



# 2025/2026 Budget & Rates Proposal

**Chris Robinson | Power Superintendent**

**Michelle Rhubright | Budget & Financial Planning Manager**

**Keeley Mauro | Budget Manager**

**September 25, 2024**



**TACOMA POWER**  
TACOMA PUBLIC UTILITIES

# Agenda



## Overview

Pressures & Opportunities; Budget Highlights; Rate Mitigation for 2025/2026 & Beyond; Budget Risks & Mitigation Efforts

Chris Robinson & Michelle Rhubright

## Budget Development

Financial Assumptions for Budget; Budget Development; Personnel Expenses Continue to Increase; Prioritizing Operational FTE Requests; Budget Comparison

Michelle Rhubright

## Proposed Budget

Revenue; Expenditures; Shared Services; Purchased Power; Personnel; Supplies, Services & Other Charges; Capital; Large-Dollar Capital Projects

Keeley Mauro

## Proposed Rates

Proposed Rate Adjustments; Proposed Rate Increases from Peer Utilities

Michelle Rhubright

## Financial Strategy

Financial Strategy; Base Case Financial Metrics; Summary

Michelle Rhubright

## Appendix

# Pressures & Opportunities

## *Pressures*

Increased Material, Contract Services and Labor Costs

Increased Regulatory Requirements

Resource Adequacy

Hydro Relicensing

Dam Safety Program

Wildfire Risk & Mitigation

General Tech Investment (SAP Now!)

## Desired Outcome



"We **deliver clean, reliable services** essential to quality of life."

"We will be a **trusted community partner**, where employees are proud to **deliver equitable, affordable utility services.**"

## *Opportunities*

Efficiencies & Long-Range Planning

Rate Stabilization Fund Reserves

Debt Restructuring

Diversification of Resources

New Markets

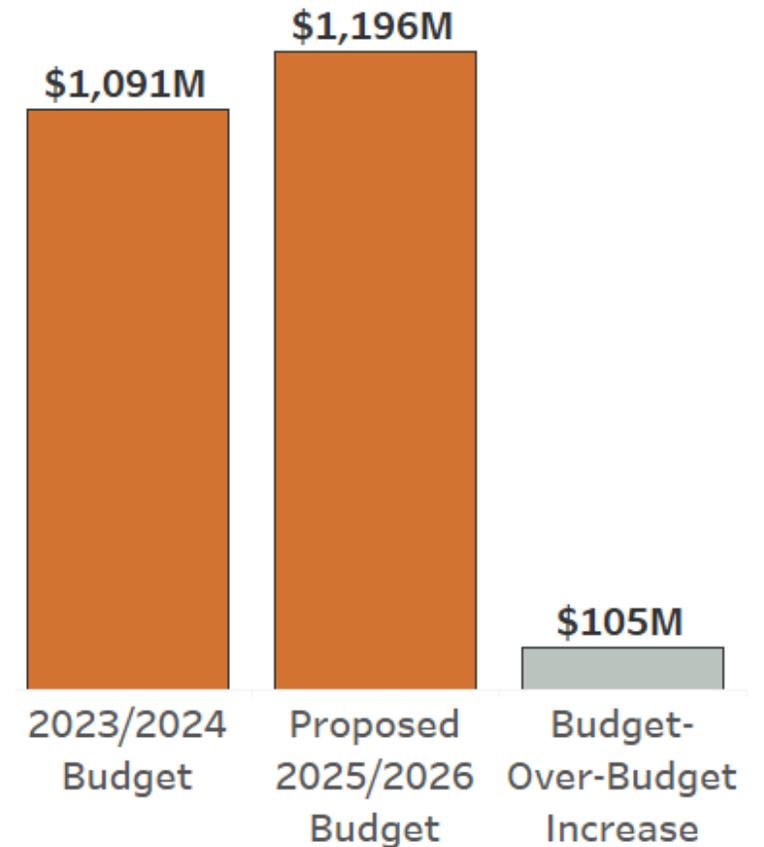
Infrastructure Modernization Investments

# Budget Highlights

This proposed budget supports utility operational needs, PUB guiding principles, and Tacoma Power's strategic plan.

2025/2026 budget represents **10% increase** from 2023/2024

- Personnel costs increasing by **\$51M**
- Debt Service increase of **\$28M** with a planned **\$15M** bond defeasance
- Assessments increasing by **\$14M**
- Labor and material cost increases significantly impact operational expenses and capital costs, especially for our routine capital



# Rate Mitigation for 2025/2026 and Beyond



## Strategic Objective: Financial Stability

- Successfully achieved the Power-wide goal of limiting the increase to Supplies, Services and Other Charges to no more than 6%.
- Our current increase in Supplies, Services and Other Charges is **4.3%**

## Cost Saving Measures

- Hydro-maintenance schedule optimization
- Recycling & salvage efforts
- Transformer & circuit breaker rebuilds
- Pole rehabilitation
- Refinancing of 2013 bonds in 2024

## Debt Restructuring

- Defeasance of **\$15M** in bonds in 2026
- Greater use of debt to finance our capital portfolio to alleviate immediate impacts of cost increases for rate-payers

## Resource Management

- Power-level prioritization of necessary FTE increases to accommodate workloads
- Active workload management with staff at all levels to align priorities and create efficiencies

# Budget Risks & Mitigation Efforts

	<b>Risks</b>	<b>Mitigation</b>
<b>Weather</b>	<ul style="list-style-type: none"><li>• Stream flows/ hydro-availability</li><li>• Temperature/ loads</li><li>• Wildfire risk</li></ul>	<ul style="list-style-type: none"><li>• Adverse water planning</li><li>• Rate stabilization fund</li><li>• Financial scenario planning</li><li>• Planning &amp; technology</li></ul>
<b>Customer Demand</b>	<ul style="list-style-type: none"><li>• Loss of large customer(s)</li><li>• Economic downturn</li><li>• Supply Chain impacts</li></ul>	<ul style="list-style-type: none"><li>• Economic development</li><li>• Expense reductions</li><li>• Second line of credit</li></ul>
<b>External Cost Factors</b>	<ul style="list-style-type: none"><li>• Wholesale market power prices</li><li>• BPA rate increases</li><li>• Potential regulatory &amp; legislative changes</li><li>• Inflation &amp; Labor Market</li></ul>	<ul style="list-style-type: none"><li>• Wholesale risk management program</li><li>• Regional coalitions</li><li>• Federal &amp; State policy engagement</li></ul>
<b>Affordability Concerns</b>	<ul style="list-style-type: none"><li>• Customer acceptance of needed rate increases</li><li>• Impacts to customers</li></ul>	<ul style="list-style-type: none"><li>• Stakeholder engagement</li><li>• Enhanced low-income support</li></ul>

# Financial Assumptions for Budget



- **\$179M Wholesale Revenues based on adverse water conditions for 2025 & 2026**
  - Plan to contribute additional wholesale revenues in excess of budget to the rate stabilization fund to mitigate future market and hydro-availability risks
- **Capital spending planned to be approximately 62% bond-funded and 38% revenue-funded in 2025/2026**
  - \$138M in bond-funded capital
  - \$84M in revenue-funded capital
- **New retail revenue of \$49.7M associated with annual 5.3% system average rate increases effective on April 1st of 2025 & 2026**
- **Use of cash reserves of \$50M**

**Overall, the growing cost of labor and materials has required greater rigor in prioritization and cost mitigation efforts.**

## **Supplies, Services & Other Charges**

- Staff were able to control applicable expenses, resulting in only a **4.3%** increase overall
- Contract Services, the most significant cost in this category, is minimally increasing by 1%

## **Capital**

- Original requested portfolio was approximately **\$295M**
- Reduced new capital projects to accommodate significant increases in routine capital
- Final proposed portfolio totals **\$222M**

## **Personnel**

### **Existing Positions**

- Transitioning previously approved positions from partial budget in 2023/2024 to full budget for 2025/2026 (**+11 FTE**) - **\$3M**

