King County

Metropolitan King County Council
Budget and Fiscal Management Committee

STAFF REPORT

Agenda Item:	8	**Name:**	Jenny Giambattista and Andy Micklow
Proposed No.:	2025-0129	**Date:**	May 28, 2025

SUBJECT

Proposed Ordinance 2025-0129 would increase the monthly sewer rate effective in 2026 to $62.66. The proposed ordinance would also set the monthly capacity charge for new connections to the regional system occurring in 2026 at $77.99.

SUMMARY

The sewer rate is the primary funding source of the Wastewater Treatment Division (WTD). The monthly sewer rate collected by the County goes to support all WTD expenses, including operating costs, debt service, and capital expenses. Proposed Ordinance 2025-0129 would increase the monthly sewer rate effective in 2026 by 7.5 percent from $58.28 to $62.66. This increase is 0.5 percent higher than what was projected as part of the forecast for the 2025 rate. The 2026 proposed sewer rate is projected to generate $592 million in revenue in 2026.

Beyond the 2026 rate, the proposed 10-year sewer rate forecast reflects substantive changes compared to the prior rate forecast. The 2026 10-year capital forecast is $3.1 billion greater than the prior 10-year forecast, and the rate projection reflects this increased capital forecast with higher than previously projected rates for 2027-2031. WTD reports that most of this increase compared to the prior forecast is due to the updated cost estimates and newly finalized completion dates for projects included in the Combined Sewer Overflow (CSO) Consent Decree as well as cost increases for other projects. With this new forecast, regulatory capital projects are projected to make up 52 percent of the 10-year capital forecast. A challenge for WTD as it implements this capital program is that many projects must be done concurrently and are costly and complex. The forecast also includes a revised approach to forecasting capital expenditures, which tries to take into consideration the complexity of the projects, the capacity to deliver the projects, and legally required timelines.

As part of the 2026 rate proposal process, WTD has extended the sewer rate forecast to 20 years through 2045, and this extended forecast shows annual increases ranging from 0.5 percent to 4.5 percent. WTD reports that this second decade of the forecast has significant uncertainty.

The proposed ordinance would also set the capacity charge for new connections to the regional system occurring in 2026 at $77.99 per Residential Customer Equivalent (RCE) per month, a 2.5 percent increase over the 2025 monthly charge of $76.09. The capacity charge is expected to generate approximately $105 million in revenue for 2026.

The schedule for Council consideration is listed below:

- Transmittal of Sewer Rate— April 24
- Budget and Fiscal Management Committee—Discussion only May 28 and Discussion/Possible Action —June 11
- Briefing only at Regional Water Quality Committee (RWQC)—May 7 and June 4
- Council consideration/action—June 17 or, if needed June 24 as emergency, assuming action by BFM on June 11
- Approval date requirement for sewer rate—June 30 (Prior to July 1)

Both RWQC and Metropolitan Water Pollution Abatement Advisory Committee (MWPAAC) have sent comment letters (Attachments 6 and 7) to the King County Council on the proposed rate.

Council staff analysis of Proposed Ordinance 2025-0129 is ongoing.

Links are provided below to the topics discussed in this staff report.

BACKGROUND

The regional wastewater system is almost entirely funded by the monthly sewer rate and the capacity charge.

Monthly Sewer Rate Charged to Local Sewer Agencies. The sewer rate is WTD's primary funding source. The monthly sewer rate collected by the County goes to support all Wastewater Treatment Division (WTD) expenses, including operating costs, debt service, and capital expenses. The sewer rate is charged by the County to the utilities that deliver wastewater to the County for treatment and discharge. The monthly sewer rate charged by WTD is a wholesale rate and is billed to local sewer agencies, not ratepayers**.** The local utility providers, as direct service providers, set their own rates to recoup the payments required by the County plus their own "local" cost of service. The local agency sends the sewer customers the sewer utility bill.

Single-Family versus Volume-Based (Commercial, Multifamily, Industrial). Since the formation of Metro, and as directed in King County Code[1] and all 34 local sewer contracts, King County has had a sewer rate structure that is based on two different classes of customers: single-family and volume-based. The fee structure, as specified in code and contract relies on a billing unit referred to as "Residential Customer Equivalent (RCE)" to charge the two customer classes and determine how costs are shared between the classes. One RCE unit is 750 cubic feet of wastewater and represents the assumed wastewater a single-family home would generate in a month based on flow data from 1989. Single-family homes are charged one RCE. Volume-based customers are converted to an RCE unit by taking the monthly volume of water used by the customer and dividing it by 750 cubic feet (cf) of wastewater (the "conversion factor"). This results in a usage amount for volume-based customers reported in RCEs.[2]

Using the Number of RCEs to Calculate the Monthly Rate. WTD estimates the total number of RCEs for a given year and then divides the total projected amount of revenue required (from sewer rates) by the number of RCEs to get the cost per RCE. King County then charges local sewer agencies the monthly sewer rate for each RCE in their utility.

Allocating the Sewer Rate Cost Burden Between the Single-Family Sector and the Commercial/Industrial/Multifamily Sector. The 2021-2022 Adopted Biennial Budget Ordinance includes a proviso[3] requesting a study on the shift of the sewer rate cost burden to the single-family sector from the commercial/industrial/multifamily sector. The report, *Sewer Rate Cost Structure[4],* concluded that since the water consumption assumption for the single-family home is fixed at the 1989 level, the current rate calculations likely attribute too much water flow to single-family residences, which, due to conservation efforts, have seen significant declines in water use over the years. As a result, single-family residences likely end up with a disproportionate share of the total cost. While the report does discuss updating the water consumption assumptions (RCE)

[1] KCC 28.86.186 Financial Policy 15
[2] Industrial users pay an additional fee beyond the monthly sewer rate. These fees help the King County Industrial Waste Program recover the costs associated with monitoring and administering the pretreatment program.
[3] Ordinance 19210, Section 112, Proviso P3
[4] See Attachment A to Motion 16006 Sewer Cost Structure Report

for single-family homes, any change to the RCE calculations would require changes to the King County Code and amendments to each of the 34 local sewer contracts.

*Historical Sewer Rate***.** Table 1 depicts the anticipated sewer rates through 2028. Historically, rates have been structured effectively as biennial rates, with rate adjustments in alternating years. In 2021, after engagement with cities and sewer districts through the Metropolitan Pollution Abatement Advisory Committee (MWPAAC), the Executive recommended annual rather than biennial adjustments to sewer rates.

Table 1.[5]
Sewer Rate (2009-2025 Actual; 2026 Proposed; 2027-2029 Projected)

Year(s)	Rate ($/RCE/ Month)	% Increase
2009	$31.90	14.10%
2010	$31.90	0.00%
2011	$36.10	13.20%
2012	$36.10	0.00%
2013	$39.79	10.20%
2014	$39.79	0.00%
2015	$42.03	5.60%
2016	$42.03	0.00%
2017	$44.22	5.20%
2018	$44.22	0.00%
2019	$45.33	2.50%
2020	$45.33	0.00%
2021	$47.37	4.50%
2022	$49.27	4.00%
2023	$52.11	5.75%
2024	$55.11	5.75%
2025	$58.28	5.75%
2026	**$62.66**	**7.50%**
2027	**$70.65**	**12.75%**
2028	**$79.66**	**12.75%**
2029	**$90.42**	**13.50%**

[5] 2025 Sewer Rate Technical Memo, page 30

Capacity Charge Billed to New Customers by King County. Since 1990, a capacity charge has been levied for new connections to the sewer system. The purpose of the capacity charge is to ensure that new customers pay the "growth" costs of expanding the wastewater system. The current version of the charge started with the Robinswood Agreement[6] and the principle of "growth pays for growth."

County financial policies require new customers to pay their proportional share of these costs. Financial Policy 15 states: "The capacity charge shall be set such that each new customer shall pay an equal share of the costs of facilities allocated to new customers, regardless of what year the customer connects to the system."

The capacity charge is a one-time development charge, much like a new development fee or impact fee. However, state statute[7] does not allow the County to require up-front payment of the capacity charge by the developer. Unless a developer voluntarily pays the capacity charge, it becomes an additional cost that buyers will encounter when purchasing properties with new sewer connections. It can be paid as a total payment up-front with a discount or as a monthly charge amortized over 15 years. If a buyer purchases property with an outstanding capacity charge, the new buyer becomes responsible for the capacity charge payments. Unlike the wholesale sewer rate, the capacity charge is billed directly to customers by King County.

Affordability Concerns with Capacity Charge. After hearing from many customers that the capacity charge can be unaffordable and impacts the extensive affordable housing challenges in King County, WTD initiated research to identify affordability challenges for its capacity charge customers and evaluate possible mitigating strategies. In 2019, WTD published a consultant report titled "Capacity Charge Affordability Analysis and Findings."

WTD implemented the following recommendations from this report:

1. Expanded payment plan opportunities for customers with temporary financial hardship.
2. Equity payment plan: expanded property lien opportunities for customers with ongoing inability to pay.
3. Expanding discounts for long-term covenanted affordable housing projects.

Recent Changes to the Capacity Charge Rate Structure. Since the early 1990s, the County has established separate classifications of customers and charged those customers based on an RCE calculation. In 2017, WTD initiated a study of the capacity charge rate structure given the changes that are occurring in terms of types of development and housing stock. The Metropolitan Water Pollution Abatement Advisory Committee (MWPAAC) created a capacity charge rate structure workgroup to provide technical expertise to the County on the rate study and make any recommendations to WTD. A key recommendation of the workgroup was that capacity charge customer classifications should bear a close relationship with the average persons per household for each customer class.

[6] In 1998, the King County Executive and RWQC held a retreat at the Robinswood Conference Center in Bellevue, Washington to discuss funding the Regional Wastewater Services Plan. The points of the agreement are collectively known as the “Robinswood Agreement.” The principle that “growth pays for growth” is the cornerstone of the Robinswood Agreement.
[7] RCW 35.58.570

In January 2021, the King County Council adopted Ordinance 19153, which revised the financial policies to restructure the capacity charge to align amounts charged according to size and type of housing[8] as a proxy for the average number of persons accommodated by the housing type. Commercial connections continue to pay based on the number of fixtures[9], and discounts continue for low-income housing. These changes did not impact the methodology used to determine the total costs of growth.

Update to Projected Customer Numbers and Projected Capital Costs. The Regional Wastewater Services Plan (RWSP), which covers the period of 2003 through 2030, is the comprehensive plan for regional wastewater services and serves as the basis for projecting the number of customers, capital projects needed for capacity, and financial assumptions for the capacity charge. K.C.C. 28.86.160 requires an update of customer numbers and projected capital costs used to calculate the capacity charge every three years. The last update occurred in 2024 and covers the capacity charge calculations for 2025 and 2026. WTD reports that the required capacity charge update will not be possible after 2030 without an updated RWSP because the capacity charge methodology in code is tied to the life of the RWSP, which currently extends through 2030.[10] WTD reports that an updated methodology is anticipated to be in place ahead of the next three-year update cycle.

Improving the Capacity Charge Methodology for Determining "Growth Pays for Growth." The policies to determine how growth costs should be determined and allocated are in King County Code (K.C.C. 28.86.160(C) FP-15(4)). Here's how it works at the simplest level:

1. Growth-related costs are identified.
2. Monthly sewer rate revenue from "new customers" is calculated.
3. The capacity charge is set to cover any shortfall.

A 2016 Auditor's report[11] found that the model that calculates the annual amount of the capacity charge is highly complex, not transparent, not independently verifiable, and susceptible to errors. Furthermore, the audit found that some of the financial policies related to the capacity charge need clarification. The Executive concurred with almost all the audit findings and recommendations and noted that the desire for a simpler capacity charge approach is a long-held goal of WTD.

In 2020, WTD engaged a consultant to develop a new model approach that is simpler and reflects current industry standards. In 2021, WTD briefed MWPACC on the consultant's findings in a series of meetings. Later that year, WTD paused work on the capacity charge methodology review. WTD reports that in 2024 it requested that the consultant resume its work on revising the methodology for the capacity charge. WTD has begun to engage with MWPAAC on this effort and has received feedback from

[8] The RCEs assigned to single-family homes is based on size: small (<1,500 sq. ft. = 0.81 RCE), medium (1,500 – 2,999 sq. ft.= 1 RCE), and large (>3,000 sq. ft. = 1.16 RCE). Multi-family structures are billed by unit at 0.81 RCEs for two to four units and 0.64 RCEs for five or more units. Commercial structures are billed based on fixture counts and/or flows.

[9] The commercial capacity charge structure also has an add-on category for non-fixture unit estimated flows where applicable to add the fixture unit RCE calculation.

[10] See Subsection 3.a. of Financial Policy 15 in 28.86.160C.3(a)

[11] Wastewater Capacity Charge: Unclear Whether Growth Is Paying for Growth

MWPAAC on the initial analysis. WTD will now develop preliminary estimates for future system growth and related capacity needs and use these preliminary estimates to calculate a new capacity charge using the proposed methodology. The results will be reviewed with the MWPAAC workgroup sometime in 2025. In 2025, WTD will present the proposal to RWQC and draft policies to amend the code accordingly. Any changes to the capacity charge financial policies would have to be approved by the King County Council.

Combined Sewer Overflows. WTD has been implementing King County's Combined Sewer Overflow (CSO) program for over three decades to control the County's CSO outfalls to the Washington State standard of no more than one untreated CSO discharge per year on a 20-year average. WTD reports it has spent over $1 billion on CSO control since the early 1990s.

In 2013, King County entered into a federal consent decree to complete its CSO control projects in compliance with the federal Clean Water Act by December 31, 2030. In mid-2024, King County, Ecology, and the EPA reached an agreement in principle on the First Material Modification to 2013 Consent Decree on Combined Sewer Overflow (CSO), which extends the compliance milestones for the remaining CSO control projects and extends the overall compliance schedule from 2030 to 2037. WTD had assumed 2040 as a representative end date for CSO project completion since the 2022 sewer rate proposal.

With the adoption by Council of the modified consent decree in July 2024, WTD changed the CSO project completion date assumption in the rate forecasts to 2037. This means all but the final year of costs are now included in the ten-year forecast. The cost implications of this will be discussed later in the analysis section of the staff report.

Past CSO expenditures. Since the 2013 consent decree, the following completed CSO projects have cost an estimated $538 million:

- Ballard Siphon
- North Beach Wet Weather Storage
- Murray Pump Station Upgrade
- Barton Pump Station Upgrade and Green Stormwater Infrastructure
- South Magnolia
- Rainier Valley Storage
- Georgetown Wet Weather Storage

The following additional projects are under way with an estimated $206M spent to date:

- Ship Canal Water Quality Project
- West Duwamish Wet Weather Storage
- Elliot West Wet Weather Treatment Station Upgrade
- Mouth of Duwamish CSO Control Program

Required Transmittal Information. The financial policies listed below specify the contextual information that is to accompany the rate transmittal. WTD has prepared a technical memo (Attachment 4) with the required information that provides information on the revenues, expenditures, debt service, operations, and capital programs that inform the rate. Additionally, as required by Motion 16434, beginning with the 2025 sewer rate forecast, the technical memorandum submitted with the annual sewer rate needs to

identify the cost of activities WTD has undertaken and plans to undertake to address contaminants.

> Financial Policy-16[12]: The executive shall prepare and submit to the council a report in support of the proposed monthly sewer rates for the next year, including the following information:
>
> Key assumptions: key financial assumptions such as inflation, bond interest rates, investment income, size and timing of bond issues, and the considerations underlying the projection of future growth in residential customer equivalents.
>
> Significant financial projections: all key projections, including the annual projection of operating and capital costs, debt service coverage, cash balances, revenue requirements, revenue projections and a discussion of significant factors that impact the degree of uncertainty associated with the projections.
>
> Historical data: a discussion of the accuracy of the projections of costs and revenues from previous recent budgets, and
>
> Policy options: calculations or analyses, or both, of the effect of certain policy options on the overall revenue requirement. These options should include alternative capital program accomplishment percentages (including a ninety percent, a ninety-five percent, and a one hundred percent accomplishment rate), and the rate shall be selected that most accurately matches historical performance in accomplishing the capital program and that shall not negatively impair the bond rating.

Timing of Rate Adoption. By contract with partner cities and sewer districts, the County is to complete its consideration of the sewer rate for the following year by July 1 of each year.

Recent RWQC and Council Legislation Related to Sewer Rate and Capacity Charge. *Motion 16410 Long-term Capital Forecast*. The motion requests WTD research and identify methodologies to forecast the long-term costs of its capital improvement needs. The motion requested that the recommended methodologies should allow for forecast periods of up to 75 years and should also allow for changes in various assumptions, including growth capacity and known and projected regulatory requirements, such that forecast scenarios can be compared using different assumptions. The report on the long-term methodology was completed by a firm specializing in providing financial and management consulting expertise to local utilities.

Motion 16449 Long-term Rate Forecast. In October 2023, the Council adopted Motion 16449, requesting WTD develop and maintain a long-term financial and sewer rate forecast. The motion specifies that the forecast should be based on revenue requirements needed for the operating and capital investment needs of the regional wastewater system and allow for forecasting periods of up to 75 years. The motion intended to allow for the comparison of forecast scenarios using different assumptions.

[12] King County Code 28.86.160

On June 4, 2025, RWQC will be briefed on the progress in developing a long-term financial and sewer rate forecast, and as requested by the motion, WTD will brief RWQC in July 2025 on the Division's long-term financial and sewer rate forecast.

RWQC Resolution 2024-01. In April 2024, RWQC adopted a resolution expressing RWQC's interest in the sewer rate and capacity charge and requesting the Metropolitan Water Pollution Abatement Advisory Committee continue performing a technical review of the annual sewer rate and capacity charge. The resolution states the RWQC may choose, upon its policy review of the proposed annual sewer rate and capacity charge and the Metropolitan Pollution Abatement Advisory Committee recommendations, to convey its policy recommendations on the proposed sewer rate and capacity charge to the King County council. (Please see Attachment 7 for RWQC's recommendation letter.)

ANALYSIS

Proposed Ordinance 2025-0129 (Attachment 1) would adopt the 2026 sewer rate and capacity charge. It would increase the monthly sewer rate effective in 2026 by 7.5 percent from $58.28 to $62.66. The proposed ordinance would also set the capacity charge for new connections to the regional system occurring in 2026 at $77.99 per Residential Customer Equivalent (RCE) per month, a 2.5 percent increase over the 2025 monthly charge of $76.09.

The first part of this analysis section will discuss the **Sewer Rate** and the key assumptions and changes influencing the proposed rate and the forecast. The Capacity Charge will be discussed in the next staff report.

*Comparing 2025 and 2026 10-Year Sewer Rate Forecasts***.** As shown in Tables 2 and 3, the proposed 2026 rate is only .05 percent higher than was forecast in the prior forecast even though, as will be discussed later in the staff report, expenditures are increasing significantly over the forecast period. This relative consistency in the rate projection from the prior year reflects the Executive's policy decision to maintain predictability from the prior year's forecast. This is possible because WTD sets its cash revenue (rate) requirements based on a 10-year average over the forecast period, which allows WTD to make adjustments to the annual rates.

As shown in Tables 2 and 3, the 2026 rate forecast projects significantly larger rate increases when compared to the prior forecast for 2027 through 2031. In the final years of the 2026 10-year forecast, the rate increases are smaller than the prior forecast. As will be discussed later in this staff report, the projected sewer rate increases over the forecast period are primarily driven by the increasing capital portfolio of projects and the need for cash to fund capital projects and pay new and existing debt services.

Table 2.[13]
Proposed 2026 Sewer Rate and Forecast

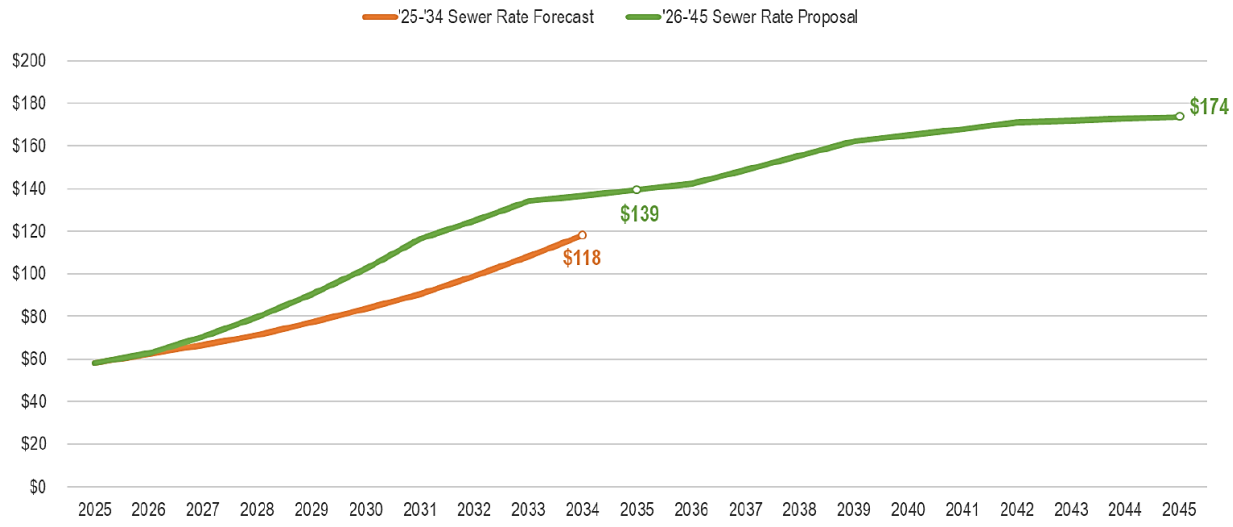
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Rate Increase %	5.75%	**7.50%**	12.75%	12.75%	13.50%	13.50%	13.50%	7.25%	7.25%	2.00%	2.00%
Monthly Sewer Rate	$58.28	**$62.66**	$70.65	$79.66	$90.42	$102.63	$116.49	$124.94	$134.00	$136.68	$139.42
Rate Increase $	$3.17	**$4.38**	$7.99	$9.01	$10.76	$12.21	$13.86	$8.45	$9.06	$2.68	$2.74

Table 3.[14]
Adopted 2025 Sewer Rate and Forecast

2025-2034 Rate Forecast	Adopted										
2025 Adopted Sewer Rate	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
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	
Rate Increase $	**$3.17**	$4.08	$4.37	$4.68	$5.90	$6.38	$6.91	$8.39	$9.16	$10.01	

The increase in rates in the 2026 10-year forecast compared to the 2025 forecast are also shown in Figure 1, Sewer Rate Path.

Figure 1.[15]
Sewer Rate Path



Second Decade Forecast. As shown in Figure 1 and Table 4, the 2026 sewer rate forecast includes, for the first time, an extension of the forecast period by an additional ten years. Motion 16449 requests WTD develop a rate forecast for up to 75 years and the final deliverable is due in July 2025. Since the development of the long-term forecast aligned with the 2026 rate transmittal, WTD has included the second decade of the forecast in this transmittal.

[13] 2025 Sewer Rate Technical Memo, page 5
[14] 2025 Sewer Rate Technical Memo, page 5
[15] WTD Presentation to MWPAAC Rates & Finance Subcommittee, March 6, 2025

Table 4.[16]
2036-2045 Rate Forecast

	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
Rate Increase %		2.00%	4.50%	4.50%	4.50%	1.75%	1.75%	1.75%	0.50%	0.50%	0.50%
Monthly Sewer Rate		$142.21	$148.61	$155.30	$162.29	$165.14	$168.03	$170.98	$171.84	$172.70	$173.57
Rate Increase $		$2.79	$6.40	$6.69	$6.99	$2.85	$2.89	$2.95	$0.86	$0.86	$0.87

As shown in Figure 3, the second decade of the 2026 forecast reflects a reduction in capital expenditures expected in the second decade compared to the first ten years, including no regulatory expenditures projected beyond 2037. WTD reports that this second decade's forecast has significant uncertainty. There are currently no regulatory costs projected beyond 2037 or, as WTD notes, costs related to contaminants of emerging concern or nutrient removal costs beyond the first permit. Council staff analysis of this second decade of the forecast is ongoing.

Capital Forecast Continues to Project Significant Growth. With every rate proposal, WTD updates its 10-year forecast of capital expenditures. The 2026-2035 total capital forecast is $11.4 billion.[17] As WTD reports, the CIP projection reflects the challenge of a "stacking" problem.

This section of the staff report discusses the approach to developing the capital forecast, categories of capital projects, comparisons to the prior 2025 10-year forecast, and cash funding for capital expenditures.

Updated Approach to Developing a Capital Forecast. Capital forecasts are necessary to determine the amount of funding (cash and debt) needed to pay for the CIP and directly impact the 10-year forecast. With this 2026 10-year rate forecast, WTD has updated its approach to forecasting capital expenditures. The new approach tries to take into consideration the complexity of the projects, the capacity to deliver concurrent projects, historical accomplishment rates, and legally required timelines. WTD reports that forecasting expenditures for a growing and complex capital program such as WTD's is a challenging endeavor. Council staff are reviewing additional information provided by WTD at the time of this staff report on the updated forecasting approach and any rate implications.

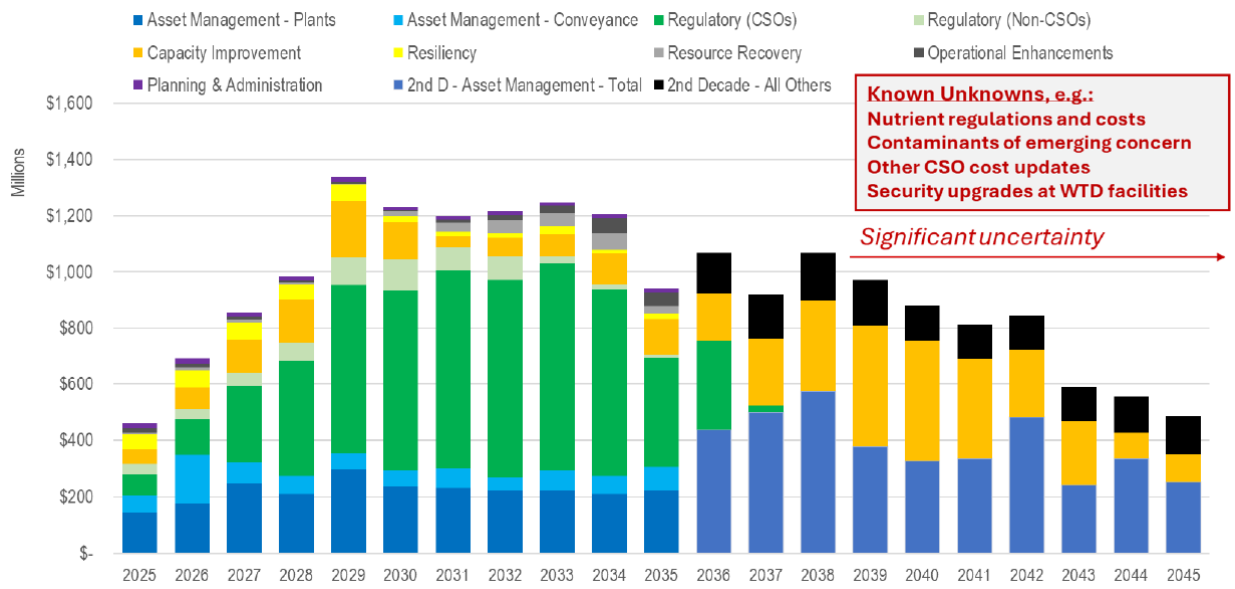
WTD reports that it will continue to evaluate the approach used to project capital expenditures. Given the size of the capital program and the complexity of developing a forecast with so many variables, Council may wish to encourage WTD to engage MWPAAC in an in-depth review of the method selected to forecast the amount of capital expenditures that will occur in each year of the forecast. While such a review would not be in time for the 2026 rate, it could help inform the 10-year capital forecast and the remaining years of the 10-year rate projection.

Categories of Capital Expenditures. Figure 2 shows the expenditure categories that make up the capital forecast in 2026-2035. Regulatory compliance and capacity improvement projects are the largest categories of projects. As shown in Figure 2, regulatory

[16] 2025 Sewer Rate Technical Memo, page 5
[17]

compliance expenditures are projected to make up a growing share of the capital expenditures in this forecast.

Figure 2.[18]
CIP Components for 2026-2035 Financial Forecast

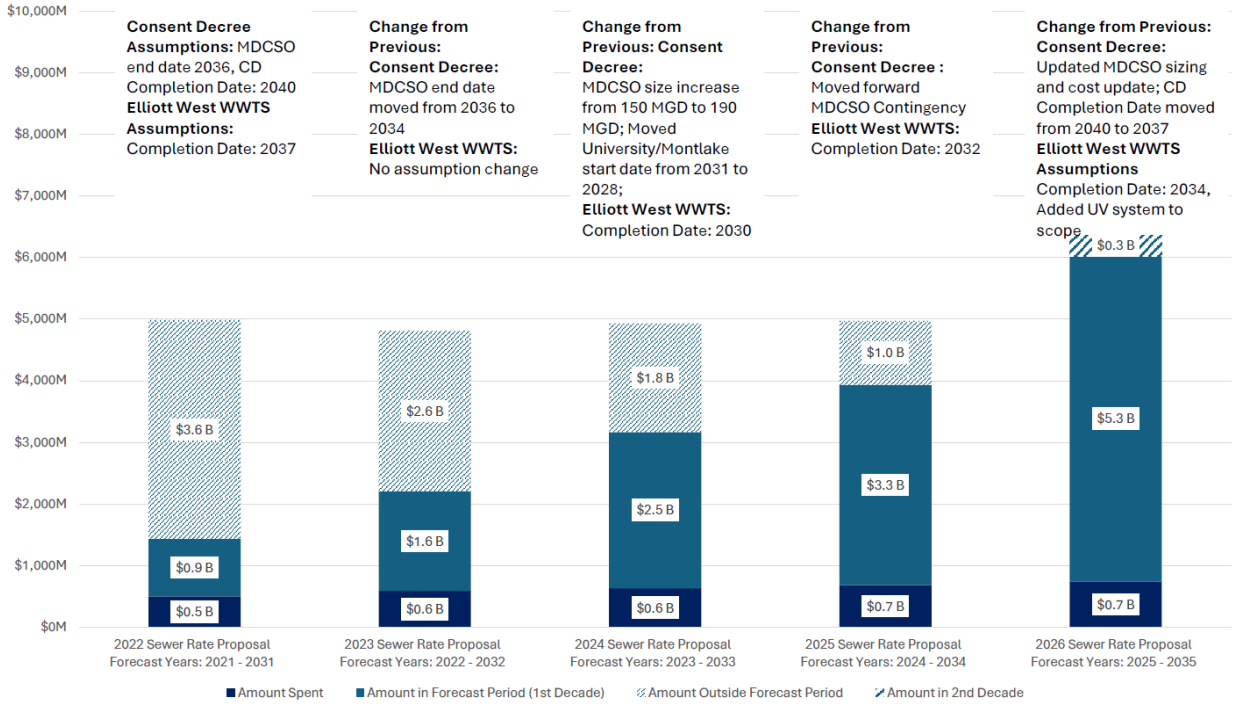


Regulatory Projects.

