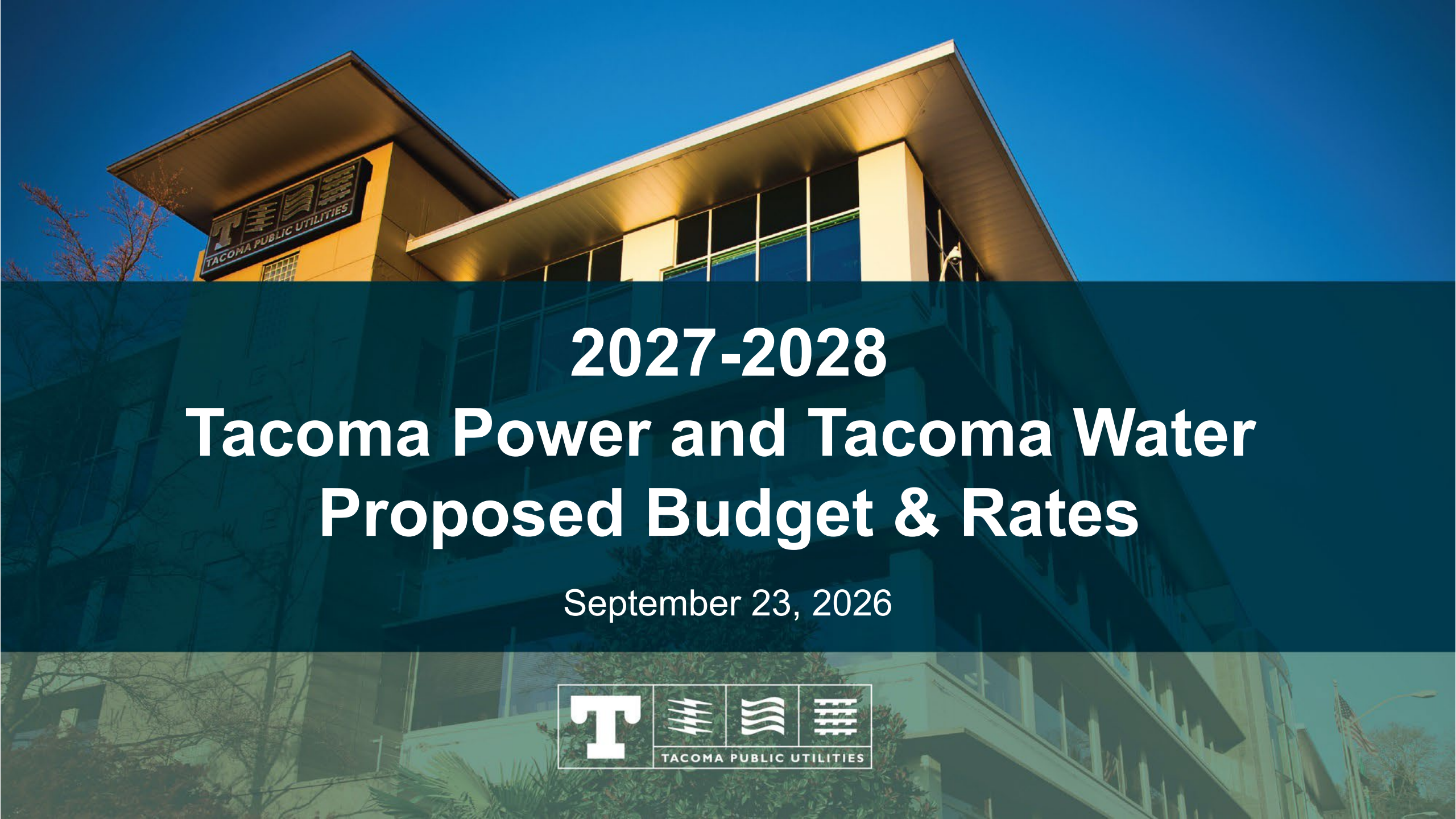


A photograph of the Tacoma Public Utilities building at dusk. The building is a modern, multi-story structure with a prominent overhang. The sky is a deep blue, and the building's interior lights are visible through the windows. A sign on the building reads "TACOMA PUBLIC UTILITIES".

2027-2028 Tacoma Power and Tacoma Water Proposed Budget & Rates

September 23, 2026

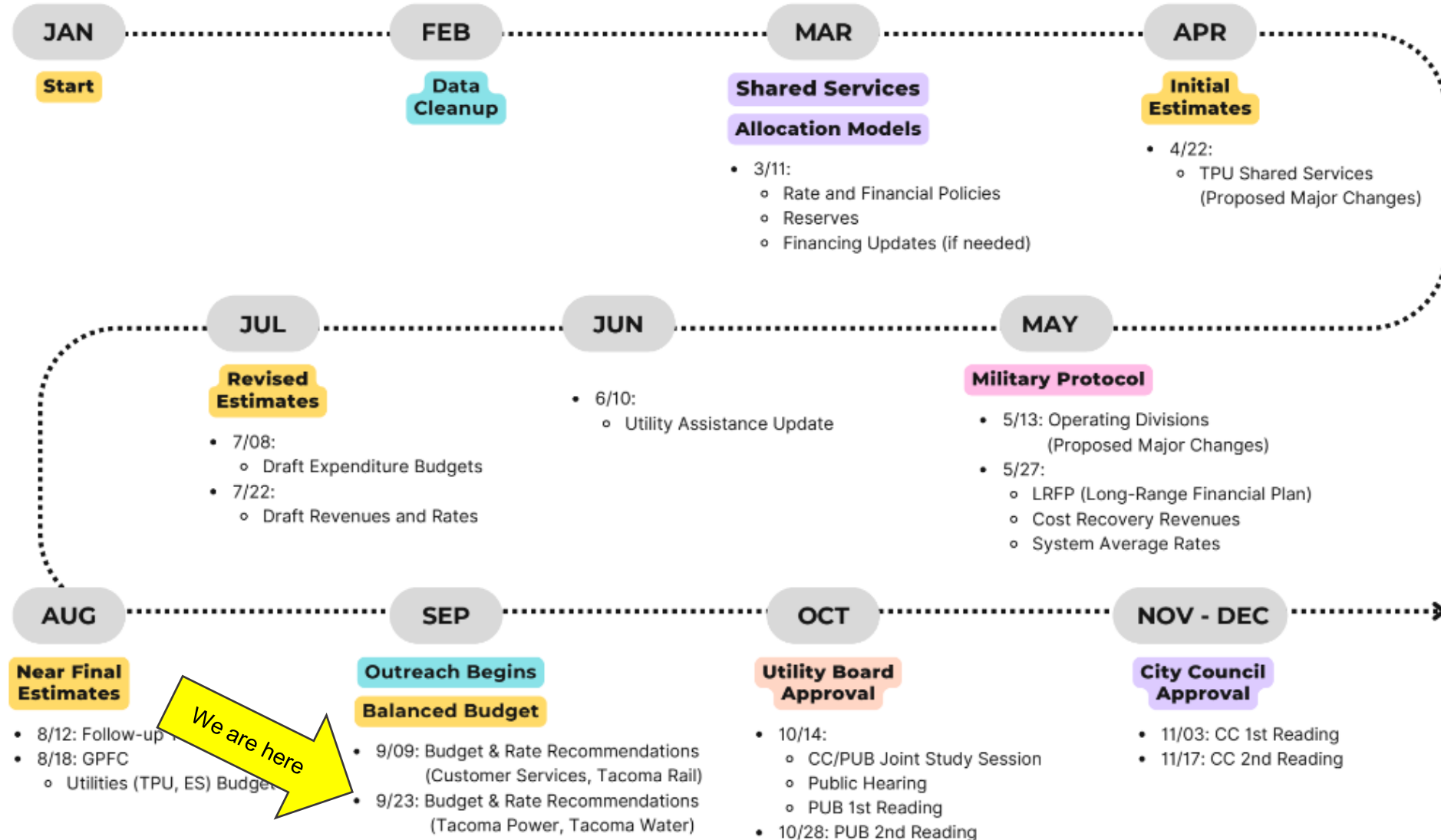


Agenda



- Budget and Rates Timeline
- Power Proposed Budget & Rates
- Water Proposed Budget & Rates
- Next Steps

2026 Budget & Rates Timeline



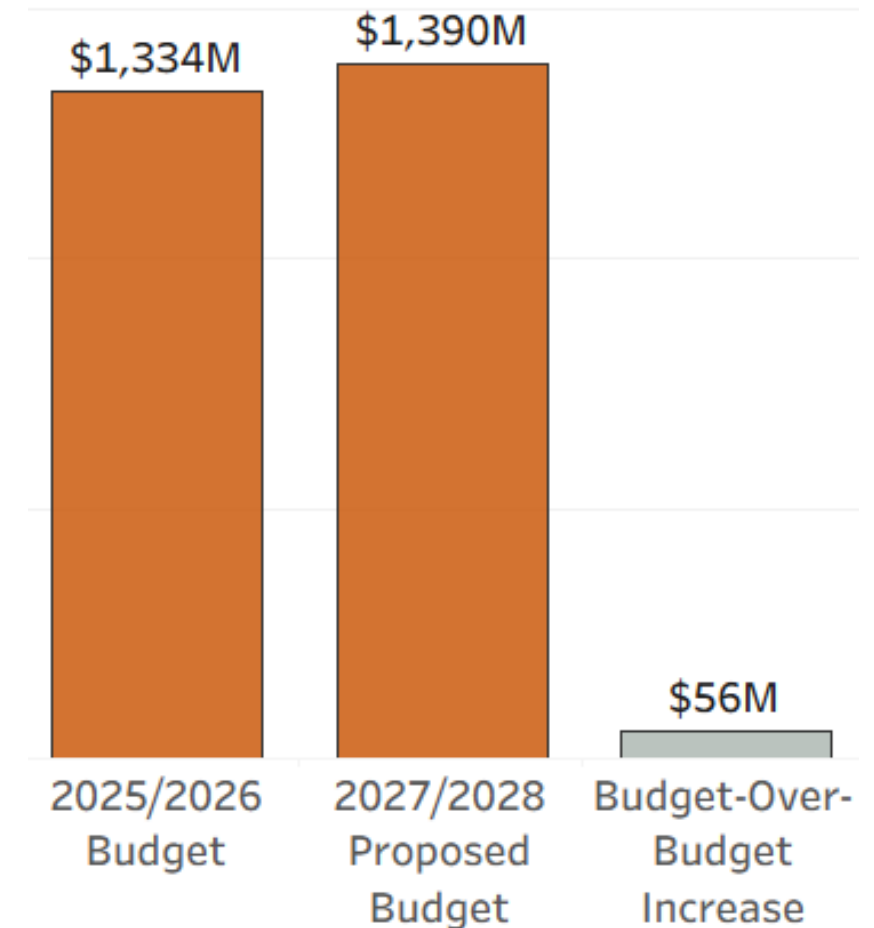
Tacoma Power

2027-2028 Proposed Budget & Rates

Budget Highlights

2027-2028 budget represents 4% increase from 2025-2026

- Personnel costs increasing by **\$58M**
- Lower wholesale market prices contributing to:
 - Wholesale Revenue decrease of **\$76M**
 - Purchased Power Expense decrease of **\$33M**
- Taxes increasing by **\$18M**
- Supplies, Services & Other Charges increasing by **\$16M**
Increase includes extraordinary items such as:
 - Kosmos and Steam Plant Remediation (\$11.5M)
 - Markets+ implementation (\$5M)
 - Wynoochee License Surrender (\$2.4M)



