

Tacoma Public Utilities

2023 – 2024 Budget Overview

April 27, 2022

Agenda

- Budget Timeline, Principles and Challenges – Jackie Flowers
- Budget Overviews:
 - Tacoma Rail – Dale King
 - Tacoma Water – Scott Dewhirst
 - Customer Services – Steve Hatcher

Utility Board Engagement Budget and Rates Timeline



SD2
Financial
Stability



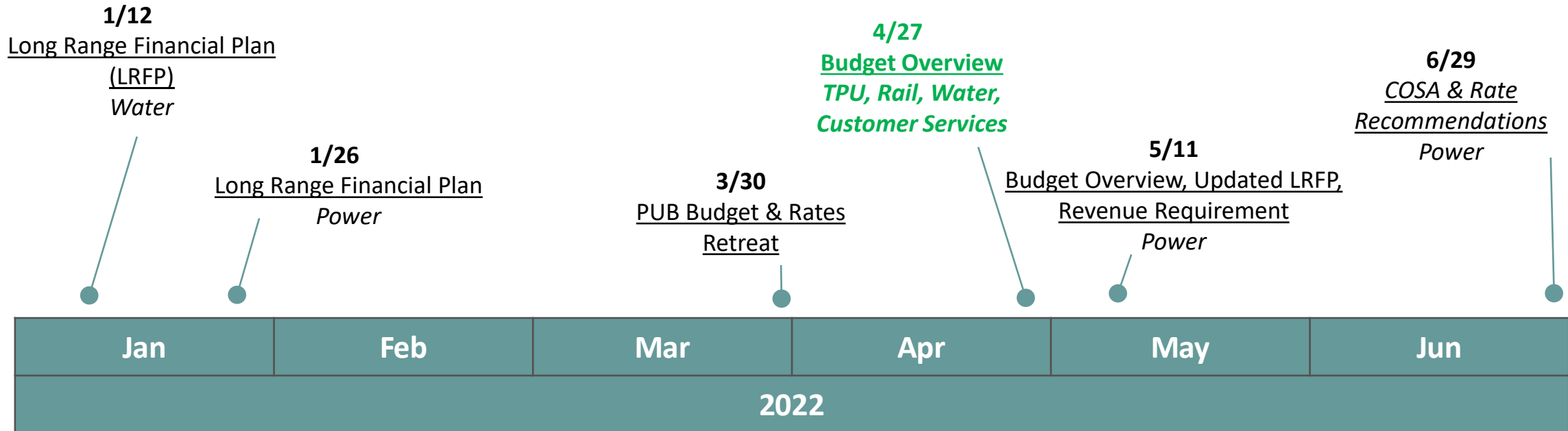
SD3
Rates



SD4
Stakeholder
Engagement



SD10
Government
Relations




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Utility Board Engagement Budget and Rates Timeline



SD2
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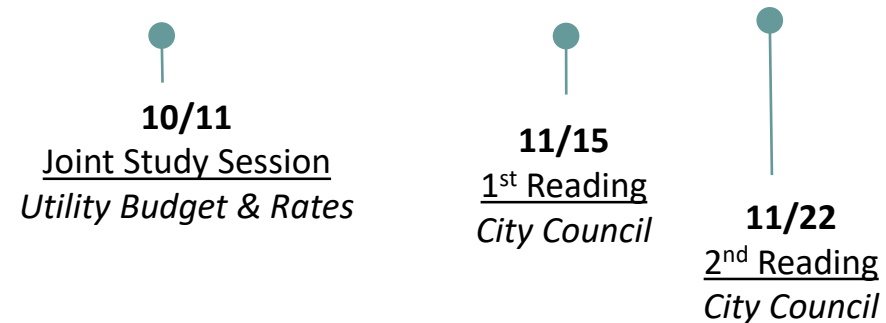
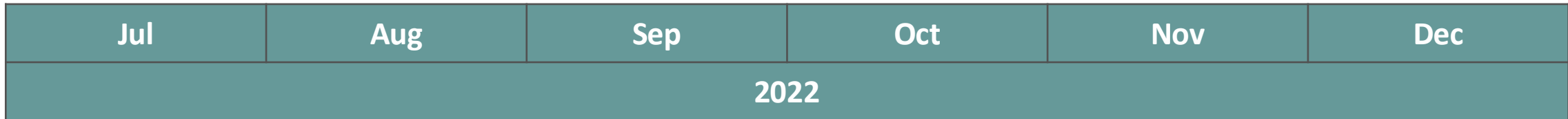
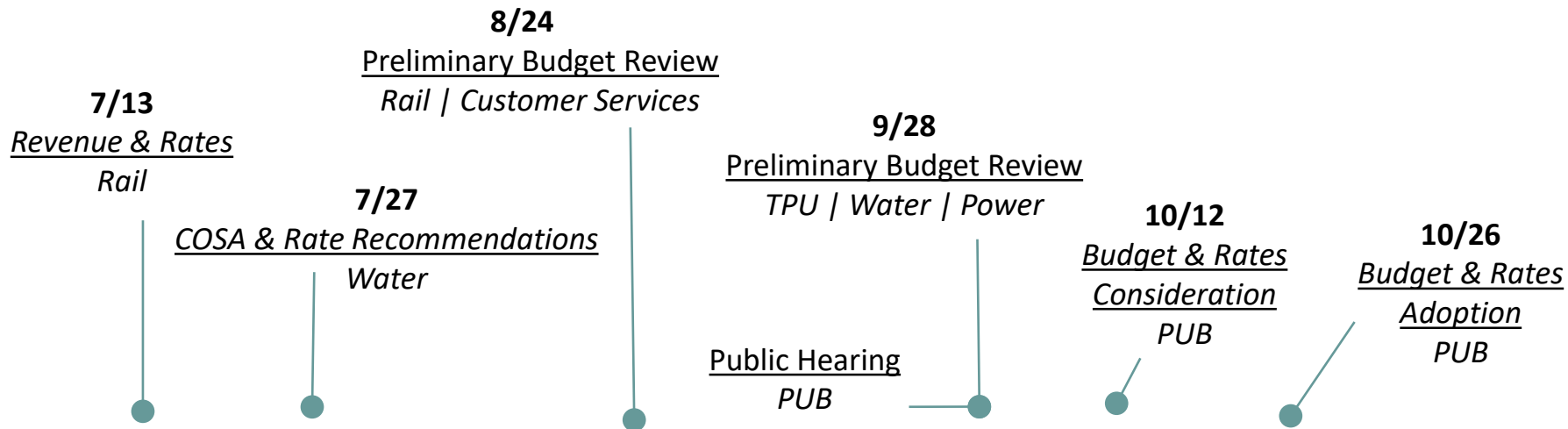
SD3
Rates



