



# Tacoma Water Budget Overview & Strategy

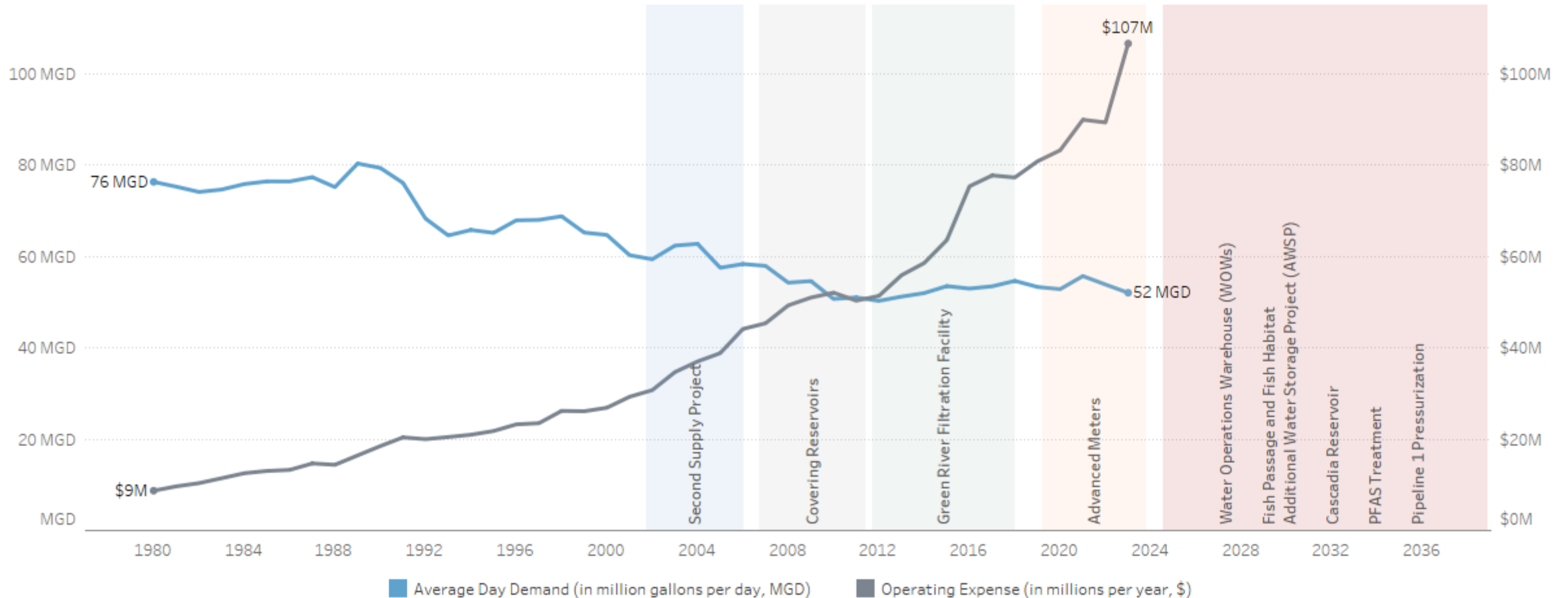
**Presented by Scott Dewhirst and Heather Pennington  
for the Public Utility Board on May 22, 2024**

**TACOMA WATER**  
TACOMA PUBLIC UTILITIES

# State of the Utility: Demand & Costs



*Operating costs continue to rise despite stable demand.*



*Average day demand includes WestRock. We expect to see a reduction of nearly 16 MGD in 2024 and beyond.*

# State of the Utility: Customers



*We have a broad, diverse customer base with opportunities for growth.*

## Top Customers by Revenue and Usage for 2023

No.	Customer	Revenue	% of Total Revenue	Usage	% of Total Usage
1	WESTROCK CP LLC	\$6,538,296	6.1%	6,086,337	25.2%
2	CITY OF FIFE	\$1,299,615	1.2%	826,485	3.4%
3	METRO PARKS DISTRICT	\$1,219,759	1.1%	257,159	1.1%
4	FREDERICKSON POWER	\$1,184,838	1.1%	509,648	2.1%
5	NIAGARA BOTTLING LLC	\$781,991	0.7%	336,744	1.4%
6	TACOMA SCHOOL DISTRICT	\$780,766	0.7%	138,684	0.6%
7	US OIL & REFINING	\$569,757	0.5%	279,562	1.2%
8	TEHALEH OWNERS ASSOCIATION	\$548,262	0.5%	94,163	0.4%
9	JAMES HARDIE BLDG PRODUCTS INC	\$453,900	0.4%	136,904	0.6%
10	MULTICARE HEALTH SYSTEMS	\$355,524	0.3%	71,743	0.3%
11	SUNRISE MASTER ASSOCIATION	\$310,726	0.3%	53,196	0.2%
12	PORT OF TACOMA	\$306,452	0.3%	33,681	0.1%
13	UNIVERSITY PLACE SCHOOL DISTRICT	\$295,811	0.3%	51,243	0.2%
14	ST JOSEPH MEDICAL CENTER	\$279,959	0.3%	50,905	0.2%
15	CITY OF BLACK DIAMOND	\$257,239	0.2%	67,993	0.3%
16	PIERCE COUNTY FACILITIES MANAGEMENT	\$252,015	0.2%	54,604	0.2%
17	CITY OF BONNEY LAKE	\$233,306	0.2%	70,749	0.3%
18	UNIVERSITY OF PUGET SOUND	\$220,764	0.2%	51,866	0.2%
19	WESTRIDGES APTS PROPERTY OWNER LLC	\$205,723	0.2%	50,381	0.2%
20	FAIRWAYS TIC IV LLC	\$186,821	0.2%	51,139	0.2%

- **WestRock shut down removes biggest customer risk**
- **Customer base more diversified**
- **Potential to market excess contracted wholesale capacity**
- **Residential growth outside of Tacoma**
- **Customer inside vs outside: 60% vs 40%**

# State of the Utility: Financial



*Sound financial stewardship reflected in strong credit ratings.*

**S&P upgraded Tacoma Water and Regional Bonds to AA+ in 2022 and affirmed the ratings in 2024, emphasizing financial strength and planning:**

