

















2021 Long-Range Financial Plan

Bill Berry Rates, Planning, and Analysis Manager January 20, 2022

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













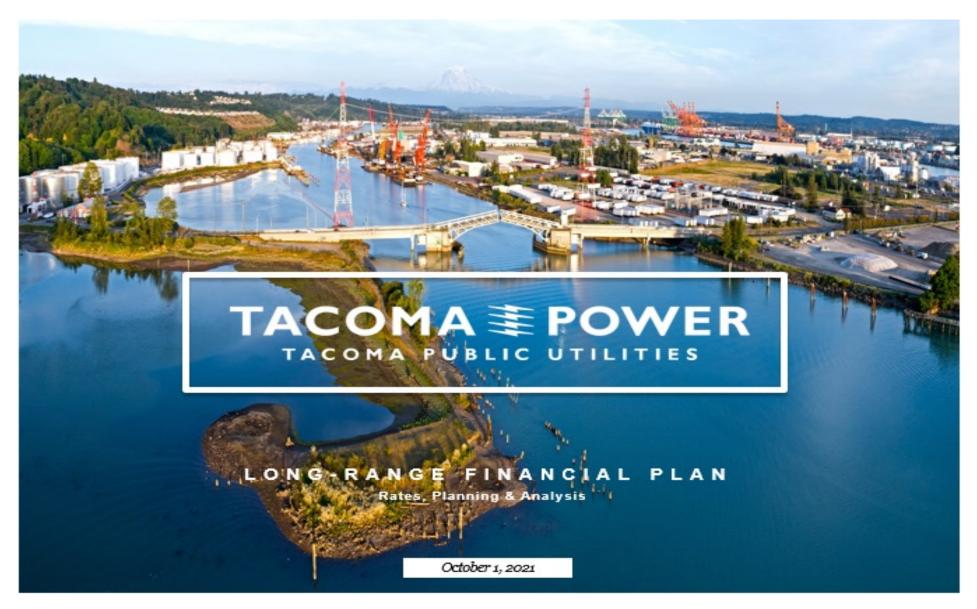


























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1 The Highlights

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

Pages 9-20

Table of

Contents

In the following

explanations

Rate Projections

Financial Policies

Historical Actions

If you're reading a digital version, click the links to jump

instantly to that

section of the

document

Credit ratings

Opportunities

about:

