



## RESOLUTION NO. U-11237

1 A RESOLUTION related to a Public Utility Board Policy concerning the rate  
2 impacts associated with increases in utility taxes by jurisdictions outside  
the City of Tacoma and within the service area of Tacoma Public Utilities.

3 WHEREAS the City of Tacoma, Department of Public Utilities, ("TPU")  
4 provides power and water services beyond the boundaries of the City of  
5 Tacoma, and

6  
7 WHEREAS, on June 18, 2020, a challenge to the City of Federal Way's  
8 imposition of an excise tax on all businesses providing water and sewer  
9 services within Federal Way's city limits was rejected in *Lakehaven Water and*  
10 *Sewer District v. City of Federal Way*, 195 Wn.2d 742 (2020), and

11  
12 WHEREAS, on November 2, 2020, the City of University Place adopted  
13 Ordinance No. 737, which imposes a utility tax on electrical services, sewerage  
14 and water services within University Place, in the amount of three percent (3%)  
15 for the first year of imposition, and six percent (6%) thereafter, and

16  
17 WHEREAS, TPU provides power and water services within the City of  
18 University Place, and

19  
20 WHEREAS, the increases in utility taxes imposed by the City of  
21 University Place will increase TPU's costs of providing power and water service  
to University Place customers, and

22  
23 WHEREAS, any increase in utility taxes by other jurisdictions with  
24 customers that are served by TPU will increase the costs of TPU providing  
25 service to the customers in those jurisdictions, and

26



1           WHEREAS, TPU's core rate-making principles are founded on the  
2 concept that utility rates are based on the cost of service, and

3           WHEREAS, TPU is committed to transparency in communicating with  
4 TPU customers, the City Council, and the public concerning the development  
5 and calculation of utility rates, and

6           WHEREAS, it is consistent with TPU's commitment to transparency and  
7 consistent with the process for generating utility bills, to clarify on TPU customer  
8 bills whenever an increase in rates in a customer's bill is the result of the  
9 imposition of a utility tax increase by the customer's jurisdiction, and  
10

11           WHEREAS, it is consistent with TPU's commitment to open and effective  
12 communication to ensure that the City Council, the public and TPU customers  
13 are informed whenever a proposed rate increase is based on increased costs  
14 due to an increase in utility taxes imposed by another jurisdiction, Now,  
15 therefore,  
16

17  
18 BE IT RESOLVED BY THE PUBLIC UTILITY BOARD OF THE CITY OF TACOMA:

19           That the Public Utility Board of the City of Tacoma finds that increases in  
20 utility taxes on the provision of power and water in jurisdictions within TPU's  
21 service area will increase the cost of providing service in those areas, and the  
22 Board adopts a policy that: 1) the costs associated with such utility tax  
23 increases should be passed on as rate increases to the customers of the  
24 relevant jurisdiction; 2) that information should be provided on the utility bills for  
25 the impacted customers to clarify that the rate increase is based on an increase  
26





## Board Action Memorandum

**TO:** Bryan Flint, Board Chair  
**COPY:** Charleen Jacobs, Director and Board Offices  
**FROM:** Jackie Flowers, Director of Utilities  
**MEETING DATE:** January 27, 2021  
**DATE:** January 25, 2021

---

### **STRATEGIC DIRECTIVE ALIGNMENT (select as many that apply):**

Please indicate which of the Public Utility Board's Strategic Directives is supported by this action.

- |  |   |
|--|---|
| <input type="checkbox"/> SD1 – Equity & Inclusion                | <input type="checkbox"/> SD8 – Telecom                            |
| <input type="checkbox"/> SD2 – Financial Sustainability          | <input type="checkbox"/> SD9 – Economic Development               |
| <input checked="" type="checkbox"/> SD3 – Rates                  | <input checked="" type="checkbox"/> SD10 – Government Relations   |
| <input checked="" type="checkbox"/> SD4 – Stakeholder Engagement | <input type="checkbox"/> SD11 – Decarbonization/Electric Vehicles |
| <input type="checkbox"/> SD5 – Environmental Leadership          | <input type="checkbox"/> SD12 – Employee Relations                |
| <input type="checkbox"/> SD6 – Innovation                        | <input checked="" type="checkbox"/> SD13 – Customer Service       |
| <input type="checkbox"/> SD7 – Reliability & Resiliency          | <input type="checkbox"/> SD14 – Resource Planning                 |

### **SUMMARY:**

The proposed action is for the Board to adopt a policy concerning potential rate increases if a jurisdiction within TPU's service area adopts an increase in utility taxes on the provision of power or water services within the boundaries of that jurisdiction. A proposed policy is set forth in the resolution to clarify how rates may be impacted by utility tax increases and to clarify the communication process for any proposed rate changes.

### **BACKGROUND:**

The City of Tacoma, Department of Public Utilities, ("TPU") provides power and water services beyond the boundaries of the City of Tacoma. On June 18, 2020, a challenge to the City of Federal Way's imposition of an excise tax on all businesses providing water and sewer services within Federal Way's city limits was rejected in *Lakehaven Water and Sewer District v. City of Federal Way*, 195 Wn.2d 742 (2020). On November 2, 2020, the City of University Place adopted Ordinance No. 737, which imposes a utility tax on electrical services, sewerage and water services within University Place in the amount of three percent (3%) for the first year of imposition, and six percent (6%) thereafter. TPU provides power and water services within the City of University Place, and the increases in utility taxes imposed by the City of University Place will increase TPU's costs of providing power and water service to University Place customers. Increases in utility taxes by other jurisdictions with customers that are served by TPU will increase the costs of TPU providing service to the customers in those jurisdictions.

