

Tacoma Water Budget & Rate Proposal 2021-2022 Biennium

Scott Dewhirst | Water Superintendent | sdewhirst@cityoftacoma.org

Jodi Collins | Financial Stewardship Manager | jcollins@cityoftacoma.org

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Next Steps

Budget Development & Strategy

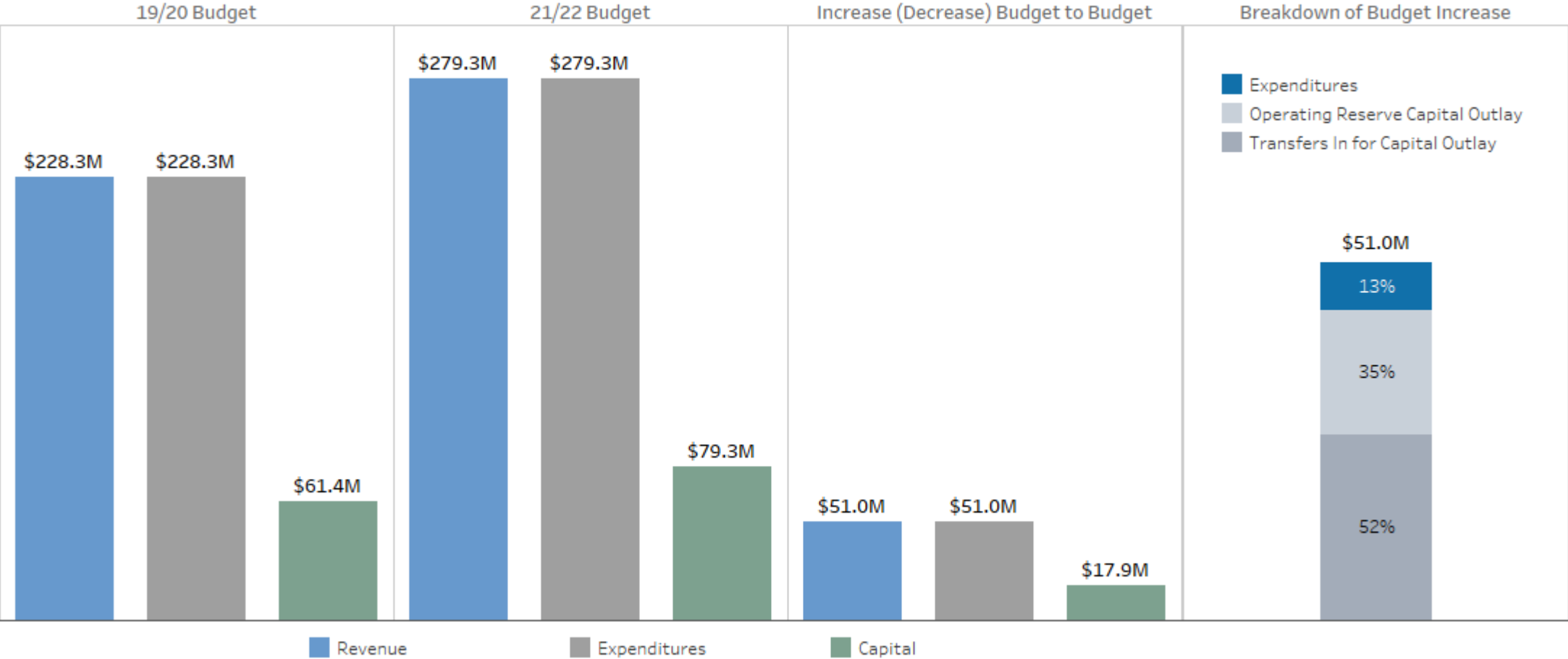


- Strategic plan was shared with PUB in January 2020
- Aligns with Strategic Directives
- Implementation has begun
 - Scoping for 4 of the 6 initiatives
 - Developing measures for objectives and initiatives
- Strategic plan embedded in budget

Budget Development

- Continuing to Partner with departments across the City
- Water service for micro shelter village
- AML and long-term loan/grant program
- Commercial Conservation Rebate Program
- Racial equity action plan for TPU/Water

Budget Comparisons



Budget Assumptions

- Updated Short Term Demand Forecast
- Capital funded with reserves, no remaining bond funds
- Commodity rates remain at assumed levels
- Staffing to support our plan
- Additional support for Low-Income Assistance Programs

Budget Risks

- Ongoing Pandemic impacts
- Uncertain economic conditions
- Commercial and pulp mill forecast
- Timeliness of bill payments (cash flow and bad debt expense)
- Demand forecast assumptions
 - Weather
 - Recession
 - Account growth
- Housing growth and development
- Projects of opportunity

Mitigation

- Continue to work with other utilities in the region and market surplus capacity
- Continue to implement operational efficiencies and actively manage expenditures
- Draw down built up reserves to reduce rate increases
- FTE vacancy factor
- Stakeholder engagement
- Additional dollars being budgeted for assistance programs
- Mid-biennium adjustment if needed



Mitigation: Managed Expenditures



- **\$17.8M in reduced or deferred capital expenses**

- \$9.4M in CIP reduction/deferral
- \$6.4M in deferred meter exchanges to align with AMI
- \$1.6M savings with meter box lids
- \$430,000 savings with meter box survey



- **\$2.8M in reduced controllable O&M**

- \$1.2M decrease in professional services
- \$1.0M decrease in supplies, services & other charges
- \$600,000 savings in debt service

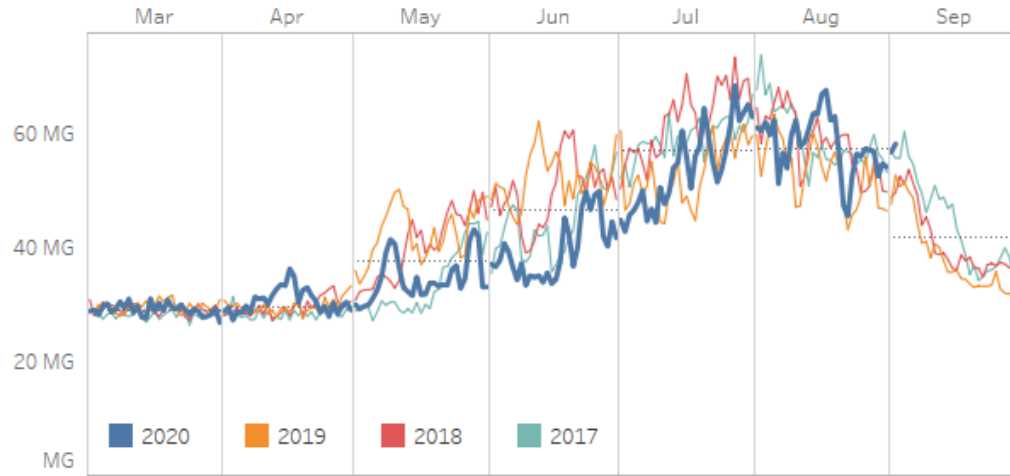


- **Uncontrollable O&M increases**

- Customer assistance program funding
- Bad debt expense and credit card fees
- Employee benefits
- Technology projects

