



TO: Elizabeth Pauli, City Manager
FROM: Jackie Flowers, Director of Tacoma Public Utilities
COPY: Government Performance & Finance Committee;
Andy Cherullo, Executive Liaison;
Ted Richardson, Staff Liaison
PRESENTER: Christina Leinneweber, Tacoma Power Senior Utilities Economist;
Lyna Vo, Tacoma Water Utilities Economist
SUBJECT: TPU Power and Water Rates in City of University Place
DATE: February 16, 2021

PRESENTATION TYPE: Informational Briefing

SUMMARY:

Tacoma Power and Water request to update the Government Performance and Finance Committee regarding University Place rate adjustments effective April 1, 2021, January 1, 2022, and April 1, 2022. The rate adjustment is a result of a utility tax imposed by the University Place City Council.

BACKGROUND:

Tacoma Power serves roughly 14,000 University Place customers. In 2020, the utility delivered approximately 207 million kWh and generated about \$21 million in revenue. During that same year, Tacoma Power provided approximately \$104,000 in regular assistance to about 425 customers, as well as about \$109,000 in special COVID assistance.

Tacoma Water serves roughly 9,500 University Place customers. In 2020, the utility delivered approximately 3 million gallons a day and generated about \$9 million in water sales. During that same year, Tacoma Water provided approximately \$16,000 in regular assistance to 109 customers, as well as about \$9,920 in special COVID assistance.

In November 2020, the City of University Place approved a utility tax on gross revenue from Tacoma Power and Water customers in that jurisdiction. The tax is 3% effective April 1, 2021 to March 31, 2022, and 6% effective April 1, 2022 and thereafter. Tacoma Power and Water will remit the value of this tax to the City of University Place. To ensure that the additional tax is passed through to University Place customers as a cost of service, Tacoma Power and Water are requesting increases in rates for University Place customers. The requested increase in rates for University Place customers is calculated to cover the increase in the taxes resulting from the new tax imposed by the City of University Place.

ISSUE:

In order to effectively recover the cost to serve and align with core rate-making principles, Tacoma Power and Water propose rate adjustments to University Place customers that coincide with the already-approved annual system-average rate adjustments and the new utility tax implementation dates.



ALTERNATIVES:

If no action is taken, the cost of University Place taxes will be borne by all customers in the service territory, instead of only customers in the University Place jurisdiction. This would violate rate-making principles and legal guidance regarding tax treatment.

FISCAL IMPACT:

The additional \$2.7 million in tax expense will be passed through to the University Place ratepayers and the additional \$2.7 million in revenue from those ratepayers will offset the expense.

RECOMMENDATION:

Tacoma Power and Water request recommendation from the Government Performance and Finance Committee for University Place rate adjustments effective April 1, 2021, January 1, 2022, and April 1, 2022, prior to the full City Council consideration.