



DATE: March 18, 2020

TO: Noel Miller, Chair,
Customer Review Panel

FROM: Mami Hara, General Manager,
Seattle Public Utilities

SUBJECT: Impact of King County Wastewater Rate Increases

Less than two weeks ago, Seattle Public Utilities learned that the King County Wastewater Treatment division plans on a substantial increase in rates over the next several years. These rate increases will directly affect our customers and our cost of service. This memo describes the anticipated impact.

Our last Strategic Business Plan (SBP) rate path, covering 2018-2023, was approved at an annual average rate increase of 5.2%. SPU brought down the path to 5% with the adoption of solid waste, wastewater, and drainage rates during the period. We refined the rate path further, including adopting a CIP Accomplishment Rate of 85% - 90%. The result was that we were prepared to propose an updated SBP rate path (2021-2026) of 3.9% combined annual average rate increase. This rate path assumed a 4.5% wastewater treatment rate increase for 2021 that King County projected in June last year. However, on March 5, the King County Wastewater Treatment Division proposed a rate increase 200% higher than the previous projection – 9.5% in 2021 followed by 10% rate increases each in 2023, 2025, 2027, and 2029 (the even years have no projected rate increases). We understand the County Executive supports this increase and that he will transmit the proposal to County Council by the end of March 2020.

This significant rate increase over the previous projection was a surprise to both Seattle Public Utilities and the other contract agencies that comprise the Metropolitan Water Pollution Abatement Advisory Committee (MWPAAC). The impact, compared to previously projected rates, would increase Seattle's sewer rates an average of almost 1% per year and drainage rates 0.3% per year. This translates to an additional monthly bill impact of \$5.85 for SPU's typical single-family customers by 2026 and an additional 0.4% increase on the average annual increase for all three lines of business over the 2021-2026 period. Instead of a rate path of 3.9%, we are now projecting a combined annual increase of 4.3% for the 2021-2026 timeframe.

Unfortunately, the County did not provide a compelling justification for the increase or any substantive communication and consultation with MWPAAC members. MWPAAC received no detail nor any signals that supplemental budget action taken in 2019 would result in this type of rate increase. In addition, the Regional Water Quality Committee also has had no role in the County's rate proposal. Further, the proposed rates do not fully cover the costs of Combined Sewer Overflows (CSOs) or nutrient regulation, except for nutrient regulatory planning. The additional costs associated with these programs would likely be incorporated into the 2023 rate, which means the 10% increase may be underestimated.

From the information presented, an escalation in the asset management program appears to be driving rate increases. Historically, funding for the asset management program is typically \$40 to \$50 million per year. The new proposal increases spending to more than \$100 million in 2021 and increasing to over \$200 million by 2024. By 2030, the asset management program is projected at almost \$250 million per year. The County has not provided details about the changes in the program, how it plans to deliver a significantly higher level of capital projects in the short time period, financing plans, or capital accomplishment rate expectations.

Not only would this rate increase have significant impacts on affordability for wastewater customers throughout the region, but given the COVID-19 pandemic, these impacts would be amplified dramatically and are contrary to the County's and the City's goals of affordability.

Seattle Public Utilities and MWPAAC, in close coordination with the Mayor's Office, intend to respond to King County Wastewater's proposal through a letter to the County Executive on March 25 and through a separate letter to County Council on April 22. In these letters we are planning on proposing that:

- The County move forward with previously projected rate of 4.5% in 2021;
- Use the next year to engage MWPAAC agencies on details of the Asset Management Program and drivers; and
- Collectively, the parties could reach agreement on whether a further increase is needed in 2022.

The Customer Review Panel will be briefed on the anticipated impact of King County Wastewater's rate increase at the March 20, 2020 meeting.

