

# **TACOMA PUBLIC UTILITIES**

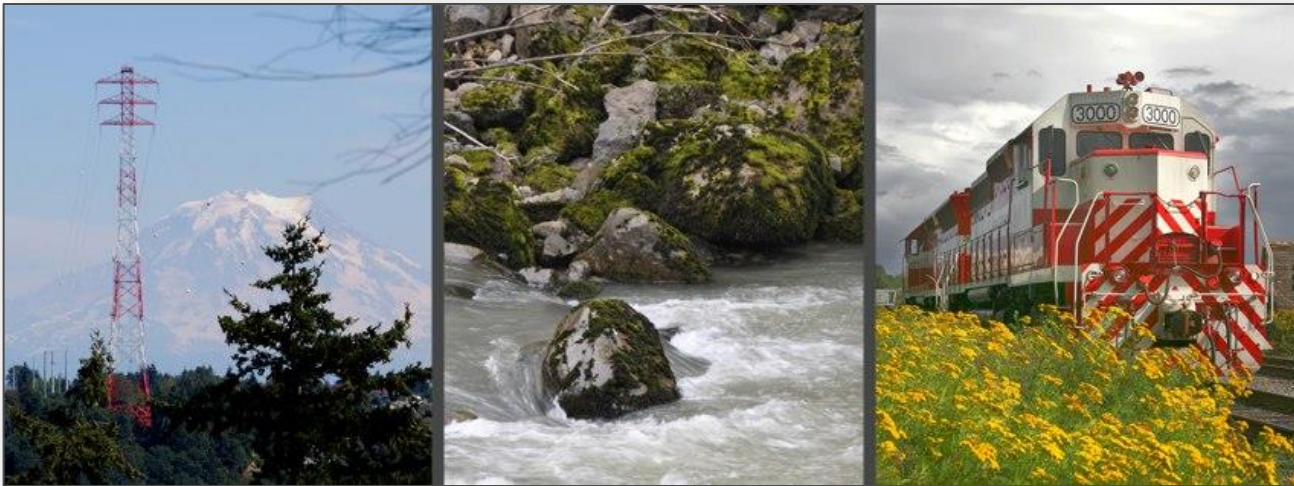
## **2017/2018**

### **PROPOSED BUDGET**

**Joint Study Session**  
**October 18, 2016**



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



# TPU FOCUS

## Customers

- Provide quality services that customers need and want
- Control costs and minimize rate increases
- Operate safely, reliably and in compliance with regulations
- Support customers through enhanced low-income assistance

## Financial

- Plan for the long-term / capital intensive business
- Maintain solid financial health and credit ratings

## Employees

- Recruit, train and retain a high-performing and diverse workforce
- Provide fair, equitable compensation
- Emphasize safety and community

## Environmental Stewardship

- Promote conservation and efficient uses of resources
- Engage and invest in fish recovery, healthy habitats and natural resources

# BUDGET OVERVIEW

## Budget Drivers

- Objectives in strategic plans
- Market impacts on revenues
- Rising costs
- Regulatory requirements
- Technology and infrastructure needs

## Cost Controls

- O&M reductions
- Asset management
- Thoughtful staffing management

# KEY BUDGET ELEMENTS

## Budget Components and Considerations

- Click! all-in plan
- Tacoma Streets Initiative (Power rates/Water capital programs)
- City street lighting enhancements
- AMI (advanced metering infrastructure)
- Utility reserves
- Rate adjustments proposed (each utility)
- Assistance for payment challenged customers

# BILL PAYMENT ASSISTANCE

## Significant Program Enhancements

- **Discount rate program continues (30% credit to seniors and disabled)**
- **Grant programs enhanced**
  - Higher bill payment assistance coupled with financial literacy
  - Incentives to help customers establish a consistent payment routine
    - Up to \$120 credit for voluntary completion of financial education course
    - Higher bill credits (20% of bill) provided monthly for accounts kept current
- **Benefits**
  - Aligns with United Way's goal to help families work toward financial stability
  - Empowers customers with education to develop critical life skills
  - Fewer service disconnections (with the associated costs and issues)
    - Good for both customers and the utilities

# TPU BIENNIAL BUDGET

(\$ in millions)	15/16 Budget	17/18 Budget	Budget to Budget
<b>O&amp;M Expenditures</b>			
Tacoma Power	\$758.8	\$774.6	\$15.8
Tacoma Water	120.3	130.5	10.2
Tacoma Rail	58.2	60.6	2.4
<b>Total O&amp;M Expenditures</b>	<b>\$937.3</b>	<b>\$965.7</b>	<b>\$28.4</b>
<b>Debt Service</b>			
Tacoma Power	\$76.7	\$67.0	-\$9.8
Tacoma Water	47.3	53.0	5.7
Tacoma Rail	1.4	1.8	.4
<b>Total Debt Service</b>	<b>\$125.4</b>	<b>\$121.8</b>	<b>-\$3.7</b>
Tacoma Power – Cash Defeasance	122.1	0.0	-122.1
<b>Capital Outlay (Revenue Financed)</b>			
Tacoma Power	\$67.3	\$81.8	\$14.5
Tacoma Water	6.2	8.0	1.8
Tacoma Rail	6.0	4.3	-1.7
<b>Total Capital Outlay</b>	<b>\$79.5</b>	<b>\$94.1</b>	<b>\$14.6</b>
<b>Total Operating Divisions</b>	<b>\$1,264.4</b>	<b>\$1,181.6</b>	<b>-\$82.8</b>

# TRANSFERS TO GENERAL GOVERNMENT

	<b>15/16 Budget</b>	<b>17/18 Budget</b>	<b>Budget to Budget</b>
<i>(\$ in millions)</i>			
<b>Gross Earnings Tax</b>	<b>\$70.4</b>	<b>\$83.4</b>	<b>\$13.0</b>
<b>Assessments</b>	<b>36.0</b>	<b>38.0</b>	<b>2.0</b>
<b>Total General Government Support</b>	<b>\$106.4</b>	<b>\$121.4</b>	<b>\$15.0</b>



# Tacoma Power Budget

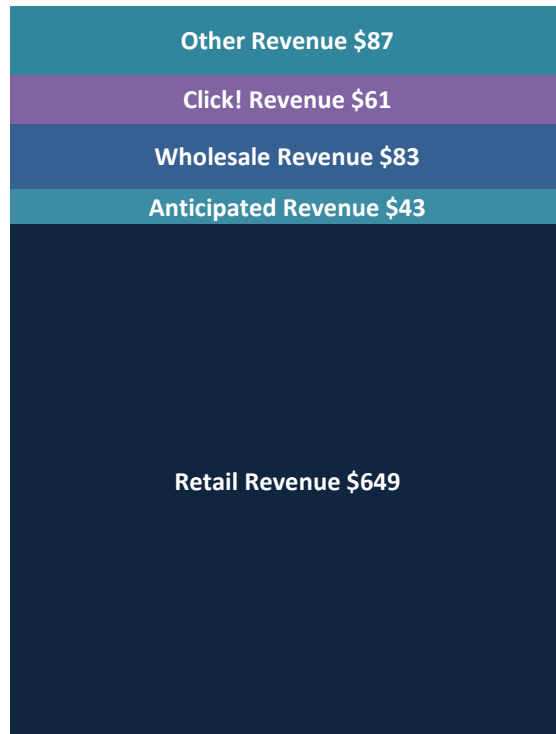
**Chris Robinson, Superintendent**



# REVENUE & EXPENDITURES

## 2017/2018 BUDGET

**\$923.4m**



**Budgeted  
Revenue**

Dollars in Millions

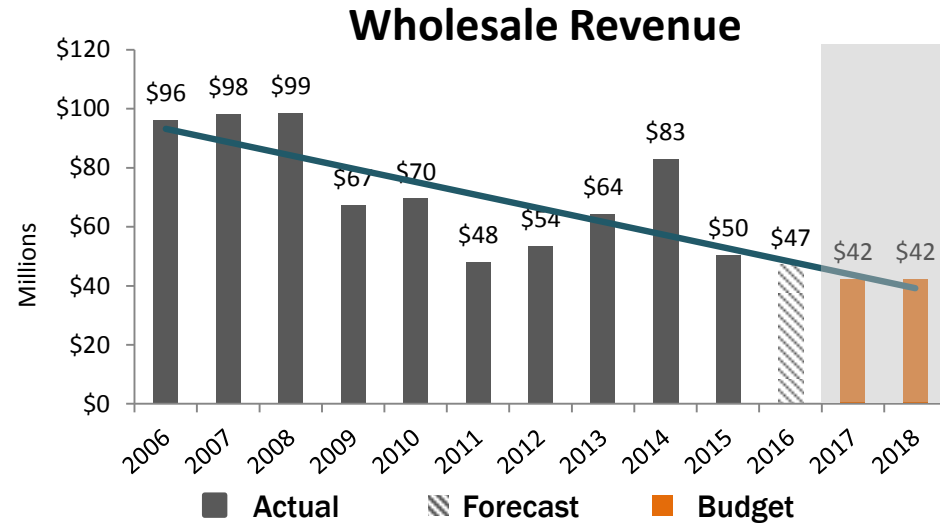
**\$923.4m**



**Budgeted  
Expenditures**

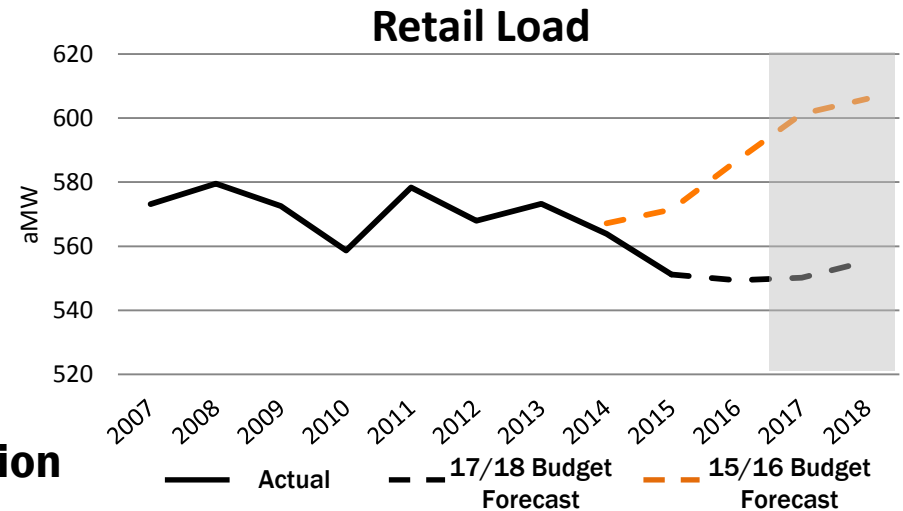
# REVENUE

Wholesale Revenue	\$/MWh	\$ Millions
15/16 Budget	\$33.63	\$110.5
17/18 Budget	\$24.56	\$83.4
<b>Budget to Budget</b>	<b>-\$9.07</b>	<b>-\$27.1</b>



Retail Revenue	aMW Sales	\$ Millions
15/16 Budget	554.6	\$670.4
*17/18 Budget	527.1	\$648.9
<b>Budget to Budget</b>	<b>-27.5</b>	<b>-\$21.5</b>

