

**DRAFT Seattle Public Utilities
Baseline Rate Projections
Overall Assumptions/Vulnerabilities**

Rates are dependent on four factors:

1. Customer Demand. Each Fund has varying assumptions on customer demand – see detail in lines of business.
2. Costs. Costs are dependent on inflation factors and discrete changes.
 - a. Inflation Factors. See the table below for overall inflation assumptions across lines of business. **The figures in red continue to be evaluated.**

Cost Types	Each Year	Year 1 of biennium	Year 2 of biennium
Labor costs:			
Salaries	4.0%		
Healthcare	7.0%		
Retirement	1.0%		
Workers Comp	3.0%		
Non-Labor			
SPU O&M (excluding professional services)	2.0%		
Professional services	3.0%		
Capital	2.0%		
General City Central Costs		8.0%	4.0%
Finance & Admin Services Allocation		8.0%	5.0%
Depart of Information Tech Allocation		12.0%	5.0%
Dept of Information Tech Billed Charges		12.0%	7.0%
Fleets – Allocation & Fuel		11.0%	7.0%
Fleets – Maintenance		11.0%	4.0%
Fleets – Other		11.0%	11.0%
Other			
Taxes (no changes to tax rates)	No change		
Interest rate on debt	5.0%-5.5%		

- b. Other Cost Adjustments. Each baseline rate path includes discrete changes to costs to maintain existing service levels plus meet regulatory requirements. **These numbers are under review to ensure accuracy – more detail will be provided at the next Panel meeting.** An example from each Line of Business is:
 - i. Water includes funding for operating and maintaining the new hatchery
 - ii. Drainage & Wastewater includes staffing adds to maintain and operate assets coming on line in the rate period, per regulatory requirements
 - iii. Solid Waste includes lower disposal costs as a result of higher recycling levels
3. Non-Rate Revenues. Each Fund has varying assumptions on non-rate revenue – see detail in lines of business. Examples include revenues from new water service installation charges, grants, recycling revenues
4. Financial Policies. Each of SPU's three funds has adopted financial policies (see back of this page for a listing of these financial policies). Rates are set so that all financial policy targets are met. Usually, in order to meet all targets, one or more targets will be exceeded. In the 2015-2020 baseline rates, SPU has avoided using one-time revenues to fund on-going operating costs.

SPU's Adopted Financial Policies

Financial Parameter	Adopted Financial Policies/Preliminary 2012 Performance		
	Drainage & Wastewater Fund	Solid Waste Fund	Water Fund
Current Revenues Vs Current Expenses			
Net Income	Generally positive (\$0.8M in 2012)	Generally positive (\$7.7M in 2012)	Generally positive (\$20.7M in 2012)
Debt Service Coverage	1.8 times (3.4 times in 2012)	1.7 times (3.9 times in 2012)	1.7 times (1.7 times in 2012)
Cash Parameters			
Year-End Cash Balance	One month wastewater treatment expense (\$60.0M in 2012)	20 days contract expense (\$21.1M in 2012)	1/12 th of current year's operating expense (\$12.4M in 2012)
Cash Financing of Capital Projects	25% minimum over 4 yr rolling average (27% in 2012)	\$2.5 million per year (\$3.1M in 2012)	15% minimum in any year; 20% over rate period (49.5% in 2012)
Other			
Debt-to-Asset Ratio	No more than 70% (57% in 2012)	N/A	N/A
Variable Rate Debt	<15% total debt (0 in 2012)	< 15% total debt (0 in 2012)	< 15% total debt (0 in 2012)
Revenue Stabilization Fund	N/A	N/A	\$9 million minimum (\$12.4 in 2012)