Attachments:

- 2021 Rate Proposal MWPAAC briefing
- MWPAAC Sewer Rate Capacity Charge Development Goals and Schedule

2021 Sewer Rate Proposal: March 5, 2020 MWPAAC Briefing

CRITICAL ASSUMPTIONS:

- **What is included:** The rate increases in this proposal are set to accomplish significant catch up on the deferred inventory of priority asset management investments.
- **What is NOT included:** The Combined Sewage Overflow (CSO) project costs have not been updated from 2018 forecasts pending the Consent Decree renegotiation, in-progress cost estimate updates (expected by December 2020), and the Clean Water Plan (Q4 2022).
- **Also NOT included:** Potential new regulatory requirements from Ecology on nutrient removal have not been defined and no reasonable cost estimates are available. The proposed rate plan does not provide funding capacity to make system investments to comply with potential new regulation.

Proposal Basis: A 9.5% sewer rate increase in 2021 is proposed to begin to address the deferred asset management inventory. The significant unknowns related to CSOs and nutrient regulation will be integrated in 2023 rate-setting.

Table 1: Proposed Rate Plan

2021 Proposed Rate Plan - Asset Management Inventory Catch-Up, Strategic CSO Investments, Treatment Planning & Plant Optimization Programs											
Proposed	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase %	0.0%	9.5%	0.0%	10.0%	0.0%	10.0%	0.0%	10.0%	0.0%	10.0%	0.0%
Rate	\$45.33	\$49.64	\$49.64	\$54.60	\$54.60	\$60.06	\$60.06	\$66.07	\$66.07	\$72.67	\$72.67
Rate Increase \$	\$0.00	\$4.31	\$0.00	\$4.96	\$0.00	\$5.46	\$0.00	\$6.01	\$0.00	\$6.61	\$0.00
Build (Use) of Rate Stabilization Reserves	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,000	\$ 10,000	\$ (8,000)	\$ (30,000)	\$ -	\$ -
Beginning Balance \$46,250										Ending Balance \$	46,250

Table 2: Rate Plan Alternatives Summary

Below, please see the 2020 Rate Plan that was adopted in June 2019, as well as the current 2021 Proposed Rate Plan. WTD also is providing two other alternatives with information on what can and cannot be funded with these alternative.

2020 Rate Plan											
Adopted ORD 18915	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase %	0.0%	4.5%	0.0%	4.5%	0.0%	4.8%	0.0%	5.6%	4.5%	2.8%	5.1%
Rate	\$45.33	\$47.37	\$47.37	\$49.50	\$49.50	\$51.90	\$51.90	\$54.80	\$57.28	\$58.86	\$61.84
Rate Increase \$	\$0.00	\$2.04	\$0.00	\$2.13	\$0.00	\$2.40	\$0.00	\$2.91	\$2.48	\$1.58	\$2.98
Build (Use) of Rate Stabilization Reserves	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Beginning Balance \$46,250											Ending Balance \$ 46,250

2021 Proposed Rate Plan - Asset Management Inventory Catch-Up, Strategic CSO Investments, Treatment Planning & Plant Optimization Programs											
Proposed	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase %	0.0%	9.5%	0.0%	10.0%	0.0%	10.0%	0.0%	10.0%	0.0%	10.0%	0.0%
Rate	\$45.33	\$49.64	\$49.64	\$54.60	\$54.60	\$60.06	\$60.06	\$66.07	\$66.07	\$72.67	\$72.67
Rate Increase \$	\$0.00	\$4.31	\$0.00	\$4.96	\$0.00	\$5.46	\$0.00	\$6.01	\$0.00	\$6.61	\$0.00
Build (Use) of Rate Stabilization Reserves	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,000	\$ 10,000	\$ (8,000)	\$ (30,000)	\$ -	\$ -
Beginning Balance \$46,250											Ending Balance \$ 46,250

