

2021 Long-Range Financial Plan

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Draft Budget and Rate Schedule

1/26	Long-Range Financial Plan (LRFP) Public Utility Board Study Session
3/30	Public Utility Board – Budget / Rates Workshop
5/11	Public Utility Board – Power Budget Preview and 2022 LRFP
6/29	Public Utility Board – Present COSA/Rates
5/10 – 9/7	JBLM Rate Protocol
6/11 – 10/8	Public Outreach
8/2	Government Performance Finance Committee – TPU Budget Update
10/4	Government Performance Finance Committee – TPU Budget & Rates Presentation
10/11	PUB and City Council – TPU Biennial Budget & Rates Joint Study Session
10/12	Public Utility Board – Presentation of TPU Preliminary Budget & Rates
10/26	Public Utility Board – Approval of TPU Budget & Rates
11/15	City Council – City Budget & Rates Ordinance 1st Reading
11/22	City Council – City Budget & Rates Ordinance 2nd Reading





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In the following pages, you'll find explanations about:

Rate Projections
Financial Policies
Reserves
Credit ratings
Historical Actions
Opportunities
Risks

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1. The Highlights

The "executive" version, for people who only need the highlights

[Pages 9-20](#)

2. 2021 LRFP – What Changed?

Key differences from the previous LRFP [Pages 21-36](#)

3. For Beginners

Start here if you're new to long-range financial plans

[Pages 37-46](#)

4. Background

Learn all about the policies, projected revenues and expenses that went into this plan

[Pages 47-72](#)

5. Funding the Plan

How we plan to reduce future rate increases through the use of reserves and debt financing

[Pages 73-84](#)

6. The Base Case

The base model against which we analyzed and compared every scenario in the Long-Range Financial Plan

[Pages 85-90](#)

7. Risk Factors

The various internal and external factors that impact Tacoma Power

[Pages 91-104](#)

8. Scenario Analysis

Different scenarios and how they could impact the bottom line

[Pages 105-114](#)

9. Glossary

Terms that might require further explanation

[Pages 115-120](#)

10. Appendix

A little more detail on what is in the scenarios included in the plan

[Pages 121-131](#)

Board Strategic Directives



Financial Stability

Provide safe and reliable power over the long term.



Rates

Rates will be adequate, fair, just, and reasonable.

Electric Rate and Financial Policy

Outlines objectives and policies when setting rates including financial targets and the Rate Stabilization Fund usage.

Sections

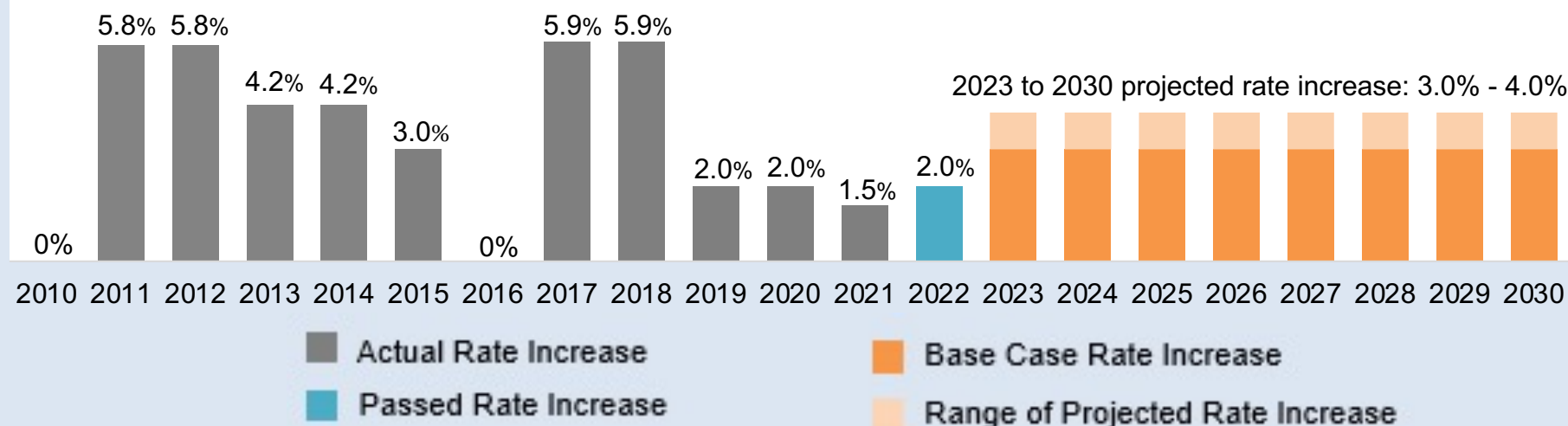
- I. Rate Setting Objectives
- II. Rate Review Process
- III. Rate Setting Policies
- IV. Financial Targets and Rate-Setting Practices
- V. Rate Stabilization Fund