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Relations



Underlying Budget Principles



- Long-term planning approach
- Financial sustainability
- Customer Focus
- Rates are fair, reasonable, adequate, and stable
- Rate Gradualism
- Cost Efficiency
- Operationalize Equity

Some Common Challenges & Risks



Impacts on Resources, Investments, Costs, Strategies

Labor:

- Staffing Needs
- Job Market
- Recruitment & Retention
- Wage Pressure
- Benefit Costs
- Class & Comp

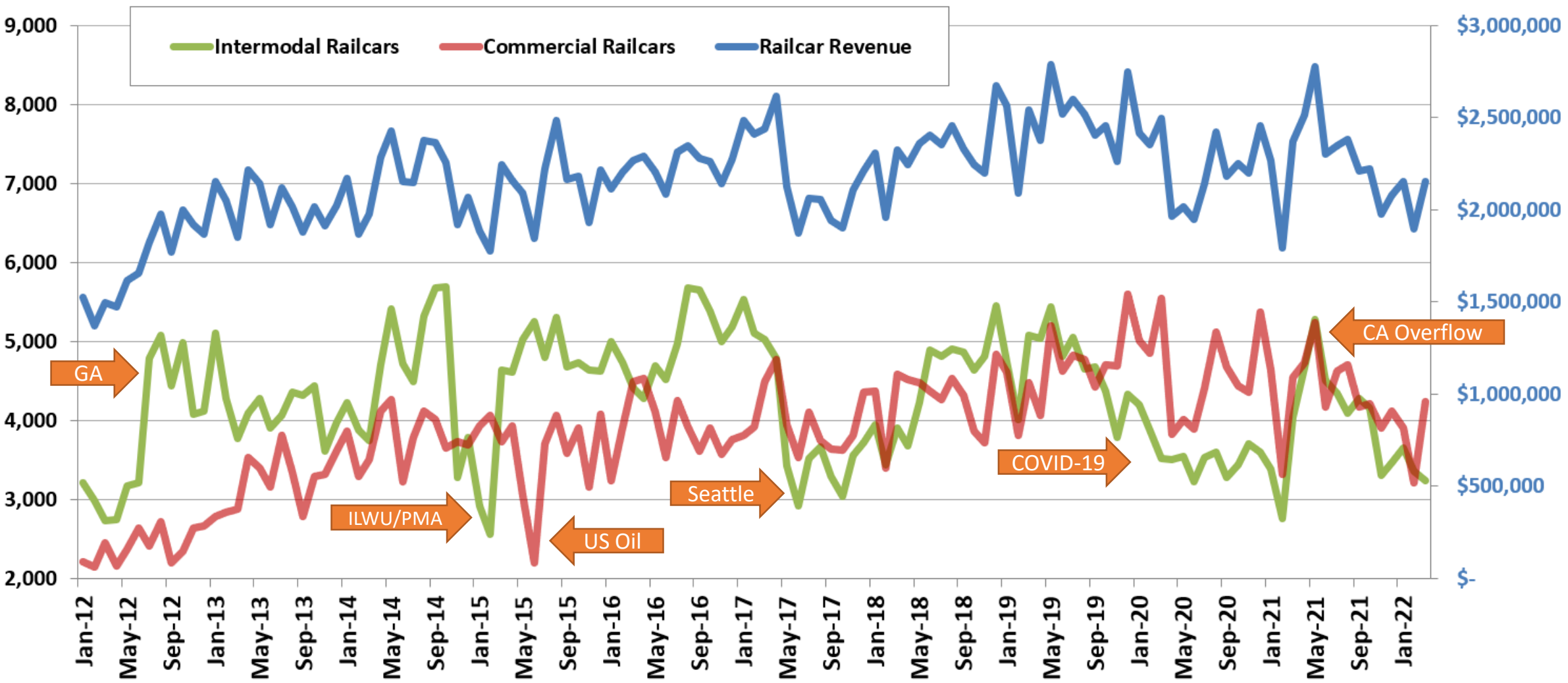
External Forces:

