



SEATTLE CITY COUNCIL
CENTRAL STAFF

Seattle Public Utilities (SPU) 2021–2026 Strategic Business Plan

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TRANSPORTATION AND UTILITIES COMMITTEE

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Summary (1/2)

- **SPU engages in a planning process every 3 years**
- **Business plans cover a 6-year timeframe**
- **Opportunity for SPU to re-evaluate its priorities and project its operating and capital program requirements**
- **Chance for Council to determine whether it agrees with SPU's proposed direction**

Summary (2/2)

- **Proposed Strategic Business Plan (Proposed SBP) contains SPU's:**
 - New mission and vision
 - Focus areas
 - Long-term goals
 - Short-term strategies
 - Initiatives and investments
- **SPU conducted a review of previous studies, surveyed community members, and interviewed business and community leaders**
- **SPU also worked extensively with its Customer Review Panel**

Proposed Rate Path & Forecast (1/2)

Line of Business	2021	2022	2023	2024	2025	2026	6-Year Average
Water	0.0%	2.7%	4.7%	3.6%	4.2%	5.5%	3.4%
Wastewater	7.3%	3.1%	5.9%	0.5%	7.8%	3.6%	4.7%
Drainage	7.4%	8.6%	7.2%	3.9%	6.5%	6.7%	6.7%
Solid Waste	2.9%	2.9%	2.2%	2.3%	2.1%	2.1%	2.4%
Combined:	4.5%	3.9%	5.0%	2.2%	5.4%	4.2%	4.2%

Note: The cells shaded in blue show rate increases that the Council has already adopted legislatively.

Proposed Rate Path & Forecast (2/2)

- **Proposed SBP's cost to customers:**
 - Typical single-family house – 2021: \$223/month; 2026: \$275/month
 - Typical multifamily unit – 2021: \$127/month; 2026: \$155/month
- **To decrease the combined average annual rate from 4.2% to 4.1% would take:**
 - \$43 million reduction in capital spending, or
 - \$36 million reduction in operations and maintenance spending
- **Similar spending increases would be possible if the rate were increased from 4.2% to 4.3%**

Note: These amounts are illustrative of magnitude, but rate impacts vary depending on the line of business and year of spending changes.