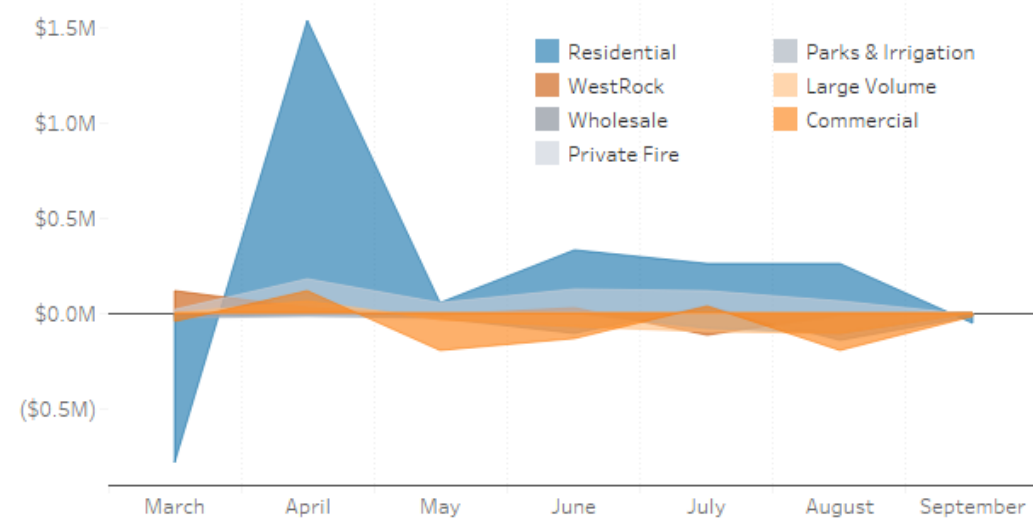
Risks: COVID Impact & Monitoring

Daily Delivery to System



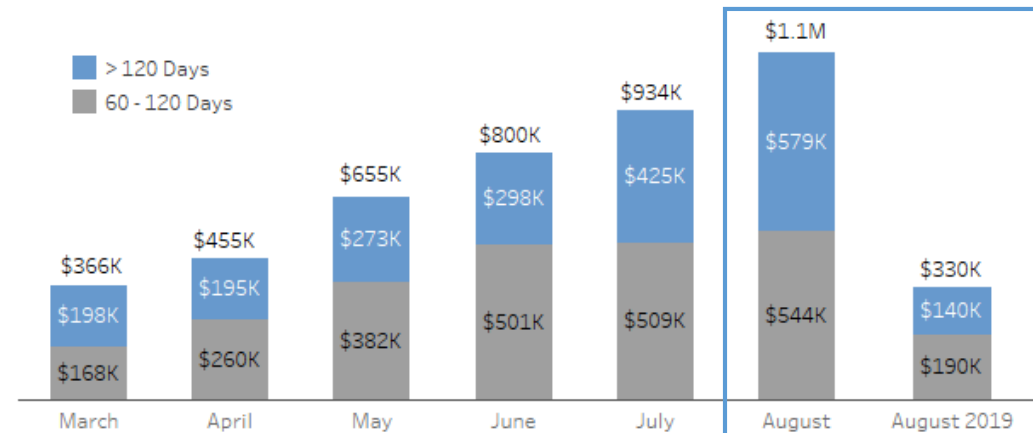
Daily water delivery to system excluding WestRock.

Actual & Projected Impact to Revenue

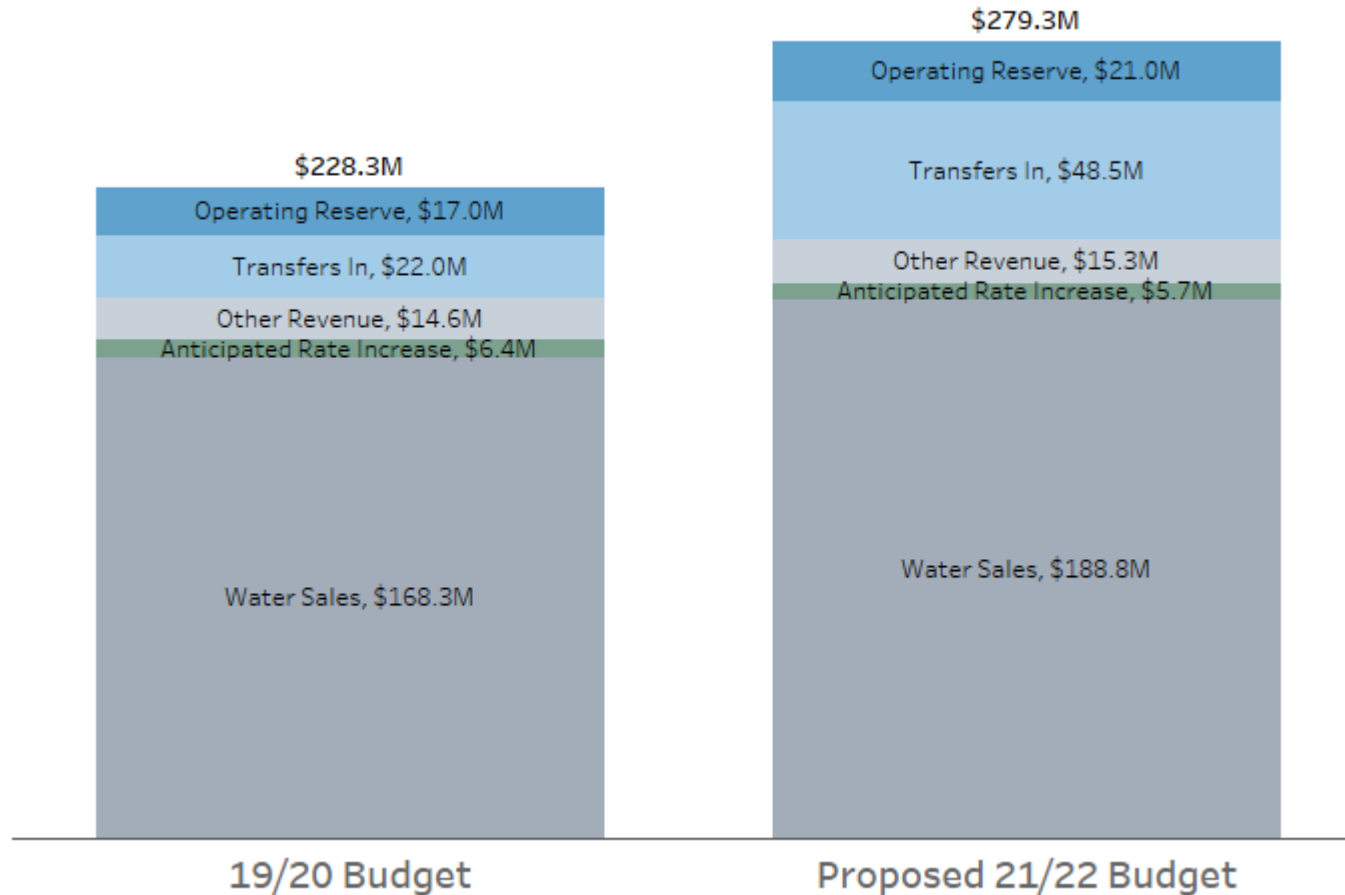


- **Delivery of Water:** Total water delivered is within normal range; fluctuations appear to be impacted more by warm, dry weather than pandemic
- **Revenue Projections:** Increased Residential & Decreased Commercial actual water sales
- **Accounts Receivable & Bad Debt:** Significant increase in outstanding bills past 60 days, over 120 days included as bad debt expense

Water Sales Accounts Receivable (> 60 Days)

