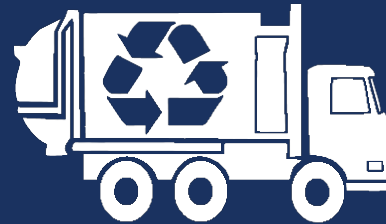


ENVIRONMENTAL SERVICES BUDGET TRAINING

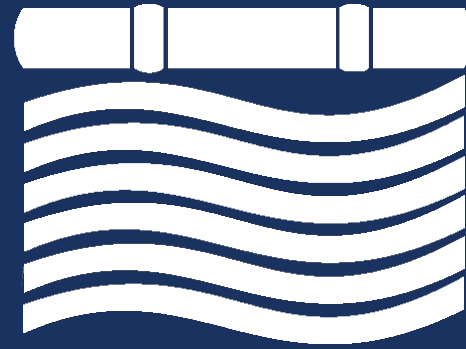
BUDGET TRANSPARENCY & EDUCATION



STORMWATER



SOLIDWASTE

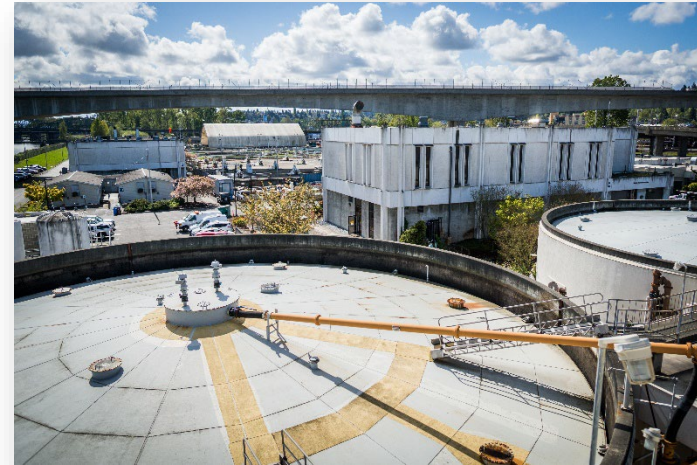


WASTEWATER

ENVIRONMENTAL SERVICES DEPARTMENT

ES BUDGET TRAINING AGENDA

- Who Do We Serve?
- Environmental Services Within City of Tacoma
- Budget Development
- Rate Model Basics
- Special Topics
 - Capital/Asset Management





ES CUSTOMER DEMOGRAPHICS

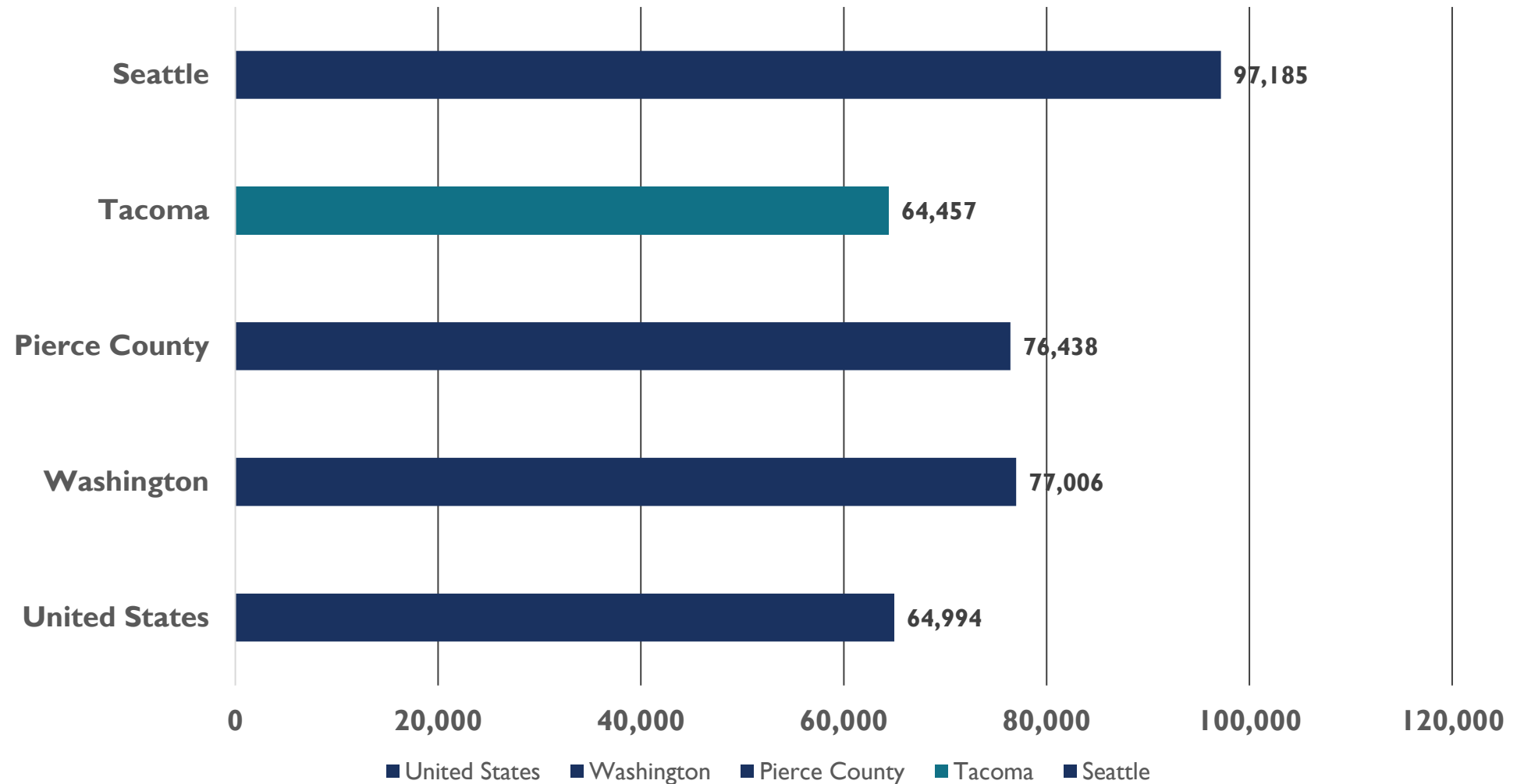


DEMOGRAPHICS

- **Why this is important**
- Our rates can significantly impact the lives of our residents
- We need to ensure fairness and affordability to ratepayers
- We need to effectively manage the financial investment of the ratepayer



