



# 2023-2024 Budget & Rate Proposal

City of Tacoma | Tacoma Public Utilities

Government Performance and Finance Committee  
September 20, 2022

1

## Table of Contents



01

TPU

- + Brief Overview

02

Water

- + Challenges & Risks
- + Mitigating Cost Impacts
- + Expenditures & Revenue
- + Funding for Expenditure Increases
- + Long-Term Planning & Financial Forecasting
- + Proposed Rate Adjustments
- + Enhanced Customer Assistance
- + Bill Comparison

03

Power

- + Challenges & Risks
- + Mitigation Measures
- + Expenditures & Revenues
- + Long-Term Approach to Rates and Reserves
- + Proposed Rate Adjustments
- + Average Monthly Bill
- + Enhanced Customer Assistance
- + Bill Comparison

04

Rail

- + Budget Risks & Mitigation
- + Proposed Revenues & Expenditures
- + Proposed Rate Impact
- + Tariff Rate Comparisons


2

2



# Tacoma Public Utilities

3




## Topical Briefings

### 2022 GPFC Budget and Rate Updates

- Feb: Water Long-range Financial Plan
- Apr: Power Long-range Financial Plan
- May: Rate Making Principles
- Jun: Rate and Financial Policies / Rate Design (fixed & variable)
- Jul: Customer Assistance
- Aug: Outreach Efforts and Plans
- Sep: (Today) - Budget and Rate Proposal Details

4




**Today's Headlines**

- Budget and Rate Proposal Details**
- Inflationary Cost Pressure**
- Rate Proposals < Inflation**
- Mitigation for Income Constrained Customers**

5

5



**Residential Customer Assistance**

**An Essential to Rate Mitigation**

**2021 Customer Assistance Enhancements:**

- Expanded access through higher qualifying income levels
- Increased discount rate and bill credit amounts

**New Enhancements Proposed (2023):**

- 2 parts – automatic monthly credit plus ability to qualify for more
- Significant increase to power bill credits / offsets monthly fixed charges with opportunity for additional credits

6

6

# Tacoma Water

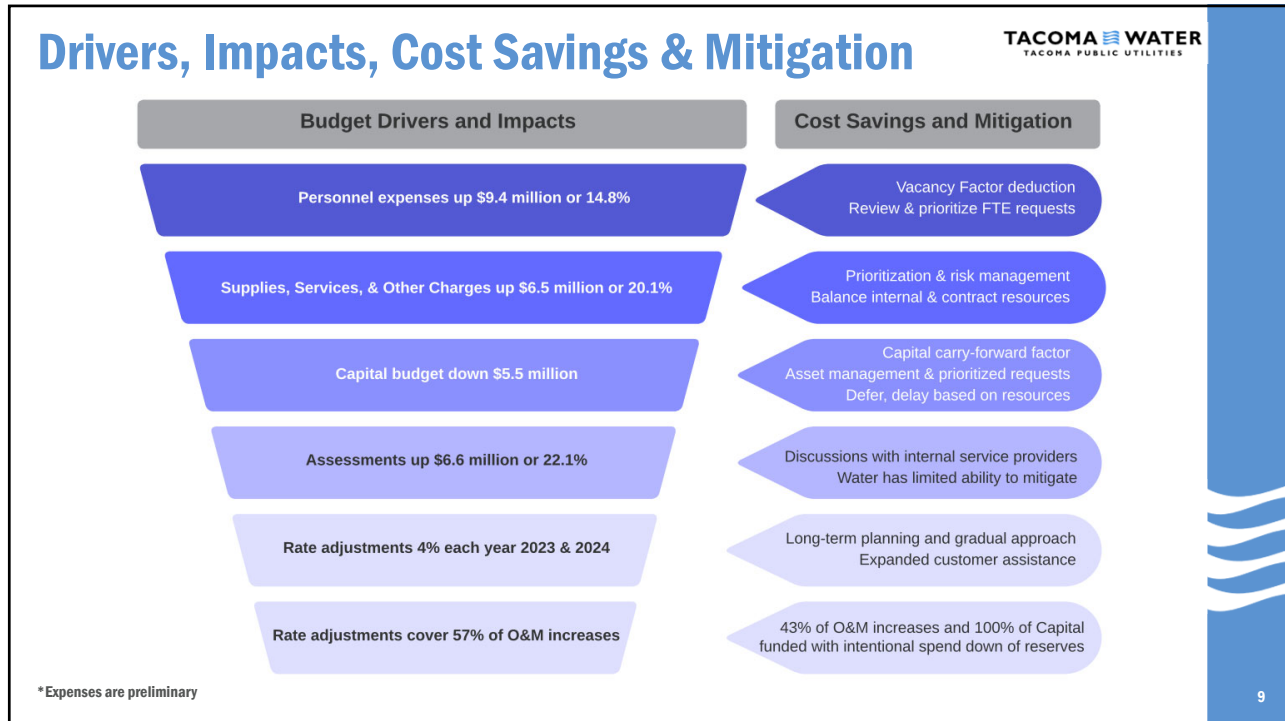
7

## Challenges & Risks

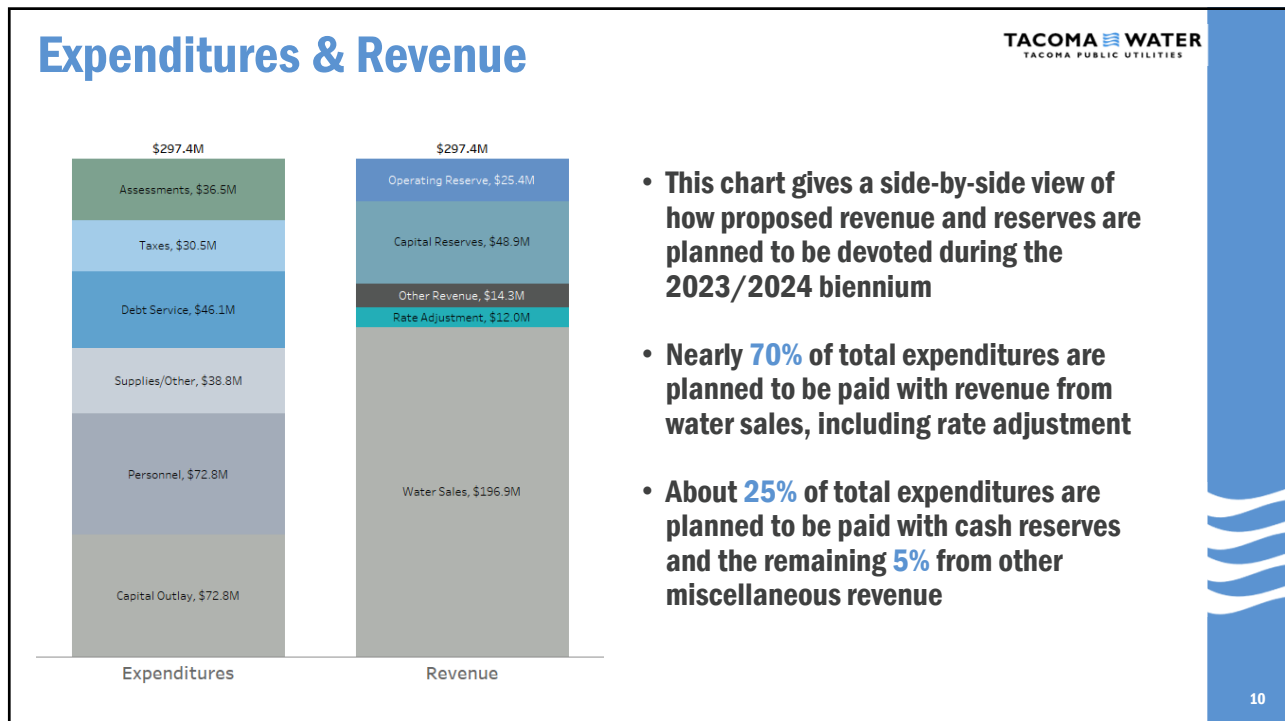
- **Ongoing Impacts from 2020 Budget Development Cycle**
  - Lower rate adjustment in 2021: loss of about \$500k every year going forward
  - Lean budget and deferred resource requests for the 2021/22 budget: catch-up
- **Workforce, Inflation, and Supply Chain Issues**
  - Recruiting and retaining employees
  - Higher operational costs: from rent and utilities to fleet maintenance and fuel
  - Long-lead times and increased costs for certain supplies and materials
- **Uncertainties**
  - Aging receivables collection
  - Final Class & Compensation market adjustments for non-represented staff
  - General wage increases and market adjustments for represented staff
  - Costs for business system investments & innovation (SAP replacement, advanced analytics, access to data, enterprise resource management)
  - Long-term economic assumptions such as inflation and interest rates

