MONTAGUE DEROSE
AND ASSOCIATES, LLC

Memorandum

To: Tacoma Power

From: Montague DeRose and Associates

Date: March 10, 2015

Subject: Subordinate Lien Short-Term Funding Agreements provided by Wells Fargo and KeyBank

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Overview:

Tacoma Power (or the "Utility) plans to institute a short-term funding program that provides a cost efficient means of short-term borrowing and minimizes the cost associated with maintaining the short-term funding program. These short-term funding products will make up part of the Utility's 2015/2016 Financing Plan which also includes calling Tacoma Power's Series 2005B Electric System Revenue Bonds on July 1, 2015 with cash.

On October 21, 2014, Tacoma Power solicited proposals from qualified firms for such short-term funding products. The proposals were designed to encourage firms to provide responses that included a range of potential products such as a traditional Commercial Paper Program ("CP" Program), an Extendable Commercial Paper Program ("ECP" Program), alternative products and general liquidity facilities. Tacoma Power solicited proposals for 1) a General Purpose Revolving Loan/Liquidity Agreement for up to $50 million, or 2) a Direct funded Loan in an amount up to $100 million, or 3) a CP Program (with a $100 million Letter of Credit liquidity backstop), or 4) an ECP Program. After establishment of a subordinate lien ordinance – which is described later in the memo – the facilities will be finalized.

Tacoma Power received an outstanding response to its RFP, almost every participant in the municipal space that offers such products responded. Following a review and scoring process, Tacoma Power selected a $100 million revolving drawdown direct purchase product offered by Wells Fargo and KeyBank's $50 million general liquidity product to help achieve the Utility's financial goals. Summaries of these two products follow.

Wells Fargo $100 Million Revolving Drawdown Direct Purchase Facility:

This facility is a variable rate debt instrument, in the form of a direct purchase agreement that is structurally similar to issuing publicly offered variable rate demand obligations. This product is a bilateral loan agreement between Tacoma Power and Wells Fargo, wherein Wells Fargo will purchase and hold Tacoma Power notes.

This structure functions similarly to a commercial paper program or a LOC-backed VRDBs, and provides the benefit of eliminating market and counterparty risk during the term of the agreement. This product also eliminates the need to prepare annual disclosures and the need to obtain a separate credit rating. Additionally, the remarketing agent and issuing and paying agent fees associated with a LOC-backed CP program are eliminated.

The key terms and costs of the product are below:

- Facility Amount: up to $100,000,000
- Financing Documentation: Credit Agreement and Supplemental Indenture
- Term: 3 years
- Tax-exempt

- Drawn Rate: 70% of 1-Month LIBOR plus 35 basis points spread for 3-year term
- Undrawn Fee: 17.5 basis points

The facility will have covenants and representations that are typical for this type of bank agreement. These include reporting requirements, compliance with laws, maintaining security of the applicable lien, and rating requirements. The facility will also include customary events of default which are again typical of this type of bank agreement. Events of default include payment defaults, incorrect or untrue representations, default on the performance of covenants, bankruptcy, liquidation, debt moratorium, unenforceability of the agreement, cross default on debts in excess of $10 million, unpaid unstayed judgments of greater than $10 million, and the downgrade of senior lien debt below investment level.

KeyBank $50 Million General Liquidity Line of Credit

KeyBank proposed a $50 million revolving general liquidity line of credit that has similar terms to those proposed by the Wells Fargo facility. They key difference is in the purpose of the KeyBank facility, it is similar to a general purpose corporate revolver which Tacoma Power can use for any purposes it deems necessary. The facility is not expected to be drawn upon and will be used to supplement the Utility's liquidity. The facility's key terms and cost are below:

- Facility Amount: up to $50,000,000
- Financing Documentation: Bank Agreement and Supplemental Indenture
- Term: 3 years
- Taxable
- Drawn Rate: 1-Month LIBOR plus 55 basis points spread for 3-year term
- Undrawn Fee: 30 basis points

As noted, the KeyBank facility has covenants and representations similar to the Wells Fargo product and typical for agreements of this sort. These include reporting requirements, compliance with loan documents and bond ordinance and notice requirements, among others. The facility also includes certain customary events of default such as non-payment, cross default, default on the performance of covenants, bankruptcy, divestiture, reporting failure, and downgrade of parity obligations.

Documents and Timeline:

Tacoma Power has prepared a Supplemental Ordinance for issuing such products on a subordinate basis for approval by the Public Utility Board and the City Council. Furthermore, the Utility is updating its Financial Policy to support its financing plan and incorporate these new types of products into their policy. Updates to the Utility's Financial Policy include provisions for acquiring short-term and long-term debt for the purpose of financing capital projects and also incorporates standards of conduct, communications and disclosure.

Tacoma Power is presenting the two proposed bank agreements to the Public Utility Board for approval on March 25th and to the City Council for approval on April 7th. The Utility expects to close the bank facilities on April 15th, the same date upon which first funding under the bank facilities will become available.

If you have any questions, please feel free to contact Frank Perdue at (925) 256-9797 or Jim Bemis at (805) 496-2211.