



# 2023-2024 Budget & Rate Proposal

**City of Tacoma | Tacoma Public Utilities**  
**Joint Study Session | October 11, 2022**

## AGENDA

- Department Overview
- 2021-2022 Major Accomplishments
- Budget & Rates Strategy
- Challenges & Considerations
- 2023-2024 Goals
- Biennial Budget Comparison
- Proposed Rate Adjustments
- Rate Comparisons
- Commercial/Industrial and Special Power Rates
- Public Outreach
- Customer Assistance Program
- Summary





# Tacoma Public Utilities provides services that are vital to our quality of life



## 2021-2022 Major Accomplishments



- Successfully Navigated Broad Pandemic Disruptions and Complications
- Designed Greatly Enhanced Customer Assistance Program
- Implemented Post COVID Account Recovery Plan
- Use of Equity Index in Utility Service Delivery Models
- Expanded Diversity in TPU Internship Programs
- Launched Improved Customer Engagement Portal
- Secured CMAQ Funds for Battery Electric Locomotives
- Secured \$220M Investment for Howard Hanson Dam, significant to salmon restoration
- Tacoma Water Credit Rating Upgraded to AA+ from S&P

# Budget & Rates Strategy



- Supports Strategic Plans
- Aligns with Strategic Directives
- Follows Rate and Financial Policies
- Considers Long-Term Sustainability
- Mitigates Rate Impacts, especially to the Financially Vulnerable

# Challenges & Considerations



- Inflation
- Supply chain impacts
- Wage considerations:
  - Represented staff - General and market wage adjustments
  - Non-Represented staff - Uncertainty in classification & compensation
  - Recruitment and Retention
- Rail business cycle impacts
- Lower rate adjustments in 2021
- Reinstating deferred resource requests from 2021/22
- Aging receivables from pandemic

# 2023-2024 Goals



- Deliver Safe, Equitable, Reliable and Affordable Services
- Provide Enhanced Bill Assistance to Those Who Need it Most
- Carefully Navigate Customer Arrearages
- Complete Advanced Meter Installation
- Enhance Customer Experience Enabled by Advanced Meter Capabilities
- Advance Decarbonization and Exhibit Environmental Leadership

## Biennial Budget Comparison



(\$ in millions)	21/22 Budget*	23/24 Budget	Budget to Budget
O&M Expenses			
Tacoma Power	\$809.3	\$940.6	\$131.3
Tacoma Water	153.0	178.5	25.5
Tacoma Rail	69.6	62.4	(7.2)
Total Operations & Maintenance	1,031.9	1,181.5	149.6
Debt Service			
Tacoma Power	65.8	68.1	2.3
Tacoma Water	50.6	46.1	(4.5)
Tacoma Rail	1.8	1.9	.1
Total Debt Service	118.2	116.1	(2.1)
Capital Outlay (Revenue Financed)			
Tacoma Power	60.2	82.6	22.4
Tacoma Water	79.3	72.8	(6.5)
Tacoma Rail	7.0	6.1	(.9)
Total Capital Outlay	146.5	161.5	15.0
<b>Total Operating Divisions</b>	<b>\$1,296.6</b>	<b>\$1,459.1</b>	<b>\$162.5</b>

\*Includes 2021-22 Mid Biennium Budget Modifications for Tacoma Power and Tacoma Water



# Proposed Rate Adjustments Held Below Inflation

SD2  
Financial  
StabilitySD3  
Rates

## TACOMA POWER

- Proposed 3.5% system average rate increases in 2023 and 2024 (beginning 04-01-23)
- Average monthly increases - **Residential**: \$3.70 in 2023; \$3.70 in 2024

## TACOMA WATER

- Proposed 4% system average rate increases in 2023 and 2024 (beginning 01-01-23)
- Average monthly increases 2023 - **Residential**: \$1.73 inside / \$2.05 outside City of Tacoma
- Average monthly increases 2024 - **Residential**: \$1.80 inside / \$2.11 outside City of Tacoma

