



King County

Department of Natural Resources and Parks
Wastewater Treatment Division



Wastewater Treatment Division (WTD) Staff 2024 Sewer Rate and Capacity Charge Proposal Briefing

King County Wastewater Treatment Division (WTD)
Regional Water Quality Committee

April 05, 2023

Big Picture

- Growth in the WTD capital program due to asset management, regulatory demands and capacity needs means rates are increasing, which worsens affordability.
- WTD staff recommended rate of \$55.11 addresses affordability by holding the 2024 rate to the 5.75% increase projected during last year's rate process.
- Long-term rate affordability will continue to be impacted by:
 - Known and anticipated regulatory requirements
 - Asset management projects and programs necessary to prevent overflows
 - Demand-driven capacity projects
- Additional funding sources, potentially from the state and federal government, are crucial to improve long-term sewer rate affordability.

Overview of Sewer Rate Process

- Utility enterprise funds (such as WTD) are self-supporting; rates cover the costs of providing services.
- Engagement with Metropolitan Water Pollution Abatement Advisory Committee (MWPAAC) occurs in January thru March.
- MWPAAC votes on a recommendation letter in late March, providing feedback to the County Executive on WTD staff's proposed sewer rate and capacity charge.
- RWQC briefed on WTD staff's proposed sewer rate and capacity charge in early April for feedback.
- County Executive considers feedback from MWPAAC and RWQC and transmits the proposed sewer rate and capacity charge to Council in April for action.
- RWQC briefed on Executive's rate proposal in early May.
- Sewer contracts require the County Council to set the sewer rate annually by June 30.

Policy-driven investments

- Increase **reliability** at West Point and offsite locations.
- Comply with **regulatory requirements**.
- Respond to growth-related **demand** on the system.
- Advance the most critical **asset management** projects.
- Protect **water quality** and the environment, implement the Clean Water Healthy Habitat Strategic Plan.
- Increase resiliency to **climate change** consistent under the Strategic Climate Action Plan.
- Address disparities in service delivery in alignment with the **Equity and Social Justice Strategic Plan**.



