

# **WestRock Mill Closure Impacts to Tacoma Water**

**10/11/2023**

# Summary of Need for Additional Rate Increase in 2024

**This is an unprecedented occurrence that will require a unique response**

## **WestRock was Tacoma Water's largest customer**

- **WestRock provided about 7.3% of water sales revenue in 2022**
- **Total loss of about \$101 million over the planning period**
- **They consumed about 1/3 of total water used in 2022 or the equivalent of about 100,000 households**
- **Loss of demand will require changes and reconfiguration of our system to maintain water quality**
- **Staff are analyzing what system improvements and changes may be needed due to this loss**

## **Our costs won't change significantly**

- **The whole system needs to be maintained to continue providing clean, reliable drinking water**
- **The amount of water we sell does not directly translate to the amount of costs we have to pay, most of our expenses are fixed in the short term**

## **Proposed rate increase is necessary to ensure clean, reliable drinking water service to our customers**

- **Use of cash reserves helps mitigate near term impacts; we must make up for on-going loss of income**
- **Delaying a rate increase until 2025 results in higher bills for our customers**
- **Maintain financial stability and favorable credit ratings providing access to low cost borrowing**

# Schedule of PUB Updates & Timing for Potential Adoption

**WestRock Closure was announced on August 1, 2023**

Date	Activity
August 23	Initial Financial Impacts Discussion with the PUB
September 13	Financial Impacts and Rate Scenarios Presented to the PUB
September 14 - October 11	Community and Stakeholder Outreach
September 27	Potential Capital Program Impacts and Community Outreach Updates to the PUB
October 11	PUB Public Hearing on Tacoma Water Rate Adjustment
October 17	Tacoma City Council GPFC
October 25	PUB 1st Reading
November 15	PUB 2nd Reading, Potential Adoption
November 21 – November 28	Council 1st and 2nd Reading, Potential Adoption

# Summary of Customer Engagement & Stakeholder Outreach

## Communication and Outreach has been Extensive and Well-Received

<b>Engagement to policymakers within the City of Tacoma and Tacoma Water Franchise and Government Partners</b>	<ul style="list-style-type: none"><li>• <b>Completed:</b> City of Fife, Franklin Pierce School District, Metro Parks, Puyallup Tribe</li></ul>	
	<ul style="list-style-type: none"><li>• <b>Scheduled:</b> Pierce County, City of University Place, Tacoma Housing Authority</li></ul>	
<b>Community Outreach</b>	<ul style="list-style-type: none"><li>• Eastside Neighborhood Council</li><li>• North End Neighborhood Council</li><li>• Central Neighborhood Council</li><li>• West End Neighborhood Council</li><li>• Community Council</li></ul>	<ul style="list-style-type: none"><li>• Tacoma Ministerial Alliance</li><li>• Barbershops</li><li>• Latinx Unidos of the South Sound</li><li>• The Korean Women's Association</li></ul>
<b>Business Customer Outreach</b>	<ul style="list-style-type: none"><li>• <b>Completed:</b> US Oil, James Hardie, Toray Composites, Frederickson Power, University of Puget Sound, Boeing, Port of Tacoma, City of Tacoma CED, EDB, Chamber of Commerce, MIC, Downtown Partnership, MultiCare</li></ul>	
	<ul style="list-style-type: none"><li>• <b>Scheduled:</b> Niagara Bottling, GP Gypsum, Milgard, SeaPort (Targa), Tacoma Public Schools</li></ul>	
	<ul style="list-style-type: none"><li>• <b>COT Business Districts:</b> Email and in-person for regularly scheduled meetings</li><li>• <b>COT Business District Liaisons Email:</b> Tacoma Urban League, Centro Latino, Hilltop Action Coalition, Asia Pacific Cultural Center, Black Collective</li></ul>	
<b>Communication</b>	<ul style="list-style-type: none"><li>• Press</li><li>• Communication Documents</li><li>• Newsletter/Bill Inserts</li></ul>	<ul style="list-style-type: none"><li>• Social Media</li><li>• Website</li></ul>

# Recommendation for Public Utility Board Consideration

**Staff has developed recommendations based on extensive analysis and stakeholder outreach**

## **We recommend a one-time WestRock reset and BCAP increase in 2024**

- **The rate increase would add approximately \$3.65 each month to average residential bills for customers inside the City of Tacoma beginning January 2024**
- **The rate increase would add approximately \$4.84 each month to average residential bills for customers outside the City of Tacoma beginning January 2024**
- **The amount available through our Bill Credit Assistance Program for all income-eligible residential households will increase by \$4.00 each month to mitigate impacts to our most vulnerable customers**