Past Actual & Projected Rate Increases*

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

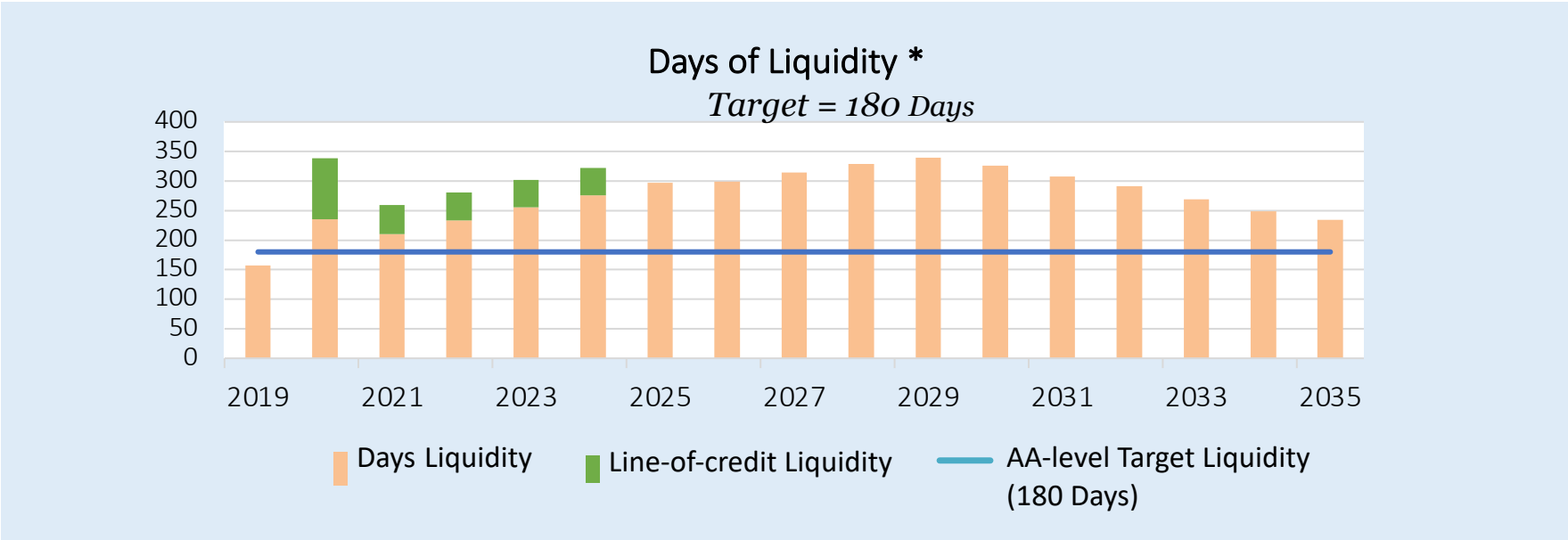
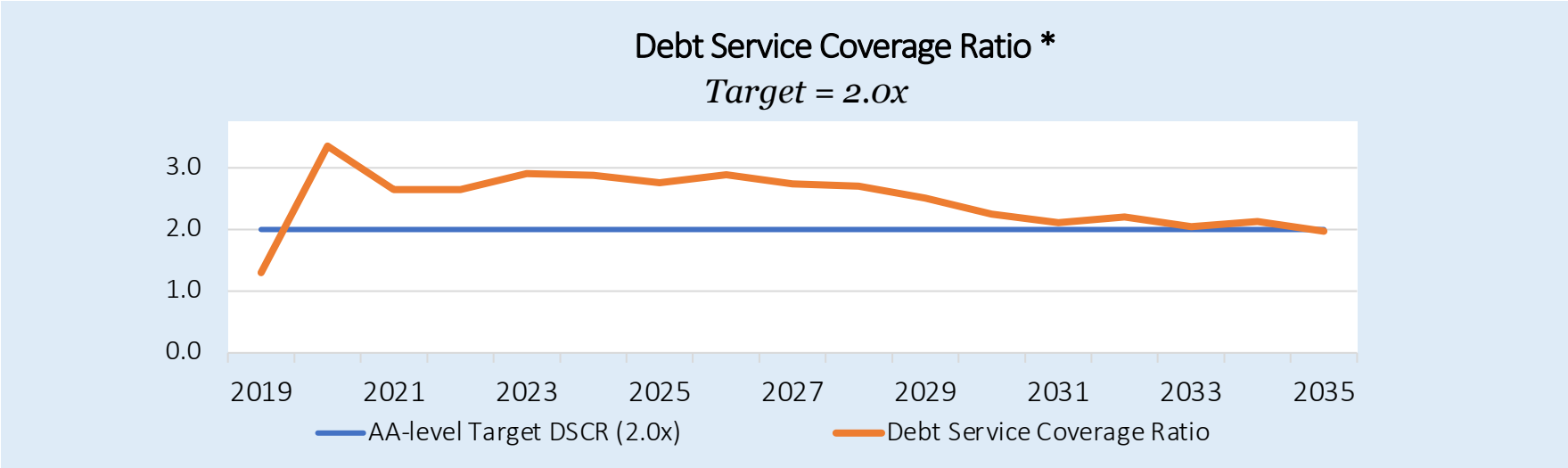
*Light shading in future years represents uncertainty associated with revenues and expenses, mostly due to potential for adverse** or critical water conditions, changes to sales projections, and future debt service.*



As of August 31, 2021

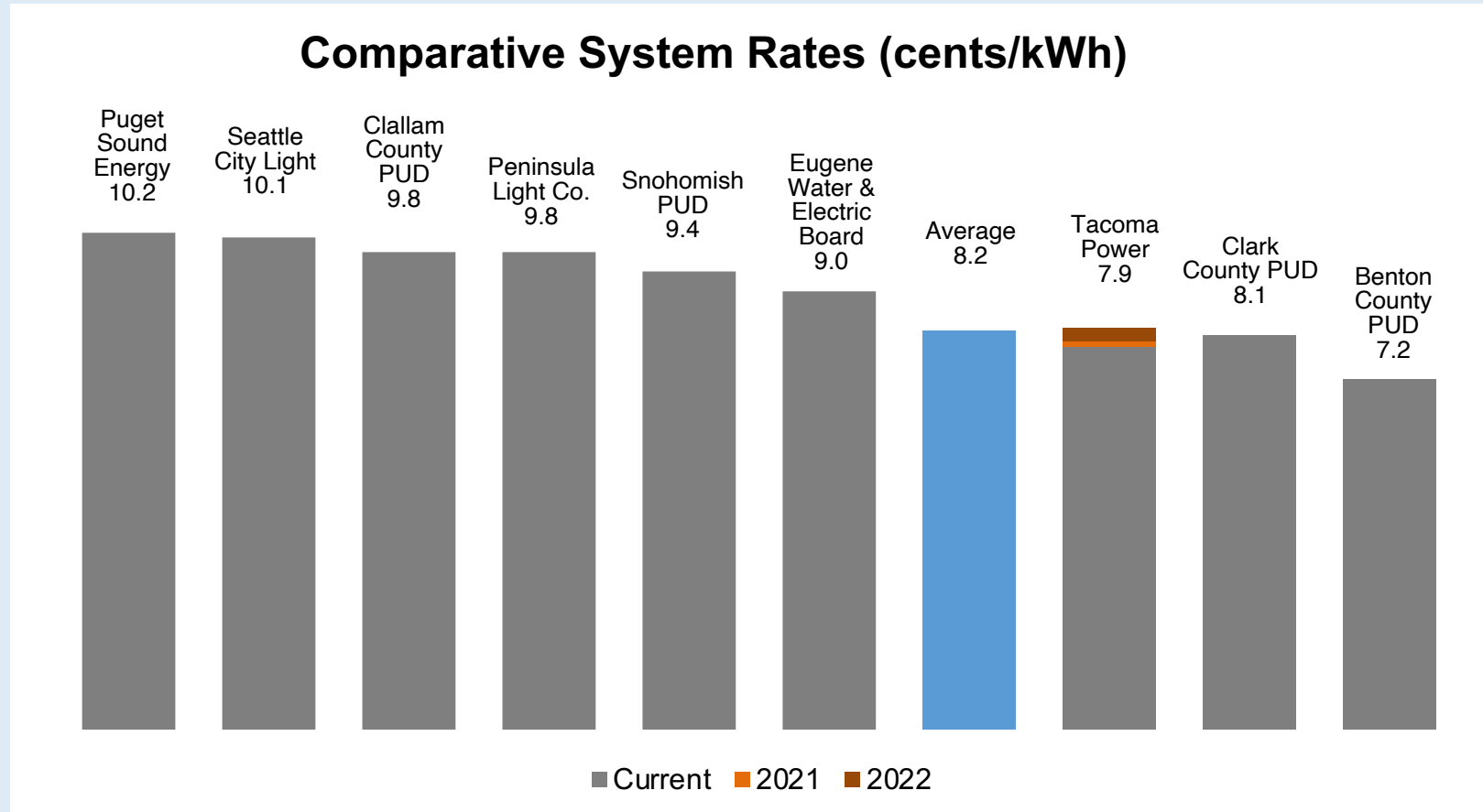
*Assumes we reduce future debt service spikes.

