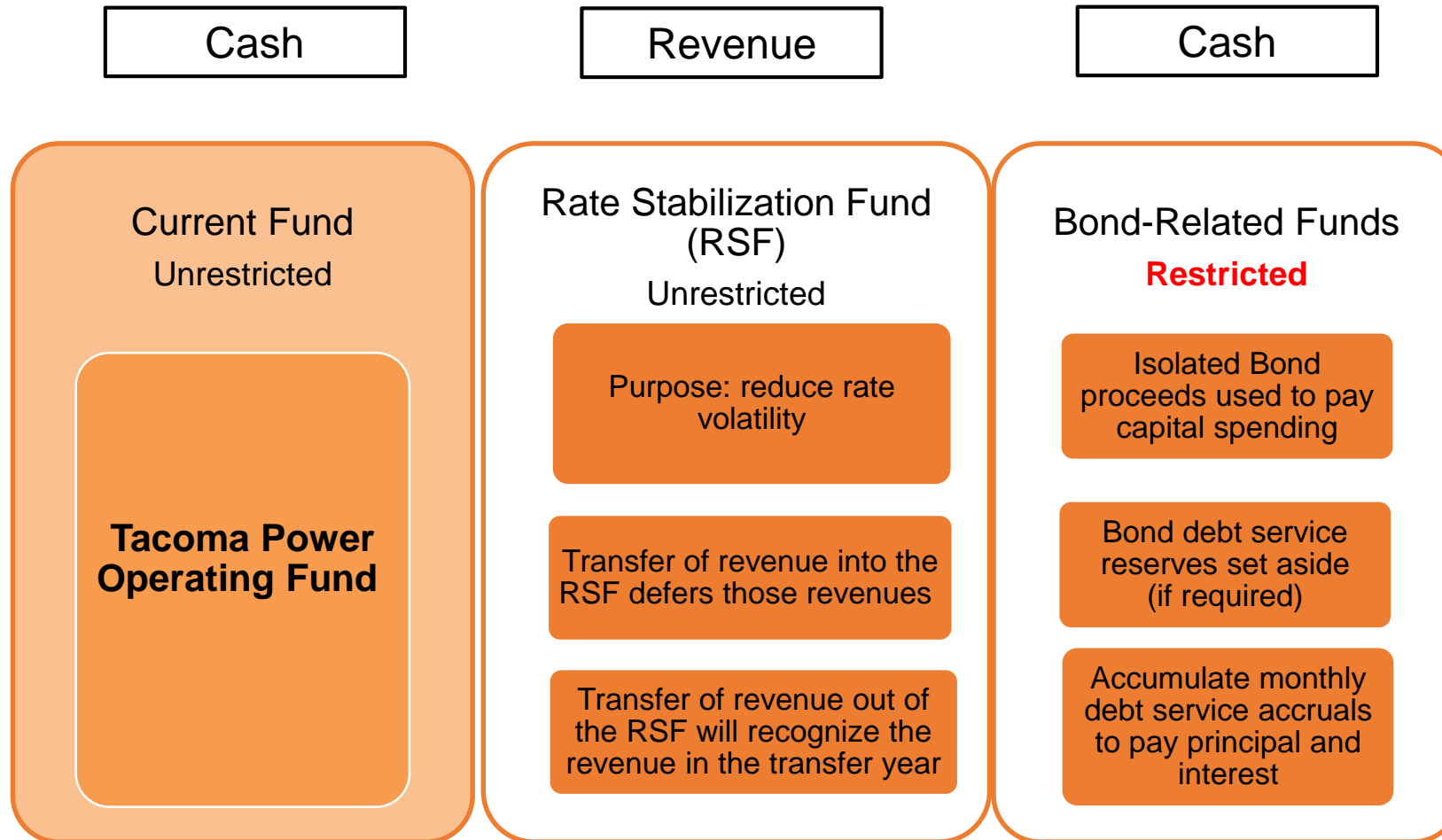
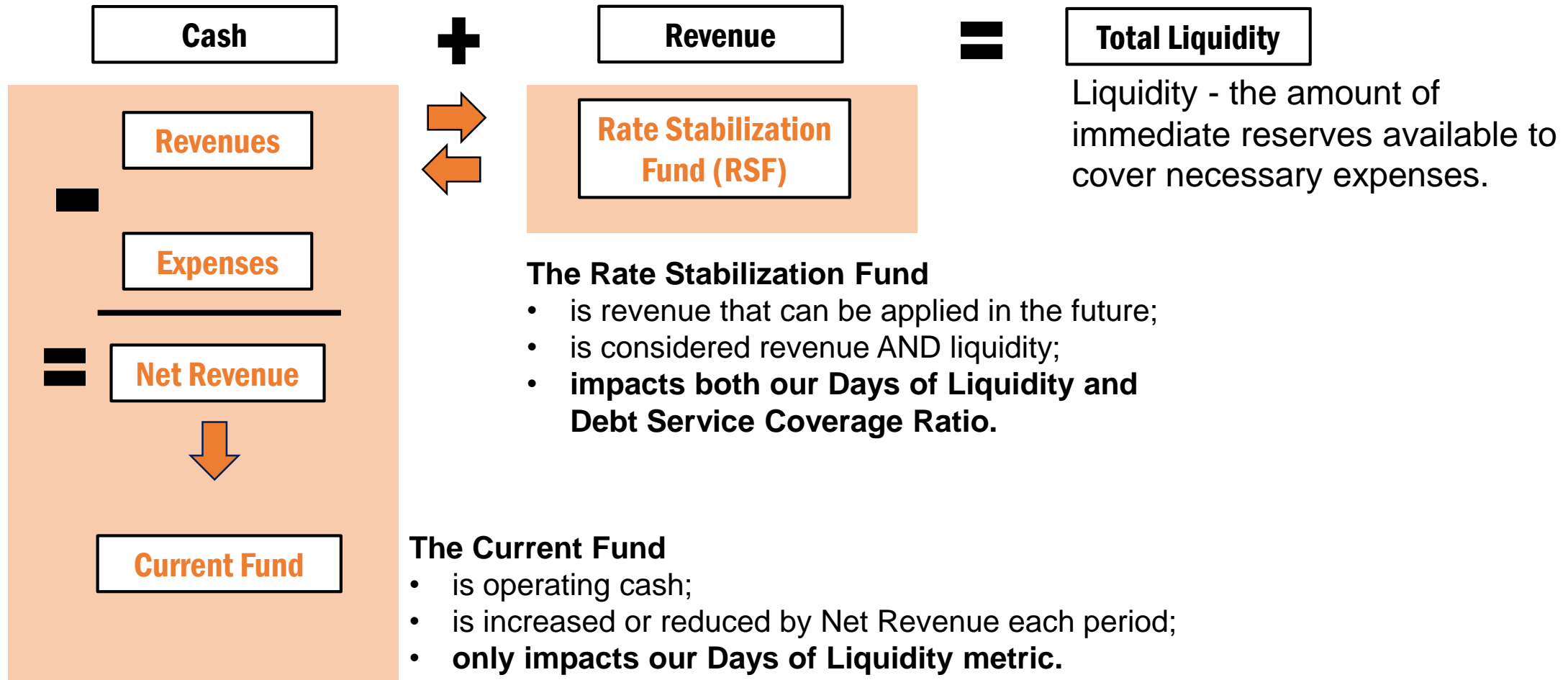


