



APPROVED 4/10/24

MINUTES  
City of Tacoma  
Public Utility Board Study Session  
March 27, 2024  
3:00 p.m.

Chair Watson called the Public Utility Board study session to order at 3:00 p.m. in the third-floor conference room (LT1) of the Public Utilities Administration Building.

**Present:** Carlos Watson, Elly Claus-McGahan, Anita Gallagher, John O'Loughlin, William Bridges

**Miscellaneous**

As background, Director Flowers shared that in 2021, the Board approved Motion 21-09 which granted General Government the use of Tacoma Power property located at Pacific and 82<sup>nd</sup> for use as a temporary encampment. The agreement was extended in 2023 by Motion 23-05 for one year. Dylan Harrison, Sr. Real Property Manager, added that the city's plan is to stand down this site and that the city is responsible for restoring the site so that it can be surplused. According to policy, the site would need to be offered to General Government, Tribal authorities, and for affordable housing.

**Rate and Financial Policies for Power, Water, Rail**

Tacoma Water: Jodi Collins, Financial Stewardship Manager, stated the purpose: The Water Rate and Financial Policy gives direction to planning decisions and helps ensure that Tacoma Water provides an adequate supply of safe, clean water to all customers efficiently, reliably, and at the lowest possible cost consistent with prudent utility management. Ms. Collins then reviewed Water's guiding objectives: water rates should ensure adequate supply; water rates should be as low as is responsible; water rates shall be fair and equitable; water rates should be based on long-term financial planning and adjusted gradually; and water rates should be the product of customer involvement. The policy, under the following categories, were then detailed: revenue requirement; cost-based; stable rates; financial metrics; rate adjustments; affordability. Ms. Collins then spoke to how these policies are reviewed and tested via both a quantitative review and qualitative review. Ms. Collins concluded by providing an overview of recommended changes to the policy that will be brought forward for Board consideration in the future.

Tacoma Rail: Dan McCabe, Rail CIO/CFO, stated the purpose: The Tacoma Rail policy provides for rates adequate to ensure the operation, maintenance, and construction of the division's railway system while providing safe, reliable, cost effective, and reliable service to customers within Tacoma Rail's service area. The policy, under the following categories, were then detailed: revenue requirement; cost-based; stable rates; financial metrics; rate

adjustments. Mr. McCabe concluded by providing an overview of recommended changes to the policy that will be brought forward for Board consideration in the future.

Tacoma Power: Michelle Brown, Power Financial Planning Manager, stated the purpose: Tacoma Power's Electric Rate and Financial Policy gives direction to future short-term and long-term planning decisions and helps ensure that reliable service is provided to all customers at the lowest-possible cost consistent with prudent utility management. Ms. Brown then reviewed Water's policy elements: rate setting; rate review process; rate setting policies; financial targets and rate setting practices; rate stabilization fund. The policy, under the following categories, were then detailed: revenue requirement; cost-based; stable rates; financial metrics; rate adjustments; affordability. Ms. Brown then spoke to how these policies are reviewed and tested via both a quantitative review and qualitative review. Ms. Brown concluded by providing an overview of recommended changes to the policy that will be brought forward for Board consideration in the future.

### **Reserve and Rate Stabilization Funds for Power, Water, Rail**

Tacoma Power: Michelle Brown, Power Financial Planning Manager, shared the types of reserves: Cash (unrestricted current fund); Revenue (unrestricted rate stabilization fund); and Cash (restricted bond-related funds). Ms. Brown shared graphs and charts illustrating and detailing the flow of unrestricted reserves, how reserves impact system rates through financial metrics, how the use of the rate stabilization fund helps to maintain rating and avoid rate shocks, how forecasts use the rate stabilization fund to smooth rates, that the current core rate stabilization fund balance is less than recommended, how robust rate stabilization fund balances can reduce rate shock from future expenses, and peer utility rate increases. In summary, maintaining low and stable rates requires a robust rate stabilization fund to mitigate hydro and price volatility, future operational risks, expense spikes, emerging issues, and general cost pressures. Staff recommendations are to: maintain a core balance of \$100M to address hydro and market price volatility (current planned use of \$90M in the next ten years to reduce core balance down to \$68M); and to allocate additional funds in the rate stabilization fund toward significant future expenses and current trends. Several peer utilities without a sufficient rate stabilization fund are increasing rates significantly.

Tacoma Water: Jodi Collins, Financial Stewardship Manager, shared that Tacoma Water currently maintains 32 funds to properly classify and account for financial activities; these include operating fund, capital funds, regional water supply system, customer funds, and bond-related funds. Ms. Collins shared graphs illustrating base case reserves, rates, and metrics. A gradual approach sets rates as low as is responsible and ensures that Water meets policy financial metrics. Ms. Collins concluded by providing an overview of water industry considerations and risk mitigations versus that of Tacoma Water.

Tacoma Rail: Dan McCabe, Rail CIO/CFO, provided an overview of the volume investment reserve fund. This fund was established in the 2023 rail rate policy. Section B.1. states that rates will be based on best estimates of rail volume. Operating revenue surpluses due to unanticipated rail volume growth may be applied to the volume investment fund, a sub-fund of Rail's enterprise fund. To establish a balance to the fund, an initial \$500k will be transferred to the sub-fund when created. Section C.4 states that Tacoma Rail maintains a volume

investment fund, a sub-fund of Tacoma Rail's enterprise 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. The current balance is \$500k.

### **2024 Financing Updates for Power, Water, Rail**

Tacoma Rail: Dan McCabe, Rail CIO/CFO, detailed a graph illustrating WSDOT rail bank loans.

Jodi Collins, Water Financial Stewardship Manager, reviewed charts and graphs illustrating market conditions and impact, reshaping refunding to levelized debt portfolio, market volatility, savings to debt service and reduction to rates, and higher debt service due to sequestration.

Michelle Brown, Power Financial Planning Manager, provided an overview of the 2024 bond issue and shared a chart illustrating Power's savings in debt service.

### **General Board Comments/Discussion and Director's Reports**

Board Member Gallagher provided an update on Charter Review.

Board Member Bridges made positive remarks about attending this year's American Short Line Regional Railroad Association conference and then many learning opportunities afforded by this conference.

Board Member Claus-McGahan and Gallagher made positive remarks about their attendance at the Economic Development Board and Reach Higher meetings they attended.

Director Flowers provided the Board with the quarterly update of her work plan.

### **Adjournment**

The study session was adjourned at 5:52 p.m.

Approved:



Carlos Watson, Chair



William Bridges