8

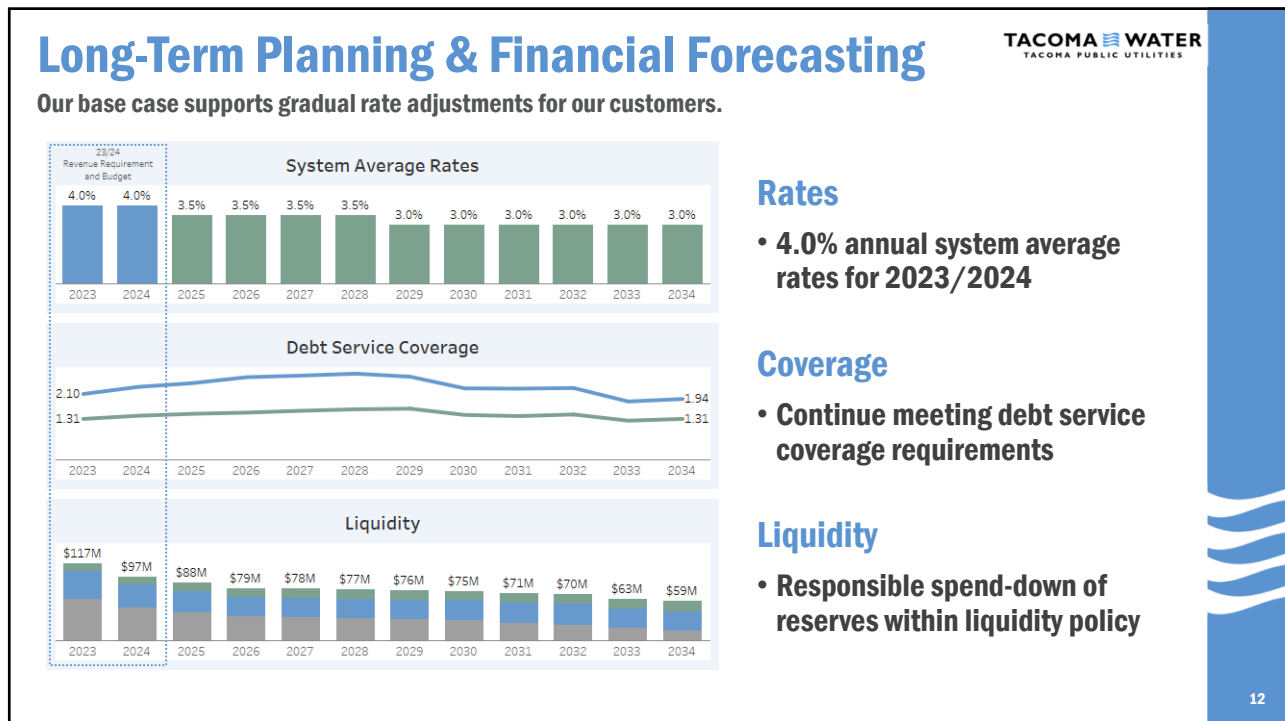
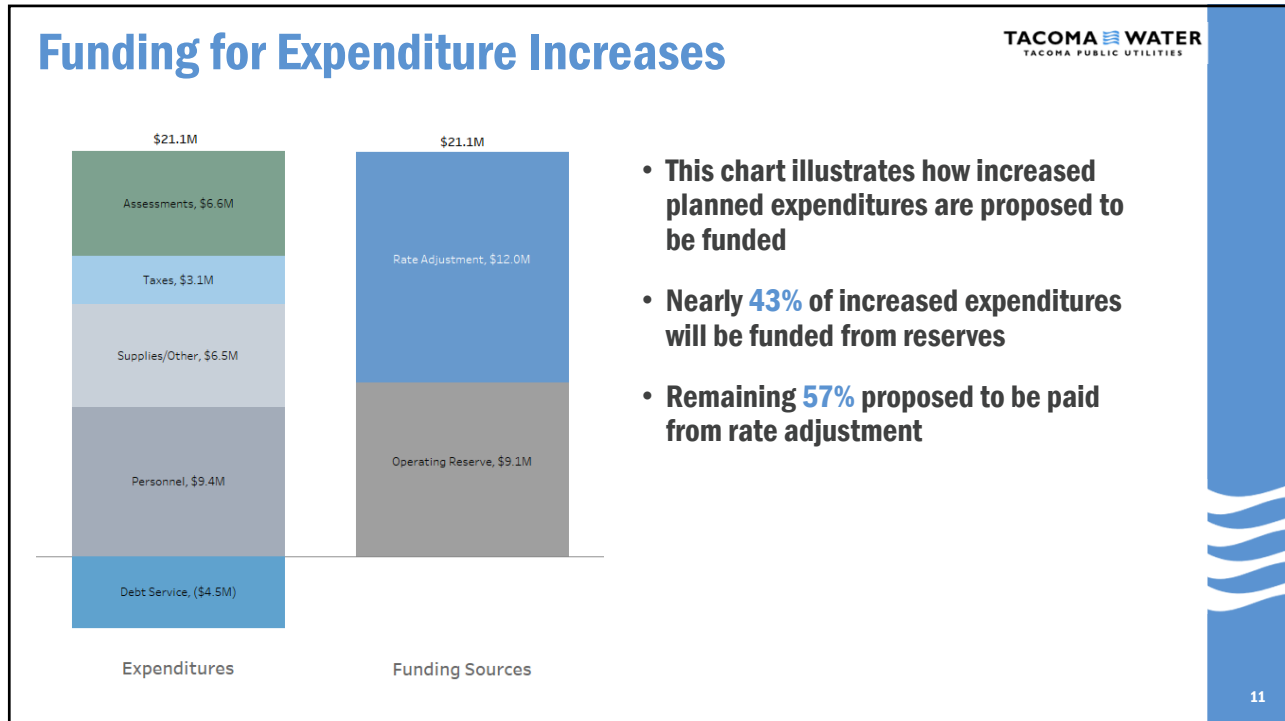
8



