

BUDGET DELIBERATIONS

SEATTLE PUBLIC UTILITIES

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Monday, October 16, 2017

Budget Summary (\$ in 000's)

	2017 Adopted	2018 Endorsed	2018 Proposed	% Change 2018 Endorsed to Proposed
Expenditures				
Administration – Combined	\$13,419	\$14,464	17,268	19%
Customer Service – Combined	\$34,721	\$35,499	\$34,903	(2%)
General Expense – Combined	\$639,466	\$665,937	\$662,599	(1%)
Other Operating – Combined	\$152,124	\$154,736	\$158,581	2%
Total O&M BCL's	\$839,729	\$870,636	\$873,351	0.3%
Shared Cost Project – Combined	\$62,002	\$73,748	\$108,553	47%
Technology – Combined	\$28,783	\$16,322	\$16,409	1%
Combined Sewer Overflow - DWF	\$37,291	\$39,483	\$33,137	(16%)
Protection of Beneficial Uses – DWF	\$9,897	\$10,284	\$11,731	14%
Flooding, Sewer and Landslides –DWF	\$18,646	\$32,179	\$16,566	(49%)
Rehabilitation – DWF	\$29,775	\$36,603	\$39,089	7%
Sediments – DWF	\$6,855	\$6,553	\$6,489	(1%)
New Facilities –SWF	\$7,824	\$19,673	\$3,623	(82%)
Rehabilitation and Heavy Eqt – SWF	\$400	\$120	\$270	125%
Distribution –WF	\$28,296	\$27,895	\$34,687	24%
Habitat Conservation Program – WF	\$2,106	\$2,606	\$1,959	(25%)
Transmission - WF	\$5,529	\$22,431	\$9,662	(57%)
Water Quality and Treatment – WF	\$8,694	\$635	\$2,362	272%
Water Resources – WF	\$8,266	\$8,776	\$8,553	(3%)
Watershed Stewardship - WF	\$66,481	\$977	\$977	0%
Total Capital BCL's	\$254,030	\$298,285	\$294,067	(1%)
Total Expenditures	\$1,094,159	\$1,168,921	\$1,167,419	(0.1%)
Revenues				
General Subfund	\$9,434	\$9,550	\$8,542	(11%)
Water Fund	\$353,164	\$357,046	\$365,495	2%
Solid Waste Fund	\$216,832	\$213,548	\$213,548	0%
Drainage and Wastewater Fund	\$499,742	\$536,035	\$535,898	(2%)
Use of Fund Balance	\$14,988	\$52,742	\$34,458	(9%)
Total Revenues	\$1,094,159	\$1,116,179	\$1,167,419	5%
Total FTEs	1,359.05	1,359.05	1,398.55	2.9%

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

Interactive Budget Website: <http://www.seattle.gov/city-budget/2018-proposed-budget/public-utilities>

BACKGROUND:

The Expenditures and Revenues table provides an overview of the Mayor's proposed changes in 2018 compared to the 2017 Adopted and 2018 Endorsed Budgets.

Seattle Public Utilities (SPU) provides four discrete utility services: drinking water, solid waste, wastewater and stormwater. At \$1.2B, SPU's proposed budget comprises approximately one-fifth of the \$5.6B 2018 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.

SPU's 2018 Proposed Budget includes \$18.3M of new spending to implement new initiatives and maintain baseline service levels identified in SPU's 2017 Strategic Business Plan Update (the 2017 Plan Update). New spending is offset by a \$20.4M decrease in capital and operating expenditures including a shift in timing for the South Park Phase II project and decreased costs for contracted services. Changes in expenditures are consistent with baseline and emergent issues identified in the 2017 Plan Update, but they differ significantly in some areas from appropriations anticipated in the 2018 Endorsed Budget. The 2017 Plan Update process took place after development of the 2017 Adopted Budget and 2018 Endorsed Budget. Consequently, some budget change levels in the 2018 Proposed Budget differ significantly from appropriations anticipated in the 2018 Endorsed Budget. Central Staff review is largely focused on budget consistency with the 2017 Plan Update since that document formalizes SPU's utility-wide priorities.

SPU's 2017 Strategic Business Plan Update

[Resolution 31760](#)—SPU's 2017 Plan Update—is currently under consideration by the Full Council and yet to be adopted. The resolution

- (a) formalizes Council policies related to SPU's business conduct;
- (b) describes SPU's new initiatives known as Action Plans (e.g., increased sewer rehabilitation, water system seismic upgrades, new crew facilities) to address emergent needs;
- (c) identifies specific programmatic spending levels and (d) describes targeted savings and project deferrals to control costs over a six-year period to achieve a combined average annual rate increase of at most 5.2 percent across SPU's four lines of business from 2018 to 2023.²

[Resolution 31760](#) requires that SPU propose updates of the 2017 Plan Update for Council approval every three years and submit budgets and rate proposals consistent with the 2017 Plan Update.

