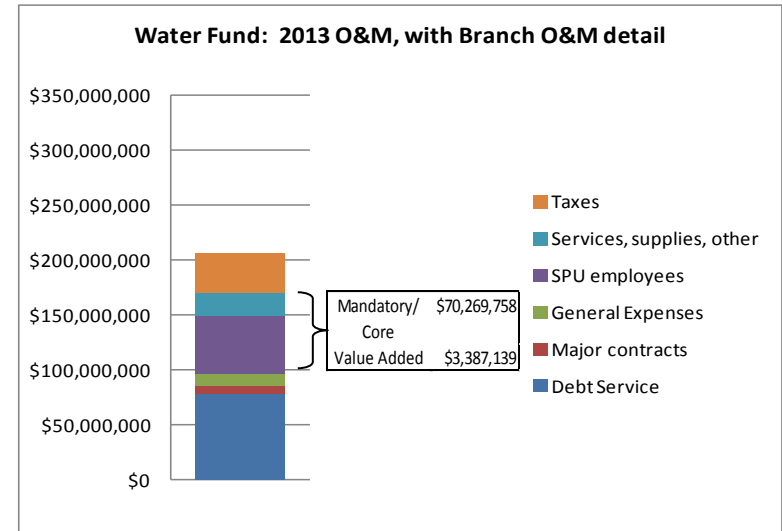


**Seattle Public Utilities  
Baseline Rates, Charges, and Assumptions  
Drinking Water Line of Business**

**Rate Revenue Path Impacts of Varying Baseline Assumptions**

	Av annual change 2015-2020		Comments
	% change	\$ change	
August 20 <sup>th</sup> Estimate	4.3%	N/A	
Assume 2.5% inflation on costs from other City departments	(0.67%)	\$1.2M in 2015 \$6.8M in 2020	Would likely result in significant under-budgeting of actual costs
Assume 2.5% inflation on SPU salaries	(0.72%)	\$1.3M in 2015 \$7.3M in 2020	Would likely result in the need to eliminate 73 positions by 2020
Decrease assumed interest rate on debt by 0.5%	(0.10%)		Interest rate estimate lower than City's Debt Manager estimate
Decrease CIP by \$10M per year	(0.38%)	\$10M/yr	Reduces SPU expenditures on capital projects

**Rules of Thumb:** \$1M change in O&M, OR \$9.2M change in CIP, = 0.56% change in rates (\$0.22 on typical monthly residential charge)

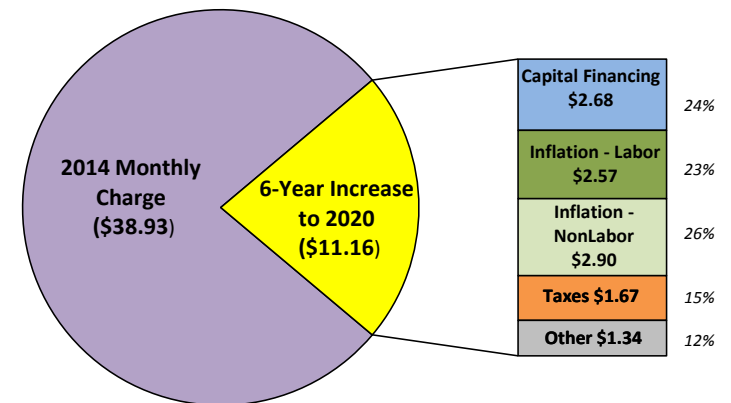


**Major Assumptions/Vulnerabilities – 2015-2020**

Demand	Declining 1% per year
O&M inflation*	4.1% average annual growth rate
Debt service	2.6% average annual growth rate
Major contracts	----
Other cost adjustments	\$2.0M (2015), increasing to \$4.3M (2020)
Non-rate revenues	<ul style="list-style-type: none"> <li>3% average annual growth rate for wholesale rate revenues (actuals determined by contract)</li> <li>2% average annual growth rate for other revenues – actuals dependent on the economy and new construction (e.g., new water service revenues)</li> </ul>
Financial Policy Issues	<ul style="list-style-type: none"> <li>Debt coverage needs are high, leading to exceeding other policy targets</li> <li>Cash in excess of targets applied to (a) funding CIP (thus lowering future debt) or (b) placed in revenue stabilization fund</li> <li><b>Policy question</b> regarding use of funds from the revenue stabilization fund</li> </ul>

