



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

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Agenda



**Budget Preparation
& Cost Savings**



Rate Design



**Revenue Requirement
Developed from Budget**



Next Steps



Cost of Service

Budget Preparation & Cost Savings

Revenue Requirement

Cost of Service

Rate Design

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

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

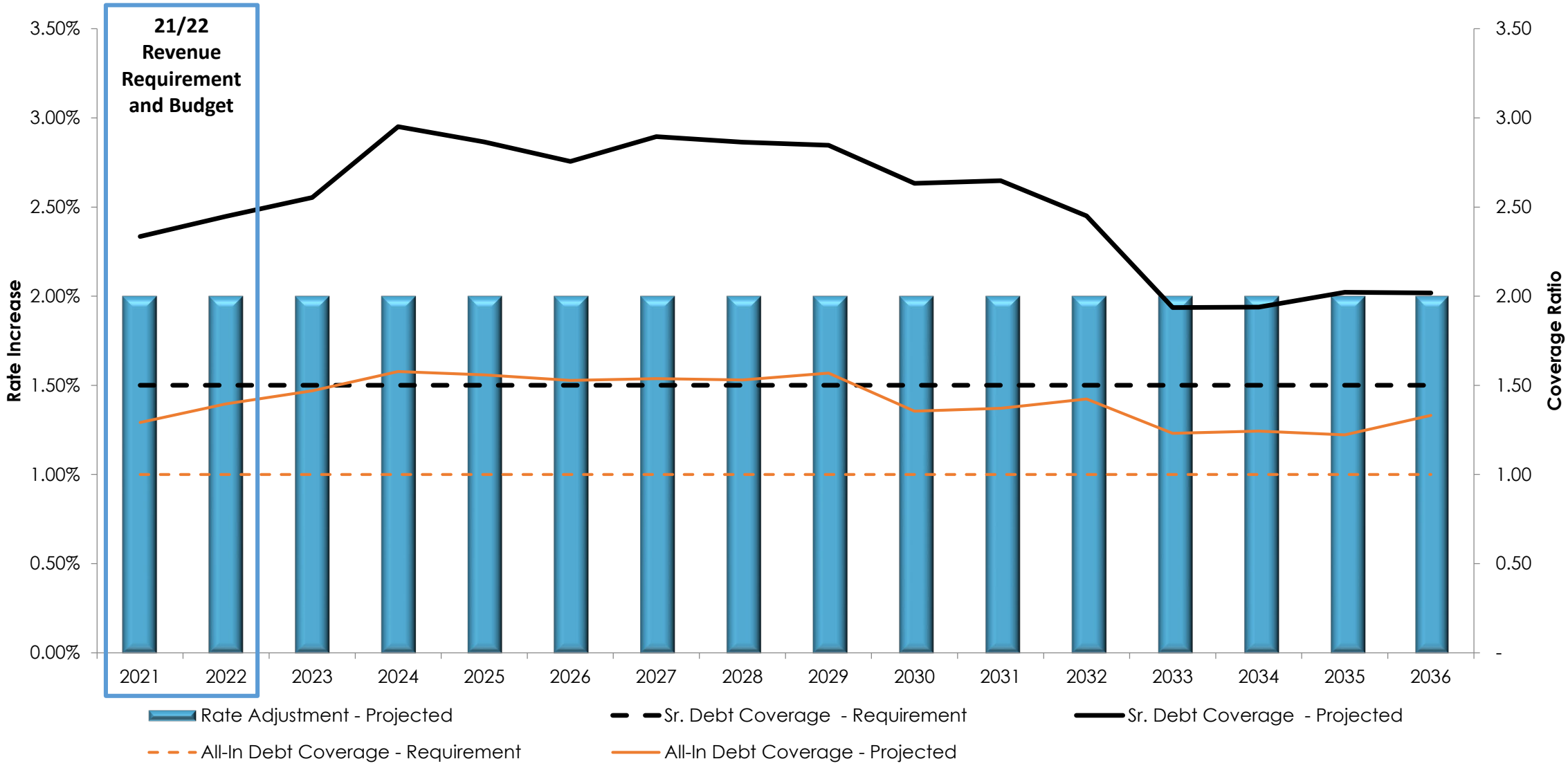
Limited control over many large budget drivers

