

Tacoma Water Financial Outlook

3rd Quarter 2022

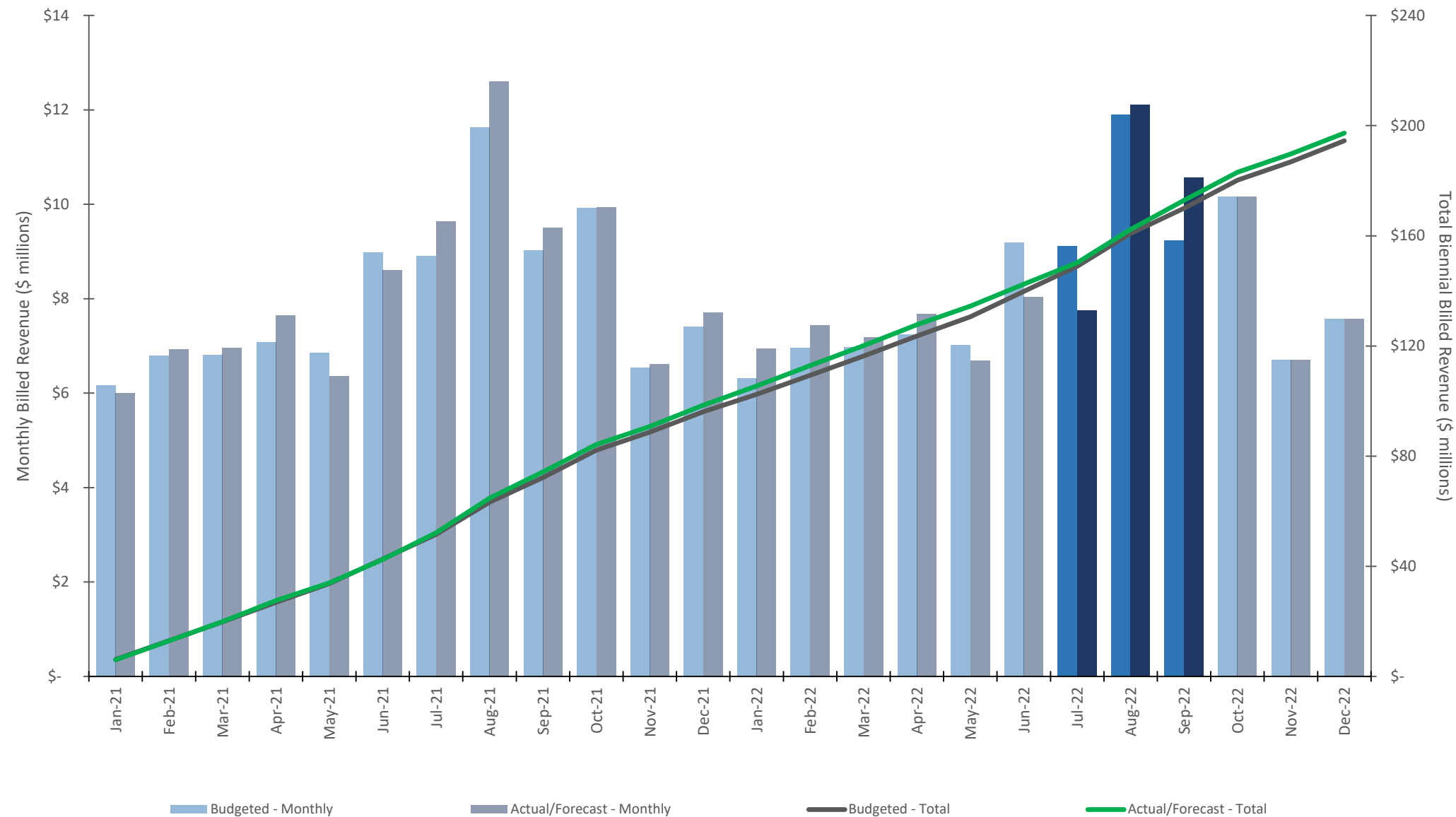
November 16, 2022



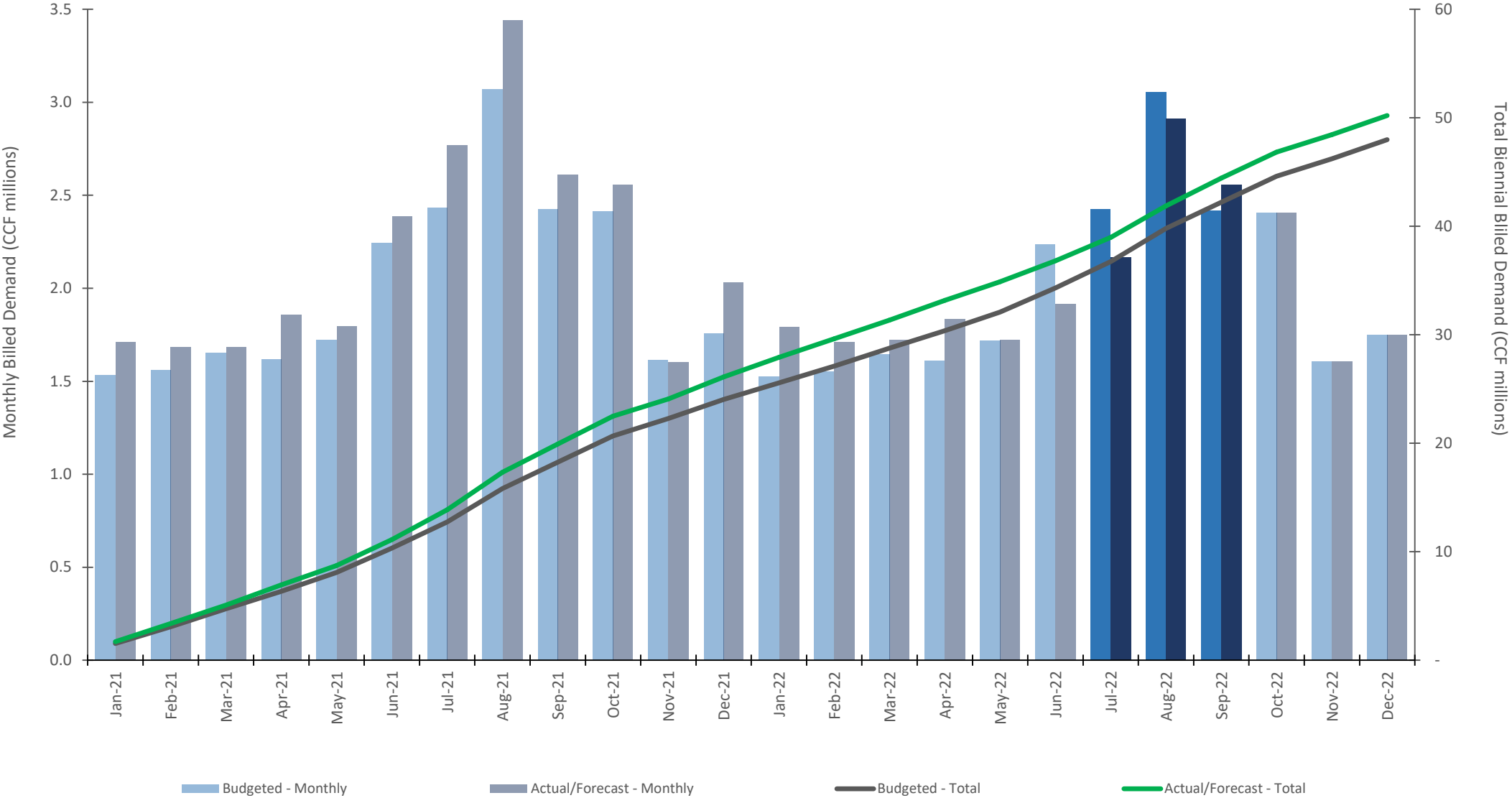
2021/2022 Biennium Summary of Financial Outlook

- *This report incorporates actual revenues and expenditures through September with projections for the remainder of the biennium*
- **Forecast for total revenue is \$4.3M or 2% over budget**
 - Q3 challenges: Water consumption less than budgeted due to chilly, wet spring
 - Q3 strengths: Strong sales in summer 2021 offsets 2022, beginning reserves provide ability to withstand lag in cash flow due to arrearages
 - Q4 outlook: Grant funding for customer arrearages will provide relief
- **Forecast for expenditures is \$3.4M or 2% under budget**
 - Q3 challenges: Ongoing workforce challenges, continuing supply chain issues, higher construction and commodity costs
 - Q3 strengths: Ability to defer and plan certain projects and expenditures
 - Q4 outlook: Lower bad debt expense, emphasis on strengthening the workforce

