



## RESOLUTION NO. U-11329

1 A RESOLUTION relating to Tacoma Rail; requesting approval of proposed  
2 updates to Rail's Rate and Financial Policy.

3 WHEREAS the City of Tacoma, Department of Utilities, Beltline Division  
4 (dba "Tacoma Rail"), is proposing updates to Rail's Rate and Financial Policy  
5 ("Policy") to include a Volume Investment Fund, and

6 WHEREAS the Policy was last updated January 1, 2016, and

7 WHEREAS due to the variability of the economy and shipping lanes,  
8 railcar volumes have the potential to deviate significantly from budgeted  
9 volumes, therefore, Tacoma Rail is proposing a Volume Investment Fund (a  
10 sub fund in SAP), to be included in the Policy to provide a repository for  
11 operating revenue surpluses if there is unanticipated rail volume growth above  
12 budget, and

13  
14 WHEREAS the Volume Investment Fund will provide revenue  
15 requirement flexibility during time of unanticipated economic downturns or  
16 capital spending that may be used to offset the necessity of rate increases, and

17 WHEREAS the use of the fund will be limited to workforce stability during  
18 unanticipated economic downturns, locomotive upgrades, rail infrastructure and  
19 grant or debt matching opportunities, and

20 WHEREAS it now appears in the best interest of the City that the  
21 updates to Rail's Rate and Financial Policy, which will be effective in 2023, be  
22 approved; Now, therefore,  
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## Board Action Memorandum

**TO:** Jackie Flowers, Director of Utilities  
**COPY:** Charleen Jacobs, Director and Board Offices  
**FROM:** Dale W. King, Superintendent, Tacoma Rail  
**MEETING DATE:** June 29, 2022  
**DATE:** June 15, 2022

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### **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 checked="" type="checkbox"/> SD2 – Financial Sustainability | <input type="checkbox"/> SD9 – Economic Development               |
| <input checked="" type="checkbox"/> SD3 – Rates                    | <input type="checkbox"/> SD10 – Government Relations              |
| <input 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 type="checkbox"/> SD13 – Customer Service                  |
| <input checked="" type="checkbox"/> SD7 – Reliability & Resiliency | <input type="checkbox"/> SD14 – Resource Planning                 |

**SUMMARY:** Tacoma Rail requests authorization to update Tacoma Rail's Rate Policy to include a Volume Investment Fund.

**BACKGROUND:** Tacoma Rail's Rate Policy was last updated January 1, 2016. Due to the variability of the economy and shipping lanes, railcar volumes have the potential to deviate significantly from budgeted volumes. The proposed Rail Rate Policy creates a Volume Investment Fund, a sub fund in SAP, to provide a repository for operating revenue surpluses due to unanticipated rail volume growth above budget.

The Volume Investment Fund will provide 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 workforce stability during unanticipated economic downturns, locomotive upgrades, rail infrastructure and grant or debt matching opportunities.

**ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? Yes**

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

N/A

**IF THE ACTION REQUESTED IS APPROVAL OF A CONTRACT, INCLUDE LANGUAGE IN RESOLUTION AUTHORIZING \$200,000 INCREASE IN ADMINISTRATIVE AUTHORITY TO DIRECTOR? No**

**ATTACHMENTS:** Rate Policy 2023 Redlined, Rate Policy 2023.

### **CONTACT:**

Primary Contact: Daniel McCabe, Rail Chief Information/Finance Officer, 253-396-3040

Supervisor: Dale W. King, Superintendent, 253-502-8894

**TACOMA PUBLIC UTILITIES  
TACOMA RAIL**

**RAIL RATE POLICY  
AMENDED  
January 2023**

## Tacoma Public Utilities Tacoma Rail

- I. **Purpose:** The Tacoma Rail Rate Policy provides for rates adequate to ensure the operation, maintenance, and construction of the Department's railway system while providing safe, cost effective, and reliable service to customers within Tacoma Rail's service area.
- II. **Objective for Rail Rate Policy**
  - A. Rail rates should be cost based and adequate to recover Tacoma Rail's costs.
  - B. Rail rates should be stable.
  - C. Rail rates should ensure sufficient resource planning and acquisition for reliable service while being as competitive as possible.
  - D. Rail rates should have a customer involvement and review process.
- III. **Policies**
  - A. Rail rates should be cost based and adequate to recover Tacoma Rail's costs.
    1. Revenue requirements will be developed utilizing an average embedded cost-of-service methodology.
    2. Rates charged for each blended class of service will be set to reflect the cost of supplying that service. Any exceptions to cost-of-service principles will be explicitly noted in this policy.
    3. The limit of debt to total assets shall be set up to a maximum of 40%.
    4. The debt service coverage ratio shall be at least 1.5, or the ratio established by the Public Utility Board.
    5. The minimum working cash balance shall be sufficient enough to cover 60 days of current budgeted expenditures as outlined in Public Utility Board Policy 3.6, dated August 1992.
    6. Major capital projects will be financed primarily with debt or grant opportunities. The term of the debt financing will not be longer than the useful life of the capital project.
    7. Switch tariff fuel surcharges shall be based on actual costs over an established threshold rather than an industry index.
  - B. Rail rates should be stable.
    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.
    2. To the extent possible, rate adjustments will not exceed general inflationary trends. Phased-in adjustments over a limited time may be used for projects requiring a considerable change in rate levels.
    3. Rate classes may be established by blending customers, similar use and service characteristics.

4. A rate surcharge may be proposed under unusual conditions such as an unanticipated slowdown in rail activity.
- C. Rail rates should ensure sufficient resource planning and acquisition for reliable service while being as competitive as possible.
1. Rail rates will be designed to meet the changing needs of the customer.
  2. The character and volume of service will be factors in apportioning costs, developing rates, and tariff revisions.
  3. A standard, currently one to one, will be used to determine the amount of staging rail relative to operating rail. The cost associated with providing that staging rail will be apportioned based upon class use.
  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.
    - a-d. Grant or debt matching opportunities.
- D. Rail rates should have a customer involvement and review process.
1. At a minimum, rates will be reviewed every two years with a full revenue requirement study performed.
  2. Rate presentations will be given to the Class I Carriers and customers of Tacoma Rail, including the Port of Tacoma as needed.
  3. Tariff revision recommendations will be communicated to Tacoma Rail rate paying customers whose rates are affected at least 20 days ahead of the proposed effective day and before City Council approval.
  4. Meetings of the Tacoma Public Utility Board and City Council are open to the public and all interested parties.
  5. Written public comment or inquiries from all customer classes concerning rail rate proposals and policies will be encouraged and will be responded to in a timely manner.
  6. The timing and amount of any upcoming rate adjustment will be well publicized in advance of the implementation date.