



King County

Metropolitan King County Council

Regional Water Quality Committee

Staff Report

Agenda Item No.: 8 **Name:** Beth Mountsier

Briefing No.: 2013-B0055 **Date:** May 1, 2013

Attending: Tim Aratani, Manager, Finance and Administrative Services,
Wastewater Treatment Division (WTD), DNRP
Tom Lienesch, Economist, Financial Services, WTD

SUBJECT:

A briefing on the Executive's proposed 2014 sewer rate and capacity charge.

SUMMARY:

Proposed Ordinance 2013-0217 (Attachment 3) was transmitted to the Council the week of April 22nd and will be referred to the Budget and Fiscal Management Committee when it is introduced. This proposed ordinance:

- Maintains the 2014 sewer rate at \$39.79 (the same as the 2013 sewer rate); and
- Sets the 2014 capacity charge for new connections to the regional system occurring in 2014 at \$55.35, (a 3.5 percent increase from the current 2013 rate); and
- Adopt the Wastewater Treatment Enterprise monetary requirements for 2014.

Executive staff will give a briefing on the proposed sewer rate and capacity charge for 2014 based on the Wastewater Treatment Division's financial plan and planning assumptions.

The financial forecasts and supporting documentation related to the projected operating and capital costs and other assumptions have been prepared and submitted with the rate – per the directions of Regional Wastewater Services Plan Financial Policy 13. The attached issue paper, “King County Executive's 2014 Monthly Sewer Rate and Capacity Charge Proposal” (Attachment 1) provides a discussion of the critical forecasting parameters and policy options, as required by FP-13. It also includes the Executive's and the Wastewater Treatment Division's key assumptions such as new customer growth and residential customer equivalents (RCEs), financial forecasts, expectations regarding the division's capital program and the financial policies that have informed the development of his sewer rate and capacity charge proposal for 2014. A detailed financial forecast for the wastewater utility for the period 2013-2019 is attached to the ordinance.

The Executive's transmittal letter reports that the rate and capacity charge proposals reflect the valuable input he received from the Metropolitan Water Pollution Abatement Advisory Committee

(MWPAAC), which represents the 34 customer agencies that contract with King County for wastewater treatment services. Attached is a letter from MWPAAC (Attachment 2) supporting the proposed rate along with other observations and recommendations. The Executive expresses appreciation for MWPAAC's continued collaboration and commitment to partnering with King County and he directs the Wastewater Treatment Division (WTD) of the Department of Natural Resources and Parks to continue work with MWPAAC on the topics addressed in their letter.

BACKGROUND:

King County provides wastewater conveyance and treatment for 34 customer agencies (cities and/or sewer districts in King County, southern Snohomish County and a small portion of Pierce County). The County does not provide wastewater services directly to residential or business customers. Rather, the County collects wastewater from the cities or utility districts in large interceptor lines, and conveys the wastewater to County treatment plants for treatment and discharge.

The relationship between the cities and utility districts and the County is governed by contracts. These contracts specify that the sewer rate be adopted annually by June 30th of each year.

The sewer rate is not billed directly to ratepayers by King County. The component agencies that provide direct services to the ratepayers and use the County conveyance and treatment facilities are charged for the customers within their districts. Many residents see these charges on their sewer bills, but they are not paying the County directly. Their utility providers, as direct service providers, set their own rates to recoup the payments required by use of County services plus they add their own "local" cost of service. The capacity charge is billed directly to customers/property owners and paid to King County.

Monthly Sewer Rate

The monthly sewer rate for both residential and commercial customers is calculated on the basis of Residential Customer Equivalents (RCEs). A single family residence is one RCE. Commercial and industrial customers are charged based on the amount of wastewater they generate, calculated using quantity of water consumed. For commercial and multi-family residences, the calculation is then converted into RCEs. One RCE (750 cubic feet of wastewater) represents the average amount of wastewater a single family residence would generate in a month.

Capacity Charge

New connections to the regional wastewater system are assessed a capacity charge. Payment may be made in a lump sum or paid over a 15 year period. The proposed charge is shown as the monthly payment over 15 years. The Executive proposes a 2014 capacity charge of \$55.35.

Per the Regional Wastewater Services Plan policies, the capacity charge is based on the total estimated costs of the 30-year Regional Wastewater Services Plan (RWSP). Per the financial policies, the capacity charge is to be a uniform charge, approved annually, and the charge is not to exceed the cost of capital facilities necessary to serve new customers (referring to those customers establishing new connections to the sewer system).

The ordinance sets the charge via the following calculation:

$$\text{capacity charge} = \frac{(\text{total system costs} - \text{rate revenue from existing customers}) - \text{rate revenue from new customers}}{\text{number of new customers}}$$

This formula sets the capacity charge at a level to recover the designated, growth-related costs that are not covered by the monthly rate payments of newly connecting customers. Over the life of

Regional Wastewater Services Plan, the capacity charge and monthly rate payments of newly connecting customers will cover 95% of growth-related costs.

The 2014 capacity charge proposal is 3.5% higher than the previous year. Every three years WTD reviews all of the capital and borrowing projections for capacity related projects and does a comprehensive review of assumptions affecting the capacity charge. This review was done this year and the increase for 2014 reflects the first year of the current three-year period, with a planned increase of 3 percent per year for 2015 through 2016. The update reflects review and new forecasts for new connections, actual costs for Brightwater (vs. cost estimates) and revised information regarding the timing of capital projects and the current record-low interest rates/borrowing costs. These changes along with other updates to assumptions, forecasts, and actual financial results have led to the proposed modest increase in the capacity charge.

Executive's Sewer Rate and Capacity Charge Objectives:

The Executive's transmittal letter states his rate proposal emphasizes following objectives:

- **Continued emphasis on cost containment.** WTD continues to maintain tight control of its operating expenditures. Although the division's Productivity Initiative ended in 2011, WTD has implemented the Bright Ideas Program which is expected to help identify and implement new efficiencies as well as optimize efficiencies made through the Productivity Initiative. In addition, since March 2012, over \$470 million in outstanding bonds have been refinanced resulting in over \$64 million in debt service savings.
- **Maintain WTD's Infrastructure.** With the completion of the Brightwater treatment system, WTD capital spending levels are returning to more typical long-run levels. However, even at reduced levels of spending, the construction activity generated by the capital program in 2013 and 2014 will generate as many as 1,675 full- and part-time jobs. To ensure King County is addressing its highest capital priorities, WTD has been critically reviewing project scopes, schedules, cash flow projections, and risk analyses to ensure that projects addressing the most critical current needs are funded.

ANALYSIS:

Council staff is still analyzing the Executive's proposed monthly sewer rate and capacity charge for 2014. Analysis and additional information regarding the rate and capacity charge will be provided via briefings to the Budget and Fiscal Management Committee and the Regional Water Quality Committee, if requested.

The transmittal of the proposed rate and capacity charge are supported by a discussion paper (Attachment 1) that describes critical forecasting parameters, assumptions, and policy options as required per RWSP Financial Policy-16. Based on an initial read of the discussion paper, it appears that financing for WTD's capital program will also continue to follow the guidance outlined in RWSP Financial Policy-13.

ATTACHMENTS:

1. King County Executive's 2014 Monthly Sewer Rate and Capacity Charge, dated April 18, 2013
2. MWPAAC Letter to Executive re: Wastewater Treatment Division Rate Recommendation, dated March 27, 2013
3. Proposed Ordinance 2013-0217
4. Wastewater Treatment Division Financial Plan for the 2014 Proposed Sewer Rate

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King County

Department of Natural Resources and Parks
Wastewater Treatment Division

King County Executive 2014 Monthly Sewer Rate and Capacity Charge Proposal

April 18, 2013

This information is available in alternative formats upon request by calling 206-684-1280 (voice) or Relay Service 711 (TTY).

