Agenda

- Budget Timeline and Principles – Jim Sant (jsant@cityoftacoma.org)

- Situation Analysis and Plans:
  - Tacoma Rail – Dale King (dwking@cityoftacoma.org)
  - Tacoma Water – Scott Dewhirst (sdewhirst@cityoftacoma.org)
  - Tacoma Power – Chris Robinson (crobinson@cityoftacoma.org)
  - Customer Service – Steve Hatcher (shatcher@cityoftacoma.org)
PUB Budget Presentations

Budget Preview & Situation Update
   April 22 – TPU-wide

Rate Policy
   May 13 – Rail

Rate Policy & Financial Update
   May 13 – Water
   May 27 – Power

Long Range Financial Plan (LRFP)
   June 24 – Power
   July 22 – Water

Proposed Budget Review
   August 26 – Customer Service

Proposed Budget and Rates Review
   September 9 – Rail
   September 9 – Water
   September 23 – Power
Budget Timelines

Public Readings, Joint Study Session, Votes and Delivery

- **September 23**: PUB Meeting - TPU Budget/Rate Presentation
- **October 13**: Joint Study Session - TPU Budget/Rate Presentation
- **October 14**: PUB Meeting - Presentation of Preliminary Budget/Rates
- **October 28**: PUB Meeting - Adoption of Preliminary Budget/Rates
- **October 30**: Delivery - Preliminary Budget to City Clerk
- **Nov. 17 & 24**: City Council Readings and Approval
Underlying Budget Principles

• Financial Sustainability
• Rate Sensitivity
• Reliability and Resiliency
• Regulatory Compliance
• Stakeholder Engagement
• Customer Service
• Innovation
• Employee Relations and Safety
A New Landscape and Emerging Priorities

- Impacts of COVID-19 Pandemic
- Employee and Community Safety
- Continuity of Service Priority
- Cost Saving and Other Measures
Tacoma Rail
Background

- No stranger to traffic variations
- Primary Rate Payers
  - BNSF
  - Union Pacific
  - U.S. Oil Refining

**Customer** | **Mini Chart** | **2017 Revenue** | **2018 Revenue** | **2019 Revenue**
---|---|---|---|---
US Oil Refining Company | | $5,218,490 | $5,758,550 | $6,312,740
North Intermodal | | $4,679,950 | $4,332,550 | $4,397,169
Washington United Terminals | | $2,687,850 | $2,747,150 | $3,519,608
Auto Warehousing | | $3,033,000 | $3,181,160 | $3,459,942
SeaPort Sound Terminal | | $1,818,050 | $2,251,990 | $2,193,448
Pierce County Terminal | | $1,882,150 | $1,849,800 | $2,104,515
South Intermodal Yard | | $191,850 | $1,343,850 | $1,200,183
Wallenius Wilhelmsen Solutions | | - | $40,800 | $857,106
MacMillan Piper | | $810,900 | $675,300 | $563,958
COVID-19 Impacts

• Revenue Increases
  • Railcar storage
  • Demurrage

• Revenue Decreases
  • Railroad operations
    • Intermodal traffic
    • Auto traffic
    • Commercial traffic
    • Unit trains
  • Locomotive servicing

• Expense Increases
  • Cleaning services
  • Sanitization supplies
  • Overtime

• Expense Decreases
  • Locomotive fuel
  • Travel
COVID-19 Measures

• Employees
  • Safety
    • Social distancing
    • Cleaning
    • Telecommuting
  • Retention
  • Communication

• Revenue
  • Monitoring trends
    • Tacoma Rail volumes
    • Railroad industry
    • NWSA
    • Global economy
  • Analysis of past event impacts

• Expenses
  • Monitoring closely

• Capital Projects
  • Rail Bank & grant funded
    • MVD crossing signals
    • MVD rail relay
    • Tote Yard track improvements
    • Mazda Siding track improvements
  • In flight
    • East locomotive service facility
    • Radio antenna tower & base station
    • Locomotive repowers
    • Port of Tacoma Road rail relay
    • Electrical infrastructure upgrades
    • Track switch replacements
Next Steps

• Rail Rate Policy Proposed Changes

• Budget & Rate Development
  • Revenue requirements
  • Volume forecasts
  • Capital program

• Monitor Revenue & Expenses

• Delay Capital Projects as Necessary & Able
Tacoma Water
Background

- **Strong Cash Position**: Ability to mitigate lag in cash flow due to deferred customer payments

- **Healthy Reserves**: Gives us financial flexibility

- **Revenue Stability**: Inelastic demand and rate-design from high fixed rate recovery

- **2020 Reorganization**: Many positions held open until reorganization was implemented
COVID-19 Impacts

- **Delivery of Water:** For now, we are not seeing significant changes to delivery of total water to the system compared to 2019.

- **Projections:** We are projecting increased residential demand and decreased commercial demand during the Stay Home, Stay Healthy mandate followed by a recession.

- **Monitoring:** We continue to monitor billed demand and revenue to validate assumptions and adjust projections accordingly.
COVID-19 Measures

- **Customer Focused**
- **Employee Safety and Equity**
- **Emergency Preparedness**
- **Communication**
Next Steps

1. Monitoring Metrics
   - Monthly update to Quarterly Outlook
   - Financial Outlook Dashboard
     - Demand
     - Revenues
     - Cash Balances
     - Accounts Receivable
     - Expenses

2. Prioritizing Current Work & Expenditures
   - Critical Hiring
   - Capital Projects
   - Travel and Training
   - Professional Services

3. Developing 2021-2022 Budget
   - Prioritizing future expenditures and hiring based on strategic plan
   - Keeping our eye on our long-term goals
   - Continuing to use Decision-Making Framework
     - Business Case Evaluations
     - Hiring Action Forms

4. Long-Range Financial Planning
   - Identifying risks such as loss of a large customer and potential recession
   - Incorporating opportunities for mitigation such as use of reserves and debt management
   - Modeling scenarios for risk and mitigation
On Plan Last June...

