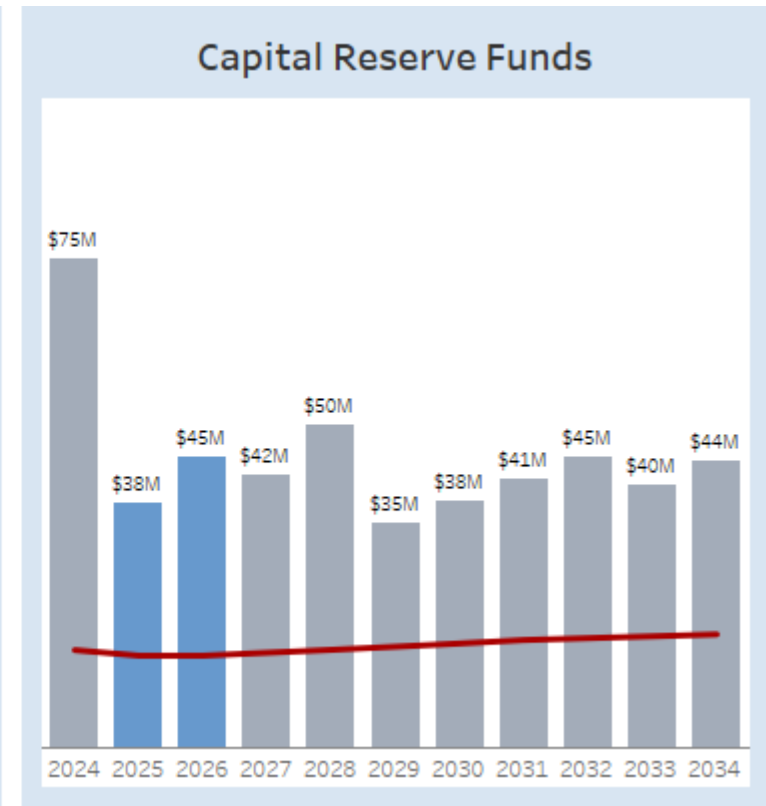
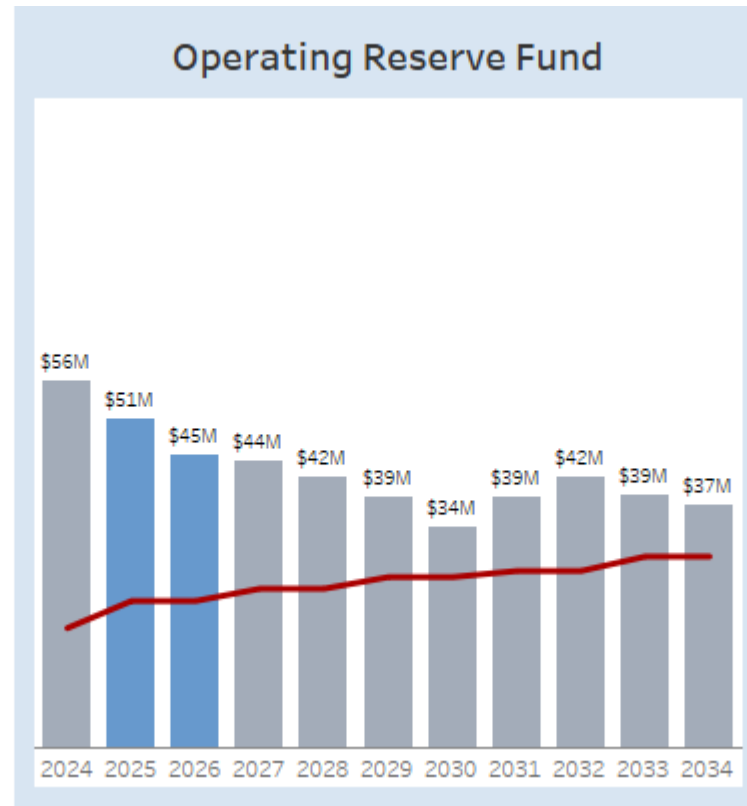
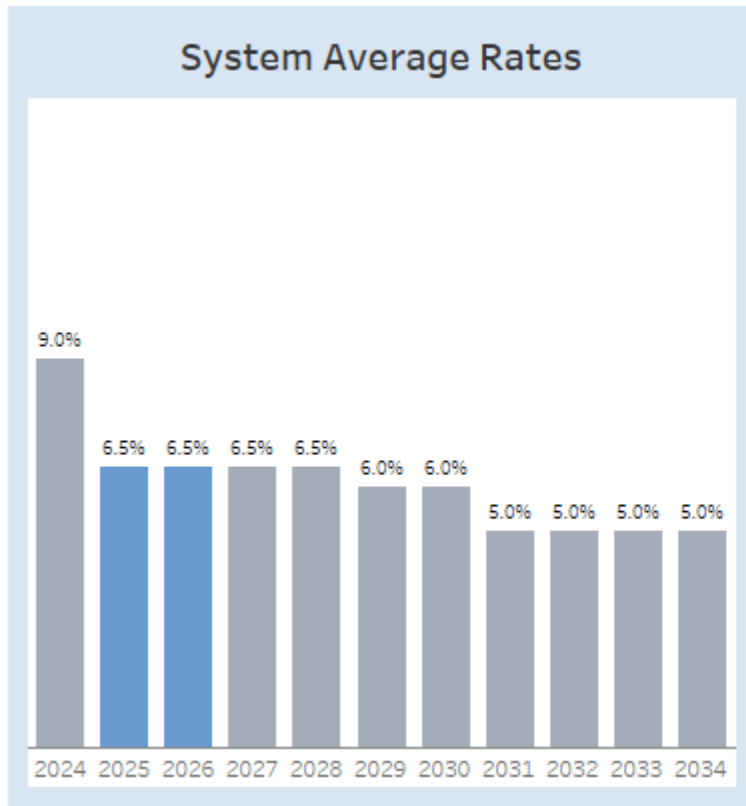


