

# Overview of Tacoma Water Financing Plan

**Presented by Financial Stewardship to the Public Utility Board on June 14, 2023**

# Agenda

A high-level introduction of today's presentation.

<b>2023 Financing Plan Review</b>	Jodi Collins	3
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# 2023 Financing Plan Overview

## Two refunding bond issues are planned for the 3rd Quarter 2023

### 1) Tacoma Water Bonds

- Refinance/restructure \$74.5 million of 2013 Tacoma Water bonds

### 2) Regional Water Supply System (RWSS) Bonds

- Refinance \$52 million (\$27.9 million Tacoma portion) 2013 RWSS bonds
- Covington Water District will pay off their portion (\$11.9 million) of the outstanding bonds and the Ordinance includes approval of the amended repayment agreement to reflect the removal of Covington's outstanding share from the bond financing

## One outstanding bond is planned to be redeemed (paid off) with cash

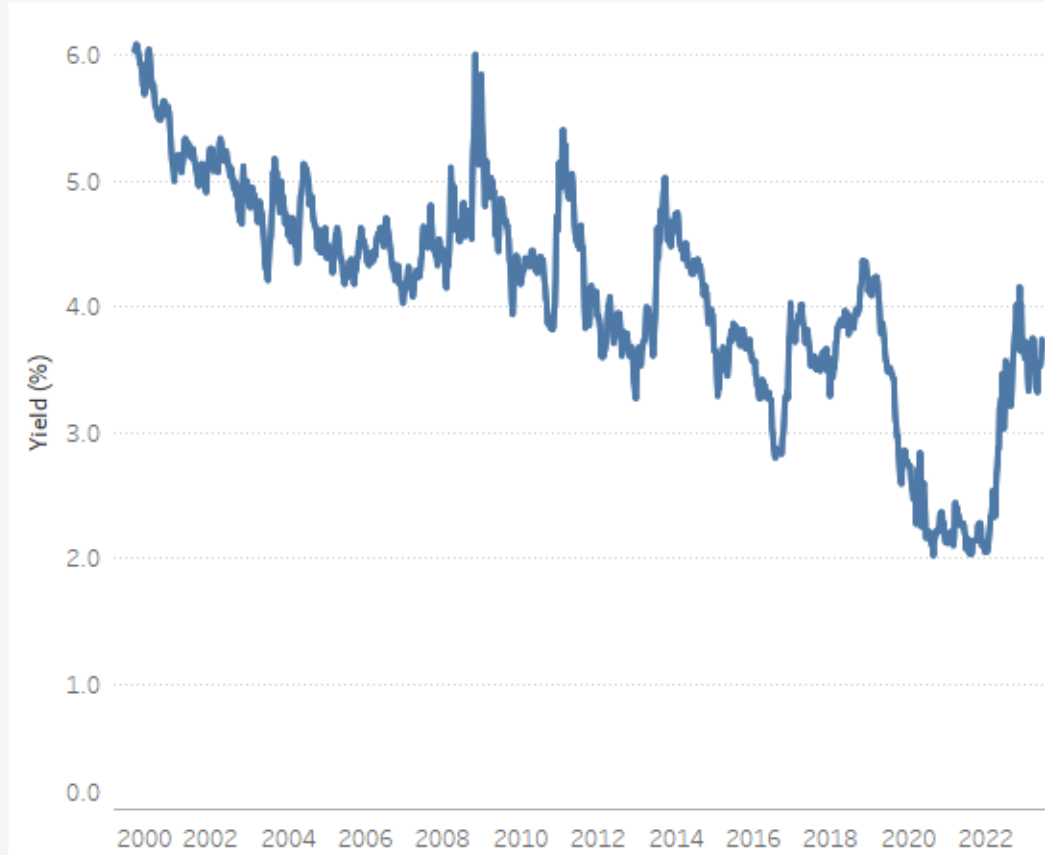
### 1) Tacoma Water 2005 Revenue and Refunding Bonds

- \$5,000 currently outstanding
- Final maturity December 1, 2024
- Call Date December 1, 2015
- When this final maturity is paid, the 2005 surety (guaranty, sub for cash reserves) will expire, impacting bond reserve fund requirements as required in 2009 and 2010 bond covenants