- *Despite the loss of its largest customer, the utility has implemented necessary rate increases to maintain a healthy financial profile*
- *Further support for the rating is provided by the system's stable customer base and robust long-range planning*

**Moody's upgraded Tacoma Water and Regional Bonds to Aa1 in 2024:**

- *Excellent rate-setting record which was demonstrated following the recent closure announcement by its largest customer, with rate increases to maintain financial metrics, as well as equitable and affordable customer rates*
- *Sophisticated management of regulatory compliance and ten-year capital program*
- *Strong system characteristics, including ample capacity and water resources (high-quality, long-lived water supply)*
- *Broad and diverse customer base, served by a local system larger than the city and augmented by a regional second water supply*

Tacoma Water Bond Ratings		
	S&P Global Ratings	MOODY'S
	AAA	Aaa
	<b>AA+</b>	<b>Aa1</b>
	AA	Aa2
	AA-	Aa3
Rating	A+	A1
	A	A2
	A-	A3
	BBB+	Baa1
	BBB	Baa2
	BBB-	Baa3
	Outlook	<b>Stable</b>

# State of the Utility: Financial



*Lean budget and forecasting closer to reality, with additional reductions due to mill closure.*

## Quarterly Outlook

### Budget planned to be closer to actual spending

- Realistic budget
- Personnel vacancy factor
- Capital carryforward factor
- Smaller variances pre-mill closure

### Reductions due to loss of WestRock revenue

- Capital outlay variance due to:
  - \$9M deferred due to loss of WestRock
  - \$1.8M ARPA grant for main project
- More cost savings stories on later slide

## Projected 2023/24 Biennium Performance

at Q1 2024

Cash on Hand	416 days
Debt Service Coverage	2.21x
Total Revenue	\$6.7M over budget*
Total Expenditures	\$5.2M under budget
Capital Outlay	\$9.5M under budget

*\*Includes \$2.7M interest earned on cash and investments, could see reductions due to fair market value adjustment at year-end.*

# State of the Utility: Ongoing Impacts



## Increased Expenses

- **Technology projects (SAP Now!)**
- **Supplies and services**
- **Transportation / fuel prices**
- **Fleet replacement**
- **Staff turnover**
- **Construction inflation**
- **Commodities (insurance, utilities)**
- **Regulatory mandates (lead and copper, PFAS, Pipeline 1)**



## Balancing Efforts

- **Financial management**
- **Long-term planning**
- **Expense prioritization**
- **Project & process management**
- **Operational efficiencies**
- **Strategic alignment**
- **FTEs / professional services**
- **Revenue expansion**
- **Recycling and salvaging efforts**



## Managing Expenses

- **Hiring**
- **Delaying projects**
- **Debt management**
- **Meetings, travel, and trainings**
- **Cost savings categories (infrastructure investment offset, grants and loans, innovative thoughts around projects)**

*Using our strategic plan to help inform our budget.*

- **Alignment with TPU strategic plan**
- **Vision for next biennium**
- **Connecting to Board Guiding Principles**
- **Division Objectives:**
  - **Providing customer value**
  - **Prepared workforce**
  - **Operational improvements**



# Budget Drivers



## External Commitments

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- **Assessments**
- **Taxes**
- **Debt service**
- **SAP Now!**

## External Drivers

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- **Personnel expenses**
- **Cost of commodities**
- **Regulatory requirements**
- **Inflation**



## Blended Commitments

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- **Capital Investment Plan (CIP)**
- **Wholesale water sales**
- **Climate action pledge**
- **Emergency management**
- **Equity**
- **Safety**

## Blended Drivers

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- **Fleet investments**
- **Purchasing regulations / contract constraints**
- **Technology investments**



## Internal Commitments

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- **Strategic initiatives**
- **Workforce development**

## Internal Drivers

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- **FTE count**



*Water will not request additional for 2025-2026, asking to repurpose existing project positions.*

- **Tacoma Water currently has 7 positions that were added as project positions of limited duration based on AMI resolution**
- **The personnel expense related to these positions is assumed in the financial modeling**
- **We would like to repurpose these positions for sustainment and to fill prioritized needs across the organization**
- **We expect to see a reduction in the personnel expense vacancy factor with more filled positions**

# Water is a Capital Intensive Utility



## Renewal & Replacements

- **Main replacement program**
- **Hydrants, valves, blowoffs**
- **Water services and meters**
- **Fleet vehicles and equipment**

## Infrastructure / Facilities

- **Water Operations Warehouse**
- **Smart Water Program**
- **Electrical improvements**
- **Major communication and SCADA**

## Environmental Stewardship

- **Additional Water Storage Project (AWSP)**
- **Fish Passage**
- **Fish habitat and mitigation**
- **Watershed projects**

## Regulatory

- **Pipeline 1 Pressurization Program**
- **PFAS treatment (South Tacoma wells)**

## Supply and Treatment Facilities

- **Prairie Ridge reservoir**
- **Wells Master Plan**
- **Ozone system replacement**
- **Cascadia reservoir and pump station**

