

2018-2023 Strategic Business Plan Status Update

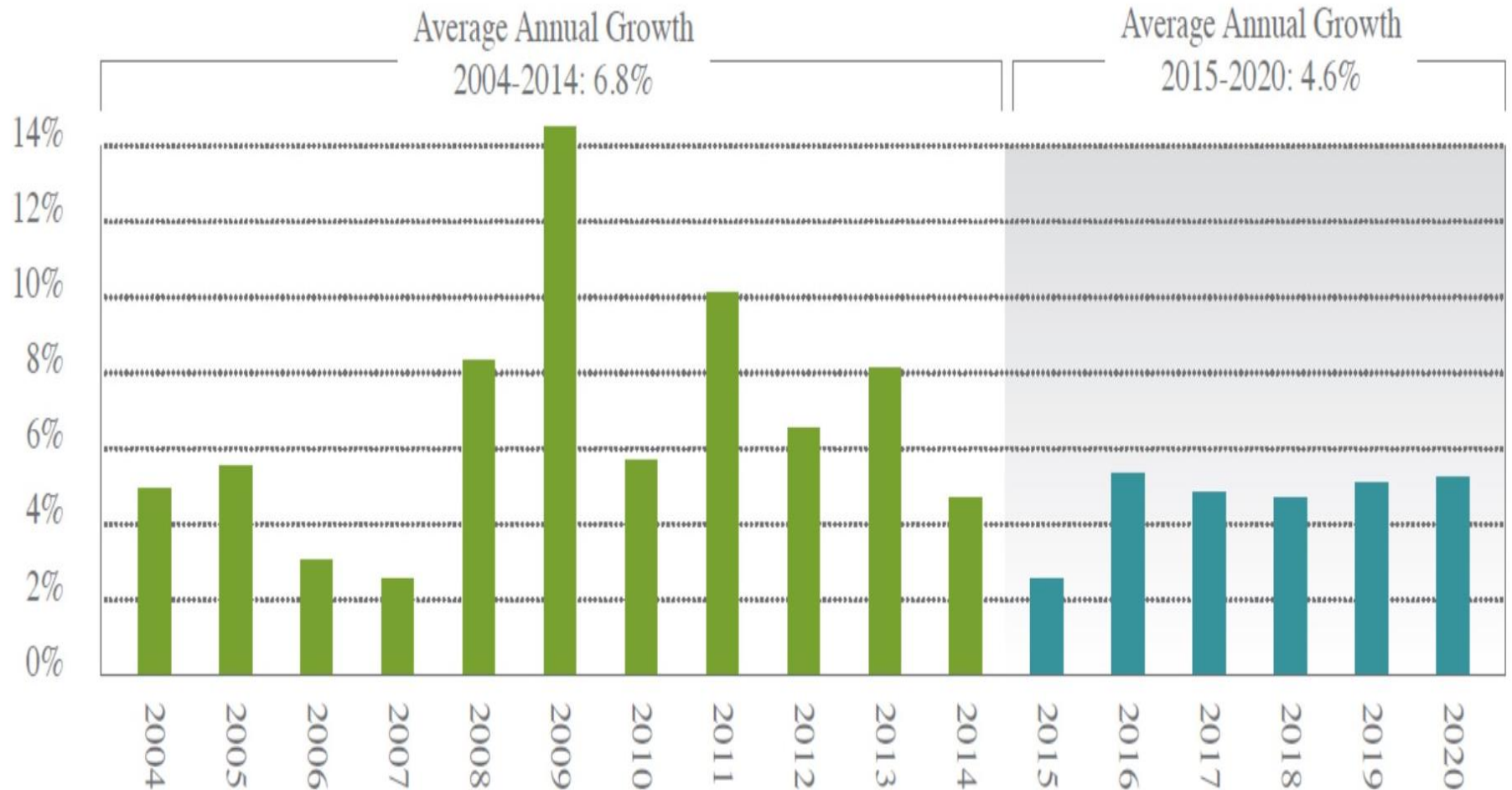
Civil Rights, Utilities, Economic Development, and Arts
Committee

April 25, 2017

Agenda

1. 2015-2020 Strategic Business Plan (SBP) Recap
2. 2018-2023 SBP Update Process
3. 2018-2023 Rate Path Starting Point
4. 2018-2023 Rate Path Options
 - Action Plans
 - Reduction Options and Efficiencies
5. Efficiencies and Savings
6. Next Steps

2015-2020 SBP Endorsed Rate Path



The Plan is projected to create more predictable, lower rate increases than during the previous 10-year period.