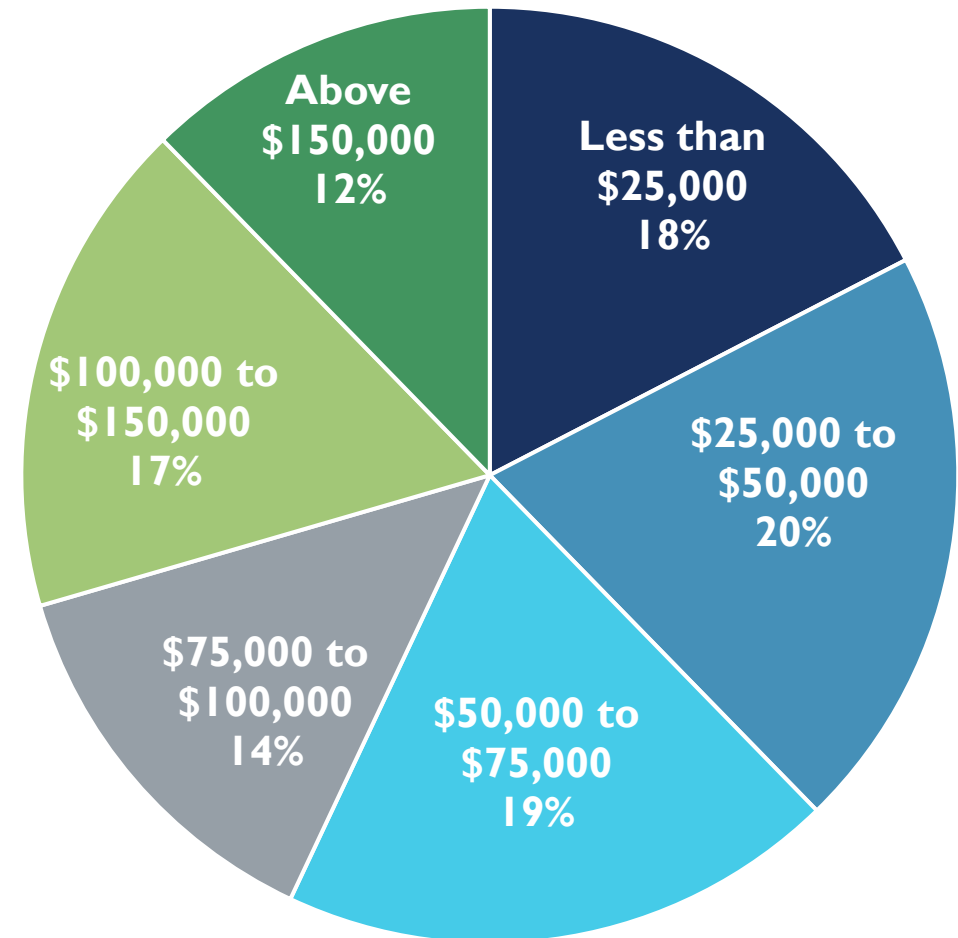
COT MEDIAN HOUSEHOLD INCOME - \$64,457 (2020 DOLLARS)



COT HOUSEHOLD INCOME

Household Income	
Less than \$25,000	18 % Percent
	15,004 Households

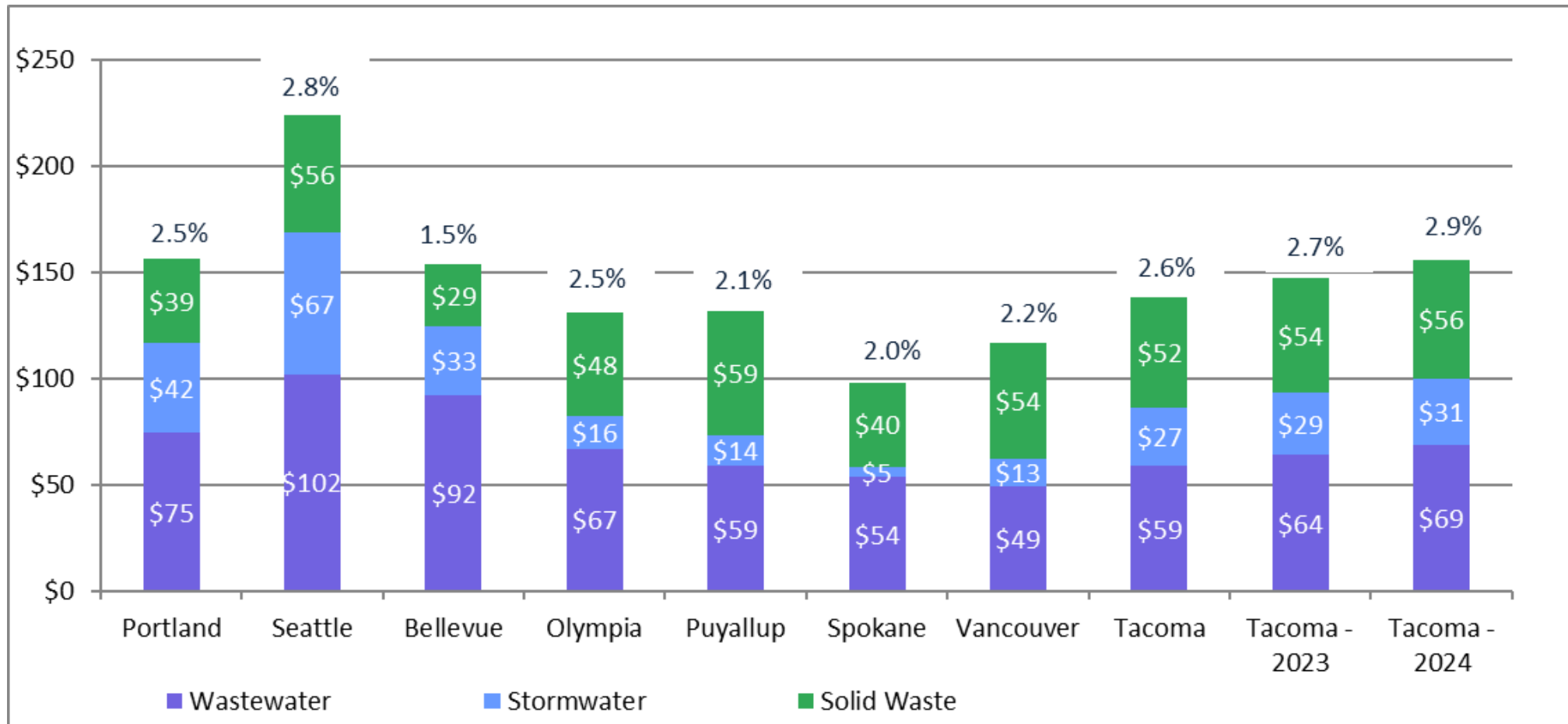
**1 in 5 Tacoma Households
have an income of less
than \$25,000 annually**



BUDGET 101 REFRESHER - DEMOGRAPHICS

Category	Tacoma	Pierce County	Washington
Median Household Income	64,457	76,438	77,006
% Below Poverty	14%	9%	10%
% of Students Receiving Free or Reduced Lunch	72% (TPS)	52%	47%
Unemployment Rate	6.1%	6.1%	5.2%
Households with 1 or less vehicles	43%	32%	36%
Gross Rent as a Percent of Household Income (35% or more)	43%	40.5%	40%
HS Equivalent or Higher	90%	92%	92%
Bachelors or Higher	30%	28%	37%