Cost Drivers, Risks & Mitigation



Cost Drivers

- Significantly lower wholesale revenue projections
- Hydro relicensing and modernization costs
- Inflation
- Labor market adjustments
- Personnel benefits

Risks

- Climate Change
- Customer Demand Volatility
- Wholesale Power Market Volatility
- Policy or Regulatory Changes
- Economic Cycles and Inflation
- Technology Changes
- Aging Infrastructure

Mitigation Strategies

- Other O&M expense reduction target
- Net-zero FTE target
- Start/Stop/Continue
- Flat capital budget
- Debt restructuring

Budget Comparison

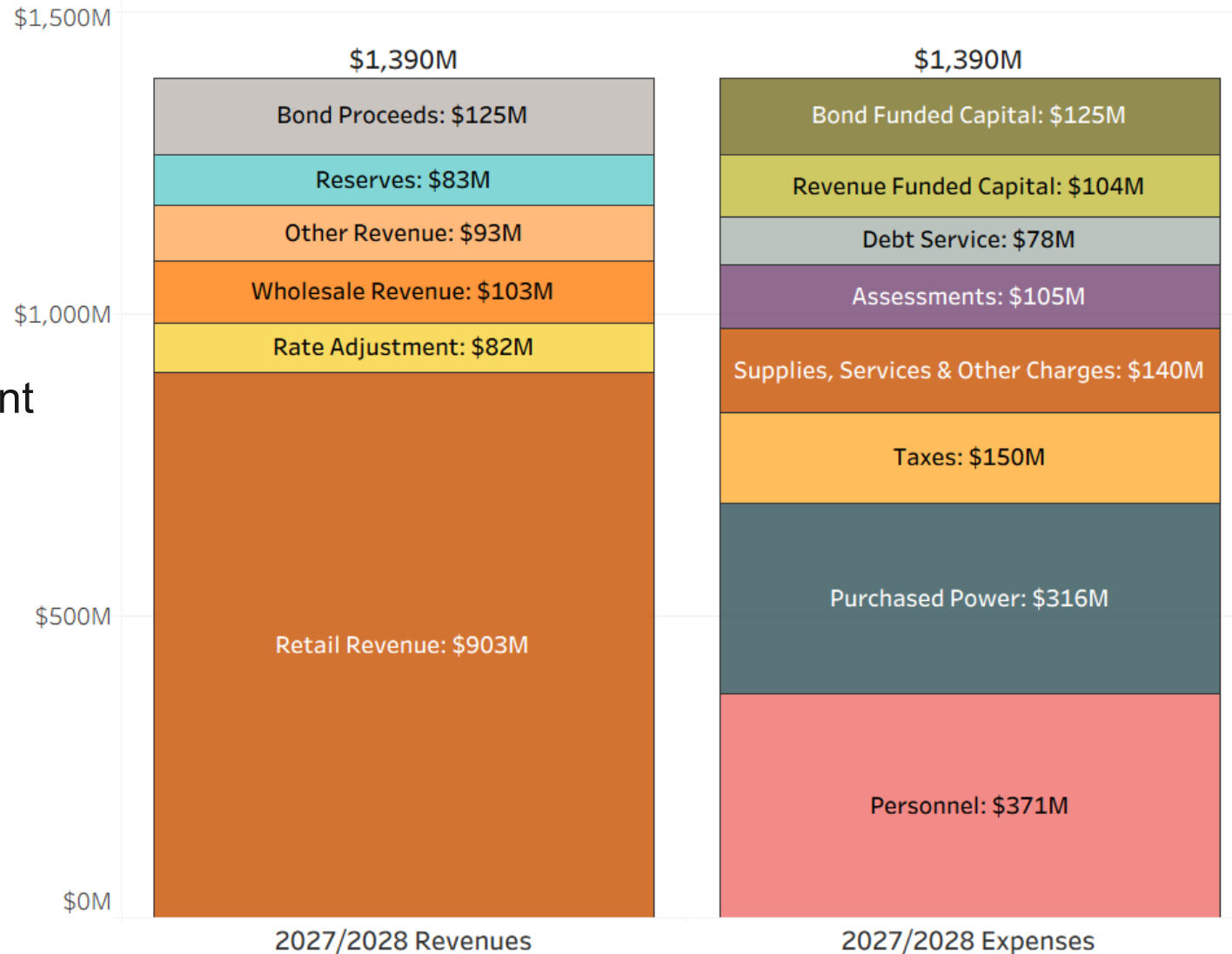


Budget Comparison					
		2025-2026 (Current)	2027-2028 (Proposed)	Difference (Amt)	Difference (%)
FUND 4700 - TACOMA POWER	Bond Proceeds	137,788,000	125,330,000	(12,458,000)	(9%)
	Reserves	49,736,145	83,348,371	33,612,226	68%
	Other Rev	92,206,861	93,052,725	845,864	1%
	Wholesale Rev	179,040,045	103,430,649	(75,609,396)	(42%)
	Rate Adjustment	49,682,245	81,811,933	32,129,688	65%
	Retail Revenue	825,109,390	902,895,817	77,786,427	9%
	Revenue Total	1,333,562,686	1,389,869,495	56,306,809	4%
	Personnel Costs	313,869,730	371,412,717	57,542,987	18%
	Purchased Power	349,000,106	315,702,689	(33,297,417)	(10%)
	Taxes	132,032,497	149,801,060	17,768,563	13%
	Other Costs (SSOC)	123,794,708	140,050,212	16,255,504	13%
	Assessments	96,566,855	104,840,580	8,273,725	9%
	Debt Service	95,856,790	78,242,237	(17,614,553)	(18%)
	Capital Outlay	222,442,000	229,820,000	7,378,000	3%
	Expense Total	1,333,562,686	1,389,869,495	56,306,809	4%
Budgeted FTE		902.6	904.6	2.0	0%

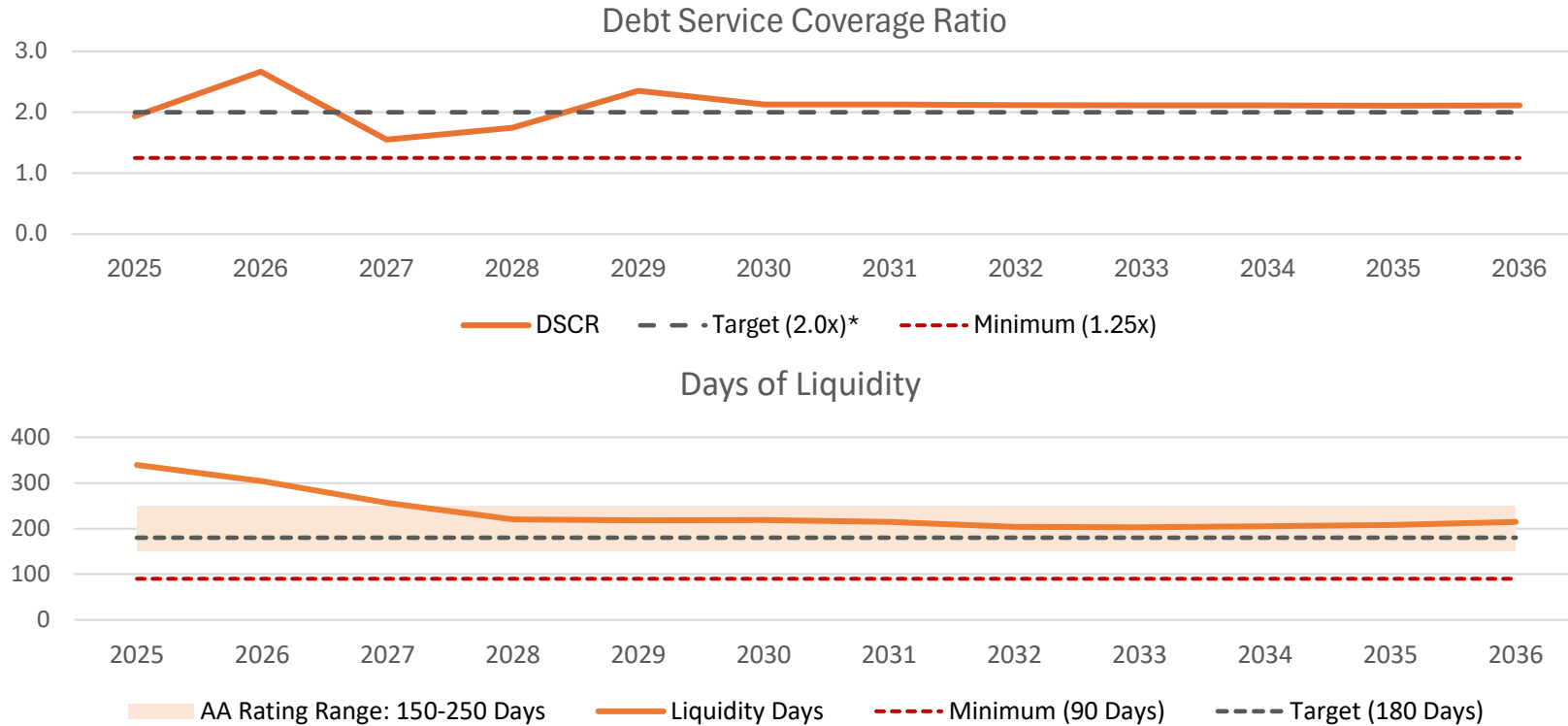
Additional 2.0 FTE are offset by decreases across TPU to reach net-zero FTE

Proposed Revenues & Expenditures

- New retail revenue of \$82M with annual **7.8% system average rate increases** effective April 1st of 2027 & 2028
- 2027-2028 expenditures funded from:
 - 71% retail sales, including rate adjustment
 - 7% wholesale revenues
 - 6% cash reserves and rate stabilization fund
 - 16% misc. revenue and bond proceeds