- Assessments
- Taxes
- Employee Benefits
- Debt Service

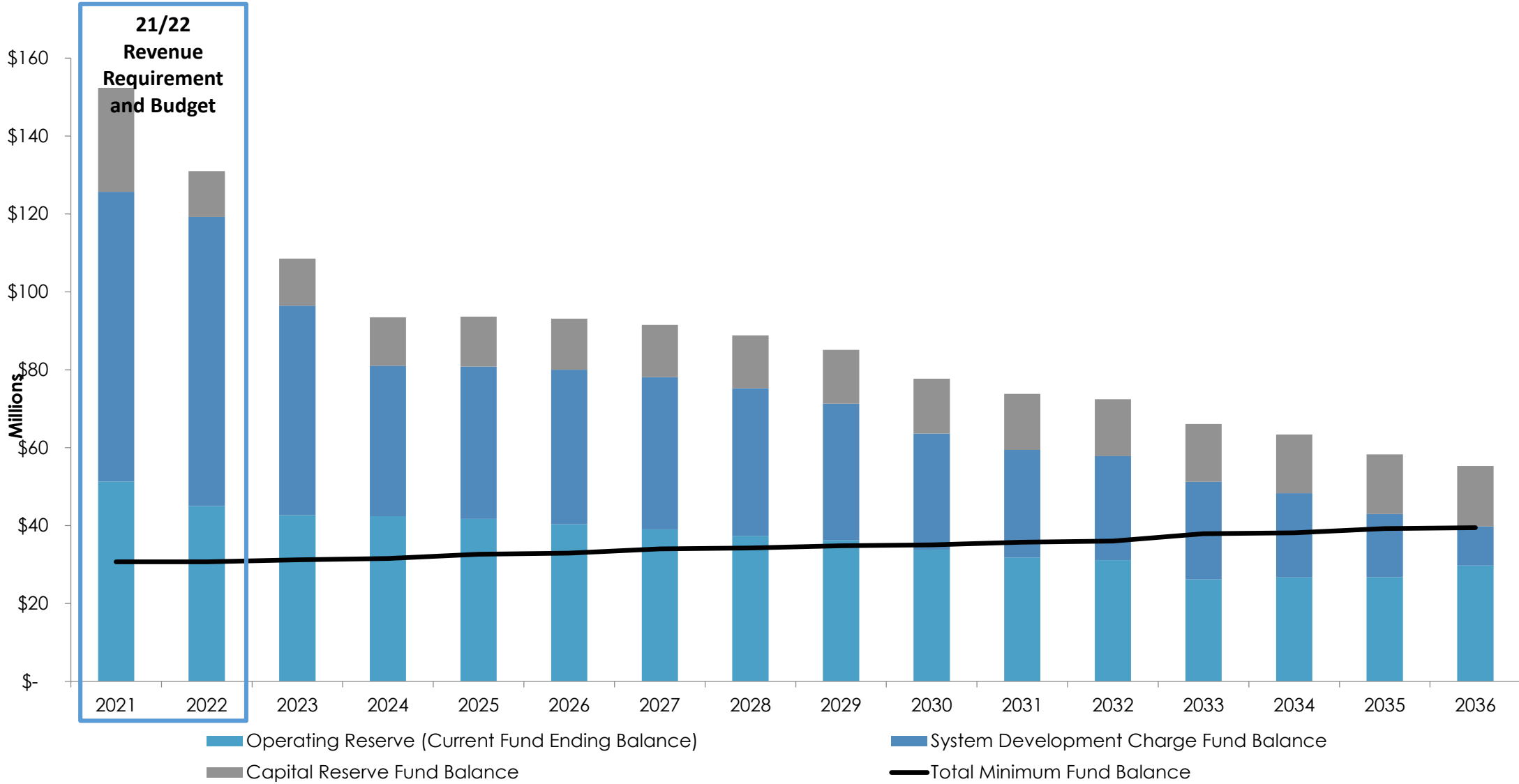
Revenue Requirement Developed from Budget

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Rates & Debt Service Coverage



