

A photograph of the Tacoma Public Utilities building at dusk. The building is a modern, multi-story structure with a prominent overhang. The sky is a deep blue, and the building's lights are on, creating a warm glow. A sign on the building reads "TACOMA PUBLIC UTILITIES".

# Public Utility Board Budget & Rates Workshop

December 15-16, 2025



# Agenda



## Day 1

### Process Overview

- Timeline
- Internal Allocations
- Processes

### Financial Policies & Reserves

### Long Range Financial Plans

### Rate Making Fundamentals

- Revenue Needs
- Cost-of-Service Analysis (COSA)
- Rate Design

### Capital Plans (5-10 yr)

## Day 2

### Utility Assistance Programs

### 2025-2026 Biennial Budget

- City of Tacoma
- Tacoma Public Utilities
  - Program & Service Highlights
  - Expenditures
  - FTE
  - Capital Projects Update

### 2025 Q3 Financial Outlook & Performance Metrics

### Emerging Trends

### Cost Saving Measures

### Looking Forward to 2026

# Kahoot!

Kahoot #1



# Process Overview



# Budget & Rates Strategy

- Follow Rate and Financial Policies
- Align with Strategic Directives
- Support Strategic Plans
- Mitigate Rate Impacts
- Collaborate Across TPU and City

Departments



**TACOMA PUBLIC UTILITIES**  
**STRATEGIC PLAN**  
*CHARTING A CLEAR DIRECTION*

**OUR VALUES**

-   
**SAFETY**
-   
**BELONGING**
-   
**CUSTOMER FOCUS**
-   
**INTEGRITY**
-   
**RESPECT**

**OUR MISSION**  
We deliver clean, reliable services essential to quality of life.

**OUR VISION**  
We will be a trusted community partner, where employees are proud to deliver equitable, affordable utility services.

**OUR OBJECTIVES**

- EMPLOYEE EXPERIENCE**  
Create a safe, respectful workplace that fosters engagement, appreciation and a sense of belonging.
- CUSTOMER EXPERIENCE**  
Demonstrate compassion and equity in every interaction ensuring our customers and communities are understood, valued, and empowered.
- OPERATIONAL EXCELLENCE**  
Optimize processes and increase efficiencies to maintain responsible and sustainable rates.

**WE ARE TPU**  
TACOMA POWER • TACOMA RAIL • TACOMA WATER  
MANAGEMENT SERVICES OFFICE  
CUSTOMER EXPERIENCE AND EXTERNAL AFFAIRS

  
MyTPU.org/TPUstrategy

# Budget Basics



- City operates on a **two-year** biennial budget (RCW 35A.34)
- Must be **adopted** no later than **December 31**
- Budget is the legal **spending limit** as authorized by the legislative body
- The spending limit (or **appropriation**) is at the legal **fund** level
- **Mid-biennium** review and **modification** required at the end of first year

# Roles & Responsibilities



## Utility Director

- Prepare and submit to the Public Utility Board the proposed departmental budget for review and approval
- Ensure all expenditures are within the authorized biennial budget.

## Public Utility Board

- City Charter 4.12 – The Board shall submit an annual budget to the Council for approval, in the manner as prescribed by law.
- Oversee development of and vote on policies, rates, budgets, and debt issues presented to the Board for consideration.

# Major Cost Components



## Labor

- FTE (full-time equivalent) based
- Salaries, wages, benefits, leave payouts, overtime, labor credits, vacancy factor, etc.

## Allocations

- Assessments: proportionate shares of centralized services
- Fixed Costs: rent, insurance, telephony, fleet maintenance and fuel, etc.

## O&M

- Operating supplies, professional services, external contracts, travel, training, etc.
- Taxes and purchased power often called out separately

## Capital

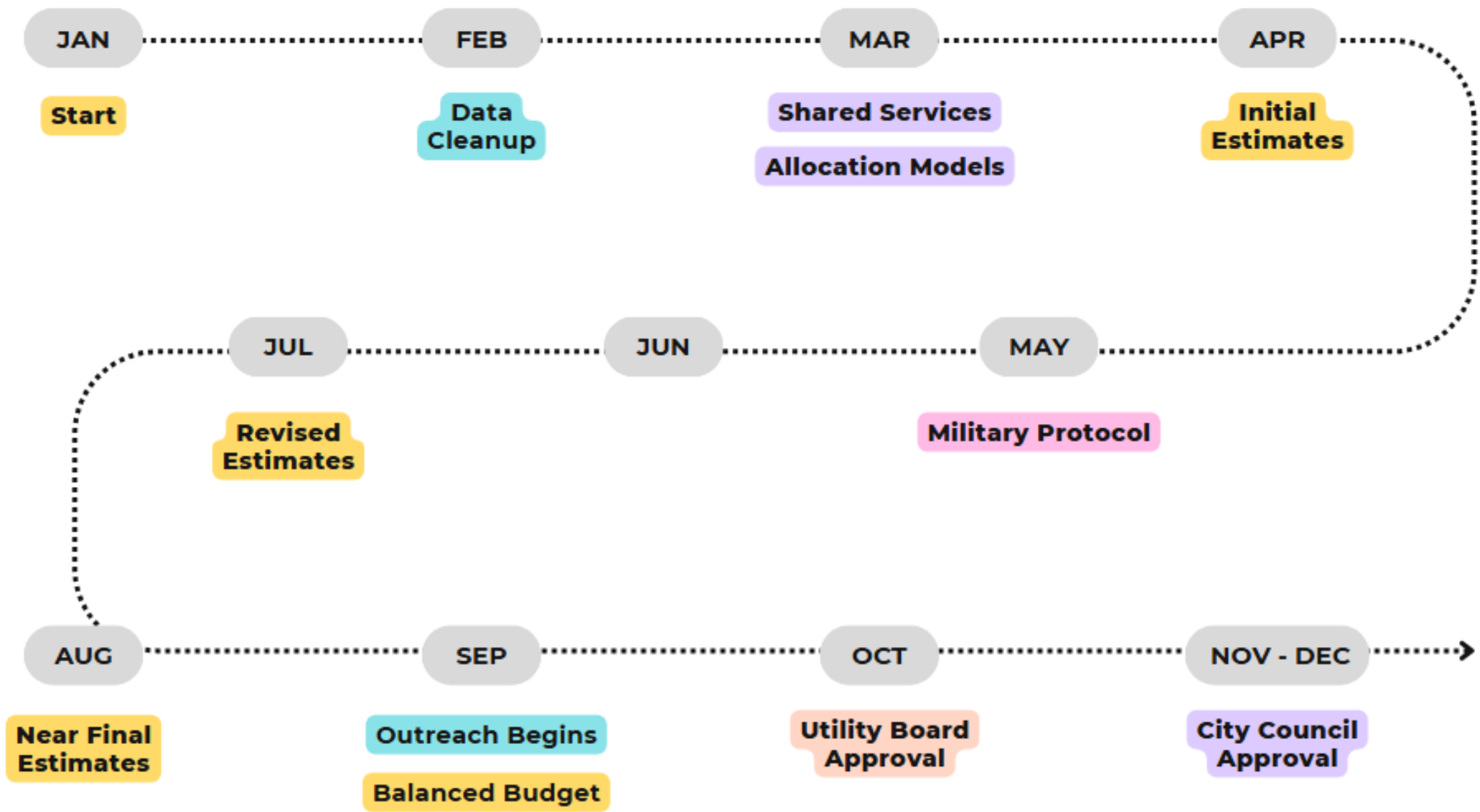
- Major upgrades, enhancements, or projects
- Vehicle and equipment purchases

## Debt Service

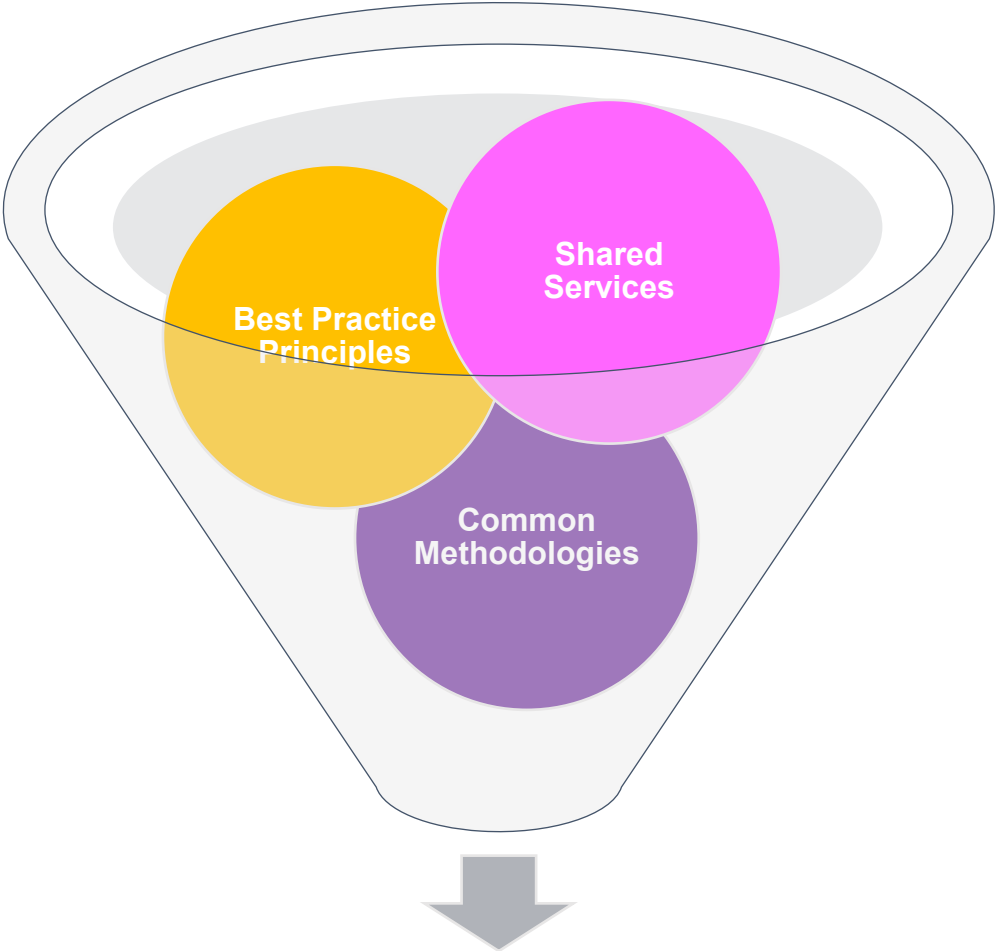
- Principal and interest owed on borrowed money



# General Process Timeline



# Allocations



Allocation Models

Best Practice Principles

Measurable  
Fair  
Stable  
Reviewed regularly  
Defensible

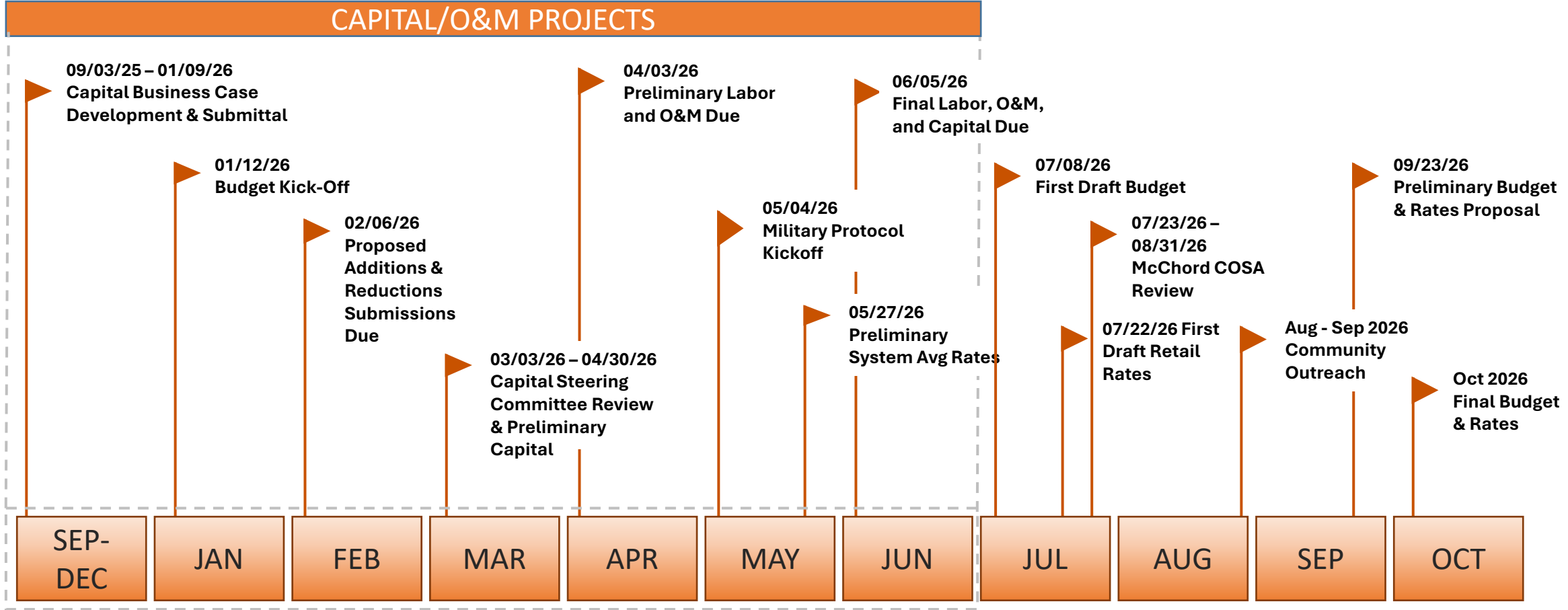
Shared Services

Administration  
Human Resources  
Information Technology  
Facilities  
Fleet  
Customer Services  
Et Cetera (etc.)

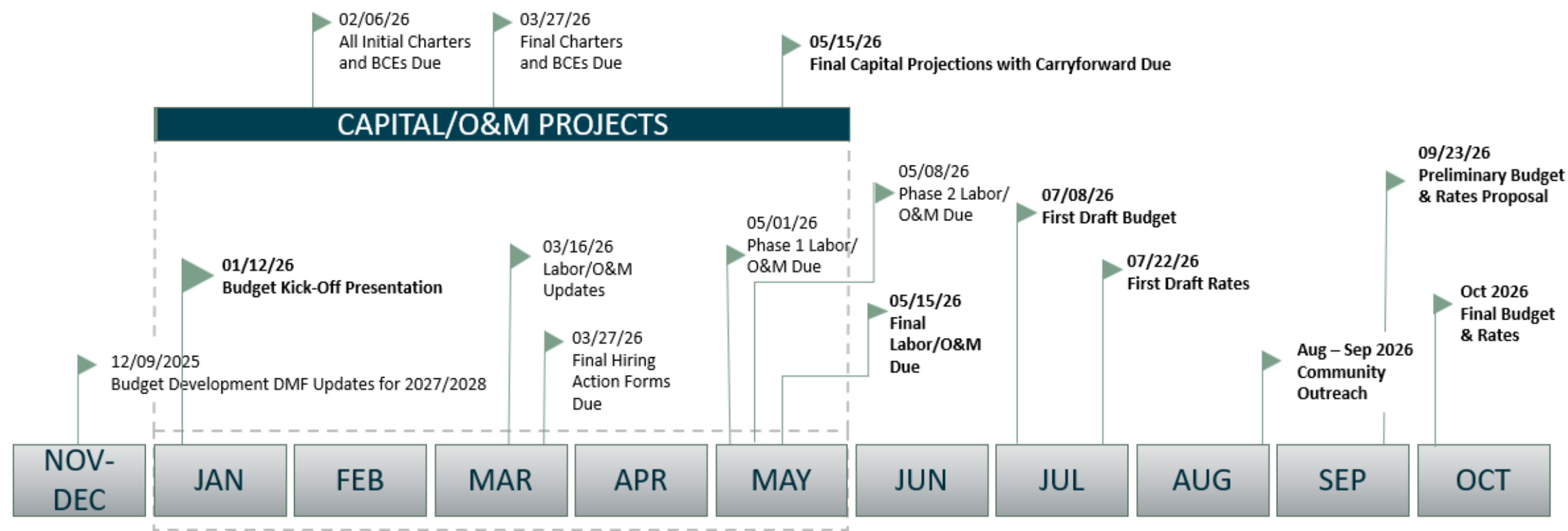
Common Methodologies

Personnel/FTE (full-time equivalents)  
Size of budget  
Asset count  
Square footage  
Time study/activities performed  
Customer count  
Et Cetera (etc.)

# General Process

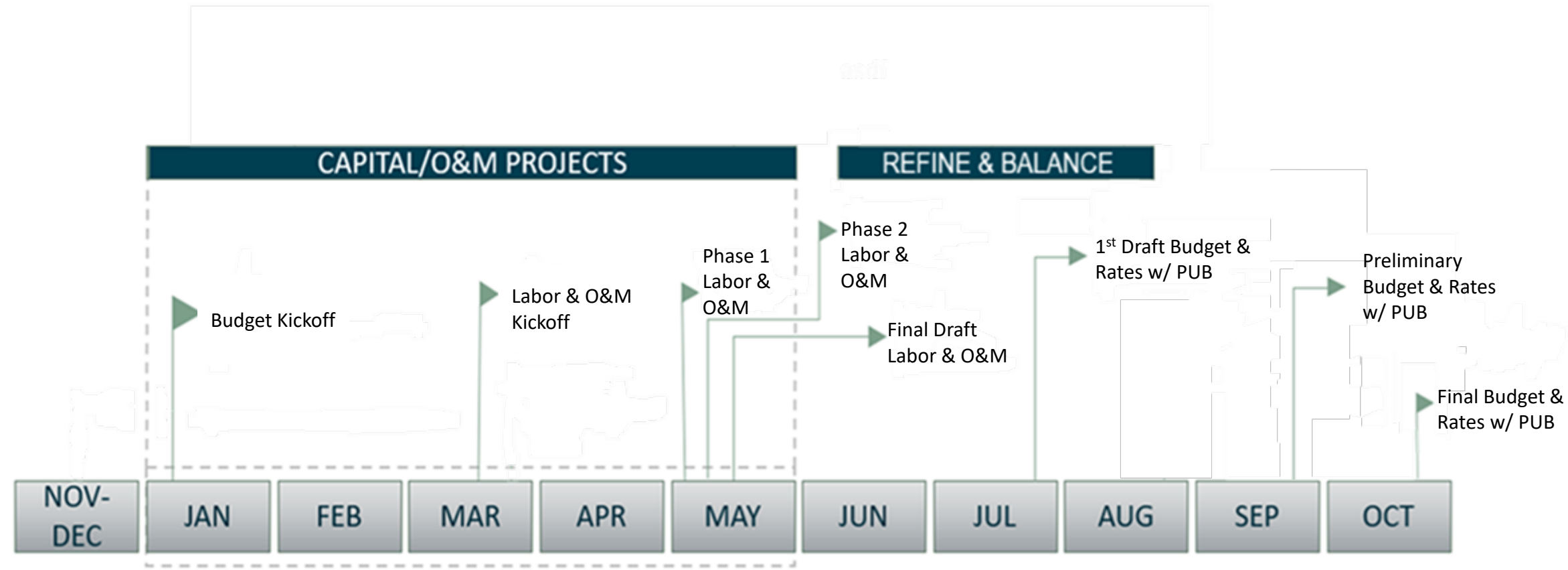


# General Process





# General Process



# Financial Policies & Reserves

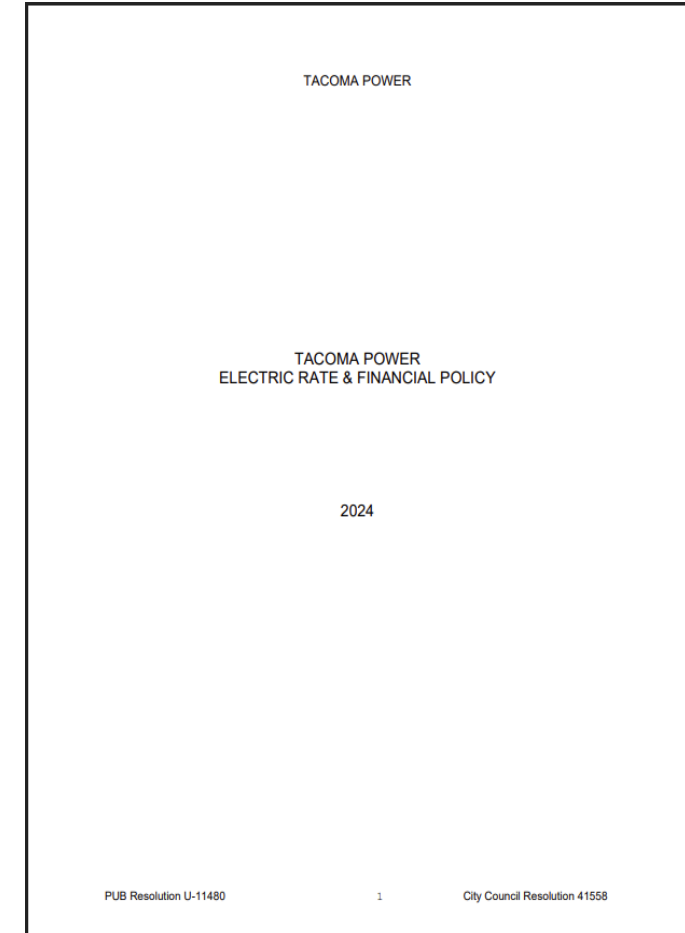
# Purpose and Policy Outline

## Purpose

**Tacoma Power's Electric Rate and Financial Policy gives direction to future short-term and long-term planning decisions and helps ensure that reliable service is provided to all customers at the lowest possible cost consistent with prudent utility management.**

## Elements

- I. Rate Setting Objectives**
- II. Rate Review Process**
- III. Rate Setting Policies**
- IV. Financial Targets and Rate Setting Practices**
- V. Rate Stabilization Fund**



# Policy Summary

Revenue Needs	Cost-Based	Stable Rates	Financial Metrics	Rate Adjustments	Affordability
<ul style="list-style-type: none"> <li>• Monthly reviews with full study every two years</li> <li>• Study includes projected load, hydro conditions, revenues, expenses and capital improvements</li> </ul>	<ul style="list-style-type: none"> <li>• Cost-of-Service Study determines the cost of serving each customer class</li> <li>• Allocates class responsibility for projected expenses of the system</li> </ul>	<ul style="list-style-type: none"> <li>• Power rates should be stable and not exceed general inflationary trends</li> <li>• To the extent possible, apply gradualism in rate adjustments</li> </ul>	<ul style="list-style-type: none"> <li>• Cash minimum of <b>90 days</b> of current budgeted expenditures</li> <li>• Total liquidity levels set to maintain or improve current debt ratings at AA-level</li> <li>• Debt Service Coverage above <b>1.50x</b> based on adverse water revenue projections</li> <li>• Debt Service Coverage above <b>2.0x</b> based on average water revenue projections</li> </ul>	<ul style="list-style-type: none"> <li>• Sufficient to meet Tacoma Power budgets</li> <li>• Revenue collected to maintain financial sufficiency</li> <li>• Short and long-run rate impacts evaluated</li> </ul>	<ul style="list-style-type: none"> <li>• Special consideration for low-income senior and/or disabled customers</li> </ul>



# Reviewing and Testing our Policy

## Quantitative Review

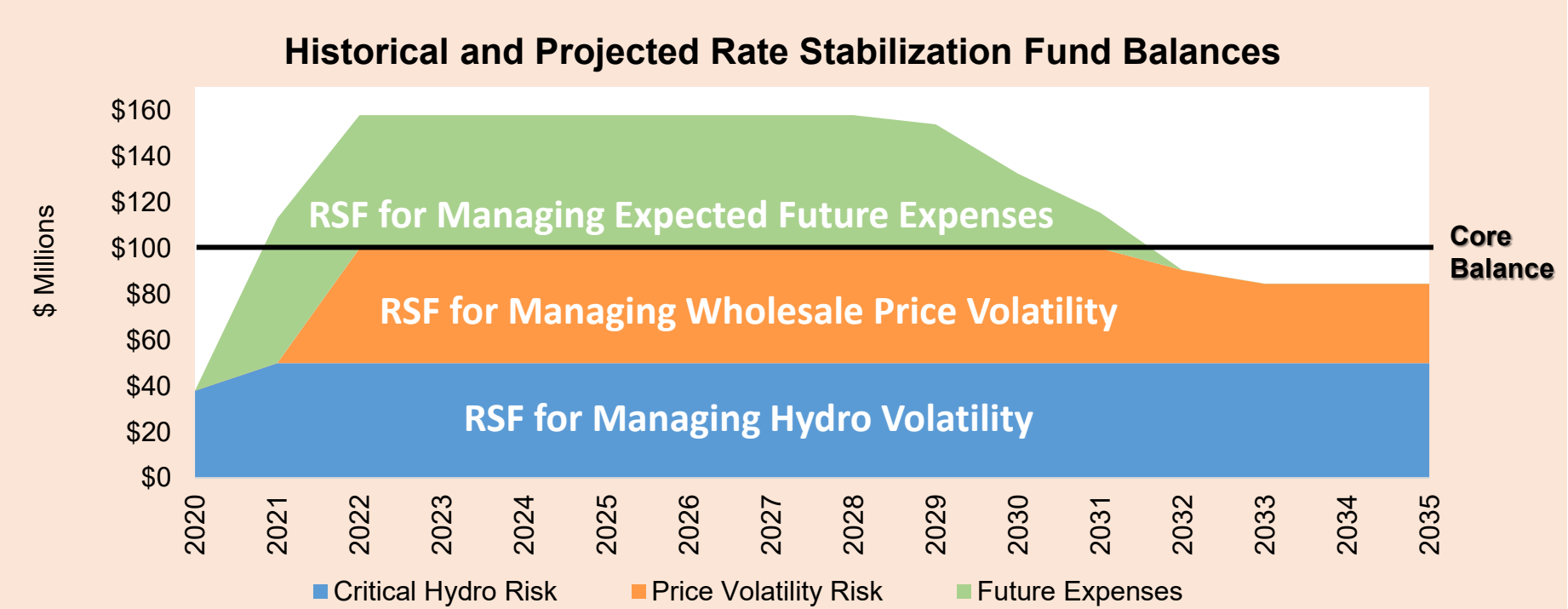
- In 2010, we funded a Rate Stabilization Fund\* (RSF) to stabilize rates and maintain AA-rated utility metrics.
- In 2024, we established a core balance target of \$100 million to respond to wholesale revenue volatility.
- Staff incorporates actual results and updates forecasts to retest the sufficiency of the year-end financial metrics.
- Based on our modeling, we do not need to change our policies around liquidity.

\*Our plans to use the Rate Stabilization Fund are discussed in more detail in our [Tacoma Power Long-Range Financial Plan](#) (LRFP).

## Qualitative Review

- In 2018, we enhanced our policy addressing the needs of low-income customers and formalized our Long-Range Financial Plan with a long-term view on gradual rate adjustments
- In 2022, we updated language to highlight long-term financial planning, gradualism, equity, affordability, and climate change in our policy

# Forecasted use of the Rate Stabilization Fund to smooth rates



Maintaining adequate reserves will help mitigate rate and financial risks

RATE STABILIZATION FUND BALANCES (YEAR-END)										
\$ IN MILLIONS	2010	2011	2012	2013 - 2018	2019	2020	2021	2022	2023-2024	2025 - 2034
+ADDITION / - WITHDRAWAL	+\$10 M	+\$26 M	+\$12 M	\$0	-\$10 M	\$0	\$25 M	\$95 M	\$0 M	— ~\$74 M (TOTAL)
BALANCE	\$10 M	\$36 M	\$48 M	\$48 M	\$38 M	\$38 M	\$63 M	\$158 M	\$158 M	\$84 M

# Purpose and Guiding Objectives

## Water Rate and Financial Policy

**Guides decisions and helps ensure Tacoma Water provides adequate supply of safe, clean water to all customers efficiently, reliably, and at the lowest possible cost consistent with prudent utility management.**

### Guiding Objectives – Rates Should:

- a. Ensure Adequate Supply**
- b. Be As Low As Is Responsible**
- c. Be Fair and Equitable**
- d. Be Based on Long-Term Financial Planning and Adjusted Gradually**
- e. Be the Product of Customer Involvement**

# Policy Summary

Revenue Needs	Cost-Based	Stable Rates	Financial Metrics	Rate Adjustments	Affordability
<ul style="list-style-type: none"> <li>Regular reviews with full study every two years</li> <li>Study includes projected revenue, expenses and capital improvements</li> </ul>	<ul style="list-style-type: none"> <li>Cost-of-Service Study determines the cost of serving each customer class</li> <li>Allocates class responsibility for projected expenses of the system</li> </ul>	<ul style="list-style-type: none"> <li>Water Rates Should Be As Low As Is Responsible</li> <li>Water Rates Should Be Stable and Understandable</li> <li>To the extent possible, apply gradualism in rate adjustments</li> </ul>	<ul style="list-style-type: none"> <li>60 days of current budgeted expenditures</li> <li>Capital: \$2M minimum in SDC Fund 1% of original plant in Capital Reserve</li> <li>Senior Debt Service Coverage above 1.50x</li> <li>All In Debt Service Coverage above 1.25x</li> </ul>	<ul style="list-style-type: none"> <li>Sufficient to meet Tacoma Water budgets</li> <li>Revenue collected to maintain financial sufficiency</li> <li>Short and long-run rate impacts presented</li> <li>Minimize long-run costs to rate-payer</li> </ul>	<ul style="list-style-type: none"> <li>Special consideration for low-income, senior, and disabled customers</li> </ul>



# Reserves: Update & Future Strategy

## Revise Reserve Policies

**Reflect current operational realities and support long-term sustainability**

### Operating

**Achieve a year-end target of 90 days total annual operating expenditures**

**Set a minimum of 60 days and maximum of 120 days**

### System Development Charges

**Eliminate the Rate Stabilization Account within the SDC Fund**

**Raise minimum balance to \$4 Million**

## Revise Practices and Assumptions

**Recalibrating financial model**

**Ensure reserve balances are right-sized in accordance with revised policies**

**Assume a larger carryover of actual capital spending**

**Assume a realistic vacancy rate**

# Purpose and Guiding Objectives

## Purpose

The Tacoma Rail Rate Policy provides for rates adequate to ensure the operation, maintenance, and construction of the Department's railway system while providing safe, reliable, cost effective, and reliable service to customers within Tacoma Rail's service area.

## Guiding Objectives

Rail rates should:

- a. Be cost based and adequate to recover costs
- b. Be stable
- c. Ensure sufficient resource planning and acquisition for reliable service while being as competitive as possible
- d. Have a customer involvement and review process

TACOMA PUBLIC UTILITIES  
TACOMA RAIL

**RAIL RATE POLICY**  
AMENDED  
January 2025

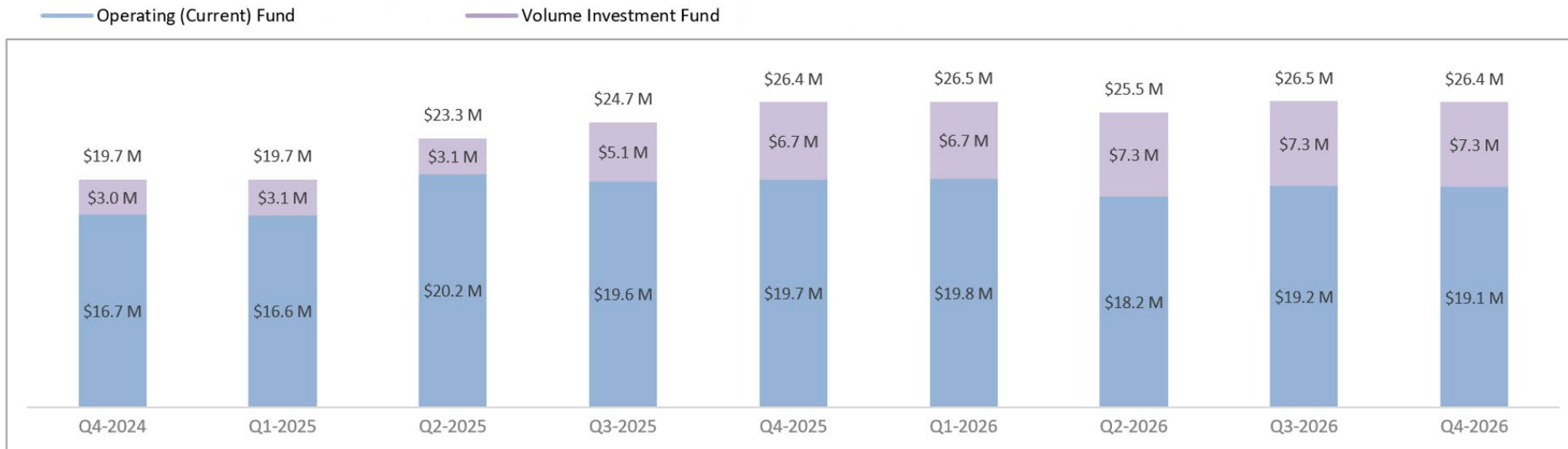
# Policy Summary

Revenue Needs	Cost-Based	Stable Rates	Financial Metrics	Rate Adjustments
<ul style="list-style-type: none"><li>• Rates reviewed every two years at a minimum</li><li>• Full revenue study performed every two years</li></ul>	<ul style="list-style-type: none"><li>• Utilize an average embedded cost-of-service methodology</li><li>• Allocates class responsibility for projected expenses of the system</li><li>• Fuel surcharges shall be based on actual costs over an established threshold</li></ul>	<ul style="list-style-type: none"><li>• To the extent possible, rate adjustments will not exceed general inflationary trends</li><li>• The term of debt financing will not be longer than the useful life of the capital project</li><li>• Volume Investment Fund</li></ul>	<ul style="list-style-type: none"><li>• Minimum cash balance of <b>60 days</b> of current budgeted expenditures</li><li>• Maximum cash balance of <b>180 days</b> of current budgeted expenditures</li><li>• The limit of debt to total assets shall be set up to a maximum of <b>40%</b></li><li>• Debt service coverage ratio shall be at least <b>1.5x</b></li></ul>	<ul style="list-style-type: none"><li>• Rates based on best estimates of rail volume</li><li>• Rates will be designed to meet the changing needs of the customer</li><li>• Rate classes may be established by blending customers</li><li>• The character and volume of service is used to apportion costs, developing rates, and tariff revisions</li></ul>



# Volume Investment Fund Overview

- Operating revenue surpluses due to unanticipated rail volume growth may be applied to the Volume Investment Fund, a sub-fund of Tacoma Rail's enterprise fund
- Tacoma Rail maintains a Volume Investment Fund, a sub-fund of Tacoma Rail's enterprise fund, that provides revenue flexibility during times of unanticipated economic downturns or capital spending that may be used to offset the necessity of rate increases. Use of the fund will be limited to:
  - a. Workforce stability to ensure staffing retention for service reliability and resiliency when rail volumes rebound after a downturn.
  - b. Locomotive upgrades to sustain Tacoma Rail's environmental leadership goals.
  - c. Timely acquisition, replacement and upgrade of infrastructure and capital assets.
  - d. Grant or debt matching opportunities.



# Kahoot!

Kahoot #2



# Long Range Financial Plans



# Long-Range Financial Plan (LRFP)



*December 31, 2024*

Tacoma Power's Long-Range Financial Plans (LRFP) are available at [mytpu.org](https://mytpu.org).  
The 2024 LRFP is linked here: [Tacoma Power 2024 Long-Range Financial Plan](#)

## Board Guiding Principles

**GP2**  
Financial  
Sustainability



### Financial Sustainability

Provide safe, affordable, and reliable power over the long term by maintaining sustainable budget, financial, and asset management practices.



### Rates

Rates will be adequate, fair, just, gradual, and as low as they can responsibly be.

## Electric Rate and Financial Policy

Outlines objectives and policies when setting rates including financial targets and the Rate Stabilization Fund usage.

### Sections

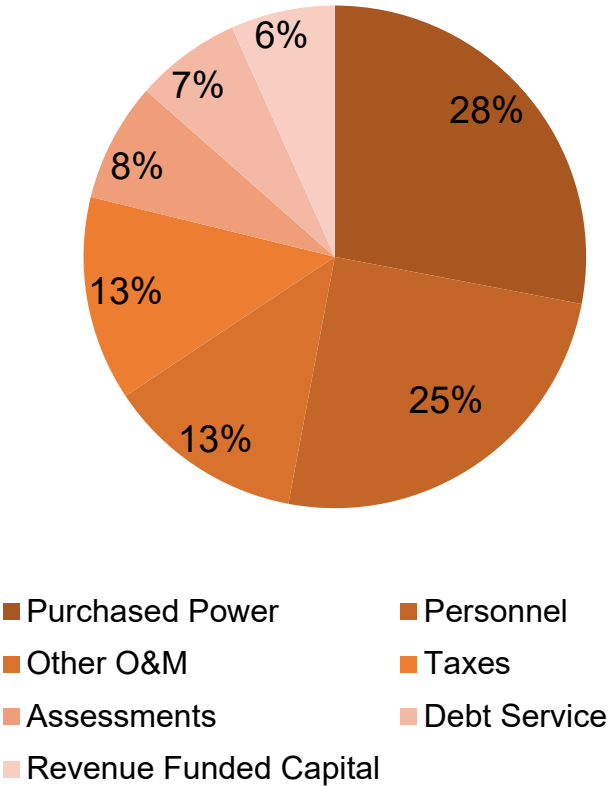
- I. Rate-Setting Objectives
- II. Rate Review Process
- III. Rate Setting Policies
- IV. Financial Targets and Rate-Setting Practices
- V. Rate Stabilization Fund



# LRFP Foundation for Base Case System Average Rates

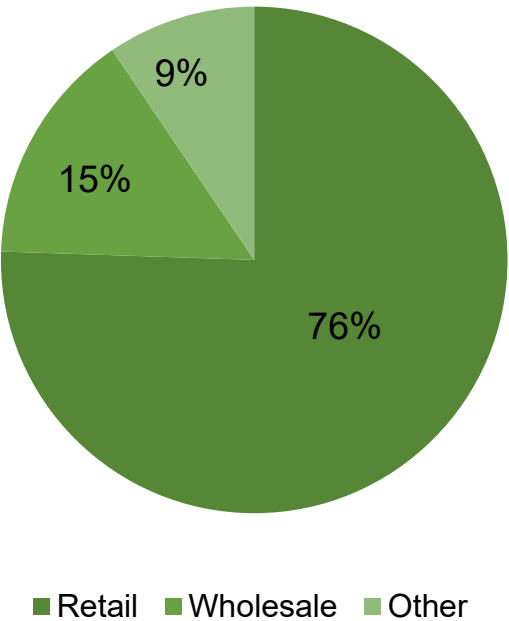
## Expense Assumptions

As of December 31, 2024

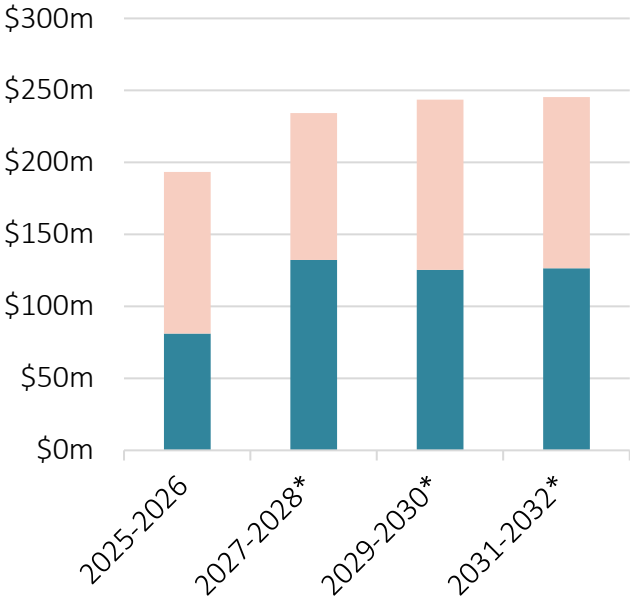


## Revenue Assumptions

As of December 31, 2024

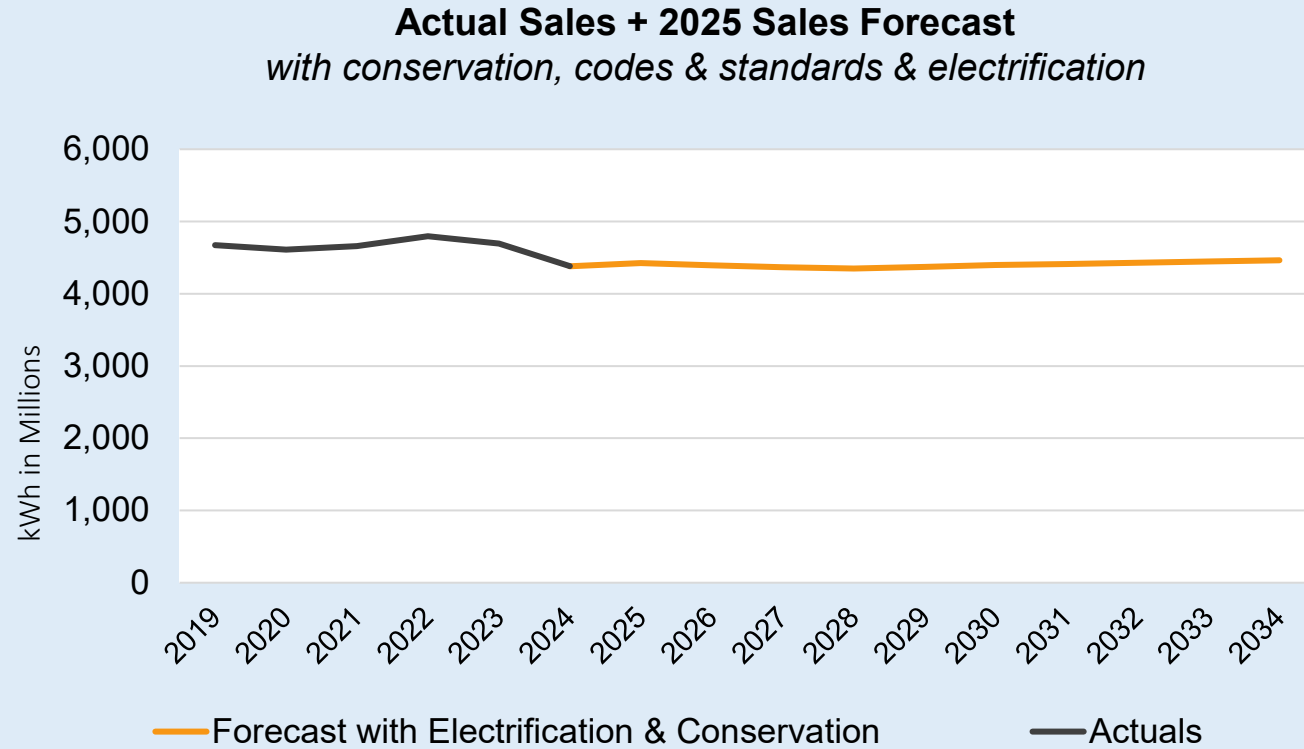


## Credit, Debt, & Reserves



\* Projections as of Sep 30, 2025

# Retail Revenue Actuals & Forecasts

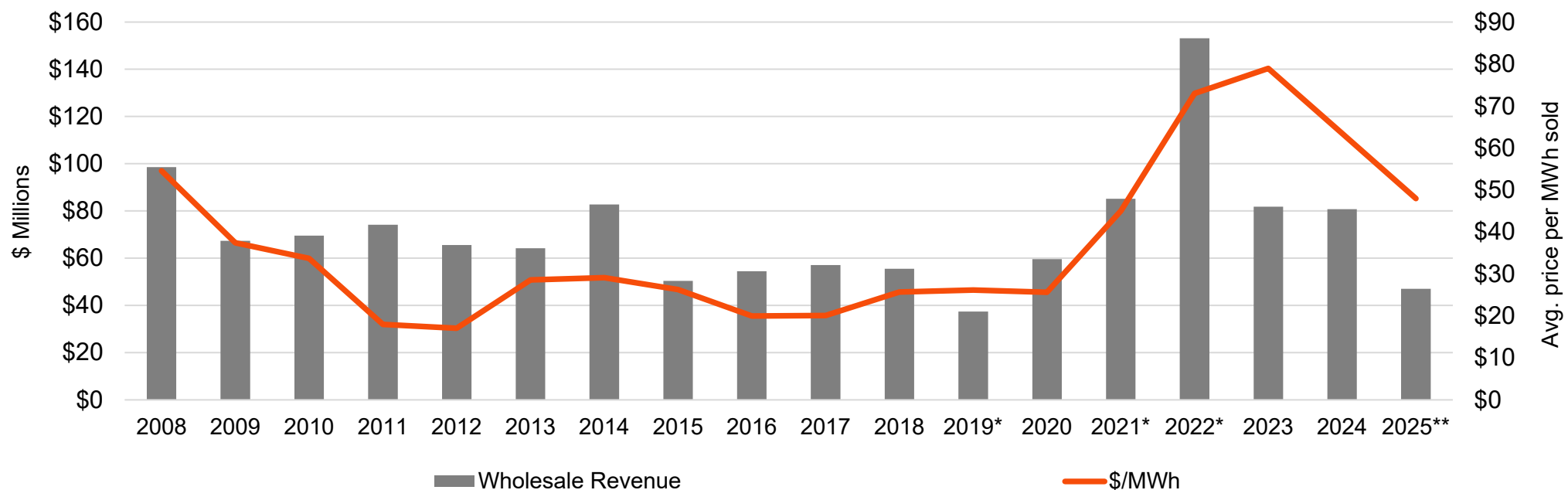


**While per-customer energy use has declined historically, TPU anticipates electrification to offset efficiency-driven reductions.**

**Forecast accounts for retail sales including electrification and conservation, codes and standards.**

# Volatile Wholesale Revenues

Wholesale revenues fluctuate between 8% to 31% of total revenues due to unpredictable weather and wholesale market power prices.



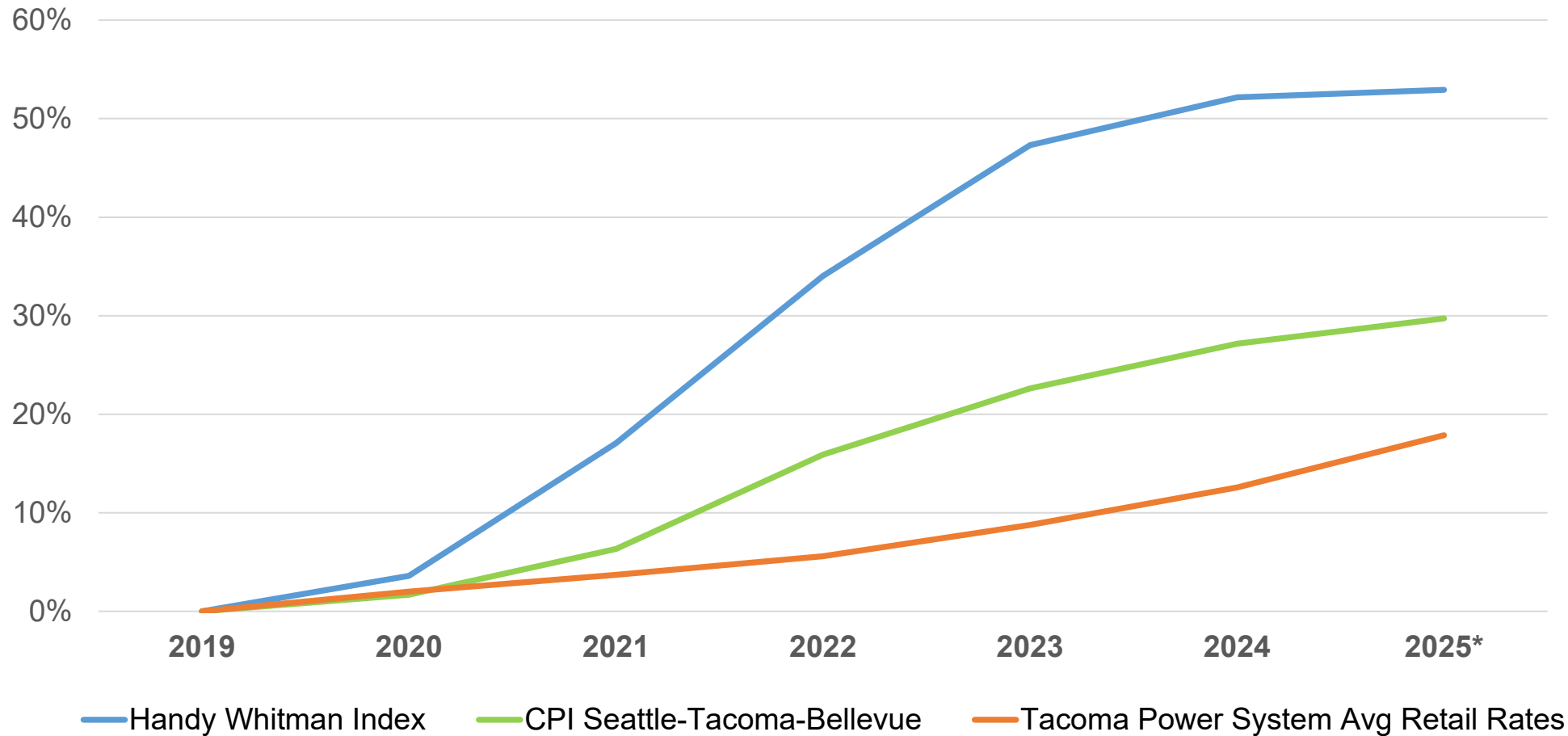
\* Does not include wholesale revenue transferred in, or out of, the Rate Stabilization Fund.

\*\* 2025 Actuals through September with projections through December

WHOLESALE REVENUE AS A % OF TOTAL REVENUE BALANCES (YEAR-END)																		
	2008	2009	2010*	2011*	2012*	2013	2014	2015	2016	2017	2018	2019*	2020	2021*	2022*	2023	2024	2025*
WHOLESALE REVENUE %	24%	19%	19%	20%	17%	15%	19%	12%	13%	13%	12%	8%	12%	17%	31%	15%	15%	9%

# Utility Costs are Increasing More than System Average Rates

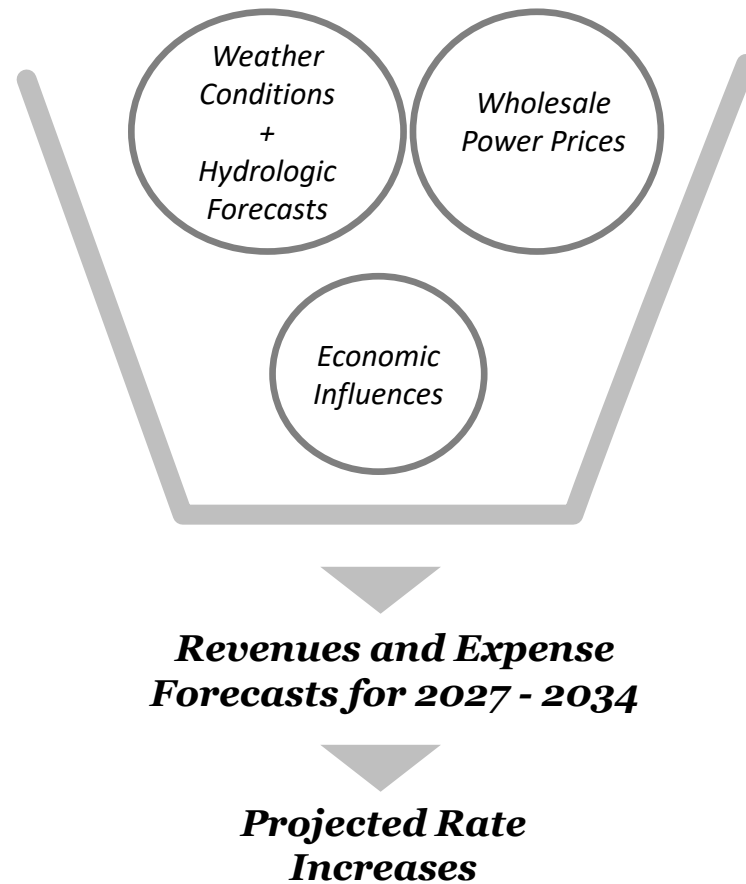
**Cumulative Increases since 2019**



\* As of July 1, 2025

# Planning for Risks and Uncertainties

## Planning for Uncertainties



## Modeled Risks



- Climate Change
- Customer Demand Volatility
- Wholesale Power Market Volatility



- Economic Cycles
- Inflation – Personnel, Materials/Supplies
- Regulatory Changes

# What decisions do we make using the LRFP?

- 1. System Average Rate Increases**
- 2. Debt and Revenue Financing**
- 3. Financial Sustainability**



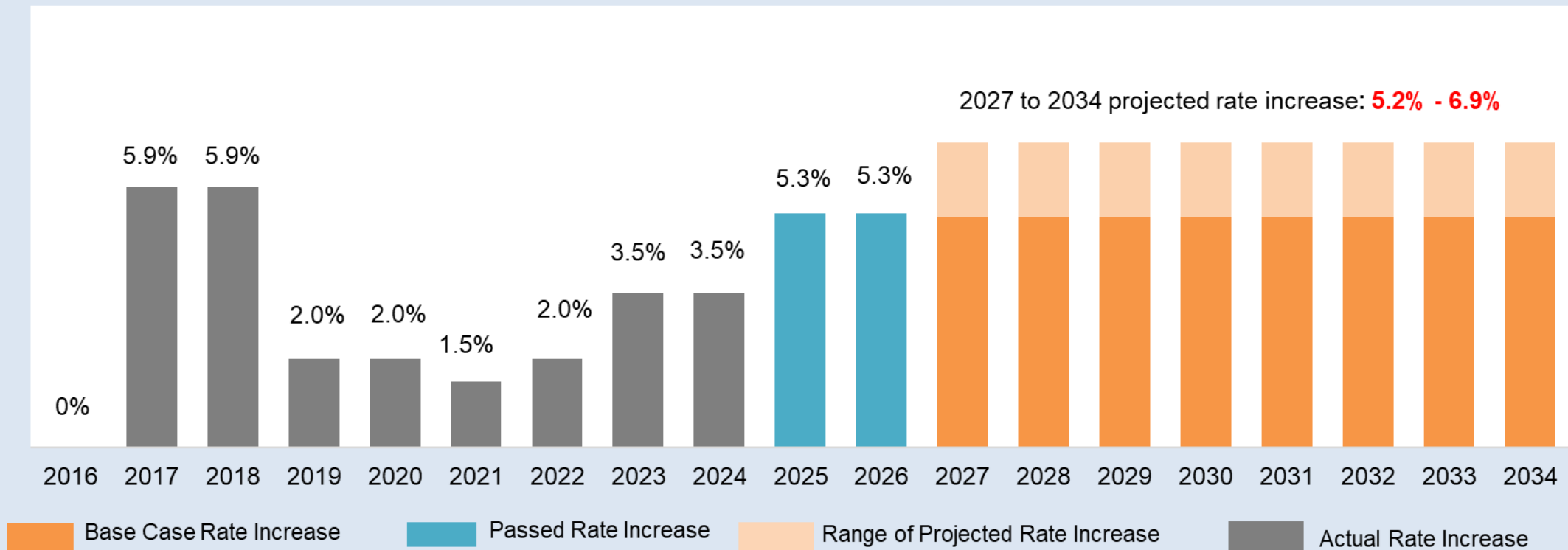
# 1. Determination of recommended average rates



# Historical and Projected Rate Increases\*

*This forecast is subject to change, and is dependent upon actual financial performance in future years.*

Additional shading in future years represents uncertainty associated with revenues and expenses. Financial forecasting from scenarios in Long-range Financial Plan set the upper boundary and these are mostly due to potential for adverse or critical water conditions, changes to loads, and future debt service.

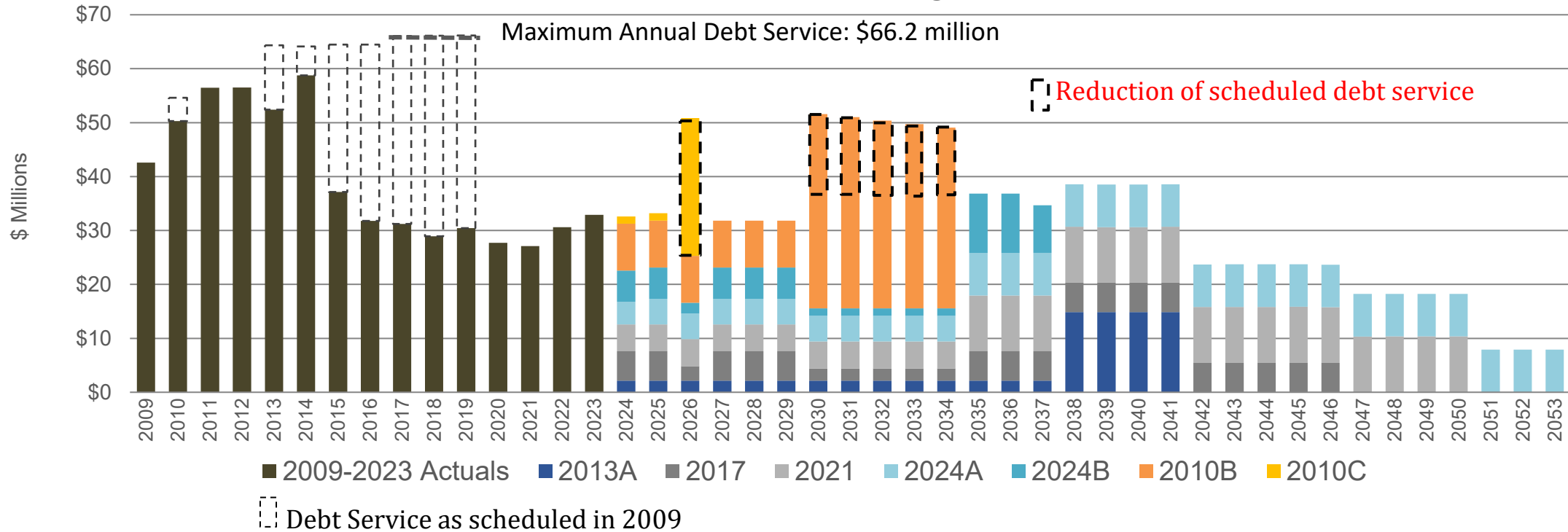


\* Projected rate increases shown are from Tacoma Power's 2024 Long-Range Financial Plan.



## 2. Manage Debt Profile to Minimize Long-Term Rates

### Historical and Projected Debt Service before 2025 Financing

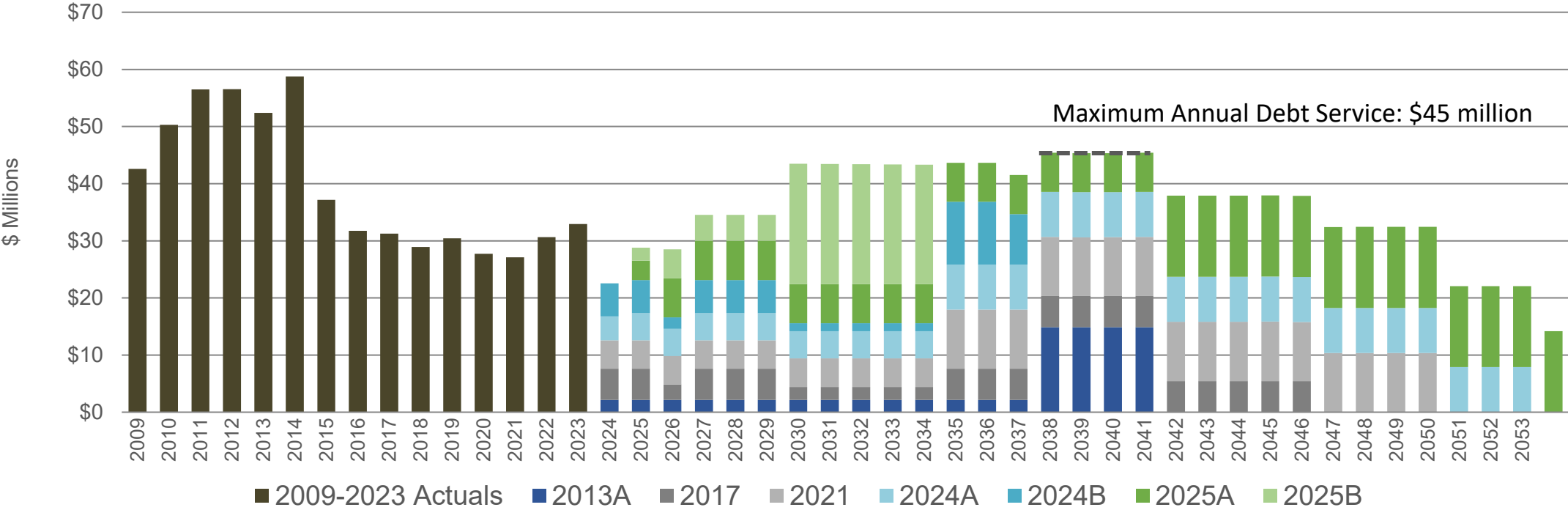


### The Long View:

Managing debt service has produced significant savings to date.

# 2025 Refinancing Reduced Debt Service Spikes to Stabilize Rates

Historical and Projected Debt Service after 2025  
Financing



# 2025 Financing Summary

## Transaction Details

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- **Date Executed: July 3, 2025**
- **Structure: Tax-Exempt Green Bonds**
- **Total Issued: \$222M**
  - **\$131M – 2025A *New money bonds***
  - **\$91M – 2025B *Refunding bonds***
- **Refunding Details:**
  - **Bonds that were refunded: 2010B *Build American Bonds (BABs)***
  - **Principal amount that was refunded: \$147 million**
  - **Cash applied: \$50.6 million**
- **Redemption Details:**
  - **Bonds that were paid off: 2010C *Clean Renewable Energy Bonds (CREBs)***
  - **Cash applied: \$24.4 million**

## Results

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- **Reduced debt service spikes, stabilized rates**
- **Net Present Value of savings on the refunding: \$1.3M**
- **Subscription rate 2.1x, 40 different investors**
- **All-in True Interest Cost: 4.61%**

# 3. Maintain Financial Sustainability

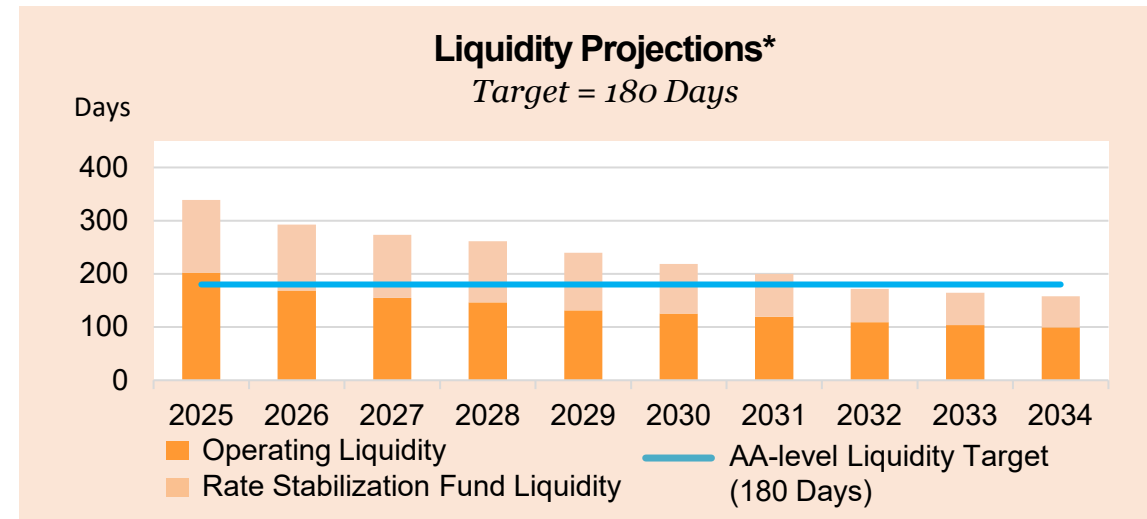
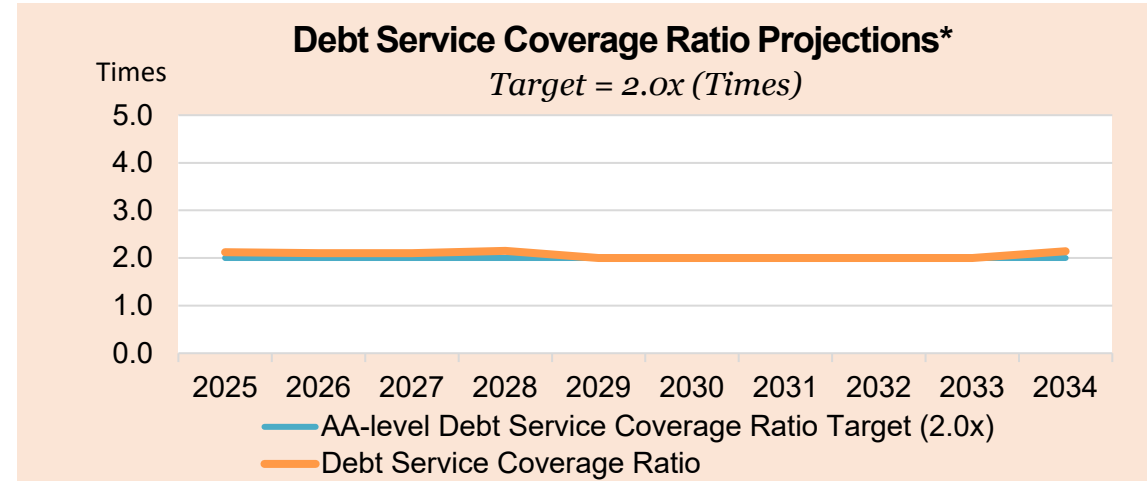
## Key Financial Metrics:

- 1) Debt Service Coverage Ratio  
= Net Operating Income / Debt Service Expenses

Minimum: 1.25x  
Target: 2.0x

- 2) Days of Liquidity  
= Annual Liquidity / Operating Expenses

Minimum: 90 Days  
Target: 180 Days



\* Projections as of September 30, 2025

# Tacoma Water Long-Range Financial Plan

# Long-Range Financial Plan (LRFP)



Tacoma Water's Long-Range Financial Plan (LRFP) is available at [www.My.TPU.org](http://www.My.TPU.org).  
The 2024 LRFP is linked here: [Tacoma Water Long-Range Financial Plan](#)

## Board Guiding Principles

**GP2**  
Financial  
Sustainability



### Financial Sustainability

Provide safe, affordable, and reliable power over the long term by maintaining sustainable budget, financial, and asset management practices.



**GP3**  
Rates

### Rates

Rates will be adequate, fair, just, gradual, and as low as they can responsibly be.

## Water Rate and Financial Policy

Outlines objectives and policies when setting rates and planning financial targets to ensure water is provided at the lowest possible cost consistent with prudent utility management.

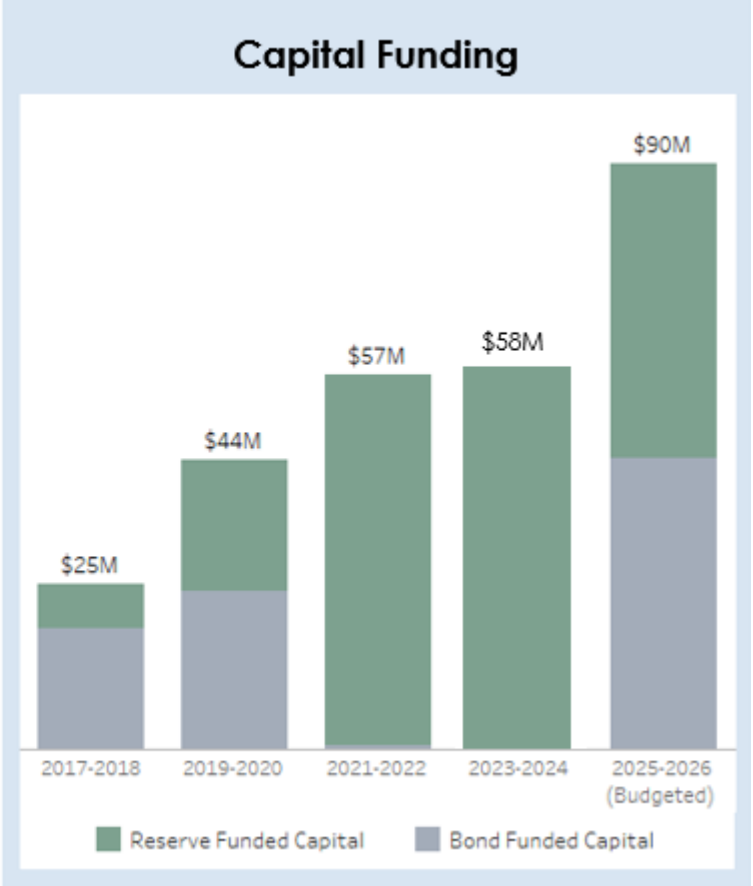
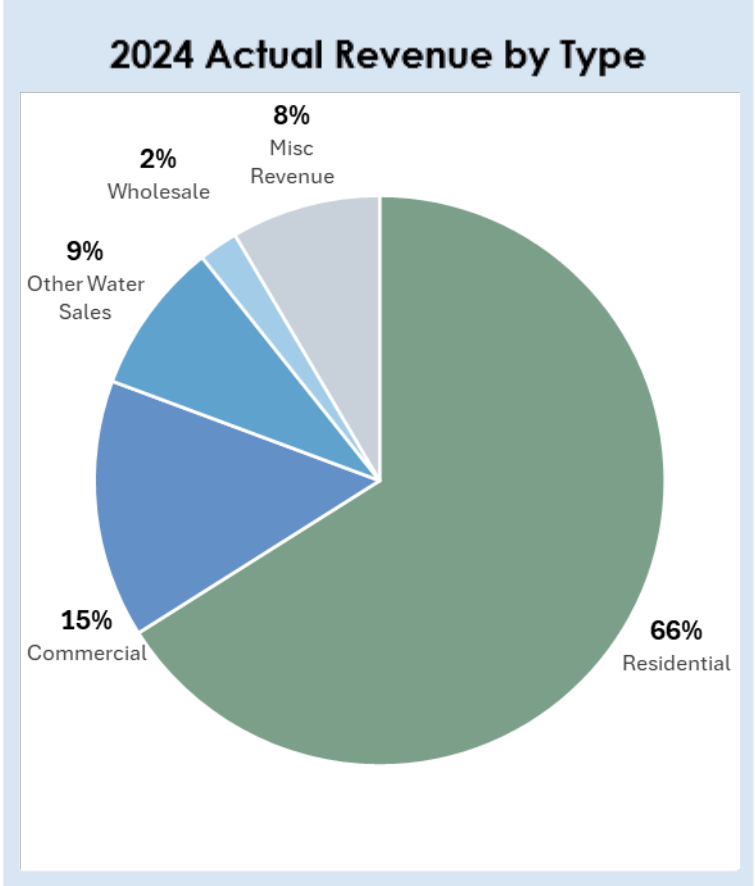
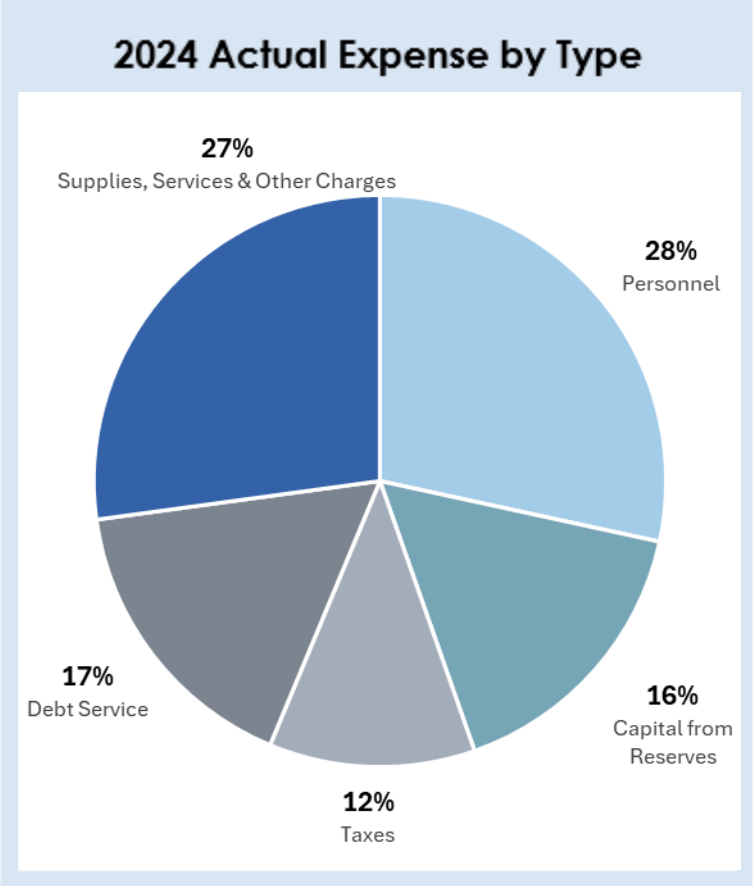
### Sections

#### Water Rate Setting Objectives

- I. Rates Should Ensure Adequate Supply
- II. Rates Should Be As Low As Is Responsible
- III. Rates Shall Be Fair and Equitable
- IV. Rates Should Be Based on Long-Term Financial Planning and Adjusted Gradually

# Foundational Elements of Financial Forecasts

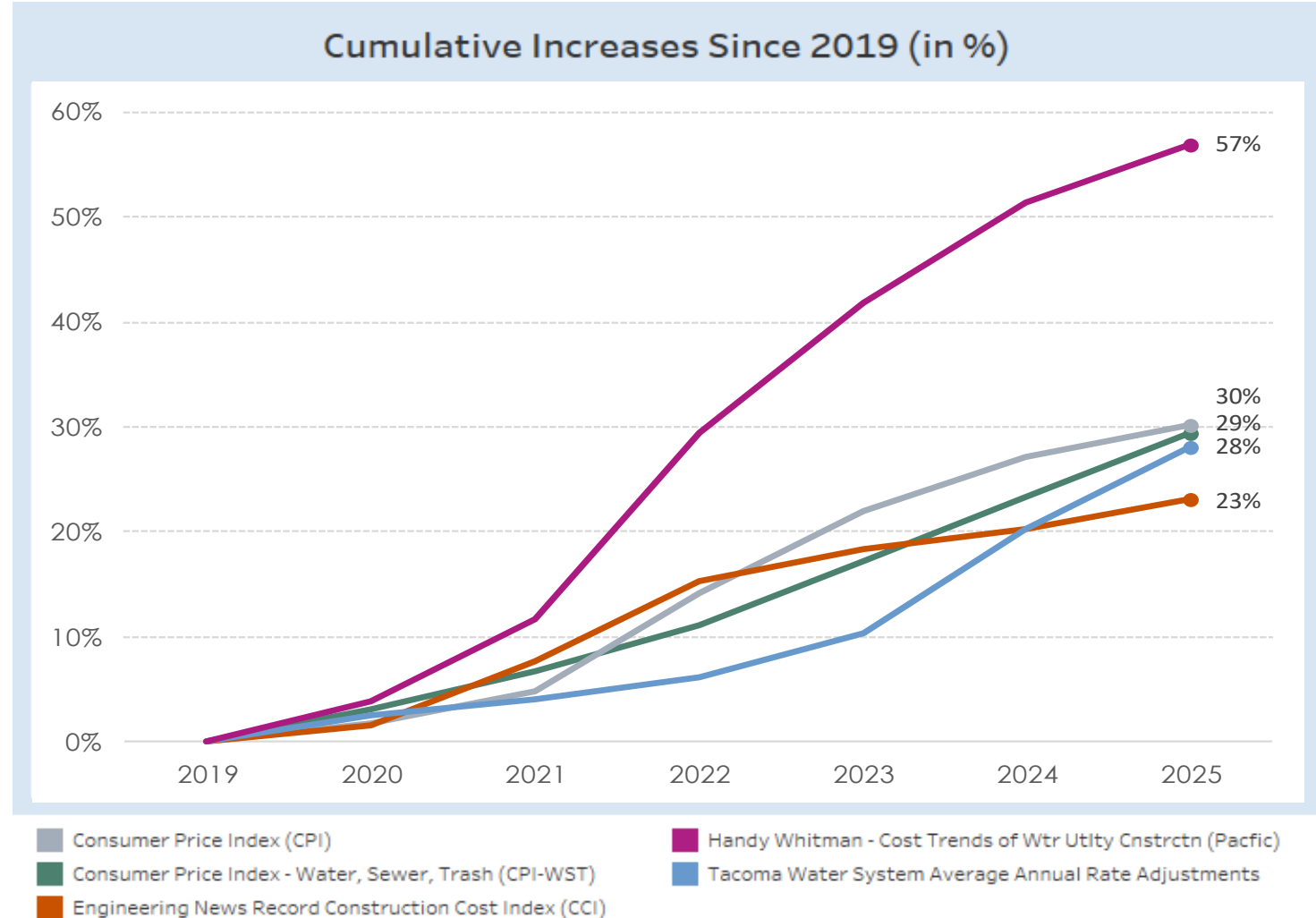
These elements form the foundation of the LRFP and are used to inform our base case and budget





# Increasing Utility Costs

- **Different inflationary pressures than consumers**
- **Handy Whitman & CCI used**
- **Costs increasing more than system average rates**
- **Cost decreases unlikely**
- **Interest rates at highest levels in over a decade**
- **Financing upcoming capital plan with reserves rather than issuing debt**



# Planning for Risks and Uncertainties

## Planning for Uncertainties

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- **Analyze and compare assumptions**
- **Determine a range of outcomes**
- **Project fund balances**
- **Estimate debt service coverage levels**

## Internal Risks

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- **Compliance with Regulatory Mandates**
- **Supply Portfolio**
- **Technology Changes**
- **Aging Infrastructure**
- **Employee Expectations**

## External Risks

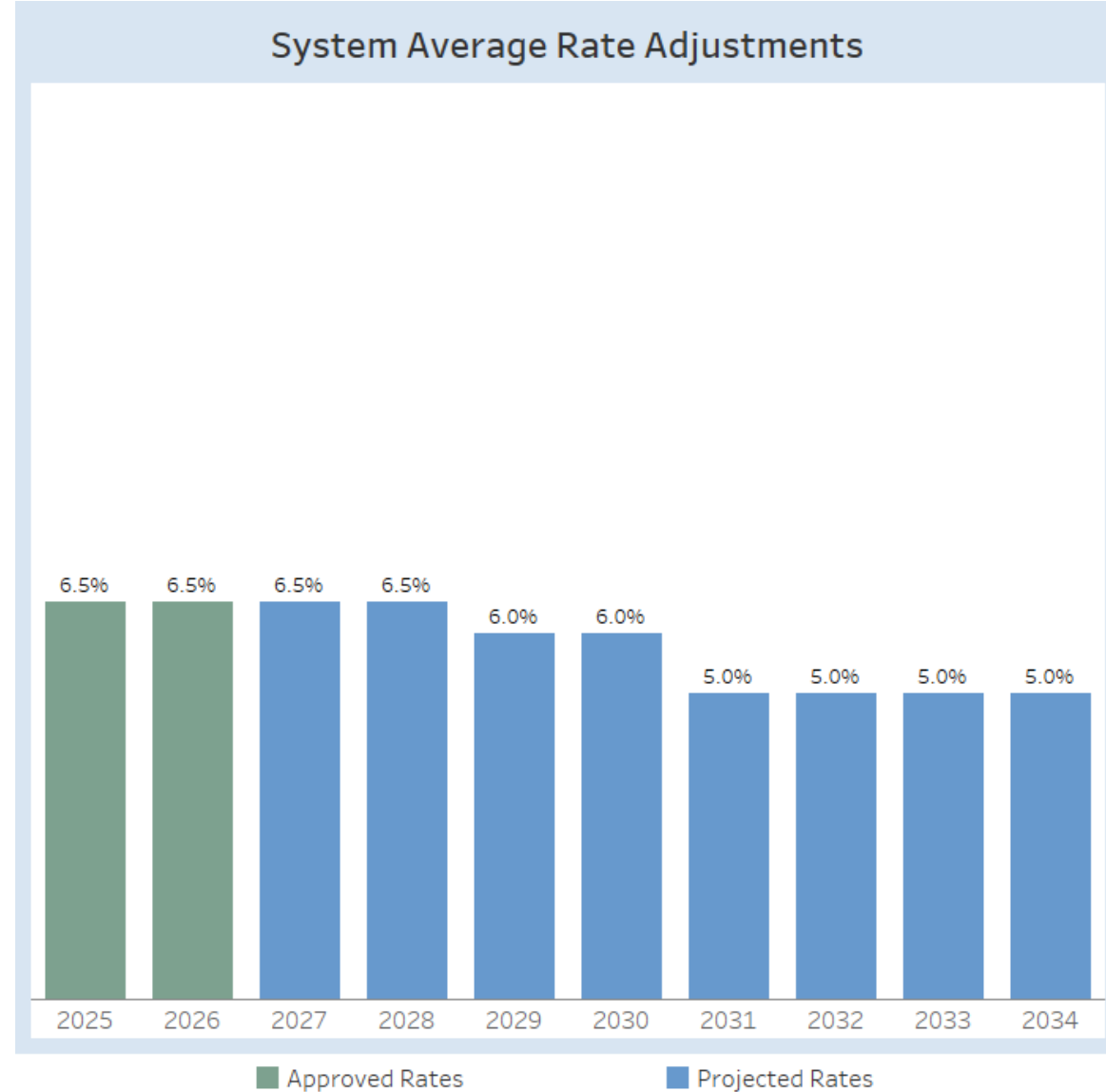
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- **Climate Change: Droughts, Floods, and Wildfire**
- **Weather Fluctuations**
- **Seismic Events**
- **Economic Cycles and Inflation**
- **Policy or Regulatory Changes**
- **Environmental Regulations**
- **Changes in Customer Demand**
- **Changes in Tax Codes**

# Approved and Projected Rate Increases\*

- **Base case based on our expected revenue needs**
- **Develop scenarios**
- **2025-2034 rate projections**

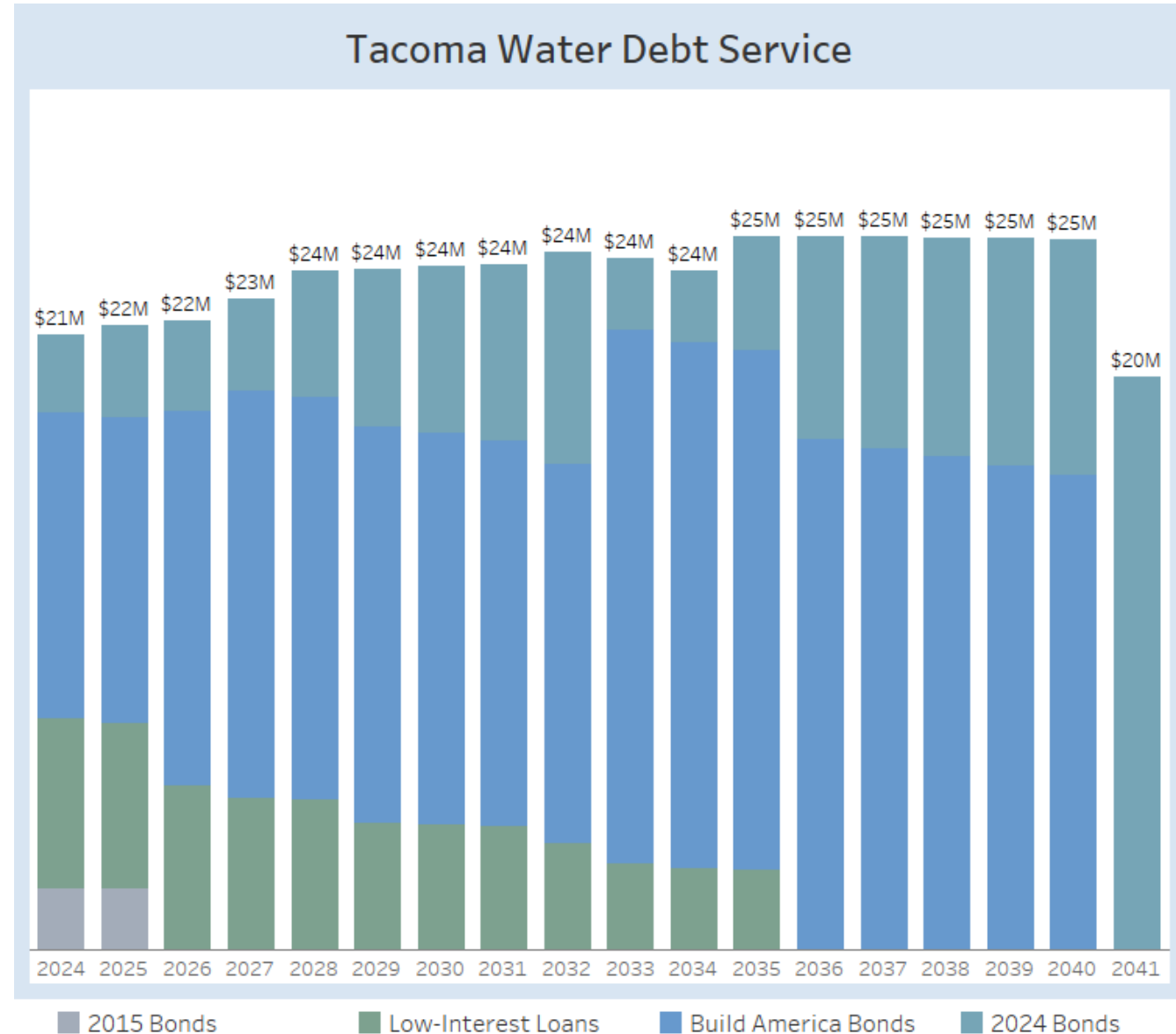


\* Projected rates shown are from Tacoma Water's 2024 Long-Range Financial Plan.