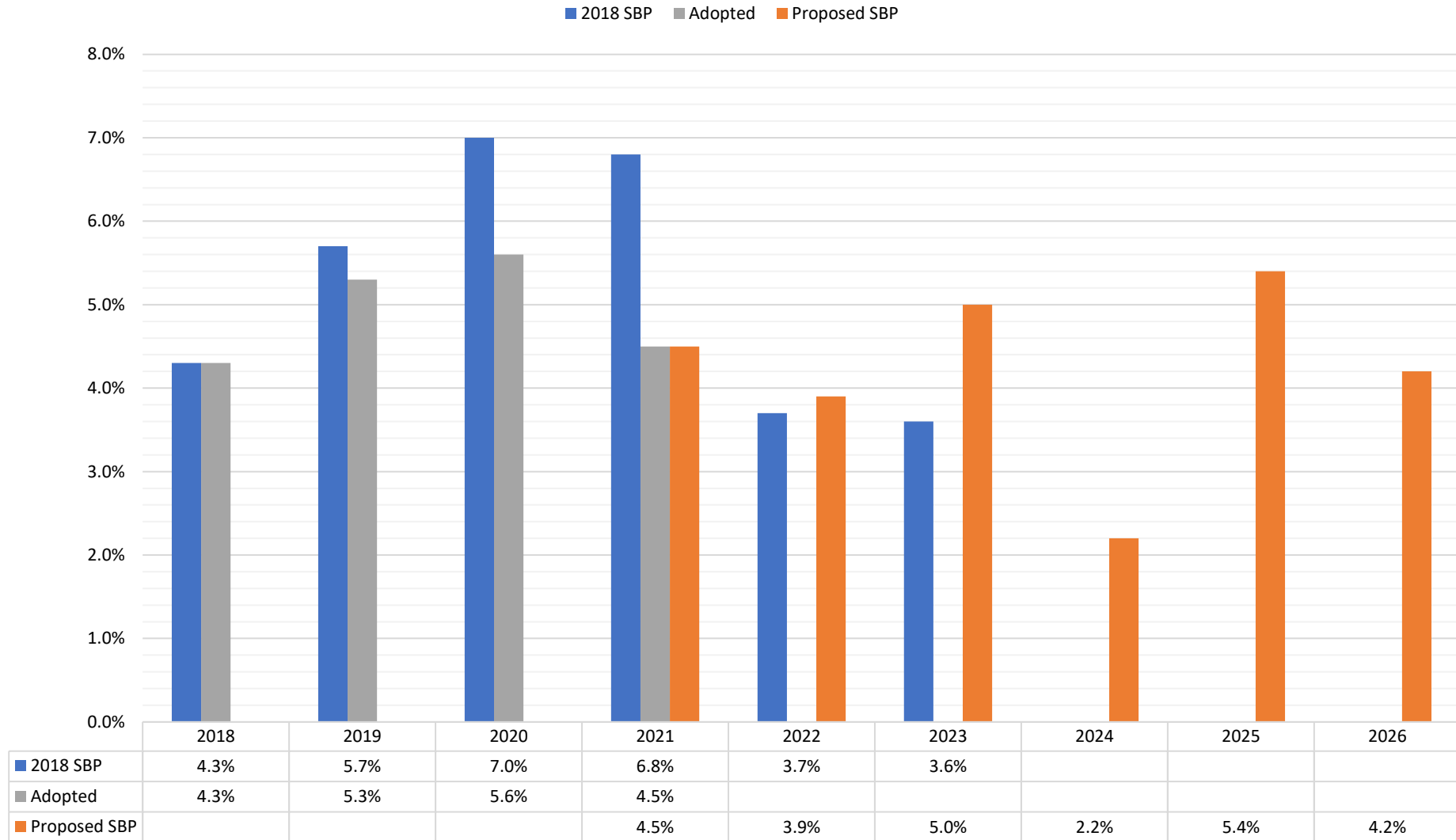
Equity & Customer Assistance (1/2)

- **SPU has a variety of customer assistance programs to help address the disproportionate impact that utility bills may have on low-income customers**
- **COVID-19 pandemic appears to have negatively impacted many customers:**
 - In March 2020, SPU had approximately 4,500 delinquent accounts totaling about \$2.1 million in overdue bills
 - In March 2021, the number of delinquent accounts had risen to 8,200, totaling approximately \$7 million
- **In response, SPU has suspended shut-offs, created flexible payment plans, and with Council approval has suspended interest charges on delinquent balances**

Equity & Customer Assistance (2/2)

- **Side Sewer Assistance Program**
 - Rebates, grants, or loans; would prioritize low- and fixed-income customers
- **Race and Social Justice (RSJ) Strategic Plan**
 - Revise to reflect current needs, assess the extent to which RSJ policies are supported across the utility, and recommend opportunities for improved policies and practices
- **Seeds of Resilience Impact Investment**
 - Three-year pilot to foster community-centered entrepreneurship through grants supporting projects that build water resilience or reduce waste

