

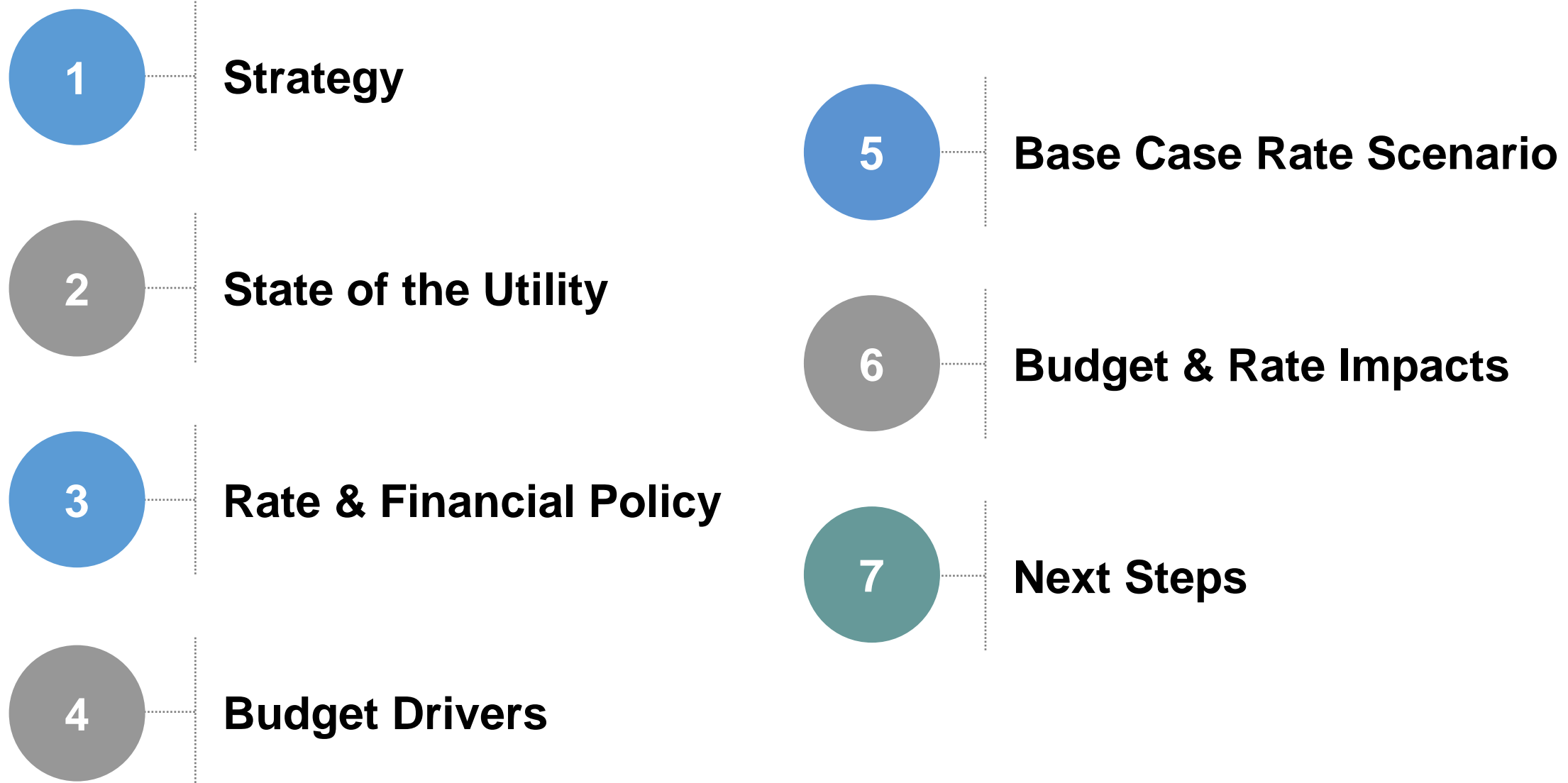
Tacoma Water Rate & Financial Policy and Financial Outlook Update

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May 13, 2020

Today's Discussion



Strategy

- *Implementation is Underway*
- *Guiding Light in Uncertain Times*
- *Customer and Internal Focus*
- *Reinforced by Recent Events*



