



TO: Elizabeth Pauli, City Manager
FROM: Jackie Flowers, Director, Tacoma Public Utilities;
Chris Robinson, Superintendent, Tacoma Power
COPY: Government Performance and Finance Committee (GPFC);
Andy Cherullo, Director, Finance;
Joe Franco, Senior Management Fellow, City Manager’s Office
PRESENTER: Michelle Brown, Lead Financial Planner, Tacoma Power

SUBJECT: Tacoma Power KeyBank Amendment
DATE: April 18, 2023

PRESENTATION TYPE: Request for Ordinance

SUMMARY:

Tacoma Power requests approval by the City Council to amend the borrowing benchmark index and spread used for pricing the KeyBank Note Purchase Agreement (NPA). The borrowing index of the NPA is the London Interbank Offered Rate (LIBOR), which will discontinue pricing on June 30, 2023. An alternative benchmark, the Secured Overnight Financing Rate (SOFR), is now commonly used as a replacement benchmark. KeyBank has agreed to equivalent pricing terms using SOFR to replace the LIBOR index in this NPA.

BACKGROUND:

In response to the uncertain financial impacts of the pandemic, in 2020 Tacoma Power entered into a \$100 million bank NPA with KeyBank to supplement liquidity. Tacoma Power’s liquidity remained stable, with an above-average water-year offsetting the impacts of the pandemic, and the utility requested to reduce the commitment size of the NPA. On September 16, 2021, the KeyBank NPA was amended to not to exceed \$50 million and extended through December 1, 2024. In addition, the NPA was modified to give Tacoma Power the option to utilize the notional amount as a letter of credit, should Tacoma Power need to provide a guarantee of performance under a power contract in the Wholesale market, or for any other reason.

ISSUE:

Tacoma Power’s KeyBank NPA utilizes the LIBOR, which is a borrowing benchmark used globally, to calculate interest rates paid on amounts borrowed in bank lending agreements. The LIBOR benchmark will discontinue pricing on June 30, 2023. The financial market has settled on an alternative benchmark, the SOFR. Tacoma Power seeks approval to amend the KeyBank NPA borrowing benchmark to the one-month SOFR and a mutually agreed upon pricing spread that is the equivalent to the current LIBOR index and pricing terms in the NPA. All other terms of the KeyBank NPA will remain unchanged. While Tacoma Power does not anticipate the need to borrow against this NPA, Tacoma Power may need to utilize the notional amount as a letter of credit, for collateral purposes, to enable financial hedging in the Wholesale market before the December 1, 2024 expiration of the NPA.



ALTERNATIVES:

The alternative solution would still involve an amendment to the KeyBank NPA. Tacoma Power could amend the expiration date from December 1, 2024 to June 29, 2023 so that the NPA expires before the discontinuation of the LIBOR benchmark.

However, Tacoma Power may need to utilize this NPA as a letter of credit to enable financial hedging in the future. The liquidity agreement also is viewed by two of the three rating agencies as enhanced liquidity to meet our Electric Rate and Financial Policy goal of maintaining financial metrics of an AA-level utility. Thus, the NPA is a low-cost option to achieve our financial metric targets and maintain financial flexibility.

FISCAL IMPACT:

Expenditures for external Financial Advisory services were included in the 2023/2024 budget (\$250,000). Expenditures for Bond Counsel, estimated at \$50,000, are not included in the 2023/2024 budget. The estimated annual debt service cost of the current KeyBank NPA is \$100,000 (unutilized) and was included in the Tacoma Power 2023/2024 budget. The estimated cost for utilizing the KeyBank NPA as a letter of credit in 2024 would be a maximum of \$312,500 and is not included in the Tacoma Power 2023/2024 budget.

RECOMMENDATION:

Tacoma Power recommends approval by the City Council to amend the borrowing benchmark index and spread used for pricing the KeyBank NPA from LIBOR to SOFR with the following preliminary terms:

	<u>Existing Agreement</u>	<u>Proposal</u>
Maturity:	December 1, 2024	same
Notional Amount:	\$50,000,000	same
Interest Benchmark:	LIBOR (London Interbank Offered Rate)	SOFR (Secured Overnight Financing Rate)
Utilized fee:	100% of one-month LIBOR + 0.50% on drawn amount	100% of one-month SOFR + 0.54% on drawn amount
Unutilized fee:	0.20% fee annually (approx. \$100,000 if not used)	same
Standby Letter of Credit Option	1.25% fee annually + \$200 issuance fee	same