\*excluding debt services, taxes, major contracts

**Water monthly charge increase from \$38.93 in 2014 to \$50.09 in 2020. What does the increase pay for?**

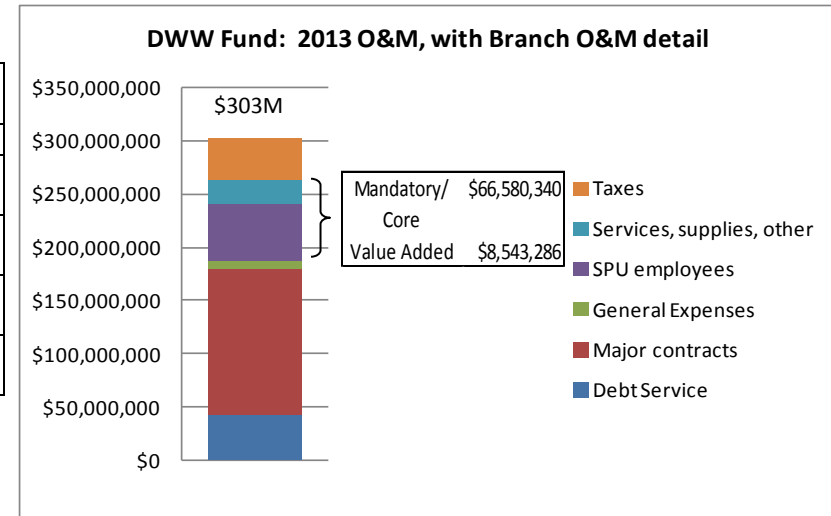


**Seattle Public Utilities  
Baseline Rates, Charges, and Assumptions  
Wastewater Line of Business**

**Rate Revenue Path Impacts of Varying Baseline Assumptions**

	Av annual change 2015-2020		Comments
	% change	\$ increase	
August 20 <sup>th</sup> Estimate	3.3%	N/A	
Assume 2.5% inflation on costs from other City departments	(0.20%)	\$0.5M in 2015 \$2.7M in 2020	Would likely result in significant under-budgeting of actual costs
Assume 2.5% inflation on SPU salaries	(0.37%)	\$0.9M in 2015 \$5.0M in 2020	Would likely result in the need to eliminate 50 positions by by 2020
Decrease assumed interest rate on debt by 0.5%	(0.07%)		Interest rate estimate lower than City's Debt Manager estimate
Decrease CIP by \$10M per year for DWW overall	(0.19%)	\$4.5M/yr	Reduces SPU expenditures on capital projects

**Rules of Thumb:** \$1M change in O&M, OR \$14.5M change in CIP, = 0.48% change in rates (\$0.25 on typical monthly residential charge)

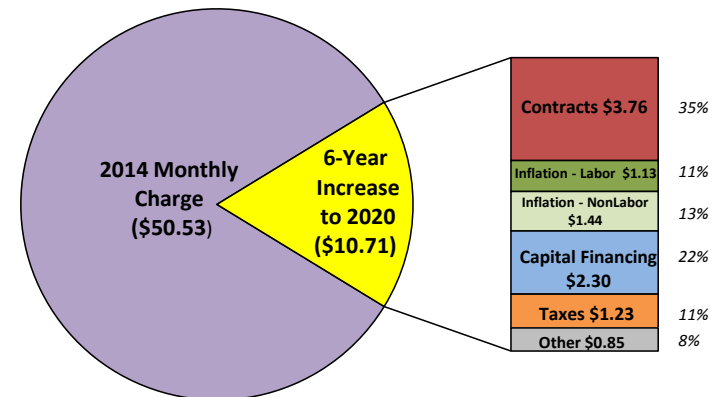


**Major Assumptions/Vulnerabilities – 2015-2020**

Demand	Wastewater demand declines 0.6% to 1.2% per year
O&M inflation*	3.8% average annual growth rate
Debt service	11.5% average annual growth rate
Major contracts	2.0% average annual growth rate in wastewater treatment payments to King County (County projections; not binding)
Other cost adjustments	\$2.3M (2015), increasing to \$7.1M (2020), for DWW combined
Non-rate revenues	0.1% per year average annual growth rate; actuals generally dependent on the economy and new construction (e.g., permit revenues) or grants
Financial Policy Issues	<ul style="list-style-type: none"> <li>Cash above minimum targets from current rate period applied to funding CIP (thus lowering future debt)</li> <li>In rate period, cash levels just meeting financial targets</li> </ul>