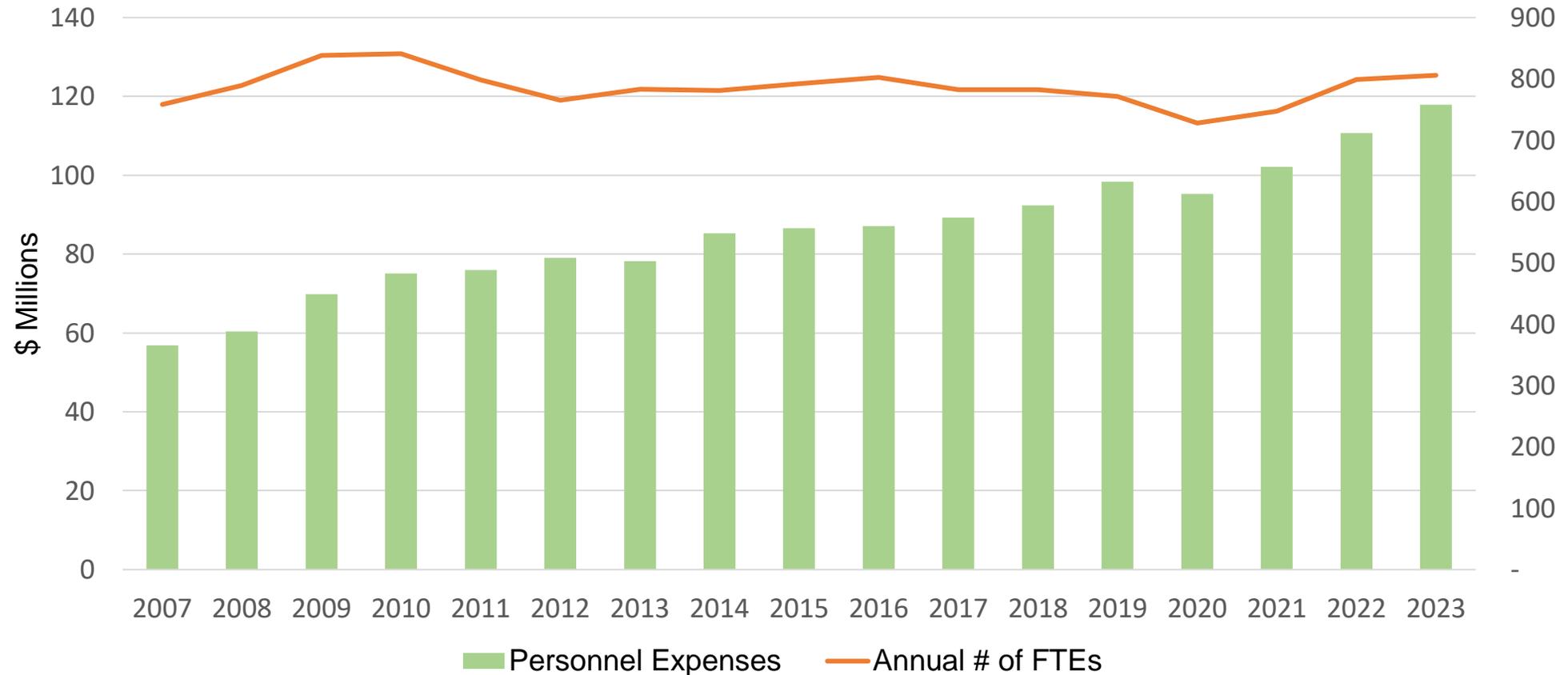
### **New FTEs**

- Original request for **43 New FTEs (\$11M)** was prioritized and reduced based on critical need
- Final proposal of **16 New FTEs** (including offset of 1 FTE) - **\$5M**

# Personnel Expenses Continue to Increase



## Annual Personnel Expenses



# Prioritizing Operational FTE Requests



**Our prioritized, new FTE requests for 2025/2026 reflect Power's response to customer demand and necessary investments in infrastructure.**

## Power Shared Services (PSS)

- 3 Pre-Apprentices (*approved in 2024*)
- -1 Communications Analyst (*shifting to External Affairs*)

**PSS Requests: +2**

## Transmission & Distribution (T&D)

- 7 Line Electricians
- 1 Senior Wire Electrician
- 1 T&D Protection & Controls Engineer
- 1 Engineering Products & Services Supervisor
- 1 Senior GIS IT Analyst
- 1 Senior Warehouse Technician

**T&D Requests: +12**

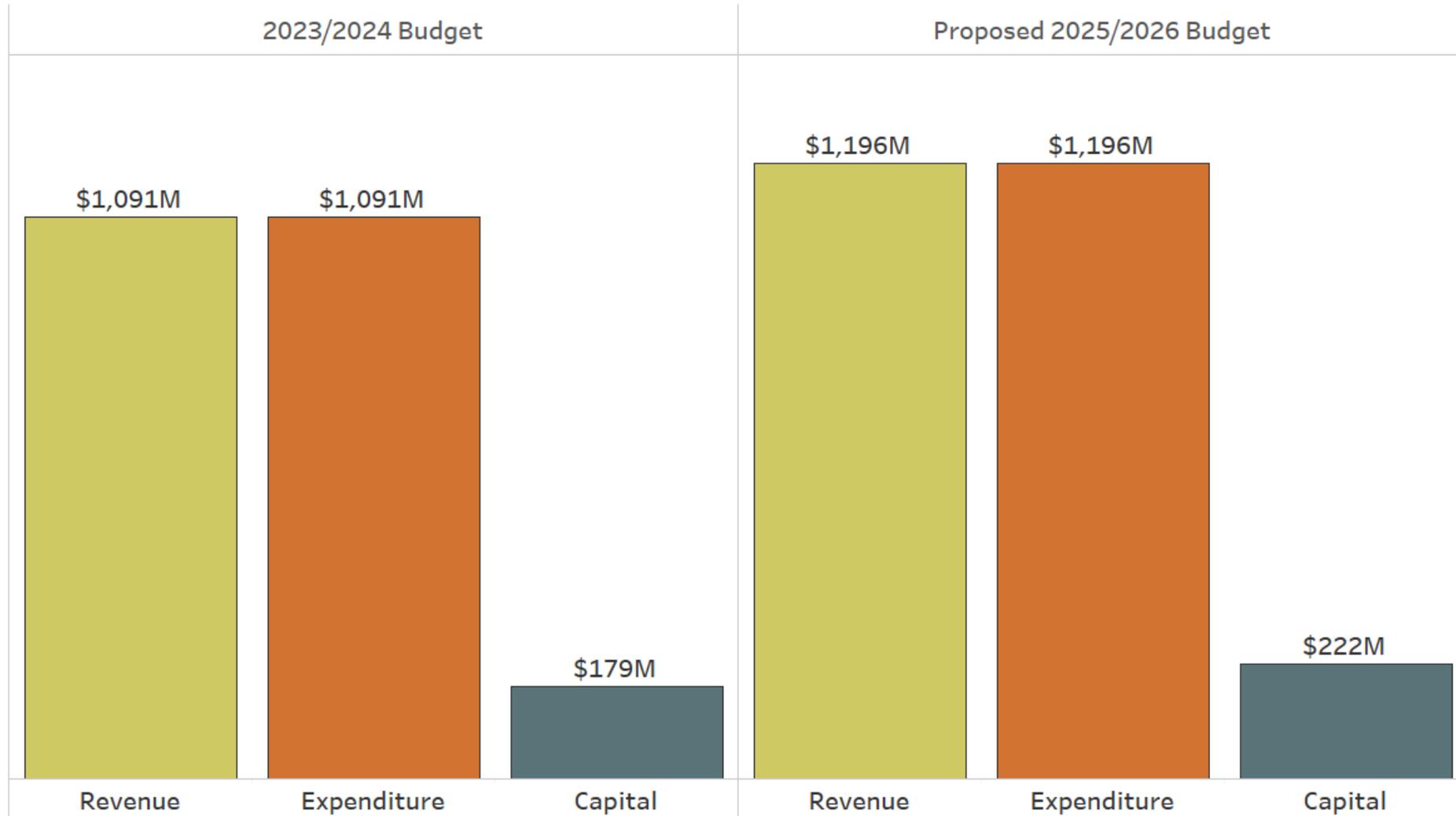
## Generation

- 1 Hydro Project Electrician
- Rightsizing 2 Hydro Grounds Maintenance Workers (+1.0 FTE)

