Financial Overview and Rate Setting

Seattle Public Utilities

What is the Purpose of this Presentation?

There are two major components of the SBP:

- **Setting the levels of service we will provide our customers**
- **Setting the rates we will charge our customers for these services**

This presentation and discussion is an opportunity to increase understanding of SPU's rate setting process

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What We'll Cover Today

1. **Set the context: some rate history and where we are now**

2. **Provide a "financial fly over" including: the complexity of SPU's finances and the need to meet financial policies**

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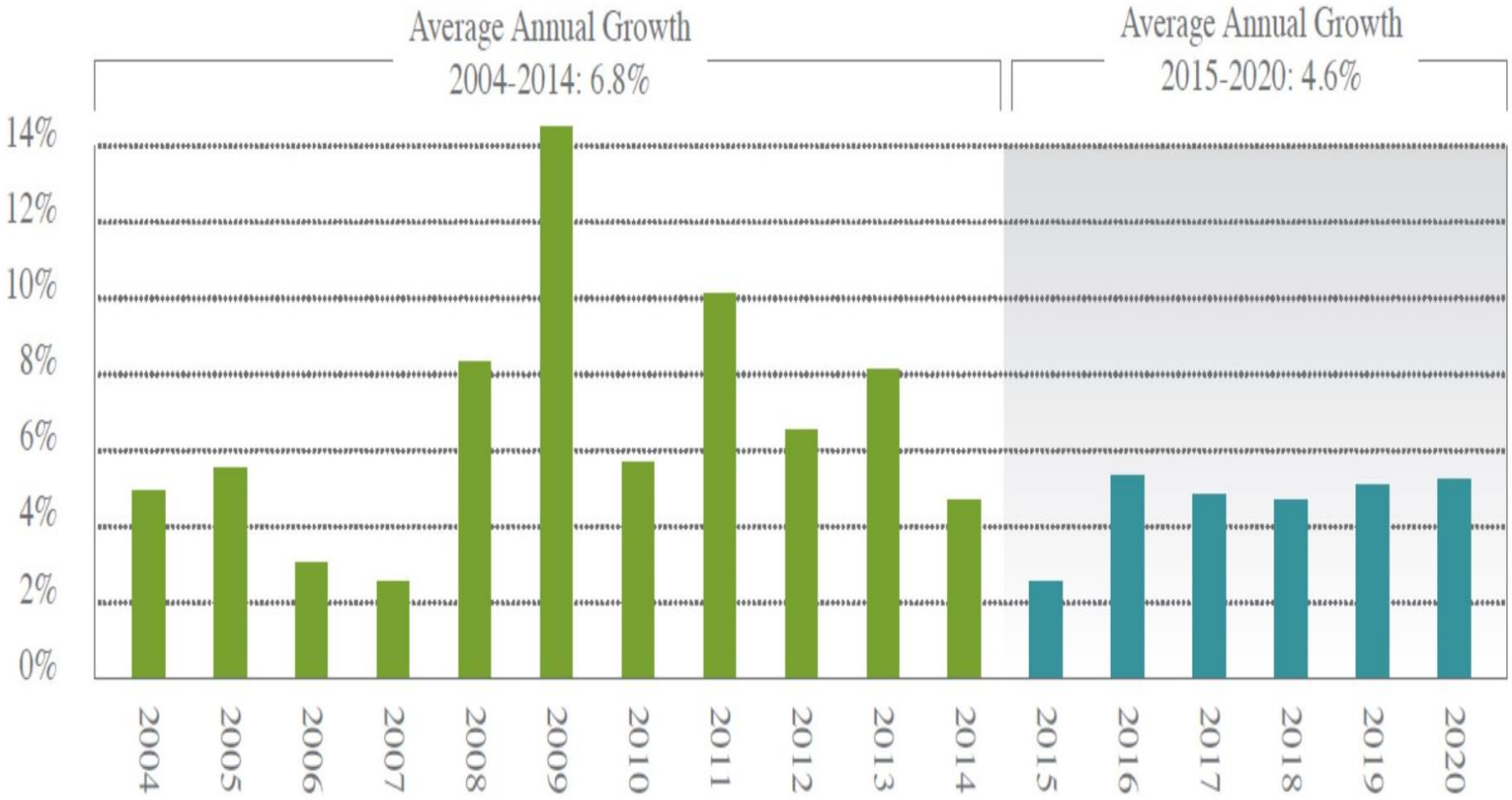
SPU Rates: Average Annual Growth 2004-2020



The Plan is projected to create more predictable, lower rate increases than during the previous 10-year period.

