



Date: June 23, 2015
To: Seattle Public Utilities and Neighborhoods (SPUN) Committee
From: Peter Lindsay, Council Central Staff
Subject: Proposed 2016-2018 Drainage/Wastewater Rates

SEATTLE PUBLIC UTILITIES (SPU)-PROPOSED RATES

SPU proposes to increase 2016-2018 drainage and wastewater to collect \$12.1 million more in wastewater rate revenue in 2018 than what was expected for 2015, and \$21.8 million more in drainage rate revenue in 2018 than what was expected for 2015. The new revenue would fund the increased cost of continuing base services, expansion of some activities, and compliance with financial policies. Customers will experience the increase in rates (charge per unit of service) through their wastewater fees, which are billed as part of the SPU combined utility bill, and drainage fees, which are billed via King County's property tax system. The typical single-family residential customer would have a combined wastewater and drainage average increase of 4.6% over 2016 to 2018, with monthly bills about \$11.60 higher in 2018 than in 2015. Effects of the increase on general service customers such as businesses and apartments would vary. For example, a typical convenience store's combined wastewater and drainage monthly increase bill is estimated to average 3.3% over 2016 to 2018, with monthly bills about \$32.03 higher in 2018 than in 2015.

The proposed rates are the first drainage and wastewater rates submitted since adoption of SPU's Strategic Business Plan (SBP). The SBP describes water, wastewater, drainage and solid waste services for 2015 through 2020 and the spending and rates to support those services. Under the plan, increases in all SPU rates combined would average 4.6% per year through 2020. Forecasts of 2016-2018 costs and revenues have been refined in the several months since SBP development. While the overall drainage and wastewater rates are higher than what was anticipated in the rate study, recently approved water rates help offset these increases. As a result, SPU expects to meet the 4.6% per year target in a somewhat different way than presented in the SBP (Tables 1 and 2).

Table 1: SPU Six-Year Combined Rate Increases as Shown in the SBP

% rate increases/year	2015	2016	2017	2018	2019	2020	'15-'20
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	2.7%	5.0%	4.7%	4.2%	5.5%	5.2%	4.6%

Table 2: June 23, 2015 SPU Estimate of How Rates will Meet the 4.6%/Year SBP Target

% rate increases/year	2015	2016	2017	2018	2019	2020	'15-'20
Water	0.0%	1.7%	2.7%	4.5%	4.6%	5.2%	3.1%
Wastewater	0.8%	3.6%	4.6%	2.0%	7.5%	6.0%	4.1%
Drainage	9.8%	9.9%	10.0%	7.6%	10.8%	8.2%	9.4%
Solid Waste	5.1%	3.8%	3.0%	3.6%	5.0%	2.7%	3.9%
Combined	2.9%	4.1%	4.5%	3.9%	6.7%	5.4%	4.6%

ANALYSIS

A. KING COUNTY TREATMENT COST PASSTHROUGH

The wastewater and drainage percent increases in Table 2 include the most recent King County treatment rate projections for 2016-2018, which have been adjusted since the SBP.

	2016	2017	2018
<i>SBP</i>	1.9%	4.2%	1.5%
Rate Study	0.0%	6.5%	1.8%

King County treatment rates for 2017 and 2018 will not be finalized until mid-2016 and mid-2017, respectively. Therefore, the proposed 2016-2018 rate ordinance does not assume any change in the treatment rate for 2017 and 2018. Once King County adopts final rates for 2017 and 2018, the impact of these increases on wastewater and drainage rates will be adjusted via ordinance using the King County treatment pass-through mechanism.

B. LOSS OF PORT OF SEATTLE DRAINAGE REVENUES

The Port of Seattle has the authority to become its own stormwater utility. SPU and the Port of Seattle have negotiated an agreement which includes the Port continuing to pay SPU drainage fees through 2015, and then ceasing to pay drainage fees beginning in 2016. This results in a loss of over \$4 million in drainage revenues which must be recovered by other drainage customers beginning in 2016.

C. IMPROVED REVENUE AND LOWER COST

The drainage and wastewater rates adopted for 2013-2015 are expected to collect more revenue than expected due to better sewer consumption. In addition, Drainage and Wastewater Fund costs have been lower than planned.

D. CHANGES IN EXPENSES COMPARED TO THE SBP-ASSUMED EXPENSES

Operations Maintenance (O&M)	\$10.5 million less over the three years	Lower costs for O&M reductions and rehabilitation work shifting from O&M to CIP, offset by an increase in labor costs (including an apprentice class).
Capital Improvement Program (CIP) Cash Financing	\$4.5 million more over the three years	Increase in cash financing of CIP due to an increase in the projected CIP, as well as an increase in the percent of CIP funded by cash. The underlying capital program has expanded primarily due to the Joint West Ship Canal Project, as well as increases associated with a DWW operational facility and transportation projects.

E. OTHER FACTORS: 2016-2018 RATE STUDY COMPARED TO SBP

Use of Cash Balances	\$13.9 million more used over the three years	The operating cash balance at the end of 2015 is expected to be \$66 million. Operating cash above the policy target would reduce revenue needed from retail rates and SPU plans to spread the use of this cash over a longer period in order to strengthen its liquidity position and support stronger debt service coverage results.
Demand		Billed wastewater consumption is expected to be higher than assumed in the SBP, lowering rates by spreading SPU costs over more consumption units. In 2016, changes in demand for sewer reduce the rate increase by 0.9%.

F. RATE DESIGN

The only rate design change SPU is proposing as part of its 2016-2018 rate study is to split the 0-2,999 square feet small residential drainage rate tier into two tiers: 0-1,999 square feet and 2,000-2,999 square feet. In 2013, townhouses were reclassified from general service to residential for purposes of drainage billing in order to be consistent with the

treatment of these properties by King County and other SPU utilities. Most townhouses fell within the smallest residential rate tier of 0-2,999 square feet, which when combined with previous properties in this tier, results in average lot sizes and property characteristics that distort the overall tier. Splitting this tier into the two proposed tiers is being recommended in order to minimize variances in lot size and percent impervious between properties. This policy shift will re-align drainage fees for each of the new tiers to more accurately reflect property characteristics and impacts to the drainage system.

G. RATE IMPACT

Rate and bill impacts if the Committee approves the SPU-proposed rates (which assume no increase in King County treatment rate for 2017 and 2018 at this time) are:

	<i>2015 estimated</i>	<i>2016 proposed</i>	<i>2017 proposed</i>	<i>2018 proposed</i>
WASTEWATER				
Revenue Requirement (\$M)	\$241.4	\$250.2	\$250.4	\$253.5
Av. Systemwide Rate Increase		3.6%	0.1%	1.2%
Typical Monthly Bills				
Residential 1/	\$50.91	\$52.76	\$52.80	\$53.45
Convenience Store 2/	\$236.80	\$245.40	\$245.60	\$248.60
DRAINAGE				
Revenue Requirement (\$M)	\$101.7	\$107.1	\$116.3	\$123.5
Av. Systemwide Rate Increase		9.9%	8.4%	5.9%
Residential 3/	\$29.20	\$32.50	\$35.42	\$38.26
Convenience Store 4/	\$73.10	\$81.59	\$87.58	\$93.33

1/ Typical monthly single-family sewer consumption is 4.3 ccf

2/ Based on monthly sewer consumption of 20 ccf

3/ Typical monthly single-family drainage fee based on 1/12 of annual fee for 5,000-6,999 sq. ft. rate tier

4/ Based on 1/12 of annual fee for 0.2 acre property at 86-100% impervious drainage fee

NEXT STEPS

If approved, the new rates would become effective on January 1, 2016.