

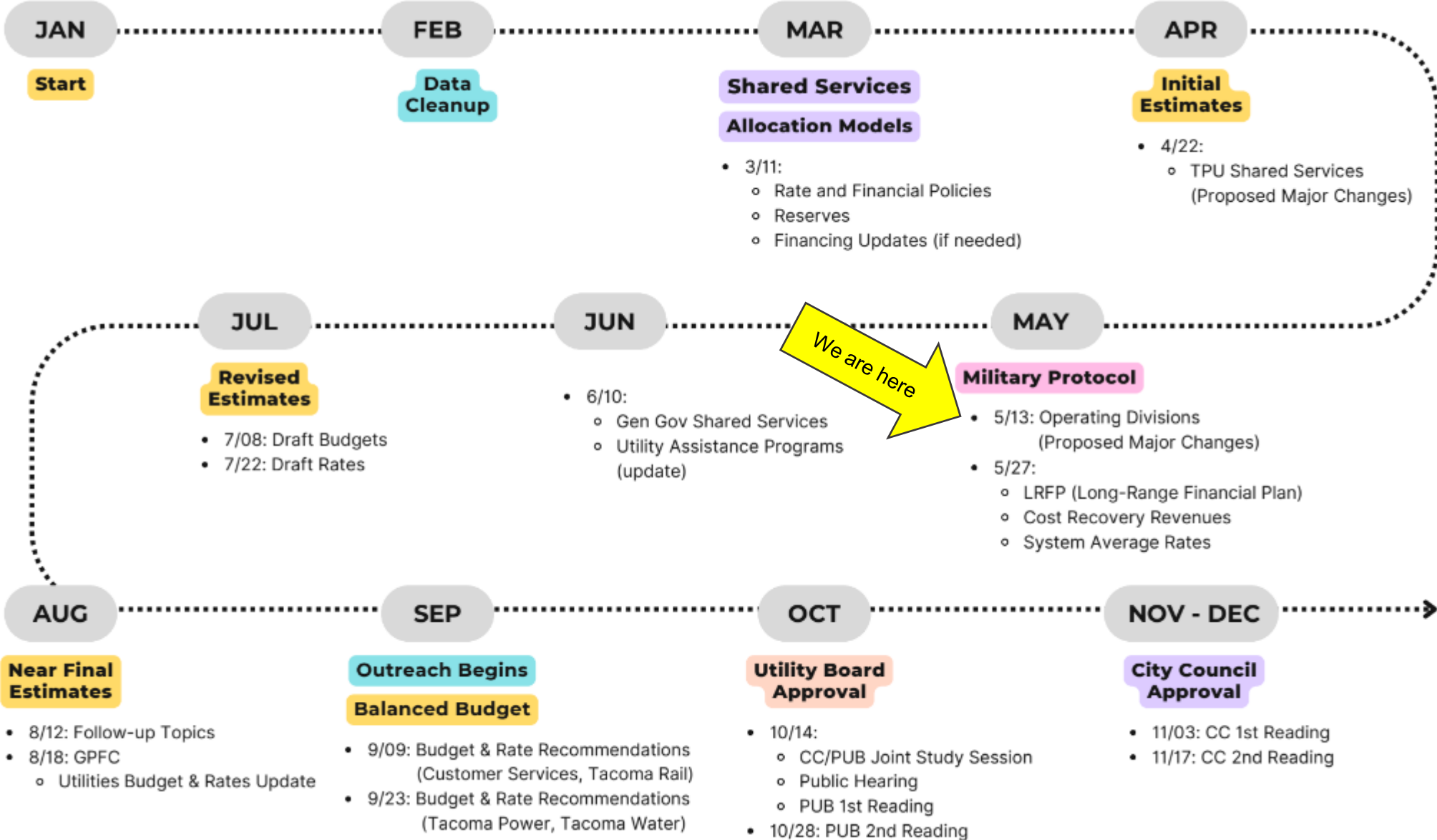


# 2027-2028 Budget & Rates Operating Divisions Proposed Major Changes

May 13, 2026



# 2026 Budget & Rates Timeline



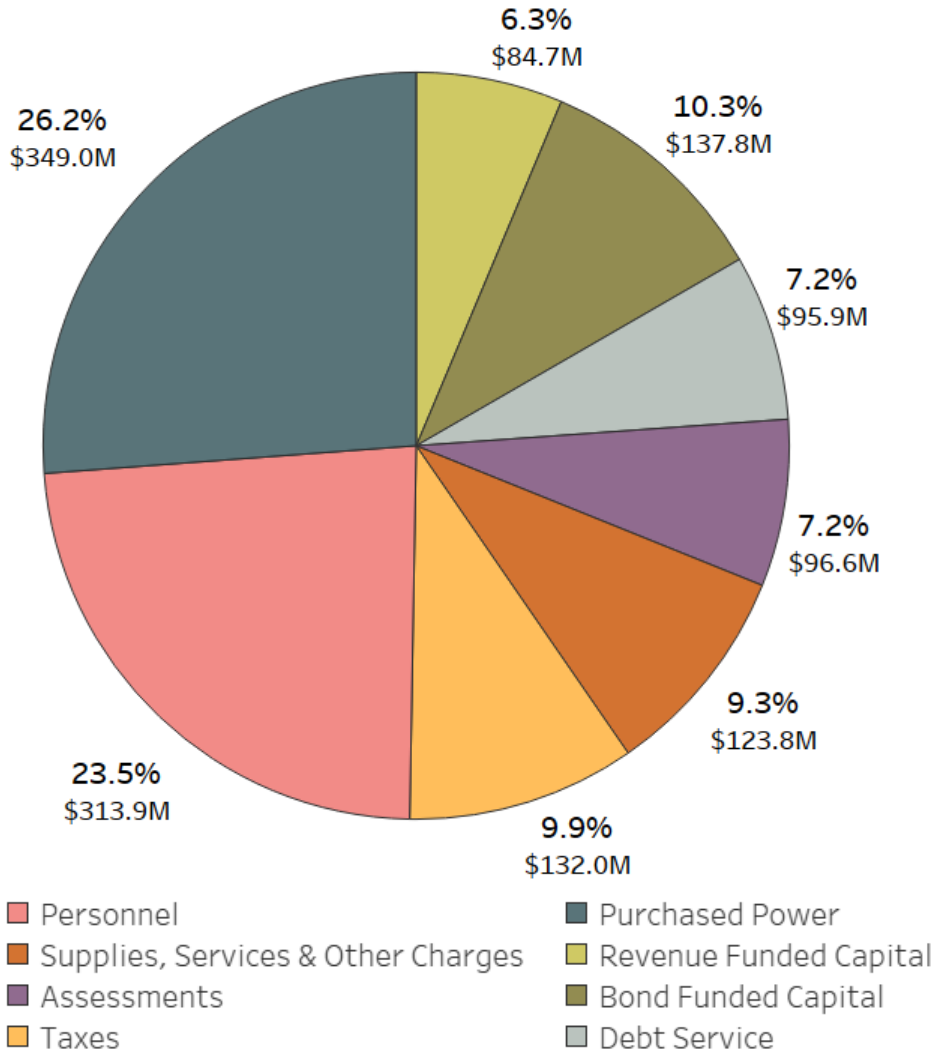
# Tacoma Power



# Tacoma Power 2025-26 Budget – Starting Point

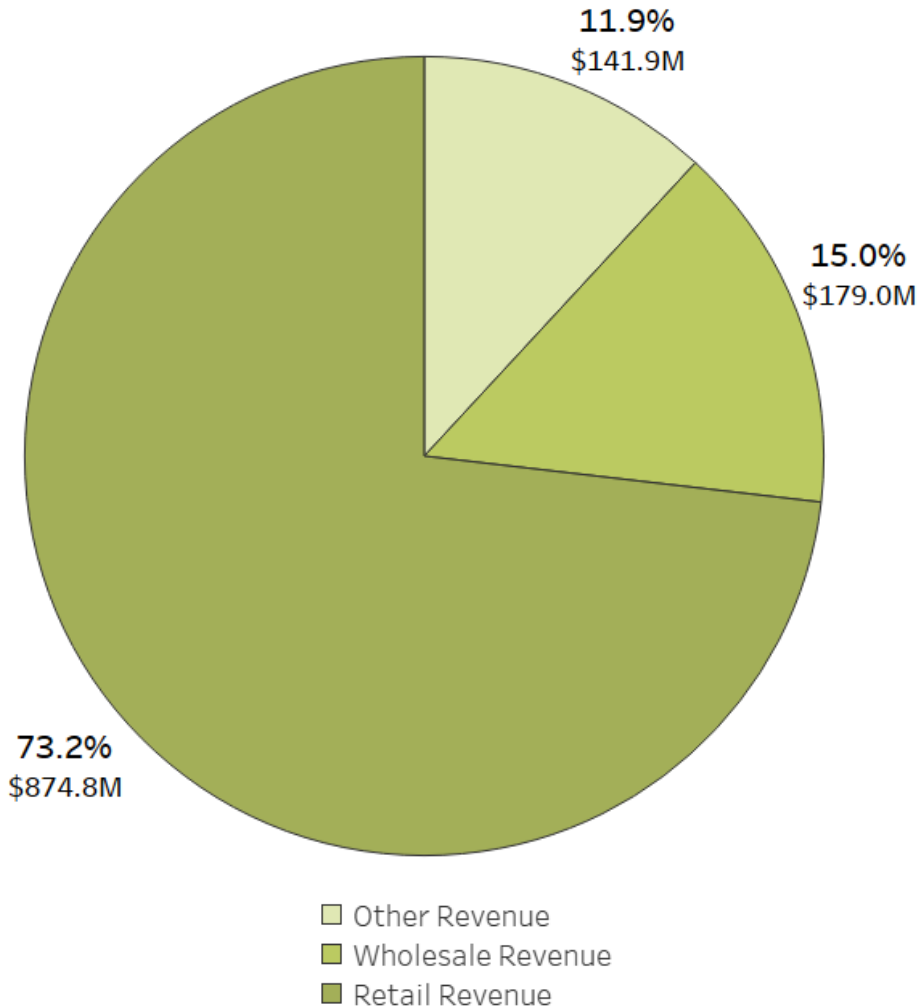
## Expenses

2025/2026 Budget: \$1,333M

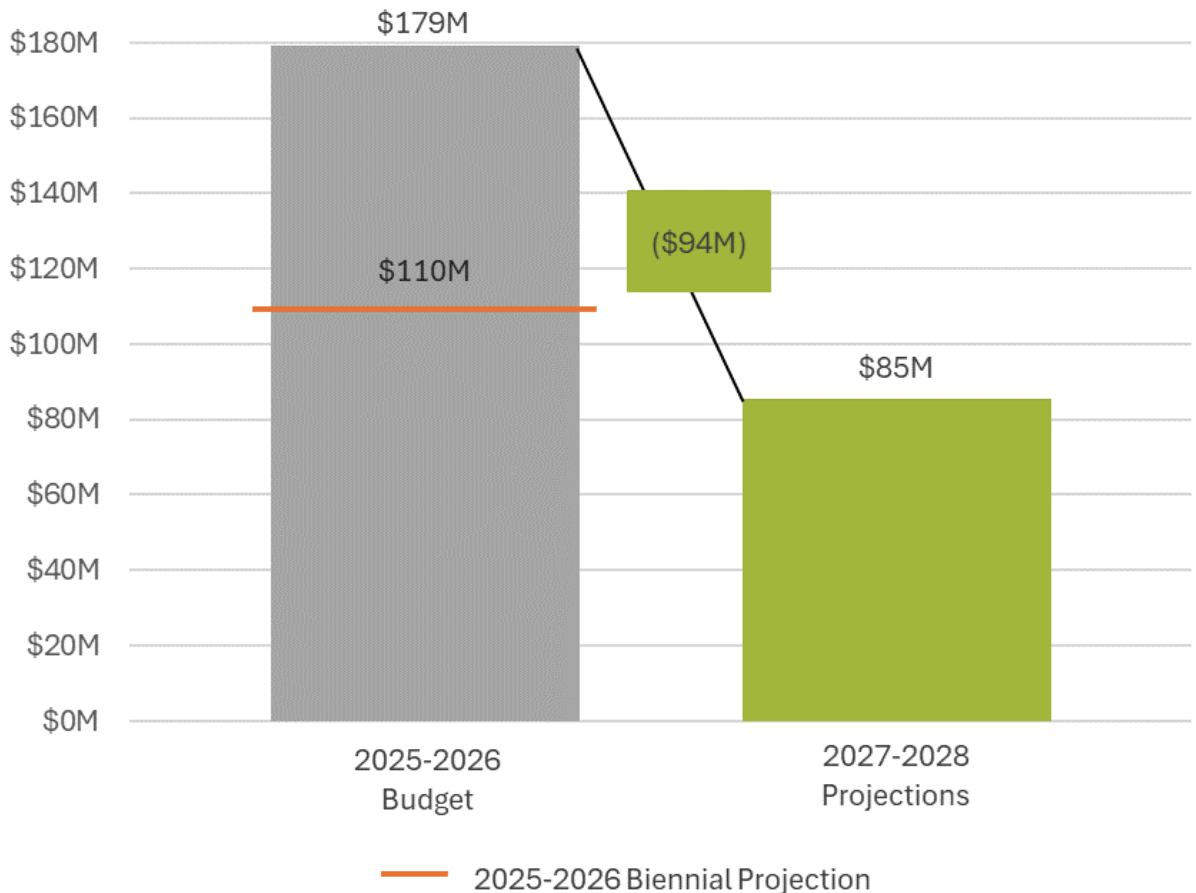


## Revenues

2025/2026 Budget: \$1,196M



# Wholesale Sales Revenues 2027-2028



## Drivers for Projection Changes

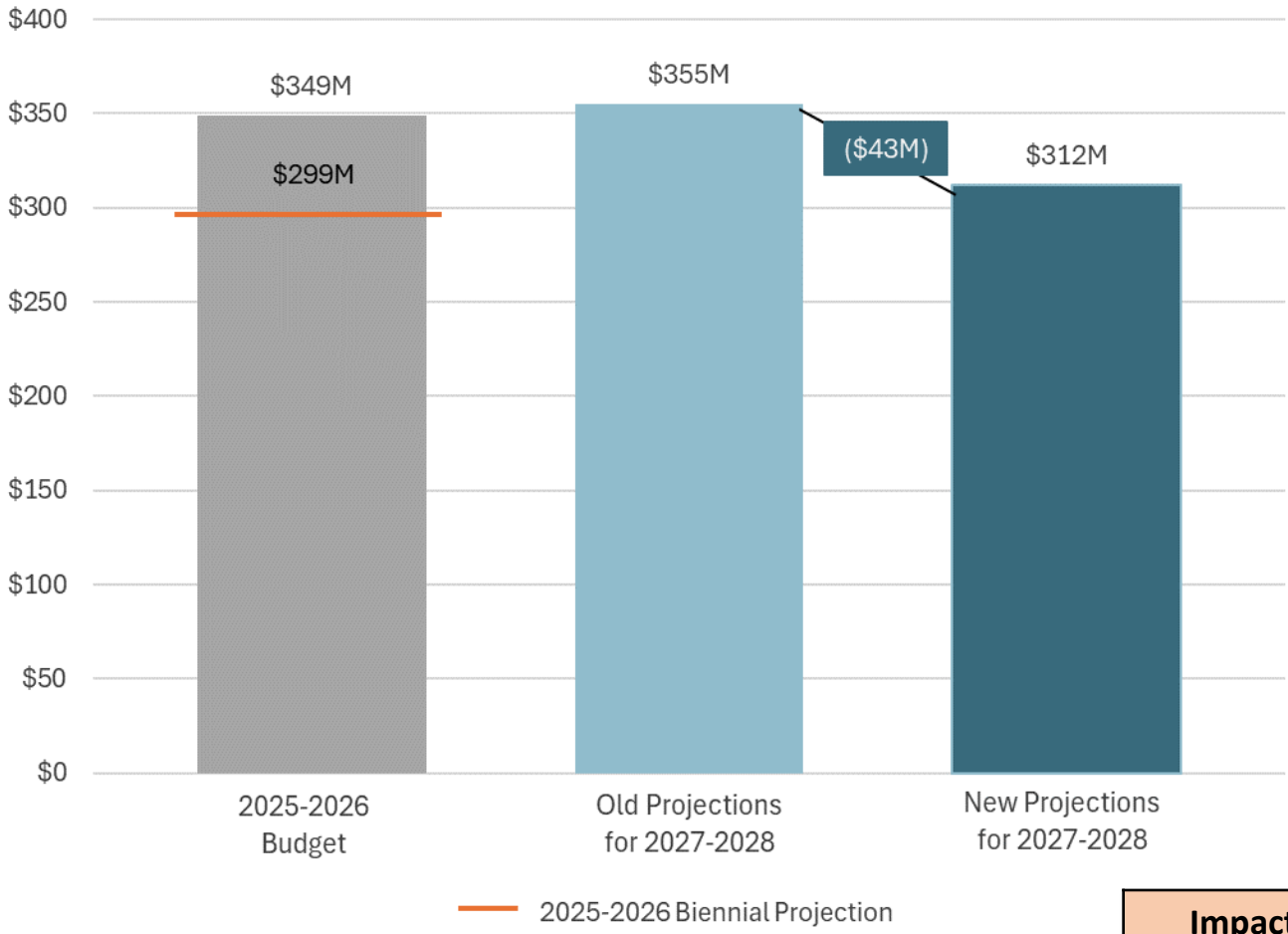
- Significantly lower wholesale market prices
- Reduced resources from BPA Slice Contract

|                | 2025    | 2026    | 2027    | 2028    |
|----------------|---------|---------|---------|---------|
| Price (\$/MWh) | \$67.85 | \$65.93 | \$33.10 | \$35.98 |
| Quantity (aMW) | 154     | 152     | 143     | 139     |

| Impact       | Decrease (-)          | Increase (+) | Net                   |
|--------------|-----------------------|--------------|-----------------------|
| Revenues     | (\$94,000,000)        |              |                       |
| O&M          |                       |              |                       |
| Capital      |                       |              |                       |
| <b>Total</b> | <b>(\$94,000,000)</b> |              | <b>(\$94,000,000)</b> |



