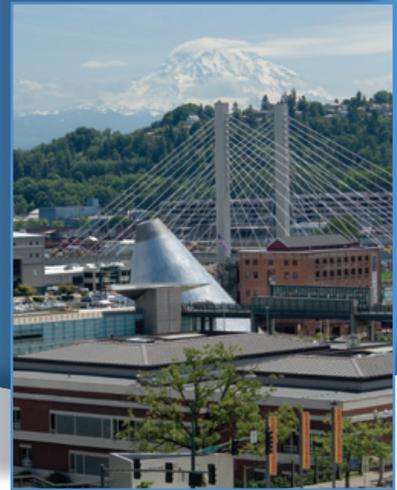
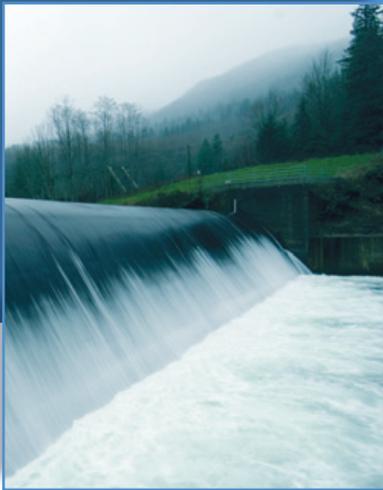


Tacoma Water's Strategic Plan

April 2012



Our plan of focus on the future

Our Mission & Values

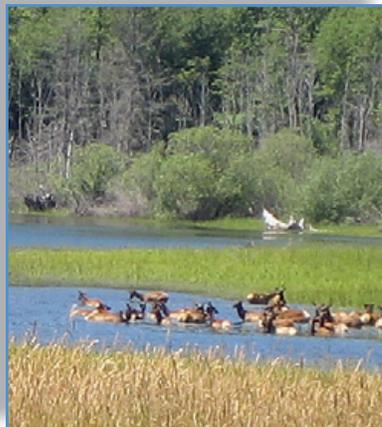
OUR MISSION

Providing clean, reliable water now and in the future.

OUR VALUES

Our core values guide all the work we do on behalf of our customers and the region in which we operate and reflect what we want the future of Tacoma Water to be.

- We plan for our customers' water needs and provide water when they need it
- We deliver high-quality water
- We listen to our customers and respond to their service needs
- We create long-term economic value in partnership with our customer-owners and our community
- We protect the natural resources that we all depend on
- We support the growth and development of our employees, who we rely on to successfully achieve our mission



Our plan of focus on the future

Tacoma Water has a legacy of thoughtful, long-range planning and quality customer service. As we look to the future, our attention will be on continuing to serve our customers in a manner that assures their trust and support in our organization. The Tacoma Water management presents this strategic plan as our focus on the future. The process of developing the plan helped us better understand the challenges we face in delivering water. The result is a series of strategies that will help us succeed in our mission of **providing clean, reliable water now and in the future.**

Tacoma Water is a fundamentally strong business that is undergoing a number of changes. In recent years, Tacoma Water has seen very little growth in its retail and wholesale customer numbers and is experiencing a per capita water consumption that is steadily declining. The costs of maintaining and upgrading infrastructure are escalating, significantly impacting the rates our customers pay. To gain support for future necessary rate increases, it is imperative that we work in partnership with our customers to ensure they value the service we provide.

This plan includes strategies that I believe will have the most positive impact on the financial health of Tacoma Water, while actively managing risk and resiliency. I encourage you to read the plan in order to thoroughly understand our current challenges as well as our chosen strategies to address them.

There are eight initiatives that are critical to the success of Tacoma Water. The first four detail what Tacoma Water will be focused on: customer relationships, the commodity that we protect and sell, and the physical infrastructure that delivers the water. The second four initiatives detail how Tacoma Water staff and our internal management processes will support the successful implementation of the first four strategic initiatives and the strategic plan as a whole.

I look forward to working with you as this plan takes shape over the next three to five years. It will take the commitment and dedication of all of us to manage the challenging times that we are experiencing. I have every confidence that we will succeed.

At Tacoma Water we all take great pride in our important mission and the service we provide. I believe the strategies contained in this Strategic Plan will provide a solid foundation for our future success and continue Tacoma Water's legacy of reliable, high-quality drinking water service to Tacoma and the surrounding region.



Tacoma Water Superintendent

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Section 1 - Introduction

Tacoma Water faces a number of challenges and uncertainties which the Tacoma Water management team evaluated during the development of this Strategic Plan in order to prepare a recommended course of action. The Tacoma Water Strategic Plan, which is summarized in the following pages, is the result of this effort.

The development of the Strategic Plan involved the activities shown in Diagram 1 and discussed below.



Diagram 1

- The process began with a comprehensive assessment of the strategic issues facing Tacoma Water, including an analysis of the key external and internal drivers related to those issues.
- After consideration of those issues and drivers, eight strategic initiatives designed to lead to a successful future for Tacoma Water were identified. With additional focus on the strategic initiatives, the utility will be in a much better position to take advantage of opportunities and manage risks in the next three to five years.
- Next, potential outcomes for each of the strategic initiatives were analyzed, factoring in the effects of a variety of economic, political, and environmental risks that could impact the outcomes:
 - ✓ Economic health of the service area
 - ✓ Capital markets
 - ✓ Regulation
 - ✓ Catastrophe (natural, other)
 - ✓ Climate change
 - ✓ Labor relations

- ✓ Demographics/customer mix
- High-level strategies for each strategic initiative were developed.
- An implementation plan was developed for each of the strategic initiative strategies, including high-level action steps and a timeline.
- Next steps were defined.

It is important to note that the Strategic Plan that is described in the following pages is intended to replace the *Tacoma Water Business Plan* and be the foundation for all of the subsequent planning and planning documents that Tacoma Water will complete. This Strategic Plan and the eight strategic initiatives are intended to be the strategic focus for Tacoma Water for at least the next three to five years. It is envisioned that analysis of and reporting on progress implementing the strategic initiatives will be done frequently in the coming years. The other major planning activities depicted below in Diagram 2 (i.e., annual section plans, annual budget, and annual performance goals) will logically flow from the Strategic Plan and support its implementation.

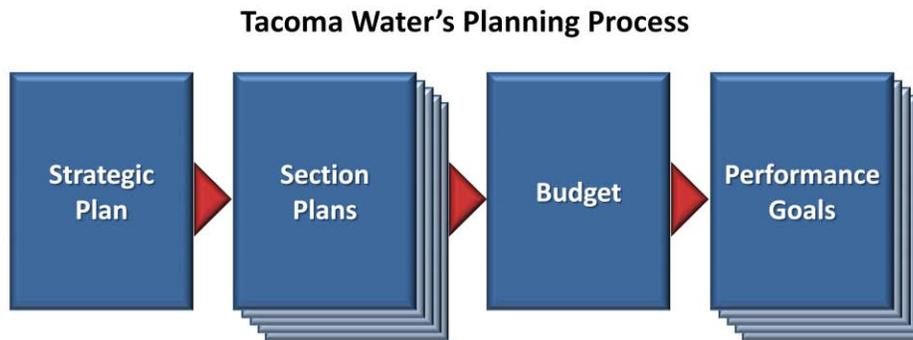


Diagram 2

Additionally, Tacoma Water is going to begin a new process of creating ‘section plans’ for each of its major functional areas. The section plans will detail how each of the sections is going to support the implementation of the strategic plan and manage its respective section. The section plans will provide the basis for creating the section budgets, which roll up to the overall budget for Tacoma Water.

Tacoma Water’s planning process is consistent with and feeds into Tacoma Public Utilities’ overall planning process as depicted in Diagram 3 below.

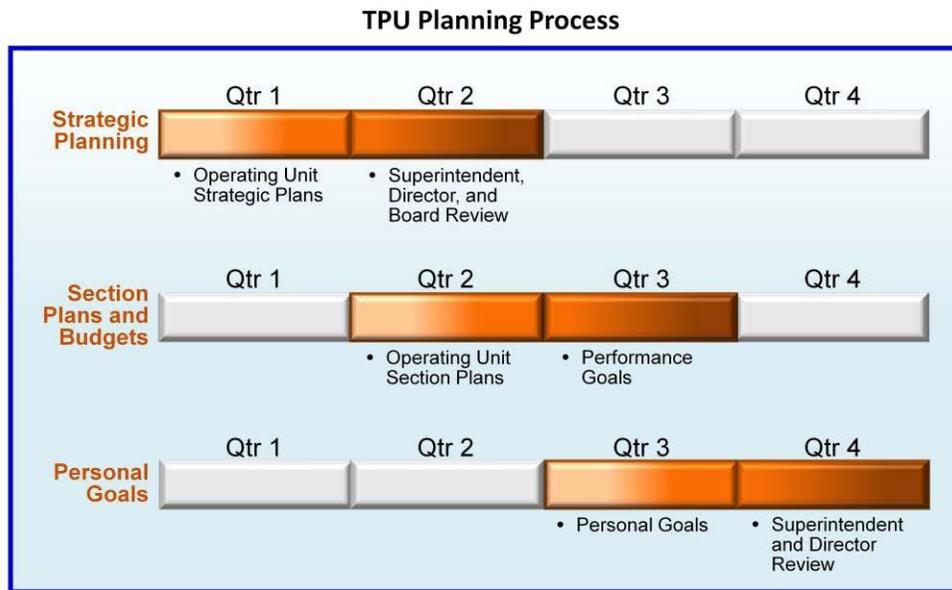


Diagram 3

In the sections that follow, the challenges facing Tacoma Water are described, eight strategic initiatives are analyzed, strategies are recommended, the impact on the overall performance of Tacoma Water is projected, and high-level implementation plans are identified.

Section 2 - Current Situation

Tacoma Water is a fundamentally strong business that is undergoing a number of changes. The change forcing the biggest impact change is the decline in demand for water. In the past, the demand for water was forecasted to increase, but the increased demand never materialized, as seen in Diagram 4 below. In fact, in the past 20 years, the demand for water has declined and the current forecasted demand for water is projected to be more or less flat.

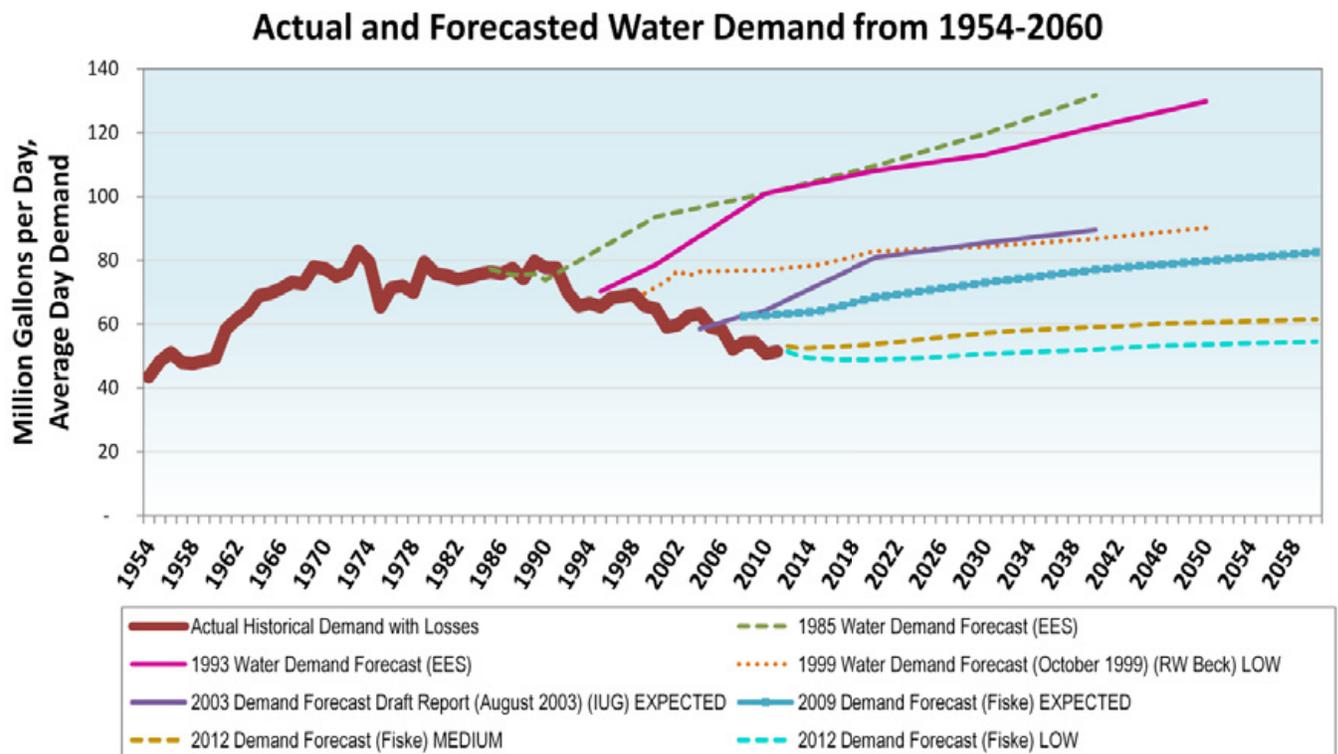


Diagram 4

While Tacoma Water’s customer base is growing slowly, total consumption of water is steadily declining, as shown in Diagram 5 below. At the same time, the costs of maintaining and upgrading infrastructure are escalating. The combined effects will require regular rate increases for customers. That dynamic is causing a ripple effect throughout the business with far-reaching consequences. The Strategic Plan considers that business reality and identifies key strategies that will assure Tacoma Water continues to be managed efficiently and effectively.

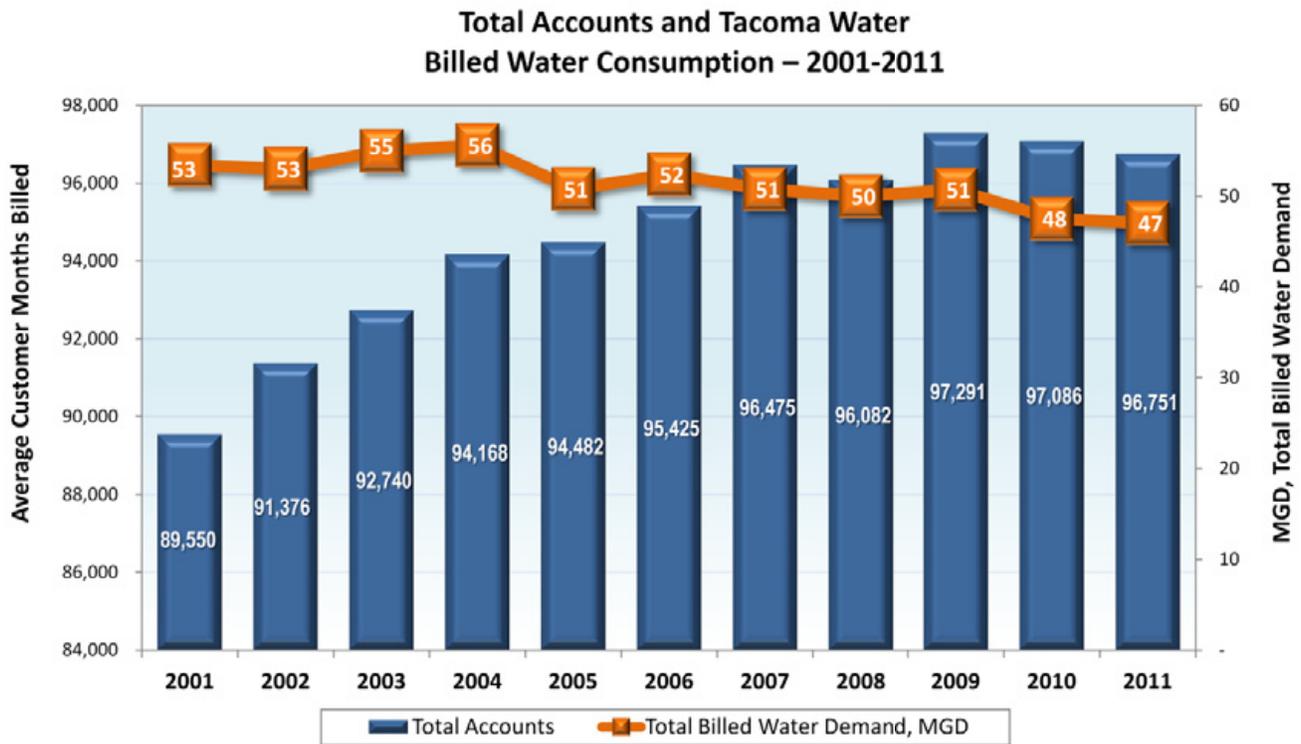


Diagram 5

Retail customers consume 96 percent of the water Tacoma Water bills to customers, as seen in Diagram 6 below. Total water consumption by those customers has declined by approximately 25 percent in the past 20 years, a change driven largely by reductions in demand by industrial customers. Satisfying retail customers has always been important, but its importance is amplified now due to the need for continued significant rate increases.

Wholesale customers consume 4 percent of the water Tacoma Water bills to customers and contribute less than 3 percent of Tacoma Water’s sales revenues.

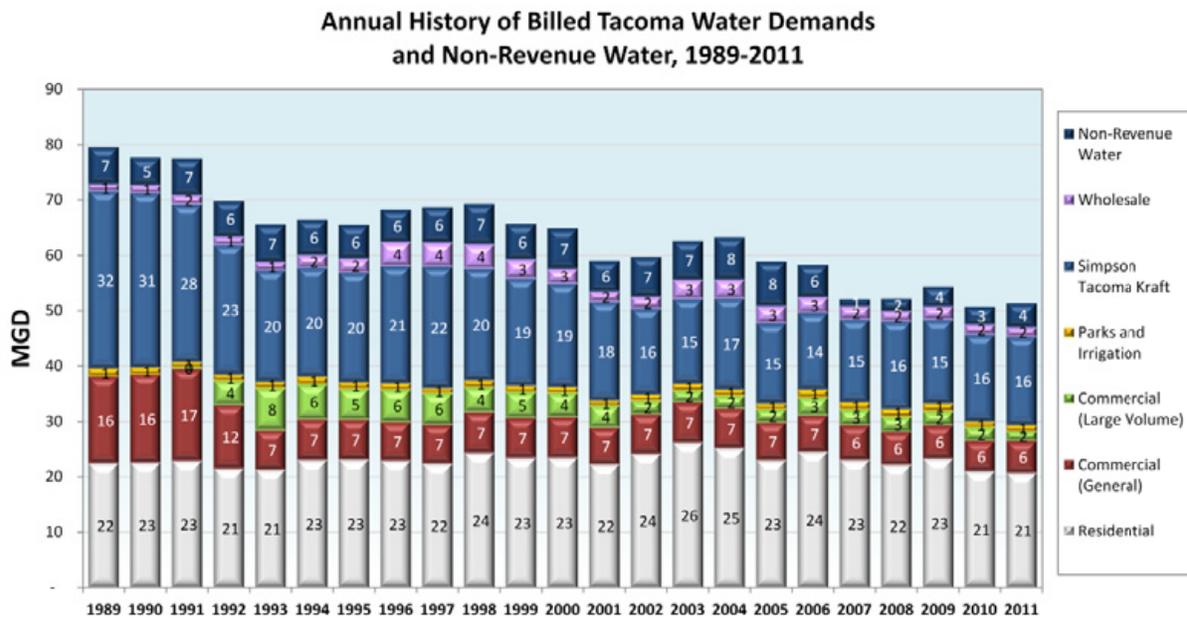


Diagram 6

The downward trend in consumption of water by residential, commercial, and industrial customers is likely to continue in the future although once the economy begins to rebound, it is expected that new development will generate some additional offsetting revenues which could mitigate the reduction.

Tacoma Water owns and operates the Regional Water Supply System (RWSS), a second separate water supply and transmission utility system consisting of the Second Supply Project (SSP). Tacoma Water formed a partnership with the City of Kent, the Lakehaven Utility District, and the Covington Water District all of whom share in the financing and use of the SSP. Decisions regarding the financing, use, and operation and maintenance of the SSP are governed by the Second Supply Project Partnership Agreement and are coordinated through the RWSS Project Committee. Under the SSP Agreement, Tacoma Water, Kent, Lakehaven, and Covington are each obligated to pay its Participant Share of capital and operations and maintenance costs, regardless of the amount of SSP water used. Each partner is entitled to use its share for its residential, commercial, industrial, or wholesale customers as it does any other source.

