



2021-2022 Budget & Rate Proposal

City of Tacoma | Tacoma Public Utilities

**Governmental Performance & Finance Committee
September 30, 2020**



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STRATEGIC DIRECTIVES



SD1
Equity and
Inclusion



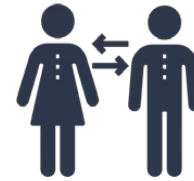
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Budgets and Strategies Built to Advance Racial Equity Action Plan

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**

● ● ● BILL PAYMENT ASSISTANCE



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)

MyTPU.org/BudgetBilling

MyTPU.org/Assistance

● ● ● BILL PAYMENT ASSISTANCE



Recommendations by Utility	Power	Water	Solid Waste	Surface Water	Wastewater
Reset Monthly BCAP	\$21 → \$21*	\$7 → \$9	\$7 → \$10	\$4 → \$5	\$8 → \$11
Expand BCAP Eligibility	150% federal poverty level → 60% of area median income				
Increase Discount Rate	30% discount on bill → 35% discount on bill				

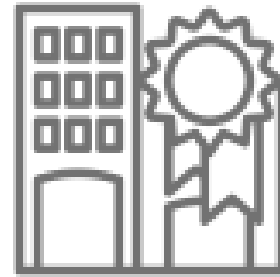
* Power's current BCAP credit already exceeds the 20% average monthly bill target and is expected to continue to meet or exceed it in 2021/2022.

... 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

●●● MANAGING EXPENDITURES



- 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.

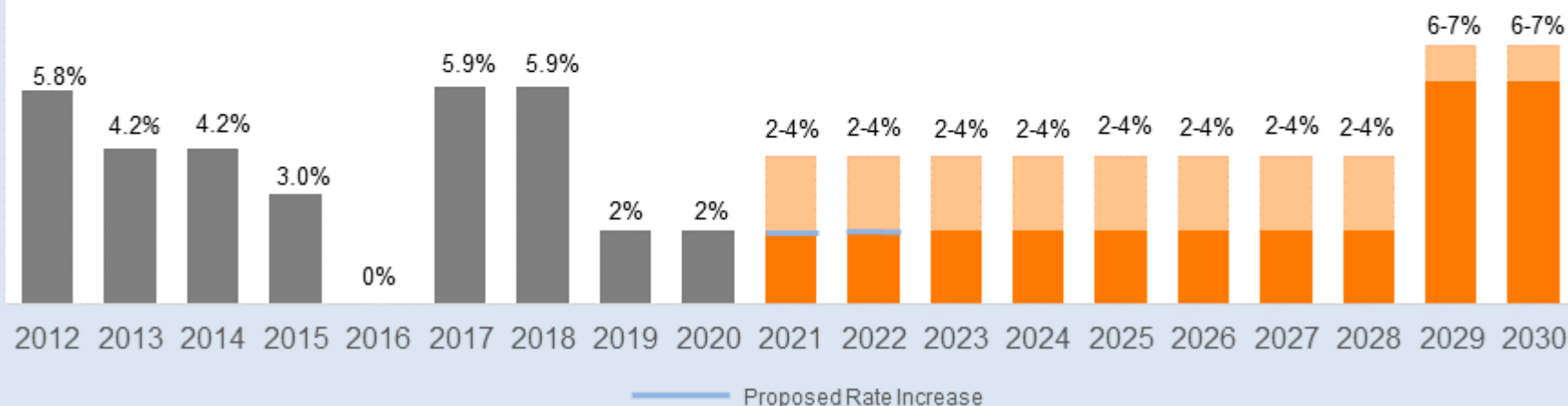
2021-2022 Budget Reductions

- 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

Base Case Forecast: 2 percent Rate Increases proposed for 2021-2022

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

Light shading in future years represents uncertainty associated with revenues and expenses, mostly due to potential for adverse or critical water conditions, changes to sales projections, and future debt service.*

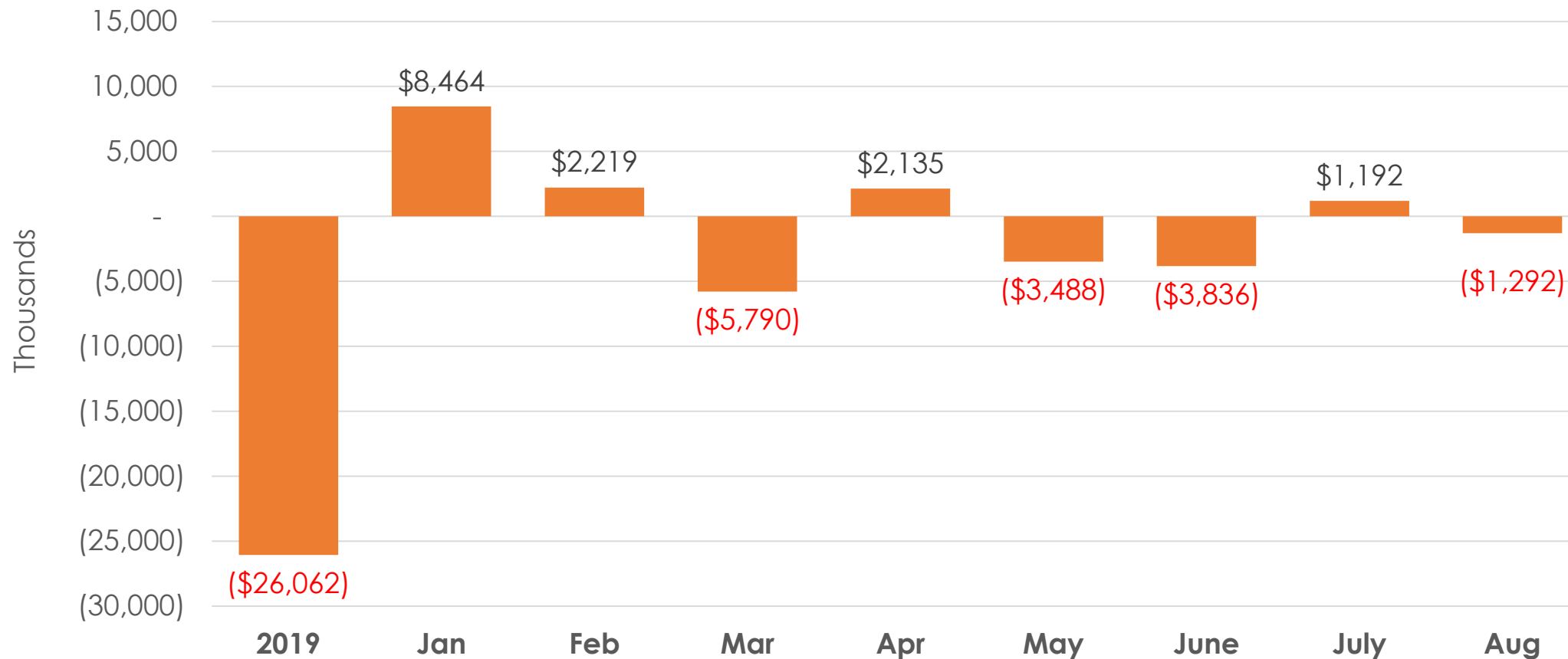


The **Electric Rate & Financial Policy** was modified in 2018 to explicitly support low and steady rate increases.