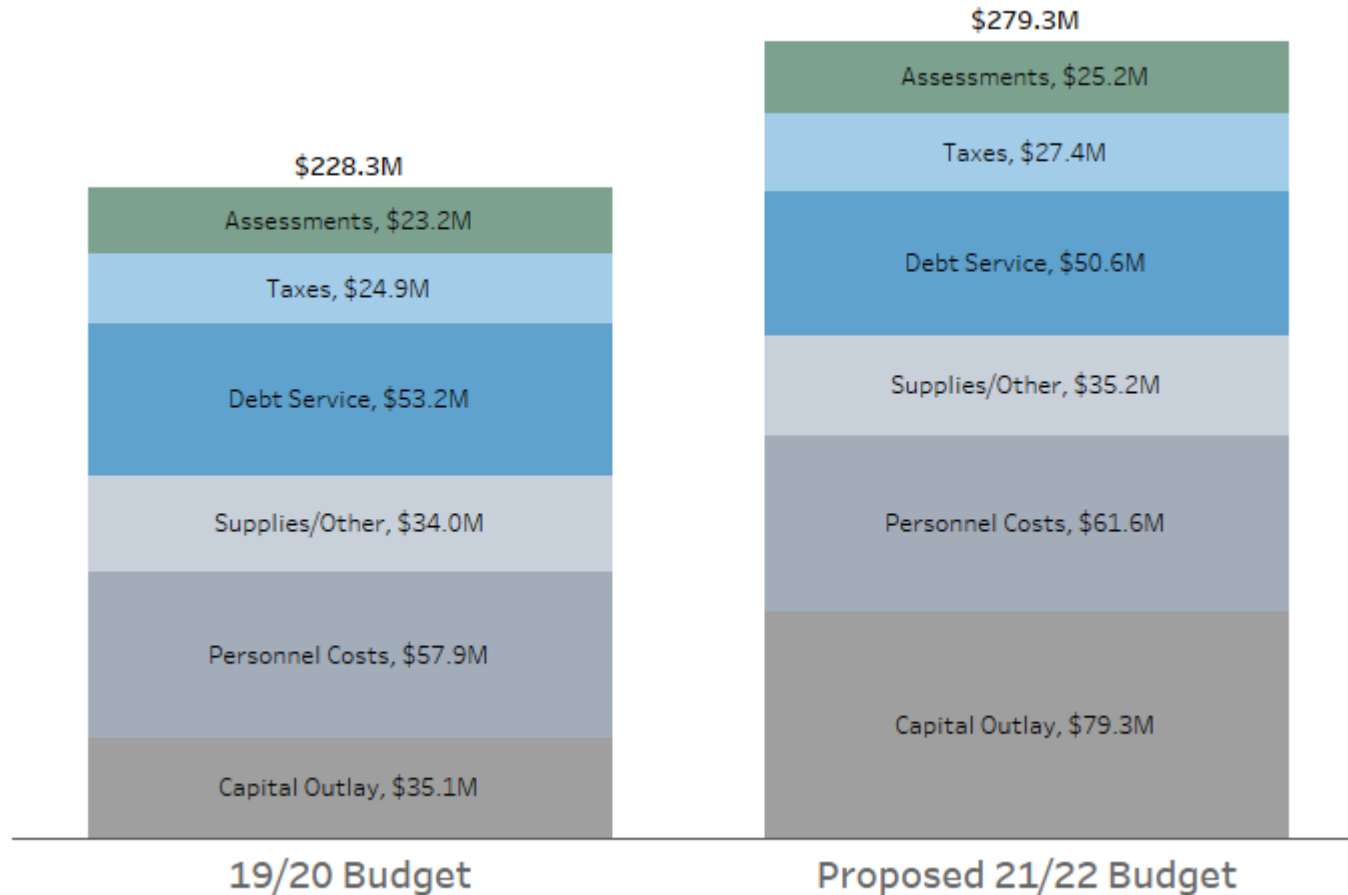


Preliminary Budget: Revenue



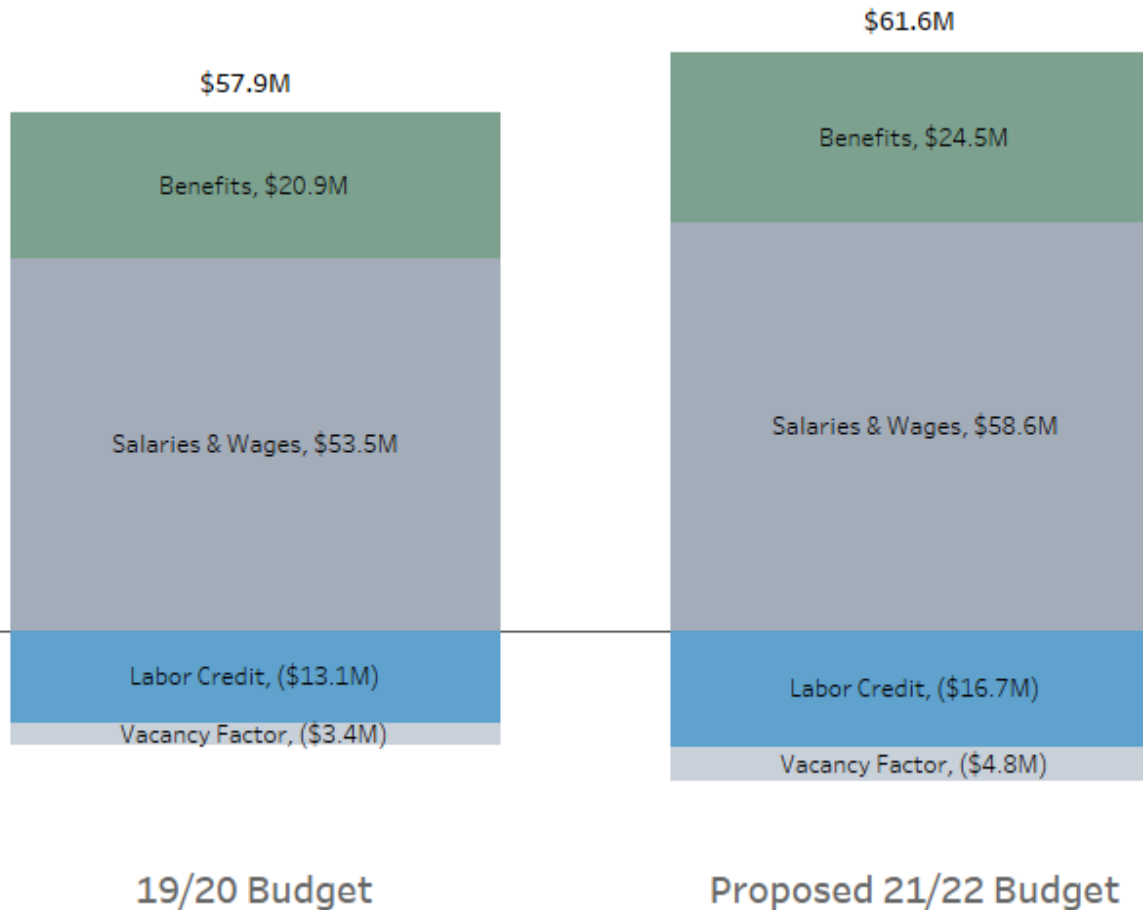
- Proposed Water Sales budget incorporates updated demand forecast at existing rates
- Anticipated rate increase is based on **2%** system average increase each year
- Transfers in includes pass through from capital reserves to fund capital work
- Operating reserve includes additional funding for capital projects

Preliminary Budget: Expenditures



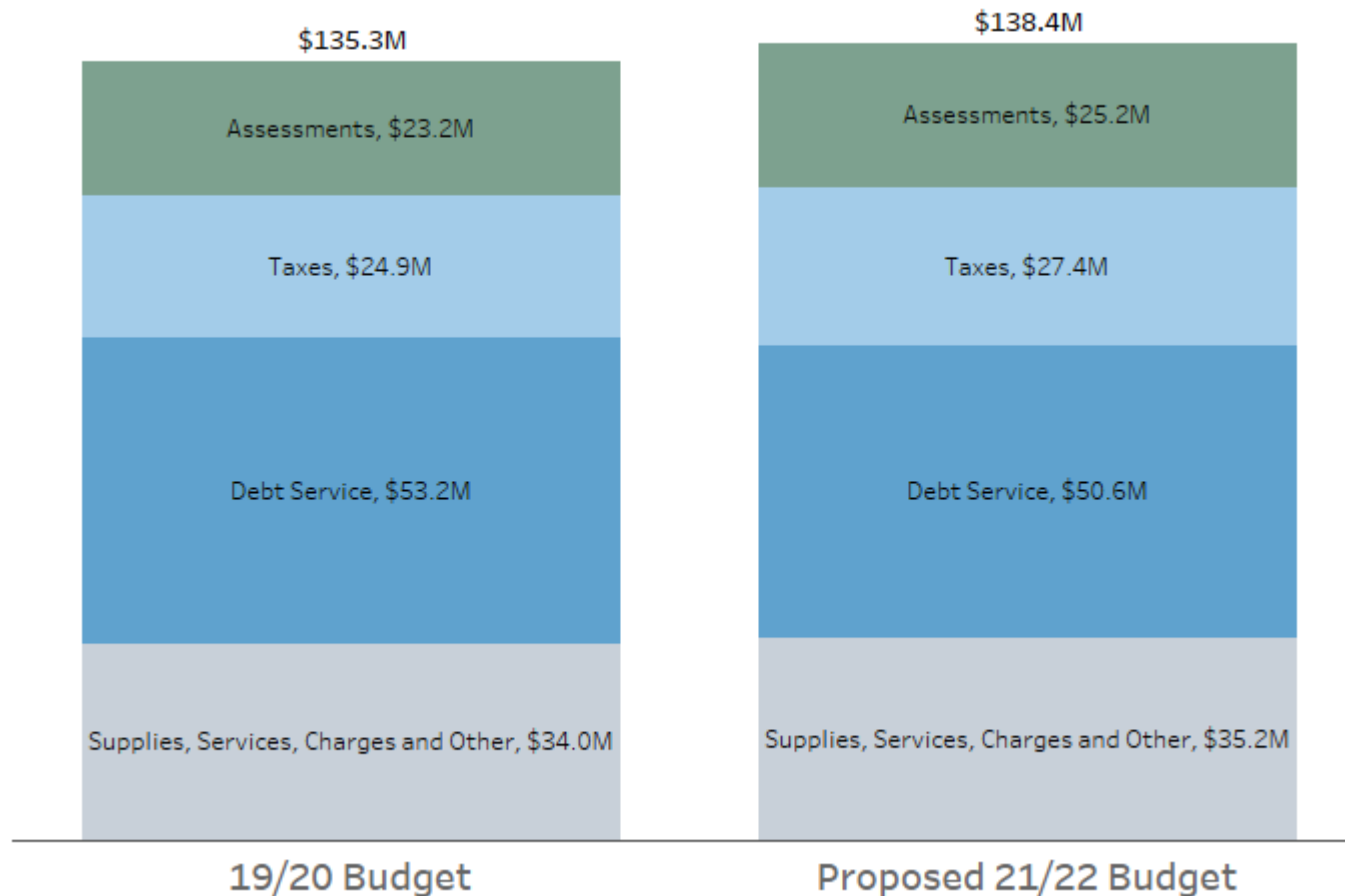
- Assessments are not finalized
- Supplies expense is about **\$1.2M** higher than 2019/2020 budget
- Personnel expense is **\$3.7M** higher than 2019/2020
- All capital for 2021/2022 will be funded with either capital or operating fund reserves