- Economic Cycles & Inflation
- Supply Chain Disruptions
- Regulations
- Cyber Risks
- Weather & Climate
- Environmental Stewardship

Tacoma Rail Budget Strategy & Overview

Dale W. King, Superintendent

State of the Utility: Demand



State of the Utility: Customers

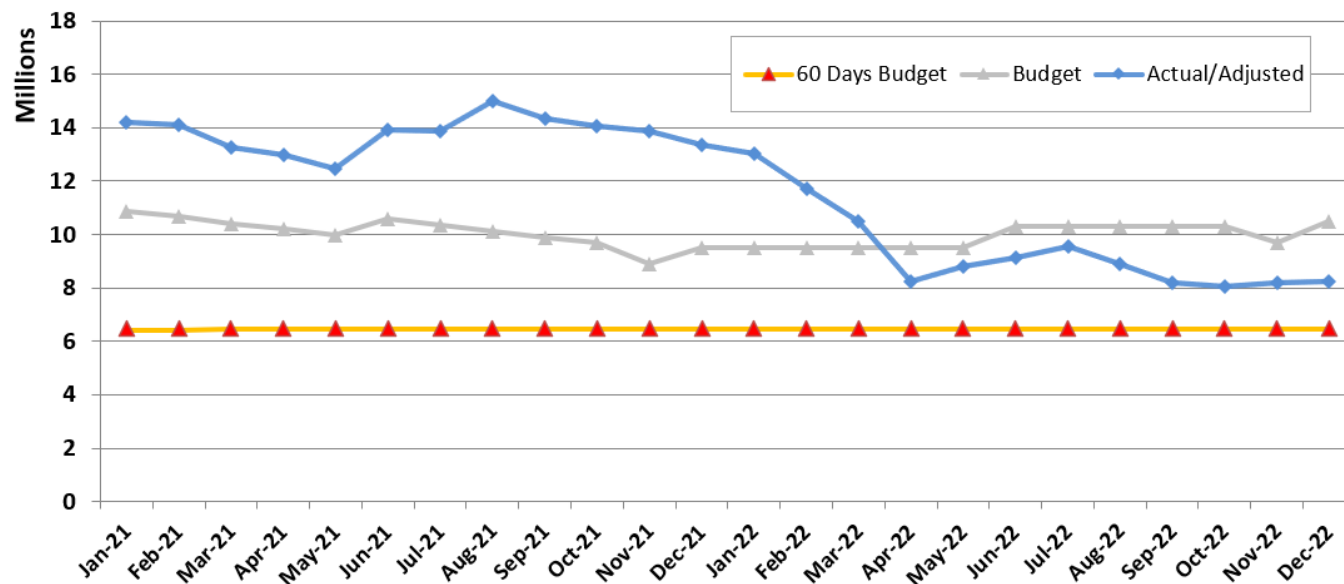
- Primary Rate Payers
 - BNSF
 - Union Pacific
 - U.S. Oil Refining
- Top 9 line haul revenue customers in 2021
 - Represent 90% of total
 - Green heatmap
 - Values in millions

Customer Name	2019	2020	2021
US Oil Refining Company	\$ 6.31	\$ 6.87	\$ 6.73
North Intermodal	\$ 4.40	\$ 3.71	\$ 4.15
Washington United Terminals	\$ 3.52	\$ 2.42	\$ 3.48
Auto Warehousing	\$ 3.46	\$ 3.34	\$ 3.27
SeaPort Sound Terminal	\$ 2.19	\$ 2.12	\$ 1.99
South Intermodal Yard	\$ 1.20	\$ 1.20	\$ 1.36
Pierce County Terminal	\$ 2.10	\$ 1.31	\$ 0.72
Wallenius Wilhelmsen Solutions	\$ 0.86	\$ 0.44	\$ 0.54
MacMillan Piper	\$ 0.56	\$ 0.62	\$ 0.50
Total	\$ 24.61	\$ 22.02	\$ 22.73

