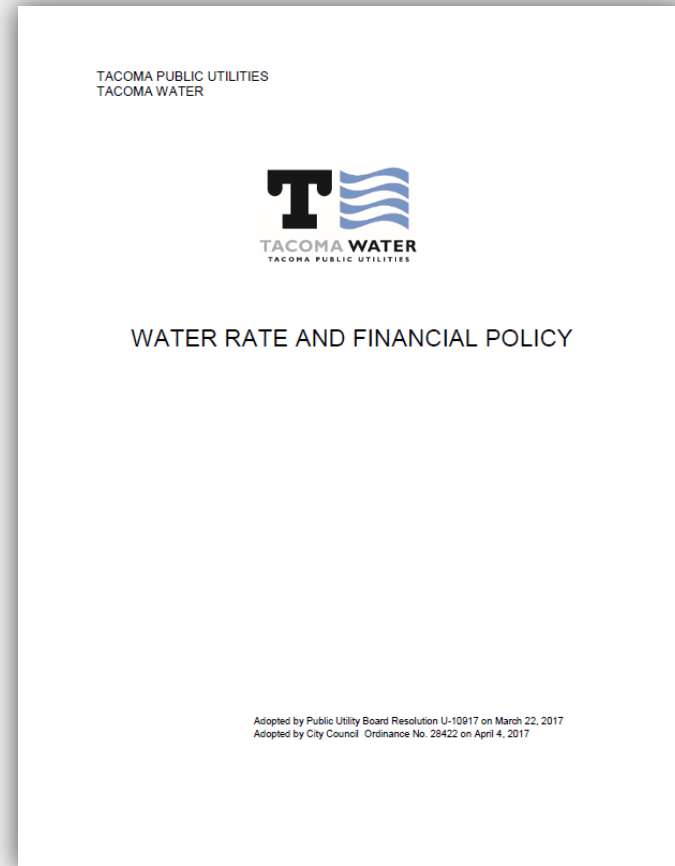
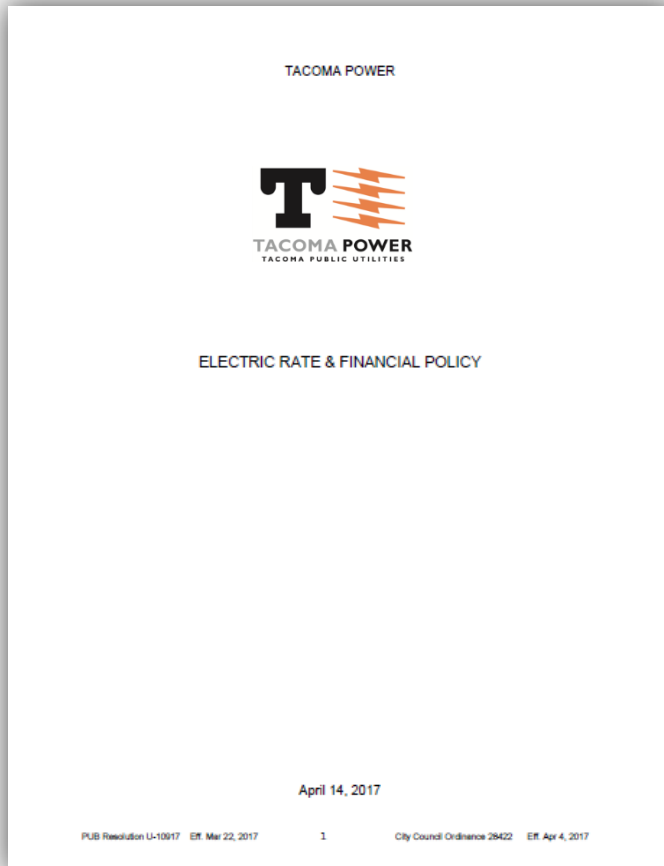


# RATE & FINANCIAL POLICY REVIEW



Board Study Session

May 9, 2018

# Operating Fund Balance



<p><b>Current Policy</b></p>	<p><i>“Rates will be set at levels to provide projected cash balances equivalent to a minimum of <b>90 days</b> of current budgeted expenditures.”</i> [IV.A.1.]</p> <p><i>“While this policy includes minimum requirements for liquidity and debt service coverage, it is the goal of Tacoma Power to maintain or improve current debt ratings, and the utility will maintain higher levels of coverage and liquidity as required to achieve this goal.”</i> [IV.]</p>	<p><i>“Rates shall be set at levels such that projected current fund (fund 4600) cash balances will be equal to <b>60 days</b> of current budgeted expenditures.”</i> [III.B.5.]</p>
<p><b>2017 Year End Achievements</b></p>	<p>2017 Minimum 90 Days: \$94.8 million 2017 Target 180 Days: \$162.5 million</p> <p>2017 year-end cash: \$189.2 million or 209 days 2018 year-end cash: \$189.8 or 207 days (projected)</p>	<p>2017/18 Minimum 60 Days: \$15.30M</p> <p>2017 year-end cash: \$58.75M or 221 days 2018 year-end cash: \$55.42M or 208 days (projected)</p>
<p><b>Changes for Consideration</b></p>	<p>None at this time.</p>	<p>None at this time.</p>

