



SEATTLE CITY COUNCIL

Legislative Summary

Res 31760

Record No.: Res 31760

Type: Resolution (Res)

Status: Adopted

Version: 3

Ord. no:

In Control: City Clerk

File Created: 05/31/2017

Final Action: 11/17/2017

Title: A RESOLUTION relating to Seattle Public Utilities; adopting a 2018-2023 Strategic Business Plan Update for Seattle Public Utilities; and endorsing a six-year rate path to support the Strategic Business Plan Update.

Notes:

Filed with City Clerk: 11/17/2017

Mayor's Signature: 11/17/2017

Sponsors: Herbold

Vetoed by Mayor:

Veto Overridden:

Veto Sustained:

Attachments: Ex 1 - Customer Review Panel Comment Letter, Ex 2 - Financial Forecast Overview & 2018-2023 Baseline, Ex 3 - Action Plans and Savings/Deferrals Summary, Ex 4 - Customer Outreach Report

Drafter: bob.hennessey@seattle.gov

Filing Requirements/Dept Action:

History of Legislative File

Legal Notice Published:

Yes

No

Ver- sion:	Acting Body:	Date:	Action:	Sent To:	Due Date:	Return Date:	Result:
1	Mayor	06/13/2017	Mayor's leg transmitted to Council	City Clerk			
1	City Clerk	06/13/2017	sent for review	Council President's Office			
	Action Text: The Resolution (Res) was sent for review. to the Council President's Office						
	Notes:						
1	Council President's Office	06/16/2017	sent for review	Civil Rights, Utilities, Economic Development, and Arts Committee			
	Action Text: The Resolution (Res) was sent for review. to the Civil Rights, Utilities, Economic Development, and Arts Committee						
	Notes:						

- 1 Full Council 07/10/2017 referred Civil Rights, Utilities, Economic Development, and Arts Committee
- 1 Civil Rights, Utilities, Economic Development, and Arts Committee 07/11/2017 discussed
Action Text: The Resolution (Res) was discussed.
- 1 Civil Rights, Utilities, Economic Development, and Arts Committee 07/25/2017 discussed
Action Text: The Resolution (Res) was discussed.
Notes:
- 1 Civil Rights, Utilities, Economic Development, and Arts Committee 08/08/2017 discussed
Action Text: The Resolution (Res) was discussed.
Notes: Councilmember Johnson exited Council Chambers at 11:20 a.m.
- 1 Civil Rights, Utilities, Economic Development, and Arts Committee 09/12/2017 adopt as amended Pass
Action Text: The Committee recommends that Full Council adopt the Resolution (Res).
Notes: Councilmember O'Brien entered the Council Chambers at 9:30 a.m.
In Favor: 3 Chair Herbold, Member O'Brien, Johnson
Opposed: 0
- 1 Full Council 09/25/2017 held Pass
Action Text: The Motion carried, and Resolution 31760 was held by the following vote:
In Favor: 7 Councilmember Bagshaw, Councilmember González , Council President Harrell, Councilmember Herbold, Councilmember Johnson, Councilmember O'Brien, Councilmember Sawant
Opposed: 0
- 2 Full Council 11/13/2017 adopted as amended Pass
Action Text: The Motion carried, the Resolution (Res) was adopted as amended by the following vote, and the President signed the Resolution:
Notes: ACTION 1:

Motion was made by Councilmember Herbold, duly seconded and carried, to amend Resolution 31760, by substituting version 3a for version 2a.

ACTION 2:

Motion was made and duly seconded to adopt Resolution 31760 as amended.

In Favor: 8 Councilmember González , Council President Harrell, Councilmember Harris-Talley, Councilmember Herbold, Councilmember Johnson, Councilmember Juarez, Councilmember O'Brien, Councilmember Sawant
Opposed: 0
Absent(NV): 1 Councilmember Bagshaw

Legislative Summary Continued (Res 31760)

3	City Clerk	11/16/2017	submitted for Mayor's signature	Mayor
3	Mayor	11/17/2017	Signed	
3	Mayor	11/17/2017	returned	City Clerk
3	City Clerk	11/17/2017	attested by City Clerk	

Action Text: The Resolution (Res) was attested by City Clerk.
Notes:

CITY OF SEATTLE

RESOLUTION 31760

1
2
3
4 A RESOLUTION relating to Seattle Public Utilities; adopting a 2018-2023 Strategic Business
5 Plan Update for Seattle Public Utilities; and endorsing a six-year rate path to support the
6 Strategic Business Plan Update.
7

8 WHEREAS, Resolution 31534, approved by the City Council on August 11, 2014, adopted the
9 Seattle Public Utilities (SPU) 2015-2020 Strategic Business Plan to guide utility
10 investments, service levels, and rate paths for the six years from 2015 to 2020; and

11 WHEREAS, Resolution 31534 also directed SPU to review and update the Strategic Business
12 Plan every three years, adding three years to the Strategic Business Plan and re-
13 evaluating the subsequent six-year rate path with the next review and update to be
14 completed in 2017 for the period 2018 to 2023; and

15 WHEREAS, Resolution 31694, adopted by the City Council on August 15, 2016, established a
16 Customer Review Panel to secure the input and engagement of SPU's customers in the
17 formulation of the 2018-2023 Strategic Business Plan Update; and

18 WHEREAS, the Council and Mayor deeply value the Customer Review Panel's perspective
19 when reviewing SPU's 2018-2023 proposed Strategic Business Plan; and

20 WHEREAS, pursuant to Resolution 31694, the current Customer Review Panel will dissolve
21 upon adoption of the 2018-2023 Strategic Business Plan Update, and ongoing
22 participation of a Customer Review Panel would help SPU maintain focus on
23 implementing the utilities' Strategic Business Plan Updates; and

24 WHEREAS, SPU reviewed and updated the Strategic Business Plan and adjusted the previously
25 endorsed rate path to reflect customer values, provide rate predictability for utility
26 customers, and result in best value for customer dollars; and

1 WHEREAS, the strategic planning update process included extensive employee engagement and
2 public outreach, including stakeholder meetings, public meetings, non-English-speaking
3 outreach, online surveys, and advertising; and

4 WHEREAS, the resulting proposed 2018-2023 Strategic Business Plan Update contains an
5 updated six-year rate path for water, drainage, wastewater, and solid waste rates that was
6 developed by identifying, evaluating, and recommending reductions and priority
7 additions to current utility expenditures; and

8 WHEREAS, over the term of this Strategic Business Plan Update, the City does not intend to
9 raise utility tax rates on any of the services provided by SPU to fund general government
10 activities unrelated to the services provided by SPU; and

11 WHEREAS, the City Council reviewed the proposed 2018-2023 Strategic Business Plan, the
12 associated six-year rate path, the recommendation of the Customer Review Panel, and the
13 results of the public outreach; NOW, THEREFORE,

14 **BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SEATTLE, THE**
15 **MAYOR CONCURRING, THAT:**

16 Section 1. The City Council adopts Seattle Public Utilities' 2018-2023 Strategic Business
17 Plan Update ("Plan Update"), a copy of which is included as Attachment 1 to this resolution as
18 amended and is incorporated by reference.

19 Section 2. To achieve the goals of the Plan Update, an average annual system rate
20 increase of 5.2 percent is anticipated over the period of 2018 to 2023 across all lines of business.

21 Section 3. The City Council requests that, absent justifiable circumstances, the Executive
22 submit budgets for 2018 through 2023 that are in support of and consistent with the Plan Update
23 and do not result in rates higher than the Plan Update's rate path as amended by this resolution.

1 Section 4. The City Council requests that, absent justifiable circumstances, the Executive
2 submit rates for 2018 through 2023 that support and are consistent with the Plan Update and are
3 no higher than the Plan Update's 5.2 percent combined 2018-2023 average annual rate path as
4 amended by this resolution and shown in the lower right corner of the table below. To limit rate
5 volatility in future years, Council may adjust drainage and wastewater rates earlier than
6 anticipated to moderate the influence of increased capital spending. The City Council requests
7 SPU adjust the baseline capital improvement program accomplishment rate from 100 percent to
8 97.5 percent and reduce projected revenue requirements from 2018 to 2023 accordingly.

Projected 6-Year Rate Path	2018	2019	2020	2021	2022	2023	2018-2023 Average
Drinking Water	2.0%	2.5%	3.7%	5.0%	4.1%	5.0%	3.7%
Wastewater	4.1%	8.1%	9.9%	8.9%	1.3%	2.6%	5.8%
Drainage	10.7%	9.2%	9.7%	9.9%	7.9%	4.7%	8.7%
Solid Waste	3.1%	3.3%	4.0%	3.0%	3.8%	2.8%	3.4%
Combined	4.3%	5.7%	7.0%	6.8%	3.7%	3.6%	5.2%

9 Section 5. Actual rate changes for each of Seattle Public Utilities' lines of business are
10 subject to approval by the City Council via passage of rate ordinances.

11 Section 6. Seattle Public Utilities will complete an overall review and update the
12 Strategic Business Plan every three years, adding three years to the Strategic Business Plan and
13 re-evaluating the subsequent six-year rate path. The next complete review and adjustment of the
14 Strategic Business Plan Update will be finalized in 2020 and will encompass the years 2021 to
15 2026.

16 Section 7. Seattle Public Utilities will provide quarterly updates to the City Council to
17 track progress in achieving the goals of the Plan Update, including action plan goals and
18 efficiency savings.

1 Section 8. Efficiency and Productivity Study. The City Council requests that Seattle
2 Public Utilities conduct a thorough review of utility business practices identifying changes in
3 operational and project delivery processes that result in at least a 0.1 percentage point decrease to
4 the 5.2 percent combined average annual rate increase described in Section 4 of this resolution.
5 The projected six-year rate path described in Section 4 will incorporate a 0.1 percentage point
6 target related to the efficiency study. A written report with specific savings and efficiency
7 recommendations shall be sent to the Chair of the appropriate Council committee for
8 consideration by December 30, 2018.

9 Section 9. Customer Review Panel. The City Council requests that Seattle Public Utilities
10 formally establish an ongoing Customer Review Panel (“Panel”) to maintain continuous
11 stakeholder engagement after Council adoption of the Plan Update. Council expects the Panel to
12 provide ongoing oversight and direction as Seattle Public Utilities implements elements of the
13 Plan Update and conducts future plan updates. By December 31, 2017, Seattle Public Utilities
14 will submit legislation describing the Panel’s composition, appointment and confirmation rules,
15 terms of appointment, operating rules, and any other procedural requirements necessary to
16 deliberate and evaluate the development and implementation of Seattle Public Utilities’ strategic
17 business plan updates. The Panel shall meet a minimum of twice a year.

18 Section 10. Water Tap Fees. To ensure that Seattle Public Utilities is recovering costs
19 related to infrastructure for new water service connections, the City Council requests that Seattle
20 Public Utilities adjust water tap fees to reflect current costs of service. Updated fees for water
21 taps shall be implemented by Seattle Public Utilities via Director’s Rule no later than April 1,
22 2018.

1 Section 11. Water Connection Charges. To ensure that Seattle Public Utilities is charging
2 the appropriate amount related to connecting into the water system and consistent with the
3 Seattle Municipal Code, the City Council requests that Seattle Public Utilities update the water
4 connection charge. Updated charges for water connections shall be implemented by Seattle
5 Public Utilities via Director's Rule no later than April 1, 2018. The City Council also requests
6 that Seattle Public Utilities develop a formal policy to change the method of calculating the
7 water connection charge, per RCW 35.92.025, no later than June 1, 2018.

8 Section 12. Utility Tax Billing Information. The City Council requests Seattle Public
9 Utilities evaluate the transparency of utility billing information including the portion of a
10 customer's bill attributable to state and local utility taxes, and the specific state and local tax
11 rates, and report back to Council with a recommendation for potential changes to utility bills
12 based on the transparency evaluation and timing for implementation. Council requests Seattle
13 Public Utilities provide a recommended course of action in writing to the Chair of the
14 appropriate Council committee no later than April 15, 2018, addressing the concerns outlined by
15 Seattle Public Utilities' Customer Review Panel in its letter to Council dated June 1, 2017.

16 Section 13. Drainage and Wastewater Connection Charges. The City Council requests
17 Seattle Public Utilities develop a formal policy proposal to establish new sewer and drainage
18 connection charges per RCW 35.92.025. The policy proposal shall be submitted in writing to the
19 Chair of the appropriate Council committee by June 1, 2018, and include a detailed timeline for
20 implementing specific elements of the proposal and potential effects on rates.

21 Section 14. Diaper and Pet Waste Feasibility Study. The City Council requests Seattle
22 Public Utilities spend up to \$300,000 to evaluate the feasibility of composting diaper and pet
23 waste including available technologies and techniques, relative costs, relative benefits, financial

1 implications, and any other policy considerations relevant to reducing Seattle’s landfill-bound
2 waste. The feasibility study shall be submitted to the Council President and the Chair of the
3 appropriate Council committee no later than June 30, 2019.

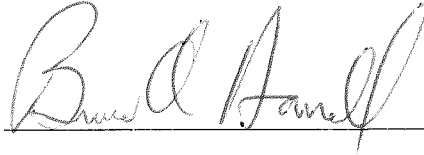
4 Section 15. The City Council requests that Seattle Public Utilities prepare an affordability
5 and accountability strategic plan (“Plan”) focused on managing future rate increases and
6 corporate performance for inclusion in the 2021-2023 Strategic Business Plan Update. At a
7 minimum, the Plan will explore and evaluate policies in the following areas: 1) utility pricing
8 and rate structures; 2) customer assistance programs including the utility discount program and
9 any other Seattle Public Utilities low-income rate assistance policies or programs; 3) process
10 efficiencies and capital project cost savings; 4) investment prioritization; 5) comparative utility
11 tax rates and the effects on rate affordability of the practice of using utility taxes as a revenue
12 source to fund general fund services; and 6) partnership opportunities. Council requests that
13 Seattle Public Utilities transmit a written status report detailing work completed on the Plan to
14 the Council President and the Chair of the appropriate Council committee by August 1, 2018.
15 The final draft of the Plan shall be submitted to Council no later than June 30, 2019.

16 Section 16. The City Council requests that Seattle Public Utilities prepare a risk and
17 resiliency management assessment (“Assessment”) to identify and evaluate potential impact and
18 disruptions to Seattle Public Utilities’ business and investment strategies. The assessment may
19 include the following factors: 1) climate change; 2) disaster preparedness; 3) economic growth
20 and cost of living trends; 4) market trends, including consumption patterns for utility services; 5)
21 regional and City investment priorities and requirements; and 6) workforce availability and
22 capabilities. Council requests that Seattle Public Utilities transmit a written status report detailing
23 work completed on the Assessment to the Council President and the Chair of the appropriate

1 Council committee by August 1, 2018. The final draft of the Plan shall be submitted to Council
2 no later than June 30, 2019, for inclusion in the 2021-2023 Strategic Business Plan Update
3 process.

4 Section 17. Independent Cost Estimates. The City Council requests that Seattle Public
5 Utilities report to the Civil Rights, Utilities, Economic Development and Arts Committee, or its
6 successor committee, in writing, with scoping recommendations, timelines, and an estimate of
7 the cost to engage one or more consultants to do an independent cost estimate for all discrete
8 non-relocation-related Capital Improvement Program (CIP) projects, regardless of fund source,
9 with an estimated total cost of no less than \$60 million and completed 60 percent design. This
10 request is consistent with ongoing Council and Executive efforts to identify and implement best
11 practices for Citywide CIP oversight.

1 Adopted by the City Council the 13th day of November, 2017,
2 and signed by me in open session in authentication of its adoption this 13th day of
3 November, 2017.

4 

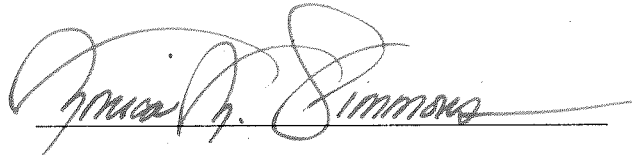
5 President _____ of the City Council

6 The Mayor concurred the 17th day of November, 2017.

7 

8 Tim Burgess, Mayor

9 Filed by me this 17th day of NOVEMBER, 2017.

10 

11 Monica Martinez Simmons, City Clerk

12 (Seal)

13 Attachments:

14 Attachment 1 - Seattle Public Utilities Strategic Business Plan Update 2018-2023, Version 3

15 Exhibit 1 - Customer Review Panel Comment Letter

16 Exhibit 2 - Financial Forecast Overview and 2018-2023 Baseline

17 Exhibit 3 - Action Plans and Savings/Deferrals Summary

18 Exhibit 4 - Customer Outreach Report



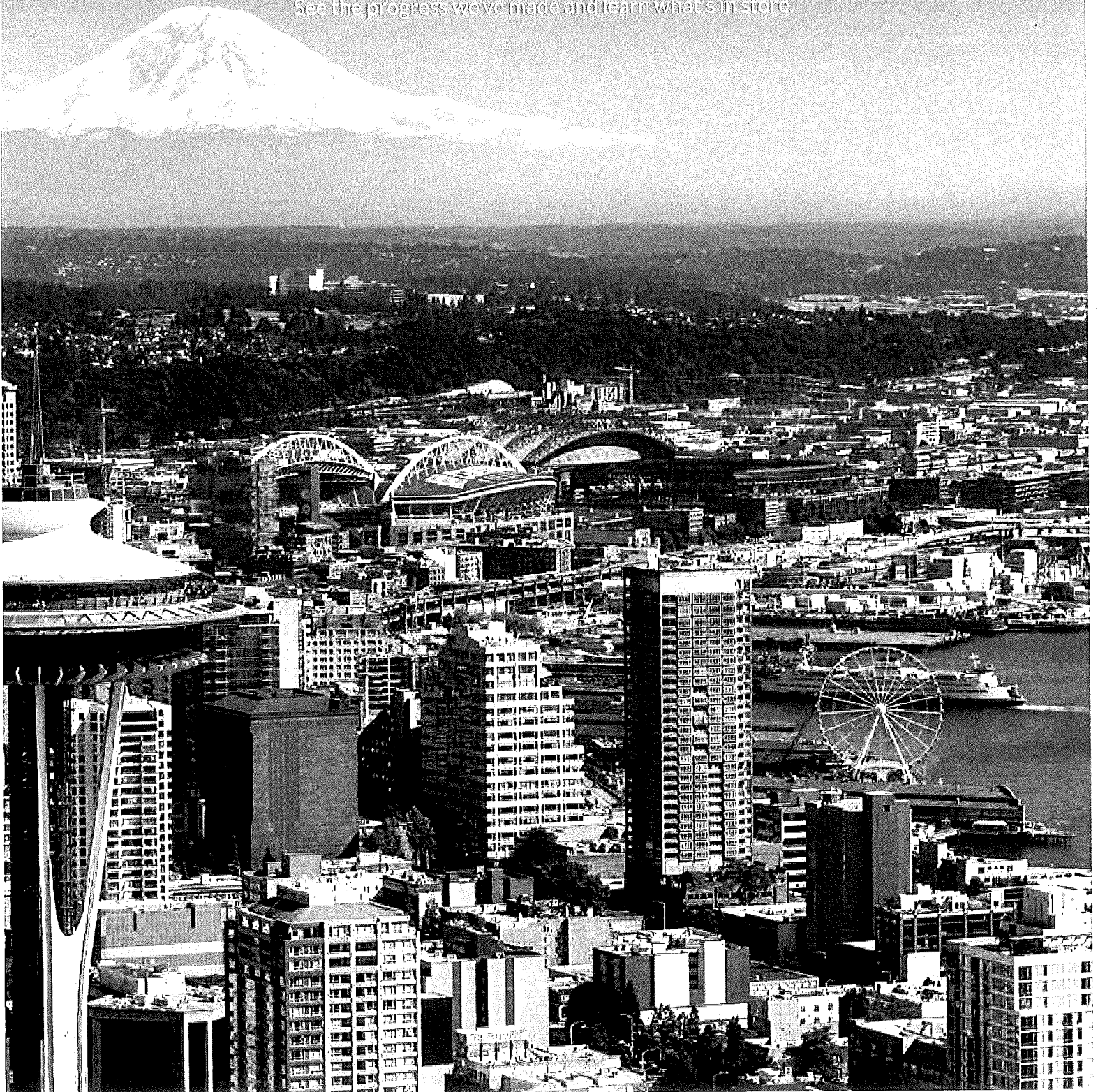
Seattle
Public
Utilities

Att 1 Strategic Business Plan Update 2018-2023
Version 3

Strategic Business Plan Update 2018-2023

COMMUNITY-CENTERED, ESSENTIAL UTILITY SERVICES

See the progress we've made and learn what's in store.



SEATTLE PUBLIC UTILITIES

PARTNERING WITH OUR COMMUNITY TO KEEP SEATTLE THE BEST PLACE TO LIVE AND WORK

The Strategic Business Plan (SBP) was put in place in 2015 to help Seattle Public Utilities (SPU) better meet the needs of all customers and communities. It supports our core work of providing high-quality utility services and protecting public health and the environment. It is also designed to create predictable rates and help customers see how their utility dollars sustain and improve their quality of life.

We update the SBP every three years. The 2018-2023 Strategic Business Plan Update (Update) allows us to adjust the work of the Strategic Business Plan and meet changing needs and requirements.

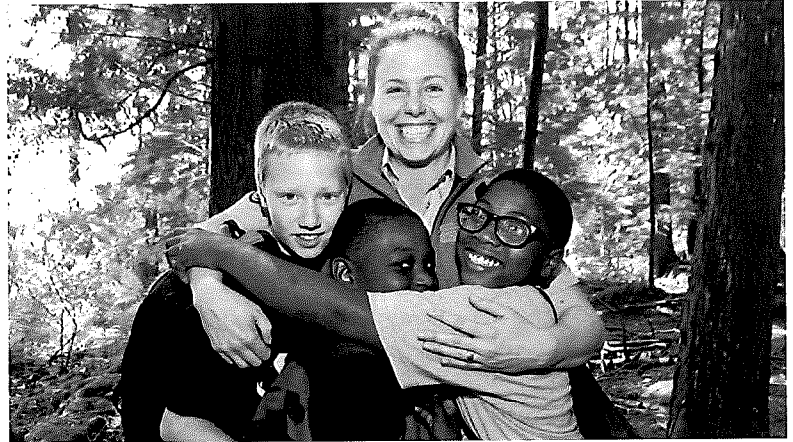
The following summary explains how SPU keeps Seattle the best place to live through our day-to-day work and projects, and what we'll need to change as part of the Update.

"Updating the Strategic Business Plan every 3 years provides essential guidance to SPU to continue to fulfill its Promise to all of its customers."

- Noel Miller, Customer Review Panel Chair



The all-volunteer Customer Review Panel at work. Members include Suzanne M. Burke, Bobby Coleman, Dave Layton, Laura Lippman, Noel Miller, Rodney Schauf, Puja Shaw, Kyle Stetler, and Jessa Timmer.



SPU's Cedar River Watershed Education Center offers a beautiful, family-friendly, interactive learning experience. Open daily Tuesday through Sunday, 10 a.m. to 4 p.m.

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"I value living in a place that is clean and safe, so it's important to me that my utility prioritizes clean water, high-quality sewer services, and trash-free spaces."

- Seattle customer

"It's nice to be able to point to exactly why we're here, that we care and want to be cost-effective."

- Chris Courtney, SPU Account Services Manager

THE SPU PROMISE

Everything we do is in the service of keeping our promise to our customers:

- We provide efficient and forward-looking utility services that keep Seattle the best place to live.
- We help customers see how their utility dollars sustain and improve their quality of life.
- We solve problems at the source.
- We foster a culture focused on our customers, safety, innovation, inclusion, and value for money.

LETTER FROM THE MAYOR

One of the best parts about being mayor of Seattle is the opportunity to help make our city a better and healthier place to live, in a lasting way. The work of city-owned Seattle Public Utilities (SPU) exemplifies that opportunity. SPU is a recognized leader in sustainable business practices, providing critical utility services that protect public health and enhance our environment.

SPU provides each of us with mountain-fresh drinking water that is among the best in the world. The Utility's innovative garbage, recycling and composting services are national models for reducing waste and lessening our impact on the planet. The department's sewer and drainage services are setting new standards for preventing pollution from entering our waterways while also reducing flooding.

Every Seattle resident and business benefits, every day, from these reliable, high-quality services.

In 2014, I began working with SPU to develop a Strategic Business Plan—a long-term road map for meeting the challenges posed by population growth, aging infrastructure, rising costs, climate change, and increasing regulations. Updated this year, the Plan aims at making Seattle a more affordable, equitable and livable city, addressing important issues such as:

- Keeping the city moving by improving critical infrastructure — including upgrades to stormwater and drinking water systems, and planning for increased seismic resiliency.
- Making Seattle cleaner and safer by removing illegal dumping, picking up litter and hypodermic needles, and preventing and removing graffiti.
- Meeting state and federal regulatory requirements that will keep stormwater and sewage pollution out of our streams, lakes and Puget Sound.

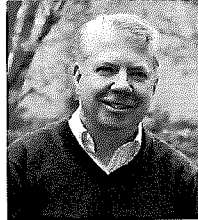
SPU is working to ensure that all who live in our city benefit from its services no matter where they come from, what language they speak, or how much money they make. One way SPU does this is by offering the Utility Discount Program which provides qualified, lower-income customers discounts of up to 50 percent on utility bills.

This 2018-2023 Strategic Business Plan Update outlines SPU's path forward to providing quality, reliable and equitable services over the next six years and far into the future for all Seattle customers.

Sincerely,



Edward B. Murray
Mayor of Seattle



LETTER FROM SPU'S GENERAL MANAGER

Our waterways, hills, forests, mountains, and watersheds shape the character of our city and our shared sense of responsibility for our environment and each other. The stunning natural beauty we share promotes our collective sense of environmental responsibility and openness to finding new ways to make Seattle an even better place to live and work.

As part of this vibrant city, Seattle Public Utilities (SPU) continually strives to be an efficient and forward-looking utility, providing high-quality utility services and stewarding our natural resources.

SPU's Strategic Business Plan (SBP) establishes the utility's service goals, investments, and rates for the years ahead. In recent months, with valuable input from customers and our employees, we have updated the SBP to include course corrections and enhancements that will keep us on the path to achieving our mission.

Our central purpose has been to balance long-term sustainability and excellent service with affordability. To keep rates as low as possible and provide the very best value to our customers, SPU continues to find ways to cut costs and be more efficient.

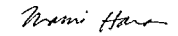
The SBP Update includes important investments that protect public health, support the dedicated staff who provide essential utility services, and enhance the city's natural and built environments.

We are improving utility infrastructure to support reliable and resilient services for a changing city and environment. We are expanding green stormwater facilities in urban villages to manage runoff and improve water quality while adding a sense of place and beauty. We are upgrading aging facilities to improve safety, health, and functionality, and we are strengthening our water system to withstand seismic and climate threats.

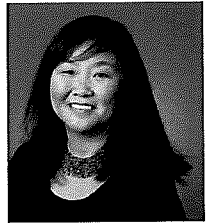
I see SPU as a community-centered utility committed to equitable service for all customers. As the city grows and changes SPU strives to listen to and collaborate with customers, steering toward a sustainable future. Our collaborative approach was used in developing this SBP Update. We truly appreciate the input we received from residents and businesses across the City—especially from traditionally hard-to-reach communities, including those who speak English as a second language.

Our team gives many thanks to the hard-working, independent Customer Review Panel for their many hours of service and guidance. Many thanks as well to the Community Advisory Committee members who volunteered their valuable time and insights, and to SPU employees who, in partnership with our customers, work every day to keep Seattle a truly amazing place to live.

Sincerely,



Mami Hara, General Manager
Seattle Public Utilities



STRATEGIC BUSINESS PLAN HIGHLIGHTS 2015-2017

IMPROVING SERVICES, FINDING EFFICIENCIES, AND MAKING RATES PREDICTABLE

The Strategic Business Plan has helped us improve services, increase efficiencies, and make rates more predictable. We worked closely with our employees, elected officials, and customers to create the 2015-2020 SBP as well as this Update.

We've successfully turned the SBP's goals into actions:

- The SBP is shaping our culture through continuous improvement, greater employee engagement, and by encouraging us to create more value with each customer dollar.
- Despite unanticipated cost and revenue pressures, we held the 2015-2017 average annual rate increases to 4.2%.
- We're on track or have completed nearly all of our 2015-2017 action plans. These plans improve systems or services where they are most needed.

We've found many ways to save money and work smarter:

In 2015-2016, we saved \$1.96 million by improving the way we work.

A few examples include:

- We repurposed vacant positions to do higher priority work.
- We streamlined our stormwater system inspection program, reducing the time it takes to complete an inspection by 45% from 72 days to 40.
- We improved our approach to cleaning sewer pipes, increasing the amount of pipes cleaned from 343 miles in 2014 to 569 miles in 2016, a 66% improvement.



