

WestRock Mill Closure Impacts to Tacoma Water

Presented by **Scott Dewhirst** and **Jodi Collins** to the **Public Utility Board** on **August 23, 2023**

Long-Term Planning and Preparation

Team Formed in 2021 to Analyze the Impacts of a Potential Mill Closure

- **Cross-functional SME's from Tacoma Water including financial, system planning, water quality, maintenance, operational, and engineering professionals**
- **Generated and prioritized dimensions of the system that would be most impacted by a loss of approximately 1/3 of our average day demand**
- **The team defined the potential impacts to each aspect of Tacoma Water Operations and presented recommendations to the Water Senior Leadership Team**

The Team Prioritized the Most Immediate, Impactful Aspects

- **Financial and Rate Impacts**
- **Water Quality**
- **Hydraulics**

Upcoming PUB Study Sessions will Include Additional Operational Updates

Long-Term Planning and Preparation

Tacoma Water has prepared and planned for how to address this risk

Modeling Financial and Rate Impacts

- The loss of a large-volume customer has been included as an important part of our annual financial modeling
- This risk is presented as a long-range financial plan scenario during each budget and rate cycle and has helped us identify uncertainties, evaluate possible impacts, and develop strategies to mitigate impacts
- In all scenarios, rate adjustments to offset the loss of revenue was shown to be required

Critical Financial and Rate Impacts

- Estimated revenue loss for this biennium and through the planning period
- There are many considerations around expense impacts at this time and projected costs are held at base case levels for this analysis
- Although we expect some variable cost savings, we anticipate that there will also be increased costs as we work to ensure we mitigate potential impacts to water quality
- Use of capital reserves is also held at base case levels and responsibly spent down over the planning period, estimated impacts are isolated to the operating fund reserves
- All scenarios keep financial metrics strong and provides a signal to rating agencies and investors that our policy makers are committed to financial stability and sustainability

Assumptions and Considerations

Scenarios are projections based on the best information at this time

WestRock Revenue Assumptions During the Shut-Down Period

- Assumes mill demand is equal to 7.2 mgd for last quarter 2023 (average maintenance level)
- Previous mill demand averaged about 16 mgd
- Consumption decreases to zero by the end of 2024
- Converts to large volume rate on August 1, 2024
- There is a risk that we will see a full closure earlier than assumed

System Changes

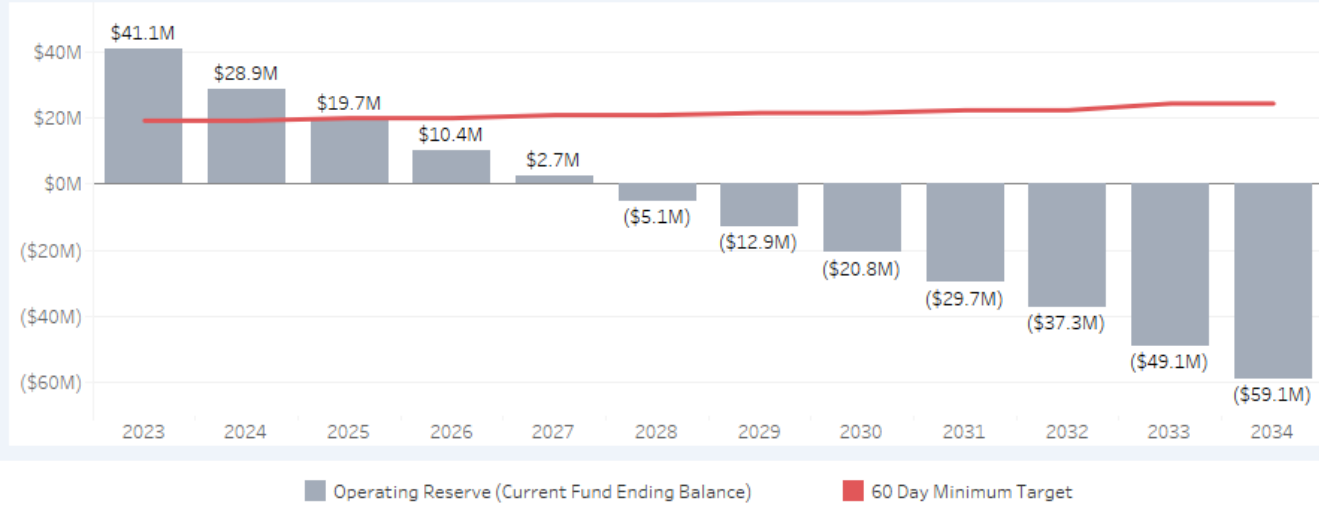
- This loss of demand will require major changes and reconfiguration of our system
- Staff are analyzing what improvements may be needed due to the loss of nearly 1/3 of our average day demand
- We are also evaluating capital and operational projects that are already planned or budgeted to determine the need for, the priority of, and the sizing/capacity of those projects given the major change in system demand