**Generation Requests: +2**

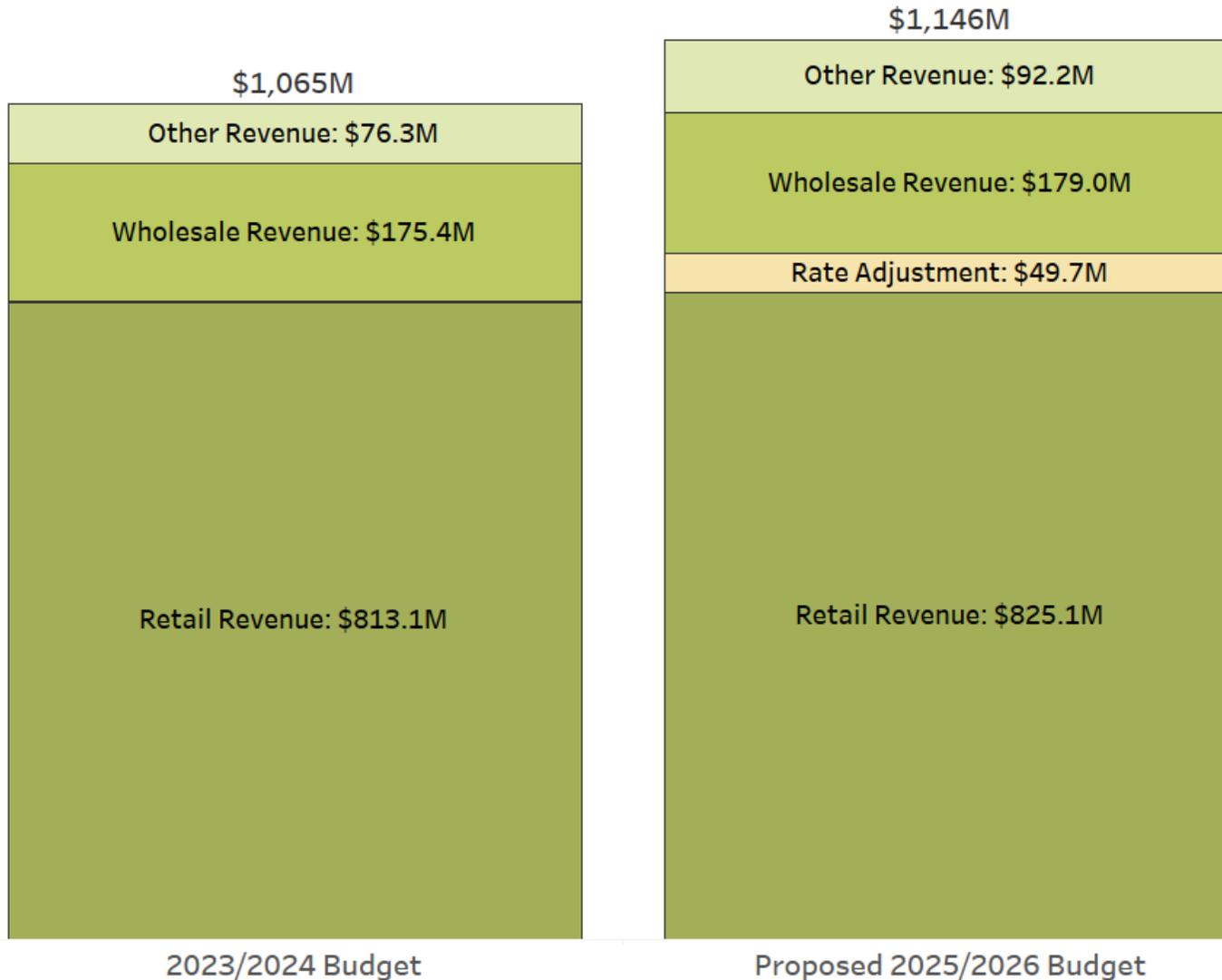
**Total Requested New FTEs: +16**

# Budget Comparison



*Note: The 'Capital' category is broken out for transparency and should not be netted with the 'Expenditure' figure. Capital expenses are included in the expenditures as debt service and revenue-funded capital.*

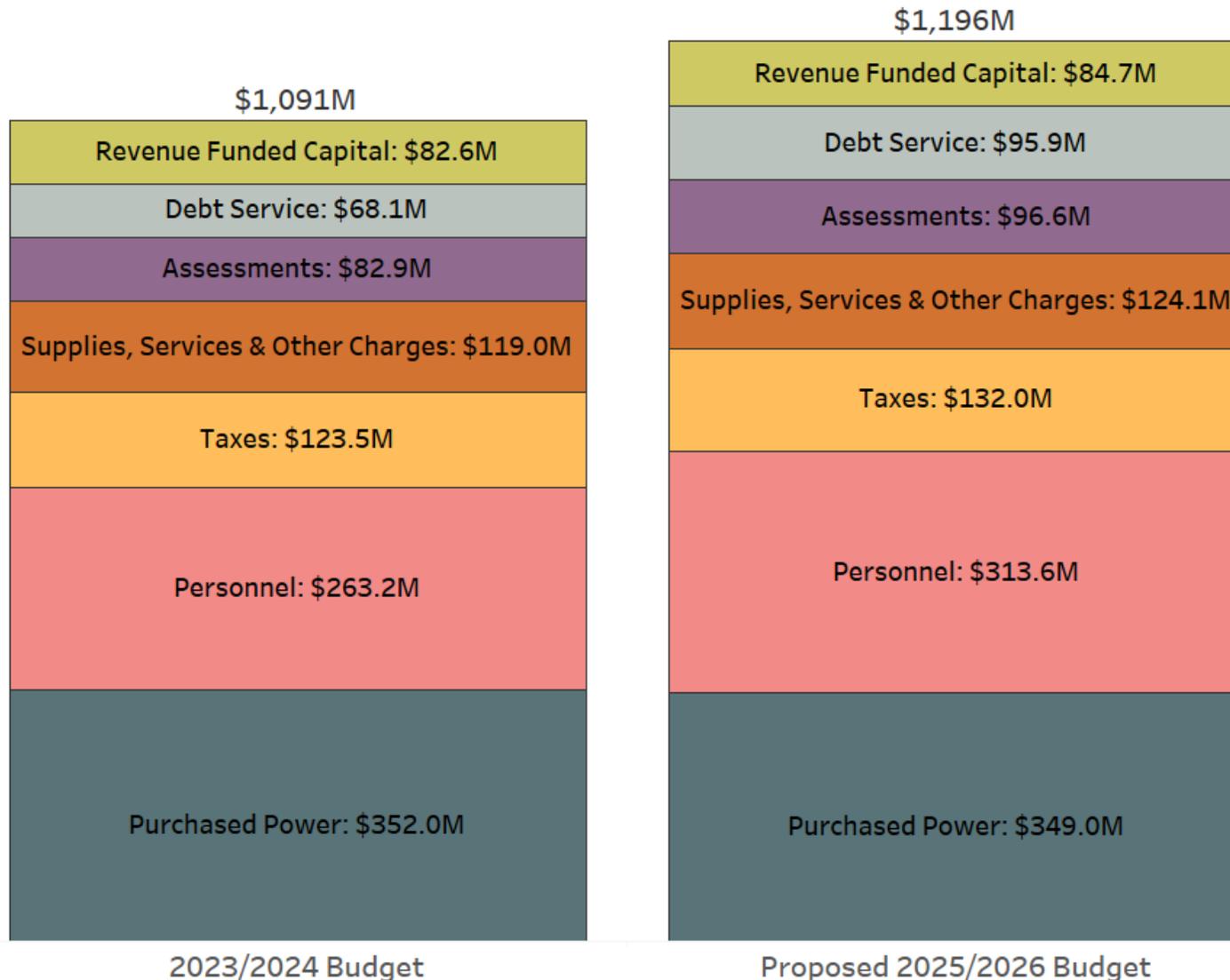
# Proposed Budget: Revenue



\*Does not reflect use of \$50M in cash reserves

- Assumes a 5.3% rate increase on April 1, 2025 and April 1, 2026
- **\$50M** in additional revenue from rate adjustment
- **21%** increase in Other Revenue reflects the higher interest revenue received on cash
- Wholesale revenues assume adverse water

# Proposed Budget: Expenditures



- Debt funding a greater portion of the capital portfolio results in a minimal increase in Revenue Funded Capital
- Increase in debt service includes a **\$15M** defeasance
- General Gov't Assessments increasing by **23%**
- TPU Assessments increasing by **11%**
- Personnel costs increasing by **19%**

**Tacoma Power manages shared services that distribute costs to partners through allocations, service rates, and rent.**

## **Utility Technology Services (UTS)**

- Services provided to TPU departments include Service Desk & Desktop Support, Cybersecurity, Data Integration & Engineering, Application Integration & Support, Telephony
- Allocated based on proportional proxies of consumption for each service

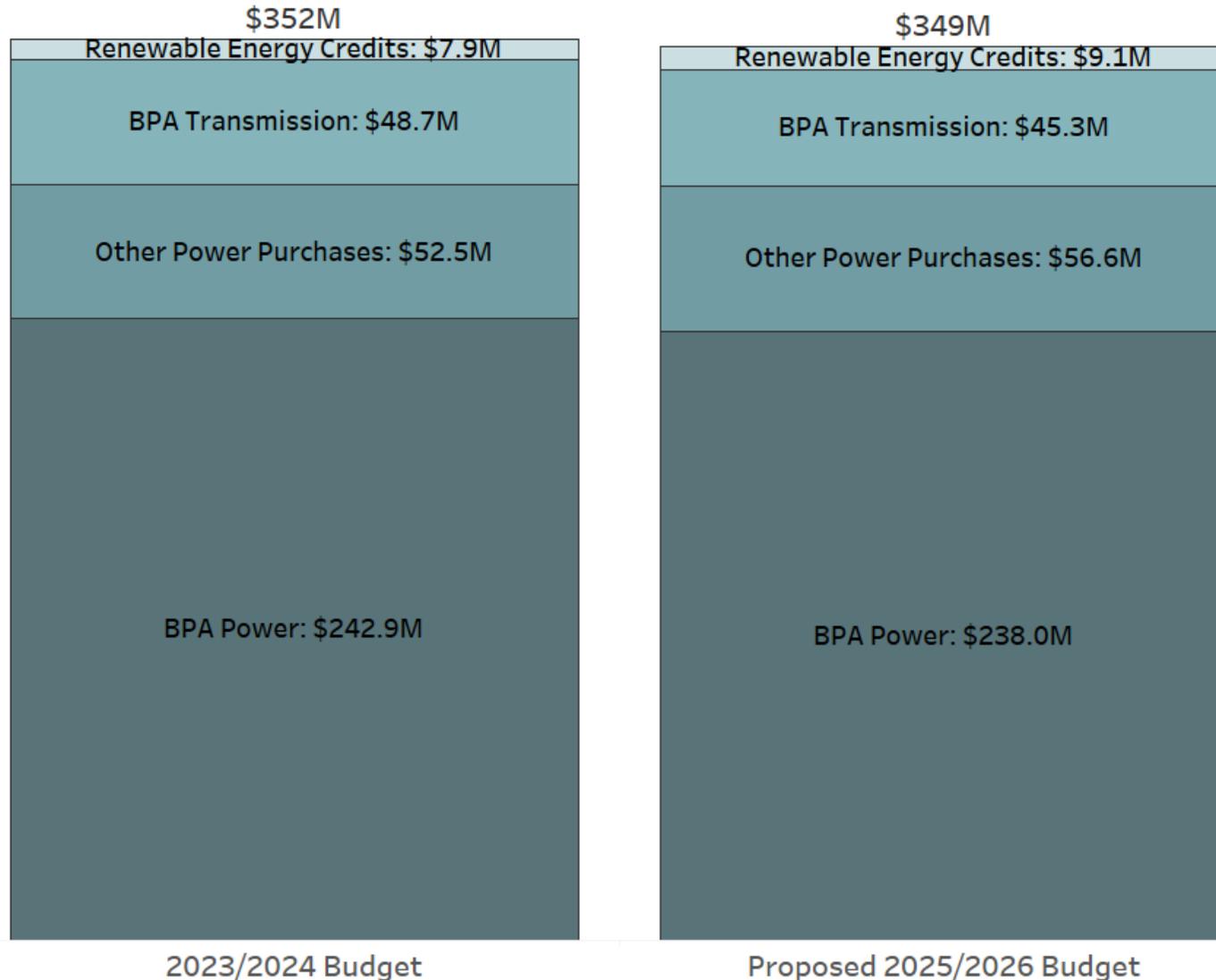
*UTS Highlights for 2025/2026: No new FTEs, augmented resources for strategic technology groups, in-town radio system maintenance*