Financial Metrics

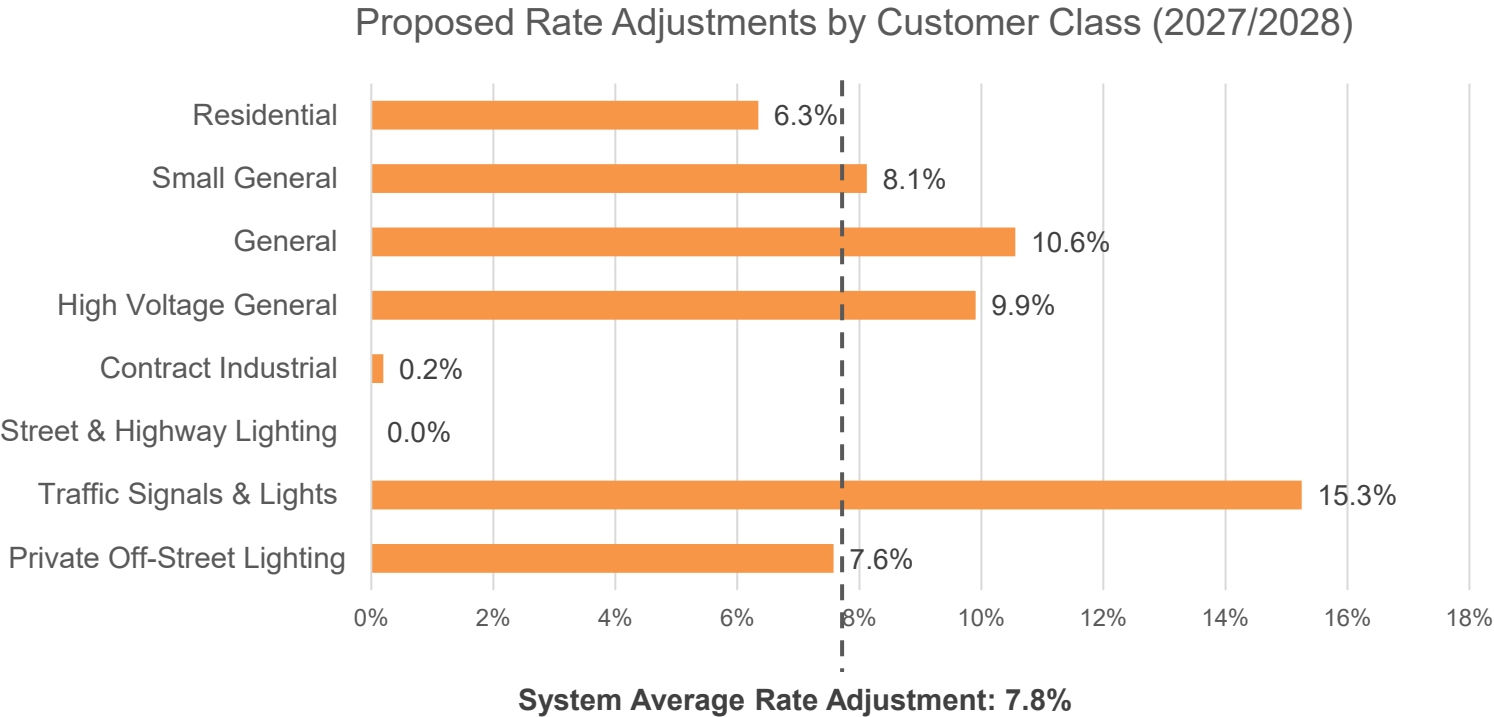
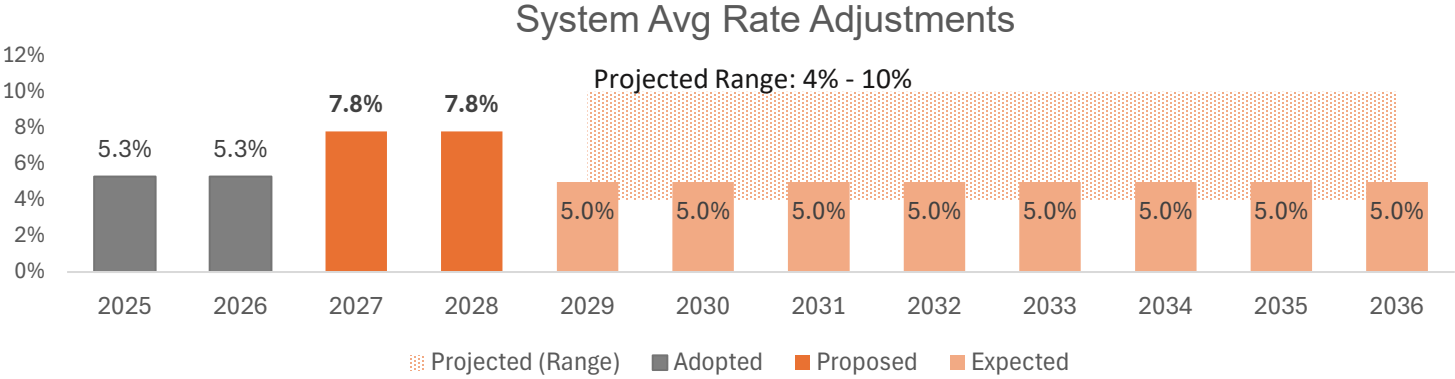


Rate Stabilization Fund (year-end)														
\$ in millions	2010	2011	2012	2019	2021	2022	2027**	2028**	2029	2030	2031	2032	2033	2034
Balance	\$10	\$36	\$48	\$38	\$63	\$158	\$148	\$142	\$142	\$136.5	\$126.5	\$111.5	\$101.5	\$96
+ / -	+ \$10	+ \$26	+ \$12	- \$10	+ \$25	+ \$95	- \$10	- \$6	0	- \$6.5	- \$10	- \$15	- \$10	- \$4.5

* Target for 2027 and 2028 is 1.5x (Adverse Water)

** Projected use of the Rate Stabilization Fund under Adverse Water

Rate Projections & Preliminary Rates



Rate Design for G Class

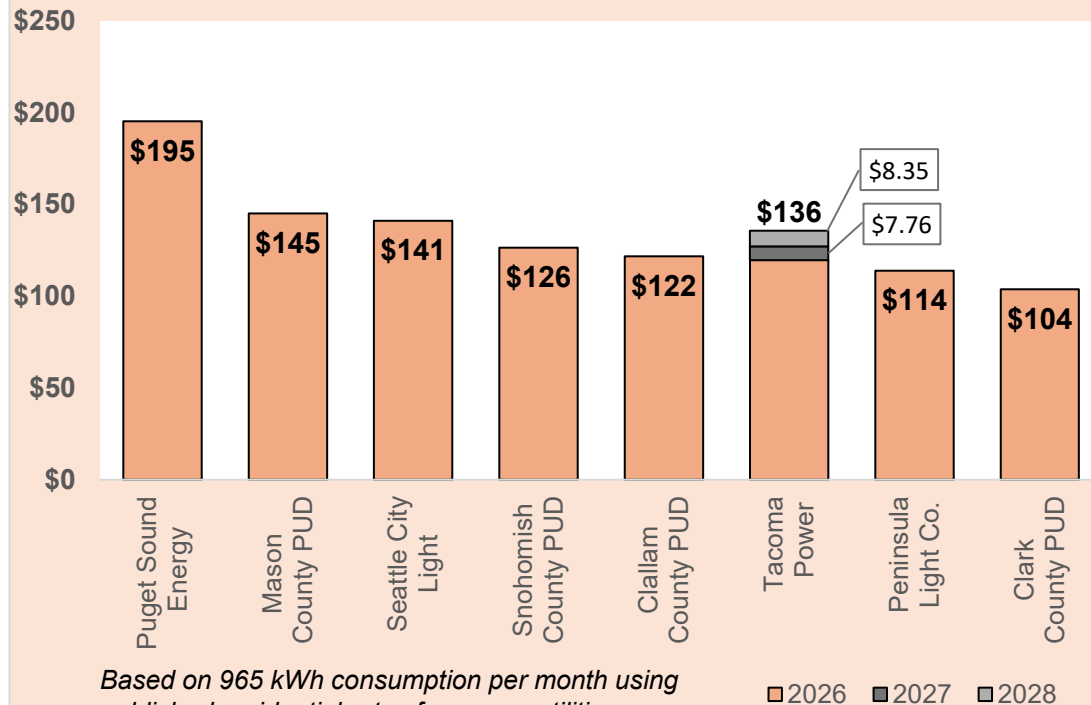
- After further review, rates staff decided to split the increase among the customer, energy, and delivery charges
- Departure from COSA delivery charge in support of rate gradualism
- Splitting the charge allows for rate gradualism but also shifts the delivery charge towards COSA

Schedule G	General			
	Current	2027	2028	COSA
Customer Charge	\$82.80	\$103.30	\$123.80	\$84.43
Energy Charge	5.8014¢	6.2968¢	6.8346¢	3.9030¢
Delivery Charge	\$11.39	\$12.89	\$14.59	\$22.86

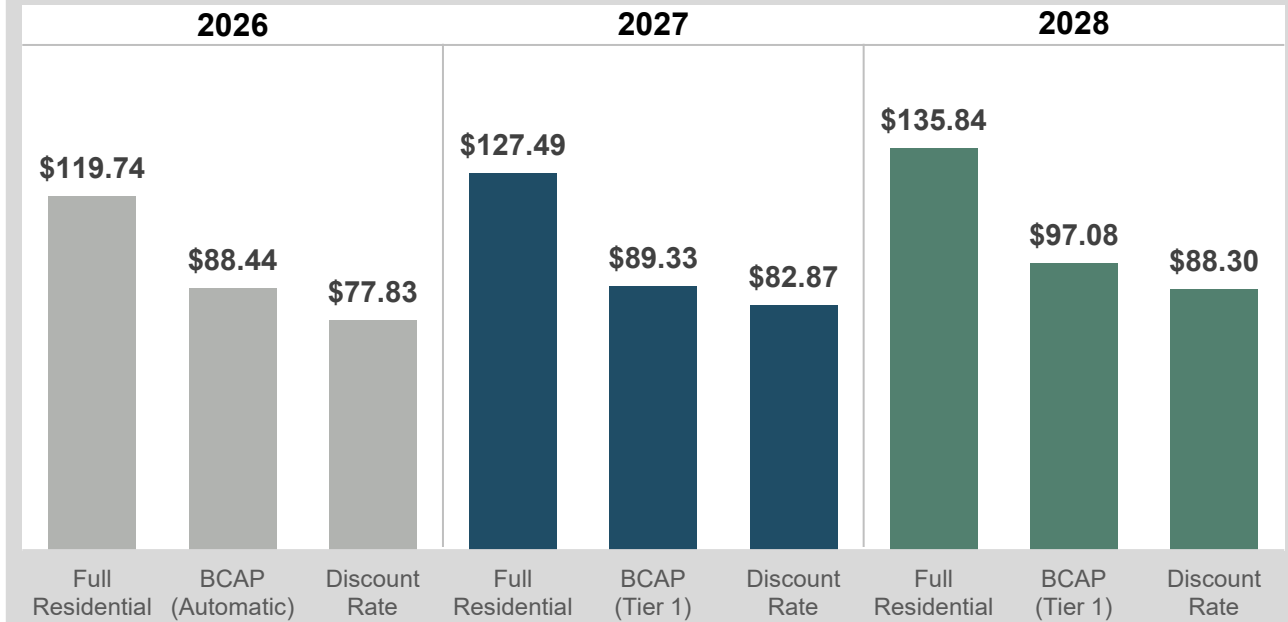
- **Remove Power Service Agreement requirement on Shore Power Rate Schedule**
- **Modify Schedule G Section E Customer-Owned Generation**
 - Replace the basis for export energy compensation from Energy Imbalance Market (EIM) price with Tacoma Power's avoided cost;
 - Remove system integration charge and standby capacity charge
- **Update Inspection & Permitting, Disconnection/Reconnection, and Lighting Pole Fees**
- **Remove Electrofuel Rate Schedule**

