



Tacoma Power KeyBank Note Purchase Agreement Amendment

City of Tacoma | Tacoma Public Utilities | Tacoma Power
Government Performance and Finance Committee

April 18, 2023

OVERVIEW

Overview

Tacoma Power requests approval by the City Council to amend the borrowing benchmark index and spread used for pricing the KeyBank Note Purchase Agreement (NPA). The borrowing index of the NPA is the London Interbank Offered Rate (LIBOR), which will discontinue pricing on June 30, 2023. An alternative benchmark, the Secured Overnight Financing Rate (SOFR), is now commonly used as a replacement benchmark. KeyBank has agreed to equivalent pricing terms using SOFR to replace the LIBOR index in this NPA.

Summary

Tacoma Power requests approval to amend the borrowing benchmark index and spread used for pricing the KeyBank Note Purchase Agreement (NPA).

Issue

The borrowing index of the NPA is the London Interbank Offered Rate (LIBOR), which will discontinue pricing on June 30, 2023. An alternative benchmark, the Secured Overnight Financing Rate (SOFR), is now commonly used as a replacement benchmark. KeyBank has agreed to equivalent pricing terms using SOFR to replace the LIBOR index in this NPA.

Background:

● ● ● Tacoma Power's use of the KeyBank NPA



KeyBank Note Purchase Agreement

KeyBank agreement provides financial flexibility

It can be either a:

- revolving line of credit for emergency purposes, or
- letter of credit for collateral purposes

Tacoma Power anticipates using the KeyBank agreement as a letter of credit to enable financial hedging in the wholesale power market

Benefits

- Preserves financial flexibility
- Low financing costs

3

4

● ● ● Terms of KeyBank NPA amendment



- A taxable \$50 million short-term line of credit which may be converted to letters of credit with an aggregate amount not to exceed \$25 million.
- The interest rate is variable, and based on the London Interbank Offered Rate (LIBOR) index which is expiring on June 30, 2023.
- Propose to amend the interest rate index to the Secured Overnight Financing Rate (SOFR) and adjust the rate to match the average differential between LIBOR and SOFR over last 12 months.
- Tacoma Power entered into this agreement in 2020 when pricing was low.
- KeyBank is offering equivalent low pricing with the replacement SOFR index.
- We may need to use this credit facility as collateral for financial hedging in the future.

	Current KeyBank NPA	Amended KeyBank NPA
Expiration Date	December 1, 2024	Same
Commitment Amount	\$50M	Same
Rate on Drawn Amount	1M LIBOR + .50% x amount drawn	1M SOFR + .54% x amount drawn
Unutilized Fee	.20% x amount not drawn	Same
Letter of Credit Fee	1.25% annual	same

4

● ● ● 2023 KeyBank NPA Amendment schedule



Proposed Scheduled

KeyBank NPA amendment request

April	12 th	Board Study Session
	18 th	Government Performance & Finance Committee (GPFC) presentation
	26 th	Board approval
May	9 th	City Council first reading
	16 th	City Council second reading

● ● ● Background of KeyBank Note Purchase Agreement



KeyBank Note Purchase Agreement

This Note can be either a revolving line of credit for general operational purposes or alternatively, can be letters of credit used as collateral for wholesale trades.

2014 Solicited proposals for short-term funding products and selected KeyBank as the lowest cost and most flexible option for general liquidity until it agreement expired in 2017.

2020 KeyBank agreed to reestablish a \$100 million line of credit to assist with Tacoma Power's potential need for liquidity during the Pandemic.

2021 Amended the KeyBank NPA to reduce the commitment amount from \$100 million to \$50 million and permit conversion to a letters of credit.



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