



# 2025-2026 Revenue Requirement

City of Tacoma | Environmental Services

**Environmental Services Commission**

**August 8, 2024**



# OVERVIEW



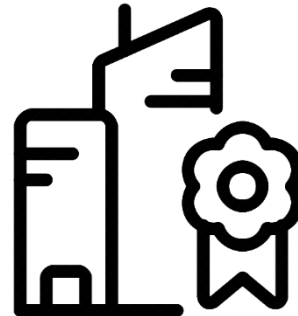
- Rate-making Overview
  - Principles
  - Process
- Baseline Budget Refresher
  - Cost Growth
  - Capital Improvement Program
- 2025-2026 Budget and Rates
  - Budget Strategy
    - Proposals
  - Customer Assistance
  - Proposed Revenue Increases
    - Peer Bill Comparison

# RATE PRINCIPLES



## Legal

- Fair
- Just
- Reasonable
- Non-Discriminatory



## Industry-Standard

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



## City of Tacoma Principles

- Affordability
- Equity
- Environment
- Public Involvement
- Life-Cycle Cost Utility

# RATE-MAKING PROCESS



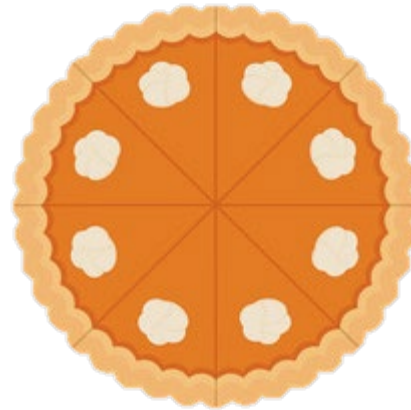
How Big is the Pie?



## 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 Analysis

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

How to Eat Each Slice?

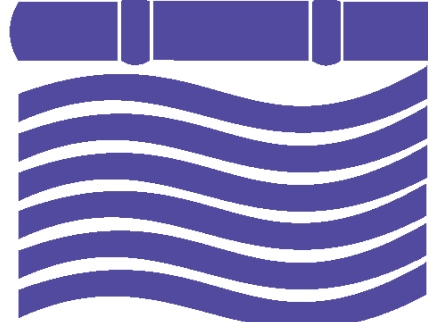


## 3. Rate Design

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



# RATE DESIGN



## STORMWATER SOLIDWASTE WASTEWATER ENVIRONMENTAL SERVICES DEPARTMENT

- Based upon parcel size, parcel location, and how permeable is parcel surface
- Residential services are bundled (volume-based)
- Commercial services are “pick and choose”
  - Many different service levels (Container size, pick-up frequency, misc. services)
- 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 DESIGN



## Wastewater Fixed Rate Increase Phase In

- Between 2025 and 2030 transitioning the residential rate design to collect revenue primarily from the fixed portion
- Current revenues are 55% fixed/45% variable
- Looking to increase fixed amount 3% a year until reaching a 70% fixed/30% variable split
- This will better align revenues with cost of service and put our utility in line with regional utility best practices
- This also will lower the average bill for our BCAP customers while keeping median customer bills the same

