

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

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Date: October 18, 2011

TABLE 1: EXPENDITURES AND REVENUES

SPU Fund	2011 Adopted	2012 Endorsed	2012 Proposed	% Change Endorsed/Proposed
EXPENDITURES				
Water				
O&M ^{1/}	\$115,880,000	\$120,745,000	\$122,984,000	1.9%
CIP ^{2/}	\$79,108,000	\$66,411,000	\$55,506,000	(16.4%)
Debt Service	\$80,319,000	\$86,114,000	\$80,703,000	(6.3%)
total	\$275,307,000	\$273,270,000	\$259,193,000	(5.2%)
Drainage/Wastewater				
O&M	\$237,442,000	\$239,458,000	\$242,021,000	1.1%
CIP	\$83,848,000	\$92,624,000	\$93,838,000	1.3%
Debt Service	\$37,274,000	\$39,863,000	\$41,832,000	4.9%
total	\$358,564,000	\$371,945,000	\$377,691,000	1.5%
Solid Waste				
O&M	\$152,445,000	\$155,535,000	\$155,302,000	(0.1%)
CIP	\$29,248,000	\$40,115,000	\$18,443,000	(54%)
Debt Service	\$7,339,000	\$10,593,000	\$9,040,000	(14.7%)
total	\$189,031,000	\$206,243,000	\$182,784,000	(11.4%)
SPU TOTAL	822,902,000	\$851,458,000	\$819,667,000	(3.7%)
FTEs ^{3/}	1,419.75	1,415.75	1,411.25	(0.3%)
REVENUES				
General Subfund	\$1,224,000	\$1,254,000	\$1,205,000	(3.9%)
Other	\$821,678,000	\$850,204,000	\$818,462,000	(3.7%)

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

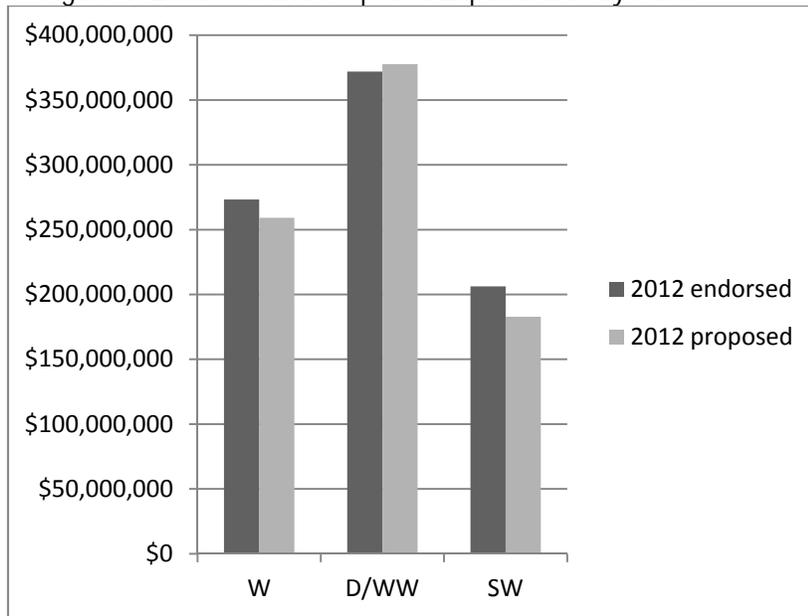
INTRODUCTION

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 19% of the proposed 2012 City budget. The Executive is proposing:

- A 2012 budget that is \$31.8 million lower than the endorsed 2012 budget.
- Abrogation of 5.5 positions (including management positions addressed in 2011-12 green sheet 4-1-A-1) and transfer of a position from Parks, for a net decrease of 4.5 positions compared to the endorsed 2012 budget.

The decrease in SPU’s budget is the net result of spending cuts largely made in response to revenue shortfalls and spending increases primarily for base cost increases (such as retirement), regulatory compliance, and capital projects to address emerging priorities (such as reducing flooding in north Seattle’s Densmore drainage basin) and to replace aging infrastructure. Although a capital improvement program (CIP) is fundamental to SPU’s work, it comprises only about 20% of SPU’s proposed 2012 budget. Operations and maintenance (O&M) activities to maintain infrastructure and operate the utility are the largest part of proposed expenditures (64%). Debt service comprises the rest of the SPU budget.

