



Legislative Department Seattle City Council Memorandum

Date: September 27, 2011

To: Seattle Public Utilities and Neighborhoods (SPUN) Committee

From: Meg Moorehead and Patricia Lee, Council Central Staff

Subject: **2012-2014 Water Rates**

At its September 13, 2011 meeting, the SPUN Committee recommended several water rate changes but left some issues unresolved pending receipt of more information from Seattle Public Utilities (SPU). This memorandum outlines three sets of decisions for the Committee to make or reconfirm at its September 27 meeting, including decisions on:

- 1) Base and new operations and maintenance (O&M) changes not decided on September 13 pending new information on SPU priorities, including:
 - Further base service cuts: general
 - Deferred maintenance (BIP 101)
 - Watermain condition assessment (BIP 102)
 - Morse Lake temporary pumps (BIP 302)
- 2) Remaining rate change decisions:
 - Morse Lake long-term pump project amortization
 - Tap fees
 - City utility taxes
- 3) Decisions made by SPUN on September 13 that can be reconfirmed, including:
 - SPU-proposed base service reductions
 - Mismatch between rates and proposed budget
 - Further base service cuts: specific
 - Workforce efficiencies
 - Consolidated Customer Service System (CCSS) purge (BIP 300)
 - Customer care billing system (BIP 402)
 - Capital program reductions
 - Demand projections
 - Low-income emergency assistance

1. BASE AND NEW O&M CHANGES INFORMED BY SPU PRIORITY LIST

The Committee asked SPU to develop a prioritized list that would cut base O&M costs by \$1.4 million and make additional cuts which, based on SPU priorities, would be taken from either base O&M costs or specified new O&M activities described in Budget Issue Papers (BIPs). Table 1 shows the items SPUN requested to be included in SPU's list.

SPU's response to the SPUN request (see Attachment A and Table 2) includes O&M cuts totaling \$2,003,000. However, part of the SPU list was already included in Council-identified cuts discussed under Issues 1B, 2A, 2B, and 2C in Central Staff's September 13 water rates memorandum (hereafter called the September 13 memorandum). The fourth column in Table 2 table shows cuts that remain after overlaps with those Council-identified cuts are eliminated. Table 2's fifth column is the basis for a Council-identified Option 1 for finalizing the O&M cuts.

Table 1: SPUN-Requested Cut Targets

Issue #*	Topic	Cut Request	
1D	Further Base Service Cuts: General	(\$1,400,000)	Base O&M , starting in 2012
2A	Deferred Maintenance (BIP 101)	(\$183,000)	Either base or new O&M, added \$125,000 cut in 2013
2B	Watermain Condition Assessment (BIP 102)	(\$50,000)	Either base or new O&M, \$150,000 cut in '13 and '14
2D	Morse Lake Temporary Pumps (BIP 302)	(\$260,000)	Either base or new O&M in 2013
Total cut target		(\$1,633,000)	In 2012, more in later years

* Issue # from the September 13 memorandum

Table 2: SPU 2012 O&M Cuts in Response to SPUN, with a Council Option 1 (listed least impact to significant impact)

Issue #	Topic	SPU 2012 cut estimate	SPU cut if issue overlap eliminated	Council Option 1 2012 cut	Council Option 1 Description
1B	Mismatch Between Rates and Proposed Budget	(\$732,000)	\$0	Accept these SPUN-recommended cuts	These cuts were already recommended by SPUN on 9/13/11 and should not be double-counted here. While on 9/13 SPU represented the rates/budget mismatch to be \$1 million, the estimate has now increased to \$1.8 million.
2C	CCSS Purge (BIP 300)	(\$68,000)			
1D	Professional Services (1 st increment)	(\$160,000)	(\$160,000)	(\$160,000)	Reduce consulting funds that support business outreach, office workforce efficiencies, and science.
	Vacancies	(\$140,000)	(\$140,000)	(\$140,000)	Unfund 2 Water Fund field positions
2B	Watermain Condition Assessment (BIP 102)	(\$50,000)	\$0	\$0	Approve this pilot project as described in BIP 102
1D	Professional Services (2 nd increment)	(\$149,000)	(\$149,000)	(\$132,000)	Reduce consulting for environmental programs but retain emergency management consulting funds
1D	Vacancies	(\$159,000)	(\$159,000)	\$0	Do not cut the 3 Water Fund IT, Security and HR positions identified by SPU
1D	Professional Services (3 rd increment)	(\$365,000)	(\$365,000)	\$0	Do not further reduce environmental and emergency management consulting as identified by SPU
2A	Deferred Maintenance (BIP 101)	(\$179,000)	(\$179,000)	\$0	Approve this increase in funding as proposed in BIP 101
2D	Morse Lake Temp Pumps (BIP 302)			Include this cut in rates	Cut \$260,000 in 2013 (not in SPU's list which covered only 2012 spending)
Total 2012 cut		(\$2,003,000)	(\$1,152,000)	(\$432,000)	

Option 1: Added Base and New O&M Cuts, equaling \$432,000 in 2012.

Reduce the rate revenue requirement by \$432,000 in 2012 and \$692,000 in 2013 to reflect the reductions in Table 2's Option 1 column, and reaffirm the September 13 Committee recommendations on Issues 1B (Mismatch between rates and budget) and 2C (CCSS purge). Option 1 would reduce the rate increase by less than 0.4% and would:

Reduce base O&M by:

- Unfunding 2 vacant FTEs and saving \$140,000/year in 2012 and beyond.
- Reducing consulting funds that support business outreach, office workforce efficiencies, and environmental programs by \$292,000/year.

Reduce proposed new O&M by:

- Reducing spending by \$260,000 in 2013 by rescoping the Morse Lake Temporary Pumps (BIP 302) Morse Lake channel dredging and temporary pump maintenance work.

Option 2: SPU Proposal. Include in rates the Issue 1D base O&M costs and new O&M costs for Watermain Condition Assessment (BIP 102), Deferred Maintenance (BIP 101), and Morse Lake Temporary Pumps (BIP 302) as proposed by SPU, resulting in no change to the rate revenue requirement.

Option 3: Incorporate Added SPU-Identified O&M Cuts of \$1,152,000 (Table 2 column 3), resulting in a less than 1% reduction in the rate increase.

2. REMAINING RATE CHANGE DECISIONS

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2E. Morse Lake Long-Term Pump Project Amortization of Deferred Costs. The Committee agreed that \$1 million/year for amortization of deferred costs from a previous Morse Lake long-term pump capital project should be included in the rates. These costs were recently identified and not included in the rate proposal. No Committee decision was made about whether the \$1 million/year should be added to the rate revenue requirement (adding 0.8% to the proposed rate increase) or offset by an equivalent cut in lower priority SPU-identified base O&M activities beyond the levels discussed in the other issues listed in the September 13 memorandum. The Committee members said that they want to see SPU's prioritized list of O&M cuts before requesting SPU to identify additional base O&M cuts to offset this \$1 million expense.

Option 1: Further increase rates: Add funding in each rate year for amortization of deferred costs associated with the previous Morse Lake project alternative. Add \$1.0 million per year to the rate revenue requirement, adding 0.8% to the proposed rate increase. Attachment A to the September 13 memorandum shows how the reductions discussed in this memorandum or reductions anticipated in the proposed 2012 budget could counterbalance the added amortization costs.

Option 2: No rate impact: Add funding in each rate year for the amortization of deferred costs associated with the previous Morse Lake project alternative. Revenues would be gained through an equal reduction in other O&M spending, so that SPU-proposed rates are not further increased.

- 4B. Tap Fees.** To narrow the gap between yearly spending to connect new buildings to the water system and the tap fee revenue intended to fund that service, consider giving SPU direction to update tap fees and work processes in 2012 so that tap fees more fully recover the cost of service starting in 2013. Reduce the rate revenue requirement by \$250,000 in 2013 and 2014 to reflect more complete cost recovery from the tap fees. SPU was asked to provide information about how Seattle tap fees compare to tap fees in other cities to inform the final Committee decision. A comparison of Seattle to Tacoma, Portland OR, Bellevue and Renton found the most common tap fee (for a ¾” meter) in Seattle is about 12% (\$275) higher than the other Washington cities, while Portland has no ¾” tap fee. For larger (1”) meters, however, Seattle’s tap fee is higher than the other Washington cities but \$2,600 lower than Portland’s.

Option 1: Direct SPU to update tap fees and work processes so that the cost of service is more fully recovered starting in 2013. If a goal were set to close at least one-quarter of the gap between revenues and expenditures in this rate period, the revenue requirement could be reduced by \$250,000 starting in 2013.

Option 2: SPU Proposal. Include in the rate the tap fees as proposed by SPU.

- 4D. City Utility Taxes.** To address state audit recommendations and moderate water rate increases, consider adopting a consistent, General Subfund (GSF) revenue-neutral utility tax rate of 12.88% for water, wastewater, drainage and solid waste, effective January 1, 2013. The new tax rate would reduce water revenue requirements by \$720,000 in 2013 and \$800,000 in 2014, but add to the other Funds’ revenue requirements in upcoming rate proposals.

Option 1. Adopt consistent, GSF revenue-neutral utility taxes for water, wastewater, drainage and solid waste, effective January 1, 2013. The 12.88% tax rate would reduce water revenue requirements by \$720,000 in 2013 and \$800,000 in 2014. The reduction in the water rate revenue requirement is much lower than the increase for SPU’s other rates because the amount of revenue needed to meet the DSC financial policy limits rate savings from water tax reductions. The new tax rate would add \$2 million to the 2013 revenue requirement for solid waste, \$1.4 million for drainage, and \$2.8 million for wastewater. After considering these tax changes and the other Water Fund changes under Committee recommendations and Options 1, the net effect on GSF revenues would be a decrease of \$192,000 in 2012, an increase of \$200,000 in 2013, and a decrease of \$100,000 in 2014.

Option 2. SPU Proposal. Maintain the current City utility tax rates as reflected in proposed water rates, because water rate savings from a tax reduction are minimized in this rate period by the debt service coverage financial policy. Consider a tax change during a future rate period.

3. DECISIONS MADE BY SPUN ON SEPTEMBER 13

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BASE OPERATIONS AND MAINTENANCE (O&M) SERVICES

- 1A. SPU-Proposed Base Service Reductions.** Accept the \$10.6 million in base service reductions that SPU incorporated into the rate proposal, unless those cuts are addressed elsewhere in this memorandum.
- 1B. Mismatch Between Rates and Proposed Budget.** Incorporate into rates the lower O&M costs for employee benefits, non-labor inflation and other O&M costs in the proposed 2012 budget, as well as any related adjustments in 2013 and 2014 costs. These costs will be \$1,732,000 (\$1.8 million minus the \$68,000 in CCSS savings in Issue 2C below) less in the proposed 2012 budget than was assumed in the rate proposal, resulting in a \$1,732,000 savings.
- 1C. Further Base Service Cuts: Specific.** Do not identify specific further cuts in base services; pursue the general cuts at a \$1.4 million level as described in Issue 1D (Further Base Service Cuts: General) instead.
- 1E. Workforce Efficiencies.** Make no change in the rate revenue requirement. However, during 2012 budget review support SPU's work group of employees and managers tasked with identifying how to most efficiently and effectively deliver field services, by adopting a 2012 budget Statement of Legislative Intent or budget proviso to provide the option of hiring an outside consultant to assist this work. An outside consultant would provide a perspective of industry standards and other service delivery models. The budget action would ensure a portion of the consultant funds already incorporated in the rate proposal would be available for this purpose.

NEW O&M EXPENSES. *Reductions in this section are in addition to those in Base O&M Services, and each change in this section adds to (are not alternatives to) each other.*

- 2C. Consolidated Customer Service System (CCSS) Purge (BIP 300).** Eliminate from the proposed rates \$68,000 in 2012 for CCSS archiving and data purging. City Light, the lead department for operating and maintaining CCSS, has identified an alternative way to meet the archiving and purging objectives. The proposed 2012 budget will not include this expense.
- 2F. Customer Care Billing System (BIP 402).** Eliminate from the proposed 2014 rates \$180,000 for customer care billing system improvements. No information has been provided about the improvements. They can be considered in the next rate period.

CAPITAL IMPROVEMENT PROGRAM (CIP)

- 3A. Capital Program Reductions.** Incorporate into rates the lower CIP costs in the proposed 2012 budget and 2012-2017 CIP. CIP spending would be reduced by \$13.2 million in 2012, \$15.8 million in 2013 and \$23.8 million in 2014 as shown in Attachment B to the September 13 memorandum.

DEMAND AND FINANCIAL ASSUMPTIONS

- 4A. Demand Projections.** To bring assumptions used to forecast water consumption during the 3-year rate period more in line with assumptions used by the City Budget Office in developing the 2012 budget, change the employment growth used in SPU’s demand models to 75% of the June 2011 Conway Pederson Puget Sound Economic Forecaster report estimate, instead of 50%. The change would increase the amount of water assumed to be sold in the rate period and reduce the average systemwide rate increase by 0.2% to 0.3% per year.
- 4C. Low-Income Emergency Assistance.** To expand assistance to SPU’s low-income customers, change the SMC 21.76.065 emergency assistance eligibility threshold from 125% of the federal poverty level to the 70% of the state median income threshold used to qualify customers for discounted low-income rates. The change would make about twice as many people eligible for once-a-year assistance in paying delinquent bills and would shift an additional \$77,000 to \$85,000 per year from low-income water customers to other water ratepayers. Because SMC 21.76.065 also applies to the Solid Waste and Drainage/Wastewater Funds, the new threshold would shift about \$66,000 to \$73,000 more per year from low-income customers in each Fund to other ratepayers.

RATE IMPACT

The impact of SPUN recommendations and Options 1 (except for the City utility taxes) are in Table 3. A change in taxes would further reduce the rate increase by 0.4% in 2013 and 2014.

Table 3: Effects of SPUN Recommendation on Rates and Residential Bills

	2011	2012 SPU- Proposed	2012 SPUN- Revised	SPUN/ SPU difference	2013 SPU- Proposed	2013 SPUN- Revised	SPUN/ SPU difference	2014 SPU- Proposed	2014 SPUN- Revised	SPUN/ SPU difference
Revenue Requirement (in thousands)	\$153,662	\$160,245	\$159,701	(\$545)	\$173,306	\$171,903	(\$1,402)	\$188,584	\$186,093	(\$2,491)
Av. Systemwide Rate Increase 1/		9.3%	8.8%	(0.5%)	9.5%	8.7%	(0.8%)	9.6%	8.7%	(0.9%)
Typical Monthly Residential Bills										
Total bill 2/	\$31.70	\$34.12	\$33.98	(\$0.14)	\$36.79	\$36.41	(\$0.38)	\$39.71	\$39.00	(\$0.71)
\$ difference		\$2.42	\$2.28	(\$0.14)	\$2.67	\$2.43	(\$0.24)	\$2.92	\$2.59	(\$0.33)
% difference		7.6%	7.2%	(0.4%)	7.9%	7.2%	(0.7%)	7.9%	7.1%	(0.8%)

1/ progress in each year toward 1.7 DSC is shifted compared to the rate proposal to smooth the rate path

2/ typical single-family water consumption is 5 c.c.f.

COUNCIL APPROVAL PROCESS

If the SPUN Committee makes a final recommendation at its September 27 meeting, the SPU-proposed water rate ordinance (C.B. 117232) would then be re-referred to the Budget Committee. The SPUN Committee’s rate recommendation would be used to develop version 5 of C.B. 117232, which would be considered as budget legislation.