



TO: Jackie Flowers, Director of Utilities
COPY: Charleen Jacobs, Director and Board Offices
FROM: Bill Berry, Rates, Planning, and Analysis Manager
MEETING DATE: October 9, 2019
DATE: September 27, 2019

SUMMARY:

Tacoma Power is requesting approval to: i) amend the existing Debt Service Reserve Requirement calculation by enacting a Springing Amendment provision associated with existing bonds, and ii) extend the existing Surety Policy with Assured Guaranty Municipal (AGM) in order to continue full funding of the Debt Service Reserve account.

Tacoma Power's 2019/2020 biennium financing plan involves three components that require approval by the Public Utility Board and the City Council, including:

1. Authorization to amend and extend Tacoma Power's Note Purchase Agreement (NPA) with Wells Fargo to provide interim financing for capital projects in Tacoma Power's approved capital budget;
2. Enact a **Springing Amendment to include the interest subsidy payments received from the Federal Government for the outstanding 2010B and 2010C Bonds in the Debt Service Reserve Requirement calculation; and**
3. **Authorization to extend Tacoma Power's Reserve Surety Policy with Assured Guaranty Municipal (AGM) to continue full funding of the Debt Service Reserve account.**

The proposed Ordinance and Resolution that amend the Debt Service Reserve Requirement calculation and extend the Surety Policy with AGM have been drafted by Tacoma Power's Bond Counsel, Pacifica Law LLC (Pacifica), and Financial Advisor, Montague DeRose and Associates (MDA), in collaboration with Tacoma Power staff, the City Treasurer, and the City Attorney.

This memo is specifically addressing the second and third components of the 2019/2020 Financing Plan.

BACKGROUND:

2. Springing Amendment:

Tacoma Power has four series of senior lien bonds outstanding that require funds to be set aside in a Debt Service Reserve account:

- Series 2010B (Build America Bonds, "BABs"),
- Series 2010C (Clean Renewable Energy Bonds, "CREBs"),
- Series 2013A, and
- Series 2013B.

Currently, the Reserve Account Requirement for these Bonds is calculated as the lesser of:

- 125% of the Average Annual Debt Service, or



- the Maximum Annual Debt Service.

Tacoma Power receives an annual interest subsidy payment of approximately \$3.825 million from the Federal Government for issuing BABs and CREBs in 2010. This subsidy payment is not included in the Reserve Account Requirement calculation terms above, resulting in a larger Debt Service Reserve Requirement amount. However, the City has received the consent of the requisite amount of owners of the Outstanding Bonds as defined in the Outstanding Bond Ordinances, to amend the calculation of the Reserve Account Requirement to include the deduction of the direct payments of interest the City expects to receive from the Federal Government in relation to the 2010 Bonds. This calculation change would result in a 2020 Reserve Requirement of \$21.5 million, whereas the current 2020 requirement is \$23.2 million.

In order for the amendment to go into effect, Pacifica has indicated that approval of a Resolution and Ordinance are required by Board and Council, respectively, to formally amend the Reserve Account Requirement.

3. Surety Policy:

Under the terms of the Bond Ordinance, Tacoma Power is required to have sufficient funds deposited in the common Reserve Account to meet the Reserve Account Requirement with respect to Bonds secured under the common Reserve Account. As of August 1, 2019, Tacoma Power has four series secured by the common Reserve Account:

- Series 2010B (Build America Bonds, "BABs"),
- Series 2010C (Clean Renewable Energy Bonds, "CREBs"),
- Series 2013A, and
- Series 2013B.

The Series 2017 Bonds are not secured by the Common Reserve Account and do not have a Reserve Account Requirement. Staff expects to issue future bonds without a reserve requirement.

The current Reserve Account Requirement is met by a combination of

- 1) cash deposits in the amount of approximately \$5 million and
- 2) a Bond Surety Reserve Policy (Surety Policy) not to exceed \$24,279,910, with a termination date of January 1, 2020.

On the January 1, 2020, expiration date of the Surety Policy, the Reserve Account Requirement for all Bonds secured by the common Reserve Account will be \$21.5 million, assuming the Springing Amendment described previously in number two above, is enacted. With only \$5 million in cash in the Reserve Account, Tacoma Power would need to deposit an additional \$16.5 million in cash. In lieu of making a \$16.5 million cash deposit, Tacoma Power recommends extending the existing Reserve Surety Policy as follows:

Maturity: the earlier of January 1, 2042, or the date the insured Bonds are no longer outstanding

Bonds Insured: Tacoma Power 2010B (BABs), 2010C (CREBs), 2013A, 2013B



Board Action Memorandum

Policy Amount: up to \$24,279,910

Extension fee: 3.25%

Projected All-In Cost: \$790,000

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED?

The estimated cost of the Surety Policy extension is \$790,000 and was not included in the Tacoma Power 2019/2020 budget.

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

Tacoma Power plans to pay for the Surety Policy extension from the Current Fund account 4700. However, if the \$16.5 million Debt Service Reserve deficit is required to be funded from cash, a budget modification may be necessary.

ATTACHMENTS: Ordinances and Resolutions

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