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

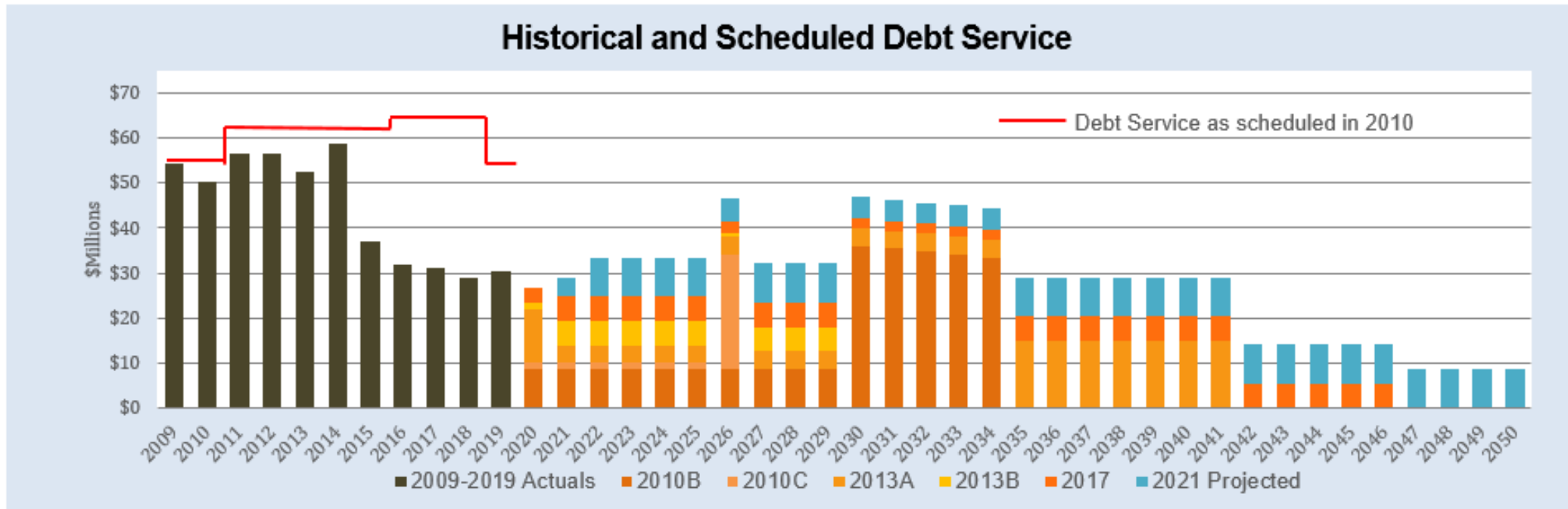
Actual Operating Revenues* less Operating Expenses



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



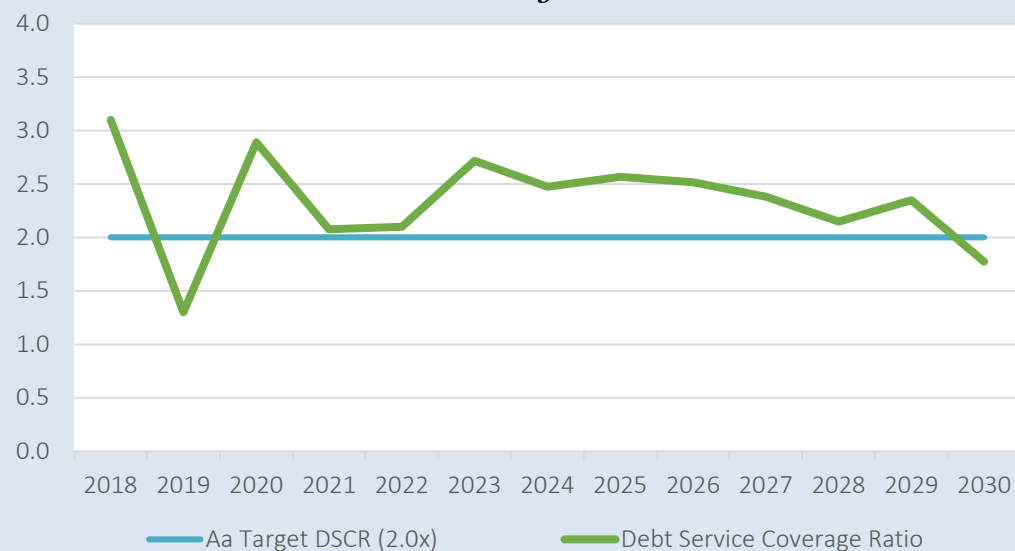
The Long View:

- 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.

●●● Base Case Financial Metrics

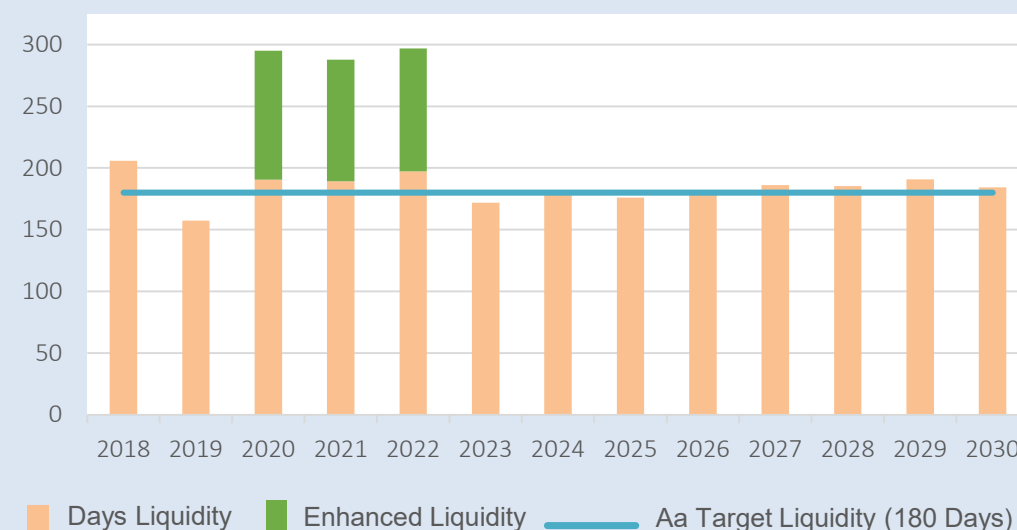
Debt Service Coverage Ratio

Target = 2.0x



Liquidity Projections

Target = 180 Days

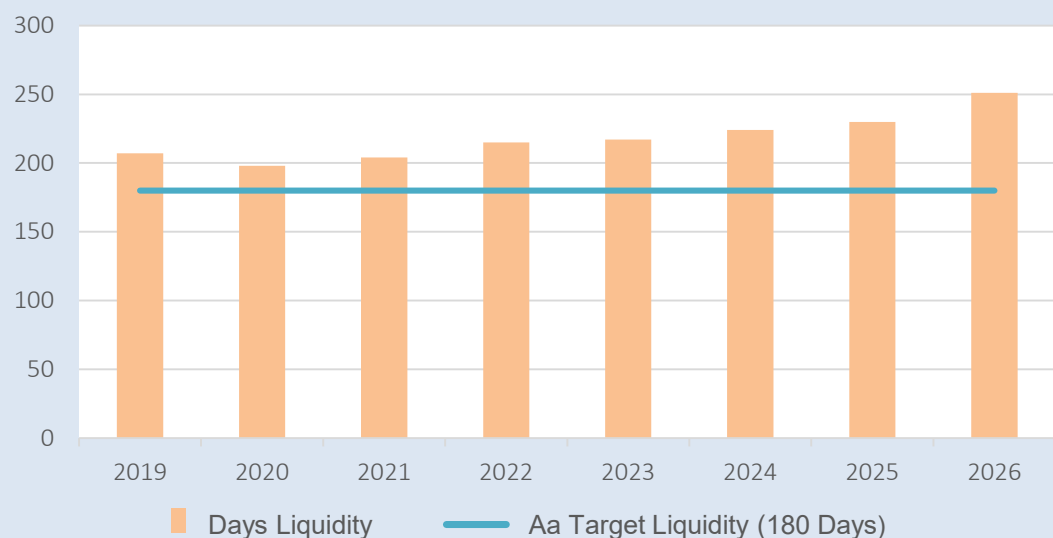


Assumes 2 percent average rate increases in 2021 and 2022, 2.7 percent average rate increases in 2023 through 2028, and 6.9 percent average rate increases in 2029 and 2030. Required to maintain financial metrics.

