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Title: AN ORDINANCE adopting financial policies relating to the sewage treatment capacity charge; and amending Ordinance 13680, Section 1, as amended, and K.C.C. 28.86.010 and Ordinance 13680, Section 16, as amended, and K.C.C. 28.86.160.

Sponsors: Louise Miller

Indexes: Financial Policies, Sewage

Code sections: 28.86.010 -, 28.86.160 -

Attachments: 1. Ordinance 14219.pdf, 2. 2001-0185 Fiscal Note.doc, 3. 2001-0185 Transmittal Letter.doc, 4. A. Capacity Charge Cost Allocation, dated September 21, 2001, 5. A. Capacity Charge Cost Allocation, 6. Staff Report proposed sub 10-1-01 (council).doc

Date	Ver.	Action By	Action	Result
10/1/2001	2	Metropolitan King County Council	Passed	Pass
10/1/2001	2	Metropolitan King County Council	Hearing Held	
9/21/2001	1	Regional Water Quality Committee	Recommended Do Pass Substitute	Pass
7/12/2001	1	Regional Water Quality Committee		
4/2/2001	1	Metropolitan King County Council	Introduced and Referred	

Clerk 09/28/2001

AN ORDINANCE adopting financial policies relating to the sewage treatment capacity charge; and amending Ordinance 13680, Section 1, as amended, and K.C.C. 28.86.010 and Ordinance 13680, Section 16, as amended, and K.C.C. 28.86.160.

BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

SECTION 1. Findings. The metropolitan King County council makes the following legislative findings:

A. The council, as the legislative body of the metropolitan municipal corporation, has the statutory authority to impose capacity charges pursuant to RCW 35.58.570.

B. The purpose of the capacity charge is to protect water quality through regulating the orderly construction of the metropolitan sewerage facilities to serve new customers and to ensure that new customers bear their equitable share of the cost of such facilities. The capacity charge is based on the cost of the sewer facilities' excess capacity that is necessary to provide sewerage treatment to new users of the system. The capacity charge established by this ordinance will not exceed the amount necessary to recover all of the capital costs needed to serve new customers. Costs allocated to the capacity charge are limited to capital costs that are

necessary and incurred to serve new customers. Revenues collected through the capacity charge shall be used for construction of sewerage facilities designed to protect water quality.

C. All customers connecting to local sewage collection systems tributary to King County's metropolitan sewage system since February 1, 1990, have been subject to a sewage treatment capacity charge. The capacity charge is billed and collected in accordance with K.C.C. 28.84.050 O.

D. On November 29, 1999, the metropolitan King County council adopted Ordinance 13680, which adopted the Regional Wastewater Services Plan (RWSP) and accordingly amended the Comprehensive Water Pollution Abatement Plan, a King County functional plan. The RWSP directed King County to pursue changes in state law to attain greater flexibility in settings capacity charges.

E. On June 8, 2000, the Washington state legislature enacted Substitute House Bill 2528 (2000 Wash. Laws 161), which amends RCW 35.58.570 and grants King County greater flexibility and the authority to set capacity charges in the same manner granted to cities and towns while still requiring that the charge be a monthly charge approved annually by the county. In accordance with K.C.C. 28.86.160 FP-12.b, the executive has proposed policies for setting the capacity charge including recommendations to achieve growth paying for growth.

F. This ordinance exercises the statutory authority granted to the metropolitan King County council in Substitute House Bill 2528 to establish policies to set capacity charges.

G. The RWSP is a comprehensive plan for the provision of regional sewerage service from 2000 through 2030. The facilities identified in the plan provide for the protection of water quality through the orderly development of capacity during the planning horizon. The capacity charge will be a uniform charge assessed to new customers connecting during the thirty year planning period of the RWSP based upon the costs, customer growth and related financial assumptions used for the plan as adopted in Ordinance 13680 and as it may be amended from time to time. This allows for the efficient and effective system development, and equitably spreads the costs of the new facilities needed to serve new growth over the lifetime of the plan to avoid having spikes in some years or some geographic areas that would cause some new users to pay a disproportionate share of the cost of the system.

SECTION 2. Ordinance 13680, Section 1, as amended, and K.C.C. 28.86.010 are each hereby amended

to read as follows:

Definitions. The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

A. "Biosolids" means a primarily organic product produced by wastewater treatment processes that can be beneficially recycled. The product may contain water, sand, organic matter, microorganisms, trace metals and other chemicals.

