



Audit Results

Tacoma Public Utilities Public Utility Board Presentation

May 18, 2018



May 18, 2018

To the Chair and Members of the Public Utility Board
Tacoma Public Utilities - Power, Water, and Rail Divisions

Dear Board Members:

Thank you again for your engagement of Moss Adams LLP. We are pleased to present to you the results of our audits of the Utilities' financial statements for the year ended December 31, 2017.

The accompanying report, intended solely for the use of the Board and management, presents important information regarding the Utilities' financial statements that we believe will be of interest to you.

We conducted our audits with the objectivity and independence you expect. We received the full support and assistance from the Utilities' personnel. We are pleased to serve and be associated with the Utilities, and we look forward to our continued relationship.

Sincerely,



Olga A. Darlington
Moss Adams LLP



Auditor's Report on the Financial Statements

Unmodified Opinions

- Financial statements are presented fairly and in accordance with US GAAP – following pronouncements promulgated by the Governmental Accounting Standards Board (GASB)
- Tacoma Public Utilities - Power, Water, and Rail Divisions – reports issued April 18 and 20, 2018

Audit and report on
internal control and
compliance over financial
reporting in accordance
with *Government Auditing
Standards*

- No material weaknesses in internal control



Our Responsibility Under Auditing Standards

1

To **express our opinion on whether the financial statements prepared by management with your oversight** are fairly presented, in all material respects, and conform to US GAAP. However, our audit does not relieve you or management of your responsibilities.

2

To perform an audit in accordance with generally accepted auditing standards issued by the AICPA and Government Auditing Standards issued by the Comptroller General of the United States and **design the audit to obtain reasonable, rather than absolute, assurance** about whether the financial statements are free of material misstatement.

3

To **consider internal control over financial reporting as a basis for designing audit procedures** but not for the purpose of expressing an opinion on its effectiveness or to provide assurance concerning such internal control.

4

To **communicate findings that, in our judgment, are relevant to your responsibilities in overseeing the financial reporting process**. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.



Area of Audit Emphasis

Internal Control Environment

- Cash receipts/revenues, cash disbursements/payables, payroll, power trading, treasury, financial close and reporting;
- General computer controls, IT environment

Treasury

- Coordination with SAO testing of cash and investment balances for existence, valuation, restrictions; evaluation of fair value

Management Estimates

- Allowance for doubtful accounts
- Unbilled revenues
- Depreciable lives and estimated residual value of plant
- Accrued liability for injuries and damages
- Actuarial valuations for pension and OPEB amounts
- Environmental liabilities



Area of Audit Emphasis, continued

Capital Assets

- Consideration of capitalization policies, as well as testing of work orders for additions, retirements, overhead application, capitalized interest, depreciation

Net Pension Liability

- Recognition of share of the liability for employees' future pension obligations as part of the Tacoma Employees Retirement System (TERS);
- Employer liability and related deferred inflows/outflows including selections of new hires from the census and contributions made by the Utilities to TERS

Debt Activity

- New debt issued and defeased in Power Fund; debt repayments, arbitrage liability, capitalized interest, discounts and premiums, compliance with covenants



Required Audit Communications

Planned Scope and Timing of Audit

- The planned scope and timing of the audit was communicated through our communication letter to those charged with governance dated December 7, 2017, and was included in the engagement letter dated October 31, 2017.

Significant Accounting Policies

- See notes to the financial statements

Accounting Estimates

- Note 2 discloses the Utilities' significant accounting policies:
 - Allowance for doubtful accounts
 - Unbilled revenues
 - Depreciable lives and estimated residual value of plant
 - Actuarial valuations for pension and OPEB amounts
 - Environmental liabilities



Required Audit Communications, continued

Consultation with Other Accountants

- None noted

Disagreements with Management

- No disagreements or difficulties in performing the audit

Potential Effect of Any Significant Risks and Exposures

- The Utilities are subject to potential legal proceedings and claims that arise in the ordinary course of business.



Audit Adjustments and Passed Audit Adjustments

Audit Adjustments

- None

Passed Audit Adjustments

- One passed audit adjustment:
 - Water Fund – to reduce beginning net position and record accumulated depreciation in the amount of \$1,208,381 for uncapitalized IDC assets from 2014 – 2016 and unrecognized depreciation.



New Accounting Standards

GASB 75 - OPEB

- Addresses accounting and financial reporting issues related to other postemployment benefit plans.
- Effective for 2018 financial statements

GASB 83 – Asset Retirement Obligations

- Addresses accounting and financial reporting for certain asset retirement obligations.
- Effective for 2019 financial statements

GASB 87 - Leases

- Addresses accounting and financial reporting for leases recognizing that leases are financings of the right to use an underlying asset.
- Effective for 2020 financial statements



Acknowledgements

Thank you!

- The audit progressed on time and in an orderly fashion; requested schedules and draft financial statements were received on a timely basis.
- All Utilities personnel across all departments were courteous, responsive, and fulfilled all of our requests in a timely manner.
- 'Tone at the Top' and attitude from management was one of helpfulness and openness in response to audit requests and discussion points.





THANK
YOU



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Olga A. Darlington, Partner
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(425) 551-5712

TACOMA WATER 2019 - 2020 BUDGET PREVIEW

Scott Dewhirst, Superintendent

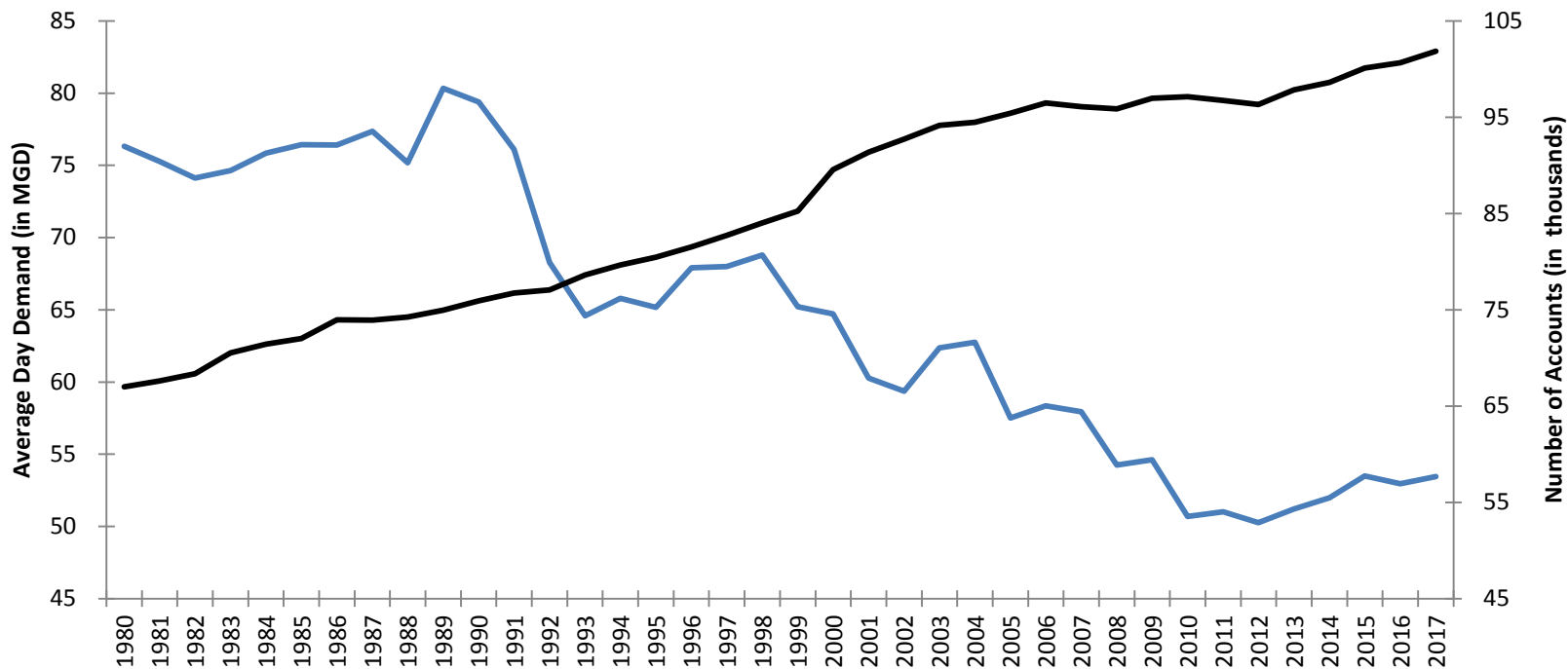
May 23, 2018



TODAY'S DISCUSSION

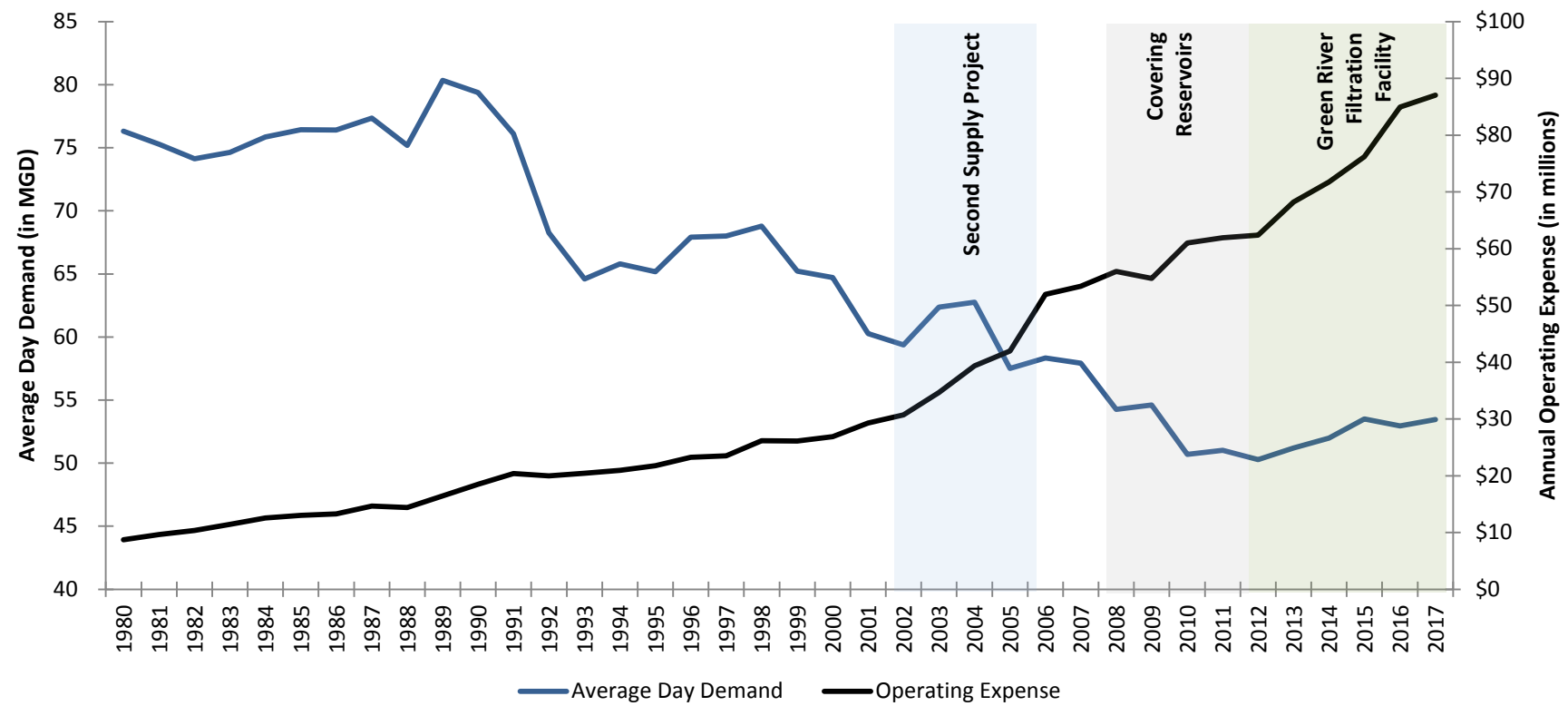
- **State of the Utility**
- **Strategy**
- **Budget Drivers**
- **Base Case Rate Scenario**
- **Budget & Rate Impacts**
- **Next Steps**

