



Date: August 1, 2018

To: Councilmember Lisa Herbold, Chair
Civil Rights, Utilities, Economic Development & Arts Committee

From: Mami Hara, General Manager/CEO
Seattle Public Utilities

Re: Status Report for Resolution 31760 Amendment #14 Regarding Affordability and Accountability Strategy

Resolution 31760, which approved Seattle Public Utilities' 2018-2023 Strategic Business Plan Update (Plan Update) calls for SPU to prepare an affordability and accountability strategic plan (the Plan) focused on managing future rate increases and corporate performance for inclusion in the 2021-2023 Strategic Business Plan Update. At a minimum, the Plan will evaluate: a) utility pricing and rate structures; b) customer assistance programs; c) process efficiencies and capital project cost savings; d) investment prioritization; e) comparative utility tax rates and effects on rate affordability; and f) partnership opportunities.

The Council requested that the Utility submit a written status update detailing work completed on the Plan to the Council President and the Chair of the appropriate Council committee by August 1, 2018. A final draft of the Plan shall be submitted to Council no later than June 30, 2019.

This memo provides a written status report detailing SPU's work to date on the Plan consistent with Resolution 31760 requirements for August 1. To provide a complete accounting of this work, this report touches on several elements including SPU's: 1) work plan; 2) initial strategy framework; 3) preliminary assessment of utility affordability conditions and challenges; 4) proposed affordability and accountability evaluation areas; and 5) next steps.

1. SPU Work Plan

SPU's affordability and accountability work plan consists of a strategy development phase (January 2018 – June 2019) and an implementation phase (July 2019...forward).



As part the current development phase of work, SPU's efforts are focused on four main tasks as they relate to utility affordability and accountability issues:

- a) **establish a framework:** Identify the focus, desired results and approach to strategy development;
- b) **assess conditions:** Conduct a broad scan and assessment of customer and utility conditions and challenges as they relate to customer ability to pay and utility rates, current costs and future needs. Develop shared understanding around those conditions and challenges;
- c) **evaluate methods and measures:** Provide holistic evaluation of ten priority focus areas impacting affordability and accountability and define criteria and measures for how SPU will determine: *“what is a reasonable rate?”* and *“how best to assess accountability?”*; and
- d) **develop actions:** Bring together framework, assessment and evaluation tasks (a-c above) to create a prioritized plan of action.

Whenever possible, SPU's efforts will build from past studies and current efforts conducted by SPU and with peer groups nationally. This includes, but is not limited to, SPU's 2007 Utility Affordability Study (Council Resolution 30863 and 30928), SPU's 2014 Benchmarking and Efficiency Study and SPU's upcoming CSO Financial Capability Assessment work.

To conduct this work, SPU has established a cross-utility steering group to guide development of the work plan and lead specific work tasks. SPU is also hiring a staff person to further support this work. At this juncture, the utility believes that it is currently on-track to develop a fully fleshed out report, strategy framework and action plan to Council by June 30, 2019.

Detail describing SPU's work to date as it relates to: an initial strategy framework, preliminary assessment of conditions and challenges, upcoming evaluation and overall next steps is provided in the sections below.

2. Initial Strategy Framework

Utility affordability and accountability are public policy issues that impact civic life and social cohesion in our city. Managing rate affordability relies on more than an assessment of “ability to pay”, bill comparisons or the provision of “least cost service.” Discerning value, the difference between the benefit and the cost of service, ensuring accountability and assessing the long-term sustainability of projected spending paths are key factors too.

SPU’s affordability and accountability strategy will seek to drive strategic improvements around four key results:

Reasonable Rates	Assistance	Responsible Investment	Performance
Keeping rates as low as possible for as long as possible.	Providing assistance to ensure customers can access utility services without risk of shutoff.	Calibrating service levels and investments with needs, risks, and maximum value for least cost.	Bringing transparency to how ratepayer money is spent and the value of those investments.

Together, these results - reasonable rates, assistance to access service without shutoff, responsible investment, and transparency in performance – will provide the underpinnings of SPU’s affordability and accountability strategy framework and inform how SPU manages its business operations into the future.

At the center of this approach, SPU will seek to understand and balance our community’s needs with SPU’s responsibility, as an essential service provider, to manage community resources equitably and wisely. Through this work, SPU will continue to evolve its business model and everyday work practices towards optimizing health and quality of life returns to our community of “owners.”

3. Preliminary Assessment of Conditions and Challenges

SPU’s preliminary assessment of the conditions and challenges faced by the utility and our customers reveals a need for our strategy to consider issues related to:

- Increased economic fragility in terms of the ability to pay for basic costs;
- Disproportionate utility cost impacts to those who can least afford it;
- Significant regulatory and external utility cost drivers (now and the near-future); and
- Historic and current utility rate trends that may no longer be sustainable.

In assessing current socio-economic conditions, it is apparent that skyrocketing cost of living, stagnating incomes, and increased income disparity are economic realities being faced by many Seattle residents. As these factors mount, paying for the essentials like basic utility services becomes increasingly difficult especially for low- and fixed- income households and communities disproportionately impacted by these challenges.

