

July 8, 2024

MEMORANDUM

To: Parks, Public Utilities, and Technology Committee
From: Brian Goodnight, Analyst
Subject: Resolution 32136: Seattle Public Utilities' 2025–2030 Strategic Business Plan

On July 10, 2024, the Parks, Public Utilities, and Technology Committee (Committee) will continue its consideration of [Resolution 32136](#), proposed legislation that would adopt Seattle Public Utilities' (SPU's) 2025–2030 Strategic Business Plan (Proposed SBP) and endorse a three-year rate path and three-year rate forecast that would result in an average annual utility rate increase of 4.7 percent over the six-year period. SPU provided a presentation on the Proposed SBP at the Committee's June 26, 2024, meeting, and the Committee will continue discussion and possibly vote on Resolution 32136 at its August 14, 2024, meeting.

This memorandum summarizes the Proposed SBP and its related rate path and forecast, provides background information on prior Council action and direction, compares the Proposed SBP to the current 2021–2026 Strategic Business Plan (2021 SBP) and rates that have been adopted, and highlights two policy considerations.

Summary

Per Council direction¹, every three years SPU engages in a planning process that results in a proposed update to its Strategic Business Plan. That process is an opportunity for SPU to re-evaluate its priorities and project its operating and capital program requirements over the next six years for all three of the utilities that it operates: Drainage and Wastewater, Solid Waste, and Water. Since the updates occur every three years but cover a six-year timeframe, newly proposed SBPs typically have a three-year overlap with the previous SBP. In this iteration, however, because the consideration of the 2021 SBP was delayed by one year due to the onset of the pandemic, the Proposed SBP only has a two-year overlap (2025 and 2026). The updates also offer the Council an opportunity to determine whether it agrees with SPU's proposed direction and rate path or wants to make adjustments.

¹ In Fall 2012, the Council passed [Statement of Legislative Intent 27-1-A-1](#) requesting SPU to develop a strategic plan covering all of its lines of business as the basis for establishing a rate growth policy. Subsequently, in March 2013, the Council adopted [Resolution 31429](#) stating that the primary goal for SPU's new SBP process is "to set a transparent and integrated direction for all of SPU's business lines that reflects customer values, provides rate predictability for utility customers, and results in best value for customer dollars." [Resolution 31534](#), adopted in August 2014, adopted SPU's first SBP covering 2015–2020. The resolution also directed SPU to complete a review and update of the SBP every three years, adding three years to the timeframe and re-evaluating the six-year rate path. The most recent SBP, the 2021 SBP covering the 2021–2026 time period, was adopted by the Council in May 2021, via [Resolution 32000](#).

The Proposed SBP maintains SPU's mission² and vision³ from the 2021 SBP, identifies SPU's focus areas, describes its long-term goals and short-term strategies, summarizes accomplishments from 2021 through 2023, and highlights representative initiatives and investments.

Consistent with the 2021 SBP, the Proposed SBP's four focus areas are:

- Delivering Equitable Essential Services
- Stewarding Environment and Health
- Empowering Our Customers, Community, and Employees
- Strengthening Our Utility's Business Practices

To inform the Proposed SBP, SPU: conducted a comprehensive review of 15 research studies from the past four years; performed community outreach throughout the summer and fall of 2023, ultimately engaging with over 1,500 customers; moderated online discussion groups with 30 participants; and fielded a residential customer survey in November and December 2023 that garnered over 1,000 responses. Some key takeaways from the outreach and engagement process, as identified by SPU, are: (1) customers are generally satisfied with SPU's services and view them as essential, but may not be aware of the range of services SPU offers; (2) affordability remains the top concern for residential and business customers, and SPU needs to continue raising awareness of the financial assistance programs that are available; and (3) SPU needs to continue to grow in its ability to engage and communicate with non-native English speakers. Additional information on SPU's community research and outreach process can be found in [Appendix B](#) to the Proposed SBP.

In addition, SPU worked extensively with its Customer Review Panel for almost two years during the development of the Proposed SBP. Additional information on the Customer Review Panel and its recommendations can be found below.

Rate Path and Forecast

Although SPU operates three distinct utilities, the Drainage and Wastewater utility has two separate rate structures: one for the Drainage line of business and one for the Wastewater line of business. The Proposed SBP, therefore, includes rate projections for each of SPU's four lines of business: Water, Wastewater, Drainage, and Solid Waste.