Preliminary Budget: Personnel



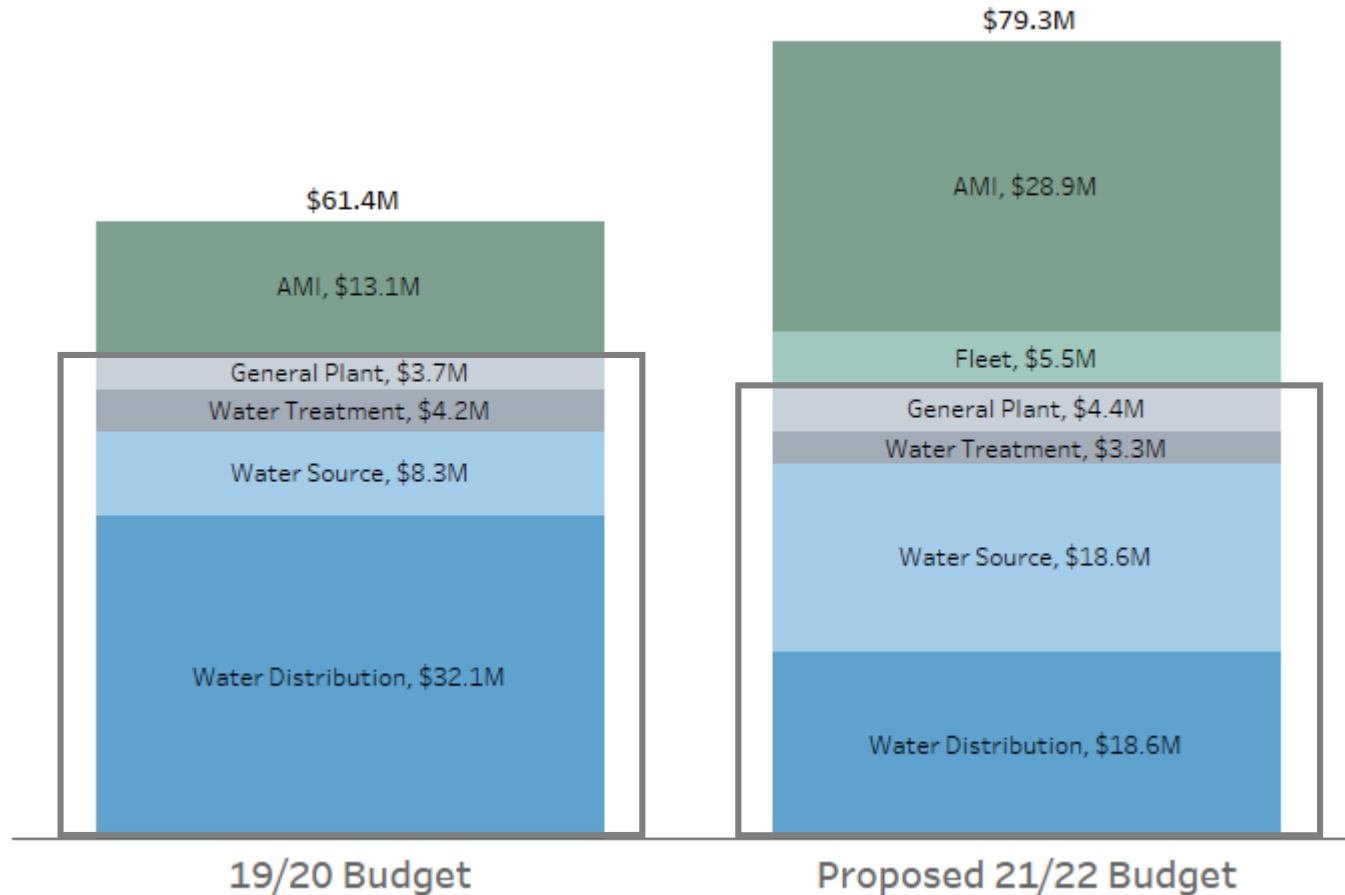
- Overall personnel expense is about **\$3.7M** higher than 2019/2020
 - Incorporates cost of living and negotiated contract increases
 - Includes **6** additional FTE's
- Benefits (net of vacancy factor) are **\$3.1M** higher or nearly \$11,000 per FTE over the biennium
- Budget includes **\$4.8M** deduction to salaries and benefits for vacancy factor

Preliminary Budget: Other O&M



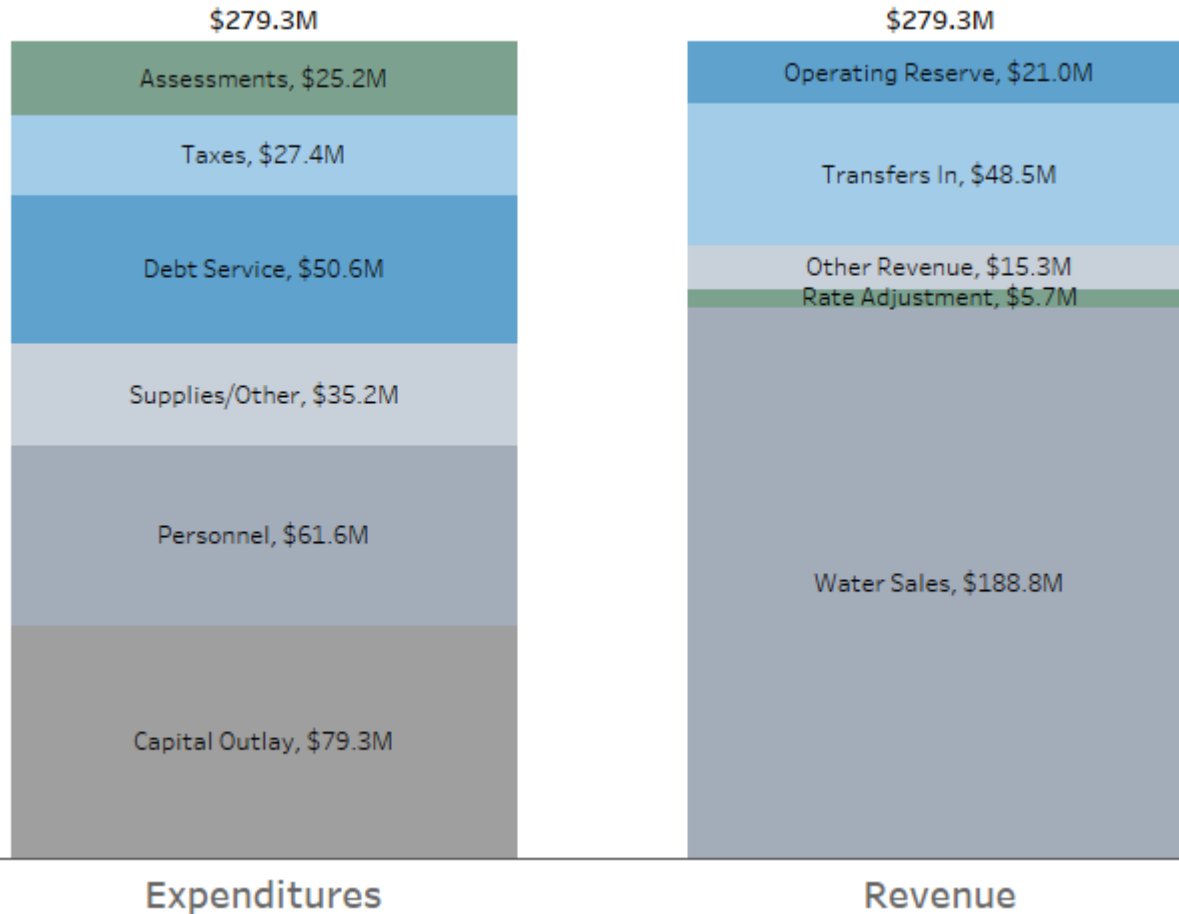
- Assessments are not finalized
- Taxes in 2021/2022 includes **\$16.2M** to the General Fund and **\$11.2M** to State and other local governments
- Supplies expense is about **\$1.2M** higher than 2019/2020 budget
 - Reductions include: **\$2.0M** due to Fleet funding change, **\$1.2M** in professional services, and **\$0.8M** in other supplies & services
 - Increases include: **\$2.1M** in technology support, **\$1.2M** in customer service portal and other technology projects, **\$1.5M** in bad debt & credit card fees, **\$0.5M** in rent & electricity
- Debt service is **\$2.6M** lower than 2019/2020 due to Bank Loan Refunding of 2010 Bonds in 2020 and final payment of several PWTF and DWSRF loans in 2021

