

**Budget Deliberations
SEATTLE PUBLIC UTILITIES**

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Table 1: Expenditures/Revenues (\$ in 1,000s)

	2016 Adopted Budget	2017 Proposed Budget	% Change 2016- 2017	2018 Proposed Budget	% Change 2017-2018
Expenditures					
Administration – Combined	\$28,892	\$13,688	(53%)	\$14,741	8%
Customer Service – Combined	\$33,895	\$34,661	2%	\$35,439	2%
General Expense – Combined	\$581,927	\$639,309	10%	\$665,780	4%
Other Operating – Combined	\$141,656	\$152,123	7%	\$154,736	2%
Total O&M Budget Control Levels (BCL)	\$786,370	\$839,781	7%	870,696	4%
Shared Cost Project – Combined	\$40,694	\$62,002	52%	\$73,748	19%
Technology – Combined	\$33,346	\$28,783	(14%)	\$16,322	(43%)
Combined Sewer Overflow - DWF	\$56,597	\$37,291	(34%)	\$39,783	6%
Protection of Beneficial Uses – DWF	\$4,820	\$9,897	105%	\$10,284	4%
Flooding, Sewer and Landslides –DWF	\$13,390	\$18,646	39%	\$32,179	73%
Rehabilitation – DWF	\$19,758	\$29,775	51%	\$36,603	23%
Sediments – DWF	\$4,762	\$6,855	44%	\$6,553	(4%)
New Facilities –DWF	\$30,552	\$7,824	(74%)	\$19,673	151%
Rehabilitation and Heavy Eqt – SWF	\$430	\$400	(7%)	\$120	(70%)
Distribution –WF	\$21,154	\$28,545	33%	\$28,145	(1%)
Habitat Conservation Program – WF	\$2,116	\$2,106	0%	\$2,606	24%
Transmission - WF	\$3,788	\$5,529	46%	\$22,431	306%
Water Quality and Treatment – WF	\$1,846	\$8,444	357%	\$385	(95%)
Water Resources – WF	\$7,713	\$8,266	7%	\$8,776	6%
Watershed Stewardship - WF	\$841	\$66	(92%)	977	1380%
Total Capital BCL's	\$241,807	\$254,429	5%	\$298,585	17%
Total Expenditures	\$1,023,537	\$1,094,210	6.9%	\$1,168,981	6.8%
Revenues					
General Subfund (GSF)	\$7,836	\$9,374	20%	\$9,490	1%
Water Fund (WF)	\$309,259	\$344,652	11%	\$357,769	4%
Solid Waste Fund (SWF)	\$217,422	\$214,845	(1%)	\$211,496	(2%)
Drainage and Wastewater Fund (DWF)	\$466,986	\$501,557	7%	\$537,879	7%
Use of Fund Balance	\$22,034	\$23,783	8%	\$52,347	120%
Total Revenues	\$1,023,537	\$1,094,211	7%	\$1,168,981	7%
Total FTEs	1,460	1,342.5	(8%)	1,342.5	0%

Totals may not exactly reflect sum of line items due to rounding.

Dollars rounded to nearest \$1,000; percentages to nearest 0.1%.

Interactive Budget Page Link:

<http://www.seattle.gov/city-budget/2017-18-proposed-budget/public-utilities>

INTRODUCTION

Seattle Public Utilities (SPU) provides four discrete utility services: drinking water, solid waste, wastewater and stormwater. At \$1.2 billion, SPU's proposed budget comprises approximately one-fifth of the Mayor's 2017 Proposed Budget. SPU spending is largely supported by rates that law mandates be used only for utility purposes. Rate revenue is deposited into three enterprise funds known as the Water Fund, Drainage and Wastewater Fund¹ and Solid Waste Fund. The 2017 Adopted Budget anticipates revenue from all three enterprise funds combined will be \$1.2 billion. The Expenditures and Revenues table above provides an overview of the Mayor's proposed changes in 2017 and 2018 in comparison to the 2016 Adopted Budget.

