SPU Summary of 2015-2020 Financial Baseline

Definition of Financial Baseline: The change in annual rate revenues, or average annual rates, needed to maintain existing service levels, plus meet firm regulatory requirements.

- *What do we mean when we say "maintain existing service levels?"* We mean that ***actual*** service quality (as opposed to ***targeted*** service quality) neither degrades nor improves. See attached table for examples of current service level targets in the Environmental focus area.

What the Baseline Does NOT Include: The baseline does NOT:

- Adjust for any anticipated, future efficiencies
- Prioritize existing expenditures and eliminate or reduce lower priority projects/programs
- Include capital projects in the 6-year Capital Improvement Program that are new efforts not required by regulators or are necessary to maintain existing service levels
- Include funding for new initiatives to address gaps in meeting SPU's strategic objectives.

Why the Baseline Does Not Simply Increase By the General Rate of Inflation: Some of the more significant reasons that the baseline does not rise at the general level of inflation are listed below, and are placed into two categories: (1) changes to expenditures; (2) changes in other factors affecting the rate path. Most of these reasons cause the baseline to rise ***faster*** than the general rate of inflation.

1. Changes to expenditures. Below are some reasons that expenditures will increase or decrease through 2020 at rates different than the general rate of inflation. These are:

    a. Increasing debt service payments. Much of the cost of SPU's capital projects is debt financed over 30 years. Since most of our existing debt is less than 30 years old, previously-issued debt is not being retired as new debt is issued (generally every 18-24 months), resulting in upward pressure on rates.

    b. Operations "tail" of new infrastructure projects. Construction of new infrastructure (as opposed to replacement infrastructure) is generally associated with operations and maintenance needs above status quo levels. These costs have been included in the baseline figures.

    c. Changing regulatory requirements. SPU's capital and operating expenditures vary considerably with changing regulatory requirements. Increasing requirements for combined sewer overflows, and sediment remediation/liability allocation associated with the Duwamish Superfund site, place upward pressure on rates.

    d. Cost changes to large contracts. SPU has several large contracts for utility services. In Wastewater, King County estimates treatment rates will increase 5.4% in 2015, 1.8% in 2016, 4.2% in 2017, 1.5% in 2018, and 1.6% in 2019. In Solid Waste, the various contracts SPU has for collection, hauling, processing, and disposal of organics, recyclables, and garbage each have their own built-in inflation calculations.

    e. Varying inflators for varying cost centers. The general CPI inflator through 2020 is assumed to be 2% per year. However, there are many SPU cost centers that will inflate differently (and generally at a higher rate) than this. Some examples are:

i. Labor costs, where increases above CPI are primarily but not exclusively due to medical benefits and the City's contribution to pensions for retirees.

ii. Construction costs, which are expected to rise more quickly than general inflation due to increases in the cost of skilled labor and building materials.

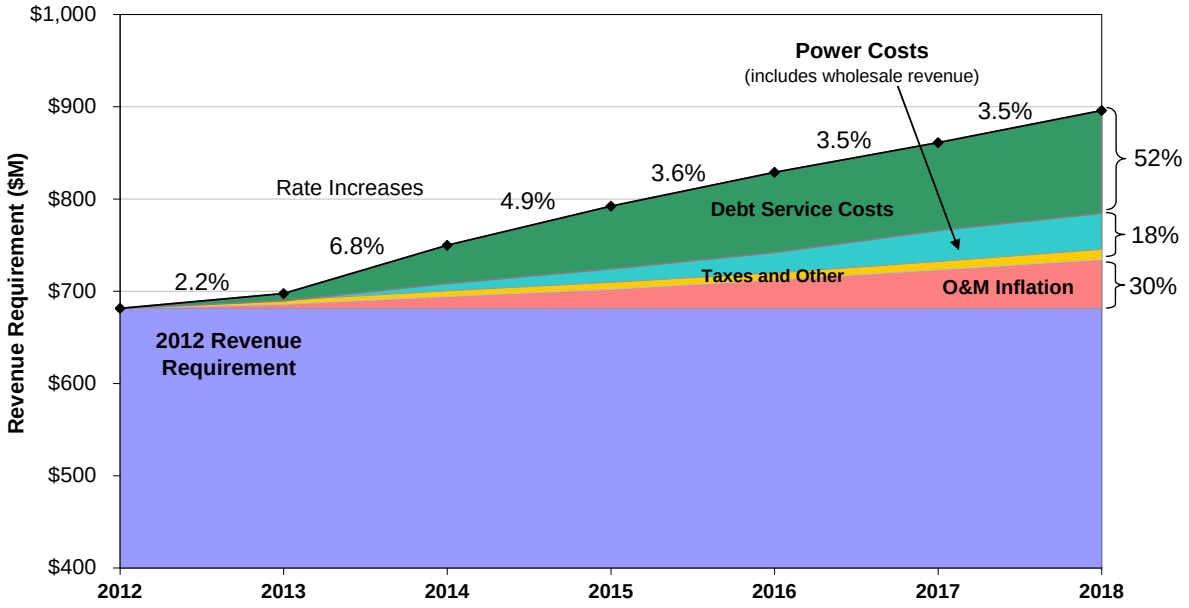
iii. Other costs, such as fuel, are expected to rise faster than the general rate of inflation.