# Purchased Power 2027-2028



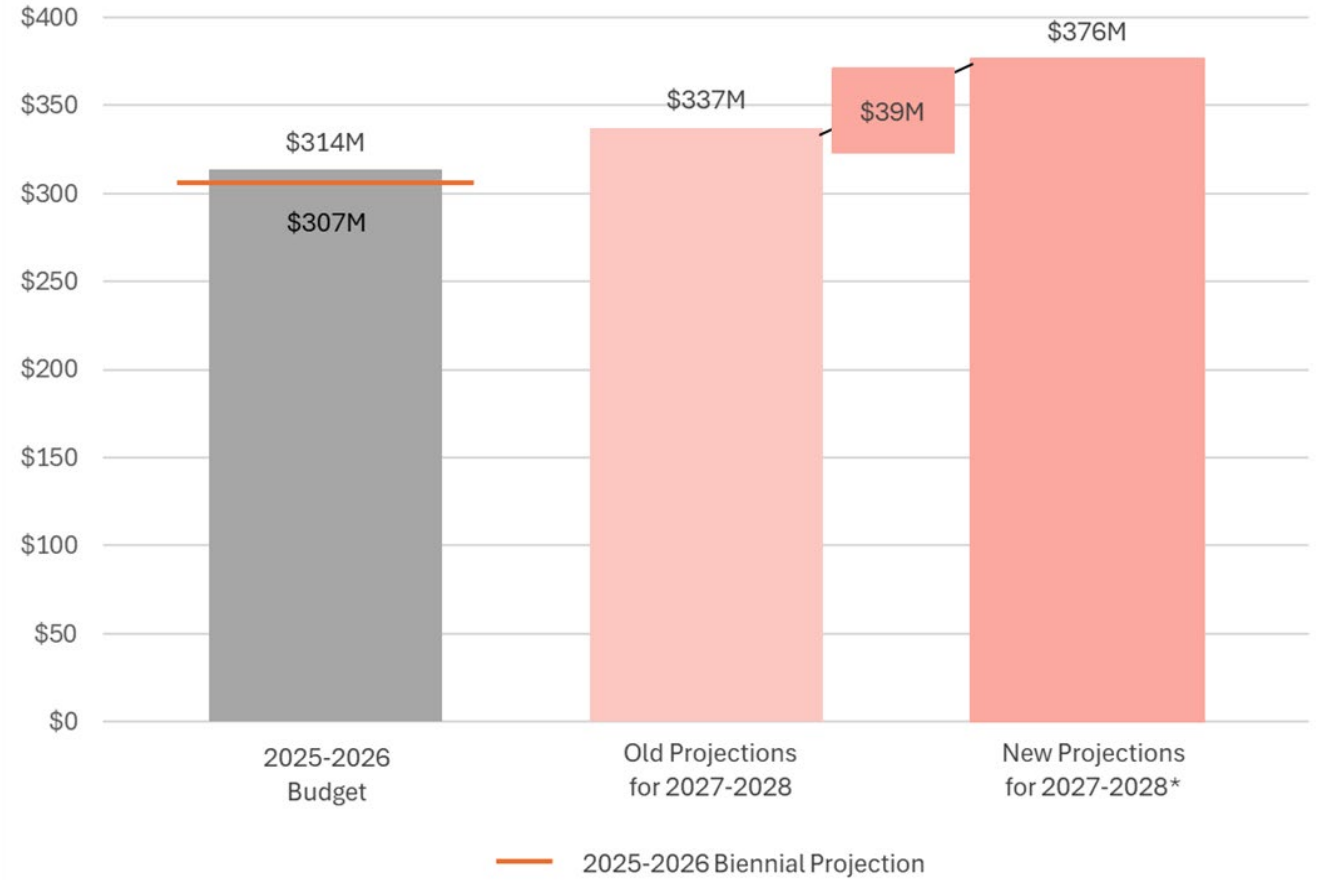
## Drivers for Projection Changes

- Lower wholesale market prices resulting in lower wholesale market purchases
- Actual BPA 2026-28 Power rates are lower than budgeted
- Actual BPA 2026-28 transmission rates are higher than budgeted

| Impact       | Decrease (-)          | Increase (+) | Net                   |
|--------------|-----------------------|--------------|-----------------------|
| Revenues     |                       |              |                       |
| O&M          | (\$43,000,000)        |              |                       |
| Capital      |                       |              |                       |
| <b>Total</b> | <b>(\$43,000,000)</b> |              | <b>(\$43,000,000)</b> |



# Personnel Costs 2027-2028



\*Assumes Net-Zero FTE change

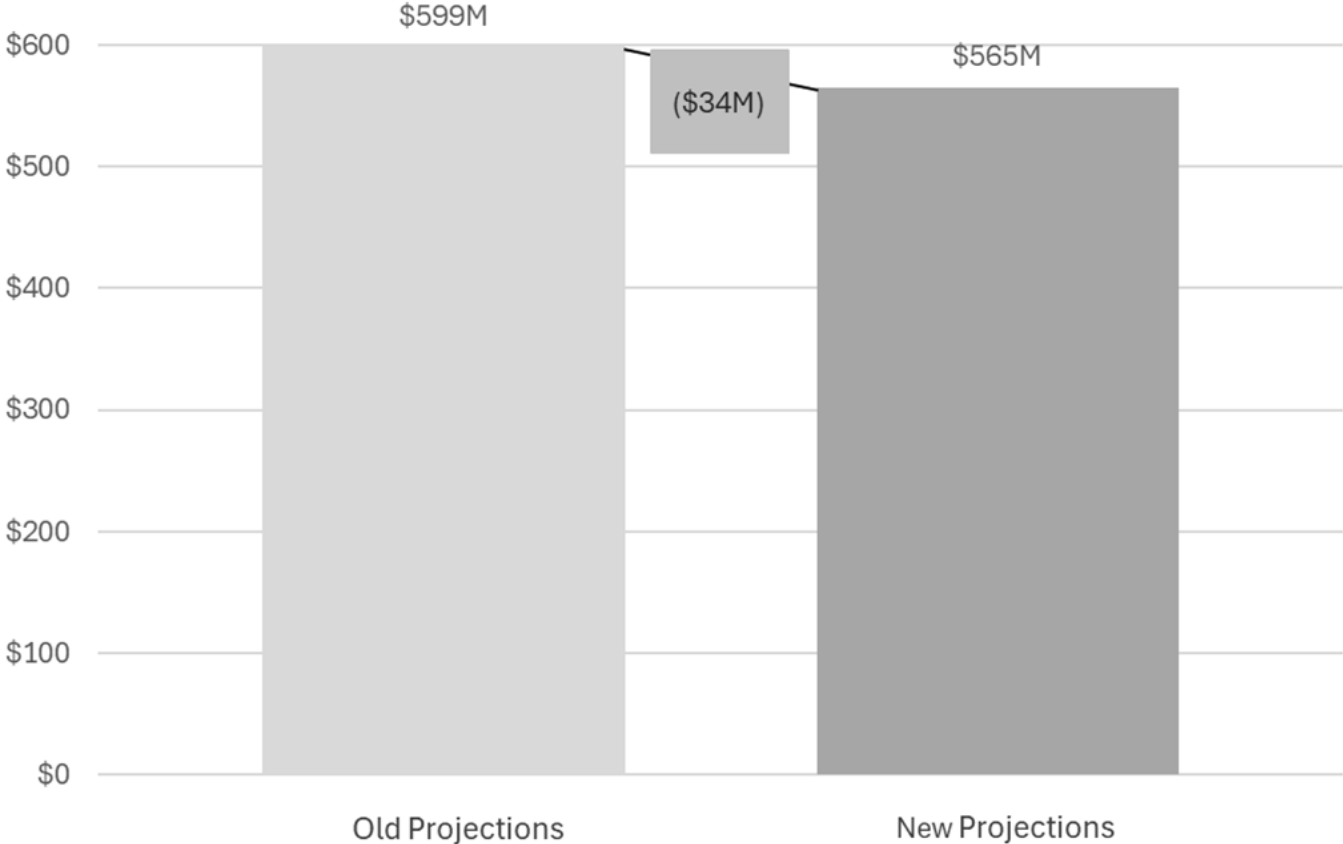
## Drivers for Projection Changes

- Medical benefits are increasing 20% per year
- Cost of living adjustments for Non-Represented and Represented staff
- Power 483 wage increases: 14% average wage increase

| Impact       | Decrease (-) | Increase (+)        | Net                 |
|--------------|--------------|---------------------|---------------------|
| Revenues     |              |                     |                     |
| O&M          |              | \$39,000,000        |                     |
| Capital      |              |                     |                     |
| <b>Total</b> |              | <b>\$39,000,000</b> | <b>\$39,000,000</b> |



# Debt Service 2027-2036



## Drivers for Projection Changes

- July 2025 Bond Issuance reduced debt spikes in future years
  - New money bond issuance of \$131M
  - Refunded \$147M BABs
  - Paid off \$24M CREBs
  - \$75M in cash applied
  
- Increased assumptions from 50% to 55% Bond Funding of capital spending for 2027 - 2036

| Impact       | Decrease (-)          | Increase (+) | Net                   |
|--------------|-----------------------|--------------|-----------------------|
| Revenues     |                       |              |                       |
| O&M          | (\$34,000,000)        |              |                       |
| Capital      |                       |              |                       |
| <b>Total</b> | <b>(\$34,000,000)</b> |              | <b>(\$34,000,000)</b> |