Total Fund Balance



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

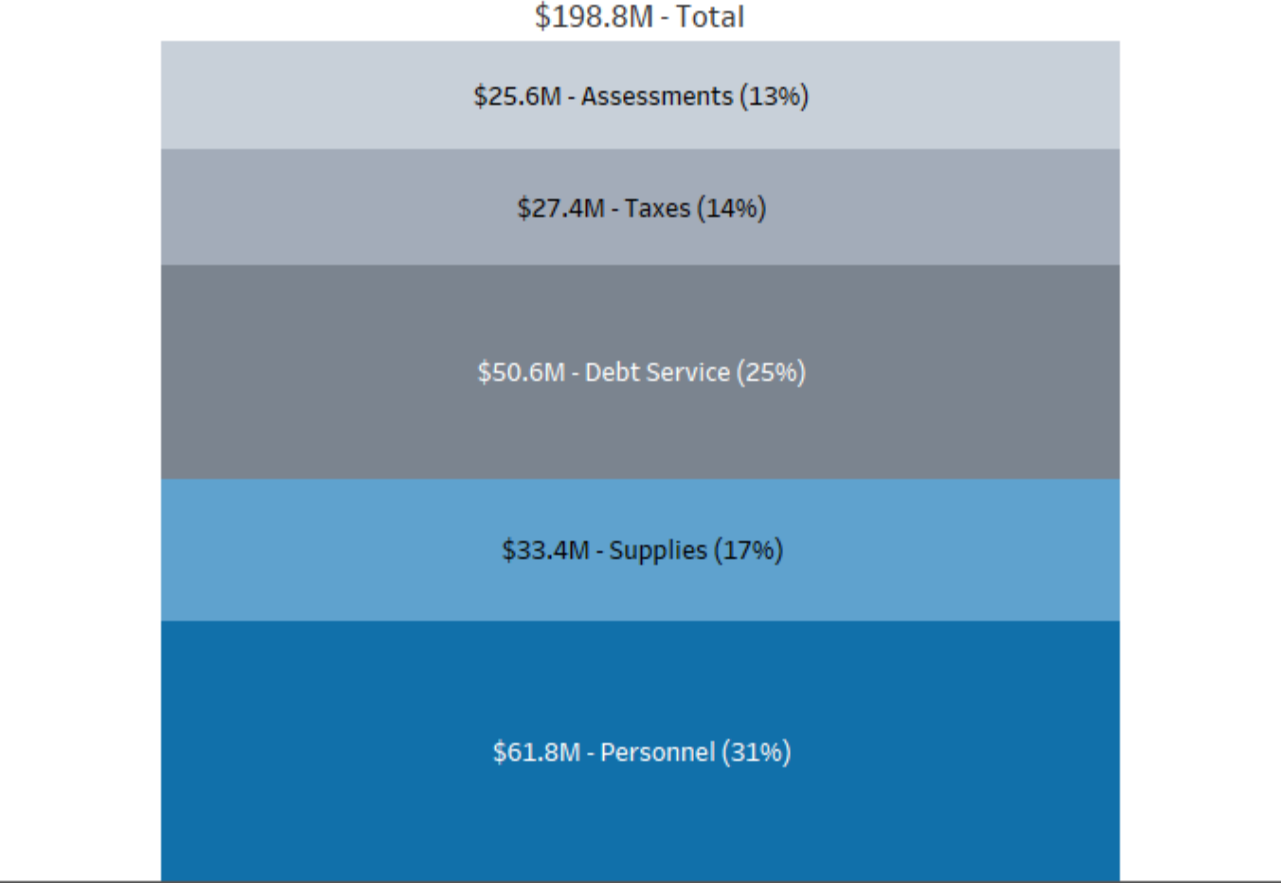
Non-Rate Revenue Forecast

- 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

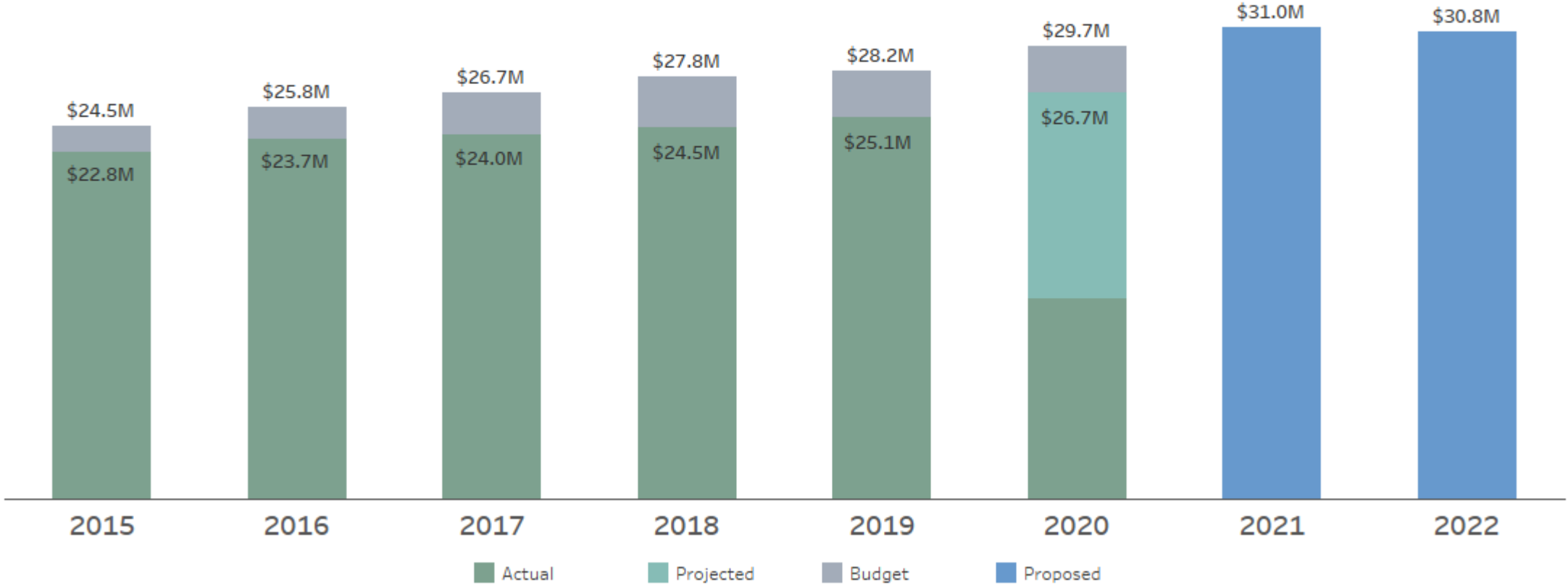
- Projection of revenue under existing rates using 10-year demand forecast
- Any revenue requirement deficiencies must be addressed by rate adjustments