## TACOMA RAIL

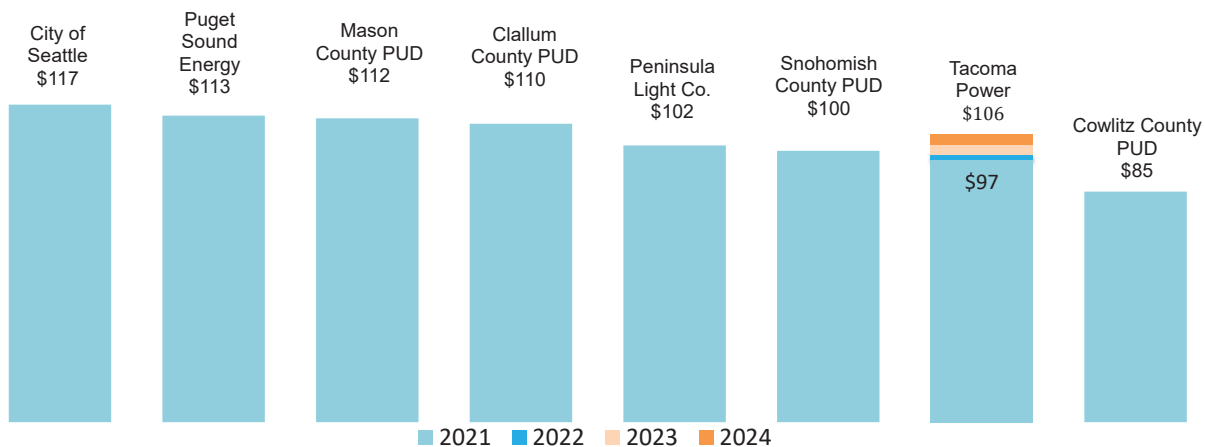
- Proposed 3%-8% based on traffic types to tariff rates in 2023 & 2024 (beginning 01-01-23)

\* Rates for Tacoma Power and Tacoma Water are slightly higher in University Place due to a 6% utility tax from the City of U.P.

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## Tacoma Power Residential Rate Comparisons

### Comparative Monthly Bills



Source: Energy Information Administration, Form 861, 2021.

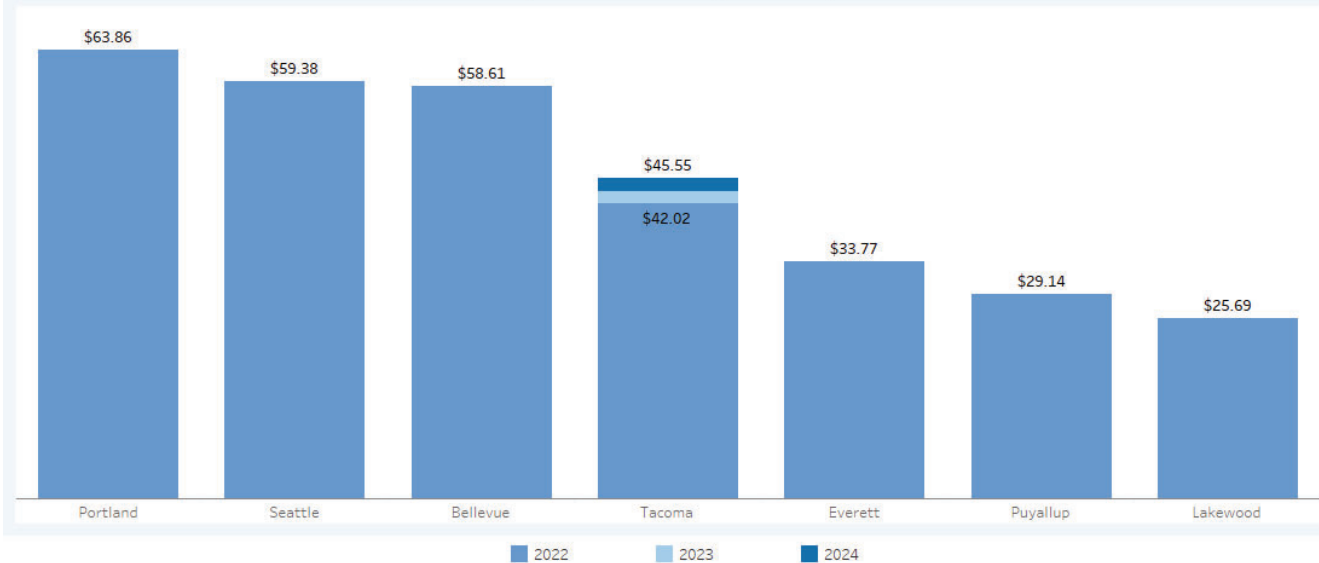
Tacoma Power orange shaded area represents the additional cents per kWh from a 3.5% annual rate increase in 2023 and 2024.

