

Serving our customers

Proposed Financing Plan 2025

Tacoma Public Utility Board
March 26, 2025

Michelle Brown
Power Financial Planning Manager

Overview of Recommended 2025 Financing Plan

- 1. Issue \$135 million in New Money Bonds**
- 2. Potentially issue up to \$190 million in Refunding Bonds, including 2010B “Build America Bonds” (BABs) and the 2013A Bonds**
- 3. Redeem (pay off) approximately \$26 million of Existing 2010C “Clean Renewable Energy Bonds” (CREBs)**



Reduce rate pressure, stabilize rates, and meet financial metric targets



Financing strategy creating the most economic benefit



Match financing of long-lived capital assets to share costs with future customers

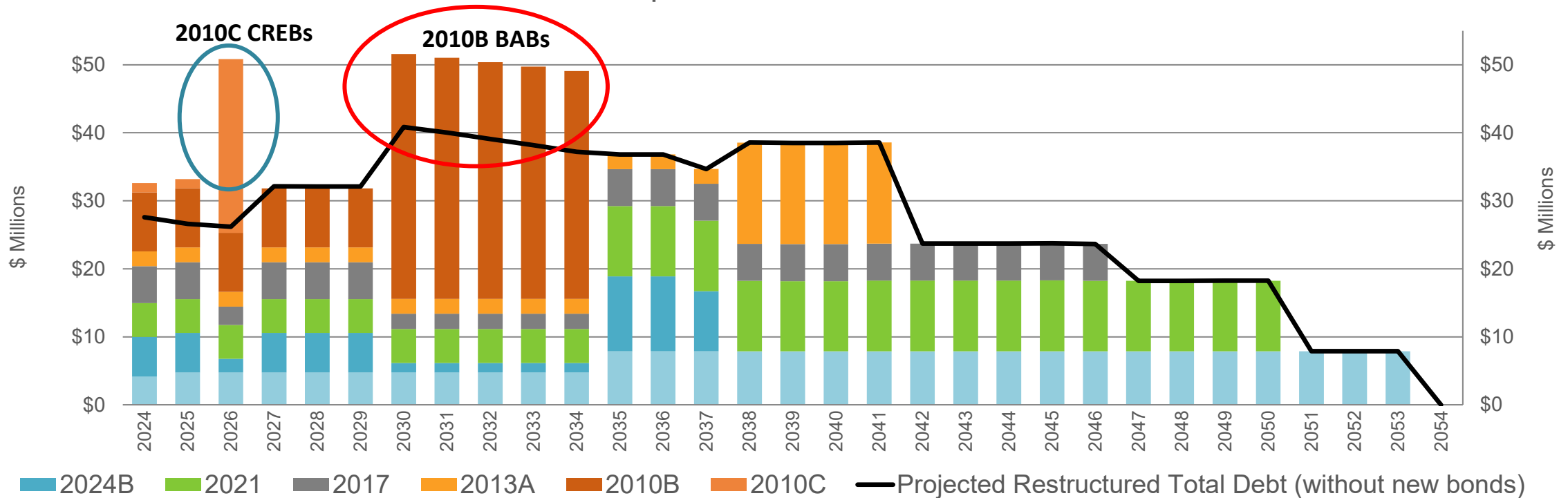
Evaluated economics of different financing options

- Bond-funded capital projects can be financed short-term or long-term
- Previous low-interest rate environment enabled Tacoma Power to initially pay for capital spending using short-term financing, leading to economic benefits over the past ten years
- Market has shifted to higher interest rates, making short-term financing significantly less attractive than issuing tax-exempt long-term bonds
- Conclusion – short-term financing not recommended at this time
- Plan to revisit potential short-term financing facilities again in 2027

Considerations: Restructure Existing Debt to Minimize Future Rate Pressure

Stabilize and Reduce Rate Pressure Now

- Refunding and redeeming bonds will eliminate the debt service spikes in 2026* and 2030 - 2034* and can reduce the rate pressure now before next year's budget and rate process.
- Tacoma Power currently has nearly twice the liquidity over our target amount which can be applied to reduce and smooth future debt service expenses.



