



Metropolitan Water Pollution Abatement Advisory Committee

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Woodinville Water District

April 6, 2011

The Honorable Dow Constantine
King County Executive
401 Fifth Avenue, Suite 800
Seattle, WA 98104

SUBJECT: Wastewater Treatment Division's 2012 Rate Recommendation

Dear Executive Constantine:

The Metropolitan Water Pollution Abatement Advisory Committee (MWPAAC) remains concerned with the trend in wastewater treatment rates. We recognize that our observations and recommendations were in many ways incorporated in your 2011 rate proposal and appreciate your commitment in that proposal to many of our recommendations. These recommendations included the use of a one-year rate strategy, utilization and management of reserves, implementation of more conservative financing methods, and elimination of unrelated charges such as the Culver fund. Also, your attention to long-term implications of near-term rate decisions is consistent with our goals in managing toward a stable and affordable longer-term rate.

While the funding of the Brightwater Treatment Facility remains the primary cause of rate increases, other financing, funding and cost imposition decisions of the County contribute to the escalating regional wastewater rates. The inevitable prospect of a sewer rate and capacity charge combined will exceed \$100 for new homes and equivalent businesses in King County is extraordinary by both local and national standards and threatens to further inhibit a slow economic recovery.

With this perspective in mind, MWPAAC and its Rates and Finance Subcommittee have reviewed preliminary rate forecasts and scenarios for 2012 and beyond. We are struck by the achievement of many favorable factors in terms of cost reductions including interest rates below forecasts, somewhat higher customer growth and revenues (both now and projected), lower salary-related costs, and improved rate stabilization reserve balances over prior estimates. Even so, the pressure on rates remains due in part to increases in energy costs but also to systemic trends. We share your concern with preliminary rate projections for 2013 and 2014 and beyond that show an upward pressure in rate trends and agree with your assessment that rate outcomes must be managed to limit impacts on customers. This must be done in the context of cost effectiveness and cost containment, rather than financial manipulation, with the litmus test of whether measures benefit both near-term and longer-term rates.

Based on our review, MWPAAC recommends the following regarding rates and finance and specifically for rate strategies for 2012 and beyond:

- 1. One Year Rate.** It would appear that the 2012 rate will remain unchanged from 2011 based on the adopted rate strategy. MWPAAC continues to recommend adoption of a one year rate pattern, rather than continuing with a multi-year rate or adoption of a series of increases, given uncertainty regarding financing cost and structure, start-up costs and timing at Brightwater, growth rates and patterns, developing trends in cost containment, and related Wastewater Treatment Division (WTD) efforts to further mitigate upward rate trends. Adopting a one year rate provides the necessary funding to continue essential programs and maintain the utility's fiscal health while providing the flexibility to adapt subsequent rates to changing costs and trends. It also avoids the large scale "rate shocks" caused in part by the two-year rate pattern.
- 2. Rate Stabilization Reserve.** MWPAAC recommends continued use of the projected rate stabilization reserve balance to mitigate rate increases during the projected rate transition period. This is exactly the purpose of the rate stabilization reserve (RSR) and the current rate transition is a clear opportunity to fulfill this intent. The RSR should be materially exhausted for this purpose during the 2011-2014 rate periods.
- 3. Structure New Debt to Phase in Impacts.** We support your decision to implement more fiscally conservative debt financing strategies in 2011 through the elimination of capitalized interest financing. While capital outlays are expected to decline somewhat, they will continue to require a significant stream of future borrowing, leading us to prefer more traditional structures for repayment of debt. This can continue to be managed through principal and interest debt financing.
- 4. Continue to exclude Culver Fund and other non-wastewater costs from the WTD budget.** The Culver Fund was removed from the 2011 budget. This should be a permanent feature and reflect a policy that limits costs imposed on WTD to those related to fulfilling wastewater mandates. For the future, this standard could be used to determine appropriate assignment of costs to system users while remaining consistent with objectives of economy and equity.
- 5. Continue and Enhance Cost Containment Programs.** We applaud WTD's efforts and accomplishments in cost containment, particularly as related to staffing, and encourage continued efforts in cost containment related to WTD activities and County overhead. We look forward to discussing options with WTD's finance staff on how their \$1.4 million 2012 budget efficiency target will be achieved.
- 6. Enhance Returns of Debt Reserves.** As bond reserves increase in value due to increasing debt load and market conditions, securing adequate returns on these invested funds is material to the resulting rate. We continue to support WTD's intent to explore methods for enhancing investment returns, and recommend acceleration of this review

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and any consequent actions. We wish to remain active in the review and evaluation of any options.

- 7. Avoid Short-term Budget Actions that Increase Overall Costs.** Any decision to defer costs should be made with the purpose of stabilizing rates and finances. Past decisions such as the deferral of PERS contributions have exacerbated the peak rate increases now being faced by deferring costs into, rather than out of, a critical rate period. MWPAAC recommends that management of cost trends is only valid in the context of a coherent rate policy that looks beyond immediate cost avoidance and considers the overall impacts of such decisions. We are fully aware that several such options are noted above in this letter, and note that these are targeted toward mitigating and attenuating rate trends, and not avoiding financial realities.

MWPAAC makes these recommendations with an eye toward a stable, affordable and predictable rate strategy. We hope you will give them due consideration. MWPAAC would also like to express its appreciation of the time and effort put forth by WTD staff in support of and as part of our evaluation.

Sincerely,



Scott Thomasson
MWPAAC Chair

cc: Metropolitan Water Pollution Abatement Advisory Committee Members
Christie True, Department Director, Department of Natural Resources and Parks
(DNRP)
Pam Elardo, P.E., Division Director, Wastewater Treatment Division (WTD), DNRP
Tim Aratani, Finance and Administration Section Manager, WTD, DNRP