

Tacoma Water

Preliminary Long-Range Financial Plan

Financial Policy Discussion



AGENDA

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Budget and Rate Timeline

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Long-Range Financial Plan Update

- Coverage and Liquidity
- Expense Budget and Revenue Requirement
- Debt Management and Capital Funding Strategy

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Potential Changes to our process and the Water Rate and Financial Policy

- Cost of Service Analysis
- Rate Design
- Debt Service Coverage Policy
- SDC Fees and Funds
- Market-Based Wholesale Rates

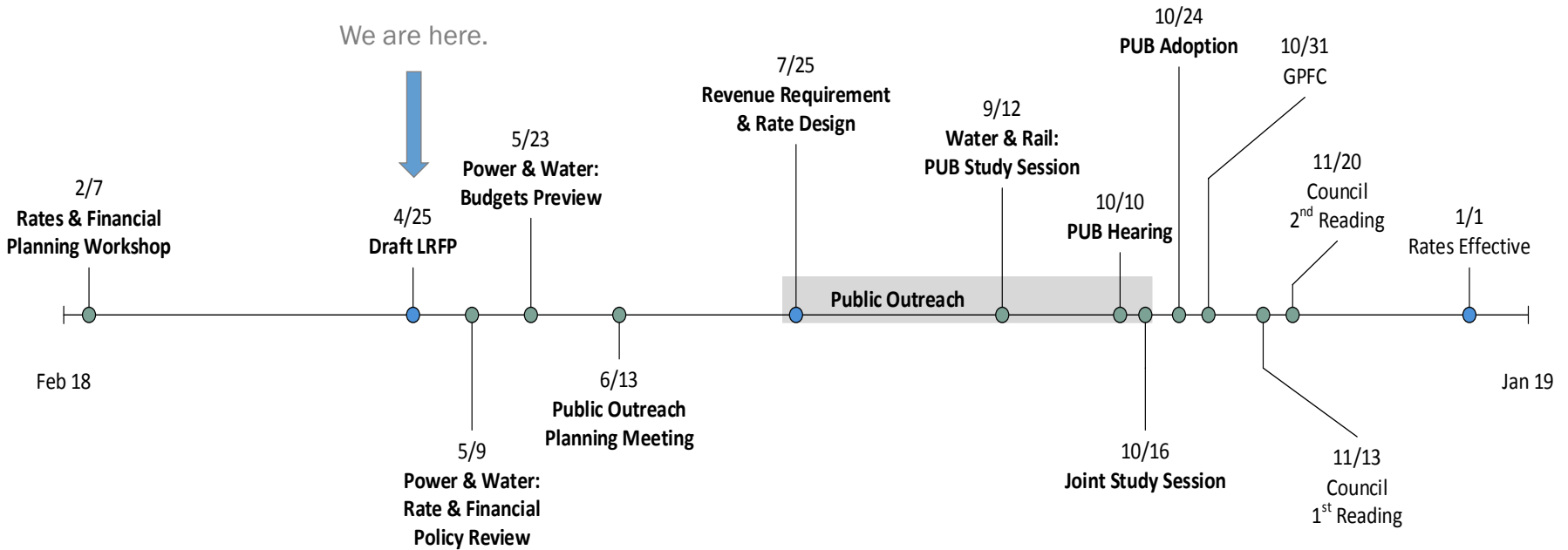
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Next Steps

Budget and Rate Timeline

Timeline

2019/2020 Budget and Rate Timeline



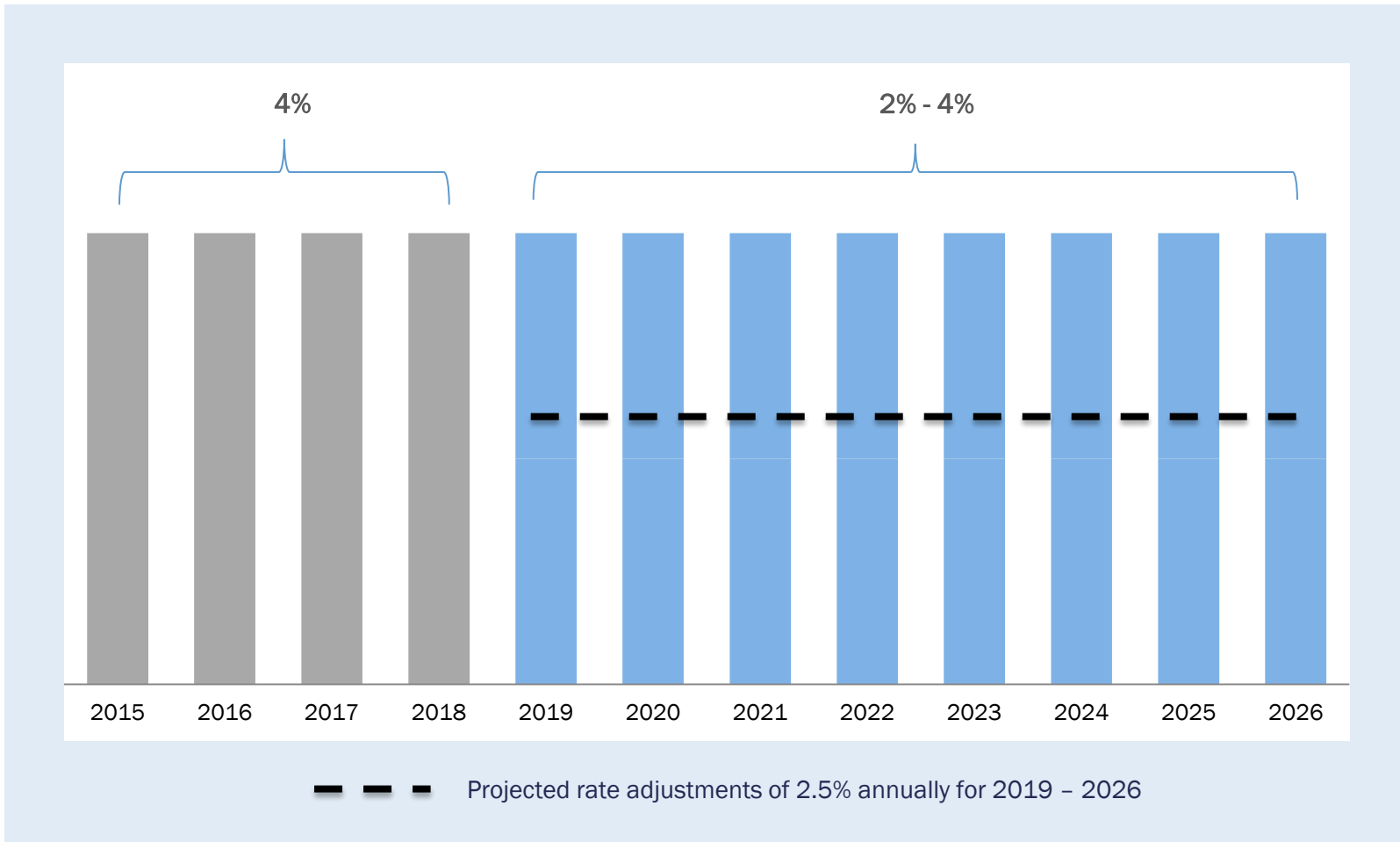
Long-Range Financial Plan Update

Our long-range plan has helped us ensure financial stability and sustainably.

Long-Range Financial Plan Update

Actual and Projected Rate Increases

This forecast is subject to change, and is dependent upon actual financial performance in future years.



