AGENDA

1. Budget Timeline – Linda McCrea
2. TPU Budget Preview – Linda McCrea
3. Tacoma Rail Budget Preview – Dale King
BUDGET TIMELINES

**PUB Budget Preview Sessions**
- April 11 – TPU and Rail
- April 25 – Tacoma Water
- May 09 – Customer Service
- May 23 – Tacoma Power

**PUB Budget Reviews**
- August 22 – Service Divisions
- September 12 – Water & Rail
- September 26 – Power
BUDGET TIMELINES

Joint Study Sessions, Readings, Votes and Delivery

October 16 – Joint study session - Preliminary Biennial Budget & Rates

October 24 – Public Utility Board vote on Preliminary Budget & Rates

October 31 – Preliminary Budget to City Clerk

November 13 and 20 – City Council 1\textsuperscript{st} and 2\textsuperscript{nd} Readings and City Council Vote
UNDERLYING BUDGET PRINCIPLES

– Maintain a long-term outlook and a customer focus
– Minimize rate increases while pursuing rate stability, financial health and operational priorities
– Continue to enhance the customer experience
– Be strategically aligned with the communities we serve
– Focus on safety and reliability
– Meet regulatory requirements
– Seek innovative solutions
– Recognize the vital role of employees in our success
CONSIDERATIONS FOR NEXT BIENNIOUM

—Customer attentiveness
  • Low Income assistance programs
  • Increased community engagement
  • Communication and transparency

—Our people
  • Leadership development
  • Safety and Culture

—Technology
  • AMI and other upgrades
  • Cyber security
CONSIDERATIONS FOR NEXT BIENNIIUM

– Regulatory requirements

– Aging infrastructure and asset management

– Challenges and opportunities lie ahead

– Anticipate low to moderate rate increases
TACOMA RAIL BUDGET PREVIEW

Dale King, Superintendent
TODAY’S DISCUSSION

• State of the Utility

• Strategy

• Primary Budget Drivers

• Budget/Rate Impacts

• Next Steps
## STATE OF THE UTILITY: CUSTOMERS

<table>
<thead>
<tr>
<th>CUSTOMER</th>
<th>LINE HAULS</th>
<th>REVENUE ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Intermodal</td>
<td>28,992</td>
<td>4,679,950</td>
</tr>
<tr>
<td>U.S. Oil Refining</td>
<td>18,084</td>
<td>4,331,870</td>
</tr>
<tr>
<td>Auto Warehousing</td>
<td>9,748</td>
<td>3,033,000</td>
</tr>
<tr>
<td>Washington United Terminals</td>
<td>15,142</td>
<td>2,687,850</td>
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<tr>
<td>Pierce County Terminal</td>
<td>10,310</td>
<td>1,882,150</td>
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<tr>
<td>Targa Sound</td>
<td>5,765</td>
<td>1,818,050</td>
</tr>
<tr>
<td>Northwest Container</td>
<td>5,255</td>
<td>1,070,552</td>
</tr>
<tr>
<td>MacMillan Piper</td>
<td>2,703</td>
<td>810,900</td>
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<tr>
<td><strong>TOTALS</strong></td>
<td><strong>96,894</strong></td>
<td><strong>20,582,822</strong></td>
</tr>
</tbody>
</table>

Top 8 line haul revenue customers in 2017
Contributed 85% of total line haul revenue

Intermodal  Commercial
STATE OF THE UTILITY: FINANCIAL

Revenues Less Expenditures w/ Trendline

Millions
STATE OF THE UTILITY: RATE PRESSURE & RELIEF

Volume Reductions
Labor Costs
Price of Steel
Unfunded Mandates

Volume Increases
Volume Incentive Allowance
Locomotive Servicing

Positive | Negative
TACOMA RAIL STRATEGY

• Safety
  – Positive Train Control
  – Reinvigorated Safety Committee

• Strategic Partnerships
  – Customers: Port of Tacoma, U.S. Oil Refining
  – Railroads & Industry Organizations: BNSF, UP, ASLRRRA

• Strengthen Financial Position
  – Control costs & prioritize projects
  – Rates & fuel surcharge

• Employee, Leadership & Organizational Development
  – Safety training
  – Leadership training
  – Training & succession planning
  – Right sizing

• Environmental Responsibility
  – Locomotive modernization
PRIMARY BUDGET DRIVERS

• Railcar Traffic
  – Northwest Seaport Alliance
  – Commercial Customers
    • US Oil
    • AWC
    • Targa Sound
    • Parcel 77

• Infrastructure
  – Parcel 77
  – Marine View Drive grade crossing protection

• Locomotive Assets
  – Engine replacements & modernization
  – Leased locomotives

• Compliance & Other
  – Oil Spill Contingency Plan drills
    • Includes worst case scenario
  – Replenish Self Insurance Fund
PROJECTED RATE IMPACTS

• Primary Rate Payers
  – BNSF
  – Union Pacific
  – U.S. Oil Refining

• Rate Policy
  – Rates should be cost based and adequate to recover Tacoma Rail’s costs.
  – Rates should be stable.
  – Rates should ensure sufficient resource planning and acquisition for reliable service while being as competitive as possible.
  – Rates should have a customer involvement and review process.
Budget Drivers & Projected Rate Impacts

• **Current Tariff Rates**
  - **Intermodal Platforms**
    • $50
  - **Commercial Railcars**
    • $300
    • $350 Hazmat
  - **Unit Trains**
    • $220 full train facility
    • $295 partial train facility

[Bar chart showing budget drivers for 2019 and 2020 with negative and positive impacts]
NEXT STEPS

• Budget Development
  – Revenue requirements
  – Volume forecasts
  – Capital program

• September 12th
  – TPU Board Study Session Budget Presentation

• October 16th
  – Joint Study Session Budget Presentation

• October 24th
  – Consideration of preliminary budget