

September 11, 2017

## MEMORANDUM

**To:** Civil Rights, Utilities, Economic Development and Arts Committee  
**From:** Peter Lindsay, Council Central Staff  
**Subject:** Council Bill 119075 – Drainage and Wastewater Rate Smoothing Ordinance

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### Bill Synopsis

Council Bill 119051 would adjust drainage and wastewater rates for all rate payers effective January 1, 2018 and the corresponding low-income rate assistance credits for all eligible customers to moderate projected increases in utility rates. If passed, the ordinance would increase Drainage and Wastewater Fund revenues by \$14.8 million or 3.7 percent in 2018; drainage revenues would increase by \$3.7 million whereas wastewater revenues would increase \$11 million.

As proposed, SPU's 2017 Strategic Business Plan Update (the Plan Update) projects rates of 8.2 and 9.5 percent in 2019 and 2020 respectively. Seattleites have not experienced year-over-year rate increases of that magnitude since the mid-2000s. One technique to maintain stable and predictable bills—two of the goals endorsed by the [Council Resolution 31429](#) as it relates to business planning—is rate smoothing; increasing rates early in the rate cycle and decreasing them in “out years” to balance the trajectory of increases. In the context of the Plan Update, rate smoothing would require opening drainage and wastewater rates early—currently drainage and wastewater rates are set and not *scheduled* for adjustment until 2018.

According to SPU, rate smoothing has the added benefit of improving SPU's debt service coverage ratio. SPU's current debt service coverage ratio for the drainage and wastewater fund is 1.8 which is consistent with internal financial policies. SPU indicates that bond rating agencies *prefer* a debt service coverage ratio of 2.0 and with the proposed increased spending on drainage and wastewater capital projects there is concern that SPU's debt service coverage ratio will dip below the preferred metric, resulting in a negative outlook by bond rating agencies. Adopting a smoothed rate structure should improve the short-term revenue projection for the drainage and wastewater fund and maintain a debt service coverage ratio at a favorable level for attracting capital.

Council Central Staff have reviewed the bill and find that it is consistent with Council direction to moderate the impacts of volatile rates proposed in the 2017 Plan Update.