Table 1 shows the proposed annual rate increases and six-year averages for each line of business during the 2025 to 2030 time period covered by the Proposed SBP. The bottom row of the table shows the combined annual rate increases for each year, which is a weighted average based on the relative size of each line of business. The Proposed SBP includes a recommended rate path for the first three years (2025 to 2027) and a rate forecast for the last three years

² SPU Mission: "Seattle Public Utilities fosters healthy people, environment, and economy by partnering with our community to equitably manage water and waste resources for today and for future generations."

³ SPU Vision: "Community Centered, One Water, Zero Waste"

(2028 to 2030). SPU has a lower level of confidence in the rate forecast for the last three years of the Proposed SBP due to uncertainty about factors that may impact rates for those years.

Table 1. Proposed Rate Path (2025–2027) and Rate Forecast (2028–2030)

Line of Business	2025	2026	2027	2028	2029	2030	6-Year Average
Water	2.0%	2.0%	6.3%	3.3%	6.5%	3.8%	4.0%
Wastewater	5.0%	5.0%	5.0%	6.2%	7.0%	5.1%	5.5%
Drainage	5.0%	5.0%	5.1%	6.6%	6.3%	7.2%	5.9%
Solid Waste	2.5%	3.1%	3.4%	3.4%	3.8%	2.5%	3.1%
Combined:	3.7%	3.9%	4.9%	5.0%	6.0%	4.6%	4.7%

Note: The cells shaded in blue show rate increases that the Council has already adopted legislatively⁴.

As can be seen in the table, the combined average annual rate increase in the Proposed SBP is 4.7 percent. SPU derived the rate path and forecast by determining the resources necessary to: continue providing the current level of service; provide sufficient funding for required capital programs and maintenance; and initiate new programs or increase spending in targeted priority areas.

Three primary factors are contributing to the proposed rate increases:

- a. higher than expected increases in King County wastewater treatment charges;
- b. increasing operational expenses due to inflation; and
- c. increasing capital expenses related to regulatory compliance costs, aging infrastructure, and increased interest rates.

SPU has also taken steps to control costs and reduce the growth in rates, when possible, through activities such as: improving capital investment assumptions, using available cash balances, automating processes and introducing new technology to increase efficiencies, negotiating lower solid waste contract rates, and taking advantage of lower-cost financing options.

Following are some rules of thumb for how SPU could change the Proposed SBP's combined annual average rate increase by a tenth of a percentage point. For context, SPU's 2024 Adopted Budget is approximately \$1.6 billion. Decreasing the combined annual average rate from 4.7 percent to 4.6 percent would require a reduction of about \$7.3 million per year, or almost \$44 million in capital spending during the six-year planning period. Achieving the same overall rate reduction through operations and maintenance spending (rather than through a decrease in capital spending) would require a cut of about \$4.5 million per year, or \$27 million during the

⁴ The Council typically considers rate-setting legislation for one of SPU's distinct utilities (Drainage and Wastewater, Solid Waste, or Water) each year, with rates being set for a three-year period. For example, in October 2022, the Council passed [Ordinance 126689](#) setting Solid Waste rates for 2023–2025. In September 2023, the Council passed [Ordinance 126909](#) establishing Water rates for 2024–2026. The Executive is expected to transmit legislation to the Council in 2024 that would set Drainage and Wastewater rates for 2025–2027.

six-year period.⁵ Similar spending increases would be possible if the combined annual average rate were increased from 4.7 percent to 4.8 percent.

In terms of the Proposed SBP's cost to customers, the typical bill for a single-family house would increase from \$256 per month in 2025 to \$325 per month by the sixth year of the Proposed SBP, an increase of \$69 per month. For a multifamily unit customer, the typical bill is estimated to increase from \$147 per month in 2025 to \$187 per month by 2030, an increase of \$40 per month over the 2025 cost.⁶

Equity and Customer Assistance

To address the disproportionate financial impact that utility bills may have on low-income customers, SPU has a variety of customer assistance programs, including the Utility Discount Program (UDP), the Emergency Assistance Program (EAP), and a variety of short- and long-term payment plan arrangements. The UDP provides a 50 percent discount on SPU bills for customers that are income qualified⁷, and the EAP provides credits to qualifying customers to assist with current or overdue balances.⁸

The department, along with Seattle City Light (SCL), is continuing to transition away from pandemic-era assistance modifications that were instituted to address the negative impact that the pandemic had on many customers. As an example, in March 2020, SPU had approximately 4,500 delinquent residential customer accounts with a total of about \$2.1 million in overdue bills. By March 2021, the number of delinquent customer accounts had risen over 80 percent to approximately 8,200 accounts with overdue amounts totaling just under \$7 million. In response, SPU suspended customer shut-offs, created flexible payment plans for residential and small business customers, and with Council approval⁹ suspended interest charges on delinquent utility account balances.

