



APPROVED 11/18/20

MINUTES
City of Tacoma
Public Utility Special Board Meeting
November 6, 2020
11:00 a.m.

Chair Flint called the Public Utility Board meeting to order at 11:00 a.m.

Present via Zoom: Bryan Flint, Christine Cooley, Mark Patterson, Carlos Watson, Joe Bushnell

The meeting was quorate.

Chair Flint announced that this is the date to hear items tabled or requiring reconsideration from the October 28, 2020 meeting. Three are rate increases for Power and Water and the fourth is an item affected by changes to rates in Power.

Director Flowers provided additional background. At the October 28 meeting, staff began presenting the rate recommendations for the 2021-22 biennial budget. Following the discussion on the power retail rates, it appeared there was confusion related to how the rates had transitioned from a proportional increase to rate components, equal parts to fixed and variable, versus all in the variable. Given the confusion, it was determined that the rates and budget would be tabled. In a prior meeting, the Board had discussed the benefit of a transparent rate application with the proportional increase to both the fixed and variable. With the conversation evolving, some had indicated a preference to have the entire increase move to the variable component. Because power acquires 20 percent of its revenue from fixed charges and water acquires 50 percent of its revenue from fixed charges, this resulted in a larger proposed increase in the variable charge. However, the total average power or water bill with the fixed and variable component would have been within the two percent increase as discussed. In follow up to last week's meeting, staff has made adjustments to the proposal. Today staff presents rate proposals that return to the proportional increase, to both fixed and variable, and we have reduced the proposed increase for the first year of the biennia.

Chair Flint added that he, the Director, and Board Members have met with the Mayor, City Manager, and GPFC Chair and talked through a number of scenarios and implications for rate payers and budgets of the operating divisions and general fund including Gross Earnings Tax (GET) tax implications. In this form of government, a balanced budget must be passed and it must be ultimately be passed by the Council. When there is disagreement, there's no clear path on how to work through that, these

amended resolutions are the Board's attempt to finding a solution. Chair Flint concluded by stating that there will be an opportunity for public comments while each action is being heard.

B. Unfinished Business

B-1 Resolution U-11210 – Amend and revise Tacoma Municipal Code Chapter 12.06 regarding electric rates for two rate adjustments effective April 1, 2021 and April 1, 2022, except for the low-income senior and/or low-income disabled discount residential service rates which will be effective January 1, 2021.

Board Member Patterson moved to enter Amended Resolution U-11210, which clarifies that the increase in power rates is 1.5 percent on April 1, 2021, and 2 percent on April 1, 2022, and that the increase in both years would be implemented equally across all rate classes, and distributed proportionately to fixed and variable rate elements where applicable or consistent with policy and contractual provisions; seconded by Board Member Cooley. Voice vote to amend the resolution was taken and carried.

Erin Erben, Assistant Power Section Manager, provided a summary of changes. The rate increase in 2021 has been changed to 1.5 percent proportional increase to classes and rate components. The plan to offset the \$3.1M in revenue reduction is with reserves and continued expense management. Ms. Erben shared graphs illustrating the average monthly residential bill impacts.

In response to Board inquiries, Ms. Erben stated that with this amendment, Tacoma Power is projected to be at 188 days cash on hand; 180 days is the minimum in the financial and rate policy. Staff is finishing the Long Range Financial Plan (LRFP) and it will be presented to the Board at a later date.

There were no public comments.

Voice vote was taken and carried with Mr. Watson dissenting. The amended resolution was adopted.

B-2 Amended Resolution U-11207 – Authorize new Tacoma Power rate category of New Large Load Service to be effective April 1, 2021 and April 1, 2022.

Board Member Patterson moved to reconsider Amended Resolution U-11207 and enter Second Amended Resolution U-11207 which clarifies that the increase in the New Large Load rate is based on a 1.5% rate increase for power rates on April 1, 2021 and a 2% increase for power rates on April 1, 2022; seconded by Board Member Cooley. Voice vote to reconsider and add a second amendment to the amended resolution taken and carried.

Ms. Erben shared that the New Large Load is for new transmission-voltage loads of 8 to 20 MW and is based on the industrial (Schedule CP) rate.

Voice vote was taken and carried with Mr. Watson dissenting. The resolution was adopted.

B-3 Resolution U-11213 – Amend and revise Tacoma Municipal Code Chapter 12.10 regarding water regulations and rates for two rate adjustments effective January 1, 2021 and January 1, 2022.