Figure 1: Endorsed and Proposed Expenditures by Fund



SIGNIFICANT CHANGES

Capital Program. The 2012 capital program is proposed to decrease by \$31.4 million compared to the endorsed budget. The change reflects the winding down of major investments in water treatment and reservoir covering and the slow down of new taps related to construction. 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).

ISSUES

- 1. WATER RATE ORDINANCE.** *How will the SPU and Neighborhoods (SPUN) Committee recommendations on proposed 2012-2014 rates be reflected in the budget?*

BUDGET EFFECTS

The budget incorporates SPU-proposed 2012-2014 water rates. The proposed rate ordinance (C.B. 117232) was reviewed by the SPUN Committee and re-referred to the Budget Committee with the SPUN-recommended changes shown in Table 2. If the SPUN reductions are approved, General Subfund (GSF) water tax revenues will be \$60,000 lower than assumed in the proposed 2012 budget.

Table 2: Budget Effects of SPUN Water Rate Recommendations		SPUN CHANGES		
		2012 proposed	2013 projected	2014 projected
(changes considered but rejected are not shown):				
1	Mismatch between O&M in rates and budget. Reduce dollars that must be collected through rates (called the rate revenue requirement) to reflect the lower base O&M costs in the proposed budget.	No budget effect; reduces rate increases by reducing the rate revenue requirement by \$1.8 M	Carry 2012 savings into 2013	Carry 2012 savings into 2014
2	Mismatch between CIP in rates and budget. Reduce the capital program assumed in rates to match the proposed 2012-17 CIP.	No budget effect; reduces rate increases by reducing the CIP assumed in rates by \$13.2 M	No budget effect; reduces rate increases by reducing the rate- assumed CIP by \$15.8 M	No budget effect; reduces rate increases by reducing the rate- assumed CIP by \$23.8 M
3	Consolidated Customer Service System (CCSS) Purge (BIP 300). Eliminate from rates added CCSS costs that were not included in the proposed budget. SPUN review found this action saved \$68,000.	No budget effect; Rate savings must be clarified. SPUN found savings but SPU now says this overlaps with 1. above	--	--
4	Customer care billing system (BIP 402). Do not approve the proposed spending increase.	--	--	(\$180,000)
5	Added SPUN-requested O&M reductions. a. Unfund 2 vacant Water Fund field positions. b. Reduce consulting for business outreach, office workforce efficiencies and environmental work. c. Cut proposed new 2013 O&M costs for Morse Lake temporary pumps (BIP 302).	(\$140,000) (\$292,000)	(\$140,000) (\$292,000) (\$260,000)	(\$140,000) (\$292,000)
6	Workforce efficiencies. Pursue a 2012 budget Statement of Legislative Intent (SLI) or proviso to ensure consultant funds are available to support the SPU field workforce efficiencies work group.	No dollar effect on budget; potential SLI or proviso	--	--
7	Morse Lake pump project amortization of deferred costs. Add to the revenue requirement \$1 million/year for ten years for amortization of deferred costs from a previous Morse Lake long-term pump capital project alternative.	No budget effect; adds \$1.0 million/year to the rate revenue requirement	Same as 2012	Same as 2012
8	Demand projections. Use 75% of the June 2011 Conway Puget Sound Economic Forecaster employment growth estimate to project water demand, instead of 50%.	No budget effect; reduces rate increases by increasing assumed water sales	Same as 2012	Same as 2012
9	Tap fees. Pursue a 2012 SLI directing SPU to update its tap fees and work processes to narrow the gap between tap fee revenues and expenditures in 2013 and beyond.	No dollar effect on budget; potential SLI	No budget effect; reduces rate increases by increasing fee revenue or reducing new tap costs by \$250,000	No budget effect; reduces rate increases by increasing tap fee revenue or reducing costs by \$500,000
10	Low Income Emergency Assistance. Double the customers eligible for assistance with delinquent water, wastewater and solid waste bills by changing the eligibility threshold from 125% of the federal poverty level to 70% of state median income. C.B. 117313 has been introduced as budget legislation to implement this recommendation.	No dollar effect on budget; - shifts \$75,000 from low income water customers to other rate payers - could reduce wastewater and solid waste revenues by ≤\$65,000	No budget effect	No budget effect
TTL SPUN CHANGES IN 2012 WATER BUDGET		(\$432,000)		