## **Facilities**

- Responsible for the ownership and maintenance of Power's properties, including the TPU Admin Complex. Proportional costs are recovered from tenants through a rent allocation process.
- Provides several facilities services for other divisions and charges directly as appropriate

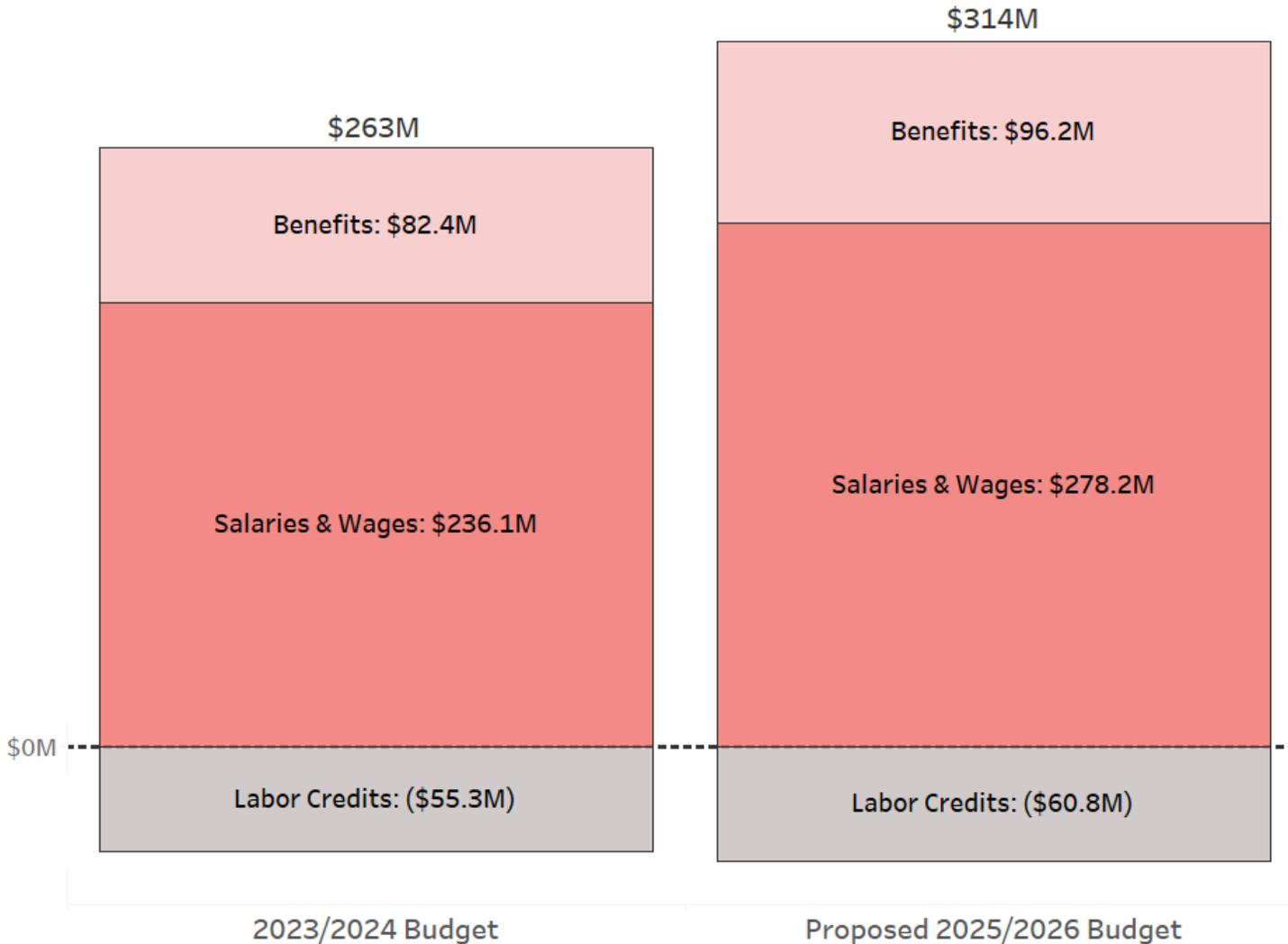
*Facilities Highlights for 2025/2026: Rent methodology update, planned space renovations for Retirement and Mail Services, master space planning effort for the TPU Admin Complex, Asset Investment Program*

# Proposed Budget: Purchased Power



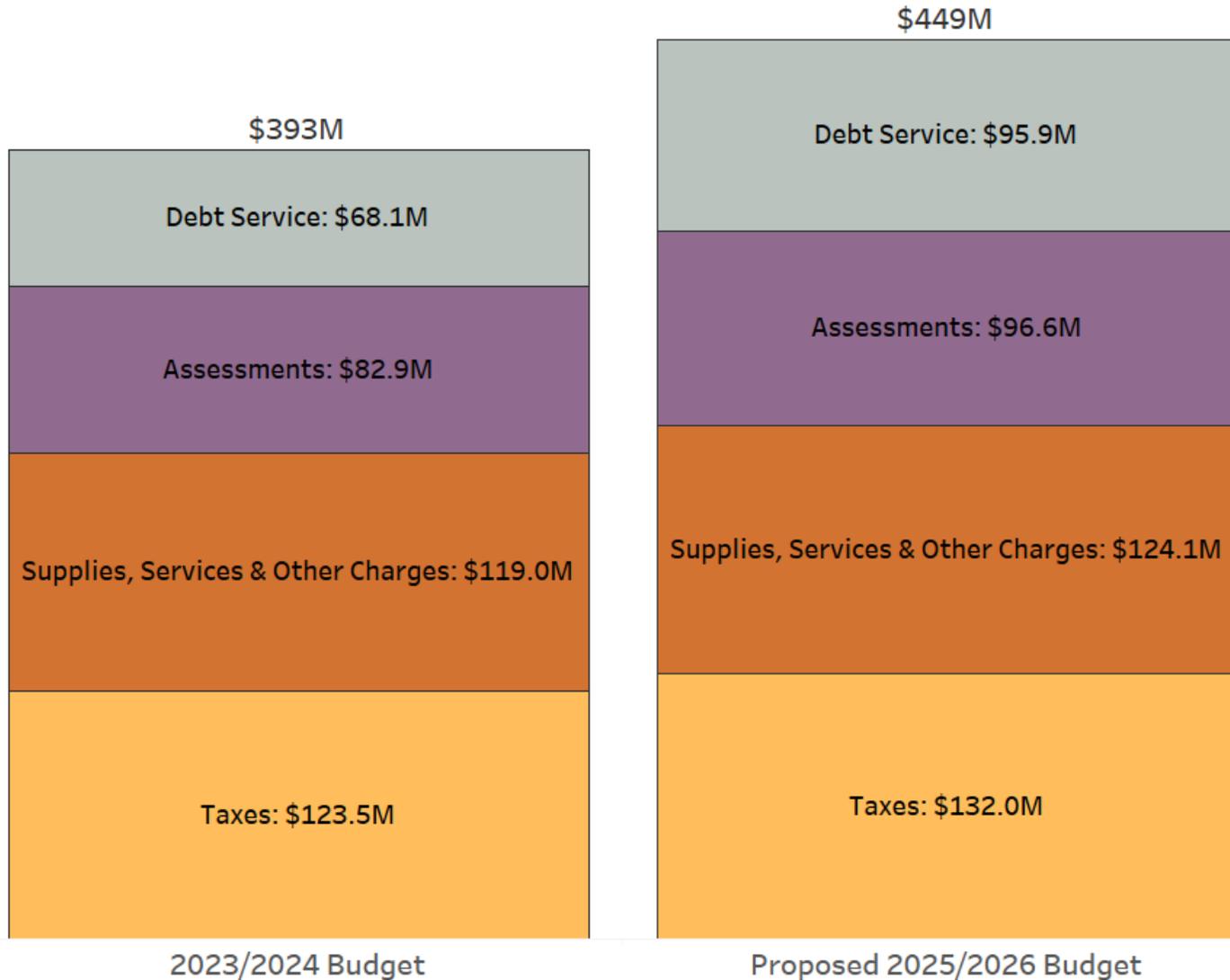
- **Includes anticipated rate increases effective October 1, 2025:**
  - **12.6% to BPA Power**
  - **5% to BPA Transmission**
- **Loss of WestRock results in 40 MW decrease in BPA purchased power (~\$12M per year)**
- **Other Power Purchases increasing due to higher market prices**
- **Renewable Energy Credit prices increased**