\* Assumes no rate increase in 17/18



**Wholesale & Retail Revenue Down: \$48.6 Million**

# EXPENDITURES

## Taxes \$ Millions

15/16 Budget	\$93.6
17/18 Budget	\$107.2
<b>Budget to Budget</b>	<b>\$13.6</b>

## Telecommunications \$ Millions

15/16 Budget	\$70.0
17/18 Budget	\$88.0
<b>Budget to Budget</b>	<b>\$18.0</b>

## Assessments \$ Millions

15/16 Budget	\$54.1
17/18 Budget	\$59.2
<b>Budget to Budget</b>	<b>\$5.1</b>

## Personnel Costs \$ Millions

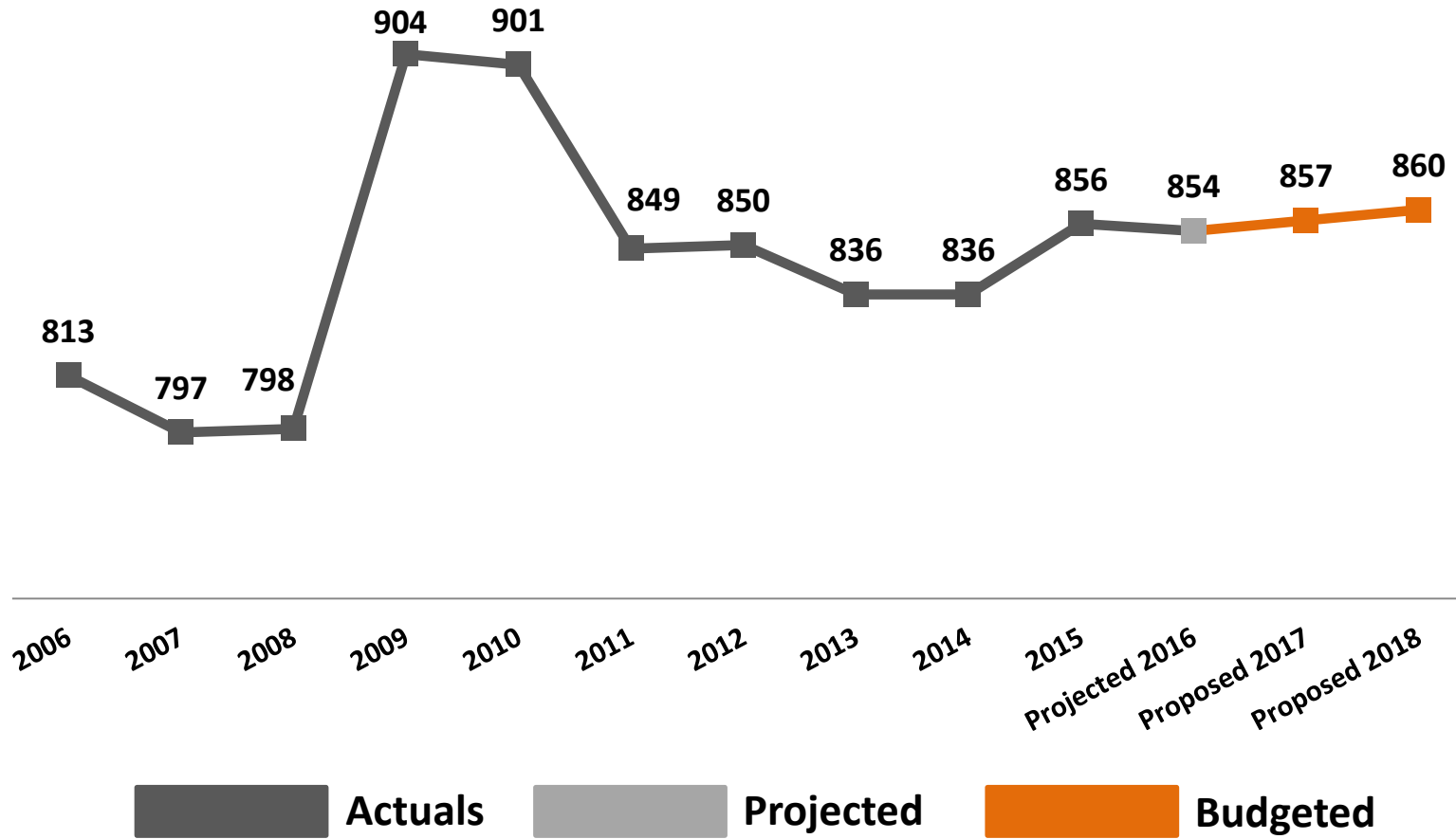
15/16 Budget	\$189.7
17/18 Budget	\$200.5
<b>Budget to Budget</b>	<b>\$10.7</b>

## Reductions during planning

Personnel Costs	-\$21.5
Other O&M	-\$8.2
Capital Outlay	-\$5.9
<b>Total</b>	<b>-\$35.6</b>

15/16 Budget	\$902.8
17/18 Budget	\$923.4
<b>Budget to Budget</b>	<b>\$20.5</b>

# TACOMA POWER EMPLOYEES



# BUDGET ASSUMPTIONS

- **Wholesale revenue based on forward market prices as of September 2016**
- **Retail demand based on most recent load forecast**
- **Includes \$12 million Gross Earnings Tax increase for Tacoma Streets Initiative effective March 1, 2016**
- **Mitigate revenue decreases and cost increases through budget cuts**
- **Incorporates Click! All-In business model**
- **Maintains cash reserves and debt service coverage to support AA-level credit ratings**

# REVENUE

(\$ in millions)	15/16 Budget	17/18 Budget	Budget to Budget	
<b>Operating Revenue</b>				
• Retail Sales	\$654.5	\$648.9	-\$5.6	-0.9%
• Anticipated Rate Increase	15.8	43.2	27.4	172.9%
<b>Total Retail Sales</b>	<b>\$670.4</b>	<b>\$692.1</b>	<b>\$21.7</b>	<b>3.2%</b>
• Wholesale Sales	110.5	83.4	-27.1	-24.5%
• Telecommunications	59.5	61.3	1.8	3.1%
• Other	32.6	35.5	2.9	9.0%
<b>Total Operating Revenue</b>	<b>\$872.9</b>	<b>\$872.3</b>	<b>-\$0.6</b>	<b>-0.1%</b>
<b>Total Non-Operating Revenue</b>	<b>\$13.7</b>	<b>\$12.9</b>	<b>-\$0.7</b>	<b>-5.4%</b>
<b>Total Revenue</b>	<b>\$886.6</b>	<b>\$885.2</b>	<b>-\$1.4</b>	<b>-0.2%</b>
<b>Current Fund Appropriation</b>	<b>138.4</b>	<b>38.2</b>	<b>-100.2</b>	<b>-72.4%</b>
<b>Total Revenue &amp; Available Funds</b>	<b>\$1,025.0</b>	<b>\$923.4</b>	<b>-\$101.6</b>	<b>-9.9%</b>

# EXPENDITURES

(\$ in millions)	15/16 Budget	17/18 Budget	Budget to Budget	
<b>Expenditures</b>				
• Personnel Costs	\$189.7	\$200.5	\$10.7	5.6%
• BPA Purchase	242.6	235.0	-7.6	-3.1%
• Other Purchased Power	79.4	72.1	-7.3	-9.2%
• Supplies/Other	153.4	159.8	6.5	4.2%
• Capital Outlay	67.3	81.8	14.5	21.5%
• Debt Service	76.7	67.0	-9.8	-12.7%
• *Taxes	93.6	107.2	13.6	14.5%
<b>Sub-total</b>	<b>\$902.8</b>	<b>\$923.4</b>	<b>\$20.5</b>	<b>2.3%</b>
• Debt Defeasance/Call	122.1	0.0	-122.1	-100.0%
<b>Total Expenditures</b>	<b>\$1,025.0</b>	<b>\$923.4</b>	<b>-\$101.6</b>	<b>-9.9%</b>
<b>Capital Outlay</b>				
• Current Fund	\$67.3	\$81.8	\$14.5	21.5%
• Bond Funds	115.3	108.6	-6.7	-5.8%
<b>Total Capital Outlay</b>	<b>\$182.7</b>	<b>\$190.5</b>	<b>\$7.8</b>	<b>4.3%</b>

\* Includes 1.5% Gross Earnings Tax Increase, effective in March 2016



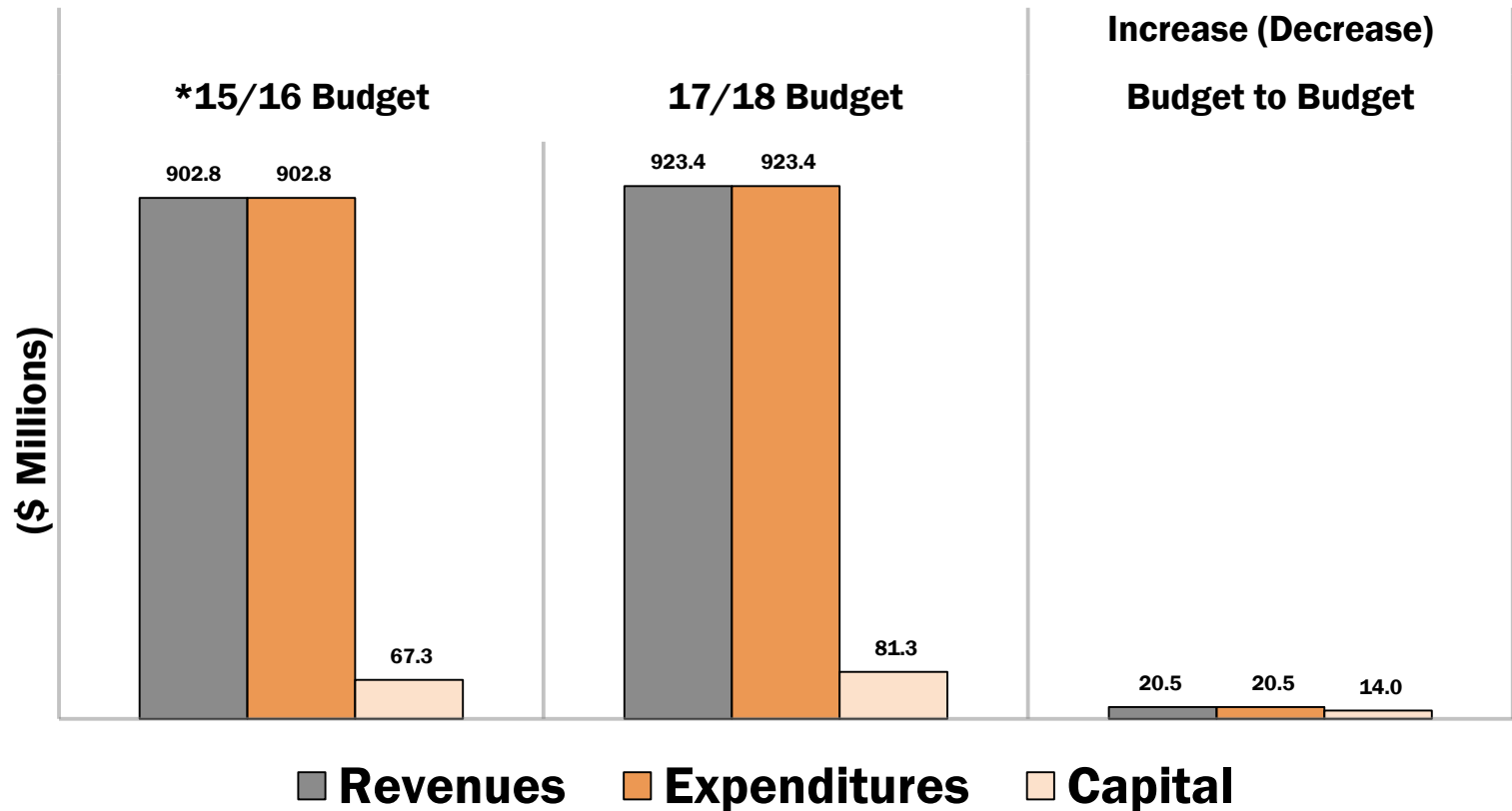
# CAPITAL BUDGET

(\$ in millions)	Initial Proposal January 2016	May 2016	June 2016	17/18 Budget	15/16 Budget
<b>Capital Projects</b>					
Hydro License Implementation	\$33.7	\$26.3	\$26.3	\$26.3	\$50.7
Technology Projects	30.1	23.8	33.9	29.5	20.1
Conservation	22.2	21.9	21.9	21.9	21.1
Additions & Replacements	50.8	48.8	48.8	39.2	46.7
Remaining Capital Projects	57.9	45.0	52.6	53.2	44.1
Click! All-In				20.3	
<b>Total Capital Projects</b>	<b>\$194.7</b>	<b>\$165.8</b>	<b>\$183.5</b>	<b>\$190.5</b>	<b>\$182.7</b>
<b>Capital Funding Sources</b>					
Revenue Funded				\$81.8	\$67.3
New Bonds				108.7	97.4
Existing Bonds				0.0	18.0
<b>Total Sources of Funds</b>				<b>\$190.5</b>	<b>\$182.7</b>

# **LED STREET LIGHT CAPITAL BUDGET**

- **Tacoma Power, Public Works, and Legal worked together to establish a plan that helps convert city street lights to LED technology**
- **Plan is to convert 77% of lights in the upcoming biennium for an estimated \$7 million**
- **Legal under state law because all costs will be recovered through a new rate tariff**
- **Tacoma Power will issue RFP and oversee the installation contract**
- **Public Works will continue to maintain all street lights**
- **Cost neutral as a result of electricity and maintenance savings**

