

Review of the Baseline Projections

Defining the Baseline: The *baseline* is SPU's cost of providing current levels of service **plus** meeting firm regulatory requirements.

- *Current service levels* are the levels of service we actually provide, not service targets.
- *Firm regulatory requirements* include federal, state, and local requirements. Baseline adjustments for local requirements include (a) 70% recycling costs; (b) increased maintenance for new Green Stormwater Infrastructure assets (\$1.3 million per year by 2020).
- The baseline figures focus only on the costs covered by retail rates. Revenues from other, non-retail rate sources (such as recycling revenues, revenues from sales of water taps, wholesale water contracts, grants, etc.) are subtracted from total costs before the baseline rate path and rate spending path is calculated. For most lines of business, non-rate sources comprise less than 10% of total revenues but for the drinking water line of business, the wholesale rate revenue component is large – about 25% of total revenues.

Changes to Baseline Since August 20th:

1. Changed salary inflation assumption from 4% to 5% (see page 2 for inflation assumptions)
2. Added in late-breaking 2014 budget changes for City central costs, health care, workers comp (see page 3)
3. Subtracted Council reductions from the 2014 budget (see page 3 for these changes)
4. Found and fixed bugs in the new budget system – believe that the biggest problems have been discovered
5. Adjusted/updated the baseline increments/decrements that are either (a) technical adjustments; (b) changes to meet firm regulatory requirements; (c) changes to accommodate operating needs of new capital structures (see page 4 for the current list of increments/decrements)
6. Assumed participation increase in the low income rate assistance program consistent with City Light assumptions. By 2020, this means increase participation from the current level of 15% to 19% by 2020.
7. Now calculating a *rate spending* path as well as a *rate* path

What is the current baseline estimate? We are presenting two different calculations:

- Rate Spending Path. The current estimate of the annual average increase in *rate spending* to maintain baseline services is 4.3%. This figure represents an average annual change for SPU's four lines of business in total. On average, increases to customer bills (what our customers pay to us) will match the increases in the rate spending path (what we pay to meet our financial obligations).
- Rate Path. The current estimate of the annual average increase in *rates* needed to maintain baseline services is 4.7%. This figure is higher than the 4.3% rate spending path because demand in three of the four lines of business (water, wastewater, solid waste) is falling, so rates need to rise to recover the same amount of money. On average, the increase to an individual customer's bill will match the increase in the rate path if that customer's demand for SPU services remains fixed at current levels. Historically, this calculation is the basis for what the City Council approves when it approves rates.

Inflation Factors Assumed in the Baseline

[NOTE: highlight items show changes from August; see footnotes below table for additional detail]

Cost Types	August 20 th Assumptions			November 20 th Assumptions		
	Each Year	Year 1 of biennium	Year 2 of biennium	Each Year	Year 1 of biennium	Year 2 of biennium
Labor costs:						
Salaries (1)	4.0%			5.0%		
Healthcare (2)	7.0%			7.0%		
Retirement (3)	1.0% incr/yr			1% incr/yr		
Workers Comp (4)	3.0%			3.0%		
Non-Labor						
SPU O&M (excl professional services)	2.0%			2.0%		
Professional services (5)	3.0%			3.0%		
Capital	2.0%			2.0%		
General City Central Costs (6)		8.0%	4.0%		8.0%	4.0%
Finance & Admin Services Allocation (6)		8.0%	5.0%		8.0%	5.0%
Depart of Information Tech Allocation (6)		12.0%	5.0%		12.0%	5.0%
Dept of Information Tech Billed Charges (6)		12.0%	7.0%		12.0%	7.0%
Fleets – Allocation & Fuel (6)		11.0%	7.0%		11.0%	7.0%
Fleets – Maintenance (6)		11.0%	4.0%		11.0%	4.0%
Fleets – Other (6)		11.0%	11.0%		11.0%	11.0%
Other						
Taxes (no changes to tax rates)	No change in current City rates: 15.54% for water 12% for wastewater 11.5% for drainage 11.5% for solid waste			No change in current City rates: 15.54% for water 12% for wastewater 11.5% for drainage 11.5% for solid waste		
Interest rate on debt (7)	5.0%-5.5%			5.0%-5.5%		

- 1) Salaries: Based on 8-year average, but excluding outlier years 2010 and 2011.
- 2) Healthcare: Based on 8-year average.
- 3) Retirement: Assumes employer contributions to retirement will increase 1% per year.
- 4) Workers Compensation: Looked at the 8-year average (6%) and the 5 year average (2%) and picked a number in-between.
- 5) Professional Services: Looked at the 8-year average is 6% increase per year; we are assuming we can cut this increase in half moving forward.
- 6) Costs from other City departments: Generally took the average increase over the prior 8 years, except for general allocations and allocations from Finance & Admin Services, where we took the 2012-13 average and adjusted for known future costs (such as the upgrade to the City's financial system).
- 7) Interest rates on debt future debt issuances: Based on advice of City's Debt Manager and City's Financial Consultant.