## How to Eat Each Slice?



# RATE-MAKING PROCESS



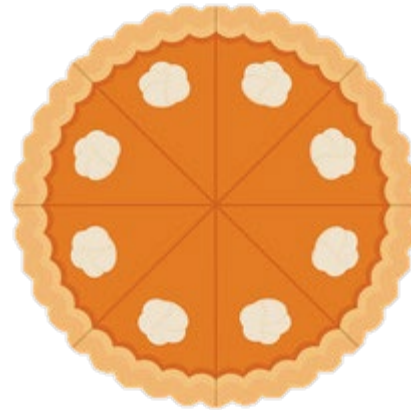
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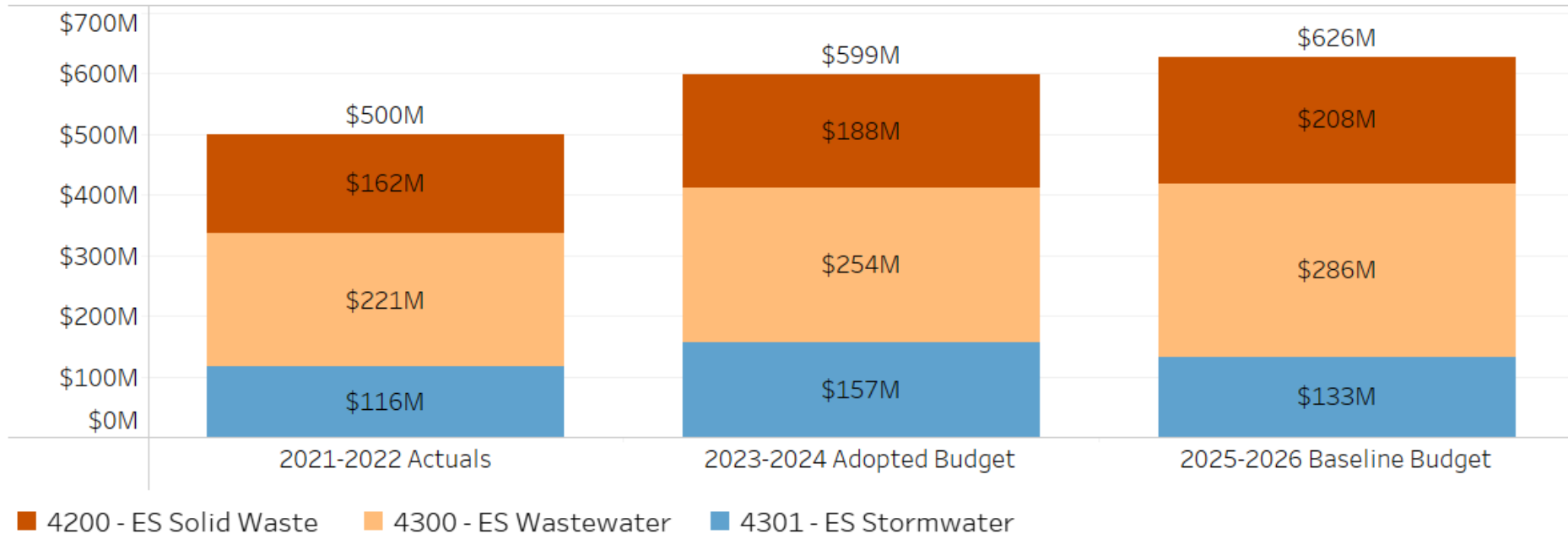


## 3. Rate Design

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



# 2025-2026 BASELINE BUDGET



		2021-2022 Actuals	2023-2024 Adopted Budget	2025-2026 Baseline Budget
<b>Operating</b>	4200 - Solid Waste	\$143,322,320	\$161,423,331	\$179,375,308
	4300 - Wastewater	\$156,362,145	\$176,000,176	\$195,118,493
	4301 - Stormwater	\$66,449,396	\$80,216,676	\$89,706,668
	<b>Total</b>	<b>\$366,133,861</b>	<b>\$417,640,182</b>	<b>\$464,200,469</b>
<b>Capital</b>	4200 - Solid Waste	\$18,679,358	\$26,773,229	\$28,295,048
	4300 - Wastewater	\$64,701,010	\$77,996,182	\$90,504,371
	4301 - Stormwater	\$50,002,410	\$76,690,621	\$43,301,288
	<b>Total</b>	<b>\$133,382,778</b>	<b>\$181,460,032</b>	<b>\$162,100,707</b>
<b>Grand Total</b>		<b>\$499,516,639</b>	<b>\$599,100,214</b>	<b>\$626,301,176</b>

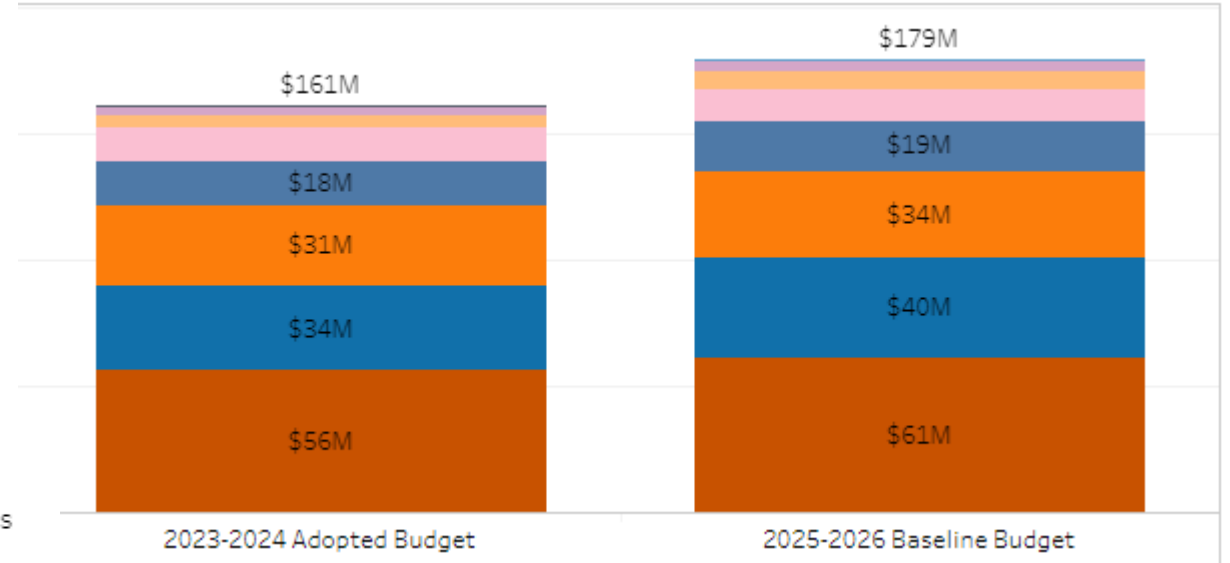




# 2025-2026 BASELINE BUDGET

## Solid Waste Operating Financials by Cost Category

- Personnel Services
- External Services
- Operating Expenses
- Claims and Premiums
- Indirect Costs
- Taxes
- Debt Service
- Internal Transfers
- Employee-Related Costs
- Reserves