2023 Adopted Rate – Sewer Rate Projection - 40% Cash Funding

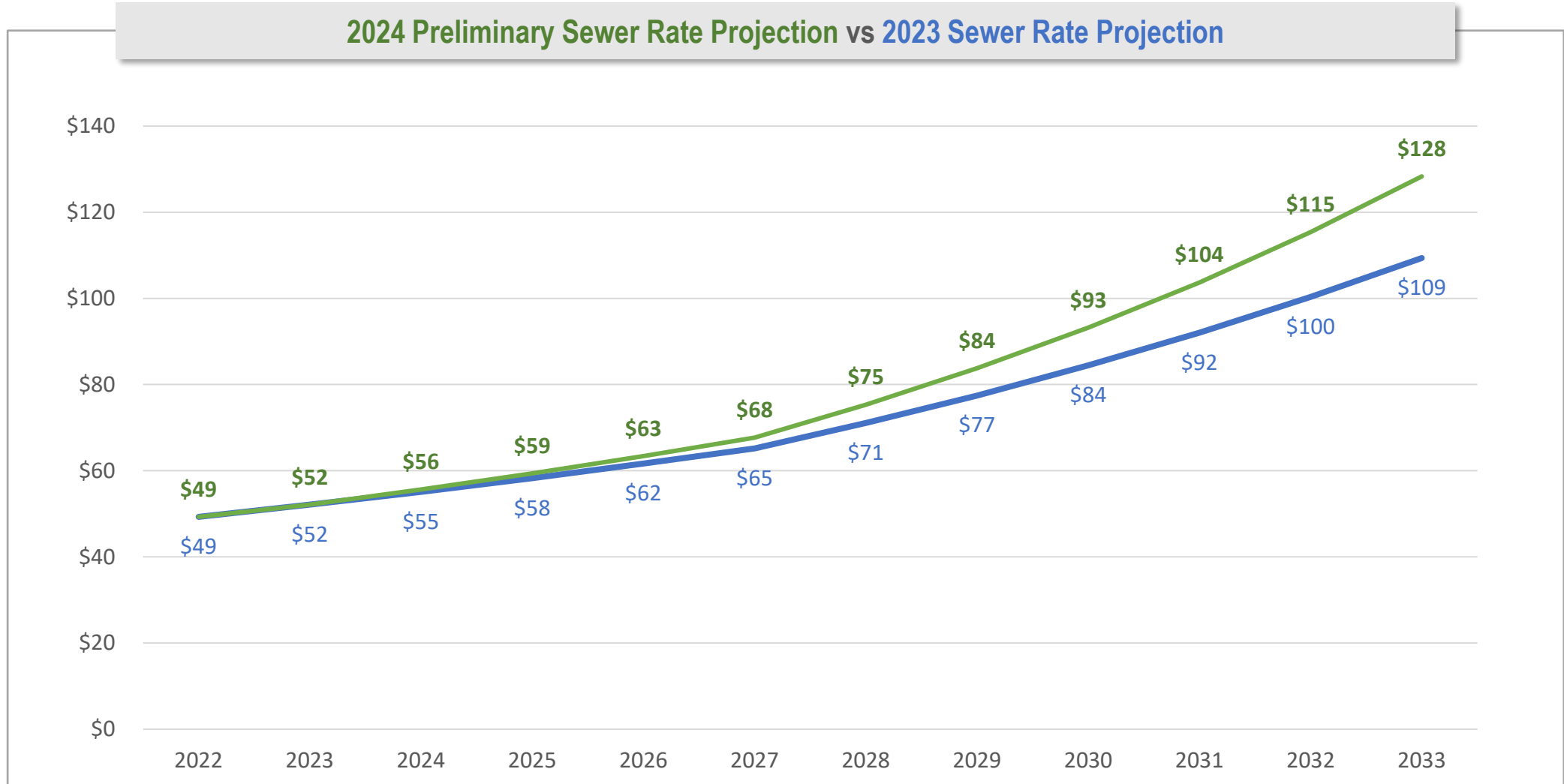
2023 - 40% Cash Funding	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Rate Increase %	5.75%	5.75%	5.75%	5.75%	5.75%	9.00%	9.00%	9.00%	9.00%	9.00%	
Monthly Sewer Rate	\$52.11	\$55.11	\$58.28	\$61.64	\$65.19	\$71.06	\$77.46	\$84.44	\$92.04	\$100.33	
All-In Debt Service Coverage	1.59x	1.63x	1.64x	1.65x	1.67x	1.69x	1.72x	1.70x	1.70x	1.71x	

Initial 2024 Preliminary Sewer Rate Projection – 40% Cash Funding, no changes to Capital Improvement Program, higher Accomplishment Rate, two-step smoothing

Preliminary 40%	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Rate Increase %	5.75%	6.75%	6.75%	6.75%	6.75%	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%
Monthly Sewer Rate	\$52.11	\$55.63	\$59.39	\$63.40	\$67.68	\$75.30	\$83.78	\$93.21	\$103.70	\$115.37	\$128.35
All-In Debt Service Coverage	1.56x	1.57x	1.55x	1.55x	1.56x	1.62x	1.66x	1.68x	1.74x	1.79x	1.96x

- Capital Improvement Program (CIP) projections show significant cost increases in the 10-year financial projection. Increases are due to new projects, revised project schedules, and revised project cost estimates.
- Affordability for lower income ratepayers already challenging and projected to worsen.

