

**Overview and Initial Issues Identification
SEATTLE PUBLIC UTILITIES (SPU)**

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Table 1: Expenditures/Revenues

EXPENDITURES	2014 Endorsed Budget	2014 Proposed Budget	% Change Endorsed to Proposed
<i>Water Fund</i>	\$281,003,000	\$295,258,000	5.1%
Operations and Maintenance (O&M)	\$132,502,000	\$138,971,000	4.9%
Capital Improvement Program (CIP)	\$67,477,000	\$76,624,000	13.6%
Debt Service	\$81,024,000	\$79,663,000	-1.7%
<i>Drainage and Wastewater Fund</i>	\$410,008,000	\$422,483,000	3.0%
O&M	\$263,440,000	\$272,643,000	3.5%
CIP	\$101,373,000	\$106,597,000	5.2%
Debt Service	\$45,195,000	\$43,243,000	-4.3%
<i>Solid Waste Fund</i>	\$217,377,000	\$207,950,000	-4.3%
O&M	\$165,510,000	\$160,813,000	-2.8%
CIP	\$39,370,000	\$34,195,000	-13.1%
Debt Service	\$12,497,000	\$12,941,000	3.6%
Total Expenditures	\$908,388,000	\$925,690,000	1.9%
Total Full Time Equivalent Staff (FTEs)	1,400.55	1,403.55	<1%
REVENUES			
General Subfund (GSF)	\$1,129,000	\$1,212,000	7.3%
Other Revenue Sources	\$907,259,000	\$924,478,000	1.9%
Total Revenues	\$908,388,000	\$925,690,000	1.9%

INTRODUCTION

When you turn on a faucet in Seattle, drain a bathtub, put out the trash, or watch rain run off your yard into a storm drain, you are using a Seattle Public Utilities (SPU) service. SPU spending is over one-fifth of the proposed 2014 City budget.

Compared to the endorsed budget, SPU's proposed 2014 budget spends \$17.3 million (1.9%) more and adds 3 FTE. The increase is the net result of about \$11 million of new non-debt O&M spending and \$9.2 million added to the CIP, which is offset somewhat by \$2.9 million in debt service savings. Although the percent change is relatively small, it is larger than seen in recent SPU endorsed and proposed budgets -- the next largest recent increase was one-tenth of a percent between the endorsed and proposed 2006 budgets.

Although a capital program is fundamental to SPU's work, it is only about 23% of SPU's 2014 budget. O&M activities to maintain infrastructure and operate the utility are the largest part of proposed expenditures (62%). Debt service (15%) comprises the rest of the proposed budget.

ISSUES

1. **Strategic Plan.** Some 2014 SPU spending increases are needed to pay for inflation on base services, Central City cost increases, new regulatory requirements, previously approved positions and contracts, and changes to previously approved capital projects.

The proposed budget also includes new discretionary spending that could be reconsidered given the status of SPU's strategic planning process. Last year's Statement of Legislative Intent (SLI) 27-1-A-1 directed SPU to convene a customer panel to offer advice in the development of a Strategic Plan and 6-year (2015-2020) rate path. Plan development is underway with active participation of a customer panel and an August 2014 completion date. The panel has not yet discussed potential efficiencies that could lower costs or considered options for improving service through increased spending. The Council may not want to prejudge the outcome of the strategic planning process by approving new discretionary O&M spending or new capital projects now, because new spending will add to rate increases in 2015 and beyond. Holding off on new spending pending Strategic Plan completion follows the approach used during City Light's Strategic Plan development.

New discretionary spending that could be removed from the proposed 2014 budget and considered in future budgets after completion of the Strategic Plan includes:

<i>NEW DISCRETIONARY SPENDING</i>	<i>AMOUNT</i>
<u>Human Resources (HR).</u> 3 new HR FTEs are proposed for supervisor development, succession planning and leave-of-absence management. SPU has a high number of HR staff compared to other departments, and adding these positions contributes to future rate increases. Due to rate impacts, the decision to add this new discretionary spending could be made in the Strategic Plan rather than the 2014 budget.	\$305,000
<u>Outreach.</u> In 2014 SPU will be conducting outreach (such as public meetings and focus groups) to obtain customer input on its Strategic Plan. After the plan is adopted, SPU plans to increase ongoing efforts on employee communications, customer focus groups, community event sponsorships, and outreach via electronic media and direct mail. In 2013 SPU is using its existing spending authority to fund Strategic Plan outreach. Because new spending adds to future rates, SPU could be directed to use its base spending authority for Plan outreach in 2014 (or could be granted a smaller one-time 2014 allocation), with the decision to add this new discretionary spending for 2015 and beyond made in the Strategic Plan.	\$400,000