# BUDGET COMPARISON

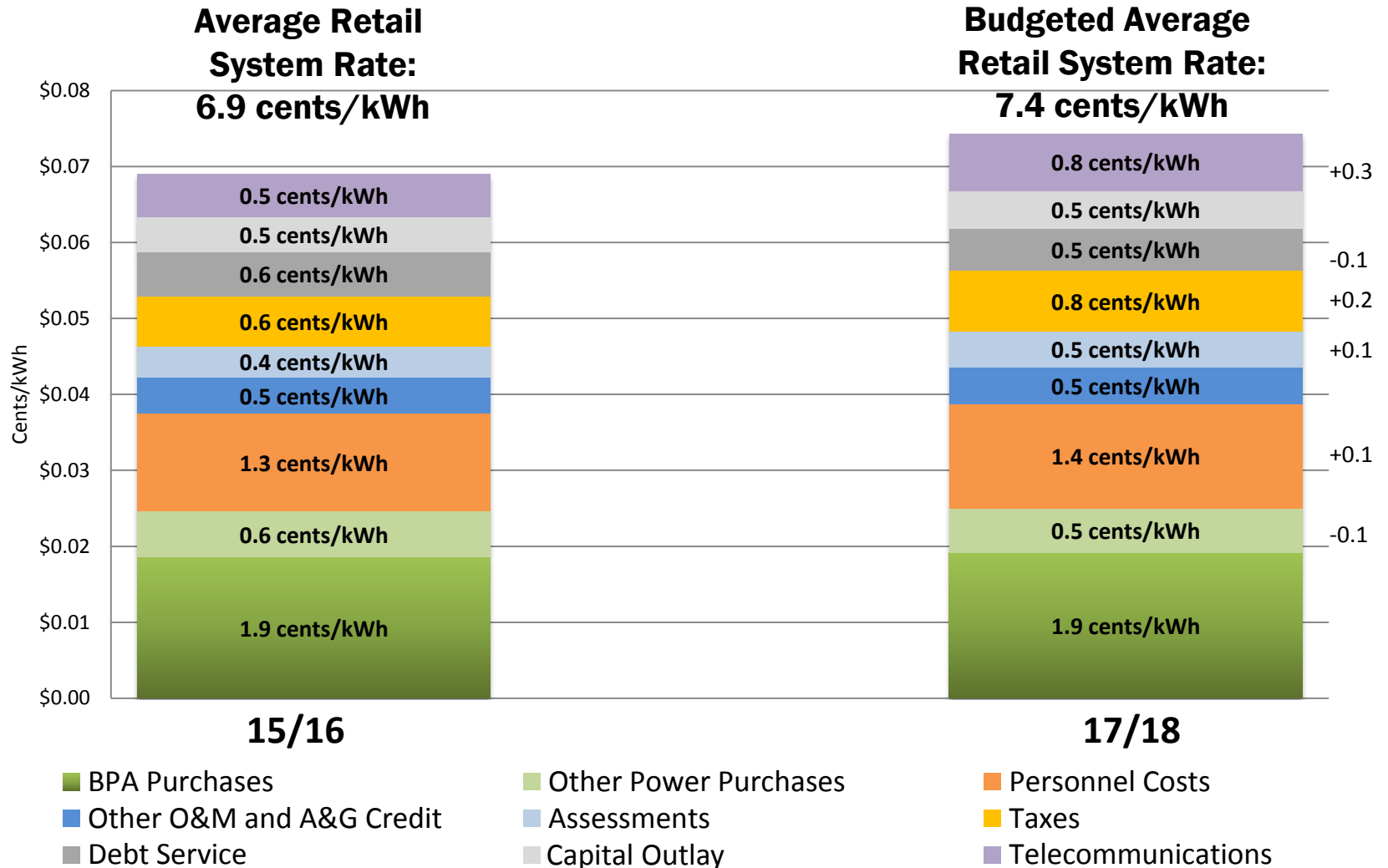


\*Does not include cash used to retire Bonds

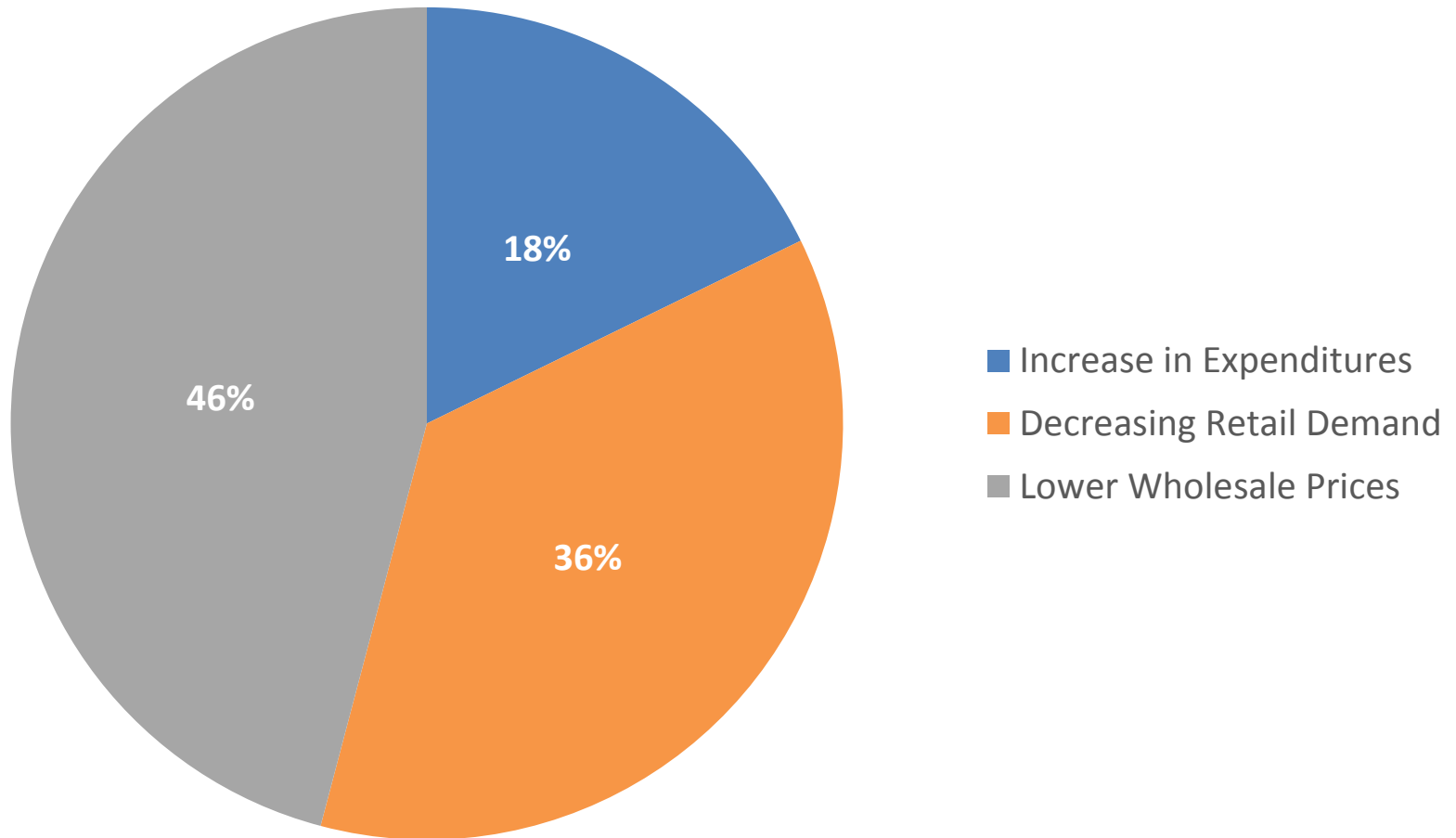
# BUDGET RISKS & MITIGATION

- **Risks**
  - **Lower Retail Demand**
  - **Lower Wholesale Revenue**
  - **Weather**
    - **Stream flows**
    - **Temperature**
  - **New/Expanded Regulatory Mandates**
- **Mitigation**
  - **Conservative Planning**
  - **Regular monitoring and reporting of revenue and expenditures with adjustments as needed**
  - **Use of Reserves**
    - **Current Fund balance**
    - **Rate Stabilization Fund**
  - **Additional Financing**
  - **Additional Rate Adjustments**

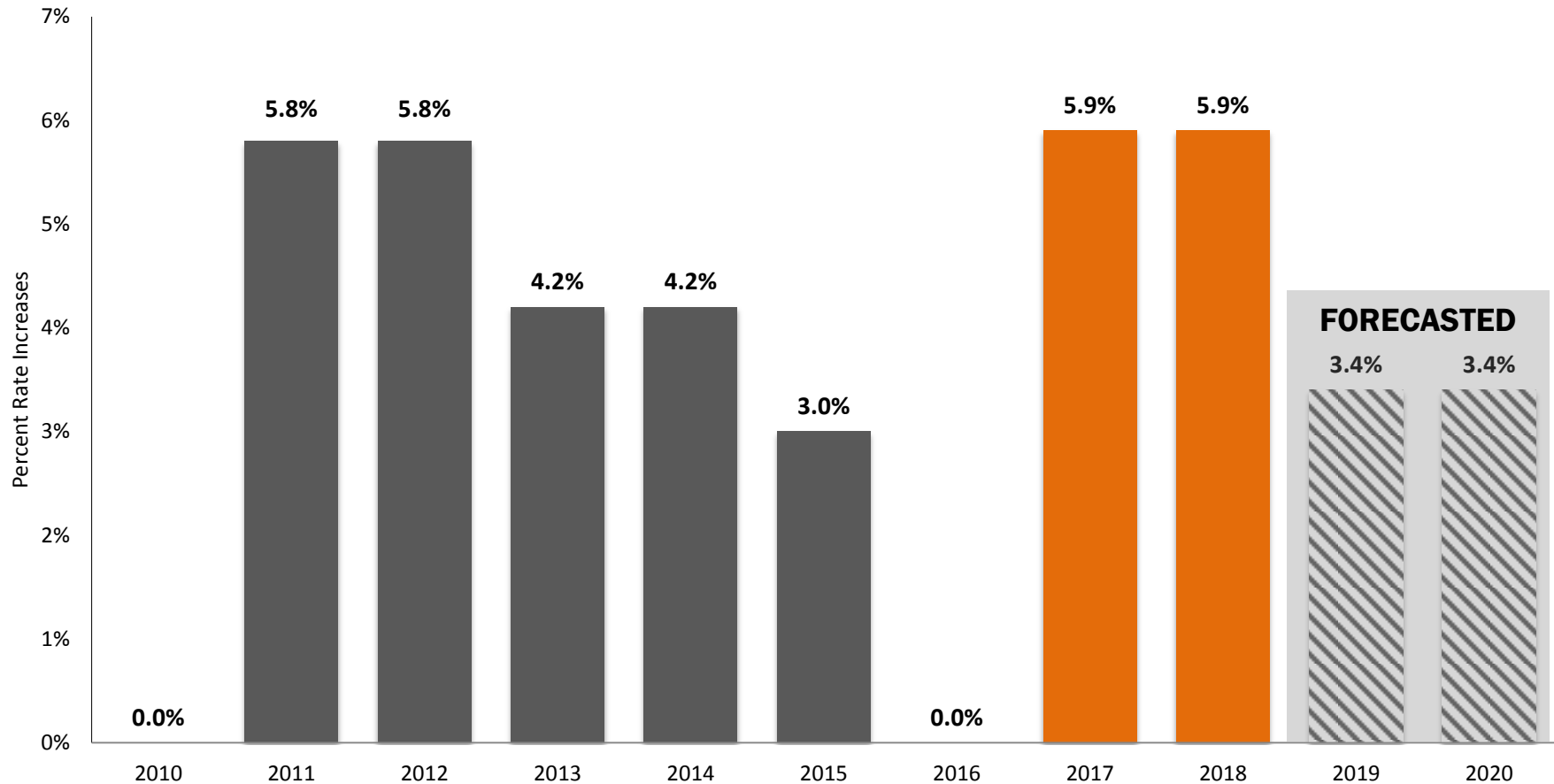
# RATE DRIVER COMPARISON



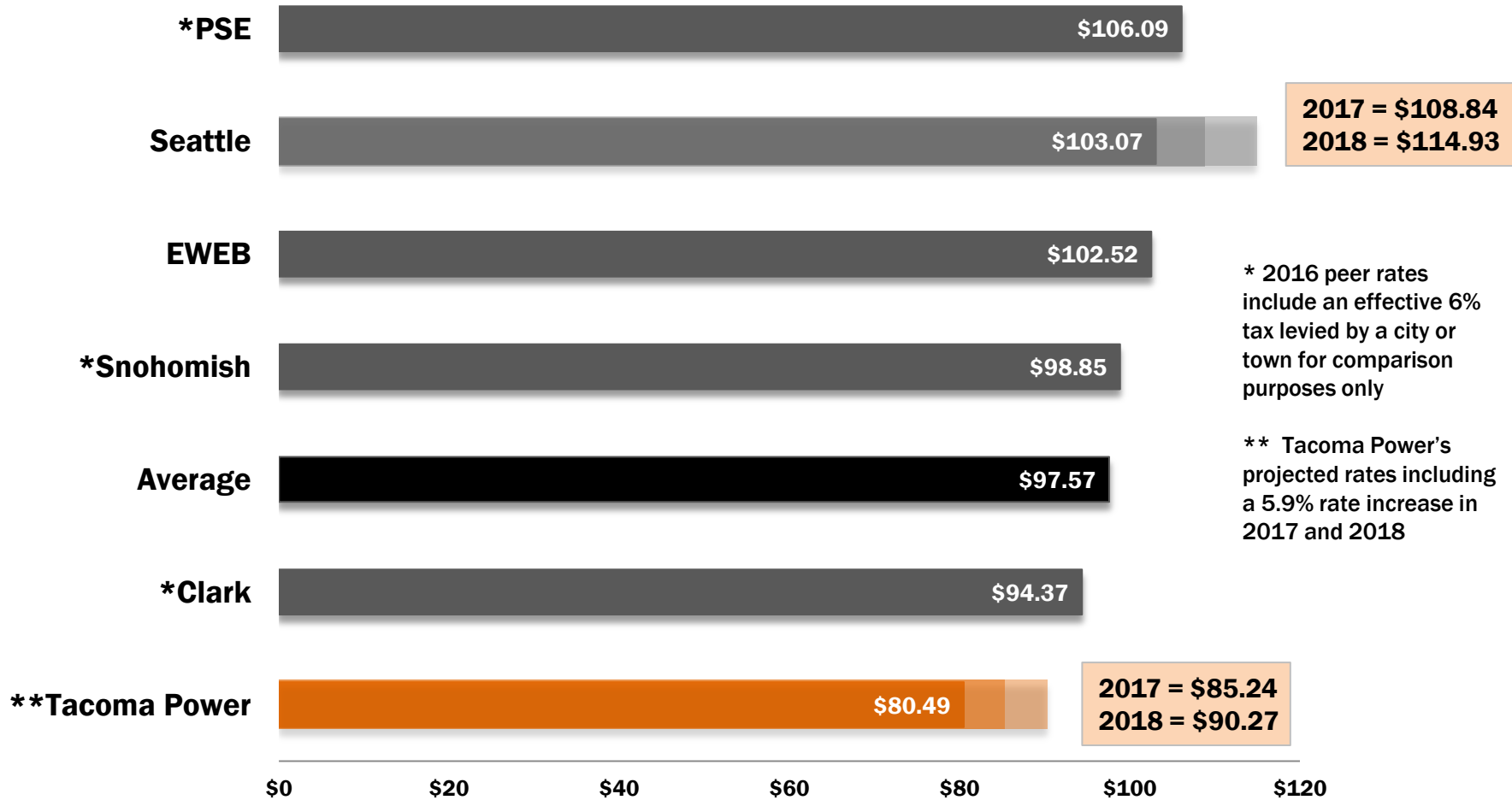
# WHAT IS DRIVING THE NEED FOR A RATE INCREASE?



