

# 2025-2026 Preliminary Budget & Rates

City of Tacoma | Tacoma Public Utilities




**Government Performance and Finance Committee**  
October 01, 2024




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## Budget & Rates Timeline



JAN ..... FEB ..... MAR ..... APR

JUL ..... JUN ..... MAY

AUG ..... SEP ..... OCT ..... NOV - DEC

**Reserves and Financial Policies**

- 3/27:
  - Rate and Financial Policies
  - Reserve Funds
  - Financing Updates

**Budget Overview**

- 4/10: Cost Saving Measures
- 4/24: TPU Shared Services

**Shared Services & Rates**

- 7/10:
  - Budget for TPU Shared Services
  - Power COSA & Rates

**Budget Overview**

- 5/08: Rail Overview & Strategy
- 5/22:
  - Power Overview, LRFP, Revenue Requirement
  - Water Overview & Strategy, LRFP

**Rates (cont.)**

- 8/14:
  - Water COSA, Revenues, Rates
  - Rail Revenues & Rates
- 8/28:
  - GG Internal Services Update

**TPU Preliminary Budget**

GPFC

- 9/17: TPU COSA & Rate Design

PUB

- 9/11: Customer Services
- 9/30: Power, Water, Rail

**TPU Budget Approval**

GPFC

- 10/1: TPU Budget & Rates Briefing

PUB

- 10/8: CC/PUB Joint Study Session
- 10/9: Public Hearing
- 10/9: PUB 1st Reading
- 10/23: PUB 2nd Reading

**City Budget Adoption**

- 11/19: CC 1st Reading
- 12/03: CC 2nd Reading

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# Public Outreach



## Budget & Rates

[MyTPU.org/Rates](https://MyTPU.org/Rates)

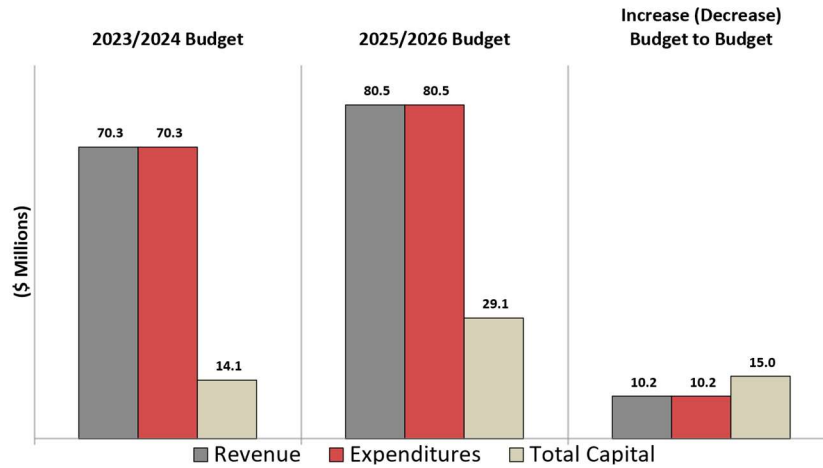
- Neighborhood Councils, Block Groups, Metro Parks  
*(in partnership with Environmental Services)*
- Chamber of Commerce and Economic Development and Trade Organizations
- Franchise Cities and local government partners
- Key Account Customers (JBLM, hospitals, school districts, etc.)
- Business Districts
- where possible, joining existing community events or meetings

## Ongoing

- Website contains links to meetings, presentations, and recordings
- Social media posts
- Online customer feedback form
- Utility bill inserts and messaging
- Multilingual fact sheets and newsletters

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# Preliminary Budget Overview



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## Cost Saving Measures




- Efficiencies, reductions, funding and value examples to reduce the rate impact
- Total: \$28,720,000

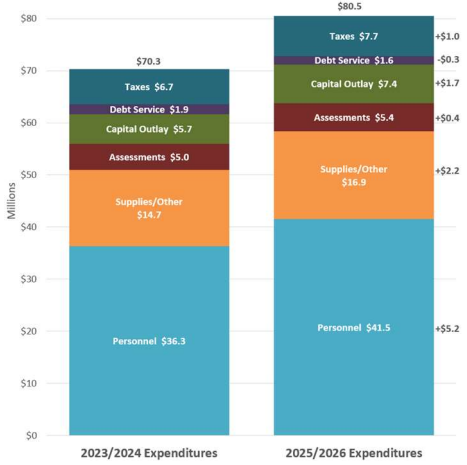
Description	Category	2025/2026 Budget
Railroad Management System	Innovation	\$ 480,000
Locomotive Fleet Rationalization	Operations Optimization	\$ 320,000
Locomotive Lease Cancellation	Operations Optimization	\$ 1,100,000
Battery Electric Locomotives	Grants	\$ 16,000,000
Finance Fees Savings Through WSDOT Rail Loans	Low-interest loans	\$ 80,000
Signal Inspections	Maintenance of Way	\$ 240,000
Tier 4 Locomotives	Consent Decrees	\$ 7,500,000
Crossing Upgrades & Removal	Grants	\$ 3,000,000

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## 2025/2026 Preliminary Budget



