

## **Exhibit A**

### Strategic Business Plan Rate Path and current SPU Financial Status Report March 15<sup>th</sup>, 2024

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#### **Executive Summary**

This report highlights the proposed rate path as part of Seattle Public Utilities' (SPU) proposed 2025-2030 Strategic Business Plan and describes the utility's financial status as we look to implement the plan. The proposed rate path averages 4.7% over the six-year term. In addition to operations and maintenance, these rates fund capital projects - many of which are required under federal and state regulations - taxes, and other obligations. Overall, there are no substantial changes to the Utility's operations and capital program.

SPU is in sound financial shape and all of SPU's funds are financially strong. The proposed rate path meets financial policy goals while preserving rate revenues that can be used to prevent rate volatility and smooth future rates. At the same time, SPU strives to enhance affordability and works to expand several customer programs that offer significant support.

#### **Strategic Business Plan Rate Path**

Seattle Public Utilities is proposing the new 2025-2030 Strategic Business Plan (SBP) to guide essential service delivery and a comprehensive business strategy for our three lines of business: drinking water, drainage and wastewater, and solid waste. The plan looks forward to the next six years (2025-2030) and provides a predictable three-year rate path to be adopted by City Council and projections for the subsequent three years.

	<b><u>Rate Path</u></b>			<b><u>Rate Forecast</u></b>			
	2025	2026	2027	2028	2029	2030	<b>Average</b>
Water	2.0%	2.0%	6.3%	3.3%	6.5%	3.8%	<b>4.0%</b>
Sewer	5.0%	5.0%	5.0%	6.2%	7.0%	5.1%	<b>5.5%</b>
Drainage	5.0%	5.0%	5.1%	6.6%	6.3%	7.2%	<b>5.9%</b>
Solid Waste	2.5%	3.1%	3.4%	3.4%	3.8%	2.5%	<b>3.1%</b>
<b>Combined</b>	<b>3.7%</b>	<b>3.9%</b>	<b>4.9%</b>	<b>5.0%</b>	<b>6.0%</b>	<b>4.6%</b>	<b>4.7%</b>

The Proposed 2025-2030 Strategic Business Plan calls for a slightly higher six-year rate path compared to the last adopted 2021-2026 Strategic Business Plan. The proposed rate path incorporates higher than anticipated inflation, interest rates, and supply chain costs that have increased to continue utility operations. Overall, the proposed 2025-2030 rate path is an increase from the prior path -- specifically, from 4.2% to an overall annual rate increase of 4.7%, for the average six-year projection, as reflected in the chart below:

### Seattle Public Utilities' Fiscal Health

SPU is in a good financial position and all of SPU's funds are financially strong, which means that SPU is in a strong position to support current and emerging needs. The tables below illustrate SPU's projections of revenues and expenses through 2030. They indicate that SPU will meet or exceed its financial policies through 2030.

### Financial Policies for All Funds

#### Water Fund

(\$ in millions)	Target	2025	2026	2027	2028	2029	2030
Debt Service Coverage	1.70x	2.0	1.9	1.9	1.8	1.8	1.9
Net Income	>\$0	\$29.4	\$23.2	\$23.8	\$19.7	\$21.5	\$21.7
Cash-to-CIP	>20%	23%	20%	20%	20%	20%	20%
Cash Balance	\$71M (120 days operating cash)	\$110.0	\$110.0	\$110.0	\$110.0	\$104.0	\$107.0
RSF Withdrawals*		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Bond Issues		\$106.7	\$107.8	\$108.5	\$109.9	\$112.3	\$106.3
Debt Service		\$78.7	\$81.1	\$84.0	\$86.8	\$94.5	\$90.2

\* Note: RSF is the Rate Stabilization Fund.

#### Drainage and Wastewater Fund

(\$ in millions)	Target	2025	2026	2027	2028	2029	2030
Debt Service Coverage*	1.50x	2.6	2.5	2.4	2.4	2.4	2.4
Net Income	>\$0	\$39.4	\$41.6	\$40.8	\$53.1	\$64.2	\$75.2
Cash-to-CIP	25%	40%	41%	33%	25%	25%	31%
Cash Balance	\$135M (100 days operating cash)	310.0	258.8	216.9	206.4	203.1	179.0
Bond Issues		\$65.7	\$82.5	\$133.3	\$137.8	\$147.2	\$177.0
Debt Service		\$84.8	\$94.2	\$101.8	\$114.1	\$123.7	\$129.8

\*Debt Service Coverage is less taxes.

**Solid Waste  
Fund**

(\$ in millions)	Target	2025	2026	2027	2028	2029	2030
Debt Service Coverage	1.50x	4.1	4.1	4.2	4.3	4.6	4.6
Net Income	>\$0	\$11.3	\$10.1	\$10.9	\$11.3	\$14.0	\$12.6
Cash-to-CIP	Greater of \$4.0M or 10% CIP	100%	100%	100%	100%	100%	100%
Cash Balance	\$29M (45 days operating cash)	\$61.7	\$53.4	\$46.9	\$46.6	\$33.3	\$44.0
RSF Withdrawals*		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Debt Service		\$6.0	\$4.0	\$3.5	\$3.2	\$2.4	\$2.4

\* Note: RSF is the Rate Stabilization Fund.