●●● Comparison of Liquidity Metrics

2019 LRFP Liquidity Projections

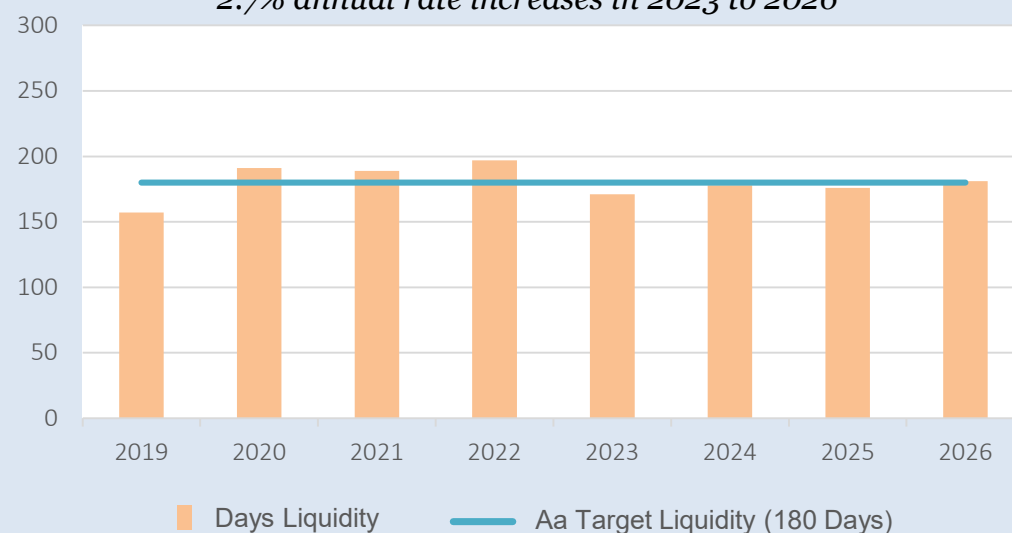
Assumes 2% annual rate increases



Actual data through June 2019.

Current Liquidity Projections

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



Actual data through June 2020.

Projected Tacoma Power Metrics

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
<i>ACTUAL Days of Liquidity</i>	312	312	335	215	236	210	206	157							
<i>2019 projected Days of Liquidity</i>								207	198	204	215	217	224	230	251
<i>Current projected Days of Liquidity</i>									191	189	197	171	178	176	181



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."

Rating agencies are interested in different things

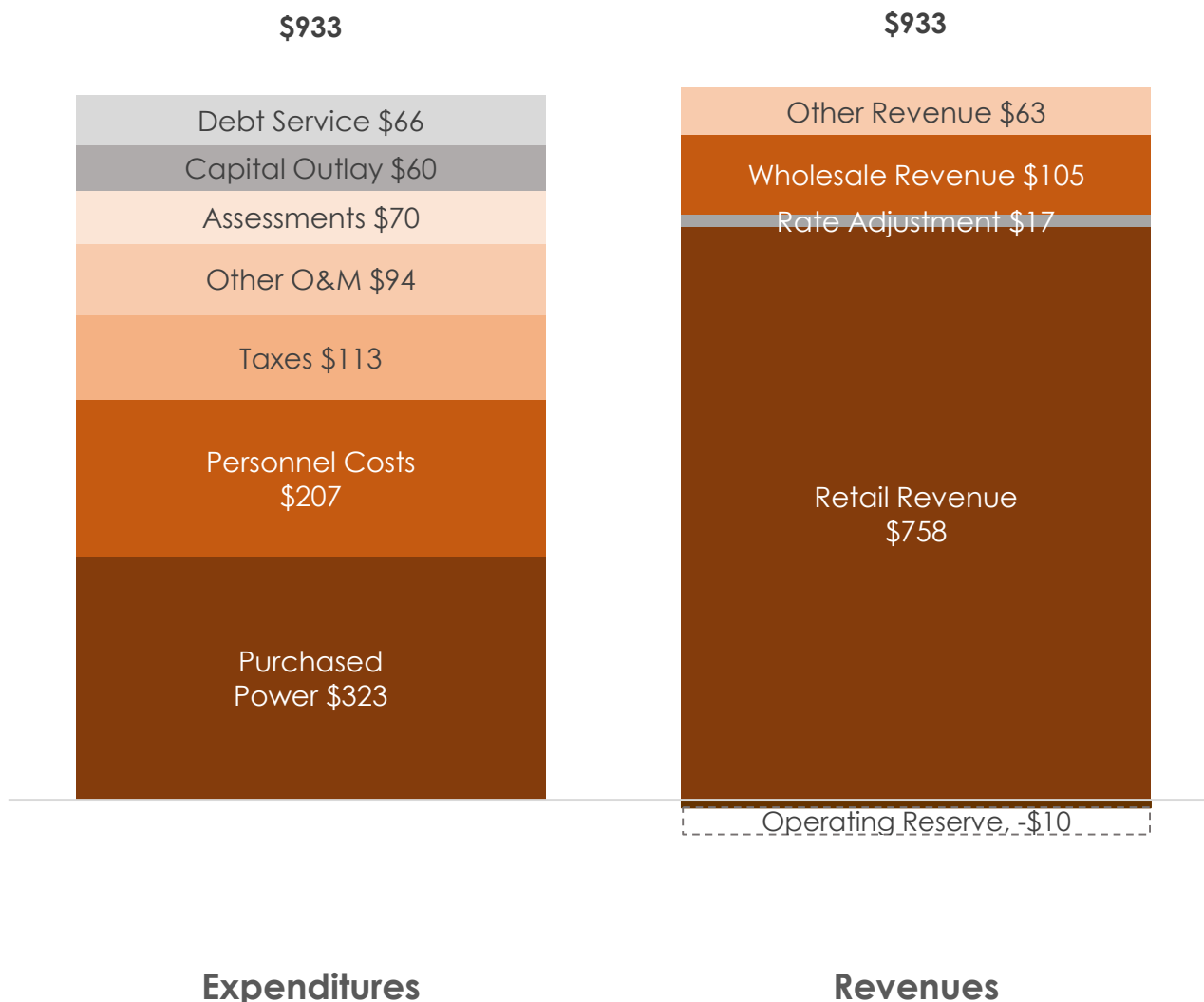
	Moody's*	S&P	Fitch
<i>Investment Grade</i>	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
	A1	A+	A+
	A2	A	A
	A3	A-	A-
	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
	Baa3	BBB-	BBB-
<i>Non-Investment Grade Speculative</i>	Ba1	BB+	BB+
	Ba2	BB	BB
	Ba3	BB-	BB-
	B1	B+	B+
	B2	B	B
	B3	B-	B-
	Caa1	CCC+	
	Caa2	CCC	
	Caa3	CCC-	CCC
	Ca	CCC	
	C		DDD
		D	DD
			D

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.

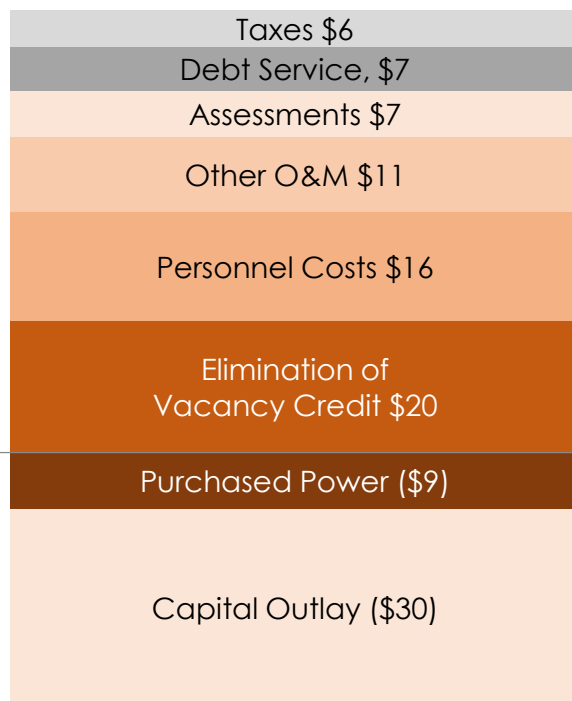
EXPENDITURES & REVENUE



- 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 **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

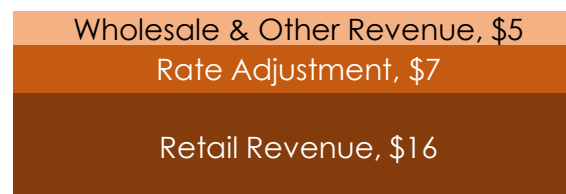
● ● ● RATE ADJUSTMENT

\$28



Increased Expenditures

\$28



Funding Source

- 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

... 2% Rate Increase to All

- single-family and multifamily residences
- 162,000 accounts
- \$180.5 million revenue