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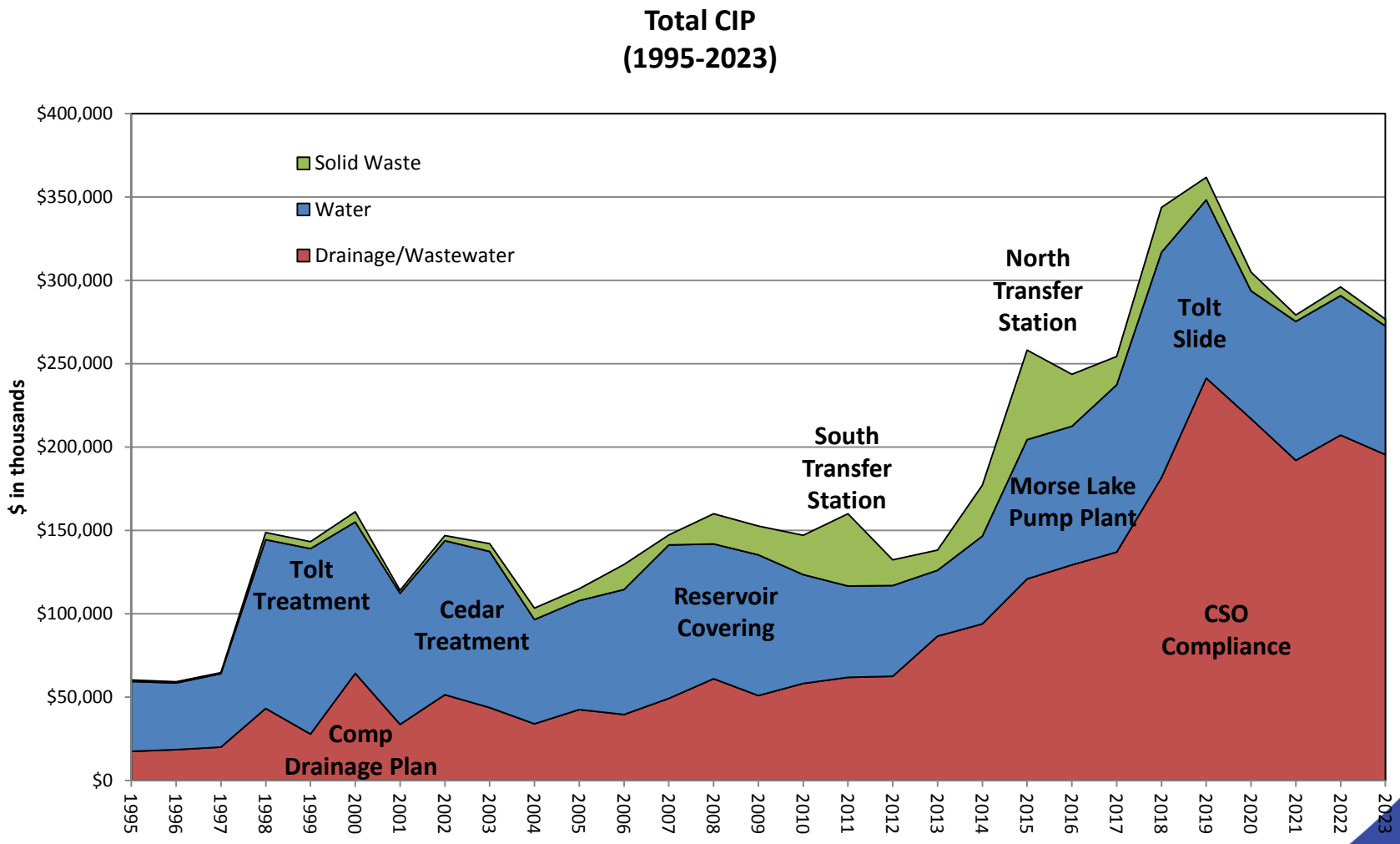
Several Recent Improvements Impacting Rates



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SPU Combined Rate Path – Adopted SBP

SPU 2015-2020 Endorsed Rate Path

SBP	2015	2016	2017	2018	2019	2020	2015-20
Water	0.0%	5.2%	5.2%	4.1%	4.4%	2.6%	3.6%
Wastewater	0.8%	3.9%	1.8%	2.8%	7.2%	8.1%	4.1%
Drainage	9.8%	10.1%	8.1%	7.8%	8.1%	8.0%	8.6%
Solid Waste	4.2%	3.5%	6.0%	4.0%	2.9%	2.4%	3.8%
Combined	2.7%	5.0%	4.7%	4.2%	5.5%	5.2%	4.6%

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SPU Adopted Rates Since the 2015-2020 SBP

2015	2016	2017	2018	2019	2020
Water					
	Drainage & Wastewater				
Solid Waste		Solid Waste			
			SBP Update 2018-2023 ->		

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Rate Path – 2015-2020 Current

Overall 2015-2020 average rate path still at 4.6%

SBP	2015	2016	2017	2018	2019	2020	2015-20
Water	0.0%	5.2%	5.2%	4.1%	4.4%	2.6%	3.6%
Wastewater	0.8%	3.9%	1.8%	2.8%	7.2%	8.1%	4.1%
Drainage	9.8%	10.1%	8.1%	7.8%	8.1%	8.0%	8.6%
Solid Waste	4.2%	3.5%	6.0%	4.0%	2.9%	2.4%	3.8%
Combined	2.7%	5.0%	4.7%	4.2%	5.5%	5.2%	**4.6%**