*on an accrual basis

1. Issue New Money Bonds to Pay for 2024 / 2025 / 2026 Capital Spending

Total Recommended New Money Bond Issuance: \$135 million

Bond Fund approximately \$55 million to reimburse 2024 capital spending

- *All 2024 capital spending currently paid for from cash*
- *We spent over \$55 million on capital projects that were budgeted as bond funded*
- *Tacoma Power can bond fund previous capital spending that occurred in 2024*

Bond Fund approximately \$80 million of 2025 / 2026 budgeted capital spending

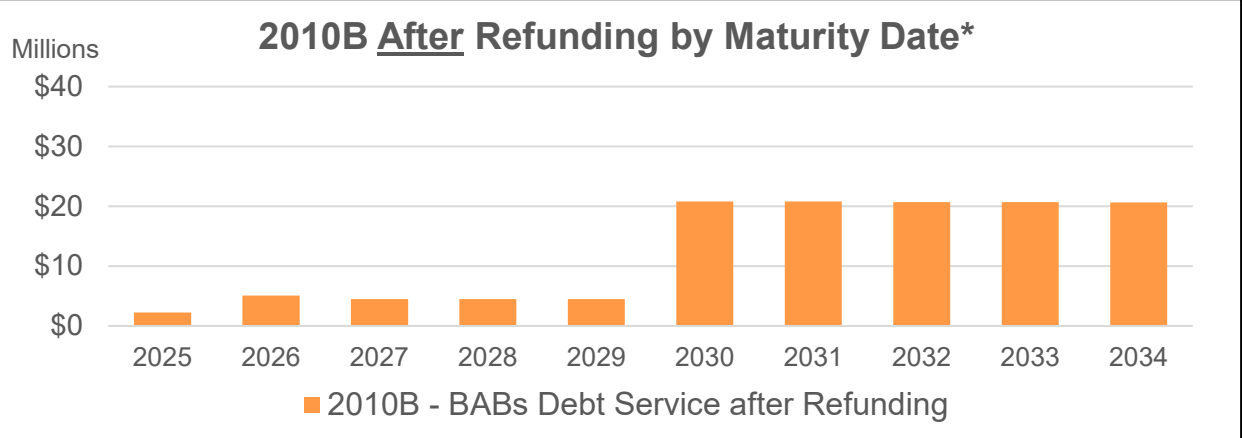
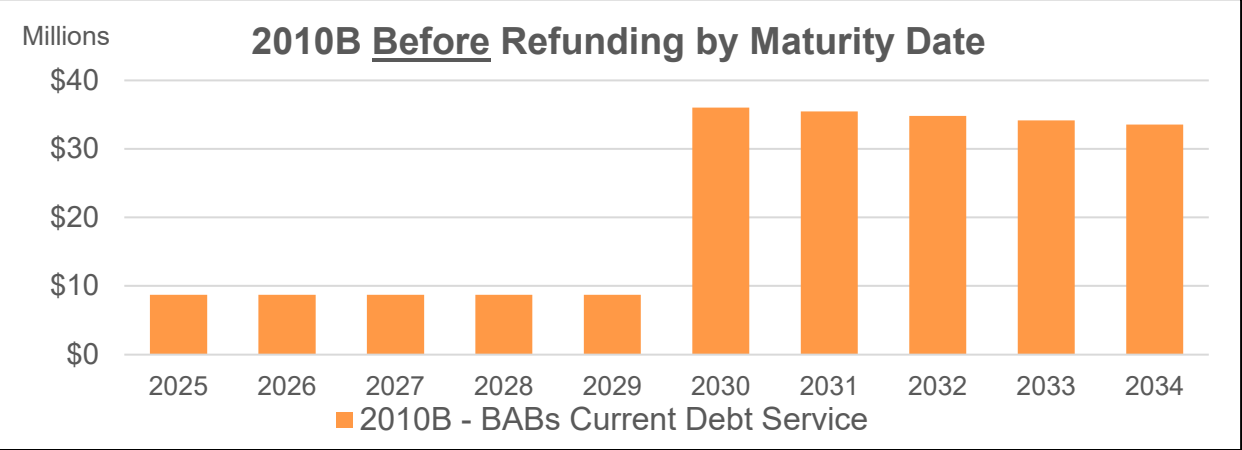
- *Total budgeted capital for 2025 / 2026: ~\$220 million*
- *Bond funding conservative amount to minimize debt service expenses*
- *Any capital spending that exceeds this new 2025 bond issuance can be funded next biennium*

