



TACOMA PUBLIC UTILITIES
3628 South 35th Street
Tacoma, Washington 98409-3192

DATE: August 6, 2020

TO: Public Utility Board Members

CC: Jackie Flowers, Director of Utilities

FROM: Jim Sant, Deputy Director for Administration

SUBJECT: Financial Outlook – Projection of 2019-2020 Biennial Results (as of Q2 2020) and Budget Performance (Q2 2020) for Power, Water, and Rail

FINANCIAL UPDATE

Tacoma Power

Forecast for total revenue: -\$17.3 million (-1.8%) under biennial budget

- Q2 negative factors: power market price forecasts down
- Q2 positive factors: higher sales relative to last quarter's forecast due to weather and phase 2 reopening impacts
- Q3 outlook: highly dependent how reopening progresses

Forecast for total expenses: -\$37.3 million (-3.9%) under biennial budget

- Q2 negative factors: lower vacancy rate than budget continues to push up personnel costs
- Q2 positive factors: cost savings initiative coupled with shift to debt-funded capital have more than offset revenue loss
- Q3 outlook: anticipated continued implementation of cost-saving measures

Tacoma Water

Forecast for total revenue \$7.3 m (4%) over budget

- Q2 negative factors: Anticipated decreases in Commercial demand and other customer fees, increased aging of accounts receivable and sluggish cash flow
- Q2 positive factors: Projected increases in Residential demand, strong Water Sales in 2019, generally inelastic demand, revenue stability through rate design, strong cash balances
- Q3 outlook: Total revenue expected to be over budget for 2020

Forecast for expenditures \$11.3 m (6%) under budget

- Q2 negative factors: Some expenses uncontrollable, projected increases in bad debt expense, some important initiatives may be postponed





TACOMA PUBLIC UTILITIES
3628 South 35th Street
Tacoma, Washington 98409-3192

- Q2 positive factors: Ability to shift certain projections and adapt to Stay Home, Stay Healthy mandate, prioritized hiring to fill resource gaps
- Q3 outlook: Total expense expected to be under budget for 2020

Tacoma Rail

Forecast for total revenue -\$1.9 m (-3%) under budget re-appropriation

- Q2 negative Factors: Decreases in both intermodal and commercial demand
- Q2 positive factors: Strong commercial volumes in Q1; steady increases from Q2 traffic lows anticipated through Q3 and Q4; continued increases in locomotive servicing; demurrage fee revenues over budget
- Q3 outlook: Total revenue expected to be under budget for 2020

Forecast for total expenditures \$4.4 m (-6%) under budget re-appropriation

- Q2 negative factors: Customer railcar dwell increasing car hire expense, offset by demurrage revenue; East End Locomotive Facility capital project has been postponed for funding partnership opportunities
- Q2 positive factors: Delayed hiring and limited overtime have reduced personnel costs with downturn in business; low locomotive fuel prices; no intermodal volume incentive allowance
- Q3 outlook: Total expense expected to be under budget for 2020

PERFORMANCE METRICS

Financial and Operational Metrics

- Tacoma Power experienced higher than budgeted O&M expenses due to 2019 being a critical water year which resulted in increased power market purchases

Commitment to Customers & Employees

- Customer service responsiveness and service levels remain high due to staff's ability to offer remote assistance coupled with reduced call volumes
- Safety continues to be a focus across the organization with recent improvements in Tacoma Water to better than average



Also included are the Q2 2020 Budget Performance reports that portray our historical financial performance, which you have heard about in recent updates and are part of the analysis contained in the financial outlook highlights above.