

Seattle Public Utilities Solid Waste and Drainage & Wastewater Rate Proposals

**Presentation to the LUC Committee
July 3, 2012**

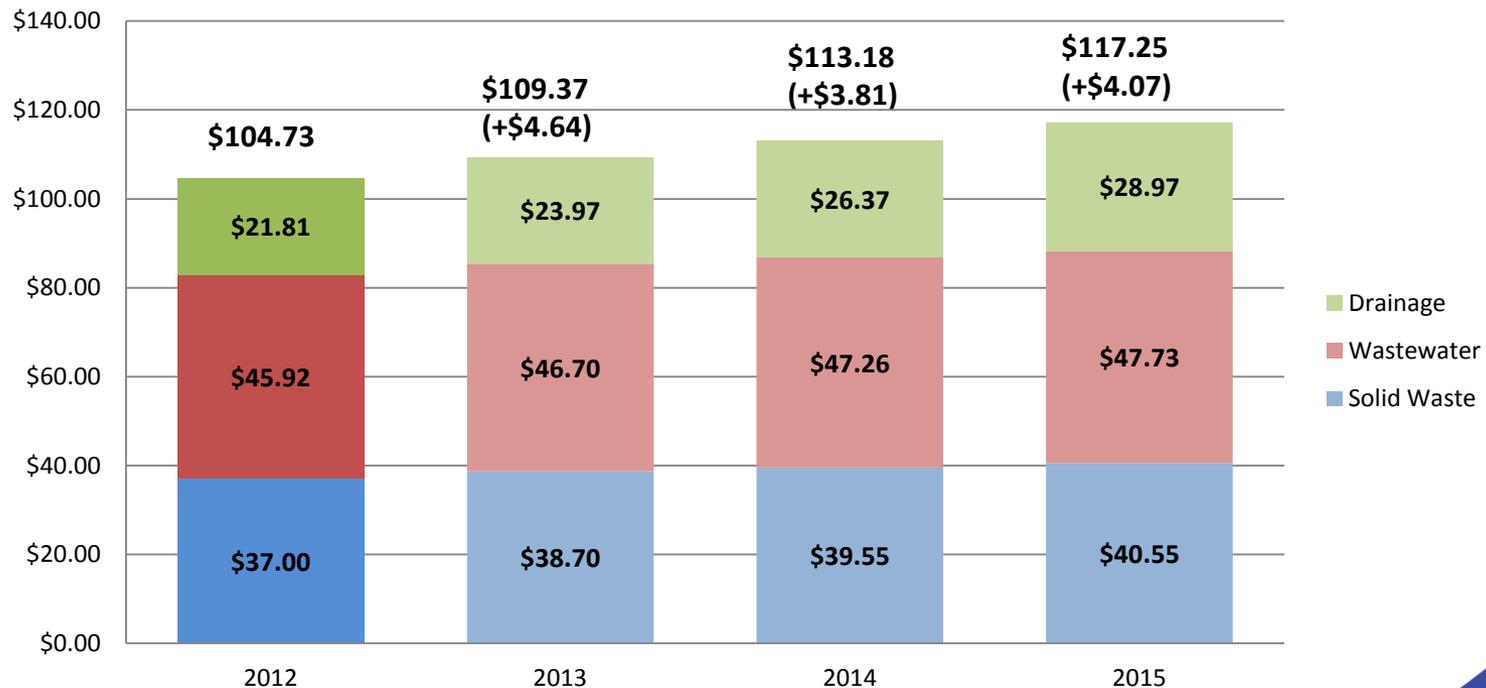
Highlights of Rate Proposals

1. Implement longer rate cycles
 - Improves predictability for customers
 - Limits rate studies to no more than one/year
2. Expand pass-through costs
 - New pass through for solid waste contract adjustments
 - Continues pass through of King County treatment costs
3. Stagger effective dates
 - Solid waste changes effective April 1
 - DWW changes effective January 1
4. Minimize rate increases while limiting service reductions

Summary of Proposed Rate Increases: Residential Bills BEFORE Pass-Throughs

- DWW & Solid Waste rate increases average 3.8% from 2012-2015
- Average monthly household utility bill increases by \$4.64 in 2013

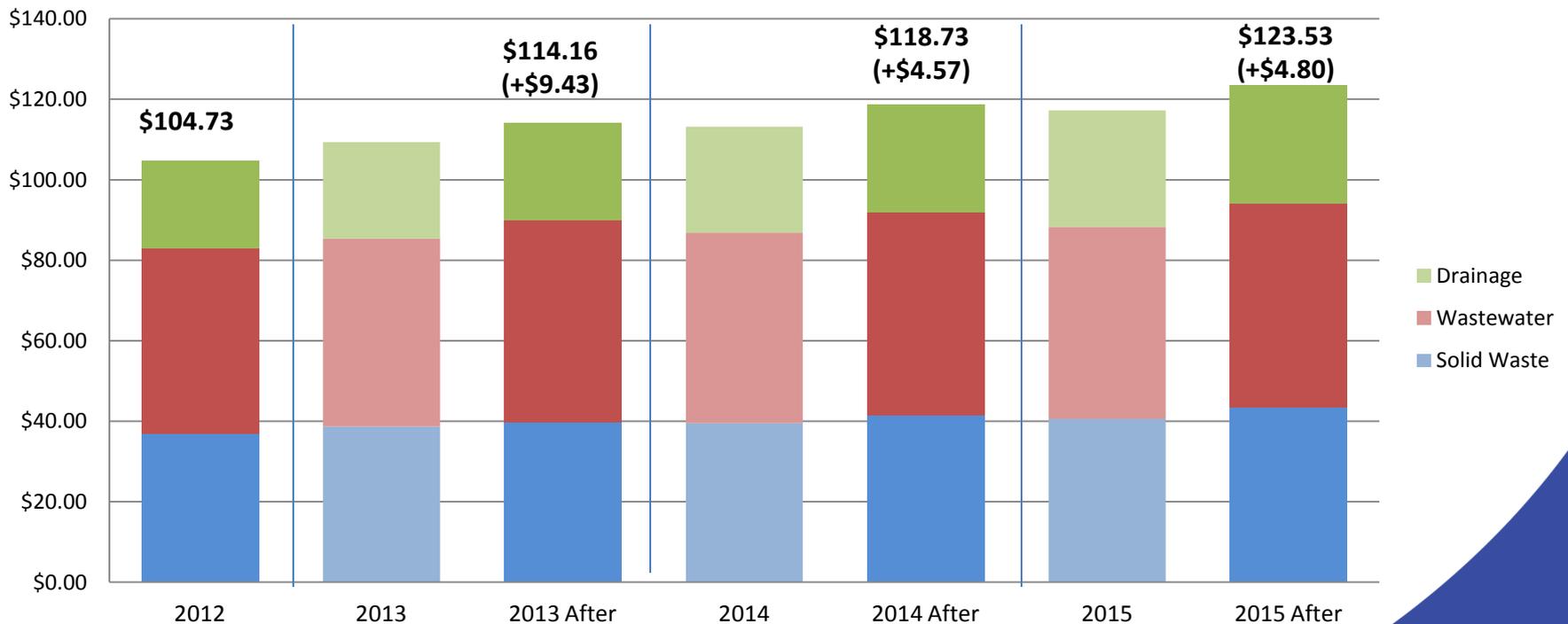
Typical Residential Monthly Bills, Solid Waste and DWW



