King County

Metropolitan King County Council
Budget and Fiscal Management Committee

AGENDA ITEM	5	**DATE:**	June 5, 2012
PROPOSED No.:	2012-0144	**PREPARED BY:**	Amy Tsai, Beth Mountsier

STAFF REPORT

SUBJECT: AN ORDINANCE setting the sewer rate and capacity charge for 2013.

SUMMARY: King County's sewer rates are set for the following year by June 30 of each year. This proposed ordinance would:

- Set the 2013 **monthly sewer rate at $39.85** per residential customer equivalent (RCE) per month, which is a 10.4% or $3.75 increase over the 2012 rate of $36.10;
- Set the **monthly capacity charge** for new connections to the regional system occurring in 2013 **at $53.50**, which is a 3.0% or $1.55 increase over the 2012 rate of $51.95.

BACKGROUND:

The Budget and Fiscal Management Committee was briefed on this item on May 15, 2012. At that time, Councilmember questions were posed regarding the projected increase in the monthly sewer rate over time, whether rate increases projected to occur in the next few years could be deferred to later years to smooth out the impact felt by rate payers, and whether capital expenditures were reasonable.

In response to questions raised by Councilmembers, this staff report provides additional information regarding the Wastewater Treatment Division's (WTD) operating expenses, types of wastewater capital projects, methodology for prioritization in the six-year Capital Improvement Program (CIP) and over the Regional Wastewater Services Planning period, the effect of long-term debt on the rate, and how the county's sewer rate compares to charges by other jurisdictions.

The King County Regional Wastewater Conveyance and Treatment System

The King County regional wastewater conveyance and treatment system collects and treats wastewater from 34 local sewer agencies, including various municipalities, sewer

districts and a tribe in King County, southern Snohomish County and the northern tip of Pierce County.

The system serves about 1.5 million people across 420 square miles, treating an average of 175 million gallons of sewage per day. The infrastructure includes the following:

- three large regional wastewater treatment plants (West Point in the City of Seattle, South Plant in the City of Renton, and Brightwater near Woodinville),
- two small wastewater treatment plants (Vashon Island and City of Carnation,
- one community septic system (Beulah Park and Cove on Vashon Island),
- four combined sewer overflow (CSO) treatment facilities in the City of Seattle (Alki, Carkeek, Mercer/Elliott West, and Henderson/Norfolk),
- 19 regulator stations,
- 42 pump stations,
- 38 CSO outfalls, and
- over 350 miles of pipes.

There are two main sewer charges to customers, a monthly sewer fee and a capacity charge for new connections to the system. The monthly sewer rate collected by the county goes towards all WTD expenses, including operating costs, debt service, and capital expenses. The capacity charge goes towards capital improvements required to provide capacity for new customers.

The contracts specify that the sewer rate be in place by **June 30th** of each year.

Monthly Sewer Rate (as presented on May 15)

The following sewer rate information was presented at the May 15 Budget and Fiscal Management Committee meeting.

The monthly sewer rate for both residential and commercial customers is calculated on the basis of Residential Customer Equivalents (RCEs). One RCE (750 cubic feet of wastewater) represents the average amount of wastewater a single family residence would generate in a month and is codified as one RCE. Commercial and industrial customers are charged based on the amount of wastewater generated, converted into RCEs.

The Executive's proposal includes raising the monthly sewer rate charge to $39.85 per RCE per month. Historical sewer rates are provided in the following table, along with the Executive's projections through 2018 (based on establishing a rate of $39.85 in 2013):

Table 1. Sewer Rates (1996-2012 Actual; 2013-2017 Projected)

Year	Rate ($/RCE/ Month)	% Increase
1996 - 1999	$19.10	
2000	19.50	2.1%
2001	19.75	1.3%
2002 - 2004	23.40	18.5%, 0%, 0%
2005 - 2006	25.60	9.4%, 0%
2007 - 2008	27.95	9.2%, 0%
2009 - 2010	31.90	14.1%, 0%
2011 - 2012	36.10	13.2%, 0%
2013-2014	**39.85**	**10.4%, 0%**
2015	43.83	10.0%
2016	44.68	1.9%
2017	44.77	0.2%

The Executive's proposed sewer rate of $39.85 is a 10.4 percent increase over the 2011-12 rate, or an increase of $3.75. As the Executive noted in his transmittal letter, the proposed rate is $0.03 less per month than was projected in the 2012 budget adopted in November 2011. The out-year projections are slightly higher than had been projected when the 2012 rate was adopted last year.