# Follow Up: 2025/2026 Budget, LRFP, COSA, and Rates

**Presented by Financial Stewardship to the Public Utility Board on August 28, 2024**

# 2025/2026 Base Case (updated since 8/14)

Adding increased assessments of \$1.5 million per year reduced projected Operating Fund reserves by \$15 million, and the fund balance is near the policy minimum by the end 2034.



# 2025/2026 O&M Budget Increases

Our financial modeling incorporates average cost increases to be sure we don't plan for higher rate increases than we need. O&M expenses for personnel, assessments, supplies, services & charges is **19.7% higher than last biennium, nearly 12% higher than expected.**

<i>Budget to Previous Budget Comparison</i>				
<i>Budget Category</i>	<i>2023/24 Budget</i>	<i>2025/26 Budget</i>	<i>\$ Change</i>	<i>% Change</i>
Personnel	\$ 73.1	\$ 89.4	\$ 16.3	22.3%
Assessments	36.1	42.4	6.3	17.5%
Supplies, Services, Charges	38.8	45.3	6.5	16.8%
<b>Total 'Normal O&amp;M'</b>	<b>\$ 148.0</b>	<b>\$ 177.1</b>	<b>\$ 29.1</b>	<b>19.7%</b>
Taxes	30.5	33.1	2.6	8.5%
Existing Debt Service	46.1	44.5	-1.6	-3.5%
New Debt Service	-	5.9	5.9	-
<b>Total O&amp;M Change</b>	<b>\$ 224.6</b>	<b>\$ 260.6</b>	<b>\$ 36.0</b>	<b>16.0%</b>

<i>Budget to Previous LRFP Comparison</i>		
<i>2023/24 Modeled for 2025/26 Budget</i>	<i>\$ Change</i>	<i>% Change</i>
\$ 79.0	\$ 5.9	8.1%
38.7	2.6	7.2%
41.4	2.6	6.7%
<b>\$ 159.3</b>	<b>\$ 11.1</b>	<b>7.5%</b>
31.1	0.6	2.0%
44.3	-1.8	-3.9%
-	-	-
<b>\$ 234.5</b>	<b>\$ 9.9</b>	<b>4.4%</b>

# Funding 2025/2026 O&M Budget Increases

Our plan funds 39.7% of the \$36 million increase with operating reserves. Rate adjustments cover the remainder of the increase for the biennium and provides ongoing revenue that maintains debt service coverage and supports compounding benefits for future expenses.

<i>Budget Category</i>	<i>Additional \$ Needed</i>	<i>Operating Reserves</i>	<i>Rate Increase</i>
Personnel	\$ 16.3	\$ 7.3	\$ 9.0
Assessments	6.3	4.2	2.1
Supplies, Services & Other	6.5	2.8	3.7
<b>Total 'Normal O&amp;M'</b>	<b>\$ 29.1</b>	<b>\$ 14.3</b>	<b>\$ 14.8</b>
Taxes	\$ 2.6	\$ -	\$ 2.6
Existing Debt Service	(1.6)	-	(1.6)
New Debt Service	5.9	-	5.9
<b>Total O&amp;M Change</b>	<b>\$ 36.0</b>	<b>\$ 14.3</b>	<b>\$ 21.7</b>

<i>Operating Fund Balance</i>	
Beginning Balance (1/1/2025)	\$ 56.4
Revenues 2025-26	263.3
Expenses 2025-26	(274.6)
<b>Ending Balance (12/31/2026)</b>	<b>\$ 45.1</b>

Policy Minimum \$ 22.6

# 2025/2026 Capital Budget Increases

Our Capital budget and CIP is higher due to new projects, regulatory mandates, and construction inflation. At the same time, reserves will be augmented with debt funding.

- Our plan funds 50.3% of the 2025/2026 budget with existing capital reserves and the remainder with anticipated bond proceeds
- The Capital Improvement Plan (CIP) includes sustained, ongoing infrastructure needs and deferrals beyond the planning period
- Our capital funding plan includes use of debt, reserves, and rate revenue
  - This is a big change and incorporates additional debt service expense into the O&M plan
- Maintaining a higher level of capital reserves during times of interest rate volatility provides flexibility and the opportunity to delay revenue bonds and borrow from ourselves in the short-term, saving money for our customers

## 2025/2026 Capital Funding

Water Budget from Reserves	\$	34.8
RWSS Capital from Reserves		10.3
Water Capital from Bonds		44.5
<b>Total Capital Expenditures</b>	<b>\$</b>	<b>89.6</b>

## Capital Funds Balance

Beginning Balance (1/1/2025)	\$	76.8
Revenues 2025/26		14.6
Transfers for Capital 2025/26		(45.0)
<b>Ending Balance (12/31/2026)</b>	<b>\$</b>	<b>46.4</b>
Policy Minimum	\$	14.2

