



Metropolitan Water Pollution Abatement Advisory Committee

King Street Center, 201 South Jackson Street, MS KSC-NR-0512
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Wastewater District*

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City of Auburn

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March 27, 2013

The Honorable Dow Constantine
Executive, King County
401 Fifth Avenue
Seattle, WA 98104

SUBJECT: **Wastewater Treatment Division (WTD) 2014 Rate Recommendation**

Dear Executive Constantine:

The Metropolitan Water Pollution Abatement Advisory Committee (MWPAAC) has reviewed the WTD budget and rate proposal for 2014, and with it the revised rate forecast for 2015-2018. Based on that review, we support the proposed 2014 rate of \$39.79, unchanged from 2013. We do, however, caution against publishing and relying on an optimistic forecast for subsequent rate periods, due to the future difficulty that would ensue to modify those forecasts upwards. We have ongoing concerns regarding long-term trends and related capital funding strategies, issues that if addressed would require increases in near-term rates. We address this further below.

First, however, we wish to refer to a series of issues that MWPAAC identified, in the form of ratemaking principles, during last year's review and assess status or progress on those:

1. MWPAAC recommended a reduction in capital spending pending completion of a capital funding policy review. While MWPAAC has undertaken such a review and received additional briefings and information from WTD, the County is still pursuing a parallel process at the staff level. We have deferred our findings in favor of a collaborative role in this process.
2. MWPAAC recommended excluding Culver and other non-wastewater costs from the WTD budget as a matter of equity and consistency with enterprise integrity. The current budget continues to exclude Culver, but we remain concerned about other inappropriate costs that could be assigned to WTD. As one example, WTD's share of water quality monitoring costs remains a concern.

3. MWPAAC continues to support cost-containment and efficiency programs, and especially WTD's efforts to institute a new program in this regard.
4. MWPAAC supports WTD's continued efforts to self-manage its funds to enhance returns.
5. MWPAAC is pleased that current budgets do not rely on short-term budget measures with adverse longer-term effects. In fact, some features are specifically targeted at longer-term stability and sustainability.

For the upcoming rate period, financial news has generally improved from prior forecasts. Debt interest costs remain low, capital spending is down from its historic highs, and operating costs remain stable. For MWPAAC, this offers the ideal time to examine long-term debt level and structure, and cost control. MWPAAC's issues and recommendations in this regard can be summarized as follows:

1. **Complete a Review of the Long-Term Debt/Capital Funding Strategy** – We have expressed concerns regarding the highly leveraged condition of the utility. WTD has invited us to participate in a review process that will provide MWPAAC with the opportunity to comment on future capital funding strategies and debt levels.
2. **Review Current Assumptions Regarding Capital Project Accomplishment** – Current rate forecasting uses a continuous assumption regarding accomplishment rate, set at 85%. This essentially means that 15% of the capital program disappears from funding requirements on a perpetual basis. One alternate method would be to assume deferral or attenuation of such expenditures, rather than elimination. At a minimum, rate forecasts for multiple rate periods, or longer term, should be subjected to risk analysis as related to this or any assumption that reduces assumed costs from approved or planned levels.
3. **Impose Consistent Business Standards for Capital Projects** – During the review of reclaimed water policies, MWPAAC strongly supported standards that were developed related to financial and economic viability, accompanied by appropriate assignment of project and program costs. However, this has been interpreted to only be applicable to future new service areas, with a remarkably large unserved area defined as "current" service area. To our knowledge, these standards have not been applied for continued expansion of reclaimed water into this unserved area. MWPAAC believes that any capital outlay should be subjected to reasonable standards for cost-effectiveness, and specifically that no reclaimed water investments should go forward that fail to meet this standard. We recommend removing or suspending the roughly \$10 million in reclaimed water capital projects now contained in the capital program until cost-effectiveness for ratepayers has been demonstrated.
4. **Support WTD Succession Planning Efforts** – We believe that the WTD proposal related to succession planning is vital for effective and efficient long-term system management and operation, and strongly support the WTD proposal. Parallel to asset

management and performance enhancement, managing through succession is particularly vital given current workforce demographics.

5. **Evaluate Revenue Program Equity**- Over the past several years, numerous issues have arisen related to various aspects of cost responsibility and payment obligations. These issues have tended to be addressed in isolation. MWPAAC is evaluating the need for a more comprehensive review of these issues, possibly including a “cost-of-service” study. As MWPAAC develops a proposed course of action, it will communicate that to the WTD Director.

To repeat our initial observation, we see the potential for upcoming policy changes that would likely alter the projected rate trends. In some cases, near-term rates could be increased to provide greater financial strength and lower long-term rates. With this understanding, it would make sense to maintain room in the rate forecast for such possible changes. We would propose a future rate contingency for 2015-2016, to be reviewed and revised as better information becomes available.

MWPAAC makes these recommendations with a continued commitment to a partnership with WTD and the County for effective wastewater management. We remain active in reviewing these and many other topics as related to this outcome. We also remain appreciative of WTD’s openness and commitment to a meaningful role for MWPAAC in this regard. Our collaboration with the WTD Director in framing and addressing upcoming issues has materially improved our ability to partner for better outcomes.

Sincerely,



Scott Thomasson
MWPAAC Chair

cc: MWPAAC Members
Dwight Dively, Director, Office of Performance Strategy and Budget
Christie True, Director, Department of Natural Resources and Parks (DNRP)
Pam Elardo, P.E., Division Director, Wastewater Treatment Division, DNRP
Tim Aratani, Finance Manager, WTD, DNRP