STATE OF THE UTILITY: DEMAND

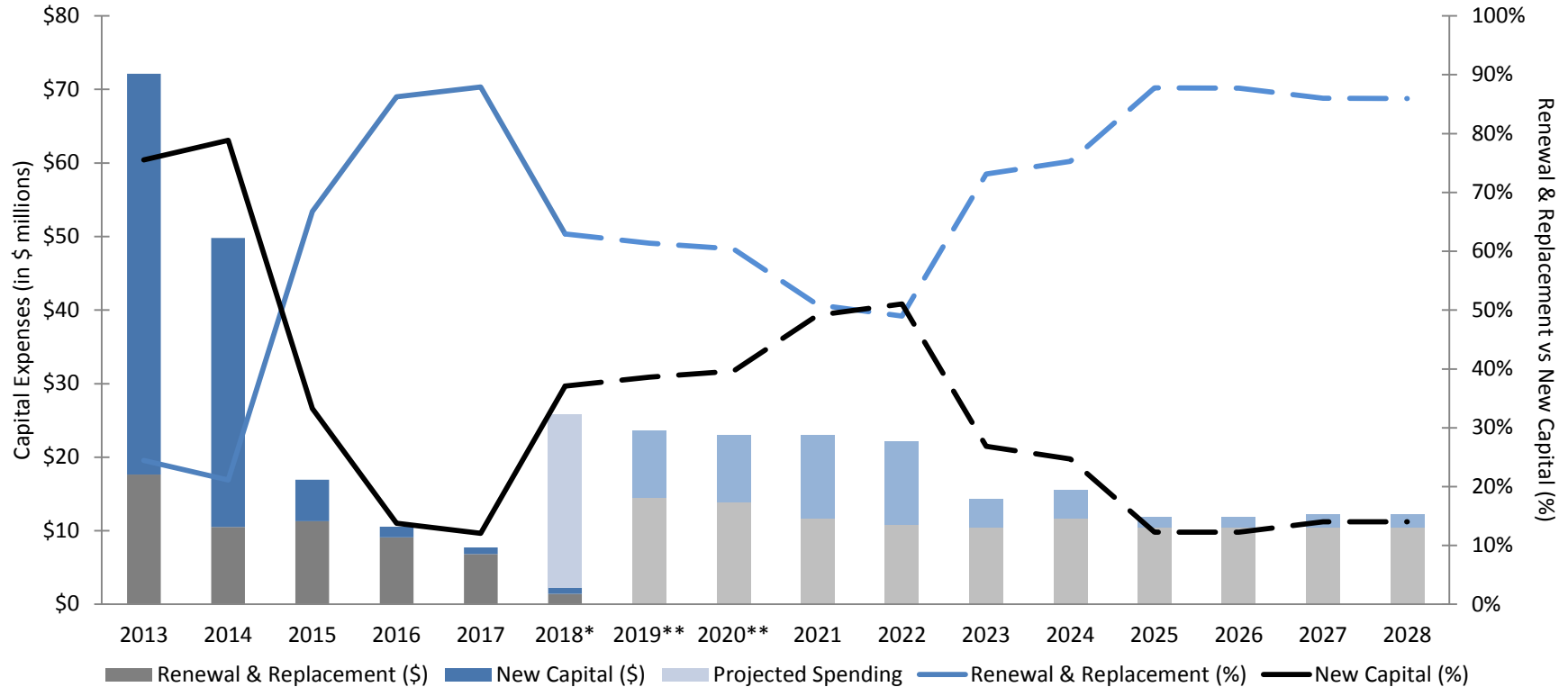


* Excludes demand from RWSS partners.

STATE OF THE UTILITY: INCREASING COSTS



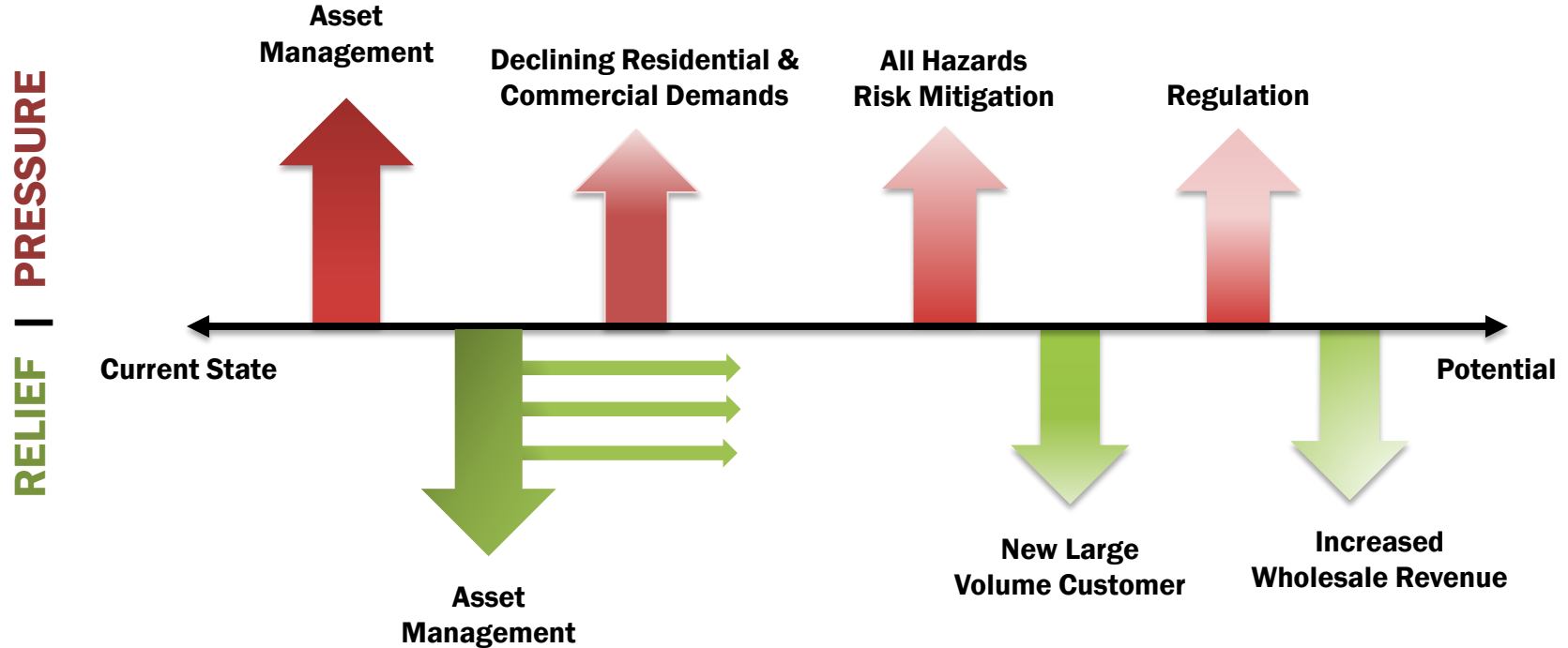
STATE OF THE UTILITY: CAPITAL SPENDING



* 2018 reflects spending through Q1

** 2019/2020 budgeted projections are preliminary

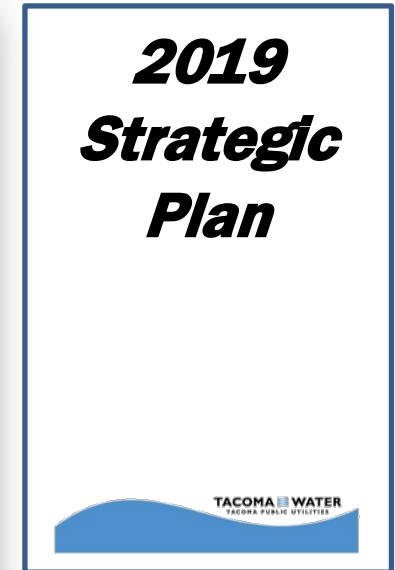
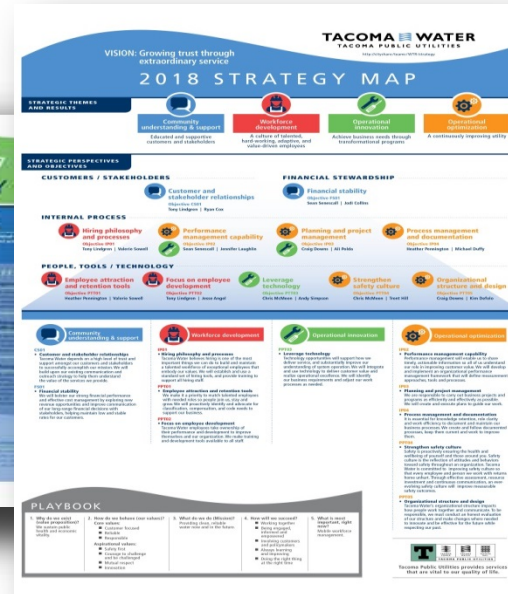
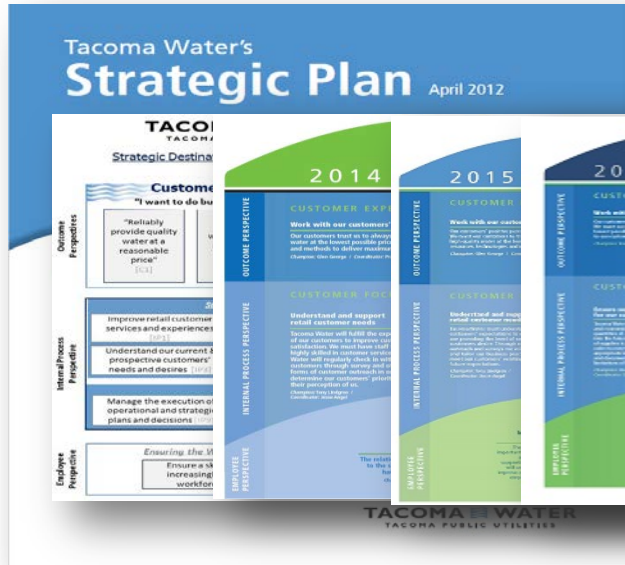
STATE OF THE UTILITY: RATE PRESSURE & RELIEF



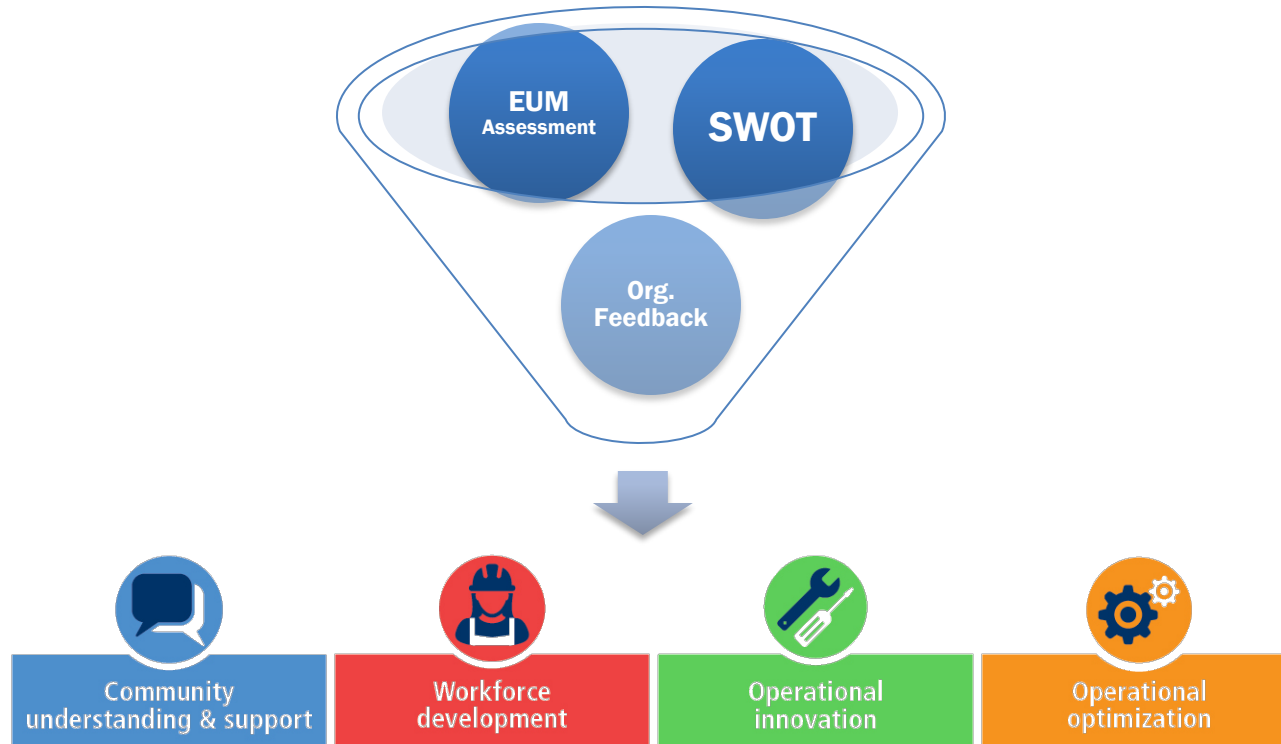
STRATEGY: EVOLUTION

VISION: Growing trust through extraordinary service

Mission: Providing clean, reliable water now and in the future.