CURRENT	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2015-20**
Water	**0.0%**	**1.7%**	**2.7%**	**4.5%**	**4.6%**	**5.2%**	**3.1%**
Wastewater	**0.8%**	**3.6%**	**4.6%**	**2.0%**	**7.7%**	**4.5%**	**4.1%**
Drainage	**9.8%**	**9.9%**	**10.0%**	**7.6%**	**11.2%**	**7.7%**	**9.4%**
Solid Waste	**5.1%**	**3.8%**	**6.0%**	**3.1%**	**3.3%**	**2.2%**	**3.9%**
Combined	**2.9%**	**4.1%**	**5.3%**	**3.8%**	**6.2%**	**5.2%**	**4.6%**

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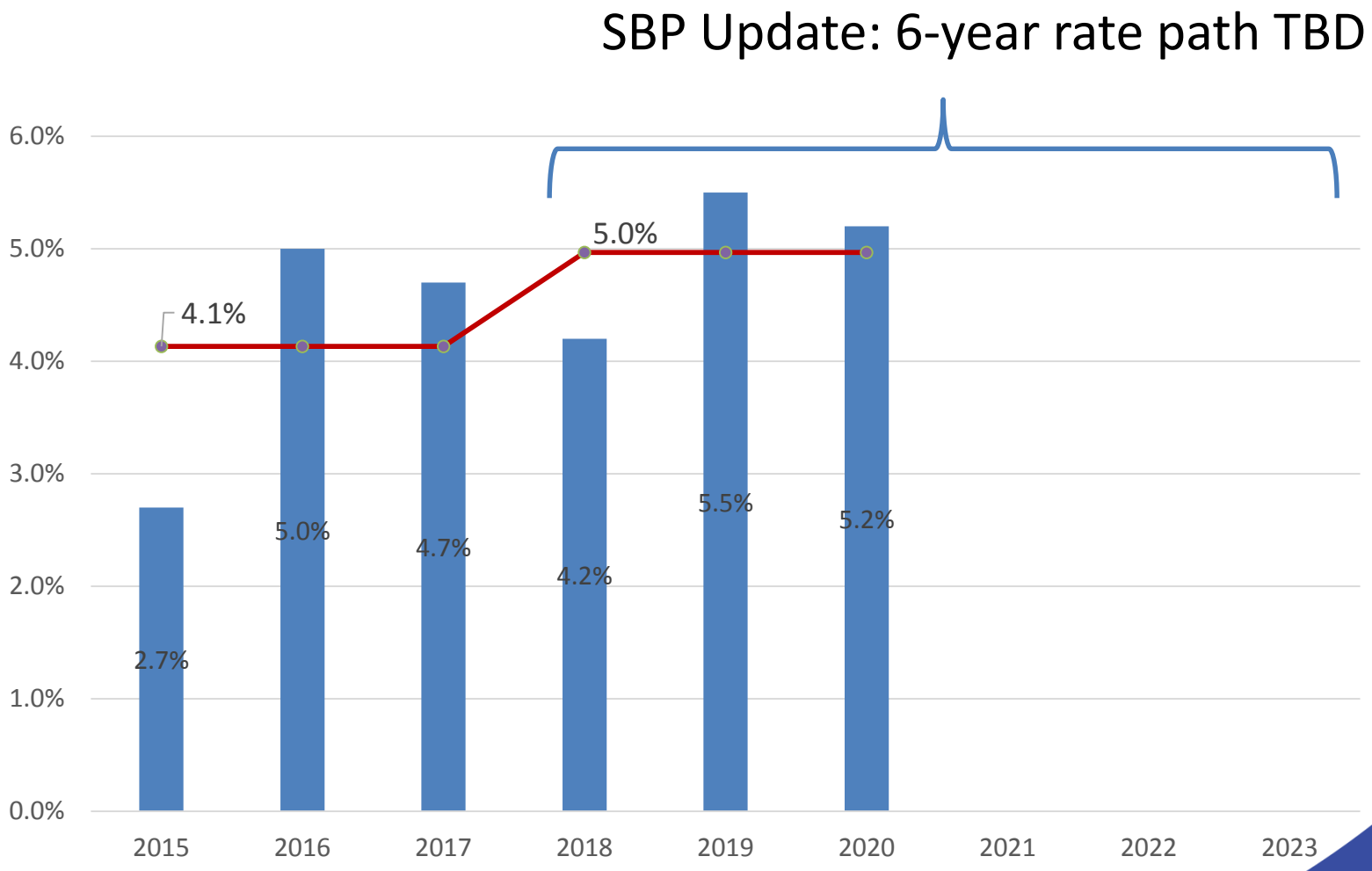
2015-2020 SBP Rate Path of 4.6% is Back-loaded



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SPU Adopted Rates Since the 2015-2020 SBP