WTD Preliminary Sewer Rate Projection Comparison



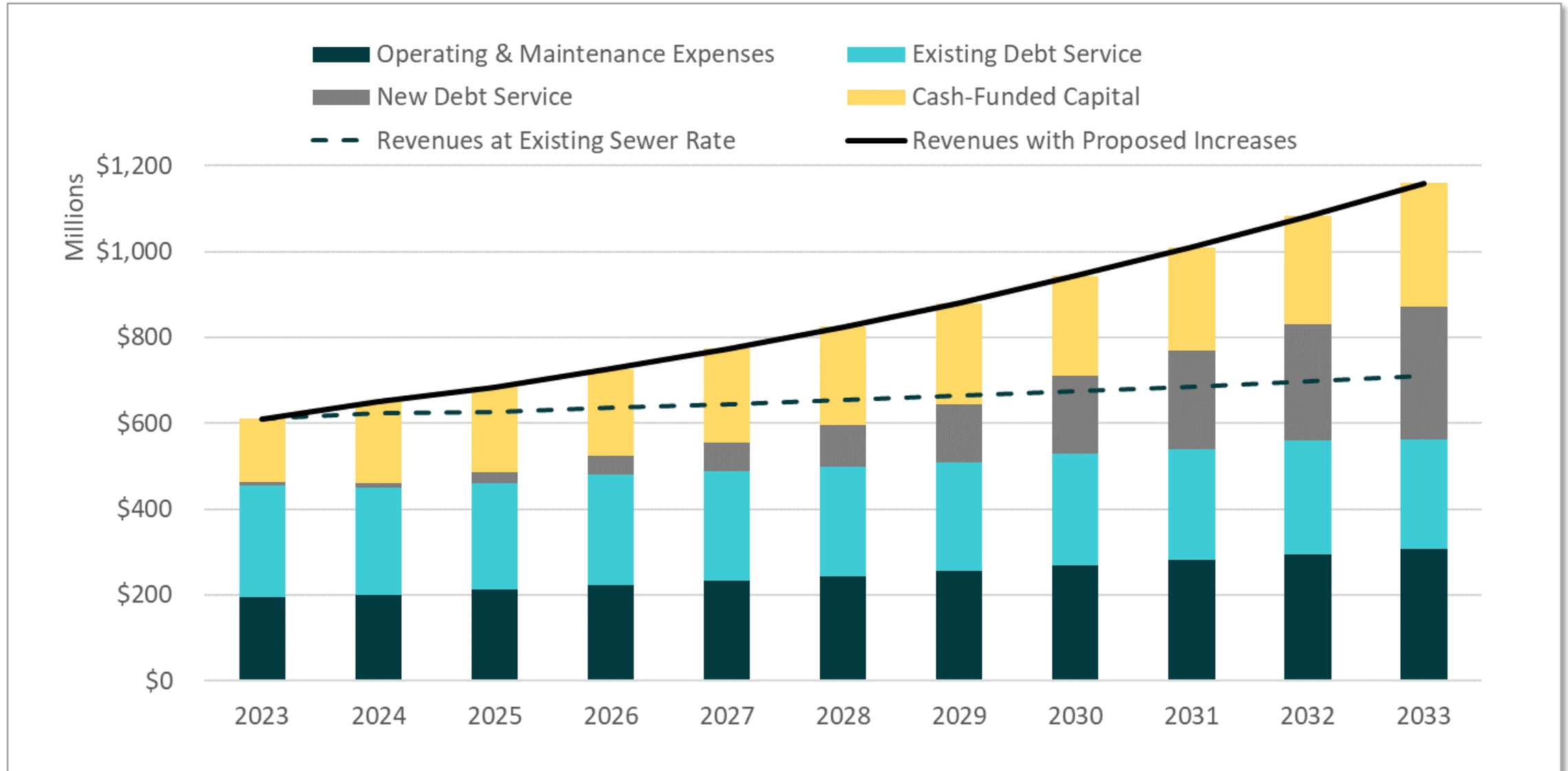
WTD Staff Proposed 2024 Sewer Rate

- **Proposed Monthly Sewer Rate - \$55.11**
 - **5.75% increase** over last year's rate of \$52.11
 - Projecting **5.75% increases** for **2025** and **2026**

10-Year Sewer Rate Projection (2023 – 2033)

2024-2033 Sewer Rate Projection	Adopted	Proposed									
2024 Sewer Rate Projection	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Rate Increase %	5.75%	5.75%	5.75%	5.75%	6.50%	6.50%	6.50%	7.00%	7.00%	7.00%	7.00%
Monthly Sewer Rate	\$52.11	\$55.11	\$58.28	\$61.64	\$65.65	\$69.92	\$74.47	\$79.69	\$85.27	\$91.24	\$97.63
Rate Increase \$	\$2.84	\$3.00	\$3.17	\$3.36	\$4.01	\$4.27	\$4.55	\$5.22	\$5.58	\$5.97	\$6.39
All-In Debt Service Coverage	1.56x	1.73x	1.73x	1.67x	1.68x	1.65x	1.61x	1.53x	1.50x	1.47x	1.51x
Total Debt Balance (\$m)	\$3,587	\$3,512	\$3,593	\$3,721	\$3,915	\$4,198	\$4,615	\$5,114	\$5,615	\$6,018	\$6,386