As of February of this year, SPU reports that it had approximately 16,500 delinquent residential customer accounts with a total of about \$11 million in overdue bills. To address this growing delinquency amount, SPU and SCL have been reverting back towards pre-pandemic collection practices, such as lowering delinquency thresholds, which is the trigger for the utilities' billing system to begin sending payment reminders. In addition, SPU and SCL are partnering on an evaluation of the available utility bill assistance programs to inform future updates.

⁵ The spending amount changes provided as examples are illustrative of magnitude, but rate impacts would vary depending on the line of business and year of the changes.

⁶ Typical monthly bill examples by SPU line of business for a single-family house, a multifamily unit, and a convenience store are provided on Page 22 of the Proposed SBP.

⁷ To qualify for the UDP, customers must be at or below 70 percent of the state median income, which for a household of four in 2024 is approximately \$85,000.

⁸ To qualify for the EAP, customers must be at or below 80 percent of the state median income, which for a household of four in 2024 is approximately \$97,000.

⁹ The last approval was granted in May 2022 via [Ordinance 126583](#), with the authorization ending in June 2023.

The Proposed SBP also continues and expands an investment that began in 2022, in partnership with the Office of Housing, to provide financial assistance to low-income homeowners to repair and maintain their side sewers. The program provides zero-interest loans to qualifying homeowners¹⁰ in need of urgent side sewer repairs, and SPU intends to expand the program to offer incentives for side sewer preventative maintenance services such as inspection and cleaning.

Additionally, SPU continues to explicitly acknowledge equity and empowerment as guiding principles in the Proposed SBP, by working “to dismantle institutional racism by building trusting relationships, prioritizing equity and inclusion in decision-making, and creating opportunities for all.”¹¹ The Proposed SBP highlights two initiatives that directly support those commitments: Equity in Contracting and the Seeds of Resilience Impact Investment Fund. The Equity in Contracting initiative aims to engage Women- and Minority-Owned Business Enterprise (WMBE) firms to gain a better understanding of the barriers to entry and inequitable access to City contracts, and to ultimately implement solutions to improve opportunities. The Seeds of Resilience Impact Investment Fund initiative continues an effort started in 2021 to advance equity and environmentally sustainable waste and water management activities in private sector markets that have a business nexus with SPU by providing grants to the private sector to help generate desired outcomes and center equity in the design of a project.

SPU also commits to working towards environmental justice by developing community relationships with Black, Indigenous, and People of Color (BIPOC) and low-income communities, protecting and prioritizing healthy environments and services for community members and employees, investing in a green economy, and preparing for climate resilience.¹²

Customer Review Panel Comments

SPU’s Customer Review Panel (CRP), established by the Council as an ongoing entity in 2018 via [Resolution 31800](#), and later amended via [Resolution 31825](#), is tasked with providing stakeholder oversight of the SBP’s implementation and providing input into SBP updates. The establishing resolution provides that CRP members should be selected to represent a variety of SPU customer viewpoints, including residential, commercial, low-income housing, non-profits, and the development community.

[Appendix E](#) to the Proposed SBP materials is a comment letter from the CRP. In brief, the CRP endorses the rate path and forecast for the next six years and supports fully funding all of the critical investments included in the Proposed SBP. The CRP identified four strategic priority areas where it believes SPU should focus particular attention and resources: (1) affordability and accessibility, (2) asset management and infrastructure, (3) SPU workforce, and (4) climate resiliency. Additionally, the CRP continues to be concerned with the unpredictability of the King County wastewater treatment rates and the projected large rate increases that will significantly

¹⁰ To qualify for the [Side Sewer Assistance Program](#), customers must be at or below 80 percent of the state median income, which for a household of four in 2024 is approximately \$97,000.

¹¹ Page 4 of the Proposed SBP

¹² Page 9 of the Proposed SBP

impact SPU's wastewater rates, and the CRP also encourages the Council to continue conversations on ways to reduce or eliminate the City's water utility tax.