## Technology

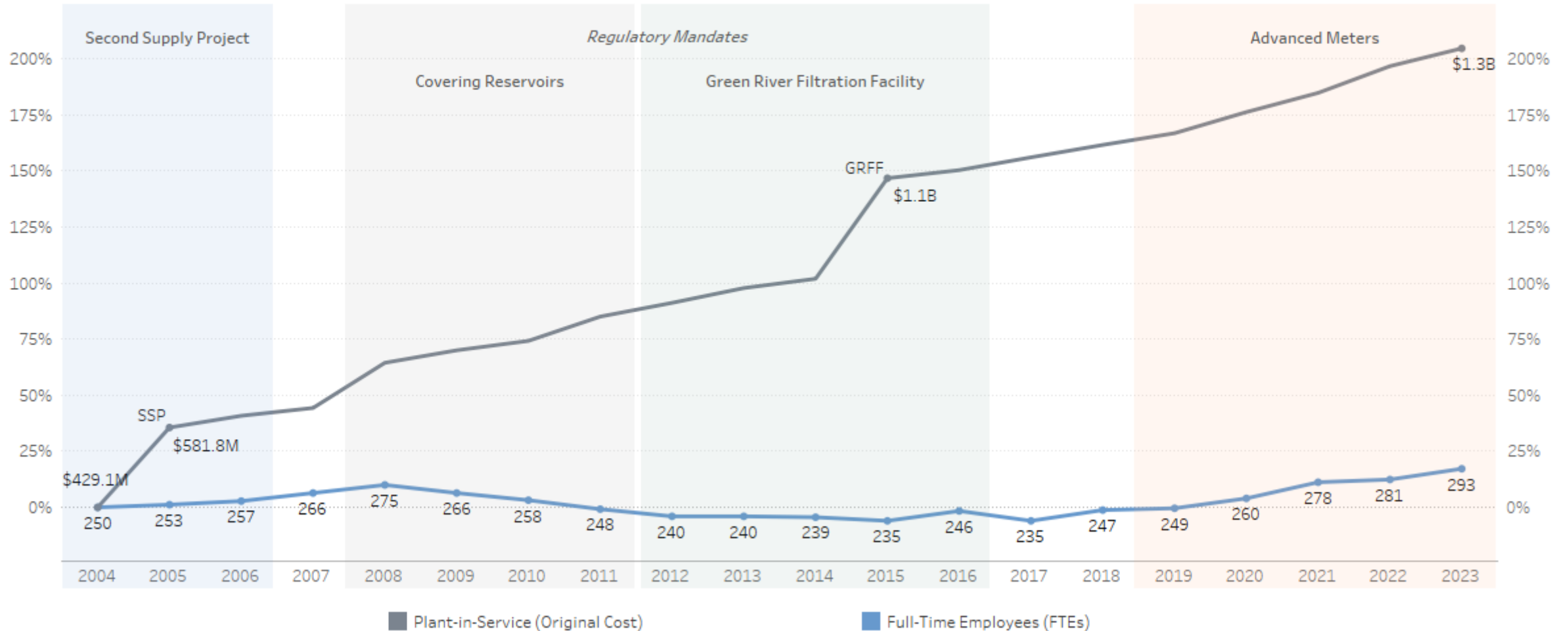
- **SAP Now!**
- **Enterprise asset management solution**
- **GIS utility network migration**

# System Growth/Complexity Requires Personnel to Protect



## Plant Assets vs Employees

% change since 2004





# Cost Savings Stories



## *Efficiencies, reductions, and deferrals.*

Description	Category	Type	Duration	2023 Actual	2024 Estimate	Total Est Savings
Refinanced 2013 Water & Regional Bonds	Refinancing	Reduction	20 years	\$0	\$710,000	\$7.83M NPV
Earned Revenue from Recycling and Surplus Scrap Sales	Recycling & Salvage Efforts	Increase	Ongoing	460,000	160,000	\$100,000/year
Reduced and Deferred Investments in Infrastructure after the WestRock Mill Closure	WestRock Reset	Deferral Reduction	Ongoing	0	9,000,000	Additional \$10M cancelled on CIP
Offsets to Capital Infrastructure Costs	Funding Opportunities	Reduction	20 years	46,000	2,400,000	\$150,000/year
Cost Avoidance/Savings for Water AMI Project Expenses	Innovation Operational Efficiency	Reduction	5 years	100,000	100,000	Over \$10M avoided
New Material for GRFF Chemical Feed Lines Replacement	Innovation	Reduction	Ongoing	0	200,000	\$200,000 also saved in 2034
Credit for Steel Pricing for Pinnacle Ridge Tank	Operational Efficiency	Reduction	One-time	150,000	0	One-time \$150,000
Watershed Stakeholder Engagement and Cost Sharing	Revenue Expansion	Increase	Ongoing	15,000	15,000	At least \$30,000 each biennium
Consolidated Cellular Devices	Operational Efficiency	Reduction	Ongoing	0	27,000	\$27,000/year

# AMI and Smart Water

## *Taking advantage of the automated meter infrastructure project*

### Meter Example

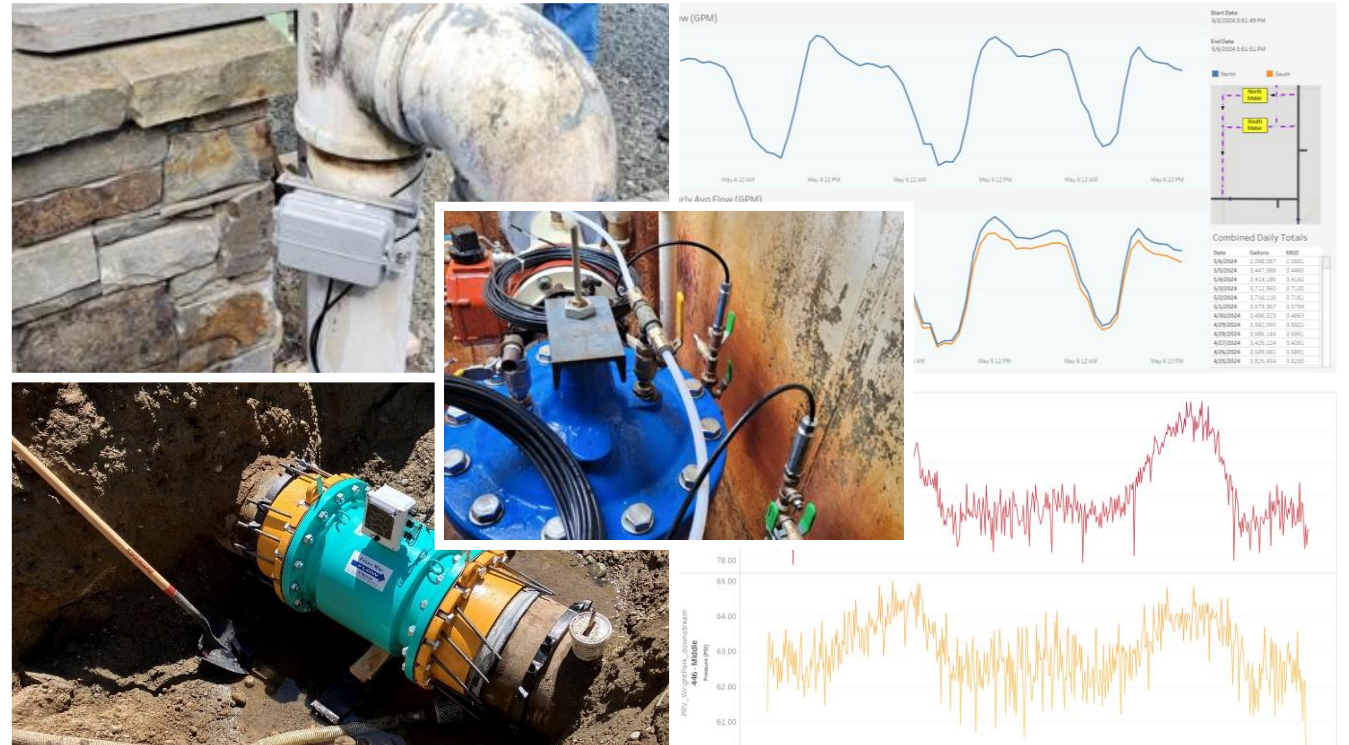
- Currently installing flow meters in the 251 PZ to better understand how water flows through that zone following the shutdown of WestRock