STRATEGY: 2018 STRATEGIC THEMES



STRATEGY: EFFECTIVE UTILITY MANAGEMENT

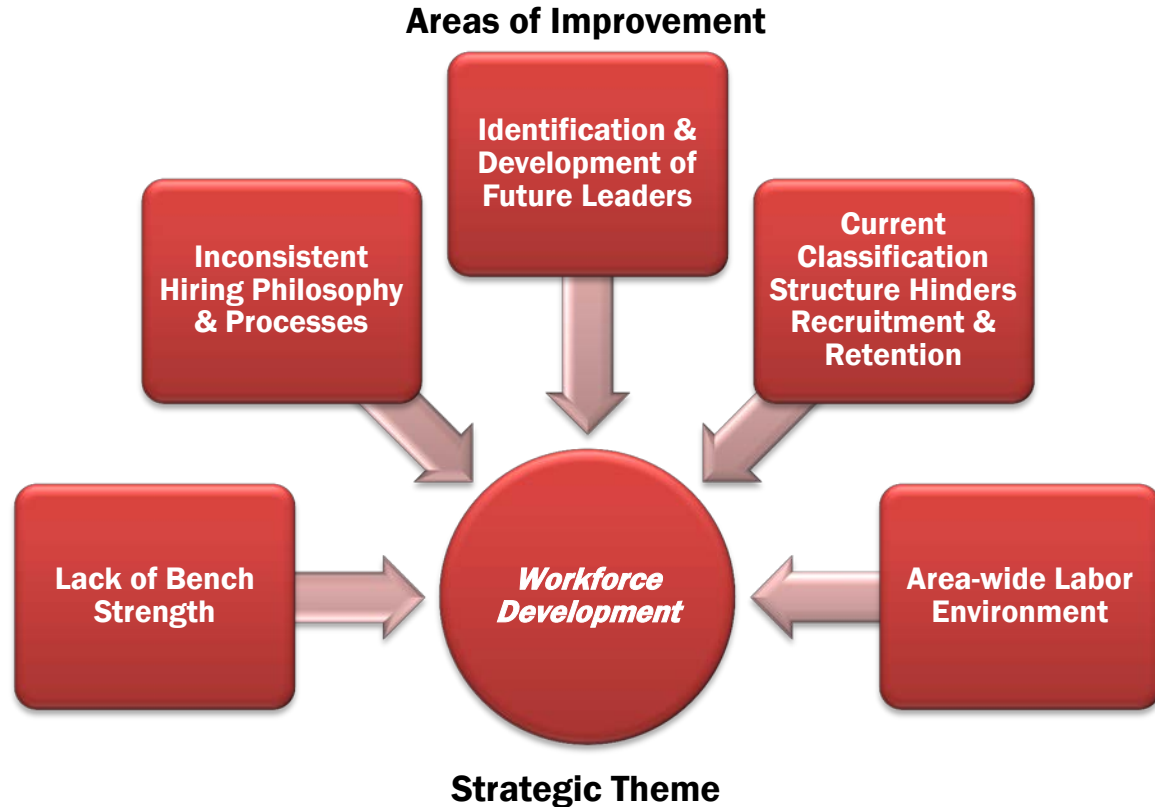


Largest gaps (importance and achievement)

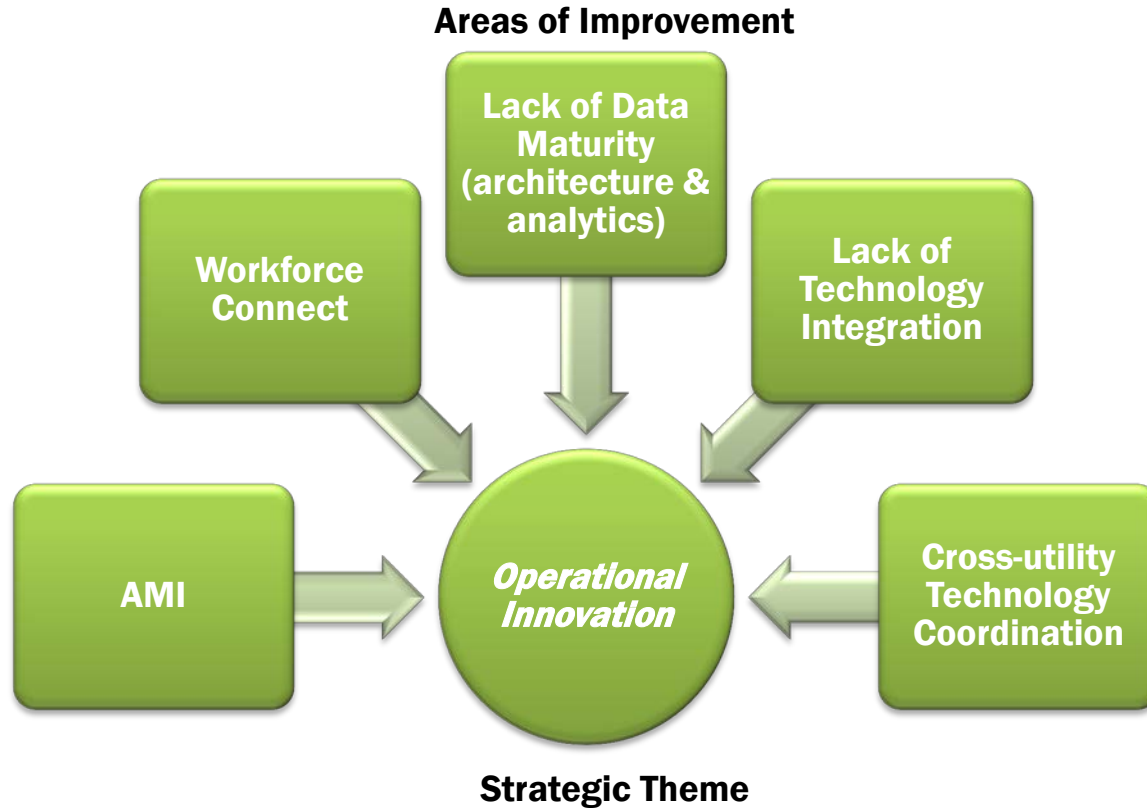
STRATEGY: COMMUNITY UNDERSTANDING & SUPPORT



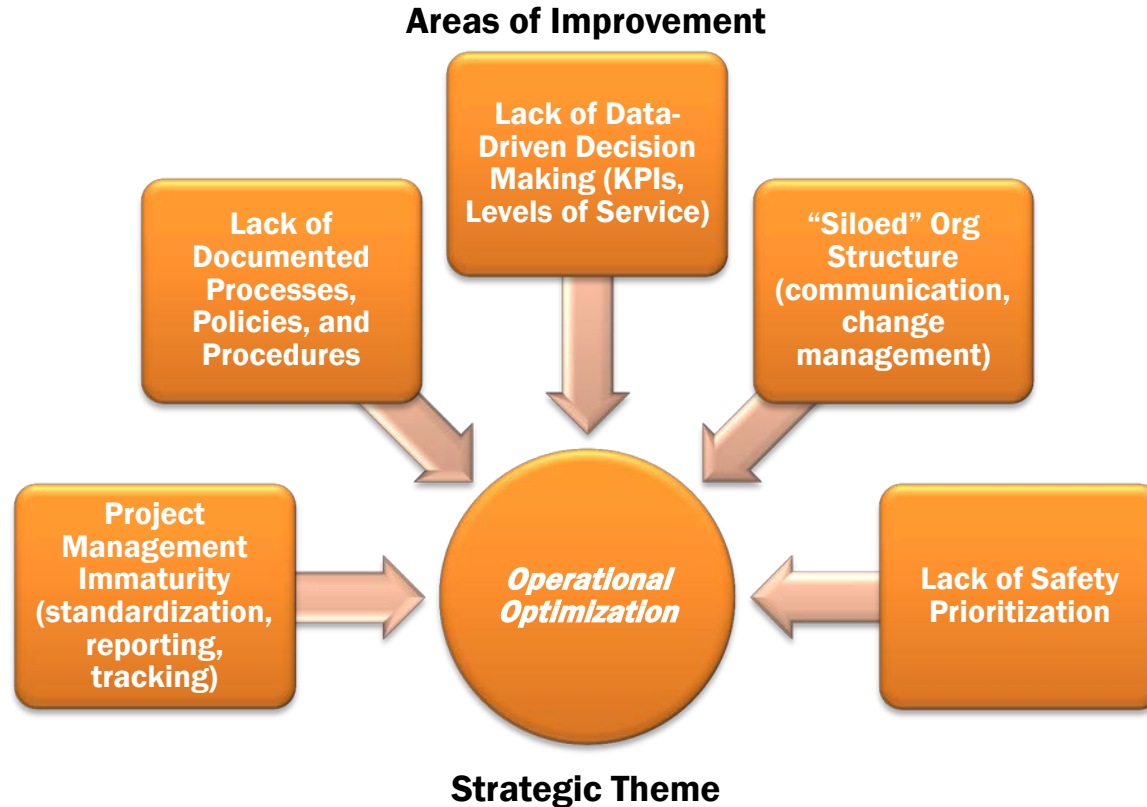
STRATEGY: WORKFORCE DEVELOPMENT










STRATEGY: OPERATIONAL INNOVATION



STRATEGY: OPERATIONAL OPTIMIZATION

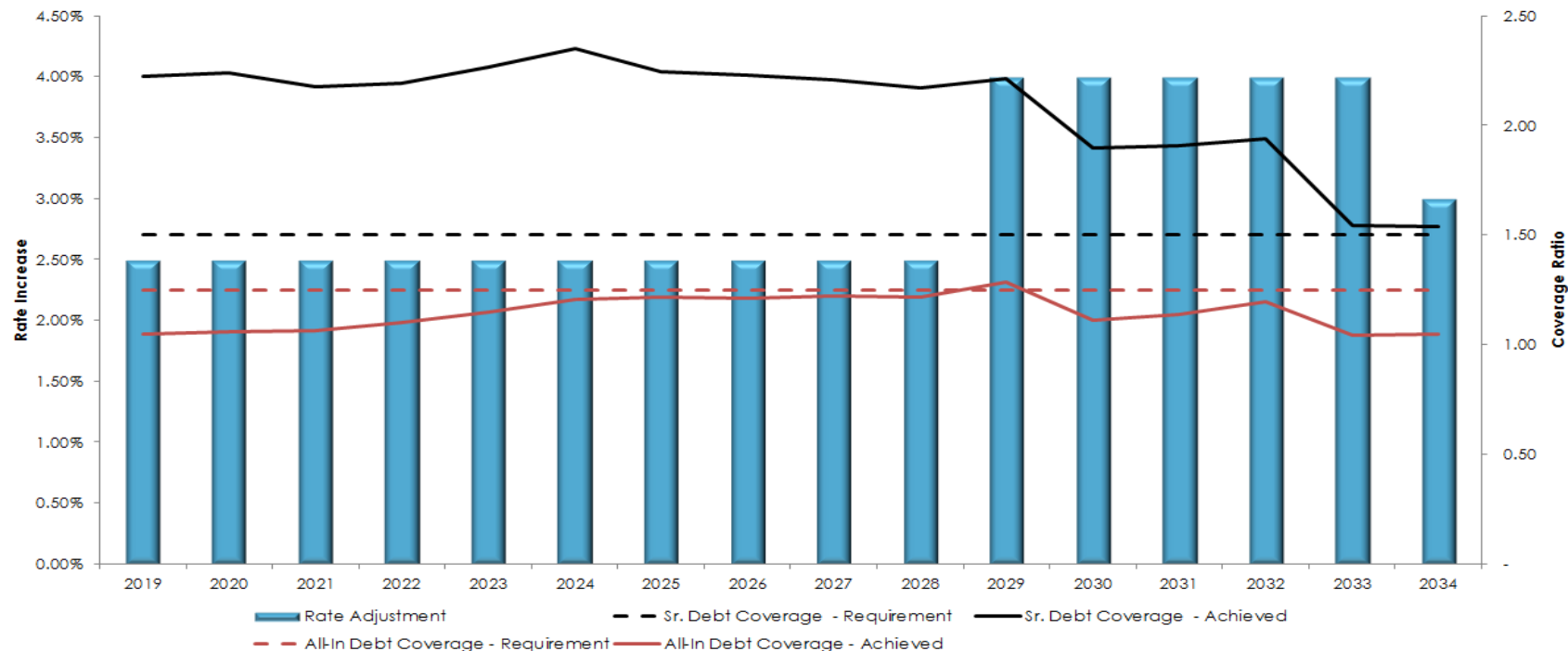


BUDGET DRIVERS

Financial Modeling Scenario	Description	Rate Pressure & Relief
2019/2020 Base Case	Expected customer growth, base CIP, base O&M	
High Customer Growth	Assumes account growth with historical modeling	
New Large Volume Customer	Assume additional large volume customer with demand similar to Niagara	
Increased Wholesale Revenue	Expanded wholesale sales through market-based and traditional wholesale agreements, assumes additional \$1.2M per year additional revenue	
High Case CIP	Includes high range capital mitigation from the Vulnerability Assessment, assumes additional capital of \$128M over the next 10 years	
Pulp Mill Shutdown	Models 2019 closure, assumes loss of \$6M per year	
AWSP Finalization	Fish Passage, Howard Hanson Dam Biological Assessment, assumes additional capital of \$2.6M in 2020	