Residential Average Bill

Regional Comparison of Average Monthly Residential Bills



Comparison of Average Monthly Bills with TPU Customer Assistance Programs

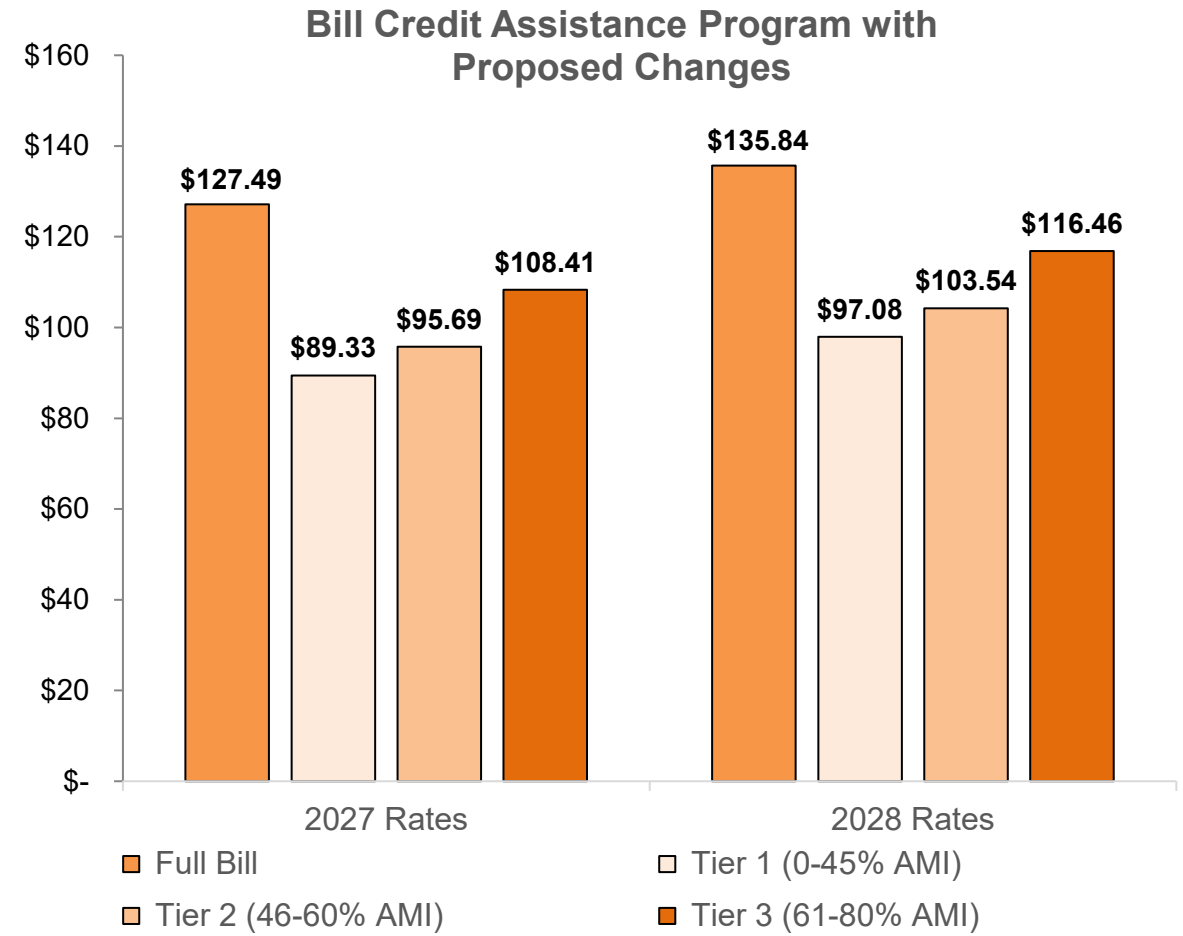


Proposed Bill Credit Assistance Program Modifications

Expand BCAP eligibility: 60% AMI to 80% AMI

Automatic + Achievable to 3-Tiered assistance:

	AMI	Fixed Cust. Charge	Approx. Discount %
Tier 1	0 - 45%	120%	~ 30% discount
Tier 2	46 - 60%	100%	~ 25% discount
Tier 3	61 - 80%	60%	~ 15% discount



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

- 2027-2028 budget represents a 4% increase from 2025-2026
- Decrease in Wholesale Revenues and increases in Operating Expenses result in greater use of Cash Reserves to maintain financial metrics
- Propose 7.8% overall system average retail rate increase for 2027 & 2028
 - Recommended rate increase better recovers the rising cost of personnel attributed to benefit increases and estimated market adjustments
- Splitting increase among the customer, energy, and delivery charges in Schedule G customer class supports rate gradualism and incentivizes conservation and efficiency
- Bill Credit Assistance Program will expand eligibility from 60% to 80% Area Median Income (AMI) and move to a 3-Tiered assistance system



Tacoma Water

2027-2028 Proposed Budget & Rates

Cost Drivers, Risks, & Mitigation

Cost Drivers

- **Commodities (insurance & utilities)**
 - **Construction Inflation**
 - **Gross Earnings Tax and B&O**
 - **Personnel costs (salaries & benefits)**
 - **Regulatory Mandates**
 - **PFAS regulations**
 - **Pipeline 1**
 - **Technology & Fleet Replacement**
 - **Transportation & Fuel**
-

Risks

- **Aging Infrastructure**
 - **Changes in Tax Codes**
 - **Climate Change**
 - **Customer Behavior**
 - **Economic Cycles and Inflation**
 - **Policy and Regulatory Changes**
 - **Seismic Events**
 - **Supply Portfolio**
 - **Technology Changes**
-

Mitigation Strategies

- **Alternative revenue sources**
 - **Net-zero FTE target**
 - **Other O&M expense reductions**
 - **Start, Stop, Continue measures**
 - **Use of cash**
-

Financial Policy Updates



Operating Reserve

- **Revise to 90–150 Days (Target 120 Days)**
- **Plan required if reserves are out of policy range**

Capital Reserve

- **Maintain 1%**

SDC Fund

- **Sunset Rate Stabilization Account (RSA)**
- **Increase Minimum Balance to \$4M**

Align Financial Policy Approval with Power

Budget Highlights

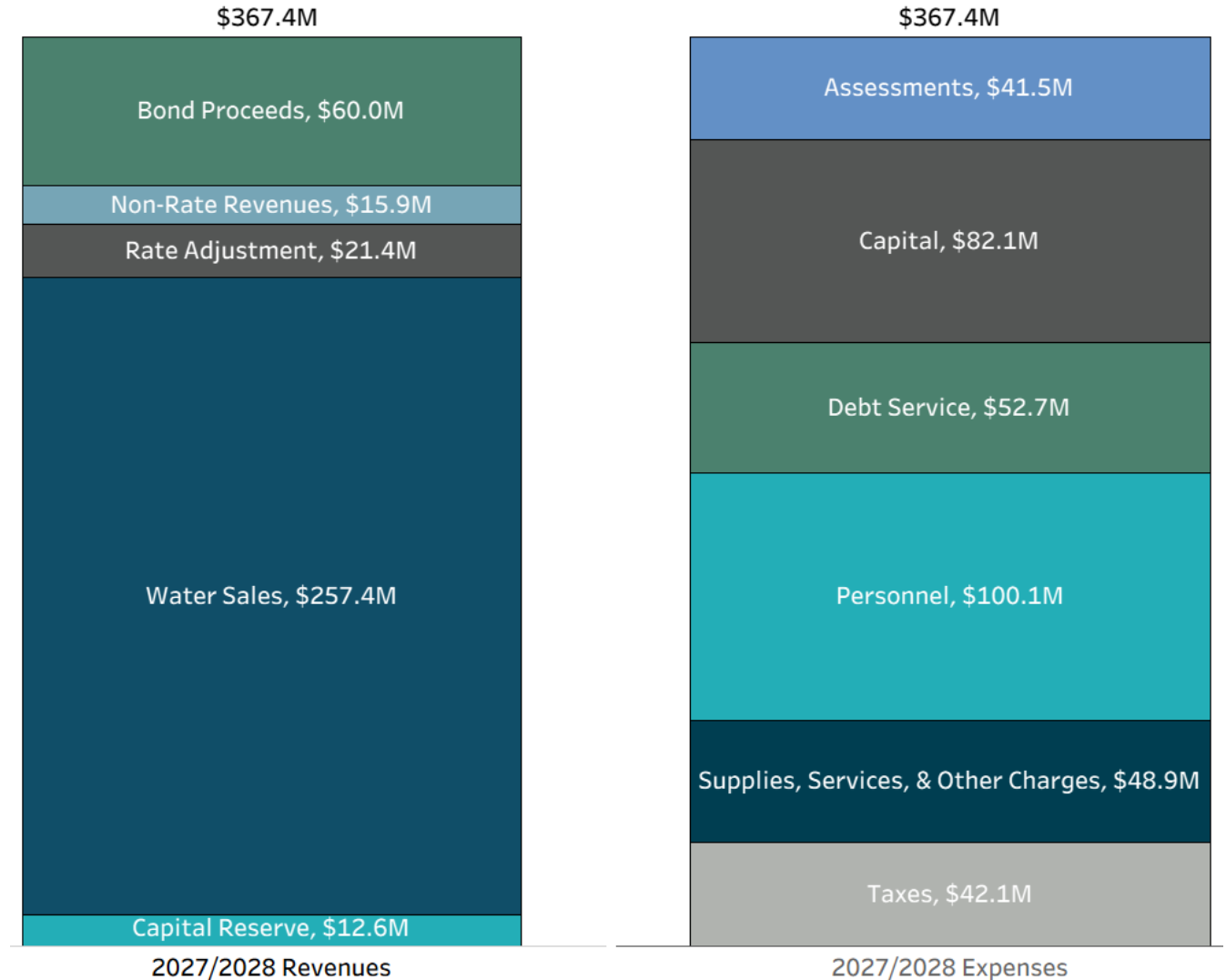
The 2027-2028 budget represents a **\$24.6M or **7%** increase from 2025-2026**

