

Tacoma Public Utilities

2021 – 2022 Budget Preview and Situation Update

April 22, 2020

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

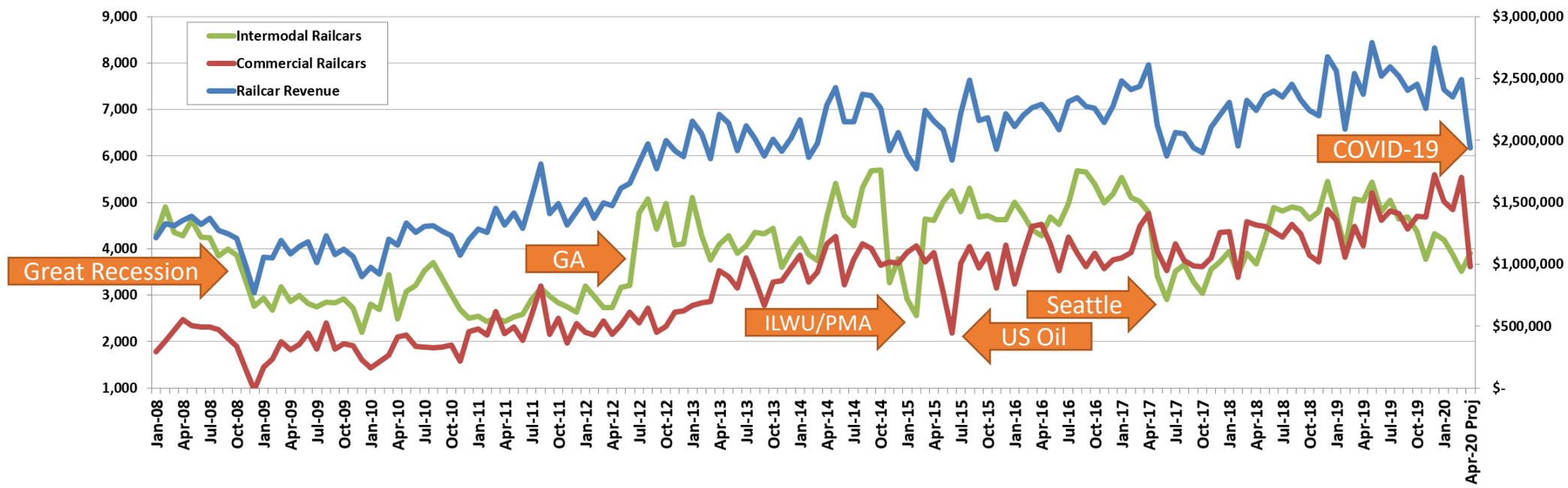
- Financial Sustainability
- Rate Sensitivity
- Reliability and Resiliency
- Regulatory Compliance
- Stakeholder Engagement
- Customer Service
- Innovation
- Employee Relations and Safety

