

2011 -2012 Budget Overview and Initial Issues Identification
SEATTLE PUBLIC UTILITIES (SPU)
WATER, DRAINAGE/WASTEWATER, SOLID WASTE

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TABLE 1: EXPENDITURES AND REVENUES

SPU Fund	2009 Actual	2010 Adopted	2011 Proposed	% Change '10-'11	2012 Proposed	% Change '11-'12
EXPENDITURES						
Water						
O&M 1/	\$127,109,000	\$122,650,000	\$115,955,000	-5.5%	\$121,075,000	4.4%
CIP 2/	\$84,388,000	\$98,548,000	\$79,108,000	-19.7%	\$70,989,000	-10.3%
Debt Service	\$164,293,000	\$71,616,000	\$80,319,000	12.2%	\$86,114,000	7.2%
total	\$375,790,000	\$292,814,000	\$275,382,000	-6.0%	\$278,178,000	1.0%
Drainage/Wastewater						
O&M	\$202,691,000	\$212,358,000	\$237,727,000	11.9%	\$240,171,000	1%
CIP	\$56,523,000	\$83,449,000	\$83,848,000	0.5%	\$92,624,000	10.5%
Debt Service	\$29,807,000	\$34,921,000	\$37,274,000	6.7%	\$39,863,000	6.9%
total	\$289,020,000	\$330,728,000	\$358,849,000	8.5%	\$372,659,000	3.8%
Solid Waste						
O&M	\$134,203,000	\$153,867,000	\$152,748,000	-0.7%	\$156,584,000	2.5%
CIP	\$17,300,000	\$33,867,000	\$29,248,000	-13.6%	\$40,115,000	37.2%
Debt Service	\$10,743,000	\$5,924,000	\$7,669,000	29.5%	\$10,923,000	42.4%
total	\$162,246,000	\$193,658,000	\$189,665,000	-2.1%	\$207,622,000	9.5%
SPU TOTAL	\$827,057,000	\$817,200,000	\$823,895,000	0.8%	\$858,458,000	4.2%
FTEs	1449.25	1449.25	1419.25	-2.1%	1415.25	-0.3%
REVENUES						
General Subfund	\$11,164,000	\$1,351,000	\$1,299,000	-3.8%	\$1,329,000	2.3%
Other	\$815,893,000	\$815,849,000	\$822,596,000	0.8%	\$857,129,000	4.2%

1/ O&M=operations and maintenance 2/ includes technology capital improvement program (CIP) 3/ FTE= full time equivalent staff

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. These services represent about 21% of the proposed 2011-2012 City budget. The Executive is proposing:

- A 2011 budget that is \$6.7 million higher than the adopted 2010 budget and a proposed 2012 budget that is \$34.6 million higher than 2011, for a \$41.3 million increase over the two-year period.
- Abrogation of 42 positions (including 5 mid-year 2010 abrogations), shifting of 4 full-time positions to part-time, unfunding of 6 positions (including mid-2010 unfunding of 5 positions), reclassifying 2 senior-level staff to lower positions, and adding 6 positions for 2011-2012 priorities.

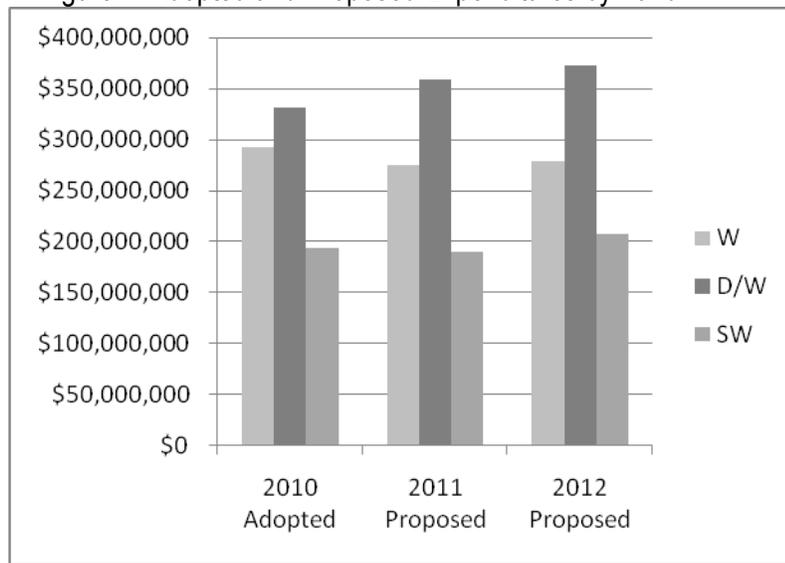
The increase in SPU's budget over the two years is the net result of spending cuts made in response to revenue shortfalls and spending increases primarily for base cost increases (such as health care), regulatory compliance, and capital projects to address priorities such as (reservoir covering) and to replace aging infrastructure. Although a capital program is fundamental to SPU's work, it comprises only about 24% of SPU's 2011-2012 budget. O&M activities to maintain infrastructure and operate the utility are the largest part of proposed expenditures (62%). Debt service comprises the rest of the proposed budget.

SIGNIFICANT CHANGES

Capital Program. The capital program is proposed to decrease by \$12.1 million over the two years. The change reflects the winding down of major investments in water treatment, reservoir covering and watershed protection. The declining water CIP is offset somewhat by a growing Clean Water Act-driven drainage and wastewater capital program and increased spending to rebuild the City's two solid waste transfer stations.

Fund Shifts. While in the past the Water Fund (WF) was the largest SPU Fund, the Drainage/Wastewater Fund (DWF) budget is now the largest, due to the growing cost of regulatory compliance and wastewater treatment (Figure 1).

Figure 1: Adopted and Proposed Expenditures by Fund



ISSUES

- 1. DRAINAGE AND WASTEWATER RATE ORDINANCES.** *How will the SPU and Neighborhoods (SPUN) Committee recommendations on proposed 2011-2012 rates be reflected in the budget?*

BUDGET EFFECTS OF SPUN RATE RECOMMENDATIONS

The budget incorporates SPU-proposed 2011-2012 drainage and wastewater rates. The proposed rate ordinances (C.B. 116926 and 116928) were reviewed by the SPUN Committee and re-referred to the Budget Committee with the SPUN-recommended changes shown in Table 2.

Table 2: Budget Effects of SPUN DWF Rate Recommendations	SPU-Proposed 2011	Spending 2012	SPUN 2011	Changes 1/ 2012
<u>SPU PROPOSALS REVIEWED BY SPUN.</u>				
After considering changes in below-listed actions, SPUN made the following recommendations.				
A Capacity Planning. Approve added drainage/sewer capacity planning (with 2 new FTEs) as proposed.	\$479,400	\$488,988	no change	no change
B WRIA Dues. Add rate revenue for watershed-based salmon conservation forum dues as proposed.	\$98,940	\$100,919	no change	no change
C Street Sweeping for Water Quality. Expand street sweeping, refocus some existing sweeping and add a FTE to improve water quality.	\$1.6 M	\$1.6 M	no change	no change
D Capitol Hill Water Quality Project. Approve the South Lake Union-area project as proposed.	\$306,000	\$2.5 M	no change	no change
E Venema Creek Natural Drainage System. Approve the Broadview-area natural drainage project as proposed.	\$1.5 M	\$2.6 M	no change	no change
F Late-Breaking Budget Revisions. Increase rates to cover the net of new costs identified after rate submittal (including cost shifts among Funds) and cost reductions (in inflation, COLAs and other factors) submitted with the budget.	\$1.3 M	\$1.9 M	no change	no change
<u>SPUN OPTIONS/RECOMMENDATIONS.</u>				
G Capital Program Cuts. Approve capital program as proposed, without the 5% cuts (\$4.3 M in 2011 and \$4.7 M in 2012) considered by SPUN.	full funding	full funding	no change	no change
H Work Force Efficiency and Productivity. Reduce labor costs in anticipation of efficiencies from actions such as weekend shifts.	full funding	full funding	(\$150,000)	(\$300,000)
TTL PROPOSED CHANGES IN DWF BUDGET			(\$150,000)	(\$300,000)

1/ These columns show the effect on the proposed budget of SPUN Committee recommendations. Effects on rates will be different for debt-financed capital projects and changes that affect only revenues.

Although SPUN recommendations reduced expenditures in the budget, they increased rates relative to the SPU proposal to cover late-breaking budget changes not in the rate study (see Table 2.F). The net effect of the SPUN recommendations on utility tax GSF revenues assumed in the proposed budget is still being determined.

RATE AND BILL EFFECTS OF SPUN RATE RECOMMENDATIONS

SPUN recommendations would increase 2011 average system drainage revenue by 13.8% (instead of SPU-proposed 12.5%) and wastewater revenues by 3.7% (compared to the proposed 3.4%).

SPUN-recommended 2012 revenues would increase an additional 11.2% for drainage and 2.2% for wastewater. Impacts of SPUN recommendations on a sample of typical bills are:

Sample Monthly Bills	Adopted 2010	SPUN-revised 2011	'10-'11 Diff.	SPUN-revised 2012	'11-'12 Diff.
Single-family					
Drainage	\$17.17	\$19.42	\$2.25	\$21.61	\$2.19
Wastewater	\$46.70	\$48.62	\$1.92	\$50.65	\$2.03
Supermarket					
Drainage	\$597.08	\$691.46	\$94.38	\$769.11	\$77.76
Wastewater	\$1,796	\$1,870	\$74.00	\$1,948	\$78.00

Recommendation. Approve proposed drainage and wastewater rate ordinances with the SPUN-recommended changes and a green sheet to make associated budget changes.

2. SOLID WASTE RATE ORDINANCE. *How will the budget reflect SPUN rate recommendations?*

BUDGET EFFECTS OF SPUN RATE RECOMMENDATIONS

The budget incorporates SPU-proposed 2011-2012 solid waste rates. The proposed rate ordinance (C.B. 116927) was reviewed by the SPUN Committee and re-referred to the Budget Committee with the SPUN-recommended changes shown in Table 3.

Table 3: Budget Effects of SPUN SWF ^{1/} Rate Recommendations	SPU-Proposed 2011	Spending 2012	SPUN 2011	Changes ^{2/} 2012
<u>SPU PROPOSALS REVIEWED BY SPUN.</u>				
After considering changes in below-listed actions, SPUN made the following recommendations.				
A Green Fee Revenue Replacement. Replace \$3.4 million in green fee revenue with rate revenue. Replacing revenue has \$0 effect budget spending.	\$0	\$0	no change	no change
B Financial Policy Assumptions. Reduce proposed net income by one-half. Reducing revenue for net income reduces rates but has \$0 budget effect.	\$0	\$0	no effect on budget	no effect on budget
C Can Replacement Cost. Include funding to replace 8% (instead of the proposed 10%) of solid waste containers each year.	\$3 M	\$3M	(\$600,000)	(\$600,000)
D Organics Processing Contract Renegotiation. Include no added funding because contract changes are not yet needed.	\$362,000	\$373,000	(\$362,000)	(\$373,000)
E Recycling Processing Costs. Assume lower processing contract payments due to a favorable market price share from resale of recyclables.	\$2.9 M	\$3 M	(\$200,000)	(\$300,000)
F Longer Term Debt. Assume 30-year (instead of the proposed 25-year) bonds to more closely match the debt's term to transfer stations' useful lives.	\$7.6 M	\$10.8 M	(\$330,000)	(\$330,000)

G Late-Breaking Budget Reductions. Reduce rates to reflect the net of new costs identified after rate submittal (including overtime and cost shifts among Funds) and cost reductions (in inflation, COLAs and other factors) submitted with the budget.	(\$231,000)	(\$186,000)	no effect on budget	no effect on budget
<u>SPUN OPTIONS/RECOMMENDATIONS.</u>				
H Mandatory Multi-Family Organics Service. Require multi-family customers to have organics service to improve City recycling rates.	\$0	\$0	\$250,000	\$250,000
I Every-Other-Week Garbage Pilot Project. Add a mid-2011 through January 2012 every-other-week garbage pilot project.	\$0	\$0	\$295,000	\$55,000
J Low Income Enrollment and Outreach. Provide budget direction to improve enrollment practices for low income rates and assistance.	\$172,544	\$172,544	no change	no change
K Yellow Pages Legislation. Implement C.B. 116954 by adding spending authority for a City-sponsored opt-out list, and replacing up to \$350,000/yr of rate revenues with fee revenues.	\$0 for opt-out & outreach	\$0 for opt-out & outreach	\$425,000 for opt-out & outreach	\$225,000 for opt-out & outreach
L Audit Graffiti Recommendations. Increase tonnage taxes to fund outreach and part-time database and coalition building staff. Transfer a graffiti clean-up FTE (with funding) to SDOT.	\$0 for audit response	\$0 for audit response	\$23,000	\$23,000
M Work Force Efficiency and Performance. Reduce overtime costs due to expected efficiencies from actions such as weekend shifts.	full funding	full funding	(\$50,000)	(\$50,000)
TTL PROPOSED CHANGES IN SWF BUDGET			(\$549,000)	(\$1,100,000)

1/ SWF = Solid Waste Fund 2/ SPUN changes show the effect on the proposed budget of SPUN Committee recommendations. Effects on rates will be different for debt-financed capital projects and revenue changes.

In addition, because SPUN recommendations reduced rates compared to SPU's proposal, utility tax GSF revenues would be lower than assumed in the proposed budget. The final effect of SPUN recommendations on GSF revenues is still being determined.

RATE AND BILL EFFECTS OF SPUN RATE RECOMMENDATIONS

Compared to SPU's proposal, SPUN recommendations would decrease average system solid waste revenues by 1.1% (a 5.9% increase instead of 7.0%) in 2011 and by 0.2% (a 3.6% increase instead of 3.8%) in 2012. Impacts of SPUN recommendations on a sample of typical bills are:

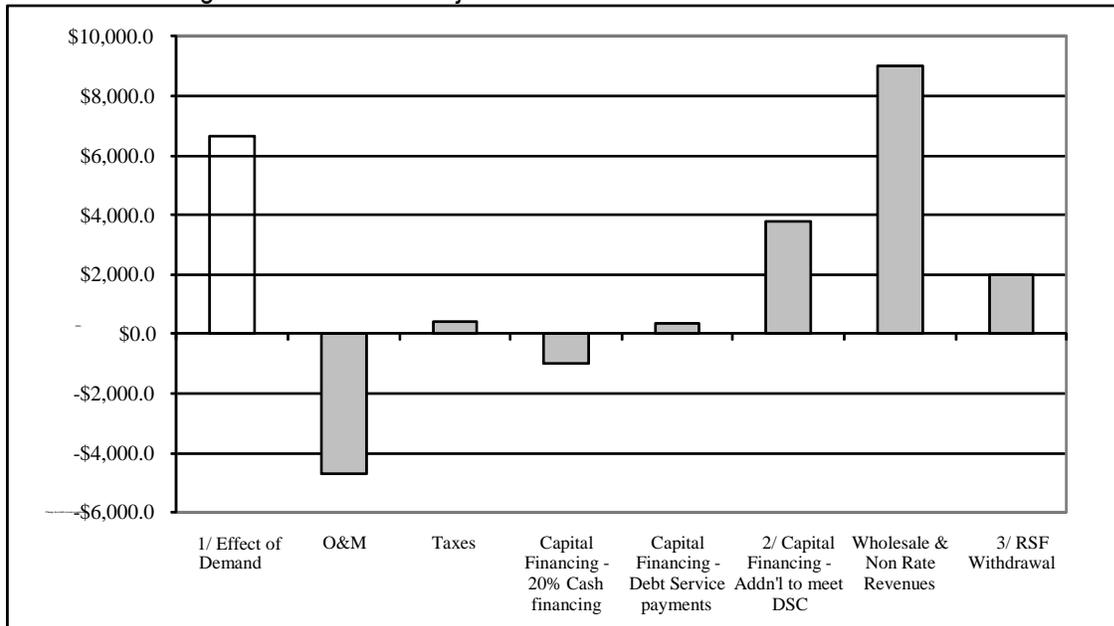
Sample Monthly Bills	Adopted 2010	SPUN-revised 2011	'10-'11 Diff.	SPUN-revised 2012	'11-'12 Diff.
Single-family	\$32.70	\$34.75	\$2.05	\$37.00	\$2.25
Convenience Store	\$355	\$377	\$22	\$377	\$0

Recommendation. Approve the proposed solid waste rate ordinance with the SPUN-recommended changes and a green sheet to make the associated budget changes.

3. FUTURE RATE IMPACTS OF PROPOSED WATER EXPENDITURES. *Should proposed water expenditures be reduced to moderate future rate increases?*

Adopted through previous Council action, retail water rates will increase 3.5% in 2011 compared to 2010. Although a water rate study for 2012 and beyond is not expected until next year, a 2012 retail rate increase of 11.9% is projected. Drivers for the increase are show in Figure 2.

Figure 2: Drivers for Projected 2012 Water Rate Increase



1/ Reduced demand does not actually effect the revenue requirement, but it is shown with a bar sized in proportion to the other rate drivers. The bar shows the cumulative effect of three years when demand dropped faster than estimated during the 2009-2011 rate study. 2/ DSC= Debt Service Coverage 3/ RSF= Revenue Stabilization Fund

Revenue shortfalls from reduced demand and compliance with financial policies (debt service coverage in particular) appear to be the main drivers of a 2012 increase. Proposed 2011-2012 expenditures also play a role. Responding to financial constraints, the budget proposes 2012 O&M spending that is \$1.6 million lower than in 2010 and \$27.6 million less in CIP spending. Even with these reductions, further efficiencies could be sought and water funding of some proposed new activities could be reduced or eliminated. Areas for potential efficiencies include:

- **Work Force Efficiency and Performance.** SPUN solid waste and drainage/wastewater rate recommendations would reduce labor costs in anticipation of efficiencies gained through actions such as establishing weekend shifts and increasing spans-of-control. Similar reductions could be made in the Water Fund.
- **New Activities.** Some proposed new activities are cost-shared by the Water Fund including the technology capital program and the sustainable infrastructure planning initiative for the Rainier Beach and Broadview/Bitter Lake/Haller Lake neighborhoods. These activities could be scaled back to reduce the Water Fund contribution or reduce costs for all SPU Funds.

- **Capital Program.** The budget includes a high-cost alternative for the Morse Lake Pump project that is unlikely to be implemented. It also includes increased costs for broadband services for automated meter reading. 2011-2012 costs for these projects could be reduced or eliminated. For the Morse Lake project, planned CIP appropriations for 2012 and beyond could be changed to \$0 until new alternatives and refined cost estimates are presented in the 2012 budget.

Options. To reduce rate increases projected for 2012 and beyond, a green sheet could be prepared to reduce or eliminate the 2011-2012 water expenditures listed above. A Statement of Legislative Intent (SLI) could be drafted to request submittal in 2011 of specific management recommendations for work force efficiency and performance in all three SPU Funds. A SLI could also be considered to provide direction for the next water rate study.

4. LOW INCOME ENROLLMENT AND OUTREACH. *Should a SPUN-recommended budget action regarding improved utility low income enrollment and outreach be pursued?*

The Council has a long-standing interest in maintaining affordable utility rates for low-income customers. That interest has resulted in 50% rate discounts for low income customers, an emergency assistance program for low-income customers at risk of utility shut-off due to non-payment of bills, and lowering of the eligibility threshold for low-income rates twice in the last 10 years. Enrollment of customers for these programs is primarily done by the Human Services Department (HSD) using more than \$458,000 per year of SPU funding. An additional \$54,000 was added to SPU's budget in 2010 to increase outreach by updating websites, reprinting brochures, assessing barriers to enrollment, and partnering with community organizations to conduct targeted outreach. Despite these efforts to help customers through new thresholds and outreach, low-income enrollment remains very low at less than 10,000 customers, which is about 14% of eligible customers. Increasing enrollment through better outreach and enrollment practices may be the most effective near-term approach to help SPU's low-income customers.

Recommendation. During its recent rate review, the SPUN Committee recommended no changes in proposed low income enrollment-related expenditures. Instead, the Committee recommended that budget direction be provided regarding improved HSD practices to increase enrollment for low income rates and assistance. A SLI is the likely mechanism for providing direction.

5. TONNAGE TAX ORDINANCE. *Should a SPUN-recommended tonnage tax increase be approved to fund the City Auditor's SPU-related graffiti control recommendations?*

During its solid waste rate review, the SPUN Committee considered 2010 City Auditor graffiti control recommendations. The Committee recommended that the Auditor's SPU-related recommendations be included in the 2011-2012 budget including transferring a SPU graffiti control position to the Seattle Department of Transportation for parking pay-station graffiti clean-up, adding a ½ time position for coalition building and outreach planning, funding a possible Keep America Beautiful membership and information campaigns, and adding a ½ time data base technician. The net added SPU expenditure would be about \$23,000 (\$88,000 new cost minus \$65,000 for the transferred FTE). SPUN recommended that the \$8.50/ton solid waste tonnage tax be increased 19-cents to cover the added cost. The tonnage tax is charged for solid waste brought to City transfer stations. As the main station user, SPU pays about 60% of the City's tonnage taxes and private haulers pay the rest. However, the small proposed tax increase would have no rate impact because revenues would be deposited in the SWF and used to meet financial policies.

Recommendation. During its recent rate review, the SPUN Committee recommended the above-listed changes in SPU’s graffiti-related expenditures and an increase in tonnage taxes. A Council-generated ordinance will be needed to change the tax rate and a green sheet will be needed to change graffiti expenditures and positions.

6. WASTE REDUCTION GRANTS. *Should past funding levels be restored to the grant program?*

SPU has provided matching grants to community organizations and schools for waste reduction and recycling activities. Yearly funding for the grants was \$100,000 in 2009 and 2010 when seventeen organizations received grants for activities ranging from school food waste collection to recycling at 28 Seattle Housing Authority high-rises. Due to financial constraints the grants were reduced to \$20,000 in 2010 and refocused on food waste collection at schools. The lower funding levels are proposed to continue in 2011 and 2012. Because grant funding levels were not identified as a priority until the mid-September carbon neutrality town hall, grant increases were not considered by the SPUN Committee during rate review.

Options. The \$80,000 of funding for the grants could be added to the budget, restoring yearly funding levels to \$100,000. This option would require further solid waste rate increases (about 0.05%) or cuts in other expenditures. Alternatively, funding could be approved at proposed levels and increases considered during the next solid waste rate review.

7. WASTEWATER TREATMENT RATE ORDINANCE.

The City’s payment to King County for wastewater (sewage) treatment is the single largest expense in the DWF. King County has adopted new treatment rates for 2011-2012 that will increase average system wastewater rates 10% more than the 2011-2012 wastewater rate increases recommended by the SPUN Committee, for a total 2011 increase of 13.7%. Consistent with SMC 21.28.040, SPU is incorporating new rates into a City wastewater treatment rate ordinance that “passes through” the County rate increase. The legislation is expected to be submitted to Council the week of October 11.