Billed Revenue



Billed Demand



2021/2022 Biennium Forecast vs. Budget

1. Total Revenue

- Billed Water Sales were about \$170,000 under budget during the third quarter, primarily due to reduced billed demand as a result of unusually cool, wet spring weather
- Other Operating revenue projected to be only slightly less than budgeted
- Non-Operating revenue is about \$1.4 million over budget due to higher than planned interest earned on cash balances

2. Personnel Expenses

- \$1.7 million or 3% under budget biennium to date, this low variance reflects Water's commitment to developing a lean budget in 2020 and includes a vacancy factor offset
- This projection includes assumptions for represented staff contract increases for 2022 to be paid this year

3. Supplies, Services and Other Charges

- Assessments are about \$1.6 million under budget, primarily in Customer Service, UTS and Support Services
- Delays in planned business system investments are included in this variance and are expected to be about \$1.2 million lower than budget
- Bad Debt Expense is \$1.2 million over budget at the end of the third quarter, this is a reduction of about \$400,000 from second quarter due to paid arrearages and will continue to be reduced as outstanding customer balances are paid

2021/2022 Biennium Forecast vs. Budget

4. Taxes

- Projection includes additional taxes collected on behalf of University Place

5. Total Revenue less Total Expenditures

- Projected to be \$7.7 million over budget based on these updates

6. Capital Outlay

- Funded from Operating reserve includes AML project and has been adjusted to reflect updated projections and grant funding
- We are monitoring projects funded from Capital Reserves and several projects are projected to be significantly higher than budgeted, currently we expect that these increases will be offset by lower spending in other projects including contingency

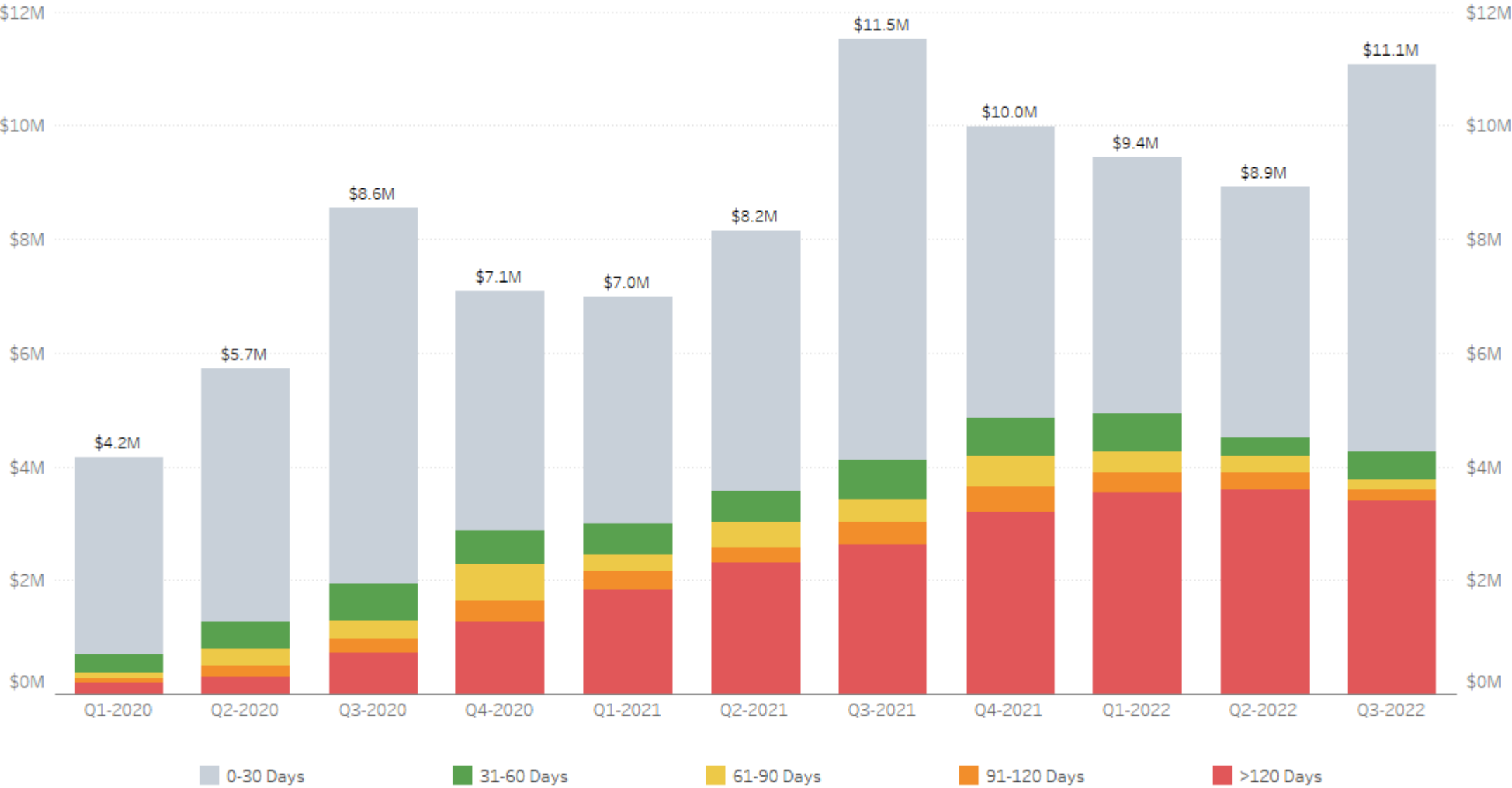
7. Projected Cash Ending Cash Balance

- Operating reserve spend down is projected to be \$10.5 million this biennium which is about \$13.2 million lower than budgeted
- The cash balance projection includes adjustments for working capital to date to reflect changes in accounts receivables, payables and accruals

2021/2022 Biennium Forecast vs. Budget

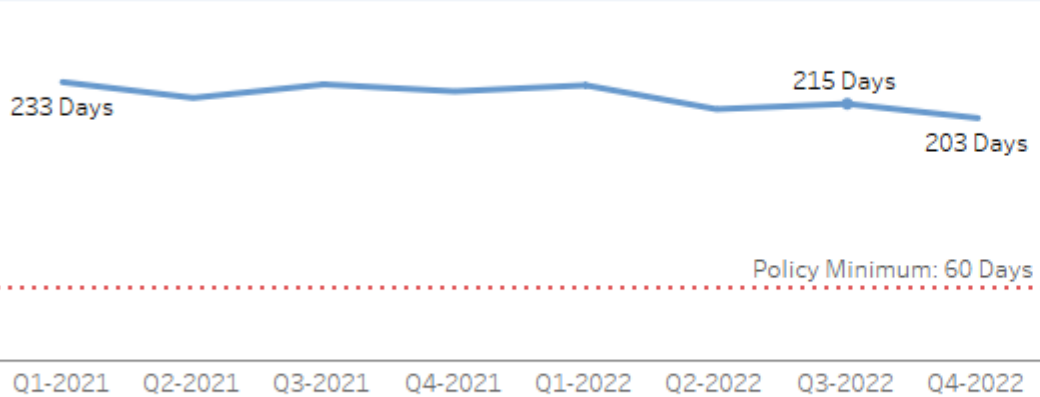
All \$'s in 1000's	2021 Budget	2021 Actuals	2021 Difference	2022 Budget	2022 Forecast	2022 Difference	Total Biennium Budget	Total Biennium Forecast	Biennium Difference \$	Biennium Difference %
Revenue										
Residential Water Sales	64,278	66,179	1,901	66,229	66,496	267	130,507	132,676	2,169	2%
Pulp Mill Water Sales	7,063	7,284	221	7,204	7,451	247	14,267	14,736	468	3%
Wholesale Water Sales	2,801	2,711	(90)	2,857	2,619	(238)	5,658	5,330	(328)	-6%
Other Water Sales	21,956	22,340	384	22,087	22,367	280	44,042	44,707	664	2%
Other Operating Revenue	3,994	3,715	(279)	3,945	4,149	205	7,940	7,864	(75)	-1%
Total Operating Revenue	100,092	102,229	2,138	102,322	103,084	762	202,414	205,313	2,898	1%
Non-Operating Revenue (includes BAB's subsidy)	3,803	4,444	641	3,549	4,342	794	7,352	8,786	1,434	20%
Total Revenue	103,895	106,673	2,778	105,871	107,426	1,555	209,766	214,099	4,334	(1) 2%
Expenditures										
Personnel Costs	31,282	29,260	(2,023)	32,073	32,427	354	63,355	61,686	(1,669)	(2) -3%
Supplies, Other Services & Charges	30,881	28,828	(2,053)	31,289	30,272	(1,017)	62,170	59,100	(3,069)	(3) -5%
Debt Service	25,667	25,680	13	24,931	24,986	54	50,598	50,666	68	0%
Taxes	13,564	14,162	598	13,851	14,517	667	27,415	28,679	1,264	(4) 5%
Total Expenditures	101,394	97,929	(3,465)	102,144	102,202	59	203,538	200,132	(3,406)	-2%
Total Revenue less Total Expenditures	2,501	8,666	6,165	3,727	5,221	1,494	6,228	13,967	7,739	(5)
Reconciling Cash Items	-	(2,296)	-	-	-	-	-	-	-	-
Appropriation from Current Fund	2,501	10,962	6,165	3,727	5,221	1,494	6,228	13,967	7,739	
Capital Outlay Financing Detail										
Funded from Bond Funds	-	546	546	-	-	-	-	546	546	-
Funded from Operating Reserve	15,426	10,545	(4,881)	15,426	11,555	(3,871)	30,851	22,100	(8,752)	-28%
Funded from Capital Reserves	24,240	13,734	(10,506)	24,240	22,376	(1,865)	48,480	36,109	(12,371)	-26%
Total Capital Outlay	39,666	24,825	(14,841)	39,666	33,931	(5,736)	79,331	58,755	(20,576)	(6) -26%
Debt Service Coverage Ratio		2.52x			2.18x			2.18x		
EOY Current Fund (Jan 2021 Balance \$66,638)		62,483			56,150			56,150	(7)	

