



TO: Mayor and City Council
FROM: Jackie Flowers, Director of Utilities
COPY: Elizabeth Pauli, City Manager and Doris Sorum, City Clerk
SUBJECT: Tacoma Power Springing Amendment –
October 15, 2019
DATE: September 27, 2019

SUMMARY:

Tacoma Power is requesting authorization to enact a Springing Amendment that would apply the Federal Government interest subsidy payments from the 2010B and 2010C Bonds to our Debt Service Reserve Requirement calculation.

Tacoma Power's 2019/2020 biennium Financing Plan involves three components that require approval by the Public Utility Board and the City Council, including:

1. Authorization to amend and extend Tacoma Power's Note Purchase Agreement (NPA) with Wells Fargo to provide interim financing for capital projects in Tacoma Power's approved capital budget;
2. **Enact a Springing Amendment to include the interest subsidy payments received from the Federal Government for the outstanding 2010B and 2010C Bonds in the Debt Service Reserve Requirement calculation; and**
3. Authorization to extend Tacoma Power's Reserve Surety Policy with Assured Guaranty Municipal (AGM) to continue full funding of the Debt Service Reserve account.

These components were presented to the Public Utility Board at the August 14, 2019, Study Session and to the Government Performance Finance Committee (GPFC) at the August 20, 2019, Study Session. The proposed Ordinance and Resolution that amend the Debt Service Reserve Requirement were drafted by Tacoma Power's Bond Counsel, Pacifica Law LLC (Pacifica) and Financial Advisor, Montague DeRose and Associates (MDA), in collaboration with Tacoma Power staff, the City Treasurer, and the City Attorney.

This memo is specifically addressing the second component of the 2019/2020 Financing Plan.

STRATEGIC POLICY PRIORITY:

The strategic policy priority that best aligns to this action is to "Encourage and promote an efficient and effective government, which is fiscally sustainable and guided by engaged residents."

Enacting a Springing Amendment to include the interest subsidy payments received from the Federal Government for the outstanding 2010B and 2010C Bonds in the Debt Service Reserve Requirement calculation will decrease the amount Tacoma Power needs to set aside in a Reserve Account. This will enhance our liquidity by approximately \$1.7 million in 2020.



2. SPRINGING AMENDMENT

BACKGROUND:

Tacoma Power has four series of senior lien Bonds outstanding that require funds to be set aside in a Debt Service Reserve account:

- Series 2010B (Build America Bonds, "BABs"),
- Series 2010C (Clean Renewable Energy Bonds, "CREBs"),
- Series 2013A, and
- Series 2013B.

Currently, the Reserve Account Requirement for these Bonds is calculated as the lesser of:

- 125% of the Average Annual Debt Service, or
- the Maximum Annual Debt Service.

Tacoma Power receives an annual interest subsidy payment of approximately \$3.825 million from the Federal Government for issuing BABs and CREBs in 2010. This subsidy payment is not included in the Reserve Account Requirement calculation terms above, resulting in a larger Debt Service Reserve Requirement amount.

ISSUE:

The City has received the consent of the requisite amount of owners of the Outstanding Bonds as defined in the Outstanding 2010 and 2013 Bond Ordinances, to amend the calculation of the Reserve Account Requirement to include the deduction of the direct payments of interest the City expects to receive from the Federal Government in relation to the 2010 Bonds. This calculation change would result in a 2020 Reserve Requirement of \$21.5 million, whereas the current 2020 requirement is \$23.2 million.

In order for the amendment to go into effect, Pacifica has indicated that approval of a Resolution and Ordinance are required by Board and Council, respectively, to formally amend the Reserve Account Requirement.

ALTERNATIVES:

Tacoma Power will continue to apply the existing calculation, without the inclusion of the interest subsidy payments received by the Federal Government, if the Springing Amendment to the Debt Service Reserve Requirement calculation is not approved.

RECOMMENDATION:

Tacoma Power recommends approval of the Springing Amendment to apply the Federal Government interest subsidy payments to our Debt Service Reserve Requirement calculations since consent has already been given by the requisite amount of bond owners.

FISCAL IMPACT TO THE CURRENT BIENNIUM: None

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? Yes



TO: Mayor and City Council
FROM: Jackie Flowers, Director of Utilities
COPY: Elizabeth Pauli, City Manager and Doris Sorum, City Clerk
SUBJECT: Tacoma Power Bond Reserve Surety Policy Extension –
October 15, 2019
DATE: September 27, 2019

SUMMARY:

Tacoma Power is requesting authorization to extend the existing Reserve Surety Policy with Assured Guaranty Municipal to continue funding the Debt Service Reserve amount required under the outstanding 2010B, 2010C, 2013A, and 2013B Bond Ordinances.

