



**TO:** Elizabeth Pauli, City Manager

**FROM:** Michael P. Slevin III, Director, Environmental Services

**COPY:** Government Performance and Finance Committee; Andy Cherullo, Director, Finance; Claire Goodwin, Management Analyst, City Manager’s Office

**PRESENTER:** Michael P. Slevin III, Director, Environmental Services; Christina Curran, Environmental Services Division Manager Assistant, Environmental Services

**SUBJECT:** Environmental Services 2023-2024 Proposed Budget and Rate Revenues

**DATE:** August 16, 2022

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GMS MPS

**PRESENTATION TYPE:**  
Informational Briefing

**SUMMARY:**  
This presentation will provide a high-level overview of the Environmental Services Department (ESD) 2023-2024 proposed budget and the overall requested revenue increases for the Environmental Services utilities: Solid Waste, Wastewater, and Stormwater.

**BACKGROUND:**  
ESD develops rates for its Solid Waste, Wastewater, and Stormwater utilities every two years as part of the biennial budget process. Rate development is guided by legal requirements, industry best standards, and ESD adopted financial policies. Rate models are used to ensure the balancing of required revenues, operating and capital costs, debt service, and taxes to ensure the financial policies and bond covenants are met regarding cash balances and debt service coverages. Additionally, an important component of rate development is engagement with the Environmental Services Commission, a 15-member City Manager appointed working group representing a cross section of Tacoma’s residential, business, and regulatory communities. The Commission reviews, advises, and makes recommendations to City Council, City Manager and City staff regarding changes to the programs, policies, and rates proposed by ESD.

During the 2021-2022 biennium, ESD implemented lower than planned rate increases to provide some bill relief to customers during the pandemic. The lower rates were incorporated into the long-range financial forecasts of the utilities by planning to delay capital and issue debt. Since 2020, ESD has continued to face unprecedented challenges impacting utility finances including significant operating and capital cost inflation and lower than anticipated revenues due to economic conditions of the pandemic and unpaid customer bills. These factors significantly impact the revenue requirement for 2023-2024.

**ISSUE:**  
Incorporated into the budget development process are requests from the City Council and City Manager and input from the Environmental Services Commission. Significant factors affecting future revenue requirements include ongoing funding of capital investments in Wastewater and Stormwater and the impact of recent historically high construction inflation; lower than originally planned rate increases in 2021 and 2022; loss revenues because of the coronavirus pandemic, especially in Wastewater; unpaid bills; and increasing operating costs.



**ALTERNATIVES:**

The proposed revenue increases are designed to generate additional revenue required as part of ESD utilities' Long-Range Financial Plans for the next six years. If these revenue adjustments are not implemented, ESD will require even higher projected rate increases in the future as well as a need to immediately reduce services to decrease costs. Reduction in services would likely include personnel layoffs.

**FISCAL IMPACT:**

The requested revenue increases have been incorporated into ESD's proposed 2023-2024 budget.

**RECOMMENDATION:**

This is an information briefing only. There is no recommendation.