



TO: Mayor and City Council
FROM: Jackie Flowers, Director of Utilities
COPY: Elizabeth Pauli, City Manager and Doris Sorum, City Clerk
SUBJECT: Tacoma Power KeyBank Note Purchase Agreement
DATE: April 22, 2020

SUMMARY:

Tacoma Power is requesting authorization to enter into a **two-year Note Purchase Agreement (NPA) with KeyBank National Association (KeyBank) with a principal amount of up to \$100 million** to provide general liquidity for Tacoma Power. This will be presented to the Public Utility Board at the April 22, 2020, Study Session. The proposed Ordinance and Resolution has been drafted by Tacoma Power’s Bond Counsel, Pacifica Law Group LLP (Pacifica) and Municipal Advisor, Montague DeRose and Associates (MDA), in collaboration with Tacoma Power staff, the City Treasurer, and the City Attorney.

STRATEGIC POLICY PRIORITY:

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

The Note Purchase Agreement with KeyBank provides general liquidity for any purpose deemed necessary. Entering into the liquidity agreement will help maintain financial flexibility and 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 NPA is a low cost options to achieve those metrics and keep rates low.

BACKGROUND:

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 option for interim capital financing and general liquidity financing, respectively.

On May 1, 2015, Tacoma Power executed the NPA with KeyBank providing a commitment for a revolving line of credit for \$25 million, with the option to increase the amount to \$50 million, for three years. In connection with the execution of the 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.

Tacoma Power is beginning 2020 with lower revenues, increased expenses, and a lower cash position from a near-critical water year in 2019. In addition, the COVID-19 pandemic will result in an economic downturn, which is expected to reduce Tacoma Power’s revenues and liquidity.



At the request of Tacoma Power, their municipal advisor, Montague DeRose LLC (MDA), recently 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 allows for the more cost effective and efficient management of liquidity needs after evaluating numerous financing options.

ISSUES:

Tacoma Power and MDA note the following considerations concerning a two-year agreement with KeyBank, with a possible extension for another year:

- The KeyBank NPA will supplement Tacoma Power's liquidity in order to meet financial metrics of an AA level utility, consistent with the goals of the Tacoma Power Electric Rates and Financial Policy. While we anticipate that this agreement will only be used to supplement liquidity or in an emergency situation, the facility can be utilized for any purpose deemed necessary.
- Tacoma Power does not expect to draw on the NPA. The unutilized fee is 35 basis points, or \$350,000 annually for a \$100 million bank line.
- The London Interbank Offered Rate (LIBOR), which is a borrowing benchmark used globally, will phase out at the end of 2021. This benchmark is commonly used to calculate interest rates paid on amounts borrowed in bank lending agreements. The market has not settled on an alternative benchmark, so the pricing of another potential benchmark, will be part of the negotiation process.

PRELIMINARY TERMS:

Pricing under consideration with KeyBank is as follows:

Maturity: 2 years with extension as negotiated

Notional Amount: Up to \$100,000,000

Interest Benchmark: LIBOR transitioning in December 2021 to a replacement*

Origination Fee: 25 basis points (\$250,000)

Utilized fee: One month LIBOR + 175 basis points on drawn amount

Unutilized fee: 35 basis points annually (\$350,000) on unused amount

LIBOR Floor: 50 basis points

Issuance Costs: \$132,000 (Bond Counsel, Bank Counsel, Municipal Advisor fees)

Annual Facility Cost (including the Origination Fee): \$475,000 (unutilized) to \$2.375 million (utilized, based on LIBOR floor of 50 basis points)

Estimated Average Annual All-In Cost: \$541,000 (unutilized) to \$2.44 million (utilized, based on LIBOR floor of 50 basis points)

* as negotiated



ALTERNATIVES:

Given the state of the financial markets and the COVID-19 induced recession, there is no assurance that an alternative will be available, nor what the costs might be. If Tacoma Power does not enter into a Note Purchase agreement with KeyBank, alternatives may be brought back to the City Council for consideration. Some alternatives might be:

- Tacoma Power could issue a two-year put bond over the next few months at a higher all-in rate compared to the unutilized KeyBank proposed rate.
- Tacoma Power could solicit alternative proposals and negotiate a new floating rate note for approval by the City Council in the immediate future. Tacoma Power would likely pay a higher all-in rate for this alternative financing.

RECOMMENDATION:

Tacoma Power recommends approval to enter into a general liquidity agreement with KeyBank for up to \$100 million to improve financial flexibility and enhance liquidity metrics, with their favorable pricing compared to other liquidity options and proposals.

FISCAL IMPACT TO THE CURRENT BIENNIUM: None

The estimated unutilized average annual all-in cost of the KeyBank NPA is \$541,000 and was not included in the Tacoma Power 2019/2020 budget.

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? No.