



TO: Elizabeth Pauli, City Manager
FROM: Heather Pennington, Tacoma Water Superintendent
Jackie Flowers, Director of Tacoma Public Utilities
COPY: Tacoma City Council and City Clerk
SUBJECT: Proposed Rate Ordinance – Amend and revise TMC Chapter 12.10
DATE: November 19, 2024

SUMMARY AND PURPOSE:

Tacoma Water requests approval to amend and revise sections of Chapter 10 (Water Regulations and Rates) in Title 12 (Utilities) of the Tacoma Municipal Code (TMC) sections 12.10.301 and 12.10.400.

The requested changes are for water rate adjustments effective January 1, 2025 and January 1, 2026.

BACKGROUND:

This Department’s Recommendation is Based On:

Tacoma Water directly serves a population of over 350,000 in the greater Tacoma metropolitan area. In 2023, the utility delivered approximately 49 million gallons a day and generated about \$109 million in water sales. While overall water consumption has remained steady, absent the loss of the WestRock Paper Mill, ongoing costs to maintain the utility have increased.

In the development of this proposal, Tacoma Water developed a revenue requirement, conducted a cost-of-service analysis, and performed rate-design that incorporates the 2025-2026 budget request. This proposal is in alignment with industry ratemaking standards and best practices, Tacoma Water’s Rate and Financial Policy, as well as the Public Utility Board’s (PUB) Guiding Principles of Financial Sustainability (GP-2) and Rates (GP-3). This proposal maintains long-term financial stability for the utility and gradual rate adjustments for customers.

In addition to rate proposals, Tacoma Water is recommending the following modifications:

- Clarify the language of the Tier 1 Residential Rate located in TMC 12.10.400.A.2 from “For the first five CCF...” to “Up to five CCF...” to align with the mechanics of the billing system that is based on billing period rather than calendar month.
- Remove the rate schedule located in TMC 12.10.400.E due to the closure of the Tacoma WestRock Paper Mill.

COMMUNITY ENGAGEMENT/ CUSTOMER RESEARCH:

Community Engagement

In preparation for this request, Tacoma Water sought input from customers, policymakers, and members of the public through various meetings such as: franchise city council meetings, neighborhood council meetings, PUB study sessions and meetings, public hearings, PUB and Council joint study sessions, and Government Performance & Finance Committee (GPFC) meetings. Communication has also been distributed through bill inserts, mailings, website, and social media.

Customer Research

Based on customer research and national benchmarks, Tacoma Water’s average monthly bills are well within the threshold of affordability. However, there are customers that are more negatively impacted by rate increases.



Therefore, this proposal also includes increases to Tacoma Water’s Bill Credit Assistance Program (BCAP), automatically providing additional credits to customers who are income qualified and enrolled in the program.

2025 STRATEGIC PRIORITIES:

Equity and Accessibility: (Mandatory)

Tacoma Water’s assistance programs will help Tacoma Water reach areas identified as having lower opportunities in the City’s Equity Index. Adjustments to BCAP will provide additional assistance to those customers who have struggled to remain current on their utility bills.

Livability: Equity Index Score: Moderate Opportunity

Increase positive public perception of safety and overall quality of life.

Improve access and proximity by residents to diverse income levels and race/ethnicity to community facilities, services, infrastructure, and employment.

Explain how your legislation will affect the selected indicator(s).

Tacoma Water’s mission is to provide clean, reliable water. Predictable, stable rate adjustments ensure Tacoma Water can continue to meet its mission for the long-term and ensure safety and quality of life for the community it serves.

ALTERNATIVES:

| Alternative(s) | Positive Impact(s) | Negative Impact(s) |
|------------------------|--------------------|--|
| 1. No rate adjustments | | \$21.7 million shortfall in 2025-2026 biennium with ongoing cumulative impacts |
| 2. | | |
| 3. | | |

EVALUATION AND FOLLOW UP:

Tacoma Water monitors monthly budget-to-actual performance, develops forecasts for the remainder of the biennium, and prepares and presents Quarterly Outlook reports and Cash Projections to the Public Utility Board.

STAFF/SPONSOR RECOMMENDATION:

Tacoma Water is proposing annual system average rate adjustments of 6.5% effective January 1, 2025 and 6.5% effective January 1, 2026 in order to meet these ongoing needs. The rate adjustments will be implemented across the various rate classes dependent on the result of each class’ cost-of-service analysis and are scheduled to be phased in over the planning period. The rate adjustment will be distributed to fixed and variable rate elements where applicable or consistent with policy and contractual provisions.

FISCAL IMPACT:

Tacoma Water’s revenue requirement analysis for the twenty-four month budget period (January 1, 2025 - December 31, 2026) indicates a revenue shortfall of approximately \$21.7 million at current rates. The main drivers



for this shortfall include general inflationary increases for expenses such as personnel and materials, as well as increases for internal assessments and debt service.

| Fund Number & Name | COST OBJECT (CC/WBS/ORDER) | Cost Element | Total Amount |
|--------------------|-------------------------------|--------------|----------------|
| 1. Fund 4600 | 581100 | Various | \$21.7 million |
| 2. | | | |
| TOTAL | | | |

What Funding is being used to support the expense?
N/A

Are the expenditures and revenues planned and budgeted in this biennium's current budget?
NO, PLEASE EXPLAIN BELOW
Revenues are planned and budgeted in the following 2025-2026 biennium

Are there financial costs or other impacts of not implementing the legislation?
No

Will the legislation have an ongoing/recurring fiscal impact?
YES

Will the legislation change the City's FTE/personnel counts?
No

ATTACHMENTS:

- Proposed Rate Ordinance Redlined
- Proposed Rate Ordinance Clean