Projected WTD Revenue Requirements (2023-2033)



Savings to Ratepayers

Low-interest loans and refinancing reduce costs:

- Since 2010, WTD saved an estimated \$759M through refinancing and defeasing high interest debt.
- Between 2023 and 2032, WTD estimates it will save \$333.8M in total debt service, equating to an average savings of \$33.4M per year which reduces future sewer rate increases by more than three dollars on an annual basis.

Chemical savings:

Switched from using sodium hydroxide (aka caustic soda) to magnesium hydroxide at Brightwater Treatment Plant in mid-2020, resulting in a decrease of \$700k in total annual cost of the two chemicals.

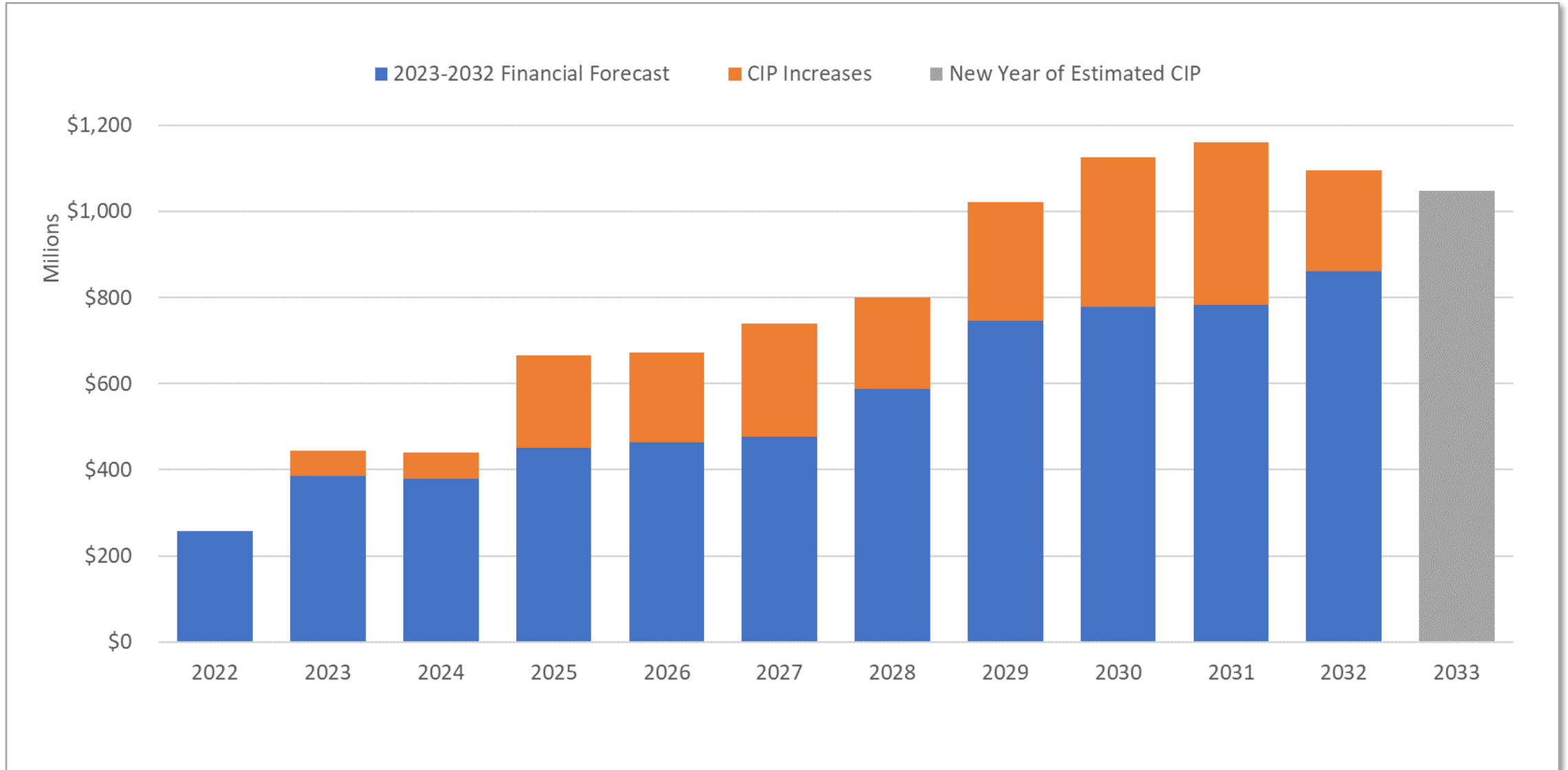
Green Where We Work:

Annual space cost incurred by our operating fund decreased by almost \$800k, when comparing the 2019-2020 biennium (\$1.2M each year) to the 2023-2024 biennium (\$0.4M each year).

Energy Rebates:

WTD actively pursued and received \$887k in energy rebates over the last four years (2019 thru 2022).

What Changed From Last Year: Projected CIP Increases



Criteria to evaluate changes

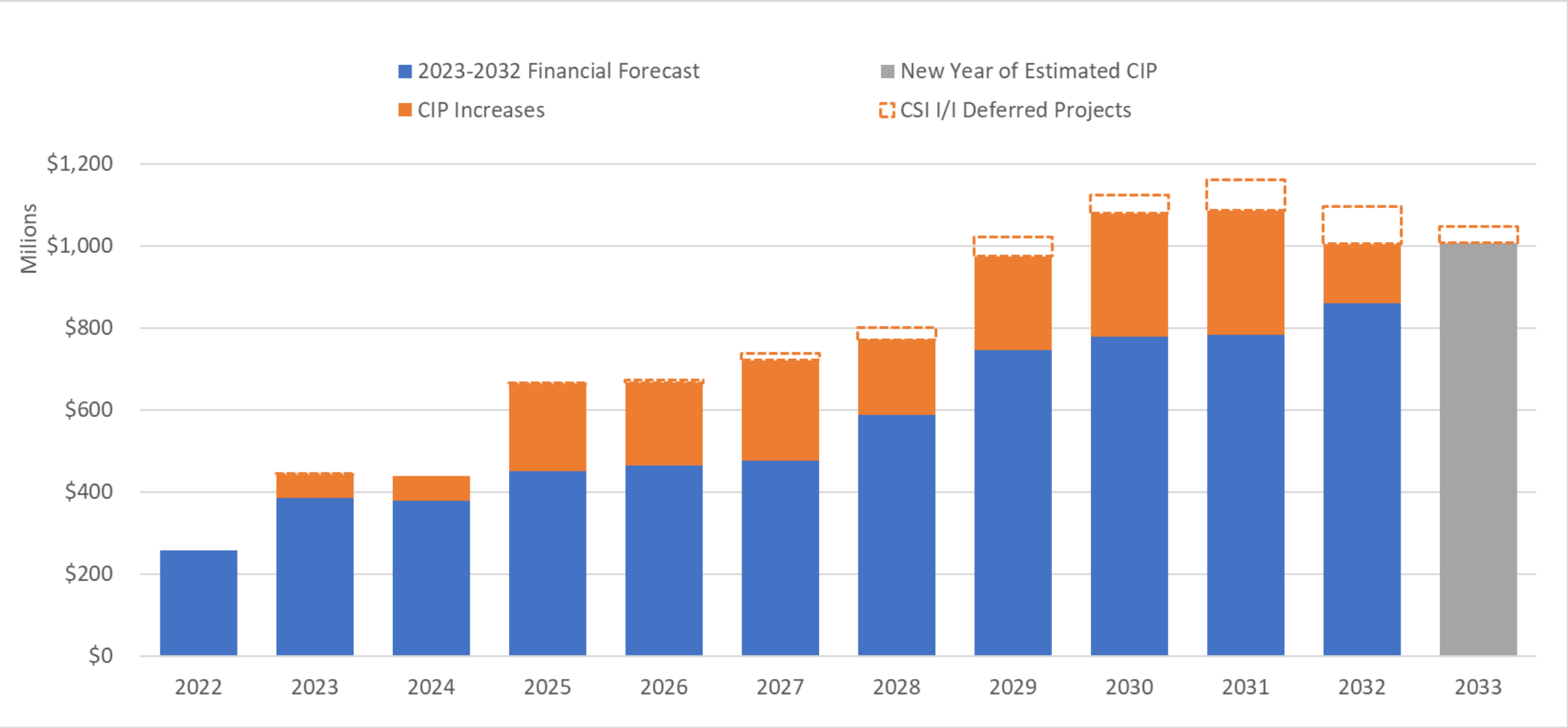
- Meaningfully address affordability by holding the rate for 2024 consistent with last year's projection and reducing future rate increases compared to the 2023 10-year forecast.
- Minimize the likelihood and severity of overflows or other adverse environmental consequences, risks to health and safety, and risks to operating costs.
- Reflect known and anticipated regulatory requirements.
- Continue a focus on asset management projects and programs.
- Retain WTD's Debt Service Coverage ratio well above the Metropolitan Water Pollution Abatement Advisory Committee's 2017 recommended level with reasonable financial assumptions.