Reserves

Risks

pages, you'll find

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

Scenario Analysis

Different scenarios and how they could impact the bottom line Pages 105-114

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



Policy Guidance



















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

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



















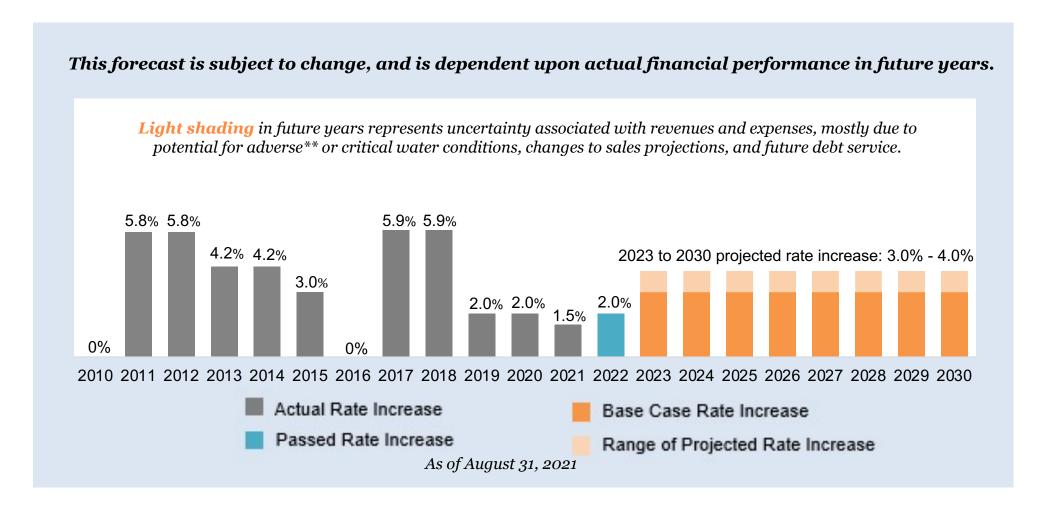








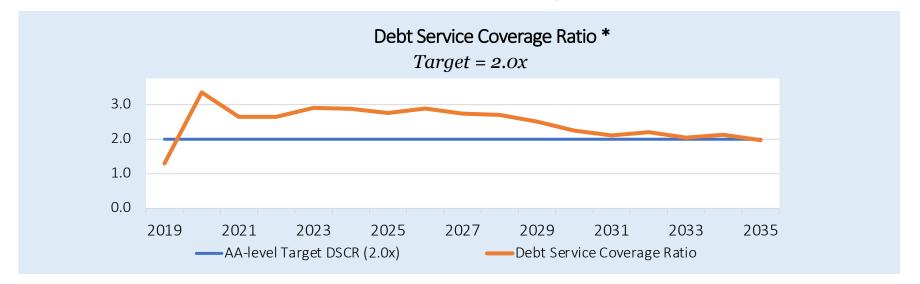
Past Actual & Projected Rate Increases*

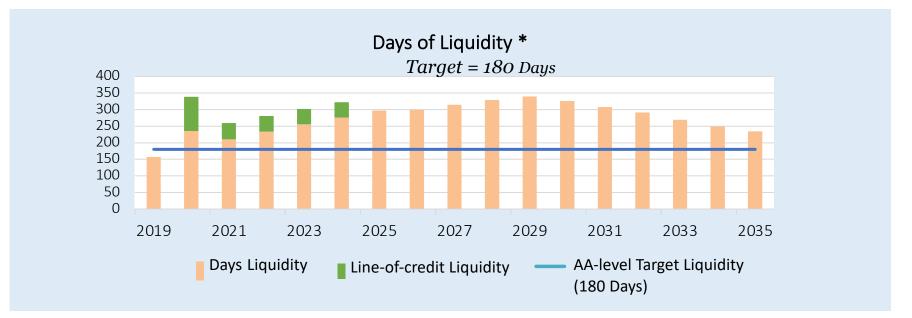


^{*}Assumes we reduce future debt service spikes.



Base Case Financial Metric Projections





^{*}Assumes we reduce future debt service spikes.

































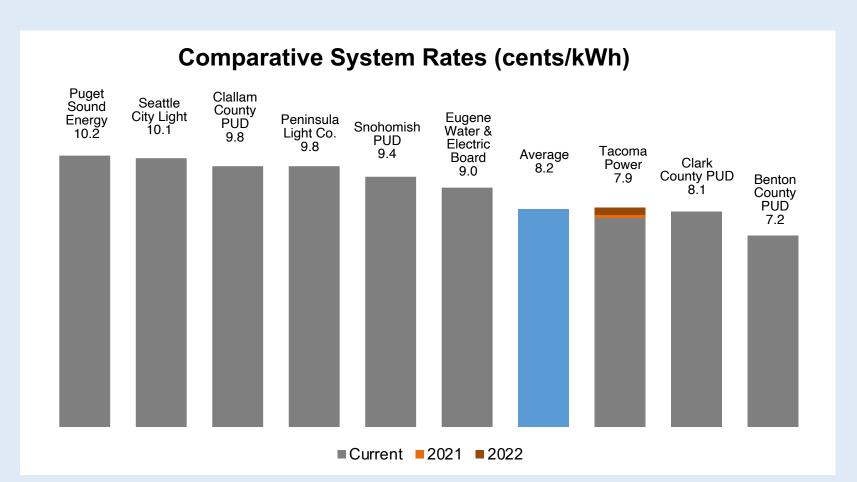












Tacoma Power shaded area represents the additional cents per kWh from a 1.5 and 2% annual rate increase in 2021 & 2022, respectively.