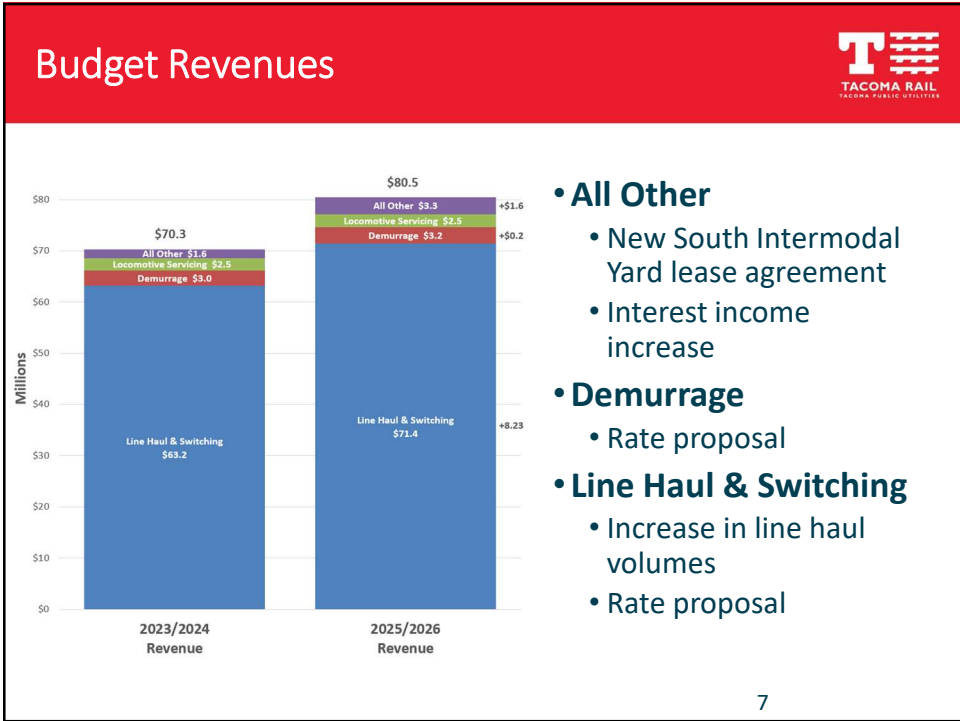


Category	2023/2024	2025/2026	Change
Personnel	\$36.3	\$41.5	+\$5.2
Supplies/Other	\$14.7	\$16.9	+\$2.2
Assessments	\$5.0	\$5.4	+\$0.4
Capital Outlay	\$5.7	\$7.4	+\$1.7
Debt Service	\$1.9	\$1.6	-\$0.3
Taxes	\$6.7	\$7.7	+\$1.0
<b>Total</b>	<b>\$70.3</b>	<b>\$80.5</b>	<b>+\$10.1</b>

- Preliminary budget is \$10.1M higher in 2025/2026 than in 2023/2024
- Debt Service reduction in 2025/2026
- Capital Outlay increases \$1.7M
  - \$29.1M total capital outlay
  - \$21.7M in grants, loans and CIAC
- Supplies, Services & Other Charges increase \$2.2M due to multiple factors
- Assessments increases \$0.4M
- Tax increases are a function of revenues
- Personnel costs are higher by \$5.2M or 14% with 6 additional FTEs, benefit cost increases and cost of living adjustments

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## Expected Rate Impact


- **Demurrage tariff**
  - Last adjusted in 2023
  - Rate change from \$65 to \$70 per day
- **Line haul rates**
  - Last adjusted in 2024
  - Rate adjustments per year (see chart)
    - 3% intermodal
    - 3% single spot unit trains
    - 2.5%
      - Tidelands commercial
      - Multiple spot unit trains
    - 2% Lakewood Subdivision
- **Miscellaneous switching tariff rates**
  - Last adjusted in 2023
  - Inter-terminal, intra-terminal, intra-plant
  - Rate adjustment of 3% for 2025

### Proposed Line Haul Rates

	2024	Proposed Rates	
		2025	2026
Intermodal	\$ 63.00	\$ 65.00	\$ 67.00
<b>Commercial</b>			
Tidelands Division	350.00	358.00	367.00
Tidelands Division Hazardous	407.00	417.00	428.00
Lakewood Subdivision	647.00	660.00	669.00
<b>Unit Train</b>			
Single Spot	262.00	270.00	278.00
Multiple Spot	350.00	358.00	367.00

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**Recommended Rate Policy Changes**




**A. Rail rates should be cost based and adequate to recover Tacoma Rail's costs.**

**Recommendation**  
Minor language changes to enhance policy

**Proposed Revised Subsection A.5.**  
The minimum working cash balance shall be sufficient enough to cover **[more than]** 60 days of current budgeted expenditures as outlined in Public Utility Board Policy 3.6, dated August 1992.

