

2021-2026 Baseline Rate Path

First Presentation to the CRP

February 26, 2020



Purpose of this Presentation

Provide a first look at SPU's baseline rate path and discuss drivers

- Summary of the Adopted 2018-2023 SBP Rate Path
 - Summary of the current rate path after updated Solid Waste rates
- Present the range of 2021-2026 rate path projections
- Discuss some levers that affect the rate path
- Next steps




Adopted 2018-2023 SBP Rate Path

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2018-23</u>
Water	2.0%	2.5%	3.7%	5.0%	4.1%	5.0%	3.7%
Wastewater	4.1%	8.1%	9.9%	8.9%	1.3%	2.6%	5.8%
Drainage	10.7%	9.2%	9.7%	9.9%	7.9%	4.7%	8.7%
Solid Waste	3.1%	3.3%	4.0%	3.0%	3.8%	2.8%	3.4%
Combined	4.3%	5.7%	7.0%	6.8%	3.7%	3.6%	5.2%



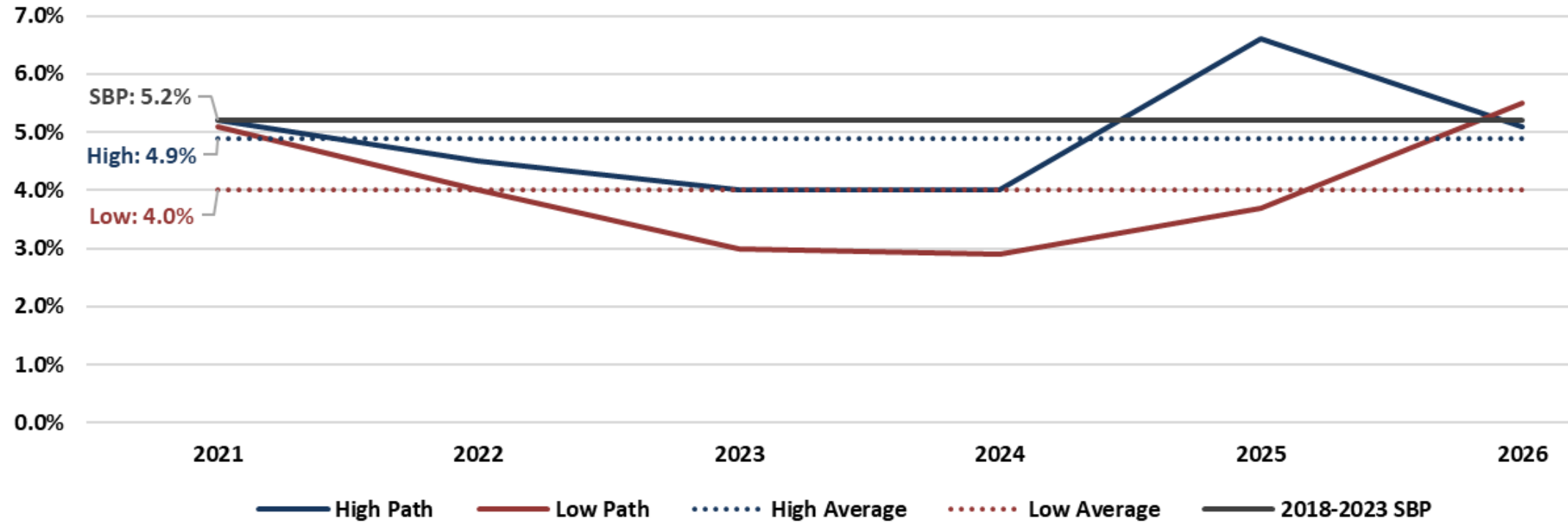
Adopted 2018-2023 SBP Rate Path with Revised SW Rates

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2018-23</u>
Water	2.0%	2.5%	3.7%	5.0%	4.1%	5.0%	3.7%
Wastewater	4.1%	7.4%	7.4%	7.4%	4.5%	2.4%	5.5%
Drainage	10.7%	8.0%	8.0%	8.0%	8.0%	9.0%	8.6%
Solid Waste	3.1%	3.3%	3.2%	2.9%	2.9%	3.1%	3.1%
Combined	4.3%	5.3%	5.6%	5.9%	4.6%	4.3%	5.0%

 Approved rate legislation that is currently in effect



Range of 2021-2026 Rate Path Projections



Major Rates Assumptions

- Water Fund
 - Slightly declining demand (retail)
 - Low tap revenue growth
 - Updated wholesale revenues
- Drainage and Wastewater Fund
 - Slight declining demand
 - Treatment costs +4.0-4.5%/year
- Solid Waste Fund
 - Contract costs +4.0%/year
 - No bond issuances
- All Funds
 - Lower bond interest rates
 - UDP is 3% of retail rate revenue
 - No changes to the regulatory environment



Drivers Affecting the Rate Path Going Forward

- CIP accomplishment rate
 - Previous SBP had higher rate than SPU is projecting going forward
- Higher than anticipated cash balances in 2020
 - Driven by recent underspending



Rate Driver - CIP Accomplishment Rate

- Past assumptions were more conservative – 97.5%
 - Spending was trending up
 - Projections were growing for major new investments
- New assumptions are more pragmatic – 85%
 - Spending has trended down
 - Adjusted assumptions for Transportation projects
- Rippling effect of lower accomplishment rate
 - Decrease in cash required for CIP
 - Decrease in debt issuances and debt service payments



Rate Driver - Cash Balances (\$M)

	2020	2019	2019	2019
(\$M)	Targets	Targets	Actual	Difference
SWF	\$25	\$24	\$71	\$47
DWF	\$80	\$80	\$243	\$163
WF	\$75	\$75	\$127	\$52
TOTAL	\$180	\$179	\$441	\$263



Rate Driver - Cash Balances Continued

- SPU began 2020 with cash balances well in excess of the internal financial targets.
- SPU is exploring ways to use the cash balances including:
 - Using cash balances to pay for CIP rather than issuing debt in order to bring down the rates.
 - Maintain higher cash balances in the event of an emergency.
 - Use some of the cash to refinance debt in the near-term for long-term savings.



Going Forward

March CRP Meeting

Follow-up from previous meeting + updated rate path with expenditure scenarios

April CRP Meeting

Follow-up from previous meeting + updated rate path scenarios