

2026 Preliminary Sewer Rate

MWPAAC General Meeting

February 26, 2025

Agenda

- Calendar
- Substantive Changes for 2026
- Capital Forecast
- Funding Plan
- Operations Forecast
- Rate Impacts
- Summary and Next Steps

Calendar



| MONTH | ACTIVITIES |
|----------|---|
| February | February 6 and 26 – MWPAAC - Briefings on WTD's preliminary 2026 sewer rate and financial forecast |
| March | March 6 and March 26 – MWPAAC - Briefing on WTD's 2026 sewer rate proposal MWPAAC considers and acts on rate recommendation letter to King County Executive |
| | Mid-March – DNRP/WTD submits 2026 sewer rate proposal to King County Executive |
| April | April 2 – RWQC – Briefing on WTD's 2026 sewer rate proposal |
| | April 3 and April 23 – MWPAAC considers and acts on rate recommendation letter to King County Council |
| | Mid-April – King County Executive transmits 2026 sewer rate proposal to King County Council |
| May | May 7 – RWQC - Briefing on the Executive's 2026 sewer rate proposal |
| June | Budget and Fiscal Management Committee briefings on the Executive's 2026 sewer rate proposal |
| | Public hearing and action on the Executive's 2026 sewer rate proposal by King County Council |

Substantive Changes for 2026

1. Extending forecast from 10 to 20 years
 - Initiated in response to Council Motion 16449 (long-term financial and sewer rate forecast)
 - Incorporated into sewer rate forecast, Motion response separate and in progress for July milestones
2. CSO Consent Decree cost estimates and schedule - updated
 - Mouth of the Duwamish (MDCSO) mega-project - *higher cost estimates*
 - 2037 vs 2040 - moves costs to earlier in forecast period
3. Revised Approach to Forecasting Delivery Constraints
 - Formerly Accomplishment Rate deferred costs outside of forecast period
 - Alternatively, project costs are now individually sequenced within expected delivery capacity constraints
 - \$2.2 billion of project costs previously deferred outside the 10-year forecast period are fully represented in the 20-year forecast period

Key Assumptions / Forecast Approach - Capital

1. Regulatory

- MDCSO with recent cost updates
- Conceptual projects to meet the CSO Long Term Control Plan through 2037
- Allowance for CSO supplemental compliance
- Nitrogen Reduction Planning, Nutrient Reduction Evaluation study, and near-term optimization investments (first permit cycle)
- **New for 2026:** Proactive/multi-benefit investment to optimize nitrogen removal at South Plant to stay within regulatory nitrogen limits ('action levels')
- *Potential Other Regulatory Not Included At This Time:*
 - Other nutrient reduction that may be required in future permit cycles
 - Contaminants of Emerging Concern (e.g., PFAS)

2. Asset Management Conveyance and Plants

- **First decade:** High risk asset replacement and renewal inventory (Tier 1)
 - High risk asset replacement and renewal projects continue to be identified and added as Asset Management and Portfolio Management processes continue to mature
- **Second decade:** Continues remaining current high-risk inventory, then transitions to replacing assets at end of useful life, cost projected to year of replacement

Key Assumptions / Forecast Approach - Capital

3. Capacity

- Planned conceptual projects; inflow and infiltration-driven projects deferred in 2024 sewer rate process are included in second decade
- Allowances for known capacity- limited treatment plant processes - conceptual projects not yet defined
- **New for 2026:** Conceptual project to reduce the risk of sewer backups and protect public health in the South Park neighborhood

4. Other Portfolio Categories (e.g., Resource Recovery, Op Enhancements, etc.)

- Conceptual projects from the portfolio inventory, sequenced by relative priority
- Average historical spending with escalation to forecast year (second decade)

