



TO: Elizabeth Pauli, City Manager
FROM: Jackie Flowers, Director of Utilities, Tacoma Public Utilities
COPY: City Council and City Clerk
SUBJECT: Proposed Rate Ordinance – Amend and revise Tacoma Water Rate & Financial Policy
DATE: November 1, 2018

SUMMARY:

Tacoma Water requests approval by the Public Utility Board and the City Council of changes to Tacoma Water’s Water Rate & Financial Policy.

BACKGROUND:

Tacoma Water’s Water Rate and Financial Policy gives direction to future short-term and long-term planning decisions and helps ensure that reliable service is provided to all customers at the lowest possible cost consistent with prudent utility management.

The Public Utility Board conducted reviews of Tacoma Power’s Electric Rate and Financial Policy and Tacoma Water’s Water Rate and Financial Policy as part of the rates process on May 9, 2018 and August 8, 2018. The proposed policy changes provide better alignment between the respective rate and financial policies of Tacoma Power and Tacoma Water.

ISSUE:

The following are the proposed changes to Tacoma Water’s Water Rate & Financial Policy:

- **III.B.3. Policies. Water Rates Should Be As Low As Is Responsible.**
Current Language: *“Senior Debt Service Coverage will be maintained above 150%, exceeding Tacoma Water’s bond covenant requirement of 125%. All In Debt Service Coverage will be maintained above 125%.”*
Proposed Change: *“Senior Debt Service Coverage will be maintained above 1.50, exceeding Tacoma Water’s bond covenant requirement of net revenue at least 1.25 times annual senior debt service. All-In Debt Service Coverage will be maintained above 1.25 except when cash reserves are budgeted to meet the annual revenue requirement, when it will be maintained above 1.00.”*
Explanation: We propose a reduction in All-In Debt Service Coverage from 1.25x to 1.00x during periods of spending down cash reserves to formalize our commitment to carefully monitor our debt service coverage and to demonstrate that our gross revenues will be sufficient to cover all of our expenses.
- **III.C.16. Policies. Water Rates Shall Be Fair.**
Current Language: *“A discounted water rate will be considered to help low-income/elderly and low-income/handicapped water customers.”*
Proposed Change: *“The needs of low-income, senior, and disabled water customers will be considered when establishing rate levels, providing bill assistance, and offering financial education.”*
Explanation: We propose modernizing the existing language to address low-income, senior, and disabled programs available through utility assistance programs. The same language will be used in Tacoma Power’s Electric Rate and Financial Policy and Tacoma Water’s Water Rate and Financial Policy. This will modernize the existing language for customers who may benefit from



utility assistance programs and enable better alignment between Tacoma Power and Tacoma Water's policies.

ALTERNATIVES:

An alternative would be no change to Tacoma Water's Water Rate & Financial Policy. The impact of no change: (1) Tacoma Water would be out of compliance with the existing policy for the all-in debt service coverage requirement during times of operating reserve appropriation, and (2) Tacoma Water would continue to have outdated language regarding low-income assistance programs and not align with Tacoma Power's current or proposed Electric Rate & Financial Policy.

RECOMMENDATION:

Tacoma Water requests approval by the Public Utility Board and the City Council of recommended changes to Tacoma Water's Water Rate & Financial Policy.

FISCAL IMPACT:

None.



EXPENDITURES:

FUND NUMBER & FUND NAME *	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
TOTAL			

* General Fund: Include Department

REVENUES:

FUNDING SOURCE	COST OBJECT (CC/WBS/ORDER)	COST ELEMENT	TOTAL AMOUNT
TOTAL			

POTENTIAL POSITION IMPACT:

POSITION TITLE	PERMANENT/ PROJECT TEMPORARY POSITION	FTE IMPACT	POSITION END DATE
TOTAL			

This section should only be completed if a subsequent request will be made to increase or decrease the current position count.

FISCAL IMPACT TO CURRENT BIENNIAL BUDGET: None

ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED? N/A

IF EXPENSE IS NOT BUDGETED, PLEASE EXPLAIN HOW THEY ARE TO BE COVERED.