# Debt Service Overview

## Total Annual Principal and Interest Payments

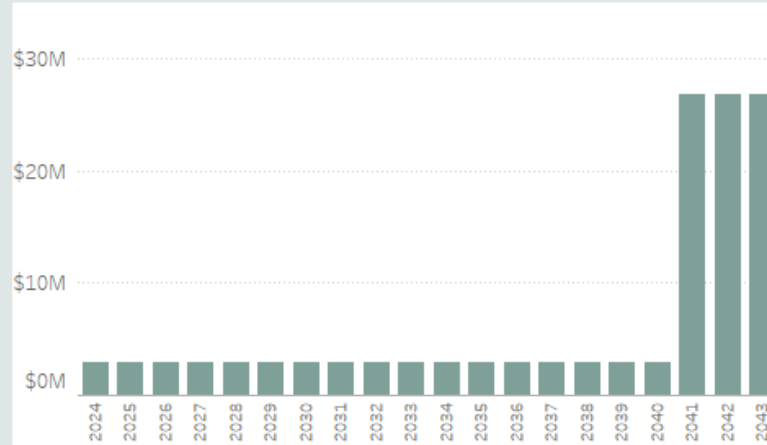
- **Sell senior lien bonds to investors**
- **Fund capital projects**
- **Spread payments over life of assets**
- **Debt generally financed over 30-years**
- **Issued BABs in 2009 and 2010**
- **Federal subsidies**
- **Low-Interest Loans**



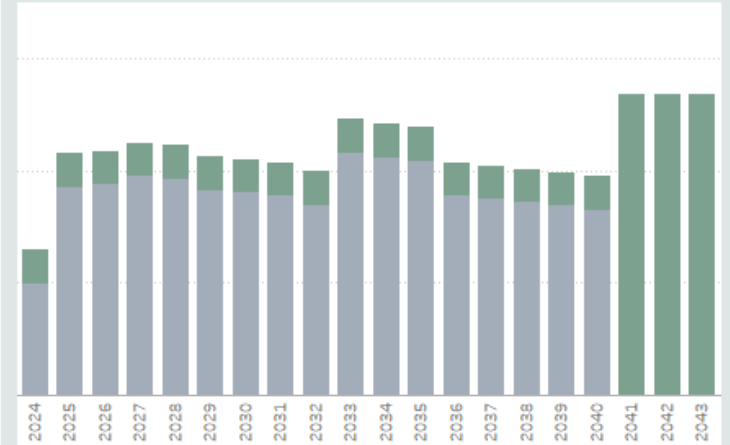
# Debt Service Refinancing

- Reshape debt service payments
- Reduce debt service spikes
- Eliminated 2013 restricted reserve
- Saving \$5.8M in NPV
- Reduced maturity by 2 years

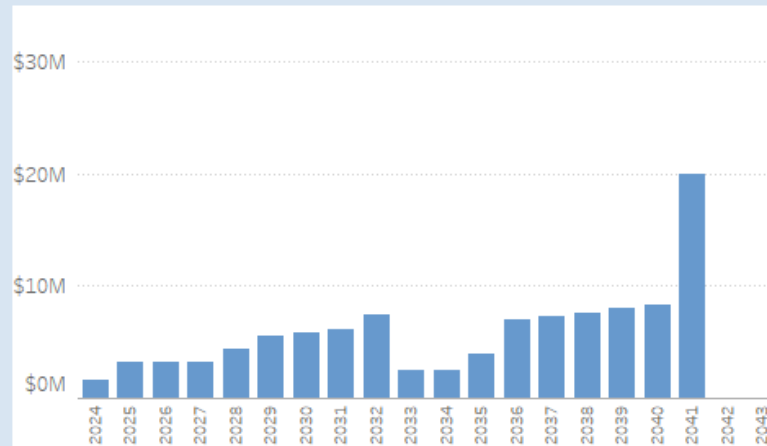
Tacoma Water 2013 Bonds Before Refunding



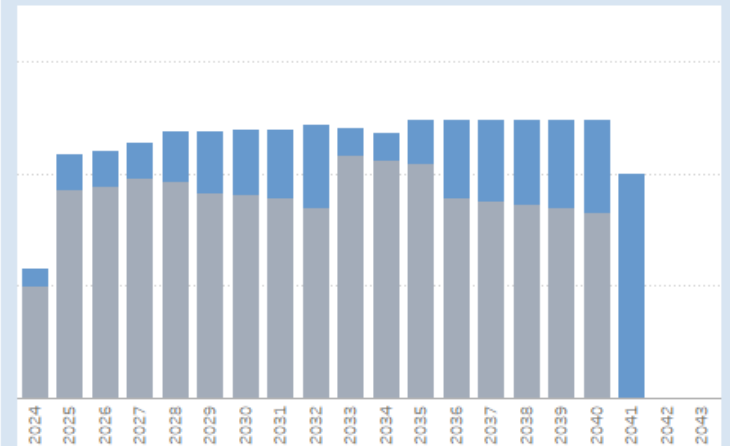
Debt Service Portfolio Before Refunding



Tacoma Water 2024 Bonds After Refunding



Debt Service Portfolio After Refunding



2013 Bonds

Other Bonds and Loans

2024 Bonds

# Maintain Financial Stability

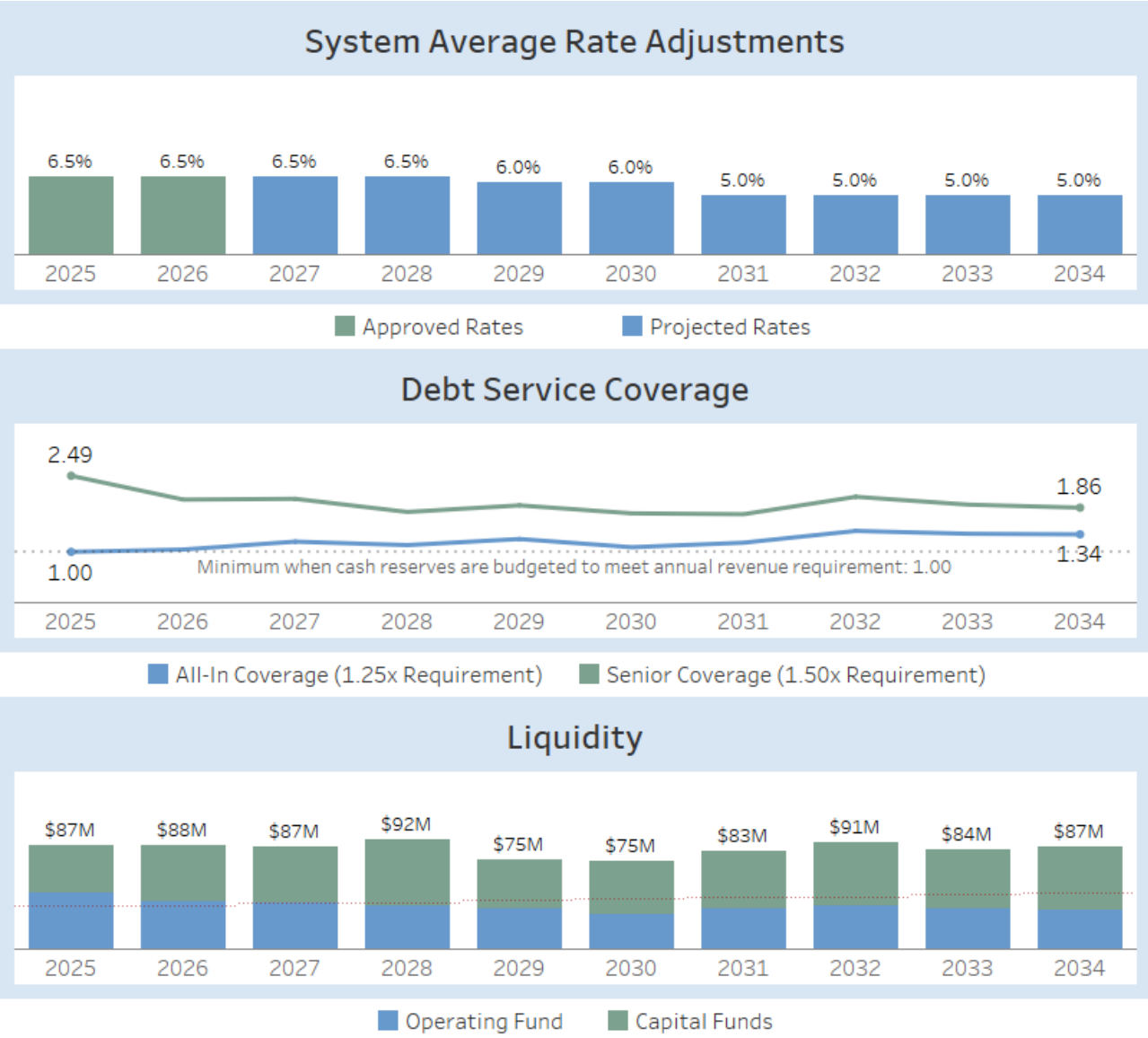
## Key Financial Metrics:

### Debt Service Coverage Ratio

- All-in minimum: 1.25x
- Senior Minimum: 1.50x

### Liquidity and Reserves

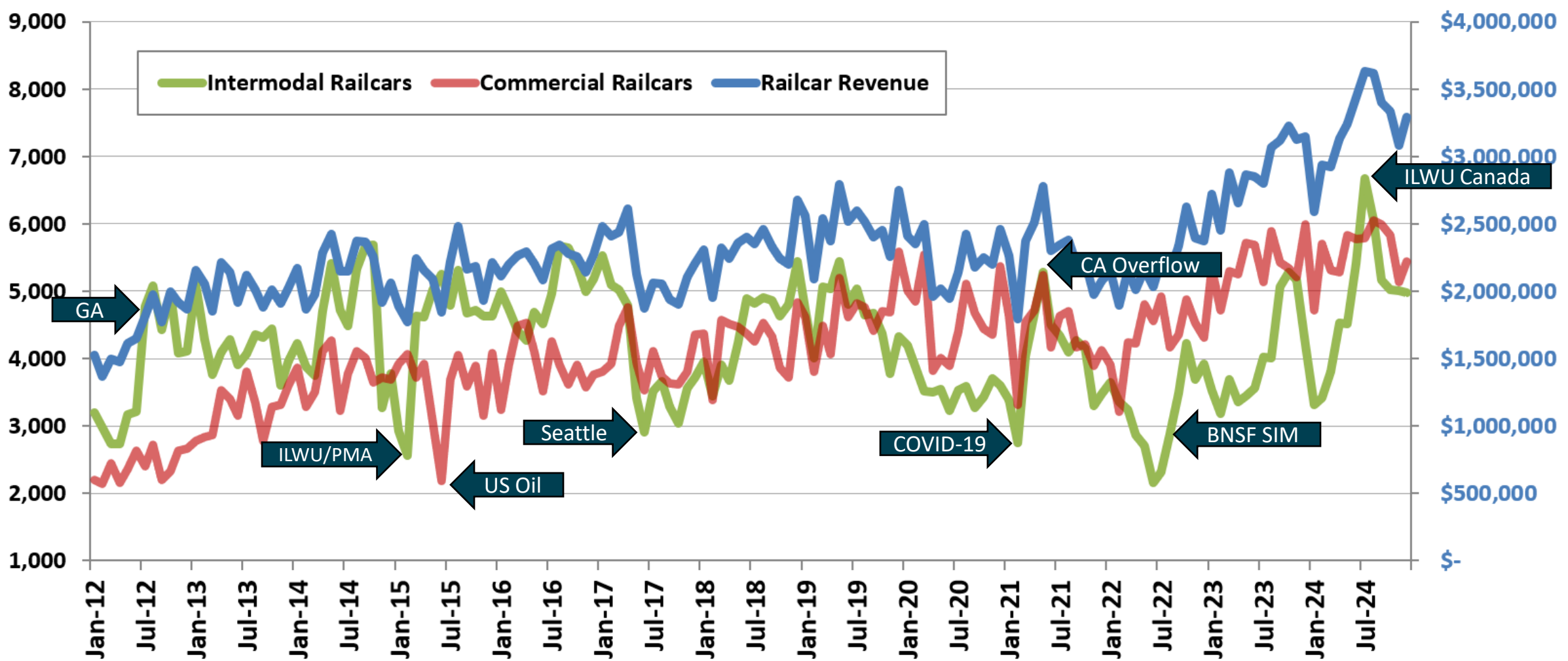
- Minimum 60 days operating cash



# Tacoma Rail

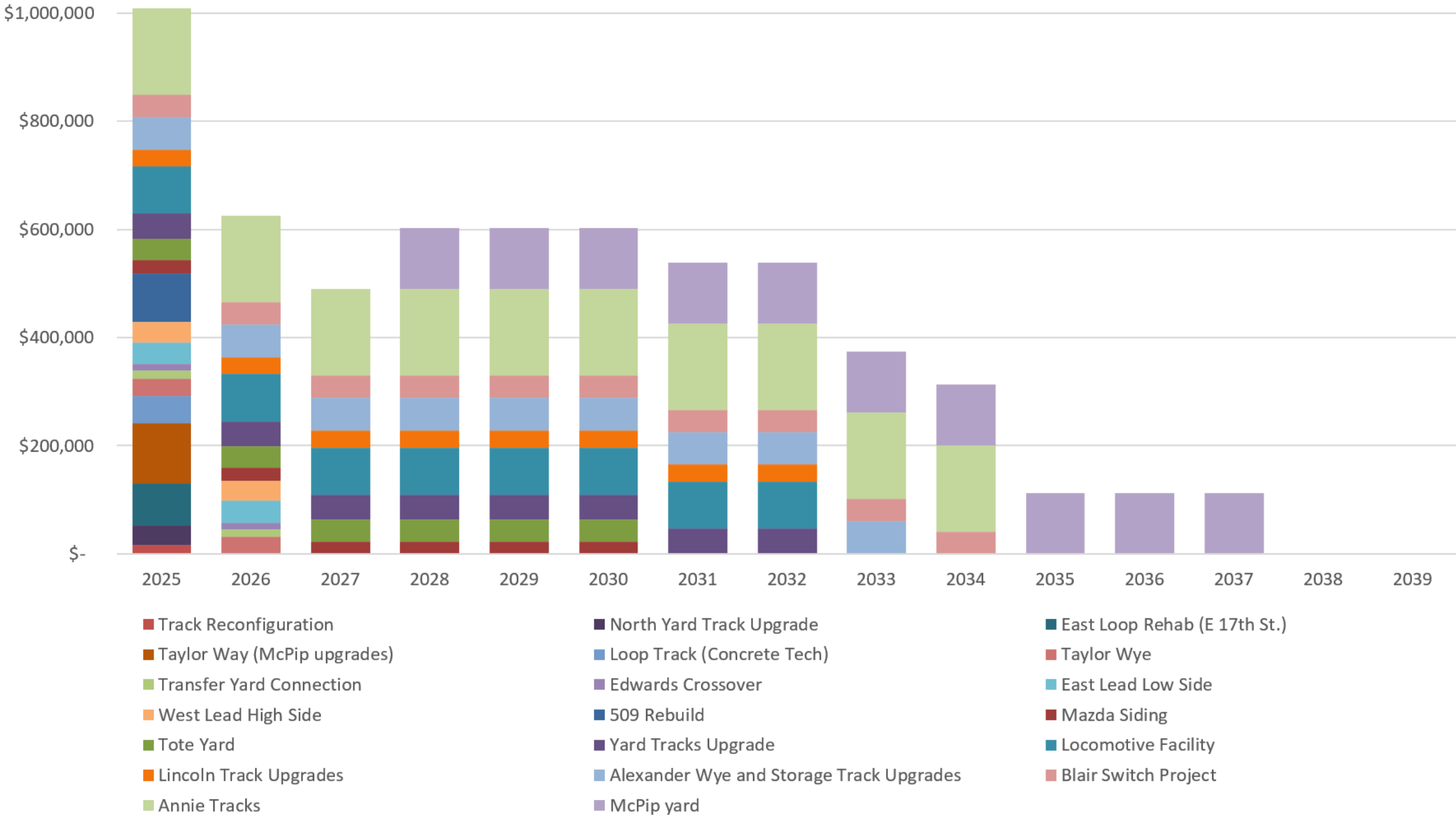
Historical traffic trends discussion & debt management

# Historical Traffic Trends





# Debt Management



# Rate Making Fundamentals

# Policies & Principles

# Principles Review



## Legal

- Fair
- Just
- Reasonable
- Non-Discriminatory



## Industry- Standard

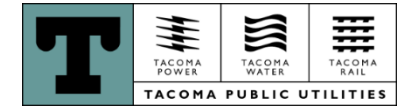
- Revenue Stability
- Cost Causation
- Economic Efficiency
- Equity
- Bill Stability



## TPU Principles

- Affordability
- Environment
- Public Involvement

# Ratemaking Process Overview



What are our  
budgetary  
needs?

## Revenue Needs

- Identifies revenue needed to sustain operations, **according to financial plan.**

Who pays  
what?

## Cost-of-Service Analysis

Divides revenue needs into **total amount** to be paid by **each customer class.**

How do  
customers  
pay?

## Rate Design

Sets rate structure to bill each customer (*e.g.*, customer **charge** per month, energy **charge** per kWh, usage **charge** per CCF [100 cubic feet; 748 gallons], etc.)

# Revenue Needs Determination

# Ratemaking Process

## Revenue Needs

*“What are our budgetary needs?”*

- Identifies budgeted expenditures needed to sustain operations
- Calculates revenues needed to pay for budgeted expenditures
- Supported by Long-Range Financial Plan (LRFP)
- Ensures achievement of key policy objectives

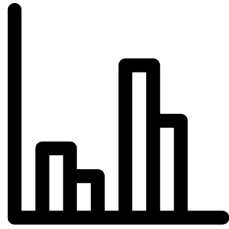
## Cost-of-Service Analysis

*“Who pays what?”*

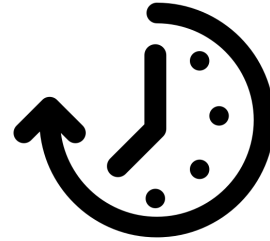
## Rate Design

*“How do customers pay?”*

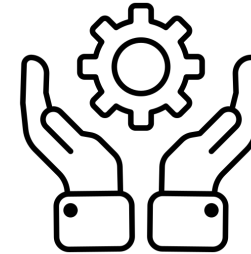
# Revenue Need Process Takeaways



Compares forecasted costs to projected revenues prior to any rate adjustments



Conducted every two years as part of the budgeting and ratemaking cycle



Supports long-range financial plans



# Long-Range Financial Plan (LRFP)



## What is in a LRFP?



- Forecasting
- Strategic planning
- Decision-making tools
- Action steps

## How do we build our LRFP?



- Rate & Financial Policies
- Sensitivities & priorities
- Revenue needs analysis

## Why is a LRFP needed?

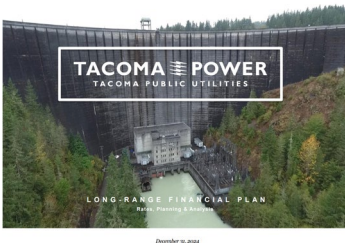


- Support proactive, informed financial management
- Provide a long-term view of financial health
- Plan for and mitigate risk
- Ensure achievement of policy objectives
- Good financial stewardship

## Where is the LRFP?



- Formalized into a document
- Most recent **Power** version: December 31, 2024
- Most recent **Water** version: December 31, 2024



# Revenue Needs Determination Overview



## Development

**O&M  
Expense Forecast**

**Capital  
Expense Forecast**

**Revenue  
at Existing Rates**

**Non-Rate  
Revenue Forecast**

Any revenue requirement deficiencies must be addressed by rate adjustments.

## Needs

**Identify  
financial obligations**

**Evaluate  
sufficiency of current rates**

**Develop  
strategy for sustainability**

## Analysis

**Base Case**

**Scenario Development**

Scenarios provide a range of likely future rate adjustment paths.

# Cost-of-Service Allocation (COSA) Overview

# Ratemaking Process



- Determines total to be paid by each customer class

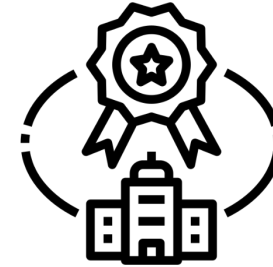
# COSA Primary Takeaways



Allocates utility expenses equitably by assigning them to those who cause the costs



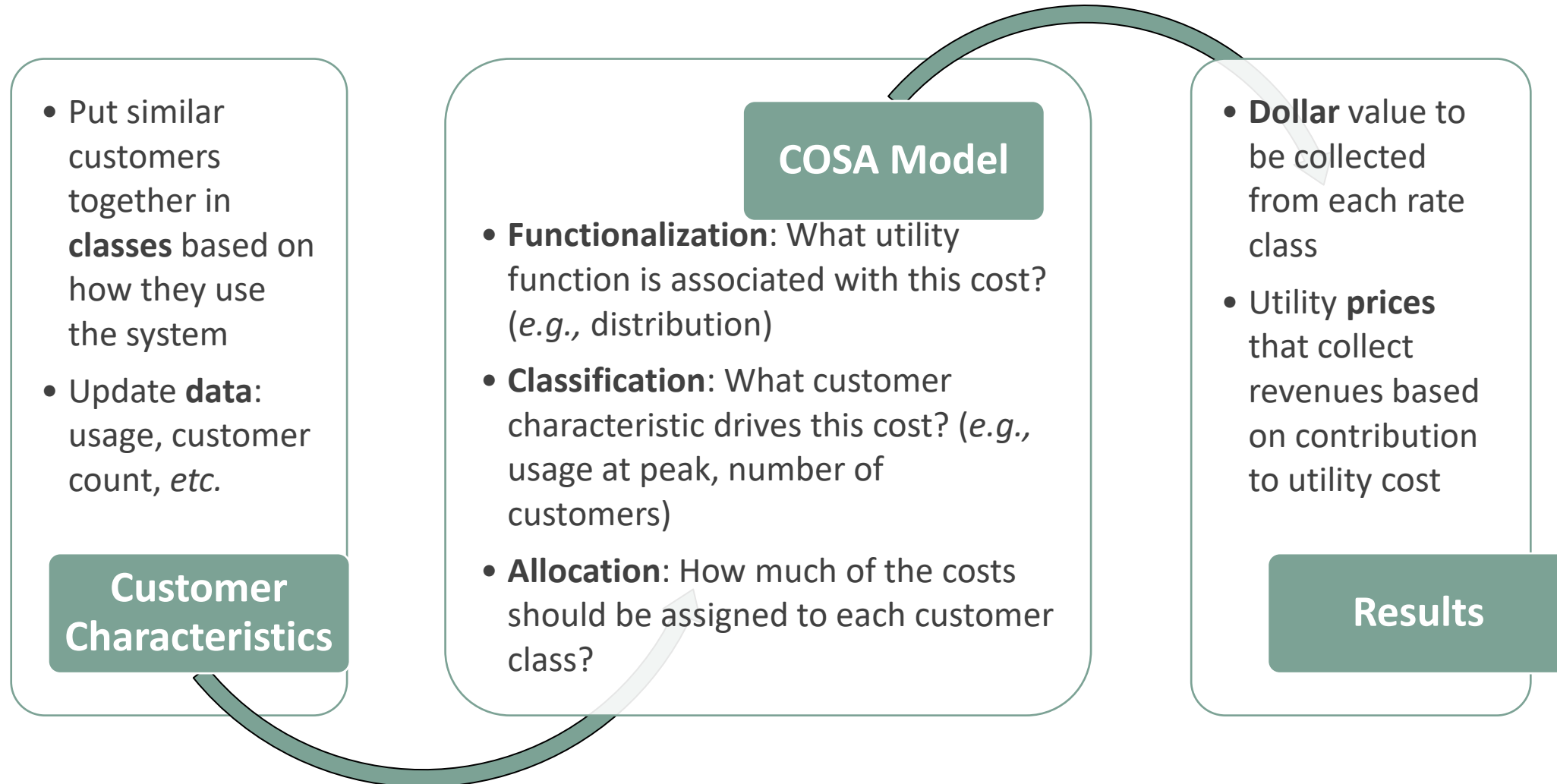
Provides bill stability and prevents large rate spikes by phasing in adjustments



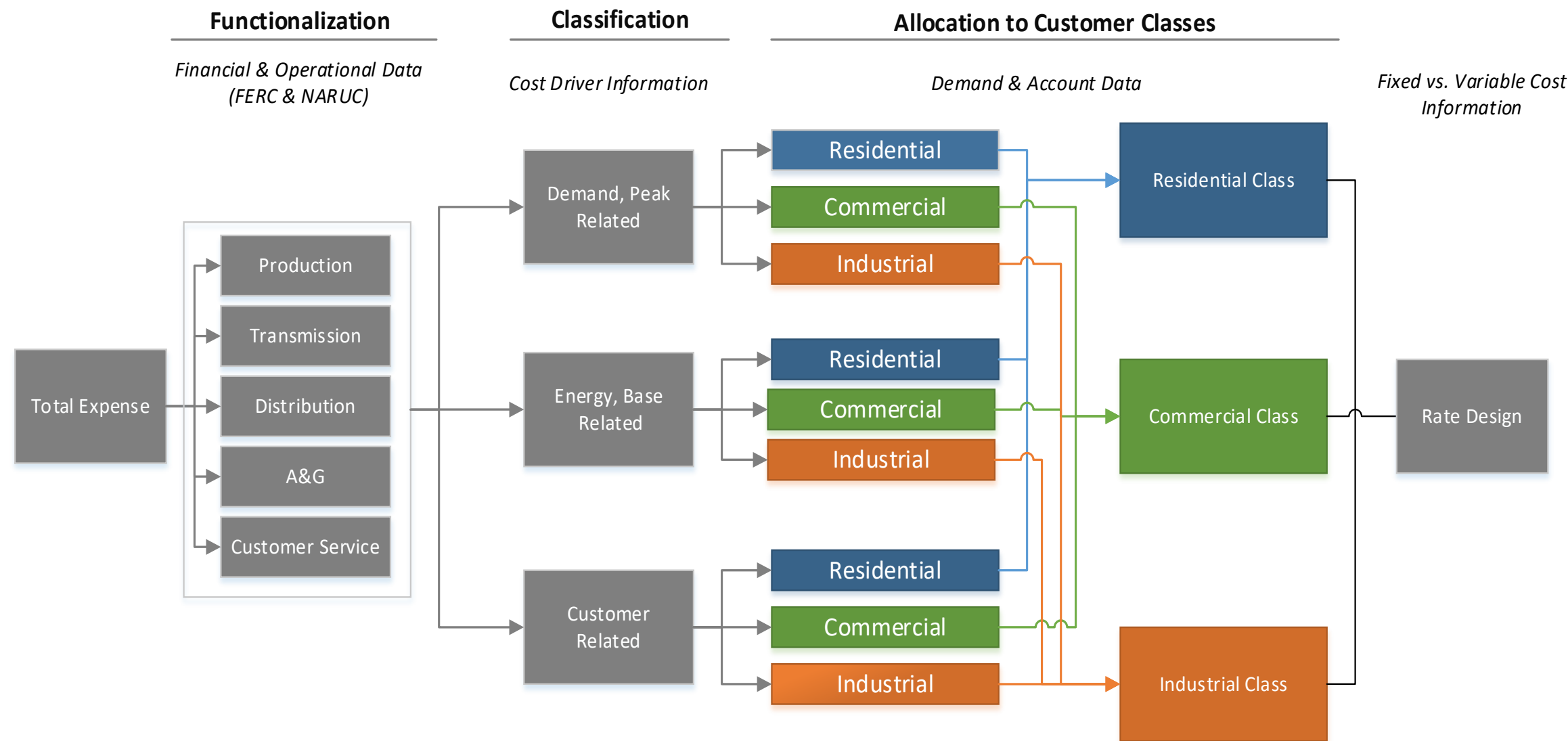
The cost-of-service methodology is a well-tested industry standard

# COSA Determination Process

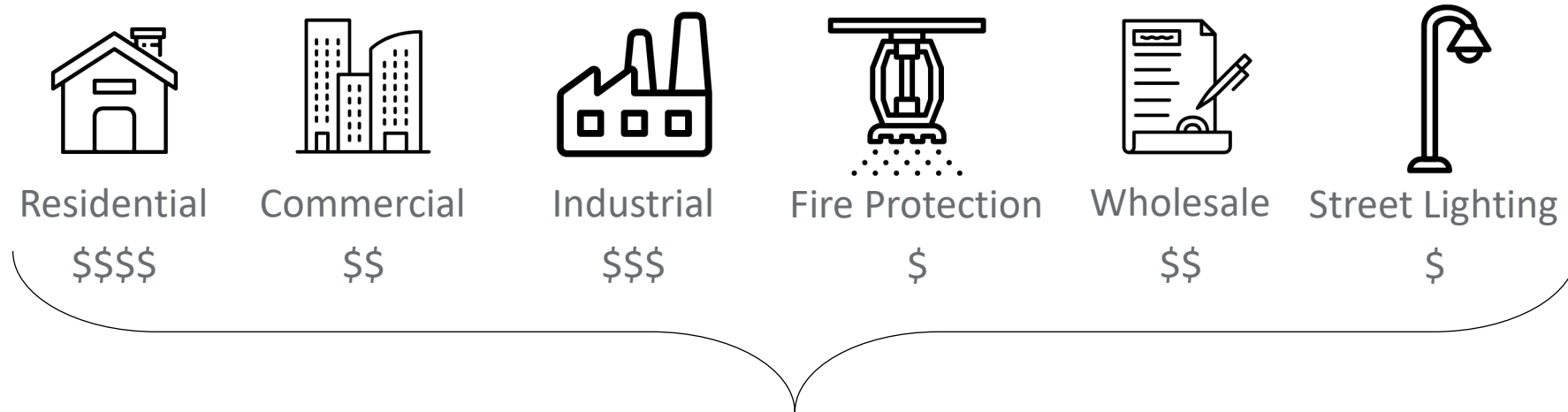
## What Proportion of Utility Cost is **Caused** by the Class?



# COSA Data-Flow Diagram



# Using COSA Results



*The utility may deviate from these results:*

- ☐ If one class receives a much larger/smaller increase than the average
- ☐ For strategic directive considerations
- ☐ To phase adjustment in gradually
- ☐ If an increase would impact some customers in a class more than others
- ☐ For non-financial considerations (e.g., environmental incentives, economic development)



## Legal Implications/Considerations

- Industry Standards and Precedents
- Cost-causation lens is widely recognized as meeting Legal standard of fair, just, reasonable, and non-discriminatory
- Matching revenue drivers to cost drivers promotes revenue stability and utility financial health
- Economic Efficiency
- Equity
- Bill Stability



# Tacoma Power Rate Design



# Ratemaking Process



- Design rate structure to collect revenue from customers
- Set actual cents **per kWh**, customer charge **per month**, etc.

# Fixed & Variable Cost Components

## CUSTOMER

- Based upon the **cost to maintain connection** to the system
- Recovered from "monthly charge"
- Does not vary by the amount of electricity used
- **Fixed Cost**



## ENERGY

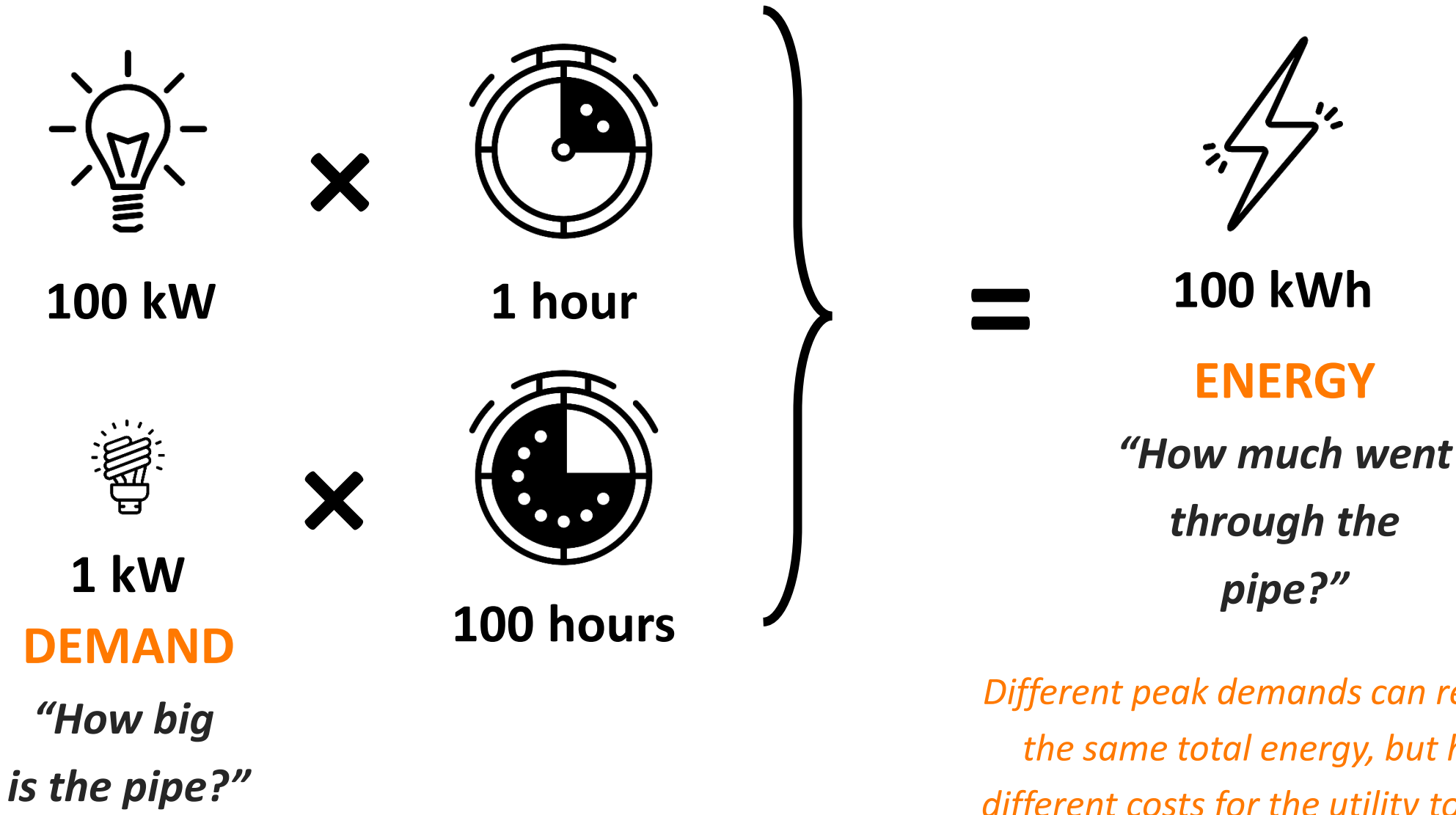
- Based upon the **cost to provide the total** electric energy consumed
- Related to kilowatt-hours (kWh)
- Varies by the overall amount of electricity used
- **Variable Cost**



## DEMAND

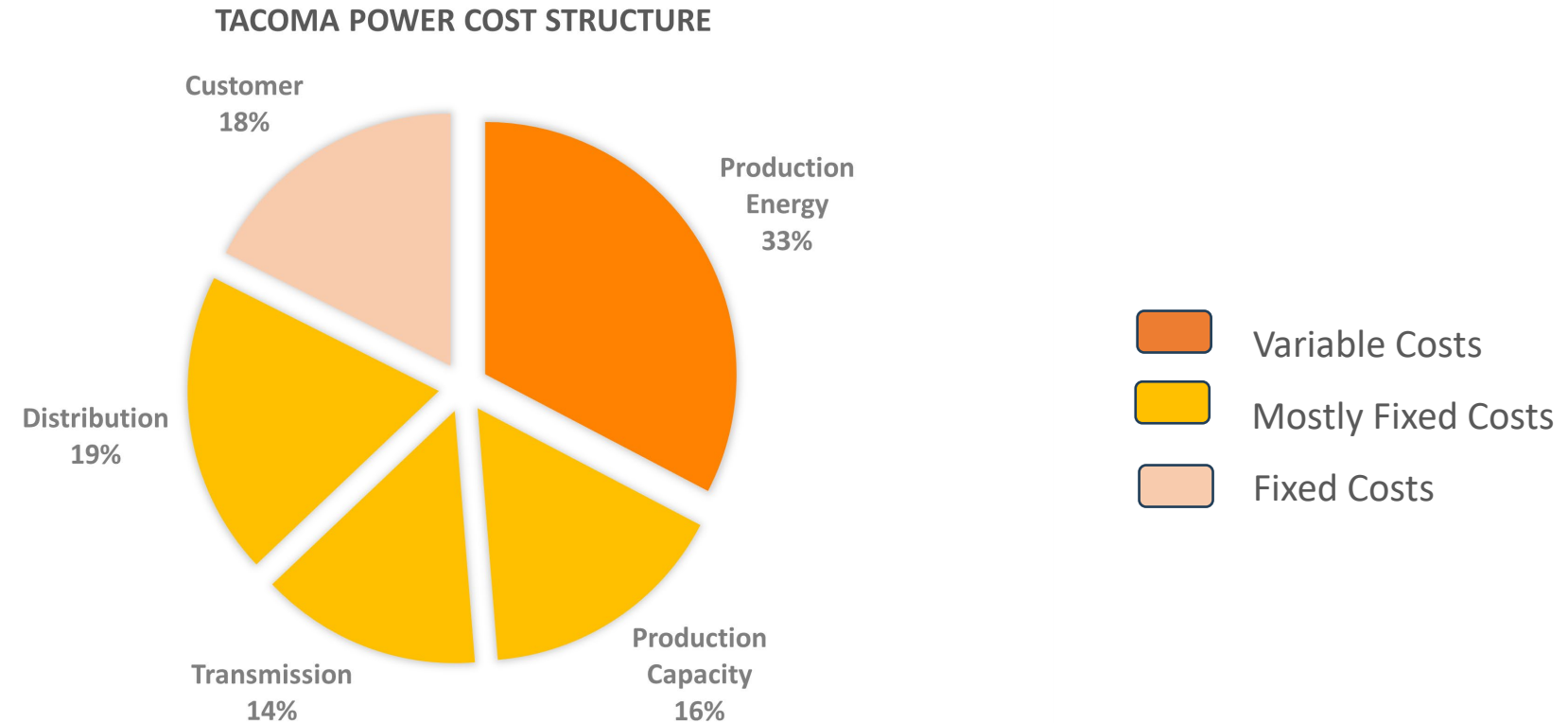
- Based upon the **cost to provide peak** electric capacity
- Related to kilowatts (kW)
- Determined by the maximum capacity needed.

# Demand versus Energy



*Different peak demands can result in the same total energy, but have different costs for the utility to serve.*

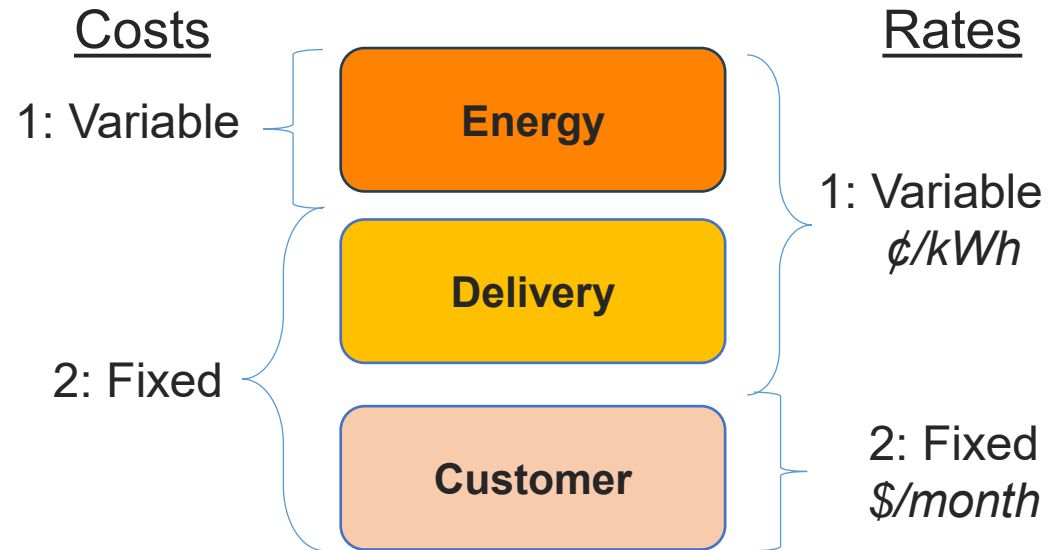
# Tacoma Power Cost Structure



***Nearly 70% of Tacoma Power's costs are either fixed or mostly fixed.  
Slightly more than 30% is energy cost that varies by customer  
consumption.***

# Tacoma Power Rate Structure

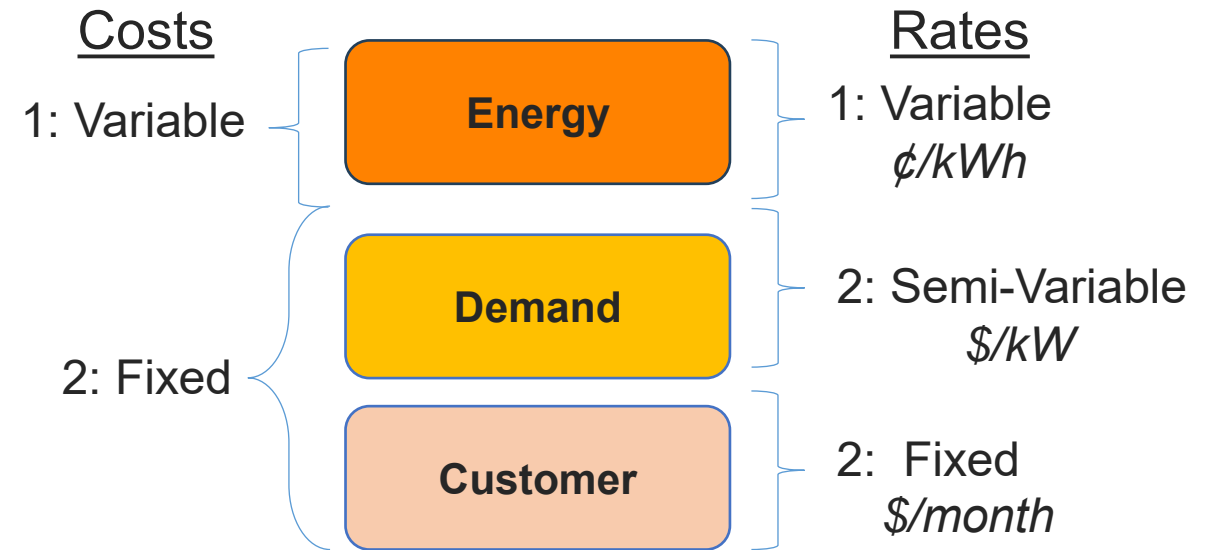
## Two-Part Rate



### Two-Part Rate Schedules:

- Residential
- Small General Service
- Street Lighting & Traffic Service (some fixtures only)

## Three-Part Rate

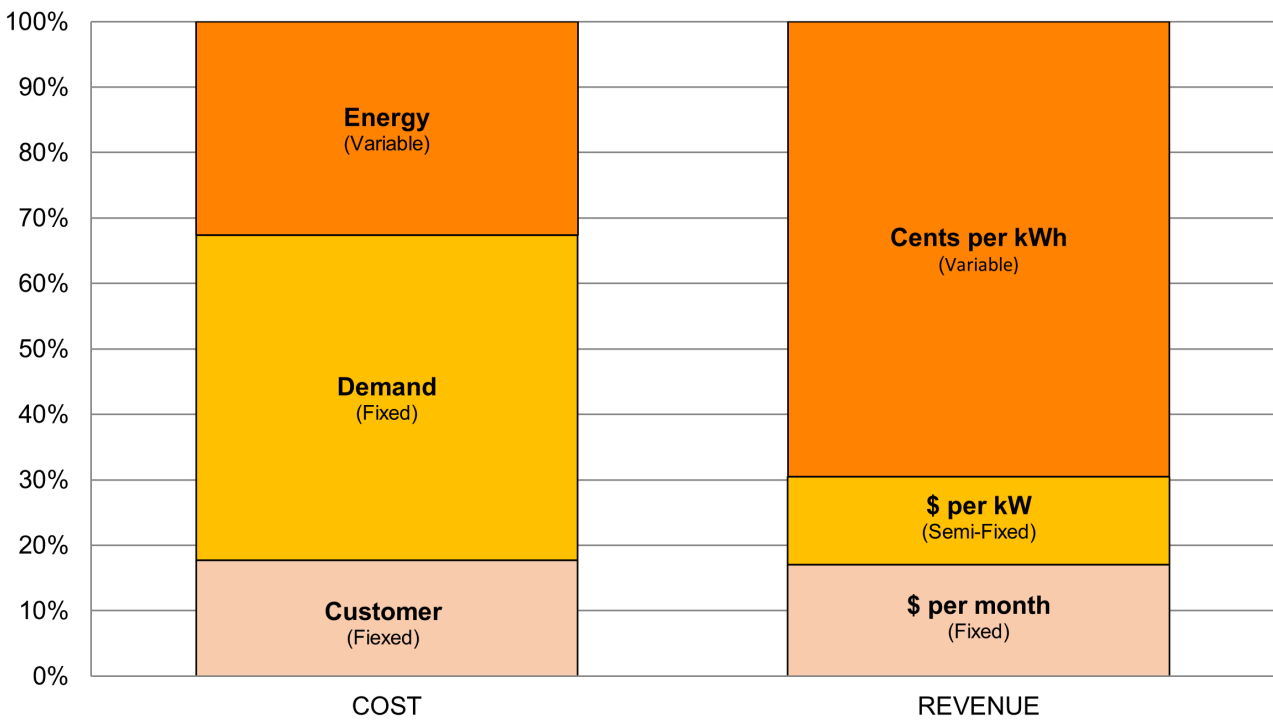


### Three-Part Rate Schedules:

- General Service
- High-Voltage General
- Contract Industrial, New Large Load and the upcoming Very Large Load

# Costs Structure versus Revenues Structure

System Cost & Revenue Structure  
2025/2026 Rate Period



Most of Tacoma Power's **costs are fixed**. At the same time, most of Tacoma Power's **revenues are variable**.



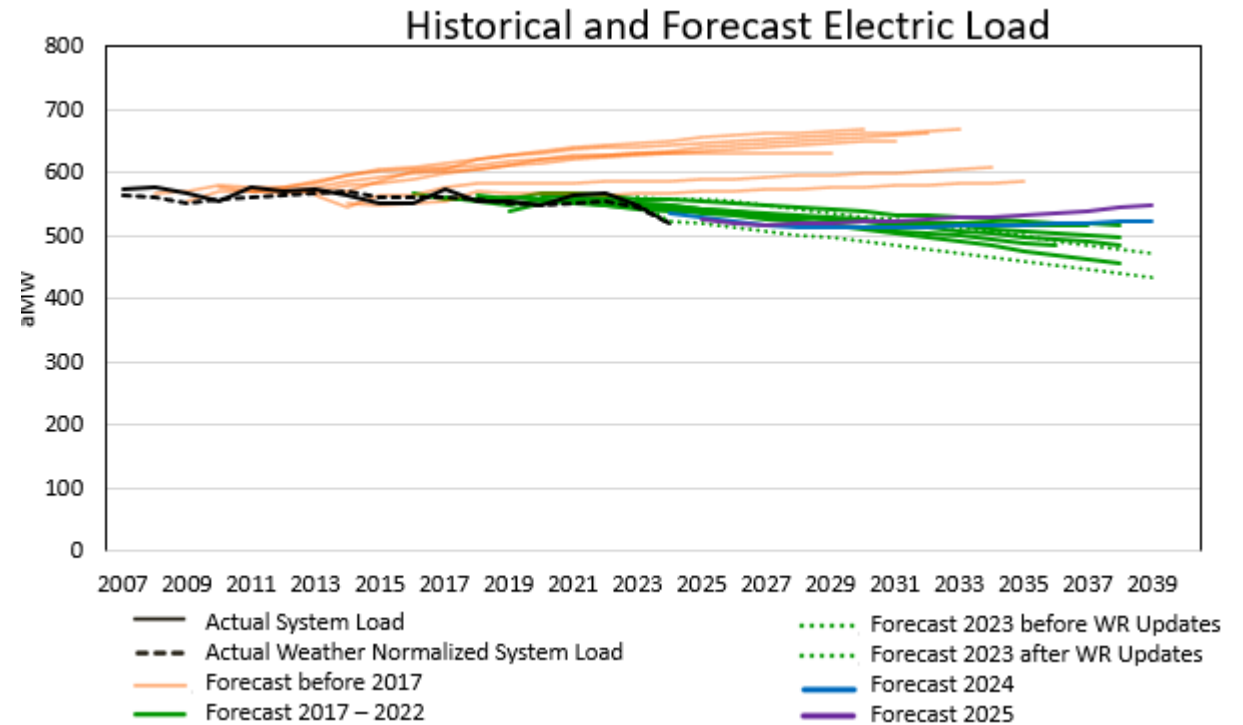


# Declining Consumption

Over the last decade, **conservation** and **improved codes & standards** have led to **flat or declining** electric load.

However, clean energy transformation including **Electric Vehicle adoption** and **gas-to-electric fuel switching** will increase electric demand.

Changes in usage patterns make it very **difficult** to predict load and recover costs under existing variable rate structures.



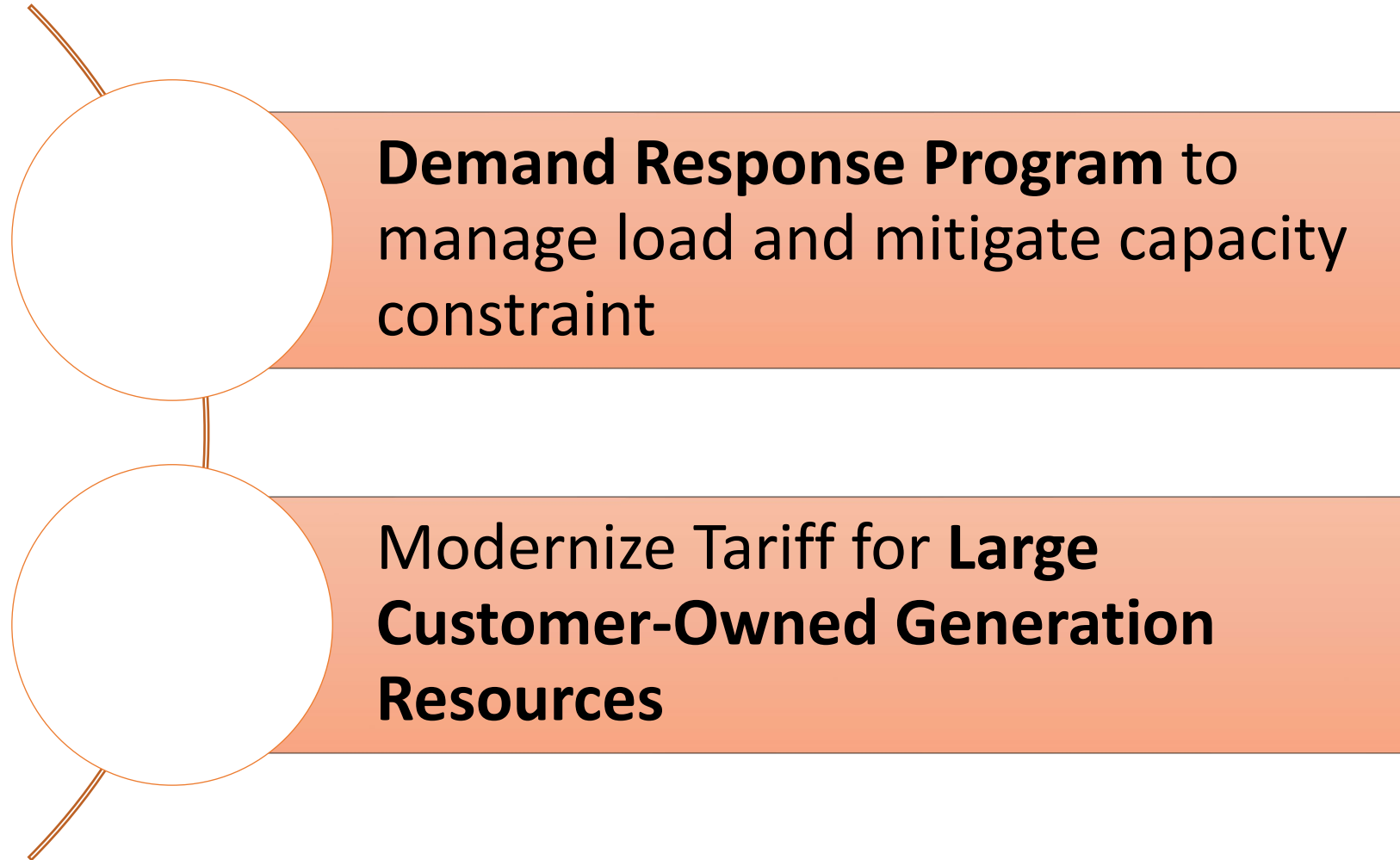
# Rate Design Objectives

Objective	Definition	Goals
Revenue Stability	Generate stable and predictable revenue, regardless of external factors	<ul style="list-style-type: none"><li>• Reliably fund operating and capital needs</li><li>• Avoid regular emergency or reactive rate increases</li></ul>
Conservation	Encourage efficient electricity use (energy and peak demand)	<ul style="list-style-type: none"><li>• Reduce power cost responsibly</li><li>• Delay future capital investments</li></ul>
Affordability	Provide affordable electricity to meet basic needs	<ul style="list-style-type: none"><li>• Make services available to all customers</li><li>• Reduce and avoid customer delinquency</li></ul>
Understandability	Keep structure simple to administer and explain to customers	<ul style="list-style-type: none"><li>• Effectively communicate intended price signals</li><li>• Reduce administrative complexity</li></ul>

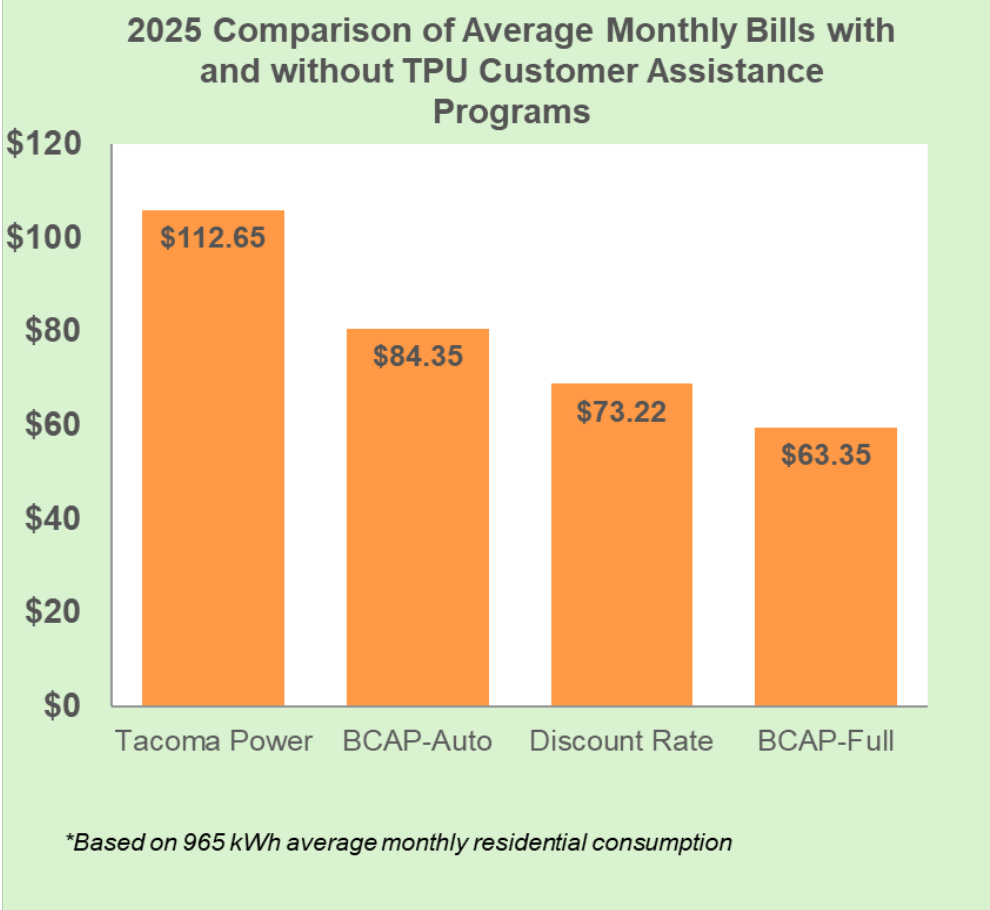
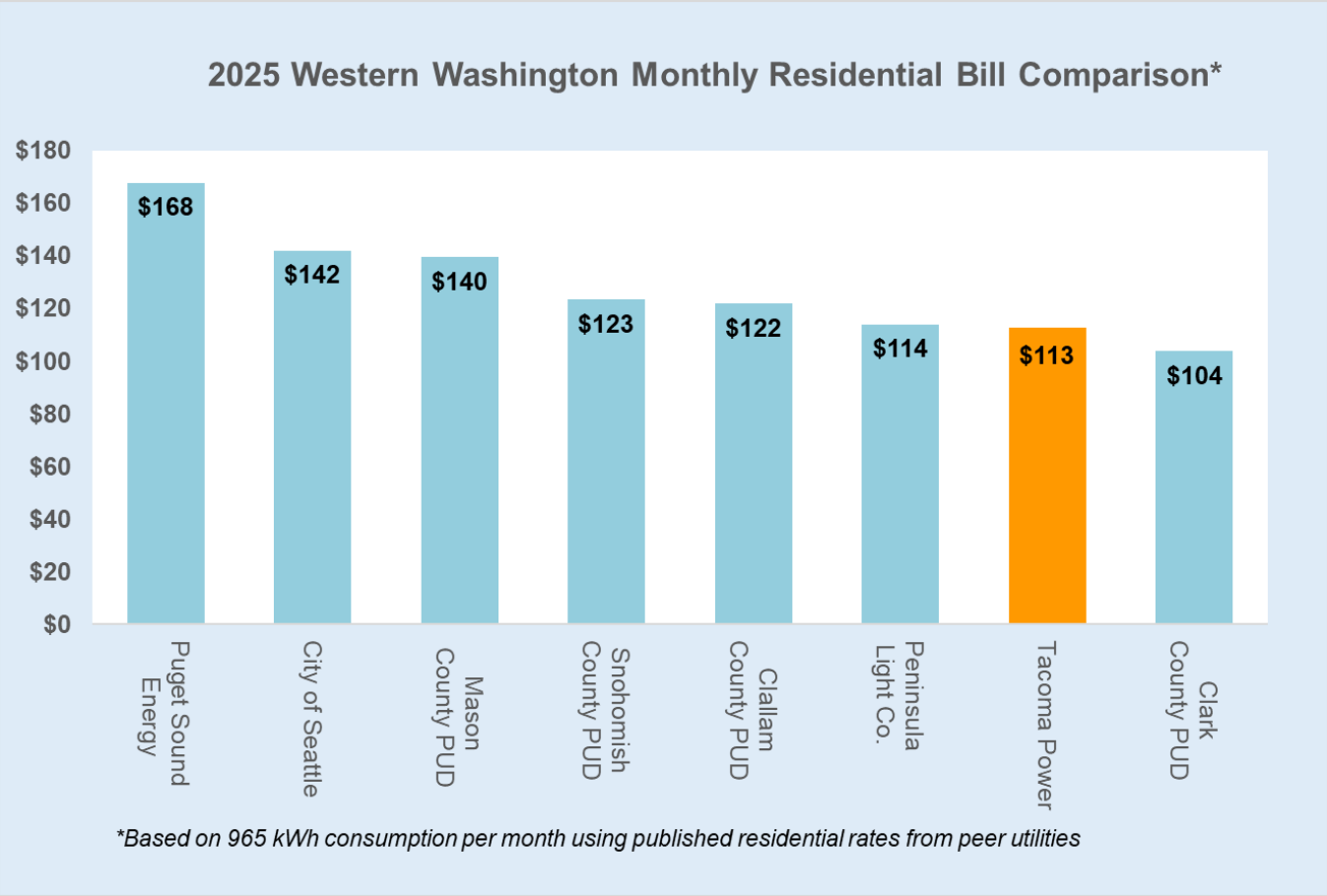
# Rate and Non-Rate Solutions

Objective	Rate Design	Non-Rate Solutions
Revenue Stability	Set fixed charge at cost of service	Long-term planning and policymaker support
Conservation	Fixed charge not excessively high  Future experiment with Time-of-Use rate design and demand response programs	Conservation rebate and education programs
Affordability	Keep volumetric rate relatively low	Customer assistance programs like BCAP and LIE/LID and assistance on energy efficiency improvements
Understandability	Keep rate structure simple	Robust IT and communications teams

# Future Rate Design Projects



# Average Monthly Bill Compared to Regional Peer Utilities



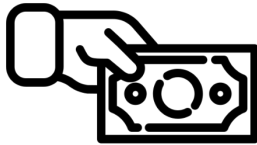
# Tacoma Water Rate Design

# Ratemaking Process

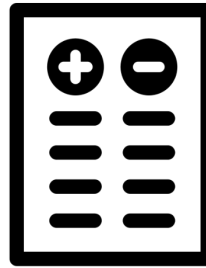


- Design rate structure to collect revenue from customers in class
- Set actual cost per CCF, hydrant charge per month, meter charge per month, etc.

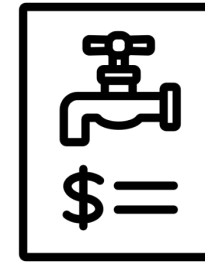
# Rate Design Primary Takeaways



Rate design is how the utility goes about collecting the cost to serve each class *from* each class



Rate design is a push and pull of competing objectives



Fixed cost recovery ratio does not necessarily correlate with higher bills



# Competing Objectives

Objective	Definition	Goals
Revenue Stability	Generate stable and predictable revenue, regardless of external factors	<ul style="list-style-type: none"><li>• Reliably fund fixed operating and capital needs</li><li>• Avoid regular emergency or reactive rate increases</li></ul>
Conservation	Encourage efficient water use (total/peak)	<ul style="list-style-type: none"><li>• Promote environmental stewardship</li><li>• Delay future capital investments</li></ul>
Affordability	Provide affordable water at base levels of consumption	<ul style="list-style-type: none"><li>• Make critical services available to all customers</li><li>• Reduce and avoid customer delinquency</li></ul>
Understandability	Keep structure simple to administer and explain to customers	<ul style="list-style-type: none"><li>• Effectively communicate intended price signals</li><li>• Reduce administrative burden on staff</li></ul>

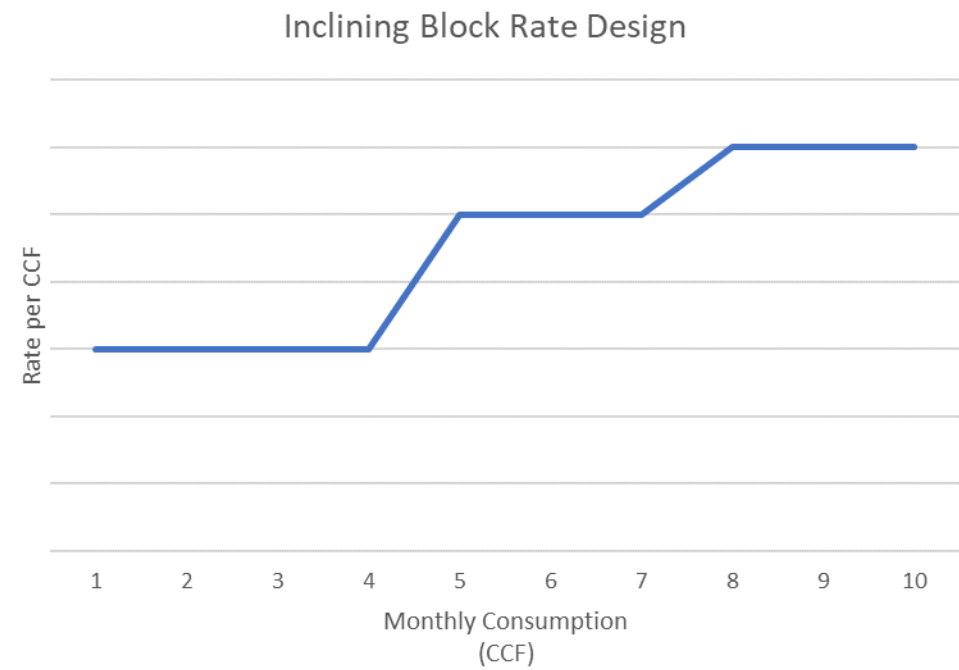
# Rate and Non-Rate Solutions

Objective	Rate Design	Non-Rate Solutions
Revenue Stability	Utilization of fixed component	Long-term planning and policymaker support
Conservation	Two-tier summer peaking structure	Rebate and education programs
Affordability	Summer tier 2 begins at or around non-discretionary use	Customer assistance programs like BCAP and LIE/LID
Understandability	Two-tier structure only occurs in summer months	Robust IT and communications teams

# Tacoma Water Residential Rate Design

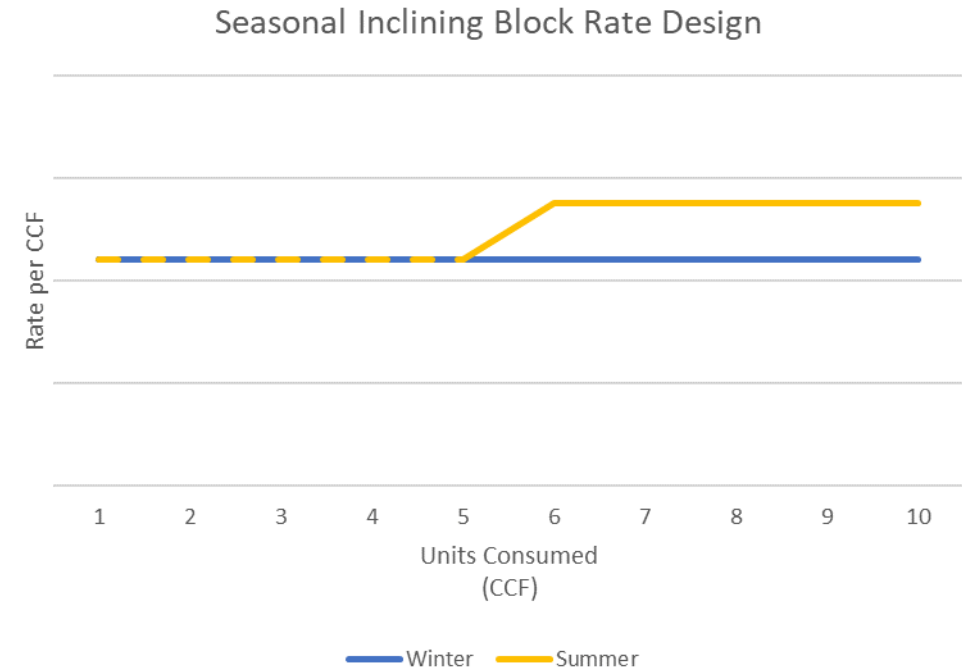
## Rate Design Philosophy

An inclining block rate design may be best applied when the cost to produce water increases as more water is consumed. It can also be used to send a conservation message to high-water users.



## Tacoma Water Rate Schedule

Tacoma Water applies a seasonal, block rate design to its residential class. In the winter season, residential customers pay a base rate per CCF consumed. In the summer season, residential customers pay the same base rate per CCF for the first five CCF consumed, and an increased rate for any monthly consumption beyond five CCF.

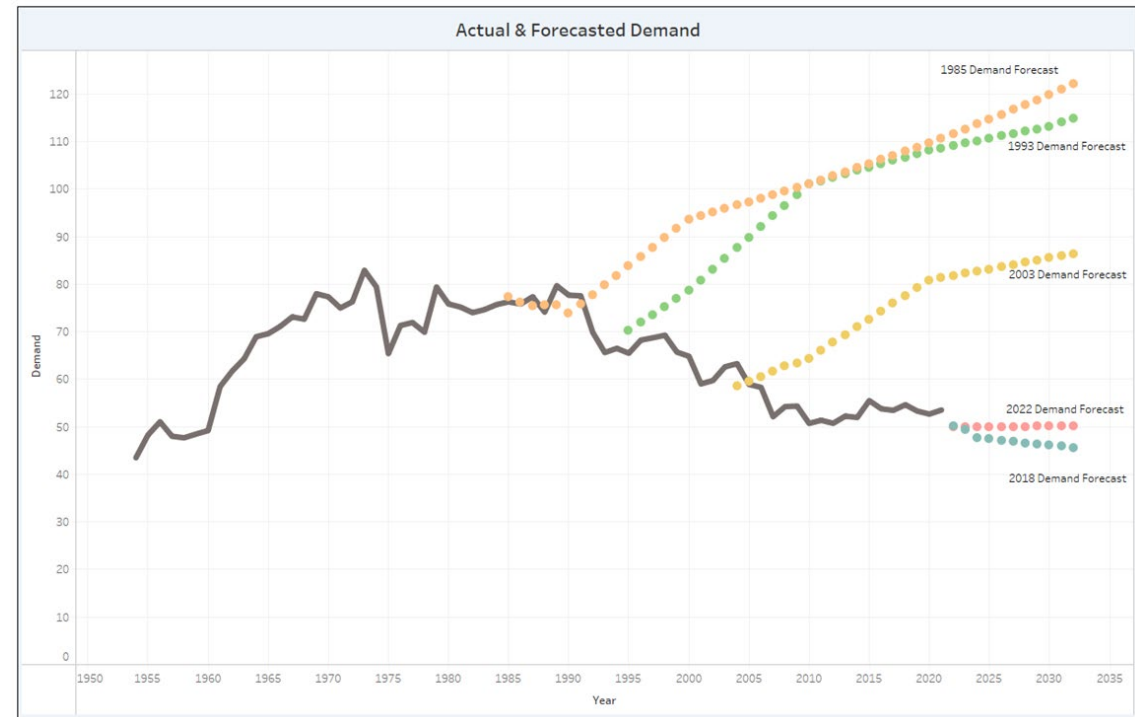


# Consumption Declines, Costs Stable

The hockey stick projections of the past explains why the utility built the Water system the way it did: to prepare for future growth.