Summary of Proposed Rate Increases: Residential Bills AFTER Pass-Throughs

- DWW & Solid Waste rate increases average 5.7% from 2012-2015
- Average monthly household utility bill increases by \$9.43 in 2013

Typical Residential Monthly Bills, Solid Waste and DWW



Assumes 3.5%/yr inflation on solid waste contracts;
10.2% increase in 2013 to King County wastewater treatment charge

Solid Waste Fund (SWF)

2013-2016 Rate Proposal

Solid Waste Rate Highlights

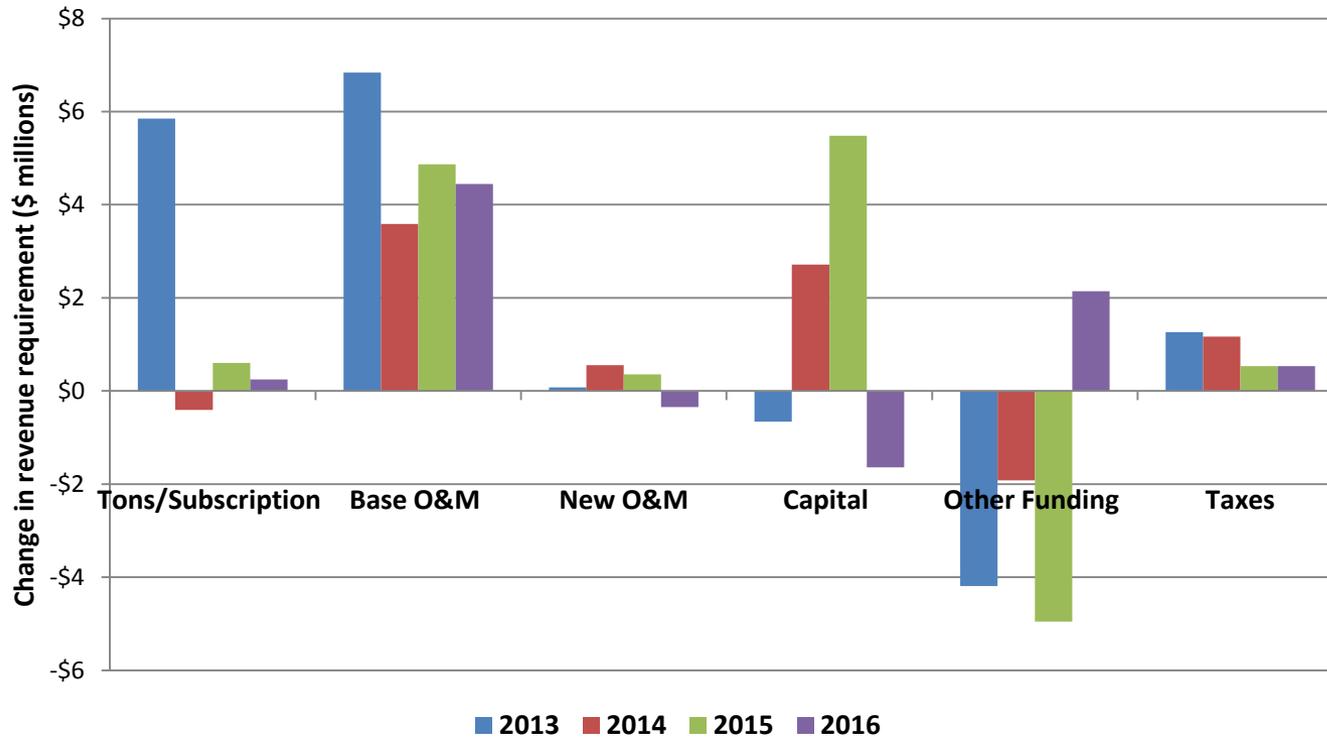
1. **Improved predictability** : 4-year rate cycle
2. **Risk management:** Pass-through mechanism for inflationary increases to contract expense mitigates risk to rate payer and SPU of over or under estimation of inflationary changes.
3. **New effective date:** April 1 annual increase for base and pass-through rates beginning April 1, 2013
4. **Major drivers:** Decline in tonnage and subscription levels (2013), and replacement of aging solid waste facilities

