TODAY’S DISCUSSION

• State of the Utility
• Strategy
• Budget Drivers
• Base Case Rate Scenario
• Budget & Rate Impacts
• Next Steps
STATE OF THE UTILITY: DEMAND

* Excludes demand from RWSS partners.
STATE OF THE UTILITY: INCREASING COSTS

Average Day Demand (in MGD)

Operating Expense (in millions)

- Average Day Demand
- Operating Expense

- Second Supply Project
- Green River Filtration Facility
- Reservoirs

Annual Operating Expense (in millions)

1980 to 2017
STATE OF THE UTILITY: RATE PRESSURE & RELIEF

Current State

Potential

Asset Management

Declining Residential & Commercial Demands

All Hazards Risk Mitigation

Regulation

New Large Volume Customer

Increased Wholesale Revenue

Asset Management
VISION: Growing trust through extraordinary service

Mission: Providing clean, reliable water now and in the future.
STRATEGY: 2018 STRATEGIC THEMES

- EUM Assessment
- SWOT
- Org. Feedback

- Community understanding & support
- Workforce development
- Operational innovation
- Operational optimization
Largest gaps (importance and achievement)
STRATEGY: COMMUNITY UNDERSTANDING & SUPPORT

Areas of Improvement

- Lack of External Communication (TPU, GG, SIGs)
- Promoting our Value Proposition to Stakeholders
- Identification of New Revenue Opportunities
- Communication of our Long-Range Financial Decisions
- Maintaining low & stable rates in a “payment challenged” community

Strategic Theme: Community Understanding & Support
Areas of Improvement

- Identification & Development of Future Leaders
- Inconsistent Hiring Philosophy & Processes
- Current Classification Structure Hinders Recruitment & Retention
- Lack of Bench Strength
- Area-wide Labor Environment

Strategic Theme: Workforce Development
STRATEGY: OPERATIONAL INNOVATION

Areas of Improvement

- Lack of Data Maturity (architecture & analytics)
- Workforce Connect
- Lack of Technology Integration
- AMI
- Cross-utility Technology Coordination

Strategic Theme

Operational Innovation
STRATEGY: OPERATIONAL OPTIMIZATION

Areas of Improvement

- Lack of Documented Processes, Policies, and Procedures
- Lack of Data-Driven Decision Making (KPIs, Levels of Service)
- “Siloed” Org Structure (communication, change management)
- Project Management Immaturity (standardization, reporting, tracking)
- Lack of Safety Prioritization

Strategic Theme

Operational Optimization
## BUDGET DRIVERS

<table>
<thead>
<tr>
<th>Financial Modeling Scenario</th>
<th>Description</th>
<th>Rate Pressure &amp; Relief</th>
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<tbody>
<tr>
<td>2019/2020 Base Case</td>
<td>Expected customer growth, base CIP, base O&amp;M</td>
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<tr>
<td>High Customer Growth</td>
<td>Assumes account growth with historical modeling</td>
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<tr>
<td>New Large Volume Customer</td>
<td>Assume additional large volume customer with demand similar to Niagara</td>
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<tr>
<td>Increased Wholesale Revenue</td>
<td>Expanded wholesale sales through market-based and traditional wholesale agreements, assumes additional $1.2M per year additional revenue</td>
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<tr>
<td>High Case CIP</td>
<td>Includes high range capital mitigation from the Vulnerability Assessment, assumes additional capital of $128M over the next 10 years</td>
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<td>Pulp Mill Shutdown</td>
<td>Models 2019 closure, assumes loss of $6M per year</td>
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<tr>
<td>AWSP Finalization</td>
<td>Fish Passage, Howard Hanson Dam Biological Assessment, assumes additional capital of $2.6M in 2020</td>
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BASE CASE RATE SCENARIO
BASE CASE RATE SCENARIO

Current Fund - Water

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

Years: 2019 to 2034

Millions
BUDGET & RATE IMPACTS

Systemwide Average Rate Increase Spread

2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034
BUDGET & RATE IMPACTS: MONTHLY BILL

The monthly average residential bill assumes water consumption of 7 CCF per month. The years 2019 - 2022 assumes an annual rate increase of 2.5%.
NEXT STEPS

• June 13th
  – Public Outreach Planning

• July 25th
  – Revenue Requirement
  – Rate Design

• September 12th
  – TPU Board Study Session Budget Presentation

• October 16th
  – Joint Council/PUB Study Session Presentation

• October 24th
  – Public Utility Board approval of preliminary budget