

# 2027-2028 Budget & Rates Presentation Update on Reserves, Financing, and Budget/Rates Policies

March 11, 2026

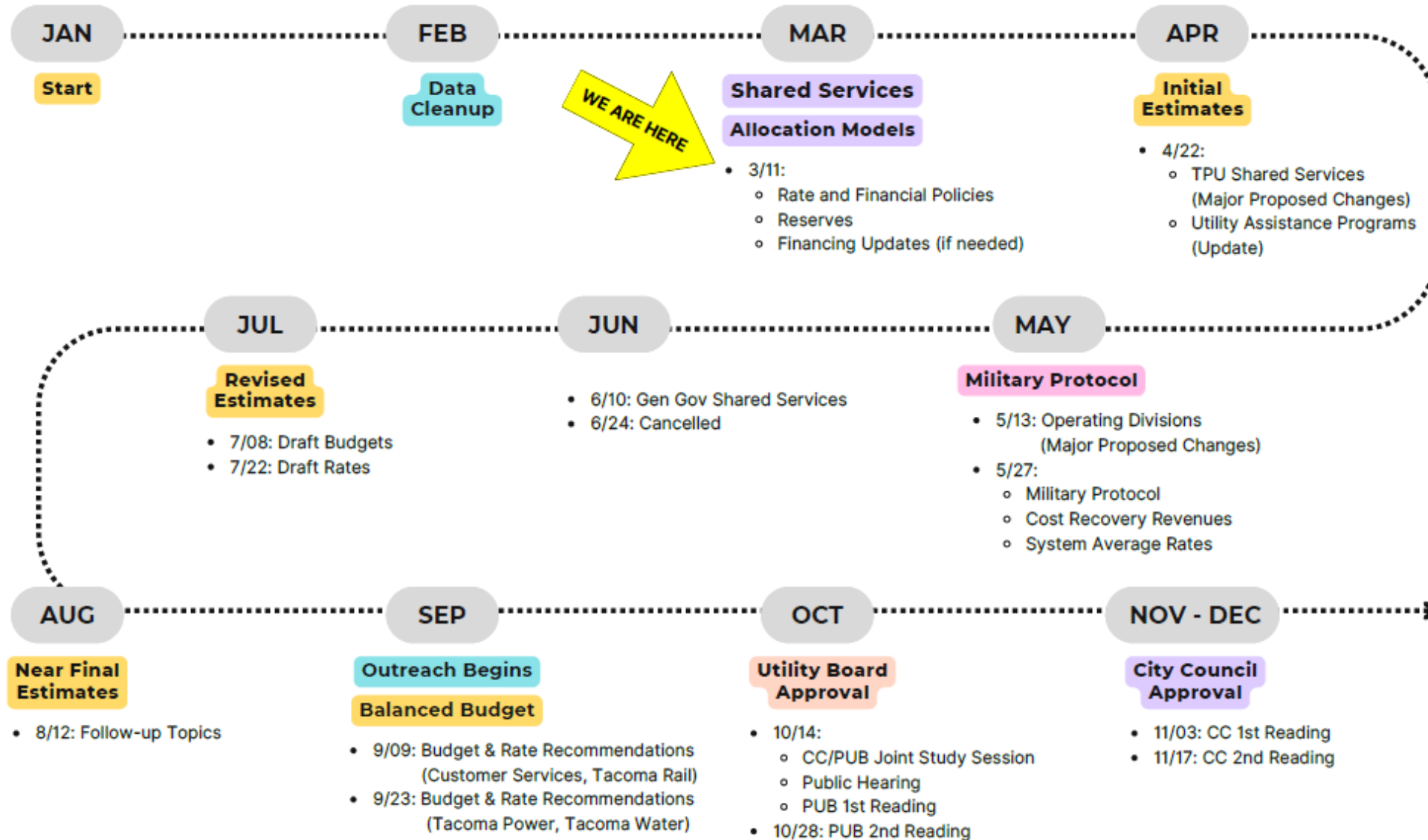


# Agenda



- Budget Development Timeline
- Power Financial Policies & Reserves
- Rail Financial Policies & Reserves
- Water Financial Policies & Reserves