SD-1
Equity & Inclusion

SD-2
Financial Sustainability

SD-3
Rates

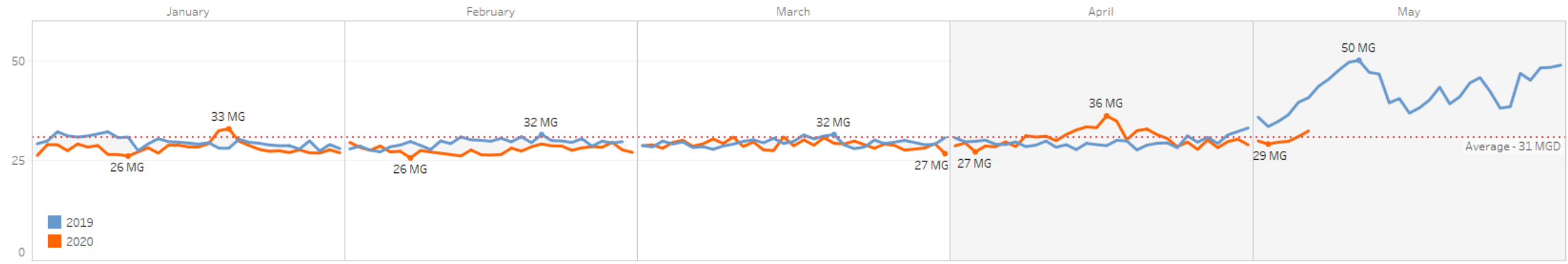
SD-4
Stakeholder Engagement

SD-5
Environmental Leadership

SD-6
Innovation

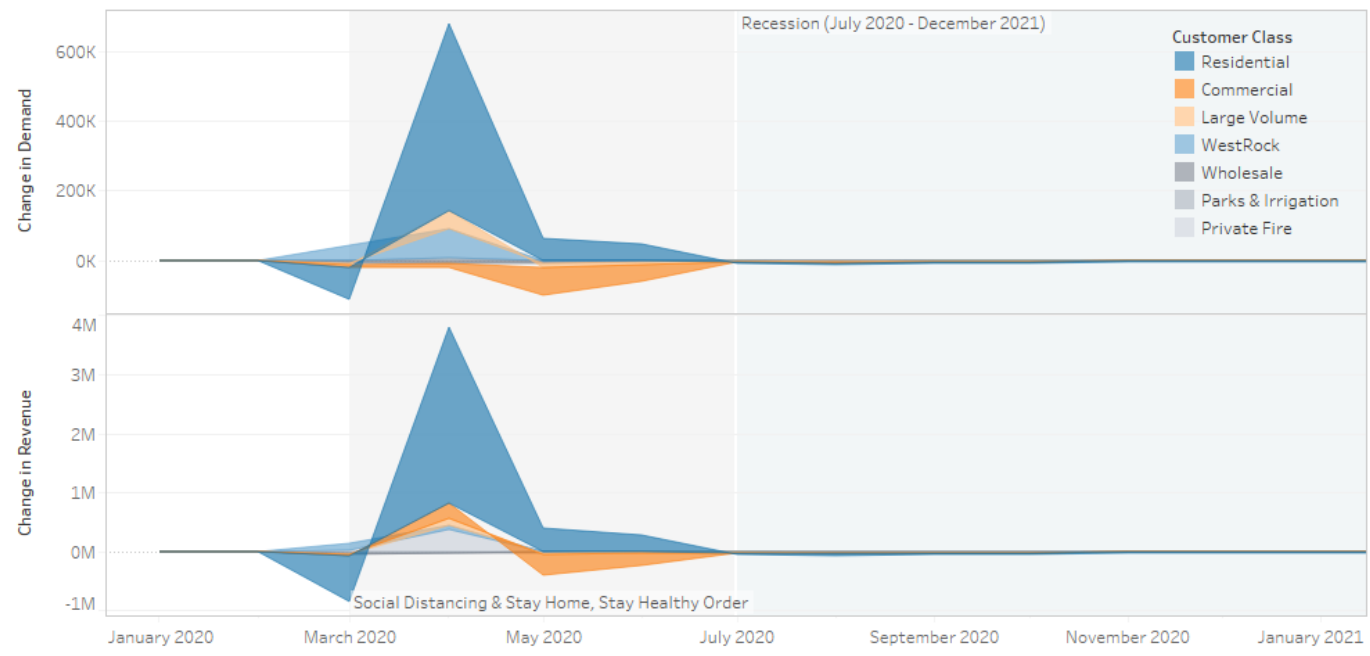
State of the Utility: COVID-19 Impacts

Daily Delivery to System (MG) *excludes WestRock and RWSS Partners*



- **Delivery of Water:** Delivery of total water to the system continues to track with 2019
- **Projections:** We are continuing to project increased residential demand and decreased commercial demand during the Stay Home, Stay Healthy mandate followed by a recession
- **Monitoring:** Total billed demand and revenue for March and April above budget and we continue to monitor billed demand and revenue

Demand & Revenue Projections *using data from industry reporting and Great Recession analogue*



These projections model the impact of COVID-19 (March 2020 - June 2020) followed by an 18-month recession (July 2020 - December 2021).

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State of the Utility: COVID-19 Impacts



Increased Expenses

- Initial teleworking expenses
- Social distancing implementation
- Customer assistance program
- Suspension of late fees and shut offs



Balancing Efforts

- Financial management
- Expense prioritization
- Operational efficiencies
- Strategic alignment



Decreased Expenses

- Hiring
- Meetings, travel & trainings
- Suspension of intern program
- Delaying projects

SD-1
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Inclusion

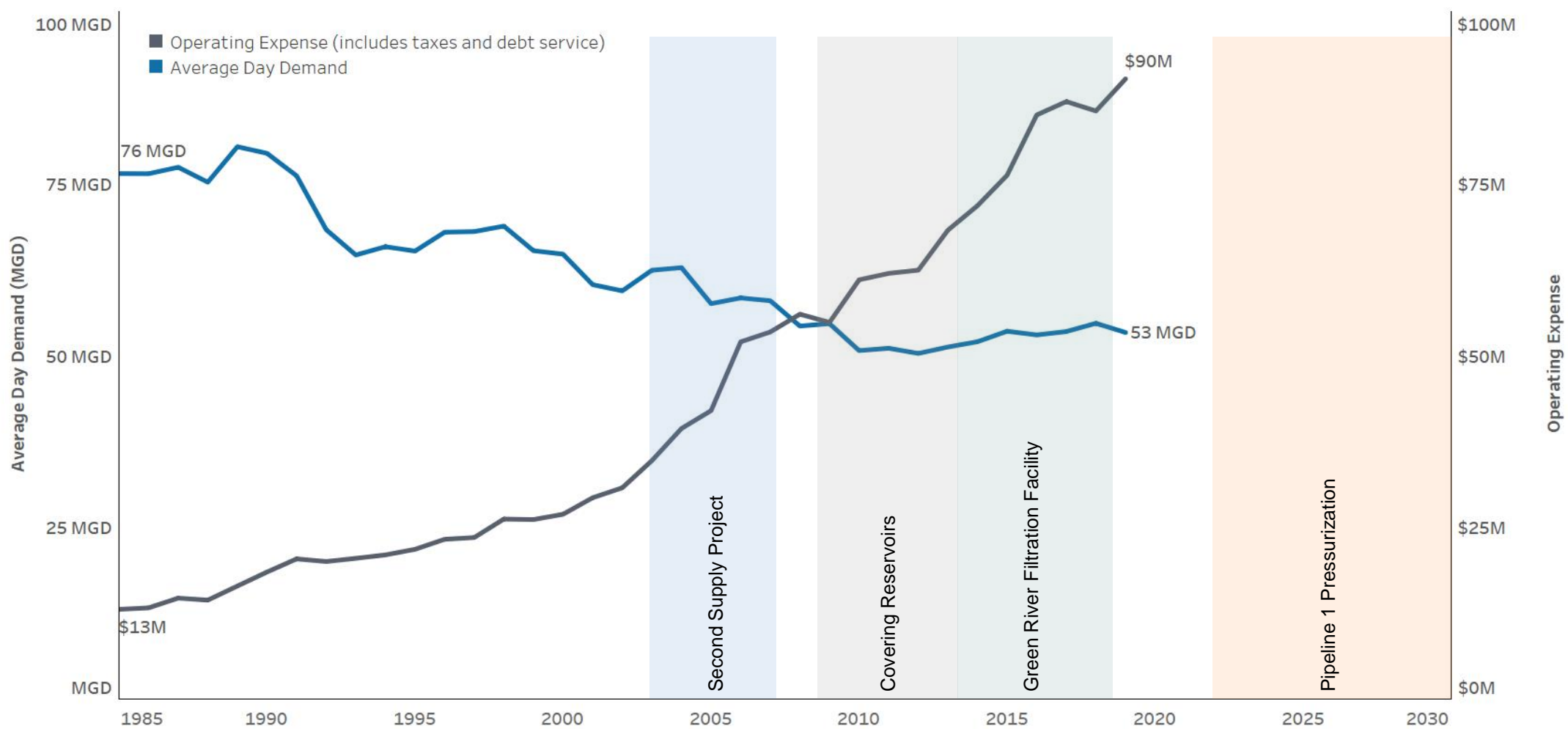
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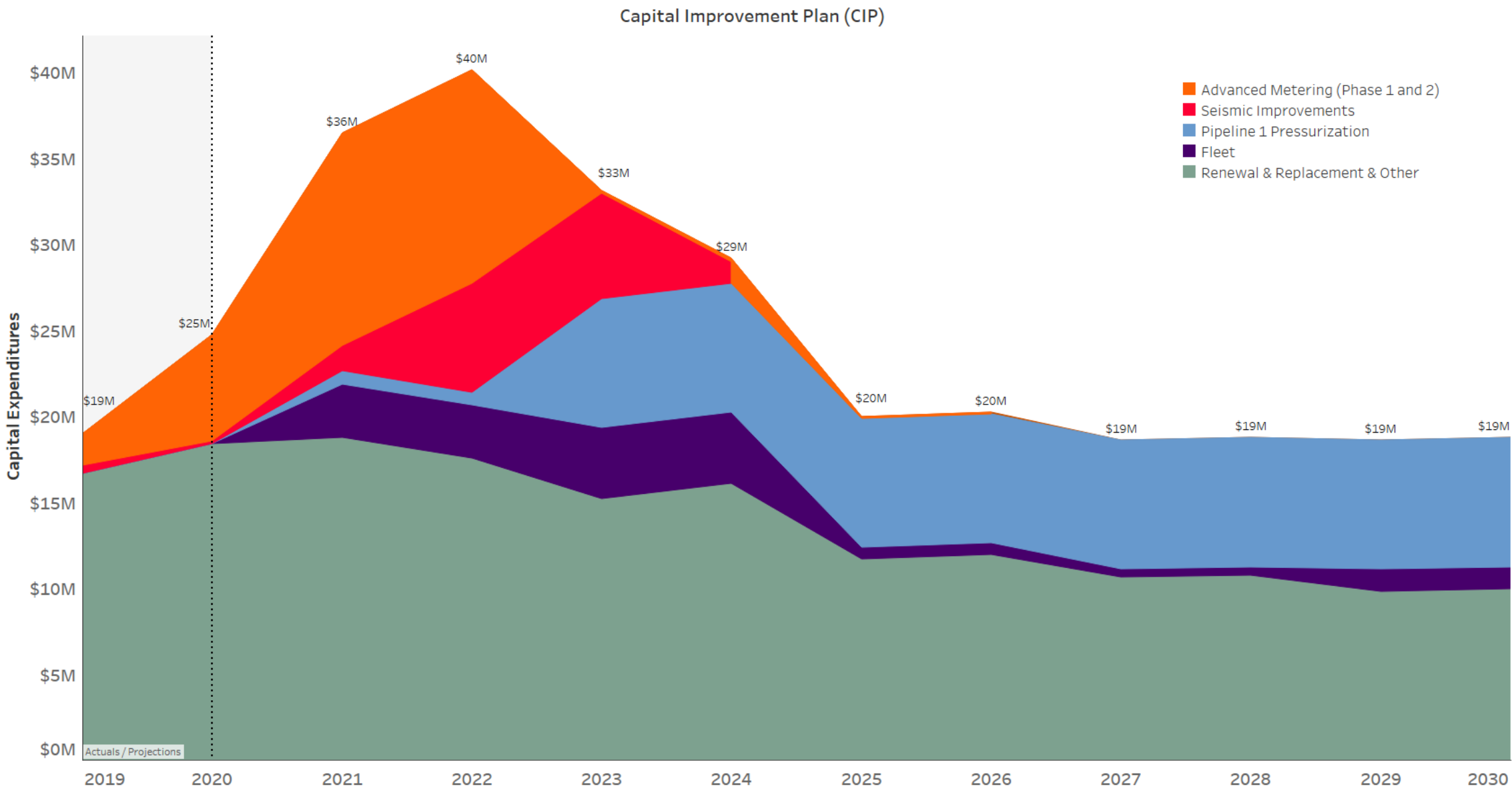
State of the Utility: Demand & Costs