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1.0 Introduction

This paper describes the underlying assumptions, projections, and key factors considered in developing the King County Executive's proposal for the 2014 monthly sewer rate and capacity charge. The proposed 2014 monthly sewer rate is \$39.79, the same rate as 2013. This proposal fulfills the commitment to maintain a level rate for 2013 and 2014. The proposed 2014 monthly capacity charge is \$55.35, an increase of 3.5 percent from the 2013 charge of \$53.50.

In addition to maintaining the rate in 2014, several factors have contributed to lowering projected sewer rates beginning in 2015. These include several long-term bond refundings in 2012 and 2013 and higher than projected Residential Customer Equivalents (RCEs); capacity charge revenues; and investment income. The individual and cumulative impacts of these factors on future rates will be discussed later in this paper.

The remainder of this document outlines the major factors underlying the 2014 monthly sewer rate and capacity charge proposal: (1) sewer rate management; (2) WTD's operating revenues and expenses; (3) WTD's capital improvement program's spending, revenues, and financing; (4) new customer connections; (5) changes from the 2013 sewer rate to the 2014 proposed rate; and (6) a summary of projections and assumptions. The paper concludes with a comparison of King County's sewer rates with similar agencies.

2.0 Sewer Rate Management

The monthly sewer rate is determined by the amount of revenue required to pay all the costs of the utility in a given year, consistent with financial policies and requirements. During periods of time in which costs (capital or operating) are particularly volatile, the resulting revenue requirements could lead to large annual fluctuations in the rate. Examples include (1) the energy crisis in 2001, which led to a sharp spike in operating costs, and (2) the construction of Brightwater, which led to a period of high capital costs. Unmanaged, the resulting sewer rate fluctuations could prove disruptive to residential and commercial customers.

During these periods, the level and pattern of changes in the monthly sewer rate can be managed in several ways. One of these is by structuring interest and principal payments on debt (debt service) to affect the annual revenue requirements and, therefore, the resulting sewer rate. The common characteristic of this approach is to structure the payment of debt service such that either principal or principal and interest payments are at levels less than full amortization for a period of time. A simple example is for debt service to reflect interest payments only for a period of time before commencing full principal and interest payments. Another example is capitalizing a portion of interest payments during the construction period and including them in the total bond issue amount. This produces a period of relatively low debt service payment that is then "made up" in subsequent periods once the facility begins operation.

While useful for shaping the patterns of rate increases, some of these structures come with higher costs over time. WTD adopted a more conservative financial approach in structuring debt service for bond issues after 2010. However, approximately \$3.35, or 9 percent of the 2013/2014 rate

increase, was attributed to accommodating additional debt service from bonds issued in 2008 through 2010.

Two other effective means of managing sewer rates are the deferral of revenues through the use of a rate stabilization reserve and effective cost containment. These are the preferred methods of managing rate increases, and each is discussed in greater detail in the following sections.

2.1 Rate Stabilization

It is King County policy to have multi-year sewer rates when financially prudent. A rate stabilization reserve allowing the deferral of operating revenues into a future year has been used to help manage multi-year rate patterns starting with the 2005 and 2006 sewer rates. Current projections show the rate stabilization reserve is anticipated to have a balance of \$46.4 million by the end of 2013. This contrasts to the 2013 adopted budget forecast (November 2012) where an ending 2013 balance of \$41.1 million was projected. This difference reflects debt refunding and positive overall financial results, discussed later in the paper, which allows for additional future sewer rate mitigation. The 2014 rate proposal assumes this reserve balance will be zero entering 2017; that is, it will be used to manage sewer rates between 2014 and 2016.

As shown in Table 2-1, the rate stabilization reserve balance of \$62.6 million at the end of 2012 is expected to decrease by \$16.2 million in 2013. Thereafter, the reserve will be drawn down by \$22.2 million in 2014, \$13.9 million in 2015, and finally \$10.3 million in 2016. This pattern of rate stabilization usage maintains the utility's required minimum debt service coverage ratio of 1.15.

Table 2-1. Rate Stabilization Reserve, 2012-2016 (million dollars)

	2012	2013	2014	2015	2016
Beginning balance	\$76.5	\$62.6	\$46.4	\$24.2	\$10.3
Additions	---	---	---	---	---
Reductions	\$13.9	\$16.2	\$22.2	\$13.9	\$10.3
Ending balance	\$62.6	\$46.4	\$24.2	\$10.3	---

The continued use of rate stabilization in 2016 and beyond may need to be re-evaluated as projected sewer rate increases are relatively small for that time period. During the 2016 to 2019 period, sewer rates are projected to increase by 2.3 percent on an average annual basis. This period of relatively small projected rate increases reflects four major elements:

1. Completion of Brightwater with a return of the capital program to lower, long-term levels.
2. The stabilization of debt service payments.
3. The growing importance of the capacity charge as revenue.
4. A larger share of the capital program will be funded with transfers from the operating fund (cash funding).

2.2 Cost Containment

While the rate stabilization reserve provides a means of managing rate increases by redistributing a portion of operating revenues, it is only one of the tools of rate management. Cost containment is another. As in prior years, WTD scrutinized all planned capital and operating expenditures with the goal of making reductions and implementing efficiencies while continuing to fulfill its regulatory obligations to protect public health and the environment. As part of the King County Executive's "Efficiency Initiative," WTD developed a list of efficiency proposals for implementation in 2013 totaling \$2.5 million. These proposals include productivity improvements of \$0.9 million, cost reductions of \$0.7 million, revenue enhancements of \$0.7 million, and cost avoidance items of \$0.2 million. Many of these will carry over into 2014. As a result of the Executive's efficiency initiative, WTD has implemented a Bright Ideas program, which encourages creative problem-solving throughout the organization and uses employee ideas to improve how we do business. Using these tools, WTD will continue to develop efficiencies in 2014.

The following sections provide additional detail on the progress made in managing costs in the operating and capital programs of WTD and how they affect the current rate proposal.

3.0 Operations

3.1 Revenues

Total operating revenues (including capacity charge receipts¹) are projected to be \$425.3 million in 2014, a 2.2 percent increase over the 2013 adopted budget of \$416.2 million. Most of this increase results from additional customer equivalents, compared to the 2013 adopted budget and an increase in the monthly capacity charge rate by \$1.85. As shown in Table 3-1, revenue from the sewer rate and capacity charge account for \$6.9 million or 75.8 percent of the total operating revenue increase compared to the 2013 adopted budget.

Table 3-1. 2013 and 2014 Operating Revenues (million dollars)

	2013 Budget	2014 Proposed	Difference	% Change
Sewer Rate	\$337.7	\$340.3	\$2.6	0.8%
Investment Income	\$1.1	\$1.3	\$0.2	18.2%
Capacity Charge	\$46.3	\$50.6	\$4.3	9.3%
Rate Stabilization	\$21.5	\$22.2	\$0.7	3.3%
Other Income	\$9.5	\$11.0	\$1.5	15.8%
Totals	\$416.2	\$425.3	\$9.1	2.2%

Note: Totals may not add due to rounding

¹Although the capacity charge does not fund any operating expenses, capacity charge revenues are categorized as operating revenue for purposes of debt service coverage calculation.

3.2 Expenses

Operating expenses for 2013 are projected and budgeted to be \$121.5 million, a 4.2 percent increase over the 2012 adopted budget. This increase mainly reflects the impact of higher labor costs; adjustments to chemicals for prices and usage; increases in maintenance parts and materials; and adjustments to central charges. In 2014, operating expenses are projected to be \$126.5 million, an increase of \$5 million or 4.1 percent over the 2013 adopted budget.

Major changes from 2013 to 2014 include increases in labor costs; supplies; treatment chemicals; diesel fuel; biosolids haul and application costs; anticipated electricity price increases; and intragovernmental costs. All of the 2013 and 2014 operating expense projections are consistent with the 2013 and 2014 biennial budget the King County Council adopted for WTD in November 2012.