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**Recommended Changes to the Water Rate and Financial Policy**



*The Water Rate and Financial Policy gives direction to planning decisions and helps ensure that Tacoma Water provides clean water to all customers efficiently, reliably, and at the lowest possible cost consistent with prudent utility management.*

<p><b>A. Water Rates Should Ensure Adequate Supply</b></p> <p><b>Recommendation</b> Expand objective to include water quality</p> <p><b>Proposed Updated Objective A.</b> Water Rates Should Ensure Adequate Supply <i>[Water Quality and Robust Supply]</i></p> <p><b>Proposed New Subsection A.9.</b> <i>Water rates will be designed to preserve and protect water quality. This includes the maintenance of sources of supply, infrastructure, facilities, and personnel to meet or exceed regulatory requirements.</i></p>	<p><b>B. Water Rates Should Be As Low As Is Responsible</b></p> <p><b>Recommendation</b> Minor language changes to enhance policy</p> <p><b>Proposed Revised Subsection B.2.</b> Tacoma Water will secure the least costly means of financing for capital improvement projects based on evaluation of the Utility's financial position and capital needs. Financing mechanisms may include the use of revenue funding, unallocated operating or capital reserves, low interest loans, revenue bond funding and other means as deemed prudent.</p> <p><b>Proposed Revised Subsection B.4.</b> Rates shall be set at levels such that projected current fund (fund 4600) cash balances will be equal to <b>[more than]</b> 60 days of current budgeted expenditures.</p>
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## Budget Development



*Our budget is based on prudent financial stewardship and operational innovation.*

- Strategic long-range planning & gradual approach
- Operational efficiencies
- Financial, project, and process management
- Budget decision-making framework
- Forecasting, phased approach
- Managing inflationary pressures and supply chain issues
- Responsible, intentional use of cash reserves to reduce rate increases
- Continue work with other utilities in the region to market surplus capacity
- Balance internal resources & professional services
- Actively manage expenditures through asset management & prioritization
- Budgeted deduction to salaries & benefits for vacancy factor
- Budgeted capital carry-forward factor deduction to capital budget
- BCAP automatic credits for customers that qualify for assistance
- Expanded grant & loan program for customers
- Mid-biennium adjustment if needed

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## Cost Efficiencies and Rate Mitigation



*Our budget proposal includes cost efficiencies to help mitigate rate increases.*

### Budget Variance in 2023/24 applied to reserves

- Projected savings and expenditure deferrals of \$22.8M lowers cash needed from rate increase and delays borrowing costs

### Refinancing for Debt Service Savings and Restructuring

- RWSS Refunding saved \$1.1M in the Tacoma 2025/26 budget

### Deferred Infrastructure Investments

- Deferred nearly \$41M Capital expenditures, includes WestRock related and other
- Capital Carryforward deduction of \$7.5M mitigates rate impact

### Personnel Expense Management and Hiring Prioritization

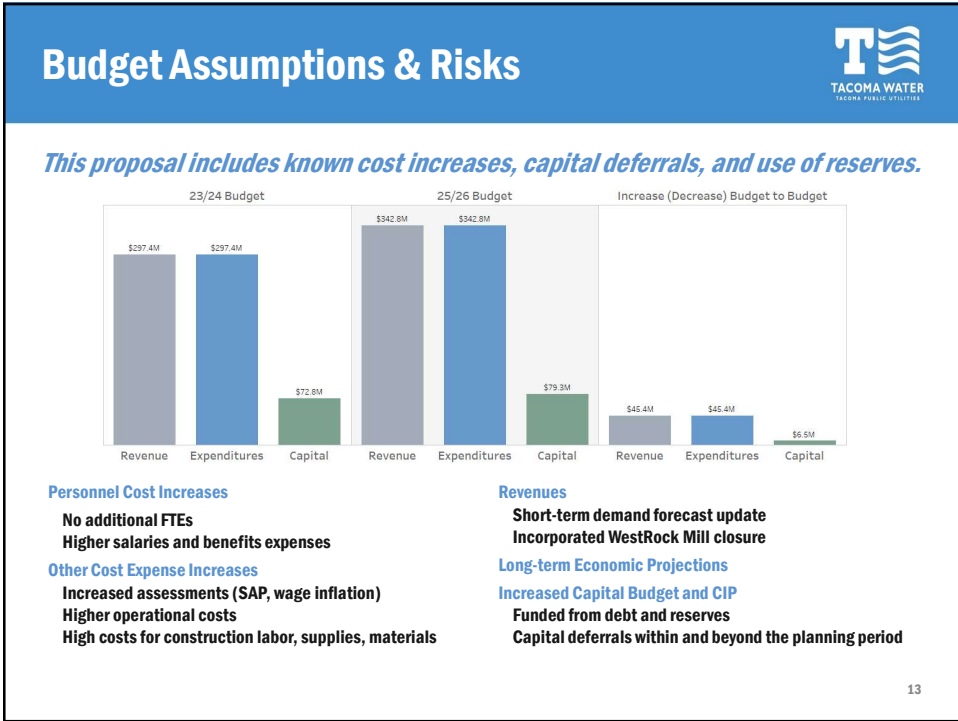
- Repurpose existing project positions, no additional FTEs included for 2025/26
- Vacancy factor deduction of \$3.2M mitigates rate impact

