

MEMORANDUM

To: Civil Rights, Utilities, Economic Development and Arts Committee
Councilmember Herbold, Chair
Councilmember Sawant, Vice-Chair
Councilmember O’Brien, Member

From: Peter Lindsay, Council Central Staff

Date: August 4, 2016

Subject: **CB 118739 and CB 118740 -- Proposed 2017-2019 Solid Waste Rates**

BACKGROUND

Seattle Public Utilities (SPU) proposes to increase 2017-2019 solid waste rates to collect \$26.2 million more in revenue in 2019 than was expected for 2016. New revenue would fund increased costs for continuing services, capital investments, higher enrollment in the Utility Discount Program (UDP), compliance with financial policies and a proposed 2.7 percentage point increase in the City’s solid waste business and occupation tax (solid waste tax) from 11.5 % to a total of 14.2 %. Revenue from the solid waste tax is deposited into the City’s General Fund (GF) and can be used for any municipal purpose. The Executive estimates \$3.2 million in 2017 and \$4.4 million in 2018 in new revenue.

Customers will see increased rates through their solid waste bills which are based on garbage container size and included as part of their SPU combined utility bill. As currently proposed, a typical single-family residential customer would have a bill increase of up to 7.2 % per year during the rate period with monthly bill increases of about \$3.25 in 2017, \$0.90 in 2018 and \$1.95 in 2019. Table 1 summarizes the proposed system-wide rate increases for residential and commercial customers between 2017 and 2019. Effects of the increase on general service customers such as businesses and apartments vary depending on the service type selected.

Table 1: 2017-19 Residential and Commercial Rate Increases

	2016	2017	2018	2019
	Adopted	Proposed	Proposed	Proposed
Rate Increase – effective April 1 of every year	3.4%	7.2%	1.9%	4.0%

SPU’s Strategic Business Plan (SBP) guides investments and spending across all lines of business—water, wastewater, drainage and solid waste—from 2015 to 2020 and reflects

spending and rate increases to support utility services. The SBP shows a rate path¹ for each utility resulting in a combined average annual rate increase of 4.6 % across all lines of business. For 2017 to 2019, the Executive’s proposed solid waste rates are favorable in comparison to the SBP.² Cumulative rate increases over the 3-year rate period total 12.4 % as compared to 12.9 % in the SBP. However, if the proposal is approved the 6-year average annual rate increase for solid waste is 0.1 % higher than the SBP assuming better-than-expected rates in 2020. Due to changes in costs and revenue, SPU will meet the 4.6 % target differently than what was presented in the SBP³ and previous rate studies.

Table 2: SPU Six-Year Combined Rate Increases as Shown in the SBP

% rate increase/year	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>AVERAGE</u>
Water	0.0%	5.2%	5.2%	4.1%	4.4%	2.6%	3.6%
Wastewater	0.8%	3.9%	1.8%	2.8%	7.2%	8.1%	4.1%
Drainage	9.8%	10.1%	8.1%	7.8%	8.1%	8.0%	8.6%
Solid Waste	4.2%	3.5%	6.0%	4.0%	2.9%	2.4%	3.8%
Combined Weighted Average	2.7%	5.0%	4.7%	4.2%	5.5%	5.2%	4.6%

Table 3: SPU Estimate of How Rates will Meet the 4.6%/ Year SBP Target

% rate increase/year	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>AVERAGE</u>
Water	0.0%	1.7%	2.7%	4.5%	4.6%	5.2%	3.1%
Wastewater	0.8%	3.6%	4.6%	2.0%	7.7%	4.5%	4.1%
Drainage	9.8%	9.9%	10.0%	7.6%	11.2%	7.7%	9.4%
Solid Waste ⁴	5.1%	3.8%	6.0%	3.1%	3.3%	2.2%	3.9%
Combined Weighted Average	2.9%	4.1%	5.3%	3.8%	6.2%	5.2%	4.6%

¹ The SBP established a 6-year goal for each utility expressed as an estimate of the average annual increase for each line of business. The average annual increase for solid waste was 3.8 %. The combined average annual increase across all utilities was 4.6 %.

² Note that SPU uses a weighted, annualized average of all solid waste rate increases to compare the rate proposal with the SBP. Increases to individual rate classes will likely differ from the average annualized rate.

³ The Strategic Business Plan was adopted by Council [Resolution 31534](#) in August, 2014.

⁴ Note: Solid waste rates in Table 3 differ from the rates in Table 1 due to averaging rates that change in the 2nd Quarter of each year.

Table 4: Solid Waste Rate Differential between the SBP and SPU's Proposal

% rate increase/ year	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>AVERAGE</u>
SBP	4.2%	3.5%	6.0%	4.0%	2.9%	2.4%	3.8%
SPU Proposal	5.1%	3.8%	6.0%	3.1%	3.3%	2.2%	3.9%
Difference/1	0.9%	0.3%	0%	-0.9%	0.4%	-0.2%	0.1%

1/Positive differences reflect proposed rates higher than the SBP whereas negative differences reflect rates lower than SBP recommendation.