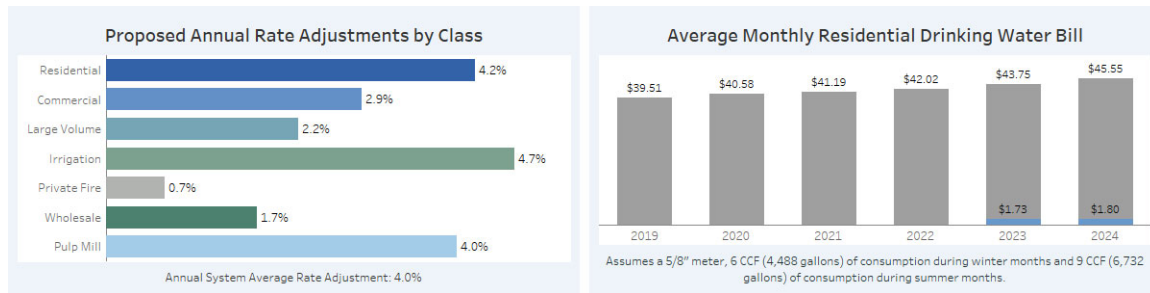
9



10



# Proposed Rate Adjustments

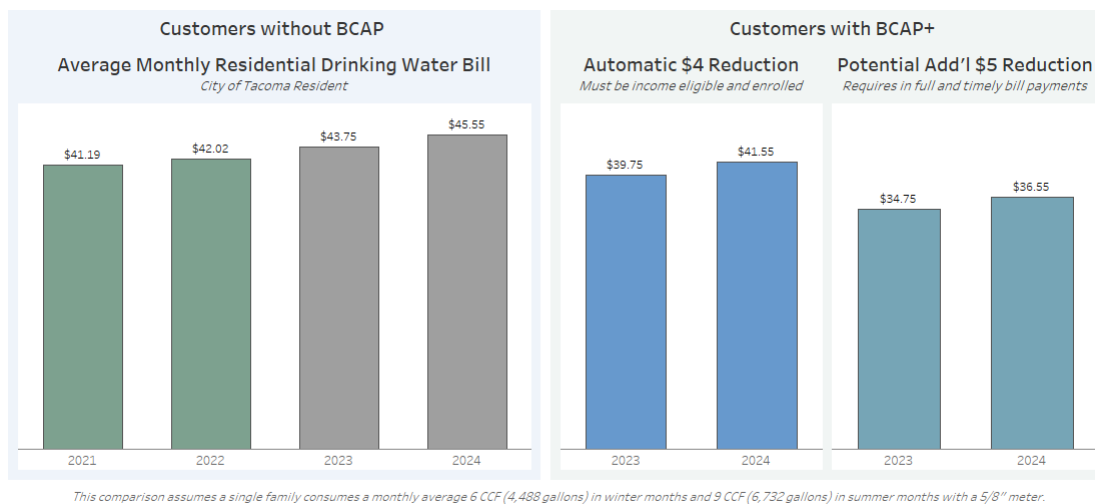


- **Tacoma Water is recommending an annual system average rate increase of 4.0%**
- **This increase assumes that the cost-of-service is phased in**
- **Recommendation is to apply the adjustment to both the fixed charge and volumetric rates (where applicable)**
- **For the average residential customer in Tacoma, the recommended changes result in an increase of \$1.73 per month in 2023 and \$1.80 per month in 2024**

# Enhanced Customer Assistance: BCAP Plus



For customers enrolled in BCAP Plus, automatic monthly bill credits will offset rate impacts.



## Tacoma Water Retail Rates are Competitive

- **“Current retail rates are competitive for the region even with proposed rate increases and provide management with good revenue-raising flexibility.”**

  - Standard & Poor’s
  - Tacoma Water Credit Rating Review
- **The average drinking water bill in Tacoma is approximately 0.7% of area median income in the Tacoma Water service territory.**

### 2022 Regional Comparison of Average Monthly Bills

| City     | 2022    | 2023    | 2024    |
|----------|---------|---------|---------|
| Lakewood | \$25.69 |         |         |
| Puyallup | \$29.14 |         |         |
| Everett  | \$33.77 |         |         |
| Tacoma   | \$42.02 | \$45.55 | \$49.86 |
| Bellevue | \$58.61 |         |         |
| Seattle  | \$59.38 |         |         |
| Portland | \$63.86 |         |         |

This comparison assumes a single family consumes a monthly average 6 CCF (4,488 gallons) in winter months and 9 CCF (6,732 gallons) in summer months, with a 5/8" meter.

# Tacoma Power



## Challenges & Risks

- **Ongoing Impacts from 2020 Budget Development Cycle**
  - Lower rate adjustment of 0.5% in 2021: loss of about \$1.2M every year going forward
  - Make up for budget reductions in 2021/22 to address the uncertainty of COVID impacts
  - Reinstating deferred resource requests from 2021/22
- **Labor and Materials Inflation and Supply Chain Issues**
  - Market labor wage adjustments & inflation:  
Power largest contract (483) with 295 employees - wages increased as high as 18%
  - Higher supply and operational costs - examples include:  
transformers (↑65%), hydro agreement payments (↑17%), fleet costs (↑30%),  
cybersecurity products and contracts (↑15%), fish food (↑35%)
  - Long-lead times and increased costs for many supplies and materials
- **Uncertainties**
  - Aging receivables collection: **\$15 million**
  - Final Class & Compensation market adjustments for non-represented staff
  - Long-term economic assumptions such as inflation and interest rates