Improved Predictability and Risk Management

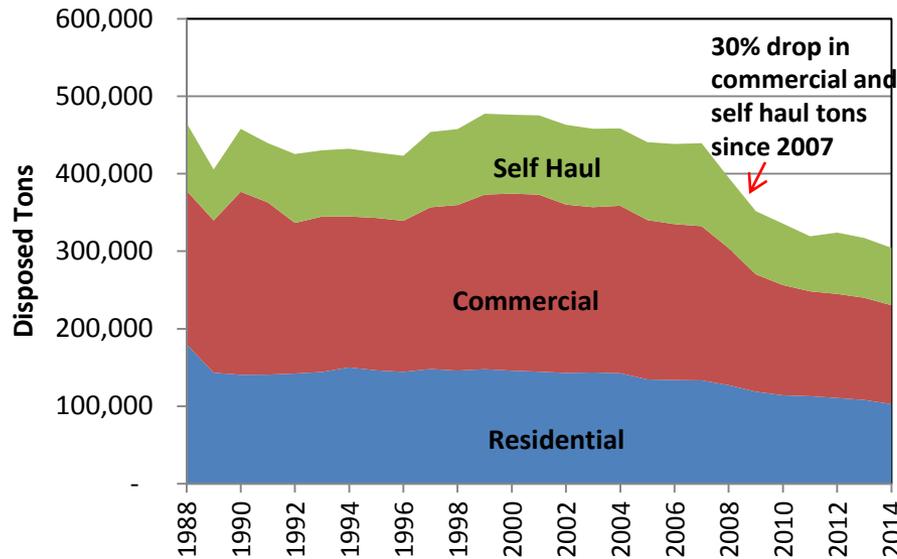
- 1. What:** Annual pass through mechanism to solid waste rates for required adjustments to contractor payments, the SWF's largest expense component
- 2. Benefits:**
 - Eliminates risk to rate payer of over-estimation of cost impacts and to SPU of under-estimation over a longer rate cycle
 - Provides greater certainty that financial targets will not be missed, especially net income
 - Moderate rate impact where moderate inflation, i.e. 2.5% inflation adds 1.4 to 2.1% to rate
- 3. Basis:** Changes in Bureau of Labor Statistics and US Energy Information Administration indices for CPI, Labor and Fuel. Indices vary by contract.
- 4. Timing:** Effective April 1 of each year, in sync with date new contract rates take effect.
- 5. Legislative authority:** Increases adopted by ordinance, like wastewater treatment pass-through.

Solid Waste Rate Drivers

- Declining tonnage/subscription levels, O&M costs, and capital financing increases rates
- Higher non-rate revenues and use of cash reserves generally lowers rates



Reasons for Solid Waste Rate Increase: Changes to tonnage and subscriptions



Changes to tonnage

- Declining tonnage lowers commercial/self-haul revenues
- 2013 impact more pronounced due to under-estimation of tonnage decline in 2012 rate

Changes in subscriptions

- Shifts to smaller can size lower residential revenues
- 2013 impact more pronounced due to under-estimation of subscription decline in 2012 rate
- Can size expected to stabilize in 2014-2016

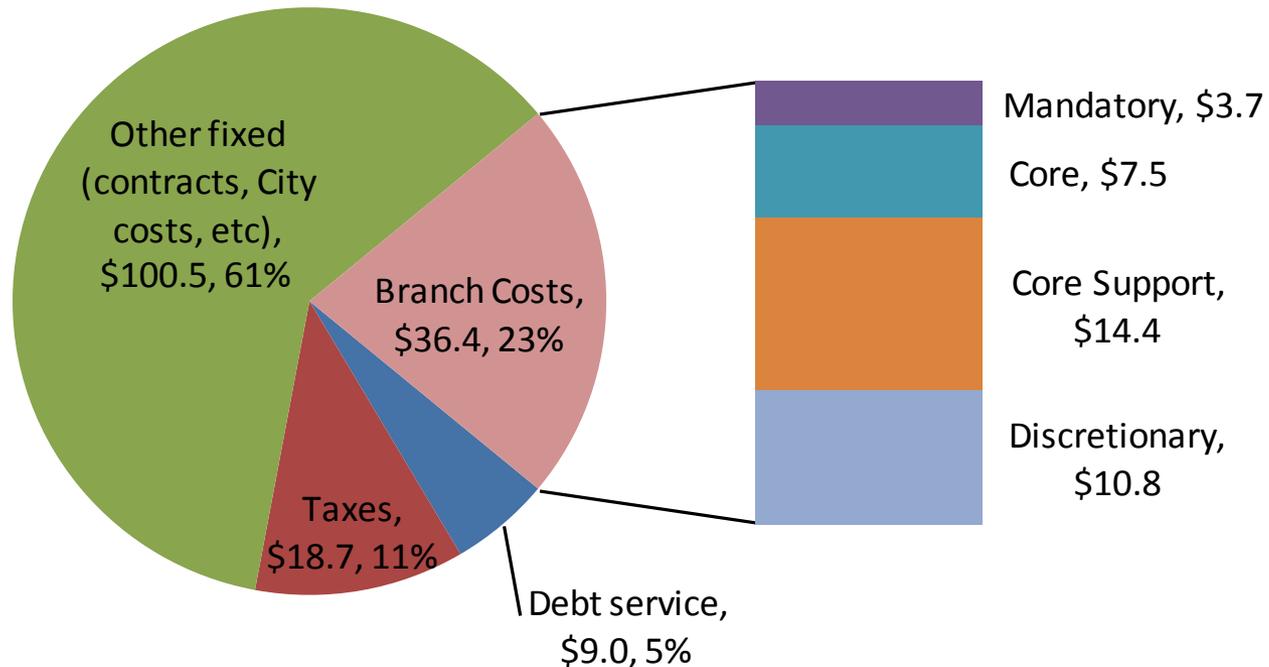
Demand Impact on Revenues

(\$ in millions)

	2013	2014	2015	2016
Residential Can	(\$0.4)	\$0.5	\$0.2	\$0.3
Residential Food and YW	(\$0.3)	\$0.2	\$0.1	\$0.1
Residential Dumpster	(\$0.7)	\$0.3	\$0.1	\$0.2
Commercial	(\$2.4)	(\$0.1)	(\$0.4)	(\$0.3)
Self-Haul and Disposal	(\$2.0)	(\$0.5)	(\$0.6)	(\$0.5)
Total Revenue	(\$5.8)	\$0.4	(\$0.6)	(\$0.2)

Reasons for Solid Waste Rate Increase: Solid Waste O&M – 77% “Fixed”

2012 Solid Waste O&M Budget (in millions)
Total = \$164.6 Million



- Mandatory = Historic landfill management, HHW facilities
- Core = transfer station operations
- Core Support = contract admin, contact center, inspectors, billing, payroll, accounting, etc.
- Discretionary = Waste reduction, Clean City Program, program development, education & outreach, various corporate functions

Reasons for Solid Waste Rate Increase: 2013 Proposed O&M Changes (in millions)

Net \$4M increase in 2013 O&M result of four items:

- Increase contractor costs \$2.5M to true up 2012 rate study under-estimates
- Increase other costs \$2.5M for 2012 rate study/adopted budget true up
- \$1.3M non-contract inflationary increases from 2012-2013
- Net reduction of \$2.3M from BIPs (see below)