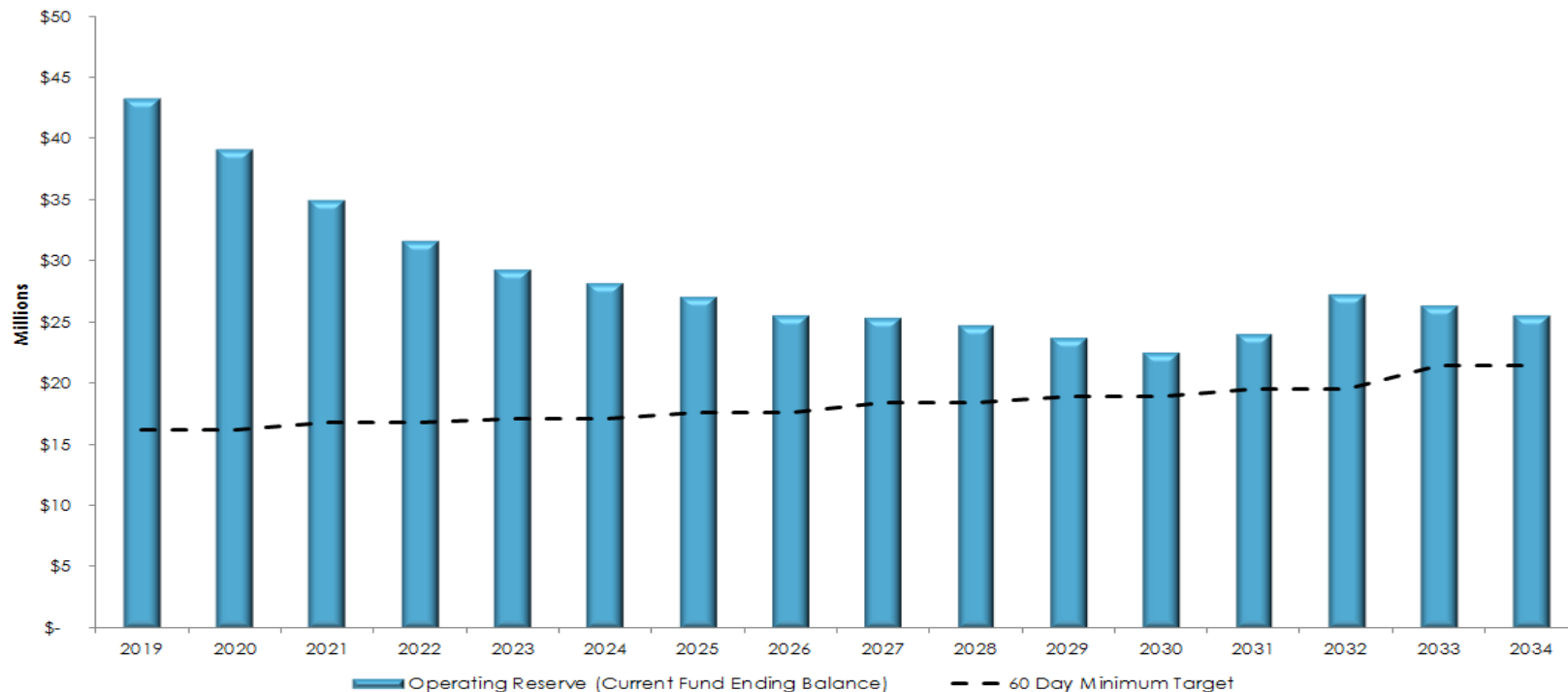
BASE CASE RATE SCENARIO

Rate Increases & Coverage Tests

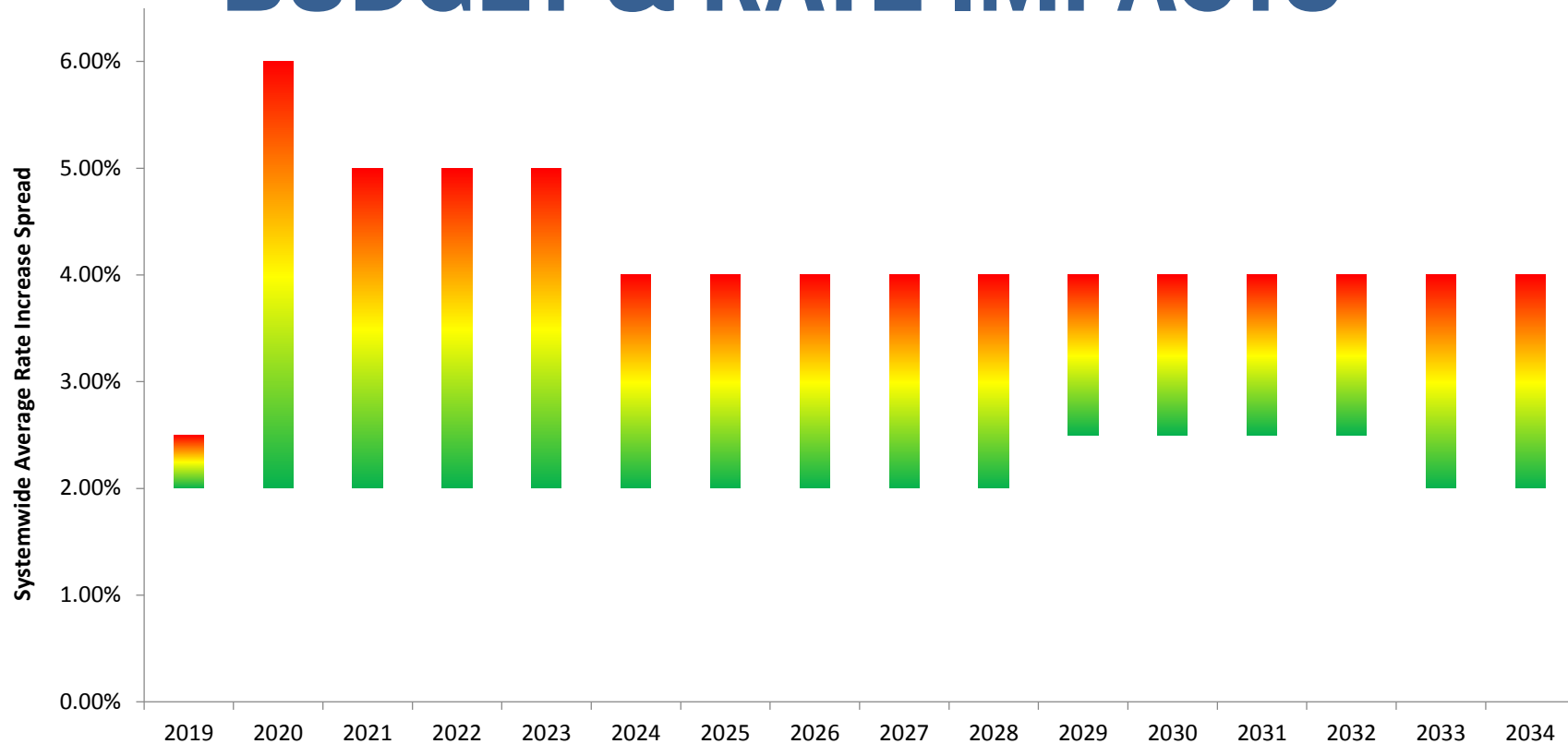


BASE CASE RATE SCENARIO

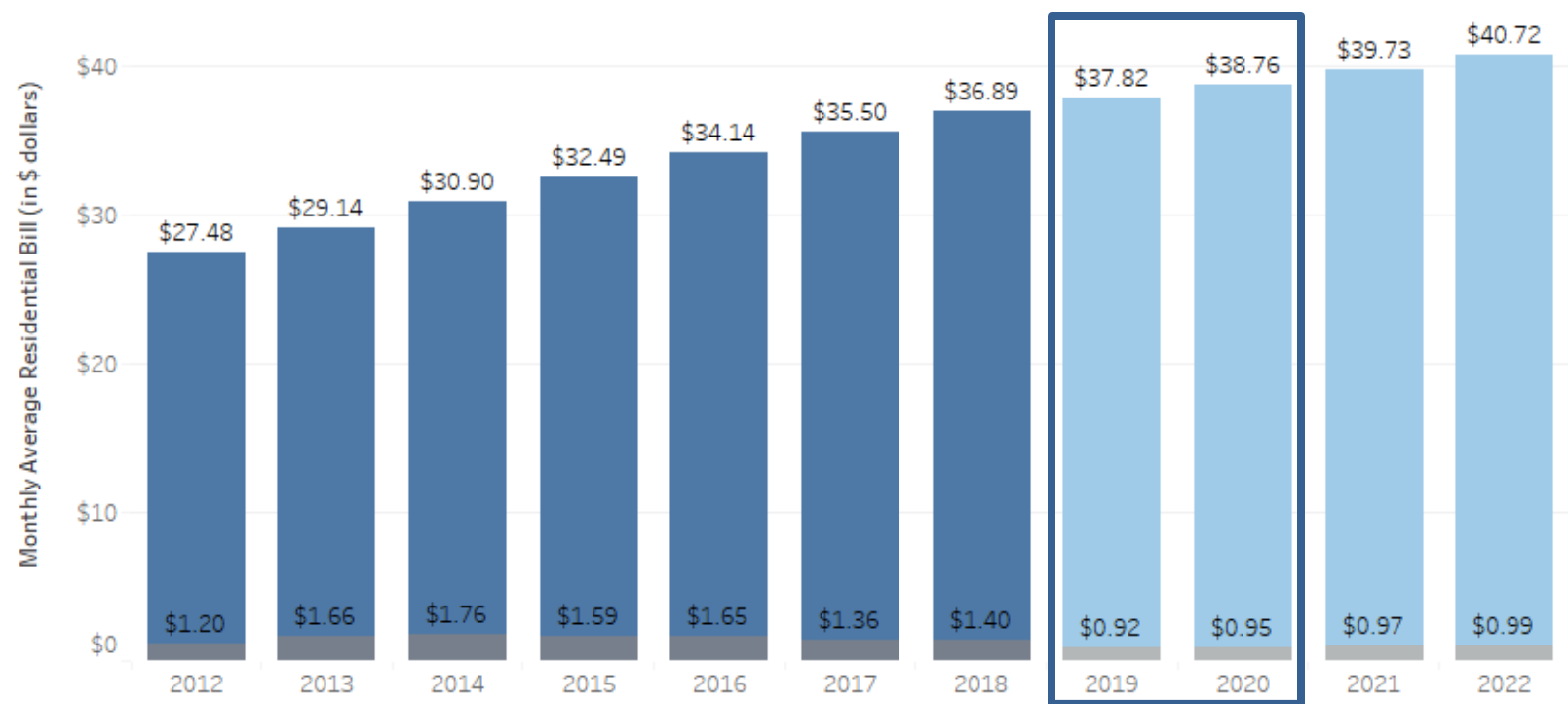
Current Fund - Water



BUDGET & RATE IMPACTS



BUDGET & RATE IMPACTS: MONTHLY BILL



The monthly average residential bill assumes water consumption of 7 CCF per month. The years 2019 - 2022 assumes an annual rate increase of 2.5%.

NEXT STEPS

- **June 13th**
 - **Public Outreach Planning**
- **July 25th**
 - **Revenue Requirement**
 - **Rate Design**
- **September 12th**
 - **TPU Board Study Session Budget Presentation**
- **October 16th**
 - **Joint Council/PUB Study Session Presentation**
- **October 24th**
 - **Public Utility Board approval of preliminary budget**