- Operating costs continue to rise despite stable demand



The blue line represents average day demand for water in million gallons per day from 1985 - 2019. The grey line represents annual operating expense in millions from 1985 - 2019.
Source: Tacoma Water Annual Financial Reports

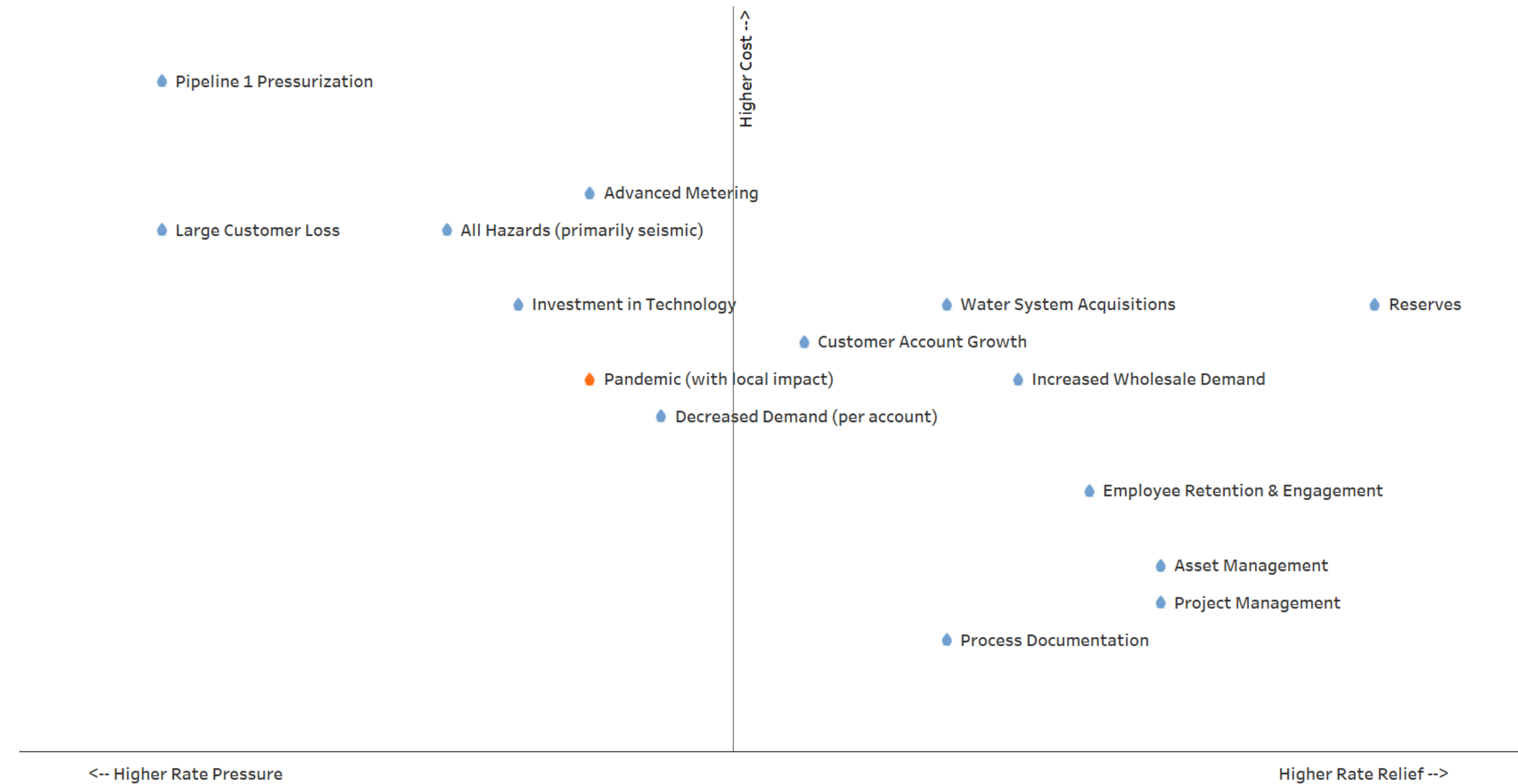
State of the Utility: Capital Spending



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State of the Utility: Rate Pressure & Relief



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Rate & Financial Policy

Revenue Requirement

- Regular reviews with full study every two years
- Study includes projected revenue, expenses and capital improvements

Cost-Based Rates

- An embedded cost-of-service study will determine the cost of serving each customer class and allocation to recover projected expenses