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

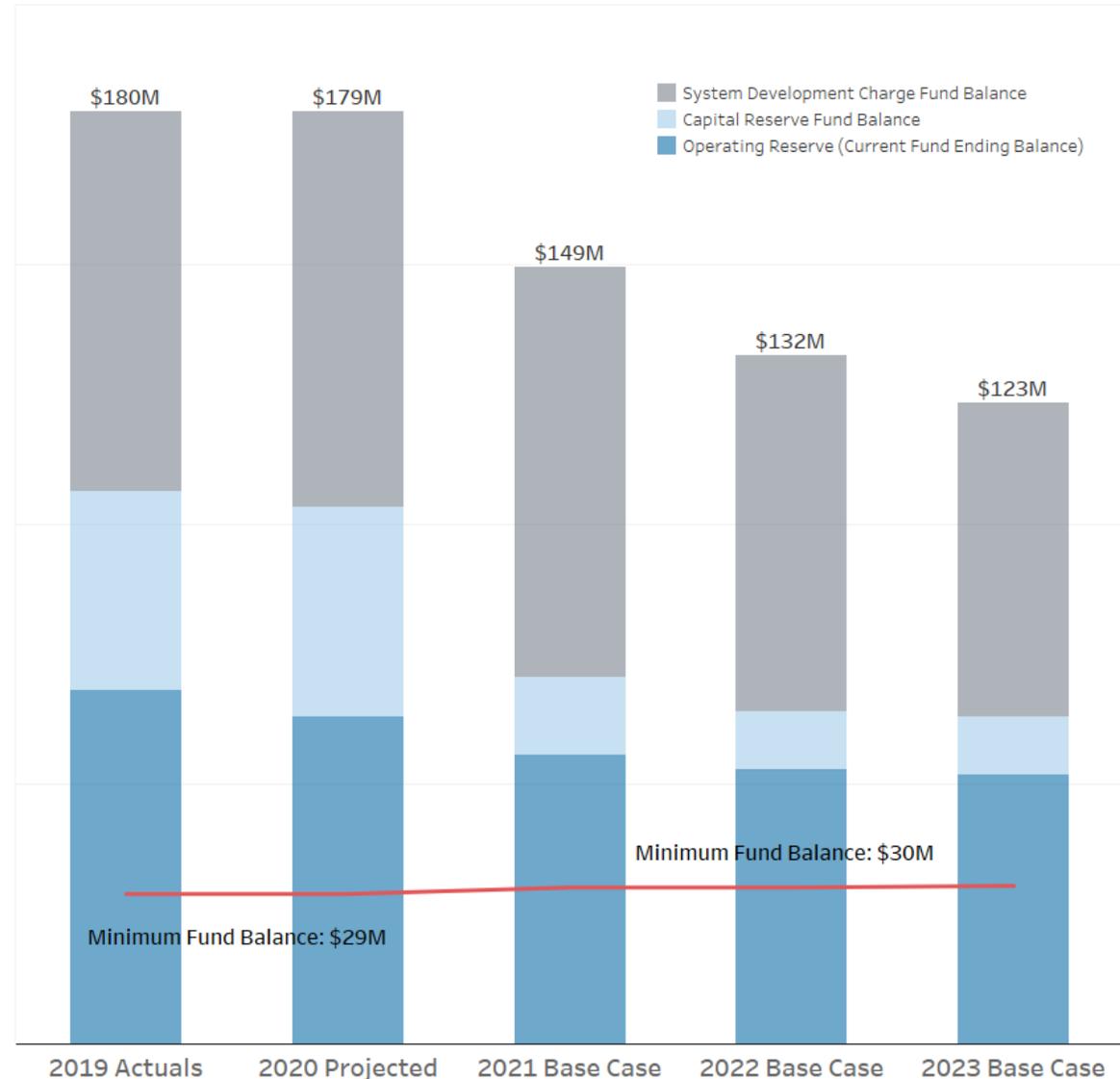
- Rail Rate Policy Proposed Changes
- Budget & Rate Development
 - Revenue requirements
 - Volume forecasts
 - Capital program
- Monitor Revenue & Expenses
- Delay Capital Projects as Necessary & Able

Tacoma Water

Background

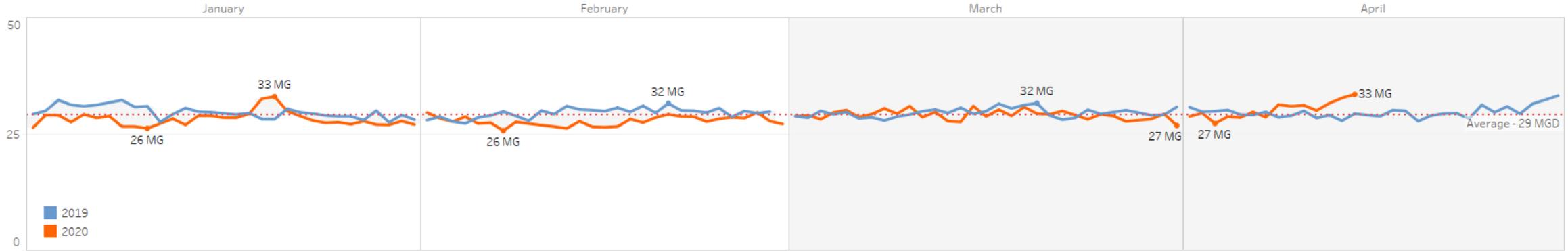
- **Strong Cash Position:** Ability to mitigate lag in cash flow due to deferred customer payments
- **Healthy Reserves:** Gives us financial flexibility
- **Revenue Stability:** Inelastic demand and rate-design from high fixed rate recovery
- **2020 Reorganization:** Many positions held open until reorganization was implemented