Base Case Financial Metric Projections



*Assumes we reduce future debt service spikes.

Rates Remain Low and Competitive



Tacoma Power shaded area represents the additional cents per kWh from a 1.5 and 2% annual rate increase in 2021 & 2022, respectively.

Source: Energy Information Administration, Form 861, 2019.



2019 Was a Near-Critical Water Year

Rainfall Levels Near Historic Lows

- Wholesale Power Purchased Increased
- Wholesale Revenues Decreased

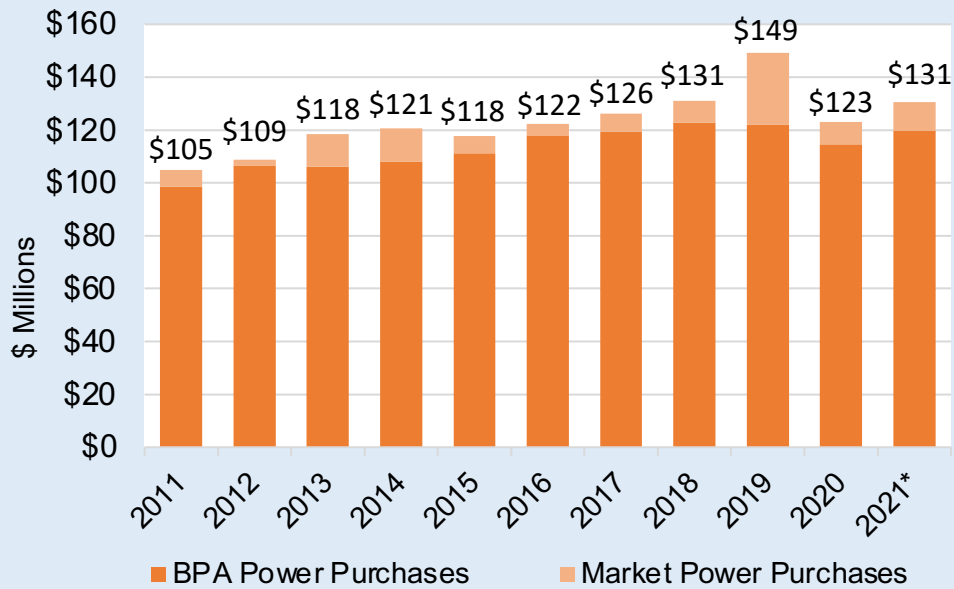
Water Planning Standards

Critical: Inflows similar to lowest recorded historical year.

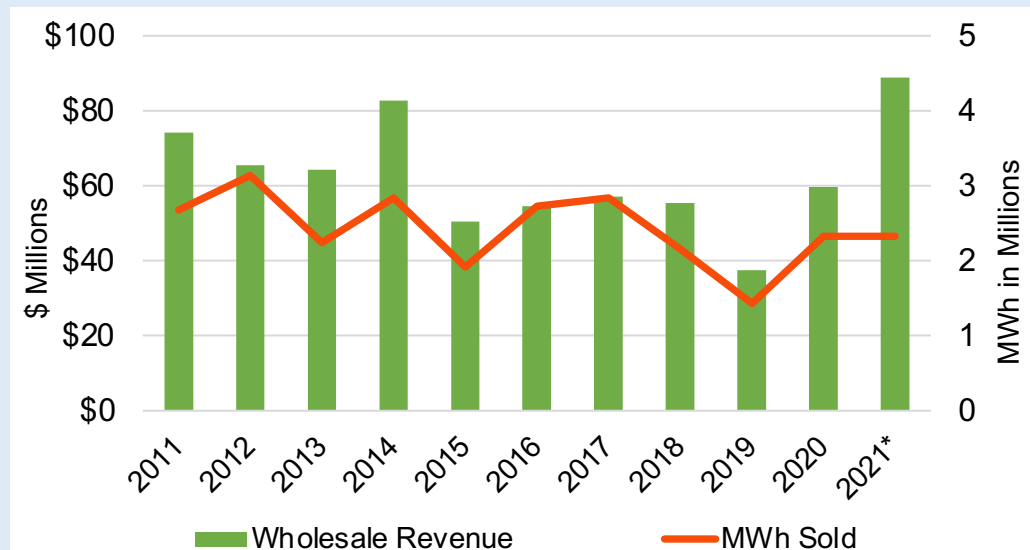
Adverse: Inflows similar to lowest 25% of recorded historical years. This outcome occurs one out of every four years.

Average: Inflows similar to the average of all previously recorded historical water flow years. This outcome occurs 50% of the time.