2. Changes to other factors affecting the rate path. Two other factors not related to expenditures have significant implications on the baseline rate path figures. These are:

   a. Customer demand. With the exception of the drainage line of business, SPU expects demand for its services to fall. This means that SPU's fixed costs are spread over a smaller demand base, resulting in higher increases in rates (though not necessarily higher customer bills).

   b. Meeting Financial Policies. SPU has several adopted financial policies for each fund, including net income, debt service coverage, year-end cash, and CIP cash financing. There are times when rates need to increase to meet our financial policies. Fortunately, there are also some times when a fund has exceeded its target, such as year-end cash, and can be used to keep rates lower than they otherwise would be.

City Light Example: To maintain its current level of service and programs, City Light's Financial Baseline document showed rate increases averaging about 4.1% per year for 2013-2018. As shown in the chart pictured below from the City Light Baseline Report (January 2012 update), the main drivers of this increase were a growing debt service burden, growth in the cost of power, and inflation in O&M costs:



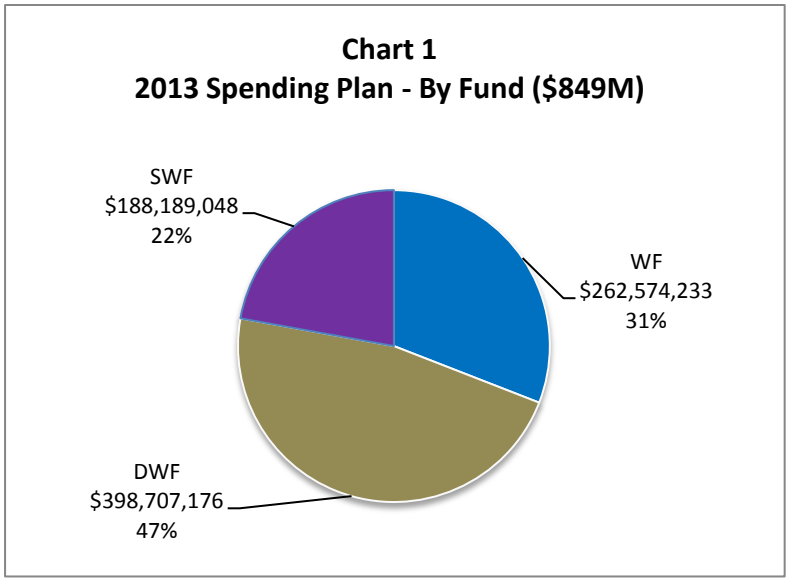
- City Light's projected revenue requirement path, presented in their Strategic Plan, was the combined result of the baseline forecast, planned efficiency actions, and a set of new investments:

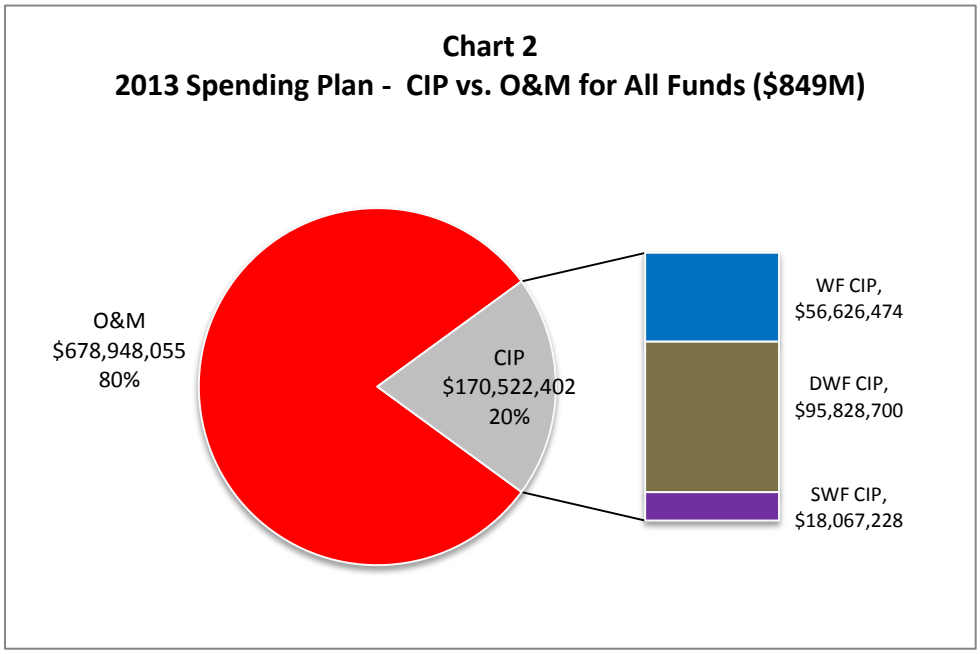
Baseline	4.1% increase per year
Efficiencies	(0.4%) decrease per year
Investments	1.0% increase per year
Total	**4.7% increase per year**

SPU 2013 SPENDING PLAN

DEPARTMENT OVERVIEW

Each year SPU submits a proposed budget in July and the City Council approves the final budget in November. Because changes often occur between July and November, SPU develops a spending plan at the beginning of the fiscal year that is based on the Council-approved budget and updated for any changes in expenditure projections. SPU's 2013 Adopted Budget is $852 million and its 2013 Spending Plan is $849 million. The 2013 Spending Plan will be the starting point for estimating the 2015-2020 baseline budget for SPU's Strategic Business Plan.