B. "Capacity" and "rated capacity" mean the average wet weather flows that the treatment plant or conveyance system is designed to handle. Average wet weather flows are wastewater flows that occur during wet months but not during storms.

C. "Capacity charge" means a ~~((monthly))~~ charge levied on a new ~~((connections, reconnections and new uses as mitigation for growth))~~ customer to recover capital costs needed to serve new customers.

D. "Community treatment system" means a treatment device or drainfield, or both, that is shared by two or more property owners.

E. "Component agencies" means the cities, towns, counties and sewer districts that retail wastewater treatment services, that dispose of any portions of their sanitary sewage into the wastewater system and that have entered into a contract with the county for providing for wastewater treatment.

F. "Comprehensive Water Pollution Abatement Plan" means a plan developed pursuant to RCW 35.58.200.

G. "CSO" means a combined sewer overflow, which is an overflow from a combined sewer that is designed to collect both sanitary sewage and stormwater runoff. The overflows occur during storms when flows in the system exceed the capacity of the wastewater collection system.

H. “ESA” means the federal Endangered Species Act.

I. “Existing customer((s))” means ~~((all customers not included in the definition of new customers))~~ a customer who connects, reconnects, or establishes a new service on sewers tributary to the county’s metropolitan sewerage service before January 1, 2003.

J. “I/I” means inflow/infiltration, which is the total quantity of water from both inflow and infiltration without distinguishing the source.

K. “Indirect potable use” means discharging reclaimed water to surface or groundwater and withdrawing water for treatment prior to use as a drinking water source from another location in the same watershed.

L. “Infiltration” means the water entering a wastewater system, including sewer service connections, from the ground through such means as, but not limited to, defective pipes, pipe joints, connections or manhole walls.

M. “Inflow” means the water discharged into a wastewater system, including service connections from such sources as, but not limited to, roof leaders, cellar, yard and area drains, foundation drains, cooling water discharges, drains from springs and swampy areas, manhole covers, cross-connections from storm sewers and combined sewers, catch basins, storm waters, surface runoff, street wash waters or drainage. “Inflow” does not include, and is distinguished from, infiltration.

N. “Mgd” means million gallons per day, a measure of wastewater treatment capacity,

O.~~((“Monthly sewer rate” means the cost, in dollars, charged to a residential customer equivalent.~~

~~P.))~~ “New customer((s))” means a customer ~~((produced from))~~ who connects, reconnects, or

establishes a new service on sewers tributary to the county’s metropolitan sewage system on or after January 1,

2003. This includes:

1. New connections to the existing collection system including:
 - a. flows from new single family and multiple unit residential connections; and
 - b. new commercial or industrial connections;
2. Expansions in activity from existing connections, including:
 - a. conversion of residential units (single or multiple) to include additional customers or equivalents, or both; and
 - b. expansions in commercial or industrial activity;
3. Septic to sewer conversions; and
4. I/I flows from the new connections and newly constructed conveyance systems.

~~((Q.))~~ P. “Nonpotable use” means using reclaimed water for nondrinking water applications that may include but are not limited to irrigation, industrial processing, agricultural uses and stream augmentation.

~~((R.))~~ Q. “Reclaimed water” means wastewater that is treated to a sufficiently high level that it can be safely used for intended purposes.

~~((S.))~~ R. “Residential customer equivalent” means the factor in cubic feet of water used to describe the discharge from a single-family residence. Commercial and industrial customers are converted to residential customer equivalents based on the volume of water consumption.

~~((T.))~~ S. “RWQC” means the regional water quality committee, which is a regional committee as defined by Section 270 of the King County Charter, with powers and duties to “develop, review and recommend ordinances and motions adopting, repealing, or amending county-wide policies and plans relating to the subject matter area for which a regional committee has been established.”

~~((U.))~~ T. “RWSP” means the Regional Wastewater Services Plan.

U. “Sewer rate” means the amount in dollars, charged to a residential customer equivalent each month for use of the wastewater system.

V. “Shall” and “will” in a policy mean that it is mandatory to carry out the policy. “Should” in a policy

provides noncompulsory guidance and establishes some discretion in making decisions. “May” in a policy means that it is in the interest of the county or other named entity to carry out the policy but there is total discretion in making decisions.