Annual Wholesale Power Purchases 2011-2020



Annual Wholesale Revenues 2011 - 2020



* Preliminary, unaudited

We used the RSF to Bolster 2019 D/S Coverage

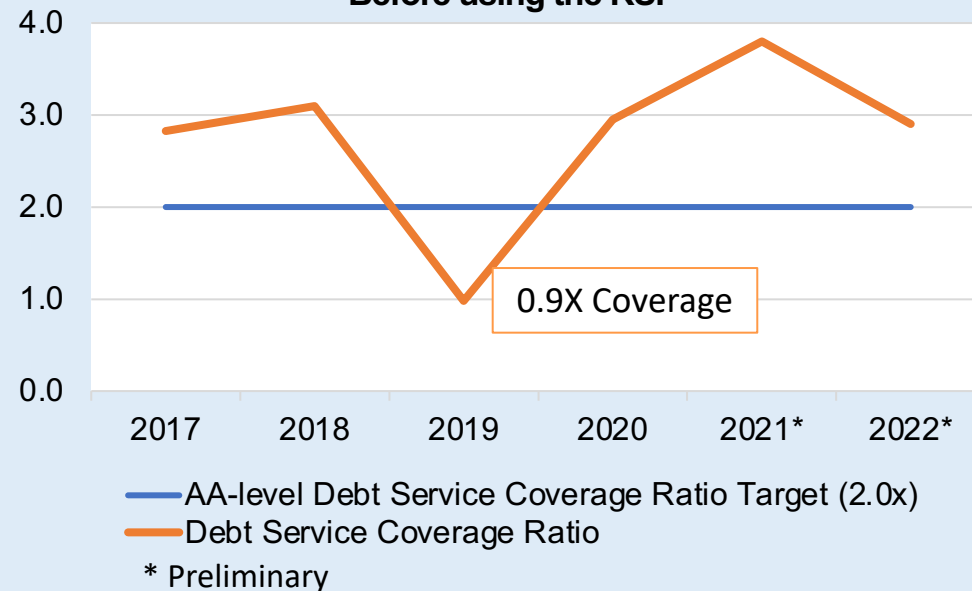
Rate stabilization Fund (RSF) Purpose

- Established in 2012 with approval of Board & Council
- Defers the recognition of revenue until the date that it is withdrawn
- Helps stabilize financial rate impacts and metrics

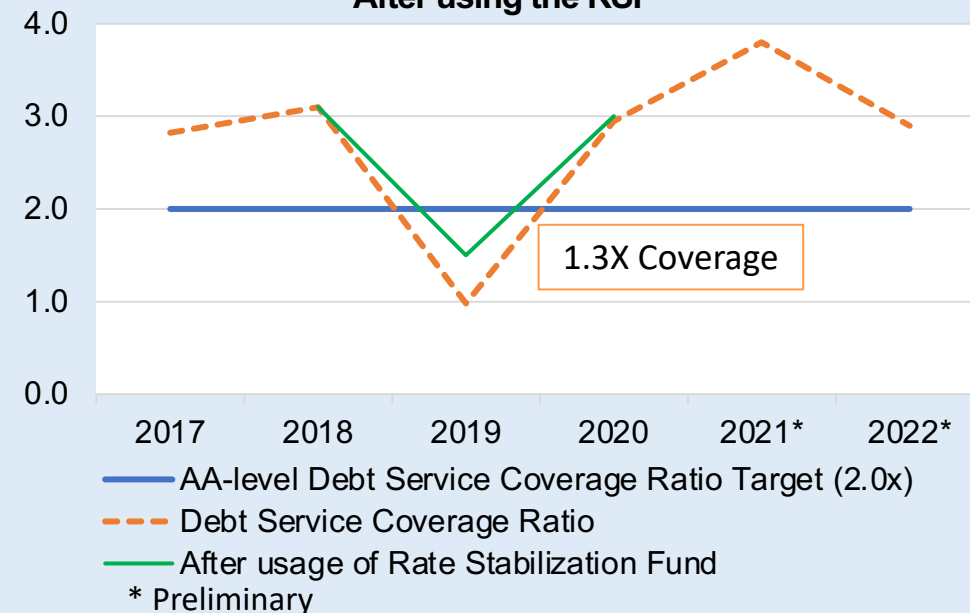
Rate stabilization Use

- Withdrew \$10 million – first time in 2019
- Current balance is \$38 million

**2019 Debt Service Coverage Ratio
Before using the RSF**



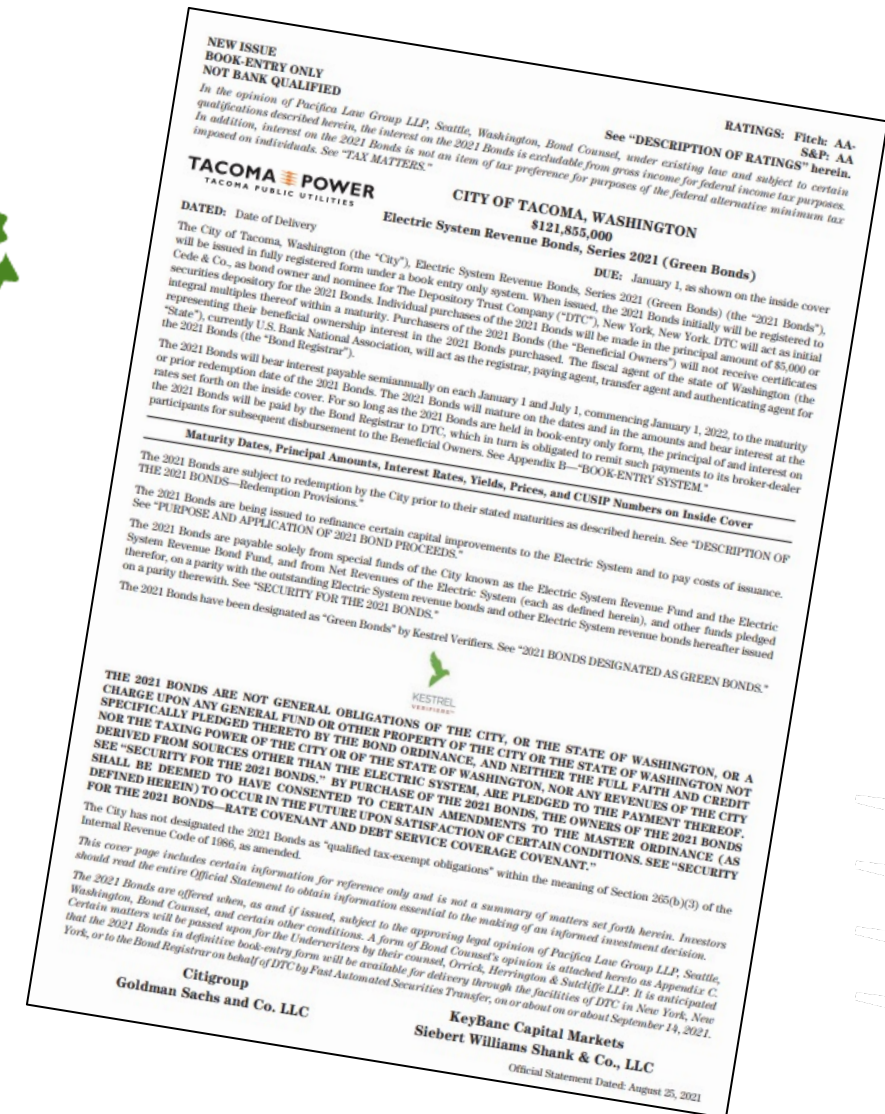
**2019 Debt Service Coverage Ratio
After using the RSF**



