

Tacoma Power 2015/2016 Financing Plan

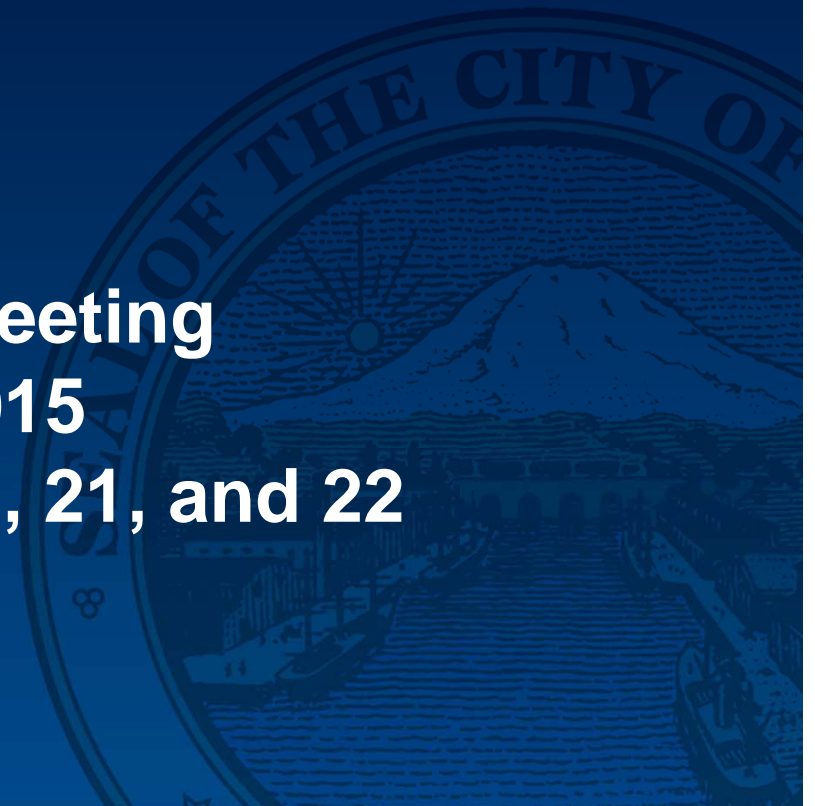
City of Tacoma

Tacoma Power – Rates, Planning, & Analysis

City Council Meeting

April 14, 2015

ITEM #'s 16, 17, 20, 21, and 22



Overview

- Tacoma Power will use \$110 million in cash, plus \$12 million in excess bond reserves, to call \$122 million 2005B Bonds on July 1, 2015 (#16)
- Make supporting changes to Electric Rates & Financial Policy (#17)
- Implement a short-term draw down facility with Wells Fargo to fund capital projects approved for 2015/2016 biennium (#20 & #21)
- Implement a short-term liquidity agreement with Key Bank to support financial metrics (#20 & #22)

Benefits

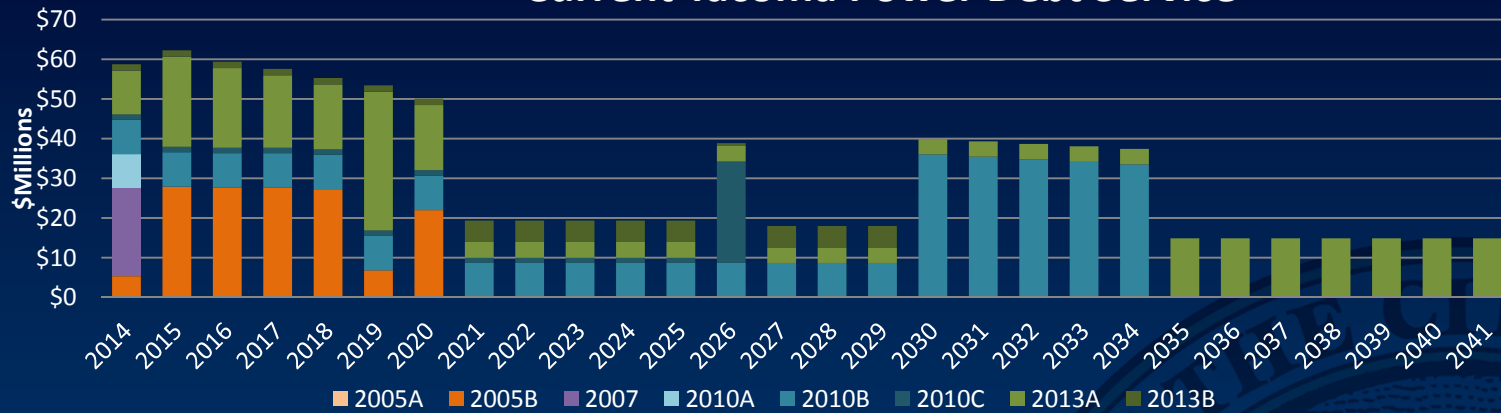
- 41% Reduction in Debt Service for next six years, averaging \$23 million per year
- 24% overall debt service reduction
- Lower rate increases for next six years
- Implementation of Financial Plan
- Better alignment of financial metrics
- Preserve financial flexibility
- Defer long-term bond issue until 2017 saving \$6.5 million
- Reduce negative arbitrage
- Match financing of capital projects with expenditures
- Reduction in cash liquidity
- Help meet rating agency AA metrics