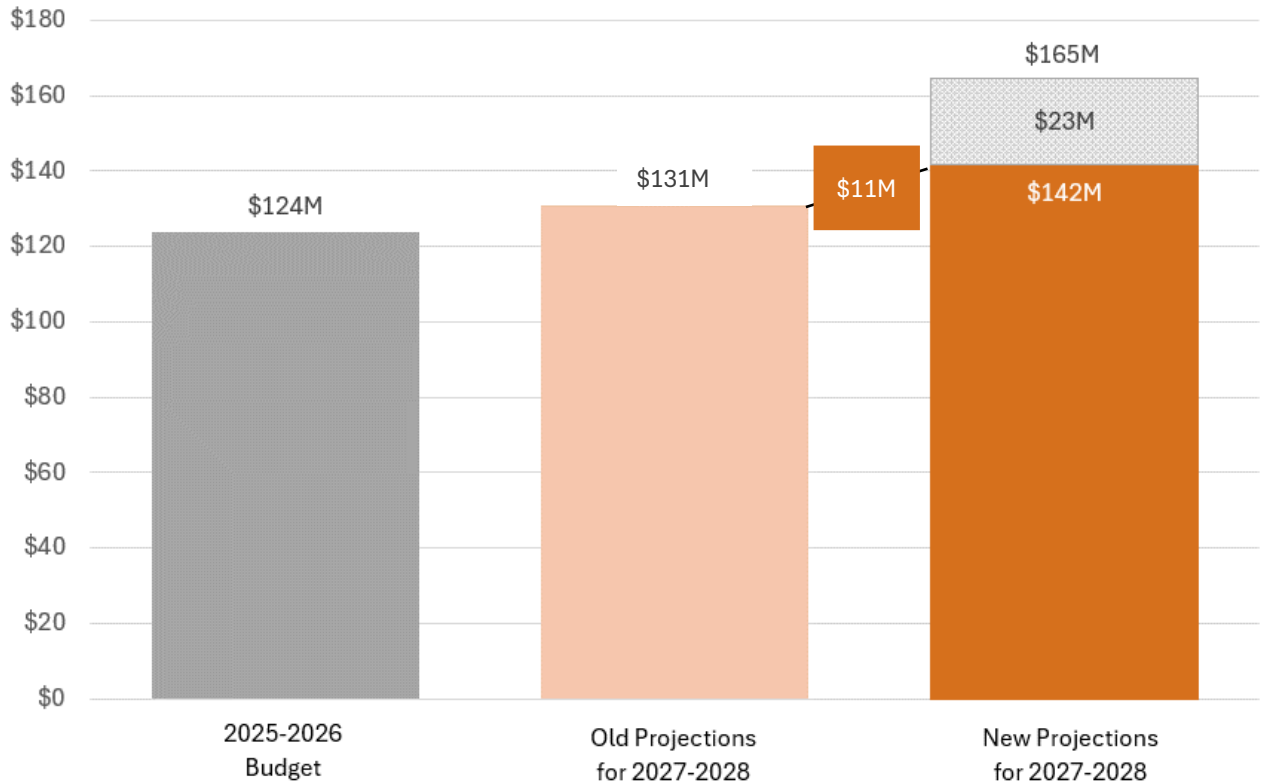
## Relicensing of Three Hydro Projects

**In the last rates period, we assumed approximately \$200M in our financial plan. We have now lowered our cost projection to approximately \$100M in our financial plan.**

### Important Notes:

- The original estimates from 2024 were very high-level and largely based on peer utilities' relicensing costs.
- As part of a 2025 Strategic Initiative, Tacoma Power engaged with a consultant to refine our relicensing costs estimates.
- The refined estimates are more detailed and right-sized for our utility.
- However, the costs of relicensing can vary dramatically and are inherently uncertain.

# Preliminary Budget: O&M 2027-2028



## Drivers for Projection Changes

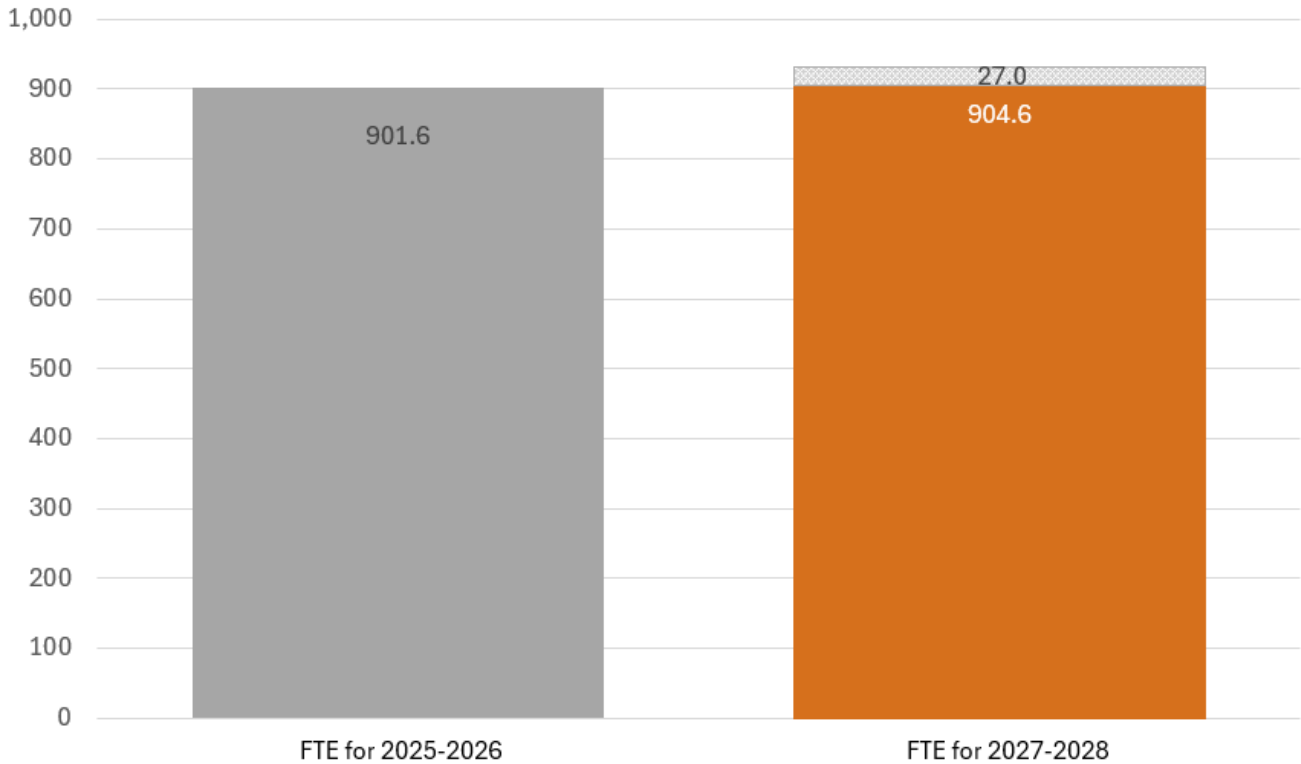
- Power has **increases** in extraordinary items such as:
  - Kosmos and Steam Plant Remediation (\$11.5M)
  - Markets+ implementation (\$5M)
  - Increased contributions to Family Need (\$4.5M)
  - Wynoochee License Surrender (\$2.4M)
- Power focused on **reductions** through a strategic initiative: target of 10% net reduction for Supplies, Services & Other Charges
  - Parallel with Start, Stop, Continue
  - Reduced existing operational supplies and services costs by **\$22.8M**.

***Preliminary numbers – Subject to Change***

| Impact       | Decrease (-)          | Increase (+)        | Net                 |
|--------------|-----------------------|---------------------|---------------------|
| Revenues     |                       |                     |                     |
| O&M          | (\$22,780,000)        | \$33,553,000        | \$10,773,000        |
| Capital      |                       |                     |                     |
| <b>Total</b> | <b>(\$22,780,000)</b> | <b>\$33,553,000</b> | <b>\$10,773,000</b> |



# Preliminary Budget – FTEs



### Net-Zero FTE Target

- Power’s initial need for new FTEs was 30
- Focus on net zero FTE target reduced the proposed increase to 3
- Prioritized needs of emerging programs (ADMS, Markets+, Relicensing, etc.) through attrition and reprioritization of work
- Result of net zero FTE discussions: addition of **3** Relicensing positions in 2027/2028 (as previously presented in relicensing staffing plan)

|              | Decrease (-)  | Increase (+) | Net        |
|--------------|---------------|--------------|------------|
| ADMS         | (4.0)         | 4.0          | 0.0        |
| Markets+     | (5.0)         | 5.0          | 0.0        |
| Relicensing  | (4.0)         | 7.0          | 3.0        |
| <b>Total</b> | <b>(13.0)</b> | <b>16.0</b>  | <b>3.0</b> |