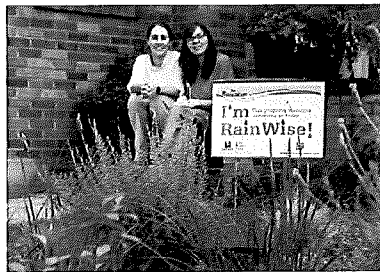
Everyday our 1,400 employees deliver reliable services to your home or business.

We've partnered with customers to meet our utility goals and challenges:

- We achieved a nation-leading 58% recycling rate.
- We've conducted 500 youth education programs to help us support water conservation.
- We continued to offer a toilet rebate program, resulting in 3,500 new super-efficient toilets throughout the City and 53,000 gallons of water saved per year.
- We've partnered with homeowners around the City to keep storm drains clear and free of pollutants.

"Access to the free recycling service is pretty amazing. It's reducing your overall costs and it's dependable. It's nice to know you just put it on the curb and it's gone each week."

A Seattle business customer



The RainWise program is just one of the ways we are reducing sewer backups and flooding.

"I appreciate SPU's efforts to clean up illegal dumping around our City. The City feels safer to me when it's clean."

- Seattle customer

SPU is helping customers in flood-prone neighborhoods. For example, we are continuing work on several large projects in the South Park and Broadview neighborhoods to reduce sewer backups and flooding.

SPU FOCUS AREAS GUIDE ACTIONS THAT MAKE A DIFFERENCE

The Strategic Business Plan's four focus areas help SPU determine where to invest its time and money for the most effective customer outcomes. The focus areas impact every job in every part of our organization. Here are some of the current projects that are making a difference for our customers:

OPERATIONAL EXCELLENCE

We provide reliable, affordable, efficient, and high-quality services to all customers.

Example action plan:

Emergency, disaster, and seismic vulnerability planning
The Continuity of Operations Plan has been updated to help ensure that major service disruptions like an earthquake are dealt with as quickly as possible.

PUBLIC HEALTH AND THE ENVIRONMENT

We provide essential services promoting a healthy, greener, resilient, and thriving community.

Example action plan:

Expanded street sweeping to reduce waterway pollution
SPU swept 20,000 miles of streets and removed 140 tons of pollutants in 2016, a 40% increase from 2014. Our specialized street sweepers pick up very fine pollution particles, keeping them out of creeks and streams.



SPU cleans 20,000 miles of Seattle streets every year.

WORKFORCE DEVELOPMENT

We have a high-performing, engaged workforce focused on customer and community-centered outcomes.

Example action plan:

Employee health and safety
During 2015, we initiated process improvements to maximize employee safety and wellness and reduce the impacts of on-the-job illnesses/injuries.

In 2016 these efforts resulted in an 8% reduction in new claims. SPU's Occupational Safety and Health Administration (OSHA) recordable rate of 5.9 reported injuries per 200,000 hours worked was below the industry standard of 7.1. SPU also saw an 18% reduction in time-loss wages and a 31.5% increase in modified duty work days, meaning employees were out of the office less.



Seattle Public Utilities customer service representatives handle 600,000 calls every year.

CUSTOMER EXPERIENCE

We deliver essential utility services focused on customer access, equity, and ease of use.

Example action plan:

Ensuring all communities enjoy equal access and have the ability to use our services

In 2015, we began working with several hard-to-reach Seattle communities to establish community partnerships. These communities participated in the 2017 customer outreach sessions by recruiting customers to participate and providing facilitation.

SPU IS A COMMUNITY-CENTERED UTILITY WORKING TO MAKE SEATTLE THE BEST PLACE TO LIVE FOR EVERYONE:

- Making our services accessible and integrated.
- Making our rates as affordable as possible and making discount program design and enrollment as accessible as possible.
- Advancing service equity.
- Seeking multiple benefits from our work, including community benefits.
- Making communities our true partners—as educators, advocates, innovators, adopters, and stewards.
- Working to empower communities.
- Designing for place-making, community enhancement, and local identity.

"Our job is to keep pollutants out of our waterways every day to make them safer for swimming and salmon."

- Shelly Basketfield,
SPU Street Sweeping Program Manager

UTILITY SERVICES PROTECT YOUR HEALTH AND OUR ENVIRONMENT

SPU is owned by the public so every dollar spent and every action taken by our 1,400 employees is for the benefit of our 1.4 million customers. We focus on meeting customer needs for quality, service equity, affordability, resiliency, and protection of public health and the environment.

We will continue to provide these reliable core services in the face of a growing population, increasing regulations, and climate change.



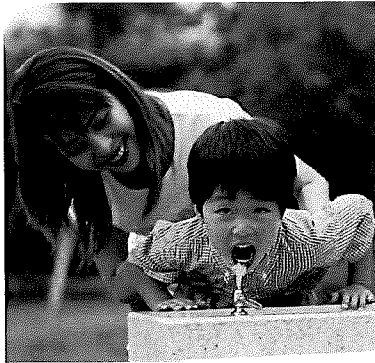
Collecting compostable organics at Seattle's Pike Place Market.

MOUNTAIN-FRESH DRINKING WATER

Seattle has one of the highest-quality water systems in the country. Our drinking water is safer than most bottled water because it comes from clean, protected mountain sources. It's also monitored and tested every day for purity and taste. We are preparing for the future and taking actions necessary to ensure a safe and adequate water supply through 2050 and beyond.

SAFE SEWAGE TRANSPORT

SPU protects Seattle families, businesses, and neighborhoods by safely transporting sewage to King County treatment plants. Our goal is to significantly reduce the number of sewage backups and untreated sewage overflows that enter the Duwamish River, Lake Washington, and the Puget Sound by 2025.



Seattle's fresh clear mountain water is some of the best source water in the world.

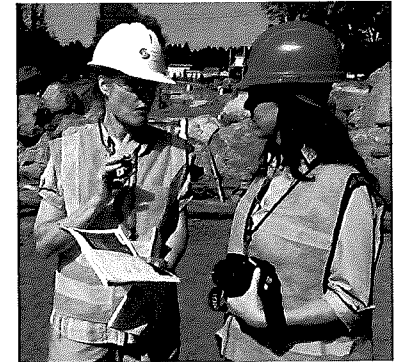
DRAINAGE THAT REDUCES FLOODING AND POLLUTION

During storms, SPU's 85,000 storm drains and 1,428 miles of drainage and sewer pipes carry rainwater away to protect our City from flooding and severe weather. The Update includes projects that increase maintenance and capacity. It also calls for managing more than 700 million gallons of stormwater runoff annually through natural rain gardens and other green drainage systems by 2025.

DEPENDABLE GARBAGE PICKUP AND WASTE REDUCTION

SPU collects garbage, recycling, and food and yard waste throughout the City. We know how important dependable service is, and that's why the average customer experiences just one missed pickup every 10 years. SPU is working with businesses to minimize waste through reduced packaging and improved solutions for litter and illegal dumping.

Working to restore a flood plain on Thornton Creek.



"Please continue to plan and prepare for the impacts of climate change."

- Seattle customer

"I would like to see the number of combined sewer overflows reduced to help protect our environment."

- Seattle customer

AVERAGE ANNUAL RATE INCREASES 2018-2023

MAKING NECESSARY INVESTMENTS WHILE FINDING SAVINGS

Your utility bill pays for essential services. It also pays for all the capital projects and day-to-day management of operations that go into making sure our services are always there when you need them.

The Strategic Business Plan (SBP) is helping us find ongoing cost savings and efficiencies while maintaining high-quality services. However, despite our best efforts, the cost to provide current services for the 2018-2023 period is higher than the 2015-2020 period. This is due to events that weren't anticipated when we created the SBP in 2014.

HOW WE DETERMINED RATES FOR 2018-2023

We took the same three-step approach to determine rates for 2018-2023 as we did for the 2015-2020 period:

- Current levels of operations. We started with what the Utility would cost to run if our levels of service remained the same.
- Savings. We then looked for ways to cut costs.
- New investments. Lastly, we identified new investments to improve services and maintain our systems for future generations.

This higher cost of our basic services is a result of:

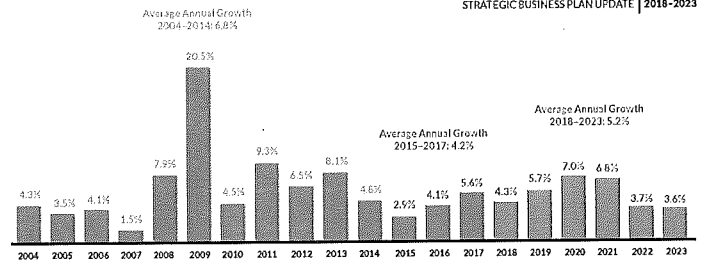
- Moving up project timelines for a large sewer overflow project to make sure we comply with federal regulations.
- Responding to increased levels of illegal dumping, litter, and graffiti.
- Losing the Port of Seattle as a drainage customer, resulting in less revenue.
- Increasing investments in transportation projects citywide, requiring related SPU infrastructure work such as underground pipes.

WHY DO AVERAGE RATES INCREASE EVERY YEAR?

As costs increase, so must our rates. The average annual rate to maintain baseline operations in 2018-2023 is 5.3%, about half of which is inflation. This is our new starting point.

"I wish the rate increases were lower. I worry about households that can't afford them."

- Seattle customer



The average annual growth in actual and projected rate increases since the SBP began in 2015 are significantly lower than in the previous decade.

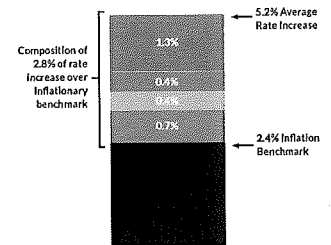
To offset the unanticipated costs affecting baseline operations and to keep rates as low as possible, we identified \$164 million in savings for 2018-2023. This includes reprioritizing large capital projects, finding lower-cost alternatives to existing projects, and reducing support for programs that have relatively small impacts on customers. These savings reduce rates by an average of 0.5% per year.

Lastly, we identified investments and requirements that will cost \$229 million to improve services and maintain the high quality of life in Seattle today and for future generations.

The final average annual rate increase for the Update period will be 5.2%.

- 5.3% CURRENT BASELINE OPERATIONS (2.4% is inflation)
- (0.5%) MINUS SAVINGS
- 0.4% PLUS NEW INVESTMENTS

- 5.2% TOTAL AVERAGE ANNUAL RATE INCREASE

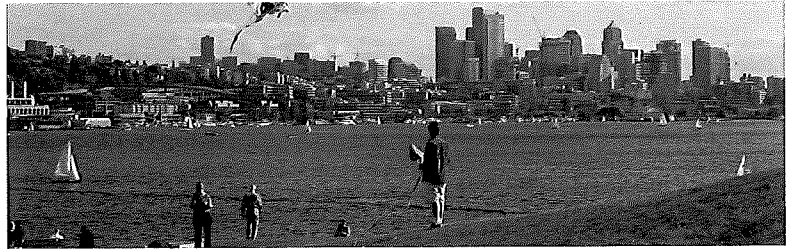


Nearly half of the 2018-2023 average annual rate increase is inflation. The rest of the rate increase is driven by higher costs for operations, capital financing, taxes, and major contracts such as payments to King County for wastewater treatment and the solid waste collection and disposal services.

"I am willing to invest in the future by paying higher rates to ensure our utilities remain high quality."

- Seattle customer

The table below shows typical bills expressed as monthly charges. Actual SPU bills are bi-monthly for drinking water, sewer, garbage, and recycling, and twice yearly for drainage fees paid with property taxes. During the Update period, a typical one-month bill for an average residential customer is projected to be:



Typical Monthly Residential Bill for a Single Family House	2017	2018	2019	2020	2021	2022	2023
% Increase		4.5%	6.1%	7.2%	6.7%	4.0%	3.7%
Water	\$41.13	\$42.31	\$43.73	\$45.67	\$47.98	\$49.95	\$52.45
Sewer	\$55.60	\$57.93	\$62.61	\$68.80	\$74.91	\$75.85	\$77.83
Drainage	\$36.04	\$40.07	\$43.75	\$48.01	\$52.77	\$56.96	\$59.66
Garbage	\$48.10	\$48.78	\$50.46	\$52.60	\$54.28	\$56.45	\$58.14
Combined	\$180.87	\$189.09	\$200.55	\$215.08	\$229.93	\$239.21	\$248.08

Totals may vary due to rounding.

Typical Monthly Residential Bill for an Apartment	2017	2018	2019	2020	2021	2022	2023
% Increase		3.6%	5.7%	7.1%	6.7%	2.9%	3.3%
Water	\$23.68	\$23.95	\$24.34	\$25.01	\$26.26	\$27.34	\$28.70
Sewer	\$51.72	\$53.89	\$58.24	\$64.00	\$69.68	\$70.56	\$72.40
Drainage	\$6.84	\$7.51	\$8.19	\$8.99	\$9.88	\$10.67	\$11.18
Garbage	\$24.27	\$25.04	\$25.91	\$27.00	\$27.86	\$28.97	\$29.83
Combined	\$106.51	\$110.38	\$116.68	\$125.00	\$133.68	\$137.54	\$142.11

Totals may vary due to rounding.

Typical Monthly Bill for a Small Business (Compliance Store)	2017	2018	2019	2020	2021	2022	2023
% Increase		3.7%	5.2%	6.3%	5.8%	3.4%	3.3%
Water	\$99.80	\$101.55	\$103.85	\$107.30	\$112.67	\$117.29	\$123.16
Sewer	\$258.60	\$269.45	\$291.20	\$320.00	\$348.40	\$352.80	\$362.00
Drainage	\$89.25	\$97.90	\$106.89	\$117.29	\$128.93	\$139.16	\$145.77
Garbage	\$481.42	\$496.53	\$513.61	\$535.26	\$552.19	\$574.33	\$591.33
Combined	\$929.07	\$965.43	\$1,015.55	\$1,079.85	\$1,142.18	\$1,183.58	\$1,222.25

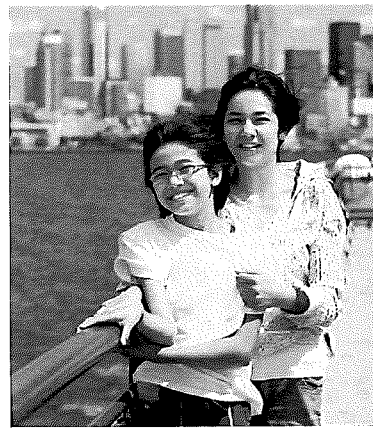
Totals may vary due to rounding.



Releasing salmon fry in Lake Washington.

"At SPU, our goal is to ensure a clean and safe water supply now and into the future."

- Wylie Harper Director, Drinking Water Quality Lab

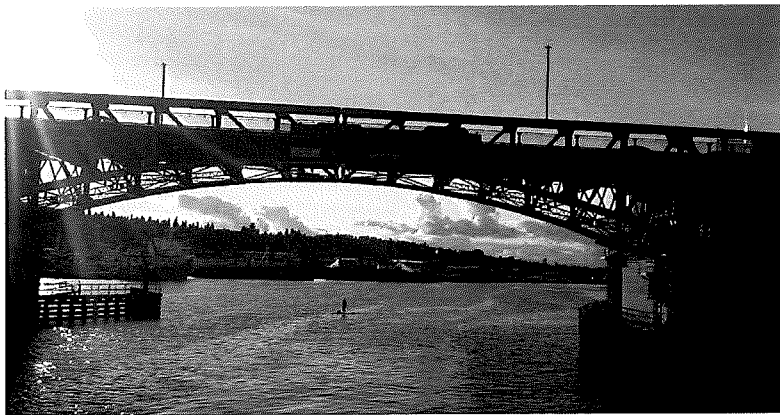


Discover the wonders of Puget Sound along ARB Beach.

"I think that protecting the environment we live in and the water coming to us is the highest reason we have city utilities."

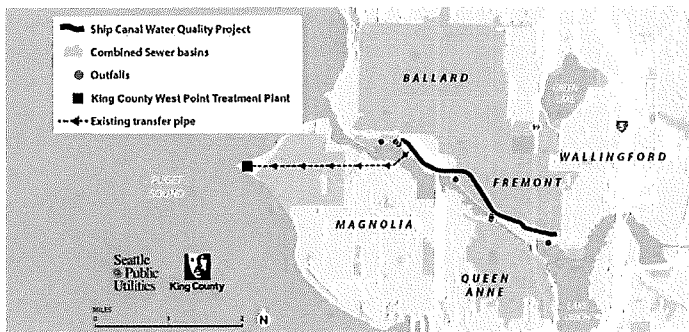
- Seattle customer

Enjoying a summer day in Seattle.



THE SHIP CANAL WATER QUALITY PROJECT

This 2.7 mile drainage and wastewater tunnel project, constructed in partnership with King County, is a major driver for SPU's capital expenditures for the next eight years. The project is mandated by the Environmental Protection Agency and the Washington State Department of Ecology through consent decrees to Seattle and King County. When completed the tunnel will be able to keep more than 50 million gallons of raw sewage and polluted runoff from overflowing into the Ship Canal, Salmon Bay and Lake Union each year. It will also prevent 130 annual overflows that occur in Ballard, Fremont and Wallingford.



FINDING AFFORDABLE SOLUTIONS

SPU encourages customers to reduce their costs by conserving water and switching to smaller garbage bin sizes through recycling and composting more. We also offer up to a 50% discount on utility bills for qualifying low-income customers.

"We have assisted nearly 33,000 customers with the discount program, surpassing the mayor's goal to enroll 28,000 by 2018."

Tracey Rowland, SPU Utility Discount Program Manager

COMMUNITY OUTREACH

SPU customers attended seven workshops and participated in an online survey to help the Utility update the Strategic Business Plan.



"I want more transparent billing and easier access to online services and account management."

-Seattle customer

INVESTMENTS FOR A BETTER SEATTLE 2018-2023

SPU's services strive to protect public health and safety, promote environmental sustainability, and foster social equity. SPU also works hard to make sure our services are accessible and affordable to all customers. As Seattle's population continues to grow, our services play an increasingly important role in our city's livability.

The investments in this Update help ensure we continue to meet regulations to protect public health and the environment, protect and maintain our infrastructure, and invest in the employees who deliver on our promise each and every day.

Regulatory compliance and public health protection:

- Deliver sewer capacity projects to accommodate larger wastewater flows, avoid backups, and reduce sewage overflows.
- Repair sewer pipes using trenchless technology to reduce the likelihood of structural failure and sewer backups.
- Rehabilitate or replace aging drainage and sewer pipes, pump stations, and mains to prevent sewer overflows and backups.
- Replace or repair combined sewer overflow outfalls to prevent sewer overflows and backups into homes and private property.

Environmental sustainability:

- Deliver green stormwater infrastructure projects with a focus on urban villages to slow, capture, and clean polluted runoff before it harms our lakes, rivers, and streams.
- Build electrical charging stations to support our reduction of fossil fuels.

Infrastructure reliability:

- Increase hydrant maintenance to ensure hydrants function reliably during fire emergencies.
- Increase valve maintenance in the water system to limit the number of customers affected during a main break.
- Replace infrastructure when transit work necessitates digging up roadways to improve service levels, reduce risk of structural failure, and avoid future costs.
- Expand the security program to conduct more security checks on SPU's facilities and sites and more quickly respond to alarms due to vandalism, illegal trespassing, and other criminal activities.

Workforce Investments:

- Renovate and build additional space to address deficient work space conditions for field crews, equipment, tools, and supplies and to improve operational efficiencies.
- Expand and improve the apprenticeship program to ensure SPU recruits and retains the best field talent to deliver essential utility services.



Rain gardens are one of many green infrastructure projects around Seattle.

We will adjust to unforeseen demands, practice environmental stewardship, and take advantage of opportunities today that will save money tomorrow.

"Updating the SBP keeps us on track to meet our service reliability, and public health and environmental goals."

—Melina Hung, Deputy Director, Office of Utility Services

ADDENDUM A: PROJECTED 6-YEAR RATE PATH

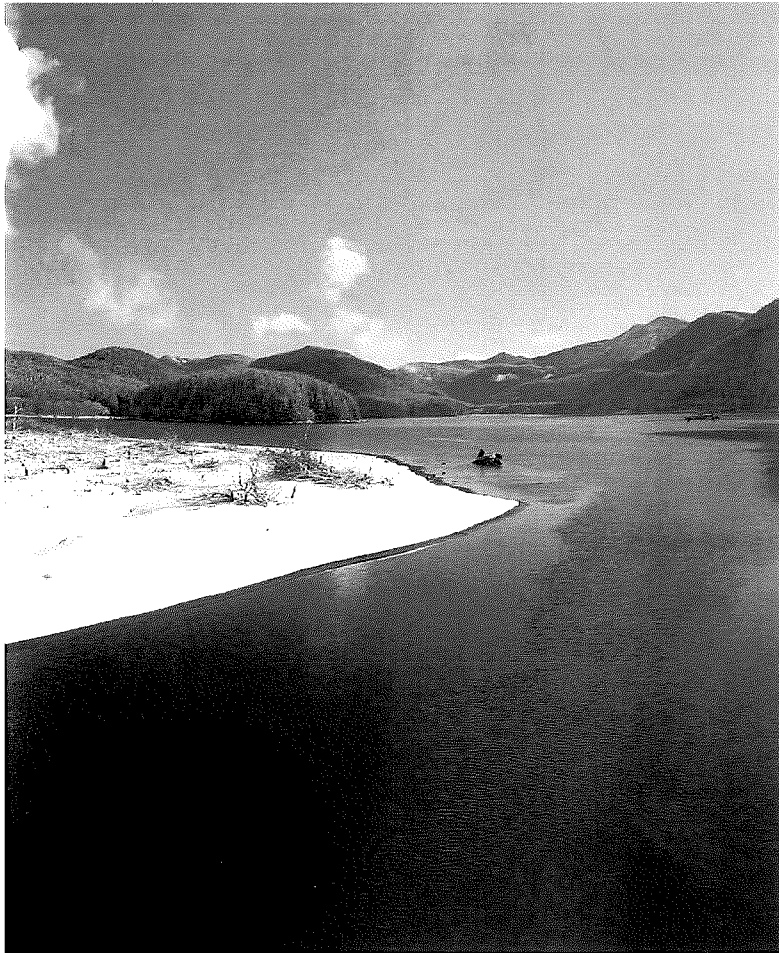
2018-2023 Rate Path	2018	2019	2020	2021	2022	2023	Average 2018-23
Water	2.0%	2.5%	3.7%	5.0%	4.1%	5.0%	3.7%
Sewer	4.1%	8.1%	9.9%	8.9%	1.3%	2.6%	5.8%
Drainage	10.7%	9.2%	9.7%	9.9%	7.9%	4.7%	8.7%
Garbage	3.1%	3.3%	4.0%	3.0%	3.8%	2.8%	3.4%
Combined	4.3%	5.7%	7.0%	6.8%	3.7%	3.6%	5.2%



ADDENDUM B: ACTION PLANS SUMMARY

Action Plan	Description	6-Year Cost
Apprenticeship Program	Expand and enhance SPU's apprenticeship program to recruit and retain the best and most diverse talent by providing more training and creating career pathways into and up in the organization.	\$1.6M O&M
Diaper and Pet Waste Feasibility Study	Evaluate the feasibility of composting diapers and pet waste.	\$300K O&M
Facilities Improvements	Purchase property, reconstruct existing facilities, and construct new facilities to address deficient work space conditions for field crews, equipment, and administrative staff: North Operations Complex (\$21.6M); South Operations Complex (\$42.7M); Cedar Falls (\$78.7M); and Seattle Municipal Tower (\$1.3M).	\$78.7M CIP
Green Fleet	Fund the infrastructure needed to implement a fleet of electric vehicles to reduce SPU's use of fossil fuels and support the City's Drive Clean Seattle Fleet Initiative.	\$6.5M CIP
Green Stormwater Infrastructure Pilot	Expand green stormwater infrastructure projects with a focus on urban villages to support livability while addressing stormwater management needs.	\$424K O&M \$35M CIP
Pump Stations, Force Mains and Combined Sewer Overflow Outfalls	Rehabilitate or replace assets at SPU's 68 sewer pump stations and their associated force mains to help prevent sewer overflows and backups. Rehabilitate and replace SPU's 86 CSO outfalls to help prevent sewer backups.	\$18.5M CIP
Security Monitoring	Add a dedicated security monitoring center to provide SPU with real-time monitoring of security video and add a security position to respond to an increasing number of incidents, improve response time to alarms, and perform more security checks.	\$800K O&M
Sewer Rehabilitation	Increase repair, rehabilitation, and replacement of SPU's aging wastewater and drainage pipes, based on criticality and condition assessments, to support SPU's goals of preventing sewer overflows and meeting regulatory requirements.	\$25.9M CIP
Sewer Repairs	Increase sewer spot repairs utilizing trenchless technology, an efficient and cost-effective approach to address certain sewer system problems, to support meeting SPU's regulatory requirements and reduce the likelihood of structural failures and sewer back-ups.	\$1.6M O&M \$5.7M CIP
Technology Portfolio Management	Add a position to manage SPU's information technology portfolio and governance system, to enable SPU to better partner with the Information Technology Department to develop, manage and track SPU's suite of technology projects.	\$900K O&M
Water Distribution System Maintenance	Expand maintenance of approximately 60,000 water valves and 19,000 fire hydrants will better ensure that valves and hydrants operate reliably when needed, particularly during emergencies.	\$3.2M O&M
Water Opportunity Transportation Projects	Take advantage of street openings driven by transportation projects by initiating water infrastructure projects to improve service levels, reduce risk, reduce future costs, and provide service where there currently is none.	\$49.4M CIP

O&M = Operations & Maintenance; CIP = Capital Improvement Program





Cedar Falls in the Cedar River Watershed.

SEATTLE PUBLIC UTILITIES 700 FIFTH AVENUE, SUITE 4900
P.O. BOX 34018 SEATTLE, WA 98124-4018

(206) 684-3000

www.seattle.gov/util/

Facebook: SeattlePublicUtilities

Twitter: @SeattleSPU

Youtube: SeattlePublicUtilities

For interpretation services please call 206-684-3000.

如需要口譯服務，請撥電話號碼 206-684-3000.

통역 서비스를 원하시면 206-684-3000 으로 전화하세요.

Wixii turjubaan afka ah ku saabsan, Fadlan la soo xariir taleefoonka: 206-684-3000.

Para servicios de interpretación por favor llame al 206-684-3000.

Para sa serbisyo ng tagapagpaliwanag, tumawag sa 206-684-3000.

Về dịch vụ phiên dịch xin gọi 206-684-3000.



**Seattle
Public
Utilities**

Seattle Public Utilities Customer Review Panel

c/o B. Medford, Seattle Public Utilities
P.O. Box 34018, Seattle WA 98124-4018

June 1, 2017

Council President Bruce A. Harrell
and Members, Seattle City Council
The City of Seattle
600 Fourth Avenue
Second Floor
Seattle, WA 98124-4749

RE: 2018-2023 Update to Seattle Public Utilities Strategic Business Plan

Dear Council President Harrell and Members of the City Council:

As members of the Seattle Public Utilities Customer Review Panel, we convey our overall support for the Seattle Public Utilities 2018-2023 Strategic Business Plan ("Plan") as submitted to you by the Mayor, with some exceptions and concerns as stated in this letter.

Summary of Recommendations

Our recommendations are summarized below:

- The strategic planning work at Seattle Public Utilities ("SPU" or "the Utility") is important and should be continued.
- We are concerned about the increase in the rate path, which includes significant rate spikes in 2019 and 2020, and about the overall affordability implications for both residents and commercial ratepayers. In response, we recommend:
 - Vigilant oversight of the CSO Ship Canal Water Quality Project—the largest capital project ever undertaken by SPU—to keep it on time and on budget.
 - Careful analysis of the cost impact of City-wide initiatives before they are approved. Related to this, there should be more transparency about the full costs of infrastructure required by City ballot measures.
 - Smoothing of water rates as recommended in the Plan and also adjust upward 2018 drainage and wastewater rates in order to moderate combined rate increases in the six-year planning period.
 - Providing transparent information on utility bills about the level of City and state utility taxes, by line of business, and how the City applies these revenues.
 - Indexing utility tax collections to a fixed amount, rather than grow at the same fast rate that utility revenues are increasing.