State of the Utility

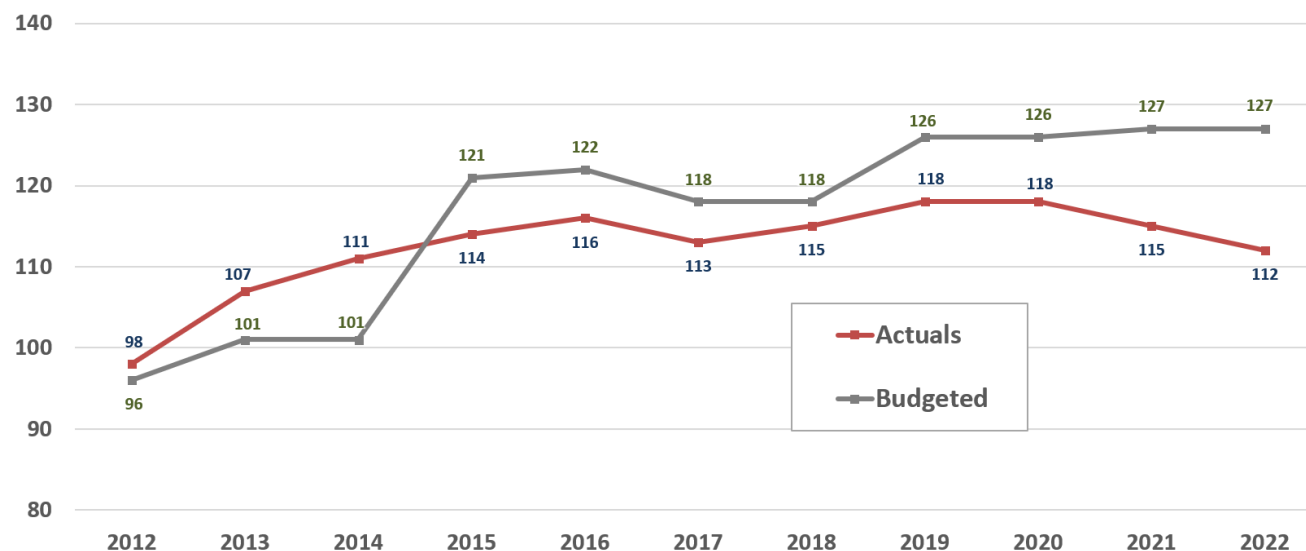
- Financial

- Decreased revenue
- Large capital projects
- Managing expenses
- 2021 budget performance
 - Revenue \$4.2M under
 - Expense \$4.1M under



- Staffing

- Attrition
- Unfilled budgeted positions



Primary Budget Strategy & Drivers

Strategy

- Rail's Strategic Plan
 - Equity, Inclusion, Diversity, & Employee Relations
 - Stakeholder Engagement
 - Customer Service
 - Resource Planning
 - Reliability & Resiliency
 - Innovation
 - Financial Stability
 - Growth & Economic Opportunities
 - Environmental Leadership

Drivers

- Railcar volumes
- Labor costs
- Inflation
- Assessments
- Insurance
- Mountain Division
- Oil Spill Contingency Plan drills
 - 2024 worst case scenario drill

Challenges & Opportunities

Challenges

- Class & Comp unknowns
- Supply chain interruptions
- Low railcar volumes
- Car hire costs
- Mandates
- Rising insurance rates
- Lower than anticipated cash balance
- Unknown Gross Earnings Tax determination on grants

Opportunities

- Grants & zero interest loans
- Project assumptions
- Line haul volume growth
- Demurrage tariff adjustments
- Active participation in legislation
- Locomotive assets
 - Leases
 - Battery electric

Mitigation & Managing Expenses

Managing Expenses

- Limited capital program next biennium
 - Quality vs. quantity
 - Current biennium
 - 2 locomotive repowers
 - Locomotive servicing facility
 - Multiple crossing projects
 - Multiple track projects
 - Radio system upgrades
- Right sized staffing levels
- Fuel costs

