2018-2023 Baseline

Presentation to the Customer Review Panel
January 31, 2017
Purpose of this Presentation

Provide a detailed look into the baseline rate path for 2018-2023

1. Reminder of the rate path options and main components: baseline; savings; action plans

2. Reminder of Baseline break out

3. O&M increments

4. CIP overview and increments
2018-2023 Rate Path Options and Rate Math

Starting Point (September 2016) 6.8%
- Scrubbed base & assumptions
- Prioritized & removed investments
- Expenditure reductions of $171M

Current baseline operations 5.2%

Plus action plan investments 0.7%

Minus additional savings (0.3%)

Option A: Average Annual Rate Increase 5.6%
Option B: Medium Risk 5.4%
Option C: Higher Risk 5.3%
Baseline Rates Overview

Baseline Definition:
• Baseline rates are the future cost of “business as usual.”

Why we calculate a baseline:
• The baseline is our starting point for rate discussions.

Why are baseline rates higher than inflation?
• See the next slide for components of the baseline rate.
Baseline Rates Overview

Baseline = 5.2%

Components of the 1.70% increase in operations above general inflation:

- Taxes, 0.39%
- Large Contracts Inflation, 0.56%
- O&M inflation, 0.61%
- O&M adjustments, 0.15%
- All Other, 0.26%
- Capital Financing, 0.84%
- Seattle Inflation, 2.40%
- O&M, 1.70%
Detail for the O&M Baseline Component: Focus on Taxes (0.39%)

- Why is tax impact higher than Seattle inflation?
  - SPU baseline rates = 5.2% average annual increase
  - City and State tax payments are levied on SPU revenues, and so will increase roughly 5.2%
  - SPU’s City and State tax rates are fixed during the 2018-2023 rate period
Detail for the O&M Baseline Component: Focus on Taxes (0.39%) continued

• What are the impacts of the 2016 Solid Waste tax rate increase?
  
  o Tax rate increase from 11.5% to 14.2% included in the 2017-2019 solid waste rate study
  
  o Impacts the % increase in solid waste rates in 2017 by 2.5%
Detail for the O&M Baseline Component: **Focus on Contracts (0.56%)**

- Two sets of large contracts:
  - Treatment of wastewater and stormwater
  - Solid waste contractors for pick up, hauling, and disposal of garbage, organics, and recyclables
Detail for the O&M Baseline Component: *Focus on Contracts (0.56%)* continued

- King County treatment rates expected to go up 3% per year on average
  - 2017 payment to King County = $158M; 2023 payment = $203M
- Solid Waste contractor rates expected to increase 2.75% per year from 2018-2023
  - 2017 payment to contractors = $107M; 2023 payment = $133M
Detail for the O&M Baseline Component: 

Focus on O&M inflation (0.61%)

• Why is there an O&M inflation component over and above the general Seattle inflation rate?
  
  o Some cost categories are inflated at rates higher than the general rate of inflation based on historical experience and future projections
Detail for the O&M Baseline Component: *Focus on O&M inflation (0.61%) continued*

- Generally, which factors are higher than 2.4%:
  - Professional services inflated at 3%/year
  - Health care inflated at 6.4% in 2018; 6.0%/year thereafter
  - General cost allocation from other City departments inflated at 6.0%/year
Detail for the O&M Baseline Component:
Focus on O&M adjustments (0.15%)
O&M Adjustments: Focus on Regulations

2018-2023 O&M Baseline Adjustments 6-years = $41.4M

$s in millions

- 70% Recycling Goal, $12.8
- Operating Assets, $14.3
- Business as Usual, $6.9
- Regulations, $7.4

Seattle Public Utilities
O&M Adjustments Details: $7.4M Regulations

- $2.7M Source control in the Duwamish including monitoring and line cleaning
- $1.0M Wastewater sampling for outfalls
- $0.8M DWW permitting position
O&M Adjustments Details: $7.4M Regulations continued

- $0.7M Stormwater code permit
- $0.3M Utility locate 3 positions conversions and non-labor
- ($1.4M) Sewer cleaning
O&M Adjustments Details: $7.4M Regulations continued