SPU takes a fiscally balanced approach to its financial policies and reserves. By maintaining sufficient reserves, SPU is better able to weather fluctuations in revenues and expenses and navigate financial uncertainty. These prudent practices protect our asset investments and benefit customers through the avoidance of extraordinary rate increases and volatility.

**Cost Containment Efforts and Savings**

The 2021-2026 Strategic Business Plan adopted a six-year rate path of 4.2%. Since that time, SPU has taken steps to reduce short-term and long-term costs. Cost containment and savings efforts help the Utility meet financial policy goals and help preserve rate revenues that can be used to smooth future rates. Examples of recent cost containment efforts and savings include:

- Buy back of higher interest rate debt to save rate payers an estimated \$61M over the next decade.
- Issuance of low interest rate loans for the Ship Canal Water Quality Project, saving rate payers \$99M compared to issuing tax-exempt bonds.
- Prudent fiscal management of each Fund, ensuring maintenance of credit ratings and favorable interest rates.
- Operational reductions in order to offset the costs of new bodies of work. This includes savings from travel and training, professional services, rentals, and temporary employee (TES) savings.
- Capital Program reallocations to absorb increasing project costs as well as new bodies of work.

### Proposed SBP Rate Path Summary

SPU uses a combination of direct rate revenues (bills charged to customers) and revenues from other funding sources to meet SPU’s total revenue requirement, which is the revenue required to cover Operations and Maintenance (O&M) and Capital Improvement Program (CIP) expenses together with any additional revenues required to meet SPU’s financial policy requirements.

Generally, rate increases are the result of covering base inflation and increases in CIP costs (usually due to debt service costs) and may be smaller or greater than the actual change in the rates revenue requirement. This SBP assumes increases in costs due to capital project planning (and associated debt service costs), Operations and Maintenance, as well as costs associated with increases in the Utility Discount Program participation.

As discussed in the previous section, the 2025-2030 SBP includes an average annual combined rate growth of 4.7% per year. The table below summarizes the components of the proposed rate path.

#### The 4.7% Rate Path is Mostly Driven by Inflation and Factors Outside of SPU Control

Color	Category	Description	4.70%
	Financial Policies	SPU adheres to specific financial policies to guide prudent financial decisions (e.g. income required to meet debt service, or using cash in lieu of bond proceeds to pay for a certain amount of CIP).	0.4%
	Other O&M Changes	O&M costs include smart and critical investments in the proposed SBP that exert both upward and downward pressure on rates depending on the year. The larger portion of this cost driver is where SPU estimates inflation exceeds the base rate of 3.1%. Examples include health care and labor.	0.4%
	Taxes	SPU is subject to City and State utility and business taxes.	0.2%
	Major Service Contracts	There are rate impacts driven by changes in the major costs of providing core services including SPU contracts for sewage treatment with King County and service providers for Solid Waste.	0.7%
	Inflation	General inflation in the Seattle area during the period of 2023-2029 is projected to be 3.1%.	3.1%

### Factors Impacting Rates

SPU has been working to flatten rate increases over time. While a consistent growth in rates is expected due to inflationary factors, SPU’s growth in costs to provide services for the 2025-2030 period is projected to be higher than in the 2021-2026 period. Factors impacting the growth in the cost of services include:

- Increased inflation contributing to higher labor and material costs
- Supply chain disruptions
- Higher interest rates

### **Major CIP Projects for Regulatory Compliance**

Each fund is subject to regulatory requirements from the City, State, and/or Federal government including consent decrees. These regulations require the Utility to invest in significant capital improvements to mitigate potentially hazardous contamination of the State’s natural resources. Major CIP projects for compliance include:

- Ship Canal Water Quality Project
- Sewer and Drainage Pipe Rehabilitation
- Historic Landfill Management

Please see Appendix C for additional information on major CIP projects by fund. Also, worth noting, the Water Fund is currently transitioning from a period of regulatory capital improvement to a new phase of asset rehabilitation and seismic improvements. The Water Fund continues to have regulatory capital programs for fish passage and improvements to dam safety.

**Appendix A: Strategic Business Plan Timeline**

Includes Key Dates for Input from the Utility’s Customer Review Panel (CRP)



## **Appendix B: SPU Customer Assistance**

### **SPU Utility Discount Program Facts and Figures**

SPU and Seattle City Light assist more than 36,000 customers through the Utility Discount Program (UDP). We estimate that roughly 40% of eligible customers are enrolled.

In 2023, the UDP provided \$26.6 million in SPU credits to customers. In 2024, the program is anticipated to provide over \$29.8 million in SPU credits. Beginning in 2025, the UDP credits are anticipated to be approximately \$35 million, with growth of \$2.8 million annually (about 2,500 customers per year).

