



TO: Mayor Strickland and Council Members
FROM: William A. Gaines, Director of Utilities / CEO *W. A. Gaines*
COPY: T. C. Broadnax, City Manager, and City Clerk
SUBJECT: Resolution/Ordinance – Authorization to execute short-term Note Purchase Agreement with Key Bank and accompanying Subordinate Bond Ordinance – April 14, 2015
DATE: March 16, 2015

SUMMARY:

This is the fourth of five Council Action Memorandums to support the implementation of Tacoma Power's 2015 Financing Plan. Tacoma Power is requesting authorization of the following five components:

1. Authorization to call \$122,135,000 outstanding 2005B Bonds on July 1, 2015 with \$110 million from the Current Fund and \$12 million of excess Bond Reserve Funds.
2. A Master Subordinate Ordinance to provide a consistent structure for the short-term bank agreements with Wells Fargo and Key Bank.
3. Implementation of a \$100 million Subordinate Note Agreement with Wells Fargo and corresponding subordinate bond ordinance to provide interim financing for Tacoma Power's capital projects.
4. Implementation of a \$50 million Subordinate Note Agreement with Key Bank and corresponding subordinate bond ordinance to provide additional liquidity to support Tacoma Power operations.
5. Revisions to the Tacoma Power Electric Rate & Financial Policy to accommodate new short-term bank agreements and provide clarity in continuing to provide support for strong financial metrics.

STRATEGIC POLICY PRIORITY:

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

Calling the 2005B Bonds will provide significant savings to Tacoma Power customers and help maintain minimum rate increases in the next six years. The new 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 help to support and maintain Tacoma Power's strong liquidity ratio. Lastly, Tacoma Power has proposed revising the Tacoma Power Electric Rate and Financial Policy to accommodate short-term financing facilities, support more cost effective management of capital construction, and provide clarity in continuing to support strong financial metrics.

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 summary 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 \$110.135 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 \$122,135,000 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. 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 expected to be ready for signature in April 2015.

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. 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 Master Subordinate Bond Ordinance 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 existing 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 and Financial Policy will support the implementation of the new bank agreements. Modifications have also been proposed to support the goal of maintaining strong financial metrics to maintain or improve Tacoma Power's current strong AA-category bond ratings. Lastly, the policy 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.

ISSUE:

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 summary support the approved budget and corresponding rate increase recently approved.

ALTERNATIVES:



If Tacoma Power does not implement the proposed components of the 2015 financing plan, depending upon which part is not approved, alternatives will be brought back to the City Council for consideration. Some alternatives considered in the development of this plan are:

- A portion of the 2005B Bonds less than the full amount could be called and the remaining amount could then either be refunded or defeased at a later date.
- Tacoma Power could issue long-term bonds in 2015 instead of using the Wells Fargo agreement and planning to issue long-term bonds in 2017 to fund capital projects.
- In lieu of approving the Master Subordinate Bond Ordinance, both bank agreements could be renegotiated and brought back to the council for approval.
- Both bank agreements could be renegotiated if needed and brought back to the City Council for approval at a later date.
- Finally, consideration of alternative language, other than what is proposed for the Electric Rate and Financial Policy, could be brought back for consideration by the City Council at a later date.

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 \$122,135,000 outstanding Tacoma Power 2005B Bonds on July 1, 2015;
2. Establishment of a Master Subordinate Bond Ordinance to support the short-term bank agreements;
3. Authorization to implement a new \$100 million short-term financing agreement with Wells Fargo and accompanying Subordinate Bond Ordinance to provide interim financing for capital projects in Tacoma Power's approved capital budget;
4. Authorization to implement a new \$50 million short-term note purchase agreement with Key Bank and accompanying Subordinate Bond Ordinance to provide additional liquidity for Tacoma Power Operations; and
5. Proposed modifications to Tacoma Power's Electric Rate & Financial Policy.

These components were presented to the Public Utility Board at the March 11, 2015 Study Session and the Government Performance and Finance Committee on March 18, 2015.



FISCAL IMPACT:

Tacoma Power requests designated authorization to execute a short-term Note Purchase Agreement with Key Bank for an amount not to exceed \$50,000,000. The agreement is to provide additional liquidity to support Tacoma Power operations and interest expenses will be incurred through the utilization of the agreement. Tacoma Power does not currently plan to draw funds under this agreement in the 2015/2016 biennium, however the agreement is available for emergency circumstances. Tacoma Power currently expects the agreement to cost approximately \$300,000 for the biennium and will be covered by the interest savings received under the other components of Tacoma Power’s 2015 financing plan.

EXPENDITURES:

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
Power Fund 4700	561100	6611000	\$300,000
TOTAL			\$300,000

* General Fund: Include Department

REVENUES:

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
TOTAL			

POTENTIAL POSITION IMPACT:

POSITION TITLE	PERMANENT/ PROJECT TEMPORARY POSITION	FTE IMPACT	POSITION END DATE
TOTAL			

This section should only be completed if a subsequent request will be made to increase or decrease the current position count.

FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: The combination of this agreement and other proposed changes in Tacoma Power’s 2015 financing plan will result in significant savings in interest expenses in the current and future biennial budgets.

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? No, Tacoma Power expects to incur approximately \$300,000 in interest expenses in the 2015/2016 biennium under this agreement.

IF EXPENSE IS NOT BUDGETED, PLEASE EXPLAIN HOW THEY ARE TO BE COVERED.

Tacoma Power will cover the cost of this agreement through the savings it receives in implementing the other components of 2015 financing plan. These savings will be largely the result of significantly less interest expense that will not be incurred through the issuance of long-term refunding bonds in 2015.