4.0 Capital Improvement Program

4.1 Capital Spending

In contrast to the previous several years, WTD capital spending levels returned to more typical long-run levels in 2012 as Brightwater approached completion. Reflecting this, total capital spending in 2012 was \$192.4 million and is estimated to be \$183.4 million in 2013. After 2013, spending is projected to remain near this level, at \$148.7 million in 2014, \$169.5 million in 2015, and \$175.4 million in 2016. The planned spending in these years shows a substantial decrease from the peak of capital program spending of \$456 million in 2009; \$400 million in 2010; and \$274 million in 2011.

Although the WTD capital program is returning to more typical long-term levels, the construction activity generated continues to be a significant source of regional job creation. In 2013 and 2014, it is expected that WTD will invest \$332 million in construction projects supporting more than 1,675 full- and part-time jobs in the region.

WTD has continued to exert effective control on capital spending during the period of maximum impact from Brightwater. In the process of defining capital priorities for 2013 and 2014, WTD critically reviewed project scopes, schedules, cash flow projections, and risk analyses to ensure funding for the most critical projects. Key criteria for assessing risk include ensuring the continued operation and reliability of existing wastewater conveyance and treatment assets; enhancing regional water quality in compliance with federal, state, and local regulations pertaining to wastewater treatment; reducing combined sewer overflow events; and continuing to create resources from wastewater.

Two aspects of capital project spending can affect the sewer rate: (1) the total cost of the project over its lifetime, and (2) the amount of spending in the specific rate period under consideration. In terms of impact on the sewer rate, changes in total project cost may not be reflected for many years in the future. Brightwater spending in 2012 was \$12.4 million less than budgeted as

less construction work was completed during the year than planned. This work is reflected in Brightwater's revised spending estimate for 2013. Below are key projects in the capital program.

- **Combined Sewer Overflow (CSO) Projects at Murray, Magnolia, Barton, and North Beach (\$139.1 million)** The four CSO beach projects were baselined in 2012 and are currently on schedule. Construction for the projects is scheduled to start in the third to fourth quarter of 2013 with substantial completion in 2015.
- **North Creek Interceptor (\$55.9 million)** The project will fund the design and construction of 9,650 feet of 36- to 48- inch-diameter gravity sewer using open cut and trenchless construction methods to meet the 20-year peak flow standard to avoid sanitary sewer overflows. The project was baselined in 2012 and currently on schedule for completion at the end of 2017.
- **West Point Influent and Effluent Pump Station Variable Frequency Drive and Dewatering Equipment Replacement (\$35.3 million)** This project replaces solids treatment equipment that has reached the end of its useful life with new energy efficient equipment. The current schedule for completion is 2018.
- **Combined Sewer Overflow Control Handford at Rainier and Bayview North (\$27.4 million)** This project was started in 2013 to control combined sewer overflows (CSO) at Hanford at Rainier, and Bayview North to one event per year on a 20-year moving average in accordance with Washington State Department of Ecology standards. The current schedule for completion is 2019.
- **West Point Treatment Plant Oxygen Generating and Distribution System Replacement (\$23.5 million)** This project funds replacement of the oxygen generating system, which has reached the end of its useful life with a new energy efficient system. The current schedule for completion is 2018.

New 2014 project requests are as follows:

- **Michigan/Brandon CSO Control (\$165 million)** The project consists of building an equalization basin and Wet Weather Treatment Facility (WWTF), conveyance and outfall to treat CSOs prior to discharge into the Lower Duwamish Waterway. Modifications to both the Brandon Street and South Michigan Street Regulator Stations will be required for diversion of flows to the WWTF. Ancillary facilities include an odor control facility, electrical/controls building, and emergency generator. The current scheduled completion date is 2026.
- **North Beach Pump Station and Force Main Improvements (\$38.4 million)** This project will assess, evaluate, and implement asset improvements to the facility's pump station and forcemain to bring it up to the current capacity standards. The current scheduled completion date is 2020.

- **North Beach Outfall Replacement (\$25.9 million)** This project will replace an aged offshore outfall pipe with limited capacity at North Beach with a new larger capacity pipe to reduce the chance of overflows on the beach. The current scheduled completion date is 2018.

4.2 Capital Accomplishment Rate

Another factor affecting the sewer rate and financing of the capital program relates to the accomplishment rate. The accomplishment rate is not intended as a measure of project delivery progress but provides an estimate of the cash needs of the program. It reflects the capital program as a whole and is arrived at by estimating the difference between planned capital spending in the budget and the capital spending that actually occurs. In this way, the program's revenue requirements attempt to anticipate possible delays in the execution of the capital program that reduce spending and therefore cash needs. The accomplishment rate is expressed as the percentage of the capital budget expected to actually be spent in a given year.

During 2012, the actual accomplishment rate for Brightwater was 90 percent compared to an assumed rate of 100 percent. The accomplishment rate for non-Brightwater projects was 91 percent. Going forward, the accomplishment rate for Brightwater is assumed at 100 percent in 2013 as the project approaches completion. For non-Brightwater projects, the accomplishment rate is assumed to be 85 percent for the forecast period 2013-2019. Combining Brightwater and non-Brightwater projects in aggregate, the accomplishment rate for the entire program in 2013 is projected to be approximately 88 percent.

To further illustrate the relationship between the sewer rate and the accomplishment rate, if the aggregate accomplishment rate was lowered by 5 percentage points to 80 percent for 2014, estimated capital spending would be reduced by approximately \$10.2 million or the equivalent of lowering approximately \$0.09 from the sewer rates for 2014. Conversely, if the program accomplishment rate were increased to 100 percent for 2014, estimated capital spending would increase by \$28.8 million, or the equivalent of increasing approximately \$0.26 to the sewer rates for 2014. It is believed that 88 percent, reflecting the combined Brightwater and non-Brightwater projects is a prudent assumption for the accomplishment rate.

4.3 Capital Revenues and Financing

4.3.1 Capacity Charge

The proposed capacity charge for 2014 is \$55.35, a 3.5 percent increase from 2013. The capacity charge is a monthly charge for 15 years levied on new connections to the wastewater system in accordance with King County Code (K.C.C.) 28.84.050 and the financial policies in K.C.C. 28.86.160. It is set at a level to ensure that new sewer connections, over the long-term, will pay for the costs of the additional capacity required to serve them.

Financial Policy 15.3-d states that customer growth and projected costs, including inflation, shall be updated every three years. The 2013 capacity charge of \$53.50 was the final year of the

previous three-year cycle. The increase for 2014 reflects the first year of the current three-year period, with a planned increase of 3 percent per year for 2015 through 2016. The update included a review of the forecasts for new connections, an increase in the costs associated with Brightwater, and a review of long-term borrowing costs.

The previous update to the capacity charge was completed in 2010 in the midst of the recent recession, and as such, the forecast for new connections reflected the great uncertainty of future economic performance present at that time. In the current update, the number of new connections has been revised upward in the near-term to reflect a strengthening housing market, with a slightly slower recovery in the mid-term. As Brightwater nears completion, the final actual costs are able to be included in the calculation of the capacity charge as opposed to forecasted numbers. Finally, the record-low interest rates over the past three years have impacted the timing of projects in the Capital Improvement Program. WTD has taken advantage of reduced borrowing costs to smooth out the impact of the capital program on the capacity charge across time. These major changes along with other updates to assumptions, forecasts, and actual financial results have led to the modest increase in the proposed capacity charge.

4.3.2 Bonds and Interest Rates

With the completion of Brightwater and the capital program returning to more typical long-run levels, the need to issue new debt has also moderated. In March 2012, \$80 million in long-term debt with a 4.65 percent interest rate was issued. New issuances of long-term bonds are projected at \$50 million in 2013; \$30 million in 2014; \$106 million in 2015; and \$108 million in 2016.

