



## RESOLUTION NO. U-11485

1 A RESOLUTION related to Tacoma Water; approving changes to the Tacoma  
2 Water Rate and Financial Policy and requesting that the Council of the  
3 City of Tacoma also approve such changes.

4 WHEREAS the City of Tacoma, Department of Public Utilities, Water  
5 Division ("Tacoma Water") has proposed changes to its Water Rate and  
6 Financial Policy to expand one of the objectives to include water quality, and )  
7 also make minor language edits.

8 WHEREAS the Water Rate and Financial Policy gives direction to  
9 planning decisions and helps ensure that Tacoma Water provides an adequate  
10 supply of safe, clean water to all customers efficiently; and

11 WHEREAS revisions to Tacoma Water's Water Rate & Financial Policy  
12 requires approval by the Public Utility Board and Tacoma City Council, pursuant  
13 to Tacoma City Charter section 4.11, and

14 WHEREAS the recommended changes to the Water Rate & Financial  
15 Policy are just, fair and reasonable, and are in the best interest of the citizens of  
16 Tacoma and the customers of Tacoma Water, and Tacoma Water requests that  
17 the Board approve said revisions and amendments;

18 WHEREAS Tacoma Water's Water Rate & Financial Policy was last  
19 updated in November 2022; Now, therefore,

20 BE IT RESOLVED BY THE PUBLIC UTILITY BOARD OF THE CITY OF TACOMA:

21 That the proposed updates to Tacoma Water's Water Rate and Financial  
22 Policy attached hereto as Exhibit A are hereby approved, and the City Council  
23 of Tacoma is requested to approve such updates as set forth in Exhibit A and  
24  
25  
26



on file with the Clerk of the Board, and as approved by the City Attorney's

1 Office.

2 Approved as to form:

3 \_\_\_\_\_  
4 /s/

Chief Deputy City Attorney

5 \_\_\_\_\_  
6 Clerk

Chair \_\_\_\_\_

Secretary \_\_\_\_\_

Adopted \_\_\_\_\_

- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25
- 26



## Board Action Memorandum

**TO:** Jackie Flowers, Director of Utilities  
**COPY:** Charleen Jacobs, Director and Board Offices  
**FROM:** Heather Pennington, Tacoma Water Superintendent  
**MEETING DATE:** October 23, 2024  
**DATE:** October 10, 2024

---

### **GUIDING PRINCIPLE ALIGNMENT (select as many that apply):**

Please indicate which of the Public Utility Board's Guiding Principle(s) is supported by this action.

- |  |  |
|--|--|
| <input type="checkbox"/> GP1 – Diversity, Equity, Inclusion, Belonging | <input type="checkbox"/> GP8 – Telecom               |
| <input checked="" type="checkbox"/> GP2 – Financial Sustainability     | <input type="checkbox"/> GP9 – Economic Development  |
| <input checked="" type="checkbox"/> GP3 – Rates                        | <input type="checkbox"/> GP10 – Government Relations |
| <input type="checkbox"/> GP4 – Stakeholder Engagement                  | <input type="checkbox"/> GP12 – Employee Relations   |
| <input type="checkbox"/> GP5 – Environmental Sustainability            | <input type="checkbox"/> GP13 – Customer Service     |
| <input type="checkbox"/> GP6 – Innovation                              | <input type="checkbox"/> GP14 – Resource Planning    |
| <input type="checkbox"/> GP7 – Reliability & Resiliency                |  |

### **SUMMARY:**

Tacoma Water is requesting approval of proposed updates to the Water Rate and Financial Policy to include water quality and other minor language edits.

### **BACKGROUND:**

The Water Rate and Financial Policy gives direction to planning decisions and helps ensure that 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. This policy was last updated in November 2022.

**ARE THE EXPENDITURES AND REVENUES PLANNED AND BUDGETED?** Yes

**IF THE EXPENSE IS NOT BUDGETED, PLEASE EXPLAIN HOW IT IS TO BE COVERED.** NA

### **ATTACHMENTS:**

- Request for Resolution
- Council Action Memorandum
- Proposed Water Rate and Financial Policy Redlined
- Proposed Water Rate and Financial Policy Clean

### **CONTACT:**

- Primary Contact: Lyna Vo, Utilities Economist
- Supervisor: Jodi Collins, Financial Stewardship Manager
- Presenter: Jodi Collins, Financial Stewardship Manager



**TO:** Elizabeth Pauli, City Manager  
**FROM:** Heather Pennington, Tacoma Water Superintendent  
 Jackie Flowers, Director of Tacoma Public Utilities  
**COPY:** Tacoma City Council and City Clerk  
**SUBJECT:** Proposed Changes to Tacoma Water’s Water Rate and Financial Policy  
**DATE:** November 19, 2024

**SUMMARY AND PURPOSE:**

Tacoma Water is requesting approval of proposed updates to the Water Rate and Financial Policy to include water quality and other minor language edits.

