

**Seattle Public Utilities Customer Review Panel**

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P.O. Box 34018, Seattle WA 98124-4018

January 20, 2021

Mayor Jenny A. Durkan  
The City of Seattle  
600 Fourth Avenue  
P.O. Box 94749  
Seattle, WA 98124-4749

**RE: Seattle Public Utilities Customer Review Panel Comments on the Proposed SPU  
Strategic Business Plan for 2021-2026**

Dear Mayor Durkan:

This letter presents our comments on the Proposed Seattle Public Utilities (SPU) Strategic Business Plan for 2021-2026 (Plan) in fulfillment of our duties as members of the Seattle Public Utilities Customer Review Panel (Panel) set forth in Resolution 31800.

We endorse the Plan and support its adoption as presented. This letter includes a number of detailed comments regarding the Plan. Our primary messages regarding the Plan are as follows:

Rates: We are pleased that the projected 6-year rate path is lower than that in the previous strategic plan: the 6-year weighted average annual rate increase across all SPU's lines of business in the 2021-2026 period is projected to be 4.2%, down from 5.2% in the 2018-2023 SPU Strategic Business Plan.

SPU's commitment to drive rates down is admirable and should continue to be a priority. SPU provides essential basic services – water, sewer, drainage, solid waste collection and disposal. Ensuring the affordability of these services, particularly for lower income customers and smaller businesses, is a priority for the Panel.

That said, the reduction in rates compared to the last plan has largely been accomplished by spending of cash reserves built up over the last three years because SPU's capital project accomplishment rate was far less than anticipated. These delays were due to a variety of causes, including but not limited to SDOT deferring work on several of the Move Seattle projects. This raises two concerns: first, a lower rate path derived from spending of cash reserves is not likely to be sustainable, and second, the under-accomplishment rate of some capital projects and deferral of others may be creating additional rate pressure as asset maintenance and rehabilitation needs are going to increase in future years, and several planned capital projects were not accomplished or delayed over the last three years.

In the long-term, SPU has growing needs for asset repair and replacement funding which will continue to put upward pressure on rates. Federal and state regulations will add to this pressure. SPU's ability to bring its capital projects in on time and on budget is an area for continued focus and emphasis. Overall, SPU and the City face an important balancing act between the desires to keep rates low and, at the same

time, maintain and replace aging infrastructure, increase water quality protections, adapt to the impacts of climate change and address the seismic risk to its infrastructure.

Seeking a Recommitment to Ongoing Dialogue with City Leaders: SPU's budget is over \$1.3 billion a year; the utility employs over 1430 people. In 2017, the Council determined that the Panel should not disband at the end of its initial planning task but instead be converted to a permanent standing body whose role is "to provide ongoing stakeholder oversight" as SPU develops and implements its strategic business plans. We are charged in part to "work closely with staff designated by the City Council and the Mayor to understand the issues and concerns of the City Council and the Mayor." If the development of SPU strategic business plans remains important to City leaders, the challenges ahead can be better met with active engagement between the Mayors' office, Council, SPU and the Panel. We would like to strengthen our communication with you and the Council moving forward, to have an ongoing dialogue on SPU's work and its path forward. We ask for your support of this goal.

### **The Strategic Planning Process and the Panel**

Per Council directive, SPU is required to develop a 6-year strategic business plan, and to update that plan every three years. Particularly noteworthy in the process leading up to submittal of this current Plan has been the internal work SPU did to update its vision, mission and values, and the more detailed guidance for improving operations included in two new plans: *Affordability & Accountability* and *Risk & Resiliency*. We commend SPU's focus on these initiatives. Other important work, around equity and empowerment in the form of a Race & Social Justice (RSJ) plan for SPU, is also underway. We look forward to hearing more about the RSJ work in the future.