- Continuing the current Utility Discount Program, while increasing the City's focus on ways to create savings for all ratepayers rather than simply shift costs between different groups of ratepayers.
- Expanding the use of system development /connection charges for new customers to increase collection of revenues from new development rather than general rates.
- Expanding efforts to develop and track comprehensive cost comparison data for all of SPU's lines of business. SPU should also increase its analysis of rate impacts on small businesses.
- In the context of ongoing significant rate increases, it is particularly important the Utility deepen its commitment to find, implement and track new efficiencies and new savings.
- Repair and replacement of aging infrastructure is a priority and should be funded at the levels proposed in the Plan. The Utility is challenged to balance this goal with the goal of rate affordability. Therefore, we support the initiative to replace water pipe infrastructure that would not otherwise be replaced except for Move Seattle street reconstruction, as it will reduce the disruption to residents, commuters and businesses resulting from repeatedly digging up streets. However, our concern about rate increases leads us to recommend against taking advantage of this same opportunity for the deeper sewer pipes since there are "trenchless" construction methods that are not as disruptive.
- "Transforming the workforce" is an important focus area for the Utility. We would like to see more information and emphasis regarding specific programs/action items the Utility plans to implement here over the next 6 years.
- The Utility should be given the opportunity to meet the rate commitments in this Plan. We recommend that any new investments required of SPU coming from the new City initiatives around resiliency and climate change (or other new mandates) should be timed to occur with the 2020 Plan update, rather than in the next three years.
- We believe ratepayer input into the strategic planning process through the Panel and Community Advisory Committees is important and could be enhanced. We recommend that the Panel be reconvened at least twice a year to discuss with the Utility how Strategic Plan work is progressing.

Introduction

The Plan is the first update to the original Strategic Business Plan adopted in 2014 for the 2015-2020 period ("2015 Plan"). SPU has completed two years of work under the 2015 Plan. The Utility is on track with most of the action plans in the 2015 Plan and to date rates have stayed within the recommended rate path, although several action plans had to be deferred in order to meet this commitment. Unfortunately, the rate path is increasing notably going forward.

The Panel believes the strategic planning process provides a very important longitudinal look at rates and planned operations and capital expenditures supporting this billion-dollar-a-year public operation. The process supports several objectives: predictability for ratepayers; accountability of the Utility; and ensuring that the City continues to make progress in repairing, replacing and maintaining our aging

sewer and water infrastructure while meeting new federal and state regulatory requirements. *We thank the Council and Mayor for your continuing support of this strategic planning effort.*

We are very pleased to see the Utility's focus on meeting the 2015 Plan commitments. The Plan makes transparent the cost drivers within the Utility and provides real accountability for delivering services and specific capital improvements. Utility leadership tell us that the 2015 Plan is used every day and is helping to shape positive cultural change in the Department.

Looking ahead to the next six years, the Utility faces a number of challenges, and responding to these challenges is going to cost more. The rate path in the updated Plan projects a combined overall 5.5% annual average increase in SPU's rates. This is up from the 4.6% combined annual average increase in the 2015 Plan. If the Plan is implemented as proposed, ratepayers will have seen a cumulative combined utility rate increase of 40.2% in the ten years between 2013 and 2023. This far outstrips inflation and growth in wages for the average household. Affordability is a significant focus of our comments in this letter.

Panel Process

The nine-member Customer Review Panel is advisory to the Council, Mayor and Utility, per Council Resolution 31694. Four of our members served on the original Panel created in 2013, and four of the new members have served or continue to serve on various Community Advisory Committees for the Utility.

The newly convened Panel has met 15 times since September 2016. Senior Utility staff as well as Council and Budget Office staff participated throughout our deliberations. We commend the Utility staff for their very high quality analytical work provided to us throughout this effort, and for their commitment to being responsive and transparent. The presentation and analysis of the "baseline" (the cost over the planning period of providing the same level of service and meeting firm regulatory requirements) was particularly excellent.

We are very appreciative of the perspective and insights provided throughout the process by Council and Budget Office staff; their contributions were a very positive addition to our deliberations.

We also are grateful for the opportunity Panel leadership had to discuss the Plan with the Mayor in April, and to meet twice with the Council's Civil Rights, Utilities, Economic Development and Arts Committee since February of this year.

Overview of Plan

The Plan is an update to the 2015 Plan: the last three years of the 2015 Plan (2018-2020) overlap with the first three years of this Plan. It is important to note that the 2015 Plan incorporates an average annual rate increase of 5.0% per year for the 2018-2020 time period -- well higher than the 2015 Plan

overall average annual rate increases of 4.6% per year. Costs in the 2015 Plan were essentially back-loaded to the last three years, and those years are the starting point for the new Plan.

The Plan continues with the same four focus areas as the 2015 Plan: protecting public health and the environment; operational excellence; transforming the workforce; and improving customer service. The new Plan looks forward through the lens of an updated assessment of the Utility's strengths and weaknesses, informed by input from employees, customers and Utility leaders.

As with the 2015 Plan, over ninety-five percent of the Utility's work, and its revenues, are applied to meet "baseline" needs. The baseline is defined as actions and programs necessary to ensure the Utility continues to deliver the same level of service to a growing population while also meeting firm regulatory requirements.

The Plan adds "action plans" to the baseline in order to address gaps identified in the assessment of strengths and weaknesses. The Panel spent considerable time reviewing the proposed action plans, as well as some potential reductions to the baseline. Action plans launched in the 2015 Plan are now incorporated into the baseline.

One new approach the Utility is proposing in the Plan is to exclude any specific efficiency goals (no action items or dollar targets) but rather, adopt a policy and practice of looking for efficiencies. We discuss this below.

Utility staff tell us that when they began their work, the estimated cost of baseline and proposed action plans would have resulted in an overall rate path with 6.8% average annual cost increases. Staff scrubbed over \$171 M out of that initial draft. We commend their focus on the importance of prioritizing work and looking for savings in order to keep costs down.

Recommended Rate Path and Affordability Concerns

While we endorse the Plan, we are concerned about the cost increases for ratepayers. Affordability and concern about rate increases were recurring themes of our discussion over these last eight months – as they were when the Panel was convened three years ago. We are glad to hear it is also a priority for the Council and Mayor.

Most of the rate pressure on the Utility in the next six years is the result of three things: (1) the need to address aging sewer and water infrastructure; (2) the need to comply with federal environmental regulations; and (3) costs associated with the Move Seattle transportation ballot measure.

- **Aging infrastructure.** SPU's water pipes are on average 70 years old. SPU's sewer pipes are on average 80 years old. Ramping up expenditures on assessment, repair and replacement of these two systems was a major focus for us in the 2015 Plan. *It is critical to maintain that focus moving forward.* The Plan, as proposed, does so.
- **Federal Mandates.** The biggest cost challenge in the near term is the CSO Ship Canal Water Quality Project. The project is required as part of a negotiated federal consent decree. The consent decree was being finalized when the 2015 Plan was adopted; since then, the timeline

for the project has been accelerated. The project is the largest capital project ever undertaken by the Utility. It is further complicated by the need to coordinate the construction and funding with King County. The combined total project cost to SPU and King County is currently estimated at between \$338M and \$550M. SPU will pay up to 65% of the cost. A significant cost overrun in this project could significantly increase rates: *we urge vigilant oversight of this project by the Utility and City with the goals of keeping it on time and on budget.*

As part of the CSO consent decree, a variety of green stormwater infrastructure projects also will be implemented by SPU. We note that when the Clean Water Act was originally passed in the 1970's the federal government was committed to paying most of the cost of local compliance with the new law: since the 1980s, there has been a gradual reduction to the current situation of no federal grant funding for this mandate.

- **Move Seattle.** The Move Seattle ballot measure (proposed after the 2015 Plan was approved), did not include funding for any of the Utility capital work associated with the proposed street projects. The Move Seattle costs are contributing notably to the rate spikes we see in 2019 and 2020. Specifically, \$152M is included in the baseline for necessary pipe relocations, and an additional \$49M in "opportunity" projects (relocating some shallower water pipes now, ahead of schedule, rather than rip up streets twice) is funded as an action plan.

How do SPU's rates compare to other utilities?

In our 14th meeting, SPU staff shared an assessment of rates as compared to other large utilities.¹ It indicates that other large urban utilities are also seeing significant cost pressures from aging systems and federal regulatory requirements. Based on the information provided to us, there are some unique and positive things about SPU's situation as compared to other major cities, including:

- A remarkably low average rate of water consumption per household compared to other major cities; a very strong water conservation response by city ratepayers has allowed SPU to avoid hundreds of millions in capital costs for new water supply.
- SPU has one of, if not the most generous low income rate discount program as compared to other utilities surveyed—both in terms of the level of discount and the amount of money applied to support this program.
- Extremely high quality water, sourced from a municipally-owned watershed.
- A very high rate of recycling.
- Reliable infrastructure that delivers uninterrupted service to SPU's customers.

The staff presentation notes the difficulty of developing an "apples-to-apples" comparison of utility costs: utilities provide different services and use different funding structures. Utilities are in varying stages of implementing response to federal Clean Water Act mandates. That said, Seattle's drainage and wastewater fees are among the highest of other cities surveyed. While water and sewer bills are in the middle of the pack for those cities, when combined with drainage and wastewater charges, Seattle's

¹ Cities surveyed by SPU staff included New York, Everett, Atlanta, Boston, Tacoma, Baltimore, Milwaukee, San Francisco, Portland, Atlanta and Seattle.

rates are the second highest of all those surveyed. However, other cities with much lower rates have yet to complete some of the major investments required by the Clean Water Act. We were not provided with any cost comparisons for solid waste because the business models of surveyed cities are so disparate.

While we are confident that ratepayers are getting high quality service from SPU, and we appreciate the City's pro-active stance on environmental and social issues, *it is time to focus more attention on ways to control the growth in rates. We offer six recommendations in this regard.*

- **Consider cost impacts of City initiatives**

We urge that the City carefully analyze the cost impact of City initiatives before approving them. Two new City initiatives were announced just in the time we have been meeting: the resiliency initiative, and the parental leave initiative. While we offer no opinion on the merits of these new efforts, we would note that they create uncertainty: the Utility does not know how much any of these will cost in the years ahead, or the impact on rates. When unexpected costs are placed on SPU, the Utility is placed in the awkward position of either exceeding the recommended rate path or deferring or eliminating promised services and programs.

The most obvious example of our concern relates to the Move Seattle initiative. It was known in advance that this initiative would impose significant costs on SPU. As noted above, no funding was included in the ballot initiative for those costs. The Move Seattle costs are contributing notably to the rate spikes we see in 2019 and 2020. *In the future, we believe there should be more transparency about the full costs of these types of proposals. Voters should understand the full impact of what they are being asked to approve. We have encouraged the Utility to track the full costs associated with Move Seattle and to report to the Council on these.*

Other examples of internal City mandates that have had unanticipated impacts on the Strategic Plan include:

- Centralization of Information Technology
- City office space initiatives
- Plans to centralize Human Resource functions within the City
- The Green Fleet initiative.

- **Re-open the adopted drainage and wastewater rates to further smooth rates in 2019 and 2020**

The Move Seattle project and CSO Ship Canal Water Quality Project create particular pressure on rates in 2019 and 2020, despite work of Utility leaders to shift timing of other projects where possible. *We strongly support the Utility's proposal to smooth water rates in order to mitigate these rate spikes in 2019 and 2020.*

However, that still leaves wastewater rates increasing at over 12% per year in 2019 and 2020, and drainage rates increasing between 14.2% and 15.9% respectively in those same years. The combined rate increase for all four lines of business in 2020 would be 9.5%. *We urge the City to take additional steps to reduce the rate increases in 2019 and 2020 by re-opening the adopted wastewater rate plan. As*

shown in Table 1, increasing the 2018 sewer rate by 3% will allow significantly smoothing of the combined rate path: the maximum overall rate increase in 2020 would drop from 9.5% to 8.3%.

**Table 1: Combined SPU rate path with water rate smoothing,
 and with drainage and wastewater rate smoothing**

	2018	2019	2020	2021	2022	2023	2018-2023 average
With water rate smoothing alone	3.2%	8.2%	9.5%	4.1%	3.7%	4.2%	5.5%
With addition of wastewater rate smoothing in 2018	4.7%	6.3%	8.3%	5.8%	3.7%	4.5%	5.5%

- **Provide transparency on utility taxes and limit their increase**

We repeat a concern and recommendation raised by the Panel three years ago: City utility taxes on garbage, water, drainage and wastewater are quite high compared to other cities in the state. They add an average of 15% to SPU's customer bills. We understand that utility taxes are a major source of revenue for the City's General Fund. However, this is completely opaque to the ratepayer. Nowhere on the bi-monthly SPU bills is the City utility tax rates noted, nor is how much of the bill is attributable to these taxes noted, nor how these revenues are used by the City. *We recommend that the bills transparently present all this information.*

The Panel also again recommends that the City consider indexing its utility tax collections – perhaps tied to reflect the consumer price index and population growth, rather than grow at the rate of SPU rate increases. At present, the more SPU rates increase, the more City Utility tax revenues increase.

- **Focus on ways to reduce costs overall rather than just shift costs between groups of ratepayers**

We are impressed that enrollment in the Utility Discount Program (UDP) has more than doubled since 2014. We strongly support this program in its current structure. It is a great help to those that qualify, and we understand tens of thousands more households in the City and greater service area potentially qualify under the program's existing terms. We applaud efforts to get qualified households enrolled. As noted, this is the most generous such program of major utilities surveyed, in terms of both the level of subsidy and the amount of utility revenues applied to support it. The success of the UDP comes with a price tag for other ratepayers. *We urge continuation of the current UDP program, but caution that cost shifting between groups of ratepayers should not be the City's primary response to the overall need to control the growth in utility rates.*

- **Expand use of system development fees and connection charges as a means of generating new revenue for the Utility and reducing pressure on utility rates**

As the Customer Review Panel urged three years ago, *the City should implement expanded revenue streams for the Utility through expanded use of system development fees and connection charges.* This action item was included in the 2015 Plan but failed to gain traction. Most cities depend on such charges to help fund system improvements needed to accommodate growth and in turn, keep utility rates more affordable to existing customers. Seattle is growing quickly—as a quick count of

construction cranes will readily confirm. Yet SPU's drainage and wastewater utilities have neither any connection charges nor any system development fees in place. SPU does have a water connection charge, but this contributes less than 0.4% of water revenues -- and the charge does not fully recover the cost of connections. Overall, the City lags far behind other cities in our region in asking new development to contribute to these costs. *We endorse the premise that growth should pay for growth and believe such charges can be structured in a manner that does not significantly impact the goal of housing affordability.*

- **Track Seattle's costs as compared to other utilities**

Based on the interesting comparative cost survey information provided by staff, we think it would be helpful for SPU to expand these efforts and develop and track comprehensive cost comparison data for all of SPU's lines of business.

Related to this, we would urge SPU focus more attention and analysis of the impact of rates on commercial customers, which contribute 46.5% of the Utility's retail revenue. Small businesses may be particularly hard hit by the rate hikes in this Plan --and there is no rate discount program for them.

Efficiencies & Programmatic Reductions

As stated above, we commend the Utility for its scrub of the initial rate path which estimated 6.8% average annual rate increases over the 2018-2023 period. A second round of internal review by SPU further reduced baseline costs. Proposed action plans initially would have added 0.7% to the baseline, for a total 5.6% average annual rate increases. After multiple discussions with the Panel, the Utility scaled back several of the proposed action plans and deferred others, to result in the current proposed 5.5% average annual rate increases in the Plan.

Staff explained to us that they were unable for a number of reasons to meet the savings targets in the 2015 Plan. For example, the Utility was unable to convert as many employee positions to different jobs as had been hoped. Also, several of the initially proposed efficiency items were deferred--often due to lack of staffing or resources, or central service delivery changes/directives within the City.

In the current proposed Plan, the Utility is not identifying any dollar targets for future savings or efficiencies, or any specific future cost savings items. Rather, the Utility is committing to look for such savings and efficiencies. *While most of the Panel members are willing to see how this new approach plays out, some of us would prefer to see specific dollar targets for efficiencies in the Plan. We all agree is important that the Utility get better at projecting and calculating efficiencies. In the future, we would like to see more information about SPU's success of implementing and tracking new efficiencies and savings: this is a critical piece of the effort to bend down the future cost curve.*

We also note that the benefits of, and efficiencies resulting from, some Action Plans are not consistently well quantified, although the costs have been quantified. There could be greater savings than projected. *The Utility should make a greater effort to do this analysis with respect to each Action Plan, perhaps through metrics developed as part of Strategic Plan implementation.*

Focus Areas and Proposed Gap Action Plans

We support continuing with the four focus areas that were in the 2015 Plan, as proposed. These focus areas are appropriate for prioritizing the Utility's work. The action plans recommended by the Utility generally track the updated assessment of the Utility's strengths and weaknesses. *The Panel endorses the action plans included in the Plan, with the comments and caveats noted below.*

- **Environment & Public Health**

We concur with SPU's recommendation to defer diaper and pet waste composting at this time. We hope that less expensive means of reaching the 70% target recycling goal can be found.

Panel members have a range of reactions to the Expanded Green Stormwater Infrastructure Initiative. Most of us support proceeding with it: we see it as an investment in being able to implement lower cost approaches to federal regulatory requirements on controlling water contaminants. Some of us believe that there is not yet enough evidence to support the project funding proposed in the out-years of the Plan (\$20M) and would prefer that funding be eliminated or treated as a placeholder pending review of initial research and planning work. We all agree that the work of the next few years to develop pilot proposals here should be carefully examined as part of the next strategic plan update in three years.

- **Operational Excellence**

We note that the vast majority of new action plans are in this area. *One of our priorities as a Panel is that the Utility stay on a reasonable pace to repair and replace aging infrastructure.* SPU staff tells us that the recommended investments in the Plan will place the Utility in a significantly better place by 2023 in terms of infrastructure condition. This is an important reason for our support for the Plan.

- **Transforming the Workforce**

There is one action plan in this focus area: an expansion of the apprenticeship program; we support this. Additionally, given the importance of a skilled and engaged workforce to the success of the Plan, *we would like to see more information and emphasis regarding specific programs/action items the Utility plans to implement over the next 6 years in this focus area.* People can be the largest asset or largest liability in any organization. For example, the Utility is proposing a significant capital investment in reconfiguring employee work stations, in part to facilitate a more collaborative work environment. To get the benefit of this investment, management practice and programs must support collaboration and teamwork throughout the organization. Additionally, we would be interested in understanding whether SPU experiences any significant hiring challenges due to local economic conditions.

- **Customer Experience**

There is one Initiative in this focus area: opportunity projects to replace water pipe infrastructure that would not otherwise be replaced except for Move Seattle street reconstruction. *As noted, we support this initiative because it will reduce the disruption to residents, commuters and businesses resulting from repeatedly digging up streets. However, our concern about rate increases leads us to recommend against taking advantage of this same opportunity for the deeper sewer pipes as there are "trenchless" construction methods that are not as disruptive.*

Other Issues

- **Public Outreach**

The Utility engaged in a robust, multi-lingual outreach effort to get customer input on the potential planning priorities, with focus on reaching under-served communities. We applaud the Utility's effort to try to gauge customer priorities on expenditure of existing dollars--rather than just how to spend *new* dollars. We were however disappointed with the level of engagement by local businesses in the outreach and would encourage more focus on getting business customer input in the future.

- **West Point Treatment Plant**

King County's cost of repairing the West Point Treatment Plant will hopefully be covered by County insurance policies. If not, there will be further rate increases. It is a reminder that even with the best planning and effort by SPU, unanticipated events can disrupt the recommended rate path.

- **Rate Design**

The Utility's rates are almost entirely based on volumetric charges, whereas most of its costs are fixed. While we appreciate that this may increase the "conservation" signal in the case of water and solid waste, we encourage the City to explore whether an increase in fixed rate recovery should be adopted, and re-examine the current tiered rate structure. A shift along these lines more accurately reflects the Utility's cost structures and can increase revenue stability.

A citizen committee (on which two of us participated) was convened last year to look at SPU's rate design. To us, it makes more sense to examine rate design now that this Plan has been completed.

Another rate issue we note is that apparently the Solid Waste Division rates still subsidizes "self-haulers." It is not clear to us that what policy outcome is supported by this approach.

- **Homelessness Response**

It is important that the City respond to the growing problem of garbage on City streets, parks and greenspaces, which many associate with our growing homeless population. It is also important that the City continue to ensure that solid waste ratepayers are not charged for those efforts which are and should continue to be a General Fund expense.

- **Long Term Challenges for the Utility**

Seismic resiliency and climate change are important challenges for SPU and we are glad the City is proactive on these matters. However, we encourage City to *plan within the Strategic Plan's three year update calendar on these matters*, rather than impose additional mandates that will unexpectedly drive up the rate path in between Plan updates.

- **Tracking Implementation of the Strategic Plan**

The Utility has been dedicated in implementing the 2015 Plan, and we expect they will similarly be committed to carrying out the updated Plan. It is important that their success, and challenges, be tracked over time by the Council and Mayor. In this regard, we have three final recommendations.

- First, *we urge that the three-year update cycle to the Strategic Plan be continued.*
- Second, *we believe that ratepayer input in to the process, through the Panel, is important and could be enhanced if the Panel were reconvened at least twice a year to hear from the Utility how Strategic Plan work is progressing. All Panel members are willing to serve in this extended capacity. We believe it will increase our understanding of the Utility's operations and challenges and our ability to provide helpful advice and input in the next iteration of the Plan. This could also provide some consistency in oversight, as Council committee membership and Executive office staffing changes over time. This change would also mean SPU's process more closely mirrors the approach taken with respect to City Light's strategic plan oversight. SPU's Community Advisory Committees should also remain engaged in Strategic Plan oversight.*
- Third, *regardless of whether our mission is amended, we would ask that, at the next convening of the Panel, the Utility share with us at the outset what progress has been made on the various issues outlined in this letter*

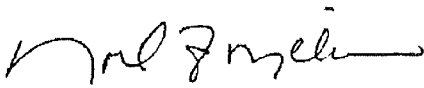
We thank the Council for your continued support of the Panel and the Strategic Business Planning Process. Pro-active, strategic oversight of the Utility is part of the commitment we believe the City should have to ensure the Utility can keep its promise to ratepayers. We thank the Utility leadership and staff for their open and thoughtful engagement with us and their tireless work to respond to our many questions over the past eight months. Our City is very well served by their dedication and expertise.

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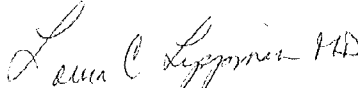
We would be pleased to discuss our findings and recommendations with the Council and we thank you for your consideration of this letter.

Sincerely,

Members of the Seattle Public Utilities Customer Review Panel



Noel Miller
Panel Chair



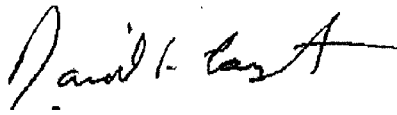
Laura Lippman
Panel Vice-Chair



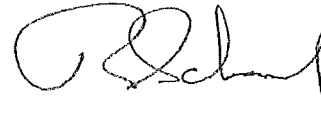
Suzie Burke



Bobby Coleman




David Layton



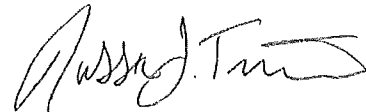
Rodney Schauf



Puja Shaw



Kyle Stetler



Jessa Timmer

CC: Mayor Edward B. Murray
Ben Noble, City Budget Director
Mami Hara, General Manager, SPU
Melina Thung, Deputy Director, Office of Utility Services
Peter Lindsay, Legislative Analyst, City Council Staff
Aaron Blumenthal, Fiscal Policy Analyst, City Budget Office



**Seattle
Public
Utilities**

**Financial Forecast Overview &
2018-2023 Financial Baseline**

June 2017

Section I: EXECUTIVE SUMMARY

Seattle Public Utilities (SPU) provides City residents and businesses with safe **drinking water**; operates the City **drainage** system (which collects stormwater run-off from the streets, driveways, roofs and parking lots), and the **sewer** conveyance system; and oversees operation of the **solid waste** system—garbage, recycling, yard waste, and disposal¹. The City utilities are *publicly owned*, and fully paid for by those who use these systems: residents and businesses in Seattle.²

In August 2014, the City Council adopted SPU's 2015-2020 Strategic Business Plan via Resolution 31534. This resolution also directed SPU to update the Strategic Business Plan and the six-year rate path every three years. This document outlines the financial assumptions and rate impacts underlying SPU's proposed 2018-2023 Strategic Business Plan Update.

During the period of the Strategic Business Plan Update, rates will need to go up by an **average of 5.5 percent per year**, across the four lines of business compared to a 4.6 percent average increase assumed for the 2015-2020 Plan.

Table I-1 provides the projected rate increases by business line by year as well as the combined average.

**Table I-1
2018-2023 Rate Increases and Typical Single Family Monthly Bill Impacts by Line of Business³**

Average Rate Increase	2018	2019	2020	2021	2022	2023	2018-23 Avg
Water	3.5%	4.1%	5.2%	5.3%	4.1%	5.6%	4.6%
Wastewater	1.2%	12.2%	12.6%	3.2%	4.0%	2.7%	5.9%
Drainage	7.5%	14.2%	15.9%	6.1%	2.8%	7.1%	8.8%
Solid Waste	3.1%	3.3%	4.6%	2.8%	3.7%	2.9%	3.4%
Combined	3.2%	8.2%	9.5%	4.1%	3.7%	4.2%	5.5%

Typical SFR Monthly Bill	2018	2019	2020	2021	2022	2023
Water	\$42.57	\$44.32	\$46.64	\$49.11	\$51.13	\$54.01
Wastewater	\$56.27	\$63.13	\$71.09	\$73.36	\$76.30	\$78.36
Drainage	\$38.89	\$44.43	\$51.51	\$54.66	\$56.17	\$60.14
Solid Waste	\$48.78	\$50.46	\$52.89	\$54.42	\$56.56	\$58.25
Combined	\$186.51	\$202.34	\$222.14	\$231.56	\$240.16	\$250.76
Annual Change	\$6.27	\$15.84	\$19.79	\$9.42	\$8.60	\$10.61

¹ Services primarily carried out by private firms under contract with the City.

² The City also supplies water to retail and wholesale customers in many surrounding communities. The revenues paid by those communities help to fund the City water system and reduce the amount of revenue that must be paid by Seattle retail customers.

³ Shaded cells represent adopted rate increases. Solid Waste bill path represents average increase assuming new rates are effective April 1 of each year.

Section I: EXECUTIVE SUMMARY

A combination of direct service rates revenues and revenues from other funding sources (non-rates revenues, operating cash and rate stabilization fund (RSF) withdrawals) are used to meet the Utility's TOTAL REVENUE REQUIREMENT. The total revenue requirement is the sum of revenues required for spending on Operations and Maintenance (O&M) and Capital Improvement Program (CIP) financing expense together with any additional revenues required to meet financial policy requirements.

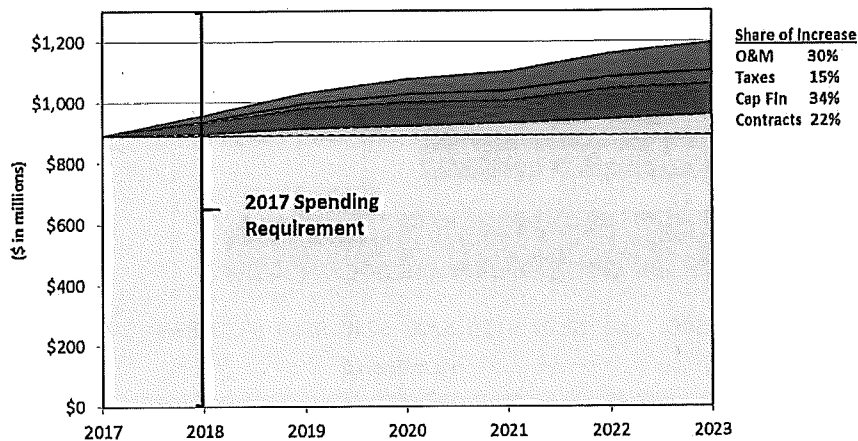
RATE INCREASES are required to fund increases in the RATES REVENUE REQUIREMENT from one rate setting period to the next. Rate increases may be smaller or greater than the actual change in the rates revenue requirement depending on demand and other revenue adjustments such as Utility Discount Program (UDP) credits. Table I-2 shows the breakdown between these components to arrive at the average 5.5 percent projected rate increase.

**Table I-2
Components of Average Rate Increase**

	2018-2023 Avg Rate Impact
Spending	5.8%
Plus: Other Financial Policies	0.1%
TOTAL REVENUE REQUIREMENT	5.9%
Less: Other Funding	-0.4%
RATES REVENUE REQUIREMENT	5.5%
Demand/UDP adjustments	0.0%
RATE INCREASE	5.5%

Increased spending is the dominant driver of the rate increase. Increases in other funding sources reduces the total rate revenue requirement while small increases in demand fully offset increased UDP credits. Figure I-1 shows the components of increased spending department wide.