Stable Rates

- Water rates should be as low as is responsible
- Water rates should be stable and understandable
- To the extent possible, apply gradualism in rate adjustments

Financial Metrics

- 60 days of current budgeted expenditures
- Capital: \$2M minimum in SDC Fund and 1% of original plant in Capital Reserve
- Debt Service Coverage: Senior above 1.5x and All In above 1.25x

Rate Adjustments

- Sufficient to meet Tacoma Water budgets and maintain financial sufficiency
- Minimize long-run costs to rate-payer
- Short and long-run rate impacts presented

Low-Income

- Special consideration for low-income senior and/or disabled customers

Environmental Stewardship

- Maintain the quality of the environment and preserve sensitive ecosystems at the source of supply

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Rate & Financial Policy

Revenue Requirement	<ul style="list-style-type: none">• In development and based on budget
Cost-Based Rates	<ul style="list-style-type: none">• Based on the previous Cost of Service Analysis
Stable Rates	<ul style="list-style-type: none">• Preserve gradualism and long-term rate stability
Financial Metrics	<ul style="list-style-type: none">• Apply risk model analysis to support recommendation for reserve level requirements• Rating agency response for water utility: essential business with rate-setting ability and relatively inelastic demand
Rate Adjustments	<ul style="list-style-type: none">• Preserve long-term financial sustainability
Low-Income	<ul style="list-style-type: none">• Increase support for low-income senior and/or disabled customers
Environmental Stewardship	<ul style="list-style-type: none">• Continue commitment to the health of our environment

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Budget Drivers



Least Control

- Assessments
- Taxes
- Personnel benefits
- Cost of commodities



Limited Control

- Debt service
- Capital Investment Plan (CIP)
- Wholesale Water Sales



Most Control

- Strategic initiatives
- FTE count
- Workforce Development

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Base Case Rate Scenario

Scenario	Description	Positive or Negative Impact on Rates
2021/22 Base Case	Expected customer growth, base CIP (with low-case Pipeline 1 Project), base O&M	
2021/22 Alternate Base Case	Assumes no rate adjustment in 2021	
New Large Volume Customer	Assumes additional 2 million gallons per day beginning in 2022, doubling Large Volume revenue assumptions	
High Customer Growth	Assumes account growth with historical modeling	
Increased Wholesale Revenue	Expanded wholesale sales through market-based and traditional wholesale agreements, assumes additional \$1.2 million per year additional revenue	
Pulp Mill Shutdown with High Case CIP	Assumes 5-extension is executed in 2020 and Mill shuts down in July 2021 and high case Pipeline 1 project	
Pulp Mill Shutdown	Assumes 5-extension is executed in 2020 and Mill shuts down in July 2021	
High Case CIP	Assumes Pipeline 1 project at high end of projection with \$150 million over 20 years	
Prolonged Recession after Pandemic	We are continuing to monitor the environment and will be model additional scenarios as needed	

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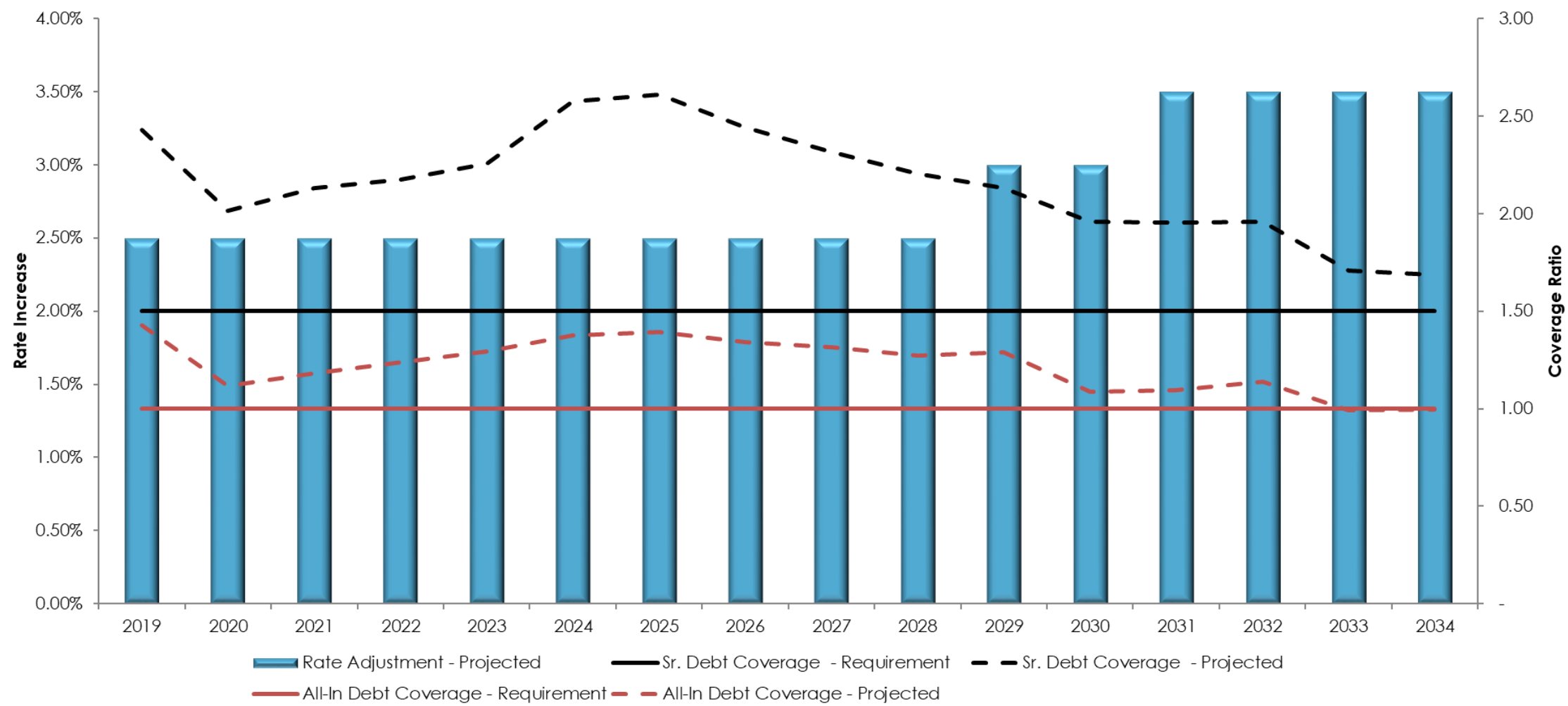
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Base Case Rate Scenario (Recommended)