Proposed Financial Policy revisions #17 RES39171

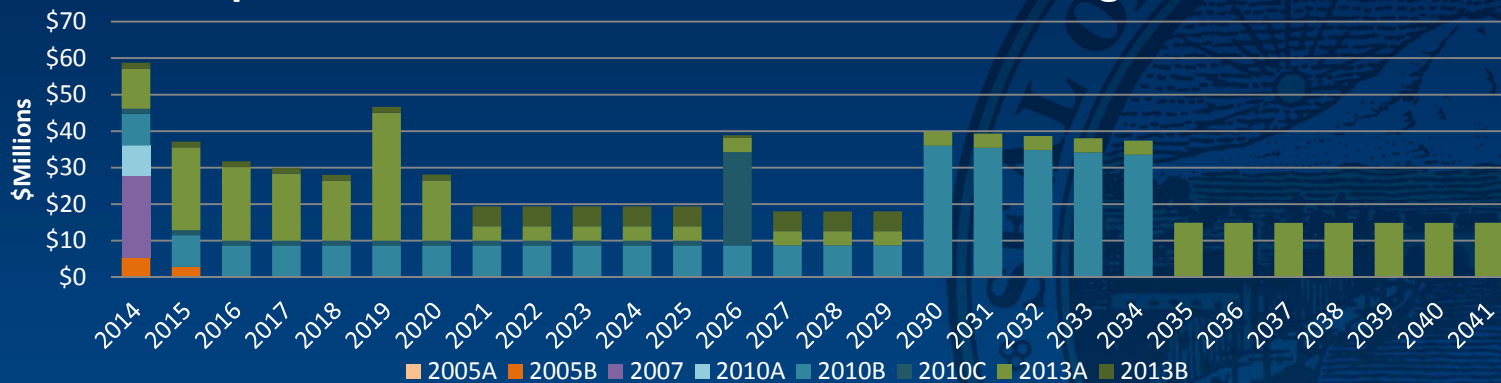
- Financial policy updates to support financing plan
 - Incorporation of principle to support financial strength of utility
 - Forecast cash balances will be set to maintain a minimum of 90 days and sufficient liquidity to support operational objectives
 - Provisions for acquiring short-term and long-term debt for purpose of financing of capital projects
 - Standards of conduct, communications, and disclosure
- More defined management of Rate Stabilization Fund (RSF):
 - Target Size
 - Guidance for Utilization and Replenishment After Use
 - \$48 million RSF balance is currently sufficient

Calling 2005B Bonds with cash results in lower rate increases for next six years: #16 RES39170

Current Tacoma Power Debt Service



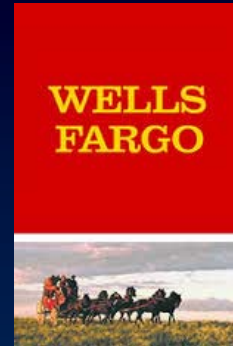
Proposed Tacoma Power Debt Service Following Call of 2005B Bonds



Interim Financing for Capital: #21 ORD28296

Wells Fargo Drawdown Direct Purchase Agreement

Commitment Amount	\$100,000,000
General Purpose	Interim Financing of Capital Projects
Term	3 years + Extensions as Negotiated
Upfront Fee	None
Undrawn Fee	0.175%
Interest Rate	70% of 1 Month LIBOR Index + 35 bps $((70\% * 0.171\%) + .35\% = 0.4697\%)$
Downgrade Pricing	+5 bps on unutilized and utilized fee per downgrade below current ratings
Repayment	Anytime
Minimum Draw Amount	\$5,000,000
Term Out Period and Rate	3 years: for the first 180 days, the Base Rate (greatest of (i) the Prime Rate plus 1.00%, (ii) the Federal Funds Rate plus 2.00%, and (iii) 7.00%), and for days 181+, the Base Rate plus 1.00%



- Estimated interest expense savings of \$6.5 million in delaying long-term bond issue
- Plan to fund 2015/2016 capital program and reimburse agreement with long-term bonds in Spring of 2017
- In lieu of acceleration, upon an Event of Default, the term out provisions (including the three year repayment period) will apply

Short-term Liquidity Agreement: #22 ORD28297



	Key Bank Revolving Credit Facility
Commitment Amount	\$25,000,000 (up to \$50,000,000 as needed)
General Purpose	General Liquidity Facility
Term	3 years + Extensions as Negotiated
Upfront Fee	None
Unutilized Fee	40 bps Annually
Interest Rate	(1 Month LIBOR Index + 50 bps) (0.171 % + .50%) = 0.671%
Downgrade Pricing	None
Repayment	Anytime
Term Out Period and Rate	5 years at greater of Prime Rate or 1 month LIBOR plus 3.00%

- This agreement will help Tacoma Power maintain lower cash balances while meeting AA category rating agency metrics
- Only anticipated to use in emergency situations
- Earnings on cash balances in 2014 were less than 1%
- More cost effective than holding cash in current fund

Recommendations

- **Staff recommends approval/adoption of:**
 - **#16. Resolution No. 39170**
 - **#17. Resolution No. 39171**
 - **#20. Ordinance No. 28295**
 - **#21. Ordinance No. 28296**
 - **#22. Ordinance No. 28297**