# Proposed Budget: Personnel



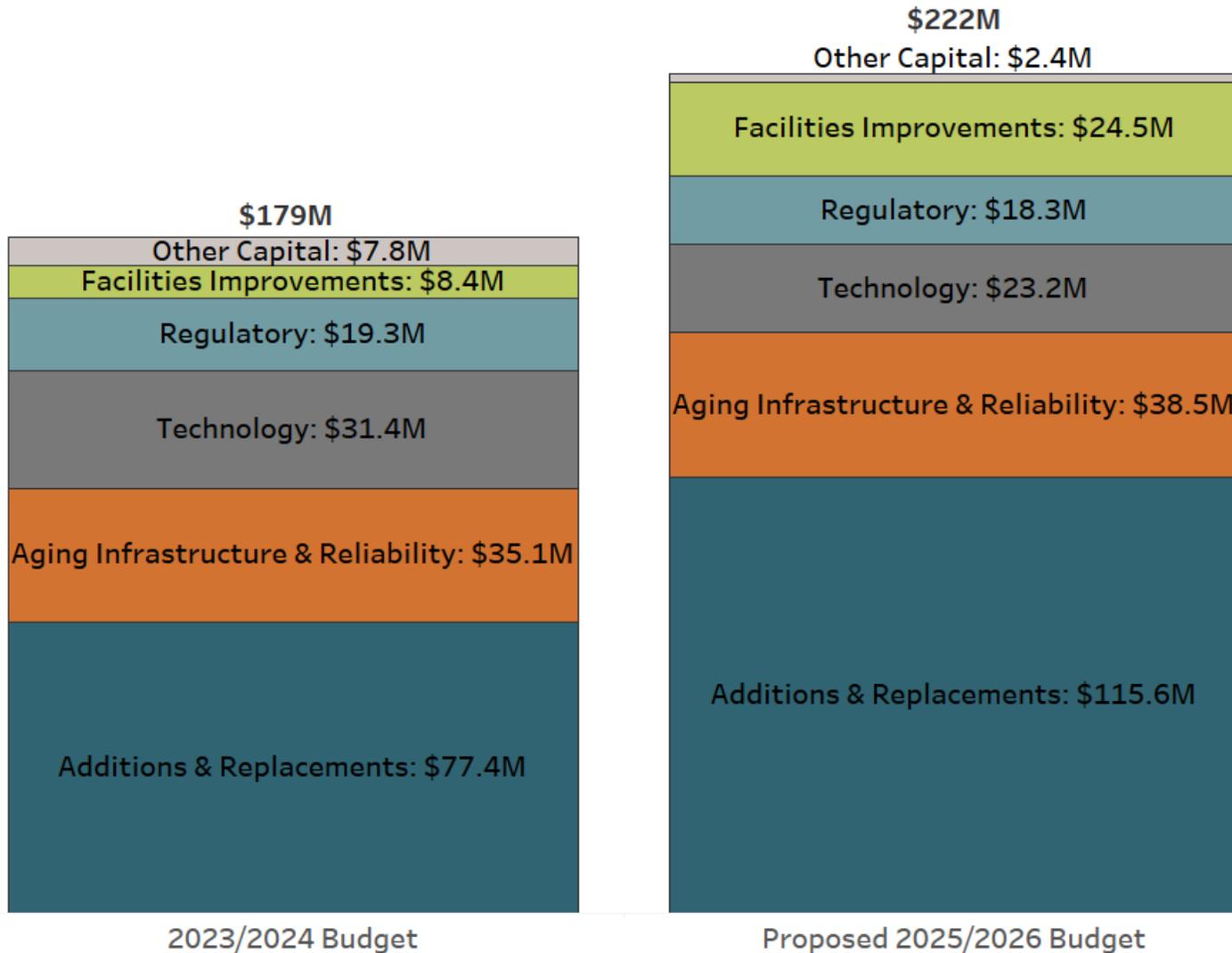
- **New FTEs contributing \$5M to personnel increase**
- **Salaries, Wages and Benefits for existing positions are increasing by 16%**
- **Significant increases for both Non-Represented and Represented staff (negotiations not yet complete)**
- **17% increase in Benefits includes Medical, Dental, and Worker's Comp**

# Proposed Budget: Supplies, Services & Other Charges



- Excluding \$15M defeasance, Debt Service increase of **19%**
- **17%** increase in Assessments
  - General Gov't - **\$8.2M**
  - TPU - **\$5.4M**
- Strategically limited increase to Supplies, Services & Other Charges of **4.3%**
- Taxes increasing by **7%**

# Proposed Budget: Capital



- **Original request of \$295M was reduced by \$73M**
- **24% biennial increase, primarily due to the cost of routine capital**

*Examples: Poles, Fleet Vehicles, Distribution Transformers, Meters, High-voltage Circuit Breakers*

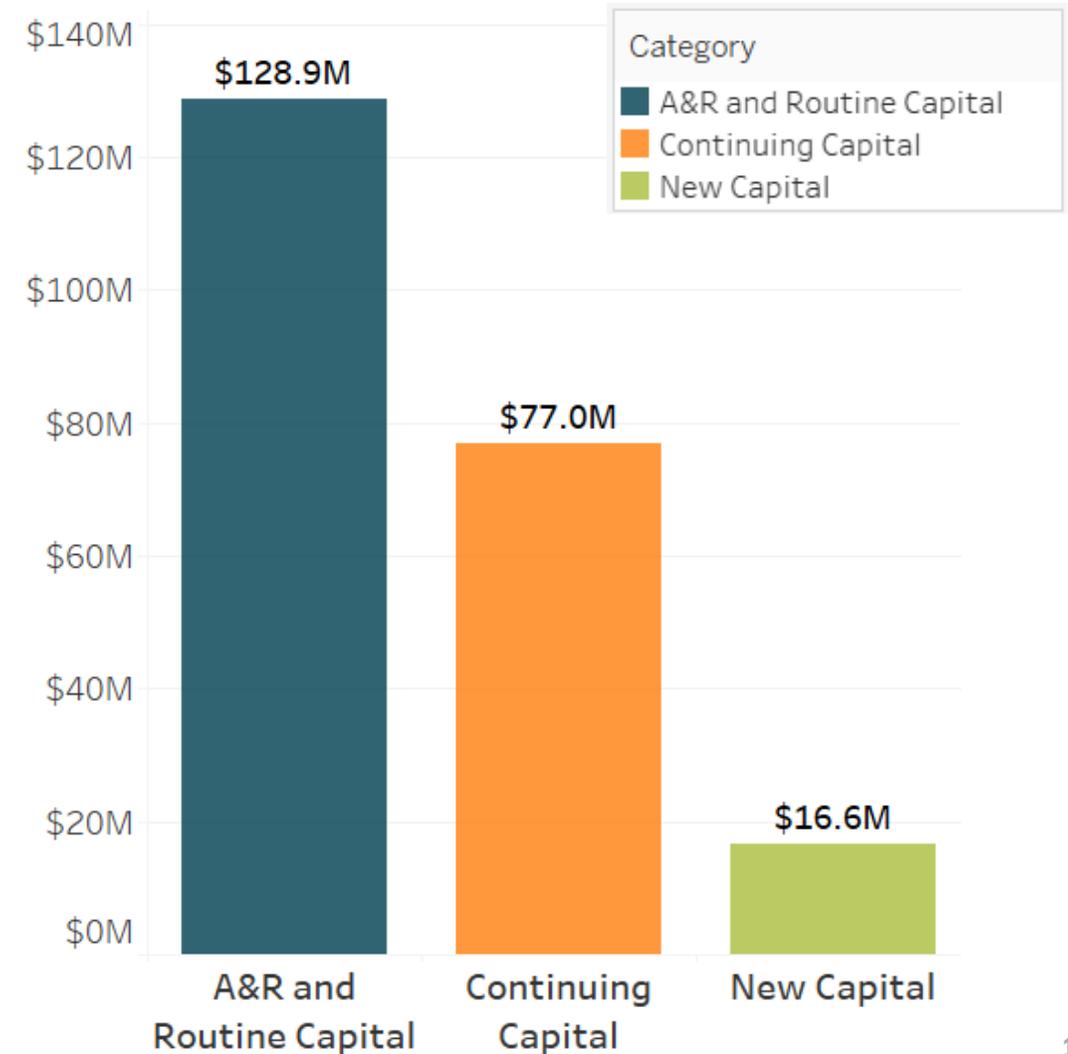
- **Facilities Improvements include:**
  - **TPU Admin Complex Storage & Parking Facility\* - \$17M**
  - **South Service Center Storage - \$6M**

\* Priority project due to the need to vacate Cushman Substation

# Large-Dollar Capital Projects for 2025/2026



Additions & Replacements (A&Rs) and Routine Capital	2025/2026 Budget
Overhead Distribution & Transmission A&R	\$26,570,000
Fleet Replacement A&R	\$20,000,000
Distribution Transformer A&R	\$16,640,000
Conservation Program	\$9,000,000
Substation A&R	\$5,105,000
Continuing Capital	
TPU Admin Complex Storage & Parking Facility* <i>*Priority project due to the need to vacate Cushman Substation</i>	\$16,950,000
Automated Distribution Mgmt System (ADMS)	\$10,572,000
Cushman #2 Unit 31, Unit 32 Rebuild	\$10,000,000
South Service Center Storage	\$6,350,000
New Capital	
Nisqually Unit 5 & Unit 12 Turbine Gen. Modernization	\$5,000,000