Projected Liquidity and Policy Minimum



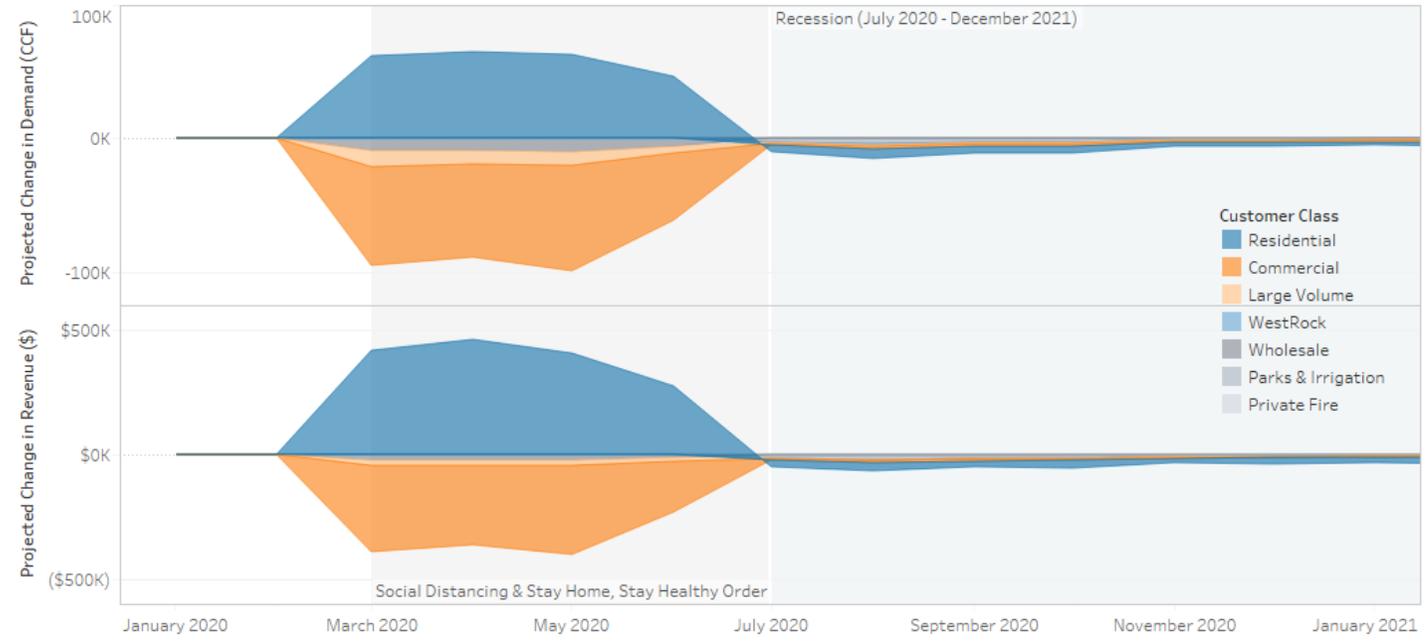
COVID-19 Impacts

Daily Delivery to System (MG) *excludes WestRock and RWSS Partners*



- **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

Demand & Revenue Projections *using data from industry reporting and Great Recession analogue*



These projections model the impact of COVID-19 (March 2020 - June 2020) followed by an 18-month recession (July 2020 - December 2021).

COVID-19 Measures

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

2020-2025 STRATEGIC PLAN

Mission
Providing clean, reliable water

Vision
To be an exceptional community resource empowering employees to deliver life-sustaining value

Values
Safety
Customer-driven
Employee Invested
Stewardship
Adaptability

Objectives

- Providing customers increased value
- Preparing our workforce for the future
- Improving our systems, processes, and use of resources

Initiatives

- Develop and implement a customer engagement program
- Support key technology projects
- Enhance project management competencies
- Inventory and document core business processes
- Establish and implement a risk management program
- Create and implement a workforce development system

