Research Update:

Tacoma, WA Series 2025A And 2025B Electric System Bonds Assigned 'AA' Rating; Outlook Is Stable

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Overview

- S&P Global Ratings assigned its 'AA' long-term rating to Tacoma, Wash.'s anticipated $131.9 million series 2025A electric system revenue bonds (green bonds) and $91.1 million series 2025B electric system revenue refunding bonds.
- At the same time, S&P Global Ratings affirmed its 'AA' rating on Tacoma's electric system revenue bonds outstanding.
- The outlook is stable.

Rationale

Security

The 2025A bonds will fund capital improvements to the electric system. The 2025B bonds will current-refund all or a portion of the series 2010B and 2013A bonds outstanding for debt service savings, subject to market conditions.

We view the bond provisions as credit neutral. The bonds are secured by a pledge of net revenues of the city's electric system. A rate covenant requires the system to generate debt service coverage of at least 1.25x. The additional bonds test requires historical or projected revenues to provide 1.25x coverage. The utility had $594 million in long-term electric system debt outstanding as of Dec. 31, 2024.

Credit highlights

The rating reflects Tacoma's large service territory, proactive rate-setting practices, and diverse customer base, which together underpin its ability to maintain healthy coverage and liquidity through various hydrological and economic conditions. These strengths are tempered by the utility's concentration in hydroelectric generation and surplus sales risks in the wholesale power market, which could constrain financial flexibility during periods of prolonged adverse water conditions. However, management maintains a rate stabilization fund, currently funded at $158 million, which mitigates some of the risk associated with hydrological variability. The rating is also constrained by Tacoma's sizable future capital needs, largely related to its owned hydroelectric generating facilities.

The rating further reflects our view of Tacoma's credit strengths:

- Stable retail demand from a sizable service area economy with diverse end markets and 195,000 customers provides financial and operational flexibility as well as economies of scale.
- Management has a track record of adjusting rates in response to changes in power markets. The utility maintains a rate stabilization account to offset variability in power costs and in anticipation of future expenses, and uses hedging and risk management practices to navigate varying circumstances.
- The utility has a liquidity position of $423.7 million in balance sheet cash, as well as a $50 million credit facility, together equivalent to 394 days of operations in unaudited fiscal 2024. Management’s forecast indicates a gradual decline in liquidity, to about 200 days by 2030, as the utility did not renew its $50 million credit facility, and as it makes planned drawdowns to fund a portion of its capital needs. Management’s forecasts are generally conservative, and actual performance could outpace forecast levels. On balance, we believe forecast levels remain commensurate with the current rating.
- The debt-to-total-capitalization ratio of 39% in unaudited fiscal 2024 reflects a manageable debt load, although this ratio could rise as the utility navigates through its capital program.

Partially offsetting factors include our view of the utility's:

- Dependence on the competitive wholesale power market ranging from about 8% to 31% of revenue over the past 12 years, which management budgets for and mitigates through policies and risk management practices when hydrological conditions are unfavorable; and
- Generation portfolio concentrated in hydroelectric dams, which carry risk of costs associated with fish-habitat remediation; moreover, Tacoma anticipates it will face significant additional expenses associated with re-licensing costs and seismic upgrades at a number of its dams. Tacoma has incorporated these projects into its long-term planning and rate setting.

Environmental, social, and governance

Tacoma predominantly sources its power through non-carbon-emitting hydroelectric resources, which limits the utility's exposure to the costs and operational challenges of legislative and regulatory initiatives to reduce greenhouse gas emissions. However, Tacoma's reliance on a network of hydroelectric dams exposes the utility to the potentially substantial ongoing remediation costs for fish passage and fish habitats, as well as potential seismic upgrades. In addition, we consider environmental risks as slightly elevated, given that the city is on Puget Sound and is exposed to storm surges and other extreme events related to sea-level rise. Tacoma also faces wildfire risk, especially in the southern areas of its service territory. Management developed a wildfire mitigation plan, which details its various wildfire prevention strategies including fuel and vegetation management, asset inspections, and de-energization strategies. In addition, the utility is relatively less exposed than many other utilities in Washington, as most of its service area is urban in nature, with minimal or no vegetation.

Tacoma is compliant with Washington's renewable portfolio standard (I-937) and its decarbonization bill, the Clean Energy Transition Act, through its existing low-carbon portfolio, eligible energy purchases, and the acquisition of renewable energy credits. We believe the continued costs of complying with mandates will be manageable, given management's proactive approach and the existing portfolio of assets.

We believe Tacoma's social and governance factors are in line with those of peers, highlighted by generally affordable electric rates, full rate-setting autonomy, and strong policies and planning. We are monitoring the strength and stability of electric utilities' revenue streams given inflationary pressures on electricity prices (which have outpaced the broader Consumer Price Index inflation rate), reflecting higher operating and debt costs due to investments in emissions reductions, load growth, and climate resilience. We anticipate that substantial and sweeping tariffs could also pressure electricity prices as utilities source costlier materials and components critical to the sector’s build cycle. Coupled with the high degree of unpredictability around federal policy, the economy's stressors and the associated financial pressures consumers are facing, including diminished consumer confidence and expectations of rising inflation and unemployment, might make it more difficult for rate-setting bodies to harmonize the interests of utilities, their customers, and their investors, which could negatively affect utilities' financial metrics. (See “U.S. Economic Outlook Update: Higher Tariffs And Policy Uncertainty To Weaken Growth,” published May 1, 2025, on RatingsDirect.)