Source: Energy Information Administration, Form 861, 2019.













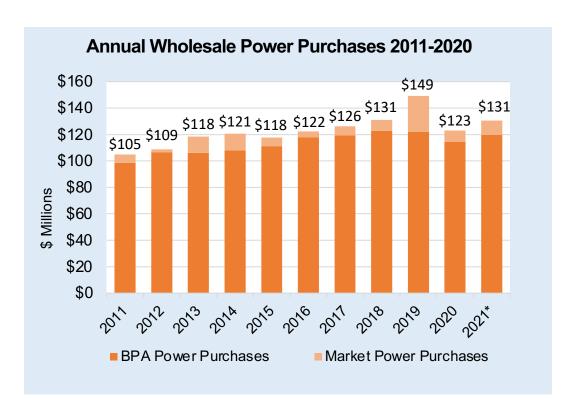


Water Planning Standards

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.

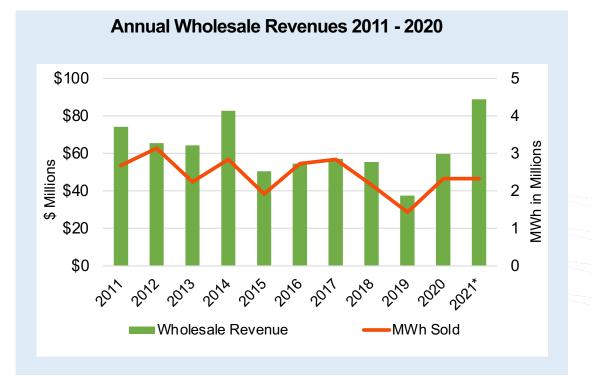


Rainfall Levels Near Historic Lows

Wholesale Revenues Decreased

Wholesale Power Purchased Increased

2019 Was a Near-Critical Water Year

















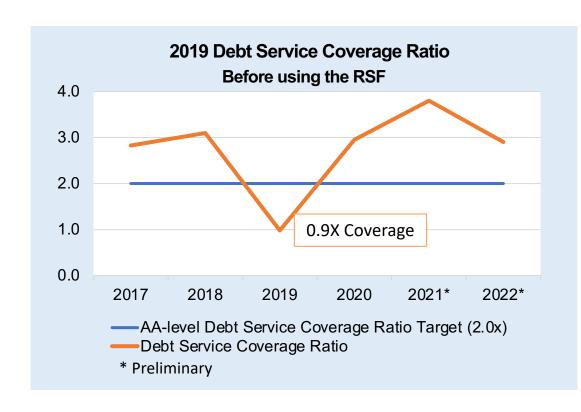


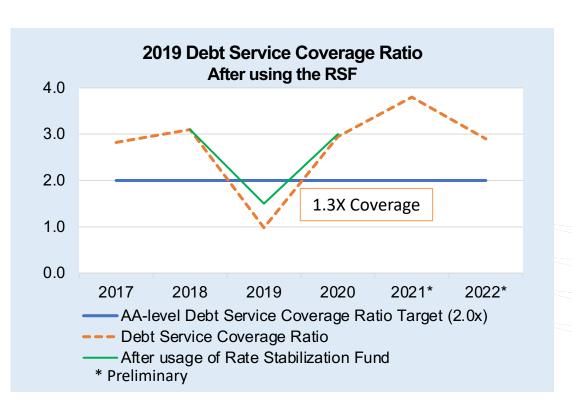


We used the RSF to Bolster 2019 D/S Coverage

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





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.

