ANALYSIS

ADDITIONAL REVENUE AND LOWER COSTS

The solid waste rates adopted for the mid-term 2015-2016 rate adjustment have resulted in more revenue than expected due to increased demand, changes to contract conditions and lower than anticipated inflation. Consequently, the Solid Waste Fund (SWF) has extra cash that will go toward decreasing debt obligations and lower solid waste rate increases compared to rate increases anticipated in the SBP.⁵

NEW SOLID WASTE RECYCLING CONTRACT

Contract costs saw the largest increase since the SBP was adopted due to new contract conditions and increased demand that increases contract expense. Solid waste processing and disposal contracts represent 14 % of SWF expenses and the 2017 revenue requirement is expected to be about \$10 million higher than the 2016 rates. Despite increased demand-driven expenses, SPU will see about \$1 million in net contract savings due to a more competitive recyclables processing market and favorable contract conditions that allow the City to keep all revenue associated with the sale of the City's post-consumer recyclables.

INCREASE CIP CASH FINANCING

SPU will use projected higher-than-anticipated cash balances to finance 84 % of the CIP during the rate period. This reduces the need for additional debt service payments that would increase rates. However by 2019, the operating cash balance will fall \$4.5 million below the 45-day operating cash balance policy target requiring SPU to access the Revenue Stabilization Fund in lieu of setting higher rates. This approach uses the RSF for its intended purpose and complies with financial policies. (The rate study expects SPU to increase deposits into the RSF beyond 2019.)

INCREASED UTILITY DISCOUNT PROGRAM (UDP) ENROLLMENT

The UDP is a cross-subsidy whereby rates for all non-qualifying rate payers are increased to make up for the foregone revenue resulting from discounts to qualifying rate payers under the program. Council recently passed [C.B. 118687](#) allowing utilities to auto-enroll customers that meet threshold requirements for participation. The legislation expanded UDP enrollment by almost 60 %. The Executive anticipates UDP expansion to reduce solid waste revenue by about

⁵ Seattle Public Utilities, 2017-19 Solid Waste Rate Study

\$1.2 million in 2017 and growing, with rate increases, to about \$1.9 million in 2019. The financial impacts are consistent with previous decisions and were anticipated as part of the solid waste rate proposal.

INCREASED SOLID WASTE B&O TAX (CB 118739)

B&O utility taxes on gross revenues are paid by all SPU rate payers as a part of their monthly bill and are deposited into the City’s General Fund for any municipal purpose. The Executive’s proposal includes a 2.7 percentage point or 20% increase to the solid waste tax from 11.5% of gross revenue to 14.2% commensurate with the proposed rate increase. Council last increased this tax in 2005, increasing the tax 1.5 percentage points from 10 % to 11.5%--a 13 % increase⁶. Table 4 compares solid waste tax rates among the five largest municipalities in Washington State.

Table 4: Solid Waste Utility Tax Rates for Five Washington Municipalities

City	Solid Waste Tax Rate (as of 8/3/16)
Vancouver	21.5%
Spokane	20%
Seattle (as proposed)	14.2%
Tacoma	8%
Bellevue	4%

SPU anticipates new solid waste tax obligations of \$3.2 million in 2017 and \$4.4 million in 2018. City Budget Office provided a preliminary spending summary indicating that new funds could be used to expand and maintain the Clean City program and expand the City’s homeless programs (see Attachment A). The rate study assumes the solid waste tax increase resulting in a rate path that approximates rate increases anticipated in the SBP; however without the tax increase rates would be lower. Typically, solid waste rates lower than anticipated in the SBP would provide capacity for the utility to offset unanticipated rate increases in other lines of business. However, as currently proposed the utility will not enjoy increased flexibility to offset higher-than-expected rate increases as compared to a proposal without a tax increase. Table 5 compares solid waste rates with and without a solid waste B&O tax increase.

⁶ Seattle Municipal Code 5.48.055

Table 5: Cumulative Solid Waste Rate Comparison with and without B&O tax increase of 2.7 percentage points: 2017 to 2019

	(A) 2017	(B) 2018	(C) 2019	3-year Average Annual Rate	Cumulative 3- year Increase (A+B+C)
Rate per SBP	6.0%	4.0%	2.9%	4.3%	12.9%
Rates w/ 2.7% tax increase	6.0%	3.1%	3.3%	4.1%	12.4%
Rates w/o 2.7% tax increase	4.2%	2.5%	3.4%	3.4%	10.1%

Although the 3-year average annual rate and cumulative 3-year increase in rates are favorable in comparison to the SBP with or without the B&O tax increase, the proposal provides less flexibility for SPU to meet the 6-year, 4.6% average annual rate increase target. Looking further, the Executive relies on a better-than-plan rates for solid waste in 2020, yet still exceeds the 6-year annual average by 0.1% points more than the rate path recommended in the SBP. **Council may want to change the Executive’s tax proposal to preserve flexibility and maintain the rate path recommended by the SBP.**

Specific appropriations for the additional revenue is not part of the proposed legislation. A formal proposal recommending appropriations is anticipated with the Mayor’s 2017-18 biennial budget proposal in September. **Council may want to consider aligning the tax proposal discussion with budget deliberations.**

RATE AND BILL IMPACT

Below are rate and bill impacts if the Committee passes both the Executive’s proposed change to the B&O tax rate and the proposed solid waste collection rates.