TACOMA WATER
TACOMA PUBLIC UTILITIES

1

Monitoring Metrics

- *Monthly update to Quarterly Outlook*
- [Financial Outlook Dashboard](#)
 - *Demand*
 - *Revenues*
 - *Cash Balances*
 - *Accounts Receivable*
 - *Expenses*

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*

2

Prioritizing Current Work & Expenditures

- *Critical Hiring*
- *Capital Projects*
- *Travel and Training*
- *Professional Services*

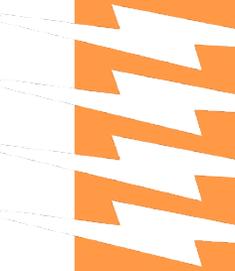
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Long-Range Financial Planning

- *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*

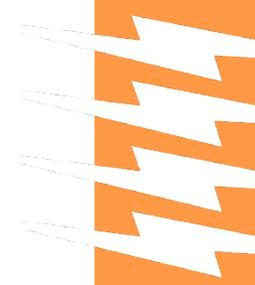
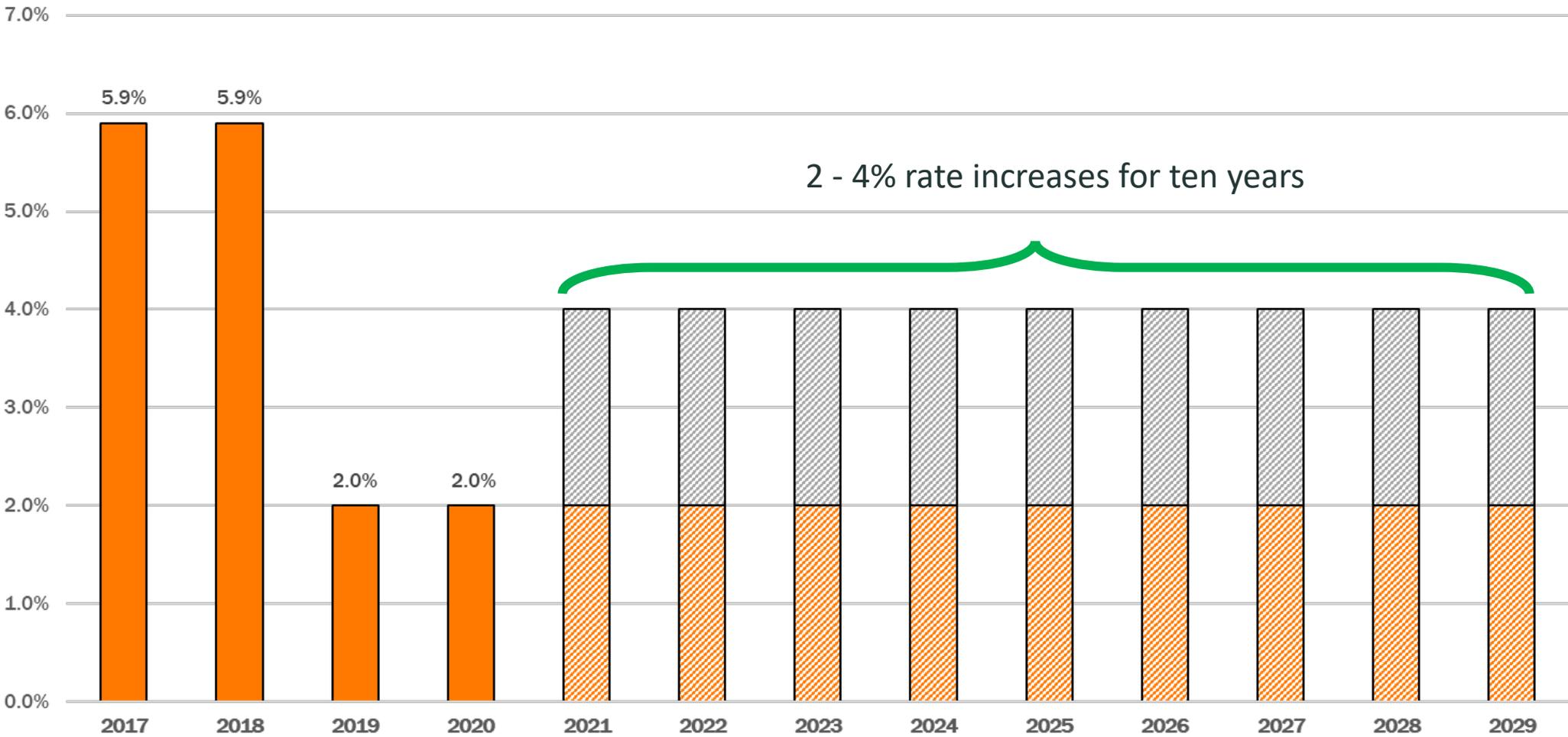
Tacoma Power