*\*Excludes capital plan*

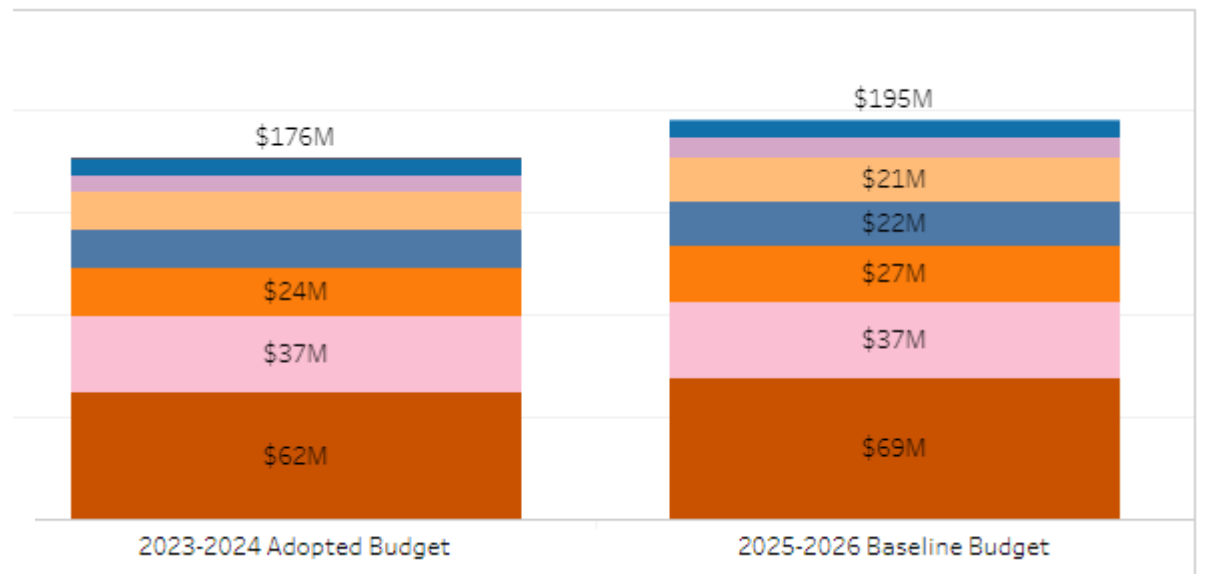
		2023-2024 Adopted Budget	2025-2026 Baseline Budget
Operating	Personnel Services	\$50,144,824	\$61,260,019
	Employee-Related Costs	\$611,451	\$625,213
	Operating Expenses	\$4,906,410	\$6,960,724
	External Services	\$33,837,879	\$39,718,200
	Claims and Premiums	-	-
	Debt Service	\$13,544,600	\$13,177,150
	Taxes	\$17,619,670	\$19,376,521
	Indirect Costs	\$31,302,324	\$34,312,481
	Internal Transfers	\$3,456,168	\$3,945,000
<b>Grand Total</b>		<b>\$161,423,331</b>	<b>\$179,375,308</b>
		2023-2024	2025-2026
Full Time Equivalent		548.6	551.5



# 2025-2026 BASELINE BUDGET

## Wastewater Operating Financials by Cost Category

- Personnel Services
- Indirect Costs
- Internal Transfers
- External Services
- Taxes
- Employee-Related Costs
- Operating Expenses
- Debt Service
- Reserves
- Claims and Premiums