Aging of Accounts Receivable

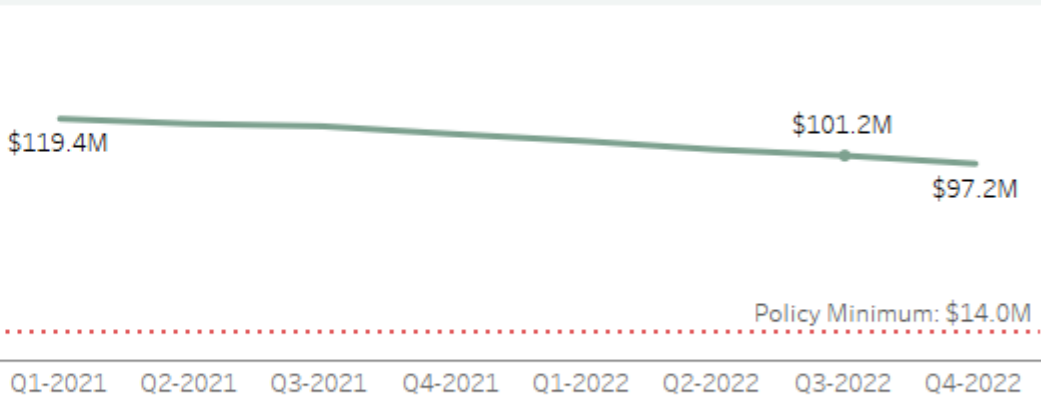


2021/2022 Projected Liquidity & Cash Balance as of 9/30/22

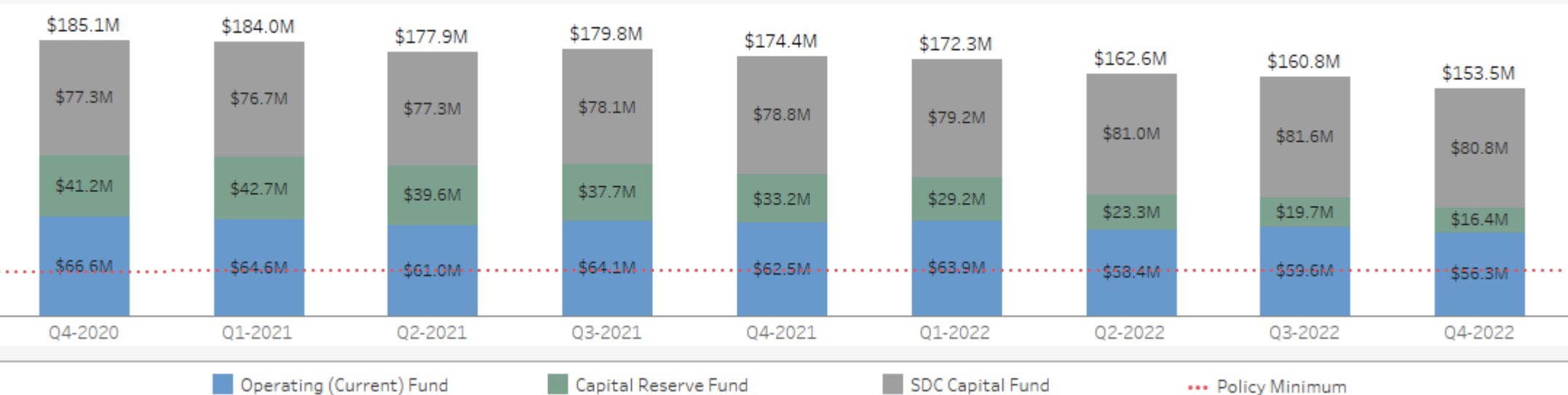
Operating Fund Liquidity (in days)



Capital Funds Liquidity (in dollars)



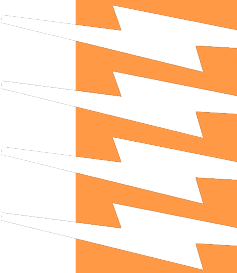
Total Liquidity (Cash Balances)



