



Tacoma Water Long-Range Financial Plan

City of Tacoma | Tacoma Public Utilities | Tacoma Water

Government Performance and Finance Committee

February 15, 2022



1

OVERVIEW



Summary


- Tacoma Water utilizes long-range financial planning to model financing needs, debt service, and rate projections. By formalizing this planning into a document, the plan serves as a communication tool for the utility, policymakers, investors, and ratepayers.
- This initial briefing is to familiarize the GPFC with the plan. As Tacoma Water will be updating its plan as a part of the 2023-2024 budget and rates process, staff will return in the fall with an update, which will include the impact of the next biennium to Tacoma Water in the long-term.

What is an LRF?

- **A strategic financial plan:**
 - Documents financial planning and forecasting
 - Provides a long-term view, generally five to ten years
 - Ensures financial direction is in alignment with strategic goals
- **Our LRF:**
 - Promotes our mission to provide clean, reliable water
 - Supports our objective to keep our rates as low as is responsible and helps us provide our customers with predictable, stable rates
 - Serves as a tool to communicate our long-term plan to Board and Council members and help inform policy discussions
 - Demonstrates Tacoma Water's financial sustainability and stability to our stakeholders including current and potential investors and rating agencies

2

2




LRFP CONTENTS

<p>1. Introduction</p> <p>Introducing our Long-Range Financial Plan and its highlights</p>	<p>6. Base Case Scenario Planning</p> <p>The base case scenario models current assumptions and provides the most probable set of outcomes</p>
<p>2. Guiding our Long-Range Financial Plan</p> <p>Policies and principles that guide our long-range financial planning</p>	<p>7. Risk Factors and Scenario Planning</p> <p>Includes internal and external factors impacting our utility</p>
<p>3. Background</p> <p>Learn about our utility and how we develop budget and rates</p>	<p>8. The Impact of the Pandemic</p> <p>How the pandemic impacted our utility, customers, and how we responded</p>
<p>4. The Foundation</p> <p>An overview of our expense, revenue, credit, debt, and reserves</p>	<p>9. Implementing the Plan</p> <p>A summary and looking forward</p>
<p>5. Regional Water Supply System</p> <p>Learn about the Regional Water Supply System</p>	<p>10. Appendix</p> <p>A little more detail about the contents of our scenarios</p>

3

3



FOUNDATION

These elements form the foundation of the LRFP and are used to inform our base case. Actual performance is likely to vary from these assumptions and may result in changes to our projected rate adjustments. We've grouped the elements into three subsections:

<p>Expense Assumptions</p> <p>It costs a lot to maintain our infrastructure and deliver clean, reliable water to our customers. We invest in our employees, asset management, data, analytics, and technology as we continue to innovate and strive to become more efficient and effective.</p>	<p>Revenue Assumptions</p> <p>Our revenue primarily comes from water sales. In addition, we have several sources of miscellaneous revenue to help reduce the amount of revenue that we need to collect from our customers.</p>	<p>Credit, Debt and Reserves</p> <p>Our plan provides a balanced approach to managing reserves, revenue bonds, and low-interest loan or grant opportunities. Strong financial metrics and credit ratings allow us to provide the lowest costs for our customers and ensure our long-term financial sustainability.</p>
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4

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RISKS & OPPORTUNITIES



Planning for Uncertainties

The only thing that is certain about any plan that looks so far ahead is that things will be different from what we planned. For this reason, it is important to identify possible uncertainties, evaluate their potential impacts and incorporate strategies to mitigate them.

We use our Rate and Financial Model to help us:

- Analyze and compare assumptions
- Determine a range of outcomes
- Project fund balances
- Estimate debt service coverage levels

The further out we forecast costs and revenues, the more uncertainty there is surrounding these estimates. Therefore, we have modeled some scenarios to address potential future conditions that may impact us. The following provides an example of the risks considered as part of this process, and is not intended to be comprehensive or exhaustive.

Internal Risks

- Compliance with Regulatory Mandates
- Supply Portfolio
- Technology Changes
- Aging Infrastructure
- Employee Expectations


External Risks

- Climate Change: Droughts, Floods, and Wildfire
- Weather Fluctuations
- Seismic Events
- Economic Cycles and Inflation
- Policy or Regulatory Changes
- Environmental Regulations
- Changes in Customer Demand
- A Pandemic

5

5

THE BASE CASE



The Base Case & Scenarios

To get anywhere, you have to start somewhere, and for our LRFP, that starting point is called the **Base Case**. This base case scenario is what we believe is the most probable set of outcomes, given estimates and assumptions that are based on history and our best knowledge today.

