SPU Strategic Business Plan
Status Update

City Council

Seattle Public Utilities and Neighborhoods Committee

Seattle Public Utilities

March 25, 2014

Structure of Discussion

1. Introduction
2. Baseline Starting Point
3. Programmatic Reductions (cuts to baseline)
4. Efficiencies (cuts to baseline)
5. Filling the Gaps: Action Plan Investments (adds to baseline)

Reminder:
The Purpose of the Strategic Business Plan

Produce a transparent and predictable 6-year service and rate path for all of SPU's lines of business:

- Drinking Water
- Wastewater
- Drainage
- Solid Waste

Nine-member Customer Review Panel meeting twice monthly to provide input on the Plan development

Where We're Going

Baseline (Starting Point)

The cost of maintaining existing service levels plus meet firm regulatory requirements

+/-

Programmatic Reductions

Decreases in baseline that impact lower priority services and/or reduce SPU's flexibility

Efficiencies/ Revenue Opportunities

Investments or actions to generate savings or revenues

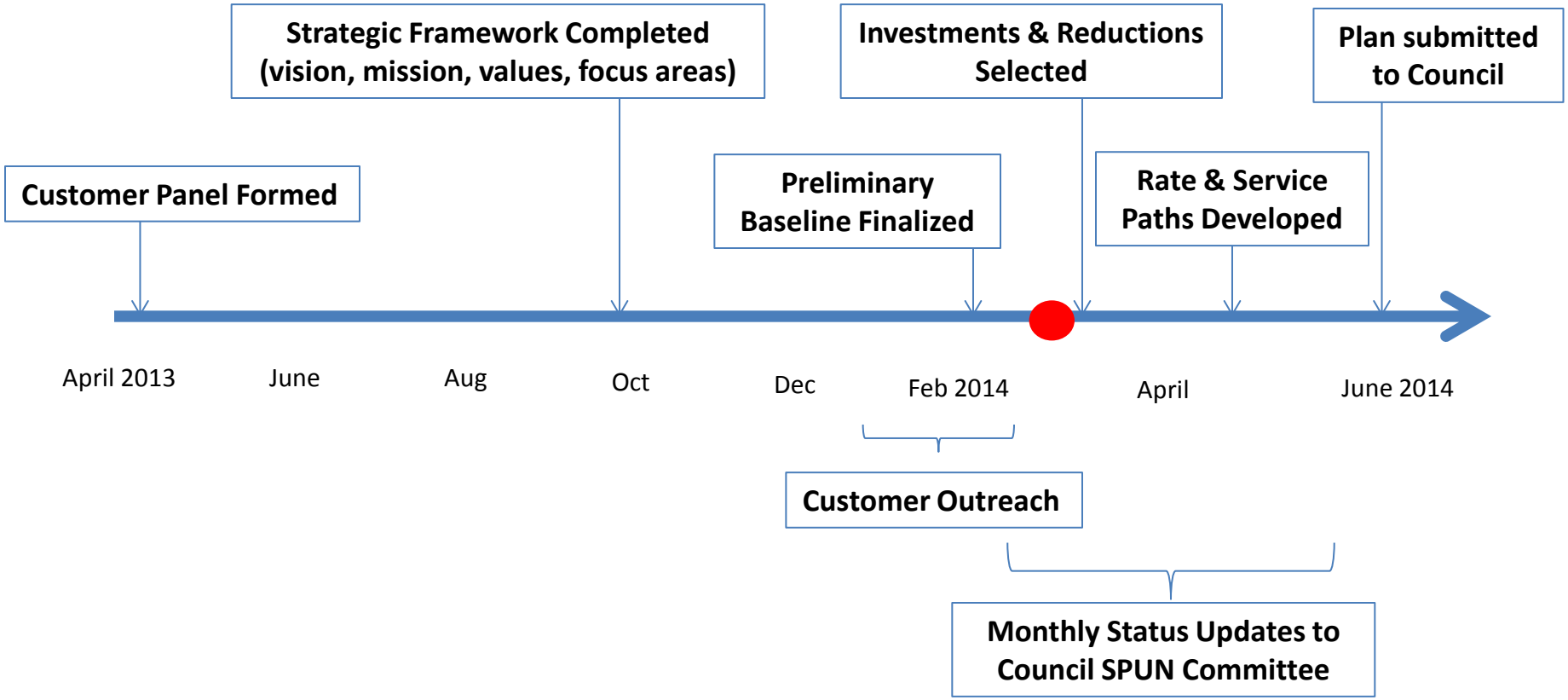
Filling the Gaps

Investments to increase current levels of service, and/or organization strength and effectiveness

Balancing Costs and Services into Rate Packages

Strategic Business Plan Timeline:

Through Submittal to Council



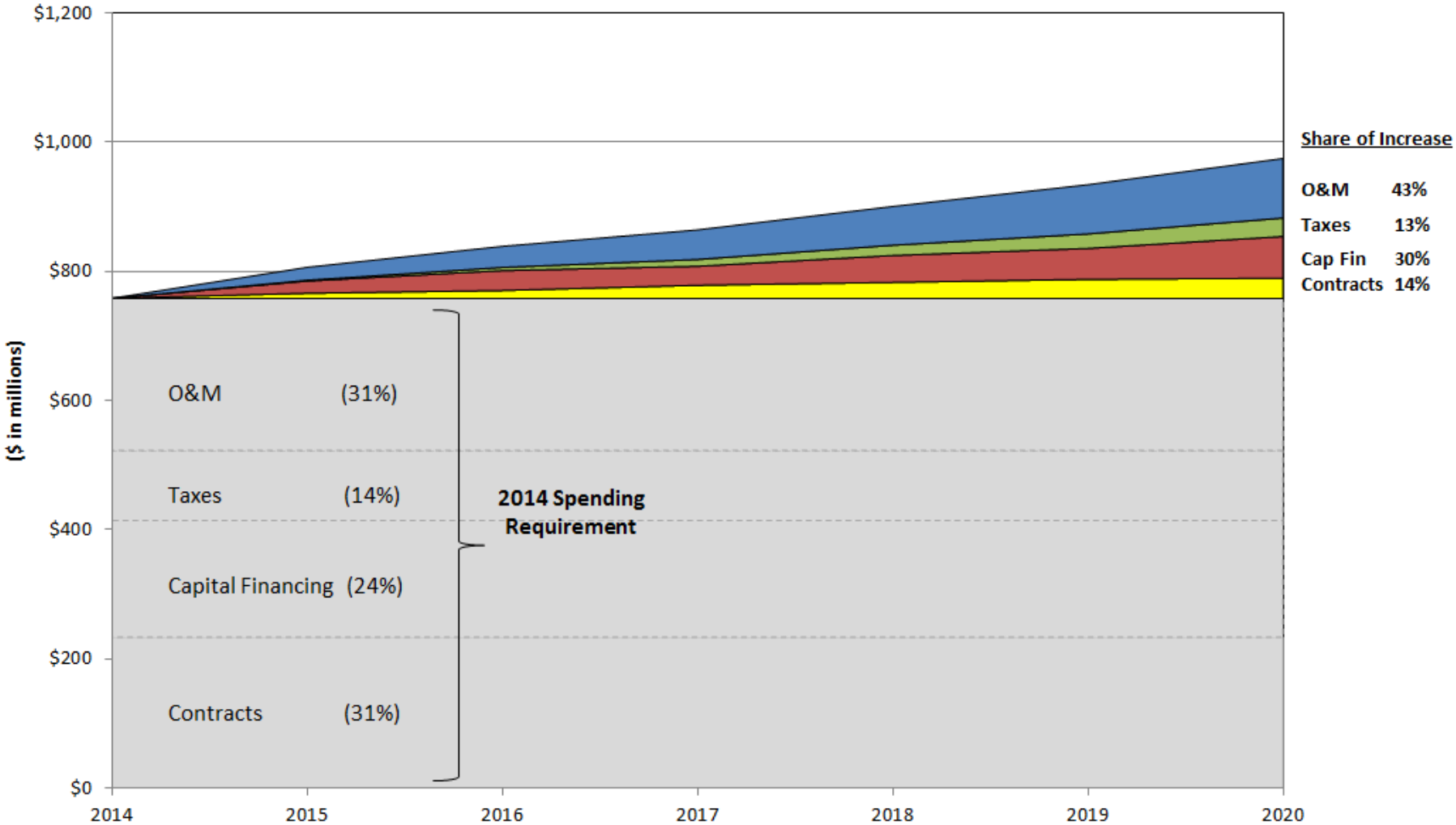
Baseline (Starting Point)

- *Defined:* The "Baseline" is the cost of maintaining current service levels and meeting firm regulatory requirements.
  - Examples of regulatory requirements: Combined Sewer Overflow requirements; City recycling goals

- *Process*: SPU staff created baseline forecast based on detailed inflationary assumptions, projected changes in demand, cost of meeting known regulatory requirements. Assumptions and results initially presented to Panel last August. Ongoing review of assumptions, refinements in calculations and discussion with Council staff, CBO staff and Panel.

- *Status*: Baseline is still in draft form, but based on current projections, on average, customer bills will increase roughly **4.6% per year between 2015-2020**.
  - This rate of increase is higher than projected inflation, but less than experienced in the last decade of 7% average annual SPU rate increases overall.

Total SPU
2014-2020 Spending Requirement



Preliminary baseline – average annual rate increase across all SPU lines of business of 4.6%

Baseline: next steps

- At next Strategic Business Plan update to the Council SPUN committee, we will present Panel's "elevator speech" to communicate details on baseline cost drivers

Programmatic Reductions

- *Defined:* Recommended actions to reduce or eliminate lower priority services or programs, and/or reduce contingency funds and staff capacity to respond to emergent needs.

- *Process:* SPU staff reviewed current operations, prioritized cuts against strategic plan framework focus areas, strategic objectives. Presented to Panel in January, 2014.

- *Example O&M Reductions*: slow the rate of equipment replacement; cut back on consultant contracts

- *Example CIP Reductions*: Defer selected CSO projects in favor of water quality projects with greater benefits; update cost estimates for South Park Development Project

- *Estimated savings* = $3.7M/yr in O&M; $101M in CIP from 2015-2020; reduces average annual rate increase about 0.27% per year

Programmatic Reductions: Status

- SPU presented a summary of specific reduction areas to the Panel in January, representing an average reduction of 2% of controllable costs

- Many cuts reflect deferral of planned activities that may not be realistically achieved within planning timeline given current organizational capacities and other priorities.

- Panel generally supportive of SPU's recommended programmatic reductions.
  - One-Less Truck / Every-Other Week Garbage not recommended.

- Depending on the outcomes in the efficiencies and baseline work, Panel may suggest additional programmatic reductions.

Efficiencies

- *Definition*: Investments or actions to generate savings – results in rate reductions through baseline savings that will not lower current levels of service

- *Process:* Dual process– outside consultant effort and internal review and recommendations.

- *45 recommendations* from independent consultant (HDR Consulting)
  - SPU interested in exploring many of the 45 recommendations, in some form or other, over the six-year period
  - Currently, do not expect to consider contracting out
  - Do expect to consider cost/service agreements with other City departments; negotiate with unions on crew size reductions

- *Estimated savings* in budget and rate path of 70-80 FTE, or $7M-$8M per year by 2020 (reduces average annual rate increase by about 0.2%)
  - Overall FTE result, when combined with initial baseline, programmatic reductions, and actual plan investments is a "no net increase by 2020"

Efficiencies: Status

- Panel presented with SPU's recommended approach at the March 12th Panel meeting
- General initial support for exploring many of the consultant's efficiency recommendations
- General initial support for capturing efficiency savings through a "net zero increase" in FTE by 2020
- Panel wants assurance that there is no "double counting" in the costs or the savings between the efficiencies recommendations and the action plan recommendations

Action Plan Investments

- *Defined:* Investments to increase current levels of service, and/or organization strength/effectiveness

- *Process:* SPU has developed 27 proposed Action Plans, covering all 4 focus areas. (see handout)

- *Estimated Cost*: If all 27 were implemented, estimated total cost:
  - $9M-$10M per year in O&M
  - $110M in additional CIP over the 6-year period
  - adds about 0.6% per year to average annual rate increase

Action Plan Investments: Status

- Panel currently reviewing Action Plans that reflect significant investment dollars, or changes in policy

- After reviewing write-ups of all Action Plans (not just the big ones), Panel will vote on how to advise the utility to rate these in terms of importance

- Panel has reviewed 10 Action Plans to-date:
  - Preliminary support for increased sewer cleaning, inspection, and rehabilitation; and for increased investments to fix chronic neighborhood flooding problems – estimate rate impact of 0.2% per year (out of the total 0.6% rate impact of all Action Plans)

Reminder: Outreach Results Available Next Month

- Will have broad customer outreach data from neighborhood meetings, focus groups, and on-line surveys available soon
- This information will inform final recommendations on the Strategic Business Plan's rate and service path
- We'll discuss the baseline drivers in more detail at the April SPUN Committee meeting.

Questions?