

# Tacoma Power 2015/2016 Financing Plan

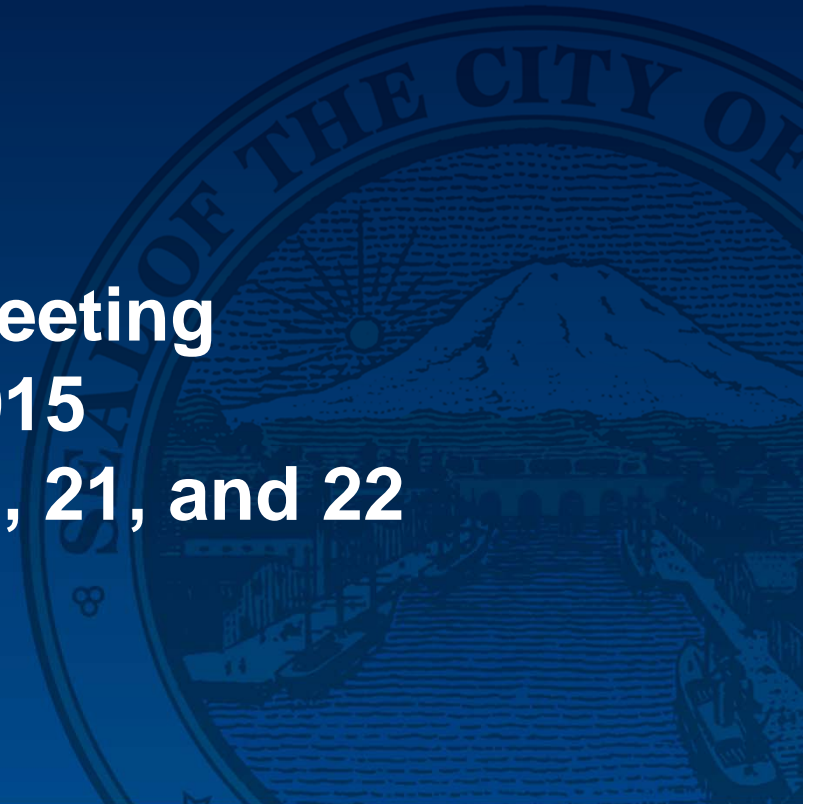
City of Tacoma

Tacoma Power – Rates, Planning, & Analysis

**City Council Meeting**

**April 14, 2015**

**ITEM #'s 16, 17, 20, 21, and 22**



## Overview

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- Tacoma Power will use \$110 million in cash, plus \$12 million in excess bond reserves, to call \$122 million 2005B Bonds on July 1, 2015 (#16)
- Make supporting changes to Electric Rates & Financial Policy (#17)
- Implement a short-term draw down facility with Wells Fargo to fund capital projects approved for 2015/2016 biennium (#20 & #21)
- Implement a short-term liquidity agreement with Key Bank to support financial metrics (#20 & #22)

## Benefits

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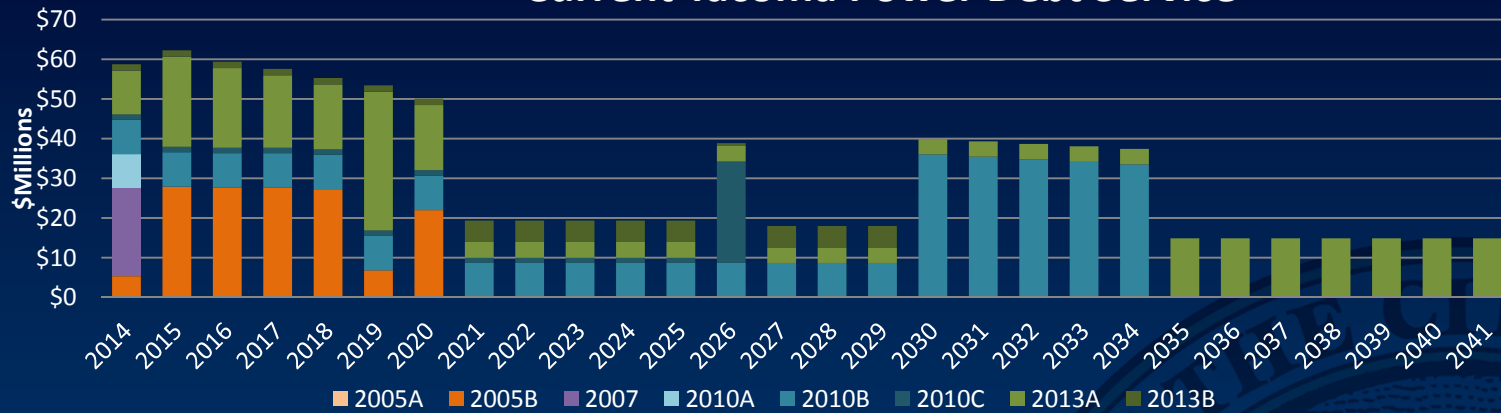
- 41% Reduction in Debt Service for next six years, averaging \$23 million per year
- 24% overall debt service reduction
- Lower rate increases for next six years
- Implementation of Financial Plan
- Better alignment of financial metrics
- Preserve financial flexibility
- Defer long-term bond issue until 2017 saving \$6.5 million
- Reduce negative arbitrage
- Match financing of capital projects with expenditures
- Reduction in cash liquidity
- Help meet rating agency AA metrics