Residential



- small businesses, such as flower shops, nail salons, small offices
- 16,500 accounts
- \$29.7 million revenue

Small General Service



- large businesses such as schools, restaurants, hospitals
- 2,600 accounts
- \$107.9 million revenue

General Service



- 8 large customers directly on the transmission system
- \$23.6 million revenue

High Voltage General



- 2 large manufacturers directly on the transmission system
- \$23.7 million revenue

Contract Power



- Streetlights and traffic signals
- 900 accounts
- \$600,000 revenue

Streetlights & Signals






- Rental street and area lighting
- 3,200 accounts
- \$1.5 million revenue

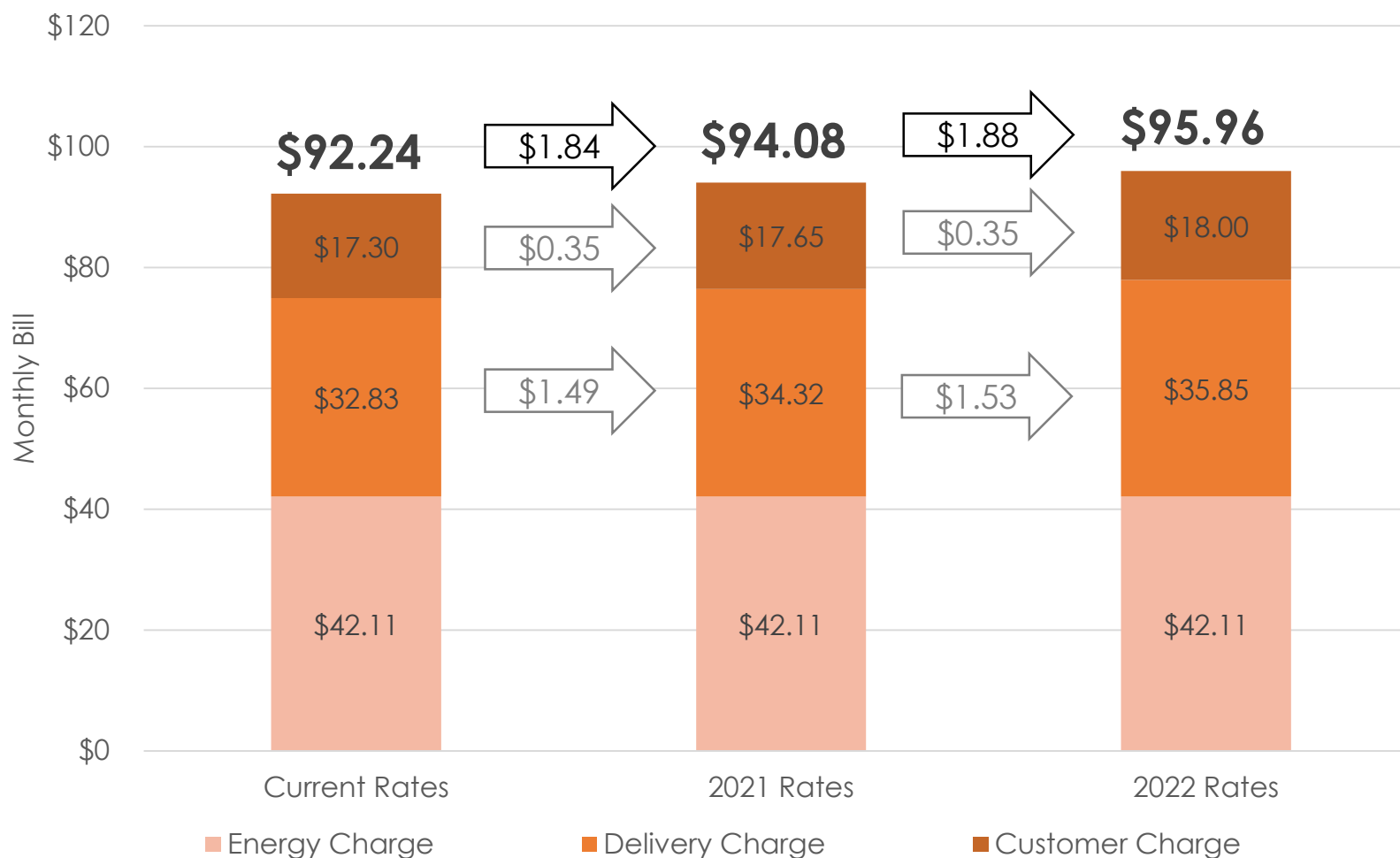
Private Off-Street Lighting



Residential Rate Design

	Current	2021	2022	
 Customer Charge (\$ per Month)	\$17.30 <i>current</i>	\$17.65 +35¢	\$18.00 +35¢	Monthly fixed customer charge increasing 2%
 Energy Charge (\$/kWh)	4.5351¢ <i>current</i>	4.5351¢ <i>no change</i>	4.5351¢ <i>no change</i>	
 Delivery Charge (\$/kWh)	3.5353¢ <i>current</i>	3.6967¢ +4.6%	3.8613¢ +4.5%	Combined variable per-kWh charge increasing 2%