June 30, 2019 Long-Range Financial Plan

2 - 4% rate increases for ten years
What Happened?

Through February 2020

Good
+ No BPA Rate Increase
+ Click! Network resolution

Bad
- Critical Water
- Increased Other O&M Spending
- Higher Personnel Costs
- Rate Increase Delay for 3 months
- New Wholesale Price/Sales Forecast

Net Result:
$45 million worse off for 2021-2022
before COVID impacts
Retail Demand Lower

Social Distancing

Weekday loads under social distancing are most similar to historical weekend and holiday loads.

For every MWh of retail load decline, Tacoma Power loses $30 to $50.

March 2020 & Future

Tuesday, 24 December 2018
(Christmas Eve)

Tuesday, 24 March 2020
(Stay-At-Home Day #1)
Inadequate Cash Reserves

Moderate Recession

2% Rate Increase in All Years.
Cash declines to 142 days in 2020 and continues downward thereafter.

18% Rate Increase in 2021, 0% After.
Cash declines to 142 days in 2020 and increases after rate increase.
Measures Underway to Mitigate

Expense Reductions:
- Immediate hiring freeze
- Expense reductions
- Capital project reprioritization underway

Financial Options:
- KeyBank Note Purchase Agreement (see upcoming slides)
- Increased bond financing

Rate Projections:
- Updating forecasts as new data becomes available to refine projections
- Delay revenue requirement determination in Fall
- Forego COSA process
2 - 4% rate increases for ten years
Tacoma Power
Bill Berry (bberry@cityoftacoma.org)

Proposed KeyBank General Note Purchase Agreement
Resolution U-11160
Liquidity Management:
- Tacoma Power entered into a 3-year general liquidity line of credit with Key Bank in 2015-2018.
- Reinstating the Key Bank line of credit is under consideration to supplement Tacoma Power’s liquidity levels.
- Only anticipated to be used as an additional source of liquidity or in emergency situations. However, the facility may be utilized for any purpose deemed necessary.

<table>
<thead>
<tr>
<th>Proposed Terms</th>
<th>Key Bank Revolving Credit Facility</th>
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<tbody>
<tr>
<td>Commitment Amount</td>
<td>$50,000,000 to $100,000,000 is under consideration</td>
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<tr>
<td>General Purpose</td>
<td>General Liquidity Facility</td>
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<tr>
<td>Term</td>
<td>2 years + Extensions as Negotiated</td>
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<tr>
<td>Origination/Upfront Fee</td>
<td>30 bps if $50mm ($150,000), 25 bps if $100mm ($250,000)</td>
</tr>
<tr>
<td>Unutilized Fee</td>
<td>35 bps annually ($175,000 up to $350,000)</td>
</tr>
<tr>
<td>Interest Rate on Drawn Amount</td>
<td>1 Month LIBOR Index + 175 bps (0.98% + 1.75%) = 2.73%</td>
</tr>
<tr>
<td>LIBOR Floor</td>
<td>0.50%</td>
</tr>
<tr>
<td>Minimum Initial Draw</td>
<td>None</td>
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Resolution
U-11160
Note Purchase Agreement

Next Steps

Timeline:
- **Today** — Approve Resolution U-11160
- **April 28, 2020** — First Reading
- **May 5, 2020** — Second Reading
- **May 20, 2020** — Closing Date
TPU Customer Services
Customer Services 2020 Priorities

Economic Impacts of COVID-19 pandemic

• Work re-entry policy and logistics planning – safety materials for staff will be an ongoing cost in the short to mid term
• Planning for an unprecedented level/number of residential, Small Mid-size Businesses (SMB) and limited income customers having challenges managing their utility accounts

Cost Saving Measures

• Reduce future training requiring travel (may allow driving distance) & travel to conferences
• Review balance of 2019-2020 budget for possible areas for reduction/elimination (food, employee recognitions etc.)

Continuity of Service

• Customer Solutions (CSO) efforts along with additional City or Federal dollars in assisting customers to maintain their services.
• Implementation of a robust online application for income-eligible households
• Implementation of monthly billing in support of AMI
• Implementation of Pre-pay in support of AMI
• Maintain billing and services to support customers during the AMI transitions

Employee Safety

• Implement a lobby design with protective shields and other measures to safely be able to assist customers in person
• Fully implement home agency/remote operations in support of the business office
• Review additional technology requirements for field staff operations.
Customer Services 2021-22 Budget Impacts

Industry Narrative
• Continue to Increase community engagement
• Develop and implement a customer access strategy unique to residential, SMB and limited income customers
• Fully implement a home agency/remote strategy in support of the business office operations
• Meet Purchase Card Industry (PCI) requirements established by the City of Tacoma (or Collaborate with the City of Tacoma to meet PCI requirements without negatively impacting service options for customers)
• Integrate additional technology (HANA) to assist in making data driven decisions with all CS operational sections

Resource Constraints
• Required computer technology to fully implement home agency/remote operations in support of the business office

Future Budget Impacts
• Delay the replacement of the Customer Interaction Center (CIC) platform until 2023/2024 biennium
• Delay purchasing of two additional PayBoxes in support of pre-pay program until 2023/2024 biennium
• Reduction in travel, training and other expenses
Wrap-up

Questions or Closing Remarks?