<table>
<tr><th>2015</th><th>2016</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>2022</th><th>2023</th></tr>
<tr><td colspan="3">Adopted Water Rates</td><td colspan="3">Future Adopted Water Rates</td><td colspan="3">Future Adopted Water Rates</td></tr>
<tr><td></td><td colspan="3">Adopted DWW Rates</td><td colspan="3">Future Adopted DWW Rates</td><td colspan="2">Future Adopted DWW Rates</td></tr>
<tr><td colspan="2">Adopted Solid Waste Rates</td><td colspan="3">Adopted Solid Waste Rates</td><td colspan="3">Future Adopted Solid Waste Rates</td><td></td></tr>
<tr><td colspan="6">Endorsed Rate Path in Adopted 2015-2020 SBP</td><td colspan="3"></td></tr>
<tr><td colspan="3"></td><td colspan="6">Future Endorsed Rate Path in 2018-2023 SBP Update</td></tr>
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Financial Complexity

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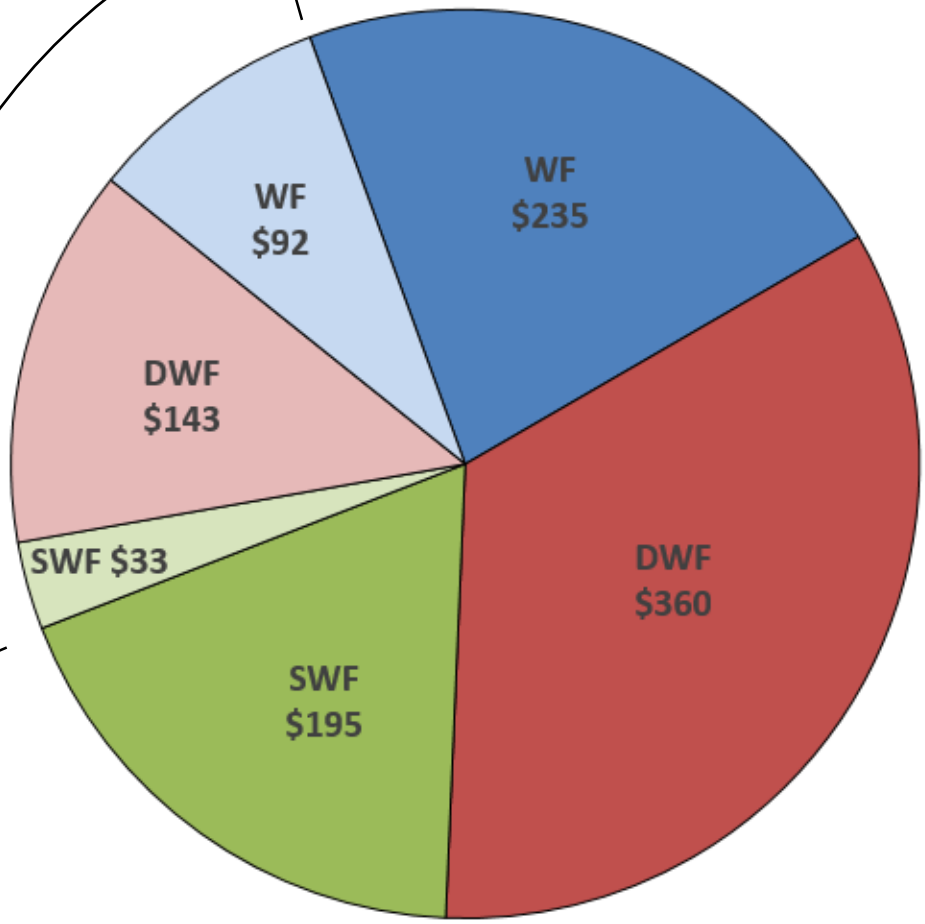
SPU 2016 Spending Plan = $1 billion

($ in millions)