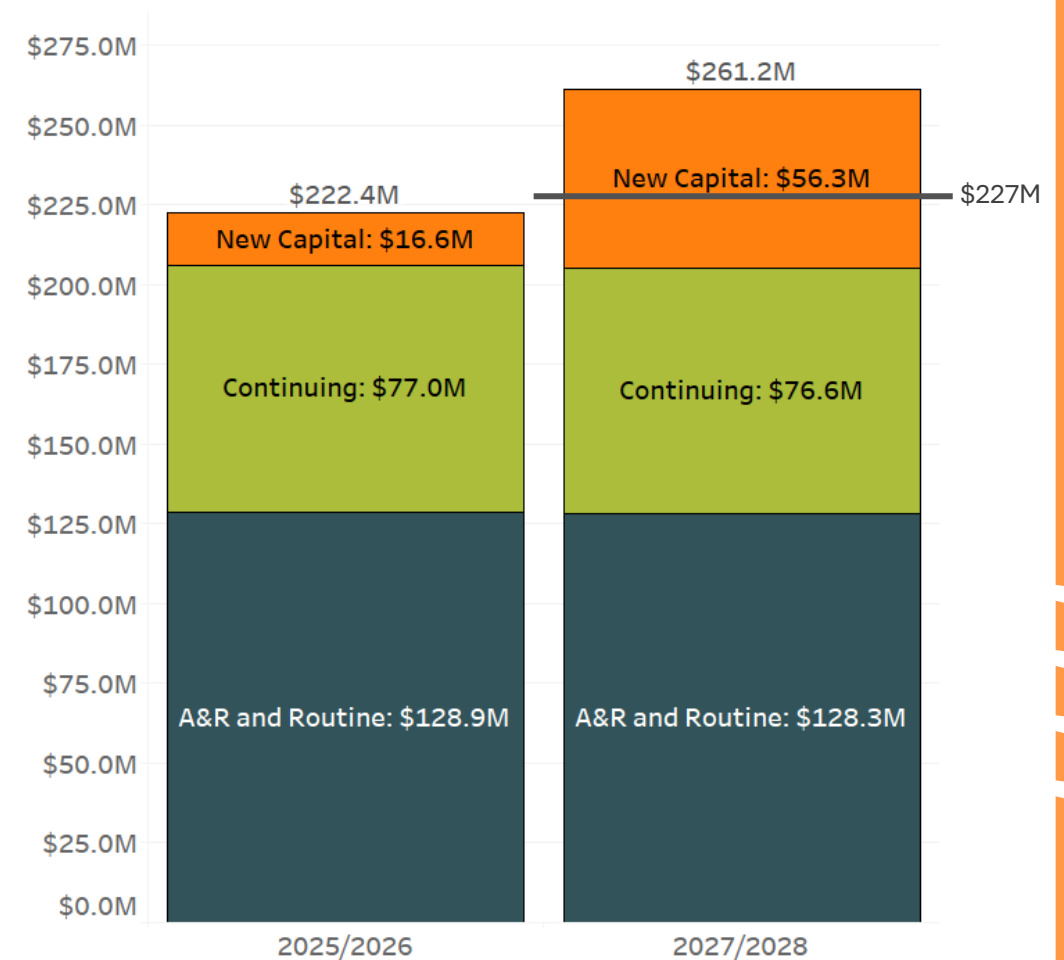
# Preliminary Budget – Capital

## 2027/2028 Target: \$227M

- Plan to reduce proposed budget from \$261M to \$227M based on historical performance and in-line with 2025/26 budget level

## Project Highlights

| Continuing Capital >\$5M   | 27/28 Budget |
|--|--------------|
| South Service Center Storage   | \$18,000,000 |
| TPU Admin Complex Storage & Parking Facility*<br><i>*Priority project due to the need to vacate Cushman Substation</i> | \$12,240,000 |
| Mayfield Fish Passage Modification   | \$10,013,000 |
| Automated Distribution Mgmt System (ADMS)  | \$10,000,000 |
| Cushman #2 U31, U32 Unit Rebuild   | \$6,700,000  |
| New Capital >\$5M  |              |
| Markets+ Implementation  | \$10,346,000 |
| TPU Administration Workplace Modernization   | \$6,500,000  |
| LaGrande Surface Tram Access Improvements  | \$6,231,000  |



## Tacoma Power is focused on keeping rates as low as is responsible

We are focused on managing the costs that we have some control over, such as:

- Keeping FTEs mostly flat
- Identifying significant reductions in existing Supplies, Services & Other Charges costs to offset emerging programs
- Proposing a capital budget that is in-line with the current budget and historical performance

However, there are other factors impacting our rates and long-range financial planning:

- Lower wholesale revenue due to lower market prices
- Significant increase in personnel costs due to benefit increases, market wage adjustments, and cost of living increases
- Costs for extraordinary projects

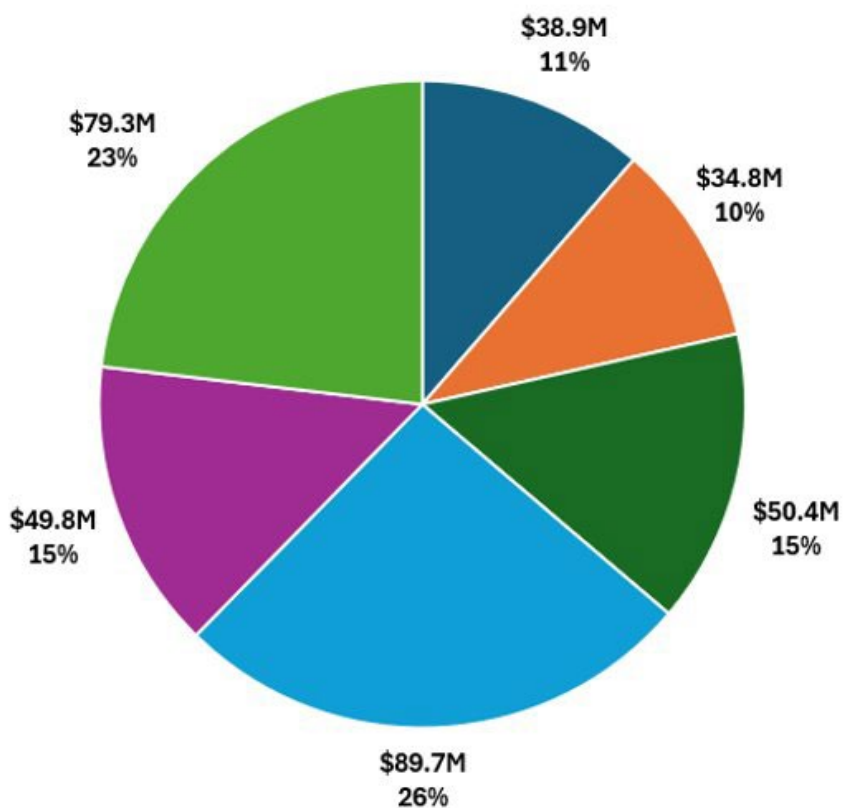
The result is upward rate pressure despite our best efforts to reduce costs.

# Tacoma Water



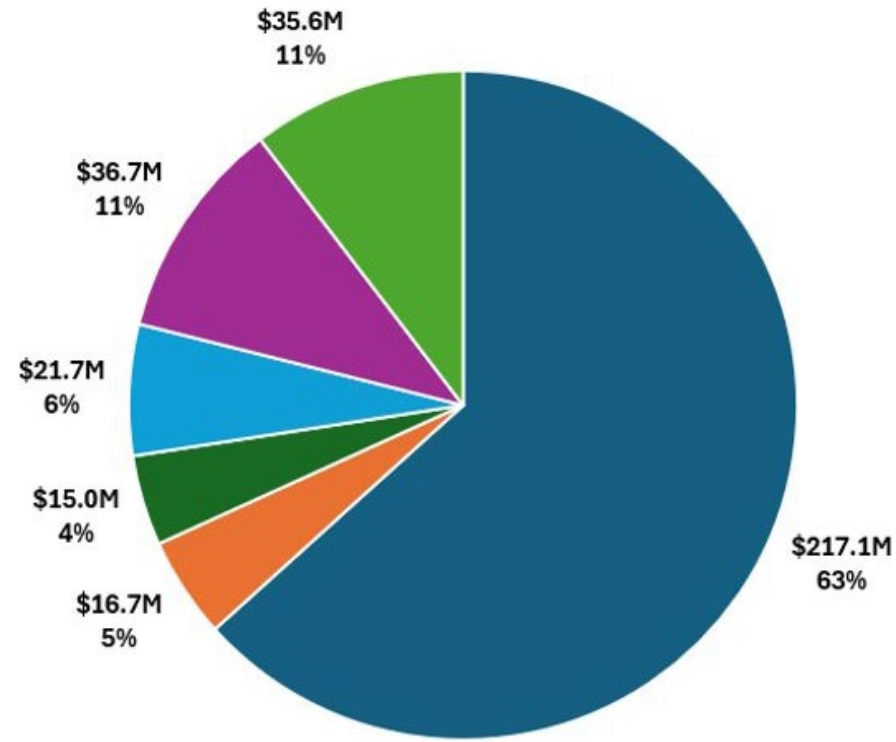
# Tacoma Water 2025/2026 Expenses & Revenues

