



SEATTLE CITY COUNCIL
CENTRAL STAFF

2017

SPU Business Plan Update

Issue Identification

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Civil Rights, Utilities, Economic Development and Arts Committee
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Presentation Outline

- Resolution 31760
- 2014 & 2017 Plan Update Comparison
- Issue Identification
- Next Steps

Resolution 31760

- Average Annual Rate Increase of 5.5%
- SPU budgets consistent with the Plan Update
- SPU rate proposals consistent with the Plan Update
- Plan updated on a three-year cycle
- Customer Review Panel empaneled only for Plan Update

PROJECTED SIX-YEAR RATE PATH

| | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> | <u>AVERAGE</u> |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|
| DRINKING WATER | 3.5% | 4.1% | 5.2% | 5.3% | 4.1% | 5.6% | 4.6% |
| WASTEWATER | 1.2% | 12.2% | 12.6% | 3.2% | 4.0% | 2.7% | 5.9% |
| DRAINAGE | 7.5% | 14.2% | 15.9% | 6.1% | 2.8% | 7.1% | 8.8% |
| SOLID WASTE | 3.1% | 3.3% | 4.6% | 2.8% | 3.7% | 2.9% | 3.4% |
| COMBINED | 3.2% | 8.2% | 9.5% | 4.1% | 3.7% | 4.2% | 5.5% |

2014 Plan and 2017 Plan Update Comparison

- 2014 Plan proposed 4.6% average annual rate from 2015-2020
- 3-year overlap between the 2014 Plan and the 2017 Plan Update

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>AVERAGE</u> |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------|
| A. 2014 PLAN | Projected 2.7% | Projected 5.0% | Projected 4.7% | Projected 4.2% | Projected 5.5% | Projected 5.2% | 4.6% |
| B. PROPOSED PLAN UPDATE RATES | Adopted 2.9 % | Adopted 4.1% | Adopted 5.3% | Proposed 3.2% | Proposed 8.2% | Proposed 9.5% | 5.5% |
| ABOVE (BELOW) SBP (B-A) | 0.2% | (0.9%) | 0.6% | (1.0%) | 2.7% | 4.3% | 0.9% |

Issue Identification: Rate Smoothing

Description:

Open drainage and wastewater rates early to reduce the spikey rate increases proposed in the Plan Update for 2019 and 2020

| | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021</u> | <u>2022</u> | <u>2023</u> | <u>AVERAGE</u> |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|
| A. RATE PATH W/O SMOOTHING | 3.2% | 8.2% | 9.5% | 4.1% | 3.7% | 4.2% | 5.5% |
| B. RATE PATH W/ SMOOTHING | 4.7% | 6.6% | 7.2% | 6.9% | 3.2% | 4.3% | 5.5% |
| DIFFERENCE (A-B) | (1.5%) | 1.6% | 1.8% | (2.8%) | 0.5% | 0.1% | - |

Options (mutually exclusive):

- A. Do Nothing – Maintain status quo structure
- B. Change drainage and wastewater rates to reflect rate smoothing – increase rates in 2018 and decrease rates in 2019 and 2020

Issue Identification: New Tap Fees

Description:

Modify SPU's water tap fees to fully or partially recover costs for physical connections

Options (mutually exclusive):

- A. Do Nothing – Maintain status quo structure.
- B. Request SPU modify water tap fees and assume new revenues will help off-set the revenue required from rates.

Issue Identification: System Development Charges

Description:

Reform SPU's water connection fee structure to internalize the cost of assets and interest payments.

Options (not mutually exclusive):

- A. Do Nothing – Maintain status quo structure.
- B. Amend the resolution to assume updated water connection charges and reduced rates
- C. Amend the resolution to request SPU complete analysis of potential water connection fee structure.

Issue Identification: Action Plan Prioritization

Description:

Consider changing the list of new projects and programs (known as Action Plans) identified in SPU's Plan Update.

Options (mutually exclusive):

- A. Do Nothing – Maintain status quo structure.
- B. Reduce the number of new projects included in the Plan Update

Issue Identification: CIP Accomplishment Rate

Description:

2017 Plan Update assumes 100 percent of annual capital appropriation will be spent.*

Options (mutually exclusive):

- A. Do Nothing – Assume 100 percent accomplishment rate
- B. Request SPU assume an accomplishment rate in line with historical norms and amend the rate path to reflect the change

* assuming a **95 percent** accomplishment rate results in a 5.3% average annual rate increase—a **0.2 percentage point decrease**.

Issue Identification: Utility Taxes

Description:

Change the City's utility tax structure to reduce rates and improve tax visibility on utility bills

Options (not mutually exclusive):

- A. Do Nothing – Maintain status quo
- B. Request SPU develop a plan to modify bills to clearly identify tax portion
- C. Change how the City will collect utility taxes to reduce SPU's tax obligations and reduce rates

Issue Identification: CRP Oversight & Involvement

Description:

Provide regular CRP review of business plan implementation

Options (mutually exclusive)

- A. Do Nothing – Maintain status quo structure.
- B. Amend the resolution to reflect twice per year CRP review of Plan Update implementation.

Issue Identification: Efficiency Targets

Description:

SPU did not submit specific efficiency targets in the Plan Update

Options (mutually exclusive):

- A. Do Nothing – Maintain status quo structure.
- B. Request SPU develop a comprehensive list of efficiency targets and adopt in subsequent resolution
- C. Request SPU develop a comprehensive list of efficiency targets immediately

MARKET-DRIVEN CAPITAL COST ESCALATION

Description:

SPU should consider developing an adaptive plan to address higher than anticipated construction costs

WATER RATES

Description:

Water Rates are lower than those assumed in the rate path
Rate Path w/ New Water Rates = **5.4%**

Next Steps

- **CRUEDA August 8, 2017**
- Central Staff work with Council to draft potential amendments
- Discuss and Possible Vote on amendments and supporting legislation