2022 RESIDENTIAL MONTHLY BILL COMPARISON



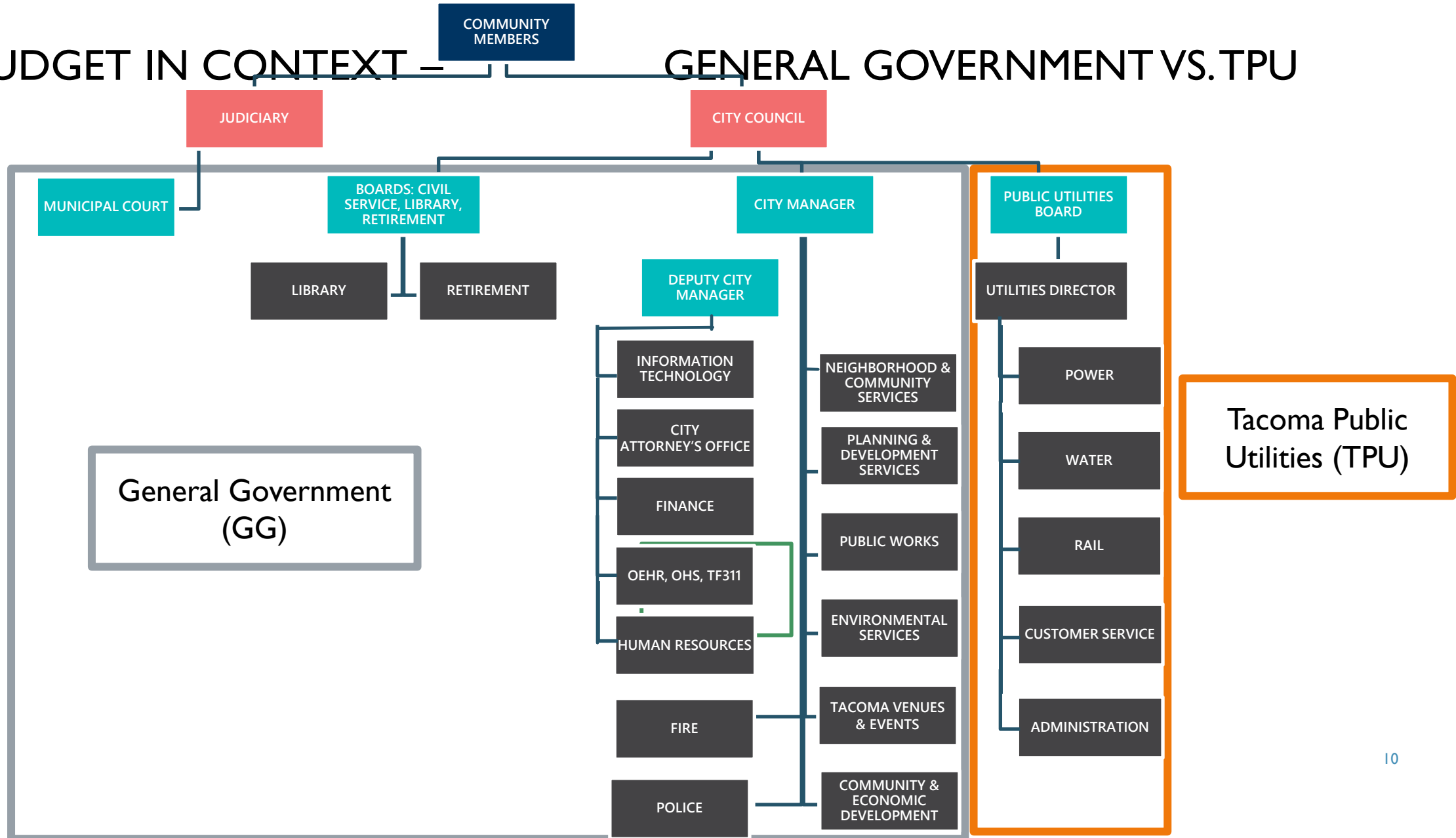
ES and TPU offer two low-income assistance programs, enhanced in 2021 and again in 2023



ENVIRONMENTAL SERVICES WITHIN CITY OF TACOMA

ES BUDGET IN CONTEXT

GENERAL GOVERNMENT VS. TPU



WHY IS ES PART OF GENERAL GOVERNMENT AND NOT TPU?

It's all about timing - of Charter Creation and Utility Formation

1893 – TPU formed when citizens of Tacoma vote to buy Tacoma Light & Water Company
(Rail purchased in 1919)



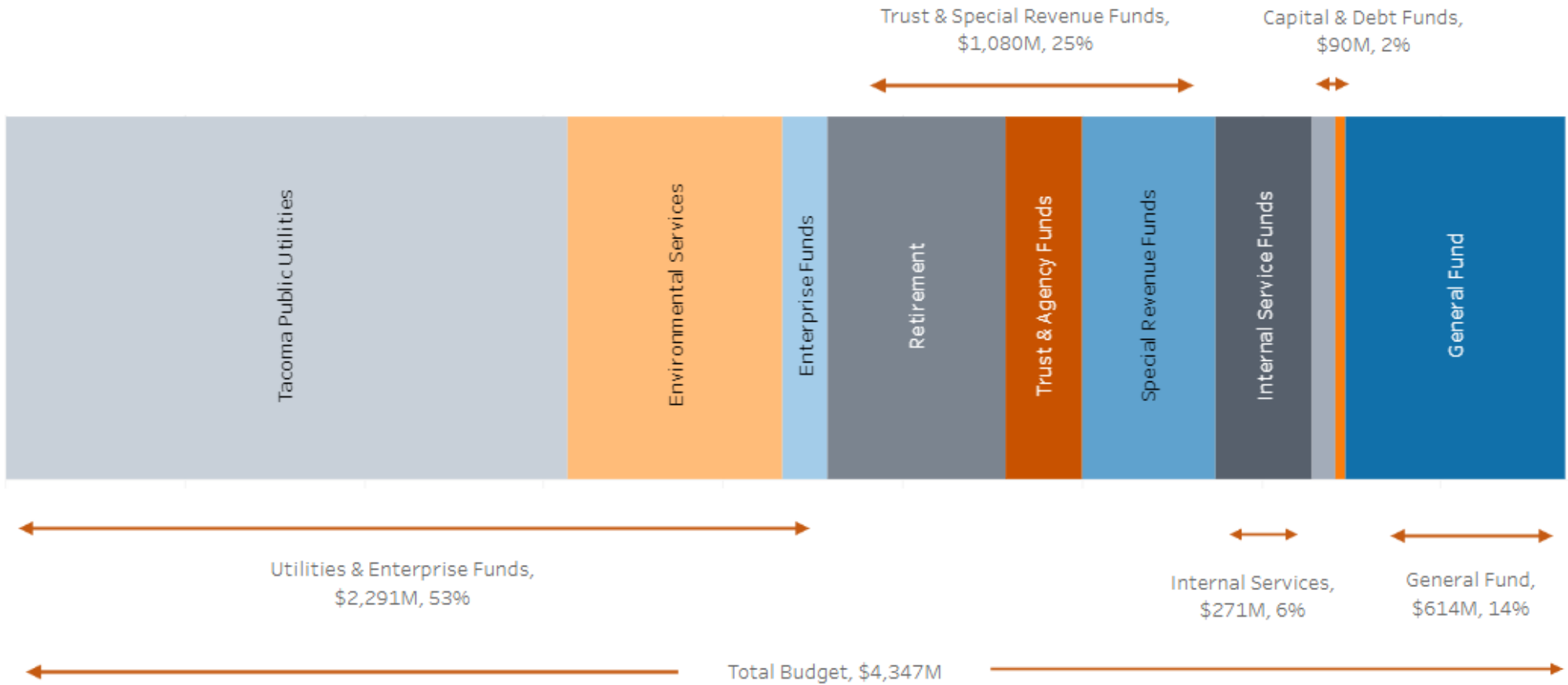
1953 – City of Tacoma Charter Adopted, establishes Public Utility Board



Environmental Services utilities start to become established as infrastructure is built/upgraded

- Wastewater 1950s
- Solid Waste 1960s
- Surface Water 1970s

2023-2024 CITY BUDGET



2023-2024 CITY BUDGET – FUND TYPES (COLOR OF MONEY)

