



DATE: June 30, 2017

TO: William A. Gaines, Director of Utilities/CEO

FROM: Chris Robinson, Superintendent/COO *CR*

SUBJECT: Electric System Revenue Bonds, Series 2017

Tacoma Power recommends the Public Utility Board approve the Resolution for the issuance of up to \$90 million of new Electric System Revenue Bonds (Series 2017) 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.

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.

2017 PLAN OF FINANCE:

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.

RECOMMENDATION:

Tacoma Power recommends the Public Utility Board approve the Resolution for the issuance of up to \$90 million of new Electric System Revenue Bond proceeds and defeasance of up to \$28 million in future debt service payments under the delegated authority of the Director of Utilities and the Power Superintendent.

APPROVED:



William A. Gaines
Director of Utilities/CEO