*An average monthly bill for an inside city customer assumes a 5/8" meter and consumption of 6CCF in winter months and 9CCF in summer months  
An average monthly bill for an outside city customer assumes a 5/8" meter and consumption of 7CCF in winter months and 12CCF in summer months*

# Basis for Our Recommendation

**Staff has developed recommendations based on extensive analysis and stakeholder outreach**

- **This is an extraordinary event with significant consequences and will require a unique response to protect financial stability, maintain the system, and ensure water quality for our customers**
- **Feedback from customer engagement and stakeholder outreach has shown a general understanding of the need for an increase**
- **Extensive analysis conducted over time has shown that the closure of WestRock would require an immediate response and in all scenarios a rate increase would be needed**
- **We have also shown that an earlier rate adjustment, that makes up for lost revenue before we fall too far behind, results in lower bills for our customers over time**
- **We are currently using reserves that have intended uses in the existing long-range financial plan and will need to be compensated**
- **Timing of the shut-down and projected water usage is occurring more swiftly than originally projected, potentially requiring more reserves than expected**
- **Immediate action demonstrates our commitment to financial stability, supports our credit ratings, and lowers borrowing costs to fund our infrastructure**

# Appendix

# Alternative Scenario Presented to the Public Utility Board

Staff has developed recommendations based on extensive analysis and stakeholder outreach

## We have also included an alternative for a gradual WestRock reset rate increase in 2024

- The rate increase would add approximately \$2.28 each month to average residential bills for customers inside the City Tacoma beginning January 2024, \$0.72 each month in 2025, and \$0.75 each month in 2026
- The rate increase would add approximately \$3.03 each month to average residential bills for customers outside the City Tacoma beginning January 2024, \$0.95 each month in 2025, and \$1.00 each month in 2026
- We would also increase the amount available through our Bill Credit Assistance Program for income-eligible households by \$3.00 each month in 2024 and \$1.00 each month in 2026 to mitigate impacts to our most vulnerable customers

*An average monthly bill for an inside city customer assumes a 5/8" meter and consumption of 6CCF in winter months and 9CCF in summer months  
An average monthly bill for an outside city customer assumes a 5/8" meter and consumption of 7CCF in winter months and 12CCF in summer months*



# Long-Range Financial Planning

We have three reserve funds that help us manage potential risks, meet working capital needs, and support stable rate adjustments for our customers. The Water Rate and Financial Policy defines minimum levels for each of our reserve funds.