# Reserves Provide Flexibility

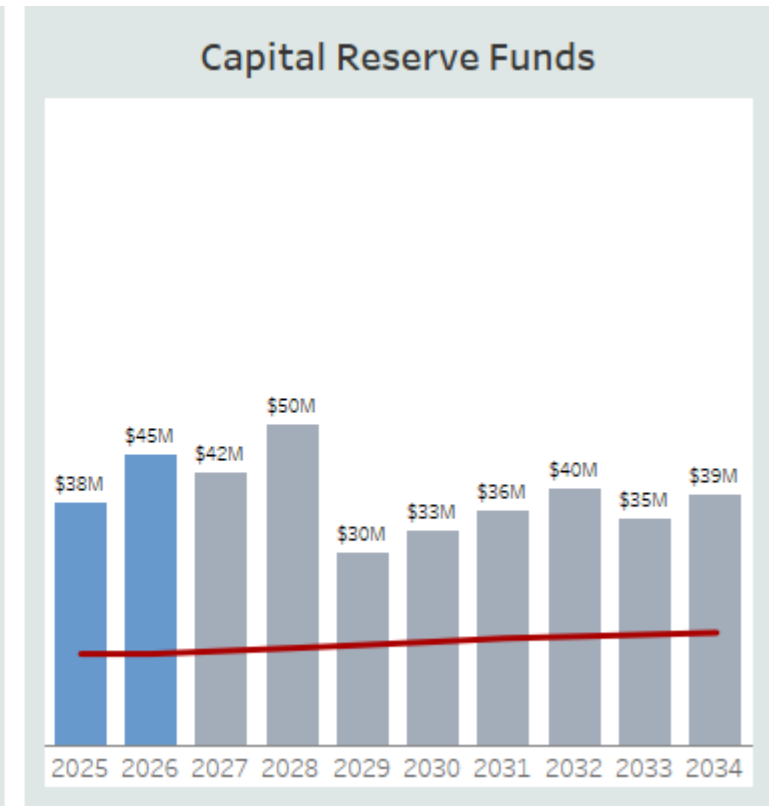
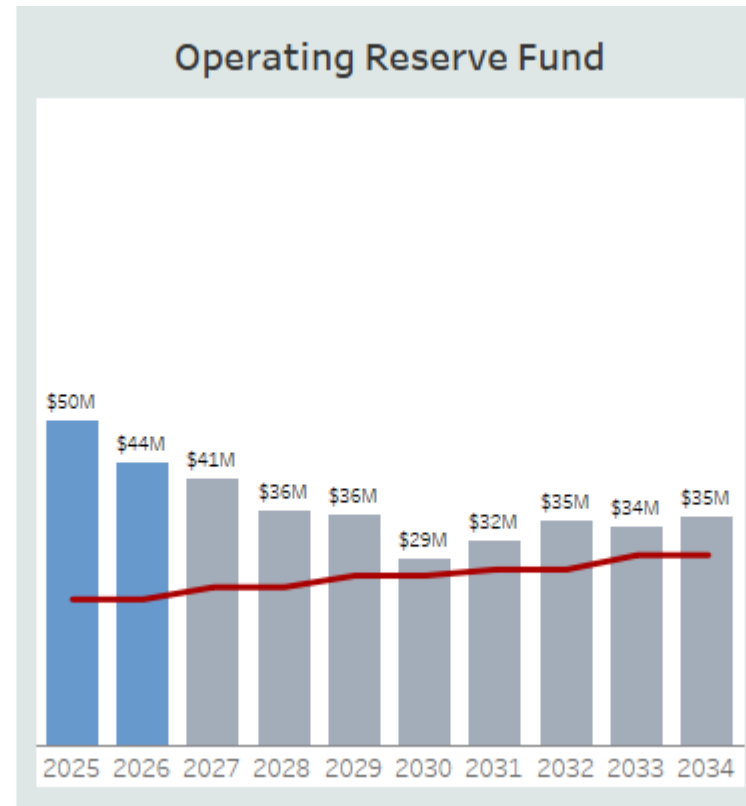
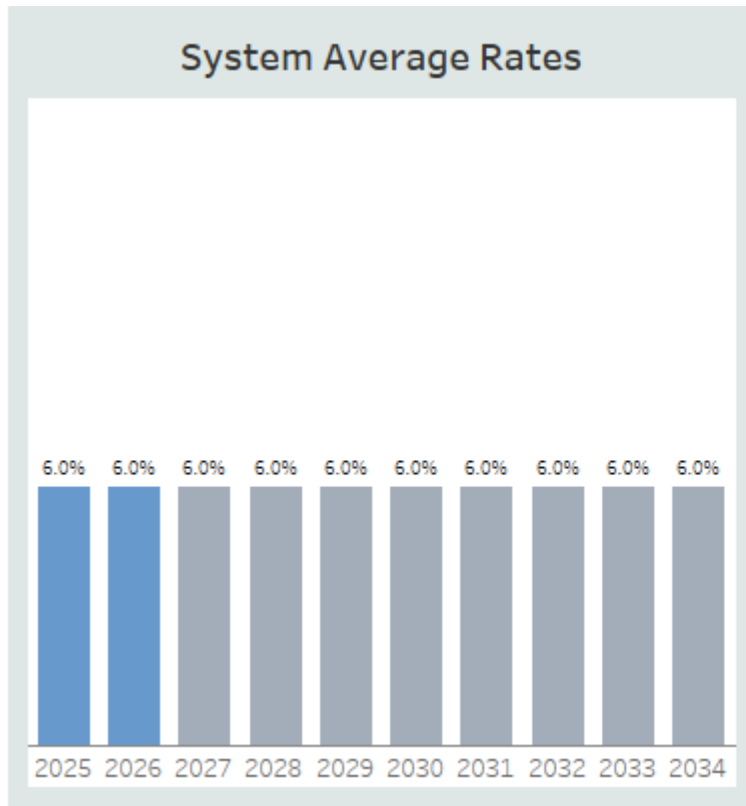
**2025/2026 plan includes \$11.3 million from operating reserves to lower rate increases. \$45.1 million from capital reserves in 2025, with debt planned to fund portion of capital for 2026-28.**