Tacoma Power Financial Outlook

3rd Quarter 2022

November 16, 2022

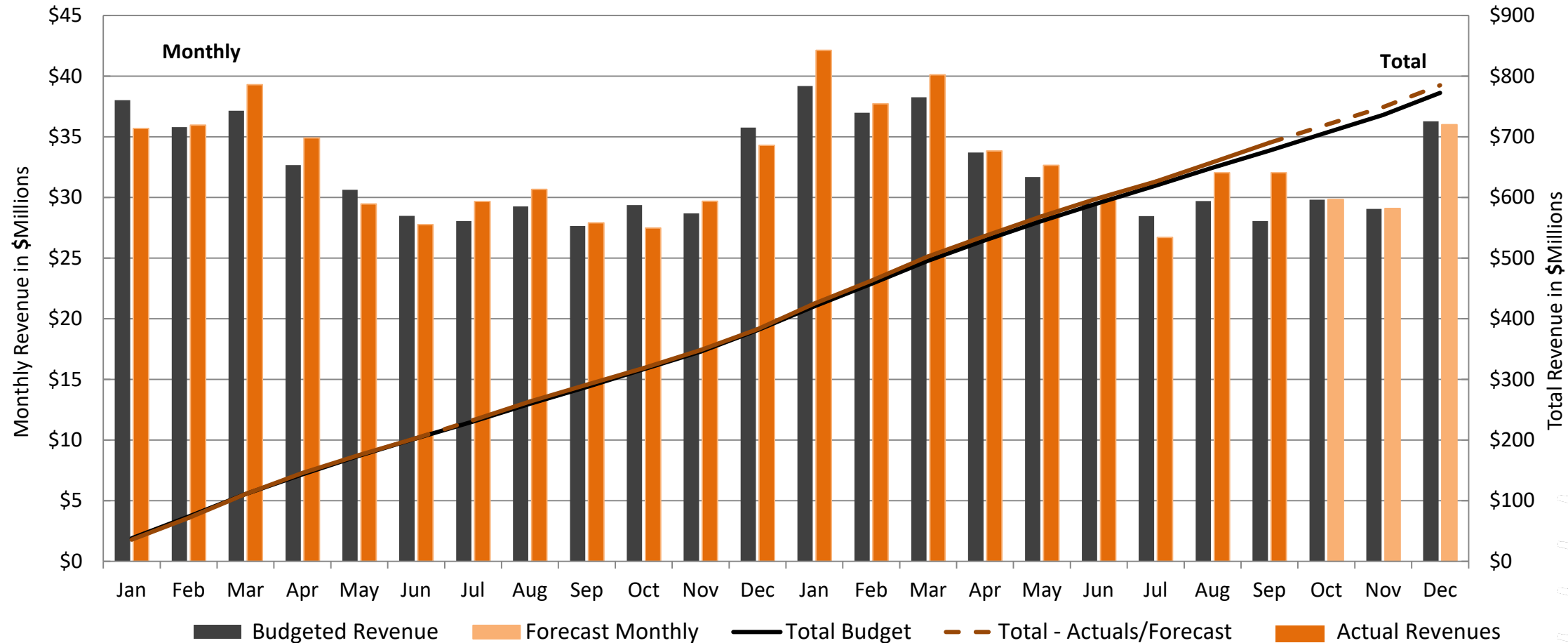


Forecasting Practices

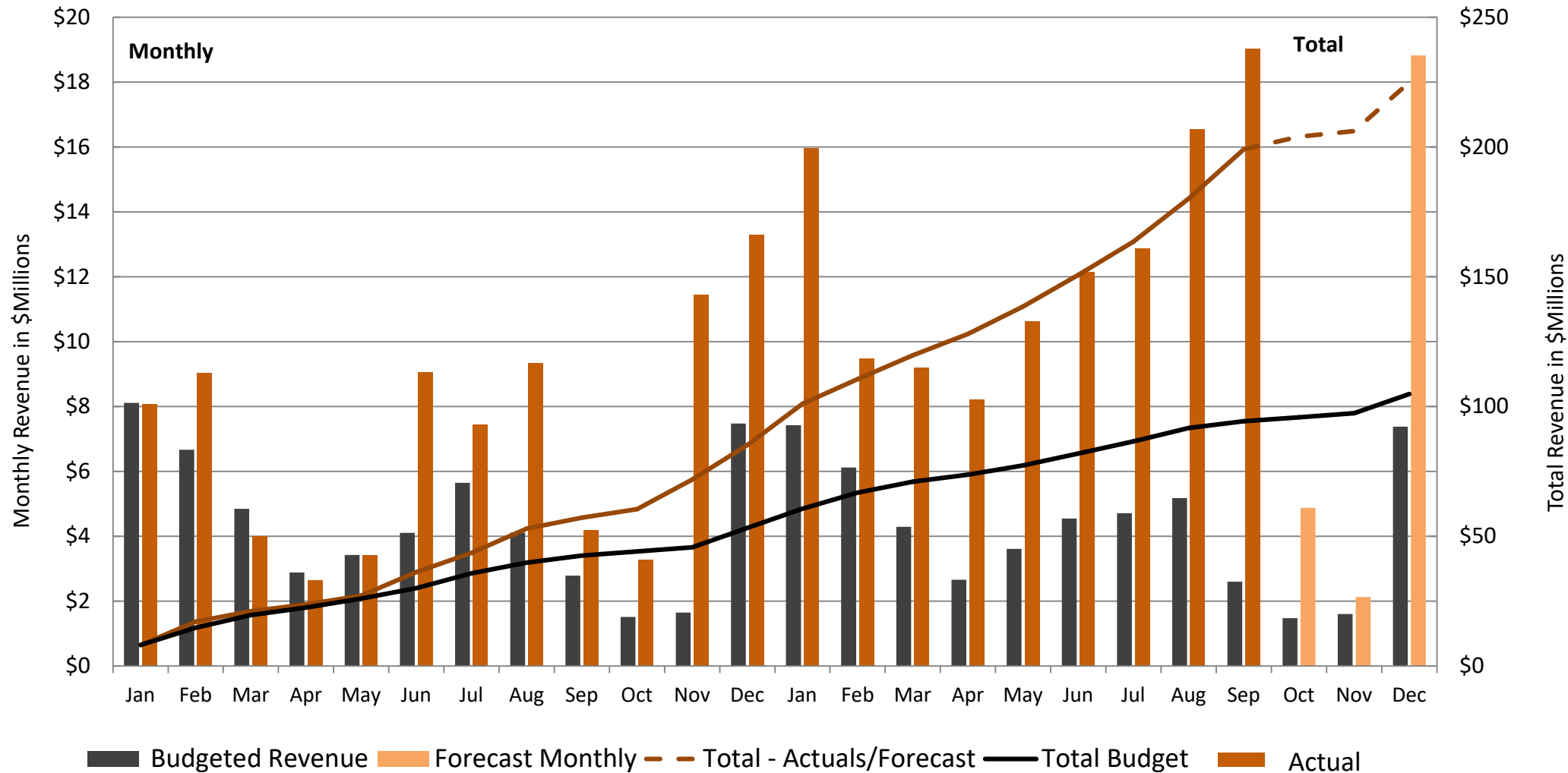


- September 2022 Actuals
 - Adverse water conditions
 - 2022 load forecast
 - Budgeted Personnel and O&M expenditures with forecasted adjustments
 - Project estimates of capital spending
- **Forecast for total revenue is \$112.5 million more than budget**
 - Q3 Strengths: Retail sales above projections, Wholesale market prices were 208% times the budgeted prices.
 - Q3 Challenges: Inflows to our hydroprojects were below average due to the driest summer on record for our region.
 - Q4 Outlook: High wholesale market prices projected through year-end.
 - **Forecast for total expenditures is \$8 million more than budget**
 - Q3 Strengths: Debt service expenses and revenue-funded capital spending is under budget.
 - Q3 Challenges: Bad debt expenses, personnel, taxes, and power purchase expenses are over budget.
 - Q4 Outlook: Grant from state will reduce bad debt expenses. However, we forecast to be over-budget for the biennium and will be requesting a budget modification.

2021/2022 Electric Retail Revenues



2021/2022 Gross Wholesale Revenues

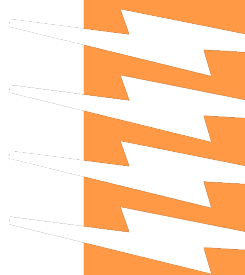


2021/2022 Biennium Forecast vs. Budget

Notes listed on this slide correlate to the subsequent chart.

Forecast for Revenue More Than Budget: \$112.3 million (12%)

1. Retail Revenues: forecast to be \$12.7 million more than budget (1.6%).
 - 2022 retail revenues are \$11.7 million more than budget due to colder than normal weather in first and second quarter and warmer than normal weather in third quarter.
This increased heating loads in the first half of 2022 and cooling loads in third quarter 2022.
2. Gross Wholesale Revenues: forecast is \$120 million more than budget (114.6%).
 - Gross biennium wholesale revenue through third quarter 2022 exceeded budget by \$104.5 million mostly due to high wholesale market prices.
 - Inflows to the hydro projects were average in the first half of 2022 but transitioned to below average water in the third quarter due to the driest summer on record for our region.
 - Forecasts reflect higher wholesale sales and projected power market prices vs. budgeted values in future months.
3. Transfer to Rate Stabilization Fund: \$25 million
 - Transferred \$25 million of wholesale revenue to the Rate Stabilization Fund to apply to future years (2030 through 2034) with higher expenses.

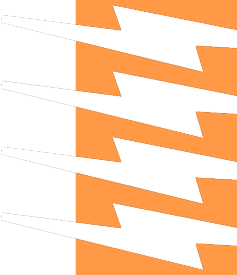


2021/2022 Biennium Forecast vs. Budget

Notes listed on this slide correlate to the subsequent chart.

Forecast for Expenditures More Than Budget: \$8.0 million (0.9%) \$17.1 million including bond-funded capital spending (1.8%)

4. Purchased power expenses: forecast is \$12 million more than budget (3.7%)
 - Wholesale purchases were near budget in 2021.
 - Wholesale purchases in 2022 through the third quarter were higher than budget due to higher than budgeted wholesale market prices.
5. Personnel expenses: forecast is \$4.8 million more than budget (2.3%)
 - Actual personnel expenses were close to budget in 2021 and through Q2 2022.
 - Q3 2022 personnel expenses and future personnel expenses reflect approved wage increases for the IBEW Local 483 union line and wire electrician positions.
6. Supplies, Other Services, & Charges: forecast is \$2.3 million more than budget (1.4%)
 - Other O&M biennium spending through Q3 2022 is over budget by \$1.3 million.
 - Bad debt expenses resulting from the pandemic utility disconnect moratorium were over budget by \$7.9 million through Q3 2022.
 - The overage in bad debt was mostly offset by underspending in contract services and travel expenses.



2021/2022 Biennium Forecast vs. Budget

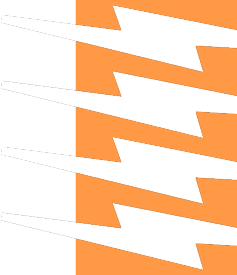
Notes listed on this slide correlate to the subsequent chart.

Forecast for Expenditures, More Than Budget: \$8.0 million (cont.) \$17.1 million including bond-funded capital spending

7. Capital expenses funded from the Current Fund: forecast to be \$9.5 million less than budget (-15.8%)
 - Actual biennium revenue-funded capital spending is \$12 million less than budget through Q3 2022.
 - However, this is off-set by bond-funded capital over-spending which is forecast to be \$9.1 million more than budget.
8. Debt Service: forecast is \$8.1 million less than budget (-12.3%)
 - Actual debt service expenses are \$7.2 million under budget through September 2022.
 - The 2021 issuance of \$122.9 million in bonds is lower than the \$150 million issuance that was budgeted, and therefore projected debt service is lower than budgeted.
9. Taxes: forecast is \$6.7 million more than budget (5.9%)
 - Our Gross Earnings Taxes are higher than budget due to the very high wholesale revenues through Q3 2022.
10. Overall, we are forecasting total expenditures to be over budget by \$17.1 million, including bond-funded capital spending.