Long-Range Financial Plan Update

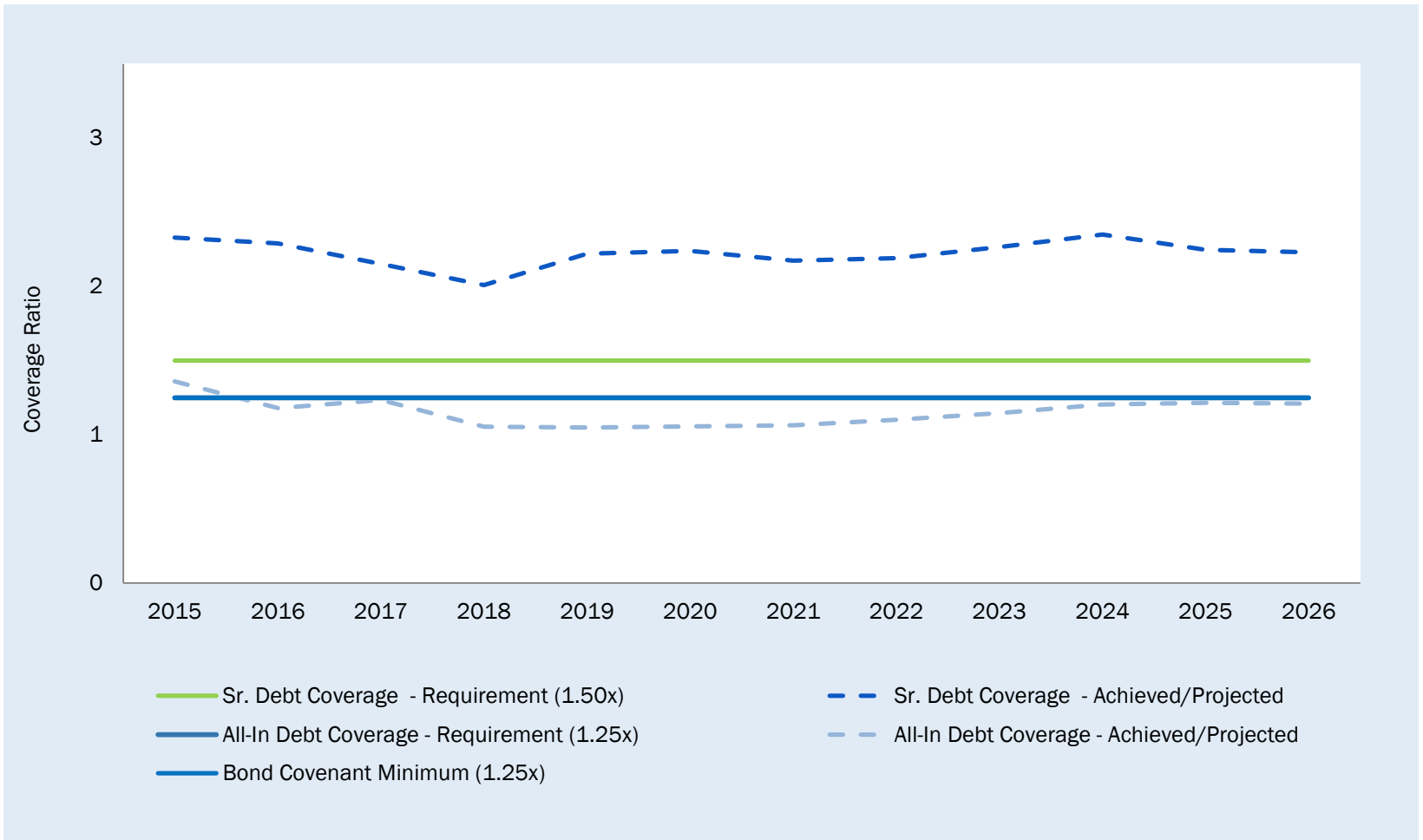
Financial Metrics

<i>Tacoma Water Achieved</i>	2013	2014	2015	2016	2017 ¹
Total Liquidity	\$112.4	\$119.5	\$130.9	\$139.3	\$148.5
Target (millions)	>\$25.6	>\$25.6	>\$27.2	>\$27.2	>\$28.0
Senior Debt Coverage Ratio (Target: >1.5x)	1.72x	2.14x	2.33x	2.18x	2.19x
All In Debt Coverage Ratio (Target: >1.25x)	1.23x	1.30x	1.36x	1.18x	1.23x

¹ Based on unaudited financial results

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

Debt Service Coverage Ratio



Long-Range Financial Plan Update

Debt Service Coverage Calculations: Net Revenue Divided by Total Debt Service

Senior Lien Coverage Ratio	All In Coverage Ratio
+ Operating Income	+ Operating Income
+ Non-operating Income	+ Non-operating Income
+ SDC Retail Revenues	+ SDC Retail Revenues
+ Transfers from SDC Rate Stabilization Account	Not included
- Operating and Maintenance Expenses	- Operating and Maintenance Expenses
- Tacoma Share RWSS Bonds (RWSS CRO)	Included in Total Debt Service
- State Utility Tax and Franchise Fees	- State Utility Tax and Franchise Fees
Not Included	- City of Tacoma Gross Earnings Tax
= Net Revenue	= Net Revenue
Divided by Total Debt Service	Divided by Total Debt Service
+ Tacoma Water Parity Bonds	+ Tacoma Water Parity Bonds
Not Included	+ P WTF and DWSRF Loans
Included as Operating Expense	+ Tacoma Share RWSS Bonds

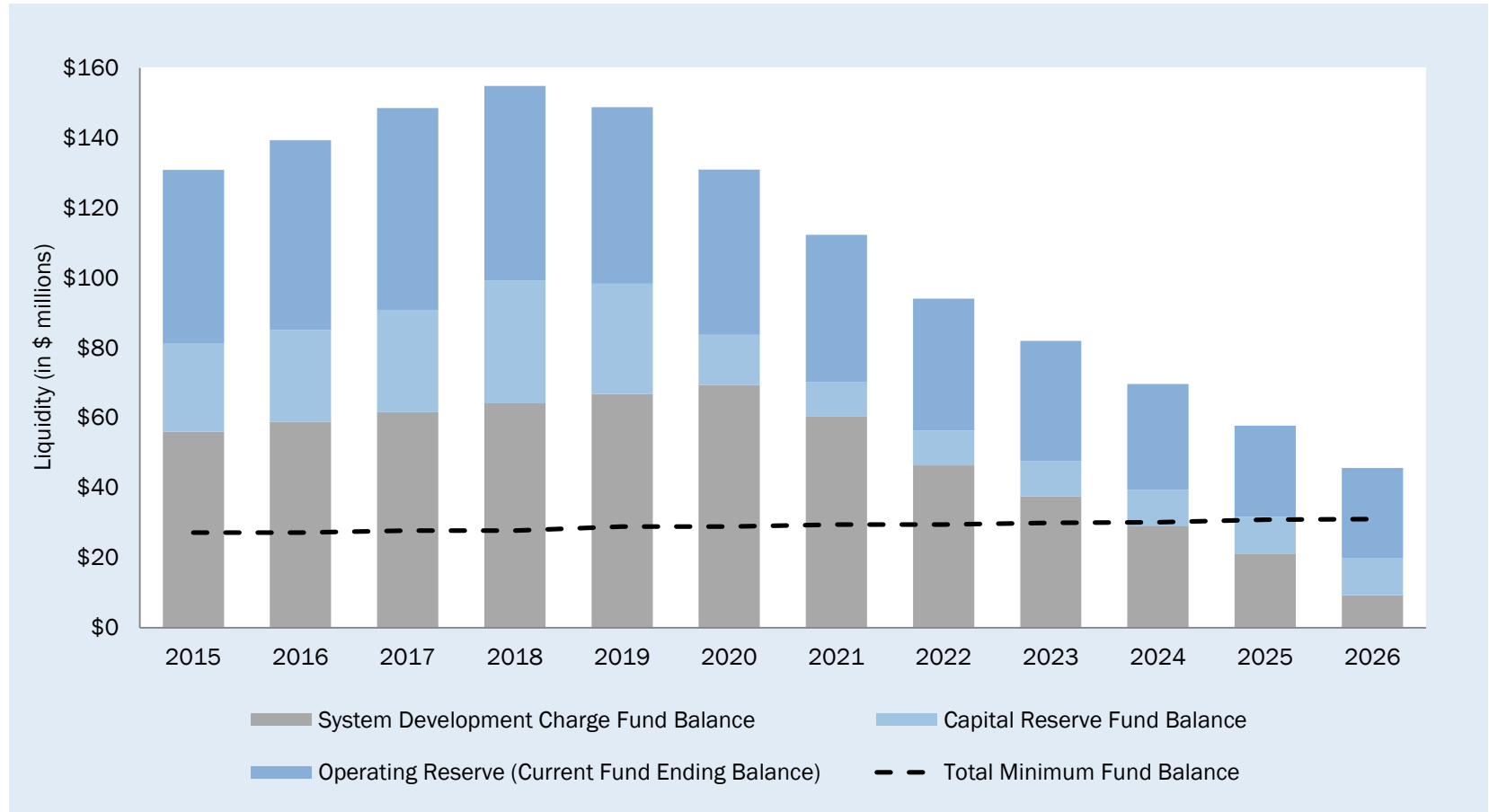
Long-Range Financial Plan Update

Debt Service Coverage Calculations: 2016 Calculation

	Senior Lien Coverage	All In Coverage
+Operating Income	\$85,107	\$85,107
+ Non-operating Income	+ 3,723	+ 3,723
+ SDC Retail Revenues	+ 2,424	+ 2,424
+ Transfers from SDC Rate Stabilization Account	+ 0	NA
- Operating and Maintenance Expenses	- 43,460	- 43,460
- Tacoma Share RWSS Bonds (RWSS CRO)	- 3,260	NA
- State Utility Tax and Franchise Fees	- 4,639	- 4,639
- City of Tacoma Gross Earnings Tax	NA	- 6,753
= Net Revenue	\$39,895	\$36,402
+ Tacoma Water Parity Bonds	\$18,297	\$18,297
+ PWTF and DWSRF Loans	NA	+ 9,043
+ Tacoma Share RWSS Bonds	NA	+ 3,260
Divided by Total Debt Service	\$18,297	\$30,600
Debt Service Coverage Ratio	2.18x	1.19x

Long-Range Financial Plan Update

Total Liquidity



Measures: Actual and projected annual liquidity.