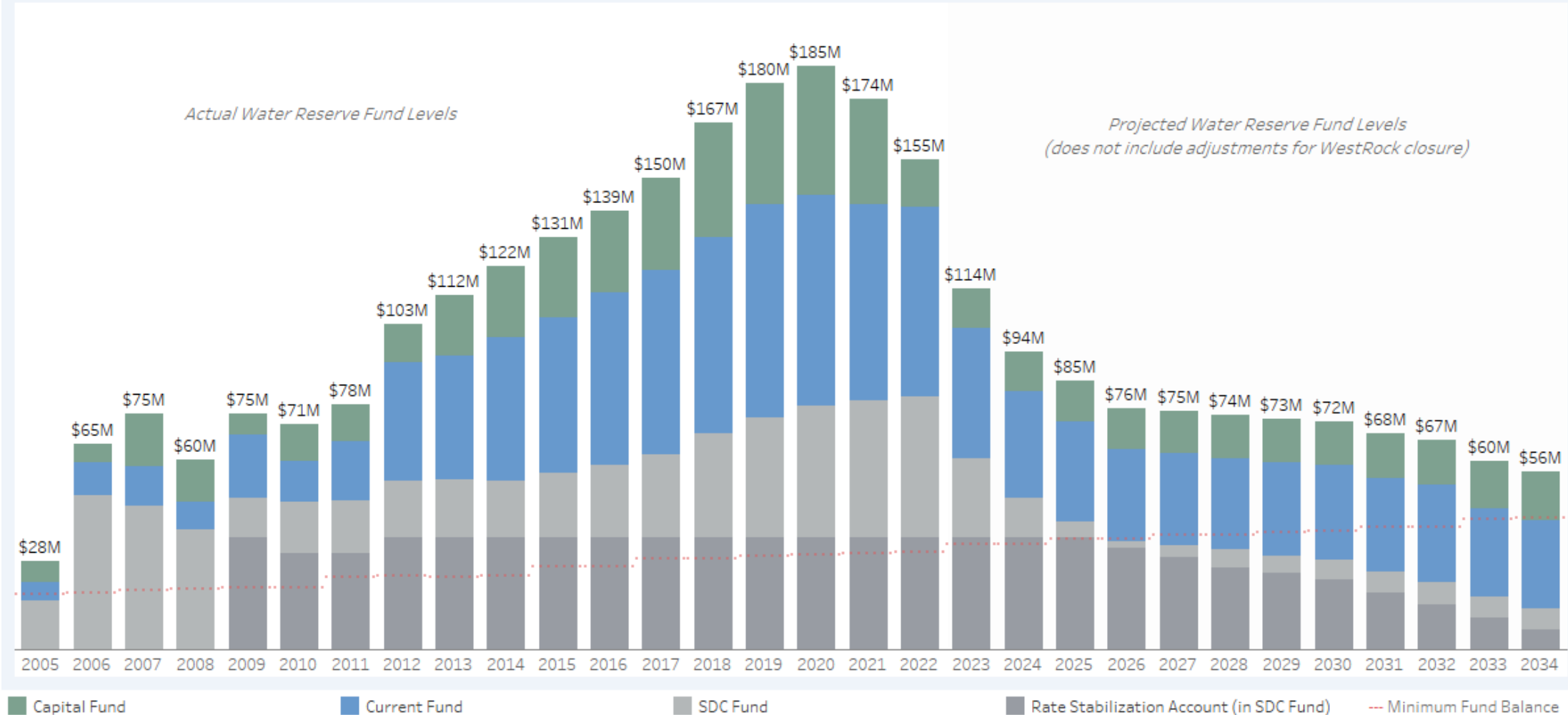
Fund	Requirement	Purpose
Operating (Current Fund)	60 Days Budgeted Operating Expenses	<ul style="list-style-type: none"><li>• Day-to-day operation and maintenance of our system</li><li>• Industry best practice to provide flexibility to manage risk</li><li>• Manage seasonal revenue fluctuations</li><li>• Meet working capital needs</li></ul>
Capital Reserve	1% Original Cost Plant-in-Service	<ul style="list-style-type: none"><li>• Must be used for Capital expenditures</li><li>• Industry best practice to mitigate risk and provide financial stability</li><li>• Deposits to this fund include one-time revenues such as land or timber sales</li></ul>
System Development Charge (SDC)	\$2M	<ul style="list-style-type: none"><li>• Must be used for Capital Expenditures, generally growth-related</li><li>• Mitigate risk, provide financial stability, support stable rate adjustments</li><li>• Deposits to this fund include connection fees related to development</li></ul>
Rate Stabilization Account (RSA)	Included in SDC Fund Balance  No Requirement for Minimum Balance	<ul style="list-style-type: none"><li>• SDC Fund includes deferred revenues from Wholesale connection charges collected in 2005/2006, referred to as the Rate Stabilization Account (RSA)</li><li>• RSA is included as part of reserves liquidity, but is intended to be used to boost debt service coverage during times of borrowing or reserve spend-down</li></ul>

*The SDC Capital RSA is not a traditional RSF and is not used to manage fluctuations in water sales operating revenue, revenue is recognized to boost debt service coverage and is not planned to be replenished when gone*

# Operating and Capital Reserves

Nearly \$70 million reserves being spent between 2020 and 2023, with continued spend included in the Base Case LRFP