CIP Assumptions and Forecast Comparison

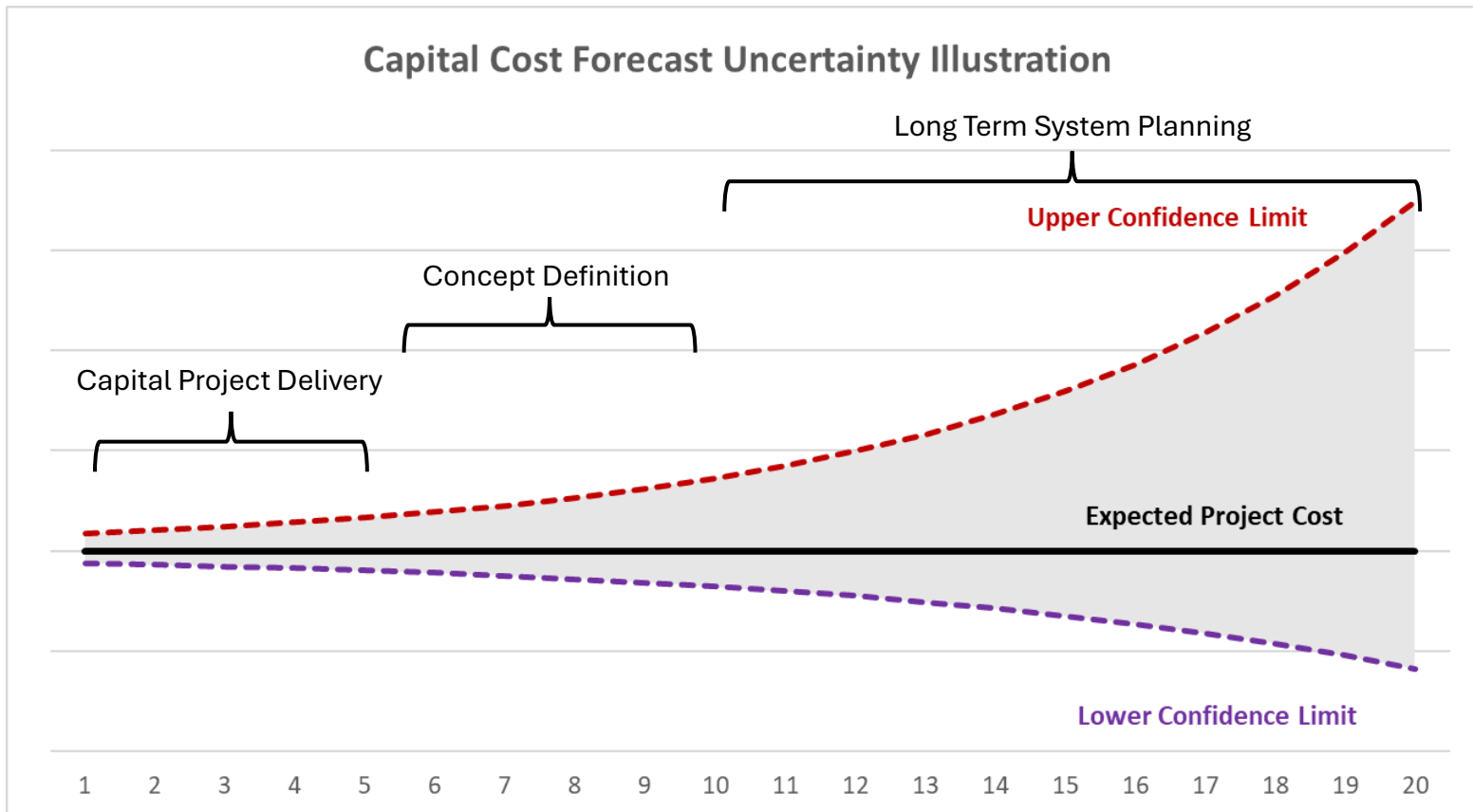
| | Category | Adopted 2025 Forecast ('24-'34) | 2026 Prelim. First Decade ('25-'35) | 2026 Prelim. Second Decade ('36-'45) |
|---|-------------------------|---------------------------------|-------------------------------------|--------------------------------------|
| Mouth of the Duwamish CSO | Regulatory | \$1,980m | \$3,370m | - |
| Additional Nitrogen Optimization Investments | Regulatory | - | 350m | - |
| South Park Neighborhood Sewer Separation | Cap. Improvement | - | 140m | - |
| Other Newly Identified Investments | AM and other categories | - | 150m | 220m |
| Current Projects (Preliminary) | All Categories | 2,520m | 3,660m | 530m |
| Previously Identified Conceptual Projects | All Categories | 3,740m | 3,710m | 4,500m |
| Allowances for long-term category projections | All Categories | - | - | 2,530m |
| Total | | \$8,240m | \$11,380m | \$7,780m |

All costs shown are escalated to year of projected expenditure.