<u>Cost Type</u>	<u>2012</u>	<u>Cuts</u>	<u>Adds</u>	<u>2013</u>	<u>Budget Issue Papers</u>
Mandatory	\$3.7	(\$0.1)	\$0.1	\$3.7	Historic landfill temporary savings Add for above ground rats
Core	\$7.5	(\$0.3)		\$7.2	Private garbage transfer cut
Core Support	\$14.4	(\$1.6)		\$12.8	Technical & efficiency cuts
Discretionary	\$10.8	(\$0.4)		\$10.4	WR/R outreach cut
Total	\$36.4	(\$2.4)	\$0.1	\$34.1	

Reasons for Solid Waste Rate Increase: Capital Financing

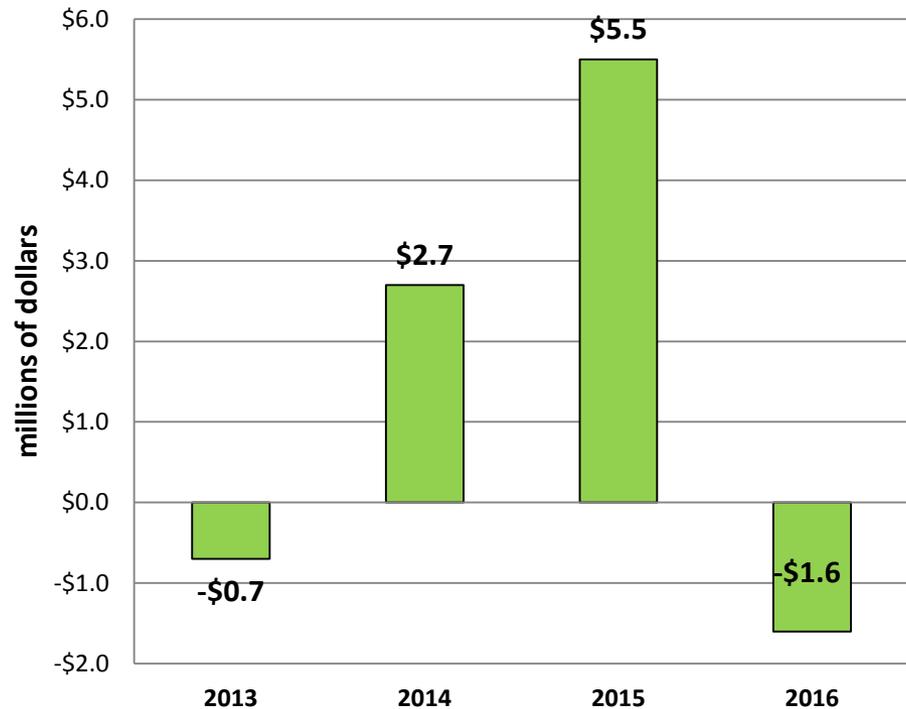
Debt service

- Smaller than projected 2011 bond issues results in lower 2013 debt service payment
- 2013 and 2015 revenue bond issues to fund North Transfer station construction increase 2014-2106 debt service expense

Cash contribution to CIP

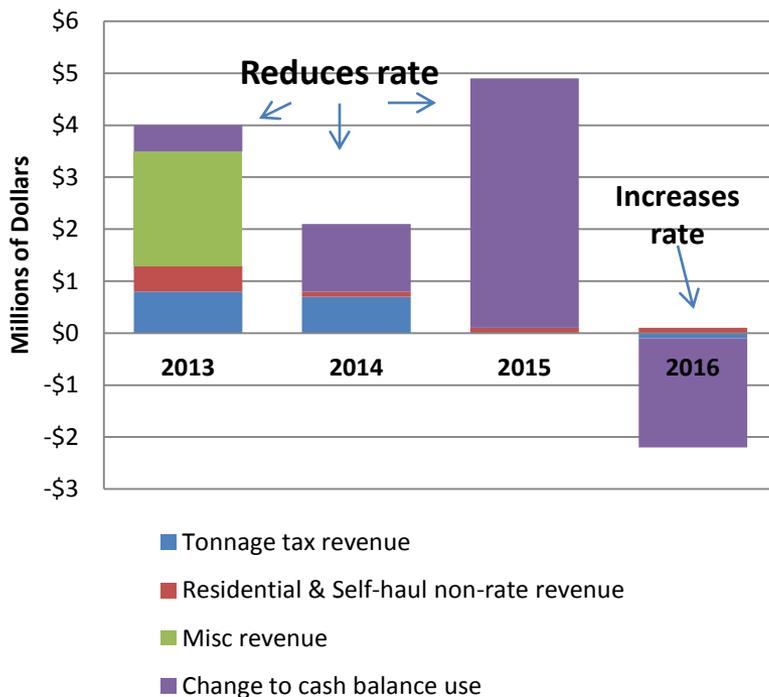
- Cash financing at targeted levels (\$3.1 to \$3.6 million) in all years except 2015
- \$7.6 million 2015 cash contribution reduces bond issue size and drives decline in 2016 overall financing as contribution returns to targeted level

Annual Change in Capital Funding (Debt + cash)



Reasons for Solid Waste Rate Increase: Other Funding Sources

**Changes to Non-Rate Revenue
(relative to prior year)**



- **Tonnage tax revenues:** 2013-14 increase due to adopted rate increases.
- **Res/self-haul non rates:** Increased revenue from extra bags placed at curb due to higher extras rate (no change in usage).
- **Misc revenues:** Significantly higher projected recycling processing revenues in 2013 revenues than those assumed in 2012 rate.
- **Use of cash:** Increased use of cash reserves offsets rate increase through 2015. Reduced use of cash in 2016 increases rates.

Solid Waste Financial Performance

(Millions of dollars)

Parameter	Policy	2011 Actual	2012 Projected	2013 Proposed	2014 Proposed	2015 Proposed	2016 Proposed
Net Income	Generally Positive	\$5.9	(\$2.3)	(\$2.0)	\$1.0	\$0.2	\$0.2
Debt Service Coverage	1.70 times	5.6	3.1	3.2	2.9	2.6	2.2
Year-End Cash Balance	One month contract cost	\$18.5	\$18.9	\$20.9	\$21.7	\$17.7	\$15.8
	<i>Target</i>	<i>\$4.9</i>	<i>\$5.1</i>	<i>\$5.2</i>	<i>\$5.4</i>	<i>\$5.5</i>	<i>\$5.7</i>
Cash Financing of CIP	\$2.5m (\$2003)	\$4.3	\$3.0	\$3.1	\$3.6	\$7.6	\$3.4
	<i>Target</i>	<i>\$3.8</i>	<i>\$3.0</i>	<i>\$3.1</i>	<i>\$3.1</i>	<i>\$3.6</i>	<i>\$3.4</i>
Variable Rate Debt	<= 15% of total debt	0%	0%	0%	0%	0%	0%

- Meet all financial targets except net income in 2013
- South Transfer Station begins to depreciate in 2013, adding \$2.0 million in non-cash expense. Revenues increased over two-year period (2013-2014) to meet net income target
- Unlikely to affect bond ratings as is a one-time non-cash anomaly and high SWF liquidity appealing to rating agencies.