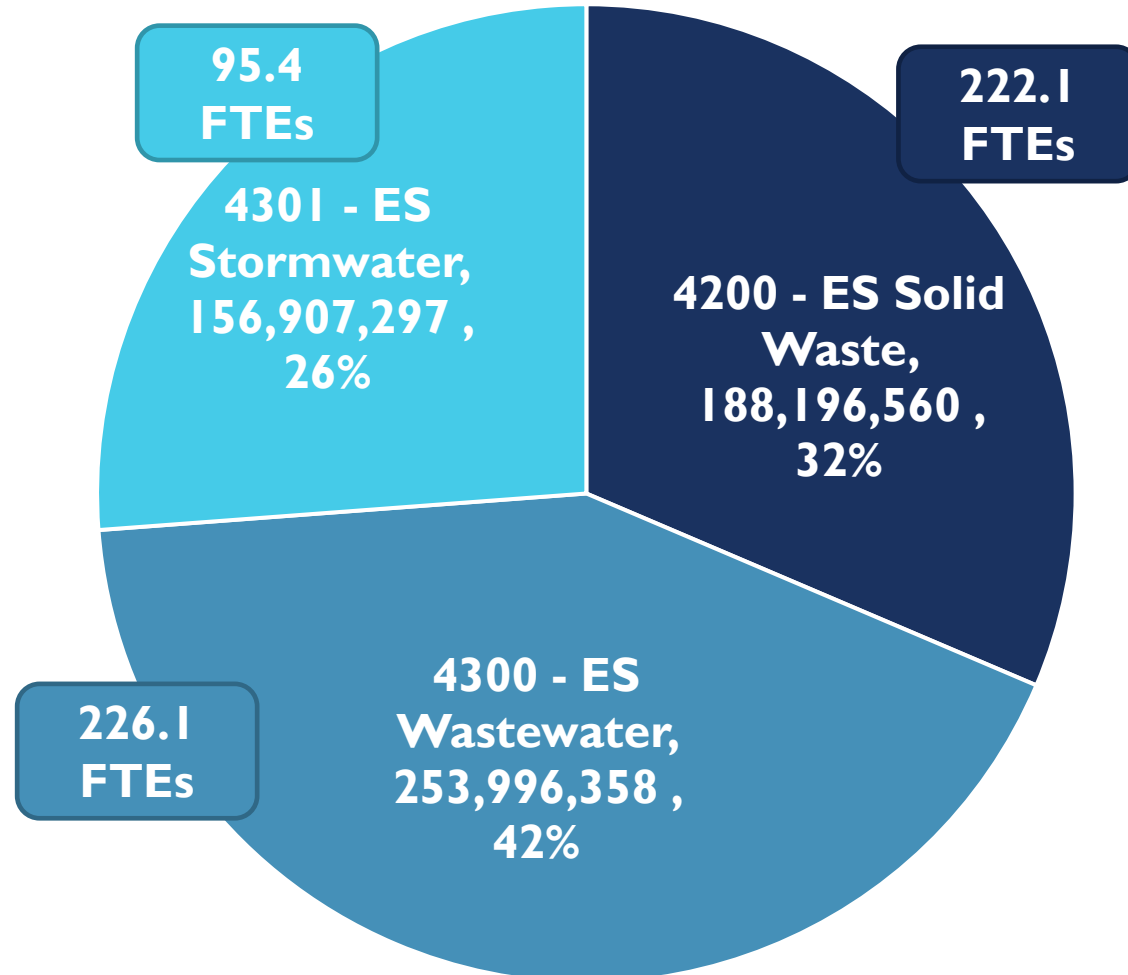
- **General Fund** – traditional City services (Police, Fire, Libraries) [*Tax-funded*]
- **Special Revenue Funds** – specific revenue sources legally restricted to a specific purpose (1070 – TBD, 1185 – MHCD)
- **Debt Service Funds** – payment and interest on long-term debt
- **Capital Funds** – manage General Government (non-utility) Capital projects
- **Enterprise Funds** – financed and operated like a business (Permit, Parking, Tacoma Dome) [*Charge for Service funded*]
 - Includes Utility Funds (ES and TPU)
- **Internal Service Funds** – department providing services to other departments (IT, HR, Finance)
- **Trust & Agency Funds** – accounts for assets held by City on behalf of others (retirement, health care)

BUDGET 101 REFRESHER - ES BUDGET STRUCTURE

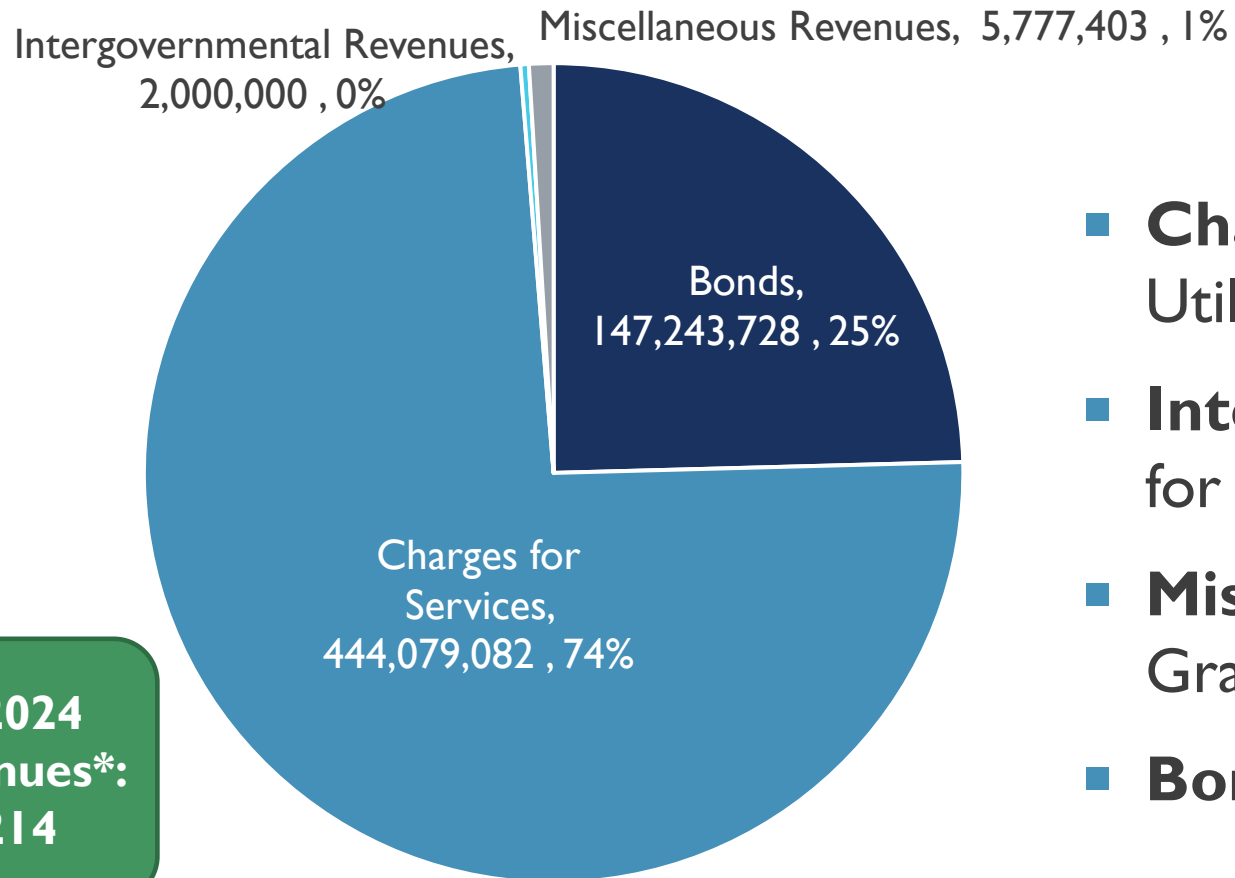
Total 2021-2022 Adopted Budget:*
\$ 599,100,214