2015-2016 Rate Path Highlights

- Lost major drainage customer, the Port of Seattle, resulting in \$4M less in revenue per year.
- Faced new cost pressures, such as moving up Ship Canal project to meet regulatory requirement timelines.
- In the first three years endorsed and adopted rate paths were aligned. SPU managed this by:
 - Deferred capital projects and curbed O&M spending.
 - Higher than planned water revenue due to hot summers.
 - Lower than expected interest rates on debt service.
- The 2015-2017 adopted rates, in combination with SPU's options for 2018-2023, results in anticipated rates above the 4.6% for 2015-2020.

2018-2023 SBP Update – Rate Path Starting Point

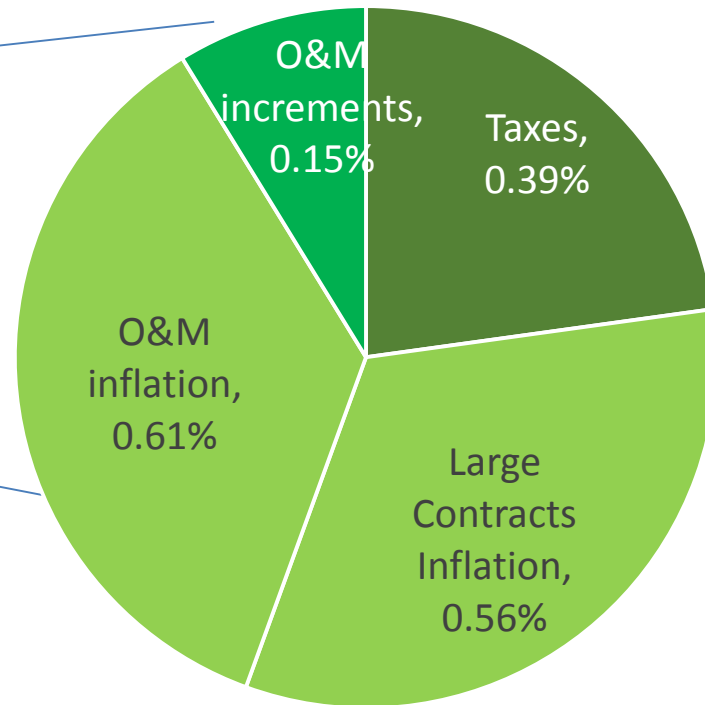
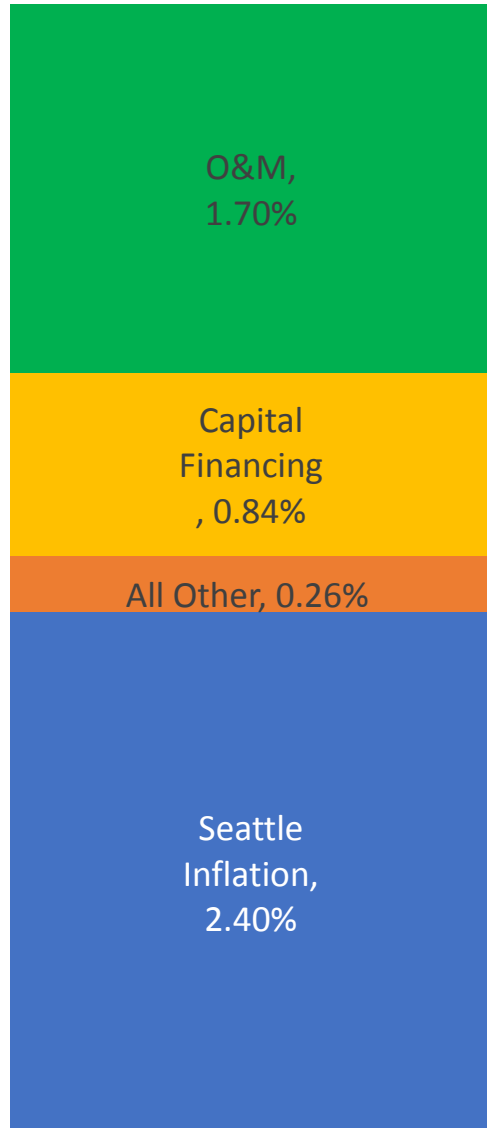
- September 2016 = **6.8%**:
 - Investments to meet regulatory requirements, aging infrastructure and transportation projects
 - Increase in the costs of operating the new assets
- January 2017 = **5.6%**:
 - Scrubbed base and financial assumptions
 - Prioritized and removed investments
 - Expenditure reductions of \$171M