The Panel works to provide SPU, the Mayor and Council advice in the development and implementation of the Plan. As noted, the Panel was made a permanent body in 2017. The Panel met 21 times over the last three years leading up to the completion of the Plan. It has been an intensive and time-consuming effort on the part of customer volunteers. While we started with quarterly meetings, that pace had to accelerate in the last several months to two meetings per month each lasting two to three hours, in order to complete our review of the Plan and the various initiatives and investments included in it. Frankly, this is not a sustainable schedule for some of us with full-time jobs, and it has been very helpful in this work to have the knowledge base of several of our members who have been long involved with SPU. We will be working with SPU to develop a revised approach to accomplish our oversight responsibilities. Hopefully, that may include some in-person meetings again when the pandemic is behind us.

SPU took a new approach to public outreach process as part of this Plan. That approach included: compiling data from 28 other surveys and studies recently completed across the City; completing several dozen interviews of businesses and members of under-represented communities; deploying a concise five-question poll of internal and external partners. In light of the COVID-19 pandemic, this was a creative and cost-effective approach. We note that it continues to be a challenge to engage those in our community lacking adequate online access: this is a larger challenge for the City that is more urgent as COVID-19 has reduced the City's ability to interact in more traditional ways with ratepayers and taxpayers. We also anticipate that in future years, SPU will need to gather new customer data, particularly in order to understand the post-COVID world in which we will be operating.

In terms of customer engagement, SPU has historically benefitted from the input of three Community Advisory Committees (“CACs”)—one focused on solid waste, one on water, and one on wastewater and drainage. While the Solid Waste Advisory Committee continues as part of Interlocal agreement commitments, SPU has chosen to disband the “Creek Drainage and Wastewater Advisory Committee” and the “Water System Advisory Committee” effective December 2020. The CACs have a unique diversity of membership (several of the Panel members have served on them) and have been able to provide the needed in-depth analysis of SPU’s many specific programs, services and initiatives that the CRP does not have the time to do. It is important for a new community engagement strategy to be in place soon; we encourage SPU to utilize members of the disbanded CACs during the transition to the new engagement strategy.

### **Progress by SPU since last Strategic Plan, and Assessment of Current Challenges**

SPU has made important progress in several areas since the 2018-2023 Strategic Business Plan was adopted. The reduction in the rate path, noted above, is one of them. We are also seeing progress in SPU’s asset management programs; implementation of the Combined Sewer Overflow Consent Decree; and completion of the seismic vulnerability assessment of the water system. The critical Ship Canal CSO Control project has also made good progress in the last three years and all indications are that it will be delivered within the Consent Decree timeframe and within the allotted budget. As noted above, we think the work and stated goals on *Affordability & Accountability*, and *Risk & Resiliency* are extremely important; we plan to carefully track the utility’s progress in implementing both these plans.

SPU also faces some daunting challenges. Federal and State Regulatory mandates continue to increase capital and operating costs; climate change adaptation response remains a critical and expensive long-term effort; about a quarter of the SPU workforce is currently eligible to retire. In the near-term, significant departure of long-serving staff could result in major loss of institutional knowledge if not managed correctly. Other important challenges we are identifying include:

- Aging water and sewer system infrastructure needs replacement at an ever-increasing rate, according to updated asset management plans. SPU continues to have a backlog of repair and replacement work on hydrants, pumps and valves. That backlog remains much as it was three years ago. The 50-year projections on what will be required *annually* to replace the utility’s infrastructure dwarfs current spending on assets: this is a long-term affordability challenge that must be grappled with sooner rather than later.
- Essential and sub-standard operational facilities identified for major rehabilitation three years ago remain uncompleted: the North Operations Center, South Operations Center, and Cedar Falls Maintenance facility and Seattle Municipal Tower office space renovations were all funded and programed in the last Strategic Business Plan (2018-2023). All of these projects were subsequently re-scoped and remain uncompleted. The Utility has wisely, in our view, reduced its budget assumptions around the completion rate on capital projects, but it will still take tremendous focus and management effort to improve SPU’s delivery of capital projects over time.