2021 Financing Transactions Completed Financing Plan

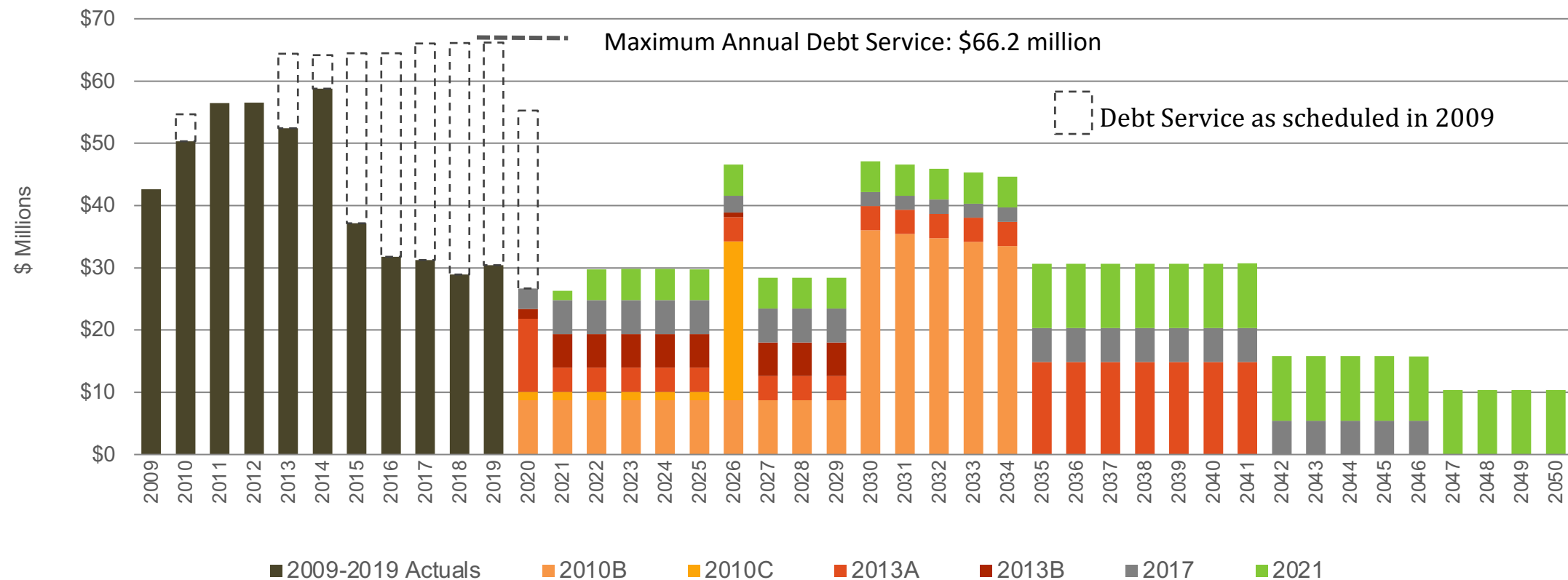
1. Issued \$121.855 million Tacoma Power Electric System Revenue “Green” Bonds, Series 2021 to pay down \$145 million borrowed under the 2015 Wells Fargo Note Purchase Agreement
2. Executed a new three-year \$150 million Note Purchase Agreement with Wells Fargo for continued interim financing of capital spending
3. Modified and extended current KeyBank Note Purchase Agreement to reduce costs for supplemental liquidity

*We estimate that we saved **\$27 to \$30 million** between 2015 and 2021 by using the Wells Fargo agreement to pay capital expenditures as they occur.*



