



TO: Mayor and City Council
FROM: William A. Gaines, Director of Utilities / CEO
COPY: Elizabeth Pauli, City Manager
SUBJECT: Resolution/Ordinance – Authorize Bond defeasance of up to \$28 million in future 2013A Bond principal payments – July 25, 2017
DATE: July 5, 2017

SUMMARY:

Tacoma Power recommends approval and authorization to defease up to \$28 million in future 2013A Bond principal payments.

STRATEGIC POLICY PRIORITY:

The strategic policy priority is best aligned to this action is to “Encourage and promote an efficient and effective government, which is fiscally sustainable and guided by engaged residents.” Defeasing future Bond principal payments will allow Tacoma Power to utilize the existing cash balance to levelize and reduce future debt service payments. This will have the effect of helping to stabilize and lower future rate increases in the next biennium.

BACKGROUND:

Tacoma Power regularly issues bonds to finance construction and renovation on long-lived capital assets. Debt financing such assets is an equitable practice because it transfers the cost of long-lived assets to future ratepayers who are the beneficiaries of those assets.

In previous biennia, Tacoma Power has used cash balances to manage future debt service payments through the defeasance of future principal payments or exercising call options on outstanding bonds. In 2015 Tacoma Power called 122,135,000 of 2005B Bonds. This action helped to provide for a 0% rate increase in 2016.

ISSUE:

Working with Tacoma Power’s financial advisor, Montague DeRose & Associates, the utility has compared numerous alternatives and developed a plan of finance to optimize the timing, structure, planned use of proceeds, and cash defeasances in relation to the utility’s future debt structure.

Tacoma Power plans to use cash to defease up to \$28 million of outstanding 2013A debt payments to levelize future debt service payments. The proposed plan of finance will help Tacoma Power maintain stable rates.

ALTERNATIVES:

Tacoma Power considered many alternatives to the proposed action and if the requested ordinance for this defeasance or the issuing of new Electric System Revenue Bonds are not approved, an alternative will be brought forward for consideration. Some of the alternatives that were considered were what the appropriate size and timing of the 2017 Bond Issuance should be. We also considered the appropriate amount to defease from future Bond principal payments in order to levelize future debt service payments.

RECOMMENDATION:

Tacoma Power recommends the City Council approve the defeasnce up to \$28 million in future 2013A Bond principal payments.



FISCAL IMPACT:

Tacoma Power will use cash from Tacoma Power’s Current fund for this transaction. This action is not expected to require a significant change in the approved budget. Current budget forecasts project a sufficient balance in the Current Fund to complete this defeasance.

EXPENDITURES:

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
4700-Tacoma Power Current Fund	TBD	2390000	Not to exceed \$28 million
TOTAL			

* 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: Current budget forecasts project a sufficient balance in the Current Fund to complete this defeasance. The exact amount will be determined after the issuance of new Electric System Revenue Bonds.

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? Yes