Reserve Funds

Types of Reserves



The Flow of Unrestricted Reserves



Reserves Impact System Rates through Financial Metrics



Rate Stabilization Fund provides flexibility to meet our financial metrics requirements

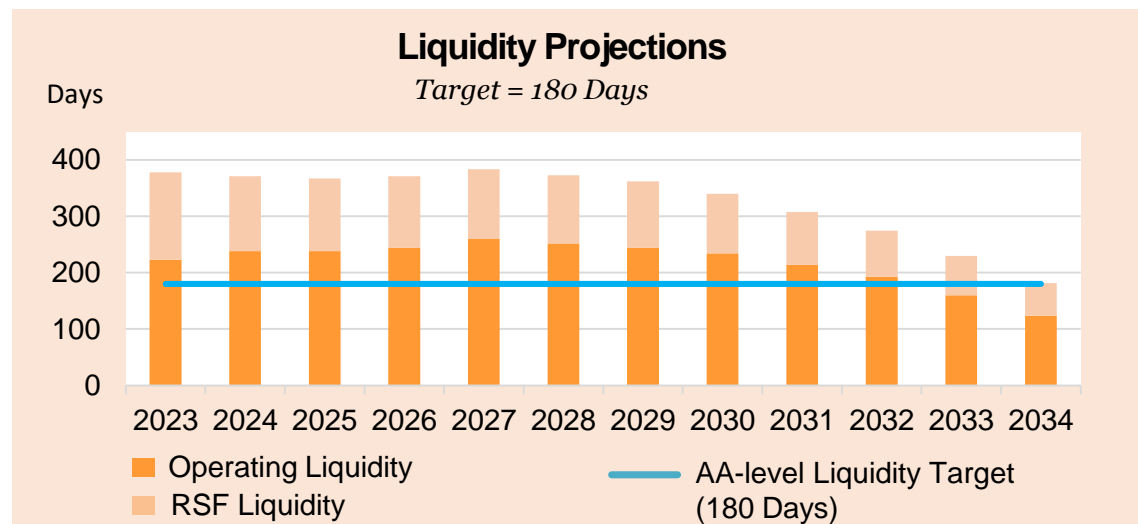
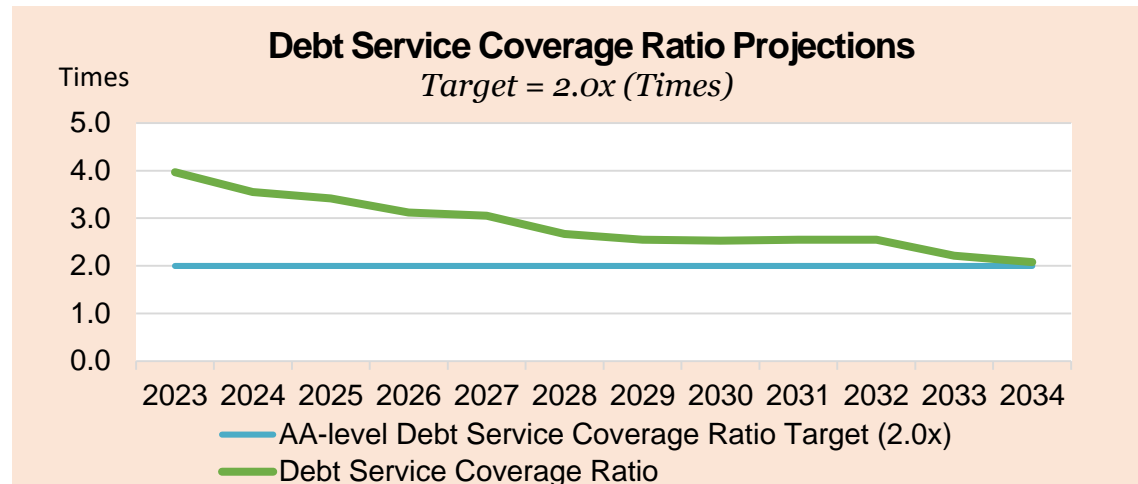
Accounting rules require revenues and expenses be recognized in the year that they are earned.