2021/2022 Preliminary O&M Budget



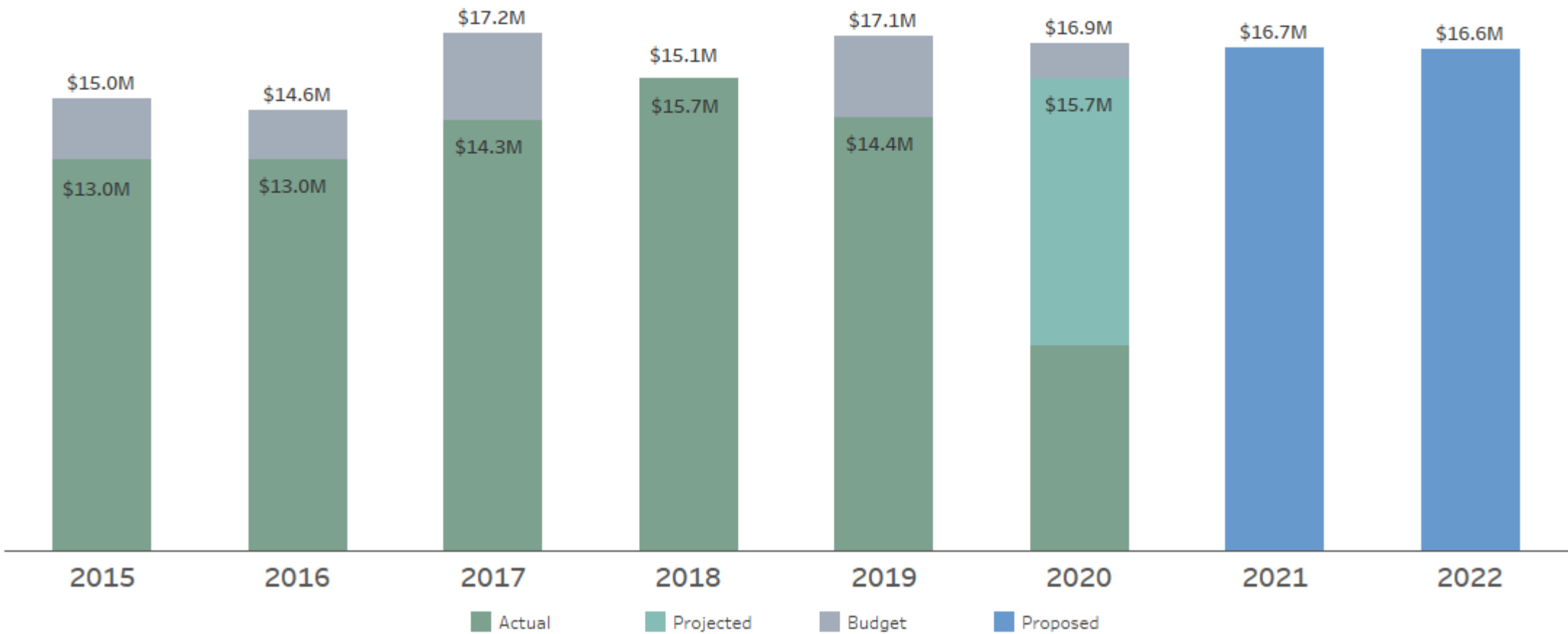
- Assessment budget will not be finalized until late August and may increase based on City budgets.
- Supplies expense is about **\$700,000** lower than 2019/2020 budget.
- Personnel expense is about **\$4 M** higher than 2019/2020:
 - Benefits are **\$3 M** higher or nearly \$11,000 per FTE over the biennium.
 - Budget includes vacancy factor.

O&M Budget Overview: Personnel



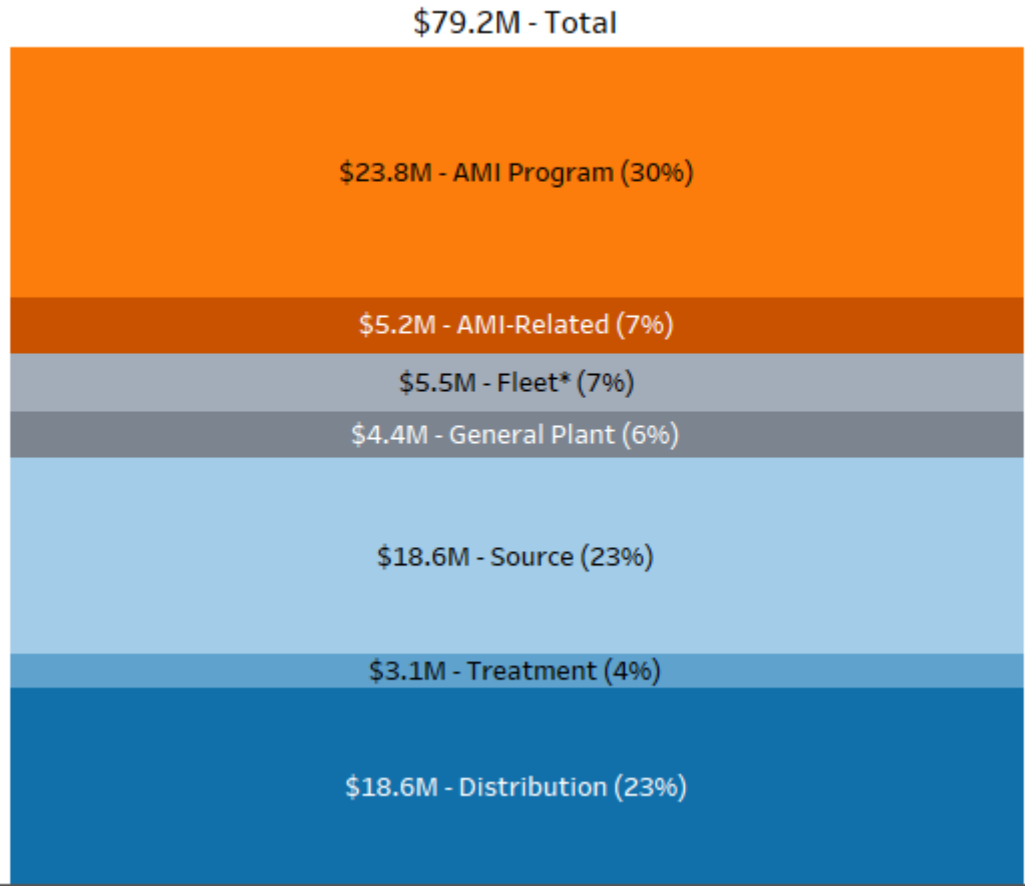
Preliminary change in expense between 2019/2020 and 2021/2022 is **\$4 M** or **6.9%**.
The 2021/2022 budget includes **6** new positions.