- King County released a proposal that would have increased its rates nearly 10% in each of the next three biennia. While the County's adopted 2021 wastewater pass-through rates was reduced to 4.5% after regional outcry, we may be facing steep increases here in future years. This situation highlights the need for better communication with the County and its partners, as well as stepped up rate controls in the County wastewater contract.
- COVID-19 has introduced new uncertainty into consumption patterns and set us backward on some of our environmental goals (e.g., plastic bags are again widely used in Seattle). This increased uncertainty may impact SPU's ability to deliver as promised in the Plan. That said, SPU services are without doubt essential. The Utility has demonstrated great resilience through the COVID pandemic, seamlessly maintaining services and developing new responses to address emergent needs in the community. The Panel commends SPU and staff for their excellent performance over the course of the pandemic.

Looking forward to opportunities on the horizon, SPU has a placeholder initiative in the Plan called "Seeds of Resilience;" this presents a creative approach to use SPU's market leverage to advance community economic development opportunities in BIPOC communities. It also seems to align with some goals of the City's Green New Deal. We believe that this initiative will be a challenge for SPU to implement given the workload on their plate. It is important to us that this initiative not increase rates. We will be interested to see how this concept develops into a specific set of recommended actions for the Mayor and Council's consideration.

### **The 2021-2026 Strategic Plan**

The Panel endorses the Plan and supports its adoption in the form submitted to the Mayor. We have a number of observations about activities within each of SPU's three lines of business (Water, Drainage and Wastewater, and Solid Waste) we share below, after first identifying our **overall priority issues**, which align closely with the Accountability & Affordability and Risk & Resiliency plans:

➤ **Affordability and Accountability (A&A):**

- Asset management programs must continue to evolve and strengthen.
- A strategic assessment of *long-term* infrastructure funding needs is required.
- Improving capital project delivery process oversight must remain a major priority for SPU. A number of strategies to improve capital project delivery are outlined in the *Affordability and Accountability* plan. We will be tracking these with interest.
- We applaud SPU's work in developing metrics in the last two years. SPU is also preparing to a launch a new capital projects overview report, which we think will be extremely helpful to management and the Panel.
- SPU must continue to focus on ways to be more efficient in its operations and capital programs delivery, in order to slow growth in rates in the face of other cost pressures.

➤ **Risk and Resiliency (R&R):**

- The Climate Change adaptation strategy is important and needs additional refinement.
- Completion of upgrades at the North and South Operations Centers which serve as essential facilities should be a priority for SPU to become more resilient.
- Seismic upgrade planning and implementation is underway for the regional water system. Further planning for SPU's other lines of business, with additional implementation details, is needed.

Turning now to each line of business, we offer the following additional comments:

➤ **Water**

- We applaud the Division's continued efforts on watershed protection, restoration, and sustainability in face of climate change.
- A key part of Risk and Resiliency planning is seismic retrofitting of the regional water transmission and local distribution systems. This is a critical investment that we are glad to see prioritized in the Plan.

➤ **Drainage and Wastewater**

- Progress on the Ship Canal CSO project is a major accomplishment thus far; this is the largest CIP project in the utility's history and remains largely on schedule and on budget. Close oversight of this project must continue.
- The "Shape Our Water" plan will inventory and integrate all drainage and wastewater system infrastructure needs. We anticipate very sizeable investment needs may be identified for stream culvert replacement. Making all of Seattle's streams passable by fish is a potentially enormous unfunded mandate. State and federal funding here should be aggressively pursued. The Panel believes strongly that all these costs should not fall entirely on SPU: road culvert replacements should be the financial responsibility of the City and State Departments of Transportation (SDOT and WSDOT).
- Seismic upgrades are planned for water; drainage and wastewater operations will need them as well, and these needs are not yet identified or prioritized. This work will take place in the context of the "Shape our Water" planning. Needed seismic upgrades will put continued pressure on drainage and wastewater rates.
- Rate pressure will also be continuing in the form of pass-through costs from King County's Wastewater Treatment Division, as mentioned above. It will be important for SPU and the City to engage with King County to review how these additional revenues are being spent and to minimize future surprise rate increases.