- extra revenue this year cannot be applied to future years

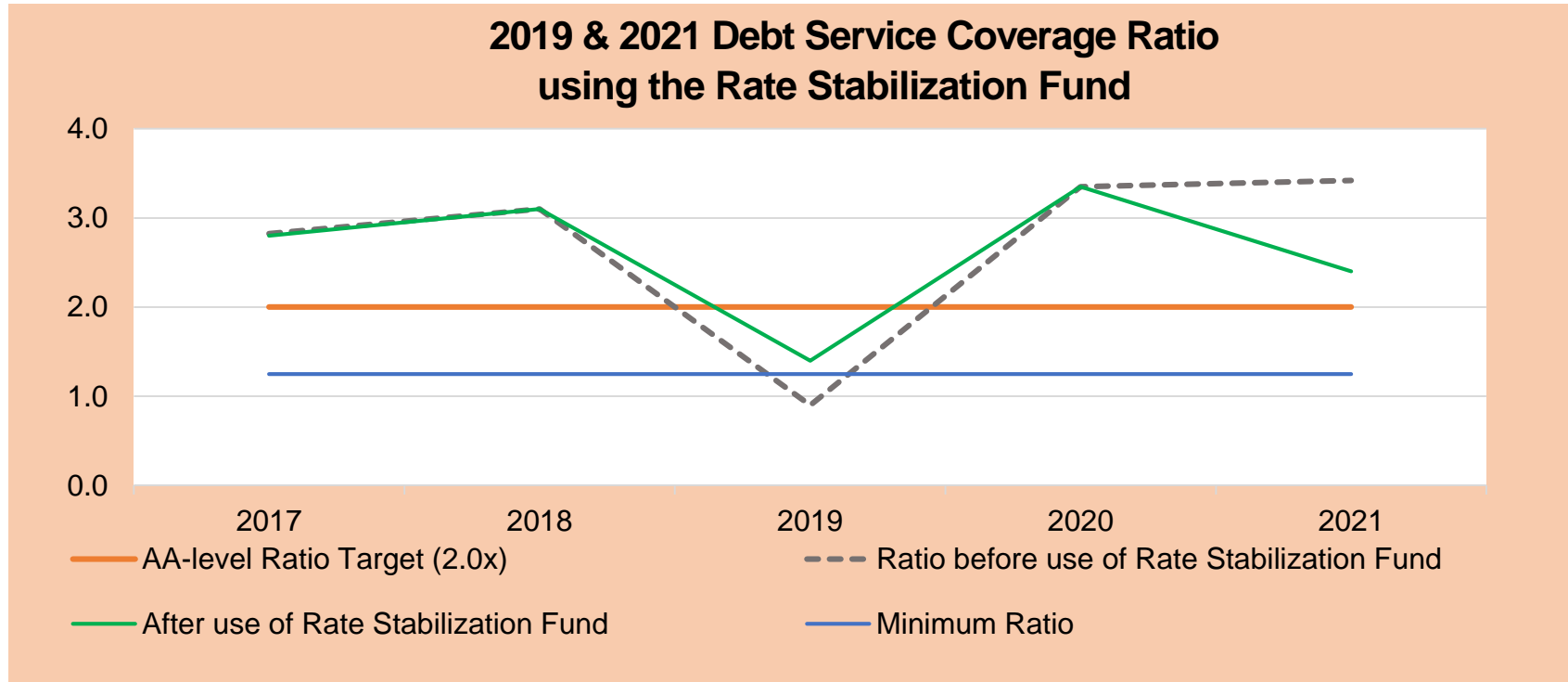
Exception – revenues can be applied in future years if transferred into the Rate Stabilization Fund.