### Smart Water

- Provides operators and staff with more tools
  - Proactive, know about problems before customers call

### Access to Data for better analysis

- Understanding monthly demand
- Revenue shaping



# Customer Focus



## Supporting our Customers

- **Customer Assistance (Discount, BCAP)**
- **Water Grant and Loan Program**

## New Services-Related Improvements

- **Responding directly to feedback from the development community**
- **Recommended TMC updates for water service construction charges**
  - **Extend incremental fixed fee escalation (ends in 2025)**
  - **Add fixed fee for service sizes up to 2” and a la carte option for paving**
    - **To improve predictability and reduce staff time and delays**
  - **Improve process for selling fire/domestic combination meters**
  - **Align with Home in Tacoma minimum lot width**

Water Service Construction Charges on Existing Mains					
Type of Service	Effective Dates				
	1/1/2020	1/1/2021	1/1/2022	1/1/2023	1/1/2024
3/4" Service with 5/8" Meter	\$3,250	\$3,350	\$3,450	\$3,550	\$3,660
1" Service with 5/8" Meter	\$3,600	\$3,800	\$4,010	\$4,230	\$4,460
1" Service with 3/4" Meter	\$3,675	\$3,900	\$4,140	\$4,400	\$4,670
1" Service with 1" Meter	\$3,825	\$4,040	\$4,270	\$4,510	\$4,760
Meter Exchange from 5/8" to 3/4"	\$700	\$720	\$740	\$760	\$790
Meter Exchange from 5/8" to 1"	\$700	\$720	\$740	\$760	\$790
Meter Exchange from 3/4" to 5/8"	\$325	\$330	\$340	\$360	\$370
Meter Exchange from 3/4" to 1"	\$700	\$720	\$740	\$760	\$790
Meter Exchange from 1" to 5/8"	\$200	\$210	\$210	\$220	\$230
Meter Exchange from 1" to 3/4"	\$200	\$210	\$210	\$220	\$230

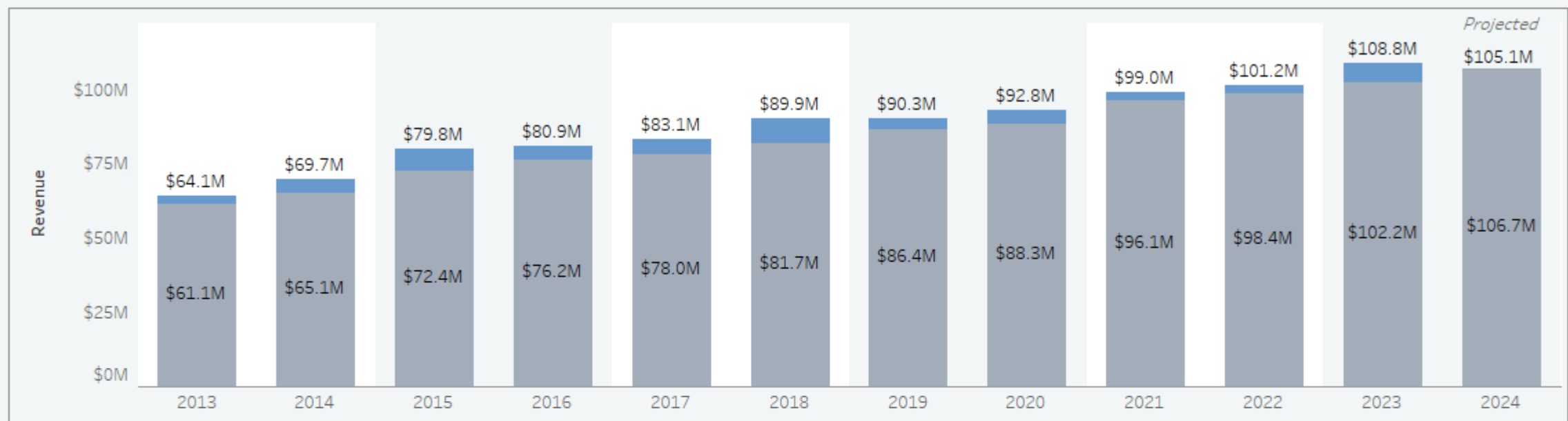
# Key Takeaways / Next Steps



- **Budget Development is well underway**
  - **Water preliminary capital budget and CIP nearly completed**
  - **O&M budget is in progress for Tacoma Water cost centers**
  - **Labor and benefit expense assumptions are being developed by GG**
  - **Revenue at existing rates and miscellaneous revenue assumptions nearly complete**
  - **Internal assessments, including SAP Now!**
    - **GG costs allocated based on City-wide budgets and FTE counts**
    - **TPU costs are allocated based on various factors**
- **Long-Range Financial Plan (LRFP) updated base case and scenario development**
  - **Incorporate revenue requirement and assumptions**
- **Public Utility Board feedback and questions**