Whereas new initiatives in the 2014 Strategic Business Plan largely focused on emergency preparedness, master planning, flood prevention and employee capacity building, the 2017 Plan Update focuses on building new assets or the preservation and protection of existing systems. Below are a few of the major new initiatives and baseline service enhancements included in the 2017 Plan Update:

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

² Council has yet to approve water rates for 2018. Council will take up drainage and wastewater rates in 2018 for implementation in 2019.

- SPU plans to spend \$494M over the next six years to implement prescriptive water quality measures under the federal Consent Decree namely the Ship Canal Water Quality Project and other combined sewer overflow (CSO) projects.
- Increased capital spending on transportation levy (Move Seattle) related projects (see below for more discussion on Move Seattle). SPU assumes \$201M in Move Seattle relocations between 2018 and 2023
- Expanded sewer rehabilitation and efforts to minimize disruptions to the City’s aging wastewater conveyance infrastructure. The Proposed Budget implements SPU’s new sewer rehabilitation initiative by establishing a new sewer cleaning crew and repair crew for \$247,000.
- New initiatives to improve the City’s recycling rate including pilot programs to process construction debris. The 2018 Proposed Budget includes \$810,000 new funding to recycle waste generated from development throughout the city.
- Increase investments in green stormwater infrastructure. The 2017 Plan Update includes \$20M over six years for increased investments in green stormwater infrastructure—integrated drainage improvements located in neighborhoods zoned for increased density. The Civil Rights, Utilities, Economic Development Committee recommended increasing SBP investments in green stormwater infrastructure by \$15M for a total six-year investment of \$35M.

The rate path in the 2017 Plan Update 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 2018 Proposed Budget is equivalent and consistent with—notwithstanding changes in General Fund appropriations—spending levels anticipated in the 2017 Plan Update.

New Positions

The 2018 Proposed Budget adds 39.5 FTEs, increasing SPU’s overall FTE count 2.9 percent, resulting in a total of 1,399 FTEs. Seventeen of the proposed new positions are related to implementing new initiatives included in the 2017 Plan Update. The remaining new positions (22.5) are related to enhancing basic services or meeting regulatory requirements and are assumed in the 2017 Plan Update as incremental changes to baseline expenditures. In many cases, the new proposed FTEs are functions currently provided by either temporary employees or consultants. Consequently, many FTE adds are zero-cost or less than the fully encumbered rate for a given position.

Capital Improvement Projects

The proposed budget would result in a net \$4.2M decrease in SPU’s 2018 Capital Improvement Program (CIP) spending on capital projects in the 2018 Proposed Budget – that is, the first year of the CIP – is \$4.2M less than assumed in the 2018 Endorsed Budget. largely balancing a \$16M decrease in Solid Waste Fund project spending with a \$11.5M increase in the Drainage and Wastewater CIP, Water Fund CIP and new spending on technology projects shared across all enterprise funds. SPU proposes increased appropriations to fund new spending on Move Seattle related utility projects, drainage and wastewater de-watering facilities, water tank and reservoir

seismic upgrades and utility-wide technology enhancements. As assumed in the 2017 Plan Update, peak spending for South Park Phase II shifts from 2018 to 2019 resulting in a planned net decrease in SPU capital spending for 2018 compared to the 2018 Endorsed Budget.

Incremental Additions

SPU’s 2018 Proposed Budget includes \$18M in incremental adds compared to SPU’s 2018 Endorsed Budget and \$20M in incremental budget reductions—a \$2M difference. Despite the lower level of proposed appropriation, SPU adds 39.50 FTEs largely converting existing spending on temporary and consultant labor to City FTEs. Table 2 describes the incremental additions and reductions.

Table 2: Incremental Changes to SPU’s 2017 Baseline Budget

Description of Proposed Changes	Amount (\$ in 000’s)	% of Subtotal	FTEs
Inflationary Baseline Changes			
IT Operational Portfolio Strategy and Management	\$150	1%	1.0
Apprenticeship Program Enhancements	\$344	2%	2.0
Security Monitoring	\$135	1%	1.0
Water and Sewer System Repair Crews	\$907	5%	10.0
Asset Maintenance and Operations	\$ 1,939	10%	11.0
Environmental Justice and Technical Support	\$183	1%	4.5
Capital Support in Operations	\$568	3%	5.0
70% Recycling Goal Investments	\$810	4%	
Regulatory Requirements	\$1,277	7%	5.0
Drainage and Wastewater Fund CIP	\$4,537	25%	
Water Fund CIP	\$7,508	41%	
Technology CIP	\$87	<1%	
Subtotal of Adds	\$18,447		39.50
Reductions			
Department-wide Savings and Deferrals	(\$4,054)	20%	
Solid Waste Fund CIP	(\$16,350)	80%	
Net Total Proposed Changes	(\$1,957)		39.50

ISSUE IDENTIFICATION:

1. Ship Canal Water Quality Project

The 2018-2023 Proposed CIP assumes increased costs to deliver the Ship Canal Water Quality Project (the Project), increasing the Project budget by \$117M from \$423M in the 2017-2022 Adopted CIP to \$540M in the 2018-2023 Proposed CIP. The proposed change is due to higher market rate costs for construction and new scope to address increased stormwater flows. The utility is engaging a 3rd party cost engineering firm to vet project assumptions and produce an updated probabilistic cost estimate as compared to a potential range of costs; results of the cost review process are due in February 2018.