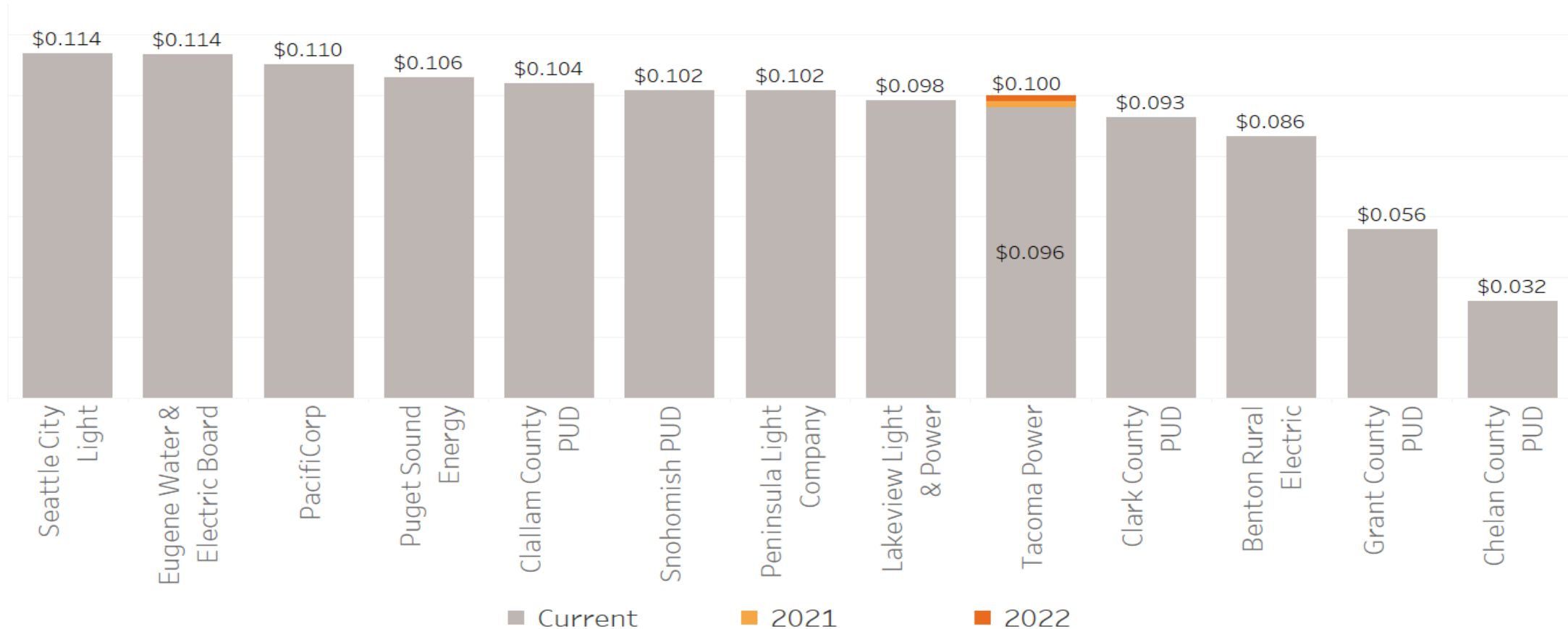
Residential Rate Design



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

●●● Residential Rate Design

Average Price per kWh for Residential Consumers



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

SD6
Innovation



SD13
Customer
Service



●●● 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

SD11
Decarbonization/
Electric Vehicles



... NEW RATE: Electrofuel Non-Firm

SD5
Environmental
Leadership



SD6
Innovation



SD11
Decarbonization/
Electric Vehicles



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





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... MANAGING EXPENDITURES

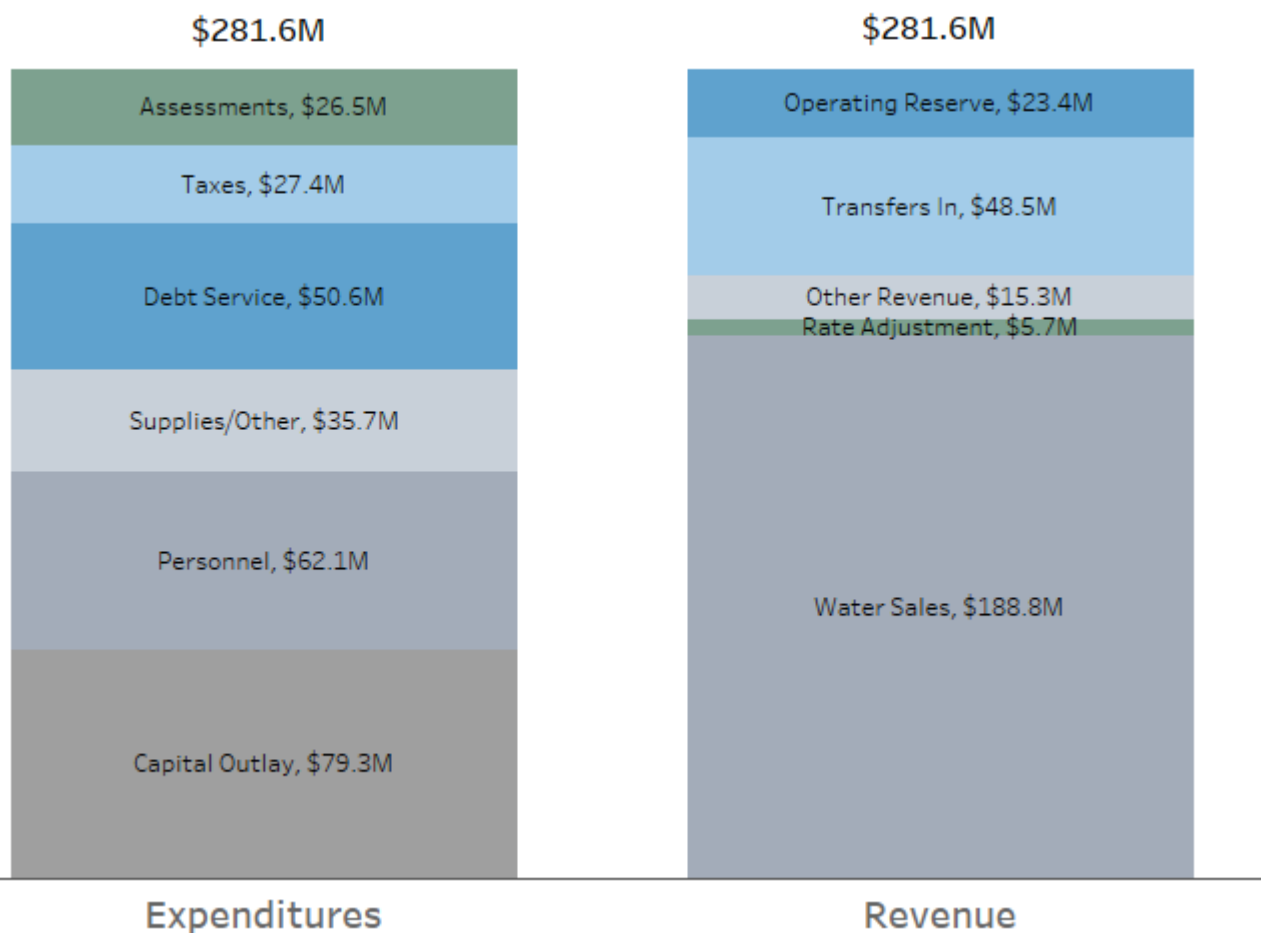
2020 Measures

- 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

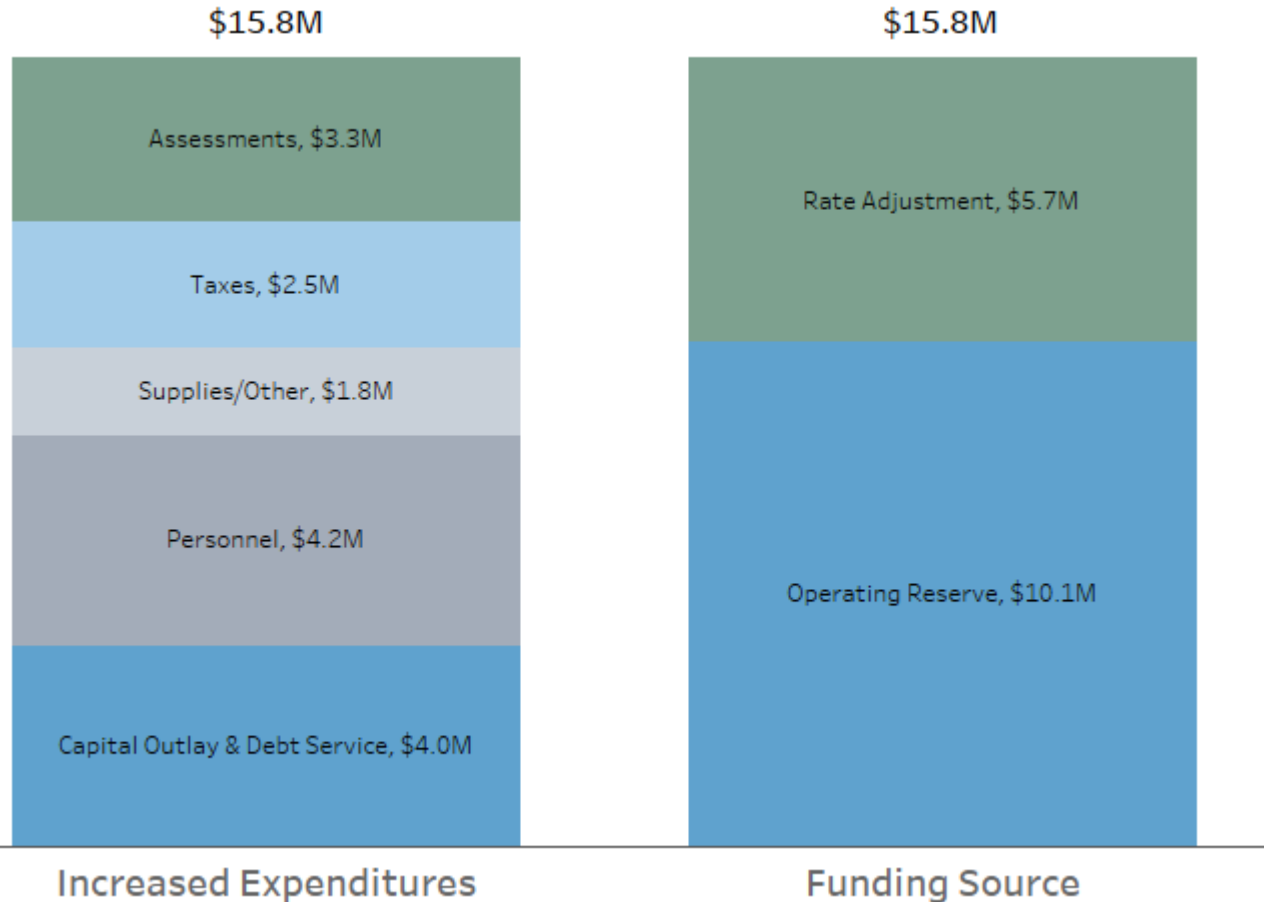
- Cost savings: **\$17.8M** reduced or deferred capital, **\$2.8M** reduced controllable O&M, continued prioritized hiring with **\$4.8M** vacancy factor offset
- Increased expenditures: assessments up **\$3.3M**, taxes up **\$2.5M**
- Other increases: bad debt & credit card fees, technology support, 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