- **Personnel costs increasing by **\$10.4M** or **12%****
- **Assessments increasing by **\$2.6M** or **7%****
- **Labor and material cost increases significantly impact operational expenses and capital costs**



Proposed Revenue & Expenditures

- New retail revenue of **\$21.4M** with annual **5.5% average rate adjustment**
- 2027-2028 expenditures funded from:
 - **16%** from anticipated revenue bond proceeds
 - **77%** total expenditures funded with water sales, including the rate adjustment
 - **7%** from other miscellaneous revenue and capital reserves



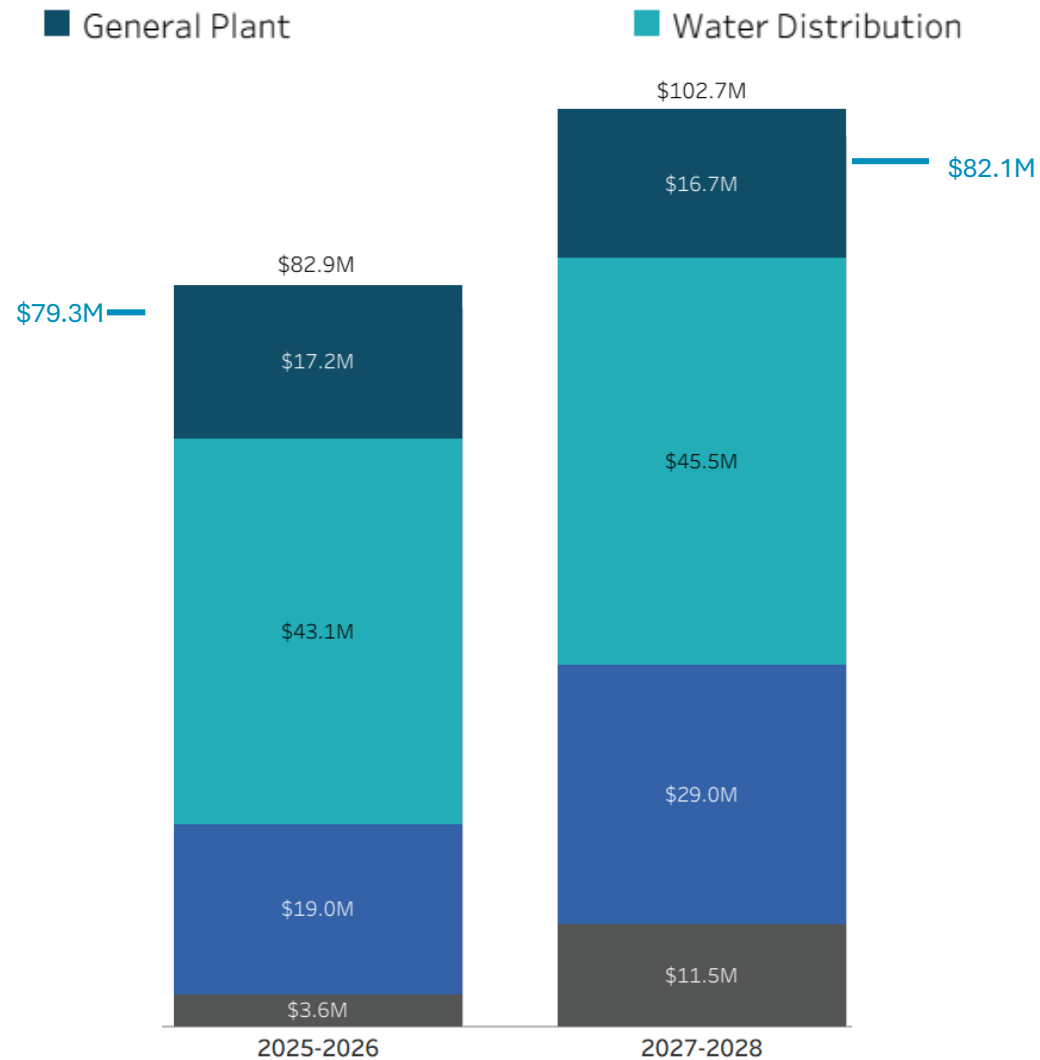
Budget Summary



Budget Comparison					
		2025-2026 (Current)	2027-2028(Proposed)	Difference (Amt)	Difference(%)
FUND 4600	Bond Proceeds	36,721,807	60,000,000	23,278,193	63%
	Non-Rate Revenues	14,973,025	15,943,567	(5,771,354)	6%
	Rate Adjustment	21,714,921	21,409,098	6,436,074	-1%
	Water Sales	217,077,081	257,386,926	40,309,845	19%
	Capital Reserve	35,582,351	12,645,214	(22,937,137)	-64%
	Appropriation from Fund Balance	16,739,133	10,583	(16,728,550)	-100%
	Revenue Total	342,808,318	367,395,388	24,587,070	7%
	Assessments	38,919,849	41,488,502	2,568,654	7%
	Capital	79,304,158	82,122,459	2,818,301	4%
	Debt Service	50,398,898	52,704,326	2,305,428	5%
	Personnel	89,656,235	100,074,047	10,417,813	12%
	Supplies, Services, & Other Charges	49,760,136	48,921,582	(838,554)	(2%)
	Taxes	34,769,043	42,084,471	7,315,428	21%
Total	Expense Total	342,808,318	367,395,388	24,587,070	7%
Budgeted FTE		325.00	327.00	2.00	1%

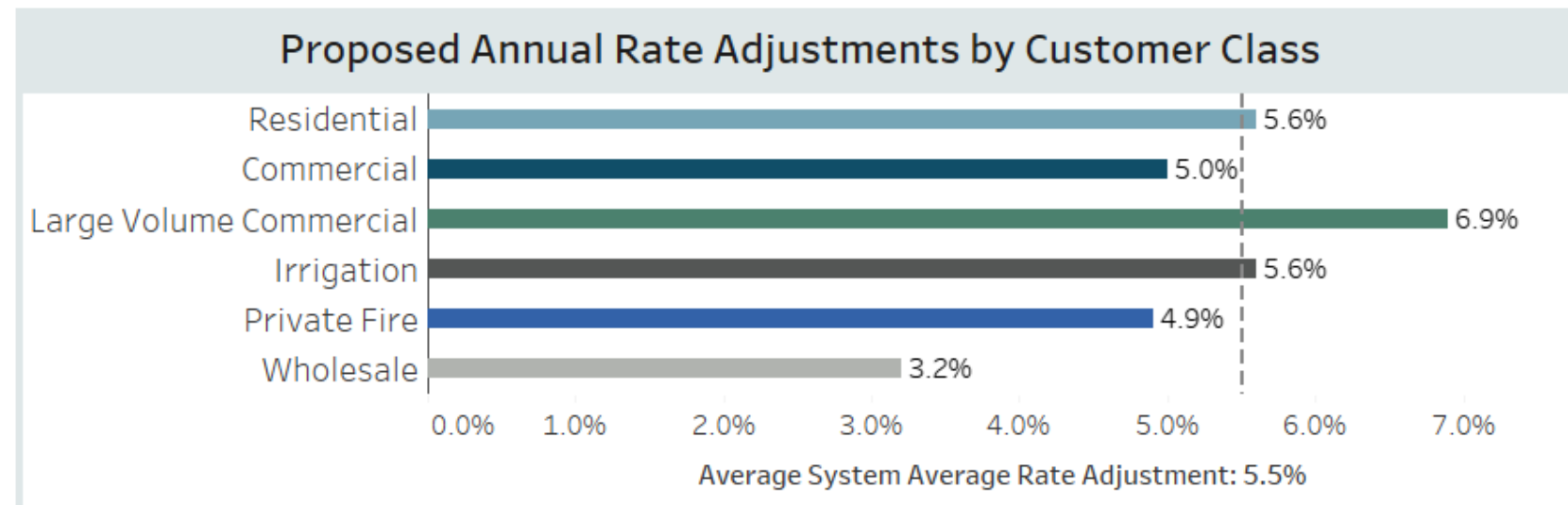
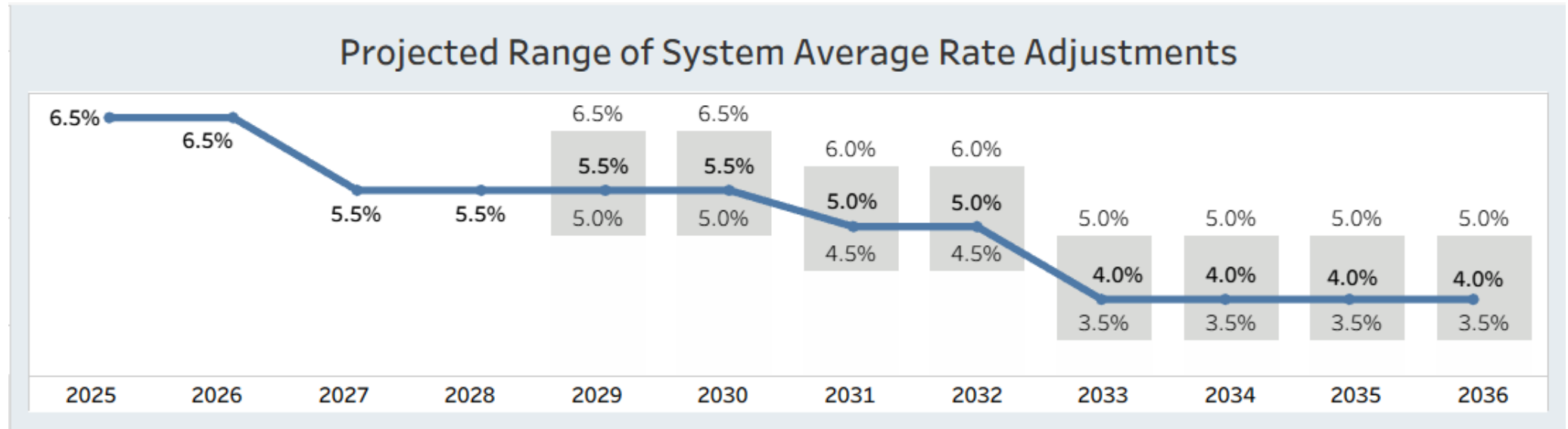
Additional 2.0 FTE are offset by decreases across TPU to reach net-zero FTE