RATE AND BILL EFFECTS

SPUN recommendations would decrease SPU-proposed water rate increases as follows:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
SPUN spending reductions compared to the SPU proposal		-\$14.4M	-\$16.1M	-\$25.1M
Average systemwide rate increase 1/				
SPUN-recommended		8.8%	8.7%	8.5%
SPU-proposed		9.3%	9.5%	9.6%
Typical residential monthly bill 2/				
SPUN-Recommended	\$31.70	\$33.98	\$36.41	\$38.96
Monthly savings compared to the SPU proposal		-\$0.14	-\$0.38	-\$0.75

1/ A rate is a charge per unit of service; the systemwide rate blends residential, commercial, meter and commodity charges

2/ A bill is what a customer pays based on meter size and water used; residential bills are based on typical use of 5 ccf.

Options. The proposed water rate ordinance (C.B. 117232) could be approved with the SPUN-recommended changes and a green sheet to make associated budget changes. Additional rate reductions might be possible, however, as a result of recent developments:

- Retirement Board retirement contribution recommendations that would reduce 2012 Water Fund costs by \$114,000, and
- Confirmation of the \$1.8 million in O&M savings shown in Table 2, Item 1. The \$1.8 million was discussed by SPUN as base O&M savings but no line-item detail was available during SPUN review. That information is still not available and may yield added savings.

Rate increases would be reduced $\leq 0.1\%$ if savings from the recent retirement development are incorporated, and there would be added reductions in GSF revenues due to reduced taxes.

2. FUTURE RATE IMPACTS FOR DRAINAGE, WASTEWATER AND SOLID WASTE. *Should proposed expenditures be reduced or financial policies changed to moderate future rate increases?*

Rates for 2012 were adopted through previous Council action for drainage, wastewater and solid waste services. Although rate studies covering those services for 2013 and beyond are not expected until next year, overall increases for the 2013-2014 rate period are larger than projected during last year's budget review (see Table 3). In part, the projected increases in 2013 and 2014 will be driven by spending and CIP decisions made this year.

Table 3: Average Systemwide Rate Implications of Proposed 2012 Budget and 2012-17 CIP: 2010 vs. 2011 Estimates

	2012 adopted	2013 ('10 projected)	2013 ('11 projected)	Diff. '10/'11 projections	2014 ('10 projected)	2014 ('11 projected)	Diff. '10/'11 projections
Drainage	11.2%	10.8%	15.9%	5.1%	6.3%	5.5%	-0.8%
Wastewater ^{1/}	4.2%	2.4%	8.3%	5.9%	2.5%	1.5%	-1.0%
Solid waste	3.5%	7.7%	9.0%	1.3%	6.3%	3.0%	-3.3%

^{1/} 2013-2017 do not include impacts from King County treatment rate increases

Spending in the 2012 budget, the 2012-17 CIP, and financial policies contribute to rate increases:

DRAINAGE/WASTEWATER FUND (DWF)

Spending: As shown in Table 1, DWF 2012 spending is proposed to increase by \$5.7 million compared to the endorsed budget. The 2012 increase is due to the growing cost of base services, an increased share of SPU overhead costs due to the step up of DWF work

as WF work declines, and capital program increases focusing on sewer rehabilitation and combined sewer overflow reduction. The proposed 2012-2017 CIP increases capital spending substantially (\$24.3 million or 25%) in 2013 compared to the previous CIP, with the largest increases in combined sewer overflow reduction, flood reduction in areas such as Broadview, and water quality projects such as natural drainage systems in the Venema Creek watershed. If the proposed 2012 spending and 2012-2017 CIP are approved, they will be the basis for 2013-2014 rate increases that will be reviewed by Council next year.

Rates. The projected 2013 rate increases of 15.9% for drainage and 8.3% for wastewater are due to the previously approved gradual shift of certain combined system costs from wastewater rates to drainage rates, wastewater revenue shortfalls, and the need to meet financial policies (particularly the policy requiring a 25% cash contribution to the CIP).

