



KING COUNTY

1200 King County Courthouse
516 Third Avenue
Seattle, WA 98104

Signature Report

Ordinance 19153

Proposed No. 2020-0102.1

Sponsors Kohl-Welles

1 AN ORDINANCE revising a financial policy of the
2 Regional Wastewater Services Plan addressing the capacity
3 charge; and amending Ordinance 13680, Section 16, as
4 amended, and K.C.C. 28.86.160.

5 **PREAMBLE:**

6 In 2017, King County's wastewater treatment division of the department of
7 natural resources and parks initiated a study of the capacity charge rate
8 structure given the changes that are occurring in terms of types of
9 development and housing stock.

10 Also in 2017, the metropolitan water pollution abatement advisory
11 committee created a capacity charge rate structure work group to provide
12 technical expertise to the county on the rate study and make any
13 recommendations to the county's wastewater treatment division director.

14 A key recommendation of the work group is that capacity charge customer
15 classifications should bear a close relationship with the average persons
16 per household for each customer class.

17 In a residential setting, the number of occupants or persons per household,
18 is a logical factor driving the wastewater discharge volume of a structure.

19 Average persons per household by structure type can be evaluated using

Ordinance 19153

20 readily available data from housing surveys conducted regularly by the
21 U.S. Census Bureau.

22 BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

23 SECTION 1. Ordinance 13680, Section 16, as amended, and K.C.C. 28.86.160 is
24 hereby amended as follows:

25 A. Under the (~~provisions of the~~) King County Charter and RCW 35.58.200,
26 these financial policies are hereby adopted and declared to be the principal financial
27 policies of the comprehensive water pollution abatement plan for King County, adopted
28 by the Municipality of Metropolitan Seattle (Metro) in Resolution No. 23, as amended,
29 and the RWSP, a supplement to the plan.

30 B. Explanatory material.

31 1. Financial forecast and budget. Policies FP-1 through FP-10 are intended to
32 guide the county in the areas of prudent financial forecasting and budget planning and are
33 included to ensure the financial security and bonding capacity for the wastewater system.
34 This set of policies also addresses the county's legal and contractual commitments
35 regarding the use of sewer revenues to pay for sewer expenses.

36 2. Debt financing and borrowing. Policies FP-11 through FP-14 are intended to
37 guide the county in financing the wastewater system capital program. These policies
38 direct that capital costs be spread over time to keep rates more stable for ratepayers by the
39 county issuing bonds. A smaller share of annual capital costs will be funded directly
40 from sewer rates and sewer revenues and capacity charges.

41 3. Collecting revenue. Policies FP-15 through FP-17 are intended to guide King
42 County in establishing annual sewer rates and approving wastewater system capital

Ordinance 19153

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

48 4. Community treatment systems. Policy FP-18 is intended to guide the county
49 in the financial management of community treatment systems.

50 C. Policies.

51 1. Financial forecast and budget.

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

56 FP-2: If the operations component of the proposed annual wastewater system
57 budget increases by more than the reasonable cost of the addition of new facilities,
58 increased flows, new programs authorized by the council, and inflation, or if revenues
59 decline below the financial forecast estimate, a feasible alternative spending plan shall be
60 presented, at the next quarterly budget report, to the council by the executive identifying
61 steps to reduce cost increases.

62 FP-3: The executive shall maintain an ongoing program of reviewing business
63 practices and potential cost-effective technologies and strategies for savings and
64 efficiencies; the results shall be reported in the annual budget submittal and in an annual
65 report to the RWQC.

Ordinance 19153

66 FP-4: New technologies or changes in practice that differ significantly from
67 existing technologies or practices shall be reported to the council and RWQC with
68 projected costs prior to implementation and shall also be summarized in the RWSP
69 annual report.

70 FP-5: Significant new capital and operational initiatives proposed by the
71 Executive that are not within the scope of the current RWSP nor included in the RWSP,
72 or are required by new state or federal regulations will be reviewed by the RWQC and
73 approved by the council to ensure due diligence review of potential impacts to major
74 capital projects' schedules, including Brightwater, the bond rating or the sewer rate and
75 capacity charge.