NOT BANK QUALIFIED

ion of Pacifica Low Group LLP, Seattle, Washington, Bond Counsel, under cristing le Fraction sens group ests, Sensus, measurages, Dona Connec, unaer, 326ed herein, the interest on the 2021 Bonds is excludable from gross is don the 2021 Bonds is not an item of lar preference for purp

TACOMA PUBLIC UTILITIES

CITY OF TACOMA, WASHINGTON Electric System Revenue Bonds, Series 2021 (Green Bonds)

and with their interest payable semannually on each January 1 and July 1, commencing January 1, 2022 amption date of the 2021 Bonds. The 2021 Bonds will mature on the dates and in the amounts and ber on the dates and in the amounts and ber or prior recemption date of the 2021 Blonds. The 2021 Blonds will mature on the dates and in the amounts and bear interest rates set forth on the inside cover. For so long as the 2021 Blonds are held in book-entry only form, the principal of and litter the 2021 Blonds will be taid by the Blond Registrar to DTC, which in turn is obligated to result such revinents to lite before.

The 2021 Bonds are being issued to refinance certain capital imper See *PURPOSE AND APPLICATION OF 2021 BOND PROCEEDS.*

See 2021 Bonds are payable solely from special funds of the City known as the Electric System Revenue Fund and the Electric System Revenue Bond Fund, and from Nort Revenues of the Electric System (each as defined herein), and other funds placed therefor, on a parity with the outstanding Electric System revenue bonds and other Electric System revenue bonds hereafter issued.



THE 2021 BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY, OR THE STATE OF WASHINGTON, OR A CHARGE UPON ANY GENERAL FUND OR OTHER PROPERTY OF THE CITY OR THE STATE OF WASHINGTON NOT THE 2021 BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY, OR THE STATE OF WASHINGTON, OR A CHARGE (IPON ANY GENERAL FUND OR OTHER PROPERTY OF THE CITY OR THE STATE OF WASHINGTON, OR A NOR THE TAXING POWER OF THE CITY OR OF THE STATE OF WASHINGTON NOT NOR THE TAXING POWER OF THE CITY OR OF THE STATE OF WASHINGTON, NOR ANY REVENUES OF THE CITY OF THE STATE OF WASHINGTON, NOR ANY REVENUES OF THE CITY OF THE CITY OF THE STATE OF WASHINGTON, NOR ANY REVENUES OF THE CITY OF THE SPECIFICALLY PLEDGED THERETO BY THE BOND ORDINANCE, AND NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY OR OF THE STATE OF WASHINGTON, NOR ANY REVENUES OF THE CITY OR OF THE ELECTRIC SYSTEM, ARE PLEDGED TO THE PAYMENT THEREOF. NOR THE TAXING POWER OF THE CITY OR OF THE STATE OF WASHINGTON, NOR ANY REVENUES OF THE CITY DERIVED FROM SOURCES OTHER THAN THE ELECTRIC SYSTEM, ARE PLEDGED TO THE PAYMENT THEREOF. BY FURCHASE OF THE 2021 BONDS. THE OWNERS OF THE 2021 BONDS. DERIVED FROM SOURCES OTHER THAN THE ELECTRIC SYSTEM, ARE PLEDGED TO THE PAYMENT THEREOF. SEE "SECURITY FOR THE 2021 BONDS," BY PURCHASE OF THE 2021 BONDS, THE OWNERS OF THE 2021 BONDS SHALL BE DEEMED TO HAVE CONSENTED TO CERTAIN AMENDMENTS TO THE MASTER ORDINANCE (AS SEE "SECURITY FOR THE 2021 BONDS." BY PURCHASE OF THE 2021 BONDS, THE OWNERS OF THE 2021 BONDS SHALL BE DEEMED TO HAVE CONSENTED TO CERTAIN AMENDMENTS TO THE MASTER ORDINANCE (AS DEFINED HEREIN) TO OCCUR IN THE FITURE UPON SATISFACTION OF CERTAIN CONDITIONS. SEE "SECURITY SHALL BE DEEMED TO HAVE CONSENTED TO CERTAIN AMENDMENTS TO THE MASTER ORDINANCE (AS DEFINED HEREIN) TO OCCUR IN THE FUTURE UPON SATISFACTION OF CERTAIN CONDITIONS, SEE "SECURITY OF THE 2021 BONDS—RATE COVENANT AND DERY SERVICE COVERAGE COVENANT." DEFINED HEREIN) TO OCCUR IN THE FUTURE UPON SATISFACTION OF CERTAIN CONDI-FOR THE 2021 BONDS—RATE COVENANT AND DEBT SERVICE COVERAGE COVENANT."