Most of the sewer rate (54%) goes towards debt service payments. About a quarter of the rate (28%) goes towards operating expenses (everything from labor costs to operational costs at the treatment plants and conveyance facilities). The remainder pays for overhead charges from county agencies and other interdepartmental services, including water quality testing (5%) and direct capital payments (8%). A small amount of the rate (5%) is being used to complete a 2013 payoff of an interfund loan that was arranged three years ago to terminate short-term/variable rate debt when it was extremely volatile during the economic downturn.

Capacity Charge (as presented on May 15)

The following capacity charge information was presented at the May 15 Budget and Fiscal Management Committee meeting.

New connections to the regional wastewater system are assessed a capacity charge designed to pay for capital improvements required to provide capacity for these new customers. This is in accordance with the adopted policy of “growth pays for growth” (K.C.C. 28.86.160 FP-15 and Ordinance 14219). New connection customers are locked into the capacity charge rate that is in effect at the time they connect to the system and begin to be assessed the charge by the county. The capacity charge is payable over a fifteen year period, or it can be paid in a lump sum (up front or at any time).

The executive's proposed capacity charge of $53.50 is an increase of 3.0%, or $1.55 over the 2012 capacity charge of $51.95. The capacity charge as proposed for 2013 at $53.50 would amount to $9,630 if paid monthly for the full term of 15 years. An up-front payment, discounted at 5.5% compounded over the 15 years, would amount to $6,618.

A history of the capacity charge along with projections through 2018 is provided in the following table:

Table 2. Capacity Charge (1996 – 2012 Actual; 2013-2018 Projected)

Year	Rate/Month/RCE 15-yr. duration	% Increase
1996 - 1997	$7.00	
1998 - 2001	10.50	50.0%
2002	17.20	63.8%
2003	17.60	2.3%
2004	18.00	2.3%
2005 - 2006	34.05	89.2%
2007	42.00	23.3%
2008	46.25	10.1%
2009	47.64	3.0%
2010	49.07	3.0%
2011	50.45	2.8%
2012	51.95	3.0%
2013	**53.50**	**3.0%**
2014	55.10	3.0%
2015	56.75	3.0%
2016	58.45	3.0%
2017	60.20	3.0%
2018	62.00	3.0%

The sharp increase in 2005-2006 was due to a Regional Wastewater Services Plan (RWSP) update, with new cost estimates for all components of the RWSP, including Brightwater.

The capacity charge is based on long-term 30-year projections (of customers and anticipated debt burdens for capacity projects through the year 2030) and therefore tends to be stable over time. The projections are updated every three years. They were last updated in 2010 for the 2011 proposed capacity charge. The 3 percent increase is the standard increase made in the 'off years' between the comprehensive re-calculation that is done every three years (per policy).

The capacity charge is calculated using methodology laid out in Wastewater Financial Policy 15 (FP-15), K.C.C. 28.86.160. The Regional Water Quality Committee is reviewing the capacity charge methodology through its chartered Financial Policies Work Group.

ANALYSIS:

At the May 15 Budget and Fiscal Management Committee meeting, Councilmembers asked about the continuing rising cost of sewer rates. The following analysis provides additional detail on the following topics:

Operating

- The components of the operating budget are presented in greater detail below. WTD projects a 4.65% increase in operating expenses, and has taken steps to contain operating budget costs, including maintaining the same staffing levels and incorporating efficiencies in its operations.