BACKGROUND

Strategic Business Plan

The Council adopted Resolution 31534 in August 2014 establishing a forward-looking Strategic Business Plan (SBP) that outlines SPU's investments and spending over a six-year period to achieve an annual rate increase of 4.6% averaged across SPU's four lines of business from 2015 to 2020.² The SBP identified operational efficiencies and targeted investments to control costs and meet the programmatic goals of the utility within a multi-year target for rates. Resolution 31534 required that SPU propose updates of the SBP for Council's consideration and approval every three years, and SPU is currently working on an update for potential Council action in 2017.

The rate path in the SBP is based on anticipated annual operating and maintenance expenditures, as well as capital outlays for each year for the six-year plan; and spending in the 2017 Proposed Budget exceeds projected 2017 spending anticipated in the SBP by about 10 percent. Table 2 describes rate increases by fund and compares the actual and projected combined average to rates assumed in the SBP. In 2017, the combined average rate increase is 0.9 percentage points higher than the SBP.

Table 2: Summary of Adopted and Projected SPU Utility Rates

	2015	2016	2017	2018	2019	2020	2015-2020 Projection*
Water	0.0%	1.7%	2.7%	3.9%	6.0%	6.9%	3.5%
Wastewater	0.8%	3.6%	4.6%	1.2%	7.0%	8.8%	4.4%
Drainage	9.8%	9.9%	10.0%	7.3%	5.5%	6.0%	8.1%
Solid Waste	5.1%	3.8%	6.0%	3.1%	3.3%	1.3%	4.0%
Actual/Projected	2.9%	4.1%	5.6%	3.3%	5.5%	5.9%	4.6%
SBP	2.7%	5.0%	4.7%	4.2%	5.5%	5.2%	4.6%

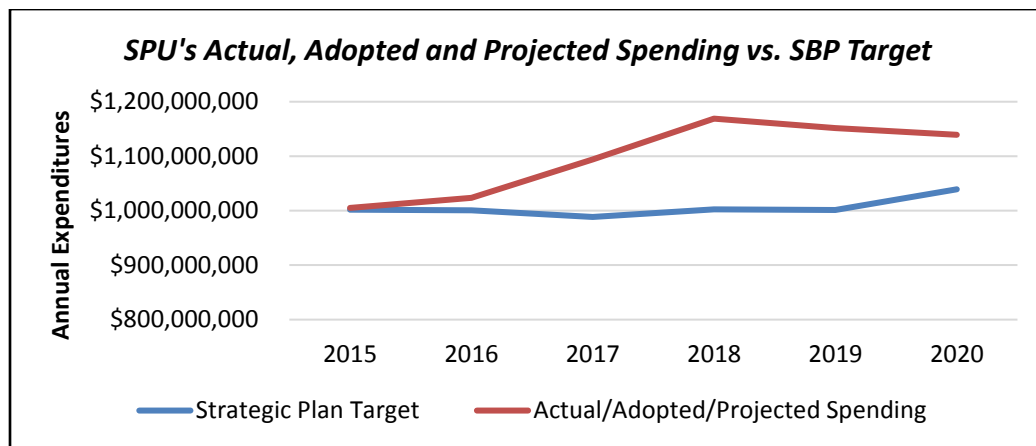
Grey cells indicate adopted rates. For instance solid waste rates are adopted through 2019.

*The 2015-20 Projection column reflects a weighted average calculation provided by SPU. Chart 1 below compares actual appropriations with anticipated spending included in the SBP.

¹ This enterprise fund combines SPU's municipal stormwater and sewer utilities.

² Council has approved rates through 2017. Council will consider a new water rate proposal in mid-2017 for implementation in 2018.

Chart 1: Comparison of SPU's Actual, Adopted and Projected Appropriations to SBP Assumptions



As the chart demonstrates, SPU has not met any of the annual appropriation targets assumed in the SBP. SPU continues to project that it will achieve the six-year average annual rate increase of 4.6 percent; although counter-intuitive, it may be possible for SPU to meet the 4.6 percent target if increased expenditures reflect growth in new customers and if the utility has the capacity to stabilize rate increases from cash reserves. However, it is unlikely SPU can meet the 4.6 percent target given the historical and projected disparity between expenditures assumed in the SBP and anticipated by SPU. Consequently, SPU may need to revise spending targets and projected rate increases—perhaps as part of the update to the SBP in 2017.