	2016 estimated	2017 proposed	2018 proposed	2019 proposed
SOLID WASTE				
Revenue Requirement (\$M)	\$200.4	\$193.7	\$200.3	\$206.8
Av. System-wide Rate Increase		7.2%	1.9%	4.0%
Typical Monthly Bills				
Residential/1	\$44.85	\$48.10	\$49.00	\$50.95
Small Restaurant/2	\$457	\$490	\$499	\$519

1/a sample monthly single-family container sizes: 32 gallon garbage, 96 gallon yard waste, 96 gallon recycling

2/a sample of commercial service for a medium sized restaurant or coffee shop is a 3 cubic yard detach, option recycling

OPTIONS

A: Approve the Executive's proposal – no changes to either CB 118739 or CB 118740.

B: Change the tax rate and amend solid waste rates to reflect Council priorities. Council could reduce the tax rate sufficient to reduce the 6-year average annual solid waste rate increase from 3.9%, as it currently stands, to 3.8% as recommended in the SBP. The solid waste rate ordinance would need to be amended to reflect the lower tax rate.

C: Amend the rate proposal to reflect rates without the tax increase and take up the tax proposal during budget. Council could approve rates without the rate change and defer discussion until Council's fall budget deliberations to better align discussions of new revenue options. Any changes to the solid waste tax rate would require additional amendment to the legislated rates.

NEXT STEPS

Both bills are scheduled for possible vote at the August 9th CRUEDA meeting. If approved, the new rates would become effective on April 1, 2017. Please let me know if you would like a pre-briefing before the August 9th Meeting to go over this material.

cc: Kirstan Arestad, Central Staff Executive Director
Dan Eder, Central Staff Deputy Director
Aaron Blumenthal, Fiscal and Policy Analyst

ATTACHMENT A

Briefing Sheet: Solid Waste Utility Tax Increase

Since 2005, a local B&O tax rate of 11.5% has been applied to the total gross income (minus income from certain activities) gained from collection of solid waste in the City. The taxes are incorporated in the solid waste utility rates paid by Seattle Public Utilities (SPU) customers and the tax revenues are deposited in the City's General Subfund. This legislation increases the tax rate on income from solid waste collection by 2.7% to a total of 14.2%, effective April 1, 2017. The net impact of this change is an increase to General Subfund tax revenues of \$3.2M in 2017 and \$4.4M million in 2018. If adopted, the new tax rate would be effective on the same date as changes to the Solid Waste Utility rates. This timing allows SPU to plan for this change within their rates. This tax change has been assumed in the companion rate legislation before Council today.

Proposed Spending Plan

The additional revenue would fund ongoing and expanded activities in the Clean City Program (a public garbage program administered by SPU on behalf of the City at large) and provide continued funding for the State of Emergency on Homelessness programs. Specifically, added funding to the Clean City Program will pay for services that include graffiti clean-up, illegal dumping, and litter pick-up in city parks and the right-of-way. In addition to expansion of the Clean City Program, these revenues would fund continuing ongoing programs that support the State of Emergency on Homelessness. Table 1 shows proposed use of the additional tax revenue. The plan assumes some initial work to be completed in 2016.

Table 1: Proposed Solid Waste Tax Revenue Spending Plan

Planned Revenue	2016	2017	2018
Solid Waste Tax Revenue	0	\$3,200,000	\$4,400,000
Programs and Costs			
Illegal Dumping Response at 10 days or less		(\$1,125,000)	(\$1,155,000)
BIA Capacity and Waste Collection Pilots	(\$200,000)	(\$720,000)	(\$655,000)
Clean City Program Administrative Costs		(\$60,000)	(\$130,000)
Encampment Outreach		(\$500,000)	(\$500,000)
Navigation Center (Partial funding)		(\$800,000)	(\$800,000)
Sanctioned Encampments		(\$513,000)	(\$513,000)
<i>Annual Total Cost</i>	(\$200,000)	(\$3,718,000)	(\$3,753,000)
<i>Annual Available Funding</i>	(\$200,000)	(\$518,000)	\$647,000
Total Available Funding 2016-2018			(\$71,000)

These proposals will be included in the Mayor's 2017- 2018 Proposed Budget that will be submitted for Council consideration in September