● ● ● RATE ADJUSTMENT

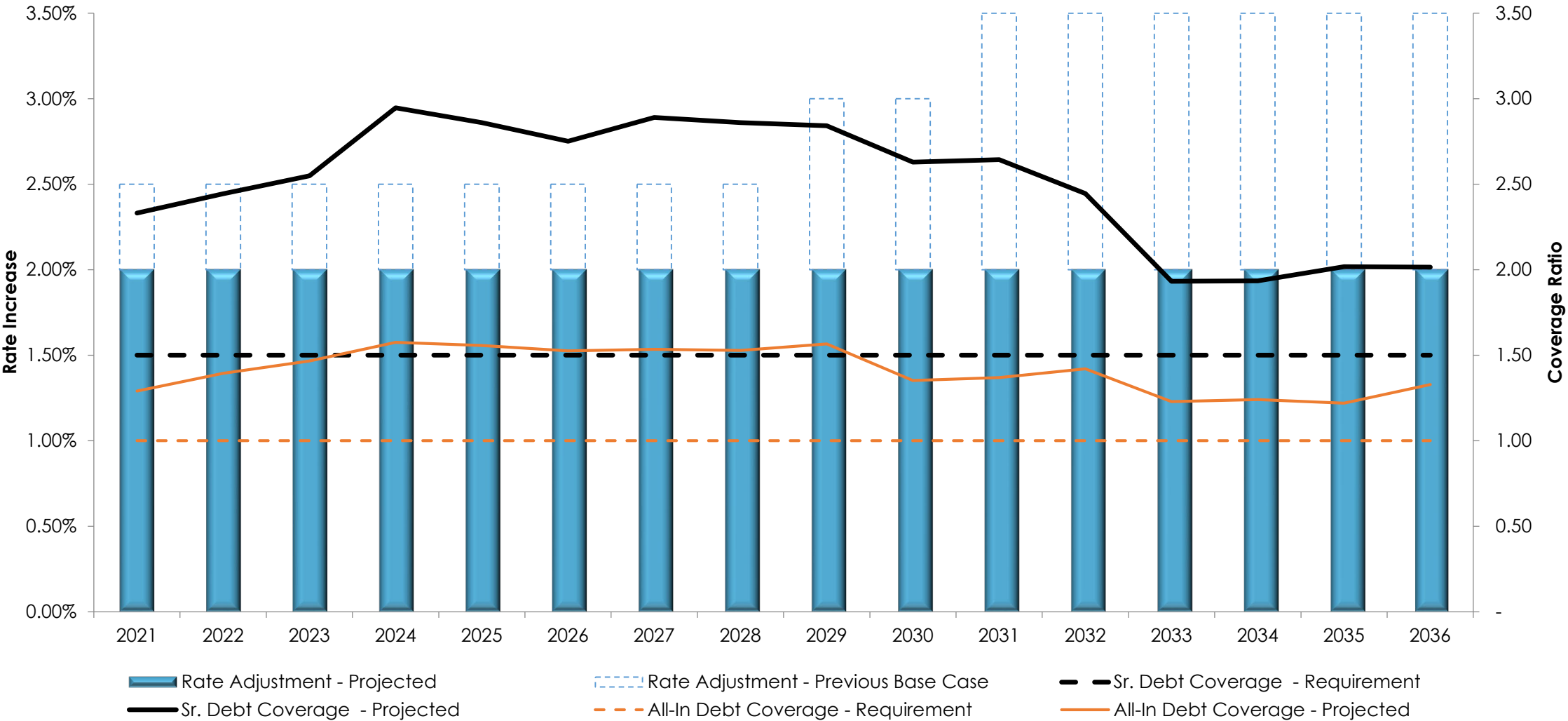


- This chart illustrates how increased planned expenditures are proposed to be funded
- About **64%** of the increased expenditures will be funded from reserves
- Remaining increases proposed to be paid from operating reserves
- Nearly **37%** of increased expenditures is assessments & taxes

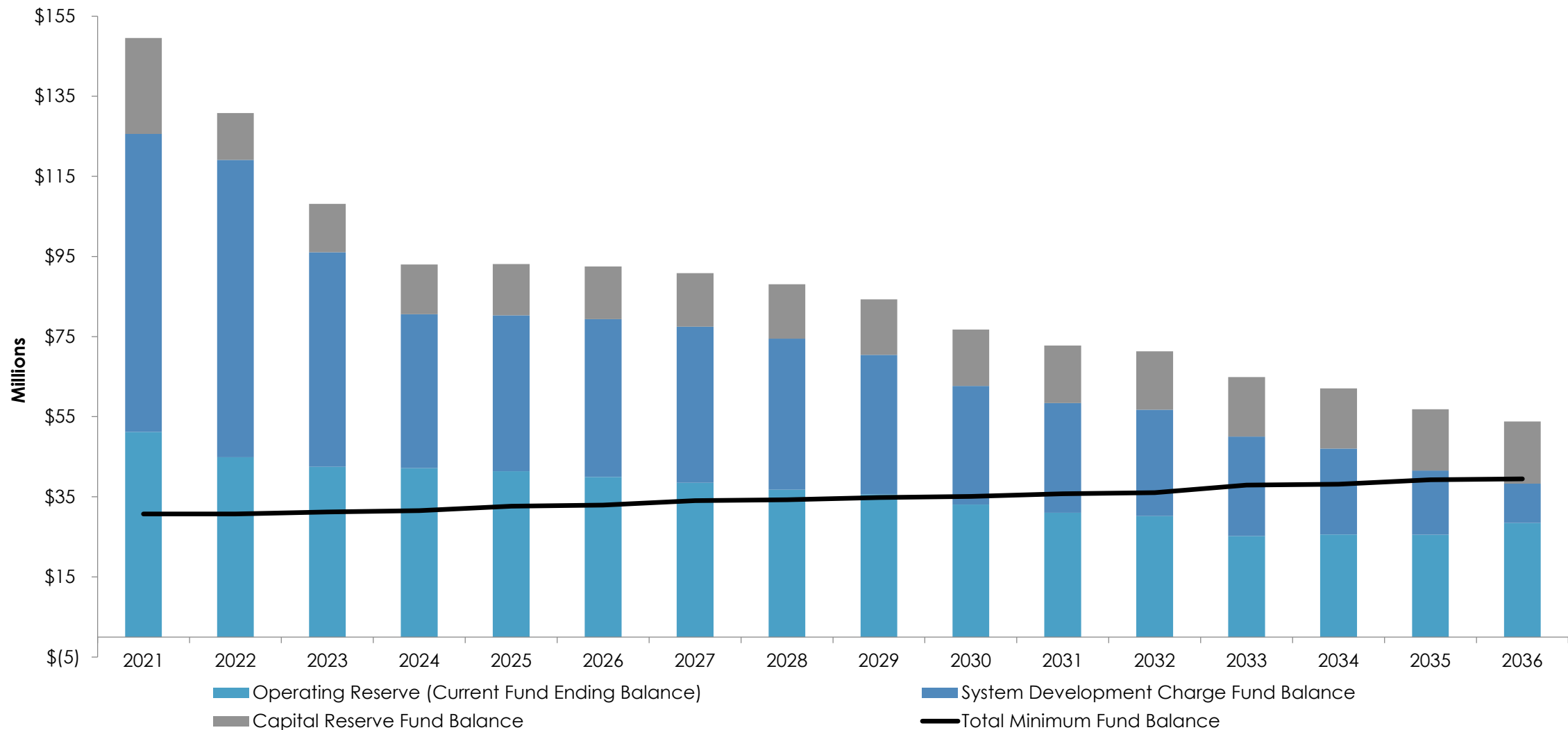
Pass through from Capital Reserve and System Development Charge Funds are not included