Opportunities

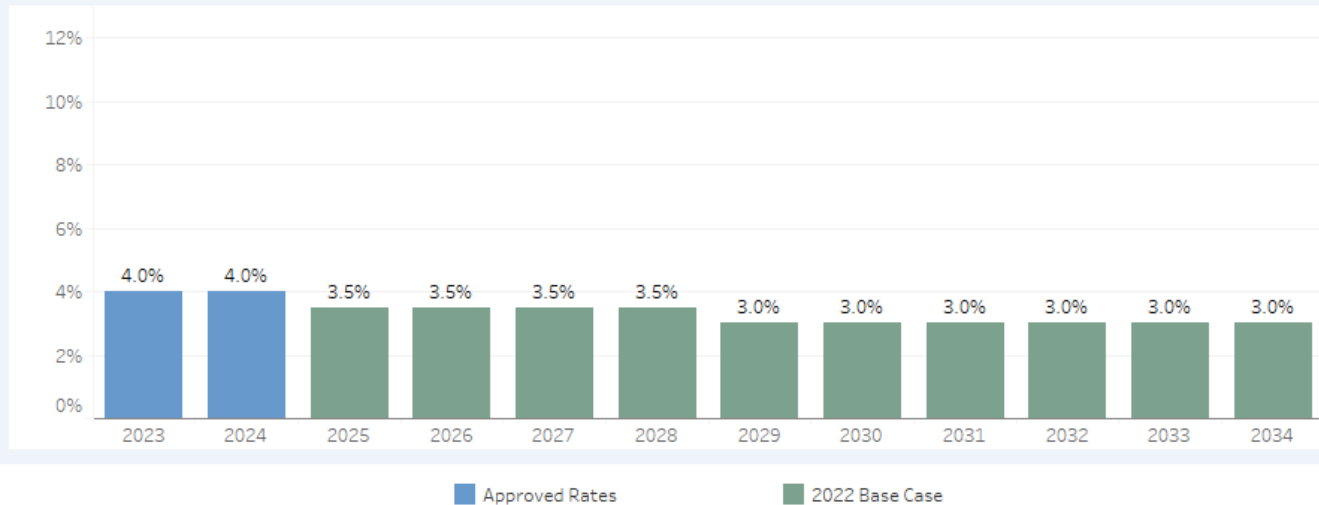
- Potential to market excess water and reduce the rate impacts for our customers in the longer-term

Scenario: Closure Before Rate Increases

Tacoma Water Operating Fund (No Change to Rates)



Annual System Rates (2022 Base Case Assumptions)