SOLID WASTE FUND (SWF)

Spending. Proposed 2012 SWF overall spending is 11.4% lower than the endorsed budget, and due to shifts in the transfer station rebuilding schedule, the proposed 2012-2017 CIP is more than \$21 million lower in 2012 and 2013 than in the adopted CIP.

Rates. Despite reduced 2012 SWF spending, rates are projected to increase 9% in 2013, due largely to revenue shortfalls in the struggling economy and the need to meet financial policies (particularly the policy requiring net income to be generally positive).

Options. To reduce rate increases projected for 2013 and beyond, a green sheet could be prepared to reduce or eliminate certain 2012 expenditures (such as those listed above). SWF reductions would be more difficult given fixed contract costs, the need to complete transfer stations, and the prudence of maintaining a financial policy that requires positive net income. There may be more flexibility to make DWF changes by delaying/reducing discretionary projects (such as flooding and natural drainage system projects). Financial policies also could be reconsidered, including a potential change of the cash-to-CIP financial policy from 25% to the 20% used in other SPU Funds. Such a change should probably be considered as part of a review of financial policies conducted before SPU begins to develop its rate proposal next year. Such a review could be added to the Council's 2012 work program or requested in a SLI.

3. **SEATTLE reLEAF URBAN FOREST POSITION.** *Should the new SPU position be reclassified as part-time to reflect the Office of Sustainability and Environment's (OSE's) recommended level of effort?*

In June 2011 Ordinance 123629 created a new SPU position and lifted a budget proviso for a consolidated community tree outreach, education and planting program, called Seattle reLeaf. The program is intended to provide a single point of contact for promoting tree planting (primarily on residential property) as part of City efforts to expand tree canopy cover. The endorsed 2012 budget for this program is \$235,000, funded by SPU (\$80,000), City Light (\$80,000) and an OSE GSF contribution (\$75,000). The proposed budget includes a \$25,000 reduction (leaving \$50,000) in GSF funding to reflect a reduction of the program manager from full-time to 32 hours/week. Although OSE and SPU Budget Issue Papers (BIPs) conclude that an effective program can be delivered with the part-time position, the proposed budget retains a full-time reLeaf position, potentially adding to SPU costs and future rate increases.

Options. To reflect reduced GSF funding and BIP recommendations, the SPU Seattle reLeaf program manager position could be reclassified from full-time to part-time.

4. TONNAGE TAX ORDINANCE (C.B. 117311). *Should a SPU-proposed tonnage tax increase be approved to cover overhead costs, abandoned vehicle reporting, and other Clean City activities?*

The tonnage tax is charged for solid waste brought to City transfer stations. As the main station user, SPU pays about 72% of the City's tonnage taxes and private haulers pay the rest. The tax generates GSF revenue that is returned to SPU to fund Clean City programs to control graffiti, litter and illegal dumping. For the 2011 budget, the Council increased the solid waste tonnage tax by 19 cents per ton to implement City Auditor graffiti control recommendations. Council action included creating a 0.5 position for graffiti coalition building and outreach planning, adding funds for information campaigns and database improvements, and issuing a SLI requesting a plan for transfer of a SPU graffiti position to the Seattle Department of Transportation (SDOT) for pay station graffiti control. Although the tonnage tax was increased, none of the new actions envisioned by the Council were implemented due to interdepartmental coordination issues and tonnage tax revenue shortfalls due to the economy. Partial implementation is proposed for 2012, with SPU cutting a position so that a SDOT position for pay station graffiti control can be funded.

SPU has proposed to increase the tonnage tax 14% per year from 2012 to 2014 to fund \$1 million in Streetside Litter and Public Place Recycling activities that were mistakenly excluded from Clean City funding in recent years, transfer \$142,000 of Abandoned Vehicle reporting activities formerly funded by non-tonnage tax GSF, and account for an updated calculation of overhead costs for Clean City activities. The added costs would be counterbalanced somewhat by \$360,000 in Clean City cuts including eliminating the 0.5 graffiti outreach position and database funding added by Council in 2011; reducing rat control and parks and streetside litter control; and eliminating program development funds for incorporating enforcement into the illegal dumping program. While SPU has proposed reducing streetside clean-up activities, Council concerns about particular areas (such as Third Avenue downtown) might suggest area-specific increases in streetside Clean City activities.