2. Potentially Issue Bonds to Refund the 2010B and 2013A Bonds

2010B “Build America Bonds” (BABs)
Principal amount outstanding: ~\$147 million

Potential principal amount after refunding with ~\$50 million cash applied: **\$90 million***

- Federal subsidy payments have been sequestered (decreased) since 2013.
- Currently at risk of subsidy payments being completely eliminated by federal government.
 - Recommend refunding BABs based on legal precedence for an Extraordinary Event while there’s positive savings to reduce risk.



*as of 3/15/25 with 5% Coupon rates

2013A Bonds
Principal amount outstanding: ~\$54 million

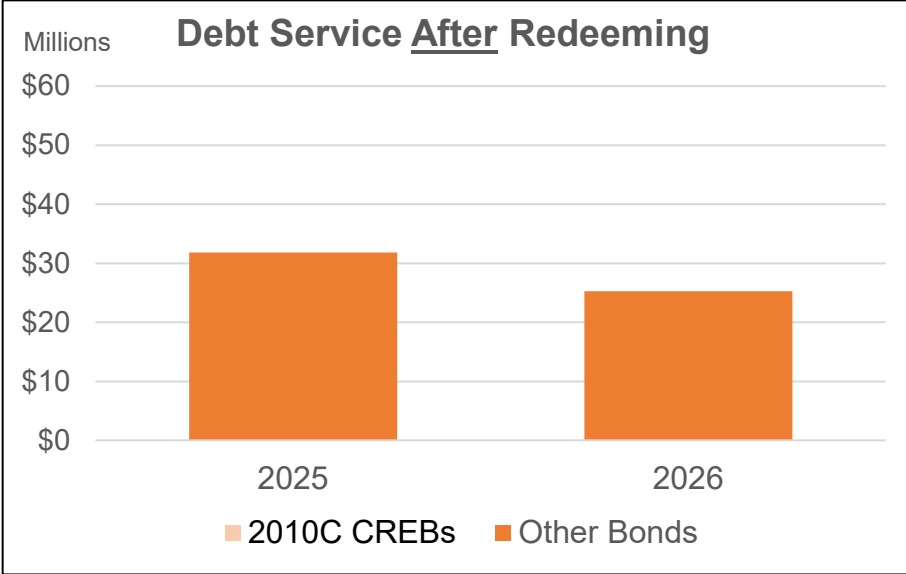
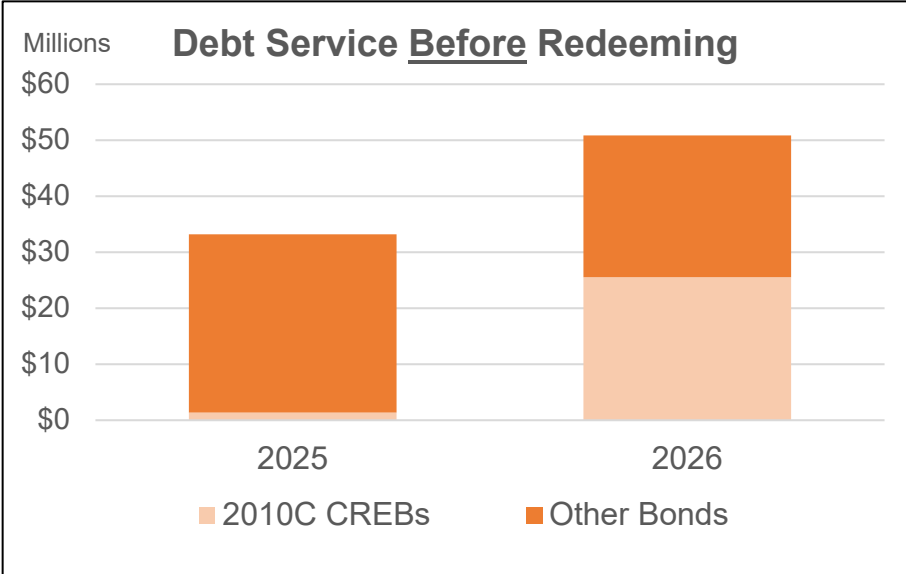
3. Redeem Bonds to Levelize the 2026 Debt Service Spike

