

March 17, 2020

## MEMORANDUM

**To:** Seattle City Councilmembers  
**From:** Brian Goodnight and Eric McConaghy, Analysts  
**Subject:** Council Bill 119758, Temporary suspension of interest charges on delinquent utility accounts

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On March 19, 2020, the Council will discuss and possibly vote on [Council Bill \(CB\) 119758](#), proposed legislation sponsored by Councilmember Pedersen. This memo provides an overview of the bill, estimates the impact of the bill, and identifies a potential amendment for Councilmembers' consideration.

### Background

On March 4, the Council modified the Mayor's proclamation of civil emergency due to novel coronavirus (COVID-19) by adopting [Resolution 31937](#). Novel coronavirus (COVID-19) is a new virus strain spreading worldwide from person-to-person with the potential to cause severe illness and death. On March 11, the World Health Organization characterized COVID-19 as a global pandemic.

On March 10, the Mayor issued [Executive Order 2020-03](#) to provide relief to small businesses as part of the civil emergency. Among other provisions, the executive order called for legislation to be transmitted to Council waiving SPU and SCL late charges on past due balances. The Executive composed legislation to accomplish the waiver and transmitted the bill, CB 119758, to Council on March 13. The legislation is necessary to temporarily supersede regulations in the Seattle Municipal Code (SMC) that authorize or require the collection of interest on delinquent utility customer consumption and utilization charges.

Passing CB 119758 would temporarily suspend Seattle Public Utilities' (SPU's) and Seattle City Light's (SCL's) charging of interest on delinquent utility bill balances for customers during the COVID-19 emergency. CB 119758 declares Council's finding that suspending the interest charges is necessary both to ease the negative impact on low-wage workers, individuals on fixed incomes, non-profit organizations and small businesses and to reduce the frequency of in-person bill payment during the emergency.

On March 16, Governor Inslee issued an emergency proclamation to limit the spread of COVID-19 that mandated the immediate two-week closure of all restaurants, bars, and entertainment and recreational facilities, as well as additional limits on large gatherings through March 31. While social distancing, the Governor's mandated closure, and other public health guidelines are critical in mitigating the rate of spread of the COVID-19 virus, they are already negatively impacting Seattle's economy, especially small businesses and workers who cannot work remotely.

## Summary

Because CB 119758 is emergency legislation, it would require a three-quarter vote by the Council and then become effective immediately upon approval by the Mayor. From that effective date until the earlier of either (a) termination of the civil emergency due to COVID-19 proclaimed by the Mayor on March 3, 2020 or (b) August 1, 2020, SCL and SPU would not add new interest charges to utility consumption and utilization accounts.

The bill would suspend interest charges for all residential customers and for those commercial customers with taxable gross annual receipts of less than \$5 million. CB 119758 would also supersede sections or subsections of the SMC, described below, that authorize or require the collection of interest on delinquent utility customer consumption and utilization charges during the same time period.

Interest provisions for delinquent charges on SCL accounts are defined in policy as authorized by [SMC 21.49.130](#). SCL charges a late payment charge of one percent per billing period (two months for residential and one month for commercial) on any delinquent balances more than fifteen calendar days past due.

Interest provisions for delinquent charges for SPU accounts are handled in four different chapters of [SMC Title 21](#), one chapter for each of the department's lines of business: water ([SMC 21.04](#)), wastewater ([SMC 21.28](#)), drainage ([SMC 21.33](#)), and solid waste ([SMC 21.40](#)). Account charges that are 30 days or more overdue begin to bear interest and continue to do so until the charges are paid. Delinquent charges for the water and solid waste lines of business incur interest at a rate of 12 percent per year. The interest rate for delinquent charges for the drainage and wastewater lines of business is capped by the state at eight percent per year.

## Impact

As described above, the bill's primary change would be to suspend interest charges on delinquent utility bill balances. This suspension would impact revenue for all four of the enterprise funds operated by SCL and SPU, and it would also impact the General Fund because of the utility taxes that are imposed on SCL and SPU revenues. According to the Executive, the estimated revenue decrease to the utilities between the effective date of the ordinance and August 1, 2020 (the latest date that the bill provisions would apply) could total approximately \$2 million, with \$1.6 million or 79 percent of this total decrease accruing to SCL's Light Fund. Table 1 shows the impact to each of the utilities' enterprise funds.

*Table 1: Estimated Utility Revenue Impacts*

Department & Fund	Estimated 2020 Revenue Impact
Seattle City Light	
Light Fund	(\$1,600,000)
Seattle Public Utilities	
Drainage & Wastewater Fund	(\$125,000)
Solid Waste Fund	(\$167,000)
Water Fund	(\$130,000)
<b>Total:</b>	<b>(\$2,022,000)</b>

Based on these estimates, the General Fund would also experience a revenue reduction of approximately \$146,000 due to reduced utility taxes. If the Council were to take future action to extend the provisions of this bill beyond August 1, the departments estimate that each additional month of effectiveness would reduce utility revenues by approximately \$350,000.

In terms of the impact on the utility departments' overall budgets, the revenue impact is relatively modest. SCL and SPU each have 2020 Adopted budgets totaling approximately \$1.4 billion, and the budget assumes interest charge revenues of approximately \$3 million for SCL and \$1 million for SPU. However, it is possible that the utilities may also experience an increase in expenditures related to collection activities if the number of delinquent accounts increases significantly. The delinquency rate for the utilities is between three and five percent of all customer accounts, but given the economic impacts of the current emergency, this rate may rise.

### **Potential Amendment: Councilmember Pedersen**

#### **1. Clarification of Covered Commercial Customers**

As currently drafted, Section 2 of the bill states that no new interest charges will be added to utility accounts for residential customers or "commercial customers with taxable gross receipts of less than \$5 million annually." This language does not specify which time period is applicable when evaluating the taxable gross receipts of a commercial customer. To provide additional clarity to this section, we have prepared a substitute bill (Version D2) that modifies Section 2 as follows:

"No new interest charges shall be added to utility consumption and utilization accounts for residential customers or commercial customers with taxable gross annual receipts of less than \$5 million ~~annually~~ in 2019..."

Additionally, the substitute bill modifies the recitals on the first page to recognize events that have happened since the legislation was transmitted.

#### **Options:**

- A. Consider the originally transmitted version of the bill, Version D1.
- B. Consider the substitute version of the bill, Version D2, that clarifies which commercial customers are covered by the provisions of the bill.

Please contact Brian Goodnight or Eric McConaghy if you have questions about this legislation or the identified amendment.

cc: Kirstan Arestad, Executive Director  
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