Actual & Projected Water Reserve Fund Levels



# Table for Operating and Capital Reserves

**Reserves have been spent down between 2020 and 2023, with continued spend included in the Base Case LRFP**

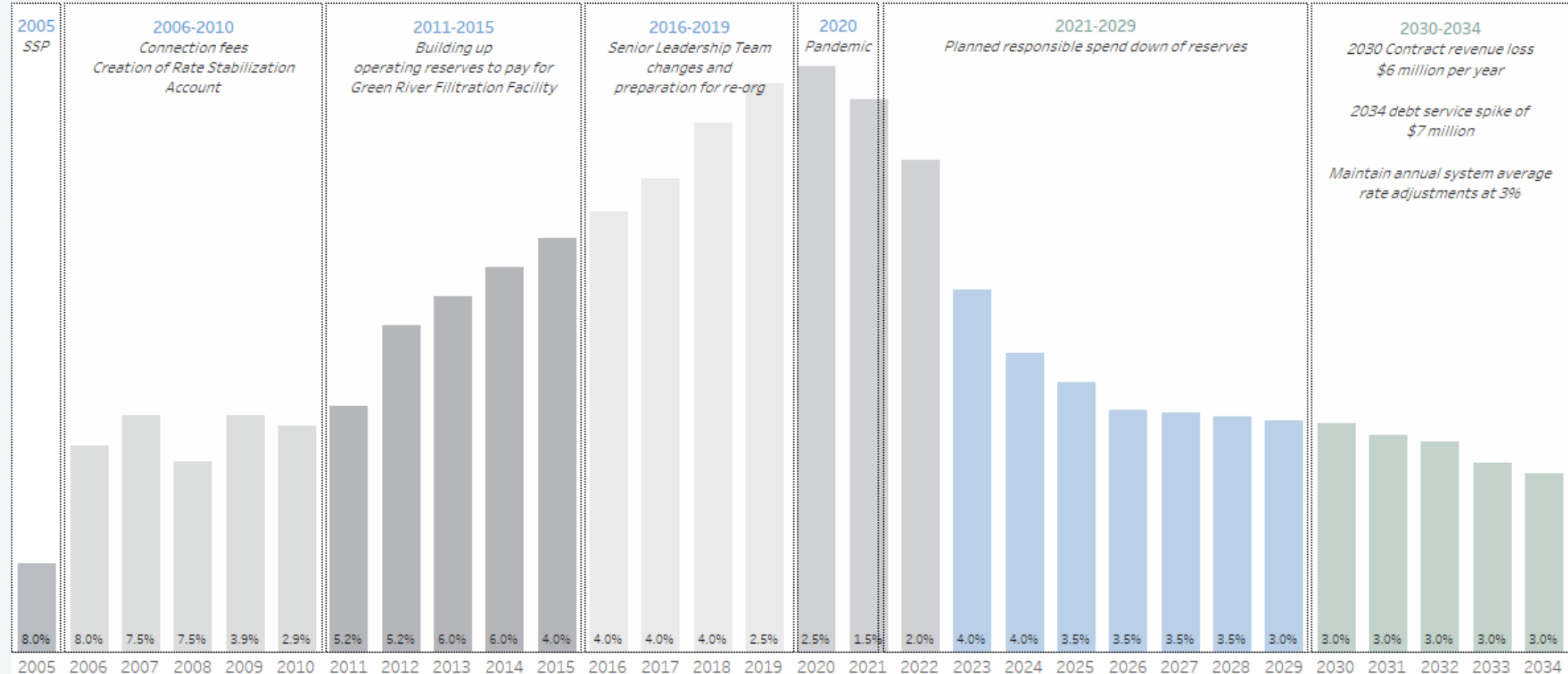
	Operating Reserve Spend-down		Capital Reserve Spend-down		SDC Fund Spend-down*		Total Reserve Spend-down	
Year	Year-end Balance	Change	Year-end Balance	Change	Year-end Balance	Change	Year-end Balance	Change
2019	67,999,772	-	38,261,216	-	73,294,466	-	179,555,454	-
2020	66,638,225	(1,361,547)	41,220,865	2,959,649	77,260,182	3,965,716	185,119,272	5,563,818
2021	62,483,012	(4,155,213)	33,158,861	(8,062,004)	78,768,250	1,508,068	174,410,123	(10,709,149)
2022	60,380,368	(2,102,644)	14,964,836	(18,194,025)	80,044,102	1,275,852	155,389,306	(19,020,817)
2023	41,417,712	(18,962,656)	12,420,837	(2,543,999)	60,429,476	(19,614,626)	114,268,025	(41,121,281)
2024	33,699,369	(7,718,343)	12,401,758	(19,079)	48,178,965	(12,250,511)	94,280,092	(19,987,933)
2025	31,701,367	(1,998,002)	12,875,775	474,017	40,577,980	(7,600,985)	85,155,122	(9,124,970)
2026	29,019,985	(2,681,382)	13,153,080	277,305	34,259,409	(6,318,571)	76,432,474	(8,722,648)
2027	28,965,513	(54,472)	13,334,177	181,097	33,180,128	(1,079,281)	75,479,818	(952,656)
2028	29,084,607	119,094	13,521,046	186,869	31,554,344	(1,625,784)	74,159,997	(1,319,821)
2029	29,411,576	326,969	13,715,483	194,437	29,786,684	(1,767,660)	72,913,743	(1,246,254)
2030	29,883,489	471,913	13,938,984	223,501	28,382,494	(1,404,190)	72,204,967	(708,776)
2031	29,599,572	(283,917)	14,270,175	331,191	24,481,988	(3,900,506)	68,351,735	(3,853,232)
2032	30,875,030	1,275,458	14,545,171	274,996	21,128,313	(3,353,675)	66,548,514	(1,803,221)
2033	28,367,818	(2,507,212)	14,906,806	361,635	16,513,088	(4,615,225)	59,787,712	(6,760,802)
2034	27,935,041	(432,777)	15,176,279	269,473	13,134,385	(3,378,703)	56,245,705	(3,542,007)

*This plan does not include impacts from revenue loss due to WestRock closure*

# Operating and Capital Reserves

Reserves built from one-time revenues, used over the planning period supports gradual rate increases through 2034