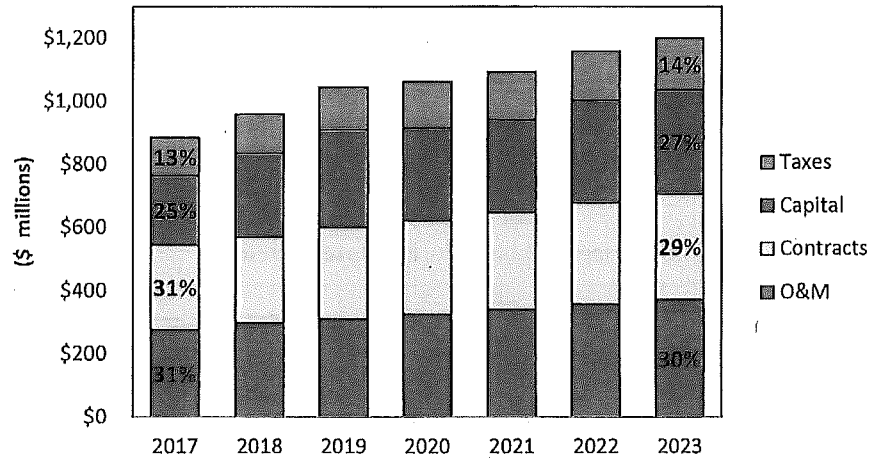
**Figure I-1
2018 to 2023 Increases to SPU Spending Requirement**



Section I: EXECUTIVE SUMMARY

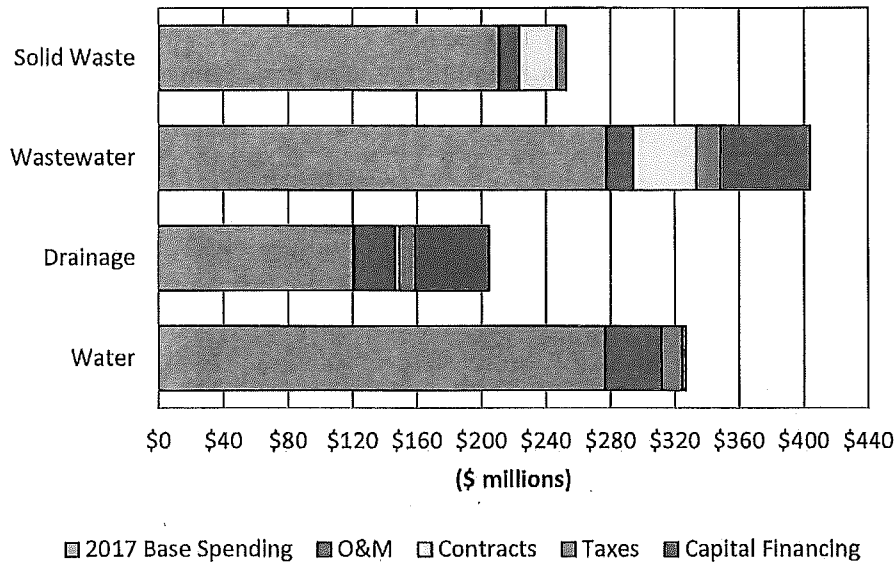
Figure I-2 provides a different look at planned SPU spending, showing the components of TOTAL expense, by year, between 2017 and 2023. This figure also shows the percentage each component represents of the base (2017) and in 2023.

Figure I-2
Components of the SPU Spending Requirement, 2017-2023



The components of growth in spending vary widely between lines of business as noted in Figure 1-3 below.

Figure I-3
Components of Base and Increased Spending by Line of Business



Section I: EXECUTIVE SUMMARY

Capital financing represents a significant portion of growth for Drainage and Wastewater lines of business. Growth in contract expense is a major factor for both wastewater and solid waste. O&M experiences the largest increases for the Water line of business.

All components of SPU 2018-2023 costs are rising more quickly than the Seattle average inflation rate of 2.4 percent, as shown in Table I-3 below.

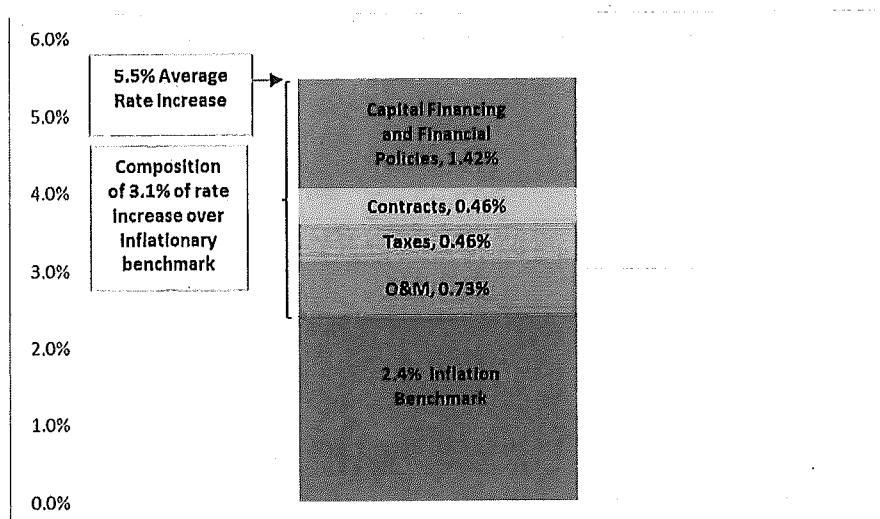
**Table I-3
Spending and Inflationary Increases by Component (\$ millions)**

	2017	2023	2018-23 Increase	Avg Annual % Increase	Over Inflation
Taxes	\$120	\$164	\$44	5.4%	3.0%
Capital	\$223	\$326	\$102	6.5%	4.1%
Contracts	\$277	\$344	\$66	3.6%	1.2%
O&M	\$272	\$362	\$90	4.9%	2.5%
Total	\$892	\$1,195	\$303		

* Average Seattle Inflation assumed at 2.4 percent.

Capital financing expense⁴ will experience the highest rate of growth (6.5 percent per year or 4.1 percent over the rate of inflation) and contracts the slowest growth (3.6 percent per year or 1.2 percent over the rate of inflation). Figure 1-4 presents the impact of spending in excess of inflation on the average rate increase.

**Figure I-4
Composition of Rate Increase in Excess of Inflationary Benchmark**



⁴ Capital financing expense includes excess cash generated to meet financial policy requirements that is used as cash-financed CIP.

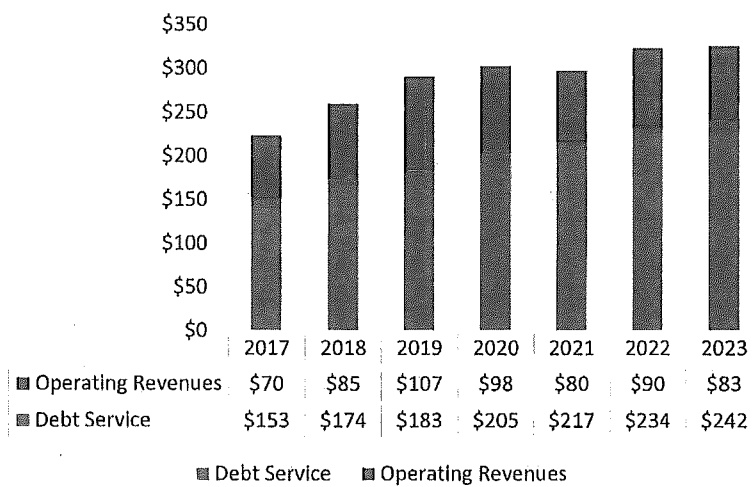
Section I: EXECUTIVE SUMMARY

Overview of Cost Drivers

Capital Financing

Annual capital financing expense (debt payments plus cash-financed capital) is the largest driver of expense between 2018 and 2023, averaging 6.5 percent annual growth. It increases from \$223 million in 2017 to \$326 million in 2023, adding \$102 million, or 34 percent of total increases. Figure 1-5 below shows the growth in capital financing expenses from 2018 to 2023, broken out by operating revenues and debt service costs.

Figure I-5
2017-2023 Capital Financing Expense for All Lines of Business



This financing supports \$1.8 billion in planned capital spending over six years. Drainage and wastewater projects account for the largest share (64 percent), followed by water (32 percent). Solid waste only accounts for a small share of spending (4 percent) as the construction of new Solid Waste facilities will be largely completed by 2018. Major capital projects include:

Water:

- Replacement of the Bitter Lake Reservoir cover
- New tap installations and Water service renewals to meet development needs
- Tolt Slide improvements to protect a major water pipe from landslide issues
- Utility relocation requirements as well as opportunity projects related to SDOT-led projects funded by the Move Seattle Levy

Drainage & Wastewater:

- Ship Canal Water Quality project to fulfill Combined Sewer Overflow (CSO) Consent Decree requirements
- Pipe rehabilitation program to meet Sanitary Sewer Overflow (SSO) standards
- Green stormwater infrastructure to address drainage and CSO issues through green technology
- New Drainage and Wastewater operations facilities in the south and north ends of the City

Section I: EXECUTIVE SUMMARY

- Utility relocation requirements related to SDOT led projects funded by Move Seattle Levy

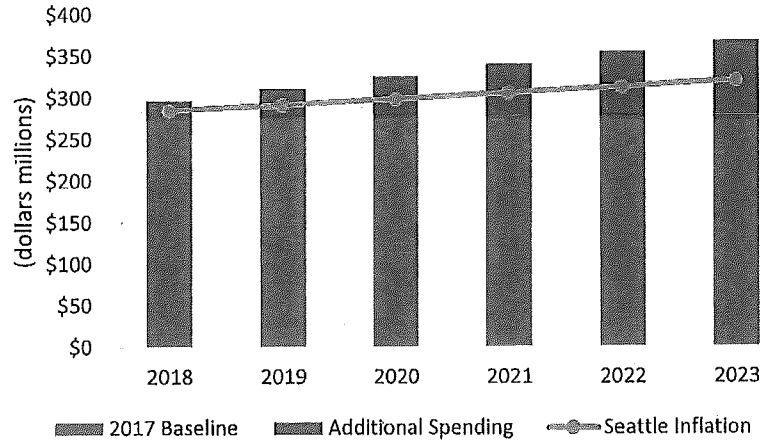
Solid Waste Fund:

- South Transfer Station Phase 2 project – Redevelopment of the old South Transfer Station

O&M

Increases to O&M average 4.9 percent annually, adding \$90 million in expense over the six-year period and accounting for 30 percent of increased spending. O&M spending also remains the largest component of total spending, at 30 percent across the period, increasing from \$272 million in 2017 to \$362 million in 2023. Figure I-6 shows these increases below.

**Figure I-6
2018-2023 O&M Expense**



Eighty-six percent of increased spending is due to inflationary increase, with 43 percent of this inflation in excess of average Seattle inflation of 2.4 percent. While SPU salary and salary-related benefits track closely with Seattle inflation, other large components of O&M expense significantly outpace local inflation. Key inflation categories are noted below in Table 1-4 with a complete list of inflation assumptions by type found in Appendix A.

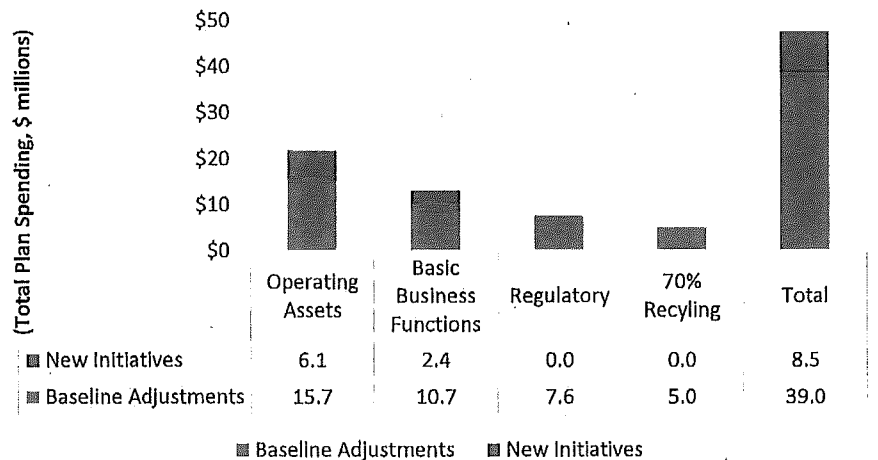
**Table I-4
Key Inflationary Assumptions**

Category	Average Annual Inflation
SPU salary, overtime, FICA, Medicare	2.5%
Other SPU benefits	6.0-6.3%
Central cost allocations	6-11%
Most non-labor expenses	2-5%

Section I: EXECUTIVE SUMMARY

Non-inflationary increases to O&M total \$47.5 million over the six-year plan and include new strategic initiatives as well as adjustments required to continue to offer the existing level of service and meet regulatory requirements. Figure I-7 breaks out these increases below. Eighty-two (82) percent (\$39.0 million) of increased spending is directed towards meeting existing operating requirements while \$8.5 million goes towards new strategic operating initiatives. Forty-six percent (\$21.4 million) of increased spending supports the maintenance of operating assets. The second largest category of non-inflationary O&M increases (28 percent or \$13.2 million) focuses on basic business functions such as water modeling, support for CIP project delivery and IT maintenance, project support and various workforce and community initiatives. The final \$13 million in spending increases provides operating support required to comply with regulatory requirements and programs designed to help Seattle meet its 70 percent recycling goal.

Figure I-7
Total Non-Inflationary O&M Increases, 2018-2023 (\$ Millions-6 year)



Contract Expense

Although growth in contract expense is slower than growth in some other categories, it remains the second largest component of total expense, increasing by \$66.5 million from \$277.1 million in 2017 to \$343.6 million in 2023. Table I-5 shows projected spending on major contracts for each LOB.

Table I-5
2017-2023 Projected Spending: Major Contracts

	2017	2018	2019	2020	2021	2022	2023	Avg. Annual
Water	\$6.2	\$6.4	\$6.8	\$7.2	\$7.4	\$7.6	\$7.8	4.1%
DWF	\$161.7	\$163.6	\$176.3	\$178.6	\$186.6	\$194.4	\$203.4	3.9%
SWF	\$109.3	\$112.1	\$116.8	\$120.6	\$123.8	\$128.2	\$132.4	3.2%
	\$277.1	\$282.1	\$300.0	\$306.4	\$317.7	\$330.2	\$343.6	3.6%

Section I: EXECUTIVE SUMMARY

Some highlights of contract spending:

- **Water Design-Build-Operate (DBO) contracts** for the Cedar and Tolt treatment facilities represent the smallest in terms of total dollar value, but are projected to experience the most significant increase due to major maintenance projects at the Tolt facility.
- **King County wastewater treatment contract** costs rise due to expected King County rate increases of 6.4 percent in 2019, and 3.0 percent in 2021-2023. Expense increases in 2018 and 2020 (when there is no treatment rate increase) are due to projected increases in the number of residential accounts served.⁵
- **Solid Waste collection contracts** increase due to a new composting contract effective in 2019. The expense increases are partially offset with savings from a re-negotiated disposal contract with one of the City's haulers.

Taxes

Taxes rise on average 5.4 percent per year, from \$119.5 million in 2017 to \$163.5 million to 2023, in line with the increase in revenues.

Document Overview

The balance of this Overview is structured as follows:

- **Section II** provides additional detail on the composition and impacts of spending proposed under the 2018-2023 Strategic Business Plan Update
- **Section III** provides an overview of line of business rate impacts and proposed spending
- **Appendix A** documents assumptions underlying projections in the financial baseline
- **Appendix B** provides additional detail on the drivers and composition of capital financing expense which is the single largest driver of rate increases
- **Appendix C** presents an overview of financial changes from the original 2015-2020 Strategic Business Plan

⁵ SPU pays King County a flat rate for each residential account. Treatment expense for commercial accounts is based on metered water usage.

Section II: SPENDING DETAIL

The Strategic Business Plan is composed of three distinct elements:

- The **baseline starting point**, which are the costs, and related financial customer impact, of doing business at current service levels and complying with regulatory mandates;
- Minus **cost savings**, through efficiencies and prioritization; and
- Plus **strategic investments** to improve and expand services to our customers, to maintain our infrastructure for future generations, and to become more effective in how we do our work.

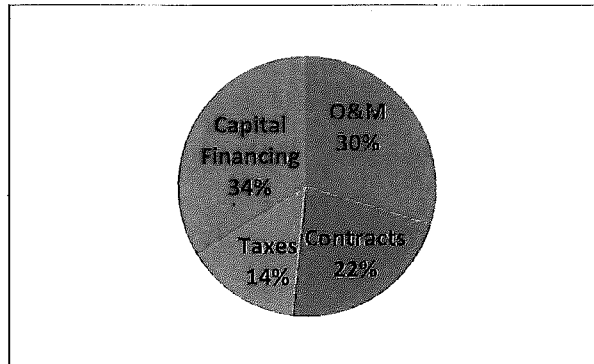
Table II-1 summarizes the impact of each of these elements on the average annual department-wide rate increase of 5.5 percent.

Table II-1
Elements of Average Rate Increase

Element	Avg. Rate Increase
Current baseline operations	5.4%
Minus additional savings	(0.3%)
Plus action plan investments	0.4%
Average Annual Rate Increase	5.5%

Figure II-1 shows the drivers of cost increases. Capital Financing is the largest driver of the proposed increase (34 percent), followed by O&M (30 percent) and Contracts (22 percent) spending increases.

Figure II-1
Drivers of Proposed Increases



The increase relative to the base varies widely between lines of business, mirroring the variance in the level of rate increases, as shown in Table II-2.

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**Table II-2
Composition of Additions to 2018-2023 Spending by Fund**

	Water	Drainage	Wastewater	Solid Waste	SPU-Total
2017 Base Spending					
2017 Base Spending	\$283	\$121	\$278	\$211	\$892
2018-2023 Additions					
O&M	\$35	\$26	\$17	\$13	\$90
Contracts	\$2	\$3	\$39	\$23	\$66
Taxes	\$13	\$10	\$15	\$6	\$44
Capital Financing	\$3	\$46	\$55	-\$1	\$102
Total Additions	\$52	\$84	\$126	\$41	\$303
Additions as % of Base	18%	70%	45%	19%	34%

Note: Sum of individual components may appear different from totals due to rounding.

II.A. O&M EXPENSE

In the 2018-2023 Strategic Business Plan Update, O&M spending is projected to increase by an average of 4.9 percent annually, from \$272 million in 2017 to \$362 million in 2023. This increase represents a combination of inflation, savings, adjustments to baseline operations, and strategic investments.

Table II-3 presents spending by general component. **Baseline operations** includes inflationary increases. **Savings** includes efficiencies and prioritizations to spending supporting current (2017) operations. **Adjustments** represent increased spending required to continue to meet baseline operations service levels and comply with regulatory requirements. **Action Plans** represent new strategic investments.

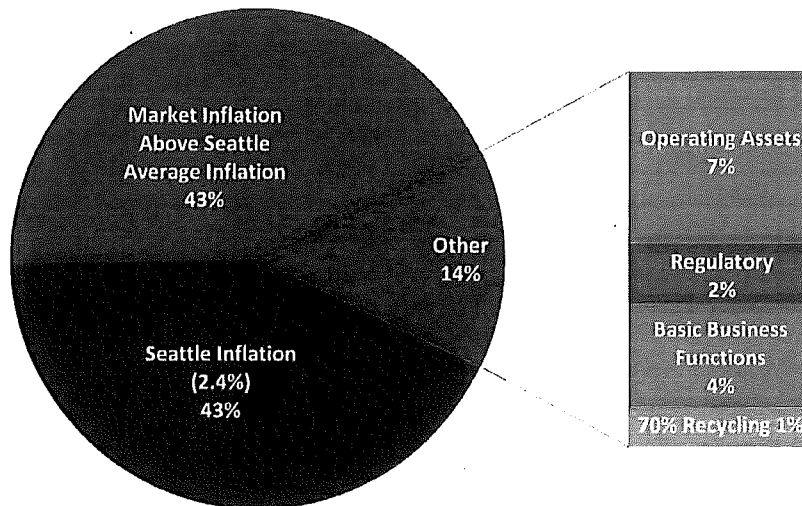
**Table II-3
2018-2023 O&M Spending by Component (\$ Millions)**

	2018	2019	2020	2021	2022	2023	Avg Ann Change
Baseline Operations	\$290.2	\$302.8	\$317.0	\$331.0	\$344.9	\$357.4	
Savings	(\$4.1)	(\$3.8)	(\$3.8)	(\$3.8)	(\$3.7)	(\$3.8)	
Adjustments	\$5.4	\$6.1	\$6.6	\$6.7	\$7.0	\$7.2	
Action Plans	\$1.6	\$1.3	\$1.4	\$1.3	\$1.5	\$1.4	
Total	\$293.1	\$306.4	\$321.1	\$335.2	\$349.6	\$362.3	4.9%

Overall, inflation on baseline operations accounts for the bulk (86 percent) of increases, with adjustments to the baseline and strategic investments accounting for the balance. Increases in these last two categories are generally related to operating assets, complying with regulatory requirements, meeting ongoing basic business requirements, and achieving Seattle's 70 percent recycling goal. Figure II-2 shows the relative composition of increased spending.

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Figure II-2
Inflation and Other O&M Spending Increases, 2018-2023



Several spending categories are projected to increase at higher rates than Seattle area inflation. Table II-4 below presents average annual 2018-2023 inflation assumed for major categories of spending. Complete inflation assumptions by year are found in Appendix A.

Table II-4
Key Inflationary Assumptions

Category	Avg Annual Inflation
Labor	
SPU salaries, overtime, FICA, Medicare	2.5%
Health care & fringe benefits	6.0-6.3%
Other labor-related expenses	2.7-9.1%
Non-Labor	
Central cost allocation	6.0-11.0%
Other non-labor expenses	2.0-5.0%

II.A.1. Baseline Operations (Pre-Adjustment)

Table II-5 presents the inflationary and savings components of changes in spending supporting current (2017) operations as well as labor and non-labor components.

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Table II-5
Changes to Baseline Operations Spending (Pre Adjustments; \$ Millions)

	2018	2019	2020	2021	2022	2023	Change
Baseline (Pre-Savings)	\$290.2	\$302.8	\$317.0	\$331.0	\$344.9	\$357.4	4.7%
Baseline, Net	\$286.1	\$299.0	\$313.1	\$327.3	\$341.2	\$353.6	4.5%
<i>Labor</i>	\$122.1	\$126.5	\$130.4	\$135.5	\$139.4	\$144.1	3.4%
<i>Non-Labor</i>	\$163.4	\$171.6	\$181.8	\$190.8	\$200.8	\$208.5	5.1%
Annual Change	\$14.0	\$12.9	\$14.1	\$14.1	\$13.9	\$12.4	
<i>Inflation</i>	\$18.1	\$16.7	\$18.0	\$17.9	\$17.7	\$16.3	
<i>Savings</i>	-\$4.1	-\$3.8	-\$3.8	-\$3.8	-\$3.7	-\$3.8	

Overall increases to baseline spending average 4.5 percent per year but would increase to 4.7 percent per year in the absence of projected savings.

Savings, presented by Budget Control Level (BCL) in Table II-6, total \$23.1 million over six years and are concentrated in Drainage and Wastewater and Water Operations.

Table II-6
O&M Savings 2018-2023 (\$ Millions)

	2018	2019	2020	2021	2022	2023	% of total
General Expense	(\$0.3)	(\$0.2)	(\$0.2)	(\$0.3)	(\$0.2)	(\$0.2)	6%
Administration ⁽¹⁾	(\$0.3)	(\$0.3)	(\$0.3)	(\$0.1)	(\$0.1)	(\$0.1)	5%
Customer Services	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	5%
Other Operating ⁽²⁾	(\$3.4)	(\$3.1)	(\$3.1)	(\$3.2)	(\$3.3)	(\$3.3)	84%
TOTAL SAVINGS	(\$4.1)	(\$3.8)	(\$3.8)	(\$3.8)	(\$3.7)	(\$3.8)	(\$23.1)

Notes:

- 1) Includes Finance and Administration (F&A) and Director's Office
- 2) Savings in Drainage and Wastewater and Water lines of business

Labor expense accounts for about 42 percent and non-labor 58 percent of total projected baseline spending, pre-adjustments. This same ratio holds true for total projected O&M spending including adjustments and action plans.

Labor spending has lower average annual increases (3.4 percent) relative to non-labor (5.1 percent). In general, increases for salary and salary-related benefits track closely with average Seattle inflation. However, higher rates of increase for benefits push the annual labor rate up. Also, the largest single component of non-labor expense, city central expense (36 percent of total non-labor) is projected to significantly outstrip Seattle inflation.

II.A.2. O&M Baseline Adjustments

Baseline adjustments are non-inflationary increases required to meet current service levels and regulatory obligations. These adjustments, presented in Table II-7, total \$39 million over the six-year plan and are concentrated in four areas:

Section II: SPENDING DETAIL

- Maintenance of operating assets (40 percent)
- Supporting required business programs and operations (27 percent)
- Complying with regulatory requirements (19 percent)
- Achieving SPU's 70 percent recycling goal (13 percent)

**Table II-7
2018-2023 O&M Baseline Adjustments by Category (\$ Millions)**

	2018	2019	2020	2021	2022	2023	Total
Operating Assets	\$1.8	\$1.9	\$2.9	\$2.9	\$3.1	\$3.2	\$15.7
Basic Business Functions	\$1.4	\$1.7	\$1.7	\$1.8	\$2.0	\$2.1	\$10.7
Regulations	\$1.4	\$1.7	\$1.2	\$1.1	\$1.1	\$1.1	\$7.6
70% Recycling Goal	\$0.8	\$0.8	\$0.8	\$0.8	\$0.8	\$0.9	\$5.0
Total	\$5.4	\$6.1	\$6.6	\$6.7	\$7.0	\$7.2	\$39.0

Over half (56 percent) of all adjustment spending is in the Drainage and Wastewater line of business, with 31 percent for Solid Waste and 13 percent for Water. Figure II-3 presents the breakdown in adjustment spending by Fund and category.

Specific examples of adjustments accounting for the bulk of each category are presented in Table II-8. Entries are color coded to indicate the line of business associated with the adjustment. In some cases, mostly "basic business functions" expenses are shared across multiple lines of business. Shared expense only accounts for about 13 percent of total adjustment expense but is the largest component of water adjustment expense (63 percent), but only 22 percent of drainage and wastewater and 9 percent of solid waste adjustment expense.

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Figure II-3
O&M Baseline Adjustments by Category, 2018-2023

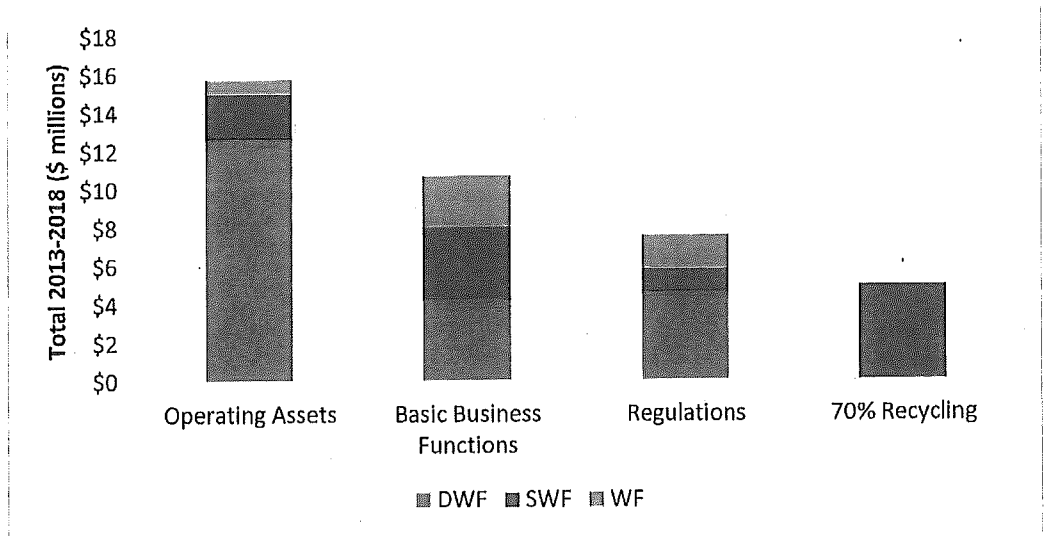


Table II-8
O&M Baseline Adjustments Principal Additions (\$ Millions)

<p>OPERATING ASSETS: \$15.7M</p> <ul style="list-style-type: none"> • GSI Maintenance - \$2.5M • DWW Control Center - \$2.2M • DWW Dewatering Facility - \$1.8M • DWW Grounds Maintenance - \$1.7M • DWW New South Operations Complex - \$1.7M • DWW Pond Maintenance - \$0.9M • Financial System Operations - \$1.9M • Landfill Staff - \$0.9M • South & North Transfer Station Recycling Payments - \$0.7M 	<p>BASIC BUSINESS FUNCTIONS: \$10.7M</p> <ul style="list-style-type: none"> • IT Maintenance - \$2.2M • Move Seattle - \$2.5M • Change Management - \$0.9M • Water Modeling - \$0.8M • Organics Hauling - \$1.3M
<p>70% RECYCLING GOAL: \$5.0M</p> <ul style="list-style-type: none"> • South Transfer Station C&D Recycling - \$7.4M • Waste Prevention, including measurement tools - \$1.0M 	<p>REGULATIONS: \$7.6M</p> <ul style="list-style-type: none"> • Source Control Duwamish - \$2.7M • Add'l Wastewater Outfall Sampling - \$0.8M • Side Sewer Enforcement 0 \$0.8M • 2018 Stormwater Code Permit - \$0.7M • Source WW Inspector - \$0.7M • Landfill Monitoring - \$0.8M • SF Tolt FERC Relicensing - \$0.6M

Note on color-coding:

DWF Drainage and Wastewater
SWF Solid Waste
Water
Shared

Section II: SPENDING DETAIL

II.A.3. O&M Action Plans

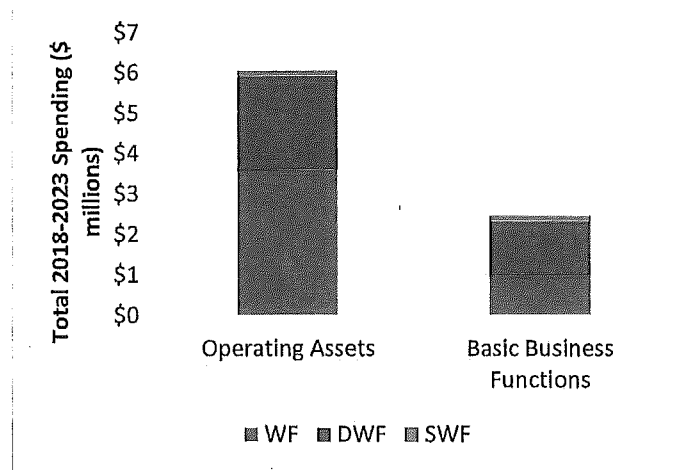
Proposed strategic investments total \$8.5 million across the six-year Plan Update. Table II-9 presents the specific action plan investments included in the Plan.