FINANCIAL PLANNING



FINANCIAL PLANNING



... CUSTOMER CLASSES

- Single-family and multifamily residences

- 98,609 accounts
- \$59.5M revenue

Residential



- Small & medium sized businesses such as flower shops and small offices

- 4,756 accounts
- \$12.1M revenue

Commercial



- 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

Wholesale



- WestRock in the Tideflats

- 1 account
- \$6.9M revenue

Pulp Mill



- Warehouses with large fire sprinkling systems

- 1,546 accounts
- \$3.4M revenue

Private Fire



... PROPOSED RATE ADJUSTMENT

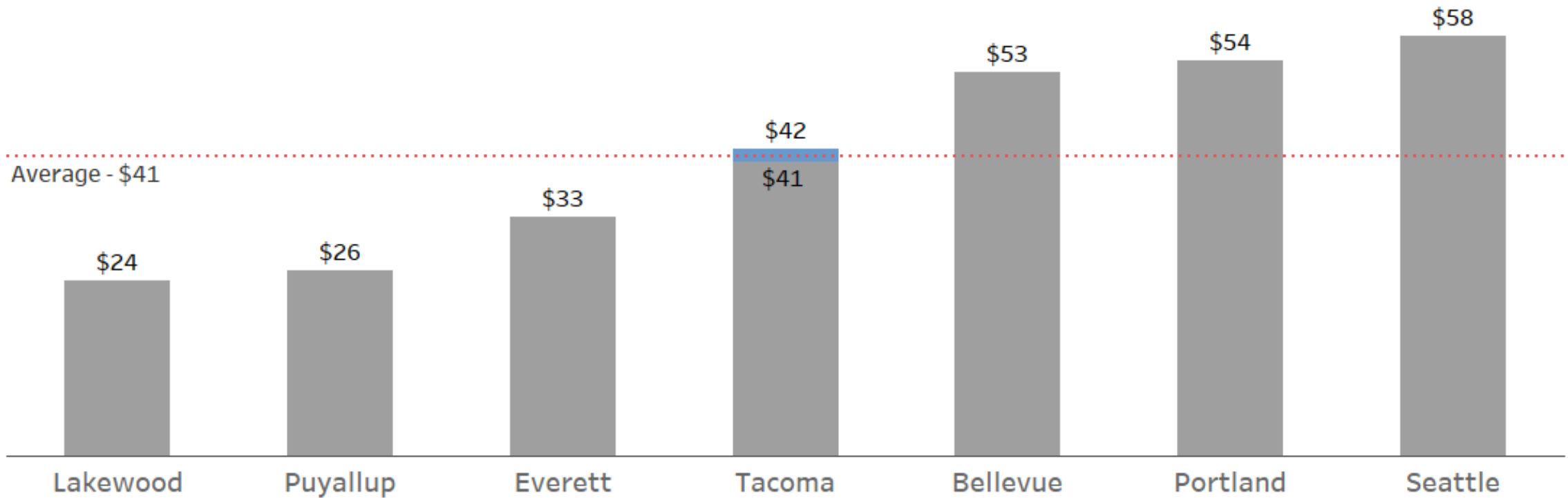
- We recommend applying the overall system average of **2.0%** annually to all customer rate classes
- The projected average rate impact for a monthly residential bill:

Residential Customer	2021	2022
Inside Tacoma	\$0.81	\$0.83
Outside Tacoma	\$0.98	\$1.00



BILL COMPARISON

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

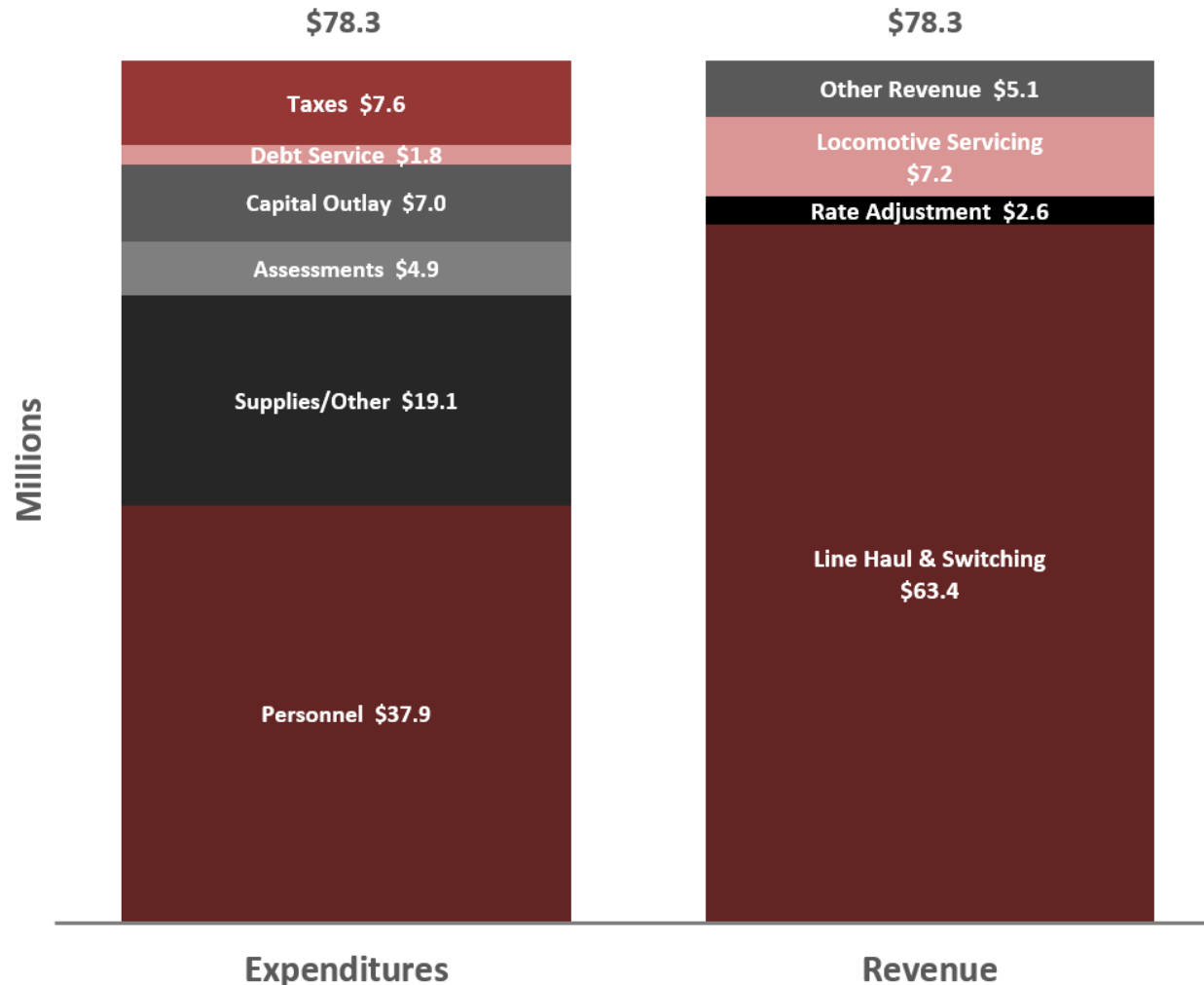
2020 Spending Reductions

- Capital projects delayed for additional funding opportunities
- 10 positions currently remain vacant
- Reduced travel and other expenses when possible