2010C Clean Renewable Energy Bonds (CREBs) create debt service spike in 2026

Principal amount outstanding: **\$24,185,000**

Recommend redeeming the entire amount based on the Extraordinary Event (sequestration) to remove the spike

Without the reduction in the debt service spike, Tacoma Power may violate our financial metrics and bond covenants



Source and Use of Funds

Preliminary estimates as of 3/15/2025; subject to change.

2025 Financing Plan

Sources of Funds	
Par Amount	\$ 220,200,000
Premium	\$ 16,097,759
Cash Contribution	\$ 75,027,934
TOTAL SOURCES	\$ 311,325,693
Use of Funds	
Fund 2024 Capital Project Spending	\$ 55,000,000
2025 / 2026 Capital Project Spending	\$ 80,000,000
2010B Bond Principal and Accrued Interest Redemption	\$ 151,173,459
2010C Bond Principal and Accrued Interest Redemption	\$ 24,430,644
Issuance/Underwriter's Cost	\$ 721,590
TOTAL USES	\$ 311,325,693

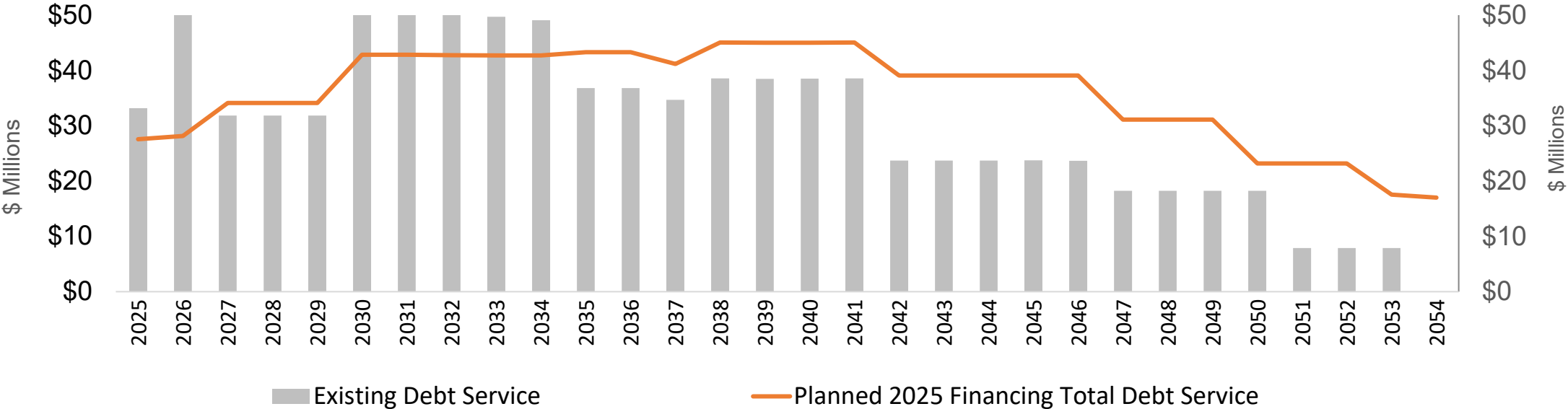
New Debt Service Profile

Bond Summary Statistics*

- True Interest Cost (“TIC”): 4.37%
- Max. Annual Debt Service: \$45,072,050 in 2041
- Average Life: 17 years

* Preliminary estimates as of 3/15/2025; subject to change.