Capital

- Capital costs and long term debt service payments are a significant factor in the rate increases. The steadily increasing wastewater rates are projected to taper off as Brightwater is completed and borrowing for capital projects returns to historic norms. Components of the rate, the five-year outlook, and long-term debt projections are reviewed below.
- The allocation of capital expenditures is presented in greater detail, identifying how much is being spent on asset management, capacity building, and regulatory compliance projects.

Comparison with other jurisdictions

- King County's steadily increasing sewer rates mirrors a nationwide pattern of rising sewer rates as utilities pay for maintenance and repair of aging infrastructure while also feeling cost pressures from the need to increase capacity as populations grow and comply with regulatory requirements.

Wastewater Treatment Division Budget

The 2012 Wastewater Treatment Division (WTD) budget is 10.0% of the County's total $5.4 billion budget. It was 10.3% of the County's total budget in 2011, and 7.6% in 2010. The WTD budget is comprised of Operations, Debt Service, and CIP, as shown in Table 3.

Table 3. 2010-2012 Adopted WTD Budget

WTD Appropriation	2010 Adopted	2010 %	2011 Adopted	2011 %	2012 Adopted	2012 %
Operations	$108,872,937	29%	$111,115,816	21%	$116,620,203	22%
Debt Service	178,569,346	47%	188,627,713	36%	211,619,903	39%
CIP	91,993,254	24%	230,768,117	43%	211,949,631	39%
Total	$379,435,537	100%	$530,511,646	100%	$540,189,737	100%

Revenues

WTD has an operating revenue forecast of $418 million in 2013 (see Attachment A to Proposed Ordinance, WTD Financial Plan for the 2013 Proposed Sewer Rate). Almost 93 percent ($385 million) of the total revenue for 2013 is secured via the monthly sewer rate ($338 million) and capacity charge ($46 million). Investments and other income such as from industrial waste charges plus use of the rate stabilization reserve are the other sources of operating revenue.

WTD has a capital revenue forecast of $171 million in 2013 (see Attachment A Financial Plan), which includes bond sales and grants or loans.

Expenditures

Operating

WTD has a projected 2013 operating budget of $122,037,500, an increase of 4.65% compared to its 2012 adopted operating budget of $116,620,203.

The table below shows the differences between 2012 and 2013.

Table 4. 2012 vs. 2013 Projected Operating Expenditures

	2012 Budget	2013 Projected	% Change
Salaries, Benefits, COLA, merit	$43.8M	$45.7M	4%
Supplies	11.8	14.8	26%
Services & Other	33.8	31.7	(6%)
Intragovernmental	28.3	30.2	7%
Total	$117M	$122M	4.65%

Diesel fuel and chemical costs are the largest increases in the 2013 projected operating budget. A $600,000 payment for ABT, the countywide Accountable Business Transformation project, is another sizeable impact to the WTD operating budget. As noted in the WTD issue paper attached to the Executive's transmittal (Attachment 3), the 2013 budget includes $700,000 in operating expense reductions identified by WTD.

Staffing levels at WTD have remained stable for a long period of time from 598.7 FTEs in 2005 down to 585.7 FTEs in 2012. This is noteworthy considering this time period includes the opening of Brightwater in 2011 and, prior to that, the opening of the Carnation Treatment Plant in 2008 and the Vashon facility in 2006.

Given the stable operating budget in the face of rising chemical costs and treatment plant staffing needs, the WTD operating budget appears to be reasonable. However, a more detailed examination of the operating budget may reveal opportunities for additional savings.

It would be difficult to cut treatment plant costs such as chemical supplies and utility charges. Administrative costs ranging from personnel to office supplies would be areas

that could be impacted by policy choices. In addition, there are some areas where WTD has expended less than was budgeted; cuts in those areas would be smaller but a budgetary exercise that should have no impact on services.