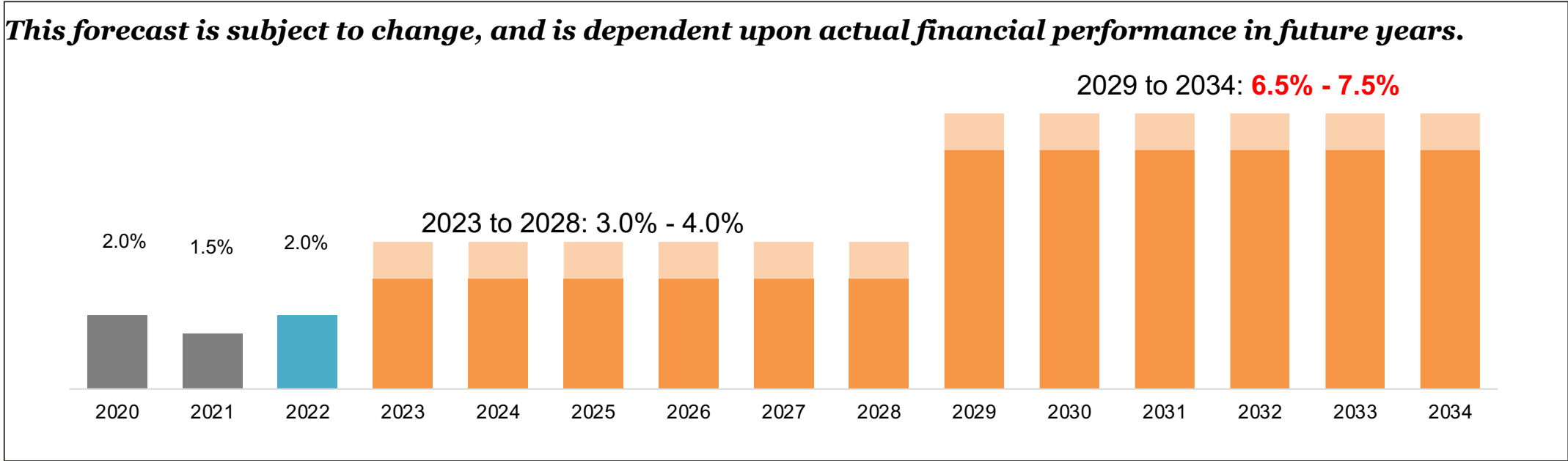
Historical and Current Debt Structure

Current Debt Service



Projected Rates

Projected rate increases without mitigating 2030-2034 debt service spikes



***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.*



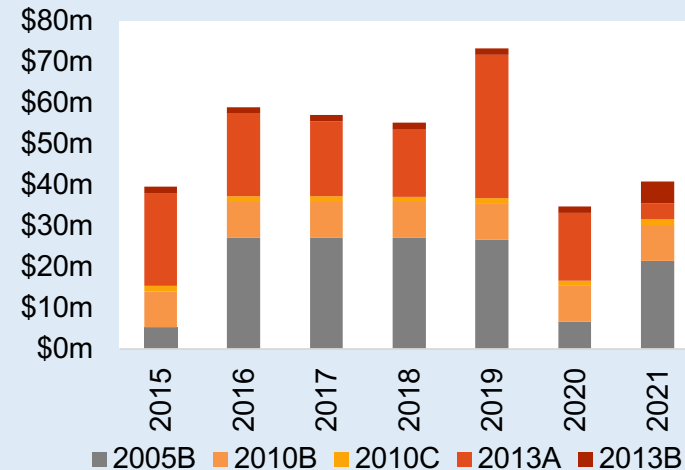
Active Debt Management

Active debt management produced savings in debt service

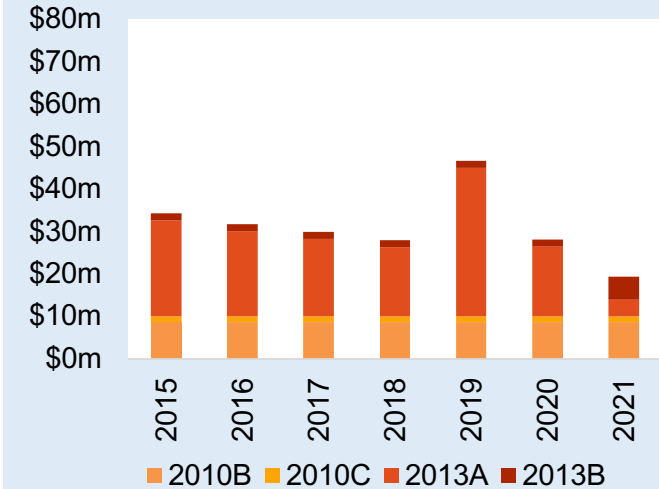
Called Bonds

We used accumulated cash reserves to pay off the outstanding \$122.1 million 2005B Bonds on July 1, 2015, resulting in a 24 percent reduction in Tacoma Power debt, reduced reserves, and higher debt service coverage.

Debt Service Before Bond Call



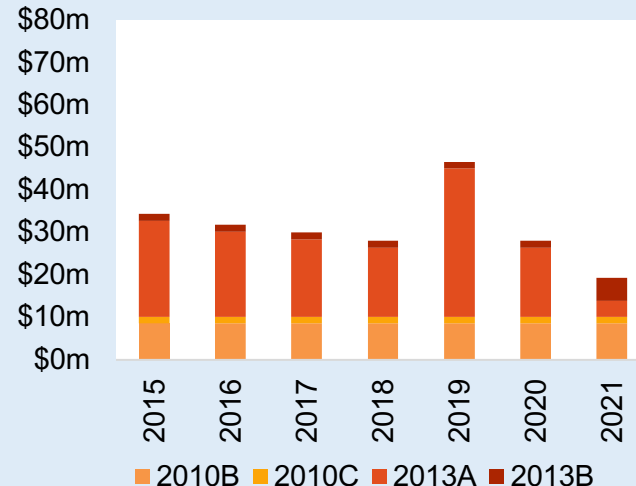
Debt Service After Bond Call



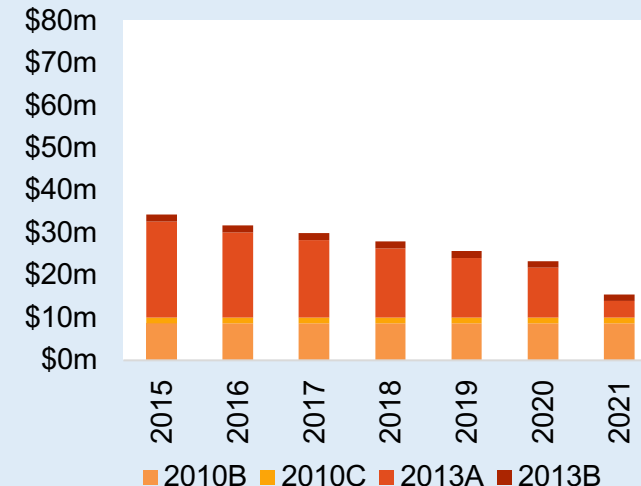
Defeased Bonds

We used accumulated cash reserves to defease Bonds in 2017, resulting in lower debt service.