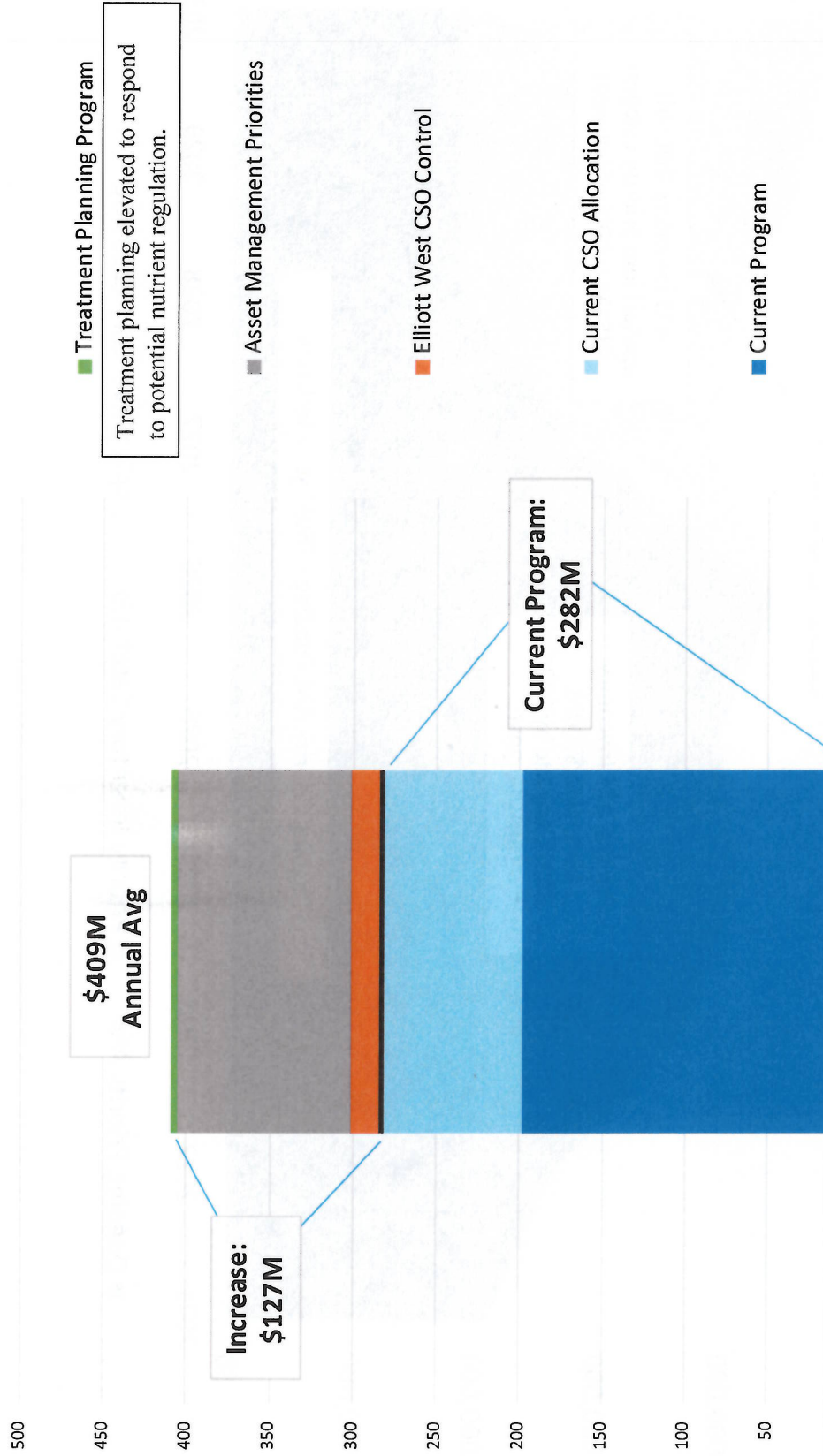
Funds Current Program With 2019 Supplemental and Existing Project Cost Increases [1] - No New Investments in AM or Treatment Plant Programs											
Current Program	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase %	0.0%	6.0%	0.0%	6.25%	0.0%	6.25%	0.0%	6.25%	0.0%	6.25%	0.0%
Rate	\$45.33	\$48.05	\$48.05	\$51.05	\$51.05	\$54.24	\$54.24	\$57.63	\$57.63	\$61.24	\$61.24
Rate Increase \$	\$0.00	\$2.72	\$0.00	\$3.00	\$0.00	\$3.19	\$0.00	\$3.39	\$0.00	\$3.60	\$0.00
Build (Use) of Rate Stabilization Reserves	\$ -	\$ -	\$ -	\$ 10,000	\$ 30,000	\$ 80,000	\$ 52,000	\$ (8,000)	\$ (42,000)	\$ (40,000)	\$ (82,000)
Beginning Balance \$46,250											Ending Balance \$ 46,250