Modified Combined Sewer Overflow (CSO) Consent Decree Costs. When the Modified Consent Decree was adopted by the Council in July 2024 (Ordinance 19801), the total estimated cost range to complete the remaining projects was $1.7 billion and $4.9 billion. Now, with new cost estimates for the Mouth of Duwamish CSO, the completion date moved from 2040 to 2037 for other CSOs, and a new year in the forecast period (3035), cost estimates in this forecast period are $2 billion higher than in the 2025 sewer rate proposal with forecast years 2024-2034. Figure 3 shows the increasing CSO costs in the rate forecasts over the last five rate forecasts.

[18] 2025 Sewer Rate Technical Memo, page 17

Figure 3.[19]
Evolving CSO Costs in Rate Forecasts



According to WTD, the 2026 Sewer Rate Forecast CIP includes $4 billion (escalated) to complete the four projects underway – Ship Canal Water Quality Project, West Duwamish, Mouth of Duwamish, and Elliott West. University and Montlake CSO control projects are not yet in delivery. Early planning activities are underway as WTD prepares to charter these projects in late 2026. Planning-level estimates for University and Montlake projects are $1.5 billion (escalated) in the 2026 Sewer Rate Forecast CIP. Council staff have asked for information on when those cost estimates were last updated beyond the standard inflation factor applied to all projects.

The Consent Decree additionally requires supplemental compliance activities for projects that were completed but have not brought an outfall into control. WTD currently has supplemental compliance plans for four uncontrolled outfalls. An estimated $75 million (escalated) is forecast in the 2026 Sewer Rate Forecast CIP to bring these outfalls into control by 2037 based on early planning-level estimates.

*Increasing MDCSO Costs***.** As part of the 2026 rate review, Council staff asked for information as to why the costs for the MDCSO have significantly increased in this forecast when compared to the prior forecast and when compared to the information provided in the transmittal package the ordinance authorizing the modification of the CSO consent decree. WTD reports:

> *At the time of the Consent Decree modification process and the 2025 sewer rate process, only the earlier planning level estimates for MDCSO facilities were available. Prior to this year's rate development process, cost estimates for the set of MDCSO projects reflected high-level planning work initially completed in 2018 for the CSO*

[19] Attachment 4: PowerPoint King County Wastewater Treatment Division 2026 Sewer Rate

Long Term Control Plan, a study that looks at the entire combined system and identifies regulatory compliance needs. In 2022 and 2023, these cost estimates were revised to incorporate updated planning assumptions that factored into scope of facilities at chartering.

In 2023, the WTD MDCSO program team initiated the pre-design process to update the planning level cost estimate and inform the MDCSO Wet Weather Facilities Engineering Report, a document specific to these facilities and required by King County's Consent Decree with regulatory agencies. The Engineering Report reflects the effects of climate change which means larger projected storm volumes, higher design flows and larger facilities. The current cost estimate, produced in January 2025, also incorporates the effects of market conditions and scope definition refinements. It was developed consistent with the Association for Advancement of Cost Engineering International (AACE) methodology.

- *Construction materials have increased up to 25-40 percent since 2020. Materials make up about 60 percent of construction costs, and about 30-40 percent of overall program costs.*
- *Labor rates in the region increased by about 11 percent from 2022 to 2024. Conversations with contractors continue to reflect regional labor shortages for construction workers and engineering disciplines.*
- *The large number of other similar construction projects in our region (WSDOT, Port of Seattle, City of Seattle, Sound Transit and others) has created a 'contractor's market' where bidders can choose the most attractive projects, decreasing competition and exacerbating upward pressure on project costs.*
- *Ensuring regulatory compliance, including accounting for climate change, has led to a higher capacity treatment facility (190MGD to 240MGD) and larger storage volume for the Chelan tank (3MG to 7MG), compared to the earlier planning level estimate.*

High Level of Uncertainty in Cost Projection for MDCSO Projects. According to WTD, a major capital program like MDCSO with multiple projects of this scale and at this early phase inherently has uncertainties and risks better understood as the design is advanced. WTD reports that the risks will be managed throughout the Program[20] life cycle. The cost estimate has been prepared by consulting firms with expertise in large capital projects. The current cost estimate (January 2025) for the MDCSO is an AACE (Association for Advancement of Cost Engineering International) methodology Class 5 estimate, with an expected accuracy range of -50% to +100% at this stage.

Given the significant cost of this project, WTD was asked by both MWPAAC and RWQC for additional information on steps WTD has taken to validate the cost estimate at this stage in the project. WTD reports:

A variety of double-checking steps have been taken (e.g., material cost benchmarking, quantity take-offs, historical comparisons, risk allocations and contingency) to validate the cost assumptions. The project team will also conduct a quantitative risk assessment in March 2025, to further refine risk and contingency allocations. Proceeding along the AACE method helps to further refine the cost estimate and

[20] WTD refers to the MDCSO as a Program because of its size and complexity.

improve certainty. The following examples of verification are undertaken during the cost estimation process:

- *Internal QA/QC review: Ensures consistency with AACE methodology and incorporate WTD project development experience.*
- *Benchmarking against comparable projects: Includes construction benchmarks from current WTD construction projects, e.g., Georgetown Wet Weather Treatment Station and others. Indirect costs are consistent with peer agency wastewater treatment programs of similar scale.*
- *Market-based pricing validation: Utilizes contractor pricing models, quotes and commercially available cost data, and industry-specific cost trends.*
- *Estimate reconciliations: The MDCSO estimate is currently undergoing a reconciliation process where two cost independent estimates are compared by the project team and any differences discussed and reconciled for the selected alternative in the Engineering Report. As part of cost management best practices, additional independent review will occur as the program proceeds.*

Expenditure Schedule for MDCSO. As discussed later in the staff report, the capital expenditure forecast for MDCSO reflects the policy decision to assume that 100 percent of the costs for regulatory projects will be expended as required by regulation. As such, the MDCSO Program schedule is based on legal obligations to meet the modified consent decree deadlines and avoid penalties. Council staff asked how realistic the spending plan is for this project. WTD reports that the spending projections are considered realistic per the current phase of the Program and WTD Capital Project delivery practices when the forecast was developed. The spending forecast is based on an AACEi Class 5 Estimate that has a scope definition of approximately 2 percent. WTD reports it has resourced the Program with internal staff and consultants to meet the schedule. WTD is preparing for some contractor procurements in 2026 to meet the schedule. Other critical early work to advance the MDSCO projects will be property acquisition.

Nutrient Reduction Projects. According to the Department of Ecology, discharges of excess nutrients, particularly nitrogen, to Puget Sound from wastewater treatment facilities are contributing to existing low oxygen levels in Puget Sound. In 2022, the Department of Ecology issued the Puget Sound Nutrient General Permit (PSNGP), which would have required additional capital investments to meet the permit requirement. In February 2025, the Pollution Control Hearings Board invalidated the permit and remanded it back to Ecology for further action.

The recent Pollution Controls Hearing Board decision to invalidate the PSNGP adds to WTD's regulatory uncertainty because it means the current permit requirements have not been set. However, the Department of Ecology has already stated that it will pursue a voluntary version of the permit. If agencies do not opt into the voluntary permit, then Ecology will pursue modifications of the National Pollutant Discharge Elimination System (NPDES) permit for each plant or take other actions to impose nutrient regulations. The Department of Ecology anticipates issuing a new decision in June 2025. WTD reports that some form of regulation appears likely, and therefore, it has included investments to address anticipated PSNGP requirements.

The 2026-2035 forecast includes about $390 million related to nutrient reduction. Of this amount, $350 million is for projects identified through the Nitrogen Removal Optimization

planning effort. This study evaluated strategies to keep nutrient discharges below the "Action Level" established in the initial Puget Sound Nutrient General Permit (PSNGP). The recommended investments are intended to maintain compliance with that threshold over the next 10–15 years, support the permit's adaptive management framework, and align with broader treatment plant needs and planning efforts.

Most of these investments involve targeted upgrades to the secondary treatment process at South Plant, with one potential side stream treatment project at an as-yet-unspecified facility. In addition to helping manage nutrient discharges, these projects would offer other benefits, including reducing wear and tear on other assets and operability improvements. Approximately $29 million in expenditures were assumed for 2026 through 2027.

Other Large CIP Projects. In addition to the regulatory projects described earlier in the staff report, there are other large projects in the 10-year forecast. Projected expenditures for individual projects are updated in the six-year CIP, which will be transmitted as part of the budget process.

West Point Electrical Improvements. ($400 million). This program will replace approximately 300 electrical assets, relocate nine additional electrical assets, and coordinate these efforts with other electrical and asset replacement projects at West Point Treatment Plant (WPTP) in Seattle.

West Point Treatment Plant (WPTP) Raw Sewage Pump Replacement. The existing raw sewage pump system was built in 1966, with a capacity of 440 million gallons of wastewater and stormwater per day. While the capacity remained at 440 million gallons per day, pumping untreated combined sewage over a long time has resulted in significant wear on the pumps. The purpose of this project is to replace the Raw Sewage Pump system and make seismic upgrades. In addition, the project will also replace the existing boiler system prior to completion of the RSP replacement to provide the heat necessary to maintain a stable treatment process.

West Point Treatment Plant (WPTP) Critical Gate Refurbishment. The objective of this program is to restore full functionality to critical treatment plant wastewater flow control gates and their support systems at the WPTP in Seattle.

Offsite Level Controls and Communication Upgrade. ($470 million). Council staff have asked for information on this project.

Asset Management Expenditures. The forecast for the asset management categories for the years 2025-2035 is $3.2 billion. As the system continues to age, the scope and cost of Tier 1 projects, the highest priority project, have continued to increase. In the 2026 10-year forecast, WTD intends to address 67 percent ($2.8 billion) of Tier 1 asset management projects and 33 percent ($1.4 billion) of Tier 1 projects in the second decade.

Conveyance System Improvement and I/I Projects Largely Deferred. For the 2026 forecast, the proposal largely continues the practice from the 2024 and 2025 forecasts of deferring the CSI-I/I projects with a lower risk of capacity-related overflows. This includes those projects that have not had a capacity-related overflow in the last 10 years.

Strategic Climate Action Plan Projects. The 2026-2035 forecast includes $261 million for SCAP projects for various initiatives, including significant upgrades to the biogas systems across all three regional plants. Additionally, funds are earmarked for investments in Class A biosolids production and numerous energy-saving projects, primarily focusing on replacing powered equipment such as pumps. The forecast also encompasses investments in the reclaimed water program at Brightwater, along with the installation of electric vehicle charging stations.

Complete Project List. Council staff have asked for a list of all the projects in the ten-year forecast. The project list represents a placeholder list of projects as the final list of projects to be funded is selected each year as part of the budget process and the development of the six-year CIP.

*Forecasted Capital Expenditures Versus Actual Expenditures***.** The capital accomplishment rate is the amount of actual capital spending that occurs in the year compared with the amount of capital spending planned. WTD reports the actual 2024 accomplishment rate was lower than projected, largely because of significant underspend in 2024. Council staff have asked WTD to provide information on the target accomplishment rate for each year for the ten-year proposed rate forecast.

Table 5.[21]
Historical Accomplishment Rates for the Capital Program ($ in millions)

Accomplishment Rate	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Capital Improvement Program	$191	$207	$211	$246	$262	$247	$291	$360	$386	$401
Actual Annual CIP Spend	$160	$168	$188	$231	$211	$199	$201	$259	$351	$313
Actual Accomplishment Rate	84%	81%	89%	94%	81%	81%	69%	72%	91%	78%

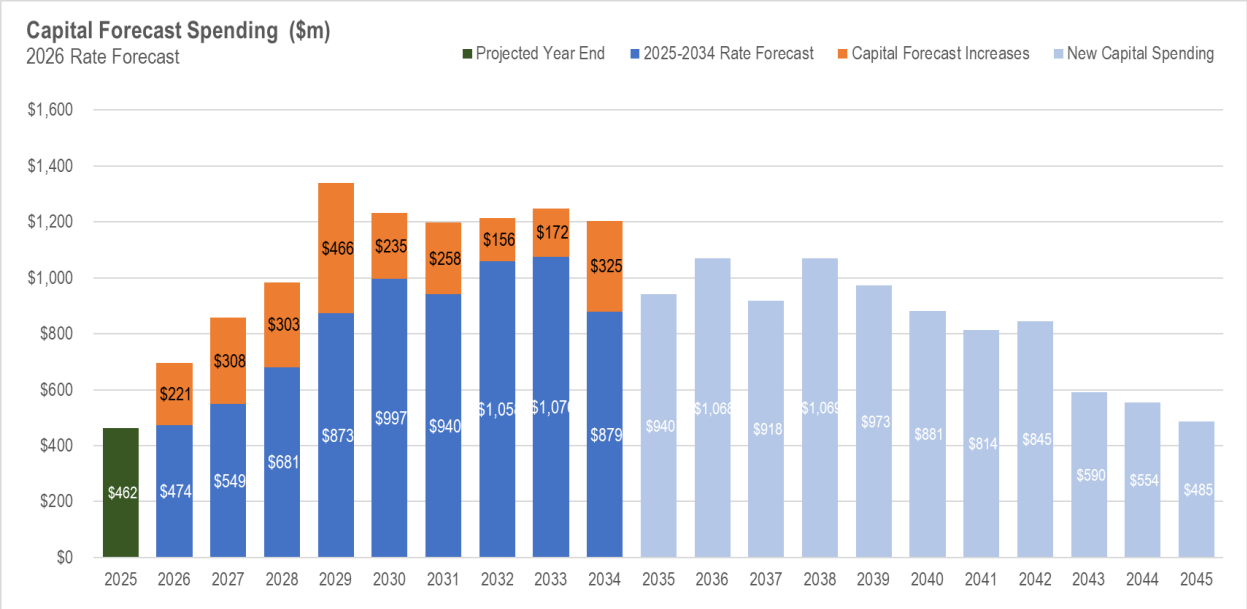
Comparison of 2006 Capital Forecast to Prior Ten-Year Forecast. As shown below in Figure 4, the capital forecast is increasing each year compared to the prior forecast.

WTD reports that looking across the ten-year forecast, the increased expenditures are largely due to:

- Cost increase for Mouth of Duwamish ($1.4 billion) for the increase.
- $800 million due to higher than projected cost increases. These costs would have removed with anticipated underspend, but are now carried forward for 3 years.
- $230 million added to this 10-year forecast because the University and Montlake projects are now in the forecast window.
- $610 million from 2024 coming out of the forecast window and 2035 coming on.

[21] 2025 Sewer Rate Technical Memo, page 13

Figure 4.[22]
Proposed 2026 Capital Forecast vs. Adopted 2025 Plan



Differences Between 2025 and 2026 Annual Forecasts. The expenditures for 2025 and 2026 are expected to increase beyond what was projected in 2026. The 2025 forecast is about $64 million higher than projected in 2024 because the approach to forecasting capital expenditures has shifted to a more comprehensive view. Similarly, the 2026 forecast has increased by about $221 million, and the 2027 forecast by $307 million. WTD reports it is not possible to attribute the $221 million increase in 2026 and the $308 million increase in 2027 to projects with specificity due to the change in forecasting methodology. Under the approach used for this forecast, project team forecasts are used with minor adjustments made only for anticipated underspending due to schedule risk and carryforward of funds. These increases primarily reflect higher projected costs to deliver the current portfolio of active projects based on updated schedules and cost estimates. In contrast, the previous methodology assumed more of these projects would be delayed due to staffing constraints, which is no longer the case in this updated forecast. As noted earlier, Council staff have asked for additional clarification on the WTD's new approach to forecasting.

Additionally, as shown in Table 6, when compared to the prior forecast period, regulatory projects now make up 17 percent more of the ten-year capital forecast.

[22] Attachment 4: PowerPoint King County Wastewater Treatment Division 2026 Sewer Rate

Table 6.[23]
Categories of Capital Expenditures in 2025 vs. 2026 Forecast

	2025 Rate ('24-'34)		*2026 Rate ('25-'35)*		
	Decade Total	Percentage	Decade Total	Percentage	Percentage Diff
Asset Management - Conveyance	$ 944,671,558	11.5%	$ 815,161,582	7.2%	-4.3%
Asset Management - Plants	1,906,696,033	23.1%	2,435,242,909	21.4%	-1.7%
Capacity Improvement	1,612,151,305	19.6%	1,147,523,921	10.1%	-9.5%
Operational Enhancements	173,691,419	2.1%	211,629,668	1.9%	-0.2%
Planning & Administration	120,779,515	1.5%	167,483,325	1.5%	0.0%
Resource Recovery	213,997,164	2.6%	260,224,672	2.3%	-0.3%
Regulatory	2,878,438,581	34.9%	5,931,262,266	52.1%	17.2%
Resiliency	390,404,318	4.7%	405,582,630	3.6%	-1.2%
Total	**$ 8,240,829,893**	**100.0%**	**$ 11,374,110,972**	**100.0%**	**0.0%**

Capital Improvement Program Funding. Two primary sources fund the capital improvement program: 1) cash generated from the sewer rate and capacity charge revenues and 2) debt financing from revenue bonds or low-interest state and federal loan programs. Figure 5 shows the amount and type of capital funding.

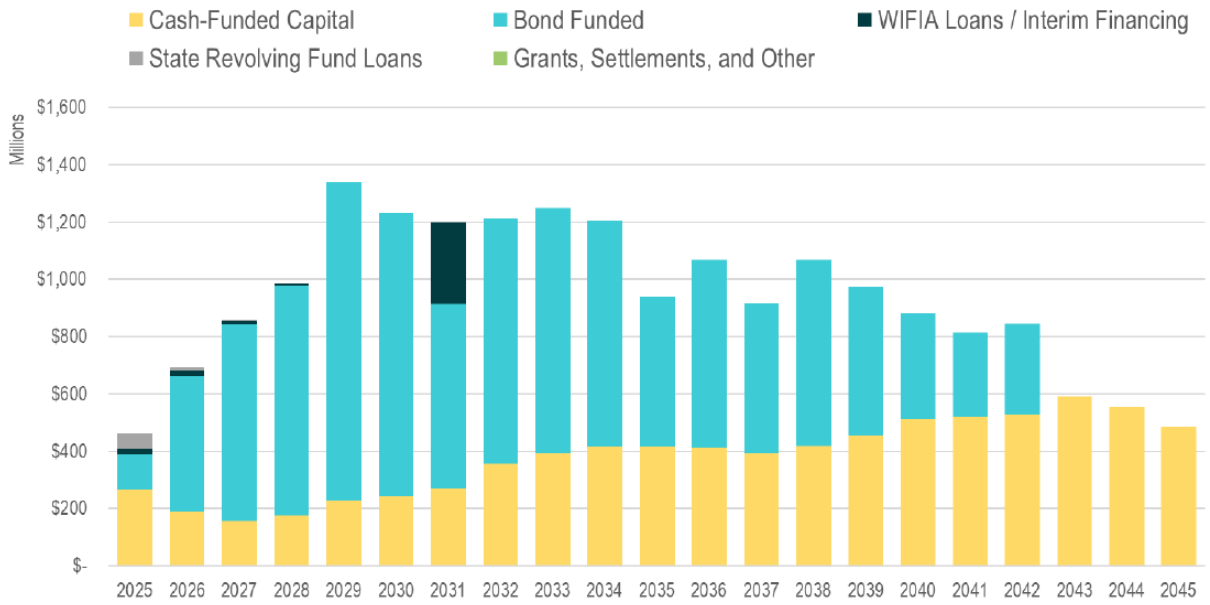
Cash Funding. Since 2023, WTD has used an original cost depreciation[24] method for setting cash funding targets for its CIP. With this method, the average annual cash contribution is equivalent to the average annual depreciation in the forecast period. This means that WTD uses the total expected depreciation over the forecast period to determine the total cash contributions required in the next 10 years. Cash-funding requirements are averaged over the next 10 years of the forecast period, allowing WTD to smooth rate increases and produce a more stable rate path. According to WTD, this depreciation approach reduces the near-term rate spikes caused by large CIP investments in a particular year because the fiscal impact of the CIP investment is spread over the useful life of the asset.

According to the technical memo, the total forecasted depreciation over the next 10 years translates into approximately 28 percent of the total CIP.

Debt Financing. WTD uses debt financing to provide the remaining funds needed after the use of cash. Debt financing represents 72 percent of total project funding over the next 10 years. The main sources of debt available to WTD include state loans, federal Water Infrastructure Finance and Innovation Act (WIFIA) loans, and revenue bonds. Figure 6 shows the capital funding forecast and capital funding sources.

[23] Provided by Wastewater Treatment Division
[24] Depreciation is calculated by dividing an asset's cost by its estimated useful life, representing how much that asset is expected to wear out or lose value every year. Original cost refers to the actual cost of an asset, rather than the cost adjusted for inflation.

Figure 5.[25]
Capital Funding Sources



Note: Higher cash funding shown in 2025 is the result of a debt defeasance transaction postponed from November 2024 to February 2025.

Operating Expenditures. WTD's 2025 operating budget is the basis for forecasting operating costs for future years. The 2025 sewer rate and financial forecast included budgeted operating expenditures at $224 million. WTD's spending forecast assumes a budget amendment and includes base-year operating expenditures at $227.6 million. According to the technical memo, the increase in operating expenditures for 2025 is due to a series of general wage increases for County staff, including a 5.5 percent increase for 2025.

[25] 2025 Sewer Rate Technical Memo, page 18

Table 7.[26]
Historical Annual Increase in WTD Operating Expenditures

Year	Operating Expenses	Annual Growth
2013	117,183	2.0%
2014	124,201	6.0%
2015	128,926	3.8%
2016	136,321	5.7%
2017	148,199	8.7%
2018	152,589	3.0%
2019	155,785	2.1%
2020	158,660	1.8%
2021	158,628	0.0%
2022	173,870	9.6%
2023	187,185	18.3%
2024	205,478	18.2%
	Average	**6.6%**

Forecasted Increase in Operating Expenditures. Operating expenditures are forecasted to account for 40 percent of the revenue requirements for the sewer rate in 2026. Operating expenditures are forecasted to increase by 9.5 percent from $227.6 million in 2025 to $249.3 million in 2026. The operating costs for WTD's base year (2026) forecast include adjustments for significant known increases, such as electricity and chemicals, in addition to updated prices where recent inflation exceeded previous forecast assumptions. According to WTD, the growth in the operating costs assumption reflects increased staffing levels to better meet industry standards and the growing needs of aging facilities, capital project participation, and higher costs of biosolids transportation. Operating costs are forecast to increase by approximately 7 percent from 2026 to 2027, approximately 6 percent from 2028 through 2030, and approximately 5 percent from 2031 through 2035.

The technical memo briefly describes the need for this additional operational staff on pages 11 and 12, but it does not include any estimate as to the number of additional staff that will be requested as part of future budget requests. The technical memo does note that a portion of the identified staffing needs will be requested in 2026, and the remainder of the requests will be spread over the following years.

Rate Smoothing. Over the forecast period, WTD aims to develop a "smooth" sewer rate forecast that provides for fewer steep spikes. According to the technical memo, a smoothed sewer rate forecast allows for the collection of revenues that exceed expenditures in a given year and are less than expenditures in subsequent years to fully fund the utility over the forecast period with less volatility.

[26] 2025 Sewer Rate Technical Memo, page 11

Smoothing rates means moving from considering only the revenue needs in a particular year to considering the needs over a more extended period to smooth year-to-year increases. The first step in rate smoothing is setting the cash target for every year of the forecast to match the estimated annual depreciation. As shown in Table 8, using only the original cost depreciation method, the sewer rate would still have spikes within the forecast period. To smooth those spikes, WTD reviews the entire forecast period, and, when necessary, to create a gradual trajectory of rate increases, the projection anticipates transferring more cash to the capital fund than the cash-funding target for that year. The same amount is reduced from the transfer in a later year of the forecast. At the end of the 10-year forecast, total cumulative revenues and expenditures[27] are balanced.

Table 8.[28]
2026 Forecast Before and After Rate Smoothing

2026 Proposed Sewer Rate	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2025-2035
Rev. Req. Pre Smoothing ($m)	$693	**$794**	$868	$926	$1,052	$1,180	$1,270	$1,346	$1,456	$1,528	$1,592	**$12,705**
Rate Increase %	5.75%	**17.75%**	9.83%	6.58%	14.82%	12.85%	7.44%	5.78%	8.35%	4.61%	3.72%	
Rev. Req. Post Smoothing ($m)	$693	**$737**	$822	$918	$1,034	$1,165	$1,314	$1,412	$1,515	$1,554	$1,595	**$12,760**
Rate Increase %	5.75%	**7.50%**	12.75%	12.75%	13.50%	13.50%	13.50%	7.25%	7.25%	2.00%	2.00%	

Table 8 shows the impact of rate smoothing on the sewer rate. The second row of the table shows that even after using the original cost depreciation method approach, the proposed rates would have steep ups and downs. The smoothed rate is shown in the fourth row. However, given the large rate "spike" projected from 2026 to 2027, Council staff have asked WTD what other rate "smoothing" options were considered that would have resulted in a more gradual increase. WTD's response is below:

> *"Once the 2026 rate increase is fixed at 7.50%, as opposed to the pre-smoothing rate increase of 17.75%, the pre-smoothing rate for 2027 becomes 21.22%. The 12.75% increase in 2027 is meant to smooth that updated pre-smoothing increase of 21.22%. As discussed in prior meetings, rate smoothing is part science and part art. Part of this is balancing customer impact (avoiding "rate shock") with financial risk. The financial risk comes from collecting revenues below cash-funding target in the first years, expecting to make up for it in the following years. Any stair stepping more gradual than the current proposal would either incur higher financial risk in the short term or require a higher rate increase peak in the middle of the forecast."*

With each new forecast, more information becomes available about the timing of future expenditures. WTD reports that the projected rate path may need to be re-smoothed by making adjustments from the prior forecast.

Capacity Charge. Council staff analysis is ongoing.

RWQC letter to King County Council and Executive. RWQC was briefed on WTD's rate forecast at the March and April RWQC meetings. Following the May RWQC meeting, RWQC sent a letter regarding the 2026 proposed sewer rate to the King County Council

[27] Expenditures include depreciation-based cash transfers to capital
[28] Provided by Wastewater Treatment Division

and the Executive. The letter is included as Attachment 7 to this staff report and is summarized below.

RWQC's letter begins with an acknowledgement of the work that WTD has done in making progress on rate methodologies, and the additional briefings WTD provided to both RWQC and the Metropolitan Water Pollution and Abatement Advisory Committee (MWPAAC) this year in support of the proposed 2026 sewer rate and capacity charge. The letter notes, "RWQC recognizes that rate increases are necessary to maintain and improve the system, but increases must be balanced with affordability for ratepayers. Our deepest concern is that the rates forecasted in the future, particularly in 2027, are untenable and unsustainable for our ratepayers."

The letter continues, "While the RWQC can support the 2026 rate based on relative consistency with the prior forecast, we are very concerned about the projected rate path. RWQC would likely not support the 2027 rate or the projected rate path without WTD providing better communication about the reason for the rate changes, various scenarios considered, efforts made to minimize the rate impacts to ratepayers, and more meaningful engagement by MWPAAC, RWQC, and the King County Council in the development of the 2027 rate."

The letter concludes by offering the following recommendations "to achieve more predictability, affordability, and transparency for the 2027 and future rates":

- Approach for 2027 Rate Development – ongoing discussions with MWPAAC, RWQC, and the King County Council on the factors driving the 2027 rate and future projections.
- Regulatory strategy – encouraging King County to develop and implement a strategy for renegotiating consent decrees or permit deadlines for major projects and investments to address affordability challenges while simultaneously achieving optimal water quality benefits to the region.
- Independent capital oversight – encouraging King County to develop a proposal for a third-party review of the capital program, including "mega" capital projects such as the Mouth of Duwamish Combined Sewer Overflow (CSO).
- Early visibility and transparency on large project planning - planning for large capital projects should include early opportunities to bring MWPAAC, RWQC, and other stakeholders into the process so that the benefits and tradeoffs of different alternatives can be examined and understood.
- Rate predictability for multiple years – encouraging WTD to explore a multi-year rate commitment, which would provide more time for a deeper review and understanding of costs, discussion of options and tradeoffs, and prioritization of investments.
- Long-term forecasting – WTD should continue strengthening its capital forecasting methodology to increase the reliability, predictability, and sustainability of the second decade of the rate forecast.
- Support the regional utilities affordability summit – expressing support for the Executive's plan to prepare a multi-jurisdictional summit to address affordability and access to essential utilities.
- Continued focus and timeliness on RWSP Update - encourage the Council to ensure the timelines are adhered to for this important planning effort.

Metropolitan Water Pollution Abatement Advisory Committee Comment Letter. The Metropolitan Water Pollution Abatement Advisory Committee (MWPAAC) advises the King County Council and Executive on matters related to water pollution abatement. It was created by state law (RCW 35.58.210) and consists of representatives from cities and local sewer utilities that operate sewer systems within King County's sewer service area. These cities and sewer utilities deliver their sewage to King County for treatment and disposal.

Although MWPAAC does not have a formal role in approving the rate, MWPAAC closely follows the rate development process each year and works closely with WTD on issues related to the regional wastewater system and the sewer and capacity charge. As noted in the attached letter (Attachment 6) to the King County Council from MWPAAC, "MWPAAC acknowledges the need for a sewer rate increase in 2026; however, we have not been given adequate time and information to responsibly understand the costs driving the rates for 2026 and beyond." The letter to the Council includes the following points for future discussion:

- Third-party oversight for the capital program – engaging a consultant to provide oversight of mega projects to provide greater transparency and understanding ahead of major decisions, given the magnitude of WTD's proposed capital spending over the next 10 years.
- Rate predictability for multiple years – committing to rates for a multi-year period to allow for better long-term planning and stability for WTD and MWPAAC member agencies.
- Long-term forecasting – continuing to refine long-term forecasts and early sharing of project alternatives and costs to allow MWPAAC to understand the drivers and provide early feedback.
- Deeper discussion on capital improvement program assumptions – having ample time for MWPAAC to fully understand projects and their planning to understand what contributes to the large cost buckets.
- Revisit regulatory timelines – encouraging WTD to pursue timeline extensions for regulatory requirements in areas requiring significant investment to allow for a more phased approach in implementing the required projects and to provide rate relief to local agencies.
- Policy effects on rate growth – clarifying how RWSP policies drive capital prioritization.

The letter concludes, "MWPAAC can support the proposed 2026 sewer rate; however, we urge the Council to work with the Executive and WTD to make meaningful progress on these issues summarized above before the next rate cycle begins."

Contaminants of Emerging Concern–Cost Tracking. Per Motion 16434: "Beginning with the 2025 sewer rate forecast, the wastewater treatment division shall include in its technical memorandum submitted with the annual sewer rate Ordinance a section

identifying the cost of activities it has undertaken and plans to undertake to address contaminants of emerging concern, including PFAS."[29]

The technical memo includes the following information on PFAS costs to date:

- Between 2019 and 2021, King County evaluated reclaimed water from the Brightwater Treatment Plant, analyzing its impact on soil, groundwater, and plant tissues for PFAS and other chemicals of emerging concern. PFAS compounds were found in river water, reclaimed water, soil, and plants irrigated with these water sources. The total cost for the PFAS-related work was approximately $93,750.
- In 2021-2022, King County investigated PFAS presence in wastewater effluent at three County treatment plants. The study cost around $24,990 for PFAS testing.
- In 2023, King County allocated $421,000 for a comprehensive investigation into PFAS in wastewater facilities and landfill leachate, expected to be completed by mid-2025. By mid-2024, tracking showed that staff had spent 300 hours and $27,300 on PFAS-related work.
- Additionally, the Nutrient Reduction Evaluation project (total estimated cost of approximately $8 million) includes an analysis of potential nitrogen-removal compounds of emerging concern and toxics removal, including PFAS chemicals. Approximately $63,500 has been spent on PFAS analysis as part of this project.
- Costs also include 2,090 documented staff hours spent on PFAS through the end of 2023, in addition to the 300 estimated hours in 2024.