W. “Wastewater revenues” means revenues from the monthly sewer rate, capacity charge, grants and other revenues, such as interest income and charges for services, available for the wastewater system.

X. “Wastewater system” means all the county’s water pollution abatement facilities, together with all lands, property rights, equipment and accessories necessary for those facilities, and any other infrastructure, and all operations and programs provided by the county under chapter 35.58 RCW, including but not limited to: 1. conveyance of influent from component agencies; 2. treatment of sewage; 3. disposal of treated effluent; 4. production and recycling of biosolids; 5. regulation of I/I; 6. control of combined sewer overflows; and 7. production of reclaimed water.

Y. “Water reuse” means using reclaimed water.

SECTION 3. Ordinance 13680, Section 16, as amended, and K.C.C. 28.86.160 are each hereby

amended to read as follows

Financial policies (FP). A. Under the provisions of the King County Charter and RCW

35.58.200, these financial policies are hereby adopted and declared to be the principal financial policies of the comprehensive water pollution abatement plan for King County, adopted by the Municipality of Metropolitan Seattle (Metro) in Resolution No. 23, as amended, and the RWSP, a supplement to the plan.

B. Explanatory material.

1. Financial forecast and budget. Policies FP-1 through FP-7 are intended to guide the county in the areas of prudent financial forecasting and budget planning and are included to ensure the financial security and bonding capacity for the wastewater system. This set of policies also addresses the county’s legal and contractual commitments regarding the use of sewer revenues to pay for sewer expenses.

2. Debt financing and borrowing. Policies FP-8 through FP-11 are intended to guide the county in financing the wastewater system capital program. These policies direct that capital costs be spread over time to keep rates more stable for ratepayers by the county issuing bonds. A smaller share of annual capital costs will be funded directly from sewer rates and capacity charges.

3. Collecting revenue. Policies FP-12 through FP-14 are intended to guide King County in

establishing annual sewer rates and in approving wastewater system capital improvement and operating budgets. Monthly sewer rates, which are the primary source of revenue for the county's regional wastewater system, are to be uniformly assessed on all customers. Customers with new connections to the wastewater system will pay an additional capacity charge. The amount of that charge is set by the council, within the constraints of state law.

4. Community treatment systems. Policy FP-15 is intended to guide the county in the financial management of community treatment systems.

C. Policies.

1. Financial forecast and budget.

FP-1: The county shall maintain for the wastewater system a multiyear financial forecast and cash-flow projection of six years or more, estimating service growth, operating expenses, capital needs, reserves and debt service. The financial forecast shall be submitted by the executive with the annual sewer rate ordinance.

FP-2: If the operations component of the proposed annual wastewater system budget increases by more than the reasonable cost of the addition of new facilities, increased flows, new programs authorized by the council, and inflation, or if revenues decline below the financial forecast estimate, a feasible alternative spending plan shall be presented, at the next quarterly budget report, to the council by the executive identifying steps to reduce cost increases. The executive shall maintain an ongoing program of reviewing business practices and potential cost-effective technologies and strategies for savings and efficiencies; the results shall be reported in the annual budget submittal and in an annual report to the RWQC.

FP-3: The county shall maintain for the wastewater system a prudent minimum cash balance for reserves, including but not limited to, cash flow and potential future liabilities. The cash balance shall be approved by the council in the annual sewer rate ordinance.

FP-4: Unless otherwise directed by the council by motion, the King County department of natural resources and parks or its successor agency shall charge a fee that recovers all direct and indirect costs for any services related to the wastewater system provided to other public or private organizations.

FP-5: Water quality improvement activities, programs and projects, in addition to those that are functions of sewage treatment, may be eligible for funding assistance from sewer rate revenues after consideration of criteria and limitations suggested by the metropolitan water pollution abatement advisory committee, and, if

deemed eligible, shall be limited to one and one half percent of the annual wastewater system operating budget. An annual report on activities, programs and projects funded will be made to the RWQC. This policy shall remain in effect until such time as a financial plan for the surface water regional needs assessment is adopted and implemented.