Project Delivery Improvement. SPU is responsible for delivering well-built capital projects on time and within budget. In 2013 SPU hired an expert to help improve its project delivery practices. SPU is using existing spending authority to pay the expert in 2013 but has proposed added spending authority for 2014 and 2015. Because new spending adds to future rates, SPU could be directed to use its base spending authority for the position in 2014, with the decision to add this new discretionary spending made in the Strategic Plan. Spending authority in 2014 should be sufficient due to the gap between assumed and actual vacancy rates and other areas of budget flexibility. \$232,000

Street Sweeping for Leaves. SPU-funded street sweeping is proposed to be expanded from water quality routes that drain to local waterbodies to routes on leaf-strewn streets draining to treatment plants. Flood reduction is the rationale, but no flooding claims have been filed on the proposed leaf routes. Because leaves fall on virtually all streets, proposals for further expansion of SPU-funded routes might be expected, contributing to future rate increases. Due to rate impacts, the proposed expansion could be decided in the Strategic Plan rather than the 2014 budget. To sustain 2013 levels of sweeping, a \$47,000 cut from SPU's 2014 budget would need to be offset by a comparable add to the Seattle Department of Transportation's GSF budget. \$47,000

New Capital Projects (including Yesler Terrace). Three new capital projects were added in SPU's 2014-19 CIP, adding to future rate increases. A new Water Fund environmental project adds \$200,000 of spending each year starting in 2014. Two projects to improve infrastructure for Yesler Terrace and the surrounding area add a combined \$3 million in 2014 and would allow further spending to be added for 2015 and beyond. Under its agreement with the City, the Seattle Housing Authority (SHA) is responsible for submitting justification for any new City funding requests, but that justification has not been delivered. Due to rate impacts, these new projects could be removed from the 2014 budget and 2014-19 CIP, with the decision to add them made in the Strategic Plan. However, because the Yesler Terrace projects could be complete in 2014 and thus have little effect on future rates, those projects could be left in the budget but proviso'd pending further information from SHA. \$3,200,000

TOTAL NEW DISCRETIONARY **\$4,200,000**

2. Labor-Management Leadership Committee (LMLC) Positions. The LMLC, composed of labor representatives, elected officials and City department directors, provides a forum for communication and cooperation regarding City services and work environments. The LMLC responded to Coalition of City Unions concerns about recession-driven staff reductions by recommending work be shifted from contractors to City employees if savings can be achieved. The 2012 budget implemented the

recommendation by creating 25 unfunded Personnel Department positions with December 31, 2014 sunset dates. The positions are intended for use by City departments where the added staff can accomplish budgeted work tasks more cost-effectively than contractors. If an ongoing body of work is ultimately identified, departments can request permanent positions through the usual process.

Currently all 25 positions are assigned to City departments; 11 in SPU, 10 in City Light and 4 in the Seattle Department of Transportation. The 11 SPU positions are for engineering, planning, policy and public relations work, mostly related to the capital program. SPU expects to save \$932,000 by using City employees instead of consultants. SPU will pay a portion of the costs for these positions from its O&M BCLs which will be reimbursed by capital BCLs for overhead on capital projects. As a result, the proposed \$430,000 of new spending for LMLC positions is offset by reductions embedded in the budget's technical adjustments, for no net increase in O&M spending. The Strategic Plan baseline budget assumes the positions won't sunset until 2015 and SPU states future rates would be higher if consultants were used instead. If SPU's conclusion is accurate and minimizing rate increases is the goal, the Council would accept the continuation of positions through 2015. However, if there is an ongoing body of work for these positions, Council may want to state its expectation that conversion to permanent positions must be addressed explicitly in the Strategic Plan and requested through the usual process in future budgets.