Policy Minimums:

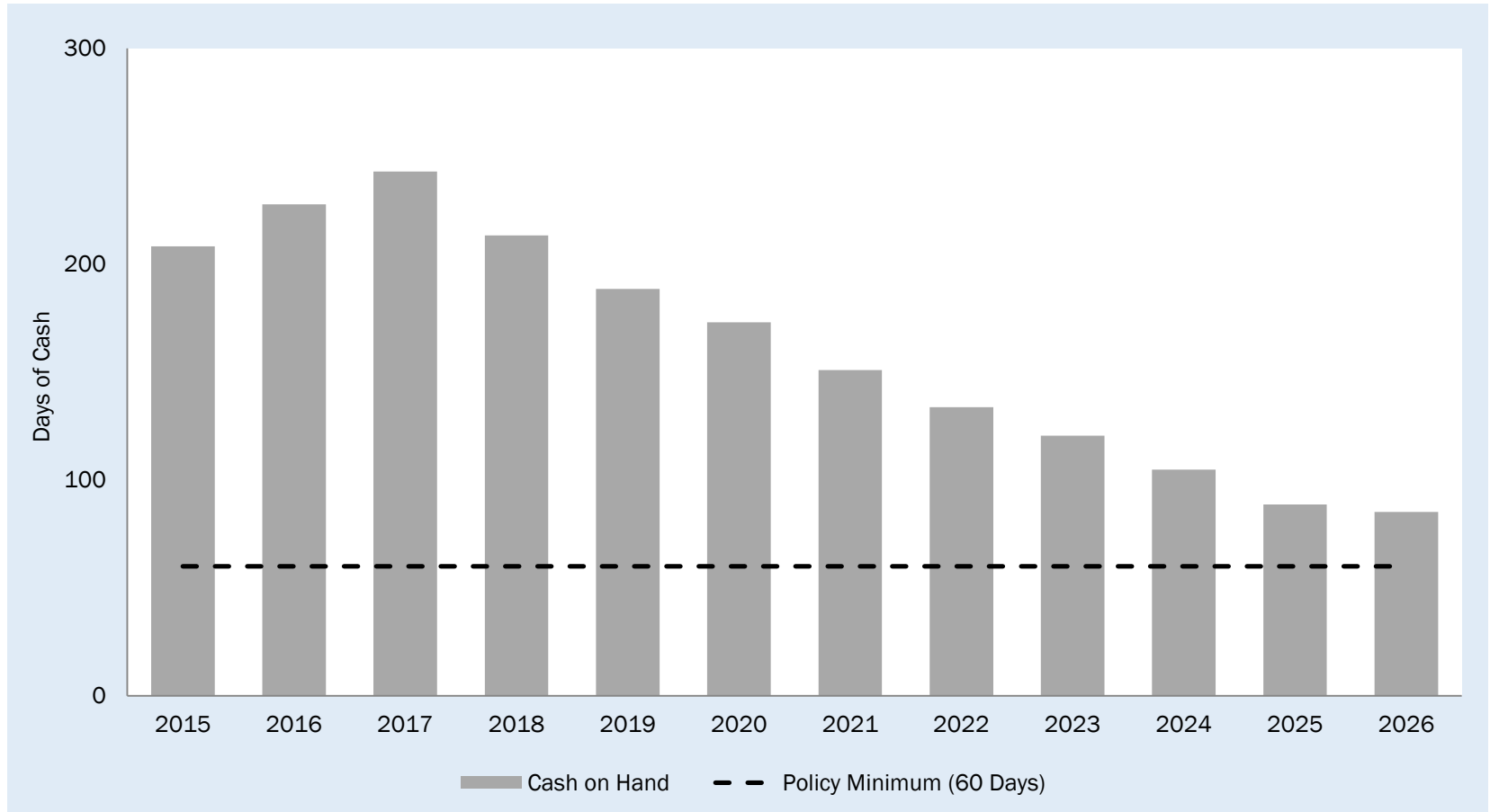
System Development Charge Fund: \$2,000,000

Capital Reserve: 1% of original cost of plant-in-service

Operating Fund: 60 days of current budgeted expenditures

Long-Range Financial Plan Update

Operating Cash on Hand



Measures: Days of cash on hand to meet current budgeted operating expenditures

Policy Minimum: 60 Days.

Long-Range Financial Plan Update

SDC Fund

Forecast to be \$1.3M/year
Based on growth

Fund Balance primarily
Wholesale in 2006

No new projected

SDC Revenues

Retail SDC payments

Wholesale SDC time payments

SDC Fund

Balance at 12/31/17
\$61.6 M

May be used for capital purposes only

Minimum balance of \$2 million

Reimburse Capital Project Expenditures

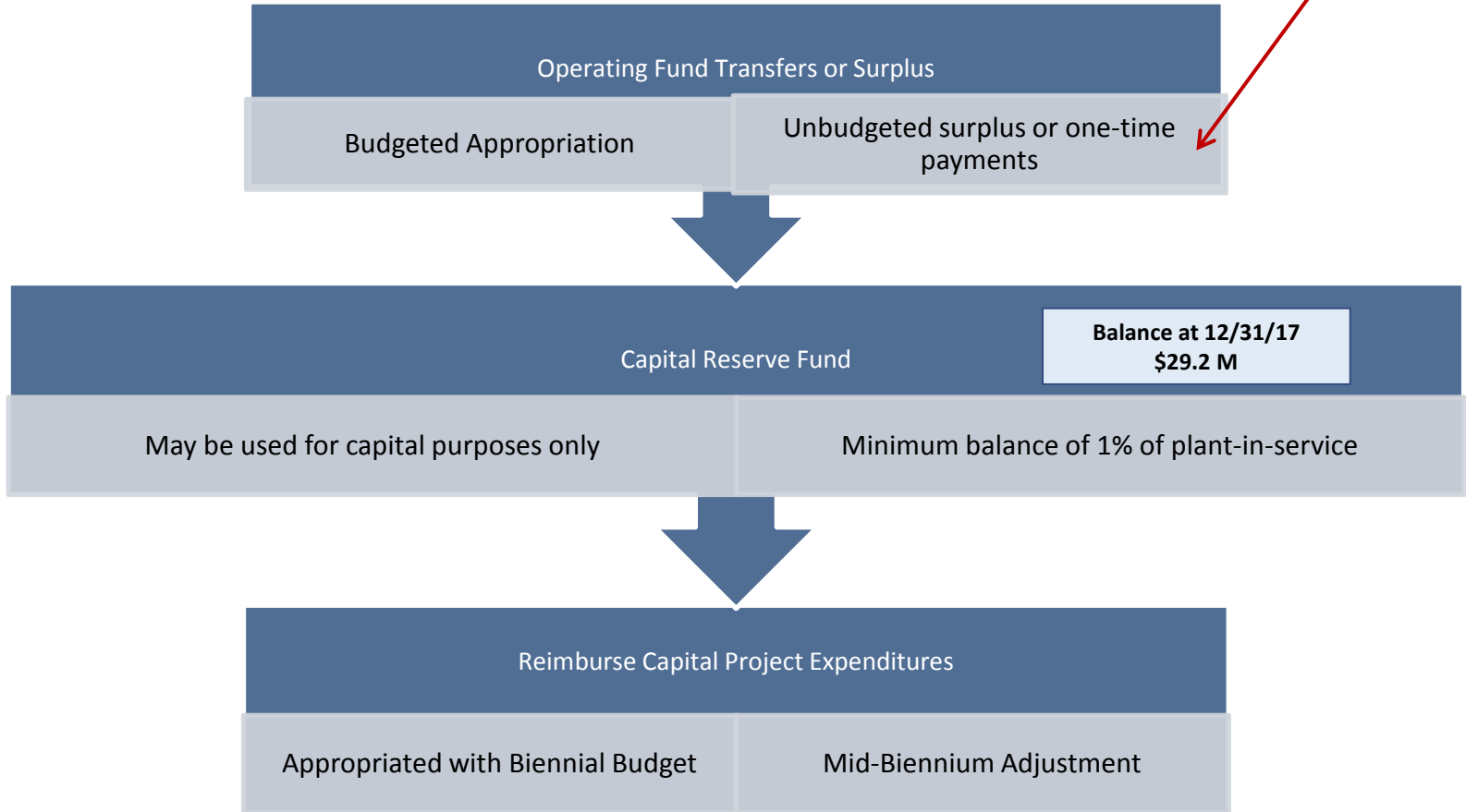
Appropriated with Biennial Budget

Mid-Biennium Adjustment

Long-Range Financial Plan Update

Capital Reserve Fund

CWA contract payments phase down in 2030, done in 2042
Timber and land sales
"One time"