The most promising opportunity for additional revenue is sale of water to other water purveyors. As seen in Diagram 7 below, Tacoma Water has substantial supply beyond the needs of its current and projected retail customers. More specifically, the monthly values depicted at the top of each bar in Diagram 7 show this excess capacity Tacoma Water has. However, realizing the full revenue benefits of this excess supply may be very difficult in the short-term due to economic and political constraints of wholesale customers. Another challenge is the current glut of suppliers with an excess of water, including Tacoma Water, all of whom want to sell their excess supply. At that point, the focus on pricing the excess water becomes

critical. Any increase in revenue from wholesale water sales, even if it is realized over a number of years, will result in cost savings for Tacoma’s retail customers.

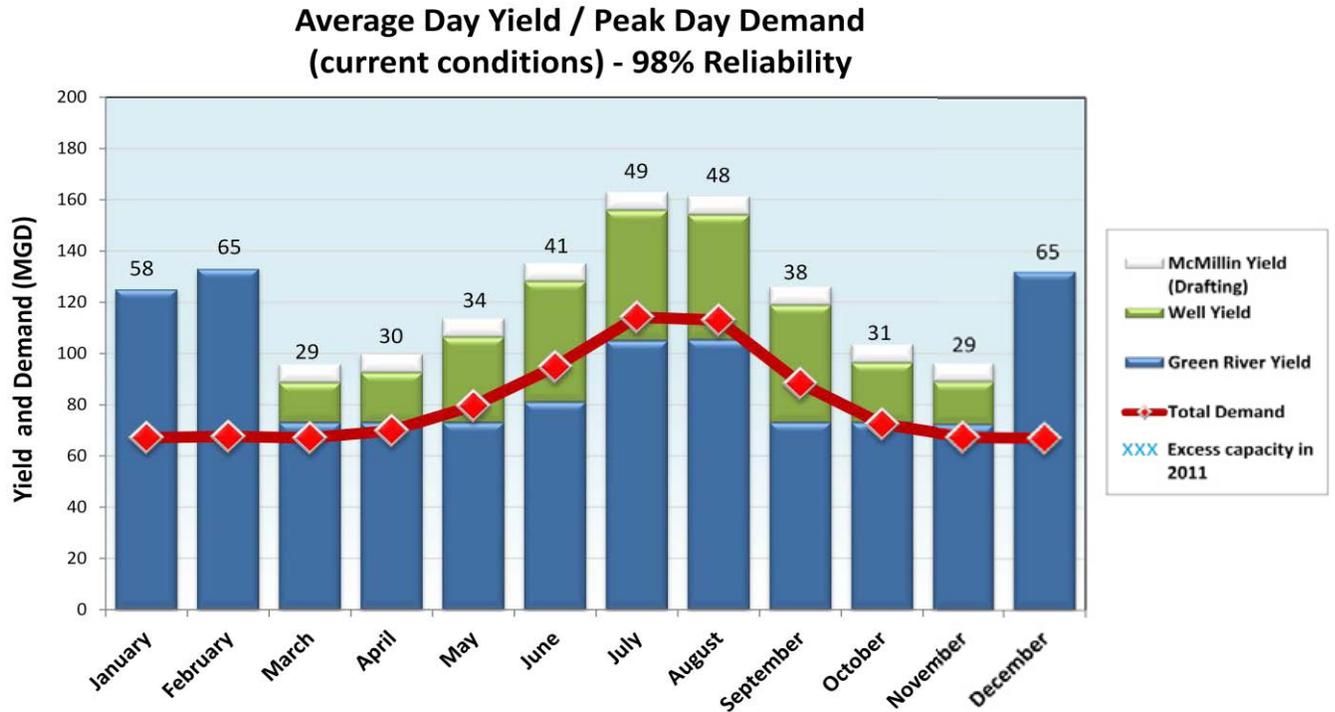


Diagram 7

While water consumption and sales revenues have been declining, Tacoma Water’s operating expenses other than debt service have been steadily rising, as seen in Diagram 8 below. Also seen in Diagram 8, Tacoma Water has taken steps in recent years to minimize increases in O&M expenses other than debt service.

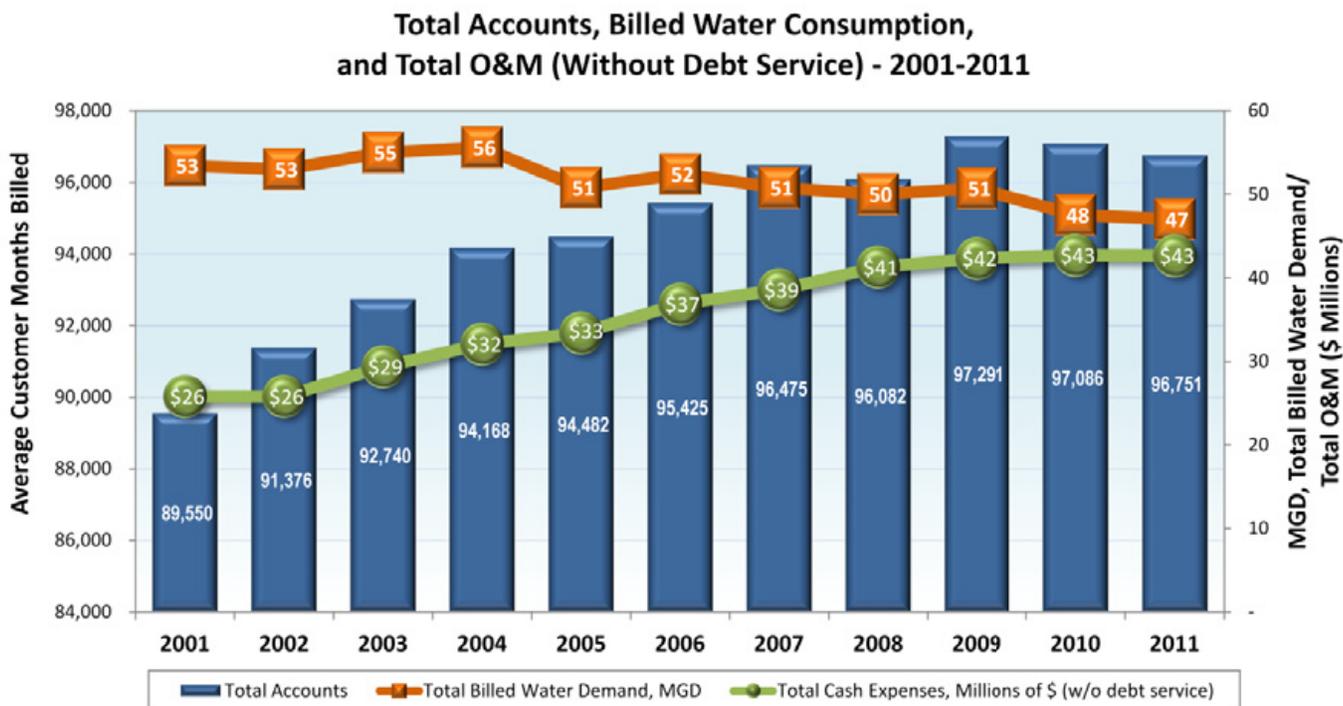


Diagram 8

Operations and maintenance (O&M) expenses (minus debt service) are projected to rise at the rate of inflation in the future. However, the plant and equipment needed to deliver water to a geographically dispersed customer base is capital intensive to develop, renew, and replace. In recent years, substantial capital has been needed to maintain the quality and availability of the water for customers. In an effort to balance rate impacts with generational equity and long-term financial stability, Tacoma Water has increased levels of debt to finance much of its capital improvements. As seen in Diagram 9 below, Tacoma Water’s debt service payments and capital funding from rates has driven up total operating expenses. Given the significant infrastructure required to operate a water utility, a level of debt similar to what Tacoma Water is projecting is common in the industry.

**Total Accounts, Billed Water Consumption,
and Total O&M - 2001-2011**



Diagram 9

The convergence of flat or declining revenues and the need to maintain, renew, and replace Tacoma Water’s assets to optimize their useful life is projected to result in annual rate increases that will be higher than in the past. Prior to consideration of the potentially positive and/or negative effects of the strategic initiatives included in this plan, water rates are projected to increase at an average annual rate of 8.5 percent annually for the first six years, starting in 2013, and then drop down to an average annual increase of 3.0 percent for each of the next four years as seen below in Diagram 10. There are opportunities to reduce some portion of the rate increases in the base case financial projections during the budgeting process in each of the upcoming biennia. The rate reduction opportunities will be discussed in *Section 9 - Financials & Financing Strategic Initiative*.

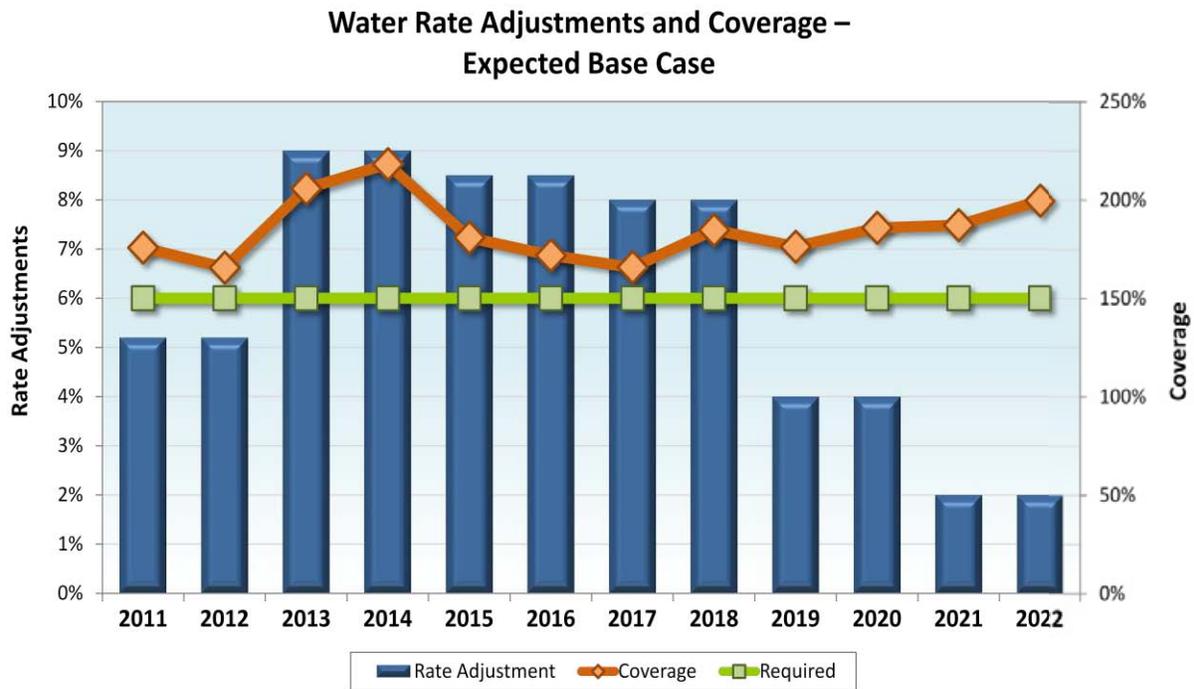


Diagram 10

Tacoma Water has been able to maintain very competitive rates relative to other regional suppliers as depicted in Diagram 11 below. The drivers resulting in the need for rate increases for Tacoma will similarly impact utilities throughout the region and, as a result, Tacoma should still be in a competitive position when compared with its regional peers. It is Tacoma’s goal to maintain or improve its competitive position with respect to the price of water.

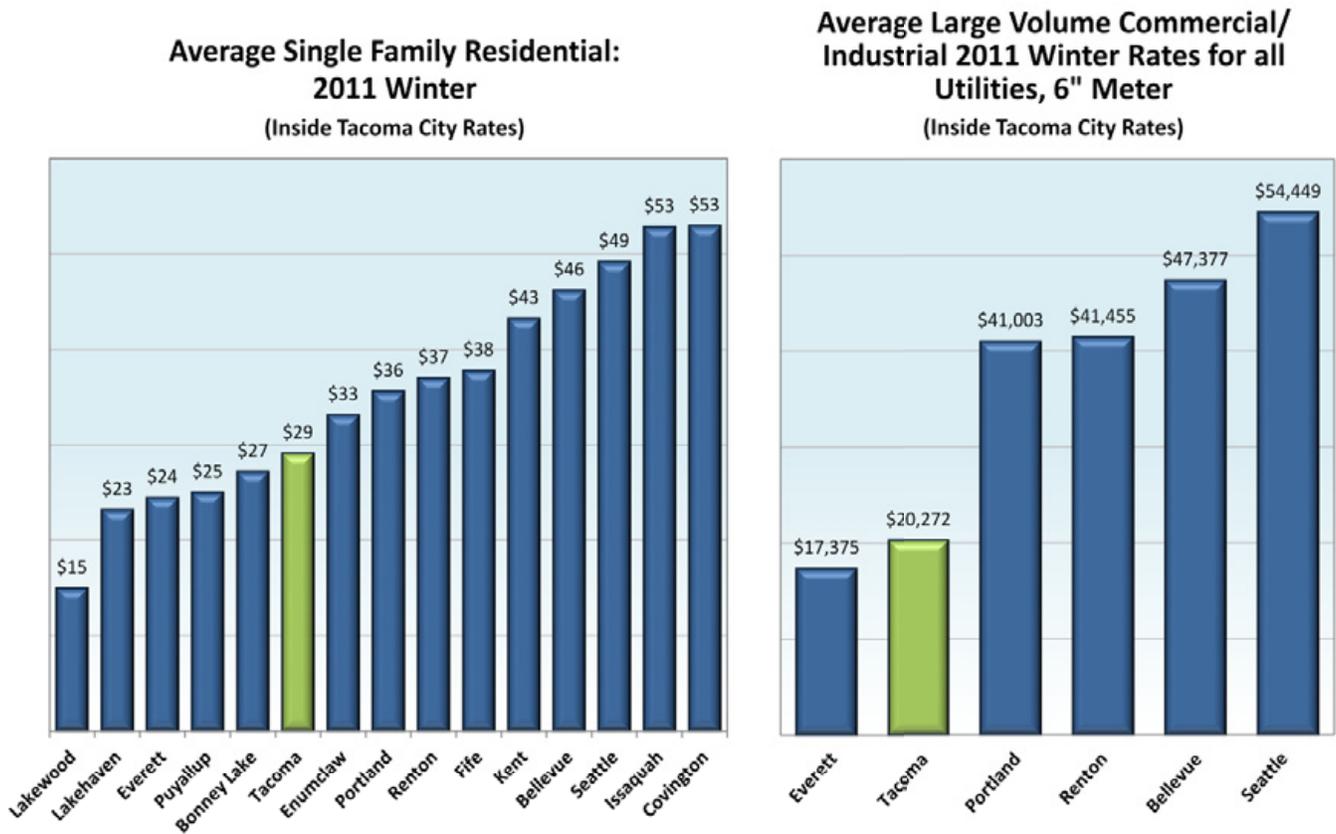


Diagram 11

In order to manage the challenges described above, eight strategic initiatives that will positively influence the future success of Tacoma Water were determined. They are:

- Retail Customers
- Wholesale Customers & the Region
- Water
- Infrastructure
- Employee
- Information Management
- Financials & Financing
- Relationships & Communication



Diagram 12

We consider all eight initiatives critical to the future of Tacoma Water. They fall into two broad conceptual categories: “do the right things” and “do things right.” The first four initiatives, retail customers, wholesale customers & the region, water, and infrastructure, focus on how to “do the right things.” They detail how Tacoma Water is going to manage customer relationships, the commodity it protects and sells, and the physical infrastructure that delivers the water. The second four strategic initiatives, employee, information management, financials & financing, and relationships & communication, support the first four initiatives and focus on how to “do things right.” They detail how the employees and the internal management processes will support the successful implementation of the first four strategic initiatives and the strategic plan as a whole. Embedded in the analysis and recommended actions for each of the eight strategic initiatives is Tacoma Water’s intention to continue to manage the “risk & resiliency” of every aspect of the business in the future.

Section 3 – Retail Customers Strategic Initiative

Tacoma Water exists to provide a critical service for retail customers, and it is important that they value this service and support Tacoma Water’s role in providing it. Retail customers currently account for approximately 96 percent of annual revenues and are therefore stakeholders who have significant importance to and influence on the utility. While Tacoma Water has the exclusive right to provide water within its designated service area, it is still essential that retail customers are pleased to have Tacoma Water as their service provider. Without their support Tacoma Water will not be able to continue to provide the high quality service it has historically provided.

The retail customer class is projected to grow slowly in the coming years (less than one-half of one percent over the time period covered by this Strategic Plan). Expenses and the resulting rates, on the other hand, are projected to grow at 8.5 percent annually for the next six years. It is that economic dilemma that makes it imperative for Tacoma Water to continue to build trust with our customers, create value for them, and formulate strategies that will meet their needs.

Situational Assessment

In order to understand retail customers, the customer base needs to be divided into two broad categories - residential customers and commercial and industrial customers. As seen in Diagram 13 below, single-family and multi-family residential customers represent more than 90 percent of all retail customers and nearly 70 percent of revenues.

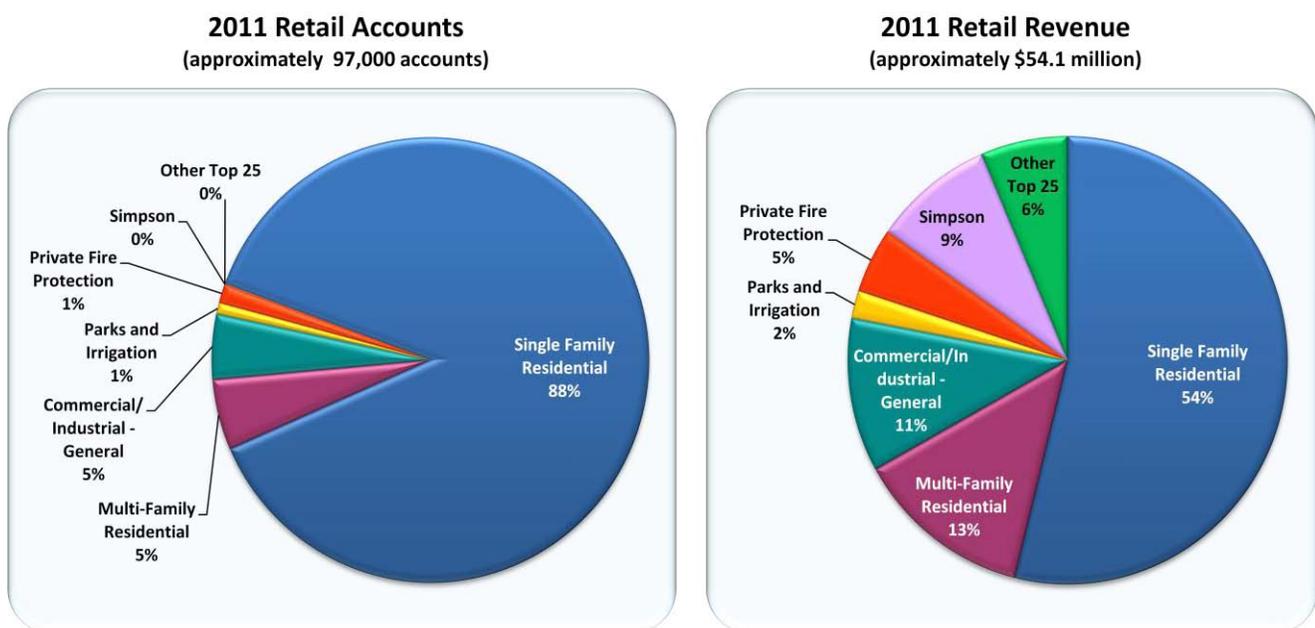


Diagram 13

The total consumption of water for the residential customer class as a whole has remained relatively flat throughout the past 20 years as seen in Diagram 14 below; at the same time, the number of customers in that class has grown by more than 20 percent. The small variations in total consumption by this class are due to seasonal weather patterns, plumbing code changes, increasing water prices, and water conservation.