In 2024, the Single-Family utility discount averages \$112.25 per month, while the Multi-Family discount averaging \$64.35.

The following table catalogues all of SPU’s forms of customer assistance.

### **SPU Customer Assistance Portfolio**

<b>Program</b>	<b>Benefit</b>	<b>Frequency</b>	<b>Eligibility</b>
Utility Discount Program (UDP)	50% discount (off actual consumption for Single Family Households, and off typical consumption for Multi-Family Households). Single family households receive the discount directly on their bill, and Multi-Family Households see the credit reflected on their SCL account.	Every bill while enrolled in the program.	<ul style="list-style-type: none"> <li>Income at 70% of Washington’s State Median Household Income.</li> </ul>
Emergency Assistance Program (EAP)	Bill credit of up to \$507 in 2024 (\$1,014 for households with children under 18) and split into up to 4 pledges per year.	Once per year (twice per year if household has minor children).	<ul style="list-style-type: none"> <li>Income at 80% of Washington’s State Median Household Income.</li> <li>Single Family Household only.</li> <li>If renting, the SCL bill must be in the tenant’s name.</li> </ul>
UDP Water Shutoff Prevention	Customers enrolled in the UDP program are given an extra week to reach out about emergency assistance before a shutoff.	Ongoing.	Customer must be enrolled in UDP program and be facing a shutoff.

Leak Adjustment Policy	Water and sewer bills are adjusted to address 100% of leak-based charges that occur above normal consumption levels within a designated time frame. (Exception: Commercial sewer bills that have experienced indoor leaks are adjusted by 50%).	One adjustment per calendar year.	Outdoor and indoor leaks.
Payment Plans	Allows flexibility of bill payment timing for current or outstanding debt. Short-term plans require a down payment of 25%, with balance due within 60 days. Long-term plans allow for payment over up to three years with no down payment required.	As needed.	Customers needing flexibility with current or past due bills.



**Appendix C: 2025 – 2030 Major CIP Investments**

Fund	Program Area	Description	Major CIP Projects	2025- 2030 Projection
Drainage and Wastewater	Combined Sewer Overflows	This program consists of projects that are mandated by State and Federal regulations to control combined sewer overflows into the City's receiving waters.	Ship Canal Water Quality Project	\$123M
			Future CSO Projects	\$194M
	Flooding, Sewer Backup, and Landslides	This program prevents and reduces flooding and sewer backups in order to protect public health, safety, and property.	South Park Pump Station, Water Quality Facility, and conveyance improvements	\$75M
			Drainage & Sanitary Sewer Overflow Capacity	\$104M
	Protection of Beneficial Uses	This program improves the drainage system to reduce the harmful effects of stormwater runoff on creeks and receiving water bodies and preserve the storm water conveyance function of our creeks through stream culvert repair and rehabilitation.	Green Stormwater Infrastructure	\$163M
			Creek and Culvert Programs	\$139M
	Rehabilitation	This program repairs, rehabilitates, or replaces existing drainage and wastewater assets to maintain or improve the current functionality level of the system.	Pipe Renewal Program	\$199M
			Pump Station and Force Main Improvements	\$74M
	Sediments	The Sediments program provides funding for studies and analysis for cleanup of contaminated sediment sites in which the City is a participant, for engineering design and construction of actual cleanup of contaminated sites, and for liability allocation negotiations.	Sediment Remediation	\$90M

	Shared Projects	This program includes individual capital projects that benefit multiple Lines of Business (LOB) (e.g. the Water LOB and the Drainage and Wastewater LOB) and for which costs are "shared," or paid for by more than one utility fund.	Transportation-Related Projects	\$80M
			One Water North Operational Facility	\$44M
			Fund Total	\$1,285M
Water Fund	Distribution	This program rehabilitates and improves water mains and appurtenances, water storage tanks, pump stations, and other facilities that are part of the system that distributes treated water.	Watermain Rehabilitation	\$186M
	Transmission	This program rehabilitates and improves large transmission pipelines that bring untreated water to - and convey treated water from - the treatment facilities.	Seismic System Improvements	\$88M
	Water Quality and Treatment	This program constructs, rehabilitates, or improves water treatment facilities, and covers the remaining open water reservoirs.	Bitter Lake Reservoir Covering	\$84M
	Shared Projects	This program includes individual capital projects that benefit multiple Lines of Business (LOB) (e.g. the Water LOB and the Drainage and Wastewater LOB) and for which costs are "shared," or paid for by more than one utility fund.	Transportation-Related Projects	\$42M
			One Water North Operational Facility	\$44M
				Fund Total
Solid Waste Fund	New Facilities	This program includes the planning, design, and construction of new facilities to enhance solid waste operations.	South Transfer Station Phase II	\$35M
			Misc. Station Improvements	\$37M
			Fund Total	\$72M
			Major CIP Total	\$1,801M