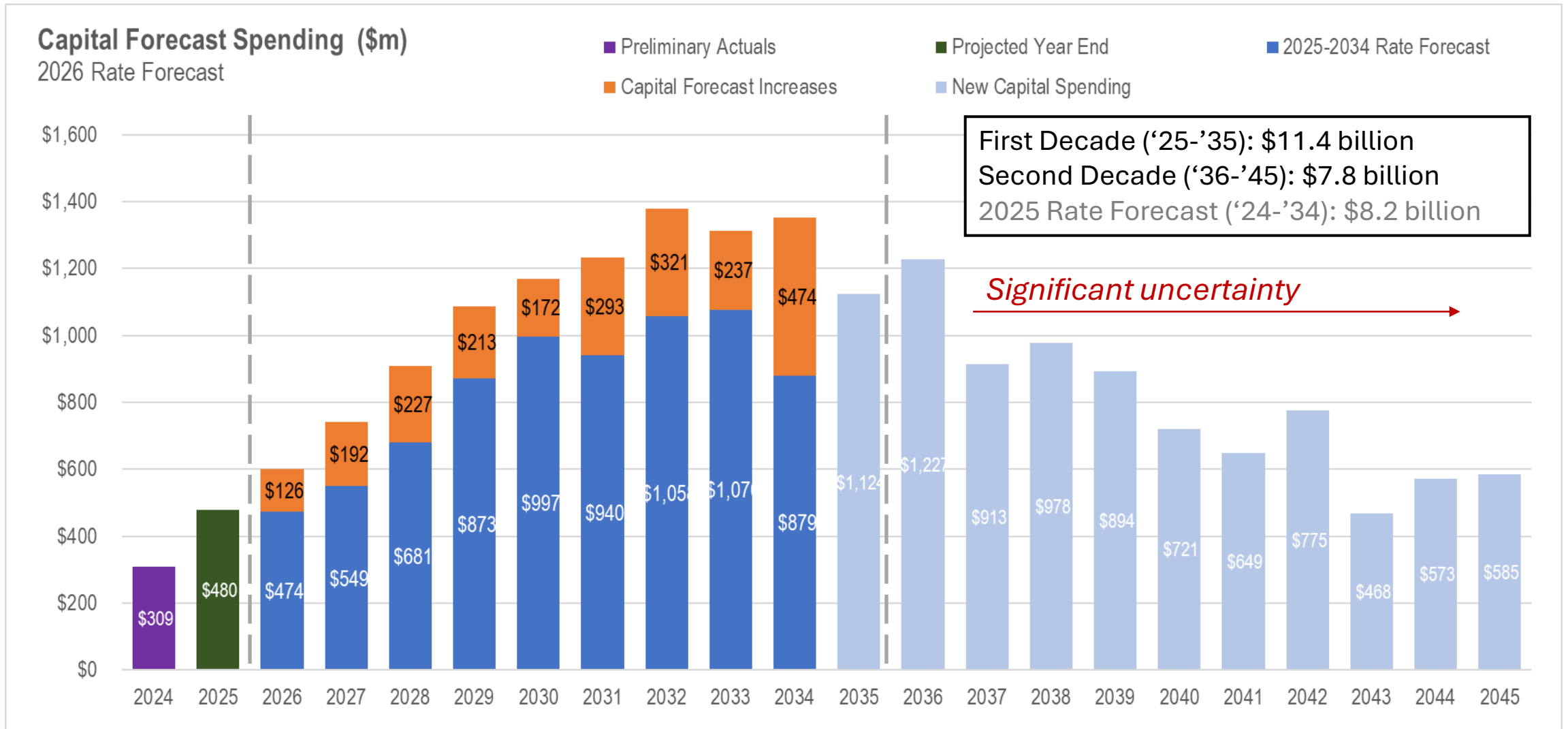
Long-Term Capital Forecasting Uncertainties (Motion 1 Findings)

Peer review findings - Raffelis/Conсор Motion 16410 (“Motion 1”) report:

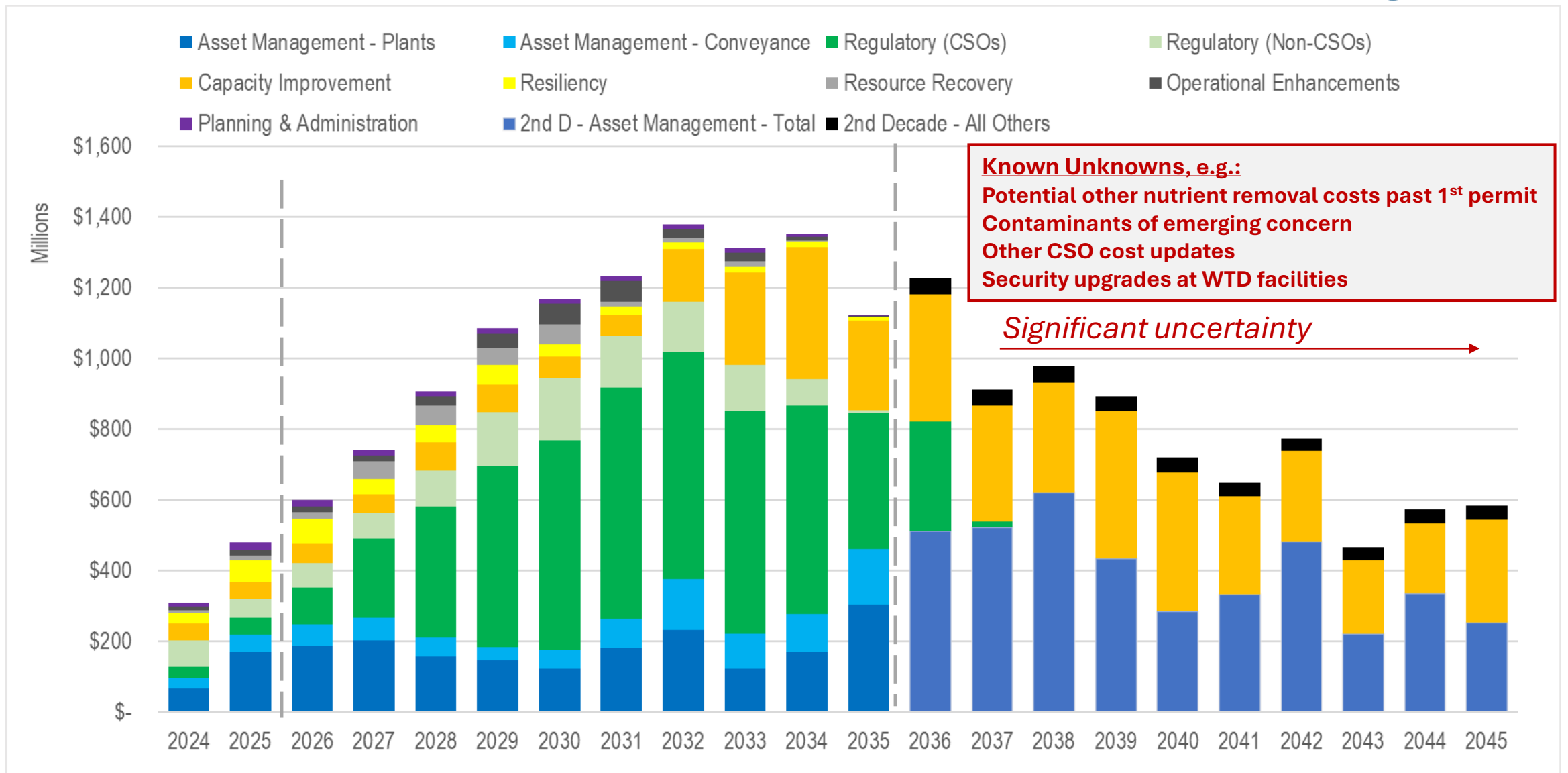
- “**Rates are typically only forecasted for 5 years** due to the uncertainties associated with long-term capital forecasting and future costs.”
- “Peers develop greater certainty for projects’ scopes and costs across the project categories for the 5- to 10-year projected capital budgets. **Projects scopes and costs uncertainty increases for capital forecasting beyond a 10-year period** and appropriate qualifications on the selected projects are provided.
- Other than asset renewal/replacement, capital cost estimates beyond 10 years “**were noted to be order of magnitude and subject to large changes**”