EXPENSES



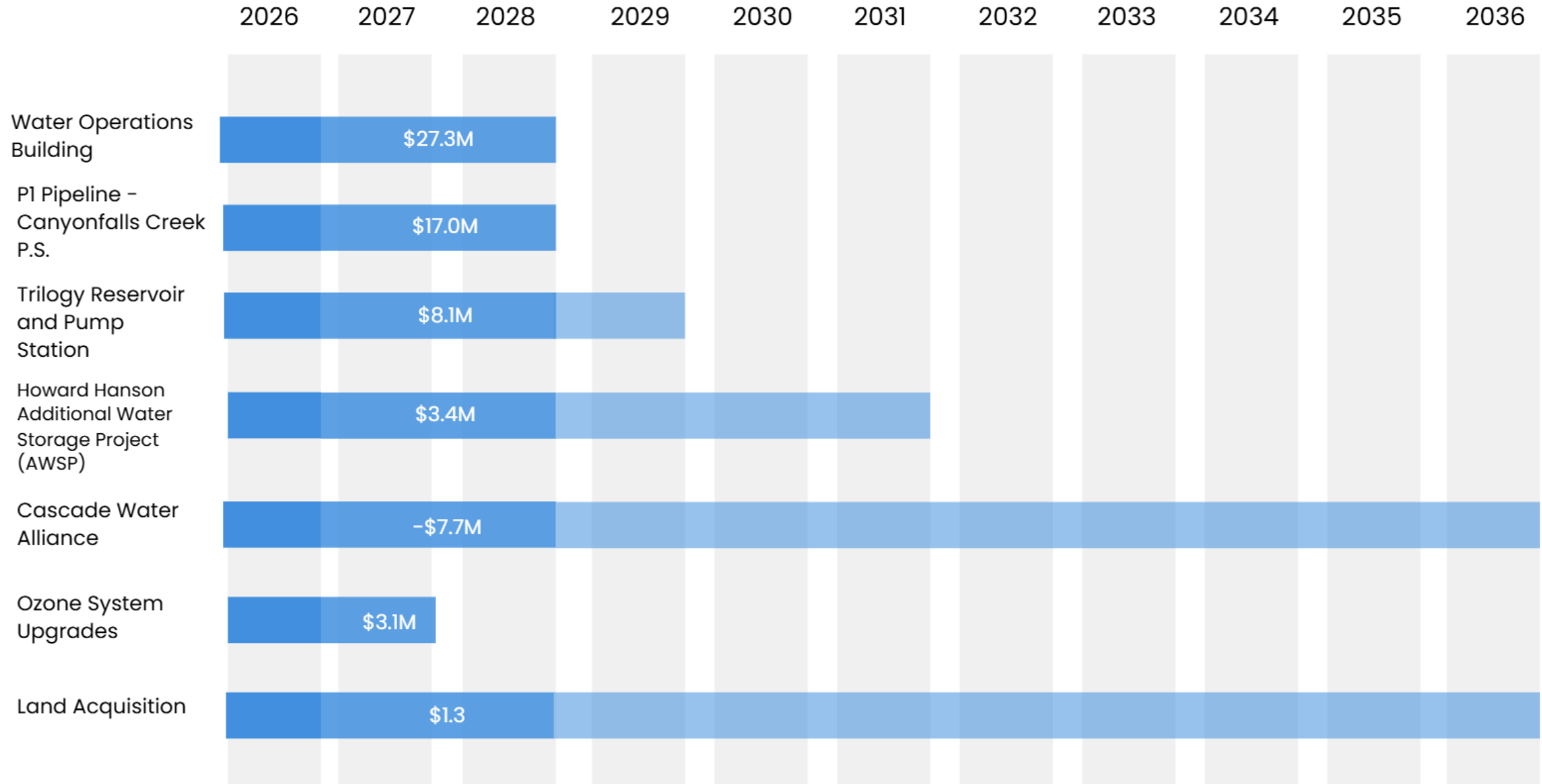
- ASSESSMENTS
- DEBT SERVICE
- SUPPLIES, SERVICE, & OTHER
- TAXES
- PERSONNEL
- CAPITAL OUTLAY

REVENUES



- WATER SALES
- OTHER REVENUE
- ANTICIPATED BOND PROCEEDS
- OPERATING RESERVE
- RATE ADJUSTMENT
- CAPITAL TRANSFER IN

# Major Changes: Capital Project Timeline



# Capital – Water Source & Transmission

## Water Operations Building

### Scope:

- The existing Water Operations Building (c. 1937) lacks seismic resilience and is undersized for today’s operational needs.
- Meet or exceed requirements of City Resolution 38249, Municipal Green Building Policy.

### Status:

- Project is underway. It is expected to break ground this summer and spend \$12M in 2026.

**Guiding Principle:** Resource Stewardship and Sustainability

**Funding:** Rates, Reserves, & System Development Charges (SDCs)

| Impact       | Decrease (-) | Increase (+)        | Net                 |
|--------------|--------------|---------------------|---------------------|
| Revenues     |              |                     |                     |
| O&M          |              |                     |                     |
| Capital      |              | \$27,260,000        |                     |
| <b>Total</b> |              | <b>\$27,260,000</b> | <b>\$27,260,000</b> |

# Capital – Water Source & Transmission

## P1 Pipeline Pressurization – Canyonfalls Creek Pump Station

### Scope:

- Achieve a minimum of 5 psi pressurization through the entire length of Pipeline 1 transmission main by 2051.

### Status:

- Pipeline 1 is a major transmission main delivering treated drinking water to the greater Tacoma Water service area. Over 30 discrete projects have been identified to meet pressurization requirements in WAC and deficiencies found by Washington State Department of Health's (DOH) sanitary survey. Tacoma Water and DOH entered into an agreement to pressurize Pipeline 1 by 2051.

**Guiding Principle:** Resource Stewardship and Sustainability

**Funding:** Rates, Reserves, & System Development Charges

**Duration:** One-Time

| Impact       | Decrease (-) | Increase (+)        | Net                 |
|--------------|--------------|---------------------|---------------------|
| Revenues     |              |                     |                     |
| O&M          |              |                     |                     |
| Capital      |              | \$17,040,000        |                     |
| <b>Total</b> |              | <b>\$17,040,000</b> | <b>\$17,040,000</b> |

# Capital – Water Source & Transmission Trilogy Reservoir and Pump Station

## Scope:

- Additional water storage and pumping is needed to maintain our level of service to the new Tehaleh area development.

## Status:

- Planning has started in 2025-2026 biennium for the Trilogy Reservoir and Pump Station. Construction is scheduled to start in 2028 and be completed in 2029.

**Guiding Principle:** Resource Stewardship and Sustainability

**Funding:** Rates, Reserves, & System Development Charges

**Duration:** One-Time

| Impact       | Decrease (-) | Increase (+)       | Net                |
|--------------|--------------|--------------------|--------------------|
| Revenues     |              |                    |                    |
| O&M          |              |                    |                    |
| Capital      |              | \$8,100,000        |                    |
| <b>Total</b> |              | <b>\$8,100,000</b> | <b>\$8,100,000</b> |

# Capital – Water Treatment

## Howard A Hansen Dam Additional Water Storage (AWSP)

### Scope:

- Facilitate partnership with US Army Corps of Engineers (USACE) to complete the downstream fish passage facility by 2031.
- Additional 1 Project FTE – through 2030.

### Status:

- The project is resuming after federal funding was reinstated in 2026. Construction is starting in May 2026.
- Tacoma Water will support USACE in project coordination by providing invasive species prevention, safe and efficient access to the site, and the 1.6% agreed upon funding.

**Guiding Principle:** Resource Stewardship and Sustainability

**Funding:** Rates, Reserves, Debt Financing

**Duration:** One-Time

| Impact       | Decrease (-) | Increase (+)       | Net                |
|--------------|--------------|--------------------|--------------------|
| Revenues     |              |                    |                    |
| O&M          |              | \$322,800          |                    |
| Capital      |              | \$2,920,830        |                    |
| <b>Total</b> |              | <b>\$3,243,630</b> | <b>\$3,243,630</b> |

# Capital – Other Cascade Water Alliance

## Scope:

- Prepare the Tacoma Water System to be able to delivery up to 32.5 million gallons per day (MGD) to the Cascade Water Alliance by 2041 through permanent and market rate contracts.
- Work has begun on the Cascade Supply Program Management Plan (PMP), which will include estimating future expenses to include in the CIP.
- Additional one project manager position

**Guiding Principle:** Resource Stewardship and Sustainability

**Funding:** Rates and System Development Charges

**Duration:** Ongoing & One-Time

| Impact       | Decrease (-) | Increase (+)        | Net                  |
|--------------|--------------|---------------------|----------------------|
| Revenues     |              | (\$7,700,000)       |                      |
| O&M          |              |                     |                      |
| Capital      |              |                     |                      |
| <b>Total</b> |              | <b>(\$7,700,00)</b> | <b>(\$7,700,000)</b> |

# Capital – Water Treatment Ozone System Upgrades

## Scope:

- Refurbish the ozone system at the Green River Filtration Facility (GRFF).

## Status

- The ozone system at GRFF is at the end of the expected life for equipment with significant failures. The Ozone Improvement Project started with 2024 with procurement of equipment to be complete in Q4 2026.
- Construction is starting in 2026 with project completion in 2027.