Mitigation

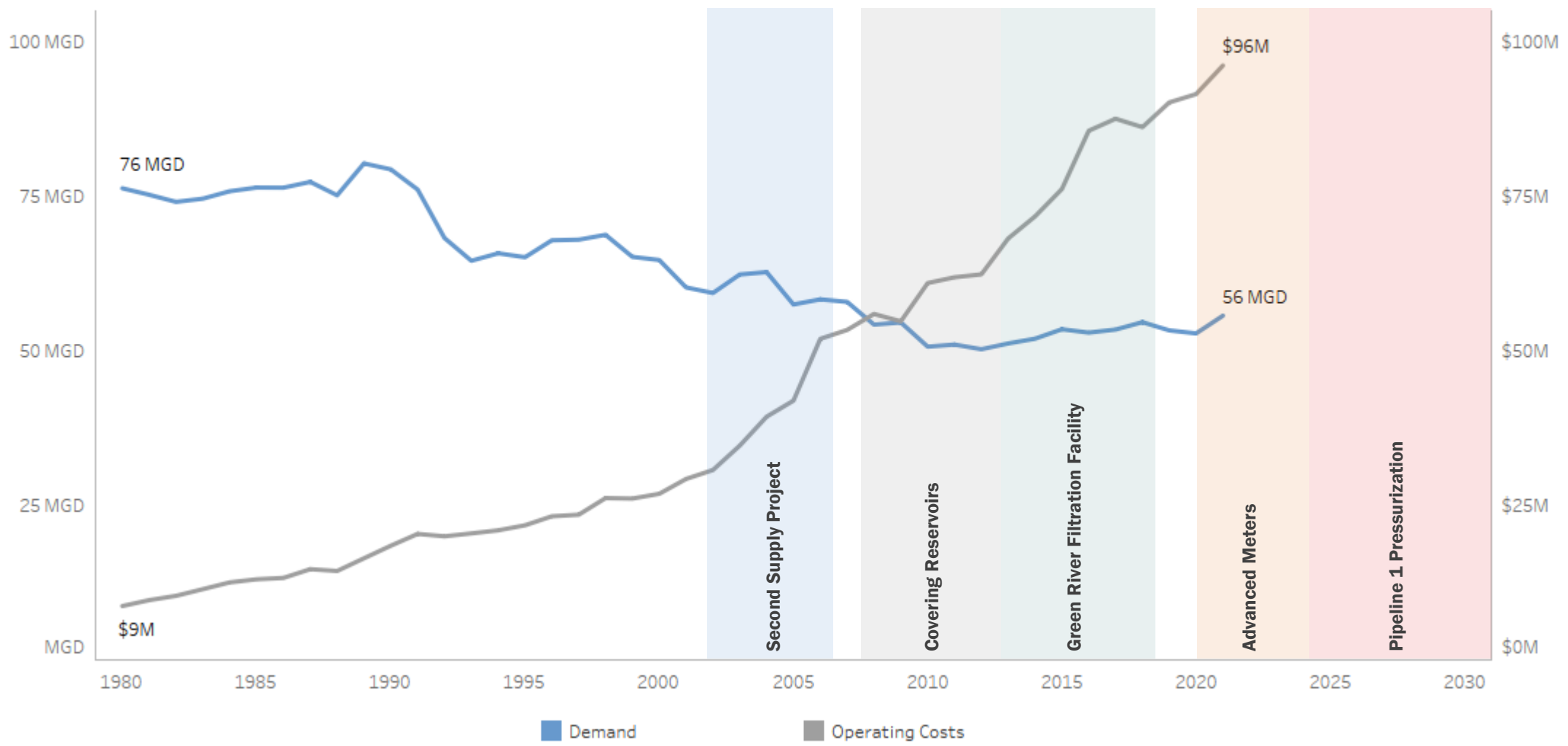
- Monitor Railcar Traffic Trends
 - Intermodal
 - Northwest Seaport Alliance
 - NIM, SIM, WUT, PCT
 - Inland Point Intermodal (IPI) vs domestic
 - Tank cars
 - US Oil
 - SeaPort Sound
 - Autoracks
 - AWC
 - WWS
- Fuel surcharge

Tacoma Water Budget Overview

Scott Dewhirst, Superintendent

State of the Utility: Demand & Costs

Operating costs continue to rise despite stable demand.



State of the Utility: Customers

We have a broad, diverse customer base with opportunities for growth.

Top Customers by Revenue and Usage for 2021

The 20 largest customers combined account for 16.8% of total water sales

Order	Customer	Revenue	% of Total Revenue	Usage	% of Total Usage
1	WESTROCK CP LLC	\$8,024,169	8.0%	8,379,690	32.2%
2	CITY OF FIFE	\$1,445,333	1.4%	959,663	3.7%
3	METRO PARKS DISTRICT	\$985,036	1.0%	215,534	0.8%
4	FREDERICKSON POWER	\$803,118	0.8%	355,670	1.4%
5	TACOMA SCHOOL DISTRICT	\$716,490	0.7%	129,774	0.5%
6	NIAGARA BOTTLING LLC	\$680,783	0.7%	304,886	1.2%
7	JAMES HARDIE BLDG PRODUCTS INC	\$553,451	0.6%	174,222	0.7%
8	US OIL & REFINING	\$499,547	0.5%	259,075	1.0%
9	MULTICARE HEALTH SYSTEMS	\$362,039	0.4%	71,899	0.3%
10	FIRGROVE MUTUAL WATER CO.	\$328,686	0.3%	139,182	0.5%
11	ST JOSEPH MEDICAL CENTER	\$297,788	0.3%	59,066	0.2%
12	TEHALEH OWNERS ASSOCIATION	\$288,394	0.3%	55,155	0.2%
13	UNIVERSITY PLACE SCHOOL DISTRICT	\$283,653	0.3%	53,518	0.2%
14	PORT OF TACOMA	\$253,662	0.3%	29,318	0.1%
15	UNIVERSITY OF PUGET SOUND	\$238,882	0.2%	60,138	0.2%
16	CITY OF BLACK DIAMOND	\$225,182	0.2%	51,598	0.2%
17	PIERCE COUNTY FACILITIES MANAG..	\$195,250	0.2%	40,929	0.2%
18	CITY OF BONNEY LAKE	\$193,323	0.2%	51,150	0.2%
19	SUNRISE MASTER ASSOCIATION	\$190,657	0.2%	36,361	0.1%
20	ALADDIN CAMELOT APARTMENTS LLC	\$183,747	0.2%	59,521	0.2%

- Niagara Bottling LLC is expanding and recently added an additional line
- Wholesale customers currently provide about 3% of annual water sales, this includes City of Fife, Firgrove Mutual, City of Black Diamond and City of Bonney Lake shown in the top 20
- Potential to market excess contracted wholesale capacity