The technical memo also includes information on future costs related to compliance with Ecology's draft NPDES permit for the West Point Treatment Plant. The cost estimate for this work is $1 million over five years. Other future unknown costs include monitoring for PFAS in stormwater, wastewater treatment plant influent and effluent, biosolids, and industrial waste.

Council Staff Analysis Is Ongoing. As noted in the staff report, Council staff have requested additional information on the following topics:

- Changes to the approach to develop the capital expenditure when compared with the prior forecast.
- Second decade of rate forecast.
- List of all the capital projects and their costs in the ten-year forecast.
- Cost estimates for Montlake and CSO Projects.
- Information on the target accomplishment rate for each year of the ten-year forecast.
- Capacity Charge.

[29] PFAS (Per- and Polyfluoroalkyl Substances) are a group of chemicals used to make fluoropolymer coatings and products that are widely used in consumer products. PFAS are a concern because they do not break down in the environment, are able to move through soils and water sources, and build up in fish and wildlife.

INVITED

- Kamuron Gurol, Director, Wastewater Treatment Division
- Courtney Black, Financial Services Manager, Wastewater Treatment Division
- Crystal Fleet, Capital Portfolio Planning and Analysis Unit Manager, Wastewater Treatment Division

ATTACHMENTS

1. Proposed Ordinance 2025-0129 (and its attachments)
2. Transmittal Letter
3. Fiscal Note
4. Technical Memo Proposed 2026 Sewer Rate and Capacity Charge
5. PowerPoint King County Wastewater Treatment Division 2026 Sewer Rate
6. Metropolitan Water Pollution Abatement Advisory Committee 2026 Rate Recommendation Letter to Council
7. Regional Water Quality Committee letter to King County Council

KING COUNTY

Signature Report

1200 King County Courthouse
516 Third Avenue
Seattle, WA 98104

Ordinance

Proposed No. 2025-0129.1 **Sponsors** Balducci

AN ORDINANCE relating to rates and charges for sewage treatment and disposal; and amending Ordinance 12353, Section 2, as amended, and K.C.C. 4A.670.100, Ordinance 18745, Section 2, as amended, and Ordinance 11398, Section 1, as amended, and K.C.C. 28.84.055.

BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

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

A. Having determined the monetary requirements for the disposal of sewage, the council hereby adopts a ((~~2025~~)) 2026 sewer rate of ((~~fifty-eight~~)) sixty-two dollars and ((~~twenty-eight~~)) sixty-six cents per residential customer equivalent per month. Once a sewer rate ordinance becomes effective, the clerk of the council is directed to deliver a copy of that ordinance to each agency having an agreement for sewage disposal with King County.

B. The King County council approves the application of Statement No. 62 of the Governmental Accounting Standards Board (GASB-62) as it pertains to regulatory assets and liabilities to treat pollution remediation obligations and RainWise Program expenditures and strategic planning costs as regulatory assets, recovered ratably over the life of the underlying financing, and to establish a rate stabilization reserve for the purpose of leveling rates between years.

C. As required for GASB-62 application, amounts are to be placed in the rate stabilization reserve from operating revenues and removed from the calculation of debt service coverage. The reserve balance shall be an amount at least sufficient to maintain a level sewer rate between ((~~2025~~)) 2026 and ((~~2026~~)) 2027, and shall be used solely for the purposes of: maintaining the level sewer rate in ((~~2026~~)) 2027; and if additional reserve balance is available, moderating future rate increases beyond ((~~2026~~)) 2027. The estimated amount of the reserve, as shown in the financial forecast, Attachment A to ((~~Ordinance 19447~~)) this ordinance, shall be revised in accordance with the ((~~2025 Annual Budget~~)) 2026-2027 Biennial Budget Ordinance and financial plan. If the reserve needs to be reduced to meet debt service coverage requirements for ((~~2024~~)) 2025, the county executive shall notify the council of the change by providing an updated financial plan.

SECTION 2. Ordinance 18745, Section 2, as amended, is hereby amended to read as follows:

Monetary requirements for the disposal of sewage as defined by contract with the component sewer agencies for the fiscal year beginning January 1, ((~~2025~~)) 2026, and ending December 31, ((~~2025~~)) 2026. The council hereby determines the monetary requirements for the disposal of sewage as follows:

Administration, operating, maintenance repair and replacement (net of other income): ((~~$98,885,775~~)) $123,844,438.

Establishment and maintenance of necessary working capital reserves: ((~~$159,207,572~~)) $107,549,086.

Requirements of revenue bond resolutions (not included in above items and net of interest income): ((~~$290,381,168~~)) $360,794,645.

TOTAL: ((~~$548,474,514~~)) $592,188,168.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

15. Fifty-seven dollars for sewer connections occurring between and including January 1, 2015, and December 31, 2015;

16. Fifty-eight dollars and seventy cents for sewer connections occurring between and including January 1, 2016, and December 31, 2016;

17. Sixty dollars and eighty cents for sewer connections occurring between and including January 1, 2017, and December 31, 2017;

18. Sixty-two dollars and sixty cents for sewer connections occurring between and including January 1, 2018, and December 31, 2018;

19. Sixty-four dollars and fifty cents for sewer connections occurring between and including January 1, 2019, and December 31, 2019;

20. Sixty-six dollars and thirty-five cents for sewer connections occurring between and including January 1, 2020, and December 31, 2020;

21. Sixty-eight dollars and thirty-four cents for sewer connections occurring between and including January 1, 2021, and December 31, 2021;

22. Seventy dollars and thirty-nine cents for sewer connections occurring between and including January 1, 2022, and December 31, 2022;

23. Seventy-two dollars and fifty cents for sewer connections occurring between and including January 1, 2023, and December 31, 2023;

24. Seventy-four dollars and twenty-three cents for sewer connections occurring between and including January 1, 2024, and December 31, 2024; ((~~and~~))

25. Seventy-six dollars and nine cents for sewer connections occurring between and including January 1, 2025, and December 31, 2025; and

26. Seventy-seven dollars and ninety-nine cents for sewer connections occurring between and including January 1, 2026, and December 31, 2026:

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

2. In accordance with adopted policy FP- 6 in the Regional Wastewater Services Plan, K.C.C. 28.86.160.C., the council hereby approves the cash balance and reserves as

contained in the attached financial plan for ((~~2025~~)) 2026, which is Attachment A to ((~~Ordinance 19782~~)) this ordinance.

3. In accordance with adopted policy FP-15.3.c., King County shall pursue changes in state legislation to enable the county to require payment of the capacity charge

in a single payment, while preserving the option for new ratepayers to finance the capacity charge.

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

_____

Girmay Zahilay, Chair

ATTEST:

_____

Melani Pedroza, Clerk of the Council

APPROVED this _____ day of _____, _____.

_____

Shannon Braddock, County Executive

Attachments: A. Wastewater Treatment Division Financial Plan

g County WTD - Sewer Rate Financial Model	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Wastewater Treatment Division	**Actual**	**Budget**	**Rate Proposal**	**Projected**	**Projected**	**Projected**	**Projected**	**Projected**	**Projected**	**Projected**	**Projected**	**Projected**
Attachment A - Financial Forecast	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**
Operating Financial Forecast - 4611 ($ '000)												
Monthly Sewer Rate	$55.11	$58.28	$62.66	$70.65	$79.66	$90.42	$102.63	$116.49	$124.94	$134.00	$136.68	$139.42
Rate Increase	5.75%	5.75%	7.50%	12.75%	12.75%	13.50%	13.50%	13.50%	7.25%	7.25%	2.00%	2.00%
Residential Customer Equivalents (RCEs)	774,178	780,874	787,568	792,492	797,424	802,365	807,315	812,274	817,241	822,217	827,202	832,196
Revenue												
Sewer Rate[1]	$ 514,634	$ 546,112	$ 592,188	$ 671,875	$ 762,274	$ 870,598	$ 994,257	$ 1,135,461	$ 1,225,273	$ 1,322,125	$ 1,356,744	$ 1,392,297
Capacity Charge	101,469	98,149	104,960	111,668	117,122	121,924	126,634	131,421	135,314	138,247	140,689	144,577
Industrial Waste	10,206	10,258	10,310	10,362	10,415	10,468	10,522	10,575	10,629	10,684	10,738	10,793
Resource Recovery	10,680	9,509	6,584	6,782	6,985	7,195	7,410	7,633	7,862	8,098	8,341	8,591
Other Income	3,714	3,578	3,597	3,616	3,635	3,655	3,676	3,697	3,719	3,742	3,765	3,789
Investment Income	26,990	25,484	19,639	17,335	17,421	20,476	22,891	25,369	29,178	31,989	34,120	35,384
Use (Transfer to) Rate Stabilization Reserve	-	-	-	-	-	-	-	-	-	-	-	-
Total - Revenue	**$ 667,693**	**$ 693,090**	**$ 737,277**	**$ 821,637**	**$ 917,852**	**$ 1,034,317**	**$ 1,165,390**	**$ 1,314,156**	**$ 1,411,975**	**$ 1,514,885**	**$ 1,554,398**	**$ 1,595,431**
Expenditures & Transfers												
O&M Expenses	$ (205,478)	$ (227,606)	$ (249,295)	$ (267,664)	$ (283,528)	$ (299,973)	$ (317,417)	$ (333,056)	$ (349,475)	$ (366,713)	$ (384,811)	$ (403,813)
Existing Debt Service	(260,856)	(271,001)	(287,706)	(288,253)	(260,877)	(271,362)	(290,154)	(289,525)	(260,530)	(265,544)	(235,871)	(225,992)
New Debt Service	-	(11,363)	(43,105)	(88,669)	(142,627)	(217,321)	(284,979)	(334,152)	(408,414)	(465,354)	(516,976)	(550,610)
Debt Retirement/ Defeasance Use of Cash	(15,897)	(81,174)	-	-	-	-	-	-	-	-	-	-
Minimum Operating Reserve Contribution	(3,247)	(2,940)	(2,169)	(1,837)	(1,586)	(1,644)	(1,744)	(1,564)	(1,642)	(1,724)	(1,810)	(1,900)
Total - Expenditures & Transfers	**$ (485,478)**	**$ (594,082)**	**$ (582,275)**	**$ (646,422)**	**$ (688,619)**	**$ (790,300)**	**$ (894,295)**	**$ (958,297)**	**$ (1,020,061)**	**$ (1,099,335)**	**$ (1,139,468)**	**$ (1,182,316)**
Net Cash Flow	**$ 182,215**	**$ 99,008**	**$ 155,002**	**$ 175,215**	**$ 229,233**	**$ 244,017**	**$ 271,095**	**$ 355,859**	**$ 391,914**	**$ 415,550**	**$ 414,930**	**$ 413,116**
Beginning Balance	$ 2,520	$ 90,004	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net Cash Flow	182,215	99,008	155,002	175,215	229,233	244,017	271,095	355,859	391,914	415,550	414,930	413,116
Policy Cash-Funded Capital (Transfer to Capital Fund)	(110,000)	(189,012)	(155,002)	(175,215)	(229,233)	(244,017)	(271,095)	(355,859)	(391,914)	(415,550)	(414,930)	(413,116)
Ending Balance[2]	$ 74,735	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Reserve Balances												
Water Quality Operating Liquidity Reserve	$ 20,548	$ 22,761	$ 24,929	$ 26,766	$ 28,353	$ 29,997	$ 31,742	$ 33,306	$ 34,947	$ 36,671	$ 38,481	$ 40,381
Rate Stabilization Reserve Account	$ 46,250	$ 46,250	$ 46,250	$ 46,250	$ 46,250	$ 46,250	$ 46,250	$ 46,250	$ 46,250	$ 46,250	$ 46,250	$ 46,250
Debt Service Coverage - Parity Bonds (Senior Lien)	3.22x	3.34x	2.81x	2.43x	2.49x	2.37x	2.15x	2.18x	2.18x	2.05x	1.93x	1.95x
Debt Service Coverage - All-In Debt Service	1.77x	1.65x	1.48x	1.47x	1.57x	1.50x	1.47x	1.57x	1.59x	1.57x	1.55x	1.53x

[1]Sewer rate revenue in 2024 includes a billing adjustment of $2.6m
[2]Difference between 2024 ending balance and 2025 beginning balance driven by reconciliation of cash and accrual, timing of transfers between funds

Capital Funding Forecast - 3611 & 3612 ($ '000)												
Beginning Balance	$ 119,476	$ 182,707	$ 189,012	$ 155,002	$ 175,215	$ 229,233	$ 244,017	$ 271,095	$ 355,859	$ 391,914	$ 415,550	$ 414,930
WIFIA Proceeds	9,616	16,927	15,907	15,588	5,617	-	-	284,000	-	-	-	-
State Loan Proceeds	35,355	54,267	15,651	878	-	-	-	-	-	-	-	-
Variable Rate Debt Proceeds	-	154,157	17,445	106,670	82,713	134,317	171,043	157,514	155,110	163,190	145,345	146,539
Commercial Paper / Interim Financing	66,000	49,725	108,632	22,982	5,472	-	-	-	-	-	-	-
Retirement of Interim Financing	-	(35,620)	(18,172)	(18,548)	(5,472)	-	-	(175,000)	-	-	-	-
Net Bond Proceeds	192,081	40,085	366,884	574,698	720,610	975,346	817,037	660,849	702,699	692,807	642,895	378,788
Reserve Contribution/(Requirement)[3]	(34,239)	-	-	-	-	-	-	-	-	-	-	-
Grants, Settlements, and Other	3,665	-	-	-	-	-	-	-	-	-	-	-
Capital Expenditures	**(312,597)**	**(462,248)**	**(695,360)**	**(857,271)**	**(984,155)**	**(1,338,896)**	**(1,232,097)**	**(1,198,458)**	**(1,213,668)**	**(1,247,910)**	**(1,203,790)**	**(940,257)**
Ending Balance Before Transfers	$ 79,357	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Year-end Transfers from Operating Fund	110,000	189,012	155,002	175,215	229,233	244,017	271,095	355,859	391,914	415,550	414,930	413,116
Ending Balance	$ 189,357	$ 189,012	$ 155,002	$ 175,215	$ 229,233	$ 244,017	$ 271,095	$ 355,859	$ 391,914	$ 415,550	$ 414,930	$ 413,116
Ending Reserve Balances												
Capital Liquidity Reserve	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Emergency Capital Reserve	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Revenue Bonds Reserve Account	145,167	133,590	159,105	198,541	248,091	315,435	373,546	420,784	482,142	531,697	574,926	589,373
State Revolving Fund Reserve Account	219	219	176	133	133	133	68	-	-	-	-	-

[3]Capital Liquidity Reserve increased from $5m to $40m in 2024

Note: Bond covenants are written to allow that in any given year, use of the Rates Stabilization Reserve can be recognized as revenue eligible for inclusion in the bond coverage calculation. In years that WTD contributes to this reserve, that portion of revenue is deducted from the revenue basis for calculating bond co

Unit Converstion

1,000

Check

TRUE

King County
Shannon Braddock
King County Executive
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Seattle, WA 98104
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April 24, 2025

The Honorable Girmay Zahilay
Chair, King County Council
Room 1200
C O U R T H O U S E

Dear Councilmember Zahilay:

This letter transmits a proposed Ordinance that, if enacted, would set the 2026 monthly wholesale sewer rate and capacity charge. The proposed Ordinance would increase the monthly sewer rate by 7.5 percent, from $58.28 to $62.66, and increase the capacity charge by 2.5 percent, from $76.09 to $77.99. A technical memorandum enclosed with this letter provides detailed information on the revenues, expenditures, debt service, operations, and capital programs that inform the rate development process.

The 2026 sewer rate proposal expands the previous 10-year forecast to 20 years, as required by Motion 16449; as prior forecasts projected to 10 years. This sewer rate also reflects the completion of negotiations with the Washington State Department of Ecology, U.S. Environmental Protection Agency, and the U.S. Department of Justice on a modified Consent Decree for Combined Sewer Overflow (CSO) projects. While negotiations were under way, previous financial forecasts assumed a completion date of 2040. The modified consent decree sets the completion date at 2037, resulting in the University of Washington and Montlake CSO control project schedules being moved forward, with funding required sooner in this year's forecast. Additionally, the largest project, the Mouth of the Duwamish CSO program, has made progress toward a selected alternative with an updated cost estimate. The project cost estimate at completion has increased from $1.9 billion to $3.4 billion due to refined program definition and scope, market conditions and cost escalation, and improved cost validation and risk management.

The Department of Natural Resources and Parks (DNRP) recognizes that cost increases due to regulatory requirements and the current market conditions will have financial impacts on ratepayers. To address this, DNRP will continue to utilize low-interest loans through the Washington State Revolving Fund, Washington Public Works Trust Fund, and the federal

Water Infrastructure Finance and Innovation Act. These loans are in addition to DNRP's prudent approach to cash funding and bond issuances to pay for the capital program. While these financial options help reduce longer-term rate projections, DNRP will continue to explore new sources and tools to lessen the financial burden on ratepayers.

From January to April 2025, DNRP staff held monthly rate discussions with and provided briefings to the Metropolitan Water Pollution Abatement Advisory Committee (MWPAAC). MWPAAC's letter on the proposed sewer rate is enclosed. At the request of the Regional Water Quality Committee (RWQC), DNRP's Wastewater Treatment Division provided information on the proposed rate and forecast for discussion at RWQC's meetings in March and April 2025.

Thank you for your consideration of this proposed Ordinance. This important legislation will help King County residents by continuing to protect water quality in the region through the maintenance and repair of the County's wastewater assets.

If your staff have questions, please contact Kamuron Gurol, Division Director of the Wastewater Treatment Division, Department of Natural Resources and Parks, at 206-549-1190.

Sincerely,

for

Shannon Braddock
King County Executive

Enclosure

cc: King County Councilmembers
ATTN: Stephanie Cirkovich, Chief of Staff, King County Council
Melani Hay, Clerk of the Council
Karan Gill, Deputy Executive, Chief of Staff, Office of the Executive
Penny Lipsou, Council Relations Director, Office of the Executive
John Taylor, Director, Department of Natural Resources and Parks (DNRP)
Kamuron Gurol, Division Director, Wastewater Treatment Division, DNRP

2026-2027 FISCAL NOTE

Ordinance/Motion: 2025-XXXX
Title: 2026 Sewer Rate and Capacity Charge Ordinance
Affected Agency and/or Agencies: Wastewater Treatment Division, Department of Natural Resources and Parks
Note Prepared By: Luke Slaughterbeck
Date Prepared: 3/12/2025
Note Reviewed By: Andrés Bas Moore Elena Davert, PSB
Date Reviewed: 3/12/2025 4/15/2025

Description of request:

This legislation increases the sewer rate 7.50 percent from $58.28 in 2025 to $62.66 in 2026. The capacity charge would increase 2.5 percent from $76.09 to $77.99 for each residential customer equivalent for customers who connect in 2026. The revenue impact for the capacity charges continues after 2031 due to the 15-year billing period. The capacity charge for customers connecting in previous years remains at rates established for their year of connection.

Revenue to:

Agency	Fund Code	Revenue Source	2026-2027	2028-2029	2030-2031
Water Quality/WTD	4611	Customer Charges	83,047,948	84,084,939	85,125,581
Water Quality/WTD	4611	Capacity Charges	699,241	1,631,561	2,563,882
TOTAL			**83,747,188**	**85,716,500**	**87,689,463**

Expenditures from:

Agency	Fund Code	Department	2026-2027	2028-2029	2030-2031
Water Quality	4611	WTD	0	0	0
TOTAL			**0**	**0**	**0**

Expenditures by Categories

			2026-2027	2028-2029	2030-2031
			0	0	0
TOTAL			**0**	**0**	**0**

Does this legislation require a budget supplemental? No.

Notes and Assumptions: This legislation has no impact on any prior biennium. Revenue impacts were developed from assumptions included in the financial plan submitted with this legislation.

Proposed 2026 Sewer Rate and Capacity Charge and 2026-2045 Financial Forecast

April 2025

King County

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Executive Summary

Key Assumptions for the Proposed 2026 Sewer Rate and 2027-2045 Financial Forecast

The 2026 sewer rate process includes substantive changes from previous years. As recently as 2019, the sewer rate process was coordinated with the County's biennial budget period and included a limited-purpose financial forecast over the six-year Capital Improvement Program (CIP) period. Since 2020, the forecast was extended to 10 years, which required making forecast assumptions regarding completion of the Long-Term Control Plan (LTCP) for Combined Sewer Overflow (CSO) projects and in-progress negotiations over a proposed CSO Consent Decree (CD) modification with the state Department of Ecology (Ecology), U.S. Environmental Protection Agency (EPA), and the U.S. Department of Justice (DOJ). A key issue in that negotiation was whether the 2030 completion date would be extended. The CSO completion date assumed in the financial forecast has been 2040.

Since adoption of the 2025 sewer rate, the CD negotiations were completed with an extended 2037 end date, resulting in the University and Montlake CSO control project schedules being moved forward, and thus funding is required sooner in this year's forecast. Additionally, the largest project, the Mouth of the Duwamish CSO (MDCSO) program, has made progress toward a selected alternative and completed an updated cost estimate. The project cost estimate at completion has increased from $1.9 billion to $3.4 billion due to refined program definition and scope, market conditions and cost escalation, and improved cost validation and risk management.

In 2023, County Council Motion 16449 was adopted, requiring King County's Wastewater Treatment Division (WTD) to develop a long-term forecast methodology beyond the 10-year forecast period. The July 2025 final deliverable for the motion requirements aligns with timing of the 2026 sewer rate process since the 2026 sewer rate must be adopted by June 30, 2025. The 2026 sewer rate includes extension of the forecast to 20 years through 2045.

The proposed 2026 sewer rate reflects three substantive changes from the 2025 adopted rate: (1) extension of the forecast period to 20 years, (2) a finalized CD schedule reflecting 2037 completion, and (3) a large cost increase to the MDCSO project. A continued challenge for the County's WTD CIP includes the "stacking" problem of multiple concurrent and large capital needs. The three main drivers continue to be high-risk priority asset replacement and renewal investments, meeting contract obligations to serve new growth capacity, and substantial regulatory requirements.

There are also continued significant regulatory "known unknowns," including how nutrient regulations will affect CIP needs, especially since the Puget Sound General Nutrient Permit was recently invalidated by the state Pollution Control Hearings Board (PCHB No. 21-085). Given the uncertainty, WTD believes the CIP should continue to include comparably modest costs for initial optimization-level nutrient reduction. WTD and legal counsel will continue to monitor the status of nutrient litigation and regulation and endeavor to anticipate and respond to regulatory requirements and options.

This 2026 sewer rate proposal and forecast prioritizes necessary capital investments and investments to operate and maintain both the growing system and increasing regulatory requirements on the system.

Committee Engagement

Throughout 2024, WTD engaged the Metropolitan Water Pollution Abatement Advisory Committee's (MWPAAC) Rates and Finance Subcommittee on the sewer rate and related topics, including rate-setting methodology, cost estimation methodology, and capital program needs and forecasting. Beginning in January 2025, WTD engaged with MWPAAC and its Rates and Finance Subcommittee to share findings from early policy direction that informs the preliminary sewer rate forecast for 2026-2045. Details, rationale, and methodology were shared by WTD staff in these forums, including costs and timing of capital investments.

The process to develop the proposed 2026 sewer rate also included providing briefings to the Regional Water Quality Committee (RWQC) beyond the level of engagement provided to RWQC in past years. RWQC offered comment on the preliminary sewer rate forecast in February 2025 and on WTD's proposed sewer rate in March.

Feedback from MPWAAC and RWQC includes desire for more predictability in the rate forecasts and concern for the higher rate increases after 2026. WTD shares their concern for customer affordability and, as part of the RWSP update, is working to better characterize local affordability, develop metrics to measure it, and focus on actionable solutions.

Proposed Sewer Rate and Capacity Charge

The proposed 2026 sewer rate is $62.66, or a 7.5 percent increase over the 2025 rate of $58.28. The 2026-2045 sewer rate forecast shown in **Figure 1** includes smoothed annual increases rising from 7.5 percent in 2026, 12.75 percent in 2027 and 2028, and 13.5 percent in the 2029-31 forecast, followed by lower rate increases in 2032 and beyond.[1] A smoothed sewer rate forecast allows for the collection of revenues that exceed expenditures in a given year and are less than expenditures in subsequent years to fully fund the utility over the forecast period with less volatility. These proposed rate increases enable WTD to fund the projected CIP and sufficiently perform operations and maintenance.

Figure 1 Proposed 2026 Sewer Rate and 2027-2045 Forecast

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Rate Increase %	5.75%	**7.50%**	12.75%	12.75%	13.50%	13.50%	13.50%	7.25%	7.25%	2.00%	2.00%
Monthly Sewer Rate	$58.28	**$62.66**	$70.65	$79.66	$90.42	$102.63	$116.49	$124.94	$134.00	$136.68	$139.42
Rate Increase $	$3.17	**$4.38**	$7.99	$9.01	$10.76	$12.21	$13.86	$8.45	$9.06	$2.68	$2.74

	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
Rate Increase %		2.00%	4.50%	4.50%	4.50%	1.75%	1.75%	1.75%	0.50%	0.50%	0.50%
Monthly Sewer Rate		$142.21	$148.61	$155.30	$162.29	$165.14	$168.03	$170.98	$171.84	$172.70	$173.57
Rate Increase $		$2.79	$6.40	$6.69	$6.99	$2.85	$2.89	$2.95	$0.86	$0.86	$0.87

For reference, the 2025 sewer rate forecast is shown in **Figure 2.**

Figure 2 Adopted 2025 Sewer Rate and 2026-2034 Forecast

2025-2034 Rate Forecast	Adopted									
2025 Adopted Sewer Rate	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**
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	
Rate Increase $	**$3.17**	$4.08	$4.37	$4.68	$5.90	$6.38	$6.91	$8.39	$9.16	$10.01	

The proposed capacity charge is $77.99, or a 2.5 percent increase over the 2025 rate of $76.09. The financial forecast incorporates capacity charge revenue increases as shown in **Figure 3**.

[1] In this context "smoothed annual increases" refers to avoidance of year-to-year volatility in the sewer rate.

Figure 3 Proposed 2026 Capacity Charge and 2027-2030 Forecast

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%

Introduction

King County Wastewater Treatment Division

The Wastewater Treatment Division (WTD) of the Department of Natural Resources and Parks (DNRP) is a utility providing wholesale wastewater treatment and major conveyance for 34 local sewer agencies (18 cities, 15 sewer districts, and the Muckleshoot Indian Tribe) in the Puget Sound region. Distributed over a 424-square-mile service area, the King County (County) sewer system collects and treats an average of 182 million gallons of sewage a day from approximately 2 million residents. WTD's service area map can be found in **Figure 4**.

WTD is responsible for the construction, operation, and maintenance of the County's regional wastewater conveyance and treatment system. The system includes three regional secondary treatment plants (West Point in Seattle, South Plant in Renton, and Brightwater in southern Snohomish County); 397 miles of conveyance lines; 48 pump stations; and 26 regulator stations.[2] Other WTD facilities include five combined sewer overflow (CSO) treatment plants, four CSO storage facilities, 39 CSO outfall locations, two secondary community-scale treatment plants (Vashon Island and Carnation), and one community septic system on Vashon Island.[3]

Local Sewer Agencies

WTD's service area is comprised of Local Sewer Agencies (LSAs), which include 18 cities and 15 sewer districts in King County, southern Snohomish County, northern Pierce County, and the Muckleshoot Indian Tribe.

LSAs contract directly with WTD for wholesale wastewater treatment services. WTD does not have a direct relationship with individual sewer ratepayers, except for Capacity Charge, High-Strength Surcharge, and Industrial Waste customers.[4, 5] Engagement with the LSAs is accomplished through the MWPAAC and the Regional Water Quality Committee (RWQC). The sewage disposal contracts with the LSAs specify that the following year's sewer rate must be

[2] Secondary treatment includes aeration, settling, disinfection, and discharge through an outfall. Secondary treatment in conjunction with primary treatment removes about 85 to 90 percent of suspended solids in wastewater.

[3] Combined sewer overflows (CSOs) are relief points in sewer systems that carry sewage and stormwater in the same pipe. When heavy rains fill the pipes, CSOs release sewage and stormwater into rivers, lakes, or Puget Sound. They prevent sewage backups into homes and businesses but can harm people and animals living in the water because they carry chemicals and germs.

[4] "High strength" refers to more concentrated waste. The surcharge covers the additional operating cost of treating this waste at the treatment plant.

[5] The capacity charge is billed to new connections to the system. The charge is assessed monthly for a term of 15 years from the date the new service is established and is based on the cost of system capacity necessary to serve a new connection.

determined before July 1 of the current year. This provides time for the LSAs to include the WTD rate in preparing budgets and proposing local sewer collection rates for the following year.

The LSA contracts define two customer classes for billing the sewer rate: single-family residential (SFR) and flow-based residential customer equivalents (RCEs). Flow-based RCEs include all other customer classes (commercial, multifamily, and industrial), and one flow-based RCE is equivalent to one SFR. The service contracts specify that each flow-based RCE equals 750 cubic feet per month of water usage. In addition to sewer fees, LSAs are invoiced for their customers' high-strength surcharge and industrial waste compliance and monitoring fees.[6] To compensate for seasonal variation in water use, the service contracts provide for a quarterly rolling average to convert reported water use to billed RCEs. A list of the LSAs and their average 2024 reported RCEs is provided in **Figure 5**.

Financial Forecast

Utilities such as WTD are self-supporting enterprise funds and, therefore, must set fees to recover the cost of providing services.[7] Utility costs include operations, maintenance, debt service, and building new capital infrastructure. Utilities must also account for cash requirements from financial policies, such as funding reserves and how capital projects are funded. The total revenue that must be generated by a utility, in any given year, to cover costs and meet financial policies is referred to as a utility's revenue requirement.

WTD's sewer rate and capacity charge are adopted annually and include development of a longer-term financial forecast. Initiated in response to Council Motion 16449, the rate forecast now extends to 20 years, instead of the previous 10. The proposed 2026 sewer rate and capacity charge are prepared in the context of the utility's revenue requirements over the 20-year financial forecast. This document will cover each element of the financial forecast (Operating Expenditures, Capital Expenditures, Reserves Management, and Revenue).

[6] More information on compliance and monitoring fees can be found here.
[7] More information on enterprise funds can be found in the WA State Administrative and Accounting Manual.