### Responsible Budgeting and Financial Management

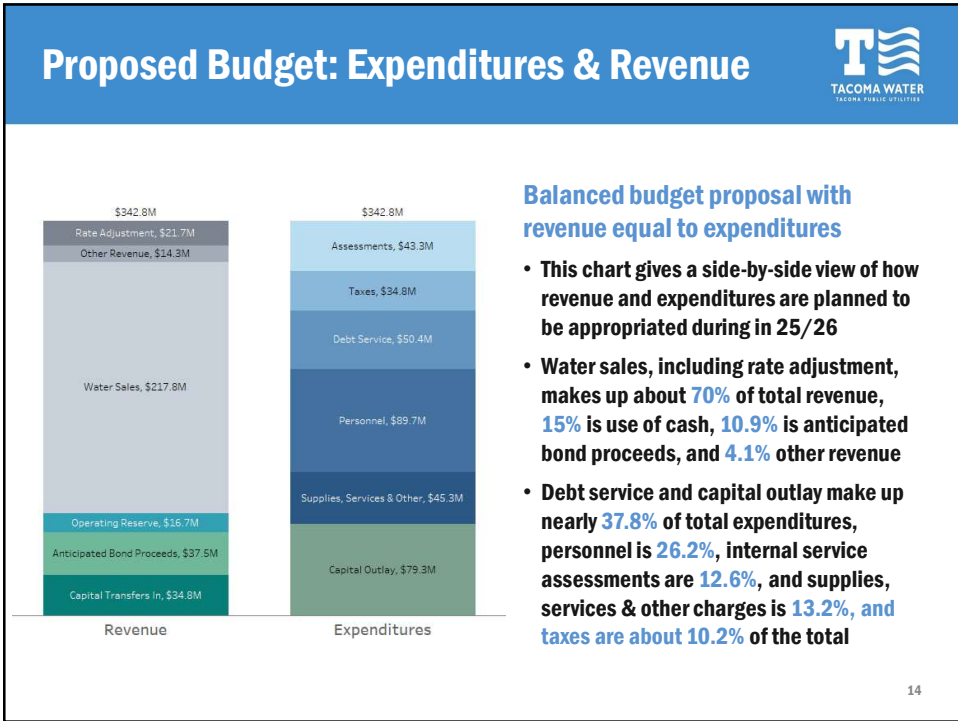
- Use of Reserves and anticipated Revenue Bond issue to fund capital
- Prioritization, long-term planning, Decision-Making Framework

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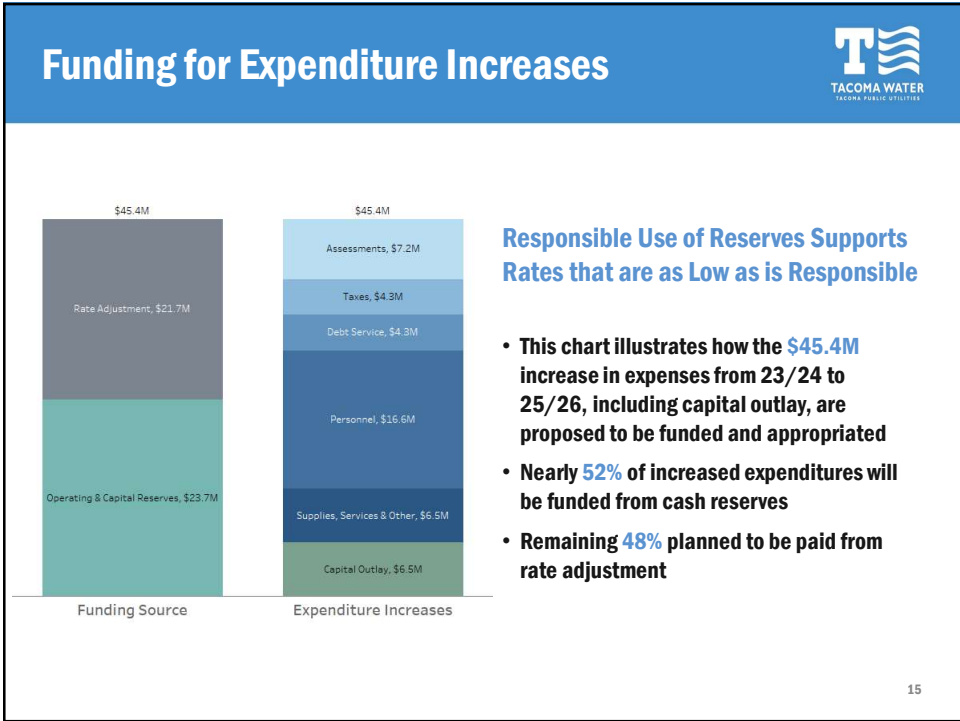
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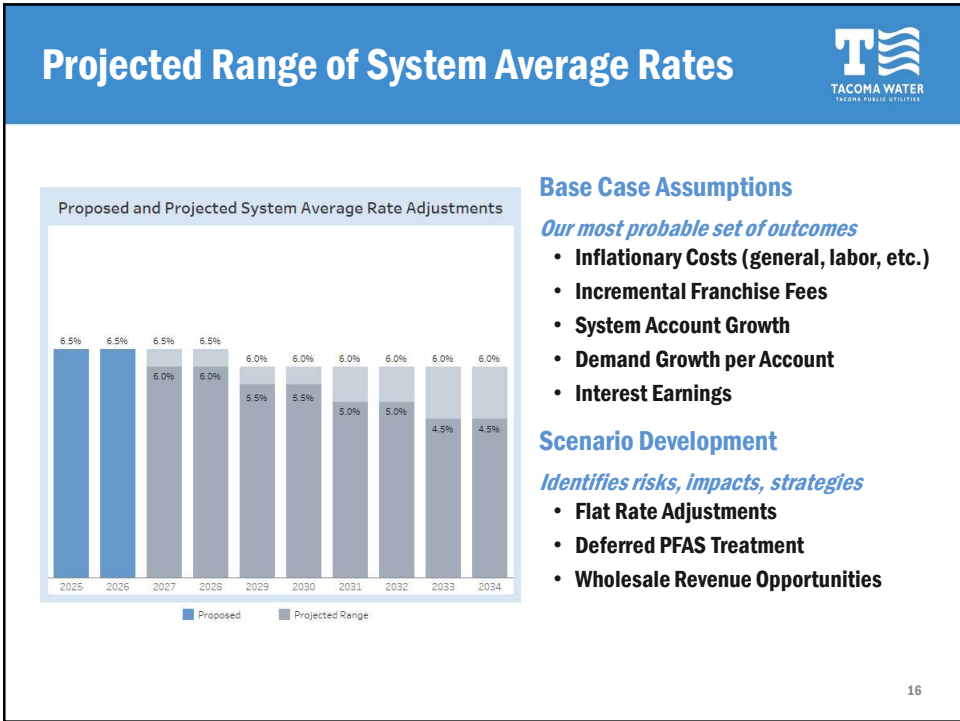
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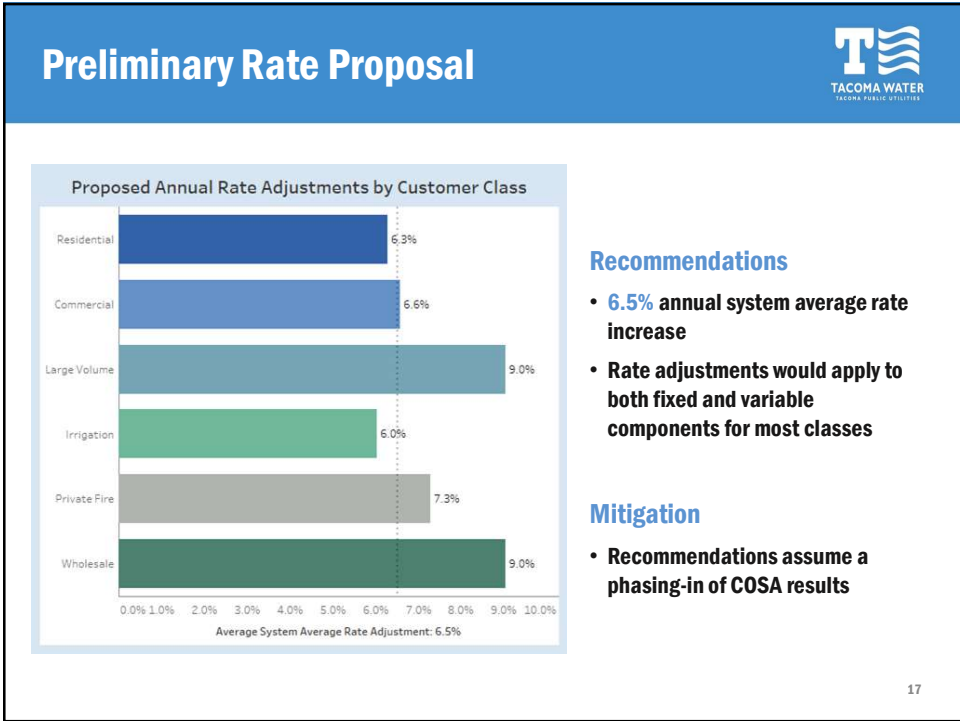


