



TO: Mayor and City Council
FROM: Jackie Flowers, Director of Utilities
COPY: Elizabeth Pauli, City Manager and Doris Sorum, City Clerk
SUBJECT: Tacoma Power Wells Fargo Note Purchase Agreement
DATE: July 20, 2021

SUMMARY:

Tacoma Power’s 2021 financing plan involves three components requiring approval by the Public Utility Board and the City Council.

This Council Action Memo addresses the authorization to enter into a new \$150 million Note Purchase Agreement (NPA) with Wells Fargo to provide interim financing for capital projects in Tacoma Power’s approved capital budget.

The proposed Supplemental Ordinance and Resolution that authorizes the issuance of a subordinate lien Electric System Revenue Bond to evidence a line of credit provided by Wells Fargo Bank (Wells Fargo) have been drafted by Tacoma Power’s Bond Counsel, Pacifica Law Group LLP (Pacifica), in collaboration with Tacoma Power’s Financial Advisor, Montague DeRose and Associates (MDA), Tacoma Power staff and attorney, and the City Assistant Finance Director.

STRATEGIC POLICY PRIORITY:

The strategic policy priority best aligned to this action is to “Strengthen and maintain a strong fiscal management position.”

The short-term financing agreement with Wells Fargo improves financial flexibility by providing readily accessible, interim financing for asset maintenance and improvement costs when those costs are incurred. Implementation of the existing Wells Fargo agreement is also more cost effective by deferring the issuance of long-term bonds to fund debt-funded capital projects, saving the utility approximately \$26 million in interest costs since 2015.

BACKGROUND:

Note Purchase Agreement

Tacoma Power has successfully used the existing Note Purchase Agreement with Wells Fargo (2015 Wells Fargo Agreement) to provide interim financing for approximately \$285 million of capital project expenses since inception in 2015. It allows Tacoma Power to pay for capital improvements during the biennium, utilizing variable interest rates. Tacoma Power issued the Series 2017 Electric System Revenue Bonds to repay \$80 million borrowed under the 2015 Wells Fargo Agreement for the 2015/2016 biennium capital spending. In 2019, Tacoma Power amended and extended the 2015 Wells Fargo Agreement to fund up to \$150 million in capital improvements. As of December 31, 2020, Tacoma Power has funded \$131,250,000 in capital expenditures with the existing 2015 Wells Fargo Agreement.



The outstanding balance on the 2015 Wells Fargo Agreement (approximately \$140 million) is expected to be redeemed with the proposed Electric System Revenue Bonds issued in 2021, and after such redemption, the 2015 Wells Fargo Agreement will be terminated.

In March 2021, Tacoma Power solicited proposals from qualified firms for a new short-term funding product and reviewed responses from five financial firms. From that pool of respondents, Wells Fargo once again offered the lowest cost and most flexible option for interim financing.

Tacoma Power seeks approval for the delegation of authority to the Director of Utilities and Power Superintendent, or their designees, to issue an Electric System Subordinate Revenue Note, Series 2021, to evidence a revolving line of credit provided by Wells Fargo of not to exceed \$150 million for three years within limits defined by the Bond Ordinance. Terms of the line of credit will be provided for in a new 2021 Note Purchase Agreement.

ISSUES:

The proposal under consideration from Wells Fargo is for a new NPA based on SIFMA, instead of the current rate which is based on LIBOR, each as defined herein:

- The London interbank offered rate (LIBOR) is commonly used to calculate interest rates paid on amounts borrowed in bank lending agreements and is currently scheduled to phase out and no longer be available at the end of June 2023.
- The Securities Industry and Financial Markets Association Municipal Swap Index (SIFMA) is an alternative index frequently used in the market instead of LIBOR and reflects the yield of tax-exempt seven-day variable rate demand bonds.

PRELIMINARY TERMS:

Pricing for a new three-year, \$150 million 2021 Note Purchase Agreement with Wells Fargo is as follows based on a SIFMA index rate:

SIFMA Proposal

Maturity:	3 years (October 2024) with possible extension
Notional Amount:	Up to \$150,000,000
Interest Benchmark:	SIFMA
Utilized fee:	SIFMA + .35% on drawn amount
Unutilized fee:	0.17% fee annually (\$255,000) on unused amount of \$150 million
Est. Issuance Cost:	\$205,000 (Bond Counsel, Bank Counsel, Municipal Advisor fees)
Est. Annual All-In Cost:	\$325,000 (unutilized) to \$665,000 (fully utilized)



ALTERNATIVES:

Tacoma Power solicited alternative proposals in March through an RFP process for a new short-term financing facility. In response to Tacoma Power’s RFP, Bank of America and Citigroup offered alternative products to the Wells Fargo agreement with a higher all-in rate than the preliminary agreement terms listed above.

If Tacoma Power does not enter into a new NPA with Wells Fargo, alternatives will be brought back to the City Council for consideration. Some alternatives considered are:

- Tacoma Power could issue long-term bonds at the beginning of 2022 after the existing Wells Fargo agreement expires, instead of issuing a new short-term financing agreement to fund capital projects.
- Tacoma Power could negotiate a new interim financing agreement for approval by the City Council at a later date.

RECOMMENDATION:

Tacoma Power recommends approval of the NPA with Wells Fargo Bank of not to exceed \$150 million for three years within limits defined by the Bond Ordinance to continue interim financing the utility’s capital improvement plan.

FISCAL IMPACT TO THE CURRENT BIENNIUM:

Biennial expenditures for Bond Counsel and external Financial Advisory services were included in the 2021/2022 budget up to \$325,000.

The estimated annual debt service for the new NPA was included in the Tacoma Power 2021/2022 budget.

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? Yes.