TACOMA POWER

2019 - 2020

BUDGET PREVIEW

Chris Robinson, Superintendent

May 23, 2018

AGENDA



Expenses are Increasing



Revenues are Declining



Strategic Solutions



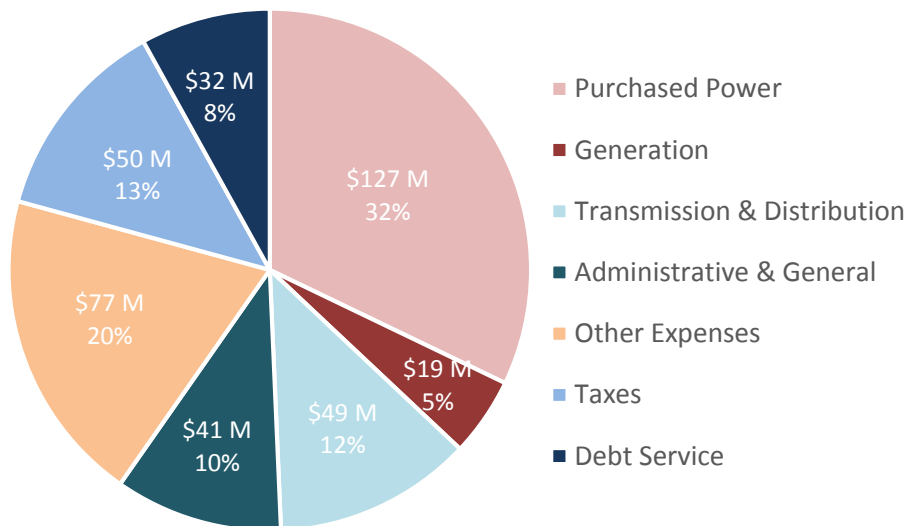
Long-Range Financial Plan



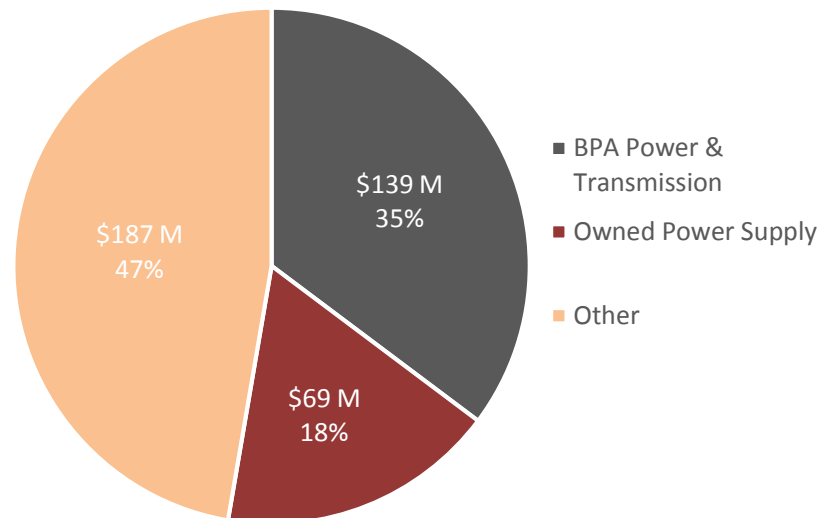
Next Steps

Expenses are Increasing

OPERATING EXPENSES



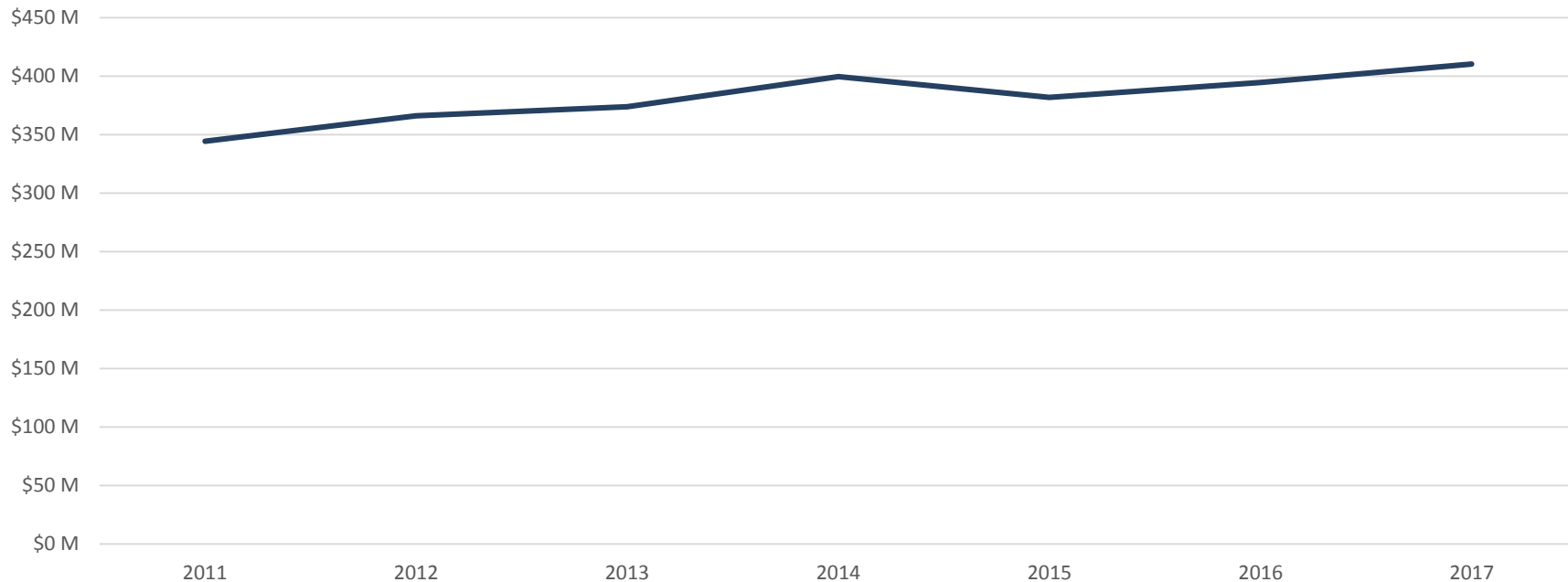
POWER SUPPLY EXPENSE



* Source: 2016 Tacoma Power Annual Financial Report

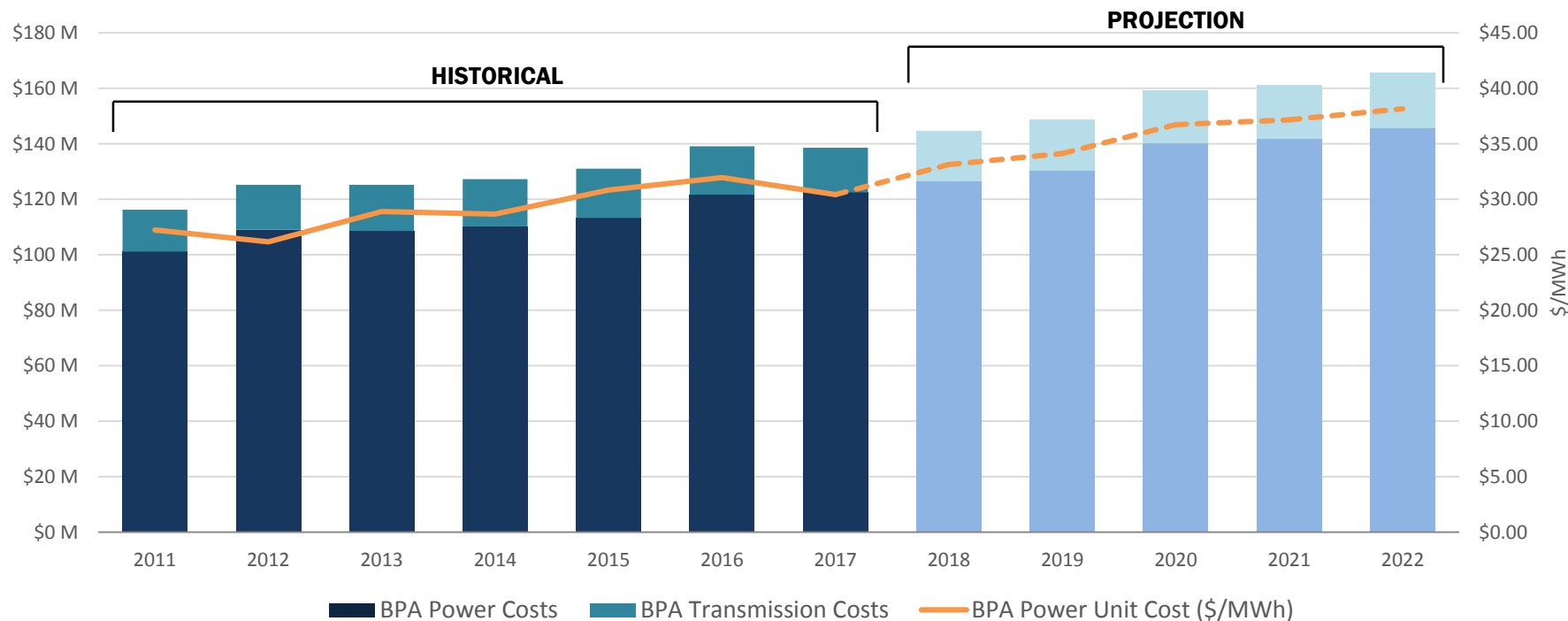
* Source: 2016 Production Unit Cost Report (FERC)

Total Expenses are Increasing



Average Annual Increase: 3.0%

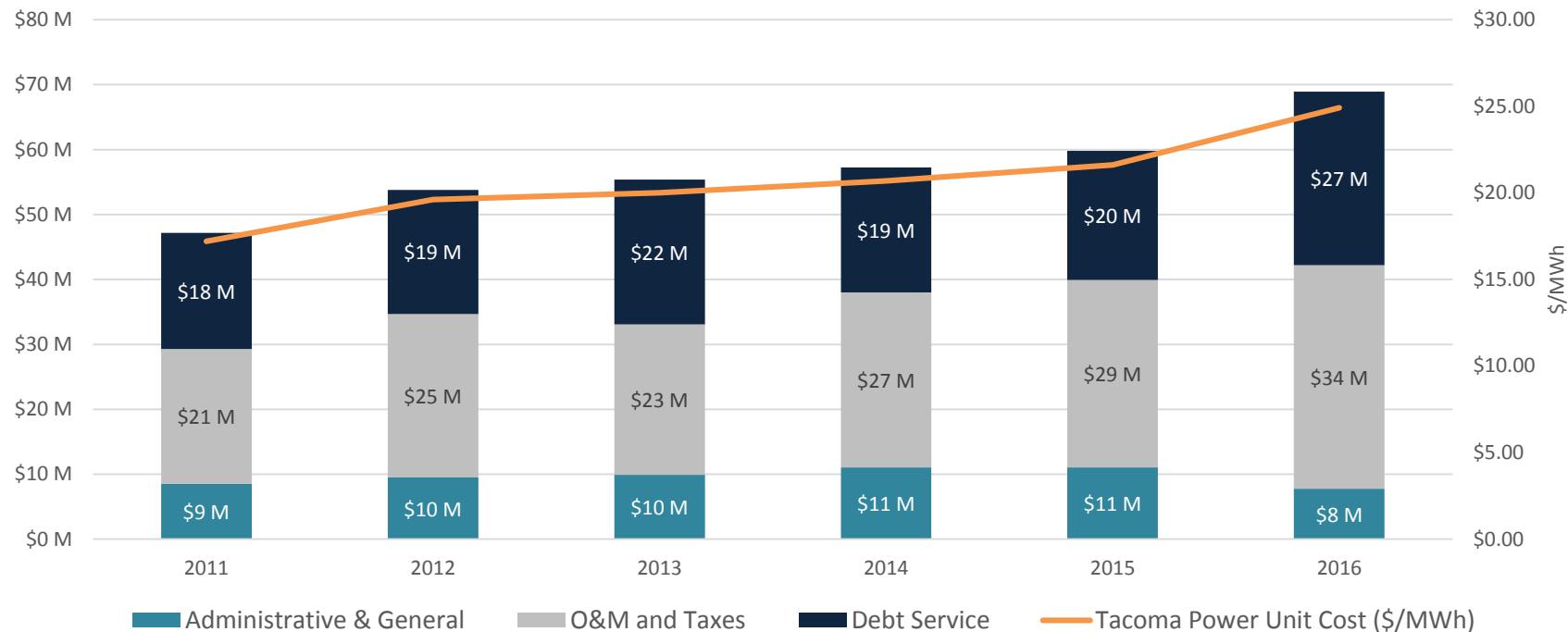
Purchased Power & Transmission



Average Annual Increase for 2011 – 2017: 3.0%

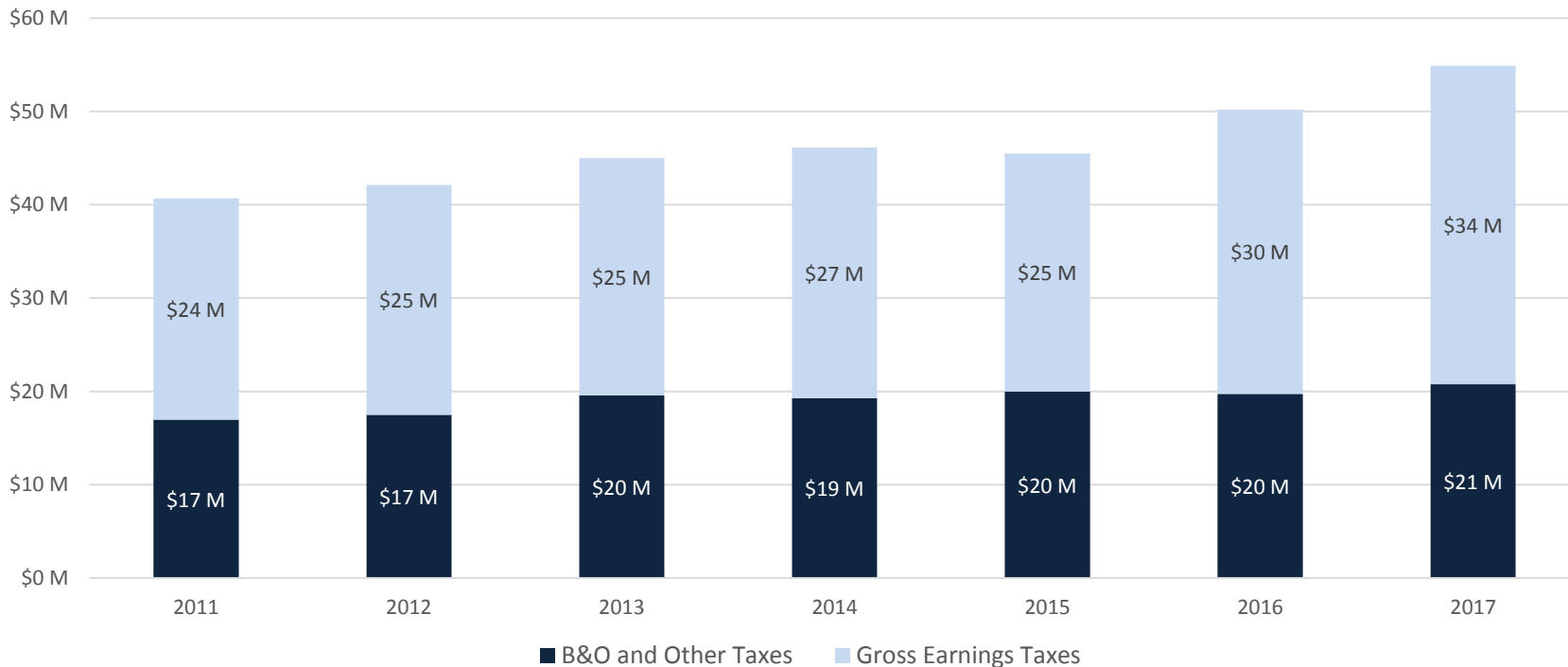
Average Annual Increase for 2018 – 2022: 3.7%