C I P - $268M



O & M - $788M

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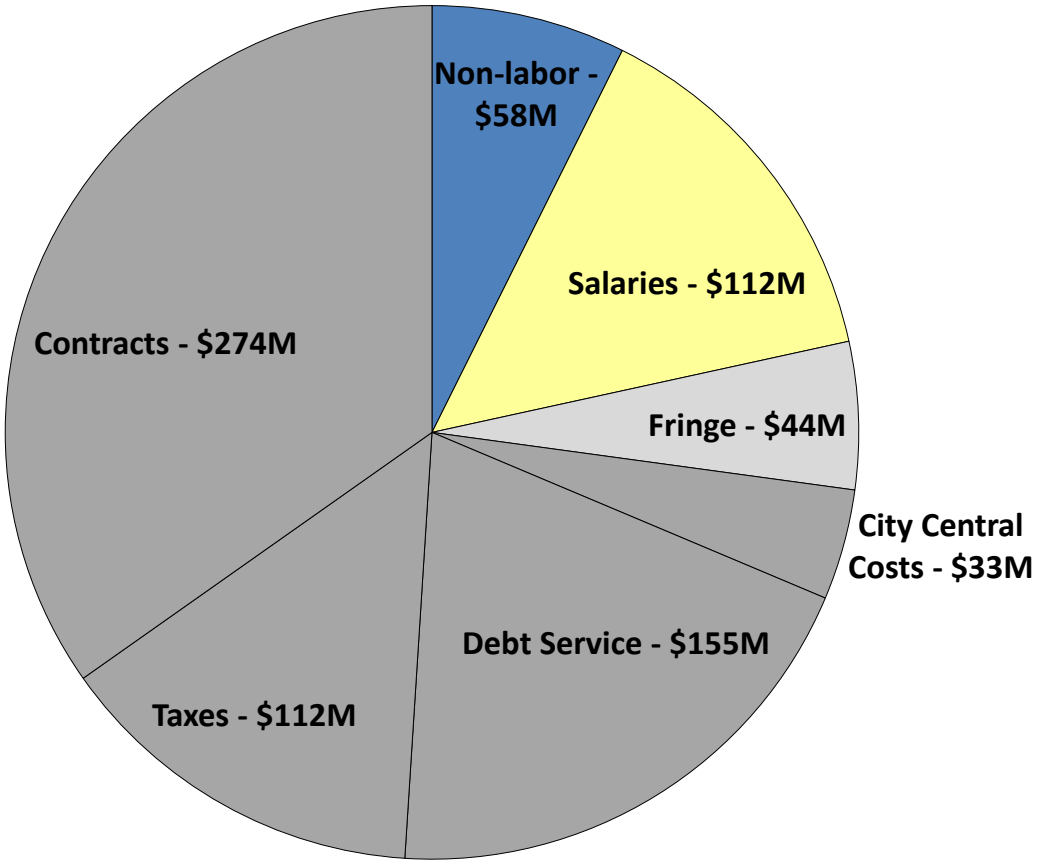
O&M Categories

2016 O&M Spending Plan: $788M



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Financial Policies

NET INCOME	DEBT SERVICE COVERAGE
CIP – CASH VS. DEBT FINANCING	**YEAR-END CASH BALANCE**

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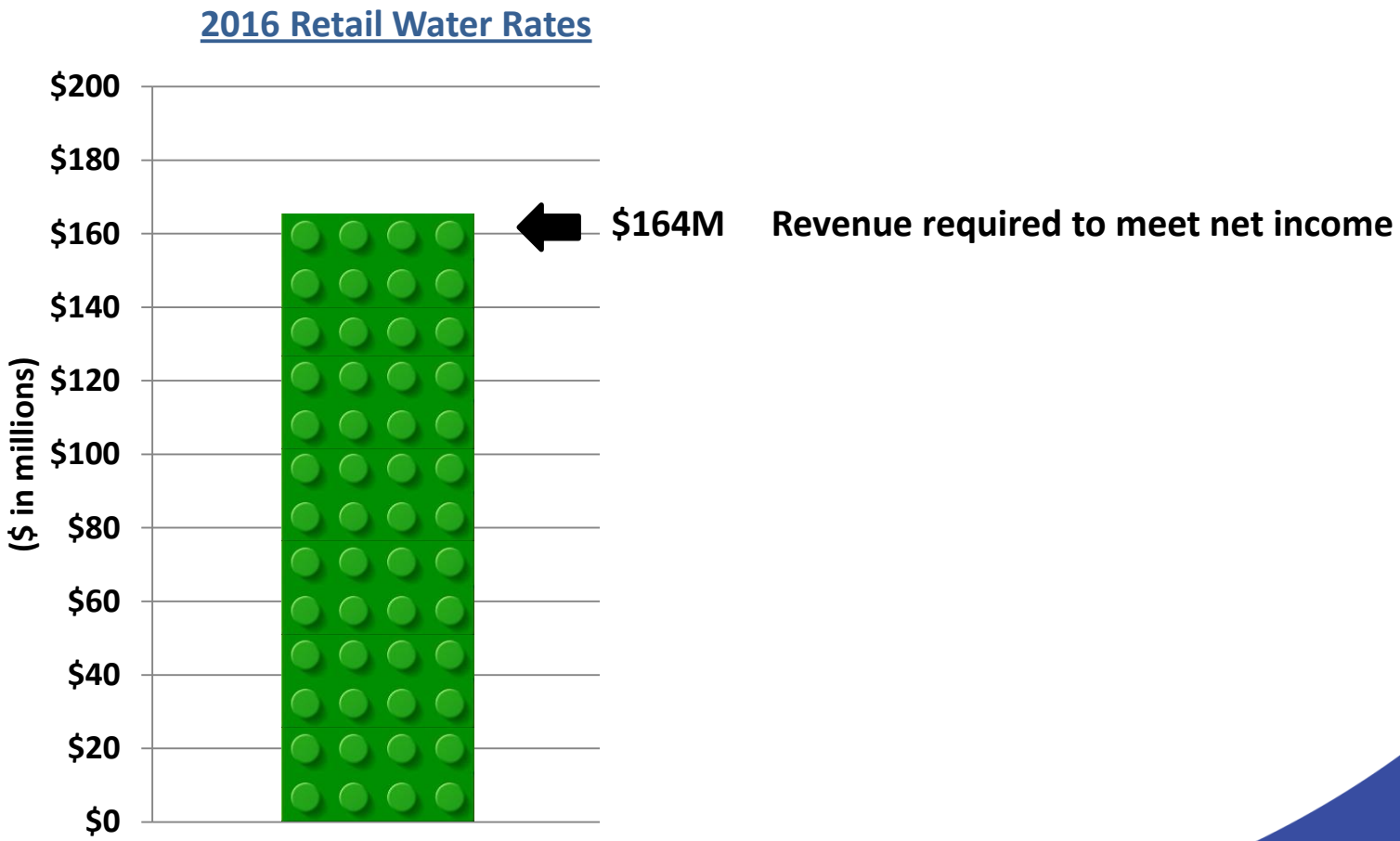
Financial Policies - Binding Constraint