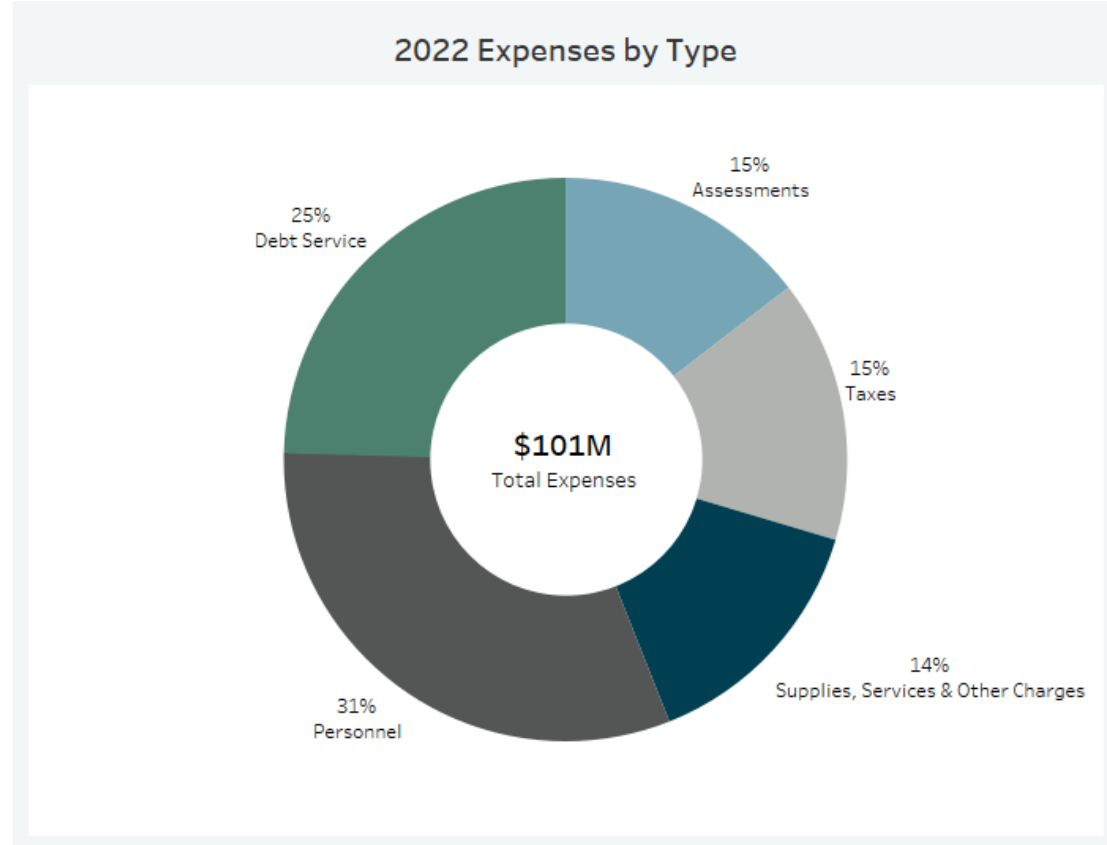
Actual & Projected Water Reserve Fund Levels



% above represent actual and projected annual system average rate adjustments.

# Operating Expenses: Overview of our Costs

Over half of actual operating expenses in 2022 was committed to external obligations



Personnel	\$31,789,328
Debt Service	\$24,859,392
Taxes	\$15,255,617
Assessments	\$14,704,486
Supplies, Services & Other Charges	\$14,551,614
Grand Total	\$101,160,438