Combined Annual Rates



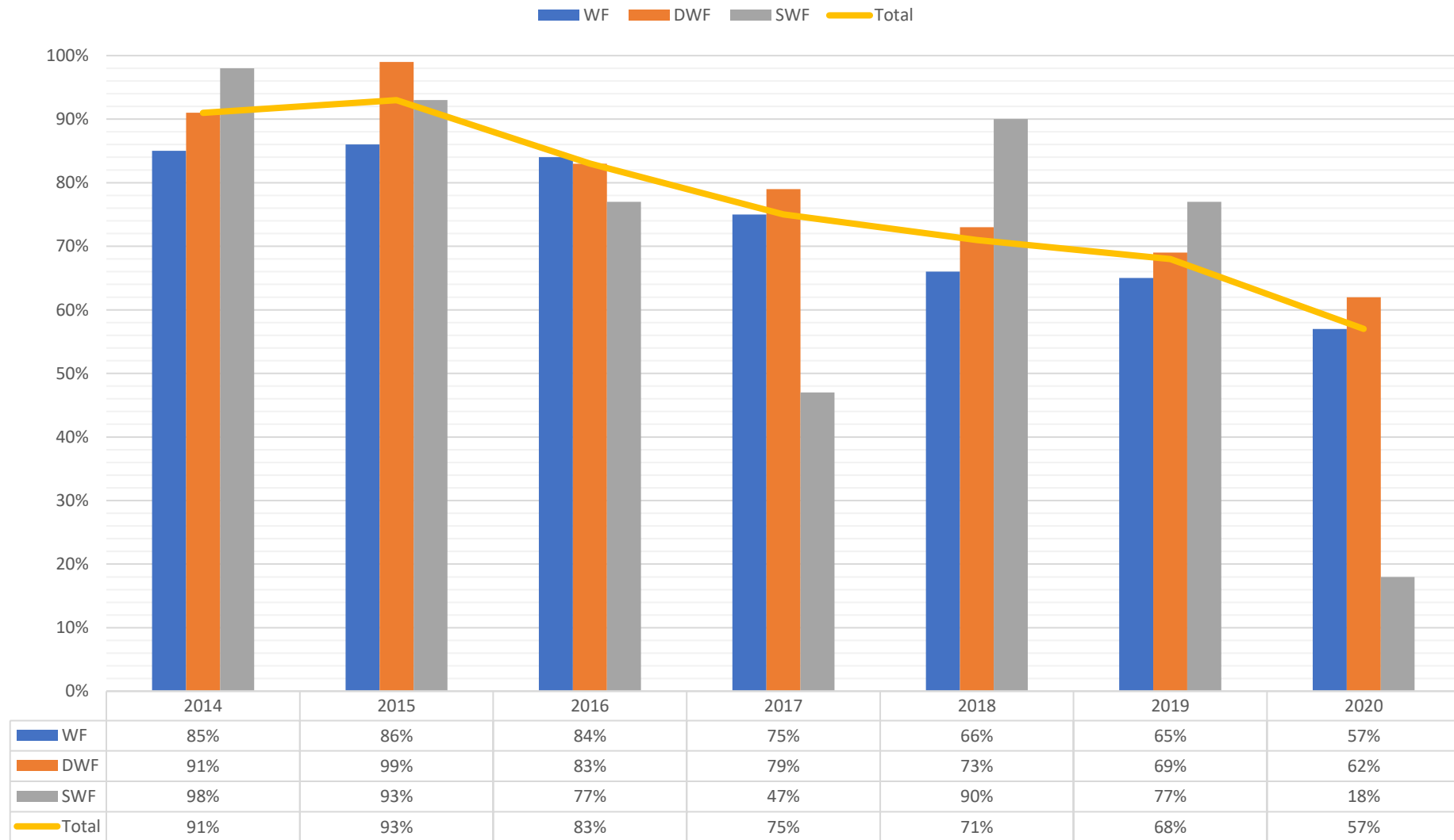
Comparison of Rates

- **Typical single-family house, in 2023:**
 - Under 2018 SBP rates: \$248/month
 - Under Adopted + Proposed SBP rates: \$244/month
- **Typical multifamily unit, in 2023:**
 - Under 2018 SBP rates: \$142/month
 - Under Adopted + Proposed SBP rates: \$138/month

Issue #1: CIP Accomplishment Rate (1/4)

- **Capital Improvement Program (CIP) accomplishment rate describes the percentage of budgeted capital resources that are expended in the year in which they are planned to be spent**
- **Historically, SPU assumed a 100% accomplishment rate**
- **In 2018 SBP, at the request of Council, the rate was lowered to 97.5%**

