



**Legislative Department
Seattle City Council**

September 14, 2010

TO: Seattle Public Utilities and Neighborhoods (SPUN) Committee

FM: John McCoy and Meg Moorehead, Council Central Staff

RE: **Council Issues Regarding Proposed 2011-2012 Drainage & Wastewater Rates**

SEATTLE PUBLIC UTILITIES (SPU) PROPOSAL

SPU has proposed increasing drainage and wastewater rates in 2011 and 2012. Extra revenue would cover higher operations and maintenance (O&M) costs and an expanding capital program, which is largely driven by Clean Water Act compliance. New O&M costs include a water quality-focused street sweeping program, Clean Water Act compliance, flow monitoring in capacity-deficient areas, regional salmon planning dues, claims, and other activities. The increased costs are partially offset by utility-wide operational and staffing cuts of about 3% (see attached summary), which is a reduction of about \$4 million and up to 49 FTEs, including some layoffs. The proposed rate reflects the net effect of these.

Under the proposal, an additional \$25.4 million (\$14.6M drainage / \$10.9M wastewater) would be collected in 2012 versus 2010. This translates to a two-year increase of 5.9% on wastewater and 24.6% on drainage.¹ Effects on monthly bills would vary for different types of customers. Examples of proposed typical monthly bills are:

| | Adopted 2010 | Proposed 2011 | '10-'11 Diff. | Proposed 2012 | '11-'12 Diff. |
|-------------------------|-------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Single-family residence | | | | | |
| Drainage | \$17.17 | \$19.37 | \$2.20 | \$21.45 | \$2.08 |
| Wastewater | \$46.70 | \$48.57 | \$1.87 | \$50.49 | \$1.92 |
| Supermarket | | | | | |
| Drainage | \$597.08 | \$688.75 | \$91.67 | \$763.03 | \$74.28 |
| Wastewater | \$1,796 | \$1,868 | \$72.00 | \$1,942 | \$74.00 |

These figures do not include King County's recently adopted increase in 2011-2012 wastewater treatment rates, which will increase SPU wastewater bills an additional 9.4%. This change can be enacted via pass-through legislation as in prior years.

¹ The drainage increase is larger in percentage terms because the base rate is smaller, and the proposed rate continues a six-year shift of some combined system costs to drainage.

COUNCIL RATE REVIEW

Issue 1. Proposed Budget Adds

Should SPU's proposed budget adds be approved?

- A. Capacity Planning. The rate would add 2.0 FTE Senior Civil Engineers and about \$480,000 per year to work on capacity issues for the stormwater and sanitary sewer systems in problematic areas of the city. SPU argues that its existing planning resources have been monopolized by the CSO Control program, driven by regulatory mandates for water quality, leaving the utility understaffed for regular service delivery. The engineers would work to model and improve SPU's infrastructure in order to prevent flooding and sewer backups during storm events. Lack of this function could increase damage costs and legal claims.

Option 1. Approve the budget add.

Option 2. Disapprove the budget add.

- B. WRIA Dues. The rate would add \$100,000 in support to the Water Resource Inventory Area (WRIA) management committee. SPU participates in WRIA 9, which seeks to improve threatened Chinook Salmon habitat on the Green/Duwamish rivers and in Puget Sound. With rate revenue tight, SPU has been providing in-kind staffing rather than paying dues, but the utility argues that devoting its staff to WRIA work is delaying the utility's own priority work on culvert replacements and habitat improvements. Converting the support to about \$100,000 in dues would free up the time of about 0.5-0.7 FTE within SPU and improve project completion.

Option 1. Approve the budget add.

Option 2. Disapprove the budget add.

Issue 2. Other Discretionary Programs.

Should discretionary environmental programs be funded, or should SPU eliminate them and pass the savings on to ratepayers?

The Drainage & Wastewater Fund supports several programs that have environmental benefit but are not specifically required by state or federal regulators. As such, they could be eliminated or delayed if rate savings are desired.

- A. Street Sweeping for Water Quality. The rate adds 1.0 FTE Senior Civil Engineer and about \$1 million a year ongoing by 2012 to enact a street sweeping program aimed at collecting pollutants before they enter the drainage system and discharge into nearby lakes, rivers and Puget Sound. The program, which also includes approximately \$1.4 million in one-time capital costs for truck, equipment and sign purchases, would sweep approximately 575 miles of arterial and industrial curbed roadways about every two weeks, typically at night. This scope could be expanded in the future. SDOT would provide the service and realize approximately \$500,000 in General Fund savings per year on its own street sweeping activities. SPU's trial programs have

shown street sweeping to be more cost effective at removing pollutants from nearby waterways than other, more capital-intensive approaches. However, no regulatory agency is requiring this level of effort at this time.

Option 1. Approve the budget add.

Option 2. Disapprove the budget add for this rate period and revisit street sweeping in a future rate cycle.

- B. Capitol Hill Water Quality. The rate includes \$2.8 million over the biennium (\$6.2 million total) to build four blocks of vegetated swales on Yale and Pontius Avenues to filter out polluted sediments from Capitol Hill stormwater runoff before it is piped into Lake Union. Current projections show the swales removing 28 tons of sediments that are currently deposited into the lake annually. Timing for design and construction depend on the developer (Vulcan's) schedule. Vulcan is currently moving forward with design on two of the blocks. The project is mostly discretionary: no regulatory agency is requiring the City to do it specifically, but our NPDES Stormwater permit does require the City to have some kind of stormwater control program, and this is one of few active examples. If delayed, SPU would possibly lose the opportunity to install the swales. The project would be the first time SPU has attempted such a natural drainage system in a highly urbanized environment like South Lake Union, and it is technically innovative. This item also appears in the 2Q Supplemental ordinance to allow design work to start in 2010.

