



KeyBank Subordinate Note Purchase Agreement Ordinance 28669

City of Tacoma | Tacoma Power

City Council Meeting
April 28, 2020
ITEM 14



OVERVIEW



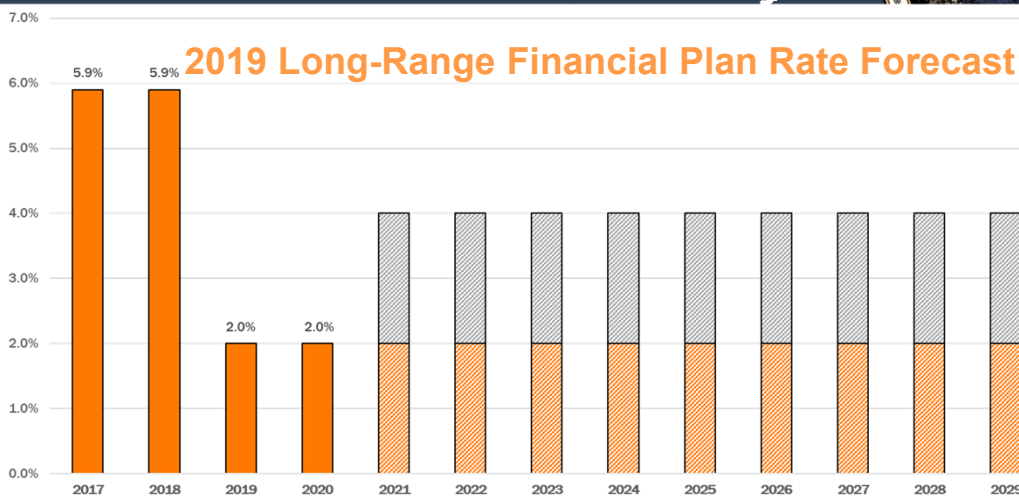
- Tacoma Power is requesting authorization to enter into a two-year \$100 million Subordinate Note Purchase Agreement (NPA) with KeyBank.
- This will provide additional liquidity and help the utility to keep rate increases as low as possible while continuing to meet AA- level financial metrics during the COVID-19 recession.

BACKGROUND



- Tacoma Power began 2020 with lower revenues, increased expenses, and a lower cash position resulting from a near-critical water year in 2019.
- The COVID-19 pandemic is further reducing Tacoma Power’s revenues and liquidity.
- We are requesting to supplement liquidity levels by reinstating a general liquidity agreement with KeyBank.
- The proposed Ordinance has been drafted by Tacoma Power’s Bond Counsel, Pacifica Law Group LLP (Pacifica) and Municipal Advisor, Montague DeRose and Associates (MDA), in collaboration with Tacoma Power staff, the City Treasurer, and the City Attorney.

Financial Sustainability



Retail Electric Usage is Down ≈ 7%

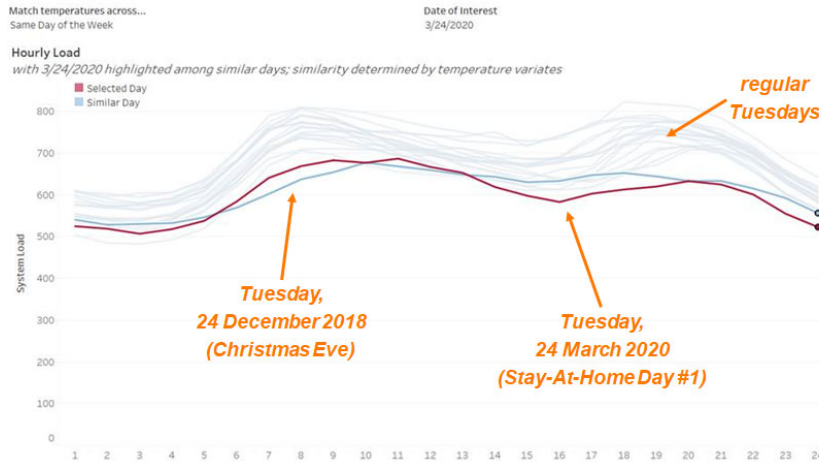


March 2020 & Future

Social Distancing

Weekday loads under social distancing are most similar to historical weekend and holiday loads.

