Baseline Discussions

What We Did Last Time (July 15)

• Definition of baseline
• What the baseline does NOT include
• Why the baseline doesn’t just increase with inflation
• Overview of cost categories, using 2013 as starting point
Baseline Discussions

**What We’ll Do Today (Aug 6)**
- Reminder of definition, cost categories
- First exploration of discretionary expenditures
- Discussion of baseline service levels

**What We’ll Do Next Time (Aug 20)**
- Review actual baseline numbers & assumptions
- Discuss affordability
- Receive initial Panel feedback
Baseline Discussions & The Big Picture

What Happens After That, In the Fall of 2013

- Review baseline prioritization results; identify lower-priority programs for possible reductions
- Review list of possible efficiencies
- Review list of possible initiatives
- Discuss alternative rate path packages
Review: Definition of Baseline

The change in annual rate revenues, or average annual rates, needed to maintain existing service levels plus meet firm regulatory requirements.

What do we mean when we say *maintain existing service levels*? We mean that actual service quality (as opposed to targeted service quality) neither degrades nor improves.
Review: 2013 O&M Cost Categories

**General Expense** = city central costs, claims, G&A credit, etc.
From SPU’s perspective, most of SPU’s O&M costs are “fixed” in the short-run

Debt service, major contracts, general expense, and taxes comprise more than half of each line of businesses’ O&M

- 64% of water O&M
- 75% of drainage & wastewater O&M
- 79% of solid waste O&M
Focus on SPU Branch O&M Costs

Remaining costs (“Branch costs”) are mostly SPU labor costs, but also include supplies, consultant and other services, and miscellaneous other expenses.

Two categories of “Branch costs”

- **Mandatory or Core**: activities that are essential to directly or indirectly providing core utility services and/or meet regulatory requirements (e.g., system operations & maintenance, planning & scheduling, customer billing)

- **Value added (or discretionary)**: activities that enable us to operate more effectively, efficiently, and sustainably, and/or add value to the organization and our customers
Focus on SPU Branch O&M Costs

Next several slides shows Branch O&M Costs for each line of business, broken out by Mandatory/Core and Value Added.

Then the specific activities within the Value Added category are detailed out.
2013 Branch O&M for Water: Split of Branch costs by Mandatory/Core & Value Added

Water Fund: 2013 O&M, with Branch O&M detail

- Mandatory/Core: $70,269,758
- Value Added: $3,387,139

- Taxes
- Services, supplies, other
- SPU employees
- General Expenses
- Major contracts
- Debt Service
## Value-Added 2013 O&M Expenditures: Water

| Environment & Public Health                  | $575,298 |
| Public/Cultural Programs                    | $469,248 |
| Resource Conservation                       | $189,998 |
| Climate & Sustainability                    |           |
| **Total**                                   | **$3,387,139** |

**Operational Excellence**

| General Program Management - Asset Management | $408,025 |
| Technology Asset Mgmt                        | $356,447 |
| System Integration Admin - Asset Management  | $209,587 |
| Risk & Quality Assurance                     | $186,889 |
| Economic Svcs                                | $184,461 |
| General Program Management - Social Equity   | $177,063 |
| Asset Management Tech Services               | $143,585 |
| Asset Management & Economics Services Admin  | $127,062 |
| Social Equity                                | $101,948 |
| All Other                                    | $257,528 |
| **Total**                                    | **$3,387,139** |
2013 Branch O&M for DWW: Split of Branch costs by Mandatory/Core & Value Added

DWW Fund: 2013 O&M, with Branch O&M detail

- Mandatory/Core: $66,580,340
- Value Added: $8,543,286

- Taxes
- Services, supplies, other
- SPU employees
- General Expenses
- Major contracts
- Debt Service
## Value-Added 2013 O&M Expenditures: DWW

### Services to Others (non-rate funded)
- Services for Seattle Department of Transportation: $2,678,366
- Services for Others (Non-SPU projects): $796,928
- Services for Others (General Fund services): $583,157
- Services for City Light: $324,582
- Chargeback IT (services for other departments): $312,735
- Services for Others - General Fund Standard Specifications: $114,344

### Environment & Public Health
- Environmental Partnerships: $332,817
- Resource Conservation: $225,035
- Climate & Sustainability: $129,198

### Operational Excellence
- Capital Portfolio Management: $984,436
- System Integration Admin - Asset Management: $378,415
- General Program Management - Asset Management: $345,161
- Technology Asset Mgmt: $244,143
- Risk and Quality Assurance: $167,327
- General Program Management - Social Equity: $154,867
- Asset Management Tech Services: $134,970
- Asset Management & Economic Services Admin: $119,438
- Economic Services: $115,259
- Project Delivery Work for Other SPU Branches: $105,595
- All Other: $296,553

### Total
- Total: $8,543,286
2013 Branch O&M for DWW: Split of Branch costs by Mandatory/Core & Value Added

Solid Waste Fund: 2013 O&M, with Branch O&M detail

- Mandatory/Core: $29,198,171
- Value Added: $5,983,796

- Taxes
- Services, supplies, other
- SPU employees
- General Expenses
- Major contracts
- Debt Service
## Value-Added 2013 O&M Expenditures: Solid Waste

<table>
<thead>
<tr>
<th>Category</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Services to Others (non-rate funded)</strong></td>
<td></td>
</tr>
<tr>
<td>Environmental Partnerships (Graffiti, Litter, Community Cleanup)</td>
<td>$3,025,172</td>
</tr>
<tr>
<td><strong>Environment &amp; Public Health</strong></td>
<td></td>
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<tr>
<td>Resource Conservation (mostly waste reduction)</td>
<td>$1,405,031</td>
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<td><strong>Operational Excellence</strong></td>
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<tr>
<td>Economic Services</td>
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<tr>
<td>General Program Management - Asset Management</td>
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<td>General Program Management - Social Equity</td>
<td>$184,291</td>
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<tr>
<td>All Other</td>
<td>$473,796</td>
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<tr>
<td><strong>Total</strong></td>
<td>$5,983,796</td>
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</tbody>
</table>
Major Take-Away from Value Added Slides

Most Value Added expenditures either (a) have associated non-rate revenue streams, or (b) improve SPU’s efficiency & effectiveness.

*Level* of investment in value added activities (and mandatory/core activities, for that matter) is always open for review and assessment.

As SPU staff prioritize the baseline, they will be assessing how O&M and CIP activities & projects support the prioritization criteria – this work will be ready for Panel review in the fall.
Discussion of Service Levels

See word document handout for each line of business:

- Service Levels
- Targets
- Mandatory or discretionary
- Baseline Performance
- Comments

This information is provided per the Panel’s request to understand baseline service levels, and possible service/cost tradeoffs.