Rate Increases & Coverage Tests Base Case 2021/2022

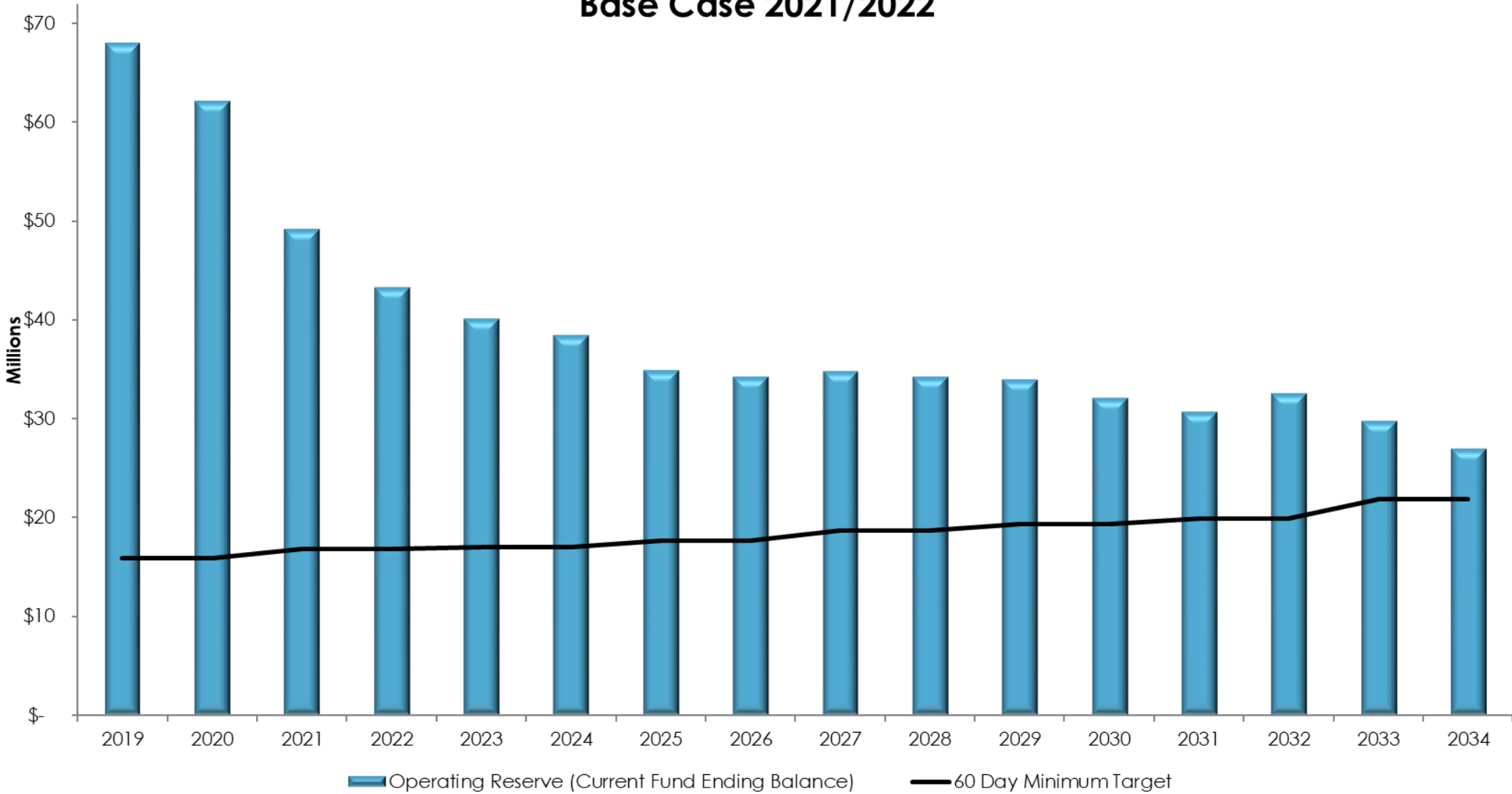


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Base Case Rate Scenario (Recommended)