Financing Alternative - Increased Borrowing from 60% to 70% of Capital Program (resulting in debt-financing 34% of AM Program / \$374M)											
Increased Borrowing	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase %	0.0%	7.0%	0.0%	8.25%	0.0%	8.25%	0.0%	8.25%	0.0%	8.25%	0.0%
Rate	\$45.33	\$48.50	\$48.50	\$52.50	\$52.50	\$56.84	\$56.84	\$61.53	\$61.53	\$66.60	\$66.60
Rate Increase \$	\$0.00	\$3.17	\$0.00	\$4.00	\$0.00	\$4.33	\$0.00	\$4.69	\$0.00	\$5.08	\$0.00
Build (Use) of Rate Stabilization Reserves	\$ -	\$ -	\$ -	\$ 16,000	\$ 4,000	\$ 40,000	\$ 7,000	\$ 6,000	\$ (30,000)	\$ (25,000)	\$ (18,000)
Beginning Balance \$46,250											Ending Balance \$ 46,250

[1] First and Second Omnibus and existing project cost increases are attributable in large part to five projects (\$227.3M CIP total increase): Interbay Force Main and Odor Control, Jameson/Arcweld Building Replacement, Alki Permanent Standby Generator, Coal Creek Siphon and Trunk Parrallel, and North Mercer Island & Enatal Interceptors.

Table 3: CIP Annual Average 2021-2026 – Prioritized AM Inventory Catch-Up

2021-26 CIP Annual Average \$



CSO Strategy 2021-2022

In progress and under construction: Georgetown and Ship Canal. (+ non-CSO such as Lower Duwamish, and planning programs such as CSO Control & Improvement)

Planning phase investments: Elliott West CSO Control, University GSI, Montlake GSI, West Duwamish CSO Control

WQIA: \$2M Fresh Water Trust in 2021, 2021-2022 \$1.5M/annually for Water quality benefits analysis and associated planning costs, increasing beginning in 2025, for continued planning scope.