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# Tacoma Water Residential Rate Comparisons

SD2  
Financial  
StabilitySD3  
Rates

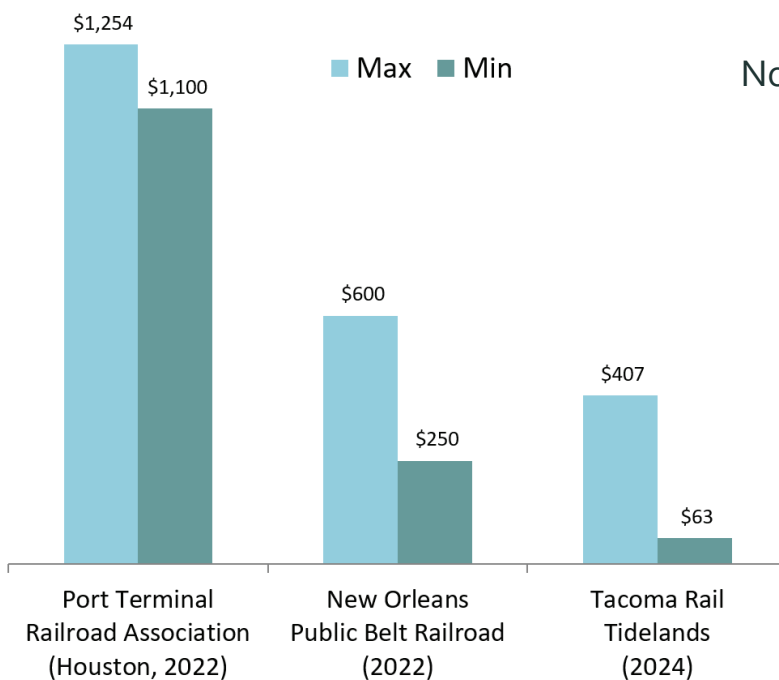
2022 Regional Comparison of Average Monthly Residential Bills



*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.*

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# Tacoma Rail Tariff Rate Comparisons

SD2  
Financial  
StabilitySD3  
Rates

## Northwest Seaport Alliance (NWSA)

- July 1st, 2022
- General increase of 6%
- Specific rate increases of more than 6%

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# Tacoma Power Commercial & Industrial Rate Design

Schedule B	Small General		
	Current	2023	2024
<b>Customer Charge</b>	<b>\$ 24.35</b>	<b>\$ 26.65</b>	<b>\$ 28.95</b>
Energy Charge	4.4616¢	4.4616¢	4.4616¢
Delivery Charge	3.8014¢	3.8014¢	3.8014¢
<b>Total per-kWh Charges</b>	<b>8.2630¢</b>	<b>8.2630¢</b>	<b>8.2630¢</b>

Industrial classes  
(HVG and CP)  
maintain current rates

Schedule G	General		
	Current	2021	2022
<b>Customer Charge</b>	\$82.80	\$82.80	\$82.80
<b>Energy Charge</b>	5.1726¢	5.4780¢	5.8014¢
<b>Delivery Charge</b>	\$8.81	\$9.12	\$9.44

Preliminary, subject to change.

## Tacoma Power Special Rates



### EV Charging Rate

- Update public charging fees to comply with **new state law** (SB5192)
- Legislation requires changing fee from **time-based** (\$/hr) to **volumetric** (\$/kWh)

### Small Commercial Prepay

- Response to **customer requests**
- Ability to **pay anytime** allows business owners to conduct business on their schedule

### HVG Rate Language Cleanup

- Clarify **eligibility requirements** for HVG rate schedule

### Electrical Services Fees

- Update electric permit and inspection fees, pole fees to **more fully recover costs**

# Communications and Outreach

SD4  
Stakeholder  
EngagementSD10  
Government  
Relations

## Customer Facing Webpage: [MyTPU.org/Rates](https://mytpu.org/rates)

**The Source of Valuable Budget and Rates Information:** (over 15,000 views)

- Find Public Presentations
- General Budget and Rate Information
- Upcoming Events
- Subscribe to Receive Regular Updates
- Ways to Manage Bills
- Links to Customer Assistance (Local and Federal options)
- Submit Comments or Questions