Perceived as a wealthy city, greater than 50% of Seattle households reported incomes of less than \$50,000 per year in 2016.¹ To be further assessed is how this reality then reconciles with measures such as the UW self-sufficiency standard that suggest a basic household of four needs \$75,000/year to sustain itself in Seattle.²

As our community grapples with its affordability crisis, an assessment of SPU rate trends shows that increases have outstripped inflation (as measured by the consumer price index (CPI-U)) since 1989 growing at an average rate of 6.0% vs. 2.9% per year. With adoption of the 2015-2020 SPU strategic business plan this trend has scaled back to 4.9% rate path and 5.2% under the recently adopted 2018-2023 Strategic Business Plan Update. However, this greater than inflation trend is projected to continue over at least the next six years with no real indication of leveling off as SPU grapples with new regulatory requirements, aging infrastructure, climate change and other costs, some of which, may be outside of SPU's control.

While SPU rate increases resemble national trends, Seattle rates are also some of the highest in the nation compared to similarly sized cities. Together, regulatory drivers, level of service choices and cost management practices are all contributing factors.

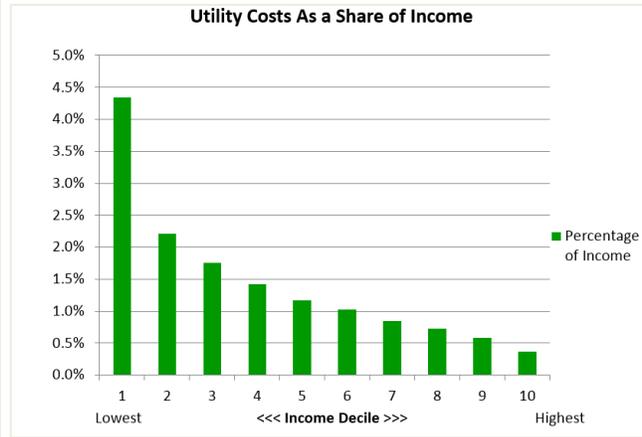
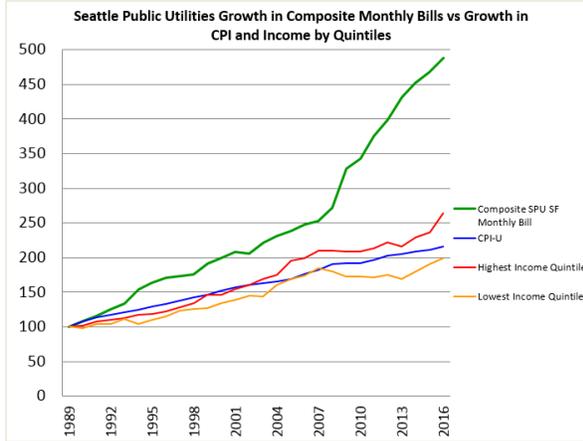
As SPU focuses on affordability and accountability strategy approaches, it is worth noting that SPU already has in place one of the most generous utility assistance programs in the nation. This program currently provides a 50% discount on bi-monthly utility bills to over 33,000 low income households (5% of Seattle's population). Additionally, emergency assistance is also available to customers at risk of having water service disconnected and conservation programs help customers save too.

While crucial, these assistance approaches have limitations since they too cost money (\$15.4 million/year) and they respond to the size of a utility bill rather than drive affordability and accountability upstream of the bill to reduce revenue requirements and rates. Mindful of this issue, SPU's strategy framework will not only focus on improving assistance programs but will look to ensure that SPU rates are reasonable, its investments are responsible and its performance in utilizing rate dollars more accountable at the outset.

The graphics below provide preliminary assessment of SPU rate trends compared to Seattle inflation and income growth as well as how utility costs nationally, as a % share of income, impact those who can afford it the least.

¹ Gene Balk, "A city of riches? Most Seattle filers make less than \$50K, IRS data show", *Seattle Times*, August 30, 2017

² Workforce Development Council of Seattle-King County, *The Self-Sufficiency Standard for Washington State 2017*: 18



4. Proposed Evaluation of Ten Priority Focus Areas

To evaluate affordability and accountability improvement options and opportunities, SPU has built upon the investigation areas provided by Council Resolution 31760 and identified ten priority focus areas that will provide a broader and more holistic evaluation of potential issues. These focus areas home in on key business activities at SPU that have considerable influence on affordability and accountability outcomes and can drive improvements around SPU’s four key results (reasonable rates, assistance, responsible investment and performance) identified in SPU’s initial strategy framework. Table 1 shows how Council Resolution requirements map to SPU’s ten priority focus areas.