Table 4: Asset Management Strategy 2021-2030

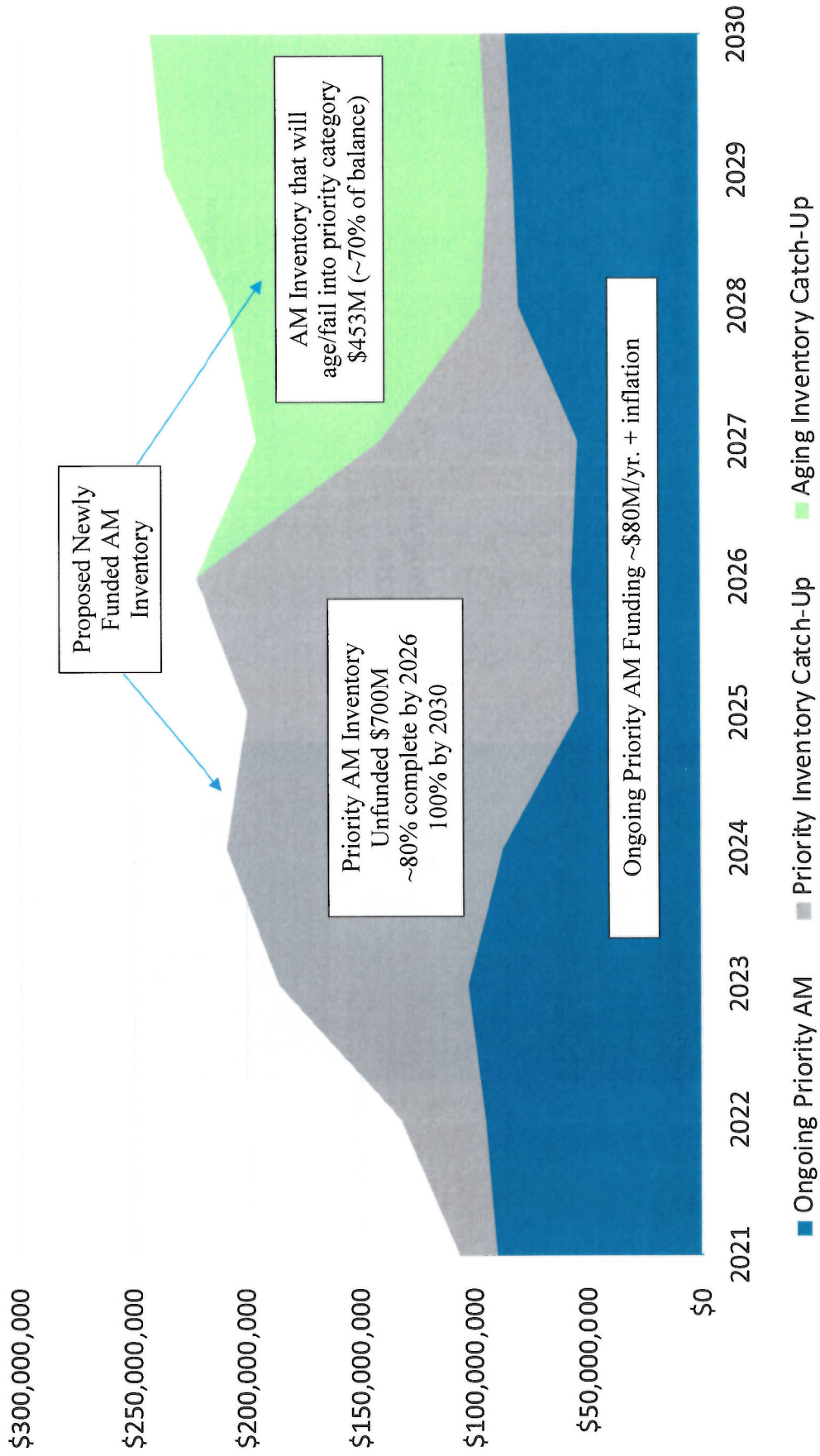


Table 5: Debt Accumulation Scenario Difference

- 2017 implementation of Council-directed 40% cash funding to reduce WTD debt balance and improve creditworthiness.
- Responded to MWPAAC Debt Review Committee priority to reduce WTD debt balance
- Produces lower rates over the long-term (~2041 rate is lower 40% vs 30% cash funding)
- **S&P August 2019 Ratings Median Data Report**
 - King County WTD Debt-to-Capitalization Ratio 2018 92%.
 - Northwest Utilities: 30%
 - National “Very Large” Utilities: 47%