# Budget Timeline



# Tacoma Power Financial Policy and Reserves



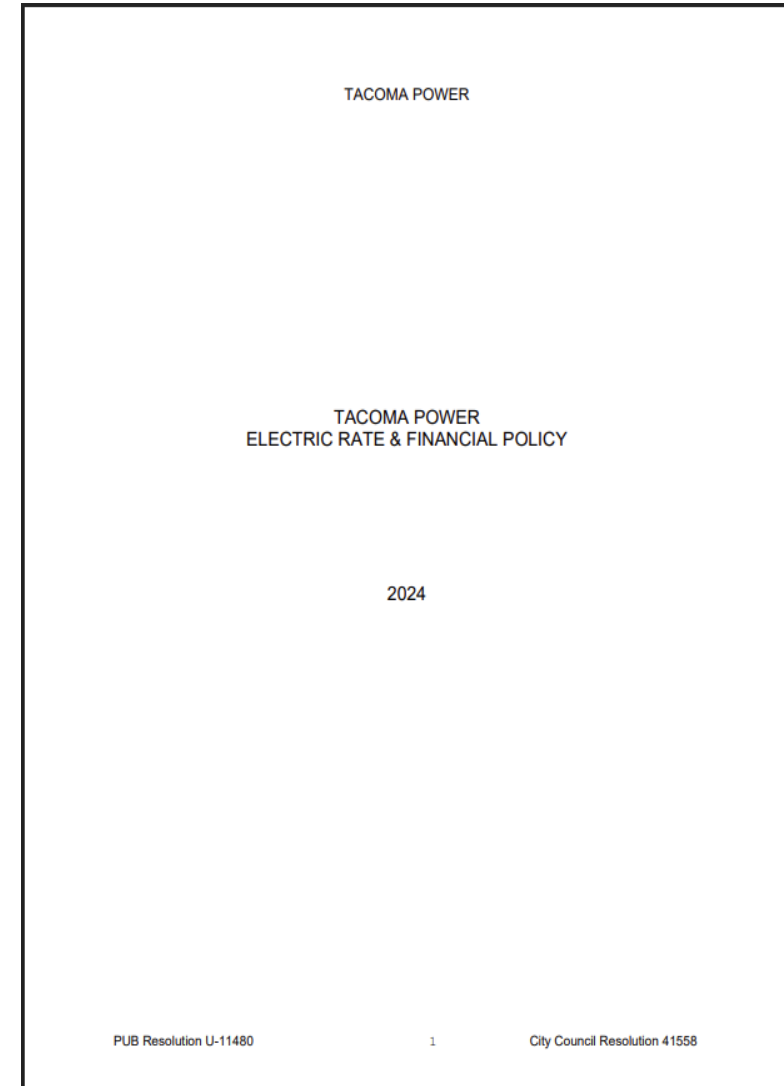
# Purpose and Policy Outline

## 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>



# Tacoma Rail Financial Policy and Reserves

# Purpose and Guiding Objectives

## Purpose

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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

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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>

# Tacoma Water

# Financial Policy and Reserves

# Purpose of Sound Financial Policy



## Water Rate and Financial Policy

- **Directs financial planning and rate decisions**
- **Helps ensure an adequate supply of safe, clean water**
- **Supports efficient & reliable water delivery at the lowest possible cost**

## Guiding Objectives

- Water Rates Should Ensure Adequate Supply.**
- Water Rates Should Be As Low As Is Responsible.**
- Water Rates Shall Be Fair and Equitable.**
- Water Rates Should Be Based on Long-Term Financial Planning and Adjusted Gradually.**
- Water Rates Should Be the Product of Customer Involvement.**

**WATER RATE AND FINANCIAL POLICY**  
TACOMA PUBLIC UTILITIES  
WATER DIVISION

November 2024

Adopted by Public Utility Board Resolution U-11485 on October 23, 2024  
Adopted by City Council Resolution No. 41559 on November 19, 2024

# Background

## Review/Test

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- **Biannual review to retest policy sufficiency**
- **Identify whether current policies are aligned with actual financial needs and risk exposure**
- **Compare policy against updated PUB Guiding Principles**
- **Ensure policies reflect current operational realities and strategic goals**

## Findings

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- **2025/2026 budget cycle highlighted gaps between policy assumptions and actual financial performance**
- **Current reserve policies have not been revised for over 10 years**
- **Recommend reserve policies be updated to maintain compliance, transparency, and fiscal responsibility**
- **Presented policy updates as part of a spend-down strategy**

# Spend-Down Strategy Status



- ✓ **Recalibrate the financial model** to assign funds to capital projects more precisely over 10-year period
- ✓ **Third-Party review and opinion** on financial position
- ✓ **Change assumptions** used for financial modeling and forecasting
- ✓ **Assign greater share of SDC funds** to capital over 10-years
- ✓ **Defer 2026 planned bond issuance** by using reserves
- ✓ **Lower the Rate Trajectory** by at least 1% starting in 2027
- ✓ **Cash-fund warehouse construction** in 2026
  - **Increase capital budgets** for priority projects (land acquisition) – Currently Assessing