4. **Urban Forest Stewardship Plan (UFSP) Implementation**. SPU helps implement the UFSP through the reLeaf private landowner outreach program and other efforts. Because the UFSP involves multiple departments, it is addressed in the Overview of Cross-Cutting Issues and Departments Without Identified Issues.
5. **Drainage and Wastewater Bonds (CB 117939)**. A drainage and wastewater bond ordinance has been submitted as budget legislation. The proposed ordinance authorizes a 30-year fixed-rate bond issue of \$113 million in mid- to late-2014. The ordinance also is updated to reflect recent changes in state law. Bond proceeds will fund about 18 months of a drainage and wastewater capital program that is \$3.6 million higher in 2014 than in the adopted 2013-2018 CIP. The endorsed 2014 budget assumed a \$70 million bond issue in 2014.

Recommendation. The proposed bond issue is an appropriate way to accomplish the capital program while spreading the cost of long-lived assets between current and future customers.

6. **Drainage and Wastewater Bond Refunding Ordinance (CB 117940)**. Ordinance 121938 authorizes the City to refund (refinance) drainage and wastewater bonds when interest rate savings can be captured. CB 117940 amends that ordinance to conform to the City's other bond ordinances, which are being revised to address recent state statutory changes.

Recommendation. Pass CB 117940 to achieve consistency with state law and the City's other bond ordinances.

7. **Water Bonds (CB 117942)**. A water bond ordinance has been submitted as budget legislation. The proposed ordinance authorizes a 30-year fixed-rate bond issue of \$49 million in the second half of 2014. The ordinance also is updated to reflect recent changes in state law. Bond proceeds will fund about 12 months of a water capital program that is \$9.1 million higher in 2014 than in the adopted 2013-2018 CIP. The endorsed 2014 budget assumed a \$63.5 million bond issue in 2014.

Recommendation. The proposed bond issue is an appropriate way to accomplish the capital program while spreading the cost of long-lived assets between current and future customers.

8. **Water Bond Refunding Ordinance (CB 117941)**. Ordinance 121939 authorizes the City to refund (refinance) water bonds when interest rate savings can be captured. CB 117941 amends that ordinance to conform to the City's other bond ordinances, which are being revised to address recent state statutory changes.

Recommendation. Pass CB 117941 to achieve consistency with state law and the City's other bond ordinances.

TOPICS OF POTENTIAL COUNCIL INTEREST

Human Services Department (HSD) Low-Income Utility Assistance. SPU and City Light pay HSD to enroll low-income customers for discounted rates and other services. The endorsed 2014 HSD budget included 14 FTE and \$1.4 million/year (\$475,000 from SPU) for those utility services. The proposed 2014 HSD budget adds \$101,000 (\$17,000 from SPU) to upgrade the scanning, phone, and database systems that support the enrollment program.

Although many steps have been taken over recent years to make utility assistance more easily available to SPU's low-income customers, enrollment has remained low – around 9,400 (roughly 13% of those eligible) as of October 2013. Since August 2011 HSD has been using new practices to improve enrollment, resulting in over 6,500 SPU and City Light customers enrolled or re-enrolled in 2013 and elimination (with City Light's assistance) of the application processing backlog. Targets for 2014 include enrollment of 4,700 new SPU and City Light customers and re-enrollment of 3,000.

Gray Water on Vessels. The Seattle On-Water Resident Stakeholder Group was established by the Council to address the issue of residential uses over water that may (or may not) be located in a vessel. The Planning, Land Use and Sustainability Committee recently endorsed some of the recommendations from the Group, including a pilot project for improved management of water drained from sinks and showers (called gray water) that is discharged from vessels. Despite state and City prohibitions on discharges, gray water from vessels continues to pollute local waterbodies. If the pilot project were pursued in 2014, SPU might be the logical lead given its gray water expertise. SPU estimates that the 2-year pilot would require 1.3 new FTE and roughly \$500,000 (\$250,000/year) for monitoring, outreach and project management. The added cost for design and construction

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of a yet-to-be-determined number of containment systems may be over \$400,000. Because vessel-based treatment is not part of the City's municipal stormwater or wastewater system, non-utility dollars may be needed for the pilot.