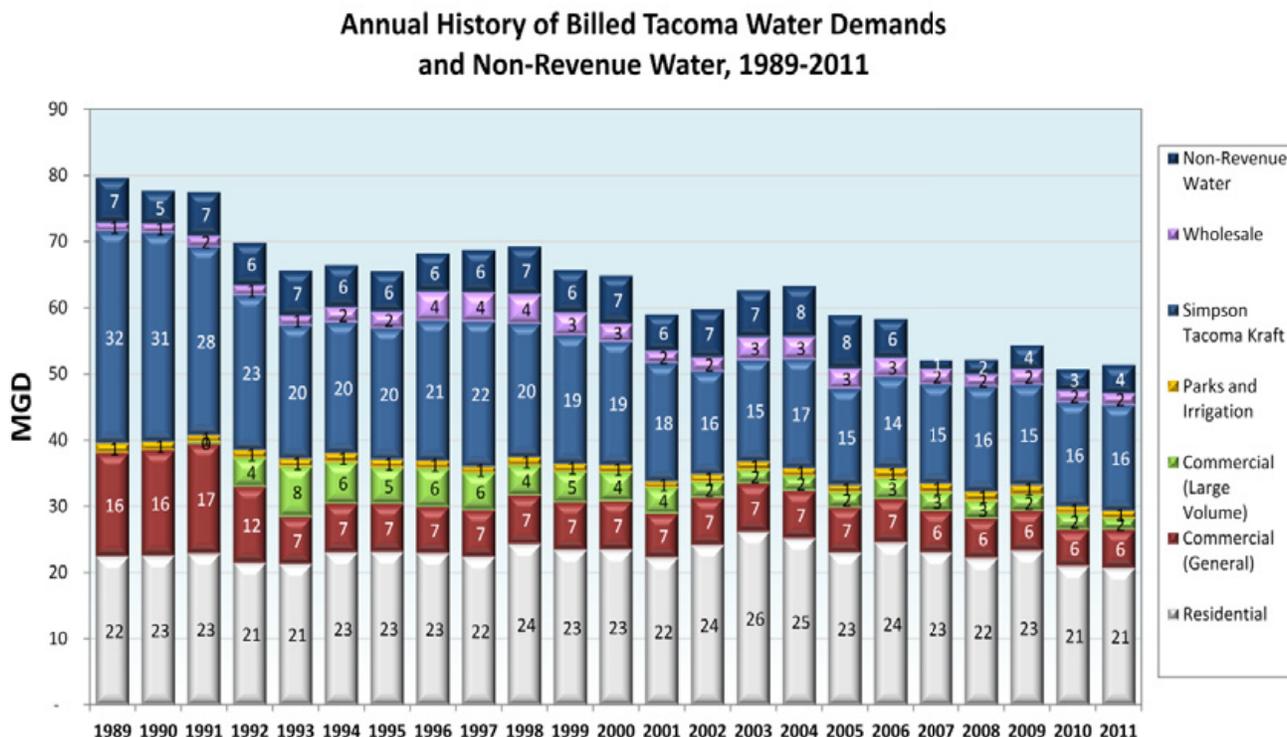


Diagram 14

As a result of the slowdown in the economy, many plats in Tacoma Water’s service area have water services stubbed out without meters installed but are waiting for houses to be built once economic conditions improve. Development opportunities that could result in a modest amount of growth of residential and commercial customers include: south downtown Tacoma, Cascadia (south of Bonney Lake), and Point Ruston.

Overall, residential customers are generally perceived as being happy with the service provided by Tacoma Water. Reliability statistics are consistently high, and the number of customer complaints is very low. Customer service related to billing could be improved in the areas of call time and payment options. The need for innovative billing programs was identified in the strategic planning efforts of TPU Customer Service and is currently being addressed by that work unit. Although some direct information reflecting customer satisfaction is available, more is needed to better understand the levels of service that residential customers expect in order for Tacoma Water to refine service offerings appropriately. The

plan is to survey and gather more extensive feedback from the residential customers, in coordination with others in Tacoma Public Utilities.

While commercial and industrial customers represent only five percent of the customer accounts, they contribute 25 percent of Tacoma Water's revenues as seen in Diagram 13 above. The top 25 customers (including Simpson Tacoma Kraft) account for approximately 14 percent of Tacoma Water's revenue base. The 20 percent decline in overall commercial and industrial water consumption that is depicted in Diagram 14 above is due to a combination of business shutdowns and water conservation. Over the 20 year period from 1991 through 2011, business closures of two large chemical manufacturing facilities, a poultry processing plant, and a waste incinerator accounted for a large portion of the eight million gallons per day (MGD) decrease in consumption in this class.

Simpson Tacoma Kraft, Tacoma Water's sole retail contract customer, represents approximately 30 percent of Tacoma Water's total daily water demand. Changes in Simpson's business or future could have a significant impact on Tacoma Water. Tacoma Water and Simpson executed a 10-year contract in 2006, which expires in 2015. The contract provides that Tacoma Water will furnish 15.9 MGD to Simpson, which represents a significant improvement in water use efficiency relative to the 30+ MGD used by Simpson in the 1980s and early 1990s. Further conservation and reduced water consumption on Simpson's part is likely in the future as Simpson evaluates the cost effectiveness of capital projects that would result in water conservation at the plant.

Given the high concentration of water usage by a few large commercial and industrial customers, key account management efforts by Tacoma Water is essential and must be enhanced. Personal contact with those large customers will be critical to predicting the future of those relationships and ensuring that their needs are being met to the extent possible. By virtue of their sheer numbers, the residential customer group can have significant political influence. Therefore, it is very important to have regular, open communications and close working relationships with this group to ensure their support of our work as we go to policy makers with requests.

Strategies

Tacoma Water has been able to maintain competitive rates relative to other regional suppliers. However, the business pressures faced by Tacoma Water will likely lead to continued increases in customer rates in the foreseeable future. In order to receive support for those increases, Tacoma Water needs to continue to improve its efforts to meet the needs of its retail customers and improve customer satisfaction, particularly in the case of its key accounts.

Recommended strategies for retail customers:

- *Strategy 1 - Enhance the Understanding of Customer Needs*
 - ✓ Research and enhance the understanding of customer needs, service levels expectations, and annual usage projections for each of the retail customer segments, including: residential, small commercial, large commercial/industrial, parks and irrigation, and developers.

- ✓ Engage more proactively with key accounts, including: selected large commercial, industrial, and Simpson, in order to provide better service and to understand changes in their business that could affect Tacoma Water.
 - ✓ Develop ongoing retail customer feedback mechanisms, collect contact information, and monitor performance.
- *Strategy 2 – Enhance Retail Customer-Focused Service Offerings*
- ✓ Continue to refine and enhance the value-added services that are offered to retail customers.
 - ✓ Develop tailored strategies for each key account
 - ✓ Integrate the improved demand forecasts and segment service level expectations into Tacoma Water’s programs (e.g., Asset Management Program, conservation program, workforce management, etc.).
 - ✓ Establish performance goals for supporting private development activities and promote economic development.
 - ✓ Identify and evaluate potential opportunities to expand Tacoma Water’s retail service territory.
- *Strategy 3 - Enhance Customer Service and Communications*
- ✓ Assign responsibilities for communications, relationship building, and service response within Tacoma Water and/or TPU Customer Service for each customer segment.
 - ✓ Improve customer service delivery channels and customer service processes.
 - ✓ Assess customer service-related skill sets and technology gaps and develop plans to address the gaps.
 - ✓ Collaborate with Community & Media Services to create tailored communications specific to the needs of each of the customer segments.
 - ✓ Link the above mentioned efforts with the Relationship Management & Communication Strategic Initiative.

Implementation Timeline

Strategies	Implementation Timeline
Enhance the Understanding of Customer Needs	Q4 2012 – Q2 2013
Enhance Retail Customer-Focused Service Offerings	Q2 2013 – Q2 2014
Enhance Customer Service and Communications	Q1 2014 – Ongoing

Performance Metrics

1. Complete market research of customer needs and expectations.
2. Complete the design and roll-out of enhanced service offerings.
3. Implement enhancements to customer service and launch communication campaigns.
4. Develop a dashboard of performance measures for customer service.
5. Reduce the effort required of customers to do business with us.

Section 4 – Wholesale Customers & the Region Strategic Initiative

Tacoma Water is a large water supply utility in the Northwest. It is the largest water utility in Pierce County, is the owner/operator of and a partner in the Regional Water Supply System (RWSS) and provides water to other municipalities throughout the region. Tacoma Water is also in the fortunate position to have excess supplies of water for the foreseeable future, as depicted in Diagram 15 below.

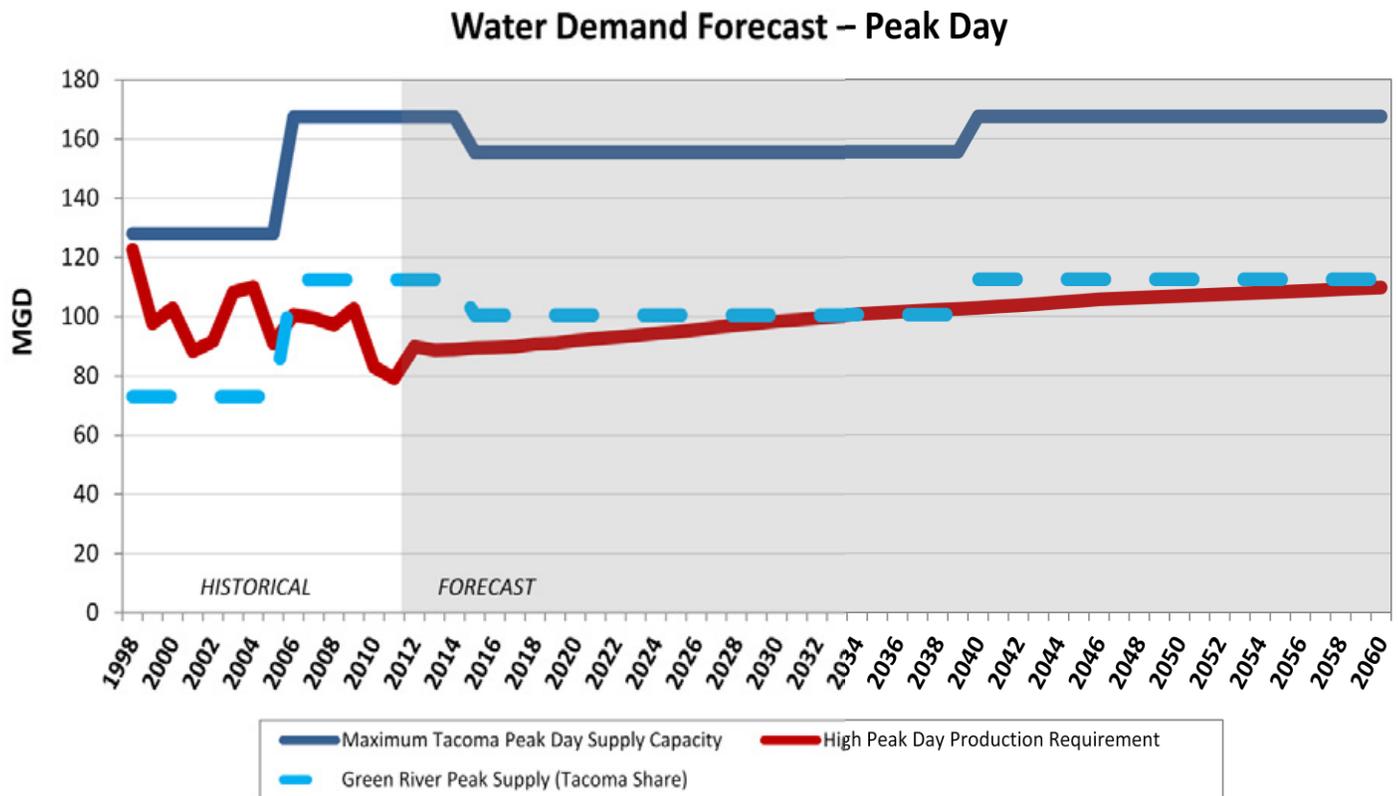


Diagram 15

With the modest growth that is predicted in the retail side of Tacoma Water’s business, this excess supply of water and the potential to sell the excess into the wholesale market represents a significant opportunity to help defray the growing costs of operating and maintaining the water system. However, there are a number of issues on both the supply and demand sides that make realizing the full benefit of Tacoma Water’s excess supply of water challenging in the short run.

Situational Assessment

As Tacoma Water assesses the opportunities to market excess supply, it is important to evaluate the regional supply and demand dynamics. On the supply side, most of Tacoma Water’s existing wholesale

customers already have their own independent supplies of water and/or have contracted to get water from other wholesale providers as seen in Diagram 16 below. That is also true for other adjacent purveyors in the region. With so much surplus in the region, everyone is in competition with each other.

Wholesale Customers' Supply Needs

	Existing Customers	Potential Customers
No Alternative Source	Andrain Coal Creek Cumberland Curran Road RSN Enterprises	
Alternative Source	Black Diamond* Bonney Lake Buckley Cascade Water Alliance Enumclaw Fife* Firgrove Mutual Fruitland Mutual KC Water District 111 Mountain Terrace Puyallup Rainier View* Valley Water District	Auburn Fircrest Graham Hill Marion Milton Miscellaneous HOA's (e.g. Fennel Heights) Mt. View – Edgewood Orting South Prairie Spanaway Summit Sumner

* Customer actively pursuing alternative source of supply

Diagram 16

In addition, there are other wholesale providers of water that have significant excess capacity to sell into the marketplace (Seattle, Everett, Lakewood Water District, Pierce County, Kent, etc.). Some communities continue to develop their own supply even though it may not be optimal from an economic or regional water resource management perspective. Therefore, for Tacoma Water to increase its wholesale sales, consideration of the drivers of potential wholesale customers will require a 'replacement strategy'; that is replacing customers' existing or new supplies of water by virtue of being a better value.

The prospects on the demand side also present a challenge in the near-term. The softening of demand that Tacoma Water has experienced has similarly occurred in the retail base of wholesale customers. The growing demands that were projected by its wholesale customers have not materialized, causing them to under-utilize purchased Tacoma Water capacity as seen in Diagram 17 below. The Cascade Water Alliance (CWA) contract purchases of 4 MGD permanent and 6 MGD reserve, or interim (through 2026) supply are shown along with all of the other perpetual contract obligations.

Wholesale Market – Current Water Demand

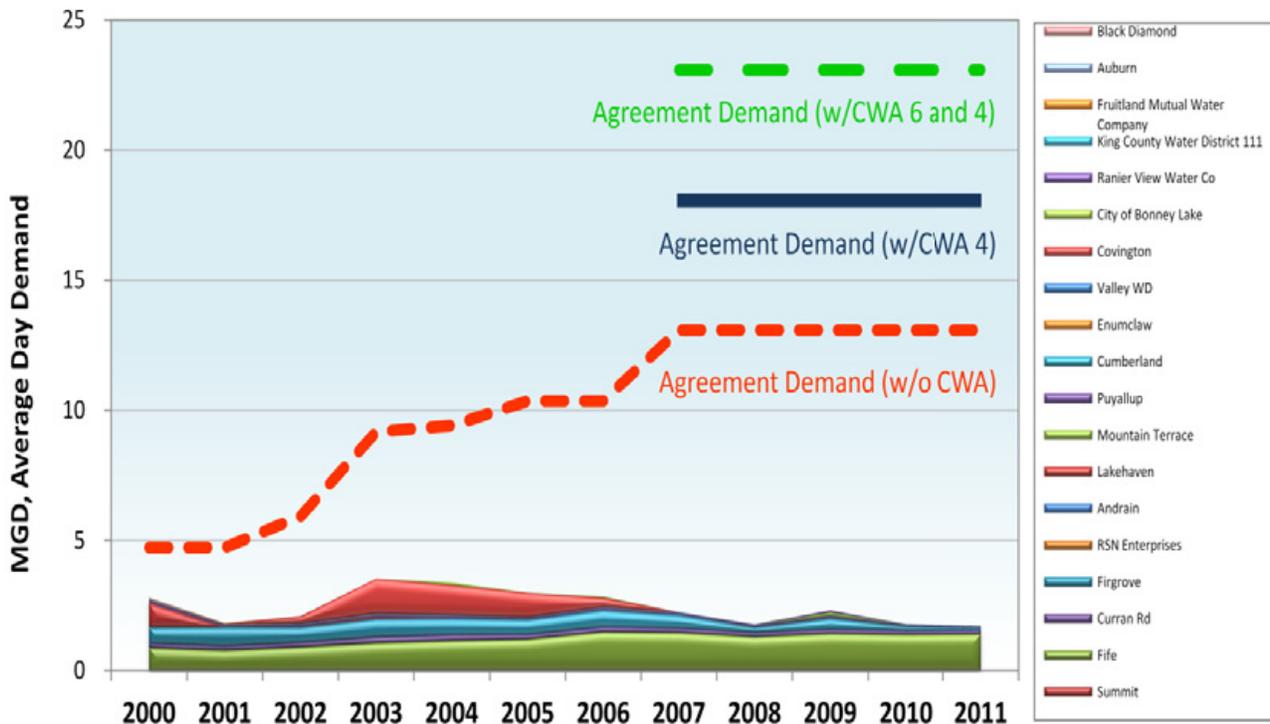


Diagram 17

Taking a long-term perspective, population growth in the region will benefit Tacoma Water, as groundwater is limited and new surface water sources will be extremely expensive to develop. Tacoma will continue to position itself to meet wholesale demand opportunities if and when they materialize. However, there are challenges that need to be addressed if Tacoma Water is to be successful in developing those opportunities. The challenges include:

- Wholesale customers are concerned about maintaining the long-term viability of their independent water supplies.
- Many jurisdictions believe that providing water supply is a fundamental local government purpose and one their economy and quality of life depend on.
- The quality of water delivered is important; unfiltered surface water presents quality, regulatory, and operational risks that groundwater-only systems do not currently face. Fluoride additive is controversial in some communities. Compatibility between surface and groundwater sources must be fully considered.
- Current pricing structures are rigid and disincent full utilization of the available supply. Tacoma policy makers (Public Utility Board and City Council) may need to consider changes to the structure and pricing of wholesale water in order to attract sales revenue that could mitigate future retail rate increases.

The potential value that can be created for the customer/owners of Tacoma Water through increased sale of water to the wholesale class is significant. As seen in Diagram 18 below, Tacoma Water’s total annual contract obligation to its wholesale customers, excluding Cascade Water Alliance is 13.08 MGD. Cascade Water Alliance represents an additional 10.0 MGD, including its 6.0 MGD in reserve water.

Wholesale Market – Current Annual Contract Obligations

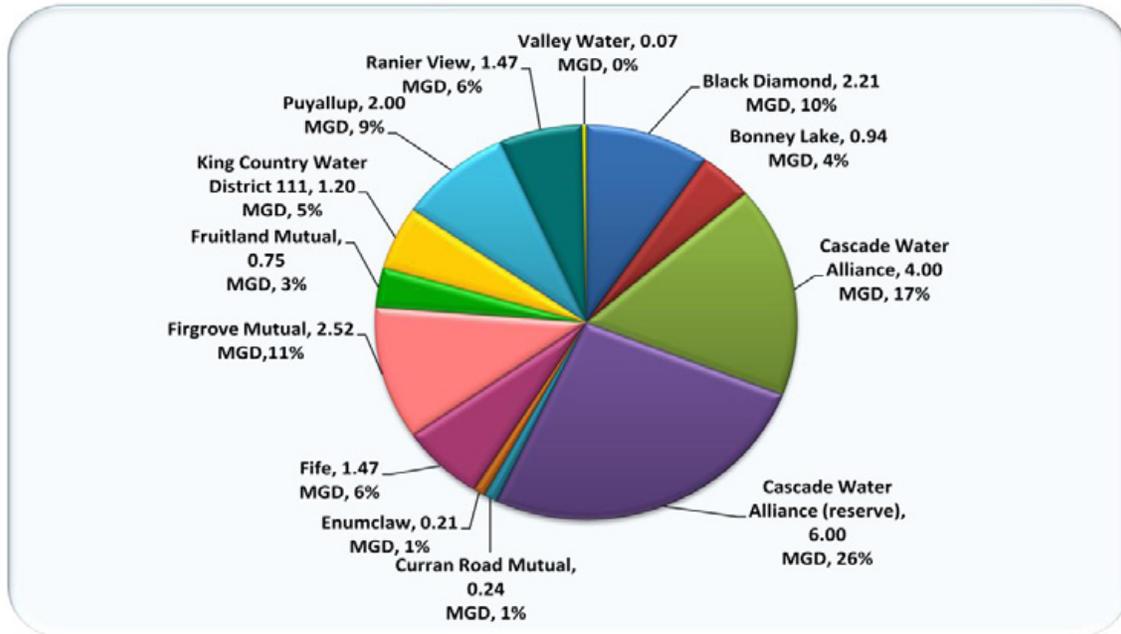


Diagram 18

When translated into potential revenues, if the wholesale customers actually purchased the amount of water specified in their contracts, Tacoma Water’s annual revenues would increase by more than \$10 million, or nearly 20 percent of Tacoma Water’s total annual revenue, as seen in Diagram 19 below. Although that scenario is unrealistic, it does suggest that attempting to close the gap between their wholesale customers’ actual consumption versus contract obligations is worth pursuing in the long-term.

