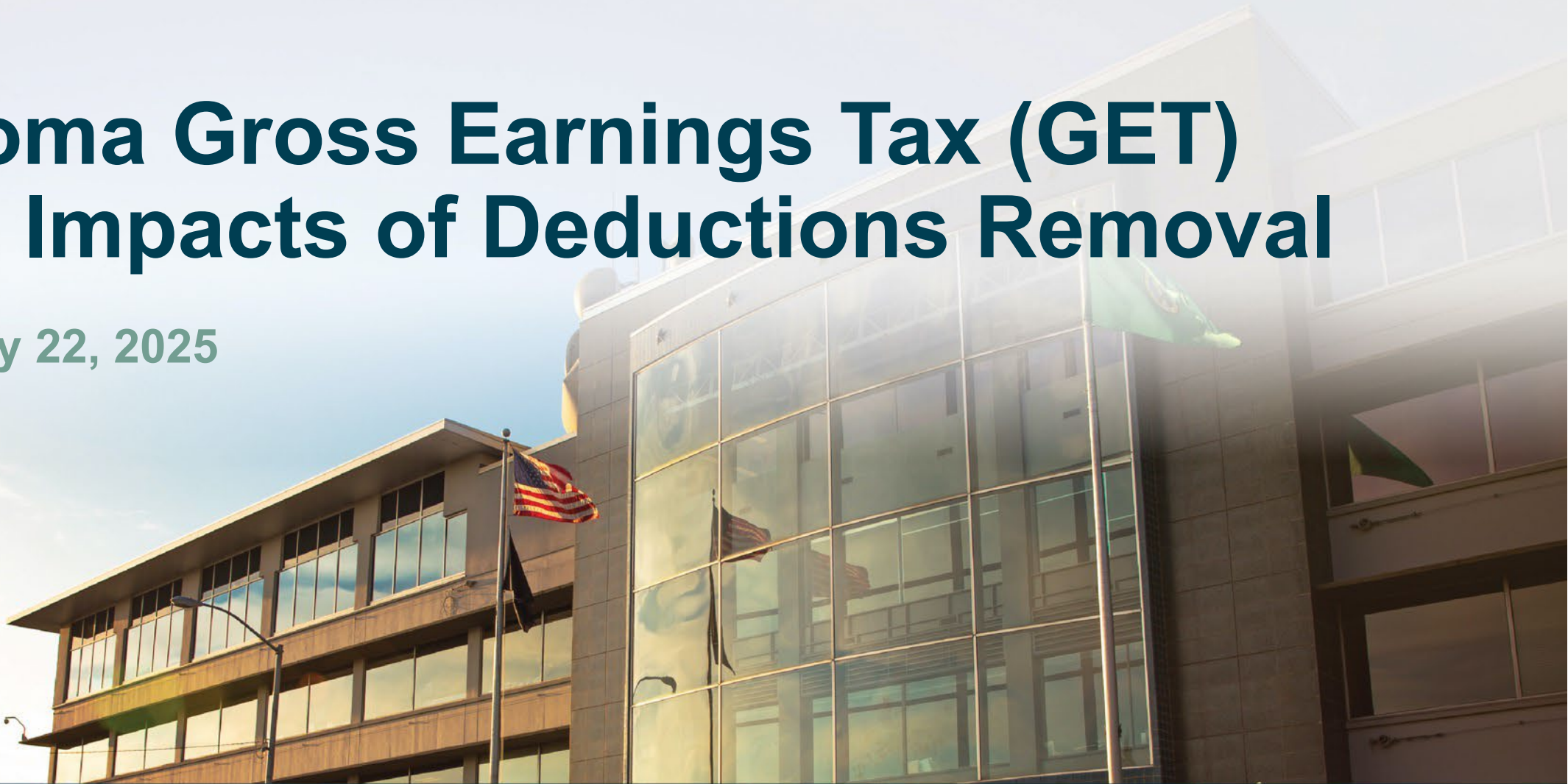


# Tacoma Gross Earnings Tax (GET) TPU Impacts of Deductions Removal

January 22, 2025



# Agenda



- **Overview**
- **Division Impacts of Deduction Removal**
  - **Water Overview**
  - **Power Overview**
  - **Rail Overview**
- **Change Management and Communication**
- **Summary and Next Steps**

## What is a Gross Earnings Tax (GET)?

- “Gross Earnings” is defined very broadly to:
  - [I]include the consideration, whether money, credits, rights, or property expressed in terms of money proceeding or accruing by reason of the transaction of business and includes gross proceeds of sales, compensation for rendition of services, gains realized from interest, rents, royalties, fees, commissions, dividends, and other emoluments, however designated, all without any deduction on account of cost of property sold, materials used, labor, interest, losses, discount, and any other expense whatsoever.
- City of Tacoma GET Defined (TMC 6A.100.030)
  - City is legally authorized to impose GET on City’s public utilities (water, power, rail, stormwater, wastewater, solid waste)

## Changes made by Finance to the Tacoma Municipal Code (TMC) to Remove Several Deductions that Impact TPU

- Interest Earned on Bond Proceeds
- Sale of Capital Assets
- Contributions in Aid of Construction (CIAC)
  - Definition
  - Cash and Donated

## Rate-making Principles and Policy

- Cost-causation rate-making principle
- **Board Guiding Principle 3 Rates** directs utility rates to “reflect ratemaking principles of adequate, fair and just rates that equitably assign costs of providing services to each customer class.”