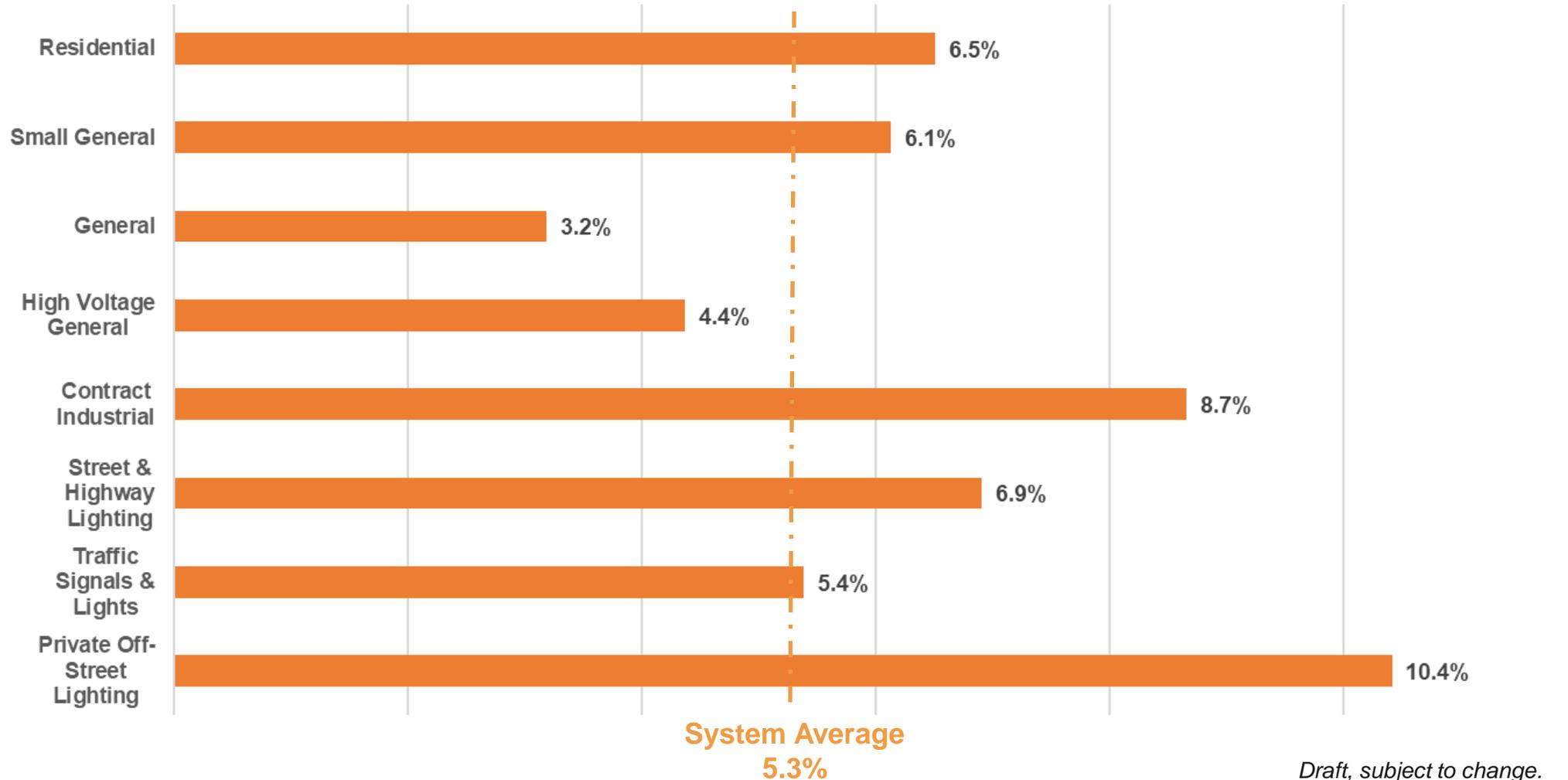


List includes all projects estimated at \$5M or over in 2025/2026

# Proposed Rate Adjustments



## 2025/2026 Proposed Annual Rate Increase



*Draft, subject to change.*

# Proposed Rate Increases from Peer Utilities



UTILITY	RATE INCREASE %	
	2024	2025
Portland General Electric	17.0%	6.3%*
Clark PUD	14.0%	TBD
Pacific Power	12.9%	6.5%*
Avista	12.6%*	11.7%*
Seattle City Light	9.5%	5.4%*
Snohomish PUD	5.8%	TBD
<b>Tacoma Power</b>	<b>3.5%</b>	<b>5.3%*</b>
Grant PUD	3.5%	TBD
Chelan PUD	3.0%	3.0%*
Puget Sound Energy	1.26%	6.74%*

\* Proposed

## PGE seeks bigger electric rate hike for 2025

Updated: Aug. 02, 2024, 8:12 a.m. | Published: Aug. 01, 2024, 2:18 p.m.

Oregon PUC holds hearing on Pacific Power's nearly 22% rate hike request

## Avista Utilities set to raise Washington electricity rates

June 30, 2023 | Updated Fri., June 30, 2023 at 7:18 p.m.

## Seattle City Light to increase rates due to higher demand, rising energy costs

By Will Wixey | Published July 15, 2024 9:11pm PDT | News | FOX 13 Seattle | [→](#)

## Chelan PUD considers two-year rate hike extension, citing rising costs

Posted Tuesday, August 20, 2024 8:04 pm

## Long-term planning

- We project revenues and expenses ten years into the future
- Gradual and consistent rate adjustments
- Continued focus on helping income-constrained customers

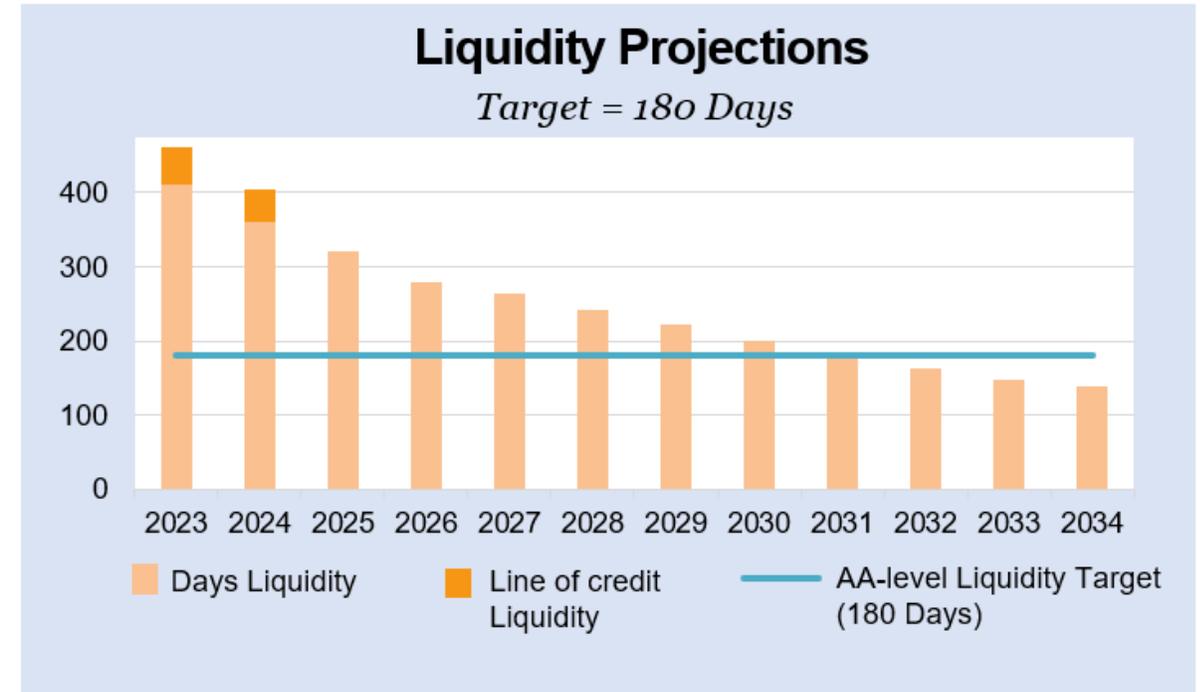
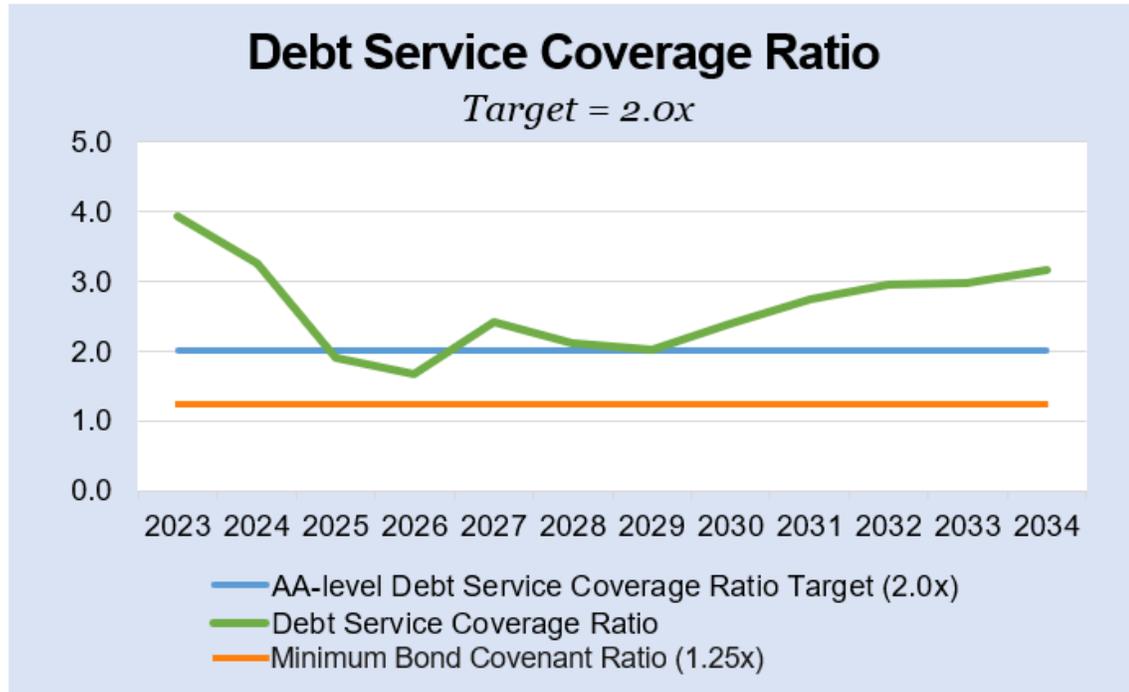
## Manage long-term expenses