Reliance on expectations of ever-increasing consumption allowed recovery of fixed costs in the variable portion of the rate.

Now, however, conservation measures, improved codes, standards, and more efficient household fixtures are leading to new forecasts of flat or declining water demand.



# Costs and Revenue Structures Mismatched

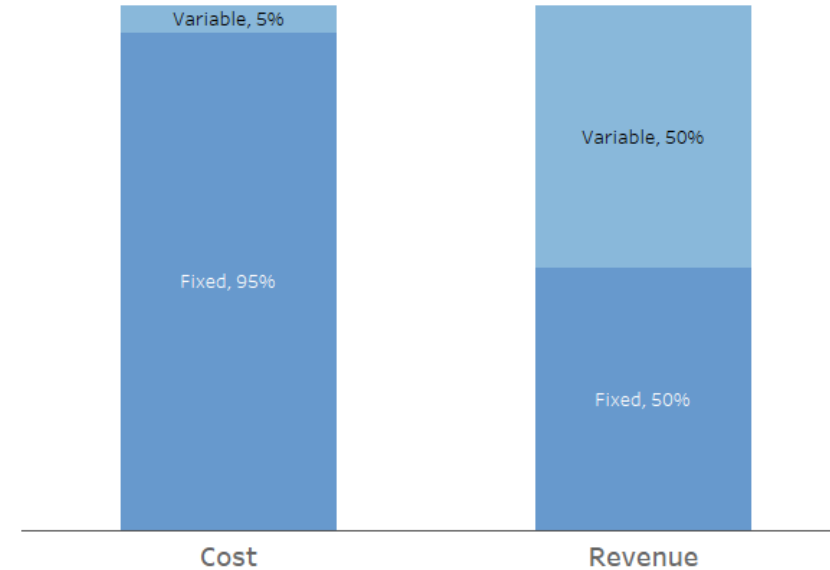
Water utilities exist in a capital-intensive business environment.

Over 95% of costs are “fixed” in the very short run; power, treatment, and solids handling are the only variable costs on this time horizon.

Rate design can be used to contribute to revenue stability, improve equity across customer classes, and send a conservation signal.

## Water Sytem Cost Structure

*2021-2022 Rate Period*

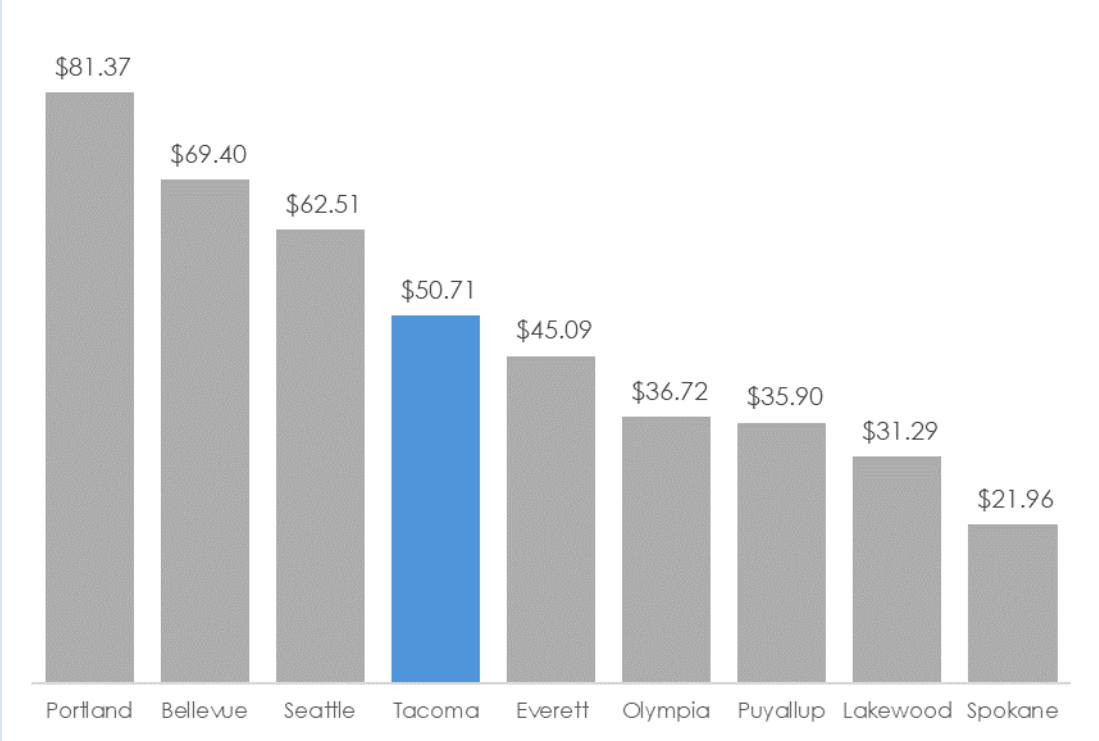


*Cost represents expenses in terms of percentage.*

*Revenue represents anticipated water sales in terms of percentage.*

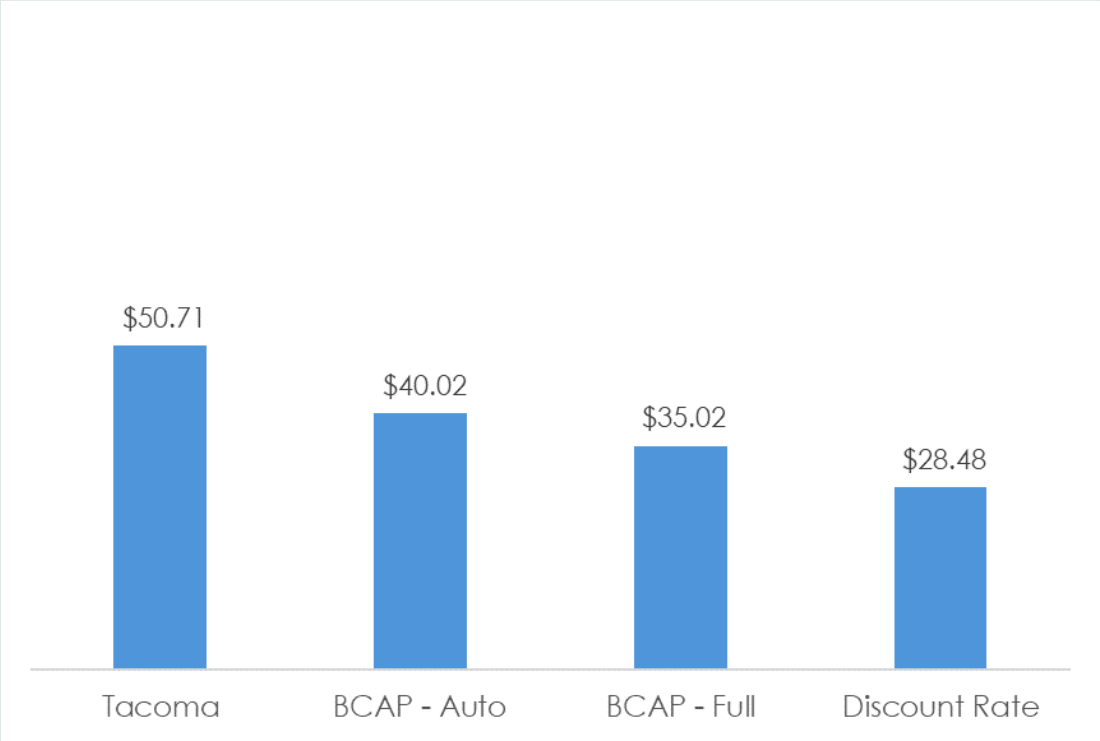
# Average Monthly Bill

2025 Regional Comparison of Average Monthly Bills



*This comparison assumes a single family in Tacoma consumes a monthly average of 6 CCF (4,488 gallons) in winter months and 9 CCF (6,732 gallons) in summer months, with a 5/8" meter.*

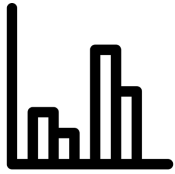
2025 Comparison of Average Monthly Bills with and without TPU Customer Assistance Programs



*For BCAP customers, the monthly average is 6 CCF in winter months and 7 CCF in summer months. For Discount Rate customers, the monthly average is 4.22 CCF in winter months and 5.88 CCF in summer months.*

# Summary

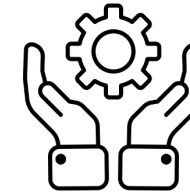
## Revenue Needs



Compares forecasted costs to projected revenues prior to any rate adjustments



Conducted every two years as part of the budgeting and ratemaking cycle



Support our long-range financial plans

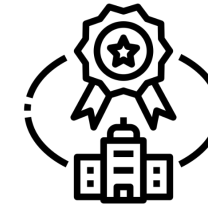
## Cost of Service Analysis



Allocates utility expenses equitably by assigning them to those who cause the costs



Provides bill stability as large swings using this method are rare and can be phased in



The cost-of-service methodology is a well-tested industry standard

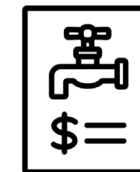
## Rate Design



Rate design is how the utility goes about collecting the cost to serve each class *from* each class



Rate design is a push and pull of competing priorities



Fixed cost recovery ratio does not necessarily correlate with higher bills

# Tacoma Rail Rate Design



# Tariff Rates

- **Switching Tariff**

- Line haul and related railcar movement charges
- Last updated 1/1/2023

**TACOMA RAIL**  
TACOMA PUBLIC UTILITIES

FT TMBL 6004-E

**TACOMA MUNICIPAL BELT LINE RAILWAY**

**FREIGHT TARIFF TMBL 6004-E**  
Supersedes and Cancels TMBL 6004-D (including all supplements)  
WWW.TACOMARAIL.COM

**NAMING  
DEMURRAGE RULES AND CHARGES**

**APPLYING AT ALL LOCATIONS ON THE  
TACOMA MUNICIPAL BELT LINE RAILWAY (TMBL)**

- **Demurrage Tariff**

- For the undue detention of railcars
- \$70/day after credits
- Last updated 1/1/2023

**TACOMA RAIL**  
TACOMA PUBLIC UTILITIES

FT TMBL 8807-L

**TACOMA MUNICIPAL BELT LINE RAILWAY**

**FREIGHT TARIFF TMBL 8807-L**  
(Cancels Tariff TMBL 8807-K)

**NAMING  
SWITCHING AND OTHER TERMINAL CHARGES  
AS PROVIDED IN SECTION 1 HEREIN**

**APPLYING AT ALL LOCATIONS ON THE  
TACOMA MUNICIPAL BELT LINE RAILWAY  
(TACOMA RAIL)**

and intrastate traffic;  
ection with particular

EFFECTIVE: January 1, 2025

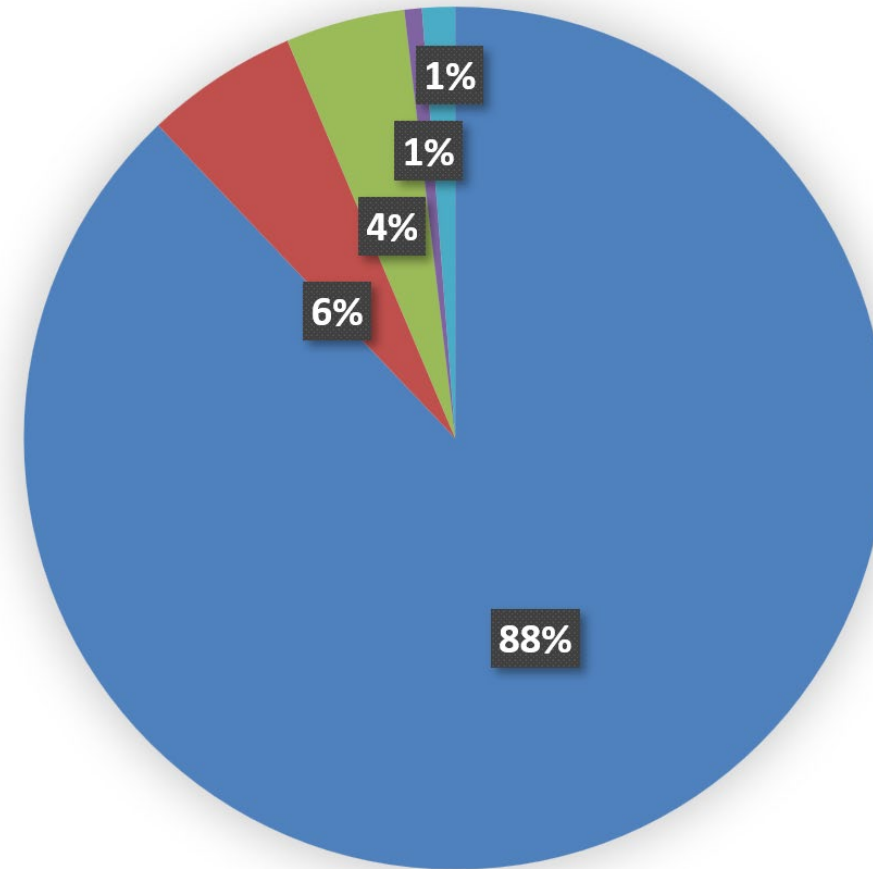
This tariff is also applicable on intrastate traffic, except where expressly provided to the contrary in connection with particular items.

ISSUED: December 10, 2024 EFFECTIVE: January 1, 2025

Alan Matheson, Superintendent  
2601 SR 509 North Frontage Road  
Tacoma, WA 98421

# Sources of Revenue

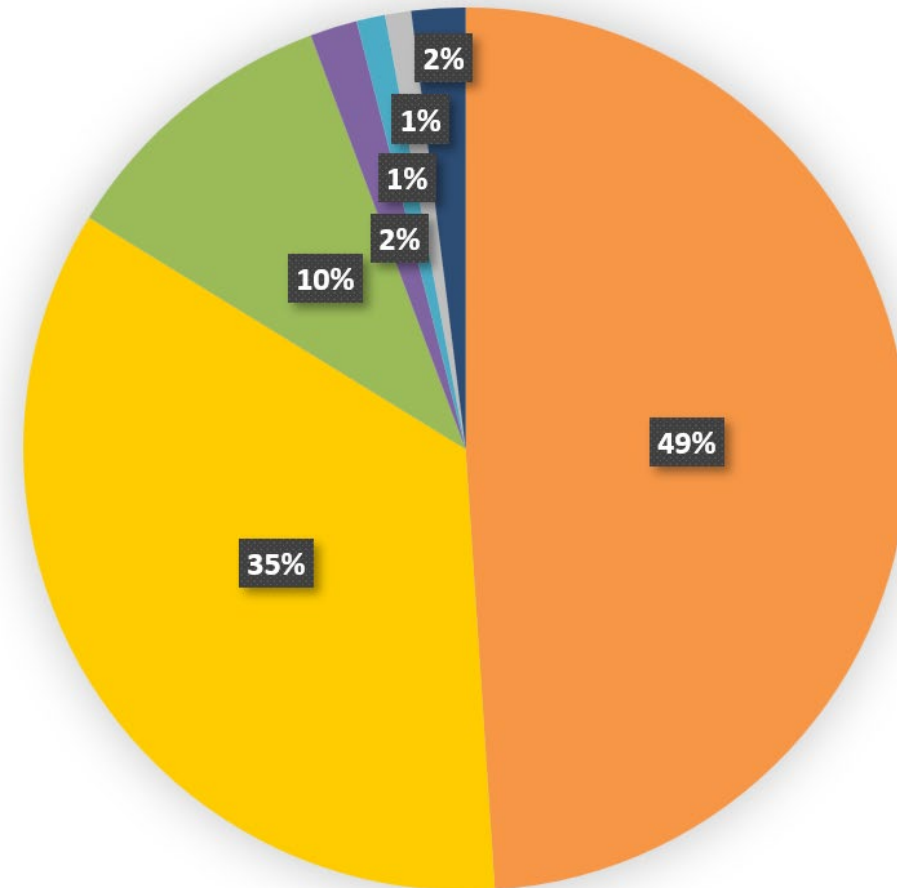
- Tariff based
  - Line haul
  - Local & miscellaneous switching
  - Demurrage
- Agreement based
  - Locomotive servicing
  - Miscellaneous switching & other
  - Rent income
- Interest & other
  - Treasury
  - 45G tax credit



- Line Hauls & Switching
- Locomotive Servicing
- Demurrage
- Rent
- Interest & Other

# Primary Rate Payers

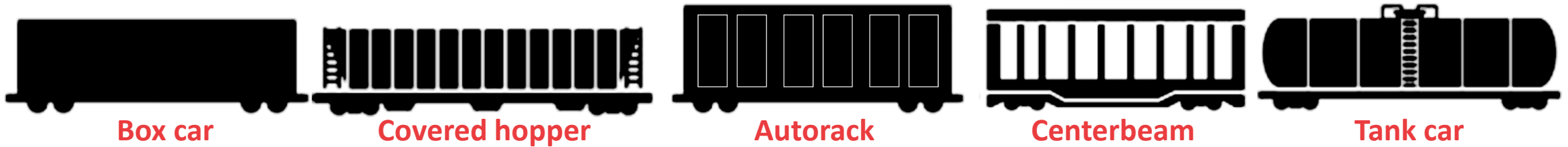
- Line haul traffic
  - BNSF Railway
  - Union Pacific Railroad
  - U.S. Oil Refining
- Miscellaneous switching
  - Local customers requesting additional service
- Locomotive servicing
  - BNSF Railway
  - Union Pacific Railroad
- Demurrage
  - Undo detention of a railcar
  - Local commercial customers
  - Excludes autorack railcar traffic



■ BNSF RAILWAY COMPANY  
■ UNION PACIFIC RAILROAD  
■ U.S. OIL & REFINING CO.  
■ EMERALD SERVICES INC  
■ NW CONTAINER SERVICE INC  
■ MACMILLAN PIPER INC  
■ All Others <\$200K Each

# Line Haul Railcars vs Platforms

- Railcars can have multiple platforms
- A platform is a location within a railcar that is separated by articulations
  - Mostly limited to intermodal railcars
- Examples of single platform railcars:



- Examples of multiple platform railcars:



# Line Haul Rate Analysis

- **Intermodal**

- \$65
- Less labor intensive
- More volume
- Yard management
- Higher track wear
- Service windows
- Fewer destinations
- Do not incur demurrage

- **Commercial**

- \$358 & \$417
- Labor intensive
- Lower volume
- Less track utilization
- Lower track wear
- Daily service
- More destinations
- Subject to demurrage

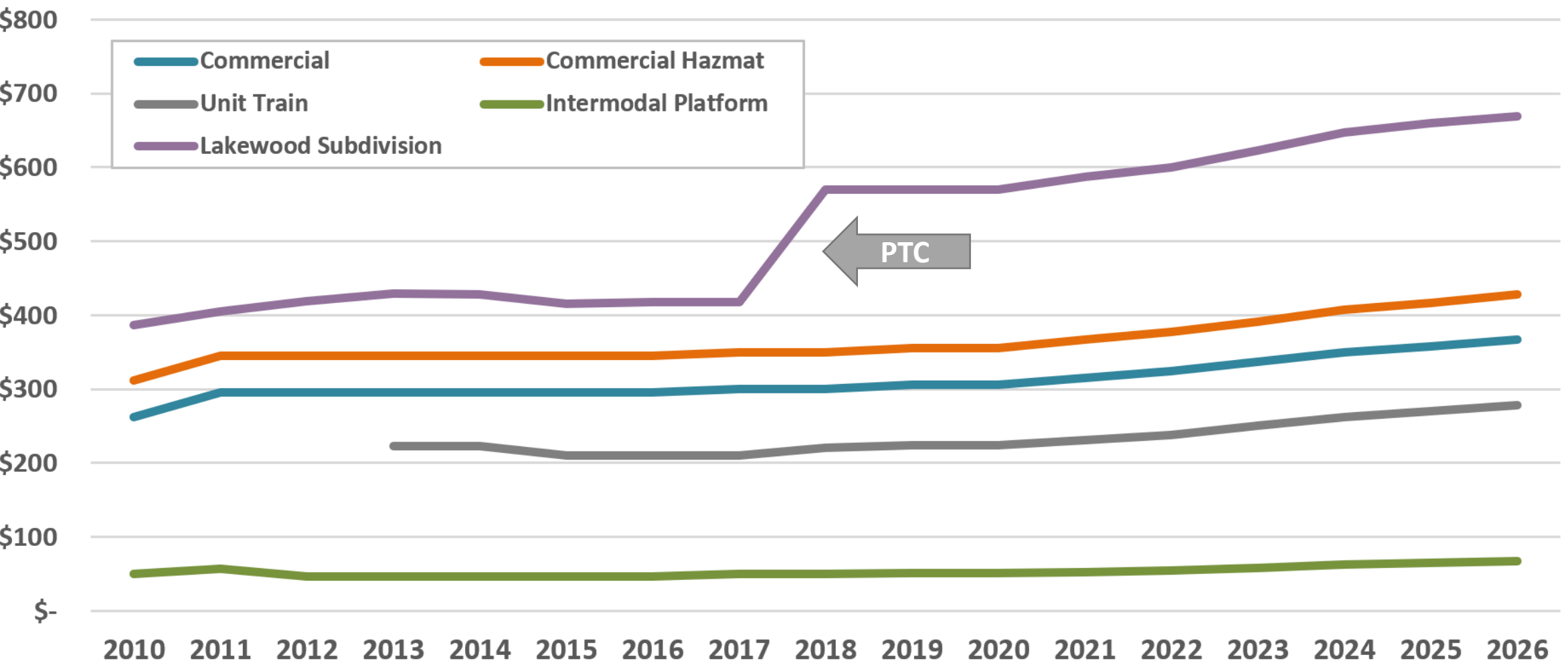
- **Lakeview Sub**

- \$660
- Labor intensive
- Much lower volume
- Twice/week service
- Few destinations
- Subject to demurrage
- Sound Transit
- Subject to PTC

- **Unit Trains**

- \$270 & \$358
- Hybrid of Intermodal & Commercial
- Oil spill response plan & drills

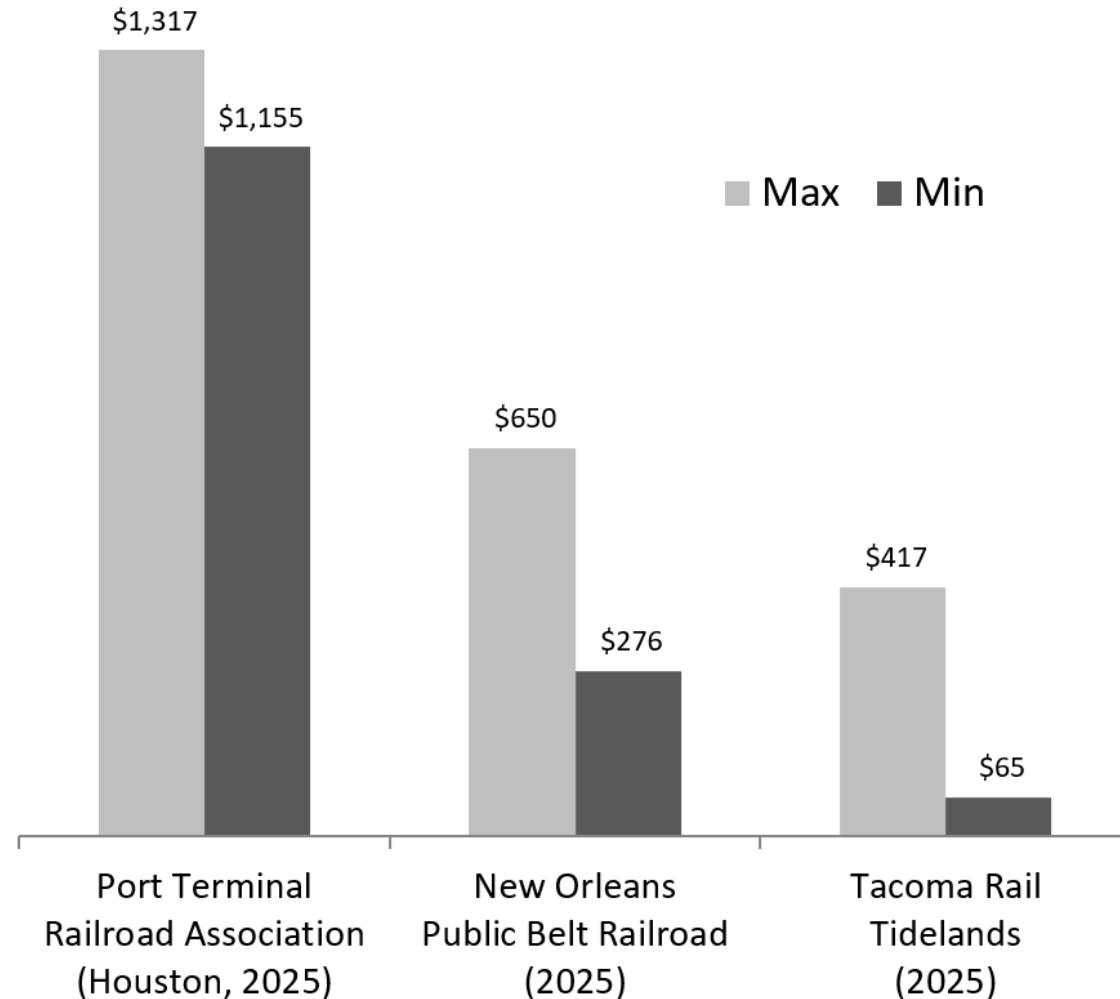
# Rates Over Time



\*Preliminary

# Other Tariff Rates

- Northwest Seaport Alliance (NWSA)
  - July 10th, 2024
    - Rate increases of 5% - 12%
  - July 5, 2025
    - Rate increases of 2.5% - 5%
- Other tariff based short lines:



# Demurrage Analysis

## 49 CFR § 1333.1 - Demurrage defined.

Demurrage is a charge that both compensates rail carriers for the expenses incurred when rail cars are detained beyond a specified period of time (i.e., free time) for loading or unloading, and serves as a penalty for undue car detention to encourage the efficient use of rail cars in the rail network.

- Applies to commercial customers
  - Excludes Autos
- Does not apply to intermodal
- Current rate is \$70/day excluding weekends & holidays
- Offsets:
  - Car hire
    - Intermodal car hire recovered through line haul rates
  - Yard storage and track space
  - Billing & administration
- Discourages utilization of railroad infrastructure to offset costs of increasing customer facility capacity



# Kahoot!

Kahoot #3



# Capital Plans (5-10 yr)

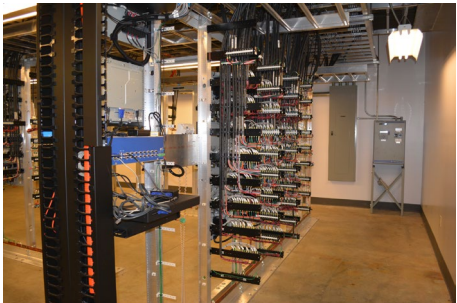
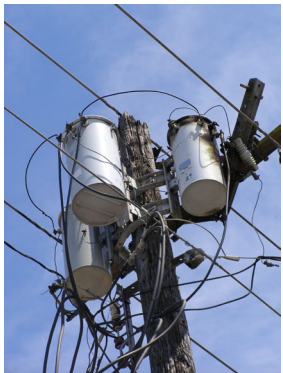
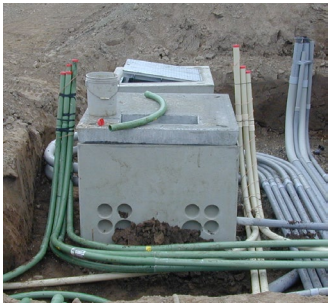
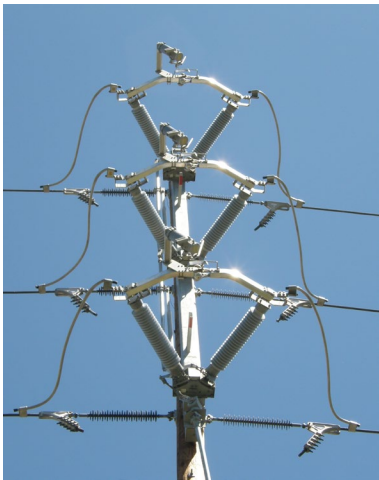
# Power T&D Asset Management

Use Case: Substation Transformers





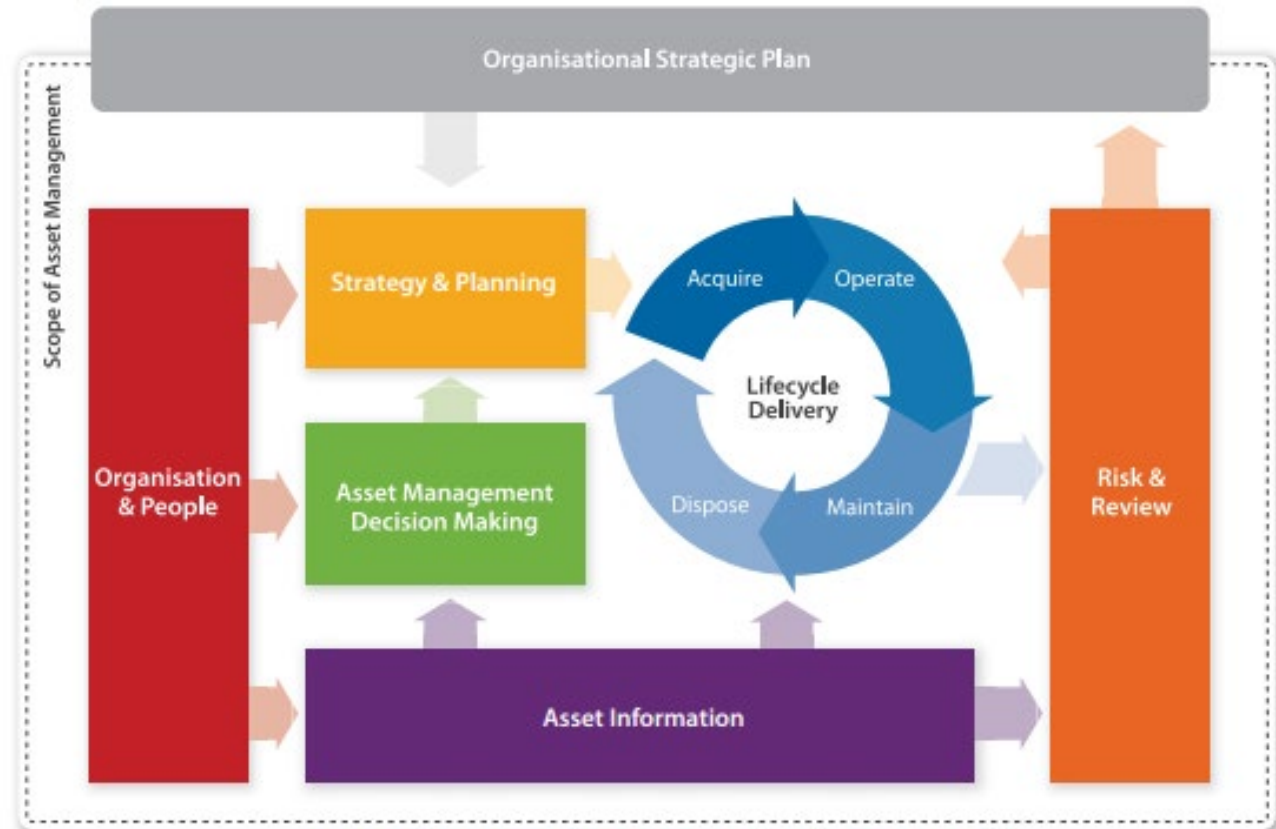
# Sampling of T&D Assets





# IAM Model: Right-Sized Efforts

- Mission:
  - Use effective **Asset Management methodologies** to drive structured and **data-driven decision making** while fostering innovation and collaboration.
- Vision
  - Data and Asset Management analysis **supports Budget** and Planning
  - **Targeted Maintenance** programs informed by data
  - **Asset Management thinking** integrated across the organization and processes
  - **Continuously Improve**



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# How do we prioritize assets for analysis?

- Ranking Method

- Spend majority of money on
- High impact if fail and/or fail frequently
- Becoming obsolete
- Don't have data or visibility into

T&D Asset Management Focus List

Asset Class	Focus Level	Justification of Focus Level
Asset Class Name	A	Consequence of Failure, Lead Times, Obsolescence, etc.
Asset Class Name	B	
Asset Class Name	C	

- Ranking Definitions

- A – every biennium
- B – ideally every other biennium, depending on staffing levels
- C – as-needed

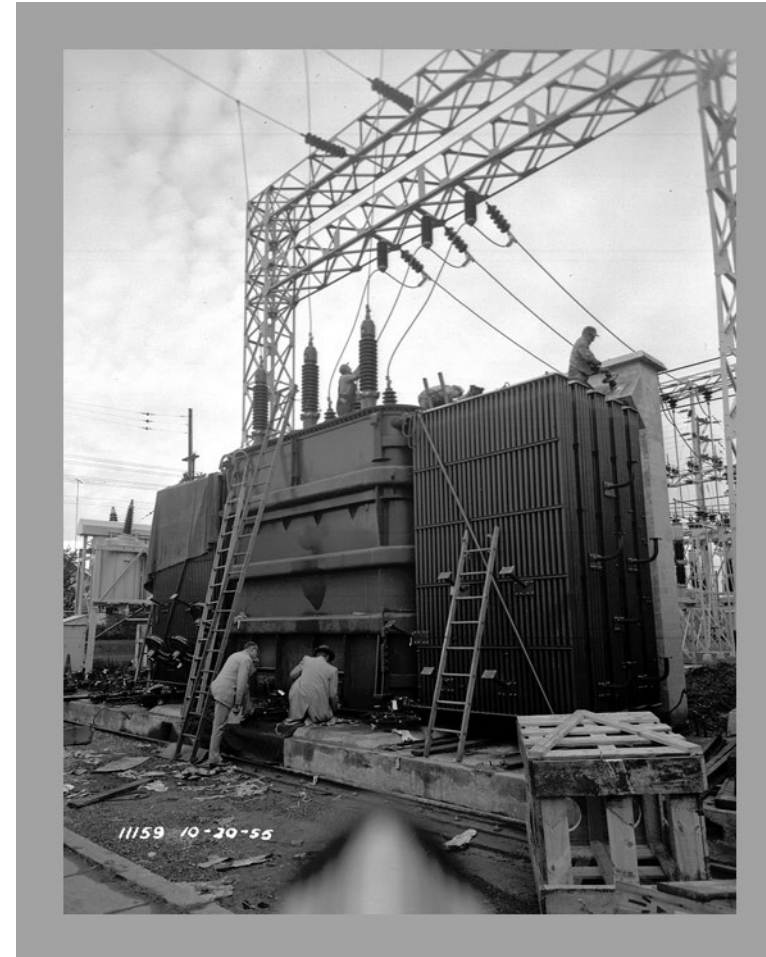


# Use Case

Substation Transformers

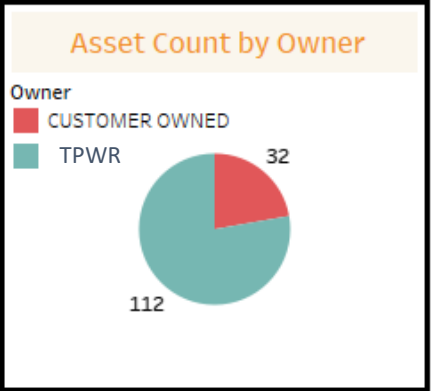


# What is a substation transformer?



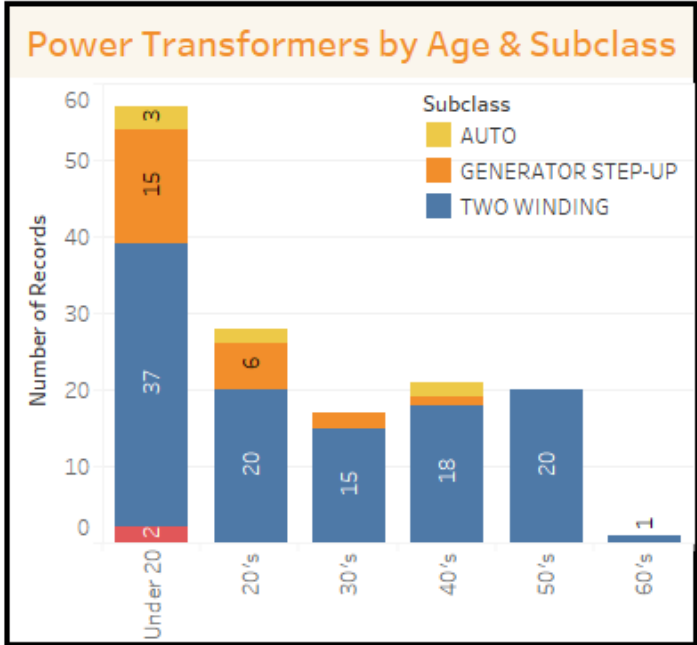
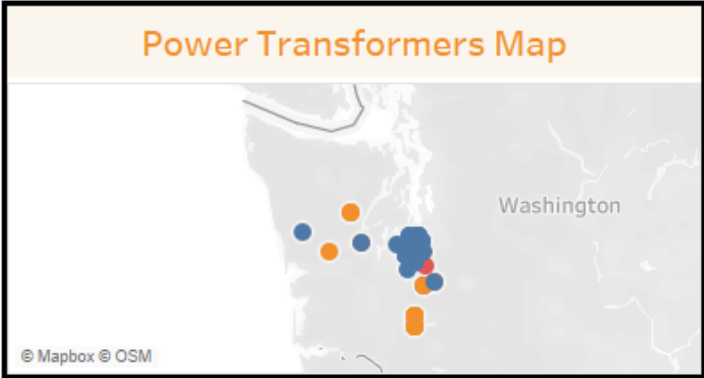


# How many substation transformers do we have?



**Power Transformers Load Tap Changer by Subclass**

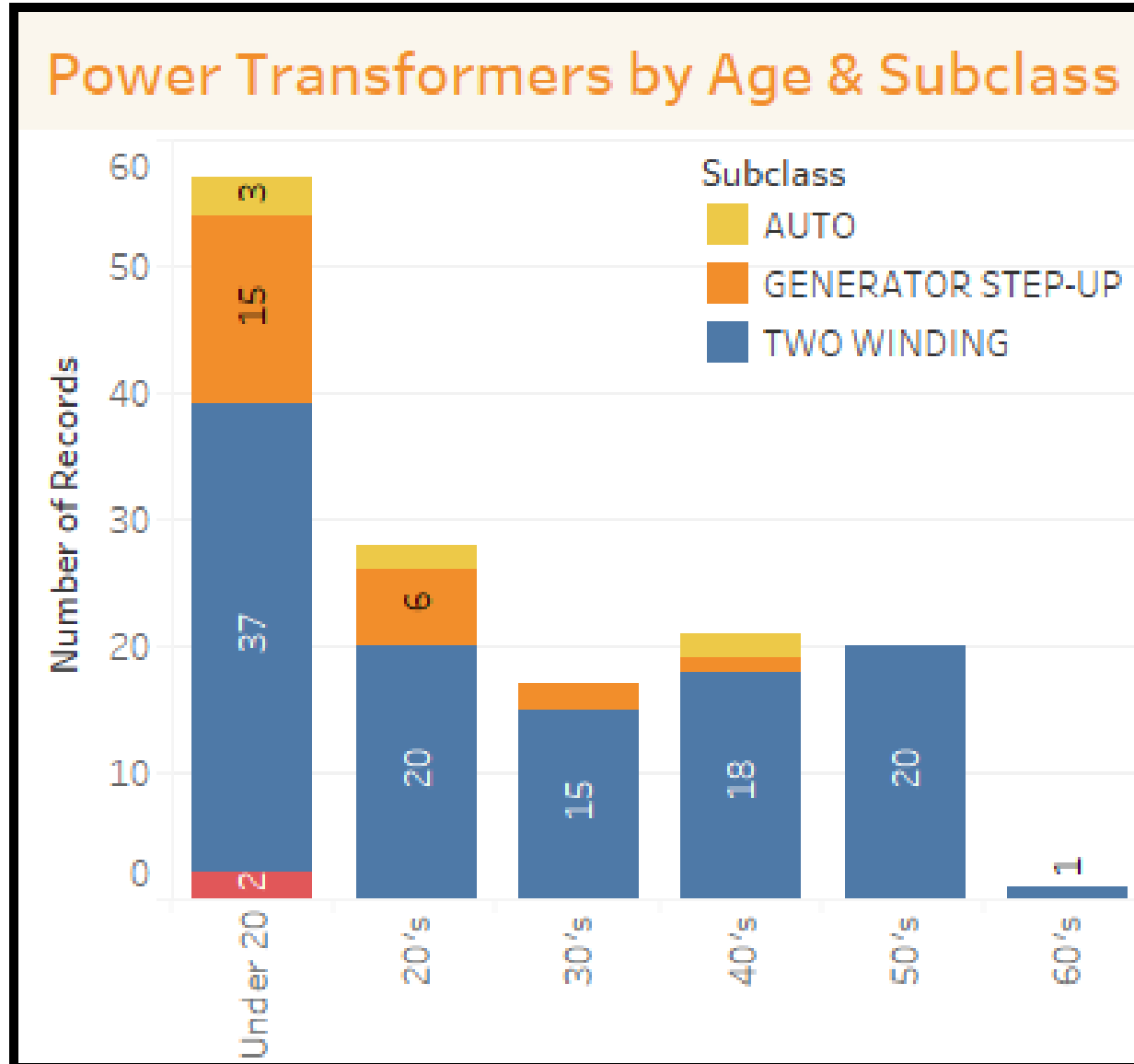
Subclass-Superior	YES	NO	Null
AUTO	7		
TWO WINDING	73	23	15
GENERATOR STEP-UP	1	22	1
Null			2
Grand Total	81	45	18



**Power Transformers Inventory Info**

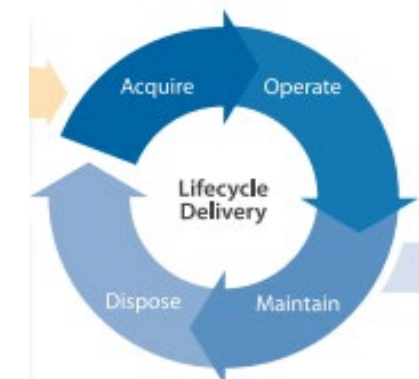
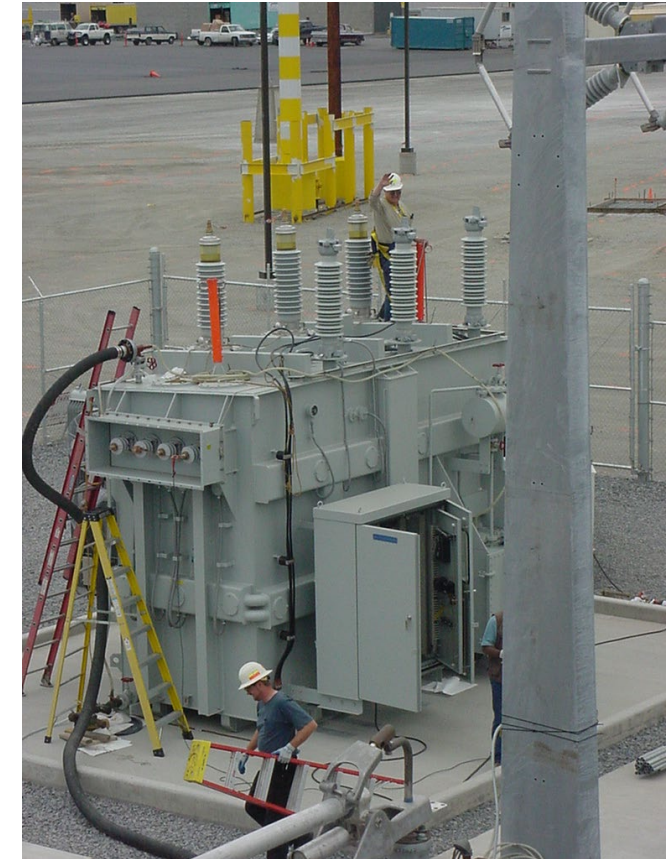
Equipme..	Subclass-Superior	mva_capacity	Functional Location-SUPE..	Age
1031527	TWO WINDING			51
1065066	GENERATOR STEP-UP	33 MVA	TD-SY-ALDER_	22
1065067	GENERATOR STEP-UP	33 MVA	TD-SY-ALDER_	22
1100004	TWO WINDING	25 MVA		55
1100009	TWO WINDING	20 MVA	TD-TS-NORTHE-NORTHE	55
1100010	TWO WINDING	20/22.4 MVA	TD-TS-NORTHE	31
1100025	TWO WINDING	7.5 MVA	TD-TL-CRETAP-OLYPMC	51
1100029	TWO WINDING	25 MVA	TD-TL-SWBOCA-FLETT_	52
1100034	TWO WINDING	25 MVA	TD-TS-HILLTP-HILLTP	51
1100036	TWO WINDING	15/20/25 MVA	TD-TL-GRMTAP-ELKPLN	51
1100037	TWO WINDING	25 MVA	TD-TS-HILLTP-HILLTP	51
1100046	TWO WINDING	25 MVA	TD-TS-CEDAR_-CEDAR_	48
1100047	TWO WINDING	25 MVA	TD-TS-CEDAR_-CEDAR_	48
1100098	TWO WINDING	25 MVA	TD-TS-SOUTHW-TRNCTR	28
1100105	TWO WINDING	12.5 MVA	TD-TL-SWMCCH-PIA7A	57

# How many substation transformers do we have?

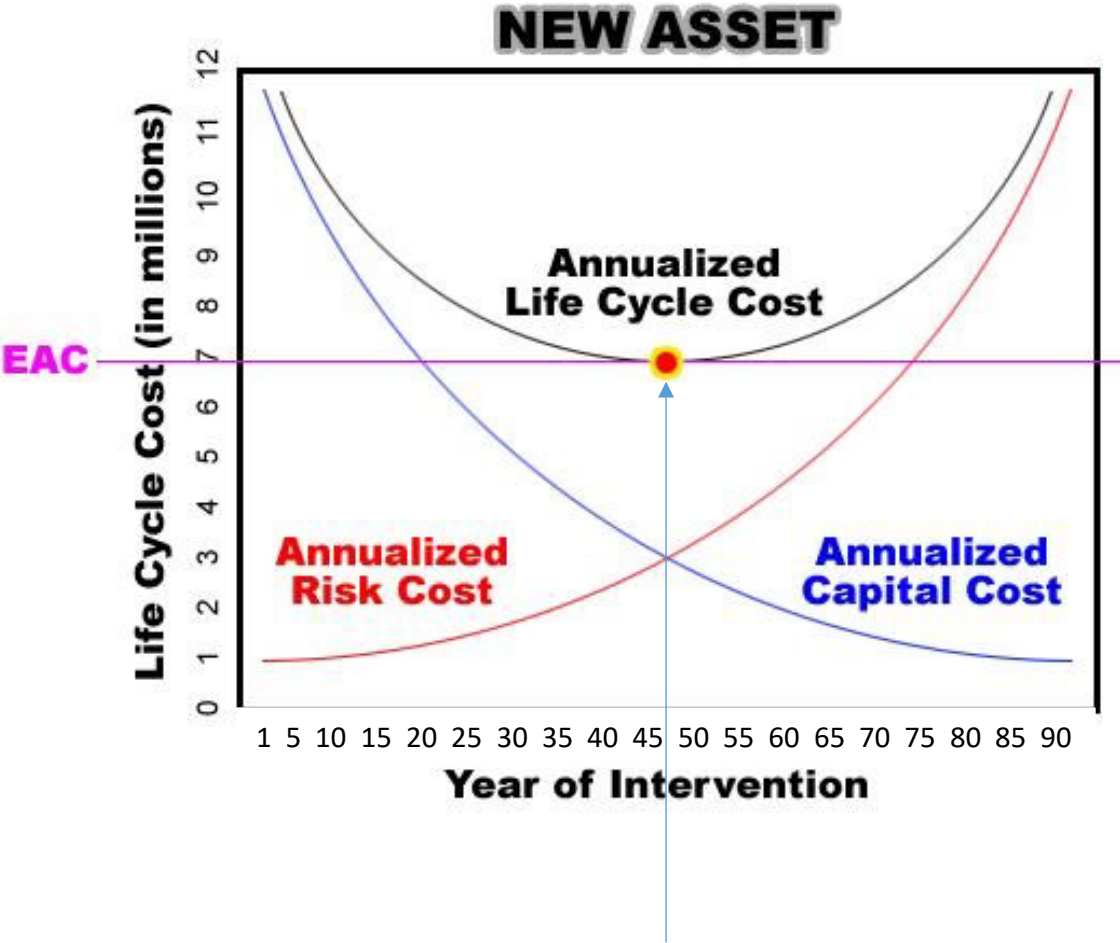


# How do we maintain our substation transformers?

- **Monthly Maintenance**
  - Station Checks
- **Annual Maintenance**
  - Dissolved Gas Analysis Testing
  - Total Combustible Gas Testing
  - Infrared Testing
- **Every three years**
  - Control Circuit Testing
  - Doble Testing

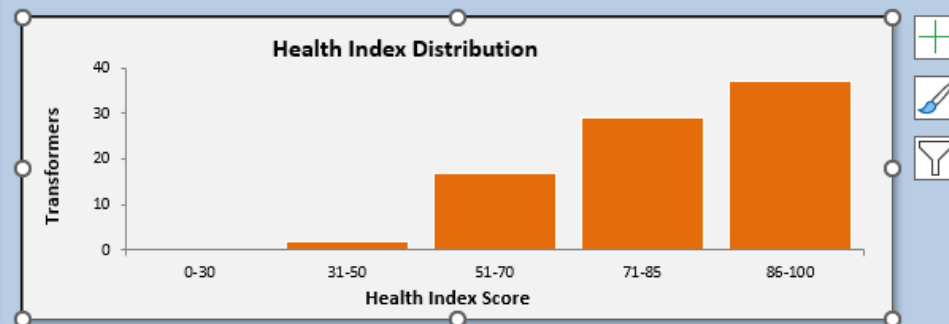


# How do we know when to replace a substation transformer? (The Theory)



Economically Optimal Replacement Age

# How do we know when to replace a substation transformer? (The Application)



Identifier	Substation	SAP ID	Equipment Type	Age	Health Index	Replacement Cost	FP Near Term	Consequence Cost	Years to Replacement	BC Ratio	REV	Life-Cycle
<a href="#">MCNEIL BANK 1</a>	McNeil Substation	1100122	Two Winding	55	75	\$1,800,000	3.7%	\$3,002,747	0	1.12	\$0	54
<a href="#">FREDRICKSON BANK 1</a>	Frederickson Substation	1100178	Two Winding	34	45	\$2,300,000	3.7%	\$3,091,777	2	0.99	\$27,061	57
<a href="#">LINCOLN BANK 1</a>	Lincoln Substation	1100395	Two Winding	50	80	\$1,800,000	2.8%	\$3,417,450	2	0.99	\$18,826	52
<a href="#">FLETT BANK 1</a>	Flett Substation	1100029	Two Winding	52	57	\$1,800,000	3.2%	\$2,710,480	3	0.98	\$42,890	55
<a href="#">CEDAR BANK 1</a>	Cedar Substation	1100047	Two Winding	48	86	\$1,800,000	2.5%	\$2,970,637	6	0.94	\$111,154	54
<a href="#">CEDAR BANK 2</a>	Cedar Substation	1100046	Two Winding	48	91	\$1,800,000	2.5%	\$2,970,637	6	0.94	\$111,154	54
<a href="#">MCCHORD BANK 2</a>	McChord Substation	1100396	Two Winding	50	65	\$1,800,000	2.8%	\$2,578,347	6	0.94	\$113,818	56
<a href="#">HILLTOP BANK 1</a>	Hilltop Substation	1100034	Two Winding	51	79	\$1,800,000	3.0%	\$2,173,848	8	0.91	\$166,061	59
<a href="#">HILLTOP BANK 2</a>	Hilltop Substation	1100037	Two Winding	51	85	\$1,800,000	3.0%	\$2,173,848	8	0.91	\$166,061	59
<a href="#">LINCOLN BANK 3 (US OIL)</a>	Lincoln Substation US Oil	1100106	Two Winding	57	76	\$1,800,000	4.1%	\$1,626,387	8	0.93	\$135,182	65
<a href="#">WESTGATE BANK 1</a>	Westgate Substation	1100138	Two Winding	44	51	\$2,300,000	3.3%	\$2,558,239	8	0.92	\$181,903	61
<a href="#">STADIUM BANK 1</a>	Stadium Substation	1100158	Two Winding	41	58	\$2,300,000	2.2%	\$3,538,620	9	0.89	\$264,387	55

# How do we know when to replace a substation transformer? (The Detail)

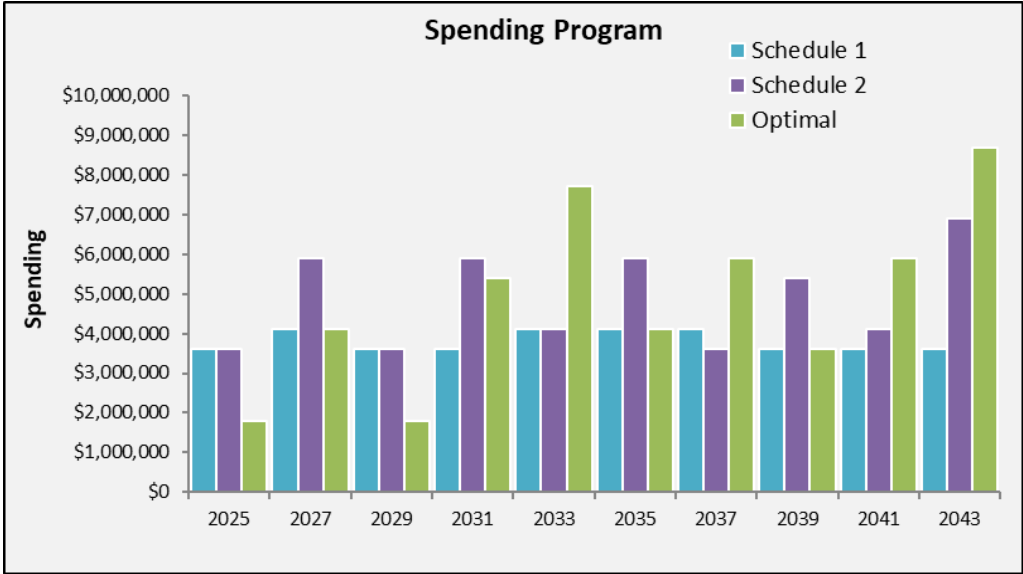
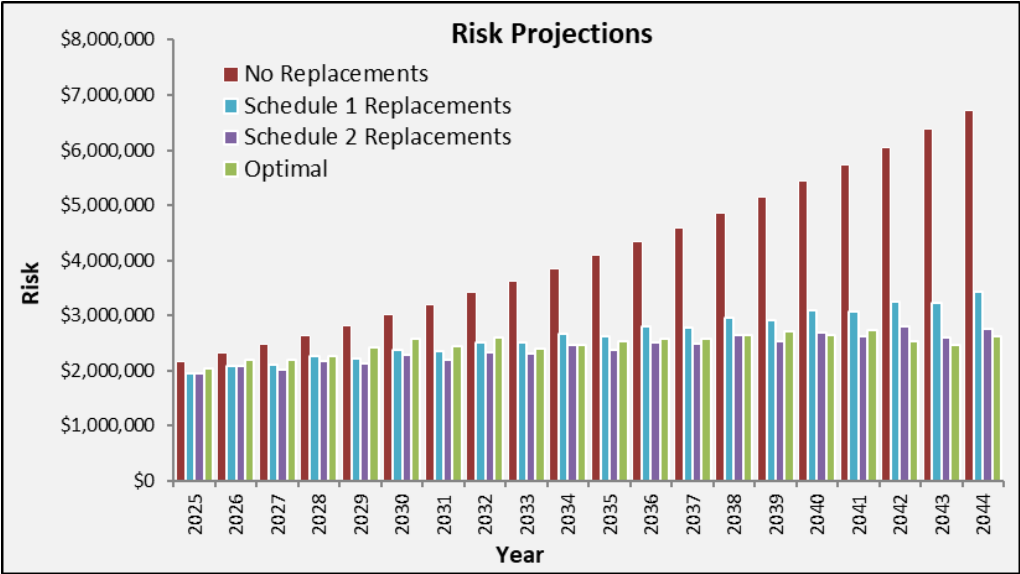
36 data points  
from Maintenance Activities  
feed into Health Index



Health Index Formulation: McNeil Substation				
Health Index score	75	<b>Health Index</b> 	<b>Completeness</b> 	
Health Index category	Good			
Completeness ratio	98%			
Age indicated by HI	27			
Age adjustment	0			
Effective age	55			
Degradation Processes		Confidence	Weighted Deterioration	
A. Solid Insulation		80%	12%	A
B. Oil Quality		50%	10%	B
C. Winding and Core		75%	0%	C
D. Tapchanger		15%	5%	D

TWO WINDING CONSEQUENCE COSTS	
Emergency Premium	\$450,000
Associated Damages	\$67,500
Repair Cost	\$0
Additional Cost	\$134,420
Outage Cost	\$2,350,827
Consequence Cost	\$3,002,747

# How do we know when to replace a substation transformer? (The Outputs)



Risk & Review



# How do we communicate replacement needs & asset performance?

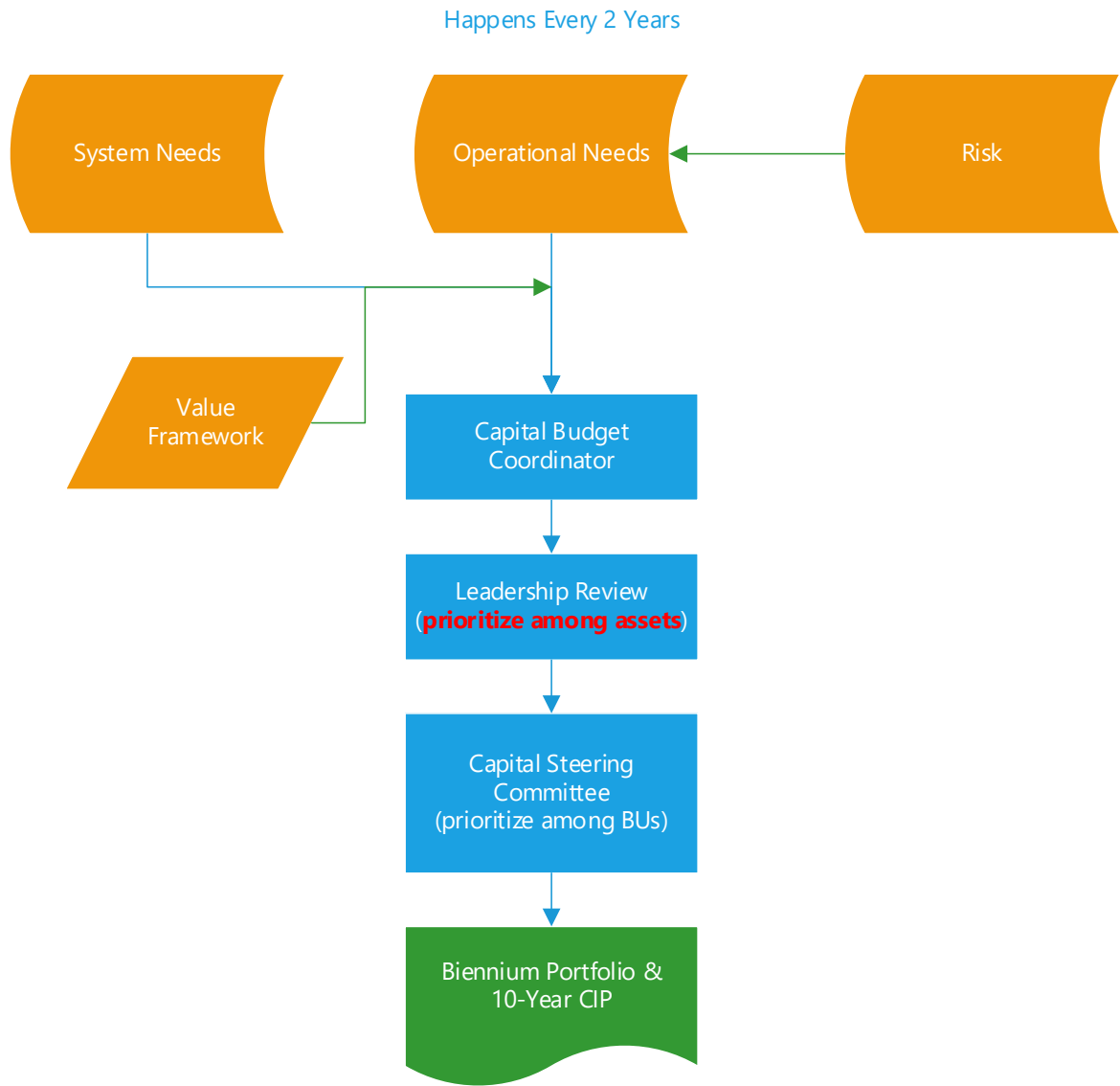


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1. <b>Background</b> Background information on the Power Transformer Asset Class <a href="#">Page 3</a>	6. <b>Asset Failures &amp; Corrective Maintenance</b> Summary of resources used to correct asset failures when they are not performing as expected <a href="#">Page 17</a>
2. <b>Using this Document</b> How this strategy aids long-term infrastructure planning <a href="#">Page 4</a>	7. <b>Capital Replacement Program</b> Recommended long-term plan for systematic asset replacements and levelized spending <a href="#">Page 22</a>
3. <b>Introduction</b> Brief overview of the asset class <a href="#">Page 6</a>	8. <b>Drivers</b> Issues that may affect our current asset maintenance, operation and replacement strategies <a href="#">Page 29</a>
4. <b>Asset Class Demographics</b> What we have and where we have it <a href="#">Page 8</a>	9. <b>Recommendations</b> Data informed recommendations for potential improvements to our capital replacement, O&M and data improvement strategies <a href="#">Page 31</a>
4. <b>Asset Class Risk</b> Overview of the risk carried by the asset class <a href="#">Page 12</a>	10. <b>Appendix</b> More explanation about the models, standards and analysis referenced throughout this document <a href="#">Page 35</a>
5. <b>Risk-Based Preventive Maintenance</b> Summary of resources used to proactively identify when assets may not perform as expected <a href="#">Page 14</a>	



# How do substation transformer replacements compare to other priorities?



# Program Continuous Improvement

# Ongoing Improvements

## Data Automation

- Real time data on assets & system
- Program capacity for more assets to be assessed

## Mobile Tool

- Collect better data from field, including failure data to inform WLCMs

## Whole Life Cost Models

- Expand data inputs for enhanced accuracy (e.g. using actual maintenance spending)
- Improving ease of use for team efficiency
- Expand capability to assess across asset classes

## Capital Budgeting Process

- Formal alternatives analysis
- Site/Systems analysis to identify efficiencies & economies of scale
- Incorporate resources and budget constraints into planning & budgeting, and assess against risk exposure

## Reliability Centered Maintenance

- Move away from scheduled maintenance towards targeted maintenance
- Use asset performance data to inform targeted maintenance activities

**T&D Asset Management Focus List**

Asset Class	Focus Level	Justification of Focus Level
Transmission Poles (Wood)	A	High consequence of failure – multiple substations often impacted. Also, risk to public.
		High consequence of failure – multiple substations often impacted. Also, risk to public.
Transmission Poles (Steel)	A	Long lead time for procurement and potentially construction
Substation Transformers	A	High consequence of failure, long lead times.
Relays	A	Likelihood of failure and obsolesces of microprocessor relays is higher than older style electro-mechanical relays
Medium Voltage Circuit Breakers	A	Obsolescence
High Voltage Circuit Breakers	A	High consequence of failure
Generator Step-up Transformers	A	High consequence of failure, long lead times, high monetary revenue loss.
		Similar to xmission poles, i.e. high consequence of failure and risk to public.
Distribution Poles	A	In public rights of way

Risk &  
Review

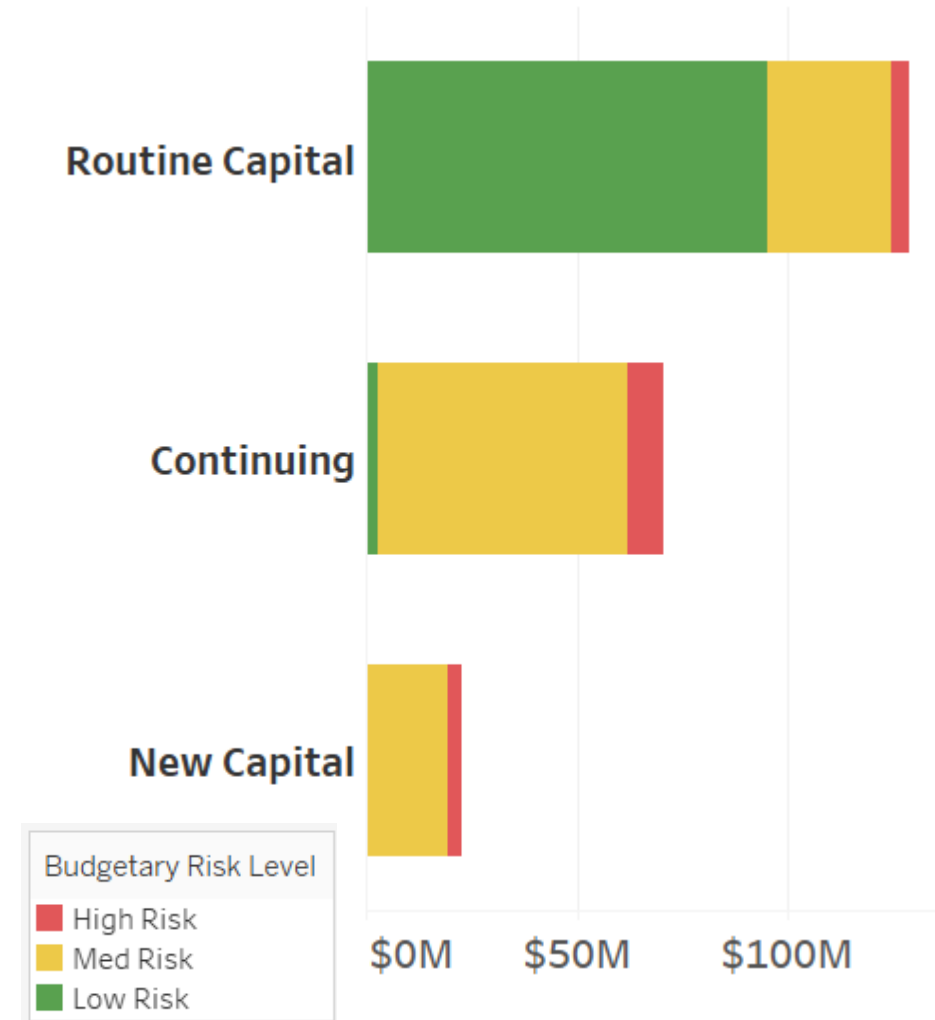
Organisation  
& People

# Tacoma Power Capital Planning

# Informing the Budget Process

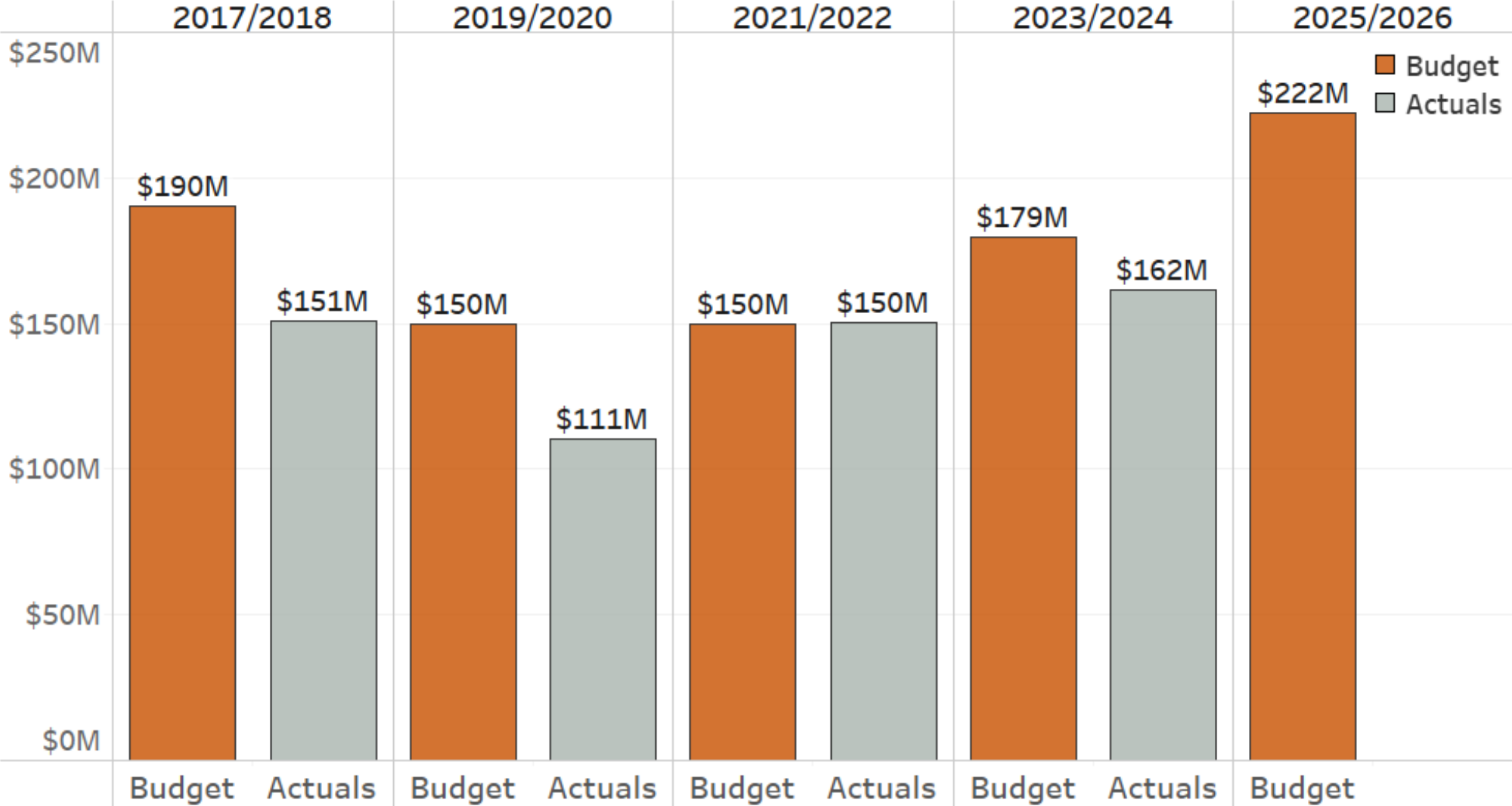
- Scope of work informed by:
  - Asset Management strategies
  - Continuing work that's underway
  - Programmatic priorities
  - Regulatory obligations
- Schedule of work informed by:
  - Resource availability
  - Procurement and contracting timelines
  - Level of coordination with external partners

**Budgetary Risk:** The likelihood that the dollars assigned to each project will be spent in the two-year period.



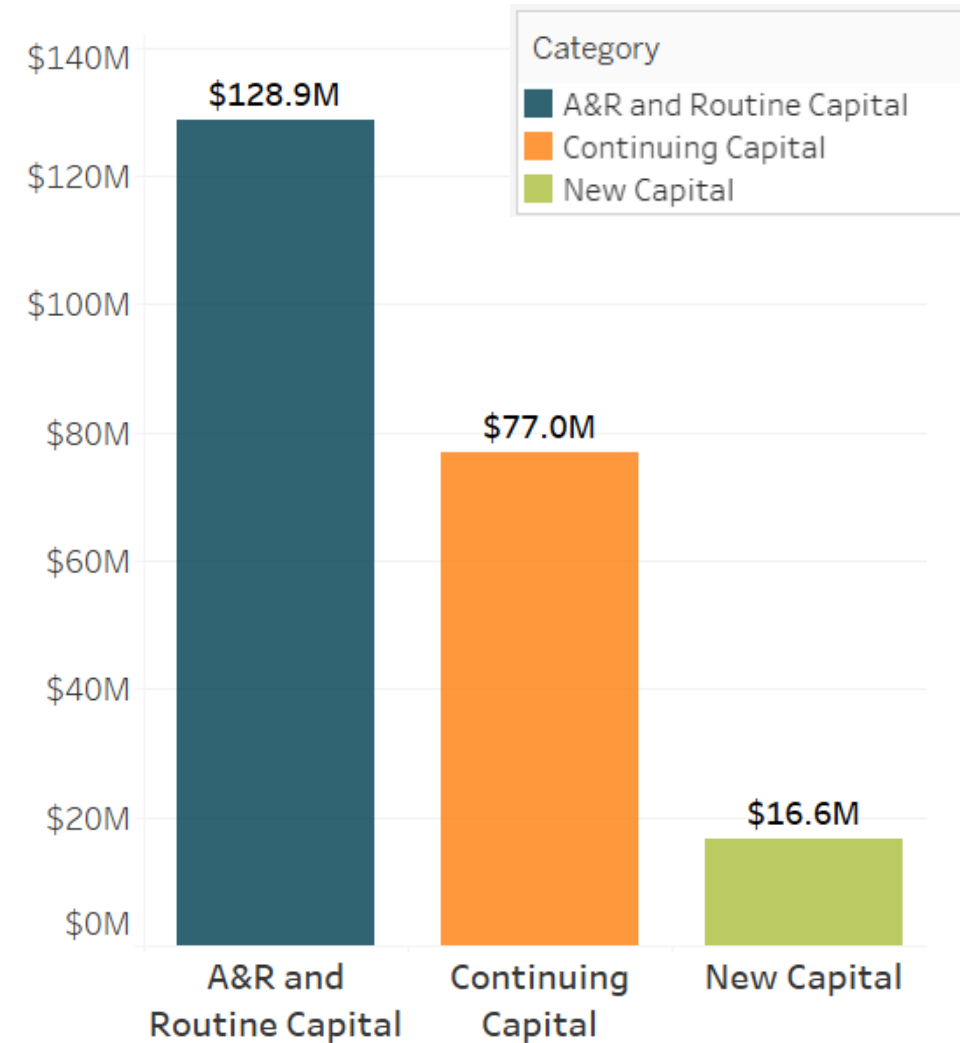
*Portions displayed reflect budgetary risk level at the time of the 2025/2026 budget recommendation.*

# Capital Budget Performance



# Large-Dollar Capital Projects for 2025/2026

Additions & Replacements (A&Rs) and Routine Capital	2025/2026 Budget
Overhead Distribution & Transmission A&R	\$26,570,000
Fleet Replacement A&R	\$20,000,000
Distribution Transformer A&R	\$16,640,000
Conservation Program	\$9,000,000
Substation A&R	\$5,105,000
<b>Continuing Capital</b>	
TPU Admin Complex Storage & Parking Facility* <i>*Priority project due to the need to vacate Cushman Substation</i>	\$16,950,000
Automated Distribution Mgmt System (ADMS)	\$10,572,000
Cushman #2 Unit 31, Unit 32 Rebuild	\$10,000,000
South Service Center Storage	\$6,350,000



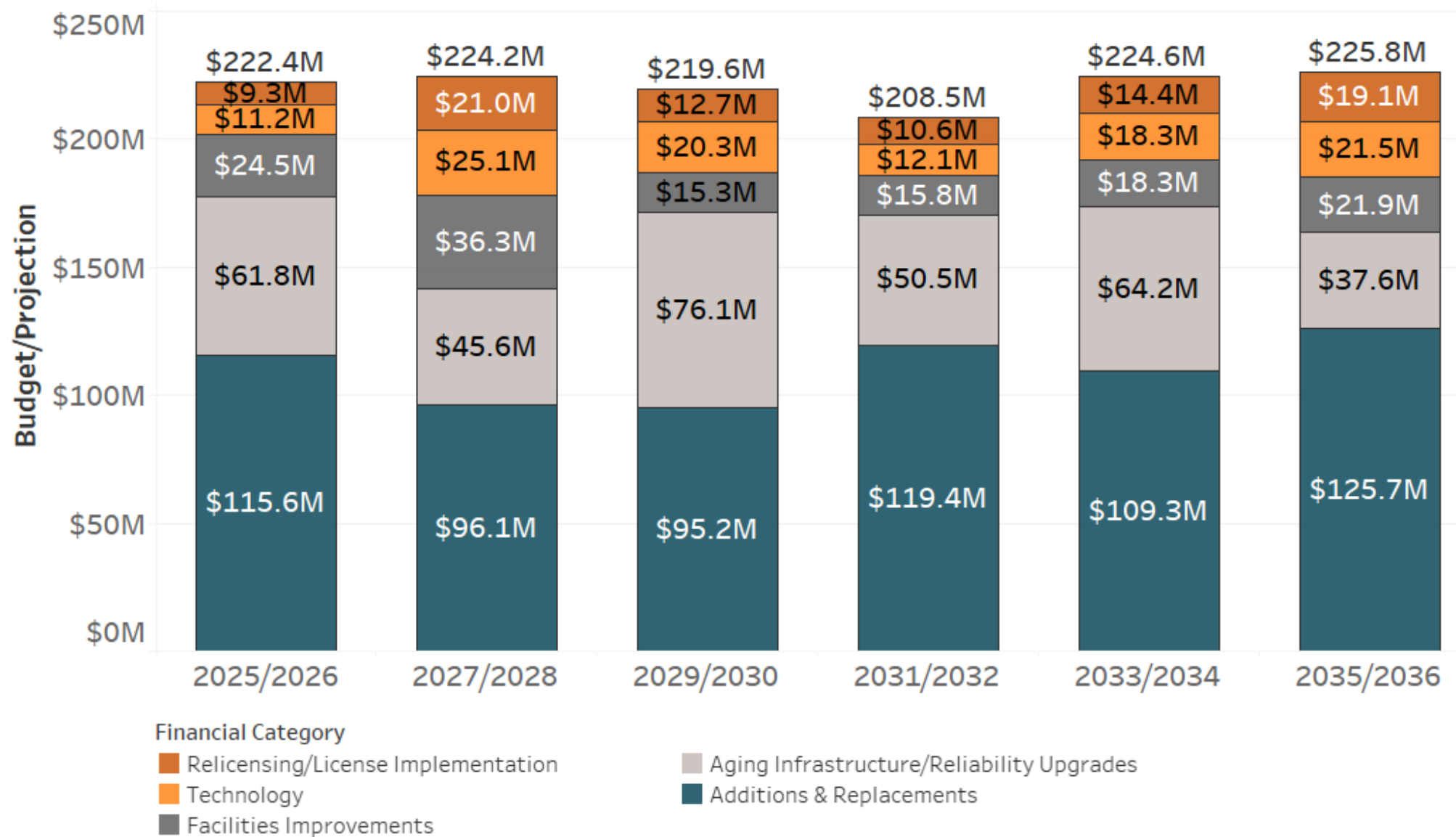


# All Capital Above \$5M

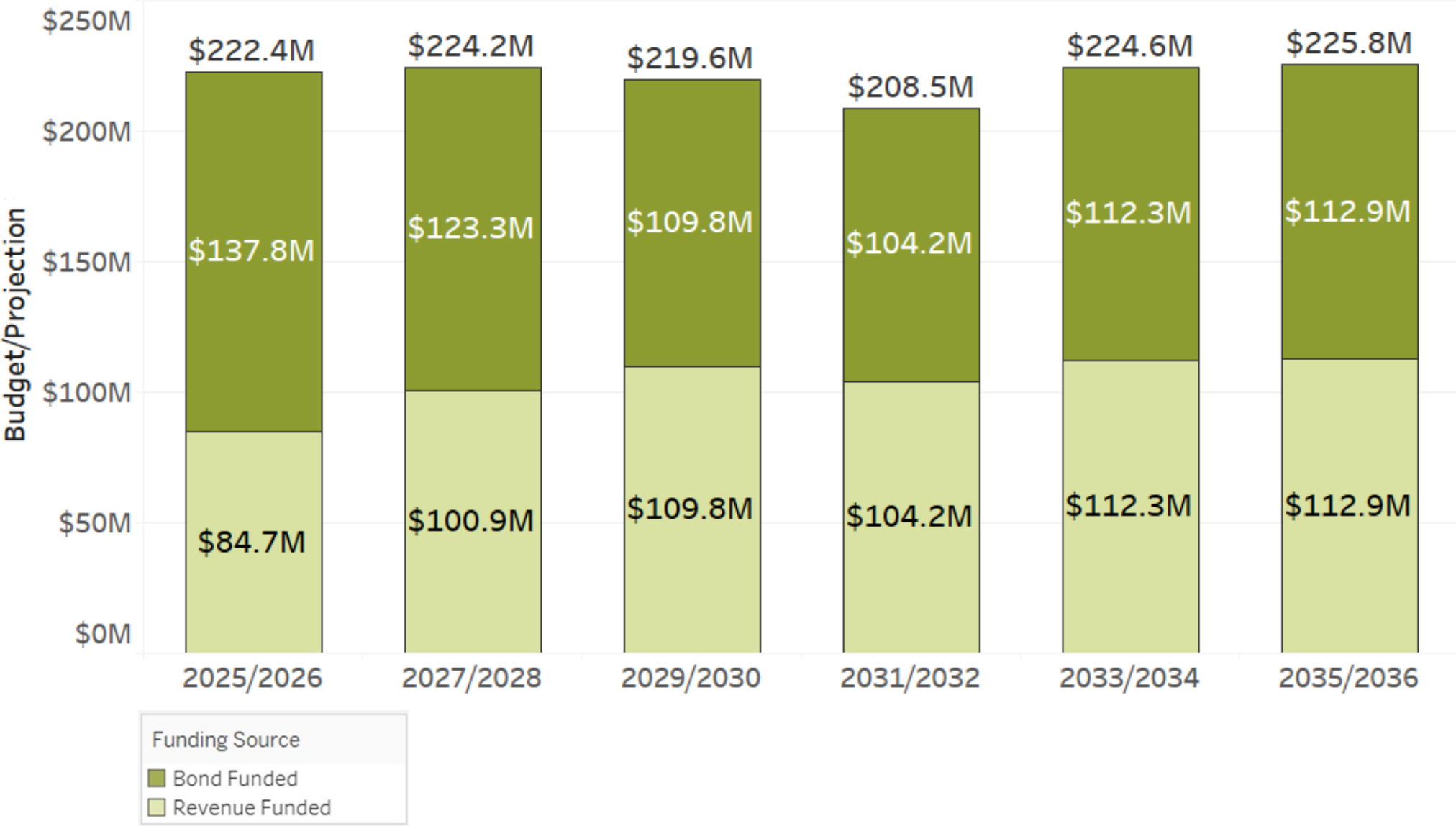
A&Rs and Routine Capital	Current Phase	Life-to-Date* Budget	Life-to-Date Actuals	Biennium Projection (through 2026)	Extended Projection (2027-2036)
Overhead Distribution & Transmission A&R	Ongoing	\$26,570,000	\$14,067,625	\$22,500,003	\$149,695,066
Fleet Replacement A&R	Ongoing	\$20,000,000	\$3,318,107	\$16,511,244	\$52,858,388
Distribution Transformer A&R	Ongoing	\$16,640,000	\$7,550,206	\$3,548,636	\$43,872,476
Conservation Program	Ongoing	\$9,000,000	\$3,478,893	\$2,356,156	\$45,728,752
Substation A&R	Ongoing	\$5,105,000	\$531,430	\$3,250,003	\$24,955,165
<b>Continuing Capital</b>					
TPU Admin Complex Storage & Parking Facility	Design/Procure	\$16,696,000	\$480,512	\$11,406,667	\$12,200,000
Automated Distribution Mgmt System (ADMS)	Design/Procure	\$10,758,000	\$3,777,066	\$10,058,549	\$22,835,327
Cushman #2 Unit 31, Unit 32 Rebuild	Construction	\$21,622,000	\$18,042,228	\$6,833,331	\$60,000
South Service Center Storage	Design/Procure	\$6,462,000	\$208,063	\$6,900,001	\$17,000,001

\*Life-to-Date (LTD) Budget refers to all funding to-date that has been appropriated for the project, independent of the biennium.