# Monitoring the Bond Market

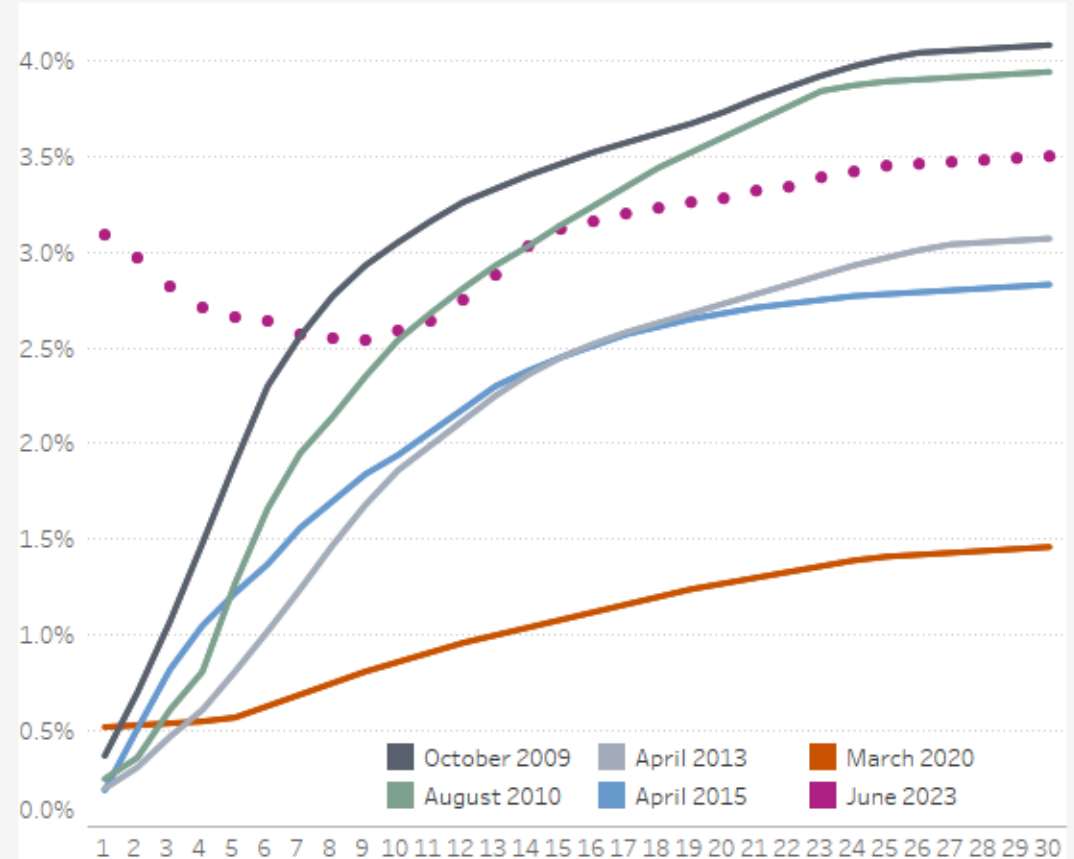
The market is volatile. We're hoping to time the market to achieve the most savings for our customers.

### Bond Buyer 20 GO Index



Bond Buyer 20 is an index whose value is based on a survey of what municipal bond traders estimate will be the yield of a portfolio of 20 general obligation bonds maturing in 20 years.

### MMD Yield Curves



Proprietary Municipal Market Data (MMD) yield curves serve as proxies for portfolio indexing and are used to gauge performance by ratings, sectors or against specific bonds.

# Foundation | Financing Our Water Infrastructure

Our financing strategy balances a combination of cash and reserves, debt, and other sources to pay for capital costs in support of gradual rate adjustments and rates that are as low as is responsible over the planning horizon

## Revenue and Reserve Funded\*

Cash collected through rates, fees, or other charges

### Operating (Current) Fund

- Water sales, miscellaneous fees and charges, other operating and non-operating revenue
- Reserves (includes planned increases to meet future needs, or budget variance)

### System Development Charge (SDC) Fund

- One-time charge for new service or upgrade, based on equitable share of existing and future facilities, recovers costs of adding capacity

### Capital Reserve Fund

- Timber harvest, land sales, and other one-time or limited-term revenue

*\*Use of reserves is appropriated through the biennial budgeting process*

## Debt Funded

Borrow against future revenue streams

Benefits: receive project funding up front, intergenerational equity, time value of cash

- Revenue and Refunding Bond financing
  - Tax-exempt or taxable
- Bank financing (loans, private placement)
- Short-term credit line
- Low-interest loans
  - Public Works Trust Fund
  - Drinking Water State Revolving Fund

## Other Sources

- State and Federal grants
- Borrow from Water reserves with signed declaration of intent to repay
- Developer funded (donated assets)

# Foundation | Bond Financing Process

As part of ongoing debt management, we work with our municipal advisors and several underwriters to help us monitor interest rates and identify financing opportunities. Now that the 2013 bond issues have reached their call date we are planning to refinance them for savings.

## Key milestones in this process include:

- Assemble the financing team (see next slide)
- Develop and adopt authorizing legislation (resolution/ordinance)
- Credit rating process
- Due diligence call
  - Inquiries made by underwriters and counsel about the issuer, the issue, and the security to support a reasonable belief in the accuracy and sufficiency of the disclosure documents
- Develop and release the preliminary official statement (POS) to potential investors
- Bond sale/pricing
- Develop and release final official statement
- Closing documents distributed for signature
- Closing – receipt of funds, opinions delivered
- Post-issuance compliance period
  - Practices and procedures designed to assist issuer in complying with federal tax requirements from the date the bonds are issued until the bonds refunded or no longer outstanding

## Key documents include:

- **Authorizing ordinance or resolution**
  - Description of the bonds' terms
  - Security for the bonds
  - Summary of how the bond proceed will be used
  - Covenants between the issuer and bondholders
  - Delegated authority
- **Primary disclosure**
  - Preliminary Official Statement (POS) deemed final by the issuer and that it includes all material information and is materially accurate
  - Official Statement (OS) updates POS to include pricing information
  - Issuer is responsible for the contents
- **Bond purchase agreement**
  - Signed at pricing
  - Agreement between issuer and underwriter
  - Provides list of deliverables for closing to occur

# Foundation | Financing Team

## Issuer Team Members

### Key Tacoma Water and City Personnel

Select and manage the financing team, help prepare and review documents, responsible for accuracy and completeness of disclosure

- Tacoma Water Financial Stewardship team
- Tacoma Water Management and Staff
- City of Tacoma Legal Counsel
- General Government Finance Staff
- City Treasurer and Finance Director