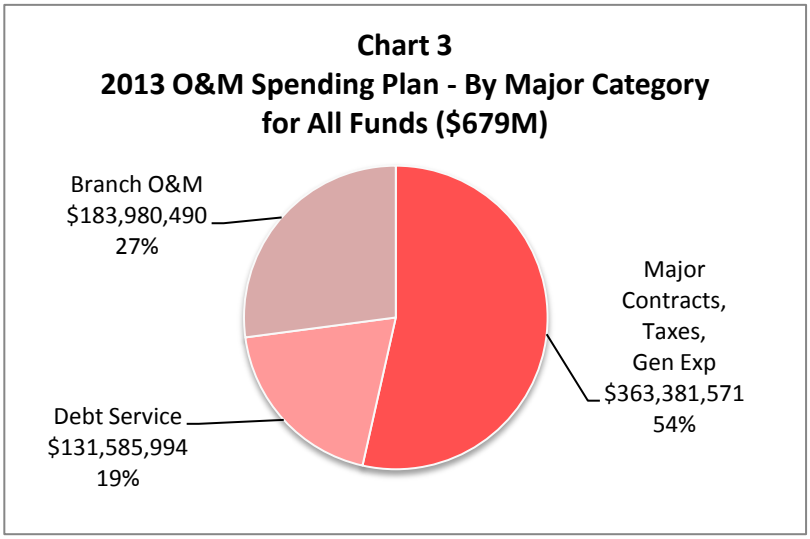


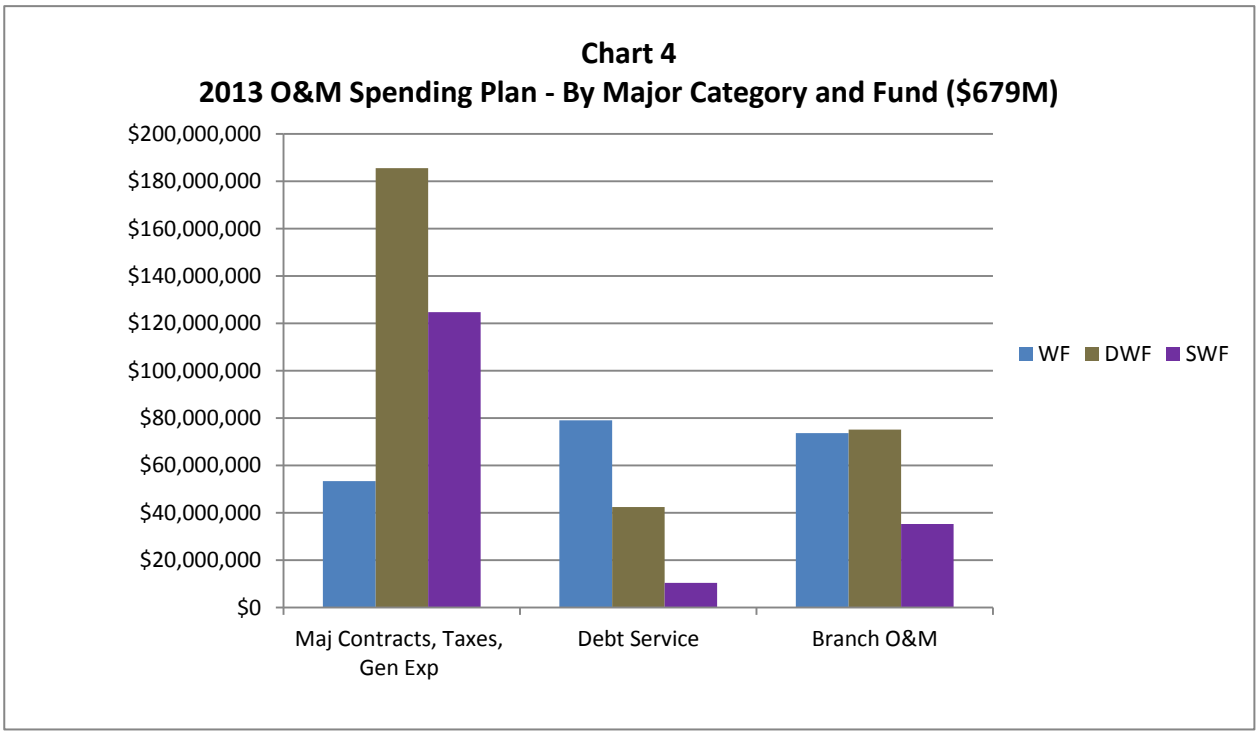


WF= Water Fund; DWF=Drainage & Wastewater Fund; SWF=Solid Waste Fund

OPERATIONS & MAINTENANCE (O&M) SPENDING PLAN

Focusing on the $679M Operations & Maintenance Spending Plan (red section of Chart 2), the majority of O&M expenditures are in ***Major Contracts, Taxes and General Expenses***. This category includes the King County wastewater treatment payments, solid waste collection and disposal contracts, City Central Costs, and other non-branch expenses. The ***Branch O&M*** spending plan of $184M includes the costs of running the department's operations and corporate activities (Field Operations & Maintenance, Customer Service, Utility Systems Management, Project Delivery, Human Resources & Service Equity, Finance & Administration, and Corporate Strategies & Communications). The remaining O&M amount of $132M is allocated for ***Debt Service*** payments.





The following table provides a breakdown of the expenditures in the ***Major Contracts, Taxes and General Expenses*** category.