# 10-Year Capital Improvement Plan by Category



# 10-Year Capital Improvement Plan by Funding Source



# Tacoma Water Capital Planning

# Capital Planning Process

## Why

Set realistic and achievable work plans and budget to execute the right work at the right time

## What

Take a holistic view of what work is most critical to continue provide reliable service from a risk-based perspective

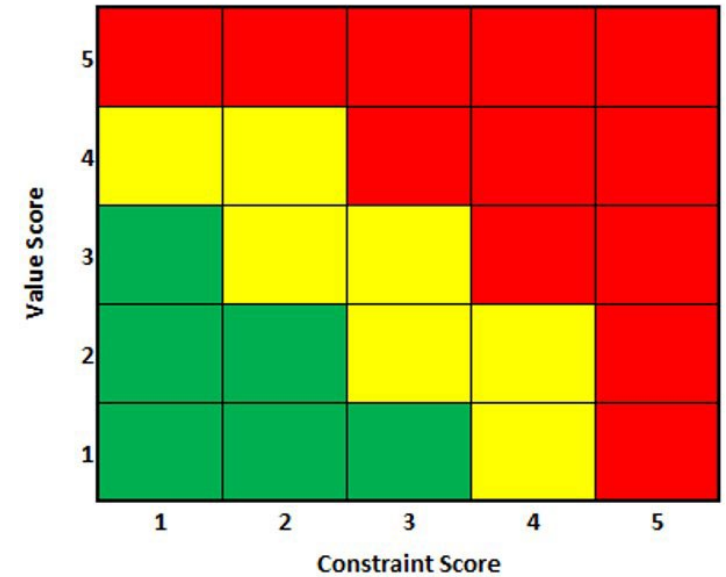
## How

Use project prioritization to inform risk-based decision making and strategic asset investment planning



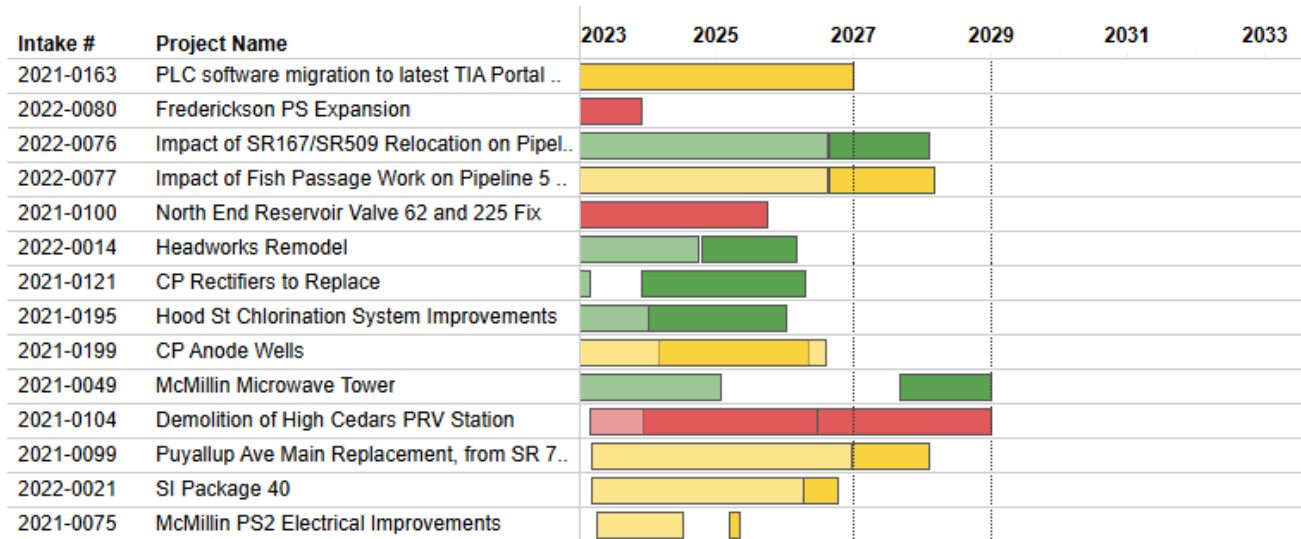
# Project Charter and Prioritization Process

- Established in 2021
- Managed by System and Asset Planning
  - Create and maintain charters
  - Prioritize all Planning & Engineering projects
- Using a rubric, each project is evaluated to determine a red, yellow, or green priority status
- Biennial review of portfolio to balance budget and resource load
- Projects are most often identified through our Asset Class Strategies or System Planning efforts



# Benefits of Our Capital Planning Process

- Consistent evaluation criteria across all engineering projects
- Role differentiation creates operational efficiency
- Holistic risk-based view of all engineering projects considers optimal life, system needs, regulatory constraints and strategic direction



*Snapshot of some of the projects in the current portfolio color coded by priority*



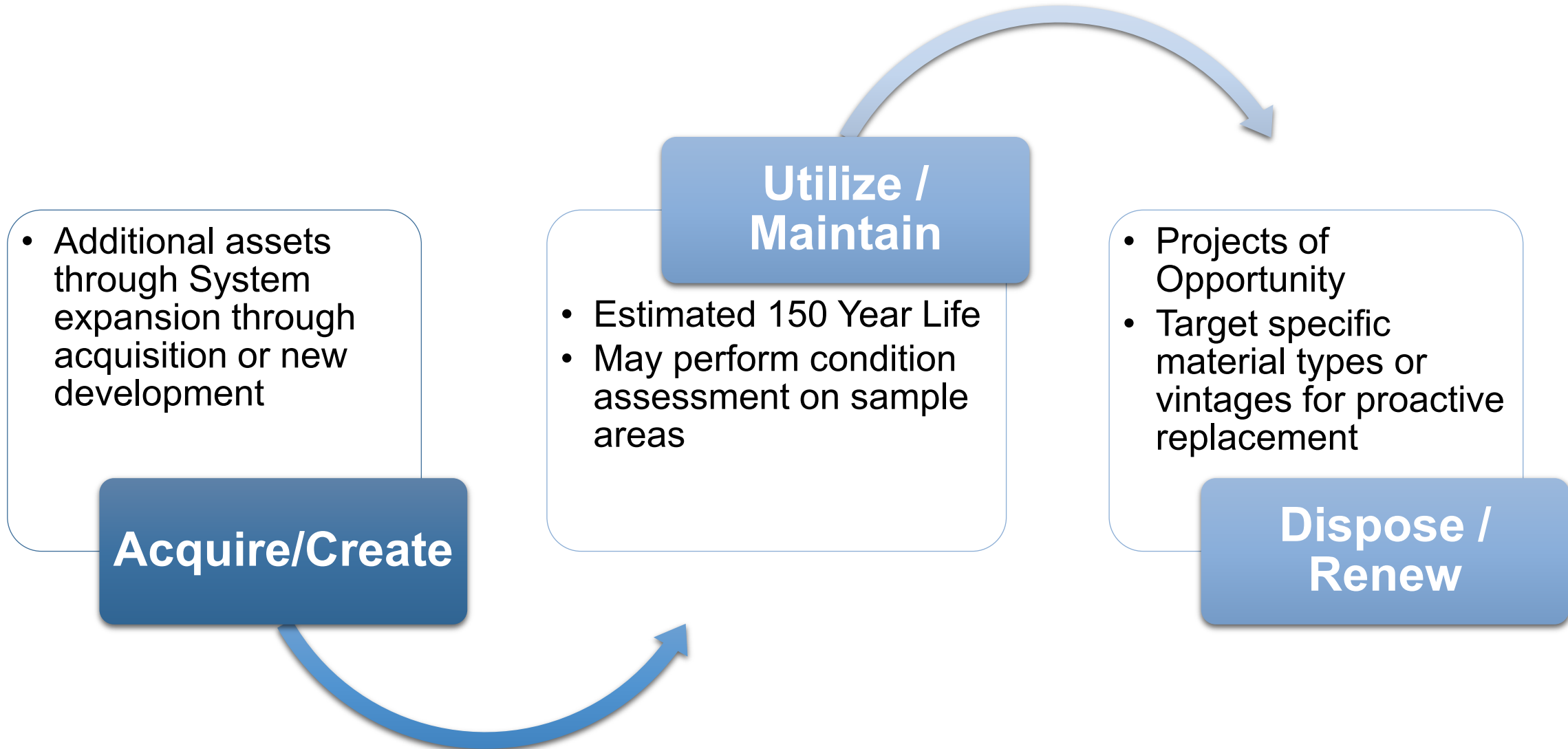


## Distribution Mains Case Study

*Determining the optimal asset investment strategy  
for nearly 1500 miles of distribution mains*



# Distribution Mains Asset Lifecycle



# Asset Investment Strategy

- Reduced distribution main capital **cost** over the last 15 years from
  - \$18M in 2011/2012
  - \$10M in 2025/2026
  - \$5M average in future biennia
- No significant changes to **performance** – the main break rate continues to average 3 failures/100 miles of main, well below industry standard of 15 failures/100 miles
- Continued monitoring of **risk** – likelihood and consequence of failure
- Continue to prioritize with the highest benefit / cost ratio from our distribution economic model



# Capital Improvement Plan

- Maintain a 10-year CIP
- A collection of projects updated every two years
- Alignment with objectives of the strategic plan
- All projects added to the biennial budget and 10-year CIP are approved through a decision-making framework
- Projects within the biennial budget are approved for funding
- Tacoma has 109 capital projects/programs identified as needed in the next 10-years

## Four Categories of Capital Projects:

- General Projects
- Source & Transmission Projects
- Treatment Projects
- Water Distribution Projects

## Cost-Sharing Projects:

- Partners in the RWSS

# Water is Capital Intensive Utility

## Renewal & Replacements

- Main replacement program
- Hydrants, valves, blowoffs
- Water services and meters
- Fleet vehicles and equipment

## Environmental Stewardship

- Additional Water Storage Project (AWSP)
- Fish Passage
- Fish habitat and mitigation
- Watershed projects

## Supply and Treatment Facilities

- Prairie Ridge reservoir
- Wells Master Plan
- Ozone system replacement
- Cascadia reservoir and pump station

## Infrastructure / Facilities

- Water Operations Warehouse
- Smart Water Program
- Electrical improvements
- Major communication and SCADA

## Regulatory

- Pipeline 1 Pressurization Program
- PFAS treatment (South Tacoma wells)

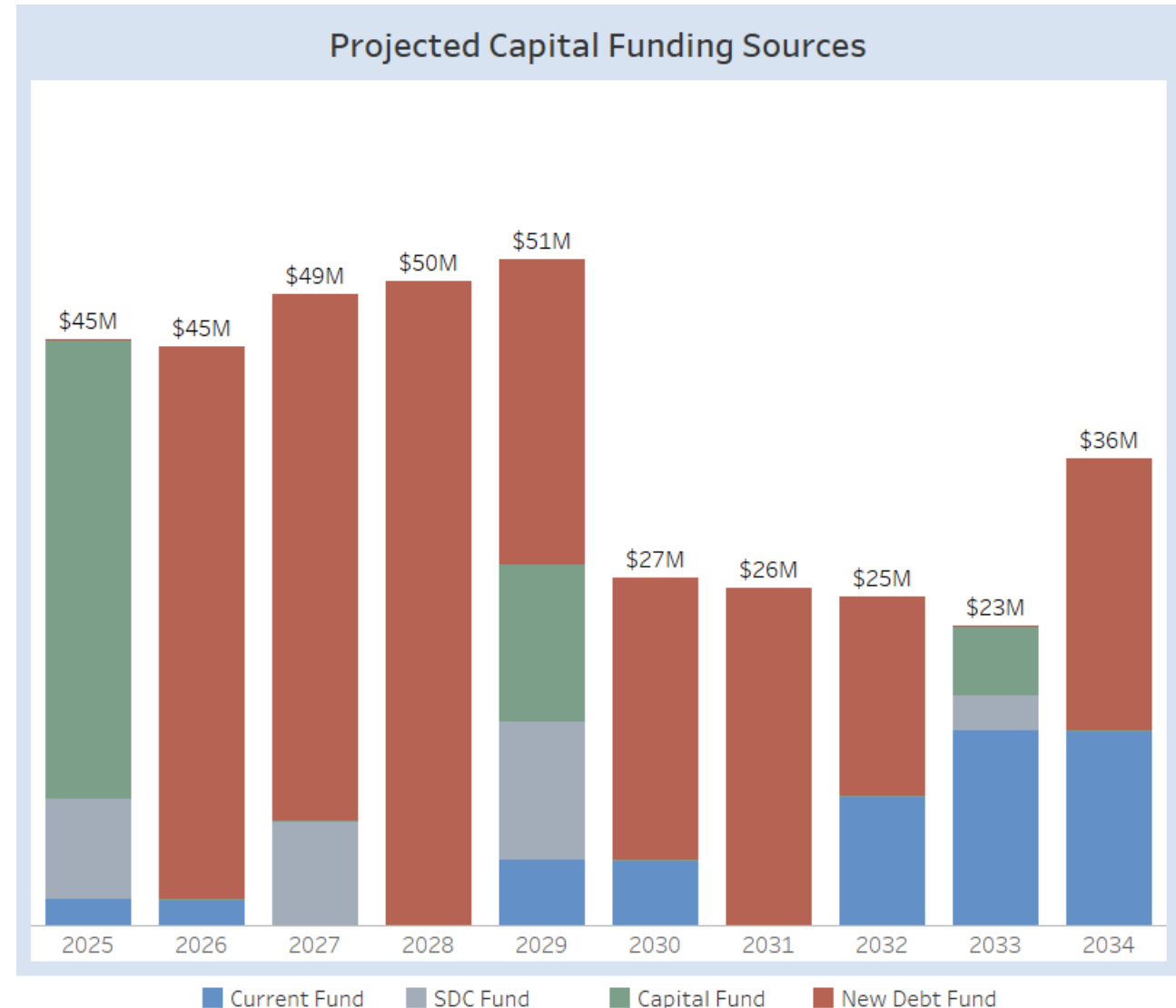
## Technology

- SAP Now!
- Enterprise asset management solution
- GIS utility network migration

# Capital Funding Sources

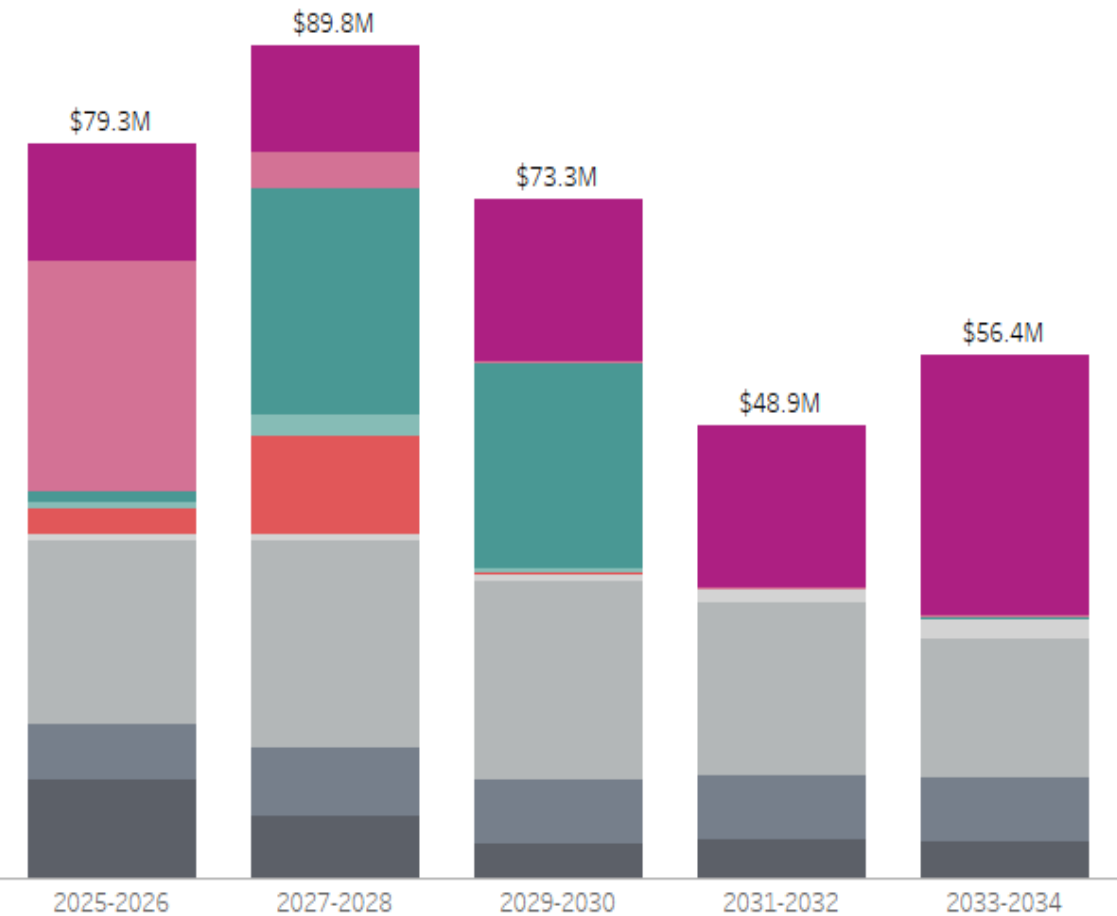
## Funding the LRFP Capital

- Use combination of funding sources
- Develop numerous funding scenarios in financial model
- Achieve responsible mix of debt and cash funding for capital



# 10-Year Capital Improvement Plan (CIP)

2025-2026 Capital Improvement Plan (Proposed)



	2025-2026	2027-2028	2029-2030	2031-2032	2033-2034
Pipeline 1 Pressurization	\$12.8M	\$11.5M	\$17.5M	\$17.5M	\$28.1M
Water Operations Warehouse	\$24.7M	\$4.0M	\$0.0M	\$0.0M	\$0.2M
PFAS Treatment	\$1.3M	\$24.3M	\$22.5M	\$0.0M	\$0.0M
AWSP, Fish Passage & Mitigation	\$0.7M	\$2.4M	\$0.4M	\$0.0M	\$0.0M
Cascadia Reservoir and PS	\$2.7M	\$10.6M	\$0.0M	\$0.0M	\$0.0M
Treatment	\$0.7M	\$0.7M	\$0.9M	\$1.7M	\$2.4M
Source & Transmission	\$3.4M	\$11.1M	\$13.9M	\$7.3M	\$8.7M
General & Fleet	\$16.3M	\$11.2M	\$7.5M	\$11.3M	\$6.2M
Distribution	\$6.0M	\$7.3M	\$6.9M	\$6.9M	\$6.9M
Main Replacement Projects	\$10.7M	\$6.8M	\$3.8M	\$4.2M	\$4.0M
Grand Total	\$79.3M	\$89.8M	\$73.3M	\$48.9M	\$56.4M

- Pipeline 1 Pressurization

Water Operations Warehouse
- PFAS Treatment

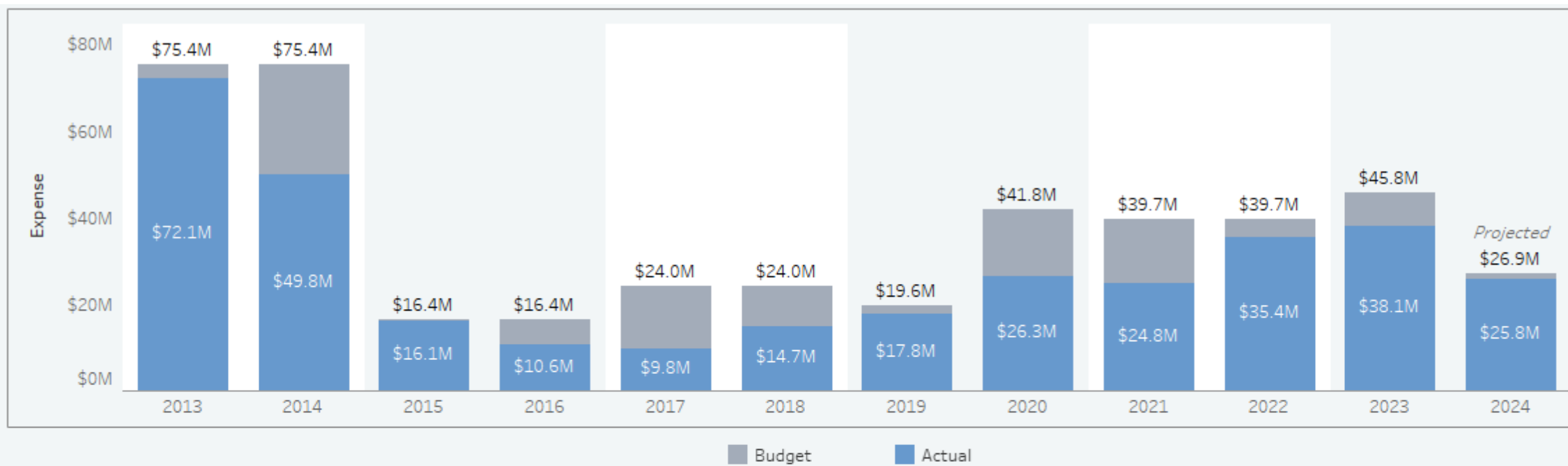
AWSP, Fish Passage & Mitigation
- Cascadia Reservoir and PS

Treatment
- Source & Transmission

General & Fleet
- Distribution

Main Replacement Projects

# Capital Delivery Performance



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Budget	\$75.4M	\$75.4M	\$16.4M	\$16.4M	\$24.0M	\$24.0M	\$19.6M	\$41.8M	\$39.7M	\$39.7M	\$45.8M	\$26.9M
Actual	\$72.1M	\$49.8M	\$16.1M	\$10.6M	\$9.8M	\$14.7M	\$17.8M	\$26.3M	\$24.8M	\$35.4M	\$38.1M	\$25.8M
Variance \$	\$3.3M	\$25.6M	\$0.3M	\$5.9M	\$14.2M	\$9.4M	\$1.8M	\$15.5M	\$14.8M	\$4.3M	\$7.8M	\$1.1M
Variance %	4.4%	34.0%	2.0%	35.7%	59.3%	39.0%	9.2%	37.2%	37.4%	10.8%	17.0%	4.0%

*Budgeted expenses has an average increase of 5.0% per year, while actual expenses has an averaged increase of about 1.8% per year.*

# Tacoma Rail Capital Planning

Locomotives, track & buildings



# Rail: Long-Term Asset Planning

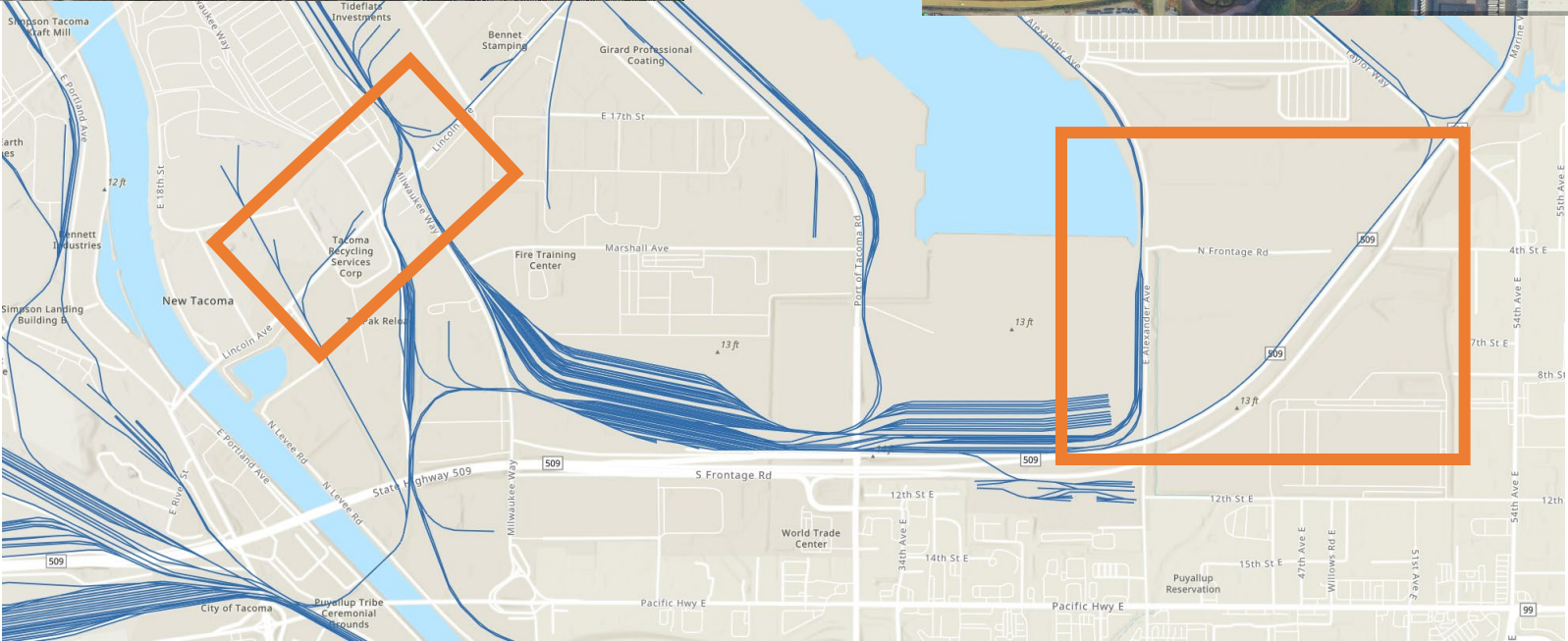
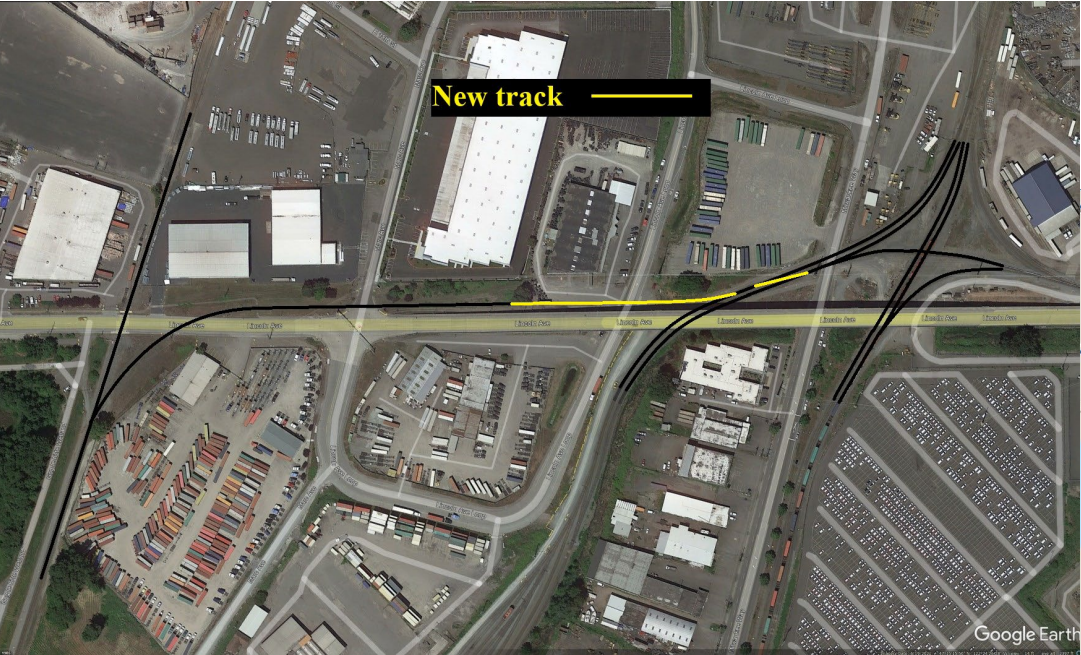
- Asset age, use, repair frequency & standardization
- Locomotive Modernizations
- Electronic Track Mapping
- Use rail customer forecasts to inform track upgrades, reconfigurations and additional infrastructure
- Consider employee recommendations to improve safety, ergonomic convenience and efficiencies



# Locomotive Modernization

	Active							Future				Repowered				
TMBL #	2100 <small>Cummins CD</small>	4001 <b>CRISI 2022</b>	4002 <b>CRISI 2022</b>	1521 <small>CRISI 2024</small>	1522 <small>CRISI 2024</small>	1523 <small>CRISI 2024</small>	1524 <small>CRISI 2024</small>	VW&CC <b>A BEL</b>	CCA <b>BEL</b>	3801	3802	2200	2201	2316	1525	1526
Builder	NRE	EMD	EMD	EMD	EMD	EMD	EMD	New asset	New asset	EMD	EMD	EMD	EMD	EMD	EMD	EMD
Tier now/new	0 / 4	0 / 4	0 / 4	0 / 4	0 / 4	0 / 4	0 / 4	Z/E	Z/E	0	0	2	2	3	0+	0+
Model	3GS21B-DE	GP-40-M	GP-40-M	MP15AC	MP15AC	MP15AC	MP15AC			GP 38-2	GP 38-2	GP-22eco	GP-22eco	GP-23eco	MP15AC	MP15AC
HP	2100	2300	2300	1500	1500	1500	1500			2000	2000	2000	2000	2320	1500	1500
Engine Type	(3) QSK-19	645-E-3	645-E-3	645E	645E	645E	645E			645 E	645 E	8-710eco	8-710eco	8-710G3	645E	645E
Yr Blt	2011	1965	1965	1982	1982	1982	1982			1979	1979	2011	2011	2016	2021	2021
Anticipated repower cost in millions	\$ 0.50	\$ 3.20	\$ 3.20	\$ 2.80	\$ 2.80	\$ 2.80	\$ 2.80	\$ 6.00	\$ 7.50	\$ 3.20	\$ 3.20	\$ 38.00				
Project grant funding secured		\$ 4.095		\$ 8.30				\$ 3.30	\$ 4.95	\$ -	\$ -	\$ 20.65				
Rail's funding match or obligation % of project total	500K	\$1.4M 25%		\$2.848M 33%				TBD		\$2.75M 100%	\$2.75M 100%	\$ 17.355				
Budget cycle	2026 ship in July	27/28		27/28				27/28	27/28	29/30	29/30					

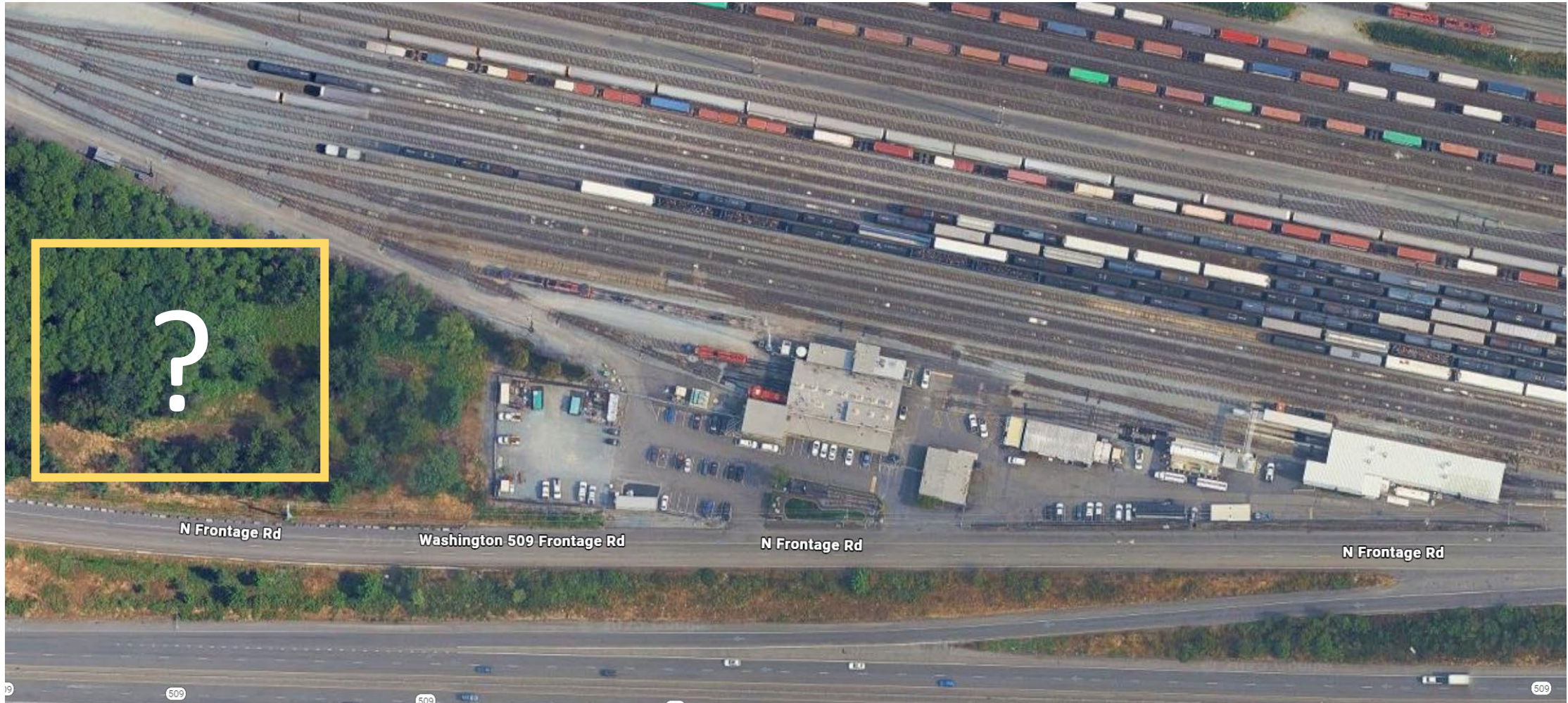






# Building

- 120 employees
- Main building + 2 trailers + caboose



# Kahoot!

Kahoot #4





# Utility Assistance Programs



# 2025-2026 Utility Assistance Program Overview

147

Customer Experience and External Affairs

# Budget, Spending, and Customers Served



Metrics	Bill Credit Assistance Plan (BCAP)		LIE Discount Rate Program
2025-2026 Biennial Budget	\$ 10,000,000 Power		Reduction in revenue that is factored in through rate models and the ratemaking process
	\$ 1,330,000 ES		
	\$1,000,000 Water		
Budget Utilized to Date	\$ 4,217,036 Power		
	\$ 604,201 ES		
	\$ 263, 656 Water		
Households Served Jan-Oct 2025	Automatic:	9,211	
	Earned	7,827	
Average # of Monthly Credit Recipients	Automatic:	2,732	
	Automatic & Earned :	4,649	



# Who Qualifies for Assistance



Customers with a current TPU account in their name, residing full-time at the service address as their primary residence, must be a single metered service (cannot be shared with another unit)

## **BCAP**

Household meets the income guidelines\* 60% Area median income, shown in the list below:

### **Household Size: 1**

Maximum Monthly Household Income: \$4,229

### **Household Size: 2**

Maximum Monthly Household Income: \$4,833

### **Household Size: 3**

Maximum Monthly Household Income: \$5,438

### **Household Size: 4**

Maximum Monthly Household Income: \$6,042

### **Household Size: 5**

Maximum Monthly Household Income: \$6,525

### **Household Size: 6**

Maximum Monthly Household Income: \$7,008

**OR** currently receives SNAP or WIC benefits

## **LIE Discount**

Adults over 62 or who qualify for or receive state/federal disability income and

Household meets the income guidelines\* **45% Area median income**, shown in the list below:

### **Household Size: 1**

Maximum Monthly Household Income: \$3,171

### **Household Size: 2**

Maximum Monthly Household Income: \$3,625

### **Household Size: 3**

Maximum Monthly Household Income: \$4,079

### **Household Size: 4**

Maximum Monthly Household Income: \$4,529

### **Household Size: 5**

Maximum Monthly Household Income: \$4,892

### **Household Size: 6**

Maximum Monthly Household Income: \$5,254

\*Incomes are based on maximum household income before tax

**OR** currently receives SNAP or WIC benefits

# Community Outreach & Engagement



Our outreach and engagement strategy has demonstrated unity, collaboration, and innovation at every level:

- **Onsite enrollment at low-income apartment complexes**, reducing transportation and documentation barriers for residents.
- Over 300 community engagement events held at food pantries, farmers markets, schools, and libraries.
- **Creative engagement tactics**, including placing QR codes on cornbread boxes during food distributions to connect families with resources.
- **A layered outreach campaign, “Empowering Moves,”** featuring transit ads, vehicle wraps, newsletters, and social media outreach, guided by the City’s Equity Index.
- **Deployment of a community service van**, delivering mobile outreach and onsite enrollment to underserved neighborhoods.
- **Culturally adapted, multilingual outreach materials**, co-created with trusted community partners and voices.
- **Strengthened partnerships to support customers navigating multiple community services and benefit programs.**
- **Continuous collaboration with agencies and nonprofits to simplify customer enrollment into utility assistance programs**, including streamlined onsite enrollment and reduced administrative barriers.

# How TPU Supports Income-Eligible Customers



Qualifying households on the **Bill Credit Assistance Plan**, receive a monthly automatic bill credit for all services, regardless of payment. They can achieve additional monthly credits with full and on-time payments. The credit amount they receive depends on the number of services they receive.

## Automatic Monthly Bill Credits

**Power** – \$28.30  
**Water** – \$8  
**Wastewater** – \$7  
**Surface water** – \$3  
**Solid waste** – \$9

**Monthly Total** – \$55.30

## Achievable Additional Monthly Credits

**Power** – \$21  
**Water** – \$5  
**Wastewater** – \$8  
**Surface water** – \$4  
**Solid waste** – \$6

**Monthly total** – \$44

**Total Annual Credit: \$1,191.60**

Our **Discount Rate Program** gives adults over 62 or those who qualify for or receive state/federal disability income a 35% discount on electricity, drinking water, solid waste, wastewater, and stormwater.

# Looking Forward

Improvements to BCAP

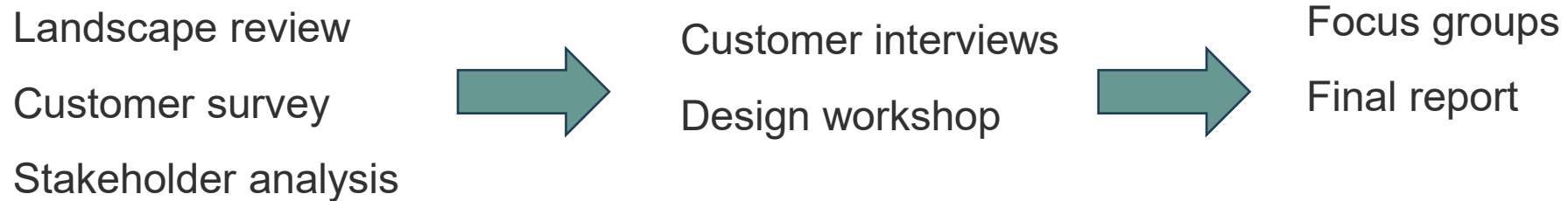
Treena Colby



# BCAP and IE Program Research



- **Multi-Utility Research and Journey Mapping, Oct 2023 – April 2025**



- **Surveyed current BCAP customers, Jan & Feb 2025**

- The primary purpose of the survey was to gain a better understanding of what participants in the BCAP program liked about it and areas where they thought it could be improved.

- **Customer Solutions Employee interviews, Sept & Oct 2025**

- **Customer Solutions Customer Journey Mapping and Process Mapping December 2025**

- 1. Eligibility** is challenging to determine for customers and criteria not in line with other assistance programs
- 2. Application/Enrollment** is labor-intensive for both customers and employees
- 3. Earned credits** are inequitable

- **Currently:** 60% AMI or SNAP/WIC Recipient
- **Future:** Move from 60% AMI to 80% AMI

- Auto-enrollment based on other program participation/eligibility
- Self-attestation



- Currently: If the BCAP customer can pay their bill on time and in full, they receive extra assistance dollars
- Proposed Moving Forward: Remove earned credits and adjust base credits

# With Changes, Reach Spending Goal



- **With the proposed structure and changes**
  - Eligibility changing
  - Application & Enrollment changing
  - +Increased Communication and Outreach
  - +Increased Partnering with the Community Organizations
- **Reach Spending Goal**
- **Actively monitor budget and budget burn rate**

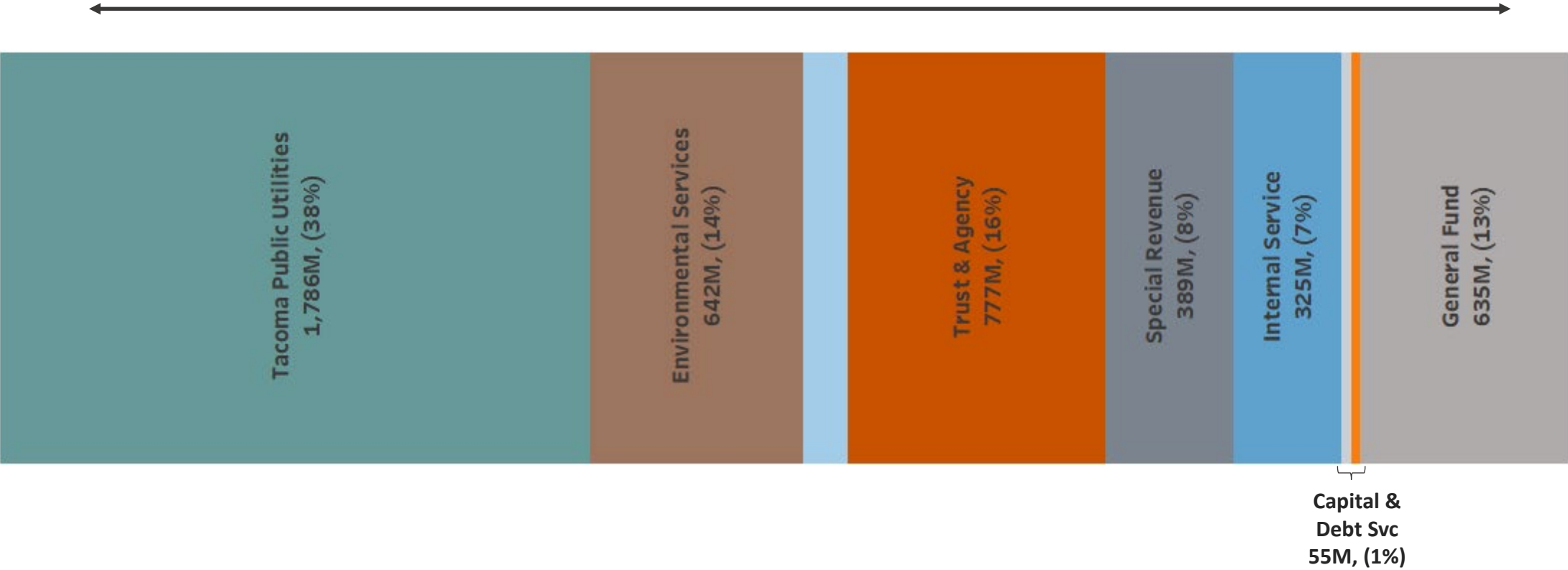
# Questions and Discussion

# 2025-2026 Biennial Budget

# 2025-2026 Biennial Budget (\$)

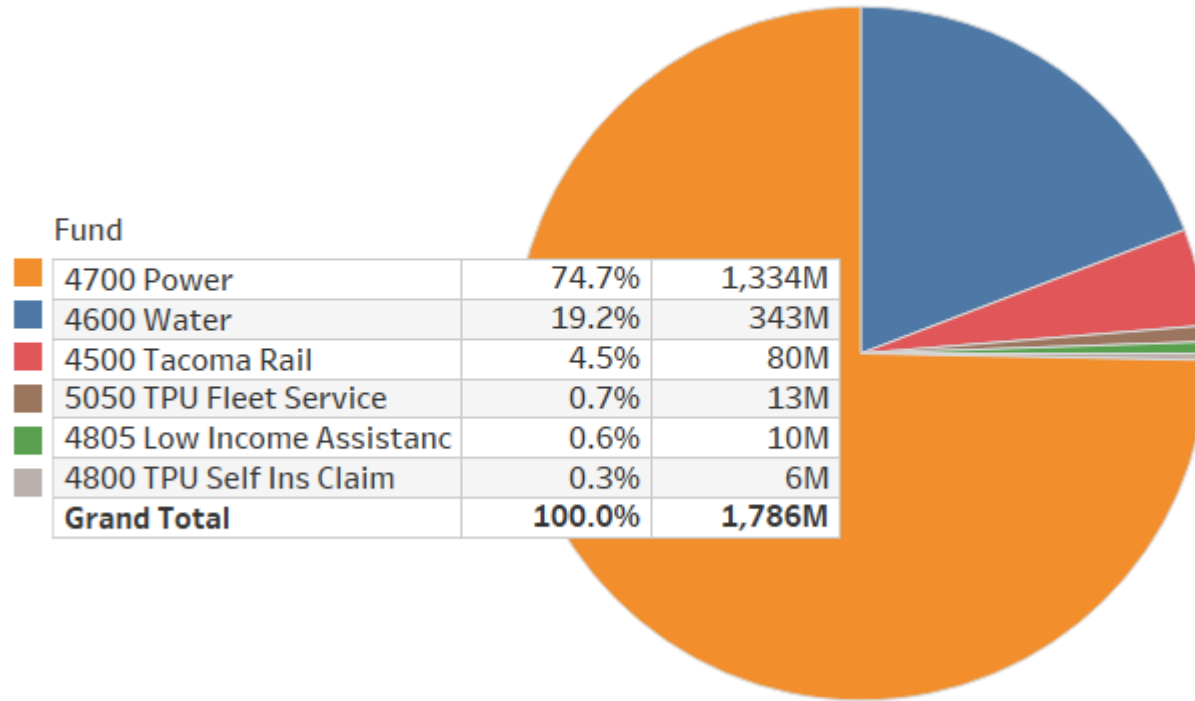


City of Tacoma Adopted Budget = \$4.7B



Learn more about the City's budget development process at [tacoma.gov](https://tacoma.gov)

# TPU Biennial Budget



## Operating Divisions

(**4700 Power**, **4600 Water**, **4500 Rail**)

- Three separate enterprises
- Costs recovered through fees or service charges

## Service Divisions

(Admin, MSO, CXEA)

- Managed within Power fund
- Costs net to zero
- Reflected as *Assessments* in operating division budgets

## Other

(**5050 Fleet**, **4805 Low Income Assistance**,  
4800 Self Insurance)

- Reflected as *O&M* in operating division budgets

# Shared Services Assessments\*



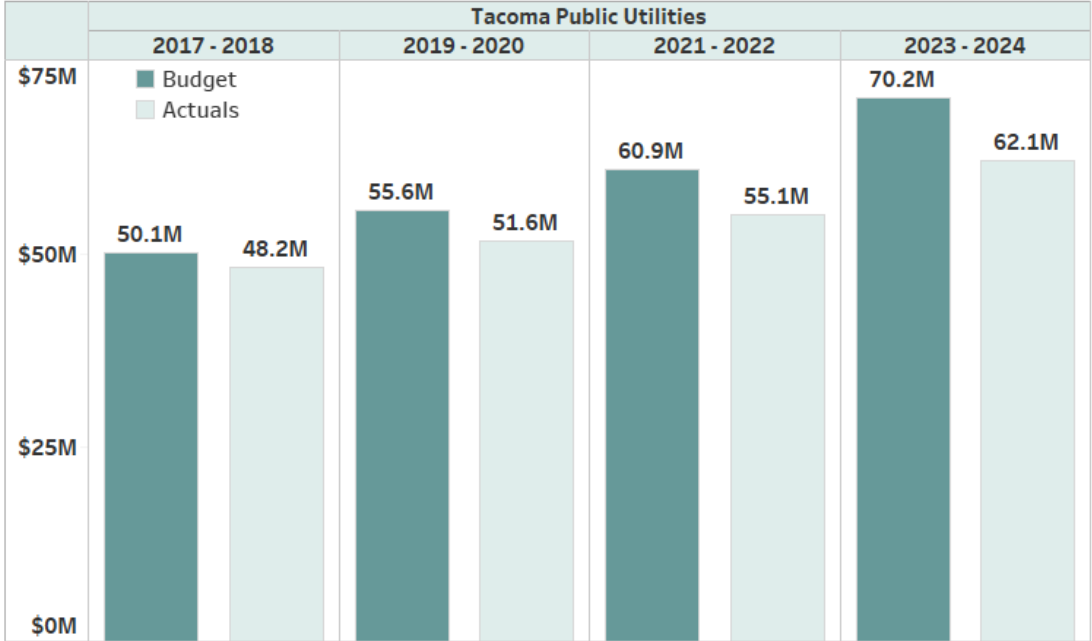
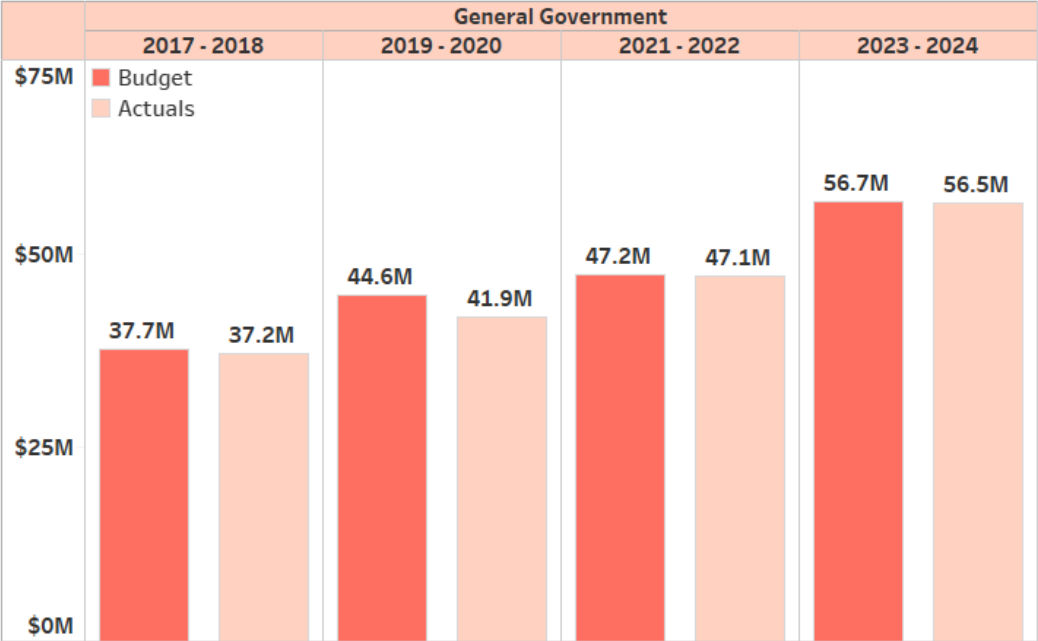
\*Amounts shown are TPU’s allocated portion of Shared Service totals

2025-2026 Budgeted Assessments by Service Provider (\$)

General Government		
Service Provider	2025 - 2026	
Information Technology	59.0%	41.4M
Human Resources	11.7%	8.2M
Finance	11.7%	8.2M
City Attorney’s Office	6.6%	4.6M
City Manager	4.7%	3.3M
Public Works	4.4%	3.1M
Community & Economic Development	1.1%	0.7M
City Council	0.4%	0.3M
Tacoma Fire	0.3%	0.2M
Hearing Examiner	0.2%	0.1M
Grand Total	100.0%	70.2M

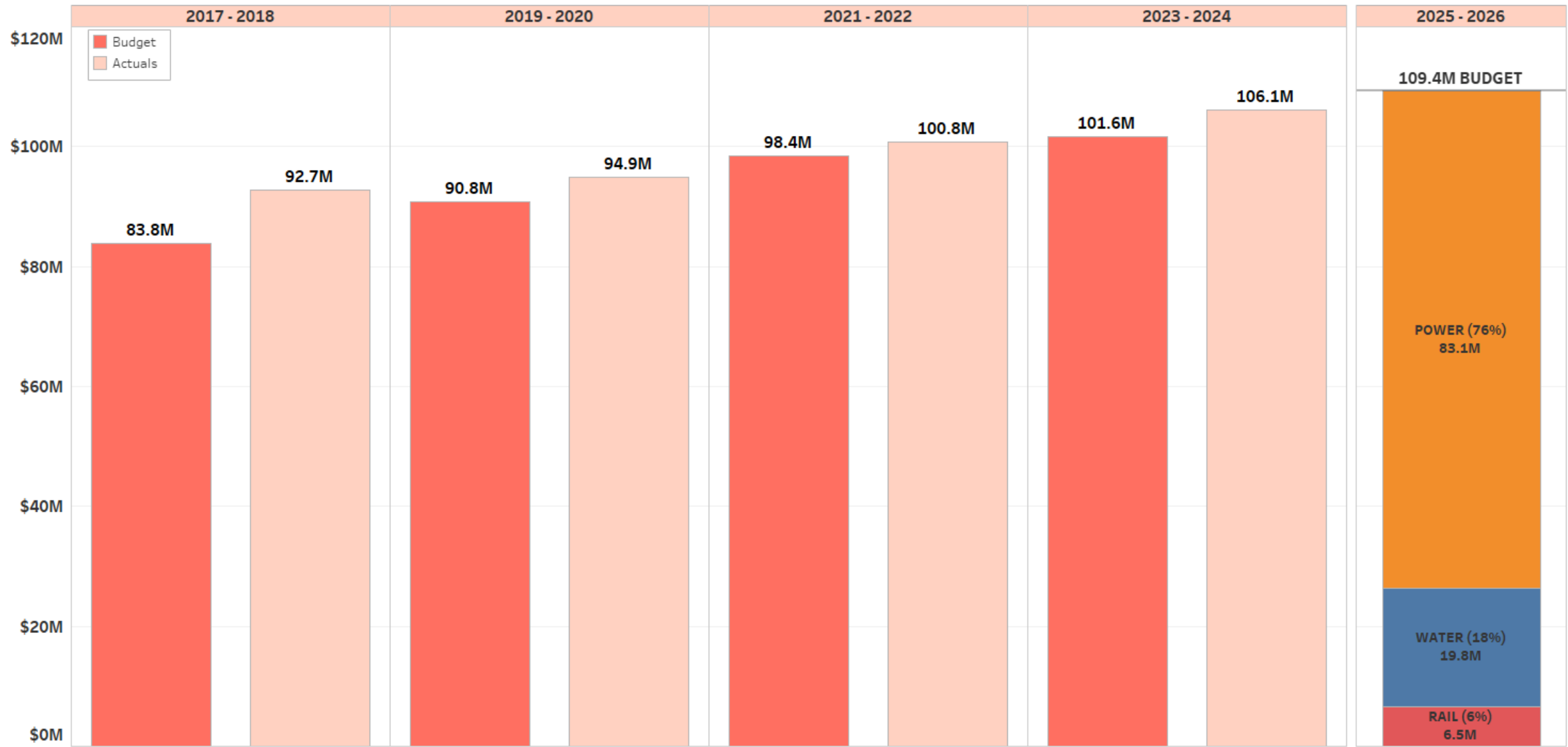
Tacoma Public Utilities		
Service Provider	2025 - 2026	
CXEA: Customer Services	56.4%	44.6M
CXEA: External Affairs	25.9%	20.5M
Admin: Management Services Office	8.3%	6.6M
Support Services: Copiers, CS Technology	5.8%	4.6M
Admin: Director’s Office & Public Utility Board	3.7%	2.9M
Grand Total	100.0%	79.2M

Budget vs Actuals Trend



# Gross Earnings Tax

Budget vs Actuals Trend

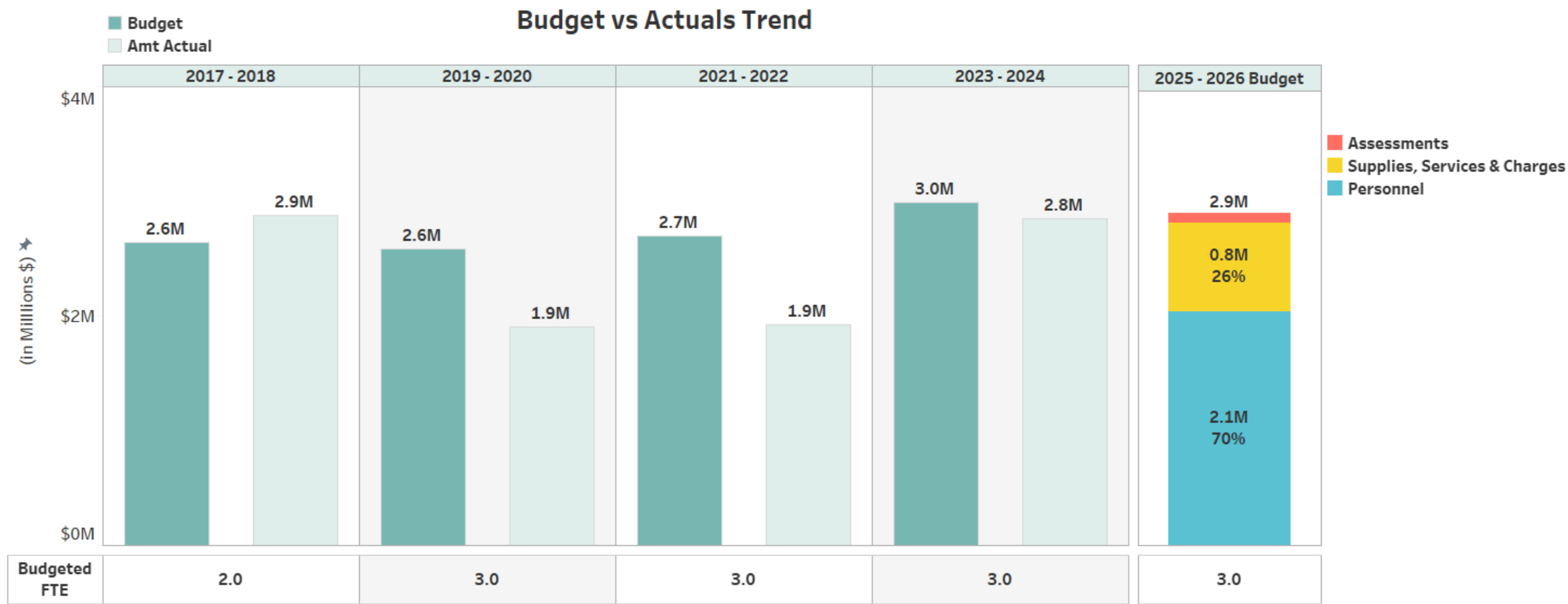




# Director's Office



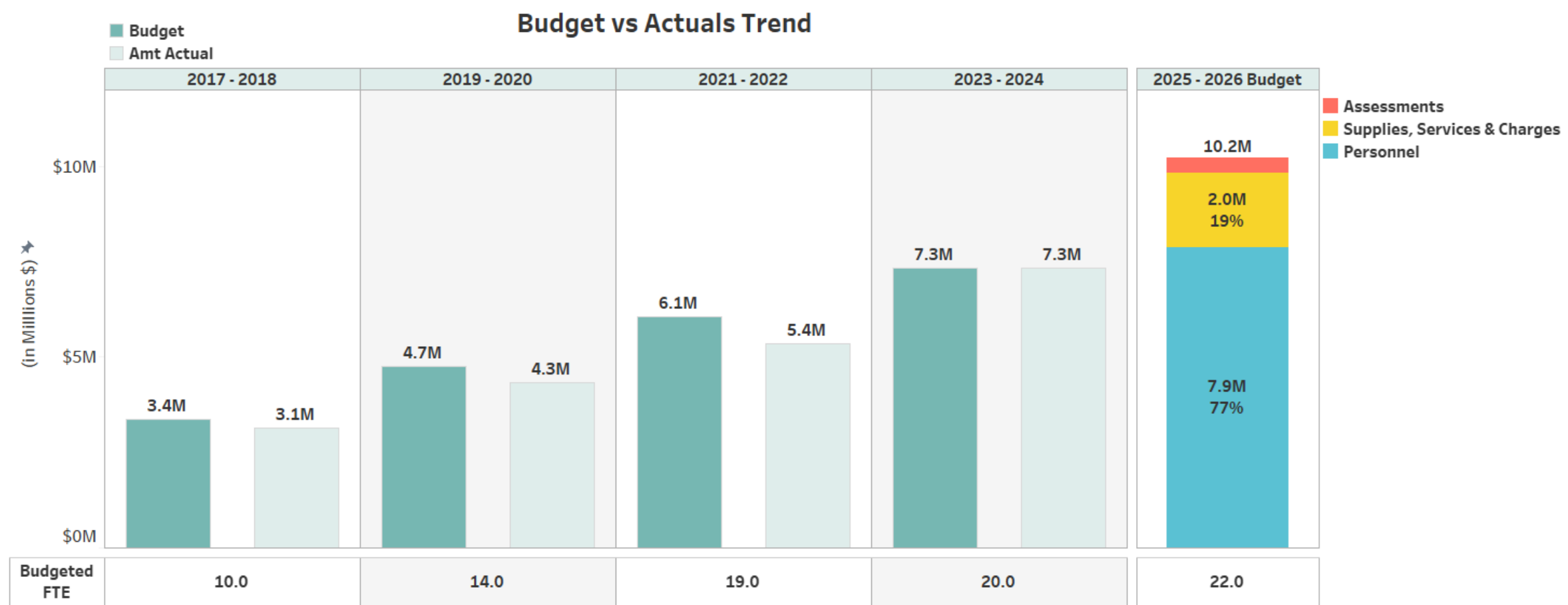
*Manages all operations and business affairs of TPU, with a primary focus on leadership of the TPU executive management team to implement TPU strategic directives.*



# Management Services Office



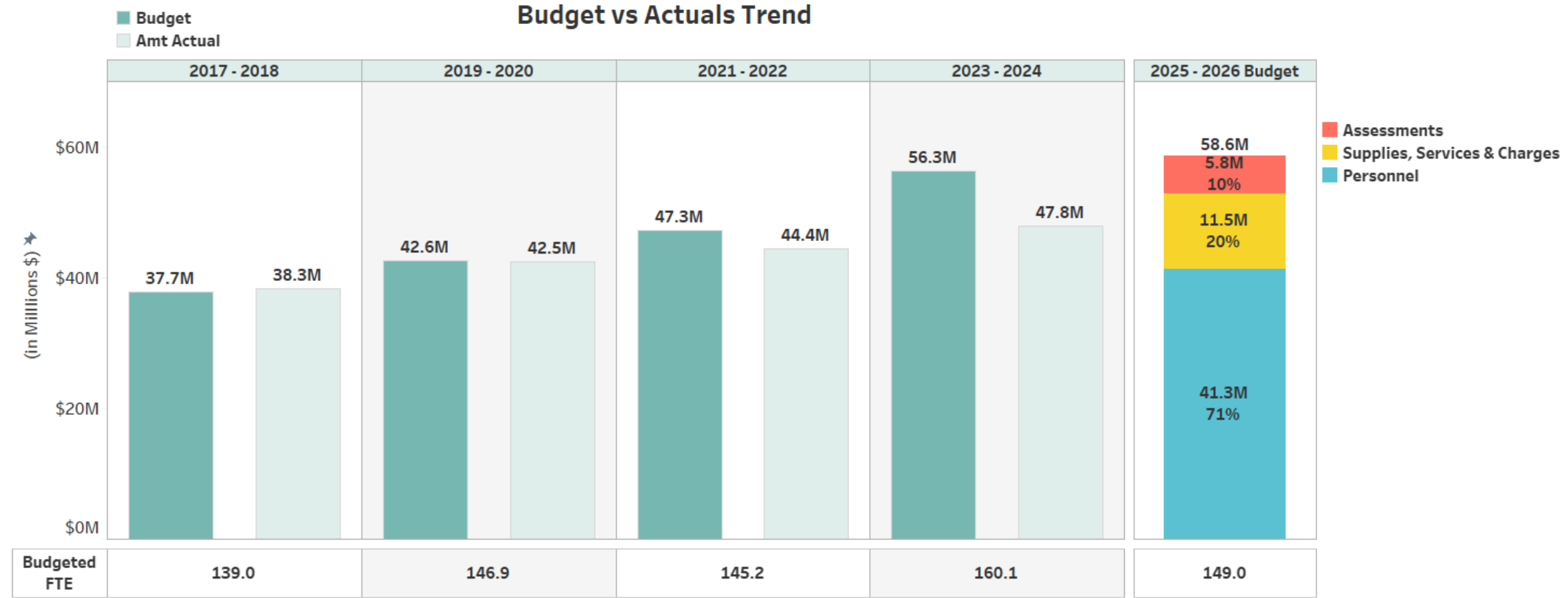
*Emergency Management | Risk & Claims | Records Management | Budget & Finance*



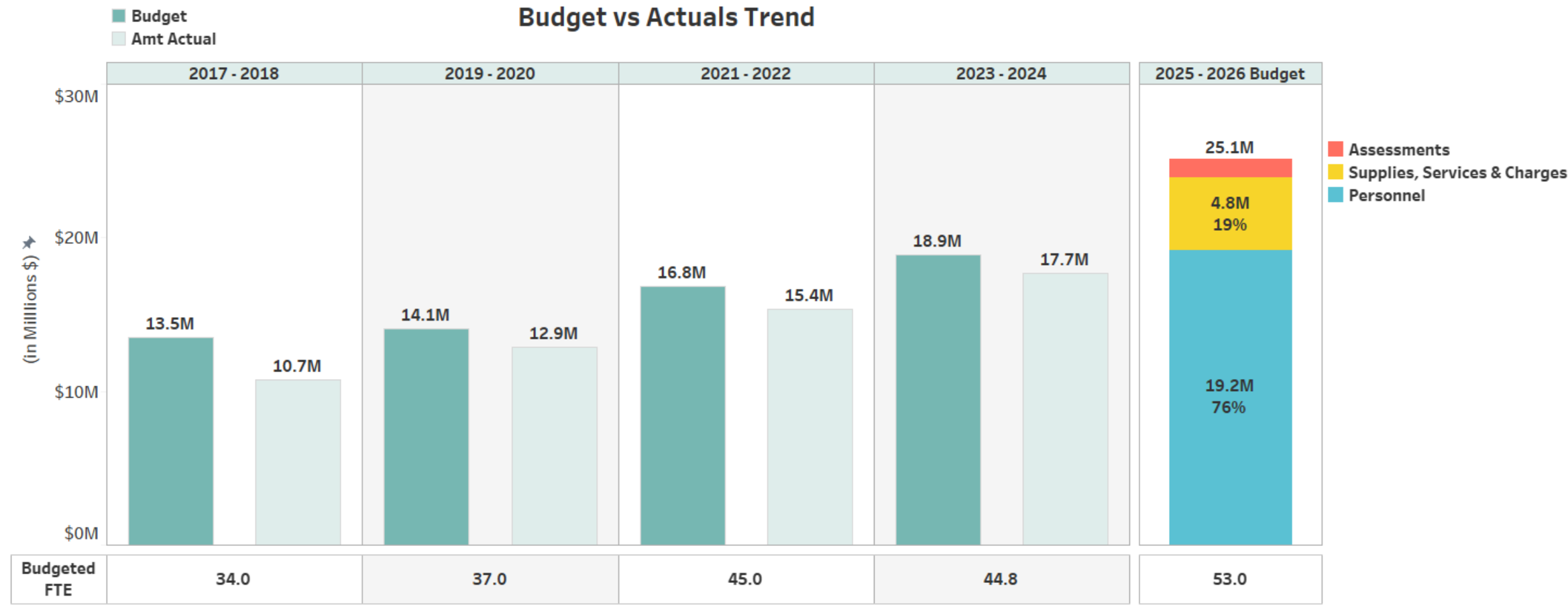
# Customer Services



*Business Office | Business Enablement | Customer Solutions & Billing*  
*Field Operations | Mail & Print Services | Finance and Administration*  
*Often the customer's first contact with the utility.*

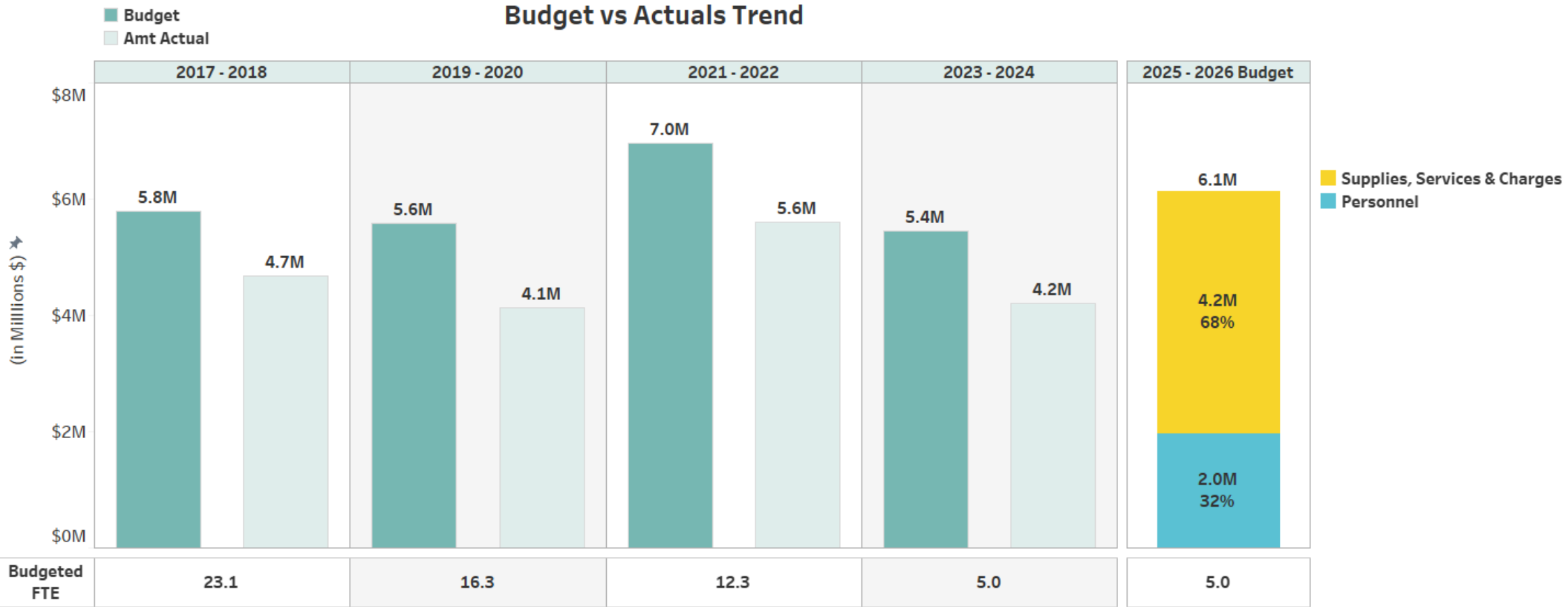


Communications | Market Strategy & Analytics | Community & Government Relations



# Support Services

Copiers | Customer Services Technology Support | Real Property Services (RPS)\*

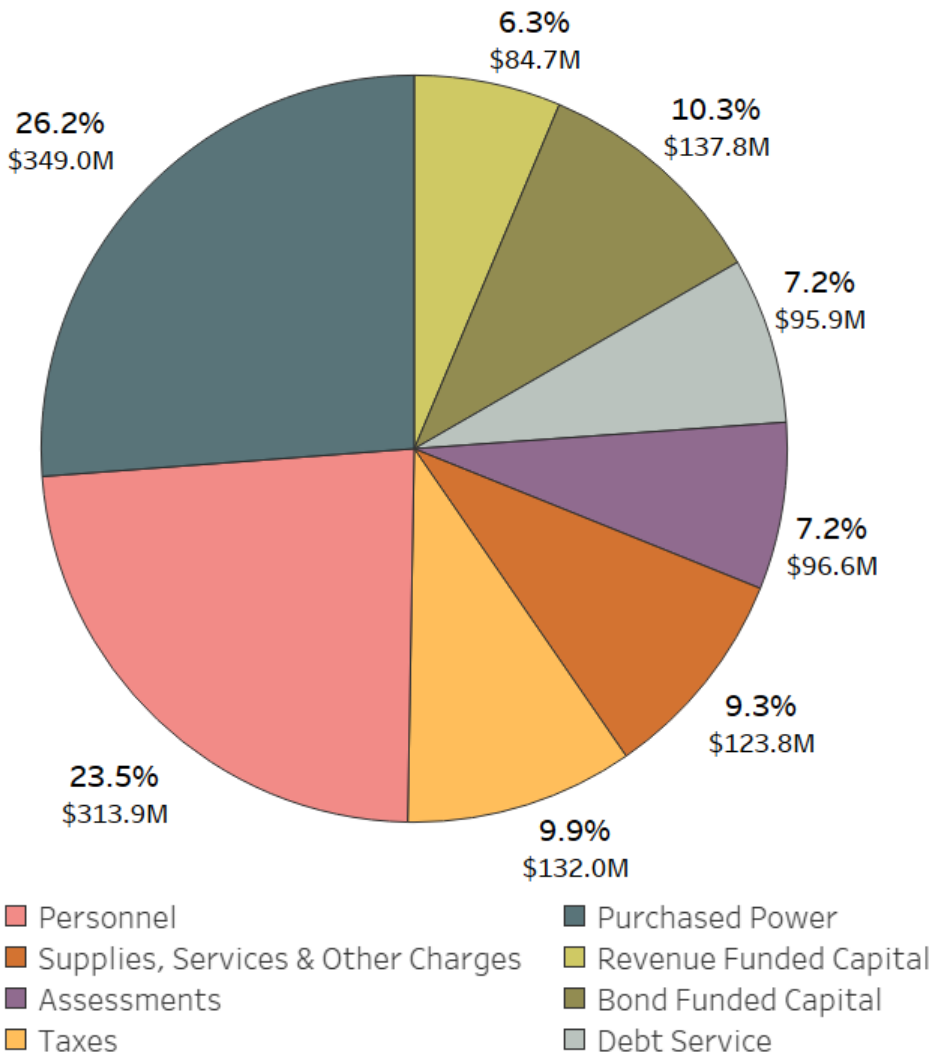


\*RPS moved to General Government assessment fund beginning with 2023-2024 biennium.