*\*Excludes capital plan*

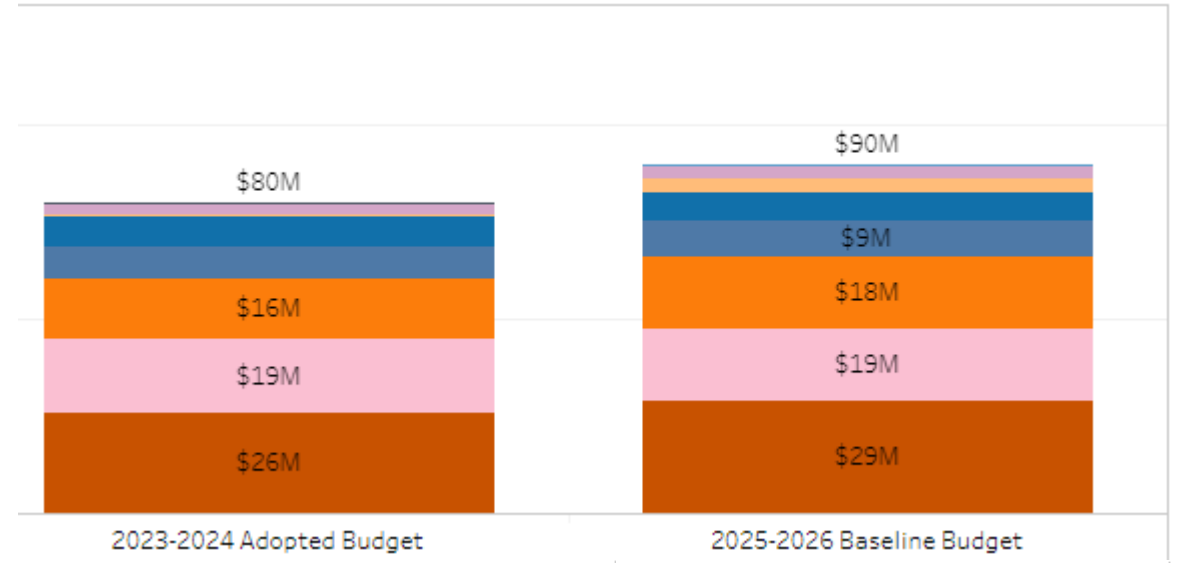
		2023-2024 Adopted Budget	2025-2026 Baseline Budget
Operating	Personnel Services	\$61,793,644	\$68,616,444
	Employee-Related Costs	\$1,172,027	\$1,252,325
	Operating Expenses	\$18,492,682	\$21,177,462
	External Services	\$7,551,779	\$7,492,427
	Claims and Premiums	-	-
	Debt Service	\$37,266,006	\$36,989,107
	Taxes	\$18,495,268	\$21,672,054
	Indirect Costs	\$23,508,796	\$27,418,674
	Internal Transfers	\$7,719,974	\$10,500,000
<b>Grand Total</b>		<b>\$176,000,176</b>	<b>\$195,118,493</b>
		2023-2024	2025-2026
Full Time Equivalent		548.6	551.5



# 2025-2026 BASELINE BUDGET

## Stormwater Operating Financials by Cost Category

- Personnel Services
- Indirect Costs
- Internal Transfers
- External Services
- Taxes
- Employee-Related Costs
- Operating Expenses
- Debt Service
- Reserves
- Claims and Premiums