It is a $122 million total operating budget and every $80,000 to $90,000 in cuts (0.07%) would save approximately one cent on the sewer rate. In its issue paper (Attachment 3), WTD expresses an intent to identify an additional $1.9 million in efficiency savings by 2014 (because some costs increase as well, this does not necessarily translate directly into rate reductions).

Capital

As can be seen in the table below, debt service is a significant component of the rate.

Table 5. Components of the Monthly Sewer Rate

Debt Service	**$ 21.55**	**54%**
Existing long-term debt	19.75	
New long-term debt (2013)	0.31	
Existing variable debt	1.29	
New variable debt (2013)	0.20	
Operating	**$ 13.22**	**33%**
Salaries & benefits	4.90	
Supplies (chemicals, diesel fuel, etc.)	1.60	
Services/Utilities and Other	3.43	
Intragovernmental transfers	3.28	
Interfund Loan Payment	**$ 1.85**	**5%**
Debt Service Coverage Requirement	**$ 3.23**	**8%**
TOTAL	**$ 39.85**	**100%**

WTD is completing construction of a third regional treatment plant that has required significant borrowing of capital. The debt was structured to 'smooth' the rate increases but has still involved major increases in debt payments every two years from 2010 – 2016.

As capital funding needs lessen in the out-years (due primarily to completion of Brightwater), so does pressure on the rate. This is illustrated in the tables and figure below showing projected capital spending, outstanding debt, and projected rate increases over the next several years.

The steadily increasing wastewater rates are projected to taper off as Brightwater is completed and borrowing for capital projects returns to a historic norm averaging closer to $200 million per year. As can be seen in Table 6, the planned capital spending for 2012 through 2017 is significantly lower compared to 2008 through 2011.

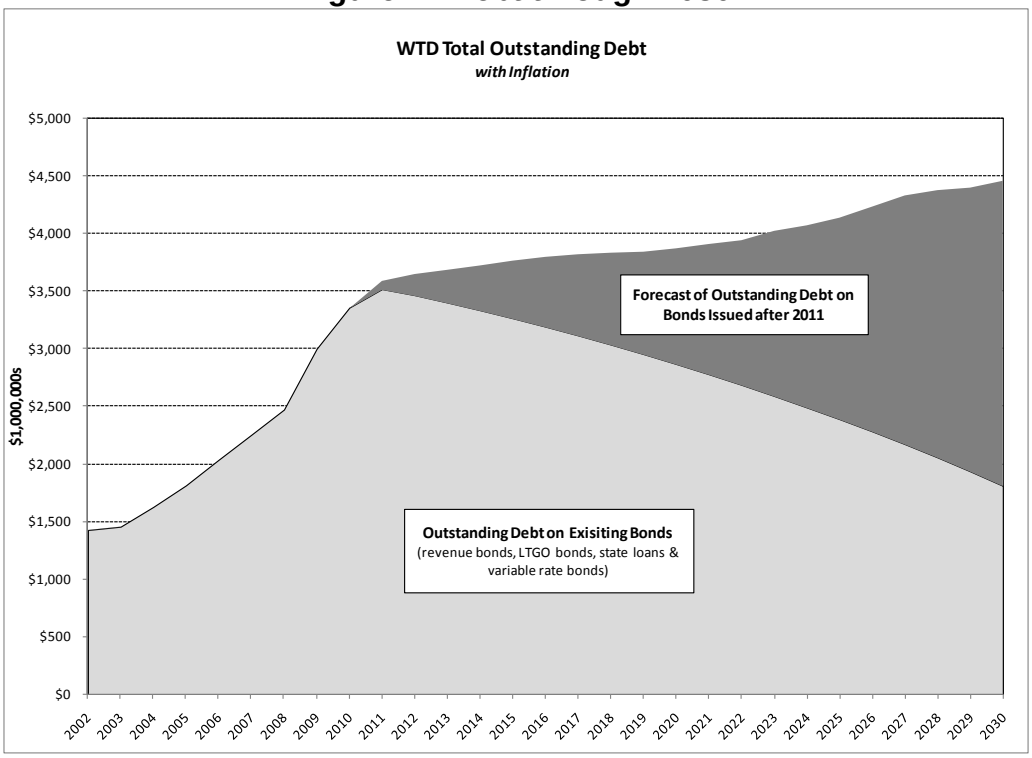
Table 6. WTD CIP Spending Plan through 2017