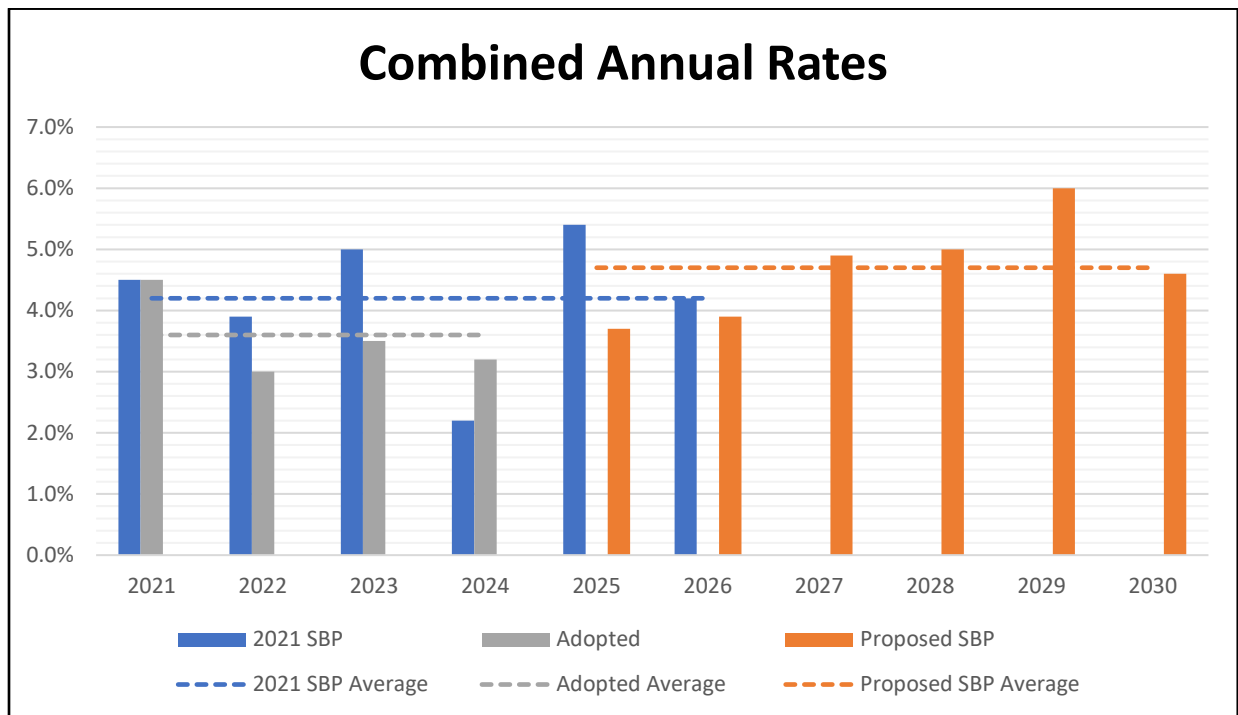
The Chair and Vice Chair of the CRP are scheduled to make a presentation to the Parks, Public Utilities, and Technology Committee at its July 10 meeting.

Comparison of Proposed SBP to 2021 SBP and Adopted Rates

As described above, the combined average annual rate increase in the Proposed SBP is 4.7 percent. This is the weighted average for all four of SPU's lines of business. In comparison, the 2021 SBP had a combined average annual rate increase of 4.2 percent. Therefore, the Proposed SBP's combined average annual rate is about 12 percent higher than the comparable rate in the 2021 SBP.

Chart 1 shows a comparison of the combined annual rate increases for the rate path included in the 2021 SBP, the rates that have been adopted by Council since 2021, and the rate path included in the Proposed SBP.

Chart 1. Comparison of 2021 SBP Rates vs Adopted Rates vs Proposed SBP Rates



The adopted rates for 2021–2024 have been on average lower than what was projected in the 2021 SBP. For example, in 2023, rather than a combined rate increase of 5.0 percent, the adopted rate increases equaled 3.5 percent. Conversely, in 2024, the 2021 SBP projected a 2.2 percent combined annual increase, whereas the adopted rates equal 3.2 percent. Overall, the adopted rate increases averaged 3.6 percent per year, or 0.6 percentage points below the 2021 SBP’s projected average annual increase of 4.2 percent.

A similar trend emerged when a comparison between the 2018 SBP and adopted rates occurred during the last SBP update cycle. Therefore, although the Proposed SBP projects a higher average annual rate increase than the 2021 SBP, at 4.7 percent, the actual rates adopted and experienced by SPU’s customers will be determined when the Council considers rate-setting ordinances each year during the six-year period. Separate comparisons for each line of business are included in Attachment 1 to this memorandum.