TPU's core rate-making principles are founded on the concept that utility rates are based on the cost of service. TPU is also committed to transparency in communicating with TPU customers, the City Council and the public concerning the development and calculation of utility rates. To further those principles and commitments, the proposed policy would confirm that the increase costs of utility tax should be passed on as rate increases. The policy would also provide that information be included on TPU customer bills to clarify whenever an increase in rates in a



## Board Action Memorandum

customer's bill is the result of the imposition of a utility tax increase by the customer's jurisdiction. In addition, the policy would provide that customer bills should include information that indicates the applicable taxes that are a component of the rates. Finally, the policy would provide for sufficient communication to the City Council, the public and TPU customers to clarify whenever a proposed rate increase is based on increased costs due to an increase in utility taxes imposed by another jurisdiction. The proposed policy would clarify and formalize a process that was generally set forth in a letter from the Director of TPU to the City Manager of the City of University Place. A copy of the letter is attached.

**ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED?** Choose an item.

NA

**IF THE EXPENSE IS NOT BUDGETED, PLEASE EXPLAIN HOW IT IS TO BE COVERED.**

Explain how expenditures are to be covered and if budget modifications are required.

NA

**IF THE ACTION REQUESTED IS APPROVAL OF A CONTRACT, INCLUDE LANGUAGE IN RESOLUTION AUTHORIZING \$200,000 INCREASE IN ADMINISTRATIVE AUTHORITY TO DIRECTOR?** Choose an item.

NA

**ATTACHMENTS:** List any attachments (contracts, policies, agreements, etc.).

**CONTACT:**

Primary Contact: Jackie Flower, Director of Utilities (253-521-8203)

Attachment:

Letter to University Place



TACOMA PUBLIC UTILITIES

3628 South 35th Street

Tacoma, Washington 98409-3192

November 4, 2020

Steve Sugg, City Manager  
City of University Place  
3609 Market Place West, Suite 200  
University Place WA 98466

Dear City Manager Sugg:

I understand University Place City Council is considering implementing a tax on power and water utility services in the City of University Place (UP). I am compelled to clarify how Tacoma Public Utilities (TPU) would implement the proposed tax of three percent for a portion of 2021 and then six percent beginning in January 2022 on both power and water utility services UP. Please note that this letter is not intended to express a position on whether such a tax should be implemented by the UP City Council, but rather to ensure that the policy makers and decision makers in UP understand how such a tax will likely be implemented.

If the proposed new utility tax is approved by the UP City Council, TPU will need to recover those costs from customers impacted. Specifically, TPU will bring forward new utility rates that would apply only to the residents of UP to cover the new tax applied by the UP City Council. The new rates would be brought to the Tacoma Public Utility Board (Board) first and then to the Tacoma City Council if recommended by the Board. As a cost of service utility provider, our rates are set to cover our costs and those costs are based on what system components are used or, in this case, what fees are applicable to certain customers. This increased rate would be designed to ensure that any UP utility tax is passed on to the residents of UP and not paid for by other ratepayers.

In addition to recovering the cost of the utility taxes, TPU would also need to recover its costs for administering the taxes. In this case, the proposed increase in rates to UP power and water customers would need to be more than the three or six percent UP utility tax and would be calculated based on all costs associated with the implementation of the UP utility tax. For example, TPU will need to execute many administrative measures including, modifying our billing system. The cost of those additional measures would be included in rates calculated for UP power and water customers. I do not have a specific amount at this time as to how much more than the three or six percent would be paid by UP residents, but it is important to note that the cost to UP ratepayers will not be limited to a simple increase of three or six percent for water or power.

In addition, consistent with how we generate utility bills and our commitment to transparency, TPU would clarify on the utility bills received by UP residents that their bill includes costs associated with a UP enacted utility tax on power and water services. The bills will include a separate line that identifies how the imposition of a utility tax by UP is raising utility rates for UP water and power customers. Finally, we would also communicate by mail with UP customers prior to their receiving their first bill with the new tax to inform them that their cost of service will be increasing due to a newly enacted UP utility tax.

As you can see, there are numerous tasks to be completed by TPU and other parts of the City of Tacoma to fully implement a new tax on the delivery of power and water in UP. If a new utility tax on power and water is going to be imposed in UP, please consider an effective date no earlier than April 1, 2021 to allow us adequate time to make provisions necessary to administer the tax. Allowing



TACOMA PUBLIC UTILITIES

3628 South 35th Street

Tacoma, Washington 98409-3192

adequate time to make adjustments to our billing system will minimize cost impacts to UP customers. An earlier effective date could potentially result in even higher monthly charges to UP residents. If the UP utility taxes are effective prior to Tacoma's implementation of new rates and new billing measures for UP residents, TPU will propose that additional tax amounts be added to the new rates. These additional taxes will be for an initial period in order to recover costs that had not been passed on to UP power and water customers during the period between the tax effective date and when TPU completes the administrative processes needed to pass through those taxes to UP power and water customers.

It remains unclear whether UP's proposed utility taxes will result in the City of Tacoma exercising its option to renegotiate the provisions of the franchise agreements between UP and TPU. Although that option is being considered, this letter is not the appropriate vehicle for discussing that issue. I hope this letter provides you with sufficient information regarding how any new taxes on power and water services in UP would be implemented. If you need further information, I will be happy to connect you with our subject matter experts here at TPU.

Thank you for your consideration of these matters.

Sincerely,

Jackie Flowers  
Director, Tacoma Public Utilities

cc: Mayor Belleci  
Mayor Pro Tem Worthington  
Councilmember Figueroa  
Council member Keel  
Councilmember Grassi  
Councilmember Lee  
Councilmember McCluskey  
Councilmember Flemming