

**Summary:**

## Tacoma, Washington; Retail Electric

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Credit Profile		
Tacoma elec sys		
Long Term Rating	AA/Stable	Affirmed
<b>Tacoma elec</b>		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

## Rationale

S&P Global Ratings affirmed its 'AA' long-term rating on the city of Tacoma's electric system revenue bonds outstanding. The outlook is stable.

The rating reflects the application of our "U.S. Municipal Retail Electric And Gas Utilities" criteria, published Sept. 27, 2018, on RatingsDirect.

The 'AA' rating further reflects Tacoma's ability to maintain healthy coverage and liquidity through various hydrological and economic conditions. Concentration in hydroelectric generation, from both owned assets and power purchases, exposes the city to some surplus sales risks. However, management has prudent risk management policies and a history of successful rate management, which mitigates this ongoing exposure. Further, the maturity and diversity of the underlying service area and stable customer base contribute to the city's credit quality.

The enterprise risk profile reflects our view of the city's:

- Very strong operational and management assessment, highlighted by primarily hydroelectric assets that are high quality and low cost. The city's assets and purchased power supply through the Bonneville Power Administration (BPA) offer relatively low cost supply; the concentration in hydroelectric resources exposes the city to above-average price volatility with respect to surplus sales. The city is compliant with state and federal regulatory requirements and does not have any near-term infrastructure needs to meet regulatory mandates;
- Management is extremely strong, characterized by thoughtful risk management policies, consistent rate adjustments, and strong financial and budgeting practices;
- Very strong service area with stable economic fundamentals, including military installations and a major U.S. port that should contribute to incremental population growth. Income levels are slightly below the national level. Residents have access to both the local labor market as well as the neighboring Seattle labor market, which increases the diversity of employment opportunities. The city is the fourth-largest municipal utility in the state with a diverse customer mix;
- Adequate market position with positive attributes such as relatively competitive residential rates and a protective city charter provision that shelters the utility from competing alternatives. However, the exposure to wholesale sales and above-average industrial rates introduce some credit risk, though we believe these risk are largely offset by

management's acumen; and

- Extremely strong industry risk assessment relative to other industries and sectors.

The financial risk profile reflects our view of the department's:

- Very strong fixed-charge coverage (FCC) with conservative budget practices, which suggest ongoing maintenance of robust coverage levels;
- Very strong liquidity that consistently exceeds the city's 180 days of cash on hand target and includes an \$100 million credit line and a \$48 million rate stabilization fund (RSF); and
- Very strong debt and liabilities score that is characterized by a 33% debt to capitalization ratio. The utility's five-year capital plan totals \$405 million, with 47% (\$190 million) to be funded with debt, so we expect this ratio to remain healthy given the significant planned pay-as-you-go spending.

For more information, please see the analysis published June 26, 2019 on RatingsDirect.

## Outlook

The stable outlook reflects our expectation for FCC and our view of management's projections that indicate historically strong coverage and liquidity levels will continue. Given management's demonstrated willingness to increase base rates in response to unfavorable hydrologic years and/or adverse market conditions, coupled with conservative budgeting and planning practices, we believe projections are credible. The long-range financial plan and the recent rate study further support the stability of the 'AA' rating, since prudent contingency planning contributes to Tacoma's ability to weather different cycles with predictably strong outcomes.

### Downside scenario

We could lower the ratings if the city fails to meet their financial projections for coverage or materially changes their management or rate policies in a way that increases risk or stresses financial metrics. Further, we could worsen the ratings if there are significant additional debt needs for Tacoma or BPA that result in materially higher retail rates or a weakened competitive position that frustrates the city's ability to maintain liquidity and achieve FCC commensurate with recent years' levels. This could occur if regional hydrology conditions are worse than predicted for a sustained period, or if the city is unable to execute on its integrated resource plan--either by failing to achieve projected conservation levels or not passing through additional costs to its customers.

### Upside scenario

While unlikely, given our view of the city's forecast that indicates financial metrics in-line with historical results, we could raise the ratings within our two-year outlook horizon if the city materially outpaces projections, and we believe these trends are sustainable. Given hydrology exposure and lack of a power cost adjustment (PCA) as well as potential indirect regulatory exposure associated with BPA's Environmental Impact Survey, we do not anticipate raising the rating during the next two years.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for

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further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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