Total FTEs: 543.6

**Only includes utility funds (5 FTEs in OEPS)*



BUDGET 101 REFRESHER – ES REVENUES

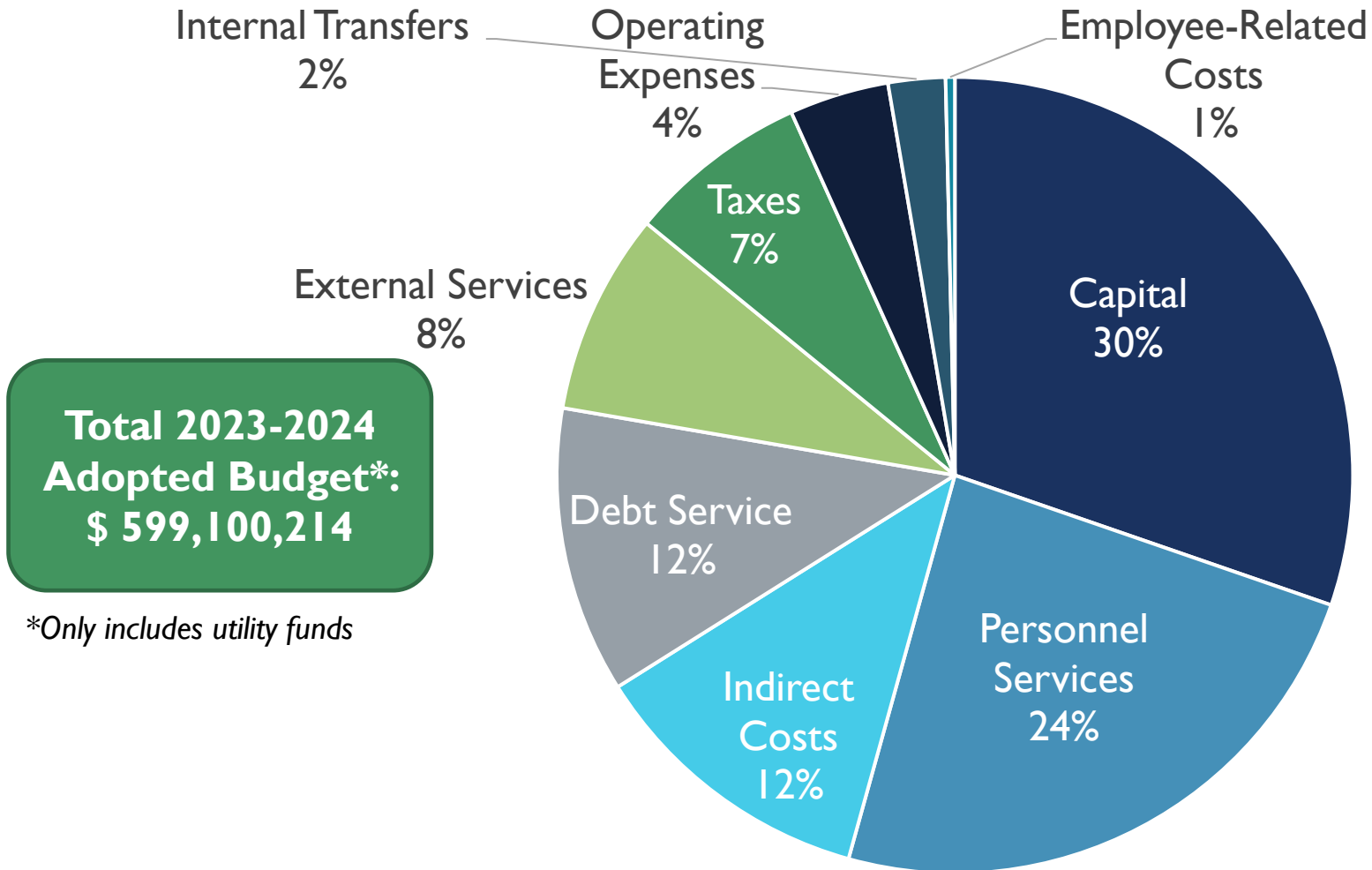


- **Charges for Services – Utility Bills/Fees**
- **Intergov Revenues – Ecology/EPA for SolW and Storm**
- **Misc. Revenues – Grants, Rent, Investment Earning**
- **Bonds**

**Total 2023-2024
Planned Revenues*:
\$ 599,100,214**

**Only includes utility funds*

BUDGET 101 REFRESHER – ES EXPENSES



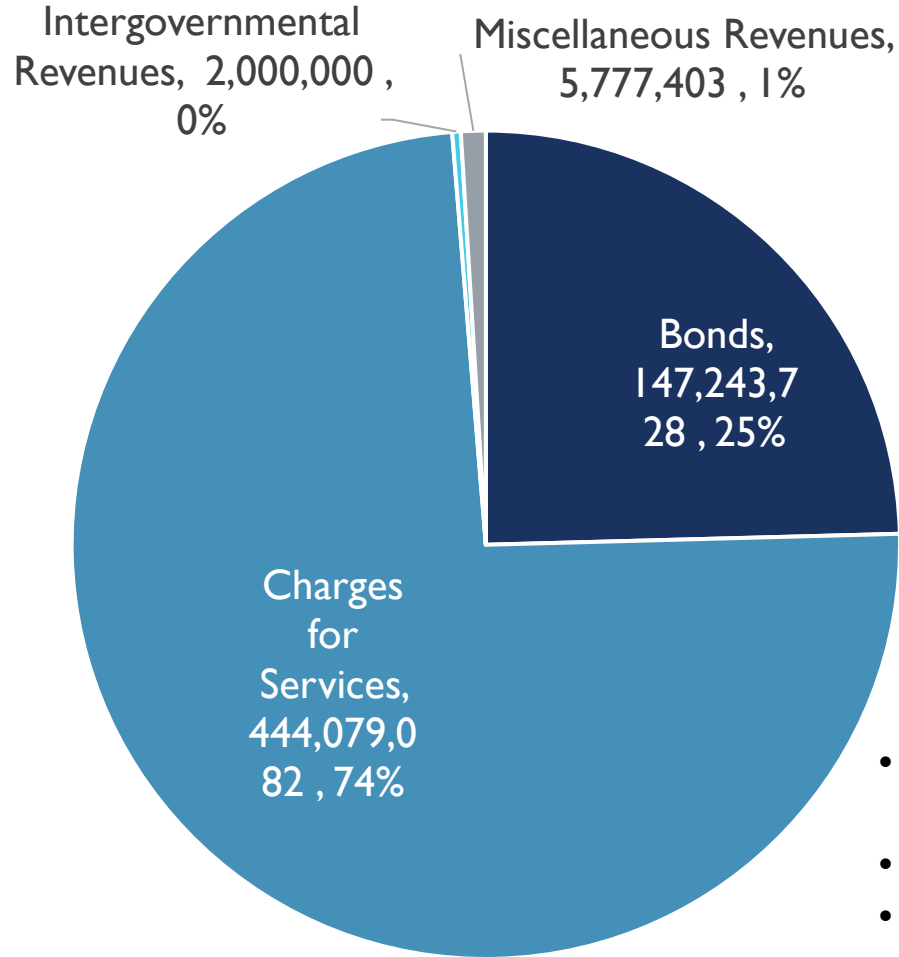
**Total 2023-2024
Adopted Budget*:
\$ 599,100,214**