**Table II-9
2018-2023 O&M Action Plans (\$ Millions)**

	2018	2019	2020	2021	2022	2023	Total
OPERATING ASSETS	\$1.1	\$1.0	\$0.9	\$1.0	\$1.0	\$1.0	\$6.1
Maintenance of the Water Distribution System	\$0.7	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5	\$3.2
Expanded Security Monitoring	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.8
Sewer Repair Crews	\$0.2	\$0.2	\$0.3	\$0.3	\$0.3	\$0.3	\$1.6
Green Stormwater Infrastructure	\$0.1	\$0.1	\$0.0	\$0.0	\$0.1	\$0.1	\$0.4
BASIC BUSINESS FUNCTIONS	\$0.5	\$0.3	\$0.5	\$0.4	\$0.5	\$0.3	\$2.5
Apprenticeship Program	\$0.3	\$0.2	\$0.3	\$0.2	\$0.3	\$0.2	\$1.6
IT Portfolio Strategy and Management	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.9
Total	\$1.6	\$1.3	\$1.4	\$1.3	\$1.5	\$1.4	\$8.5

Increased spending on the maintenance of Water and Drainage and Wastewater assets accounts for the bulk of spending (\$6.1 million). Workforce and technology initiatives to enhance operational efficiency account for \$2.5 million of total spending.

**Figure II-4
O&M Action Plans by Category, 2018-2023**



Section II: SPENDING DETAIL

II.B. CAPITAL FINANCING EXPENSE

SPU is replacing worn out infrastructure, building new infrastructure to meet regulatory requirements, and integrating utility infrastructure into city-wide initiatives. SPU pays for these capital investments through a combination of borrowing and cash. The primary source of borrowed funds are revenue bonds issued by each enterprise Fund.

Table II-10 shows the projected breakdown in funds used to pay for \$1.8 billion in capital expenditures from 2018-2023, with about 69 percent of this total paid out of revenue bond proceeds and 31 percent paid with operating revenues.

Table II-10
SPU CIP Funding Sources 2018-2023 (\$ Millions)

	2018	2019	2020	2021	2022	2023	2018-23	% Total
Revenue Bond Proceeds	\$207	\$240	\$228	\$203	\$179	\$171	\$1,228	69%
Operating Revenues (Cash-financed)	\$85	\$107	\$98	\$80	\$90	\$83	\$544	31%
	\$292	\$348	\$326	\$283	\$268	\$255	\$1,772	100%

Table II-10 shows the cash flow used to pay for capital expenditures. The **annual financing expense paid out of operating revenues** includes both the cash financed portion noted above as well as principal and interest payments on borrowed funds (debt service)⁶. Table II-11 presents projected annual spending for these two financing components.

Table II-11
SPU Annual Capital Financing Expense 2018-2023 (\$ Millions)

	2018	2019	2020	2021	2022	2023	2018-23	% Total
Operating Revenues	\$85	\$107	\$98	\$80	\$90	\$83	\$544	30%
Debt Service	\$174	\$183	\$205	\$217	\$234	\$242	\$1,255	70%
<i>Existing Debt</i>	<i>\$153</i>	<i>\$153</i>	<i>\$153</i>	<i>\$153</i>	<i>\$153</i>	<i>\$153</i>	<i>\$920</i>	<i>51%</i>
<i>Debt on 2018-2023 Plan</i>	<i>\$21</i>	<i>\$30</i>	<i>\$51</i>	<i>\$64</i>	<i>\$81</i>	<i>\$89</i>	<i>\$335</i>	<i>19%</i>
Total Expense	\$260	\$291	\$303	\$298	\$324	\$326	\$1,800	100%

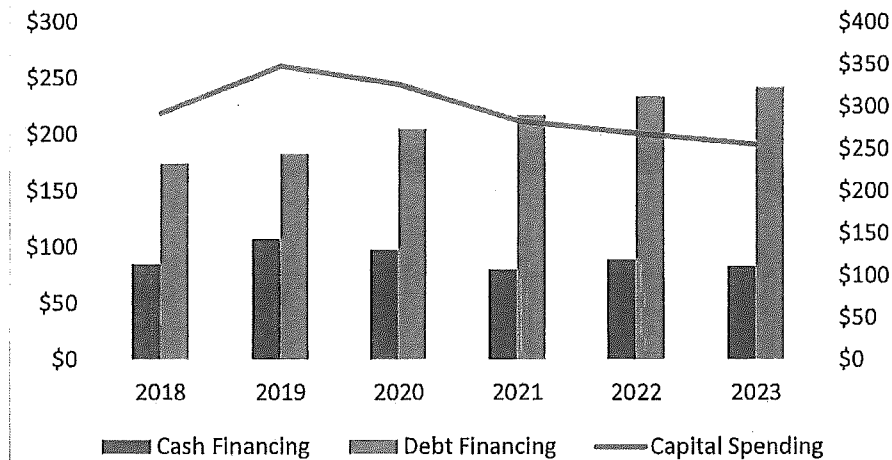
Capital financing expense is projected to total \$1.8 billion between 2018 and 2023, with 30 percent of annual financing for direct cash financing from operating revenues and 70 percent for debt service payments. Although these numbers appear remarkably similar to the TOTAL capital spending presented in Table II-10, about 51 percent of annual financing expense is for debt service on capital spending PRIOR to 2018. Only 49 percent of annual financing expense (19 percent debt; 30 percent cash) is related to the 2018-2023 capital plan.

⁶ See Appendix B for more information on the components of SPU capital financing and their impacts on expense and rates.

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Annual capital financing expense is the fastest growth component of the spending requirement, projected to average 6.5 percent per year between 2018 and 2023. The primary driver of this rate of growth is increased debt service. SPU will pay debt service on NEW debt issued to pay for projects constructed during this period as well as continue to pay on EXISTING debt for historical investments. Hence, debt service will increase, even when capital spending is declining, as demonstrated in Figure II-5 below.

Figure II-5
SPU Capital Financing Profile 2018-2023 (\$ Millions)



	2018	2019	2020	2021	2022	2023	Avg Annual Growth
CIP Spending	\$292	\$348	\$326	\$283	\$268	\$255	
Average Annual Change	28.5%	19.3%	-6.3%	-13.1%	-5.3%	-5.0%	
Capital Financing	\$260	\$291	\$303	\$298	\$324	\$326	6.5%
Cash	\$85	\$107	\$98	\$80	\$90	\$83	
Debt	\$174	\$183	\$205	\$217	\$234	\$242	7.9%
	\$71.58	\$73.29	\$75.05	\$76.85	\$78.70	\$80.59	

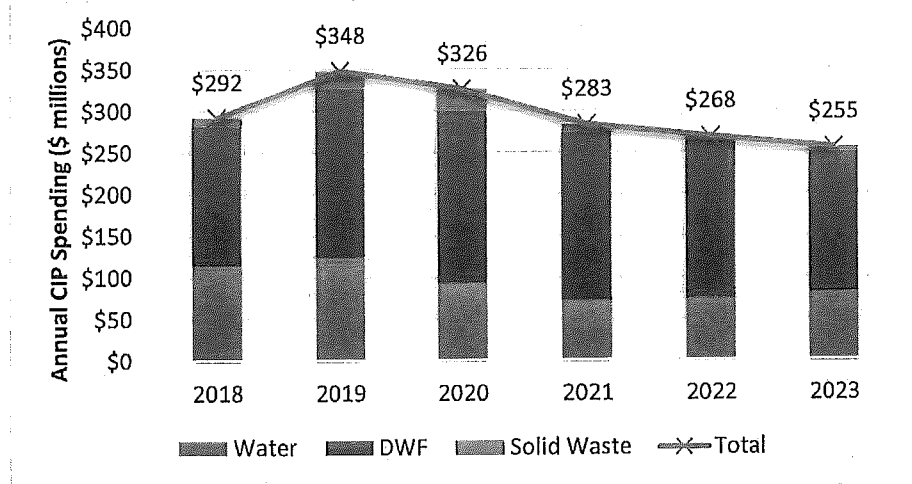
Growth in debt service across 2018-2023 significantly exceeds the rate of inflation, with an average annual increase of 7.9 percent. Cash financing generally fluctuates with capital spending, rising with increases in spending and falling with declines. The decline in cash spending at the end of the period partially offsets the rise in debt service, reducing the overall annual growth to 6.5 percent per year.

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II.C. CAPITAL SPENDING (BUDGETARY)

The capital financing expense presented in Section II.B supports \$1.8 billion in projected 2018-2023 SPU capital spending. Spending on Drainage and Wastewater projects account for 64 percent of total plan spending, followed by 32 percent for Water and only four percent for Solid Waste.

Figure II-6
SPU Annual Capital Financing Expense 2018-2023 (\$ Millions)



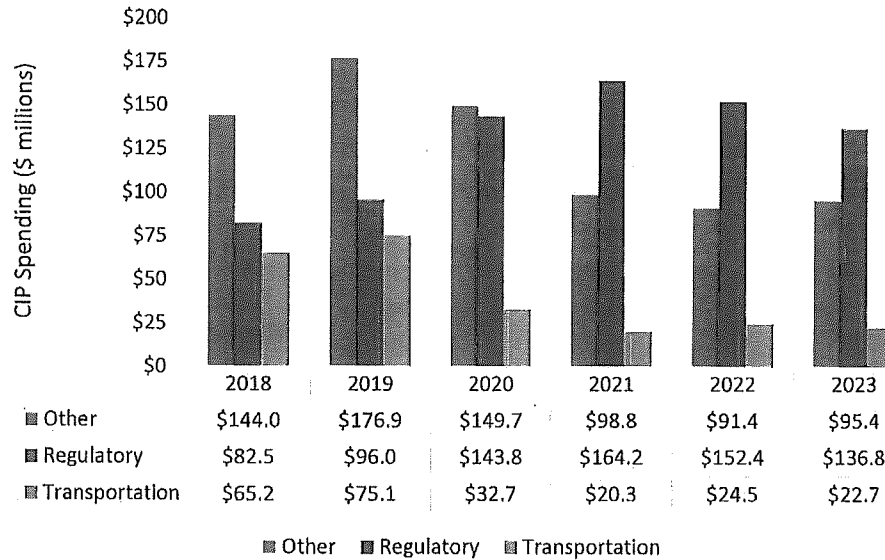
	2018	2019	2020	2021	2022	2023	Plan Total	% Total
Water	116.1	125.5	94.2	73.1	74.7	82.1	\$566	32%
DWF	166.6	202.2	206.8	201.9	189.0	168.3	\$1,135	64%
Solid Waste	9.0	20.2	25.1	8.4	4.6	4.5	\$72	4%
Total	291.7	347.9	326.1	283.4	268.3	254.9	\$1,772	

Over half of proposed spending is directed towards two areas:

- Compliance with Drainage and Wastewater regulatory requirements, and
- Utility relocation and/or infrastructure improvements associated with various City transportation initiatives.

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Figure II-7
SPU Annual Capital Spending by Major Grouping, 2018-2023 (\$ Millions)



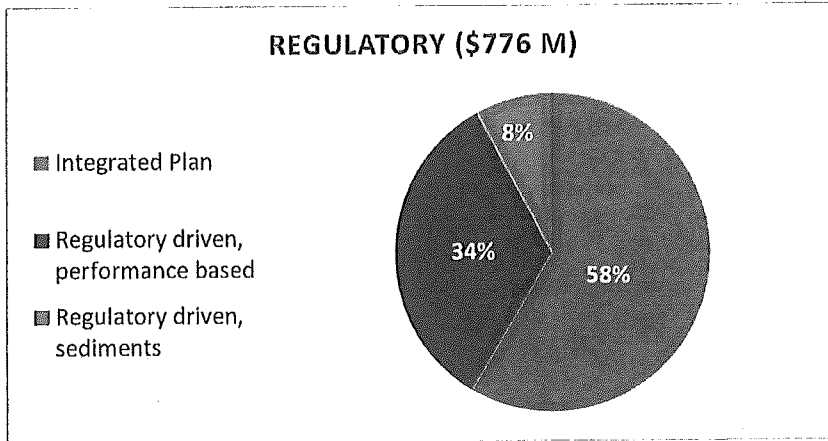
Regulatory CIP spending doubles between 2018 and 2021 with the implementation of the Integrated Plan and while declining after 2021, remains high throughout 2023.

The Integrated Plan consists of a combination of stormwater and wastewater programs and Infrastructure investments designed to improve local water quality and bring SPU's combined sewer system into compliance with the requirements of its federal Combined Sewer Consent Decree. The target date for meeting key regulatory targets is 2025. The increase in spending over the six-year period is predominately due to the Ship Canal for Water Quality project moving into construction.

Figure II-8 shows the breakdown between the major categories of regulatory driven capital spending across the 2017-2023 Plan Update period for the Drainage and Wastewater Fund.

Section II: SPENDING DETAIL

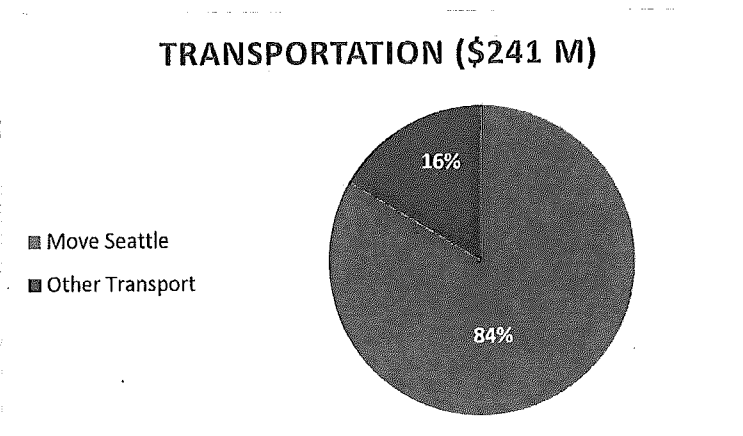
Figure II-8
Composition of Proposed 2018-2023 Regulatory CIP Expense for the Drainage and Wastewater Fund



Drainage and Wastewater capital regulatory requirements total \$776 million over the six-year plan. Fifty-eight percent of proposed regulatory spending (\$454 million) is related to SPU's Integrated Plan. Thirty-four percent of proposed regulatory spending (\$261 million) is for Drainage and Wastewater performance-based projects such as rehabilitating old pipes either through replacement or relining with new technologies. This work is critical to meet the regulatory performance goal of no more than four sewer overflows per 100 miles of pipe. The remaining eight percent supports requirements associated with the investigation and clean-up of contaminated sediments at federal Superfund sites.

Transportation-related requirements total \$241 million over the six-year plan update, with 52 percent of spending for Water projects and 48 percent for Drainage and Wastewater projects.

Figure II-9
Composition of Proposed 2018-2023 Transportation CIP Expense



Eighty-four percent of proposed transportation spending is related to the City's Move Seattle project, with the remaining 16 percent related to other transportation initiatives including Alaska Way Viaduct projects and the City Center streetcar.

Section II: SPENDING DETAIL

A portion of proposed spending is required utility relocation associated with other transportation projects in the street. The plan also proposes “opportunity” spending, which essentially allows the utility to replace aging infrastructure at a much lower cost when streets are already opened for other projects.

Table II-12 shows proposed capital baseline spending, savings, and action plan investments.

Table II-12
SPU Proposed Capital Spending, Baseline and Action Plan (\$ Millions)

	2018	2019	2020	2021	2022	2023	Total
Baseline	\$285	\$305	\$273	\$265	\$269	\$236	\$1,634
Savings	(\$26)	(\$16)	\$4	(\$16)	(\$25)	(\$4)	(\$82)
Baseline, Net	\$259	\$290	\$278	\$249	\$244	\$233	\$1,552
Action Plans	\$33	\$58	\$49	\$35	\$24	\$22	\$221
Total	\$292	\$348	\$326	\$283	\$268	\$255	\$1,772

Nearly half (\$95.0 million) of the proposed action plans are related to investing in SPU facilities. This investment was informed by the Facilities Master Plan that was completed as part of the 2015-2020 Plan. The Drainage and Wastewater Fund is proposing investment of \$50.1 million in aging infrastructure such as rehabilitation of pipes and pump stations, as well as \$20.0 million in new green stormwater infrastructure. Water Fund opportunity-driven Infrastructure replacement associated with transportation projects accounts for about \$49.4 million of proposed strategic action plans. Lastly, there is a proposed action plan for \$6.5 million to invest in the infrastructure for expanding SPU’s green fleet.

Section III: LINE OF BUSINESS DETAIL

A combination of direct service rates revenues and revenues from other funding sources are used to meet a utilities TOTAL REVENUE REQUIREMENT. The total revenue requirement is the sum of revenues required for spending on O&M and CIP financing expense together with any additional revenues required to meet financial policy requirements.

RATE INCREASES are required to fund increases in the RATES REVENUE REQUIREMENT from one rate setting period to the next. Rates increases may be smaller or greater than the actual change in the rates revenue requirement depending on demand and other revenue adjustments such as UDP credits.

Sections I and II of this summary discuss rate drivers for the department as a whole. This section looks at the impacts of the proposed Strategic Business Plan Update on each individual line of business, including:

- An overview of the impact of spending, financial policies, other non-rates funding sources, and demand/UDP on the average rate increase. Changes are relative to assumptions used to set 2017 rates, not current 2017 projections
- A summary of the components of the spending increase
- Projected debt issuance and debt service assumptions for the period, and
- Composition of projected capital spending

III.A WATER FUND

Water rates are projected to increase by an average of 4.6 percent per year across the 2018-2023 Plan Update period. The components of this increase are presented in Table III-1. Note that all increases are relative to assumptions used to set 2017 rates, not current 2017 projections.

**Table III-1
Components of 2018-2023 Average Water Rate Increase**

	2018-2023 Avg Rate Impact
Spending	4.4%
Plus: Other Financial Policies	0.4%
TOTAL REVENUE REQUIREMENT	4.8%
Less: Other Funding	0.0%
RATES REVENUE REQUIREMENT	4.8%
Demand/UDP adjustments	-0.2%
RATE INCREASE	4.6%

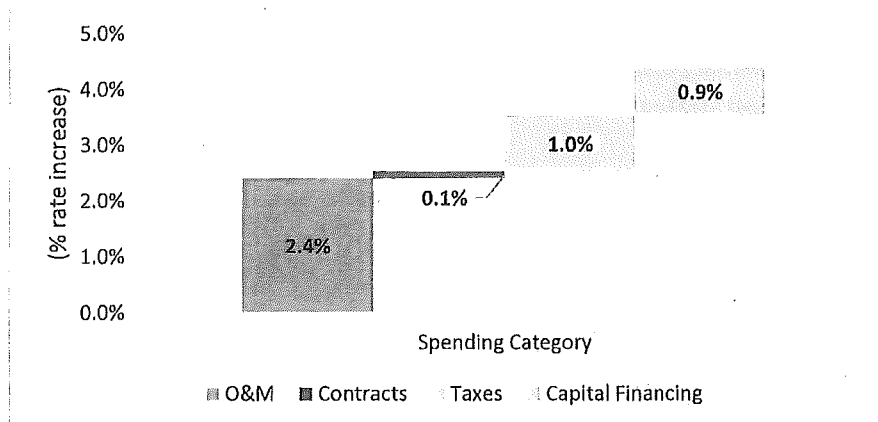
Increased **spending** accounts for 4.4 percent of this increase, with increases to spending presented in Figure II-8 below.

Financial policy requirements add an average of 0.4 percent per year to the rate. The Water Fund must generate revenues beyond cash expense to meet debt service coverage requirements. Nearly all the excess revenue is used for cash-financing of capital projects:

Section III: LINE OF BUSINESS DETAIL

Net changes to demand and UDP further reduce the rate by 0.2 percent per year. While demand is projected to decline slightly between 2018 and 2023 (See Financial Assumptions in Appendix B), 2023 demand is higher than what was assumed when rates were set for 2017. This increased demand more than offsets the impact of increased UDP.

Figure III-1
Composition of Projected Average 4.4 percent Water SPENDING Increase, 2018-2023



O&M is the largest category of increased spending, adding 2.4 percent on average annually to the rate. These increases are generally driven by inflation. Capital financing, which includes debt and cash financed CIP, is the second largest driver, adding 0.9 percent on average to the rate. The Water Fund is expected to issue \$229 million in new debt during the period (see Table III-2 below). Increases in tax expense due to increased revenues add 1 percent per year and a small increase in the Tolt DBO contract adds another 0.1 percent per year.

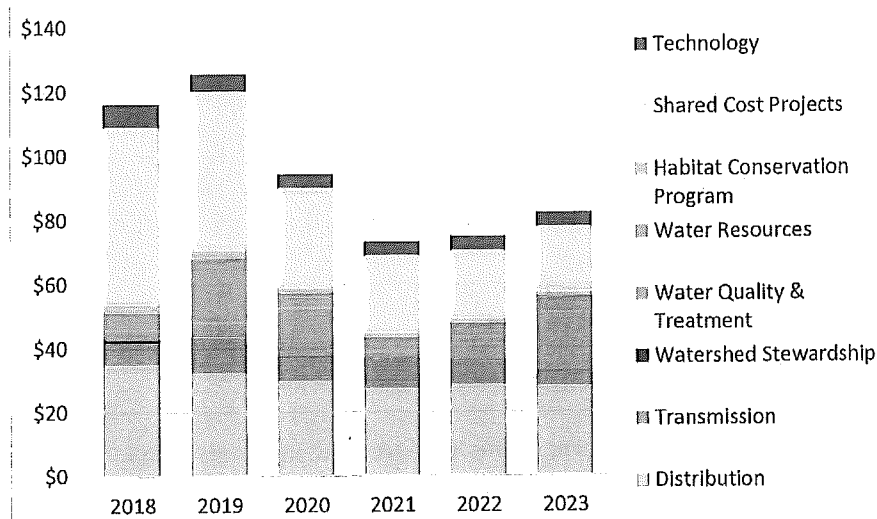
Table III-2
Water Fund Projected Debt Issues and Debt Service, 2018-2023

Year	Bond Amount	2018	2019	2020	2021	2022	2023
Existing Revenue Bond Debt Service							
		\$81.3	\$81.3	\$81.7	\$80.1	\$80.3	\$80.0
New Revenue Bond Debt Service							
2018	\$0.0						
2019	\$92.0		\$3.8	\$6.3	\$6.3	\$6.3	\$6.3
2020	\$72.6			\$2.3	\$5.0	\$5.0	\$5.0
2021	\$64.8				\$2.7	\$4.5	\$4.5
2022	\$61.3						\$4.2
2023	\$60.7						
Total New Debt	\$229.4	Debt Service on Other Loans					
		\$2.3	\$2.3	\$2.2	\$2.2	\$2.2	\$2.2
Total Debt Service							
		\$83.6	\$87.4	\$92.6	\$96.3	\$98.3	\$102.2
DSC (1.7x)		1.94	1.89	1.70	1.70	1.70	1.70

Section III: LINE OF BUSINESS DETAIL

Water Fund capital spending is projected to total \$566 million across the period. The two largest categories of spending, shared cost projects and distribution, account for about 68 percent of total projected spending. Transportation projects drive the significant spending in shared cost projects at the beginning of the period while reservoir covering projects bump up spending in Water Quality & Treatment in 2020 (Lake Forest Park) and 2023 (Bitter Lake).

**Figure III-2
Water Fund Projected CIP Spending by BCL, 2018-2023 (\$ Millions)**



	2018	2019	2020	2021	2022	2023	Total
Distribution	34.9	32.4	29.7	27.5	28.3	28.1	180.8
Transmission	6.8	11.1	7.5	9.1	7.4	4.2	46.1
Watershed Stewardship	1.0	0.1	0.2	0.1	0.1	0.0	1.4
Water Quality & Treatment	3.2	4.4	15.2	2.0	7.5	18.7	50.8
Water Resources	5.1	20.2	4.5	4.4	4.2	5.0	43.4
Habitat Conservation Program	2.7	2.4	1.5	1.6	1.5	1.3	11.0
Shared Cost Projects	55.3	49.7	31.5	24.2	21.5	20.7	202.9
Technology	7.1	5.3	4.2	4.2	4.2	4.2	29.2
Grand Total	\$116.1	\$125.5	\$94.2	\$73.1	\$74.7	\$82.1	\$565.6

Section III: LINE OF BUSINESS DETAIL

III.B DRAINAGE AND WASTEWATER FUND

III.B.1. Wastewater Rates

Wastewater rates are projected to increase by an average of 5.9 percent per year across the 2018-2023 Strategic Business Plan Update period. The components of this increase are presented in Table III-3. Note that all increases are relative to assumptions used to set 2017 rates, not current 2017 projections.

**Table III-3
Components of 2018-2023 Average Wastewater Rate Increase**

	2018-2023 Avg Rate Impact
Spending	6.8%
Plus: Other Financial Policies	0.0%
TOTAL REVENUE REQUIREMENT	6.8%
Less: Other Funding	-0.7%
RATES REVENUE REQUIREMENT	6.1%
Demand/UDP adjustments	-0.2%
RATE INCREASE	5.9%

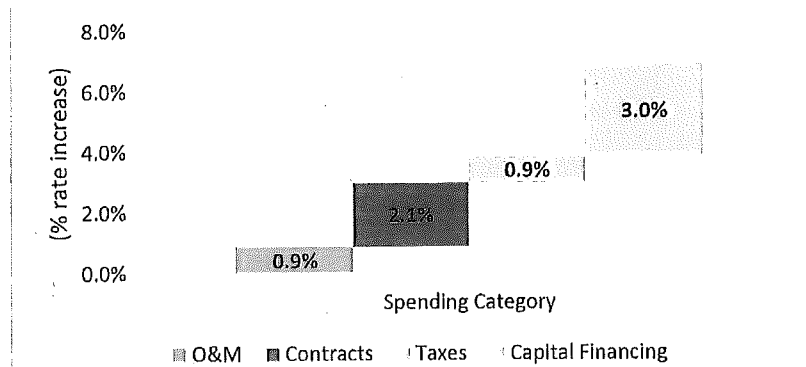
Increased **spending** accounts for 6.8 percent of this increase, with increases to spending presented in Figure III-4 below.

Other funding sources reduce the required rate increase by an average of 0.7 percent per year. These funding sources are a combination of expense recoveries for various services (Engineering/GIS) that SPU provides to other City departments as well as increased use of cash balances.

Net changes to demand and UDP further reduce the rate by 0.2 percent per year. While demand is projected to remain relatively constant between 2018 and 2023 (See Financial Assumptions in Appendix B), 2023 demand is higher than what was assumed when rates were set for 2017. This increased demand more than offsets the impact of increased UDP.

Section III: LINE OF BUSINESS DETAIL

Figure III-3
Composition of Projected Average 6.8 percent Wastewater SPENDING Increase, 2018-2023



Capital financing, which includes debt and cash financed CIP, is the largest category of increased spending, adding 3.0 percent on average annually to the rate. The Drainage and Wastewater Fund projects to issue \$669 million in new debt during the period, (see Table III-5 below), with wastewater rates funding about 37 percent of new debt service. The second largest driver, Wastewater Treatment Contract Expense, adds 2.1 percent to the rate, primarily due to increases in the King County wastewater treatment rate (See Appendix A, Financial Assumptions). Both O&M and tax expense each add 0.9 percent per year to the rate.