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# Extensive Outreach Efforts

SD4  
Stakeholder  
EngagementSD10  
Government  
Relations

## Virtual, Hybrid & In-Person Engagement Coordinated with Environmental Services

- May 26 Hybrid "General Listening Session"
- Partnering with existing events of organizations
- Neighborhood Councils
- Block Groups
- Chamber of Commerce
- Economic Development Organizations
- Franchise Cities
- Local Government Partners
- Key Accounts, including JBLM
- Business Districts

### Community Organizations Reached

(Examples)

- Korean Women's Association
- Rotary (Tacoma and Lakewood)
- Barbershop Talk
- Safe Streets
- Asian Pacific Cultural Center
- Metro Parks
- Black Collective

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# Enhanced Customer Assistance

## Bill Credit Assistance Plan

SD1  
Equity and  
InclusionSD4  
Stakeholder  
EngagementSD13  
Customer  
Service

### 2021-2022 Enhancements (BCAP)

- Expanded access through higher qualifying income levels
- Increased bill credit amounts
- Eligible customers received monthly bill credits with full, on-time payments

### 2023-2024 Proposed Enhancements (BCAP Plus)

- Customers would receive monthly bill credits in two ways:
  - Automatic credit** - Households would receive an automatic credit regardless of payment
  - Achievable credit** – Add'l BCAP Plus credit could be achieved with full, on-time payments
- Significant increase to electric bill credits - offsets the fixed monthly charge

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## Five Service Credits with BCAP Plus

SD1  
Equity and  
InclusionSD4  
Stakeholder  
EngagementSD13  
Customer  
Service

*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>

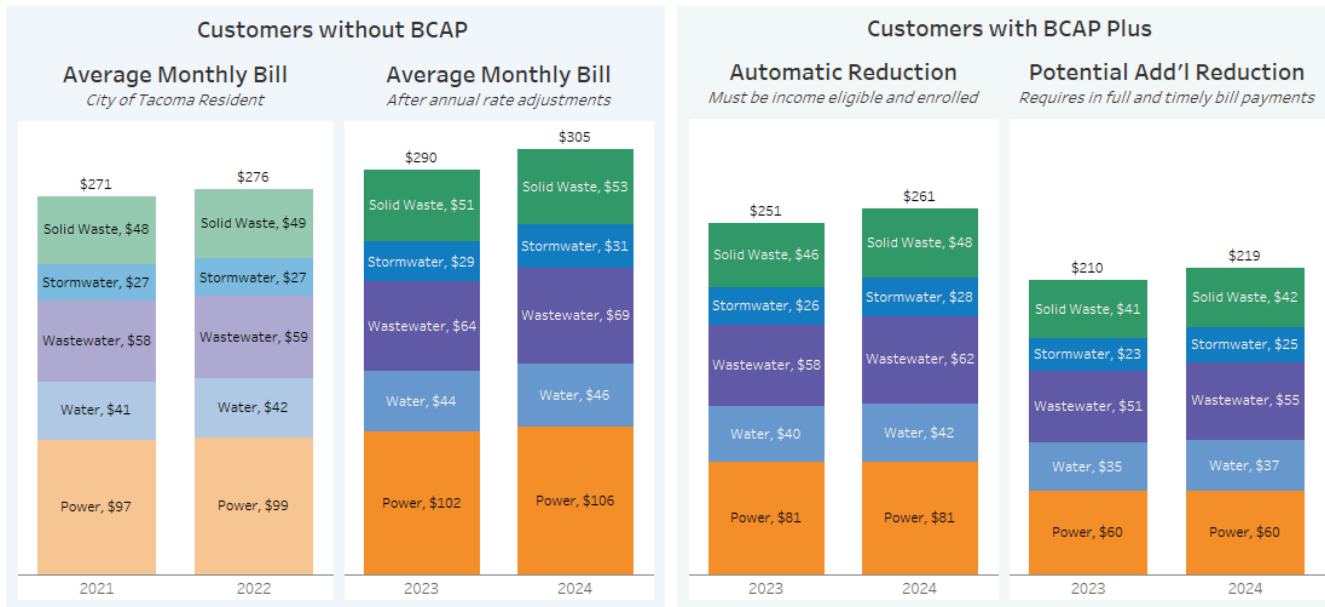
2024 BCAP Plus				
Service	Automatic Credit	Achievable Credit	Monthly Total	Annual Total
Power	\$25.30	\$21	\$46.30	\$555.60
Water	\$4	\$5	\$9	\$108
Wastewater	\$7	\$7	\$14	\$168
Stormwater	\$3	\$3	\$6	\$72
Solid Waste	\$5	\$6	\$11	\$132
<b>Total *</b>	<b>\$44.30</b>	<b>\$42</b>	<b>\$86.30</b>	<b>\$1,035.60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

\* The total is an example for eligible residential customers receiving all 5 utility services with full and on-time payments.