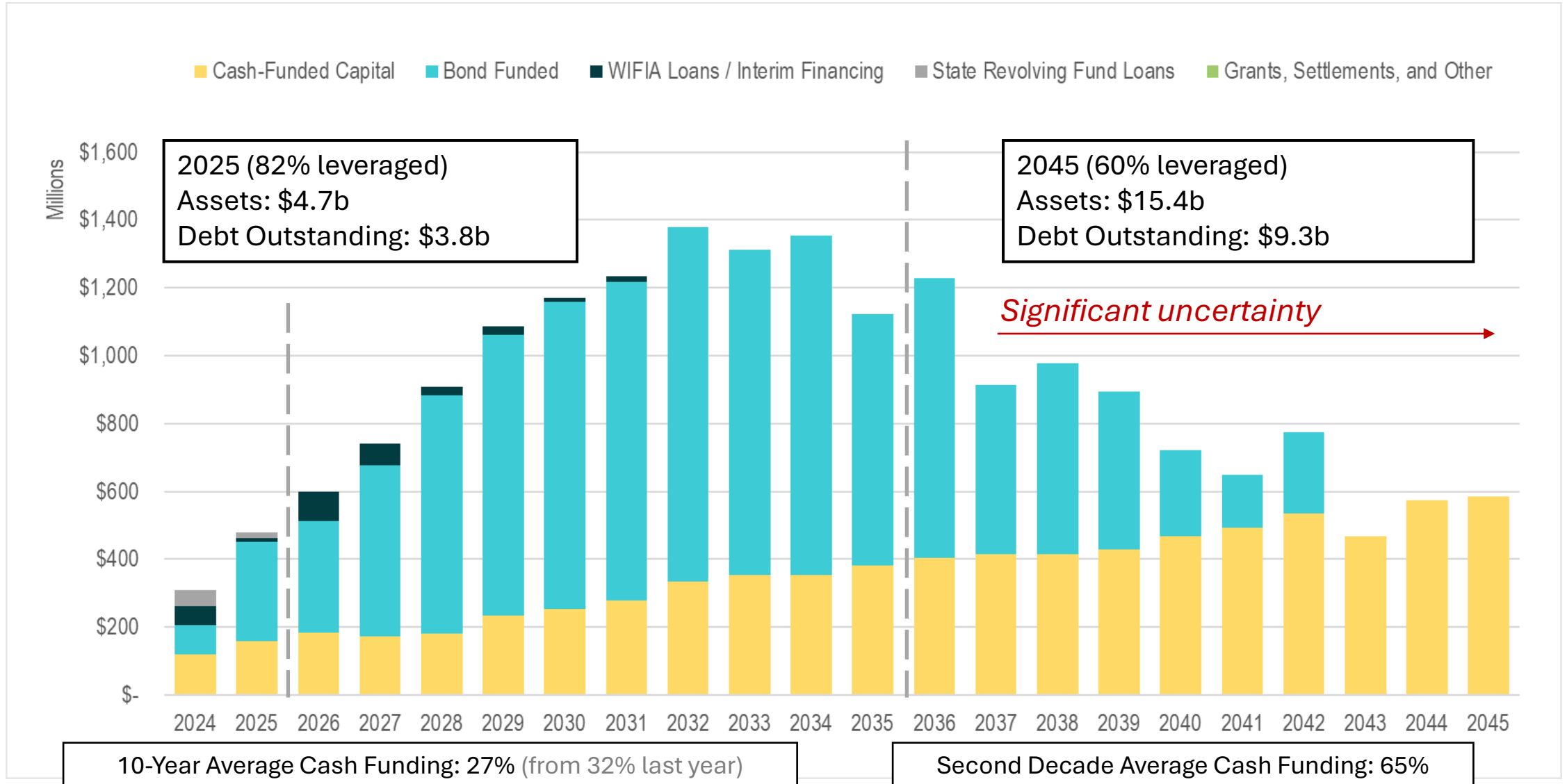
Current Capital Forecast vs. Adopted 2025 Plan



20-Year Capital Forecast by Portfolio Category



Capital Funding Forecast



Key Assumptions / Forecast Approach - Operations

- **Meaningfully address** operational needs by growing resources over the next 5 years
- **WTD facilities are aging, requiring attention to address hundreds of minor repairs and adjustments each month.**
- With a **large capital portfolio**, Operations staff are needed to participate in the **systems planning, design, construction, start-up, and commissioning** processes.
- Permit conditions are more complex, requiring more **monitoring and adjustment to meet water and air quality requirements.**
- Contracts and policy goals require that we reliably **recover and put to beneficial use biosolids, biogas, recycled water, and sewer heat** - all requiring Operations staff.
- **Jobs in Operations** are opportunities to recruit, hire and train a next generation of WTD staff, to **better reflect the communities we serve.**