**Seattle Public Utilities
Baseline Rates, Charges, and Assumptions
Drinking Water Line of Business**

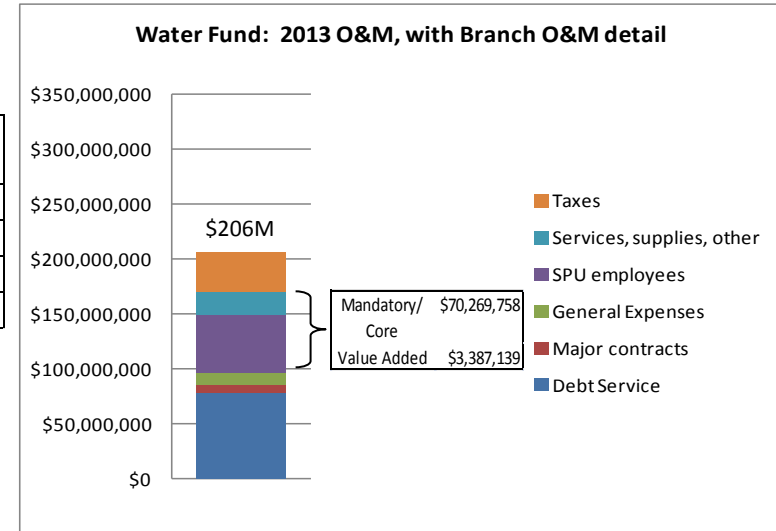
Baseline Forecast – Monthly Water Charges for Example Customers

	2015	2016	2017	2018	2019	2020	Avg Annual Change
Residential	\$40	\$42	\$44	\$45	\$48	\$50	4.29%
Convenience Store	\$53	\$55	\$57	\$60	\$63	\$66	4.29%
Downtown Hotel	\$4,785	\$4,957	\$5,224	\$5,407	\$5,748	\$5,983	4.29%
Large Industrial	\$15,384	\$15,937	\$16,797	\$17,384	\$18,479	\$19,235	4.29%

Current 3-year water rate cycle is 2012-2014; next 3-year rate cycle begins in 2015

Av baseline rate increase of 33% over 6-year period, or \$11.16 per month for residential customer

Note on 2013 O&M Chart: Mandatory, Core, and Value Added Costs total 100% of the "Services, supplies, other" and "SPU employees" cost categories (i.e., Branch expenses)

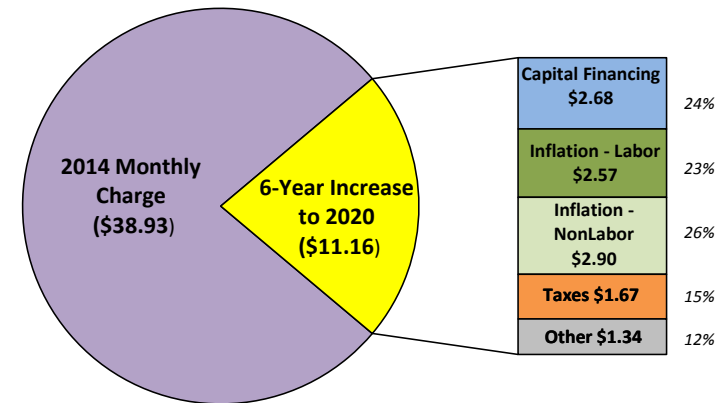


Major Assumptions/Vulnerabilities – 2015-2020

Demand	Declining 1% per year
O&M inflation*	4.1% average annual growth rate
Debt service	2.6% average annual growth rate
Major contracts	----
Other cost adjustments	\$3.2M (2015), increasing to \$6.7M (2020) – <i>detail forthcoming</i>
Non-rate revenues	<ul style="list-style-type: none"> 3% average annual growth rate for wholesale rate revenues (actuals determined by contract) 2% average annual growth rate for other revenues – actuals dependent on the economy and new construction (e.g., new water service revenues)
Financial Policy Issues	<ul style="list-style-type: none"> Debt coverage needs are high, leading to exceeding other policy targets Cash in excess of targets applied to (a) funding CIP (thus lowering future debt) or (b) placed in revenue stabilization fund Policy question regarding use of funds from the revenue stabilization fund

*excluding debt services, taxes, major contracts

Water monthly charge increase from \$38.93 in 2014 to \$50.09 in 2020. What does the increase pay for?