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# Five Service Bill with BCAP Plus

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.

SD1  
Equity and  
Inclusion



SD4  
Stakeholder  
Engagement



SD13  
Customer  
Service



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## Additional Customer Assistance Opportunities

### Holistic approach

- Customers can obtain community resources to help achieve the additional BCAP credit:
  - Low Income Home Energy Assistance Program (LIHEAP) - available to qualifying households every year regardless of bill status
  - Many churches and non-profits offer assistance with utilities
- Financial Education Credit
  - A one-time account credit up to \$160 is available for customers who complete a financial education program offered by one of our approved community partners (Sound Outreach, Goodwill, and Centers for Strong Families)
- Energy & Water Savings – tips and programs
  - Heat pumps, hybrid water heater, insulation, windows, thermostats, showerheads, smart irrigation, etc.)



SD1  
Equity and  
Inclusion



SD4  
Stakeholder  
Engagement



SD13  
Customer  
Service



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# Looking Ahead



## Public Utility Board Reviews (October)

10/12: 1<sup>st</sup> Reading of TPU Preliminary Budget & Rate Ordinances

10/26: 2<sup>nd</sup> Reading (and adoption) of TPU Preliminary Budget & Rate Ordinances

## City Council Reviews (November)

11/15: 1<sup>st</sup> Reading of Budget & Rate Ordinances

11/22: 2<sup>nd</sup> Reading (and adoption) of Budget & Rate Ordinances

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# SUMMARY



- The budget **follows strategic plans** and enables the provision of **safe, equitable, reliable and affordable service delivery**
- Measures taken to keep **budgets and rates below inflation**
- Proposal aligns with policies to support **gradual rate adjustments** that are as **low as is responsible**
- Significant **assistance program enhancements** will help the most vulnerable

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# APPENDIX



## Proposed TPU Rate and Financial Policy Changes

*\*\* These changes have recently been before the Public Utility Board (PUB) and the Government Performance and Finance Committee (GPFC)*

## Tacoma Water: Purpose and Guiding Objectives



### Purpose

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

### Guiding Objectives

- a. Water Rates Should Ensure Adequate Supply.
- b. Water Rates Should Be As Low As Is Responsible.
- c. Water Rates Shall Be Fair.
- d. Water Rates Should Be Stable and Understandable.
- e. Water Rates Should Be the Product of Customer Involvement.

**WATER RATE AND FINANCIAL POLICY**  
TACOMA PUBLIC UTILITIES  
WATER DIVISION

November 2018

Adopted by Public Utility Board Resolution U-11028 on October 24, 2018  
Adopted by City Council Resolution No. 40160 on November 13, 2018

# Tacoma Water: Policy Summary



Revenue Requirement	Cost-Based	Stable Rates	Financial Metrics	Rate Adjustments	Affordability
<ul style="list-style-type: none"> <li>Regular reviews with full study every two years</li> <li>Study includes projected revenue, expenses and capital improvements</li> </ul>	<ul style="list-style-type: none"> <li>Cost-of-Service Study determines the cost of serving each customer class</li> <li>Allocates class responsibility for projected expenses of the system</li> </ul>	<ul style="list-style-type: none"> <li>Water Rates Should Be As Low As Is Responsible</li> <li>Water Rates Should Be Stable and Understandable</li> <li>To the extent possible, apply gradualism in rate adjustments</li> </ul>	<ul style="list-style-type: none"> <li>60 days of current budgeted expenditures</li> <li>Capital: <b>\$2M</b> minimum in SDC Fund and <b>1%</b> of original plant in Capital Reserve</li> <li>Senior Debt Service Coverage above <b>1.50x</b></li> <li>All In Debt Service Coverage above <b>1.25x</b></li> </ul>	<ul style="list-style-type: none"> <li>Sufficient to meet Tacoma Water budgets</li> <li>Revenue collected to maintain financial sufficiency</li> <li>Short and long-run rate impacts presented</li> <li>Minimize long-run costs to rate-payer</li> </ul>	<ul style="list-style-type: none"> <li>Special consideration for low-income senior and/or disabled customers</li> </ul>

## Tacoma Water: Reviewing and Testing our Policy



Our review shows the current Water Rate and Financial Policy is sound.