Once we establish the base case scenario, we can adjust individual assumptions to develop **Scenarios**. This adjustment helps identify uncertainties, evaluate possible impacts and develop strategies to mitigate the impacts.

The Base Case has been updated with 2020 year-end information that was not available during 2021-2022 budget development. These changes did not result in significant differences from the plan that was shared during that process.

Projected Base Case Liquidity


Projected Base Case Debt Service Coverage Ratios

Projected Base Case Rates

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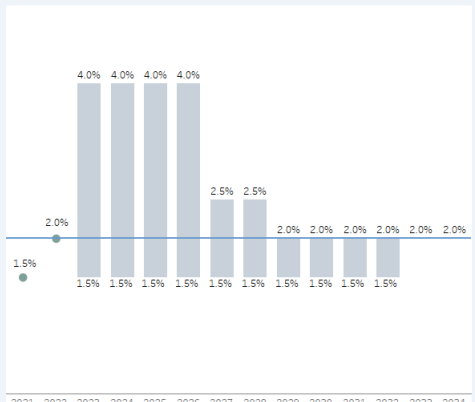
SUMMARY OF SCENARIOS

Scenarios for the 2021/2022 Biennium

The further out in time we forecast costs and revenues, the more uncertainty exists around these estimates. Therefore, we have modeled some scenarios to address potential future conditions that may impact us.

The scenarios shown represent a range of possible outcomes, which help us assess potential financial risks and opportunities. The scenarios shown here do not represent all scenarios we develop and analyze. Scenario development helps us analyze potential variances from the base case and develop a projected range of rate impacts.


Projected Range of System Average Rate Adjustments



Year	Approved Rates	Base Case
2021	2.0%	1.5%
2022	2.0%	1.5%
2023	2.0%	1.5%
2024	2.0%	1.5%
2025	2.0%	1.5%
2026	2.0%	1.5%
2027	2.0%	1.5%
2028	2.0%	1.5%
2029	2.0%	1.5%
2030	2.0%	1.5%
2031	2.0%	1.5%
2032	2.0%	1.5%
2033	2.0%	1.5%
2034	2.0%	1.5%

7

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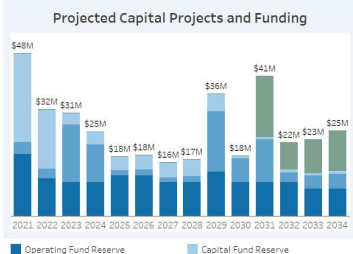


SUMMARY

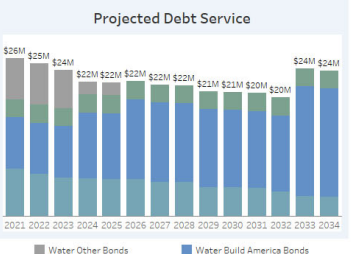
Anticipating Projects, Optimizing Debt, and Stabilizing Rates

We base these projections on available information as of 2020. If there are known circumstances that we need to plan for in 10 years and beyond, stable rate adjustments will put us in a good position for potential pinch points such as unforeseen revenue loss and increases in debt service.

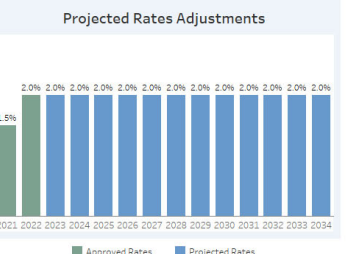
Projected Capital Projects and Funding



Projected Debt Service



Projected Rates Adjustments



8

8

NEXT STEPS



Looking Forward: Annual Updates and Future Planning

We plan to update the LRFPS each year to ensure our assumptions reflect current and evolving conditions and adjust as needed. This includes updating the LRFPS with 2021 actuals and budgeting assumptions for 2023-2024 biennium by the summer of 2022.

Some potential considerations that may require us to adapt are:

- **Pandemic.** We will continue monitoring impacts such as customer arrearages, supply chain disruptions, and consumption changes.
- **Advanced Meters.** Once we fully exchange our meters, we will have the opportunity to utilize near real-time data to inform decision-making and enhance customer service (including assistance).
- **Supply Modeling.** With our changing customer demand profile, we will pivot modeling to market regional opportunities for increased revenue.

9

9



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10