SPU's proposal would increase tonnage taxes from \$8.69 per ton in 2011 to \$12.21 per ton in 2014, generating about \$475,000 more in 2012 than in the endorsed 2012 budget. By 2014, tonnage tax revenues would be about \$1.5 million more than endorsed for 2012.

Options. The changes to the Clean City program and funding could be approved as proposed. Alternatively, the Council could approve the tax increase but choose different priorities for services that are cut or added. Staff could develop an option that would impose alternative reductions and preserve funding for activities of particular Council interest. Or, Council priorities (such as focused streetside clean up along Third Avenue) could be added to the SPU proposal, resulting in a further tax increase. Finally, if reduced tax increases are preferred, the Council could pursue further cuts to Clean City programs and continuing to fund Abandoned Vehicle reporting with non-tonnage tax GSF dollars.

5. COMMUNITY GRANTS CONSOLIDATION. *Should DON receive funding and administration responsibility for SPU waste prevention grants?*

The multi-departmental Community Grants Consolidation proposal will be addressed in the Department of Neighborhoods (DON) Overview and Issue Identification paper. SPU's contribution to the consolidation includes transfer of \$49,000 to DON for administration of SPU's school-oriented Recycling and Waste Prevention Community Matching Fund grants. Although administration would transfer to DON, \$100,000 in grant funds would remain in SPU and SPU would keep (but reassign) the portion of a position (0.5 FTE) that currently administers the grants. SPU BIP 407 represents that SPU will save \$8,000 from this consolidation.

The merits of the grant consolidation will be addressed in the DON paper. It is important to note, however, that SPU costs increase under this proposal because it would continue to fund the position that currently administers the grants (although they would not assigned other duties) and also would make a new \$49,000/year payment to DON for grant administration. This new cost contributes to future solid waste rate increases.

Options. Consider community grant consolidation options during review of the proposed 2012 DON budget. If the consolidation is approved, consider reclassifying the SPU position that currently administers the grant to part-time to reduce SPU costs. If the consolidation is not pursued, reduce SPU expenditures by \$49,000 to reflect elimination of the payment to DON.

6. DRAINAGE/WASTEWATER BOND ORDINANCE.

A drainage and wastewater bond ordinance has been submitted as budget legislation. The 2012 rates and the 2012 endorsed budget assumed a \$93 million bond issue in February 2010. The proposed ordinance authorizes a 30-year fixed-rate bond issue in June 2012 of up to \$132 million. The bond proceeds will fund about 2 years of a drainage and wastewater capital program that is about \$1.2 million higher than in the endorsed 2012 budget. With the later bond issuance, payment of the full \$8.8 million annual debt service is not required until 2013.

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 a SPU budget change.

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. Financial constraints and a lower CIP that does not support apprentice expansion are the reasons the new positions were not in SPU's 2011 budget and the water apprenticeship program is on-hold in 2012. A class of six (out of an initial eight) water apprentices and six drainage/wastewater apprentices graduated in August 2011. Due to growing regulatory compliance needs, a new drainage/wastewater class of up to 13 apprentices is planned for early 2012.

LOW INCOME ENROLLMENT AND OUTREACH. SLI 11-1-A-1 from the 2011-2012 budget review requested that the Human Services Department (HSD) assess its utility low income enrollment and outreach practices and recommend improvements. In mid-2011, HSD began implementing measures recommended in its SLI response. The HSD budget overview paper presents the option of a Council 2012 work program item or SLI requesting a HSD report that reviews progress on work process improvements and achievement of enrollment goals.

EVERY-OTHER-WEEK (EOW) GARBAGE. The Council added funding to the 2011-2012 solid waste rates for an EOW garbage service pilot project. The proposed 2012 budget assumes that EOW funding from 2011 will be carried forward to 2012 to conduct the pilot. The Council has now been informed that the Mayor and SPU do not intend to implement the program and will instead pursue other activities to increase the City's recycling rate.