



**TACOMA PUBLIC UTILITIES**  
3628 South 35th Street  
Tacoma, Washington 98409-3192

DATE: May 27, 2020

TO: Public Utility Board Members  
CC: Jackie Flowers, Director of Utilities

FROM: Jim Sant, Deputy Director for Administration

**SUBJECT: Financial Outlook – Projection of 2019-2020 Biennial Results (as of Q1 2020) and Budget Performance (Q4 2019 and Q1 2020) for Power, Water, and Rail**

## FINANCIAL UPDATE

### Tacoma Power

Forecast for total revenue \$23.8 million (-2.5%) less than budget

- Negative Factors: Decrease in forecasted retail sales from delayed 2% rate increase and mild recession.
- Positive factors: Projected increase in gross Wholesale sales from the mild recession and higher power market prices, transfer from the Rate Stabilization Fund offset lower gross wholesale sales in 2019, improved future liquidity with the implementation of the KeyBank Note Purchase Agreement.
- Q2 outlook: Total revenue expected to be lower than budget for 2020

Forecast for expenditures \$41.1 million (4.5%) under budget

- Negative factors: Higher wholesale power purchases in 2019 due to critical water year
- Positive factors: Certain projects can be shifted from revenue funding to bond funding, projected expenses include \$8 million targeted reductions
- Q2 outlook: Expense forecast has been updated with planned decreases

### Tacoma Water

Forecast for total revenue \$5.8 m (3%) over budget

- Negative Factors: Anticipated decreases in Commercial demand and other customer fees, increased aging of accounts receivable and sluggish cash flow
- Positive factors: Projected increases in Residential demand, strong Water Sales in 2019, generally inelastic demand, revenue stability through rate design, strong cash balances
- Q2 outlook: Total revenue expected to be at budget for 2020





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#### Forecast for expenditures \$12.2 m (6%) under budget

- Negative factors: Some expenses uncontrollable, projected increases in bad debt expense, some important initiatives may be postponed
- Positive factors: Ability to shift certain projections and adapt to Stay Home, Stay Healthy mandate, bank loan refunding will save \$168,000 in 2020 and \$600,000 in 2021/2022
- Q2 outlook: Expense forecast has been updated with planned decreases

#### Tacoma Rail

##### Forecast for total revenue -\$0.5 m (-0.7%) under budget re-appropriation

- Negative Factors: Decreases in both intermodal and commercial demand in Q2
- Positive factors: Strong commercial volumes in Q1; steady increases from Q2 anticipated through Q3 and Q4; continued increases in locomotive servicing and demurrage fees over budget
- Q2 outlook: Total revenue expected to be under budget for 2020

##### Forecast for total expenditures \$ 1 m (-1.4%) under budget re-appropriation

- Negative factors: Customer railcar dwell increasing car hire expense, offset by demurrage revenue; some capital projects may be postponed
- Positive factors: Delayed hiring and limited overtime have reduced personnel costs with downturn in business; locomotive fuel price is lowest since 2003, helping to reduce expense; no volume incentive allowance
- Q2 outlook: Total expense expected to be under budget for 2020

#### PERFORMANCE METRICS

##### Financial and Operational Metrics

- Improvement in Power's financial position is the result of use of reserves, capital funding shifts, and targeted expense reductions
- Water has made substantial progress towards its 10-year conservation goal due to a decrease in actual consumption as well as an increase in population estimates



##### Commitment to Customers & Employees

- Customer service responsiveness and service levels have improved and been maintained since Q3 2019
- Safety continues to be a focus across the organization with recent improvements in Tacoma Water



Also included are the Q4 2019 and Q1 2020 Budget Performance reports that portray our historical financial performance, which you have already heard about in great detail.