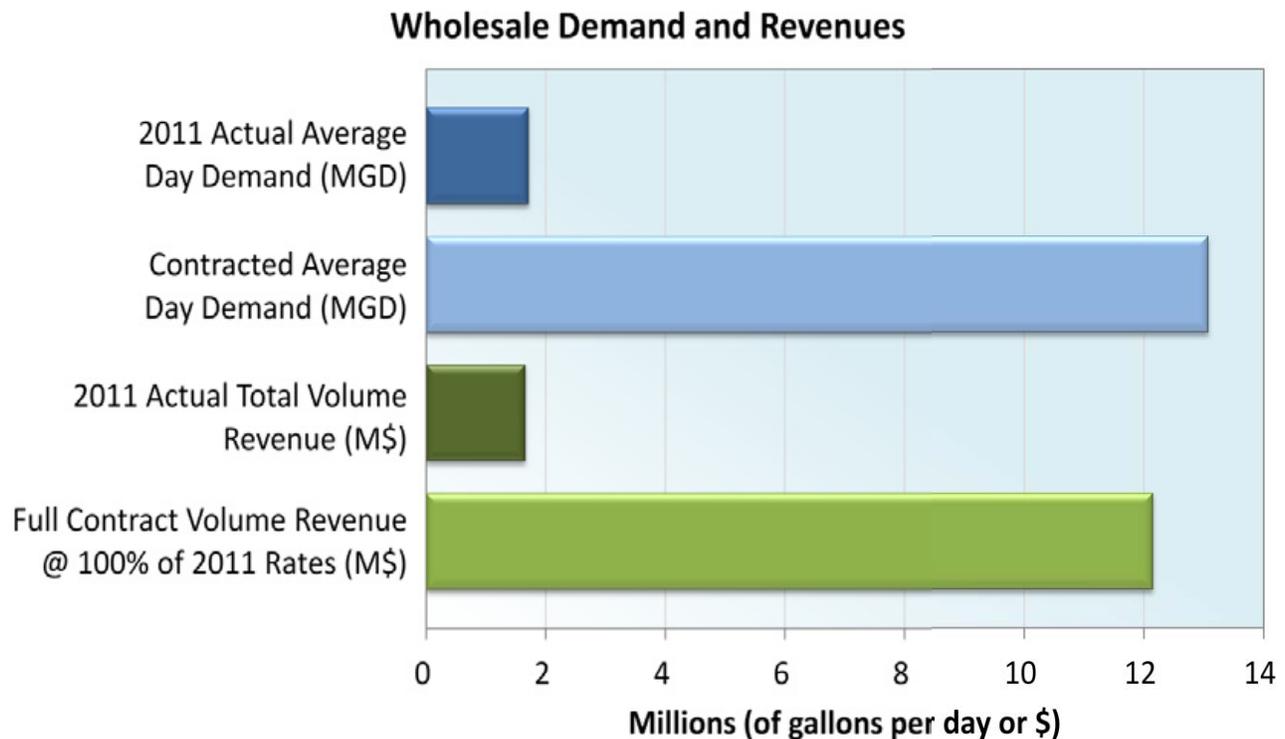


Diagram 19

The key to Tacoma Water further developing its wholesale market will be based on fully understanding the wholesale marketplace and forging a stronger partnership with its existing and potential customers. Tacoma Water has physical resources and technical and management expertise that can provide value to wholesale customers. Increased wholesale revenue is the most evident opportunity for Tacoma Water to defray its rising costs and to manage future rate increases.

Strategies

Tacoma Water has significant water reserves and expertise that can be used for the benefit of the entire region. Marketing and selling regionally will benefit Tacoma's residential and commercial customers. The potential benefits of expanding its wholesale sales are significant and warrant a focused effort on our part.

Recommended strategies for wholesale customers:

- *Strategy 1 – Define and Understand the Demand Needs, Constraints, and Considerations for Existing and Potential Wholesale Customers*
 - ✓ Define demographic trends for each wholesale customer and the region as a whole.
 - ✓ Research the needs and expectations for each wholesale customer.
 - ✓ Develop long-term demand forecasts for wholesale customers, including the impact of water conservation and efficiency.

- ✓ More fully understand, for each wholesale customer as well as for Tacoma Water, the marginal cost of both new and existing available supply.
 - ✓ More fully understand, for each wholesale customer, the price elasticity for increasing demand (trigger point where increased Tacoma Water sales would occur).
 - ✓ Understand the decision-making process for wholesale customers; factoring in the combined effects of their political realities, reliability and source security needs, needs for predictability, economic drivers, projected costs, etc.
- *Strategy 2 – Develop and Describe Tacoma Water’s Supply-side Position as a Regional Wholesale Provider*
- ✓ Enhance the quantification of current excess water supplies, for Tacoma Water and other water utilities in the region.
 - ✓ Factor in the potential impact of regulatory pressures on source development and operations, climate change, etc., for Tacoma Water and other water utilities in the region.
 - ✓ Assess the competitive market, including sources from other water suppliers who will be competing to sell their excess to wholesale customers.
 - ✓ Project the prudent timing of investments by Tacoma Water to capture additional wholesale sales and the potential for recuperating existing investments.
- *Strategy 3 - Develop Wholesale Customer-Focused Service Offerings*
- ✓ Form a “wholesale marketing” cross-functional team within Tacoma Water with a defined structure and prescribed roles and responsibilities to facilitate the development of the wholesale market.
 - ✓ Identify “wholesale sales” best practices from other water utilities throughout the country.
 - ✓ Develop a structure or forum to have dialog and take feedback from wholesale customers. It is important that the wholesale customers feel included in the decision processes related to the service they are receiving or have contracted for from Tacoma Water.
 - ✓ Develop wholesale partnership strategies, potentially including variable pricing approaches based on appropriate economic considerations, and flexible terms and conditions.
 - ✓ Evaluate the political and regulatory issues and constraints related to perpetuity and non-perpetuity wholesale contracts.
 - ✓ Explore the ability of Tacoma Water to provide analytical/planning support and, where appropriate, become part of the wholesale customers’ planning processes.
 - ✓ In the case of wholesale customers interested only in contracting for potential long-term future supplies (i.e., insurance), determine the appropriate terms and pricing for providing an insurance-like product.
 - ✓ Work with Tacoma Power to determine the applicability to the water market of their experience in marketing excess power.

- ✓ Provide the Public Utility Board and the City Council with the information needed to make clear policy decisions, and ultimately gain approvals by the Utility Board and Council for proposed contracts.

Implementation Timeline

Strategies	Implementation Timeline
Define and Understand the Demand Needs, Constraints, and Considerations for Existing and Potential Wholesale Customers	Q1 2012 – Q3 2012
Develop and Describe Tacoma Water’s Supply-side Position as a Regional Wholesale Provider	Q1 2012 – Q3 2012
Develop Wholesale Customer-Focused Service Offerings	Q2 2012 – Q1 2013

Performance Metrics

1. Meet with each existing and potential wholesale customer and develop a customer marketing strategy.
2. Qualify wholesale customers relative to their likelihood to purchase water from Tacoma Water.
3. Track wholesale contracts, water sales, and revenues by customer.
4. Gain Utility Board support for flexibility in contracting terms and pricing.

Section 5 – Water Strategic Initiative

Protection of the quantity and quality of water sources is critical to Tacoma Water’s success. Tacoma Water has invested in both source development and treatment that should provide water certainty for Tacoma’s service area and the region for generations to come. However, there are risks to the water that must be acknowledged and a plan put in place to respond. Some of the risks include increased regulations dictating new mandates with regard to water quality and the quantity of water available from Tacoma Water’s sources of supply; catastrophic natural disasters that could severely limit the quantity of and access to water; and climate change. This initiative is focused on how the risks to quality and source of water supply throughout the system are managed.

The impacts of certain mandates and/or unforeseen events, although having a very low probability of occurring, could have a calamitous effect on long-range resource reliability; ranging anywhere from the complete elimination of planned sources to extremely expensive mitigation measures to maintain or reinstate a critical source of supply. It is therefore important that the potential eventualities are investigated and the magnitude of their impact, both financial and otherwise, be fully considered.

Situational Assessment

Tacoma Water has been proactive in managing potential threats to both the quality and quantity of water available from its sources of supply. Tacoma Water has a Vulnerability Assessment and an Emergency Response Plan in place and participates in industry risk management forums such as the Water/Wastewater Agency Response Network (WARN). In addition, Tacoma Water is constructing a filtration plant on its primary water source, the Green River, which will improve long-term water quality certainty. With the completion of its new supply line in 2005, Tacoma Water secured improved reliability of its delivery system.

Looking forward, Tacoma Water faces a number of risks and vulnerabilities that have potential to affect water sources:

- Potential loss or reduction of water rights under Department of Ecology interpretation of the Municipal Water Law
- Potential contamination of Tacoma Water supplies
- Impact of natural disasters such as earthquakes, flooding, fire, etc. on source availability.
- Potential impact of climate change (expected to decrease Green River water supply by 8 percent by 2060)
- Resolution of Howard Hanson Dam downstream fish passage
- Perfection of Second Diversion Water Right
- Potential impact of a drought(s)
- Potential additional water quality regulation
- Increased environmental regulations and programs.
- Adjudication of Water Rights associated with the Green River

- Ownership changes in the watershed or a push to open the lands to recreation or development

Tacoma Water has begun the process of identifying the most significant vulnerabilities, estimating the percent of supply affected, creating potential mitigation strategies, and calculating potential mitigation costs, as depicted in Diagram 20 below. The potential impact of a number of the vulnerabilities is large and costly.

Supply and Water Quality Risks and Mitigation Strategies

	Percent of Supply Affected	Mitigation Strategy	Cost of Mitigation
DOE Active Compliance	1%	Drill new wells, rely on Rivermore heavily.	\$ 2,000,000
Contamination	2%	Drill new Wells, rely on Rivermore heavily.	\$ 3,000,000
Contamination of NF	3%	Increase solids handling at GRTP	\$ 4,000,000
Earthquake (individual Wells)	5%	Drill new wells, rely on Rivermore heavily.	\$ 9,000,000
Increase Climate Change	8%	Pursue AWSP II, Install additional groundwater, conserve at Simpson, buy back from Partners, Building Moratorium.	\$ 15,000,000
Increase required Auburn Flow Support	12%	Pursue AWSP II, install additional groundwater, conserve at Simpson, buy back from Partners, Building Moratorium.	\$ 22,000,000
½ of Storage at HHD	6%	Use Eagle Lake, Search for additional source, Partner with neighboring Utilities, Install additional groundwater, conserve at Simpson, buy back from Partners, Building Moratorium.	\$ 30,000,000
Non-perfection of SDWR	2%	Perfect SDWR, Use Eagle Lake, Install additional groundwater, conserve at Simpson, buy back from Partners, Building Moratorium.	\$ 8,000,000
Drought	20%	Curtail Simpson, attempt to reduce river requirement, borrow from Corp, voluntary restrictions, Mandatory restrictions	\$ 15,000,000
Loss of Storage at HHD	28%	Use Eagle Lake, Search for additional source, Partner with neighboring Utilities, Install additional groundwater, conserve at Simpson, buy back from Partners, Building Moratorium	\$ 60,000,000
Earthquake (Aquifer)	33%	Drill new wells, rely on River more heavily.	\$ 70,000,000
Increased Regulation	50%	Use alternate sources, reduce demand	\$ 60,000,000
Loss of Treatment	60%	Manually treat, Improve Ozone, curtail Simpson, borrow from Corp	\$ 3,000,000
Contamination of HHD	66%	Rehab well, curtail Simpson, borrow from Corp	\$ 4,000,000
Earthquake	75%	Curtail Simpson, borrow from Corp, voluntary restrictions, Mandatory restrictions	\$ 75,000,000

Diagram 20

The reason that the mitigation costs are so high (in the tens of millions of dollars) is that the vulnerabilities could severely limit the availability of water. To illustrate the point, the impact on water supplies was calculated for four of the largest vulnerabilities; increased regulation, loss of treatment, contamination of Green River above the intake, and a significant earthquake. As depicted in Diagram 21 below, those events could result in a situation where the total water supply is reduced to the point that it is not adequate to meet the needs of existing customer for short periods or extended periods of time. That would require Tacoma Water, in some cases, to make significant investments very quickly, severely impacting the financial condition of the utility. However, given the low probability of the risks occurring, Tacoma Water is going to be diligent in its analyses of the need to invest in these mitigation strategies.

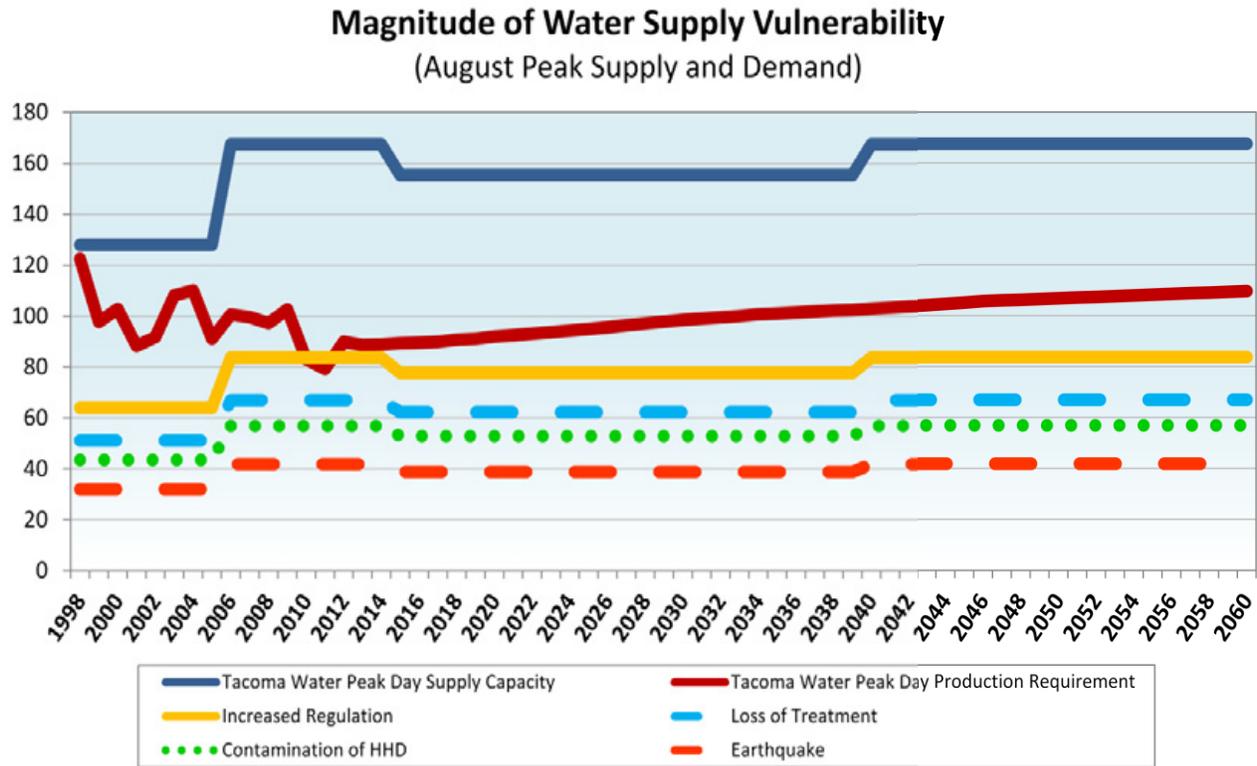


Diagram 21

Strategies

We recognize that the described events have a low probability, but they could have catastrophic consequences for Tacoma Water and its customers. Therefore, the vulnerabilities and risks need to be proactively managed.

The following strategies to protect the quality and quantity of both Tacoma Water’s Green River and groundwater sources are recommended:

- *Strategy 1 - Benchmark Risk Models and Risk Mitigation Strategies*
 - ✓ Benchmark other similar water utilities to identify which risks they track and how they manage these risks.
 - ✓ Contact water utilities that have completed a Risk Analysis and Management for Critical Asset Protection (RAMCAP) process and ascertain their willingness to share their experiences.
 - ✓ Participate in and learn from the Water/Wastewater Agency Response Network (WARN) committee meetings.
 - ✓ Participate in industry efforts to influence regulatory issues
 - ✓ Further develop models for climate change, stream flows, and groundwater to understand the availability of water over time.

- *Strategy 2 – Conduct an All Hazards Vulnerability Assessment*
 - ✓ Form a ‘water risk and vulnerability’ cross-functional team within Tacoma Water with a defined structure and prescribed roles and responsibilities to facilitate a comprehensive update to the Vulnerability Assessment and future emergency preparedness.
 - ✓ Participate in training in the use of RAMCAP.
 - ✓ Develop an RFP for using the services of a consultant to assist in completing an updated Vulnerability Assessment.
 - ✓ Select a consultant to assist in completing an updated Vulnerability Assessment.
 - ✓ Prioritize Tacoma Water’s risks and vulnerabilities and focus the Vulnerability Assessment on the strategies needed to mitigate the highest priority and/or most costly risks and vulnerabilities.
 - ✓ Complete the updated Vulnerability Assessment Report (VA). Establish regular review of the VA.

- *Strategy 3 - Include the Vulnerability Assessment Recommendations in the Tacoma Water-wide Risk Maturity Model*
 - ✓ The Risk Maturity Model will be described in Section 9, the Financials and Financing Strategic Initiative.

- *Strategy 4 - Implement the Risk Mitigation Strategies Identified in the Vulnerability Assessment*
 - ✓ Request in the 2015/2016 budget process funding required to implement the mitigation strategies identified in the Vulnerability Assessment.
 - ✓ Continue participating in and learning from the WARN committee meetings.

Implementation Timeline

Strategies	Implementation Timeline
Benchmark Risk Models and Risk Mitigation Strategies	Q1 2012 – Ongoing
Conduct an All Hazards Vulnerability Assessment	Q2 2012 – Q4 2012
Include the VA Recommendations in the TW-wide Risk Maturity Model	Q4 2012
Implement the Risk Mitigation Strategies Identified in the VA	Q1 2015 – Ongoing

Performance Metrics

1. Complete the benchmark studies and report the findings to the management team (end of Q2 2012).
2. Complete the updated Vulnerability Assessment (end of Q4 2012).
3. Develop and implement mitigation strategies.

Section 6 – Infrastructure Strategic Initiative

The physical infrastructure that delivers water to Tacoma Water customers is extensive and will likely require substantial investments in order to maintain it for existing customers and expand it to provide service to new customers. Operation and maintenance and capital dollars must be deployed efficiently and effectively in managing the lifecycle of Tacoma Water’s infrastructure, as seen in Diagram 22 below. With strained financial resources, developing and using data and information to optimize where and when Tacoma Water should invest the next dollar in its assets becomes invaluable.

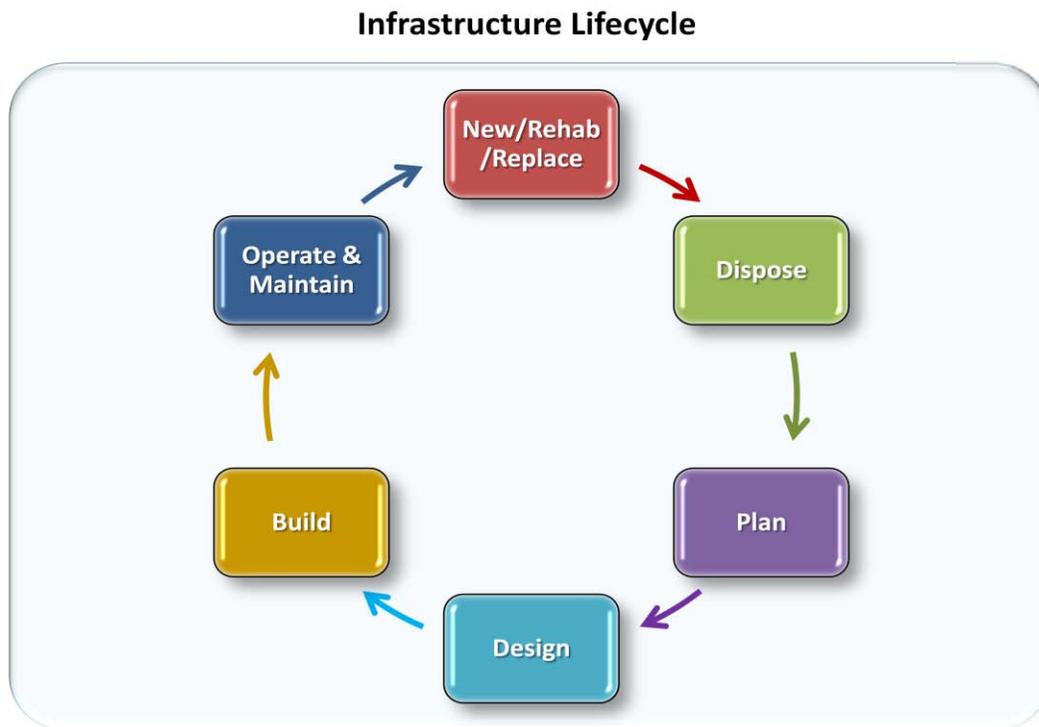


Diagram 22

Situational Assessment

As with other water utilities, Tacoma Water’s level of investment in the infrastructure required to move water from the source to ultimate end-users is significant. From a capital intensity perspective, the water industry’s total plant in service per customer is about three times greater than in the electric industry. As shown in Diagram 23 below, Tacoma Water’s total net investment in plant is approximately \$604 million, or approximately 10 times its annual revenues. Three-quarters of that investment is in Tacoma Water’s transmission and distribution systems.