- Another area where we see SDOT having important financial responsibility relates to the new system of bike lanes many of which have physical barriers of various types between the bike lanes and general-purpose lanes. Street sweeping has proven to be one of the lowest cost, most effective means of keeping pollutants out of local waters. Regular street sweepers cannot clean physically segregated bike lanes. SDOT must ensure that bike lanes are regularly cleaned of sediment. As SDOT has created the need for specialized response equipment, we believe SDOT should be financially responsible for those additional costs. Perhaps where it may be feasible, some of the bikeways could be modified so that they can be cleaned by the existing sweeper fleet.
- Green Stormwater Infrastructure (GSI) is a significant area for proposed additional investment in the Plan. We are pleased that SPU has developed more meaningful metrics around GSI, and the extent to which partnerships are a focus of future GSI plans. As a note of caution, there is incomplete data on the life-cycle cost of GSI. The specific concern from our layperson standpoint is how the accumulation of toxins in soils can be cost-effectively removed or mitigated over time. We look forward to future presentations on this topic.
- SPU is proposing to expand or launch two important pilot projects in the Plan, both of which we strongly endorse:
  - The RV wastewater collection project pilot has been ongoing for a couple of years now. This is a basic service, financed by the City's General Fund, which is otherwise not provided inside the City limits. Increasing access to this service is important to reduce illegal dumping and respond to homelessness. We encourage continued exploration of the most cost-effective options for providing this service.
  - A side sewer replacement financial assistance pilot is proposed in the Plan. As many houses in the City are over 80 years old and tree roots are becoming increasingly prevalent, the rates of side sewer failures can be expected to increase. The cost of these repairs can exceed the financial capacity of many households. The high cost of sidewalk and street restoration is a major cost driver in these projects. This is an important partnership opportunity for SPU, SDOT and its customers. We strongly support this pilot project and hope it can move beyond "pilot" status in the near future.
- The South Park Resilience District effort has evolved out of an initial focus on reducing the frequency of flooding identified in the first SPU Strategic Plan back in 2015. Most projects identified in 2015 are underway: the pump station is now under construction and the roadway and drainage system is in design. The planned stormwater treatment facility is still in a phase of siting and sizing analysis. We hope all projects identified will be completed within the timeframe specified in the Plan. We will monitor with interest the other projects now being discussed in the District.
- The Panel continues to be interested in hearing updates on the ongoing Consent Decree renegotiations; these could reduce the cost of complying with federal regulatory requirements while still protecting the natural waters throughout our City.

➤ **Solid Waste**

- SPU is pursuing creative and potentially very impactful work in the areas of reuse, packaging reduction and food waste. We commend SPU staff for these efforts.
- The South Recycling Center project (now called the “South Transfer Station 2” (STS2)) is an SPU capital investment that the CRP has asked to learn more about. As originally scoped, this is expected to be a \$50M investment in the Duwamish area. The project is complicated by the fact that it is being built over a closed landfill. The project is being postponed and re-scoped to prioritize landfill clean-up and consider options for design of the solid waste facility.

➤ **Corporate**

Comments in this section relate to Department-wide oversight and management items.