O&M Forecast vs. Adopted 2025 Plan

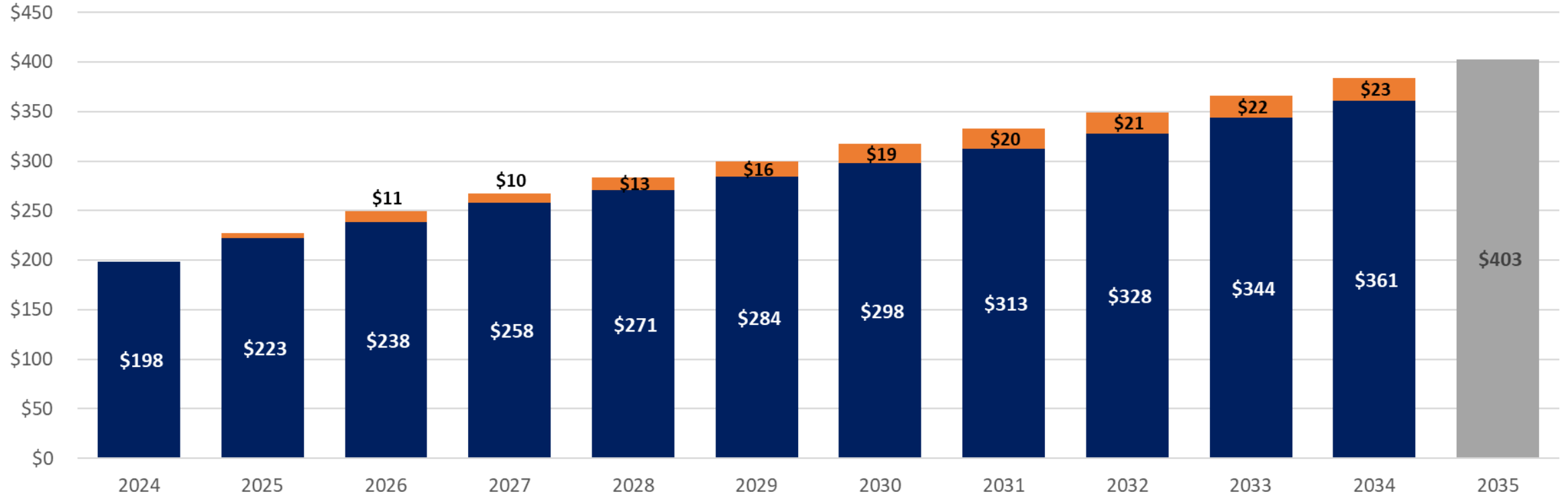
WTD Annual O&M (\$ millions)