# Budget vs Actual Trends: Water Sales Revenue

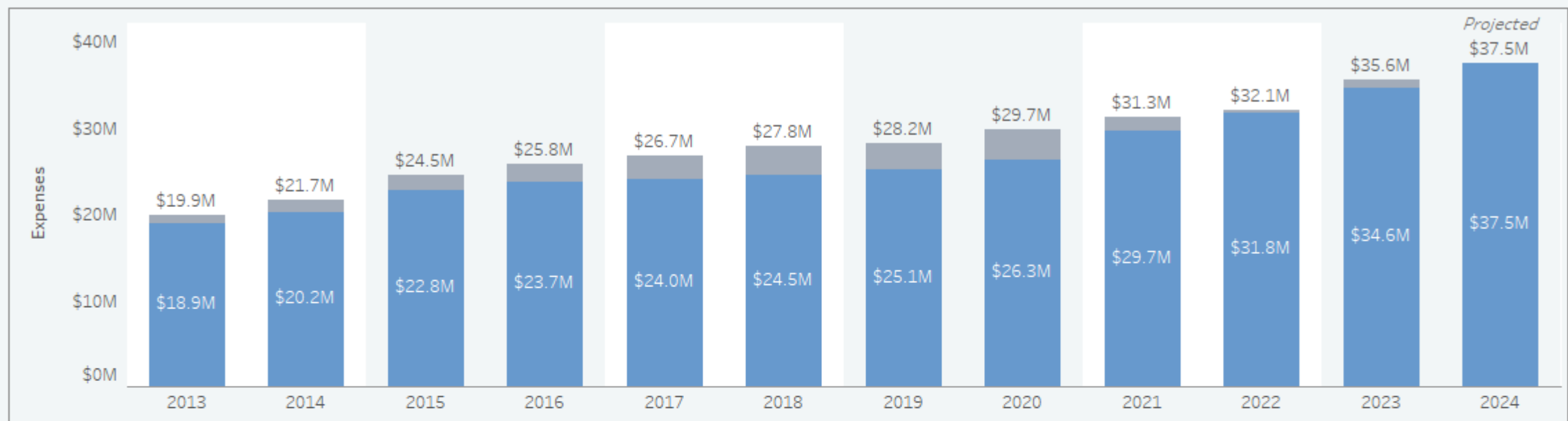


■ Budget ■ Actual

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Variance \$	\$3.0M	\$4.6M	\$7.3M	\$4.7M	\$5.1M	\$8.1M	\$3.9M	\$4.4M	\$2.9M	\$2.8M	\$6.6M	\$1.6M
Variance %	5.0%	7.1%	10.1%	6.2%	6.5%	9.9%	4.5%	5.0%	3.0%	2.9%	6.5%	1.5%
Budget Δ %		6.6%	11.3%	5.2%	2.4%	4.8%	5.7%	2.2%	8.8%	2.4%	3.9%	4.4%
Actual Δ %		8.8%	14.4%	1.4%	2.8%	8.1%	0.4%	2.8%	6.7%	2.2%	7.5%	-3.4%

*Budgeted water sales has an average increase of 5.3% per year, while actual revenue has an averaged increase of about 5.5% per year.*

# Budget vs Actual Trends: Personnel

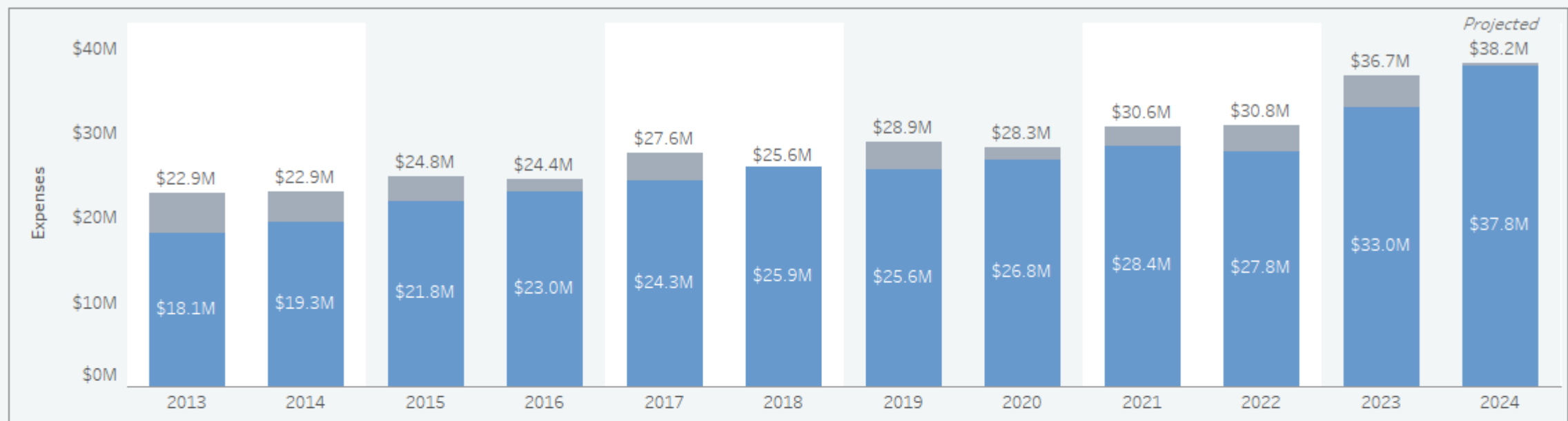


■ Budget ■ Actual

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Variance \$	\$1.0M	\$1.5M	\$1.6M	\$2.1M	\$2.7M	\$3.3M	\$3.1M	\$3.4M	\$1.6M	\$0.3M	\$1.0M	\$0.0M
Spent %	95.2%	92.9%	93.4%	91.8%	89.9%	88.0%	89.2%	88.5%	94.9%	99.1%	97.2%	100.0%
Budget Δ %		9.2%	12.7%	5.4%	3.6%	4.1%	1.4%	5.4%	5.2%	2.5%	11.0%	5.5%
Actual Δ %		6.5%	13.3%	3.6%	1.5%	1.9%	2.8%	4.7%	12.8%	7.0%	8.8%	8.5%

*Budgeted expenses has an average increase of 6.1% per year, while actual spending in this category has an averaged increase of about 6.3% per year.*