In addition to long-term bonds, WTD uses the proceeds from short-term variable rate bonds to finance a portion of the capital program, subject to a 20 percent of total debt ceiling. Current plans are to use approximately \$22 million in wastewater variable rate bond proceeds in 2014, followed by \$6 million in 2015, and \$6 million in 2016. This will bring total wastewater treatment variable debt to approximately 15 percent of total long-term debt, leaving 5 percent remaining capacity in policy for the use of variable debt.

Interest rates have continued to be favorable and in March 2013, \$143.4 million in existing long-term debt was refinanced achieving \$35.3 million in debt-service savings over the life of the bonds. All savings from the refinancing are included in this rate proposal. Although the recent debt issue and refunding have provided positive results, it should be noted that the outlook for future interest rates remains uncertain. The financial plan accompanying this rate proposal assumes on new borrowings interest rates of 5.25 percent in 2013 and 2014, rising to 5.5 percent in 2015 and 2016; 5.75 percent in 2017; and 6.0 percent for 2018 and 2019.

Balancing against the upward pressure on municipal bond interest rates is continuing weakness in the economic recovery in the United States (U.S.) and industrialized nations generally. This outlook, which is reflected in reduced investment earnings assumptions in the current 2014 sewer rate proposal, can also moderate interest rate increases for long-term bonds. The current bond rate assumptions are a conservative outlook based on this combination of upward and downward influences on future interest rates.

Investment interest rates have remained at historic lows in the market. The rate of return in the county investment pool was 0.58 percent in 2012. In accordance with the March 2013 rates from King County's Office of Economics and Financial Analysis, the investment interest rate for this proposal is 0.45 percent in 2013; 0.40 percent in 2014; 0.40 percent in 2015; 0.60 percent in 2016; 1.32 percent in 2017; and 2.03 percent in 2018.

4.3.3 Alternative Financing

This section highlights another element of cost containment achieved through WTD's aggressive pursuit of low-cost financing for capital projects. As a result, some capital projects have been funded by grants or low-interest loans through the years. Collectively, these funds are referred to as alternative financing. Grants for capital projects tend to be funded by federal or state agencies and, for energy-related projects, local utilities. While the allowable use of these grants is often highly restricted, they have the obvious benefit of not having to be repaid in contrast to the low-interest loans. Grants received in the past assisted in the financing of upgrades to the South and West Point Treatment Plants, as well as the Alki Transfer/CSO Facilities project and the Denny Way CSO Control project. Currently, there are no projects financed in whole or in part with grants.

Low-interest loans are provided by the Washington State Department of Ecology's State Revolving Fund (SRF) or the Washington State Public Works Trust Fund (PWTF). Loan applications to fund specific water quality projects are submitted by local jurisdictions statewide on an annual basis. These loan applications then go through a competitive process where the first step is ensuring that specific criteria and thresholds are met in order to proceed to the review process. They are then ranked on a point system. The point system is based on minimum and maximum points earned for narrative portions of the loan application in order to fund the highest priority water quality projects statewide.

Capital projects selected for loan application submittal go through a review process to ensure that they are competitive enough to be considered a high priority water quality project in the ranking process, to ensure that the project schedule fits within the loan criteria, and to ensure that the project meets specific criteria or thresholds. Projects that meet all of these are then eligible for the loan application stage. The grants administrator then coordinates with the project manager to ensure that the thresholds are met in time and takes the lead in writing and completing the application.

Table 4-1 lists some of the completed projects that received SRF and PWTF funding. Table 4-2 lists the current SRF and PWTF loans that partially or entirely fund the indicated WTD capital projects.

Table 4-1. Previous State Revolving Fund and Public Works Trust Fund for the Wastewater Treatment Division Loan Funded Capital Project (million dollars)

Project	Loan Amount	Loan Type	Term (Years)	Interest Rate	Estimated Debt Service Savings Compared to Conventional Financing
Brightwater Outfall	\$1.6	SRF	20	2.6%	\$11.8
Henderson/MLK CSO	\$57.5	SRF	20	1.5%	\$64.8
Denny Way CSO/Elliott West Pipelines	\$12.5	SRF	20	1.5%	\$14.1
Carnation Treatment Plant	\$14.1	SRF	20	3.1%	\$14.1
Vashon Treatment Plant	\$5.0	SRF	20	1.5%	\$3.9
Barton CSO Facilities Plan	\$1.1	SRF	20	1.5%	\$0.9
Murray CSO Facilities Plan	\$0.6	SRF	20	1.5%	\$0.5
North Beach CSO Facilities Plan	\$0.5	SRF	20	1.5%	\$0.4
North Creek Storage	\$10.0	PWTF	20	0.5%	\$10.4
Juanita Bay Pump Station	\$10.0	PWTF	20	0.5%	\$12.3
Brightwater Reclaimed Water Pipeline	\$7.0	PWTF	20	0.5%	\$8.6
Hidden Lake Pump Station	\$10.0	PWTF	20	0.5%	\$12.0

Table 4-2. Current State Revolving Fund for WTD Loan Funded Capital Projects (million dollars)

Project	Loan Amount	Loan Type	Term (Years)	Interest Rate	Estimated Debt Service Savings Compared to Conventional Financing
Ballard Siphon	\$31.9	SRF	20	2.8%	\$41.7
Barton CSO Control - Design	\$5.0	SRF	20	2.7%	\$5.7
Murray CSO Control - Design	\$4.6	SRF	20	2.7%	\$6.2
North Beach CSO Control - Design	\$2.9	SRF	20	2.7%	\$3.6
S Magnolia CSO Control - Design	\$5.1	SRF	20	2.7%	\$6.4
Fremont Siphon – Facilities Plan	\$2.2	SRF	20	2.7%	\$2.7
Ballard Siphon	\$10.0	PWTF	20	0.5%	\$13.4

In 2012, WTD received a \$3 million Qualified Energy Bond for the South Plant Raw Sewage Pumps Replacement project.

5.0 Residential Customer Equivalents and New Connections

The national and regional economic outlook has recently improved after heightened uncertainty during the second half of 2011 about the European sovereign debt crisis and the strength of the U.S. economic recovery. The March 2013 Conway-Pederson economic outlook forecasts that U.S. Gross Domestic Product growth will be 1.8 percent in 2013 and 2.8 percent in 2014. The forecast growth in employment for the Seattle-Tacoma region is 2.6 percent in 2013 and 2.5 percent in 2014.

RCE projections for the proposed sewer rate remain conservative reflecting continuing economic uncertainty. Commercial, multi-family residential, and industrial customers can affect the number of customer equivalents they comprise, and therefore their sewer bill, through reducing

water consumption. In this manner, increased water conservation or reductions in production can result in low growth or reductions in the WTD customer base. In 2012, there were 708,894 RCEs being served by WTD, an increase of 0.23 percent from 2011 actual levels. The current RCE forecast anticipates continued growth with a slight increase for 2013 of 0.23 percent; a 0.30 percent increase in 2014; a 0.37 percent increase in 2015; and a 0.43 percent increase in 2016.

Table 5-1 shows projected RCEs and compares the current assumptions to those made for the 2013 adopted budget. The current outlook is more positive, based in part on the stability of RCEs in 2012 and 2013 relative to the impacts of the economic downturn.

Table 5-1. Current Residential Customer Equivalents Forecast

	2012	2013	2014	2015	2016
2014 Rate Proposal	708,894	710,524	712,656	715,293	718,369
Percent Change	0.23%	0.23%	0.30%	0.37%	0.43%
2013 Adopted Budget	707,278	707,278	709,046	712,591	716,154
Percent Change	0.00%	0.00%	0.25%	0.50%	0.50%
Change from 2013 Forecast	1,616	3,246	3,610	2,702	2,215

New sewer connections to the regional wastewater system are levied a capacity charge to help pay for the cost of providing new capacity. New additions to the system tend to follow the residential and commercial construction cycle. For reference, during the 1998 to 2008 period, the number of new connections averaged 11,200 per year with a peak of 12,700. Average connections for 2009–2011 dropped to 5,700. The current forecast shown in Table 5-2 assumes there will be 7,500 connections in 2013, and connections will not fully recover to the pre-recession average of 11,000 until 2016.²

Table 5-2. Projected New Sewer Connections by Year of Connection

	2012	2013	2014	2015	2016
2014 Rate Proposal	7,745	7,500	9,000	10,500	11,000
2013 Adopted Budget	5,800	6,500	8,500	10,000	11,000
Change	1,945	1,000	500	500	0

The outlook for new connections has been adjusted slightly from the numbers in the 2013 adopted budget. The forecast for 2014 has been increased from 8,500 to 9,000 connections, and the 2015 forecast increased by 500 compared to the 2013 adopted budget. These adjustments reflect an improvement in the region's construction sector and the positive actual results from 2012.