Forecast for Net Revenues More Than Budget: \$104.5 million

11. Net Revenue forecast to be \$104.5 million more than budget, not including our bond-funded capital spending.



2021/2022 Biennium Forecast vs. Budget

Tacoma Power

2021/2022 Biennium Adjusted Estimates Comparison to Budget

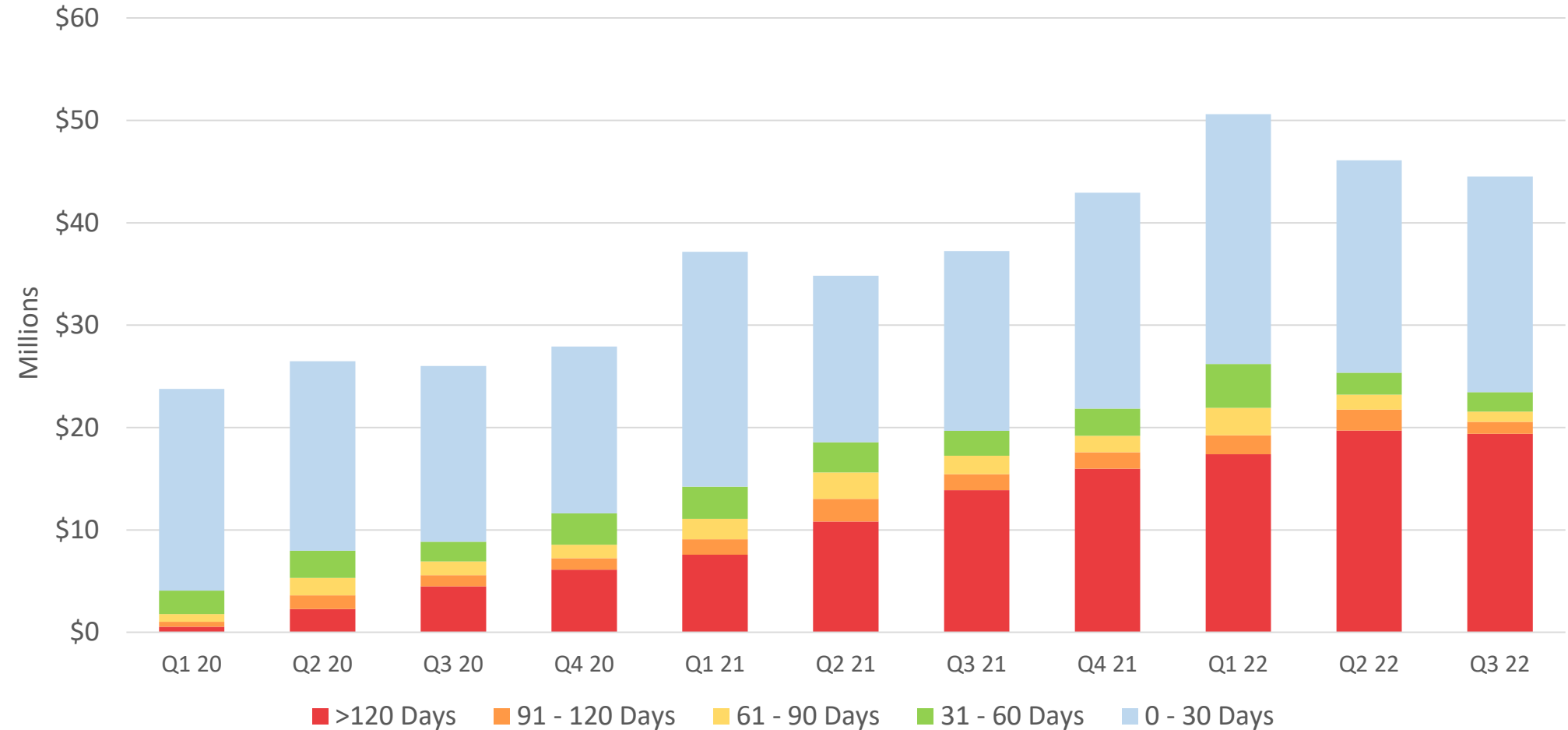
as of 9/30/2022

All \$'s in 1000's

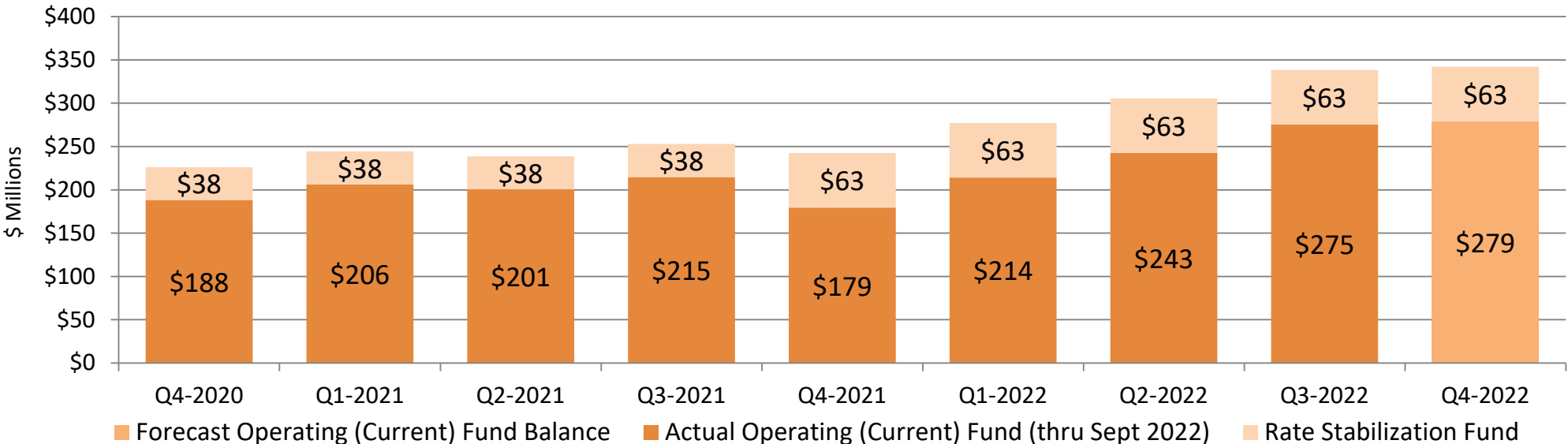
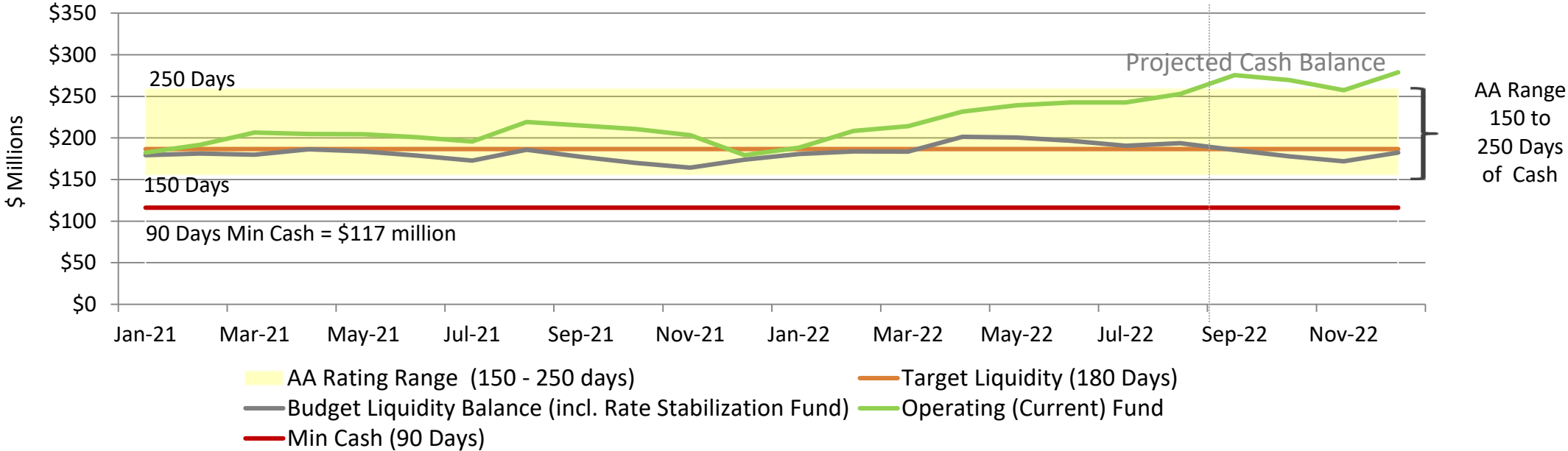
Forecasted Adverse Water