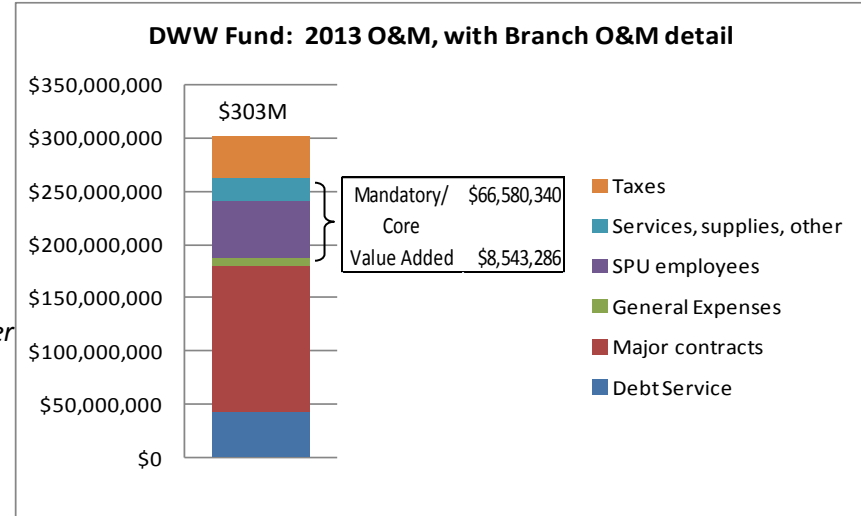
**Seattle Public Utilities
Baseline Rates, Charges, and Assumptions
Wastewater Line of Business**

**Baseline Forecast – Monthly Wastewater Charges for Example Customers
Wastewater**

	2015	2016	2017	2018	2019	2020	Avg Annual Change
Residential	\$51	\$52	\$52	\$56	\$60	\$61	3.26%
Convenience Store	\$81	\$82	\$82	\$89	\$95	\$97	3.26%
Downtown Hotel	\$3,222	\$3,257	\$3,280	\$3,552	\$3,772	\$3,859	3.26%
Large Industrial	\$3,810	\$3,852	\$3,878	\$4,200	\$4,460	\$4,563	3.26%

Current 3-year wastewater rate cycle is 2013-2015; next 3-year rate cycle begins 2016
Av baseline rate increase of 21% over 6-year period, or \$10.71 per month for residential customer

Note on 2013 O&M Chart: Mandatory, Core, and Value Added Costs total 100% of the “Services, supplies, other” and “SPU employees” cost categories (i.e., Branch expenses)

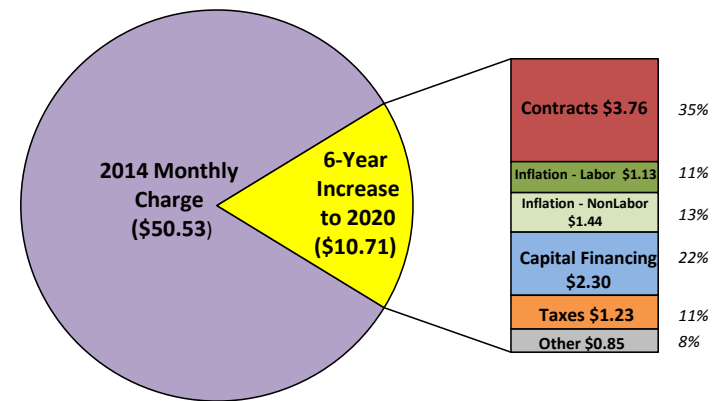


Major Assumptions/Vulnerabilities – 2015-2020

Demand	Wastewater demand declines 0.6% to 1.2% per year
O&M inflation*	3.8% average annual growth rate
Debt service	11.5% average annual growth rate
Major contracts	2.0% average annual growth rate in wastewater treatment payments to King County (County projections; not binding)
Other cost adjustments	\$3.0M (2015), increasing to \$3.6M (2020) – detail forthcoming
Non-rate revenues	0.1% per year average annual growth rate; actuals generally dependent on the economy and new construction (e.g., permit revenues) or grants
Financial Policy Issues	<ul style="list-style-type: none"> Cash above minimum targets from current rate period applied to funding CIP (thus lowering future debt) In rate period, cash levels just meeting financial targets

*excluding debt services, taxes, major contract

Wastewater monthly charge increase from \$50.53 in 2014 to \$61.24 in 2020. What does the increase pay for?