Year	Operating Reserve Spend-down		Capital Reserve Spend-down		SDC Fund Spend-down (includes Rate Stabilization Account)		Total Reserve Spend-down	
	Year-end Balance	Change	Year-end Balance	Change	Year-end Balance	Change	Year-end Balance	Change
2019	67,999,772	-	38,261,216	-	73,294,466	-	179,555,454	-
2020	66,638,225	(1,361,547)	41,220,865	2,959,649	77,260,182	3,965,716	185,119,272	5,563,818
2021	62,483,012	(4,155,213)	33,158,861	(8,062,004)	78,768,250	1,508,068	174,410,123	(10,709,149)
2022	60,380,368	(2,102,644)	14,964,836	(18,194,025)	80,044,102	1,275,852	155,389,306	(19,020,817)
2023	59,956,261	(424,107)	18,218,893	3,254,057	65,005,436	(15,038,666)	143,180,590	(12,208,716)
2024	56,416,160	(3,540,101)	16,613,959	(1,604,934)	58,670,492	(6,334,944)	131,700,611	(11,479,979)
2025	50,699,325	(5,716,835)	12,433,206	(4,180,753)	25,133,997	(33,536,495)	88,266,528	(43,434,083)
2026	45,074,092	(5,625,233)	17,097,212	4,664,006	27,685,283	2,551,286	89,856,587	1,590,059
2027	44,172,394	(901,698)	12,890,672	(4,206,540)	29,111,399	1,426,116	86,174,465	(3,682,122)
2028	41,664,523	(2,507,871)	18,013,623	5,122,951	31,672,737	2,561,338	91,350,883	5,176,418
2029	38,572,778	(3,091,745)	13,835,249	(4,178,374)	20,876,417	(10,796,320)	73,284,444	(18,066,439)
2030	34,103,975	(4,468,803)	14,815,629	980,380	23,286,107	2,409,690	72,205,711	(1,078,733)
2031	38,527,282	4,423,307	15,846,726	1,031,097	25,453,836	2,167,729	79,827,844	7,622,133
2032	41,536,309	3,009,027	16,930,430	1,083,704	27,947,548	2,493,712	86,414,287	6,586,443
2033	38,919,904	(2,616,405)	15,442,356	(1,488,074)	25,035,684	(2,911,864)	79,397,944	(7,016,343)
2034	37,199,757	(1,720,147)	16,597,795	1,155,439	27,523,124	2,487,440	81,320,676	1,922,732

\*2019-2023 actuals, 2024-2034 projected and proposed, change in fund balance is net of projected revenue

# Additional Scenario: Flat Rate Adjustments

This scenario shows flat rate increases over time that would lower the upfront rate increases and provides another option for the PUB to consider.



# Comparison with Proposed Base Case

**The Flat Rate Adjustments scenario provides another rate proposal option for the PUB to consider.**

- **Compared to the Base Case, this scenario uses more reserves in 2025/2026 and results in higher rate increases in the later years**
- **An average monthly bill for an inside city residential customer is \$0.24 lower in 2025 and \$0.50 lower in 2026, and results in 3.4% higher cumulative rates over the planning period**
- **This option defers some current cost impacts and acknowledges that we are using estimated future projections**
- **There is additional risk if we continue to see costs higher than anticipated or if we are not able to support sustained higher rate adjustments**