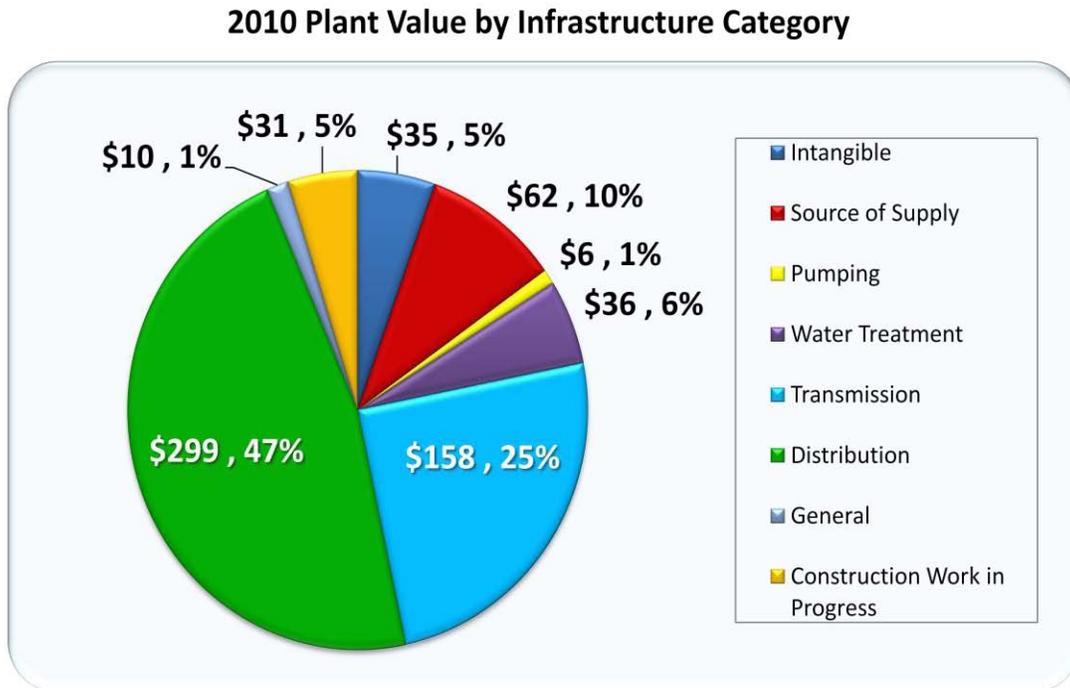


Diagram 23

Annual expenditures by Tacoma Water to operate and maintain its infrastructure have been steadily increasing, as shown in Diagram 24 below. In general, the 3.5 percent average growth in expenses has been consistent with the national inflation rate. In the past two years, the operating expenses for treatment and supply have increased at a slightly higher rate while distribution expenses have declined.

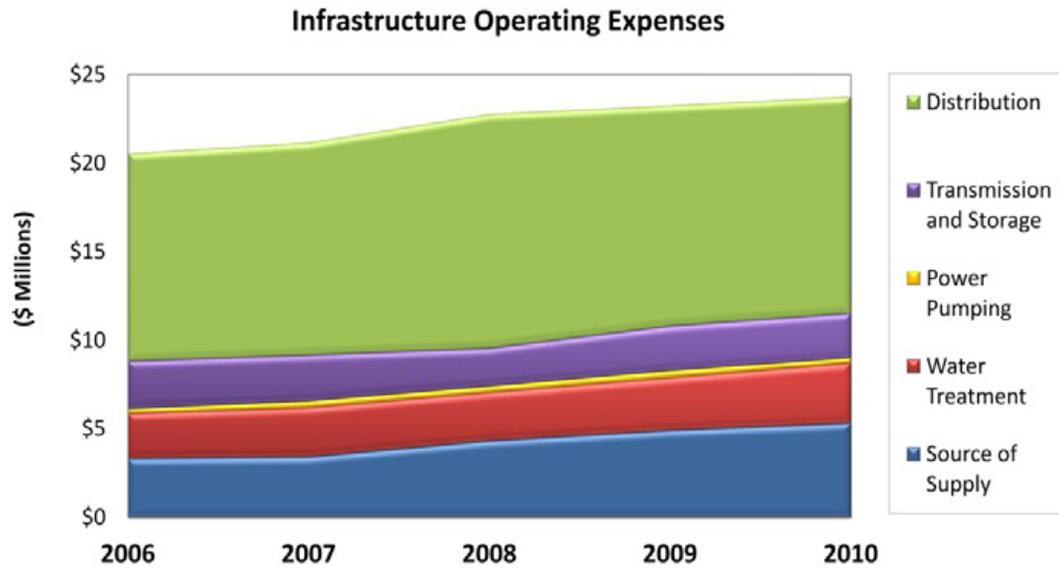


Diagram 24

Historically, Tacoma Water has spent approximately \$20 million a year on capital maintenance and upgrades. However, in the past five years, Tacoma Water has spent significantly more than that to complete water treatment, distribution main replacement, and water supply projects, as shown in Diagram 25 below. Based on the current projections, capital spending is slated to maintain a relatively constant level of approximately \$20 million per year for the next 10 years.

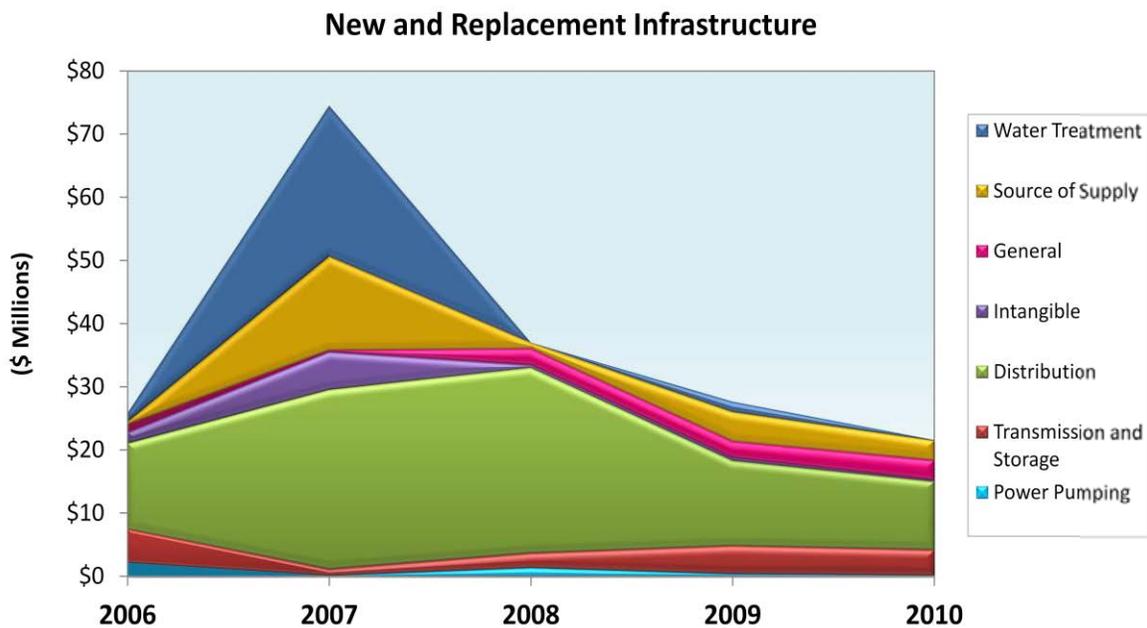


Diagram 25

Due to Tacoma Water’s recent increased levels of investment in new and replacement infrastructure and its inability to fund 50 percent of the capital expenditures from internal operations, levels of debt have increased significantly (the 50/50 policy pertains to R&R capital not capital for expansion or new plant and therefore does not apply to the whole CIP). As depicted below in Diagram 26, Tacoma Water’s debt to capital ratio has reached the 50 percent level and is projected to continue to increase in the next 10 years. Although the debt to capital ratio has not reached critical levels relative to some other large water utilities, we are concerned about the continual rise in debt levels.

**Tacoma Water Debt to Capital Ratio
2001-2022**

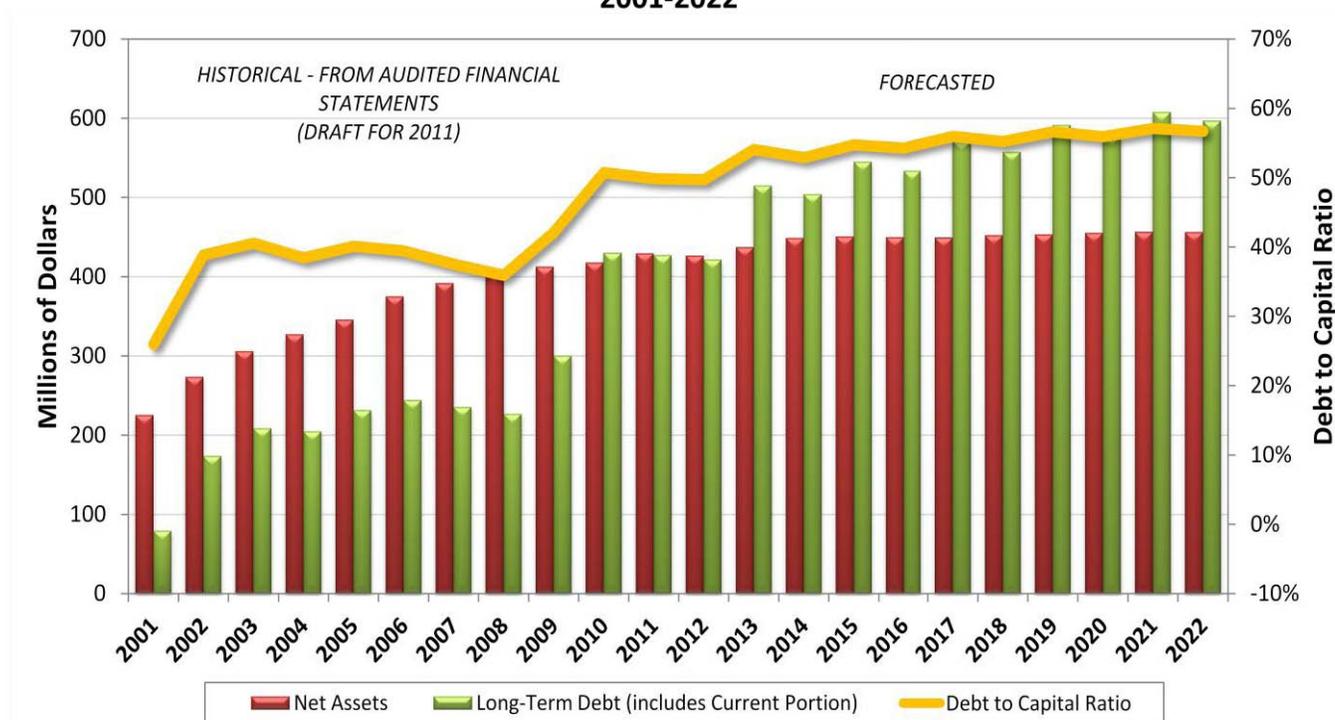


Diagram 26

In an era of declining revenues, the combination of rising O&M expenses and rising debt service obligations translate to the need for customer rate increases. Conversely, the most effective way to manage rate increases is to actively manage O&M and capital expenditures. With that in mind, Tacoma Water must be able to make informed decisions regarding the appropriate levels and uses for its limited investment dollars. These decisions are made throughout the year in the form of section plans, capital plans, annual budgets, section goals, and personal goals as shown in Diagram 27 below.

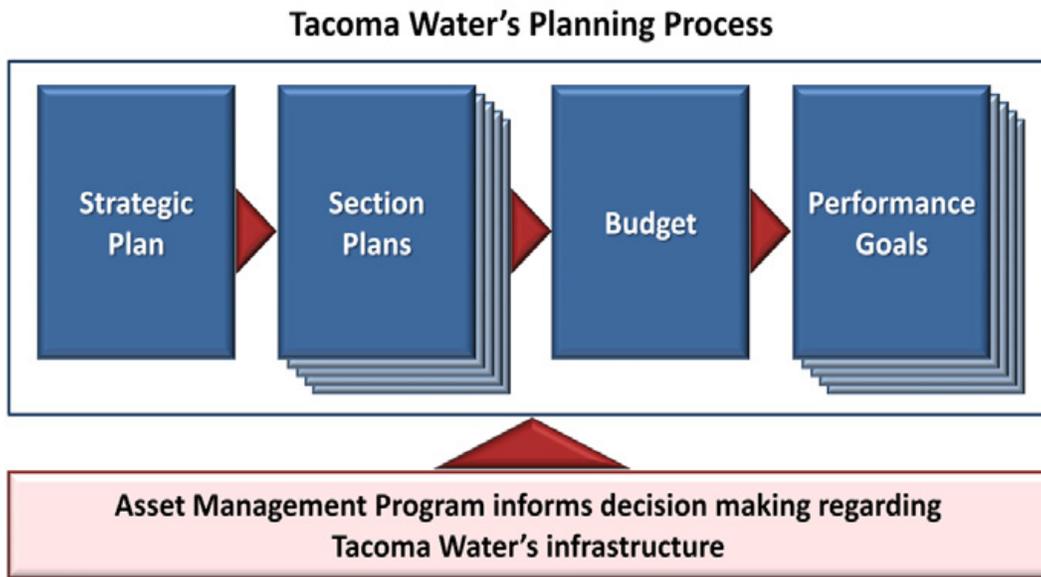


Diagram 27

In 2009, Tacoma Water began an effort to formalize its Asset Management program. As depicted below in Diagram 28, Asset Management helps answer critical questions regarding assets and helps to inform decisions regarding where and when Tacoma Water should invest the next O&M and/or capital dollar in its infrastructure. The goal of the Asset Management program is to minimize the cost of owning and operating assets over time while delivering the level of service desired by customers.

Formalized asset management is expected to project the dollar amount that should be spent on maintaining and/or upgrading Tacoma Water’s infrastructure. Asset Management helps make educated trade-offs based on financial considerations, the useful life of assets, risks associated with investing or not investing in different parts of the infrastructure, the desired performance of individual elements and/or the system as a whole, and the efficient use of staff, resources, technologies, and methods.

Asset Management Decisions



Diagram 28

One of the most important aspects of formalized asset management as a decision-making tool is its focus on evaluating the relative risks and appropriate risk mitigation strategies involved in maintaining/upgrading or not maintaining/upgrading assets across the entire system. As demonstrated in the example risk assessment for hydrants, pressure reducing valve (PRV) stations, and pump stations depicted in Diagram 29 below, each class of asset will be evaluated relative to its likelihood of failure and the consequences of its failure. Understanding risks involved in investing or delaying investment in specific aspects of Tacoma Water's infrastructure will be invaluable in the priority-setting and decision-making processes.

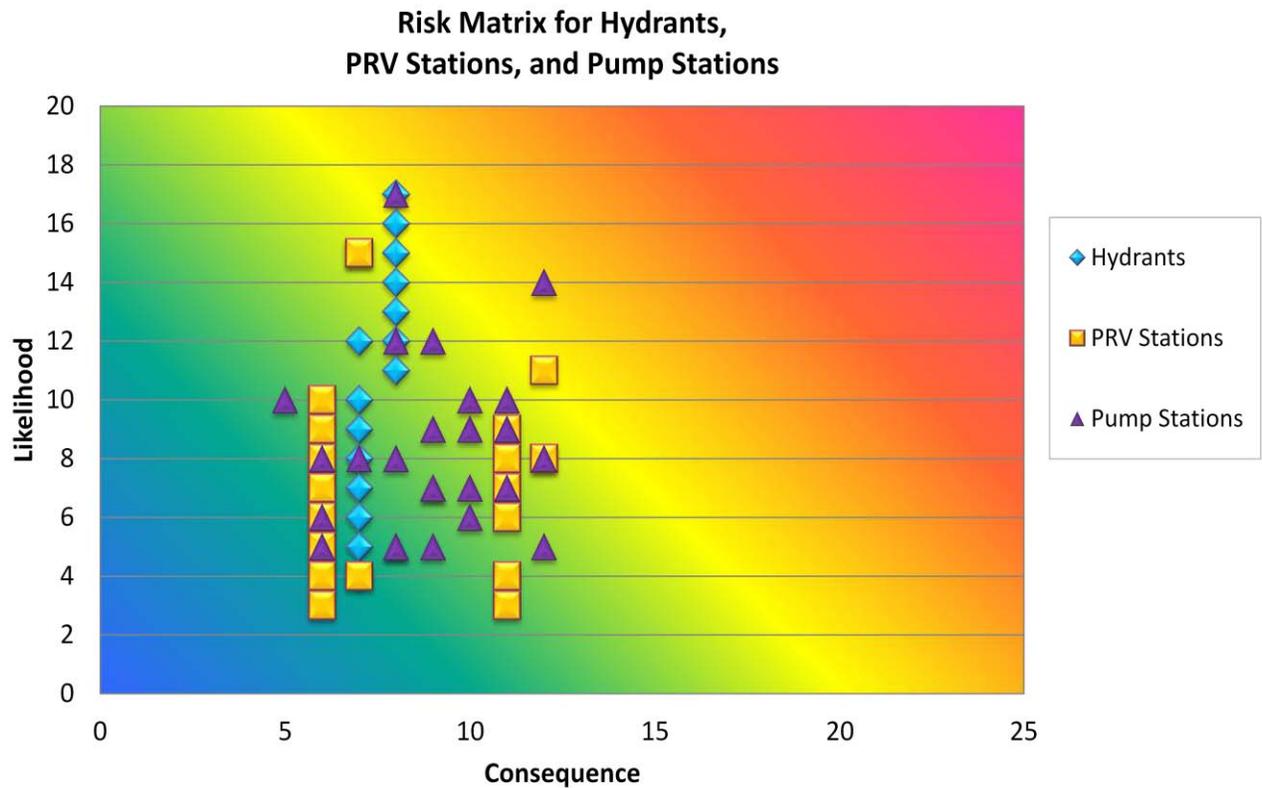


Diagram 29

By the end of 2012, Strategic Asset Management Plans (SAMPS) will be completed for each of the 13 asset classes depicted in Diagram 30 below. Those asset-specific plans will be used to inform O&M and capital decisions for the 2013/2014 biennium budget development process.

SAMP Categories from AMP

Source of Supply	Pumping	Water Treatment	Transmission and Storage	Distribution
Wells and springs	Pump stations	Treatment	Cathodic protection	Mains
			Transmission pipelines	PRVs
			Storage – transmission reservoirs	Valves
				Services
				Meters
				Hydrants
				Storage – distribution reservoirs and standpipes

Diagram 30

Strategies

The development of formalized asset management started two years ago to help Tacoma Water proactively manage the investments in its infrastructure in the most efficient and effective manner possible. Commitment was made to fully implement Asset Management in the next 12 to 24 months.

The following strategies to complete the implementation of Asset Management are recommended:

- *Strategy 1 - Continue Work Begun in 2009 to Develop a Strategy and Implement Our Asset Management Program*
 - ✓ Develop and implement Strategic Asset Management Plans (SAMPS) by major asset classes.
 - ✓ Develop business case evaluations and a risk-based decision model for asset management.
 - ✓ Complete an annual State of the Assets report.
 - ✓ Develop and implement a Strategic Maintenance Management Program.

