

Status Report on Baseline Rate Path Technical Assumptions & Policy Issues

General approach: Working with Executive Staff and Council staff to finalize technical assumptions and policy issues. Also raising policy issues to elected officials to reach agreement if possible.

Outstanding Policy Issues

1. *Use of excess cash in the Water Fund:
 - a. Spend down \$10 million in excess cash over 6 years (2015-2020)
 - b. Spend down \$10 million in excess cash over 3 years (2015-2017); assume additional cash in 2018 that could be used to continue lowering needed rate increase
2. Double participation in low income rate assistance program from 2013 levels.
3. Update solid waste rate path to adjust for: (a) lower solid waste transfer station tonnage forecasts, based on updated information; (b) assume the General Fund will make up the difference in the Clean City Program costs and the revenues from the solid waste tonnage tax; (c) request the Council adopt an additional debt coverage financial policy, per the advice of our Financial Advisor; (d) assume a 2015 solid waste rate adjustment for the above changes.
4. *Risk placeholder:
 - a. Keep at \$1.2M per year
 - b. Lower risk placeholder
 - c. Increase risk placeholder

Technical Assumptions Under Review

1. *Update retirement assumptions based on new information (*see next page for description*).
2. Update assumed salary inflation rate to 1% per year above COLA (*see next page for description*).
3. *Increase water demand projections based on updated forecast.
4. *Update bond interest rate assumptions based on April data.
5. * Set the CIP accomplishment percentage for Water Fund between 85% (current assumption) and 80%.
6. *Do not assume any bond refunding opportunities from 2015-2020
7. *Retain current demand estimates for drainage
8. Make various baseline QA/QC changes (vendor software costs; CCSS costs; other misc changes TBD)

**Issue initially raised by Council staff*

Description of updated retirement assumptions and salary costs

Retirement. Based on recent analysis performed by City Council staff, the current forecast assumes a total retirement contribution of 28%. SPU's baseline assumes this level is achieved by 2018 and there is a 1% increase per year contribution for 2015-2018.

Salaries. SPU's estimated inflation for salaries is 1.4% above the cost of living adjustment (COLA) in 2015 and 1.0% above COLA from 2016-2020 per year for the following reasons:

1. As business needs have changed, so too have the types of skills needed to perform SPU work. In general we need a higher level of skills today than in the past, which translates to higher wages. And we expect this trend to continue into the future. For example, today we no longer have any Accounting Technician I's in the Finance Division. We have a greater need for Accounting Technician III's and professional accountants. Technology and automation have facilitated this change in staffing composition.
2. In addition to needing fewer entry-level staff, we also need higher-level classifications that currently do not exist. For example, in 2013 SPU's external financial auditor (Moss Adams) recommended to the City Council that SPU create a new, higher classification for the most senior-level accountant. This would better align title and pay with the positions' responsibilities. Without this we will continue to struggle to be competitive with the private sector in attracting and retaining professional accountants.
3. Most SPU positions are "stepped classifications" with 4-5 steps. Historically, most new employees automatically started at "Step 1". In recent years, more and more new employees are requiring starting above Step 1 as a condition of employment. For broadbanded employees, many are also requiring starting at the higher end of the salary bands.

The factors above drive salary costs about 1% above COLA on an annual basis. In addition, numerous vacant positions have been filled with interim "out-of-class" opportunities and temporary employees because critical work needs to continue. This has offset some of the assumed savings from SPU's vacancy rate that are included in the budget. To address this gap, SPU estimates needing a 0.4% one-time adjustment in 2015.