Table 1 – Details of Major Contracts, Taxes and General Expenses Category

Expenditure Description	WF	DWF	SWF	Subtotal	% of Category	% of O&M*
Solid Waste Contracts			$97,813,631	**$97,813,631**	27%	14%
King County Payments		$137,897,610		**$137,897,610**	38%	20%
Other Major Contracts**	$6,069,272	$105,392	$3,918,898	**$10,093,562**	3%	1%
City Central Costs	$10,727,651	$10,519,547	$3,550,916	**$24,798,114**	7%	4%
Other Gen Expenses***	$6,319,700	$5,792,856	$944,997	**$13,057,553**	4%	2%
City Taxes	$26,981,000	$36,631,698	$16,916,552	**$80,529,250**	22%	12%
State & Other Taxes	$8,908,946	$4,140,170	$3,037,856	**$16,086,972**	4%	2%
G&A Credit****	-$5,693,072	-$9,656,555	-$1,545,494	**($16,895,121)**	n/a	n/a
Total - Major Contracts, Taxes, Gen Exp Category	**53,313,497**	**185,430,718**	**124,637,356**	**$363,381,571**		

** This column shows the percentage of the total O&M Spending Plan of $679M*

*** Includes drinking water treatment plant payments and Local Hazardous Waste Management payments*

**** Includes claims, emergency response contingencies, space rent, etc.*

*****The G&A Credit represents the dollar amount of SPU's corporate functions that is charged as overhead to the CIP. It is a negative number to avoid double-budgeting.*

In terms of the ***Branch O&M*** spending plan, 71% of costs are related to salaries, benefits, temporary employees, overtime, and other personnel costs. The next largest cost center at 17% is Services, which includes consultant and other outside services (e.g. financial auditing, security, printing, etc.), inter-departmental payments (e.g. phone services from Department of Information technology, customer billing system services from City Light, litter collection services from Parks), payments to other government agencies and non-profits for various services, etc. The final two categories – Fleet, Inventory, Supplies and Maintenance, Utilities, Other – each only comprise 6% of the Branch O&M.

Table 2 – Details of Branch O&M Category

Type of Expenditure	WF	DWF	SWF	Subtotal	% of Category	% of O&M*
Salary & Benefits, TES, OT	$53,605,920	$53,722,392	$22,808,350	**$130,136,662**	71%	19%
Services	$9,008,024	$14,205,193	$7,252,208	**$30,465,425**	17%	4%
Fleet, Inventory, Supplies	$4,285,600	$4,569,201	$2,650,273	**$11,505,074**	6%	2%
Maintenance, Util, Other	$6,757,353	$2,626,840	$2,489,136	**$11,873,329**	6%	2%
Total – Branch O&M Category	**$73,656,897**	**$75,123,626**	**$35,199,967**	**$183,980,490**		

** This column shows the percentage of the total O&M Spending Plan of $679M*

Note: Corporate activities are not called out separately and are imbedded in the Fund amounts

For the total SPU Spending Plan, labor costs amount to about $170.5M (or 20%), as roughly $40.5M of the CIP's $170.5M relates to salaries, benefits, overhead and other personnel costs.

The table below lists a number of O&M activities that we currently perform in each of our lines of business and in our corporate area. These bodies of work are categorized as either ***"Need to Have"*** or ***"Nice to Have".*** The "Need to Have" activities are ones that are essential to directly or indirectly providing core utility services and/or meet regulatory requirements. The "Nice to Have" items are services or activities that that enable us to operate more effectively, efficiently and sustainably, and/or add value to the organization and/or our customers.

Line of Business	"Need to Have"	"Nice to Have"
Drinking Water	• Drinking water system monitoring, control and operations • Treatment and regulatory compliance • Watermain and service line repairs • Hydrant testing, maintenance and repair • Meter reading, testing and repair • Watershed protection • Cedar River Watershed Habitat Conservation Plan implementation	• Drinking water outreach, education and promotion • In-house water quality laboratory services • Research • Memberships and participation in regional and national water industry organizations
Drainage & Wastewater	• Drainage & wastewater inspections, cleaning and repair • Pump station operations • CSO regulatory management • Stormwater NPDES permit compliance and stormwater monitoring • SCADA system operations • Sediment remediation • Spill response	• Street sweeping for water quality • Creek riparian habitat improvements • Green Seattle Partnership support
Solid Waste	• Transfer station operations • Household hazardous waste operations • Kent, Midway and historic landfills monitoring • Solid waste contracts administration	• Recycling and waste reduction education and outreach • Product stewardship • Clean City programs
Corporate	• Construction management • Crew planning and scheduling • Security • Safety training • Fleet maintenance • Contact Center and customer billing • SEPA and federal permit compliance • Payroll and accounting • Information technology support	• Benchmarking and quality assurance • Asset management technical assistance • Race and social justice • Employee training, development and communications

CAPITAL IMPROVEMENT PROGRAM (CIP) SPENDING PLAN

The following table provides more detailed information about the 2013 CIP Spending Plan.