# PROPOSED RATE ADJUSTMENTS



# RESIDENTIAL ELECTRIC BILL COMPARISON



Peer utility rates as of September 1, 2016  
Assumed residential use of 944 kWh/month



# BUDGET SUMMARY

- **Experiencing significant budget pressure from declining revenues and increasing costs**
- **Mitigated budget impacts and proposed rate increase by decreasing expenditures**
- **Propose to increase retail revenue with two 5.9% rate increases in order to align revenue with projected expenditures**
- **17/18 Budget supports long-term operational and strategic business needs**
- **Maintains financial strength to support AA-level credit ratings**

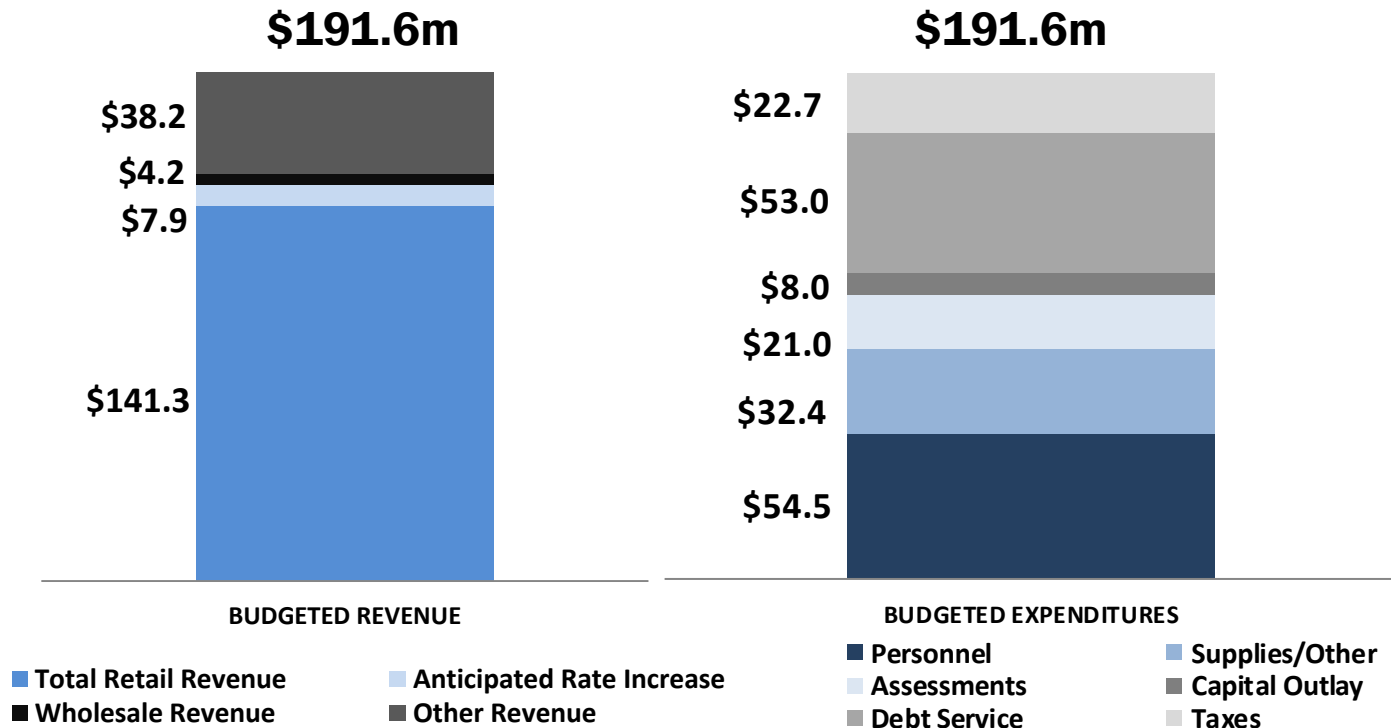
# Tacoma Water Budget

**Sean Senescall, Rates and  
Financial Planning Manager**



# REVENUE & EXPENDITURES

## 2017/2018 BUDGET



Dollars in Millions

# REVENUE

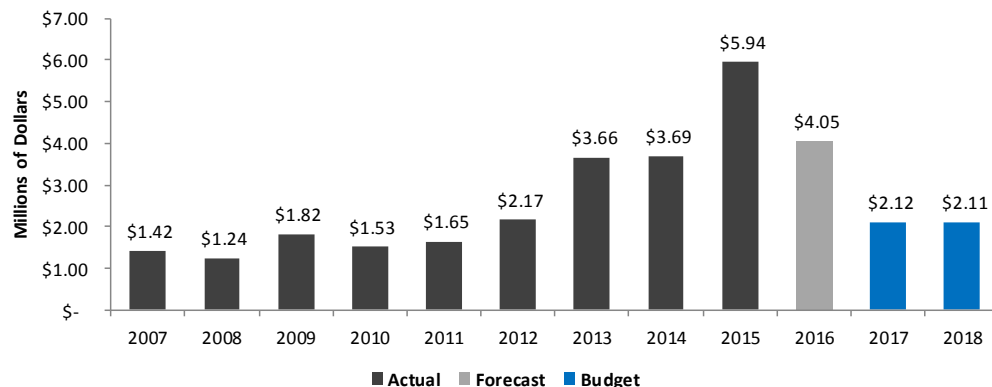
Wholesale Revenue	MGD	\$ in Millions
15/16 Budget	5.9	\$7.8
*17/18 Budget	3.2	\$4.2
<b>Budget to Budget</b>	<b>(2.7)</b>	<b>-\$3.6</b>

\*Assumes no rate increases

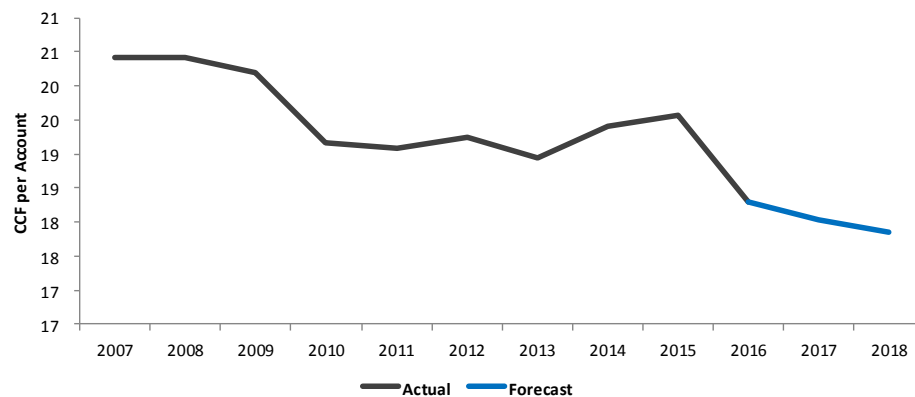
Retail Revenue	MGD	\$ in Millions
15/16 Actuals and Forecasted	49.8	\$144.1
*17/18 Budget	46.2	\$141.2
*19/20 Forecasted	45.6	\$140.6
<b>Total Decline</b>	<b>-8.4%</b>	<b>-2.4%</b>

\*Assumes no rate increases

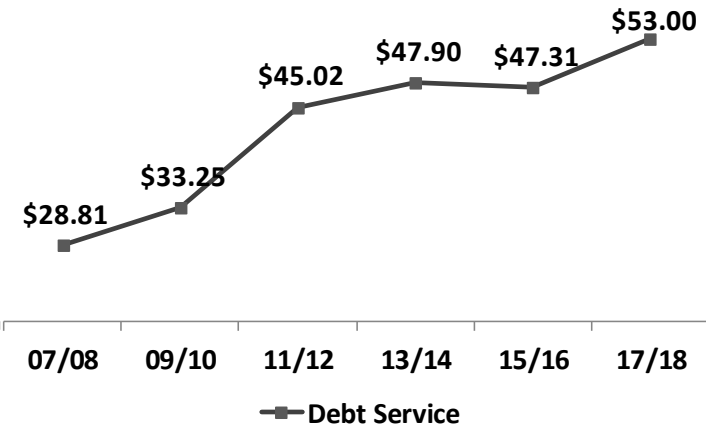
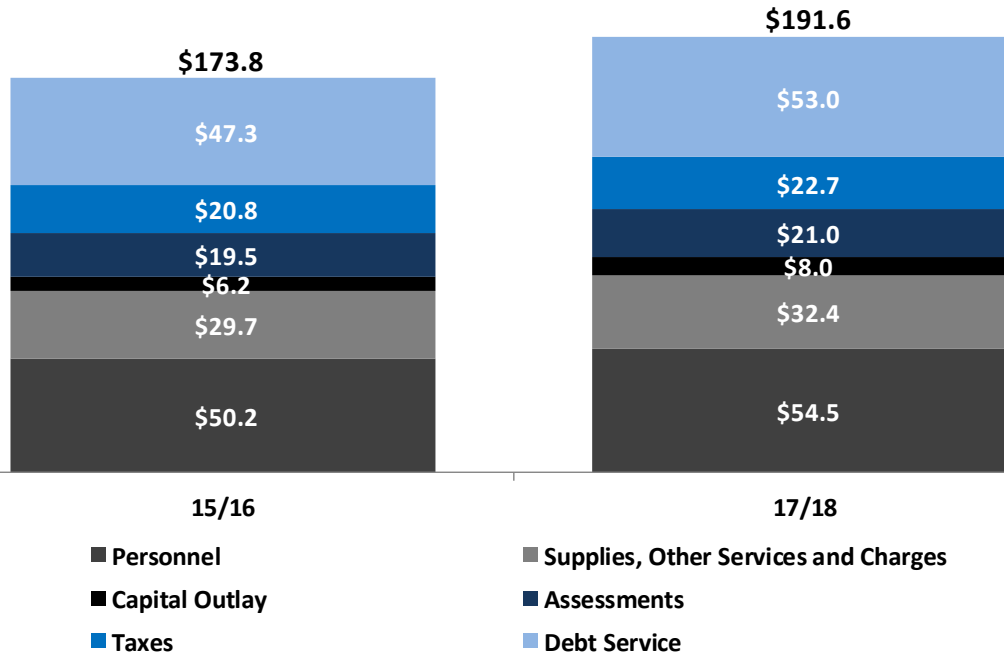
## Wholesale Revenue



## Historical and Forecasted Retail Water Demands

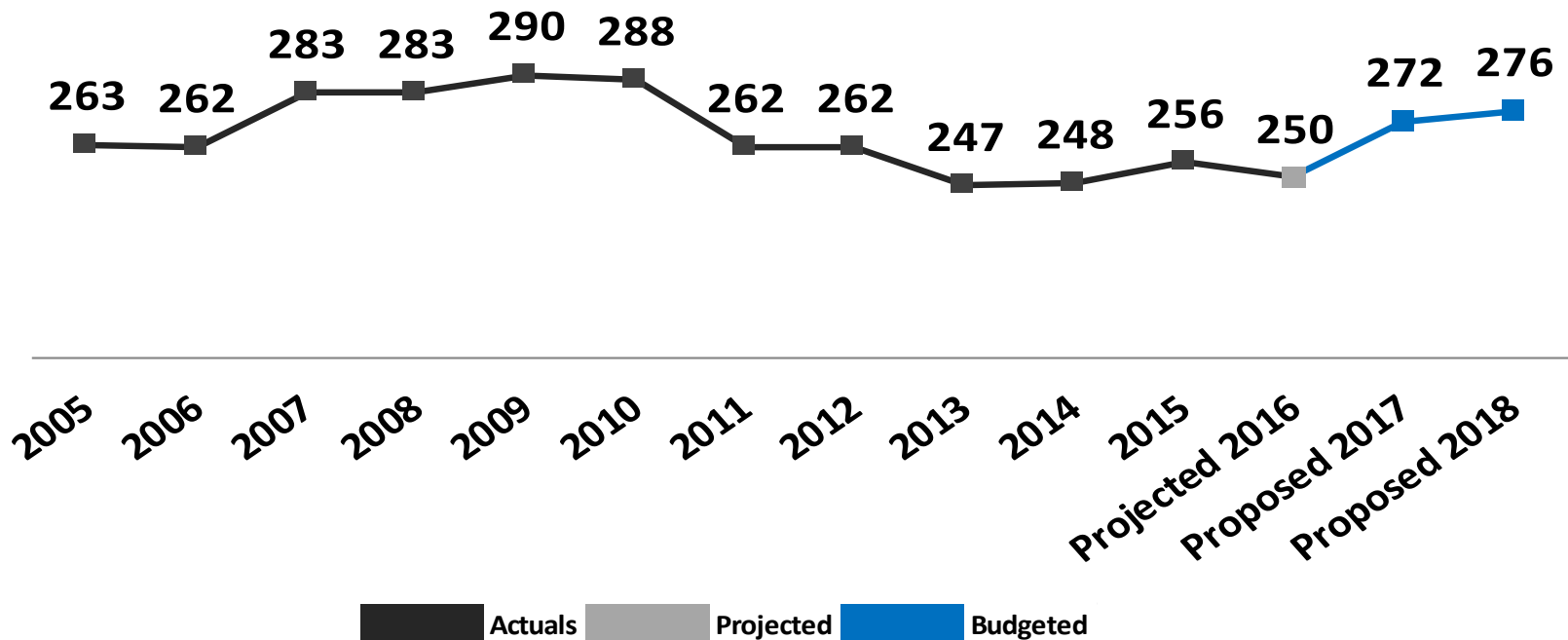


# EXPENDITURES



Dollars in Millions

# TACOMA WATER EMPLOYEES



# BUDGET ASSUMPTIONS

- **Updated Demand Forecast**
- **No new debt**
- **Labor rates set by contract through 2018**
- **Commodity rates remain at assumed levels**