# PFAS Planning Assumptions

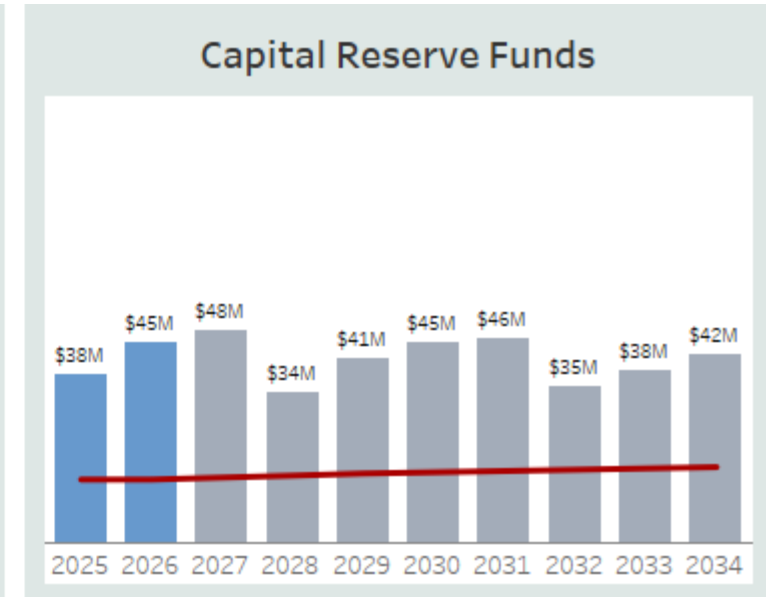
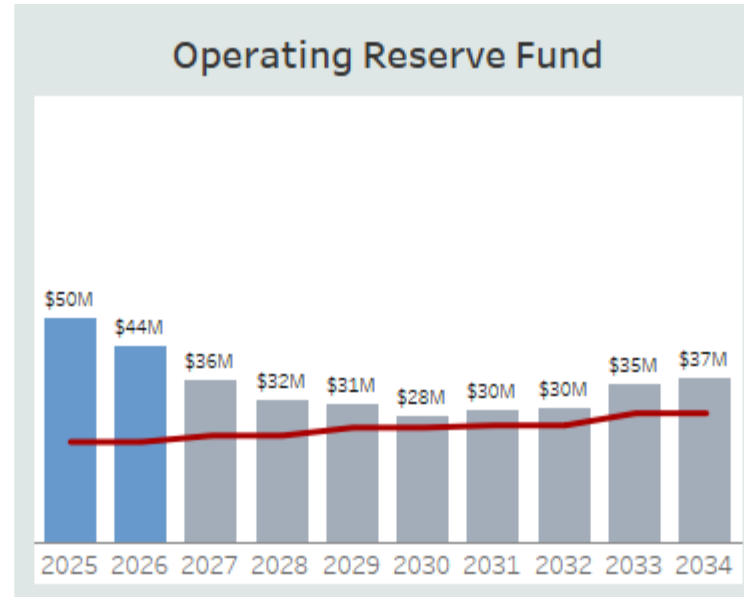
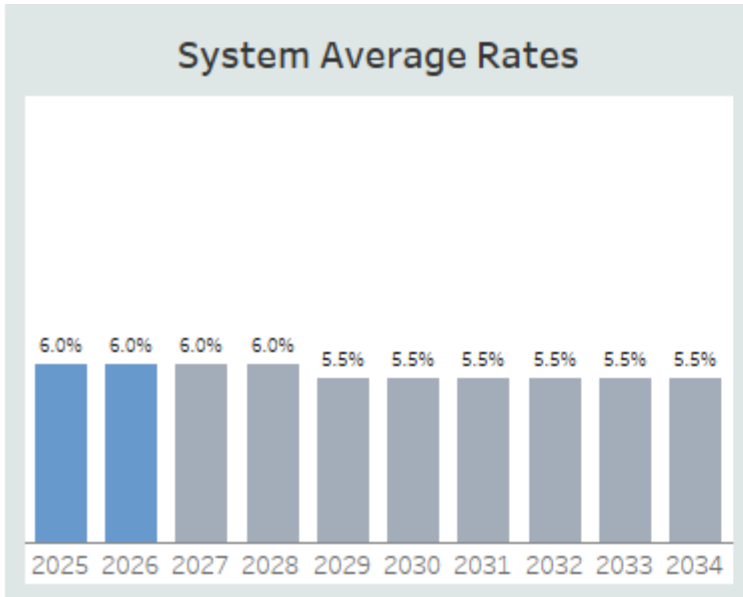
**In response to Board Member Claus McGahan question on 8/14, we have \$230,000 in the 2025/2026 O&M budget for the PFAS study to help refine our capital planning.**

- **PFAS Rule was finalized in April 2024**
- **Is the only federal drinking water regulation on PFAS**
- **Previous levels were either State standards or non-enforceable advisory levels**
- **Cost estimates in the CIP are based on meeting federal regulation for approximately 16 MGD of well water**
- **We will have a much better idea of cost estimates by mid-2025 as we wrap up our PFAS planning project with our consultants**
- **Assumptions that we have included in the financial planning include \$1.25 million in 2026, \$24.25 million in 2027/2028, and \$22.5 million in 2029**

# Scenario: Defer PFAS Treatment Budget Assumptions

This scenario incorporates the deferral of nearly \$47 million for capital related to PFAS regulations.