### Municipal Advisor

Fiduciary responsibility to the Issuer, TPU contract

- Montague DeRose and Associates, LLC

### Bond and Disclosure Counsel

Represents the Issuer, City contract

- Pacifica Law Group

## Other Team Members

### Underwriters

Intermediary between issuers and investors, competitive RFP

- Keybanc
  - Senior Mgr for RWSS, Co-Mgr for Tacoma Water
- Wells Fargo
  - Senior Mgr for Tacoma Water, Co-Mgr for RWSS

### Underwriter Counsel

Drafts bond purchase agreement, assists underwriters

- Foster Garvey

### Trustee/Fiscal Agent

Fiduciary role to bondholders

- US Bank NA

### Rating agency

Assess quality of the bonds, assign rating to the issue

- Standard & Poors (S&P)
- Moody's

## **Bond Ordinances/Resolutions are approved by Public Utility Board and City Council**

The Ordinance authorizes a contract with bond holders and is the operative document throughout the term of the bonds

### **Key Provisions Include:**

- **Terms of the bonds, including payment dates, ability to pay bonds early**
- **Defines security for the bonds**
  - **Water bonds secured by water revenues**
  - **RWSS Bonds secured by payments from participants, Tacoma Water obligated if others don't pay**
- **Contains covenants with bond holders**
  - **Water: Net Revenue equal to 1.25 times Annual Debt Service**
  - **RWSS: Revenues sufficient to meet all obligations (no coverage requirement)**

## **Delegation of Final Approval**

Under Washington State law, the City Council can delegate final approval of bond sale to designated individuals, provides flexibility in timing for 2023 Water bond refunding and allows financing team to act quickly when the market is favorable

### **Certain Parameters are set in advance in Ordinance:**

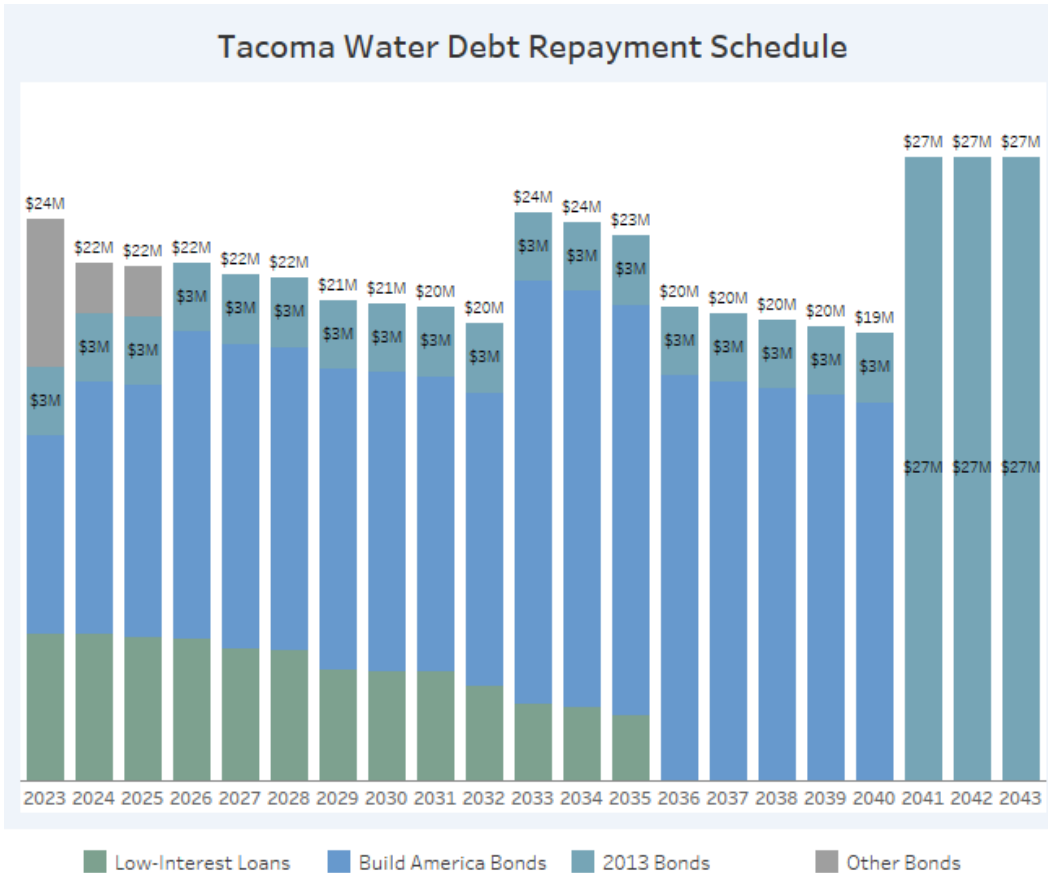
- **Maximum issue size**
- **Maximum interest rates**
- **Minimum savings**
- **Final maturity**



# Tacoma Water Bond Structure

## Overview of all outstanding debt for the Tacoma Water System

Tacoma Water Debt Repayment Schedule



### Low interest loans: Public Works Trust Fund (PWRF) & Drinking Water State Revolving Fund (DWSRF)

- Received between 2001 and 2015
- Funding for Second Supply Project (SSP), McMillin Reservoir, & Green River Filtration Facility (GRFF)
- \$58.7M principal outstanding, interest rates .5%-1.5%, will be paid off in 2035

### Other Bonds

- \$5,000 principal for 2005 bonds, approve payoff
- \$3.8M principal for 2020 bank loan, paid off in 2023
- \$4M principal for 2015 bonds, paid off in 2025