2025 Rate Forecast vs 2026 Prelim. Rate Forecast

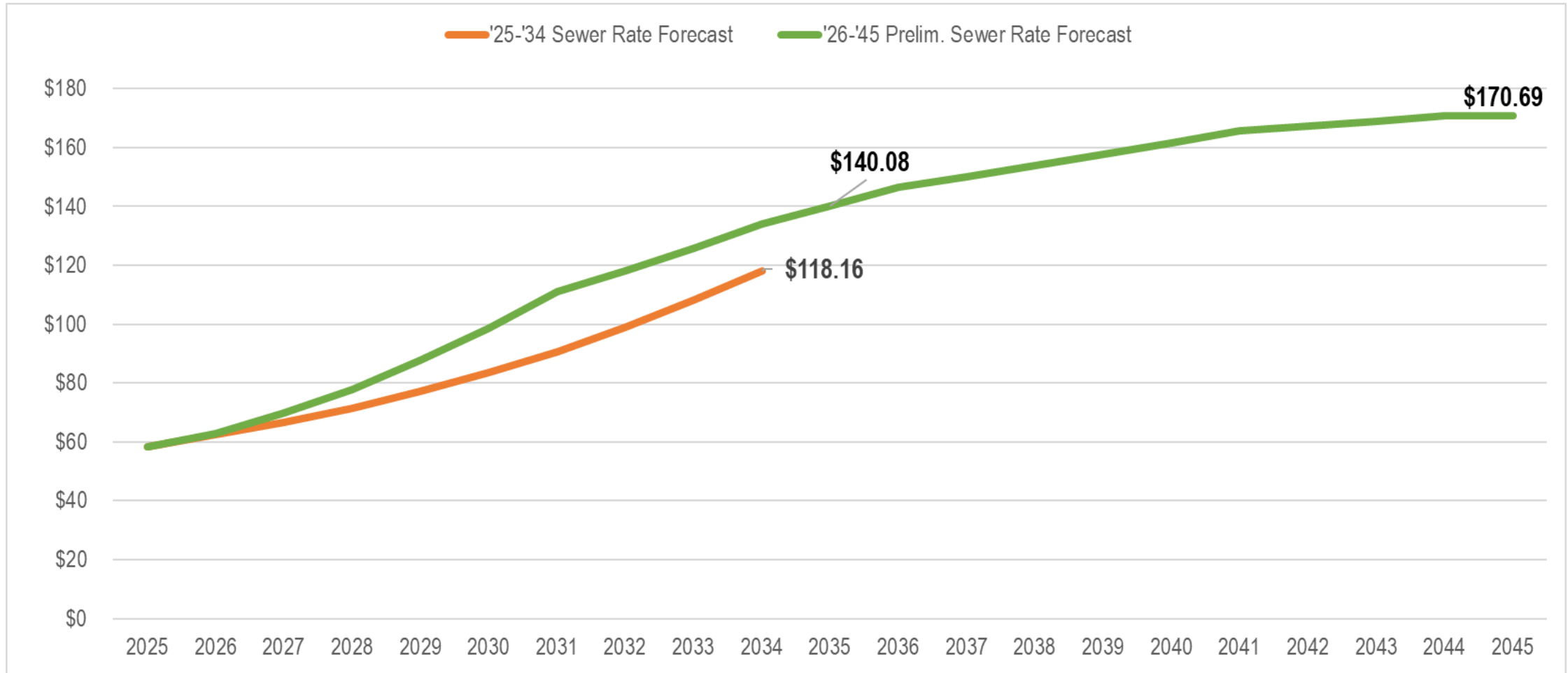
■ 2025-2034 Rate Forecast

■ New Year of Estimated O&M

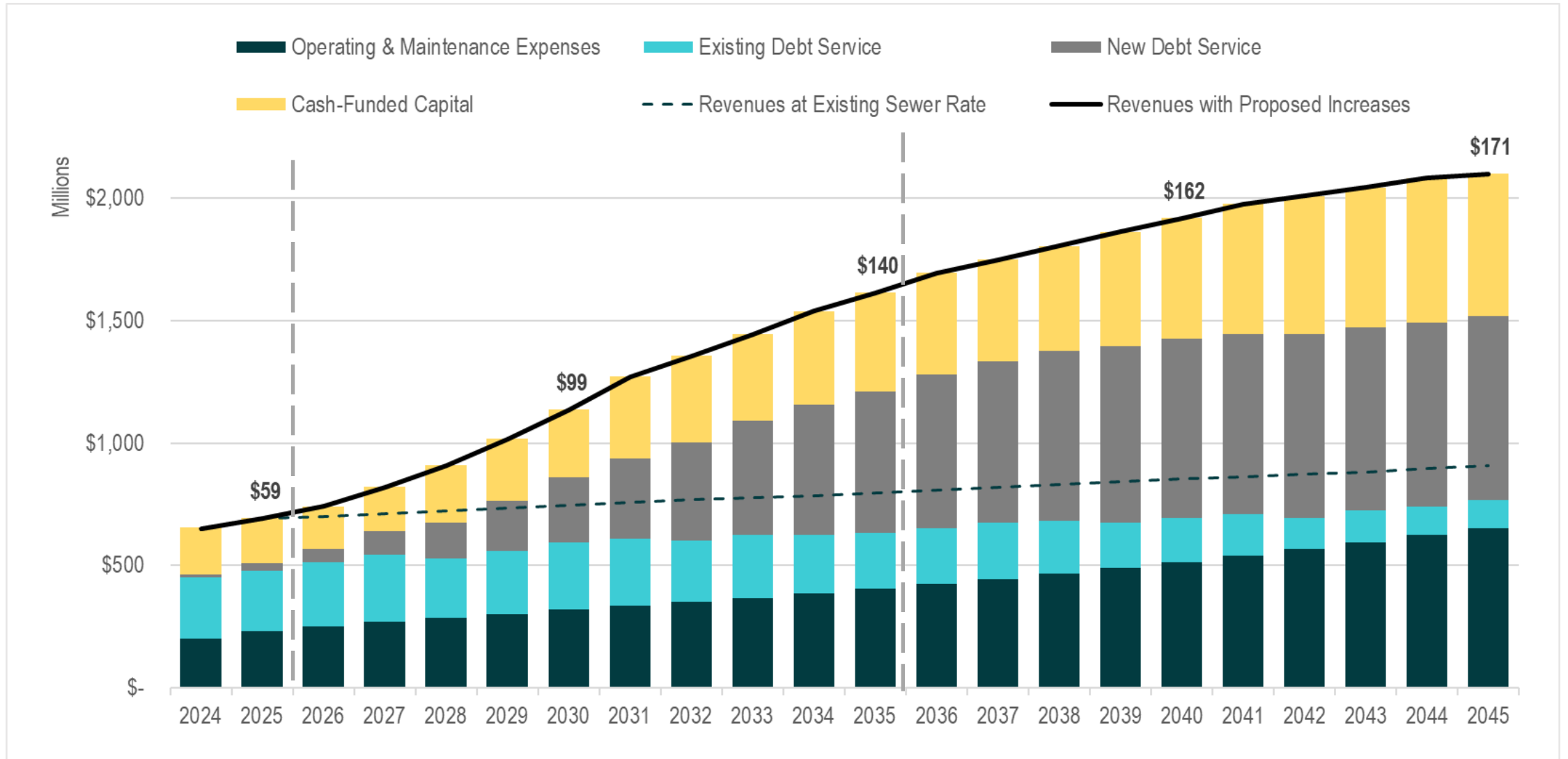
■ O&M Increases



Rate Path



Revenue Requirement



Sewer Rate Forecast

Adopted 2025 Rate and 2026-2034 Forecast:

| | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|----------|----------|
| Rate Increase % | 5.75% | 7.00% | 7.00% | 7.00% | 8.25% | 8.25% | 8.25% | 9.25% | 9.25% | 9.25% |
| Monthly Sewer Rate | \$58.28 | \$62.36 | \$66.73 | \$71.41 | \$77.31 | \$83.69 | \$90.60 | \$98.99 | \$108.15 | \$118.16 |
| All-In Debt Service Coverage | 1.74x | 1.68x | 1.59x | 1.69x | 1.60x | 1.49x | 1.48x | 1.53x | 1.52x | 1.63x |

Preliminary 2026 Rate and 2027-2045 Forecast:

| | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | 2035 |
|------------------------------|---------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Rate Increase % | 5.75% | 7.50% | 11.50% | 11.50% | 12.50% | 12.50% | 12.50% | 6.50% | 6.50% | 6.50% | 4.50% |
| Monthly Sewer Rate | \$58.28 | \$62.66 | \$69.87 | \$77.91 | \$87.65 | \$98.61 | \$110.94 | \$118.16 | \$125.85 | \$134.04 | \$140.08 |
| All-In Debt Service Coverage | 1.69x | 1.57x | 1.50x | 1.61x | 1.56x | 1.53x | 1.56x | 1.55x | 1.50x | 1.50x | 1.51x |
| | | 2036 | 2037 | 2038 | 2039 | 2040 | 2041 | 2042 | 2043 | 2044 | 2045 |
| Rate Increase % | | 4.50% | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% | 1.00% | 1.00% | 1.00% | 0.00% |
| Monthly Sewer Rate | | \$146.39 | \$150.05 | \$153.81 | \$157.66 | \$161.61 | \$165.66 | \$167.32 | \$169.00 | \$170.69 | \$170.69 |
| All-In Debt Service Coverage | | 1.49x | 1.47x | 1.47x | 1.52x | 1.54x | 1.59x | 1.64x | 1.65x | 1.68x | 1.68x |

Capacity Charge