Board Member Patterson moved to enter Amended Resolution U-11213 which clarifies that the increase in water rates is 1.5% on January 1, 2021 and 2% on January 1, 2022, and that the increase in both years would be implemented equally across all rate classes, and distributed proportionately to fixed and variable rate elements where applicable or consistent with policy and contractual provisions; seconded by Board Member Cooley. Voice vote to amend the resolution taken and carried.

Jodi Collins, Assistant Water Division Manager summarized the amendment. The amended proposal includes a rate reduction from two percent to 1.5 percent in 2021 and applies rate adjustments equally across all rate classes, distributed proportionately to fixed and variable rate elements where applicable or consistent with policy and contractual provisions. The difference for this biennium will be addressed through use of reserves or expenditure reductions and the long-range financial plan and will be updated to reflect ongoing impacts from the lower rate increase. Tacoma Water will have \$145M in reserves if everything goes as planned at the end of 2021. That amount is lower than what was originally planned, but is still in balance and Water will have to borrow a little more a little earlier. Staff will continue to monitor the LRFP.

Public comment was received from Mr. Kit Burns who expressed concern about rate increases and supported reevaluating and stopping advanced metering for Tacoma Water as a way to attain savings.

Board Member Cooley thanked Mr. Burns and clarified that AMI is already budgeted and not included in this proposed increase. Not all of the water meter lids were replaced as there was a study on which existing ones could be used; not all were in good shape.

In response to a Board inquiry about sunk costs already spent on AMI, Director Flowers stated that TPU is at the end of year three of a five-year project. There has been a significant investment for the preparation and implementation work needed to integrate meters. TPU has received meters in shipment and have a contract signed with the meter vendor. Much of the meter prep work happened in 2018 and earlier. The cost to date and risk for stranded investment is high.

Chair Flint stated that the pilot project on the water side of AMI almost immediately detected leaks. Director Flowers added that there are a few hundred water meters out and staff has confirmed back off signal communications and have identified a number of leaks in service lines and have identified a power service challenge (brown out), something that wouldn't have been detected if not for the new meter. The analytics to detect such things before didn't exist. Staff also had a successful test run on monthly billing. This is a significant milestone to advance long-term strategies such as monthly billing. In response to a Board request, Director Flowers highlighted all the changes to the assistance programs that will alleviate the pressure of rate increases.

Voice vote was taken and carried with Mr. Watson dissenting. The resolution was adopted.

B-4 Motion 20-08 – The Department of Public Utilities 2021/2022 Budget, as submitted and filed with the Clerk of the Board, be accepted and approved and the City Council is requested to approve the same as provided by Section 4.12 of the Charter of the City of Tacoma.

Mr. Patterson moved to approve the motion; seconded by Ms. Cooley.

Director Flowers summarized the motion. This draft budget is presented before transmittal to the City Clerk for distribution to the City Council. State law requires that the budget be filed at least 60 days before the beginning of the next fiscal year. The budget will be delivered to the City Clerk's office on October 30, 2020. Staff within the various operating divisions, the division managers and superintendents, and the Management Services office have carefully reviewed these requested appropriations. Conversations on rates previously approved this afternoon, started last November. As noted in the rates discussions staff has taken direction from the Board strategic directives in developing both budget and rates. These budgets were developed without compromising the mission or values of TPU. These budgets support work necessary to continue to provide essential services to customers. They include provisions to support customers in COVID-19 recovery and they support the City of Tacoma anti-racist transformation work with the development of the TPU Racial Equity Action Plan. The divisional budgets, with their connections to the Board Strategic Directives, were discussed at Board meetings on August 26, September 9, and September 23, 2020. The budget was also presented to the City of Tacoma Government Performance and Finance Committee on September 30 and the budget was discussed in detail at the joint City Council/Public Utility Board Study Session on October 6, 2020. Public outreach has been an integral part of the budget process and included virtual public meetings with franchise cities and neighborhood organizations as well as newsletters, a dedicated web page, bill insert messages and other content. All expenditures were thoroughly reviewed and capital outlay budgets were examined fully and prioritized for possible deferral or elimination. Financing of these projects is consistent with the Board's established rate policies. The TPU 2021-2022 biennial budget totals \$1.31 billion which represents a 1.1 percent increase above the 2019-2020 biennium. The budget reflects additional revenue anticipated from rate increases by Tacoma Power, Tacoma Water, and Tacoma Rail. The assumption for all of TPU includes health and welfare benefit costs which are consistent with levels in the citywide biennial budget.