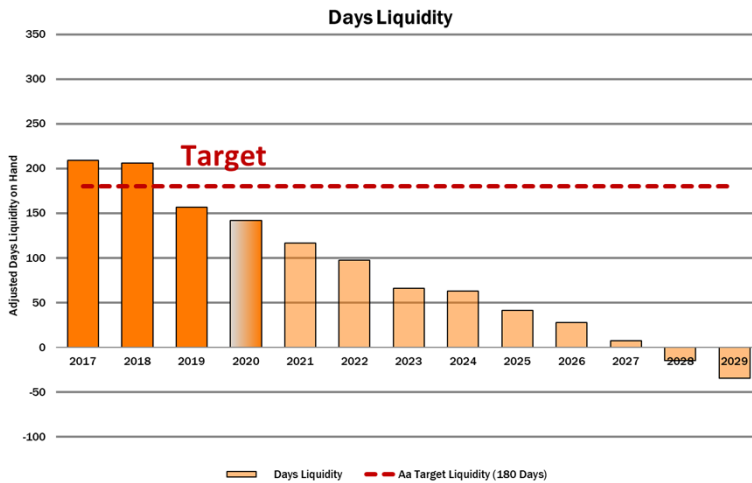
For every MWh of retail load decline, Tacoma Power loses \$30 to \$50.



Inadequate Cash Reserves



Moderate Recession



2% Rate Increase in All Years.
Cash declines to 142 days in 2020 and continues downward thereafter.

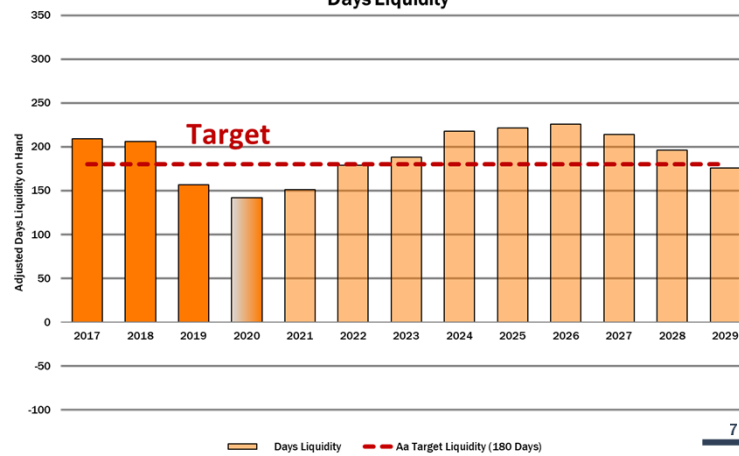
Inadequate Cash Reserves



Moderate Recession

Days Liquidity

**18% Rate Increase in 2021,
0% After.**
Cash declines to 142 days in
2020
and increases after rate
increase.



7

Mitigation Underway



Expense Reductions:

- Immediate hiring freeze
- Expense reductions
- Capital project reprioritization underway

Financial Options:

- KeyBank Note Purchase Agreement
- Increased bond financing

Rate Projections:

- Updating forecasts as new data becomes available to refine projections
- Delay revenue requirement determination in Fall
- Forego Cost Of Service Allocation for 2021/2022 rate process

8

● ● ● Subordinate Note Purchase Agreement



<i>Proposed Terms</i>	<i>KeyBank Subordinate NPA</i>
Commitment Amount	\$50,000,000 to \$100,000,000 is under consideration
General Purpose	General Liquidity Facility
Term	2 years + Extensions as Negotiated
Origination/Upfront Fee	30 bps if \$50mm (\$150,000), 25 bps if \$100mm (\$250,000)
Unutilized Fee	35 bps annually (\$175,000 up to \$350,000)
Interest Rate on Drawn Amount	1 Month LIBOR Index + 175 bps (0.98% + 1.75%) = 2.73%
LIBOR Floor	0.50%
Issuance Costs	\$132,000 (Bond Counsel, Bank Counsel, Municipal Advisor Fees)
Estimated Avg Annual All-In Costs	\$541,000 (unutilized) to 42.44 million (utilized, based on LIBOR floor)
Minimum Initial Draw	None

9

● ● ● Proposed Schedule



April 22, 2020 – Board Approval of Resolution U-11160

April 28, 2020 – City Council First Reading

May 5, 2020 – City Council Second Reading

May 20, 2020 – KeyBank NPA Closing Date

10

●●● RECOMMENDATIONS



Staff recommends the approval of Ordinance 28667



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