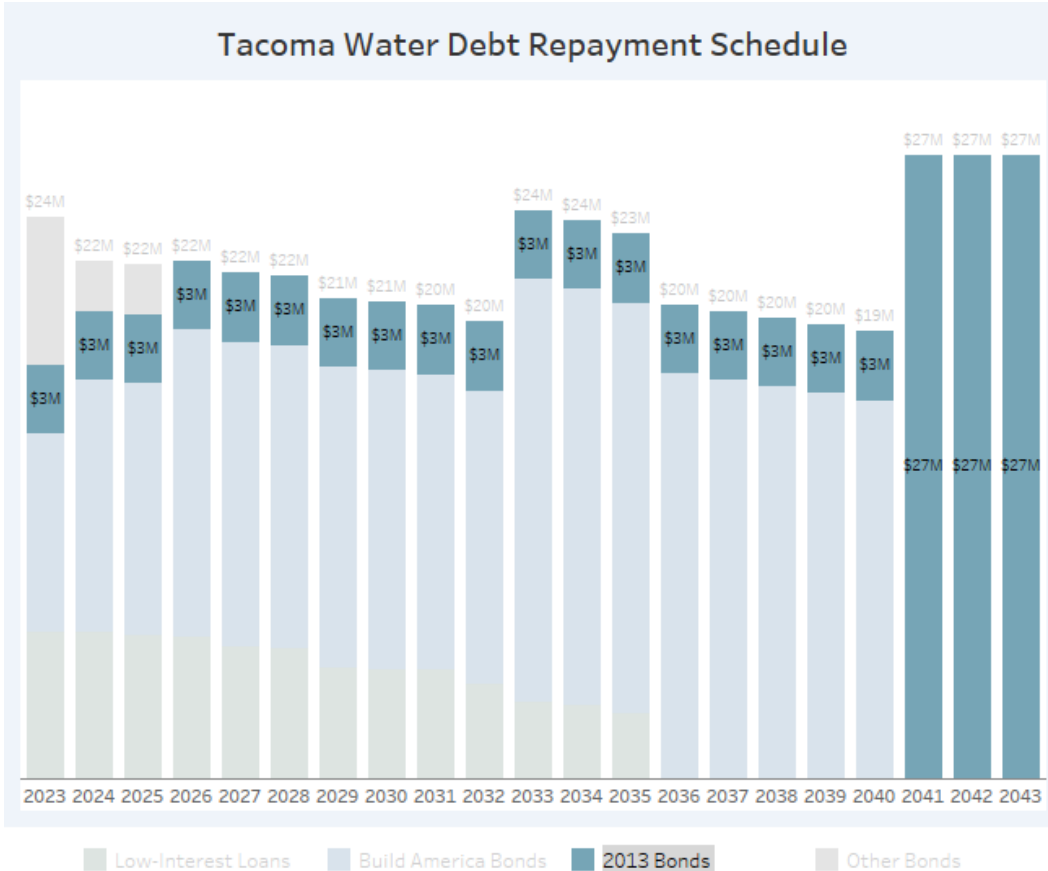
### 2009 & 2010 Build America Bonds (BABs): American Recovery & Reinvestment Act (ARRA)

- Taxable bonds with a direct subsidy (35% subject to sequestration) from the federal government
- Funding for 2007-2012 capital program
- \$76.8M principal for 2009 BABs, interest only payments until 2033, paid off in 2039
- \$75.2M principal for 2010 BABs, paid off in 2040
- Both series have make-whole call provisions, making them unlikely candidates for refinancing

# 2023 Refunding Bonds | Tacoma Water

The 2023 Refunding Bonds will be used to refinance the Water 2013 Revenue & Refunding Bonds

Tacoma Water Debt Repayment Schedule



## Water 2013 Revenue & Refunding Bonds

These bonds were issued as both refinancing for the outstanding 2003 series bonds and new money to fund the Tacoma Water 2013/14 capital budget, including the remaining cost of the Green River Filtration Facility (GRFF)

- \$74.4 currently outstanding
- Final maturity December 1, 2043
- Call Date June 1, 2023

In addition to refunding for savings, we are planning to shape the debt service structure and ensure that our cumulative debt service reserve funds are aligned with debt covenants

