



TO: Elizabeth Pauli, City Manager
FROM: Jackie Flowers, Director of Utilities, Tacoma Public Utilities
 Chris Robinson, Superintendent, Tacoma Power
COPY: City Council and City Clerk
SUBJECT: Proposed Ordinance – Amend Tacoma Power KeyBank Note Purchase Agreement
DATE: April 18, 2023

SUMMARY AND PURPOSE:

Tacoma Power requests approval by the City Council to amend the borrowing benchmark index and corresponding spread used for pricing Tacoma Power’s Note Purchase Agreement with KeyBank under the supplemental Ordinance No. 28772.

BACKGROUND:

Tacoma Power’s recommendation is based on the June 30, 2023 discontinuation of the London Interbank Offered Rate (LIBOR) borrowing index utilized in the KeyBank NPA. The financial market has settled on an alternative interest rate benchmark, the Secured Overnight Financing Rate (SOFR). KeyBank has agreed to an index based on one-month SOFR plus a spread that is the equivalent to the one-month LIBOR index pricing in the existing KeyBank NPA, without a change in other terms to the current agreement.

COMMUNITY ENGAGEMENT/ CUSTOMER RESEARCH:

This proposal does not affect the community so engagement and research with the community/customers did not shape Tacoma Power’s recommendation.

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. Amend the expiration date of the KeyBank NPA to June 29, 2023. | Annual savings of budgeted \$100,000 of unutilized fees in 2023 and 2024. | Tacoma Power would no longer be able to utilize the KeyBank NPA, if needed. |

EVALUATION AND FOLLOW UP:

A successful amendment would result in a replacement index and spread that is the equivalent to the one-month LIBOR index pricing and terms in the existing KeyBank NPA. At the request of Tacoma Power, Montague DeRose and Associates, (Tacoma Power’s financial advisor), calculated and negotiated with KeyBank, a one-month SOFR plus a spread that is the equivalent to the one-month LIBOR index pricing in the existing KeyBank NPA, without a change in other terms to the current agreement.

STAFF/SPONSOR RECOMMENDATION:

Tacoma Power recommends approval by the City Council to amend the borrowing benchmark index and spread used for pricing the KeyBank NPA from LIBOR to SOFR with the following preliminary terms:



| | <u>Existing Agreement</u> | <u>Proposal</u> |
|--|---|---|
| Maturity: | December 1, 2024 | same |
| Notional Amount: | \$50,000,000 | same |
| Interest Benchmark: | LIBOR (London Interbank Offered Rate) | SOFR (Secured Overnight Financing Rate) |
| Utilized fee: | 100% of one-month LIBOR + 0.50% on drawn amount | 100% of one-month SOFR + 0.54% on drawn amount |
| Unutilized fee: | 0.20% fee annually (approx. \$100,000 if not used) | same |
| Standby Letter of Credit Option | 1.25% fee annually + \$200 issuance fee | same |

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. Bond Counsel Fee | Cost Center 561100 | 6615000 | \$50,000 |
| 2. | | | |
| TOTAL | | | |



What Funding is being used to support the expense?

The expenses not budgeted will be covered by Tacoma Power's revenues.

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

NO, PLEASE EXPLAIN BELOW

Expenditures for external Financial Advisory services were included in the 2023/2024 budget (\$250,000). Expenditures for Bond Counsel, estimated at \$50,000, are not included in the 2023/2024 budget.

The estimated annual debt service cost of the current KeyBank NPA is \$100,000 (unutilized) and was included in the Tacoma Power 2023/2024 budget. The estimated costs for utilizing the KeyBank NPA as a letter of credit in 2024, should it be needed, would be a maximum of \$312,500 and are not included in the Tacoma Power 2023/2024 budget.

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

YES

If the amendment to the pricing index and spread is not implemented, Tacoma Power would still have to amend the expiration date of the KeyBank NPA, regardless. Expenditures for Bond Counsel, estimated at \$50,000, are not included in the 2023/2024 budget.

Will the legislation have an ongoing/recurring fiscal impact?

No

The estimated annual debt service cost of the current KeyBank NPA is \$100,000 (unutilized) and was included in the Tacoma Power 2023/2024 budget. This cost will not change.

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

No

No additional personnel are required to the amend the pricing benchmark and spread of the KeyBank NPA.

ATTACHMENTS:

- Ordinance
- KeyBank Note Purchase Agreement Amendment