² Annual connection totals are for the year that new customers connect to the sewer system. WTD also monitors connections by the year that new capacity accounts are created. Connections by year connected are a better indicator of emerging trends.

6.0 Change from 2013 Sewer Rate to 2014 Proposed Sewer Rate

Table 6.1 compares components of the sewer rate that are changing from the 2013 adopted sewer rate to the proposed sewer rate for 2014. The net impact of the changes, including the use of the rate stabilization reserve is to keep the sewer rate at \$39.79. This meets the commitment made last year to keep the sewer rate at \$39.79 for both 2013 and 2014. In addition, the current proposal reduces the use of the Rate Stabilization by \$8.7 million in 2014 as compared to the 2013 adopted budget. Not using rate stabilization in this earlier year allows the amounts to be moved to future years for rate relief. Not having to use the \$8.7 million Rate Stabilization in 2014 is equivalent to providing \$0.81 of rate relief for a year after 2014.

Table 6-1. Changes from 2013 Adopted Rate to 2014 Proposed Rate

Components of Change	Change	Rate
2013 Adopted Rate		\$39.79
Revenues and Customer Charges		
Investment Income (interest rate decline)	(\$0.03)	
Increased RCEs	(\$0.20)	
Capacity Charge (pre-payments and rate increase)	(\$0.14)	
Reduced use of rate stabilization	\$0.81	
<i>Sub-total</i>	<i>\$0.44</i>	
Operating Expenses	\$0.07	
Capital Program and Debt Service		
Long-term Bond Refundings	(\$0.51)	
<i>Sub-total</i>	<i>(\$0.51)</i>	
Total Rate Increase		\$0.00
2014 Proposed Rate		\$39.79

7.0 Summary of 2014 Rate Proposal Projections and Assumptions

Table 7-1 presents a summary of the general assumptions used in developing the 2014 rate proposal. Discussion of the various assumptions is included in the main body of the text in this paper.

**Table 7-1. WTD Comparison of Forecast Assumptions
2013 Adopted Budget and 2014 Proposed Rate**

	2012	2013	2014	2015	2016	2017	2018
I. Wastewater Spending							
Operating Expense (000's)							
2014 Proposed Rate Forecast	\$114,630	\$121,504	\$126,467	\$132,090	\$137,373	\$142,868	\$148,583
Adopted 2013 Budget Forecast	\$116,620	\$121,504	\$125,857	\$131,742	\$137,012	\$142,493	\$148,193
Difference (proposed minus adopted)	(\$1,990)	-	\$610	\$348	\$361	\$375	\$390
Capital Expenditures (000's)							
2014 Proposed Rate Forecast	\$192,367	\$183,425	\$148,737	\$169,526	\$175,418	\$174,892	\$176,590
Adopted 2013 Budget Forecast	\$213,816	\$172,181	\$144,856	\$174,645	\$175,418	\$174,892	\$176,590
Difference (proposed minus adopted)	(\$21,449)	\$11,244	\$3,881	(\$5,119)	-	-	-
CIP Accomplishment Rate							
2014 Proposed Rate Forecast, Brightwater	95%	100%	---	---	---	---	---
2014 Proposed Rate Forecast, Non-Brightwater	85%	85%	85%	85%	85%	85%	85%
Adopted 2013 Budget, Brightwater	100%	100%	---	---	---	---	---
Adopted 2013 Budget, Non-Brightwater	85%	85%	85%	85%	85%	85%	85%
II. Customers							
Total RCEs							
2014 Proposed Rate Forecast	708,894	710,524	712,656	715,292	718,369	721,472	724,574
Percent Change	0.23%	0.23%	0.30%	0.37%	0.43%	0.43%	0.43%
Adopted 2013 Budget Forecast	707,278	707,278	709,046	712,591	716,154	721,525	726,937
Percent Change	0.00%	0.00%	0.25%	0.25%	0.50%	0.75%	0.75%
Difference (proposed minus adopted)	1,616	3,246	3,610	2,701	2,215	(53)	(2,363)
New Connections							
2014 Proposed Rate Forecast	7,745	7,500	9,000	10,500	11,000	11,250	11,000

	2012	2013	2014	2015	2016	2017	2018
Adopted 2013 Budget Forecast	5,800	6,500	8,500	10,000	11,000	11,500	11,000
Difference (proposed minus adopted)	1,945	1,000	500	500	-	(250)	-
III. Interest Rates							
Bond Interest Rate							
2014 Proposed Rate Forecast	4.00%	5.25%	5.25%	5.50%	5.50%	5.75%	6.00%
Adopted 2013 Budget Forecast	4.00%	5.50%	5.75%	5.75%	5.75%	5.75%	5.75%
Difference (proposed minus adopted)	0.00%	-0.25%	-0.50%	-0.25%	-0.25%	0.00%	0.25%
Variable Debt Interest Rate							
2014 Proposed Rate Forecast	1.00%	1.25%	1.25%	1.25%	1.50%	2.00%	2.50%
Adopted 2013 Budget Forecast	1.00%	1.25%	1.25%	1.75%	2.50%	3.25%	4.00%
Difference (proposed minus adopted)	0.00%	0.00%	0.00%	-.50%	-1.00%	-1.25%	-1.50%
Investment Interest Rate							
2014 Proposed Rate Forecast	0.58%	0.45%	0.40%	0.40%	0.60%	1.32%	2.03%
Adopted 2013 Budget Forecast	0.45%	0.35%	0.35%	0.45%	1.32%	2.11%	2.78%
Difference (proposed minus adopted)	0.13%	0.10%	0.05%	-0.05%	-0.72%	-0.79%	-0.75%
IV. Reserves							
Bond and Loan Reserves (000's)							
2014 Proposed Rate Forecast	\$180,831	\$183,757	\$186,892	\$195,770	\$192,005	\$199,618	\$207,632
Adopted 2013 Budget Forecast	\$156,177	\$184,159	\$190,177	\$199,504	\$197,814	\$205,814	\$214,104
Difference (proposed minus adopted)	(\$24,654)	(\$402)	(\$3,285)	(\$3,734)	(\$5,809)	(\$6,194)	(\$6,472)
Rate Stabilization Reserve (000's)							
2014 Proposed Rate Forecast	\$62,600	\$46,350	\$24,185	\$10,335	-	-	-
Adopted 2013 Budget Forecast	\$62,600	\$41,100	\$10,280	-	-	-	-
Difference (proposed minus adopted)	-	\$5,250	\$13,905	\$10,335	-	-	-
Rate Stabilization Use (000's)							
2014 Proposed Rate Forecast	\$13,900	\$16,250	\$22,165	\$13,850	\$10,335	-	-
Adopted 2013 Budget Forecast	\$13,900	\$21,500	\$30,820	\$10,280	-	-	-
Difference (proposed minus adopted)	-	(\$5,250)	(\$8,655)	\$3,570	\$10,335	-	-