*\*Excludes capital plan*

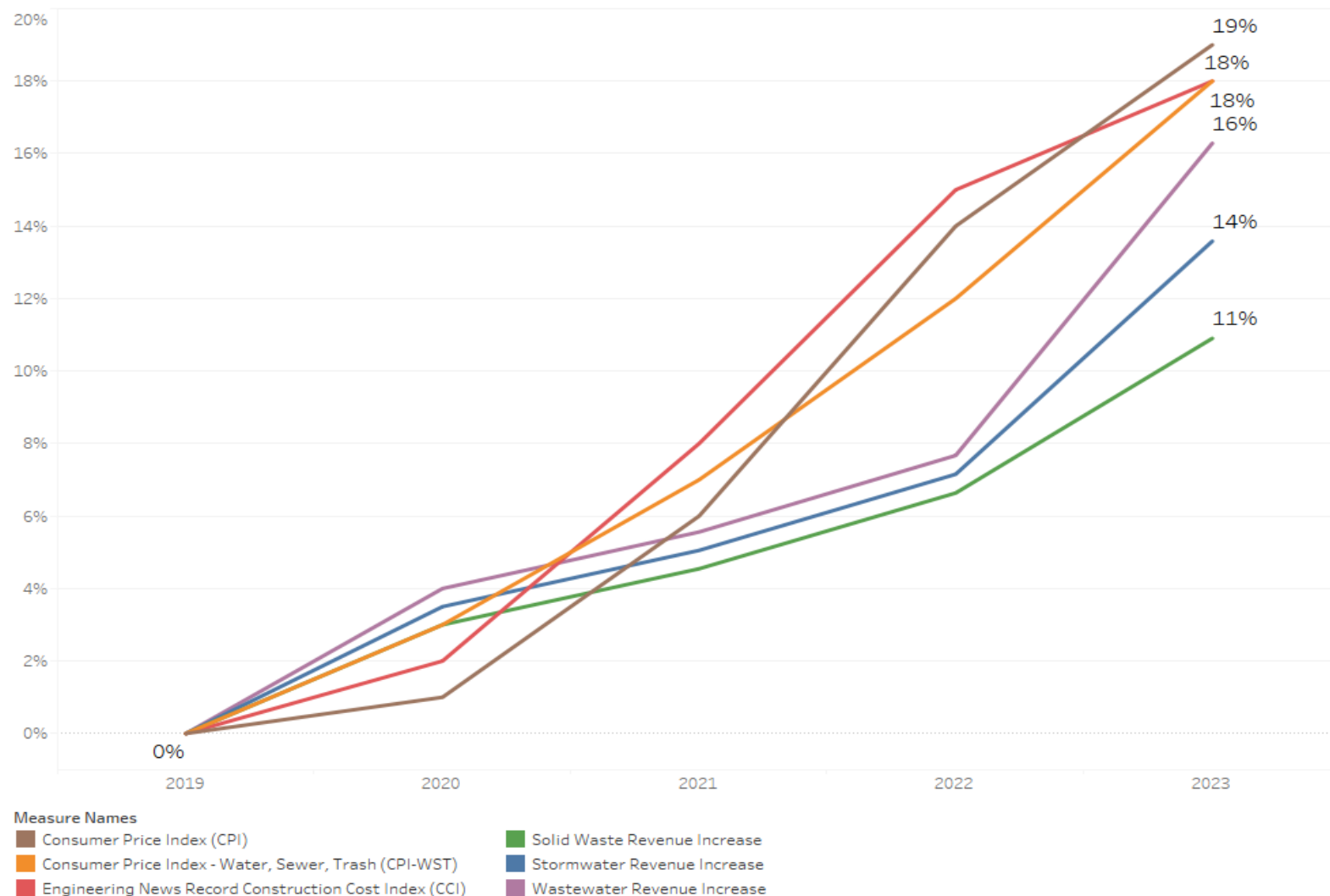
		2023-2024 Adopted Budget	2025-2026 Baseline Budget
Operating	Intergovernmental Revenues	-	-
	Personnel Services	\$25,947,892	\$29,088,567
	Employee-Related Costs	\$451,673	\$450,525
	Operating Expenses	\$845,240	\$3,485,618
	External Services	\$7,739,327	\$7,495,493
	Claims and Premiums	-	-
	Debt Service	\$18,867,236	\$18,532,989
	Taxes	\$7,938,509	\$9,087,062
	Indirect Costs	\$15,705,209	\$18,383,972
	Internal Transfers	\$2,721,590	\$3,182,442
<b>Grand Total</b>	<b>\$80,216,676</b>	<b>\$89,706,668</b>	
		2023-2024	2025-2026
Full Time Equivalent		548.6	551.5



# COST DRIVERS

- Inflation has outpaced our revenue increases.
- Cost decreases are unlikely, resulting in a new, higher 'normal' cost environment.
- Our Capital Improvement Plan (CIP) is higher due to this higher escalation and backlog of needed projects.
- Interest rates are expected to be near their highest levels in over a decade, resulting in higher financing costs for our upcoming capital plan.

Cumulative Increases since 2019 (in %)



# CAPITAL COST DRIVERS



- Better data
  - Better understanding of current backlog and associated risk
  - Better understanding of assets and needs
- Increased costs
  - Inflation
  - More complex street restoration
  - Regulatory and design requirements
- Timing (system is aging)
- Growth



***Planning for and addressing these increased costs will continue to be a focus in upcoming rate cycles***



# • • • 2025-2026 BUDGET STRATEGY

- Maintain **effective and efficient service** levels and operations
  - Understand baseline costs and current organizational needs
  - Seek improvements to the customer experience
  - Address requirements and critical business needs (growth, regulations, safety)
- **Advance strategic priorities** with limited targeted investments or enhanced services
  - Equity • Climate and Environmental Health • Council Policy Priorities
- **Long-range planning** for organization, staffing, and asset needs
  - Ensure financial sustainability
    - Consider affordability and support for vulnerable customers
  - Plan for capital backlog and next bond issuance
  - Long-term asset management planning with funding strategy
- Consider **new revenue** opportunities





# 2025-2026 BUDGET PROPOSALS



## Effective and Efficient Service and Strategic Priorities

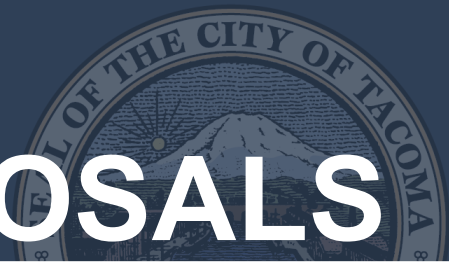
- Safe and efficient staffing levels
  - SWM temporary management opportunity
- Improved customer experience
  - In-house asphalt patch crew
  - Maintenance hole replacement program
  - Environmental Services plan review specialist
- Equitable service delivery
  - Call-2-Hall outreach for Multifamily
  - Small business access to Household Hazardous Waste

## New Revenue Opportunities

- Grants for infrastructure, environment, and community
- Fees and charges review
- RIN Generation
- Fuel credits