17

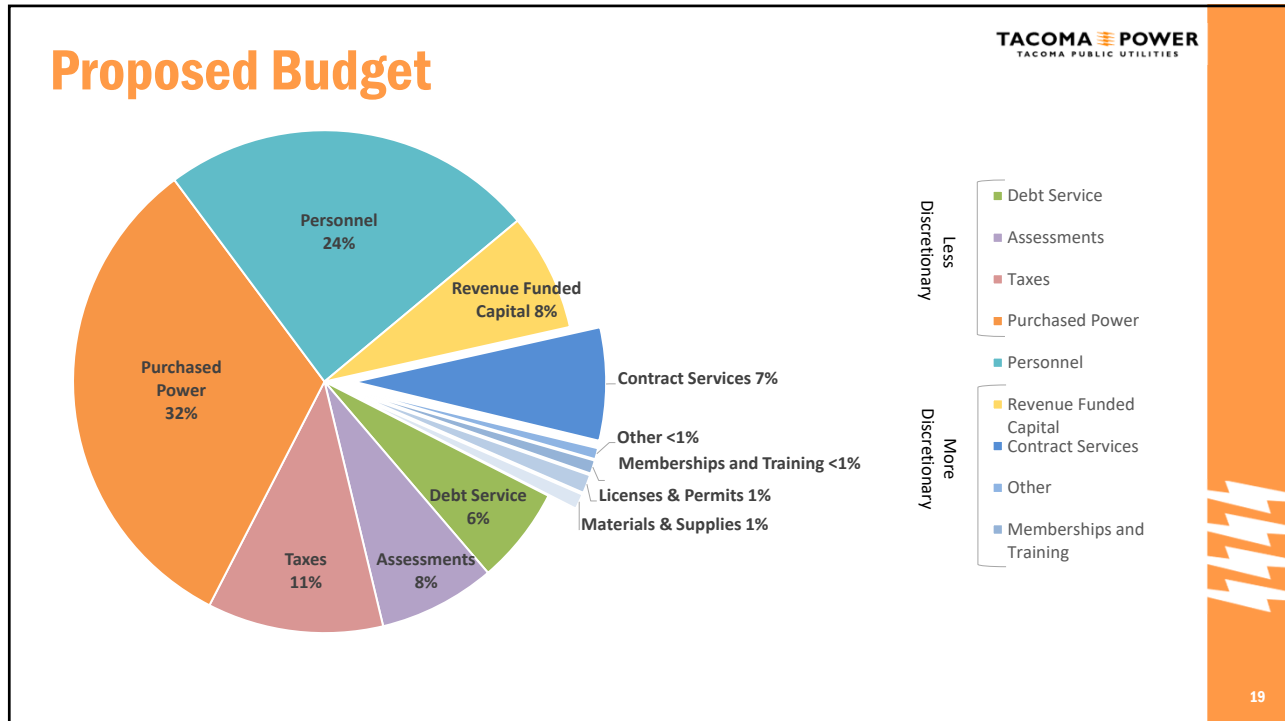
17

## Mitigation

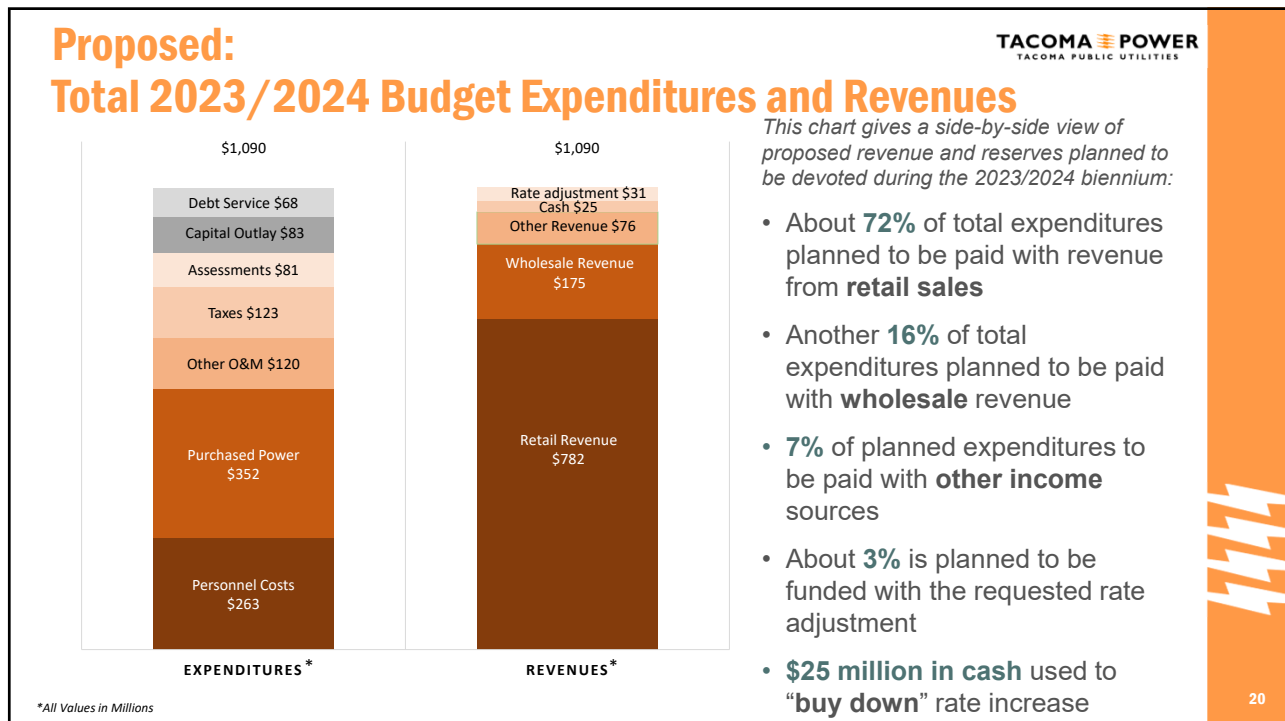
- **Long-term planning and gradual approach to rate adjustments**
  - We project revenues and expenses ten years into the future to understand long-term challenges and plan for gradual rate increases
  - Through smaller incremental rate increases in the near-term, we reduce the need for larger future rate increases
  - Expand eligibility and increase funding of payment assistance programs
- **Manage Long-term debt**
  - Use the Rate Stabilization Fund in 2030 through 2034 to offset large debt service payments due in those years
  - Continuously review opportunities to restructure debt
- **Prioritization of Capital Projects and FTEs**
  - Risk-based approach to prioritize capital projects
  - Balance internal and contract personnel resources