\*excluding debt services, taxes, major contract

**Wastewater monthly charge increase from \$50.53 in 2014 to \$61.24 in 2020. What does the increase pay for?**

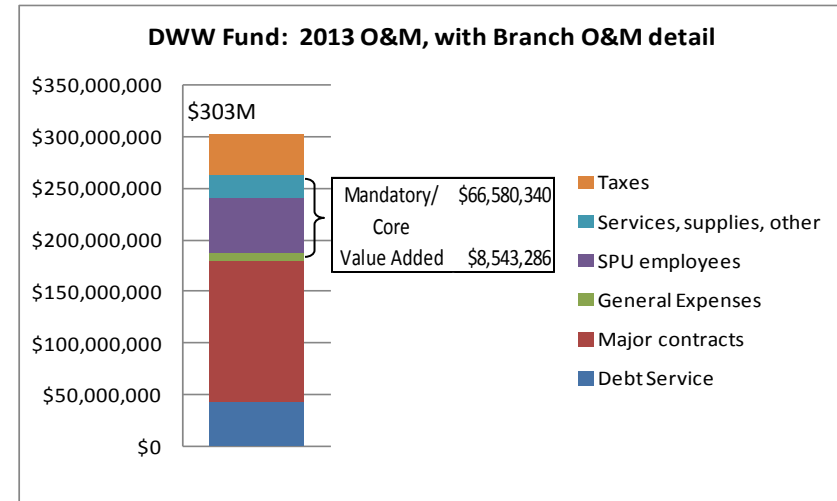


**Seattle Public Utilities  
Baseline Rates, Charges, and Assumptions  
Drainage Line of Business**

**Rate Revenue Path Impacts of Varying Baseline Assumptions**

	Av annual change 2015-2020		Comments
	% change	\$ increase	
August 20 <sup>th</sup> Estimate	8.9%	N/A	
Assume 2.5% inflation on costs from other City departments	(0.37%)	\$0.5M in 2015 \$2.8M in 2020	Would likely result in significant under-budgeting of actual costs
Assume 2.5% inflation on SPU salaries	(0.71%)	\$0.9M in 2015 \$5.3M in 2020	Would likely result in the need to eliminate 53 positions by 2020
Decrease assumed interest rate on debt by 0.5%	(0.16%)		Interest rate estimate lower than City's Debt Manager estimate
Decrease CIP by \$10M per year for DWW overall	(0.41%)	\$5.5M/yr	Reduces SPU expenditures on capital projects

**Rules of Thumb:** \$1M change in O&M, OR \$14.5M change in CIP, = 1.14% change in rates (\$0.33 on typical monthly residential charge)

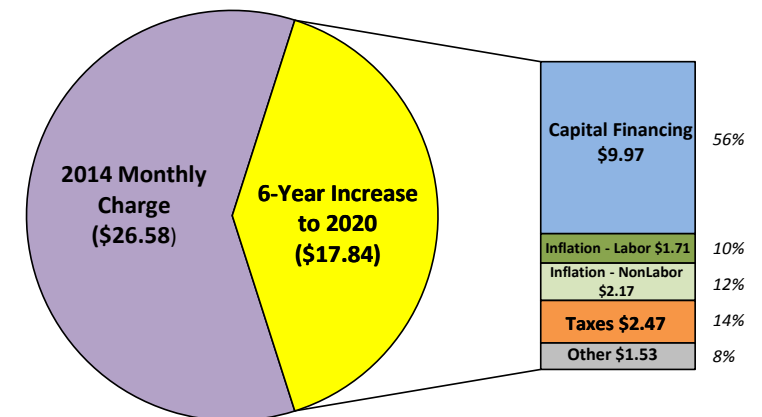


**Major Assumptions/Vulnerabilities – 2015-2020**

Demand	Drainage "demand" fixed (parcel size; impervious surface)
O&M inflation*	4.1% average annual growth rate
Debt service	11.5% average annual growth rate
Major contracts	---
Other cost adjustments	\$2.3M (2015), increasing to \$7.1M (2020), for DWW combined
Non-rate revenues	0.1% per year average annual growth rate; actuals generally dependent on the economy and new construction (e.g., permit revenues) or grants
Financial Policy Issues	<ul style="list-style-type: none"> <li>Cash above minimum targets from current rate period applied to funding CIP (thus lowering future debt)</li> <li>In rate period, cash levels just meeting financial targets</li> </ul>