The financial target that requires the most revenue to simultaneously satisfy all financial policies in that year.



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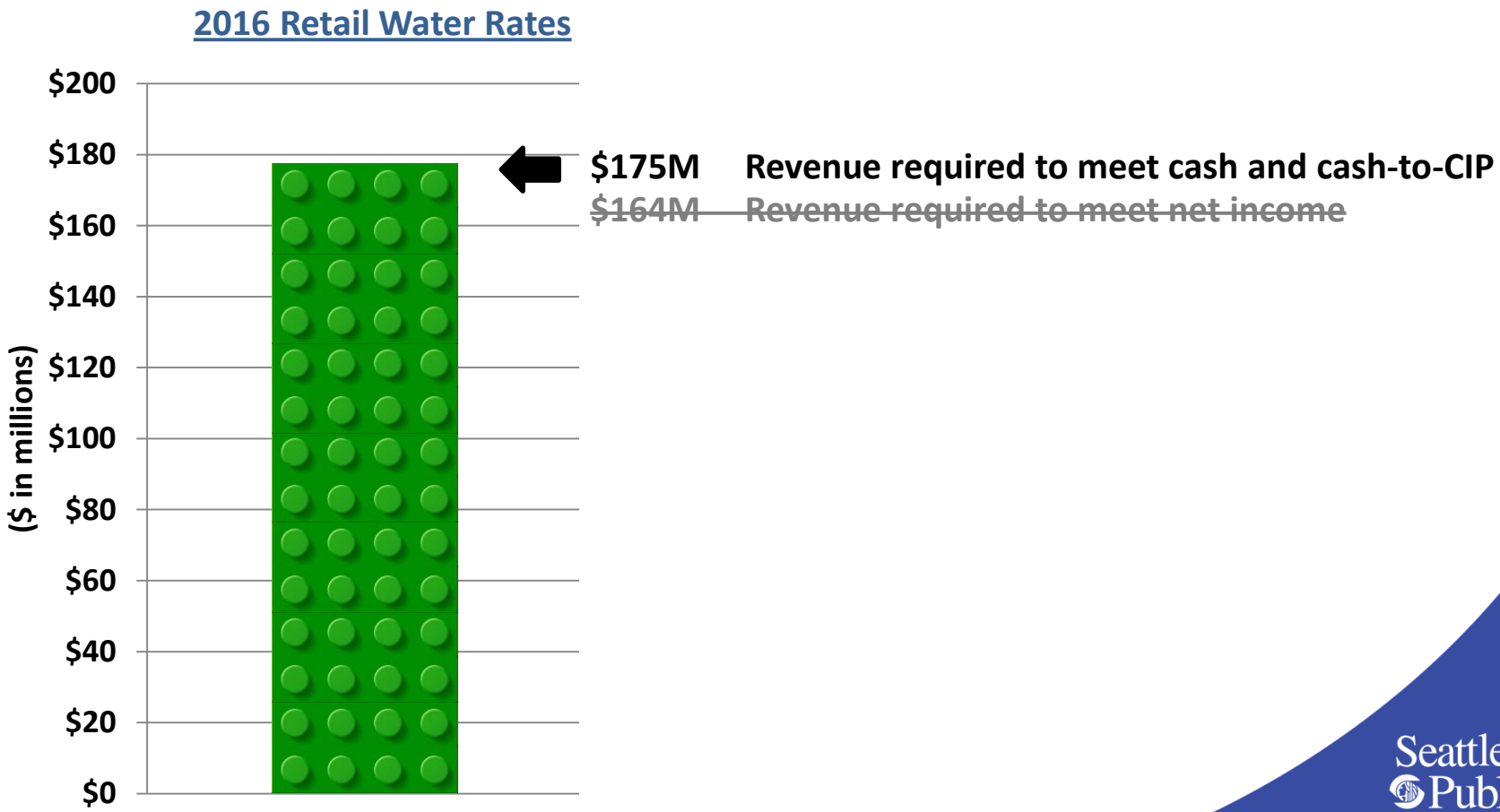
Financial Policies - Binding Constraint

The financial target that requires the most revenue to simultaneously satisfy <u>all</u> financial policies in that year.