**Guiding Principle:** Resource Stewardship and Sustainability

**Funding:** Rates

**Duration:** Ongoing & One-Time

| Impact       | Decrease (-) | Increase (+)       | Net                |
|--------------|--------------|--------------------|--------------------|
| Revenues     |              |                    |                    |
| O&M          |              |                    |                    |
| Capital      |              | \$3,077,213        |                    |
| <b>Total</b> |              | <b>\$3,077,213</b> | <b>\$3,077,213</b> |

# Capital – General Plant Land Acquisition

## Scope:

- Purchase land near watershed to ensure safety and health of our water sources.

## Status:

- Water has been approached by a third party to purchase a portion of land in the watershed.
- Eligible for a King County grant to offset 75% of the initial capital purchase.
- Anticipated Purchase in Q1 2027

**Guiding Principle:** Resource Stewardship and Sustainability

**Funding:** Reserves

**Duration:** One-Time

| Impact       | Decrease (-) | Increase (+)       | Net                |
|--------------|--------------|--------------------|--------------------|
| Revenues     |              | (\$1,750,00)       |                    |
| O&M          |              |                    |                    |
| Capital      |              | \$5,000,000        |                    |
| <b>Total</b> |              | <b>\$1,250,000</b> | <b>\$1,250,000</b> |

# Summary of Major Changes From 25/26 Budget

|   | Categories  | Net Impact                        | FTE           |
|---|---|-----------------------------------|---------------|
| 1 | Water Operations Building                                   | \$27.3 M                          |               |
| 2 | P1 Pipeline Pressurization – Canyonfalls Creek Pump Station | \$17.0M                           |               |
| 3 | Trilogy Reservoir and Pump Station                          | \$8.1 M                           |               |
| 4 | Howard Hanson Additional Water Storage Project (AWSP)       | \$3.2 M                           | 1.0 (Project) |
| 5 | Cascade Water Alliance                                      | <i>(-\$7.7 M)<br/>New Revenue</i> | 1.0           |
| 6 | Ozone System Upgrades                                       | \$3.1M                            |               |
| 7 | Land Acquisition  | \$1.3 M                           |               |



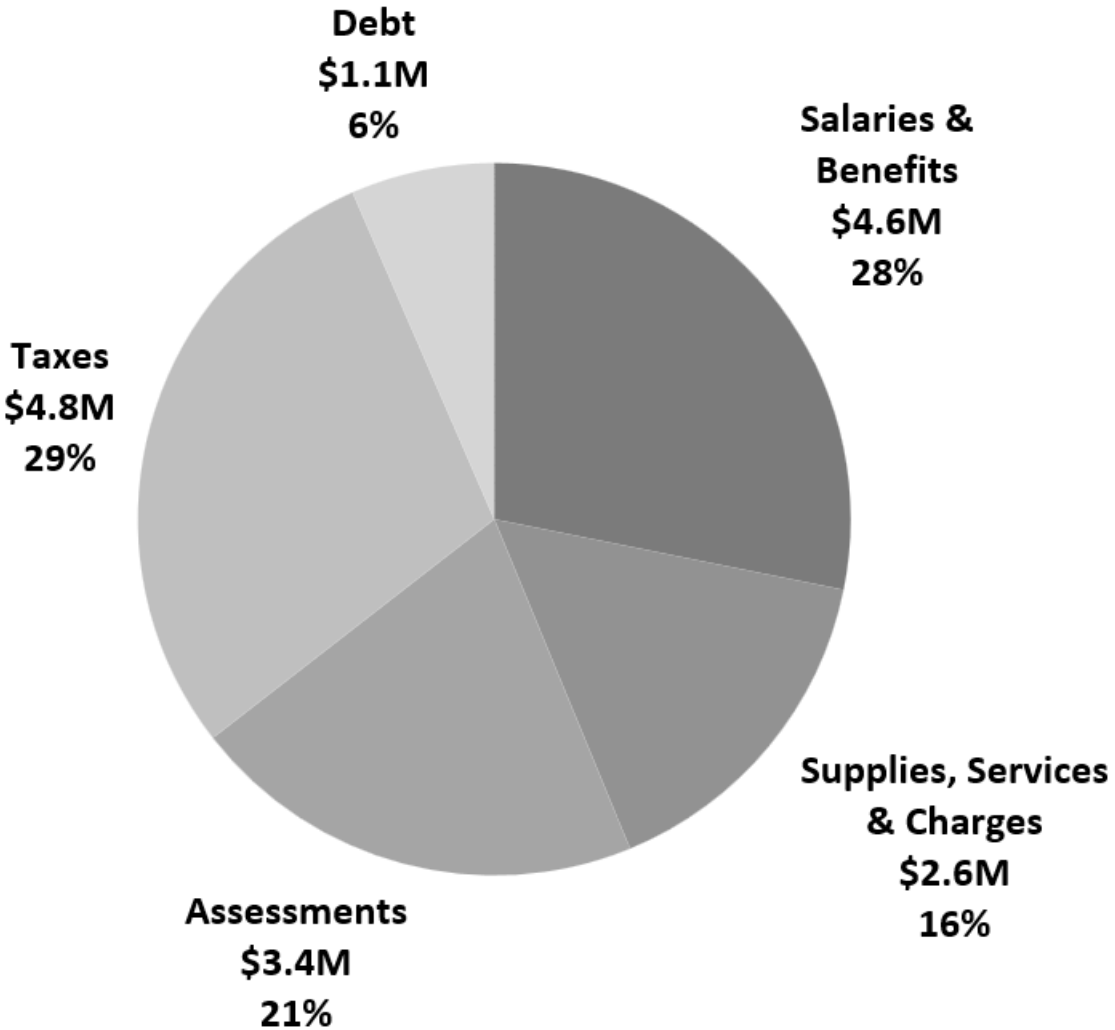
# Tacoma Rail



# Administration

- Superintendent's Office
- Administration Support
- Safety & Compliance
- Finance & Technology
- 18 FTEs
- \$16.5M budget