2021-2022 Budget Reductions

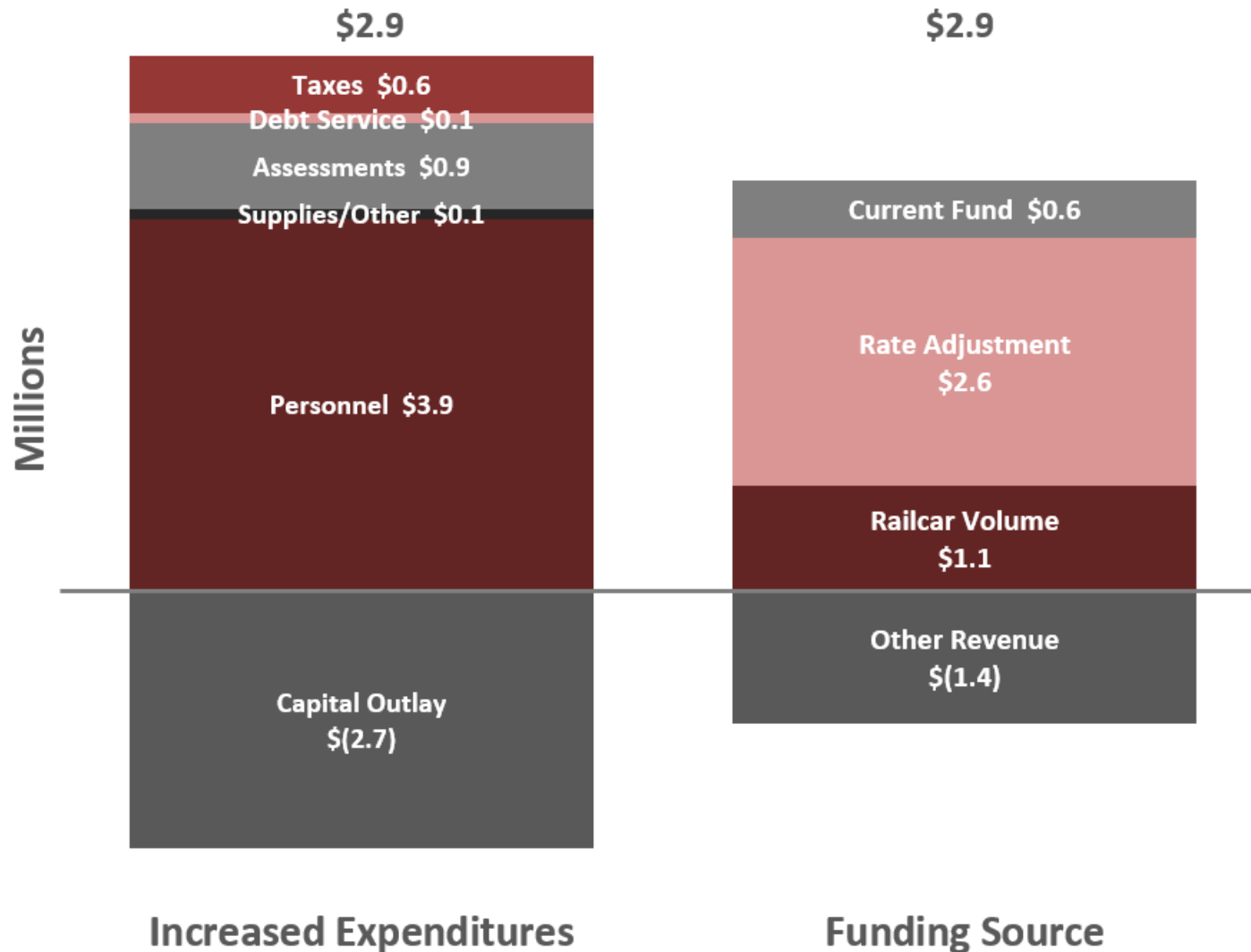
- **28%** reduction in capital outlay
- Expect rail volumes to return
 - Expenses budgeted accordingly, utilized as necessary
 - FTE's filled as volumes return

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 **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

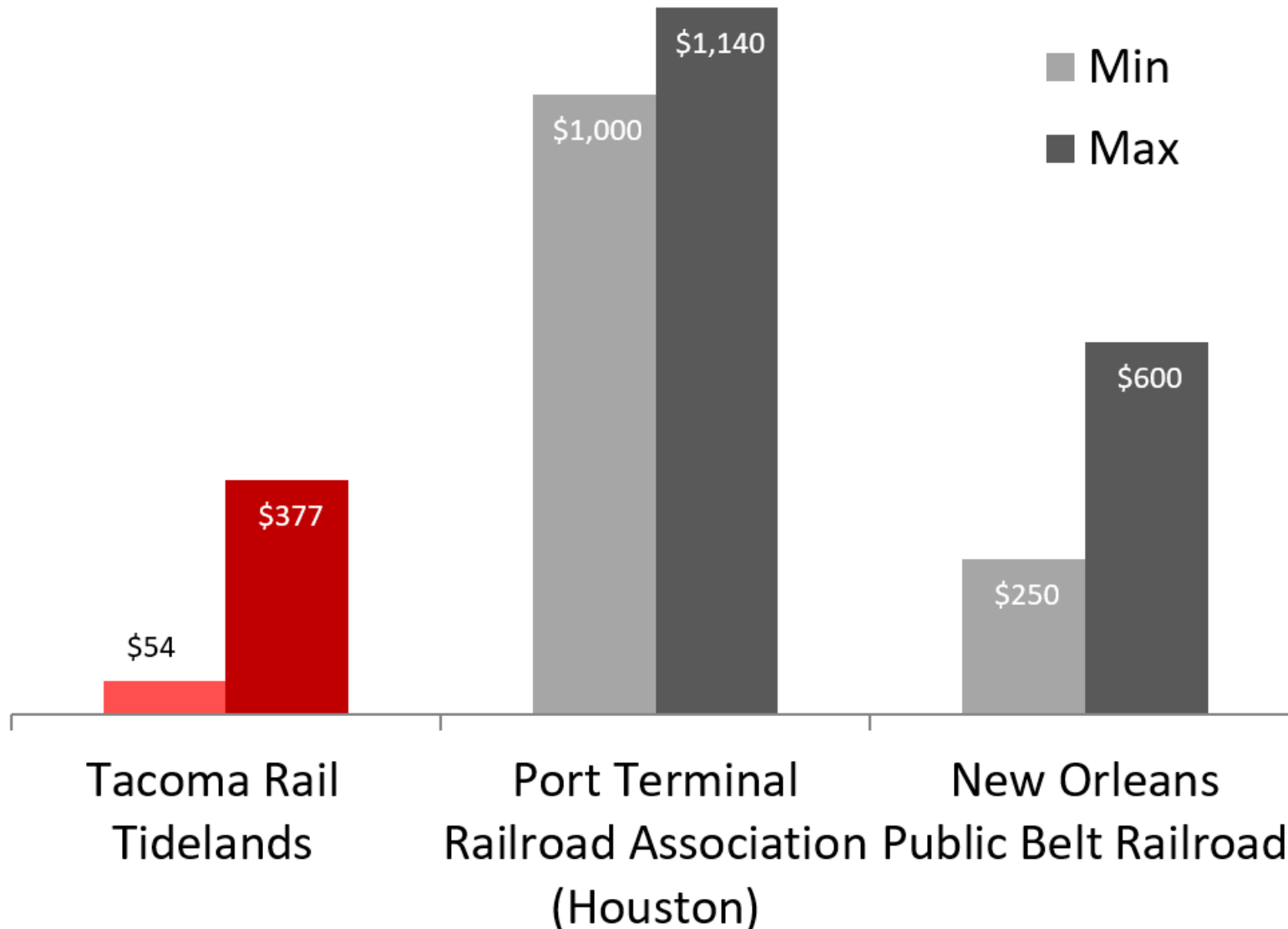
- Hybrid of Intermodal & Commercial
- Oil spill response plan & drills

●●● 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

	2020	Proposed Rates	
		2021	2022
Intermodal	\$ 51.00	\$ 52.50	\$ 54.00
Commercial			
Tidelands Division	306.00	315.00	324.00
Tidelands Division Hazardous	356.00	366.50	377.00
Capital Division	570.00	587.00	600.00
Unit Train			
Single Spot	224.00	231.00	238.00
Multiple Spot	300.00	309.00	318.00

●●● Tariff Rate Comparison



... Rail Rate Policy Proposed Changes

- 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

NOV
17

First Reading
City Council Meeting

OCT
14

Preliminary TPU Budget & Rates
PUB Meeting

NOV
24

Second Reading
City Council Meeting

OCT
28

TPU Budget & Rates Adoption
PUB Meeting



2021-2022 Budget & Rate Proposal

City of Tacoma | Tacoma Public Utilities

**Governmental Performance & Finance Committee
September 30, 2020**