Capital Program



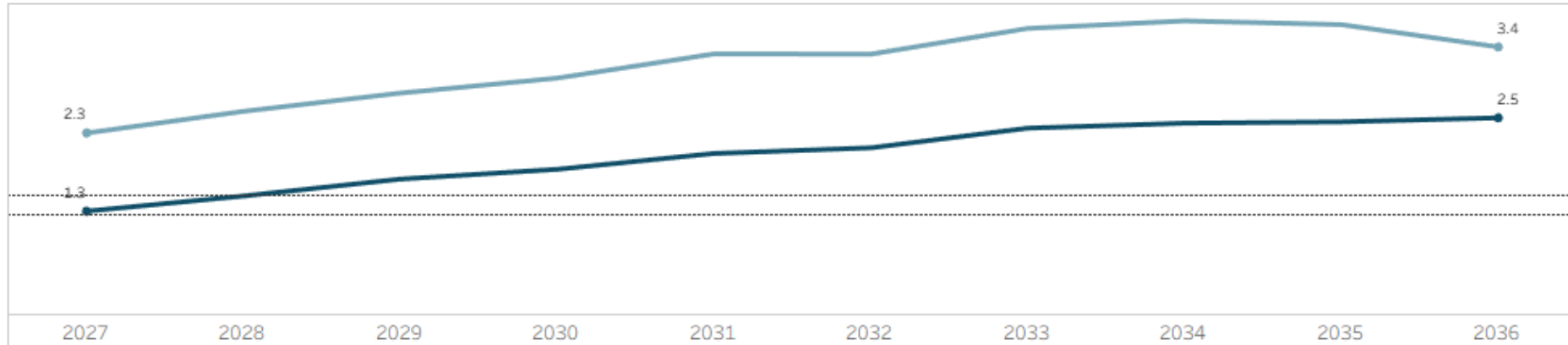
Asset	2025-2026	2027-2028
General Plant	\$17.2M	\$16.7M
Water Distribution	\$43.1M	\$45.5M
Water Source & Transmission	\$19.0M	\$29.0M
Water Treatment	\$3.6M	\$11.5M
Grand Total	\$82.9M	\$102.7M
Total with Completion Factor	\$79.3M	\$82.1M

Rate Projections & Proposed Rates

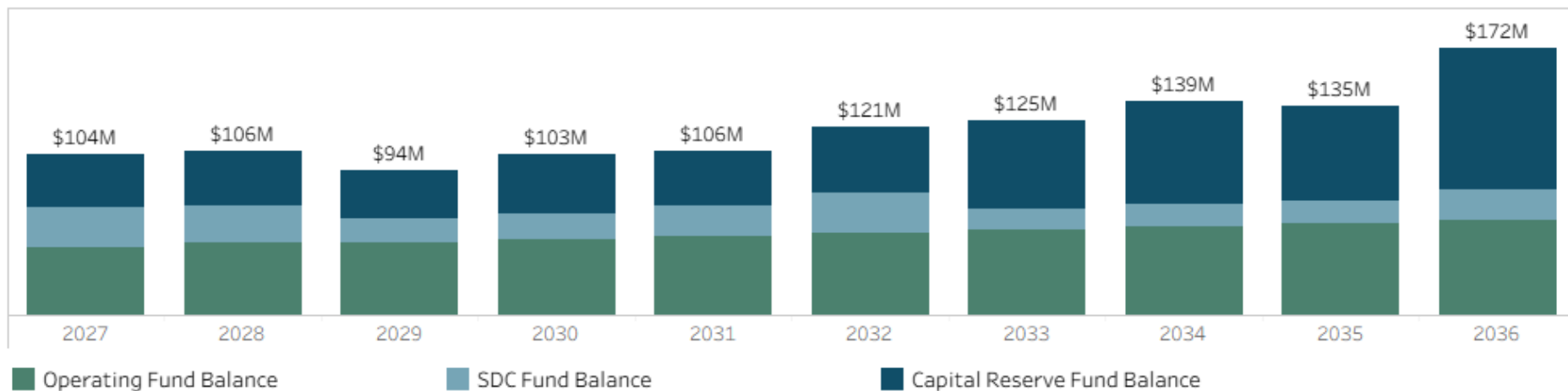


Financial Metrics

Projected Debt Service Coverage

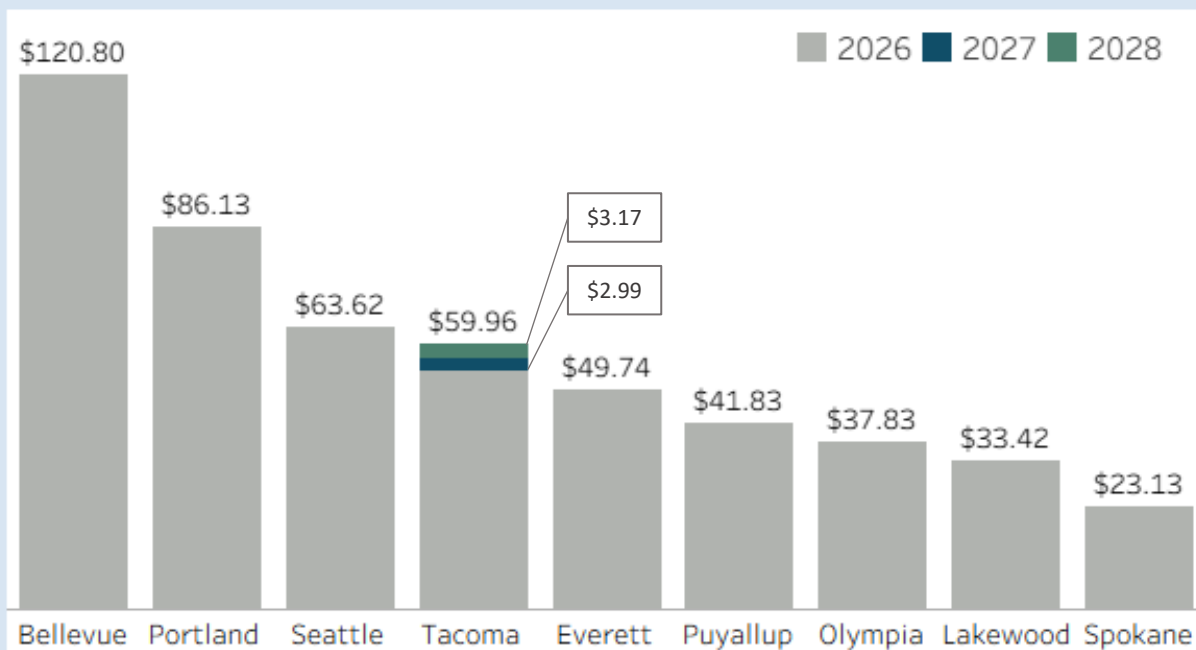


Projected Cash Balances



Rate Comparison

Regional Comparison of Average Monthly Bills



This comparison assumes a single family in Tacoma consumes a monthly average of 6 CCF (4,488 gallons) in winter months and 9 CCF (6,732 gallons) in summer months, with a 5/8" meter.

Comparison of Average Monthly Bills with TPU Customer Assistance Programs



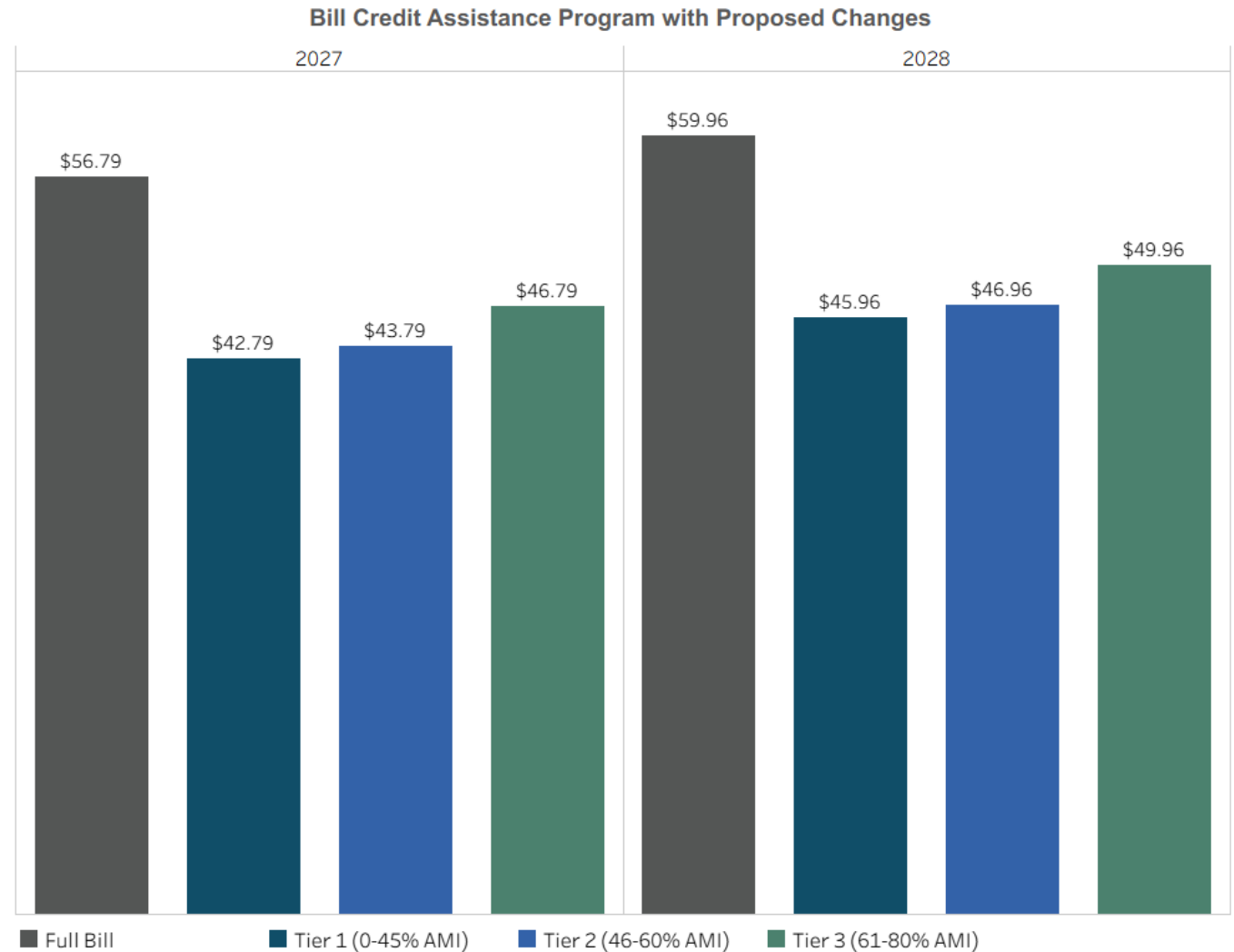
Discount Rate customers, the monthly average is 4 CCF in winter months & 6 CCF in summer months.