### Quantitative Review

- In 2020, we developed a risk reserve analysis model, providing rigor behind our recommended reserve levels\*
- Staff will conduct annual updates to incorporate actual results and updated forecasts to retest policy sufficiency
- Based on our modeling, we have sufficient balances in our Operating and Capital Funds to absorb modeled risks and planned spend-down over the next 10 years
- We recommend maintaining our current policy levels for minimum reserve requirements

\* Our work with the risk reserve analysis model is discussed in more detail in our [Tacoma Water Long-Range Financial Plan](#) (LRFP)

### Qualitative Review

- In 2018, we enhanced our policy addressing the needs of low-income customers
- In 2020, the COVID pandemic highlighted other areas of continued focus that warrant potential policy additions
- The positive financial impact of our commitment to gradual rate adjustments is substantiated in our LRFP published in 2021
- Equity, affordability, and climate change are addressed in the PUB Strategic Directives (SDs), Council Strategic Priorities, and emphasized in Tacoma Water but not explicitly stated in our policy
- We recommend highlighting long-term financial planning, gradualism, equity, affordability, and climate change in our policy as areas of focus

# Tacoma Water: Recommended Changes



We have recommended updates to modernize existing language and highlight important areas of focus.

## A. Water Rates Should Ensure Adequate Supply

- Objective: Operationalize equity and call out climate change.
- Proposed Language: *"Climate change and equity will be incorporated when planning for investments and improvements to the water system."*

## B. Water Rates Should Be As Low As Is Responsible

- Objective: Emphasize focus on affordability for customers.
- Proposed Language: *"As rate adjustment proposals are developed, we will monitor the affordability of our rates and assess ways to mitigate impacts to our customers."*

## C. Water Rates Shall Be Fair

- Objective: Expand the current language to include equity and assistance programs.
- Proposed Language: "C. Water Rates Shall Be Fair *[and Equitable]*"
- Proposed Language: "2. An embedded cost-of-service study will determine the cost of serving each customer class, allocation of class responsibility for the projected expenses, and proposed rates sufficient to *equitably* recover projected expenses."
- Proposed Language: "15. Inter-class revenue requirements adjustments significantly in excess of the system average may be allocated proportionately to the remaining customer classes. Subsequent increases for the subsidized class will be set *equitably and* appropriately until cost-of-service rates are reestablished.
- Proposed Language: "16. The needs of low-income, senior, and disabled water customers will be considered when establishing rate *[s]* levels, providing bill assistance, *developing and implementing customer programs*, and offering financial education."

# Tacoma Water: Recommended Changes



We have recommended updates to modernize existing language and highlight important areas of focus.

## D. Water Rates Should Be Stable and Understandable

- Objective: Emphasize objective on gradual rate adjustments through long-term financial planning.
- Proposed Language: "D. Water Rates Should Be ~~Stable and Understandable~~ *[Based on Long-Term Financial Planning and Adjusted Gradually]*"

## E. Water Rates Should Be the Product of Customer Involvement

- Objective: Expand the current language to include equity
- Proposed Language: "3. Tacoma Water will gather citizen input and provide *equitable access to* information about its rate-making process. Any proposal to be discussed will be made available as far in advance of its public hearing as is practical."
- Proposed Language: "6. The Utility staff will respond to requests from the Neighborhood Councils and other local organizations to the Community and Media Services section of the Utility and provide ~~speakers to disseminate~~ *equitable access to* information on water rates, rate policy or rate assistance programs."