State of the Utility: Financial

2022 S&P Ratings Upgrade to AA+

- Independent third-party analysis
- In their rating, S&P cited many factors that contributed to Tacoma Water receiving a higher rating:
 - *Consistently healthy financial performance that continues to meet or exceed financial targets, including robust liquidity and strong debt service coverage,*
 - *A substantial and diverse economic base with retail water rates that remain affordable and competitive with neighboring cities,*
 - *Robust management and operational practices,*
 - *A history of implementing necessary rate increases to maintain a robust financial profile,*
 - *Governance factors that are highlighted by its credit-supportive financial and management policies,*
 - *A formal cyber security policy and cyber insurance, and*
 - *Well-positioned to address potential future regulatory mandates.*

Tacoma Water Bond Ratings

	S&P Global Ratings	MOODY'S
Rating	AAA	Aaa
	AA+	Aa1
	AA	Aa2
	AA-	Aa3
	A+	A1
	A	A2
	A-	A3
	BBB+	Baa1
	BBB	Baa2
	BBB-	Baa3
Outlook	Stable	Stable

Quarterly Outlook

- **Forecasting closer to reality**
 - Realistic budget
 - Smaller variances
- **Better execution**
 - Reorganization
 - Project management
 - Intakes and prioritization
 - Data, Analytics, and Technology
 - Planning and Engineering

2021 Performance

Cash on Hand	999 days
Debt Service Coverage	2.74x
Total Revenue	\$3.1 million over budget
Total Expenditures	\$3.6 million under budget
Capital Outlay	\$14.4 million under budget

State of the Utility: Ongoing Impacts



Increased Expenses

- Reconstitution
- Equipping conference rooms with technology for hybrid staff
- Customer assistance programs
- Suspension of fees / shut-offs
- Supplies and services
- Transportation / fuel prices
- Fleet replacement
- Staff turnover



Balancing Efforts

- Financial management
- Expense prioritization
- Project & process management
- Operational efficiencies
- Strategic alignment
- Long-range planning
- Inflationary pressures
- Professional / external services to fill in
- Managing workload



Managing Expenses

- Hiring
- Delaying projects
- Meetings, travel & trainings
- Debt management

Strategy

Using our strategic plan to help inform our budget.

- Assessment of plan
- Vision for next biennium
- Goal management integration
- Quarterly staff newsletters
- Connecting to Board Strategic Directives



Objective: Providing Customers with Increased Value

Initiatives



Development and implement a customer engagement program

- **Advanced Meters**

- Challenges: Supply chain impact, delayed completion, and increased costs
- Benefits: Supports monthly billing, provides access to data for the utility and customers

- **MyAccount** (customer engagement portal)

- Challenges: Complexity with project and costs continue to rise
- Benefits: Enhanced portal for customers to access data and bill pay



Objective: Preparing our workforce for the future

Initiatives



Create and implement a workforce development system

- Focus on field staff
- Apprenticeship program
- Post-apprenticeship program
- Other leadership development
- Knowledge capture effort, making an investment due to turnover
- Work culture has changed, average tenure is lower (~11.9 years, down about ~4 years from Silver Tsunami)

Systems, Processes, and Resources



Objective: Improving our Systems, Processes, and Use of Resources

Initiatives



Inventory and document core business processes

- Developer funded work processes



Support key technology projects

- ERP replacement, mobile workforce management



Establish and implement a risk management program

- Emergency management, documented SOP, table top exercises, Cascadia



Enhance project management competencies

- Facilitating management training throughout the organization

Strategic Long-Range Planning

Reviewing our assessments and plans to validate and incorporate new information.



- Financial update



- Climate change

Vulnerability Assessment (VA)

		T	X	V	X	C	=	R
		T = threat		V = vulnerability		C = consequence		Relative risk
		Probability that incident occurs on selected asset		If incident occurs, the likelihood that it will cause the asset to fail		Consequence of functional failure of asset		
<div>Critical Asset</div> <div>An asset having a consequence of failure above a tolerable level</div>	Earthquake	Natural Events						
	Flood	Value 0 to 100%	X	Value 0 to 100%	X	Value 0 to 100	=	Risk Score 0 to 100
	Tomado							
	Other							
	Terrorist Attack	Malevolent Threats						
	Vandalism	Value 0 to 100%	X	Value 0 to 100%	X	Value 0 to 100	=	Risk Score 0 to 100
	Insider Attack							
	Other							
	Physical Wear-out	Asset Management Considerations						
	Performance Deterioration	Value 0 to 100%	X	Value 100%	X	Value 0 to 100	=	Risk Score 0 to 100
	Operator Error							
	Other							

Budget Drivers



External / Least Control

- Assessments
- Taxes
- Personnel expenses
- Class and comp study
- Cost of commodities
- Safety
- New regulatory requirements
- Investments in technology



Limited Control

- Debt service
- Capital Investment Plan (CIP)
- Wholesale water sales
- Climate action pledge
- Fleet investments
- Emergency management
- Equity
- Purchasing regulations / contract constraints



Internal / Most Control

- Strategic initiatives
- Workforce development
- Reorganization impacts
- FTE count

Investments in Data & Technology

Ongoing data integrity must be a focus.