18

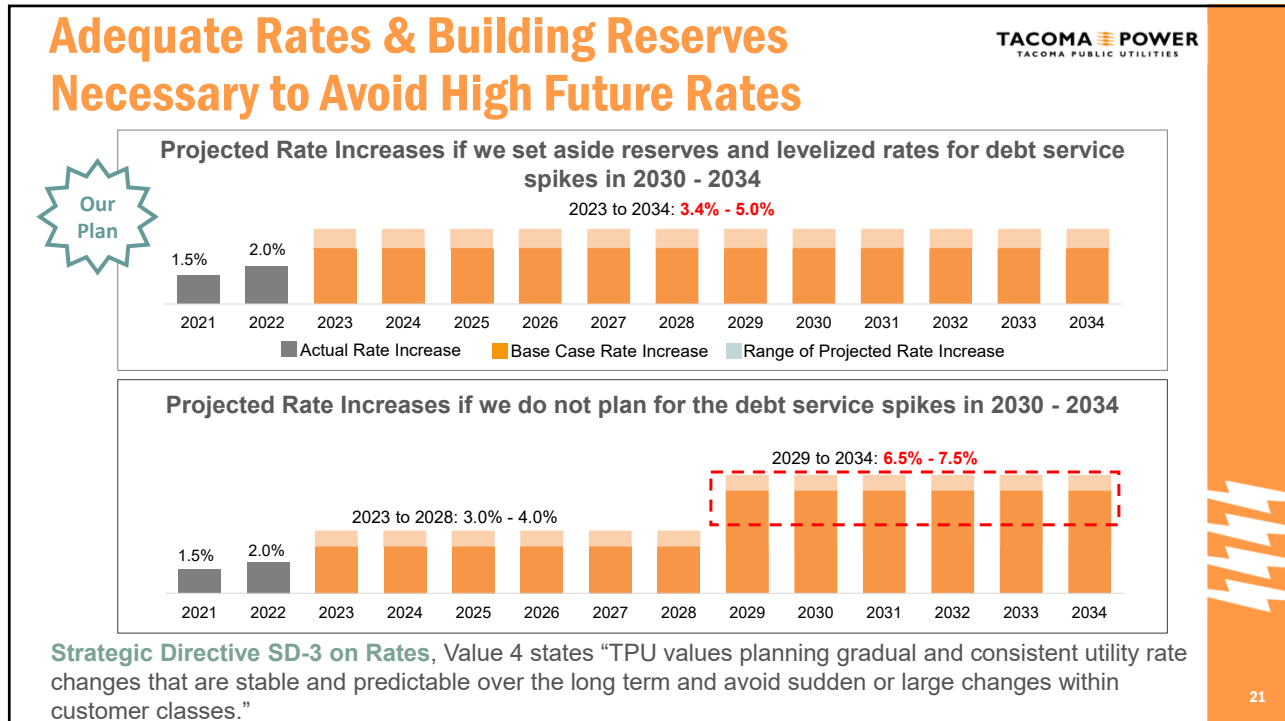
18



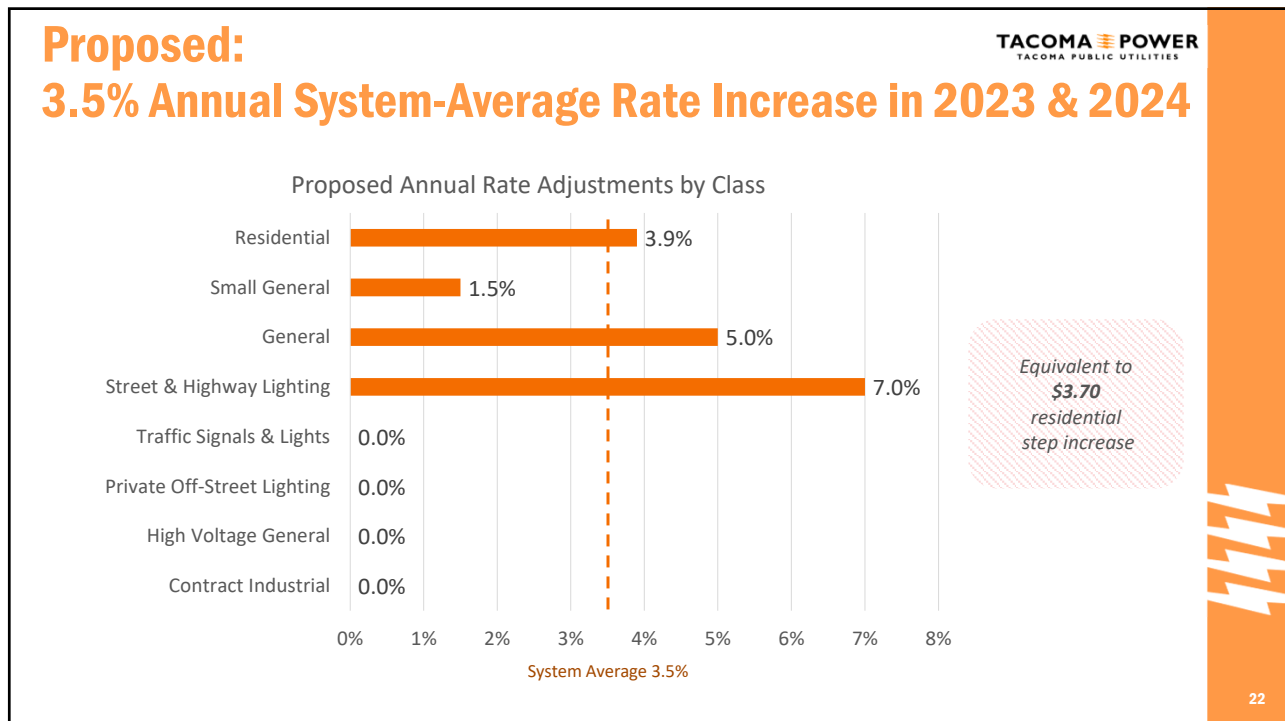
19



20



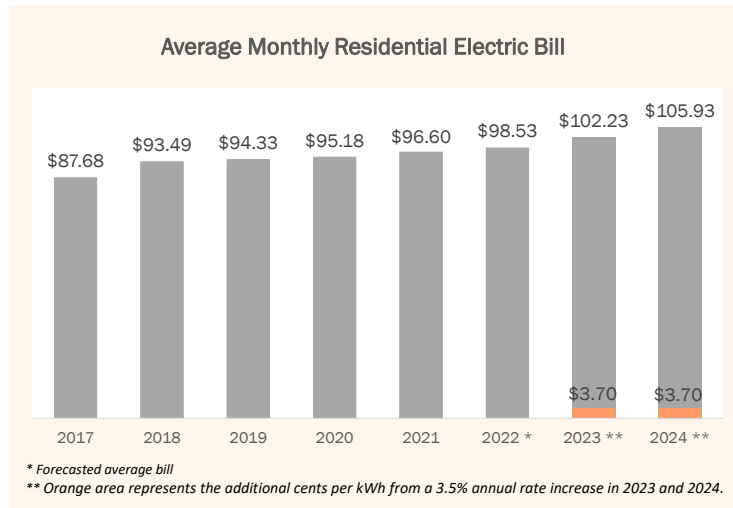
21



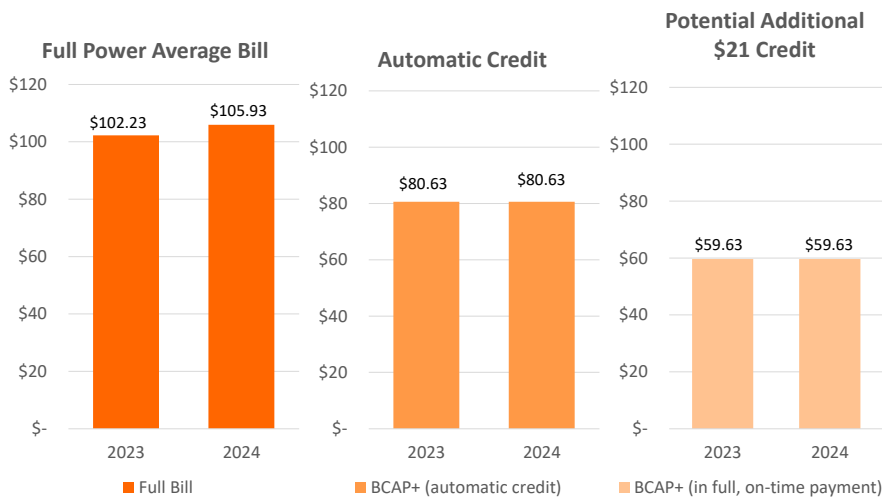
22

## Average Monthly Bill (Residential)

- The recommended changes result in an increase of \$3.70 per month in 2023 and in 2024 for the average residential customer, effective April 1st of each year.
- Assumes the residential customer uses an average of 965 kilowatt hours per month.
- The average power bill in Tacoma is approximately **1.5%** of area median income in the Tacoma Power service territory.