2018-2023 Rate Path Options (January 2017)

Baseline rate path	5.2%
Minus additional savings <i>Deferred/reduced \$105M</i>	(0.3%)
Plus action plan investments <i>Added \$340M</i>	0.7%
Option A Average Annual Rate Increase	<hr/> 5.6%

2018-2023 SBP Update – Baseline Rate Path

Baseline = 5.2%



Components of the 1.70% increase in operations above general inflation

2018-2023 Rate Path Options

What Would It Take to Get to a 4.6% Baseline?

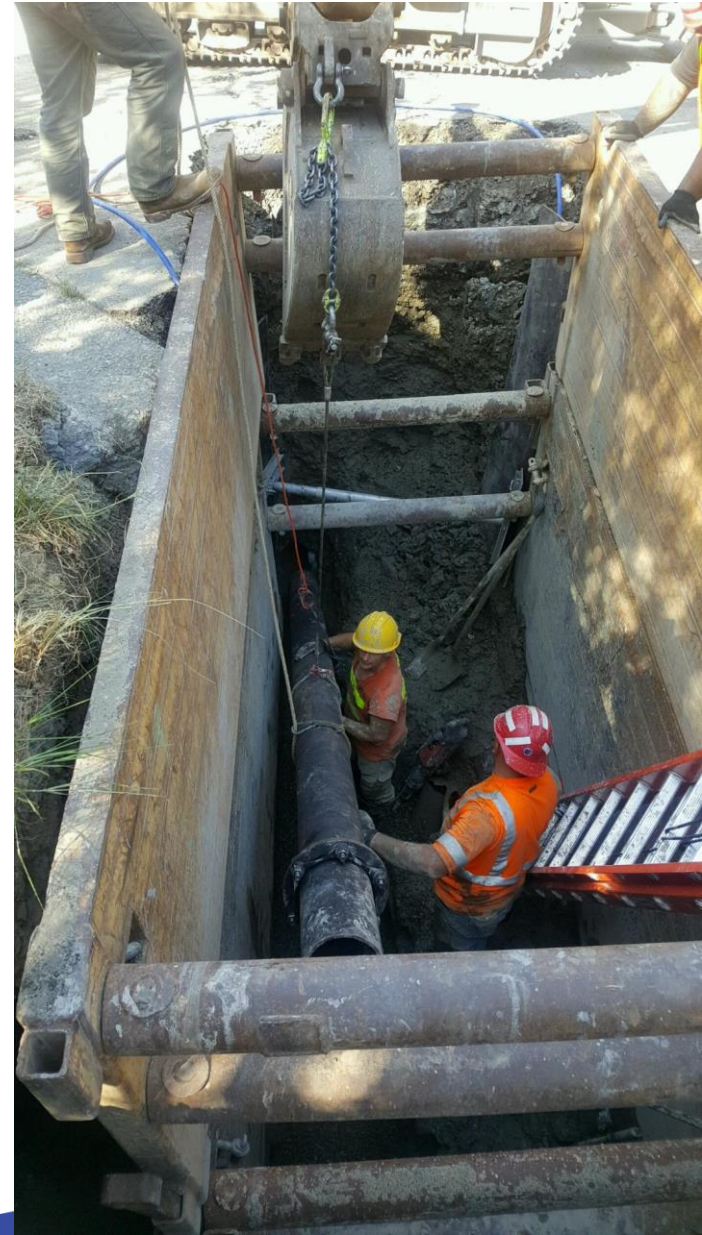
An estimated \$228M expenditure reductions:

- \$71M capital reductions or deferrals.
- \$157M operations and maintenance reductions (equivalent to about 200 positions).
 - Only 27% of all O&M is not fixed (e.g.= contracts, taxes)
 - Approximately 67% of the non-fixed spending is employee salaries



2018-2023 Rate Path Option A (5.6%)

- \$105M additional savings (-0.3%):
 - \$82M deferring and finding less expensive solutions to capital projects.
 - \$23M in O&M costs with minimal programmatic impact.
- \$340M in new investments (+0.7%):
 - \$118M facilities for crews/staff.
 - \$116M transportation opportunity projects.
 - \$92M infrastructure expanded repair, replacement, maintenance.
 - \$14M other investments (green fleet, security, apprenticeship program, etc.).



