



**Legislative Department  
Seattle City Council**

September 18, 2012 DRAFT2

TO: Libraries, Utilities and Center (LUC) Committee

FM: Meg Moorehead and Patricia Lee, Council Central Staff

RE: Proposed 2013-2015 Drainage and Wastewater Rates and 2013-2016 Solid Waste Rates

**COMMITTEE DIRECTION SO FAR**

During its July 3, July 17, August 7 and September 7 discussions of drainage, wastewater and solid waste rates, the LUC Committee expressed a general interest in ensuring that rate-supported services are as cost-effective as possible. On September 7, the Committee also provided the following direction regarding changes to Seattle Public Utilities' (SPU's) rate proposal.

**SHARED ISSUES FOR DRAINAGE, WASTEWATER AND SOLID WASTE RATES**

- **Strategic Plan as Basis for Rate Growth Policy.** Direct SPU to build onto existing planning efforts to develop a strategic plan prior to SPU's next rate proposal that covers all of its lines of business as a basis for a rate growth policy (see options below for funding a consultant to identify additional efficiencies).
- **Work Place Efficiencies Annual Report.** Request that SPU provide an annual progress report to Council's LUC Committee detailing their analysis, decisions and progress in implementing SPU's Workforce Efficiency Workgroup recommendations and any cost savings.
- **Contracting Out Annual Report.** Request that SPU provide an annual progress report to Council's LUC Committee identifying any work SPU has assigned to City employees instead of contracting the work out and any changes to City procedures, or practices that were necessary to accomplish this.
- **Low-Income Assistance Program Improvements.** Given that most seniors' incomes are stable, increase seniors' enrollment period for low-income rates from 18 to 36 months to reduce both the applicant's and the City's administrative work. Also make low-income rate discounts for approved applicants retroactive to the date when the Human Services Department (HSD) determines that the application is complete, so that enrollees do not overpay if there are delays in the enrollment process.
- **Bill Timing and Delinquencies.** Pursue a Statement of Legislative Intent directing SPU and City Light to develop options for billing customers for SPU services in one month and City Light services in the next, or to average out bills over the year. Also include a report

back on the success of City Light's data analysis of high and delinquent bills and subsequent outreach.

- **Reconciling Rates and Late-Breaking Budget Changes.** Complete a Committee rate recommendation in September so that the Full Council can re-refer rate ordinances to the Budget Committee. The rate ordinances can then be amended to reflect any cost savings or cost increases that emerge as part of budget review.

#### **DRAINAGE AND WASTEWATER-SPECIFIC ISSUES**

- **New Drainage Rate Exemptions.** To recognize drainage benefits provided by certain parcels, approve new exemptions for undeveloped wetlands, riparian areas and islands as proposed by SPU, resulting in an estimated \$90,000 or \$100,000 per year of reductions over the rate period.
- **SPU-Proposed Drainage and Wastewater Capital Program Accomplishment Rate.** Approve rates with the 85% to 90% capital improvement program (CIP) accomplishment rate proposed by SPU. Request a Committee briefing each year on CIP progress.
- **100% Federal Agency Drainage Payments.** Assume that federal agencies will pay 100% of their drainage bills, which adds \$130,000/year of drainage revenue from federal agencies.

#### **SOLID WASTE-SPECIFIC ISSUES**

- **Solid Waste Contract Committee Briefings.** Request SPU to brief the Council, in the appropriate Council committee, before Requests for Proposals (RFPs) for solid waste collections contracts are finalized.
- **Fund the Green Seattle Partnership (GSP) as Proposed by SPU.** Approve rates with the \$100,000/year GSP funding proposed by SPU. Consider further Parks funding of GSP during Council review of the 2013-2014 budget.
- **One Less Truck (OLT) Citywide Implementation.** Assume that successful completion of the pilot will result in citywide OLT implementation starting in April 2015. Adopt rate changes to reflect OLT savings adopted as part of the surcharge adjustment discussed below.
- **SPU-Proposed Mini Can Prices.** Approve rates with the mini can prices proposed by SPU.
- **Increase Extras Price.** To encourage waste reduction, increase the cost of an extra bag of garbage to \$10.00 in 2013 rising incrementally to \$10.65 in 2016.

