

Description of Seattle Public Utilities' Strategic Business Plan Baseline Rate Path

What are the rates we would need to charge customers if we were to continue business as usual, plus meet firm regulatory requirements? By our estimates, baseline rates would need to rise, on average, 4.6% each year from 2015 through 2020. This is significantly higher than the general inflation rate of 2.4% in Seattle for that time period.

Why does the baseline increase more than general inflation? There are four basic reasons. Two of these reasons are cost related, and cause the **rate spending path** (the costs covered by rates) to increase on average 4.1% per year. The remaining two reasons are related to low income rate assistance and demand, and cause the **rate path** to increase an additional 0.5% per year.

New Capital Financing. SPU is replacing worn out infrastructure, and is building new infrastructure to meet regulatory requirements. These costs are rising more rapidly than general inflation over the six year period. This is because we are issuing new debt to pay for these projects, but must also continue to pay on existing debt for historical investments. In the 2015-2020 period, SPU will focus most of its capital expenditures on building facilities to contain sewer overflows, and completing construction of the new North Transfer Station.

Increasing Cost of Doing Business. Basic operations and maintenance costs are rising more rapidly than general inflation over the six year period. Much of the increase above inflation is caused by rising employee costs, including additional resources necessary to meet new regulatory requirements and to operate and maintain new infrastructure, health care and pension costs, and a need for higher level skills overall which translates into higher wages. These cost pressures are also present in other City departments, from which SPU purchases many services. The rising cost of utility taxes is also in this category.

Low Income Rate Assistance and Demand. Two factors are shifting SPU costs and increasing typical rates above the overall cost increases. These two factors are described below:

- **Doubling participation in the Low Income Rate Assistance Program.** SPU's services meet basic human needs – providing clean drinking water, collecting garbage, disposing of sewage safely, and minimizing flooding. A healthy City must have these services available to everyone. To support this, Seattle offers rate assistance to SPU customers with incomes below 70% of state median income. But, only 15% (11,000) of the eligible households participate in the program. The Mayor has committed to doubling this participation by 2018. This will not increase overall costs, but will shift costs from low income customers to all other customers, resulting in costs to typical customers rising on average from 4.1% per year to 4.3% per year.
- **Declining demand.** Despite population growth and a rebounding economy, demand for SPU's services is expected to decline slightly over current levels. But, costs do not fall by as much as declining demand – the pipes and pumps still need to be maintained, the garbage trucks still need to pick up the garbage, and regulatory requirements must be met. And so, while costs to typical customers are rising on average by 4.3% per year, rates must rise by 4.6% per year to continue to cover these costs.