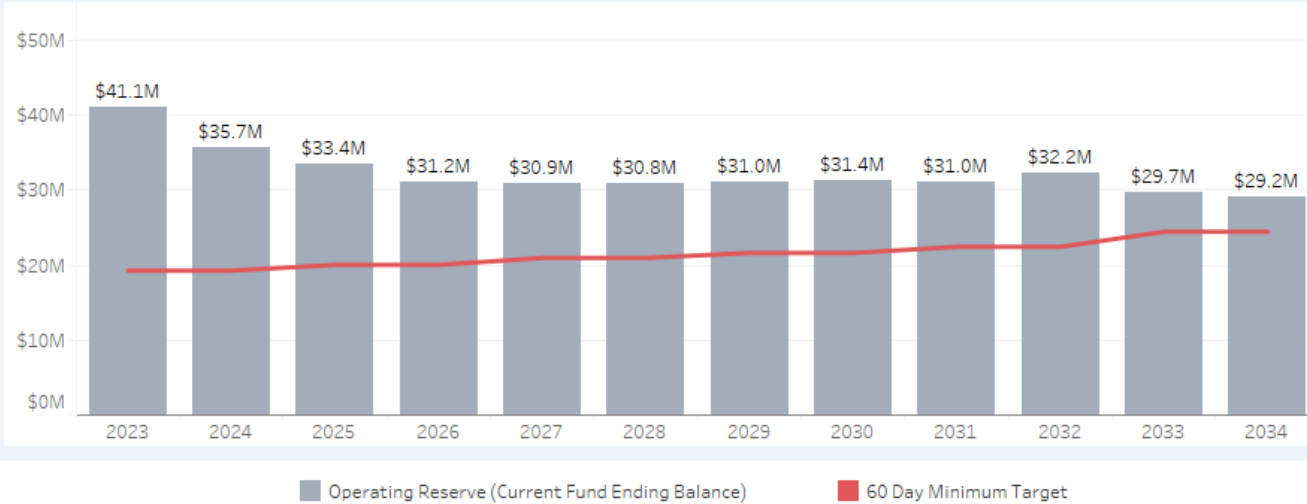


Immediate Impacts of the Mill Closure

- Estimated revenue loss of nearly **\$6 million** between **10/1/2023** and **12/31/2024**
- Total revenue loss of about **\$101 million** over the planning period
- Revenue loss includes compounded reductions
- Use of one-time reserves and deferred expenses do not address the ongoing impacts
- Requires rate increases to ensure stability and sustainability of our system

Scenario: One-Time Rate Increase in 2024

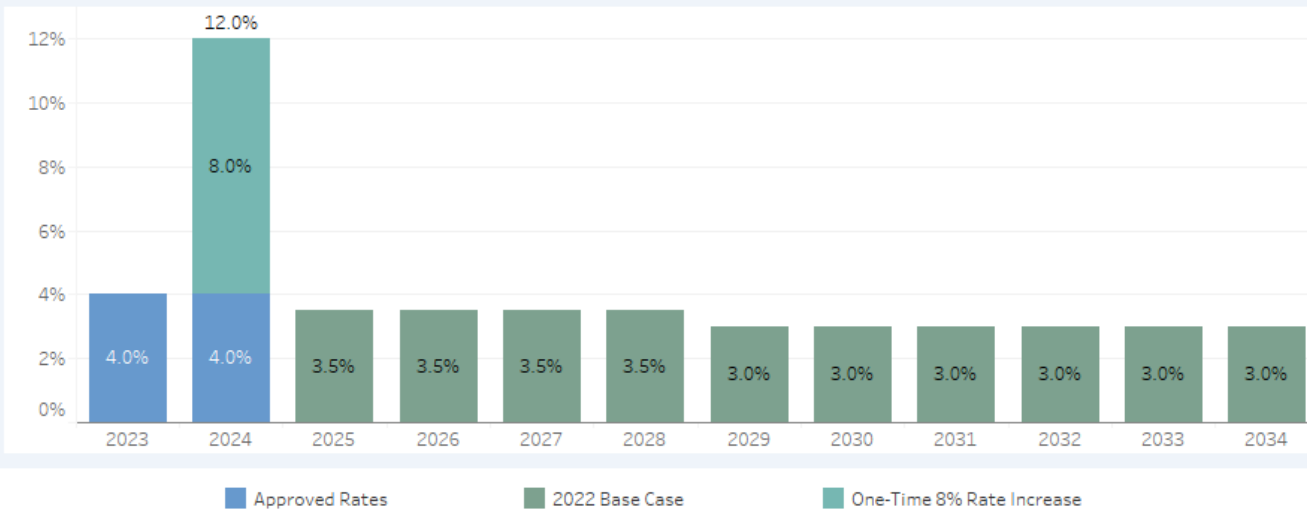
Tacoma Water Operating Fund (One-Time 8% Rate Increase)