# RWSS Bond Structure

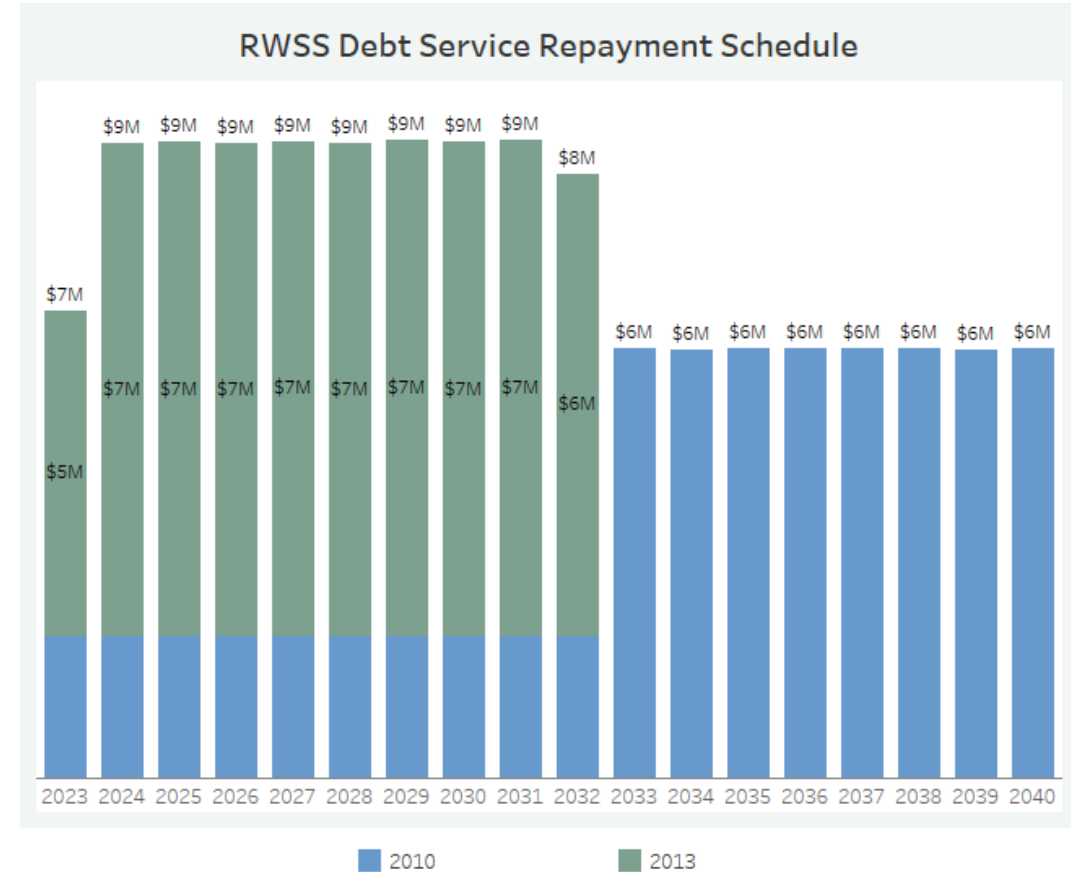
## Overview of all outstanding debt for the Regional Water Supply System (RWSS)

The RWSS is a separate system, financed independently from the Water System. Upon approval by the Project Committee, Tacoma may issue bonds to provide funding for capital costs on behalf of the RWSS. Tacoma develops and submits a Financing Plan that includes the purpose, amount, repayment schedule, and timing for the proposed issuance. Lakehaven elected to cash fund its share of the capital expenses, and Tacoma, Covington, and Kent are repaying the outstanding debt service that was used to fund expenses for the SSP and the GRFF.

### 2010 Revenue Bonds to fund initial costs for the GRFF

- \$1M principal for 2010A tax-exempt, paid off in 2024
- \$44.2M principal for 2010B BABs, paid off in 2040

Debt service on Regional System bonds are designated as a Contract Resource Obligation (CRO), paid as O&M of the Water System and each Participant



# 2023 Refunding Bonds | RWSS

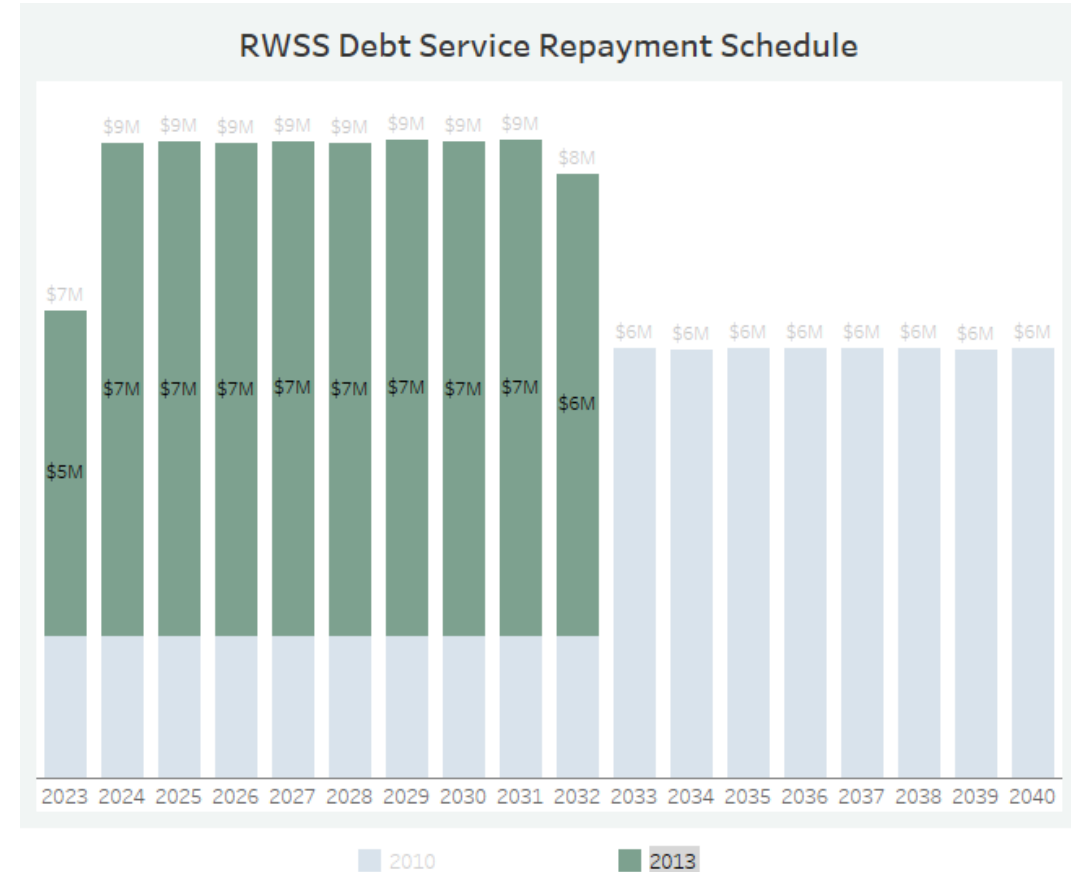
The 2023 Refunding Bonds will be used to refinance the Regional Water Supply System 2013 Refunding Bonds