**BACKGROUND:**

**This Department’s Recommendation is Based On:**

The Water Rate and Financial Policy gives direction to planning decisions and helps ensure that 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. This policy was last updated in November 2022.

**COMMUNITY ENGAGEMENT/ CUSTOMER RESEARCH:**

**Community Engagement.** In preparation for this request, Tacoma Water sought input from policymakers during PUB study sessions and members of the public during a PUB meeting public comment period.

**2025 STRATEGIC PRIORITIES:**

**Equity and Accessibility: (Mandatory)**

Tacoma Water’s Water Rate and Financial Policy addresses equity and accessibility through guiding objectives: rates should ensure adequate supply, set as low as responsible, be fair and equitable, based on long-term financial planning and adjusted gradually, and the product of customer involvement.

**Livability: Equity Index Score: Moderate Opportunity**

Increase positive public perception of safety and overall quality of life.

Improve access and proximity by residents to diverse income levels and race/ethnicity to community facilities, services, infrastructure, and employment.

**Explain how your legislation will affect the selected indicator(s).**

Tacoma Water’s mission is to provide clean, reliable water. Changes to the Water Rate and Financial Policy ensure Tacoma Water can continue to meet its mission for the long-term and ensure safety and quality of life for the community it serves.

**ALTERNATIVES:**

Alternative(s)	Positive Impact(s)	Negative Impact(s)
1. Updated language is not adopted		Tacoma Water’s Water Rate and Financial Policy will not include language that reflects the City’s or PUB’s commitment to long-term planning



2.		
3.		

**EVALUATION AND FOLLOW UP:**

Tacoma Water’s Financial Stewardship staff will conduct regular quantitative and qualitative reviews of the Water Rate and Financial Policy to ensure that the policy is sound and is reflective of management and Public Utility Board directives and priorities.

**STAFF/SPONSOR RECOMMENDATION:**

Tacoma Water recommends that the updated language of the Water Rate and Financial Policy is approved by the Tacoma City Council.

**FISCAL IMPACT:**

Changes to the policy sets a target and upper limit for reserve fund balances, but Tacoma Water staff does not anticipate any fiscal impact at this time.

Fund Number & Name	COST OBJECT (CC/WBS/ORDER)	Cost Element	Total Amount
1.			
2.			
<b>TOTAL</b>			

**What Funding is being used to support the expense?**

NA

**Are the expenditures and revenues planned and budgeted in this biennium’s current budget?**

NA

**Are there financial costs or other impacts of not implementing the legislation?**

No

**Will the legislation have an ongoing/recurring fiscal impact?**

No

**Will the legislation change the City’s FTE/personnel counts?**

No

**ATTACHMENTS:**

- Proposed Water Rate and Financial Policy Redlined
- Proposed Water Rate and Financial Policy Clean

Style Definition: TOC 3: Tab stops: 0.76", Left + 6.49",  
Right, Leader: ...

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

**November 2022**

Adopted by Public Utility Board Resolution U-44328 on June 29, 2022  
Adopted by City Council Resolution No. 44064 on November 15, 2022

TACOMA PUBLIC UTILITIES  
TACOMA WATER

**TABLE OF CONTENTS**

WATER RATE AND FINANCIAL POLICY .....	3
I.  PURPOSE .....	3
II. GUIDING OBJECTIVES FOR WATER RATE DECISIONS .....	3
A.  Water Rates Should Ensure <del>Adequate Supply</del> <u>Water Quality and Robust Supply</u> .....	3
B.  Water Rates Should Be As Low As Is Responsible.....	3
C.  Water Rates Shall Be Fair and Equitable.....	3
D.  Water Rates Should Be Based on Long-Term Financial Planning and Adjusted Gradually .....	3
E.  Water Rates Should Be the Product of Customer Involvement.....	3
III. POLICIES .....	3
A.  Water Rates Should Ensure <del>Adequate Supply</del> <u>Water Quality and Robust Supply</u> .....	3
B.  Water Rates Should Be As Low As Is Responsible.....	4
C.  Water Rates Shall Be Fair and Equitable.....	65
D.  Water Rates Should Be Based on Long-Term Financial Planning and Adjusted Gradually .....	87
E.  Water Rates Should Be the Product of Customer Involvement.....	8

TACOMA PUBLIC UTILITIES  
TACOMA WATER

WATER RATE AND FINANCIAL POLICY

I. PURPOSE

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

II. GUIDING OBJECTIVES FOR WATER RATE DECISIONS

- A. Water Rates Should Ensure ~~Adequate Supply~~ Water Quality and Robust Supply.
- B. Water Rates Should Be As Low As Is Responsible.
- C. Water Rates Shall Be Fair and Equitable.
- D. Water Rates Should Be Based on Long-Term Financial Planning and Adjusted Gradually.
- E. Water Rates Should Be the Product of Customer Involvement.