Preliminary Budget: Capital



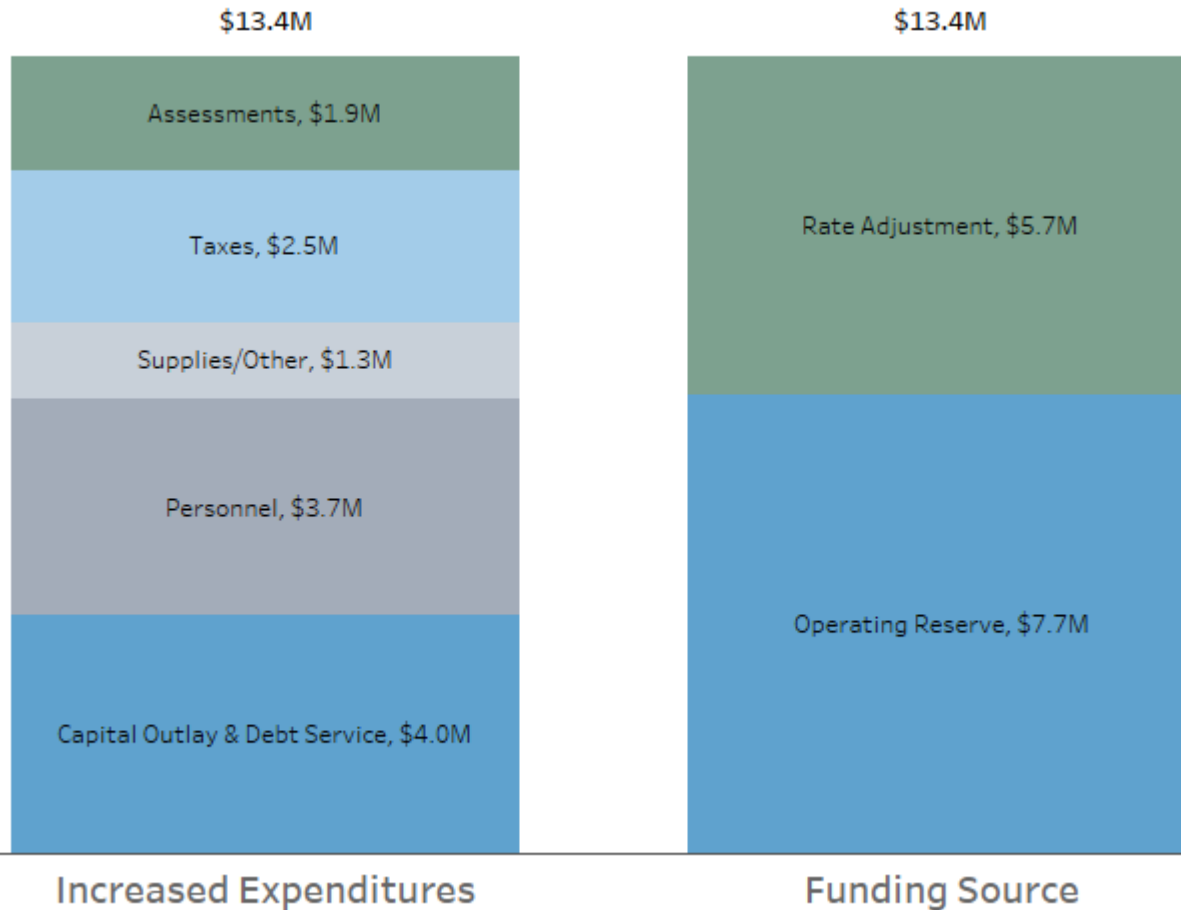
- Capital budget based on business case evaluations and prioritized to reflect resource constraints
- AMI budget for 21/22 includes **\$5.1M** re-appropriated from 19/20 and **\$5.2M** non-program costs, including deferred meter exchanges
- Capital budget excluding AMI & Fleet:
 - **\$48.3M** 19/20
 - **\$44.9M** 21/22 proposed
 - **\$3.4M or 7%** reduction

Preliminary Expenditures & Revenue



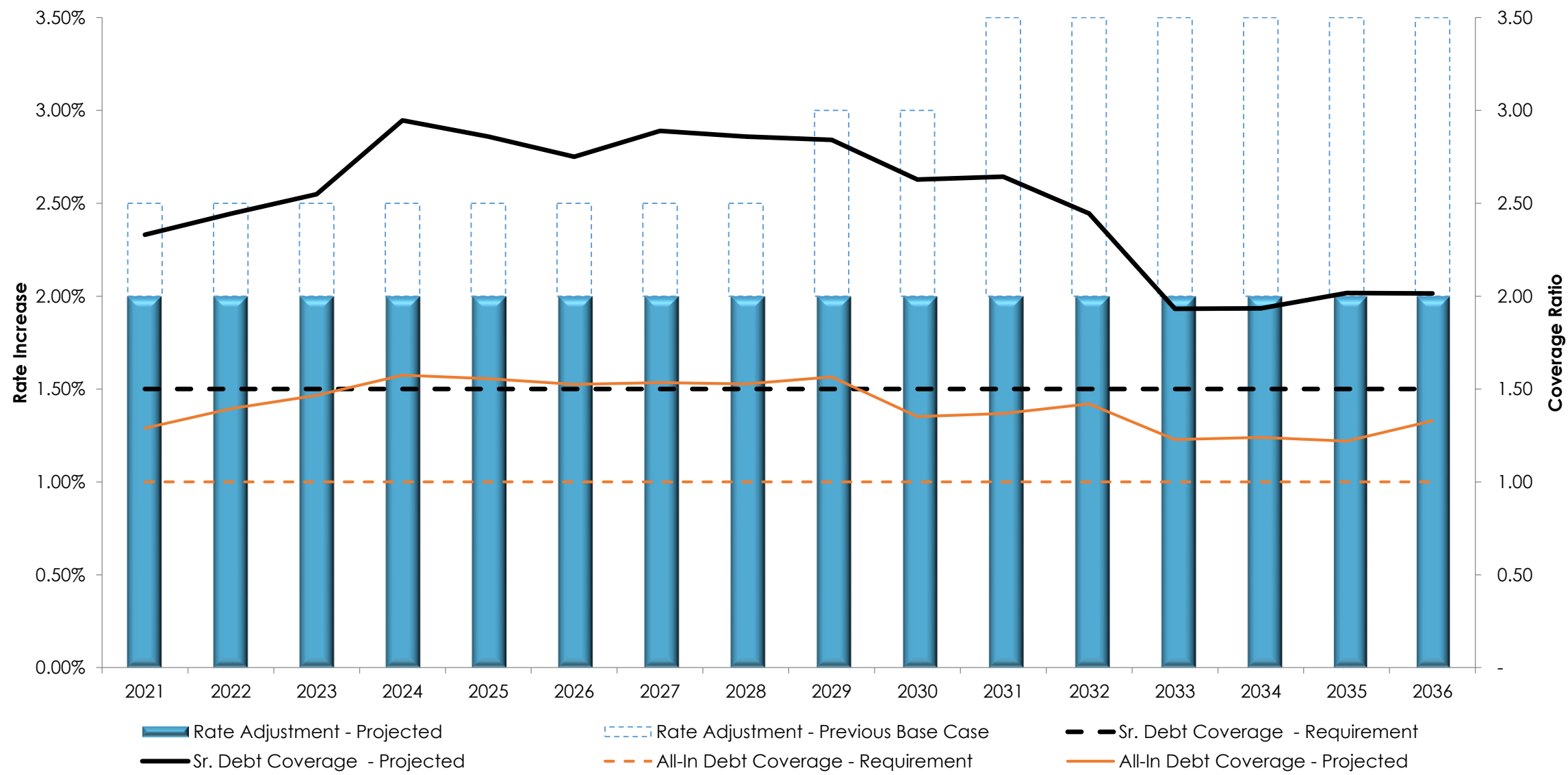
- This chart gives a side-by-side view of how proposed revenue and reserves are planned to be devoted during the 2021/2022 biennium
- Nearly **70%** of total expenditures are planned to be paid with revenue from water sales
- About **25%** of total expenditures are planned to be paid with existing reserves and the remaining **5%** from other miscellaneous revenue

