

## Baseline Assumptions

The baseline rate path represents the future cost of providing the current levels of service, plus meet firm regulatory requirements. Built into the baseline rate path are numerous assumptions about the revenue requirement and demand. Below is a list of many of these assumptions, most of which are technical in nature. The overall goal is to have a reasonable set of assumptions that are neither too conservative nor too stringent. Overly conservative assumptions can lead to setting rates higher than necessary while overly stringent assumptions can place SPU in a financial bind in future years.

### Baseline Policy Assumptions

	Topic	Updated Baseline Assumptions (from April 2014)
1	Use of excess cash in Water Fund's Revenue Stabilization Fund	Assume current \$10M surplus in Revenue Stabilization Fund is used to buy down rates over 2015-2020. Place 2018 funds from the Cascade Water Alliance in the Revenue Stabilization Fund.
2	Low Income Rate Assistance participation	Double LIRA participation by 2018, per Mayoral directive.
3	Solid waste financial policies; 2015 rate adjustment	Add new debt coverage financial policy; adjust 2015 and 2016 rates in 2015.
4	Risk placeholder	No change from baseline assumption of \$1.2M per year, which is roughly 0.1% of SPU's annual revenue requirement.

### Updated Baseline Technical Assumptions that Differ from Baseline Paper Assumptions

**NOTE: City Budget Office Staff, Council Central Staff, and SPU Staff all agree these assumptions are reasonable**

Topic	Baseline Paper Assumptions (from February 2014)	Updated Baseline Assumptions (from April 2014)	Rate Impact
Retirement costs	1%/yr increase to total City contribution of <b>20.41%</b> in 2020	Total City contribution <b>15.3%</b> in 2015-16; <b>16.3%</b> in 2017-2020	-
Retirement opt-out	No opt-out savings assumed	Assume savings of <b>\$110k-\$189k per year</b> plus one additional person every other year	-
Salary inflation	<b>3.6% -3.9%</b> per year	Lower salary inflation to <b>1.4% above COLA</b> in 2015; <b>1.0%</b> thereafter	-
CIP	<b>\$1,132M</b> over 6-year period	<b>\$1,026M</b> over 6-year period	-
Bond interest rates	<b>5.25%-6.0%</b>	Lower based on recent rates to <b>4.50%-5.75%</b>	-
Water demand	Average <b>0.4%</b> decrease per year	Update to average <b>0.2%</b> decrease per year	-
Sewer demand	<b>0.6%-1.2%</b> decline per year	Update to <b>0.4%-0.8%</b> decline per year	-
Solid waste demand	0.9% decline/year	Further declines due to <b>NTS closure</b>	+
Solid waste rate path calculation	Earlier rate path based on yearly calculation	Rate path calculation adjusted for mid-year (April) rate start date	+

**Other Significant Technical Assumptions****Noted for Documentation Purposes; No Issues Raised by City Staff – Pending Updated Assumptions from CBO**

Topic	Baseline Paper Assumptions and Final Baseline Assumptions
Health care inflation	7%/year
Workers comp inflation	3%/year
Professional services inflation	3%/year
Charges from other City departments: <ul style="list-style-type: none"> <li>▪ General allocations</li> <li>▪ FAS</li> <li>▪ DoIT allocation</li> <li>▪ DoIT billed</li> <li>▪ Fleets – allocation &amp; fuel</li> <li>▪ Fleets – maintenance</li> <li>▪ Fleets - other</li> </ul>	Yr 1 of biennium/Yr 2 of biennium: <ul style="list-style-type: none"> <li>▪ 8%/4%</li> <li>▪ 8%/5%</li> <li>▪ 12%/5%</li> <li>▪ 12%/7%</li> <li>▪ 11%/7%</li> <li>▪ 11%/4%</li> <li>▪ 11%/11%</li> </ul>
Other O&M inflation	2%/year
Capital Project inflation	1.7%-3.5% per year
Drainage demand	No change
Bond refunding opportunities	Assume no opportunities

**Rate Path and Rate Spending Path for Each Line of Business**

Line of Business	2015-2020 Average Rate Path	2015-2020 Average Rate Spending Path
Water	3.6%	3.1%
Wastewater	3.9%	3.4%
Drainage	8.6%	8.5%
Solid Waste	4.1%	3.4%
<b>Combined</b>	<b>4.6%</b>	<b>4.1%</b>

\*Solid Waste bill path represents average increase assuming new rates are effective April 1 of each year