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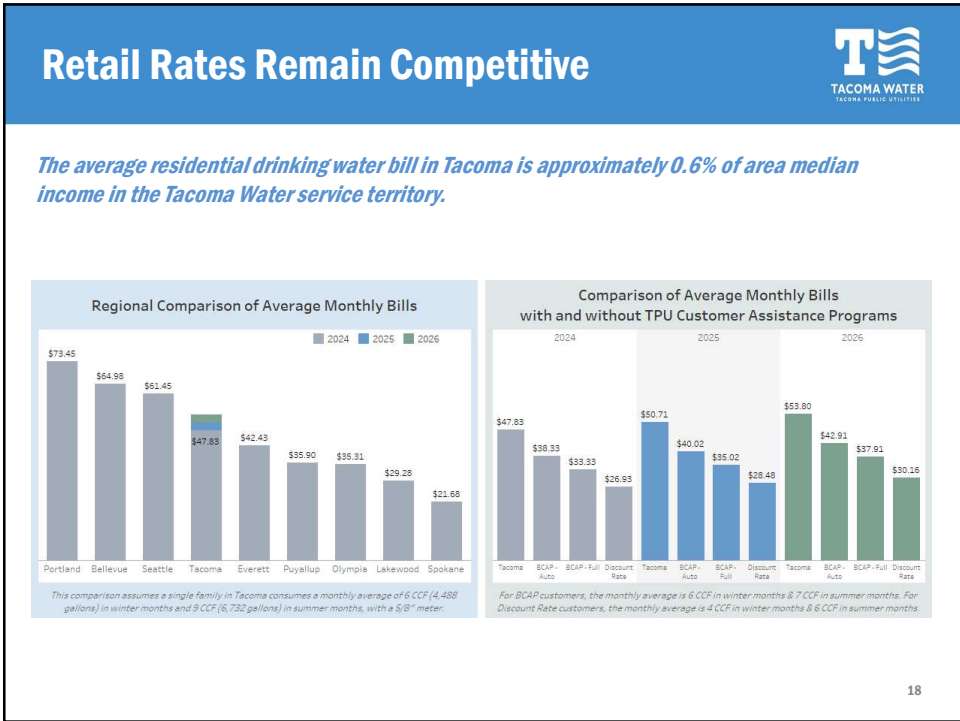


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## Recommended Changes to Water Service Construction Charges

We also have other rates and fees that are paid by new customers to join our system.