# 2025-2026 BUDGET PROPOSALS



## Strategic Priorities – Equity and Climate

- Establish Budget for ES Equity Team Initiatives and Events
- Sponsor UWT Engineering Pathways Apprenticeship Program
- Improve Urban Forestry Planning Through Construction Arborist Position and City-Responsible Tree Maintenance Crew



# 2025-2026 PROPOSAL SUMMARY

	Solid Waste	Wastewater	Stormwater
<b>Ongoing</b>	<b>984,100</b>	<b>715,287</b>	<b>1,157,302</b>
Reduction	(185,228)	(360,056)	(505,570)
Revenue	(1,557,841)	(200,000)	
Enhancement	2,727,202	1,275,342	1,662,872
<b>One-Time</b>	<b>512,000</b>	<b>617,903</b>	<b>1,575,500</b>
Add	570,000	617,903	1,575,500
<b>Total</b>	<b>1,554,133</b>	<b>1,333,190</b>	<b>2,732,802</b>

Less than 1% of baseline operating expenses

3% of baseline operating expenses

\*Totals do not reflect increased assessments from approved Internal Service Fund proposals, estimated to be ongoing impacts of \$300-\$750K

# 2024 SIX YEAR REVENUE PLAN



Year	Solid Waste	Wastewater	Stormwater
2023	4%	8%	6%
2024	4%	8%	6%
2025	5.5% (+1.5%)	7%	8% (+3%)
2026	5.5% (+1.5%)	7%	8% (+3%)
2027	5% (+1%)	6%	7.5% (+3%)
2028	5% (+1%)	6%	7.5% (+3%)
2029	4.5%	6%	7%
2030	4.5%	6%	7%