# REVENUE

(\$ in millions)	15/16 Budget	17/18 Budget	Budget to Budget	
<b>Operating Revenue</b>				
• Residential Water Sales	\$86.3	\$94.3	\$8.0	9.3%
• Pulp Mill Water Sales	11.1	12.6	1.5	13.5%
• Wholesale Water Sales	7.4	4.2	-3.2	-43.2%
• Other Water Sales	30.4	34.4	4.0	13.2%
• Other Operating Revenue	13.9	14.2	0.3	2.2%
• Anticipated Rate Increase	7.5	7.9	0.4	5.3%
• Current Fund Appropriation	4.8	9.8	5.0	104.2%
<b>Total Operating Revenue</b>	<b>\$161.4</b>	<b>\$177.4</b>	<b>\$16.0</b>	<b>9.9%</b>
<b>Non-Operating Revenue</b>				
• Interest and Other	0.7	0.7	0.0	0.0%
• Transfers In	6.2	8.0	1.8	29.0%
• BABs Subsidy	5.5	5.5	0.0	0.0%
<b>Total Non-Operating Revenue</b>	<b>\$12.4</b>	<b>\$14.2</b>	<b>\$1.8</b>	<b>14.5%</b>
<b>Total Revenue &amp; Available Funds</b>	<b>\$173.8</b>	<b>\$191.6</b>	<b>\$17.8</b>	<b>10.2%</b>



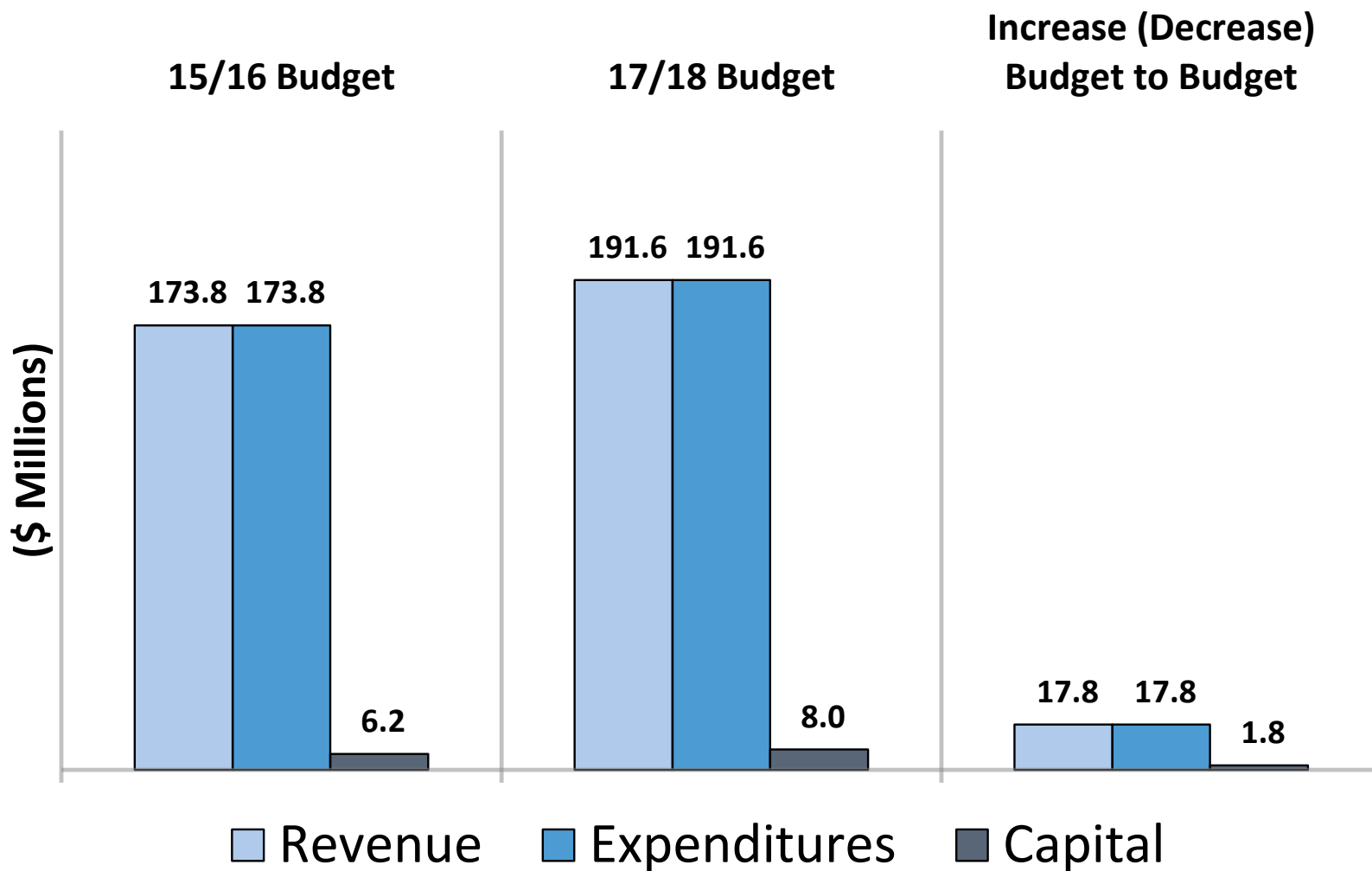
# EXPENDITURES

(\$ in millions)	15/16	17/18	Budget to Budget	
	Budget	Budget		
<b>Expenditures</b>				
• Personnel Costs	\$50.2	\$54.5	\$4.3	8.6%
• Supplies/Other	49.2	53.4	4.2	8.5%
• Taxes	20.8	22.7	1.9	9.2%
• Debt Service	47.4	53.0	5.6	12.1%
• Capital Outlay	6.2	8.0	1.8	29.0%
<b>Total Expenditures</b>	<b>\$173.8</b>	<b>\$191.6</b>	<b>\$17.8</b>	<b>10.2%</b>
<b>Capital Outlay</b>				
• Capital Reserve Fund	\$6.2	\$8.0	\$1.8	28.7%
• Existing Bonds	26.6	40.0	13.4	50.3%
<b>Total Capital</b>	<b>\$32.8</b>	<b>\$48.0</b>	<b>\$15.2</b>	<b>46.3%</b>

# CAPITAL BUDGET

<i>(\$ in millions)</i>	<b>15/16 Budget</b>	<b>17/18 Budget</b>
<b>Capital Projects</b>		
General Plant	\$3.5	\$5.1
Water Distribution Section	21.0	27.9
Water Quality Section	2.4	5.3
Water Supply Section	5.9	9.7
<b>Total Capital Projects</b>	<b>\$32.8</b>	<b>\$48.0</b>
<b>Capital Funding Sources</b>		
Reserve Funded	\$6.2	\$8.0
Existing Bonds	26.6	40.0
<b>Total Sources of Funds</b>	<b>\$32.8</b>	<b>\$48.0</b>

# BUDGET COMPARISON



# BUDGET RISKS & MITIGATION

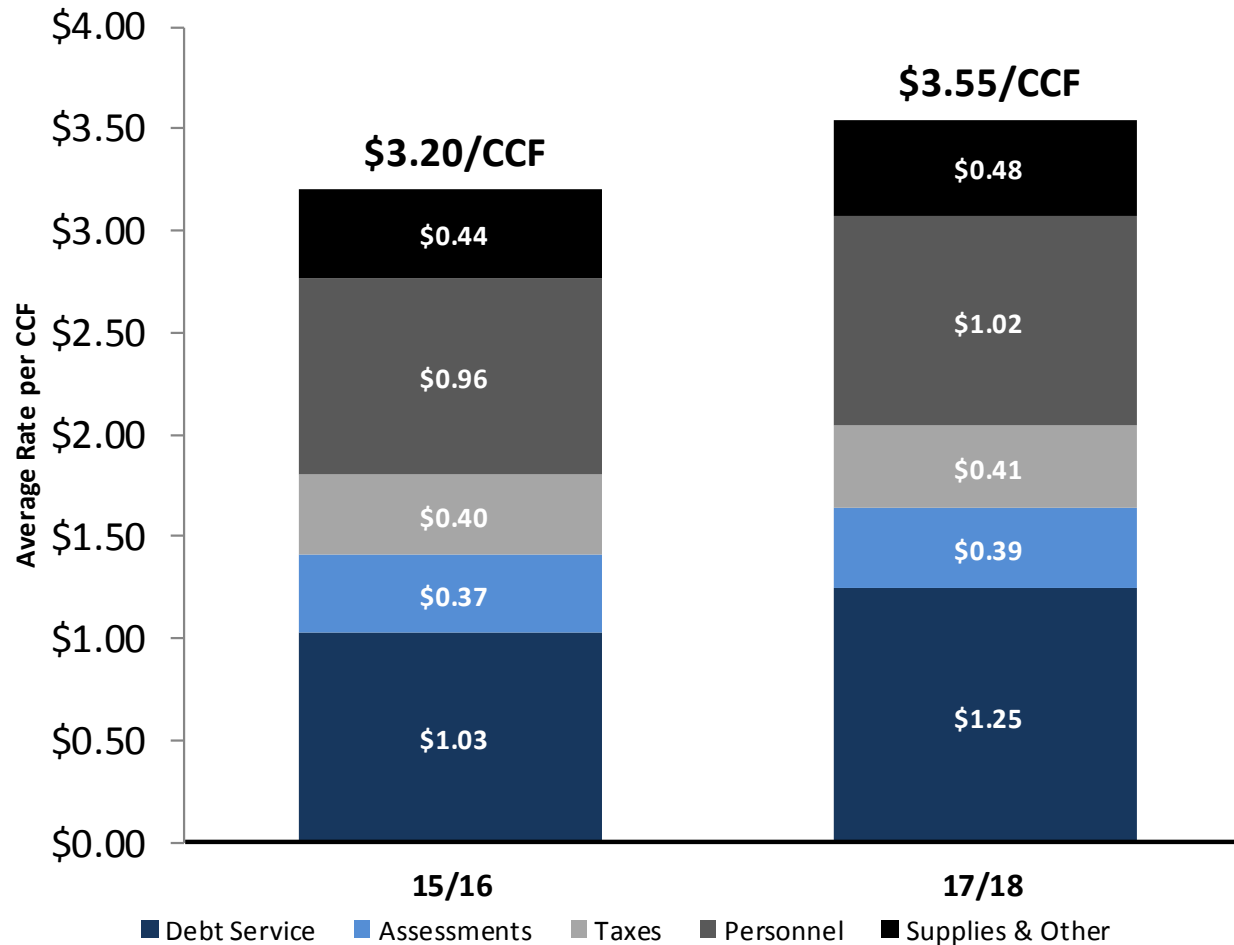
- **Risks**

- Weather
- Wholesale & industrial revenue loss

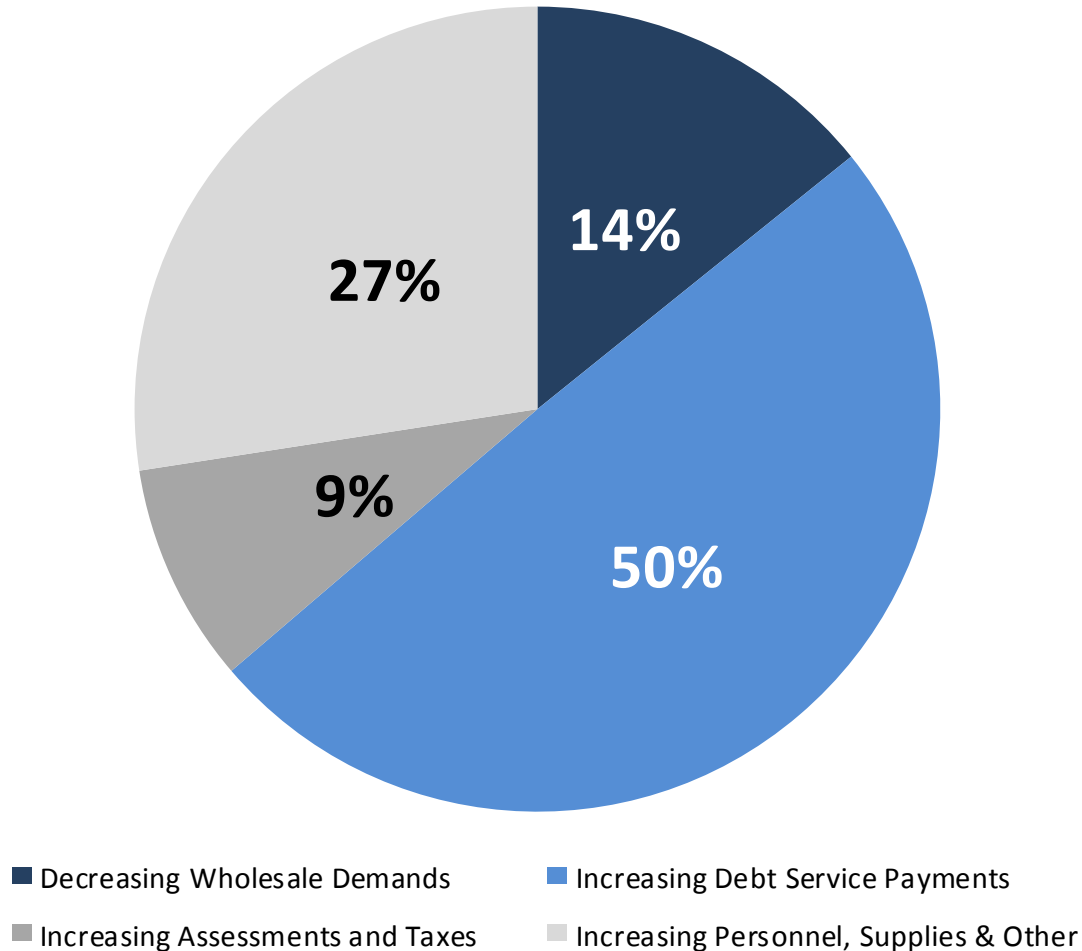
- **Mitigation**

- Market surplus capacity
- Implement operational efficiencies
- Actively manage expenditures
- Draw down reserves

