



TO: Elizabeth A. Pauli, City Manager
FROM: Geoffrey M. Smyth, P.E., Interim Director, Environmental Services
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PRESENTER: Geoffrey M. Smyth, P.E., Interim Director, Environmental Services; Christina Curran, Environmental Services Assistant Division Manager, Environmental Services
SUBJECT: Environmental Services 2025-2026 Proposed Budget and Rate Revenues
DATE: August 20, 2024

Initial
GMS

PRESENTATION TYPE:
Informational Briefing

SUMMARY:

This presentation will provide a high-level overview of the Environmental Services Department (ESD) 2025-2026 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.

ESD is still impacted by the lower than planned implemented rate increases in 2021 and 2022 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. In addition to the lower rates and compounded loss of revenue over time, it took several years for customer revenues to recover. During these years of lower than historical revenues, cost increases from inflation were significant and outpaced our revenue increases. In addition to inflation within operating expenses, construction inflation has established a new "normal" higher cost for capital projects. These factors significantly impact the revenue requirement for 2025-2026.

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 as well as Solid Waste fleet; the impact of recent historically high construction inflation; new and more stringent regulatory requirements; and higher operating costs such as significant garbage disposal contract increases.



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. Reductions in capital spending are not recommended as that increases risk to the utilities and ultimately results in higher future project costs.

FISCAL IMPACT:

The requested revenue increases have been incorporated into ESD's proposed 2025-2026 budget.

RECOMMENDATION:

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