Tacoma Water Operating Fund
Base Case 2021/2022

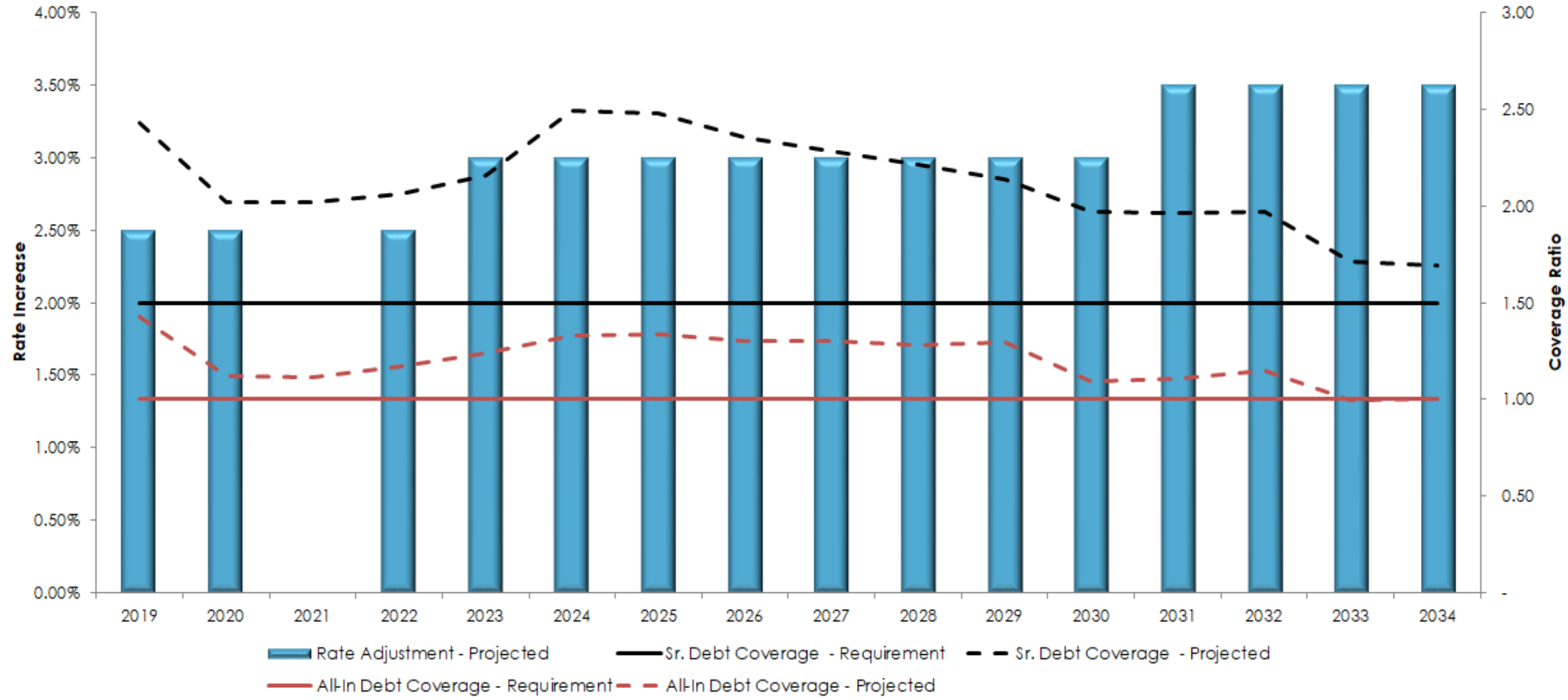


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Alternate Rate Scenario

Rate Increases & Coverage Tests
Alternate Base Case 2021/2022

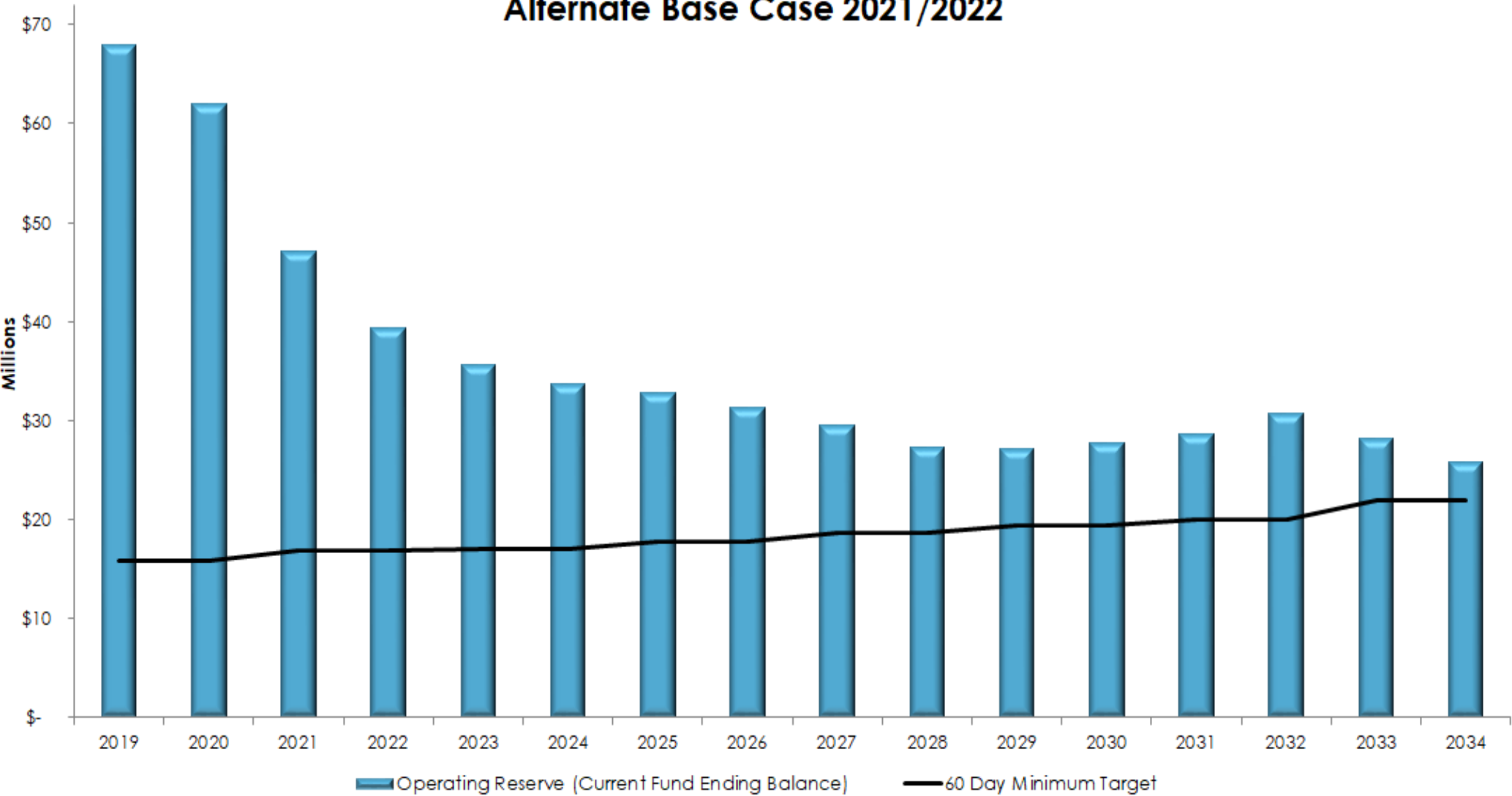


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Alternate Rate Scenario

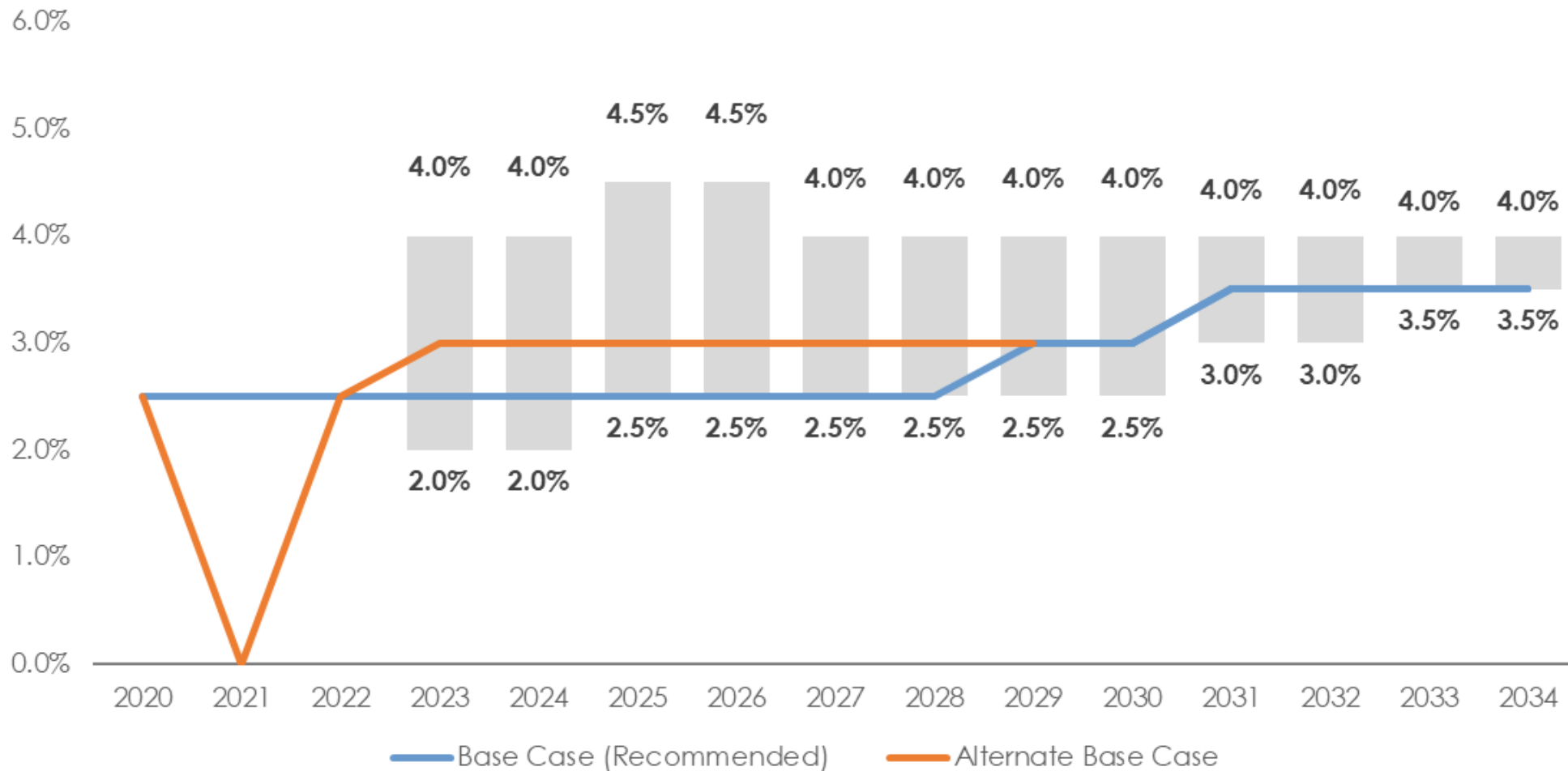
Tacoma Water Operating Fund
Alternate Base Case 2021/2022