Tools	Use Case Examples
Hanalytics	Customer arrearages
Snowflake	Access to different datasets across city
Tableau	Data visualization
Smartsheet	Tracking, polling, work flow
Adaptive Insights	Financial forecasting for O&M and Capital
ERP	SAP replacement

User groups and MS Teams foster collaboration, support advanced analytics, and encourage sustainment of enhanced capabilities.



- # Forecasting

- # Project and Process Documentation

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How is the budget informed by Asset Management?

Asset Management Plans

- Recommends capital projects

Distribution main replacement

- Based on distribution main economic model
- Improved condition assessment
 - Condition assessment technology is more accurate and less invasive
 - Continue to refine utilization of main break and condition data
- Risk-driven prioritization
 - Refined understanding of consequence of failure
 - Refined understanding of likelihood of failure
 - GIS better inform both

SAP data structure project (FLIP)

- Changing the functional location hierarchy to match the work that we do

TPU Customer Services

Steve Hatcher, Customer Services Manager

State of Customer Services



An unprecedented percentage of our customer base is struggling.

- **Revenue Recovery**

- Support and foster customer success while balancing the needs of the utilities

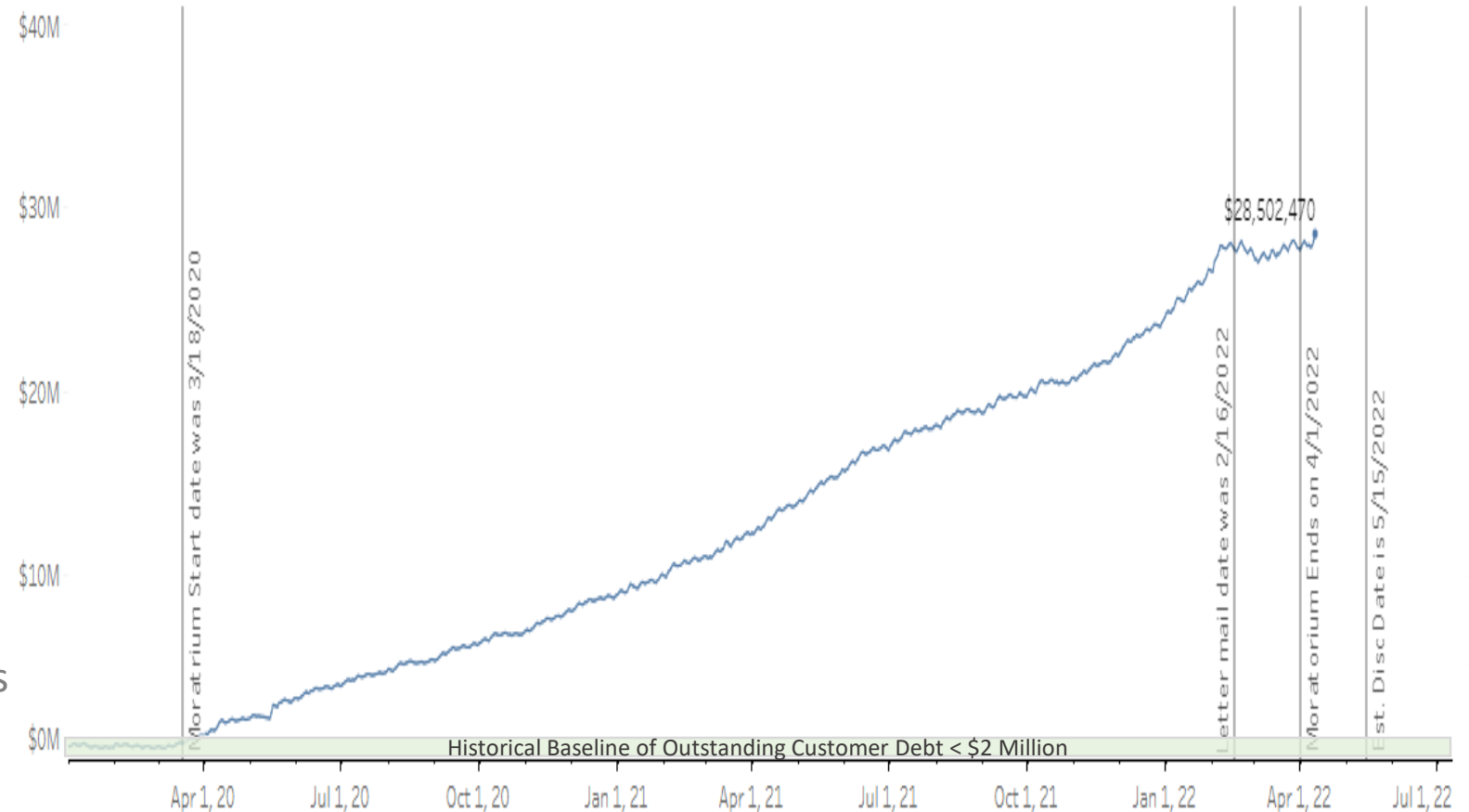
- **Managing Extended 24-Month Payment Agreements**