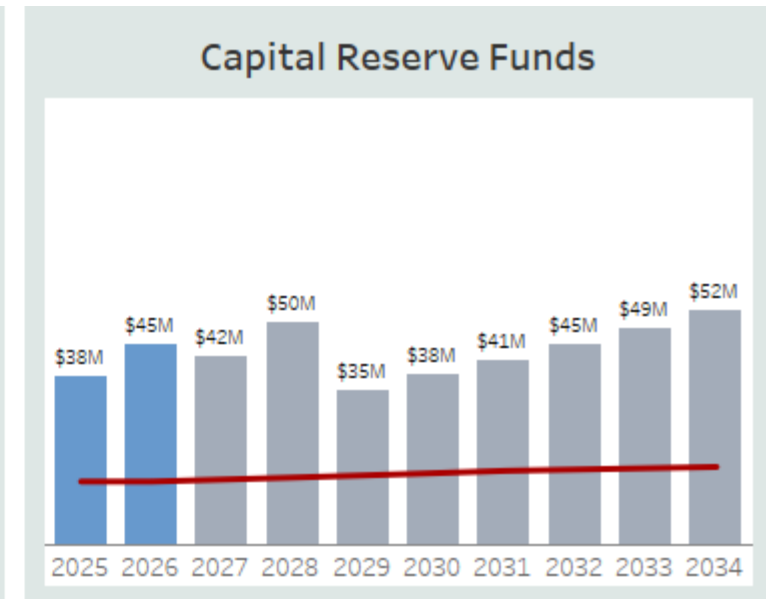
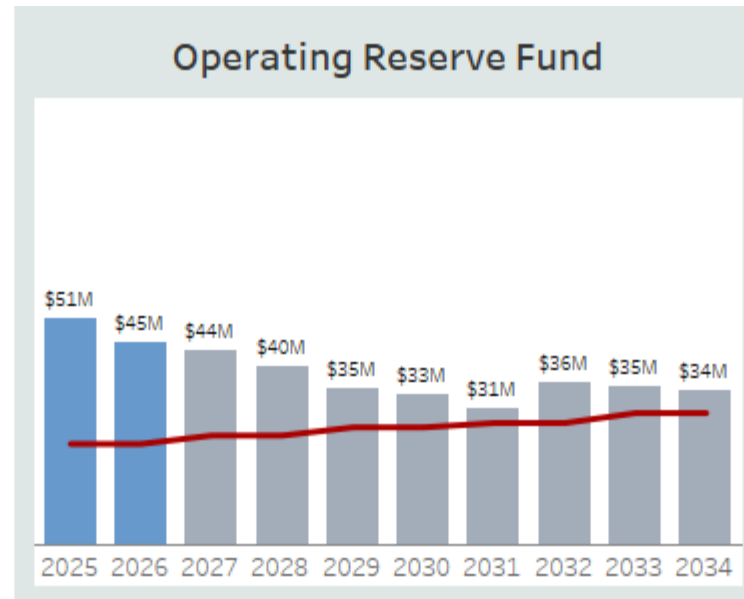
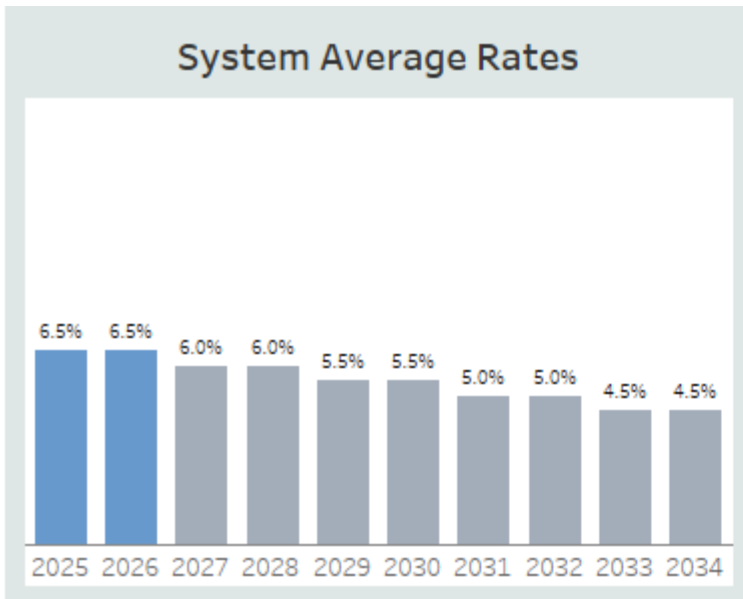
- As we shift to funding more capital from debt, this scenario reduces borrowing and future debt service. This provides debt relief in the short-term and additional burden with all of the other capital deferrals planned just outside of 2034.
- Rate increases are 0.5% lower in 2025 and 2026, and results in 1.6% lower cumulative rates over the planning period
- An average monthly bill for an inside city residential customer \$0.24 lower in 2025 and \$0.50 lower in 2026



# Scenario: Cascade Contract Revenue Loss Replaced

This scenario assumes that the existing Cascade contract (and the reduction that is included in 2030) is replaced with a new contract and we don't lose \$6 million per year when it ends.

- There is a risk if we don't make up for the \$6 million loss with a new contract, then we would need an additional rate increase of 4% for a total of 9.5% in 2030 to make up for the loss
- The annual system average rate adjustment does not change for 2025 and 2026, and results in 4.9% lower cumulative rates over the planning period



# Water Service Construction Charges

# Water Service Construction Charges-Update

In addition to retail rates, we have other rates and fees that are paid by new customers, such as developers, to join our system.

## Fixed Charges

- **Fixed charges, also commonly referred to as fixed fees, are published rates set in the Tacoma Municipal Code (TMC)**
- **These rates are set prices determined by type of water service**

## Time & Materials (T&M)

- **In circumstances where fixed fees are not adequate to cover the actual costs, water service construction charges are based upon actual costs, which are commonly referred to as T&M**

# Water Service Construction Charges-Update

## In 2019 Water refreshed the fixed fee charges

- **New charges went into effect 1/1/20**
- **Current 5-year schedule goes until 2024**

## New team was formed and led by Ryan Cox with staff from Maintenance & Construction, Customer Experience and Financial Stewardship

- **Goal was to adjust charges on water service installations to adequately recover expenses**
- **Cap increases to no more than 50% of existing rates for the first year and implemented gradual step increases where applicable**
- **Develop a 5-year schedule indexed to an annual escalation factor of 3%**

# Water Service Construction Charges-Update

## Responding to Developer and Staff Feedback

- **Added new construction charges for service sizes 1.5" and 2.0"**
  - **Provides pricing certainty to customers**
  - **Less administration than T&Ms**
- **Added "a la carte" options for flagging and paving**
  - **Removes flagging and paving costs from construction charges**
  - **Only customers who need paving and flagging will pay for those services**
- **Reduced the minimum width of Main Charge calculation for Residential zoning from 50 front feet to 20 front feet to align with Home in Tacoma minimum lot width**
- **Improved sequence for Fire-Domestic Combination Meters from application/installation/water quality approval**

