.*, p.1
8. Gary Zimmerman Interview, p.4
9. *Ibid.*, p.21
10. *Ibid.*, pp.20-21
11. *Ibid.*, p.21
12. *Ibid.*, p.21
13. "MMEA Moves to Lansing," *MMEA Currents*, v.25, no.6, June 1992, p.1
14. Zimmerman Interview, p.21
15. *Ibid.*, p.21
16. *Ibid.*, p.21
17. *Ibid.*, p.22
18. *Ibid.*, p.23
19. "Refinancing of Certain Debt," R.W. Beck, Michigan Public Power Agency: Campbell Project – Annual Report for the Calendar Year Ended December 31, 2001, p.I-2
20. "Refinancing of Certain Debt," R.W. Beck, Michigan Public Power Agency: Belle River Project – Annual Report for the Calendar Year Ended December 31, 2001, p.I-2
21. The Belle River Project, [www.mppower.org/Belleriv.htm](http://www.mppower.org/Belleriv.htm)
22. Michigan Public Power Agency, 1993 Annual Report, p.3
23. Zimmerman Interview, p.27

1989, bond interest rates had dropped an average of 2 percentage points. MPPA went back to the bond market in August 1989 and refinanced \$36.26 million of Campbell No. 3 bonds at interest rates ranging from 6.2 percent to 6.85 percent.<sup>19</sup>

The \$590 million in Belle River bonds had been financed in 1983 at historically high rates – 7.5 percent to 10.7 percent. Most of the highest-rate bonds were called and refinanced with new bonds in 1986.

As interest rates fell through the late 1980s and early 1990s, MPPA prepared another refinancing of the Belle River bonds. In late 1992, the Agency issued \$44.6 million in Belle River Project Refunding Bonds at interest rates between 3.6 percent and 5.8 percent, half or less the 10.5 percent of the 1983 bonds they replaced.<sup>20</sup>

In April 1993, MPPA issued another bond refunding, a \$323.6 million refinancing carrying a true interest cost of 5.63 percent. Five months later, in September, the Agency refinanced another \$46.2 million of Belle River bonds, again at a true interest cost of 5.62 percent. In a nine-month period between December 1992 and September 1993, MPPA refinanced nearly \$415 million of Belle River bonds at interest rates well below the original 1983 bond issues.

The effective cost of energy from Belle River was reduced from 7.5 cents a kilowatt-hour in early 1992 to 3.95 cents a kilowatt-hour in 1995.<sup>21</sup> In the process, the Agency saved its members, and the electric customers they served, an estimated \$66 million over the 25-year life of the refinanced bonds.<sup>22</sup>

One final piece of financial business in the mid-1990s also would significantly lower MPPA's costs. As early as 1992, MPPA suspected that Detroit Edison, its partner in the Belle River project, was inflating the cost of coal used to fuel the power plant's boilers.

"After MPPA started taking power from the Belle River plant in 1991," Zimmerman explained, "we did an audit to confirm if Edison's billing was correct. We immediately had a dispute over how they were pricing coal to us. Ultimately, that went into arbitration, and we put a lot of effort into it. We spent out-of-pocket in excess of \$1 million over the next several years to present our case, and also to pay for the arbitrators that we were allowed for disputes under the contracts we had negotiated. It was worth the battle because we ended up getting a \$20 million refund for what were considered overcharges on the fuel from the time we started taking power out of the plant up through 1998."<sup>23</sup>

MPPA had spent the mid- and late 1980s creating the Agency's power pool project. The Agency made a commitment during the late 1980s and early 1990s to focus on financial matters, a concentration that would result in Michigan's public power ratepayers savings millions of dollars in energy costs.

The challenges of the 1980s and early 1990s were primarily technical and financial in nature. The challenges of the latter half of the 1990s would be political, as Michigan investigated the feasibility of restructuring the state's electric utility industry.