- Use the Rate Stabilization Fund to manage higher expenses in 2030 through 2034
- Continuously review opportunities to restructure debt for future savings

## Financial metrics meet bond covenants and maintain AA rating

- Bond Covenant Debt Service Coverage ratio: 1.25x
- AA Debt Service Coverage minimum ratio: 2.0x or greater, Power's target is 2.0x
- AA Liquidity - Days Cash on Hand: 150-250 days, Power's target is 180 days

# Base Case Financial Metrics



*Assumes 5.3 percent average rate increases in 2025 and 2026, 5.3 percent average rate increases in 2027 through 2034. Required to maintain financial metrics.*

## **This proposed budget supports utility operational needs, PUB guiding principles, and Tacoma Power's strategic plan.**

- Required to maintain financial metrics.
- Inflation is significantly driving up both O&M and Capital costs for labor and materials
- Actions taken to manage costs and reduce revenue needs
- 5.3% overall system average retail rate increase for 2025/2026 budget

# Appendix

# Revenue



(\$ millions)	Current	Proposed	Increase (Decrease)	
	2023/2024 Budget	2025/2026 Budget	Budget to Budget	
<b>Operating Revenue</b>				
Retail Sales	\$ 782.4	\$ 825.1	\$ 42.7	5.5%
Anticipated Rate Increase	30.8	49.7	18.9	61.4%
<b>Total Retail Sales</b>	<b>\$ 813.2</b>	<b>\$ 874.8</b>	<b>\$ 61.6</b>	<b>7.6%</b>
Wholesale Sales	175.5	179.0	3.5	2.0%
Other	52.4	57.6	5.2	9.9%
<b>Total Operating Revenue</b>	<b>\$ 1,041.1</b>	<b>\$ 1,111.4</b>	<b>\$ 70.3</b>	<b>6.8%</b>
<b>Non-Operating Revenue</b>	<b>23.8</b>	<b>34.7</b>	<b>10.9</b>	<b>45.8%</b>
<b>Total Revenue</b>	<b>\$ 1,064.9</b>	<b>\$ 1,146.1</b>	<b>\$ 81.2</b>	<b>7.6%</b>
<b>Current Fund Appropriation</b>	<b>26.4</b>	<b>49.7</b>	<b>23.3</b>	<b>88.3%</b>
<b>Total Revenue &amp; Available Funds</b>	<b>\$ 1,091.3</b>	<b>\$ 1,195.8</b>	<b>\$ 104.5</b>	<b>9.6%</b>

# Expenditures



(\$ millions)	Current	Proposed	Increase (Decrease)	
	2023/2024 Budget	2025/2026 Budget	Budget to Budget	
<b>Expenditures</b>				
Personnel Costs	\$ 263.2	\$ 313.6	\$ 50.4	19.1%
Purchased Power	352.0	349.0	-3.0	-0.9%
Supplies, Services & Other Charges	119.0	124.1	5.1	4.3%
Assessments	82.9	96.5	13.6	16.5%
Revenue Funded Capital Outlay	82.6	84.7	2.1	2.5%
Debt Service	68.1	95.9	27.8	40.8%
Taxes	123.5	132.0	8.5	6.9%
<b>Total Expenditures</b>	<b>\$ 1,091.3</b>	<b>\$ 1,195.8</b>	<b>\$ 104.5</b>	<b>9.6%</b>

<b>Capital Outlay</b>				
Revenue Funded	\$ 82.6	\$ 84.7	\$ 2.1	2.5%
Debt Funded	96.8	137.8	41.0	42.4%
<b>Total Capital</b>	<b>\$ 179.4</b>	<b>\$ 222.5</b>	<b>\$ 43.1</b>	<b>24.0%</b>

# Capital



(\$ millions)	Current	Proposed	Increase (Decrease)	
	2023/2024 Budget	2025/2026 Budget	Budget to Budget	
<b>Capital Projects</b>				
<b>Additions &amp; Replacements</b>	\$ 77.4	\$ 115.6	\$ 38.2	49.4%
<b>Aging Infrastructure Upgrades</b>	35.1	38.5	3.4	9.7%
<b>Technology Projects</b>	31.4	23.2	-8.2	-26.1%
<b>Regulatory</b>	19.3	18.3	-1.0	-5.2%
<b>Facilities Improvements</b>	8.4	24.5	16.1	191.7%
<b>Other Capital Projects</b>	7.8	2.4	-5.4	-69.2%
<b>Total Capital Projects</b>	<b>\$ 179.4</b>	<b>\$ 222.5</b>	<b>\$ 43.1</b>	<b>24.0%</b>
<b>Capital Funding Sources</b>				
<b>Revenue Funded</b>	\$ 82.6	\$ 84.7	\$ 2.1	2.5%
<b>Debt Funded Bonds</b>	96.8	137.8	41.0	42.4%
<b>Total Capital Funding Sources</b>	<b>\$ 179.4</b>	<b>\$ 222.5</b>	<b>\$ 43.1</b>	<b>24.0%</b>

# Assessments

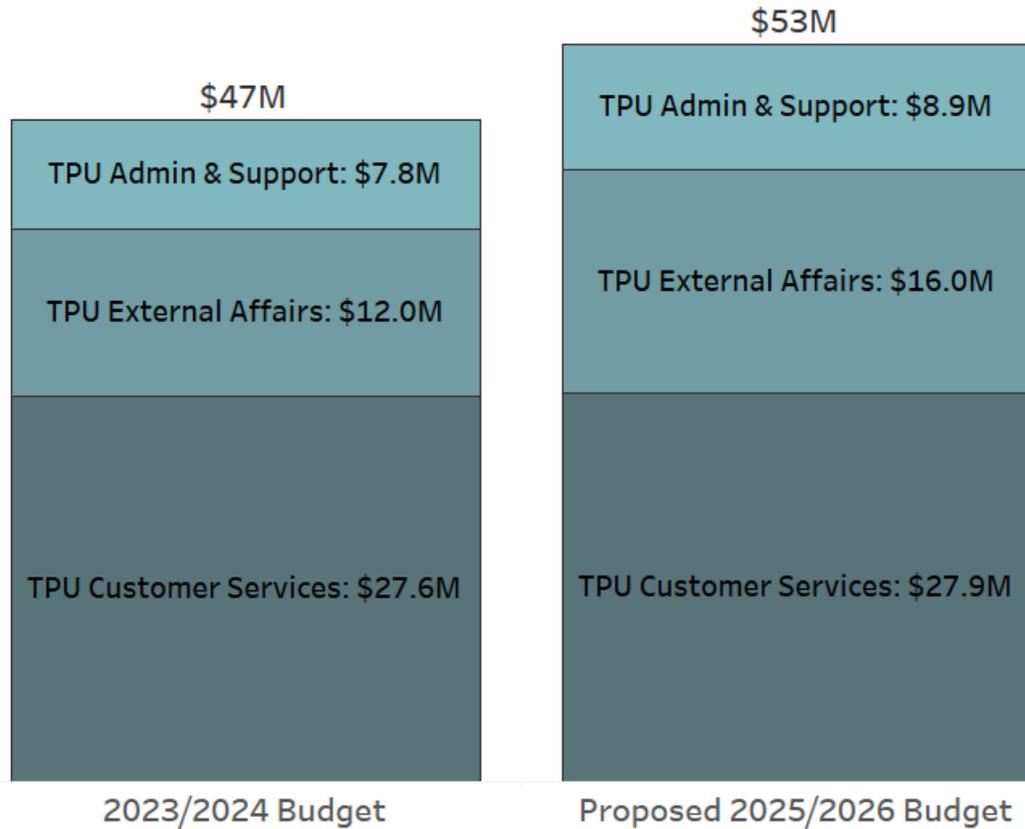


(\$ millions)	Current	Proposed	Increase (Decrease)	
	2023/2024 Budget	2025/2026 Budget	Budget to Budget	
<b>IT</b>	\$ 18.6	\$ 26.5	\$ 7.9	42.5%
<b>HR</b>	4.2	4.6	0.4	9.5%
<b>Legal</b>	2.5	2.7	0.2	8.0%
<b>Finance</b>	6.4	5.5	-0.9	-14.1%
<b>Other</b>	3.8	4.3	0.5	13.2%
<b>Total GG Assessments</b>	<b>\$ 35.5</b>	<b>\$ 43.6</b>	<b>\$ 8.1</b>	<b>22.8%</b>
<b>Customer Services</b>	\$ 27.6	\$ 27.9	\$ 0.3	1.1%
<b>External Affairs</b>	12.0	16.0	4.0	33.3%
<b>Administration &amp; Support</b>	7.8	8.9	1.1	14.1%
<b>Total TPU Assessments</b>	<b>\$ 47.4</b>	<b>\$ 52.8</b>	<b>\$ 5.4</b>	<b>11.4%</b>
<b>Total Assessments</b>	<b>\$ 82.9</b>	<b>\$ 96.4</b>	<b>\$ 13.5</b>	<b>16.3%</b>

