



# Public Utility Board Study Session December 10, 2025

## Tacoma Water Reserve Policy Update & Future Strategy

# Aligning Policy with Purpose



## Why We're Here?

- Public Utility Board requested Water review reserve policies
- Current balances exceed policy limits – reduce and level set
- Ensure reserves balance risk, resilience, and ratepayer value
- Gather Board feedback on proposed policy updates and spend-down strategy

# Aligning Policy with Purpose



Savings + Insurance  
Policy



Strategic: Strong  
Credit, Lower  
Borrowing Costs



Financial Flexibility



Stabilizer for Rates



# Current Reserve Policy Snapshot



Reserve Fund	Operating (Current)	Capital	System Development Charge (SDC)
Purpose	<ul style="list-style-type: none"> <li>• Day to Day O&amp;M</li> <li>• Flexibility to manage risk</li> <li>• Manage revenue fluctuations</li> <li>• Meet working capital needs</li> </ul>	<ul style="list-style-type: none"> <li>• Capital funding for system projects</li> <li>• Mitigate risk</li> <li>• Financial stability</li> <li>• Stable rate adjustments</li> </ul>	<ul style="list-style-type: none"> <li>• Capital funding for system improvements</li> <li>• Mitigate risk</li> <li>• Financial stability</li> <li>• Stable rate adjustments</li> <li>• \$33.6M Rate Stabilization <i>Account</i></li> </ul>
Requirement	60 Days Budgeted Operating Expenses	1% Original Cost Plant-in-Service	\$2M
2025-2026 Requirement	\$22M	\$13M	\$2M
Q3-2025	\$67.8M (187 days)	\$24.1M	\$51.8M

# Current Debt Reserve Policy Snapshot



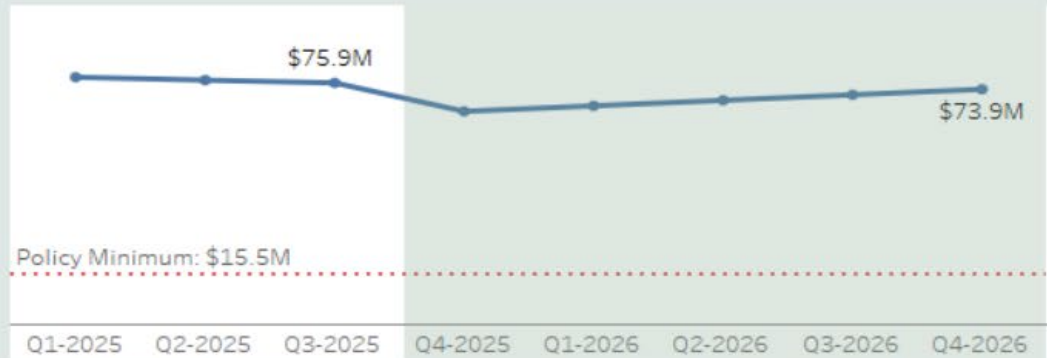
Reserve Fund	Debt Service Reserve	Debt Service Coverage Ratio
Purpose	<ul style="list-style-type: none"><li>2009 &amp; 2010 BABs reserve requirement, as of any date</li></ul>	<ul style="list-style-type: none"><li>Compliance with existing debt covenants</li><li>Maintain credit worthiness for future debt needs</li></ul>
Requirement	Amount equal to the lesser of Maximum Annual Debt Service or 125% of Average Annual Debt Service on all outstanding Parity Bonds	Target 1.50x Senior or higher Minimum 1.25x All-In
2025-2026 Requirement	\$27M-\$30M	Same
Q3-2025	\$28M	2.84x

# Liquidity & Cash Balance

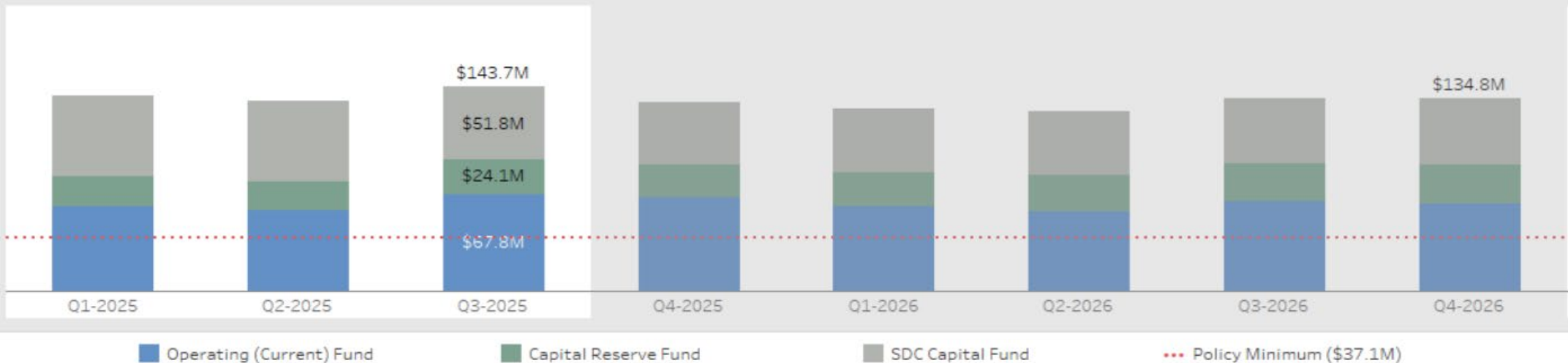
## Operating Fund Liquidity (in days)



## Capital Funds Liquidity (in dollars)



## Total Liquidity (Cash Balances)



## Why is a Policy Update & Spend-Down Strategy Needed?

- **Current Balances Exceed Policy Limits**
- **Current Policies are Below Peer Average**
  - Tacoma Power (120 - 180 days target)
  - Environmental Services (90 days minimum)
  - Rail (60 -180 days maximum)
  - Industry median (e.g., 90–120 days)

# Recommended Policy Updates

## Water Rate & Financial Policy Updates

- Operating Reserve:
  - *Revise to 60–120 Days (Target 90 Days)*
  - Spend-down plan required if reserves at or over 120 Days
- Capital Reserve:
  - *Maintain 1%*
- SDC Fund:
  - *Sunsetting RSA*
  - *Increase Minimum Balance to \$4M*



# Spend-Down Strategy



## Realistic & Targeted

- **Recalibrate the financial model** to assign funds to capital projects more precisely over 10-year period
- **Third-Party review and opinion** on financial position
- **Change assumptions** used for financial modeling and forecasting
- **Assign greater share of SDC funds** to capital over 10-years
- **Defer 2026 planned bond issuance** by using reserves
- **Lower the Rate Trajectory** by at least 1 – 1.5% starting in 2027
- **Cash-fund warehouse construction** in 2026
- **Increase capital budgets** for priority projects (land acquisition)

# Next Steps

- **Board Feedback and Rate & Budget PUB Retreat**
- **Schedule Policy Update for Approval by PUB**
- **Incorporate new policies into 2027/28 financial and budget planning**
- **Complete improvements on financial model**
- **Incorporate spend down strategies into long-range forecasts**
- **Monitor and adjust based on actual performance**