8.0 Comparison of King County Rates with Similar Agencies

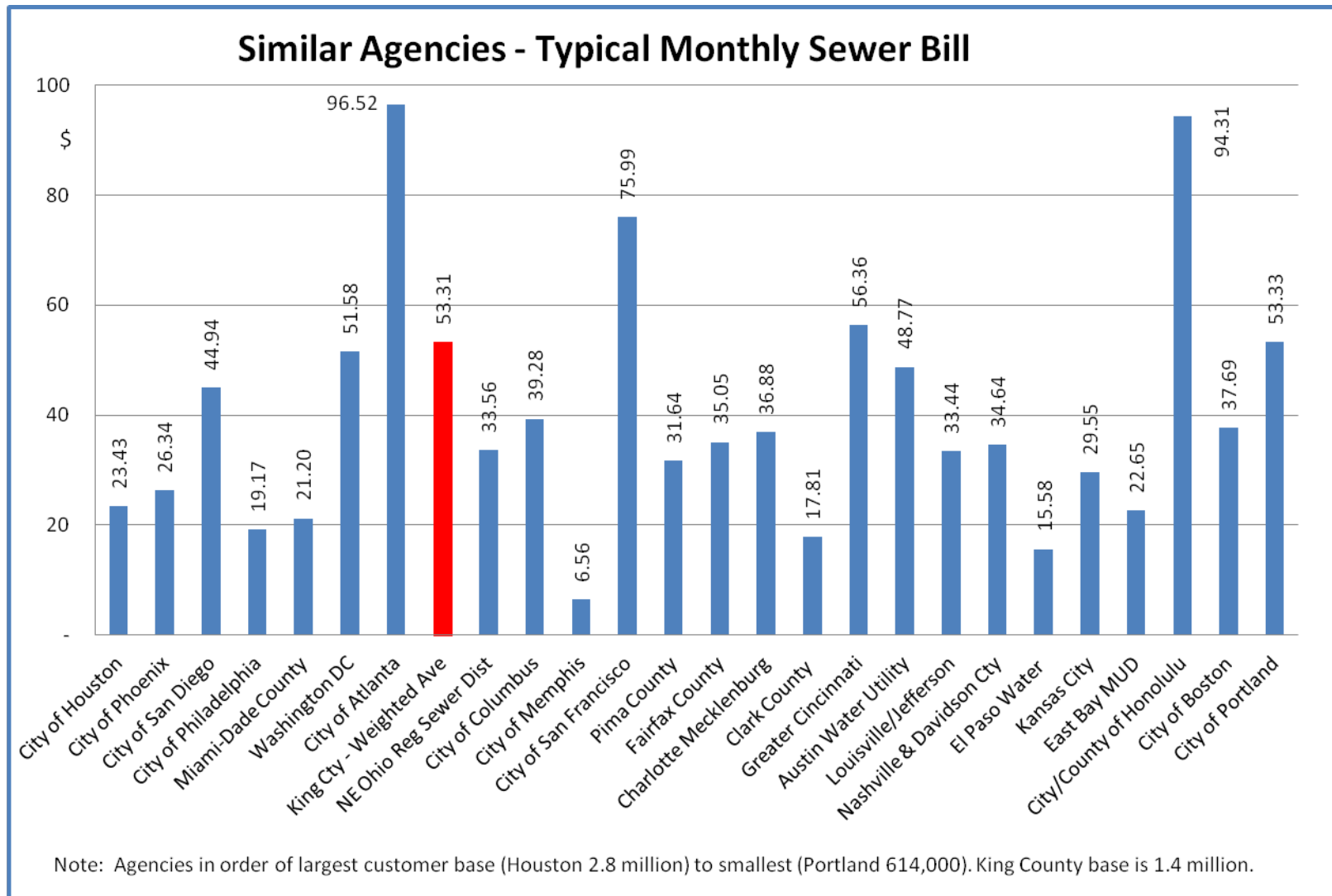
During 2010 and 2011, WTD surveyed the retail wastewater rates of 25 jurisdictions around the country. These retail rates were compared to the weighted average retail rates charged by the 14 largest jurisdictions in King County that contract with King County for wastewater treatment services. These agencies provide service to 90 percent of all customers in the sewer service area.

A consistent comparison of sewer rates is complicated by the myriad differences among utilities in sources of revenues, physical facilities, topography, and weather, among other factors. A further complicating factor is the outlook for the various utilities being compared. For example, in the last decade WTD's rates have been heavily influenced by the construction of the largest project in its history in anticipation of growth to come in the future. In light of these complicating factors, WTD is committed to continuing to refine its rate comparison methodology in order to provide the best possible "apples to apples" comparison.

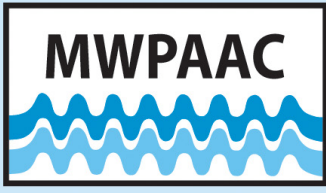
In addition to absolute rate levels and typical bills, another comparison of rates is the average annual percent increase over a given period of time. In Black and Veatch's "50 Largest Cities Water and Wastewater Rate Survey," the average annual increase in wastewater rates between 2001 and 2009 was 5.5 percent for the 50 largest utilities in the country. During this same period WTD rates increased an average of 5.6 percent. If one adjusts for 2009 being the first of a two-year rate, the average annual WTD sewer rate increase between 2001 and 2010 is 5.1 percent. While this period includes the maximum years of spending for the Brightwater project, some of the rate impact of that activity is included in later years as previously discussed in this paper. If the period is expanded to 2001 to 2014 to include the rates from this proposal, the average annual rate of increase is 5.2 percent.

The following chart presents a comparison of 2011 retail rates for 25 agencies from various parts of the country to the weighted average for King County agencies. To approximate an average retail rate for King County, the rates of the largest 14 local component agencies were weighted by the number of RCEs and an average was calculated. The resulting weighted average rate was \$53.31 for the typical homeowner and \$63.01 at the standard usage of 750 cubic feet per month.

In terms of typical monthly rates, King County ranks sixth among the surveyed agencies. The first chart shows the typical monthly sewer bill for each agency based on information from their websites. The agencies are in order of number of customers served, with Houston, Texas, being the largest (2.8 million) at the left margin and Portland, Oregon, the smallest (614,000) on the right margin. In the case of the typical monthly bill, King County's weighted average ranks sixth. As the chart shows, rates vary widely for the 26 agencies from a high of \$96.52 for Atlanta, Georgia, and a low of \$6.56 for Memphis, Tennessee. Nine of the 26, including King County, fall within the range of \$35 to \$56 per month with an average of \$39.98 for all agencies.



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Metropolitan Water Pollution Abatement Advisory Committee

King Street Center, 201 South Jackson Street, MS KSC-NR-0512
Seattle, WA 98104 206-263-6070

MEMBERS:

*Alderwood Water and
Wastewater District*

City of Algona

City of Auburn

City of Bellevue

City of Black Diamond

City of Bothell

City of Brier

City of Carnation

Cedar River Water and Sewer District

Coal Creek Utility District

Cross Valley Water District

Highlands Sewer District

City of Issaquah

City of Kent

City of Kirkland

City of Lake Forest Park

Lakehaven Utility District

City of Mercer Island

Midway Sewer District

Northeast Sammamish Sewer District

Northshore Utility District

Olympic View Water and Sewer District

City of Pacific

City of Redmond

City of Renton

Ronald Wastewater District

*Sammamish Plateau Water and
Sewer District*

City of Seattle

Skyway Water and Sewer District

Soos Creek Water and Sewer District

Southwest Suburban Sewer District

City of Tukwila

Val Vue Sewer District

Vashon Sewer District

Woodinville Water District

0508_MWPAAClthd.eps

March 27, 2013

The Honorable Dow Constantine
Executive, King County
401 Fifth Avenue
Seattle, WA 98104

SUBJECT: **Wastewater Treatment Division (WTD) 2014 Rate Recommendation**

Dear Executive Constantine:

The Metropolitan Water Pollution Abatement Advisory Committee (MWPAAAC) has reviewed the WTD budget and rate proposal for 2014, and with it the revised rate forecast for 2015-2018. Based on that review, we support the proposed 2014 rate of \$39.79, unchanged from 2013. We do, however, caution against publishing and relying on an optimistic forecast for subsequent rate periods, due to the future difficulty that would ensue to modify those forecasts upwards. We have ongoing concerns regarding long-term trends and related capital funding strategies, issues that if addressed would require increases in near-term rates. We address this further below.