Option 1. Approve the project in the rate and the 2Q supplemental.

Option 2. Disapprove the project in the rate and the 2Q supplemental.

- C. Venema Creek Natural Drainage system. The rate includes \$4.2 million over the biennium to construct natural drainage systems in the neighborhood upland of Venema Creek, a subbasin of Pipers Creek at Carkeek Park. The program calls for 8.5 blocks of swales, along with pervious pavement on three "green" alleys and one sidewalk. The goal is to reduce the impact of stormwater runoff and associated pollutants on aquatic life in the creek, including salmon and cutthroat trout. The effort also has research value and will provide data on the effectiveness of this approach. This project, though it would have environmental benefit, is not specifically required by any regulatory agency. It could be eliminated if rate savings are desired. Or, major construction could be delayed past the current rate period. NOTE: SPU is pursuing \$1 million in state grants on this project, and it has competed well in the past. Indeed, a project delay once before forced SPU to forego previously awarded state funding. SPU is also pursuing possible federal funding.

Option 1. Keep the project as proposed in the CIP.

Option 2. Delay major construction past the current rate period.

Option 3. Eliminate the project.

Issue 3. Capital Program Reductions

Should other large capital projects have their planned spending reduced or delayed?

The Drainage & Wastewater Capital program is accelerating its spending, primarily due to regulatory mandates that SPU better control overflows on its Combined Sewer outfalls during storm events. This mandate requires capital-intensive modeling, design and facility construction. The fund's CIP had previously been running between \$45-\$65 million per year, but is now slated to grow to \$85 million in 2011 and \$93 million in 2012, topping out near \$100 million per year in the next rate period. Earlier this year, Council endorsed this spending arc and 2015 project goals in Resolution 31201. However, if rate savings are desired, Council could reconsider that signal. One option would be to endorse a slower approach by cutting overall Capital spending by 5 percent. This would lower rates for 2011-2012 but it would put upward pressure on the next rate cycle. Also, EPA may engage in stronger enforcement action to the extent that SPU appears unable to deliver on its CSO control goals by 2015.

Option 1. Approve the CIP as proposed.

Option 2. Reduce the CIP spending level by 5 percent to reflect a slower compliance approach (\$4.25 million in 2011 and \$4.7 million in 2012). Request that SPU provide specific project cuts and/or schedule delays for budget action by Oct. 1.

Issue 4. Late-Breaking Budget Revisions

Should Council grant increased rates for the late-breaking re-allocation of shared costs, and if so, over what timeframe?

Several budget-related adjustments have come to light since the rate proposal was sent to Council. Changes to internal cost allocations and overhead allocations would increase the revenue requirement in this fund. Reduced COLAs for represented and non-represented employees (per Friday's announcement) and cuts to general government departments would lower it. On net, the revenue requirement is projected to be about \$1 million over the original proposal. Without a rate change, SPU would need to find equivalent other cuts. Their options for doing so would be challenging, as cuts to corporate functions would only be allocated about one-third to this fund, and capital cuts would only save about one-quarter (the cash contribution).

Option 1. Approve a rate increase for the adjustments all in 2011.

Option 2. Approve a rate increase with the adjustments phased in over 2 years.

Option 3. Disapprove the increase and retain the original proposal.

Issue 5. Labor Productivity and Work Flexibility Gains

Should the rate be reduced to anticipate and incentivize productivity gains in upcoming labor contract and work rule negotiations?

SPU management would like to work with their labor unions to increase productivity and reduce costs in several areas. Some ideas, such as flexible work duties (also known as multi-skilling) would require contract negotiations, which now appear slated for 2013. Other labor efficiencies could be arrived during this rate period within the existing contracts. Friday's labor announcement called on labor and management to address these issues: "During these times of financial constraints to the City's revenues, it is in the parties' interest to continue to work collaboratively to identify workplace efficiencies. Towards that end, the Parties are committed to reviewing management and employee suggestions for workplace efficiencies that can achieve cost savings."

In particular, SPU management has identified areas where operations staff productivity trails national benchmarks. Clearer performance expectations may improve this. Management would like to institute flexible schedules for routine work in roadways that must be done on evenings and weekends, by turning those times into some crews' regular shifts, as opposed to overtime, which pays more. Together, the savings from these initiatives could be significant.

Option 1. Accept labor productivity and cost factors as proposed.

Option 2. Reduce revenue requirements and budget by \$150,000 in 2011 and \$300,000 in 2012 to encourage productivity savings. This could be coupled with a Council SLI or BUGS stating multi-departmental goals for labor productivity increases.

NEXT STEPS AND RATE APPROVAL PROCESS

Direction from the September 14 SPUN Committee meeting will be incorporated and brought back to the Committee for a final rate recommendation on September 28. Based on earlier Committee direction, it is anticipated that the rate legislation would then be re-referred to the Budget Committee for adoption. The re-referral allows the Budget Committee to consider whether increases in utility taxes are needed to address General Subfund shortfalls.