Owned Generation



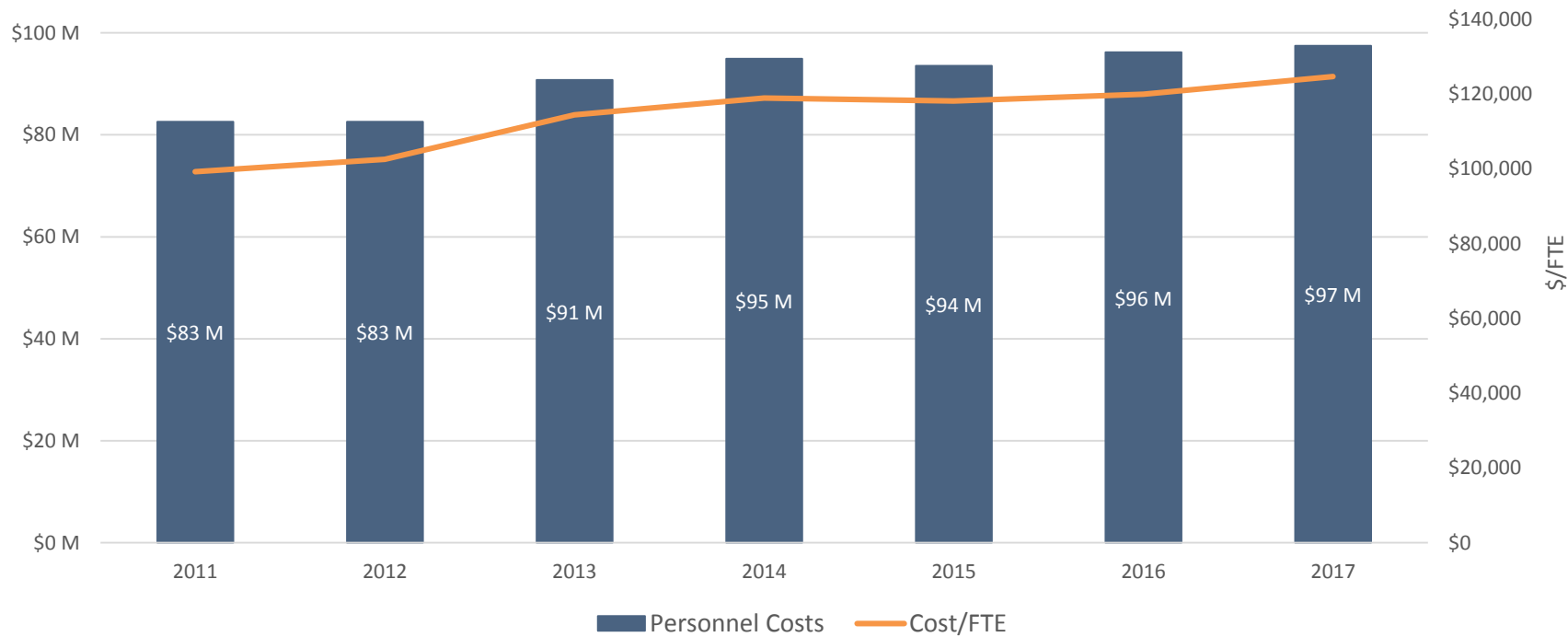
Average Annual Increase: 8.0%

Taxes



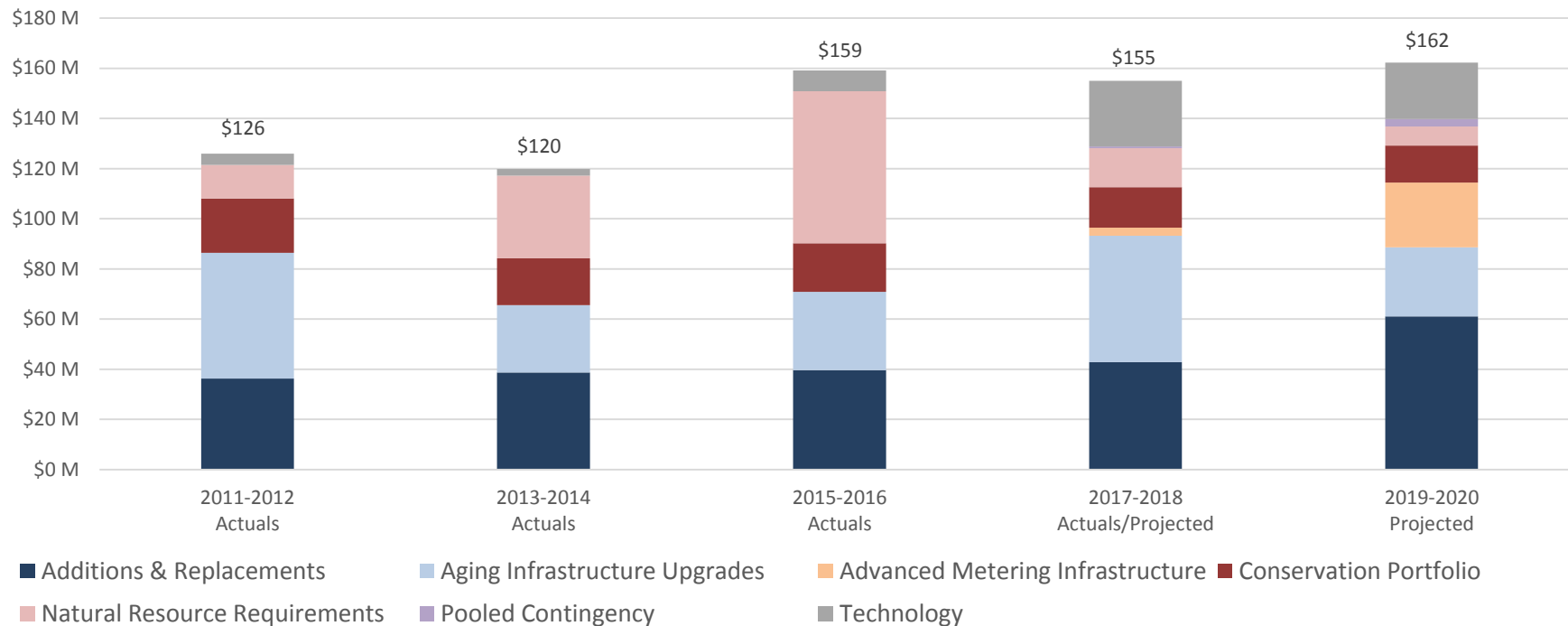
Average Annual Increase: 5.2%

Personnel



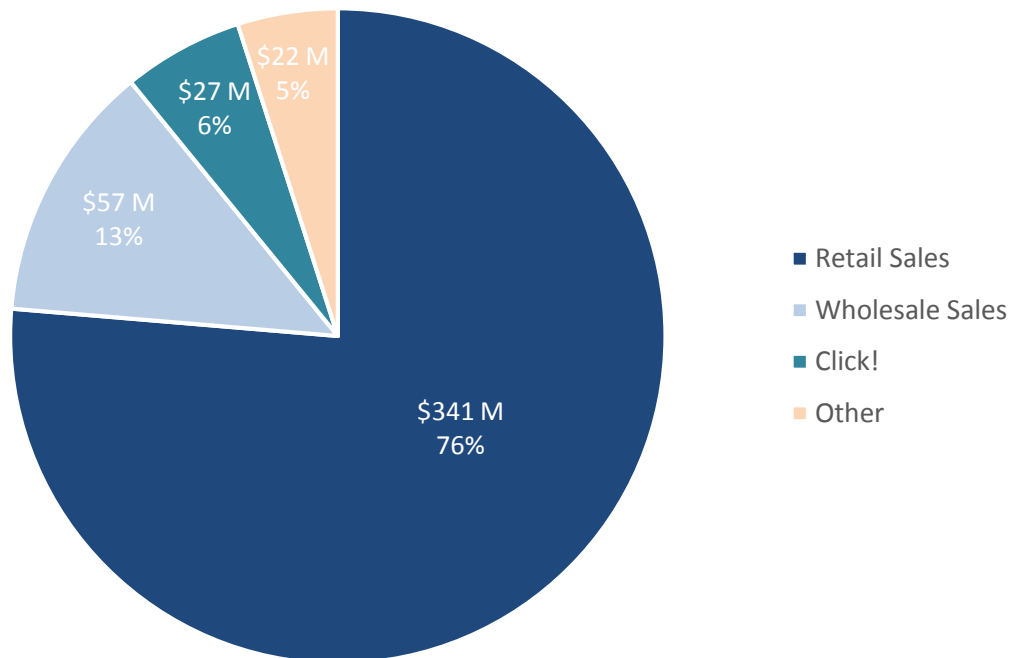
Average Annual Increase: 3.9%

Capital Expenses

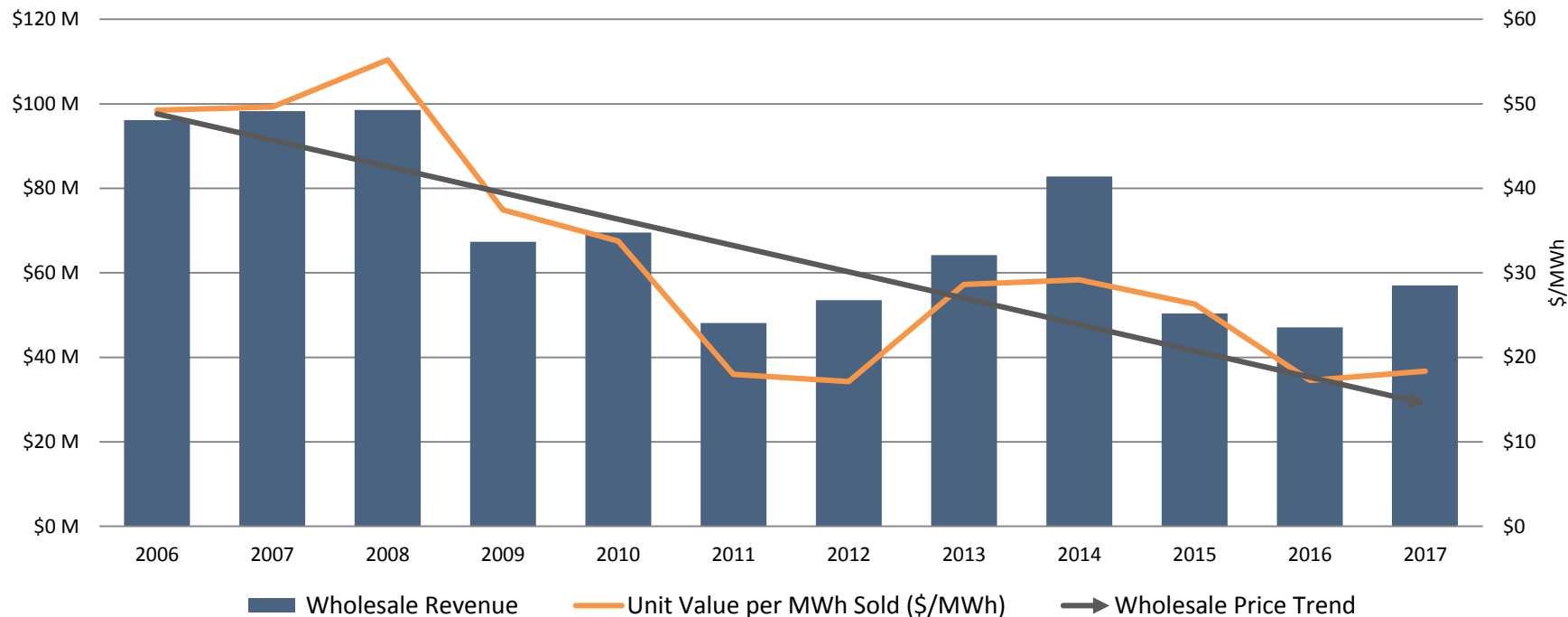


Average Biennial Increase: 7.4%

2017 REVENUE COMPONENTS

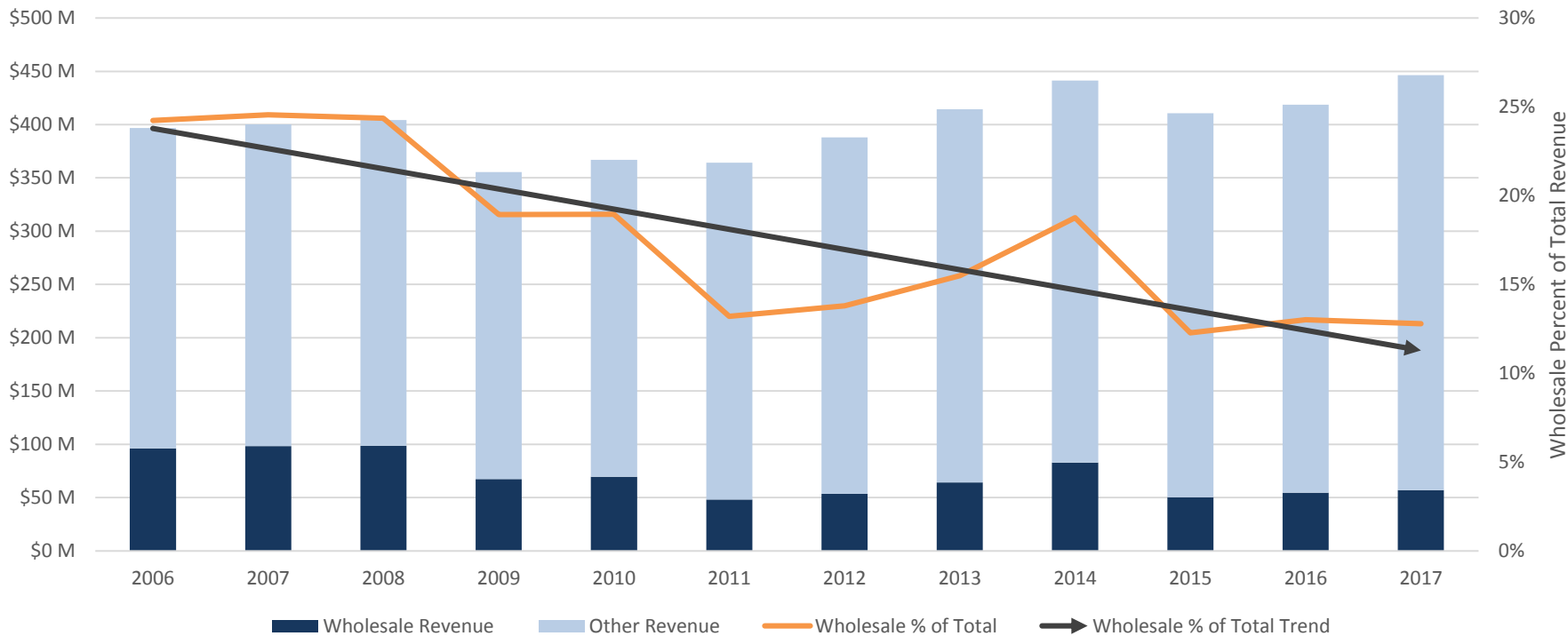


Wholesale Prices Decline