Goldman Sachs and Co. LLC

KeyBanc Capital Markets



Historical and Current Debt Structure











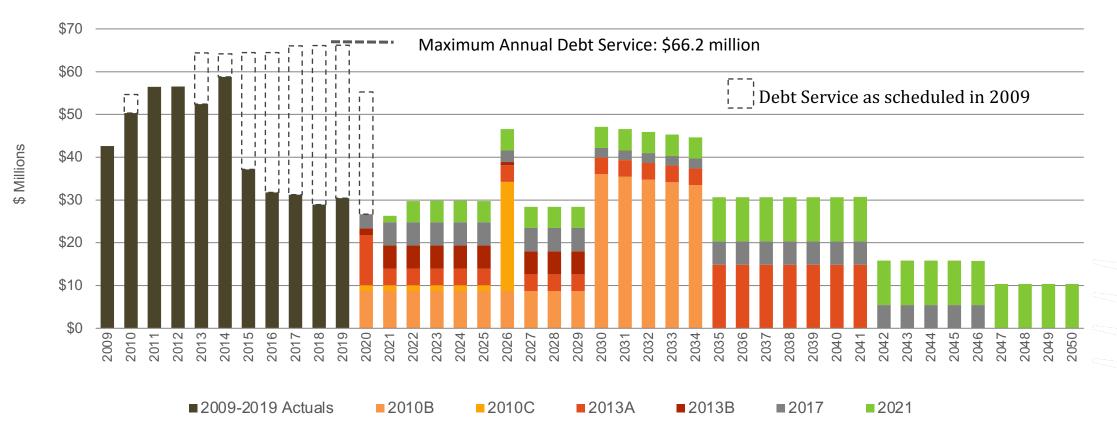








Current Debt Service





Projected Rates







Rates



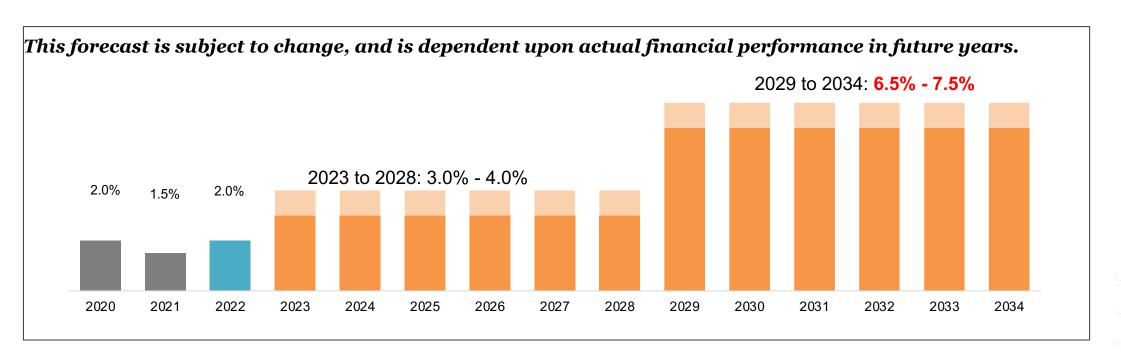








Projected rate increases without mitigating 2030-2034 debt service spikes



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



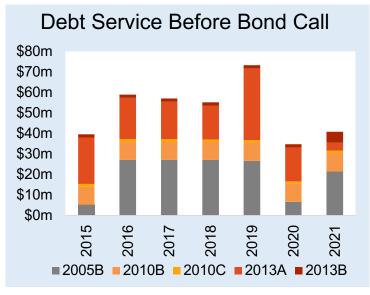
Active debt management produced savings in debt service