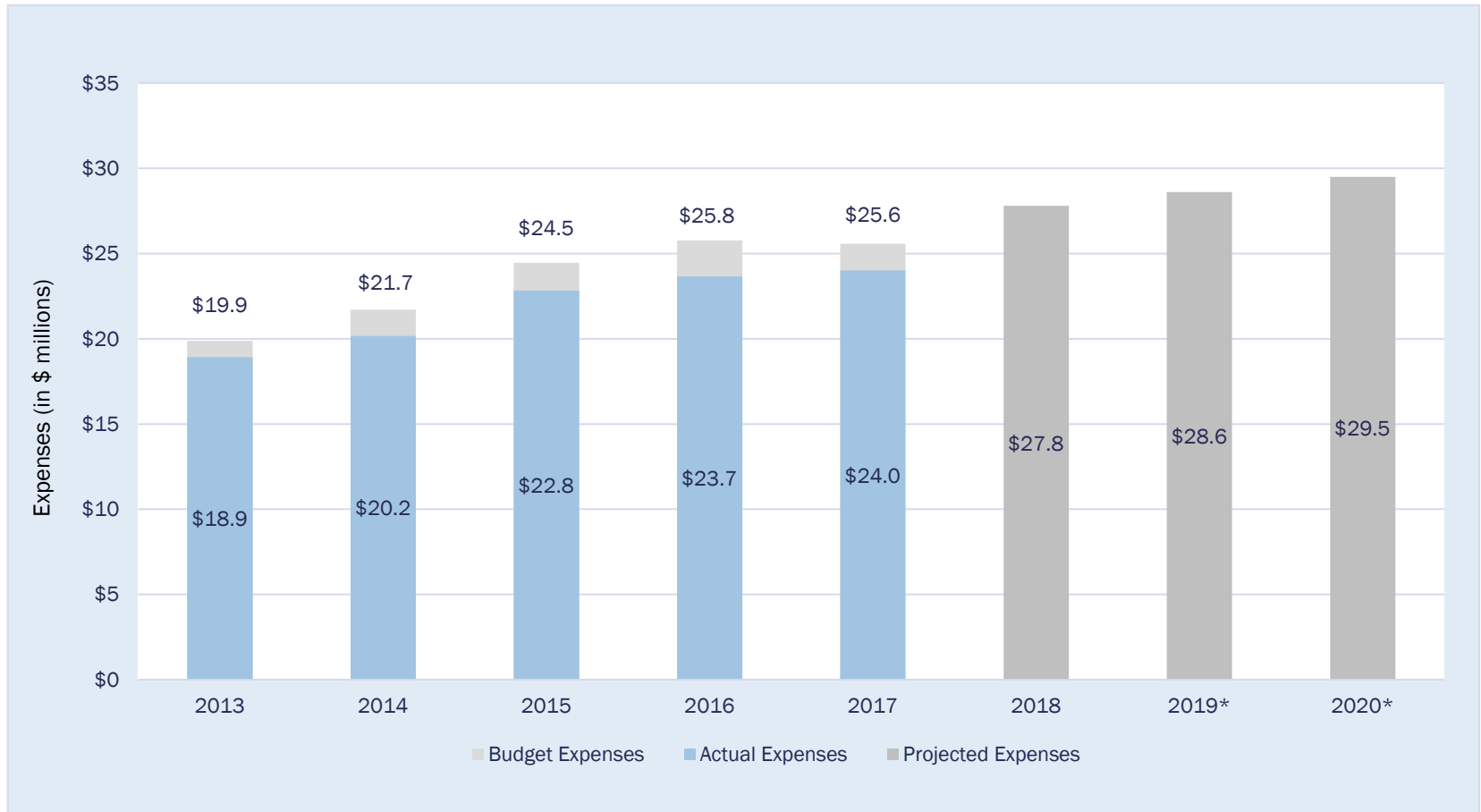
Expense Budget and Revenue Requirement

*We are preserving the
connection with our budget.*

*Rate and Financial Policy:
Rates will be sufficient to meet
Tacoma Water Budgets.*

Expense Budget and Revenue Requirement

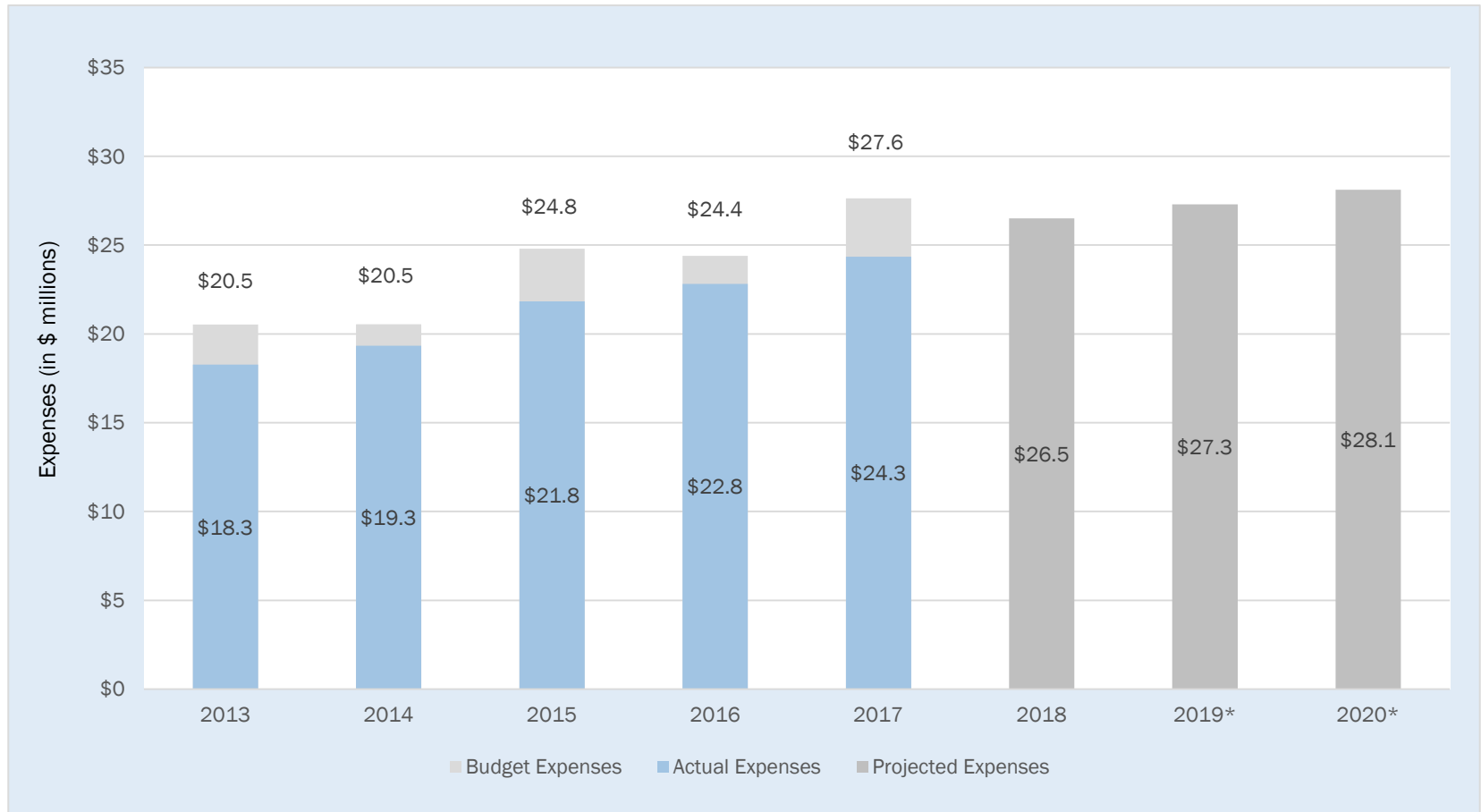
Historical Spending Trends for Personnel



* 2019/2020 projected expenses are in initial stages of review.