76 FP-6: The county shall maintain for the wastewater system a prudent minimum
77 cash balance for reserves, including, but not limited to, cash flow and potential future
78 liabilities. The cash balance shall be approved by the council in the annual sewer rate
79 ordinance.

80 FP-7: Unless otherwise directed by the council by motion, the King County
81 department of natural resources and parks or its successor agency shall charge a fee that
82 recovers all direct and indirect costs for any services related to the wastewater system
83 provided to other public or private organizations.

84 FP-8: Water quality improvement activities, programs and projects, in addition to
85 those that are functions of sewage treatment, may be eligible for funding assistance from
86 sewer rate revenues after consideration of criteria and limitations suggested by the
87 metropolitan water pollution abatement advisory committee, and, if deemed eligible,
88 shall be limited to one and one half percent of the annual wastewater system operating

Ordinance 19153

89 budget. An annual report on activities, programs and projects funded will be made to the
90 RWQC. Alternative methods of providing a similar level of funding assistance for water
91 quality improvement activities shall be transmitted to the RWQC and the council within
92 seven months of policy adoption.

93 FP-9: The calculation of general government overhead to be charged to the
94 wastewater system shall be based on a methodology that provides for the equitable
95 distribution of overhead costs throughout county government. Estimated overhead
96 charges shall be calculated in a fair and consistent manner, utilizing a methodology that
97 best matches the estimated cost of the services provided to the actual overhead charge.
98 The overall allocation formula and any subsequent modifications will be reported to the
99 RWQC.

100 FP-10: The assets of the wastewater system are pledged to be used for the
101 exclusive benefit of the wastewater system including operating expenses, debt service
102 payments, asset assignment and the capital program associated therewith. The system
103 shall be fully reimbursed for the value associated with any use or transfer of such assets
104 for other county government purposes. The executive shall provide reports to the RWQC
105 pertaining to any significant transfers of assets for other county government purposes in
106 advance of and subsequent to any such transfers.

107 2. Debt financing and borrowing.

108 FP-11: The county shall structure bond covenants to ensure a prudent budget
109 standard.

110 FP-12: King County should structure the term of its borrowings to match the
111 expected useful life of the assets to be funded.

Ordinance 19153

112 FP-13: The wastewater system's capital program shall be financed predominantly
113 by annual staged issues of long-term general obligation or sewer revenue bonds, provided
114 that:

115 All available sources of grants are utilized to offset targeted program costs;
116 Funds available after operations and reserves are provided for shall be used for
117 the capital program; excess funds accumulated in reserves may also be used for capital;

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

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

124 FP-14: To achieve a better maturity matching of assets and liabilities, thereby
125 reducing interest rate risk, short-term borrowing shall be used to fund a portion of the
126 capital program, provided that:

127 Outstanding short-term, variable rate debt comprises no more than twenty percent
128 of total outstanding revenue bonds and general obligation bonds; and

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

131 3. Rates - sewer rates and capacity charge.

132 FP-15: King County shall charge its customers sewer rates and capacity charges
133 sufficient to cover the costs of constructing and operating its wastewater system.

134 Revenues shall be sufficient to maintain capital assets in sound working condition,

Ordinance 19153

135 providing for maintenance and rehabilitation of facilities so that total system costs are
136 minimized while continuing to provide reliable, high quality service and maintaining high
137 water quality standards.

138 1. Existing and new sewer customers shall each contribute to the cost of the
139 wastewater system as follows:

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

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

148 2. Sewer rate. King County shall maintain a uniform monthly sewer rate
149 expressed as charges per residential customer equivalent for all customers.

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

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

Ordinance 19153

158 funds from this rate stabilization account shall be provided annually to the RWQC.

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

162 3. Capacity charge. The amount of the capacity charge shall be a uniform
163 charge(;) applied to each residential customer class structure type based on an estimate
164 of the average persons-per-household occupancy for each such a residential customer
165 class structure type. The amount shall be approved annually and shall not exceed the cost
166 of capital facilities necessary to serve new customers. The methodology that shall be
167 applied to set the capacity charge is set forth in FP-15.3.a.