| Capacity Charge | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|----------------------------------|----------|-------------|----------|----------|----------|----------|
| Monthly Charge | \$76.09 | \$77.99 | \$79.94 | \$81.94 | \$83.99 | \$86.09 |
| Increase % | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |
| Increase \$ | \$1.86 | \$1.90 | \$1.95 | \$2.00 | \$2.05 | \$2.10 |
| Annual Total | \$913 | \$936 | \$959 | \$983 | \$1,008 | \$1,033 |
| Total Payments (15 years) | \$13,696 | \$14,038 | \$14,389 | \$14,749 | \$15,118 | \$15,496 |
| Upfront Payment* | \$9,684 | \$9,926 | \$10,174 | \$10,429 | \$10,690 | \$10,957 |

*Discount rate of 5.05%

- King County Code: "Capacity charge" means a charge levied on a new customer to recover capital costs needed to serve new customers," and "The capacity charge shall be based upon the costs, customer growth and related financial assumptions used for the Regional Wastewater Services Plan."
 - The current RWSP planning horizon ends in 2030
- Capacity charge calculations are updated every three years: latest includes 2024 through 2026
- In 2024, WTD resumed work with Raftelis to update the capacity charge methodology
 - Internal data collection in progress to generate scenarios in preparation to reengage with MWPAAC workgroup

Summary and Next Steps

- Significant rising costs, rates follow
- Main drivers continue to be Regulatory, Asset Management, and Capacity
- Continued focus on addressing operations current and growing needs
- WTD continuing to assess landscape of available and potential new approaches to large scale capital costs and ratepayer affordability

- MWPAAC Rates & Finance—March 6
- Motion 2 work underway, report in July at RWQC

Q & A



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