- *Strategy 2 - Perform a Leadership Role within TPU and City of Tacoma Asset Management Teams*
 - ✓ Lead and participate in the collaborative effort between Tacoma Water, Tacoma Power, Tacoma Rail, and the City of Tacoma to design and implement a reasonably unified approach to Asset Management, including the collaborative development of business cases for joint projects/programs.

- *Strategy 3 – Ensure Organizational Preparedness*
 - ✓ Achieve clarity regarding roles related to infrastructure (assets) and how staff work together.
 - ✓ Develop decision-making structures and processes.

Implementation Timeline

Strategies	Implementation Timeline
Continue Work Begun in 2009 to Develop a Strategy and Implement Our Asset Management Program	Ongoing
Perform a Leadership Role within TPU and City of Tacoma Asset Management Teams	Ongoing
Ensure Organizational Preparedness	2012

Performance Metrics

1. 13 SAMPS developed by the end of 2012.
2. Use SAMPS developed in 2011 to inform 2013/2014 budget development.
3. Collaboratively develop BCEs.

Section 7 – Employee Strategic Initiative

Tacoma Water staff is the key to the success of the utility. The implementation of the strategic plan strategies will involve employees' understanding and supporting the plan. The acknowledgement of the significance of the workforce and the employees is one of the most important commitments that a company can make.

The goal for the 'employee' initiative will be to assure that the needs of the business are matched with the correct number, skills, and capabilities within the workforce. When business fluctuates with the economy and other competitive forces, it is important to have a 'flexible' staffing strategy tailored to the workload. As new programs are implemented and others are completed (Asset Management, etc.), the strategy will need to adjust to provide for new capabilities in some areas and perhaps the curtailment of activities in other areas.

In parallel with defining the most appropriate workforce alignment, Tacoma Water must invest in the development and job satisfaction of staff and recognize their commitment and performance as they carry out the mission of providing clean, reliable water to this community. Satisfied and motivated employees want programs that help them develop and reward them for their hard work and dedication. To that end, Tacoma Water must have in place programs such as succession planning, training, safety, compensation, career development, and hiring and retention (among others). At the same time, Tacoma Water must continue to strengthen the bonds with all employees through open and regular communications and leadership.

Situational Assessment

In the past few years, the economic downturn and a general decline in water sales have measurably impacted Tacoma Water's business. The number of new customers is essentially flat and the per capita consumption in every customer segment has dropped. The decline in the expansion of the water system, and specifically new development, is depicted in Diagram 31 below. The number of new service and meter installations per year since 2004 has declined by nearly 75 percent.

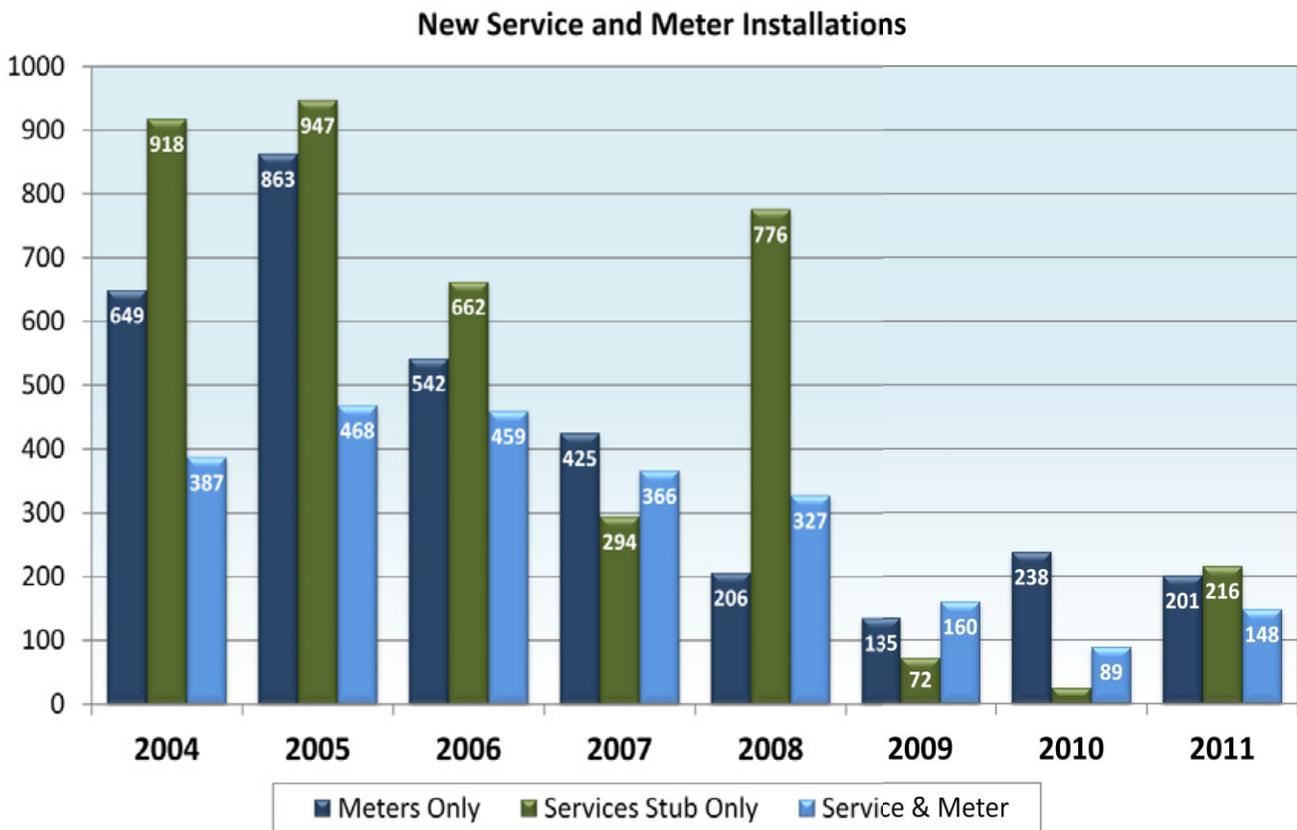


Diagram 31

While new construction and development have dramatically declined, a number of new programs and facilities that require appropriate staffing have been added. For example, the implementation of SAP and other technology, the adoption of the Asset Management Program, improved financial planning, the switch to 24-hour operations at the treatment plant, and now further expansion of treatment have and will necessitate changes in our staffing levels and skills.

At the same time that the Tacoma Water’s business is changing, the make-up of the workforce is continuing to evolve. The employee base is aging, which creates a number of challenging issues for workforce planning. As depicted in Diagram 32 below, slightly less than 40 percent of Tacoma Water’s employees are retirement eligible. The economic downturn and the rising costs of healthcare (among other reasons) have resulted in many retirement eligible employees working well beyond retirement age. A sudden change in retirement-eligible employees could present the utility with a shortage of qualified workers in certain areas.

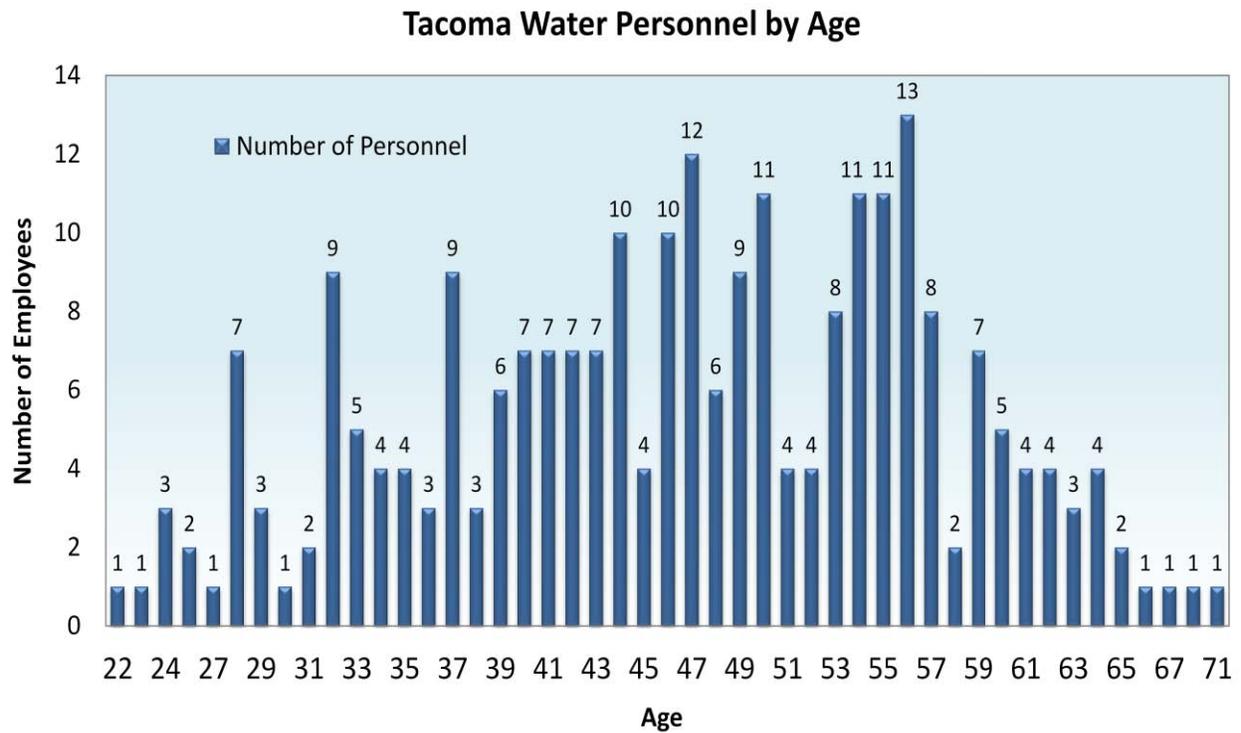


Diagram 32

Tacoma Water has managed the size and composition of the workforce in response to current market conditions and the evolving needs of the business. Overall, Tacoma Water’s workforce has declined by nearly 7 percent since 2004. However, as depicted in Diagram 33 below, as a direct consequence of the decline in new construction and new development, the construction/operations workforce has been reduced by approximately 25 full-time equivalent employees. To date, the reduction has been accomplished through attrition.

**Employees by Major Work Function –
2008 and 2011**

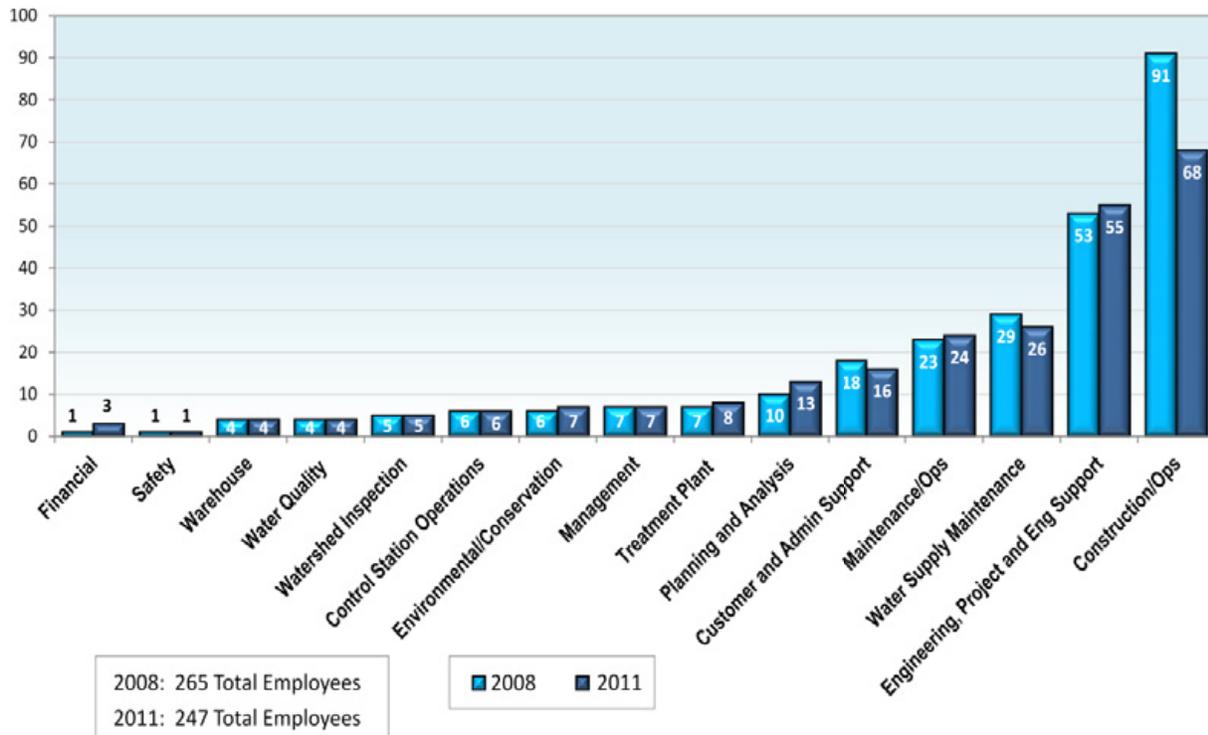


Diagram 33

In an effort to try to project the workforce necessary for the business needs over the next 10 years as defined by this strategic plan, a breakdown by function is depicted in Diagram 34 below. The total staffing number is projected to remain essentially at the same level as today (247 employees down to 246 employees). Although it is envisioned that work assignments within the construction and permitting groups may be reduced, the work groups involved with the operations of the new treatment plant, technology improvements, and the implementation of the formal Asset Management Program will grow commensurate with business needs.

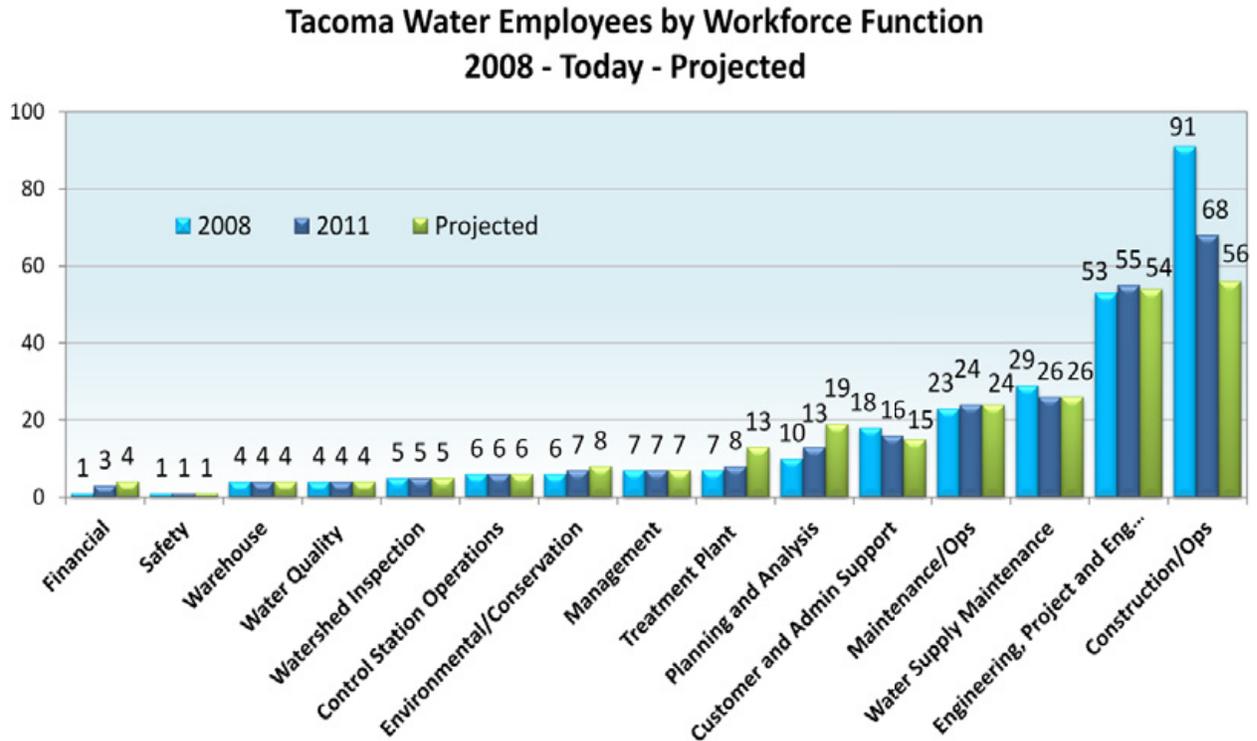


Diagram 34

It is anticipated that an improved economy and new construction and development will be gradual and slow for several years such that a reduced construction workforce will be able to support both Tacoma Water capital work and private development.

In proactively managing Tacoma Water’s workforce to align with the changing needs of the business, it is important to acknowledge that instantaneous changes in staff levels and skill sets are difficult to implement. Effective training and transitioning traditional work assignments require implementation periods that must be anticipated and provided for. Changes in wages and working conditions for represented employees require bargaining and appropriate planning for the time required to complete the modifications. The careful consideration of training and transition plans to ensure successful implementation applies to both represented and non-represented employees.

In addition to aligning staff levels and skill sets with the business needs of the utility, continuous improvement of the organization will be necessary. Customers and policy makers expect a performance-based/service level driven organization, where employees perform effectively, and are rewarded for their diligence and competence. In order to meet that challenge, a number of human resource policies and programs will need to be enhanced. The five primary areas that will support a performance-based culture are: (1) training and development, (2) leadership and succession management, (3) performance planning and management, (4) documented work processes, and (5) competitive compensation and benefits.

Strategies

Tacoma Water staff has a long, proud history of providing reliable water service to customers. Customers expect this tradition to continue for generations to come. What will be required is more staffing flexibility, new skills and capabilities, and more effective interaction with customers. Continuous improvement and engaged sharing of information and ideas will help the organization improve and reward customers for their trust and support of the utility.

The following strategies to support and manage the utility's workforce are recommended:

- *Strategy 1 - Investigate Options for a Flexible Workforce*
 - ✓ Review various job functions to determine where there are potential opportunities to broaden classification definitions and where efficiencies may be gained.
 - ✓ Evaluate all sections to determine base workload staffing levels.
 - ✓ Identify alternative strategies for managing peak workloads and review options to address fluctuating work.
 - ✓ Evaluate potential organizational structure models that optimize expertise across water that facilitates maximizing efficiencies while meeting levels of service.
 - ✓ Identify skill sets across sections and determine where gaps may exist. Develop an implementation plan to mitigate affects.

- *Strategy 2 - Clarify Roles to Help Support an Organization that is Accountable for the Effective and Efficient Conduct of Our Business Activities that Support Our Mission*
 - ✓ As part of a continuous improvement strategy, identify or enhance various information tools that support data collection, documentation, and refinement of work processes.
 - ✓ Define standards and expectations that support staff development.
 - ✓ Evaluate expectations and practices throughout organization to ensure we are in alignment and there are consistent approaches.
 - ✓ Through education, share how each role in the organization contributes to the overall success of Tacoma Water and how we are each responsible and accountable for what we contribute.

- *Strategy 3 - Provide Staff Business-based Opportunities for Growth and Development in the Key Areas of Leadership, New Skills, Technology, and Current Business Strategies*
 - ✓ Provide training for employees to stay current in required skills to be successful in their position (safety training, environmental, and technology changes).
 - ✓ Partner with staff to identify changing business needs and develop training plans to obtain new skills and knowledge for evolving business practices.
 - ✓ Develop competencies needed for leadership at Tacoma Water to include the ability to see alternative perspectives, the challenges of leadership, and the ability to understand how all the parts and pieces of the organization fits together.
 - ✓ Provide opportunities for staff to step outside traditional roles and thought processes to reach their full potential.

- ✓ Provide regular and open communication on issues of the utilities that can affect the future of our employees.
 - ✓ Help staff understand why decisions are made and the drivers behind them.
 - ✓ Identify opportunities to affirm good work through formal and informal recognition.
 - ✓ Share how our employees contribute to Tacoma Water's success.
 - ✓ Advocate for balanced compensation and benefits programs for all employees.
- *Strategy 4 – Ensure That the Appropriate Knowledge and Resources are Provided to Support Our Activities Related to the Health and Safety of Our Staff.*
- ✓ Safety is a fundamental value of our organization, and we are committed to providing an environment that supports a safe culture.
 - ✓ Provide safety training to Tacoma Water staff as appropriate.
 - ✓ Continually evaluate the work environment to identify if there are ways to address hazards and encourage open communication on related issues.
 - ✓ Increase visibility of our safety program by reaching out to all levels of the organization and provide education and awareness.