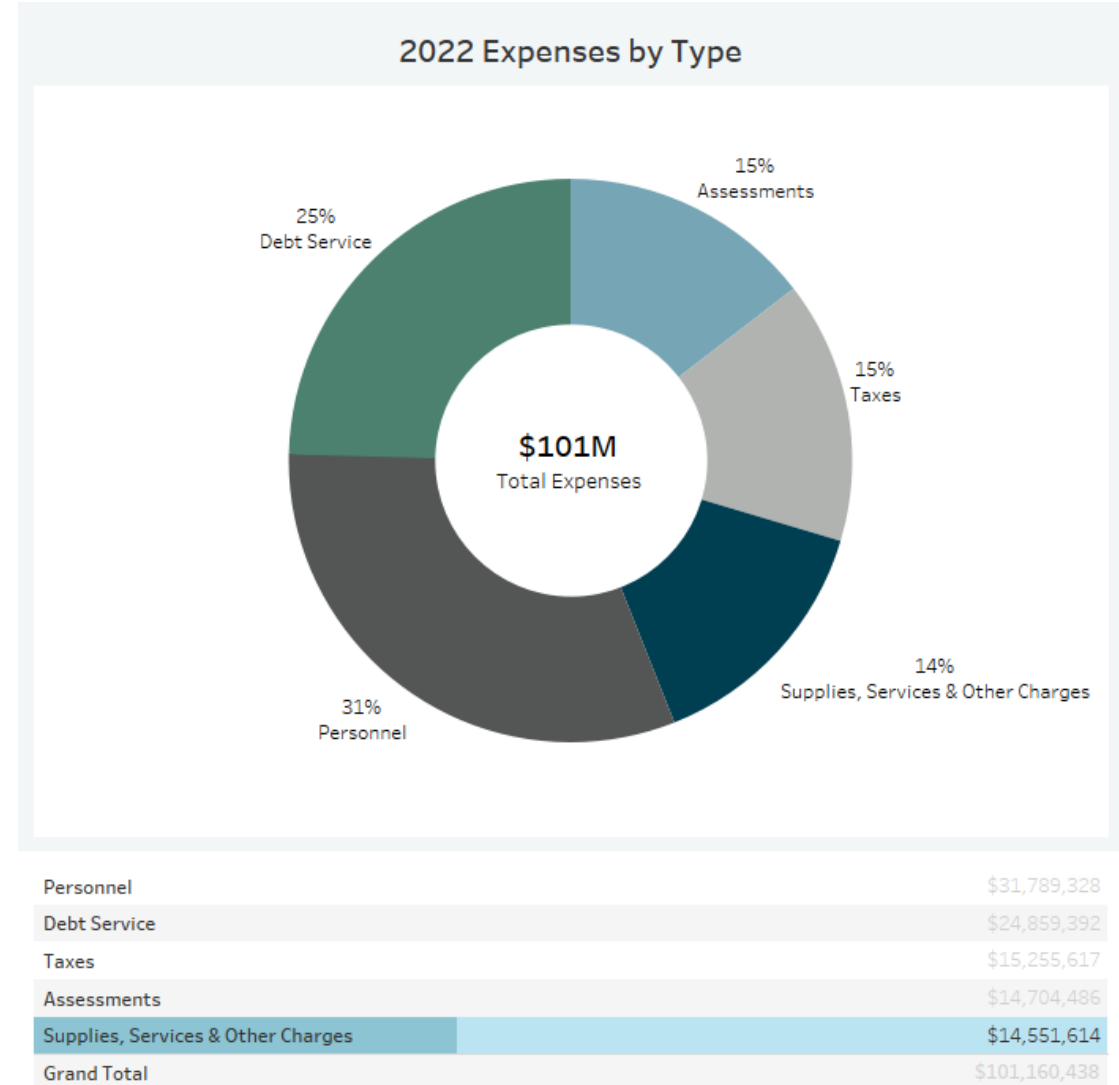
- The amount of water we sell does not directly translate to the amount of costs we have to pay
- Approximately 95% of our expenses are fixed in the short term
- About 55%, or \$54.8 million of our operating expenses are to pay for external obligations including debt service, taxes, and internal assessments
- When we are looking for cost efficiencies, we have to consider other categories