**Seattle Public Utilities
Baseline Rates, Charges, and Assumptions
Drainage Line of Business**

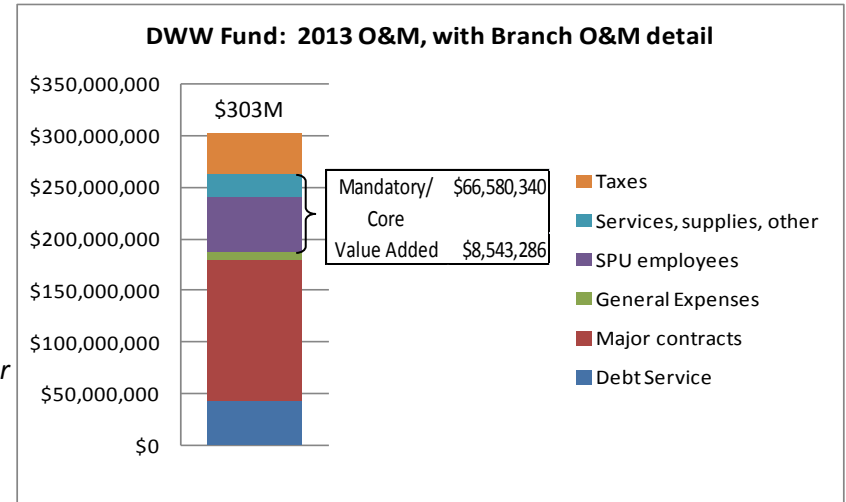
Baseline Forecast – Monthly Drainage Charges for Example Customers

Drainage

	2015	2016	2017	2018	2019	2020	Avg Annual Change
Residential	\$29	\$31	\$34	\$37	\$41	\$44	8.94%
Convenience Store	\$85	\$90	\$98	\$107	\$118	\$129	8.94%
Downtown Hotel	\$1,227	\$1,304	\$1,420	\$1,551	\$1,703	\$1,867	8.94%
Large Industrial	\$14,526	\$15,441	\$16,810	\$18,363	\$20,170	\$22,111	8.94%

Current 3-year drainage rate cycle is 2013-2015; next 3-year rate cycle begins 2016
Av baseline rate increase of 67% over 6-year period, or \$17.84 per month for residential customer

Note on 2013 O&M Chart: Mandatory, Core, and Value Added Costs total 100% of the "Services, supplies, other" and "SPU employees" cost categories (i.e., Branch expenses)

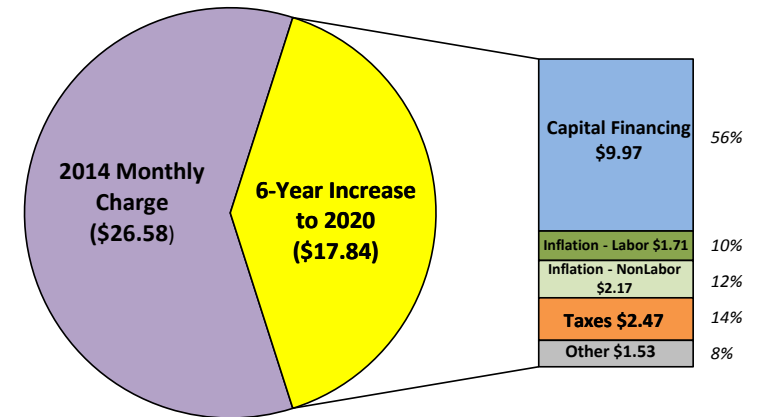


Major Assumptions/Vulnerabilities – 2015-2020

Demand	Drainage "demand" fixed (parcel size; impervious surface)
O&M inflation*	4.1% average annual growth rate
Debt service	11.5% average annual growth rate
Major contracts	---
Other cost adjustments	\$3.2M (2015), increasing to \$3.8M (2020) – detail forthcoming
Non-rate revenues	0.1% per year average annual growth rate; actuals generally dependent on the economy and new construction (e.g., permit revenues) or grants
Financial Policy Issues	<ul style="list-style-type: none"> Cash above minimum targets from current rate period applied to funding CIP (thus lowering future debt) In rate period, cash levels just meeting financial targets

*excluding debt services, taxes, major contract

Drainage monthly charge increase from \$26.58 in 2014 to \$44.42 in 2020. What does the increase pay for?



