

September 15, 2022

MEMORANDUM

To: Transportation and Seattle Public Utilities Committee
From: Brian Goodnight, Analyst
Subject: Council Bill 120410: 2023–2025 Solid Waste Rates

On September 20, 2022, the Transportation and Seattle Public Utilities Committee will continue its consideration of [Council Bill \(CB\) 120410](#) that would establish Seattle Public Utilities' (SPU's) solid waste rates for 2023–2025. SPU briefed the committee on the proposed bill at the committee's September 6, 2022, meeting (see the [September 6 SPU presentation](#) for more details). This memorandum provides relevant background information, describes the proposed rate increases and compares them to the rates adopted in the 2021–2026 Strategic Business Plan, and summarizes the impact to customers.

Background

SPU operates three distinct utilities: drainage and wastewater, water, and solid waste, which is the subject of the proposed legislation. The solid waste system provides for the collection, processing, and disposal of garbage, recyclables, and organics from residents and businesses within the city. Contractors provide collection services and deliver the garbage and organics to SPU transfer stations, where SPU staff facilitates the transfer of the materials to either a disposal site or to organics processing facilities. Collection contractors deliver recyclables directly to a recycling facility in SODO for processing. SPU's solid waste utility also oversees the City's Clean City program, partners with King County on hazardous waste disposal, and maintains and rehabilitates historic landfill sites.

The Council typically considers rate-setting legislation for one of SPU's three utilities each year, with rates being set for a three-year period. The most recent update to solid waste rates occurred in November 2019, via [Ordinance 125985](#), which established rates for 2020–2022.

The Council also typically adopts an updated Strategic Business Plan (SBP) for SPU every three years. The SBP process is an opportunity for SPU to re-evaluate its priorities and project its operating and capital program requirements for the following six years for all three of its utilities. The updates also offer the Council an opportunity to determine whether it agrees with SPU's proposed direction and rate path or wants to make adjustments.

In May 2021, Council adopted [Resolution 32000](#), an updated SBP covering 2021–2026. The updated SBP contained a new mission and vision for SPU, identified the department's focus areas, described its long-term goals and short-term strategies, and specified a three-year rate path (2021 to 2023) and a three-year rate forecast (2024 to 2026). Table 1 shows the adopted rate path and rate forecast contained in the SBP.

Table 1. SBP Rate Path (2021–2023) and Rate Forecast (2024–2026)

Line of Business	2021	2022	2023	2024	2025	2026	6-Year Avg
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 had already adopted legislatively, with the exception of the 0.0% Water rate for 2021 which was a continuation of the 2020 adopted rates.

Proposed 2023–2025 Rates and SBP Comparison

CB 120410 would establish solid waste rates for the 2023–2025 period, including collection rates for residential and commercial garbage and organics service, special service fees and charges (e.g., extra bundle charges), and transfer station rates for self-haul customers. The bill would also revise the low-income assistance credits for qualifying customers. Recycling service costs are covered by garbage rates rather than being assessed separately, and therefore there are no recycling rates to adjust with this bill. The proposed solid waste rate increases for 2023–2025 are shown in Table 2, alongside an updated forecast for 2026 and the endorsed rate increases from the SBP.

Table 2. Comparison of Proposed Solid Waste Rates vs SBP

	Adopted		Proposed			Forecast	6-Year Avg
	2021	2022	2023	2024	2025	2026	
Proposed Rates	2.9%	2.9%	2.0%	2.3%	2.5%	2.3%	2.5%
SBP	2.9%	2.9%	2.2%	2.3%	2.1%	2.1%	2.4%

Note: The proposed legislation would only establish rates for 2023–2025. The forecasted rate for 2026 is included for reference purposes only.

As shown in Table 2, the proposed solid waste rate increase is lower than the rate endorsed in the SBP for 2023, even with the SBP rate for 2024, and higher than the SBP rate for 2025. Overall, including the updated forecast for 2026, the six-year average rate increase would be 2.5 percent, one-tenth of one percentage point higher than the 2.4 percent six-year average endorsed in the SBP.

The variations between the SBP rates and the proposed rates are the result of SPU staff performing a detailed solid waste rate study (attached as [Exhibit A](#) to the Summary and Fiscal Note) that determines the solid waste system revenue requirement for the studied time period, updates the demand forecast for services, and ensures that the department’s financial policies for the Solid Waste Fund are met. For this rate study period, the proposed rates are particularly impacted by increasing residential demand and decreasing commercial demand, higher contract expenses due to increasing demand and high inflation estimates, and increasing capital program expenditures.