Another way to evaluate rate paths is to compare what a typical ratepayer would be paying in 2026 (the end of the 2021 SBP time period) if the 2021 SBP rate path had been implemented as projected, versus what the ratepayer is now estimated to pay in 2026 using the combination of adopted rates (for 2021–2024) and proposed rates (for 2025–2026). Under the rate path included in the 2021 SBP, the typical bill for a single-family house in 2026 was estimated to be approximately \$275 per month. Comparatively, under the combination of adopted and proposed rates, the typical bill for a single-family house in 2026 is approximately \$266 per month. Thus, even though the adopted and proposed rates vary in almost every year relative to the 2021 SBP rates, the result is a monthly bill that is \$9 lower (about three percent) for a single-family house over the six-year time period compared to the 2021 SBP.

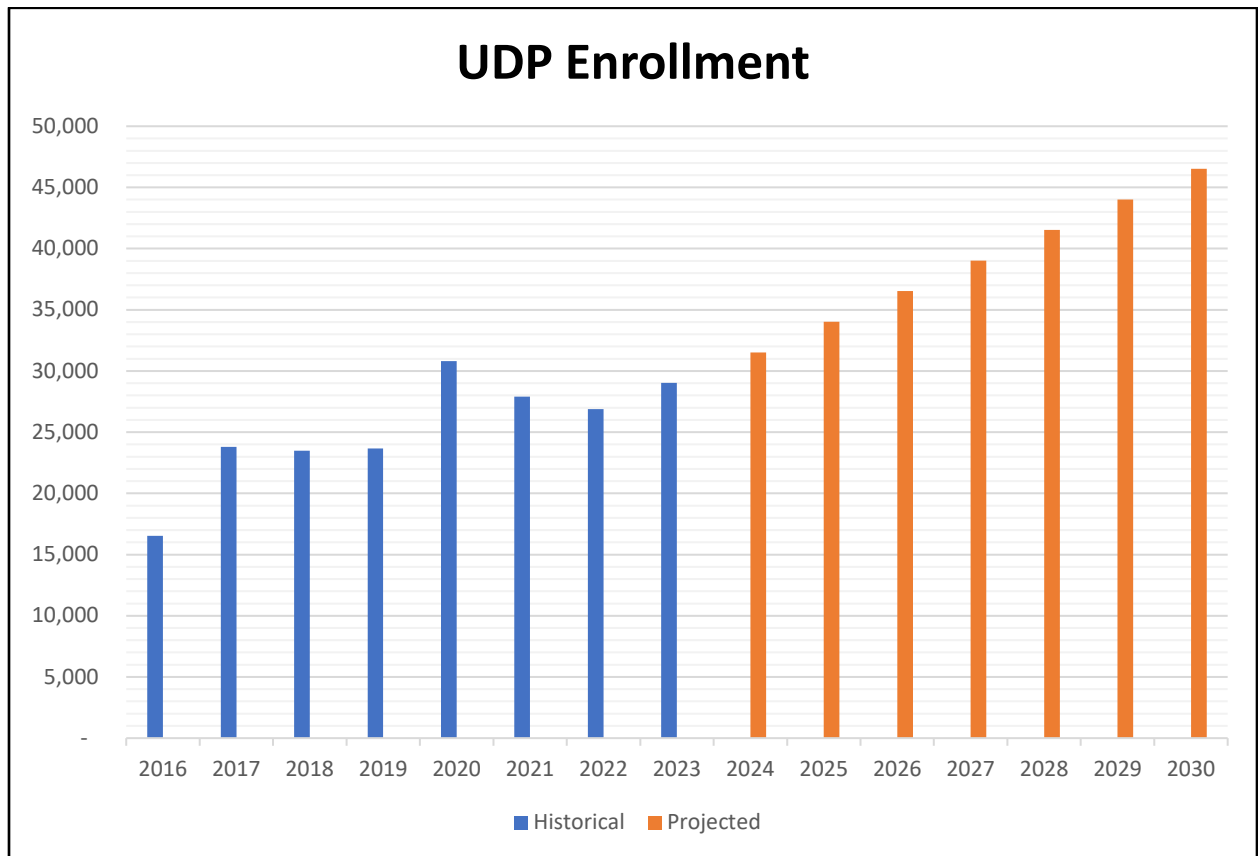
Policy Considerations

1. Utility Discount Program Enrollment Assumptions

As described above, the City’s Utility Discount Program (UDP) provides a credit on the utility bills of income qualifying customers – a 50 percent credit on SPU bills and a 60 percent credit on Seattle City Light bills. In 2023, a little more than 29,000 SPU customers were enrolled in the UDP and SPU provided \$26.6 million in credits to those customers. As the historical data in Chart 2 shows, with the exception of an enrollment spike in 2020 due to the pandemic and relaxed enrollment requirements, enrollment in the UDP since 2017 has grown only moderately, from around 24,000 customers in 2017 to around 29,000 customers in 2023. This lack of significant growth is in spite of prior Council inquiries into broadening UDP eligibility and Executive efforts to increase enrollment.¹³

