



**DATE:** March 13, 2015

**TO:** William A. Gaines, Director of Utilities/CEO

**FROM:** Theodore C. Coates, Power Superintendent/COO *TC*

**SUBJECT:** Approval of Components to Implement Tacoma Power's 2015 Financing Plan

### RECOMMENDATION

Tacoma Power recommends approval and implementation of the following five components of its 2015 Financing Plan:

1. Authorization to use Tacoma Power cash reserves and excess Bond Reserve funds to call \$122 million outstanding Tacoma Power 2005B Bonds on July 1, 2015;
2. Establishment of a Master Subordinate Bond Ordinance to support short-term bank agreements (Attachment A);
3. Authorization to implement a new \$100 million short-term financing agreement with Wells Fargo to provide interim financing for capital projects in Tacoma Power's approved capital budget (Attachment B);
4. Authorization to implement a new \$50 million short-term note purchase agreement with Key Bank to provide additional liquidity for Tacoma Power (Attachment C); and
5. Implementation of supporting changes to Tacoma Power's Electric Rate & Financial Policy (Attachment D).

These components were presented to the Public Utility Board at the March 11, 2015 Study Session and Tacoma Power's financial advisor, Montague DeRose and Associates, has drafted a memo (Attachment E) describing the elements of this financing plan in more detail.

### BACKGROUND

The 2015/2016 Biennium Budget was approved by the Tacoma Public Utility Board and City Council in late 2014 and included a one-time, three percent, rate increase in April 2015. Having just completed approval of this rate increase, Tacoma Power is now requesting approval of its 2015 Financing Plan. The five components outlined in the recommendation support the approved budget and corresponding rate increase.

The 2015/2016 budget assumed the use of \$90 million in cash reserves to call the majority of the outstanding 2005B Bonds on July 1, 2015, with remaining Bonds to be called with proceeds of a new Bond issue in early 2015. Tacoma Power's year-end results for the 2013/2014 biennium were better than earlier projections, and Tacoma Power is now requesting authorization to use \$110 million from the Current Fund to call the 2005B Bonds. In addition, staff working with Tacoma Power's Bond Counsel and Financial Advisor, have determined that \$12 million in excess Bond Reserve funds can be withdrawn and used as part of the Bond call. The sum of these two components equate to the outstanding \$122 million in 2005B bonds that can be called on July 1, 2015.

As a result of calling the 2005B Bonds, Tacoma Power will reduce its outstanding indebtedness by 24 percent and its debt service payable over the next six years by 41 percent. This benefits ratepayers through keeping rate increases over the next six years to minimal levels. It will also result in smaller cash reserves and increased debt service coverage. Tacoma Power expects that its Bonds will continue to be rated in the AA-category.

Tacoma Power also proposes to implement two short-term financing agreements as outlined in the memorandum from the Financial Advisor, Montague DeRose and Associates (Attachment E). The first agreement, with Wells Fargo, provides up-front interim financing for capital projects, and would defer the issuance of long-term bonds for approximately two years. The second agreement, with Key Bank, provides an additional source of liquidity to support Tacoma Power's operations and maintain current credit ratings as the overall level of cash in the Current Fund is reduced. Both of these agreements were solicited through a competitive RFP process in October 2014. Tacoma Power is nearing the end of negotiations with Wells Fargo and Key Bank and the two agreements are nearly complete (attachments B and C, respectively).

The combination of calling the outstanding 2005B Bonds, the two new bank agreements and deferring the issuance of long-term Bonds will save Tacoma Power approximately \$6.5 million in debt service payments compared to the 15/16 budget. Additionally, the utilization of the Wells Fargo agreement to fund capital projects will largely eliminate negative arbitrage resulting from issuing and paying interest on long term bonds prior to spending bond proceeds on construction projects. Implementing all of these components will support the 3 percent average system rate increase on April 1, 2015, as well as current forecasts for similar small rate increases over the next two biennia.

Tacoma Power requests that a new Master Subordinate Bond Ordinance (Exhibit A) be approved to provide the umbrella legal terms required to support the two bank agreements as well as any such future agreements. The agreements will be implemented on a basis that is subordinate to Bonds issued under Tacoma Power's Bond Ordinance.

All of the proposed ordinances and agreements have been drafted by Tacoma Power's Bond Counsel (Orrick, Herrington and Sutcliffe) and Financial Advisor (Montague DeRose and Associates), in collaboration with Tacoma Power staff, the City Treasurer and the City Attorney.

Finally, proposed revisions to Tacoma Power's Electric Rate & Financial Policy (Exhibit D) will support the implementation of the new bank agreements. In addition, modifications have been proposed to support the goal of maintaining strong financial metrics to maintain or improve Tacoma Power's current strong AA-category bond ratings. The Policy also contains modifications to provide clarity in regard to regular reviews of the adequacy of the Rate Stabilization Fund and to provide guidance for replenishment when Rate Stabilization Fund monies are used.

## **SUMMARY**

The approved 2015/2016 biennium budget and corresponding one-time 3 percent average system rate increase on April 1, 2015, was based on significant restructuring of Tacoma Power's outstanding debt as well as modification of its financing practices and policies. The following is a summary of the proposed changes included in Tacoma Power's 2015 financing plan:

- Implementation of a short-term financing agreement with Wells Fargo will allow for more cost effective and efficient management of capital construction and development funds prior to issuing long-term bonds for Tacoma Power's capital projects.
- The short-term liquidity agreement with Key Bank will allow Tacoma Power to maintain a strong liquidity ratio in a cost efficient and economic manner.

- The proposed Master Subordinate Ordinance will provide a consistent structure for the two agreements.
- Tacoma Power's Electric Rate & Financial Policy has also been updated to accommodate these new agreements and provide additional clarity to support strong financial metrics.
- Finally, Tacoma Power presented the 2015/2016 biennium budget to the Public Utility Board and the City Council with the assumption that the 2005B Bonds would be called on July 1, 2015. Tacoma Power will now use \$110 million from the Current Fund and \$12 million of excess Bond Reserve Funds to call the outstanding 2005B Bonds and not issue long-term Bonds in 2015.

#### **BUDGET AUTHORIZATION**

Tacoma Power recommends calling all remaining \$122 million in 2005B bonds with cash on July 1, 2015. The action of approving the implementation of supporting agreements and adopting the 2015 Financing Plan assumes the use of \$110 million in cash reserves along with \$12 million in excess Bond Reserve funds to call the outstanding 2005B Bonds.

We request your approval to submit this matter to the Public Utility Board for their consideration.

#### **APPROVED:**



William A. Gaines  
Director of Utilities/CEO

#### **ATTACHMENTS:**

- Attachment A: Draft Master Subordinate Bond Ordinance
- Attachment B: Draft Drawdown Direct Purchase Agreement with Wells Fargo and supporting subordinate Bond Ordinances for agreement
- Attachment C: Draft Note Purchase Agreement with Key Bank and supporting subordinate Bond Ordinances for agreement
- Attachment D: Proposed revisions to Tacoma Power's Electric Rate & Financial Policies
- Attachment E: Memo from Montague DeRose and Associates Summarizing Wells Fargo and Key Bank Agreements