Recommendation. Because the City does not control King County’s treatment rate and a method has been established to pass-through increases to ratepayers, approval of a treatment rate pass-through ordinance is recommended.

8. UTILITY TAX INCREASE. *Should City taxes on SPU rate revenues be increased to address GSF shortfalls?*

After remaining at 10% for several years, City utility taxes for SPU were increased in 2004 to address GSF revenue shortfalls and generate GSF revenues for fire hydrants and automated public toilets. Existing City utility tax rates assumed in the 2011-2012 budget include:

- 11.5% on solid waste rate revenue and drainage rate revenue,
- 12% on wastewater rate revenue, and
- 15.54% on water rate revenue.

SPU utility taxes provide \$73.2 million of GSF revenue in 2011 and \$78.5 million in 2012. These taxes contribute about 8% of the GSF revenue in the proposed budget. Although City utility taxes are an important GSF revenue source, a 2009 Washington State Auditor report recommended that

the City consider reducing its tax rates to be more consistent with the average for other Washington cities shown in Table 4.

Table 4. Utility Business Tax Comparison 1/

Utility	# of WA cities with tax	Average of cities' taxes	Highest city tax	Lowest city tax	Seattle 2010 taxes
Water	156	7.84%	32%	1%	19.87% (15.54% in '11-on)
Wastewater	144	7.71%	32%	1%	12%
Drainage	63	7.24%	20%	1%	11.5%
Solid waste	145	7.64%	40%	2%	11.5%

1/ First 5 columns taken from Association of Washington Cities' 2008 Tax and User Fee Survey.

Although state law limits City utility taxes on City Light to 6%, there is no state limit on City SPU utility taxes. Given the substantial 2011-2012 GSF revenue constraints, SPU utility taxes could be increased to address revenue shortfalls. To cover increased utility taxes, SPU rates would need to increase or further SPU expenditure cuts would be needed.

Options. To moderate rate increases during difficult economic times, the Council could leave existing taxes rates in place. Auditor-recommended reductions also could be considered although any utility tax reductions would decrease GSF revenues and require further cuts in budget expenditures. Or, tax rates could be increased, requiring further changes to the proposed rates and budgets, and a possible new ordinance to increase water rates.

ITEMS FOR COMMITTEE ATTENTION

The following items may be of Council interest but don't necessarily require budget changes.

APPRENTICES. 2010 BUGS 18-1-A-1 requested that SPU expand apprentice opportunities to 12 to 15 positions in the proposed 2011 WF and DWF budgets. Due to financial constraints and a lower CIP that does not support apprentice expansion, SPU has not included the new positions in its proposed budget. The decision to delay the expansion was communicated to Council members before budget submittal.

CONSOLIDATED URBAN TREE INCENTIVES AND OUTREACH. Although several departments help maintain and expand the City's urban forest, 4 departments provide outreach and funding assistance for tree planting/stewardship by community members. These community-oriented efforts include the Office of Sustainability and Environment's (OSE's) Neighborhood Trees grants funded by OSE and SPU, the Department of Neighborhood's Neighborhood Matching Fund (NMF) street tree planting program, and Seattle City Light's (SCL's) tree replacement program. The 2011-2012 budget proposes to consolidate these programs in SPU, staffed by one new FTE. In 2010, \$290,000 was budgeted for outreach and incentives, funded by \$40,000 of OSE GSF, \$50,000 from SPU DWF, \$50,000 from NMF, and \$150,000 from SCL. The consolidated program would move to SPU \$50,000 of GSF revenue from OSE, \$25,000 from the NMF (leaving \$0 in NMF), and \$80,000 from SCL. In 2011, \$110,000 would pay for the new FTE, with remaining funds available for grants and outreach. Although program consolidation may make sense, questions about the total amount available for grants and outreach after consolidation have not yet been fully answered.