Wastewater Treatment Division
Capital Improvement Program Spending

	actual									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Brightwater System										
2012 Adopted	375.6	367.3	320.6	194.1	52.9	15.2	-	-	-	-
2013 Updated	375.6	367.3	320.6	174.7	89.1	32.6				
Difference	- -	- -	- -	(19.4)	36.2	17.4	-	-	-	-
Other Capital Projects										
2012 Adopted	98.5	91.8	79.8	111.0	114.4	155.5	179.4	193.7	212.0	175.1
2013 Updated	98.5	91.8	79.8	98.6	134.7	157.2	170.4	205.4	206.4	205.7
Difference	- -	- -	- -	(12.4)	20.3	1.7	(9.0)	11.7	(5.6)	30.6
Total Capital Programs										
2012 Adopted	474.1	459.0	400.4	305.1	167.3	170.7	179.4	193.7	212.0	175.1
2013 Updated	474.1	459.0	400.4	273.3	223.8	189.8	170.4	205.4	206.4	205.7
Difference	- -	- -	- -	(31.8)	56.5	19.1	(9.0)	11.7	(5.6)	30.6

WTD's debt forecast through 2030 is depicted in Figure 1 below.

Figure 1. Debt through 2030



The more gradual increase in outstanding debt that occurs after 2011 helps the five-year rate outlook presented in Table 7 below.

Table 7. Executive's 2013 Proposed Sewer Rate

	2013	2014	2015	2016	2017	2018
Monthly Sewer Rate	$39.85	$39.85	$44.26	$44.26	$44.77	$45.09
% Change	10.4%	0%	11.1%	0%	1.2%	0.7%

As was noted in the briefing on May 15, projects that could be safely deferred during construction of Brightwater were delayed, creating a backlog of projects that will need to be completed. Careful evaluation, prioritization and timing of these projects will be necessary to balance impacts to the rate with the necessity to ensure the wastewater system and facilities are meeting regulatory standards, capacity projections and being maintained through prudent asset management investments.

A summary of WTD's capital project prioritization process is included as Attachment 4 to this staff report. Capital projects are prioritized within three major categories: 1) major capital projects which include regional capacity needs, 2) asset management to reduce service disruption and impacts from asset failure, and 3) planning for regional service needs. For each of these three categories, regulatory compliance and contractual requirements are among the factors considered in the prioritization process.

At the request of staff, WTD's current plans for significant 2013 capital projects are categorized by whether they are asset management, capacity building, or regulatory-required projects and presented in Attachment 5 to this staff report.

Table 8. 2013 Proposed Capital Spending Plan by Project Type

	Spending Plan	%
Asset Management	$80,867,143	43%
Capacity	$61,702,718	33%
Regulatory	$47,192,977	25%
Total	$189,762,838	100%

WTD will continue to seek low interest loans to help finance capital projects, such as the loans it has successfully received in the past from the Washington State Department of Ecology State Revolving Fund Loan Program.

Although some pressure could be taken off of the current rate by deferring capital projects, the result would be to place additional pressure on the out-years. It is possible that some projects could be deferred long enough for rate increases to be shifted to future years that have much smaller projected rate increases. However, there is still one more sizeable rate increase projected for 2015 before the rate begins to level off.

Regulatory projects are the projects least likely to be deferrable. Under the Clean Water Act and the powers of the Environmental Protection Agency and Washington State Department of Ecology, there is little ‘wiggle room’ for projects that are required to meet water quality standards such as control of the combined sewer overflow or other treatment plant improvements to improve screening of materials, etc. The regulatory projects are typically tied to the issuance of NPDES permits for the treatment plants. King County is required to show progress in implementing and completing projects to secure new permits every five years.