Table 3 – Details of CIP Spending Plan

CIP Program	WF	DWF	SWF	Subtotal
Distribution	$18,802,975			$18,802,975
Transmission	$1,212,362			$1,212,362
Watershed Stewardship	$98,884			$98,884
Water Quality & Treatment	$3,236,292			$3,236,292
Water Resources	$7,048,255			$7,048,255
Habitat Conservation Program	$3,615,402			$3,615,402
New Facilities			$12,323,345	$12,323,345
Rehabilitation & Heavy Equipment			$373,630	$373,630
Protection of Beneficial Uses		$5,642,130		$5,642,130
Sediments		$1,664,860		$1,664,860
Combined Sewer Overflows		$49,928,489		$49,928,489
Rehabilitation		$8,091,744		$8,091,744
Flooding, Sewer Backup & Landslides		$10,297,113		$10,297,113
Shared Cost Projects	$13,744,346	$11,717,853	$1,569,413	$27,031,612
Technology	$8,867,958	$8,486,511	$3,800,840	$21,155,309
Total	**$56,626,474**	**$95,828,700**	**$18,067,228**	**$170,522,402**

The individual projects with the largest 2013 amounts are as follows and comprise 58% of the entire CIP Spending Plan amount of $170.5M.

Table 4 – Top 24 Large Projects in 2013 CIP Spending Plan

	Project	WF	DWF	SWF	Project Total
	Water Fund Projects				
1	Wtr Infrastruc-Service Renewal	$5,722,200			$5,722,200
2	Wtr Infrastruc-New Taps	$5,000,000			$5,000,000
3	Morse Lake Pump Plant	$3,800,000			$3,800,000
4	Heavy Equip Purch - WF	$2,929,000			$2,929,000
5	Integrated Security Syst - WF	$1,881,500			$1,881,500
	Drainage & Wastewater Fund Projects				
6	Windermere CSO Storage		$18,748,321		$18,748,321
7	S Genesee CSO		$14,899,891		$14,899,891
8	S Henderson CSO Storage		$3,550,892		$3,550,892
9	Capitol Hill Water Quality Imp		$3,339,895		$3,339,895
10	Point Sewer Pipe Rehab-Contract		$2,483,252		$2,483,252
11	Long Term Control Plan		$2,455,126		$2,455,126
12	RainWise		$2,191,515		$2,191,515
13	CSO Program Management		$1,846,976		$1,846,976
14	Heavy Equip Purchase - WW		$1,800,000		$1,800,000
15	AWV & Waterfront CSO Control		$1,550,000		$1,550,000
16	Knickerbocker Floodplain Imp		$1,540,000		$1,540,000
17	S Portland St Drainage Imp		$1,515,558		$1,515,558
18	No Dig Pipe & Maintenance Rehab		$1,500,000		$1,500,000
	Solid Waste Fund Projects				
19	North Transfer Station Rebuild			$7,048,597	$7,048,597
20	South Park Development			$2,424,748	$2,424,748
21	South Transfer Station Rebuild			$1,550,000	$1,550,000
	Shared Funds Projects				
22	Utility Customer Billing Sys	$1,699,998	$1,650,001	$1,650,001	$5,000,000
23	Maximo Upgrade Program	$1,646,432	$1,013,191	$506,596	$3,166,219
24	Budgeting and Planning Tool(C)	$1,082,022	$963,408	$375,197	$2,420,627
	Total - Large Projects	**$23,761,152**	**$61,048,026**	**$13,555,139**	**$98,364,317**