Figure 4 System Map

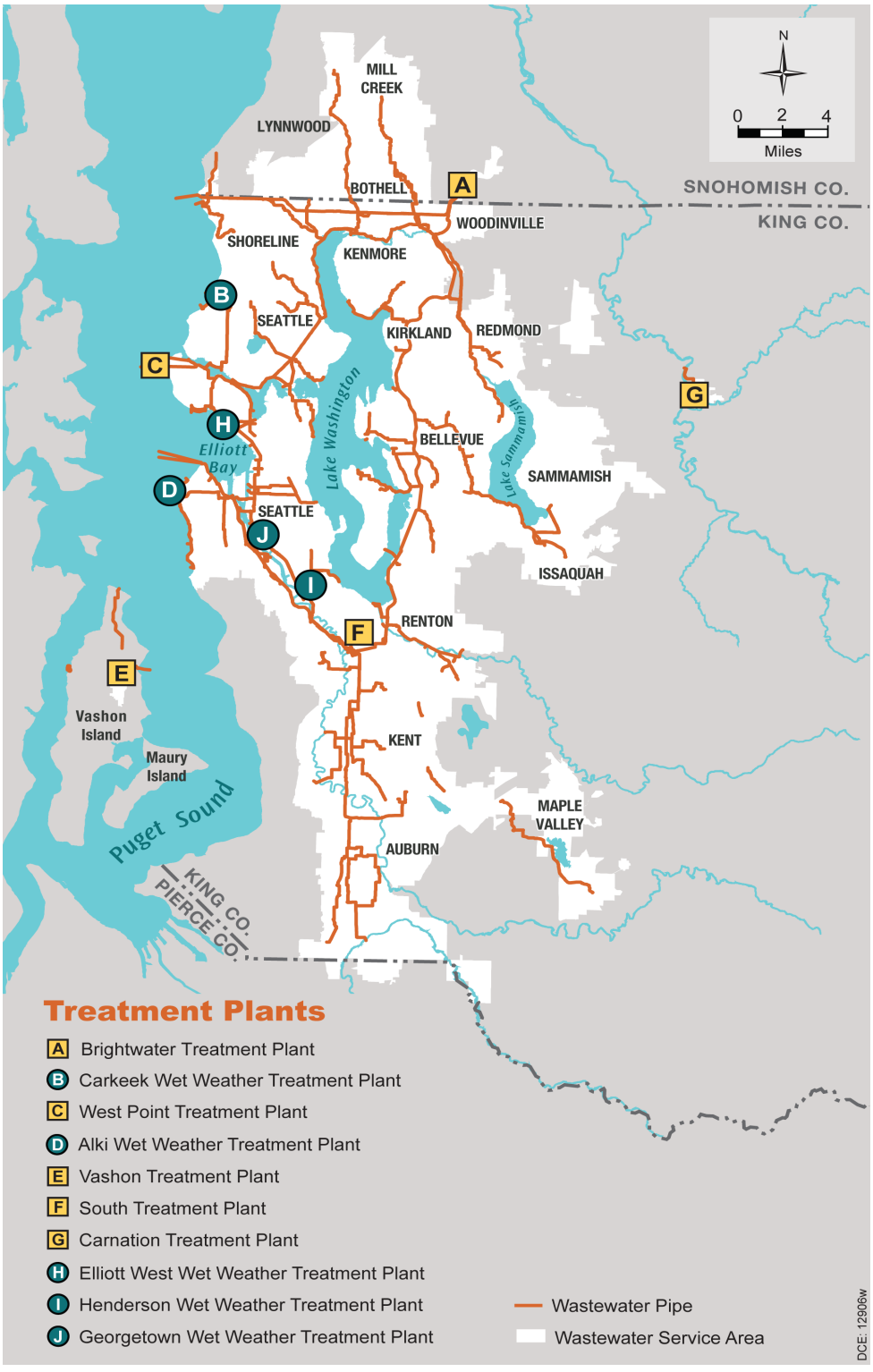


Figure 5 2024 Average Reported Residential Capacity Equivalents by Local Sewer Agency

	Single Family RCEs	Flow-Based RCEs	Total RCEs	Percentage of Total (%)
Local Sewer Agencies - Cities				
Algona	1,018	359	1,377	0.18%
Auburn	13,424	18,025	31,449	4.03%
Bellevue	32,965	30,564	63,528	8.15%
Black Diamond	2,279	119	2,398	0.31%
Bothell	5,133	3,889	9,023	1.16%
Brier	1,572	225	1,797	0.23%
Carnation	927	249	1,176	0.15%
Issaquah	7,078	6,393	13,471	1.73%
Kent	13,581	24,299	37,880	4.86%
Kirkland	10,390	5,743	16,133	2.07%
Lake Forest Park	3,626	445	4,071	0.52%
Mercer Island	7,194	1,444	8,638	1.11%
Pacific	1,557	985	2,542	0.33%
Redmond	15,578	17,915	33,493	4.29%
Renton	16,468	15,776	32,244	4.13%
Seattle	156,605	145,516	302,121	38.74%
Shoreline	15,502	4,975	20,477	2.63%
Tukwila	1,065	6,507	7,572	0.97%
Subtotal	**305,960**	**283,426**	**589,386**	**75.58%**
Local Sewer Agencies - Districts and Tribes				
Alderwood Water & Wastewater District	36,963	17,072	54,035	6.93%
Cedar River Water & Sewer District	4,170	1,376	5,547	0.71%
Coal Creek Utility District	3,338	1,401	4,739	0.61%
Cross Valley Water District	-	395	395	0.05%
Highlands Sewer District	105	2	106	0.01%
Lakehaven Utility District	1,136	9	1,145	0.15%
Muckleshoot Indian Tribe	353	108	461	0.06%
NE Sammamish Sewer & Water District	4,742	122	4,864	0.62%
Northshore Utility District	20,841	10,540	31,381	4.02%
Olympic View Water & Sewer District	215	1	216	0.03%
Sammammish Plateau Water & Sewer District	12,031	4,632	16,663	2.14%
Skyway Water & Sewer District	3,992	1,321	5,313	0.68%
Soos Creek Water & Sewer District	33,262	5,922	39,183	5.02%
Valley View Sewer District	7,160	9,823	16,983	2.18%
Vashon Sewer District	435	485	919	0.12%
Woodinville Water District	2,908	2,542	5,450	0.70%
Subtotal	**131,650**	**55,749**	**187,398**	**24.03%**
Non-Municipal Participants and Other Customers	-	3,039	3,039	0.39%
Grand Total	**437,609**	**342,213**	**779,822**	**100.00%**

Operating Expenditures

The utility's 2025 operating budget is the basis for forecasting operating costs for future years. The 2025 sewer rate and financial forecast included budgeted operating expenditures at $224 million.

Figure 6 shows the 2024 preliminary actuals compared to the adopted budget, along with the 2024 budget with percent change, year over year. Of note, the County typically budgets on a biennial schedule, while the sewer rate is based on annual requirements. An annualized version of the biennial appropriation is used in rate-setting. Despite the appearance of over-budget expenditures in 2024, it was only an overspend estimate since appropriation remained from 2023, the first year of the biennium.

The 2025 operating expenses shown in **Figure 6** reflect the existing operating budget as originally adopted. However, WTD's spending forecast includes an assumption for a 2025 budget amendment, which is reflected in Attachment A and projected expenditures throughout the financial forecast.

Figure 6 2024-2025 WTD Operating Expenses ($ '000s)

Expenditure Category	2024 Revised Budget	2024 Unaudited Actuals	2024 Budget to Actuals Variance	2024 % Budget Spent	2025 Budget	% Change 2024 to 2025
Salaries & Benefits	$78,611	$77,570	-$1,041	98.7%	$87,260	12.5%
Supplies	$25,511	$30,112	$4,601	118.0%	$30,452	1.1%
Services	$42,332	$49,859	$7,527	117.8%	$49,627	-0.5%
Intra-governmental	$48,055	$44,404	-$3,651	92.4%	$52,593	18.4%
Other	$0	$0	$0	n/a	$0	n/a
Total	**$197,909**	**$205,478**	**$7,569**	**103.8%**	**$223,846**	**8.9%**

Operating Forecast

Before the inflation surge that began in 2022, annual growth in WTD operating expenditures averaged nearly four percent per year. Including the recent high inflation years results in an annual average of 6.6 percent. This growth represents a composite of inflation, supporting new facilities that come online, and maintaining an aging and growing system. **Figure 7** shows the annual growth in operating expenditures going back to 2013.

Figure 7 Historical Annual Increase in WTD Operating Expenditures

Year	Operating Expenses	Annual Growth
2013	117,183	2.0%
2014	124,201	6.0%
2015	128,926	3.8%
2016	136,321	5.7%
2017	148,199	8.7%
2018	152,589	3.0%
2019	155,785	2.1%
2020	158,660	1.8%
2021	158,628	0.0%
2022	173,870	9.6%
2023	187,593	18.3%
2024	205,478	18.2%
	Average	**6.6%**

WTD Operating Expenditures Forecast

In September 2024, a one-year extension of the Coalition Labor Agreement between the County and its labor partners through the Coalition of Unions went into effect. The agreement provided for a series of general wage increases for County staff, including a 5.5 percent increase for 2025.

Central service cost allocations to WTD are generated by internal service fund agencies and General Fund central agencies that provide those services.[8] The general wage increase impacted most, if not all, of these agencies. Agencies may also be susceptible to industry-specific cost pressures.

The operating costs for WTD's base year (2026) forecast include adjustments for significant known increases such as electricity and chemicals, in addition to updated prices where recent inflation exceeded previous forecast assumptions. The growth in the operating costs assumption reflects increased staffing levels to better meet industry standards and the growing needs of aging facilities, capital project participation, and higher costs of biosolids transportation.

Beyond 2026, incremental operating costs are forecast based on general cost and labor cost inflation at four percent. Growth in operating costs is forecast as shown in **Figure 31**. Operations staffing needs factor into the near-term increased rate of operating cost growth to address current staffing needs and anticipated growth in required staff over the forecast period.

WTD needs additional operations staff to meaningfully address current and emerging needs over the next five years:

- In the last decade, WTD brought new facilities online with a minimal increase in operations staffing.
- 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, startup, and commissioning processes.

[8] Central services are services received from other County agencies that are considered “central” agencies, such as King County Information Technology, Facilities Management, and County Human Resources

- Permit conditions are more complex, requiring more monitoring and adjustment to meet water and air quality requirements.
- Contracts and policy goals require that WTD 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 WTD serves.

WTD is preparing the specific package of requested positions and related business cases for submittal in the 2026-2027 budget process. A portion of the identified staffing needs will be requested in 2026, and the remainder of requests are planned to be spread over following years.

Capital Improvement Program

Portfolio Management

Beginning in 2017, WTD focused on developing a more comprehensive and structured approach to managing its capital program. This work included the goal of aligning the mix of projects in WTD's Capital Improvement Plan (CIP) with its strategic initiatives and overall mission. A pilot of this prioritization approach informed the 2019 sewer rate development and, since then, has been used to inform rate and budget-setting processes.

Projects are organized and prioritized within the following categories:

Figure 8 Capital Portfolio Category Descriptions

Category	Description
Asset Management Plants and Conveyance	Maintain level of service through the rehabilitation or replacement of critical assets.
Capacity Improvement	Increase capacity in WTD facilities to accommodate future growth.
Operational Enhancements	Reduce/improve operating costs at treatment plants through the delivery of projects that create efficiencies.
Regulatory	Deliver projects and programs that respond to permit, regulation, and/or consent decree legal deadlines.
Resiliency	Improve the survivability and operability of core assets against natural disasters through the delivery of projects that address known deficiencies.
Resource Recovery	Support the King County Strategic Climate Action Plan (SCAP) initiative through the delivery of projects that reduce energy use or recover valuable resources from wastewater.
Planning and Administration	Incorporate programs and projects that facilitate execution of the overall capital portfolio through a series of planning- and administration-related efforts.

2024 Performance and Accomplishment Rate

The capital accomplishment rate is the amount of actual or forecasted capital spending that occurs in the year compared with the amount of capital spending planned. WTD's capital program accomplishment rate target of 85 percent for annual expenditures is evaluated against the actual spending in recent years to ensure it remains a valid performance indicator.

The 2024 aggregated projects forecast was $401 million. For the 2025 sewer rate proposal, this forecast was reviewed for risk and was adjusted to $316 million, or an effective accomplishment rate of 79 percent. The 2024 actual spend of $313 million resulted in an accomplishment rate of 78 percent.

Drivers for this lower accomplishment rate include two large projects with significant underspend in 2024:

- The West Point Power Quality Improvement carried significant allowances for construction change orders and risk events in the 2024 Capital Expenditure Forecast. The project achieved substantial completion in October 2024 with little utilization of these allowances. The project spent $24 million in 2024, or 57 percent of the forecasted $42 million.
- The West Point Raw Sewage Pump Replacement project issued notice to proceed for construction in July 2024, however construction spending was not as aggressive as anticipated by the project team in the 2024 Spend Plan. The project also had a forecasted contingency allowance in 2024 that was not utilized. The project finished 2024 spending $14 million, or 72 percent of the $20 million forecasted.
- The forecasts for these two projects comprised 16 percent of the total 2024 CIP forecast. The other projects and programs in the CIP spent $275 million out of the $339 million that they forecasted, for an 81 percent accomplishment rate.

Figure 9 presents the historical accomplishment rate performance from 2015 through 2024.

Figure 9 Historical Accomplishment Rates for the Capital Program ($ in millions)

Accomplishment Rate (AR)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Capital Improvement Program	$191	$207	$211	$246	$262	$247	$291	$360	$386	$401
Actual Annual CIP Spend	$160	$168	$188	$231	$211	$199	$201	$259	$351	$313
Actual Accomplishment Rate	84%	81%	89%	94%	81%	81%	69%	72%	91%	78%

Estimated CIP Spending for 2026-2045 Financial Forecast

To update the 10-year financial forecast, WTD estimates spending for active projects and develops conceptual forecasts for future projects and programs. Updates to project and program spending estimates consider changes in scope, risk, and schedule. While WTD prepares a 10-year capital forecast for sewer rate planning, the County budgets capital projects on a six-year CIP schedule. The capital component of the forecast's second decade is based on long-term forecast methodology developed by Raftelis consultants to support WTD in response to Motion #16449 as interim financial estimates until the Regional Wastewater Services Plan provides the long-term capital project plan.

The following five projects are the largest individual components of WTD's six-year CIP:

Mouth of Duwamish Combined Sewer Overflow

The Mouth of Duwamish Combined Sewer Overflow Program (MDCSO) is working to control five CSO outfalls in the area of the mouth of the Duwamish River.[9] The outfalls (called Chelan, Hanford #2, Lander, Kingdome, and King Street) are located in the east and west waterways of the Duwamish River on both sides of Harbor Island and along the Seattle

[9] A combined sewer system collects rainwater runoff and domestic wastewater into a single pipe and conveys it to a wastewater treatment plant. During heavy rain events, the amount of runoff can exceed the capacity of the system, resulting in a combined sewer overflow (CSO), where untreated wastewater and stormwater flows into nearby receiving waters. More information on WTD's CSO control program can be found here.

shoreline of Elliott Bay in the neighborhoods of SODO and West Seattle. This work fulfills consent decree requirements with the EPA and Ecology.[10] The program team expects to wrap up the planning phase by Q2 2025 and will then share the proposed solution to control the five MDCSO outfalls.

West Point Electrical Improvements

This program will replace approximately 300 electrical assets, relocate an additional nine electrical assets, and coordinate these efforts with other electrical and asset replacement projects at West Point Treatment Plant (WPTP) in Seattle. WPTP was originally constructed in the early 1960s and underwent a major expansion during the 1991 Secondary Treatment Facilities project. As such, WPTP electrical assets from the Secondary Treatment Facilities project are more than 25 years old and are reaching the end of their life cycle. Additionally, assets installed during earlier WPTP construction are beyond the end of their life cycle and need replacement as soon as possible. Failure to replace these critical assets may result in diminished reliability, interrupted facility operations, and potential National Pollutant Discharge Elimination System (NPDES) permit violations. The program team forecasts that the improvements will be completed by 2032.

Elliot West Wet Weather Treatment Station

The Elliott West Wet Weather Treatment Station (EWWTS) project consists of new and upgraded treatment facilities to treat CSOs prior to discharge through the existing outfall in Elliott Bay. The project will make improvements that will result in full NPDES permit compliance at the EWWTS. Construction is anticipated to begin in 2027 and extend through 2033.

West Point Treatment Plant Raw Sewage Pump Replacement

The existing raw sewage pump (RSP) system was built in 1966, with a capacity of 440 million gallons of wastewater and stormwater per day. While the capacity remained at 440 million gallons per day, pumping untreated combined sewage over a long time has resulted in significant wear on the pumps.[11] The purpose of this project is to replace the RSP system and make seismic upgrades to meet National Fire Protection Association (NFPA 820) standards.[12] In addition, the project will also replace the existing boiler system prior to completion of the RSP replacement to provide heat necessary to maintain a stable treatment process. Notice to proceed for construction was issued in 2024 and the project is forecasted to be complete by 2030.

West Point Treatment Plant Critical Gate Refurbishment

The objective of this program is to restore full functionality to critical treatment plant wastewater flow control gates and their support systems at the WPTP in Seattle. Support systems include operators, hydraulics, and controls. Gates and support systems will be renewed or replaced in kind. The first two major projects identified under this program address the WPTP primary effluent gate and the chlorine mix structure gate. These projects are currently forecasted to be completed by 2028 and 2030, respectively.

Other Capital Projects

New projects, along with updated spending forecasts and schedules for the existing capital program, form the basis for developing the 10-year CIP for the financial forecast. The updated forecast includes continued deferral of pipeline

[10] More information on CSO regulations and requirements can be found here.
[11] More information on the WPTP Raw Sewage Pump system can be found here.
[12] More information on the National Fire Protection Association is available on their website.

capacity projects that have neither a population growth driver nor overflows within the last five years, so that capital delivery capacity can be dedicated to higher-priority system investments.

Figure 10 summarizes the capital investment strategy used to develop the proposed sewer rate forecast.

Figure 10 WTD CIP Investment Strategy

CIP Policy Topic	Basis for Investment Strategy
CSO Consent Decree Cost & Schedule	Moves forward project costs related to the CSO Consent Decree to meet 2037 end date. Includes recent cost updates to the Mouth of the Duwamish CSO control program.
Nutrient Removal - Ecology Permit	Includes Nitrogen Reduction Planning, Nutrient Reduction Evaluation Study, and Near-Term Optimization Capital Investments. Includes proactive/multibenefit investment to optimize nitrogen removal at South Plant as comparably modest investments while nutrient regulations are uncertain.
Asset Management Tier 1 Critical Inventory Projects	First decade: High-risk asset replacement and renewal inventory (Tier 1) Second decade: Continues remaining current high-risk inventory, then transitions to replacing assets at end of useful life; cost projected to year of replacement
Capacity Category	Includes conceptual forecasts for projects identified by the Treatment Planning Program and Conveyance System Improvements Program to address plant and conveyance system capacity limitations.
Capital Program Staffing	Assumes that a ramp-up of capital delivery continues as WTD continues to budget, hire, onboard, and train additional staff.

Capital Expenditure Delivery Capacity Analysis

WTD will have to increase its throughput of capital projects to plan, design, and deliver the CIP. As it is growing that capacity, care is being taken to not overcommit and secure funding beyond what can be delivered. To understand what can be delivered as the capital program grows, WTD conducted an analysis of historical capital output in relation to the number of WTD full-time equivalent employees (FTEs) dedicated to the capital program. The resulting metric projects an estimated capital spending target that reflects historic delivery capacity. This metric provides a proximate basis for estimating the annual capital program delivery along with staffing included in the forecast.

The analysis relied on several assumptions, including:

- New FTEs take two years to fully onboard and carry a project load equivalent to existing staff.
- Project staffing maintains the historical in-house-to-consultant ratio that for every $1 spent on in-house direct labor; $1.30 is spent on consultant contracts.
- The FTE count grows at the same rate as outsourcing to the consultant community.

WTD uses the approach of growing in-house staff while also relying on consultants because it:

- Meets equitable workforce development goals by deliberately recruiting and hiring a diverse workforce.
- Builds internal expertise and experience with the wastewater system, including the ability to learn and adapt as the challenges and complexities grow, reduce the learning curve, and quickly respond to emergent issues.
- Improves staff recruitment and retention by providing a variety of project assignments and opportunities for professional growth.

The financial forecast includes recognition of approaching milestones, including CSO costs. For the analysis, WTD assumed that these expenditures would be delivered by project teams that have an FTE-to-consultant ratio comparable to the distribution used by WTD in delivering the Brightwater Treatment Plant and Conveyance Megaproject.[13]

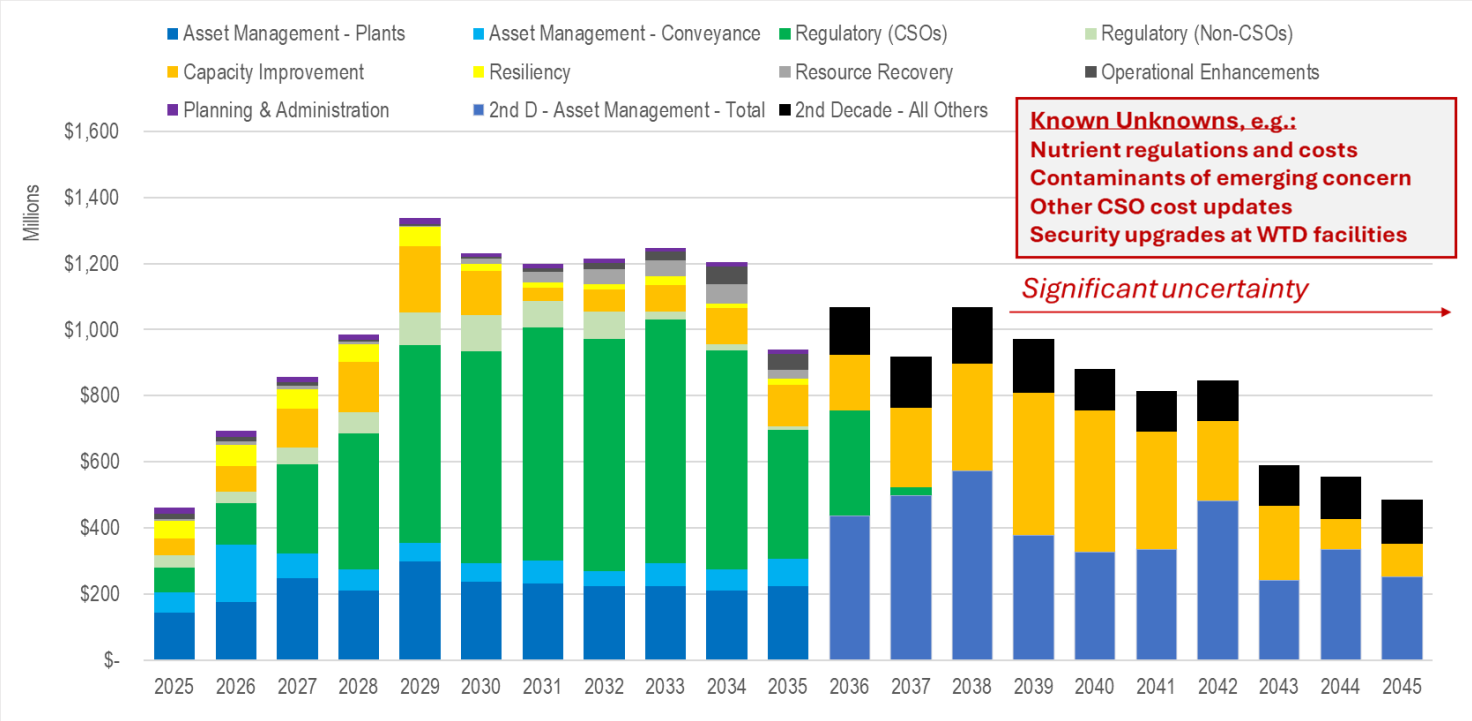
A delivery capacity adjusted forecast was developed for use in the sewer rate forecast so that WTD does not secure funding for more than what it is able to spend with its anticipated resources. It was developed by multiplying the historical average expenditure per FTE ($944,140 in 2023 dollars) by the projected total productive FTEs each year (350 in 2025). Annual FTE additions were capped at 50 per year as the basis for a reasonably realistic recruiting and hiring assumption.

For the 2026 sewer rate, WTD sequenced current and conceptual projects to balance under the expenditures projected using this model. WTD is also beginning to model and forecast staff labor resources needed to deliver the identified capital program. This analysis will incorporate historical data indicating WTD labor resources needed to deliver projects of various sizes. The current resource constraint analysis is intended to identify how much WTD can reasonably expect to deliver. The second analysis supports planning and budgeting staff resources to deliver projects. WTD will continue to review and update these analyses as more data and experience is gained in the coming years.

[13] The history of the construction of the Brightwater Treatment Plant and Conveyance Megaproject is here.

Figure 11 shows the annual capital investments included in the proposed sewer rate and financial forecast in their respective portfolio categories.

Figure 11 Proposed Capital Investments by Portfolio Category for 20-Year Forecast



Capital Improvement Program Funding

The capital improvement program is funded by two primary sources: 1) cash generated from the sewer rate and capacity charge revenues; and 2) debt financing from revenue bonds or low-interest state and federal loan programs.

Cash Funding

Since 2023, WTD has used an original cost depreciation method for setting cash funding targets for its capital program.[14] This method consists of targeting annual cash funding generated from sewer rate revenue, equivalent to WTD's annual depreciation (including estimated new depreciation resulting from completion of projects in the CIP that become depreciating assets). The total forecasted depreciation over the next 10 years translates into approximately 28 percent of the total CIP. Cash-funding requirements are averaged over the next 10 years of the forecast period, allowing WTD to smooth rate increases and produce a more stable rate path.

Since the target cash funding is accumulated over the course of the year, a single year-end transfer to the construction fund from the operating fund makes the cash available for funding capital projects in the following year.

[14] Depreciation is an accounting concept that divides an asset's cost by its estimated useful life, representing how much that asset is expected to wear out or lose value every year. Original cost refers to the actual cost of an asset, rather than the cost adjusted for inflation.

Debt Financing

Debt financing is used to provide the remaining funds needed after the use of cash. Debt financing represents 72 percent of total project funding over the next 10 years. The main sources of debt available to WTD include state loans, federal Water Infrastructure Finance and Innovation Act (WIFIA) loans, and revenue bonds.[15]

As interest rates began rising in 2022, WTD successfully reduced its reliance on issuing new high-interest revenue bonds in 2022 and 2023. This was possible due to a large bond issuance in 2020 at record-low interest rates, low-cost commercial paper for interim financing, and the availability of state and federal loans at below-market interest rates.

Figure 12 shows the capital funding forecast and the use of various debt instruments secured to fund the capital program. The higher cash funding shown in 2025 is the result of a debt defeasance transaction postponed from November 2024 to February 2025.

Since state and federal loans work on a reimbursement basis, WTD needs to issue interim debt prior to being reimbursed for the project costs. Once reimbursed, WTD can retire the interim debt, which is then available for future projects that require interim financing. By 2031, WTD plans to draw on its $284 million WIFIA loan to reimburse interim debt. This strategy is beneficial as WTD can use low-interest interim debt during the construction period while remaining eligible for an interest rate reduction, provided the loan remains undrawn, capital expenditures do not exceed 51 percent of total costs, and the 30-year U.S. Treasury rate is lower than when the loan agreement was first signed.

Figure 12 Capital Funding Sources

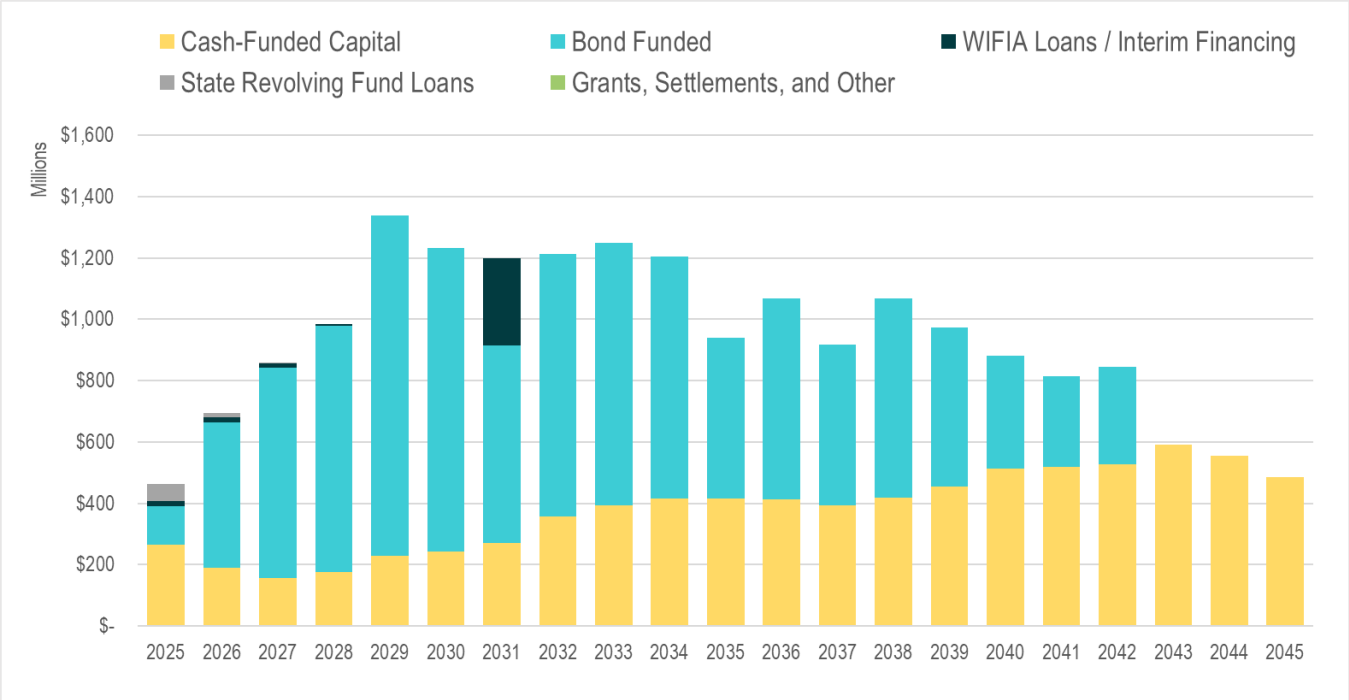


Figure 13 illustrates how, as existing debt is retired, repayment capacity is replaced by new debt issued to fund the capital program. **Figure 14** shows how WTD's debt-to-asset ratio declines over time, demonstrating the higher cash funding percentage over time.

[15] Debt financing occurs when WTD borrows from investors in the municipal bond capital markets or signs loan agreements with state and federal agencies.