Preliminary Rate Adjustment

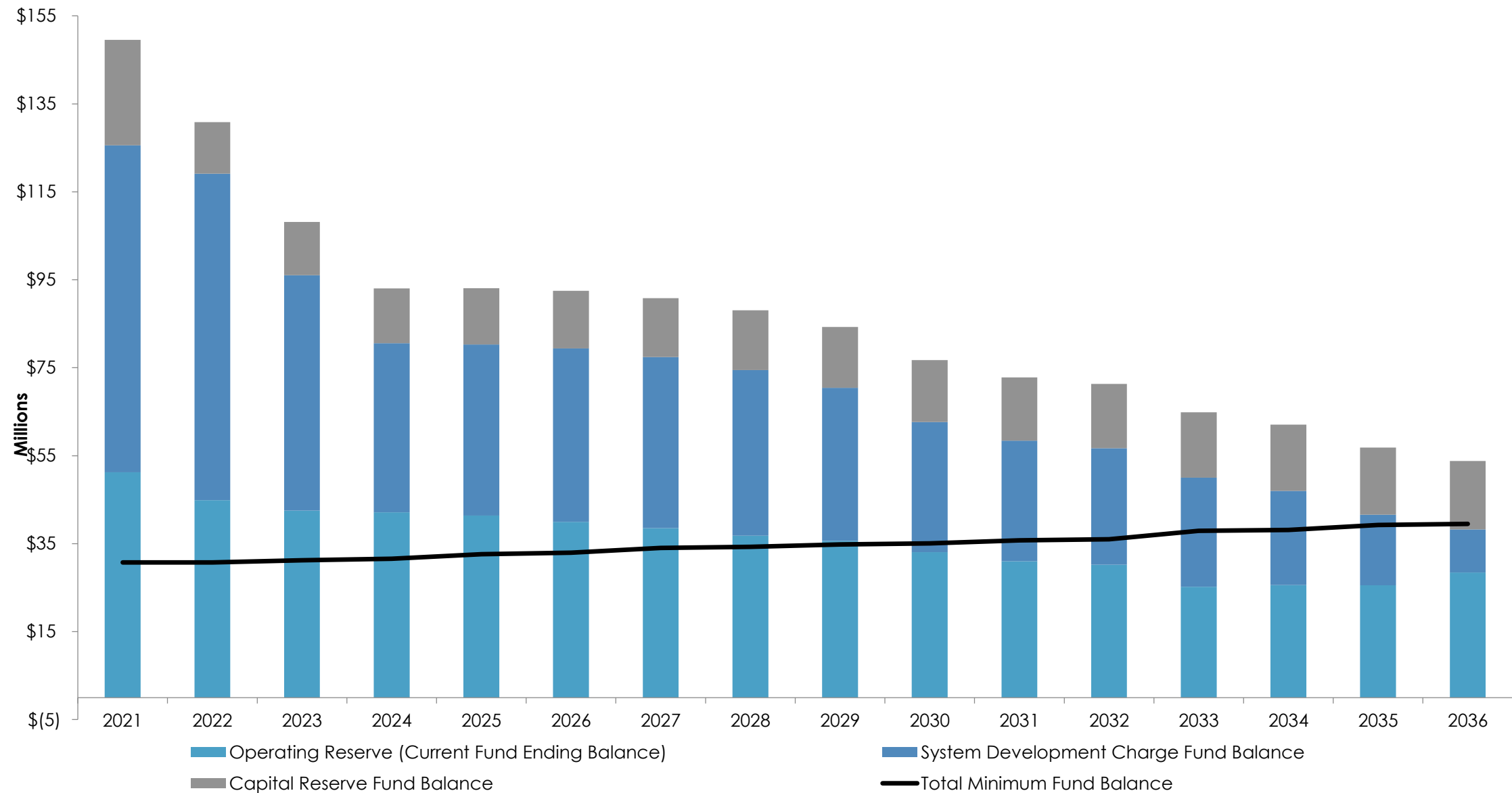


- This chart illustrates how increased planned expenditures are proposed to be funded
- About **43%** of the increase is planned to be funded with the rate adjustment
- Remaining increases proposed to be paid from operating reserves
- Pass through from Capital Reserve and System Development Charge Funds are not included

Long-Range Financial Planning



Long-Range Financial Planning

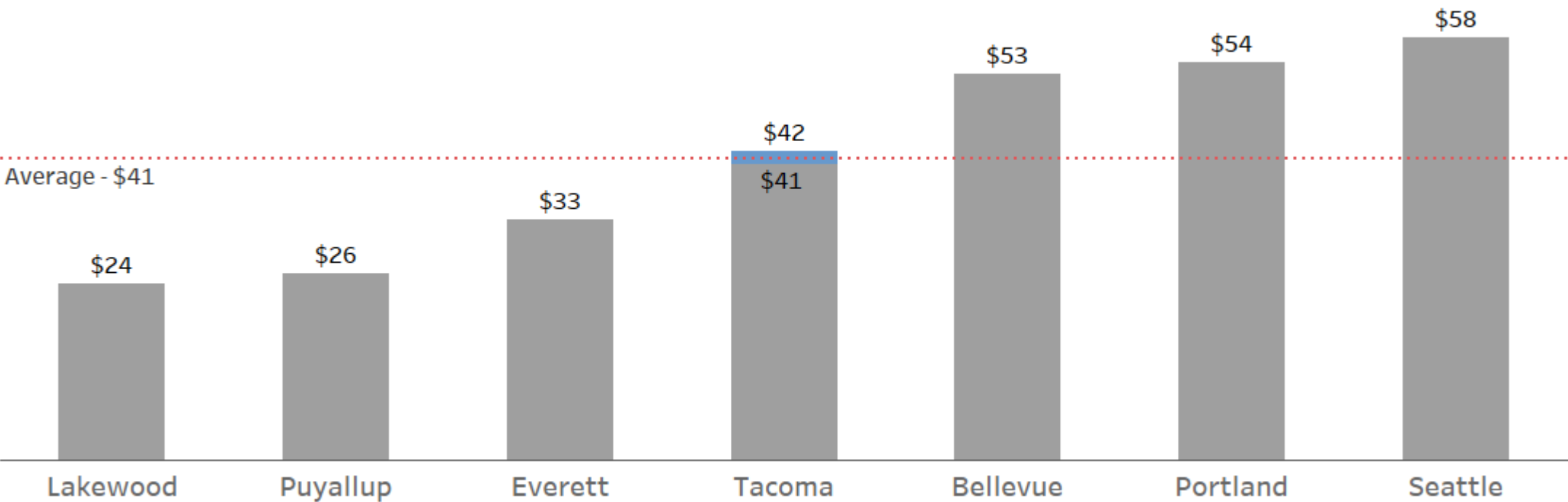


Preliminary Rate Proposal: System Average

- We recommend applying the **overall system average of 2.0%** annually to all customer rate classes
- The adjustment would apply proportionately to both **fixed and variable rates**
- There are two exceptions:
 - **Parks & Irrigation** continue with phasing out the fixed charge
 - **Wholesale** continues phasing in a higher fixed charge