Debt Service Before Defeasance



Debt Service After Defeasance

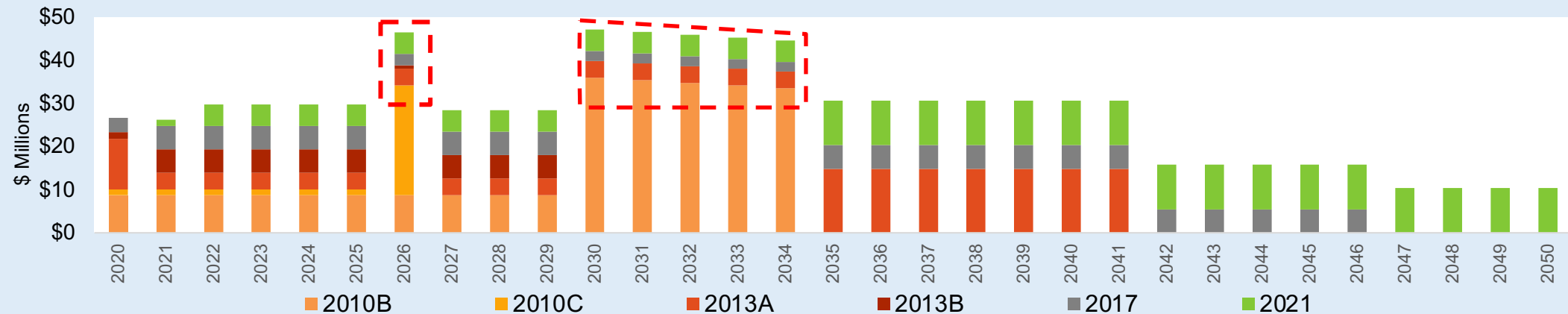


Addressing the Debt Service Spikes

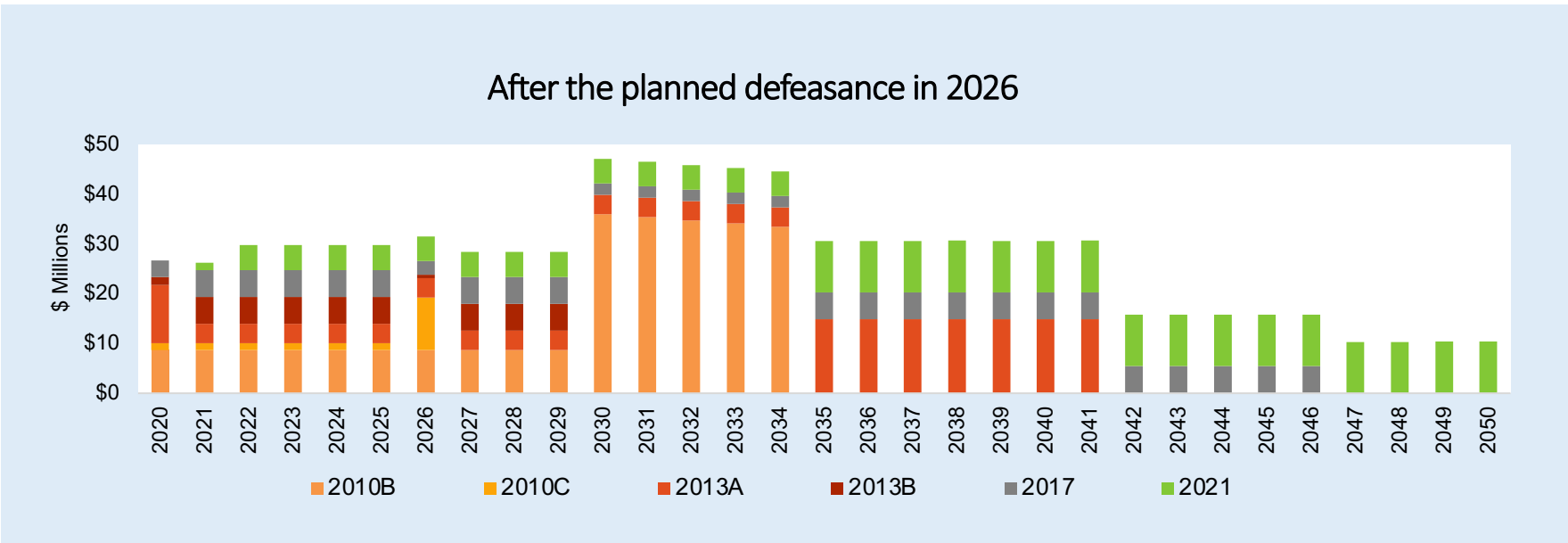
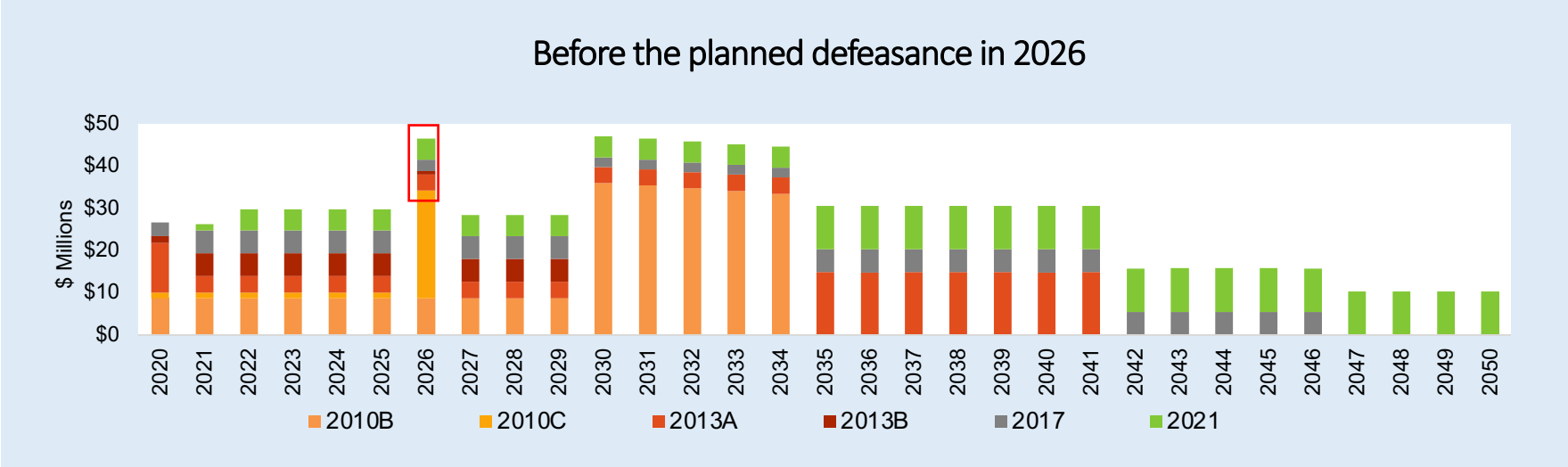
The LRFP assumes the use of the RSF to help reduce debt service spikes between 2030 and 2034

- Deposit between \$5 to \$10 million in revenue annually into the Rate Stabilization Fund between 2021 and 2029 consistent with metrics.
- Pay off (defease) approximately \$15 million of debt service in 2026.
- Withdraw about \$11 million annually from the Rate Stabilization Fund 2030 through 2034 to reduce spikes.