**Only includes utility funds*

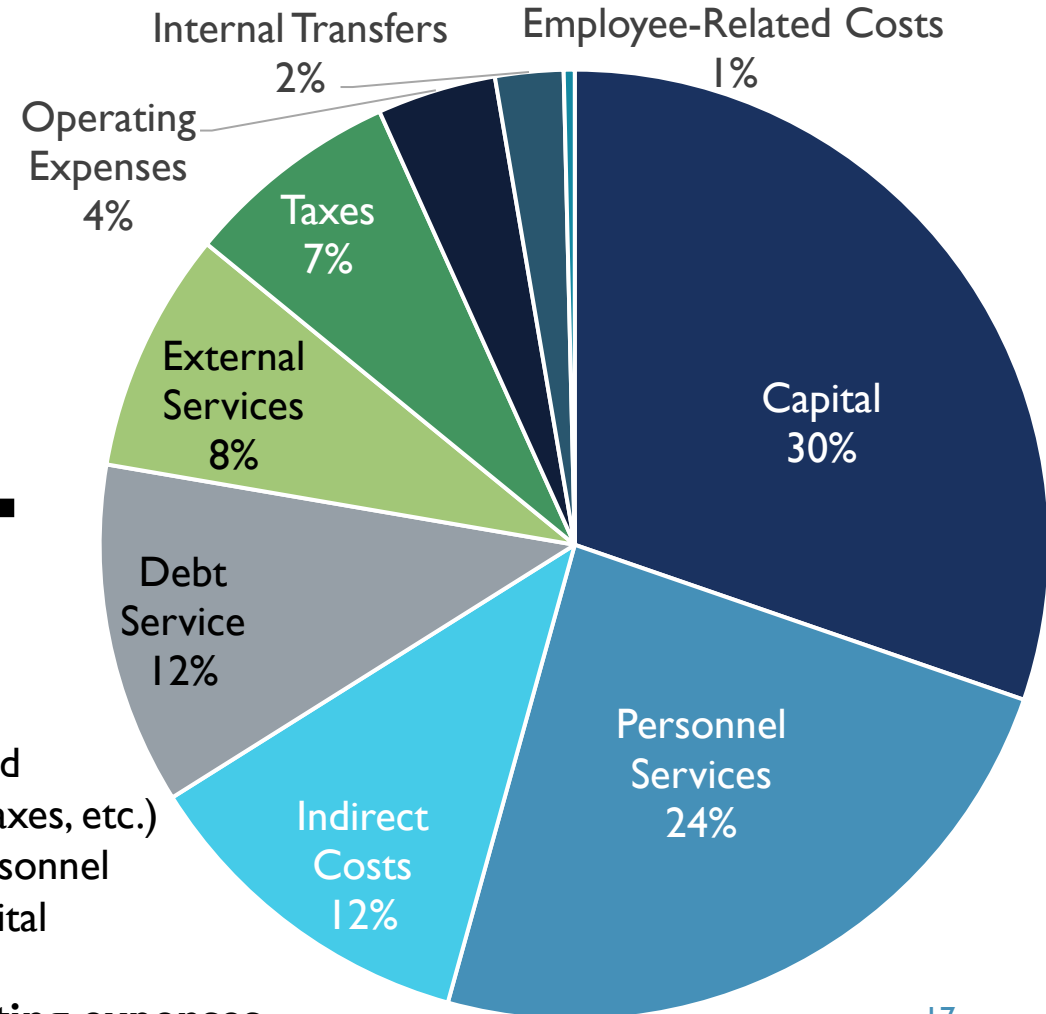
- **Capital** – Capital Projects
- **Personnel Services** – Employee Salaries and Benefits
- **Indirect Costs** – IT/HR Services
- **Debt** – Bonds/Loans
- **External Services** – Contracts
- **Taxes** – Gross Earnings and State
- **Operating Expenses** – Supplies and Equipment
- **Internal Transfers** – SDG, NCS Abatement
- **Employee-Related Costs** – Training, Dues, Uniforms, etc..

BUDGET DEVELOPMENT – PROPOSAL CONTEXT

Revenues



Expenses



- 33% of costs are fixed (debt, assessments, taxes, etc.)
- 25% of costs are personnel
- 30% of costs are capital
- **12% left for operating expenses**

*Non-Utility Funds (5800 & 1185) are excluded.



BUDGET DEVELOPMENT – PROCESS OVERVIEW



ES BUDGET IN CONTEXT – BUDGET VIDEO



BUDGET DEVELOPMENT – THE PROCESS



*Internal proposal development occurs before

BUDGET DEVELOPMENT – UNIQUE ES COMPONENTS

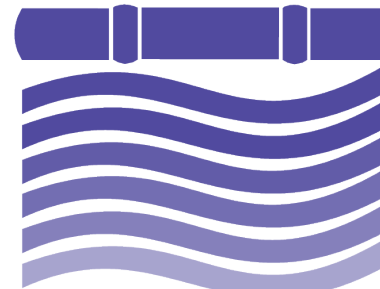
- Unique aspects of budget development process to Environmental Services
 - Rate Development
 - Environmental Services Commission
 - Capital Improvement Plan
 - Rates require separate legislative action
 - Additional one-on-one meetings with City Council



STORMWATER



SOLIDWASTE



WASTEWATER

ENVIRONMENTAL SERVICES DEPARTMENT



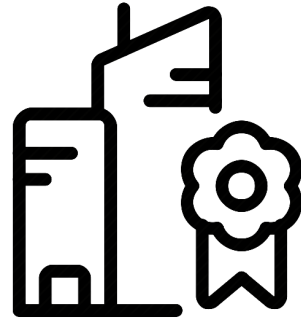
RATE MODEL BASICS

RATE MODEL BASICS – PRINCIPLES OF RATEMAKING



Legal

- Fair
- Just
- Reasonable
- Non-Discriminatory



Industry-Standard

- Revenue Stability
- Cost-Causation
- Economic Efficiency
- Equity
- Bill Stability



City of Tacoma Principles

- Affordability
- Equity
- Environment
- Public Involvement
- Long-term View

RATE MODEL BASICS – RATEMAKING PROCESS

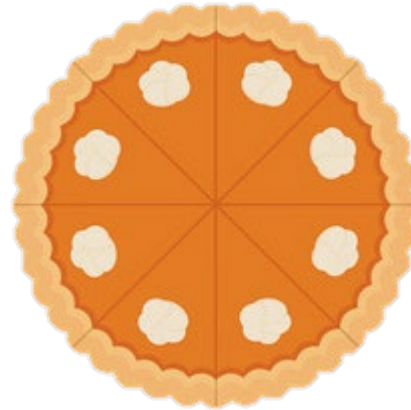
How Big is the Pie?



1. Revenue Requirement

Identifies revenues needed to sustain operations, according to financial plan (i.e. budget)

How to Slice the Pie?



2. Cost of Service

Divides revenue into total amount to be paid by each customer class (seeks equity)

How to Eat Each Slice?



3. Rate Design

Sets rate structure to collect revenue from each customer in each class

RATE MODEL BASICS – I. REVENUE REQUIREMENT

How much revenue is needed to cover the cost of utility operations?

- Determined during first phase of budget development
 - Looks at prior year actual spending
 - Uses assumptions to project future costs
 - Trend data
 - Market information
 - Economy
- As Budget Proposals are approved, the additional costs are factored in and model updated
 - Initial projection includes multiple scenarios to ensure revenue coverage for approved proposals

How Big is the Pie?