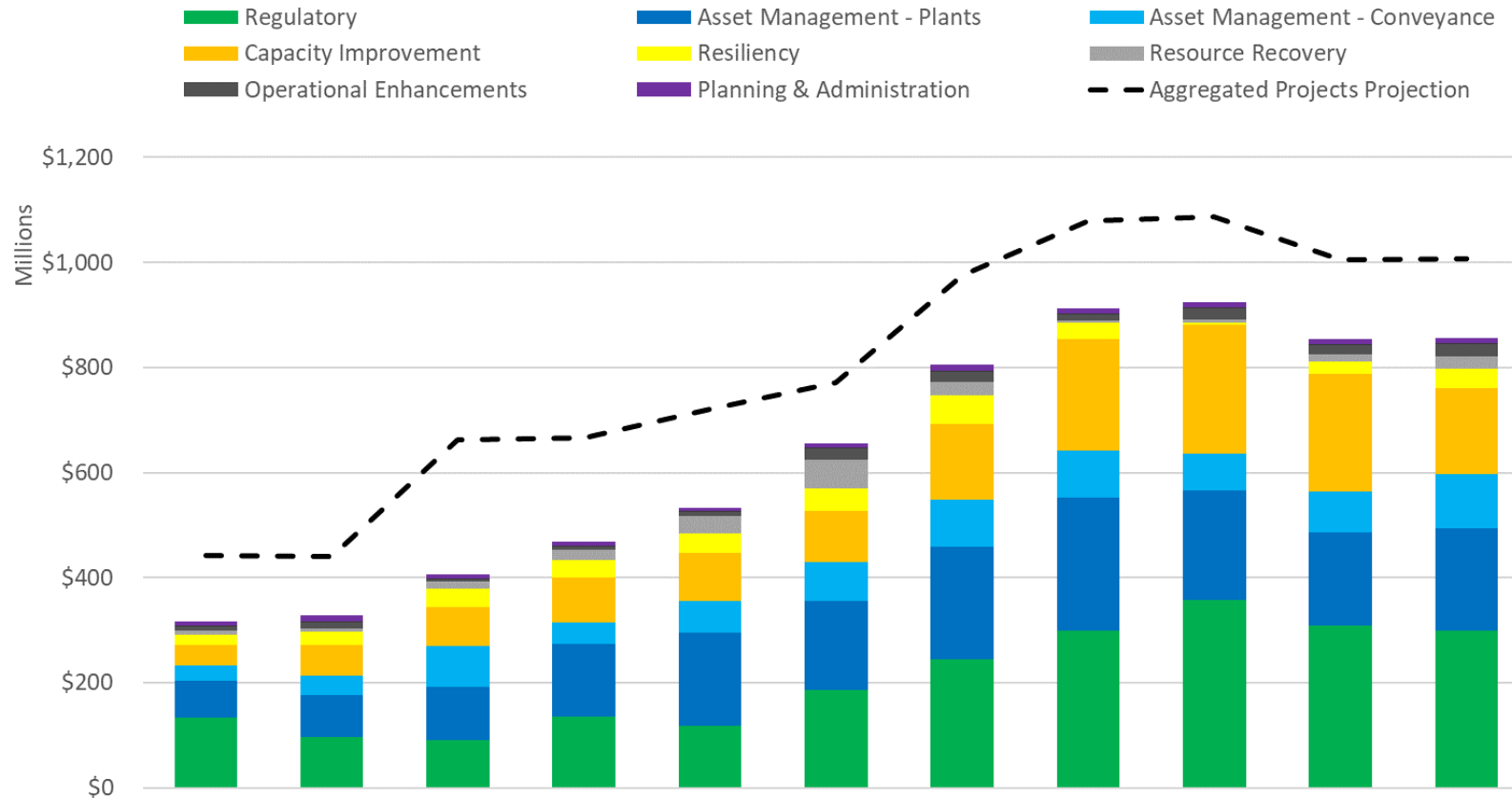
Addressing affordability challenge

- Defer selected Conveyance System Improvement Inflow and Infiltration (CSI I/I) projects with lower risk of capacity-related overflows.
 - Reduces CIP by \$357M in the 10-year projection period.
- Reduce CIP Accomplishment Rates in the near term and cap later rates at up to 85%.
 - Aligns the accomplishment rate with current economic conditions and historical performance.
- Modify cash funding approach to reduce future rate increases.
 - Adds modestly to debt and retains a strong debt service coverage ratio.