## Proposed Financial Policy revisions #17 RES39171

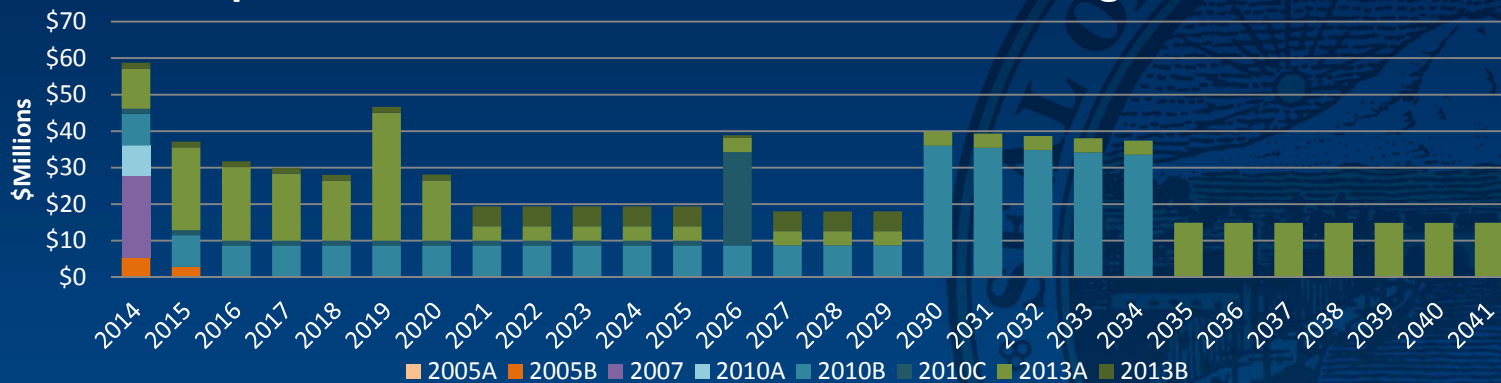
- Financial policy updates to support financing plan
  - Incorporation of principle to support financial strength of utility
  - Forecast cash balances will be set to maintain a minimum of 90 days and sufficient liquidity to support operational objectives
  - Provisions for acquiring short-term and long-term debt for purpose of financing of capital projects
  - Standards of conduct, communications, and disclosure
- More defined management of Rate Stabilization Fund (RSF):
  - Target Size
  - Guidance for Utilization and Replenishment After Use
  - \$48 million RSF balance is currently sufficient

# Calling 2005B Bonds with cash results in lower rate increases for next six years: #16 RES39170

## Current Tacoma Power Debt Service



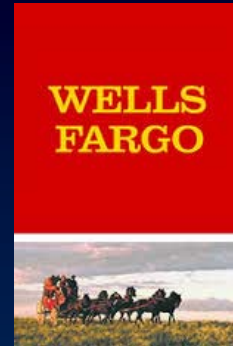
## Proposed Tacoma Power Debt Service Following Call of 2005B Bonds



# Interim Financing for Capital: #21 ORD28296

## Wells Fargo Drawdown Direct Purchase Agreement

<b>Commitment Amount</b>	\$100,000,000
<b>General Purpose</b>	Interim Financing of Capital Projects
<b>Term</b>	3 years + Extensions as Negotiated
<b>Upfront Fee</b>	None
<b>Undrawn Fee</b>	0.175%
<b>Interest Rate</b>	70% of 1 Month LIBOR Index + 35 bps $((70\% * 0.171\%) + .35\% = 0.4697\%)$
<b>Downgrade Pricing</b>	+5 bps on unutilized and utilized fee per downgrade below current ratings
<b>Repayment</b>	Anytime
<b>Minimum Draw Amount</b>	\$5,000,000
<b>Term Out Period and Rate</b>	3 years: for the first 180 days, the Base Rate (greatest of (i) the Prime Rate plus 1.00%, (ii) the Federal Funds Rate plus 2.00%, and (iii) 7.00%), and for days 181+, the Base Rate plus 1.00%



- Estimated interest expense savings of \$6.5 million in delaying long-term bond issue
- Plan to fund 2015/2016 capital program and reimburse agreement with long-term bonds in Spring of 2017
- In lieu of acceleration, upon an Event of Default, the term out provisions (including the three year repayment period) will apply



# Short-term Liquidity Agreement: #22 ORD28297



	Key Bank Revolving Credit Facility
<b>Commitment Amount</b>	\$25,000,000 (up to \$50,000,000 as needed)
<b>General Purpose</b>	General Liquidity Facility
<b>Term</b>	3 years + Extensions as Negotiated
<b>Upfront Fee</b>	None
<b>Unutilized Fee</b>	40 bps Annually
<b>Interest Rate</b>	(1 Month LIBOR Index + 50 bps) (0.171 % + .50%) = 0.671%
<b>Downgrade Pricing</b>	None
<b>Repayment</b>	Anytime
<b>Term Out Period and Rate</b>	5 years at greater of Prime Rate or 1 month LIBOR plus 3.00%

- This agreement will help Tacoma Power maintain lower cash balances while meeting AA category rating agency metrics
- Only anticipated to use in emergency situations
- Earnings on cash balances in 2014 were less than 1%
- More cost effective than holding cash in current fund

# Recommendations

- **Staff recommends approval/adoption of:**
  - **#16. Resolution No. 39170**
  - **#17. Resolution No. 39171**
  - **#20. Ordinance No. 28295**
  - **#21. Ordinance No. 28296**
  - **#22. Ordinance No. 28297**