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Range of System Average Rate Adjustments

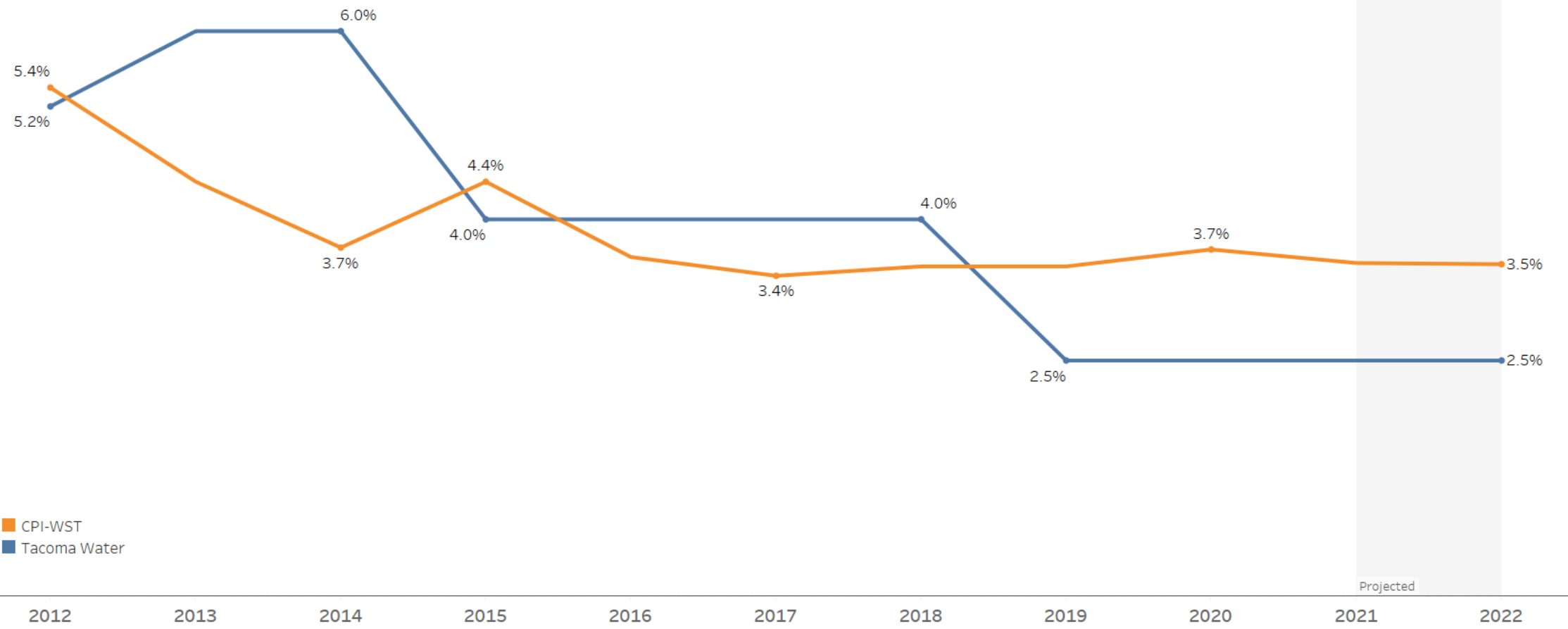


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Budget & Rate Impact: Affordability

Comparing Tacoma Water's Annual Rate Adjustments with the CPI for Water, Sewer, and Trash (CPI-WST)



2012 - 2019 CPI-WST Source: US Bureau of Labor Statistics. The 2020 - 2022 CPI-WST are projected using a 5 year rolling average.

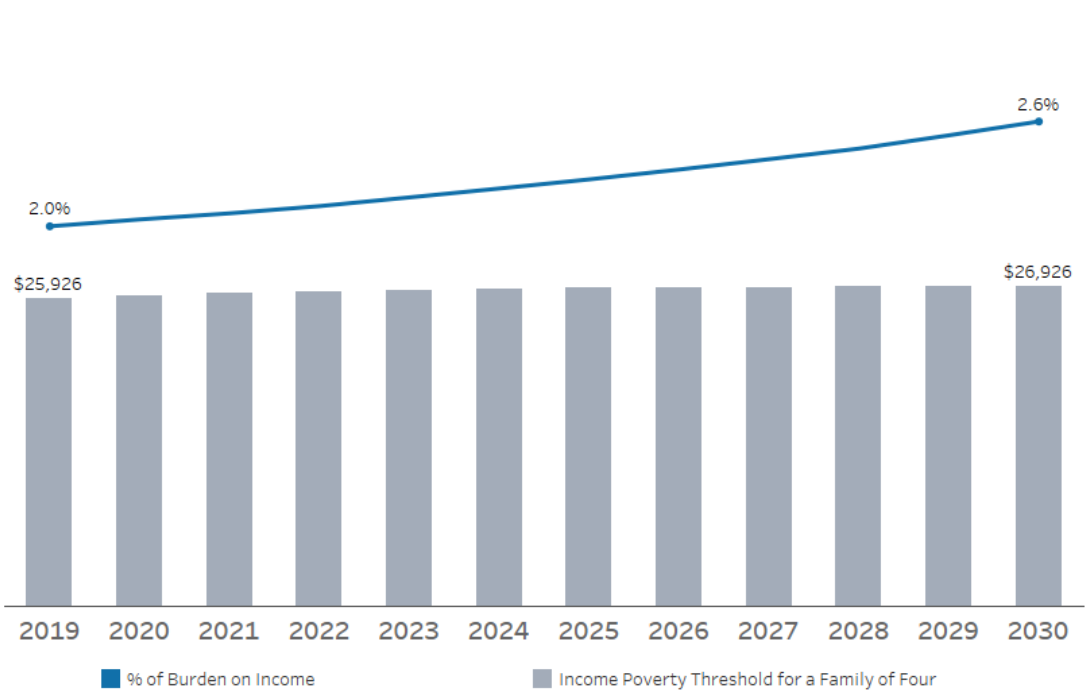
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Budget & Rate Impact: Affordability