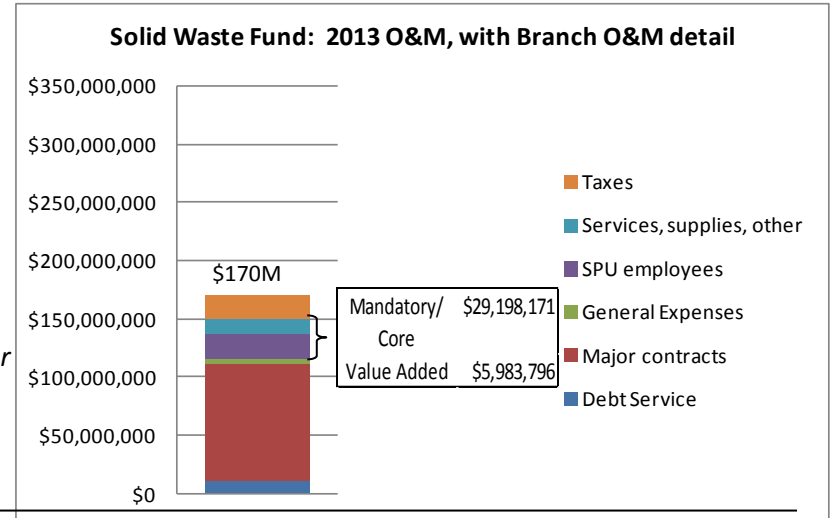
**Seattle Public Utilities
Baseline Rates, Charges, and Assumptions
Solid Waste Line of Business**

Baseline Forecast – Monthly Solid Waste Charges for Example Customers

	2015	2016	2017	2018	2019	2020	Avg Annual Change
Residential	\$43	\$44	\$47	\$48	\$49	\$51	3.66%
Convenience Store	\$439	\$454	\$480	\$494	\$508	\$522	3.66%
Downtown Hotel	\$4,185	\$4,327	\$4,582	\$4,710	\$4,842	\$4,977	3.66%
Large Industrial	\$5,281	\$5,460	\$5,782	\$5,944	\$6,110	\$6,280	3.66%

Current 4-year solid waste rate cycle is 2013-2016; next 3-year rate cycle begins 2017.
Av baseline rate increase of 22% over 6-year period, or \$9.84 per month for residential customer

Note on 2013 O&M Chart: Mandatory, Core, and Value Added Costs total 100% of the "Services, supplies, other" and "SPU employees" cost categories (i.e., Branch expenses)



Major Assumptions/Vulnerabilities – 2015-2020

Demand	Declining 0.9% to 1.1% per year in volume. Average can size declining 0.1% to 0.3% per year.
O&M inflation*	4.1% average annual growth rate
Debt service	9.8% average annual growth rate
Major contracts	2.5% average annual growth rate
Other cost adjustments	\$0.7M (2015), decreasing to (\$0.3M) in 2020 – detail forthcoming
Non-rate revenues	<ul style="list-style-type: none"> \$2.3M-\$2.7M/year in recycling revenues; actual vary based on market conditions Assumed income from 2014 sale of Kent-Highlands landfill
Financial Policy Issues	<ul style="list-style-type: none"> Net income is driving rates in current rate period, leading to exceeding cash target Cash in excess of minimum levels used in 2016 to fund shift from advance billing to billing based on services received

*excluding debt services, taxes, major contracts

Solid Waste monthly charge increases from \$40.91 in 2014 to \$50.75 in 2020. What does the increase pay for?