**Recommended Update**

- Adjusts charges on water service installations to adequately recover expenses
- Caps increases to no more than 50% of existing rates for the first year and implements gradual step increases where applicable
- Develop a 5-year schedule indexed to an annual escalation factor of 3%

**Responding to Developer and Staff Feedback**

- Adding new construction charges for service sizes 1.5" and 2.0"
  - Provides pricing certainty to customers
  - Less administration than T&Ms
- Adding "a la carte" options for flagging and paving
  - Removes flagging and paving costs from construction charges
  - Only customers who need paving and flagging will pay for those services
- Reducing the minimum width of Main Charge calculation for Residential zoning from 50 front feet to 20 front feet to align with Home in Tacoma minimum lot width
- Improving sequence for Fire-Domestic Combination Meters from application/installation/water quality approval

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## Pressures & Opportunities

<i>Pressures</i>	<i>Desired Outcome</i>	<i>Opportunities</i>
<div style="background-color: #34495E; color: white; padding: 5px; margin-bottom: 5px;">Increased Material, Contract Services and Labor Costs</div> <div style="background-color: #34495E; color: white; padding: 5px; margin-bottom: 5px;">Increased Regulatory Requirements</div> <div style="background-color: #34495E; color: white; padding: 5px; margin-bottom: 5px;">Resource Adequacy</div> <div style="background-color: #34495E; color: white; padding: 5px; margin-bottom: 5px;">Hydro Relicensing</div> <div style="background-color: #34495E; color: white; padding: 5px; margin-bottom: 5px;">Dam Safety Program</div> <div style="background-color: #34495E; color: white; padding: 5px; margin-bottom: 5px;">Wildfire Risk &amp; Mitigation</div> <div style="background-color: #34495E; color: white; padding: 5px;">General Tech Investment (SAP Now!)</div>	<p style="margin: 5px 0;">"We <b>deliver clean, reliable services</b> essential to quality of life."</p> <p style="margin: 5px 0;">"We will be a <b>trusted community partner</b>, where employees are proud to <b>deliver equitable, affordable utility services.</b>"</p>	<div style="background-color: #E67E22; color: white; padding: 5px; margin-bottom: 5px;">Efficiencies &amp; Long-Range Planning</div> <div style="background-color: #E67E22; color: white; padding: 5px; margin-bottom: 5px;">Rate Stabilization Fund Reserves</div> <div style="background-color: #E67E22; color: white; padding: 5px; margin-bottom: 5px;">Debt Restructuring</div> <div style="background-color: #E67E22; color: white; padding: 5px; margin-bottom: 5px;">Diversification of Resources</div> <div style="background-color: #E67E22; color: white; padding: 5px; margin-bottom: 5px;">New Markets</div> <div style="background-color: #E67E22; color: white; padding: 5px;">Infrastructure Modernization Investments</div>

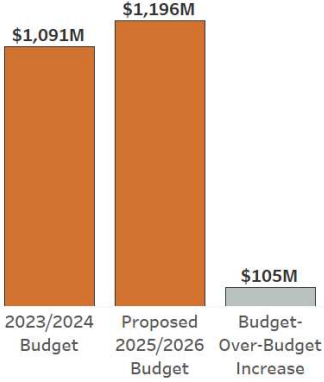
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## Budget Highlights

**This proposed budget supports utility operational needs, PUB guiding principles, and Tacoma Power’s strategic plan.**

**2025/2026 budget represents 10% increase from 2023/2024**

- Personnel costs increasing by **\$51M**
- Debt Service increase of **\$28M** with a planned **\$15M** bond defeasance
- Assessments increasing by **\$14M**
- Labor and material cost increases significantly impact operational expenses and capital costs, especially for our routine capital



Category	Amount
2023/2024 Budget	\$1,091M
Proposed 2025/2026 Budget	\$1,196M
Budget-Over-Budget Increase	\$105M

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## Rate Mitigation for 2025/2026 & Beyond

**Strategic Objective: Financial Stability**

- Successfully achieved the Power-wide goal of limiting the increase to Supplies, Services and Other Charges to no more than 6%.
- Our current increase in Supplies, Services and Other Charges is **4.3%**

**Cost Saving Measures**

- Hydro-maintenance schedule optimization
- Recycling & salvage efforts
- Transformer & circuit breaker rebuilds
- Pole rehabilitation
- Refinancing of 2013 bonds in 2024

