



**Legislative Department  
Seattle City Council**

July 28, 2014

TO: Select Committee on Utility Strategic Planning

FM: Meg Moorehead and Patricia Lee, Council Central Staff

RE: Proposed 2015-2020 Seattle Public Utilities (SPU) Strategic Plan

**EXECUTIVE PROPOSAL**

SPU has proposed a Strategic Plan to guide its services and rates from 2015 through 2020. The Plan describes water, wastewater, drainage, and solid waste services and the spending and rates to support those services. The Plan is endorsed by a 9-member Customer Panel that met 27 times over 14 months. Central Staff attended all the Panel meetings and provided technical comments along the way, some of which were incorporated into the Plan. The Plan also reflects input from SPU employees, public meetings, and web-based surveys.

The financial components of the Plan start with a “baseline,” which includes the cost of continuing 2014 services and the cost of service expansions to meet firm regulatory requirements. Baseline services are the largest part of the Plan and over 95% of its implementation cost. On top of the baseline, the Plan adds new and expanded services at a cost of \$169 million (\$52 million operations and maintenance [O&M] and \$117 million capital) over the six-year period. As a reduction from the baseline, the Plan includes \$125 million (\$54 million O&M and \$71 million capital) over the six-year period in savings from efficiencies and reductions in lower priority programs. As an indicator of efficiency savings, SPU proposes to have no more positions in 2020 than the 1,432 positions SPU has in 2014. In addition, SPU has 33 positions on loan from the Personnel Department for apprentices, contracted in and supported employment. To kick-start plan implementation 18 new SPU positions will be proposed in the 2015-2016 budget, with an equal number of positions phased out by 2020.

By adopting the Plan, Council will be endorsing over \$6 billion in SPU spending and a 31% rate increase over the six-year period. Budgets will increase from \$925 million in 2014 to over \$1 billion/year from 2015-2020. Average annual combined rates will increase 4.6%/year, which is lower than the approximately 7%/year increases since 2004. By 2020, typical single-family monthly bills about \$51 higher, rising from \$156.99 in 2014 to \$207.71. The Plan’s spending and rate increases will be implemented through future budgets (starting with the 2015-2016 budget) and future rate ordinances (starting with solid waste rates delivered this fall).

## **POTENTIAL COUNCIL ISSUES**

### **1. Reductions and Efficiencies**

#### **A. Programmatic Reductions**

SPU evaluated its current baseline programs to identify lower priority activities that could be reduced with little impact to core services. Attachment 1 lists the results of that evaluation, which identified over \$90 million of reductions over the six years. The capital reductions largely reflect more accurate estimates of project cost. The O&M reductions include a range of activities from reducing equipment purchases and consultant contracts to efficiencies in transfer station operations. Reductions in programs that have been of past Council interest include water quality education, solid waste prevention, and special projects requested by the Council, Mayor and SPU Director.

#### **Potential Issues**

- a. Does Council agree with the proposed programmatic reductions associated with over \$90 million in savings over the six years?

#### **B. Labor Efficiencies**

A benchmarking consultant identified \$15.7 million/year in potential efficiencies by 2020. Due to uncertainty about which efficiencies can be implemented in the planning period, SPU chose a target of \$7.4 million/year in O&M efficiencies by 2020 including \$6.4 million of labor savings. These savings are included in the Plan-recommended rate path. A commitment also would be made to have no more positions in 2020 than in 2014. Although the position count can be a helpful measure of progress toward the dollar savings, as a co-equal goal it may not be the best indicator of an effective, efficient workforce and may create unintended consequences. A position cap may unnecessarily constrain work groups' ability to get the work done and lead to SPU using consultants, temporaries or other means to get around the staffing limit. This may be counter to other City objectives in providing apprenticeships, job opportunities, training and career mobility to existing employees. And, SPU has not yet determined how they will monitor the no-net-position-increase target through annual tracking of the number of positions, use of temporaries, or consultant use.

#### **Potential Issues**

- a. Should the Plan follow the example of City Light's Strategic Plan by setting an annual dollar target for efficiency savings and leave SPU the flexibility of how to achieve it without a position cap? If dollars saved are the only firm target, the number of positions could be a metric tracked by SPU and Council as an indicator of savings achieved.

### **2. New And Expanded Services**

The Plan includes \$169 million of added spending over the six years for new and expanded services. Attachment 2 summarizes the proposed new actions, called "action plans." Because the baseline includes new actions needed to meet firm regulatory commitments, the action plans address other service expansions to better meet current and emerging

needs. Sixty percent of the new spending is for faster flooding and sewer backup fixes in Broadview and South Park and more sewer cleaning, inspection, and rehabilitation. The rest covers a range of activities such as buying carbon offsets to achieve carbon neutrality and improving maintenance of drinking water valves. Action plans of note include:

- A. Street Sweeping.** Curb miles of street sweeping are proposed to be doubled to improve water quality, but the unit costs are 40% higher, mostly due to a 32% lower unit pickup rate (from 20 to 13 pounds of pollutant reduced per curb mile) than under the current program. Actual pickup rates will be monitored to refine pollution pickup rate estimates based on experience with more frequent sweeping.
- B. Human Resources.** To address the Plan's goal of enhancing employee skills, the Plan adds \$8.8 million over the six years and devotes 8 full time equivalent staff (FTEs) to human resource functions. The increased effort will begin with 4 FTEs (3 new, 1 redirected from other SPU functions) in 2015, and 4 more redirected FTEs in 2018. These positions will focus on tasks such as staff performance management, leadership development, and safety programs to reduce absences. These resources are in addition to Personnel Department resources and 27 human resource FTEs in SPU's baseline.
- C. SPU Facilities Management.** Over the six years, \$24.7 million and 1 FTE are focused on centralized management of and upgrades to SPU facilities. This is the second-most costly action plan.

