

SEATTLE PUBLIC UTILITIES (SPU) STRATEGIC PLAN BASELINE ASSUMPTIONS (3.5.14)

Topic	SPU Proposal	Council Staff Alt. Approach	Council Staff Estimated Savings/Year	Council Staff Comments	SPU Summarized Response	Preliminary Decision
Bond interest	5.25%-6%	0.1% lower	\$640,000 in 2020	Although SPU predicts increased borrowing costs, for many years borrowing costs have not been as high as SPU's forecasts. Reducing the assumption a little can reduce the rate revenue requirement by hundreds of thousands or millions.	Interest rate assumptions are based on the advice of the City's financial advisor. SPU recommends waiting until April to see where interest rates are then add basis points as recommended by the financial advisor.	All agree to wait until April and reassess projected interest rates
Bond Refunding	0	Some refunding	\$480,000/year	In the last 6 years, SPU has refunded (refinanced) bonds 7 times, achieving \$4.8 million/year of savings. Listed savings assume some bond refunding in the next 6 years, to gain 10% of savings achieved in the last 6 years.	Due to the number of issues refunded in the past few years, current call features and interest rates, future opportunities to refinance are limited. SPU recommends no change.	Council staff and CBO inclined to agree with SPU's response
Retirement yearly increases	1%/yr above 2014's 24.41%	Average 0.6%/yr above 2014	\$3.2 million/year by 2020 (2020 salary costs = \$133M)	SPU's assumption would have ended in a 30.41% contribution rate, which is 0.41% above a worst-case scenario from 2013. Current projections show that reaching about 28% within the next 6 years is more likely (1%/year for 2015-16, then 0.4%/year for 2017-20)	SPU concurs with Council staff's analysis and recommendation to adjust the retirement cost down: 1% increase per year for 2015-2018 (up to 28%) and remaining flat in 2019-2020.	All agree to SPU's response
Retirement opt-out	0	9	\$130,000/year by 2020	Employees can opt out of the retirement system. In 2012, 9 SPU staff had opted out. If that number continue to opt out, each has a \$80,000 salary, and the City contribution is 18%, the listed savings could be achieved.	SPU concurs that costs associated with 6 staff who have opted out of the retirement system ought to be removed from the baseline; these costs need to be determined.	SPU to determine if costs need to be ramped up (1 FTE/yr)
20 new FTE	\$2 million per year	\$0	\$2,000,000/year by 2020	The baseline includes the cost of 20 new FTE. SPU has suggested that perhaps net FTEs could be held at 2014 levels. Savings assume salary and benefits of \$100,000/employee.	SPU proposes we not remove the 20 FTE adds in the baseline but instead reduce FTEs via efficiencies and remove their associated costs from the rate path.	All agree to SPU's response
Capital accomplishment rate <i>*note that 2/7/14 CIP updates increase 6-yr costs by \$51.1M</i>	85% WF 90% others	83% WF 85% DWF 90% SWF	\$1.6 million WF (\$326,000 rate \$) \$4.6 million DWF (\$1.2M rate \$) \$0 SWF -- Adopted 2015 CIP* --	Since 2010, the Water accomplishment rate (ratio of capital dollars spent to the adopted CIP) has ranged from 68% to 83%. Drainage/Wastewater has ranged from 74% to 85%. Savings are based on setting the accomplishment rate for those funds at the highest actual rate in recent years. Solid Waste Fund is unchanged due to transfer station construction. Rate \$ equal each year's minimum cash contribution (the rest is debt funded)	Upon further analysis, SPU proposes to maintain the current accomplishment rates because the bulk of major projects in all LOBs will be in construction. In 2013, DWF achieved a 90% accomplishment rate.	Additional analysis and discussion needed

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General placeholder	\$1.2 million/yr	\$600,000 /year	\$600,000	The placeholder is for unforeseen costs. Listed savings assume a 50% reduction in the placeholder.	SPU's comfort level in reducing the general placeholder is contingent upon other changes made.	Additional discussion needed
Demand	0% D 0.6%-1.2%WW 1% W 0.9% SW decrease per year	.001% D increase per year 0% SW change per year	\$1+ million/yr?	The baseline assumes a no growth or a steady decrease in demand for all services. Yet for drainage, accounts have increased every year since 2005, ranging from >6000/yr to a low of about 300. With development increasing as the recession fades, increases of at least 300 accounts/yr might be expected, allowing costs to be spread among more customers. For solid waste, no pre-recession commercial account information is available, but tonnage data show commercial tonnage holding steady or increasing after recessions. Plus, both single- and multi-family accounts are assumed to decrease despite the fading recession. An assumption that solid waste accounts hold steady would allow costs to be spread among more customers.	While drainage accounts have increased, the revenue impacts are minimal. Solid waste demand continues to decline, albeit at a slower pace than during the recession. Historically the demand in Water consumption has decreased 1% per year for the last 10 years. The forecast assumes water conservation and reduced outdoor use will continue into future, therefore, the baseline assumes a continued 1% decline in consumption per year.	Additional analysis and discussion needed
WF Revenue Stabilization	\$31M 2018-20	\$18M in 2018-20	\$4.3 million/year 2018-20	By policy the Stabilization Fund must be at least \$9 million. Listed savings assume that double the minimum is kept in the Fund and the rest is spent over 3 years to reduce rate increases.	As of 2014, there is \$19.6M in the RSF. \$11M is anticipated in 2018 from CWA. SPU plans to discuss options for using cash with the Executive and Council staff.	All agree to discuss options for using cash
Solid Waste local mandates	?	?	?	SPU was asked to identify the City-adopted policies that are in the baseline as regulatory mandates. The pace at which those policies (such as the 60% recycling goal) are achieved often is adjusted by local decision makers in recognition of funding constraints. SPU has provided information about these local policies in the baseline except for those that apply to solid waste.	Detailed information on solid waste assumptions will be presented in a separate meeting. In general, there are both adds and off-setting savings associated with the recycling goals in various parts of the budget, as well as revenue implications.	Additional discussion needed – SPU still needs to provide info to Council staff and CBO
Total			\$14 million			

Note: In addition to the above issues, other emergent items will need to be incorporated into the baseline (e.g. expanded Low Income Rate Assistance program, labor inflation assumptions, etc.)