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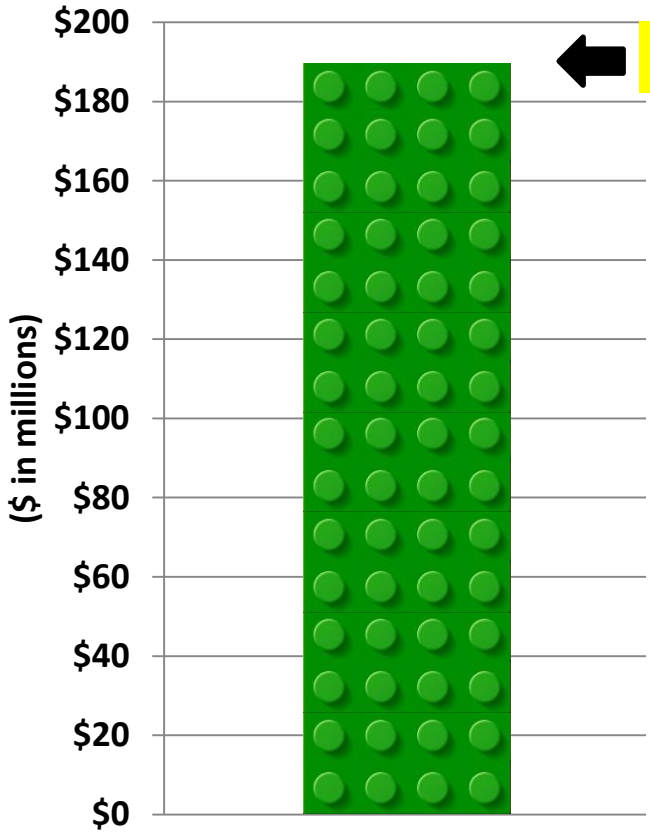
Financial Policies - Binding Constraint

The financial target that requires the most revenue to simultaneously satisfy <u>all</u> financial policies in that year.

2016 Retail Water Rates



DSC is the "binding constraint"

$191M Revenue required to meet debt service coverage

~~$175M Revenue required to meet cash and cash-to-CIP~~

~~$164M Revenue required to meet net income~~

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Financial Policies – By Fund

Parameter	Water Fund	Drainage & Wastewater Fund	Solid Waste Fund
Net Income	Generally Positive	Generally Positive	Generally Positive
Debt Service Coverage	1.70 times	1.80 times	1.70 times
Year-End Cash Balance	1/12th of current year's operating expense	One month wastewater treatment expense	20 days contract expense
Cash Financing of CIP	15% minimum in any year 20% over rate period	25% minimum (4 year rolling average)	$2.5 million
Debt-to-Asset Ratio	n/a	No more than 70%	n/a
Variable Rate Debt	<= 15% of total debt	<= 15% of total debt	<= 15% of total debt
Revenue Stabilization Fund	$9M minimum	n/a	n/a

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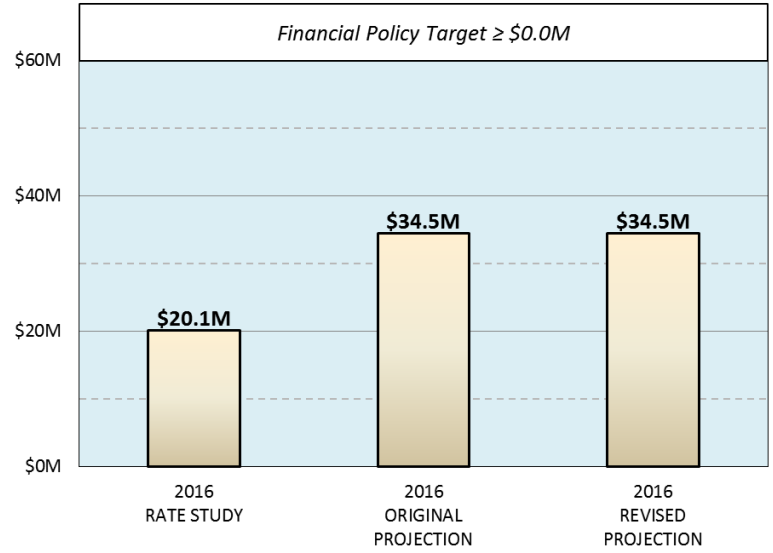
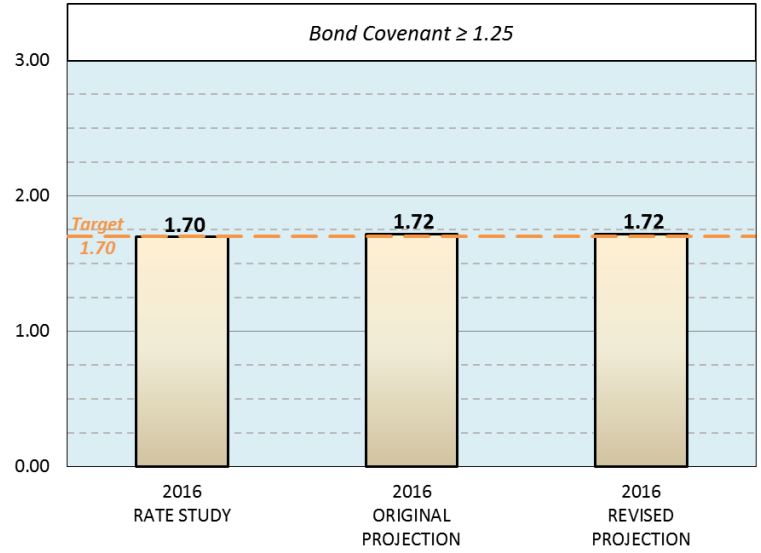
Financial Policies