Deferral of Conveyance System Improvement Inflow and Infiltration

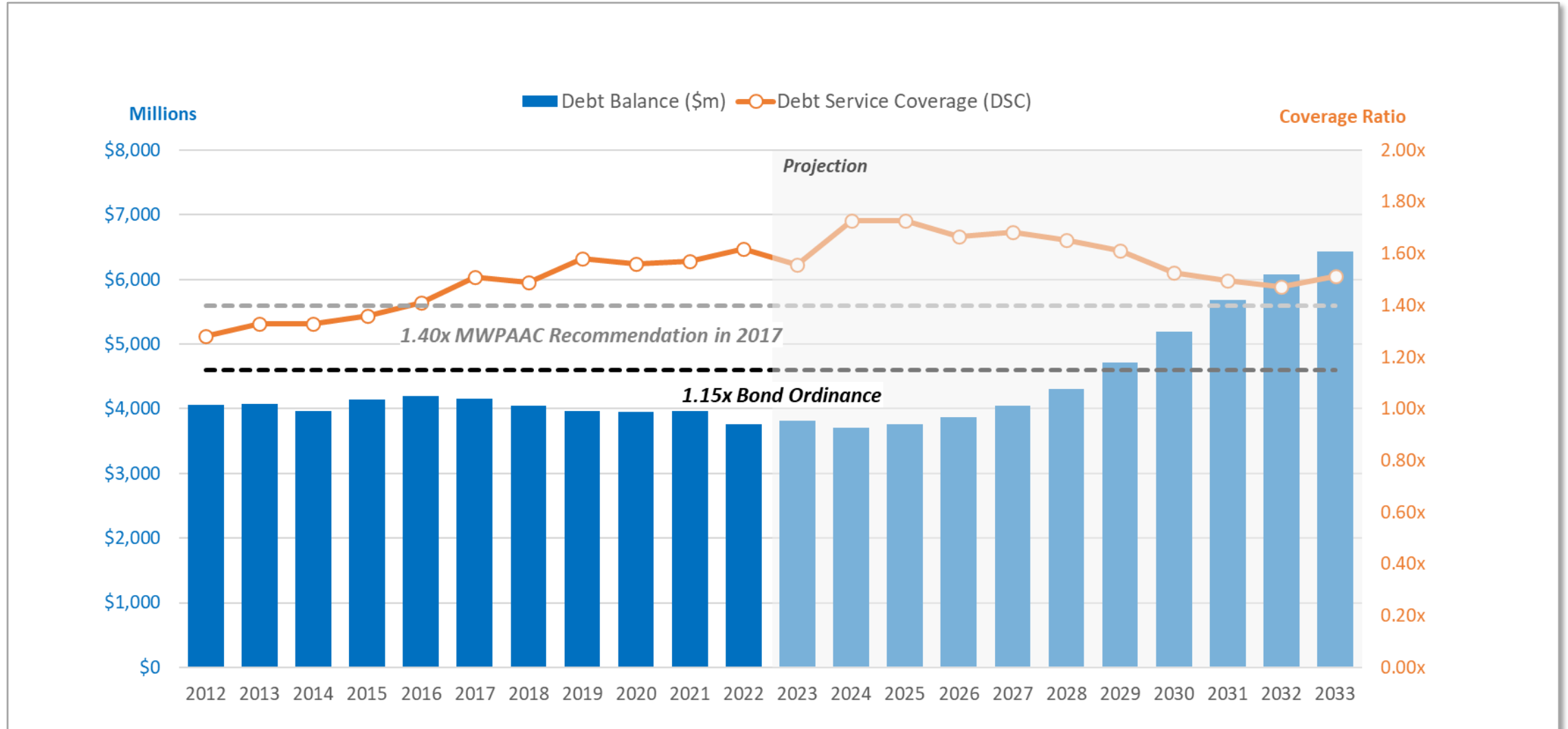


Projected Capital Spending: Accomplishment Rate



Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2023-2033
Aggregated CIP Project Forecasts	\$443	\$440	\$663	\$666	\$721	\$772	\$975	\$1,079	\$1,087	\$1,005	\$1,007	\$8,858
Accomplishment Rate (AR)	71%	74%	61%	70%	74%	85%	83%	84%	85%	85%	85%	80%
Capital Spending after AR	\$316	\$328	\$406	\$469	\$534	\$656	\$805	\$912	\$924	\$854	\$856	\$7,060

Maintaining Financial Health: Debt Service Coverage Ratio



Independent CIP Review

- Hire consultant for third-party/independent review of the CIP.
- Develop scope of work to issue an RFP in mid-2023.
- Review would analyze WTD's capital portfolio approach, financial strategies, revenue/funding streams, resource needs and related market impacts, relevant timelines, and schedules.
- Engage with MWPAAC on scope development and deliverables.

WTD Staff Proposed 2024 Capacity Charge

- **Proposed Monthly Capacity Charge - \$74.73**
 - This is a **2.4% increase** over last year's rate of \$72.50
 - Projecting **2.5% increases** for **2025** and **2026**

Capacity Charge Rate and Revenue Projection (2023 – 2033)

2024 Capacity Charge Projection	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Rate	\$72.50	\$74.23	\$76.09	\$77.99	\$79.94	\$81.94	\$83.99	\$86.09			
Increase %	3.0%	2.4%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%			
Increase \$	\$2.11	\$1.73	\$1.86	\$1.90	\$1.95	\$2.00	\$2.05	\$2.10			
