



TO: Mayor and City Council
FROM: William A. Gaines, Director of Utilities / CEO
COPY: Elizabeth Pauli, City Manager
SUBJECT: Resolution/Ordinance – Authorize Bond Ordinance for Electric System Revenue Bonds, Series 2017, in an amount not to exceed \$90,000,000 – July 25, 2017
DATE: July 5, 2017

SUMMARY:

Tacoma Power recommends approval and authorization of the Bond Ordinance for new Electric System Revenue Bonds, Series 2017, in an amount not to exceed \$90,000,000. These Bonds would be issued under the delegated authority of the Director of Utilities and the Power Superintendent. The purpose of the new issuance is to repay the Wells Fargo Drawdown Facility used to fund capital projects included in the adopted 2015/2016 and 2017/2018 capital budgets.

STRATEGIC POLICY PRIORITY:

The strategic policy priority is best aligned to this action is to “Encourage and promote an efficient and effective government, which is fiscally sustainable and guided by engaged residents.” Issuing new Electric System Revenue Bonds allows Tacoma Power to take advantage of the current low interest rate environment while aligning the cost of long-lived capital projects with future debt service payments. Proceeds will reimburse both 2015/2016 capital expenditures funded with the Wells Fargo Agreement and 2017/2018 capital expenditures.

BACKGROUND:

Tacoma Power regularly issues bonds to finance construction and renovation on long-lived capital assets. Debt financing such assets is an equitable practice because it transfers the cost of long-lived assets to future ratepayers who are the beneficiaries of those assets.

In 2015, Tacoma Power executed a \$100 million interim funding agreement with Wells Fargo (Wells Fargo Agreement) to fund capital improvements. The Wells Fargo Agreement allows Tacoma Power to fund capital improvements during the biennium, utilizing variable interest rates. As of December 31, 2016, Tacoma Power has funded \$80,250,000 in capital expenditures with the agreement.

ISSUE:

Working with Tacoma Power’s financial advisor, Montague DeRose & Associates, the utility completed an RFP to select an underwriter for this transaction. Goldman, Sachs & Company and Citigroup Global Markets were selected as Senior Manager and Co-Manager, respectively. The utility has worked with Montague DeRose and these firms to compare numerous alternatives and develop a plan of finance to optimize the timing, structure, planned use of proceeds, and cash defeasances in relation to the utility’s future debt structure.

Tax-exempt municipal market rates remain near historic lows and Tacoma Power plans to issue up to \$90 million in new Electric System Revenue Bonds in August 2017. The utility plans to structure the new money Bonds to mature between 2022 and 2047. This allows the utility to take advantage of the current low interest rate environment while aligning the cost of long-lived capital projects with future debt service payments. Proceeds will reimburse both 2015/2016 capital expenditures funded with the Wells Fargo Agreement and 2017/2018 capital expenditures.



Lastly, Tacoma Power plans to use cash to defease up to \$28 million of outstanding 2013A debt payments to levelize future debt service payments. The proposed plan of finance will help Tacoma Power maintain stable rates.

In order to conduct this bond sale in the most efficient manner, Tacoma Power also seeks approval for the delegation of authority to the Director of Utilities and Power Superintendent to conduct this sale within limits defined by the Bond Ordinance

ALTERNATIVES:

Tacoma Power considered many alternatives to the proposed action and if the requested ordinances are not approved, an alternative will be brought forward for consideration. Some of the alternatives that were considered were what the appropriate size and timing of the 2017 Bond Issuance should be. We also considered the appropriate amount to defease from future Bond principal payments in order to levelize future debt service payments.

If Tacoma Power did not issue new Electric System Revenue Bonds to pay for capital improvements, Tacoma Power would need to increase near-term rate increase projections to pay for these costs from rate revenues collected in the next biennium.

RECOMMENDATION:

Tacoma Power recommends the City Council approve the issuance of up to \$90 million of new Electric System Revenue Bond proceeds under the delegated authority of the Director of Utilities and the Power Superintendent.

FISCAL IMPACT:

Tacoma Power will pay for issuance costs from the proceeds of the new Electric System Revenue Bonds being issued. This action is expected to have a positive impact on future rate increase projections.



EXPENDITURES:

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
Tacoma Power 2015 Bond Construction Fund	TBD	TBD	Not to exceed \$90 million
TOTAL			

* General Fund: Include Department

REVENUES:

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
Tacoma Power 2015 Bond Construction Fund	TBD	TBD	Not to exceed \$90 million
TOTAL			

POTENTIAL POSITION IMPACT:

POSITION TITLE	PERMANENT/ PROJECT TEMPORARY POSITION	FTE IMPACT	POSITION END DATE
TOTAL			

This section should only be completed if a subsequent request will be made to increase or decrease the current position count.

FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: Bond Proceeds will be used to fund Capital Projects approved in the 2015/2016 and 2017/2018 capital budget after paying for issuance costs. The exact amount will be determined after the issuance.

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? Yes