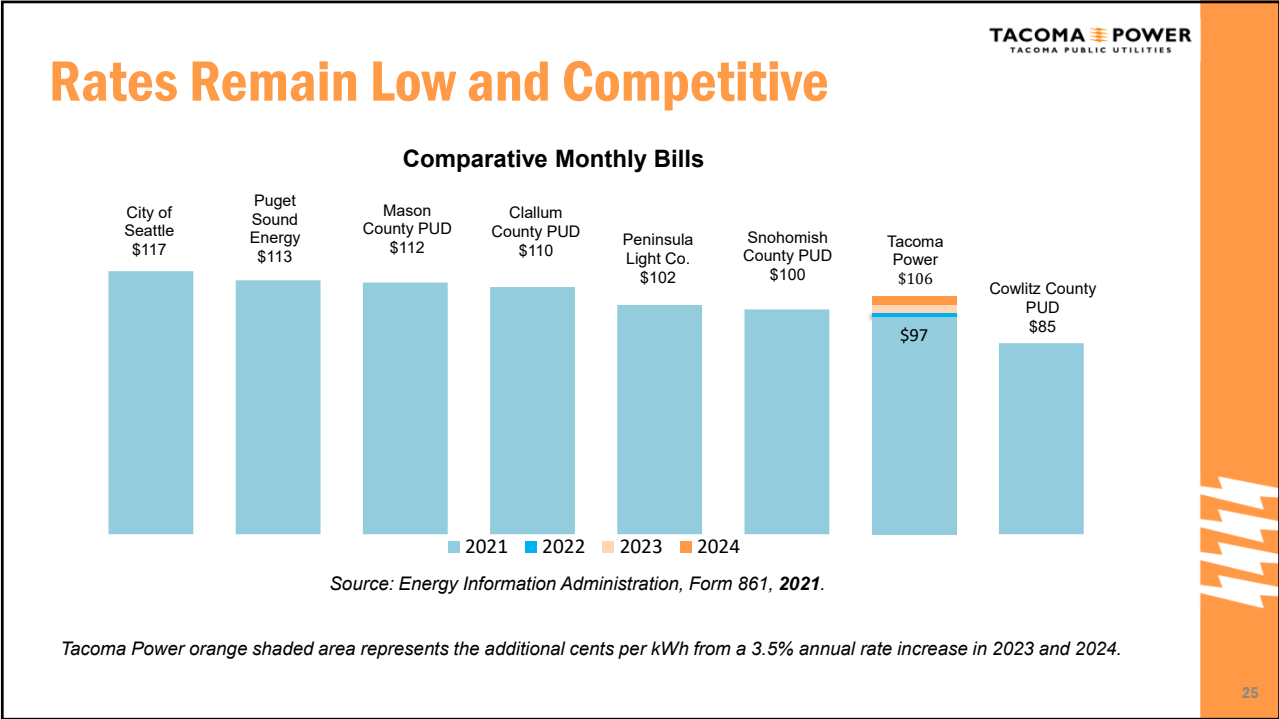


## Expanded Bill Credit Assistance Program More than Mitigates the Rate Increase for Qualifying Customers



- New automatic credit is equal to customer fixed charge
  - \$21.60 proposed for 2023
  - \$25.30 proposed for 2024
- Customers who pay their full bill on-time will receive an **additional \$21 reduction** in their bill

Preliminary, subject to change. Assumes 965 kWh consumption.



25

# Tacoma Rail

**TACOMA RAIL**  
TACOMA PUBLIC UTILITIES

26

26

## Budget Risks & Mitigation

**• Risks**

- Line haul volumes
- Classification and compensation study uncertainty
- Assessments
- Fuel expense
- New & existing mandates

**• Mitigation**

- Rail Volume Investment Fund
  - Furlough process
- Defer projects and/or seek additional grant funding or financing
- Fuel surcharge
- Ongoing experience with existing mandates
  - Positive Train Control
  - Oil spill response plan & drills

| Year  | Intermodal Platforms (Left Axis) | Commercial Railcars (Right Axis) |
|-------|----------------------------------|----------------------------------|
| 2015  | 230,000                          | 50,000                           |
| 2016  | 250,000                          | 55,000                           |
| 2017  | 190,000                          | 55,000                           |
| 2018  | 200,000                          | 60,000                           |
| 2019  | 220,000                          | 65,000                           |
| 2020  | 170,000                          | 60,000                           |
| 2021  | 180,000                          | 55,000                           |
| 2022* | 150,000                          | 55,000                           |
| 2023* | 170,000                          | 60,000                           |
| 2024* | 180,000                          | 60,000                           |

\*Projected

## Proposed Revenues & Expenditures

| Category                          | Item                  | Value  |
|-----------------------------------|-----------------------|--------|
| Revenue                           | Line Haul & Switching | \$63.2 |
|                                   | Demurrage             | \$3.0  |
|                                   | Locomotive Servicing  | \$2.5  |
|                                   | Other                 | \$1.7  |
| <b>Total Revenue: \$70.4</b>      |                       |        |
| Expenditures                      | Personnel             | \$35.8 |
|                                   | Supplies/Other        | \$14.8 |
|                                   | Assessments           | \$5.1  |
|                                   | Capital Outlay        | \$6.1  |
|                                   | Debt Service          | \$1.9  |
|                                   | Taxes                 | \$6.7  |
|                                   | Other                 | \$0.6  |
| <b>Total Expenditures: \$70.4</b> |                       |        |

**• Expenditures**


- Gross Earnings Tax -\$0.6M
- Assessments +\$0.2M
- Capital Outlay -\$0.9M
- Supplies/Other -\$4.9M
  - Budgeted fuel at tariff rate of \$2.50/gallon
  - Decrease in locomotive fueling
- Personnel -\$1.5M
  - FTE reduction to match service levels

**• Revenue**

- Locomotive Servicing -\$4.7M
  - Decrease in mainline locomotive servicing fueling
- Line Haul & Switching -\$2.8M
  - Decrease in line haul volumes
  - Rate proposal

## Proposed Rate Impact

- **Demurrage tariff**
  - Last adjusted in 2018
  - Add Juneteenth as a holiday
  - Rate change from \$60 to \$65 per day
- **Line haul rates**
  - Last adjusted in 2022
  - Rate adjustments per year (see chart)
- **Miscellaneous switching tariff rates**
  - Last adjusted in 2021
  - **Special switch**
    - \$600 per hour
  - **All other**
    - Inter-terminal, intra-terminal, intra-plant
    - Rate adjustment of 3% for 2023