III.B.2. Drainage Rates

Drainage rates are projected to increase by an average of 8.8 percent per year across the 2018-2023 Plan Update period. The components of this increase are presented in Table III-4. Note that all increases are relative to assumptions used to set 2017 rates, not current 2017 projections.

Table III-4
Components of 2018-2023 Average Drainage Rate Increase

	2018-2023 Avg Rate Impact
Spending	9.3%
Plus: Other Financial Policies	0.0%
TOTAL REVENUE REQUIREMENT	9.3%
Less: Other Funding	-0.4%
RATES REVENUE REQUIREMENT	8.9%
Demand/UDP adjustments	-0.1%
RATE INCREASE	8.8%

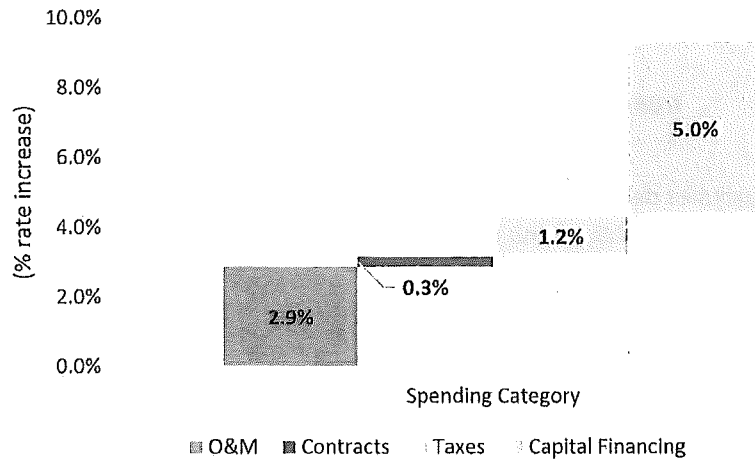
Increased **spending** accounts for 9.3 percent of this increase, with increases to spending presented in Figure III-5 below.

Section III: LINE OF BUSINESS DETAIL

Other funding sources reduce the required rate increase by an average of 0.4 percent per year. As with Wastewater, these funding sources are a combination of expense recoveries for various services (Engineering/GIS) that SPU provides to other City departments as well as increased use of cash balances.

Net changes to demand and UDP further reduce the rate by 0.1 percent per year.

Figure III-4
Composition of Projected Average 9.3 percent Drainage SPENDING Increase, 2018-2023



Capital financing, which includes debt and cash financed CIP, is the largest category of increased spending, adding 5.0 percent on average annually to the rate. The Drainage and Wastewater Fund projects to issue \$669 million in new debt during the period, (see Table II-5 below), with drainage rates funding about 63 percent of new debt service. The second largest driver, O&M expense, adds 2.9 percent to the rate. Drainage is allocated a larger share of Drainage and Wastewater O&M expense as there are more drainage specific projects and related administrative support. Taxes add 1.2 percent to the rate and Contract Expense adds 0.3 percent as drainage is allocated only about six percent of total wastewater treatment expense.

Section III: LINE OF BUSINESS DETAIL

III.B.3. Drainage and Wastewater Capital Spending and Financing

The drainage and wastewater lines of business issue debt jointly under the Drainage and Wastewater Fund. Debt service is then allocated between the two rate bases using the net book value of assets associated with each line of business. Table III-5 presents projected bond amounts and debt service for jointly issued debt between 2018 and 2023. As noted earlier, wastewater rates fund about 37 percent of new debt service and drainage rates fund 63 percent. The larger drainage share is due to generally newer assets (so a higher net book value) and its larger allocation (55 percent) of combined system expense, the largest DWF capital expense driver.

**Table III-5
Drainage and Wastewater Fund Projected Debt Issues and Debt Service, 2018-2023**

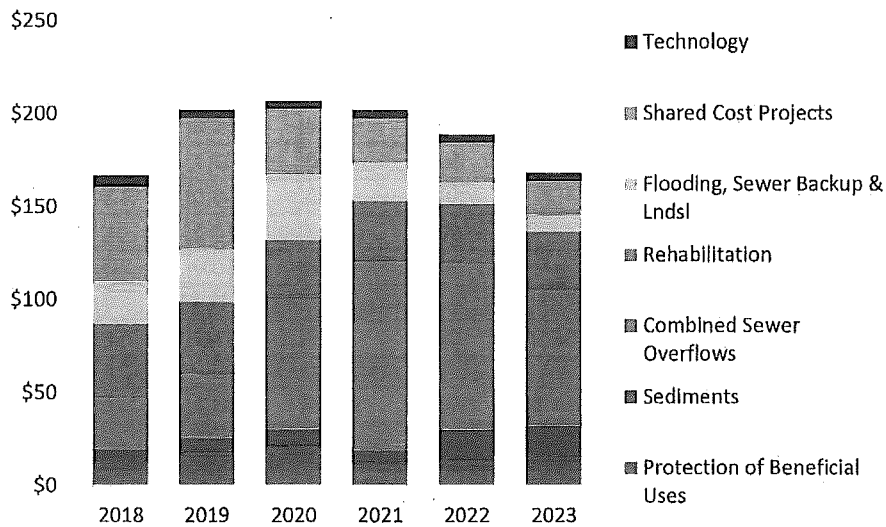
Year	Bond Amount	2018	2019	2020	2021	2022	2023
		Existing Revenue Bond Debt Service					
		\$66.0	\$65.9	\$65.7	\$64.2	\$58.4	\$54.3
		New Revenue Bond Debt Service					
2018	\$0.0						
2019	\$211.0		\$6.0	\$14.8	\$14.8	\$14.8	\$14.8
2020	\$244.1		\$0.0	\$7.0	\$17.2	\$17.2	\$17.2
2021	\$213.6		\$0.0	\$0.0	\$0.0	\$15.0	\$15.0
2022	\$0.0		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
2023	\$201.0		\$0.0	\$0.0	\$0.0	\$5.7	\$14.1
Total New Debt	\$668.7	Debt Service on Other Loans					
		\$8.9	\$8.9	\$8.9	\$8.9	\$8.9	\$8.9
		Total Debt Service					
		\$74.9	\$80.8	\$96.4	\$105.1	\$120.1	\$124.4
DSC (2.0x)		1.85	2.20	2.42	2.26	2.00	2.00

Section III: LINE OF BUSINESS DETAIL

Drainage and Wastewater Fund capital spending is projected to total \$1.1 billion across the period. Spending on Combined Sewer Overflow projects account for 35 percent of total spending, largely due to the King County Ship Canal and other projects related to meeting the requirements of the Combined Sewer Consent Decree (See Section II.C for more details). Spending in this area is primarily concentrated in the 2020-2023 period.

Transportation projects (Shared Cost Projects) also account for a significant share of capital spending (19 percent), as does rehabilitation of sewer pipes (18 percent). Spending on rehabilitation is relatively constant while, similar to the Water Fund, transportation spending peaks in 2019 and then gradually declines.

**Figure III-5
Drainage and Wastewater Fund Projected CIP Spending by BCL, 2018-2023 (\$ Millions)**



	2018	2019	2020	2021	2022	2023	Total
Protection of Beneficial Uses	13.1	18.5	21.6	12.6	14.4	16.0	96.3
Sediments	6.5	7.3	8.8	6.2	15.7	16.2	60.7
Combined Sewer Overflows	27.6	34.4	70.6	101.8	89.4	73.2	397.0
Rehabilitation	39.8	38.6	31.2	32.6	32.2	31.3	205.6
Flooding, Sewer Backup & Lndsl	22.8	29.0	35.7	21.1	11.9	9.6	130.2
Shared Cost Projects	51.0	69.8	35.0	23.4	21.1	17.7	217.9
Technology	5.8	4.5	3.9	4.3	4.3	4.3	27.2
Grand Total	\$166.6	\$202.2	\$206.8	\$201.9	\$189.0	\$168.3	\$1,134.9

Section III: LINE OF BUSINESS DETAIL

III.C SOLID WASTE

Solid Waste rates are projected to increase by an average of 3.4 percent per year across the 2018-2023 Strategic Business Plan Update period. The components of this increase are presented in Table III-6. Note that all increases are relative to assumptions used to set 2017 rates, not current 2017 projections.

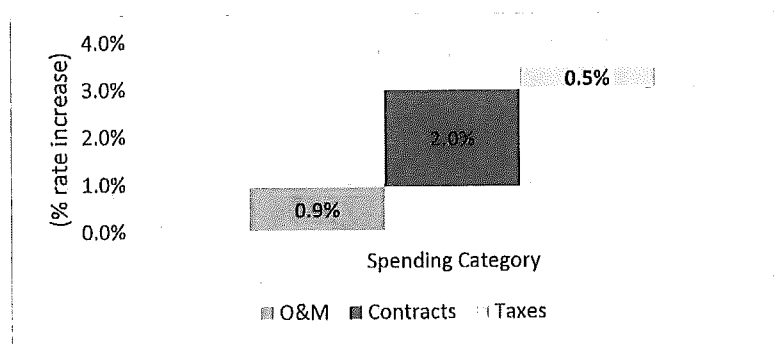
**Table III-6
Components of 2018-2023 Average Solid Waste Rate Increase**

	2018-2023 Avg Rate Impact
Spending	3.5%
Plus: Other Financial Policies	-0.1%
TOTAL REVENUE REQUIREMENT	3.4%
Less: Other Funding	-0.4%
RATES REVENUE REQUIREMENT	3.0%
Demand/UDP adjustments	0.4%
RATE INCREASE	3.4%

Increased **spending** accounts for 3.5 percent of this increase, with increases to spending presented in Figure III-7 below. Financial policy requirements reduce the average rate increase by 0.1 percent per year.

Net changes to demand and UDP increase the rate by 0.4 percent per year. There are multiple demand drivers (see Appendix B, Financial Assumptions) for solid waste that, on net, remain relatively constant with 2017 rate study assumptions. Consequently, unlike with the other funds, changes to demand do not offset increases to the solid waste rate associated with projected increases to UDP enrollment (all found in Appendix B, Financial Assumptions).

**Figure III-6
Composition of Projected Average 3.5 percent Solid Waste SPENDING Increase, 2018-2023**



Contracts account for about 60 percent of increased spending, adding 2.0 percent on average annually to the rate, primarily due to a new composting contract which is effective in 2019. O&M and taxes add 0.9 percent and 0.5 percent respectively to the rate. While a small bond issue (\$13.8 million) is projected during the plan period, total capital financing expense does not materially increase the rate.

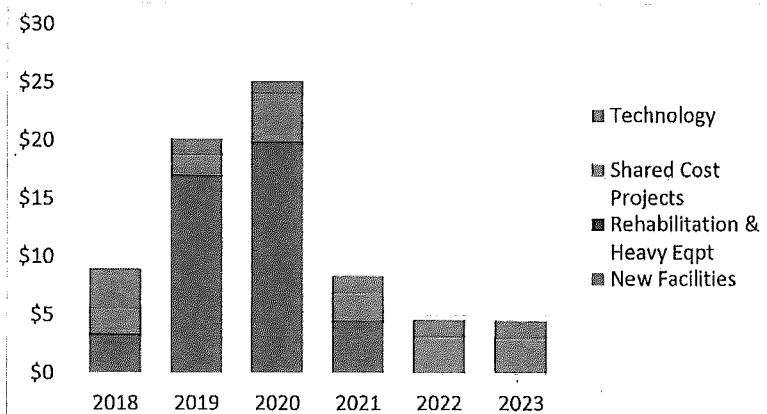
Section III: LINE OF BUSINESS DETAIL

Table III-7
 Drainage and Wastewater Fund Projected Debt Issues and Debt Service, 2018-2023

Year	Bond Amount	2018	2019	2020	2021	2022	2023
		Existing Debt Service					
	-	\$15.9	\$15.9	\$15.4	\$15.4	\$15.4	\$15.4
		New Debt Service					
2018	\$0.0						
2019	\$13.8			\$1.1	\$1.1	\$1.1	\$1.1
2020	\$0.0						
2021	\$0.0						
2022	\$0.0						
2023	\$0.0						
Total Debt	\$13.8	Total Debt Service					
		\$15.9	\$15.9	\$16.6	\$16.6	\$16.6	\$16.6
DSC - 1 (1.7x)		3.05	3.10	4.11	3.13	3.17	3.21
DSC - 2 (1.7x)		1.50	1.51	2.52	1.50	1.50	1.50

Solid Waste Fund capital spending is projected to total \$72 million across the period. Approximately, 62 percent of this spending is for the completion of the South Transfer Station Phase II projects. Shared cost projects and technology account for the balance of spending.

Figure III-7
 Solid Waste Fund Projected CIP Spending by BCL, 2018-2023 (\$ Millions)



	2018	2019	2020	2021	2022	2023	Total
New Facilities	3.3	17.0	19.8	4.5	-	-	44.6
Rehabilitation & Heavy Eqpt	0.1	0.1	0.0	0.0	0.0	-	0.3
Shared Cost Projects	2.2	1.7	4.2	2.4	3.1	3.0	16.5
Technology	3.4	1.4	1.1	1.5	1.5	1.5	10.5
Grand Total	\$9.0	\$20.2	\$25.1	\$8.4	\$4.6	\$4.5	\$71.9

Appendix A: ASSUMPTIONS

Inflation Assumptions

Descriptor	2018	2019	2020-2023
Salaries and overtime	2.8%	2.4%	2.4%
Salary sensitive fringe benefits - FICA, Medicare	2.8%	2.4%	2.4%
Health and dental insurance	6.3%	6.3%	6.3%
Hourly fringe benefits - Orca cards, life insurance, etc.	6.0%	6.0%	6.0%
City pension costs	1.1%	5.7%	2.4%
Unemployment	45.3%	3.0%	3.0%
Worker's Compensation	3.0%	3.0%	3.0%
Labor overhead charges	3.0%	3.0%	3.0%
Central Cost Allocations - including rent, FAS, and Seattle DoIT charges	6.0%	6.0%	6.0%
Central Cost - Fleet Allocation and Fleet Fuel Allocation	7.0%	11.0%	7.0%/11% alternating years
Central Cost - Fleet rentals and motor pool	11.0%	11.0%	11.0%
Central Cost O Fleet maintenance	4.0%	11.0%	4.0%/11% alternating years
Professional service contracts	3.0%	3.0%	3.0%
Equipment purchases	2.0%	2.0%	2.0%
Training and travel for SPU employees to attend meetings or conferences	2.0%	2.0%	2.0%
Utilities	5.0%	5.0%	5.0%
All other costs not included in any account above.	3.0%	3.0%	3.0%

Appendix A: ASSUMPTIONS

Other Financial Assumptions

	2018	2019	2020	2021	2022	2023
Bond Interest Rates						
Water		5.50%	5.50%	5.50%	5.50%	5.50%
Drainage & Wastewater ¹	-	5.70%	5.70%	-	5.70%	5.70%
Solid Waste	-	5.50%	-	-	-	-
Demand Assumptions						
Water Demand (annual ccf) ²	26,750	26,560	26,480	26,400	26,360	26,290
Sewer Demand ³	21,550	21,543	21,603	21,571	21,565	21,569
Solid Waste Customers (SFR) ⁴	164,375	164,146	163,916	163,687	163,458	163,229
Solid Waste Volume (CY, all garbage & organics) ⁴	523,341	524,339	524,544	524,639	524,733	524,828
Solid Waste Tons (all garbage & organics) ⁴	339,092	342,155	343,500	344,497	345,865	346,895
Other Assumptions						
CIP Accomplishment Rate (All LOBs)	100%	100%	100%	100%	100%	100%
King County Wastewater Treatment Rate Increase ⁵	0.0%	6.4%	0.0%	3.0%	3.0%	3.0%
RSF Assumptions (\$ thousands)⁶						
Water	-\$3,000	-\$14,000	-\$2,000			
Solid Waste	-\$879	-\$1,187	-\$17,297	-\$330	\$204	\$179
LIRA						
Enrollees						
Water	29,198	30,867	32,535	34,204	35,872	37,541
Wastewater	27,276	28,834	30,393	31,951	33,510	35,069
Drainage	27,197	28,751	30,306	31,860	33,414	34,968
Solid Waste	24,577	25,981	27,386	28,790	30,195	31,599
Revenue Reductions (\$ thousands)						
Water	\$5,129	\$5,472	\$6,083	\$6,771	\$7,461	\$8,329
Wastewater	\$8,018	\$9,713	\$11,753	\$12,505	\$13,547	\$14,404
Drainage	\$2,457	\$3,004	\$3,643	\$3,991	\$4,397	\$4,845
Solid Waste	\$6,104	\$6,667	\$7,230	\$7,921	\$8,662	\$9,320

Financial Policy Assumptions

	WF	DWF	SWF
Net Income	positive	positive	positive
Cash to CIP	20% over rate study period	25% 4 yr avg.	> \$3.3M or 10% of CIP
YE Cash	1/12 annual operating expense	45 day operating revenue ⁷	20 days contract cost
DSC	1.7x	2.0x ⁸	1.7x w/tax; 1.5x less tax
Debt to assets ratio		<70%	

Notes:

- 1) The assumed bond interest rate for the Drainage and Wastewater Fund is higher than Water and Solid Waste because we are anticipating a possible negative outlook assignment as a result of the large capital program combined with King County debt assignment placing pressure on the Fund's cash balances and Debt Service Coverage(DSC).
- 2) 2017 Rate Study assumed 25,878 one hundred cubic feet (ccf), so increased in demand between 2017 and 2023 for rate-setting purposes.
- 3) 2017 Rate Study assumed 20,796 ccf, so increased in demand between 2017 and 2023 for rate-setting purposes.
- 4) 2017 Rate Study assumed 164,982 SFR accounts, 130,220 cy, and 338,452 tons. Demand trends are mixed for rate-setting purposes.
- 5) Based on King County's June 2016 rate letter.
- 6) Negative indicates withdrawal; positive indicates deposit. Solid Waste Fund (SWF) financials assumed that operating cash (rather than an RSF withdrawal) will be used to fund Bill in Advance in 2018. The large 2020 SWF RSF withdrawal is to fund significant capital expense that year after proceeds from the 2019 bonds are exhausted.
- 7) Rate-setting target. Adopted target is 1 month wastewater treatment expense.
- 8) 1.8x adopted target.

Appendix B: Capital Financing Context

Capital expense is paid for through a combination of current year revenues (cash-financed CIP) and proceeds from periodic revenue bond issues. Annual debt service payments of principal and interest represent the annual cost to the Fund of issuing revenue bonds. This process is similar to home financing:

- Cash-financed CIP equates to a down payment,
- Revenue bond proceeds equate to funds that the mortgage lender uses to pay for the cost of the home in excess of the down payment, and
- Annual debt service payments equate to annual mortgage payments to the lender.

Both the cash and debt financed portions of capital financing expense are paid out of operating revenues, much as a homeowner uses annual income to pay for the initial down payment and subsequent mortgage payments on a home purchase.

While a typical homeowner only purchases one home over the course of a multi-year period, utilities typically “purchase” new infrastructure every year over multi-year periods. Consequently, each year there is a new “down payment” which is a percentage of capital spending in that year. Revenue bond issues are typically sized to fund about two years of capital expenditures. Every few years, new bonds must be issued to pay for the portion of ongoing capital expenditures not paid for with current revenues. Debt payments are typically spread over 30 years, so a utility may be paying debt service payments on MULTIPLE bond issues in any one annual period. This equates to paying multiple mortgages on multiple homes purchased over several years.

Impact of Capital Financing on Rates

Assuming constant demand and no change in other funding sources, a rate increase will be required to fund **incremental** annual increases to a utility’s revenue requirement. Growth in operating spending impacts the revenue requirement in a different manner from growth in CIP spending. Incremental increases to operating expense will drive a linear dollar for dollar increase to the revenue requirement. Thus, if operating spending in Year 1 is \$50 million and in Year 2 is \$55 million, the revenue requirement will increase by \$5 million⁷.

The relationship between changes in capital spending and changes to the revenue requirement varies between the two financing options of cash and debt.

Cash-Financed CIP. Increases in capital spending will result in incremental increases to cash-financed CIP, assuming a constant percentage funded from year to year. However, there is not a 1:1 relationship between increases in capital spending and the resultant increase in the revenue requirement. For example, if 20 percent of total annual capital spending is financed each year with cash, then a \$1.00 increase in capital spending will result in a \$0.20 increase to the revenue requirement. If there is no

⁷ This is a simple example that does not take into account revenue tax impacts. Additional revenue generated to fund increased spending must fund both the spending and increased taxes on the additional revenue. Assuming a 10 percent tax rate, in the example above, rates must be set to generate an additional \$5,555,556 in revenue, with \$5,000,000 used to pay for increased spending, and \$555,556 used to pay for increased taxes on the higher revenues.

Appendix B: Capital Financing Context

change in CIP spending from year to year (and no change in the percentage financed), there will be no change in total cash financing and thus no change in the revenue requirement.

Debt Payments. Revenue bond proceeds are used to finance the total annual debt-financed portion of capital spending not just the incremental change in capital spending from the prior year. Therefore, any capital spending, even if it is less or the same as the prior year, will generate an increase in debt service. How large this increase is will depend on the amount financed and other financing terms (variable/fixed structure, current market interest rates, term of debt), not the rate of inflation.

Table B-1 below presents a numerical example of the relationship between capital spending and capital financing expense.

Table B-1⁸
Impact of Capital Spending on Capital Financing Expense

Current Year Capital Spending	Year 1	Year 2	
Total Capital Spending	\$50,000,000	\$50,000,000	
<i>Cash-Financed CIP (20 percent)</i>	<i>\$10,000,000</i>	<i>\$10,000,000</i>	
<i>Debt-Financed CIP (80 percent)</i>	<i>\$40,000,000</i>	<i>\$40,000,000</i>	
Total Annual Capital Financing Expense			Change (\$\$)
Cash	\$10,000,000	\$10,000,000	\$0
Debt Payments ⁹	\$2,752,200	\$5,504,000	\$2,752,000
<i>Payment on Year 1 spending</i>	<i>\$2,752,200</i>	<i>\$2,752,200</i>	
<i>Payment on Year 2 spending</i>		<i>\$2,752,200</i>	

In the above example, capital spending remains constant from year one to year two, as does the percentage of spending financed with cash and debt. Under this constant spending assumption, the cash financed portion of annual capital financing expense does not change. However, annual debt service payments increase, thus increasing the revenue requirement (and rates). In fact, as annual debt service

⁸ To isolate the relationship between capital spending and debt service, this table assumes a new bond issue in each year which is sized to fully fund the debt-financed portion of capital spending in each year. In practice, debt issues are typically sized to finance 18 to 24 months of capital spending.

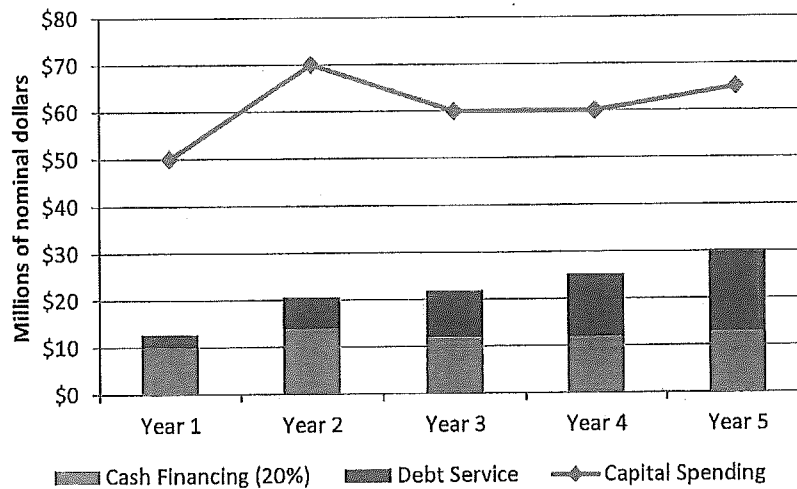
⁹ Annual principal and interest payment assuming 5.5 percent annual interest on 30 year fixed debt.

Appendix B: Capital Financing Context

is cumulative, i.e. the sum of payments related to all prior outstanding issues¹⁰, debt service will increase with new bond issues even when capital spending declines.

Figure B-1 presents the relationship between capital spending and the two capital financing components.

Figure B-1
Relationship between Capital Spending and Capital Financing Expense¹¹



The figure above presents capital spending and financing expense across a five-year period. The line represents annual capital expense which fluctuates across the period. Cash financing held at a constant 20 percent of spending fluctuates in the same direction as capital spending, increasing when spending increases and declining when expense declines. Debt service, on the other hand, continues to increase regardless of the direction in capital spending.

¹⁰ As debt is retired (after 30 years), decreases in base debt service will help to offset any increases associated with new debt issues.

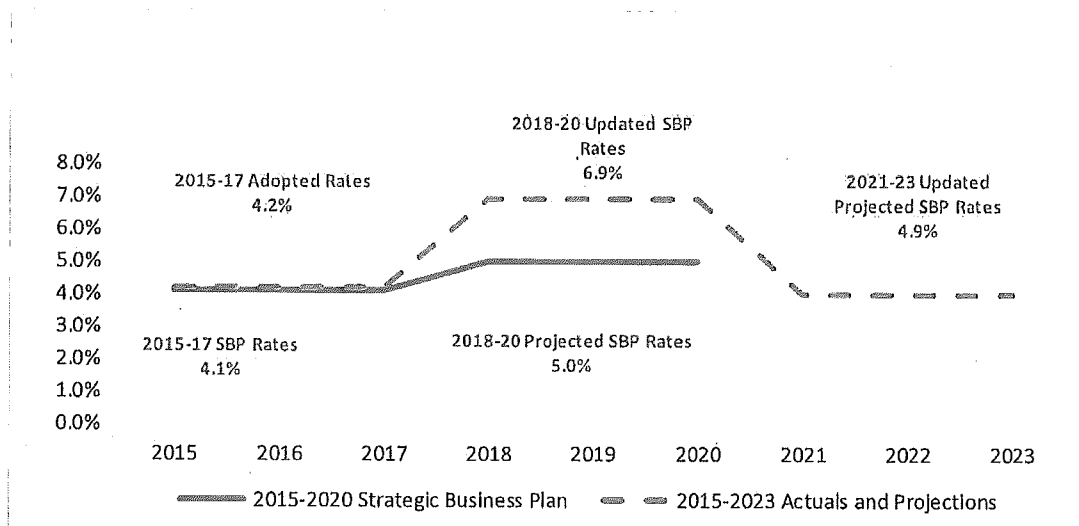
¹¹ Assumes 20 percent constant cash financing; 5.5 percent annual interest rate on debt service and a 30-year fixed term.

Appendix C: Updated Baseline Assumptions

In August 2014, the Council adopted SPU's 2015-2020 Strategic Business Plan via Resolution 31534. That Business Plan included an annual average rate increase of 4.6 percent for the 2015-2020 period. This resolution also directed SPU to update the Strategic Business Plan and the six-year rate path every three years. The overall projected rate path for the 2018-2023 Plan Update is 5.5 percent, 0.9 percent higher than the average rate increase adopted for the 2015-2020 six-year plan.

Figure C-1 compares the three-year averages of the 2015-2020 Strategic Business Plan to the 2015-2023 Actual and Projected rate paths.

Figure C-1
2015-2020 Strategic Business Plan vs 2015-2023 Actuals & Projections



Two key takeaways from the chart above:

1. In the 2015-2020 Plan, the last three years were higher than the first three years, creating a challenge in keeping the next six years (2018-2023) at a 4.6 percent average, and
2. The 2018-2020 average rate path under the 2018-2023 plan (6.9 percent) is considerably higher than the average for the same years (5.0 percent) under the 2015-2020 Strategic Business Plan.

While average adopted rate increases for the first three years of the 2015-2020 plan tracked closely with the plan average for the same period (4.2 percent actual vs. 4.1 percent plan), significant changes to the revenue base combined with changes in timing and level of costs put upward pressure on 2018-2020 rates.

2015-2016 Changes. During the first few years of the plan, key actions added expense through the entire six-year period, most notably:

- Loss of major drainage customer, the Port of Seattle, resulting in \$4 million less in revenue per year.
- Acceleration of Ship Canal project to meet regulatory requirement timelines.

Appendix C: Updated Baseline Assumptions

- New requirements for privacy controls and payment card industry changes.
- Cost to operate the SPU/SCL new billing and customer information system were higher than planned.