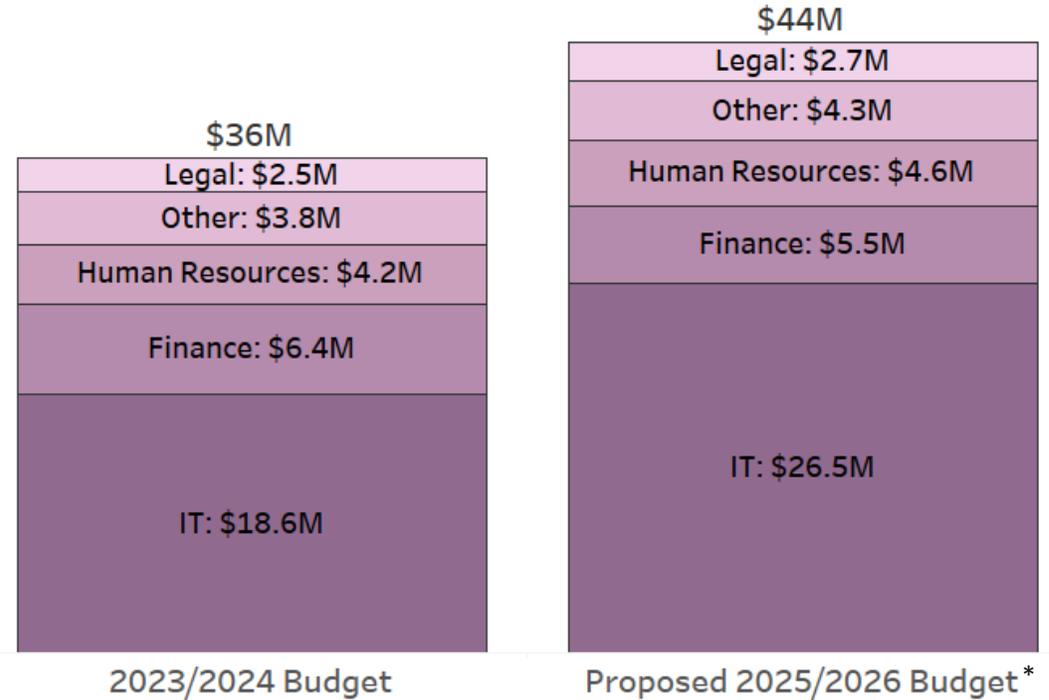
# Assessments Continued



## TPU Assessments



## GG Assessments



\*Includes one-time use of \$2.4M in cash by GG divisions to offset 2025/2026 assessments

# Taxes

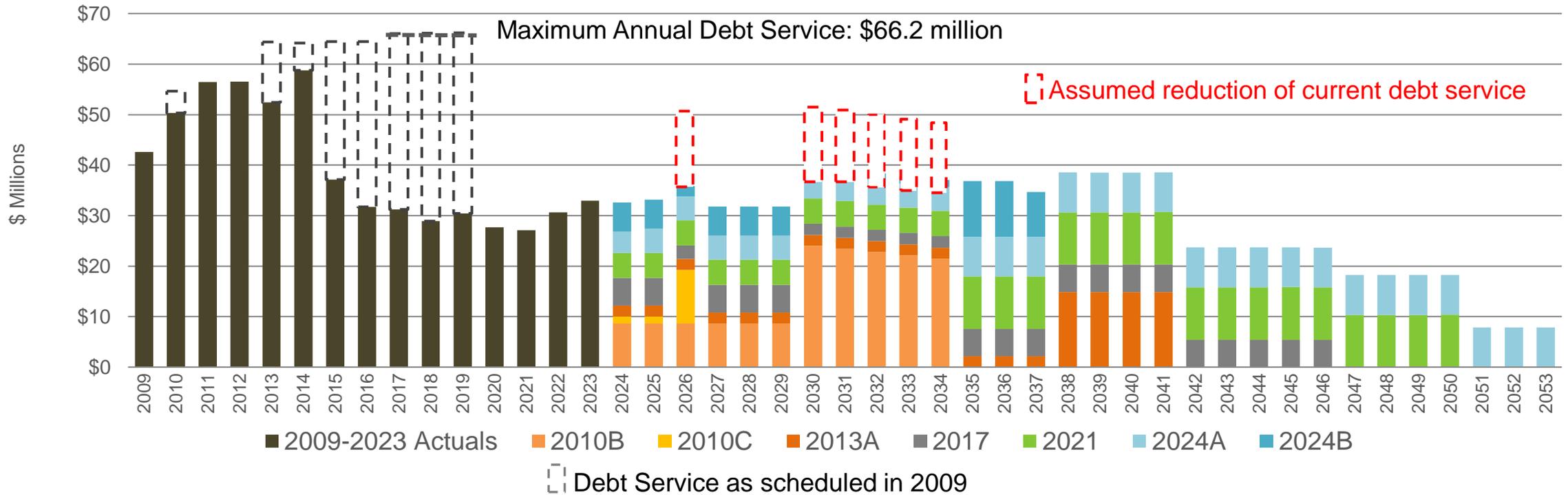


<i>(\$ millions)</i>	Current	Proposed	Increase (Decrease)	
	2023/2024 Budget	2025/2026 Budget	Budget to Budget	
<b>Taxes to the General Fund</b>	\$ 77.6	\$ 83.0	\$ 5.4	7.0%
<b>State Utility Taxes</b>	32.0	33.9	1.9	5.9%
<b>Other Taxes (including Franchise Fees)</b>	13.9	15.1	1.2	8.6%
<b>Total Taxes</b>	<b>\$ 123.5</b>	<b>\$ 132.0</b>	<b>\$ 8.5</b>	<b>6.9%</b>

# Debt Expense Management can Help Stabilize Long-Term Rates



## Historical and Current Debt Service



### The Long View:

Managing debt service has produced significant savings to date.

Bond defeasances in 2026 and 2030-2034 are assumed to manage debt service and stabilize rates.

# Recommended Changes to our Financial Policy



## Power rates should reflect resource planning to meet or exceed long term customer needs

### **Proposed: Revised Subsection IV.B.1.a**

The projected load forecast for the rate review process shall include the consumption effects of price, ~~and~~ local economic and demographic conditions *[, and other projected impacts to future consumption.]* Projected retail revenues will be based on average weather assumptions.

### **Proposed: Revised Subsection IV.B.1.c**

Both the short-term and long-term rate impacts of conservation programs *[, electrification assumptions,]* and generating resource development will be considered when establishing current funding levels.

### **Proposed: New Subsection IV.B.1.d.**

*Power rates will be designed to ensure sufficient and reliable power supply and transmission. This includes the procurement and maintenance of sources of supply, infrastructure, facilities, and personnel to meet or exceed regulatory requirements.*

## Power Rate Setting Practices - minor language changes

### **Proposed: Revised Subsection IV.A.1.**

Rates will be set at levels to provide projected cash balances ~~equivalent to a minimum~~ of *[more than]* 90 days of current budgeted expenditures.

### **Proposed: Revised Subsection IV.A.3.**

The Utility will plan to a minimum Debt Service Coverage Ratio of ~~4.8~~*[2.0]* based on net revenues including surplus sales estimated using ~~median~~ *[average]* water availability or at higher levels consistent with sound financial practice in the electric industry.

# Recommended Changes (continued)



## GP2 Financial Sustainability:

“TPU planning methods should incorporate conservatism and gradualism ... to ensure long-term financial stability and anticipate unexpected future events with adequate cash reserves ...”

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### **Proposed: Revised Subsection V.B.1**

*[Upon the availability of excess wholesale revenues, Tacoma Power will target a core balance of \$100 million in the Fund. Core balance is defined as the revenues set aside to mitigate the variability in hydro supply and wholesale market prices only. The Fund Total Balance can be higher to reserve revenues for other operational purposes. In addition,] at the conclusion of each fiscal year, Tacoma Power will evaluate the adequacy of the [core balance] amount in the Fund for meeting the forecast difference between critical and adverse water conditions over the next two fiscal years. [The core balance target threshold will be re-evaluated on a periodic basis, at a minimum upon significant operational or market changes that impact wholesale revenues.]*