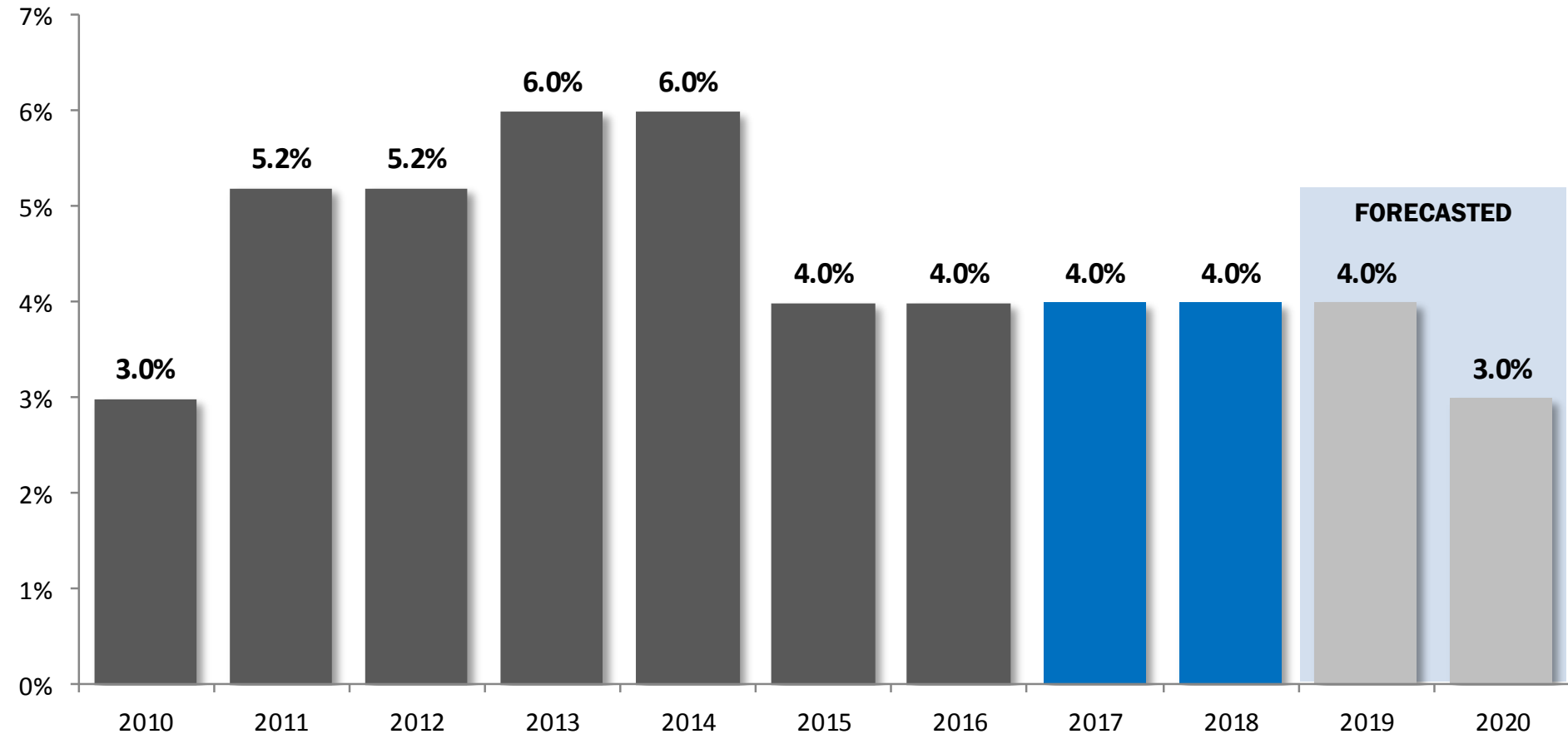
# RATE DRIVER COMPARISON



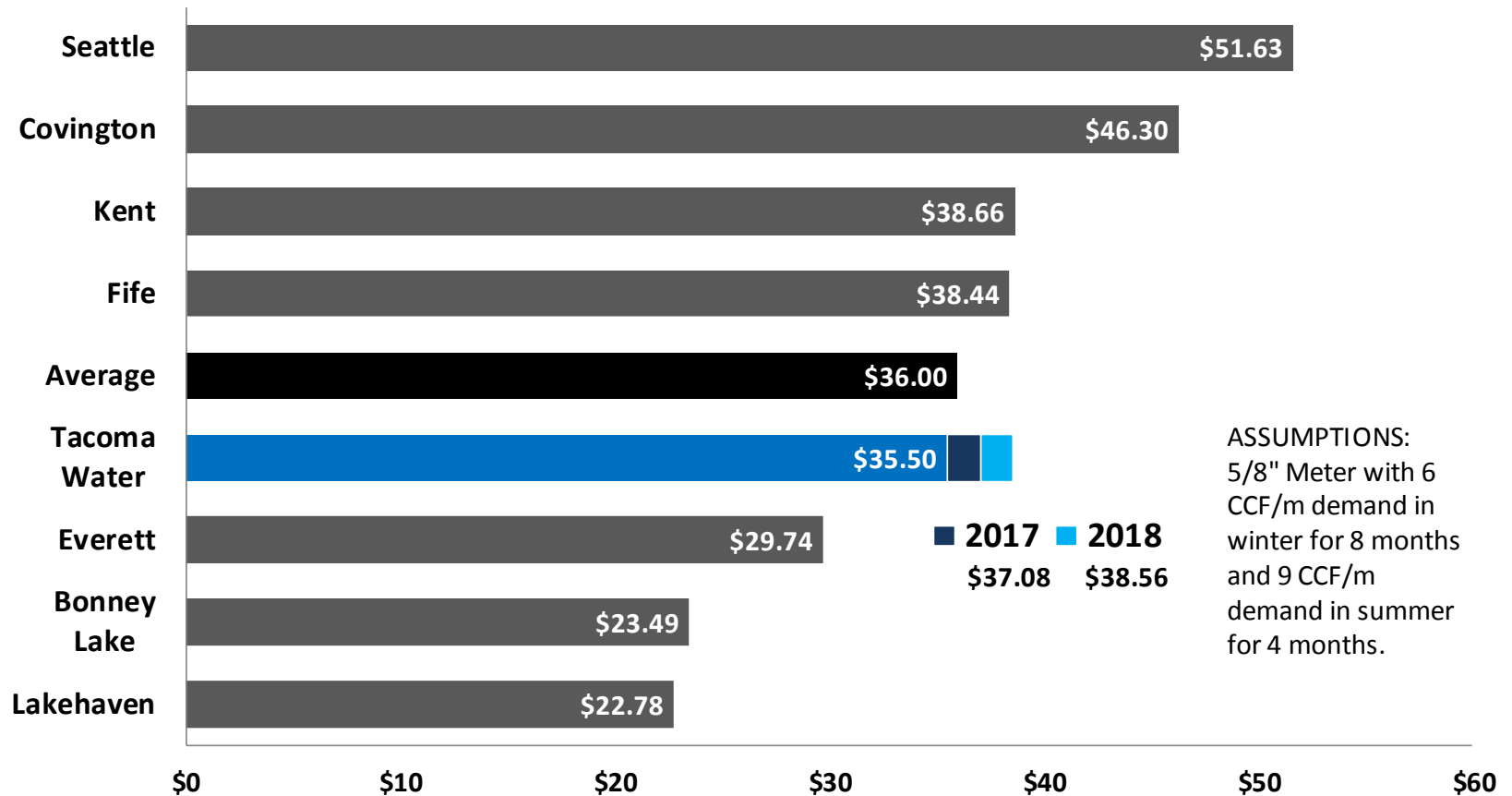
# WHAT IS DRIVING THE NEED FOR A RATE INCREASE?



# PROPOSED RATE ADJUSTMENTS



# RESIDENTIAL WATER BILL COMPARISON



\*Draft 17/18 rates for Tacoma Water. Peer utilities rates as of September 1, 2016.



# BUDGET SUMMARY

- **2017/18 Budget supports long term strategic transformation in key focus areas:**
  - **Ensure Supply Security for our Customers**
  - **Manage Assets at Lowest Lifecycle Cost with an Acceptable Level of Risk**
  - **Leverage Technology**
  - **Employee Performance and Development**
- **Minimizes rate impact while preserving strong financial performance**