Aggregate Debt Service Overview*



* Preliminary estimates as of 3/15/2025; subject to change.

Issuer Team Members

Tacoma Power and City Personnel

- Tacoma Power Rates Planning & Analysis team
- Tacoma Power Management
- General Government Finance Staff
- Legal Counsel
- City Treasurer

Municipal Advisor

Montague DeRose & Associates, LLC

Bond Counsel

Pacifica Law Group

Other Team Members

Bond Underwriters

- Raymond James – Senior Underwriter
- Bank of America – Co-Senior Underwriter
- Seibert Williams Shank – Co-Manager

Underwriters' Counsel

Orrick, Herrington & Sutcliffe

Other Considerations

May Issue as Green Bonds

Previous new issues successfully marketed as Green

- Retail investors and mutual funds look for investments to fulfill their sustainable investment strategies
- Low-cost effort to potentially increase demand for our Bonds

Issue bonds without Debt Service Reserve Fund (DSRF)

Fund established to ensure payment of principal and interest on certain bonds, if Revenue Funds are insufficient

- Surety Policy Balance as of December 31, 2024: \$24,279,910
- Bond Ordinance provides flexibility to issue debt without a DSRF
- Sufficient cash reserves and strong credit fundamentals allow utility to reduce reliance on DSRF

Issue with Two Ratings

Three Ratings are unnecessary

- A third rating is not needed for successful marketing
- There are several municipal utilities with only two ratings
- Reduces overall issuance cost

WA State Law Delegation:

- City Council can delegate final approval of bond sale to designated individuals
- Delegation provides flexibility in timing of bond issuance and refunding

Parameters in the 2025 New and Refunding Bond Issues

- **Bonds may be issued in one or more series between now and December 31, 2025**
- **All Bonds issued under the ordinance cannot exceed a total of \$325 million**
- **The final maturity date for all Bonds cannot be later than January 1, 2055**
- **The true interest cost for all Bonds cannot exceed 6%**
- **Any refunding bonds are in the best interest of the City and must have some savings**
- **Bonds may be sold as “Green Bonds”**

Current Schedule

- 3/26** **Public Utility Board Study Session**
- 4/1** **Government Performance & Finance Committee (GPFC)**
- 4/9** **Public Utility Board – Request Approval of Bond Resolution**
- 4/15** **City Council Meeting – 1st Reading**
- 4/22** **City Council Meeting – 2nd Reading / Approval**
- 5/7** **Rating Agency Presentations**
- 5/21** **Ratings Received**
- 6/3** **Price Bonds and Sign Bond Purchase Agreement**
- 7/3** **Closing of 2025 Bonds**

Appendix

Tacoma Power is Financially Strong

	Moody's	S&P	Fitch
<i>Investment Grade</i>	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
	A1	A+	A+
	A2	A	A
	A3	A-	A-
	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
	Baa3	BBB-	BBB-
<i>Non-Investment Grade Speculative</i>	Ba1	BB+	BB+
	Ba2	BB	BB
	Ba3	BB-	BB-
	B1	B+	B+
	B2	B	B
	B3	B-	B-
	Caa1	CCC+	
	Caa2	CCC	
	Caa3	CCC-	CCC
	Ca	CCC	
	C		DDD
		D	DD
			D

— Target

■ Current Tacoma Power Rating

AA credit ratings

- S&P confirmed AA rating in January 2024, Fitch confirmed AA- rating in January 2024

Healthy financial metrics

- Greater than 2.0x Debt Service Coverage Target
- Greater than 180 Days Liquidity Target

Robust reserve fund levels

Strong management team

Flexibility to manage future debt service

Willingness to raise rates when needed