One-Time Increase

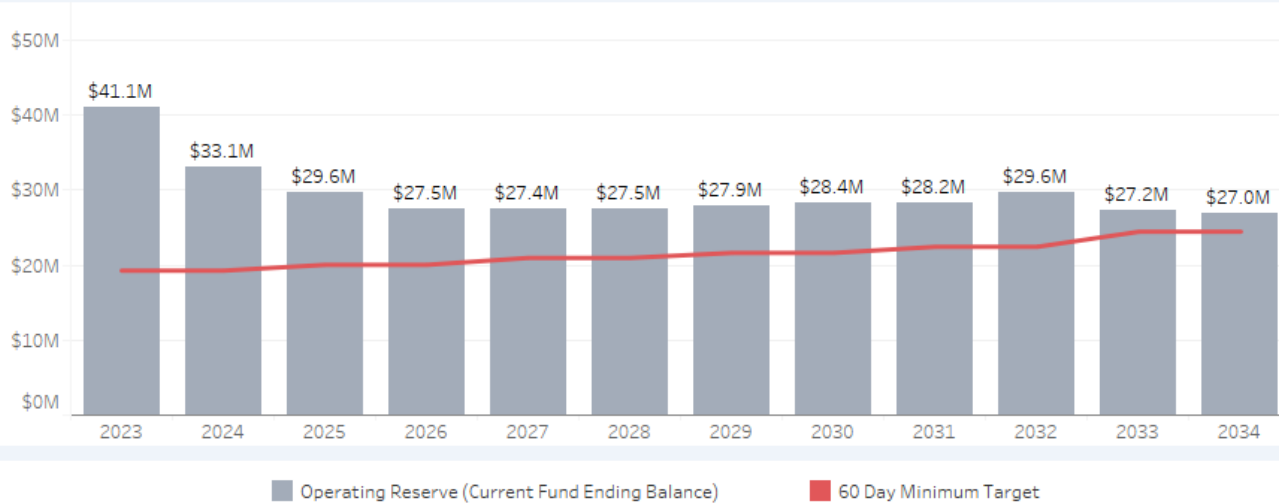
- Holds water sales revenue projections over the planning period nearly equal to 2022 base case level
- Rate increase for 2024: 4% already approved with **additional 8%** system average annual rate adjustment (**12% total**)
- Assumes no changes to projected operating or capital expenditures
- Supports system stability and sustainability but does not support policy goals for gradualism

Annual System Rates (One-Time 8% Rate Increase)