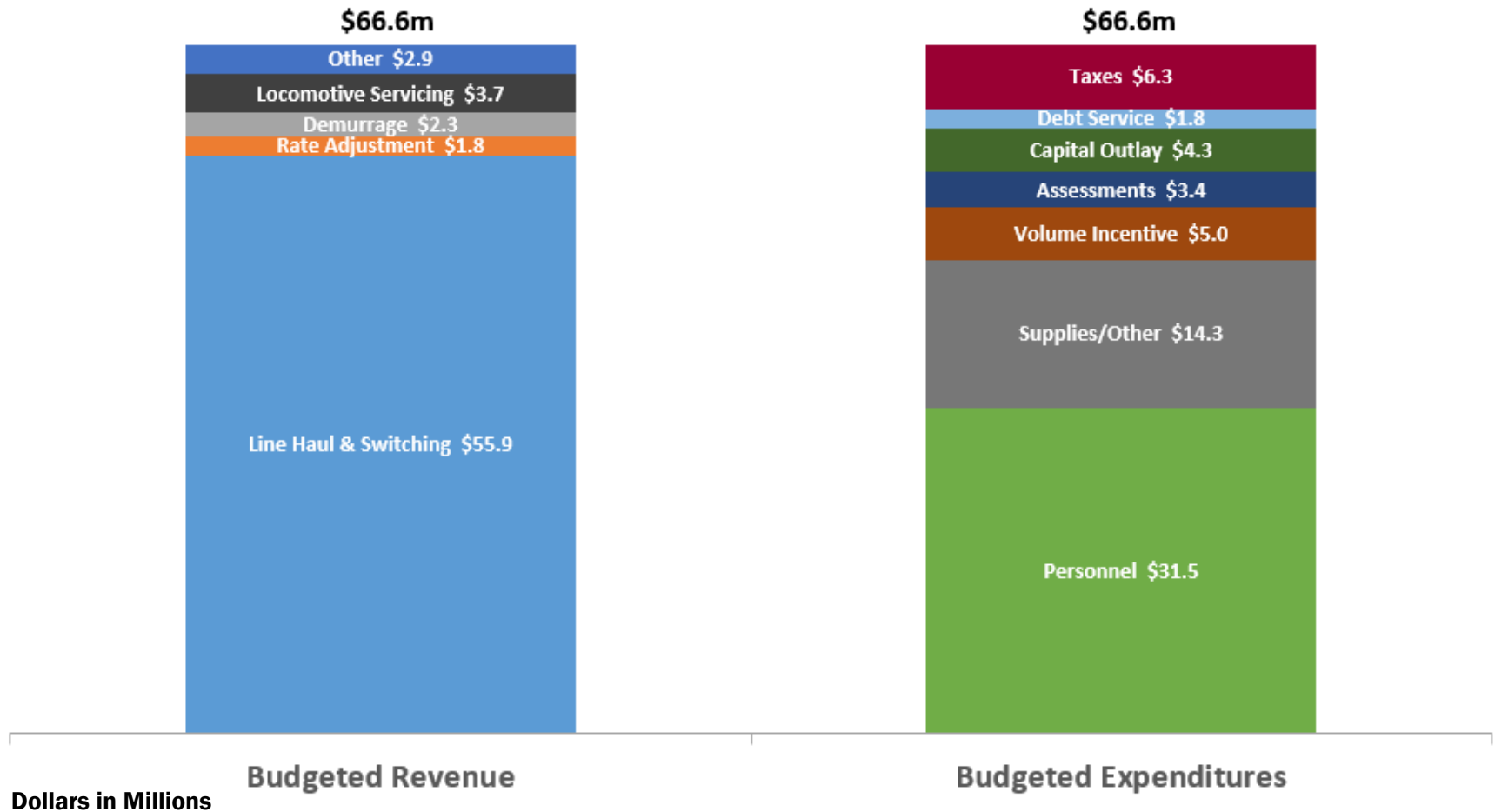
# Tacoma Rail Budget

**Dale King, Superintendent**



# REVENUE & EXPENDITURES

## 2017/2018 BUDGET

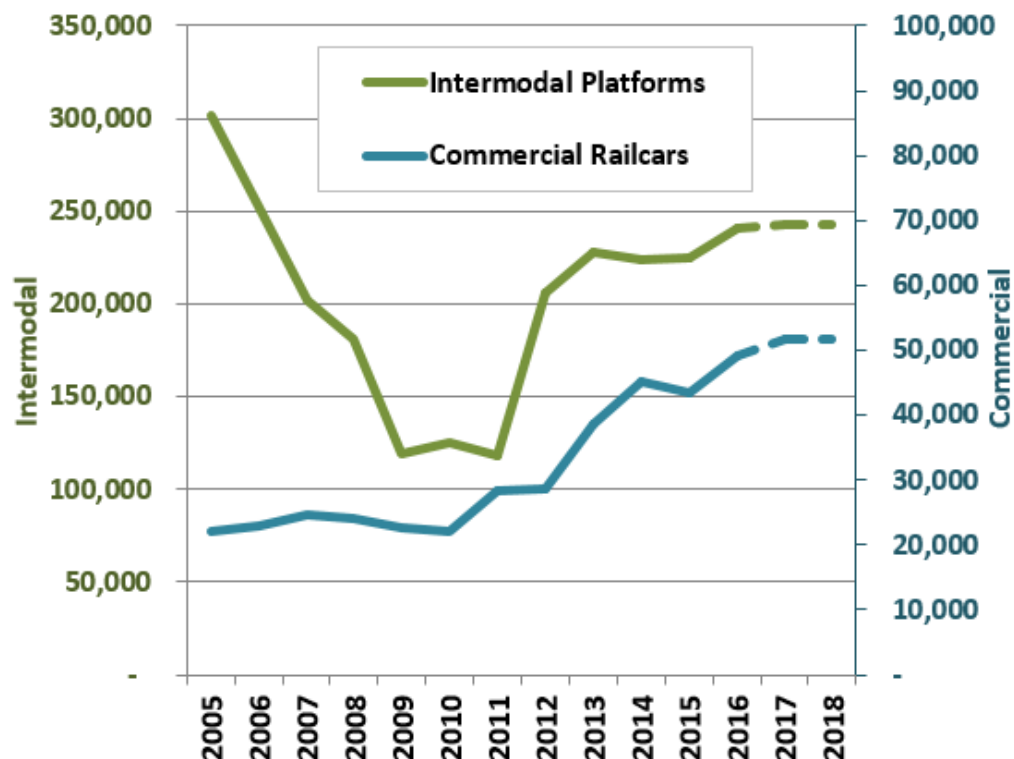


# REVENUE

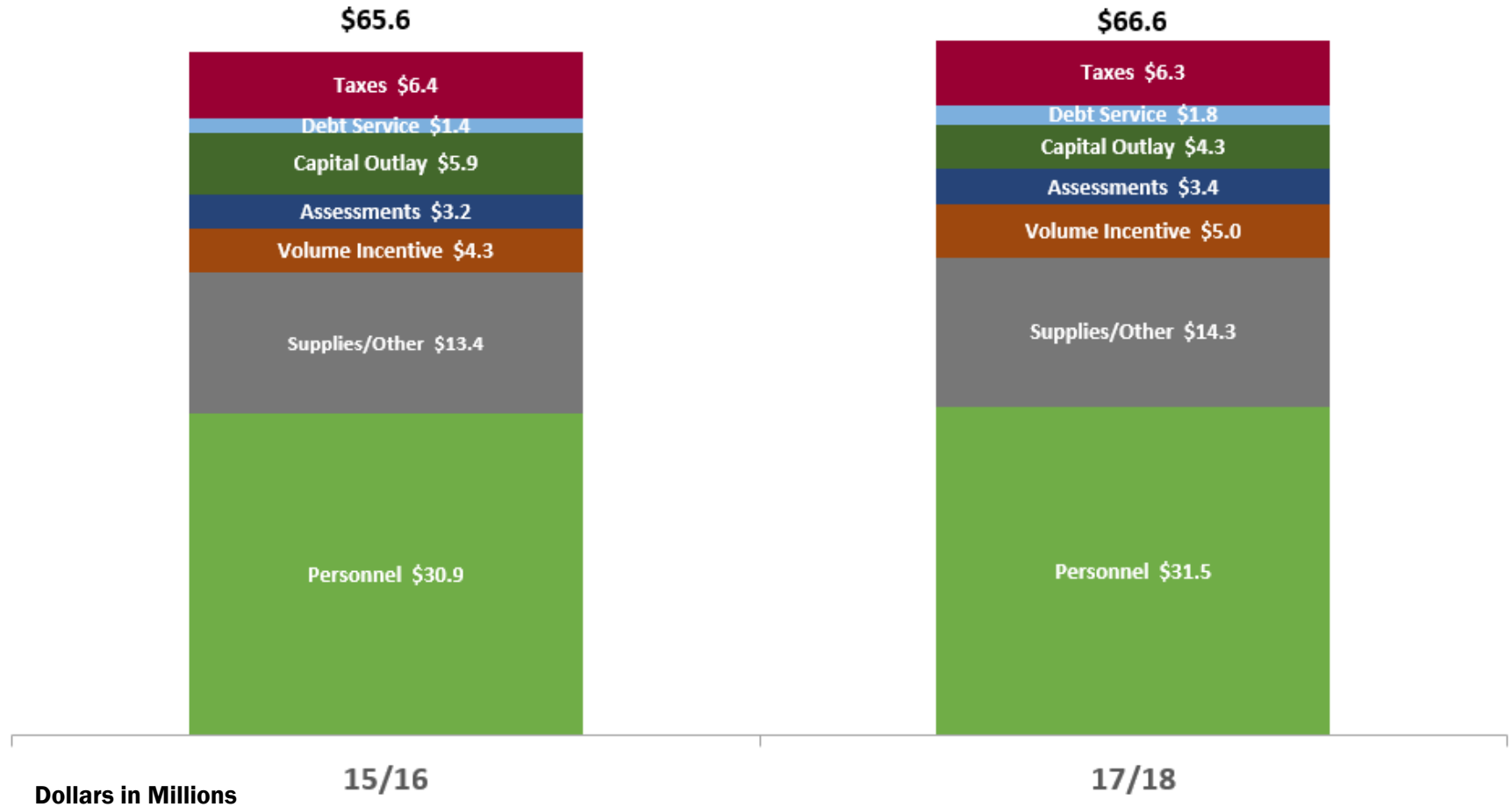
Commercial	Count	\$ Millions
15/16 Budget	103,913	\$ 28.7
*17/18 Budget	103,432	\$ 28.6
Budget to Budget	(481)	\$ (0.1)

Intermodal	Count	\$ Millions
15/16 Budget	468,735	\$ 22.0
*17/18 Budget	485,600	\$ 24.3
Budget to Budget	16,865	\$ 2.3

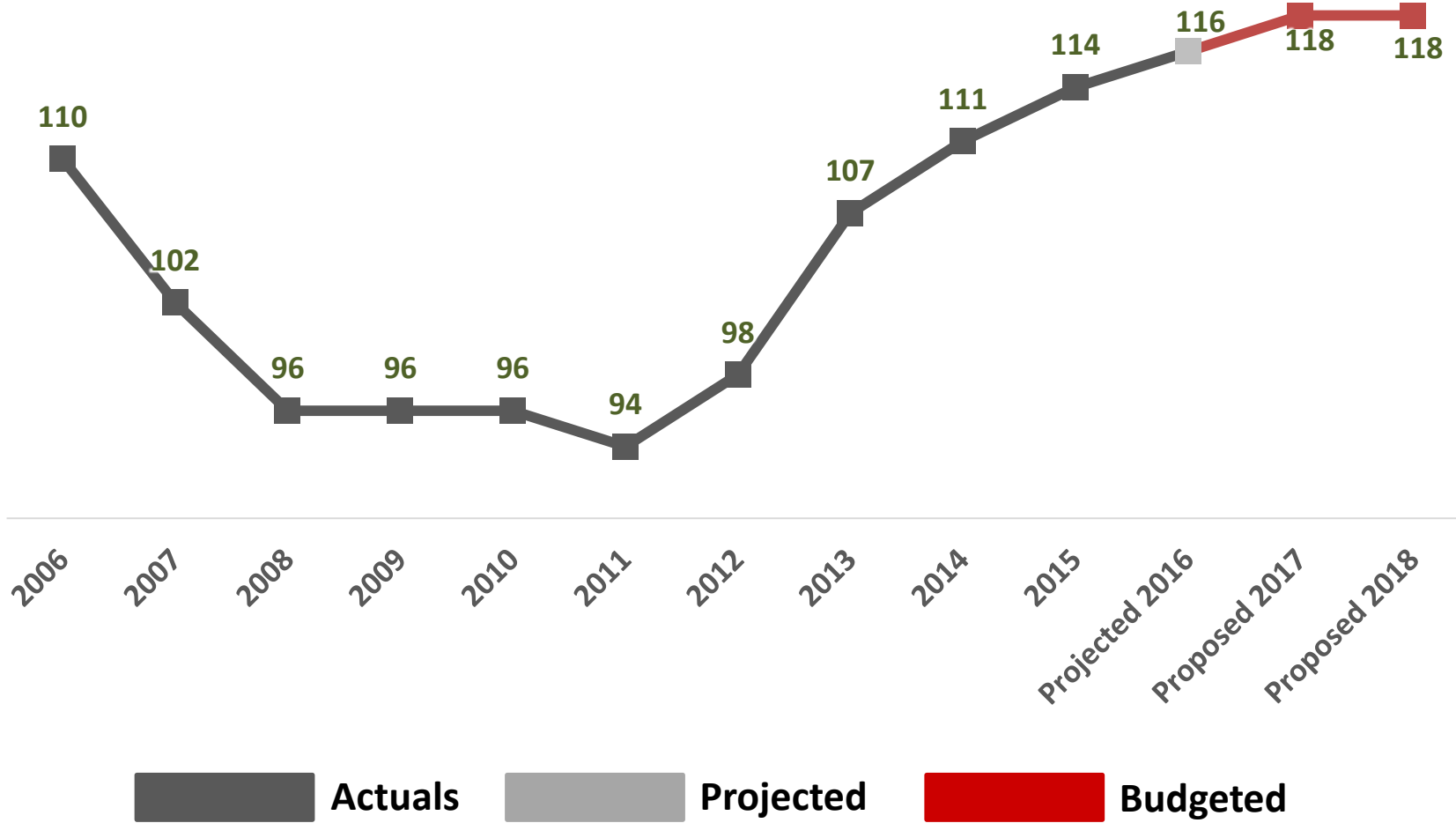
\*With proposed rate adjustment. Commercial unit train rate lower in 17/18.



# EXPENDITURES



# TACOMA RAIL EMPLOYEES



# BUDGET ASSUMPTIONS

- **Flat line haul growth**
  - **Intermodal**
  - **Commercial**
- **Personnel Costs**
  - **Cost of living adjustments**
  - **Reduction of 4 budgeted FTEs**
- **Regulatory requirements**
  - **Positive Train Control**
  - **Oil spill response plan & drills**

# REVENUE

(\$ in millions)	15/16 Budget	17/18 Budget	Budget to Budget	
<b>Operating Revenue</b>				
• Line Hauls and Local	\$57.2	\$55.9	\$0.6	1.0%
• Anticipated Rate Adjustment	0.0	1.8	1.8	100%
• Demurrage	2.1	2.3	0.2	7.1%
• Locomotive Servicing	2.7	3.7	1.0	36.9%
• Miscellaneous	1.0	0.5	-0.5	-45.6%
<b>Total Operating Revenue</b>	<b>\$63.0</b>	<b>\$64.3</b>	<b>\$1.3</b>	<b>2.0%</b>
<b>Non-operating Revenue</b>				
• Rent Income	\$2.0	\$2.2	\$0.2	7.6%
• Interest Income	0.2	0.2	0.0	9.0%
<b>Total Non-Operating Revenue</b>	<b>\$2.2</b>	<b>\$2.4</b>	<b>\$0.2</b>	<b>7.8%</b>
<b>Current Fund Appropriation</b>	<b>0.4</b>	<b>0.0</b>	<b>-0.4</b>	<b>-100%</b>
<b>Total Revenue &amp; Available Funds</b>	<b>\$65.6</b>	<b>\$66.6</b>	<b>\$1.0</b>	<b>1.5%</b>