2014 Mayor's Proposed Budget for Seattle Public Utilities

Item	Description	August 20th figures	Mayor Changes	Council Changes	Current Figures
1. General Expense & Administration	Changes to debt service payments, taxes, contract payments	1,386,087			1,386,087
2. Technical Adjustments	<u>Mayor change:</u> Late adjustments for higher City Central, health care and workers' comp costs <u>Council change:</u> Reduce SPU-funded street sweeping		1,977,394	(47,000)	1,930,394
3. SWF - Organics Processing Contract	Higher processing costs associated with the new organics contract (there is a net savings starting in 2015 due to lower hauling costs)	605,625			605,625
4. Staffing Costs	Salary and benefits for new staff approved prior to the budget process (e.g. internal control FTEs approved in Dec. 2012, term-limited positions approved via the City's Labor Management Leadership Committee) <u>Council change:</u> Eliminate funding for expert help in improving capital project delivery	1,312,000		(232,000)	1,080,000
5. IT-Related Costs	Operating costs for new IT applications, annual subscription fee for the Utility Locates ticket management system, increased software support costs	517,161			517,161
6. Fleet Costs	Higher maintenance costs associated with aging heavy equipment and a "shift" in fleet idle costs from the capital to the operating budget	1,548,999			1,548,999
7. SBP - Human Resources Staffing	3.0 HR staff to build the foundation to attract, develop, and retain a skilled workforce <u>Council change:</u> Eliminate this item	305,000		(305,000)	0
8. SBP – Outreach for Plan Implementation	Funds to provide greater customer outreach, particularly to under-represented communities, and greater employee in-reach to achieve greater transparency and engagement in implementing the Plan, beginning in 2014 <u>Council change:</u> reduce this by half	400,000		(200,000)	200,000
9. Other		54,336			54,336
TOTAL 2014 O&M Proposed Changes		6,129,207	1,977,394	(784,000)	7,322,601

NOTE: Council also deleted two capital projects: (1) Water Quality & Flow Improvements (#C3393) and (2) Environmental Stewardship (#C1301). Total 2014 reduction is \$200,000. SPU has retained these projects in the 2015-2020 baseline, as they are necessary to meet firm regulatory requirements.

Baseline Increments: The table below provides more detail on the baseline increments and decrements that are not simply inflationary changes, and are not rate model calculations (such as tonnage-driven costs, debt service payments, and taxes).

LOB	Description	2015	2016	2017	2018	2019	2020
Technical Adjustments							
All	Retirement Cash Outs placeholder	\$1,127,500	\$1,155,688	\$1,184,580	\$1,214,194	\$1,244,549	\$1,275,663
All	General Placeholder	\$1,230,000	\$1,266,900	\$1,304,907	\$1,344,054	\$1,384,376	\$1,425,907
DWW	Transfer \$3 million in sewer line repair from CIP to O&M	\$3,000,000	\$3,060,000	\$3,121,200	\$3,183,624	\$3,247,296	\$3,312,242
Various	All Other Technical Adjustments	(\$126,848)	(\$296,359)	(\$1,090,510)	(\$604,462)	(\$952,269)	(\$784,870)
Meeting Firm Regulatory Requirements							
DWW	DWVC Lead Worker to meet new DWW Locate Requirements	\$66,150	\$69,458	\$72,930	\$76,577	\$80,406	\$84,426
All	Utility Discount Program -- Fund one additional SPU staff and increased payments to the Human Services Department to increase participation 10%	112,275	114,597	116,968	119,388	121,859	124,380
DWW	NPDES surface water Permit -- requires private facility inspections; as new facilities are constructed (av 120/yr) we expect to exceed staff capacity in 2017			\$112,068	\$117,671	\$123,554	\$129,732
DWW	CSO Consent Decree -- funding for Capacity management Operations & Maintenance (CMOM) requirements for SCADA improvements and necessary adds to Planning and Scheduling	\$0	\$892,929	\$961,168	\$1,033,763	\$1,110,968	\$1,193,055
DWW	Add 4 line & grade crew in increase sewer pipe cleaning by 20% and continue to meet regulatory requirements	\$0	\$0	\$220,500	\$231,525	\$243,101	\$486,661
Solid Waste	Expand Construction & Demolition (C&D) bans; requires additional education for C&D generators; residuals sampling, DPD staffing	\$128,750	\$50,213	\$51,719	\$53,270	\$54,869	\$56,515
Solid Waste	70% Recycling: increases in transfer station costs; contractor payments for additional materials; additional outreach*	\$588,984	\$992,662	\$1,288,471	\$1,685,211	\$1,945,795	\$2,619,457
Providing O&M Resources for New Capital							
All	New Billing System: Add budget in 2015 and 2016 to fund transition to new system. Includes hiring TES; overtime budget for training outside regular call center hours	474,575	511,115				
DWW	Maintenance of GSI assets -- contractor services	\$659,000	\$808,000	\$966,000	\$1,152,000	\$1,290,000	\$1,326,000
DWW	Add 7 FTE and associated equipment to maintain additional DWW grounds and support inspecting/repairing new drainage structures and new CSO assets	\$693,000	\$930,325	\$969,333	\$1,125,866	\$1,174,272	\$1,224,900
Water	Changes to operating costs in shift from interim hatchery to new hatchery	(26,116)	45,201	46,557	(24,146)	(24,871)	46,483
Solid Waste	New North Transfer Station - additional grounds maintenance; utility costs; 1 more scale attendant		\$120,358	\$250,899	\$265,770	\$281,356	\$297,686
Solid Waste	South Transfer Station, Phase 2 - additional utility costs; landfill monitoring & maintenance, landscaping, grounds maintenance	92,004	96,144	100,425	104,850	321,064	335,834
TOTAL		\$8,019,275	\$9,817,230	\$9,677,215	\$11,079,155	\$11,646,326	\$13,154,071

*Increase in transfer station, etc. costs to meet 70% recycling goal is offset by reduced costs associated with less tonnage long-hauled and disposed of in the landfill.