Projects that have reached the implementation phase (i.e., have a signed construction contract) are also unlikely to be deferrable. Aside from projects that have a contested bidding phase, or run into construction issues during implementation that require a hiatus until the issue is resolved – it is typically most cost-effective in the short and long-term to implement and complete a project that has reached the final design phase and/or construction phase.

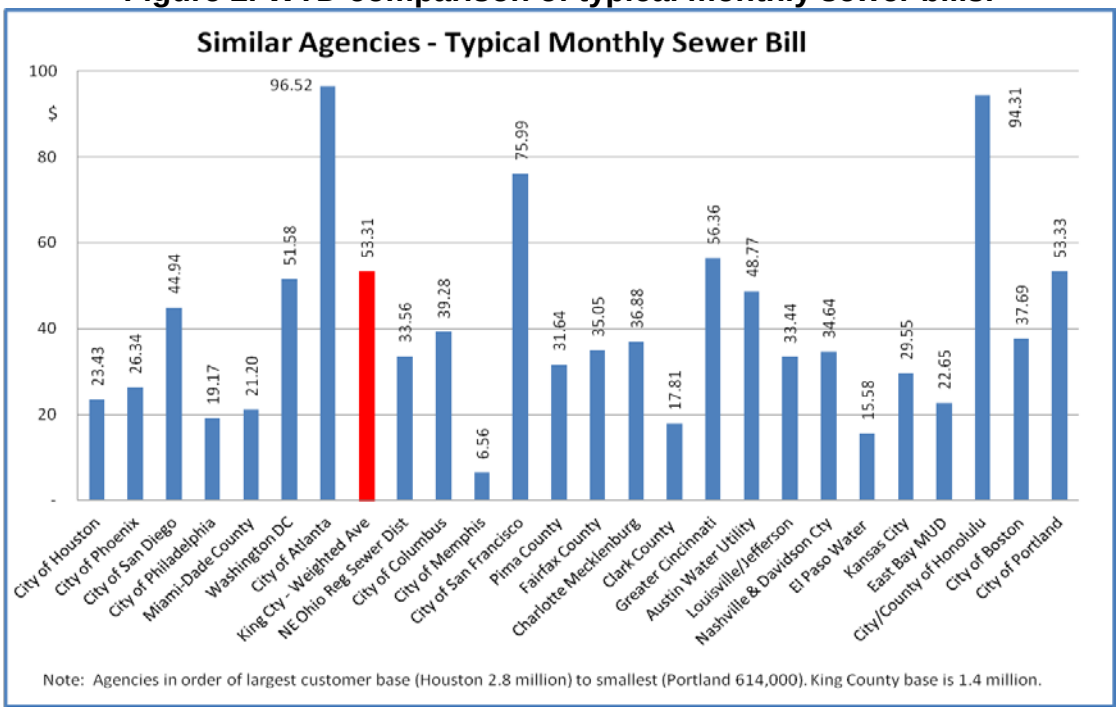
The Council will have an opportunity to review the Executive's proposed WTD capital projects as part of the 2013 budget process this fall. Until then, WTD continues to work on capital projects in accordance with the adopted 2012 budget, including those projects that could be proposed for deferral.

Comparison with Other Agencies

When residents pay their bill, they are charged by their utility provider for both the county's costs as well as the utility's local costs for connecting to the county system. Therefore, when national comparisons of sewer bills are made, the retail rates are not directly comparable to the wholesaler rate that King County charges local utilities.

The previous staff report presented information provided by the Wastewater Treatment Division comparing average retail rates paid by consumers who are part of the King County regional wastewater system. The Executive compared 2011 retail rates for 25 agencies across the country to King County. The Executive determined that King County ranked sixth among the surveyed agencies. Nine of the 26, including King County, fell within the range of $35 to $56 per month, with an average rate of $39.98 for all agencies. The average monthly household charge in King County is $53.31 (see Figure 2 below).