Figure 13 Existing and New Debt Balances

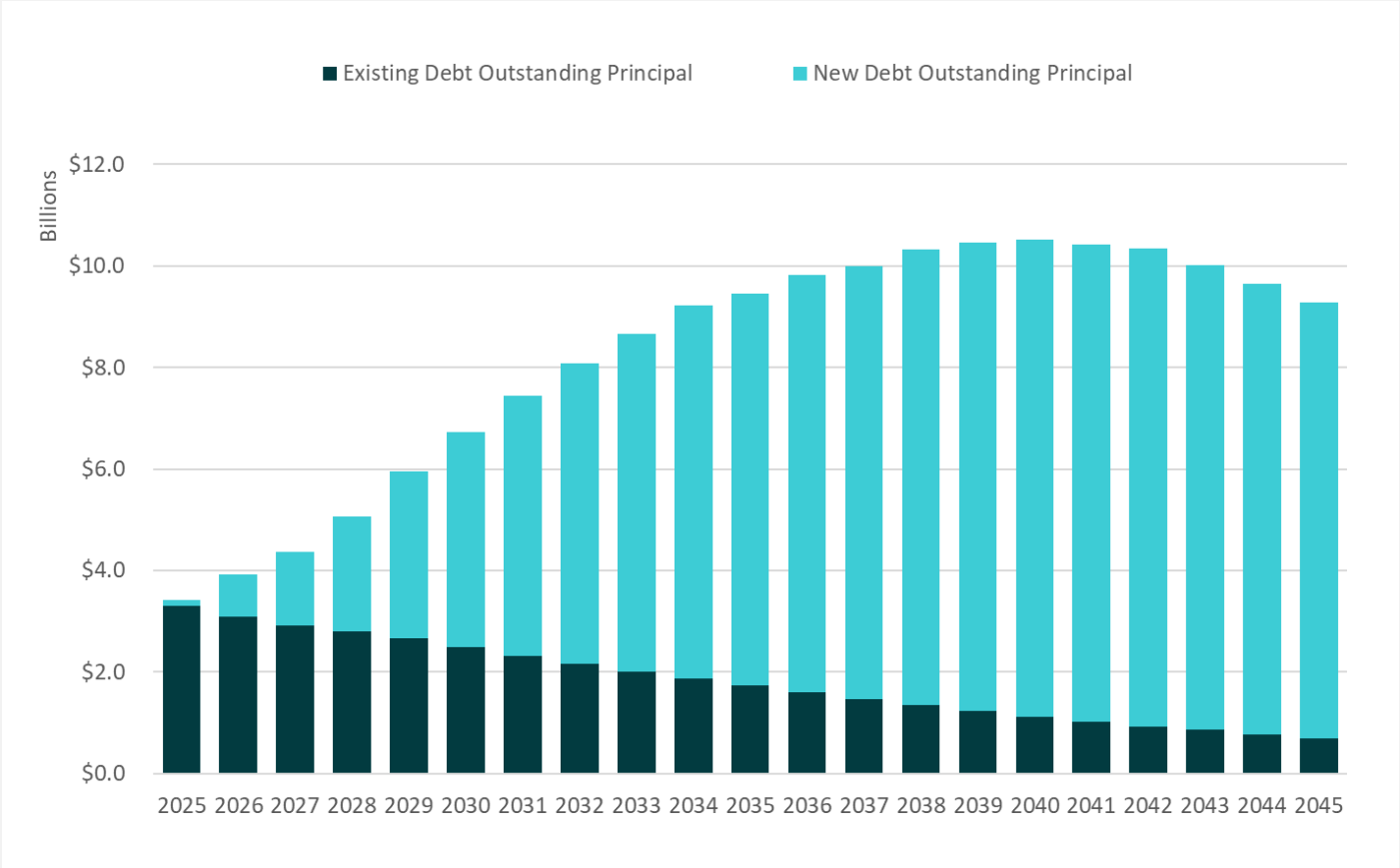
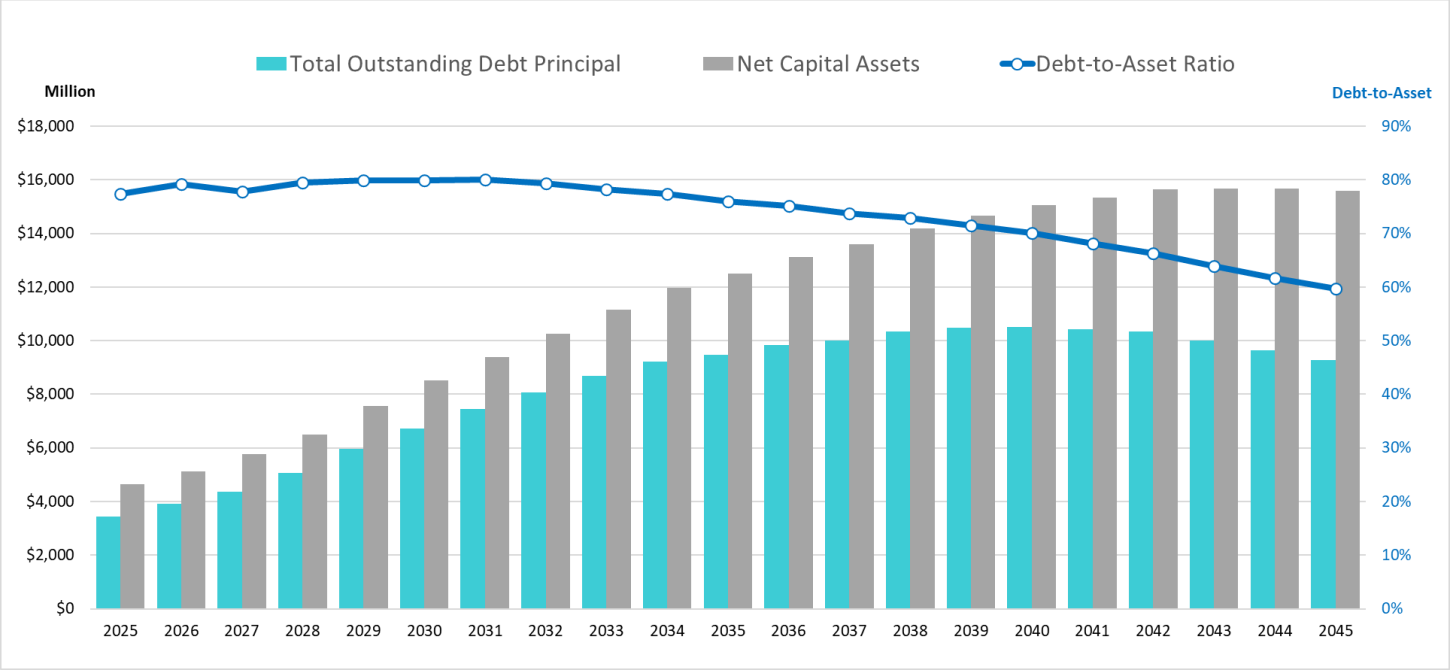


Figure 14 Debt to Asset Balance



State Revolving Fund Loans

Joint Ship Canal Water Quality Project. In 2022, the Joint Ship Canal project was awarded $3 million in addition to $23 million awarded in 2021, for a total of $26 million at a 1.4 percent interest rate. The $26 million state revolving fund (SRF) loan amendment was approved by Ordinance 19575 in February 2023. It will provide $12.6 million in total savings over a 30-year period due to a low interest rate.[16] WTD plans on drawing from this loan as construction progresses over the course of 2025 and 2026.

Multiple SRF Loan Agreements. In 2024, Council approved multiple SRF loan agreements with Ecology to support key wastewater projects. On February 27, Council approved a $9.4 million SRF loan at 1.4 percent interest over 30 years for the West Point Passive Weir Emergency Bypass project.[17] On September 24, Council approved two 20-year SRF loan agreements to fund $10.2 million for the West Duwamish CSO Control project and $14.9 million for the West Point Treatment Plant Raw Sewage Pump Replacement project at 1.2 percent interest.[18] On December 10, Council approved two additional 20-year SRF loans at 1.2 percent interest, including $1.1 million for the West Point Treatment Plant Grit Classifier Replacement project and $8.1 million for the Sammamish Plateau Diversion project.[19] The $43.7 million in SRF funding will provide an estimated $22.6 million in total savings over the life of the loans.

Water Infrastructure Finance and Innovation Act Loans

Joint Ship Canal Water Quality Project. In January 2021, WTD was awarded a $96.8 million WIFIA loan at 1.69 percent interest, which will provide an estimated $32.5 million in total savings over a 35-year period due to a low interest rate. In April 2024, WTD made its first $9.6 million draw, with the final draw to occur by March 2028. WTD plans on drawing from this loan as construction progresses over the course of 2025 and 2026.

WIFIA Master Agreement. In January 2024, the County was awarded its first WIFIA Master Agreement for the King County Wastewater 2024 Improvement Projects in the amount of $498.3 million. At the time of signing, the agreement was estimated to generate $73.9 million in total savings. The Master Agreement will finance 11 water quality projects across four separate loan tranches over the eight years of construction. The first loan tranche was signed in conjunction with the Master Agreement in the amount of $194.1 million at 4.4 percent interest for the group of West Point Treatment Plant projects. In December 2024, WTD signed its second loan tranche in the amount of $89.9 million at 4.44 percent interest for two projects at South Plant. WTD plans to fund the projects with low-cost interim commercial paper and draw upon the loans at a later date.[20] Although the interest rate is higher than prior WIFIA loan agreements, WTD can apply for an interest rate reduction over the next several years, which would reduce WTD's expected debt service. The subsequent two loan tranches (totaling $214.3 million) are slated to be signed in 2025 and 2026.

Proposed Legislation to Restore Tax-Exempt Advanced Refunding

Tax-exempt bonds are issued by state and local governments for public infrastructure projects. WTD uses tax-exempt bond financing as its primary source of long-term financing for the capital program. Investors who purchase these bonds are exempt from paying federal income tax on interest earnings, so they are willing to buy the bonds at a lower interest rate than those of conventional bonds, which translates as lower-cost debt to the borrower. Prior to the 2017 federal

[16] Ordinance 19575 can be found here.
[17] Ordinance 19739 can be found here.
[18] Ordinance 19821 can be found here and Ordinance 19822 here.
[19] Ordinance 19876 can be found here and Ordinance 19874 here.

[20] Commercial paper is a commonly used type of unsecured, short-term debt typically used for interim financing purposes with maturities ranging between one and 270 days. WTD can issue up to $175 million in commercial paper for new money interim financing and $250 million in aggregate for both new money interim financing and refunding purposes per Ordinance 19114.

Tax Cuts and Jobs Act (TCJA), tax-exempt advance refunding bonds could be issued to refund outstanding tax-exempt debt with higher-than-current-market interest rates.[21] The TCJA eliminated tax-exempt advance refunding bonds.

In May 2024, proposed federal legislation, H.R. 8396–LIFT ACT, the Local Infrastructure Financing Tools Act, was introduced in the U.S. House of Representatives. This is the most recent piece of legislation that would restore the tax-exempt status of advance refunding bonds.[22] WTD is closely monitoring the viability of this effort as it moves through the legislative process and has prepared a list of potential refunding opportunities should the legislation be enacted.

The current restriction resulting from the TCJA on issuing tax-exempt advance refunding bonds does not limit the use of cash for advance refunding. In comparison with issuing tax-exempt advance refunding bonds, the ability to take high-interest-rate debt off the books through defeasance is limited by the utility's ability to generate cash from ongoing revenue sources.[23]

The Financial Data Transparency Act of 2022

President Biden signed the Financial Data Transparency Act of 2022 (FDTA) into law in December 2022.[24] The FDTA sets forth a sequence of regulatory steps to implement structured data requirements for the securities markets, including the municipal bond market, with the goal of providing machine-readable, searchable, comparable (e.g., standardized), structured financial data to investors and others. Along with other federal financial regulatory agencies, the federal Securities and Exchange Commission (SEC) is required to adopt data standards, including municipal market data standards for information submitted to the Municipal Securities Rulemaking Board (MSRB). In developing these standards, the SEC is required to consult with municipal market participants and may consider the burden on smaller issuers.

The sequence of regulatory steps is expected to take place over the next year, with municipal market data standards adopted by December 2026. As the proposed scope and content of these standards becomes clearer, including rulemaking through SEC and MSRB, state and municipal issuers will have an opportunity to comment directly and through industry groups, and to take steps to be ready to comply with the final standards. WTD is following this development closely with bond counsel and the County's financial advisor.

Tender Offer

In 2024, WTD conducted its first tender offer transaction to produce cost savings. In a traditional current refunding, the County issues new bonds to repay existing bonds as soon as they become callable, typically 10 years after issuance.[25] This allows the County to replace high-interest debt with low-interest debt, reducing overall borrowing costs. A tender offer, on the other hand, allows the County to buy back outstanding bonds from investors before they become callable, but participation by the investor is voluntary. This strategy leverages the interest-rate environment to produce cost savings that would not otherwise exist through a defeasance or current refunding, particularly for low-coupon, tax-exempt, and taxable bonds. The County works with its underwriters in a negotiated deal to determine the purchase price of the bonds that encourages investors to sell their bonds while generating cost savings for the County. In 2024, WTD generated $28.7 million in total savings and $20.6 million in present-value savings (6.4 percent), surpassing the County's minimum present value savings threshold of 5 percent.

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[21] The Tax Cuts and Jobs Act can be found here.

[22] The LIFT - Local Infrastructure Financing Tools Act - can be found here.

[23] Defeasance is the process of setting aside funds or assets to repay a debt or obligation, thereby releasing the debtor from further liability.

[24] The Financial Data Transparency Act can be found here.

[25] The terms "callable" or "call date" refers to the point in time when the bonds can be prepaid or refinanced.

Defeasance

Cash generated from the funding policy can be used to directly fund capital spending or to pay down higher-interest outstanding debt. This accomplishes the same debt-balance outcome as directly cash-funding the CIP, while replacing high-interest-rate debt with lower-interest-rate new debt in the current market. A defeasance transaction usually occurs when interest rates are favorable enough to achieve maximum savings and meet the County's minimum savings threshold of 5 percent of the par amount of the refunded bond.[26] In February 2025, WTD generated $8.6 million in total savings and $7.2 million in present-value savings through this mechanism.[27]

Figure 15 demonstrates how the use of the cash collected from sewer rate revenue for CIP funding can be used for defeasance and accomplish the same debt-balance management goal.

In the no-defeasance scenario, new bonds are issued and added to the debt balance at 60 percent of the annual CIP, while the remaining 40 percent is cash-funded. The sample ending debt balance in this scenario is $800.

In the defeasance scenario, additional debt is issued to cover the full CIP (rather than 60 percent), which frees the cash from rates to pay down outstanding higher-interest-rate debt. There is an effective exchange of higher-interest-rate debt on the books for lower-interest-rate debt available at current market conditions. The sample ending debt balance in this scenario is also $800.

Figure 15 Sample Defeasance

Capital Funding No Defeasance					
CIP	100	100	100	100	100
Cash from Sewer Rate Revenue	40	40	40	40	40
New Debt Proceeds	60	60	60	60	60
Total Funding	100	100	100	100	100
Beginning Debt Balance	500	560	620	680	740
Plus New Issuance	60	60	60	60	60
less: Defeasance	-	-	-	-	-
Outstanding Debt Balance Y-E	560	620	680	740	800
Capital Funding 100% Use of Cash for Defeasance					
CIP	100	100	100	100	100
Cash from Sewer Rate Revenue	40	40	40	40	40
New Debt Proceeds	100	100	100	100	100
Total Funding	140	140	140	140	140
Beginning Debt Balance	500	560	620	680	740
Plus New Issuance	100	100	100	100	100
less: Defeasance	(40)	(40)	(40)	(40)	(40)
Outstanding Debt Balance Y-E	560	620	680	740	800

[26] Par value is the amount that the issuer agrees to pay the bondholder upon maturity of the bond. It is also used to calculate the interest payments on the bond.

[27] "Present-value savings" assists in analyzing the current worth of future savings by taking the time value of money and interest rates into account. This can change based on interest rates and the year savings are realized.

Reserves Management

WTD maintains financial reserves that address minimums required by debt covenants (contracts), working capital targets, management of loan proceeds, and other capital resources, rate increase smoothing, and mitigation of revenue risk. This section describes those reserves and the reserve levels targeted in the financial forecast.

Figure 16 Summary of WTD Reserves[28]

Reserve Name	Policy Goal or Purpose	Establishment	American Water Works Assoc. Description
Liquidity Reserve	10% of operating expenses (equivalent to 36 "days" of cash) plus $5 million of ending cash balance in the capital fund	In 2012 by Motion 13798	Maintaining adequate operating reserves enhance a system's ability to manage potential risks, provides the ability to manage fluctuations in revenue, and the ability to meet working capital needs
Capital Emergency Reserve	$15 million for "unanticipated system repairs or equipment replacement in the event of a natural disaster or some unforeseen system failure"	In 2012 by Motion 13798	Even with the most diligent capital planning efforts, utilities must be prepared for unplanned or accelerated capital projects
Rate Stabilization Reserve	Allow WTD to "adopt a multiyear sewer rate to provide stable costs to sewer customers" and "ensure that adequate funds are available to sustain the rate through completion of the rate cycle"	In 1999 by the RWSP adopted by Ordinance 13680	When specifically included in a utility's bond indenture, rate stabilization reserves can be used to help meet debt service coverage requirements during times of revenue shortfalls
Parity Bonds Debt Service Reserve*	Amount equivalent to the maximum annual debt service on outstanding senior lien debt (revenue bonds and WIFIA loans)	Bond covenants adopted by Bond Ordinances (most recent 19785)	Most often, a debt service reserve fund (DSRF) is established as a legal covenant of a debt issuance and is used in whole or in part to pay debt service in the event of a revenue shortfall
SRF Loans Debt Service Reserve**	Amount equivalent to the average annual debt service of each loan	Loan agreements adopted by individual ordinances	

*Springing amendment from Ordinance 18588 (2017) established that when bonds issued post amendment represent 51% of the total the reserve can be reduced or eliminated

**Ecology eliminated this provision for loans awarded after 2018

Water Quality Operating Fund 4611

Liquidity Reserve

The Liquidity Reserve is targeted to provide sufficient cash balances for variance of revenue and expenditures cycles throughout the year. The working capital target is established as 10 percent of operating expenditures in any given year. As a result, a reserve increase must be funded each year as operating expenditures increase. The proposed 2026-2045

[28] The following legislation is available on the King County Council website: Motion 13798, Ordinance 13680, and Ordinance 19785

financial forecast includes $24.9 million in Operating Liquidity Reserve and $40 million in Capital Liquidity Reserve for 2026.

Rate Stabilization Reserve

A Rate Stabilization Reserve (RSR) is unique in that bond covenants are written to allow that, in any given year, use of this reserve can be recognized as revenue eligible for inclusion in the bond coverage calculation. In years that WTD contributes to this reserve from Water Quality Fund revenues, that portion of revenue is deducted from the revenue basis for calculating bond coverage. This allows WTD to use reserves to manage rate levels without compromising the ability to meet annual bond coverage targets. Funds in the RSR also enhance the liquidity metrics used by the rating agencies when they evaluate WTD's credit quality.[29]

WTD considers the use of reserve balances in the context of Ordinance 19782, which states that the RSR is for the purpose of smoothing rates between years.[30] Use of reserves represents a one-time resource, and excess reserves should be applied to one-time expenditures. There is no planned use of the RSR ($46.25 million) in the proposed 2026-2035 sewer rate forecast.

Unrestricted Operating Balances

Funds exceeding minimum reserve levels in the Operating Fund at year-end are unrestricted and evaluated for optimal use. Some uses for unrestricted funds include potential transfer to the Construction Fund or contribution to defeasance transactions.

Water Quality Construction Fund 3611

Unrestricted Construction Fund Balances

WTD's Water Quality Construction Fund is where capital project costs are charged, loan proceeds are reserved and spent, transfers are received for cash-funded capital from the Operating Fund, and capital reserves, such as the Asset Management Reserve, are maintained. Accumulated reserves above the policy minimum are used to fund projects.

In 2024, WTD established a minimum $35 million ending balance in the capital fund to complement its $5 million capital liquidity reserve. This change reflects the increase in monthly capital spending since the inception of the policy. The Construction Fund balance is projected to end at the $40 million liquidity reserve target in each year of the financial forecast.

Asset Management Reserve

The Asset Management Reserve is maintained as an emergency reserve and, as such, is not forecast to deviate from the $15 million balance. This reserve could be an important resource if an asset failure should occur during a period of significant revenue constraint.

Debt Reserves 8921 and 8922

WTD's debt reserve minimums were originally established as a requirement in bond covenants or by the loan-granting agency. However, with 51 percent of bondholders consenting to the "Springing Amendment" through their purchase of parity bonds, WTD is no longer required to maintain an amount equal to the maximum annual debt service on

[29] Liquidity metrics refer to quantitative measures that evaluate an agency's ability to meet its financial obligations by assessing the availability of liquid assets (cash).

[30] Ordinance 19782 is available on the King County website.

outstanding parity bonds in the Debt Service Reserve Fund (DSRF).[31, 32, 33] In June 2024, Council approved Ordinance 19785, which not only authorizes the issuance of $1.2 billion in senior lien debt, but it also provides the framework for the finance director to change the definition of reserve requirement. This means the County can create different reserve requirements for different sets of parity bonds, including the bonds themselves. The County could also lower any reserve requirement, even down to zero, in any calendar year, as long as it is less than the maximum annual parity debt service. WTD will receive recommendations on how to best utilize the $145.3 million in the DSRF from the County's financial advisor, along with input from credit rating agencies. Currently, the DSRF meets this minimum requirement by maintaining a balance of $174.9 million in the reserve fund. The balance consists of $145.3 million in cash and investments and $29.6 million in surety bonds.

Ecology had a reserve requirement but eliminated this provision for loans awarded after 2018. Reserves for pre-2018 Ecology loans decreased from $13.5 million to just $219,400 after the refunding of a group of loans in 2021 and the repayment of the Denny Way Elliott West Pipeline SRF loan.

Figure 17 Surety Bond Summary

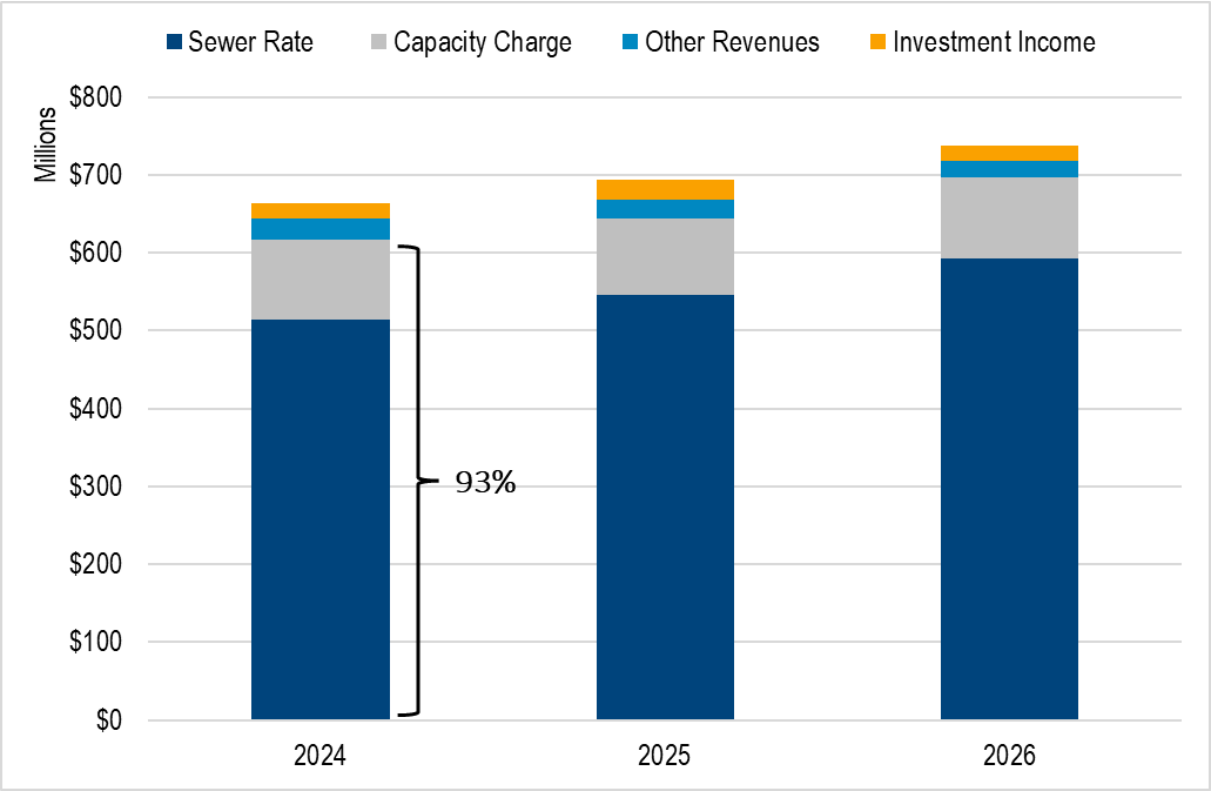
Source	Provider	Amount	Moody's/S&P Rating	Expiration
Surety Bonds	National Public Finance Guaranty Corp.	$ 5,010,273	A3/A	2035
	Assured Guaranty Municipal Corp.	$ 4,880,916	A3/AA	2036
	Assured Guaranty Municipal Corp.	$ 7,189,850	A3/AA	2036
	Assured Guaranty Municipal Corp.	$ 12,500,001	A3/AA	2047
	Subtotal	**$ 29,581,040**		
Cash and Investments		**$ 145,339,942**		
Total		**$ 174,920,982**		

Revenue

The sewer rate and capacity charge, together, made up 93 percent of total operating revenues for 2024. **Figure 18** shows WTD's 2024 revenue and projected 2025 and 2026 revenue by source.

[31] Ordinance 19785 is available on the King County website.
[32] Parity Bonds are secured by a lien on sewer revenue and hold a priority in payment second only to operating and maintenance expenses.
[33] "Springing" refers to a provision within an Ordinance that activates certain conditions or changes to the current terms or requirements.

Figure 18 Operating Revenue Components Sorted by Size



Revenue Requirement

Two tests guide rate setting and determine a utility's annual revenue requirement: the cash test and the debt service coverage test.

Cash Test

The utility must first ensure that it can support its cash obligations, including operating expenditures, debt service repayment, and any financial policy targets, such as cash to fund the capital program.

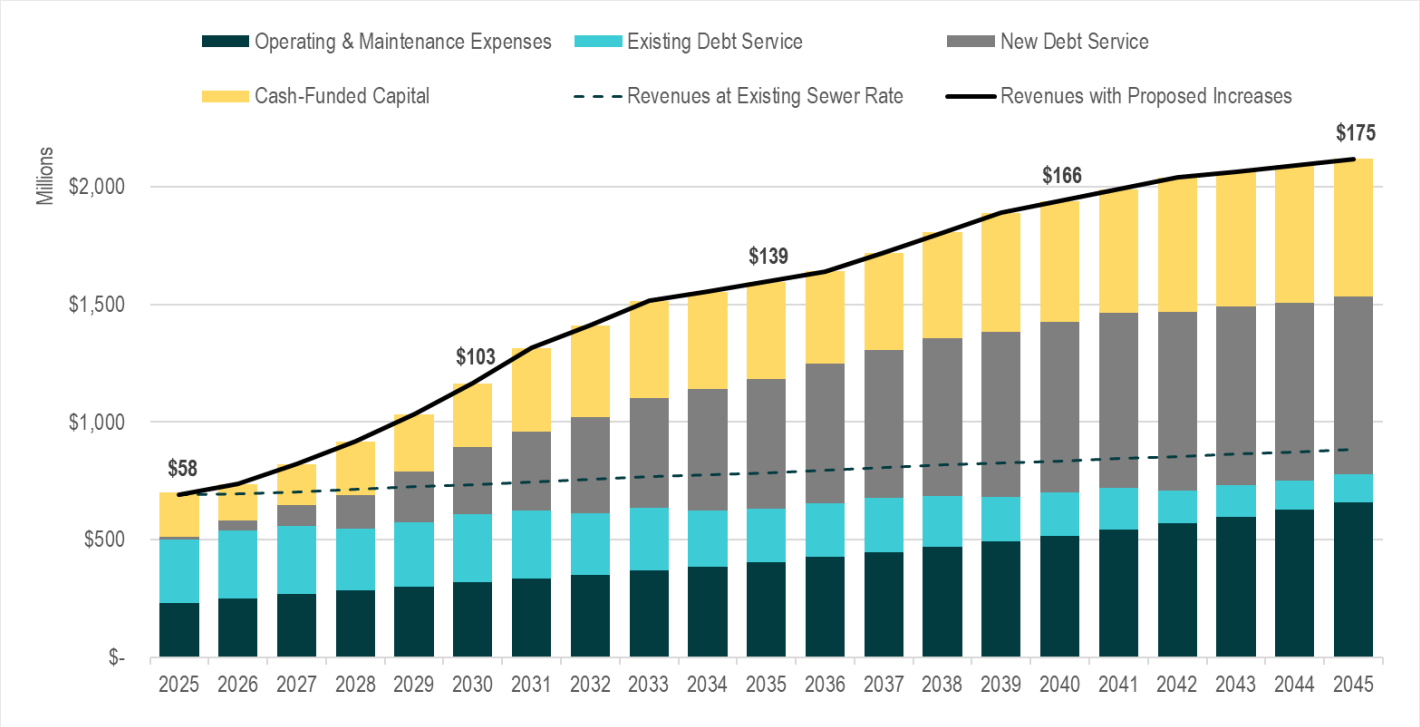
King County Code 28.86.160 Financial Policies state:

> King County shall charge its customers sewer rates and capacity charges sufficient to cover the costs of constructing and operating its wastewater system. Revenues shall be sufficient to maintain capital assets in sound working condition, providing for maintenance and rehabilitation of facilities so that total system costs are minimized while continuing to provide reliable, high-quality service and maintaining high water quality standards.[34]

Figure 19 shows the components that build to the total annual revenue requirement, compared with revenue under the existing sewer rate.

[34] The King County Code Title 28 can be found here.

Figure 19 2025 - 2045 Sewer Rate Forecast Revenue Requirement



Beginning from the bottom of **Figure 19**, the first stack (dark blue) in the bar represents the annual operating and maintenance (O&M) expenses with projected inflation and growth. The second stack (teal) shows the debt service obligations for existing outstanding WTD debt. The third stack (gray) represents new debt service repayments generated by funding the capital program in this forecast. The top stack (yellow) represents the policy to cash-fund the capital program from revenue, at an amount based on annual depreciation.

The dashed line shows the forecasted level of revenue generated if the sewer rate were to remain at the current 2025 rate of $58.28 for all years of the forecast, to demonstrate the utility's funding gap at the current rate. The solid line at the top of the bars shows the revenue meeting the annual requirement in each year based on the proposed rate forecast.

Figure 20 Proposed 2026 Sewer Rate and 2027-2045 Forecast [also available on page 4]

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Rate Increase %	5.75%	**7.50%**	12.75%	12.75%	13.50%	13.50%	13.50%	7.25%	7.25%	2.00%	2.00%
Monthly Sewer Rate	$58.28	**$62.66**	$70.65	$79.66	$90.42	$102.63	$116.49	$124.94	$134.00	$136.68	$139.42
Rate Increase $	$3.17	**$4.38**	$7.99	$9.01	$10.76	$12.21	$13.86	$8.45	$9.06	$2.68	$2.74

	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
Rate Increase %		2.00%	4.50%	4.50%	4.50%	1.75%	1.75%	1.75%	0.50%	0.50%	0.50%
Monthly Sewer Rate		$142.21	$148.61	$155.30	$162.29	$165.14	$168.03	$170.98	$171.84	$172.70	$173.57
Rate Increase $		$2.79	$6.40	$6.69	$6.99	$2.85	$2.89	$2.95	$0.86	$0.86	$0.87

Debt Service Coverage Ratio Test

The second revenue requirement test is the debt service coverage ratio (DSC) test. DSC is a financial metric used to assess an entity's ability to generate enough cash to cover its debt service obligations. DSC is calculated by taking free cash flow, cash available after paying for operation and maintenance, and dividing it by current debt obligations. DSC is broadly used in the industry and is of particular interest to rating agencies. MWPAAC recommended WTD maintain a DSC ratio above 1.40 in 2017 and WTD must maintain a DSC above 1.15 per bond Ordinance. The sewer rate proposal and financial forecast produce a DSC ratio of free cash flow to current debt obligations ranging from 1.47 to 1.77. As shown in **Figure 21**, WTD's historical coverage performance has increased steadily since 2016 and achieved a record-high DSC in 2024.