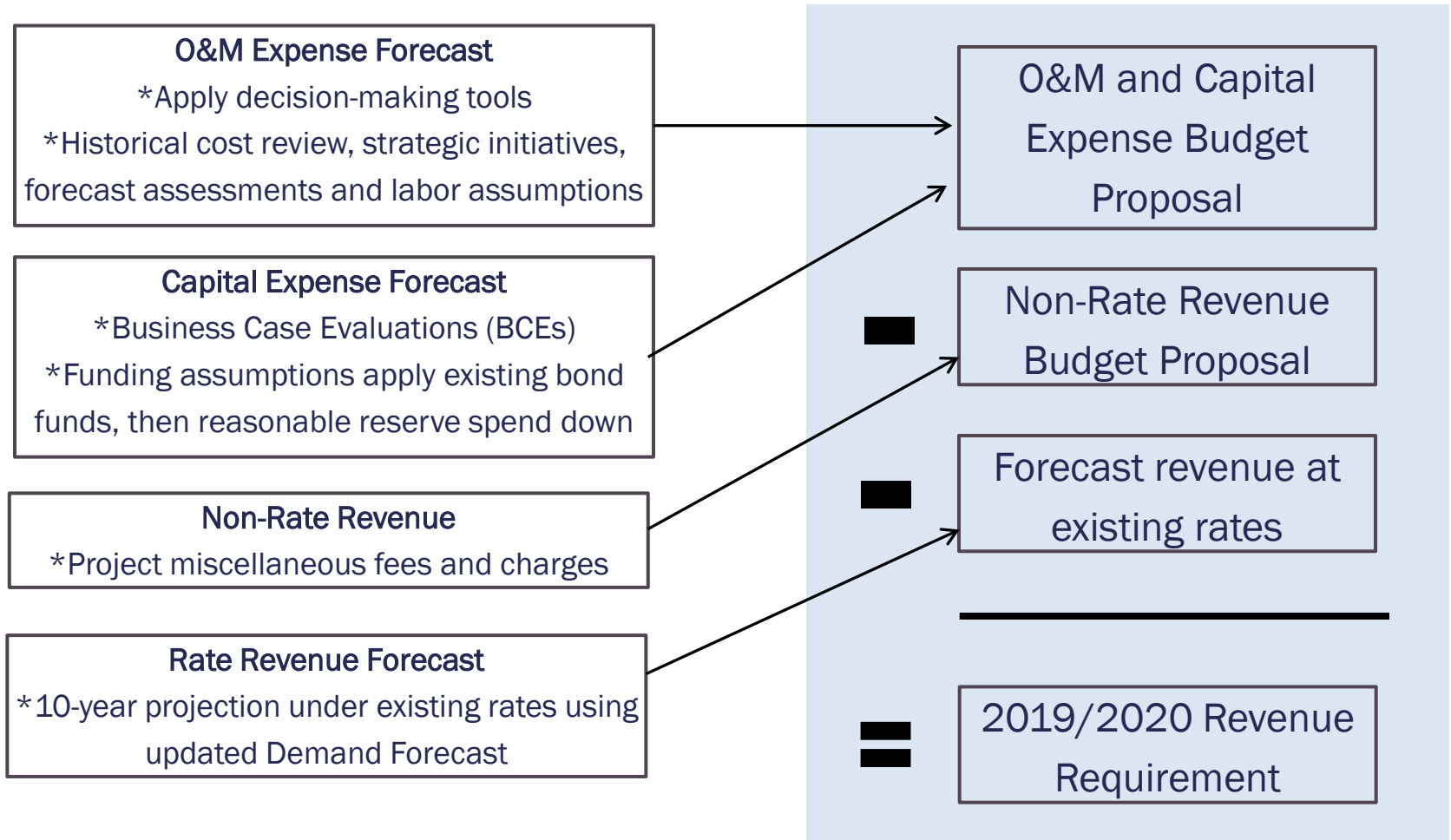
Expense Budget and Revenue Requirement

Historical Spending Trends for Other O&M



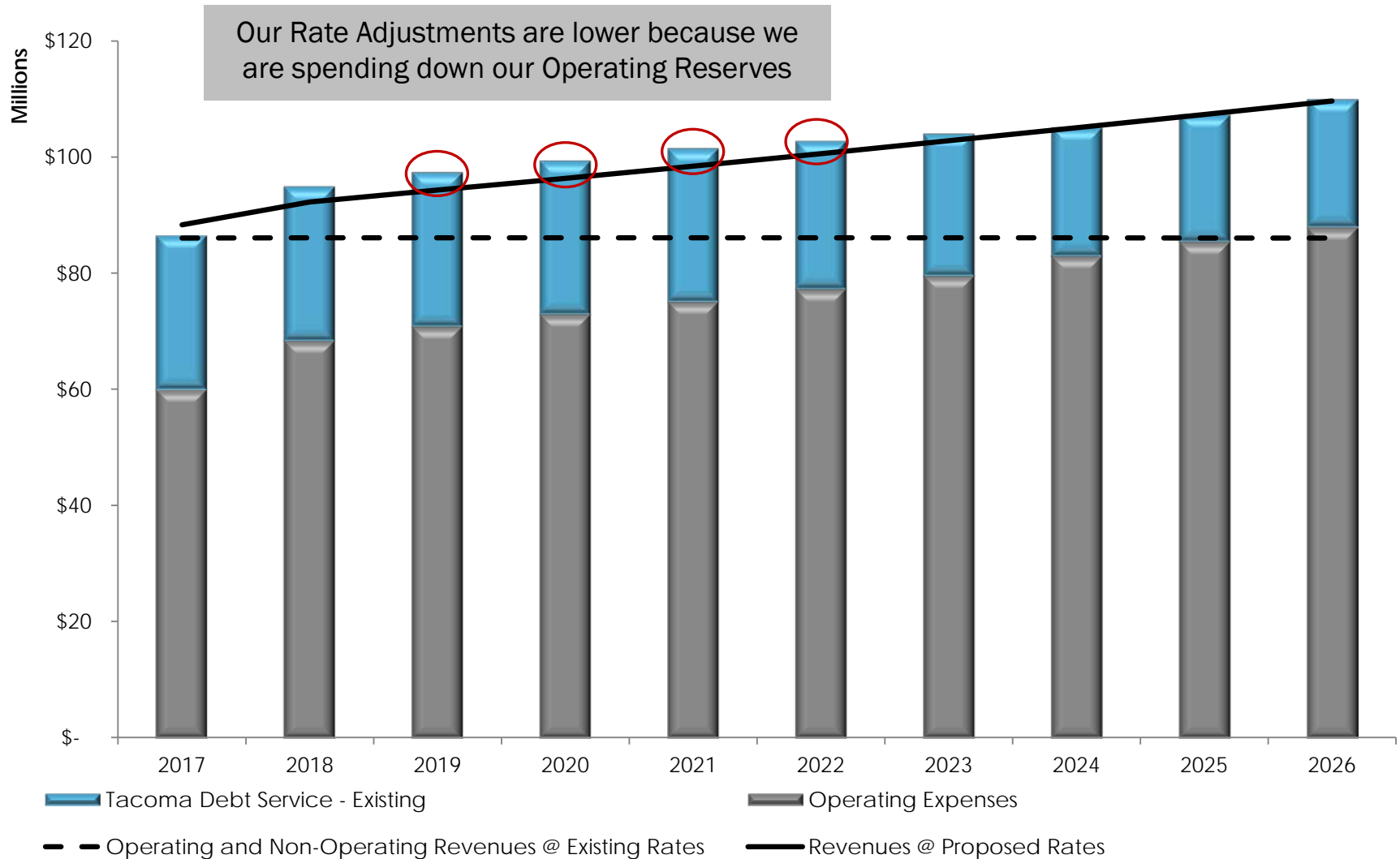
* 2019/2020 projected expenses are in initial stages of review.