# Supplies, Services, and Other Charges

This category made up only about 14% of our total operating expense in 2022

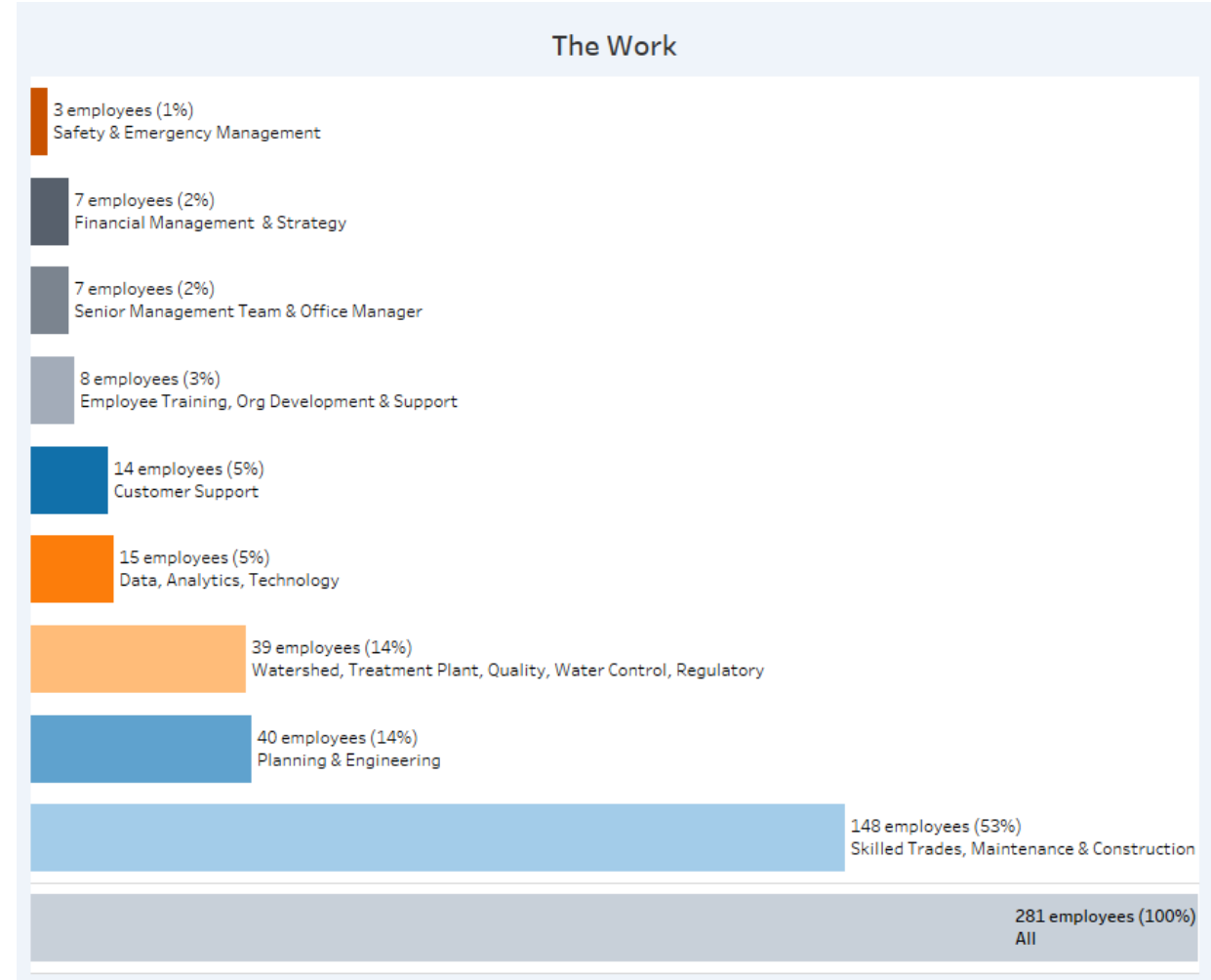
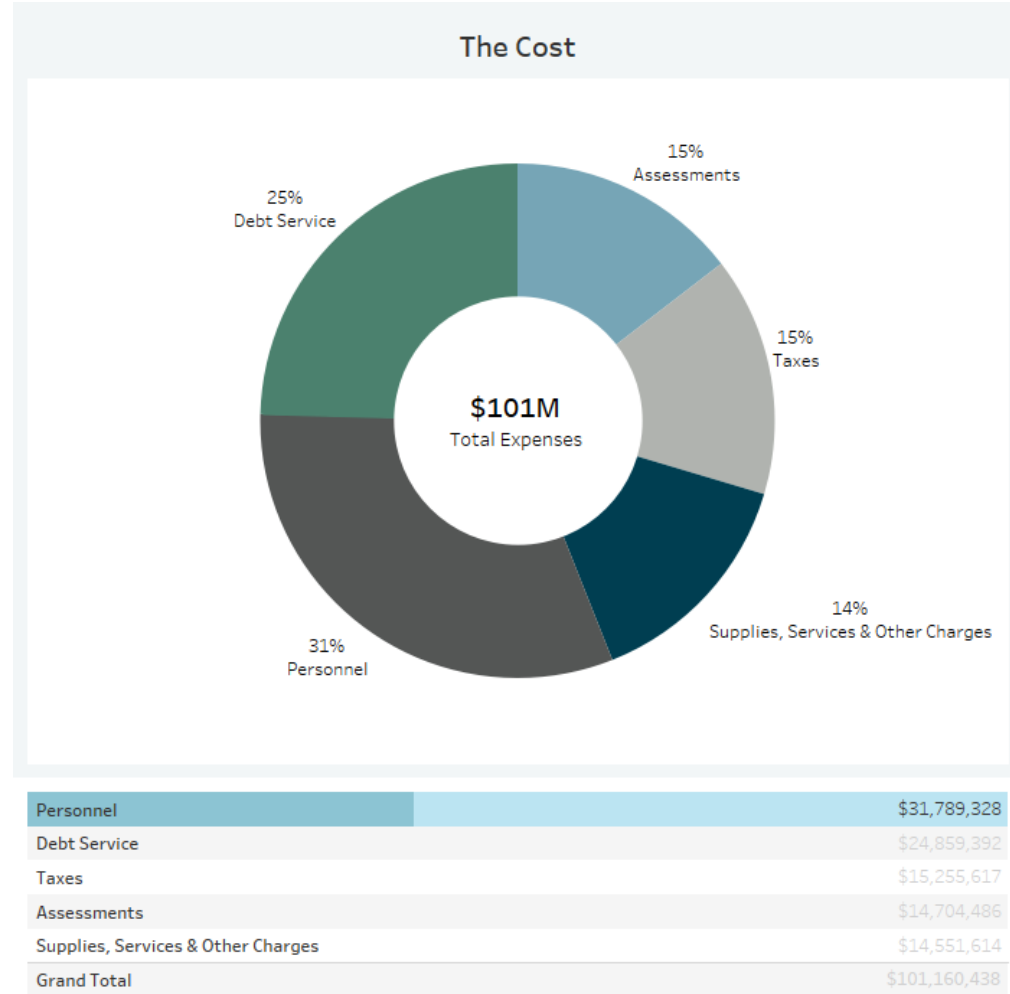
- **(39%) Additional external obligations are reflected in this category including:**
  - Tacoma Share of RWSS Debt Service: \$3.8 million
  - Building Rent: \$743,898
  - Insurance: \$1.2 million
- **(40%) This category also includes commodities and other necessities such as:**
  - Fleet Expenses: \$2.5 million
  - Electricity & Other Utilities: \$1.7 million
  - Financial, Banking, & Audit Fees: \$567,489
  - GRFF Treatment Chemicals: \$1 million
- **(21%) The remaining \$3.1 million includes all of the other expenses that are needed to operate the Utility such as: Operating, Repair, & Maintenance Supplies, Professional & Legal Services, Computer & Technology Support, Software & Licensing, Employee Training & Development**