	2021 Budget	2021 Actual	2021 Difference	2022 Budget	2022 Actual / Forecast	2022 Difference	Total Biennium Budget	Total Biennium Forecast	Biennium Difference	Note	Biennium Diff. (%)
Revenue											
Retail Sales	\$381,599	\$382,874	\$1,275	\$390,876	\$402,282	\$11,406	\$772,475	\$785,155	\$12,681	(1)	1.6%
Bulk Power (wholesale) Sales	\$53,216	\$85,118	\$31,902	\$51,583	\$139,829	\$88,247	\$104,799	\$224,947	\$120,149	(2)	114.6%
Transfer to Rate Stabilization Fund	\$0	(\$25,000)	(\$25,000)	\$0	\$0	\$0	\$0	(\$25,000)	(\$25,000)	(3)	
Other Electric Revenue	\$22,858	\$22,517	(\$341)	\$26,341	\$26,520	\$179	\$49,199	\$49,037	(\$162)		-0.3%
Total Operating Revenue	\$457,673	\$465,509	\$7,836	\$468,800	\$568,631	\$99,831	\$926,472	\$1,034,140	\$107,667		11.6%
Other Income	\$6,726	\$9,233	\$2,507	\$6,775	\$9,147	\$2,372	\$13,501	\$18,380	\$4,879		36.1%
Total Revenue	\$464,399	\$474,742	\$10,343	\$475,575	\$577,778	\$102,204	\$939,973	\$1,052,520	\$112,547		12.0%
Expenses											
Purchased Power & RECs	\$161,537	\$162,539	\$1,002	\$161,232	\$172,179	\$10,947	\$322,769	\$334,718	\$11,949	(4)	3.7%
Personnel Costs	\$101,338	\$102,085	\$747	\$107,783	\$111,811	\$4,029	\$209,121	\$213,896	\$4,775	(5)	2.3%
Supplies, Other Services & Charges	\$84,309	\$87,593	\$3,285	\$80,661	\$79,675	(\$986)	\$164,969	\$167,268	\$2,299	(6)	1.4%
Revenue Funded Capital Spending	\$30,119	\$41,081	\$10,963	\$30,119	\$9,613	(\$20,505)	\$60,237	\$50,695	(\$9,542)	(7)	-15.8%
Debt Service	\$30,601	\$27,105	(\$3,496)	\$35,244	\$30,616	(\$4,628)	\$65,845	\$57,722	(\$8,124)	(8)	-12.3%
Taxes	\$55,303	\$55,740	\$437	\$57,088	\$63,332	\$6,244	\$112,391	\$119,071	\$6,680	(9)	5.9%
Total Expenses before bond funded spending	\$463,206	\$476,143	\$12,937	\$472,126	\$467,227	(\$4,900)	\$935,333	\$943,370	\$8,037	(10)	0.9%
Total Revenues less Expenses	\$1,192	(\$1,402)	(\$2,594)	\$3,448	\$110,552	\$107,103	\$4,640	\$109,150	\$104,510	(11)	
Capital Outlay Financing Detail											
Funded From Current Fund	\$30,119	\$41,081	\$10,963	\$30,119	\$9,613	(\$20,505)	\$60,237	\$50,695	(\$9,542)		-15.8%
Funded From Bond Fund	\$44,831	\$32,861	(\$11,970)	\$44,831	\$65,906	\$21,076	\$89,661	\$98,767	\$9,106	(10)	10.2%
Total Capital Outlay	\$74,949	\$73,942	(\$1,007)	\$74,949	\$75,519	\$570	\$149,898	\$149,461	(\$437)		-0.3%
Ratios	2020 Actual	2021 Budget	2021 Actual	2021 Diff.	2022 Budget	2022 Forecast	2022 Diff.				
Debt Service Coverage Ratio	3.35	2.02	2.46	0.44	1.95	4.92	2.97				
Days Liquidity	235	184	238	54	189	324	135				
EOY Rate Stabilization Fund Balance	\$38,000	\$38,000	\$63,000	\$25,000	\$38,000	\$63,000	\$25,000				
EOY Current Fund Balance	\$188,211	\$147,763	\$179,354	\$31,591	\$154,118	\$279,146	\$125,029				
Total Liquidity	\$226,211	\$185,763	\$242,354		\$192,118	\$342,146					

Receivables Balances >120 days begin to decline



2021/2022 Projected Liquidity Balance as of 9/30/22



Tacoma Rail Financial Outlook

3rd Quarter 2022

November 16, 2022

2021/2022 Biennium Summary of Assumptions

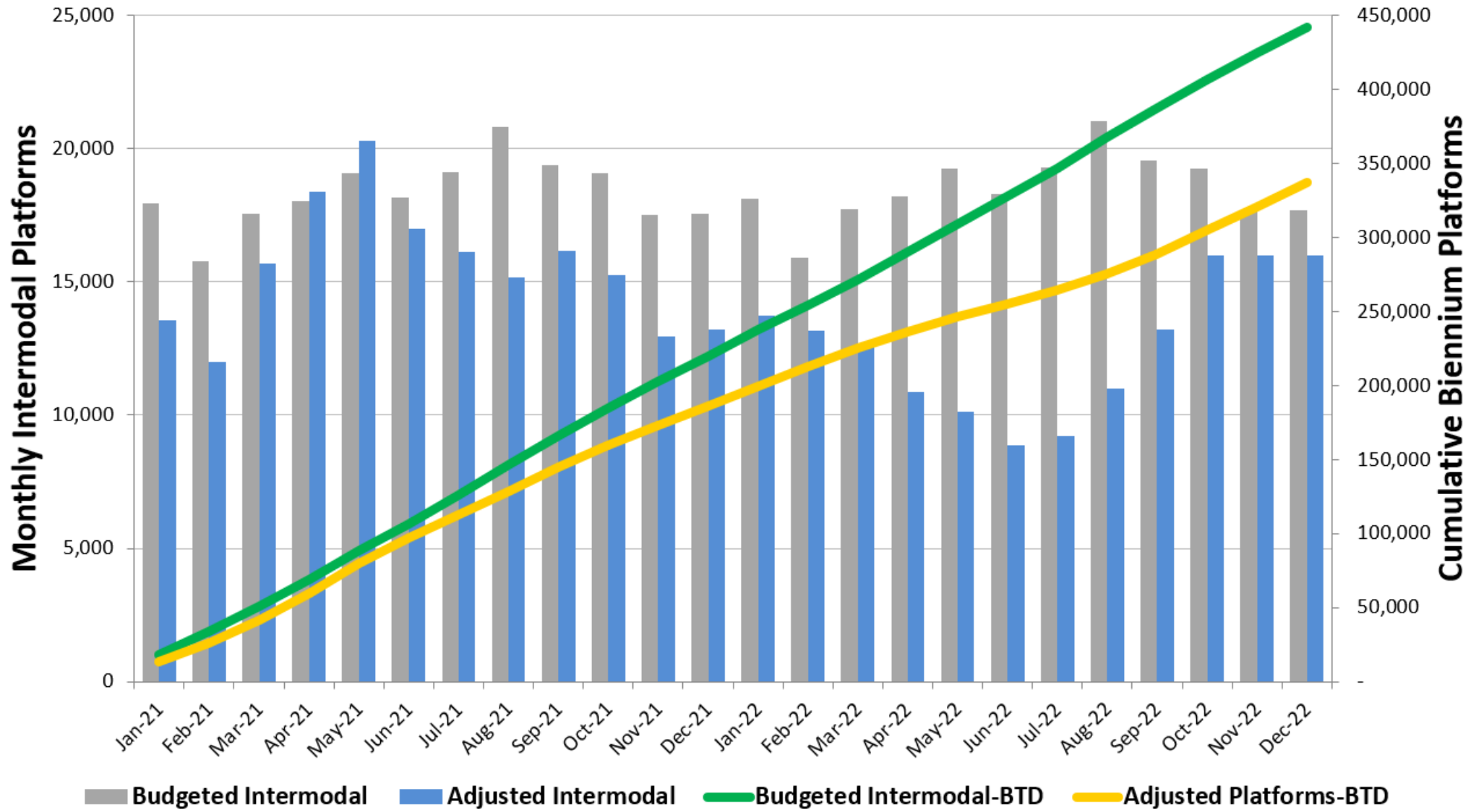
- Incorporates actual revenues and expenditures through September 2022 with projections for the remainder of the biennium
- **Forecast for total revenues is \$9.9M or 13% under budget**
 - Q3 Challenges: Railcar volumes continue to be under budget by an estimated \$11.7 million for the biennium.
 - Q3 Strengths: Railcar volumes have picked up in late Q3 with the addition of new domestic intermodal and automobile import business. Demurrage revenue projected to be 64% above biennium budget.
 - Q3 Outlook: Railcar volumes to continue to increase, however, remain under budget.
- **Forecast for total expenditures is \$7.0M or 9% under budget**
 - Q3 Challenges: Biennium capital outlay increases over budget of \$1.2M million due to estimated cost increases and projects from the prior biennium. Supply chain constraints are affecting project completion, pushing capital costs to next biennium.
 - Q3 Strengths: Budgeted FTE's left unfilled from attrition. Personnel costs are projected to be 14% under budget.
 - Q3 Outlook: Filling budgeted FTE's as needed for rail volume growth. Tacoma Rail continues to manage expenditures relative to revenue.