Line of Business Service Levels and Regulatory Measures (2012 Data Except Where Noted)				
AMC-Adopted Service Levels and Staff Recommended Performance Measures	**Target**	**Oct**	**Nov**	**Dec**
Drinking Water Services				
1. Supply drinking water that meets or exceeds Department of Health regulations	Meet regs	met regs	met regs	met regs
2. Meet state requirements for drinking water system pressure	Meet reqs	Met requirements		
3. Limit yearly drinking water outages totaling >4 hours to less than 4% of retail customers. - YTD # customers with outages > 4 hours - YTD % customers	 7200 max 4% max	 1070 0.59%	 1305 0.73%	 1519 0.84%
4. Meet pressure and flow requirements of wholesale drinking water contracts.	Meet reqs	Met requirements		
5. Limit unplanned outages in the drinking water transmission system to within the maximum agreed duration.	Meet reqs	Met requirements		
6. Respond to 90% of high priority drinking water problems within 1 hour	1 hour max	88%	100%	100%
7. Provide instream water for fish and meet other tribal, regional, state, and federal commitments	Meet regs	Met requirements		
8. Achieve goals for water conservation and leakage loss - Distribution leakage losses of no more than 10% - Make progress towards 6-year conservation goal of 6 mgd of cumulative savings 2007-12 - Through year-end 2011, water demand will be no higher than demand in the year 2000.	Meet regs	 0.06 in 2011 5.39 mgd in 2012 17% lower in 2011		
Wastewater Services				
1. Limit SPU-related sewer backups to EPS target of no more than 4/100 miles of pipe - YTD # events -straight-line projection of backups per 100 miles pipe	 60 max 4 max	 36 2.880	 48 3.491	 56 3.700
2. Respond to 90% of high priority drainage & wastewater problems within 1 hour	1 hour max	98%	71%	97%
3. 80% of safety-related DWW problems resulting in a service interruption will have serivce reinstated within 6 hours	80% min	100%	100%	100%
4. Limit storm-driven sewer overflows to an average of one untreated discharge per overflow site per year	1/site/year (89/yr)	204 ytd	302 ytd	355 ytd
5. Eliminate dry-weather sewer overflows by 2014	Zero	Zero	Zero	Zero

AMC-Adopted Service Levels and Staff Recommended Performance Measures	Target	Oct	Nov	Dec
Drainage Services				
1. Limit SPU drainage system-related interior flooding to 0.1% of customers				
- YTD # claims	170 max	5	15	23
- YTD % customers	0.1% max	0.0029%	0.0088%	0.0135%
2. No critical services are inaccessible due to flooding, except during extreme storm events (i.e., events exceeding the 25-year, 24-hour design storm event)	Zero	0	0	0
3. Respond to 90% of high priority drainage & wastewater problems within 1 hour	1 hour max	98%	71%	97%
4. 80% of safety-related DWW problems resulting in a service interruption will have serivce reinstated within 6 hours	80% min	100%	100%	100%
5. Meet NPDES municipal stormwater permit requirements	Meet req's	89 of 89 applicable rqrmnts met in 2011		
Solid Waste Services				
1. Reduce collection misses to less than 1 per 1000 stops	1 per 1000			
- WMI curbside misses	max	0.12	0.12	0.09
- WMI dumpster misses		0.23	0.34	0.39
- Cleanscapes curbside misses		0.15	0.17	0.13
- Cleanscapes dumpster misses		0.83	0.52	0.55
2. Reduce repeat misses to less than 1 per 10,000 stops	1 per			
- WMI curbside repeat misses	10,000	0.07	0.04	0.08
- Cleanscapes curbside repeat misses	max	0.03	0.05	0.03
3. Achieve City's waste reduction and recycling rate goal of 60% by 2015	52% in 2015	55.7% recycling rate in 2012		
4. Late container delivers per 100 requests:				
- WMI	max 2/100	0.2	0	0.6
- Cleanscapes	max 2/100	0.3	0.5	0.7
5. Collect at least 95% of missed solid waste pickups within one business day following notification by customers				
- WMI	5% max	0.00%	0.82%	1.01%
- Cleanscapes	5% max	0.00%	0.85%	0.00%
6. Provide odor and rodent control at the Recycling and Disposal Stations by cleaning out garbage at day's end at least 90% of the time	90% min	100%	100%	100%