2021-2022 Budget & Rate Proposal

City of Tacoma | Tacoma Public Utilities

Governmental Performance & Finance Committee
September 30, 2020
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TPU’s COMMITMENT TO EQUITY

Budgets and Strategies Built to Advance Racial Equity Action Plan

Commitment to Equity through:

- We provide equitable delivery of services to residents and visitors.
- Our workforce reflects the communities we serve.
- We engage in purposeful community outreach.
Virtual Engagements & Meetings: September - November

- Neighborhood Councils & Block Groups
- Partnering with regional organizations to present at other large gatherings and provide customers with diverse times and opportunities to participate
- Franchise Cities/Local Government Partners
- Chambers of Commerce/Economic Development Organizations
- Key Account Customers, including JBLM
- Business Districts
- Public Hearing with Utility Board - September 23
2020 Emergency Assistance Program
- COVID-19 pandemic response
- Moratorium on involuntary disconnections implemented
- Credits for utility services available to eligible households
- Approximately $2.0M in utility bill assistance provided (as of Sep 15)
- Around 10,000 households assisted

Ongoing Assistance and Program Enhancements
- Payment arrangements to ease past-due impacts
- Budget billing
- Monitor affordability metrics
- **Assistance program** enhancement considerations:
  - Expand assistance eligibility criteria
  - Increase assistance levels (bill credits and discount rates)
<table>
<thead>
<tr>
<th>Recommendations by Utility</th>
<th>Power</th>
<th>Water</th>
<th>Solid Waste</th>
<th>Surface Water</th>
<th>Wastewater</th>
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</thead>
<tbody>
<tr>
<td>Reset Monthly BCAP</td>
<td>$21 → $21*</td>
<td>$7 → $9</td>
<td>$7 → $10</td>
<td>$4 → $5</td>
<td>$8 → $11</td>
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<tr>
<td>Expand BCAP Eligibility</td>
<td></td>
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<td></td>
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<td>150% federal poverty level → 60% of area median income</td>
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<tr>
<td>Increase Discount Rate</td>
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<td></td>
<td></td>
<td></td>
<td>30% discount on bill → 35% discount on bill</td>
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</tbody>
</table>

* Power’s current BCAP credit already exceeds the 20% average monthly bill target and is expected to continue to meet or exceed it in 2021/2022.
PRINCIPLES OF RATEMAKING

Legal
- Fair
- Just
- Reasonable
- Non-Discriminatory

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

TPU Principles
- Affordability
- Environment
- Public Involvement
- Gradualism
REVENUE REQUIREMENT

O&M Expense Forecast
- Apply budget development decision making tools
- Conduct historical cost review
- Include inflation factors
- Consider strategic initiatives and additional needs or enhancements
- Plan for increasing costs
- Incorporate forecasted assessments and labor assumptions

Capital Expense Forecast
- Capital Budget and 10-year CIP developed with business case evaluations
- Funding assumptions apply existing bond fund sources first, then reasonable spend down of capital and operating reserves then anticipated additional debt funding

Non-Rate Revenue Forecast
- Miscellaneous fee and charge revenues projected based on recent historical trends and known future changes
- Used to reduce rate revenue requirement

Rate Revenue Requirement Forecast
- Projection of revenue under existing rates using 10-year demand forecast
- Any revenue requirement deficiencies must be addressed by rate adjustments
• Prioritized critical hiring
• Reduced controllable items (travel, training, supplies, etc.)
• Deferred (or canceled) non-critical projects
Chris Robinson, Superintendent
(crobinson@cityoftacoma.org)
MANAGING EXPENDITURES

2020 Spending Reductions

$22 million in O&M and capital spending was reduced in 2020 to mitigate the fiscal impacts of the COVID pandemic immediately after a critical water year, including:

- 40 positions to remain vacant - $5.4 million
- Professional and Contracted Services - $5 million
- Training and Travel reduction - $0.9 million
- $2.3 million in budget reduction for utilities conservation related to impacts of COVID pandemic
- $190k in efficiencies at TPU facilities to reduce water, wastewater and solid waste expenses
- $662k in reduced licenses and permits
- Deferral/cancellation of revenue funded capital projects - $6.1 million

Additionally, $13.8 million in revenue-funded capital projects was shifted to debt funding.

