ENVIRONMENTAL SERVICES BUDGET TRAINING
BUDGET TRANSPARENCY & EDUCATION
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
DEMOCRAPHICS

- 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)
1 in 5 Tacoma Households have an income of less than $25,000 annually.
## BUDGET 101 REFRESHER - DEMOGRAPHICS

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

General Government (GG)

Tacoma Public Utilities (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

Total Budget, $4,347M

Utilities & Enterprise Funds, $2,291M, 53%

Environmental Services

Enterprise Funds

Retirement

Trust & Agency Funds

Special Revenue Funds

Internal Service Funds

General Fund

Trust & Special Revenue Funds, $1,080M, 25%

Capital & Debt Funds, $90M, 2%

Tucson Public Utilities

Internal Services, $271M, 6%

General Fund, $614M, 14%
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)
Total 2023-2024 Planned Revenues*: $ 599,100,214

*Only includes utility funds

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

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

*Only includes utility funds*
BUDGET DEVELOPMENT – PROPOSAL CONTEXT

Revenues
- Intergovernmental Revenues, 2,000,000, 0%
- Miscellaneous Revenues, 5,777,403, 1%
- Bonds, 147,243,728, 25%
- Charges for Services, 444,079,082, 74%

Expenses
- Operating Expenses 4%
- Taxes 7%
- External Services 8%
- Debt Service 12%
- Indirect Costs 12%
- Capital 30%
- Personnel Services 24%

- 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

Baseline Budget
Jan - April

Budget Proposals
April – August*

Proposed to Adopted Budget
August - November

Budget Cleanup
Six-Year Forecast
Proposal Approvals
Adopted Budget

*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
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

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

2. Cost of Service
   - Divides revenue into total amount to be paid by each customer class (seeks equity)

3. Rate Design
   - Sets rate structure to collect revenue from each customer in each class

How Big is the Pie? How to Slice the Pie? How to Eat Each Slice?
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
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 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 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 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”
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
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
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
Other CIP Considerations
- Density – Home in Tacoma
- Affordable Housing
- Equity
- Policy Priorities
Goal is to maximize the life of the asset while still minimizing risk

“Sweating” the Assets
CAPITAL – FUTURE ASSET REPLACEMENTS

Wastewater Annual Replacement Cost (2023 Dollars)
Adjusted for Condition

Backlog
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
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