Solid Waste Typical Monthly Bills/Self Haul Rate

	<u>2012</u>	<u>Proposed 2013</u>	<u>Proposed 2014</u>	<u>Proposed 2015</u>	<u>Proposed 2016</u>
<u>Before Contract Pass-Through</u>					
Single Family Residence	\$37.00	\$38.70	\$39.55	\$40.55	\$41.20
Residential Dumpster	\$288.68	\$297.43	\$304.36	\$311.92	\$317.18
Small Commercial	\$376.73	\$393.91	\$403.07	\$412.93	\$419.61
Transfer Station (per ton)	\$145.00	\$145.00	\$145.00	\$145.00	\$145.00
<u>After Contract Pass-Through</u>					
Single Family Residence	\$37.00	\$39.75	\$41.45	\$43.35	\$44.90
Residential Dumpster	\$288.68	\$306.07	\$318.90	\$333.44	\$345.30
Small Commercial	\$376.73	\$404.69	\$421.88	\$441.55	\$457.38
Transfer Station (per ton)*	\$145.00	\$145.00	\$145.00	\$145.00	\$145.00

*Depending on structure of pass-through, transfer station per-ton charges may increase by a small increment

Drainage & Wastewater Fund (DWF)

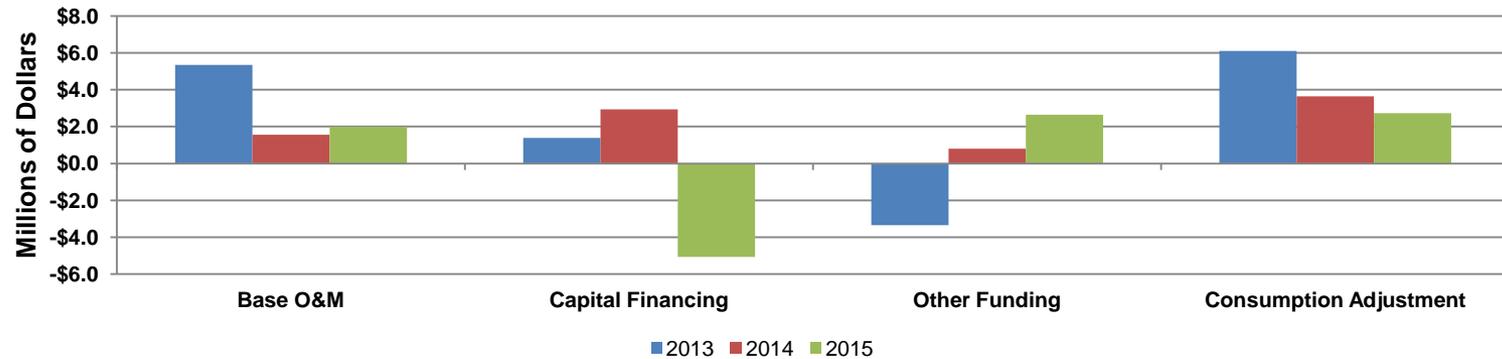
2013-2015 Rate Proposal

Drainage & Wastewater Rate Highlights

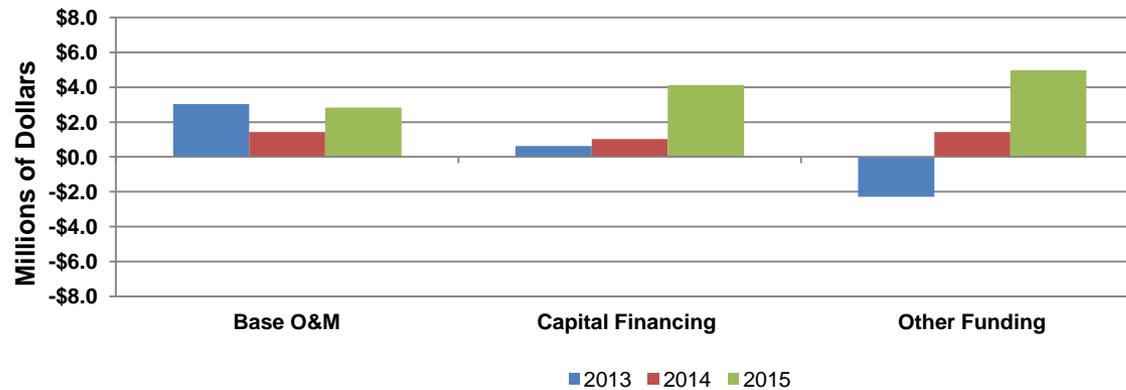
1. Major rate drivers –CSO programs, declining demand (for wastewater)
2. Combined system cost allocation shift from wastewater to drainage
3. Additional drainage credits
4. Three-year rates for both drainage and wastewater (2013-2015)
5. Separate legislation for passthrough of the approved 2013 King County treatment rate increase from \$36.10 to \$39.79 per Residential Equivalent Unit (REU)