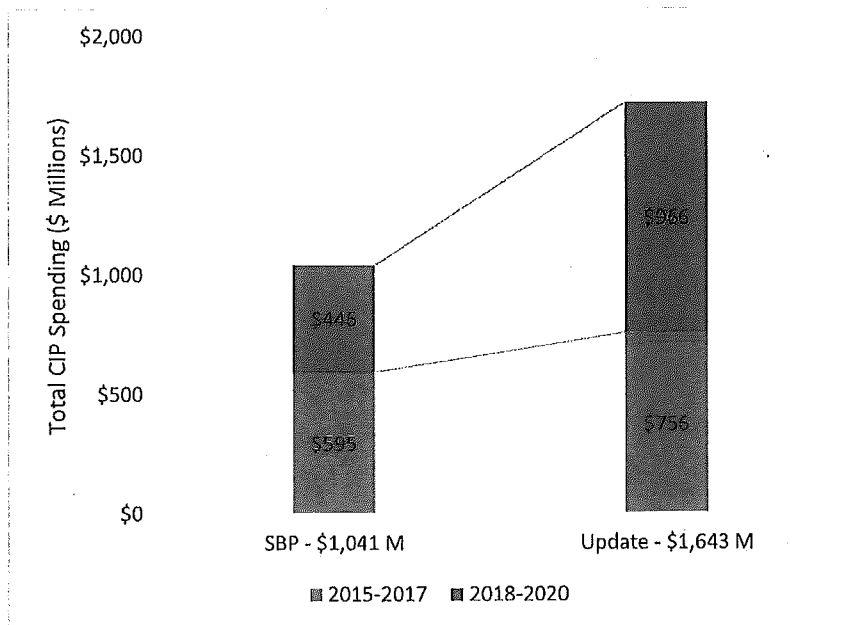
SPU managed to stay within endorsed rates those years through a combination of utility management and fortunate circumstance, specifically:

- Operations and capital management -deferral of capital projects and curbing of operations and maintenance spending, and
- Higher than planned water revenues due to hot summers, and
- Lower than expected debt financing expense (lower revenue bond interest rates and receipt of several large, low-interest rate loans).

Larger Capital Program. Increased capital requirements are a primary driver of the higher average rate increases between 2018 and 2020 under the Plan Update versus the 2015-2020 Plan. As discussed in Section II-C of this document, Drainage and Wastewater regulatory requirements as well as major transportation projects are the largest drivers of these cost increases. Not only are the total costs higher under the projected plan but they are also happening earlier than originally planned, moving more expense into the 2018-2020 period.

Figure C-2 show total projected capital spending during the first (2015-2017) and second (2018-2020) three years under the Plan and the Plan Update. Total spending increases by about \$600million, with most of these increases shifting to the 2018-2020 period.

Figure C-2
2015-2020 Strategic Business Plan vs 2015-2023 Actuals & Projections

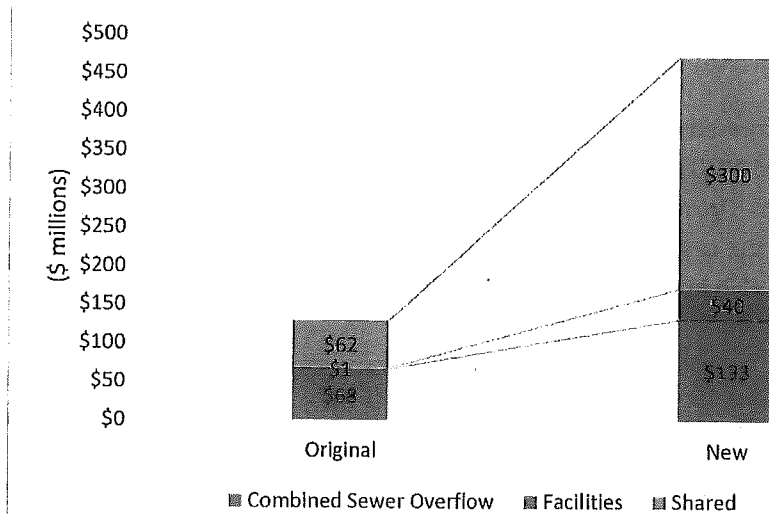


The areas with the largest increases in spending in 2018-2020 are:

Appendix C: Updated Baseline Assumptions

- Combined Sewer Overflow-regulatory requirements and shifting in from later years.
- Facilities – completion of the Facilities Master Plan (2015-2020 action plan) resulted in identification of significant deficiencies that are larger than planned and needed earlier than anticipated.
- Shared Projects – utility work to support transportation projects are large and more concentrated in the first few years.

Figure C-3
Largest Cost Drivers of Capital Spending Increase in 2018-2020



Higher Operating Costs. Beyond general inflation, the higher cost of operating and maintaining new assets as well as the need for additional staffing resources yields higher expected O&M costs under the Plan Update compared with the Plan.

Many of the new Drainage and Wastewater assets such as combined sewer overflow structures, require sophisticated operation. Other assets, such as green stormwater infrastructure, require significant maintenance. As these assets have begun to go-live, better estimates of maintenance costs are available and have been incorporated into the Plan Update.

Exhibit 3. Action Plans and Savings/Deferrals Summary

Summary of All Action Plans

The table below lists the action plans (new investments) proposed in the Strategic Business Plan Update.

#	Action Plan Title	6-Year Cost	Customer Review Panel Consensus	SPU Decision
1	Expand the Apprenticeship Program	\$1.6M O&M	Support	Fund
2	Opportunity Transportation Projects: Water	\$49.4M CIP	Support	Fund
3	Expand Maintenance of the Water Distribution System	\$3.2M O&M	Support	Fund
5	Increase Sewer Repairs	\$1.6M O&M \$5.7M CIP	Support	Fund
7	Sewer Rehabilitation	\$25.9M CIP	Support	Fund
8	Pump Station, Force Main and CSO Outfall Capital Program	\$18.5M CIP	Support	Fund
10a2	Facilities North Operations Center (NOC) Phase 1	\$21.5M CIP	Support	Fund
10a3	Facilities North Operations Complex Phase 2	\$4.6M CIP	Support	Fund
10b	Facilities – South Operations Complex	\$42.7M CIP	Support	Fund
10c	Facilities – Cedar Falls Phase 2	\$8.5M CIP	Support reduced cost alternative	Fund the reduced cost alternative
10d1, 10d3	Facilities – Seattle Municipal Tower (SMT) Phases 1 and 2	\$1.3M CIP (Phase 1) \$16.4M CIP (Phase 2)	Support reduced cost alternatives 1 and 2	Fund the reduced cost alternatives
11	Expand Security Monitoring	\$800K O&M	Support reduced alternative	Fund the reduced alternative
12	Green Fleet Initiative	\$6.5M CIP	Support	Fund
13	Improve Technology Services	\$900K O&M	Support reduced cost alternative	Fund the reduced cost alternative
14	Green Stormwater Infrastructure	\$424K O&M \$20M CIP	Support	Fund
2a	Opportunity Transportation Projects: Drainage and Wastewater	\$66.3M CIP	Do not fund	Do not fund
6	Sanitary Sewer Capacity	\$37.0M CIP	Do not fund	Do not fund
10d3	Facilities - SMT Phase 3	\$9.7M CIP	Do not fund	Do not fund

Exhibit 3. Action Plans and Savings/Deferrals Summary Continued

Summary of Cost Savings

SPU conducted three rounds of cost reductions to keep rates as low as possible. The first round occurred early in the process, prior to convening the Customer Review Panel, and resulted in \$171 million in savings. The second round occurred soon after the Customer Review Panel began working with SPU and resulted in \$105 million in savings from reductions and deferrals. The third round took place with input from the Customer Review Panel and resulted in another \$88.8 million in avoided costs and reductions. The following information provides more detailed information about each round of cost savings.

First Round Additional Savings Between 2018-2023

\$171 million including:

- \$88M in capital projects reductions.
- \$83M in O&M due to refining financial assumptions and prioritizing needed investments.

Second Round Additional Savings Between 2018-2023

\$105 million including:

- \$82M in capital projects and programs:
 - Shifting out some investments in culverts, pump stations, localized flooding, and reservoirs; and
 - Permanent decrease in the Tolt Slide project due to finding a significantly less expensive solution.
- \$23M in operations and maintenance that support various initiatives but with little programmatic or customer impact, such as scaling back on consultant services.

Exhibit 3. Action Plans and Savings/Deferrals Summary Continued


Third Round Additional Savings Between 2018-2023 (in partnership with Customer Review Panel)

Reduction Item	Risk	Savings (6 yr)	Panel Consensus	SPU Decision
Sewer Cleaning - Reduce sewer cleaning efforts; remove temporary employees.	High	(\$3.9M)	Do not cut/defer	Do not cut/defer
Transportation Opportunity Projects - Water transportation Move Seattle opportunity projects. (Action Plan #2b).	High	(\$28.1M)	Do not cut/defer	Do not cut/defer
Sanitary Sewer Capacity - Decrease investment in the sanitary sewer capacity program by assuming no new projects in construction earlier than 2020.	High	(\$25.6M)	Do not cut/defer	Do not cut/defer
Solid Waste Contracts Inflation - Reduce contractor inflation assumption from 2.75% to 2.5%.	High	(\$4.7M)	Do not cut/defer	Do not cut/defer
Solid Waste Bill-in-Advance - Do not use cash to eliminate bill-in-advance.	High	\$0.00	Do not cut/defer	Do not cut/defer
Risk Reserves - Reduce 2022-2023 risk reserve from 2% to 1.5% of O&M, not including debt service, taxes or solid waste contracts.	High	(\$5.8M)	Do not cut/defer	Do not cut/defer
Green Seattle Partnership - Eliminate SPU's contribution in the City's Public Private Partnership with Forterra on care for forested parks.	High	(\$0.6M)	Do not cut/defer	Do not cut/defer
Rodent Control - Reduce payments to King County for above-ground and below-ground rodent control by 50%.	High	(\$1.2M)	Do not cut/defer	Do not cut/defer
Culvert Program - Reduce the culvert program spending by delaying projects.	Medium	(\$10.1M)	Defer / Accept the Reduction	Defer / Accept the Reduction
Stormwater Regulatory Placeholder - Remove a placeholder for anticipated regulations for stormwater infrastructure.	Medium	(\$4.8M)	Defer / Accept the Reduction	Defer / Accept the Reduction
Transportation Opportunity Projects - Drainage and Wastewater transportation Move Seattle opportunity projects. (Action Plan #2a)	Medium	(\$66.3M)	Defer / Accept the Reduction	Defer / Accept the Reduction
Pet Waste & Diaper Composting - Defer pet waste and diaper composting program until evaluation is complete.	Medium	(\$7.6M)	Defer / Accept the Reduction	Defer / Accept the Reduction

Strategic Business Plan Update:

Customer Outreach Findings Summary

Exhibit 4 - Customer Outreach Report

The logo for Seattle Public Utilities, featuring the text "Seattle Public Utilities" in a serif font. The word "Seattle" is on the top line, "Public" is on the second line, and "Utilities" is on the third line. A circular icon containing a stylized utility symbol is positioned to the left of the word "Public".

Seattle
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Overview

Goals: Gather data and insights from customers and employees to inform the 2018-2023 Strategic Business Plan Update. Better understand our relationship with each group.

Methods: Public outreach meetings, online and paper surveys.

Topics:

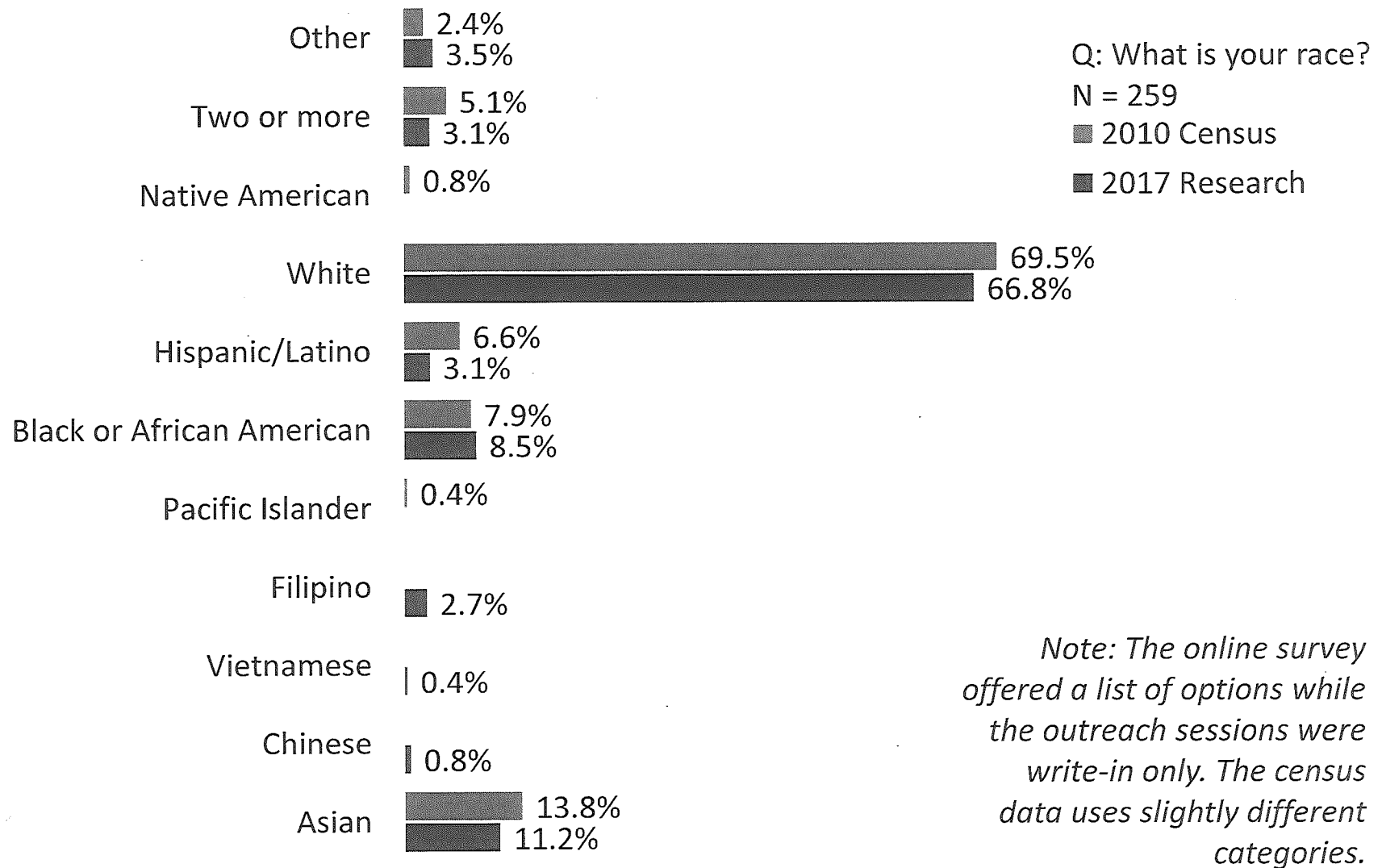
- Background information and SPU's progress
- Relationship benchmarking
- Rate options
- SBP focus area prioritization
- Open-ended question insight

Methodology

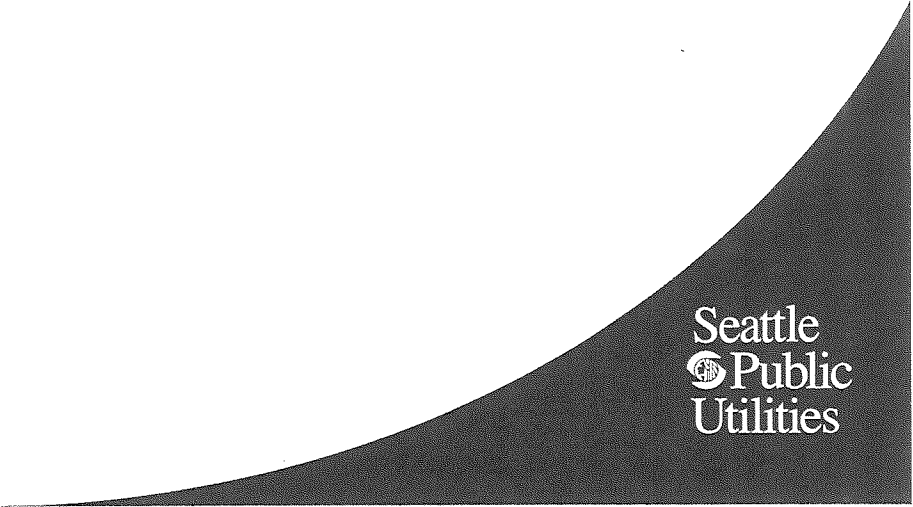
- SPU held seven neighborhood outreach sessions and conducted an online survey supported by advertising, social media and public relations in January/February 2017.
- SPU worked with hard-to-reach communities in-language. Languages included Spanish, Tagalog, Somali, Amharic, Mandarin, Cantonese, Vietnamese and Cambodian.
- SPU fielded online and hard-copy surveys with employees during the same period.
- SPU used a combination of multiple-choice questions (aided) and open-ended questions (unaided) to get a complete understanding of customer viewpoints.

Participants vs. Seattle Demographics

(Customers Only)



Results



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Results

Customers

Reached a total of **453**

- Seven public outreach sessions with 186 participants reflecting Seattle neighborhoods, businesses and ethnic communities
- An online survey with 267 responses

Employees

Reached a total of **923**

- An online survey with 748 responses
- A paper survey with 175 responses
- At least 305 (33%) employees are also customers

Customer Themes

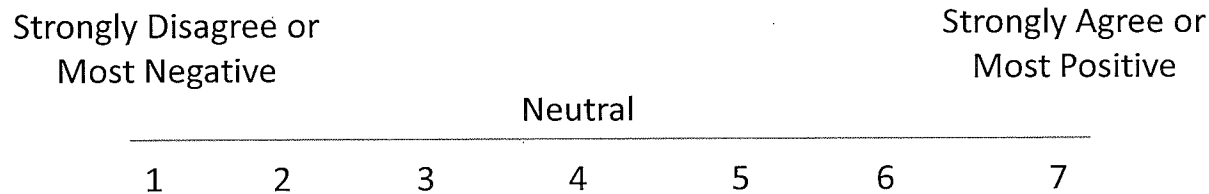
- **Prioritized public health and the environment** based on their values, climate change and comparisons with other regions.
- **Wanted continued investment in high-quality services** to ensure service quality and availability into the future.
- **Wanted reliable infrastructure** that's maintained or replaced as needed.
- **Are concerned about affordability** and are looking for ways for SPU to be more efficient and cut costs.
- Despite the focus on affordability, **customers were largely not upset** with the change in rate path.

Employee Themes

- **Finding efficiencies, being proactive and cost cutting:** Employees mentioned these themes across many of the survey's open-ended questions. These topics were primary reasons for choosing Operational Excellence as their #1 investment.
- **The environment and public health:** Employees are concerned about the environment and the impacts of climate change.
- **Affordability:** Employees are concerned about the continued affordability of SPU utilities.
- **Infrastructure:** Employees are concerned about aging infrastructure.

Measuring Relationships with Brand Equity

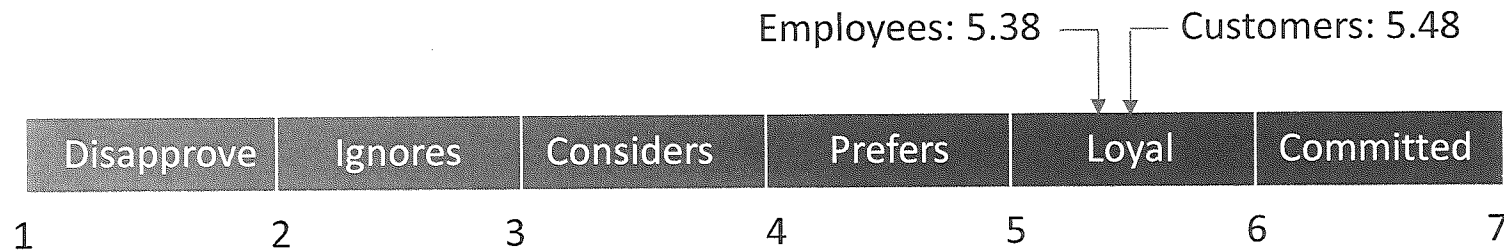
Brand equity measures the strength and dimensions of the relationship between an organization and its customers and employees.



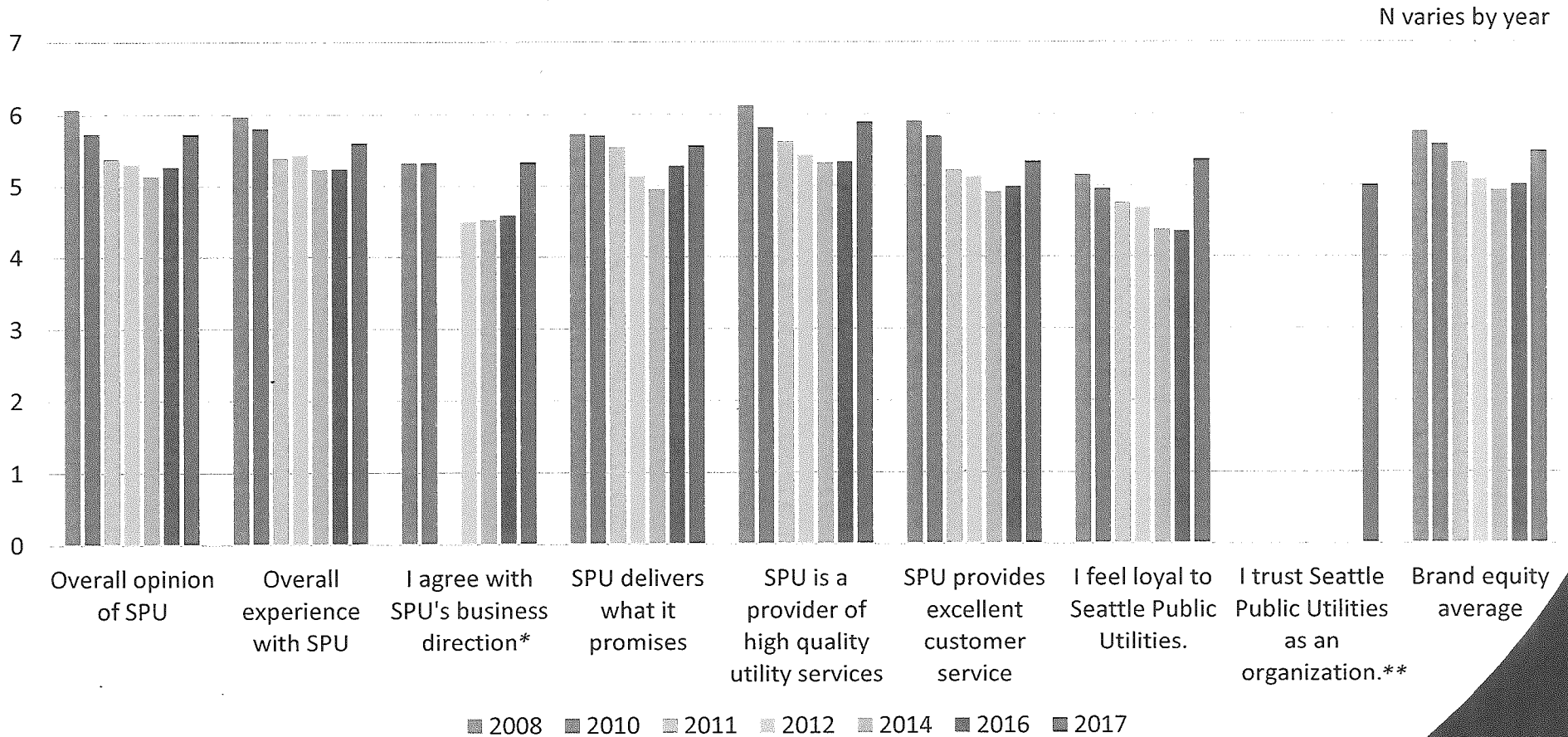
Brand equity scores can indicate willingness to trust and support actions and rates.

2017 Brand Equity

Scores for both customers and employees indicate a strong relationship.



Customer Brand Equity: 2008-2017

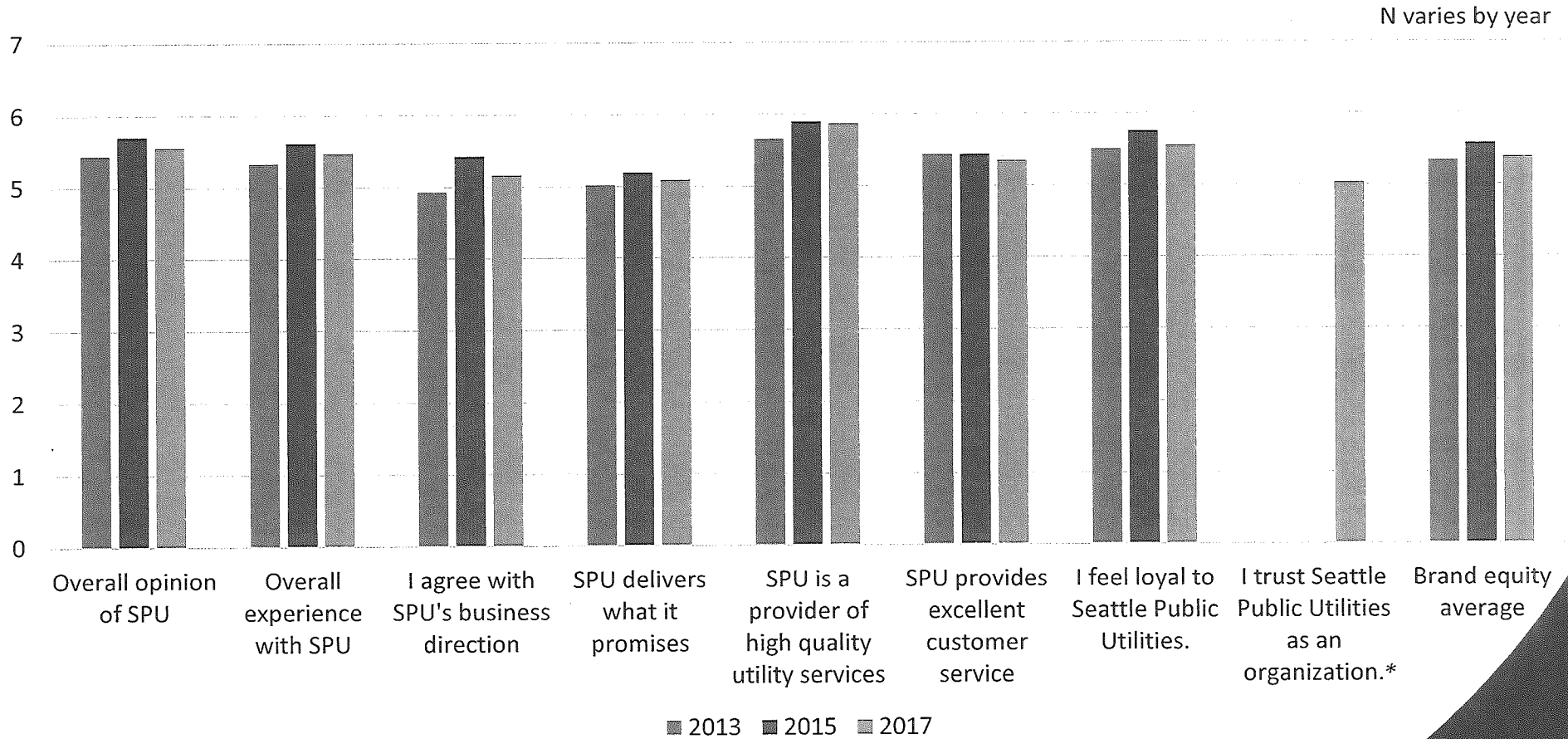


*This question was not asked in 2011.