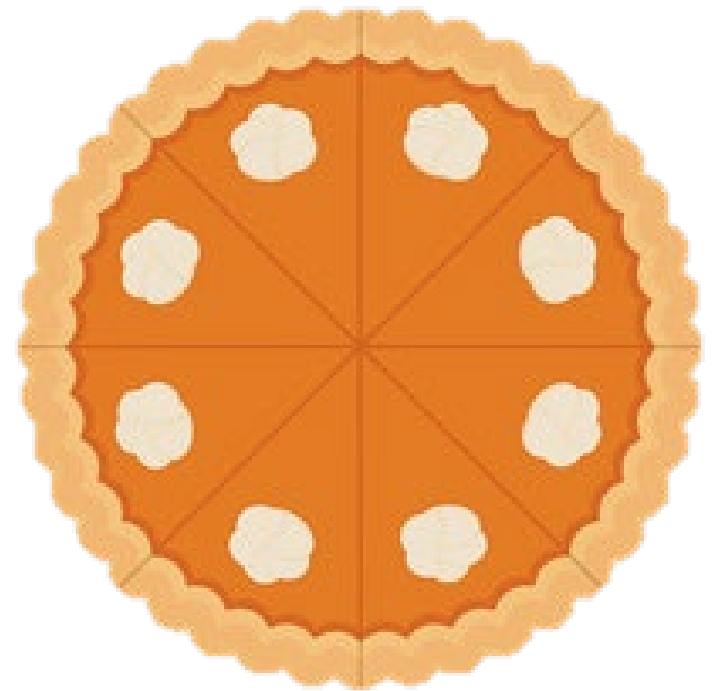


RATE MODEL BASICS – 2. COST OF SERVICE ANALYSIS

What should each customer class pay?

- Goal is equitable distribution of service costs
 - Each customer class should only pay for the portion of services they receive
 - Fairness of the COSA is continually evaluated and rate model is adjusted as needed
 - Correction made overtime to “smooth” impact

How to Slice the Pie?



RATE MODEL BASICS – 3. RATE DESIGN

How will rates be charged? What methodology will be used to collect revenue from customers within each class?



- Based upon Flow (volume of water) and Strength (contamination of water)
 - Residential uses Winter Quarter average to avoid summer irrigation impacts
 - Commercial is metered and based upon type of business

How to Eat Each Slice?



RATE MODEL BASICS – 3. RATE DESIGN

How will rates be charged? What methodology will be used to collect revenue from customers within each class?



- Based upon parcel size, parcel location, and how permeable is parcel surface

How to Eat Each Slice?



RATE MODEL BASICS – 3. RATE DESIGN

How will rates be charged? What methodology will be used to collect revenue from customers within each class?



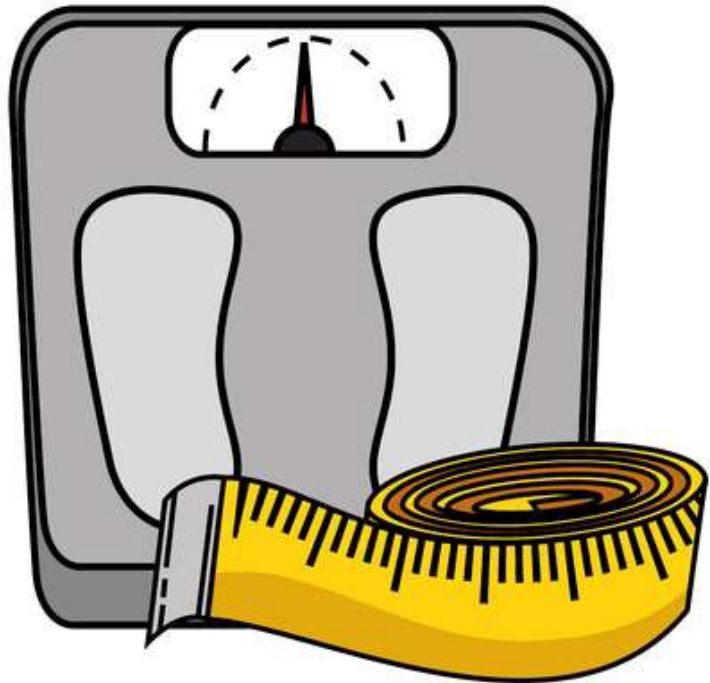
- Most difficult utility for rates because many different service levels (Container size, pick-up frequency, misc. services)
 - Strong reliance on customer data
- Residential services are bundled (volume-based)
- Commercial services are “pick and choose”

How to Eat Each Slice?



RATE MODEL BASICS – 4. MONITORING ACCURACY

Accuracy of the Rate Model



4. Monitoring

- Compare actual revenues with the rate model plan
- Ensure Financial Requirements are maintained:
 - Bond coverage ratios
 - Cash Balances
 - Rate Stabilization
 - Operating Fund
 - Are revenue increases being realized as projected
- Update model based on new data
 - Revise/Propose Future Rates

BUDGET MONITORING – FINANCIAL HEALTH

- What does it mean to be financially healthy?
 - Accurate rate model that helps ensure:
 - Rate increases are adequate to recover utility costs (operating revenues meet or exceed operating expenses)
 - Rate increases are predictable, steady, and as low as is responsible (“inflationary” target)
 - Rates are competitively-priced AND affordable
 - Asset Management Plan in place
 - Key Financial Indicators met
 - Debt coverage ratio (Don’t borrow more than we can afford)
 - Operating fund balances (per financial policies)
 - Rate Stabilization fund
 - Continuous budget monitoring to adjust course as needed to maintain all items above



BUDGET MONITORING –FINANCIAL HEALTH “SO WHAT”

- Our rates can significantly impact the lives of our residents
- We need to ensure fairness and affordability to ratepayers
- We need to effectively manage the financial investment of the ratepayer





SPECIAL TOPICS - CAPITAL



CAPITAL – ASSET INVENTORY

Wastewater

- 700 miles pipe
- 2 wastewater treatment plants
 - 5,600 assets (mechanical/electrical equipment)
- 50 pump stations
 - 1,400 assets (mechanical/electrical equipment)

Stormwater

- 480 miles pipe
- 19,100 catch basins
- 36 holding basins/ponds
- 392 treatment devices
- 520 acres of Open Space
- 4 major pump stations

Solid Waste

- 135 acres landfill cap
- Onsite facilities
- 144 vehicles
- 264 pieces of equipment



