



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 authorization to extend for one year and increase the principal amount from \$100 million to \$150 million of the Note Purchase Agreement (NPA) with Wells Fargo to continue interim financing of Tacoma Power's capital projects until issuing Bonds in 2021.

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.

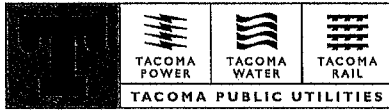
These components were presented to the Public Utility Board at the August 14, 2019, Study Session and to the GPFC at the August 20, 2019, Study Session. The proposed Ordinance and Resolution that amend and extend Tacoma Power's NPA have been drafted by Tacoma Power's Bond Counsel Pacifica Law LLC (Pacifica) 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 first component of the 2019/2020 Financing Plan.

BACKGROUND:

1. Note Purchase Agreement:

In October 2014, Tacoma Power solicited proposals from qualified firms for short-term funding products and reviewed responses from eleven financial firms. From that pool of respondents, Wells Fargo offered the lowest cost and most flexible option for interim financing. On May 1, 2015, Tacoma Power executed the NPA with Wells Fargo Bank providing a commitment for a revolving line of credit of not to exceed \$100 million for three years. In connection with the execution of the NPA with Wells Fargo, the City issued its Electric System Subordinate Revenue Note, Series 2015A to evidence the line of credit.



Board Action Memorandum

Tacoma Power has successfully used the Wells Fargo NPA to interim finance approximately \$155 million of capital project expenses. Tacoma Power issued the Series 2017 Electric System Revenue Bonds to repay \$80 million borrowed under the Wells Fargo NPA for the 2015/2016 biennium. Implementation of this agreement allowed for a more cost effective and efficient management of capital construction compared to issuing long-term bonds as Tacoma Power could more closely match its draws on the Wells Fargo agreement with the amount and timing of its capital projects.

The Note Purchase Agreement with Wells Fargo Bank was extended on May 8, 2018, is set to terminate on August 8, 2020, and has a current amount of \$55,250,000 drawn on the NPA. Tacoma Power and Financial Advisor, MDA, perceive the following benefits from a final one-year extension of the Wells Fargo agreement into 2021:

- Tacoma Power expects to draw up to \$150 million on the NPA by mid-2021. Extending the NPA with Wells Fargo for an additional year will allow us to use interim financing to complete our 2019/2020 capital spending plan, and a portion of our 2021/2022 plan, until the time we issue bonds in 2021.
- While the Wells Fargo NPA will not terminate until August 8, 2020, this expiration will occur during our rate and budget processes when staff resources will be constrained.
- The London Interbank Offered Rate (LIBOR), which is a borrowing benchmark used globally, will phase out at the end of 2021. This benchmark is commonly used to calculate interest rates paid on amounts borrowed in bank lending agreements. The market has not settled on an alternative benchmark, so the pricing of other potential benchmarks is uncertain. Our Financial Advisor has indicated that a replacement benchmark should be in place by the end of this agreement extension.

In response to our inquiry, Wells Fargo has proposed an extension with an expiration date before LIBOR is completely phased out, as well as an increase in the principal amount to \$150 million, with improved (lower) fees compared to what we currently are paying on our existing agreement.

PRELIMINARY TERMS:

Updated pricing in conjunction with an extension and increased principal of the current agreement with Wells Fargo is as follows:

Maturity: Term extension effective December 1, 2019, expiring on December 1, 2021

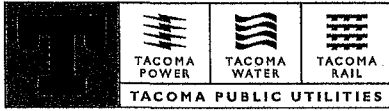
Notional Amount: \$150,000,000

Interest Benchmark: LIBOR

Utilized fee: 80% of one month LIBOR + 35 basis points on drawn amount

Unutilized fee: 17 basis points fee on unused amount

Projected All-In Cost: \$1.6 million



Board Action Memorandum

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? Yes

Estimated cost of the Wells Fargo NPA for the biennium is \$1.6 million and was included in the Tacoma Power 2019/2020 budget.

ATTACHMENTS: Ordinance and Resolution

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