First, however, we wish to refer to a series of issues that MWPAAAC identified, in the form of ratemaking principles, during last year's review and assess status or progress on those:

1. MWPAAAC recommended a reduction in capital spending pending completion of a capital funding policy review. While MWPAAAC has undertaken such a review and received additional briefings and information from WTD, the County is still pursuing a parallel process at the staff level. We have deferred our findings in favor of a collaborative role in this process.
2. MWPAAAC recommended excluding Culver and other non-wastewater costs from the WTD budget as a matter of equity and consistency with enterprise integrity. The current budget continues to exclude Culver, but we remain concerned about other inappropriate costs that could be assigned to WTD. As one example, WTD's share of water quality monitoring costs remains a concern.

3. MWPAAC continues to support cost-containment and efficiency programs, and especially WTD's efforts to institute a new program in this regard.
4. MWPAAC supports WTD's continued efforts to self-manage its funds to enhance returns.
5. MWPAAC is pleased that current budgets do not rely on short-term budget measures with adverse longer-term effects. In fact, some features are specifically targeted at longer-term stability and sustainability.

For the upcoming rate period, financial news has generally improved from prior forecasts. Debt interest costs remain low, capital spending is down from its historic highs, and operating costs remain stable. For MWPAAC, this offers the ideal time to examine long-term debt level and structure, and cost control. MWPAAC's issues and recommendations in this regard can be summarized as follows:

1. **Complete a Review of the Long-Term Debt/Capital Funding Strategy** – We have expressed concerns regarding the highly leveraged condition of the utility. WTD has invited us to participate in a review process that will provide MWPAAC with the opportunity to comment on future capital funding strategies and debt levels.
2. **Review Current Assumptions Regarding Capital Project Accomplishment** – Current rate forecasting uses a continuous assumption regarding accomplishment rate, set at 85%. This essentially means that 15% of the capital program disappears from funding requirements on a perpetual basis. One alternate method would be to assume deferral or attenuation of such expenditures, rather than elimination. At a minimum, rate forecasts for multiple rate periods, or longer term, should be subjected to risk analysis as related to this or any assumption that reduces assumed costs from approved or planned levels.
3. **Impose Consistent Business Standards for Capital Projects** – During the review of reclaimed water policies, MWPAAC strongly supported standards that were developed related to financial and economic viability, accompanied by appropriate assignment of project and program costs. However, this has been interpreted to only be applicable to future new service areas, with a remarkably large unserved area defined as "current" service area. To our knowledge, these standards have not been applied for continued expansion of reclaimed water into this unserved area. MWPAAC believes that any capital outlay should be subjected to reasonable standards for cost-effectiveness, and specifically that no reclaimed water investments should go forward that fail to meet this standard. We recommend removing or suspending the roughly \$10 million in reclaimed water capital projects now contained in the capital program until cost-effectiveness for ratepayers has been demonstrated.
4. **Support WTD Succession Planning Efforts** – We believe that the WTD proposal related to succession planning is vital for effective and efficient long-term system management and operation, and strongly support the WTD proposal. Parallel to asset

management and performance enhancement, managing through succession is particularly vital given current workforce demographics.

5. **Evaluate Revenue Program Equity**- Over the past several years, numerous issues have arisen related to various aspects of cost responsibility and payment obligations. These issues have tended to be addressed in isolation. MWPAAC is evaluating the need for a more comprehensive review of these issues, possibly including a “cost-of-service” study. As MWPAAC develops a proposed course of action, it will communicate that to the WTD Director.

To repeat our initial observation, we see the potential for upcoming policy changes that would likely alter the projected rate trends. In some cases, near-term rates could be increased to provide greater financial strength and lower long-term rates. With this understanding, it would make sense to maintain room in the rate forecast for such possible changes. We would propose a future rate contingency for 2015-2016, to be reviewed and revised as better information becomes available.

MWPAAC makes these recommendations with a continued commitment to a partnership with WTD and the County for effective wastewater management. We remain active in reviewing these and many other topics as related to this outcome. We also remain appreciative of WTD’s openness and commitment to a meaningful role for MWPAAC in this regard. Our collaboration with the WTD Director in framing and addressing upcoming issues has materially improved our ability to partner for better outcomes.

Sincerely,



Scott Thomasson
MWPAAC Chair

cc: MWPAAC Members
Dwight Dively, Director, Office of Performance Strategy and Budget
Christie True, Director, Department of Natural Resources and Parks (DNRP)
Pam Elardo, P.E., Division Director, Wastewater Treatment Division, DNRP
Tim Aratani, Finance Manager, WTD, DNRP

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KING COUNTY
Signature Report

April 26, 2013

Ordinance

Proposed No. 2013-0217.1

Sponsors

1 AN ORDINANCE determining the monetary requirements
2 for the disposal of sewage for the fiscal year beginning
3 January 1, 2014, and ending December 31, 2014, setting
4 the sewer rate for the fiscal year beginning January 1, 2014,
5 and ending December 31, 2014, and approving the amount
6 of the sewage treatment capacity charge for 2014, in
7 accordance with RCW 35.58.570; and amending Ordinance
8 12353, Section 2, as amended, and K.C.C. 4A.670.100, and
9 Ordinance 11398, Section 1, as amended, and K.C.C.
10 28.84.055.

11 BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

12 SECTION 1. Ordinance 12353, Section 2, as amended, and K.C.C. 4A.670.100
13 are each hereby amended to read as follows:

14 A. Having determined the monetary requirements for the disposal of sewage, the
15 council hereby adopts a ((2013)) 2014 sewer rate of thirty-nine dollars and seventy-nine
16 cents per residential customer equivalent per month. Once a sewer rate ordinance
17 becomes effective, the clerk of the council is directed to deliver a copy of that ordinance
18 to each agency having an agreement for sewage disposal with King County.

19 B. The King County council approves the application of Statement of Financial
20 Accounting Standards No. 71 (FAS 71) to treat pollution remediation obligations and
21 RainWise Program expenditures as regulatory assets, and establish a rate stabilization
22 reserve for the purpose of leveling rates between years.

23 C. As required for FAS 71 application, amounts are to be placed in the rate
24 stabilization reserve from operating revenues and removed from the calculation of debt
25 service coverage. The reserve balance shall be an amount at least sufficient to maintain a
26 level sewer rate between 2013 and 2014, and shall be used solely for the purposes of:
27 maintaining the level sewer rate in 2014; and if additional reserve balance is available,
28 moderating future rate increases beyond 2014. The estimated amount of the reserve, as
29 shown in the financial forecast, Attachment A to (~~Ordinance 17343~~) this ordinance,
30 shall be revised in accordance with the (~~2013~~) 2014 adopted budget and financial plan.
31 If the reserve needs to be reduced to meet debt service coverage requirements for (~~2012~~)
32 2013, the county executive shall notify the council of the change by providing an
33 updated financial forecast.