Figure 21 History of WTD DSC and Ratings

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
WTD All-in DSC Ratio	1.24x	1.33x	1.30x	1.32x	1.28x	1.33x	1.33x	1.36x	1.41x	1.51x	1.49x	1.58x	1.56x	1.57x	1.72x	1.77x	1.91x
S&P Rating	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+	AA+
Moody's Rating	Aa3	Aa3	Aa2	Aa2	Aa2	Aa2	Aa2	Aa2	Aa2	Aa1	Aa1	Aa1	Aa1	Aa1	Aa1	Aa1	Aa1

Sewer Rate

Sewer rate revenue is the largest component of WTD operating revenues at 79 percent. SFR customers make up 56 percent of the sewer rate customer base and are billed at one unit per household, regardless of water use. The remaining 44 percent of residential customer equivalents (RCEs) are comprised of commercial and multifamily customers in a combined rate class. An RCE is a unit used for billing purposes that converts reported water use (as a proxy for sewage flows) to the approximate equivalent of one SFR. As defined in the LSA contracts and King County Code 28.86.160, Financial Policy 15, one RCE is equal to 750 cubic feet of water usage per month.

Billing Structure

In contrast to the retail agencies that read meters and bill customers, either monthly or bimonthly, RCE reporting and billing are performed on a quarterly cycle. As shown in **Figure 22**, billings for the SFR class in a given quarter are based on RCEs reported in the quarter before the previous one (e.g., Q2 billing is based on Q4 reported).

The commercial and multifamily billing structure includes additional delays because these billings are based on a quarterly rolling average of RCEs, with the intent to minimize variability of billings to the agencies.

Figure 22 RCE Reporting to Sewer Rate Billing Lag

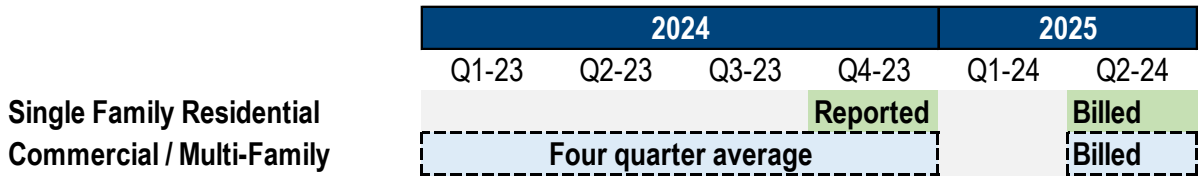
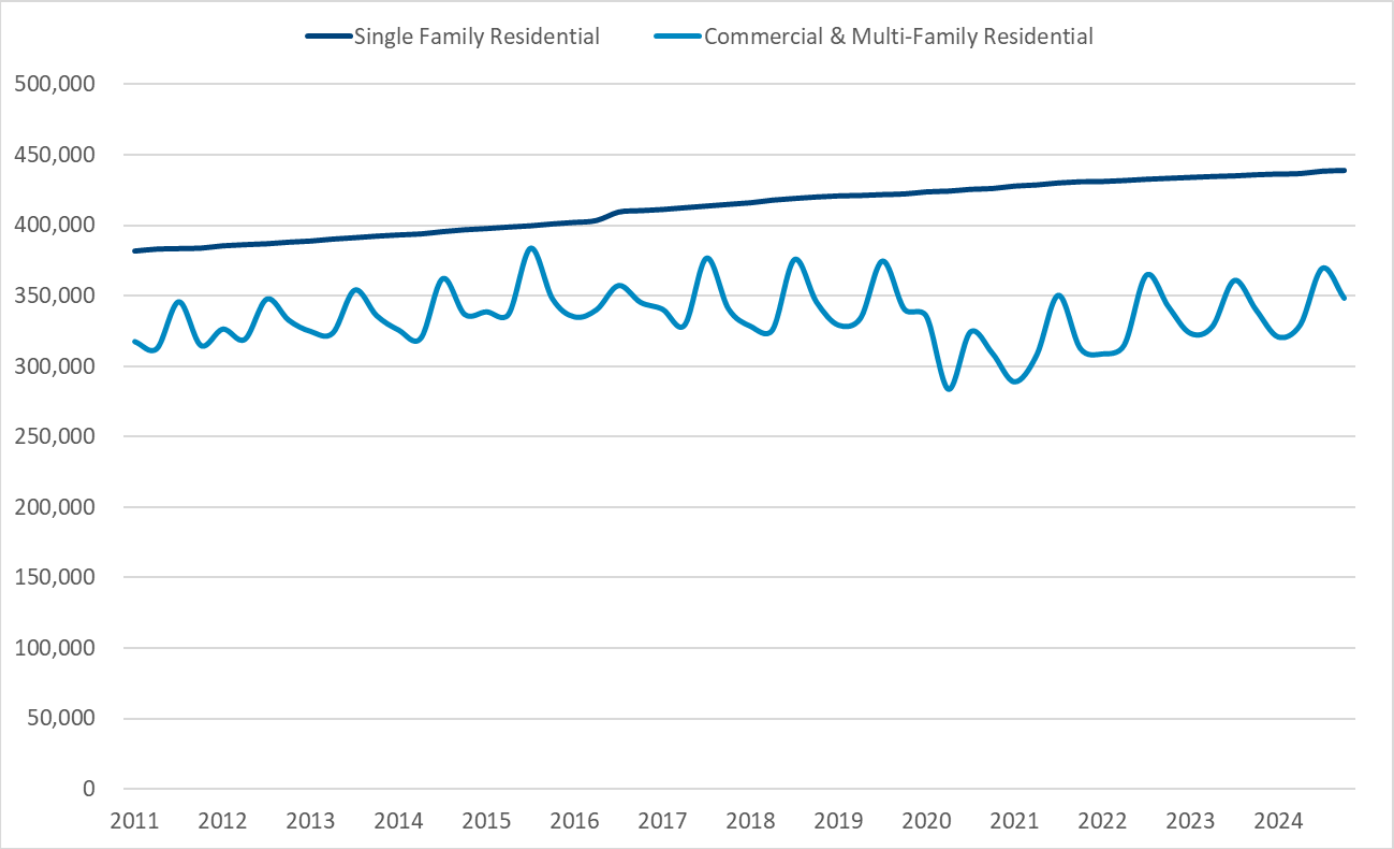


Figure 22 shows the historical trend in total customers billed since 2011.

Figure 23 Reported SFRs and Flow-Based RCEs by Quarter (2011-2024)



Historical Sewer Rate Increases

To provide context for the historical rate of growth to the revenue needs of the utility, rate increases since 1990 are provided in **Figure 24**. Since 1990, the average annual rate increase is 4.6 percent.

Figure 24 Historical Sewer Rate Increases (1990-2024)

Year	Sewer Rate	Percent Increase	Year	Sewer Rate	Percent Increase
1990	$11.90	-	2008	$27.95	0.0%
1991	$13.20	10.9%	2009	$31.90	14.1%
1992	$13.80	4.5%	2010	$31.90	0.0%
1993	$13.62	-1.3%	2011	$36.10	13.2%
1994	$15.90	16.7%	2012	$36.10	0.0%
1995	$17.95	12.9%	2013	$39.79	10.2%
1996	$19.10	6.4%	2014	$39.79	0.0%
1997	$19.10	0.0%	2015	$42.03	5.6%
1998	$19.10	0.0%	2016	$42.03	0.0%
1999	$19.10	0.0%	2017	$44.22	5.2%
2000	$19.50	2.1%	2018	$44.22	0.0%
2001	$19.75	1.3%	2019	$45.33	2.5%
2002	$23.40	18.5%	2020	$45.33	0.0%
2003	$23.40	0.0%	2021	$47.37	4.5%
2004	$23.40	0.0%	2022	$49.27	4.0%
2005	$25.60	9.4%	2023	$52.11	5.8%
2006	$25.60	0.0%	2024	$55.11	5.8%
2007	$27.95	9.2%	2025	$58.28	5.8%
				Annual Average Change:	**4.6%**
				Biennial Average Change:	**9.5%**

2026 Sewer Rate Proposal and 2026-2045 Forecast

After determining revenue requirements and revenue generated from other sources, the sewer rate proposal is developed to meet both the cash test and the DSC test. A monthly sewer rate of $62.66 in 2026, which is a 7.5 percent increase, is proposed in the Ordinance.

While an increase in the rate forecast is proposed, the 2026 proposed rate is only slightly higher than the 7 percent forecast in the 2025 rate process. The 2026 updated rate forecast beyond the 2026 proposed rate include higher rate increases as shown in **Figure 25** and **Figure 26** below. Highlighted changes between rate forecasts include:

1. **Extending forecast from 10 to 20 years**—Initiated in response to Council Motion 16449, the rate forecast now extends to 20 years, instead of the previous 10. The extended forecast involves *significant uncertainty* in later years. Per the consultant report developed by Raftelis in response to Motion 16410, "rates are typically only forecasted for five years due to the uncertainties associated with long-term capital forecasting and future costs." The report also found that peers develop greater certainty for projects' scopes and costs across the project categories for the five- to 10-year projected capital budgets. Other than asset renewal/replacement, capital cost estimates beyond 10 years "were noted to be order of magnitude and subject to large changes."
2. **CSO Consent Decree cost estimates and schedule**—WTD received updated cost estimates on the Mouth of the Duwamish Combined Sewer Overflow project mandated by the federal CSO consent decree. This estimated cost increased from $1.98 billion to $3.37 billion, as well as moving projected costs earlier in the project schedule. This resulted in steeper forecast rate increases than in the 2025 sewer rate process. Additionally, in 2024 WTD negotiated a modification to its CSO consent decree to a new completion date of 2037, three years sooner than it was assumed in previous rate forecasts.
3. **Revised approach to forecasting delivery constraints**—Formerly, WTD used an "Accomplishment Rate" that effectively deferred costs outside of forecast period. Beginning in 2026, project costs are now individually

sequenced within expected delivery capacity constraints, and early years in the forecast are adjusted for schedule risk, deferring a portion of the costs to later years. This means that $2.3 billion of project costs previously deferred outside the 10-year forecast period are fully represented in the 20-year forecast period.

4. **O&M increases to meaningfully address operational needs over the next five years—**WTD is prioritizing necessary investments to operate and maintain both the growing system and increasing regulatory requirements on the system.

Figure 25 Adopted 2025 Sewer Rate and 2026-2034 Forecast

2025-2034 Rate Forecast	Adopted										
2025 Adopted Sewer Rate	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**
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	
Rate Increase $	**$3.17**	$4.08	$4.37	$4.68	$5.90	$6.38	$6.91	$8.39	$9.16	$10.01	

Figure 26 Proposed 2026 Sewer Rate and 2027-2045 Forecast [also available on page 4]

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Rate Increase %	5.75%	**7.50%**	12.75%	12.75%	13.50%	13.50%	13.50%	7.25%	7.25%	2.00%	2.00%
Monthly Sewer Rate	$58.28	**$62.66**	$70.65	$79.66	$90.42	$102.63	$116.49	$124.94	$134.00	$136.68	$139.42
Rate Increase $	$3.17	**$4.38**	$7.99	$9.01	$10.76	$12.21	$13.86	$8.45	$9.06	$2.68	$2.74

	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
Rate Increase %		2.00%	4.50%	4.50%	4.50%	1.75%	1.75%	1.75%	0.50%	0.50%	0.50%
Monthly Sewer Rate		$142.21	$148.61	$155.30	$162.29	$165.14	$168.03	$170.98	$171.84	$172.70	$173.57
Rate Increase $		$2.79	$6.40	$6.69	$6.99	$2.85	$2.89	$2.95	$0.86	$0.86	$0.87

Capacity Charge

Since 1990, King County has levied a capacity charge on structures with new connections to the sanitary sewer system.[35, 36, 37] This charge is paid over 15 years and is in addition to the monthly sewer bill assessed by the LSA. Newly connecting customers are directly billed by King County for the capacity charge. The capacity charge rate is set annually by the County Council and is $76.09 per month over the 15-year payment period for properties connecting in 2025.

The Revised Code of Washington (RCW) 35.58.570 authorizing the capacity charge states:

> (1) A metropolitan municipal corporation that is engaged in the transmission, treatment, and disposal of sewage may impose a capacity charge on users of the metropolitan municipal corporation's sewage facilities when the user connects, reconnects, or establishes a new service to sewer facilities of a city, county, or special district that discharges into the metropolitan facilities. The capacity charge shall be based upon the

[35] More information on the King County Capacity Charge can be found here.
[36] In 1992, voters approved an amendment to the County's charter that authorized the merger of King County with the Municipality of Metropolitan Seattle (Metro), with the phased merger effective in 1994. More information on the merger is available here. As successor to Metro, the County assumed Metro's rights and obligations, including authority to impose the capacity charge.
[37] Revised Code of Washington 35.58.350

> cost of the sewage facilities' excess capacity that is necessary to provide sewerage treatment for new users to the system.
>
> (2) The capacity charge is a *monthly charge* reviewed and approved annually by the metropolitan council.[38]

Currently, state statute does not allow the County to require up-front payment of the capacity charge, which is the most common industry approach to new development charges, such as impact fees and utility connection charges.[39] The monthly charge reference is unique to the authorizing language for metropolitan municipal corporations and is not included in RCW authority for city and special-purpose district connection charges that share much of the same language.[40]

King County Code 28.86.160 Financial Policies state: "The capacity charge may be paid by new customers in a single payment or as a monthly charge at the rate established by the council…"

Customers may elect to pay the capacity charge in one lump sum or be billed quarterly based on the monthly rate for 15 years. The charge is linked to the property, meaning that the charge transfers between owners of the property until the capacity charge is paid off.

Capacity Charge Rate Structure

In 2020, the County approved updates to the rate structure of the capacity charge.[41] As of January 1, 2021, the County began using small, medium, and large classes for newly connecting single-family residential properties. The classification differential is based on data that links the home size to average persons per household, and average persons per household to capacity demands from the connecting property.

The RCEs assigned to single-family homes is based on size: small (<1,500 sq. ft. = 0.81 RCE), medium (1,500–2,999 sq. ft. = 1 RCE), and large (>3,000 sq. ft. = 1.16 RCE).

Using persons-per-household data also resulted in an update to RCEs assigned to multifamily units. King County Code provides a permanent classification for accessory dwelling units, such as backyard cottages and basement apartments, set at 0.59 RCE per unit.[42]

Multifamily structures are billed by unit at 0.81 RCEs for two to four units and 0.64 RCEs for five or more units.

Commercial structures are billed based on fixture counts and/or flows.

A list of historical capacity charge rates from 2003 is provided in **Figure 27** below**.**

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[38] Revised Code of Washington 35.58.570

[39] A 2015 internal WTD survey of utility connection charges for 18 comparable agencies nationwide included data on when the charge is assessed to new connections for 13 of the 18 agencies. Of the 13, 100 percent required payment at the time of permitting or service application. Only WTD did not require payment as a condition of development through the permitting/service application process.

[40] RCW 35.92.025 for Cities and Towns, and RCW 57.08.005 for Districts.

[41] More information on the capacity charge review study can be found here.

[42] King County Code 28.84.050 O.3.

Figure 27 Historical Capacity Charge Increases (2003-2025)

Year	Capacity Charge (Monthly)	Percent Increase
2003	$17.60	
2004	$18.00	2.3%
2005	$34.05	89.2%
2006	$34.05	0.0%
2007	$42.00	23.3%
2008	$46.25	10.1%
2009	$47.64	3.0%
2010	$49.07	3.0%
2011	$50.45	2.8%
2012	$51.95	3.0%
2013	$53.50	3.0%
2014	$55.35	3.5%
2015	$57.00	3.0%
2016	$58.70	3.0%
2017	$60.80	3.6%
2018	$62.60	3.0%
2019	$64.50	3.0%
2020	$66.35	2.9%
2021	$68.34	3.0%
2022	$70.39	3.0%
2023	$72.50	3.0%
2024	$74.23	2.4%
2025	$76.09	2.5%

Capacity Charge Updates

WTD's regular updates to the underlying assumptions are guided by the King County Code 28.86.160, Financial Policy 15, which states: "Customer growth and projected costs, including inflation, shall be updated every three years beginning in 2003. The county should periodically review the capacity charge to ensure that the actual costs of system expansion to serve new customers are reflected in the charge."[43]

The 2023 capacity charge update was planned to be a transition from the County's Regional Wastewater Service Plan (RWSP) to an updated comprehensive plan for the WTD system. The comprehensive plan for the utility serves as the basis for projecting the number of customers, capital projects needed for capacity, and financial assumptions.[44] The timing of this transition depended on progress of the regional plan update. The plan update was paused in 2021 to consider feedback and due to regulatory uncertainty for the Nutrients and Combined Sewer Overflow Consent Decree; the update resumed in 2024.

Ordinance 19403 passed on March 8, 2022, and provided time to incorporate the updated regional planning inputs and develop the policy updates for the capacity charge methodology work that is in progress.[45] It deferred the update of customer growth and projected costs scheduled for transmittal to the Council with the proposed 2023 sewer rate in 2022. The update was deferred until the next annual sewer and capacity charge rate proposal following the Council's approval of an update to the RWSP or until 2024, whichever came first, and 2024 came first.

[43] The King County Code Title 28 can be found here.
[44] Information on the RWSP is available here.
[45] King County Ordinance 19403 can be found here.

The 2024 capacity charge update utilized the existing capacity charge methodology established in 2003 and calculated the proposed capacity charge rates for 2025 and 2026. This methodology work is resuming, and an updated methodology is anticipated to be in place ahead of the next three-year update cycle.

Figure 28 shows the 2026 proposed capacity charge of $77.99 and projects the charge and related lump-sum elective payment option for the forecast period.

Figure 28 Proposed 2026 Capacity Charge and 2027-2030 Forecast [also available on page 5]

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

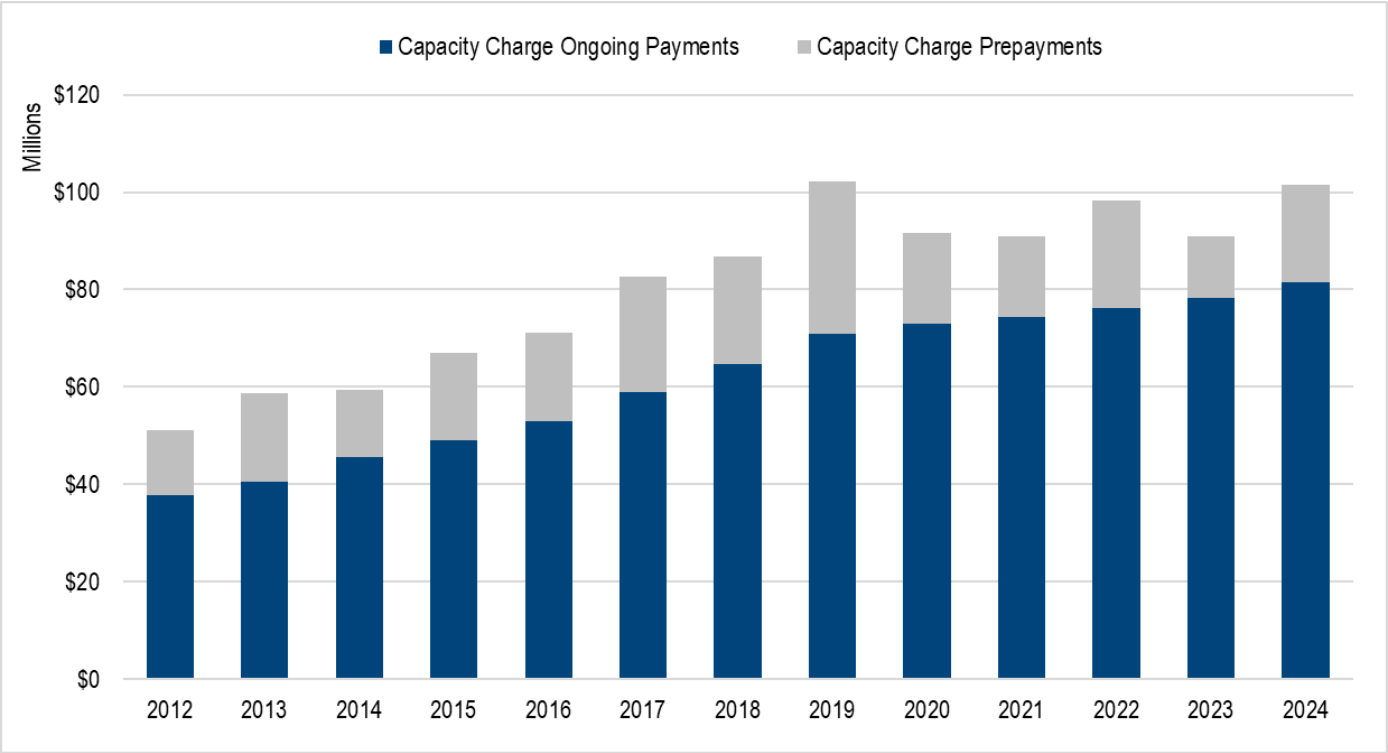
*Discount rate of 5.05%

Capacity Charge Revenue Forecast

The majority of capacity charge revenue comes from regular capacity charge customer billings, with the rest coming from elective pre-payments. Ongoing payments are stable, while pre-payments vary significantly from year to year and are difficult to forecast.

Figure 29 shows the historical split between ongoing payments and elective pre-payments for the last 13 years (2012-2024). Until 2019, ongoing capacity charge pre-payment revenues grew at an average annual rate of more than 9 percent, driven by a regional construction boom that added large numbers of new connections every year. The growth rate slowed significantly during 2020-23, before increasing again in 2024. Capacity charge pre-payments have ranged between 14 to 31 percent of total capacity charge revenues, without a clear, discernible pattern from one year to the next. Pre-payments in the global COVID-19 pandemic-impacted years of 2020 and 2021 decreased to levels close to the averages seen before the record-high years of 2017, 2018, and 2019. The full capacity charge revenue forecast can be found in the Appendix.

Figure 29 Historical Capacity Charge Ongoing Payments and Prepayments (2012-2024)[46]



Capacity charge revenues are forecasted based on an analysis of connection growth and the percentage of pre-payments in any given year. This results in an overall capacity charge revenue increase of 3 to 7 percent per year throughout the forecast period, as shown in **Figure 32**.

Other Revenues

Interest earnings

Interest earnings, also known as investment income, is revenue obtained by the County's Water Quality Fund through investments of its cash balances in the King County Investment Pool (Pool). The Pool pursues a low-risk investment strategy that prioritizes the availability of funds for its participating agencies to meet daily cash-flow requirements. In 2024, WTD cash balances averaged approximately $630 million throughout the year, which included cash balances for all WTD reserve accounts.

Interest-rate forecasts for the Pool come from King County's Office of Economic and Financial Analysis. The 2025 interest rate is estimated to be 3.9 percent.[47] Changes to interest rates have a limited impact on WTD revenues, representing less than 1 percent of total revenue. Any reduction of interest earnings is significantly offset by savings from a lower cost of debt.

High-Strength Surcharge, Septage, Resource Recovery

Other WTD income is generated from more than 25 separate revenue sources. The largest of these sources come from the high-strength surcharge, resource recovery activities (methane sales with renewable identification numbers, or

[46] Ongoing payments include penalty fees that have ranged between $0.4 million and $1.3 million a year.
[47] The August 2024 forecast is available here.

RINs), and septic hauler fees.[48] The high-strength surcharge recovers the additional operating costs imposed by treating high-strength wastewater and is defined by King County Code (KCC 28.84.060 (M) (3)). In 2025, the rate was $0.4419 per pound of biological oxygen demand, and $0.4715 per pound of total suspended solids. WTD conservatively assumes that RINs revenue will decrease from over $7 million in the last few years to $4 million after 2025, due to the risk of changes to existing regulatory framework under a new federal administration. Septic hauler fees have declined by about 25 percent since 2022, from $4 million to $3 million. Per conversations with septic haulers, this is related to the opening of a private facility in Sumner that opened at that time and diverted some of septage treated. Due to this, septage revenues are not forecast to increase. Most of the other revenue components are forecast at 3 percent annual growth.

Reference

Supplemental WTD Debt Information

Figure 30 2024 Year-End Outstanding Debt Balances[49]

Sewer System Obligations	Amount Outstanding	Final Maturity	Ratings
Parity Bonds (Senior Lien)	2,047,647,400	2055	Aa1/AA+
Parity Lien Obligations (LTGO)	697,935,000	2045	Aaa/AAA
Junior Lien Obligations	355,875,000	2042	Aa2/AA
Multi-Modal LTGO/Sewer Revenue Bonds	100,200,000	2050	Aaa/AAA
State SRF and PWB Loans	297,377,846	2056	
Total Sewer Obligations	3,499,035,246		

Types of WTD Financing

Bonds

Sewer revenue bonds are secured by a pledge of revenue of the sewer system, subject to payment of all operating and maintenance expenses of the sewer system. When revenue bonds are additionally backed by a pledge of the full faith and credit of the issuer (meaning the County's General Fund revenue and taxing power), the bonds are referred to as limited tax general obligation (LTGO) bonds. Sewer revenue bonds can also be issued at the junior lien, which is subordinate to both senior lien sewer revenue bonds and LTGO bonds.

State Loans

WTD receives loans from Ecology under the SRF Loan Program and from the Washington State Department of Commerce's Public Works Board.[50] The loans require either semi-annual or annual payments of principal and interest from 2025 through 2056, and bear interest at stated rates from 0.5 percent to 2.7 percent. As of December 31, 2024, the balance due on all state loans is $297.4 million. State loans are secured by a subordinate lien on the net revenues of the system.[51]

[48] A RIN is a is a serial number assigned to a batch of biofuel for the purpose of tracking its production, use, and trading.
[49] Excludes principal payments from January 1, 2025, that had already been transferred to the debt service fund in December 2024.
[50] More information on the Public Works Board can be found here.
[51] "Subordinate" liens are those that can only be paid after more senior liens are released.

WIFIA Loans

WIFIA is an established federal loan program administered by the EPA for eligible water and wastewater infrastructure projects. The WIFIA program accelerates investment in the nation's water infrastructure by providing long-term, low-cost supplemental loans for regionally and nationally significant projects at a maturity similar to the U.S. Treasury rates. The WIFIA loans, after draws are made, are secured by a pledge of revenue from the sewer system, subject to payment of all operating and maintenance expenses of the sewer system. As of December 31, 2024, WTD has successfully secured and received four federal WIFIA loan agreements, totaling $398.5 million.[52]

Commercial Paper

The Commercial Paper (CP) program provides low-cost, flexible, interim financing for WTD capital projects. Its main purpose is to provide interim financing to pay for WTD's capital projects pending permanent financing from state and federal loans. CP has also been utilized to refund high-interest outstanding debt and serve as a permanent element of WTD's variable-rate debt portfolio. As of December 31, 2024, WTD has $100.2 million in outstanding commercial paper debt.

Variable-Rate Debt

King County Code 28.86.160, Financial Policy 14, limits the utility's variable-rate debt exposure to a maximum amount equal to 20 percent of all outstanding debt and, currently, WTD uses a target of 15 percent in the financial forecast. WTD's initial variable-rate issuance was its $100 million CP program in 1996. As of December 31, 2024, WTD has expanded its variable-rate portfolio to $355.9 million.[53] Variable-rate debt allows WTD to achieve a borrowing cost that historically has been much lower than traditional fixed-rate debt. Typically, an investor can sell variable-rate bonds back with just a week's notice. This type of investment warrants the lowest borrowing cost in any given interest rate environment. Variable-rate debt is issued on the junior lien level, which is subordinate to parity bonds (senior lien sewer revenue bonds) and parity bond lien obligations (LTGO).

Forecast Assumptions

Figure 31 summarizes the assumptions used to forecast revenues and expenditures in the 20-year financial forecast (2026-2045).

[52] Includes the following loan agreements: $17.7 million for Georgetown Wet Weather Treatment Station, $96.8 million for Joint Ship Canal, $194.1 million for Tranche 1 Projects, and $89.9 million for Tranche 2 Projects.
[53] Excludes commercial paper used for interim financing and the refunding of the 2013B Sewer Revenue Bonds.

Figure 31 Forecast Assumptions Used in Financial Forecast[54]

Forecast Assumptions:	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Single-Family Residences RCE Growth	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
Multi-Family & Commercial RCE Growth	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Capacity Charge Ongoing Payments	7.3%	6.8%	5.2%	4.3%	4.1%	4.1%	3.2%	2.3%	1.9%	3.0%
Capacity Charge Prepayments	4.8%	3.8%	3.0%	2.4%	2.0%	1.5%	1.2%	0.9%	0.8%	0.7%
General Cost Inflation		4.0%	4.0%	4.0%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Labor Cost Inflation		4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Expenditure Growth*		2.0%	2.0%	2.0%	2.0%	1.5%	1.5%	1.5%	1.5%	1.5%
Capital Cost Escalation	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Revenue Bond Rate (30 Year Term)	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Blended Variable Rate	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Investment Pool Earnings Rate	3.5%	3.1%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%	2.8%

*Excludes Joint Ship Canal Close-Out Costs in 2027

2024 Wastewater Treatment Division Financial Performance

Revenue

Figure 32 shows that total RCEs were 0.2 percent lower than projected and related sewer rate revenues were 0.3 percent higher in 2024.

Capacity charge revenues were $5.4 million higher than previously forecast, due to higher-than-expected elective early payoff activity.

Other operating revenues presented better-than-forecast results, mostly due to increased RINs revenue and methane gas sales, although high-strength surcharge revenue decreased.

Investment income exceeded the forecast, with interest rates from the King County Investment Pool averaging 4.15 percent in 2024.

Overall, revenues exceeded the 2024 forecast by 2.5 percent, 83 percent of which was driven by investment returns and early payoffs of the capacity charge.

[54] The operating costs forecast for the base year (2025) includes adjustments for significant known increases such as electricity and chemicals, in addition to re-baselining where recent inflation has exceeded previous forecast assumptions.