### Proposed Line Haul Rates


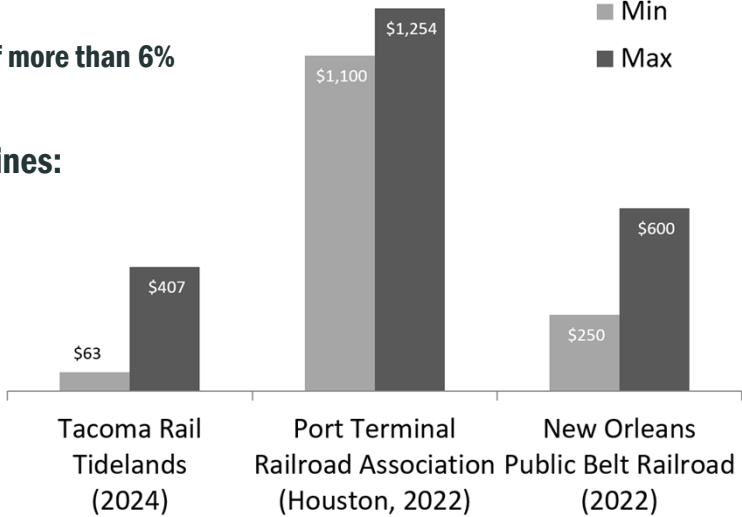
|                              | 2022     | Proposed Rates |          |
|------------------------------|----------|----------------|----------|
|                              |          | 2023           | 2024     |
| Intermodal                   | \$ 54.00 | \$ 58.50       | \$ 63.00 |
| <b>Commercial</b>            |          |                |          |
| Tidelands Division           | 324.00   | 337.00         | 350.00   |
| Tidelands Division Hazardous | 377.00   | 391.00         | 407.00   |
| Capital Division             | 600.00   | 623.00         | 647.00   |
| <b>Unit Train</b>            |          |                |          |
| Single Spot                  | 238.00   | 250.00         | 262.00   |
| Multiple Spot                | 318.00   | 334.00         | 350.00   |

29

29

## Tariff Rate Comparisons

- **Northwest Seaport Alliance (NWSA)**
  - July 1st, 2022
  - General increase of 6%
  - Specific rate increases of more than 6%
- **Other tariff based short lines:**

| Entity   | Min     | Max     |
|--|---------|---------|
| Tacoma Rail Tidelands (2024)                                 | \$63    | \$407   |
| Port Terminal Railroad Association (Houston, 2022)           | \$1,100 | \$1,254 |
| New Orleans Railroad Association Public Belt Railroad (2022) | \$250   | \$600   |