2018-2023 Rate Path Options (January 2017)

Option A: 5.6%

Option B: Medium Risk 5.4%

Option C: Higher Risk 5.3%

- SPU provided the Panel with options for reducing the rate path through making cost reductions or deferrals.
- SPU categorized these options based on risk to the SPU and the ability to delivery services.

2018-2023 Revised Rate Path Options (April 2017)

- The Panel asked SPU to prioritize the various options.
- SPU provided alternative rate path scenarios that prioritized the options and reflected initial feedback from the Panel.

Option A: **5.6%**

Scenario 1: **5.5%**

- *Reduction options considered less risky or able to defer (\$88.8M)*
- *Scaling back a few new investments*

Scenario 2: **5.4%**

- *Scenario 1 plus removal of some new investments*

2018-2023 Rate Path Options – Average Rates and Bills

2018-2023 RATE PATH

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Average 2018-23</u>
Option A	2.8%	10.0%	8.8%	3.6%	3.8%	5.1%	5.6%
Scenario #1	2.7%	8.5%	8.8%	3.8%	4.0%	5.2%	5.5%
Scenario #2	2.7%	8.5%	8.8%	3.7%	3.7%	5.2%	5.4%

Monthly Residential Bills

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2023 Over 2017</u>
Option A	185.64	204.39	222.99	231.43	240.38	252.73	72.67
Scenario #1	185.58	201.65	219.79	228.65	237.72	250.14	70.08
Scenario #2	185.58	201.62	219.49	228.13	236.28	248.60	68.54

Efficiencies and Savings - Definitions

Category	Definition	Examples
Cost Savings	Cost cuts or deferrals that lead to reductions in the budget.	Reducing consultant costs; deferring a capital project to later years.
Efficiencies <ul style="list-style-type: none">• Quantifiable• Unquantifiable	Improved productivity and reduced wasted effort.	<ul style="list-style-type: none">• Staff productivity.• Technology improvements.
Avoided Costs <ul style="list-style-type: none">• Quantifiable• Unquantifiable	Costs that are not incurred but are not "efficiencies".	<ul style="list-style-type: none">• Capital investments that result in less maintenance.• Move Seattle opportunity projects.

Efficiencies and Savings – 2018-2023 SBP Update

Action Items	Type of Savings
Facilities – Seattle Muni Tower Green Fleet	Cost Savings: Lower lease payments Lower fuel costs
Apprenticeship Program Facilities – N Ops Complex Facilities – S Ops Complex Facilities – Cedar Falls Phase 2 Expanded Security Monitoring Improved Technology Services	Efficiencies: Improved hiring, training, retention Reduced windshield time Reduced windshield time Reduced need for equipment repairs Improved response time to alarms Improved IT processes
Increase Sewer Repairs Sanitary Sewer Capacity Transportation Opportunities Water Distribution Maintenance Sewer Rehabilitation Pump Stations, Force Mains, Outfalls Increase Sewer Repairs	Avoided Costs: Increase productivity by bringing the work in-house Avoided costs of future sewer overflows Avoided costs of future failed assets

Efficiencies and Savings – 2018-2023 SBP Update

- \$370M-\$486M in reductions and deferrals identified:
 - \$171M to go from 6.8% to 5.3% baseline
 - \$105M in additional savings resulting in 0.3% reduction
 - \$94M - \$210M in Scenarios 1 and 2
 - \$88.8M in reduction options
 - \$5.6M-\$121M in scaling back on new investments
- Continue to find ways to be more efficient (workforce productivity, process improvements, technology improvements, etc.).
- Continue to mature our performance metrics system to better measure our efficiencies.



2018-2023 SBP Update – Next Steps

- April – May: Finalization of SBP Update.
- May 30: SBP Update submittal to Council with Panel letter of recommendation.
- June – July: CRUEDA review of proposed SBP Update.



QUESTIONS?