Annual Total	\$870	\$891	\$913	\$936	\$959	\$983	\$1,008	\$1,033			
Total Payment (15 years)	\$13,050	\$13,362	\$13,696	\$14,038	\$14,389	\$14,749	\$15,117	\$15,495			
Projected Revenue (000's)	\$92,998	\$94,877	\$94,919	\$95,999	\$97,045	\$97,460	\$97,407	\$97,505	\$90,393	\$78,794	\$69,361

- Please note, currently, there are no policy provisions in King County Code to charge the capacity charge beyond 2030 connections.
 - Current sewer rate projections assume that capacity charge revenues will continue past 2030.
- Continue working with Capacity Charge work group (MWPAAC).

Summary

- WTD staff recommended rate addresses affordability in the near term by holding the 2024 rate to the projection from last year's rate process.
- MWPAAC supports WTD's proposed 2024 sewer rate while remaining concerned about the 10-year rate projection.
- Long-term rate affordability will continue to be impacted by regulatory requirements, asset management projects and programs necessary to prevent overflows, and demand-driven capacity projects.
- Additional state and federal funding sources are crucial to improve long-term sewer rate affordability.

Next Steps

- Continue to work towards earlier information and increased transparency.
- Monthly rate briefings/discussions with MWPAAC continuing into April 2023.
- Rate briefings to RWQC on April 5 and May 3, 2023.
- County Executive to transmit rate proposal to Council in April 2023.

Questions

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