



TO: Jackie Flowers, Director of Utilities
COPY: Charleen Jacobs, Director and Board Offices
FROM: Chris Robinson, Tacoma Power Superintendent/COO
MEETING DATE: April 26, 2023
DATE: April 14, 2023

SUMMARY:

Tacoma Power requests approval by the Public Utility Board to amend the borrowing benchmark index and corresponding spread used for pricing the KeyBank Note Purchase Agreement.

The proposed Supplemental Ordinance and Resolution that amends the KeyBank Note Purchase Agreement has been drafted by Tacoma Power’s Bond Counsel, Pacifica Law LLC (Pacifica), in collaboration with Tacoma Power’s staff, attorney and Montague DeRose, and Associates (MDA), its Municipal Advisor.

STRATEGIC DIRECTIVE PRIORITY:

The strategic directive that best aligned to this action is “Financial Sustainability.”

The Note Purchase Agreement (NPA) with KeyBank provides general liquidity for any purpose deemed necessary. The liquidity agreement helps maintain financial flexibility and limit rate increases over the next biennium. It is viewed by two of the three rating agencies as enhanced liquidity to meet our Electric Rate and Financial Policy goal of maintaining financial metrics of an AA-level utility. Additionally, the agreement may be used to enable financial hedging and could be used for emergency purposes. Thus, the NPA is a low-cost option to achieve our financial metric targets and keep rates low.

BACKGROUND:

General Liquidity Note Purchase Agreement

In 2020, Tacoma Power entered the year with lower revenues, increased expenses, and a lower cash position from a near-critical water year in 2019. In addition, the COVID-19 pandemic was expected to create an economic downturn that would reduce Tacoma Power’s revenues and liquidity.

At the request of Tacoma Power, MDA solicited pricing from several banks for a new short-term agreement to meet liquidity financial metrics and assist with operational expenses. Tacoma Power entered in to a \$100 million bank NPA with KeyBank. On September 16, 2021, the KeyBank NPA was amended to not to exceed \$50 million and extended through December 1, 2024. In addition, the NPA was modified to give Tacoma Power the option to utilize the notional amount as a letter of credit, should Tacoma Power need to provide a



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guarantee of performance under a power contract in the Wholesale market, or for any other reason.

The KeyBank NPA utilizes the London Interbank Offered Rate (LIBOR), which is a borrowing benchmark used globally, to calculate interest rates paid on amounts borrowed in bank lending agreements. However, the LIBOR benchmark will discontinue pricing on June 30, 2023. Our Municipal Advisor has indicated that the financial market has settled on an alternative interest rate benchmark, the Secured Overnight Financing Rate (SOFR). KeyBank has agreed to an index based on one-month SOFR plus a spread that is the equivalent to the one-month LIBOR index pricing in the existing KeyBank NPA, without a change in other terms to the current agreement.

Tacoma Power seeks approval for the delegation of authority to the Director of Utilities and Power Superintendent to amend the borrowing benchmark index terms of the Electric System Subordinate Revenue Note with KeyBank within limits defined by the Subordinate Ordinance.



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PRELIMINARY TERMS:

Pricing for the \$50 million Note Purchase Agreement with KeyBank is as follows compared to the existing agreement:

	<u>Existing Agreement</u>	<u>Proposal</u>
Maturity:	December 1, 2024	same
Notional Amount:	\$50,000,000	same
Interest Benchmark:	LIBOR (London Interbank Offered Rate)	SOFR (Secured Overnight Financing Rate)
Utilized fee:	100% of one-month LIBOR + 0.50% on drawn amount	100% of one-month SOFR + 0.54% on drawn amount
Unutilized fee:	0.20% fee annually (approx. \$100,000 if not used)	same
Standby Letter of Credit Option	1.25% fee annually + \$200 issuance fee	same

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED?

Expenditures for external Financial Advisory services were included in the 2023/2024 budget (\$250,000). Expenditures for Bond Counsel, estimated at \$50,000, are not included in the 2023/2024 budget.

The estimated annual debt service cost of the current KeyBank NPA is \$100,000 (unutilized) and was included in the Tacoma Power 2023/2024 budget. The estimated costs for utilizing the KeyBank NPA as a letter of credit in 2024 would be a maximum of \$312,500 and are not included in the Tacoma Power 2023/2024 budget.

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

The expenses not budgeted will be covered by Tacoma Power’s revenues.

ATTACHMENTS: Ordinances and Resolutions

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