# Budget vs Actual Trends: Other O&M

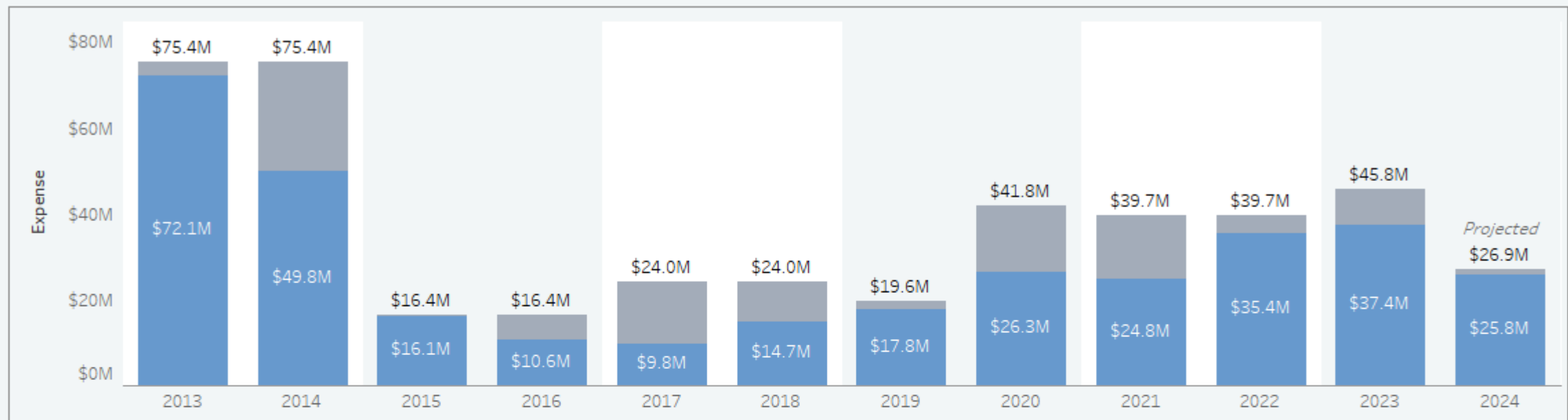


■ Budget ■ Actual

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Variance \$	\$4.8M	\$3.6M	\$3.0M	\$1.4M	\$3.3M	(\$0.2M)	\$3.2M	\$1.5M	\$2.2M	\$3.0M	\$3.7M	\$0.4M
Spent %	79.1%	84.4%	87.9%	94.1%	88.1%	100.8%	88.8%	94.8%	92.7%	90.2%	90.0%	98.8%
Budget Δ %		0.1%	8.1%	-1.6%	13.2%	-7.2%	12.6%	-2.1%	8.4%	0.5%	19.1%	4.2%
Actual Δ %		6.7%	12.6%	5.4%	6.0%	6.2%	-0.9%	4.5%	6.0%	-2.2%	18.8%	14.5%

*Budgeted expenses has an average increase of 5.1% per year, while actual spending in this category has an averaged increase of about 6.3% per year.*

# Budget vs Actual Trends: Capital

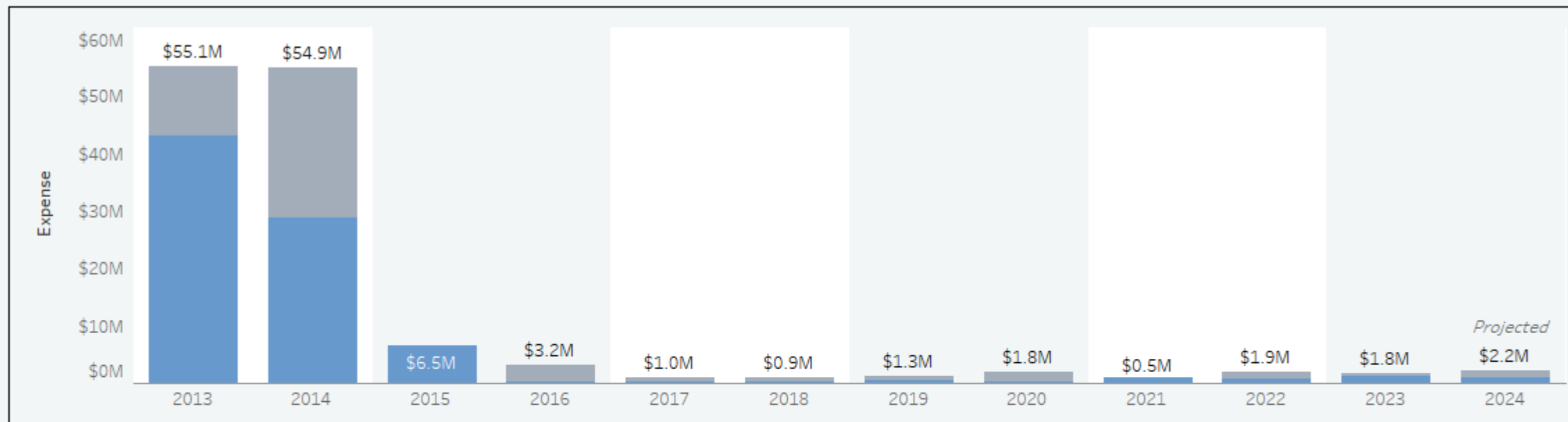


■ Budget   ■ Actual

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Budget	\$75.4M	\$75.4M	\$16.4M	\$16.4M	\$24.0M	\$24.0M	\$19.6M	\$41.8M	\$39.7M	\$39.7M	\$45.8M	\$26.9M
Actual	\$72.1M	\$49.8M	\$16.1M	\$10.6M	\$9.8M	\$14.7M	\$17.8M	\$26.3M	\$24.8M	\$35.4M	\$37.4M	\$25.8M
Variance \$	\$3.3M	\$25.6M	\$0.3M	\$5.9M	\$14.2M	\$9.4M	\$1.8M	\$15.5M	\$14.8M	\$4.3M	\$8.4M	\$1.1M
Variance %	4.4%	34.0%	2.0%	35.7%	59.3%	39.0%	9.2%	37.2%	37.4%	10.8%	18.4%	4.0%

*Budgeted expenses has an average increase of 5.0% per year, while actual expenses has an averaged increase of about 1.8% per year.*

# Budget vs Actual Trends: RWSS Capital (2<sup>nd</sup> Div)



■ Budget ■ Actual

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Budget	\$55.1M	\$54.9M	\$3.6M	\$3.2M	\$1.0M	\$0.9M	\$1.3M	\$1.8M	\$0.5M	\$1.9M	\$1.8M	\$2.2M
Actual	\$43.1M	\$28.8M	\$6.5M	\$0.2M	\$0.3M	\$0.3M	\$0.5M	\$0.2M	\$0.9M	\$0.8M	\$1.1M	\$1.0M
Variance \$	\$12.0M	\$26.1M	(\$2.9M)	\$3.0M	\$0.7M	\$0.6M	\$0.9M	\$1.7M	(\$0.3M)	\$1.1M	\$0.7M	\$1.1M
Variance %	21.7%	47.5%	-79.7%	93.8%	73.4%	69.6%	64.7%	91.7%	-60.0%	59.5%	39.0%	52.3%

Tacoma's share of the 2nd Diversion is approximately 41.7%. Expenses in 2013-2016 include the Green River Filtration Facility. Since 2017, budgeted expenses for the RWSS have been relatively low.