2021/2022 Biennium Summary of Rail Volumes

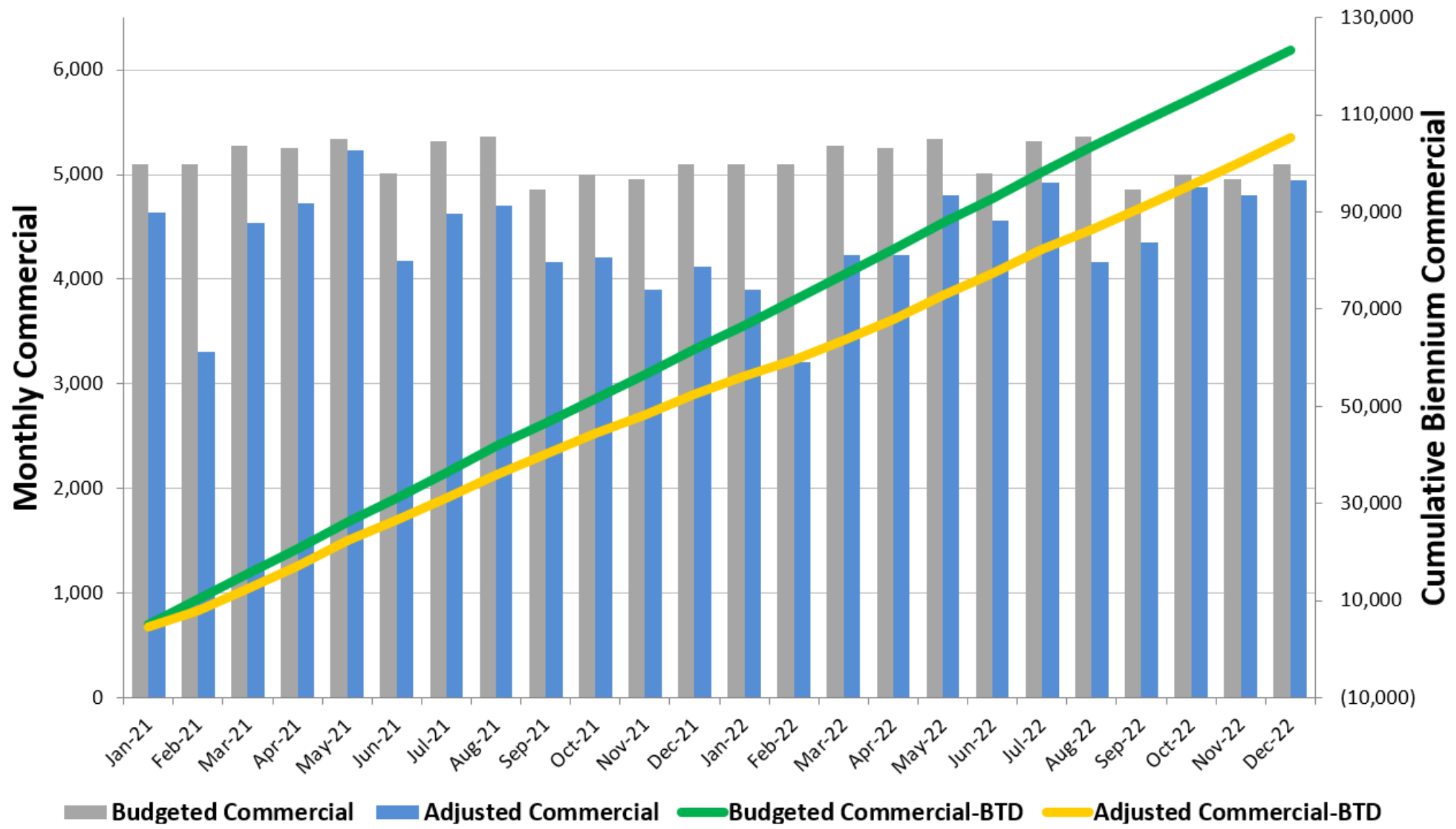
Quarter	2021		2022		%	
	Intermodal	Commercial	Intermodal	Commercial	Intermodal	Commercial
1	41,275	12,485	39,562	11,350	-4%	-9%
2	55,680	14,124	29,870	13,593	-46%	-4%
3	47,453	13,496	33,437	13,442	-30%	0%
4						
Total	144,408	40,105	102,869	38,385	-29%	-4%

- Intermodal:
 - Year over year: NIM **-47%**, PCT **3%**, WUT **-38%**, SIM **+29%**
 - Budgeted volumes: **-39%**
- Commercial:
 - Year over year: US Oil **-1%**, SeaPort Sound **+8%**, AWC **-14%**
 - US Oil maintenance partly shutdown their operation for 5 weeks in Q1 2022
 - Budgeted volumes: **-18%**

Intermodal Volumes



Commercial Volumes



2021/2022 Biennium Forecast vs. Budget

1. Railcar volumes below budget
2. Railcar dwell increasing demurrage revenue
3. Locomotive fueling above budgeted volumes
4. Unfilled budgeted positions
5. Operating expenses lower due to cost saving initiatives and deferment of operating expenditure activities.
6. Capital outlay increases due to cost increases to projects and projects from the prior biennium:
 - Locomotive Repowers
 - Locomotive Load Box
 - Radio Repeater Upgrades
 - Tote Yard Upgrades
 - Marine View Drive Rail Relay
7. Lower taxes expense due to decrease in revenues
8. Tacoma Rail was more successful with 0% financing for projects than grant funding as compared to budget

2021/2022 Biennium Forecast vs. Budget

Values in thousands

Revenue

	2021 Budget	2021	2021 Difference	2022 Budget	2022 Forecast	2022 Difference	Budget Biennium	Adjusted Forecast	Biennium Difference	Biennium Diff. (%)	
Switching Revenue	\$ 32,487	\$ 27,226	\$ (5,262)	\$ 33,500	\$ 27,118	\$ (6,381)	\$ 65,987	\$ 54,344	\$ (11,643)	-18%	(1)
Demurrage Fees	1,320	1,794	474	1,320	2,532	1,212	2,640	4,325	1,685	64%	(2)
Locomotive Servicing	3,600	4,772	1,172	3,600	2,642	(958)	7,200	7,414	214	3%	(3)
Other	261	338	77	261	321	60	522	659	137	26%	
Total Operating Revenue	\$ 37,668	\$ 34,129	\$ (3,539)	\$ 38,681	\$ 32,613	\$ (6,067)	\$ 76,349	\$ 66,743	\$ (9,606)	-13%	
Interest	200	167	(33)	190	124	(66)	390	291	(99)	-25%	
Rent & Misc Income	481	385	(96)	481	361	(120)	962	746	(216)	-22%	
Total Revenue & Avail Funds	\$ 38,350	\$ 34,681	(3,668)	\$ 39,352	\$ 33,098	\$ (6,253)	\$ 77,701	\$ 67,780	\$ (9,922)	-13%	