## RWSS 2013 Refunding Bonds

These bonds refinanced the outstanding 2002 series bonds that were used to fund the Second Supply Project (SSP)

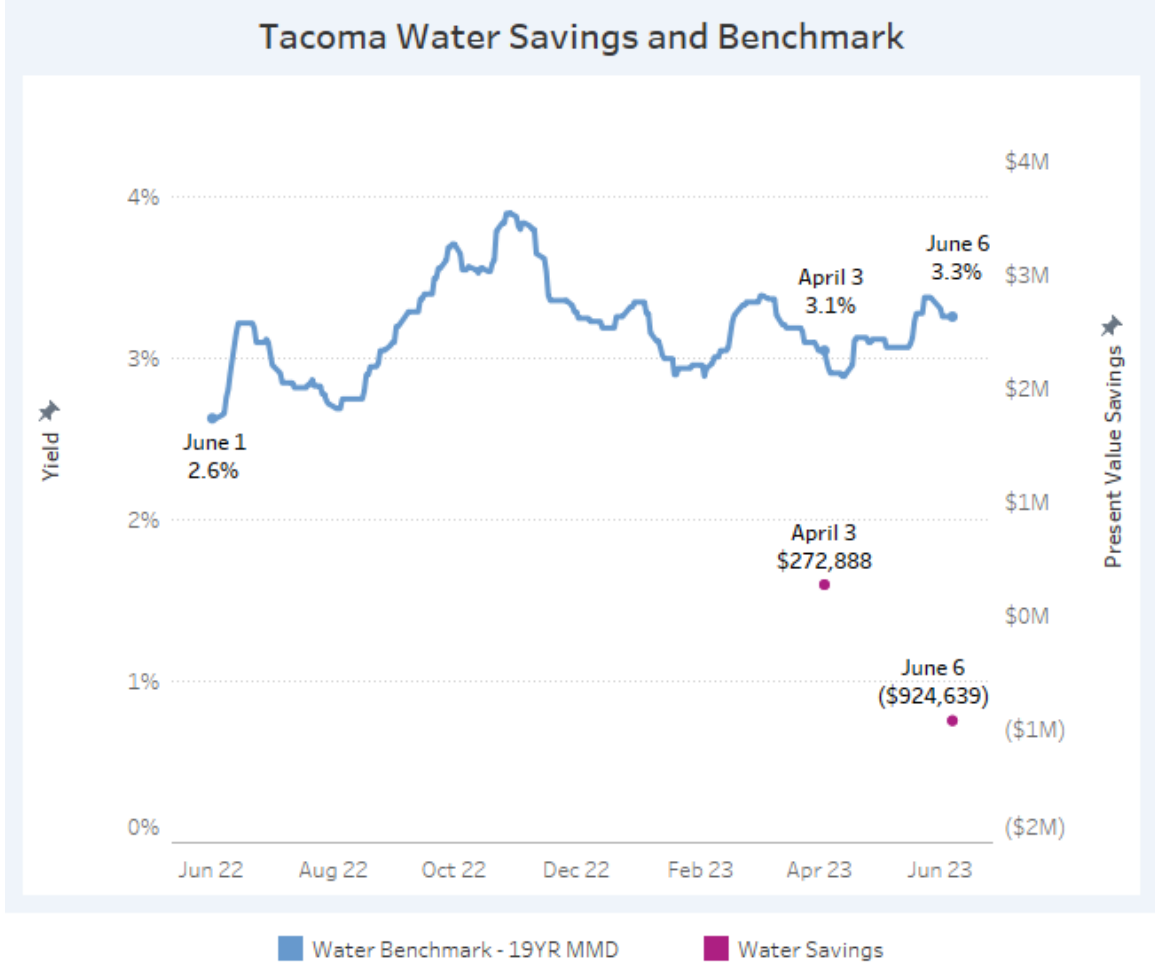
- \$52.8 currently outstanding
- Final maturity December 1, 2032
- Call Date June 1, 2023

Ordinance approval includes amended repayment agreement to remove Covington's share from the refunding



# Current Savings | Tacoma Water

As of 6/6/2023, Tacoma Water 2023 bonds have estimated net present value (NPV) dissavings of **(\$925,000)**