CAPITAL – RISK

Likelihood of Failure

- Maintenance History
- Preventative & Corrective
- Video inspections
- Modeling

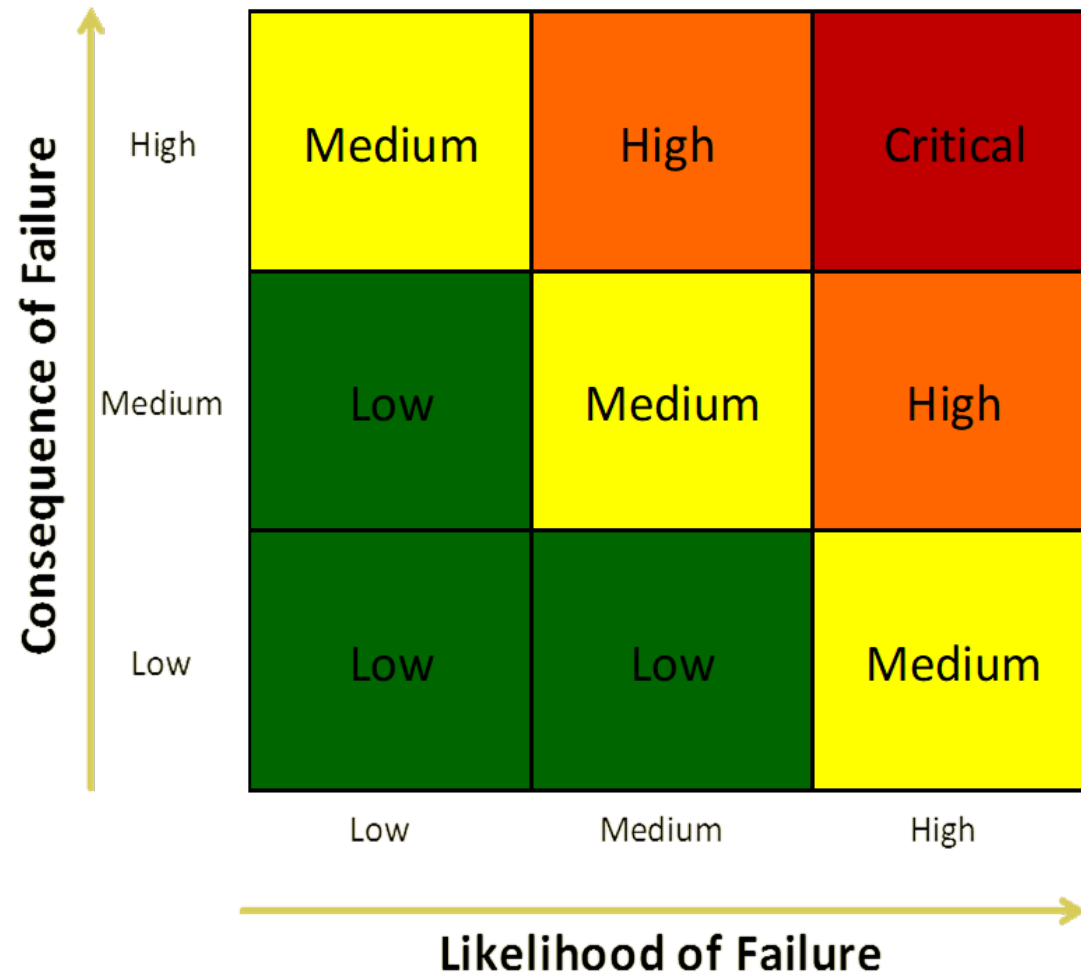


Consequence of Failure

- Location
 - Steep slopes
 - Under buildings/highways/railroad tracks
 - Wetlands
- Flooding impact
- Size of pipe



CAPITAL – RISK EVALUATION



Other CIP Considerations

- Density – Home in Tacoma
- Affordable Housing
- Equity
- Policy Priorities

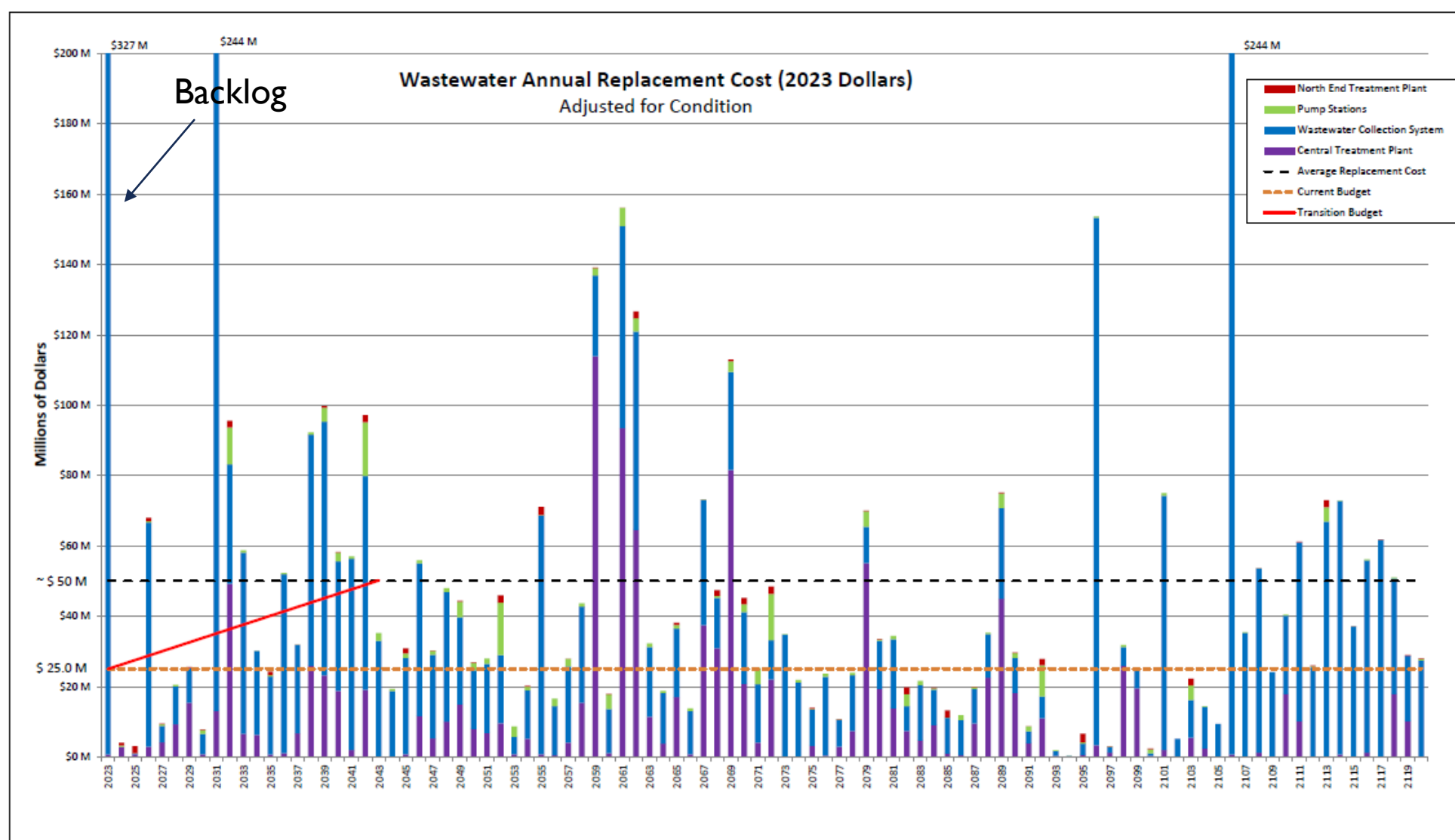
CAPITAL – ART OF ASSET MANAGEMENT

Goal is to maximize the life of the asset
while still minimizing risk

“Sweating”
the Assets



CAPITAL – FUTURE ASSET REPLACEMENTS



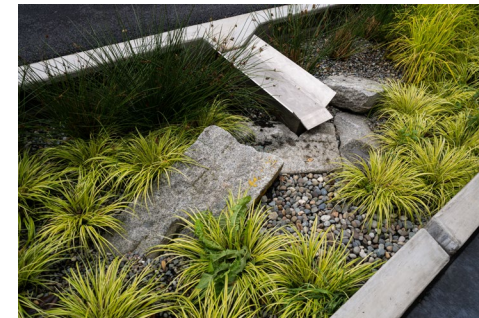


CLOSING

CONSIDERATIONS

Strengths

- Award winning utility
 - NACWA Excellence in Management (Wastewater)
 - APWA Best Practice Stormwater Utility
 - SWANA 2023 Best Safety Innovation
- Strong credit ratings
 - Aa2, AA+, AA+ (Moody's/ S&P/ Fitch)
- Stable financial health
 - Meeting key financial metrics
 - Revenues are positive through 2023



Challenges

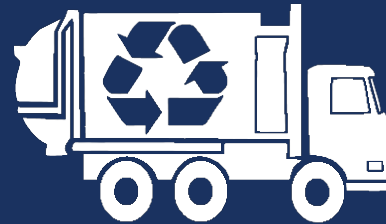
- City is changing (Home in Tacoma)
 - Capacity issues from densification
- Equity and affordability
 - Customer base has lower ability to pay
- Life cycle of sewer system coming to an end
 - Significant capital investment needed

ENVIRONMENTAL SERVICES BUDGET TRAINING

BUDGET TRANSPARENCY & EDUCATION



STORMWATER



SOLIDWASTE



WASTEWATER

ENVIRONMENTAL SERVICES DEPARTMENT