2021-2022 Budget Reductions

- Capital portfolio held at 2019/20 level, $29.5 million shifted to debt funding
- Increased expenditures: Assessments up $6.8 million, Bad Debt up $4.6 million, Taxes up $5.5 million, Credit Card Fees up $2.5 million, Customer Assistance up $1 million
- Reductions include $7 million in professional services, $7 million in EIM, $1 million in training & travel
- Cancelled or deferred request to add over 50 planned new positions
The Electric Rate & Financial Policy was modified in 2018 to explicitly support low and steady rate increases.

Strategic Directive SD-3 on Rates, Value 4 states “TPU values planning gradual and consistent utility rate changes that are stable and predictable over the long term and avoid sudden or large changes within customer classes.”
2019/20 NET OPERATING REVENUE SHORTFALL

Actual Operating Revenues* less Operating Expenses

Total 2019/20 biennium Net Operating Revenue* shortfall through August = ($26.4) million

* Includes the Rate Stabilization Fund transfer and the Gross Earnings Tax
Manage Debt Profile to Minimize Long-Term Rates

The Long View:

- Managing debt service has produced significant savings to date.
- $150 million bond issuance assumed for 2021.
- A bond call in 2023 and a defeasance in 2025 are desirable to manage debt service and keep rates low.
Assumes 2 percent average rate increases in 2021 and 2022, 2.7 percent average rate increases in 2023 through 2028, and 6.9 percent average rate increases in 2029 and 2030. Required to maintain financial metrics.
Comparison of Liquidity Metrics

2019 LRFP Liquidity Projections
Assumes 2% annual rate increases

Current Liquidity Projections
Assumes 2% rate increases in 2021 & 2022, and 2.7% annual rate increases in 2023 to 2026

Actual data through June 2019.

Projected Tacoma Power Metrics

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<td>Current projected Days of Liquidity</td>
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Tacoma Power has AA credit ratings

- High ratings enable:
  - access to financing (e.g. KeyBank agreement)
  - lower interest rate on bonds

- Electric Rate & Financial Policy:
  - requires debt-service coverage ratios and days cash on hand consistent with current rating
  - mandates low and consistent rate increases to minimize customer impact
  - approved by TPU Board and City Council

- Strategic Directive SD-2 on Financial Sustainability:
  - Outcome 4: “AA-level bond rating, or better, to facilitate access to lower-cost financing and produce sustainable debt service expenses.”
  - Outcome 7: “Financial management of debt service over the long term to maintain reasonable debt-service requirements and meet debt service coverage ratios.”

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<th>S&amp;P</th>
<th>Fitch</th>
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<table>
<thead>
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<th>Non-Investment Grade Speculative</th>
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This table compares the different rating scales for the three credit rating agencies, with Tacoma Power’s current rating highlighted.

Target

Current Tacoma Power Rating

* Moody’s current rating for Tacoma Power only applies to Bonds issued before 2017.
This chart gives a side-by-side view of how proposed revenue and reserves are planned to be devoted during the 2021/2022 biennium:

- About 83% of total expenditures are planned to be paid with revenue from retail sales.
- Another 11% of total expenditures are planned to be paid with Wholesale Revenue and the remaining 6% from other income sources.
This chart illustrates how increased planned expenditures are proposed to be funded:

- About 25% of the increase is planned to be funded with the requested rate adjustment.