\*excluding debt services, taxes, major contract

**Drainage monthly charge increase from \$26.58 in 2014 to \$44.42 in 2020. What does the increase pay for?**

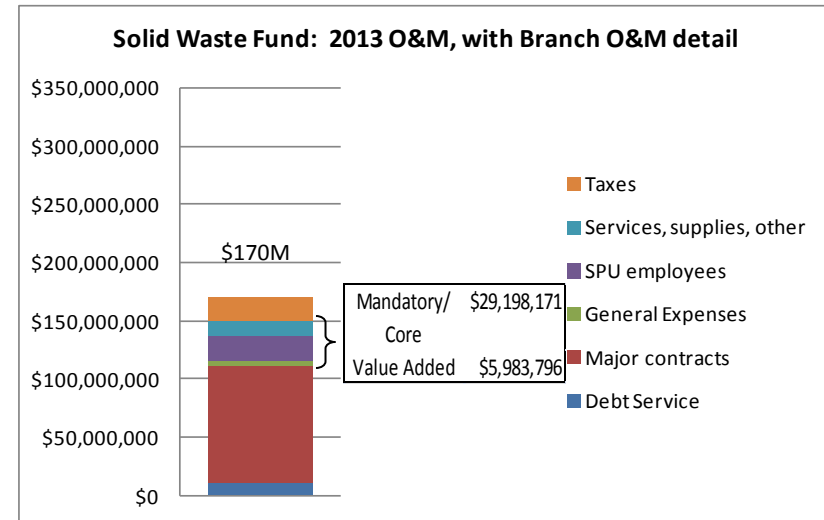


**Seattle Public Utilities  
Baseline Rates, Charges, and Assumptions  
Solid Waste Line of Business**

**Rate Revenue Path Impacts of Varying Baseline Assumptions**

	Av annual change 2015-2020		Comments
	% change	\$ increase	
August 20 <sup>th</sup> Estimate	3.7%	N/A	
Assume 2.5% inflation on costs from other City departments	(0.21%)	\$407k in 2015 \$2.2M in 2020	Would likely result in significant under-budgeting of actual costs
Assume 2.5% inflation on SPU salaries	(0.36%)	\$574k in 2015 \$3.5M in 2020	Would likely result in the need to eliminate 35 positions by 2020
Decrease assumed interest rate on debt by 0.5%	(0.05%)		Interest rate estimate lower than City's Debt Manager estimate
Decrease CIP by \$10M in 2016	(0.05%)	\$10M in 2016	Reduces SPU expenditures on capital projects

**Rules of Thumb:** \$1M change in O&M, OR \$13.5M change in CIP, = 0.92% change in rates (\$0.39 on typical monthly residential charge)



**Major Assumptions/Vulnerabilities – 2015-2020**

Demand	Declining 0.9% to 1.1% per year in volume. Average can size declining 0.1% to 0.3% per year.
O&M inflation*	4.1% average annual growth rate
Debt service	9.8% average annual growth rate
Major contracts	2.5% average annual growth rate
Other cost adjustments	\$1.3M (2015), increasing to \$4.7M in 2020
Non-rate revenues	<ul style="list-style-type: none"> <li>\$2.3M-\$2.7M/year in recycling revenues; actual vary based on market conditions</li> <li>Assumed income from 2014 sale of Kent-Highlands landfill</li> </ul>
Financial Policy Issues	<ul style="list-style-type: none"> <li>Net income is driving rates in current rate period, leading to exceeding cash target</li> <li>Cash in excess of minimum levels used in 2016 to fund shift from advance billing to billing based on services received</li> </ul>

\*excluding debt services, taxes, major contracts

**Solid Waste monthly charge increases from \$40.91 in 2014 to \$50.75 in 2020. What does the increase pay for?**

