

September 21, 2018

MEMORANDUM

To: Civil Rights, Utilities, Economic Development, and Arts Committee
From: Brian Goodnight, Council Central Staff
Subject: Council Bills 119355 & 119356: Proposed 2019-2021 Drainage & Wastewater Rates

At its September 21 meeting, the Civil Rights, Utilities, Economic Development, and Arts Committee will consider [Council Bill 119355](#) and [Council Bill 119356](#) revising drainage rates and wastewater rates, respectively, for 2019 through 2021. These bills were introduced and described at the Committee’s September 11 meeting.

Background

In fall 2017, the City Council approved two pieces of legislation related to drainage and wastewater rates for Seattle Public Utilities (SPU). The first, [Resolution 31760](#), adopted the 2018-2023 Strategic Business Plan (SBP) Update for SPU and endorsed a six-year rate path to support the plan. The second, [Ordinance 125443](#), increased the 2018 drainage and wastewater rates to moderate projected future increases in those rates. The 2018 rate increases allowed the remaining rates in the SBP Update to be lower than they otherwise would have been without the 2018 adjustment.

The endorsed drainage and wastewater rate increases included in the SBP Update are shown in Table 1 below:

Table 1: SPU Strategic Business Plan Update Endorsed Rate Increases

	2018	2019	2020	2021	2022	2023	2018-23
Drainage	10.7%	9.2%	9.7%	9.9%	7.9%	4.7%	8.7%
Wastewater	4.1%	8.1%	9.9%	8.9%	1.3%	2.6%	5.8%

Drainage and wastewater fees work in tandem to provide SPU sufficient revenue to manage the stormwater and wastewater collection and treatment systems. The systems are physically interconnected in parts of the city through combined pipes that handle both stormwater and wastewater.

In 2018, drainage fees for a typical single-family residential customer¹, which are billed through King County’s property tax system, are estimated to cost \$40.07 per month. Overall, drainage rates in 2018 are expected to generate approximately \$130.1 million in revenue for SPU.

¹ For a 5,000 sq. ft. plot

Wastewater fees, which customers pay directly to SPU through their wastewater bills, are estimated to cost the typical residential customer² \$57.88 per month in 2018. Wastewater rates are expected to generate approximately \$274.7 million in revenue for SPU in 2018.

Proposed 2019-2021 Rates

The proposed legislation would establish drainage and wastewater rates for 2019 through 2021, and would also establish rate discounts for certified low-income residential utility customers for the same time period. Both sets of rates would increase each year under the proposal, but the increases are lower than those identified in the SBP Update.

The proposed rate increases are shown in Table 2 below, alongside the endorsed rate increases from the SBP Update for reference:

Table 2: Comparison of Strategic Business Plan Update and Proposed Rate Increases

	2019	2020	2021
Strategic Business Plan			
Drainage	9.2%	9.7%	9.9%
Wastewater	8.1%	9.9%	8.9%
Proposed Legislation			
Drainage	8.0%	8.0%	8.0%
Wastewater	7.5%	7.4%	7.3%

To determine the rate adjustments needed to support the drainage and wastewater systems, SPU performed a detailed rate study (attached as Exhibit A to the Summary and Fiscal Notes for each Council Bill) that revised customer usage estimates, determined the level of resources required to allow the department to meet its financial policies, and calculated the revenue requirements for each system. The impact of the rate increases on SPU's revenues are shown in Table 3 below:

Table 3: Rate Increase Impact on SPU Revenues

	2018	2019	2020	2021
Drainage				
Revenue	\$130.1	\$141.4	\$152.7	\$164.9
<i>\$ Change from Prior Year</i>	--	\$11.3	\$11.3	\$12.2
<i>% Change from Prior Year</i>	--	8.7%	8.0%	8.0%
Wastewater				
Revenue	\$274.7	\$288.1	\$313.2	\$340.0
<i>\$ Change from Prior Year</i>	--	\$13.4	\$25.1	\$26.8
<i>% Change from Prior Year</i>	--	4.9%	8.7%	8.6%

Dollars in millions

² Typical wastewater consumption is 4.3 CCF ("hundred cubic feet"; 1 CCF = 748 gallons) per month

Changes from Strategic Business Plan Update

Since the adoption of the SBP Update, planned capital expenditures have increased and the forecasted wastewater consumption rate (the amount of water used by customers and assumed to make its way into the wastewater system) has been lowered, exerting upward pressure on the rates. This upward pressure has been more than offset, however, by a few factors that have led to the proposed rates being lower than the endorsed rate path.