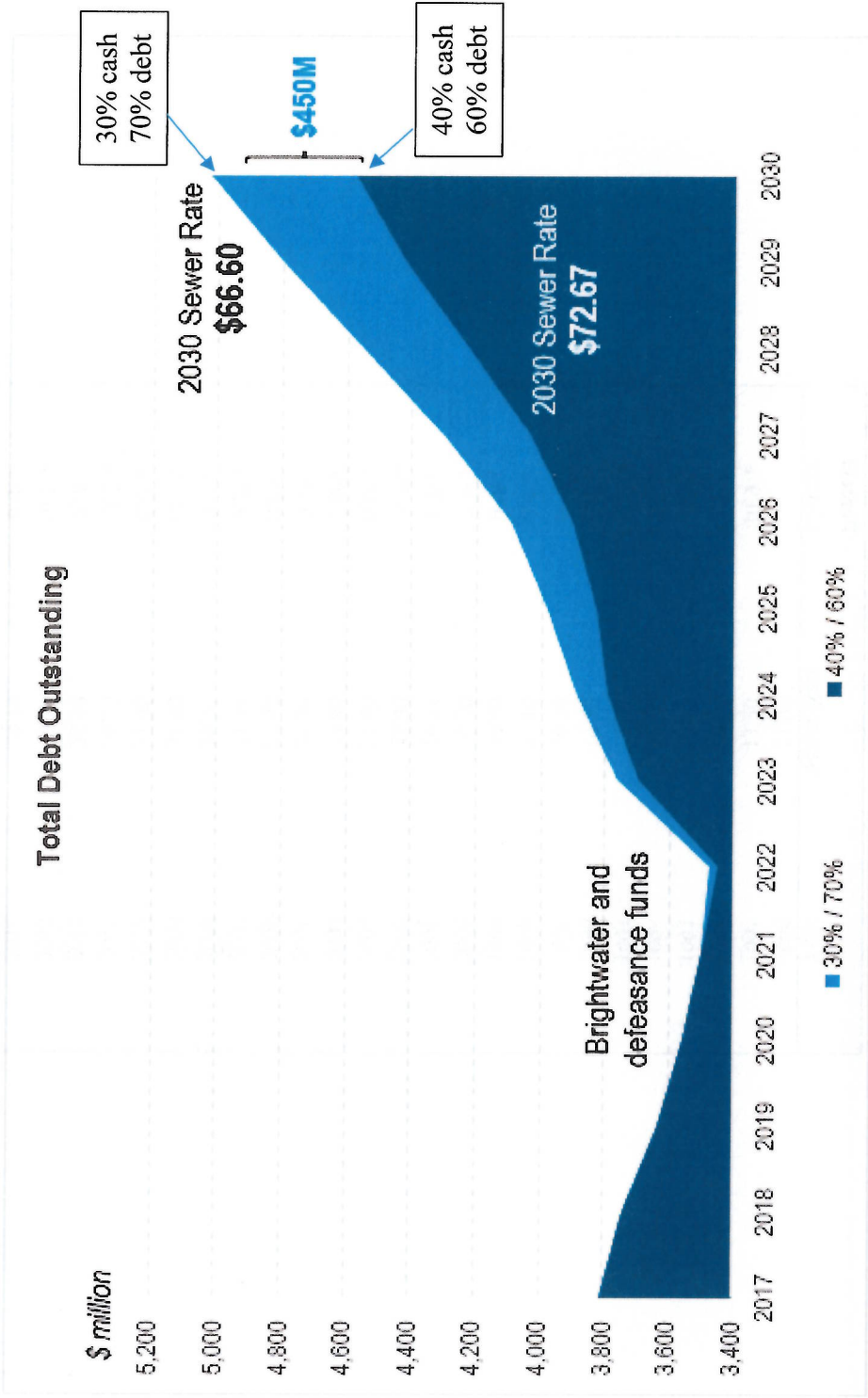


Table 6: History of Rate Increases

Year	Sewer Rate	Percent Change
1990	11.90	
1991	13.20	10.9%
1992	13.80	4.5%
1993	13.62	-1.3%
1994	15.90	16.7%
1995	17.95	12.9%
1996	19.10	6.4%
1997	19.10	0.0%
1998	19.10	0.0%
1999	19.10	0.0%
2000	19.50	2.1%
2001	19.75	1.3%
2002	23.40	18.5%
2003	23.40	0.0%
2004	23.40	0.0%
2005	25.60	9.4%
2006	25.60	0.0%
2007	27.95	9.2%
2008	27.95	0.0%
2009	31.90	14.1%
2010	31.90	0.0%
2011	36.10	13.2%
2012	36.10	0.0%
2013	39.79	10.2%
2014	39.79	0.0%
2015	42.03	5.6%
2016	42.03	0.0%
2017	44.22	5.2%
2018	44.22	0.0%
2019	45.33	2.5%
2020	45.33	0.0%
	annual avg	4.7%
	biennial avg	9.4%