O&M Budget Overview: Supplies, Services & Charges



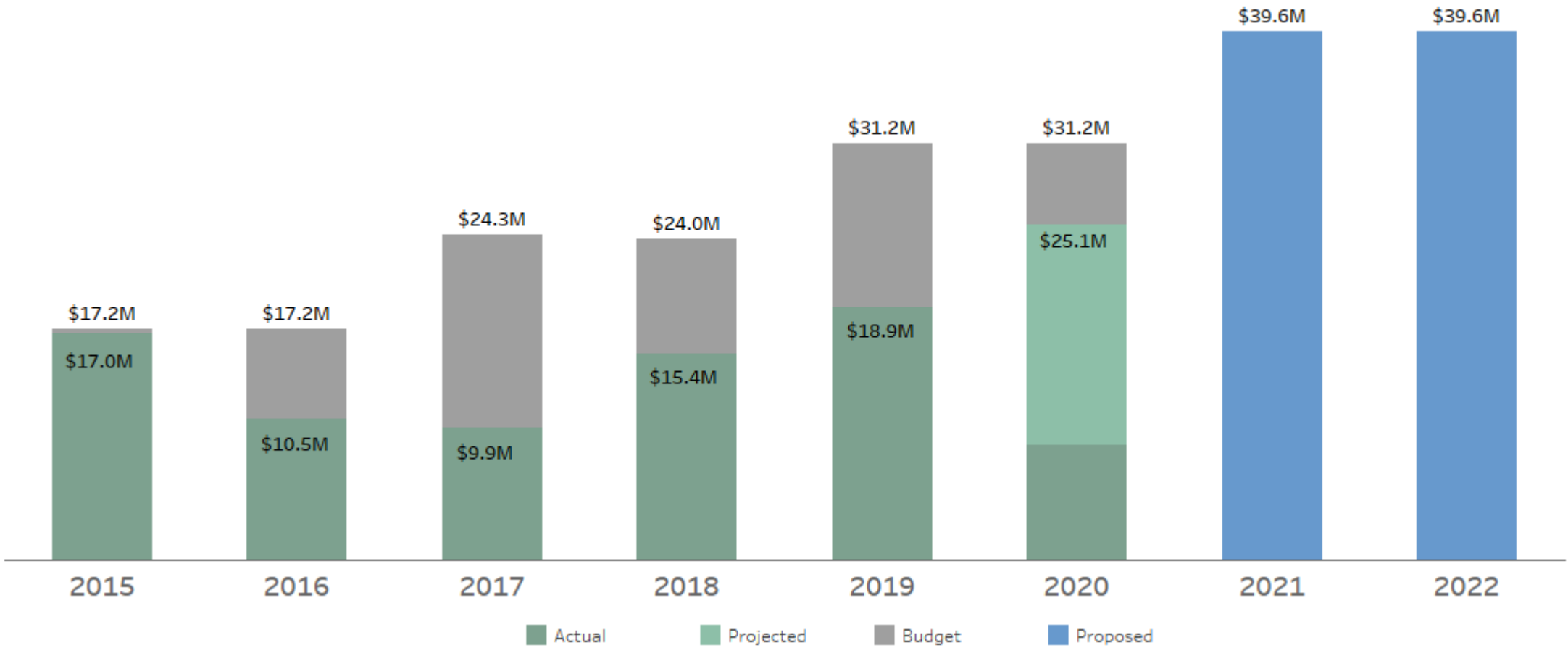
Preliminary change in expense between 2019/2020 and 2021/2022 is **(\$700,000)** or **down 2%**.