Preliminary Rate Proposal: Residential Comparison

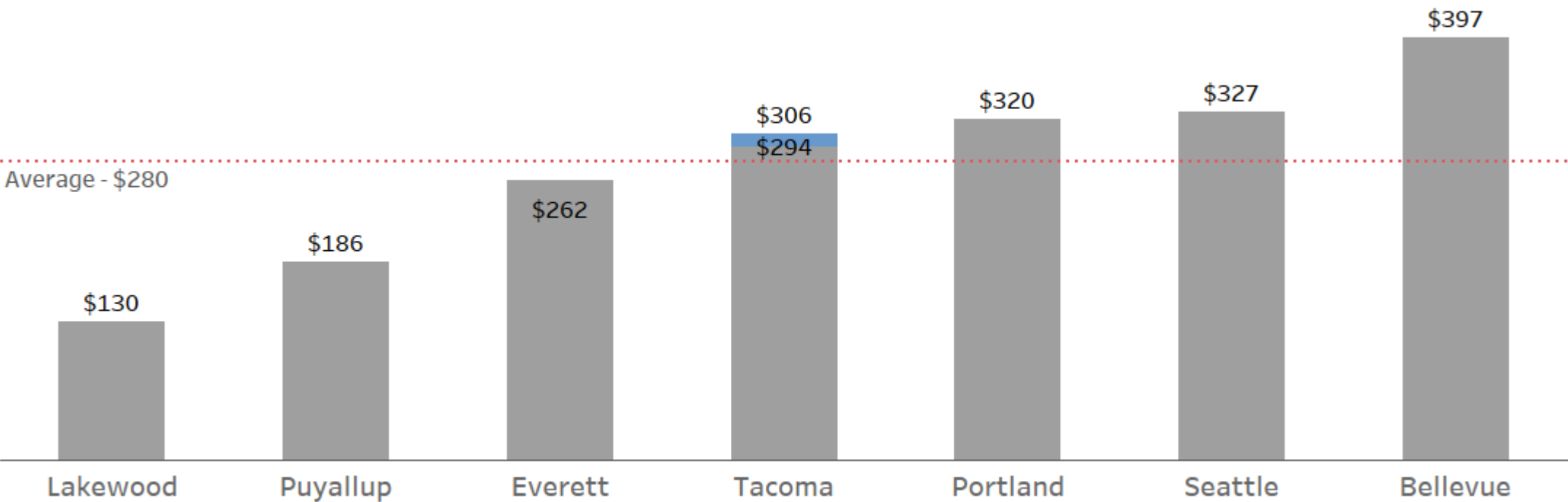
2020 Average Monthly Water Bill for a Single Family Residential Customer



Assumptions for an average single family customer are 6 CCF in winter months and 9 CCF in summer months with 5/8" meter inside the City of Tacoma.
The blue bar projects the impact of 2% annual rate adjustments in 2021 -2022.

Preliminary Rate Proposal: Commercial Comparison

2020 Average Monthly Water Bill for a Commercial Customer



*Assumptions for an average commercial customer are 50 CCF per month with 2" meter inside the City of Tacoma.
The blue bar projects the impact of 2% annual rate adjustments in 2021 -2022.*

Preliminary Rate Proposal: Outreach



August – September
Schedule outreach activities



September – November
Virtual engagements



August – January
Communications

Budget & Rate Summary

- Strategic plan embedded in budget
- Continue to implement operational efficiencies and actively manage expenditures
- Supports the development of **AMI and monthly billing**
- Applies **gradualism** to minimize rate impact while preserving strong financial performance
- Projected rate impact for an average residential bill (inside Tacoma):
 - **\$0.81** per month in 2021 and **\$0.83** per month in 2022



Next Steps

SEP
9

Budget & Rate Proposal
PUB Meeting

SEP
23

Public Hearing
PUB Meeting

OCT
6

TPU Budget & Rates
GPFC

OCT
13

TPU Budget & Rates
Joint Study Session

OCT
14

Preliminary TPU Budget & Rates
PUB Meeting

OCT
28

TPU Budget & Rates Adoption
PUB Meeting

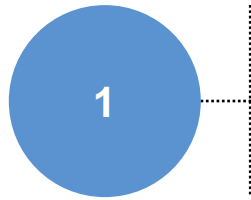
NOV
17

First Reading
City Council Meeting

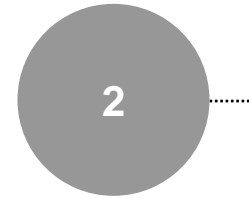
NOV
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Second Reading
City Council Meeting

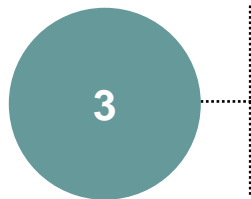
Appendix



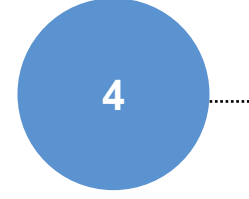
Revenue



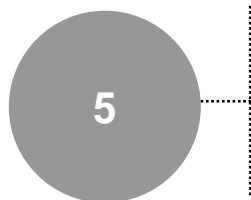
Expenses



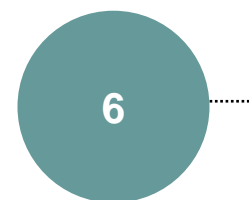
Capital



Assessments & Taxes



Ready to Serve Charge



Variable Rates & Other

Revenue

Revenue (\$ in millions)	Current	Proposed	Increase (Decrease)	
	19/20 Budget	21/22 Budget	Budget to Budget	
Operating Revenue				
Residential Water Sales	111.2	126.8	15.6	14.0%
Commercial Water Sales	21.8	23.9	2.1	9.6%
Large Volume Water Sales	4.3	4.7	0.4	9.3%
Parks & Irrigation Water Sales	6.4	7.2	0.8	12.5%
Private Fire Protection Water Sales	5.6	6.8	1.2	21.4%
Wholesale Water Sales	5.6	5.5	-0.1	-1.8%
Pulp Mill Water Sales	13.3	13.9	0.6	4.5%
Other Operating Revenue	8.0	7.9	-0.1	-1.3%
Anticipated Rate Increase	6.4	5.7	-0.7	-10.9%
Operating Reserve Appropriation	17.0	21.0	4.0	23.5%
Total Operating Revenue	\$199.6	\$223.4	\$23.8	11.9%
Non-Operating Revenue				
Interest and Other	1.1	1.8	0.7	63.6%
Transfers in from Capital Reserve Fund	22.0	41.7	19.7	89.5%
Transfers in from SDC Fund	0.0	6.8	6.8	100.0%
BABs Subsidy	5.5	5.6	0.1	1.8%
Total Non-Operating Revenue	\$28.6	\$55.9	\$27.3	95.5%
Total Revenue & Available Funds	\$228.2	\$279.3	\$51.1	22.4%

Expenses

Expenses (\$ in millions)	Current	Proposed	Increase (Decrease)	
	19/20 Budget	21/22 Budget	Budget to Budget	
Expenditures				
Personnel Costs	57.9	61.6	3.7	6.4%
Supplies/Other	34.0	35.2	1.2	3.5%
Assessments	23.2	25.2	2.0	8.6%
Capital Outlay	35.1	79.3	44.2	125.9%
Debt Service	53.2	50.6	-2.6	-4.9%
Taxes	24.9	27.4	2.5	10.0%
Total Expenditures	\$228.3	\$279.3	\$51.0	22.3%
Capital Funding				
Transfers in from Capital Reserve Fund	22.0	41.7	19.7	89.6%
Transfers in from SDC Fund	0.0	6.8	6.8	100.0%
Operating Reserve	13.1	30.8	17.7	135.0%
Existing Bonds	26.3	0.0	-26.3	-100.0%
Total Capital Funding	\$61.4	\$79.3	\$17.9	29.2%