**Trust is a new dimension to brand equity as of 2017.



Employee Brand Equity: 2013-2017

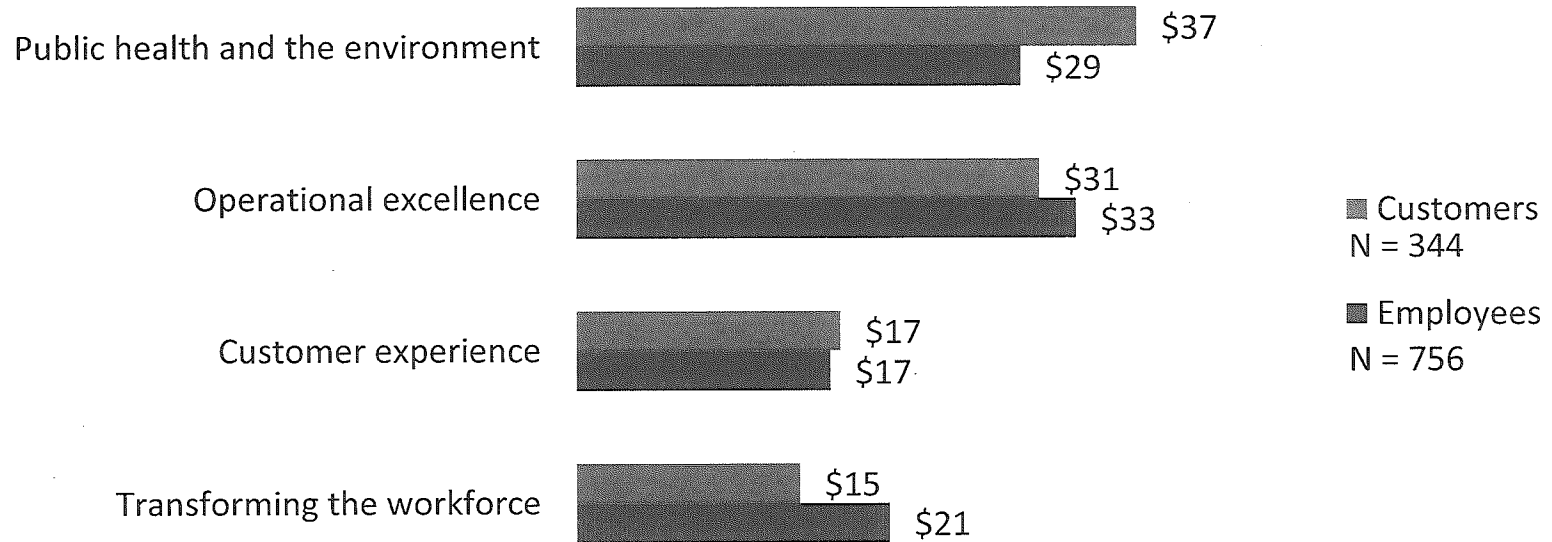


Focus Area Investments

Customers and employees continue to recognize the importance of all four focus areas to SPU's long-term success.

- **Public health and the environment.** Customers appreciate the work SPU has already done and want more of it.
- **Operational excellence.** Employees want to ensure continued, high-quality services.
- **Customer experience.** Some thought customer service was a natural result of high-quality services. Some prioritized equitable services for underserved customers.
- **Transforming the workforce.** Customers understand that good work requires good people.

Focus Area Investments



Customers and employees emphasized Public Health and the Environment and Transforming the Workforce differently.

Q: Please comment about why you spent the money (on the focus areas) the way you did.

Top unaided customer responses:	Count
The environment is key	29
Operational Excellence: Your basic services are most important	27
Public health is key	20

“Having moved here from the east coast and seeing the difference between the Chesapeake Bay and Puget Sound, I appreciate every drop of clean water in the environment.”

- Customer

“I interpret operation excellence as making sure that the systems that deliver services are working as they should. I believe this should be the top priority...”

- Employee

Sample size = 100

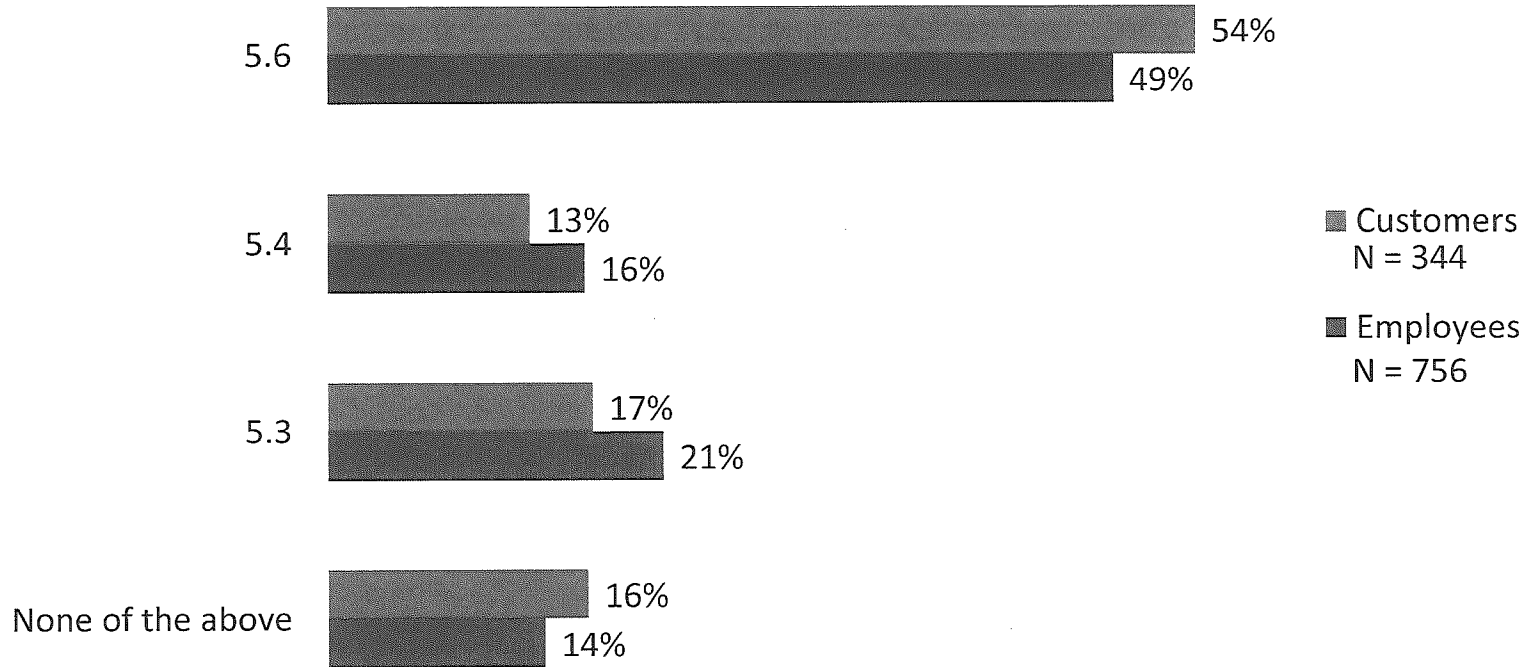
Rate Options

Customers were more likely to choose the 5.6% rate option and commented about protecting health and the environment, ensuring quality services and investing to save money in the future.

A large minority wanted the 5.3% rate option or “None of the above.” There are indications from customers that affordability across income levels is becoming a greater concern.

Although there was a small sampling in this outreach, business customers were over twice as likely to choose either 5.3% or “None of the above.”

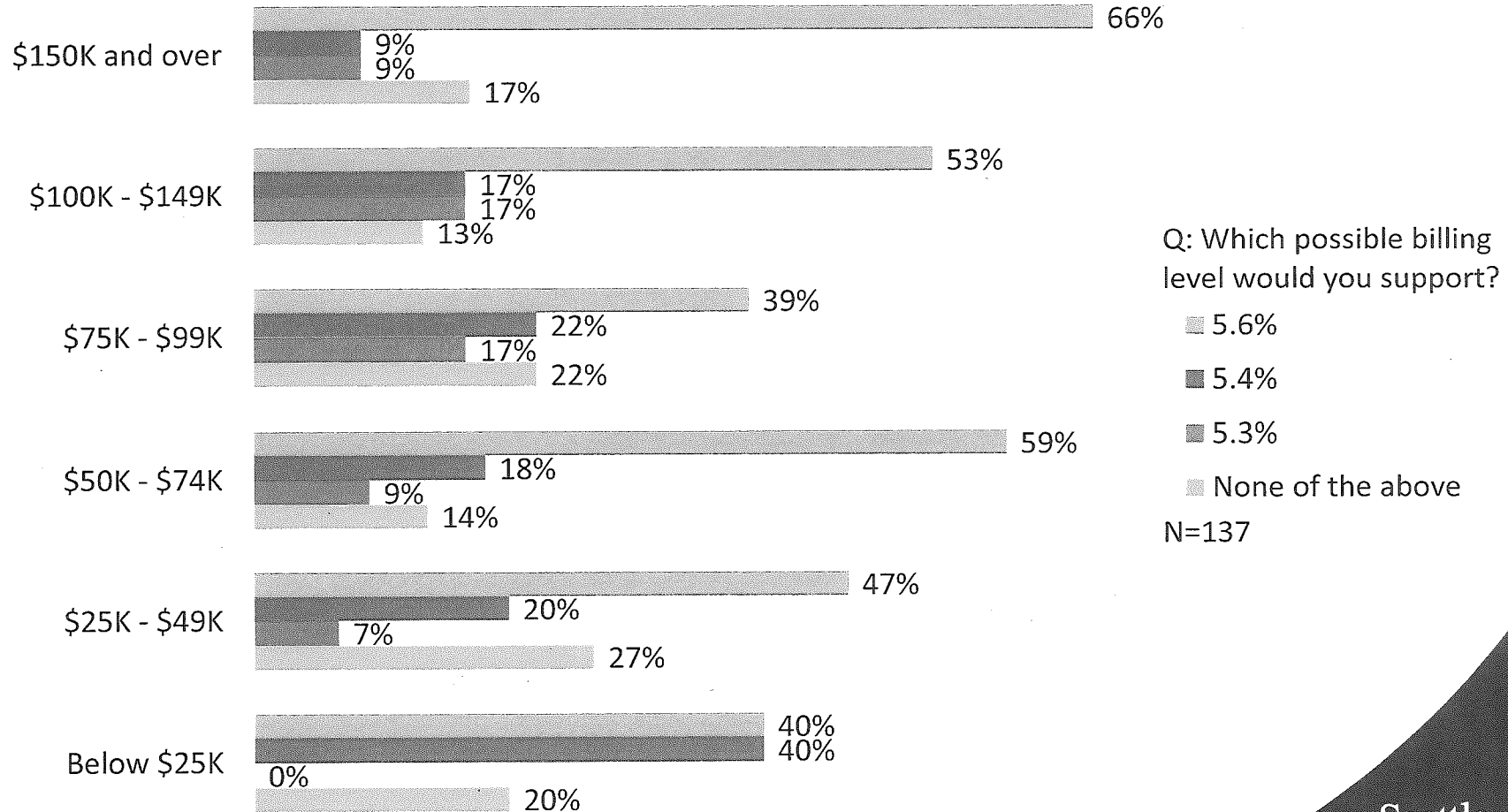
Rate Selection



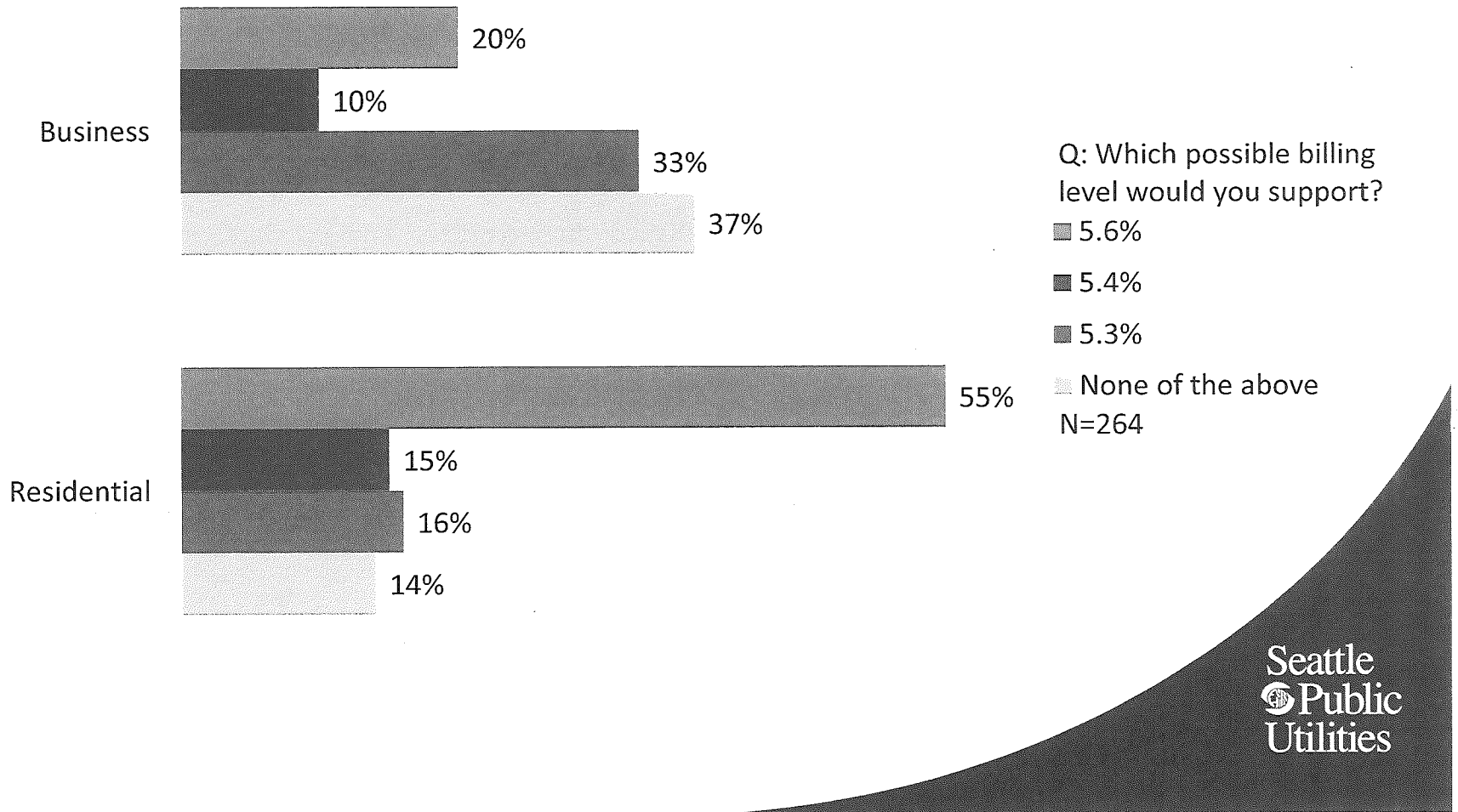
Customers and employees made similar rate choices and had similar reasons for their selections.

Household Income and Rate Options

(Customers Only)



Business Customers Are More Rate Sensitive



Q: Why did you choose this (rate option) response?

Top unaided customer responses:	Count
Affordability	25
The higher rate has a big impact for just a little bit more	17
I understand quality services require investment	15

“The difference per household is small; the difference in what SPU can do is big!”

- Customer

“A \$60+ increase (no matter what choice you pick) is worrisome since the city is already getting so expensive to live in.”

- Employee

Sample size = 100



Q: What concerns or ideas do you have about the future of your utility services?

Top unaided customer responses:	Count
Affordability	27
Concerns about infrastructure and its future	14
Climate change/protecting the environment	13

"I am very worried about not being able to pay my ever-increasing utility bills. I am not low income but my salary is stagnant. My family uses less water than last year but the bills are more."

- Customer

"I'm concerned about the lack of maintenance and replacement of the existing infrastructure. We are strapping future ratepayers with an enormous, long-term (150+ years) O&M nightmare..."

- Employee

Sample size = 100

Q: Are there ways you think Seattle Public Utilities can save money?

Top unaided customer responses:	Count
Reduce labor costs/unions/admin salaries	18
Be more efficient/accountable, cut costs	16
Invest in technology and equipment that will save \$\$	15

Sample size = 100

“As with all government agencies, a hard look at the current practices, perhaps by impartial (not invested insiders) entities, to see if there are things that could be cut or made more efficient.”

- Customer

“We have too much process. Process takes time, and time is money, especially in the lifecycle of capital projects. Decrease the process!”

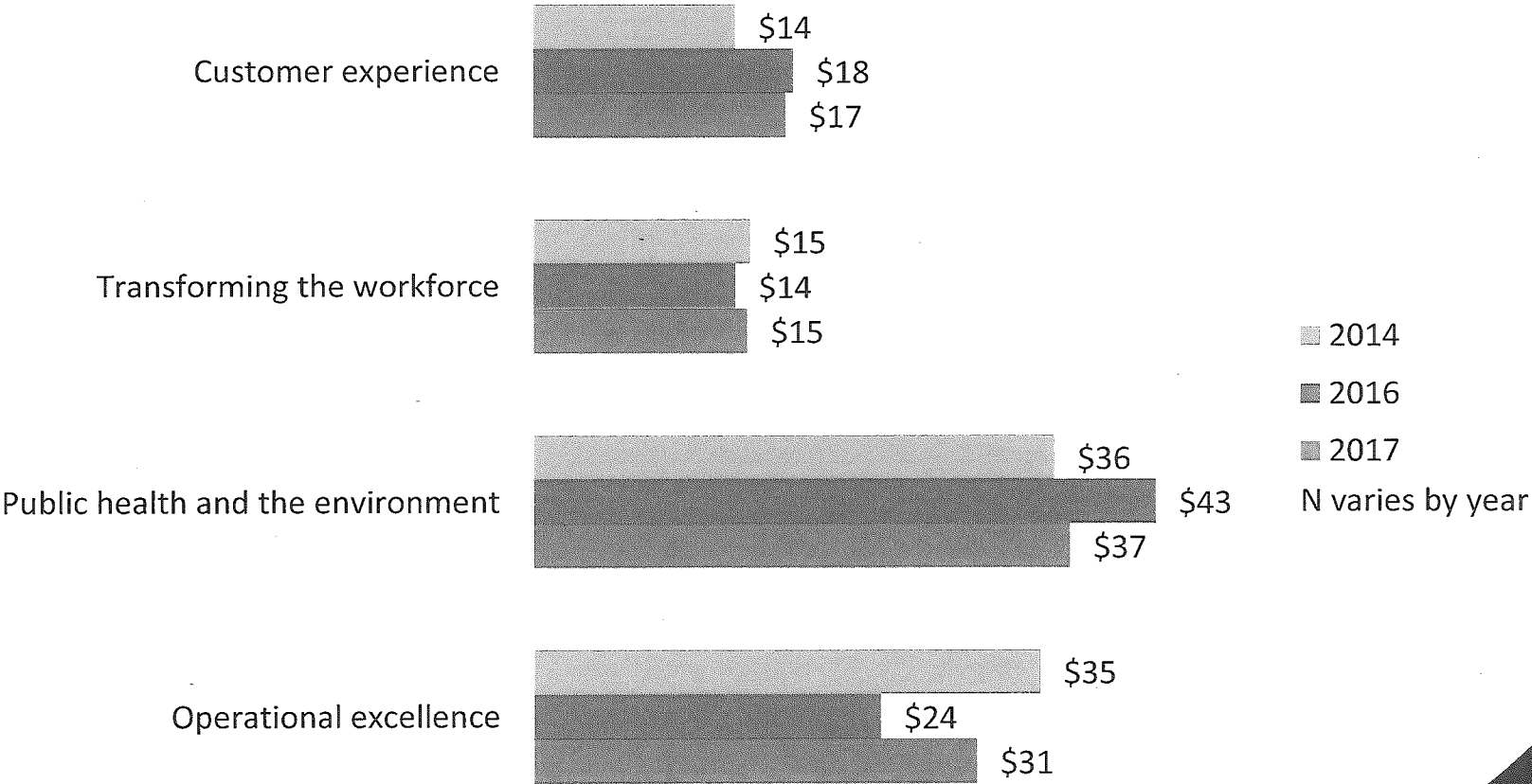
- Employee

Thank you! Questions?

APPENDIX:

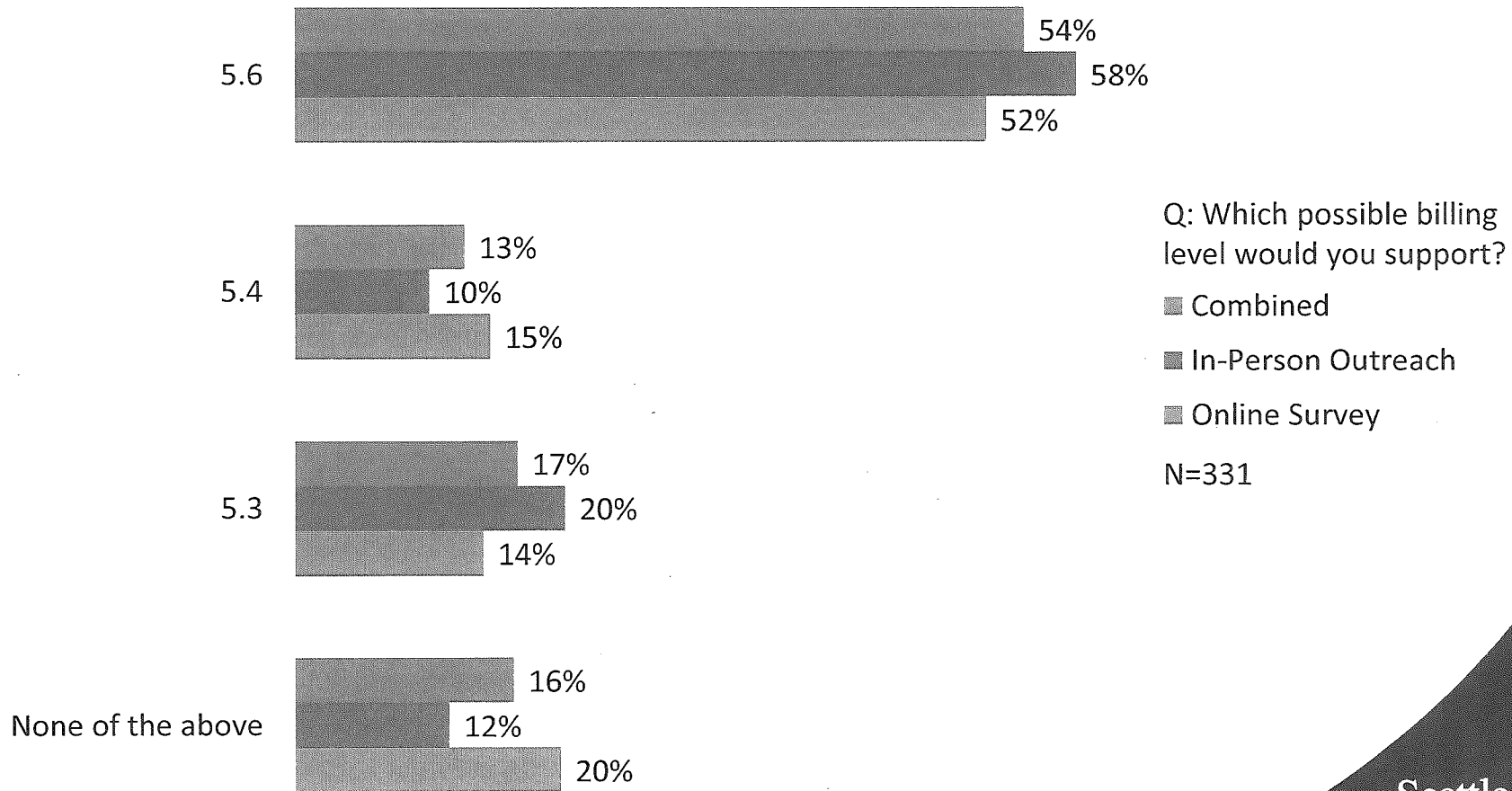
2014-2017 Focus Area Investment

(Customers Only)



Rate Option Summary

(Customers Only)



Top Ten Customer Responses

The following are in-depth, unaided customer responses to open-ended questions based on a random analysis of 100 responses each.

Unaided responses provide insight on how customers think about their utilities, how they talk about SPU and what is top-of-mind for them.

Q: Do you have any questions or comments about this 2015-2016 progress report?

Top unaided customer responses:	Count
No questions	30
Please prioritize our environment/climate change	15
Keep up the good work	11

“Helping our city to be adaptive and resilient to the effects of climate change should be the number one priority. SPU should take the lead...”

- Customer

“I would like to see more opportunities for cross-training, temporary assignments, job shadowing, etc.”

- Employee

Sample size = 100

The logo for Seattle Public Utilities, featuring a stylized globe icon to the left of the text "Seattle Public Utilities".

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Please comment about why you spent the money the way you did. (Focus Areas)

Top 10 unaided responses	Count
The environment is key	29
Operational Excellence: Your basic services are most important	27
Public health is key	20
Happy customers will come from focusing on other areas. Customer service isn't a priority	13
We need to plan for the future/invest in infrastructure	10
Investing in employees comes back to us. You need good people.	9
Other	9
Your staff is well paid. You have enough people. Unions are inefficient	8
It's all important	7
Operational excellence drives the other three areas	6

N = 100
29

“Having moved here from the east coast and seeing the difference between the Chesapeake Bay and Puget Sound, I appreciate every drop of clean water in the environment.”

“We are facing a rapidly changing world due to the effects of climate change. We need to help people prepare for increasing weather emergencies as well as sea level rise. This needs to be the highest priority of SPU.”

“What I care most about is the quality of service you provide.”

“Customer experience third because if employees have job satisfaction then it will show via customer service.”

Q: Why did you choose this response? (Rate Options)

Top 10 unaided responses	Count
Affordability. It's already too expensive. My income isn't going up	25
The higher rate has a big impact for just a little bit more	17
I understand quality services require investment	15
Spend a little now to save a lot in the future	12
Just be more efficient/Plan better	11
Some of these services aren't needed	10
We need to keep the systems running	9
Density is impacting SPU (revenue, services, etc.)	6
The rates go up every year no matter what	5
Additional questions	5

N = 100
30

"These are all too high. The average salary increase is around 3%. If you raise rates at almost double what people are earning, it makes it less and less affordable."

"I suppose \$5 more per month to accomplish all of the items on the list isn't too bad."

"You will get lots of feedback from this survey with people complaining about the price of things. Well, guess what. I'd love for the world to get cheaper, but if you want quality services, you must pay for it. I'm willing to invest."

Q: What concerns or ideas do you have about the future of your utility services?

Top 10 unaided responses	Count
Affordability/Billing structure	27
Specific comments or ideas about services	17
Concerns about infrastructure and it's future	14
Climate change/Protecting the environment	13
Drainage, overflows, runoff in our waterways	13
Keep up the good work, clean water, etc.	10
Preparing for emergencies/earthquakes	8
More frequent pick-ups	8
Sorting solid waste is confusing	7
Package reduction, reducing waste throughout the city	7

N = 100

31

"I am very worried about not being able to pay my ever-increasing utility bills. I am not low income but my salary is stagnant. My family uses less water than last year but the bills are more."

"My top concern is preparing for climate change."

"I know a lot of the Seattle's infrastructure is from the New Deal and the mid-century. I don't know how long these systems were designed to last but I suspect they are nearing the end of their operational life span."

Q: Are there improvements you'd like to see Seattle Public Utilities make?

Top 10 unaided responses	Count
Specific comments or ideas about services	22
Be more efficient/accountable. Cut costs	17
Adjust billing structure	11
Better communication/education/access	10
Improve drainage and overflows	9
Can't think of anything	8
Protect the environment	8
Improve our infrastructure	7
Keep up the good work	6
I'm excited about pet waste and diaper programs	5

N = 100

32

“Provide more options for container sizes and/or frequency of pickup.”

“I would like to see SPU look at streamlining their costs and what sort of savings they can make by cutting administrative costs. This is not a money-making endeavor, it is a public utility and our wages are stagnant, no one is getting a 5% raise.”

“I actually would like billing monthly instead of every other month. It would be easier to plan for bills if they were monthly.”

“Expanding rain wise program and investing in education of the public about SPU programs.”

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Q: Are there ways you think Seattle Public Utilities can save money?

Top 10 unaided responses	Count
Don't know	21
Reduce labor costs/unions/admin salaries	18
Specific suggestion	17
Be more efficient/accountable. Cut costs	16
Invest in technology and equipment that will save \$	15
Administrative/fiscal ideas	14
Encourage conservation	7
Reduce pick-up schedule/ consolidate	6
Adjust billing structure	5
Set new requirements/fees for developers	4

N = 100

33

“Offer \$1 off bills that are autopay and fully electronic. Go paperless and save everyone \$\$.”

“Not have a different truck for every kind of recycle, yard waste, garbage.”

“As with all government agencies, a hard look at the current practices, perhaps by impartial (not invested insiders) entities, to see if there are things that could be cut or made more efficient.”

“Is there room for automation?”

Q: Do you have any questions or comments about this 2015-2016 progress report?

Top 10 unaided responses	Count
No questions	30
Please prioritize our environment/ climate change	15
Clarifying question	15
Keep up the good work	11
Specific comments or ideas about services	10
Affordability, controlling costs, finding efficiencies	8
Why isn't everything on track?	8
I like the increased street sweeping/want more	5
Website is hard to use	4
I want to view my data in real time/get more details about it	4

N = 100

34

“Helping our city to be adaptive and resilient to the effects of climate change should be the number one priority. SPU should take the lead...”

“In what neighborhoods were the pipes replaced? Are schools in all neighborhoods prioritized? How do you choose which neighborhoods to begin in?”

“Thank you for being so progressive and proactive!”

The logo for Seattle Public Utilities, featuring the text "Seattle Public Utilities" in a serif font, with a stylized "S" icon to the left of the word "Public".

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