Increased Expenditures

- Elimination of Vacancy Credit $20
- Personnel Costs $16
- Purchased Power ($9)
- Capital Outlay ($30)
- Taxes $6
- Debt Service, $7
- Assessments $7
- Other O&M $11

Funding Source

- Wholesale & Other Revenue, $5
- Rate Adjustment, $7
- Retail Revenue, $16
- Capital Outlay ($30)
<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
<th>Accounts</th>
<th>Revenue</th>
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<tbody>
<tr>
<td>Residential</td>
<td>Single-family and multifamily residences</td>
<td>162,000</td>
<td>$180.5 million</td>
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<tr>
<td></td>
<td>Small businesses, such as flower shops, nail salons, small offices</td>
<td>16,500</td>
<td>$29.7 million</td>
</tr>
<tr>
<td></td>
<td>Large businesses such as schools, restaurants, hospitals</td>
<td>2,600</td>
<td>$107.9 million</td>
</tr>
<tr>
<td></td>
<td>8 large customers directly on the transmission system</td>
<td></td>
<td>$23.6 million</td>
</tr>
<tr>
<td></td>
<td>2 large manufacturers directly on the transmission system</td>
<td></td>
<td>$23.7 million</td>
</tr>
<tr>
<td></td>
<td>Streetlights and traffic signals</td>
<td>900</td>
<td>$600,000</td>
</tr>
<tr>
<td></td>
<td>Rental street and area lighting</td>
<td>3,200</td>
<td>$1.5 million</td>
</tr>
<tr>
<td></td>
<td>Private off-street lighting</td>
<td></td>
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</table>

2% Rate Increase to All
## Residential Rate Design

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>2021</th>
<th>2022</th>
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</thead>
<tbody>
<tr>
<td><strong>Customer Charge</strong></td>
<td>$17.30</td>
<td>$17.65</td>
<td>$18.00</td>
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<tr>
<td>($ per Month)</td>
<td>current</td>
<td>+35¢</td>
<td>+35¢</td>
</tr>
<tr>
<td><strong>Energy Charge</strong></td>
<td>4.5351¢</td>
<td>4.5351¢</td>
<td>4.5351¢</td>
</tr>
<tr>
<td>($/kWh)</td>
<td>current</td>
<td>no change</td>
<td>no change</td>
</tr>
<tr>
<td><strong>Delivery Charge</strong></td>
<td>3.5353¢</td>
<td>3.6967¢</td>
<td>3.8613¢</td>
</tr>
<tr>
<td>($/kWh)</td>
<td>current</td>
<td>+4.6%</td>
<td>+4.5%</td>
</tr>
</tbody>
</table>

- Monthly fixed customer charge increasing 2%
- Combined variable per-kWh charge increasing 2%
Residential Rate Design

- Average 2021/2022 projected bill
- Actual bills vary based on usage
Residential Rate Design

Average Price per kWh for Residential Consumers

<table>
<thead>
<tr>
<th>Utility</th>
<th>Current</th>
<th>2021</th>
<th>2022</th>
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</thead>
<tbody>
<tr>
<td>Seattle City Light</td>
<td>$0.114</td>
<td></td>
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</tr>
<tr>
<td>Eugene Water &amp; Electric Board</td>
<td>$0.114</td>
<td></td>
<td></td>
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<tr>
<td>PacifiCorp</td>
<td>$0.110</td>
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<tr>
<td>Puget Sound Energy</td>
<td>$0.106</td>
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<tr>
<td>Clallam County PUD</td>
<td>$0.104</td>
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<tr>
<td>Snohomish PUD</td>
<td>$0.102</td>
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<tr>
<td>Peninsula Light Company</td>
<td>$0.102</td>
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<tr>
<td>Lakeview Light &amp; Power</td>
<td>$0.098</td>
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<tr>
<td>Tacoma Power</td>
<td>$0.100</td>
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<tr>
<td>Clark County PUD</td>
<td>$0.093</td>
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<tr>
<td>Benton Rural Electric</td>
<td>$0.086</td>
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<td>Grant County PUD</td>
<td>$0.056</td>
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<tr>
<td>Chelan County PUD</td>
<td>$0.032</td>
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</table>

Source: Energy Information Administration, Form 861, 2019 (Early Release) | Impact of 2021 and 2022 adjustments are estimated by escalating prior year data by 2%. PacifiCorp provides residential services in multiple states. This comparison reflects PacifiCorp’s average price per kWh over their entire jurisdiction (states of CA, WA, and OR).
NEW RATE: Prepay

Providing Customer Benefits from AMI

• Customers pay for electricity before it is used

• Voluntary program available to residential customers as soon as smart meters are available