*2022 actual expenses*



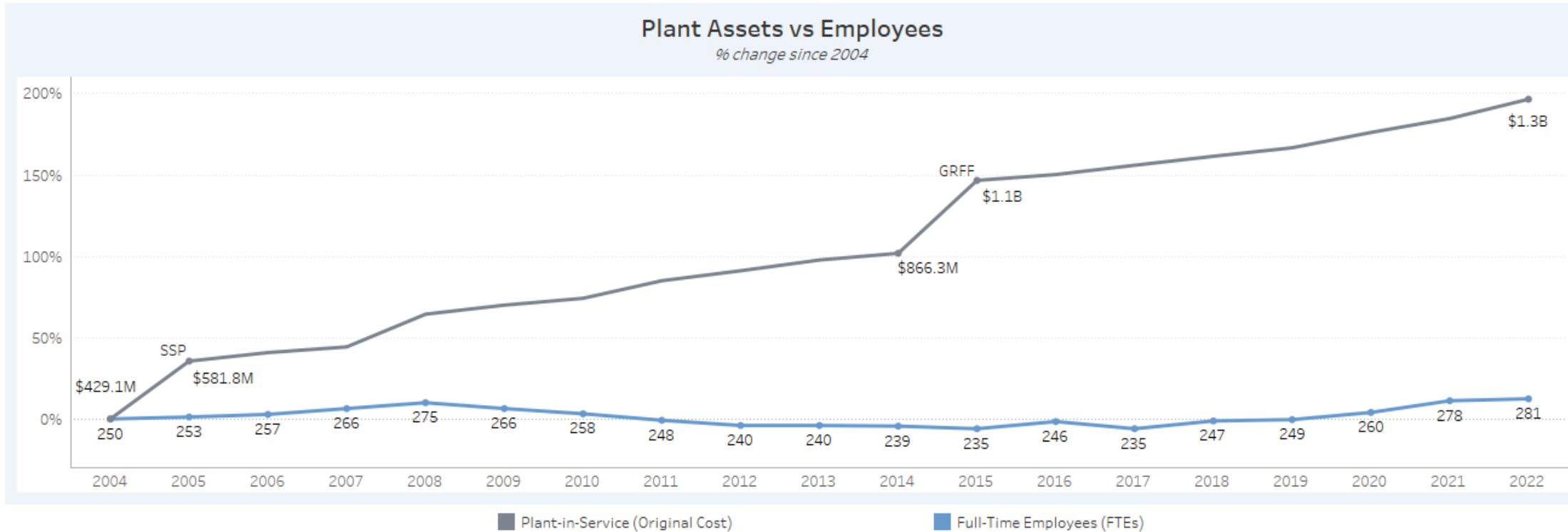
# Personnel

The remaining 31% of our total operating expenses in 2022 was for personnel that care for the system



*2022 actual expenses and FTE's*

# System Growth/Complexity Requires Personnel to Protect



- We have added a second supply system and a filtration facility in addition to new distribution facilities and other fixed assets, original cost assets in service has grown 197% since 2004
- In addition to increasing size and complexity of our system, we have added new capabilities including financial stewardship, asset management, and ArcGIS
- During this time, the number of employees that care for the system, ensure water quality, comply with regulatory mandates, support our customers, and responsibly provide financial, project, asset and data management has only grown 12% and the infrastructure cost per employee rose from \$1.7 million to \$4.5 million