One significant factor in the proposed rates being lower than the SBP Update is lower-than-projected wastewater treatment rates. Both the drainage and wastewater rates contain a pass-through amount that goes to King County's Wastewater Treatment Division to pay for the treatment of wastewater conveyed by SPU's system. In 2018, approximately 62 percent of wastewater bills and nine percent of drainage bills are dedicated to covering treatment costs.

Wastewater Treatment Division rates are typically increased by King County every other year, and the SBP Update assumed rate increases of 6.4 percent in 2019 and 3.0 percent in 2021. In June, however, King County approved a wastewater treatment rate increase of only 2.5 percent for 2019, reducing the amount of revenue needing to be raised through City drainage and wastewater rates. It is projected that King County will increase the wastewater treatment rates by 4.5 percent in 2021. This projected increase of 4.5 percent has been included in all of the financial tables in this memorandum, but the proposed legislation does not include the treatment rate increase for 2021. When King County adopts its new treatment rates for 2021, SPU will need to transmit a separate ordinance amending the City's drainage and wastewater rates at that time.

In addition to the lower wastewater treatment rates, SPU had a favorable bond issuance in 2017 resulting in lower interest expenses than expected, and SPU is increasing the use of its cash balances. By the end of 2018, the rate study projects a cash balance of approximately \$168 million for the Drainage and Wastewater Fund. The rate study assumes a drawdown of this cash balance to approximately \$77 million by the end of 2021, which reduces the amount of revenue needing to be generated by drainage and wastewater rates.

Customer Impact

Table 4 below shows the impact of the proposed drainage and wastewater rate increases on the monthly bills for a typical residential customer and for a typical small store, such as a convenience store. The table shows the expected monthly bills for those typical customers, and also provides the dollar and percentage increases from the previous year.

Although the annual percentage increases in Table 4 come close to matching the overall proposed rate increases shown in Table 2, the annual increases do not match exactly. The rate increases in Table 2 show the average increase for all customer types and tiers, but do not represent the specific increase that every customer will experience.

Table 4: Monthly Impact of Proposed Rate Increases to Customers

	2018	2019	2020	2021
Drainage				
Residential^a	\$40.07	\$43.06	\$46.52	\$50.27
<i>\$ Change from Prior Year</i>	--	\$2.99	\$3.46	\$3.75
<i>% Change from Prior Year</i>	--	7.5%	8.0%	8.1%
Convenience Store^b	\$97.77	\$103.75	\$112.09	\$121.12
<i>\$ Change from Prior Year</i>	--	\$5.98	\$8.34	\$9.03
<i>% Change from Prior Year</i>	--	6.1%	8.0%	8.1%
Wastewater				
Residential^c	\$57.88	\$62.26	\$66.87	\$71.72
<i>\$ Change from Prior Year</i>	--	\$4.38	\$4.61	\$4.85
<i>% Change from Prior Year</i>	--	7.6%	7.4%	7.3%
Convenience Store^d	\$269.20	\$289.60	\$311.00	\$333.60
<i>\$ Change from Prior Year</i>	--	\$20.40	\$21.40	\$22.60
<i>% Change from Prior Year</i>	--	7.6%	7.4%	7.3%

a – Typical monthly single-family drainage fee based on 1/12 of annual fee for 5,000 – 7,999 sq. ft. rate tier

b – Based on 1/12 of annual fee for 8,700 sq. ft. in the “Very Heavy” category (86-100% impervious)

c – Typical monthly single-family wastewater consumption is 4.3 CCF

d – Based on monthly wastewater consumption of 20 CCF

cc: Kirstan Arestad, Central Staff Director
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