



**TO:** Elizabeth Pauli, City Manager  
**FROM:** Linda McCrea, Interim Director of Utilities  
Chris Robinson, Power Superintendent  
**COPY:** City Council and City Clerk  
**SUBJECT:** Resolution/Ordinance – Tacoma Power Wells Fargo Note Purchase Agreement Extension  
**DATE:** April 12, 2018

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**SUMMARY:**

Tacoma Power is requesting authorization to extend the current \$100 million Note Purchase Agreement (NPA) with Wells Fargo to provide interim financing for Tacoma Power’s capital projects.

**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 Wells Fargo provides up-front interim financing for capital projects and defers the issuance of higher cost long-term bonds. Additionally, the utilization of the Wells Fargo NPA to fund capital projects largely eliminates negative arbitrage resulting from issuing and paying interest on long-term bonds prior to spending bond proceeds on construction projects. Taken together, the short-term interest rates and avoidance of negative arbitrage provide significant savings to Tacoma Power customers and help maintain financial flexibility and limit rate increases over the biennium. Use of the Wells Fargo NPA has saved Tacoma Power an estimated \$10.6 million in debt service costs over the course of the existing three-year agreement.

**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 offered the lowest cost and most flexible option for interim financing. On May 1, 2015, Tacoma Power executed the NPA with Wells Fargo Bank providing a commitment for a revolving line of credit of not to exceed \$100 million for three years. In connection with the execution of the NPA with Wells Fargo, the City issued its Electric System Subordinate Revenue Note, Series 2015A to evidence the line of credit.

During the last three years, Tacoma Power successfully utilized the Wells Fargo NPA to interim finance approximately \$80 million of capital project expenses. Tacoma Power recently issued the Series 2017 Electric System Revenue Bonds to repay the amounts borrowed under the Wells Fargo NPA.

Implementation of this agreement allowed for a more cost effective and efficient management of capital construction compared to issuing long-term bonds as Tacoma Power could more closely match its draws on the Wells Fargo agreement with the amount and timing of its capital projects. Tacoma Power is nearing the end of the Wells Fargo agreement which will expire on May 11, 2018 and may be extended.

The proposed ordinance to extend the term of the NPA with Wells Fargo by amending the current NPA has been drafted by Tacoma Power’s Bond Counsel (Pacifica) and Financial Advisor (Montague DeRose and Associates), in collaboration with Tacoma Power staff, the City Treasurer and the City Attorney.



**ISSUE:**

While the Wells Fargo agreement will expire on May 11, 2018, it contains a provision to extend it. Tacoma Power, the City Treasurer, and our Financial Advisor perceive the following benefits from renewing with Wells Fargo agreement verses issuing a traditional Request for Proposal and negotiating a new credit facility:

- The financing market is changing. Tax reform has changed the calculation of interest owed on the amount borrowed from private banks. Issuing a Request for Proposal for other bank products may result in higher prices and more limited financing options to compensate for market uncertainty.
- The London Interbank Offered Rate (LIBOR), which is a borrowing benchmark used globally, will be phased 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 other potential benchmarks is uncertain. Wells Fargo proposed a two-and-a-quarter year agreement priced in-line with rates currently being charged on the NPA and having an expiration date which precedes the phase out of LIBOR.
- Renewing the NPA with Wells Fargo will cost approximately half of the cost of soliciting alternative proposals and negotiating a new agreement. Tacoma Power would not have to issue a RFP, saving staff time and negotiation costs. Estimated costs of renewing the Wells Fargo NPA for Financial and Bond Counsel services is \$50,000. Issuing an RFP and negotiating a new agreement are estimated to cost \$100,000 in Financial and Bond Counsel services.

Wells Fargo proposed a two-and-a-quarter year extension of the agreement with fees in-line with those of the current NPA and an expiration date preceding the phase-out of LIBOR.

**PRELIMINARY TERMS:**

Business terms of the extension of the current agreement with Wells Fargo are as follows:

**Maturity:** Two-and-a-quarter years, expiring in August 2020

**Notional Amount:** \$100,000,000

**Interest Benchmark:** LIBOR

**Utilized fee:** 80% of one month LIBOR + 43 basis points on drawn amount

**Unutilized fee:** 21.5 basis point fee on unused amount

**Projected All-In Cost:** 2.35%

**ALTERNATIVES:**

If Tacoma Power does not extend the Wells Fargo NPA, alternatives will be brought back to the City Council for consideration. Some alternatives considered are:

- Tacoma Power could issue long-term bonds in 2019 instead of using the Wells Fargo agreement to fund capital projects.
- Tacoma Power could solicit alternative proposals and negotiate a new interim-financing agreement for approval by the City Council at a later date.



**RECOMMENDATION:**

Tacoma Power recommends approval to extend the \$100 million short-term financing agreement with Wells Fargo to provide interim financing for capital projects through 2020.

This request was presented to the Public Utility Board at the April 25, 2018 Study Session.

**FISCAL IMPACT:**

There is no fiscal impact of renewing the Wells Fargo NPA.