¹³ [2019 Statement of Legislative Intent 40-1-B-1](#) and [Clerk File 321370](#)

Chart 2. 2016–2030 Historical and Projected UDP Enrollment



The Proposed SBP, however, assumes that the UDP will grow much more quickly than it has in the recent past, assuming an increase of about 2,500 customers per year. This projected growth rate is also shown in Chart 2, and it would result in approximately 46,500 customers being enrolled in the program in 2030.

In terms of the financial impact of this assumption, SPU estimates that UDP credits in 2025 will total approximately \$35 million, and the credits will increase by about \$2.8 million annually, bringing the credit total in 2030 to approximately \$49 million. UDP participation can be impactful on rates because the standard rates need to be set at a higher level in order to account for the revenue reduction associated with the credits. Overestimating UDP enrollment would put upward pressure on the proposed rate path. Conversely, if UDP enrollment is underestimated, then future rate-setting legislation may include rates that are higher than SBP projections.

Options:

- a. No change – leave the UDP assumptions at the levels in the Proposed SBP.
- b. Request that SPU explore the financial and rate impacts of differing levels of UDP enrollment over the six-year SBP planning period.

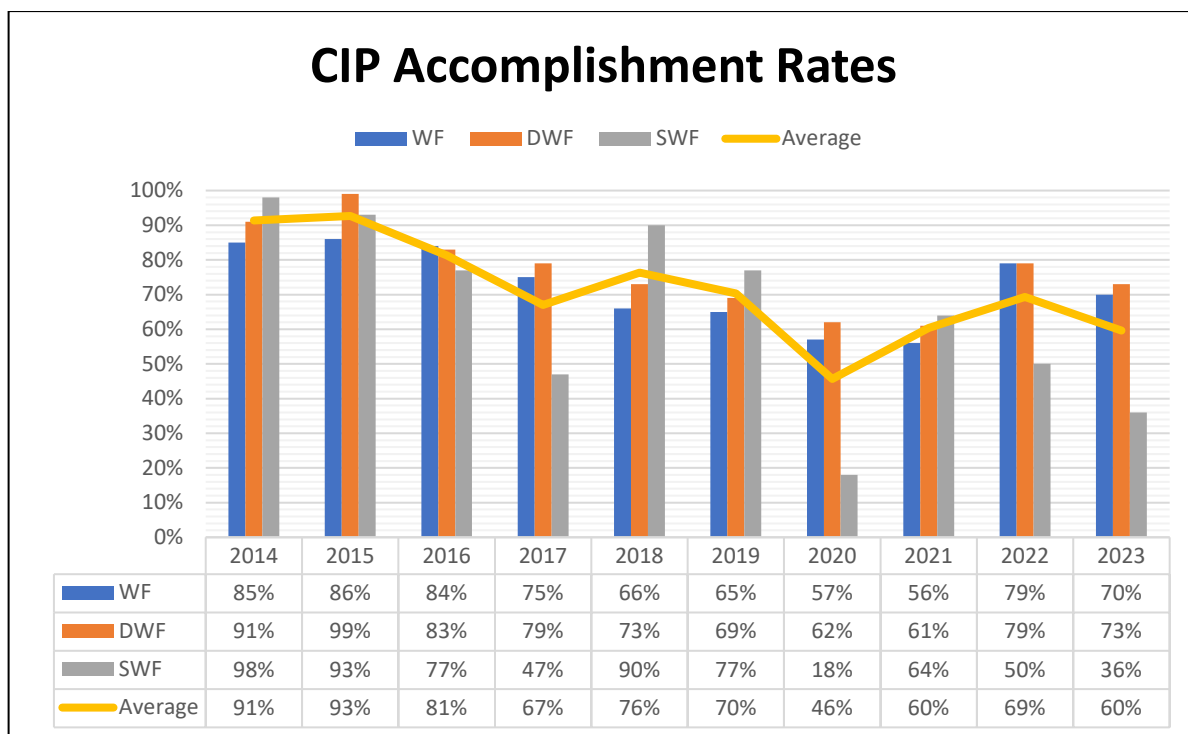
2. Capital Improvement Program Accomplishment Rate

The Capital Improvement Program (CIP) accomplishment rate describes the percentage of budgeted capital resources that are expended in the year in which they are planned to be spent. SPU uses projected accomplishment rates to reflect delays in the timeline of capital projects and to avoid over-collecting revenues before they are needed. For example, a project that is planning to spend a certain amount in year one may actually spend some of those funds in year two due to unforeseen circumstances or delayed billing. This type of financial forecasting helps SPU to determine when to issue bonds and in what amounts in order to have sufficient funds to cover project costs when necessary.