# Debt Coverage Ratios



<p><b>Current Policy</b></p>	<p><i>“The Utility will maintain a minimum Debt Service Coverage Ratio of approximately <b>1.5</b> based on net revenues including surplus power sales consistent with water supply planning noted in subsection 5 below or at higher levels consistent with sound financial practice in the electric industry. The Utility will plan to a minimum Debt Service Coverage Ratio of <b>1.8</b> based on net revenues including surplus sales estimated using median water availability or at higher levels consistent with sound financial practice in the electric industry.” [IV.A.3.]</i></p>	<p><i>“Senior Debt Service Coverage will be maintained above <b>150%</b>, exceeding Tacoma Water’s bond covenant requirement of <b>125%</b>. All In Debt Service Coverage will be maintained above <b>125%</b>.” [III.B.3.]</i></p>						
<p><b>2017 Year End Achievements</b></p>	<p>2017: 2.82x 2018: 3.07x (projected)</p>	<table border="0"> <tr> <td>Senior Debt (projected)</td> <td>All In Debt (projected)</td> </tr> <tr> <td>2017: 2.18x</td> <td>2017: 1.23x</td> </tr> <tr> <td>2018: 2.01x</td> <td>2018: 1.05x</td> </tr> </table>	Senior Debt (projected)	All In Debt (projected)	2017: 2.18x	2017: 1.23x	2018: 2.01x	2018: 1.05x
Senior Debt (projected)	All In Debt (projected)							
2017: 2.18x	2017: 1.23x							
2018: 2.01x	2018: 1.05x							
<p><b>Changes for Consideration</b></p>	<p>None at this time.</p>	<p>We propose a reduction in All In Debt Service Coverage from 1.25x to 1.00x during periods of spending down cash reserves:</p> <p><i>“Senior Debt Service Coverage will be maintained above <b>1.50</b>, exceeding Tacoma Water’s bond covenant requirement of net revenue at least <b>1.25</b> times annual senior debt service. All-In Debt Service Coverage will be maintained above <b>1.25</b> except when cash reserves are budgeted to meet the annual revenue requirement, when it will be maintained above <b>1.00</b>.”</i></p>						

# Rate Stabilization Fund



<p><b>Current Policy</b></p>	<p><i>"Tacoma Power will maintain a Rate Stabilization Fund as a means of managing potential volatility in Rates and augmenting reserve policies. Funds are intended to mitigate the need for large changes in rates from one year to the next.</i></p> <p><i>The Fund also may be used as a rate stabilization account for purposes of the ordinances authorizing Tacoma Power debt and provides that amounts withdrawn from the Fund are deducted from revenues in the year they are deposited into the Fund and counted as revenues in the year withdrawn from the Fund."</i> [V.A.]</p>	<p>Although Tacoma Water does not have a traditional rate stabilization fund, we do have a rate stabilization account. The current balance includes deferred SDC revenues recognized as needed to boost debt service coverage. Additional deposits may be made to the account as needed within 90 days after the close of the year for inclusion in the debt service coverage calculations.</p> <p>We do not recommend the creation of a traditional rate stabilization fund because we have set our policy level of reserves to manage potential volatility in revenues and to meet working capital needs.</p>
<p><b>2017 Year End Achievements</b></p>	<p>Balance \$48M</p>	<p>Balance \$35.5M</p>
<p><b>Changes for Consideration</b></p>	<p>Staff is considering adding probabilistic rigor to the Rate Stabilization Fund calculation and may propose policy changes.</p>	<p>None at this time. However, we intend to recognize revenue in the SDC fund over time and eventually dissolve the account.</p>

# Low-Income/Senior/Disabled



<p><b>Current Policy</b></p>	<p><i>"The needs of low-income electric customers will be considered when establishing rate levels."</i> [I.G.]</p> <p><i>"The level of annual funding for low-income assistance will be determined by the Public Utility Board."</i> [IV.B.1.b.]</p> <p><i>"A modified electric rate will be considered to help low-income senior or low-income disabled electric customers pay their bills."</i> [IV.B.2.a.1.]</p> <p><i>"The costs and benefits of the current discounted rate for the low-income/senior and low-income/disabled, together with other low-income programs, will be evaluated, along with an analysis of other utility programs that provide assistance to the low-income customer. The low-income rate may be discontinued at the discretion of the Public Utility Board if it is determined that the rate discount is not an effective method of providing assistance to the low-income customers."</i> [IV.B.3.g.]</p>	<p><i>"A discounted water rate will be considered to help low-income/elderly and low-income/handicapped water customers."</i> [III.C.16.]</p>
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# Low-Income/Senior/Disabled (cont'd)



<b>2017 Year End Achievements</b>	2017/18: \$2,000,000 (budgeted/appropriated) 2017: \$227,620 (actuals at year-end)	2017/18: \$275,000 (budgeted/appropriated) 2017: \$47,110 (actuals at year-end)
<b>Notes &amp; Other Considerations</b>	Cost of program is allocated to all classes.	Cost of program is only allocated to the Residential Class.
<b>Changes for Consideration</b>	We propose modernizing the existing language to address programs available through utility assistance programs:  <i>“The needs of low-income, senior, and disabled electric customers will be considered when establishing rate levels, providing bill assistance, and offering financial education.”</i>	We propose modernizing the existing language to address programs available through utility assistance programs:  <i>“The needs of low-income, senior, and disabled water customers will be considered when establishing rate levels, providing bill assistance, and offering financial education.”</i>