• PAYGO pilot was very popular with customers

• Same per-kWh rate as regular Residential

• Monthly charge becomes daily charge
NEW RATE: Shore Power

Tacoma Power supports Port electrification

- Instead of burning dirty bunker fuel in Port, ships will plug in

- Change in rate design, not reduced rate or subsidy

- Per-kWh charge easier for Port administration

- Additional retail load & revenue

- Improved air quality

- $0.11713 per kWh in 2021 and $0.11944 per kWh in 2022
NEW RATE: Electrofuel Non-Firm

First-in-Nation Rate for Clean Alternative Fuels

- For renewable hydrogen production

- Tacoma Power can curtail 15% of hours with 10 minutes of notice, to take advantage of high wholesale market prices or respond to system events

- Pilot rate based on Industrial tariff with a 65MW cap
Adjustments to Existing Rates

**Distributed Generation**
- Add language to Schedule G
- Clarify rates and payments to customers with generation (solar or other) above 100 kW

**New Large Load**
- Move pricing provisions for new large loads of 8-20 MW from Electric Rate & Financial Policy to Tacoma Municipal Code
- Same pricing, different legal document location

**Industrial Rates**
- Close HVG to new customers
- Clarify rate applicability
Scott Dewhirst, Water Superintendent
(sdewhirst@cityoftacoma.org)
MANAGING EXPENDITURES

2020 Measures

- Cost savings: prioritized hiring, projects delayed, bond refunding
- Support for City Departments: Public Works and others
- Increased customer support: emergency assistance, late fee & shut-off waivers, water customer grant & loan program
- **Reductions**: nearly $6M projected under budget for 2020 expenditures

2021/2022 Budget Preparation

- Cost savings: $17.8M reduced or deferred capital, $2.8M reduced controllable O&M, continued prioritized hiring with $4.8M vacancy factor offset
- Increased expenditures: assessments up $3.3M, taxes up $2.5M
- Other increases: bad debt & credit card fees, technology support, customer assistance
- **Reductions**: Updated long range financial plan incorporates savings & updated water sales forecast to achieve **1% lower rate adjustments each year 2021-2028** with continued reductions resulting in low, stable rate adjustment forecast of 2% each year through 2036
EXPENDITURES & REVENUE

- This chart gives a side-by-side view of how proposed revenue and reserves are planned to be devoted during the 2021/2022 biennium.

- About 69% of total expenditures are planned to be paid with revenue from water sales.

- Nearly 26% of total expenditures are planned to be paid with existing reserves and the remaining 5% from other miscellaneous revenue.
• This chart illustrates how increased planned expenditures are proposed to be funded

• About 64% of the increased expenditures will be funded from reserves

• Remaining increases proposed to be paid from operating reserves

• Nearly 37% of increased expenditures is assessments & taxes

Pass through from Capital Reserve and System Development Charge Funds are not included
CUSTOMER CLASSES

Residential
- Single-family and multifamily residences
  - 98,609 accounts
  - $59.5M revenue

Commercial
- Small & medium sized businesses such as flower shops and small offices
  - 4,756 accounts
  - $12.1M revenue
- Large industries which use more than 65,000 CCF per year, such as U.S. Oil and Boeing
  - 6 accounts
  - $2.1M revenue

Large Volume
- Dedicated irrigation meter for primarily outdoor use such as Point Defiance Park
  - 997 accounts
  - $3.6M revenue

Irrigation
- Other utilities such as City of Fife and Firgrove Mutual Water Company
  - 16 accounts
  - $2.8M revenue
- WestRock in the Tideflats
  - 1 account
  - $6.9M revenue

Wholesale
- Pulp Mill
  - 1,546 accounts
  - $3.4M revenue

Private Fire
- Warehouse with large fire sprinkling systems
  - 1 account
  - $6.9M revenue
• We recommend applying the overall system average of 2.0% annually to all customer rate classes

• The projected average rate impact for a monthly residential bill:

<table>
<thead>
<tr>
<th>Residential Customer</th>
<th>2021</th>
<th>2022</th>
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<tbody>
<tr>
<td>Inside Tacoma</td>
<td>$0.81</td>
<td>$0.83</td>
</tr>
<tr>
<td>Outside Tacoma</td>
<td>$0.98</td>
<td>$1.00</td>
</tr>
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</table>
2020 Average Monthly Water Bill for a Single Family Residential Customer

Assumptions for an average single family customer are 6 CCF in winter months and 9 CCF in summer months with 5/8” meter inside the City of Tacoma. The blue bar projects the impact of 2% annual rate adjustments in 2021-2022.
Dale King, Superintendent
(dwking@cityoftacoma.org)
Managing Expenditures

2020 Spending Reductions
• Capital projects delayed for additional funding opportunities
• 10 positions currently remain vacant
• Reduced travel and other expenses when possible

2021-2022 Budget Reductions
• 28% reduction in capital outlay
• Expect rail volumes to return
  • Expenses budgeted accordingly, utilized as necessary
  • FTE’s filled as volumes return
This chart gives a side-by-side view of how proposed revenue and reserves are planned to be devoted during the 2021/2022 biennium.

- About 84% of total expenditures are planned to be paid with revenue from Line Haul & Switching.

- Other Revenue includes demurrage, appropriation from current fund, rent income, interest income and miscellaneous revenue.
Rate Adjustment

• This chart illustrates how increased planned expenditures are proposed to be funded.

• About **45%** of the increase is planned to be funded with the rate adjustment.

• Remaining increases proposed to be paid from Current Fund, expected Railcar Volume and offset by a reduction in Other Revenue.

• Nearly **23%** of increased expenditures in Assessments and **11%** increase in Personnel.
Customer Classes

- **Intermodal**
  - Less labor intensive
  - More volume
  - Yard management
  - Higher track wear
  - Service windows
  - Fewer destinations
  - Do not incur demurrage

- **Commercial**
  - Labor intensive
  - Lower volume
  - Less track utilization
  - Lower track wear
  - Daily service
  - More destinations
  - Subject to demurrage

- **Unit Trains**
  - Hybrid of Intermodal & Commercial
  - Oil spill response plan & drills
### Proposed Rate Adjustment

#### Demurrage tariff
- Last adjusted in 2018
- No proposed changes

#### Line haul rates
- Last adjusted in 2019
- Rate adjustments of 3% per year
  - See chart

#### Miscellaneous switching tariff rates
- Intermodal intra-terminal rate
  - 2020: $75 (current rate)
  - 2021: $78
  - 2022: $81
- All other
  - Last adjusted in 2010
  - Special switch, inter-terminal, intra-terminal, intra-plant
  - Rate adjustment of 3% for 2021

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<td>Intermodal</td>
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<td>224.00</td>
<td>231.00</td>
</tr>
<tr>
<td>Multiple Spot</td>
<td>300.00</td>
<td>309.00</td>
</tr>
</tbody>
</table>
Tariff Rate Comparison

- **Tacoma Rail Tidelands**: $54
- **Port Terminal Railroad Association (Houston)**: $1,000 (Min), $1,140 (Max)
- **New Orleans Public Belt Railroad**: $250 (Min), $600 (Max)
B. Rail rates should be stable.
   1. Rates will be based on best estimates of rail volume. Operating surpluses due to unanticipated rail volume growth may be applied to the Volume Investment Fund.

C. Rail rates should ensure sufficient resource planning and acquisition for reliable service while being as competitive as possible.
   4. Tacoma Rail maintains a Volume Investment Fund that provides revenue requirement 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 adequate staffing for rail volume 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.
NEXT STEPS

- **OCT 6**
  - TPU Budget & Rates
    - Joint Study Session

- **OCT 14**
  - Preliminary TPU Budget & Rates
    - PUB Meeting

- **OCT 28**
  - TPU Budget & Rates Adoption
    - PUB Meeting

- **NOV 17**
  - First Reading
    - City Council Meeting

- **NOV 24**
  - Second Reading
    - City Council Meeting
2021-2022 Budget & Rate Proposal

City of Tacoma | Tacoma Public Utilities

Governmental Performance & Finance Committee
September 30, 2020