




TO: Mayor and City Council
FROM: William A. Gaines, Director of Utilities/CEO 
COPY: T. C. Broadnax, City Manager and City Clerk
SUBJECT: Amend Tacoma Municipal Code Chapter 12.10.400.I- July 7, 2015
DATE: June 1, 2015

SUMMARY:

The purpose of this memo is to request approval by the City Council of water rate adjustments for the RockTenn pulp and paper mill in support of an extended agreement with RockTenn that is being considered by the Public Utility Board on June 17, 2015. These rate adjustments would extend effective rates beyond their current July 31, 2015 end date, and would schedule a rate adjustment of 4.0% on January 1, 2016.

STRATEGIC POLICY PRIORITY:

This water supply agreement encourages and promotes an efficient and effective government, which is fiscally sustainable and guided by engaged residents. In working collaboratively with RockTenn to better understand their future water supply needs, we can continue to foster an active business dialogue with one of the City's most important employers, and work towards providing for their business needs in a financial and economically sustainable manner.

BACKGROUND:

On March 17, 2015, the City Council adopted water rate adjustments that went into effect on April 1, 2015 for all customers served by Tacoma Water. While these rate increases included an 8.3% rate adjustment for the RockTenn pulp and paper mill, the resulting rates paid by the mill were scheduled to terminate after July 31, 2015, after which both Tacoma Water and RockTenn staff expected to have a renegotiated agreement in place.

Over the period of time during which Tacoma Water was engaged with mill staff in discussions about a renegotiated water supply agreement, the mill has undergone two ownership changes – RockTenn purchased the Simpson Tacoma Kraft mill in May of 2014, and in January of 2015 a merger between RockTenn and MeadWestvaco was announced and is currently pending. Also in May of 2014, The U.S. Environmental Protection Agency announced new regulatory standards affecting cooling water intakes, which could significantly affect the mill's two existing saltwater intakes in Commencement Bay.

Due to these significant transitions and associated unknowns, time is required to better understand the future water supply needs of the mill. Staff members from Tacoma Water and RockTenn have reached conceptual understanding on an extension of the existing water supply agreement that will enable the parties to collaboratively develop solutions to the mill's future water supply needs in a manner that accounts for their joint environmental and financial sustainability objectives. This extension will be considered by the Public Utility Board at its June 17, 2015 meeting, and, if approved, would require commensurate extension of the pricing provisions contained in that agreement.

RockTenn is currently Tacoma Water's largest customer, generating \$5.8 million, or 8.3% of total service revenues, on water sales of 16.6 million gallons per day in 2014.

ISSUE:

RockTenn's water supply agreement contains provisions that adjust the rates paid by the mill according to the "system average" rate increase paid by all other customer classes on the water system. In the event



that these rate adjustments are not made, Tacoma Water would be in default according to the terms of that agreement.

ALTERNATIVES:

There is only one alternative that allows Tacoma Water to comply with the terms of the water supply agreement, and that is to extend currently effective rates beyond July 31, 2015 until January 1, 2016, at which time they will increase by 4.0%, a rate increase structure that is provided for by the agreement.

RECOMMENDATION:

Tacoma Water recommends that the City Council adopt rates that adjust according to the RockTenn water supply agreement, which will extend the rates currently in effect until January 1, 2016, at which time those rates will be increased by 4.0%, or the “system average” of rate increases for all other customer classes at that time.

FISCAL IMPACT:

There is no fiscal impact.