30

30

# Next Steps

**PUB and City Council Preliminary Updates**  
August 2021-August 2022

**TPU and GG Budget Collaboration**  
September 2022-October 2022

**PUB and City Council Budget & Rate Approvals**  
October 2022-November 2022

**PUB TPU Budget and Rate Development Review**  
April 2022-September 2022

**PUB and City Council Budget and Rate Updates**  
October 2022-November 2022

**2023/24 Budget & Rates Final**  
November 2022

TACOMA PUBLIC UTILITIES

TACOMA WATER

TACOMA GAS

TACOMA SEWER

31

# Appendix

TACOMA PUBLIC UTILITIES

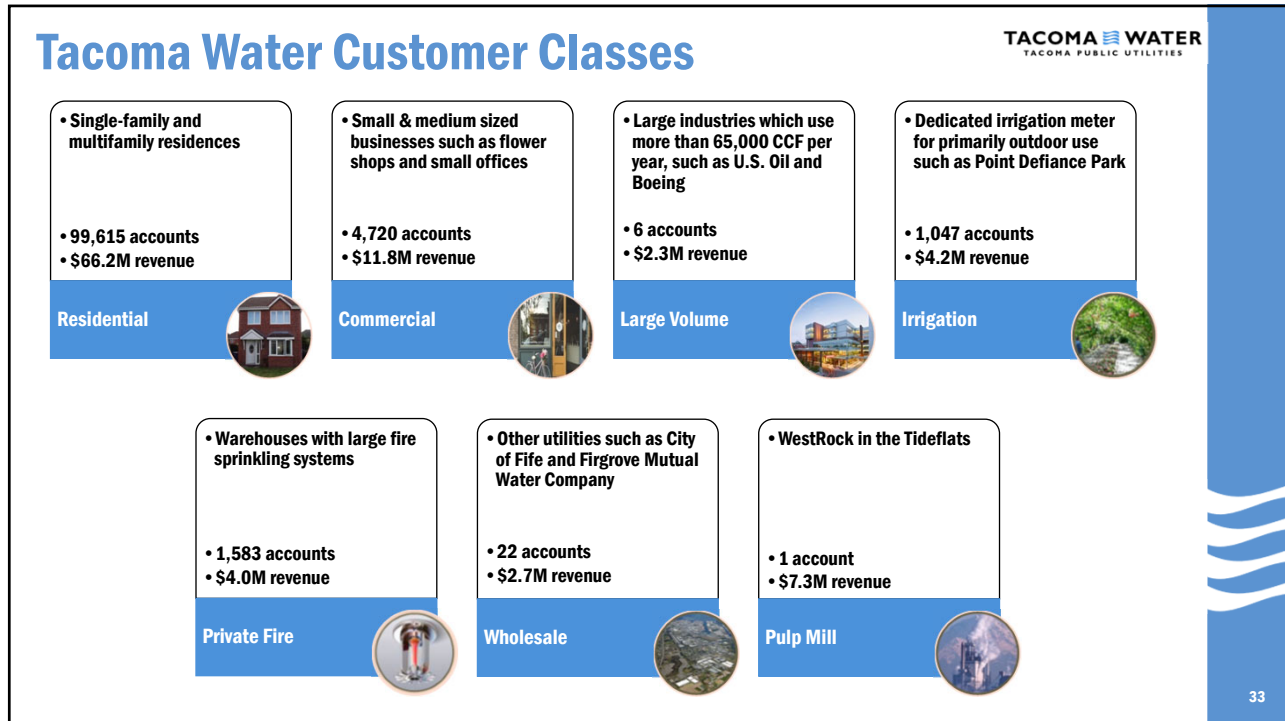
TACOMA WATER

TACOMA GAS

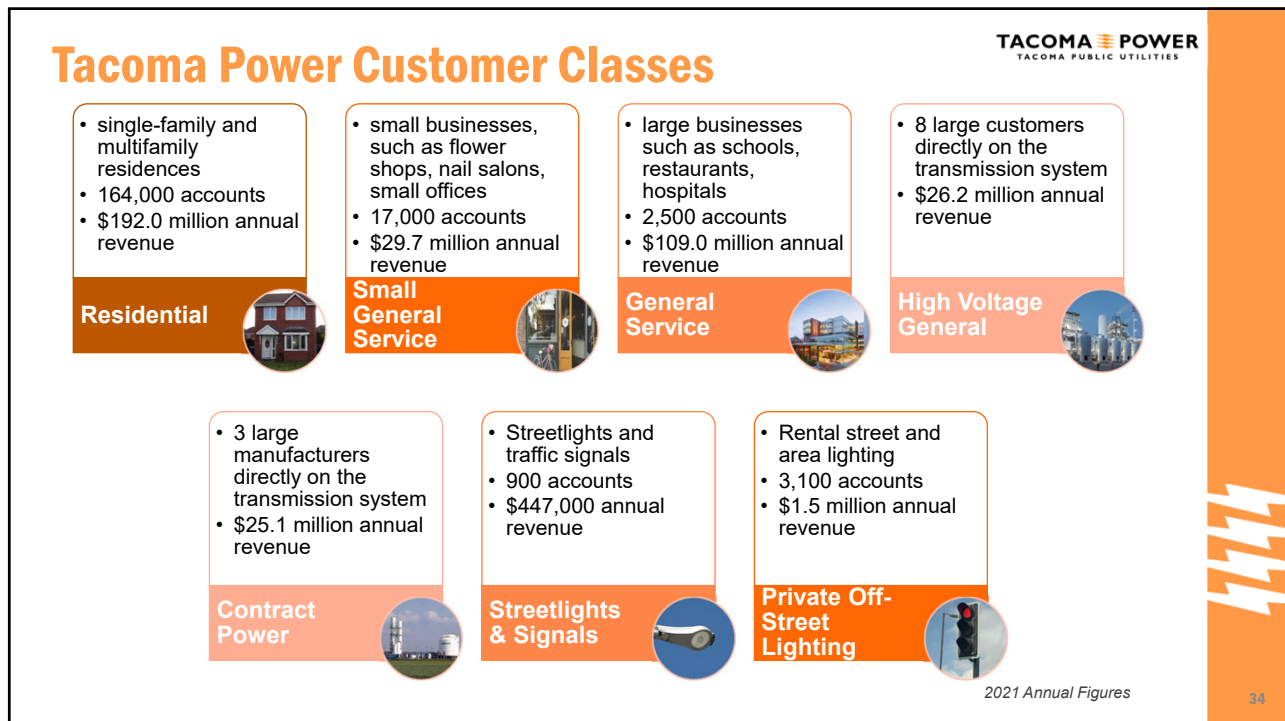
TACOMA SEWER

32



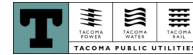


33



34

## Five Service Credits with BCAP+



*Households would receive an automatic credit regardless of payment.  
Additional BCAP Plus credit could be achieved with full, on-time payments.*

| 2023 BCAP Plus |                  |                   |                |                 |
|----------------|------------------|-------------------|----------------|-----------------|
| Service        | Automatic Credit | Achievable Credit | Monthly Total  | Annual Total    |
| Power          | \$21.60          | \$21              | \$42.60        | \$511.20        |
| Water          | \$4              | \$5               | \$9            | \$108           |
| Wastewater     | \$6              | \$7               | \$13           | \$156           |
| Stormwater     | \$3              | \$3               | \$6            | \$72            |
| Solid Waste    | \$5              | \$5               | \$10           | \$120           |
| <b>Total *</b> | <b>\$39.60</b>   | <b>\$41</b>       | <b>\$80.60</b> | <b>\$967.20</b> |

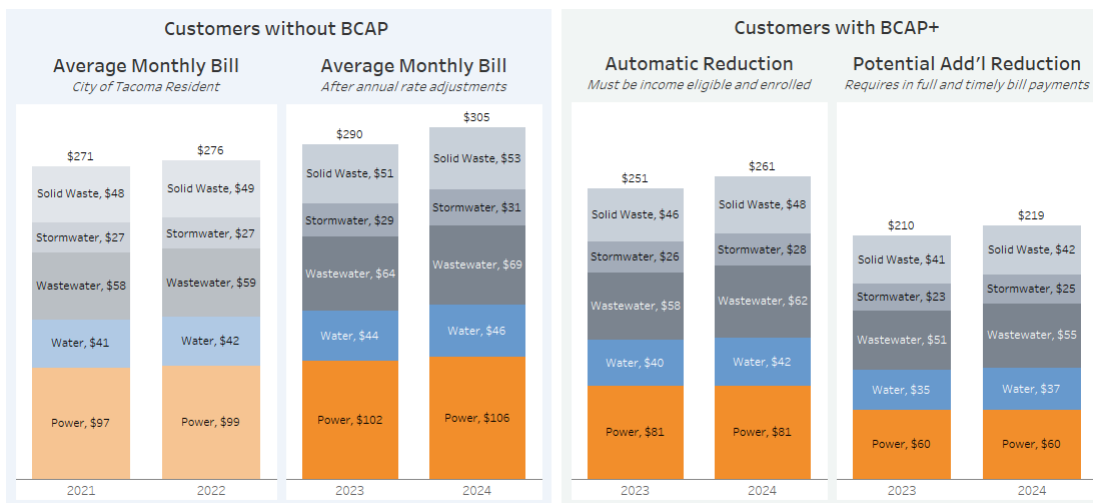
| 2024 BCAP Plus |                  |                   |                |                   |
|----------------|------------------|-------------------|----------------|-------------------|
| Service        | Automatic Credit | Achievable Credit | Monthly Total  | Annual Total      |
| Power          | \$25.30          | \$21              | \$46.30        | \$555.60          |
| Water          | \$4              | \$5               | \$9            | \$108             |
| Wastewater     | \$7              | \$7               | \$14           | \$168             |
| Stormwater     | \$3              | \$3               | \$6            | \$72              |
| Solid Waste    | \$5              | \$6               | \$11           | \$132             |
| <b>Total *</b> | <b>\$44.30</b>   | <b>\$42</b>       | <b>\$86.30</b> | <b>\$1,035.60</b> |

\* The total only applies to residential customers receiving all 5 utility services.

## Five Service Bill with BCAP+



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



\* For the total 5 service bill, proposed rate adjustments equate to an average of 5.1% increase per year in 2023 and 2024.

## Peer Utility Rates/Rate Proposals

*Rates are preliminary except where otherwise noted*

| Utility  | 2023                     | 2024                     |
|----------|--------------------------|--------------------------|
| Lakewood | No Available Information | No Available Information |
| Puyallup | 3.0% - 9.0%              | 3.0% - 9.0%              |
| Everett  | 2.56%*                   | 2.60%*                   |
| Tacoma   | 4.2%                     | 4.2%                     |
| Bellevue | 5.9%                     | 4.7%                     |
| Seattle  | 3.6%*                    | 4.0%                     |
| Portland | 7.7%*                    | No Available Information |

\* Approved rate adjustment

## Peer Utility Rate Proposals

| Utility              | 2023                     | 2024                     |
|----------------------|--------------------------|--------------------------|
| City of Seattle      | 4.5%                     | 4.5%                     |
| Puget Sound Energy   | 13.6%                    | 2.5%                     |
| Peninsula Light Co.  | No available information | No available information |
| Snohomish County PUD | 2.0%                     | 1.5%                     |
| Avista Corp.         | 9.5%                     | 2.8%                     |

*All rate proposals are preliminary and have not been approved*