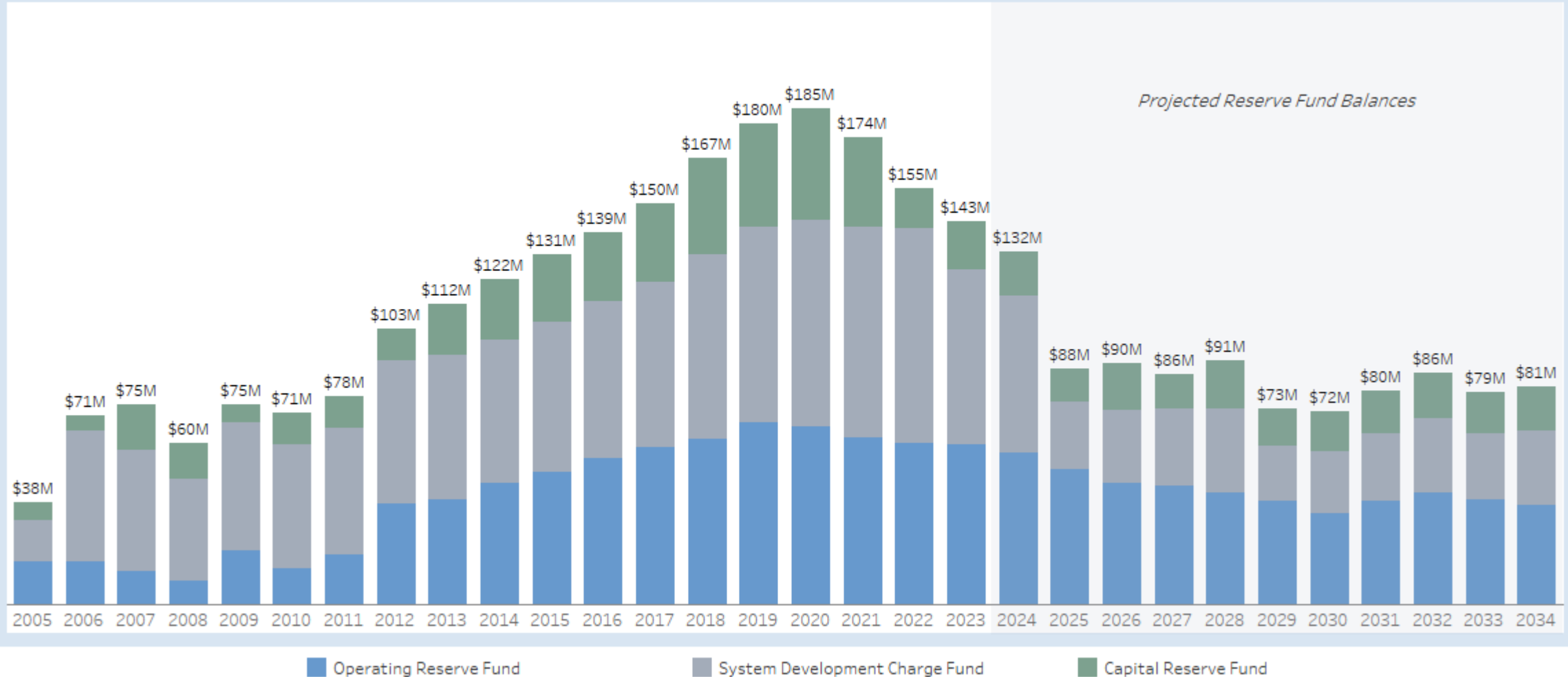
# Appendix



# Reserve Fund Balances

*Overview of the history of our fund balances and the projected spend down in the next decade.*

Reserve Fund Balances (Actual & Projected)



# Cumulative Impact of Rate Adjustments

Each rate adjustment has cumulative, compounding impacts on revenue to cover expenses going forward each year in the plan. This chart shows the additional revenues from rate adjustments that is embedded in the Base Case proposal.

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
<b>Projected Rate Revenues w/o Any Rate Increase</b>	<b>\$ 108,673,293</b>	<b>\$ 109,153,711</b>	<b>\$ 109,652,551</b>	<b>\$ 110,172,035</b>	<b>\$ 110,703,579</b>	<b>\$ 111,245,951</b>	<b>\$ 111,798,738</b>	<b>\$ 112,359,839</b>	<b>\$ 113,004,050</b>	<b>\$ 113,581,602</b>
Additional Revenues from Rate Increase in 2025	7,063,764	7,094,991	7,127,416	7,161,182	7,195,733	7,230,987	7,266,918	7,303,390	7,345,263	7,382,804
Additional Revenues from Rate Increase in 2026		7,556,166	7,590,698	7,626,659	7,663,455	7,701,001	7,739,268	7,778,110	7,822,705	7,862,686
Additional Revenues from Rate Increase in 2027			8,084,093	8,122,392	8,161,580	8,201,566	8,242,320	8,283,687	8,331,181	8,373,761
Additional Revenues from Rate Increase in 2028				8,650,347	8,692,083	8,734,668	8,778,071	8,822,127	8,872,708	8,918,055
Additional Revenues from Rate Increase in 2029					8,544,986	8,586,850	8,629,519	8,672,829	8,722,554	8,767,135
Additional Revenues from Rate Increase in 2030						9,102,061	9,147,290	9,193,199	9,245,908	9,293,163
Additional Revenues from Rate Increase in 2031							8,080,106	8,120,659	8,167,219	8,208,960
Additional Revenues from Rate Increase in 2032								8,526,692	8,575,579	8,619,408
Additional Revenues from Rate Increase in 2033									9,004,358	9,050,379
Additional Revenues from Rate Increase in 2034										9,502,898