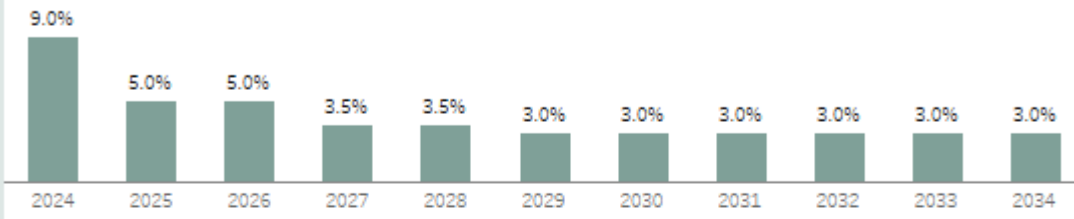
# Tacoma Water Long-Range Financial Plan

**Presented by Jodi Collins for the Public Utility Board on May 22, 2024**

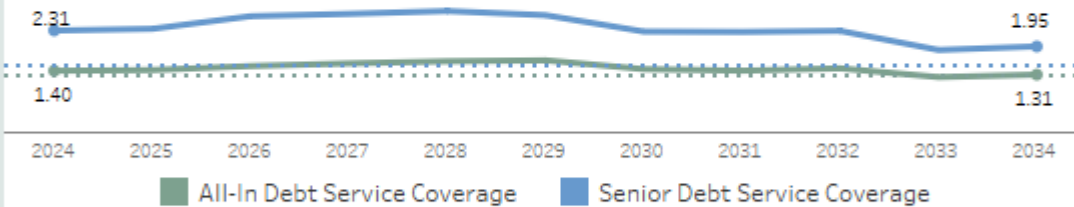
# 2023-2024 Base Case Comparison

## 2023-2024 Base Case (Post WestRock) Projections

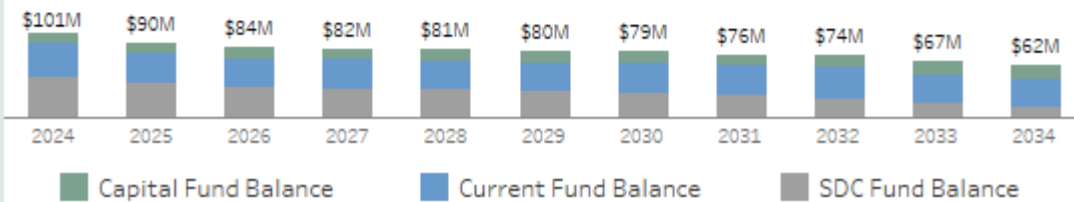
### System Average Rates



### Debt Service Coverage

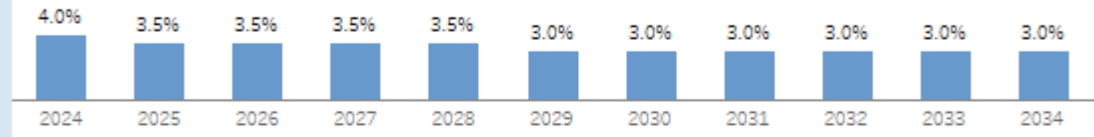


### Fund Balances

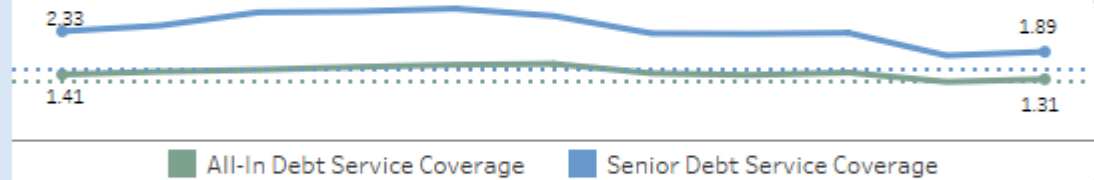


## 2023-2024 Base Case (Pre WestRock) Projections

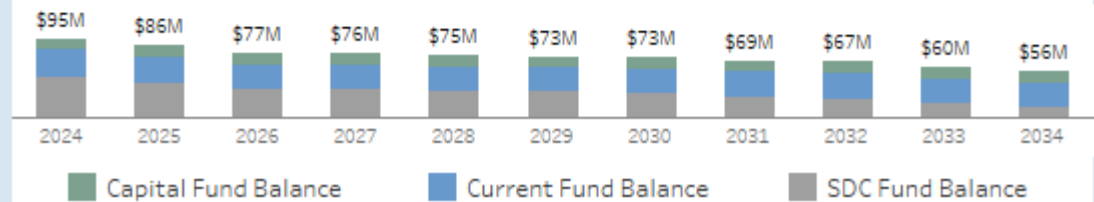
### System Average Rates



### Debt Service Coverage



### Fund Balances



# 2025-2026 Budget Development in Process



**Our LRF plan is based on the revenue requirement, will incorporate our capital and O&M budgets**

## **Updated**

- **Preliminary capital budget and CIP**
- **Short-term demand forecast**

## **Awaiting More Information**

- **Internal service assessments which includes SAP Now!**
- **Labor and benefits assumptions are still being developed by GG**
- **O&M budget is in progress for Tacoma Water cost centers**
- **Miscellaneous revenue**
- **Taxes**
- **Capital funding plan and new debt issuance**



# What's Changed for Our New Draft Base Case



## Continued Impact from Previous Biennia

- **Deferred spending**
- **Higher personnel expenses**
  - **Delayed class & comp adjustments**
  - **Wage inflation**
- **Higher assessments**
  - **Also impacted by higher personnel expenses**