Implementation Timeline

Strategies	Implementation Timeline
Investigate Options for a Flexible Workforce	Q3 2012 – Ongoing
Clarify Roles to Help Support an Organization that is Accountable for the Effective and Efficient Conduct of Our Business Activities that Support Our Mission	Q3 2012 – Ongoing
Provide Staff Business-based Opportunities for Growth and Development in the Key Areas of Leadership, New Skills, Technology, and Current Business Strategies	Q3 2012 – Ongoing
Ensure That the Appropriate Knowledge and Resources are Provided to Support Our Activities Related to the Health and Safety of Our Staff	Q3 2012 – Ongoing

Performance Metrics

1. Complete the analyses and designs for the flexible workforce strategy.
2. Complete the analyses and clarification of employee roles.
3. Complete the analyses and design of the business-based growth and development opportunities for employees.
4. Provide the knowledge and resources related to the health and safety of our staff.

Section 8 - Information Management Strategic Initiative

Information management and reporting is key to implementing Tacoma Water's strategic plan and section plans. As the business strategies and enterprise-wide programs are refined, there is going to be a need and an interest in having the necessary management information systems and reporting tools available to improve management of the business. Support for the development of those needed systems and tools lies with the City's Information Technology Department, Tacoma Power, and Tacoma Water. Currently, there is a large backlog of system development efforts for Tacoma Water and other groups within TPU and the City.

Situational Assessment

Given their critical need for enhanced management information systems and reporting tools, an effort to identify and prioritize our information management needs has been ongoing over the past several years. To date, Tacoma Water has identified a variety of information systems that it needs to support its existing business, the strategies and programs that it envisions for the future, and the strategies of other entities that support Tacoma Water. The following information system needs have been identified by Tacoma Water as worthy of investigation, development, and/or investment:

Information systems needed to support Tacoma Water's existing business:

- GIS
- Hydraulic Modeling
- SAP, Including EAM (Including RCM)
- Business Objects (BOBJ)
- SCADA
- Microwave
- Radios (900 MHz)
- General Wireless Communication
- Automated Vehicle Location (AVL)
- Electronic Content Management System (ECMS)
- Mobile Solutions

Information systems that Tacoma Water needs to support the strategies and programs that it envisions for the future:

- Smart Utility

Information systems to support the strategies of other entities that support Tacoma Water:

- Telephone Upgrade
- UCES Internet Self Service (ISS)
- Automated Call Distribution (ACD)
- Stream Serve

- Other City-wide Projects with Approved Business Cases by the Information Systems Governance Board

Tacoma Water’s needs cannot be satisfied in isolation because the information technology functions are intertwined among many operating groups within the City of Tacoma and Tacoma Public Utilities. Given the combined resources of all of these entities that have complementary and overlapping needs, Tacoma Water has correctly pursued a ‘partnering and leverage’ strategy. Tacoma Water works closely with the other Tacoma Public Utilities business units and the City to understand and prioritize the collective needs and coordinate Information Technology development activities. Given the criticality of the need to have the functioning systems and tools in a timely manner, Tacoma Water has dedicated substantial internal resources to champion these information management development efforts.

The combined resources that are being brought to the table to develop these complex information management systems have, at times, had different agendas and different priorities. In an effort to coordinate the possibly conflicting needs and priorities of the participants, a multi-faceted governance structure has been created, as depicted in Diagram 35 below. Also, as seen in the diagram, each of the decision-making entities has prescribed charters and authorities. Each of the decision-making entities contribute in their own way to creating the conceptual framework for the systems, developing the functional requirements for the management information systems and reporting tools, and developing the technical specifications and designs to meet the functional requirements prior to implementation.

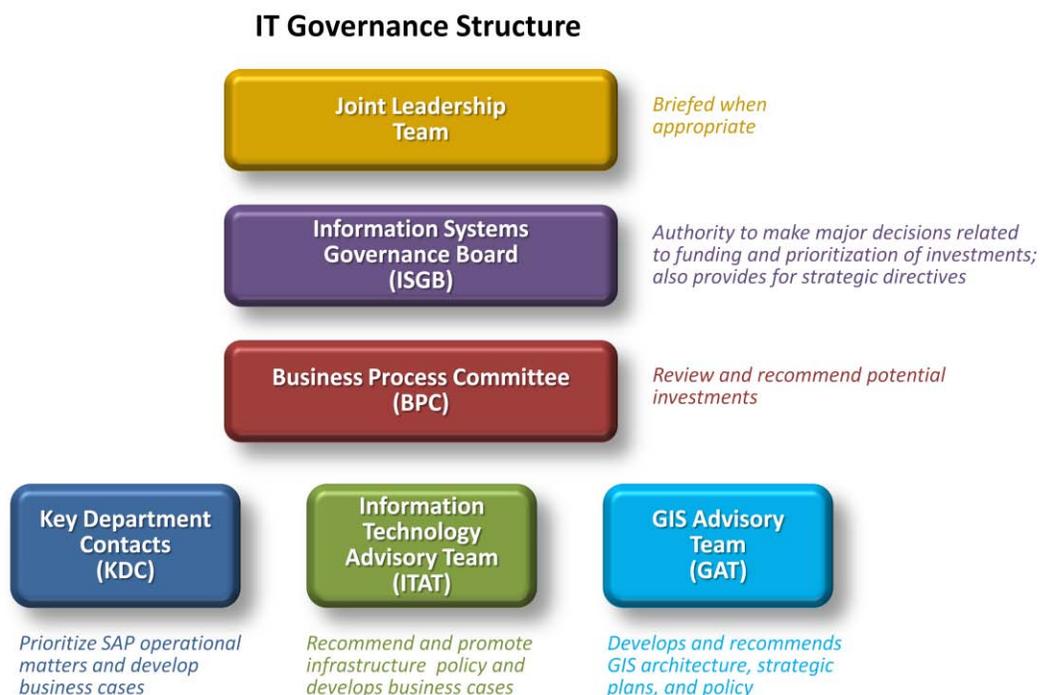


Diagram 35

The focus and attention of those groups has been working to improve coordination, resourcing, project management, and throughput. The technology plan for the future, which is depicted in Diagram 36 below, is being outlined. The diagram identifies the major technology development projects that are currently underway or planned; it includes the projected timeline and estimated costs to complete each one. In the coming months, Tacoma Water plans to expand on and complete its long-term technology plan.

Tacoma Water’s Preliminary Technology Plan

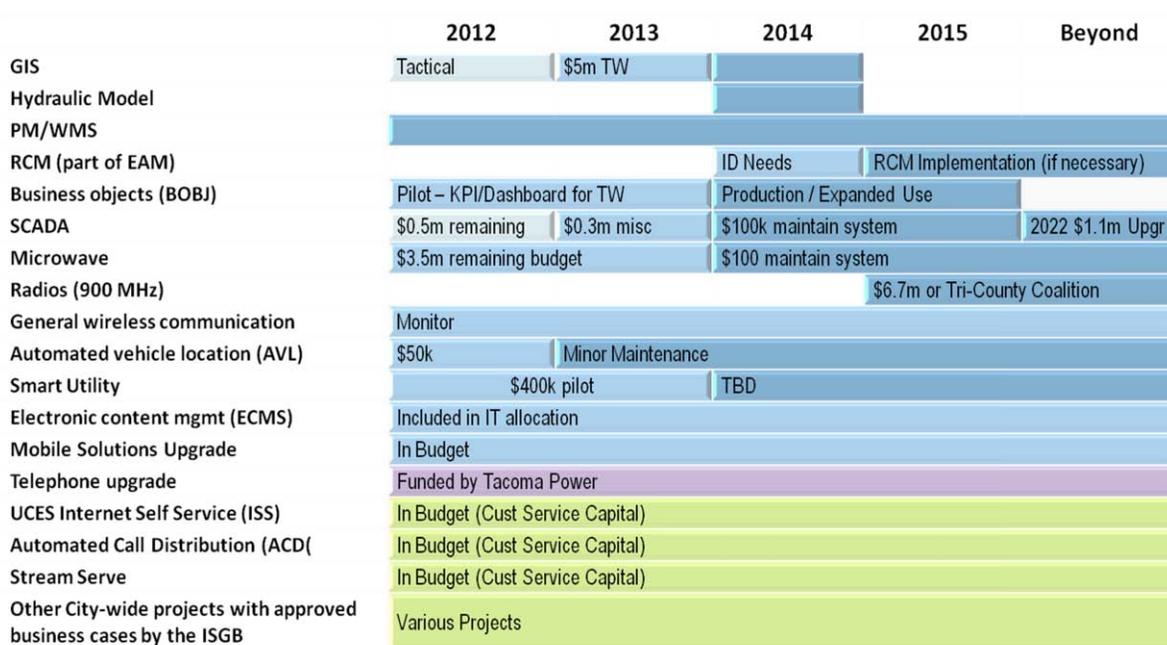


Diagram 36

It is important to note that by employing the ‘partnering and leverage’ strategy, the budget that will be required to support the development of these critical information management systems is substantial but far more manageable than if Tacoma Water were to implement the systems alone.

The IT representatives from Tacoma Water have been very successful at pursuing its ‘partnering and leverage’ strategy by collaborating in and contributing to the IT governance process. However, in the future, if the critical information management and reporting tools cannot be completed in a reasonable timeframe, Tacoma Water may be faced with a decision to take more control of the development activities and shoulder more of the costs.

Strategies

Given Tacoma Water's size and financial position, the "partnering and leverage" strategy that it has adopted is prudent. However, Tacoma Water must ensure that business needs and development timeframe needs are met.

The following strategies to support and manage the development of Tacoma Water's technology plan are recommended:

- *Strategy 1 - Continue to Actively Participate in the City's IT Governance Committees*
 - ✓ Ensure that Tacoma Water's business needs are considered and given proper weight in the prioritization process.
 - ✓ Coordinate with other business units within Tacoma Public Utilities to present a unified position.
 - ✓ Monitor the progress of IT development projects and identify if Tacoma Water needs to augment resources needed to keep the projects on time and on budget.

- *Strategy 2 – Continue to Actively Participate in the Development of the City's Information Technology Department's Strategic Plan*
 - ✓ Ensure that Tacoma Water's information management needs are clearly understood and there is a realistic plan to meet those needs.

- *Strategy 3 – Participate and Lead, Where Appropriate, the Development of TPU Technology Business Cases*
 - ✓ Work within Tacoma Public Utilities to develop the Smart Utility Business Case, the SAP Functional Upgrade Business Case, and other business cases (e.g., EAM, GIS, etc.).
 - ✓ Participate in developing the overall technology strategic direction and technology roadmap for TPU.

- *Strategy 4 – Complete the Development of Tacoma Water's Technology Plan*
 - ✓ Develop a technology plan for Tacoma Water; the preliminary version of which is depicted in Diagram 35 above.
 - ✓ Implement the Tacoma Water technology plan and monitor its performance and the usefulness of the information systems and reporting tools in the management of the utility.

Implementation Timeline

Strategies	Implementation Timeline
Continue to Actively Participate in the City's IT Governance Committees	Ongoing
Continue to Actively Participate in the Development of the City's Information Technology Department's Strategic Plan	Q1 2012 – Q4 2012
Participate and Lead, Where Appropriate, the Development of Technology Business Cases	Q1 2012 – Q4 2012
Complete the Development of Tacoma Water's Technology Plan	Q1 2012 – Ongoing

Performance Metrics

1. Develop Tacoma Water's technology plan in 2012.
2. Meet implementation timelines prescribed in Tacoma Water's technology plan.
3. Meet the budgets and investment schedules prescribed in Tacoma Water's technology plan.

Section 9 – Financials & Financing Strategic Initiative

A critical component of Tacoma Water’s strategic plan is the long-range forecast of the financial performance of Tacoma Water and the resulting rates for retail and wholesale customers. Throughout the strategic planning process, it has been important to forecast the range of financial outcomes that could result from various scenarios and strategic alternatives for each of the strategic initiatives. In reality, given the variety of outcomes that could occur in each of the strategic initiatives, the financial projections will result in a banded range of potential rate increases, with the identification of the ‘most likely’ rate increases needed to support specified operation and capital needs of the business. Ultimately, it will be the decision of the Utility Board and the City Council (with input from Tacoma Water) as to the water rates that the customers are charged.

As the business strategies and need for capital have become clearer, the chosen strategies will have the most positive impact on the financial health of Tacoma Water while actively managing risk and resiliency.

Situational Assessment

As the strategic planning project has progressed, the primary drivers that have the greatest impact on the financial success of the utility have become increasingly clear, including:

- Retail demand and revenues
 - ✓ Residential and small commercial
 - ✓ Large commercial and industrial
 - ✓ Growth and development
 - ✓ Simpson
 - ✓ Parks and irrigation
- Wholesale demand and revenues
 - ✓ Existing customers (including Cascade Water Alliance, etc.)
 - ✓ Potential customers
- RWSS Partner financial condition
- Water quality and quantity vulnerabilities and related mitigation strategies
- Annual capital requirements and O&M expenses

In order to understand the magnitude of these impacts, a ‘base case’ financial model was created that forecasts the ‘expected’ financial performance of Tacoma Water prior to incorporating the impacts from the new strategies identified in the Strategic Plan. The expected base case financial model was updated to incorporate all current budget assumptions and financial policies, including:

- Inflation at 3 percent per year.
- Debt service shaped by financial advisors, DashenMusselman, Inc.
- 1.5 times debt service coverage for Tacoma Water system and 1.0 times debt service coverage for the Regional Water Supply System.

- Minimum operating cash reserve of 60 days.
- Base case CIP is from the revised 10-year Water Business Plan 2011-2020.
- Expected filtration costs for Tacoma total \$141.2 million.

When all of those assumptions were incorporated into the financial model that is depicted in Diagram 37 below and summarized in Diagram 38 below, the average annual rate increase needed to meet the prescribed coverage ratios is projected to increase at an average annual rate of 8.5 percent annual for the first six years starting in 2013 and then drop down to an average annual increase of 3.0 percent for the next four years.

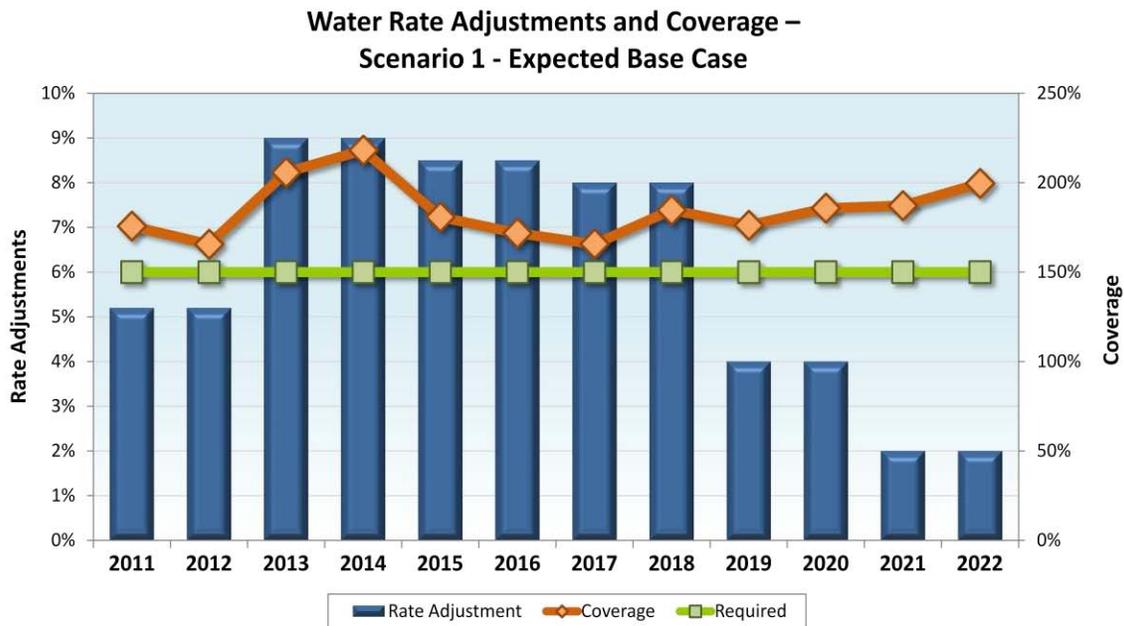


Diagram 37

The cumulative rates increase in the expected base case is projected to be 83.6 percent during the ten-year planning period.

Base Case Scenario

Scenario #	Scenario Description	Rate Growth 2013-2018	Rate Growth 2019-2022	Cumulative Rate Growth 2013-2022	Positive or Negative Effect on Rates	Assumptions (All other assumptions same as Expected Base Case)
1	Expected Base Case	8.5%	3.0%	83.6%		Expected Base Case

Diagram 38

When the base case projection is translated into the water bill for a typical single-family residence, as depicted in Diagram 39 below, the bill is projected to increase from \$33.18 in 2013 to \$49.66 in 2018, an 8.5 percent average annual rate increase (or a \$2.75 per month rate increase) for the first six-year timeframe. Between 2019 and 2022, the bill is projected to increase from \$51.65 to \$55.88, a 3.0 percent average annual increase (or a \$1.05 per month rate increase) for the second four-year timeframe.

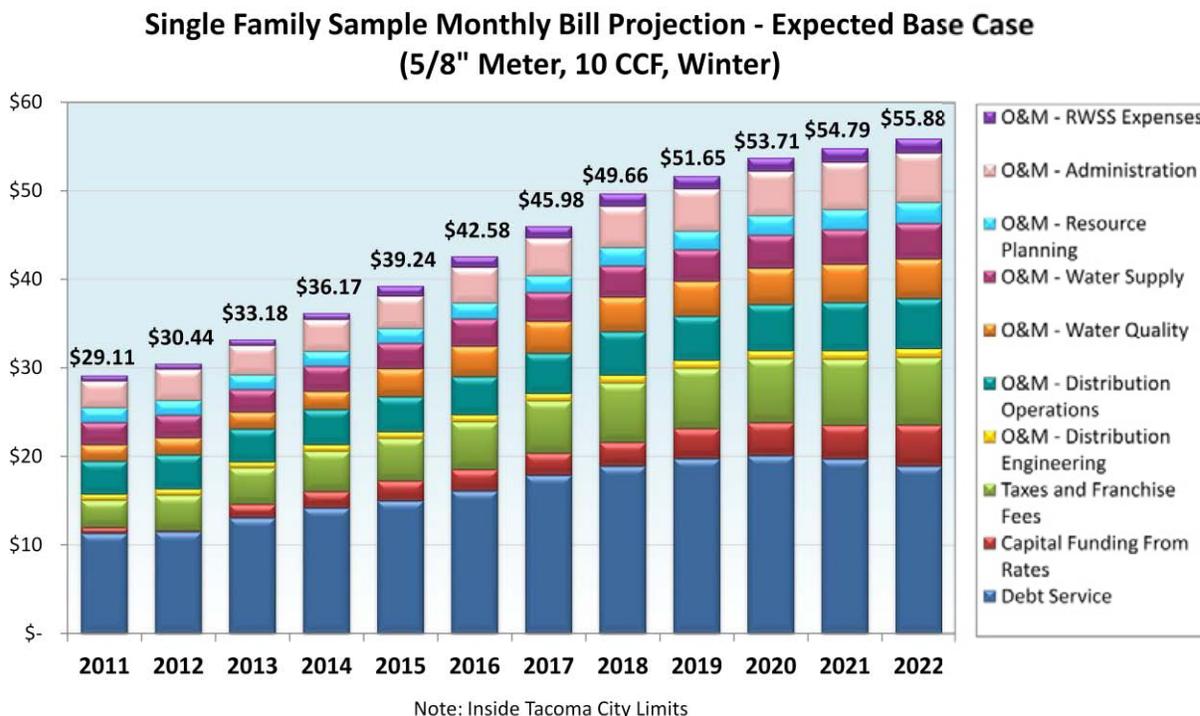


Diagram 39

During the first six-year period between 2013 and 2018, there are four primary drivers of the 8.5 percent projected average rate increases, as depicted in Diagram 40 below. First, the O&M expenses and debt service expenses on the capital required to build and operate the filtration plant account for, on average, approximately 25 percent of the projected rate increases. Second, utility and franchise tax increases account for, on average, 15 percent of the projected rate increases. Third, the CIP capital that is needed to add to, renew, and replace the critical elements of the infrastructure accounts for, on average, 30 percent of the projected rate increases. Fourth, the other operating expenses are assumed to rise at or near the inflation rate of 3 percent account for, on average, the remaining 30 percent of the projected rate increases.

