



TO: Elizabeth Pauli, City Manager
FROM: Jackie Flowers, Director of Utilities
COPY: City Council and City Clerk
SUBJECT: Resolution/Ordinance – 2024 Bond Issuance
DATE: January 2, 2024

SUMMARY AND PURPOSE:

Tacoma Power requests from the City Council the approval to issue up to \$225 million in 2024 Electric System Revenue Bonds (Series 2024) under the delegated authority of the Director of Utilities and the Superintendent of Tacoma Power. This financing transaction includes approximately \$100 million in new money Bonds and up to \$112 million in Refunding Bonds to refund future 2013A and 2013B Bond principal payments.

In order to conduct this bond sale in the most efficient manner, Tacoma Power requests approval for the delegation of authority to conduct this sale in accordance with the bond sale parameters defined by the Bond Ordinance.

BACKGROUND:

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This Department’s Recommendation is Based On:

Tacoma Power regularly issues bonds to finance construction and renovation on long-lived capital assets. Debt financing such assets is an equitable practice because it transfers the cost of long-lived assets across current and future ratepayers who are the beneficiaries of those assets.

In 2021, Tacoma Power executed a \$150 million interim funding Note Purchase Agreement with Wells Fargo (also known as the “Wells Fargo Agreement”) to fund capital improvements. The Wells Fargo Agreement allows Tacoma Power to fund capital improvements during the biennium, utilizing variable short-term interest rates. As of November 7, 2023, Tacoma Power has funded \$80 million in capital expenditures with the Wells Fargo Agreement and anticipates funding an additional \$20 million before year-end 2023.

The purpose of the new money issuance is to repay the Wells Fargo Agreement used to fund a portion of the capital projects included in the adopted 2021/2022 and 2023/2024 capital budgets.

Tacoma Power also regularly restructures its outstanding debt service when possible to reduce those expenses and ensure that rates remain as low as possible for current and future ratepayers.

Tacoma Power has two outstanding 2013 series of bonds (2013A and 2013B), callable as of July 1, 2023, that are being evaluated for refunding in 2024 concurrent with the new money bond issuance.



Current market conditions are favorable for refunding a portion of the 2013 series of bonds to achieve debt service savings for the utility and its ratepayers. The final refunding amount will be based on market conditions and interest rates when the bonds are priced.

COMMUNITY ENGAGEMENT/ CUSTOMER RESEARCH:

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Tacoma Power regularly issues bonds to finance construction and renovation on long-lived capital assets. Debt financing such assets will help maintain financial flexibility and aim to limit rate increases over the next biennium by equitably distributing capital costs of long-lived assets to future ratepayers who are the beneficiaries of those assets.

ALTERNATIVES:

Presumably, your recommendation is not the only potential course of action; please discuss other alternatives or actions that City Council or staff could take. Please use table below.

| Alternative(s) | Positive Impact(s) | Negative Impact(s) |
|--|--------------------|--|
| 1. Tacoma Power could reduce the amount of the Bond issue request to up to \$100 million and only repay the outstanding balance on the existing Wells Fargo Agreement. | | The removal of the Refunding Bond issuance from the requested Ordinance would not reduce Tacoma Power’s future debt service payments. |
| 2. Tacoma Power could also delay the Bond issue one year and pay for capital spending out of revenue. | | Tacoma Power may need to increase near-term rate projections to pay for these costs from rate revenues collected in the next biennium. |
| | | |

EVALUATION AND FOLLOW UP:

Not applicable.

STAFF/SPONSOR RECOMMENDATION:

Tacoma Power recommends issuance of up to \$225 million in 2024 Electric System Revenue Bonds (Series 2024) under the delegated authority of the Director of Utilities and the Superintendent of Tacoma Power. This financing transaction includes approximately \$100 million in new money Bonds and up to \$112 million in Refunding Bonds to refund future 2013A and 2013B Bond principal payments.

FISCAL IMPACT:



Please provide a short summary of the fiscal impacts associated with the grant, agreement, policy action, or other action.

| Fund Number & Name | COST OBJECT (CC/WBS/ORDER) | Cost Element | Total Amount |
|------------------------|-------------------------------|--------------|--------------|
| 1. 4700 - Tacoma Power | | | ~4,200,000 |
| 2. | | | |
| TOTAL | | | |

What Funding is being used to support the expense?

Funding is available within Tacoma Power’s operating fund.

Are the expenditures and revenues planned and budgeted in this biennium’s current budget?

YES

The 2023/2024 Budget includes estimated debt service expenditures for issuing approximately \$100 million in new money Revenue Bonds, including all costs associated with the issuance (e.g. fees associated with Underwriters, Bond Counsel, Municipal Advisor, and Green Bonds).

The current anticipated fiscal impact to refunding the 2013 bonds could be between \$1.5 and \$6 million in total debt service expense savings, depending on market conditions. This savings in debt service expenses was not included in the 2023/2024 Budget.

Are there financial costs or other impacts of not implementing the legislation?

YES

Tacoma Power will need to repay the Wells Fargo Agreement on October 1, 2024. If bonds are not issued, Tacoma Power will need to repay the Wells Fargo Agreement at termination with other liquidity sources that have been set aside for future expenses, resulting in increased pressure on future ratepayers. Also, any potential expense savings in refunding the 2013 Bonds would not be captured.

Will the legislation have an ongoing/recurring fiscal impact?

YES

Will the legislation change the City’s FTE/personnel counts?

No

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ATTACHMENTS: