

2013 -2014 Budget Overview and Initial Issues Identification
SEATTLE PUBLIC UTILITIES (SPU)
WATER, DRAINAGE, WASTEWATER, SOLID WASTE

Staff: Meg Moorehead, Council Central Staff
Date: October 17, 2012

TABLE 1: EXPENDITURES AND REVENUES

SPU Fund	2011 Actual	2012 Adopted	2013 Proposed	% Change '12-'13	2014 Proposed	% Change '13-'14
EXPENDITURES						
Water						
O&M 1/	\$109,066,000	\$122,355,000	\$126,934,000	3.7%	\$132,502,000	4.4%
CIP 2/	\$54,777,000	\$55,506,000	\$58,977,000	6.3%	\$67,477,000	14.4%
Debt Service	\$79,597,000	\$80,703,000	\$78,798,000	(2.4%)	\$81,024,000	2.8%
Total	\$243,440,000	\$258,564,000	\$264,710,000	2.4%	\$281,003,000	6.2%
Drainage/Wastewater						
O&M	\$231,836,000	\$241,939,000	\$261,210,000	8.0%	\$264,124,000	1.1%
CIP	\$61,834,000	\$93,838,000	\$96,131,000	2.4%	\$101,373,000	5.5%
Debt Service	\$38,297,000	\$41,832,000	\$43,027,000	2.9%	\$45,195,000	5.0%
total	\$331,967,000	\$377,608,000	\$400,367,000	6.0%	\$410,692,000	2.6%
Solid Waste						
O&M	\$144,964,000	\$155,583,000	\$157,799,000	1.4%	\$159,723,000	1.2%
CIP	\$43,337,000	\$18,443,000	\$16,760,000	(9.1%)	\$39,370,000	134.9%
Debt Service	\$6,340,000	\$9,040,000	\$10,285,000	13.8%	\$12,497,000	21.5%
total	\$194,642,000	\$183,065,000	\$184,844,000	1%	\$211,590,000	14.5%
SPU TOTAL	\$770,049,000	\$819,238,000	\$849,920,000	3.8%	\$903,285,000	6.3%
FTEs 3/	1,420.75	1,411.05	1,400.55	(0.7%)	1,400.55	0%
REVENUES						
General Subfund	\$1,180,000	\$1,205,000	\$1,139,000	(5.5%)	\$1,167,000	2.5%
Other	\$768,869,000	\$818,033,000	\$848,781,000	3.8%	\$902,118,000	6.3%

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

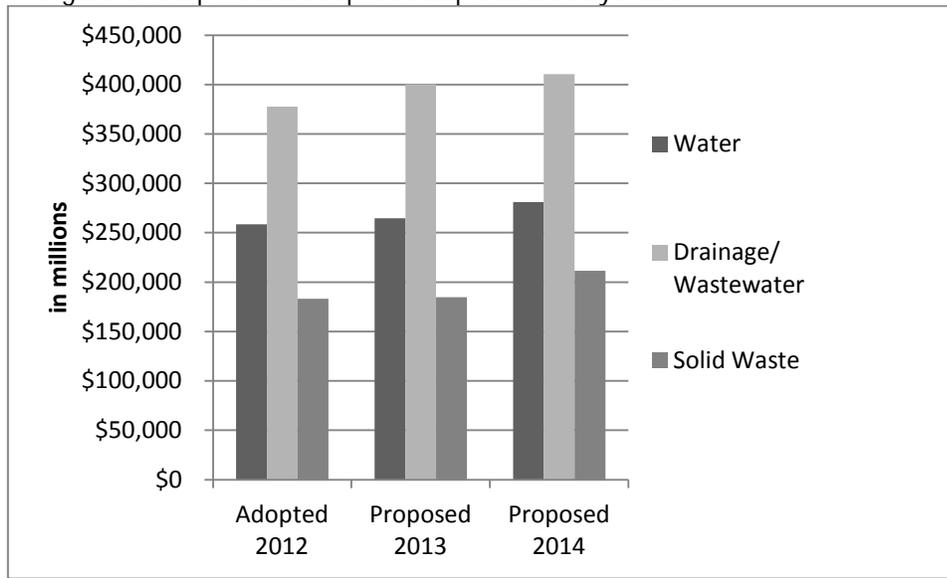
INTRODUCTION

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 2013-2014 City budget. The Executive is proposing:

- A 2013 budget that is \$30.7 million higher than the adopted 2012 budget and a proposed 2014 budget that is \$53.4 million higher than 2013, for a \$84 million (10.3%) increase over the 2 years.
- Abrogation of 15.5 positions, reallocation of 6 positions to higher priority work, and adding 5 positions to better meet SPU’s long-term needs, for a net decrease of 10.5 FTE.

The increase in SPU’s budget over the two years is the net result of cuts in spending on lower priority work and spending increases primarily for base cost increases (such as retirement contributions), regulatory compliance, and capital projects to address aging infrastructure and other priorities. Although a capital program is fundamental to SPU’s work, it is only about 22% of SPU’s 2013-2014 budget. O&M activities to maintain infrastructure and operate the utility are the largest part of proposed expenditures (63%). Debt service (15%) comprises the rest of the proposed budget.

Figure 1: Adopted and Proposed Expenditures by Fund



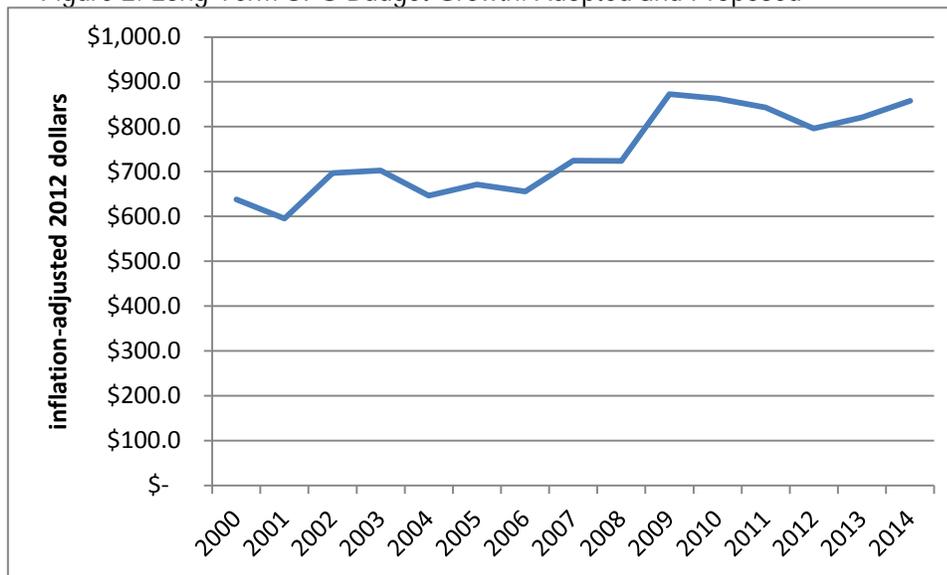
SIGNIFICANT CHANGES

Capital Program. The capital program is proposed to be \$40.4 million more in 2014 than in 2012. The increase reflects final stages of reservoir covering, rebuilding of solid waste transfer stations and a growing Clean Water Act-driven drainage and wastewater capital program.

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).

Budget Growth. The proposed SPU budget continues a long-term trend of increases that are above the Consumer Price Index (Figure 2). SPU has stated that the higher increases reflect their different costs as a producer (instead of consumer) of services and meeting regulatory

Figure 2: Long-Term SPU Budget Growth: Adopted and Proposed



ISSUES

1. **DRAINAGE AND WASTEWATER RATE ORDINANCES.** *How will the Libraries, Utilities and Center (LUC) Committee recommendations on proposed 2013-2015 rates be reflected in the budget?*

Budget Effects of LUC Rate Recommendations

The budget incorporates SPU-proposed 2013-2015 drainage and wastewater rates, and King County wastewater treatment rate increases for 2013 and beyond. The proposed rate ordinances (CBs 117520, 117521 and 117566) were reviewed by the LUC Committee and re-referred to the Budget Committee with LUC-recommended changes. LUC-recommended changes that apply to all proposed rates (drainage, wastewater and solid waste) are shown in Table 2. The changes that apply only to drainage and wastewater rates are shown in Table 3.

Table 2: Budget Effects of LUC Recommendations That Apply to All Proposed Rates (Drainage, Wastewater and Solid Waste)

	LUC Budget 2013	Changes 2014
A Strategic Plan as Basis for Rate Growth Policy. Direct SPU to develop a strategic plan for all lines of business as basis for a rate growth policy to be completed before submittal of its next rate proposal. Direct SPU to use at least \$100,000 of appropriations that would have been used for other purposes for a consultant to identify efficiencies as part of the strategic planning process.	No change	No change
B Work Place Efficiencies and Contracting Reports. Request that SPU brief the LUC Committee annually on implementation of work place efficiency recommendations and reallocation of work from contractors to City employees.	No change	No change
C Low-Income Assistance Improvements. Increase seniors' enrollment period to 36 months and make rate discounts retroactive to the receipt date of a complete application.	No change	No change
D Bill Timing and Reducing Delinquencies. Direct SPU and City Light to develop options in 2013 for avoiding concurrent due dates for City utility bills and/or leveling out utility bills over the year to reduce seasonal or monthly peaks.	No change	No change
TOTAL PROPOSED CHANGES IN SPU BUDGET	\$0	\$0

Table 3: Budget Effects of LUC Recommendations Specific to Drainage and Wastewater Rates

	LUC Budget 2013	Changes 2014
RECOMMENDATIONS		
A New Drainage Rate Exemptions. Approve new exemptions for wetlands, riparian areas and islands as proposed by SPU.	No change	No change
B DWF CIP Accomplishment Rate. Approve rates with the 85% to 90% CIP accomplishment rate proposed by SPU.	No change	No change
C 100% Federal Agency Drainage Payments. Approve rates that assume 100% drainage bill payment by federal agencies.	No change	No change
D Green Seattle Partnership (GSP). Approve rates with the	No change	No change

\$100,000/year of drainage rate GSP funding as proposed by SPU.

- E **Wastewater Treatment Rates.** Amend the SPU-proposed wastewater treatment rate ordinance (CB 117566) as needed to reflect LUC-recommended changes in SPU-proposed drainage and wastewater rate ordinances (CBs 117520 and 117521).
- F **Drainage and Wastewater Cost Efficiencies.** Achieve \$500,000 of rate and budget savings by reducing the 2013 budget for claims and continuing the savings in 2014 and 2015.

No change No change

(\$500,000) (\$500,000)

FURTHER CHANGES TO CONSIDER IN BUDGET REVIEW

- G **Reconciling Rates and Late-Breaking Budget Changes.** Consider changing rates to incorporate the net of cost increases and cost savings identified during budget review. Capital program shifts, increased City Central costs and new budget issue papers (BIPs) caused the difference between spending assumed in rates and spending in the proposed budget.

No change No change

Affects rates only *Affects rates only*

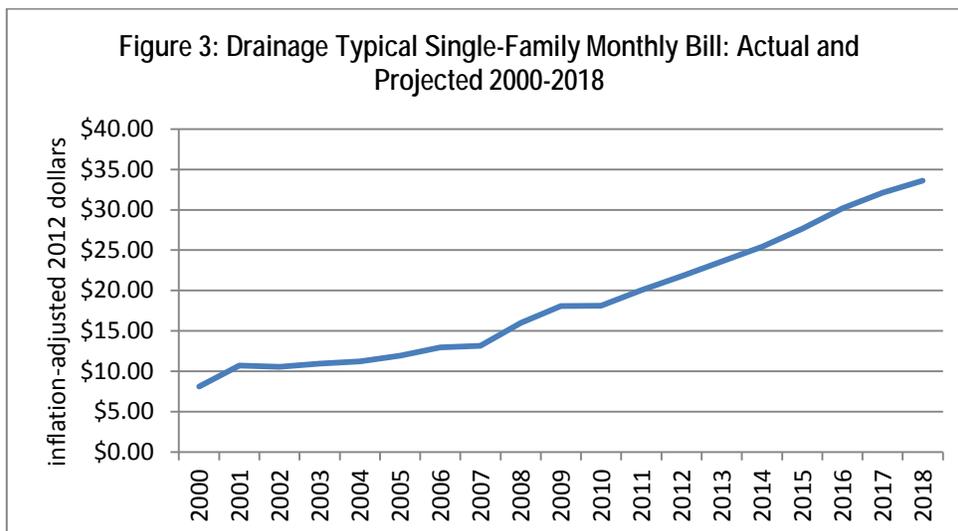
TOTAL RECOMMENDED CHANGES IN DWF BUDGET (\$500,000) (\$500,000)

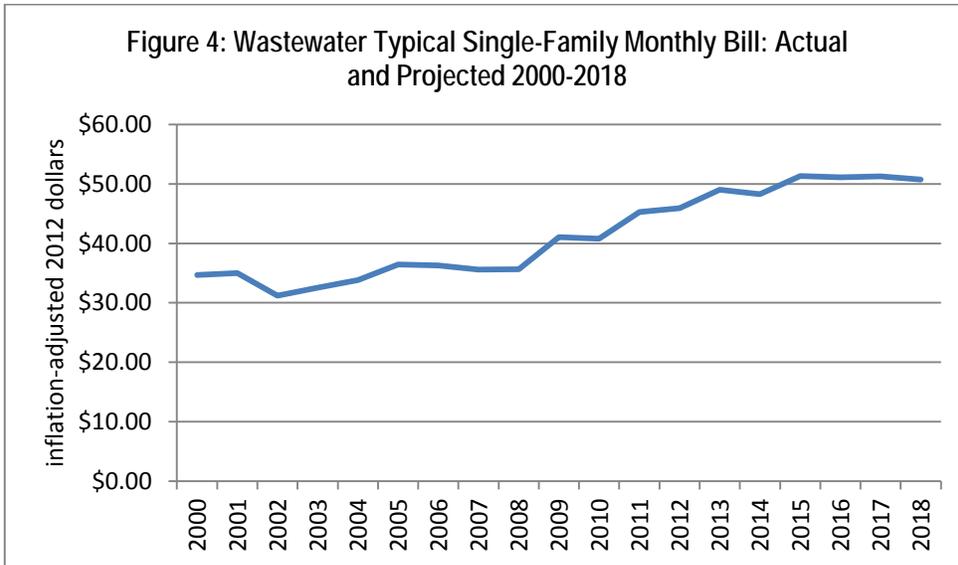
Drainage and Wastewater Rate and Bill Effects of LUC Recommendations

LUC recommendations would result in drainage rates that are 35.3% higher in 2015 than in 2012 (compared to the SPU-proposed 35.9%) and wastewater rates that are 19.6% higher (compared to the SPU-proposed 19.9%). The recommendations will have a small effect on General Subfund utility tax revenues. Impacts of the recommendations on typical 2012-2014 single-family monthly bills are shown in Table 4. Figures 3 and 4 show long-term bill bills adjusted for inflation.

Table 4: LUC Recommendation Impact on Typical Single-Family Bills: 2012-14 (nominal dollars)

Monthly Bills	Adopted 2012	LUC-revised 2013	'12-'13 Diff.	LUC-revised 2014	'13-'14 Diff.
Drainage	\$21.81	\$24.10	\$2.29	\$26.58	\$2.48
Wastewater	\$45.92	\$50.10	\$4.18	\$50.53	\$0.43





Option A. LUC Recommendation Without Late-Breaking Budget Changes. Pass proposed drainage, wastewater and wastewater treatment rate ordinances with the LUC-recommended changes and a green sheet(s) to make associated budget changes. Do not further increase rates to cover new spending added to the budget after submittal of the rate study because the changes represent less than a tenth of a percent of the proposed budgets and SPU should be able to adjust other spending to live within their means under LUC-recommended rates.

Option B. LUC Recommendation With Late-Breaking Budget Changes. Pass proposed drainage, wastewater and wastewater treatment rate ordinances with the LUC-recommended changes and a green sheet(s) to make associated budget changes. Increase rates beyond the LUC recommendation to cover spending added to the budget after rate submittal of \$305,000 less in 2013 and \$1,353,000 more in 2014. These new costs would add \$0.02 to the LUC-recommended typical single-family monthly drainage bill in 2013 and \$0.09 in 2014, and \$0 in 2013 and \$0.12 in 2014 to the wastewater bill. These new costs would add to rates so that drainage rates would increase 10.6% in 2013 (compared to the LUC-recommended 10.5%) and 10.6% in 2014 (instead of 10.3%). Wastewater rates would increase 9.1% in 2013 (no difference from the LUC recommendation) and 1.1% in 2014 (compared to the LUC-recommended 0.9%).

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

Budget Effects OF LUC Rate Recommendations

The budget incorporates SPU-proposed 2013-2016 solid waste rates. The proposed rate ordinance (C.B. 117522) was reviewed by the LUC Committee and re-referred to the Budget Committee with the LUC-recommended changes shown in Tables 2 and 5.

Table 5: Budget Effects of LUC Recommendations Specific to Solid Waste Rates

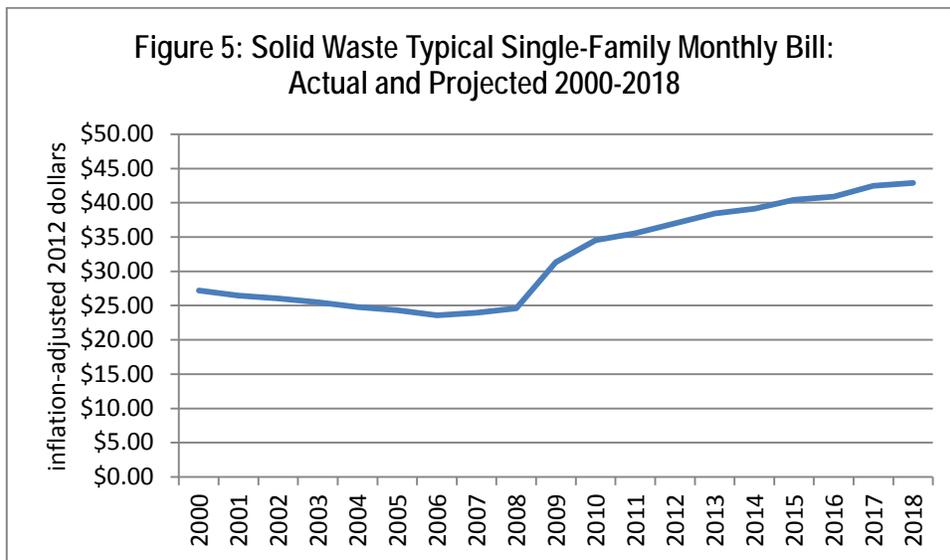
	LUC Budget 2013	Changes 2014
RECOMMENDATIONS		
A 4-Year Solid Waste Rates with 3% Contract Inflation, Reserve Account, and Midterm Surcharge/Reduction Option. Do not pass the SPU-proposed CB 117522 rate adoption process in which a 4-year rate that excludes inflation in solid waste contracts is adopted now and rates are updated each year to cover contract inflation. Instead pass a 4-year rate starting in April 2013 that includes 3%/year contract inflation, a reserve account for cash balances above those projected in the rate study, and a midterm option to increase rates for 2015 and 2016 if financial policies are projected to be missed or to reduce rates in those years if financial policies can still be met.	\$2.5 million (increase needed because budget included \$0 for contract inflation)	\$5.5 million
B One Less Truck (OLT) Implementation. Assume that successful completion of the 2012 pilot project will result in citywide OLT implementation starting in April 2015. Incorporate OLT rate savings as part of the midterm rate adjustment discussed above.	No change	No change
C Solid Waste Contract Briefings. Request SPU to brief the LUC Committee before Requests for Proposals for solid waste collection, processing and disposal contracts are finalized.	No change	No change
D Mini Can Prices. Approve rates with SPU-proposed mini can prices.	No change	No change
E Extras Prices. Increase the cost of curbside pick-up of an extra bag of garbage to \$10/bag in 2013 rising incrementally to \$10.65 in 2016.	No change	No change
F Recycling Processing Revenue. Assume that the amount by which recycling expenses will exceed revenues will be \$250,000 to \$350,000, which is half of what was assumed in the rate study.	No change	No change
G Clear Alley Expansion to International District (ID). Expand Clear Alley service to the ID as proposed by the Executive after submittal of solid waste rates.	BCL changes with \$0 net budget effect	BCL changes with \$0 net budget effect
H Solid Waste Cost Efficiencies. Reduce the proposed 2013 rates and O&M budget by \$260,000 and continue those savings through 2016 except that further spending reductions shall not be made to priority programs including yellow pages opt-out, school grants for food waste composting, the rate growth strategic plan efficiency consultant, or environmental education programs. SPU will identify specific reductions for Council consideration during 2013-2014 budget review.	(\$260,000)	(\$260,000)
FURTHER CHANGES TO CONSIDER IN BUDGET REVIEW		
I Reconciling Rates and Late-Breaking Budget Changes. Consider changing rates to incorporate the net of cost increases and cost savings identified during budget review. Capital program shifts, increased City Central costs and new budget issue papers (BIPs) caused the difference between spending assumed in rates and spending in the proposed budget.	No change <i>Affects rates only</i>	No change <i>Affects rates only</i>
TOTAL RECOMMENDED CHANGES IN SWF BUDGET	\$2,240,000	\$5,240,000

Solid Waste Rate And Bill Effects Of LUC Rate Recommendations

LUC recommendations would result in drainage rates that are 15.4% higher in 2015 than in 2012 compared to the SPU-proposed 17.2%. The recommendations will have a small effect on the General Subfund utility tax revenues. Impacts of LUC recommendations on typical 2012-2014 single-family monthly bills are shown in Table 6. Figure 5 shows long-term growth in bills adjusted for inflation.