Tacoma Power’s 2019/2020 biennium Financing Plan involves three components that require approval by the Public Utility Board and the City Council, including:

1. Authorization to amend and extend Tacoma Power’s Note Purchase Agreement (NPA) with Wells Fargo to provide interim financing for capital projects in Tacoma Power’s approved capital budget;
2. Enact a Springing Amendment to include the interest subsidy payments received from the Federal Government for the outstanding 2010B and 2010C Bonds in the Debt Service Reserve Requirement calculation; and
3. **Authorization to extend Tacoma Power’s Bond Reserve Surety Policy (Surety Policy) with Assured Guaranty Municipal (AGM) to continue full funding of the Debt Service Reserve account.**

These components were presented to the Public Utility Board at the August 14, 2019 Study Session and to the GPFC at the August 20, 2019, Study Session. The proposed Ordinance and Resolution that extends the Surety Policy with AGM, were drafted by Tacoma Power’s Bond Counsel, Pacifica Law LLC (Pacifica) and Financial Advisor, Montague DeRose and Associates (MDA), in collaboration with Tacoma Power staff, the City Treasurer, and the City Attorney.

This memo is specifically addressing the third component of the 2019/2020 Financing Plan.

STRATEGIC POLICY PRIORITY:

The strategic policy priority that best aligns to this action is to “Encourage and promote an efficient and effective government, which is fiscally sustainable and guided by engaged residents.”

Extending the existing Surety Policy will continue to adequately fund the Debt Service Reserve account required by the Bond Ordinances of the outstanding Tacoma Power 2010 and 2013 Bond series. Extending the policy will provide a significant savings to Tacoma Power of approximately \$16.5 million in cash that would otherwise need to be set aside in a Debt Service Reserve Account by the end of 2019.



3. RESERVE SURETY POLICY

BACKGROUND:

Under the terms of the Bond Ordinance, Tacoma Power is required to have sufficient funds deposited in the common Reserve Account to meet the Reserve Account Requirement with respect to Bonds secured under the common Reserve Account. As of August 1, 2019, Tacoma Power has four series secured by the common Reserve Account:

- Series 2010B (Build America Bonds, "BABs"),
- Series 2010C (Clean Renewable Energy Bonds, "CREBs"),
- Series 2013A, and
- Series 2013B.

The Series 2017 Bonds are not secured by the Common Reserve Account and do not have a Reserve Account Requirement. Staff expects to issue future bonds without a reserve requirement.

The current Reserve Account Requirement is met by a combination of:

- 1) cash deposits in the amount of approximately \$5 million and
- 2) a Bond Surety Reserve Policy not to exceed \$24,279,910, with a termination date of January 1, 2020.

ISSUE:

On the January 1, 2020 expiration date of the Surety Policy, the Reserve Account Requirement for all Bonds secured by the common Reserve Account will be \$21.5 million, assuming the Springing Amendment described previously in number two above, is enacted. With only \$5 million in cash in the Reserve Account, Tacoma Power would need to deposit an additional \$16.5 million in cash when the current Surety Policy expires. In lieu of making a \$16.5 million cash deposit, Tacoma Power recommends extending the existing Reserve Surety Policy as follows:

Maturity: the earlier of January 1, 2042, or the date the insured Bonds are no longer outstanding

Bonds Insured: Tacoma Power 2010B (BABs), 2010C (CREBs), 2013A, 2013B

Policy Amount: up to \$24,279,910

Extension fee: 3.25%

Projected All-In Cost: \$790,000

ALTERNATIVES:

Tacoma Power will need to deposit \$16.5 million in cash in the Debt Service Reserve Account by the end of 2019.



RECOMMENDATION:

Tacoma Power recommends extending the existing Bond Reserve Surety Policy with Assured Guaranty Municipal to continue funding the Debt Service Reserve amount required under the Bond Ordinances of the outstanding 2010 and 2013 series Bonds in lieu of depositing \$16.5 million in the Debt Service Reserve account.

FISCAL IMPACT:

EXPENDITURES

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
Power Fund 4700			\$790,000
TOTAL			\$790,000

* General Fund: Include Department

FISCAL IMPACT TO THE CURRENT BIENNIUM: \$790,000

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? No

IF THE EXPENSE IS NOT BUDGETED, PLEASE EXPLAIN HOW THEY WILL BE COVERED?

The estimated cost of the Surety Policy extension is \$790,000 and would be deducted from the current cash. However, if the \$16.5 million Debt Service Reserve deficit in 2020 is required to be funded from cash, a budget modification may be necessary in 2019.