FP-6: The calculation of general government overhead to be charged to the wastewater system shall be based on a methodology that provides for the equitable distribution of overhead costs throughout county government. Estimated overhead charges shall be calculated in a fair and consistent manner, utilizing a methodology that best matches the estimated cost of the services provided to the actual overhead charge. The overall allocation formula and any subsequent modifications will be reported to the RWQC.

FP-7: The assets of the wastewater system are pledged to be used for the exclusive benefit of the wastewater system including operating expenses, debt service payments, asset assignment and the capital program associated therewith. The system shall be fully reimbursed for the value associated with any use or transfer of such assets for other county government purposes. The executive shall provide reports to the RWQC pertaining to any significant transfers of assets for other county government purposes in advance of and subsequent to any such transfers.

2. Debt financing and borrowing.

FP-8: The county shall structure bond covenants to ensure a prudent budget standard.

FP-9: King County should structure the term of its borrowings to match the expected useful life of the assets to be funded.

FP-10: The wastewater system's capital program shall be financed predominantly by annual staged issues of long-term general obligation or sewer revenue bonds, provided that:

All available sources of grants are utilized to offset targeted program costs;

Funds available after operations and reserves are provided for shall be used for the capital program; excess funds accumulated in reserves may also be used for capital;

Consideration is given to competing demands for use of the county's overall general obligation debt capacity; and

Consideration is given to the overall level of debt financing that can be sustained over the long term given the size of the future capital programs, potential impacts on credit ratings, and other relevant factors such as intergenerational rate equity and the types of projects appropriately financed with long-term debt.

FP-11: To achieve a better maturity matching of assets and liabilities, thereby reducing interest rate risk, short-term borrowing shall be used to fund a portion of the capital program, provided that:

Outstanding short-term debt comprises no more than fifteen percent of total outstanding revenue bonds and general obligation bonds; and

Appropriate liquidity is available to protect the day-to-day operations of the system.

3. Rates - sewer rates and capacity charge.

FP-12: 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.

1. Existing and new sewer customers shall each contribute to the cost of the wastewater system ((~~To implement this policy, rate and capacity charge methodology will be adopted by the council, after consultation with the RWQC, consistent with state law~~)) as follows:

a. Existing customers shall pay through the monthly sewer rate for the portion of the existing and expanded conveyance and treatment system that serves existing customers.

b. New customers shall pay costs associated with the portion of the existing wastewater conveyance and treatment system that serves new customers and costs associated with expanding the system to serve new customers. New customers shall pay these costs through a combination of the monthly sewer rate and the capacity charge. Such rates and charges shall be designed to have growth pay for growth.

2. Sewer rate. King County shall maintain a uniform monthly sewer rate expressed as charges per residential customer or equivalent for all customers. ((~~Costs of infrastructure improvements for new customers shall be recovered by a capacity charge.~~))

a. Sewer rates shall be designed to generate revenue sufficient to cover, at a minimum, all costs of system operation and maintenance and all capital costs incurred to serve existing customers.

b. King County should attempt to adopt a multiyear sewer rate to provide stable costs to sewer customers. If a multiyear rate is established and when permitted upon the retirement by the county of certain outstanding sewer revenue bonds, a rate stabilization reserve account shall be created to ensure that adequate funds are available to sustain the rate through completion of the rate cycle. An annual report on the use of funds from this rate stabilization account shall be provided annually to the RWQC.

c. The executive, in consultation with the RWQC, shall propose for council adoption policies to ensure that adequate debt service coverage and emergency reserves are established and periodically reviewed.

3. Capacity charge. The amount of the capacity charge shall be a uniform charge, shall be approved annually and shall not exceed the cost of capital facilities necessary to serve new customers. The methodology that shall be applied to set the capacity charge is set forth in FP-12.3.a.

a. The capacity charge shall be based on allocating the total cost of the wastewater system (net of grants and other non-rate revenues) to existing and new customers as prescribed in this subsection. The total system cost includes the costs to operate, maintain, and expand the wastewater system over the life of the RWSP. Total estimated revenues from the uniform monthly rate from all customers and capacity charge payments from new customers, together with estimated non-rate revenues, shall equal the estimated total system costs. The capacity charge calculation is represented as follows:

where:

(1) total system costs (net of grants and other non-rate revenues) minus rate revenue from existing customers equals costs allocated to new customers.

(2) costs allocated to new customers minus rate revenue from new customers equals the total revenue to be recovered through the capacity charge.