Proposed Bill Credit Assistance Program Modifications

**Expand BCAP eligibility:
60% AMI to 80% AMI**

**Automatic + Achievable
to 3-Tiered assistance:**

- **Tier 1 (0-45% AMI) → \$14**
- **Tier 2 (46-60% AMI) → \$13**
- **Tier 3 (61-80% AMI) → \$10**



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

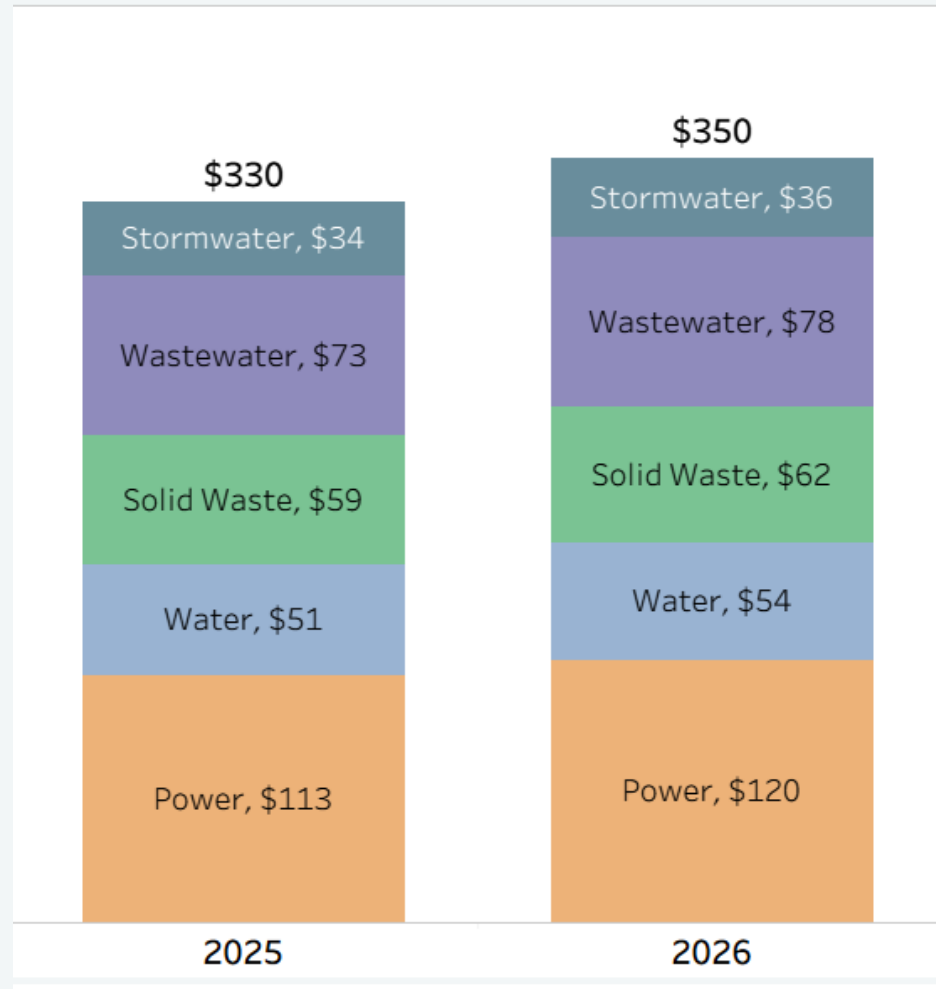
2027-2028 budget represents \$24.6M or 7% increase from 2025-2026

- **Personnel costs increasing by \$10.4M or 12%**
- **Assessments increasing by \$2.6M or 7%**
- **Labor and material cost increases significantly impact operational expenses and capital costs**
- **Propose 5.5% overall system average rate increase for 2027 & 2028**
- **Bill Credit Assistance Program will expand eligibility from 60% to 80% Area Median Income (AMI) and move to a 3-Tiered assistance system**

Five Utility Bill Impacts



Average Monthly Bill
City of Tacoma Resident



Average Monthly Bill
After annual rate adjustments



October

- Joint Study Session (City Council/Public Utility Board)
- TPU Budget & Rates
 - Public Hearing
 - Consideration – 1st PUB Reading
 - Approval – 2nd PUB Reading

November

- City of Tacoma Budget
 - City Council – 1st Reading
 - City Council – 2nd Reading

Contacts

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Appendix

Revenues

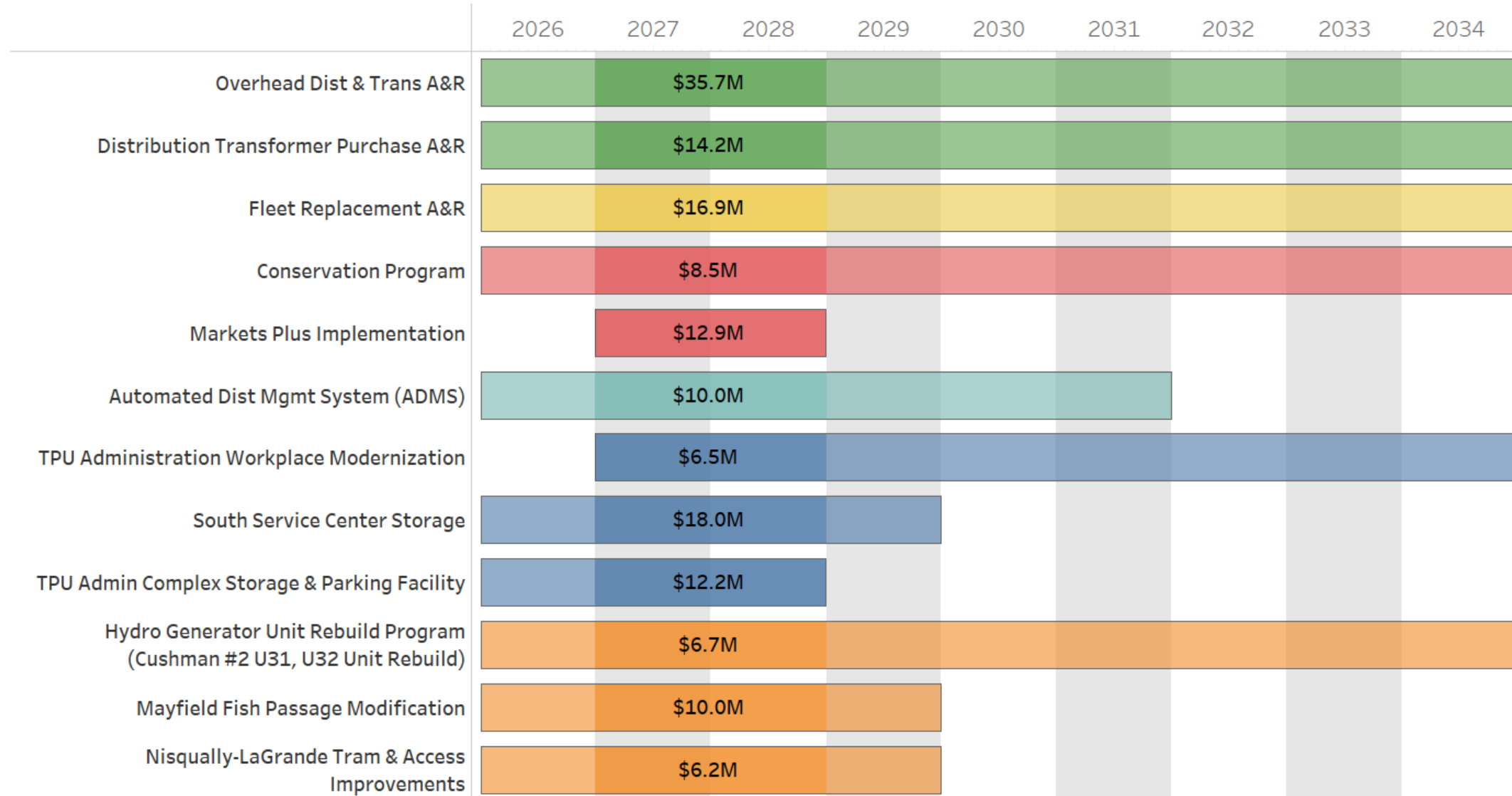
(\$ millions)	Current	Proposed	Increase (Decrease)	
	2025-2026 Budget	2027-2028 Budget	Budget to Budget	
<u>Operating Revenue</u>				
Retail Sales	\$ 825.1	\$ 902.9	\$ 77.8	9.4%
Anticipated Rate Increase	49.7	81.8	32.1	64.6%
Total Retail Sales	\$ 874.8	\$ 984.7	\$ 109.9	12.6%
Wholesale Sales	179.0	103.4	-75.6	-42.2%
Other	57.5	61.3	3.8	6.6%
Total Operating Revenue	\$ 1,111.3	\$ 1,149.4	\$ 38.1	3.4%
Non-Operating Revenue	34.7	31.8	-2.9	-8.4%
Total Revenue	\$ 1,146.0	\$ 1,181.2	\$ 35.2	3.1%
Current Fund Appropriation	49.7	83.3	33.6	67.6%
Anticipated Bond Proceeds	137.8	125.3	-12.5	-9.1%
Total Revenue & Available Funds	\$ 1,333.5	\$ 1,389.8	\$ 56.3	4.2%

Expenditures

(\$ millions)	Current	Proposed	Increase (Decrease)	
	2025-2026 Budget	2027-2028 Budget	Budget to Budget	
<u>O&M Expenditures</u>				
Personnel Costs	\$ 313.9	\$ 371.4	\$ 57.5	18.3%
Purchased Power	349.0	315.7	-33.3	-9.5%
Taxes	132.0	149.8	17.8	13.5%
Supplies, Services & Other Charges	123.8	140.1	16.3	13.2%
Assessments	96.6	104.8	8.2	8.5%
Debt Service	95.9	78.2	-17.7	-18.5%
Total O&M	\$ 1,111.2	\$ 1,160.0	\$ 48.8	4.4%
<u>Capital Outlay</u>				
Revenue Funded	\$ 84.6	\$ 104.5	\$ 19.9	23.5%
Debt Funded	137.8	125.3	-12.5	-9.1%
Total Capital	\$ 222.4	\$ 229.8	\$ 7.4	3.3%
Total Expenditures	\$ 1,333.6	\$ 1,389.8	\$ 56.2	4.2%