A few additional notable elements of the rate study are:

- Unlike the rates for residential and commercial collection which are proposed to increase every year, the proposed transfer station rates would only increase once during the three-year period. SPU is proposing to increase the transfer station rates by 5.1 percent in 2023 and forgo additional increases in 2024 and 2025. This modification was suggested by solid waste operations staff in SPU as a way to simplify the administration of rates by transfer station staff and also to reduce transfer station customer confusion.
- The binding financial policy constraint for solid waste rates continues to be debt service coverage, which has been the binding constraint since 2015. This policy evaluates the amount of revenue available for making debt service payments and is important to maintain to preserve the Solid Waste Fund's bond rating.
- The rate study projects that the Solid Waste Fund will have an operating cash balance of approximately \$118 million by the end of the rate study period in 2025. The adopted financial policy is for SPU to maintain a cash balance sufficient to cover at least 20 days of contract expense, but for the last seven years the department has met a more conservative internal target of having a cash balance sufficient to cover 45 days of operating expense. For 2023, this internal target will be approximately \$27 million. A portion of the projected cash balance is attributable to delayed capital projects that will occur in future years. SPU is also considering other possible uses for the remaining cash balance in excess of its financial target, including the possibility of paying down outstanding debt obligations.
- Consistent with the previous rate study and solid waste rate setting cycle, SPU is proposing to fund its entire solid waste capital program with cash rather than issuing additional debt. This is possible given the amount of revenues projected to be raised in order to meet financial policies and the available cash on hand. Total capital spending planned for the rate period is \$52 million.

Overall, the proposed solid waste rates would increase Solid Waste Fund revenues by approximately \$5.4 million in 2023 (relative to 2022), approximately \$6.9 million in 2024 (relative to 2023), and approximately \$7.3 million in 2025 (relative to 2024). Due to the City's imposition of a utility tax on solid waste revenues, the City's General Fund would receive additional revenues totaling approximately \$5.3 million during the three-year period.

Customer Impact

Table 3 shows the impact of the proposed solid waste rate increases on the monthly bills for a typical single-family residential customer, a multi-family residential customer such as an apartment building, and a commercial customer such as a coffee shop or medium-sized restaurant. The table also shows the impact to self-haul customers disposing of garbage at transfer stations. The information for this table is drawn from Table 1-1 of SPU's solid waste rate study.

Please note that the annual percentage increases shown in the table for each customer type do not match the overall proposed rate increases shown in Table 2 (Page 2). The overall proposed rate increases are influenced by an April 1 effective date for the rates (resulting in the revised rates only applying for a portion of each calendar year) and by the relative impact that each customer type has on the solid waste system’s costs.

Table 3. Impact of Proposed Rate Increases to Customers

	2022	2023	2024	2025
Single-Family Residential ^a	\$55.55	\$56.40	\$57.85	\$59.35
<i>\$ Change from Prior Year</i>	--	\$0.85	\$1.45	\$1.50
<i>% Change from Prior Year</i>	--	1.5%	2.6%	2.6%
Multi-Family Residential ^b	\$433.19	\$439.73	\$451.16	\$463.02
<i>\$ Change from Prior Year</i>	--	\$6.54	\$11.43	\$11.86
<i>% Change from Prior Year</i>	--	1.5%	2.6%	2.6%
Commercial ^c	\$572.85	\$581.09	\$596.02	\$611.59
<i>\$ Change from Prior Year</i>	--	\$8.24	\$14.93	\$15.57
<i>% Change from Prior Year</i>	--	1.4%	2.6%	2.6%
Self-Haul ^d	\$157.00	\$165.00	\$165.00	\$165.00
<i>\$ Change from Prior Year</i>	--	\$8.00	--	--
<i>% Change from Prior Year</i>	--	5.1%	--	--

a – 32-gallon garbage, 96-gallon yard waste, 96-gallon recycling

b – Typical 15-unit building, including 2-cubic yard detached garbage, 96-gallon food waste, 2-cubic yard recycling

c – Typical busy coffee shop or medium-sized restaurant: 3-cubic yard detached garbage, optional recycling

d – Amounts shown are costs per ton

Next Steps

If the Committee recommends passage of the legislation to the Council on September 20, then the Council could take final action on CB 120410 as soon as September 27.

cc: Esther Handy, Director
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