Rate Stabilization Fund (RSF) can improve the Debt Service Coverage Ratio

- Debt Service Coverage Ratio
Net Revenue / Debt Service Expenses:
Minimum: 1.25x
Target: 2.0x
- Days of Liquidity
Annual Liquidity / Operating Expenses:
Minimum: 150 Days
Target: 180 Days



Use of the Rate Stabilization Fund Helps us Maintain our Rating and Avoid Rates Shocks



Grey line = before use of Rate Stabilization Fund

Green line = after use of Rate Stabilization Fund

2019 after the near-critical water year:

- Used \$10 million of RSF to meet minimum ratio **and** avoid default on outstanding Bond Covenants & a 4% rate increase

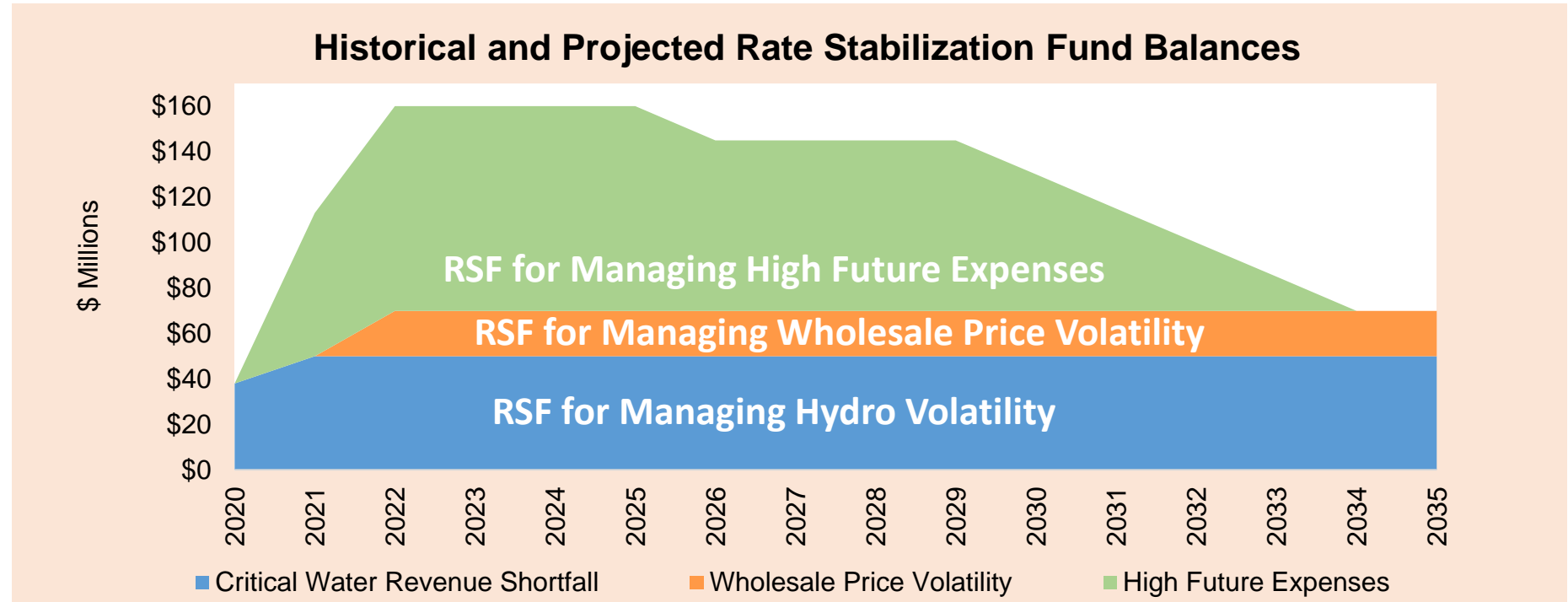
2021 after high wholesale prices:

- Deferred \$25 million of wholesale revenue to apply to future years

Forecasts use the Rate Stabilization Fund to Smooth Rates



Maintaining adequate reserves will help mitigate rate and financial risks



RATE STABILIZATION FUND BALANCES (YEAR-END)								
\$ IN MILLIONS	2010	2011	2012	2013 - 2018	2019	2021	2022	2023 - 2034
+ADDITION / - WITHDRAWAL	+\$10 M	+\$26 M	+\$12 M	\$0	-\$10 M	\$25 M	\$95 M	- ~\$90 M (TOTAL)
BALANCE	\$10 M	\$36 M	\$48 M	\$48 M	\$38 M	\$63 M	\$158 M	\$68 M