2021/2022 Preliminary Capital Budget



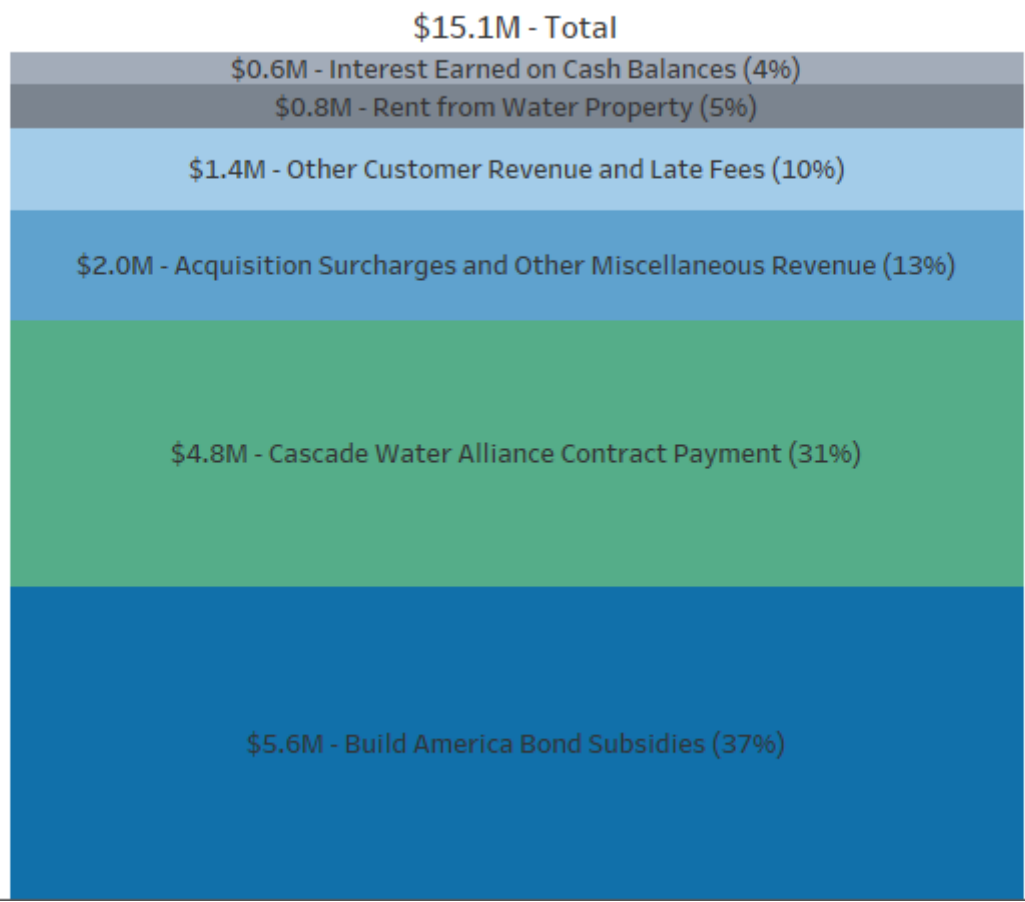
- The 2019/2020 Capital Budget was \$49.3 M excluding AMI and Fleet.
- The 2021/2022 Proposed Capital budget is \$45.1 M excluding AMI and Fleet.
- This is a reduction of **\$4.2 M** or **8.5%**.

Capital Budget Overview



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.