Historically, SPU assumed a 100 percent accomplishment rate for its capital program. During consideration of the 2018 SBP, Council requested that SPU adjust its accomplishment rate from 100 percent to 97.5 percent and reduce its projected revenue requirements accordingly. In the 2021 SBP, SPU lowered the accomplishment rate for all three of its funds further (to between 85 and 90 percent). At the time, SPU estimated that the lower accomplishment rates would reduce the projection of revenues required for the six-year period by approximately \$222 million. Reducing the revenue requirement creates savings in the near term for ratepayers by reducing the amount of revenue that needs to be collected through rates.

As shown in Chart 3, SPU's overall accomplishment rate has decreased over the past decade and the average rate has been below 80 percent since 2017, along with a noticeable dip in 2020 that resulted from the pandemic's impacts on capital project delivery.

Chart 3. SPU 2014–2023 CIP Accomplishment Rates¹⁴



¹⁴ WF = Water Fund; DWF = Drainage and Wastewater Fund; SWF = Solid Waste Fund

In the Proposed SBP, SPU has again reduced the projected accomplishment rate for all three of its funds, as follows:

- Water Fund – 80 percent
- Drainage and Wastewater Fund – 80 percent
 - Exception: Ship Canal Water Quality Project – 95 percent
- Solid Waste Fund – 80 percent

The lower assumed accomplishment rate is appropriate if the department continues to deliver capital projects at or below 80 percent of budgeted levels over the next six years. The risk of lowering the accomplishment rate, however, is that the SBP may no longer provide an accurate projection of what future rate increases will need to be to support SPU's activities. If actual spending on capital projects outperforms the assumed accomplishment rate, then future rate proposals may need to exceed the rates included in the SBP. If the lower accomplishment rates are indeed accurate, then a question arises regarding whether SPU's capital budgets should be adjusted in the long-term to more accurately reflect the level of project delivery that can be achieved.

Options:

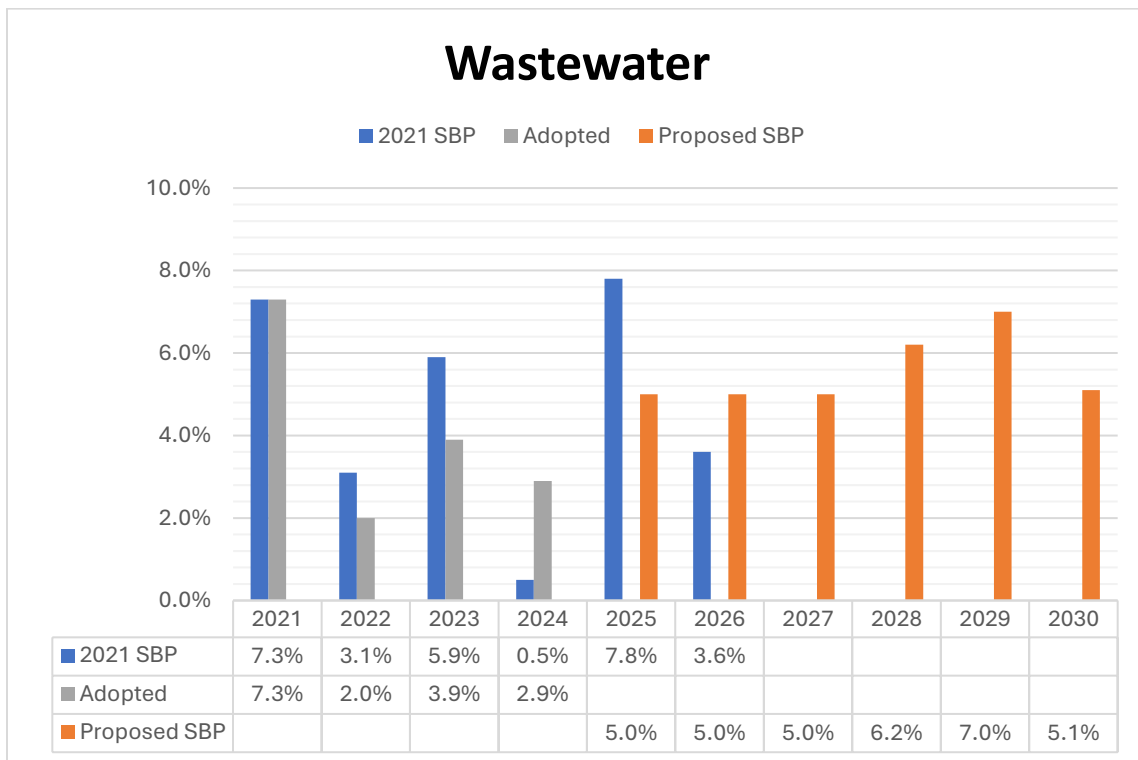
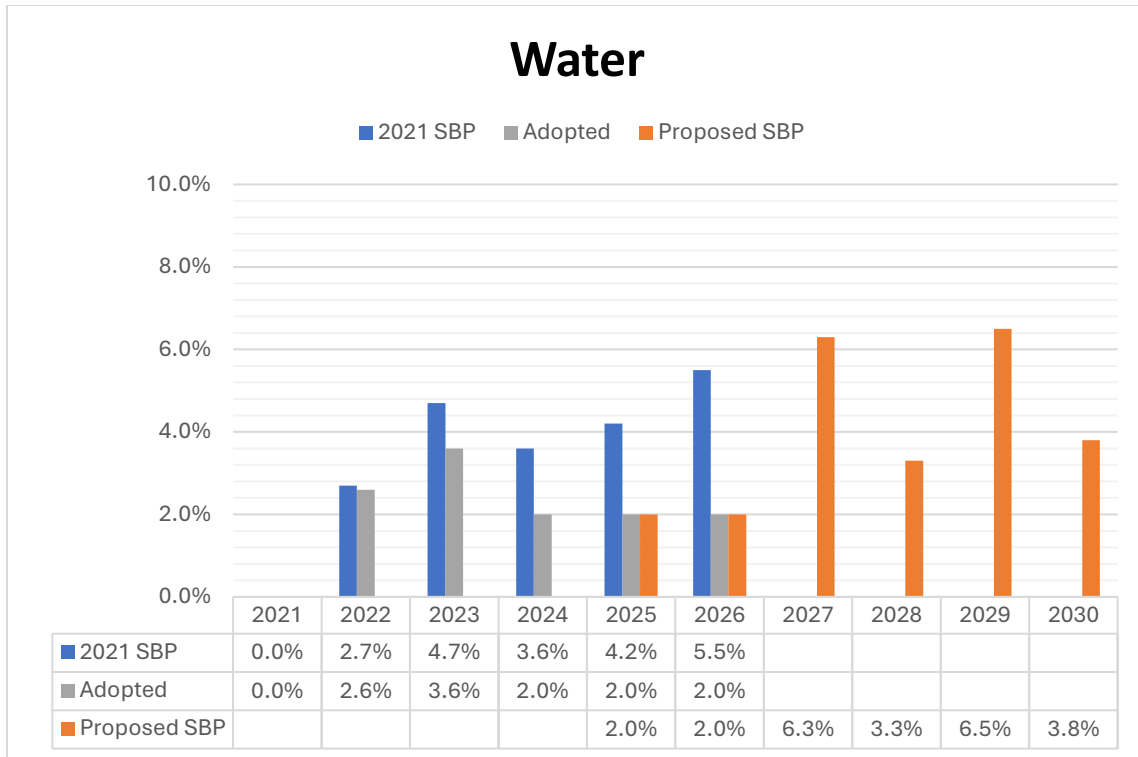
- a. No change – leave the CIP accomplishment rates at the levels in the Proposed SBP.
- b. Adjust the CIP accomplishment rates contained in the Proposed SBP and adjust the included rate path accordingly.
- c. Request SPU to perform an evaluation of its capital project delivery processes and report back to Council with its results, with the goal of increasing its CIP accomplishment rate or right-sizing its capital budgeting.

Attachments:

1. Comparison of Rates – 2021 SBP vs Adopted vs Proposed SBP

cc: Ben Noble, Director
Yolanda Ho, Supervising Analyst

Attachment 1: Comparison of Rates – 2021 SBP vs Adopted vs Proposed SBP



Attachment 1: Comparison of Rates – 2021 SBP vs Adopted vs Proposed SBP