#### Potential Issues

Does Council agree with the new and expanded services and the associated \$169 million of spending over 6 years?

- 3. **Forecast Assumptions:** Many assumptions were made to predict future costs and revenues. Several assumptions were refined during Customer Panel review of the Plan. Some could be further refined, in some cases based on more recent information.

#### Potential Issues

- A. Bond Interest.** The Plan assumes 4.5%-5.75% bond interest rates with no refinancing of existing bonds. Yet in the last couple of months SPU sold drainage/wastewater and solid waste bonds at 3.6%-3.7% interest and refinanced existing bonds, saving \$1.5 million/year compared to Plan estimates. Should the Plan reflect the lower-than-forecast interest rates on bonds sold this year, reducing average annual rate increases by 0.05% from 4.6% to 4.55%?
- B. Health Care.** The Plan assumes 7%/year growth in health care costs but the City's soon-to-be-set 2015-2016 health care cost assumptions are likely to be at least a couple of percentage points lower. It is uncertain whether the much lower growth can be sustained beyond the 2015 time frame, since 2007 health care growth has been an average of 6.7%/year. The rate path might be reduced by assuming a little lower growth (perhaps 6.8%/year) over the six years or for just 2015 and 2016.
- C. Other.** Examples of choices in the Plan:

- The Plan assumes that a \$12 million payment from Cascade Water Alliance in 2018 is deposited in the Revenue Stabilization Fund and used in part to reduce wholesale rates in 2018 through 2020. How to use the remainder was deferred to the 2018 water rate study, which would use the payment to reduce borrowing, lower retail rates or replace bond reserve policies. If this Plan made the choice to use the payment to reduce 2019-2020 retail rates, the average annual rate increases could be reduced by 0.08%, from 4.6% to 4.52% but 2021 rates probably would increase about 6% instead of 4%.
- The Plan sets aside \$1.2 million/year as a “risk placeholder.” If the placeholder were halved, the average annual rate increase could be reduced by 0.01%, from 4.6% to 4.59%.

4. **Low-Income Assistance.** The Plan assumes an unprecedented doubling of enrollment for low-income utility assistance by 2018. The doubling shifts up to \$2.9 million/year to regular-income ratepayers who will experience a 0.2% higher average annual rate increase. Although the Mayor will unveil a plan for increasing enrollment this summer, past efforts suggest that a rapid increase will be difficult. The City has tried to expand enrollment by providing new types of assistance (such as emergency bill payment assistance), increasing the number of people eligible, extending enrollment periods for seniors, and increasing outreach efforts. Yet enrollment is less than 20% of those eligible and has risen very slowly from 10,300 in 2000 to 11,963 in July 2014. To reduce the financial impact on regular-income ratepayers while striving to double enrollment, Council may extend the schedule for meeting the goal. For example if the goal is achieved by 2022, rate increases for regular-income ratepayers would be cut to 0.1%, reducing typical single family bills by about \$250/year in 2020.

Potential Issues:

- A. Should a longer schedule for doubling enrollment be reflected in the Plan?
- B. Can more be done to ensure increased enrollment?

5. **Firm Cap vs. Flexible Road Map**

SPU proposes to update the Plan every 3 years to maintain a rolling 6-year planning horizon. The first update covering 2021-2023 services and rates would be submitted for Council approval in 2017. For the first years of the Plan, Resolution 31534 asks SPU to submit budgets and rates “in support of, and consistent with” the adopted Plan and its rate path. No similar direction is given for budgets beyond the proposed 2015-2016 budget or for rates adopted in 2017 and beyond. Presumably, Council would not be concerned if circumstances allow SPU to submit a budget or rates lower than those in the Plan as long as promised service levels are maintained. But if changed circumstances result in higher costs or lower revenues, the term “in support of, and consistent with, the Plan” may not give clear enough direction. The Council could change the wording to say that if costs are higher or revenues are lower, budgets and rates for 2015-2020 are expected to be no higher than those adopted in the Plan. Any changed circumstances driving higher rates could be included in the first Plan update covering 2021-2023 budgets and rates.

Potential Issues

- A. Is it Council's expectation that SPU adhere to the Plan and its rate path in future budgets and rates?
- B. Does Council intend that future budgets and rate ordinances be no higher than in the Plan even if circumstances have changed?

**NEXT STEPS**

Select Committee meetings to finalize Council direction and any resulting changes to the resolution or Plan are scheduled for August 4 and 11.