Revenue Requirement Analysis



Expense Budget and Revenue Requirement

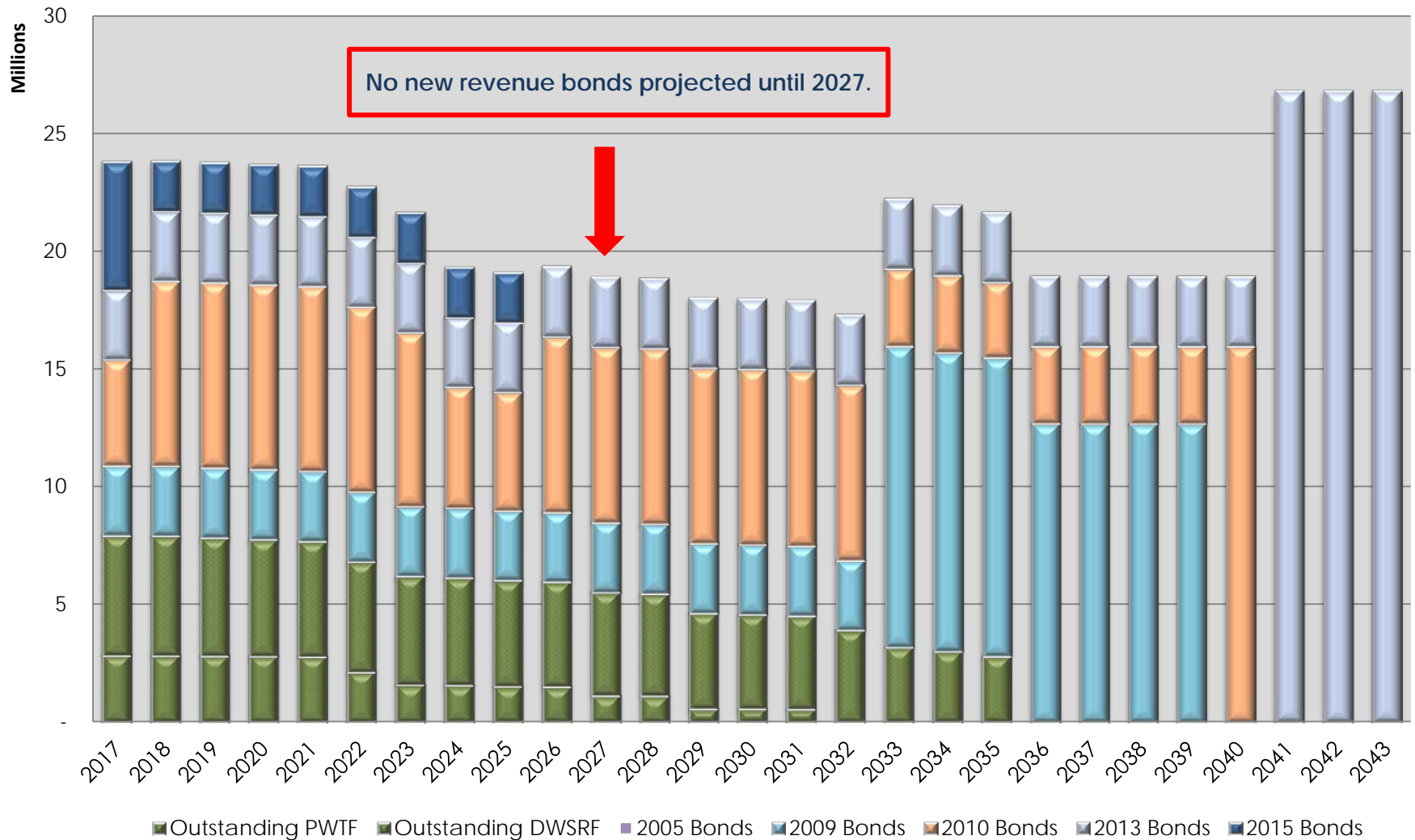
Revenue Requirement Analysis



Debt Management and Capital Funding Strategy

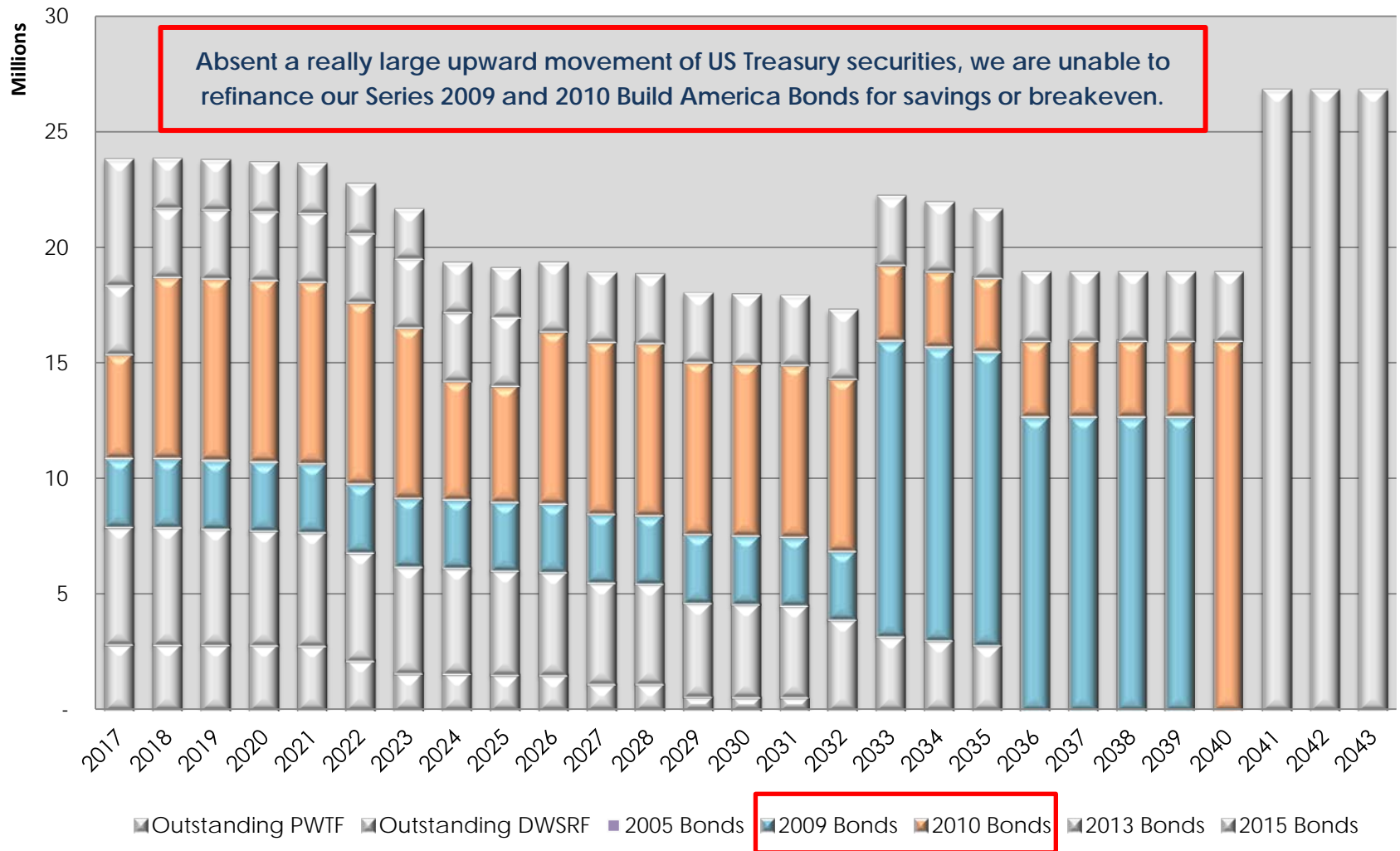
Debt Management and Capital Funding Strategy