In 2016, Council adopted [Resolution 31720](#) (the Resolution) identifying a work program to support enhanced oversight of capital projects. That Resolution contemplated phased appropriations for select projects including the Ship Canal Water Quality Project. The Mayor’s 2018-2023 Proposed CIP includes a spending restriction described as a proviso on the Project’s appropriations requiring that prior to any “physical construction” SPU must complete 100 percent project design for the Project’s main storage tunnel and provide a report to the Civil Rights, Utilities, Economic Development and Arts Committee. Council could consider strengthening the proposed proviso language.

Options:

- A. Adopt SPU’s proposed budget but modify the proposed proviso to prevent physical construction on the Storage Tunnel activity until SPU has provided a probabilistic cost estimate to the CRUEDA Committee and completed design. Council could also consider requiring further Council action to lift the spending restriction through a separate future ordinance rather than merely the milestone of a report being submitted for Council’s review.
- B. No change to the proposed budget.

2. Move Seattle

Move Seattle—the City’s \$930M transportation levy—includes projects that affect many of SPU’s drainage, wastewater and drinking water infrastructure in Seattle. SPU must relocate water pipes and sewage lines in instances where future transportation improvements directly conflict with utility infrastructure; and in some cases, SPU proposes to fund improvements to existing infrastructure because of the pavement-opening opportunity presented by an SDOT project. For example, SPU may choose to replace a water main segment to increase the useful life of water distribution systems during an SDOT repaving project. As mentioned in previous [Central Staff memos](#), Move Seattle project increases are a major rate driver for SPU and the 2017 Plan Update anticipates spending \$201M on Move Seattle-related opportunity projects between 2018 and 2023: \$152M on required utility relocations and \$49M on opportunity projects.

SPU’s 2018 Proposed Budget includes a \$15M increase in Move Seattle-related relocation projects for the drainage and wastewater fund CIP and \$1M increase for relocations in the Water Fund CIP. Increases generally reflect outputs from interdepartmental planning efforts and higher resolution information on SDOT’s planned schedule and scope for Move Seattle related projects.

SPU BUDGET LEGISLATION:

1. 2018 SPU DWF Refunding Ordinance (CB – TBD)

This ordinance authorizes the Director of Finance and Administrative Service to enter into agreements for refunding drainage and wastewater system bonds when interest rate savings can be captured. The ordinance amends language in the original bond [Ordinance 121938](#) to take advantage of changes in market interest rates. Bond refunding is a reasonable and routine practice to realize debt savings and reduce future rate increases.

2. 2018 SPU DWF Bond Reauthorization Ordinance (CB – TBD)

A drainage and wastewater system bond ordinance has been submitted as budget legislation. The proposal authorizes 30-year fixed-rate bond issue of \$210M in late 2018 to pay for drainage and wastewater projects and additions. The drainage and wastewater CIP is the largest in terms of proposed spending between 2018 and 2023. Proceeds from the sale of drainage and wastewater system bonds will be used to pay for regulatory projects such as the Ship Canal Water Quality Project and existing programs such as sewer main rehabilitations. Issuance of new drainage and wastewater bonds is consistent with existing rates.

3. 2018 SPU SWF Bond Reauthorization Ordinance (CB – TBD)

A solid waste system bond ordinance has been submitted as budget legislation. The proposal authorizes 25-year fixed-rate bond issue of \$14.5M in mid-2018 to pay for solid waste system additions. Total annual debt service is expected to be about \$1.1M starting in 2019. Proceeds from the sale of solid waste system bonds will be used to pay for new projects such as the South Park Transfer Station Phase II project, South Park environmental remediation and heavy equipment purchases.

4. 2018 SPU SWF Refunding Ordinance (CB—TBD)

This ordinance authorizes the Director of Finance and Administrative Service to enter into agreements for refunding solid waste bonds when interest rate savings can be captured. The ordinance amends language in the original bond [Ordinance 121940](#) to take advantage of changes in market interest rates. Solid waste rates are set through 2019 and bond refunding is a reasonable and routine practice to realize debt savings and reduce future rate increases.

BUDGET ACTIONS PROPOSED BY COUNCILMEMBERS AS OF 10/09/17:

1. SPU Management (CM Herbold)

A [2009 State Auditor report](#) indicated that SPU's manager to employee ratio was 7.7 whereas the national standard for a similar sized organization is 10 to 15 employees per manager, indicating potential misalignment of resources. Work on this topic may result in a Statement of Legislative Intent or alternatively, a Council work program item.

2. SPU Call Center Wait Times (CM Herbold)

Recent increases in constituent-related complaints have raised question about SPU's Call Center service levels. Anecdotally, there seems to be an increase in wait time sufficient to generate more complaints directly to councilmembers. CM Herbold requests Central Staff to investigate and identify potential problem areas such as staffing availability and training and coordinate with Council and SPU on possible ways to resolve the issue. Work on this topic may result in a Statement of Legislative Intent or alternatively, a Council work program item.