# Tacoma Power Total Expenses & Revenues

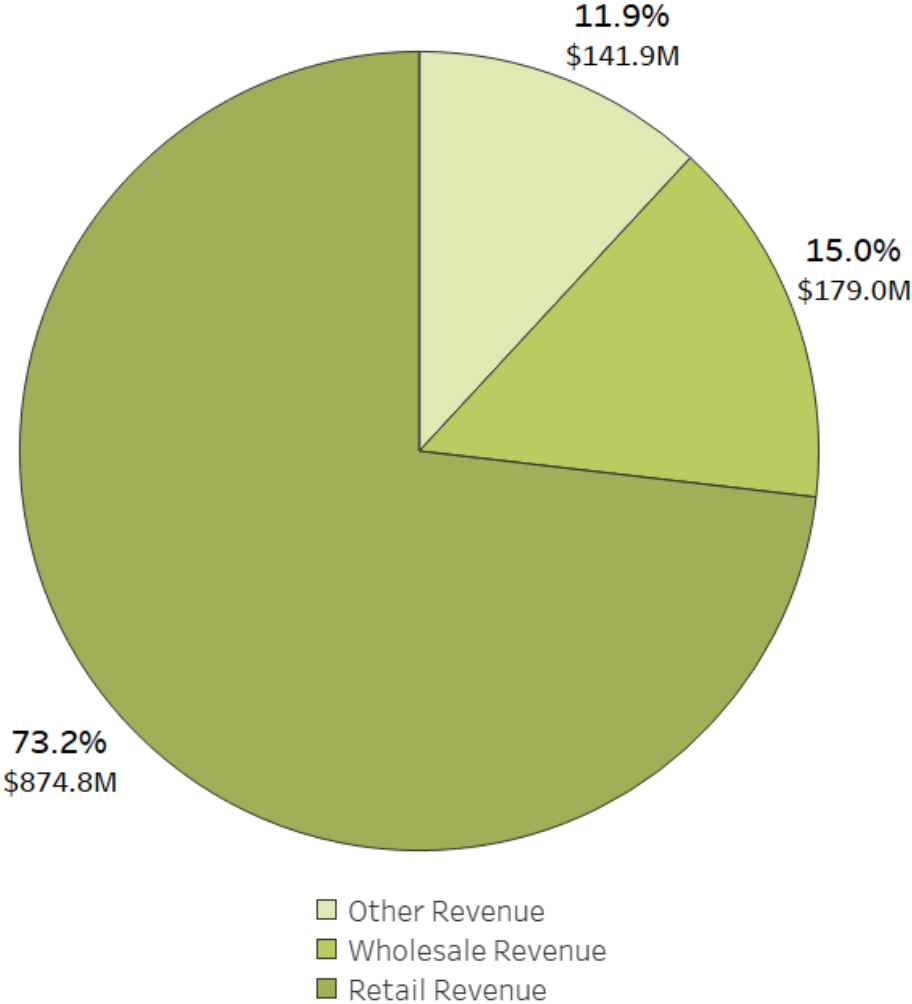
## Expenses

2025/2026 Budget: \$1,333M

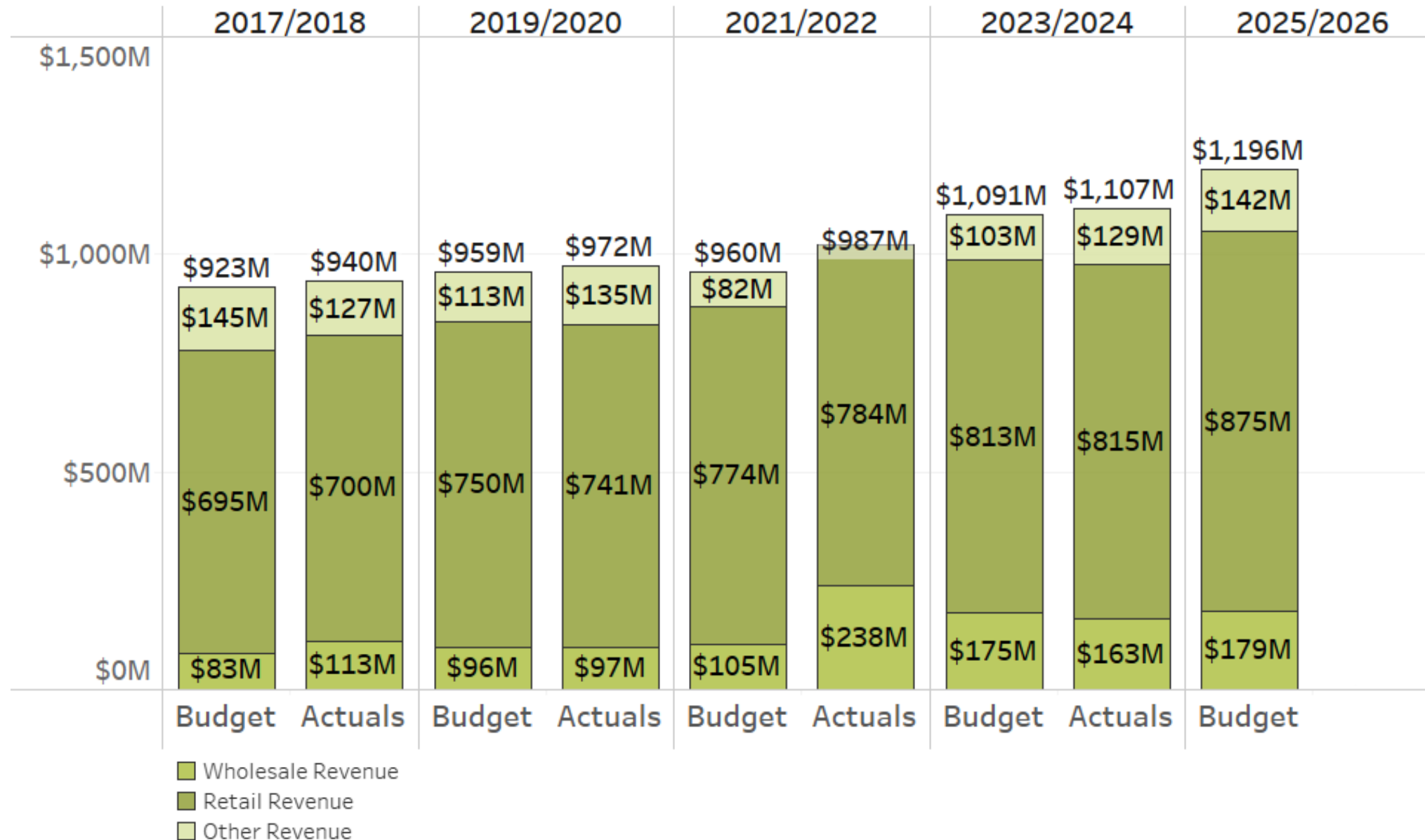


## Revenues

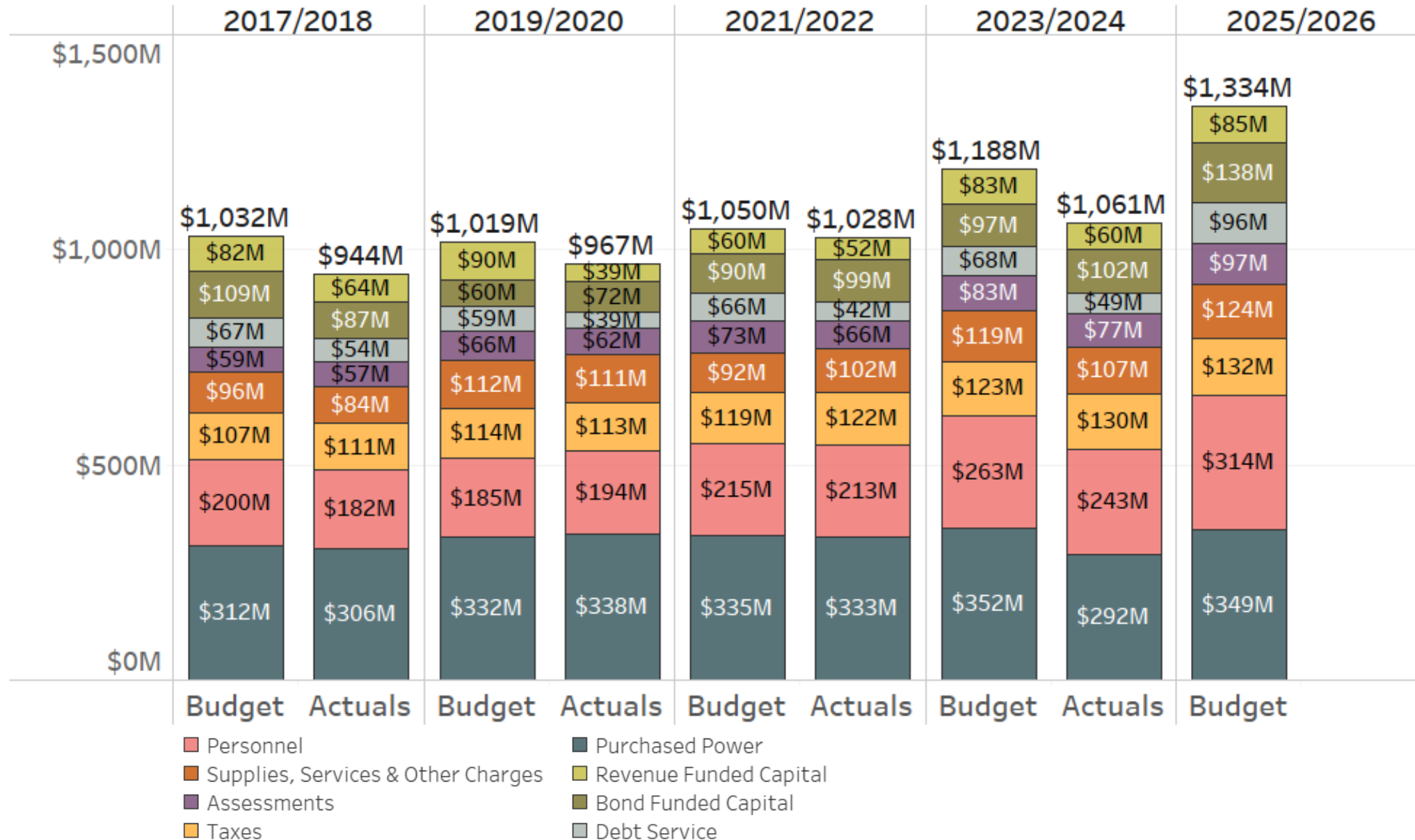
2025/2026 Budget: \$1,196M



# Budgeted vs. Actual Revenues



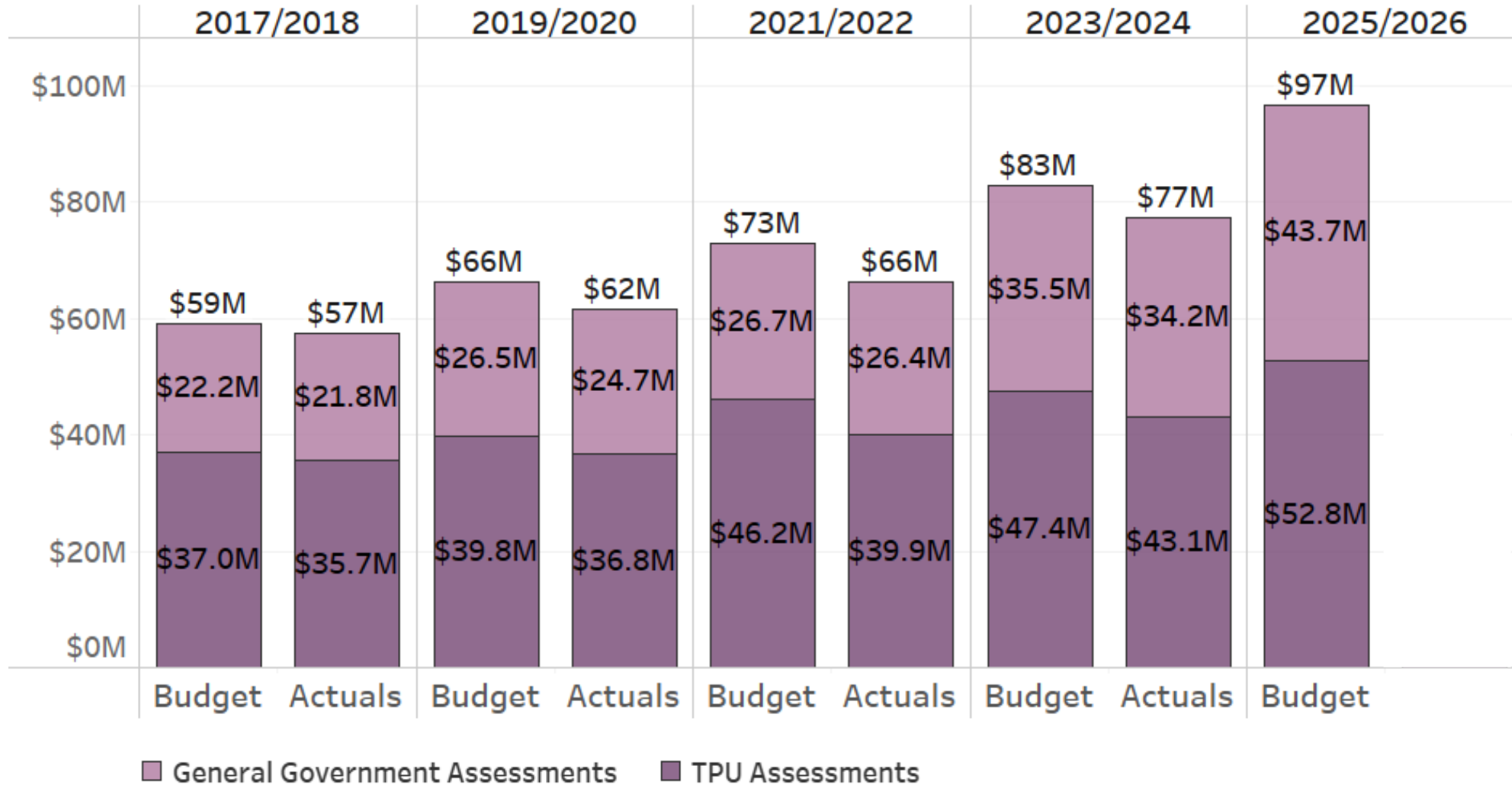
# Budgeted vs. Actual Expenses





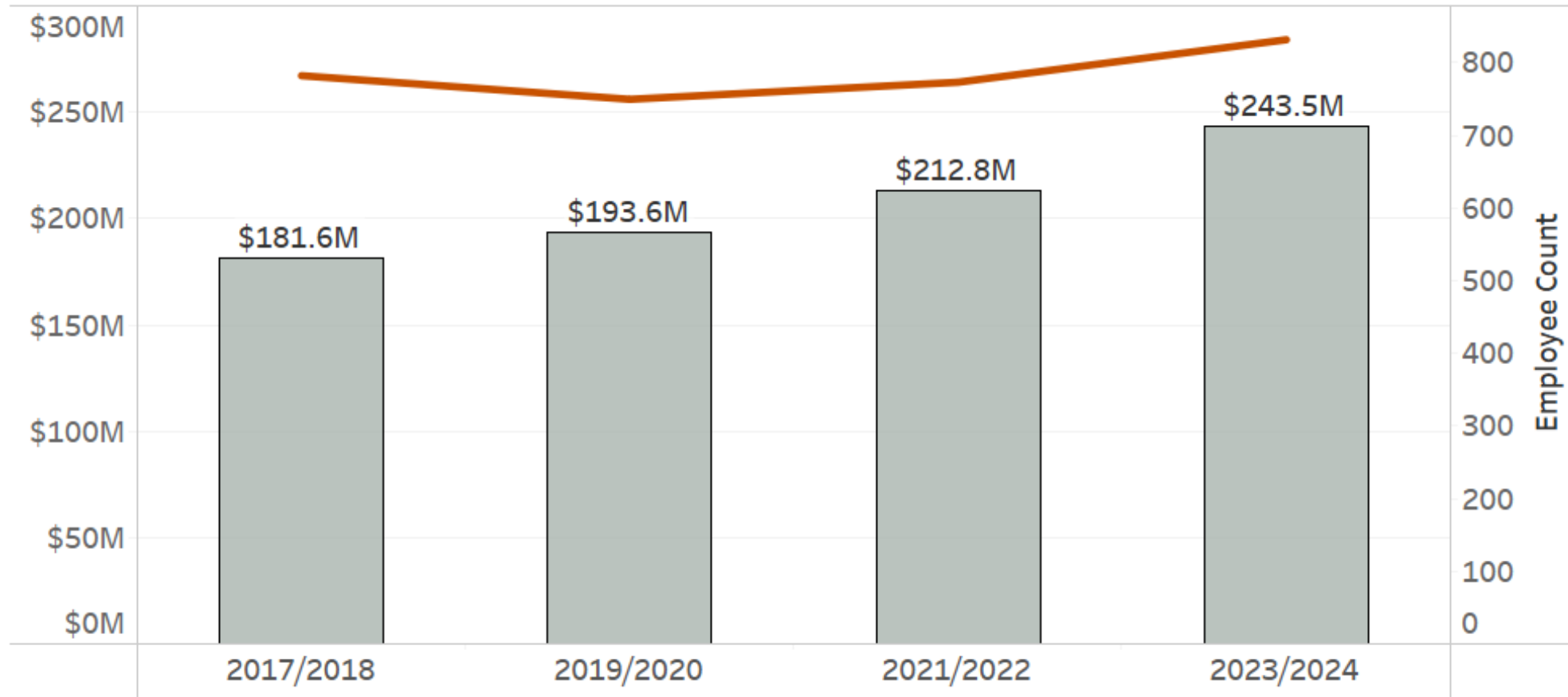
# Budgeted vs. Actual Assessments

## Assessments (General Govt & TPU)



# Personnel Expenses are Trending Up

**Biennial Personnel Expenses & Actual Employee Count**



# Tacoma Power: Power Administration, Environmental Health & Safety

## Section Overview

- Power Administration reflects Power-level costs, such as Debt Service, Taxes, and Assessments
- Responsible for all utility operations
- **Environmental Health and Safety (EHS)** leads Power's safety and TPU's environmental compliance programs
  - **Power Safety** focuses on preventing accidents and injuries through strong safe-work practices, proactive hazard identification, and consistent follow-through
  - **TPU's Environmental Compliance Program** focuses on proactive environmental compliance, risk management and operational environmental impact minimization

**Full-Time Equivalents (FTEs): 13.0**

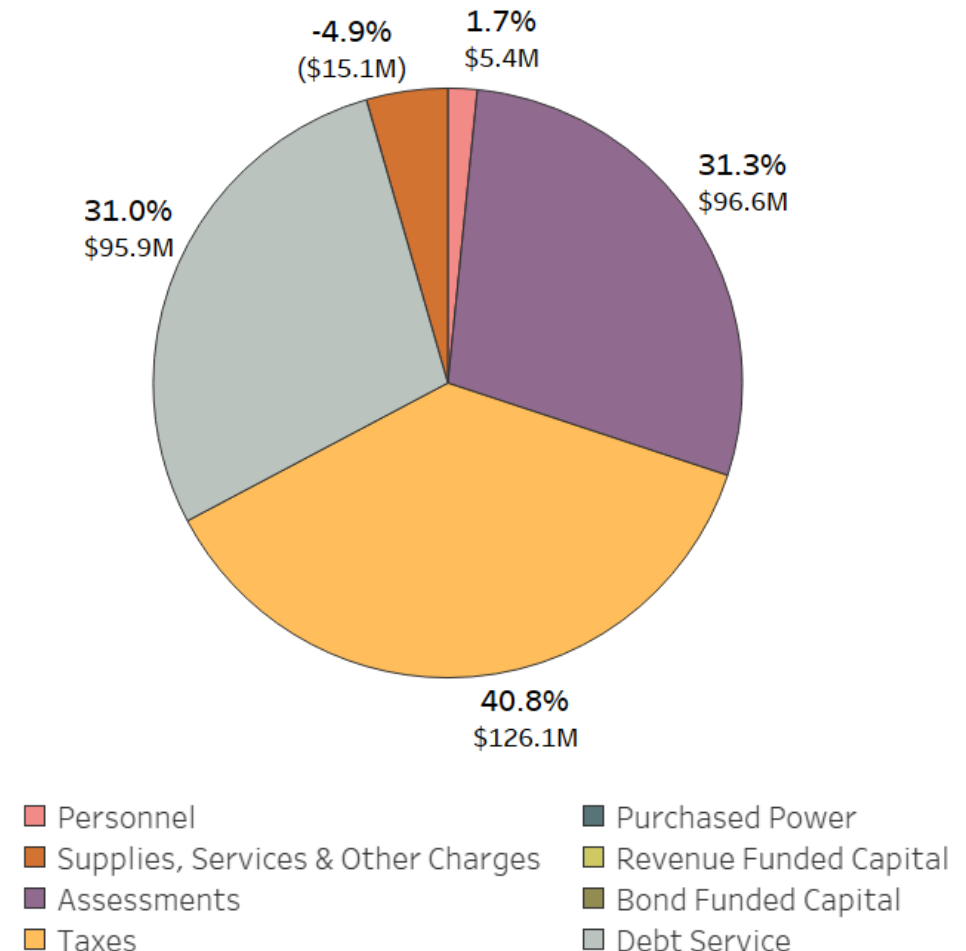
**Power Administration: 3.0**

**Environmental Health & Safety: 10.0**

## Power Administration, EHS

**Power Admin 2025/2026 Budget: \$304.4M**

**EHS 2025/2026 Budget: \$4.4M**



## Section Overview

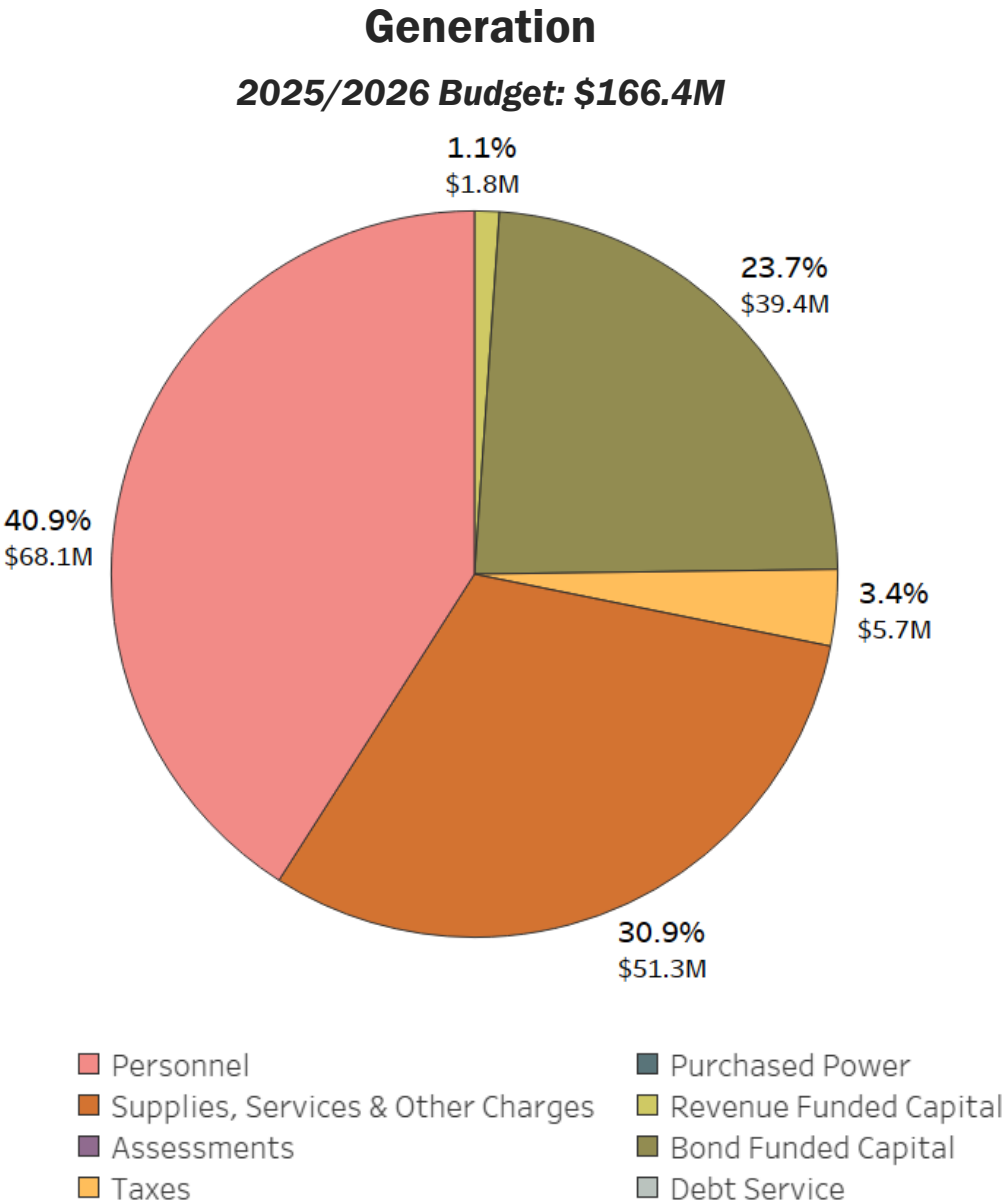
- Responsible for operating and maintaining Tacoma Power’s **four hydroelectric generating projects** and associated fisheries facilities, recreational facilities, and other project lands\*
- Manages Federal Energy Regulatory Commission (**FERC**) **Hydroelectric Project License compliance program**
- **Business functions:** hydro projects, engineering, natural resources, dam safety, project delivery, asset management, business services

## Major 2025/26 Projects

- Cushman #2 Unit 31, Unit 32 Rebuild [Capital]
- Nisqually Unit 5 & Unit 12 Turbine Gen. Modernization [Capital]
- Cushman #1 Dam Anchoring [Capital]
- Cowlitz Trout Hatchery Remodel [Capital]
- Mayfield Juvenile Bypass System [Capital]

Full-Time Equivalents (FTEs): 200.1

\*NERC Designation



## Section Overview

- Responsible for planning current and future power supply needs, ensuring resource adequacy, wholesale power marketing, energy conservation, energy research & development, and regulatory policy compliance\*
- **Business functions:** resource operations and trading, energy resource planning & evaluation, customer energy solutions

## Major 2025/26 Projects

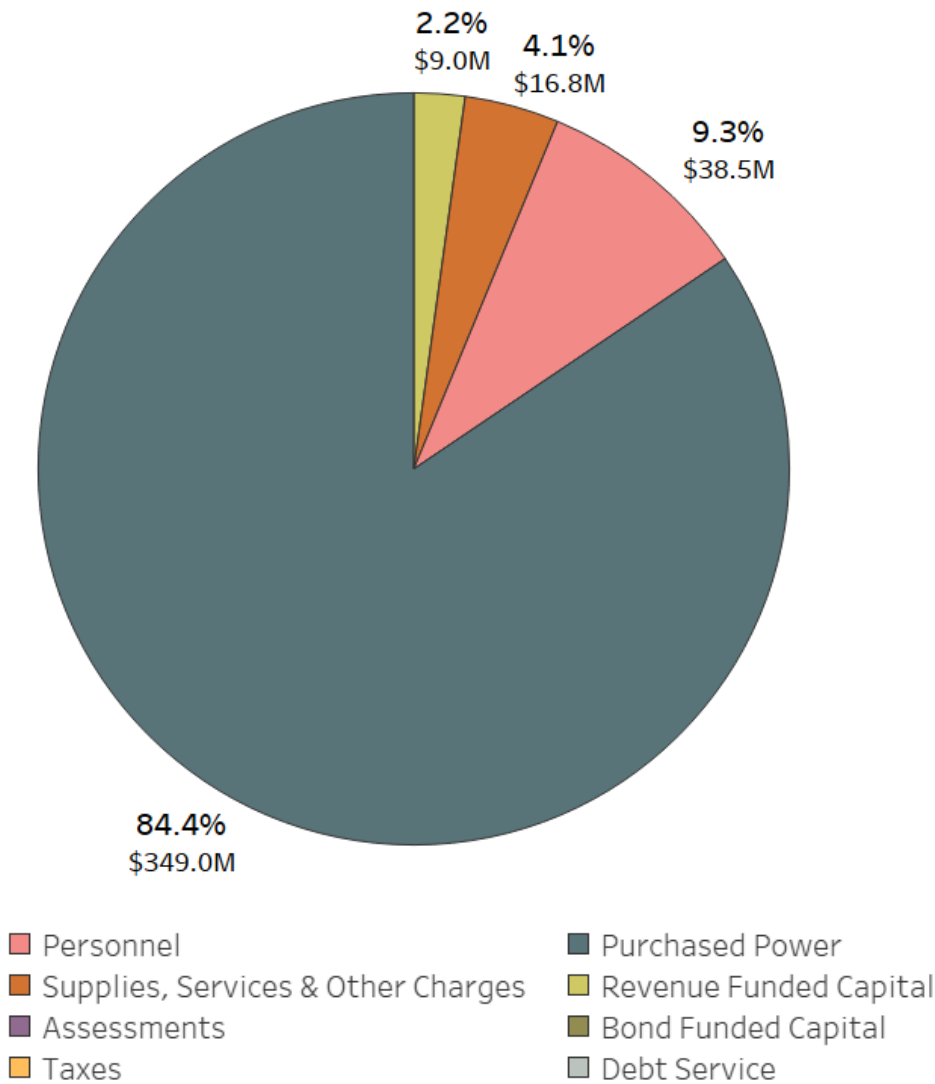
- SPP Markets+ [O&M]
- WRAP Operational Program [O&M]
- New BPA Slice Computer Application [O&M]
- Conservation Program [Capital & O&M]

**Full-Time Equivalents (FTEs): 87.5**

\*NERC Designation

## Power Management

2025/2026 Budget: \$413.3M



## Section Overview

- Supports Tacoma Power by delivering a range of **enterprise-wide services that enhance operational effectiveness and strategic alignment**
- Provides oversight for compliance with the North American Electric Reliability Corporation (NERC) Reliability Standards and manages Tacoma Power’s Internal Compliance Program (ICP)
- **Business functions:** reliability and compliance, facilities, Power emergency management, project management office, asset management, strategy and performance management, training and apprenticeship, and strategic people programs

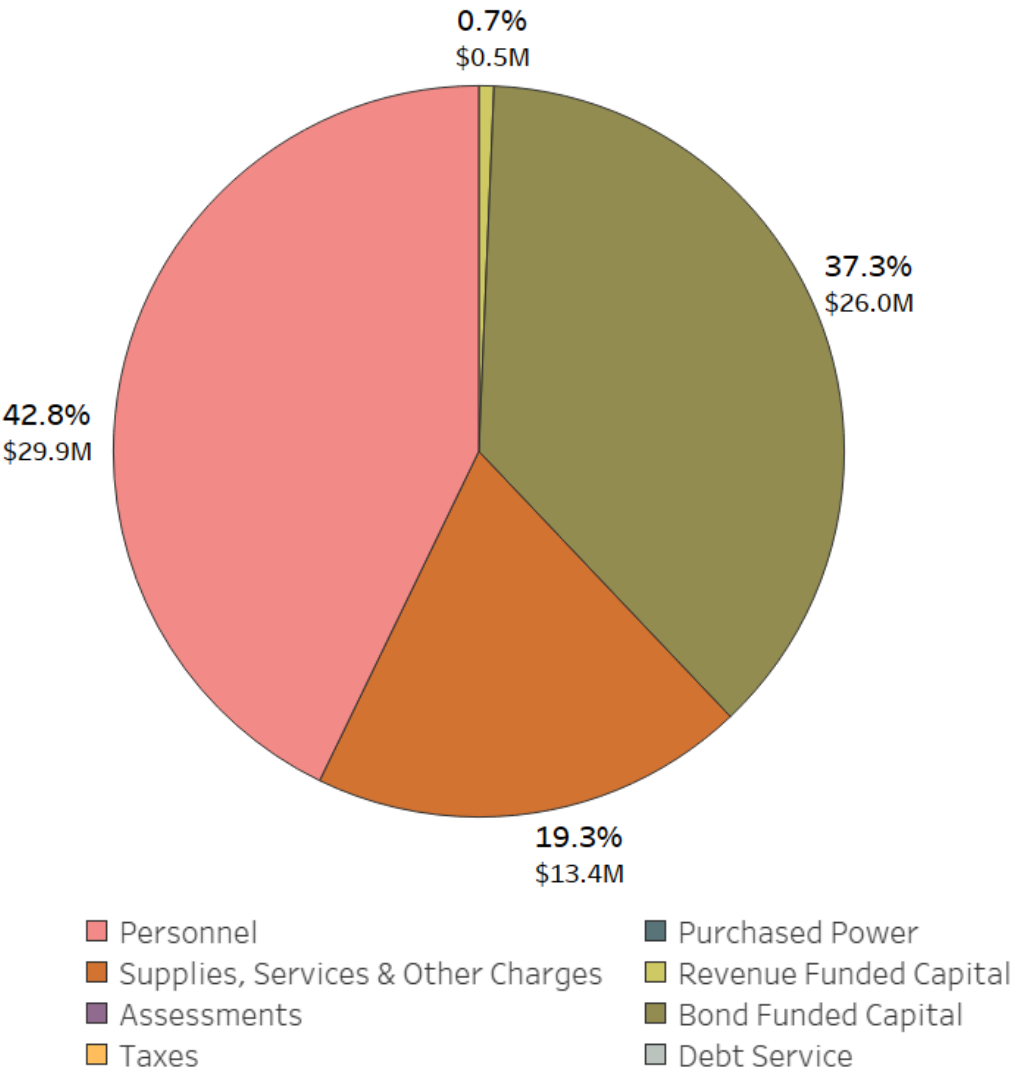
## Major 2025/26 Projects

- TPU Admin Complex Storage & Parking Facility [Capital]
- South Service Center Storage [Capital]
- Master Space Planning

**Full-Time Equivalents (FTEs): 94.5**

## Power Shared Services

**2025/2026 Budget: \$69.8M**



## Section Overview

- Responsible for **financial functions** of Tacoma Power, which includes developing and managing budget and retail rates, financial planning, long-term load forecasting and research, financial accountability compliance, and wholesale risk oversight
- **Business functions:** budget, financial planning, rates, load forecasting, and energy risk management

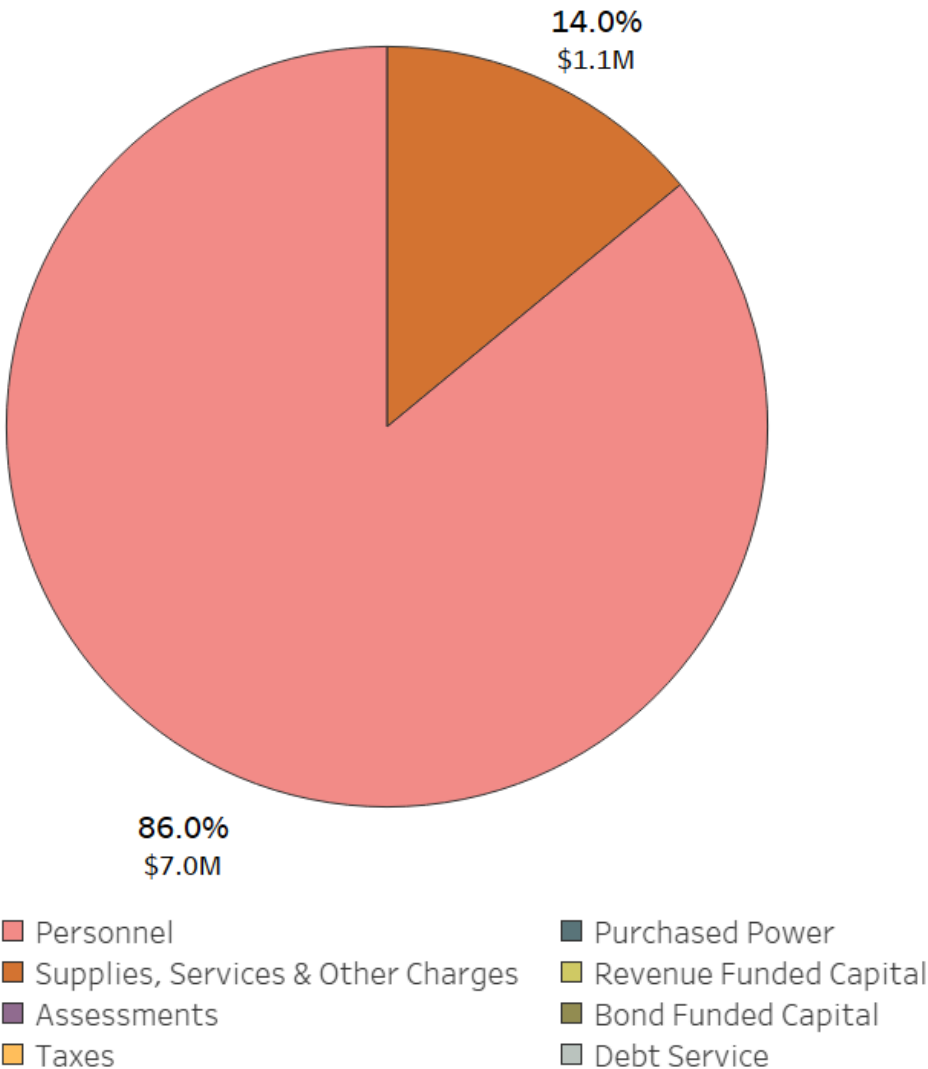
## Major 2025/26 Projects

- Bond issuance
- Budget and rates process

**Full-Time Equivalents (FTEs): 17.0**

## Rates, Planning & Analysis

**2025/2026 Budget: \$8.2M**



## Section Overview

- Manages the **full lifecycle of the transmission and distribution system**, including planning, design, construction, operation, and maintenance of substations, underground network system, energy management systems, metering facilities, and all overhead and underground transmission and distribution systems\*
- **Business functions:** construction and maintenance, engineering, electrical services, T&D safety, business services, system planning, system operations, and asset management

## Major 2025/26 Projects

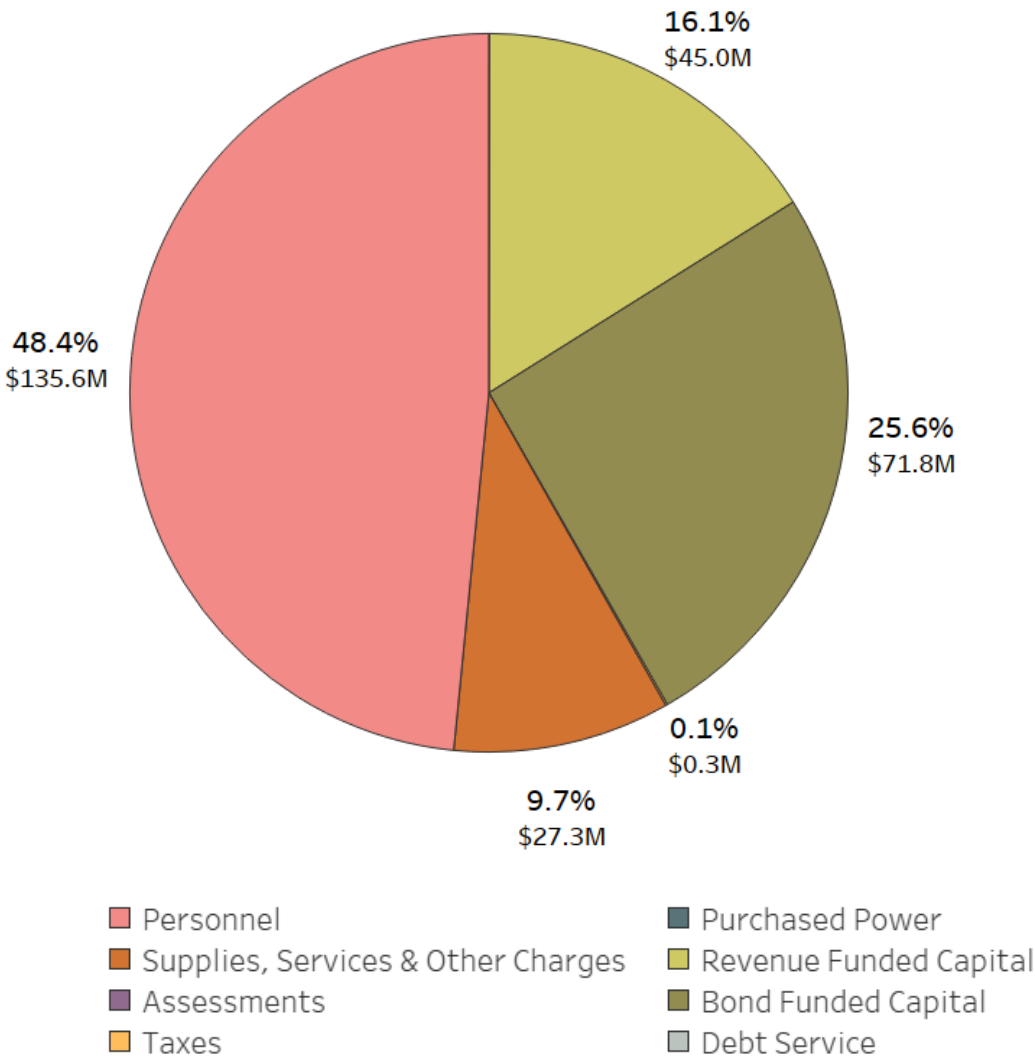
- Overhead Distribution & Transmission A&R [Capital]
- Distribution Transformer A&R [Capital]
- Substation A&R [Capital]

**Full-Time Equivalents (FTEs): 377.5**

\*NERC Designation

## Transmission & Distribution

**2025/2026 Budget: \$279.9M**





## Section Overview

- Responsible for the **design, delivery, operations, and support of TPU-owned technology systems**; designs, deploys, and maintains TPU’s secure Field Area Network; and manages compliance, regulatory, and cybersecurity frameworks
- Business functions:** technology delivery, ongoing applications and systems support, operations systems and security, network and communication systems, service management, architecture and data services, and business services

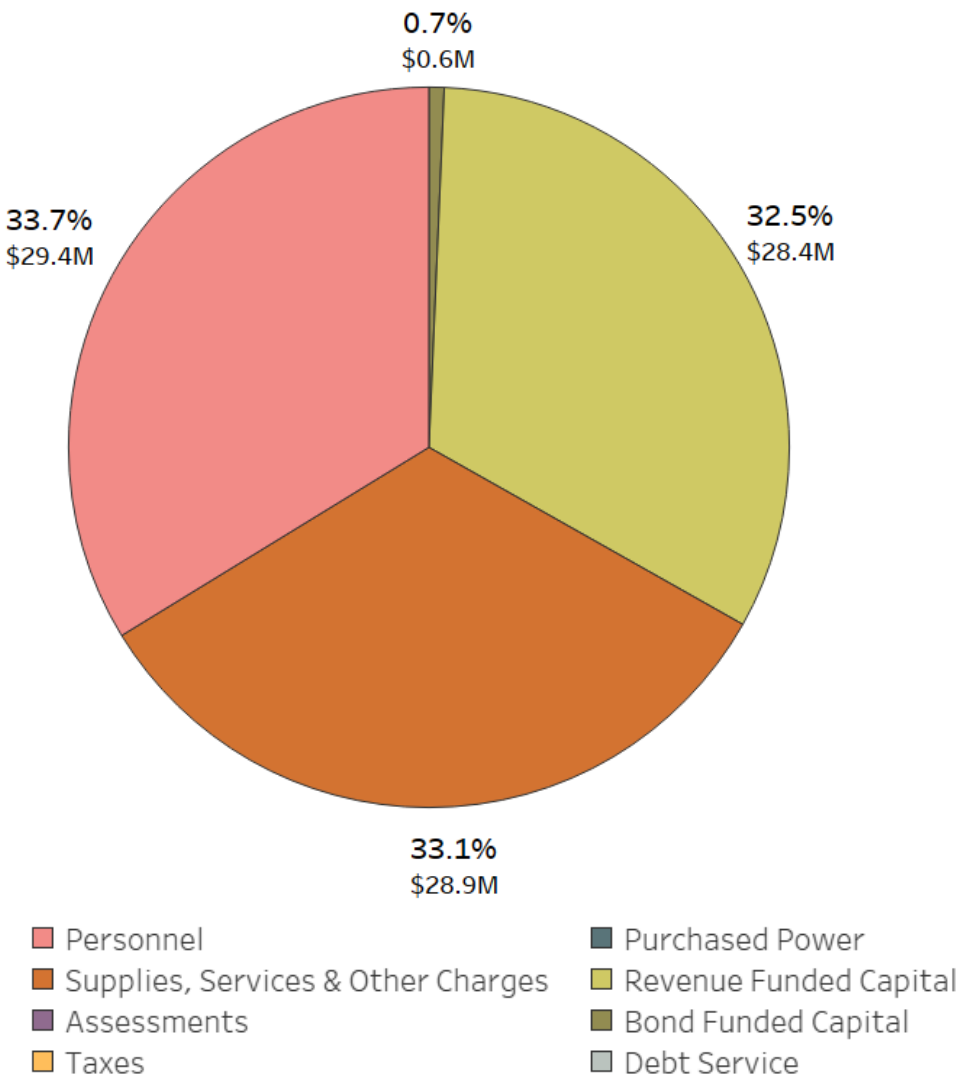
## Major 2025/26 Projects

- Automated Distribution Management System (ADMS) [Capital]
- Emergency Management System Refresh [Capital]
- GIS Modernization Project [Capital]

**Full-Time Equivalents (FTEs): 113.0**

## Utility Technology Services

2025/2026 Budget: \$87.3M



## **Our budget is based on prudent financial stewardship and operational efficiencies**

- **Strategic long-range planning & gradual approach**
- **Financial, project, and process management**
- **Budget decision-making framework**
- **Managing inflationary pressures and supply chain issues**
- **Responsible, intentional use of cash reserves to reduce rate increases**
- **Continue work with other utilities in the region to market surplus capacity**
- **Balance internal resources & professional services**
- **Actively manage expenditures through asset management & prioritization**
- **Budgeted deduction to salaries & benefits for vacancy factor**
- **Budgeted capital carry-forward factor deduction to capital budget**
- **BCAP automatic credits for customers that qualify for assistance**
- **Expanded grant & loan program for customers**
- **Mid-biennium adjustment if needed**

# Budget Drivers



## External Commitments

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- **Assessments**
- **Taxes**
- **Debt service**
- **SAP Now!**

## External Drivers

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- **Personnel expenses**
- **Cost of commodities**
- **Regulatory requirements**
- **Inflation**



## Blended Commitments

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- **Capital Investment Plan (CIP)**
- **Wholesale water sales**
- **Climate action pledge**
- **Emergency management**
- **Equity**
- **Safety**

## Blended Drivers

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- **Fleet investments**
- **Purchasing regulations / contract constraints**
- **Technology investments**



## Internal Commitments

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- **Strategic initiatives**
- **Workforce development**

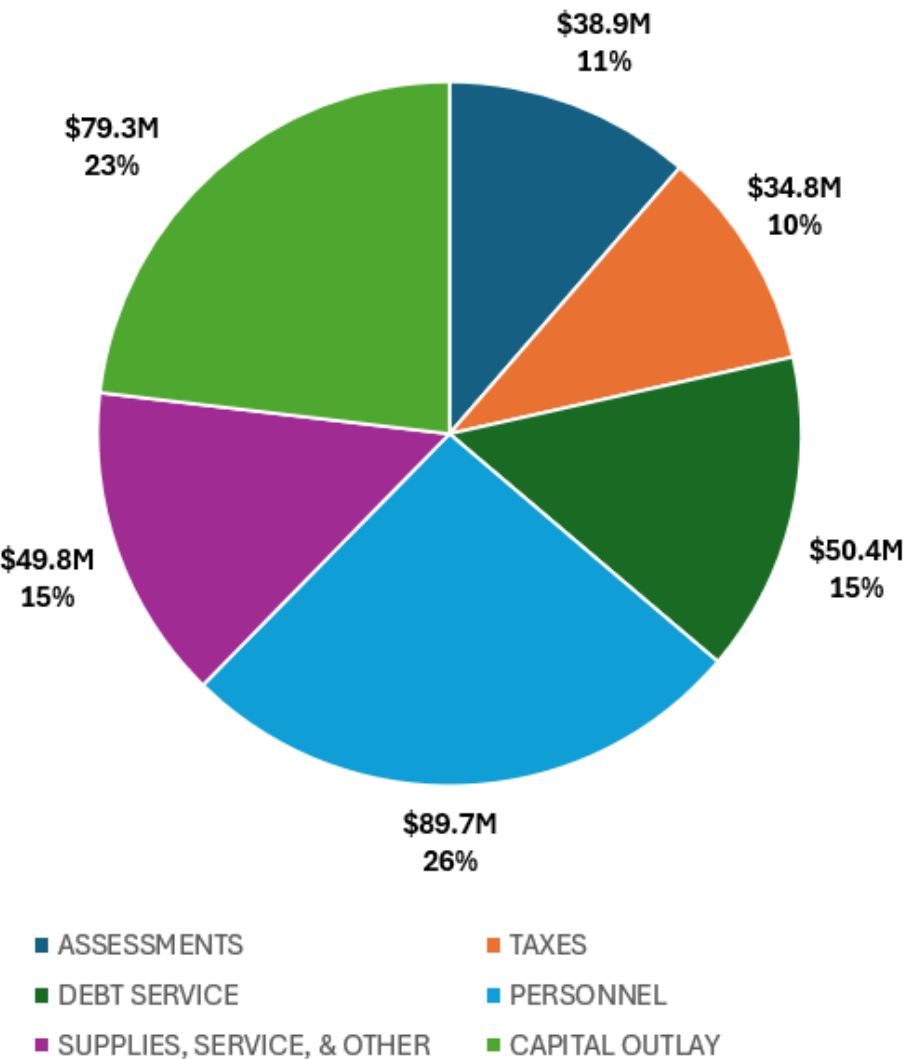
## Internal Drivers

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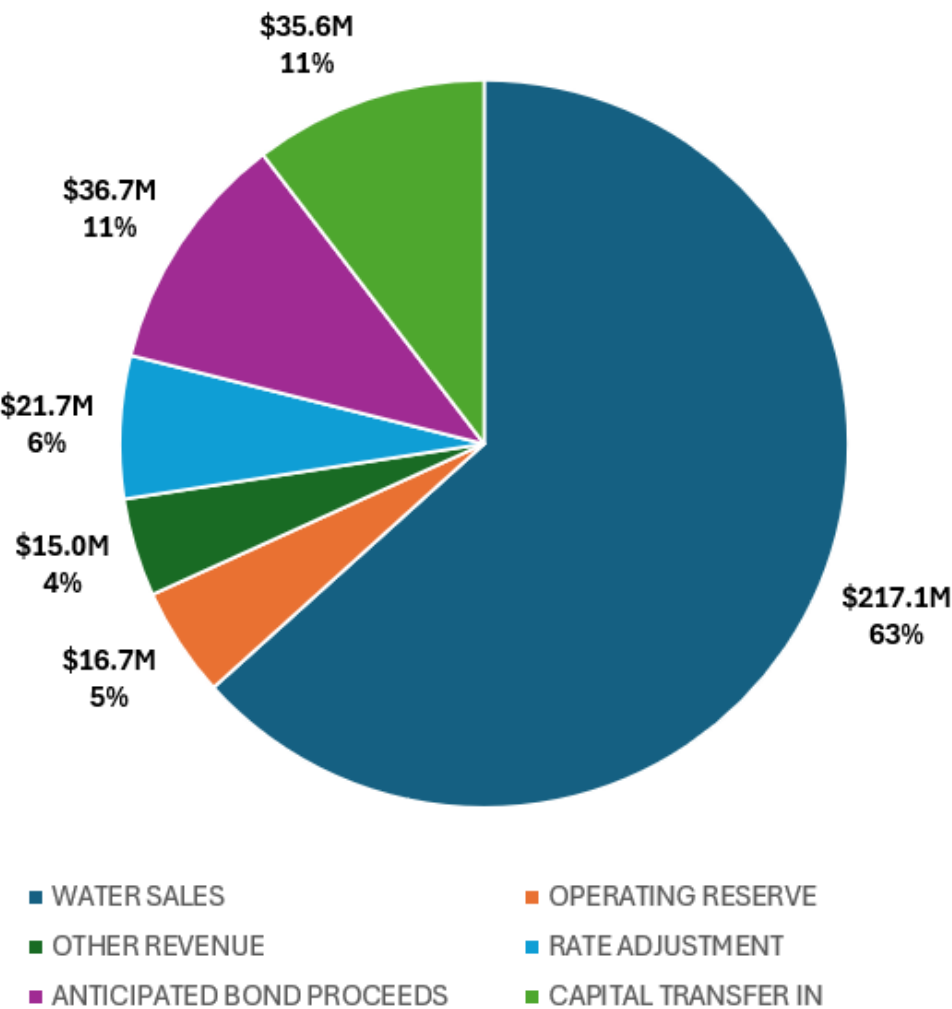
- **FTE count**

# Budget Overview: 2025/2026 Expenses & Revenues

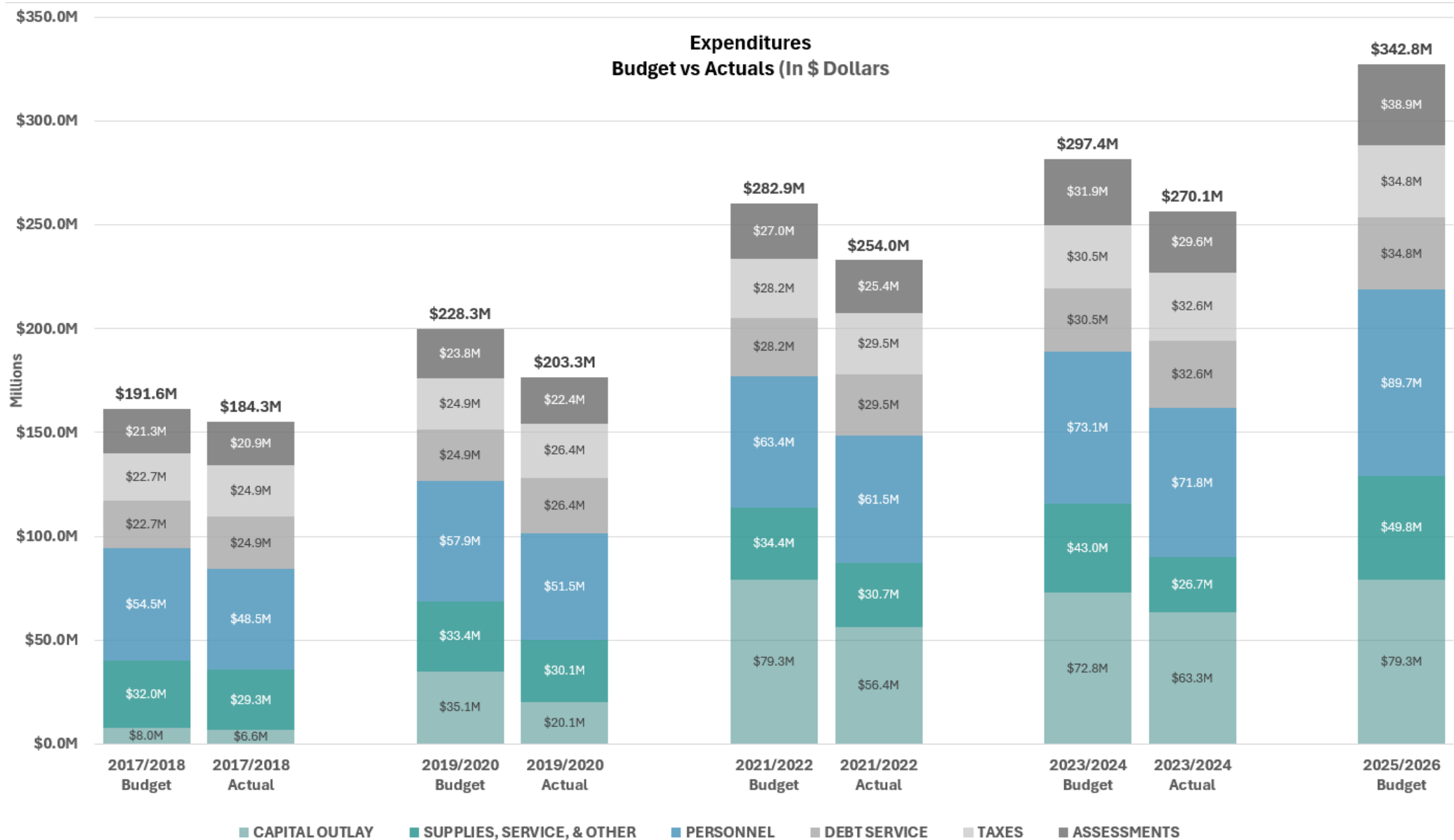
EXPENSES



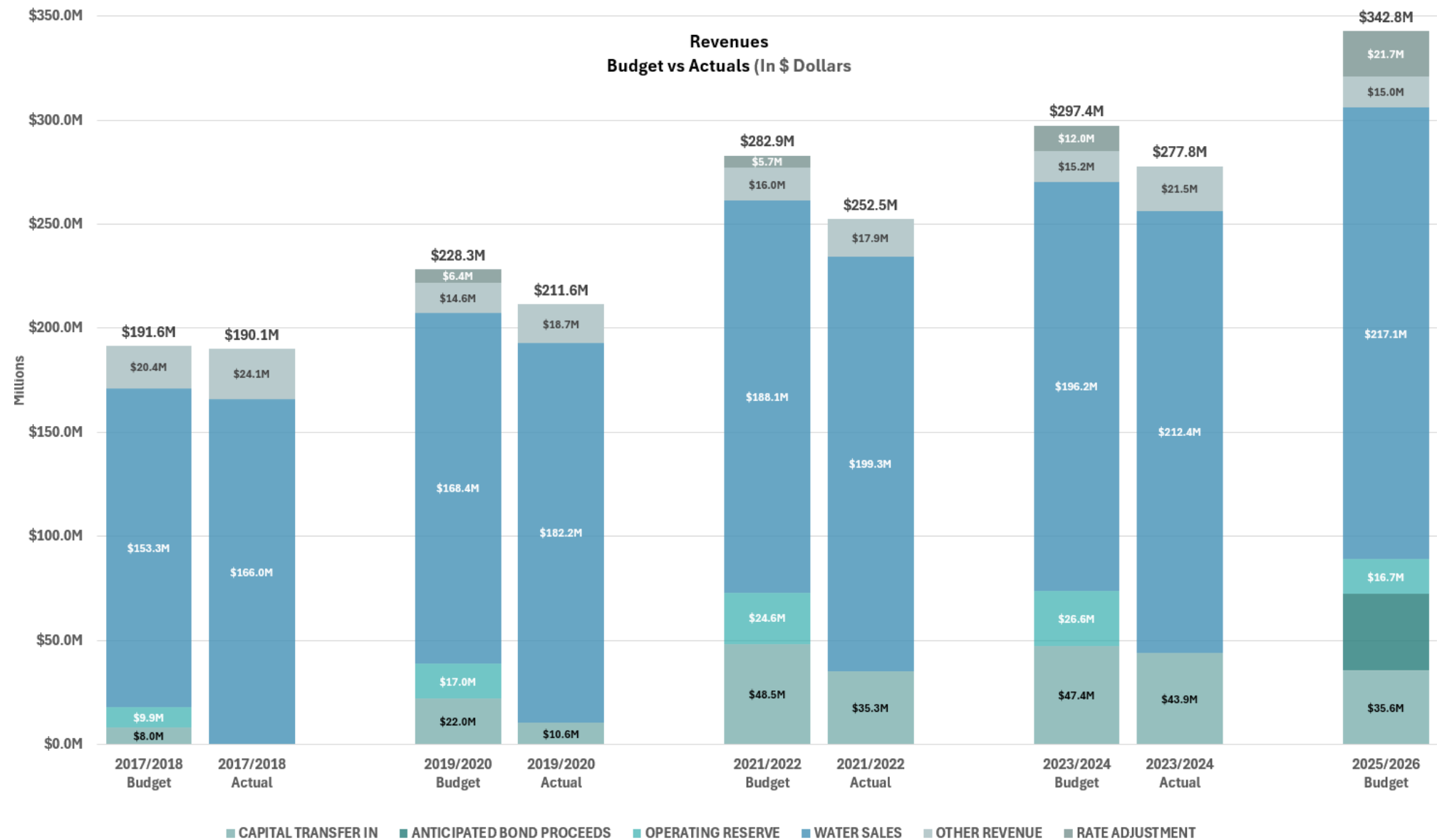
REVENUES



# Budget Trends: Expenditures

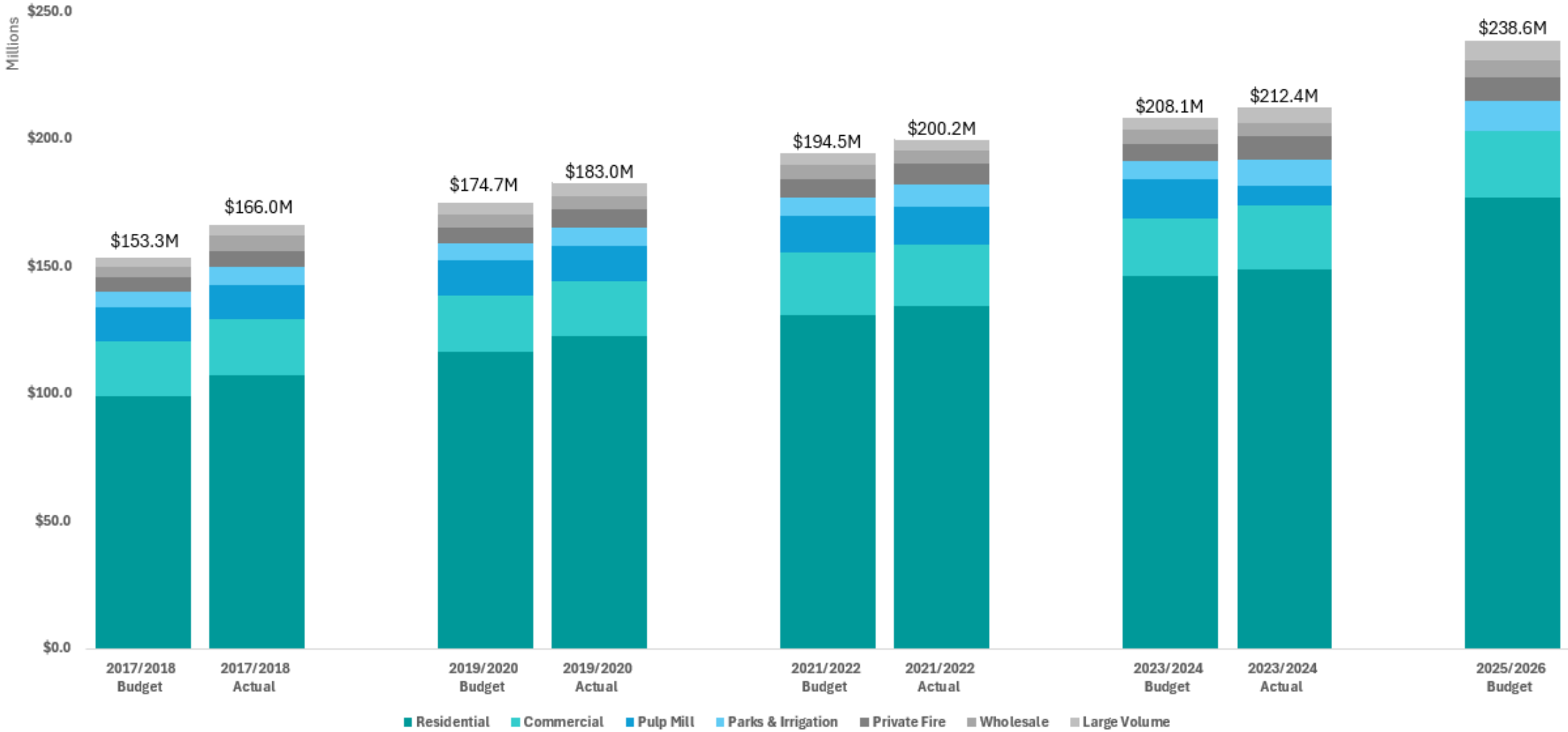


# Budget Trends: Revenues



# Budget Trends: Revenues from Water Sales

Revenues  
Budgeted and Actual Water Sales (In \$ Millions)



## Superintendents Office

### Section Overview

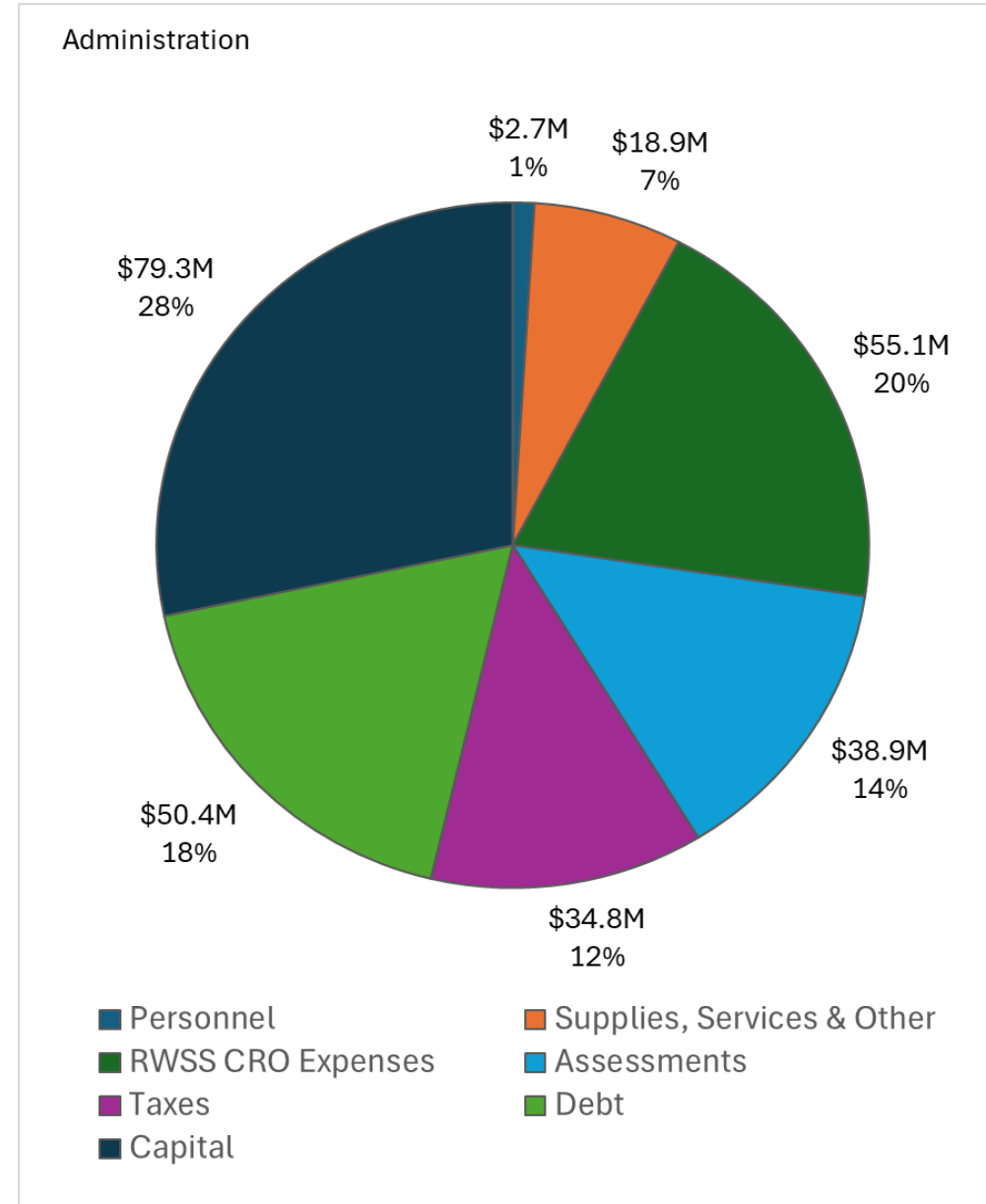
- Leadership and overall utility operations and management
- Internal Services: manage enterprise safety, strategy, and employee experience
- Administration, policy development, and coordination across all sections

### Total 2025/2026 Budget

- \$280.1M (\$95.3 Administration)

### FTEs

- Water Superintendent's Office (2)
- Internal Services, Safety & Strategy (3)
- Employee Experience (12)





## Section Overview

- Support new and existing customers, deliver customer value
- Development services, enterprise communications, education and conservation, partnership engagement
- Financial operations, planning, cost of service ratemaking, debt portfolio management, reporting, internal controls
- RWSS – Second Supply Project Agreement

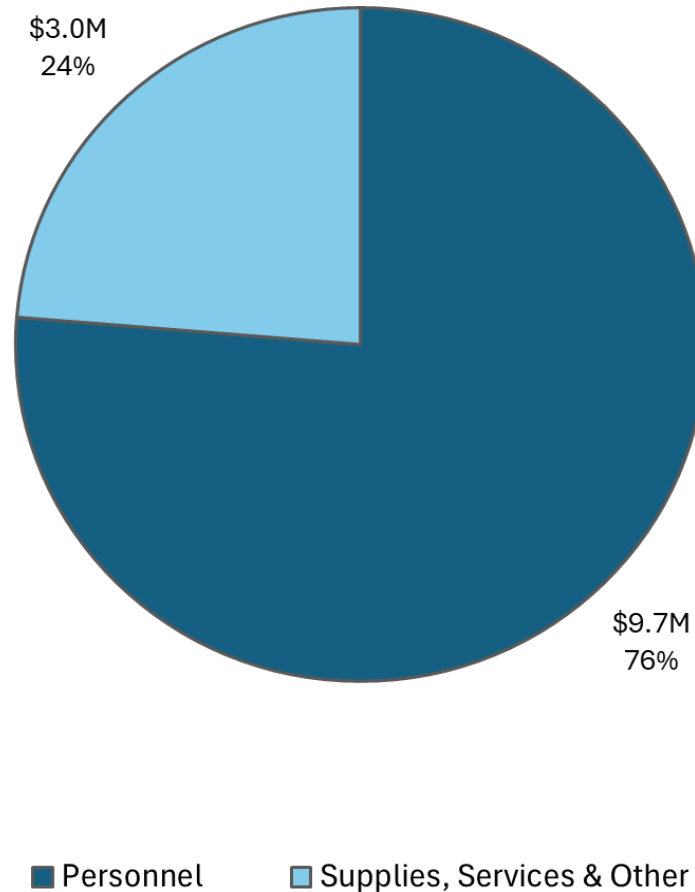
## Total 2025/2026 Budget

- \$12.7M

## FTEs

- Administrative (2)
- Customer Experience (19)
- Financial Stewardship (7)

Customer & Fin Services



## Section Overview

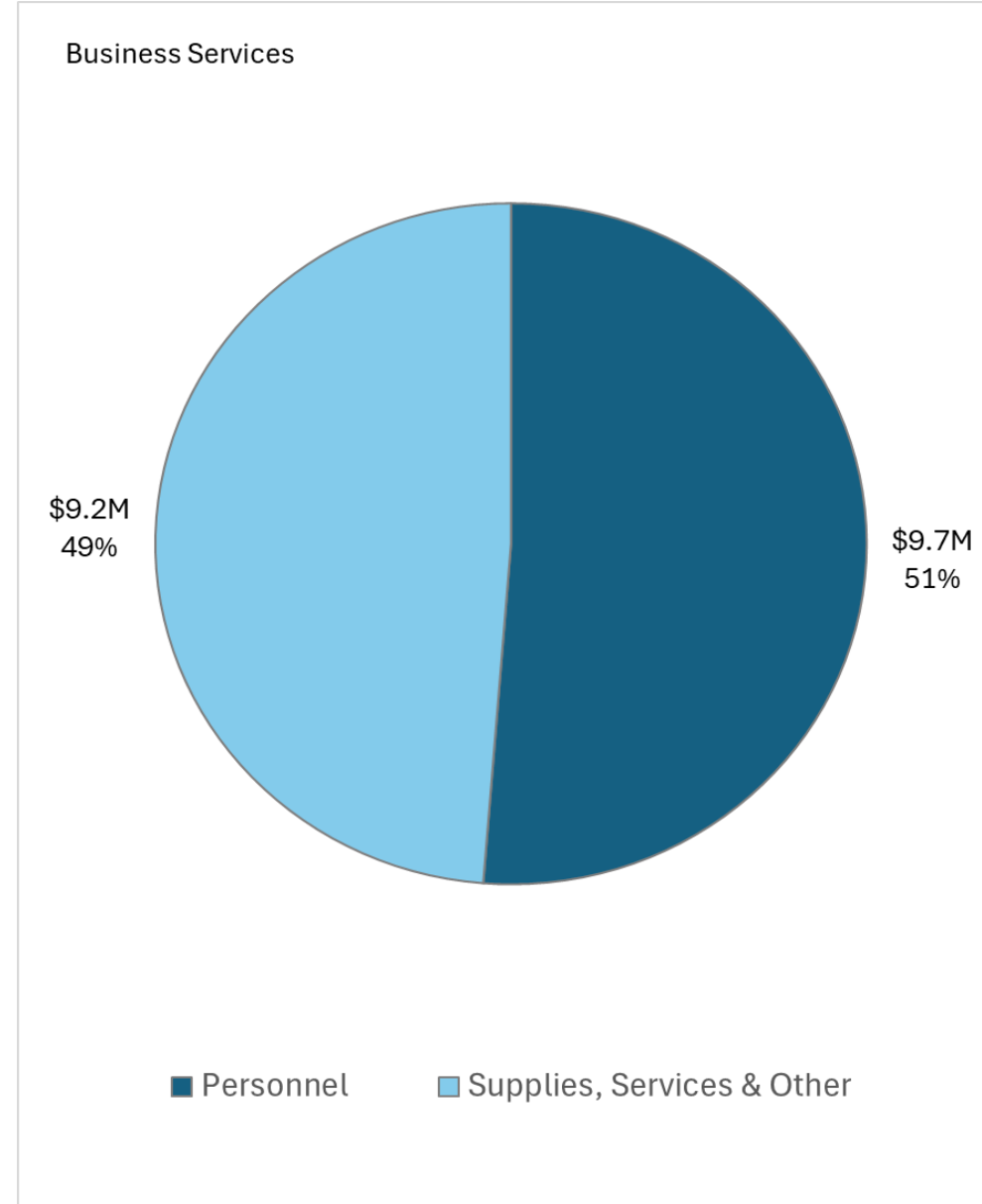
- Operational technology project and portfolio management, data management and analytics
- Application development, support and solution architecture
- GIS, spatial analysis and modeling

## Total 2025/2026 Budget

- \$18.8M

## FTEs

- Administrative (2)
- Operational Technology Services (17)
- Analytics & Implementation (10)



# Tacoma Water: Source Water & Treatment Operations

## Section Overview

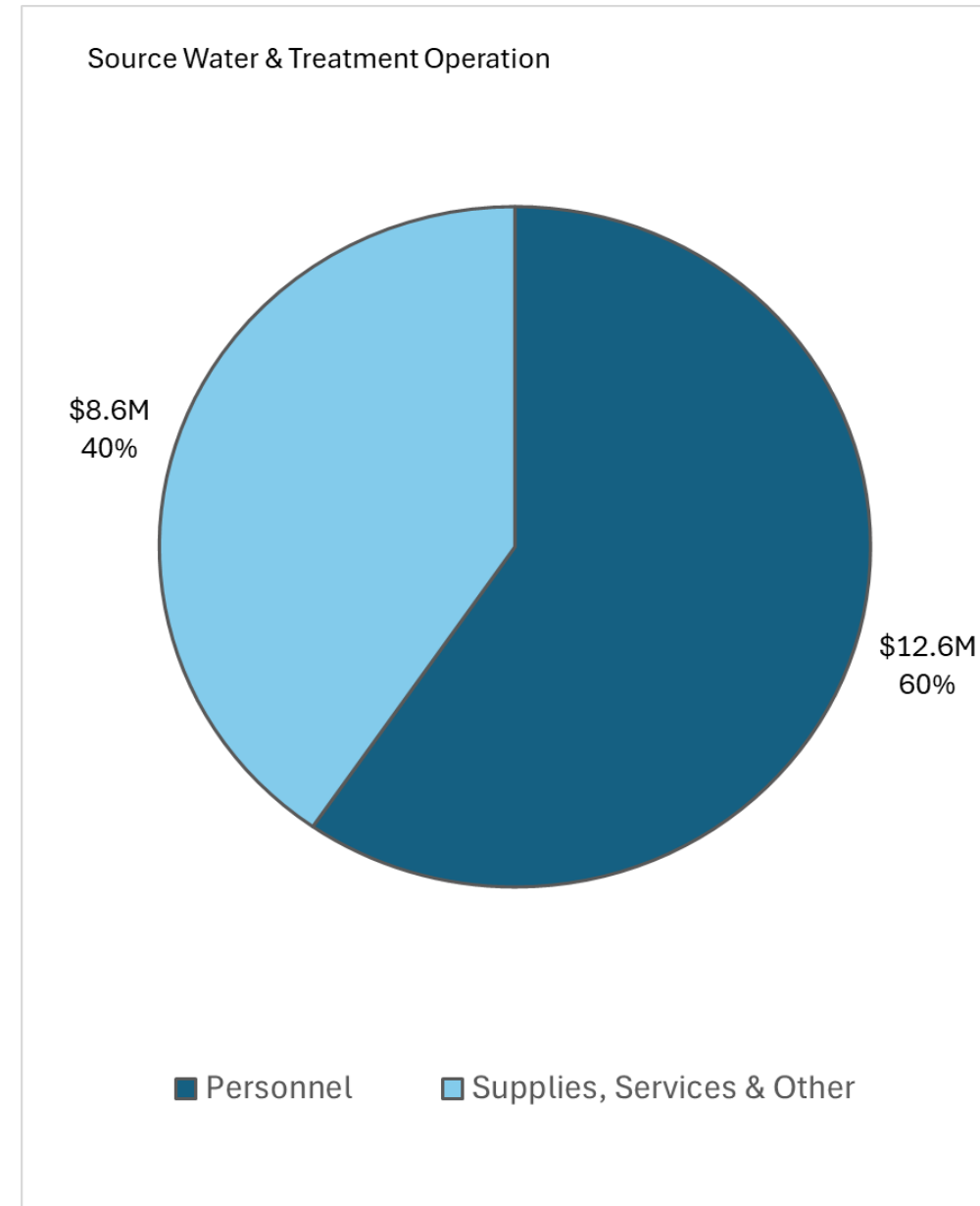
- Produce, deliver, and balance potable water across transmission and distribution systems
- Seasonal demand management, source protection, natural resource stewardship
- Water treatment, water quality, regulatory requirements, monitoring and reporting, and cross-connection control.