Average Annual Decrease: 5.5%

Wholesale Percent of Total Revenue



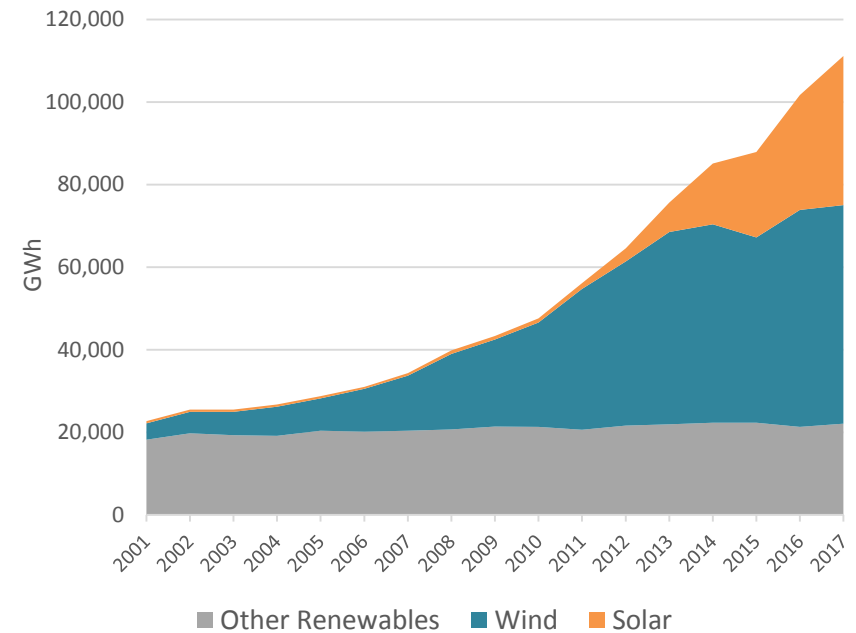
Market Drivers

HENRY HUB NATURAL GAS PRICES

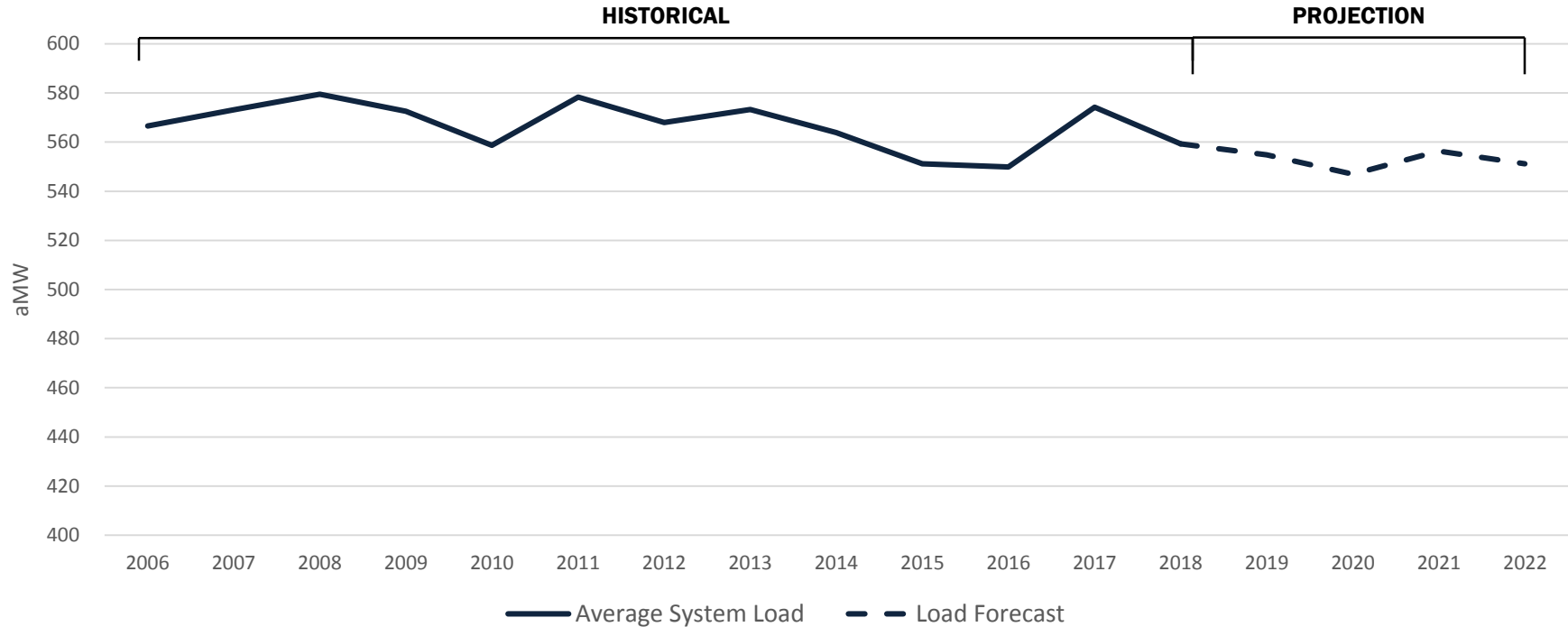


Source: US Energy Information Administration

WESTERN STATES RENEWABLE PRODUCTION



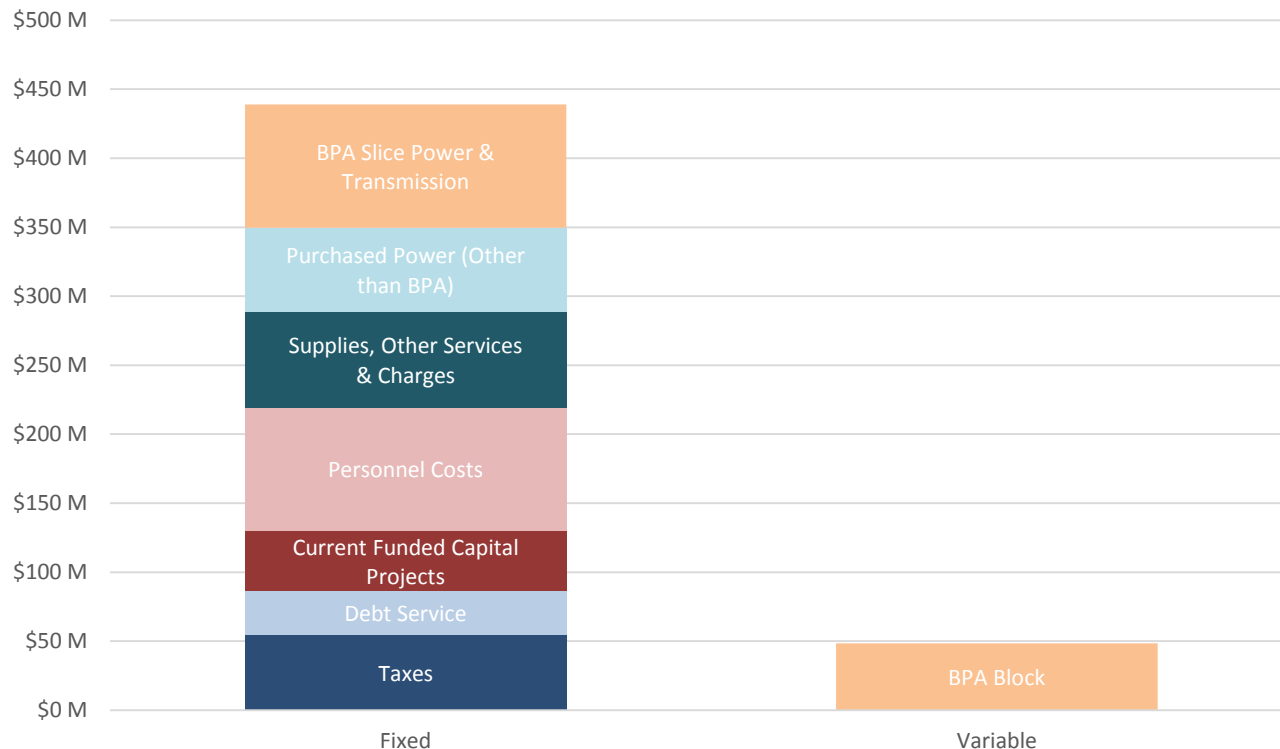
Retail Demand



Average Annual Increase for 2006 – 2017: 0.4%

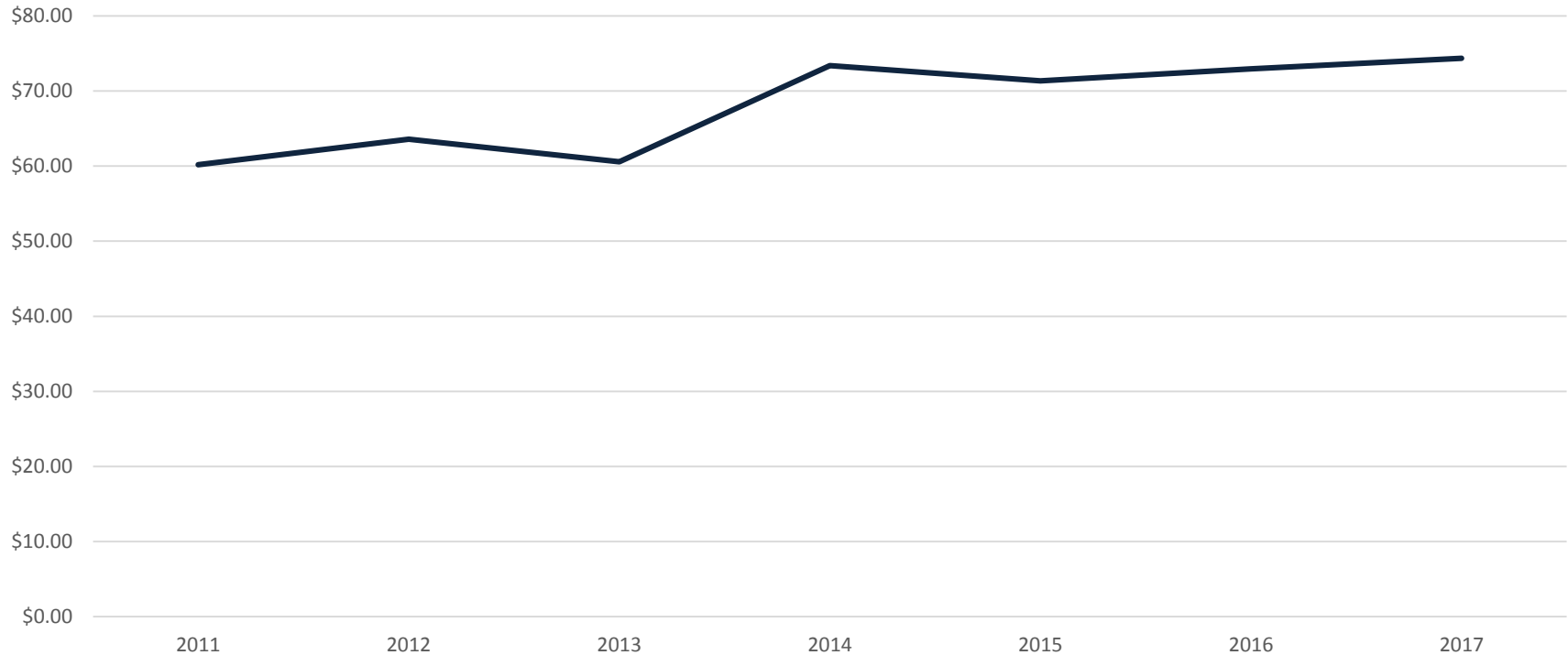
Average Annual Decrease for 2018 – 2022: 0.8%