- High-touch process to help customers succeed as longer term payment plans have significantly higher default rates

- **Resumption of Disconnections**

- Monitoring and managing orders in an automated and manual meter environment

Total Outstanding Covid Balances for Residential Customer Utility Accounts
1/1/2020 – 4/11/2022



State of Customer Services



- **Increased Customer Contacts**

- Proactive outreach prior to moratorium end date provided customers guidance and plan to keep services connected
- Resumption of in-person customer outreach activities
- Number, duration, and complexity of customer conversations has increased
- Transitioning customer base from bi-monthly to monthly billing

- **Enhanced Efforts to Assist Limited Income Households**

- Processing customer assessment forms to help determine available resources
- Repurposing existing BCAP funds
- Continuing outreach to enroll households in available programs

- **Advanced Metering**

- Conversion of customer base to monthly billing over the next biennium
- Implementation of new MyAccount customer website
- Reintroducing Pre-pay for residential power customers

- **Recruitment, Hiring, and Transition of New Customer Services Manager**

Challenges

Successful customer support faces strong headwinds

- **Past Due Utility Accounts**

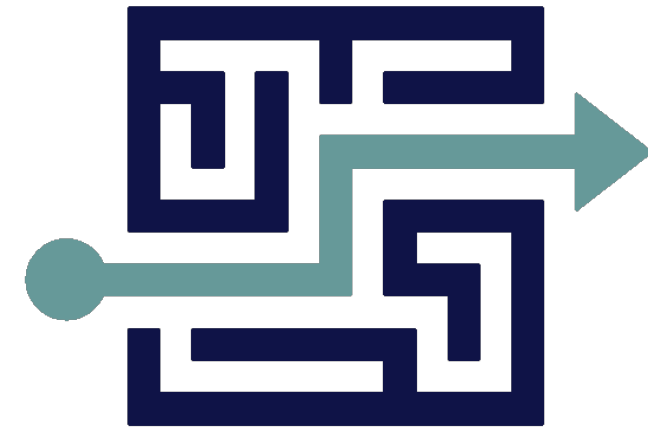
- Managing 24-month payment agreements and resumption of disconnections
- Staffing needed to respond to increased customer contacts
- Qualifying and connecting customers with available internal and external financial assistance

- **Employee Recruitment and Retention**

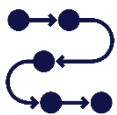
- More challenges recruiting staff; hiring pool is reduced
- CS employees are highly recruited by other city departments

- **Technology Expectations**

- MyAccount enhancements
- Staffing to support transitioning technologies (CEP, solar, outage map, pre-pay)



Processes, Programs, and Technology will lead the way



Process and Program Focused

- Implement strategies that meet the needs of residential and small-midsize business
- Identify and connect customers to federally funded programs
- Refine current programs that serve limited-income customers
- Support and participate in Tacoma Power, Tacoma Water, and Environmental Services strategic initiatives



Technology Focused

- Provide customers with enhanced easy-to-use self-service tools
- Implement customer feedback channels
- Increase first call resolution through advancements in process and technology
- Leverage data to guide and assist operational decision making and assistance program refinement

Budget Drivers



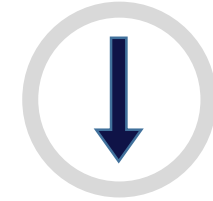
Labor

- Increases in **wages, benefits, class & comp**
- **Increased staffing** required to assist approximately 25,000 residential and small-midsize business customers impacted by Covid. Support of this market segment is higher touch and labor intensive
- **Part-time, temporary, and project positions are no longer a draw in the job market**; increase FTE by expanding part-time, temporary, and existing unbudgeted positions to budgeted full time
- Conversion of the entire TPU customer base to monthly billing by the end of 2024 increases the number of yearly customer billing touch points (12 vs 6) **increasing customer contacts**



O&M

- **Uncontrollable O&M has increased 25.2%**
Rent, phones, fleet and assessments
- **Controllable O&M has increased by 28.5%**
A majority of the increase can be attributed to increased postage fees and increased mailings with monthly billing



Capital

- **No capital requests** for the 2023-2024 biennium

Mitigation & Managing Expenses



Customer Experience (CX)

- The proposed Customer Services 2023-2024 biennium budget was crafted to meet the needs and expectations of customers in a high care environment while being mindful of affordability



Labor Needs

- The budget maximizes the use of project staffing to meet short-term operational needs where possible, allowing the ability draw down positions as AMI deployment increases



Labor Needs

- Additional full-time headcount increases were requested after careful review of current business practices, improvements in internal processes, and additional needs of the community



Reimagine the Customer Experience (CX)

- Develop a future state customer experience strategy and operating model that moves beyond traditional customer service functions, including:
 - Incorporating all customer facing groups within the utility, not just traditional Customer Services
 - CX best practices
 - Operational approaches
 - Enabling technologies

Questions or Closing Remarks?