This proposed budget continues to support Tacoma Power's strategy to maintain low rates while providing reliable and environmentally responsible electric power. Tacoma Power's proposed 2021-2022 budget is \$932.8 million. This is down \$(26.1) million or (2.7) percent below the prior budget which included \$54.5 million and 54 FTEs for Click! Network. The \$3.1 million revenue reduction associated with the 1.5 percent rate adjustment for 2021, Tacoma Power will continue to pursue expense management alternatives and potentially offset with reserves. If necessary, staff will consider a mid-biennium budget adjustment. Excluding Click! Network, Tacoma Power's 2021-2022 budget is increasing by \$28.3 million or 3.1 percent. Tacoma Power personnel costs are projected to increase approximately \$21.1 million or 11.4 percent. These costs include decreases in Tacoma Power staffing levels from 838.3 to 798.2 full time equivalents (FTEs), mainly due to the reduction for Click! Network FTEs. Repurposing of several existing positions will address resource needs driven by Tacoma Power's strategic

objectives and operational needs. Although FTEs are decreasing, the lack of a planned vacancy factor for 2021-2022 compared to the 2019-2020 results in an increase of \$20 million in personnel costs. This was changed since the vacancy factor has been running very low. Supplies, services, and other charges will decrease by \$(22.9) million or (4.4) percent. The total capital outlay proposed is \$149.9 million, of which \$60.2 million of this capital plan will be paid for from the operating fund while the rest will be paid from bond proceeds and \$29.4 million of proposed capital spending was shifted to debt financing to help mitigate costs in the upcoming biennium. Taxes, primarily City of Tacoma gross earnings taxes of \$69.2 million and State of Washington utilities and business taxes of \$43.6 million, total \$112.7 million for the biennium, which is a decrease of \$(1.6) million from the prior biennium. Excluding Click! Network, taxes are increasing by \$5.5 million or 5.1 percent. Included in the tax figures are administrative fees for small surrounding cities where Tacoma Power operates. Funding for the budget will be primarily from sales of electric energy and bulk power sales. Tacoma Power also receives other electric and miscellaneous revenues, such as interest income, rents, and wheeling revenues. Tacoma Power will maintain a minimum cash reserve of 90 days of current budgeted expenditures including capital paid from the operating fund to remain compliant with Electric Rate and Financial Policy. The budget includes anticipated additional revenue of \$17.1 million derived from an average system rate increase of approximately 2.0 percent in each of the two years of the biennium.

Tacoma Water continues to focus on managing expenditures while maintaining responsible stewardship and long term financial sustainability of the Utility. Tacoma Water's 2021-2022 budget is \$281.6 million. This is a \$53.4 million increase, or 23.4 percent, above the prior budget, driven mainly from using internal reserve funds rather than debt for capital outlay. The \$829,099 revenue reduction associated with the 1.5 percent rate adjustment for 2021, Tacoma Water will continue to pursue expense management alternatives and potentially offset with reserves. If necessary, staff will consider a mid-biennium budget adjustment. Tacoma Water's personnel costs are planned to increase by \$4.2 million, including an increase in planned staffing levels of 5.5 adjustments to partial FTEs planned to be filled mid-biennium 2019-2020 as well as 6 new FTEs. The increase in FTEs supports regulatory mandates, broad analysis, data driven decision making and strategic asset management, and aligns staffing with emerging areas of emphasis. The increase in personnel costs also includes an increase in employee benefits expense of nearly \$11,000 per FTE, primarily due to use of reserves for medical benefits lowering the expense in 2019-2020. Supplies, services and other charges will increase to cover growing operational expenses to provide safe, clean water and to address other priorities. Debt Service is expected to decrease to \$50.6 million in the next biennium. Part of the debt service expense will be offset by the Build America Bonds subsidy which is recorded as non-operating revenue. The total capital outlay proposed is \$79.3 million. The capital financing plan calls for this entire amount to be paid from operating and capital fund reserves. Taxes paid by Tacoma Water total \$27.4 million for the biennium, an increase of \$2.5 million. City of Tacoma gross earnings taxes equals \$16.1 million and State of Washington utilities and business taxes equal \$11.2 million. Included in the total tax figures are franchise, administrative, and other fees paid to other cities and entities. Tacoma Water receives most of its revenue from water sales and other operating earnings. To balance its budget, an anticipated additional revenue amount of \$5.7 million is required, which would come from an average system rate increase of 2.0 percent in both 2021 and 2022.