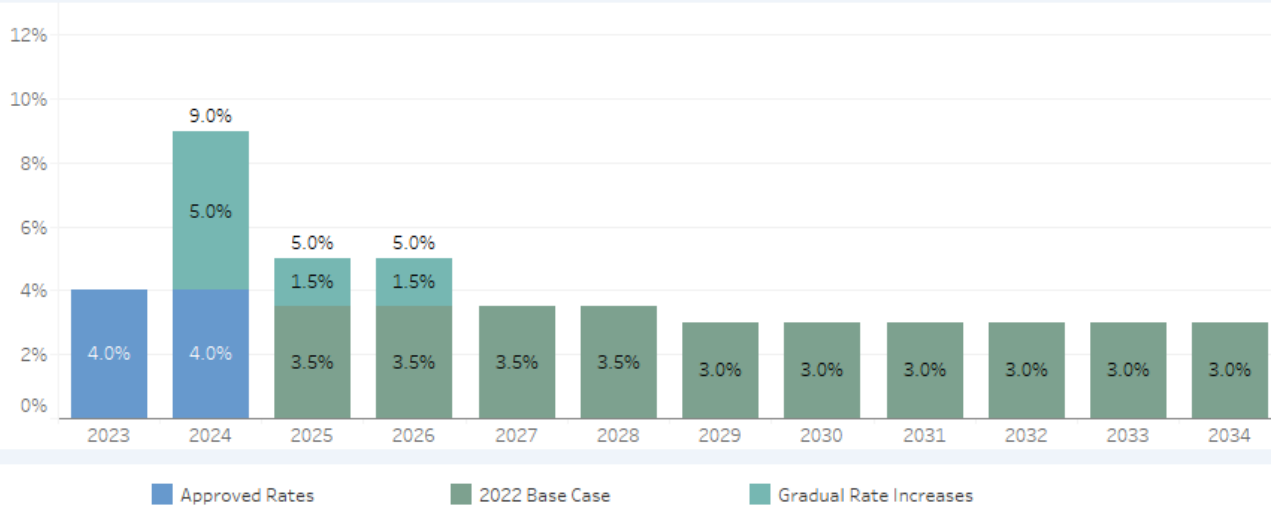
Scenario: Gradual Rate Increases

Tacoma Water Operating Fund (Gradual Rate Increases)



■ Operating Reserve (Current Fund Ending Balance) ■ 60 Day Minimum Target

Annual System Rates (Gradual Rate Increases)



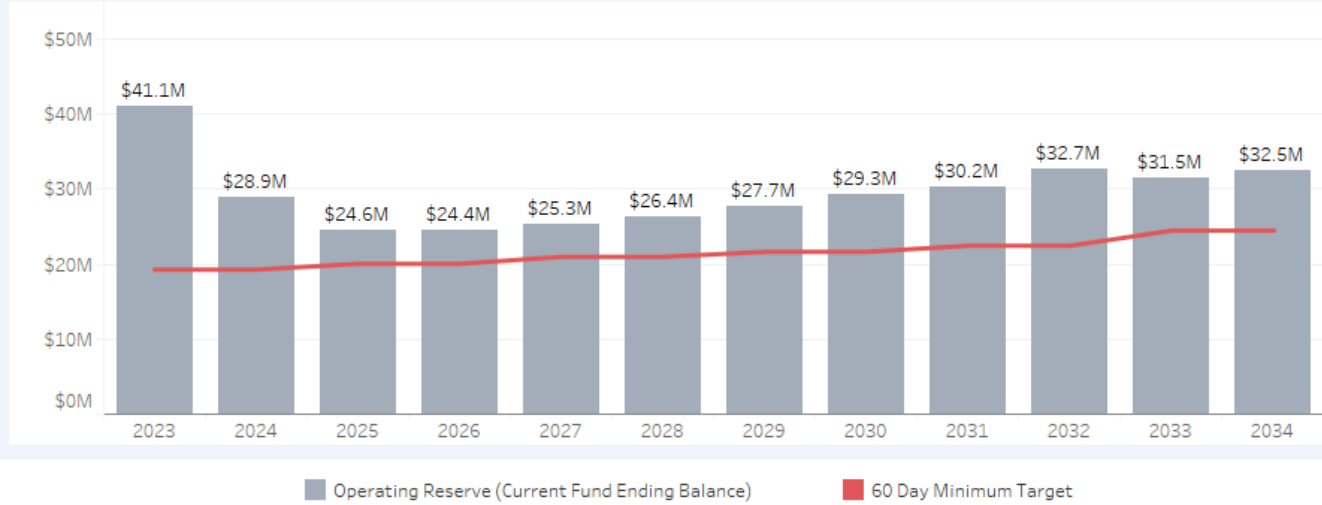
■ Approved Rates ■ 2022 Base Case ■ Gradual Rate Increases