- Oversight of capital projects remains one of SPU’s largest challenges. As noted, the Ship Canal project is a notable success thus far. There are several critical capital projects moving ahead currently that require careful management oversight: the water seismic upgrade projects; South Park Resiliency District Investments, and operations facilities (North Operations Center, South Operations Center, Cedar Falls). COVID-19 has created new work patterns that warrant review of SPU’s Seattle Municipal Tower space renovation project.
- There has been extensive change in SPU’s leadership staffing in the last three years. This highlights the ongoing need to support workforce development. Focus on these issues was lost after publication of the 2015 SPU Strategic Business Plan, as the City shortly thereafter centralized human resources and several SPU initiatives had to be set aside. The COVID-19 pandemic increases the likelihood that retirements will increase, which makes succession planning and other workforce development initiatives ever more important. We will be seeking regular updates on progress in this area.
- Climate change raises the importance of planning long-term for critical facilities. As SPU considers new investments, acquiring rare large parcels for new in-city facilities, or redeveloping existing facilities, it is important to consider the long-term viability of those sites. We have some concern in this regard for ongoing facilities planning and construction in the Duwamish area.
- SPU has improved its performance metrics system in the last few years. There has been good progress especially in tracking, measuring and reporting on essential services. We commend SPU for its work here and will continue reviewing metrics reports and updates.
- We support the Utility’s restraint in deploying new software programs; we agree that investing in upgrades is generally a more cost-effective approach.
- We reiterate our concern that many SPU customers are ill-prepared to interface with complex software programs rather than more traditional means of customer engagement.
- We see good opportunities for the apprenticeship programs across SPU, as the workforce ages and the utility has had trouble attracting workers in several areas in recent years.

- Affordability remains a priority concern for the Panel. There has been work underway for several years now in a cross-departmental effort to explore ways to update the Utility Discount Program (UDP). We remain interested in potentially “tiering” of the subsidy levels based on household income.

➤ **The Rate Path**

As noted at the outset of this letter, we are pleased to see the overall annual average rate increase lower in this Plan than in the 2018-2023 Plan preceding it. We remain concerned that this may be largely the result of capital projects not being delivered or delayed, which will further increase rate pressure going forward as the need for those projects has not changed. It is important that SPU keep up the work to lower its cost curve where possible, particularly in light of ongoing significant cost pressures, including growing maintenance, repair and replacement backlogs in SPU’s infrastructure; similar challenges at King County leading to potential major pass-through cost increases in the next several years; unfunded mandates to make culverts passable by fish; and other ongoing regulatory requirements. It is important that the Mayor and Council carefully consider the need for any additional unfunded initiatives on the Utility which would further exacerbate this rate pressure. One such potential area is in the Green New Deal: we support the goals of this initiative but have seen little in the way of analysis as to what it means for utility rates.

**Conclusion**

Multi-year planning across multiple lines of business is a tremendous challenge, but one that SPU continues to navigate in a way that we think has made the utility stronger and has provided welcome rate transparency and stability for its customers. COVID-19 has increased uncertainty for all of us, and SPU is no exception, despite the Utility’s excellent performance in this past year of challenges. In particular, the rate of capital project completion may be further challenged.

Despite the complexity of the planning effort and the uncertainty ahead, the Plan before you for approval is a strong one. Its focus on *Affordability & Accountability*, and *Risk & Resiliency* is important. The initiatives and investments outlined in the Plan should strengthen utility operations and customer service moving forward.

In the longer-term, the affordability challenges facing SPU are very daunting. We urge the City to begin to grapple with these challenges sooner rather than later.

Our ability to offer these observations and recommendations would not be possible without the support of SPU’s dedicated management team and staff. We thank them for their diligent attention to our concerns, and for their continued excellence in delivery of essential services to our community.

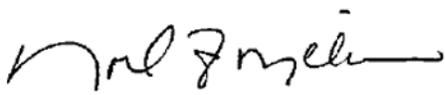
We hope our comments may assist your consideration of this Plan. We further hope that, despite the press of other essential City business and community concerns, you can find time to share your priorities

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for SPU with us now, and in the future, so that we may best fulfill the role with which we have been charged.

Sincerely,

**Members of the Seattle Public Utilities Customer Review Panel<sup>1</sup>**



**Noel Miller**, Chair  
Retired Public Works Director



**Laura C. Lippman, M.D.**,  
Vice-Chair  
Family Physician



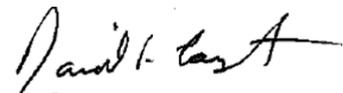
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Mami Hara, General Manager, SPU

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<sup>1</sup> Please note that we are signing this letter in our individual capacity and not as representatives of our employers.