2024 Proposed

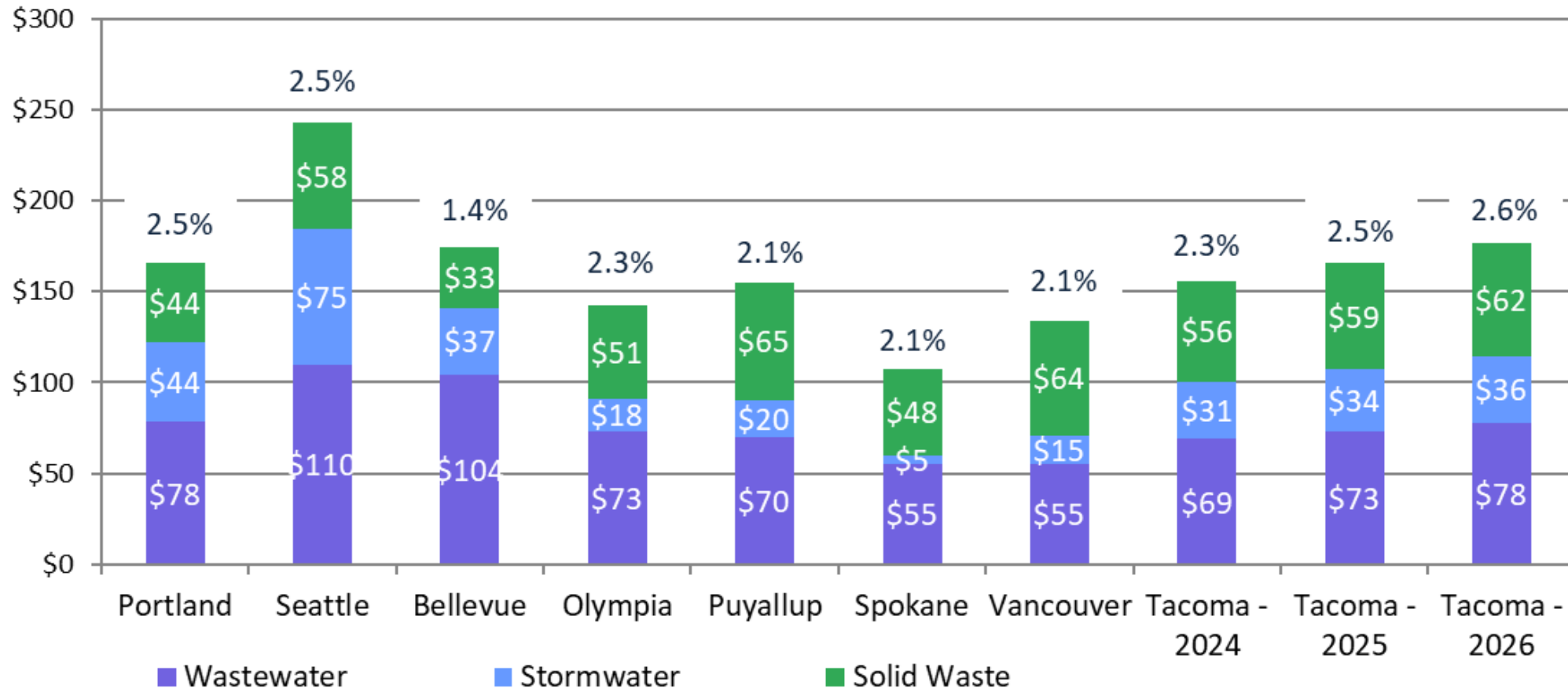
Change from 2022 Forecast



# 2024 SIX YEAR REVENUE PLAN

Year	Solid Waste	Wastewater	Stormwater
2025	5.5%	7%	8%
2026	5.5%	7%	8%
2027	5%	6%	7.5%
2028	5%	6%	7.5%
2029	4.5%	6%	7%
2030	4.5%	6%	7%

# 2024 RESIDENTIAL BILL COMPARISON



*Based on theoretical residential customer: 7,000 SF residential lot for surface water, 6 CCF water for wastewater, and for solid waste a 60 gallon garbage container, two 90 gallon recycling containers, and two 90 gallon yard/food waste containers picked up every other week (or a weekly equivalent)*



# AVG RESIDENTIAL CUSTOMER BILL

	2024 Monthly	2025 Monthly	2026 Monthly	\$ Difference		% Difference	
Wastewater	\$68.80	\$73.37	\$78.08	\$4.57	\$4.71	6.7%	6.4%
Stormwater	\$31.23	\$33.72	\$36.42	\$2.49	\$2.70	7.7%	8.0%
Solid Waste	\$55.79	\$58.95	\$62.30	\$3.16	\$3.35	5.7%	5.7%
ES Total	\$155.91	\$166.04	\$176.80	\$10.13	\$10.76	6.5%	6.5%