Figure 32 Wastewater Treatment 2024 Forecast vs. Preliminary 2024 Actuals[55]

Wastewater Treatment Division 2024 Financial Performance ('000s)	Forecast 2024	Preliminary 2024	Variance ($)	Variance (%)
Monthly Sewer Rate	$55.11	$55.11	$0.00	0.0%
Rate Increase	5.75%	5.75%	0.00%	0.0%
Residential Customer Equivalents (RCEs)	775,653	774,178	(1,475)	-0.2%
Revenue				
Sewer Rate*	$ 512,955	$ 514,634	$ 1,679	0.3%
Capacity Charge	96,060	101,469	5,408	5.6%
Industrial Waste Program	10,825	10,206	(618)	-5.7%
Resource Recovery	9,274	10,680	1,407	15.2%
Other Income	3,392	3,714	322	9.5%
Investment Income	19,041	26,990	7,949	41.7%
Use (Transfer to) Rate Stabilization Reserve	-	-	-	n.a.
Total - Revenue	**$ 651,546**	**$ 667,693**	**$ 16,147**	**2.5%**
Expenditures & Transfers				
O&M Expenses	$ (198,208)	$ (205,478)	$ (7,270)	3.7%
Debt Service on Parity Bonds	(145,514)	(143,680)	1,834	-1.3%
Debt Service on Parity Lien Obligations	(66,007)	(65,496)	512	-0.8%
Debt Service on Subordinate Lien	(33,597)	(35,080)	(1,483)	4.4%
Debt Retirement/ Defeasance Use of Cash**	(15,974)	(32,497)	(16,522)	103.4%
Minimum Operating Reserve Contribution	(2,520)	(3,247)	(727)	28.8%
Total - Expenditures & Transfers	**$ (461,821)**	**$ (485,478)**	**$ (23,657)**	**5.1%**
Net Cash Flow	**$ 189,725**	**$ 182,215**	**$ (7,510)**	**-4.0%**
Beginning Balance	$ 2,520	$ 2,520	$ -	0.0%
Net Cash Flow	189,725	182,215	(7,510)	-4.0%
Policy Cash-Funded Capital (Transfer to Capital Fund)	(192,245)	(110,000)	82,245	-42.8%
Ending Balance	**$ -**	**$ 74,735**	**$ 74,735**	**n.a.**
Ending Reserve Balances				
Water Quality Operating Liquidity Reserve	$ 19,821	$ 20,548	$ 727	3.7%
Rate Stabilization Reserve Account	$ 46,250	$ 46,250	$ -	0.0%
Debt Service Coverage on Parity Bonds	3.12x	3.22x	0.10x	3.3%
Debt Service Coverage on Parity Bonds and Parity Lien Obligations	2.14x	2.21x	0.07x	3.1%
Debt Service Coverage on Total Debt Payments	1.85x	1.89x	0.04x	2.3%

*Sewer rate revenue includes a billing adjustment of $2.6m

**Includes $15.9m used for 2025 defeasance

Expenditures

In the 2023-2024 biennium, WTD realized operating expenditure savings of $4 million below budget. As noted above, savings were realized primarily in 2023, with actuals exceeding the annualized estimate in 2024. The largest contributors

[55] Audited 2024 financial information will be available in May 2025. Preliminary (unaudited) year-end financial data is presented for comparison to the 2024 forecast from the 2025-2034 Financial Forecast.

to underspend were staffing vacancies, delays in vehicle procurements, lower use of central services, and delays in the WaterWorks Grant Program. Offsetting those savings were unexpectedly higher costs for settlements, electricity and chemical costs, and repair and maintenance needs.

Debt

On June 6, 2024, WTD issued $115 million of Junior Lien Variable Rate Demand Bonds (VRDBs), with liquidity support provided by a standby bond purchase agreement (SBPA) with Bank of America. The proceeds refunded an equivalent amount of outstanding CP in August 2024. Together with certain optional redemptions planned prior to year-end, this transaction will expand capacity within the CP program to provide interim financing for the WIFIA projects.

On July 24, 2024, WTD completed the negotiated sale of $392.6 million in 2024A Sewer Revenue and Refunding Bonds. The new money portion of the $171 million par issuance was used to fund the capital program, with net proceeds of $192.1 million deposited into the construction account on August 8, 2024. The $221.6 million par issuance for the cost-savings portion of the transaction refunded $253.1 million of Sewer Revenue and Refunding Bonds, producing $19.3 million in total savings and $16.6 million in present value savings.

On December 10, 2024, WTD completed the negotiated sale of $399.9 million in 2024A LTGO and 2024B Sewer Revenue Refunding Bonds. The cost-savings portion of the transaction refunded $319.2 million in LTGO and Sewer Revenue and Refunding Bonds, generating $25.6 million in total savings and $18.5 million in present value savings (5.8 percent). Additionally, WTD refunded $148.1 million of the multimodal 2019AB Variable Rate Demand Bonds, concluding its SBPA with TD Bank, following a reassessment of risk management considerations.

Due to the decreased levels of debt service and slightly higher net revenue, WTD projects that it will comfortably exceed each of its key coverage targets in 2024, namely 1.25 times senior lien debt service and 1.15 times total debt service.

Cash Funding and Defeasance

A new money par issuance of $85.9 million of senior lien 2024A Sewer Revenue Bonds was sold in August 2024. The net proceeds, in the amount of $98.1 million, were deposited into the capital project fund, freeing up the same amount of operating cash that was subsequently used in February 2025 to defease outstanding high-coupon bonds. This transaction produced $8.6 million in total savings and $7.2 million in present value savings.

Net Cash Flow

WTD transferred $110 million of operating revenue to the capital fund at year-end, in addition to a $16 million contribution to its debt service reserve and an ending cash balance of $76 million. Most of the cash balance was used in February 2025 to defease higher interest-rate debt, along with funds released from the debt service reserve. These total $202 million of available cash, translating into a positive variance of $10 million when compared to the $192 million in cash-funded capital (and zero ending balance) originally projected.

Contaminants of Emerging Concern (e.g., PFAS) – Cost Tracking

Per Motion 16434: “Beginning with the 2025 sewer rate forecast, the wastewater treatment division shall include in its technical memorandum submitted with the annual sewer rate Ordinance a section identifying the cost of activities it has undertaken and plans to undertake to address contaminants of emerging concern, including PFAS.”[56]

[56] Per- and Polyfluoroalkyl Substances. PFAS are a group of chemicals used to make fluoropolymer coatings and products that are widely used in consumer products. PFAS are a concern because they do not break down in the environment, are able to move through soils and water sources, and build up in fish and wildlife. More information about PFAS can be found here.

PFAS Costs to Date

Between 2019 and 2021, King County evaluated the use of reclaimed water from the Brightwater Treatment Plant and its effects on soil, groundwater, and plant tissue. Samples were analyzed for PFAS and other chemicals of emerging concern. PFAS compounds were detected in river water, reclaimed (reuse) water, soils, and in plants that were grown in this soil and irrigated with either river water or reuse water. These actions total an estimated $93,750 in costs, to date, for the PFAS-portion of this work.

Between 2021-2022, King County conducted an investigation and published a report on Toxics in King County Wastewater Effluent, Evaluating the Presence of Toxic Elements in the Effluent of Treatment Plants.[57] This investigation included the sampling of wastewater effluent for PFAS compounds at three County wastewater treatment plants. Estimated out-of-pocket costs connected to this project totaled $24,990, related specifically to PFAS.

In 2023, King County allocated approximately $421,000 for a further investigation of PFAS in King County wastewater facilities and landfill leachate, anticipated to be completed by mid-2025. In mid-2024, King County began tracking staff hours associated with PFAS on a regular basis; 2024 data estimates that 300 hours and $27,300 in costs were spent.

Costs associated with the Nutrient Reduction Evaluation (total estimate of approximately $8 million) include hiring an external consultant to conduct analyses of nitrogen removal but also with potential compounds of emerging concern and toxics removal, including PFAS chemicals. To date, an estimated $63,500 has been spent on work attributable to PFAS chemicals.

Costs also include 2,090 documented staff hours spent on PFAS through the end of 2023, in addition to the 300 estimated hours in 2024.

Future Costs

WTD will incur costs to comply with Ecology's draft NPDES permit for the West Point Treatment Plant, which requires the County to update its industrial user survey by April 30, 2025, and begin to include requirements for industries to complete PFAS pollution prevention/source reduction evaluations starting in July 2025. The draft permit also requires the County to include best management practices and pollution prevention strategies in its permits to industries beginning in July 2025. The cost estimate for this work is $1 million over five years.

Other future unknown costs include monitoring for PFAS in stormwater, wastewater treatment plant influent and effluent, biosolids, and industrial waste.

[57] Report submitted as part of Motion 16384 can be found here

Appendix. Attachment A

Wastewater Treatment Division Attachment A - Financial Forecast	Actual 2024	Budget 2025	Rate Proposal 2026	Projected 2027	Projected 2028	Projected 2029	Projected 2030	Projected 2031	Projected 2032	Projected 2033	Projected 2034	Projected 2035
Operating Financial Forecast - 4611 ($ '000)												
Monthly Sewer Rate	$55.11	$58.28	$62.66	$70.65	$79.66	$90.42	$102.63	$116.49	$124.94	$134.00	$136.68	$139.42
Rate Increase	5.75%	5.75%	7.50%	12.75%	12.75%	13.50%	13.50%	13.50%	7.25%	7.25%	2.00%	2.00%
Residential Customer Equivalents (RCEs)	774,178	780,874	787,568	792,492	797,424	802,365	807,315	812,274	817,241	822,217	827,202	832,196
Revenue												
Sewer Rate[1]	$ 514,634	$ 546,112	$ 592,188	$ 671,875	$ 762,274	$ 870,598	$ 994,257	$ 1,135,461	$ 1,225,273	$ 1,322,125	$ 1,356,744	$ 1,392,297
Capacity Charge	101,469	98,149	104,960	111,668	117,122	121,924	126,634	131,421	135,314	138,247	140,689	144,577
Industrial Waste	10,206	10,258	10,310	10,362	10,415	10,468	10,522	10,575	10,629	10,684	10,738	10,793
Resource Recovery	10,680	9,509	6,584	6,782	6,985	7,195	7,410	7,633	7,862	8,098	8,341	8,591
Other Income	3,714	3,578	3,597	3,616	3,635	3,655	3,676	3,697	3,719	3,742	3,765	3,789
Investment Income	26,990	25,484	19,639	17,335	17,421	20,476	22,891	25,369	29,178	31,989	34,120	35,384
Use (Transfer to) Rate Stabilization Reserve	-	-	-	-	-	-	-	-	-	-	-	-
Total - Revenue	**$ 667,693**	**$ 693,090**	**$ 737,277**	**$ 821,637**	**$ 917,852**	**$ 1,034,317**	**$ 1,165,390**	**$ 1,314,156**	**$ 1,411,975**	**$ 1,514,885**	**$ 1,554,398**	**$ 1,595,431**
Expenditures & Transfers												
O&M Expenses	$ (205,478)	$ (227,606)	$ (249,295)	$ (267,664)	$ (283,528)	$ (299,973)	$ (317,417)	$ (333,056)	$ (349,475)	$ (366,713)	$ (384,811)	$ (403,813)
Existing Debt Service	(260,856)	(271,001)	(287,706)	(288,253)	(260,877)	(271,362)	(290,154)	(289,525)	(260,530)	(265,544)	(235,871)	(225,992)
New Debt Service	-	(11,363)	(43,105)	(88,669)	(142,627)	(217,321)	(284,979)	(334,152)	(408,414)	(465,354)	(516,976)	(550,610)
Debt Retirement/ Defeasance Use of Cash	(15,897)	(81,174)	-	-	-	-	-	-	-	-	-	-
Minimum Operating Reserve Contribution	(3,247)	(2,940)	(2,169)	(1,837)	(1,586)	(1,644)	(1,744)	(1,564)	(1,642)	(1,724)	(1,810)	(1,900)
Total - Expenditures & Transfers	**$ (485,478)**	**$ (594,082)**	**$ (582,275)**	**$ (646,422)**	**$ (688,619)**	**$ (790,300)**	**$ (894,295)**	**$ (958,297)**	**$ (1,020,061)**	**$ (1,099,335)**	**$ (1,139,468)**	**$ (1,182,316)**
Net Cash Flow	**$ 182,215**	**$ 99,008**	**$ 155,002**	**$ 175,215**	**$ 229,233**	**$ 244,017**	**$ 271,095**	**$ 355,859**	**$ 391,914**	**$ 415,550**	**$ 414,930**	**$ 413,116**
Beginning Balance	$ 2,520	$ 90,004	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net Cash Flow	182,215	99,008	155,002	175,215	229,233	244,017	271,095	355,859	391,914	415,550	414,930	413,116
Policy Cash-Funded Capital (Transfer to Capital Fund)	(110,000)	(189,012)	(155,002)	(175,215)	(229,233)	(244,017)	(271,095)	(355,859)	(391,914)	(415,550)	(414,930)	(413,116)
Ending Balance[2]	$ 74,735	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending Reserve Balances												
Water Quality Operating Liquidity Reserve	$ 20,548	$ 22,761	$ 24,929	$ 26,766	$ 28,353	$ 29,997	$ 31,742	$ 33,306	$ 34,947	$ 36,671	$ 38,481	$ 40,381
Rate Stabilization Reserve Account	$ 46,250	$ 46,250	$ 46,250	$ 46,250	$ 46,250	$ 46,250	$ 46,250	$ 46,250	$ 46,250	$ 46,250	$ 46,250	$ 46,250
Debt Service Coverage - Parity Bonds (Senior Lien)	3.22x	3.34x	2.81x	2.43x	2.49x	2.37x	2.15x	2.18x	2.18x	2.05x	1.93x	1.95x
Debt Service Coverage - All-In Debt Service	1.77x	1.65x	1.48x	1.47x	1.57x	1.50x	1.47x	1.57x	1.59x	1.57x	1.55x	1.53x

[1]Sewer rate revenue in 2024 includes a billing adjustment of $2.6m
[2]Difference between 2024 ending balance and 2025 beginning balance driven by reconciliation of cash and accrual, timing of transfers between funds

Capital Funding Forecast - 3611 & 3612 ($ '000)												
Beginning Balance	$ 119,476	$ 182,707	$ 189,012	$ 155,002	$ 175,215	$ 229,233	$ 244,017	$ 271,095	$ 355,859	$ 391,914	$ 415,550	$ 414,930
WIFIA Proceeds	9,616	16,927	15,907	15,588	5,617	-	-	284,000	-	-	-	-
State Loan Proceeds	35,355	54,267	15,651	878	-	-	-	-	-	-	-	-
Variable Rate Debt Proceeds	-	154,157	17,445	106,670	82,713	134,317	171,043	157,514	155,110	163,190	145,345	146,539
Commercial Paper / Interim Financing	66,000	49,725	108,632	22,982	5,472	-	-	-	-	-	-	-
Retirement of Interim Financing	-	(35,620)	(18,172)	(18,548)	(5,472)	-	-	(175,000)	-	-	-	-
Net Bond Proceeds	192,081	40,085	366,884	574,698	720,610	975,346	817,037	660,849	702,699	692,807	642,895	378,788
Reserve Contribution/(Requirement)[3]	(34,239)	-	-	-	-	-	-	-	-	-	-	-
Grants, Settlements, and Other	3,665	-	-	-	-	-	-	-	-	-	-	-
Capital Expenditures	**(312,597)**	**(462,248)**	**(695,360)**	**(857,271)**	**(984,155)**	**(1,338,896)**	**(1,232,097)**	**(1,198,458)**	**(1,213,668)**	**(1,247,910)**	**(1,203,790)**	**(940,257)**
Ending Balance Before Transfers	$ 79,357	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Year-end Transfers from Operating Fund	110,000	189,012	155,002	175,215	229,233	244,017	271,095	355,859	391,914	415,550	414,930	413,116
Ending Balance	$ 189,357	$ 189,012	$ 155,002	$ 175,215	$ 229,233	$ 244,017	$ 271,095	$ 355,859	$ 391,914	$ 415,550	$ 414,930	$ 413,116
Ending Reserve Balances												
Capital Liquidity Reserve	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Emergency Capital Reserve	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Revenue Bonds Reserve Account	145,167	133,590	159,105	198,541	248,091	315,435	373,546	420,784	482,142	531,697	574,926	589,373
State Revolving Fund Reserve Account	219	219	176	133	133	133	68	-	-	-	-	-

[3]Capital Liquidity Reserve increased from $5m to $40m in 2024

King County Wastewater Treatment Division 2026 Sewer Rate Proposal

Regional Water Quality Committee (RWQC)

April 2, 2025

Agenda

- Calendar
- Substantive Changes for 2026
- Capital Forecast – Focus on Cost Changes
- Funding Plan – Cash Funding and Debt Structuring
- Operations Forecast
- Rate Impacts
- Summary and Next Steps

Calendar

MONTH	ACTIVITIES
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
	Late 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

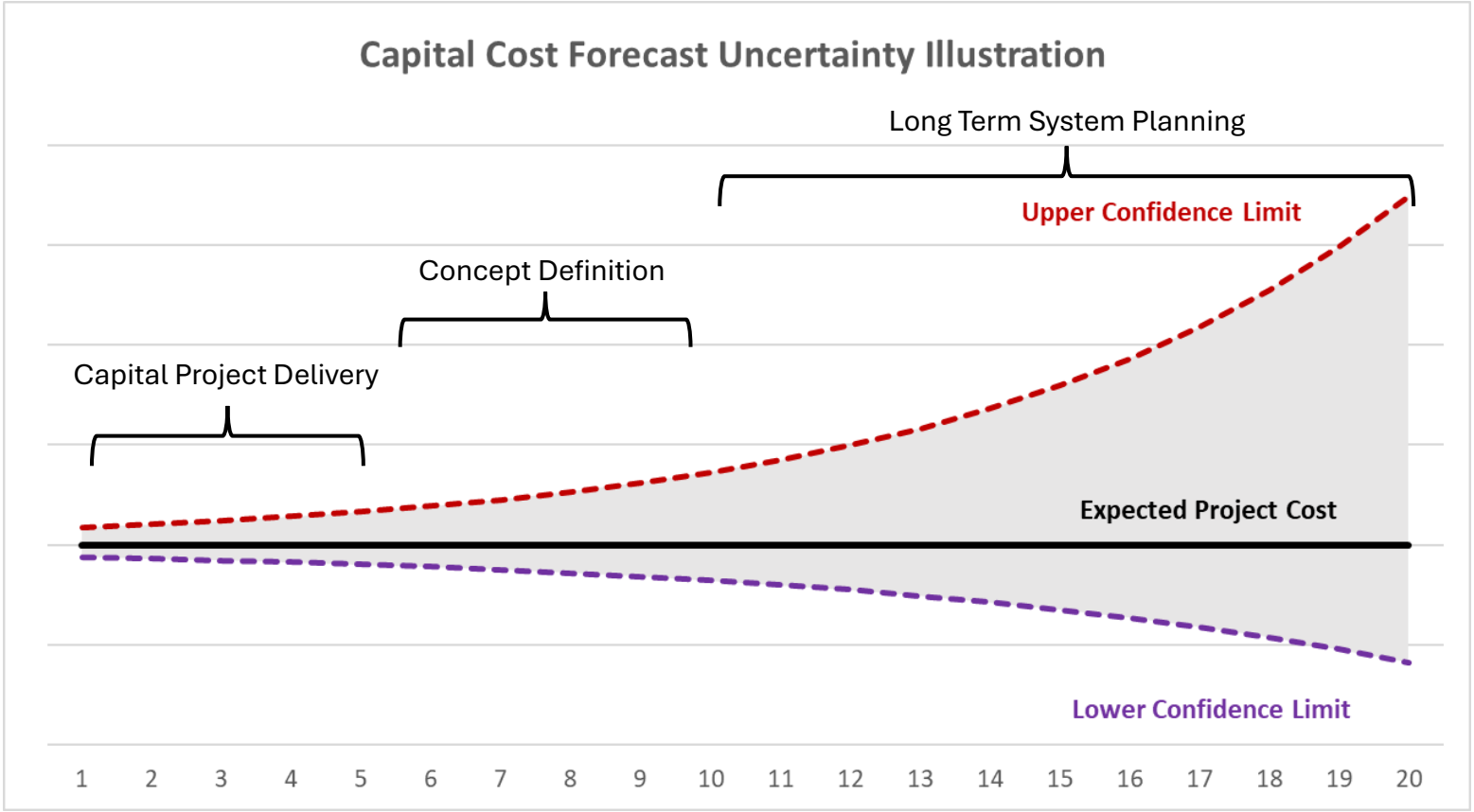
Substantive Changes for 2026

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, and early years in the forecast are adjusted for schedule risk, deferring a portion of the costs to later years
   - $2.3 billion of project costs previously deferred outside the 10-year forecast period are fully represented in the 20-year forecast period

Long-Term Capital Forecasting Uncertainties (Motion 1 Findings)

Peer review findings - Raftelis/Consor 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"**



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: Alternatives analysis and preliminary design to reduce the risk of sewer backups and protect public health in the South Park neighborhood (~$5m)

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)

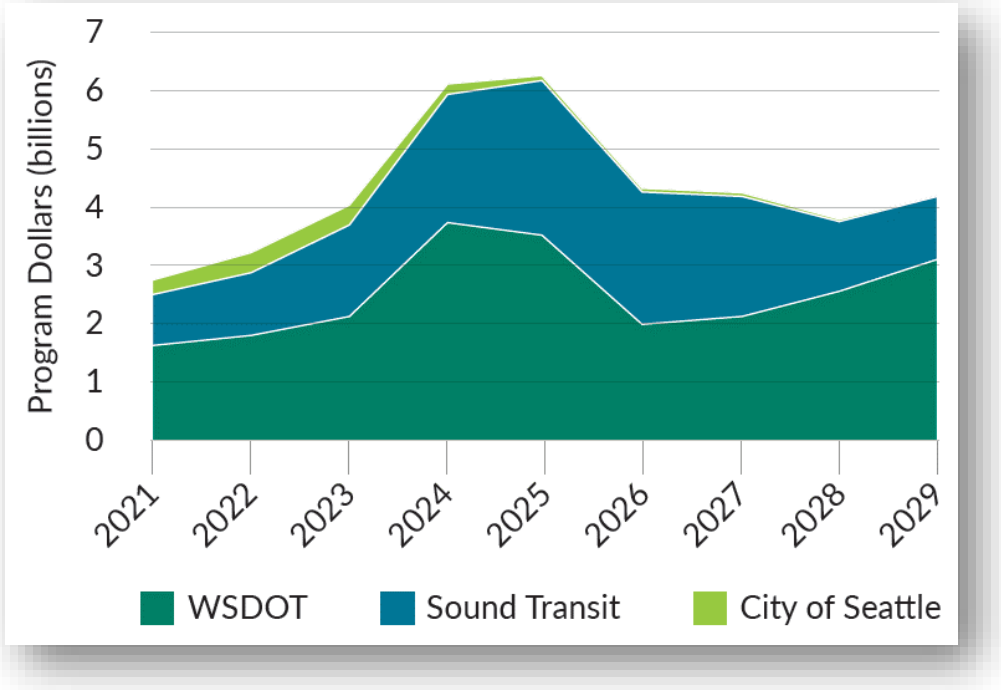
MDCSO Cost Drivers

$2B Charter Estimate (2023) → Concept Design Alternatives Analysis Estimates

- **Increased Design Flow Criteria**
  - Adjusted from **1-year to 1.5-year recurrence interval (2 in 3 years)**, requiring larger capacity infrastructure.
- **WWTS and Storage Expansion**
  - Wet Weather Treatment Station (WWTS) increased from 190 MGD to 240 MGD, increasing treatment system costs.
  - Onsite equalization storage expanded from 4 MG to 5 MG, adding construction and operational costs.
- **Additional Storage**
  - Refined Chelan Scope – now includes a dedicated storage tank, increasing excavation, structural requirements, and system integration to enhance flow management.
- **Larger Site and Complex Conditions**
  - Expanded (2x) facility footprint requiring more land and site development.
  - Available sites have challenging site conditions (contaminated soil, deep liquefiable soils) increasing mitigation, foundation, and construction costs
- Other Factors: Estimates incorporating latest market conditions information and improved understanding of risks and uncertainties.

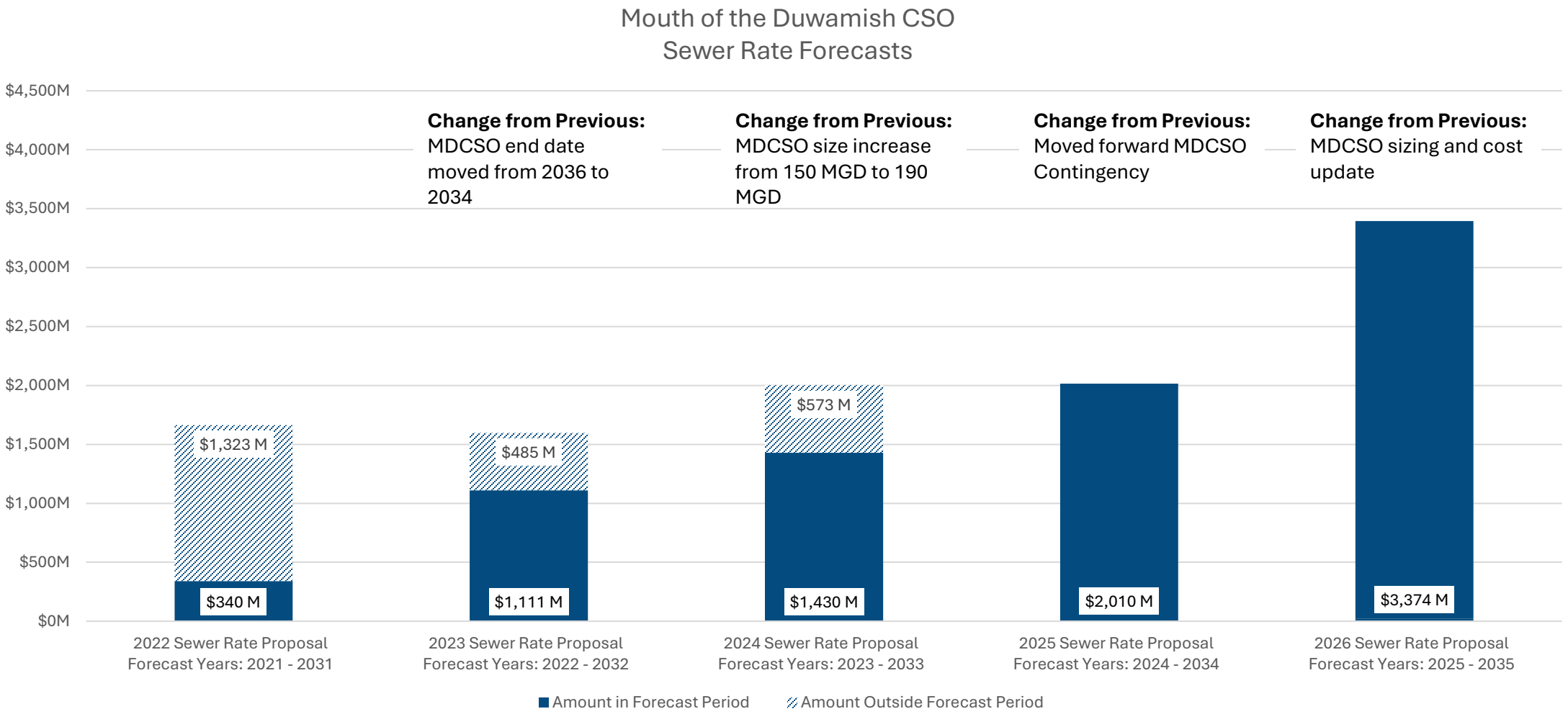
MDCSO – Escalation and Market Trends

- Construction materials typical for this type of program increased on average 30-40% from 2022-2024 (e.g., Steel, Equipment, Concrete)
- Construction Labor Escalation – Wages have increased on average 17-21% from 2022 to 2025
- Other Market Conditions
  - Concurrent Projects and Market Capacity
  - Labor Shortages for construction workers and engineering for Wastewater Projects
  - Program and project initiatives (CWAs and DBE) continue to pressure labor availability and pricing



Sources: *US Bureau of Labor Statistics – Producer Price Indices, Consumer Price Indices; Engineering News Record – Construction Cost Index; Mortensen Construction Labor Price Index; Puget Sound Regional Capital Improvement Plans – WSDOT, Sound Transit, City of Seattle*