Divergence from projections is due to both a few external factors outside SPU's control and policy decisions. External factors include losing the Port of Seattle as a drainage utility customer and changes to regulations governing the City's municipal stormwater permit. City policy decisions include accelerating spending on projects that address combined sewer overflows such as the Ship Canal Water Quality Project to meet the requirements stipulated in the federal Consent Decree.

The proposed budget would result in a net \$29 million increase in the SPU's 2017 Capital Improvement Program (CIP) spending largely as a result of balancing a \$6.5 million decrease in Solid Waste Fund project spending with about a \$36 million increase in the Drainage and Wastewater CIP, Water Fund CIP and new spending on technology projects shared across all enterprise funds.

SPU did not add any new projects to the CIP in the Mayor's 2017-18 Proposed Budget and two obsolete projects were closed: (a) C3313 Best Management Practices and (b) C4115 SWF-Operational Facility – Other.

Incremental Additions

SPU's 2017 Proposed Budget includes \$36.6 million in net total proposed changes compared to SPU's 2017 baseline budget and adds eight FTEs³. Table 3 describes the incremental additions and reductions (see page 4).

³ Although the budget represents a net decrease in positions for SPU, the decrease is chiefly a result of consolidating City information technology (IT) services—including certain SPU IT staff—into Seattle IT.

Table 3: Incremental Changes to SPU's 2017 Baseline Budget

Description of Proposed Changes	Amount (\$)	% of Total Adds/Reductions	FTE
Regulatory Changes	\$354,780	0.8%	
Clean City Expansion	\$1,986,475	4.6%	2
Operational Capacity Expansion	\$1,868,954	4.3%	4
Process Improvements	\$479,489	1.1%	1
Information Technology Investments	\$1,932,685	4.5%	1
Water Fund CIP	\$10,142,153	23.5%	
Drainage and Wastewater Fund CIP	\$15,045,661	34.8%	
Technology CIP	\$10,774,834	25%	
Citywide Summit Re-Implementation Project	\$589,125	1.4%	
Subtotal of Adds	\$43,174,156	100%	
Solid Waste Fund CIP	(\$6,528,757)	100%	
Subtotal of Reductions	(\$6,528,757)	100%	
Net Total Proposed Changes	\$36,645,399		8

IDENTIFIED ISSUE**1. IT Investments – NCIS Support and Digital Strategist**

The Proposed Budget includes about \$1.9 million in new ongoing annual spending starting in 2017 to support eight new Seattle IT positions directly related to the New Customer Information System and a digital strategist in SPU. Seattle IT indicates that the new positions are consistent with recommendations from the City's NCIS contractor, Price Waterhouse Coopers (PwC). Central Staff has requested information to verify PwC's recommendations and original assumptions from the City Budget Office. Central Staff is not currently recommending a change to SPU's support for the NCIS project.

One new FTE is proposed to support SPU's Communications Director with the roll out of new initiatives and programs. The new position represents about \$153,000 per year in on-going spending. Over 100 SPU IT staff were recently transferred to Seattle IT as part of the City-wide consolidation of IT resources. In addition, SPU and SCL recently activated their jointly-owned and operated billing system known as NCIS, and SPU's Proposed Budget includes \$1.75 million in additional funding to support Seattle IT. In the context of a fluid IT staffing environment and because new spending affects future rates, SPU could be directed to use base spending authority to manage digital strategies for the utility.

Options:

- A. Cut 1 FTE from SPU's budget and reduce appropriations accordingly.
- B. Adopt the Proposed Budget and proviso funding for one digital strategist. Council could request a report to the appropriate Council committee for an organizational staffing plan for SPU technology priorities including but not limited to digital strategies for new programs, business analysis related to NCIS, and implementation of the new utilities customer portal.
- C. No change to the proposed budget.

COUNCILMEMBER PROPOSALS

1. *Bitter Lake Reservoir Design Acceleration – Councilmember Juarez*

This proposal would amend SPU's 2017-2022 CIP and shift \$1 million in planning and design funding for the Reservoir Covering Bitter Lake project from 2021 and 2022 to earlier years. To remain revenue and rate-neutral, other projects in SPU's Water Fund CIP would need to be deferred.