Current Core Rate Stabilization Fund Balance is Less Than Recommended



2024 Tacoma Power Bond Issuance Request for Information Underwriter Bank Responses

Comparative Analysis of WA Public Power Issuers (FY 2022)					
Utility	Planned Use \$000	RSF Balance \$000	RSF % of Operating Revenue	Wholesale Revenue % of Operating Revenue	Replenish Mechanism
Tacoma	- \$90,000	\$158,000 (\$68,000 core)	12% (core)	27%	Annual evaluation
Clark		\$64,000	12%	11%	
Snohomish		\$115,000	15%	10%	
Grant		\$98,182	24%	24%	
Seattle		\$100,000	8%	14%	Automatic rate increase if < \$75M
Sacramento PUD *		\$190,000	9%	19%	Hydro rate surcharge or rebate

*Includes \$31.4 million in a separate Hydro Stabilization Fund

11 Underwriter Bank Responses:

4 respondents provided to Tacoma Power a core balance recommendation to address revenue volatility:

- 3 recommend a core balance of \$100 - \$120 million to address hydro and market price volatility
- 1 recommends a core balance of \$60 million to address hydro volatility

Respondents further recommend additional funds in the RSF be reserved and allocated toward debt service, significant future expenses, or capital projects.

Once the RSF is used as planned in future high expense years, Tacoma Power's RSF core balance will be \$68 million

Robust Rate Stabilization Fund Balance can Reduce Rate Shock from Future Expenses



Future expenses

- Debt Service spikes
- Hydro relicensing of 3 dams
- Dam Safety Program
- Grid modernization projects

The totality of these expenses expected to be **> \$500** million over the next ten years

Future risks & emerging issues

Post 2028 BPA Contract

- likely not as effective in meeting resource needs so we will need to procure more power supply

Wildfire liability risk

- 2 largest Oregon utilities requesting \$185 million investments in wildfire projects

Increasing market volatility

- [SCL burns through cash reserves](#)
- [Clark PUD uses RSF to address \\$17.7M shortfall](#)

Peer Utility Rate Increases



<u>Utility</u>	<u>Rate Increase</u>
Seattle City Light	Seattle City Light: 9.5% 2024
Snohomish PUD	SnoPUD: 5.8% 2024
Puget Sound Energy	PSE: 8.7% 2023, 1.7% 2024 PSE: 17%* 2025 & 2026
Grant PUD	Grant PUD: 3.5% 2024
Chelan PUD	Chelan PUD: 3% 2020-2024
Clark PUD	Clark PUD: 14% 2024
Pacific Power	Pacific Power: 12.9% 2024 Pacific Power: 16.9%* 2025
Portland General Electric	PGE: 17% 2024, 7.4%* 2025
Avista	Avista: 12.6%* 2024, 7.8%* 2025

* Proposed

Weather challenges, demand increases, and rising costs result in changes to customer electricity rates

by [Seattle City Light](#) on October 12, 2023

City Light rates in Seattle to increase by nearly 10% next year

Puget Sound Energy proposes hefty rate hikes to pay for hydro and wind power

Feb. 28, 2024 at 6:00 am | Updated Feb. 28, 2024 at 6:18 am



Chelan PUD customers face five years of 3% rate increases

Clark Public Utilities rates will jump 14.5 percent as of March 1

Pacific Power Increases Rates, Citing Rising Costs And Wildfire Mitigation

After raising rates by 17% in 2024, PGE requests further hikes for 2025

Avista Utilities set to raise Washington electricity rates

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

Board Guiding Principle #2: Financial Sustainability

- **Directs for planning methods that incorporate conservatism and gradualism ... to ensure long-term financial stability and anticipate unexpected future events with adequate cash reserves and insurance.**

Board Guiding Principle #3: Rates

- **Directs for planned gradual and consistent utility rate changes to mitigate large customer rate increases**

Maintaining Low and Stable Rates Requires a Robust Rate Stabilization Fund to Mitigate:

- **Hydro and Price volatility**
- **Future operational risks**
- **Expense spikes**
- **Emerging issues**
- **General cost pressures**

Rate Stabilization Fund Recommendations:

- **Maintain a core balance of \$100 million to address hydro and market price volatility**
 - **Current planned use of \$90 million in the next ten years will reduce core balance down to \$68 million**
- **Allocate additional funds in the RSF toward significant future expenses and emerging issues**