34 D. The executive shall provide monthly cost reports to the council on Brightwater
35 as outlined in K.C.C. 28.86.165.

36 SECTION 2. Monetary requirements for the disposal of sewage as defined by
37 contract with the component sewer agencies for the fiscal year beginning January 1,
38 2014, and ending December 31, 2014. The council hereby determines the monetary
39 requirements for the disposal of sewage as follows:

40 Administration, operating, maintenance repair and replace (net of other income):
41 \$64,930,132.

42 Establishment and maintenance of necessary working capital reserves:
43 (\$21,812,667).

44 Requirements of revenue bond resolutions (not included in above items and net of
45 interest income): \$296,912,277.

46 TOTAL: \$340,029,742.

47 SECTION 3. Ordinance 11398, Section 1, as amended, and K.C.C. 28.84.055 are
48 each hereby amended as follows:

49 A. The amount of the metropolitan sewage facility capacity charge adopted by
50 K.C.C. 28.84.050.O. that is charged monthly for fifteen years per residential customer or
51 residential customer equivalent shall be:

52 1. Seven dollars for sewer connections occurring between and including January
53 1, 1994, and December 31, 1997;

54 2. Ten dollars and fifty cents for sewer connections occurring between and
55 including January 1, 1998, and December 31, 2001;

56 3. Seventeen dollars and twenty cents for sewer connections occurring between
57 and including January 1, 2002, and December 31, 2002;

58 4. Seventeen dollars and sixty cents for sewer connections occurring between
59 and including January 1, 2003, and December 31, 2003;

60 5. Eighteen dollars for sewer connections occurring between and including
61 January 1, 2004, and December 31, 2004;

62 6. Thirty-four dollars and five cents for sewer connections occurring between
63 and including January 1, 2005, and December 31, 2006;

64 7. Forty-two dollars for sewer connections occurring between and including
65 January 1, 2007, and December 31, 2007;

66 8. Forty-six dollars and twenty-five cents for sewer connections occurring
67 between and including January 1, 2008, and December 31, 2008;

68 9. Forty-seven dollars and sixty-four cents for sewer connections occurring
69 between and including January 1, 2009, and December 31, 2009;

70 10. Forty-nine dollars and seven cents for sewer connections occurring between
71 and including January 1, 2010, and December 31, 2010;

72 11. Fifty dollars and forty-five cents for sewer connections occurring between
73 and including January 1, 2011, and December 31, 2011;

74 12. Fifty-one dollars and ninety-five cents for sewer connections occurring
75 between and including January 1, 2012, and December 31, 2012; (~~and~~)

76 13. Fifty-three dollars and fifty cents for sewer connections occurring between
77 and including January 1, 2013, and December 31, 2013; and

78 14. Fifty-five dollars and thirty-five cents for sewer connections occurring
79 between and including January 1, 2014, and December 31, 2014.

80 B.1. In accordance with adopted policy FP-15.3.d. in the Regional Wastewater
81 Services Plan, K.C.C. 28.86.160.C., it is the council's intent to base the capacity charge
82 upon the costs, customer growth and related financial assumptions used in the Regional
83 Wastewater Services Plan.

84 2. In accordance with adopted policy FP- 6 in the Regional Wastewater Services
85 Plan, K.C.C. 28.86.160.C, the council hereby approves the cash balance and reserves as
86 contained in the attached financial plan for (~~2013~~) 2014.

87 3. In accordance with adopted policy FP- 15.3.c., King County shall pursue
88 changes in state legislation to enable the county to require payment of the capacity charge
89 in a single payment, while preserving the option for new ratepayers to finance the
90 capacity charge.
91

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

Larry Gossett, Chair

ATTEST:

Anne Noris, Clerk of the Council

APPROVED this ____ day of _____, _____.

Dow Constantine, County Executive

Attachments: A. Wastewater Treatment Division Financial Plan for the 2014 Proposed Sewer Rate

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	2012 Unaudited	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	2019 Forecast
RESIDENTIAL CUSTOMER EQUIVALENTS (RCEs)	708.89	710.52	712.66	715.29	718.37	721.47	724.57	727.69
MONTHLY RATE	\$36.10	\$39.79	\$39.79	\$41.95	\$42.73	\$44.51	\$45.16	\$45.90
% Increase		10.2%	0.0%	5.4%	1.8%	4.2%	1.5%	1.6%
BEGINNING OPERATING FUND	86,900	74,063	58,500	36,832	23,544	13,737	14,287	14,858
OPERATING REVENUE:								
Customer Charges	307,167	339,261	340,279	360,099	368,323	385,334	392,626	400,821
Investment Income	1,757	1,734	1,295	1,344	2,063	4,702	7,460	10,038
Capacity Charge	50,957	46,652	50,569	55,563	61,378	67,501	73,691	79,197
Rate Stabilization *	13,900	16,250	22,165	13,850	10,335			
Other Income	11,003	9,492	10,968	11,187	11,411	11,639	11,988	12,348
TOTAL OPERATING REVENUES	384,784	413,389	425,276	442,042	453,511	469,175	485,765	502,403
OPERATING EXPENSE	(114,630)	(121,504)	(126,467)	(132,090)	(137,373)	(142,868)	(148,583)	(155,642)
DEBT SERVICE REQUIREMENT PARITY DEBT	(195,392)	(219,083)	(220,998)	(226,369)	(233,701)	(241,048)	(248,913)	(256,901)
SUBORDINATE DEBT SERVICE	(14,166)	(16,941)	(18,855)	(21,329)	(22,739)	(25,478)	(28,357)	(31,292)
DEBT SERVICE COVERAGE RATIO PARITY DEBT **	1.38	1.33	1.35	1.37	1.35	1.35	1.35	1.35
DEBT SERVICE COVERAGE RATIO TOTAL PAYMENTS	1.29	1.15	1.15	1.15	1.15	1.15	1.15	1.15
INTER-FUND LOAN REPAYMENTS	(20,135)	(20,336)	(301)	(301)	(301)	(301)	(301)	(301)
LIQUIDITY RESERVE CONTRIBUTION	(1,064)	(687)	(496)	(562)	(528)	(549)	(571)	(706)
TRANSFERS TO CAPITAL	(39,397)	(34,838)	(58,159)	(61,392)	(58,868)	(58,931)	(59,039)	(57,562)
RATE STABILIZATION RESERVE *	62,600	46,350	24,185	10,335				
OPERATING LIQUIDITY RESERVE BALANCE	11,463	12,150	12,647	13,209	13,737	14,287	14,858	15,564
OPERATING FUND ENDING BALANCE	74,063	58,500	36,832	23,544	13,737	14,287	14,858	15,564
CONSTRUCTION FUND								
BEGINNING FUND BALANCE	91,648	102,493	43,504	5,020	5,000	5,000	5,000	5,000
REVENUES:								
Parity Bonds	80,000	50,000	30,000	106,135	108,097	118,194	120,502	121,315
Variable Debt Bonds	100,000	0	22,157	6,512	6,382	7,280	7,009	6,472
Grants & Loans	15,992	42,123	3,284	0				
Other	500	500	500	6,500	500	500	500	500
Transfers From Operating Fund	39,397	34,838	58,159	61,392	58,868	58,931	59,039	57,562
TOTAL REVENUES	235,889	127,461	114,100	180,539	173,848	184,905	187,050	185,850
CAPITAL EXPENDITURES	(192,367)	(183,425)	(148,737)	(169,526)	(175,418)	(174,892)	(176,590)	(175,323)
DEBT ISSUANCE COSTS	(748)	(1,000)	(711)	(2,155)	(2,194)	(2,400)	(2,445)	(2,459)
BOND RESERVE TRANSACTIONS	(20,480)	(2,998)	(1,822)	(6,612)	3,770	(7,609)	(8,009)	(8,063)
DEBT SERVICE, CAPITALIZED INTEREST RESERVE ADJUSTMENTS	(7,366)	0						
	(4,084)	973	(1,313)	(2,266)	(5)	(4)	(5)	(5)
ENDING FUND BALANCE	102,493	43,504	5,020	5,000	5,000	5,000	5,000	5,000
CONSTRUCTION FUND RESERVES								
Bond & Loan Reserves	180,831	183,757	186,892	195,770	192,005	199,618	207,632	215,700
Policy Reserves	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
TOTAL FUND RESERVES	195,831	198,757	201,892	210,770	207,005	214,618	222,632	230,700
CONSTRUCTION FUND BALANCE	298,324	242,261	206,913	215,770	212,006	219,619	227,633	235,701

* This revenue is accounted for as a regulatory asset to be deferred to future years in accordance with FAS-71.

** This includes a Regulatory Asset for a \$54.1 million estimate of Environmental Remediation Liability in accordance with FAS-71 which will be amortized over a 30-year average bond term.