## Total 2025/2026 Budget

- \$21.2M

## FTEs

- Administrative (2)
- Watershed Services (13)
- Quality & System Operations (27)



# Tacoma Water: Maintenance and Construction

## Section Overview

- Maintain and repair all parts of water system
- Install new service connections
- Perform system flushing
- Planning and logistics: work orders, contracts, fleet, warehouse

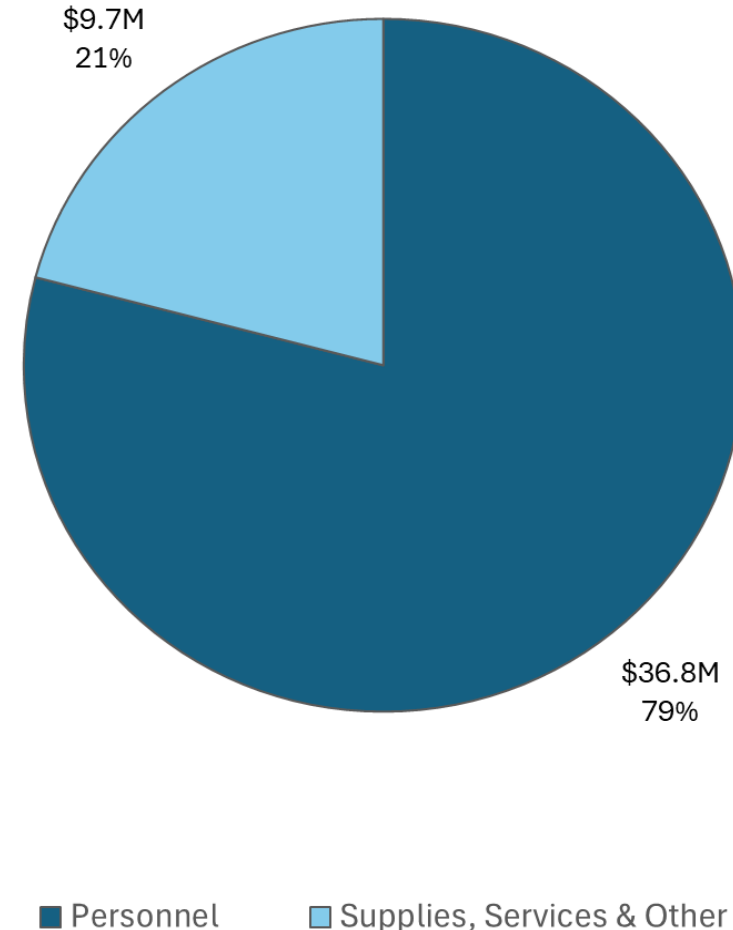
## Total 2025/2026 Budget

- \$45.5M

## FTEs

- Administrative (2)
- Planning and Logistics (21)
- Field Operations (127)

Maintenance Construction



# Tacoma Water: Planning & Engineering

## Section Overview

- System and asset management
- Engineering across all technical and operational functions of Water
- Comprehensive system planning, capital improvement plans, system and supply data, modeling
- Design and construction improvement projects

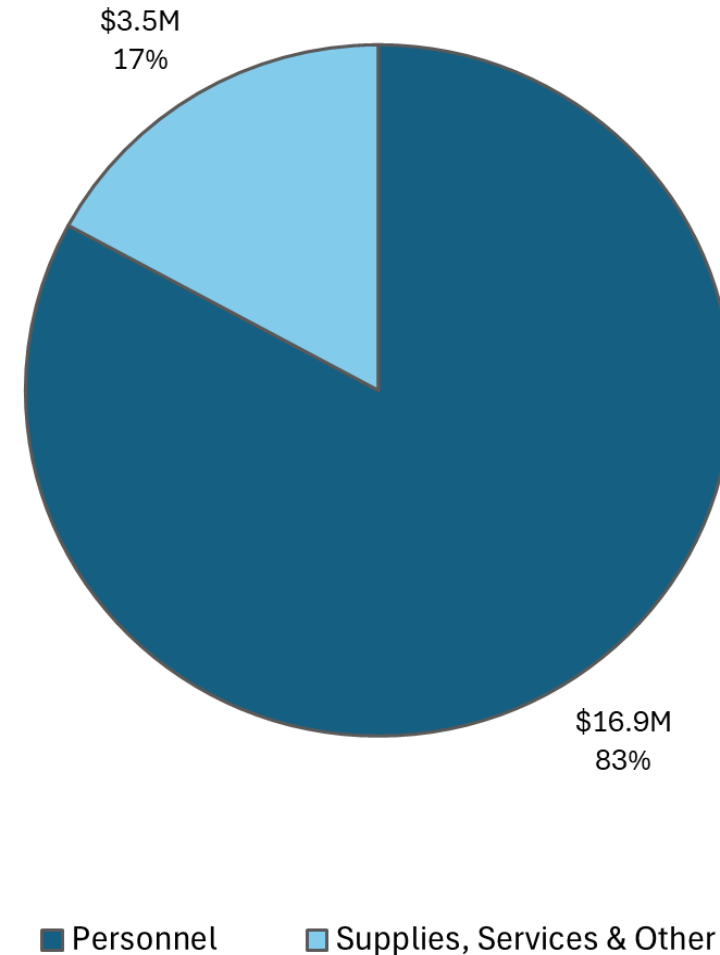
## Total 2025/2026 Budget

- \$20.4M

## FTEs

- Administrative (3)
- Water Treatment and Quality Planning (4)
- Water Resources (3)
- Electrical & Control Systems (13)
- System Asset Planning & Emergency Management (12)
- Water Engineering (11)
- Project Delivery (22)

Planning & Engineering



# Tacoma Water: Regional Water Supply System (RWSS)

## Section Overview

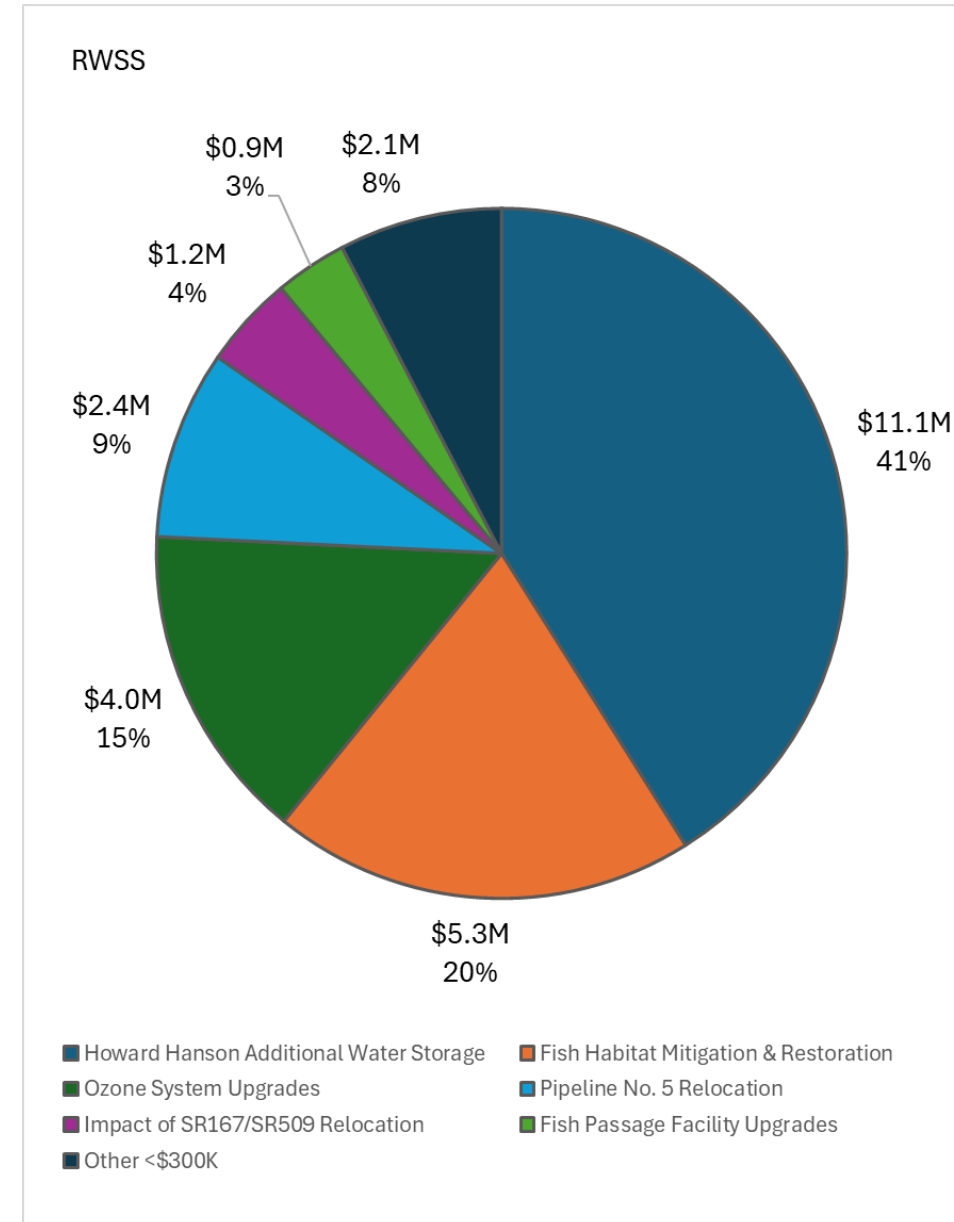
- Partnership between Tacoma, Kent, Covington, and Lakehaven
- Cost share for Second Supply Project financing
- Permit, design, construct, operate, maintain, and deliver proportional shares of water rights

## Total 2025/2026 Budget

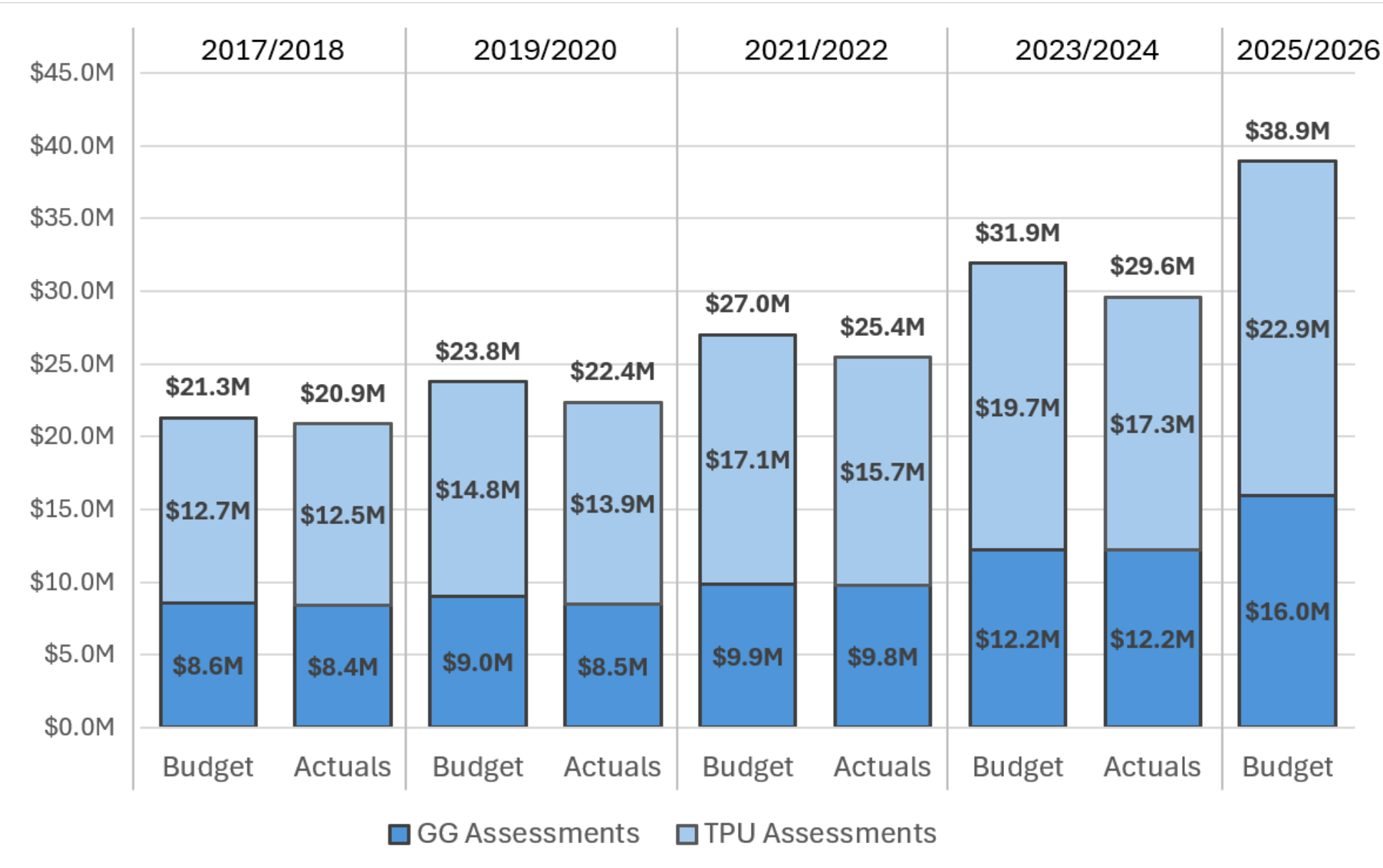
- \$55.1M

## Projects (Share of CIP)

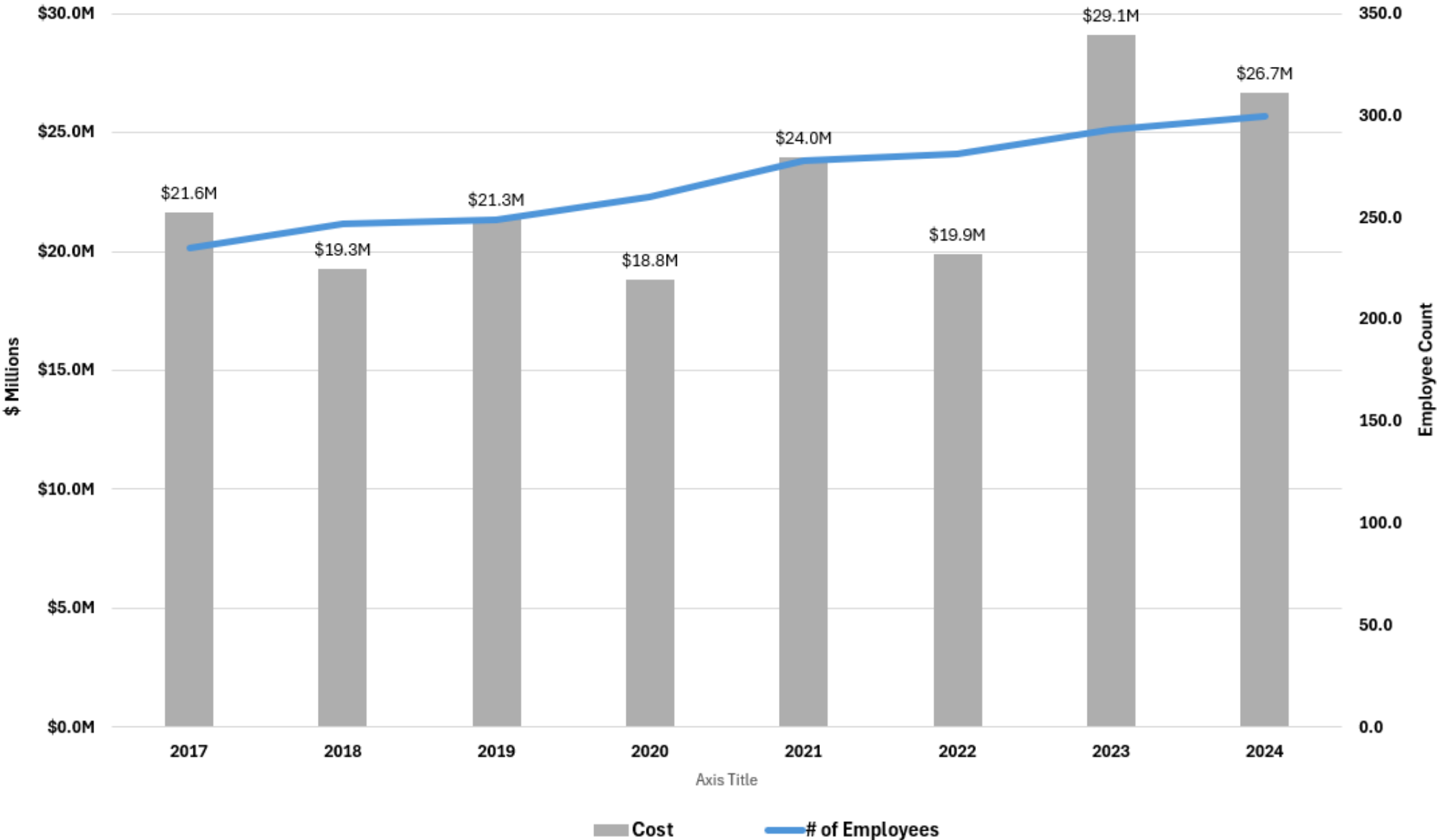
- \$27.0M



# Budget Trends: Assessments GG & TPU



# Budget Trends: Actual Personnel Expenses & FTEs

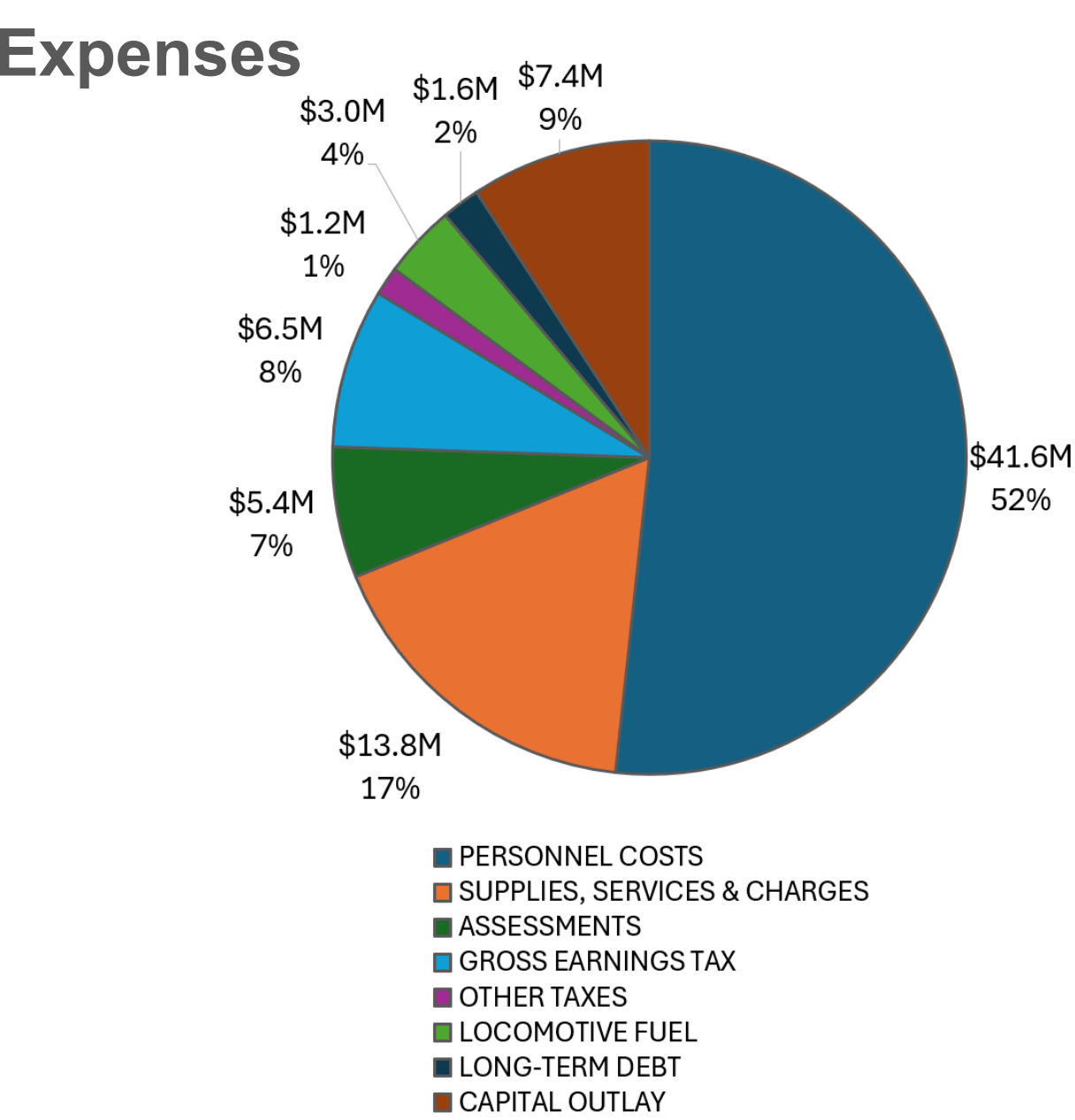




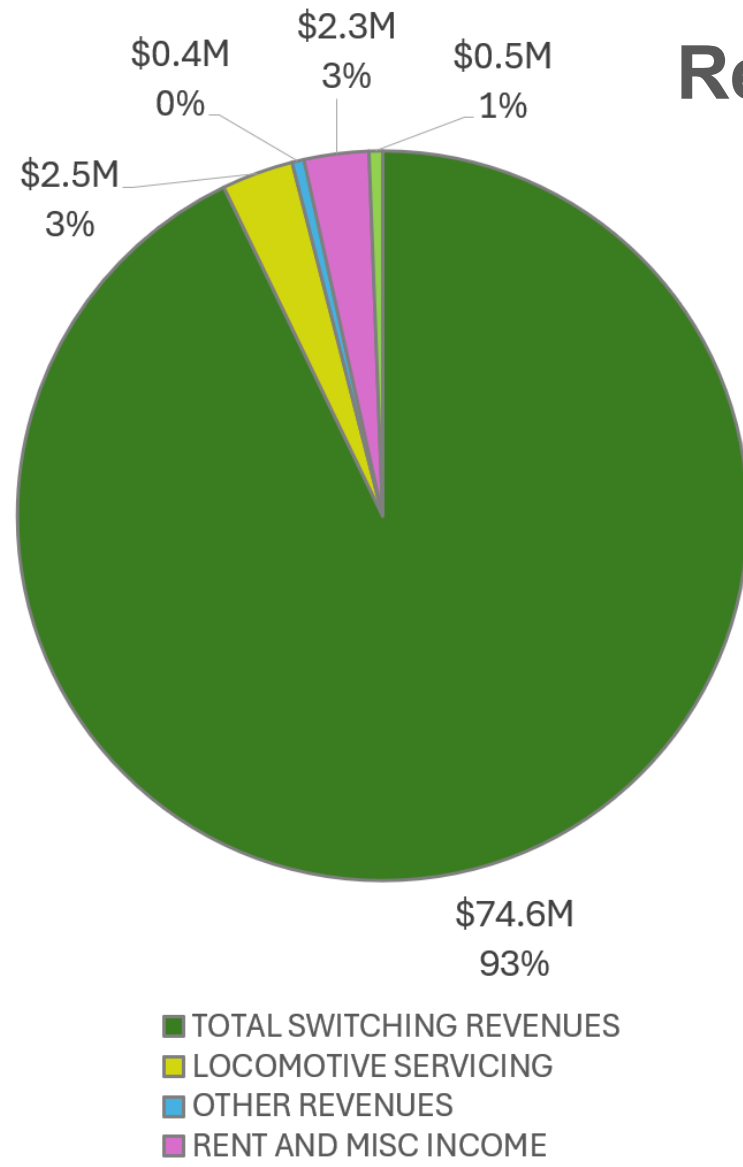
# Tacoma Rail

# 2025/2026 Budget – \$80.4M

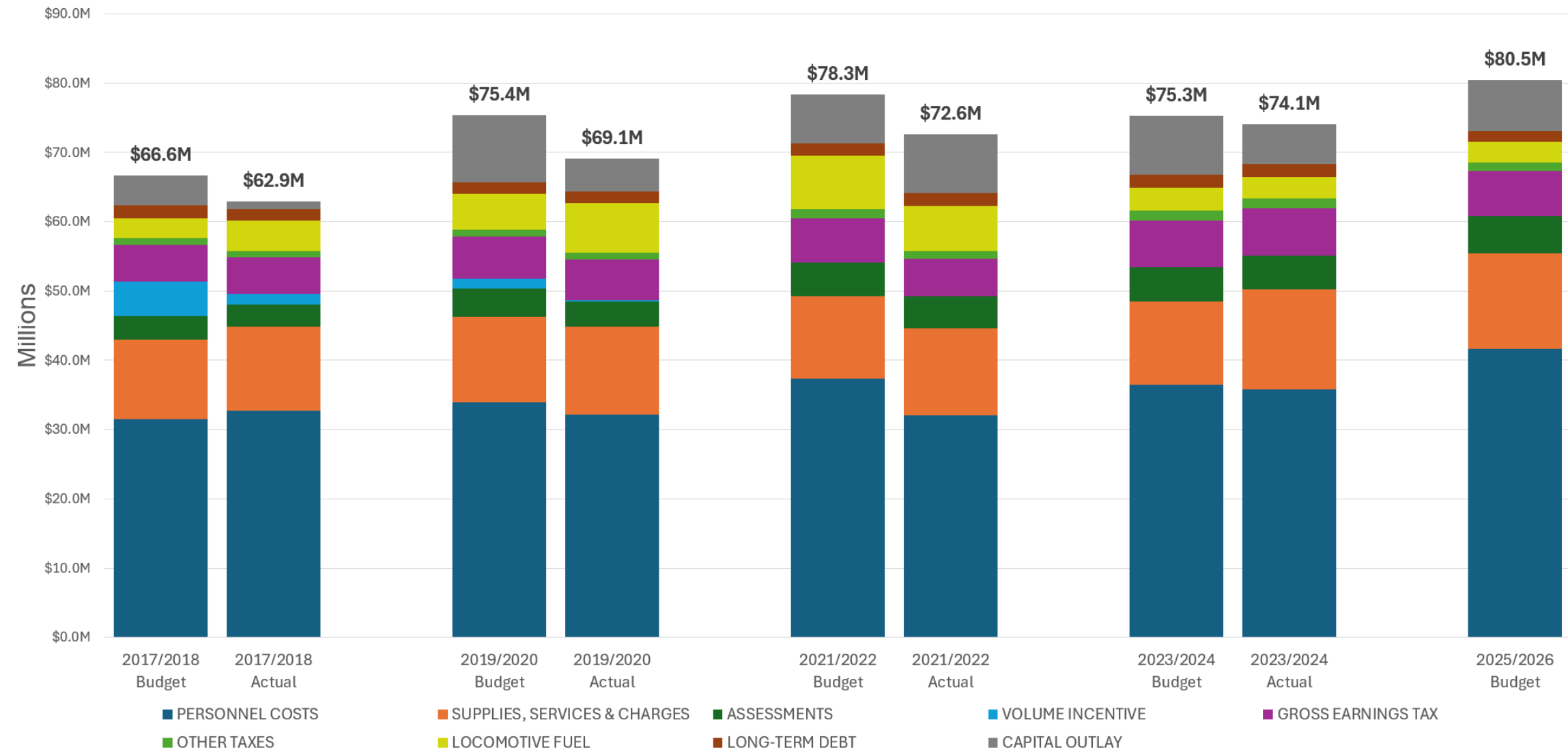
## Expenses



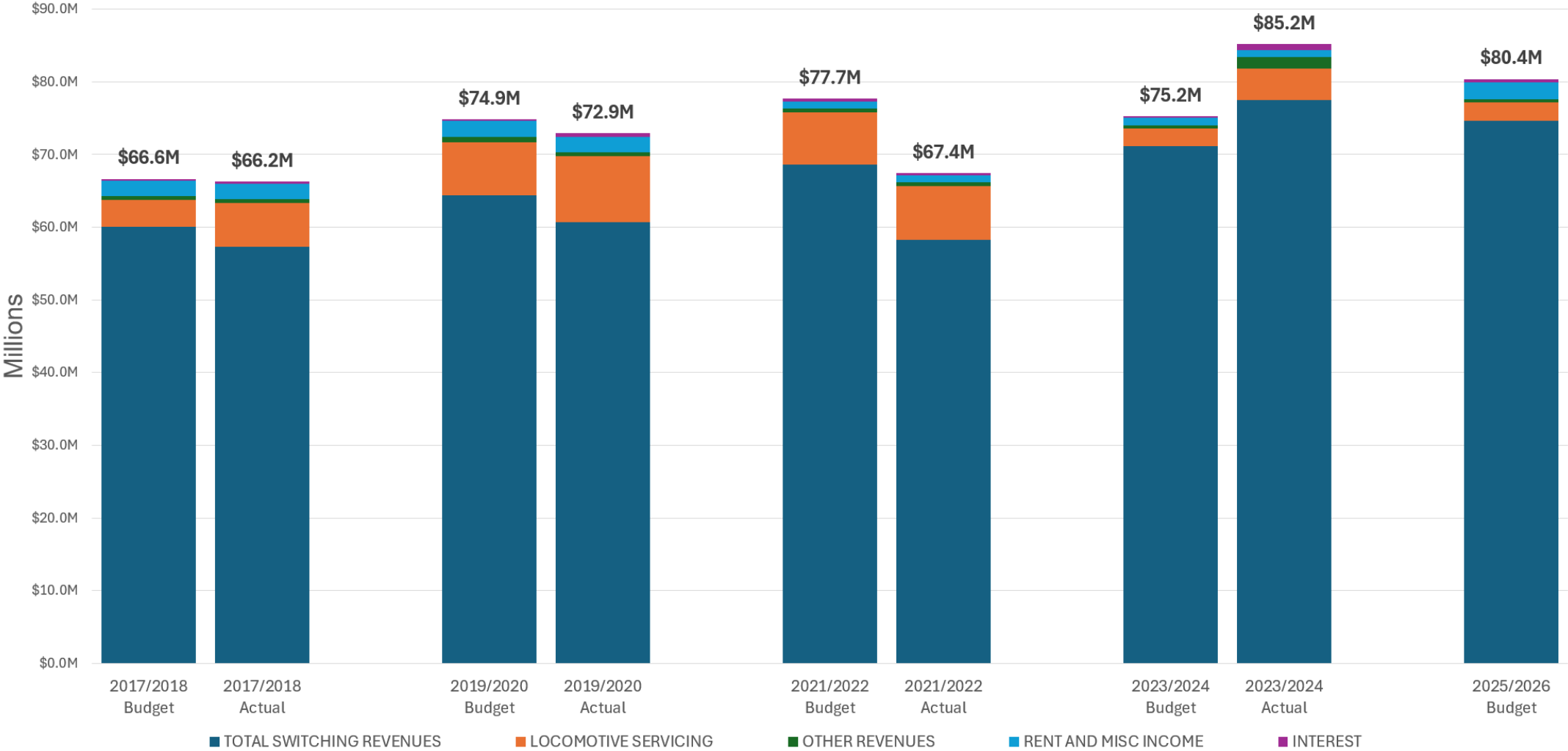
## Revenues



# Budget Trends: Expenditures



# Budget Trends: Revenues



## Section Overview

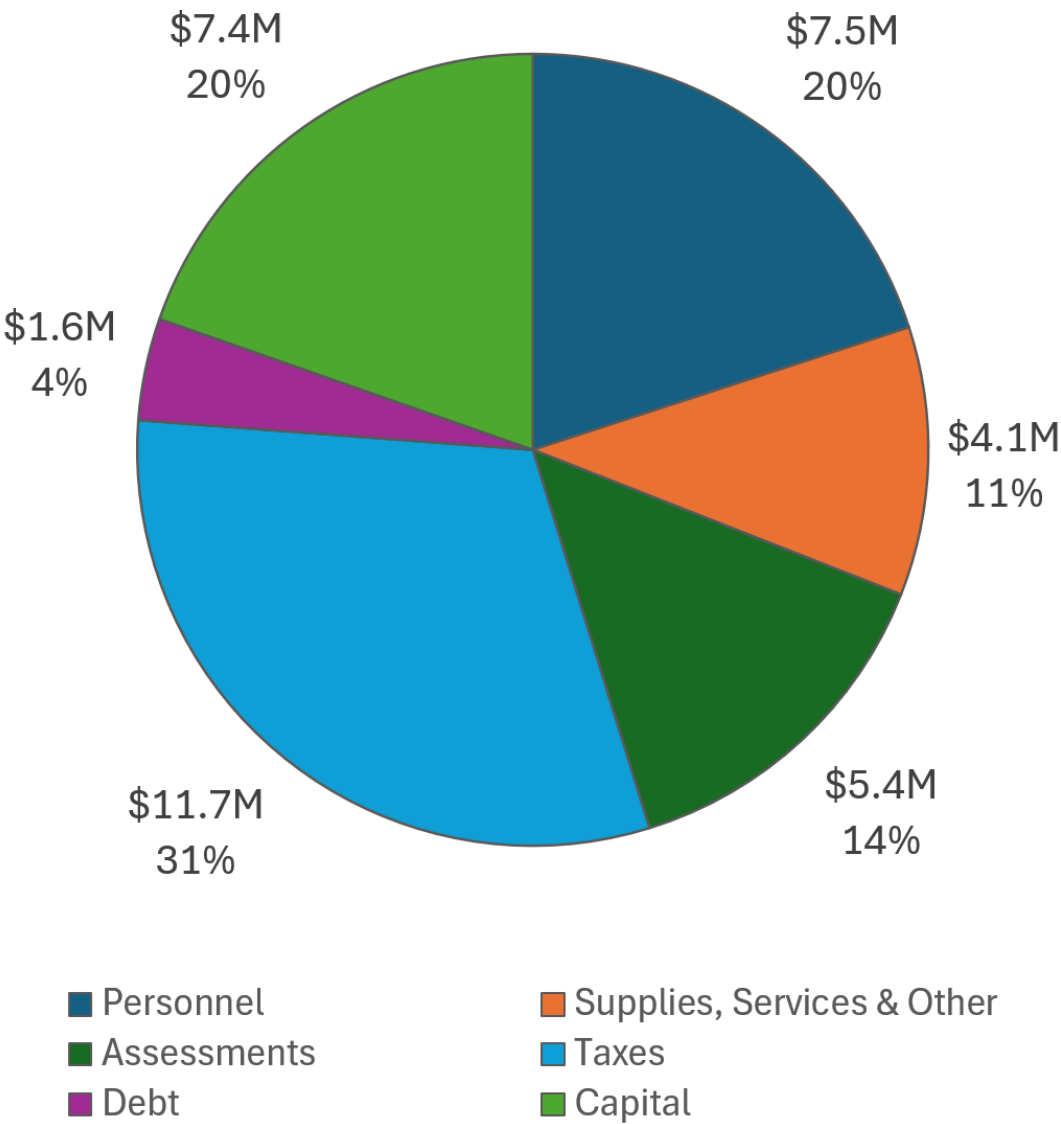
- Responsible for railroad safety, compliance and certification.
- Recruiting, developing and retraining high quality workforce.
- Perform cost studies, rate design and pricing of services and grant funding requests.
- Participates in transportation and railroad related memberships for continuous education, collaboration and influence with customers.

## Total 2025/26 Budget

- \$33.7M

## FTE's

- Rail Superintendent's Office (2)
- Administrative Services, Safety & Compliance (5)
- Finance & Technology
  - Administrative (4)
  - Yard Clerks (6)



## Section Overview

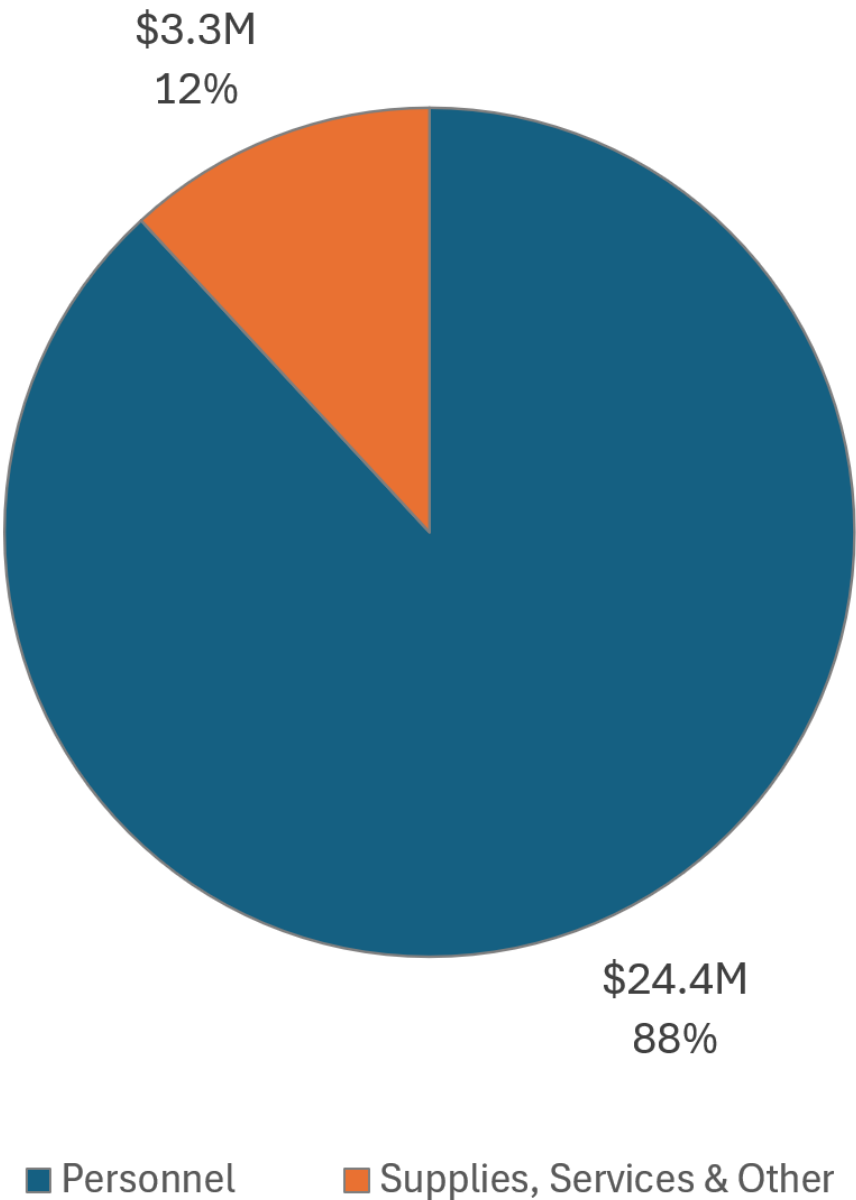
- Responsible for receiving and delivering interstate freight shipments.
- Manages multiple train crews 24 hours per day, 7 days a week.
- Monitors and maintains accurate inventory of all railcars in possession including hazardous material shipments in safe and efficient manner compliant with federal and national industry regulations and standards.

## Total 2025/26 O&M Budget

- \$27.7M

## FTE's

- Administrative (9)
- Yardmasters (6)
- Locomotive Engineers (17)
- Conductors (42)



## Section Overview

- Maintains and improves Tacoma Rail's locomotive fleet, ensures compliance with federal regulations, achieving environmental stewardship goals and provides consistent levels of service.
- Providing added value services at competitive rates to Tacoma Rail's Class I railroad partners in support of local throughput velocity and regional competitiveness objectives.

## Total 2025/26 O&M Budget

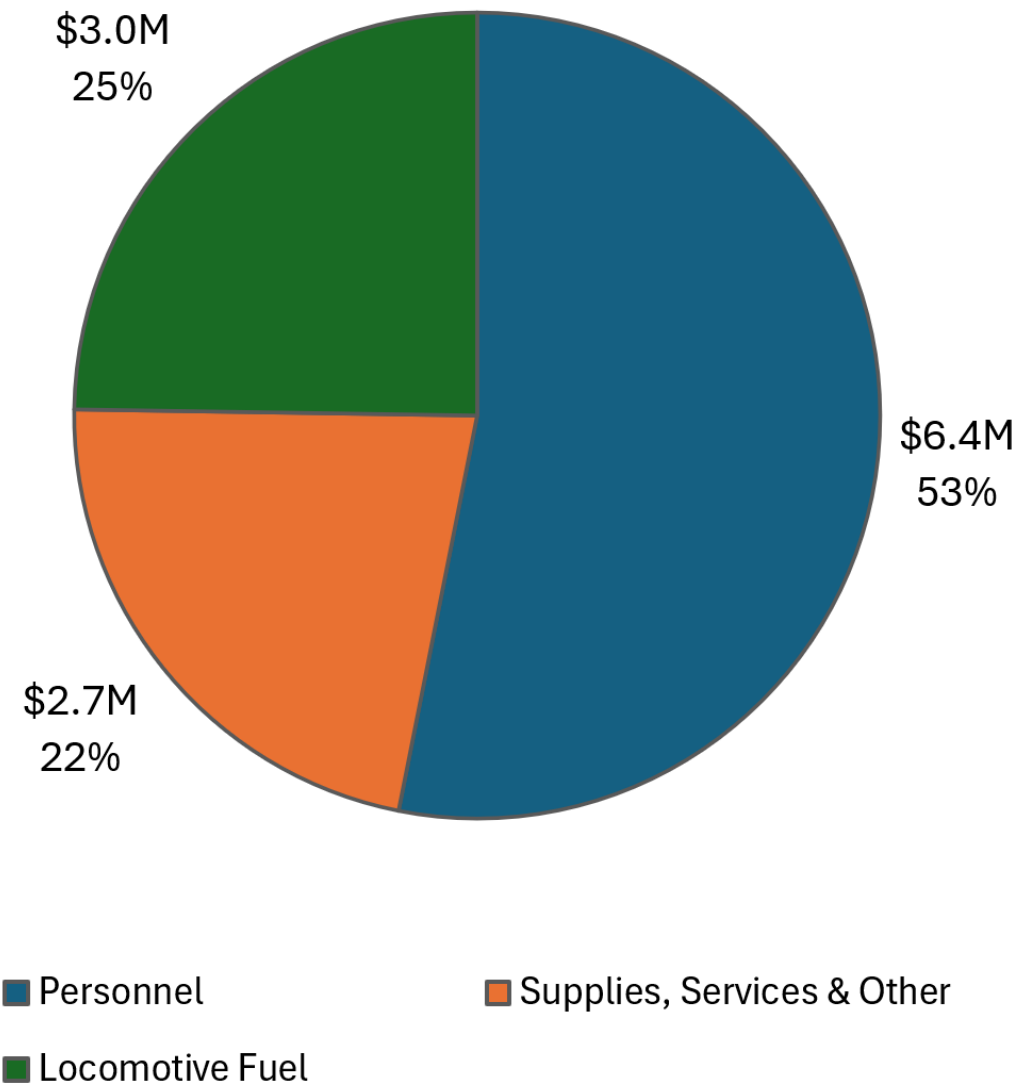
- \$12.1M

## Major 2025/26 Projects

- Diesel Locomotive Repowers
- Battery Electric Locomotives

## FTE's

- Administrative (3)
- Locomotive Mechanics (14)
- Shop Workers (2)



## Section Overview

- Maintains and improves track structures including bridges, signal systems and right-of-way to ensure compliance with state and federal regulations.
- Maximizing operation flexibility, supporting new business opportunities, while planning, prioritizing and performing ongoing maintenance and capital improvement projects.
- Assists in the development and presentation of grant funding request submissions, negotiates and executes construction & maintenance agreements with public and private entities occupying railroad rights-of-way.

## Total 2025/26 O&M Budget

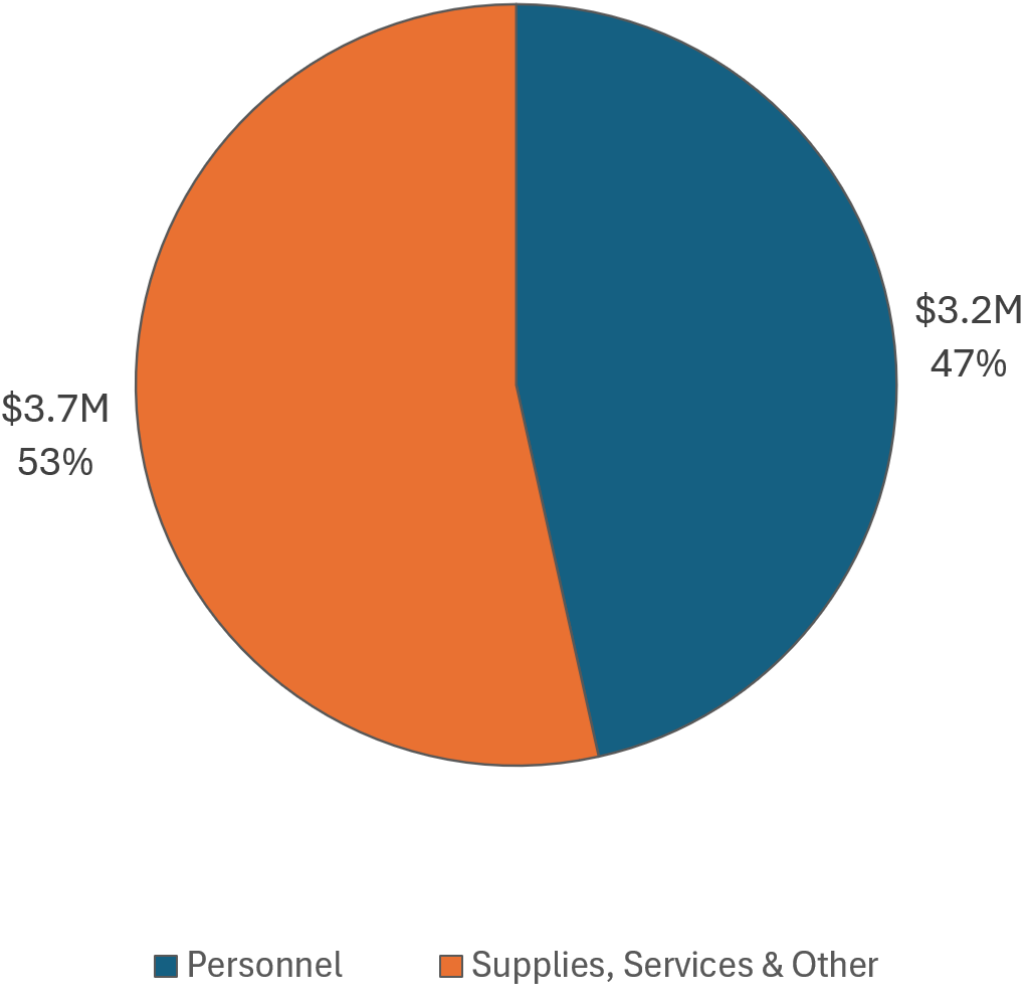
- \$6.9M

## Major 2025/26 Projects

- US Oil/Port Road Crossings Signalization
- Annie Tracks Switch & Curve Upgrade
- Taylor Way Yard Upgrades
- Switch Replacements

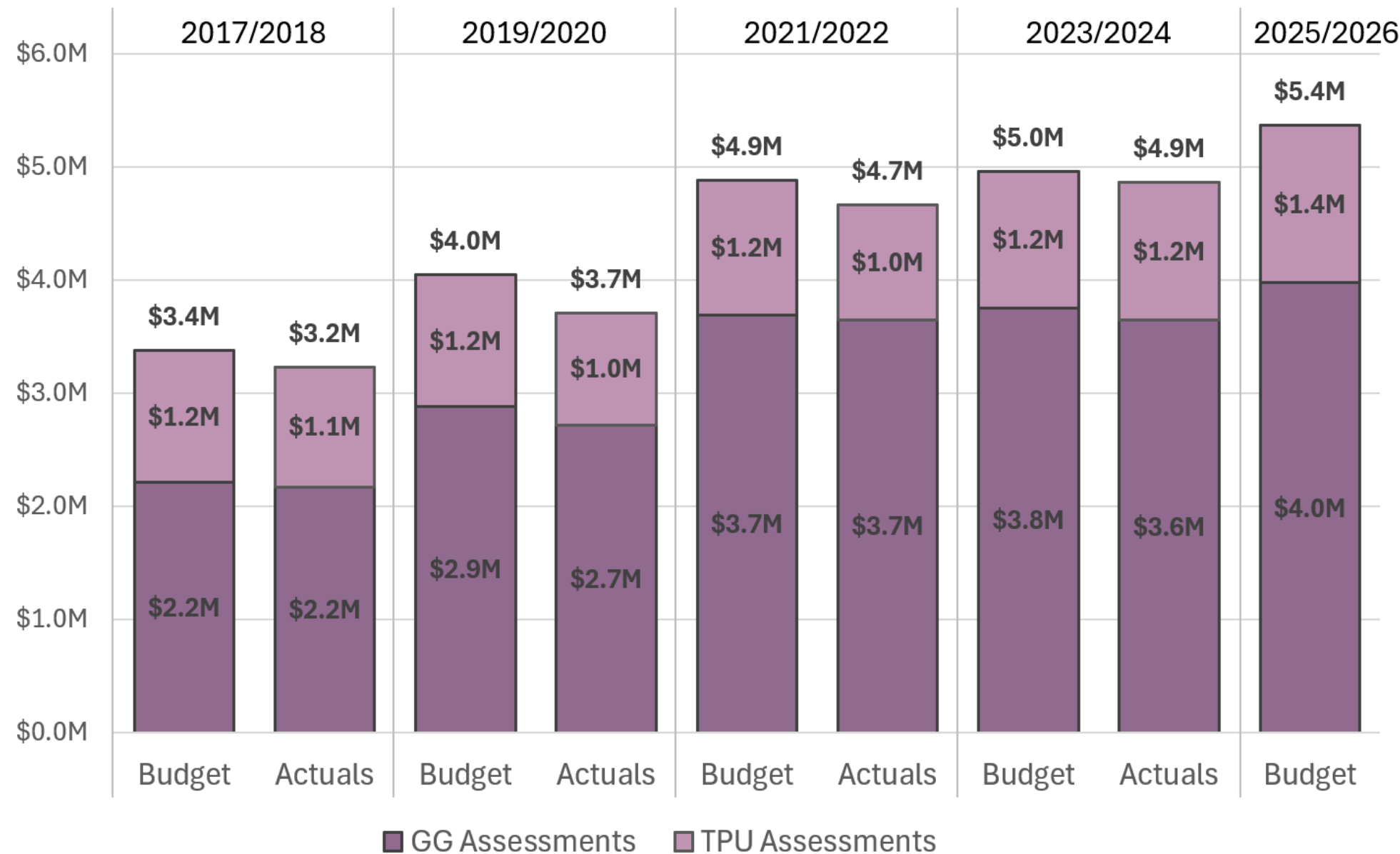
## FTE's

- Administrative (2)
- Track Workers (7)

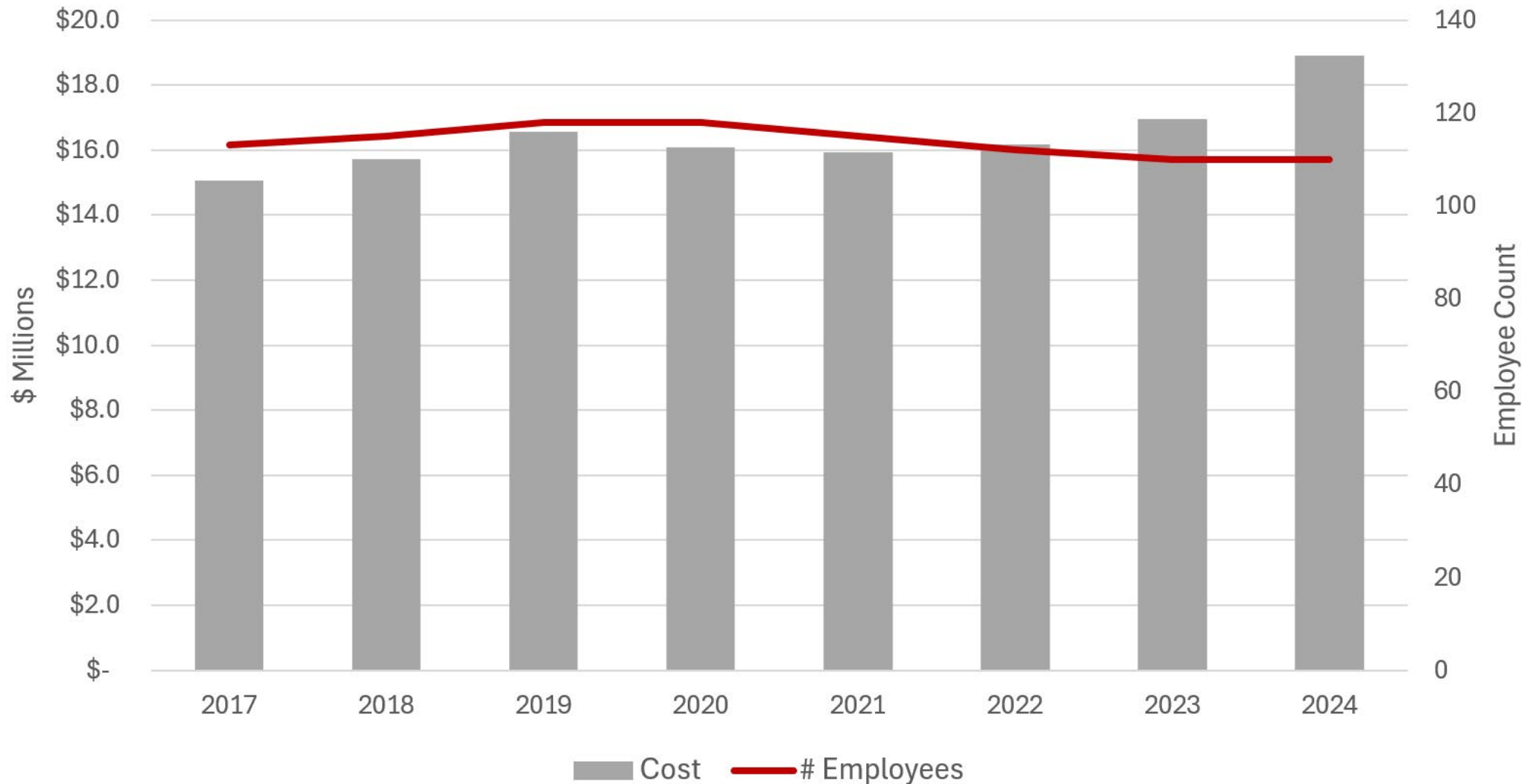




# Assessments – GG & TPU



# Actual Personnel Expenses & FTE's



# Kahoot!

Kahoot #5



# 2025 Q3 Financial Outlook & Performance Metrics

# Tacoma Water Financial Outlook

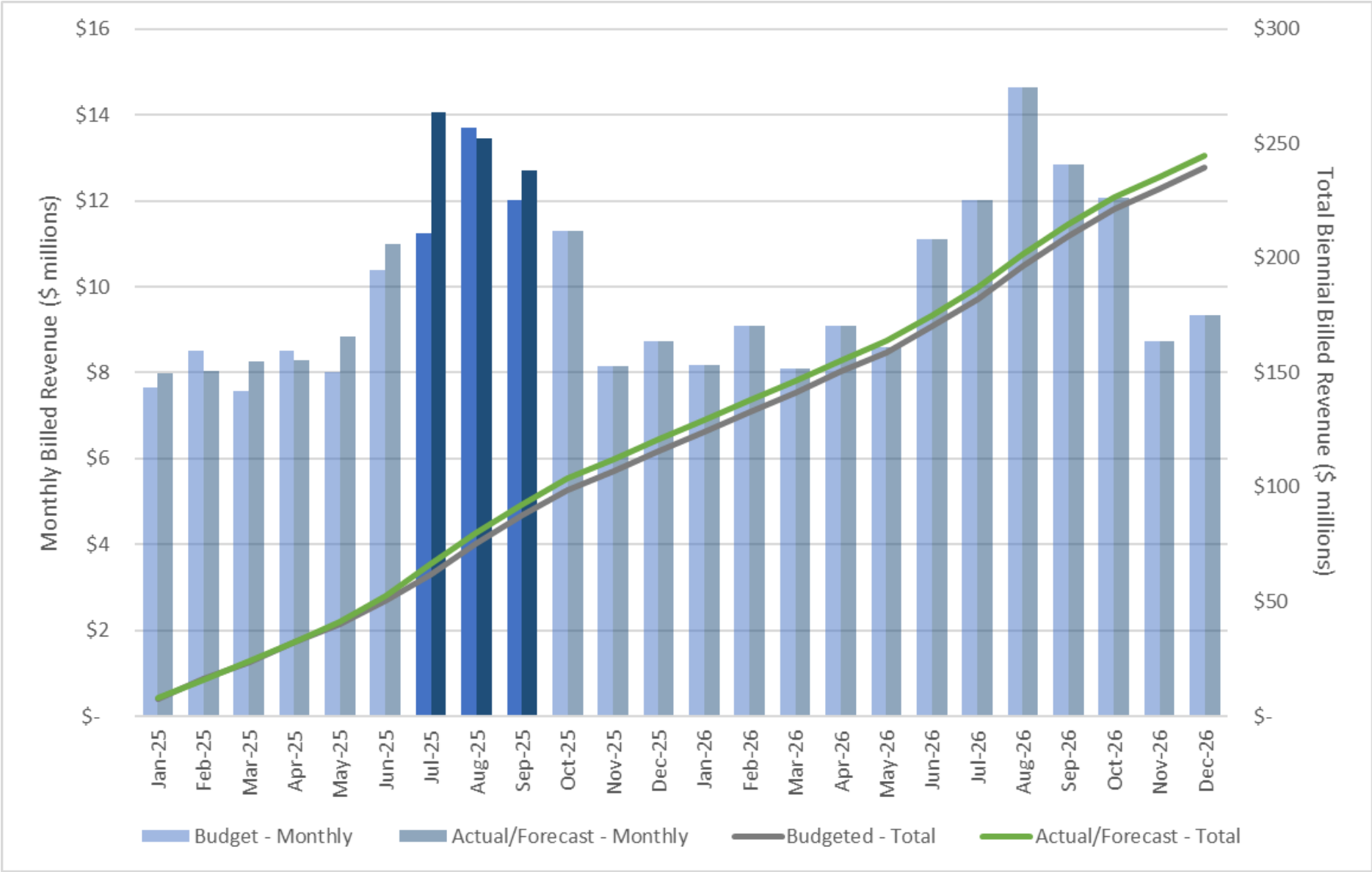
**3rd Quarter 2025**



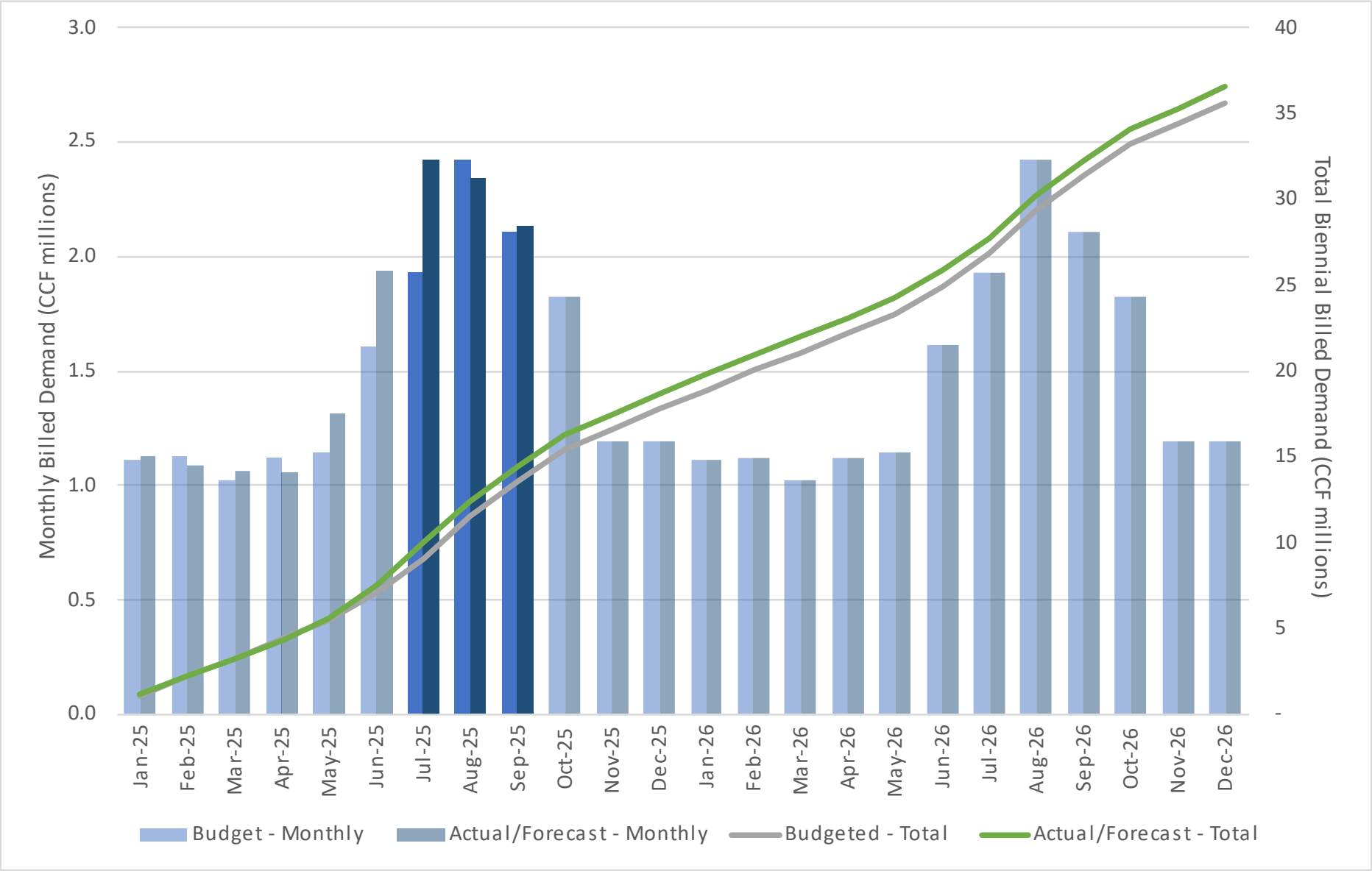
# 2025/2026 Biennium Summary of Financial Outlook

- *This report incorporates actual revenues and expenditures through September 2025 with projections for the remainder of the biennium*
- **Forecast for total revenue is \$7.9M or 3% over budget**
  - Q3 strengths: Strong demand resulted in higher water sales during the third quarter.
  - Q3 challenges: No significant challenges.
  - Q4 outlook: Monitoring water sales and continued GET impact.
- **Forecast for operating expenditures is \$5.6M or 2% under budget**
  - Q3 strengths: Expenditures generally within budget and Capital program moving forward as planned.
  - Q3 challenges: No significant challenges.
  - Q4 outlook: Assessing impacts to contracted services newly subject to retail sales tax and material and supply costs due to tariffs

# Billed Revenue



# Billed Demand





# 2025/2026 Biennium Forecast vs. Budget

## 1. Total Revenue

- Billed Water Sales were about \$3.2M over budget during the third quarter, primarily due to other water sales for Residential, Commercial, Private Fire, and Irrigation
- Non-Operating revenue is about \$2.2M over budget due to higher than planned interest earned on cash balances (plan is conservative)

## 2. Personnel Expenses

- \$2.2M under budget or about 2% biennium to date
- At the end of the third quarter there were 26 vacancies, or an 8% vacancy rate

## 3. Supplies, Services and Other Charges

- This expense category is projected to be \$4.4M under budget in total
- Assessments are about \$2M under budget overall
- These reductions are partially offset by a 9% increase in taxes and continued GET impact

# 2025/2026 Biennium Forecast vs. Budget

## 4. Total Revenue less Total Expenditures

- Projected to be \$13.5 million over budget based on these updates

## 5. Capital Outlay

- The 2025/26 capital plan is funded from operating, capital reserves, and anticipated bond proceeds and includes a carryforward factor reduction to account for projects that span biennia
- We are monitoring the capital plan, and several projects are forecast to be higher than budgeted, currently we expect that these increases will be offset by lower spending in other projects including contingency
- We are reviewing the capital funding plan and reserve policies. This will likely change capital funding sources and defer issuing new money as originally planned.

## 6. Projected Cash Ending Cash Balance

- Operating reserve is projected to be at \$67 million at the end of biennium due to using SDC funds and Capital reserve funds for capital projects.
- The cash balance projection includes adjustments for working capital to date to reflect changes in accounts receivables, payables and accruals

# 2025/2026 Biennium Forecast vs. Budget

All \$'s in 1000's	2025 Budget	2025 Forecast	2025 Difference	2026 Budget	2026 Forecast	2026 Difference	Total Biennium Budget	Total Biennium Forecast	Biennium Difference \$	Biennium Difference %
<b>Revenue</b>										
Residential Water Sales	85,483	87,534	2,052	91,441	91,441	-	176,924	178,975	2,052	1%
Wholesale Water Sales	3,208	3,231	23	3,432	3,432	-	6,640	6,664	23	0%
Other Water Sales	27,046	30,036	2,989	28,932	28,932	-	55,978	58,967	2,989	5%
Other Operating Revenue	3,665	4,290	625	3,609	3,609	-	7,274	7,899	625	9%
<b>Total Operating Revenue</b>	<b>119,402</b>	<b>125,092</b>	<b>5,690</b>	<b>127,414</b>	<b>127,414</b>	<b>-</b>	<b>246,816</b>	<b>252,505</b>	<b>5,690</b>	<b>2%</b>
Non-Operating Revenue (includes BAB's subsidy)	3,496	5,675	2,179	3,453	3,453	-	6,949	9,128	2,179	(1) 31%
<b>Total Revenue</b>	<b>122,898</b>	<b>130,767</b>	<b>7,869</b>	<b>130,867</b>	<b>130,867</b>	<b>-</b>	<b>253,765</b>	<b>261,634</b>	<b>7,869</b>	<b>3%</b>
<b>Expenditures</b>										
Personnel Costs	43,603	41,405	(2,199)	46,053	46,053	-	89,656	87,457	(2,199)	(2) -2%
Supplies, Other Services & Charges	44,763	40,355	(4,408)	43,917	43,917	-	88,680	84,272	(4,408)	(3) -5%
Debt Service	22,276	20,088	(2,188)	28,123	28,123	-	50,399	48,211	(2,188)	-4%
Taxes	16,854	20,022	3,168	17,915	17,915	-	34,769	37,937	3,168	9%
<b>Total Expenditures</b>	<b>127,496</b>	<b>121,869</b>	<b>(5,627)</b>	<b>136,008</b>	<b>136,008</b>	<b>-</b>	<b>263,504</b>	<b>257,876</b>	<b>(5,627)</b>	<b>-2%</b>
<b>Total Revenue less Total Expenditures</b>	<b>(4,598)</b>	<b>8,898</b>	<b>13,497</b>	<b>(5,141)</b>	<b>(5,141)</b>	<b>-</b>	<b>(9,739)</b>	<b>3,757</b>	<b>13,497</b>	<b>(4)</b>
Reconciling Cash Items		763			-					
<b>Appropriation from Current Fund</b>	<b>(4,598)</b>	<b>8,135</b>	<b>13,497</b>	<b>(5,141)</b>	<b>(5,141)</b>	<b>-</b>	<b>(9,739)</b>	<b>3,757</b>	<b>13,497</b>	
<b>Capital Outlay Financing Detail</b>										
Funded from Bond Funds	-	-	-	36,722	-	(36,722)	36,722	-	(36,722)	
Funded from Operating Reserve	4,070	1,826	(2,244)	2,930	-	(2,930)	7,000	1,826	(5,174)	-74%
Funded from Capital Reserves	35,582	23,537	(12,045)	-	54,196	54,196	35,582	77,733	42,151	118%
<b>Total Capital Outlay</b>	<b>39,652</b>	<b>25,363</b>	<b>(14,289)</b>	<b>39,652</b>	<b>54,196</b>	<b>14,545</b>	<b>79,304</b>	<b>79,559</b>	<b>255</b>	<b>(5) 0%</b>
<b>Debt Service Coverage Ratio</b>		<b>2.84x</b>			<b>1.57x</b>			<b>1.57x</b>		
<b>EOY Current Fund (Jan 2025 Beg Balance \$63,832)</b>		<b>71,668</b>			<b>66,527</b>			<b>66,527</b>	<b>(6)</b>	

# Capital Budget Spending Summary

<b>Tacoma Water Capital Outlay Budget Approved</b>	<b>\$79,304,158</b>
Add Capital Carryforward Factor Reduction	7,470,524
Add 2nd Diversion RWSS – Tacoma	11,239,633
Add 2nd Diversion RWSS – Other Partners	15,735,486
Total Capital Projects Planned for 2025/2026	\$113,749,801
<b>Total Capital Spent to Date (Sept 2025)</b>	<b>\$19,277,950</b>
Less 2nd Diversion RWSS – Other Partners	2,622,305
Water Capital Budget Spent (21%)	16,655,645
<b>Spending Projections (October - December 2026)</b>	<b>66,726,697</b>
<b>Capital Budget Performance Projection (over)</b>	<b>\$6,700,489</b>

- The 2025/26 capital plan is funded from operating, capital reserves, and anticipated bond proceeds.
- A carryforward factor reduction is included to account for projects that span biennia.
- Regional Water Supply System (RWSS) Projects are unique because they are funded by the RWSS Participants through a shared allocation. Although these expenditures are considered O&M Contract Resource Obligations (CRO), they can be paid with capital funding sources such as revenue bonds.
- We have spent about 21% of the capital budget at the end of Quarter 3 2025 and forecast to be \$6.7 million over budget by the end of the biennium.