Given that the decision to build and operate the filtration plant has already been made and the percent of utility and franchise taxes are established, it is important to note that Tacoma Water only has the ability to influence, on average, 60 percent of the projected rate increases by our decisions regarding the need for CIP capital and increases in O&M expenses.

Major Components of The Projected Base Case Rate Increases

	2013 Rate Increases	2014 Rate Increases	2015 Rate Increases	2016 Rate Increases	2017 Rate Increases	2018 Rate Increases
Filtration Plant O&M and Capital	3.2%	3.9%	2.4%	1.5%	1.5%	0.3%
Taxes (GE, Utility & Franchise)	0.5%	1.5%	0.9%	2.3%	1.3%	2.9%
CIP (Debt and Rate Funded)	4.3%	0.9%	3.4%	1.2%	3.3%	1.1%
Total Ongoing O&M	1.0%	2.7%	1.9%	3.6%	1.8%	3.8%
Base Case Rate Increases	9.0%	9.0%	8.5%	8.5%	8.0%	8.0%

Diagram 40

In addition to the expected base case financial projections, 13 other scenarios that test the range of financial outcomes that could occur based on the possible eventualities surrounding the eight strategic initiatives are described in the following pages, including:

- Scenario 1 Expected Base Case
- Scenario 2 Optimistic Base Case
- Scenario 3 Ramp-up Wholesale Contract Demand
- Scenario 4 Optimistic Base Case plus Ramp-up Wholesale Contract Demand
- Scenario 5 Simpson Shuts Down in 2013
- Scenario 6 RWSS Partner Default
- Scenario 7 Simpson Shuts Down in 2013 plus RWSS Partner Default
- Scenario 8 CWA Buyout – Lower 2013 Debt Issue
- Scenario 9 Build Capital Replacement Reserve Fund
- Scenario 10 2.0 Times Debt Cover Ratio
- Scenario 11 Front Loaded Rate Increases
- Scenario 12 1% Reduction in O&M Inflation Rate
- Scenario 13 10% Reduction in Overall CIP Capital
- Scenario 14 Change in R&R Funding Policy

As seen Diagram 41 below, if the economy improves and retail revenues increase as forecast in Scenario 2 (Optimistic Base Case), the required annual growth of projected rates would be reduced by 1.6 percent in the first six years. If Tacoma Water were able to increase sales to wholesale customers to the quantities specified in the current wholesale contracts as forecasted in Scenario 3 (Ramp-up Wholesale to Contract Demand), the required annual growth of projected rates would be reduced by 1.2 percent in the

first six years. The combined benefit of the two revenue growth scenarios shows the financial benefits of a recovery in the economy on retail revenues and the financial benefits of increasing Tacoma Water’s focus on selling its excess supplies of water into the wholesale market. The very optimistic Scenario 4 is projected to lower rate increases for the first six years by 2.8 percent and the 10-year cumulative rate increases by 35 percent.

Positive Scenarios

Scenario #	Scenario Description	Rate Growth 2013-2018	Rate Growth 2019-2022	Cumulative Rate Growth 2013-2022	Positive or Negative Effect on Rates	Assumptions (All other assumptions same as Expected Base Case)
2	Optimistic Base Case	6.9%	2.3%	63.9%		Demand forecast increases per Fiske Report (November 2011) MEDIUM Case
3	Ramp Up Wholesale to Contract Demand	7.3%	1.5%	62.2%		Attains 100% of the contract obligations in 2020
4	Optimistic Base Case + Ramp Up Wholesale to Contract Demand	5.7%	2.5%	53.6%		Two previous assumptions added together

Diagram 41

As seen in Diagram 42 below, some of the risks and vulnerabilities that Tacoma Water faces in the following three scenarios have the ability to substantially increase the required annual growth of projected rates anywhere from 1.5 percent in the first six years (in the event that one of Tacoma Water’s RWSS Partners defaults or Simpson shuts down in 2013) to 2.8 percent if both events occur simultaneously. The very pessimistic Scenario 7 is projected to increase the 10-year cumulative rate increases by nearly 35 percent. Those downside risks validate the management team’s desire to focus on the needs of large industrial customers and RWSS Partners.

Negative Scenarios

Scenario #	Scenario Description	Rate Growth 2013-2018	Rate Growth 2019-2022	Cumulative Rate Growth 2013-2022	Positive or Negative Effect on Rates	Assumptions (All other assumptions same as Expected Base Case)
5	Simpson Shuts Down in 2013	10.1%	2.3%	94.9%		Simpson shuts down prior to contract end July 31, 2015
6	RWSS Partner Default	9.6%	2.5%	91.7%		1 Partner defaults, Tacoma to take over O&M, CRO Debt Service and ongoing capital of 1 Partner beginning in 2012
7	Simpson Shuts Down in 2013+ RWSS Partner Default	11.3%	2.5%	109.7%		Two previous assumptions added together

Diagram 42

As depicted in the results of the four scenarios that follow in Diagram 43, Tacoma Water has the ability to change its policies to improve its financial outlook. One of the four policy/board change scenarios produces no appreciable improvement (e.g., buying out of the Cascade Water Alliance contract). Two of the policy change scenarios produce a negative result of 1 to 3 percent higher rates in the first six years (e.g., building capital replacement reserve funds and increasing the debt coverage ratio to two times). Given the financial challenges facing Tacoma Water, increasing the rates for those reasons does not seem prudent at this time.

Policy / Board Actions

Scenario #	Scenario Description	Rate Growth 2013-2018	Rate Growth 2019-2022	Cumulative Rate Growth 2013-2022	Positive or Negative Effect on Rates	Assumptions (All other assumptions same as Expected Base Case)
8	CWA Buyout and Lower Debt Issuance	7.8%	3.1%	76.8%		Utilizes the buyout proceeds in 2013 and 2014 to lower borrowing
9	Build Capital Replacement Reserve Fund	9.5%	2.2%	88.2%		Increases reserves by \$2.5 million per biennium
10	2X Debt Coverage Ratio	11.7%	0.0%	93.9%		High debt coverage ratio- 2.0 X debt coverage ratio in 2013
11	Front Loaded Rate Increases	8.0%	1.0%	65.1%		Rate increases of 25% in 2013, 15% in 2014 and 3%-1% thereafter

Diagram 43

Scenario 11 explores the benefits of front-loading rate increases to create a period of reduced rates in the future as depicted in Diagram 44 below. That scenario considers the impact of significantly raising rates (25 percent in 2013 and 15 percent in 2014) in the early years, followed by lower rate increases (1 percent to 3 percent) thereafter. Front-end loading the rate increases is projected to reduce the 10-year cumulative rate increases by nearly 25 percent, as shown in Diagram 43 above. Given the multitude of unanswered questions surrounding this rate strategy and the probable reaction of customers to rate increases of this size in the present economic climate, this rate strategy is not recommended at this time.

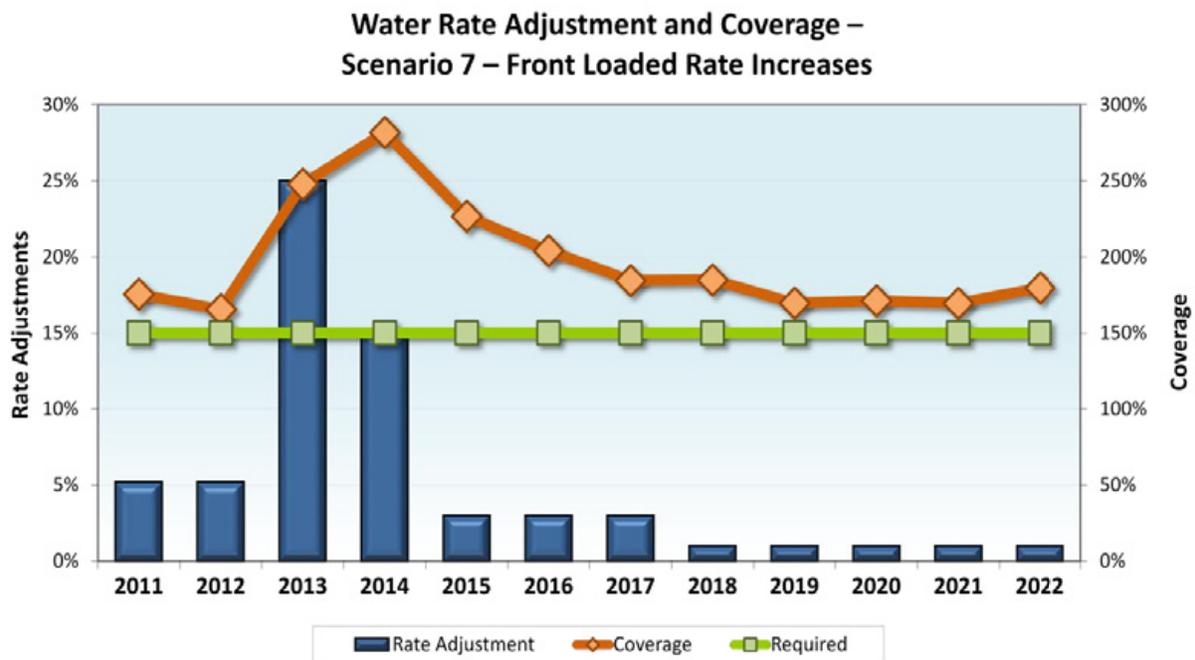


Diagram 44

In summary, the annual rate increases in the first six years of this ten-year planning cycle are likely to be approximately 8.5 percent, and the annual rate increases in the second four years are likely to be approximately 3 percent as projected in the expected base case financial model. Based on the scenario projections, the annual and cumulative rates increases could shrink or expand by as much as 35 percent. The probability of the rate increases reaching the outer limits of this ‘band of rates’ is reasonably low, but there is a chance that rates could vary widely from the expected base case projections.

In future biennium budgeting cycles, Tacoma Water will continue to balance what is best for the business and the overall rates that customers are asked to pay. As seen in the results of the three scenarios depicted below in Diagram 45, we have several options to lower the rate increases projected in the base case. These options include slowing the projected growth of O&M, reducing the non-filtration plant CIP capital, and changing the assumption regarding how quickly we reach the target of rate-funding 50 percent of the repair and replacement capital. In order to provide an order of magnitude of the consequences of decreasing those expenditures, the scenarios modeled reducing the 3 percent growth in projected O&M expenses to 2 percent, reducing the non-filtration plant CIP capital projections by 10 percent across the board, and extending the target year for achieving the 50 percent rate-funded CIP capital by 10 years. The resulting downward impact on the projected growth of rates for the three scenarios is reasonably similar, one half of one percent in the first six years. In general, the impact of further reducing O&M and capital projections are scalable (for each one percent reduction in O&M, projected rate increases will be reduced by 0.7 percent, and for each 10 percent reduction in non-filtration plant CIP capital, projected rate increases will be reduced by 0.6 percent).

Possible Options for Reducing Rate Increases

Scenario #	Scenario Description	Rate Growth 2013-2018	Rate Growth 2019-2022	Cumulative Rate Growth 2013-2022	Positive or Negative Effect on Rates	Assumptions (All other assumptions same as Expected Base Case)
12	1% Reduction in O&M Inflation Rate	7.8%	2.2%	71.7%		The 1% reduction in O&M Inflation Rate is equal to a 0.7% per year rate decrease
13	10% Reduction in Overall CIP Capital	7.9%	3.0%	77.7%		The 10% reduction in overall CIP capital (not including the filtration plant) is equal to a 0.6% per year rate decrease
14	Change in R&R Funding Policy	8.0%	2.7%	76.6%		Policy change to 25% rate-funded, finance more with long-term debt (approx. \$5 million per year funded from rates rather than \$10 million)

Diagram 45

At this juncture, no specific plans have been developed to reduce the projected growth of O&M, reduce the non-filtration plant CIP capital projections, or extend the timeframe for achieving the current policy of funding 50 percent of R&R capital from rates. Possibilities for reducing the projected rate increases in the base financial case will be explored during the upcoming biennium budgeting processes.

Strategies

Understanding the range of financial outcomes has and will continue to be critical to the success of the Tacoma Water’s Strategic Plan. This process of continually forecasting and monitoring the financial health of Tacoma Water will be ongoing.

The following strategies to support the continuing financial management of Tacoma Water are recommended:

- *Strategy 1 - Support Financial Management of Tacoma Water*
 - ✓ Expand financial analysis and forecasting capabilities.
 - ✓ Work with the financial advisor to optimize debt.
 - ✓ Continue to support Tacoma Water management in analyzing, monitoring, and reporting on the financial health of the overall utility and its sections.
 - ✓ Continue to help the section managers develop and monitor the performance metrics for their businesses.
 - ✓ Coordinate with the City’s Finance and Accounting Department, where needed, to support the financial management of Tacoma Water.
 - ✓ Continue to support the development of financial information and the ‘financial story’ for the bond-rating agencies.

- *Strategy 2 - Monitor the Effectiveness of the Financial Policies and Revise As Needed*
 - ✓ Benchmark financial management policies used by other similar utilities.
 - ✓ Recommend changes or enhancements to existing financial management policies when it is in the best interest of Tacoma Water.

- *Strategy 3 – Design and Implement a Utility-wide Risk Maturity Model*
 - ✓ Design and populate a database of the various risks facing Tacoma Water.
 - ✓ Ensure that the risks are analyzed and mitigation strategies developed where appropriate.
 - ✓ Prioritize the risks in order to ensure that the proper resources are being devoted to the management of the risks.

- *Strategy 4 – Review and Restructure the Rate Model*
 - ✓ Assess costs and how they are allocated.
 - ✓ Review revenue assumptions and implement additional conservatism to improve budget performance.
 - ✓ Develop wholesale water rates based on market driven principles and strategies.
 - ✓ Create rate structure for public fire protection.
 - ✓ Review rate design principles.

Implementation Timeline

Strategies	Implementation Timeline
Support Financial Management of Tacoma Water	Ongoing
Monitor the Effectiveness of the Financial Policies and Revise As Needed	Ongoing
Design and Implement a Utility-wide Risk Maturity Model	Ongoing
Review and Restructure the Rate Model	Ongoing

Performance Metrics

1. Complete the refinement of the financial model and projections for Tacoma Water.
2. Deviations from the financial plan are continually brought to management’s attention.
3. The utility-wide risk maturity model is designed, compiled, implemented, and managed on an ongoing basis.
4. Complete the refinement the rate model.
5. Adopt contract pricing for wholesale water sales.

Section 10 - Relationships & Communication Strategic Initiative

Relationship management and communications is an essential element of implementing any strategic plan. Tacoma Water views positive and productive relations with its customers and key stakeholders among its highest values. The relationships that are nurtured by Tacoma Water and its communications with these stakeholders must continually stress the fact that Tacoma Water is making every effort to provide clean, reliable water now and in the future.

Situational Assessment

Tacoma Water maintains hundreds of relationships. They include customers, employees, the Utility Board and the City Council, neighboring utilities, regulators, vendors, and local, regional, and national interests that impact the utility. These relationships are maintained and nurtured by individuals throughout the Tacoma Water organization. Historically, the employees at Tacoma Water have excelled, for the most part, at maintaining those highly diverse relationships. The management team believes that the primary responsibility for managing and communicating with such a diverse group of stakeholders should continue to reside with the most appropriate subject matter expert, no matter where they are in the Tacoma Water organization.

Recognizing the importance of relationship management, during the development of the strategic plan, Tacoma Water management identified three strategic initiatives as needing additional resources and attention dedicated to improved relationships and communications in order to successfully implement the initiatives:

- Retail Customers
- Wholesale Customers
- Employees

For each of these initiatives, retail customers, wholesale customers, and employees, the management of Tacoma Water is committed to identifying key stakeholders who can affect the initiative, current relationships with those stakeholders, and areas of additional attention to both communications and relations. As seen in Diagram 46 below, Tacoma Water management intends to track and manage the stakeholder relationships and communications relevant to the three targeted initiatives in a more systematic manner.

**Relationships and Communications Management
Sample Tracking Matrix**

Relationships and Communications Management									
Strategic Initiatives	Key Stakeholders	Associations/ Committees / & Interactions	Key Upcoming Events	Relationship Focus	Existing Communication Channels	Main Message	Priority	Responsibility - Tacoma Water and/or Other	Milestones
Retail Customers	Simpson								
	Existing Single Family Residential Customers								
	Metro Parks								
	Commercial / Industrial Customers Inside Tacoma								
	Developers								
Wholesale Customers and the Region	Cascade Water Alliance								
	Existing Wholesale Customers								
	Four Cities								
	Potential New Wholesale Customers								
	Seattle								
	Everett								
Employee	Lakewood Water District								
	Represented Employees								
	Non-represented Employees								
	Unions								

Diagram 46

The goal of the process is to develop specific relationship and communication strategies for each of the individual stakeholders relevant to the three initiatives, with the responsibility for their implementation assigned to specific individuals. If, in the future, there are other stakeholders that management believes need more focused attention, they will be added to this relationship and communications monitoring process.

Strategies

As part of the development of the strategic plan, the management team has identified the need to focus its efforts relative to the relationship and communication needs of key stakeholders affecting the three specified initiatives regarding customers and employees.

The following strategies to support the development of a relationship and communications management process are recommended:

- *Strategy 1 – Focus on Creating Strong Relationships with Key Stakeholders*
 - ✓ Refine the stakeholders who should be the initial focus of the relationship management process.
 - ✓ Refine the specific relationship management goals for each identified stakeholder group.
 - ✓ Identify the responsible person who will manage the relationship-building process for each stakeholder group and determine if we need additional resources.
 - ✓ Create the relationship strategies for each stakeholder group and create measurements for success.

- *Strategy 2 – Develop Tailored Communication Plans for Each Strategic Initiative and Execute in 2012*
 - ✓ Refine the stakeholders who should be the initial focus of the communication plan development process.
 - ✓ Refine the specific communications goals for each identified stakeholder group.
 - ✓ Identify the responsible person who will manage the communications development process for each stakeholder group and determine if we need additional resources.
 - ✓ Create the communication strategies for each stakeholder group.

Implementation Timeline

Strategies	Implementation Timeline
Focus on Creating Strong Relationships with Key Stakeholders	Q2 2012 – Ongoing
Develop Tailored Communication Plans for Each Strategic Initiative and Execute in 2012	Q2 2012 – Ongoing

Performance Metrics

1. Complete the design of the relationship management plan.
2. Complete the design of the communications plan.
3. Implement the relationship management plan and communications plan.

Section 11 – Mission Statement and Statement of Values

Based on the work that was done during the development of the strategic plan, a new mission statement that reflects the aspirations for Tacoma Water in a clear concise way was created:

Providing clean, reliable water now and in the future

In addition, a set of values was adopted for the organization that reflects the various aspects of the collective commitment to carrying out the mission of Tacoma Water:

- We plan for our customers’ water needs and provide water when they need it.
- We deliver high-quality water.
- We listen to our customers and respond to their service needs.
- We create long-term economic value in partnership with our customer-owners and our community.
- We protect the natural resources that we all depend on.
- We support the growth and development of our employees, who we rely on to successfully achieve our mission.

Together, as seen in the following Diagram 47 below, the mission and values communicate to customers, the Utility Board and the City Council, employees, and the community what we would like the future of Tacoma Water to be.

Tacoma Water’s Mission and Values



Diagram 47

Section 12 – Next Steps

The Tacoma Water management team is committed to implementing this Strategic Plan which, over time, may result in new ways of carrying out our mission of *providing clean, reliable water now and in the future*. Implementation of the strategies contained in this Strategic Plan is going to take effort, commitment of time from all levels of the organization, teamwork, and cross-sectional communication.

As is noted in the overall introduction to the Strategic Plan, this Strategic Plan is intended to be the strategic focus for Tacoma Water for at least the next three to five years. It is also envisioned that other major planning activities will logically flow from the Strategic Plan and support its implementation. Tacoma Water’s other major planning activities include Section Plans, the Tacoma Water Budget, and Performance Goals.

To begin the formal implementation process, each Strategic Initiative Champion, listed in Diagram 48 below, working with appropriate staff from throughout the organization, will develop a detailed plan of action, including detailed timelines, projected resource needs, roles and responsibilities. Resource gaps will be identified (i.e. missing in-house capabilities, limitations due to workload, etc.) and included in the 2013-2014 budget.



Diagram 48

Given the time that it will take to implement some of the strategies in the Strategic Plan, the Tacoma Water Management Team is committed to tracking and reporting on implementation efforts. Susan Clark will lead the coordination of the implementation of the strategic plan.

In the next several months, the management of Tacoma Water is going to be communicating the details of the strategic plan to its stakeholders. The communications will be tailored to the specific needs of each group.