Tacoma Water
Revenue Requirement Preview, Rate Design, and Long Range Financial Plan Update

Scott Dewhirst | Water Superintendent | sdewhirst@cityoftacoma.org
Jodi Collins | Financial Stewardship Manager | jcollins@cityoftacoma.org

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Agenda

1. Budget Preparation & Cost Savings
2. Revenue Requirement Developed from Budget
3. Cost of Service
4. Rate Design
5. Next Steps
Budget Preparation & Cost Savings

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Budget Preparation: 2020 Measures

### Increased Customer Assistance
- Emergency Assistance Program
- Late Fee waivers
- Suspension of shut-offs
- Affordability Measures and recommendations support equity
- Homeowner side grant/loan program

### Support for Other Departments/City
- Hire Public Works for road repairs
- 3 furloughed PW Equipment Operators work on Water projects
- Residuals handling
- Watershed support

### Cost Saving Measures
- AMI meter box survey and meter box lid savings
- Reduced travel, training, projects delayed
- Prioritized hiring
- Suspension of intern program
- Bond Refunding
Budget Preparation

Cost reductions included in the budget proposal

- Reduced travel/training, professional services, and other O&M
- Fleet funding changes
- Capital budget reductions
- Decision-making Framework

Limited control over many large budget drivers

- Assessments
- Taxes
- Employee Benefits
- Debt Service
Revenue Requirement
Developed from Budget

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Rates & Debt Service Coverage

21/22 Revenue Requirement and Budget

Rate Increase

2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034 2035 2036

Coverage Ratio

Rate Adjustment - Projected
Sr. Debt Coverage - Requirement
All-In Debt Coverage - Requirement
All-In Debt Coverage - Projected

Budget Preparation Revenue Requirement LRFP O&M Capital Non-Rate Revenue Forecast Cost of Service Rate Design Next Steps
Total Fund Balance

21/22 Revenue Requirement and Budget

- Operating Reserve (Current Fund Ending Balance)
- System Development Charge Fund Balance
- Capital Reserve Fund Balance
- Total Minimum Fund Balance

Budget Preparation
Revenue Requirement
LRFP
O&M
Capital
Non-Rate Revenue
Forecast
Cost of Service
Rate Design
Next Steps
Revenue Requirement Analysis

**O&M Expense Forecast**
- Apply budget development decision making tools
- Conduct historical cost review
- Include inflation factors
- Consider strategic initiatives and additional needs or enhancements
- Plan for increasing costs
- Incorporate forecasted assessments and labor assumptions

**Capital Expense Forecast**
- Capital Budget and 10-year CIP developed with business case evaluations
- Funding assumptions apply existing bond fund sources first, then reasonable spend down of capital and operating reserves, then anticipated additional debt funding in 2023/24

**Non-Rate Revenue Forecast**
- Miscellaneous fee and charge revenues projected based on recent historical trends and known future changes
- Used to reduce rate revenue requirement

**Rate Revenue Requirement Forecast**
- Projection of revenue under existing rates using 10-year demand forecast
- Any revenue requirement deficiencies must be addressed by rate adjustments
2021/2022 Preliminary O&M Budget

- Assessment budget will not be finalized until late August and may increase based on City budgets.
- Supplies expense is about $700,000 lower than 2019/2020 budget.
- Personnel expense is about $4 M higher than 2019/2020:
  - Benefits are $3 M higher or nearly $11,000 per FTE over the biennium.
  - Budget includes vacancy factor.
Preliminary change in expense between 2019/2020 and 2021/2022 is $4 M or 6.9%. The 2021/2022 budget includes 6 new positions.
Preliminary change in expense between 2019/2020 and 2021/2022 is ($700,000) or down 2%.
• The 2019/2020 Capital Budget was $49.3 M excluding AMI and Fleet.

• The 2021/2022 Proposed Capital budget is $45.1 M excluding AMI and Fleet.

• This is a reduction of $4.2 M or 8.5%.
Preliminary change in expense between 2019/2020 and 2021/2022 is $16.8 M or 26.9%.
This increase is due to the Fleet accounting change and the AMI project.
Revenue Overview: Non-Rate Revenue

- Expected change in non-rate revenue between 2019/2020 and 2021/2022 is about $552,000 or 3.8%.
Cost of Service

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Cost of Service Analysis (COSA)

Tacoma Public Utilities is a Cost-of-Service Organization

- Customer Classes are groups of customers with similar usage characteristics that influence cost, such as infrastructure requirements and consumption patterns

- A cost-of-service analysis (COSA) determines the cost of serving each Customer Class

- For 2021/2022, we recommend applying the overall system average of 2.0% annually to all customer rate classes
Rate Design

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Principles of Rate Design

Legal
- Fair
- Just
- Reasonable
- Non-Discriminatory

Industry Standard
- Revenue Stability
- Cost Causation
- Economic Efficiency
- Equity
- Bill Stability

TPU Principles
- Affordability
- Environment
- Public Involvement
Status of Parks & Irrigation Rates

**Policy Implementation**

2021 will be the final year in phasing out fixed charge

2022 will be the first year of a volumetric only rate

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**Transitioning Rate-Design**

- In 2016, we began phasing out the monthly fixed charge

**Objectives**

- Improve operational efficiency
- Strengthen seasonal conservation signal
- AMI-supported rate design alternatives
**Status of Wholesale Rates**

**Fixed Charge Increase Schedule**

<table>
<thead>
<tr>
<th>Year</th>
<th>Charge Percentage</th>
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<tbody>
<tr>
<td>2019</td>
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</tr>
<tr>
<td>2020</td>
<td>17.5%</td>
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<tr>
<td>2021</td>
<td>35.0%</td>
</tr>
<tr>
<td>2022</td>
<td>35.0%</td>
</tr>
</tbody>
</table>

**Transitioning Rate-Design**

- In 2020, we began phasing in a 35% monthly fixed charge target

**Objectives**

- Revenue stability
- Equity
- Efficient price signal

**2021** will be the target year for 35% fixed charge

**2022** will maintain the same fixed charge rate recovery
Rate Recommendation

• We recommend applying the overall system average of 2.0% annually to all customer rate classes

• The adjustment would apply 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
An average monthly bill for a residential single family customer inside the City of Tacoma is calculated using an assumption of 6 CCF in winter months and 9 CCF in summer months.
Next Steps

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Next Steps

- **APR 22**
  - **Water Budget Preview**
  - PUB Meeting

- **SEP 9**
  - **TPU Budget Presentation**
  - PUB Study Session

- **MAY 13**
  - **Water Rate & Financial Policy**
  - PUB Meeting

- **OCT 13**
  - **Review of Preliminary Biennial Budget & Rates**
  - Joint Study Session

- **JUL 22**
  - **Water Revenue Requirement Preview, Rate Design, and Long Range Financial Plan Update**
  - PUB Meeting

- **OCT 28**
  - **Consideration of Preliminary Biennial Budget & Rates**
  - PUB Meeting