Current Debt Service Spikes

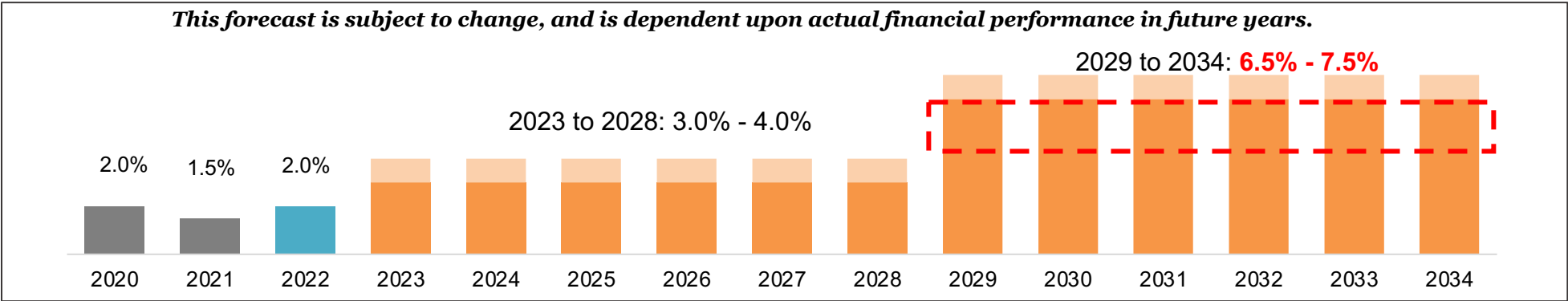


Defeasing Debt to Smooth Debt Service

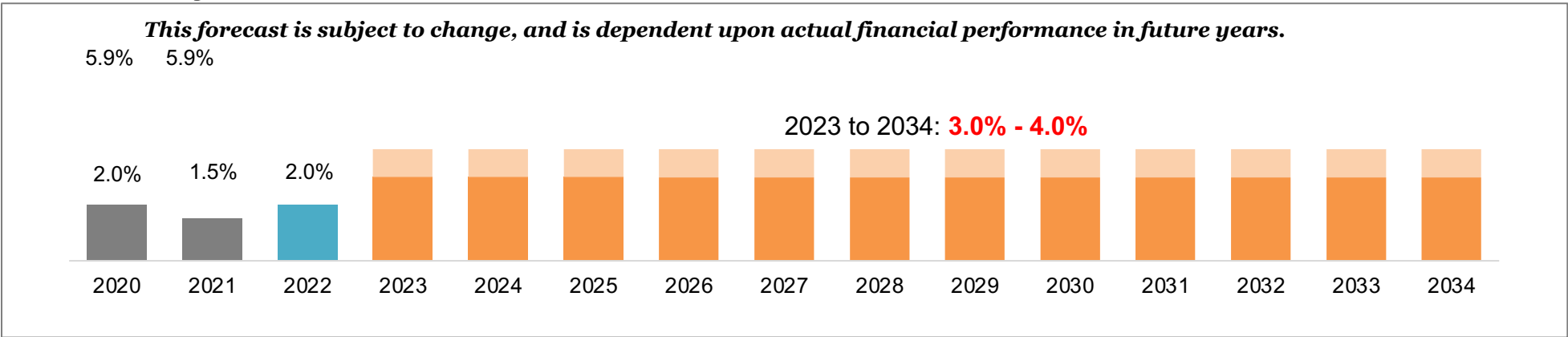


Projected Rates

Projected rate increases without using the Rate Stabilization Fund (RSF)

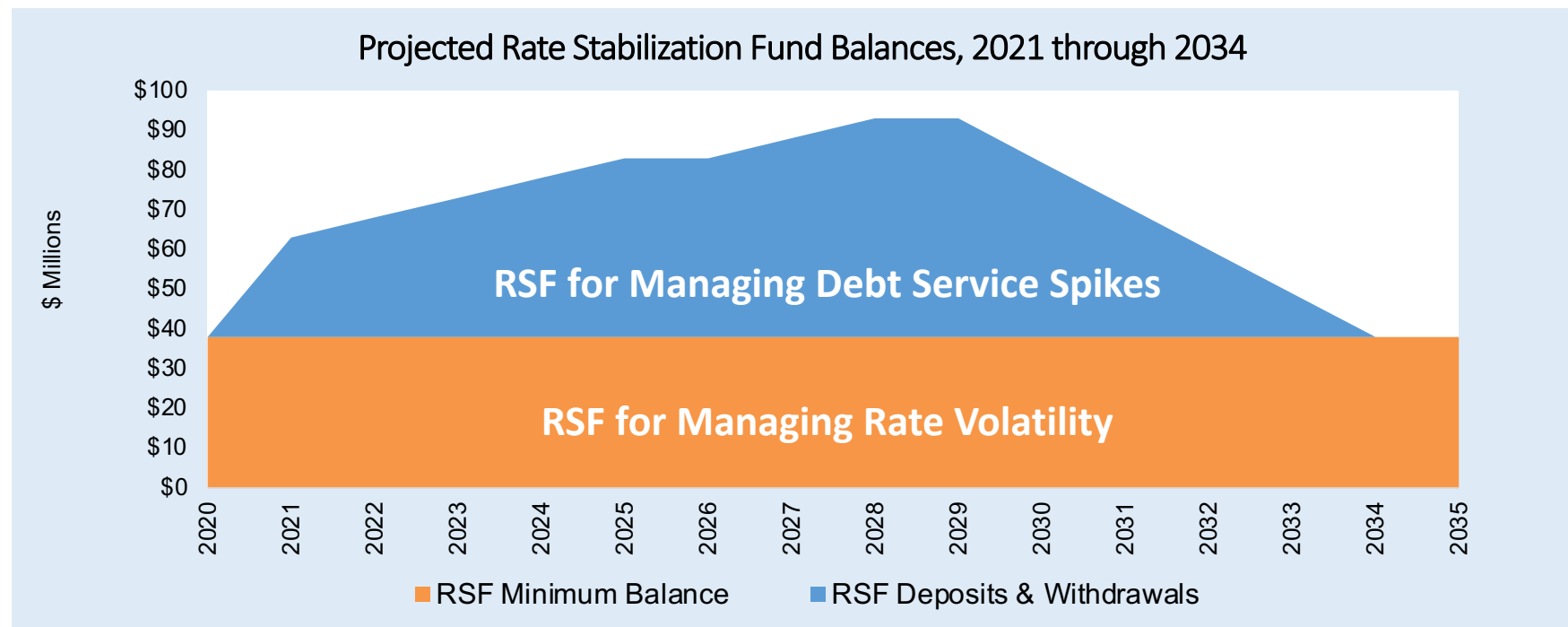


Projected rate increases with levelized debt service and RSF use



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.

Using the Rate Stabilization Fund to Smooth Rates



RSF Balance in millions	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Beginning	\$38	\$38	\$63	\$68	\$73	\$78	\$83	\$83	\$88	\$93	\$93	\$82	\$71	\$60	\$49
Deposit or (Withdrawal)	0	\$25	\$5	\$5	\$5	\$5	0	\$5	\$5	\$0	(11)	(11)	(11)	(11)	(11)
End	\$38	\$63	\$68	\$73	\$78	\$83	\$83	\$88	\$93	\$93	\$82	\$71	\$60	\$49	\$38



Guiding Financial Metrics

- High Wholesale power prices increased 2021 Wholesale revenues over budget by \$35 million
- Tacoma Power can deposit approximately \$25 million of 2021 revenue into the Rate Stabilization Fund

Tacoma Power Metrics	2014	2015	2016	2017	2018	2019*	2020	2021*	2021**
<i>Days of Liquidity</i> (Target: >180 Days)	325	215	236	210	206	157	235	260	260
<i>Debt Service Coverage Ratio</i> (Target: >2.0x)	1.90x	2.01x	2.31x	2.82x	3.06x	1.30x	3.33x	3.78x	2.93x
<i>Debt Ratio</i> (Target: <60%)	37%	29%	26%	29%	28%	28%	25%	28%	28%
<i>Rate Stabilization Fund Deposit / (Withdrawal)</i> \$ in millions	0	0	0	0	0	(\$10)	0	0	\$25

* Preliminary and unaudited
** Metrics assuming \$25 million deposit to Rate Stabilization Fund

Tacoma Power is a AA-level rated utility

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

— Target

■ Current Tacoma Power Rating



Projected Debt Service with Future Bonds

Setting aside funds to reduce debt service spikes makes future debt service and rates more manageable