2. *Utility Discount Program (UDP) Eligibility Modifications – Councilmember Herbold*

This proposal would change the income eligibility requirements to specifically exempt Medicare payments as personal income to increase participation in the UDP. Changes to UDP enrollment could directly affect utility revenues for SPU and Seattle City Light (SCL) and influence rates. Legislation would be required to change UDP eligibility requirements. Central Staff has posed a question to the Executive about impacts related to this change.

3. *SPU and SCL Delinquent Payment Policy – Councilmember Herbold*

This proposal would change the delinquency payment policies for SCL and SPU related to shut-off notices. Specifically, the proposal would decrease the minimum payment amount required to avoid shut-off from 75 percent of the customer's outstanding balance owed to 50 percent of the customer's outstanding balance owed. The General Manager of SCL and the Chief Executive Officer of SPU set the delinquent payment policy by rule for their respective utilities. Legislation is required to enact this proposal.

4. *Statement of Legislative Intent Green Infrastructure – Councilmember Johnson*

This proposal would request through a Statement of Legislative Intent that SPU summarize opportunities to expand green infrastructure throughout Seattle.

5. *Clean City Program Proposals*

The 2017 Proposed Budget includes about \$8.4 million in spending for the Clean City program in 2017 administered by SPU and a similar amount in 2018. Funding is typically provided by the General Subfund. The program is scoped to reduce public blight throughout Seattle and address issues such as illegal dumping, litter, graffiti, community cleanup, rate abatement and abandoned vehicle services. The Proposed Budget includes \$713,000 in new spending related to three pilot programs: Litter Can Pilot, Street Cleaning Pilot and Unauthorized Encampment Pilot. The remaining \$7.7 million is dedicated to traditional Clean City programs including two FTEs to address illegal dumping.

The following Councilmember proposals would each amend the Clean City program budget:

A. *Increased Needle Collection Pilot Program Support and add a proviso – Councilmember O'Brien*

This proposal would add \$100,000 in 2017 and 2018 to support SPU's waste sharp container pickup pilot program would proviso funds for the hotline to accept calls for both garbage, human waste, and used substance use materials.

B. Increased Support for Clean City Programs and add a proviso—Councilmember O’Brien

This proposal would increase funding for the Clean City pilot programs by \$140,000 in each year and add a proviso. The proposal includes the following increased funding in 2017:

1. \$60,000 in additional funding for homeless encampment clean-up and add a proviso to include outreach workers and unhoused people for site selection.
2. \$60,000 in each year to expand litter clean-up to more than two neighborhoods.
3. \$20,000 in each year to for additional containers and pick-up service.

C. Expanding Response for Waste Sharp Clean-up – Councilmember Johnson

The Proposed Budget includes funding for a Needle Pilot program intended to improve City responses related to the public health hazards of sharps litter in public spaces. Additional funding for 2017 and 2018 is proposed to establish a 24-hour maximum response time for needle cleanup once a report is filed with the City. A specific dollar amount for this proposal has yet to be determined.

D. Sanitation Support to Chinatown/International District Business Improvement Area – Councilmember Harrell

The proposed change would increase support to the Chinatown/International District Business Improvement Area (CIDBIA) program manager by \$192,000 in 2017 and \$120,000 in 2018 for the purposes of increasing the frequency of sanitation services in the CIDBIA and expanding sanitation service to adjacent (outside boundaries of CIDBIA) neighborhoods like Little Saigon.

E. Proviso \$713,000 of Clean Cities Funding – Councilmember Bagshaw

This one-time budget action would establish a proviso directing the use of \$713,000 of Clean Cities funding in 2017 to new pilot programs to:

1. Improve cleanliness in unauthorized homeless encampments;
2. Reduce neighborhood litter; and
3. Reduce hazardous sharps waste.

BUDGET LEGISLATION

1. Water Fund Bond Ordinance (CB TBD)

A water system bond ordinance has been submitted as budget legislation. The proposal authorizes 30-year fixed-rate bond issue of \$110.4 million in early 2017 to pay for about \$386 million in water system additions. Proceeds from the sale of these bonds will fund about 17 months of the Water Fund capital program including projects like SPU’s portion of Move Seattle, Tolt Slide Improvement project, water main rehabilitation, transmission line rehabilitation and additions to SPU’s Cedar Falls facilities.