MDCSO Capital Forecasts Since 2021

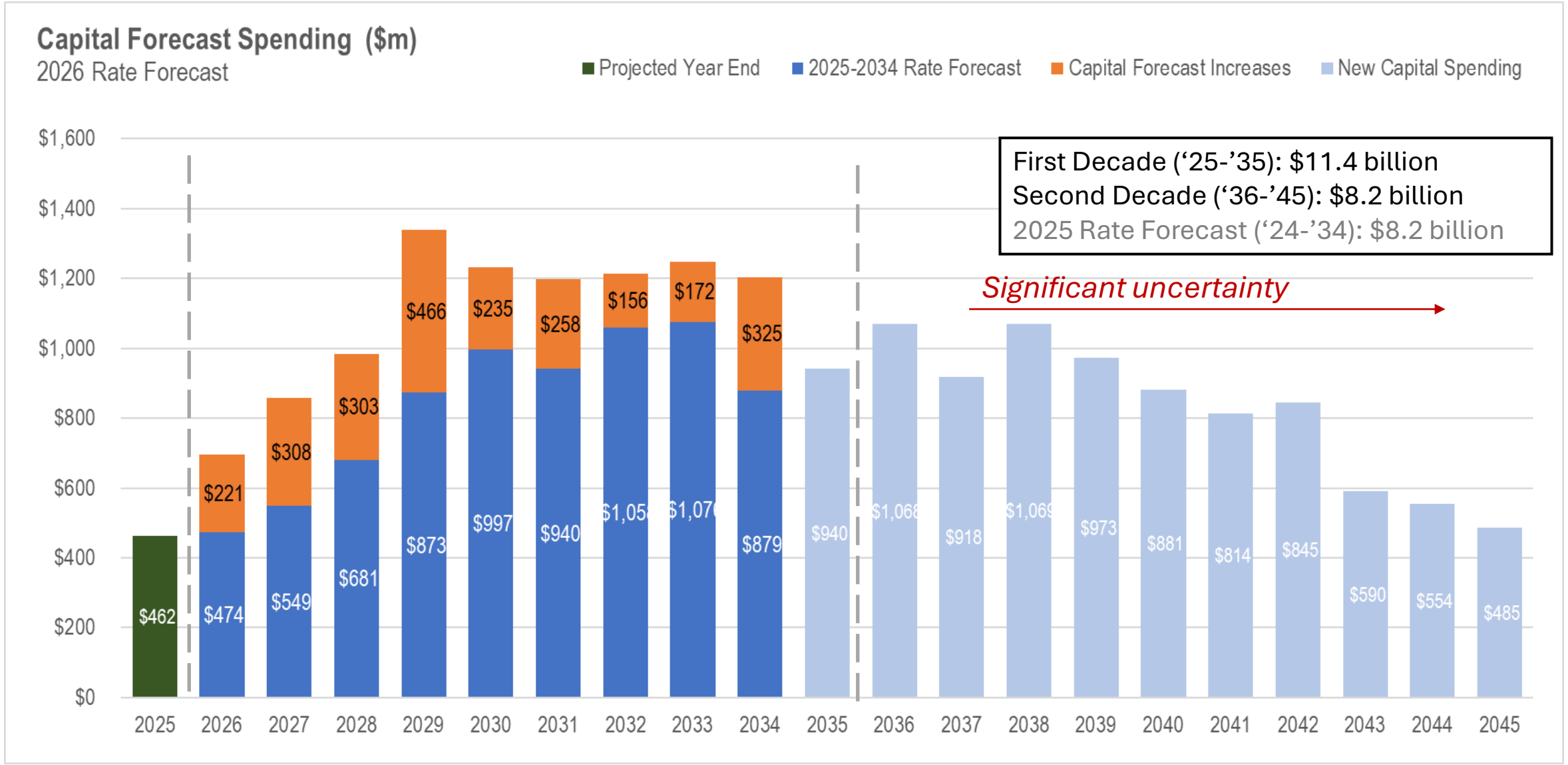


CIP Assumptions and Forecast Comparison

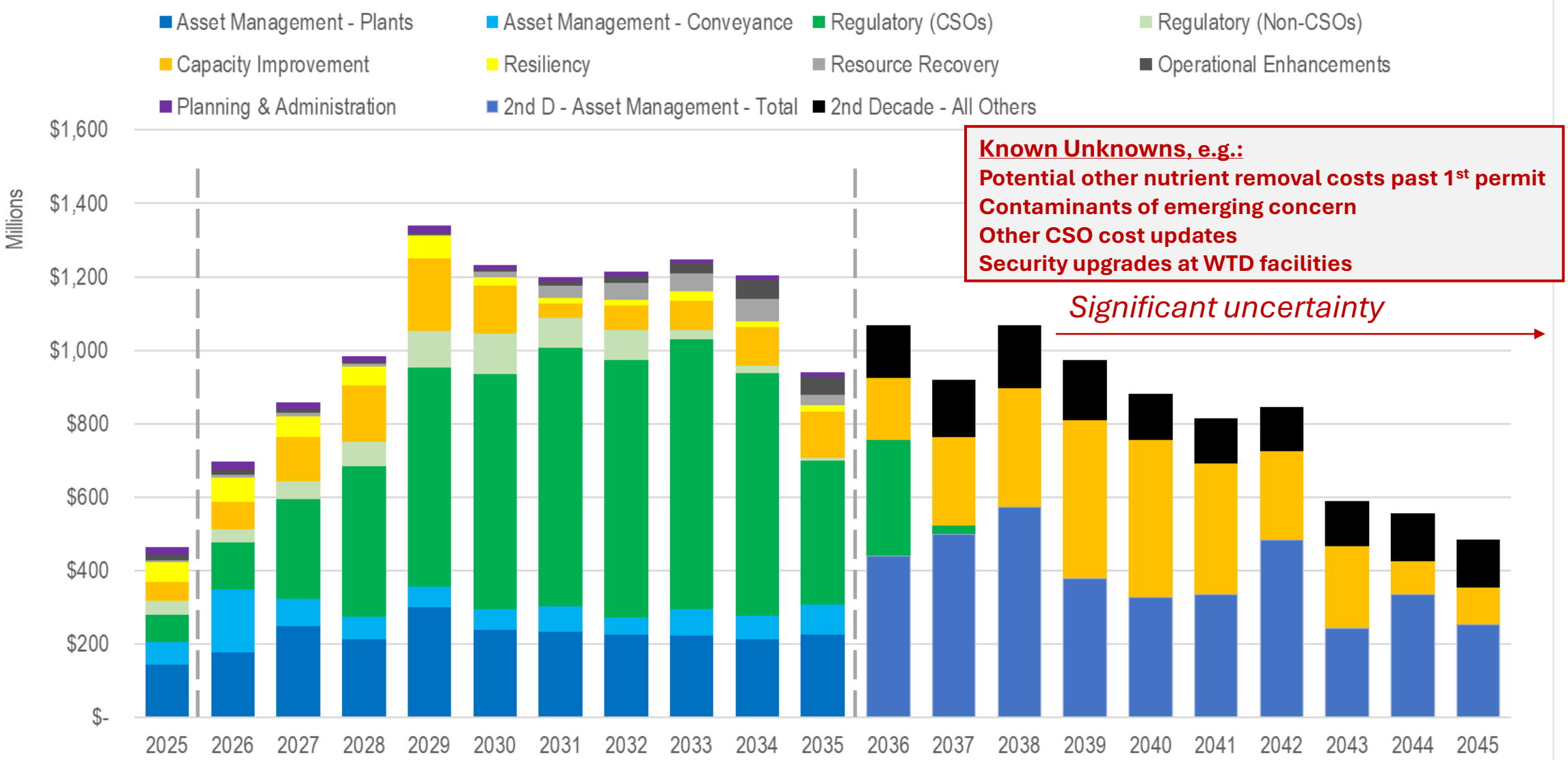
	Category	Adopted 2025 Forecast ('24-'34)	2026 Prop. First Decade ('25-'35)	2026 Prop. Second Decade ('36-'45)
Mouth of the Duwamish CSO	Regulatory	$1,980m	$3,370m	-
Additional Nitrogen Optimization Investments	Regulatory	-	350m	-
Other Newly Identified Investments	AM and other categories	-	155m	250m
Current Projects and Programs	All Categories	4,230m	4,830m	
Conceptual Projects Budgeted in 2025	All Categories	320m	370m	
Conceptual Projects	All Categories	4,000m	2,300m	4,800m
Forecast Deferred by Accomplishment Rate Approach		-2,290m		
Allowances for long-term category projections	All Categories	-	-	3,150m
Total		**$8,240m**	**$11,375m**	**$8,200m**

Note: All costs are escalated to the projected year of expenditure. The first two columns cover slightly different time periods and are not directly comparable. In the Adopted 2025 Forecast, costs deferred outside the 10-year forecast window are shown as a deduction. Increases are due to scope definition resulting in increased complexity and market factors.

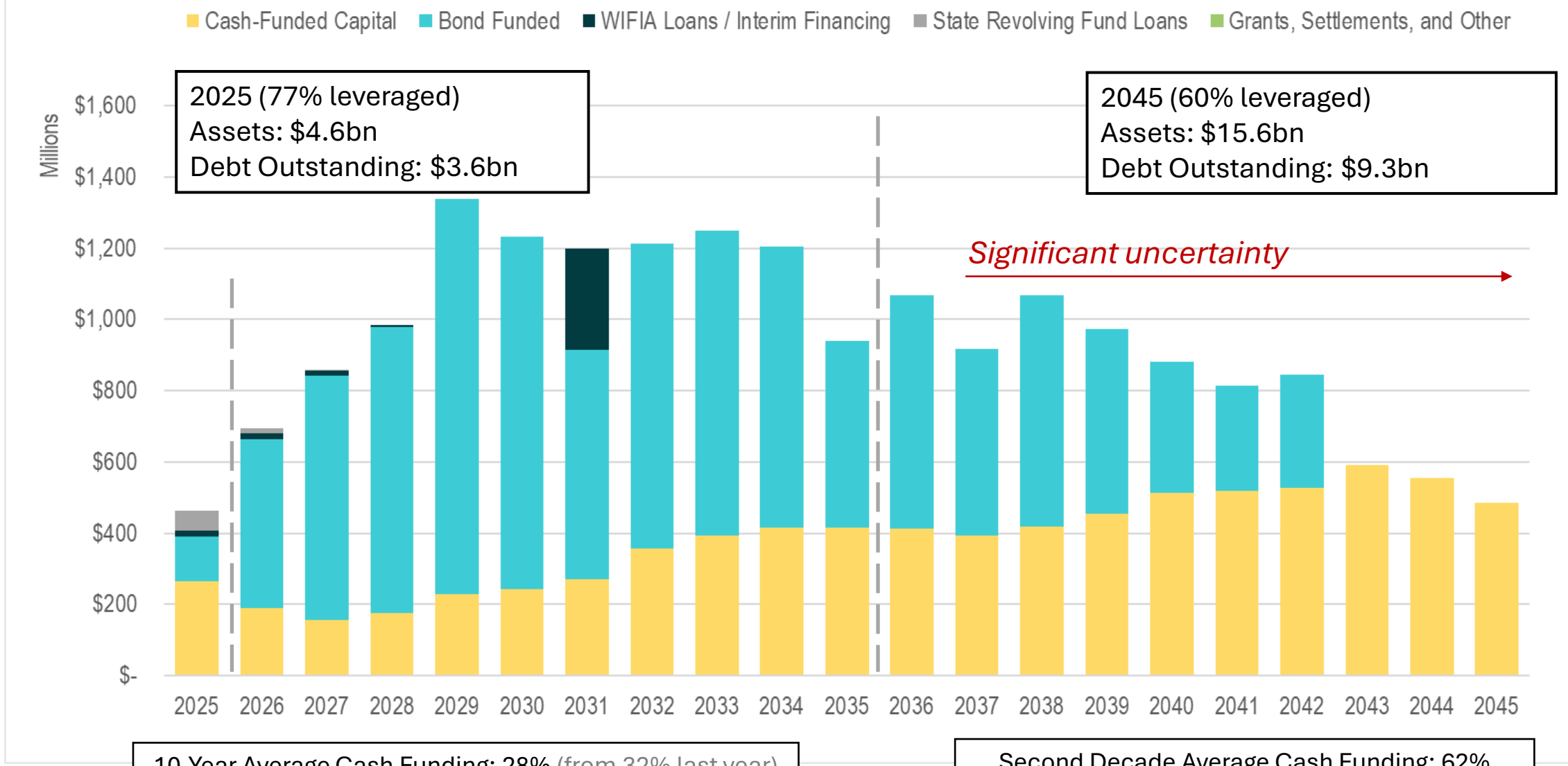
Current Capital Forecast vs. Adopted 2025 Plan



20-Year Capital Forecast by Portfolio Category

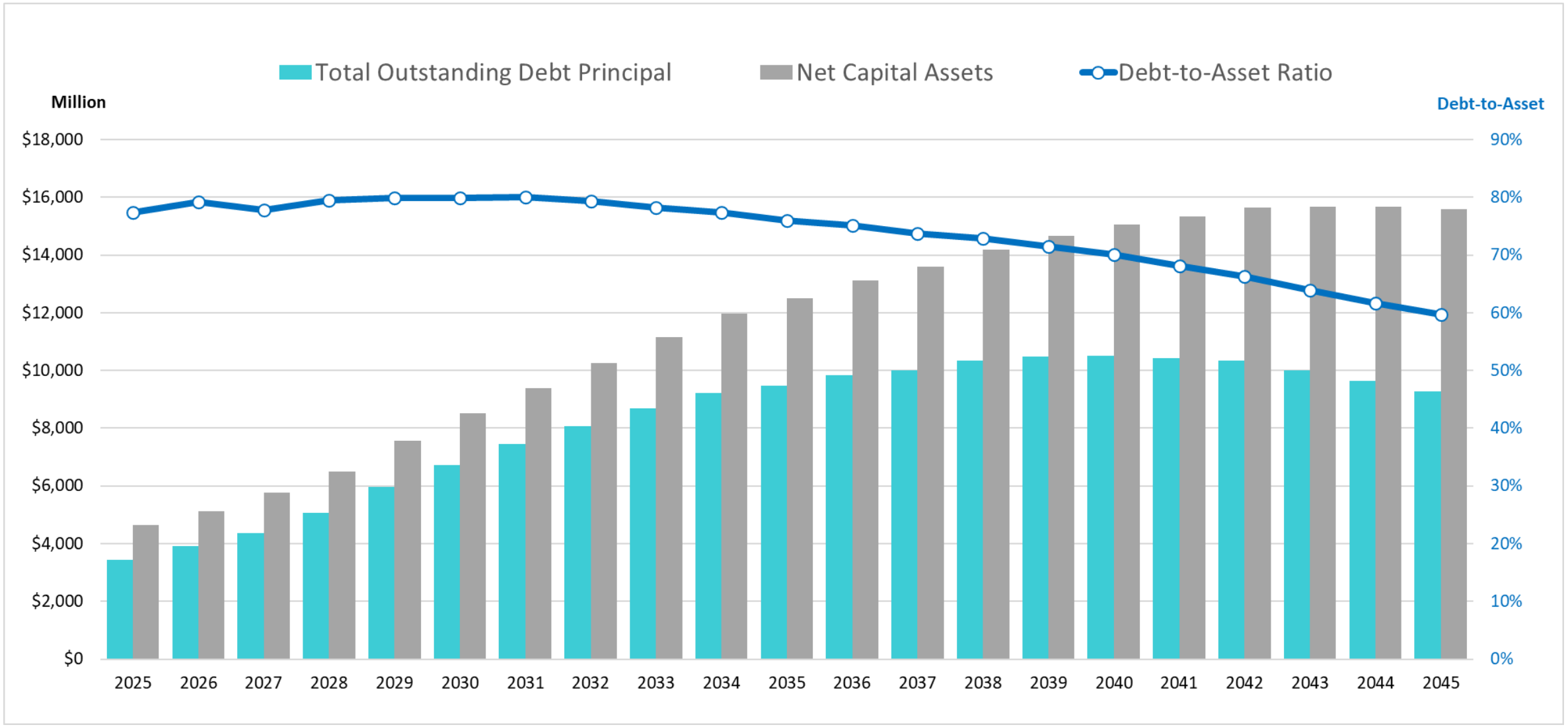


Capital Funding Forecast



*Higher cash funding in 2025 is the result of debt defeasance transaction postponed from November 2024 to February 2025

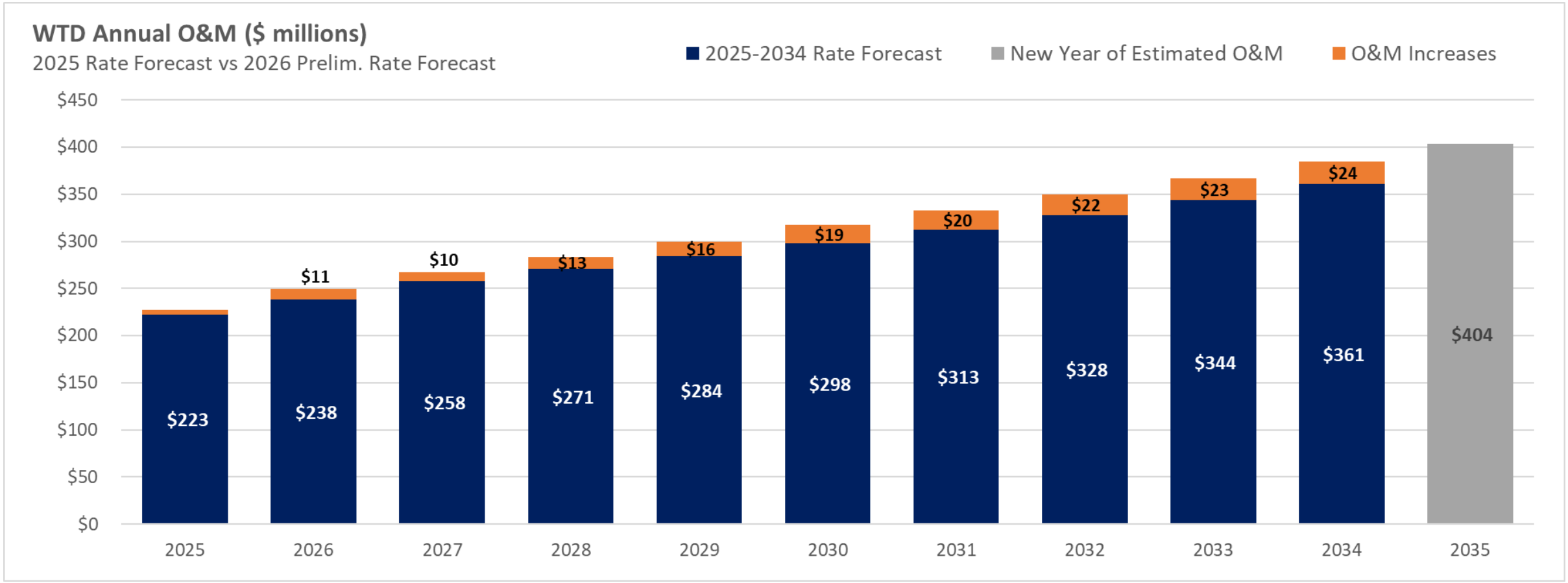
Debt and Asset Balances Forecast



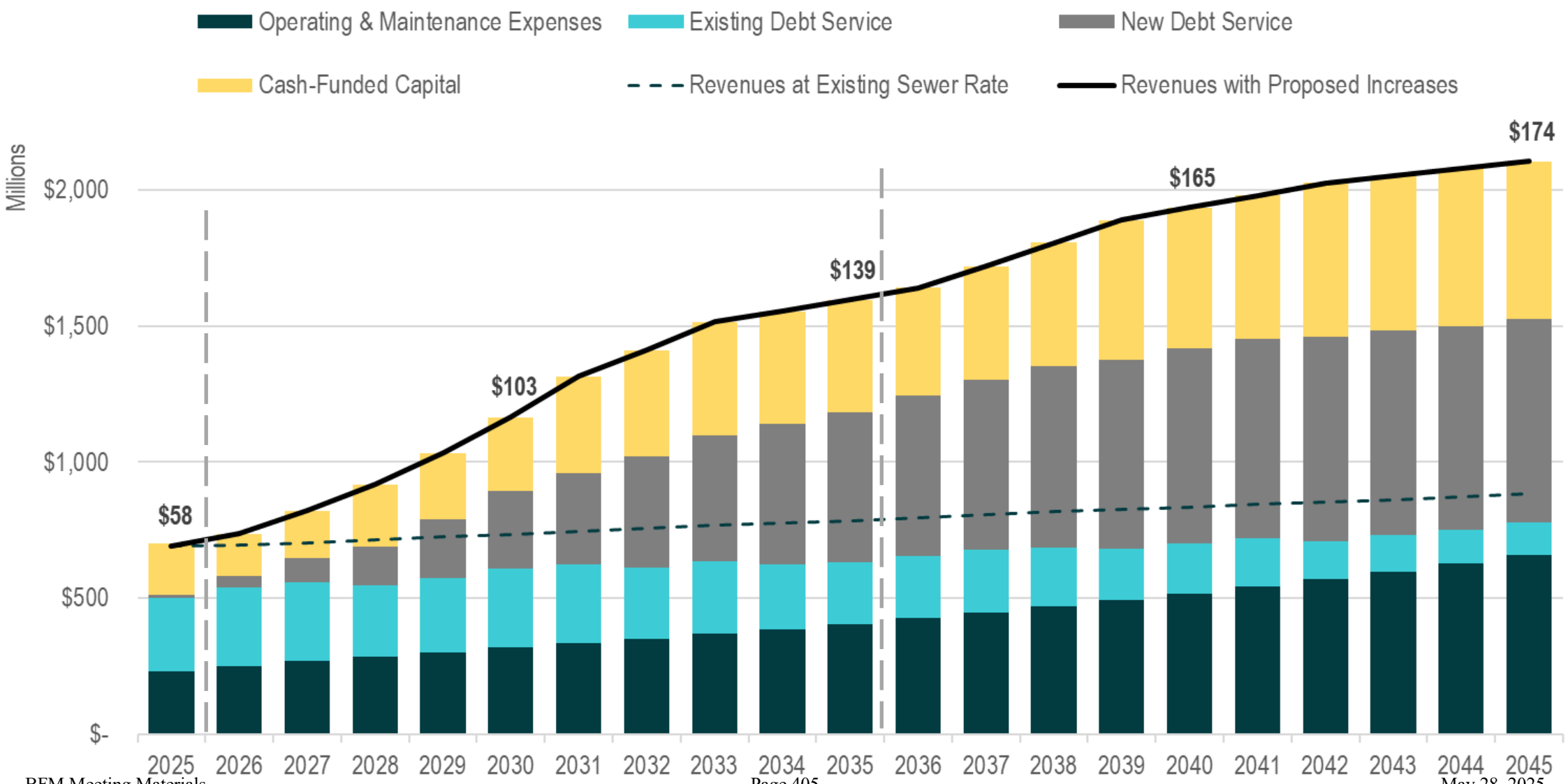
Key Assumptions / Forecast Approach - Operations

- **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



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

Proposed 2026 Rate and 2027-2045 Forecast:

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Rate Increase %	5.75%	**7.50%**	12.75%	12.75%	13.50%	13.50%	13.50%	7.25%	7.25%	2.00%	2.00%
Monthly Sewer Rate	$58.28	**$62.66**	$70.65	$79.66	$90.42	$102.63	$116.49	$124.94	$134.00	$136.68	$139.42
All-In Debt Service Coverage	1.65x	**1.48x**	1.47x	1.57x	1.50x	1.47x	1.57x	1.59x	1.57x	1.55x	1.53x

	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
Rate Increase %		2.00%	4.50%	4.50%	4.50%	1.75%	1.75%	1.75%	0.50%	0.50%	0.50%
Monthly Sewer Rate		$142.21	$148.61	$155.30	$162.29	$165.14	$168.03	$170.98	$171.84	$172.70	$173.57
All-In Debt Service Coverage		1.48x	1.49x	1.52x	1.58x	1.58x	1.58x	1.64x	1.65x	1.67x	1.67x

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 R&F – April 3
- MWPAAC General – April 23

Proposed for Adoption in 2026	
Sewer Rate	**$62.66 (7.5% increase)**
Capacity Charge	**$77.99 (2.5% increase)**

Q & A

King County | Wastewater Treatment

King County

Wastewater Treatment

MWPAAC

Metropolitan Water Pollution Abatement Advisory Committee

King Street Center, 201 S Jackson St, MS: KSC-NR-6200, Seattle, WA 98104

206-477-4435

April 23, 2025

The Honorable Girmay Zahilay
Chair, King County Council
516 Third Avenue, Room 1200
Seattle, WA 98104

Subject: Wastewater Treatment Division (WTD) 2026 Rate Recommendation

Dear Chair Zahilay:

The Metropolitan Water Pollution Abatement Advisory Committee (MWPAAC) supports a sustainable regional wastewater treatment system. However, the rate forecast falls short of that goal. The steep projected rates are threatening to overwhelm not only our ability to adequately fund necessary local system improvements, but also our customers' ability to pay. Our region must develop a new approach to assuring a proper balance of regional versus local investments.

MWPAAC acknowledges the need for a sewer rate increase in 2026; however, we have not been given adequate time and information to responsibly understand the costs driving the rates for 2026 and beyond. The proposed forecast shows the current sewer rate of $58 per month doubling in six years, reaching $116 in 2031. On average, the charge makes up 65percent of the local sewer bill our customers pay. With affordability a crisis in our region and nationwide, the steep rate climb projected by WTD threatens to overwhelm our customers' ability to pay and will restrict local governments from adequately funding critical local system needs.

Several key points require additional discussion, all of which influence the rate path:

1. **Third-Party Oversight for Capital Program**: Given the $11 billion in proposed capital spending over the next 10 years, WTD should have third party oversight of mega projects. To properly understand and provide feedback to WTD on behalf of our ratepayers, the consultant should assess project conception, alternatives analysis, prioritization and delivery, budgeting, and financing.

2. **Rate Predictability for Multiple Years**: We strongly recommend committing to rates for a multi-year period, at a minimum for two years. This approach provides more discipline in rate-setting and forecasting and allows for better long-term planning and stability for WTD and for MWPAAC member agencies.

3. **Long-Term Forecasting**: It is imperative that we continue to refine long-term forecasts set forth in the Council's adopted motions 16410 and 16449. Early sharing of project alternatives and costs will allow MWPAAC to understand drivers and provide timely feedback. This effort must be ongoing to ensure that we are preparing for future system needs and revenue requirements.

4. **Deeper Discussion on Capital Improvement Program Assumptions**: MWPAAC wishes to better understand what contributes to the large cost buckets – specifically project descriptions, alternatives, and cost projections per year. Having ample time to fully understand the projects and the planning behind them is essential for us to inform our leadership effectively.

5. **Revisit Regulatory Timelines**: We urge you to encourage WTD to pursue appropriate timeline extensions for regulatory requirements in areas requiring significant investment, such as nutrient reduction and combined sewer overflows. This would allow for a more phased approach to implementing the required projects and provide rate relief to local agencies.

6. **Policy Effects on Rate Growth**: MWPAAC seeks clarity on how policies drive capital prioritization, particularly for projects that are not principally related to asset management or regulatory compliance. It has been over a decade since WTD conducted its formerly tri-annual comprehensive review. The Regional Wastewater Services Plan policies, as well as the financial policies, have direct and indirect effects on rates. Upcoming conversations on contract renewal will also daylight other concerns that require rate impact analysis, such as the Residential Customer Equivalent factor and a Capacity Charge that does not adequately account for the costs imposed by growth.

Our region is experiencing growing costs and strained financial resources, presenting extraordinary challenges to achieving lasting solutions and a system that is affordable for all ratepayers. While these challenges seem overwhelming, we have also seen a new engagement and collaboration growing to meet these obstacles. We must be prepared to make hard choices to prioritize the projects that must be done to maintain the integrity of

the system. MWPAAC can support the proposed 2026 sewer rate; however, we urge the Council to work with the Executive and WTD to make meaningful progress on these issues summarized above before the next rate cycle begins.

Sincerely,

DocuSigned by:
4ED96DE8E6FC467...
John McClellan
MWPAAC Chair

e-cc: The Honorable Shannon Braddock, County Executive, King County
King County Councilmembers
Regional Water Quality Committee members
MWPAAC members
John Taylor, Director, Department of Natural Resources and Parks (DNRP)
Kamuron Gurol, Division Director, Wastewater Treatment Division, DNRP

King County

Metropolitan King County Council
Regional Water Quality Committee

May 13, 2025

The Honorable Girmay Zahilay
Chair, King County Council
King County Courthouse
516 3rd Ave.
Seattle, WA 98104

RE: Proposed Ordinance 2025-0129 2026 Proposed Sewer Rate and Capacity Charge

Dear Chair Zahilay,

Over the last two and a half years, the Regional Water Quality Committee (RWQC) has been working to address the complex and often competing challenges facing our regional wastewater system. In 2023, the King County Council adopted Motions 16410 and 16449, developed by RWQC, requesting that the Wastewater Treatment Division (WTD) develop a long-term forecast for capital needs and a long-term rate forecast. The RWQC acknowledges and appreciates the work that WTD has done in making progress on rate methodologies, and we appreciate the additional briefings WTD has provided to both RWQC and the Metropolitan Water Pollution and Abatement Advisory Committee (MWPAAC) this year in support of the proposed 2026 sewer rate and capacity charge.

RWQC recognizes that rate increases are necessary to maintain and improve the system, but increases must be balanced with affordability for ratepayers. Our deepest concern is that the rates forecasted in the future, particularly in 2027, are untenable and unsustainable for our ratepayers. As the Central Puget Sound Region experiences growing costs of living and income disparity, our customers face significant affordability concerns. We are particularly concerned that sewer rates will no longer be affordable among all ratepayers, including and extending beyond low-income ratepayers.

While the RWQC can support the 2026 rate based on relative consistency with the prior forecast, we are very concerned about the projected rate path. RWQC would likely not support the 2027 rate or the projected rate path without WTD providing better communication about the reason for the rate changes, various scenarios considered, efforts made to minimize the rate impacts to ratepayers, and more meaningful engagement by MWPAAC, RWQC, and the King County Council in the development of the 2027 rate.

To achieve more predictability, affordability, and transparency for the 2027 and future rates, the Regional Water Quality Committee would like to offer the following recommendations:

Approach for 2027 Rate Development. The challenges facing the regional wastewater system and the significant projected rate increases in the near term will require an approach to developing the 2027 rate that increases the confidence of RWQC members that rate increases are necessitated by maintenance needs, regulatory compliance, objective standards for maintaining water quality, and that

the Executive has made every effort to minimize the burden of rate increases on ratepayers. We believe such an approach necessitates earlier and more meaningful engagement with MWPAAC, RWQC, and the King County Council.

Rather than wait until the next rate is presented, we urge WTD to partner with MWPAAC, RWQC, and the King County Council to continue the discussions started during this rate cycle on the factors driving the 2027 rate and future projections. This engagement should include ongoing discussions with MWPAAC and RWQC on capital improvement program assumptions, including understanding the ability to deliver a capital program of this size and policy drivers of capital prioritization, particularly for projects not principally related to asset management or regulatory compliance. Beginning this work now will allow time for a more in-depth review and understanding of costs, discussion of options and tradeoffs, and prioritization of investments.

Furthermore, we urge the King County Council to ensure that the long-term rate forecast methodology requested by Motion 16449 will result in multiple forecast scenarios that can be reviewed beginning with the 2027 forecast so we can understand the tradeoffs involved in various rate scenarios.

Develop and implement a proactive regulatory strategy. Given the new information about the cost of regulatory investments, we encourage King County to develop and implement a regulatory strategy for renegotiating consent decrees or permit deadlines for major projects and investments to address affordability challenges while simultaneously achieving optimal water quality benefits to the region.

Good governance requires good oversight. WTD has a massive $11 billion capital forecast over the next 10 years. Having a review by independent experts could promote transparency and identify opportunities for improvement. We recommend that WTD develop a proposal for a third-party review of the capital program, including "mega" capital projects such as the Mouth of Duwamish Combined Sewer Overflow (CSO).

Early visibility and transparency on large project planning. The planning and development of large capital projects should include opportunities to bring MWPAAC, RWQC, and other stakeholders into the process early enough to witness the alternatives analysis so that the benefits and tradeoffs of different alternatives can be examined and understood.

Rate predictability for multiple years. WTD should explore a multi-year rate commitment, which would provide more time for an in-depth review and understanding of costs, discussion of options and tradeoffs, and prioritization of investments. The intent of a multi-year approach would be to achieve better long-term planning and stability for WTD and contract agencies, which must plan for their budgets. This extended timeframe will also allow for greater engagement across cities and sewer districts to impact the proposed rate. Lastly, it would allow for increased accountability that would serve the region well.

Long-term forecasting. We appreciate WTD's efforts to provide a long-term forecast for the rates in accordance with previous motions. As part of extending the forecast, WTD has noted that the forecast for the second decade has a high level of uncertainty. We recommend that WTD continue strengthening its capital forecasting methodology to increase the reliability, predictability, and sustainability of the second decade of the rate forecast.

Support the Regional Utilities Affordability Summit. Many regional utilities are forecasting significant annual rate increases for the foreseeable future. We are deeply concerned about the cumulative impact of these increases on King County's residents and businesses. We support Executive Braddock's plan to prepare a multi-jurisdictional summit to address affordability and access to essential utilities (solid waste, sewer, water, and energy) and encourage the Council's support of this summit.

Continue focus on Regional Wastewater Services Plan (RWSP) update and adhere to timelines for major milestones in the RWSP update process. Given the many complex issues facing the regional wastewater system, the need for a plan and policy review that addresses the needs of the system and its users has never been greater. RWQC is looking forward to participating in the policy discussions that are to occur as part of the RWSP Update to address rate structures, affordability, cost recovery structures, capacity demands, and many other important issues that directly impact the rate. We encourage the King County Council to ensure the timelines are adhered to for this important planning effort.

Sincerely,

Claudia Balducci
Claudia Balducci (May 13, 2025 12:06 PDT)

Claudia Balducci, Chair
Regional Water Quality Committee

Laura Mork (May 13, 2025 11:03 PDT)

Laura Mork, Vice Chair
Regional Water Quality Committee

Cc: King County Councilmembers
Stephanie Cirkovich, Chief of Staff, King County Council
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Regional Water Quality Committee

5-13-25 RWQC Letter to Council re 2025-0129

Final Audit Report 2025-05-13

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