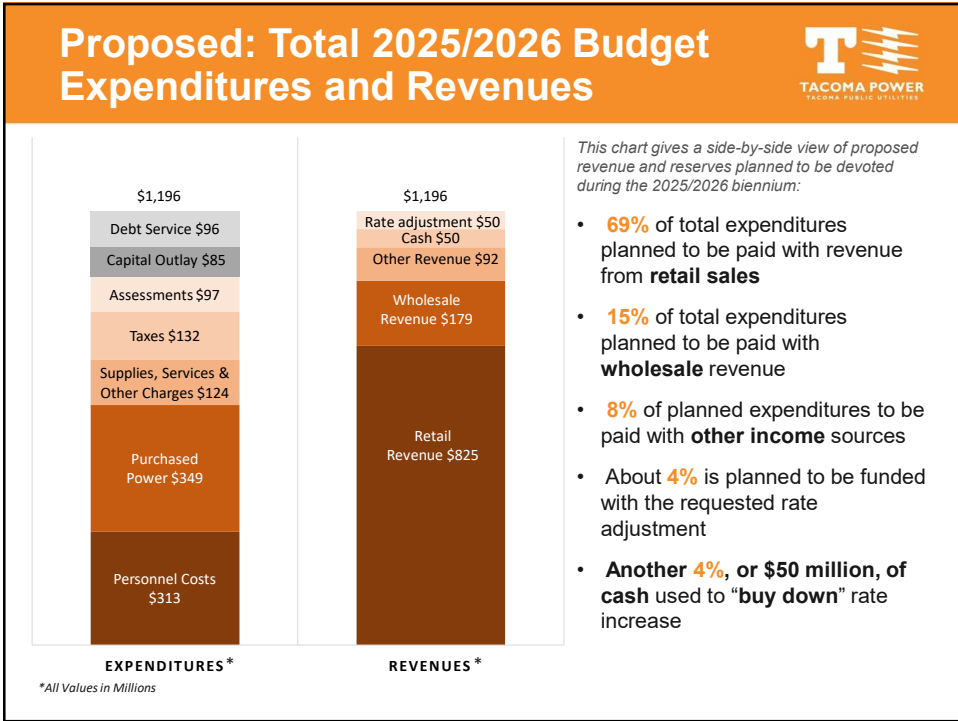
**Debt Restructuring**

- Defeasance of **\$15M** in bonds in 2026
- Greater use of debt to finance our capital portfolio to alleviate immediate impacts of cost increases for rate-payers

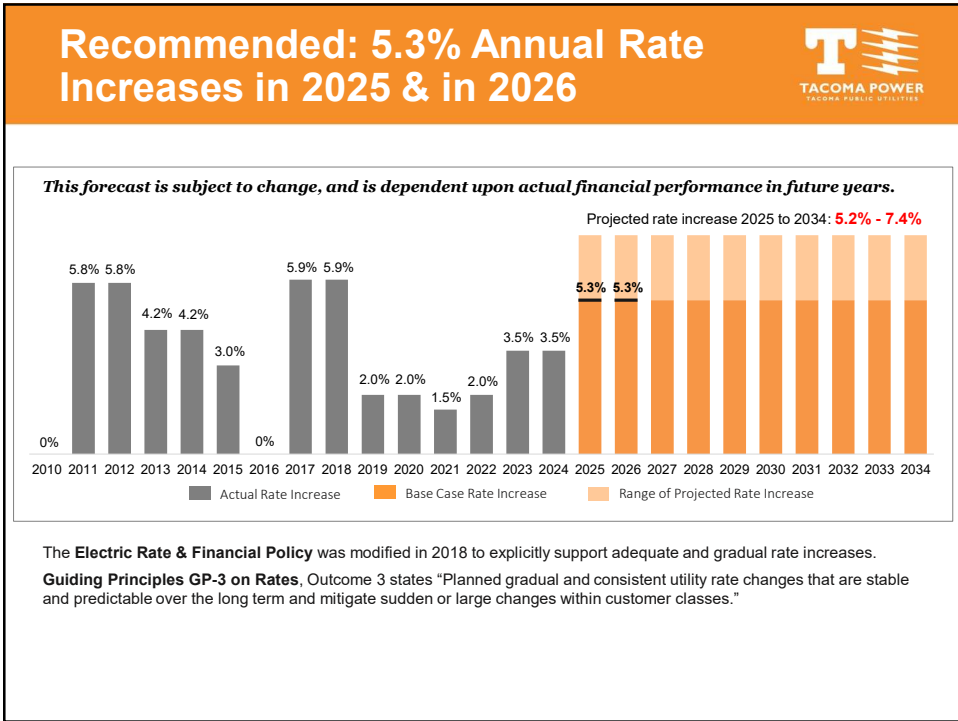
**Resource Management**

- Power-level prioritization of necessary FTE increases to accommodate workloads
- Active workload management with staff at all levels to align priorities and create efficiencies