# AVG RESIDENTIAL CUSTOMER BILL

## BCAP Plus Full Credit (Automatic & Earned) Applied (20% Discount)

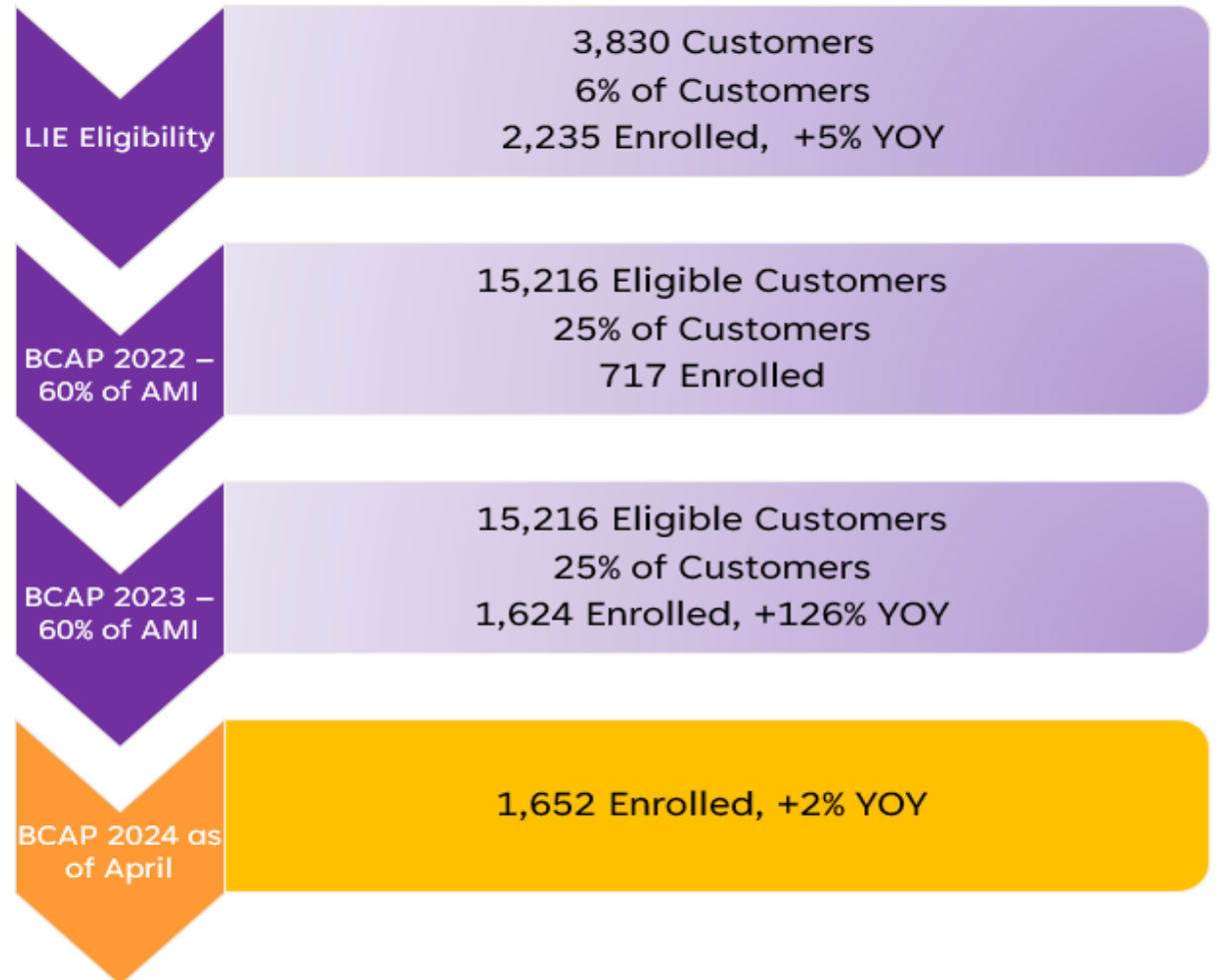
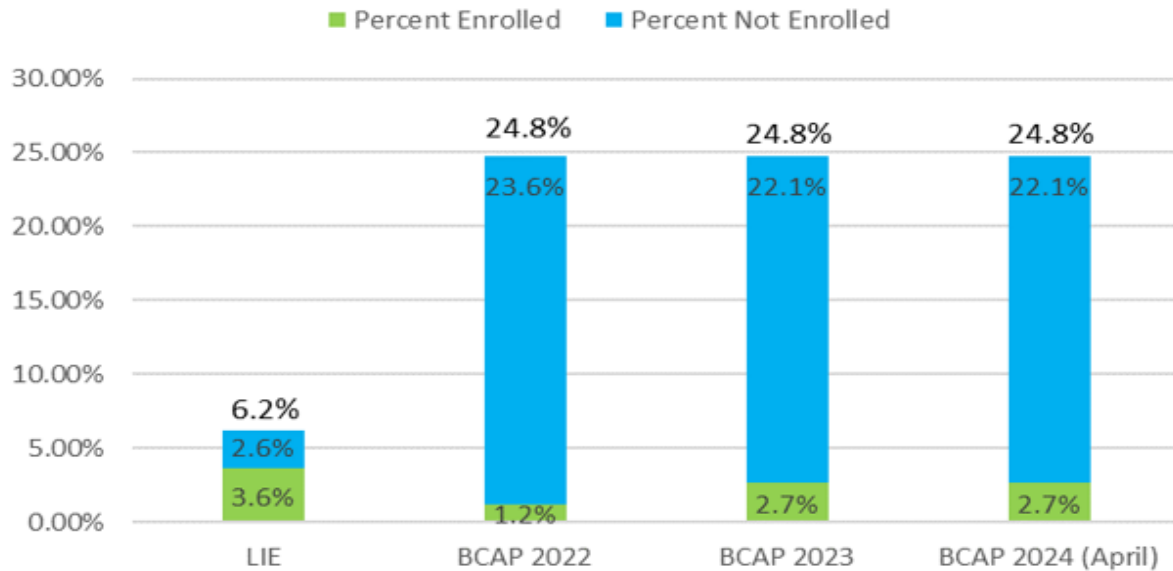
	2025 Monthly	2025 Monthly BCAP	2026 Monthly	2026 Monthly BCAP	\$ Difference	
Wastewater	\$73.37	\$58.37	\$78.08	\$63.08	(\$15)	(\$15)
Stormwater	\$33.72	\$26.72	\$36.42	\$29.42	(\$7)	(\$7)
Solid Waste	\$58.95	\$41.63	\$62.30	\$44.98	(\$17.32)	(\$17.32)
ES Total	\$166.04	\$126.72	\$176.80	\$137.48	(\$39.32)	(\$39.32)



# 2025-2026 CUSTOMER ASSISTANCE

## Customer Assistance Program

Percentage of Customers Eligible & Enrolled

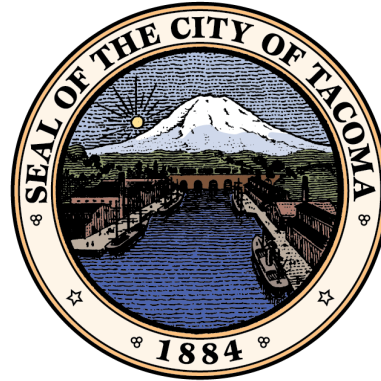




# NEXT STEPS



- **August 20** – 2025-2026 ES Revenue Requirement at GFPC
- **September 12** – ESC Draft Letter
- **October 1** – City Manager presents proposed budget and TPU and Environmental Services rates (*tentative*)
- **October 8** – ES Budget and Rates Overview at Study Session (*tentative*)
- **September to November** – Community Outreach
- **November 12 and 19** – Rates ordinances first and second reading (*tentative*)



# 2025-2026 Rate Revenues

City of Tacoma | Environmental Services

**Environmental Services Commission**

**August 8, 2024**