Capital

Capital (\$ in millions)	Current	Proposed	Increase (Decrease)	
	19/20 Budget	21/22 Budget	Budget to Budget	
Capital Projects				
AMI	13.1	28.9	15.8	120.5%
Fleet	0.0	5.5	5.5	100.0%
General Plant	3.7	4.4	0.7	19.3%
Water Treatment	4.2	3.3	-0.9	-20.9%
Water Source	8.3	18.6	10.3	123.3%
Water Distribution	32.1	18.6	-13.5	-42.0%
Total Capital Projects	\$61.4	\$79.3	\$17.9	29.2%
Capital Funding Sources				
Transfers in from Capital Reserve Fund	22.0	41.7	19.7	89.5%
Transfers in from SDC Fund	0.0	6.8	6.8	100.0%
Operating Reserve	13.1	30.8	17.7	135.0%
Existing Bonds	26.3	0.0	-26.3	-100.0%
Total Capital Funding Sources	\$61.4	\$79.3	\$17.9	29.2%

Assessments (not final) & Taxes

Assessments (\$ in millions)	Current	Proposed	Increase (Decrease)	
	19/20 Budget	21/22 Budget	Budget to Budget	
GG Assessments				
Information Technology	4.4		-4.4	-100.0%
Human Resources	1.3		-1.3	-100.0%
Legal	0.7		-0.7	-100.0%
Finance	1.6		-1.6	-100.0%
Other	0.4		-0.4	-100.0%
Total GG Assessments	\$8.4	\$0.0	-\$8.4	-100.0%
TPU Assessments				
Customer Services	9.8		-9.8	-100.0%
Public Affairs & Communication	2.4		-2.4	-100.0%
Administration & Support	2.7		-2.7	-100.0%
Total TPU Assessments	\$14.9	\$0.0	-\$14.9	-100.0%
Total Assessments	\$23.3	\$0.0	-\$23.3	-100.0%

Taxes (\$ in millions)	Current	Proposed	Increase (Decrease)	
	19/20 Budget	21/22 Budget	Budget to Budget	
Taxes to the General Fund	14.6	16.2	1.6	10.6%
State Utility Taxes	8.7	9.7	1.0	11.6%
Other Taxes (including Franchise Fees)	1.5	1.5	0.0	0.0%
Total Taxes	\$24.8	\$27.4	\$2.6	10.3%

Rate Schedule: Ready to Serve Charge

Residential, Commercial & Large Volume - Ready to Serve Charge				
Meter Size (Inches)	Inside City of Tacoma		Outside City of Tacoma	
	Rate Effective Dates			
	1/1/21	1/1/22	1/1/21	1/1/22
5/8	\$25.45	\$25.96	\$30.82	\$31.43
3/4	\$36.70	\$37.43	\$44.32	\$45.19
1	\$59.19	\$60.37	\$71.31	\$72.72
1.5	\$115.41	\$117.72	\$138.77	\$141.54
2	\$182.88	\$186.54	\$219.73	\$224.12
3	\$340.31	\$347.12	\$408.65	\$416.82
4	\$565.21	\$576.52	\$678.53	\$692.10
6	\$1,127.46	\$1,150.02	\$1,353.23	\$1,380.30
8	\$1,802.16	\$1,838.22	\$2,162.87	\$2,206.14
10	\$2,589.31	\$2,641.12	\$3,107.45	\$3,169.62
12	\$3,798.15	\$3,874.15	\$4,558.06	\$4,649.26

Parks & Irrigation - Ready to Serve Charge				
Meter Size (Inches)	Inside City of Tacoma		Outside City of Tacoma	
	Rate Effective Dates			
	1/1/21	1/1/22	1/1/21	1/1/22
5/8	\$3.68	\$0.00	\$3.68	\$0.00
3/4	\$5.51	\$0.00	\$5.51	\$0.00
1	\$9.19	\$0.00	\$9.19	\$0.00
1.5	\$18.38	\$0.00	\$18.38	\$0.00
2	\$29.40	\$0.00	\$29.40	\$0.00
3	\$55.13	\$0.00	\$55.13	\$0.00
4	\$91.88	\$0.00	\$91.88	\$0.00
6	\$183.75	\$0.00	\$183.75	\$0.00
8	\$294.00	\$0.00	\$294.00	\$0.00
10	\$422.63	\$0.00	\$422.63	\$0.00
12	\$620.16	\$0.00	\$620.16	\$0.00

Fire Protection Service - Ready to Serve Charge					
Meter Size (Inches)	Inside City of Tacoma		Outside City of Tacoma		Maximum Allowable Monthly Water Usage for Testing and Leakage, CCF
	Rate Effective Dates				
	1/1/21	1/1/22	1/1/21	1/1/22	
2	\$29.36	\$29.95	\$35.23	\$35.94	2.99
3	\$42.75	\$43.61	\$51.30	\$52.33	2.99
4	\$71.42	\$72.86	\$85.70	\$87.43	2.99
6	\$160.20	\$163.42	\$192.24	\$196.10	2.99
8	\$285.20	\$290.93	\$342.24	\$349.12	2.99
10	\$446.10	\$455.06	\$535.32	\$546.07	2.99
12	\$713.52	\$727.86	\$856.22	\$873.43	2.99

Wholesale – Ready to Serve Charge		
Range in MGD (million gallons per day)	Rate Effective Dates	
	1/1/21	1/1/22
For each MGD of contracted peak capacity	\$2,597.13	\$2,649.07

Rate Schedule: Variable Rates & Other

Residential Service				
Range in CCF (100 cubic feet)	Inside City of Tacoma		Outside City of Tacoma	
	Rate Effective Dates			
	1/1/21	1/1/22	1/1/21	1/1/22
For each CCF of water consumption during the winter months of October through and including May	\$2.175	\$2.218	\$2.610	\$2.662
For the first five CCF of water consumption per month during the summer months of June through and including September	\$2.175	\$2.218	\$2.610	\$2.662
For each CCF of water consumption over five CCF during the summer months of June through and including September	\$2.719	\$2.773	\$3.263	\$3.328

Commercial and Industrial - General Service				
Range in CCF (100 cubic feet)	Inside City of Tacoma		Outside City of Tacoma	
	Rate Effective Dates			
	1/1/21	1/1/22	1/1/21	1/1/22
For each CCF of water consumption	\$2.344	\$2.391	\$2.813	\$2.869

Commercial and Industrial - Large Volume Service *				
Range in CCF (100 cubic feet)	Inside City of Tacoma		Outside City of Tacoma	
	Rate Effective Dates			
	1/1/21	1/1/22	1/1/21	1/1/22
For each CCF of water consumption	\$1.823	\$1.859	\$2.188	\$2.231
* Customers may qualify for this rate based on an established consumption history greater than 65,000 CCF annually.				

Parks and Irrigation Service				
Range in CCF (100 cubic feet)	Inside City of Tacoma		Outside City of Tacoma	
	Rate Effective Dates			
	1/1/21	1/1/22	1/1/21	1/1/22
For each CCF of water consumption	\$4.319	\$4.665	\$5.182	\$5.598

Fire Protection Service				
Range in CCF (100 cubic feet)	Inside City of Tacoma		Outside City of Tacoma	
	Rate Effective Dates			
	1/1/21	1/1/22	1/1/21	1/1/22
For each CCF of water consumption	\$3.960	\$3.960	\$4.752	\$4.752

Pulp Mill		
Billing Components	1/1/21	1/1/22
Distribution Charge per Month	\$86,041.46	\$87,762.29
Supply Charge/CCF	\$0.7966977	\$0.8126317
Daily or Monthly Excess Water Usage Charge (Commercial and Industrial - Large Volume Rate) per CCF	\$1.823	\$1.859

Wholesale Constant Use Customer		
Range in CCF (100 cubic feet)	Rate Effective Dates	
	1/1/21	1/1/22
Per CCF for winter months (October - May)	\$1.341	\$1.368
Per CCF for summer months (June - September)	\$1.677	\$1.710

Wholesale Summer Season, Peaking		
Range in CCF (100 cubic feet)	Rate Effective Dates	
	1/1/21	1/1/22
For each CCF of water consumption	\$2.515	\$2.565

Monthly Hydrant Service Fee		
	Rate Effective Dates	
	1/1/21	1/1/22
Inside City of Tacoma	\$2.96	\$3.02
Outside City of Tacoma	\$3.83	\$3.90