# Proposed Policy Update



## Water Rate & Financial Policy Updates

- Operating Reserve:
  - *Revise to 90–150 Days (Target 120 Days)*
  - Plan required if reserves are out of policy range
- Capital Reserve:
  - *Maintain 1%*
- SDC Fund:
  - *Sunset Rate Stabilization Account (RSA)*
  - *Increase Minimum Balance to \$4M*

# Proposed Policy Language Changes



## B. Water Rates Should Be As Low As Is Responsible

### Proposed Revised Subsection B.4.

Rates shall be set at levels such that projected current fund (fund 4600) cash balances will ~~be more than~~ *[maintain]* ~~60 days~~ *[a minimum of 90 days, a target of 120 days, and a maximum of 150 days]* of current budgeted expenditures ~~in each year of the planning period~~ *[throughout each year of the planning period]*. It is recognized, however, that seasonal fluctuations may cause balances to be below recommended levels, but rates should be set such that the minimum cash balance in any month does not drop more than 40 percent below the recommended level. Operating surpluses may be applied to the Operating Reserve, capital construction, or the Capital Reserve Fund.

*[If reserves exceed 150 days, a spend-down plan shall be developed and implemented to bring reserves back within the target range. If reserves fall below 90 days, a cost-reduction plan shall be initiated to restore reserves to the minimum threshold.]*

## B. Water Rates Should Be As Low As Is Responsible

### Proposed Revised Subsection B.6.

The System Development Charge Fund is intended to provide capital funding for source development, transmission, storage, and related facilities. A minimum balance of ~~[\$4,000,000]~~ ~~\$2,000,000~~ will be maintained in the Fund to deal with unforeseen emergencies and contingencies, ~~which would be authorized by separate Public Utilities Board approval.~~ *[The minimum balance may only be used for emergency situations, severe revenue shortfalls, or critical compliance and safety requirements, and any use must include a replenishment plan approved by the Public Utilities Board. A replenishment plan should include delay or phase of non-critical projects and focus on projects with the highest regulatory or operational priority.]*

# Proposed Policy Language Changes



## B. Water Rates Should Be As Low As Is Responsible

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### Proposed Revised Subsection B.1.

**Rate revenue together with other revenue sources, will cover current costs and meet or exceed all bond and other requirements necessary to maintain financial sufficiency. *[While this policy includes minimum requirements for liquidity and debt service coverage, it is the goal of Tacoma Water to maintain or improve current debt ratings, and the utility will maintain higher levels of coverage and liquidity as required to achieve this goal.]***

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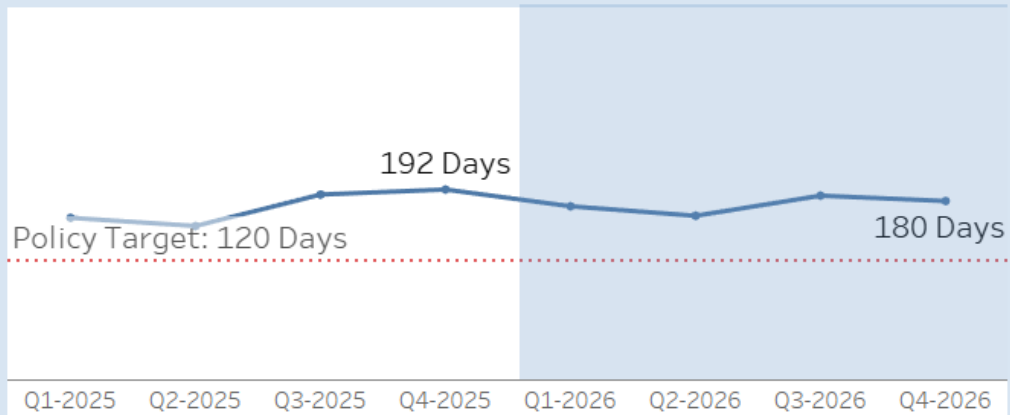
# New Reserve Policy Snapshot