Operational Highlights

- Increasing the reliability of our facilities with improved maintenance of existing assets with additional staffing, repair work, and protective measures. [\$5.4M biennial]
- Investing in resources to address a backlog of facility demands from additional population growth in our service area. [\$2.3M]
- Reducing the environmental footprint of the WTD operation by making investments in clean air (SCAP) and energy savings. [\$1.4M]
- Investing in resources for system upgrades and licensing of existing technology required to keep systems used by our staff current. [\$1.3M]
- Reducing organizational risks by proactively responding to public expectations to ensure compliance with auditors, financial accounting and legal requirements. [\$1.2M]
- Increased staffing to meet operational priorities (*staffing analysis still under review*)



King County

**2021 Sewer Rate and Capacity Charge Development Goals and Schedule
Presented to MWPAAC's Rates and Finance Subcommittee
March 5, 2020**

WTD Goals for 2021 Sewer Rate Development

- Increase reliability at off-site locations and West Point Treatment Plant
- Respond to growth-related demand on the system
- Address the most critical asset management risks
- Respond to King County Executive's priorities: Clean Water & Healthy Habitat, Strategic Climate Action Plan and Equity and Social Justice

ACTIVITIES	
MONTH	<p>Early March – Brief King County Executive on 2021 sewer rate and capacity charge</p> <p>Early March – WTD transmits WTD sewer rate and capacity charge proposal to DNRP Director's office</p> <p>March 5 – Rates and Finance Subcommittee meeting: Review key points of meeting with DNRP Director's Office and Executive's Office, if possible; Discuss key points for draft MWPAAC letter on sewer rate recommendation to Executive for consideration and action at March 25 full MWPAAC meeting</p> <p>Mid-March – DNRP Director's Office transmits 2021 sewer rate and capacity charge proposal to King County Executive</p> <p>March 18 – Draft MWPAAC sewer rate recommendation letter is emailed to MWPAAC members one week in advance of MWPAAC's March 25 general meeting</p>

MONTH**ACTIVITIES**

	<p>March 25 – MWPAAC General Meeting: Review key goals for 2020; 2021 sewer rate and capacity charge proposal; MWPAAC considers and takes action on its recommendation letter to King County Executive</p> <p>April 2 – Rates and Finance Subcommittee meeting: Review King County Executive's 2021 sewer rate and capacity charge recommendation to King County Council; Discuss whether MWPAAC wants to send a separate sewer rate and capacity charge recommendation letter to the King County Council.</p> <p>April 15 – Should Rates and Finance Subcommittee recommend a separate letter to Council, the draft MWPAAC sewer rate recommendation letter is e-mailed to MWPAAC members one week in advance of MWPAAC's April 22 general meeting</p> <p>April 16 – King County Executive transmits 2021 sewer rate and capacity charge recommendation to King County Council</p> <p>April 22 – MWPAAC General Meeting: Present King County Executive's 2021 sewer rate and capacity charge; MWPAAC consideration and action on separate sewer rate recommendation letter provided there is support for a separate letter to King County Council</p> <p>May 6 – WTD briefs the Regional Water Quality Committee on the King County Executive's proposed 2021 sewer rate and capacity charge</p> <p>May – Brief the Budget and Fiscal Management Committee on the Executive's proposed 2021 sewer rate and capacity charge</p> <p>June – Budget and Fiscal Management Committee makes a recommendation on the proposed 2021 sewer rate and capacity charge</p> <p>Public hearing and action on the 2021 sewer rate and capacity charge by King County Council</p>
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