## Cost of Service, Allocation of the Tax Expense

- Growth pays for growth

# Water Impact Overview



*Review Customer Service and Rate and Financial Policies*

*Review Tacoma Municipal Code Updates*

- **Water System Construction Charges**
- **System Development Charges**
- **Private Contracts**

*Process for Determining Value of a Donated Asset*

# Water Financial and Customer Policy References



## *Guiding Objectives for Water Rate Decisions*

### **Water Rates Shall Be Fair and Equitable**

*“Rates charged for each class of customer will be set to reflect the cost of supplying service to that class.”*

## *Customer Policies and TMC Applicable to All Tacoma Water Services*

### **CS Policy 22.0 Private Contract Charges, A. Responsibility for Fees:**

#### **TMC 12.10.200 Private Contract charges.**

*“The developer of a privately financed project will be responsible for all costs and expenses incurred by the Division for... related work necessary to complete the new water main...”*

#### **TMC 12.10.250 Water Service Construction Charges.**

*“...the owner or applicant shall pay in advance the fixed charge or a deposit...for the proposed work. For all estimated work, the requestor will be required... to pay the actual charges.”*

## *Changes needed to TMC 12.10.250 for Water Construction Services*

### **Fixed Charges**

- **Add 8% Gross Earnings Tax (GET) will be added in the fees**
- **1.75% B&O tax is already included in the current fee**
- **Update Fee Tables**
- **GET remitted prior to fee updates will be paid from operating cash**

### **Time and Materials**

- **Add 8% GET to overhead on invoice**
  - Existing TMC language, “. . . the amount charged for work . . . will be actual costs to the Division.”
  - 1.75% B&O currently included on the invoice
- **Agreement template will be reviewed with Legal and updated as needed**



*Changes will be needed to TMC 12.10.310 for System Development Charge (SDC)*

## **SDC Study Currently Underway**

- **Goal to complete review and analysis by January 31, 2025**
- **Add 8% GET to fee if within allowable thresholds**
- **PUB update and proposal to follow study completion**
- **GET remitted prior to fee updates will be paid from operating cash**

## *Financial Impacts*

### **CIAC - Capital Contributions (Cash and Donated Capital Assets)**

- **2025/26 Estimated tax expense for Contributions in Aid of Construction (CIAC) is \$2.8M**
- **Projections include quarterly posting of CIAC revenue for easements**
- **Based on rate making principles and policy, we will be recovering GET from customers causing the tax obligation**

### **Proceeds (Sale of Assets and Interest Earned on Capital Bonds)**

- **2025/26 Estimated additional tax expense for other revenues is \$550,000**
- **Tax expense will be recovered from all retail customers**

# Power Impact Overview



*Review Rate & Financial Policy*

*Review & Update Power Customer Service Policy*

*Process for Determining Value of a Donated Asset*

# Power Rate Policy References



## I. Rate Setting Objectives

### A. Serving Customer Needs in a Competitive Electric Industry

*“...Services or rates designed to meet the needs of one group of customers will be accomplished without negative impacts to other Tacoma Power customers.”*

### E. Cost-Based Rates

*“Rates charged to each class of customer will generally be set to reflect the costs of providing their service. This includes any taxes levied by the various jurisdictions that Tacoma Power serves.”*

## III. Rate Setting Policies

### A. Policies Applicable to All Tacoma Power Services

*“All Tacoma Power services, including rates and prices, will be designed to:  
...3. Recover all costs of service;...”*

### B. Policies Applicable to All Traditional Electric Services

*“Traditional Tacoma Power retail electric utility services (e.g., transmission, distribution, portfolio power supply), including rates and prices, will be designed to:*

*...2. Set rates or prices for each service at actual cost, except where specifically authorized;*

*3. Minimize cross-subsidies between services or between classes of customers, except where specifically authorized...”*

## *Changes needed to Power Customer Service Policy for Power Construction Services*

### **Fixed Charges**

- **Add 7.5% Gross Earnings Tax (GET) to fixed fees**
- **Add 1.75% B&O tax to fixed fees**
- **GET remitted prior to fee updates will be paid from operating cash**

### **Time and Materials**

- **Add 7.5% GET on the invoice**
- **Add 1.75% B&O tax on the invoice**
- **Agreement template will be reviewed with Legal and updated as needed**

# Gross Earnings Tax Deduction Removal Impacts



## *Financial Impacts*

### **CIAC - Capital Contributions (Cash and Donated Capital Assets)**

- **2025/26 Estimated tax expense for Contributions in Aid of Construction (CIAC) is \$2.3M**
- **Based on rate making principles and policy, we will be recovering GET directly from customers causing the tax obligation**

### **Proceeds (Sale of Assets and Interest Earned on Capital Bonds)**

- **2025/26 Estimated tax expense for other revenues is \$420,000**
- **Tax expense will be recovered from all retail customers**

- **Infrastructure**

- **WSDOT Wapato Creek Bridge replacement?**
  - **SR 167 extension to SR 509**
- **8% on estimated value**
- **Value unknown at this time**

- **Additional burden on rates. Likely no mechanism for payment from contributing party.**

# Rail Rate Policy Reference



- A. Rail rates should be cost based and adequate to recover Tacoma Rail's costs.
  - 1. Revenue requirements will be developed utilizing an average embedded cost-of-service methodology.
  - 2. Rates charged for each blended class of service will be set to reflect the cost of supplying that service. Any exceptions to cost-of-service principles will be explicitly noted in this policy.



- **Internal Processes**

- Valuation of Donated Assets
- Reconciliations and Preparation for Audits
- Staff Training on New Processes
- Financial Performance Reporting

- **Development Community Outreach**

- Collaborate with Account Executives and TPU Communications
- Develop communications plan

# Summary and Next Steps



- **GET exemptions is a policy decision**
- **Seeking board feedback on GET impact policy direction**
- **Policy changes related to GET deduction removal - Q1 2025**