Table 6: LUC Recommendation Impact on Typical Single-Family Bills: 2012-14 (nominal dollars)

Monthly Bills	Adopted 2012	LUC-revised 2013	'12-'13 Diff.	LUC-revised 2014	'13-'14 Diff.
Single-family	\$37.00	\$39.30	\$2.30	\$40.95	\$1.65



Option A. LUC recommendation without late-breaking budget changes. Pass LUC-recommended solid waste rate ordinances and green sheets to make associated budget changes. Do not further increase rates to cover new spending added to the budget after submittal of the rate study because the changes represent less than a tenth of a percent of the proposed budgets and SPU should be able to adjust other spending to live within their means under LUC-recommended rates.

Option B. LUC recommendation with late-breaking budget changes. Pass LUC-recommended solid waste rate ordinances and green sheets to make associated budget changes. Increase rates beyond the LUC recommendation to cover spending added to the budget after rate submittal of \$1,540,000 in 2013 and a reduction of \$3,000 in 2014. These new costs would add \$0.05 to the LUC-recommended typical single-family monthly bill in 2013 and \$0.05 in 2014. These new costs would add to rates so that solid waste rates would increase 6.4% in 2013 (compared to the LUC-recommended 6.3%) and 4.2% in 2014 (instead of 4.1%).

3. SOLID WASTE BOND ORDINANCE.

A solid waste bond ordinance has been submitted as budget legislation. The 2013-2016 solid waste rates and the proposed 2013-2014 budget assumed a \$48 million bond issue in 2013. The proposed ordinance authorizes a fixed-rate bond issue of up to \$50 million in early to mid 2013. The bond proceeds would fund about 2 years of a solid waste capital program that is about \$13.5 million lower in 2014 than in the adopted 2012-2017 CIP.

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

ITEMS FOR COMMITTEE ATTENTION

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

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 adopted 2012 HSD budget included 13.5 FTE and \$1.3 million (\$450,000 from SPU) for those utility services. The proposed 2013-14 budget increases HSD's utility assistance program to \$1.4 million/year (\$475,000 from SPU) and 14 FTE. 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 -- about 14,000 as of May 2012. HSD identified ways to improve enrollment and its enrollment practices in response to 2011-2012 Statement of Legislative Intent (SLI) 11-1-A-1. Implementation of new practices began in August 2011 and continues to be refined in 2012. More time may be needed to demonstrate the effectiveness of the new practices before further budget actions are taken by Council.

WATER SHUT-OFF POLICY FOR LOW-INCOME FAMILIES. SPU initiates water shut-off when a customer owes a bill of at least \$300 that is 10 or more days past due. About 4,030 SPU customers had their water shut off in 2011. Of those, 212 were low-income customers who are eligible for once-a-year emergency assistance for up to 50% of past due bills. Although relatively few low-income customers have their water shut off each year, there is a concern about potential health effects on children if water for drinking, bathing or flushing toilets is shut off. SPU has been asked to address this concern by identifying ways to help avoid water shutoff for low-income families with children. Because SPU has voluntarily begun to evaluate options in 2012, a budget action to require this work may not be needed.

FINANCE AND ADMINISTRATIVE SERVICES DEPARTMENT (FAS) COST-ALLOCATIONS.

The budget proposes that SPU pay:

- 100% (about \$141,000 to \$146,000/year) for one of two new FAS treasury cashiers,
- A substantial portion (about \$120,000/year) of FAS Americans with Disabilities Act (ADA) costs that are cost-allocated to SPU based on its CIP budget for facilities, and
- \$560,000 to \$580,000/year for utility bill processing at Neighborhood Service Centers.

The cost-effectiveness of these services and the appropriateness of the cost allocation could receive further evaluation. Because FAS, SPU and City Light have initiated a process to evaluate cost allocation for certain services, a budget action to require that work may not be needed.