Existing Debt Service

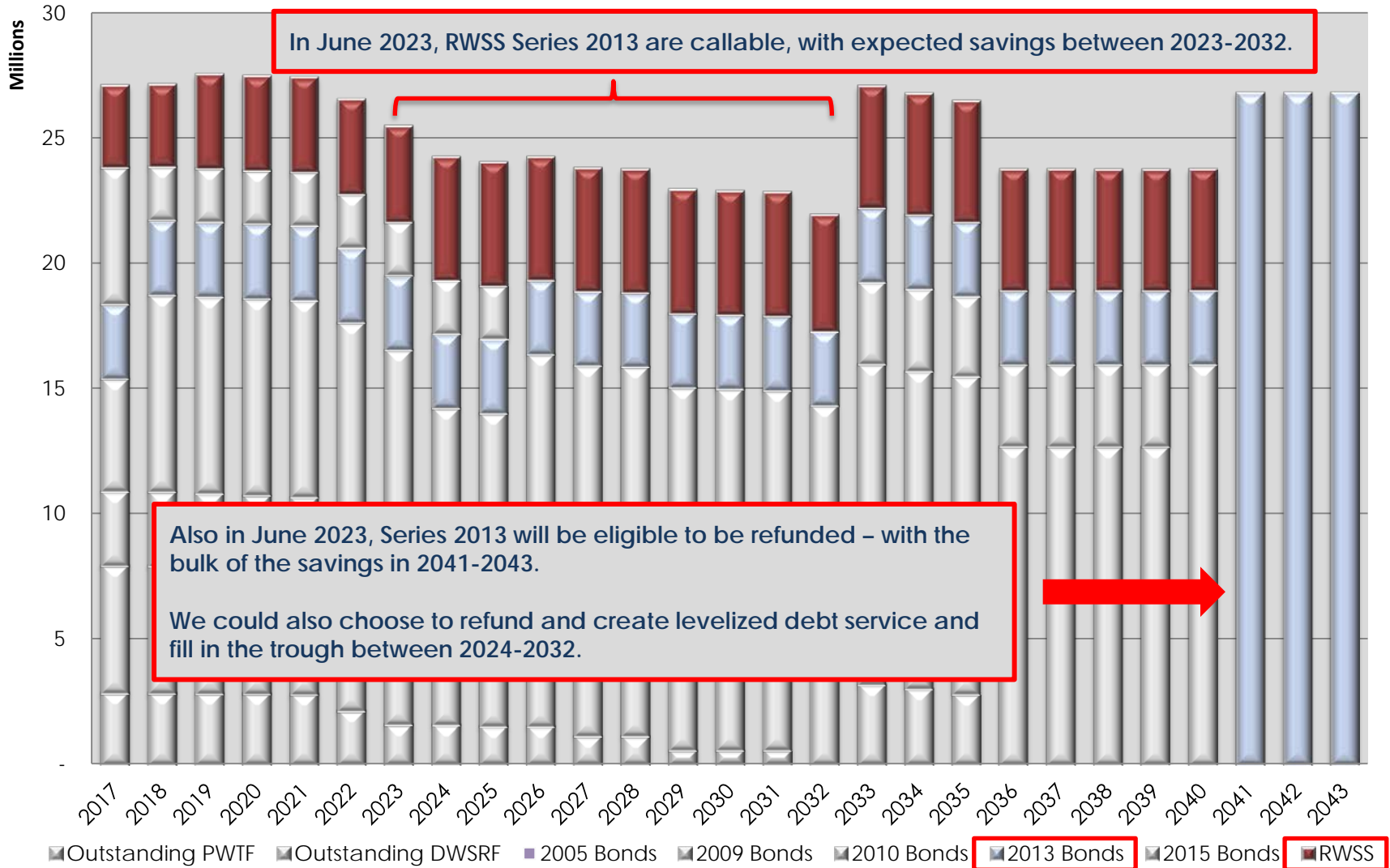


Debt Management and Capital Funding Strategy

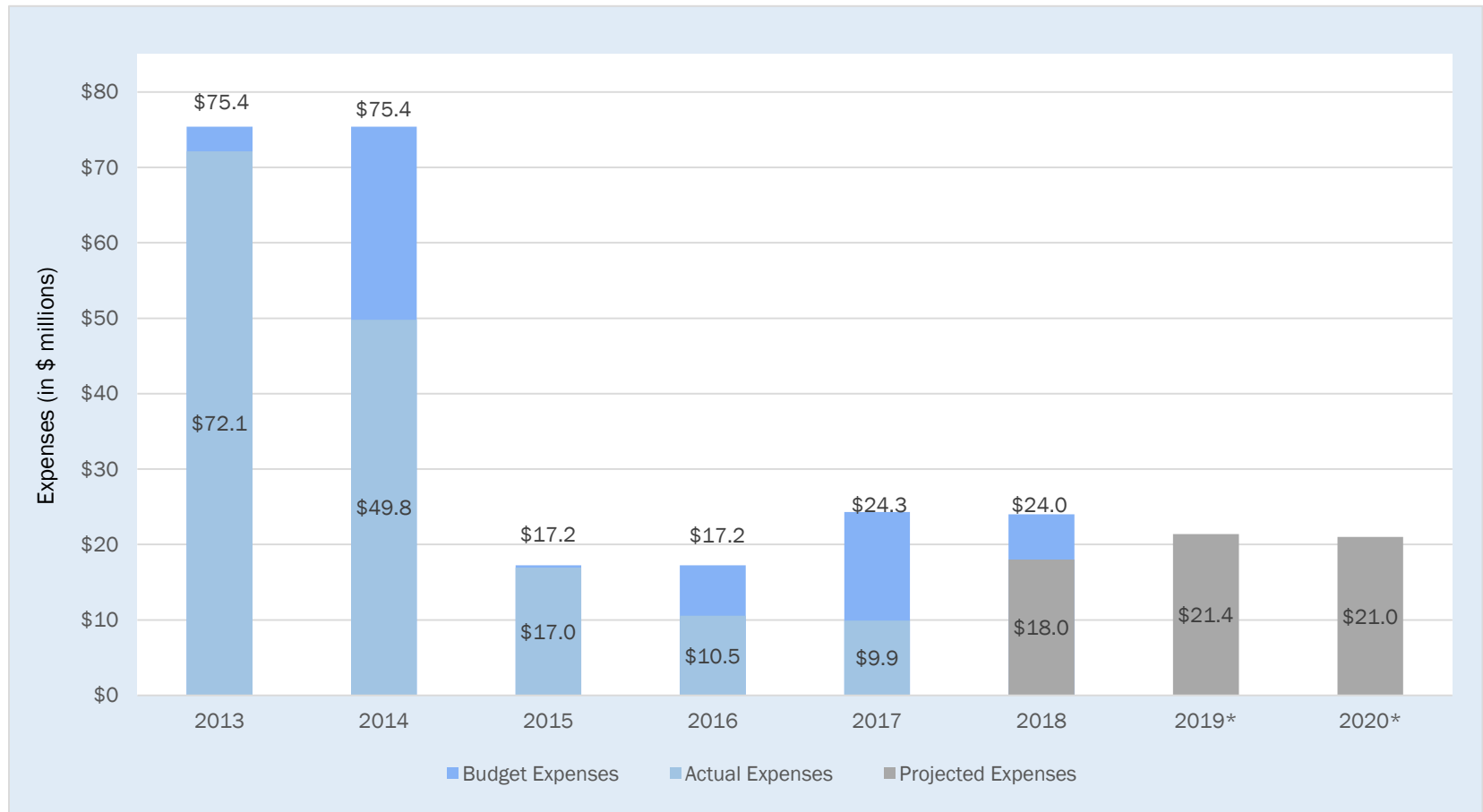
Existing Debt Service



Existing Debt Service with RWSS



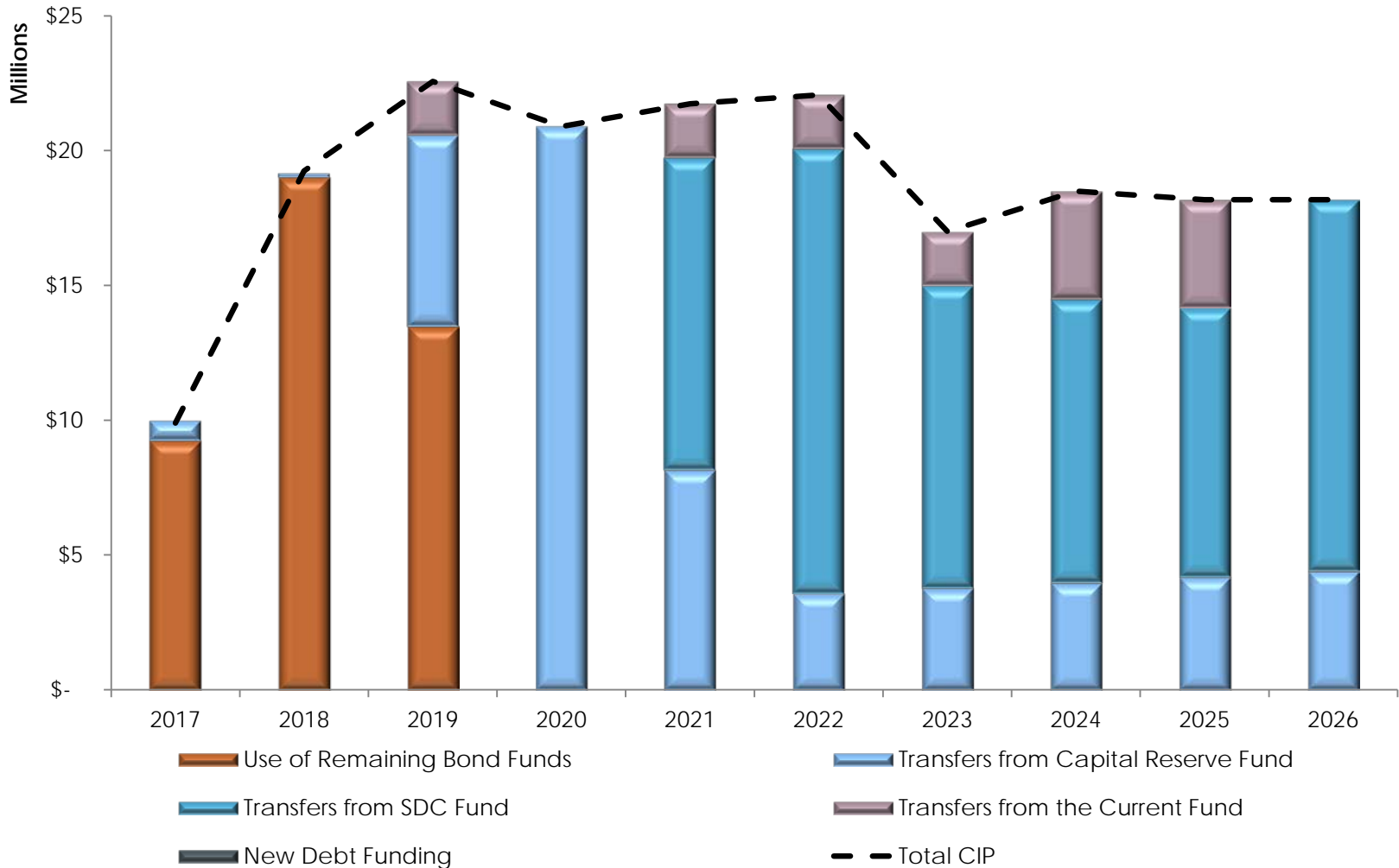
Historical Trends on Capital Spending



* 2019/2020 projected expenses are still in initial stages of review.