## 2025-2026 Budget

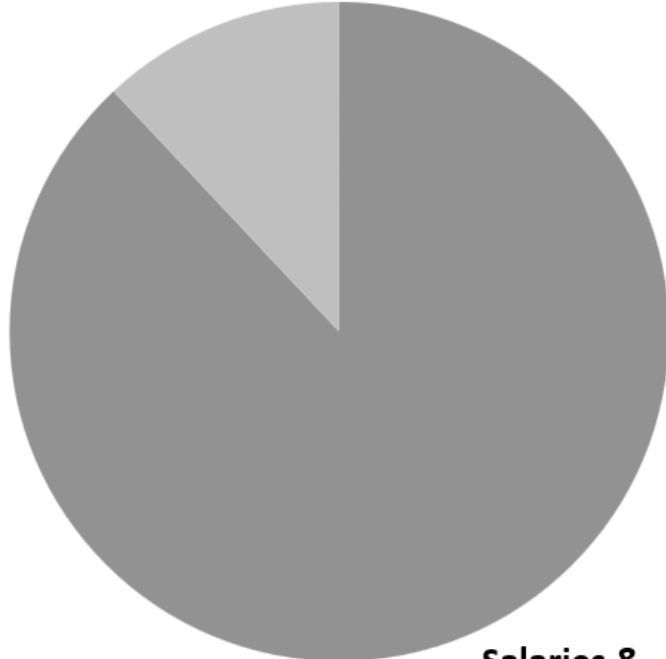


# Operations

- Train crews
- Train planning
- Railcar switching
- 74 FTEs
- \$17.2M budget

## 2025-2026 Budget

Supplies, Services  
& Charges  
\$2.1M  
12%



Salaries &  
Benefits  
\$15.1M  
88%

# Apprenticeship Program

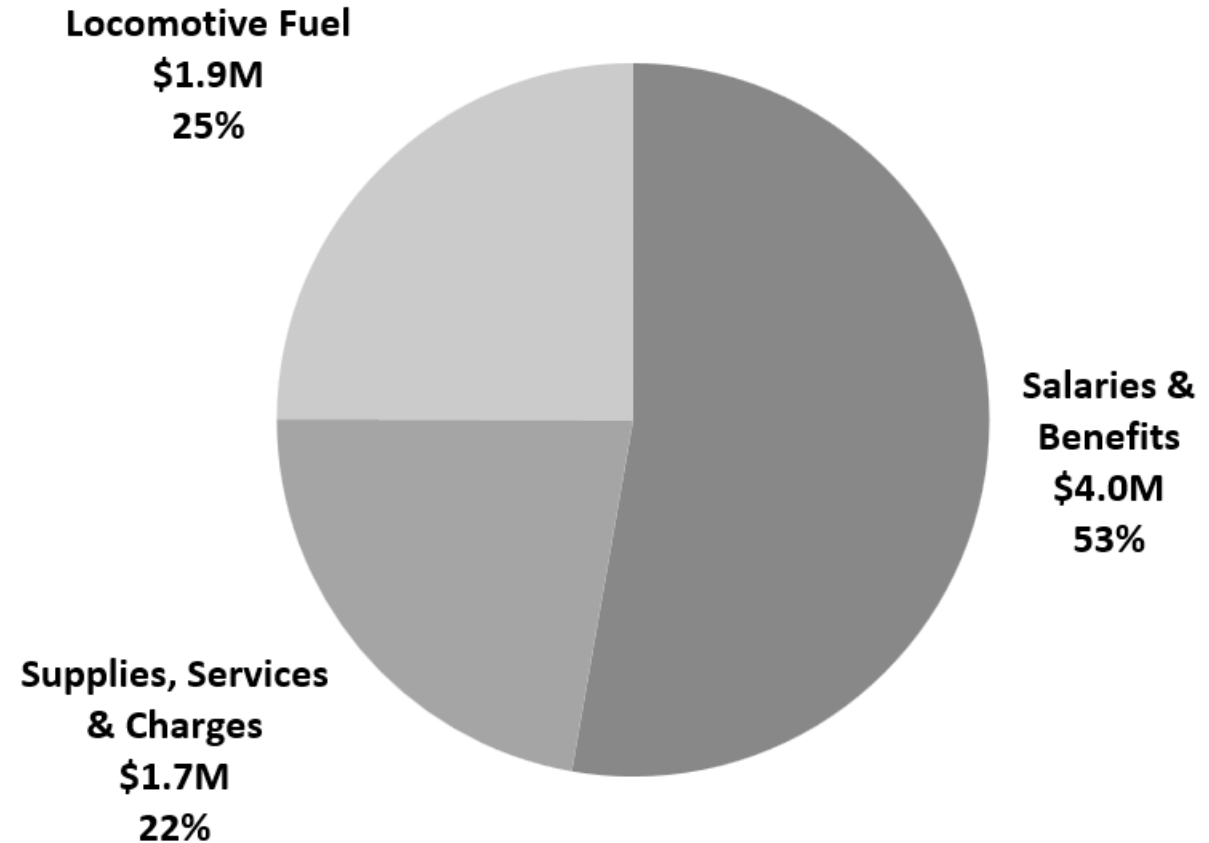
- Scope:
  - 4 FTEs
  - New comprehensive 9-month curriculum & on-the-job training
  - Cultivate local talent
  - Ensure operational readiness
  - Build a workforce that mirrors the community we serve.
- Guiding Principle:
  - Employee & Culture
- Funding:
  - Operating fund
- Duration:
  - Ongoing

| Impact       | Decrease (-) | Increase (+)     | Net              |
|--------------|--------------|------------------|------------------|
| FTE          |              | 4                | 4                |
| Sal & Ben    |              | 1,060,908        | 1,060,908        |
| O&M          |              |                  |                  |
| Capital      |              |                  |                  |
| <b>Total</b> |              | <b>1,060,908</b> | <b>1,060,908</b> |

# Mechanical

- Maintenance of Equipment
- Locomotive mechanics
- Locomotive servicing
- 19 FTEs
- \$7.5M budget

## 2025-2026 Budget



# Capital Projects - Mechanical

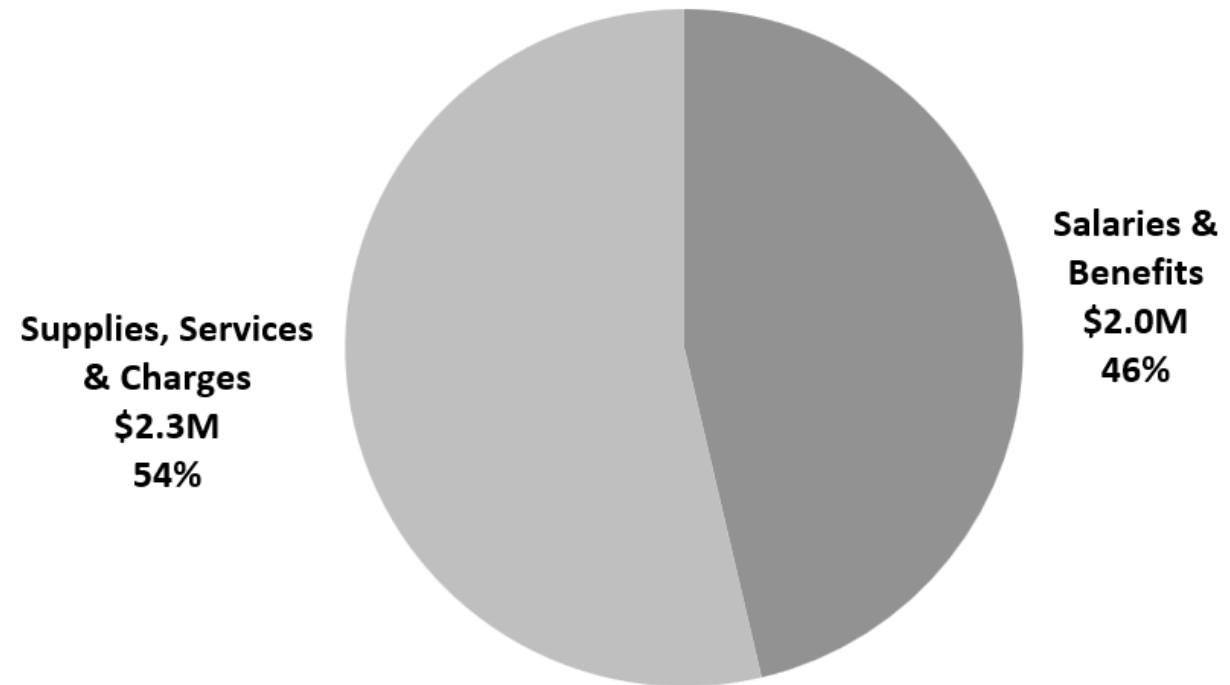
- Scope
  - Two battery electric locomotives
  - Charging infrastructure
  - Six Tier-4 diesel electric locomotives
  - Consent decree locomotive
- Guiding Principle:
  - Resource Stewardship and Sustainability
- Funding:
  - Grants
  - Operating fund
- Duration:
  - 2026-2028 (anticipated)

| Impact       | Decrease (-) | Increase (+)      | Net               |
|--------------|--------------|-------------------|-------------------|
| FTE          |              |                   |                   |
| Sal & Ben    |              |                   |                   |
| O&M          |              |                   |                   |
| Capital      |              | 31,100,000        | 31,100,000        |
| <b>Total</b> |              | <b>31,100,000</b> | <b>31,100,000</b> |

# Construction

- Maintenance of Way
- Track maintenance
- Engineering
- 9 FTEs
- \$4.3M budget

## 2025-2026 Budget



# Capital Projects - Track

- Scope
  - New Milwaukee Crossover, Port Main & Port Pass
  - Double Track 509
- Guiding Principle:
  - Resource Stewardship and Sustainability
- Funding:
  - Loans (anticipated)
  - Operating fund
- Duration:
  - 2026-2028 (anticipated)

| Impact       | Decrease (-) | Increase (+)     | Net              |
|--------------|--------------|------------------|------------------|
| FTE          |              |                  |                  |
| Sal & Ben    |              |                  |                  |
| O&M          |              |                  |                  |
| Capital      |              | 6,000,000        | 6,000,000        |
| <b>Total</b> |              | <b>6,000,000</b> | <b>6,000,000</b> |

# Summary of Proposed Changes

|              | <b>Title</b>             | <b>Guiding Principles Alignment</b>     | <b>Estimated Impact</b> |
|--------------|--------------------------|---|-------------------------|
| 1            | Apprenticeship Program   | Employee and Culture                    | \$ 1,060,908            |
| 2            | Locomotive Modernization | Resource Stewardship and Sustainability | 31,100,000              |
| 3            | Track Infrastructure     | Resource Stewardship and Sustainability | 6,000,000               |
| <b>Total</b> |                          |   | <b>\$ 38,160,908</b>    |

# Summary of Department FTE Changes



| April | Division     | CXEA          | MSO*       | Power        | Water    | Rail     | Total        |
|-------|--------------|---------------|------------|--------------|----------|----------|--------------|
|       | Reductions   | (10.0)        |            |              |          |          | (10.0)       |
|       | Transfers    | (1.0)         | 2.0        | (1.0)        |          |          | -            |
|       | Additions    |               | 2.0        |              |          |          | 2.0          |
|       | <b>Total</b> | <b>(11.0)</b> | <b>4.0</b> | <b>(1.0)</b> | <b>-</b> | <b>-</b> | <b>(8.0)</b> |

| May | Division     | CXEA     | MSO      | Power      | Water      | Rail       | Total      |
|-----|--------------|----------|----------|------------|------------|------------|------------|
|     | Reductions   |          |          | (13.0)     |            |            | (13.0)     |
|     | Transfers    |          |          |            |            |            |            |
|     | Additions    |          |          | 16.0       | 2.0        | 4.0        | 22.0       |
|     | <b>Total</b> | <b>-</b> | <b>-</b> | <b>3.0</b> | <b>2.0</b> | <b>4.0</b> | <b>9.0</b> |

|                    |               |            |            |            |            |            |
|--------------------|---------------|------------|------------|------------|------------|------------|
| <b>Grand Total</b> | <b>(11.0)</b> | <b>4.0</b> | <b>2.0</b> | <b>2.0</b> | <b>4.0</b> | <b>1.0</b> |
|--------------------|---------------|------------|------------|------------|------------|------------|

\* Excludes impact of PRO request which follows the General Government budget approval process.

# Next Steps



## June

- General Government Shared Services
- Customer Utility Assistance Programs

## July

- Draft Budget and Rates

## August

- Follow-up Topics
- Government Performance and Finance Committee (GPFC) Update

# Questions?

