## STAFF REPORT

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| **Agenda Item:** | 6 | **Name:** | Mike Reed |
| **Proposed No**.: | 2021-0316 | **Date:** | December 8, 2021 |

**SUBJECT**

A motion acknowledging receipt of a report on the regional wastewater system’s sewer rate cost structure, dated August 1, 2021, in response to Ordinance 19210, Section 112, Proviso P3.

**SUMMARY**

The 2021-2022 Biennial Budget included a proviso requiring a review of the sewer rate cost burden carried by single family homeowners, who pay a flat rate, compared to commercial/business/multifamily ratepayers, who pay according to wastewater volumes. The cost burden concern is driven by the recognition that water conservation efforts of recent years are likely to have differential rate consequences for flat-rate ratepayers, as compared to volume-based ratepayers, particularly in the absence of updates to estimates of wastewater generation metrics.

The Executive has transmitted the Sewer Rate Cost Structure Report, dated August 1, 2021; the Report acknowledges that there has been a significant shift in the cost burden born by single family ratepayers. Rate structure specifics, however, may complicate options to revise the rate structure, including ongoing agreements with local service agencies, potential impacts to multifamily residents, and similar constraints.

Council staff analysis determined that the transmitted Sewer Rate Cost Structure Report, dated August 1, 2021 is consistent with the requirements of the proviso. Proposed Motion 2021-0316 would acknowledge receipt of the report.

**BACKGROUND**

The 2021-2022 Biennial Budget included the following proviso language related to the Wastewater Treatment Division’s (WTD) expenditure authority:

*Of this appropriation, $200,000 shall not be expended or encumbered until the executive transmits a report on the shift of the sewer rate cost burden to the single-family sector from the commercial/industrial/multifamily sector, and a motion that acknowledges receipt of the report and a motion acknowledging receipt of the report is passed by the council. The motion should reference the subject matter, the proviso's ordinance number, ordinance section and proviso number in both the title and body of the motion.*

*The report shall include, but not be limited to, the following:*

*A. A discussion of the history of, and rationale for, the sewer rate cost structure that has resulted in the shifting of the cost burden from commercial/industrial/multifamily housing sectors to single-family homeowners;*

*B. Options for alternative cost structures that would distinguish multifamily ratepayers from commercial and industrial ratepayers; and*

*C. A discussion of the appropriate balance of costs between the residential sector and the commercial/industrial sector in sewer rate revenues, and the criteria impacting that balance.*

*The executive should electronically file the report and motion required by this proviso no later than August 1, 2021, with the clerk of the council, who shall retain the original and provide an electronic copy to all councilmembers, the council chief of staff and the lead staff for the regional water quality committee and the budget and fiscal management committee, or their successors.*

**King County Sewer Rate.** Each year the Council considers an ordinance adopting the sewer rate for the subsequent year. The sewer rate was projected to generate approximately $417 million in 2021; this revenue amount is assessed against system clients in various sectors who discharge wastewater into the regional system. These include single family homeowners, owners of multifamily structures, and commercial and industrial generators. Single family homeowners are assessed a flat amount that does not vary by volume of wastewater. Commercial/Industrial/Multifamily dischargers are assessed based on the volume of wastewater discharged.

In recent years, water conservation measures have been undertaken region-wide, and have reduced water consumption levels within the various sectors. This led the Council to inquire whether those payers who are assessed based on volume, were experiencing a relative reduction in the proportion of the total cost burden of the sewer rate, compared to those payers who are assessed based on a static metric that is unaffected by conservation measures.

Inquiries of Wastewater Treatment Division fiscal staff confirmed that such a shift in the overall cost burden has been occurring.

Billing is calculated using assumptions about the amount of wastewater discharged by an average single family household; that amount is referred to as a “Residential Customer Equivalent” (“RCE”) and is currently established at 750 cubic feet per month (750 cf/m). That assumption is based on data originally collected in 1989. Since that time, significant conservation efforts have been adopted, and indications are that average household water use has declined substantially. The Sewer Rate Cost Structure Report (“The Report”) notes that “in percentage terms, total Seattle system water consumption has declined 27% since 1990, while population has increased 37%. As a result, total consumption per capita is 47% less than it was in 1990.” According to the Report, “the current conversion factor is overstating the single family equivalent flow contribution, resulting in the single-family class subsidizing the volume-based class.” King County Code Section 28.86 160 (Financial Policy 15) states that “King County shall periodically review the appropriateness of this factor to ensure that all accounts pay their fair share of the costs of the wastewater system.”

However, there are a number of complicating considerations in developing a response to this issue:

* The 750 cf/m factor is included in the interlocal contracts between the cities/sewer districts and the county; contracts continue through 2036 for most of the agreements, and 2056 for the remainder. Any change prior to those dates would require their agreement;
* King County provides wastewater collection and processing services to 34 cities and sewer districts and one tribal government; those entities provide direct retail collection from households and business/commercial customers, and provide billing services for their service, as well as for the county’s service. For the sewer rate, the county has no direct billing relationship with customers;
* The Report includes an exercise intended to demonstrate the impact of an effort to correct the current subsidy by single family homeowners. The exercise posits an assumed single-family monthly volume level of 600 cf/m, as against the existing 750 cf/m single family service assumption. The exercise results in a decrease in the per-RCE rate from the current $45.33, which is what a single family household currently pays, to a rate of $40.93. Because that rate represents a lower per-volume rate, a volume-based ratepayer, consuming, for example, 3,000 cf/m, would see billing go from $181/mo. to $205/mo. (less per RCE, but more RCEs). Notably, under the current grouping of multifamily as a volume-based customer, that increase would impact such multifamily ratepayers as well. Because the service relationship is with the multifamily landlord, landlords may pass that increase along to tenants at levels that they determine independently;
* The Report notes that the “the multifamily class could be distinguished from the other volume-based classes if the Local Sewer Agencies agreed to separately reporting multifamily metered water use”; and
* Because local agencies have varying mixes of single family, commercial, industrial, and multifamily customers, a change in the RCE metric will have differing billing impacts for each of the agencies; those with greater proportions of single family homeowners will be billed proportionately less, while those with greater proportions of commercial/industrial/multifamily, will be billed proportionately more.

The Report concludes that “there are opportunities to improve equity within the single family rate structure, in particular a study of the current single-family winter average water use in the WTD service area to evaluate a current equitable conversion factor, and pursuing a contract amendment to revise the conversion factor when sewer contract negotiations resume pending completion of the Clean Water Plan. A significant engagement effort with Metropolitan Water Pollution Abatement Advisory Committee (MWPAAC) on this topic is recommended to gather feedback and input and develop a collaborative path forward.”

Council staff analysis determined that the transmitted Sewer Rate Cost Structure Report, dated August 1, 2021 is consistent with the requirements of Proviso P3. Proposed Motion 2021-0316 would acknowledge receipt of the report.

**INVITED**

* Courtney Black, Capital Project Financial Advisor, Wastewater Treatment Division

**ATTACHMENTS**

1. Proposed Motion 2021-0316 and its attachments
   1. Attachment A: Sewer Rate Cost Structure, dated August 1, 2021
2. Transmittal Letter