#### **COUNCIL DECISIONS REQUIRING FURTHER REFINEMENT**

##### **DRAINAGE AND WASTEWATER-SPECIFIC ISSUES**

##### **Strategic Plan Consultant Funding.**

The Committee has recommended that a strategic plan be prepared as a basis for a rate growth policy, and felt that an outside consultant could identify additional efficiencies. Initially, the Committee considered adding funds into rates for the consultant but given the limited other cost savings recommended, spending on a consultant could be approved without adding rate revenues.

**Options:**

- A. No New Rate Revenues for Strategic Plan Consultant. Direct \$100,000 in spending to an efficiency consultant to support the strategic plan but do not add rate revenue for the consultant, requiring SPU to reduce consultant spending for other purposes.
- B. Add Rate Revenues for Strategic Plan Consultant. Add funds into the rates for 2013 only for a consultant to help identify additional efficiencies. The added funds would reflect \$100,000 in new spending (\$25,000 drainage, \$25,000 wastewater and \$50,000 solid waste) and about \$118,000 in added rate revenue (\$28,700 drainage, \$28,800 wastewater and \$60,000 solid waste).

**Drainage and Wastewater Fund Priorities and Cost Effectiveness.**

To reduce rate increases, Committee expressed interest in a bottom-up approach to achieve cost savings in specific activities, typically starting with high-cost or low-priority discretionary tasks. The Committee requested that the bottom-up cost savings be refined for the September 18 meeting.

**Options:**

- A. Claims Bottom-up Cost Savings. Achieve \$250,000 of savings by reducing the budget for claims from \$3,774,000 to \$3,524,000, which would have been more than enough to pay the actual claims in 5 of the last 7 years.
- B. Higher Claims Bottom-up Cost Savings. Achieve \$500,000 of savings by reducing the budget for claims from \$3,774,000 in 2013 to \$3,274,000, which would have been more than enough to pay the actual claims in 5 of the last 7 years.

**SOLID WASTE-SPECIFIC ISSUES**

**Further solid waste rate adjustments during the rate period.**

At its September 7 meeting, the Committee recommended a 4-year solid waste rate with the option for a one-time rate surcharge or reduction mid-way through the rate period. The Committee also asked that a more detailed surcharge option be prepared for the September 13 meeting.

This option is related to the Solid Waste Demand and Non-Rate Revenues options below.

**Recommendation** *(highlighted option was preferred in last meeting):*

4-year rate with surcharge/reduction 3% inflation option. Adopt rates for a four year period with one-time surcharge or reduction considered midterm to adjust rates for 2015 and 2016, with the following provisions:

- Rates could assume 3%/year contract inflation based on past inflation and projections for the Consumer Price Index (CPI), labor cost increases and fuel cost increases during the rate period.
- Any increases in cash balances beyond projections in the 2013-2016 rate study would be moved to a reserve account. Funds from this account could be transferred in future years to address financial performance shortfalls or reduce 2015 rates if financial performance targets can still be met.
- Any midterm rate changes would be based on a midyear 2014 financial evaluation that considers actual 2013 and 2014 contract expense, actual 2013 bond issue debt service expense, revenue performance so far in the rate period, and savings associated with One Less Truck.
- A surcharge (rate increase) for 2015 and 2016 would be considered only if SPU is not projected to meet financial policy targets due to revenue shortfalls or higher than assumed contract inflation experienced in 2013 and 2014. Higher than projected non-contract spending would not factor in to the surcharge unless approved by Council.

### **Solid Waste Demand and Non-Rate Revenues.**

At its September 7 meeting, the Committee was interested in different assumptions for recycling processing revenue but requested that a more detailed option be developed for September 18 given the interaction between this issue and the decision to pursue a 4-year rate with a one-time surcharge or reduction mid-way through the rate period.

#### **Options:**

- A. Assume more recycling processing revenue. Revenue from recycling processing exceeded expenses by \$400,000 to \$2.4 million every year except one since 2007, yet the rate study assumes that expenses will exceed revenues by \$500,000 to \$700,000/year. Rate increases could be moderated by assuming that expenses are half of what was assumed in the rate study (\$250,000 to \$350,000/year). This revised option assumes adoption of the midterm surcharge mechanism discussed earlier in this memorandum.
- B. SPU Proposal. Approve rates with the demand and non-rate revenues proposed by SPU.

