

SPU's Recommended Baseline Programmatic Reductions

Attached are SPU's recommended baseline programmatic reductions for the 2015-2020 rate period. "Programmatic reductions" are defined as decreases to baseline expenditure levels that will reduce or eliminate lower priority services or programs, and/or reduce contingency funds and staff capacity to respond to emergent needs.

SPU management established a scenario of reducing \$11 million annually in operations and maintenance (O&M) costs (1.3% of the 2013 O&M budget), and \$117 million (10%) in capital improvement program (CIP) costs over the 6-year rate period. This combined O&M and CIP reduction, if achieved, would equate to a 0.5% decrease in the average annual rate path from 2015-2020 for all funds combined.

With this scenario, SPU staff in each of the lines of business and in the SPU-wide corporate services identified specific reductions to meet their respective shares of the scenario. While staff teams were allowed to use their own criteria for identifying reductions, the overall approach in each team was to minimize the impact of the reductions on core service delivery. SPU's Executive Team (E-Team) then reviewed the identified reductions and placed each of them into one of three tiers: (1) SPU recommended reduction; (2) reduction under consideration; (3) do not take the reduction.

The table below shows the reduction amounts in each of the three tiers, along with the estimated impact on the 2015-2020 rate path:

Reduction Category	Tier 1: SPU recommended Reduction	Tier 2: Reduction Under Consideration	Tier 3: Do Not Take the Reduction
Annual O&M	(\$3.7 million)	(\$5.2 million)	(\$5.5 million)
6-year CIP (2015-2020)	(\$101 million)	(\$0)	(\$20.1 million)
Estimated Impact on 2015-2020 Rate Path	Tier 1 rate impact = (0.27%)	Tiers 1-2 rate impact = (0.37%)	Tier 3 not recommended

The attached table provides some details for each of the Tier 1 and Tier 2 reductions. Examples of Tier 3 cuts include (a) cuts beyond those offered up in Tiers 1 and 2 for education and conservation programs; (b) deep cuts to basic system operations, maintenance, and monitoring; (c) unsustainable cuts in various corporate service areas, such as human resources, facilities planning & management, asset management, information technology, and project delivery.

Of the \$3.7 million in Tier 1 O&M cuts, SPU estimates that less than \$400,000 in annual cuts will have a direct customer service impact. Examples of customer service impacts include:

- Reduce waste prevention outreach and customer engagement
- Reduce water quality education
- Reduce behavior change campaign for what to put into the sewer system

In addition, two CIP cuts will have direct customer service impacts. These are:

- Reduce localized flood control
- Reduce culvert repair

The remainder Tier 1 cuts will be absorbed as efficiencies, or will decrease SPU's flexibility to address emergent needs. Conversely, most of the \$5.2 million in Tier 2 O&M cuts will have a direct customer service impact – the largest of these is the One Less Truck program.