Initial Financial Projections & Budgetary Impacts



On Plan Last June...

June 30, 2019 Long-Range Financial Plan



What Happened?

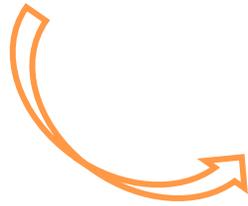
Through February 2020

Good

- + No BPA Rate Increase
- + Click! Network resolution

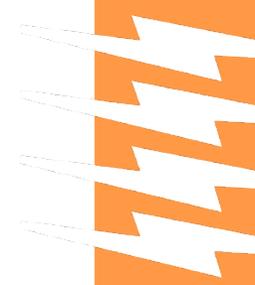
Bad

- 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



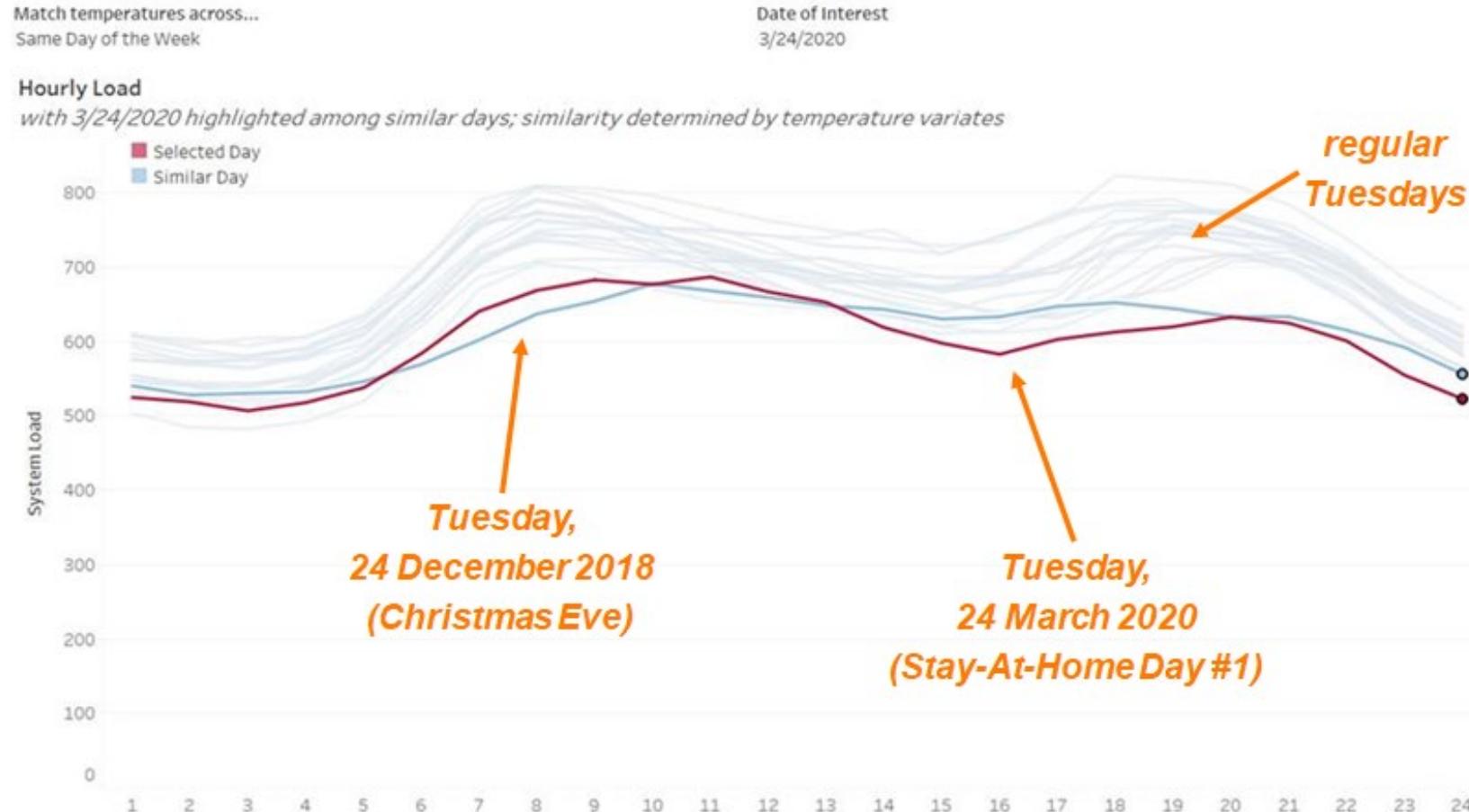
Retail Demand Lower

March 2020 & Future

Social Distancing

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

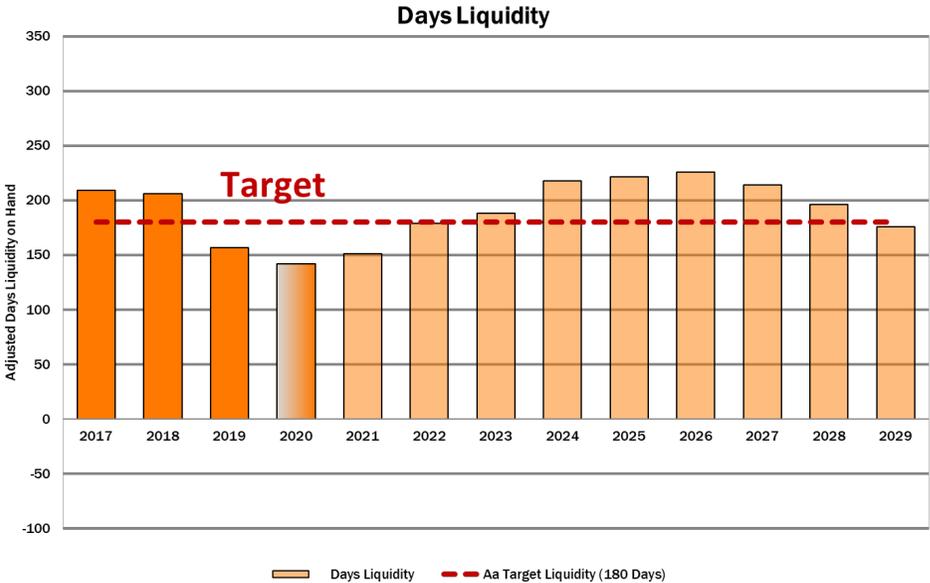
For every MWh of retail load decline, Tacoma Power loses \$30 to \$50.



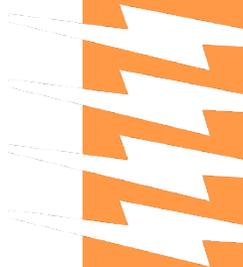
Moderate Recession



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:

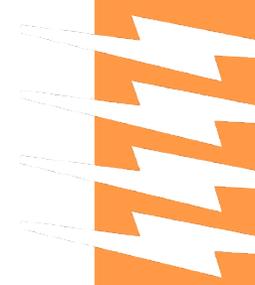
- KeyBank Note Purchase Agreement (see upcoming slides)
- Increased bond financing

Rate Projections:

- Updating forecasts as new data becomes available to refine projections
- Delay revenue requirement determination in Fall
- Forego COSA process



Goal

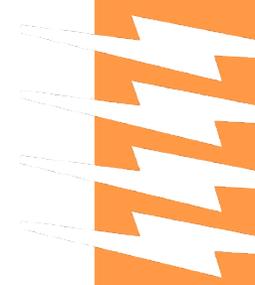


Tacoma Power

Bill Berry (bberry@cityoftacoma.org)

Proposed KeyBank General Note Purchase Agreement

Resolution U-11160



Note Purchase Agreement

Short-Term Debt

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.

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



**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

Questions or Closing Remarks?