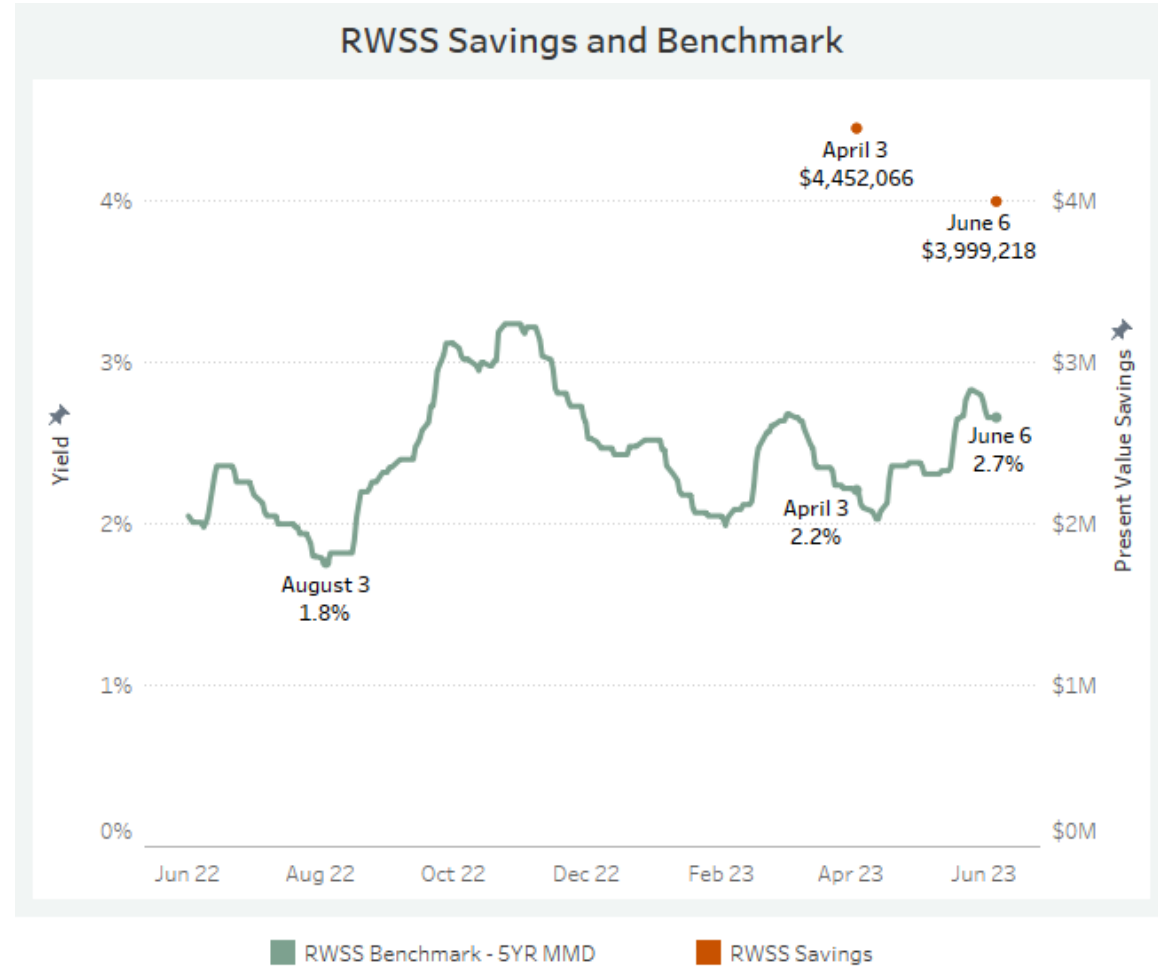


- **The NPV savings for Tacoma is very sensitive to the market:**
  - **An increase yield of 0.2% resulted in reduced savings of over \$1.2 million**
- **We have defined parameters for approval delegation in the proposed ordinance for the Board and Council to approve**
- **We will only move forward with refunding if delegation parameters defined in the ordinance are met**
- **We will proceed with requesting a green bond designation verification**

# Current Savings | RWSS

As of 6/6/2023, RWSS 2023 bonds have estimated net present value (NPV) savings of **\$4,000,000**

- The NPV savings for RWSS is also sensitive to the market:
  - An increase yield of 0.5% resulted in reduced savings of over \$400,000
- There is a very high likelihood that we will proceed with refunding this bond series
- There are savings in every year
- The existing bond current structure will remain the same
- We will proceed with requesting a green bond designation verification



# Current Savings | RWSS by Participant

As of 6/6/2023, RWSS 2023 bonds have estimated net present value (NPV) savings of **\$4,000,000**

- NPV percentage savings for RWSS is estimated to be **7.68%** as of June 6, 2023
- NPV savings varies by participant
- Covington has elected to payoff their portion of the bond in lieu of refinancing
- Covington’s payoff triggers a requirement to amend the repayment agreement, which will require all participants to approve
- Only Kent and Tacoma will have debt service payment obligations in the repayment agreement
- Covington’s payoff will not affect the amount that Kent and Tacoma will pay back

Partner	Par Amount	NPV Savings
Tacoma	\$27,935,000.00	\$2,093,158.96
Kent	12,315,000.00	933,966.45
Covington	11,795,000.00	972,092.22
<b>Total</b>	<b>\$52,045,000.00</b>	<b>\$3,999,217.63</b>



# Draft Transaction Schedule

## Summary of the upcoming milestones

**TACOMA WATER**  
2023 Water System Revenue Refunding Bonds  
2023 Regional Water Supply System Revenue Refunding Bonds

**Transaction Schedule**  
June 7, 2023

May							June							July						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
	1	2	3	4	5	6	4	5	6	7	8	9	10	2	3	4	5	6	7	8
7	8	9	10	11	12	13	11	12	13	14	15	16	17	9	10	11	12	13	14	15
14	15	16	17	18	19	20	18	19	20	21	22	23	24	16	17	18	19	20	21	22
21	22	23	24	25	26	27	25	26	27	28	29	30	23	24	25	26	27	28	29	
28	29	30	31										30	31						