Gradual Adjustments over Three Years

- Holds water sales revenue projections over the planning period nearly equal to 2022 base case level
- Rate increase for 2024: 4% already approved with **additional 5%** system average annual rate adjustment (9% total)
- Projected rate increases for 2025 and 2026: 3.5% base case with **additional 1.5%** each year (5% total)
- Assumes no changes to operating or capital expenditures
- Supports system stability and sustainability and aligns with Water Rate and Financial Policy and SD2/SD3

Scenario: Rate Increases Starting in 2025

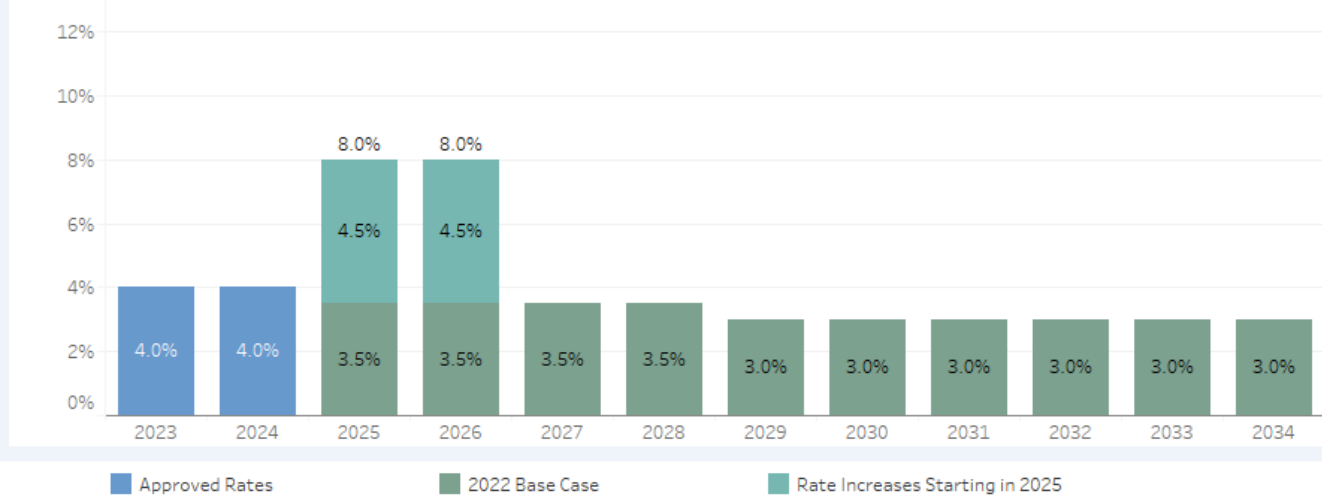
Tacoma Water Operating Fund (Rate Increases Starting in 2025)



Rate Increases (wait until 2025) *Not Recommended*

- Holds water sales revenue projections over the planning period nearly equal to 2022 base case level
- Projected rate increases for 2025 and 2026: 3.5% base case with **additional 4.5%** each year (8% increase each year)
- Although we would be able to use reserves early and recognize additional revenue from the rate stabilization account to meet debt service coverage requirements, we would lose approximately \$6 million in 2023-2024 as well as compounded losses

Annual System Rates (Rate Increases Starting in 2025)



Why do we Need Action Now?

- **Support system stability and sustainability**
- **Align with Water Rate and Financial Policy and Board Strategic Directives (SD2/SD3)**
- **Include additional BCAP funding to provide assistance to our customers**
- **Keep financial metrics strong and provides a signal to rating agencies and investors that our policy makers are committed to financial stability and sustainability**