(\$ millions)	Current	Proposed	Increase (Decrease)	
	2025-2026 Budget	2027-2028 Budget	Budget to Budget	
<u>Capital Projects</u>				
Additions & Replacements	\$ 115.6	\$ 115.4	\$ -0.2	-0.2%
Aging Infrastructure Upgrades	38.4	42.2	3.8	9.9%
Technology Projects	23.2	29.0	5.8	25.0%
Regulatory	18.3	26.8	8.5	46.4%
Facilities Improvements	24.5	37.7	13.2	53.9%
Other Capital Projects	2.4	13.0	10.6	441.7%
Portfolio Performance Credit	-	-34.3		
Total Capital Projects	\$ 222.4	\$ 229.8	\$ 7.4	3.3%
<u>Capital Funding Sources</u>				
Revenue Funded	\$ 84.6	\$ 104.5	\$ 19.9	23.5%
Debt Funded Bonds	137.8	125.3	-12.5	-9.1%
Total Capital Funding Sources	\$ 222.4	\$ 229.8	\$ 7.4	3.3%

Major Capital Project Timeline

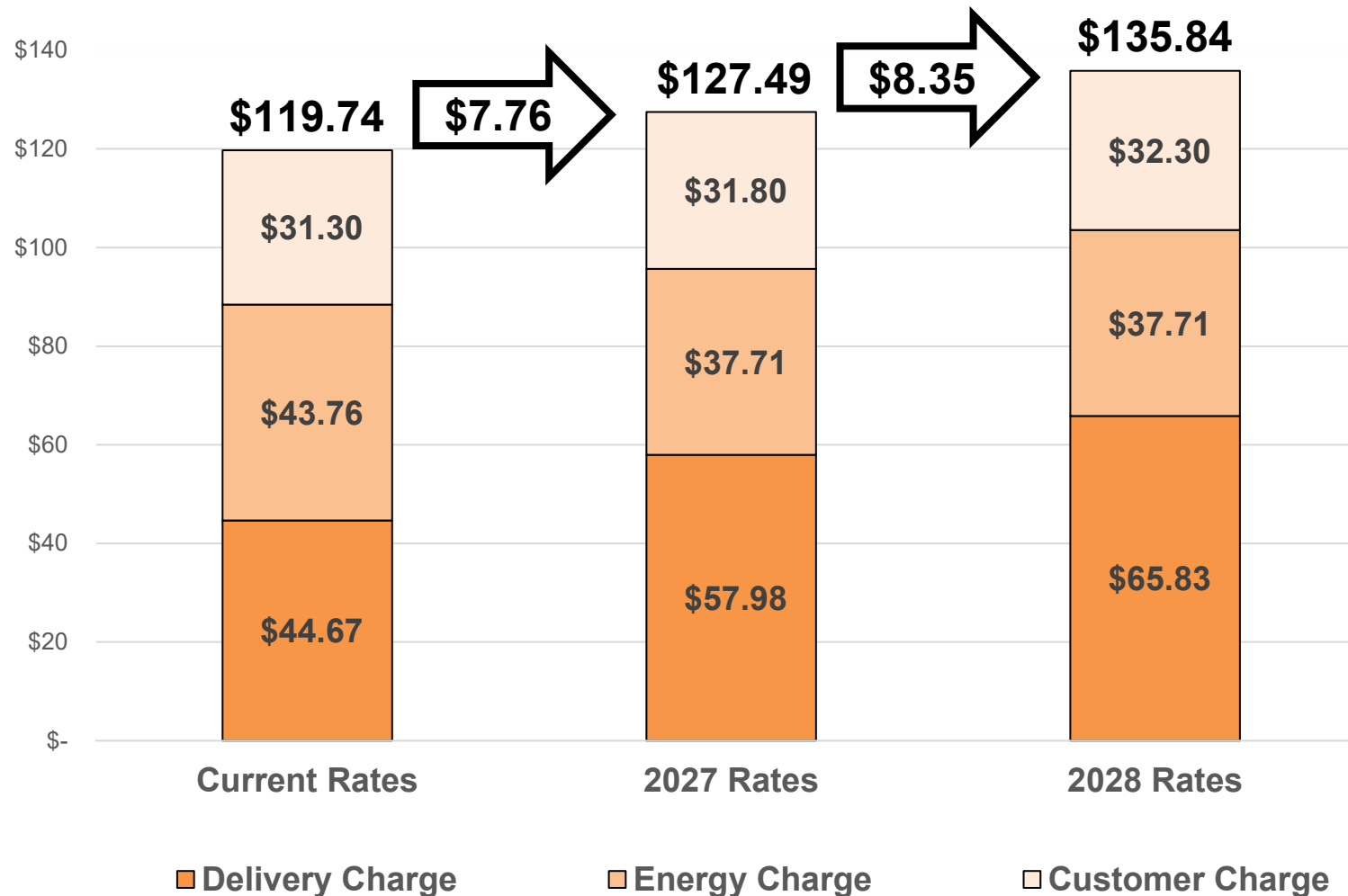


Assessments

(\$ millions)	Current	Proposed	Increase (Decrease)	
	2025-2026 Budget	2027-2028 Budget	Budget to Budget	
IT	\$ 26.5	\$ 28.8	\$ 2.3	8.7%
HR	4.7	4.8	0.1	2.1%
Legal	2.7	3.9	1.2	44.4%
Finance	5.5	7.4	1.9	34.5%
Other	4.3	3.3	-1.0	-23.3%
Total GG Assessments	\$ 43.7	\$ 48.2	\$ 4.5	10.3%
CXEA	\$ 43.9	\$ 44.7	\$ 0.8	1.8%
Administration	6.0	8.3	2.3	38.3%
Support Services	3.0	3.7	0.7	23.3%
Total TPU Assessments	\$ 52.9	\$ 56.7	\$ 3.8	7.2%
Total Assessments	\$ 96.6	\$ 104.9	\$ 8.3	8.6%

(\$ millions)	Current	Proposed	Increase (Decrease)	
	2025-2026 Budget	2027-2028 Budget	Budget to Budget	
Taxes to the General Fund	\$ 83.1	\$ 90.9	\$ 7.8	9.4%
State Utility Taxes	33.9	39.5	5.6	16.5%
Other Taxes (including Franchise Fees)	15.1	19.4	4.3	28.5%
Total Taxes	\$ 132.1	\$ 149.8	\$ 17.7	13.4%

Average Residential Bill Impact



- 2027-2028 bill projected based on **average usage of 965 kWh** per month
- Actual bills **vary based on usage**

Peer Utility Rate Increases



Utility	2026 System Rate Increase	2027 Proposed System Rate Increase	2027 Proposed Residential Rate Increase	2028/2029 Proposed System Rate Increase
Avista	7.51%	13.9%	13.9%	4.7% / 3.5%
Clallam PUD	3.75%	3.75%	3.75%*	TBD
Grant PUD (Core)	3.2%**	3.5%**	3.5%**	3.5% / 3.5%**
Grant PUD (Non-Core)	8.2%**	8.5%**	-	8.5% / 8.5%**
Pacific Power (WA)	10.5%	TBD	TBD	TBD
Portland General Electric	5%	TBD	TBD	TBD
Puget Sound Energy	7.5%	15.2%	16.75%	3.7% / 8.7%
Seattle City Light	5.4%	9.5%	10.3%	9.5% / 7-10%*
Snohomish PUD	2.5%	0-2%	TBD	TBD
Tacoma Power	5.3%	7.8%	6.2%	7.8% / 5.0%*

* Expected

** Core customers: Residential, Agricultural, Small Business; Non-Core Customers: Large Business, Industrial, Large Loads

Financial Policy Updates



Proposed Revised Subsection B.4.

Rates shall be set at levels such that projected current fund (fund 4600) cash balances will ~~be more than~~ *maintain 60 days a minimum of 90 days, a target of 120 days, and a maximum of 150 days* of current budgeted expenditures ~~in each year of the planning period~~ *throughout each year of the planning period*. It is recognized, however, that seasonal fluctuations may cause balances to be below recommended levels, but rates should be set such that the minimum cash balance in any month does not drop more than 40 percent below the recommended level. Operating surpluses may be applied to the Operating Reserve, capital construction, or the Capital Reserve Fund.

If reserves exceed 150 days, a spend-down plan shall be developed and implemented to bring reserves back within the target range. If reserves fall below 90 days, a cost-reduction plan shall be initiated to restore reserves to the minimum threshold.

Proposed Revised Subsection B.6.

The System Development Charge Fund is intended to provide capital funding for source development, transmission, storage, and related facilities. A minimum balance of ~~\$4,000,000~~ *\$2,000,000* will be maintained in the Fund to deal with unforeseen emergencies and contingencies., ~~which would be authorized by separate Public Utilities Board approval.~~

The minimum balance may only be used for emergency situations, severe revenue shortfalls, or critical compliance and safety requirements, and any use must include a replenishment plan approved by the Public Utilities Board. A replenishment plan should include delay or phase of non-critical projects and focus on projects with the highest regulatory or operational priority.

Financial Policy Updates



Proposed Revised Subsection B.1.

Rate revenue together with other revenue sources, will cover current costs and meet or exceed all bond and other requirements necessary to maintain financial sufficiency. *While this policy includes minimum requirements for liquidity and debt service coverage, it is the goal of Tacoma Water to maintain or improve current debt ratings, and the utility will maintain higher levels of coverage and liquidity as required to achieve this goal.*

Proposed Revised Subsection E.2.

The Public Utility Board must review the existing rate policy well in advance of consideration of each rate adjustment. Any proposed changes require formal Board and ~~City Council~~ resolutions.

New Reserve Policy Snapshot

Reserve Fund	Operating (Current)	Capital	System Development Charge (SDC)
Purpose	• Day to Day O&M • Flexibility to manage risk • Manage revenue fluctuations • Meet working capital needs	• Capital project funding • Mitigate risk • Financial stability • Stable rate adjustments	• Capital funding for system improvements • Mitigate risk • Financial stability • Stable rate adjustments
Requirement	Min 90, Target 120, Max 150 Days Budgeted Operating Expenses	1% Original Cost Plant-in-Service	\$4M
2026 Requirement	\$30M - \$40M - \$50M	\$13M	\$4M
Q2-2026	\$65.8M (218 days)	\$13.1M	\$47.9M