Drainage & Wastewater Rate Drivers

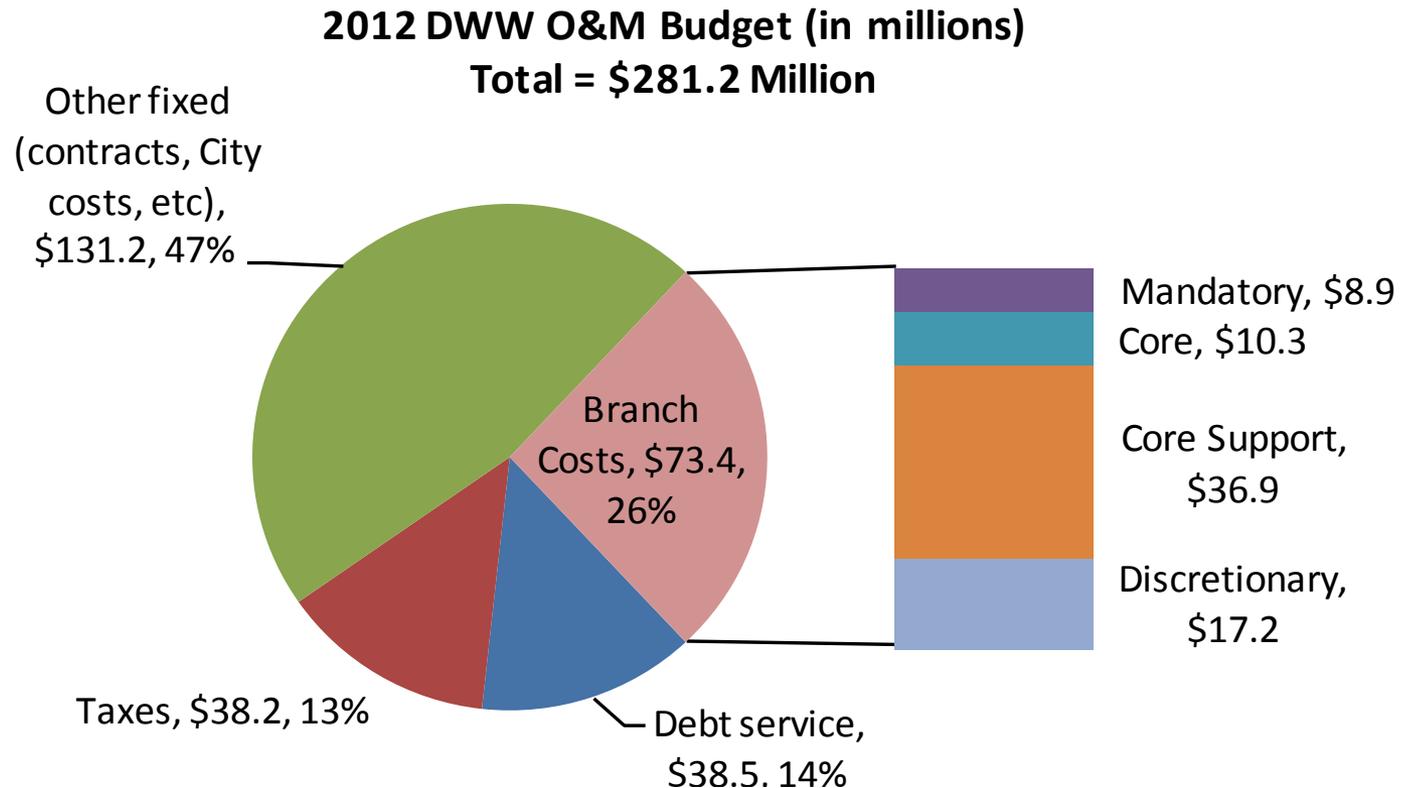
Wastewater



Drainage



Reasons for DWW Rate Increase: DWW Waste O&M – 74% “Fixed”



- Mandatory = CSO planning/implementation, stormwater permit compliance, spill response
- Core = System operations & maintenance
- Core Support = Field support (dispatch; planning & scheduling), billing, payroll, accounting, etc.
- Discretionary = Work not required by regulation (water quality analysis & monitoring, e.g.), various corporate functions

Reasons for DWW Rate Increase: 2013 Proposed O&M Changes (in millions)

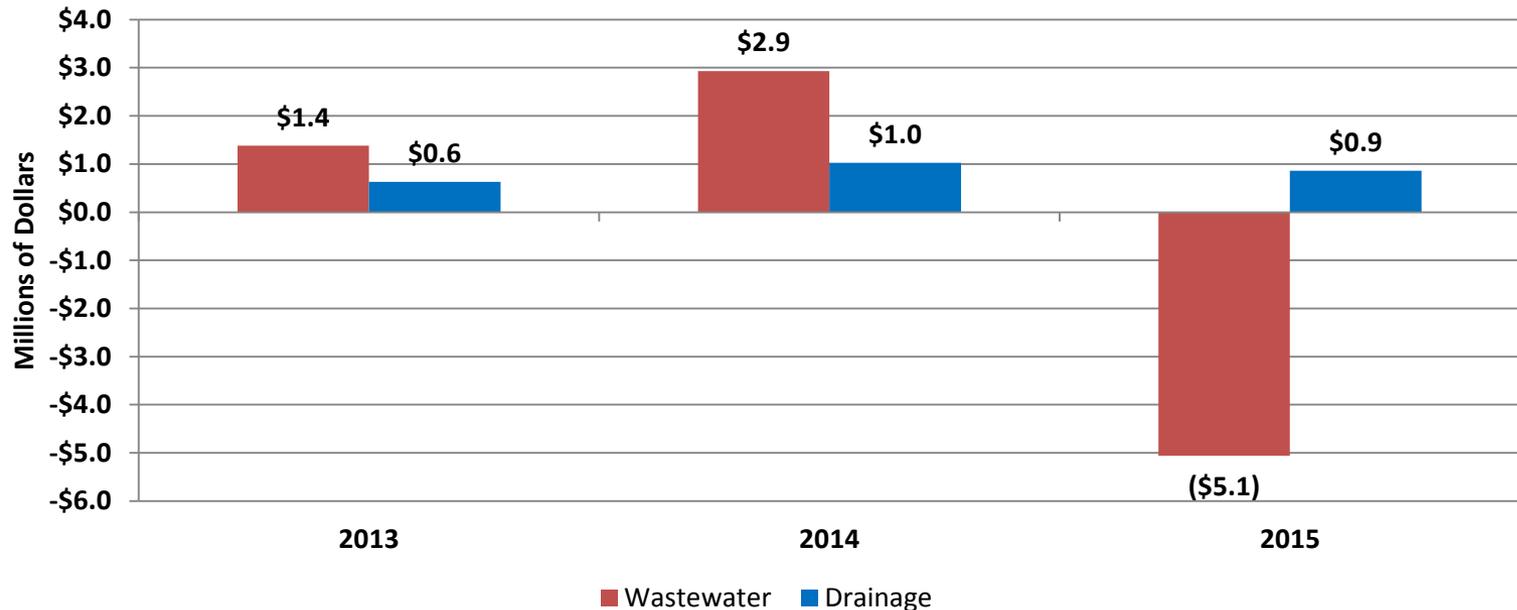
Net \$8.7M increase in 2013 O&M result of four items:

- \$2M increase for taxes and change to G&A credit
- Increase other costs \$3.7M for 2012 rate study/adopted budget true up
- \$3M inflationary increases
- Cuts and adds from BIPs with net \$0 impact (see below)

<u>Cost Type</u>	<u>2012</u>	<u>Cuts</u>	<u>Adds</u>	<u>2013</u>	<u>Budget Issue Papers</u>
Mandatory	\$8.9	(\$0.5)	\$1.7	\$10.1	Cuts to Duwamish source control, stormwater monitoring, negotiations Adds to side sewer mapping, stormwater code/manual update, CMOM, CSO planning
Core	\$10.3	(\$0.1)		\$10.2	Cut to below-ground sewer rat baiting
Core Support	\$36.9	(\$0.6)		\$36.3	Net efficiency/technical cuts Cut urban watersheds strategic planning
Discretionary	\$17.2	(\$0.5)		\$16.7	Cut water quality monitoring & spill kits Cut SOPA monitoring Cut education & outreach
Total	\$73.4	(\$1.7)	\$1.7	\$73.4	

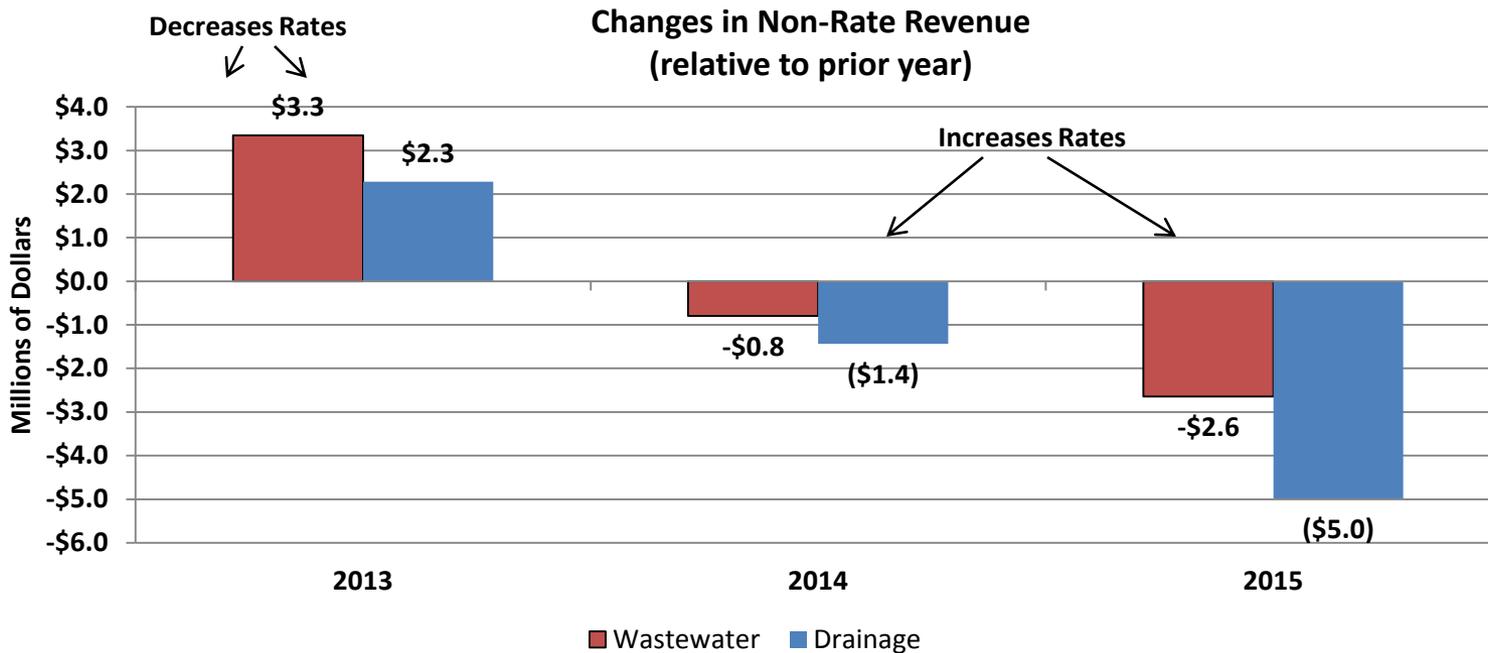
Reasons for DWW Rate Increase: Capital Financing

- Wastewater: Most of the change resulting from changes to cash contributions to CIP and higher debt service.
- Drainage: Higher debt service resulting from more drainage CIP projects and combined system shift.