Outlook

The stable outlook reflects our expectation that Tacoma will maintain coverage and liquidity in line with historical results based upon management's willingness to adjust base rates in response to different cycles of hydrologic and power market conditions.

Downside scenario

We could lower the rating if sustained adverse hydrological conditions, rising power supply costs from Bonneville Power Administration (BPA), or recessionary pressures result in materially higher retail rates or otherwise significantly erode Tacoma's liquidity and fixed cost coverage (FCC).

Upside scenario

We do not expect to raise the rating over the next two years due to ongoing exposure to potentially volatile surplus energy sales related to concentration in hydroelectric generation and ongoing capital costs related to the utility's owned generation portfolio.

Credit Opinion

Enterprise risk

With 195,000 retail customers as well as wholesale customers, Tacoma is the fourth-largest public power utility in the state of Washington. Tacoma provides power to a stable customer base. The local industries are broad and diverse and the Joint Base Lewis-McChord military installation provides stability in the region. The lower cost of living compared with the neighboring Seattle-Tacoma metropolitan statistical area provides additional stability. Tacoma's largest customer, WestRock Co., closed its paper mill and largely ceased operations in the city in 2023, which historically accounted for about 4% of the electric utility's total operating revenue. However, management has reported minimal financial impact to the utility.

In our view, Tacoma's owned assets combined with BPA purchases provide ample energy to meet load demands; however, the concentration in hydroelectric resources exposes the city to above-average price volatility with respect to surplus sales. Revenue from wholesale sales has ranged from 8% to 31% of total revenues. Tacoma's concentration in hydroelectric generation constrains our view of the utility's diversity in generating units. Tacoma is renegotiating its power purchase contract with BPA, which expires in 2028. Management expects to renew the contract with largely in-kind provisions, which should support continued financial stability. Tacoma plans to join the Southwest Power Pool’s day-ahead market, which management anticipates will provide additional avenues to monetize its surplus power position.

Tacoma is a cost-of-service utility with full rate-setting autonomy. Although it does not use a power cost adjustment mechanism, the city has a strong track record of frequent base-rate changes, which has supported solid financial metrics and contributes to our favorable view of its rate-setting practices. According to our calculations based on 2023 data from the Energy Information Administration, Tacoma's weighted-average overall rates are 108.6% of the state average, suggesting that there could be constraints on revenue-raising flexibility. However, rates are still low overall and rate competitiveness in the region is skewed by a few ultra-low-cost providers in more rural areas. Compared with those in similarly urban areas, in our opinion, Tacoma's rates are competitive.

Financial risk

On a three-year average basis, including unaudited 2024, Tacoma's FCC was 1.81x. S&P Global Ratings' FCC treats a portion of Tacoma's energy purchases as debt-like and while this figure is robust, FCC can vary from year to year, largely depending on the hydrology of the Columbia River. Projections are conservative and we view management as proactive in budgeting for adverse water conditions. S&P Global Ratings' analysis of management's financial projections indicates coverage will remain healthy.

Liquidity totals $473 million in unrestricted cash and is made up of $423 million in balance sheet cash and rate stabilization funds and an additional $50 million from a credit facility. Tacoma’s robust cash on hand provides a valuable cushion in the face of hydrological-related shortfalls and other unanticipated expenses.

Tacoma has a modest debt burden, with a debt-to-capitalization ratio of 39% in unaudited 2024. The utility projects capital spending of about $497 million through 2028 (including 2024 spending), of which approximately half will be debt financed. The capital plan focuses on the generation, transmission, and distribution assets of the utility.

Tacoma, Washington--key credit metrics

	--Fiscal year ended Dec. 31--		
	2023	**2022**	**2021**
Operational metrics			
Electric customer accounts	192,767	187,950	184,406
% of electric retail revenues from residential customers	51	52	50
Top 10 electric customers' revenues as % of total electric operating revenue	12	15	16
Service area median household effective buying income as % of U.S.	106	107	107

Tacoma, Washington--key credit metrics

	--Fiscal year ended Dec. 31--		
	2023	2022	2021
Operational metrics			
Weighted average retail electric rate as % of state	109	105	106
Financial metrics			
Gross revenues ($000s)	536,287	476,007	472,254
Total operating expenses less depreciation and amortization ($000s)	389,136	370,371	376,472
Debt service ($000s)	30,537	29,778	26,278
Debt service coverage (x)	4.8	3.5	3.6
Fixed-charge coverage (x)	2.2	1.6	1.5
Total available liquidity ($000s)*	476,963	410,161	298,356
Days' liquidity	408	371	264
Total on-balance-sheet debt ($000s)	623,850	609,258	550,200
Debt-to-capitalization (%)	40	41	39

*Total available liquidity includes available committed credit line balances, where applicable. Debt service coverage--Revenues minus expenses divided by debt service. Fixed-charge coverage--Sum of revenues minus expenses minus total net transfers out plus capacity payments (or their proxy), divided by the sum of debt service plus capacity payments (or their proxy). N.A.--Not available.

Ratings List	
New Issue Ratings	
US$131.92 mil elec sys rev bnds ser 2025A due 01/01/2055	
Long Term Rating	AA/Stable
US$91.08 mil elec sys rev rfdg bnds ser 2025B due 01/01/2035	
Long Term Rating	AA/Stable
Ratings Affirmed	
Public Power	
Tacoma, WA Retail Electric System	AA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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 https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.