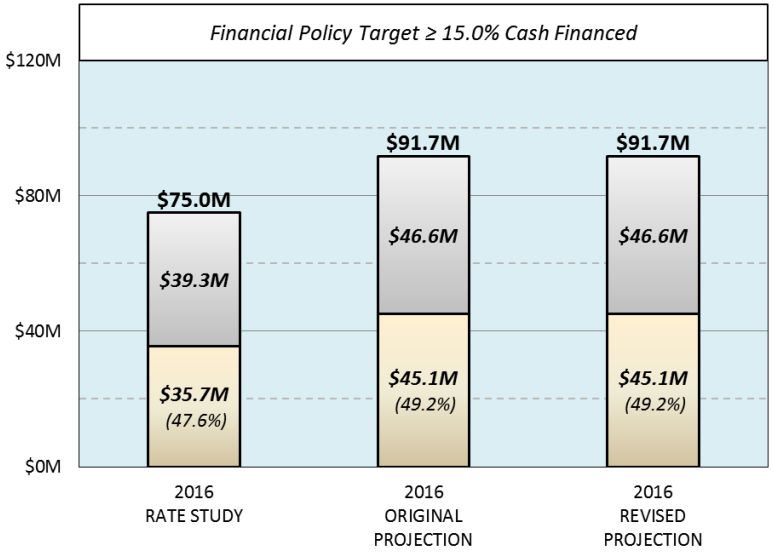
NET INCOME



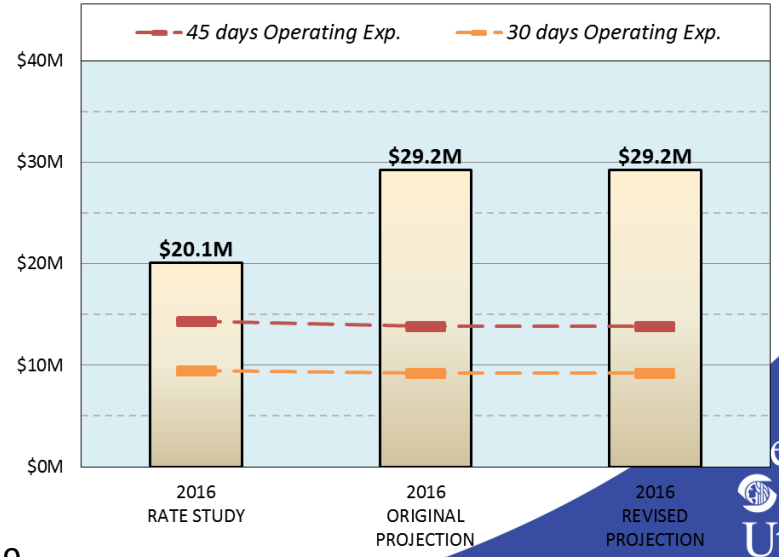
DEBT SERVICE COVERAGE



CIP – CASH VS. DEBT FINANCING



YEAR-END CASH BALANCE



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Current SPU Bond Ratings

	S&P	Moody's
Prime Maximum Safety	AAA	Aaa
High Grade High Quality	**AA+ Water, DWF**	**Aa1 Water, DWF**
	AA Solid Waste	Aa2
	AA-	**Aa3 Solid Waste**
Upper Medium Grade	A+	A1
	A	A2
	A-	A3
Lower Medium Grade	BBB+	Baa1
	BBB	Baa2
	BBB-	Baa3
Non Investment Grade	BB+	Ba1

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Why are we discussing all this financial complexity?

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What to remember

1. **The 2015-2020 SBP significantly lowered the average annual rate increases compared with recent history**
2. **Rates remain within the overall 4.6% SBP rate path, but this rate path is back loaded**
3. **We are a billion dollar enterprise and many of our costs are non-discretionary**
4. **Meeting our financial policies is important for financial stability and strong bond ratings**

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QUESTIONS?

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