# Capital Budget Spending Summary

## Summary of 25/26 Biennium Capital Spending to Date (\$ and % of Total Spent)

<i><b>Project or Program</b></i>	<i><b>Status</b></i>	<i><b>Capital \$ Spent</b></i>	<i><b>% of Total Spent</b></i>
Distribution Renewal and Replacement	Ongoing R&R	\$ 3,797,196	20%
Land Acquisition & Strategy	Procurement	\$ 2,474,142	13%
MRP (Including Curran Rd)	Various	\$ 2,032,830	11%
Headworks Remodel	Substantially Complete	\$ 1,891,952	10%
Fleet Purchase and Replacements	Ongoing R&R	\$ 1,281,039	7%
Pipeline 1 Pressurization	Various	\$ 1,008,594	5%
FRP (Franchise Required Projects)	Various	\$ 996,505	5%
Water Warehouse	Design	\$ 886,656	5%
Chemical Feed Lines at GRFF	Substantially Complete	\$ 761,171	4%
GIS Utility Network Migration	Construction	\$ 698,571	4%
Other Capital Projects	Various	\$ 3,449,294	18%
<b>Total</b>		<b>\$ 19,277,939</b>	

# Capital Projects Above \$5M

Active Projects	Current Phase	Life-to-Date Budget	Life-to-Date Actuals	CIP Budget (2027-2034)
<b>Water Warehouse<sup>1</sup></b>	<b>Design</b>	<b>25,492,749</b>	<b>1,831,486</b>	<b>4,000,000</b>
<b>Pipeline 1 Pressurization<sup>2</sup></b>	<b>Design</b>	<b>13,678,050</b>	<b>2,521,455</b>	<b>74,250,000</b>
<b>Howard Hanson Additional Water Storage (RWSS Only)<sup>3</sup></b>	<b>Design</b>	<b>13,328,690</b>	<b>2,429,267</b>	<b>1,456,000</b>
<i>Tacoma Water</i>		<i>5,553,621</i>	<i>1,012,195</i>	<i>606,667</i>
<i>RWSS Partners Portion</i>		<i>7,775,069</i>	<i>1,417,072</i>	<i>849,333</i>
<b>Curran Road System Acquisition<sup>4</sup></b>	<b>Various</b>	<b>11,125,257</b>	<b>6,218,205</b>	<b>3,055,000</b>
<b>Ozone System Upgrades (RWSS Shared)</b>	<b>Design</b>	<b>7,268,853</b>	<b>799,284</b>	<b>1,000,000</b>
<i>Tacoma Water Portion</i>		<i>4,873,160</i>	<i>535,853</i>	<i>670,417</i>
<i>RWSS Partners Portion</i>		<i>2,395,693</i>	<i>263,431</i>	<i>329,583</i>
<b>Fish Habitat Mitigation &amp; Restoration (RWSS Only)</b>	<b>Planning</b>	<b>5,438,266</b>	<b>338,984</b>	<b>15,419,991</b>
<i>Tacoma Water</i>		<i>2,265,944</i>	<i>141,243</i>	<i>6,424,996</i>
<i>RWSS Partners Portion</i>		<i>3,172,322</i>	<i>197,741</i>	<i>8,994,995</i>

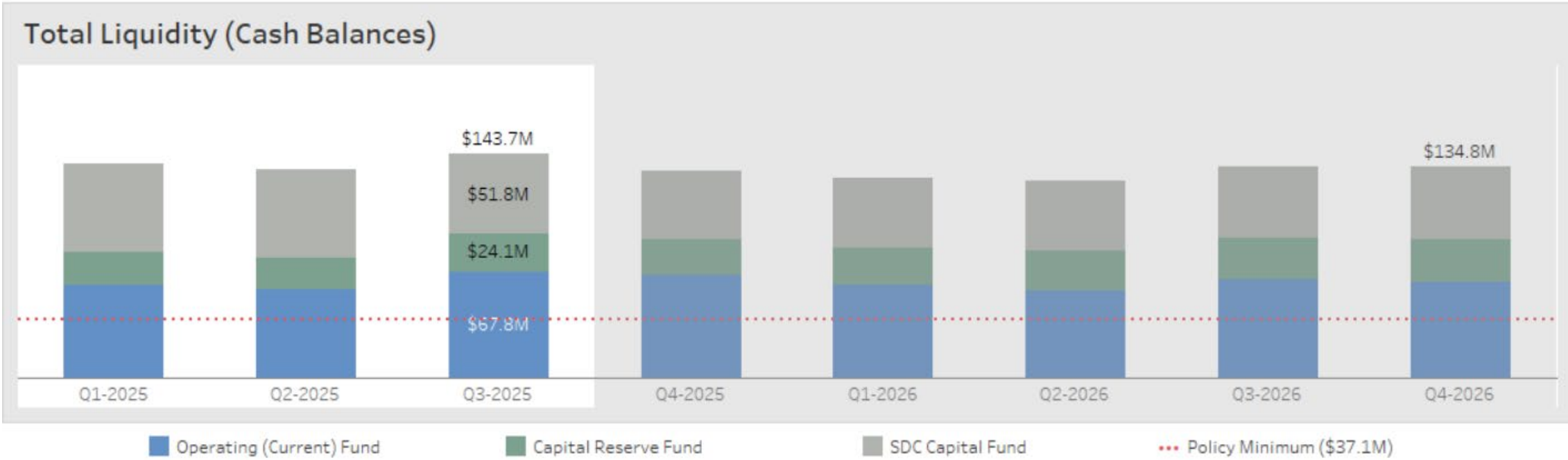
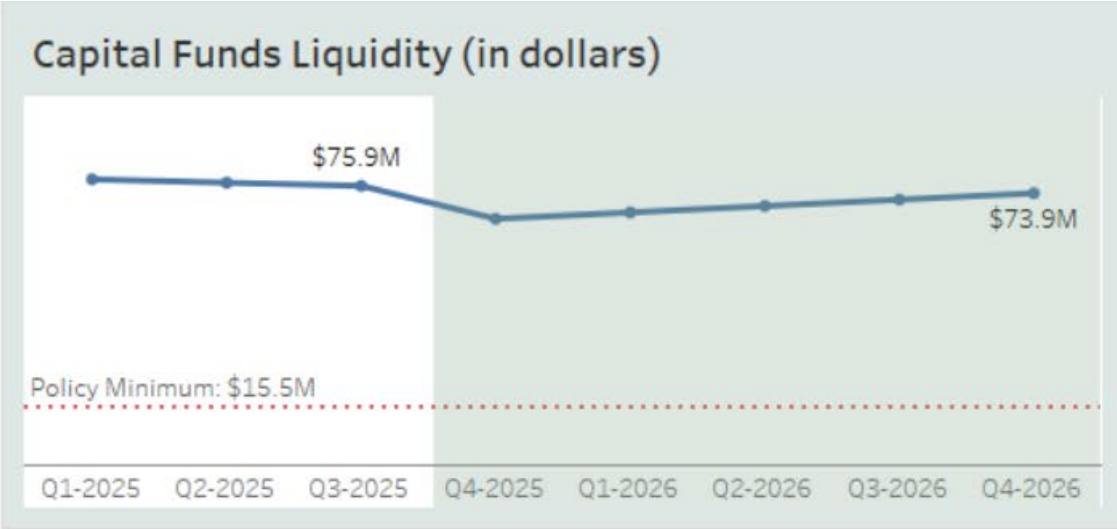
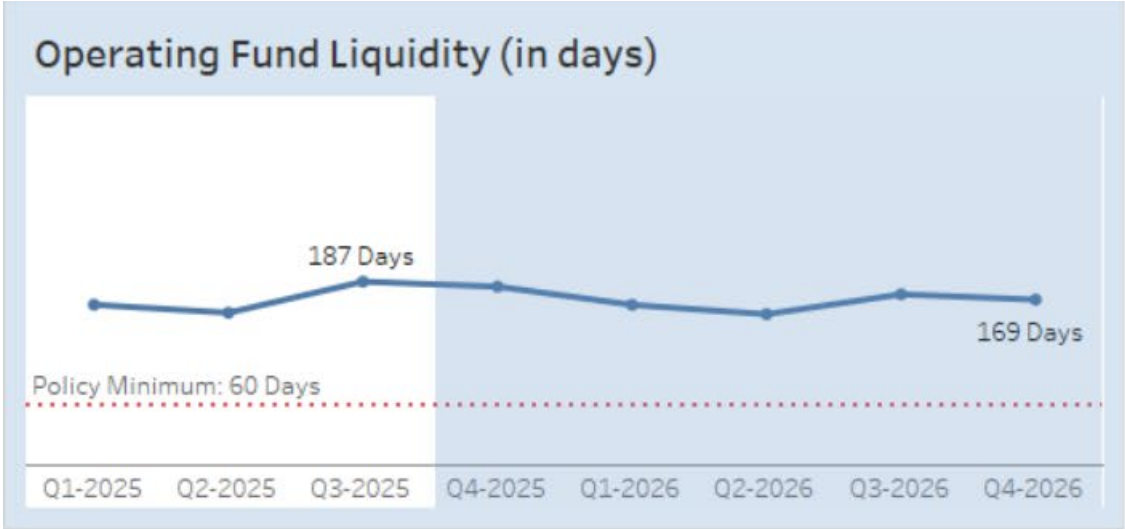
<sup>1</sup> PUB Study Session 03/12/25 - Tacoma Water: Warehouse and Shops Project Update

<sup>2</sup> PUB Study Session 02/26/25 - Tacoma Water: Canyon Falls Creek Pump Station - Pipeline One Pressurization Program

<sup>3</sup> PUB Study Session 02/12/25 - Tacoma Water: Howard Hanson Dam Additional Water Storage

<sup>4</sup> PUB Meeting 05/14/25 - Resolution U-11529, D-1.3 Award contract to Pape & Sons Construction for project Curran Road

# 2025/2026 Projected Liquidity Balance as of 9/30/25



# Tacoma Power Financial Outlook

**3rd Quarter 2025**



## Forecasting Practices



- September 2025 Actuals
- Adverse water conditions
- 2025 load forecast update
- Budgeted Personnel and O&M expenditures
- Project estimates of capital spending

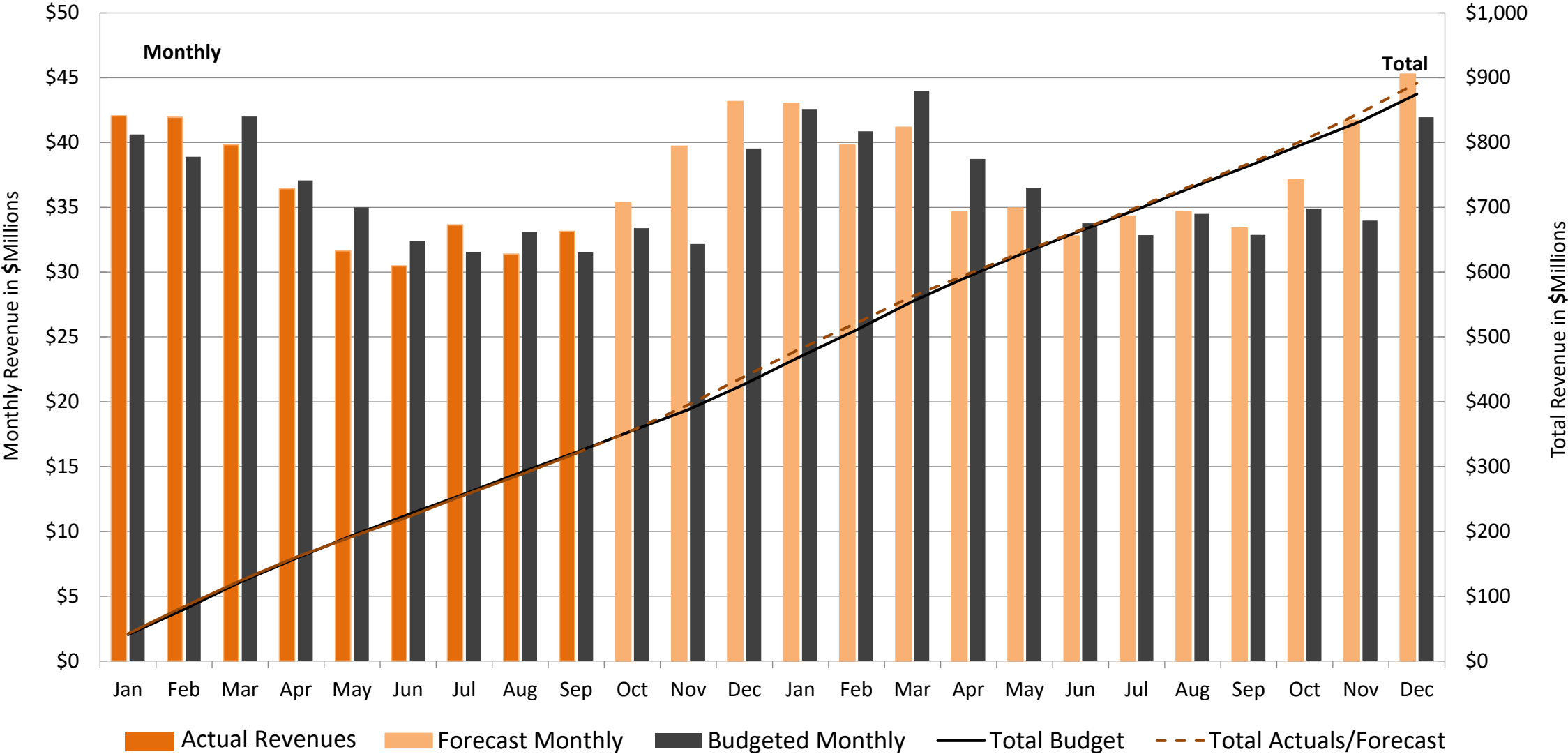
### • **Forecast for total revenue is \$41.1 million less than budget**

- Q3 Strengths: Retail revenues were higher than expected in the third quarter due to above average temperature in July and August.
- Q3 Challenges: Water inflows to our hydro projects were at, or below, adverse levels for much of Q3 2025
- Q4 2025 Outlook: Forecasts reflect lower wholesale sales vs. budget due to lower wholesale market prices and below average water conditions.

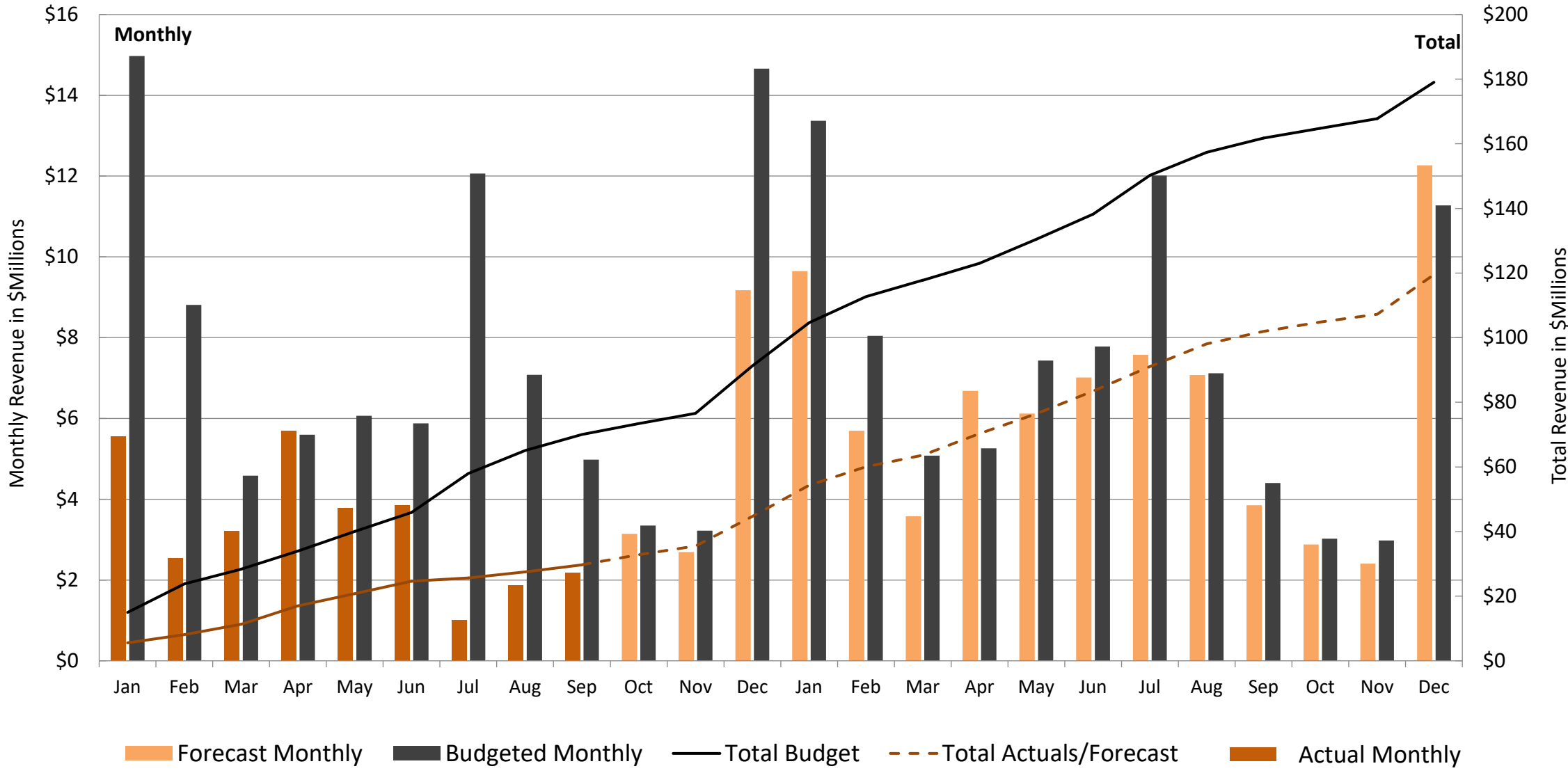
### • **Forecast for total expenditures is \$51.1 million less than budget**

- Q3 Strengths: Most expenses are currently under budget through Q3 2025.
- Q3 Challenges: Early pay down of debt was \$60 million above budgeted amount, reducing net income and liquidity levels.
- Q4 2025 Outlook: Forecasted wholesale purchases expected to be below budget. Assessing impact of recent retail sales tax changes.

# 2025/2026 Electric Retail Revenues



# 2025/2026 Gross Wholesale Revenues



# 2025/2026 Biennium Forecast vs. Budget

Notes listed on this slide correlate to the subsequent chart.

## Forecast for Revenue Less Than Budget: \$41.1 million (-3.6%)

1. Retail Revenues: forecast to be \$16.8 million more than budget (1.9%).
  - Actual retail revenues in the third quarter of 2025 were \$1.9 million more than budgeted due to marginally warmer temperatures in July and August, which resulted in slightly higher than forecasted loads and electricity sales.
  - Future retail revenues reflect an updated load forecast.
2. Gross Wholesale Revenues: forecast is \$59.5 million less than budget (-33.2%).
  - Gross biennium wholesale revenues through Q3 2025 were \$40.3 million lower than budget.
    - Water inflows to our hydro projects remained at, or below, adverse for much of 2025.
    - On average, actual prices were 55% below the budgeted amount for the third quarter.
  - Forecasts reflect lower wholesale revenues vs. budget for the biennium due to:
    - Wholesale market prices trending below budget for the remainder of the biennium.
    - Below average hydro conditions forecasted for remainder of 2025.

# 2025/2026 Biennium Forecast vs. Budget

Notes listed on this slide correlate to the subsequent chart.

## Forecast for Expenditures Less Than Budget: -\$51.1 Million (-4.3%)

3. Purchased power expenses: forecast is \$25.5 million less than budget (-7.3%)
  - BPA purchases are forecasted to be \$7.5 million below budget due to a lower rate increase compared to what was assumed in the budget.
  - Actual wholesale purchases are \$14.9 million below budget through Q3 2025.
  - Future wholesale purchase forecasts are also below budget due to lower wholesale market prices.
4. Personnel expenses: forecast is \$325 thousand less than budget (-0.1%)
  - Actual personnel expenses were below budget through Q3 2025 by \$364 thousand due to vacancies and delayed hiring, which are largely offset by the Power 483 wage adjustments and retroactive payment.
  - Wage adjustments for the Power 483 bargaining unit, including the retroactive payment, are included in forecasted amounts.
  - Other future personnel expense forecasts reflect approved budget.
5. Supplies, Other Services, & Charges: forecast is \$15.6 million less than budget (-7.1%)
  - Biennium spending through Q3 2025 was below budget by \$12.8 million, primarily in external contracts, professional services, and license and maintenance fees, due to timing differences between planned spending and when actual costs will occur.
6. Taxes: forecast is \$5.2 million more than budget (4.0%)
  - Increase in taxes related to Contributions in Aid of Construction (CIAC) now being taxable.

# 2025/2026 Biennium Forecast vs. Budget

Notes listed on this slide correlate to the subsequent chart.

## Forecast for Expenditures Less Than Budget: -\$51.1 Million (cont.)

7. Revenue Funded Capital: forecast to be \$56.3 million less than budget (-66.5%)
  - Approximately \$55 million of 2024 bond-funded capital projects were reimbursed by the 2025A bond issuance.
  - Actual biennium revenue-funded capital spending is \$7.4 million less than budget through Q3 2025.
  - Future spending provided by project managers forecasted to be below budget.
8. Debt Service: forecast is \$18.5 million less than budget (-22.9%)
  - Pay-off of the 2010C bonds during the 2025 Bond issuance has reduced the forecasted biennium debt service to \$18.5 million below budgeted amount.
9. Early Paydown of Debt: forecast is \$60.0 million more than budget (400.0%)
  - \$75 million in cash was used to reduce outstanding debt during the 2025 bond issuance.
  - \$24.4 million cash was applied towards the 2010C bond and \$50.6 million was applied towards the 2010B bonds.

## Forecast for Net Revenues More Than Budget: \$10.0 million

10. Net Revenue forecast to be \$10.0 million more than budget, not including our bond-funded capital spending.

# 2025/2026 Biennium Forecast vs. Budget

## Tacoma Power 2025/2026 Biennium Adjusted Estimates Comparison to Budget

as of 9/30/2025

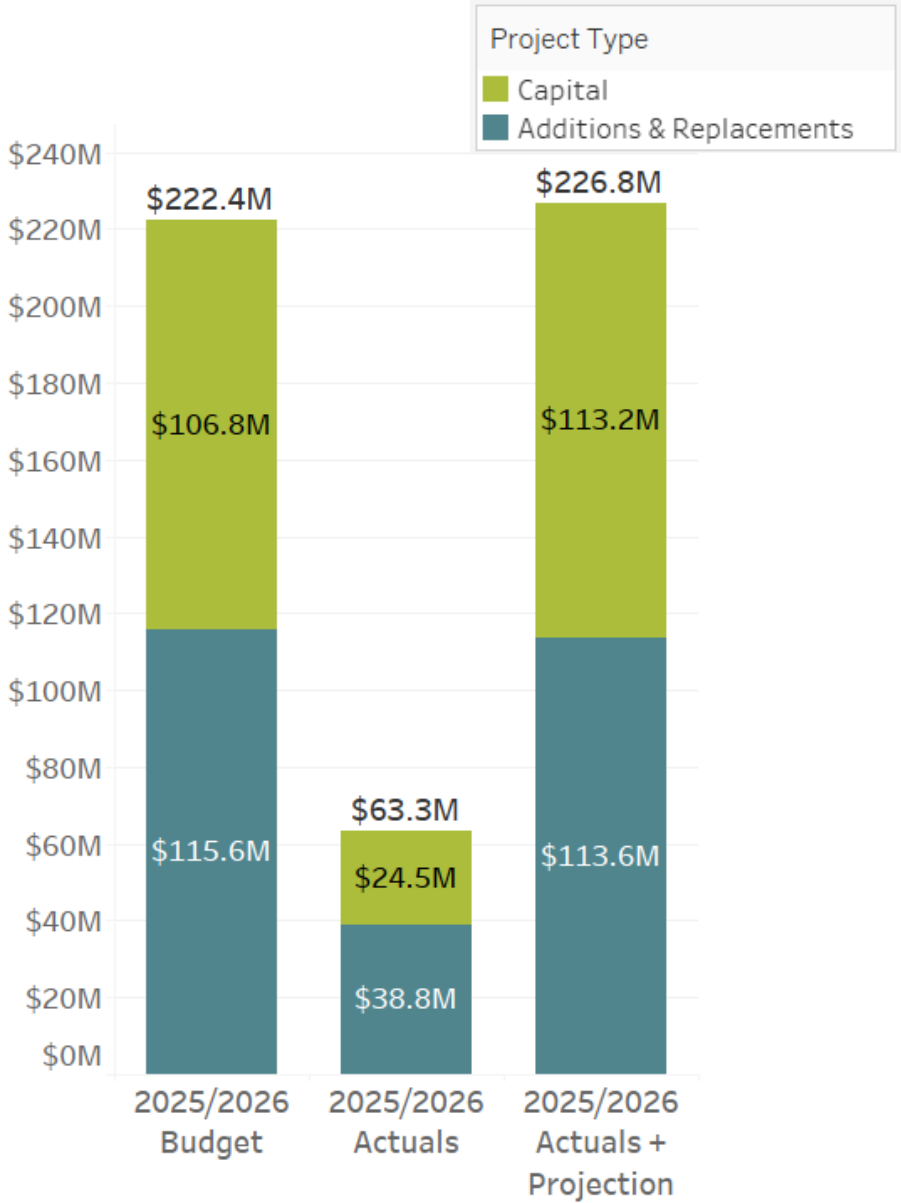
All \$'s in 1000's

	2025 Budget	2025 Actual / Forecast	2025 Difference	2026 Budget	2026 Forecast	2026 Difference	Total Biennium Budget	Total Biennium Forecast	Biennium Difference	Note	Biennium Diff. (%)
<b>Revenue</b>											
Retail Sales	\$427,302	\$438,780	\$11,477	\$447,489	\$452,855	\$5,366	\$874,792	\$891,635	\$16,843	(1)	1.9%
Bulk Power (wholesale) Sales	\$91,265	\$44,710	(\$46,555)	\$87,775	\$74,801	(\$12,974)	\$179,040	\$119,511	(\$59,529)	(2)	-33.2%
Other Electric Revenue	\$26,746	\$30,807	\$4,061	\$30,809	\$30,809	\$0	\$57,555	\$61,616	\$4,061		7.1%
<b>Total Operating Revenue</b>	<b>\$545,314</b>	<b>\$514,296</b>	<b>(\$31,017)</b>	<b>\$566,073</b>	<b>\$558,465</b>	<b>(\$7,608)</b>	<b>\$1,111,387</b>	<b>\$1,072,761</b>	<b>(\$38,626)</b>		-3.5%
Other Income	\$17,627	\$20,514	\$2,887	\$17,024	\$11,690	(\$5,335)	\$34,652	\$32,204	(\$2,448)		-7.1%
<b>Total Revenue</b>	<b>\$562,941</b>	<b>\$534,811</b>	<b>(\$28,130)</b>	<b>\$583,098</b>	<b>\$570,155</b>	<b>(\$12,943)</b>	<b>\$1,146,039</b>	<b>\$1,104,965</b>	<b>(\$41,073)</b>		-3.6%
<b>Expenses</b>											
Purchased Power & RECs	\$166,496	\$148,163	(\$18,333)	\$182,504	\$175,334	(\$7,171)	\$349,000	\$323,497	(\$25,503)	(3)	-7.3%
Personnel Costs	\$152,211	\$151,886	(\$325)	\$161,365	\$161,365	\$0	\$313,575	\$313,251	(\$325)	(4)	-0.1%
Supplies, Other Services & Charges	\$111,364	\$97,766	(\$13,598)	\$109,292	\$107,241	(\$2,051)	\$220,656	\$205,007	(\$15,649)	(5)	-7.1%
Taxes	\$64,858	\$67,082	\$2,224	\$67,175	\$70,175	\$3,000	\$132,032	\$137,257	\$5,224	(6)	4.0%
Revenue Funded Capital Outlay *	\$42,327	(\$21,584)	(\$63,911)	\$42,327	\$49,907	\$7,580	\$84,654	\$28,324	(\$56,330)	(7)	-66.5%
Debt Service	\$37,131	\$33,812	(\$3,319)	\$43,726	\$28,512	(\$15,214)	\$80,857	\$62,324	(\$18,533)	(8)	-22.9%
Early Pay Down of Debt	\$0	\$75,000	\$75,000	\$15,000	\$0	(\$15,000)	\$15,000	\$75,000	\$60,000	(9)	400.0%
<b>Total Expenses</b>	<b>\$574,386</b>	<b>\$552,126</b>	<b>(\$22,260)</b>	<b>\$621,389</b>	<b>\$592,533</b>	<b>(\$28,856)</b>	<b>\$1,195,775</b>	<b>\$1,144,659</b>	<b>(\$51,116)</b>		-4.3%
<b>Total Revenues less Expenses</b>	<b>(\$11,445)</b>	<b>(\$17,315)</b>	<b>(\$5,870)</b>	<b>(\$38,291)</b>	<b>(\$22,378)</b>	<b>\$15,913</b>	<b>(\$49,736)</b>	<b>(\$39,693)</b>	<b>\$10,043</b>	(10)	
<b>Capital Outlay Financing Detail</b>											
Funded From Revenue Funds	\$42,327	(\$21,584)	(\$63,911)	\$42,327	\$49,907	\$7,580	\$84,654	\$28,324	(\$56,330)		-66.5%
Funded From Bond Fund	\$68,894	\$114,531	\$45,637	\$68,894	\$83,868	\$14,974	\$137,788	\$198,399	\$60,611		44.0%
<b>Total Capital Outlay</b>	<b>\$111,221</b>	<b>\$92,947</b>	<b>(\$18,274)</b>	<b>\$111,221</b>	<b>\$133,775</b>	<b>\$22,554</b>	<b>\$222,442</b>	<b>\$226,722</b>	<b>\$4,280</b>		1.9%
<b>Ratios</b>	<b>2025 Budget</b>	<b>2025 Actual / Forecast</b>	<b>2025 Diff.</b>	<b>2026 Budget</b>	<b>2026 Forecast</b>	<b>2026 Diff.</b>					
Debt Service Coverage Ratio	1.8	2.1	0.2	1.4	2.0	0.5					
Days Liquidity	366	337	(30)	319	286	(33)					
EOY Rate Stabilization Fund Balance	\$158,000	\$158,000	\$0	\$158,000	\$158,000	\$0					
EOY Current Fund Balance	\$297,888	\$232,817	(\$65,071)	\$260,020	\$210,439	(\$49,581)					
<b>Total Liquidity</b>	<b>\$455,888</b>	<b>\$390,817</b>		<b>\$418,020</b>	<b>\$368,439</b>						

\* In 2025, the Revenue Funded Capital balance is approximately \$55 million lower due to 2024 bond-funded capital projects that were reimbursed by the 2025A bond issuance.

# 2025/2026 Capital Budget

	2025/2026 Budget	2025/2026 Actuals	2025/2026 Actuals + Projection
Additions & Replacements	\$115.6M	\$38.8M	\$113.6M
Aging Infrastructure/ Reliability Upgrades	\$61.3M	\$18.7M	\$65.5M
Facilities Replacements/ Improvements	\$24.5M	\$0.7M	\$21.5M
Technology	\$11.2M	\$4.7M	\$14.8M
Relicensing/License Implementation	\$9.3M	\$1.5M	\$10.8M
Other Capital	\$0.6M	(\$1.0M)	\$0.6M
Grand Total	\$222.4M	\$63.3M	\$226.8M



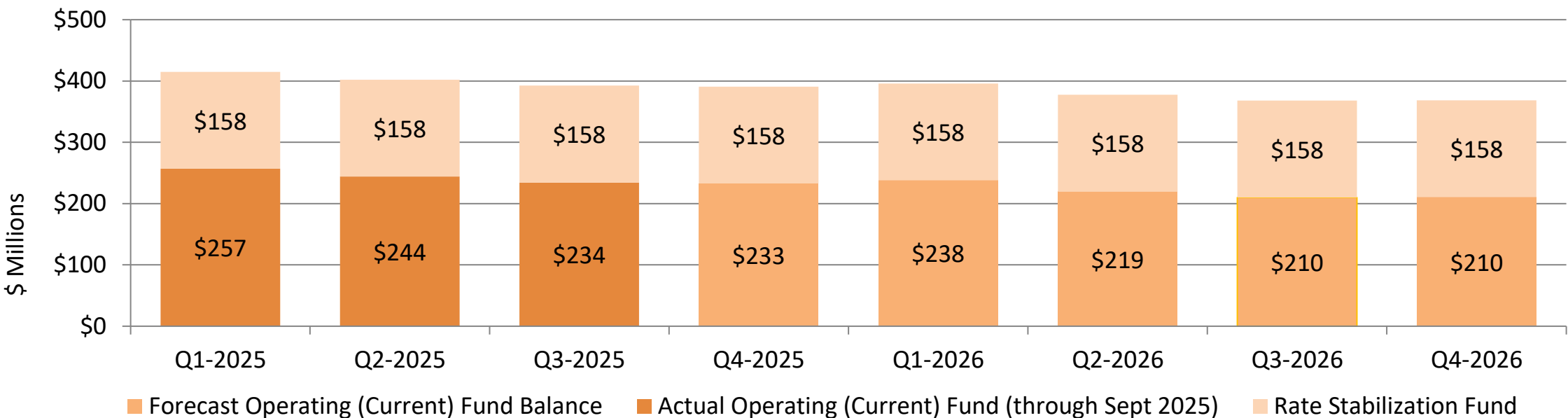
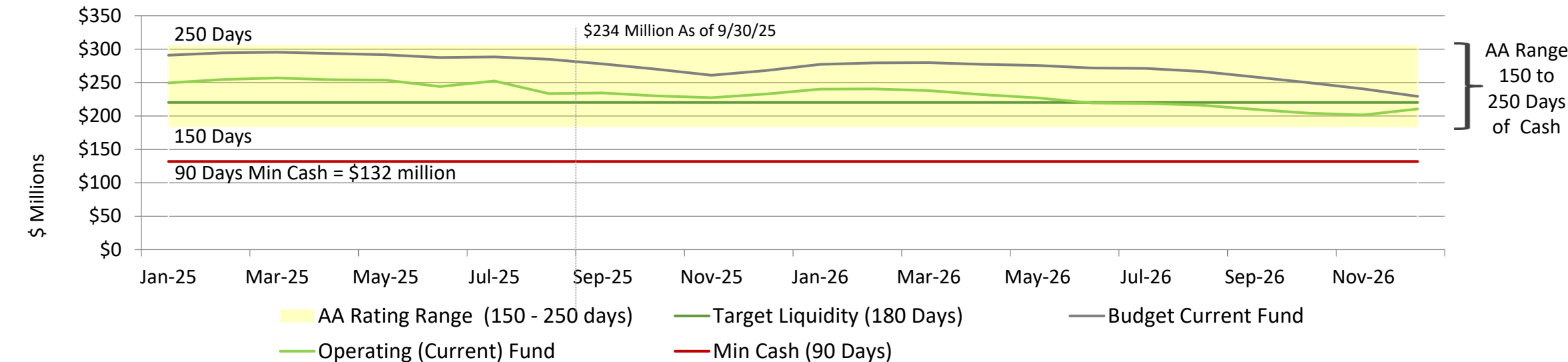


# All Capital Above \$5M

A&Rs and Routine Capital	Current Phase	Life-to-Date* Budget	Life-to-Date Actuals	Biennium Projection (through 2026)	Extended Projection (2027-2036)
Overhead Distribution & Transmission A&R	Ongoing	\$26,570,000	\$14,067,625	\$22,500,003	\$149,695,066
Fleet Replacement A&R	Ongoing	\$20,000,000	\$3,318,107	\$16,511,244	\$52,858,388
Distribution Transformer A&R	Ongoing	\$16,640,000	\$7,550,206	\$3,548,636	\$43,872,476
Conservation Program	Ongoing	\$9,000,000	\$3,478,893	\$2,356,156	\$45,728,752
Substation A&R	Ongoing	\$5,105,000	\$531,430	\$3,250,003	\$24,955,165
<b>Continuing Capital</b>					
TPU Admin Complex Storage & Parking Facility	Design/Procure	\$16,696,000	\$480,512	\$11,406,667	\$12,200,000
Automated Distribution Mgmt System (ADMS)	Design/Procure	\$10,758,000	\$3,777,066	\$10,058,549	\$22,835,327
Cushman #2 Unit 31, Unit 32 Rebuild	Construction	\$21,622,000	\$18,042,228	\$6,833,331	\$60,000
South Service Center Storage	Design/Procure	\$6,462,000	\$208,063	\$6,900,001	\$17,000,001

\*Life-to-Date (LTD) Budget refers to all funding to-date that has been appropriated for the project, independent of the biennium.

# 2025/2026 Projected Liquidity Balance as of 9/30/25



# Tacoma Rail Financial Outlook

**3rd Quarter 2025**

# Summary of Financial Outlook

- Incorporates actual revenues and expenditures through September 2025 with projections for the remainder of the biennium
- **Forecast for total revenues is \$3.8M or 5% above budget**
  - Q3 Challenges: Intermodal volumes continued to slide from their Q1 highs and have now are below 2024 volumes.
  - Q3 Strengths: Both intermodal and commercial volumes remain above budget.
  - Q4 Outlook: Tariffs and federal port fees continue to add a high level of uncertainty to volumes.
- **Forecast for total expenditures is \$1.7M or 2% below budget**
  - Q3 Challenges: Federal funding award changed from battery electric locomotives to tier 4 diesel electric locomotives.
  - Q3 Strengths: Expenditures below budget.
  - Q4 Outlook: Most battery electric locomotives assumptions removed from the biennial forecast at this time. Budgeted capital re-allocated to the Lincoln Avenue signalization and diesel locomotive repowers.

# Summary of Rail Volumes

Quarter	2024		2025		%	
	Intermodal	Commercial	Intermodal	Commercial	Intermodal	Commercial
1	39,833	15,730	57,504	15,436	44%	-2%
2	56,851	16,888	47,643	16,881	-16%	0%
3	65,538	17,823	49,762	16,073	-24%	-10%
4						
Total	162,222	50,441	154,909	48,390	-5%	-4%

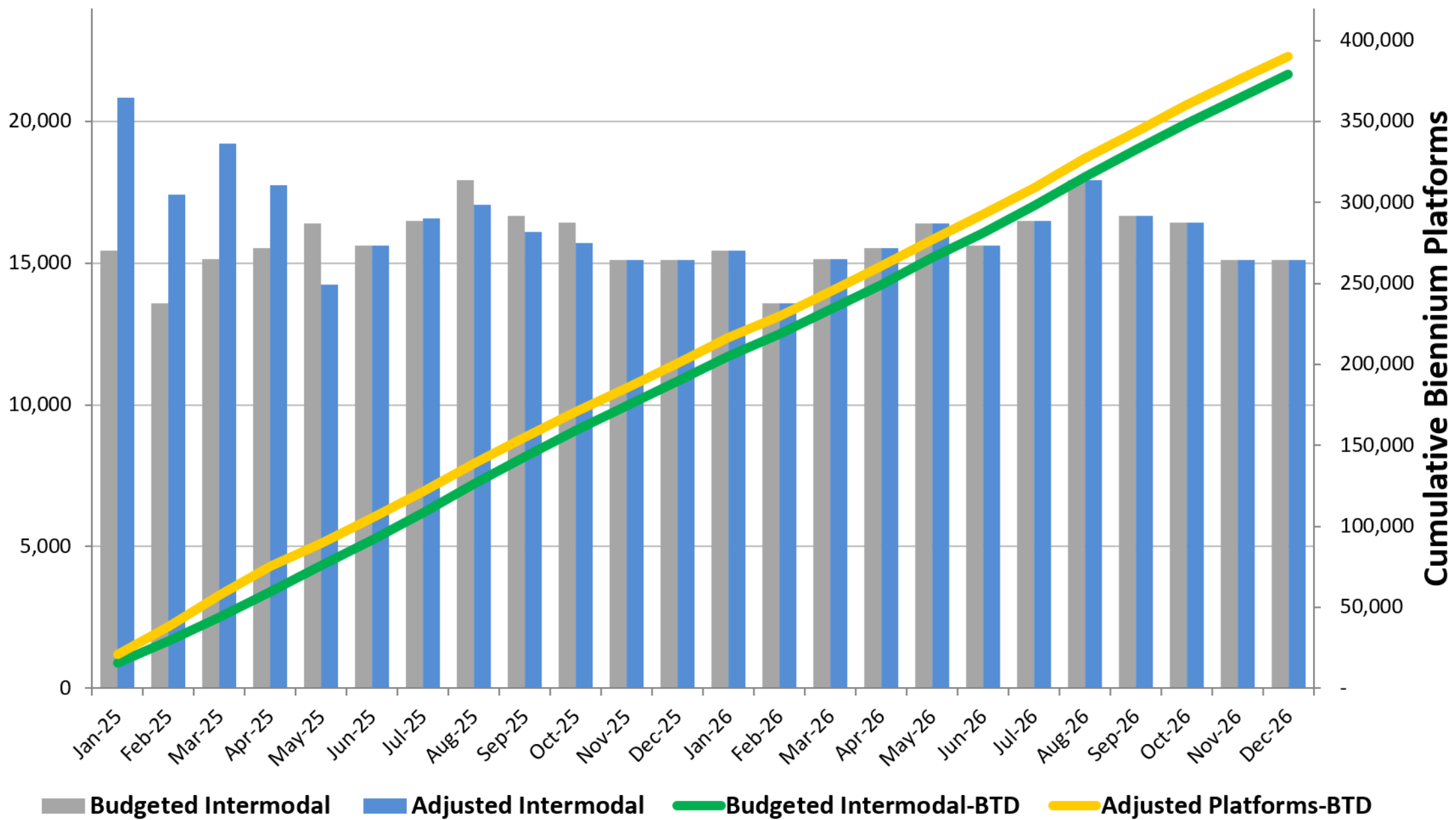
Quarter	2025 Budget		2025		%	
	Intermodal	Commercial	Intermodal	Commercial	Intermodal	Commercial
1	44,167	15,455	57,504	15,436	30%	0%
2	47,588	15,596	47,643	16,881	0%	8%
3	51,103	15,662	49,762	16,073	-3%	3%
4						
Total	142,858	46,713	154,909	48,390	8%	4%
Biennium	142,858	46,713	154,909	48,390	8%	4%

## Year Over Year Customer Insights

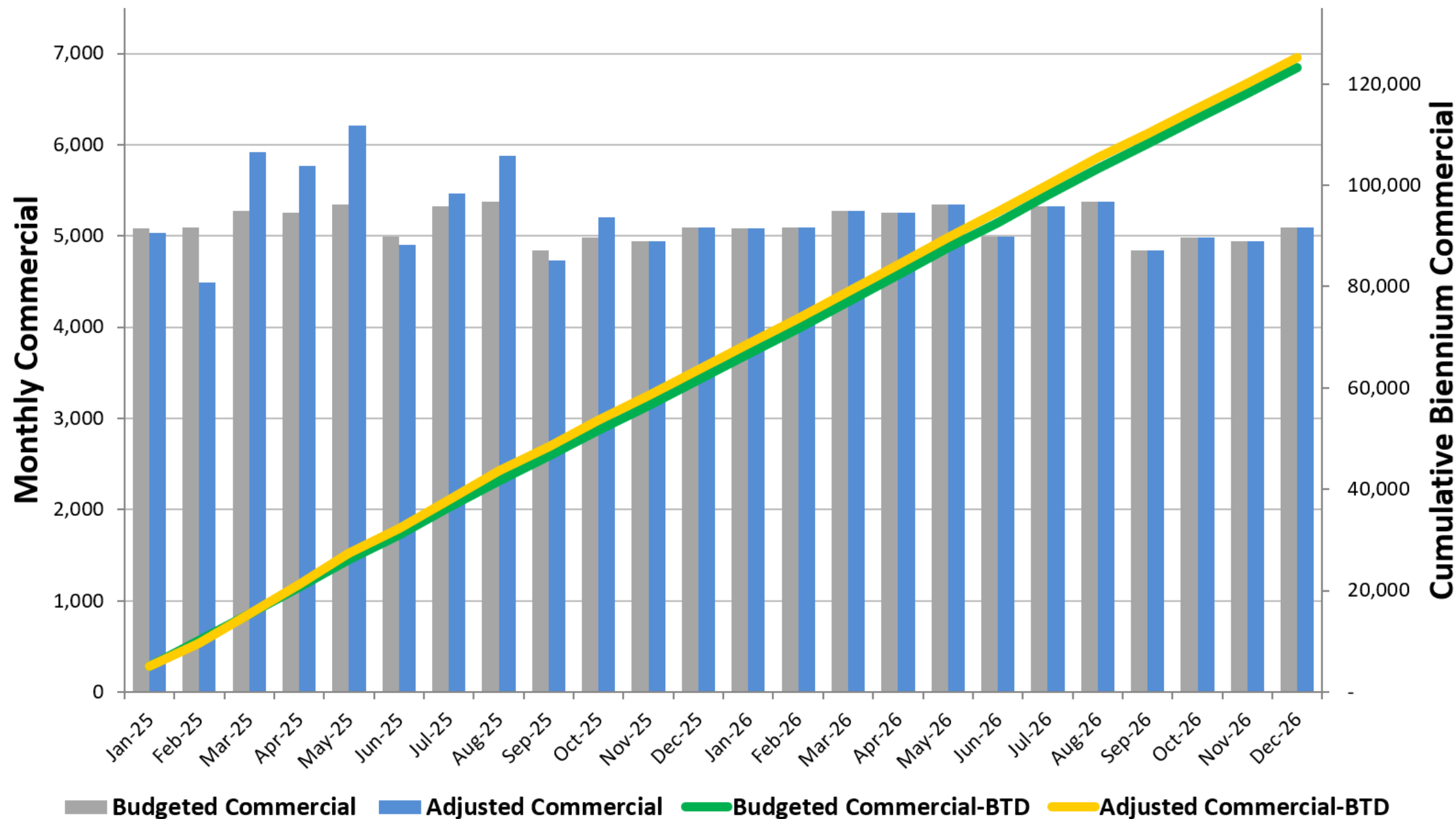
- Intermodal:
  - ▼ NIM +12%
  - ▼ WUT -15%
  - ▼ SIM +3%
  - ▼ PCT -23%
- Commercial:
  - ▼ US Oil +7%
  - ▼ WWS -30%
  - ▼ AWC +13%
  - ▼ Seaport -20%

▲ Increase from last quarter  
■ No change  
▼ Decrease from last quarter

# Intermodal Volumes



# Commercial Volumes



# 2025/2026 Biennium Forecast vs. Budget

1. Intermodal and commercial volumes higher than budget.
2. Demurrage above budget due to customer railcar dwell.
3. Locomotive Servicing
  - Locomotive volumes up
  - Fuel servicing volume below budget, but rate above due to cost of fuel
  - Labor above budget
4. Increase due to strong cash balance.
5. Grants, Transfers & Pledges
  - Adjusted capital project costs and projects spanning biennia.
  - Battery Electric Locomotives removed from cash projection.
6. Debt funding reimbursement spanning biennia.

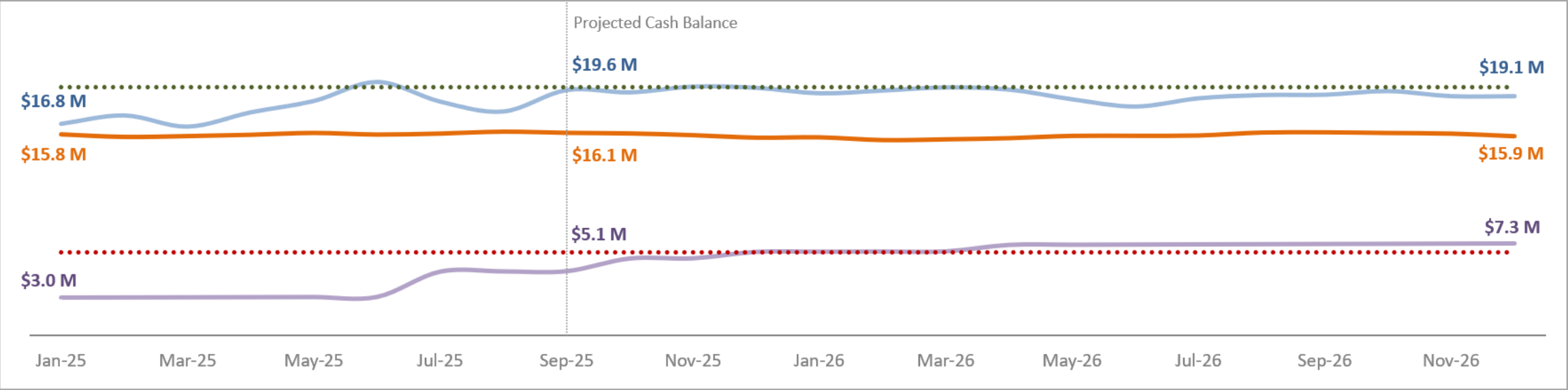


# 2025/2026 Biennium Forecast vs. Budget

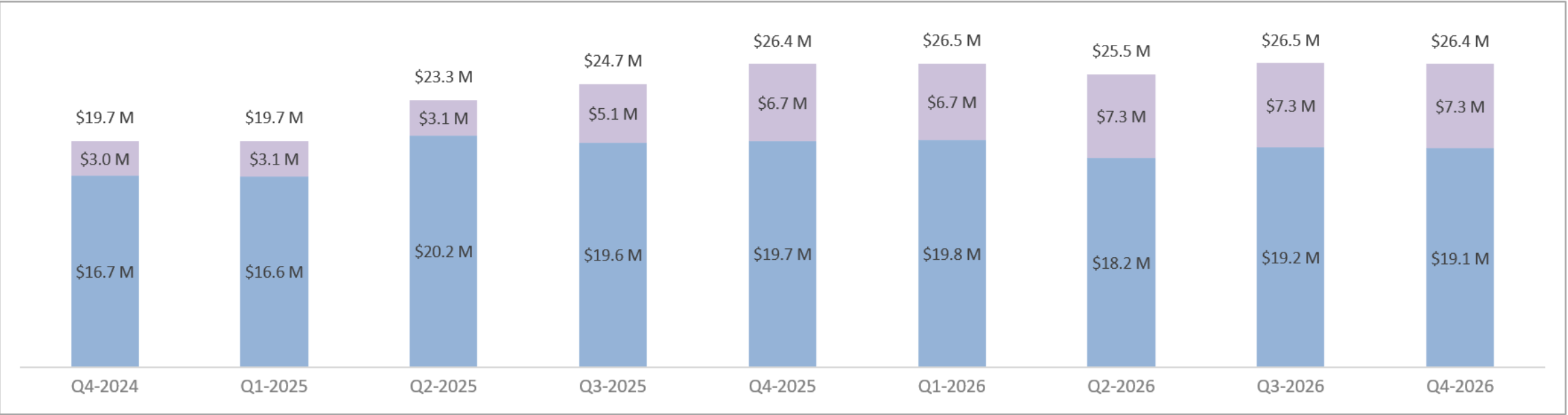
	2025 Budget	2025	2025 Difference	2026 Budget	2026 Forecast	2026 Difference	Budget Biennium	Adjusted Forecast	Biennium Difference	Biennium Diff. (%)
Revenue										
Switching Revenue	\$ 35,221	\$ 37,051	\$ 1,830	\$ 36,167	\$ 36,263	\$ 96	\$ 71,389	\$ 73,314	\$ 1,926	3% (1)
Demurrage Fees	1,620	2,031	411	1,620	1,620	-	3,240	3,651	411	13% (2)
Locomotive Servicing	1,257	1,820	563	1,290	1,290	-	2,547	3,111	563	22% (3)
Other	213	357	143	213	240	27	427	597	170	40%
Total Operating Revenue	\$ 38,312	\$ 41,260	\$ 2,948	\$ 39,291	\$ 39,414	\$ 123	\$ 77,603	\$ 80,673	\$ 3,071	4%
Interest	240	553	313	240	588	348	480	1,141	661	138% (4)
Rent & Misc Income	800	869	69	1,500	1,536	36	2,300	2,405	105	5%
Total Revenue & Avail Funds	\$ 39,352	\$ 42,681	3,330	\$ 41,031	\$ 41,538	\$ 507	\$ 80,383	\$ 84,219	\$ 3,836	5%
Expenditures										
Personnel Costs	\$ 20,362	\$ 19,606	\$ (756)	\$ 21,226	\$ 21,472	\$ 246	\$ 41,588	\$ 41,078	\$ (509)	-1%
Supplies, Other Services	11,192	10,105	(1,087)	11,076	10,886	(190)	22,268	20,991	(1,277)	-6%
Current Fund Capital Outlay	3,290	1,669	(1,621)	4,105	5,406	1,301	7,395	7,075	(320)	-4%
Debt Service	892	892	-	625	625	-	1,517	1,517	-	0%
Taxes	3,826	4,120	293	3,893	3,994	101	7,719	8,114	395	5%
Total Expenditures	\$ 39,562	\$ 36,391	\$ (3,171)	\$ 40,925	\$ 42,384	\$ 1,459	\$ 80,487	\$ 78,775	\$ (1,712)	-2%
Total Revenues Less Expenditures	\$ (210)	\$ 6,290	\$ 6,501	\$ 106	\$ (846)	\$ (952)	\$ (105)	\$ 5,444	\$ 5,549	
Appropriation from Current Fund	\$ 210	\$ (3,074)	\$ (3,285)	\$ (106)	\$ 667	\$ 773	\$ 105	\$ (5,444)	\$ (5,549)	
Capital Outlay Financing Detail										
Funded from Current Fund	\$ 3,290	\$ 1,669	\$ (1,621)	\$ 4,105	\$ 5,406	\$ 1,301	\$ 7,395	\$ 7,075	\$ (320)	-4%
Grants, Transfers & Pledges	11,445	-	(11,445)	8,450	721	(7,729)	19,895	721	(19,174)	-96% (5)
Funded from New Debt	640	2,395	1,755	1,200	1,200	-	1,840	3,595	1,755	95% (6)
Total Capital Outlay	\$ 15,375	\$ 4,064	\$ (11,311)	\$ 13,755	\$ 7,327	\$ (6,428)	\$ 29,130	\$ 11,390	\$ (17,740)	-61%
Starting Cash Balance	\$ 16,000	\$ 16,660	660	\$ 15,790	\$ 19,734	3,944	\$ 16,000	\$ 16,660	4%	4%
EOY Current Fund Balance	\$ 15,790	\$ 19,734	3,944	\$ 15,895	\$ 19,067	3,172	\$ 15,895	\$ 19,067	20%	20%
Volume Investment Fund	\$ -	\$ 3,500	3,500	\$ -	\$ 500	500	\$ -	\$ 4,000	-	-

Values in  
thousands

# 2025/2026 Projected Liquidity Balance as of 9/30/2025



Operating (Current) Fund   Budget   Volume Investment Fund   ..... 60 Day Policy Minimum   ..... 180 Day Policy Maximum   **Projected days cash on hand: 173**











































# Performance Metrics Update

3rd Quarter 2025

# Performance Metrics Dashboard



Quarter 3, 2025 Performance Metrics Report Tacoma Public Utilities		
 TACOMA POWER TACOMA PUBLIC UTILITIES	 TACOMA WATER TACOMA PUBLIC UTILITIES	 TACOMA RAIL TACOMA PUBLIC UTILITIES
<b>Financial Performance</b> - Supports Guiding Principle: 2 (Financial Sustainability)		
1 Debt Service Coverage 	1 Debt Service Coverage 	1 Debt Service Coverage 
2 Liquidity - Days Cash on Hand 	2 Liquidity - Days Cash on Hand 	2 Liquidity - Days Cash on Hand 
3 Budget Performance 	3 Budget Performance 	3 Budget Performance 
<b>Operational Excellence</b> - Supports Guiding Principle: 3 (Rates); 5 (Environmental Sustainability); 7 (Reliability & Resiliency)		
4 Residential Bill Comparison 	4 Residential Bill Comparison 	4 Railroad Tariffs Comparison 
5a Distribution O&M Cost per Customer 	5 O&M Cost per Account 	5 Operating Ratio 
5b Power Supply Expense per kWh Sold 	6 Unplanned Service Disruptions 	6 Locomotives Serviced 
6a Outage Duration 	7 Distribution System Leakage 	7 On-Time Switching 
6b Outage Frequency 	8 Water Conservation 	8 Storm Water Stewardship 
7 Non-Carbon Power Resources 		
8 Power Conservation 		
<b>Commitment to Cust &amp; Employees</b> - Supports Guiding Principle: 5 (Environ. Sustainability); 7 (Reliability); 12 (Emp. Relations); 13 (Customer Svc)		
9 Customer Satisfaction 	9 Customer Satisfaction 	9 Customer Satisfaction 
10 Employee Satisfaction 	10 Employee Satisfaction 	10 Employee Satisfaction 
11 Employee Safety 	11 Employee Safety 	11 Employee Safety 
12 Call Center Responsiveness 	12 Call Center Responsiveness 	

# Performance Metrics Highlights



## Financial Performance

- Q3 performance favorable across all metrics

## Operational Excellence

- Power outage durations in line with (but not more than) benchmark
- Water's O&M costs per account driven by overhead expenses
- Rail's stormwater tests (18 in total) in full compliance

## Commitment to Customers & Employees

- Safety program
  - Power quarterly fluctuations continue
  - Water incidents lower in Q3 but higher year-over-year
- Call center response times improved due to additional staffing and lower volumes

# TPU Division-Level Industry Emerging Trends

# Emerging Trends for Management Services Office

## Insurance

Limited Insurance carriers & increasing premiums



## Public Disclosure

Increased # of request and complexities



## Workforce Development

Bringing alignment throughout TPU and building partnership with HR



## Records Management

Document Archival & Risk Management



## Emergency Management

EOC / TPU-wide Wildfire Mitigation / FIFA



## Budget & Finance

SAP Phases 1.5 & 2 / Budget / City Leadership Change







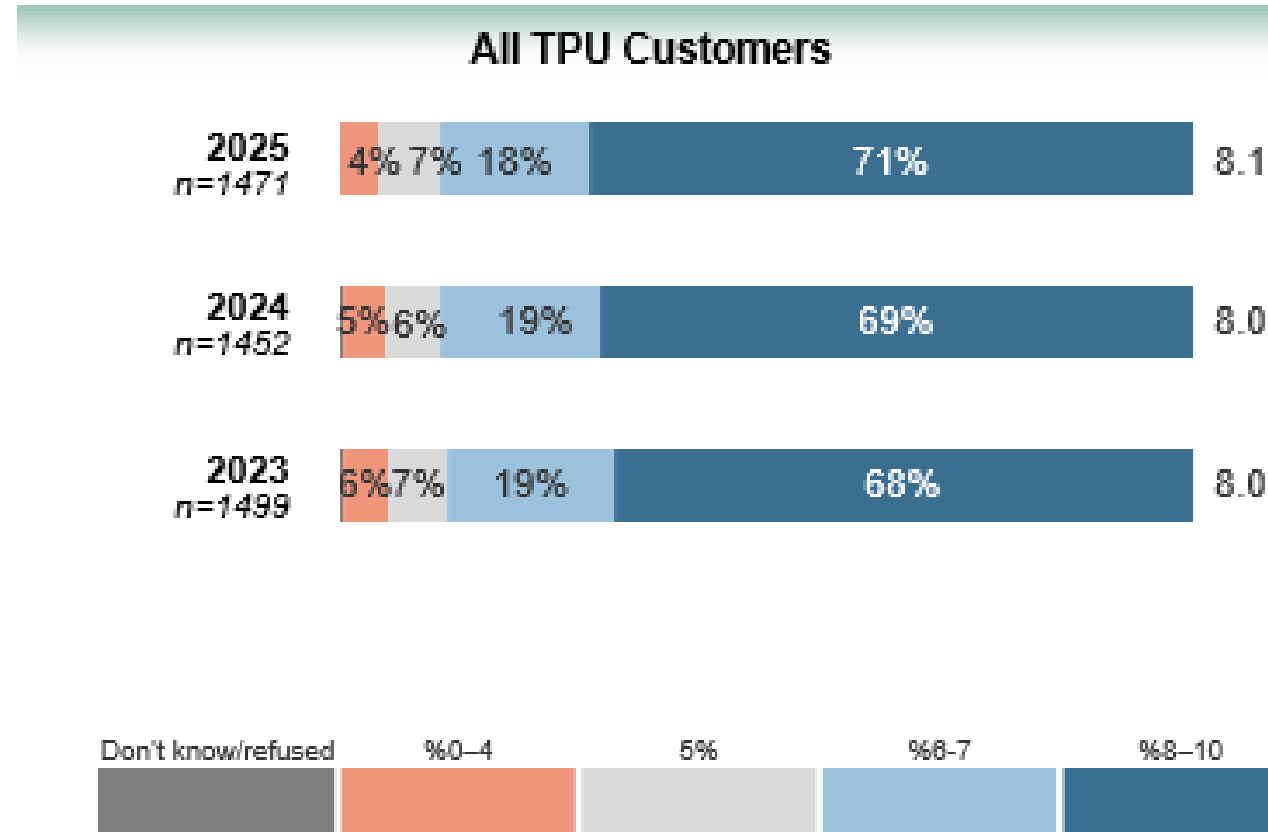
# CXEA Emerging Trends



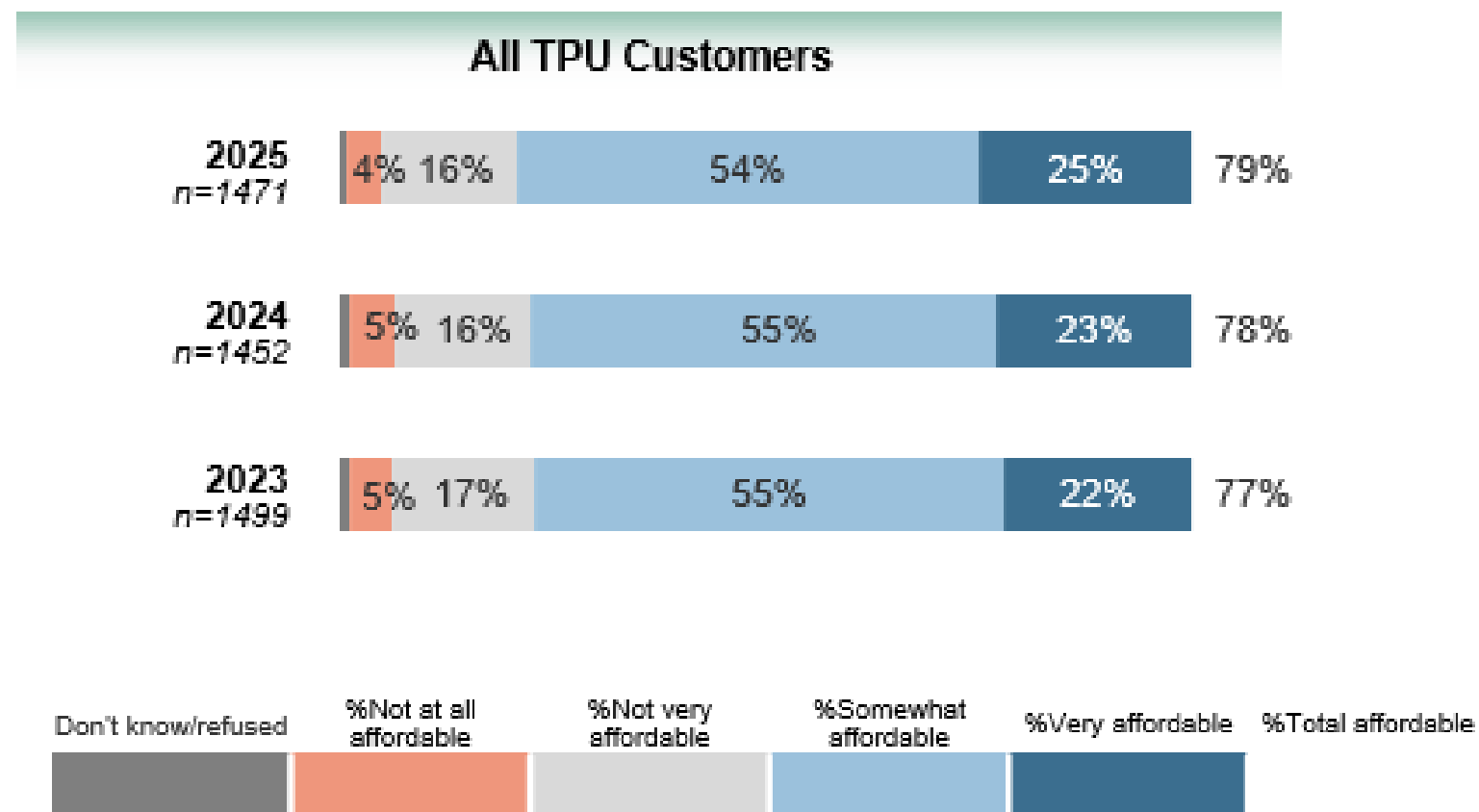


# CSAT Insights

# Overall Satisfaction with TPU

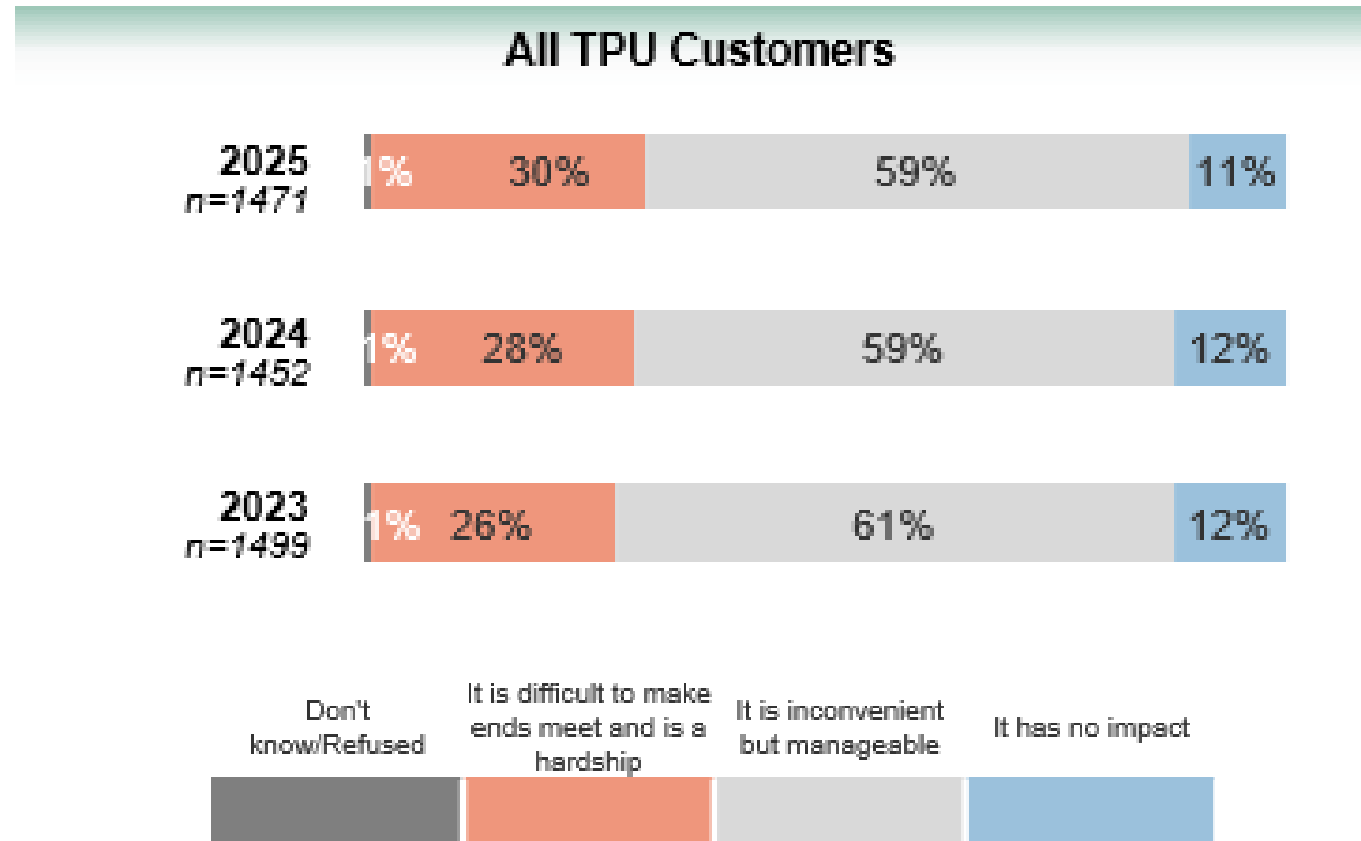


Q2. Overall, how satisfied or dissatisfied are you with Tacoma Public Utilities as a provider of services in your area in general, and not necessarily just those of which you are a current customer or user?



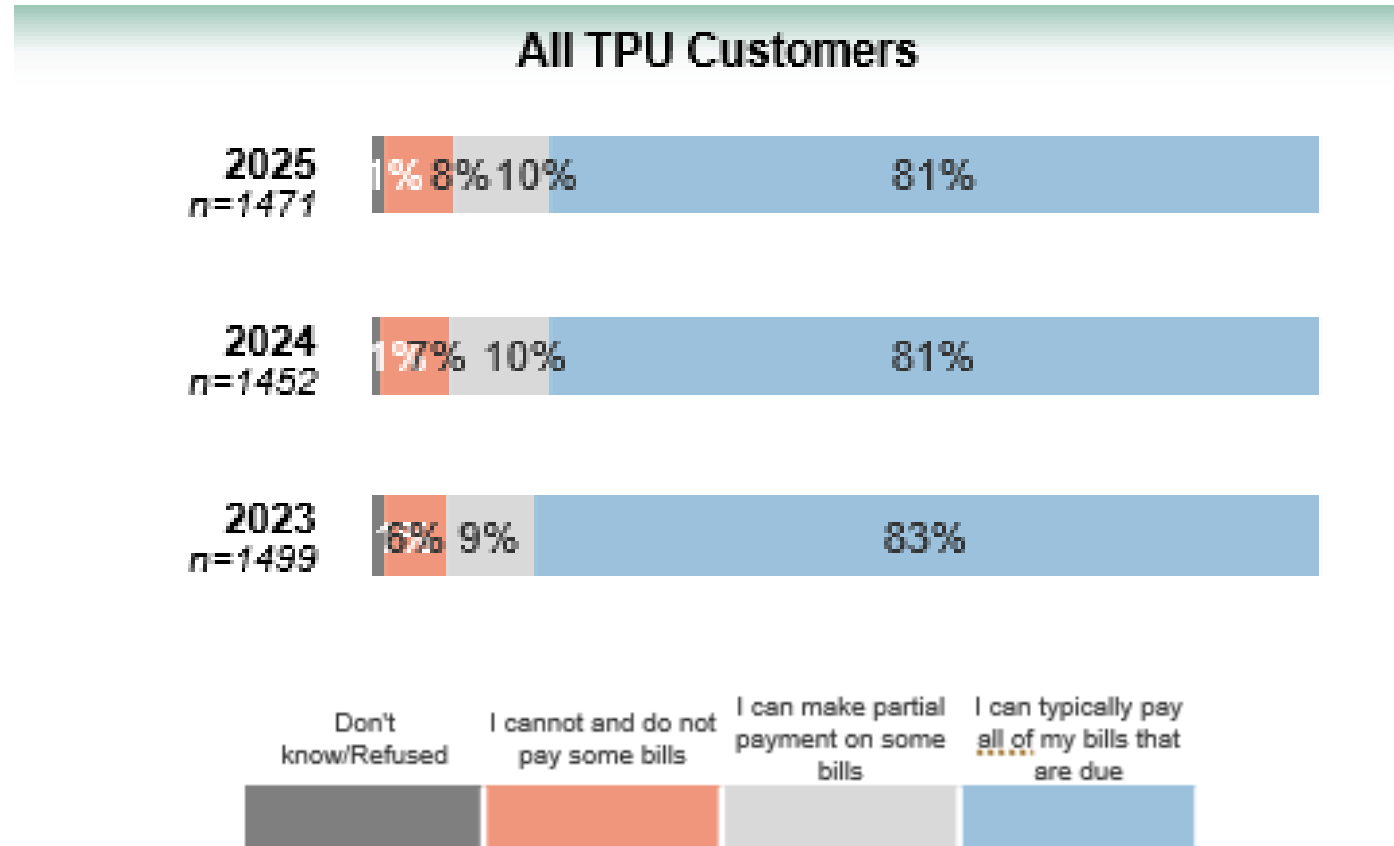
BILLAFF. Given your household's financial circumstances, would you characterize the bills you receive from T-P-U as being...?

# Impact of Current Economy



ECON3. How has the current economy (e.g., higher prices) impacted you and/or your family?

# Ability to Pay Bills



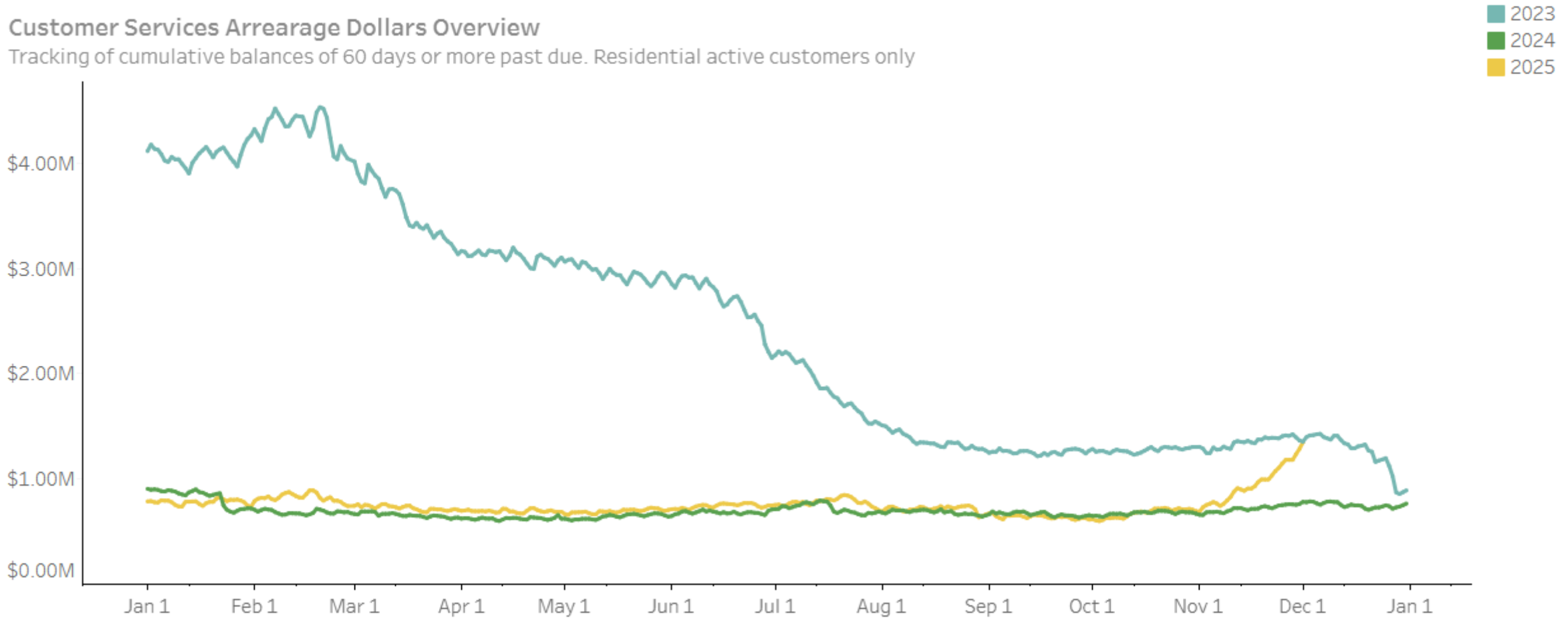
BILLS. In a typical month, which best describes your ability to pay all of your bills that are due?

# Arrears Trending



## Customer Services Arrearage Dollars Overview

Tracking of cumulative balances of 60 days or more past due. Residential active customers only



# Emerging Customer Experience Trends

# Emerging Customer Initiatives



- **Digital Channels**
  - MyAccount enhancements
  - Property Manager
- **New Payment Options: Paymentus**
  - Apple Pay, Google Pay, Venmo, PayPal, text-to-pay
- **Telephony Modernization: Contact Center as a Service (CCaaS)**
  - Incorporating channels beyond voice (e.g., email, chat, SMS, digital self-service) to provide more options, accessibility
  - AI for improved customer satisfaction, agent coaching, quality monitoring, and sentiment tracking



# Emerging Customer Initiatives



- **Refresh of MyTPU.org website**
  - Includes ensuring compliance with Web Content Accessibility Guidelines (WCAG) 2.1, Level AA
- **Social Media**
  - Content compliance with WCAG 2.1, Level AA

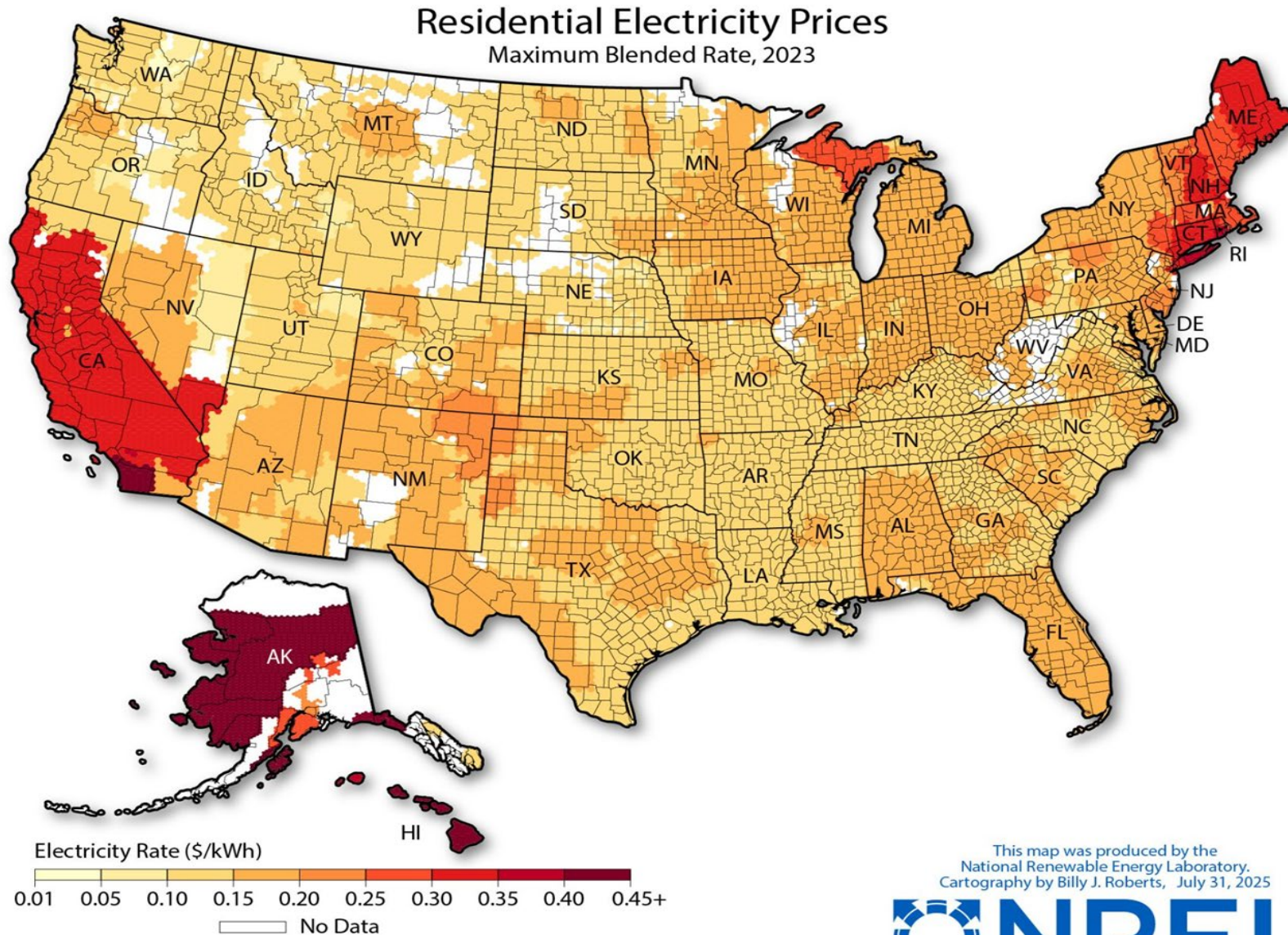
# State of the Industry

Significant  
Cost Pressures

Resource  
Adequacy  
Challenges

Increasing  
Retail Prices

# US Retail Electricity Prices are High in Many Areas



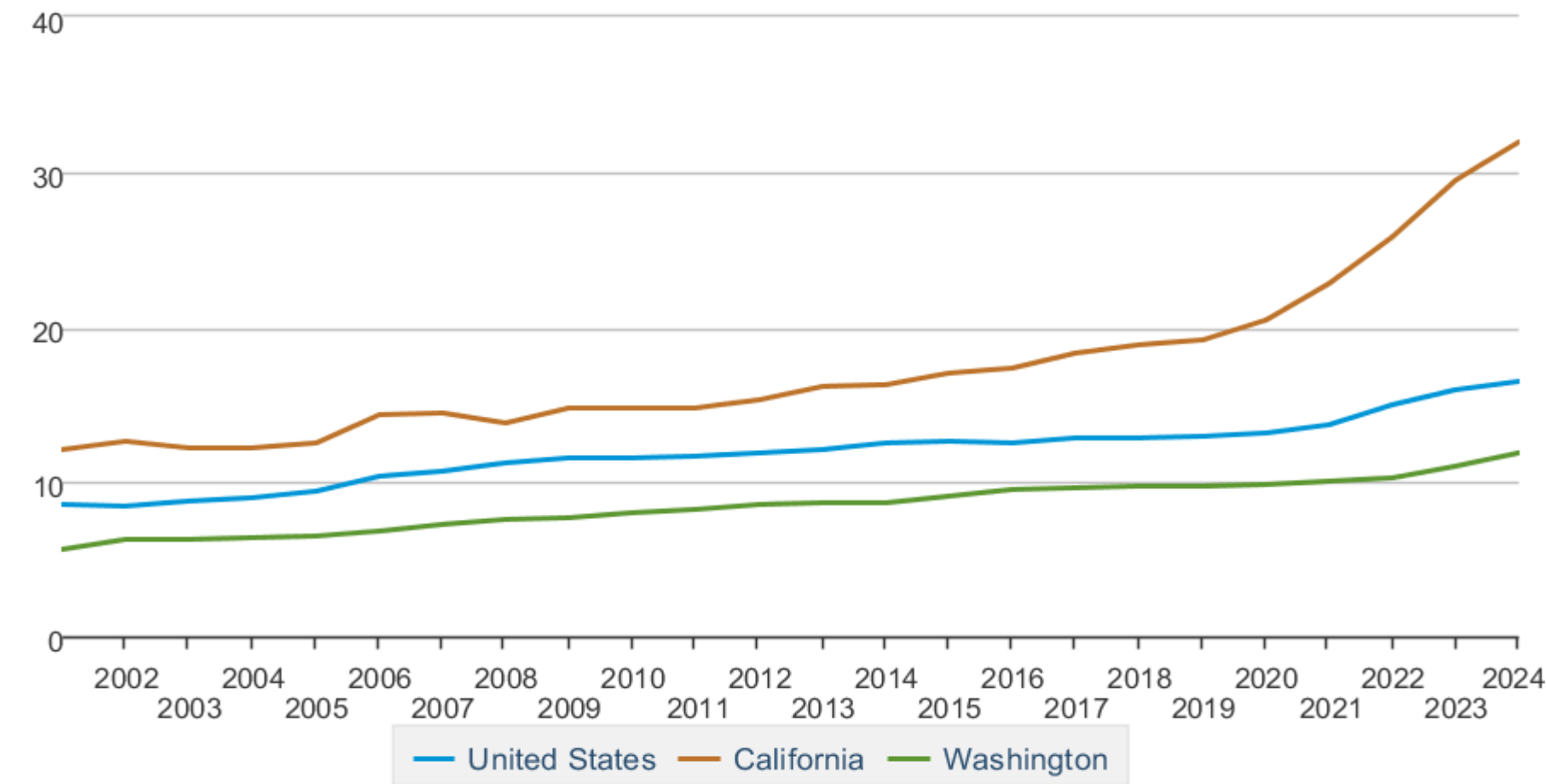
For clarity, blended utility rates by utility service territory from EIA Form 861 have been summarized to a uniform 25km grid, and the highest blended rate is shown where multiple territories overlap. Rate data has been overlaid with state and county boundaries for reference.