III. POLICIES

- A. Water Rates Should Ensure ~~Adequate Supply~~ Water Quality and Robust Supply
  - 1. Water rates must be designed to adequately fund the acquisition of new resources and conservation consistent with local, state and federal laws and regulations and consistent with the responsibility of Tacoma Water as a regional purveyor for identified portions of Pierce and South King Counties as described in the Tacoma Second Diversion Water Right, Pierce County Coordinated Water System Plan, Tacoma Water System Plan, Second Supply Agreement, and any other official planning document as appropriate.
  - 2. Rate adjustments will be proposed in amounts sufficient to meet reasonable Tacoma Water budgets, while minimizing the long-run costs to the rate-payer. Since some actions such as supply



TACOMA PUBLIC UTILITIES  
TACOMA WATER

development can influence the level of revenue needed over a period of years, staff will estimate both the short-run and long-run rate impacts of proposals presented to the Public Utility Board for consideration.

3. The revenue requirements analysis will study the projected revenue, expenses and capital improvements for the period to be covered by the rate change.
4. Modeling assumptions used in the estimation of water consumption and revenue for the rate review shall use industry standards, generally accepted econometric models, relevant forecasted local data, or a combination thereof.
5. Water rates will be designed to promote conservation as a long-term resource that will extend the use of the existing source of supply.
6. Water rates will be adequate to maintain the quality of the environment and balance the needs of customers (including the personal, aesthetic, recreational, and business objectives of customers) with the preservation of sensitive ecosystems at the source of supply.
7. Water rates will support a reasonable plan for replacement of aging water supply, distribution and storage infrastructure.
8. Climate change and equity will be incorporated when planning for investments and improvements to the water system.
9. Water rates will be designed to preserve and protect water quality. This includes the maintenance of sources of supply, infrastructure, facilities, and personnel to meet or exceed regulatory requirements.

B. Water Rates Should Be As Low As Is Responsible

1. Rate revenue together with other revenue sources, will cover current costs and meet or exceed all bond and other requirements necessary to maintain financial sufficiency.
2. Tacoma Water will secure the least costly means of financing for capital improvement projects based on evaluation of the Utility's financial position and capital needs. Financing mechanisms may include the use of revenue funding, unallocated operating or capital reserves, low interest loans, revenue bond funding and other means as deemed prudent.

TACOMA PUBLIC UTILITIES  
TACOMA WATER

3. Senior Debt Service Coverage will be maintained above 1.50, exceeding Tacoma Water's bond covenant requirement of net revenue at least 1.25 times annual senior debt service. All-In Debt Service Coverage will be maintained above 1.25 except when cash reserves are budgeted to meet the annual revenue requirement, when it will be maintained above 1.00.

Major capital investments and other commitments that would significantly affect costs, rates or prices for Tacoma Water services will be evaluated against costs and benefits and documented before commitments are made. Such evaluations will address both short- and long-term, as well as potential or uncertain, impacts on costs and revenues.

4. Rates shall be set at levels such that projected current fund (fund 4600) cash balances will be ~~equal to~~ more than 60 days of current budgeted expenditures in each year of the planning period. It is recognized, however, that seasonal fluctuations may cause balances to be below recommended levels, but rates should be set such that the minimum cash balance in any month does not drop more than 40 percent below the recommended level. Operating surpluses may be applied to the Operating Reserve, capital construction or the Capital Reserve Fund.
5. Tacoma Water will exercise responsible cost control of department administration and overhead expenses consistent with industry standards.
6. Tacoma Water maintains two types of special funds that provide flexibility in ensuring timely acquisition, replacement and upgrade of the Utility's water system infrastructure and capital assets. Expenditures from these funds, subject to the limitations discussed below, may be used to offset the impact of rate increases.

The Water Capital Reserve Fund can be budgeted on a biennial basis as revenues become available for appropriate capital projects. A minimum balance of 1% of original cost plant-in-service will be maintained in the Fund.