## Impact Since the WestRock Base Case

- **Higher capital budget and CIP**
  - **\$120 million increase from last base case**
  - **Construction inflation**
  - **Regulatory mandates (P1 and PFAS)**
  - **Additional Water Storage Project (AWSP)**
  - **Water Operations Warehouse**
- **Ongoing impacts from mill closure**

## What's Beyond the Planning Period

- **Water Operations Building (Phase 2)**
- **Wells improvement & treatment**
- **McMillin Reservoir 3<sup>rd</sup> cell**
- **Transmission system replacements**
- **Pump and PRV station rehab**
- **Headworks Master Plan and site expansion**
- **New regulatory requirements?**

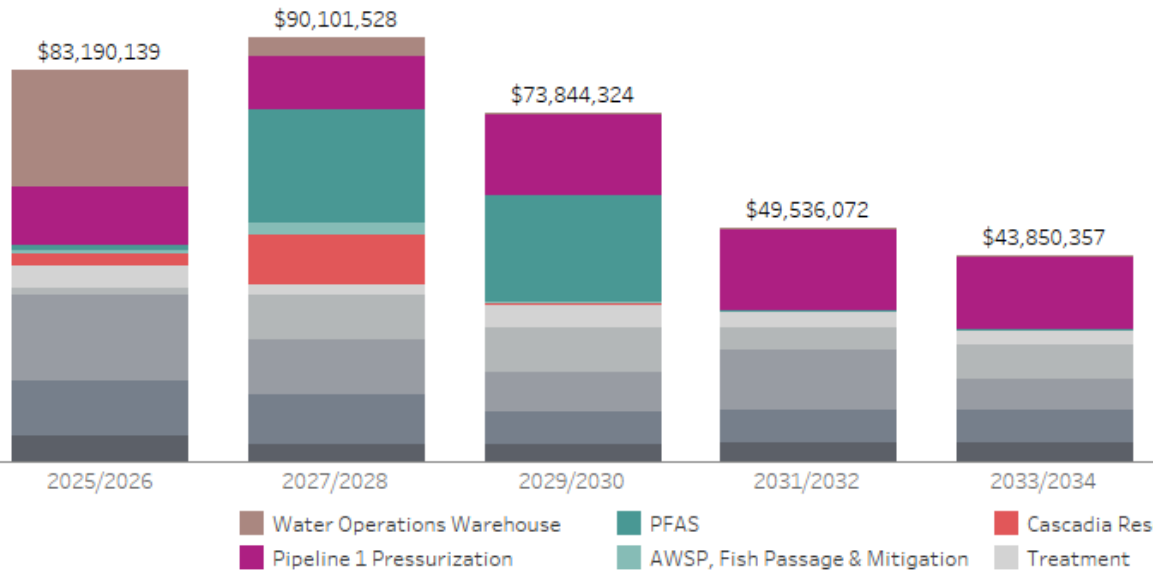
# 10-Year Capital Improvement Plan (CIP)



\$78M  
Water Only (Not Shared)

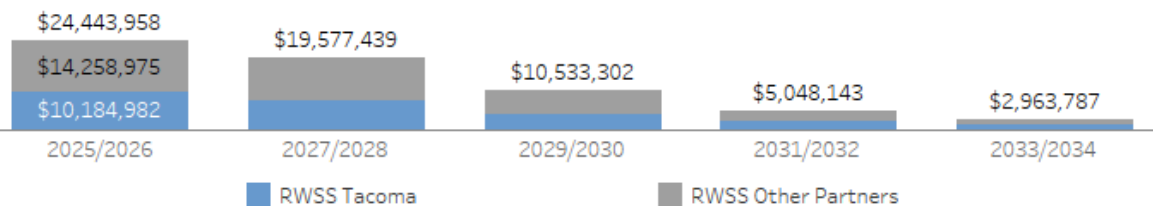
\$5M RWSS 1st Diversion    \$10M RWSS Tacoma    \$14M RWSS Other Partners    \$107.6M 25/26 Capital Budget

## 2025-2026 Tacoma Capital Improvement Plan (Proposed)



	2025/2026	2027/2028	2029/2030	2031/2032	2033/2034
Water Operations Warehouse	\$24,700,000	\$4,000,000			\$200,000
Pipeline 1 Pressurization	\$12,400,000	\$11,200,000	\$17,500,000	\$17,500,000	\$15,450,000
PFAS	\$1,250,000	\$24,250,000	\$22,500,000		
AWSP, Fish Passage & Mitigation	\$716,203	\$2,383,055	\$382,878		
Cascadia Reservoir and PS	\$2,726,112	\$10,573,888			
Treatment	\$4,659,275	\$2,200,955	\$5,185,545	\$3,716,904	\$3,279,721
Source & Transmission	\$1,421,354	\$9,464,496	\$9,152,390	\$4,653,547	\$7,426,887
General & Fleet	\$18,131,950	\$11,973,558	\$8,434,423	\$12,575,823	\$6,593,750
Distribution	\$11,759,043	\$10,319,668	\$6,900,000	\$6,900,000	\$6,900,000
Main Replacement Projects	\$5,426,201	\$3,735,908	\$3,789,088	\$4,189,798	\$4,000,000
<b>Grand Total</b>	<b>\$83,190,139</b>	<b>\$90,101,528</b>	<b>\$73,844,324</b>	<b>\$49,536,072</b>	<b>\$43,850,357</b>

## 2025-2026 RWSS Capital Improvement Plan (Proposed)



	2025/2026	2027/2028	2029/2030	2031/2032	2033/2034
AWSP, Fish Passage & Mitigation	\$17,440,238	\$15,563,509	\$4,834,057		\$369,356
Treatment	\$6,123,125	\$3,793,580	\$5,580,595	\$2,556,493	\$1,266,681
General & Fleet	\$595,835				
Source & Transmission	\$284,760	\$220,350	\$118,650	\$2,491,650	\$1,327,750
<b>Grand Total</b>	<b>\$24,443,958</b>	<b>\$19,577,439</b>	<b>\$10,533,302</b>	<b>\$5,048,143</b>	<b>\$2,963,787</b>

# Projected Range of System Average Rates



**We build our base case based on our expected revenue requirement and then develop scenarios based on possible risks and opportunities. This analysis provides ‘bookends’ for our rate projections.**

**This initial range of rate projections builds upon the base case developed during the WestRock discussions along with updates from the preliminary capital budget and CIP.**