This map was produced by the  
National Renewable Energy Laboratory.  
Cartography by Billy J. Roberts, July 31, 2025

# WA Prices are Following the National Trend

## Average retail price of electricity, residential, annual

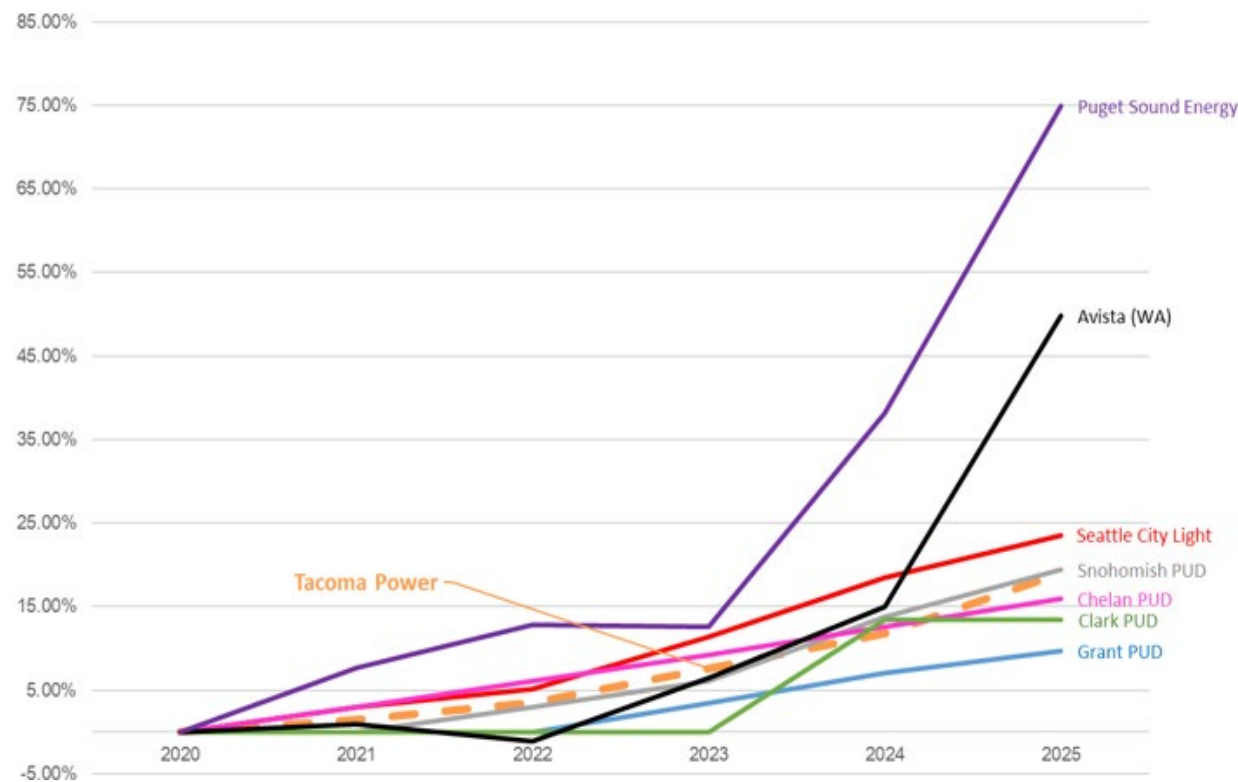
cents per kilowatthour



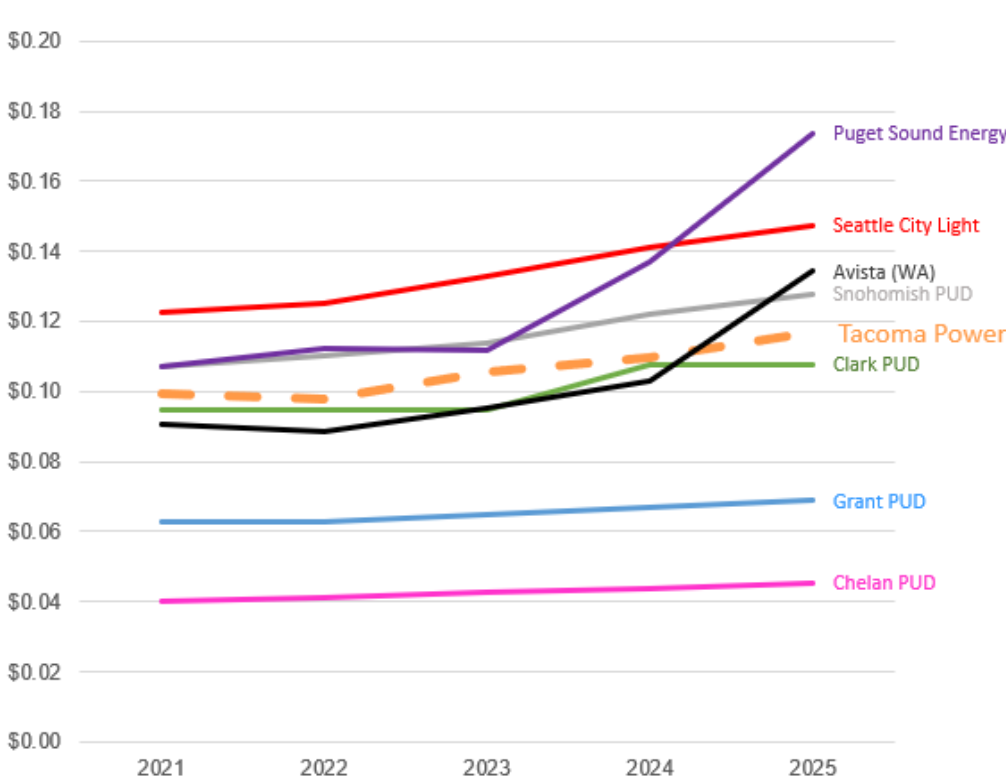
Data source: U.S. Energy Information Administration

# Prices Among Peer Utilities are Also Increasing

Cumulative Residential Rate Increases since 2021



Rates per kwh since 2021\*



\*Based on 965 kWh of consumption and 2025 rates



# Main Drivers for Increase in Electricity Prices – NW Utilities

Increasing  
Labor/Material  
Costs

Wildfire  
Mitigation  
Investments

Growing  
Supply/Demand  
Imbalance

Climate  
Related  
Policies

# The Resource Adequacy Crisis

---

Utilities face a confluence of factors...

---

The retirement of aging power plants removes baseload generation capacity from the grid.

---

State regulations limit utility resource options.

---

New energy infrastructure is often stalled by complex and protracted permitting processes and local opposition.

---

Promising “clean firm” generation technology is not yet proven at scale.

---

Widespread electrification of buildings and transportation will increase utility peak demands.

---

Federal policy uncertainty and global supply chain challenges impact the availability & cost of critical components for grid modernization and new power generation projects.

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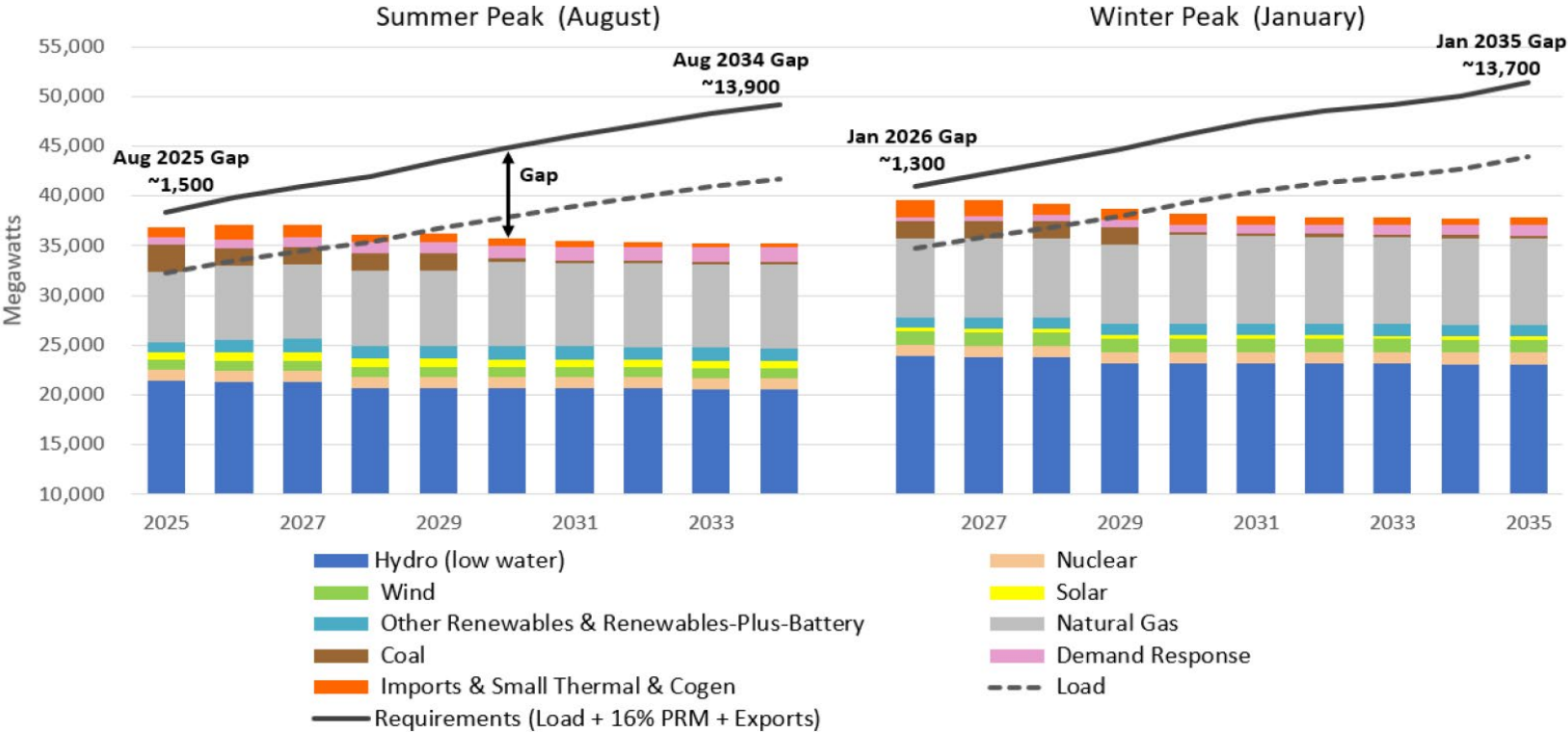
Explosive growth of data centers, driven by AI and cloud computing, is creating unprecedented surges in demand.

---

These pressures create an impossible situation for utilities trying to balance reliability, affordability, and sustainability.



# Regional Loads are Increasing; Resources are Decreasing



## Load Growth

- New industrial load (ag manufacturing, data centers)
- Electrification of transportation, buildings, and industry

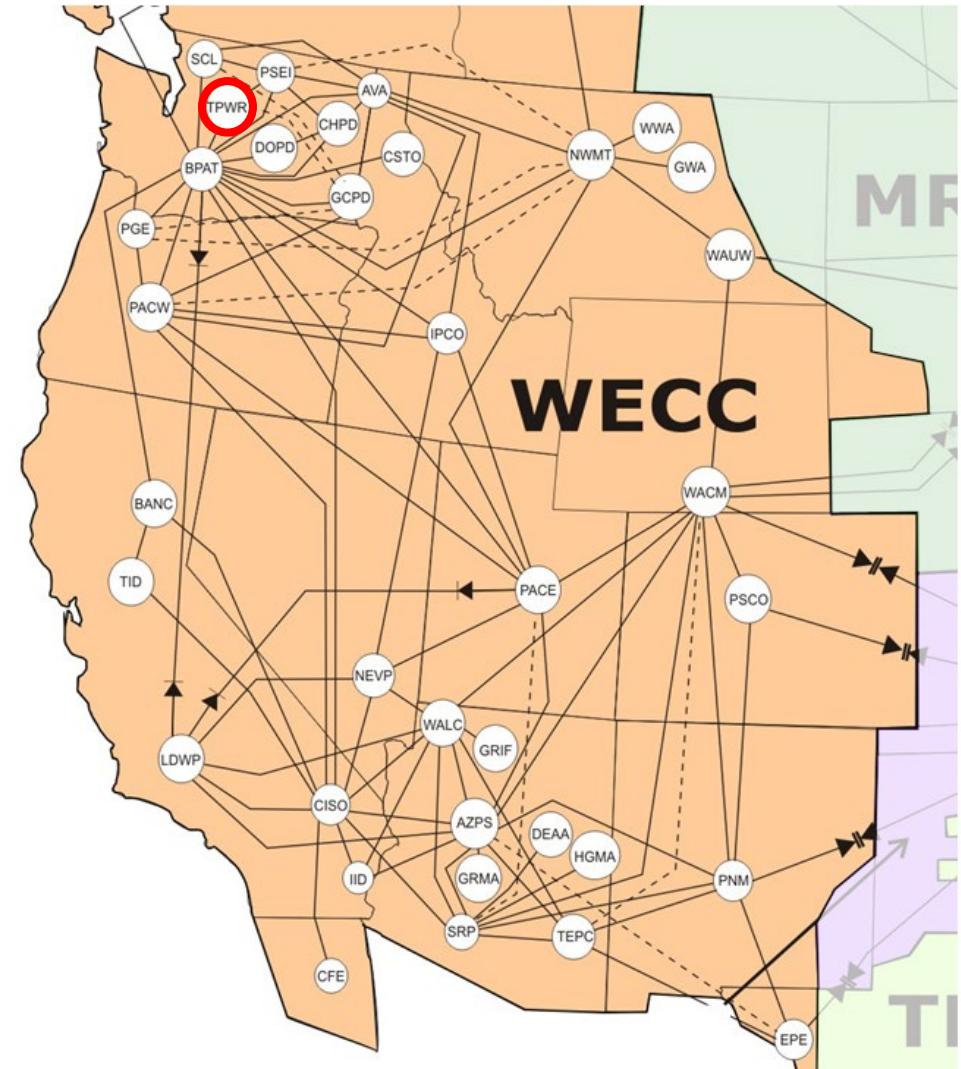
## Resource Retirement

- Driven by decarbonization policies/goals

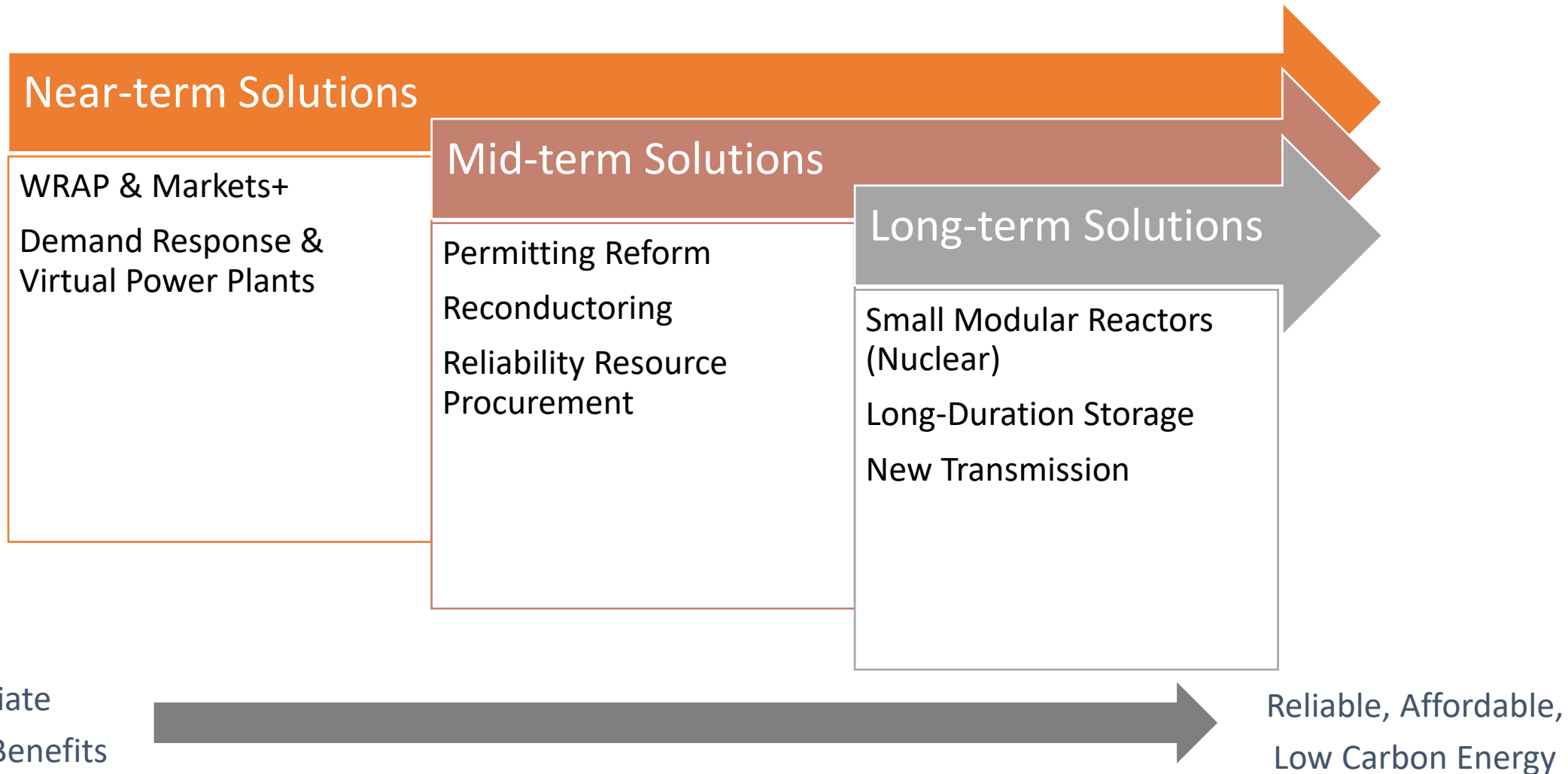


# We Are Part of a West-Wide Grid

- Tacoma Power is one of **37 balancing authorities** across the Western Interconnection, a vast grid spanning parts of Canada, Mexico, and the Western U.S.
- While **Tacoma Power is currently resource adequate**, many neighboring utilities are struggling to maintain that same standard.
- **Regional inadequacy impacts us directly.** During the 2024 MLK weekend cold snap, Western Washington narrowly avoided a blackout due to generation shortfalls among our neighbors. Even with adequate supply, Tacoma Power was at risk of a cascading grid failure.
- **Future resource inadequacy carries severe financial risks.** During the MLK event, peer utilities lost tens of millions of dollars in days. These costs were eventually passed to customers through rate increases. We could be exposed to the same risks in the future as our demand grows.
- **We have a responsibility to promote a regional electric system that remains reliable, affordable, and sustainable.**



# We are working with our peer utilities to identify solutions



# Tacoma Power - What's Going Well

Low Retail  
Rates

Strong credit  
ratings and  
financials

Resource  
Adequate

Near-Zero  
Carbon  
Portfolio

New BPA  
Contract

Strong  
Regional  
Influence

# Tacoma Power - Rate Pressures

Continued  
increases in  
labor/material  
costs

Taxes applied to  
more costs

Generation  
“trifecta”

Soft wholesale  
prices  
(short-term?)

High assessments

Aging T&D  
infrastructure

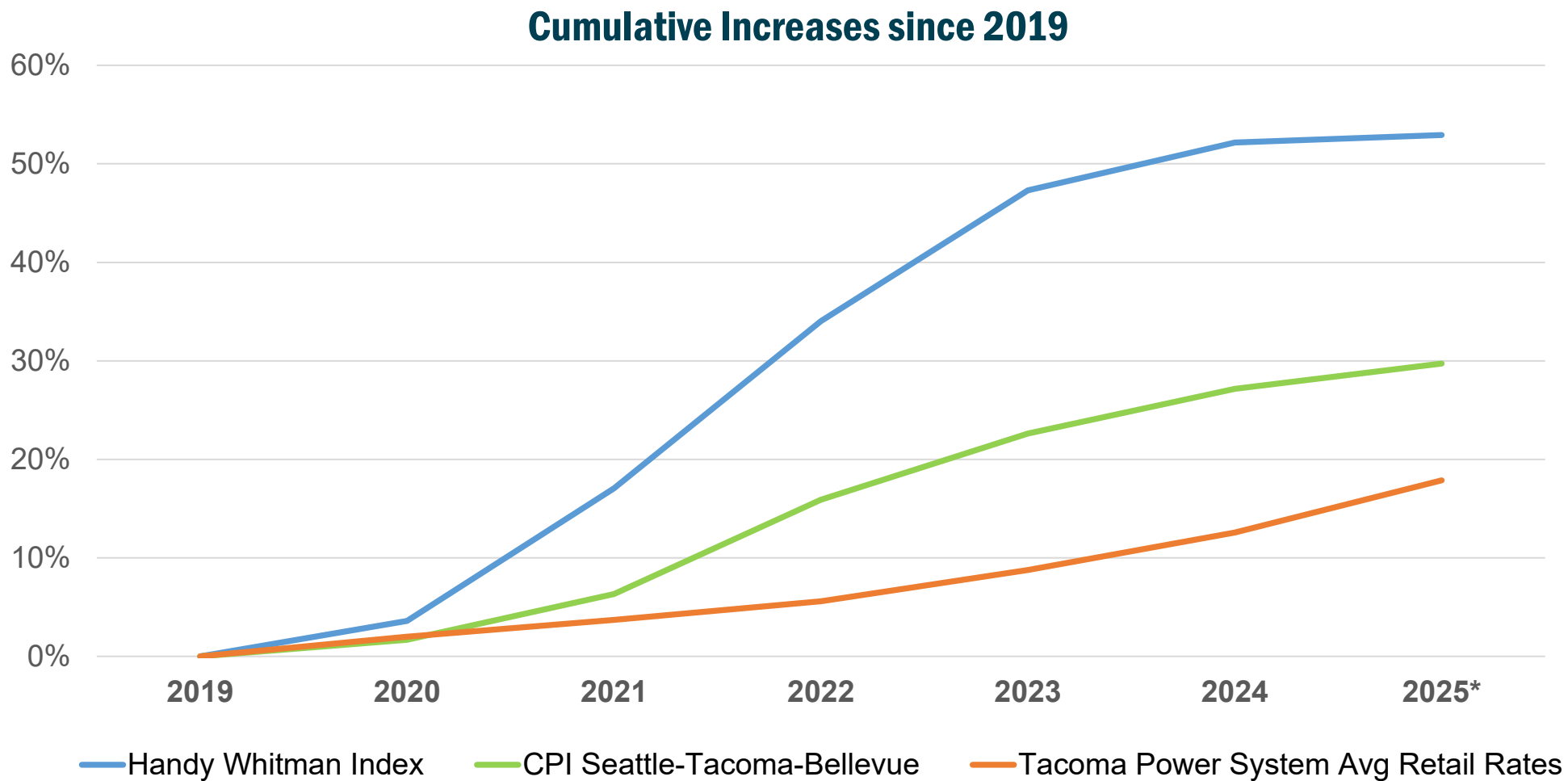
Regulatory trends

Extremely high cost  
of new power  
supply

# Overview of Tacoma Power's Emerging Issues

- Tacoma Power, like other utilities, is facing several **emerging financial risks** that will lead to **future rate pressures**.
- Some near-term risks have known costs (e.g., low wholesale prices), and we have mitigation strategies in place.
- There are some significant future risks with uncertain costs and impacts (e.g., wildfire, hydro relicensing, dam safety).
- Strategies to address these issues will be very costly.
- Tacoma Power's approach to long-term financial planning helps **maintain adequate reserves to mitigate rate and financial impacts**. While we have adequate reserves to pay for known expenses, we do not have additional reserves to mitigate some of the more significant future risks.

# Capital and Infrastructure Costs are Increasing



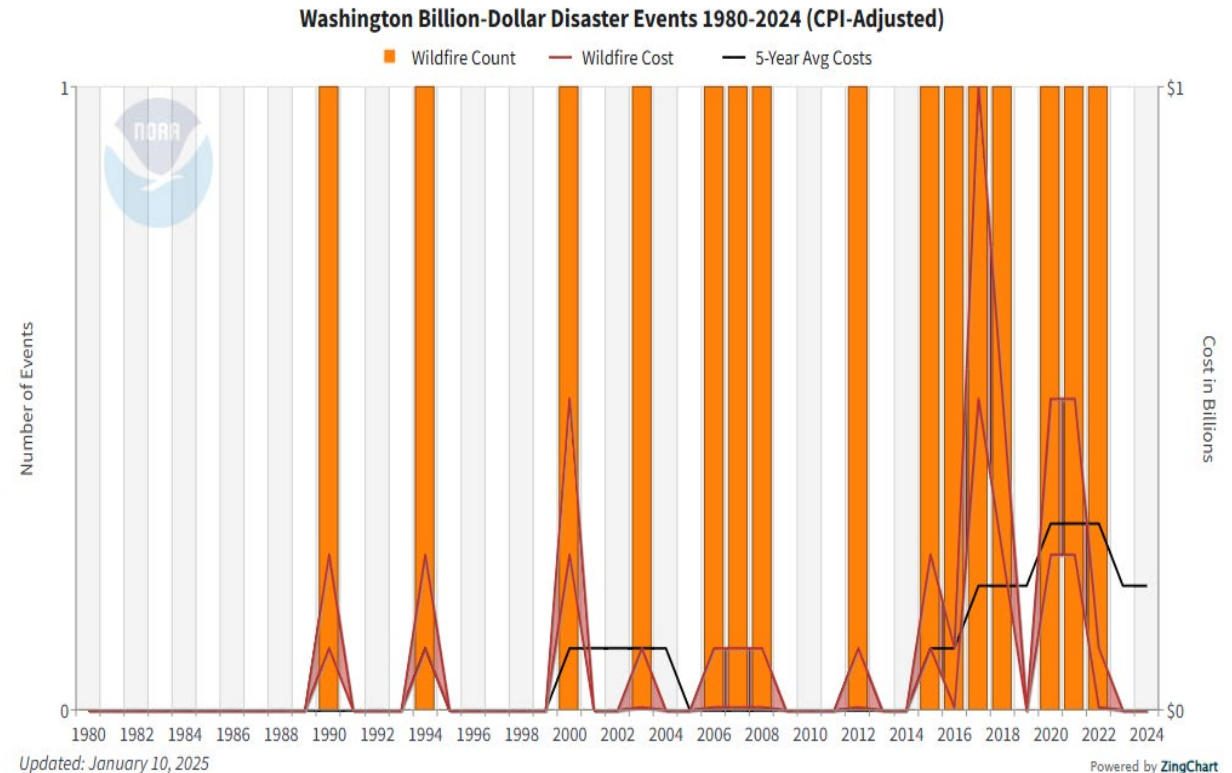
\* As of July 1, 2025

# Additional Cost Pressures from Taxes

- **Federal tariffs** – impacting material and supply costs, especially in hydro generation
- **State taxes** – Department of Revenue began assessing **retail sales tax** on previously exempt services beginning October 1, 2025. Initial estimate of annual tax increase is \$2M.
- **City of Tacoma – GET tax deduction removal** in late 2024 includes proceeds from interest earned on capital bonds. Additional tax expense for interest earned on capital bonds through October 2025 is \$35k.

# Increasing Wildfire Liability Risks

- **Wildfire risk is increasing** in Western Washington, elevating operational and financial exposure for regional utilities.
- **PacifiCorp**: Downgraded to **BBB-** by S&P amid a liquidity crisis and **\$1.7B in wildfire settlements** tied to a 2020 gross negligence verdict.
- **Avista & Inland Power**: Facing **active litigation** from over **60 insurers** related to the 2023 Spokane-area fires.
- **Implication**: Legal liabilities and credit pressures are intensifying across the industry, underscoring the need for proactive wildfire mitigation and resilience planning.





# Generation “Trifecta”

## 1. Hydro Relicensing

- Three of four federal licenses for Tacoma Power expire in 2037
- Informal process and preparations began early 2025

## 2. Dam Safety Program

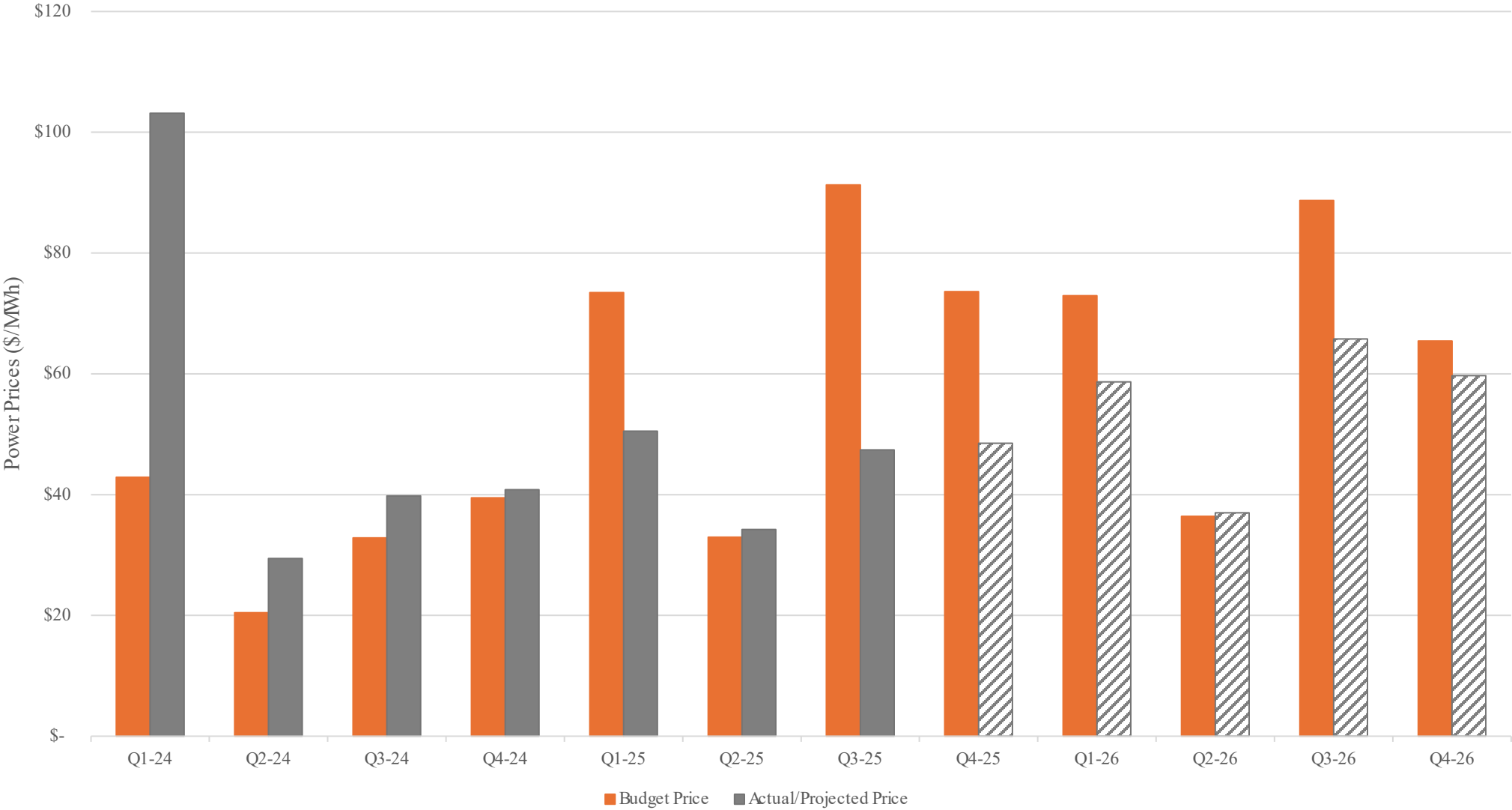
- Seismic remediation projects at Cowlitz and Cushman
- Estimated capital needs of at least \$45M by 2030 with additional projects pending further structural analysis

## 3. Hydro Unit Modernizations

- Multiple projects underway totaling more than \$90M over next 10 years



# Soft Wholesale Power Prices Below Budget



# Mitigation Strategies – Wildfire Risk

Published 2024 Wildfire  
Mitigation Plan

Power Strategic  
Objective – Climate  
Change Adaptation

Deployment of  
autonomous devices that  
mitigate wildfire risk in  
2025 Award winning tree  
trimming program

2026 Strategic Initiative  
to improve operational  
tools for preventing  
wildfires

Award winning tree  
trimming program

# Mitigation Strategies – Wholesale Prices

Conservative  
wholesale budgeting  
with adverse water  
and prices

Robust energy risk  
management program

Rate stabilization fund  
core balance target of  
\$100M to mitigate  
wholesale risks

New BPA contract  
reduces resource  
supply uncertainty

Focus on leveraging  
and optimizing the  
flexibility of hydro  
resources



# Mitigation Strategies – Grid Modernization

Grid Modernization is the process of **modernizing the grid** to make it “**smarter**” and **more resilient**. It involves integrating modern technologies, enhanced processes, and policies that work together to deliver electricity more reliably and efficiently. This transformation **reduces the frequency and duration of outages** while **enabling more flexible interactions** with customers and other market participants.

## *Ongoing and near-term projects:*

Advanced Distribution Management System

Cybersecurity & Physical Security

Distribution Automation

## *Developing programs:*

Extreme Event Substation and Line Hardening

Distributed Energy Resource Management System

Distributed Generation Integration

How do we cost effectively prepare for current & future challenges?



How do we manage a fast-changing landscape?



How do we enable our customers & create opportunities?



Reliability



Resilience



Flexibility



Security

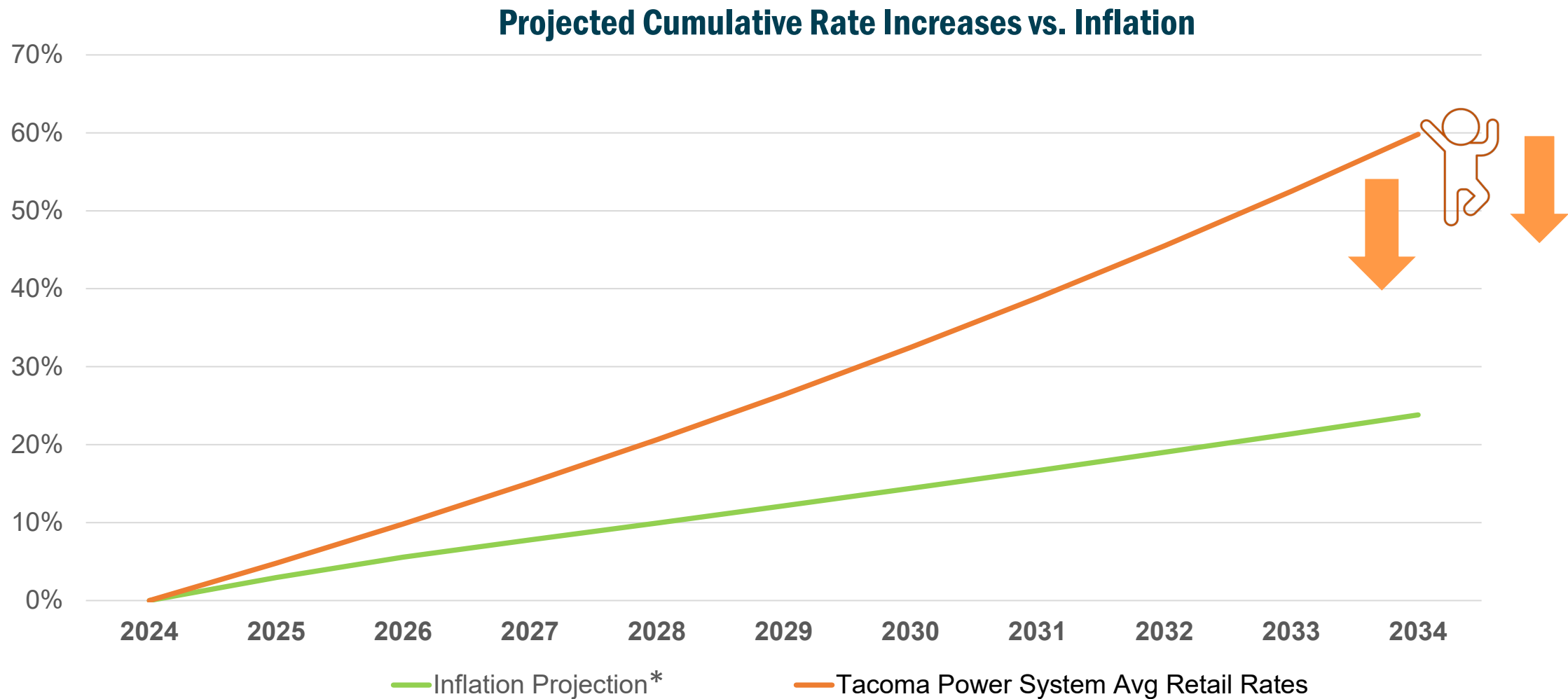


Affordability



Sustainable

# Bending the Curve – Bringing Down Our Rate Trajectory



\* Source – FederalReserve.gov

# Summary of Industry Emerging Issues

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Electric utilities, including Tacoma Power, are facing a growing number of internal and external financial risks that are likely to result in **significant future rate pressures**.

---

These risks include:

- Rapidly increasing retail rates
- Resource adequacy challenges
- Significant cost pressures

---

Looking ahead, the electric industry will face **major challenges** in **maintaining both reliability and affordability**.



# Summary of Tacoma Power's Emerging Issues

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Tacoma Power remains **well-positioned** compared to peer utilities.

---

Areas of strength:

- Low retail rates
  - Resource adequate
  - Near-zero carbon portfolio
  - New BPA contract
  - Strong regional influence
- 

Challenges:

- Operational cost increases
  - Generation “trifecta”
  - Aging T&D infrastructure
  - Low wholesale prices, high cost of new power supply
  - Regulatory trends
- 

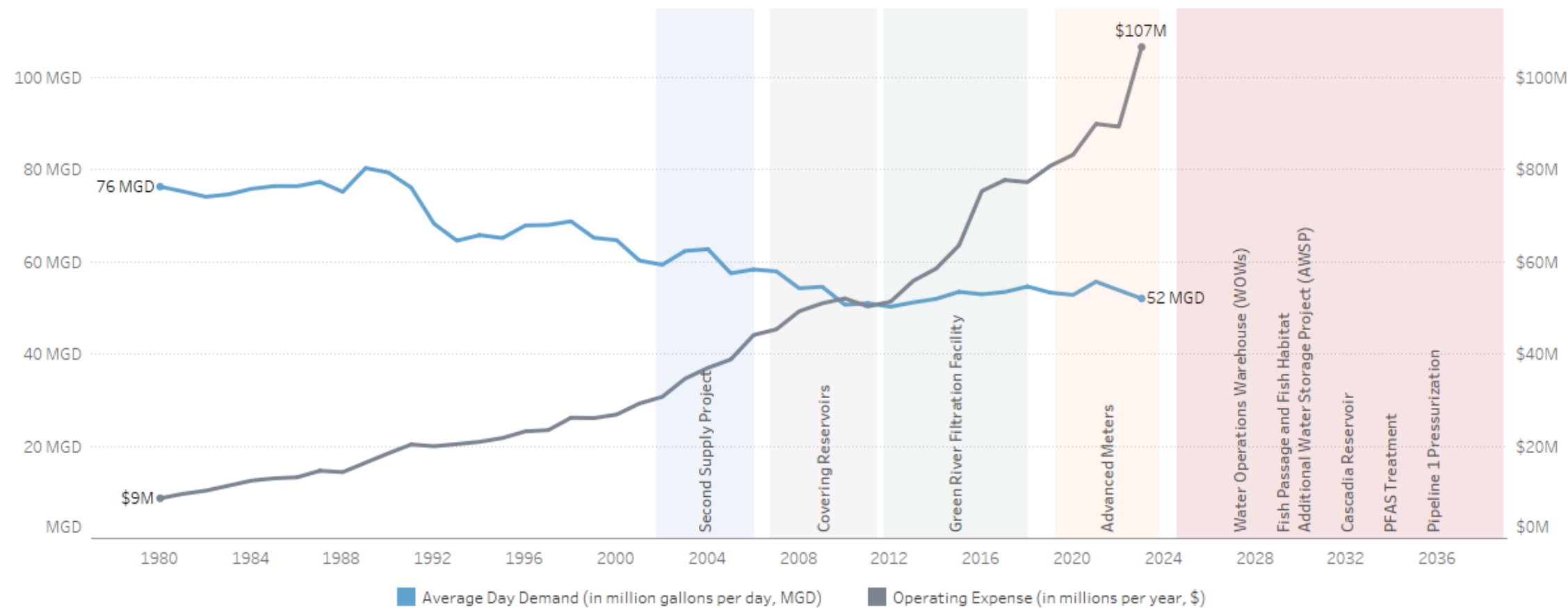
While we do our best to mitigate the impacts of future risks through long-term planning, there's a **strong likelihood of higher rate increases in the future.**





# State of the Utility

Operating costs continue to rise despite stable demand



Average day demand includes WestRock. We expect to see a reduction of nearly 16 MGD in 2024 and beyond.

# State of the Utility

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

## Top Customers by Revenue and Usage for 2024

No.	Customer	Revenue	% of Total Revenue	Usage	% of Total Usage
1	FREDERICKSON POWER	\$ 1,269,526	1.2%	509,803	2.9%
2	CITY OF FIFE	\$ 1,265,081	1.2%	750,326	4.2%
3	METRO PARKS DISTRICT	\$ 1,207,566	1.2%	226,235	1.3%
4	WESTROCK CP LLC	\$ 921,401	0.9%	119,371	0.7%
5	NIAGARA BOTTLING LLC	\$ 858,062	0.8%	344,395	1.9%
6	TACOMA SCHOOL DISTRICT	\$ 685,565	0.7%	95,518	0.5%
7	JAMES HARDIE BLDG PRODUCTS INC	\$ 582,025	0.6%	192,852	1.1%
8	US OIL & REFINING	\$ 543,350	0.5%	248,481	1.4%
9	TEHALEH OWNERS ASSOCIATION	\$ 441,776	0.4%	69,013	0.4%
10	MULTICARE HEALTH SYSTEM	\$ 359,940	0.3%	73,370	0.4%
11	UNIVERSITY PLACE SCHOOL DISTRICT	\$ 310,449	0.3%	49,708	0.3%
12	ST JOSEPH MEDICAL CENTER	\$ 309,730	0.3%	47,530	0.3%
13	PORT OF TACOMA	\$ 305,627	0.3%	30,490	0.2%
14	PIERCE COUNTY FACILITIES MANAGEMENT	\$ 291,902	0.3%	55,284	0.3%
15	FIRGROVE MUTUAL WATER CO.	\$ 255,134	0.2%	65,397	0.4%
16	UNIVERSITY OF PUGET SOUND	\$ 247,168	0.2%	53,115	0.3%
17	CITY OF BLACK DIAMOND	\$ 236,499	0.2%	40,145	0.2%
18	CITY OF BONNEY LAKE	\$ 231,908	0.2%	59,385	0.3%
19	SUNRISE MASTER ASSOCIATION	\$ 226,672	0.2%	34,662	0.2%
20	BOEING CO	\$ 224,383	0.2%	52,557	0.3%

- **Customer base more diversified**
- **Cascade Supply Program**
- **Potential to market excess contracted wholesale capacity**
- **Residential growth outside of Tacoma**
- **Customer inside vs outside: 60% vs 40%**

# Overview of Emerging Trends (Pressures)

## ➤ Inflation

- **Higher salary & benefit expenses (class & comp adjustments, wage inflation)**
- **Higher capital budget & larger CIP (construction inflation & new projects)**
- **Federal funding cuts**
- **Higher interest rates & cost shares**

## ➤ Regulatory Compliance & Resource Adequacy

- **PFAS Treatment and Pipeline 1 Pressurization Program**
- **Additional Water Storage Project (AWSP), Fish Passage & Habitat, Water Warehouse**
- **Resiliency – supply availability, climate change, seismic risks**
- **Enterprise-wide technology projects**

## ➤ Workforce

- **Shifting expectations**
- **Succession planning gaps, training and employee safety**
- **Facilities planning (space expansion)**

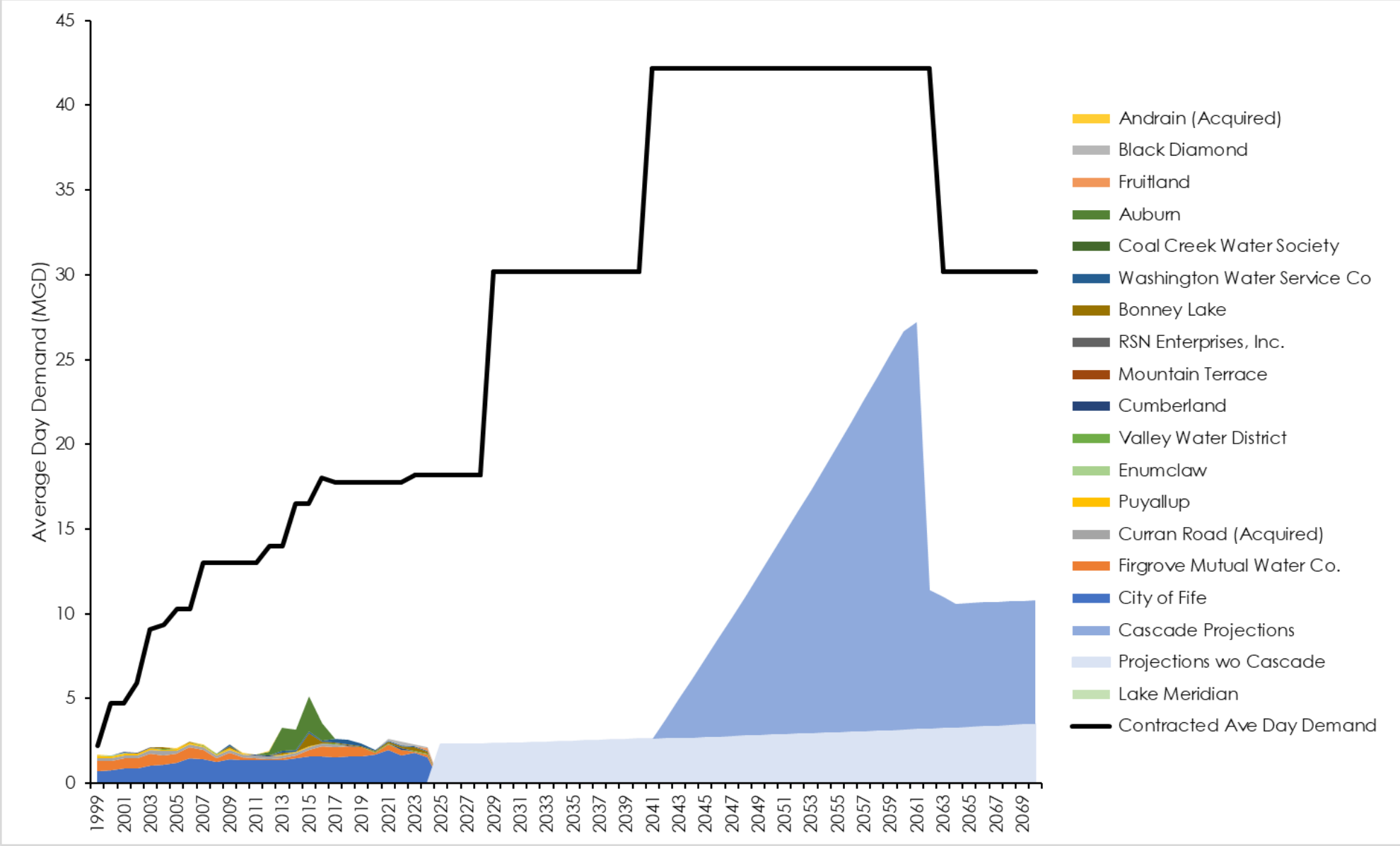
# Overview of Emerging Trends (Opportunities)

- **Innovative wholesale pricing & additional water sales opportunities**
- **Operational efficiencies & long-range financial planning**
  - **Grant & loan opportunities**
  - **Expense prioritization**
- **Investment portfolio management**
  - **Delay borrowing**
  - **Restructure debt (BABs refunding)**
  - **Level set reserve balances**
- **Regional collaboration and outreach**
  - **Sharing resources (interties, joint projects)**
  - **Source diversification (recycled water)**
  - **Leverage AMI data to improve conservation programs**
  - **Targeted outreach based on consumption patterns**
- **Technology Projects**
  - **Modernize practices**

# Wholesale Overview

- Wholesale Customers: Community water system with its own distribution system. Tacoma Water provides water to service area boundary.
- Different than Regional Water Supply System (RWSS) Partners.
  - RWSS Partners contribute funds based on fixed and variable costs of shared assets.
  - Have own sources.
- 2.4% of water sales or \$2.5 million in 2024.
- 5.7% volume or 2.16 MGD in 2024.
- Wholesale customers have paid over \$10 million in SDCs since 2012.
- Tacoma has acquired two wholesale customers since 2015.
- Pricing Structure Not Related to Meter Size.
  - Customers pay ready-to-serve charge based on Peak-Day Allocation.
- Tacoma Water wholesale agreements are perpetual.

# Wholesale Allocation Over Time



# Emerging Trends for Rail

- **Class I activities**
  - Leasing properties
  - Consolidation
- **Customer growth**
  - New potential customers & rail services
- **Asset Management**
  - GIS
  - New reporting tools/data
- **Artificial Intelligence**
  - Current availability
  - Gaining interest in the rail space
- **Renewable diesel**
- **Columbia Group engagements**
- **Harbor Maintenance Tax**
  - 0.125% of the commercial value of the cargo
- **US Trade Representative (USTR) Fees**
  - Suspended for 1 year starting November 10, 2025
  - Chinese Ocean Carriers with Chinese owned/leased ships
    - Millions of additional fees

# Cost Saving Measures



## Efficiencies, Reductions, and Deferrals

Description	Category	Type	Duration	Avg. Annual Savings
Single-phase Distribution Transformer Rebuilds	Rebuilds	Efficiency	Ongoing	\$450,000/year
Vehicle Replacement Alternative (Body-Swaps)	Rebuilds	Efficiency	Ongoing	\$475,000/year
Contract Negotiations (ESRI)	Negotiated Pricing	Cost Avoidance	3 years	\$415,000/year
Conference Room Technology Upgrades w/ Minimized Ongoing Support Costs	Operational Efficiency	One-Time Savings + Efficiency	One-Time + Ongoing	\$2,300,000 in 2024 + 480 hours/year
Hydro-Generator Optimization	Operational Efficiency	Efficiency	Ongoing	\$2,175,000/year
Clean Fuels Program	Cost Efficiency	Efficiency	Ongoing	\$500,000/year
2025 Refinancing of 2010 Bonds	Refinancing	Reduction	One-Time + Ongoing	\$36.6 million in 2030-2035 + \$7.3 million/year

\*These are select examples of the cost-saving measures



# Mitigate & Manage Costs



## Budget Decision-Making

- **Personnel: Hiring Action Form**
- **Capital: Business Case Evaluations / Charters**
- **Decision-Making Framework**

## Forecasting

- **Adaptive Insights for financial forecasting**
- **Capital Improvement Plan**
- **Developing a phased approach**

## Project and Process Documentation

- **Capital intake and prioritization tools**
- **Business process documentation**
- **Project management training**
- **Data, technology intake, prioritized list**

# Cost Savings Measures: Efficiencies and Reductions

## Budget Variance in 2025/26 applied to reserves

- Projected savings and expenditure deferrals lowers cash needed from rate increase and delays borrowing costs

## Refinancing for Debt Service Savings and Restructuring

- BABs Refunding is projected to save Water \$14.5M (\$966K avg. annually) and RWSS \$9.4M (\$629K avg. annually)

## Infrastructure Investments

- Use of reserves to fund capital
- Defer Capital expenditures, including reprioritizing and realistic projections
- Set a reasonable Capital Carryforward to mitigate rate impact

## Personnel Expense Management and Hiring Prioritization

- Repurpose existing positions, when possible, no additional FTEs included for 2027/28
- Set a reasonable Vacancy Factor to mitigate rate impact

## Responsible Budgeting and Financial Management

- Prioritization, long-term planning, Decision-Making Framework
- Establish optimal reserve balances to manage affordability and risk responsibly
- Start Stop Continue

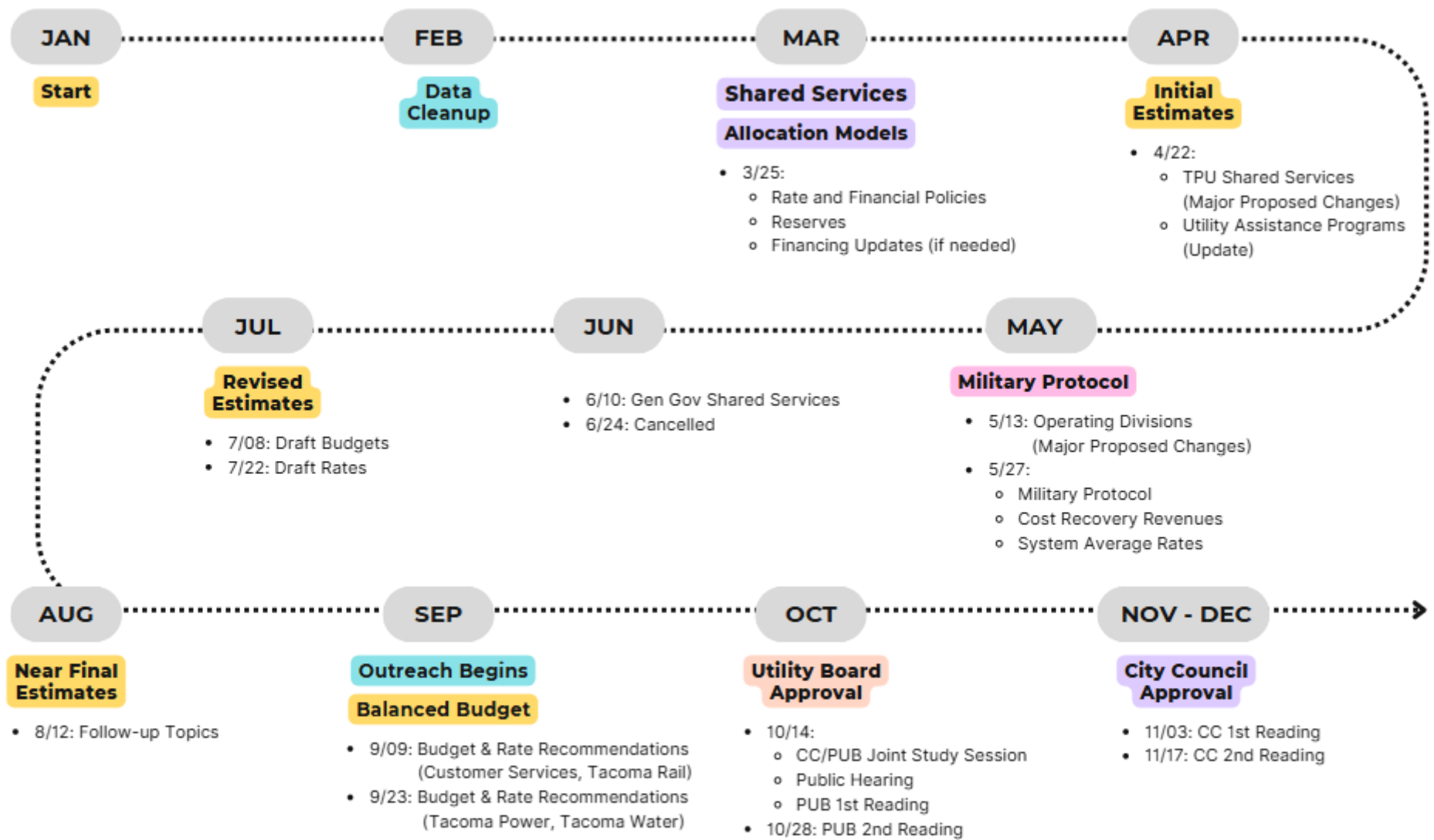
## Efficiencies, Reductions, and Deferrals

Description	Category	Type	Duration	Savings
Railroad Management System	Innovation	Reduction	Ongoing	\$ 250,000
Battery Electric Locomotives Grant & CCA	Grants	Reduction	One-time	\$ 8,250,000
Diesel Locomotive Repower Grants	Grants	Reduction	One-time	\$ 12,400,000
Diesel Locomotive Repower Consent Decree	Consent Decree	Reduction	One-time	\$ 3,000,000
Finance Fees Savings Through WSDOT Rail Loans	Zero Interest Loans	Reduction	Ongoing	\$ 45,000
Car Hire	Operations Optimization	Efficiency	Ongoing	\$ 240,000

\*These are select examples of the cost-saving measures

# Looking Forward to 2026

# 2026 Budget & Rates Timeline



# Kahoot!

Kahoot #6



# Parking Lot

Day 1

Day 2



# Thank you!



# Appendix

# PUB Engagement for Capital Projects above \$5M

Active Projects	Prior PUB Engagement Dates
Cushman #2 U31, U32 Rebuild	PUB Meeting 11/16/2022 - Resolution U-11359, Award contract to GE Renewables US LLC. PUB Meeting 04/09/2025 - Resolution U-11224 and U-11520, Contract increase for HDR Engineering.
TPU Admin Complex Storage & Parking Facility	PUB Study Session 07/12/2023 - TPU Administration Complex Storage/Parking facility and South Service Center Projects.
South Service Center Storage	PUB Meeting 01/22/2025 - Resolution U-11504, Award contracts to WSP USA, Inc. and Kennedy Jenks.
Automated Distribution Mgmt System (ADMS)	PUB Study Session 09/27/2023 - Automated Distribution Mgt System (ADMS)  PUB Study Session 04/23/2025 – ADMS Business Case Overview  PUB Meeting 05/14/2025 - Resolution U-11529, Award contracts to Media Mosaic, Inc., Sun-Net, Inc., Open Systems International, Inc., Aveva Software LLC.  PUB Meeting 05/28/2025 - Resolution U-11532, Award contract to Cerium Networks, Inc.  PUB Meeting 07/23/2025 – Resolution U-11542, Award contract to Leidos Engineering, LLC  PUB Meeting 08/13/2025 - Resolution U-11546, Increase Toba Consulting LCC
Cowlitz Trout Hatchery Fish Rearing Revision	PUB Study Session 04/24/2024 - Tacoma Power: Cowlitz Trout Hatchery Remodel PUB Meeting 05/22/2024 - Resolution U-11459, Award contract to McMillen Inc.
Mayfield Fish Passage Modification	PUB Meeting 05/24/2023 - Resolution U-11384, Increase contract to Kleinschmidt Associates. PUB Meeting 06/26/2024 - Resolution U-11461, Award contract to Kleinschmidt Associates.

# TPU Budget Performance 3<sup>rd</sup> Quarter 2025

December 16, 2025



## September 30, 2025 Biennium to Date

	(\$ in millions)	<b>Budget</b>	<b>Actuals</b>	<b>\$ Fav(Unfav)</b>	<b>%</b>
<b>Revenues</b>		<b>\$ 425.5</b>	<b>\$ 391.0</b>	<b>\$ (34.5)</b>	<b>(8.1%)</b>
Cash Appropriation		\$ 8.6	\$ -	\$ (8.6)	
<b>Expenditures</b>		<b>\$ 439.4</b>	<b>\$ 406.4</b>	<b>\$ 33.0</b>	<b>7.5%</b>
<b>Revenues less Expenditures</b>		<b>\$ (5.3)</b>	<b>\$ (15.4)</b>	<b>\$ (10.1)</b>	

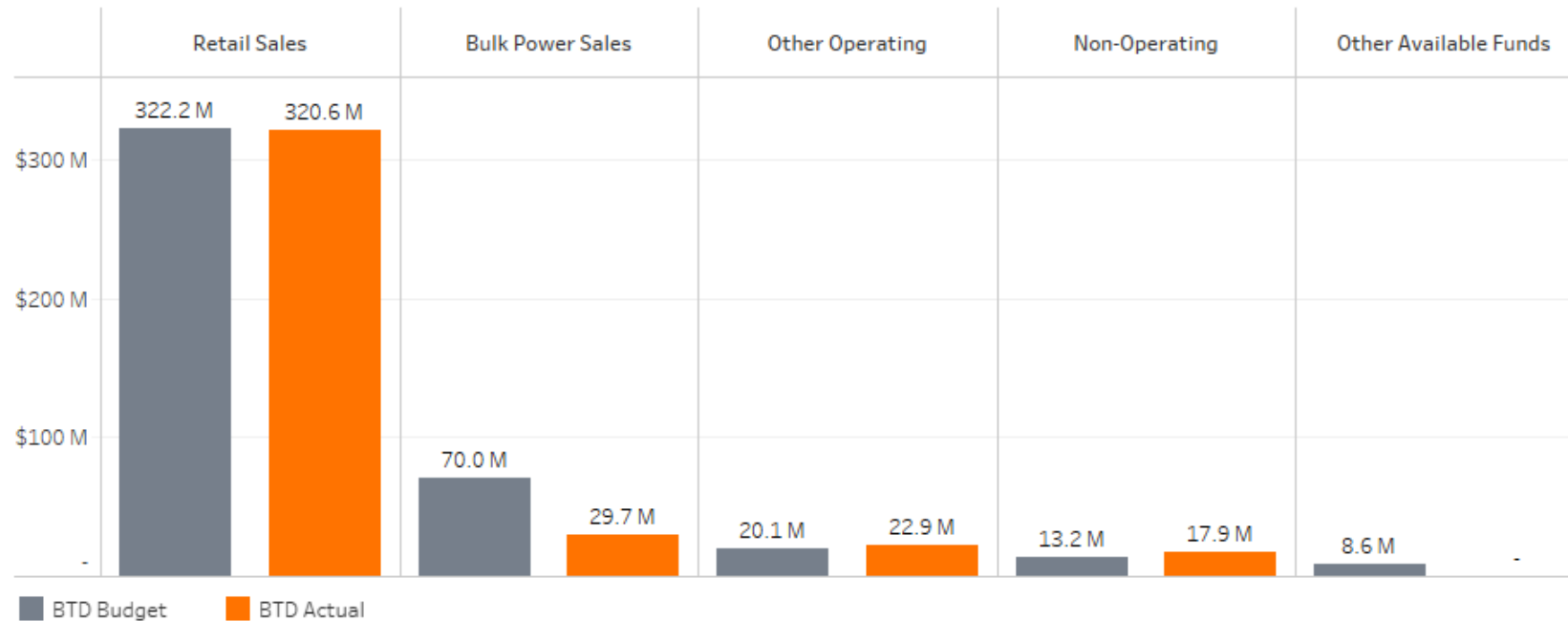
- Biennium-to-date, Tacoma Power revenue variance is \$34.5M or 8.1% under budget.
- Biennium-to-date, Tacoma Power expenditure variance is \$33.0M or 7.5% under budget.

## Budget vs Actuals



Biennium to Date  
September 30, 2025

### Revenues

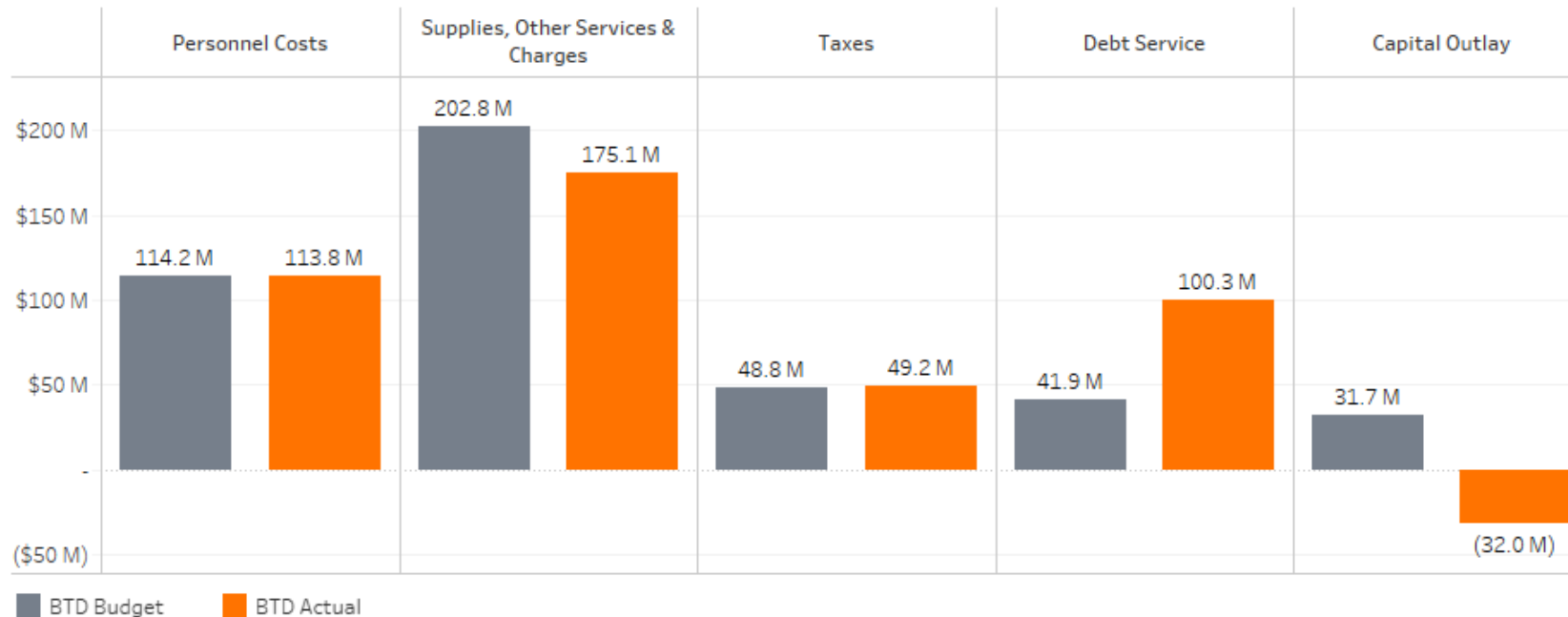


## Budget vs Actuals



Biennium to Date  
September 30, 2025

### Expenditures





## September 30, 2025 Biennium to Date

(\$ in millions)

	<b>Budget</b>	<b>Actuals</b>	<b>\$ Fav(Unfav)</b>	<b>%</b>
<b>Revenues</b>	<b>\$ 92.9</b>	<b>\$ 100.8</b>	<b>\$ 7.9</b>	<b>8.5%</b>
Cash and Other Funds	\$ 33.0	\$ 11.0	\$ (22.0)	
<b>Expenditures</b>	<b>\$ 125.3</b>	<b>\$ 101.8</b>	<b>\$ 23.5</b>	<b>18.8%</b>
<b>Revenues less Expenditures</b>	<b>\$ 0.6</b>	<b>\$ 10.0</b>	<b>\$ 9.4</b>	

- Biennium-to-date, Tacoma Water revenue variance is \$7.9M or 8.5% over budget.
- Biennium-to-date, Tacoma Water expenditure variance is \$23.5M or 18.8% under budget.

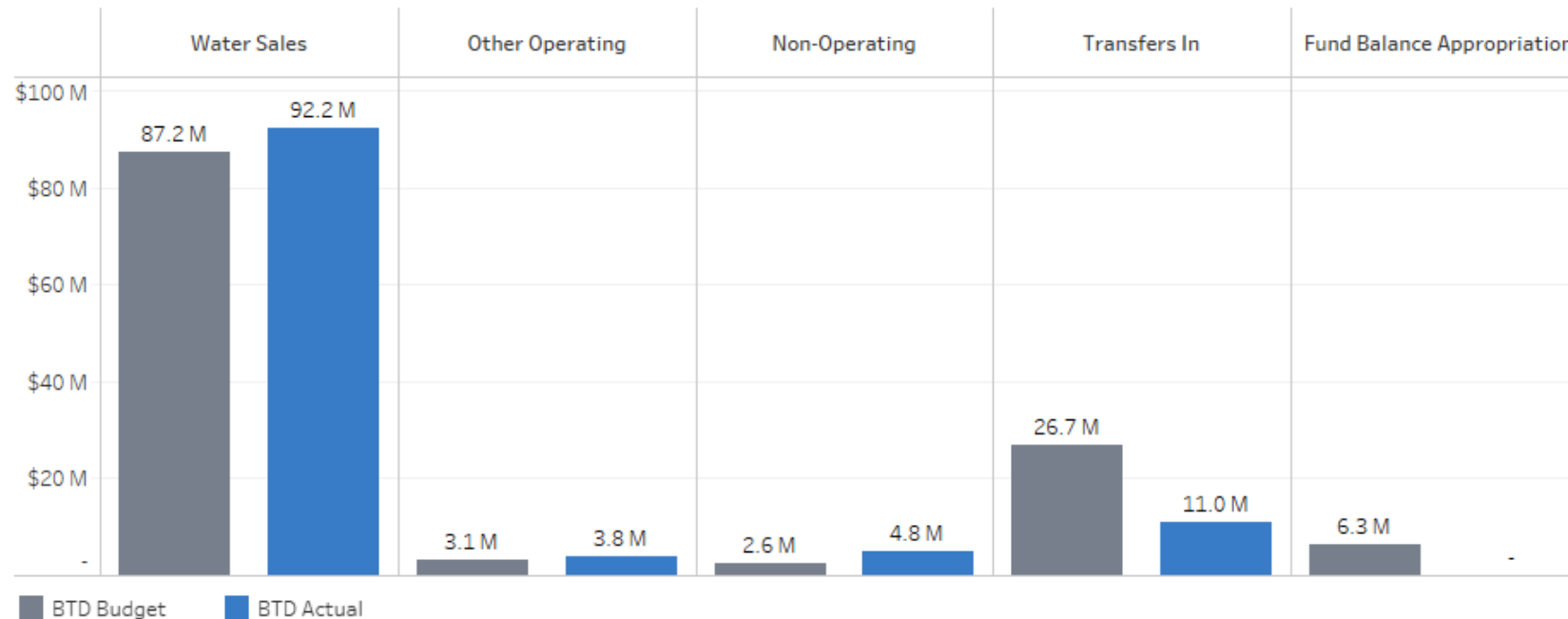


## Budget vs Actuals



Biennium to Date  
September 30, 2025

### Revenues

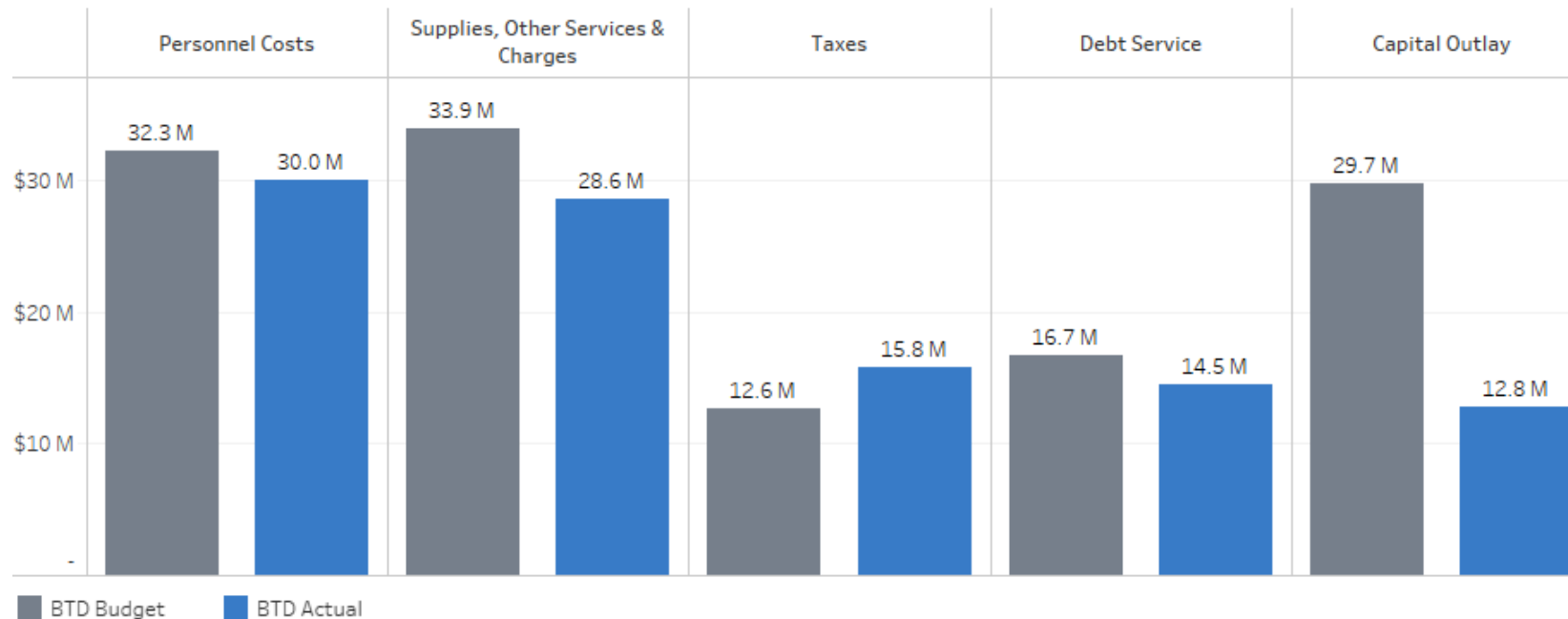


## Budget vs Actuals



Biennium to Date  
September 30, 2025

### Expenditures





## September 30, 2025 Biennium to Date

	(\$ in millions)					
			Budget	Actuals	\$ Fav(Unfav)	%
Revenues	\$	29.8	\$	32.6	\$ 2.8	9.5%
Expenditures	\$	29.6	\$	27.6	\$ 1.9	6.5%
Revenues less Expenditures	\$	0.2	\$	5.0	\$ 4.7	

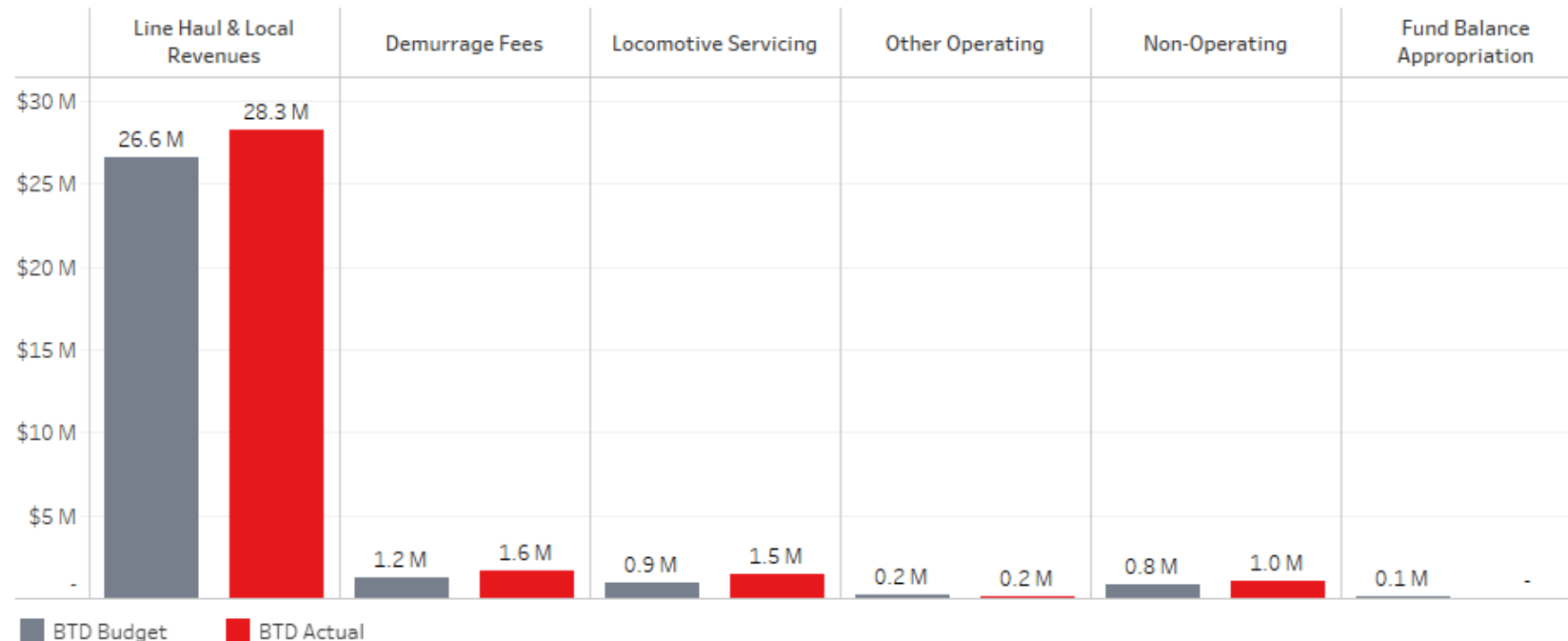
- Biennium-to-date, Tacoma Rail revenue variance is \$2.8M or 9.5% over budget.
- Biennium-to-date, Tacoma Rail expenditure variance is \$1.9M or 6.5% under budget.

## Budget vs Actuals



Biennium to Date  
September 30, 2025

### Revenues



## Budget vs Actuals



Biennium to Date  
September 30, 2025

## Expenditures