Debt Management and Capital Funding Strategy

Capital Funding Strategy



Water Rate & Financial Policy

TACOMA PUBLIC UTILITIES
TACOMA WATER

WATER RATE AND FINANCIAL POLICY

Adopted by Public Utility Board Resolution U-10917 on March 22, 2017
Adopted by City Council Ordinance No. 28422 on April 4, 2017

Cost of Service Analysis (COSA)

Proposal to defer COSA (only Revenue Requirement for 2019-2020):

- Our current practice has been to conduct COSAs every 2 years along with the budgeting cycle.
- Our financial policy says that, “An embedded cost-of-service study will determine the cost of serving each customer class, allocation of class responsibility for the projected expenses, and proposed rates sufficient to recover projected expenses.” However, the policy does not implicitly state that this must be performed every 2 years.
- We will continue to perform demand forecasting and rate-design with the budget cycle.
- We propose this change because there are no significant shifts in plant functionality for the 19/20 biennium and rates currently charged for each for each class of customer will be set to reflect the cost of supplying service to that class.
- Many water utilities perform COSAs every 4-6 years.

Water Rate & Financial Policy

Rate-Design

There are a few proposed structural changes to Rate-Design for 2019-2020:

Public Fire Protection

- The recovery of unpaid historical costs from Outside City Customers will be achieved by this summer.
- The rate-design will include retiring “Historical Service Component” for outside city customers effective January 1, 2019.
- The rate-design will include recovering public fire protection costs from general rate, and remove “Hydrant Service Fee” as a separate line item on bill.

Irrigation

- We will continue transitioning to a rate structure that will ultimately consist of only volumetric rates for irrigation customers until fully implemented in 2022.

Debt Service Coverage Policy

Proposal to change the minimum requirement or the addition of language that will allow us to achieve a lower metric during times when we are strategically spending down reserves.

- Our financial policy says that, “Senior Debt Service Coverage will be maintained above 150%, exceeding Tacoma Water’s bond covenant requirement of 125%. All In Debt Service Coverage will be maintained above 125%.”
- We aren’t projecting to meet our policy goal for All In Coverage over the next several biennia, this is primarily due to our intentional spend down of reserves as well as the significant amount of low interest loan debt that we will be paying over this time period.
- We will be proposing language to allow for flexibility and give us the ability to view our coverage and liquidity goals holistically. The working draft states:

“When operating/current fund balance exceeds the policy minimums, application of these reserve funds when previously planned and budgeted may be considered as revenue for the computation of the all-in debt service coverage calculation up to the budgeted amount to be applied.”

System Development Charge and Fund Structure

In the next year, we will review SDC cost basis, policy supports, and fund structure. This includes:

- Conducting a full analysis on our current SDC structure and fees.
- Assessing opportunities to simplify by combining the SDC and Capital Reserve Funds into one Capital Fund.

Market-Based Wholesale Rates

We are currently underway with a strategic initiative regarding wholesale pricing and policy revisions.

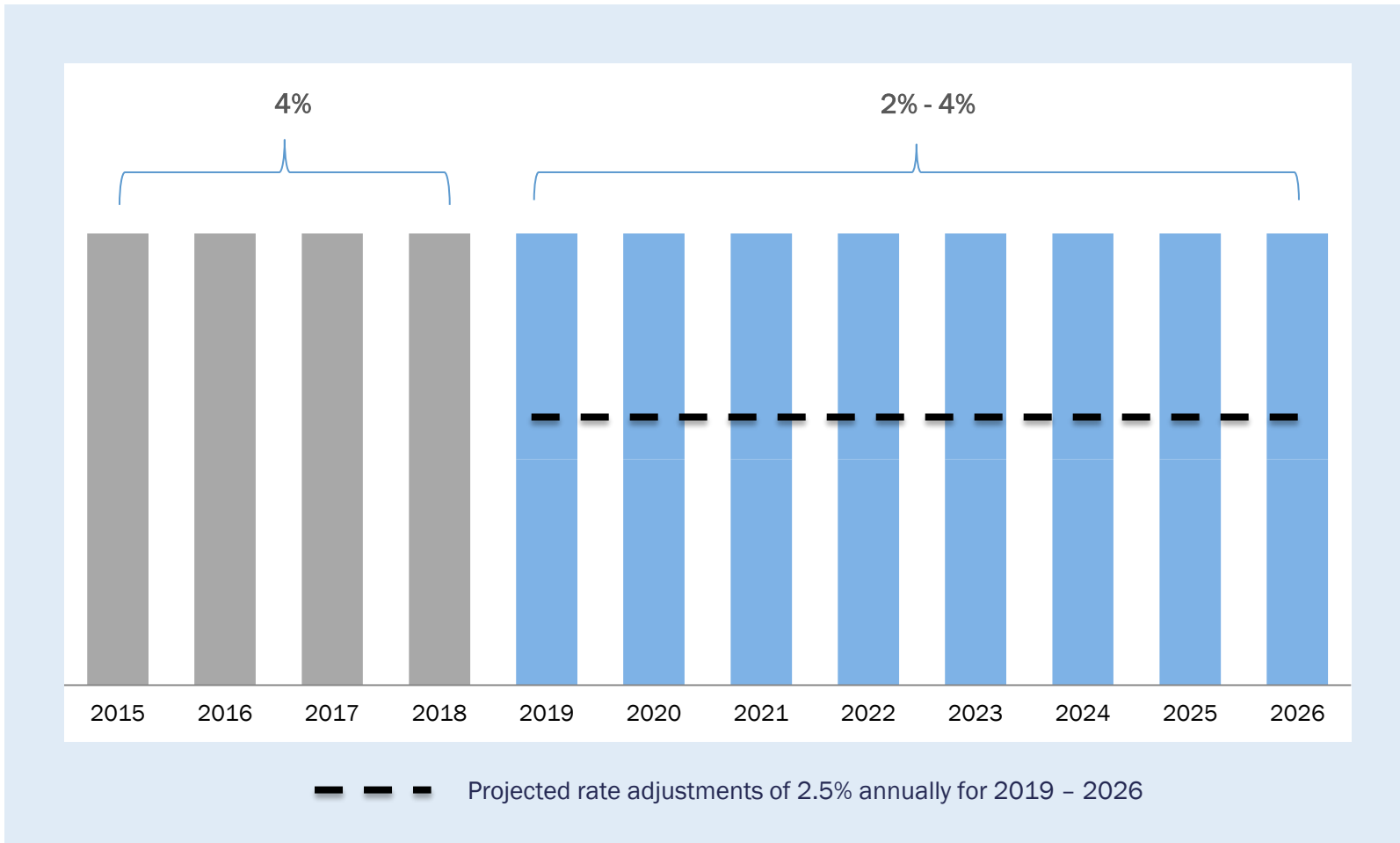
- Some goals related to this initiative include:
 - Analyzing changes such as the ready-to-serve, system development, and volumetric charges.
 - Creating recommendations such as a turn on/off policy and operating board alternatives.
- We are currently drafting an RFP for analysis of the wholesale market.
- We have and continue to meet with wholesalers to discuss market-based pricing.
- We met with SPU to learn about their wholesale program and operating board.
- We will continue discussions with the Board regarding wholesale opportunities outside of the budget and rate process.

Next Steps

Long-Range Financial Plan Update

Actual and Projected Rate Increases

This forecast is subject to change, and is dependent upon actual financial performance in future years.



Next Steps

Upcoming Discussions

PUB Meeting	Topic(s)
May 9 th	Power and Water Financial Policy Discussions
May 23 rd	Power and Water Budget Preview Presentations
July 25 th	Revenue Requirement and Rate-Design Proposals
September 12 th	TPU Board Study Session Budget Presentation
October 9 th	Joint Council/PUB Study Session Presentation
October 24 th	Public Utility Board approval of preliminary budget