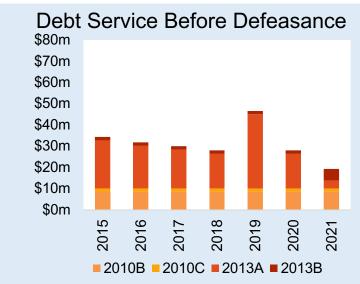
Called Bonds

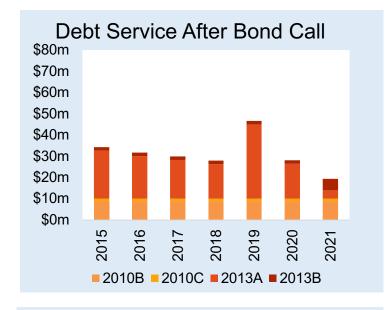
We used accumulated cash reserves to pay off the outstanding \$122.1 million 2005B Bonds on July 1, 2015, resulting in a 24 percent reduction in Tacoma Power debt, reduced reserves, and higher debt service coverage.

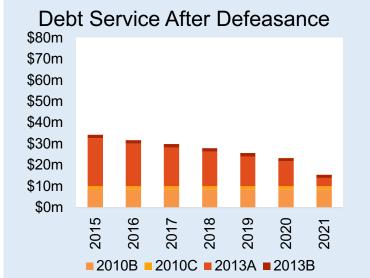
Defeased Bonds

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

























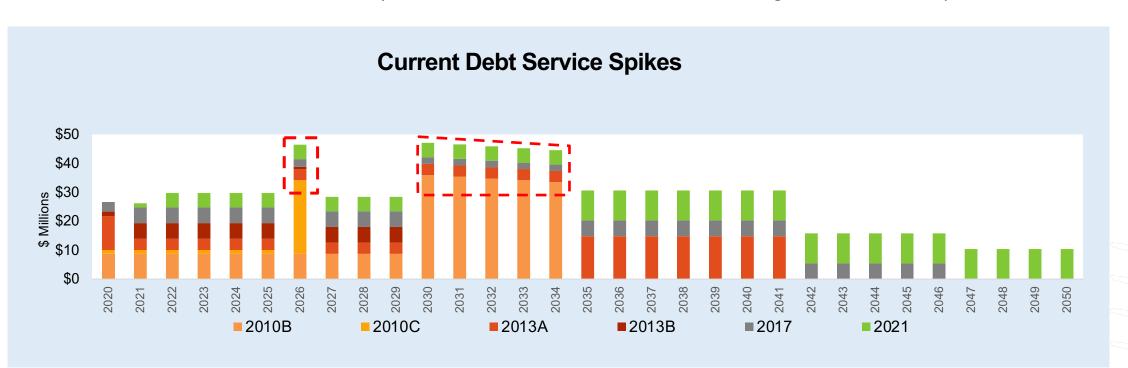




Addressing the Debt Service Spikes

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.