Most Costs are Fixed in the Short-term



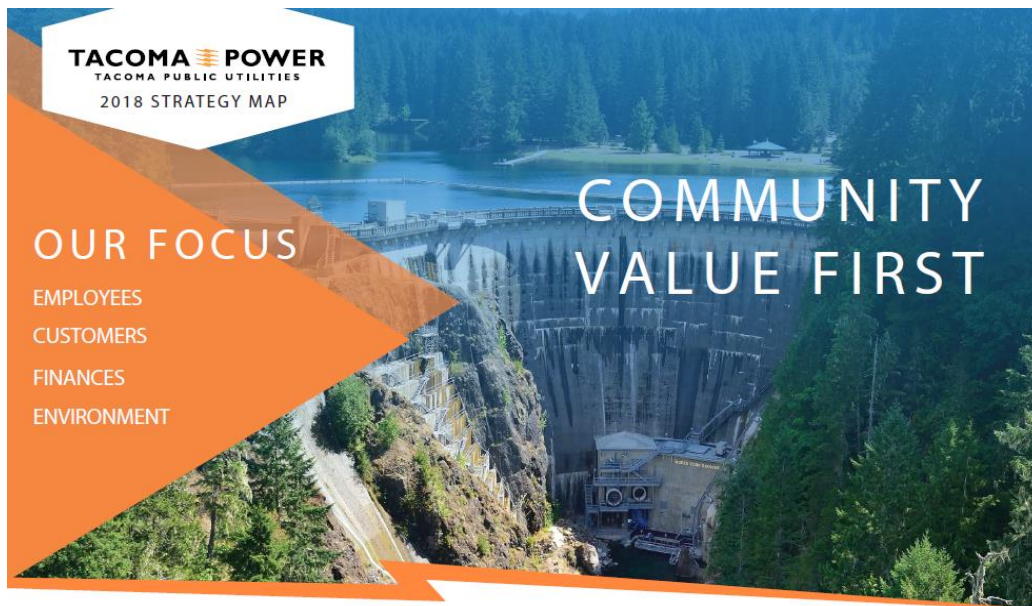
Source: 2017 Tacoma Power Financial Report

Cost per MWh Served (Total Expense/Total MWh Billed)



Average Annual Increase: 5.3%

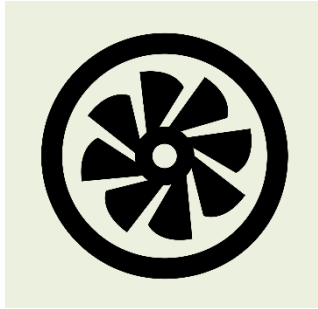
Tacoma Power Strategy



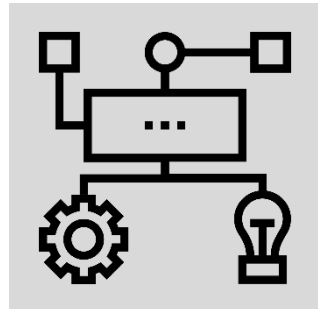
TOP PRIORITIES NOW

Put Safety 100% First | Support Click! Network | Leadership Development
Listen to our Community Leaders | Participate in New Market Opportunities

Managing Expenses



Implement Asset
Management Roadmap



Stand-up
Construction Project
PMO



Prioritize O&M Cost
Saving Initiatives

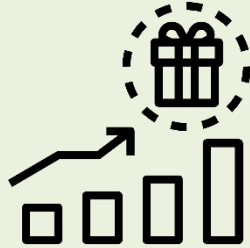


Create Utility
Analytics Strategy

Managing Revenue Challenges



Review Policies &
Procedures that Impact
Economic Development



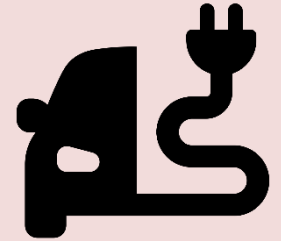
Create Economic
Incentive Alternatives



Underground
Electric Facilities

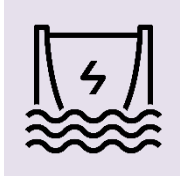


Pursue New
Wholesale Products &
Services



Develop
Transportation
Electrification
Proposals

How are we developing our budget?



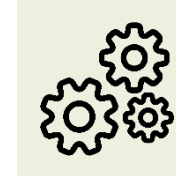
Capital

- Business Cases
- Risk Analysis
- Capital Steering Committee Review
- Project Presentations
- Preliminary Recommendation
- Final Approval



FTE

- FTE Requests
- Work Plan Review
- Preliminary Recommendation
- Final Approval

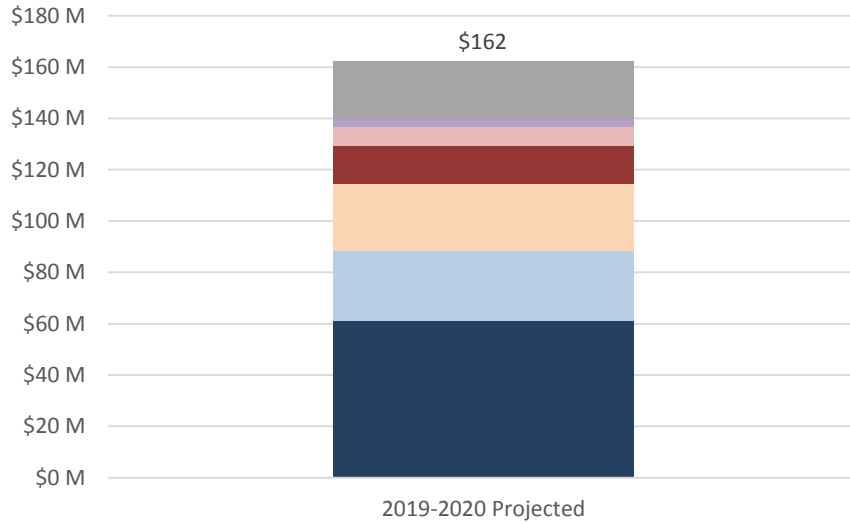


Other O&M

- Budget Requests
- Justification Review
- Preliminary Recommendation
- Final Approval

Preliminary Budget Information

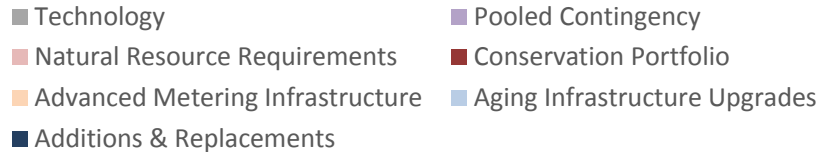
PRELIMINARY CAPITAL REQUEST



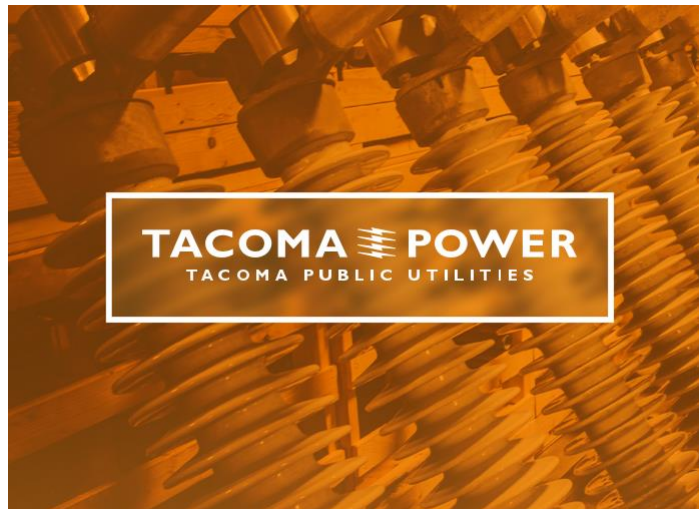
PRELIMINARY FTE REQUEST

AMI	4
Digital Modernization	10
Environmental Projects	6
Wholesale Market Opportunities	4
Operational Efficiencies	8
Utility Operations	17

Total	49
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Budget & Revenue Requirement Decoupled



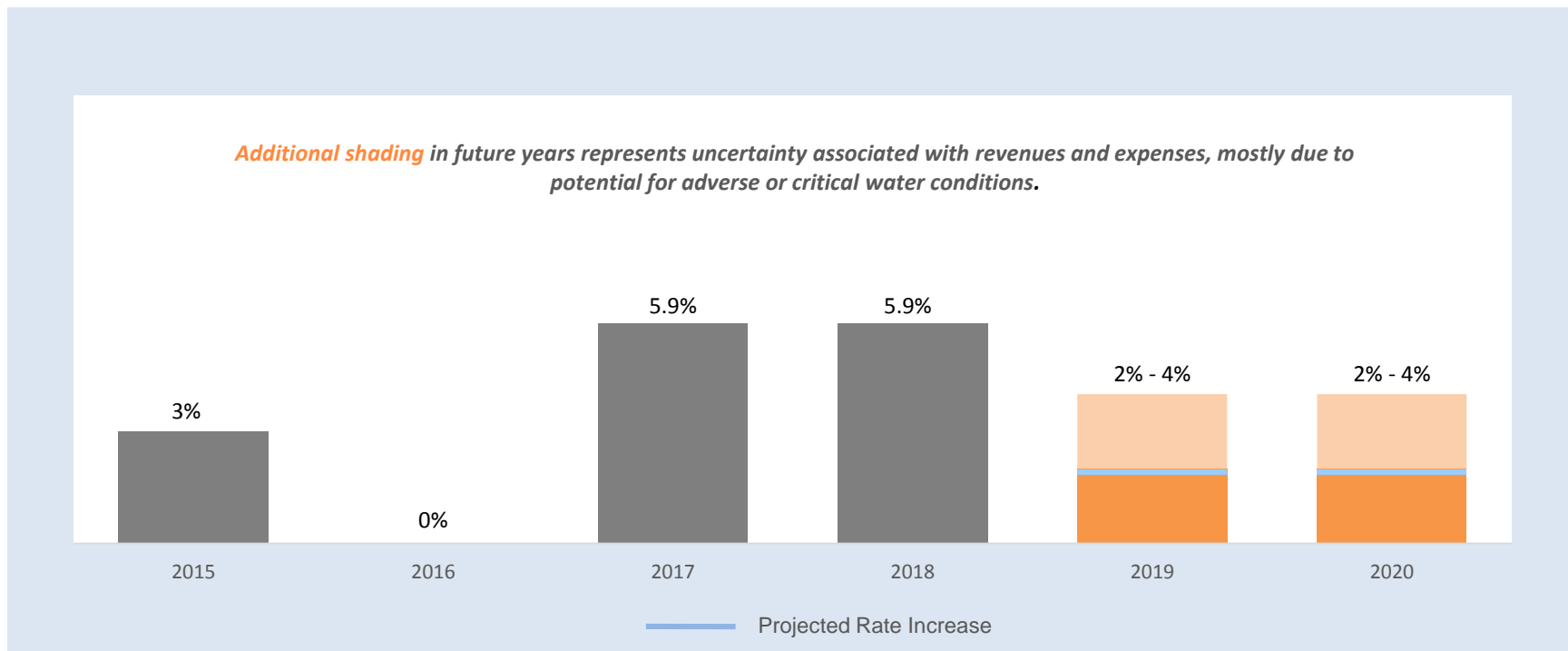
Preliminary Revenue Requirement: \$746.5 Million

Separate from budget, based on historical spend, inflation, and new projects

Objectives:

- **Minimize the rate increase**
- **Reduce the revenue requirement to actual spend projection**

Projected Rate Increases: 2019-2020



NEXT STEPS

Budget Development

- Capital program
- O & M

June 27th

- Study Session: Cost of Service Review

September 26th

- Study Session: Budget Presentation

October 9th

- Joint Council/PUB Study Session Presentation

October 24th

- Public Utility Board approval of preliminary budget