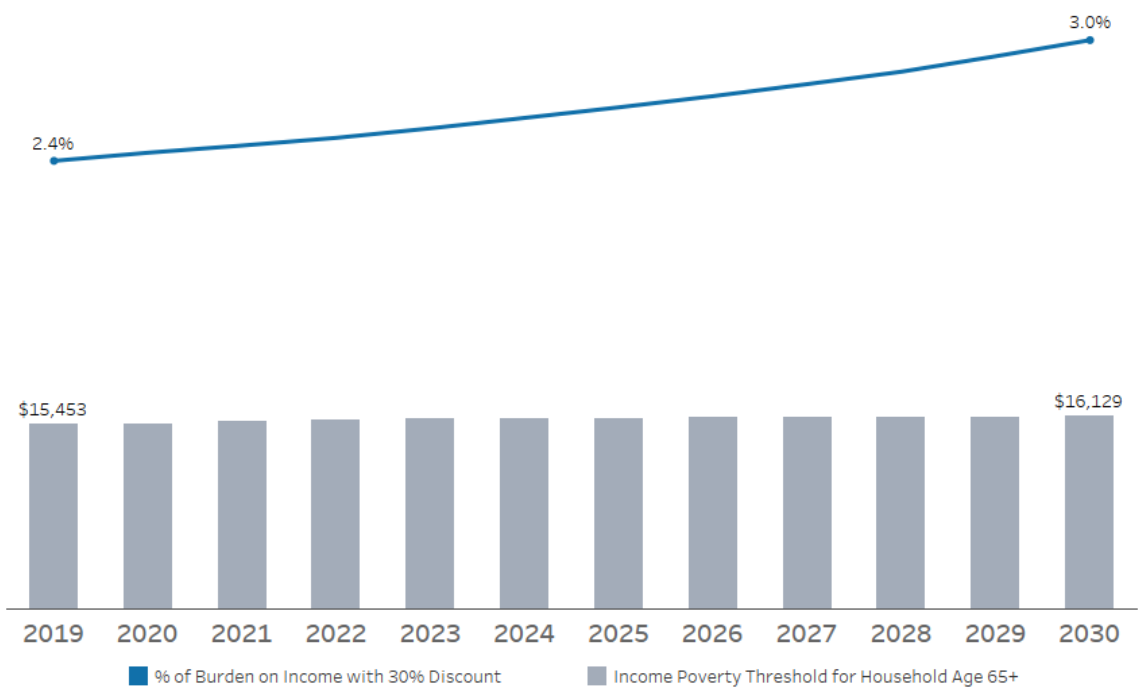
A Plan for Equity and Inclusion: Monitoring the Income Burden of an Average Water Bill



Family of Four: Rate Adjustments Remain Affordable



Two Person Household Age 65 and Older: Rate Adjustments are Becoming a Burden

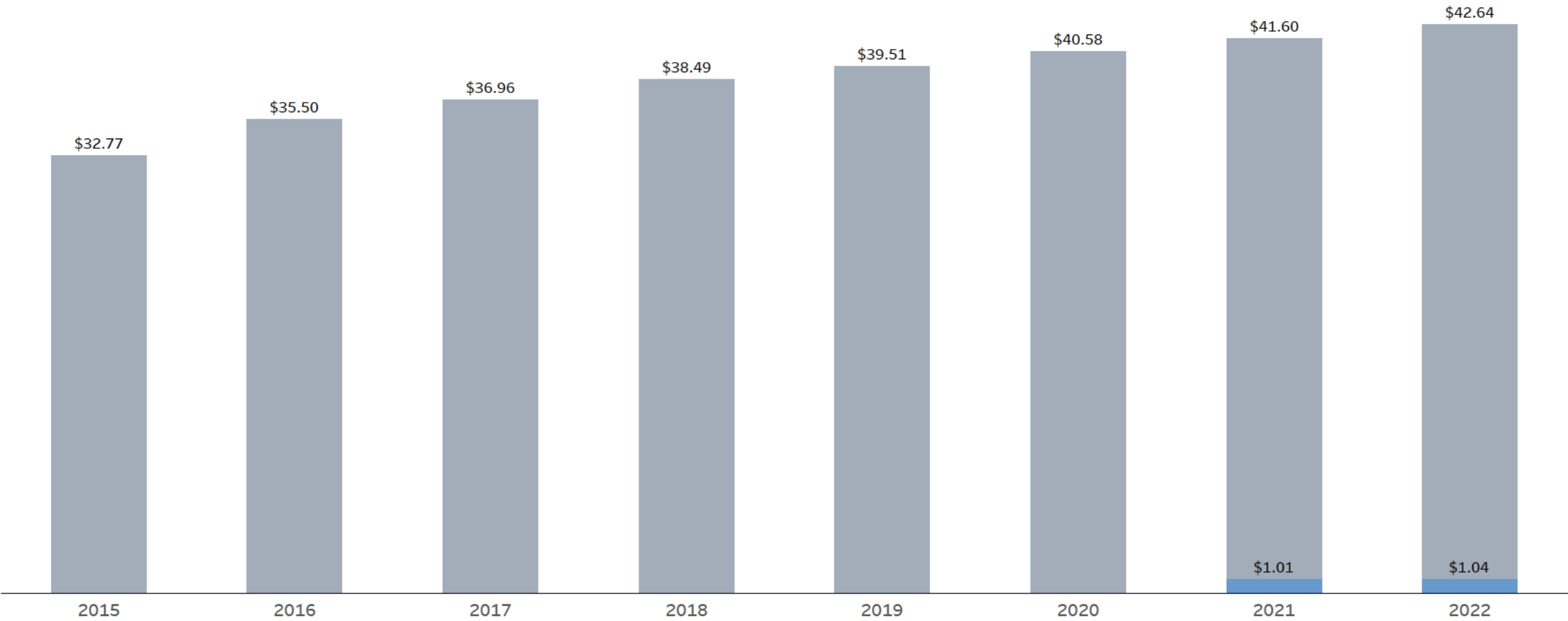


In 2018, the median household income (MHI) for the Tacoma Water service area was \$71,543 and the average water bill was 0.7% of MHI.
% of Burden on Income: Annual Water Bill / Annual Poverty Threshold. 2019 Poverty Threshold Source: US Census Bureau. The 2020-2030 poverty thresholds are projected using a 5 year rolling median increase.

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Budget & Rate Impact: Monthly Bill

Average Monthly Bill for a Residential Single Family Customer Inside the City of Tacoma



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

**APR
22**

~~Water Budget Preview~~
~~PUB Meeting~~

**SEP
23**

TPU Budget Presentation
PUB Study Session

**MAY
13**

Water Rate & Financial Policy
PUB Meeting

**OCT
13**

**Review of Preliminary
Biennial Budget & Rates**
PUB/City Council Joint Study Session

**JUL
22**

**Water LRFP & Rate
Recommendation**
PUB Study Session

**OCT
28**

**Consideration of Preliminary
Biennial Budget & Rates**
PUB Meeting

Rating Agency Responses to COVID-19: Public Utilities

Moody's	<ul style="list-style-type: none">▪ No action taken on the sector associated with COVID-19▪ Public power, and water and sewer sectors: less affected, at least in the short run▪ The essentiality of their service and rate-setting ability help to mitigate coronavirus-related risks, although parent governments could expose them to credit deterioration▪ The regulated utility sector is well positioned to withstand the crisis due to supportive cost recovery tools, stable residential customer demand and resilient financial profile. The only financial risk is associated with financial volatility due to dependence on external capital for liquidity
S&P	<ul style="list-style-type: none">▪ No action taken on the sector associated with COVID-19▪ Public power and electric co-ops require persistent operations. The greatest risk is that virus contagion interrupts operations due to sick or furloughed employees. Increased residential electricity usage could potentially mitigate declines in industrial customer demand▪ Water and wastewater are essential services with fairly inelastic demand. Operational risks due to sick employees is offset by increased automation.▪ Wastewater treatment technology and methods are effective against all known pathogens
Fitch	<ul style="list-style-type: none">▪ On March 27th Fitch affirmed its stable outlook on the sector▪ Enterprises are protected given their quasi-monopolistic characteristics, long useful lives, both restricted and unrestricted reserves, balance sheet flexibility and discretion over capital expenditures▪ Contracted assets especially in the energy space have counterparty risk. Historically there has been stability of utility counterparties