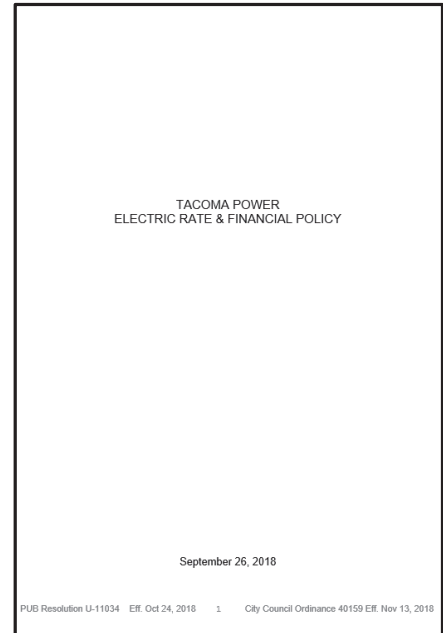
# Tacoma Power: Purpose and Policy Outline

## Purpose

Tacoma Power's Electric Rate and Financial Policy gives direction to future short-term and long-term planning decisions and helps ensure that reliable service is provided to all customers at the lowest possible cost consistent with prudent utility management.

## Elements

- I. Rate Setting Objectives
- II. Rate Review Process
- III. Rate Setting Policies
- IV. Financial Targets and Rate Setting Practices
- V. Rate Stabilization Fund



# Tacoma Power: Policy Summary



Revenue Requirement	Cost-Based	Stable Rates	Financial Metrics	Rate Adjustments	Affordability
<ul style="list-style-type: none"> <li>Monthly reviews with full study every two years</li> <li>Study includes projected load, hydro conditions, revenues, expenses and capital improvements</li> </ul>	<ul style="list-style-type: none"> <li>Cost-of-Service Study determines the cost of serving each customer class</li> <li>Allocates class responsibility for projected expenses of the system</li> </ul>	<ul style="list-style-type: none"> <li>Power rates should be stable and not exceed general inflationary trends</li> <li>To the extent possible, apply gradualism in rate adjustments</li> </ul>	<ul style="list-style-type: none"> <li>90 days of current budgeted expenditures</li> <li>Debt Service Coverage above <b>1.50x</b> based on adverse water revenue projections</li> <li>Debt Service Coverage above <b>1.80x</b> based on average water revenue projections</li> <li>Liquidity levels set to maintain or improve current debt ratings at AA-level</li> </ul>	<ul style="list-style-type: none"> <li>Sufficient to meet Tacoma Power budgets</li> <li>Revenue collected to maintain financial sufficiency</li> <li>Short and long-run rate impacts evaluated</li> </ul>	<ul style="list-style-type: none"> <li>Special consideration for low-income senior and/or disabled customers</li> </ul>

# Tacoma Power: Reviewing and Testing our Policy



## Quantitative Review

- In 2010, we funded a Rate Stabilization Fund\* (RSF) to stabilize rates and maintain AA-rated utility metrics.
- Staff conducts annual updates to incorporate actual results and updated forecasts to retest the sufficiency of the RSF balance.
- Based on our modeling, we do not need to change our policies around liquidity or the Rate Stabilization Fund balance.

\*Our plans to use the Rate Stabilization Fund is discussed in more detail in our [Tacoma Power Long-Range Financial Plan](#) (LRFP).

## Qualitative Review

- In 2018, we enhanced our policy addressing the needs of low-income customers and formalized our Long-Range Financial Plan with a long-term view on gradual rate adjustments
- Equity, affordability, and climate change are addressed in the PUB Strategic Directives (SDs), Council Strategic Priorities, but were not explicitly stated in Tacoma Power's policy
- We recommend highlighting long-term financial planning, gradualism, equity, affordability, and climate change in our policy

# Tacoma Power: Recommended Changes



We recommend updates to modernize existing language and highlight important areas of focus.

## I. A. Serving Customer Needs In a Competitive Electric Industry

- Objective: Operationalize equity
- Proposed Language: *"Tacoma Power's financial planning and rate-setting process aims to deliver to all households safe, reliable, and affordable electric services and provide equitable access to information."*

## I. G. Low Income Customers

- Objective: Emphasize our focus on affordability for customers.
- Proposed Language: *"As rate adjustments are made, we will monitor the affordability of our rates and assess ways to mitigate impact on customers."*
- Objective: Expand current language to include customer programs.
- Proposed Language: *"The needs of low-income, senior, and disabled electric customers will be considered when establishing rate[s] levels, providing bill assistance, developing and implementing customer programs and offering financial education."*

## I. D. Review of Major Commitments

- Objective: Call out climate change
- Proposed Language: *"Tacoma Power will plan for, and consider ways of mitigating, the impacts of climate change on our electric system in an affordable manner."*