- $1.5M Landfill operation consultant and transfer station monitoring
- $0.8M ADA and energy efficiency compliance
- $0.6M South Fork Tolt Relicensing
- $0.4M Water quality sampling
O&M Adjustments: Focus on 70% Recycling Goal

2018-2023 O&M Baseline Adjustments = $41.4M

$ in millions

- 70% Recycling Goal, $12.8
- Operating Assets, $14.3
- Regulations, $7.4
- Business as Usual, $6.9

Total Adjustments = $41.4M
O&M Adjustments Details: $12.8M Recycling Goal

- $7.8M Diaper & Pet Waste Composting Program
- $4.0M Construction & Demolition Sorting Pilot
- $1.0M Waste Prevention Programs
O&M Adjustments: Focus on Operating Assets

2018-2023 O&M Baseline Adjustments = $41.4M

$\text{s in millions}$

- Business as Usual, $6.9$
- 70% Recycling Goal, $12.8$
- Regulations, $7.4$
- Operating Assets, $14.3$
O&M Adjustments Details : $14.3M O&M Operating Assets

- $2.5M Green Stormwater Infrastructure
- $2.2M 4 DWW positions for system control and management
- $1.8M 2 positions for new dewatering facility
- $1.7M 2 DWW positions for grounds maintenance
- $1.3M Pond maintenance
O&M Adjustments Details : $14.3M O&M Operating Assets continued

- $1.6M New south operations complex facility costs
- $0.6M South Park and Broadview monitoring
- $2.3M City Financial System enhancements
- $0.3M South Transfer Station Phase 2 operational costs
O&M Adjustments: Focus on Business as Usual

2018-2023 O&M Baseline Adjustments = $41.4M

- Business as Usual, $6.9
- Operating Assets, $14.3
- Regulations, $7.4
- 70% Recycling Goal, $12.8

$ in millions
O&M Adjustments Details: $7M Business as Usual

- $0.7M Transfer station recycling and reuse payments
- $0.9M 1 Landfill operations position
- $1.1M Tolt DBO contract above inflation
- $2.2M IT maintenance costs
O&M Adjustments Details: $7M Business as Usual continued

• Position conversions and reallocations 2015-2020 Action Plans
  • E-Learning
  • Materials consolidation
  • Tool room management
  • Asset hierarchy
  • Greenhouse inventory
O&M Adjustments Details : $7M Business as Usual continued

• Position conversions and reallocations new items includes the following:
  • CIP support communications and project services
  • Environmental Justice Social Equity
  • Administrative and strategic support
  • Mechanical engineer
Baseline Rates Overview

Baseline = 5.2%

- O&M, 1.70%
- Capital Financing, 0.84%
- All Other, 0.26%
- Seattle Inflation, 2.40%

2018-2023 Baseline CIP = $1.5B

- Regulatory, $695
- Pipe replacement, Flooding, Culverts, etc., $506
- Infrastructure Related to Transportation, $184
- Facilities & Other, $86
- Technology, $66

$s in millions

Seattle Public Utilities
Baseline CIP: Water 2015-2020

6-Year 2015-2020 SBP Comparison
($'s in Millions)

- Distribution: Orig SBP - $332M, New SBP - $484M
- Transmission: Orig SBP - $116M, New SBP - $169M
- Watershed Stewardship: Orig SBP - $12M, New SBP - $65M
- Water Quality & Treatment: Orig SBP - $2M, New SBP - $2M
- Water Resources: Orig SBP - $22M, New SBP - $52M
- Habitat Conservation Program: Orig SBP - $26M, New SBP - $59M
- Shared Cost Projects: Orig SBP - $11M, New SBP - $82M
- Technology: Orig SBP - $13M, New SBP - $36M

Source: Seattle Public Utilities
Baseline CIP: Water 2015-2023

2015-2023 Actual/Projected SBP by BCL
($'s in Millions)

- Distribution
- Watershed Stewardship
- Water Resources
- Shared Cost Projects
- Technology
- Transmission
- Water Quality & Treatment
- Habitat Conservation Program
- Transportation

