



TO: Jackie Flowers, Director of Utilities
COPY: Charleen Jacobs, Director and Board Offices
FROM: Bill Berry, Rates, Planning, and Analysis Manager
MEETING DATE: July 14, 2021
DATE: July 1, 2021

SUMMARY:

Tacoma Power’s 2021 financing plan involves three components requiring approval by the Public Utility Board and the City Council.

This Board Action Memo addresses the authorization to amend and extend Tacoma Power’s 2020 Note Purchase Agreement (2020 NPA) with KeyBank to reduce general liquidity and costs.

The proposed Supplemental Ordinance and Resolution that amends and extends the KeyBank 2020 NPA has been drafted by Tacoma Power’s Bond Counsel, Pacifica Law Group LLP (Pacifica), in collaboration with Tacoma Power’s Financial Advisor, Montague DeRose, and Associates (MDA), Tacoma Power staff and attorney, and the City Assistant Finance Director.

STRATEGIC POLICY PRIORITY:

The strategic policy priority best aligned to this action is to “Strengthen and maintain a strong fiscal management position.”

The 2020 NPA with KeyBank provides general liquidity for any purpose deemed necessary. Amending and extending the liquidity agreement will help maintain financial flexibility with the aim to limit rate increases over the next biennium. It 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. Additionally, utilization of the agreement would only be for emergency purposes, and thus the 2020 NPA is a low-cost option to achieve those metrics and keep rates low.

BACKGROUND:

General Liquidity 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 and KeyBank offered the lowest cost and most flexible options for interim capital financing and general liquidity financing, respectively.

On May 1, 2015, Tacoma Power executed a Note Purchase Agreement (2015 NPA) with KeyBank providing a three-year commitment for a revolving line of credit for \$25 million,



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with the option to increase the amount to \$50 million. In connection with the execution of the 2015 NPA with KeyBank, the City issued its Electric System Subordinate Revenue Note, Series 2015B to evidence the line of credit. However, Tacoma Power did not need to use the agreement to improve liquidity financial metrics or finance operations and let the agreement lapse in May 2018.

In 2020, Tacoma Power entered the year with lower revenues, increased expenses, and a lower cash position from a near-critical water year in 2019. In addition, the COVID-19 pandemic was expected to create an economic downturn that would reduce Tacoma Power's revenues and liquidity.

At the request of Tacoma Power, MDA solicited pricing from several banks for a new short-term agreement to meet liquidity financial metrics and assist with operational expenses. MDA determined that a new KeyBank agreement allowed for the more cost effective and efficient management of liquidity needs after evaluating numerous financing options. In 2020, Tacoma Power entered into the \$100 million 2020 NPA with KeyBank to evidence a revolving line of credit and issued the related subordinate lien revenue note to supplement liquidity with pricing that reflected the uncertainty of the market during the pandemic.

Tacoma Power's liquidity remained stable in 2020, with an above-average water-year offsetting the impacts of the pandemic, and the utility forecasts that it will not need the full \$100 million of additional liquidity over the next few years. At the request of Tacoma Power, MDA requested pricing from KeyBank for a reduced available amount and an extension in the maturity terms.

Tacoma Power seeks approval for the delegation of authority to the Director of Utilities and Power Superintendent, or their designees, to amend the 2020 NPA with KeyBank and the related Electric System Subordinate Revenue Note providing a commitment for a revolving line of credit of not to exceed \$50 million for three years within limits defined by the Subordinate Ordinance.

In addition, the amendment gives 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.



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PRELIMINARY TERMS:

Pricing for a three-year, \$50 million Note Purchase Agreement with KeyBank is as follows compared to the existing agreement:

	<u>Existing Agreement</u>	<u>Proposal</u>
Maturity:	May 2022	December 2024
Notional Amount:	\$100,000,000	\$50,000,000
Interest Benchmark:	LIBOR with language for a replacement benchmark	LIBOR with language for a replacement benchmark
Origination fee:	0.25% one-time fee (\$250,000)	0%
Utilized fee:	100% of one month LIBOR, with minimum LIBOR rate of 0.50%, + 1.75% on drawn amount	100% of one month LIBOR + 0.50% on drawn amount
Unutilized fee:	0.35% fee annually (\$350,000)	0.20% fee annually (\$100,000 if not used)
Standby Letter of Credit Option	Not part of original agreement	1.25% fee annually + \$200 issuance fee
Issuance Cost:	\$132,000 (Bond Counsel, Bank Counsel, Municipal Advisor fees)	\$100,000 (Bond Counsel, Bank Counsel, Municipal Advisor fees)
Est. Annual All-In Cost:	\$541,000 (unutilized) to \$2.44 million (fully utilized)	\$135,000 (unutilized) to \$330,000 (fully utilized)

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED?

Biennial expenditures for Bond Counsel and external Financial Advisory services were included in the 2021/2022 budget up to \$325,000.

The estimated annual debt service cost of the current KeyBank NPA is \$350,000 (unutilized) and was included in the Tacoma Power 2021/2022 budget.

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

N/A

ATTACHMENTS: Ordinances and Resolutions

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