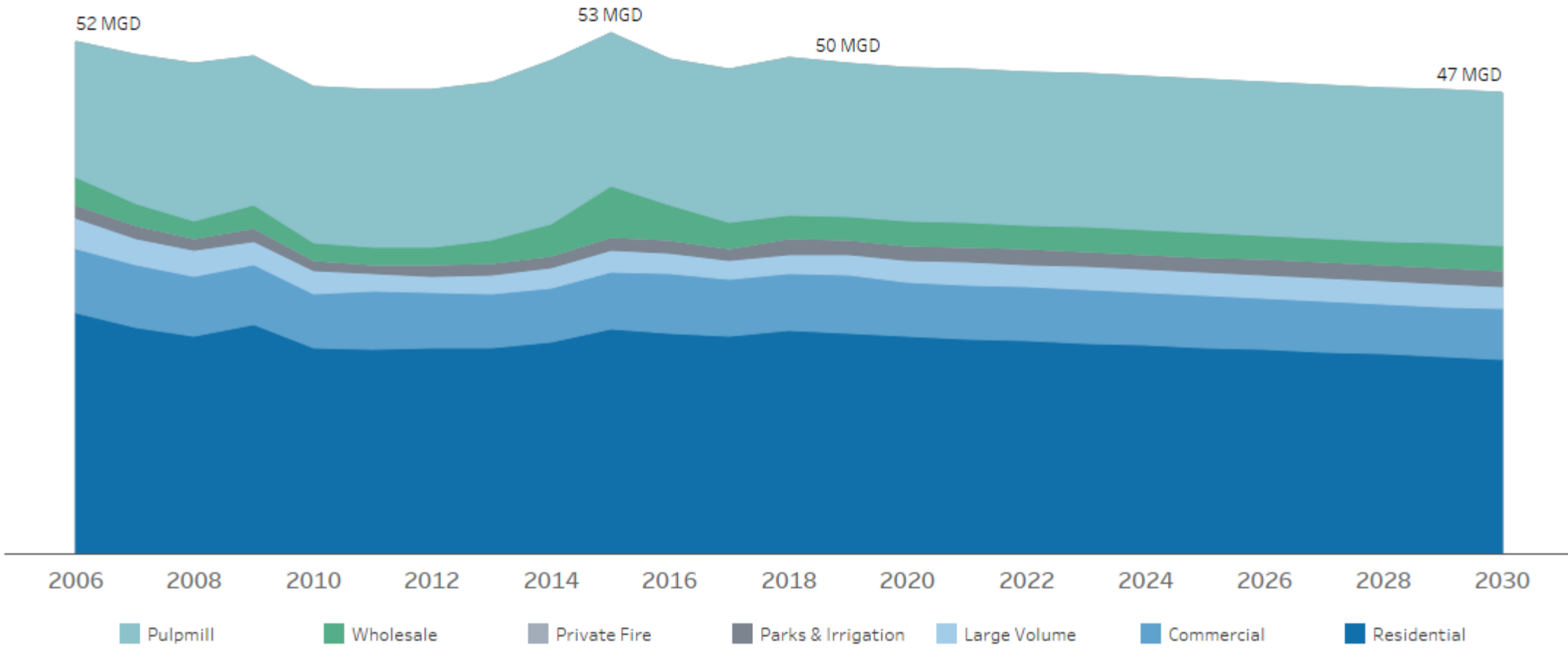
Revenue Overview: Non-Rate Revenue



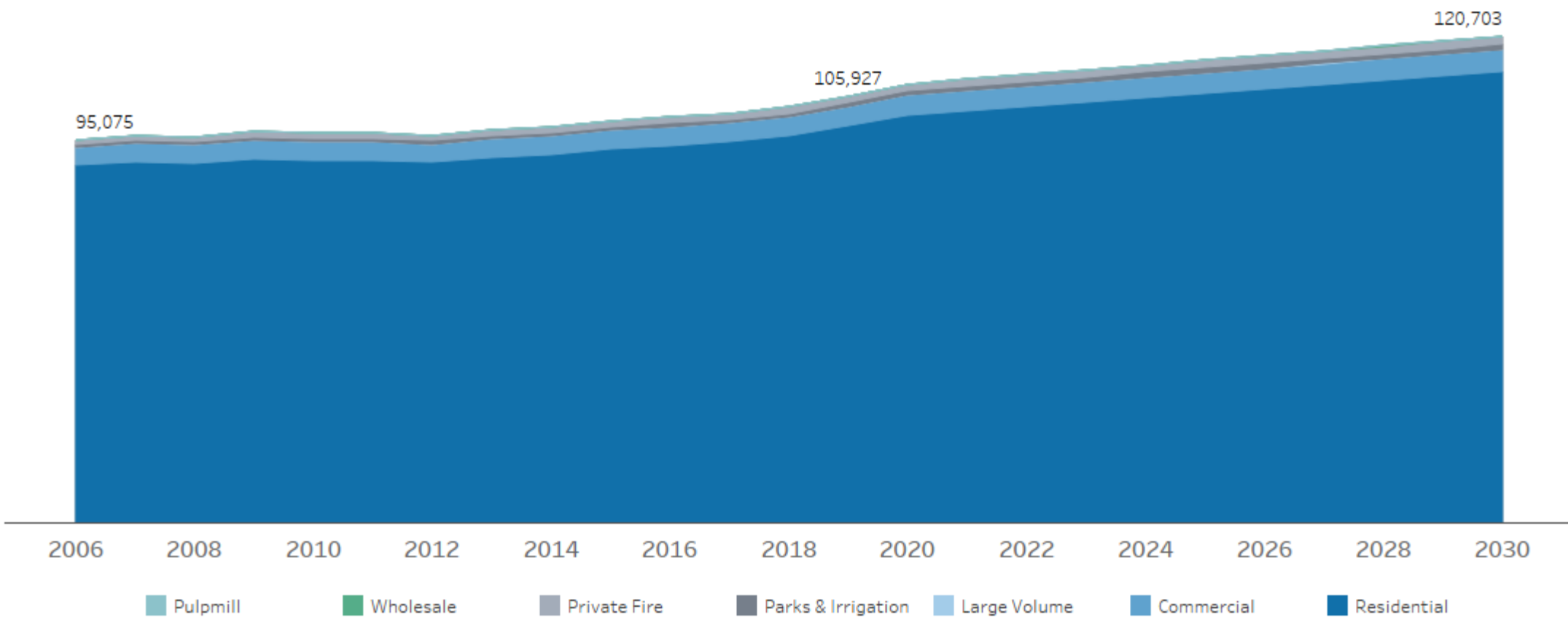
- Expected change in non-rate revenue between 2019/2020 and 2021/2022 is about **\$552,000** or **3.8%**.



Rate Revenue Requirement Forecast: Demand



Rate Revenue Requirement Forecast: Account Growth



Cost of Service

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Tacoma Public Utilities is a Cost-of-Service Organization

The COSA calculates the total revenue that should be collected from each rate class.