August							September						
S	M	T	W	T	F	S	S	M	T	W	T	F	S
		1	2	3	4	5						1	2
6	7	8	9	10	11	12	3	4	5	6	7	8	9
13	14	15	16	17	18	19	10	11	12	13	14	15	16
20	21	22	23	24	25	26	17	18	19	20	21	22	23
27	28	29	30	31			24	25	26	27	28	29	30

*Issuer:* Tacoma Water TW  
*Bond Counsel:* Pacifica Law Group BC  
*Financial Advisor:* Montague DeRose and Associates, LLC MDA  
*Underwriters:* Keybank (SM Regional Water, CM Tacoma Water) UIW  
 Wells Fargo (SM Tacoma Water, CM Regional Water)  
*Underwriter Counsel:* Foster Garvey UWC  
*Verification Agent:* TBD VA  
*Trustee/Fiscal Agent:* U.S. Bank N.A. TR  
*Printer:* TBD Printer

### June

- 14 PUB Study Session
- 20 GPFC Presentation

### July

- 12 PUB Meeting for Approval
- 17 Rating Agency Meetings
- 18 Joint Study Session
- 25 City Council First Reading

### August

- 1 City Council Second Reading
- 14 Investor Presentation
- 22 Pricing
- 30 Post Official Statements

### September

- 7 Closing



# Appendix | Glossary of Terms & Resources

Term	Definition	Slide(s)
<a href="#">Bonds 101 Primer</a>	<ul style="list-style-type: none"> <li>Materials from Pacifica Law Group LLP updated on March 2, 2023</li> </ul>	
<a href="#">LRFP</a>	<ul style="list-style-type: none"> <li>Tacoma Water's Long-Range Financial Plan 2022</li> </ul>	
<a href="#">Bond Buyer 20 Index</a>	<ul style="list-style-type: none"> <li>Bond Buyer 20 is an index whose value is based on a survey of what municipal bond traders estimate will be the yield of a portfolio of 20 general obligation bonds maturing in 20 years. State and local governments can use the derived yield from the index to estimate the maximum interest rate they can offer on new issues.</li> </ul>	4
<a href="#">Call date</a>	<ul style="list-style-type: none"> <li>The call date is a day on which the issuer has the right to redeem a callable bond at par, or at a small premium to par, prior to the stated maturity date.</li> </ul>	3,6,9,10, 12
<a href="#">Co-Manager</a>	<ul style="list-style-type: none"> <li>Underwriting Syndicate (also known as Co-Manager(s)), has an "arm's-length" relationship with the state or local government.</li> <li>Under the direction of the senior manager, purchases an initial bond issue from state or local government and offers it for resale to investors.</li> </ul>	7
<a href="#">Covenant</a>	<ul style="list-style-type: none"> <li>Covenants most often relate to terms in a financial contract, such as a loan document or bond issue stating the limits at which the borrower can further lend.</li> <li>Debt covenants are most common, as they place financial covenants on the borrower and lender as part of the loan agreement.</li> </ul>	3,6,8
<a href="#">Disclosure</a>	<ul style="list-style-type: none"> <li>In the financial world, disclosure refers to the timely release of all information about a company that may influence an investor's decision. It reveals both positive and negative news, data, and operational details that impact its business.</li> </ul>	6,7
<a href="#">Green Bond</a>	<ul style="list-style-type: none"> <li>An instrument designed to support specific climate-related or environmental projects, used interchangeably with "climate bonds" or "sustainable bonds."</li> </ul>	13, 14
<a href="#">Make-Whole</a>	<ul style="list-style-type: none"> <li>A make-whole call provision is a type of call provision on a bond allowing the issuer to pay off remaining debt early with a lump sum payment that includes the net present value of future coupon payments not paid because of the call.</li> </ul>	9
<a href="#">MMD Yield Curve</a>	<ul style="list-style-type: none"> <li>Yield curves plot interest rates of bonds of equal credit and different maturities.</li> <li>A proprietary yield curve Municipal Market Data (MMD) AAA Curve provides the offer-side of AAA-rated state general obligation bonds (GO).</li> <li>MMD yield curves serve as a proxy for portfolio indexing and are used to gauge performance by ratings, sectors or against specific bonds.</li> </ul>	4, 13, 14
<a href="#">NPV</a>	<ul style="list-style-type: none"> <li>Net present value (NPV) is used to calculate the current value of a future stream of payments from a company, project, or investment.</li> <li>If the NPV of a project or investment is positive, it means its rate of return will be above the discount rate.</li> </ul>	13, 14, 15
<a href="#">Revenue Refunding Bonds</a>	<ul style="list-style-type: none"> <li>Revenue Refunding Bonds are bonds that are issued to replace and refinance outstanding revenue bonds. Generally they are used to lower interest rates and reduce payments and may also be used to restructure the stream of debt service payments, modify or eliminate restrictive covenants, or achieve other objectives.</li> </ul>	3,5,8,10, 12, 13, 14, 15
<a href="#">Surety</a>	<ul style="list-style-type: none"> <li>Surety bonds are financial instruments that tie the principal, the obligee—often a government entity—and the surety.</li> <li>In the case of surety bonds, the surety is providing a line of credit to the principal to reassure the obligee that the principal will fulfill their side of the agreement.</li> </ul>	3
<a href="#">Senior Manager</a>	<ul style="list-style-type: none"> <li>Underwriter (also known as Senior Manager, Lead Manager or Bookrunner), has an "arm's-length" relationship with the municipal government.</li> <li>Provides proceeds at closing and obtains funds from investors, manages the affairs of any underwriting syndicate formed in connection with a new issue</li> </ul>	7