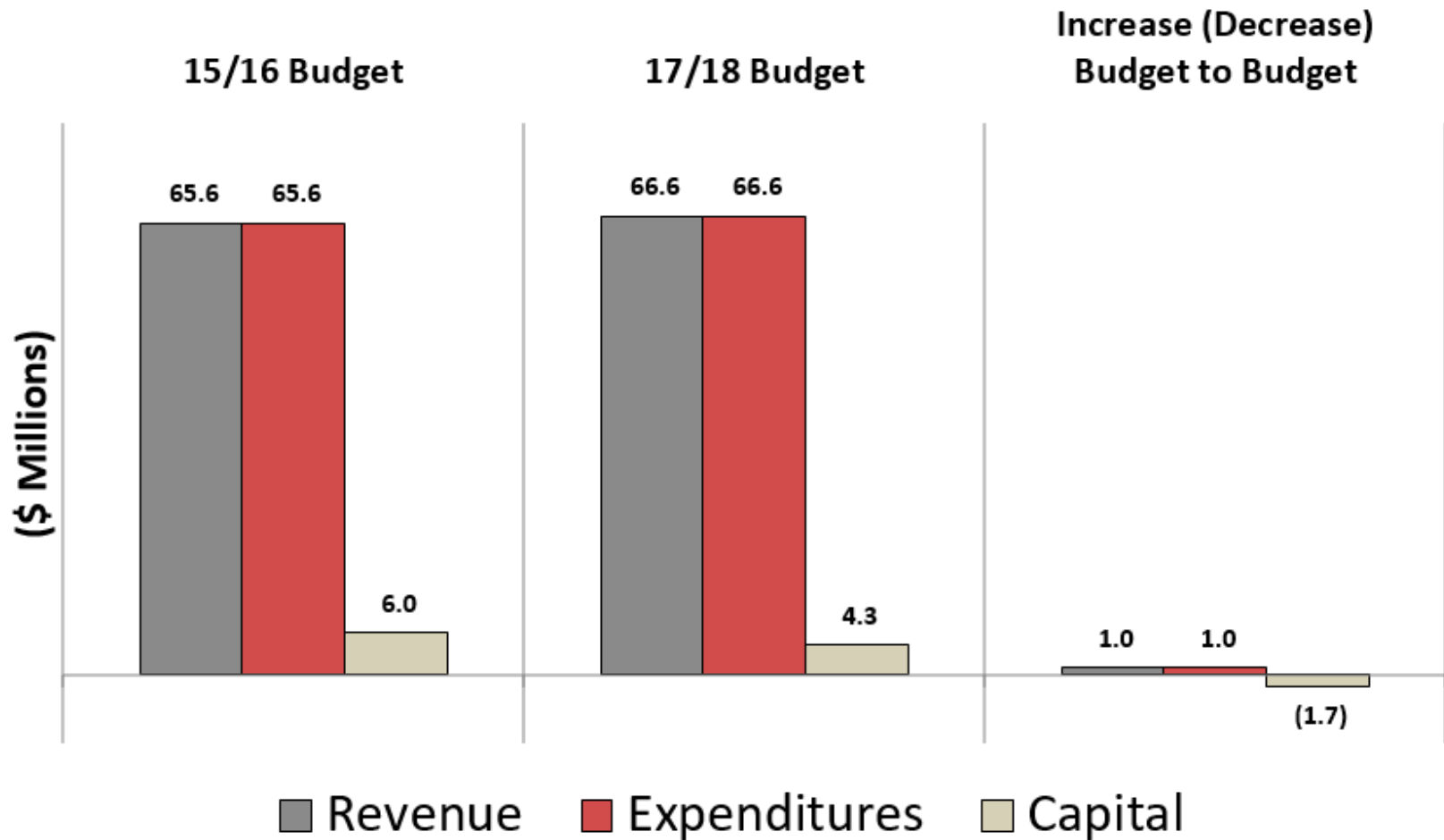
# EXPENDITURES

	15/16 Budget	17/18 Budget	Budget to Budget	
<i>(\$ in millions)</i>				
<b>Expenditures</b>				
• Personnel Costs	\$30.9	\$31.5	\$0.6	2.0%
• Supplies/Other	20.9	22.7	1.8	8.4%
• Taxes	6.4	6.3	-0.1	-1.0%
• Debt Service	1.4	1.8	0.4	25.7%
• Capital Outlay	6.0	4.3	-1.7	-28.0%
<b>Total Expenditures</b>	<b>\$65.6</b>	<b>\$66.6</b>	<b>\$1.0</b>	<b>1.5%</b>

# CAPITAL BUDGET

	15/16 Budget	17/18 Budget
<i>(\$ in millions)</i>		
<b>Capital Projects</b>		
General Plant	\$0.0	\$0.0
Communications	0.5	0.3
Facility Upgrades	1.1	1.0
Rail Equipment/Vehicles	2.7	1.0
Track Improvement Projects	6.3	3.4
<b>Total Capital Projects</b>	<b>\$10.6</b>	<b>\$5.7</b>
<b>Capital Funding Sources</b>		
Revenue Funded	\$6.0	\$4.3
Pledge	0.2	0.0
New Debt/Grants	4.4	1.4
<b>Total Sources of Funds</b>	<b>\$10.6</b>	<b>\$5.7</b>

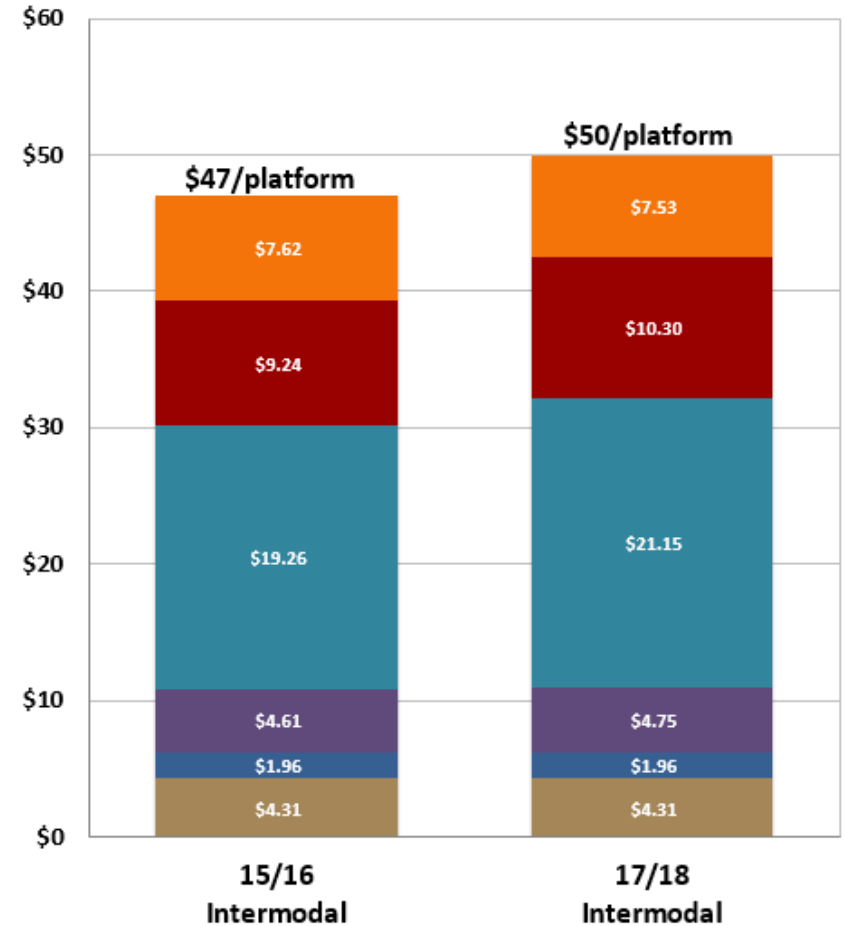
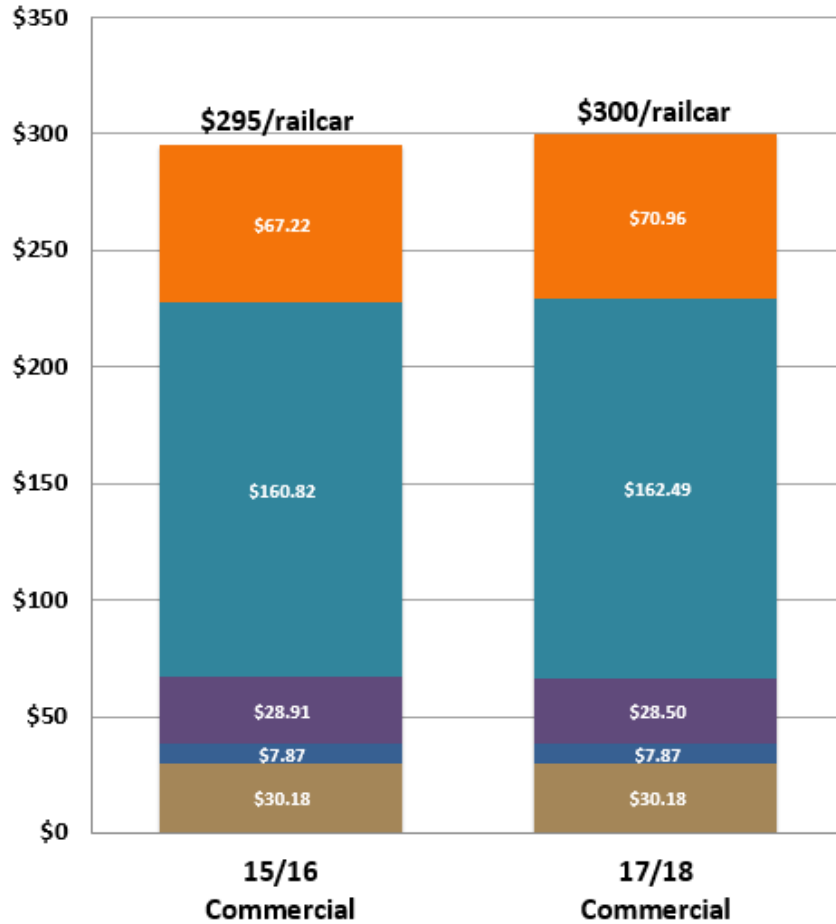
# BUDGET COMPARISON



# BUDGET RISKS & MITIGATION

- **Risks**
  - **Line haul volumes**
  - **New mandates**
- **Mitigation**
  - **Tiered volume incentive allowance**
  - **Furlough process**
  - **Budgeted more than \$600K**
    - **Positive Train Control**
    - **WA Ecology Oil Spill Response Plan drills**

# RATE DRIVER COMPARISON

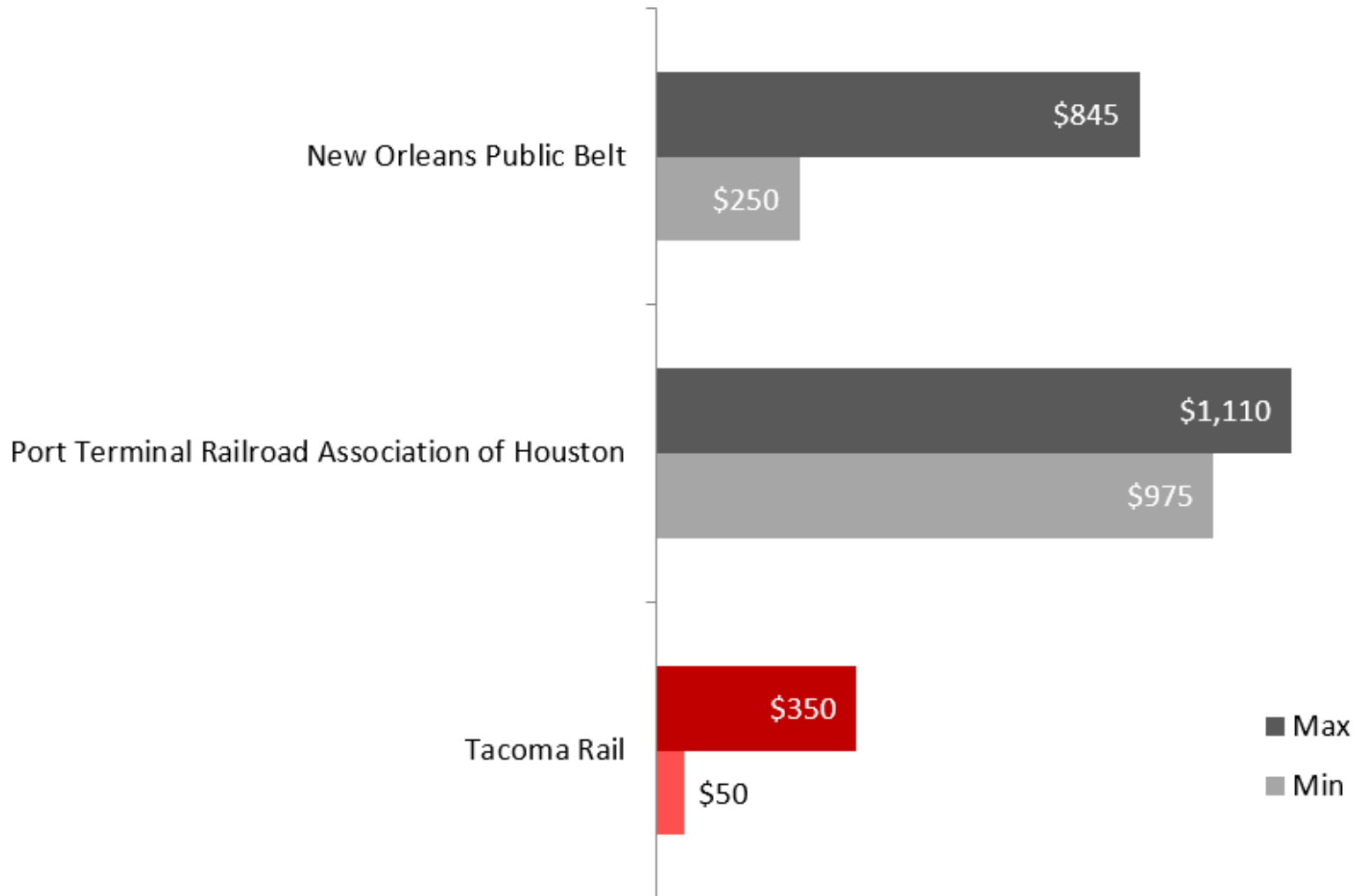


■ Capital      ■ Debt Service      ■ Taxes  
■ Personnel      ■ Incentive Allowance      ■ Supplies & Other

# PROPOSED RATE ADJUSTMENTS

- **Line haul rates**
  - **Last changed in 2012**
  - **Intermodal +\$3**
  - **Commercial +\$5**
- **Miscellaneous tariff rates**
  - **Last changed in 2007**
  - **Increase of 3%**
    - Special switch, intra-plant, intra-terminal, inter-terminal
  - **Establish intermodal intra-terminal charge**
- **Proposed effective date of January 1, 2017**
- **Unit train rate evaluation in 2017**
- **BNSF & Union Pacific trackage rights dispute**

# SHORT LINE RATE COMPARISON



# BUDGET SUMMARY

- **Budgeted FTEs down from 122 to 118**
- **Line haul volumes flat**
- **Regulations have an impact**
  - **Positive Train Control**
  - **WA Ecology Spill Response Plan**
- **Capital investment reduction**
- **Rates below benchmark short lines**
  - **Primary rate payers: BNSF & Union Pacific**



# SUMMARY & QUESTIONS