- 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

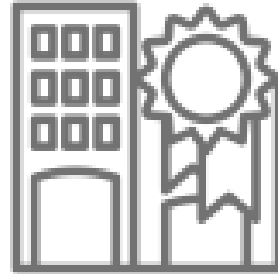
Rate Design

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Legal

- Fair
- Just
- Reasonable
- Non-Discriminatory



Industry Standard

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

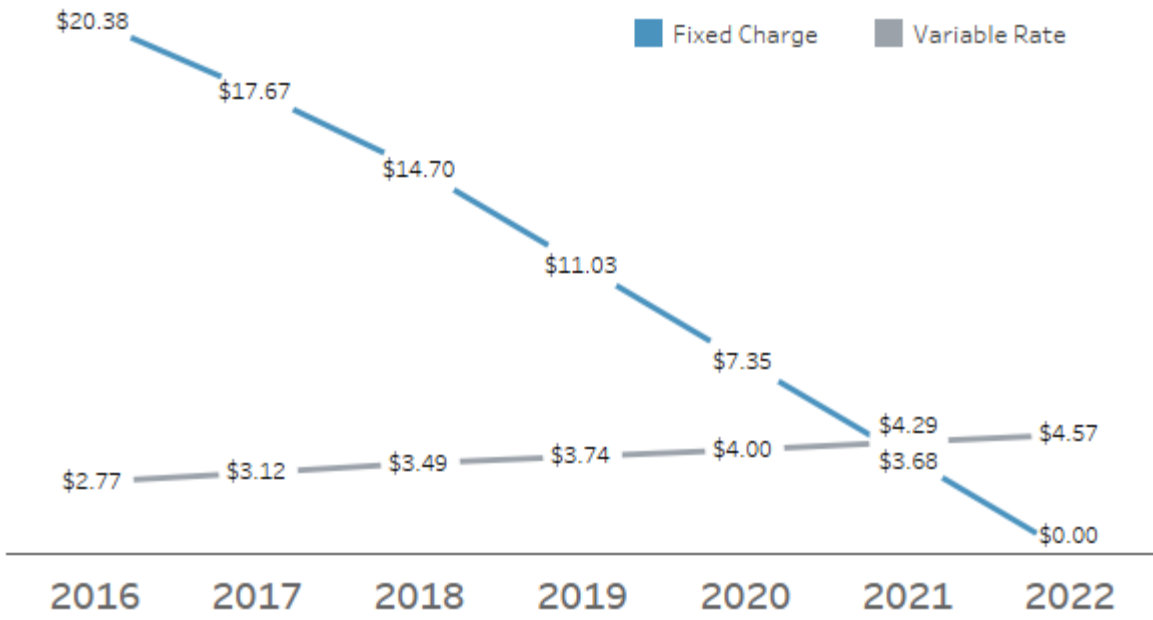


TPU Principles

- Affordability
- Environment
- Public Involvement

Status of Parks & Irrigation Rates

Monthly Fixed Charge Phase Out Schedule



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

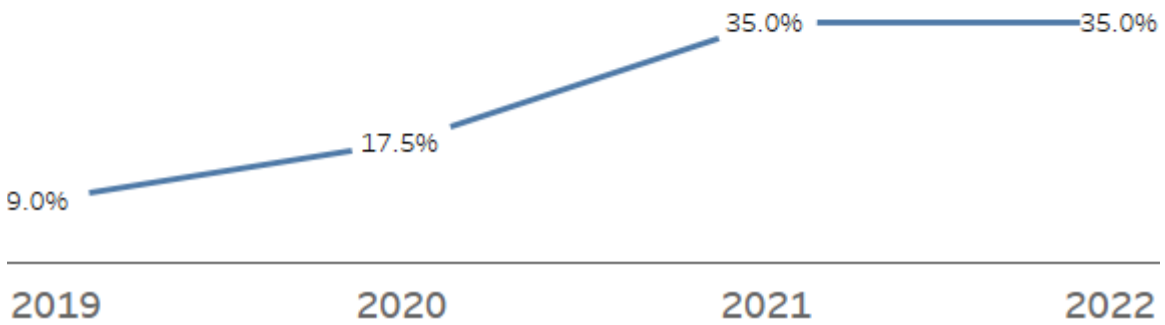


2021 will be the final year in phasing out fixed charge



2022 will be the first year of a volumetric only rate

Fixed Charge Increase Schedule





Transitioning Rate-Design

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

Objectives

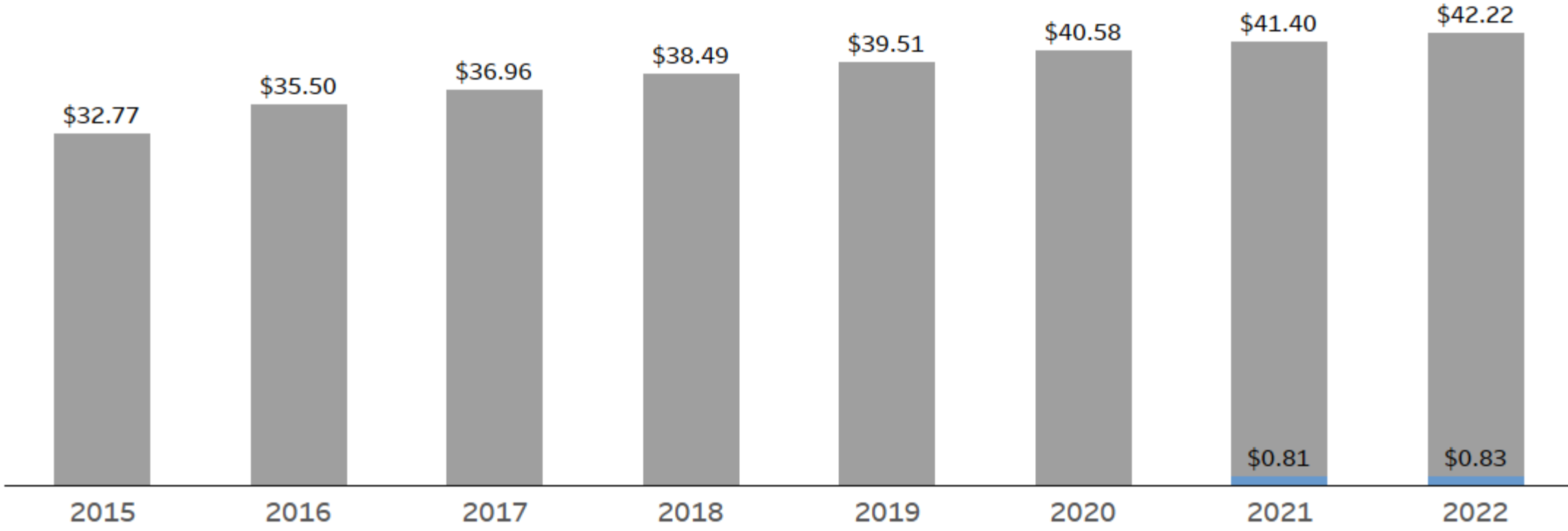
- Revenue stability
- Equity
- Efficient price signal

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

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

- 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

Average Residential Monthly Bill



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

Click to add text

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