Yearly Actual/Projected SBP:
- 2015: $84
- 2016: $85
- 2017: $103
- 2018: $121
- 2019: $92
- 2020: $61
- 2021: $70
- 2022: $74
- 2023: $65
Baseline CIP: Drainage & Wastewater 2015-2020

2015-2020 SBP Comparison
($'s in Millions)

- Protection of Beneficial Uses: $42
- Sediments: $71
- Combined Sewer Overflows: $185
- Rehabilitation: $109
- Flooding, Sewer Backup & Lndsl: $94
- Shared Cost Projects: $65
- Technology: $35

2015-2020 SBP - $594M
Actuals/Projected SBP - $859M
Baseline CIP: Drainage & Wastewater 2015-2023

Actual/Projected SBP by BCL
($'s in Millions)

2015: $116
2016: $126
2017: $123
2018: $146
2019: $171
2020: $177
2021: $177
2022: $187
2023: $171

- Protection of Beneficial Uses
- Combined Sewer Overflows
- Sediments
- Flooding, Sewer Backup & Lndsl
- Rehabilitation
- Shared Cost Projects
- Technology
- Transportation
Baseline CIP: Solid Waste 2015-2020

6-Year 2015-2020 SBP Comparison
($'s in Millions)

- New Facilities: $85 (Orig SBP - $115M) vs. $62M (New SBP)
- Rehabilitation & Heavy Eqpt: $1 (Orig), $1 (New)
- Shared Cost Projects: $12 (Orig), $14 (New)
- Technology: $17 (Orig), $25 (New)

Seattle Public Utilities
Baseline CIP: Solid Waste 2015-2023

2015-2023 Actual/Projected SBP by BCL ($'s in Millions)

- **New Facilities**
- **Rehabilitation & Heavy Eqpt**
- **Shared Cost Projects**
- **Technology**

Year-wise breakdown:
- **2015**: $54
  - New Facilities: $51
  - Rehabilitation & Heavy Eqpt: $3
  - Technology: $0
- **2016**: $31
  - New Facilities: $27
  - Rehabilitation & Heavy Eqpt: $3
  - Technology: $0
- **2017**: $18
  - New Facilities: $14
  - Rehabilitation & Heavy Eqpt: $3
  - Technology: $1
- **2018**: $27
  - New Facilities: $23
  - Rehabilitation & Heavy Eqpt: $3
  - Technology: $1
- **2019**: $14
  - New Facilities: $11
  - Rehabilitation & Heavy Eqpt: $1
  - Technology: $2
- **2020**: $11
  - New Facilities: $8
  - Rehabilitation & Heavy Eqpt: $1
  - Technology: $2
- **2021**: $3
  - New Facilities: $2
  - Rehabilitation & Heavy Eqpt: $1
  - Technology: $0
- **2022**: $4
  - New Facilities: $3
  - Rehabilitation & Heavy Eqpt: $1
  - Technology: $0
- **2023**: $3
  - New Facilities: $2
  - Rehabilitation & Heavy Eqpt: $1
  - Technology: $0
Baseline CIP: 2015-2023

Actual/Projected SBP by BCL All BCLs and Funds ($'s in Millions)

2015: $253
2016: $242
2017: $244
2018: $294
2019: $277
2020: $249
2021: $250
2022: $265
2023: $240

- Protection of Beneficial Uses
- Sediments
- Combined Sewer Overflows
- Rehabilitation
- Flooding, Sewer Backup & Lndsl
- New Facilities
- Rehabilitation & Heavy Eqpt
- Distribution
- Transmission
- Watershed Stewardship
- Water Quality & Treatment
- Water Resources
- Habitat Conservation Program
- Shared Cost Projects
- Technology
- Transportation

(Bar chart showing the distribution of actual and projected SBP for each year, with various categories and their respective expenditures.)
Next:

- February 22nd
- O&M Baseline details
- Action Plan details
- Financial Assumptions, if time permits
- March
- Detail on reduction options
QUESTIONS?