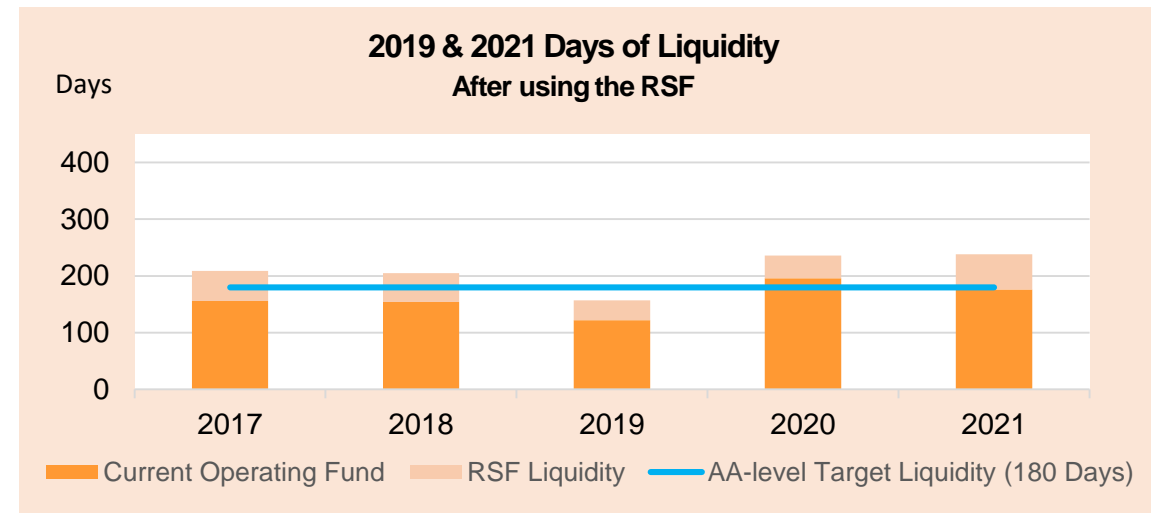
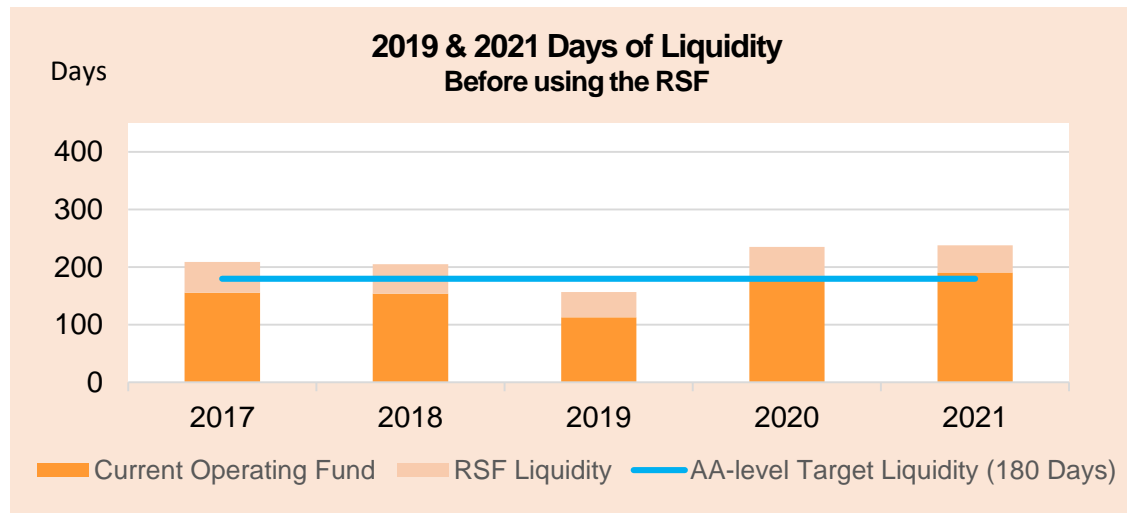
Several peer utilities without a sufficient Rate Stabilization Fund are increasing rates significantly



Questions?

Appendix

Total Liquidity Remains Balanced when we use the Rate Stabilization Fund (RSF)



When using the RSF, total liquidity does not change because the revenue transfers from one liquidity account to the other.

2019 after the near-critical water year:

- Reduced the RSF balance by \$10 million
- Increased revenue by \$10 million
- Increased current operating fund by \$10 million

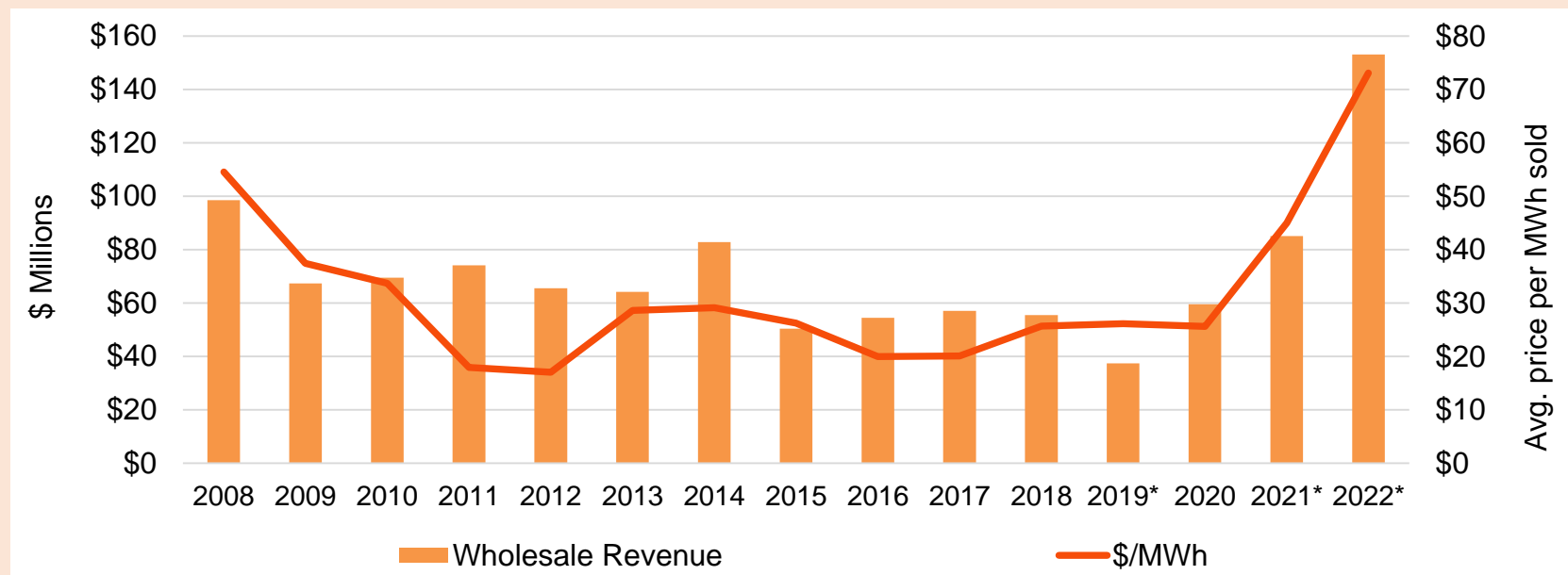
2021 after high wholesale prices:

- Reduced Wholesale Revenue by \$25 million
- Reduced Current Operating Fund by \$25 million
- Increased Rate Stabilization Fund by \$25 million

Variance in Wholesale Revenue is a Result of Hydro and Market Price Volatility



Over the last 15 years, Wholesale revenue has contributed between 8% and 26% of Total Revenue for Tacoma Power



* Does not include transfers to / from the Rate Stabilization Fund

WHOLESALE REVENUE AS A % OF TOTAL REVENUE BALANCES (YEAR-END)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
WHOLESALE REVENUE %	24%	19%	19%	20%	17%	15%	19%	12%	13%	13%	12%	8%	12%	17%	26%



2024 Tacoma Water Reserves Overview

Presented by Jodi Collins for the Public Utility Board on March 27, 2024

Tacoma Water Funds



Tacoma Water currently maintains 32 funds in order to properly classify and account for financial activities

Cash Balances Included in Liquidity (\$143M)

Cash Segregated for Specific Purposes (\$30M)

Operating Fund

Tacoma Water
Operating Fund

Unrestricted

Capital Funds

**System Development
Charge (SDC)**

Restricted for Capital
Expenditures

Contains Rate
Stabilization Account

Capital Reserve

Restricted for Capital
Expenditures

Regional Water Supply System

RWSS Operating Fund
Segregate RWSS Activity

**RWSS Bond-Related
Funds**
Segregate RWSS Activity

Customer Funds

Collect Advance
Payments and Track
Developer Funded Work

Segregate Utility
Customer Deposits

As fiscal agent for the
Water Supply Forum, we
use this Fund to hold and
report Forum activity

Bond-Related Funds

Isolate Revenue Bond
Proceeds and Interest for
Construction

Set Aside Required Bond
Reserves

Accumulate Monthly Debt
Service Accruals to pay
principal and interest

Base Case: Reserves, Rates, and Metrics

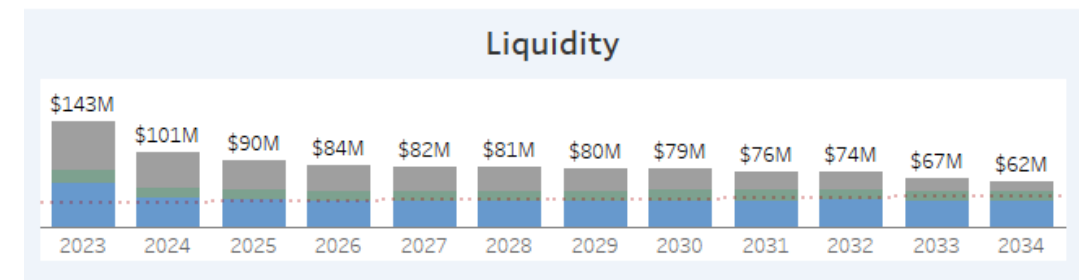
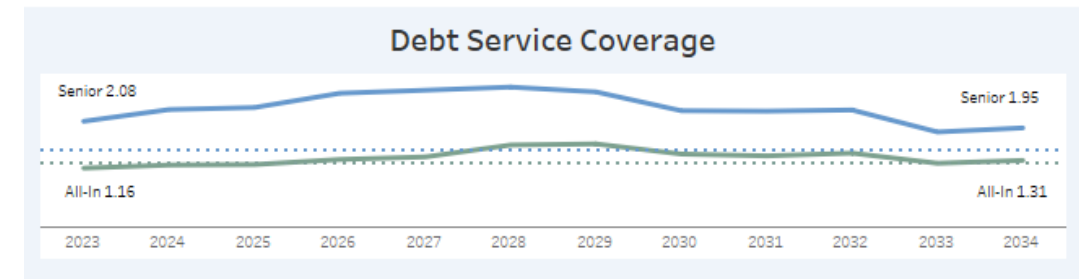
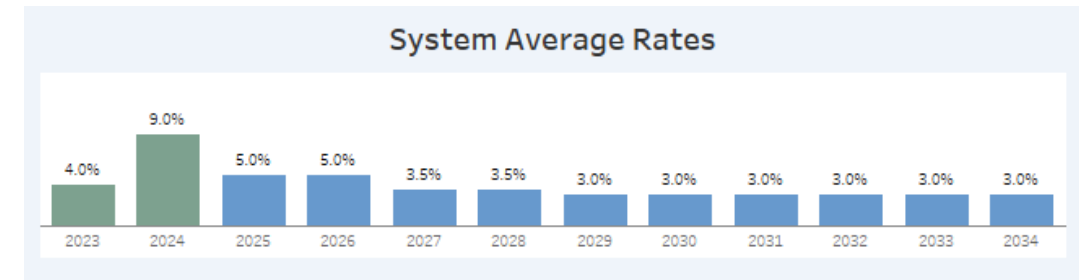
Gradual approach sets rates as low as is responsible and ensures that we meet policy financial metrics