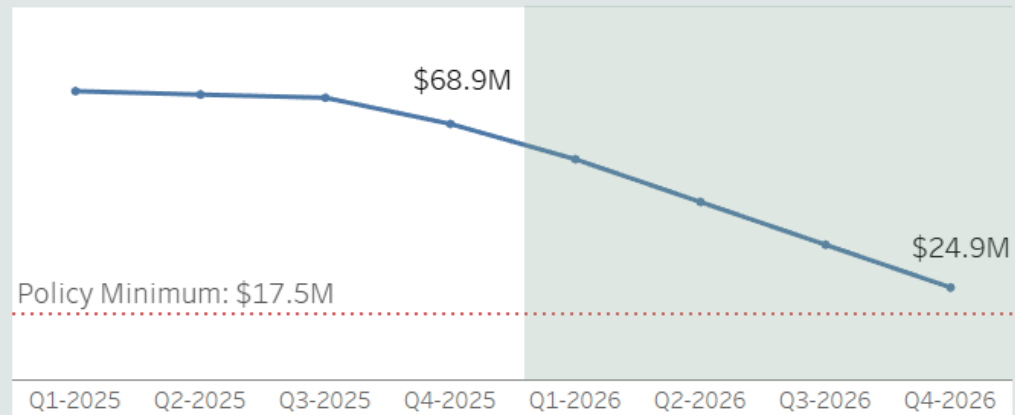
Reserve Fund	Operating (Current)	Capital	System Development Charge (SDC)
Purpose	<ul style="list-style-type: none"> <li>• Day to Day O&amp;M</li> <li>• Flexibility to manage risk</li> <li>• Manage revenue fluctuations</li> <li>• Meet working capital needs</li> </ul>	<ul style="list-style-type: none"> <li>• Capital project funding</li> <li>• Mitigate risk</li> <li>• Financial stability</li> <li>• Stable rate adjustments</li> </ul>	<ul style="list-style-type: none"> <li>• Capital funding for system improvements</li> <li>• Mitigate risk</li> <li>• Financial stability</li> <li>• Stable rate adjustments</li> </ul>
Requirement	Min 90, Target 120, Max 150 Days Budgeted Operating Expenses	1% Original Cost Plant-in-Service	\$4M
2026 Requirement	\$33M - \$43M - \$54M	\$13M	\$4M
Q4-2025	\$70.5M (192 days)	\$21.3M	\$47.6M

# Liquidity & Cash Balance

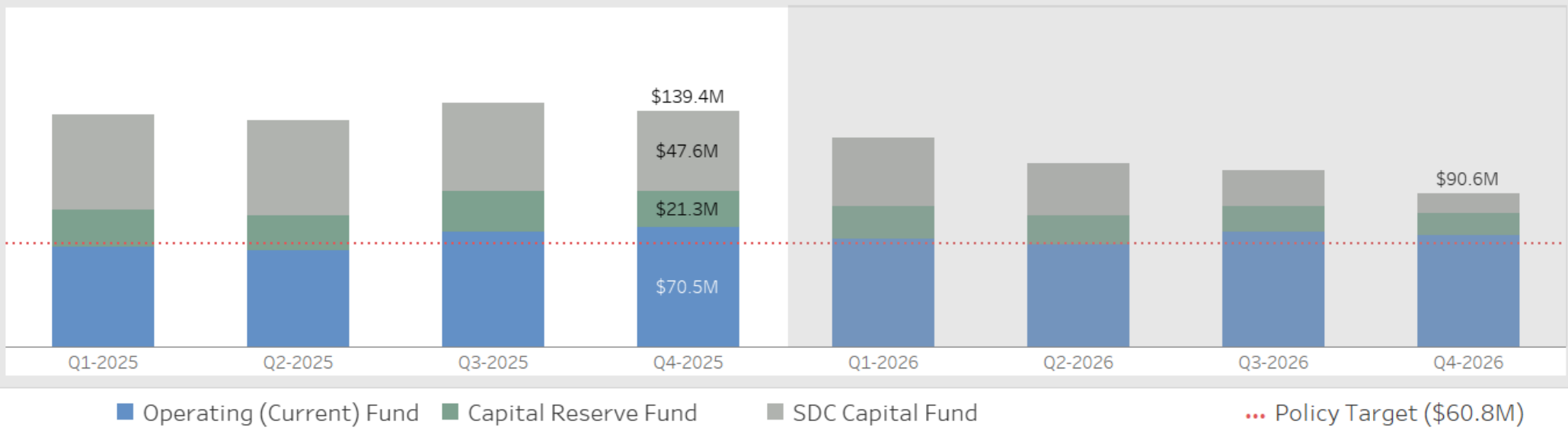
### Operating Fund Liquidity (in days)



### Capital Funds Liquidity (in dollars)



### Total Liquidity (Cash Balances)



# Next Steps



- 1. Incorporate revised reserve policies into 2027/2028 budget and rate financial forecasting, using updated model**
- 2. Regular report reserve level projections and fund balance forecasts and in parallel with budget development and rate-setting this year**
- 3. Present formal policy adoption in Quarter 4 alongside approval of 2027/2028 biennial budget and rates**

Thank You!

