

**2018-2023 SBP Update  
Reduction Option Template**

<b>Cost Reduction:</b> Risk Reserve #6	<b>Owner:</b> Cameron Findlay
<b>Focus Area:</b> N/A	<b>Sponsor:</b> Sherri Crawford
<b>Risk Level:</b> HIGH	<b>Rate Path Option:</b> 5.3

**1. Short summary of the cost reduction.**

This reduction option would save \$5.8 million by reducing the risk reserves in 2022 and 2023. Currently, SPU is assuming a tiered approach to risk reserves. The assumption is a reserve based on a percentage of operations and maintenance (O&M) costs excluding debt service, taxes and Solid Waste contracts because they are more predictable. The assumption is 1% in 2018 and 2019, 1.5% in 2020 and 2021 and 2% in 2022 and 2023. The theory is that there is less known about possible costs the further out in time. This option would reduce the final two years from 2% to 1.5% of O&M costs.

**2. What are the impacts or risks of this cost reduction? How will you mitigate these risks?**

To date, SPU has managed approximately \$14 million in unanticipated costs in the third year of the 2015-2020 SBP. Some examples of the types of unanticipated costs SPU experienced include the following items:

- New requirements for privacy controls and payment card industry changes.
- Costs to operate our new billing and customer information system were higher than planned.
- Higher than planned salary increases.

SPU managed through this by making reductions in other areas. We also received higher than planned revenues and secured low interest rate loans.

This is considered a high risk reduction option because six years is a very long time to plan for all contingencies. In addition, there are many factors that can change that are both in SPU's control and out of SPU's control. This reduction would bring the last two years of the 2018-2023 SBP down to \$9 million. At this point, these are the years that we know the least about and think it is most financially prudent to plan for a greater level of unknowns. This will ensure stability in services to our customers while providing a steadier rate path.

**3. Implementation plan and timeline.**

If this option is implemented, the dollars would be reduced out of the rate path to lower the rate path.

**4. Budget and FTE changes**

**Changes (relative to baseline)**

	2018	2019	2020	2021	2022	2023
O&M (Non- Labor) Budget Change	-	-	-	-	(2,825,361)	(2,927,170)
CIP Budget Change						
FTE Change						

**5. Identify possible race and social justice implications for this reduction. How will it impact service equity and how will you resolve this impact?**

None are known at this time.

**6. Describe your plan for evaluating the impacts of this reduction. Include any metrics you have.**

SPU will monitor expenditures and revenues each year through the Budget and Spending Plan processes and quarterly reports. This monitoring and analysis will help determine if SPU will need to stop or defer work to manage through any unexpected costs or loss of revenues.