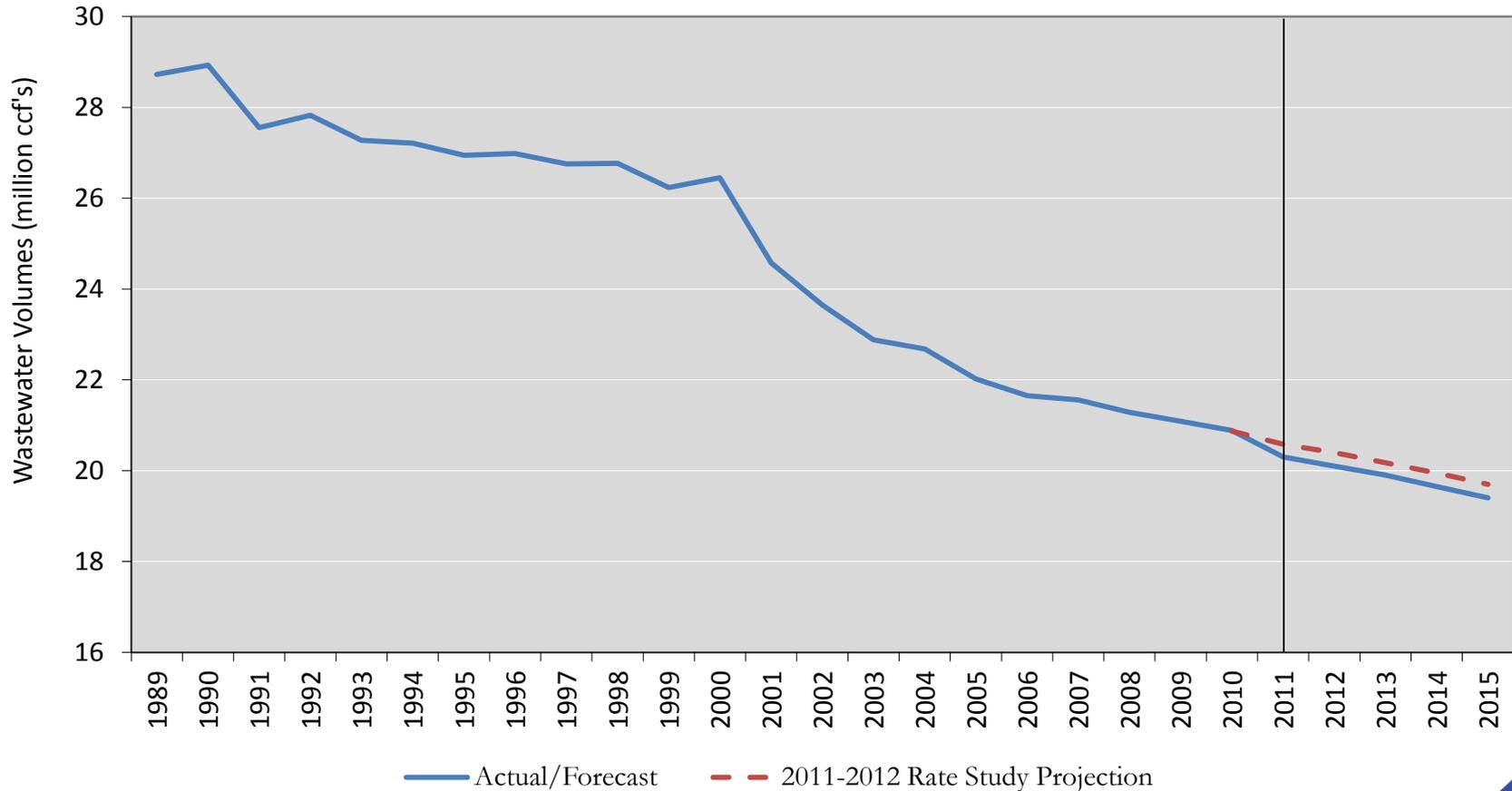


Reasons for DWW Rate Increase: Other Funding Sources

- Most of the change resulting from use of cash balances in 2013 and contributions to cash balances in 2015
- Reduced grant revenue received compared to 2012 (\$1.8M in 2013)
- Lower interest earnings as a result of lower cash balances



Reasons for DWW Rate Increase: Declining Wastewater Demand



*In 2001, 3% of the decline was due to the October 2001 transfer of approximately 8,100 Shoreline customers from Seattle to the Ronald Wastewater District.

Financial Performance

Parameter	Policy	2011 Actual	2012 Estimated	2013 Proposed	2014 Proposed	2015 Proposed
Net Income	Generally Positive	\$17.2	\$10.4	\$11.4	\$10.0	\$9.9
Debt Service Coverage	1.80 times	2.80	2.78	3.03	2.72	2.46
Year-End Cash Balance	One month treatment cost	\$29.5	\$24.3	\$16.2	\$10.3	\$10.2
	<i>Target</i>	\$10.4	\$10.3	\$10.3	\$10.2	\$10.2
Cash Financing of CIP	25% minimum (4 yr avg)	27%	28%	28%	27%	25%
Debt to Asset Ratio	<=70%	58%	62%	60%	63%	66%
Variable Rate Debt	<= 15% of total debt	0%	0%	0%	0%	0%

All financial targets met or exceeded for rate period

Combined System Cost Allocation Shift

- A portion of costs historically allocated entirely to wastewater is now funded by drainage for rate equity
- Types of costs
 - CSO Control Projects
 - Combined Pipe in Combined Areas
 - King County Treatment
- Cumulative revenue requirement shift to drainage

2008	1/6	\$2.4M
2009	2/6	\$5.1M
2011	3/6	\$8.4M
2012	4/6	\$11.6M
2013	5/6	\$15.7M
2014	6/6	\$19.5M
- Shift completed by the end of this rate period

Drainage Rate Design

Status Quo:

- **Consistent use of flow factors.** All customer classes assume same cost per unit of stormwater flow
- **Some averaging of parcel size.** For ease of administration, small residential customers charged based on class average acreage; other customers charged based on actual parcel acreage
- **Discounted rates.** Rates for properties with significant natural surface cover are 20-41% lower than standard rates
- **Stormwater facility credits.** Discounts of up to 50% available for properties with facilities that mitigate run-off volume/water quality

Proposed Additions to Credit Options:

- Undeveloped Islands
- Qualifying undeveloped wetlands/riparian corridors

Typical Monthly Wastewater Bills

(Rate per hundred cubic feet)	<u>2012</u>	Proposed <u>2013</u>	Proposed <u>2014</u>	Proposed <u>2015</u>
<u>Before KC Passthrough</u>				
Residential	\$45.92	\$46.70	\$47.26	\$47.73
Downtown Hotel	\$11,886	\$12,088	\$12,233	\$12,356
Large Restaurant	\$2,530	\$2,573	\$2,604	\$2,630
<u>After KC Passthrough</u>				
Residential	\$45.92	\$50.18	\$50.61	\$50.87
Downtown Hotel	\$11,886	\$12,980	\$13,084	\$13,162
Large Restaurant	\$2,530	\$2,763	\$2,785	\$2,785

Typical Monthly Drainage Fee

Rate per parcel

<u>Small Residential</u>	<u>2012</u>	<u>Proposed 2013</u>	<u>Proposed 2014</u>	<u>Proposed 2015</u>
Parcel Size				
0 - 2999 sq. ft.	\$12.44	\$13.77	\$15.15	\$16.65
3000 - 4999 sq. ft.	\$16.07	\$17.85	\$19.65	\$21.59
5000 - 6999 sq. ft.	\$21.81	\$24.23	\$26.67	\$29.31
7000 - 9999 sq. ft.	\$27.69	\$30.66	\$33.74	\$37.08
 <u>Other Typical Monthly Bills</u>				
Typical Large Residential	\$42.87	\$46.98	\$51.72	\$56.84
Typical Downtown Hotel	\$114.46	\$128.65	\$141.65	\$155.67
Typical Large Restaurant	\$89.39	\$100.47	\$110.62	\$121.57

Questions?