



SEATTLE CITY COUNCIL
CENTRAL STAFF

2017

SPU Business Plan Update

Issue Identification

Peter Lindsay, Legislative Analyst, Council Central Staff
Civil Rights, Utilities, Economic Development and Arts Committee
July 25, 2017

Presentation Outline

- Resolution 31760
- 2014 & 2017 Plan Update Comparison
- Issue Identification
- Next Steps

Resolution 31760

- Average Annual Rate Increase of 5.5%
- SPU budgets consistent with the Plan Update
- SPU rate proposals consistent with the Plan Update
- Plan updated on a three-year cycle
- Customer Review Panel empaneled only for Plan Update

PROJECTED SIX-YEAR RATE PATH

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>AVERAGE</u>
DRINKING 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%

2014 Plan and 2017 Plan Update Comparison

- 2014 Plan proposed 4.6% average annual rate from 2015-2020
- 3-year overlap between the 2014 Plan and the 2017 Plan Update

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>AVERAGE</u>
A. 2014 PLAN	Projected 2.7%	Projected 5.0%	Projected 4.7%	Projected 4.2%	Projected 5.5%	Projected 5.2%	4.6%
B. PROPOSED PLAN UPDATE RATES	Adopted 2.9 %	Adopted 4.1%	Adopted 5.3%	Proposed 3.2%	Proposed 8.2%	Proposed 9.5%	5.5%
ABOVE (BELOW) SBP (B-A)	0.2%	(0.9%)	0.6%	(1.0%)	2.7%	4.3%	0.9%

Issue Identification: Rate Smoothing

Description:

Open drainage and wastewater rates early to reduce the spikey rate increases proposed in the Plan Update for 2019 and 2020

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>AVERAGE</u>
A. RATE PATH W/O SMOOTHING	3.2%	8.2%	9.5%	4.1%	3.7%	4.2%	5.5%
B. RATE PATH W/ SMOOTHING	4.7%	6.6%	7.2%	6.9%	3.2%	4.3%	5.5%
DIFFERENCE (A-B)	(1.5%)	1.6%	1.8%	(2.8%)	0.5%	0.1%	-

Options (mutually exclusive):

- A. Do Nothing – Maintain status quo structure
- B. Change drainage and wastewater rates to reflect rate smoothing – increase rates in 2018 and decrease rates in 2019 and 2020

Issue Identification: New Tap Fees

Description:

Modify SPU's water tap fees to fully or partially recover costs for physical connections

Options (mutually exclusive):

- A. Do Nothing – Maintain status quo structure.
- B. Request SPU modify water tap fees and assume new revenues will help off-set the revenue required from rates.

Issue Identification: System Development Charges

Description:

Reform SPU's water connection fee structure to internalize the cost of assets and interest payments.

Options (not mutually exclusive):

- A. Do Nothing – Maintain status quo structure.
- B. Amend the resolution to assume updated water connection charges and reduced rates
- C. Amend the resolution to request SPU complete analysis of potential water connection fee structure.

Issue Identification: Action Plan Prioritization

Description:

Consider changing the list of new projects and programs (known as Action Plans) identified in SPU's Plan Update.

Options (mutually exclusive):

- A. Do Nothing – Maintain status quo structure.
- B. Reduce the number of new projects included in the Plan Update

Issue Identification: CIP Accomplishment Rate

Description:

2017 Plan Update assumes 100 percent of annual capital appropriation will be spent.*

Options (mutually exclusive):

- A. Do Nothing – Assume 100 percent accomplishment rate
- B. Request SPU assume an accomplishment rate in line with historical norms and amend the rate path to reflect the change

* assuming a **95 percent** accomplishment rate results in a 5.3% average annual rate increase—a **0.2 percentage point decrease**.

Issue Identification: Utility Taxes

Description:

Change the City's utility tax structure to reduce rates and improve tax visibility on utility bills

Options (not mutually exclusive):

- A. Do Nothing – Maintain status quo
- B. Request SPU develop a plan to modify bills to clearly identify tax portion
- C. Change how the City will collect utility taxes to reduce SPU's tax obligations and reduce rates

Issue Identification: CRP Oversight & Involvement

Description:

Provide regular CRP review of business plan implementation

Options (mutually exclusive)

- A. Do Nothing – Maintain status quo structure.
- B. Amend the resolution to reflect twice per year CRP review of Plan Update implementation.

Issue Identification: Efficiency Targets

Description:

SPU did not submit specific efficiency targets in the Plan Update

Options (mutually exclusive):

- A. Do Nothing – Maintain status quo structure.
- B. Request SPU develop a comprehensive list of efficiency targets and adopt in subsequent resolution
- C. Request SPU develop a comprehensive list of efficiency targets immediately

MARKET-DRIVEN CAPITAL COST ESCALATION

Description:

SPU should consider developing an adaptive plan to address higher than anticipated construction costs

WATER RATES

Description:

Water Rates are lower than those assumed in the rate path
Rate Path w/ New Water Rates = **5.4%**

Next Steps

- **CRUEDA August 8, 2017**
- Central Staff work with Council to draft potential amendments
- Discuss and Possible Vote on amendments and supporting legislation