## I. J. Rate Stability

- Objective: Emphasize our objective on gradual rate adjustments through long-term financial planning.
- Proposed Language: *"To the extent possible, rate adjustments should be stable and consistent level across years, adjusted gradually through long-term financial planning, and not exceed general inflationary trends."*



# Tacoma Rail: Purpose and Guiding Objectives



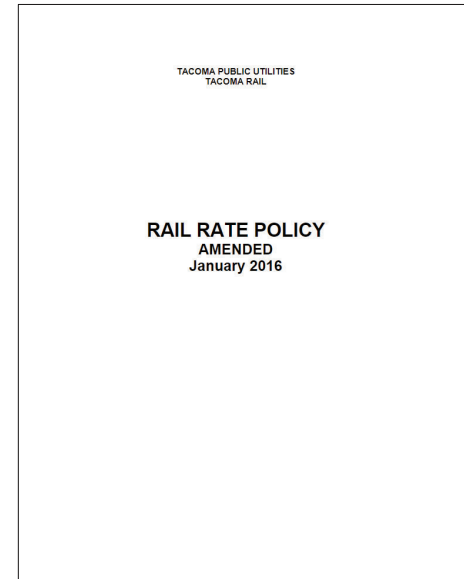
## Purpose

The Tacoma Rail Rate Policy provides for rates adequate to ensure the operation, maintenance, and construction of the Department's railway system while providing safe, cost effective, and reliable service to customers within Tacoma Rail's service area.

## Guiding Objectives

Rail rates should:

- A. Be cost based and adequate to recover costs
- B. Be stable
- C. Ensure sufficient resource planning and acquisition for reliable service while being as competitive as possible
- D. Have a customer involvement and review process



# Tacoma Rail: Policy Summary



Revenue Requirement	Cost-Based	Stable Rates	Financial Metrics	Rate Adjustments
<ul style="list-style-type: none"> <li>• Rates reviewed every two years at a minimum</li> <li>• Full revenue requirement study performed every two years</li> </ul>	<ul style="list-style-type: none"> <li>• Utilize an average embedded cost-of-service methodology</li> <li>• Allocates rate class responsibility for projected expenses of the system</li> <li>• Fuel surcharges shall be based on actual costs over an established threshold</li> </ul>	<ul style="list-style-type: none"> <li>• To the extent possible, rate adjustments will not exceed general inflationary trends</li> <li>• The term of debt financing will not be longer than the useful life of the capital project</li> </ul>	<ul style="list-style-type: none"> <li>• Minimum cash balance of 60 days of current budgeted expenditures</li> <li>• The limit of debt to total assets shall be set up to a maximum of 40%</li> <li>• Debt service coverage ratio shall be at least 1.5x</li> </ul>	<ul style="list-style-type: none"> <li>• Rates based on best estimates of rail volume</li> <li>• Rates will be designed to meet the changing needs of the customer</li> <li>• Rate classes may be established by blending customers</li> <li>• The character and volume of service is used to apportion costs, developing rates, and tariff revisions</li> </ul>

# Tacoma Rail: Recommended Changes



We recommend updates to modernize existing language and highlight important areas of focus.

## B. Rail rates should be stable.

- Objective: Establish a Volume Investment Fund
- Proposed Language: Rates will be based on best estimates of rail volume. *Operating revenue surpluses due to unanticipated rail volume growth may be applied to the Volume Investment Fund, a subfund of Tacoma Rail's enterprise fund. To establish a balance to the fund, an initial \$500,000 will be transferred to the subfund when created.*

## C. Rail rates should ensure sufficient resource planning and acquisition for reliable service while being as competitive as possible.

- Objective: Establish a Volume Investment Fund
- Proposed Language: *Tacoma Rail maintains a Volume Investment Fund, a subfund of Tacoma Rail's enterprise fund, that provides revenue requirement flexibility during times of unanticipated economic downturns or capital spending that may be used to offset the necessity of rate increases. Use of the fund will be limited to:*
  - Workforce stability to ensure adequate staffing retention for service reliability and resiliency for when rail volumes rebound after a downturn.*
  - Locomotive upgrades to sustain Tacoma Rail's environmental leadership goals.*
  - Timely acquisition, replacement and upgrade of infrastructure and capital assets.*
  - Grant or debt matching opportunities.*