### **Solid Waste Program Priorities and Cost Effectiveness.**

To reduce rate increases, Committee expressed interest in a bottom-up approach to achieve cost savings in specific activities, typically starting with high-cost or low-priority discretionary tasks. The Committee requested that the bottom-up cost savings be refined for the September 18 meeting.

#### **Options:**

- A. BIP/Overtime Bottom-up Savings. For example, about \$130,000 of savings could be achieved by reducing overtime to 2011 levels plus funding equivalent to one additional staff and cutting added rat control in BIP 111.

- B. Other Bottom-up Savings. Approve rates with \$260,000 of savings from reduced spending on consultants, overtime and BIP 111, except that spending for yellow pages opt-out, school grants for food waste composting, and the rate growth strategic plan should not be further reduced.

**Clear Alleys Expansion to the International District (ID).**

At its September 7 meeting, the Committee recommended that mandatory Clear Alleys services be expanded to the International District but asked for an additional option to reduce the subsidy of Clear Alley services by other ratepayers.

**Options:**

- A. Clear Alley ID Expansion with SPU-Proposed Subsidy. Expand Clear Alley service to 32 customers in the ID as proposed by the Executive after the submittal of solid waste rates. Approve the proposal for Clear Alley customers to pay 75% of the cost of service, with a 25% subsidy from other ratepayers. The \$113,000/year net cost increase for expansion of this higher cost service is equivalent to a 0.13% rate increase for the other ratepayers that subsidize it, although in this rate period the Executive proposes to cut funding for other services rather than further increase rates.
- B. Clear Alley ID Expansion with Reduced Subsidy. Expand Clear Alley service to 32 customers in the ID as proposed by the Executive after the submittal of solid waste rates. Gradually reduce the subsidy to 10% (25% in 2013, 20% in 2014, 15% in 2015, and 10% in 2016), resulting in a 0.01%/year reduction in rate increases for other ratepayers in 2014 through 2016.

**RESULTS OF LUC COMMITTEE CHANGES**

Previous LUC Committee recommendations and Options A result in minimal changes to SPU-proposed rates although more Council guidance has been given for how the services funded by those rates will be provided. Table 1 shows impacts of the rate increases on typical single-family monthly bills.

TABLE 1: COMBINED DRAINAGE (D), WASTEWATER (WW) AND SOLID WASTE (SW) BILLS: SPU PROPOSAL VS.LUC RECOMMENDATIONS

	2012	2013 1/ SPU all included	2013 LUC	2014 SPU all included	2014 LUC	2015 3/ SPU all included	2015 LUC	2012 to 2015 SPU all included \$ and %	2012 to 2015 LUC \$ and %
Combined Residential D, WW & SW Monthly Bill 2/	\$104.73	\$114.16		\$118.73		\$127.99			
Combined Monthly Bill difference between SPU & LUC			Waiting for SPU, likely pennies						
Increase 2012-2015 (and average increase/year )								\$23.26 or 22% (\$7.75 or 6.9%)	
Combined Residential Monthly SPU Bill (incl. Water) 4/	\$138.68	\$150.54		\$157.66		\$168.20			

1/ All included is the full bill the customer would pay when King County treatment rate increases and solid waste contract inflation, which were excluded from SPU's rate study, are shown as part of the bill.

2/ Based on a typical single family customer with a 5,000 to <7,000 sq.ft. parcel, 32-gallon garbage can, 96-gallon organics can, and 4.3 hundred cubic feet (ccf) of wastewater use (which is lower than the 5.2 ccf used in the last rate study).

3/ The solid waste rate study includes further bill increases of \$0.65 (less than one-half of a percent of the combined bill) in 2016 or a \$1.55 (1% of the combined bill) increase if the total bill were shown.

4/ Total bill a typical single-family customer would pay for SPU services including previously adopted water rate increases.

With the LUC recommended rates, rates and bills will continue to increase faster than inflation, so that utility bills consume more and more of a ratepayer's income over time (see Attachment 1). By 2016 the typical residence with the most recently reported (2010) median Seattle household income of \$63,088/year would pay about 3% of their income on SPU bills. That is below the 8% (2% per utility service) suggested in the past by SPU as an affordability threshold. The percent would be higher households with below median income that do not qualify for low income rates, however, potentially making it more difficult for those customers to pay bills.

## NEXT STEPS

The final LUC Committee recommendation will be forwarded to Full Council with a request that the rate ordinances be re-referred to the Budget Committee for adoption as part of the 2013-2014 budget.