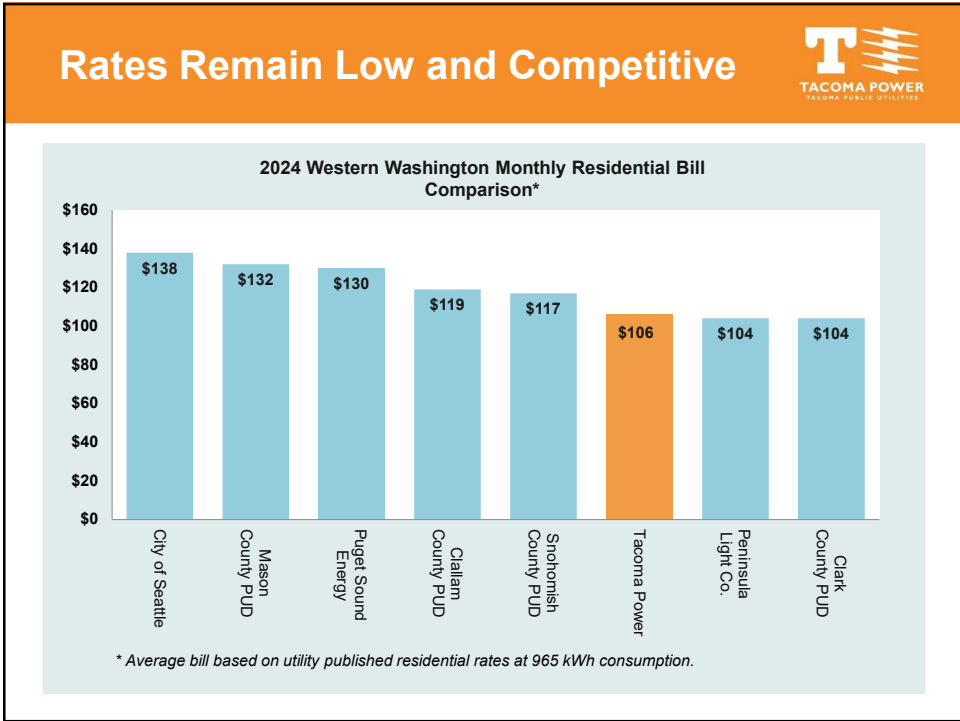
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## Recommended Changes to our Financial Policy



**Power rates should reflect resource planning to meet or exceed long term customer needs**

**Proposed: Revised Subsection IV.B.1.a**  
The projected load forecast for the rate review process shall include the consumption effects of price, and local economic and demographic conditions, and other projected impacts to future consumption. Projected retail revenues will be based on average weather assumptions.

**Proposed: Revised Subsection IV.B.1.c**  
Both the short-term and long-term rate impacts of conservation programs, electrification assumptions, and generating resource development will be considered when establishing current funding levels.

**Proposed: New Subsection IV.B.1.d.**  
Power rates will be designed to ensure sufficient and reliable power supply and transmission. This includes the procurement and maintenance of sources of supply, infrastructure, facilities, and personnel to meet or exceed regulatory requirements.


**Power Rate Setting Practices - minor language changes**

**Proposed: Revised Subsection IV.A.1.**  
Rates will be set at levels to provide projected cash balances equivalent to a minimum of [more than] 90 days of current budgeted expenditures.

**Proposed: Revised Subsection IV.A.3.**  
The Utility will plan to a minimum Debt Service Coverage Ratio of 1.5(2.0) based on net revenues including surplus sales estimated using median [average] water availability or at higher levels consistent with sound financial practice in the electric industry.

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## Recommended Changes to our Financial Policy




**Public Utility Board Guiding Principle 2 Financial Sustainability:**  
 “TPU planning methods should incorporate conservatism and gradualism ... to ensure long-term financial stability and anticipate unexpected future events with adequate cash reserves ...”

**Proposed: Revised Subsection V.B.1**  
*[Upon the availability of excess wholesale revenues, Tacoma Power will target a core balance of \$100 million in the Fund. Core balance is defined as the revenues set aside to mitigate the variability in hydro supply and wholesale market prices only. The Fund Total Balance can be higher to reserve revenues for other operational purposes. In addition,] at the conclusion of each fiscal year, Tacoma Power will evaluate the adequacy of the [core balance] amount in the Fund for meeting the forecast difference between critical and adverse water conditions over the next two fiscal years. [The core balance target threshold will be re-evaluated on a periodic basis, at a minimum upon significant operational or market changes that impact wholesale revenues.]*

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## Bill Credit Assistance Program



**Comparing an average monthly five-service bill with and without bill credit assistance.**

Customers without BCAP				Customers with BCAP Plus			
Average Monthly Bill <i>City of Tacoma Resident</i>		Average Monthly Bill <i>After annual rate adjustments</i>		Automatic Reduction <i>Must be income eligible and enrolled</i>		Potential Add'l Reduction <i>Requires in full and timely bill payments</i>	
2023	2024	2025	2026	2025	2026	2025	2026
\$293	\$310	\$329	\$350	\$274	\$292	\$230	\$248
Power, \$102	Power, \$106	Power, \$113	Power, \$120	Power, \$84	Power, \$88	Power, \$63	Power, \$67
Water, \$44	Water, \$48	Water, \$51	Water, \$54	Water, \$43	Water, \$46	Water, \$38	Water, \$41
Wastewater, \$64	Wastewater, \$69	Wastewater, \$73	Wastewater, \$78	Wastewater, \$66	Wastewater, \$71	Wastewater, \$58	Wastewater, \$63
Stormwater, \$29	Stormwater, \$31	Stormwater, \$34	Stormwater, \$36	Stormwater, \$31	Stormwater, \$33	Stormwater, \$27	Stormwater, \$29
Solid Waste, \$54	Solid Waste, \$56	Solid Waste, \$59	Solid Waste, \$62	Solid Waste, \$50	Solid Waste, \$53	Solid Waste, \$44	Solid Waste, \$47

*\* For the total 5 service bill, proposed rate adjustments equate to an average of 6.4% increase per year in 2025 and 2026.*

**TPU-wide goal to reach 10,000 BCAP enrollment by the end of 2024 is still in place.**

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