# Water Services Construction Charges

## Proposed Fixed Fee Adjustment Ala Carte 1.0" and Under

Escalation 3%

	2024 TMC Rate	2025	2026	2027	2028	2029
3/4" Service Stub	\$ 1,040	\$ 825	\$ 850	\$ 875	\$ 900	\$ 925
5/8" Meter, Yoke & Box	\$ 530	\$ 650	\$ 675	\$ 700	\$ 725	\$ 750
5/8" Meter Only	\$ 230	\$ 325	\$ 350	\$ 375	\$ 400	\$ 425
3/4" Service with 5/8" Meter	\$ 3,660	\$ 4,225	\$ 4,350	\$ 4,475	\$ 4,600	\$ 4,750
1" Service with 5/8" Meter	\$ 4,460	\$ 4,275	\$ 4,400	\$ 4,525	\$ 4,650	\$ 4,800
1" Service with 3/4" Meter	\$ 4,670	\$ 4,300	\$ 4,425	\$ 4,550	\$ 4,675	\$ 4,825
1" Service with 1" Meter	\$ 4,760	\$ 4,325	\$ 4,450	\$ 4,575	\$ 4,700	\$ 4,850
1" Service Stub	\$ 1,100	\$ 1,475	\$ 1,525	\$ 1,575	\$ 1,625	\$ 1,675
3/4" Meter, Yoke & Box	\$ 890	\$ 900	\$ 925	\$ 950	\$ 975	\$ 1,000
3/4" Meter Only	\$ 660	\$ 400	\$ 400	\$ 425	\$ 425	\$ 450
Meter Exchange from 5/8" to 3/4"	\$ 790	\$ 775	\$ 800	\$ 825	\$ 850	\$ 875
Meter Exchange from 3/4" to 5/8"	\$ 370	\$ 550	\$ 650	\$ 700	\$ 750	\$ 825
Meter Exchange from 1" to 5/8"	\$ 230	\$ 325	\$ 450	\$ 575	\$ 700	\$ 825
Meter Exchange from 5/8" to 1"	\$ 790	\$ 800	\$ 825	\$ 850	\$ 875	\$ 900
Meter Exchange from 3/4" to 1"	\$ 790	\$ 800	\$ 825	\$ 850	\$ 875	\$ 900
Meter Exchange from 1" to 3/4"	\$ 230	\$ 325	\$ 375	\$ 425	\$ 475	\$ 575
1" Meter Only	\$ 560	\$ 575	\$ 600	\$ 625	\$ 650	\$ 675
1" Meter, Yoke & Box	\$ 1,360	\$ 1,375	\$ 1,425	\$ 1,475	\$ 1,525	\$ 1,575

Paving Ala Carte  
Flagging Ala Carte

	\$ 2,925	\$ 3,025	\$ 3,125	\$ 3,225	\$ 3,325
	\$ 900	\$ 925	\$ 950	\$ 975	\$ 1,000

# Water Services Construction Charges

## Proposed Fixed Fee Adjustment Ala Carte 1.5" and Over

Escalation 3%

	2025	2026	2027	2028	2029
2.0" Stub	\$ 4,075	\$ 4,200	\$ 4,325	\$ 4,450	\$ 4,575
2.0" Service with 5/8" Meter	\$ 8,525	\$ 8,775	\$ 9,050	\$ 9,325	\$ 9,600
2.0" Service with 1" Meter	\$ 9,400	\$ 9,675	\$ 9,975	\$ 10,275	\$ 10,575
2.0" Service with 1.5" Meter	\$ 9,750	\$ 10,050	\$ 10,350	\$ 10,650	\$ 10,975
2.0" Service with 2.0" Meter	\$ 10,100	\$ 10,400	\$ 10,700	\$ 11,025	\$ 11,350
Meter Exchange from 2.0" to 1.5"	\$ 1,275	\$ 1,325	\$ 1,375	\$ 1,425	\$ 1,475
Meter Exchange from 1" to 2.0"	\$ 2,325	\$ 2,400	\$ 2,475	\$ 2,550	\$ 2,625
Meter Exchange from 1.5" to 1"	\$ 1,275	\$ 1,325	\$ 1,375	\$ 1,425	\$ 1,475
Meter Exchange from 1.5" to 2.0"	\$ 2,325	\$ 2,400	\$ 2,475	\$ 2,550	\$ 2,625
Meter Exchange from 2.0" to 3/4"	\$ 1,275	\$ 1,325	\$ 1,375	\$ 1,425	\$ 1,475
Meter Exchange from 2.0" to 5/8"	\$ 1,275	\$ 1,325	\$ 1,375	\$ 1,425	\$ 1,475
Meter Exchange from 5/8" to 1.5"	\$ 2,325	\$ 2,400	\$ 2,475	\$ 2,550	\$ 2,625
1.5" Meter Only	\$ 825	\$ 850	\$ 875	\$ 900	\$ 925
2.0" Meter Only	\$ 1,450	\$ 1,500	\$ 1,550	\$ 1,600	\$ 1,650

Paving Ala Carte	\$ 2,925	\$ 3,025	\$ 3,125	\$ 3,225	\$ 3,325
Flagging Ala Carte	\$ 900	\$ 925	\$ 950	\$ 975	\$ 1,000