Tacoma Rail's 2021-2022 budget is \$78.3 million. This is \$3.0 million, or 3.9 percent, above the prior budget. Tacoma Rail's operations by necessity fluctuate and are greatly influenced by economic activity, particularly driven by the movement of goods and commodities around the Port of Tacoma area. Personnel costs are projected to increase by \$3.3 million, with staffing levels budgeted to increase by 1.0 FTE for the biennium. Supplies, services and other charges are planned to increase by \$1.6 million or 7.0 percent. The total capital outlay proposed is \$10.2 million; \$6.9 million of this capital plan will be paid from the operating fund while \$3.3 million will be financed with either grants or special no, or low, interest loans. Funding for the budget comes primarily from switching revenues. Tacoma Rail proposes rate increases of 3.0 percent for both 2021 and 2022. Taxes paid by Tacoma Rail total \$7.6 million for the biennium, an increase of \$0.6 million. City of Tacoma gross earnings tax equals \$6.3 million and State of Washington utilities and business taxes total approximately \$1.3 million.

The Fleet Services Fund's 2021-2022 biennial budget is \$11.6 million as compared to \$26.4 million in the prior biennium. The decrease relates to moving Tacoma Power, Tacoma Water and Tacoma Rail capital outlay out of the Fleet Services Fund and into the respective enterprise funds for those divisions.

Self-Insurance Claim Fund biennial appropriations, which are provided by Tacoma Power, Tacoma Water, and Tacoma Rail plus appropriations from the cash reserves, total \$5.7 million.

The Family Need Fund, which is a funding source for bill payment assistance to income qualifying Power customers, will have a total biennial budget of \$2.5 million.

Expenditures for the service divisions are included for information only because their costs are included in the budgets of the operating divisions, and other funds within the department. Portions of the Customer Services costs are reimbursed by the City's Environmental Services department. Service division budgets include the Administrative Offices, Customer Services, Real Property Services, Utility Technology Services Software & Desktop Support and Copiers. The operating divisions reviewed these budgets during the budget process to ensure that only essential services are budgeted. The service divisions have budgets that total \$80.1 million for the 2021-2022 biennium, up from \$72.3 million in the prior biennium.

The revenues and expenditures contained in the Department of Public Utilities 2021-2022 biennial budget requests were developed in accordance with the stated mission of the department and in conformance with the objectives of strategic plans. The proposed budget appropriations were reviewed extensively by my office, divisional management, the Management Services Office, and the Public Utility Board. TPU's budgets and rate proposals reflect strategies that are durable over the long run. The Utilities have considered the economy and market conditions and have properly aligned their budgets, capital priorities and work force around operations that are critical to providing services vital to quality of life for the 2021-2022 biennium and beyond.

In response to Board Member inquiries on the requirement to amend this motion, Director Flowers stated that Power and Water will continue to pursue expense management alternatives like holding vacancies and they're looking at other expense cutting and capital project deferral. TPU doesn't typically do mid-biennial budget

adjustments, but may need to exercise that option. Power has conservative planning on adverse water and will keep tabs on market and weather conditions. The Board will be kept updated through risk management updates on power supply. The revenue associated with the increases is accounted for in the budgetary process; we are not planning on making an adjustment to the submitted budget, in part, because it is a projection as are the expenses. Staff will continue to monitor and deploy expense management.

Public comment was taken from Mr. Kit Burns who expressed concern about debt service for Power and Water and expressed interest in learning more on the topic of debt service.

Bill Berry, Power Rates, Planning, and Analysis Manager added that Power's debt service is low compared to other utilities and staff will be updating the LRFP and presenting it to the Board. The LRPF should address issues raised by Mr. Burns and encouraged Mr. Burns to meet with rates staff.

Voice vote was taken and carried with Mr. Watson dissenting. The motion was approved.

Comments by the Board

Board Member Patterson thanked staff for their hard work on the budget and rates.

Chair Flint thanked the Mayor and Council Member Hunter for their involvement. Chair Flint added that the question of impact of the pandemic and recession on families is important and the Board struggled with this. It is good to have dialogue with leaders on the Board and Council. Chair Flint thanked the Director and staff for shepherding the process and stated it is good to have a process wherein everyone votes their conscience. The utility has responded in a number of ways to the pandemic. The April rate increase was delayed. Over 2M in utility relief was provided. Staff has created systems for when the shut-off moratorium ends, they'll be repayment plans. Staff has made budget cuts. It is hard to raise rates; it is a balancing act. Thanks to all for patience on this process.

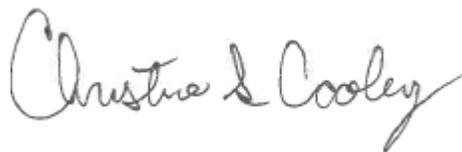
Adjournment

There being no further business or comments, the Public Utility Board meeting was adjourned at 12:13 pm. until Wednesday, November 18, 2020 at 3:00 p.m.

Approved:



Bryan Flint, Chair



Christine Cooley, Secretary