



## Fitch Rates Tacoma, WA's Electric System Rev Bonds 'AA-'; Outlook Stable

Fitch Ratings-San Francisco-07 August 2017: Fitch Ratings has assigned a 'AA-' rating to the following bonds, issued by the city of Tacoma, WA (the city) on behalf of Tacoma Power, a department of the city:

--\$69,905,000 electric system revenue bonds, series 2017.

Bond proceeds will reimburse and pay for capital improvements to the electric system and pay the costs of issuance. The bonds will be sold via negotiated sale the week of Aug. 14, 2017.

In addition, Fitch affirms the 'AA-' rating on \$358.3 million outstanding electric system revenue bonds, series 2010A, 2010B, 2010C, and 2013A and 2013B.

The Rating Outlook is Stable.

### SECURITY

The bonds are payable from the net revenues of the electric system.

### KEY RATING DRIVERS

**RETAIL PROVIDER:** Tacoma Power operates a vertically integrated retail electric system and a relatively smaller telecommunications business called Click! Network (Click). The electric system serves a gradually growing, non-concentrated customer base located in and around the city of Tacoma.

**LOW COST POWER SUPPLY:** Power supply needs are met through low cost, carbon-free, and flexible hydroelectric generation resources that are both owned and contracted. The Bonneville Power Administration (BPA) provides approximately half of Tacoma Power's needs under a long-term

contract that expires in 2028.

**SOLID FINANCIAL PROFILE:** Financial metrics remain consistent with the rating. Debt service coverage improved in 2016 due to lower debt service, increased wholesale revenues, and recent retail rate increases. Liquidity levels are sound with 240 days cash on hand at the end of 2016.

**WHOLESALE SALES:** Tacoma Power is a net seller into the wholesale power market in most years. These nonfirm, short-term sales are subject to variability in hydrological conditions and market prices, leading to volatility in wholesale revenues. Favorably, the utility has implemented retail rate increases to reduce its reliance on wholesale revenues to support financial performance.

**TELECOMMUNICATIONS BUSINESS:** Click is not self-supporting and is expected to require approximately \$6 million in financial support in 2017 from the electric system. The competitive nature of the telecommunications industry could continue to erode the Click customer base and provide an additional level of risk. Continued financial support by the electric system, to the detriment of financial metrics, could pressure the rating.

#### RATING SENSITIVITIES

**MANAGEMENT OF REVENUE STREAMS:** Rating stability for Tacoma Power is dependent upon the utility's ability to manage volatile wholesale sales, uncertain telecommunication revenues, and retail electric revenues in a manner that maintains stable financial performance.

#### CREDIT PROFILE

Tacoma Power is a division of the city's Department of Public Utilities (the department). The utility operates the city's vertically integrated electrical generation and distribution facilities along with Click, its telecommunications division. Click accounted for approximately 6.4% of operating revenues in 2016.

Tacoma Power is one of the largest publicly owned utilities in the Pacific Northwest, serving approximately 176,784 customers in a modestly growing

service area that is approximately 180 square miles and serves the greater Tacoma area.

### Low Cost Power Supply

Fitch views Tacoma Power's resource mix as a significant credit strength. Consisting largely of owned and contracted hydroelectric resources, Tacoma's power supply is relatively low-cost, carbon free, and flexible in operation. Current resources are projected to be sufficient to meet power supply needs through 2037 under critical water conditions.

Tacoma Power is a net seller into the wholesale electricity market under most water conditions. Wholesale revenues for any year are based on market prices, loads and water availability for generation, which creates volatility in the utility's overall revenues. Tacoma Power has implemented a series of rate increases to make the utility less dependent on its wholesale sales and strengthen its retail revenue base.

### Telecommunications Exposure

Fitch views Click as increasing the business risk profile of Tacoma Power due to the competitive nature of the telecommunications industry. Click is not self-supporting and is expected to require approximately \$6 million in 2016 from the electric system. Competition from larger telecommunication companies could continue to erode the Click customer base and revenues.

### Solid Financial Profile

Financial metrics have been generally strong and stable over the past five years with the exception of 2015 when coverage levels declined as a result of higher debt service costs and lower wholesale revenues. In 2016, Fitch-calculated debt service coverage and coverage of full obligations improved to 2.84x and 1.46x, respectively, which was generally consistent with preceding years except 2015. The return to more baseline financial performance was due to a combination of lower debt service, improved wholesale revenues, and the implementation of retail rate increases.

Liquidity levels are sound with unrestricted funds equal to 240 days cash on hand (DCOH). The utility's rate stabilization fund, which is included in that total, has remained at \$48 million since 2012. These funds are available to offset or minimize the need for large rate increases in any given year.

The utility has used its significant cash balances to pay down debt in recent years and plans to do so again following this transaction. Management plans to utilize up to \$28 million in unrestricted cash to defease a portion of outstanding debt and levelize debt service through 2020. Cash balances are expected to remain at levels commensurate with the rating following the transaction.

Contact:

Primary Analyst

Matthew Reilly, CFA

Director

+1-415-732-7572

Fitch Ratings, Inc.

650 California St, 4th Floor

San Francisco, CA 94108

Secondary Analyst

Kathy Masterson

Senior Director

+1-512-215-3730

Committee Chairperson

Joanne Ferrigan

Senior Director

+1-212-908-0723

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526,

Email: [elizabeth.fogerty@fitchratings.com](mailto:elizabeth.fogerty@fitchratings.com).

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

## **Applicable Criteria**

Rating Criteria for Public Sector Revenue-Supported Debt (pub. 05 Jun 2017)  
(<https://www.fitchratings.com/site/re/898969>)

U.S. Public Power Rating Criteria (pub. 18 May 2015)  
(<https://www.fitchratings.com/site/re/864007>)

## **Additional Disclosures**

Dodd-Frank Rating Information Disclosure Form

(<https://www.fitchratings.com/site/dodd-frank-disclosure/1027522>)

Solicitation Status (<https://www.fitchratings.com/site/pr/1027522#solicitation>)

Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings)

(<https://www.fitchratings.com/understandingcreditratings>). IN ADDITION,

RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT

[WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM) (<https://www.fitchratings.com>). PUBLISHED

RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT,

CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES

ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS

ARE AVAILABLE AT

[HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory)

(<https://www.fitchratings.com/site/regulatory>). FITCH MAY HAVE PROVIDED

ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS

RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS

FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED

ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS

ISSUER ON THE FITCH WEBSITE.

Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its

subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-

4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the

report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only.

Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

**Solicitation Status**

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligatory being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

**Endorsement Policy** - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.