The **debt service coverage ratio** shows how many times we can pay outstanding debt service with the cash we have available in a given year. It measures compliance with debt covenants and provides financial flexibility.

- **Senior:** Net Revenue/Debt Service after transfers from RSA and without gross earnings tax or subordinate debt
- **All-In:** Net Revenue/Debt Service does not include transfers from RSA and does include gross earnings transfer and subordinate debt

Liquidity helps manage risk, meet working capital needs, and support stable rate adjustments. Days Liquidity shows how many days of operating expenses we could fund from reserves.

- **Days on Hand:** (Operating Fund balances + Capital Reserve and SDC Fund balances *365 days)/annual budgeted operating expenses



Water Industry Guidance



Industry Considerations and Risk Mitigation*	Tacoma Water
<p>Location and size of the utility</p> <ul style="list-style-type: none"> • Smaller utilities may be more susceptible to revenue/expense volatility • Drought restrictions common in some locations • Reserves, rate stabilization funds, rate structure decisions 	<ul style="list-style-type: none"> • We are not a small utility and drought restrictions are relatively uncommon in the Pacific Northwest • We have established operating and capital reserves to address fluctuations • Our current rate design provides revenue stability
<p>Seasonality and weather fluctuations</p> <ul style="list-style-type: none"> • Operating reserve to manage risk, revenue and expense fluctuations, and meet working capital needs, rate stabilization funds 	<ul style="list-style-type: none"> • We have seasonal fluctuations and are able to forecast relatively accurately (generally with less than 10% variance), with minimal volatility in water demand/usage • 60 days of budgeted operating expenses supports cash fluctuations • Water’s Rate Stabilization Account (RSA) in the SDC Fund was created in 2009 using wholesale connection charges that were already deferred and must be used for capital expenditures • As of 2013, the balance was about \$35 million and has not been used to boost coverage since 2012, cash in the RSA is included as liquidity
<p>Age and type of infrastructure</p> <ul style="list-style-type: none"> • Capital reserves, consider inter-generational equity 	<ul style="list-style-type: none"> • We have over \$1.3 billion original cost plant in service to care for • We do see some volatility in our capital planning (large projects or programs, regulatory requirements, future risks) • Capital reserves are set to fund 1% of that original cost to help mitigate renewal and replacement
<p>Legal covenants and debt burden</p> <ul style="list-style-type: none"> • Bond covenants require adequate debt service coverage ratios that helps manage debt 	<ul style="list-style-type: none"> • Our bond covenants require 1.25X coverage • Our policy requires Senior coverage (as defined in bond covenants) above 1.50X and All-In coverage at 1.25X (or 1.00X during times of reserve spend-down)

*AWWA Rates & Charges Committee Project: Cash Reserve Policy Guidelines (2018)

Questions?

Contact Jodi Collins (jlcollins@cityoftacoma.org) or Lyna Vo (lvo@cityoftacoma.org)



Volume Investment Reserve Fund

2024

TACOMA RAIL
TACOMA PUBLIC UTILITIES

Volume Investment Reserve Fund



- **Established from the 2023 Rail Rate Policy**
 - **Section B.1.**
 - 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 Tacoma Rail's enterprise fund. To establish a balance to the fund, an initial \$500,000 will be transferred to the sub-fund when created.
 - **Section C.4.**
 - 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. Use of the fund will be limited to:
 - a. Workforce stability to ensure staffing retention for service reliability and resiliency when rail volumes rebound after a downturn.
 - b. Locomotive upgrades to sustain Tacoma Rail's environmental leadership goals.
 - c. Timely acquisition, replacement and upgrade of infrastructure and capital assets.
 - d. Grant or debt matching opportunities.
- **Current balance: \$500K**

Questions?

Contact Dan McCabe (dmccabe@cityoftacoma.org)