Table 1. Mapping Council Requirements with SPU Focus Areas

Resolution 31760 Requirements	SPU Ten Priority Focus Areas
Utility pricing and rate revenues	Revenue Recovery*
Customer assistance program – including UDP and EAP	Customer Assistance Programs
Process Efficiencies	Process and Staffing Efficiency
Capital Project Cost Savings	Capital Project Planning and Delivery
Investment Prioritization	Budget Development and Management
Comparative Utility Tax Rates	Revenue Recovery*
Partnership Opportunities	Alternative Financing and Partnerships
	Financial Planning and Policies
	Contracts, Services and Levy Negotiations
	Regulatory Alignment to Benefit
	Workforce Development Opportunities

* = Denotes shared focus area

Each of the ten priority focus areas being proposed for evaluation are listed in Table 2 below. Also listed are examples of issues that may be evaluated in each focus area (including Council required issues) as well as a few early-action steps already taken by SPU in each area. Together, these evaluations will be mapped back to the four key results in SPU’s strategy framework and form the basis for action plans.

Table 2. SPU Affordability and Accountability Evaluation

SPU Focus Area		Examples of Issues that may be Evaluated	SPU Early Actions
1.	Budget Development and Management	<ul style="list-style-type: none"> • Alternatives to incremental budgeting – zero base, base only • Expenditure projections vs performance (3 and 6 year and overtime) • Investment prioritization approaches • Creating an affordability work culture 	<ul style="list-style-type: none"> • Adhering to SBP rate targets • MO reductions request
2.	Financial Planning and Policies	<ul style="list-style-type: none"> • Impact and performance around key financial assumptions (interest rates, accomplishment rates, inflation) • Underspending practices • Financial policy targets vs. performance (debt service coverage, net income, cash to CIP, cash balance) • Planning for “Known Unknowns and Unknown Unknowns” 	<ul style="list-style-type: none"> • Dashboard and reporting refinements
3.	Revenue Recovery	<ul style="list-style-type: none"> • Utility pricing options • Utility tax rate comparisons and evaluation • Practice of planning for non-rate revenues • Intergenerational equity practices 	<ul style="list-style-type: none"> • Separate charges updates • System Development Charge proposal
4.	Alternative Financing and Partnerships	<ul style="list-style-type: none"> • Grant and loan opportunity evaluation • Leveraging utility capital projects with Community Investment Approaches • Market based incentive strategies • Public Private Partnership (P3) legislative strategies 	<ul style="list-style-type: none"> • WIFIA funding application - \$187M loan • Community Investment work grant - \$200k • Alternative approaches capacity building workshop
5.	Capital Project Planning and Delivery	<ul style="list-style-type: none"> • Investment transparency to customers • Perverse performance incentives – accomplishment, burn rates, • Before it’s a project - planning and scoping phases • Cost estimating, review and savings controls 	<ul style="list-style-type: none"> • Continuous re-evaluation of scope and cost assumptions • Planned asset management and planning workshop
6.	Contracts, Services and Levy Negotiations	<ul style="list-style-type: none"> • Utility contract terms and opt-outs alignment • City services and central costs evaluation and performance (IT, etc.) • Levy impact scan (existing, upcoming) • Contract opportunities scan 	<ul style="list-style-type: none"> • Regional equity assessment • SW Contract Savings - \$5M
7.	Regulatory Alignment to Benefit	<ul style="list-style-type: none"> • Regulation assessment (align with need, benefit charting) • Investments options and opportunities • Regulatory adaptation to climate • Regulatory partnership opportunities 	<ul style="list-style-type: none"> • EPA and Ecology discussions • Financial Capability Assessment - CSOs
8.	Process and Staffing Efficiency	<ul style="list-style-type: none"> • Spans of control • Minimum viable product approaches • Linkage between inefficiencies and external/internal performance • Evaluating staff time/engagement culture 	<ul style="list-style-type: none"> • 0.1% SBP Rate Reduction • Compiling opportunity area lists
9.	Customer Assistance Programs	<ul style="list-style-type: none"> • Alternative approaches to the Utility Discount Program and EAP structure (tiering, qualifying income) • Voluntary contribution options • Small business conservation approaches • Side Sewer repair assistance 	<ul style="list-style-type: none"> • Income qualification process for EAP • SPU UDP Rebate improvement
10.	Workforce Development Opportunities	<ul style="list-style-type: none"> • Regional utility worker cohort collaboration approaches • Apprenticeship • Alternative labor opportunities (New Haven, Dirt Corps) • Retirements and Silver Tsunami 	<ul style="list-style-type: none"> • Utility Peer Group Discussions • WRDA Legislation - \$2 million in Federal fund for water utility workers

5. Next Steps

Over the next 11 months, SPU will engage staff stakeholders working in relevant areas of SPU and the City to participate in one- to two-day deep dive evaluations for each of the priority focus area above. Evaluations will seek to identify relevant issues to managing future rates and SPU performance and assess options and opportunities for improvement or further evaluation. This work will form the basis of prioritizing near term and future efforts and developing a strategic plan of action.

Together SPU's framework, assessment, evaluation and action plan work efforts will form the basis of SPU's affordability and accountability strategy. Consistent with Council Resolution 31760, a draft Plan and report detailing that work will then be provided to Council by June 30, 2019. Upon completion of that work, SPU will move to an implementation phase for this strategy and incorporate those efforts into its 2021-2023 Strategic Business Plan update.

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