(3) total capacity charge revenue requirements divided by the total number of new customers equals the amount of the capacity charge to be paid by each new customer.

b. 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. The county shall establish a monthly capacity charge by dividing that amount by one hundred eighty (twelve monthly payments per year for fifteen years). The executive shall transmit for council adoption an ordinance to adjust the discount rate for lump sum payment. The executive shall also transmit for council adoption an ordinance to adjust the monthly capacity charge to reflect the county's average cost of money if the capacity charge is paid over time.

c. King County shall pursue changes in state law to enable the county to require payment of the capacity charge in a single payment.

d. 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 shall be based upon the costs, customer growth and related financial assumptions used for the Regional Wastewater Services Plan adopted by Ordinance 13680 as such assumptions may be updated. Customer growth and projected costs, including inflation, shall be updated every three years beginning in 2003.

e. 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. All reasonable steps should be taken to coordinate the imposition, collection of and accounting for rates and charges with component agencies to reduce redundant program overhead costs.

f. Existing customers shall pay the monthly capacity charge established at the time they connected to the system as currently enacted by K.C.C. 28.84.055. New customers shall pay the capacity charge established at the time they connect to the system.

g. To ensure that the capacity charge will not exceed the costs of facilities needed to serve new customers, costs assigned and allocated to new customers shall be at a minimum ninety five percent of the projected capital costs of new and existing treatment, conveyance and biosolids capacity needed to serve new customers.

h. Costs assigned and allocated to existing customers shall include the capital cost of existing and future treatment, conveyance and biosolids capacity used by existing customers, and the capital costs of assessing and reducing infiltration and inflow related to the use of the existing conveyance and treatment capacity.

i. Capital costs of combined sewer overflow control shall be paid by existing and new customers based on their average proportionate share of total customers over the life of the RWSP.

j. Operations and maintenance costs shall be paid by existing and new customers in the uniform monthly rate based on their annual proportionate share of total customers.

k. Any costs not allocated in FP-12.3 f, g, h, i and j shall be paid by existing and new customers in the sewer rate.

l. Upon implementation of these explicit policies, the Seattle combined sewer overflow benefit charge shall be discontinued.

~~((b. King County shall pursue changes in state law to attain greater flexibility in setting capacity~~

charges. In 2000, King County shall seek to achieve the authority to set such charges locally, in the same manner granted to cities and towns. Within six months of achieving the authority to set such charges locally, the executive shall propose for consideration by the council, after consultation with the RWQC, explicit policies for setting the capacity charge including recommendations to achieve growth paying for growth.

~~e. The executive shall propose and the council adopt, after consultation with the RWQC, explicit policies for the setting of customer monthly sewer rates;))~~

~~d. 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. The executive, in consultation with the RWQC, shall propose for council adoption policies to ensure adequate debt service coverage and emergency reserves are established and periodically reviewed;))~~

~~((e.))~~ 4. Based on an analysis of residential water consumption, as of December 13, 1999, King County uses a factor of seven hundred fifty cubic feet per month to convert water consumption of volume-based customers to residential customer equivalents for billing purposes. King County shall periodically review the appropriateness of this factor to ensure that all accounts pay their fair share of the cost of the wastewater system;

~~((f. King County should attempt to adopt a multiyear sewer rate to provide stable costs to sewer customers. If a multiyear rate is established and when permitted upon the retirement by the county of certain outstanding sewer revenue bonds, a rate stabilization reserve account shall be created to ensure that adequate funds are available to sustain the rate through completion of the rate cycle. An annual report on the use of funds from this rate stabilization account shall be provided annually to the RWQC; and~~

~~g. King County should periodically review the capacity charge to ensure that the true costs of system expansion are reflected in the assessed charge. All reasonable steps should be taken to coordinate fee assessments and accounting with component agencies to reduce redundant program overhead costs.))~~

FP-13: 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.

FP-14. Expenditures from the wastewater revenues to correct water pollution problems caused by septic systems shall occur only if such expenditures financially benefit wastewater system current customers when the additional monthly sewer rate revenues from these added customers are considered.

FP-15: The cost of community treatment systems developed and operated in accordance with WWSP-15 would not be subsidized by the remaining ratepayers of the county's wastewater treatment system.
30 days, official paper, post outside chambers