CIP Accomplishment Rates (2/4)



Issue #1: CIP Accomplishment Rate (3/4)

- **Proposed SBP includes the following accomplishment rates:**
 - Water Fund: 85%
 - Drainage and Wastewater Fund: 85% (except Ship Canal Project: 95%)
 - Solid Waste Fund: 90%
- **SPU estimates that these lower rates reduce the amount of required revenues for the six-year period by approximately \$222 million**
- **Additional reductions in the accomplishment rate would further lower the rate path, but the risk is that the SBP may no longer provide an accurate projection of what future rate increases will need to be to support SPU's activities**

Issue #1: CIP Accomplishment Rate (4/4)

Options:

- a. Do nothing – leave the CIP accomplishment rates at the levels in the Proposed SBP.
- b. Adjust the CIP accomplishment rates contained in the Proposed SBP and adjust the included rate path accordingly.

Issue #2: Rate Volatility (1/3)

- **Proposed SBP rate path varies each year, from a low of 2.2% in 2024 to a high of 5.4% in 2025**
- **Drainage and Wastewater lines of business are the largest contributors to this volatility**
- **King County wastewater treatment rates account for approximately 8% of the Drainage rate, and nearly 60% of the Wastewater rate**

Issue #2: Rate Volatility (2/3)

- **Proposed SBP assumes King County increases of 4.5% in 2022, 10.3% in 2023 and 2025, and 0% in 2024 and 2026**
- **Could pursue rate smoothing – increasing rates early in the rate cycle and decreasing them in the later years**

Issue #2: Rate Volatility (3/3)

Options:

- a. Do nothing – leave the rate path as proposed. This option could also include continuing to work with King County with regard to the wastewater treatment rate increases and their impact on SPU’s rate path.
- b. Amend the rate path in the Proposed SBP to reflect rate smoothing. This option would require additional modeling by SPU to ensure that any proposed changes will still allow SPU to meet its financial policies.

Issue #3: Utility Taxes (1/3)

- **City taxes on SPU's lines of business range from 11.5% for Drainage to 15.5% for Water**
- **City tax on the electric utility is limited by state law to 6%**
- **SPU estimates that it will pay approximately \$123 million in City utility taxes in 2021, all of which flows to the General Fund**

Issue #3: Utility Taxes (2/3)

- **If the City tax rates for SPU were all reduced to 6%, SPU estimates it would pay approximately \$413 million less between 2022 and 2026**
- **Would reduce the Proposed SBP's rate path from 4.2% to 3.0%**

Note: City utility tax rates are not set by the Proposed SBP legislation and the Proposed SBP does not assume a change in utility taxes.

Issue #3: Utility Taxes (3/3)

Options:

- a. Do nothing – maintain the status quo.
- b. Amend the rate path included in the Proposed SBP to reflect a Council-directed change in utility tax policy. Council would need to draft additional legislation, in the form of an ordinance, to implement the change in utility tax policy.

Issue #4: Department Staffing (1/3)

- **SPU has identified vacancy savings as a contributor to containing costs and holding down rates**
- **Average vacancy rate over the past three years has ranged between 8% and 10.7%**
- **Three investment programs in the Proposed SBP potentially lack adequate staffing resources**

Issue #4: Department Staffing (2/3)

- **Customer Review Panel letter notes extensive change in SPU leadership staffing in the last three years, and that about a quarter of the SPU workforce is eligible to retire**
- **Proposed SBP includes a workforce development initiative**

Issue #4: Department Staffing (3/3)

Options:

- a. Do nothing – let SPU evaluate its resources and pursue its identified workforce development initiative, as described in the Proposed SBP.
- b. Amend the resolution to request that SPU regularly report to the Council on its workforce development initiative and its efforts to fill vacant positions needed to perform priority work.

Questions?