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

176 Capacity = [Total system costs - rate revenue from existing customers] - Rate revenue from new
177 customers

178 Charge

179

180 Number of new customers

181 where:

Ordinance 19153

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

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

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

189 b. The capacity charge may be paid by new customers in a single payment or
190 as a monthly charge at the rate established by the council. The county shall establish a
191 monthly capacity charge by dividing that amount by one hundred eighty (twelve monthly
192 payments per year for fifteen years). The executive shall transmit for council adoption an
193 ordinance to adjust the discount rate for lump sum payment. The executive shall also
194 transmit for council adoption an ordinance to adjust the monthly capacity charge to
195 reflect the county's average cost of money if the capacity charge is paid over time.

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

198 d. The capacity charge shall be set such that each new customer shall pay an
199 equal share of the costs of facilities allocated to new customers, regardless of what year
200 the customer connects to the system. The capacity charge shall be based upon the costs,
201 customer growth and related financial assumptions used for the Regional Wastewater
202 Services Plan adopted by Ordinance 13680 as such assumptions may be updated.
203 Customer growth and projected costs, including inflation, shall be updated every three
204 years beginning in 2003.

Ordinance 19153

205 e. The county should periodically review the capacity charge to ensure that the
206 actual costs of system expansion to serve new customers are reflected in the charge. All
207 reasonable steps should be taken to coordinate the imposition, collection of and
208 accounting for rates and charges with component agencies to reduce redundant program
209 overhead costs.

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

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

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

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

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

Ordinance 19153

228 k. Any costs not allocated in FP-15.3. f., g., h., i. and j. shall be paid by
229 existing and new customers in the sewer rate.

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

232 4. Based on an analysis of residential water consumption, as of December 13,
233 1999, King County uses a factor of seven hundred fifty cubic feet per month to convert
234 water consumption of volume-based customers to residential customer equivalents for
235 billing purposes. King County shall periodically review the appropriateness of this factor
236 to ensure that all accounts pay their fair share of the cost of the wastewater system.

237 FP-16: The executive shall prepare and submit to the council a report in support
238 of the proposed monthly sewer rates for the next year, including the following
239 information:

240 Key assumptions: key financial assumptions such as inflation, bond interest rates,
241 investment income, size and timing of bond issues, and the considerations underlying the
242 projection of future growth in residential customer equivalents;

243 Significant financial projections: all key projections, including the annual
244 projection of operating and capital costs, debt service coverage, cash balances, revenue
245 requirements, revenue projections and a discussion of significant factors that impact the
246 degree of uncertainty associated with the projections;

247 Historical data: a discussion of the accuracy of the projections of costs and
248 revenues from previous recent budgets, and

249 Policy options: calculations or analyses, or both, of the effect of certain policy
250 options on the overall revenue requirement. These options should include alternative

Ordinance 19153

251 capital program accomplishment percentages (including a ninety percent, a ninety-five
252 percent and a one hundred percent accomplishment rate), and the rate shall be selected
253 that most accurately matches historical performance in accomplishing the capital program
254 and that shall not negatively impair the bond rating.

255 FP-17: Expenditures from the wastewater revenues to correct water pollution
256 problems caused by septic systems shall occur only if such expenditures financially
257 benefit wastewater system current customers when the additional monthly sewer rate
258 revenues from these added customers are considered.

259 FP-18: The cost of community treatment systems developed and operated in
260 accordance

Ordinance 19153

261 with WWSP-15 would not be subsidized by the remaining ratepayers of the county's
262 wastewater treatment system.
263

Ordinance 19153 was introduced on 2/25/2020 and passed by the Metropolitan King County Council on 9/1/2020, by the following vote:

Yes: 9 - Ms. Balducci, Mr. Dembowski, Mr. Dunn, Ms. Kohl-Welles, Ms. Lambert, Mr. McDermott, Mr. Upthegrove, Mr. von Reichbauer and Mr. Zahilay

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

DocuSigned by:
Claudia Balducci
F8830810F1C4427...

Claudia Balducci, Chair

ATTEST:

DocuSigned by:
Angel Allende for
C267B914088E4A0...

Melani Pedroza, Clerk of the Council

APPROVED this _____ day of 9/9/2020, _____.

DocuSigned by:
Dow Constantine
4FBCAB8196AE4C6...

Dow Constantine, County Executive

Attachments: None