Expenditures

Personnel Costs	\$ 18,475	\$ 15,924	\$ (2,550)	\$ 18,831	\$ 16,276	\$ (2,555)	\$ 37,306	\$ 32,200	\$ (5,105)	-14%	(4)
Supplies, Other Services	12,677	12,477	(200)	11,958	10,224	(1,734)	24,635	22,701	(1,934)	-8%	(5)
Current Fund Capital Outlay	4,130	3,290	(840)	2,850	4,855	2,005	6,980	8,146	1,166	17%	(6)
Debt Service	884	884	-	884	884	-	1,768	1,768	-	0%	
Incentive Allowance	-	-	-	-	-	-	-	-	-	0%	
Taxes	3,787	3,306	(481)	3,855	3,179	(676)	7,642	6,485	(1,157)	-15%	(7)
Total Expenditures	\$ 39,953	\$ 35,882	\$ (4,071)	\$ 38,379	\$ 35,419	\$ (2,960)	\$ 78,332	\$ 71,301	\$ (7,031)	-9%	

Total Revenues Less Expenditures \$ (1,603) \$ (1,201) \$ 403 \$ 973 \$ (2,321) \$ (3,294) \$ (630) \$ (3,521) \$ (2,891)

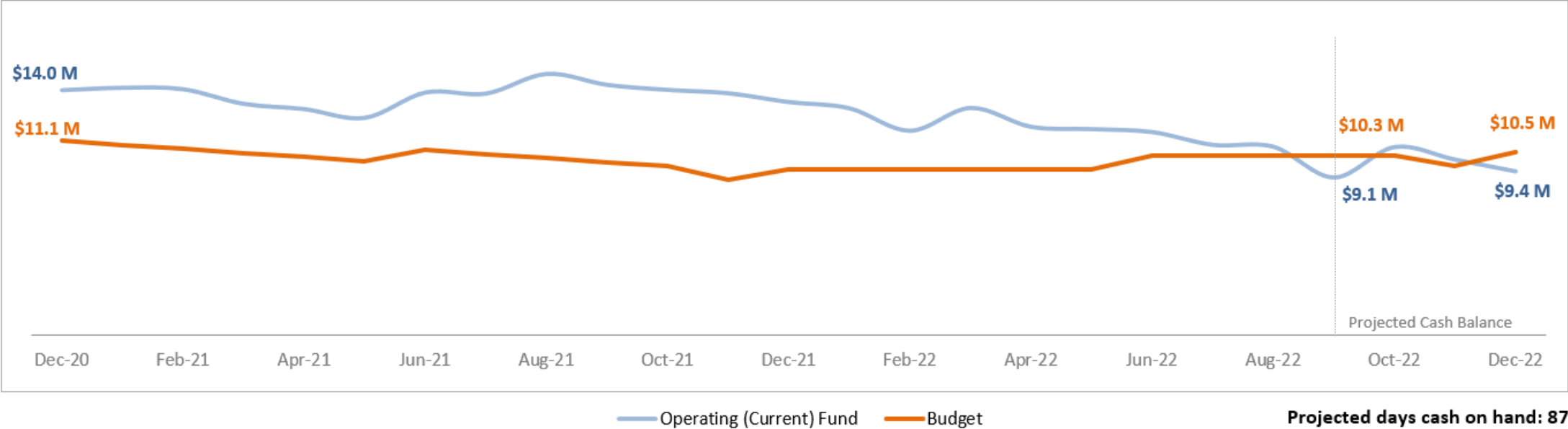
Appropriation from Current Fund \$ 1,603 \$ 678 \$ (925) \$ (973) \$ 3,965 \$ 4,938 \$ 630 \$ 3,521 \$ 2,891

Capital Outlay Financing Detail

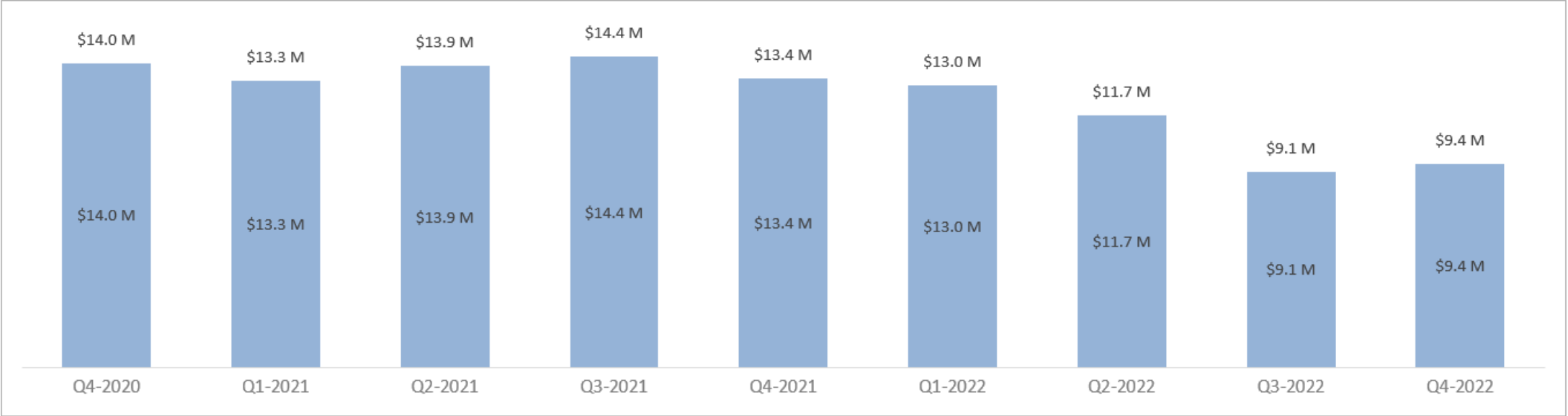
Funded from Current Fund	\$ 4,130	\$ 3,290	\$ (840)	\$ 2,850	\$ 4,855	\$ 2,005	\$ 6,980	\$ 8,146	\$ 1,166	17%	
Grants, Transfers & Pledges	1,400	1,141	(259)	1,260	13	(1,247)	2,660	1,154	(1,506)	-57%	
Funded from New Debt	300	271	(29)	300	2,380	2,080	600	2,651	2,051	342%	(8)
Total Capital Outlay	\$ 5,830	\$ 4,702	\$ (1,128)	\$ 4,410	\$ 7,248	\$ 2,838	\$ 10,240	\$ 11,951	\$ 1,711	17%	

Starting Cash Balance	\$ 11,114	\$ 14,047	2,933	\$ 9,510	\$ 13,368	3,858	\$ 11,114	\$ 14,047	26%	26%
EOY Current Fund Balance	\$ 9,510	\$ 13,368	3,858	\$ 10,484	\$ 9,404	(1,080)	\$ 10,484	\$ 9,404	-10%	-10%

2021/2022 Projected Liquidity Balance as of 9/30/22



Projected days cash on hand: 87













































Performance Metrics Update

3rd Quarter 2022

November 16, 2022

Performance Metrics Summary



Quarter 3, 2022 Performance Metrics Report Tacoma Public Utilities		
 TACOMA POWER TACOMA PUBLIC UTILITIES	 TACOMA WATER TACOMA PUBLIC UTILITIES	 TACOMA RAIL TACOMA PUBLIC UTILITIES
Financial Performance - Supports Strategic Directive: 2 (Financial Stability)		
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 
Operational Excellence - Supports Strategic Directives: 3 (Rates); 5 (Environmental Leadership); 7 (Reliability & Resiliency)		
4 Residential Bill Comparison 	4 Residential Bill Comparison 	4 Railroad Tariffs Comparison 
5 O&M Cost per Customer 	5 O&M Cost per Account 	5 Operating Ratio 
6 Outage Duration 	6 Unplanned Service Disruptions 	6 Revenue Moves per Shift 
7 Outage Frequency 	7 Distribution System Leakage 	7 On-Time Switching 
8 Non-Carbon Power Resources 	8 Regulatory Compliance 	8a Diesel Conversion 
9 Power Conservation 	9 Water Conservation 	8b Storm Water Remediation 
Commitment to Cust & Employees - Supports Strategic Directives: 5 (Environ. Leadership); 7 (Reliability); 12 (Emp. Relations); 13 (Customer Svc)		
10 Customer Satisfaction 	10 Customer Satisfaction 	9 Customer Satisfaction 
11 Employee Satisfaction 	11 Employee Satisfaction 	10 Employee Satisfaction 
12 Employee Safety 	12 Employee Safety 	11 Employee Safety 
13 Call Center Responsiveness 	13 Call Center Responsiveness 	
	14 Technical Service Complaints 	



Performance Metrics Highlights



❖ Financial & Operational Metrics

- Debt service coverage and cash metrics above policy minimums across all divisions
- Rail projected budget variance shows slight improvement

❖ Operational Excellence

- O&M costs per customer to be reviewed
- Power outage durations results impacted by singular events

❖ Commitment to Customers & Employees

- Safety metrics maintaining a positive trend
- Call center response times well below target due to increase in call volumes and complexity of support required
- Water technical service complaints not adjusted for outside factors