The System Development Charge Fund is intended to provide capital funding for source development, transmission, storage, and related facilities. A minimum balance of \$2,000,000 will be maintained in the Fund to deal with unforeseen emergencies and contingencies, which would be authorized by separate Public Utilities Board approval.

TACOMA PUBLIC UTILITIES  
TACOMA WATER

7. A special contract water rate may be developed in lieu of a system development charge for short-term temporary facilities provided sufficient surplus water is available for the term of proposed use. For purposes of this policy, short-term will generally be considered to be twenty years or less.
8. 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 and Equitable

1. Rates charged for each class of customer will be set to reflect the cost of supplying service to that class. Any exceptions to cost-of-service principles will be explicitly noted in this policy document.
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.
3. A short-term market based rate may be considered for marketing surplus water to industrial or wholesale customers if such a rate would increase net revenue to the Utility and no other customer class would be adversely impacted.
4. Conformance with responsible water use standards will be encouraged by the use of rate design and/or special charges.
5. A rate may be designed that would include an amount of water in the ready to serve charge.
6. Incentives will be considered for construction and conversions incorporating water conservation measures.
7. A rate surcharge may be proposed under unusual conditions, such as a drought, to ensure adequate revenues.
8. A rate surcharge may be proposed to improve acquired water systems which do not meet current Tacoma Water standards. This surcharge will apply to the service area of the sub-standard system and be used solely for the purpose of bringing that system up to standard.

TACOMA PUBLIC UTILITIES  
TACOMA WATER

9. Rates for retail customers located outside the corporate boundaries of the City of Tacoma will be 20 percent higher than rates for inside City customers.
10. The assignment of costs of existing water supply resources to customers will be based on how those resources are used to meet system demands at the time of the current rate study.
11. The assignment of costs for new resources will reflect the anticipated use characteristics of those resources in either supplying normal water flows or providing extra water during times of peak usage.
12. Rates for new or additional water demand in excess of 1 million gallons a day (MGD) within any 12-month period may be designed to recover up to the full additional source of supply costs, less credit for any system development charge paid. *The use of water efficient technology will be a key consideration in the application of this provision.*
13. New customer hook-ups and enlarged services will be charged at current cost of main extension, including the cost of mains, inspection fees, services, meters, and any necessary fire protection service. A system development charge will be imposed on new or expanded services and may include charges for additional source of supply, transmission, storage, and pumping facilities. Adequate provisions shall be made to permit those who develop new services to recover main extension costs from those who subsequently use those water mains.
14. Periodic checks of actual revenues collected should be compared to projected revenue requirements by class. If the collections are not within an appropriate range, demand projections will be reviewed.
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.
16. The needs of low-income, senior, and disabled water customers will be considered when establishing rates, providing bill assistance, developing and implementing customer programs, and offering financial education.

TACOMA PUBLIC UTILITIES  
TACOMA WATER

D. Water Rates Should Be Based on Long-Term Financial Planning and Adjusted Gradually

1. To the extent possible, rate adjustments will not exceed general inflationary trends. Phased-in adjustments over a limited time period may be used for projects requiring a considerable change in rate levels.
2. The number of rate schedules will be minimized by combining customers of reasonably similar use and cost-of-service characteristics.
3. Each rate schedule, except irrigation, will contain a monthly customer charge that will reflect, at a minimum, administrative and billing cost.
4. For revenue stability purposes, customer charges may be designed to recover up to 65 percent of revenue requirements for customer classes with strong seasonal consumption patterns.
5. Regular reviews will be performed to determine the adequacy of rates, and a full revenue requirements study will be performed every two years.
6. Seasonal rate design may be used to promote conservation during periods of greatest consumption. The second tier of a seasonal rate may be set to reflect the marginal cost of supply for the Utility.

E. Water Rates Should Be the Product of Customer Involvement

1. Any decision to revise rate-making policies will be done in an orderly fashion and formalized by resolution.
2. The Public Utility Board must review the existing rate policy well in advance of consideration of each rate adjustment. Any proposed changes require formal Board and City Council resolutions.
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.
4. If an emergency rate adjustment becomes necessary due to drought or other unforeseen conditions, the emergency nature of the rate surcharge (or rollback) may necessitate a recommendation to the City Council using a reduced public involvement schedule. Such an

TACOMA PUBLIC UTILITIES  
TACOMA WATER

emergency adjustment shall be followed by a reevaluation of the change in accordance with the formal procedures outlined in this policy.

5. A professional rate expert may be hired to represent the interests of the residential class during the rate process.
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 equitable access to information on water rates, rate policy or rate assistance programs.
7. To the extent practicable, services and associated rates and fees will be designed to offer maximum choice and flexibility to meet customer needs and desires.