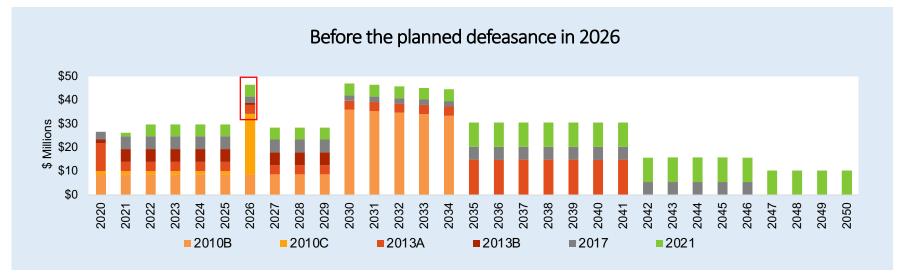


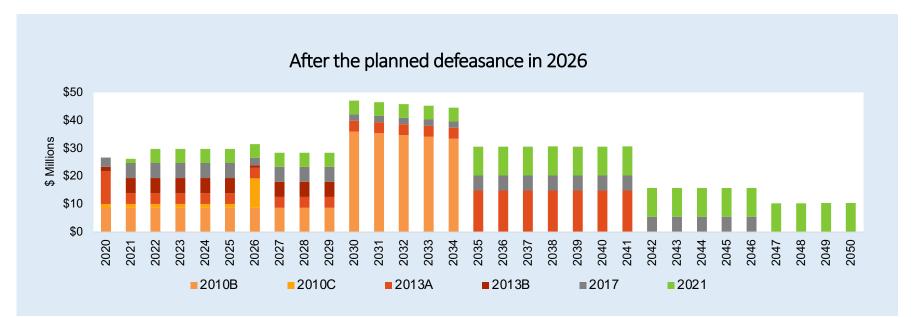


TACOMA PUBLIC UTILITIES

Defeasing Debt to Smooth Debt Service





















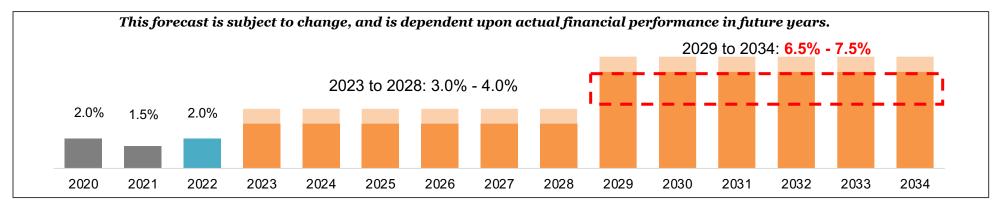




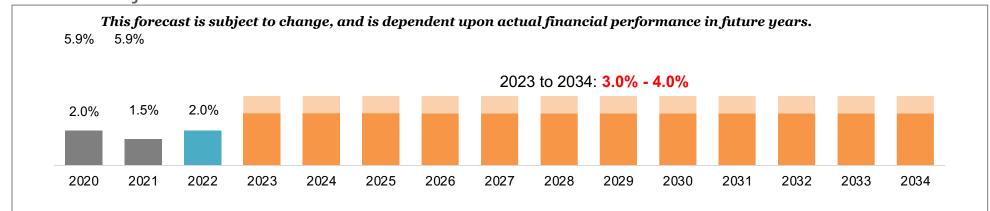
Projected Rates







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.























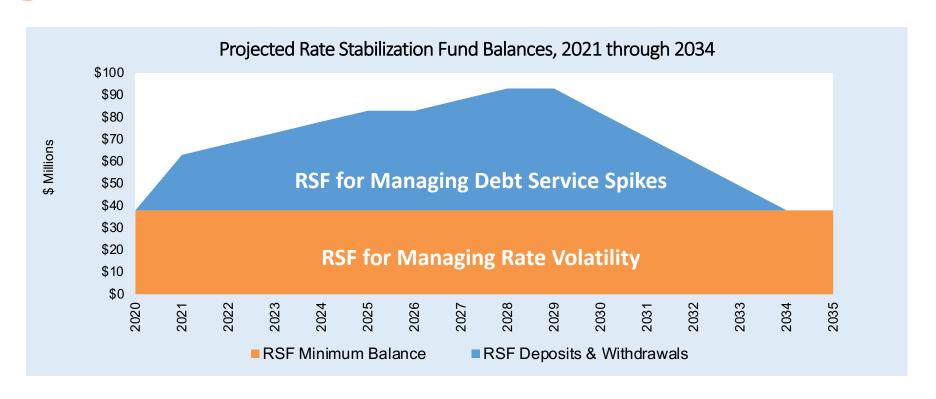








Using the Rate Stabilization Fund to Smooth Rates



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

^{*} Preliminary and unaudited

Tacoma Power is a AA-level rated utility

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

^{**} Metrics assuming \$25 million deposit to Rate Stabilization Fund

Projected Debt Service with Future Bonds



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