Figure 2. WTD comparison of typical monthly sewer bills.



The Executive also compared the average annual percent increase from 2001 to present. In Black and Veatch's, "50 Largest Cities Water and Wastewater Rate Survey", the average annual increase in wastewater rates between 2001 and 2009 was 5.5 percent for the 50 largest utilities in the country. During this same period WTD rates increased an average of 5.6 percent. If the period is expanded to 2001 to 2014 to include the rates from this proposal, the average annual rate of increase is 5.2 percent.

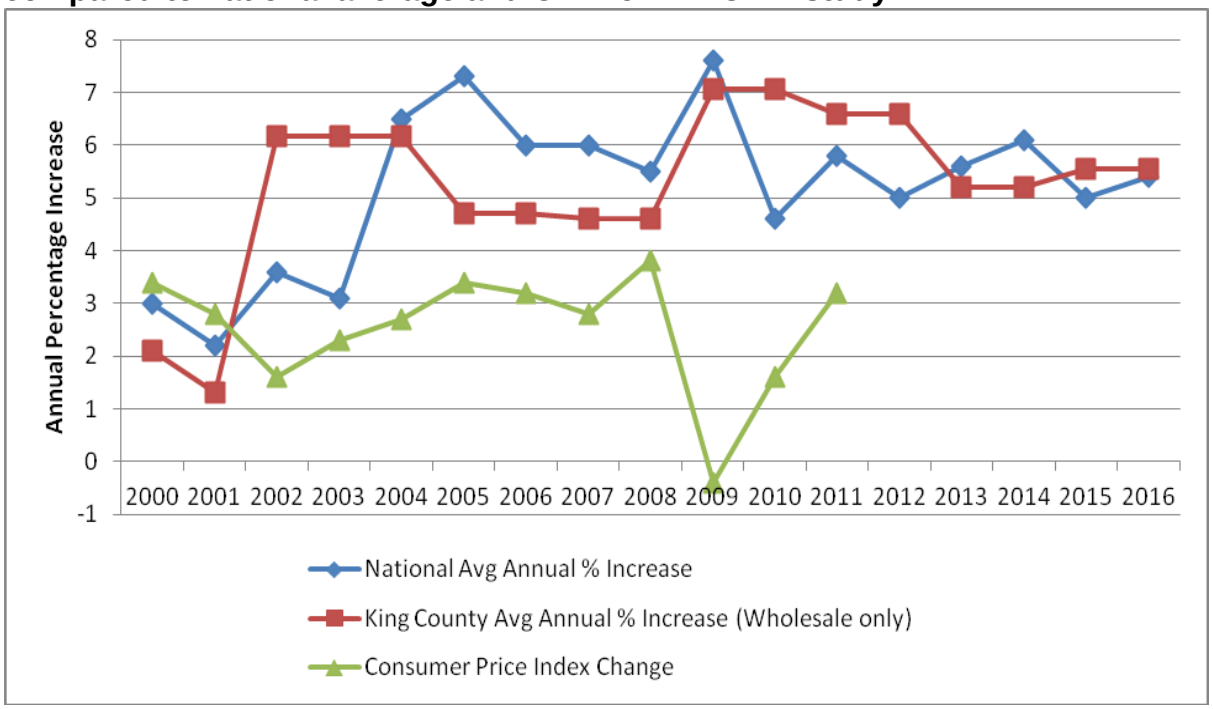
Comparing systems is difficult. For example, these numbers do not take into account the condition of each jurisdiction's wastewater treatment system, their ability to meet the needs of their regions, capacity to handle overflows, and age of their systems.

As an example of rising sewer rates across the country, on May 28, 2012, the town of St. Joseph, Missouri (population 77,000) adopted an 11% sewer rate increase, raising the average residential customer's sewer bill by $4.06 from $34.66 to $38.72. St. Joseph predicts 12% increases in 2013 and 2014, followed by 13% increases in 2015 and 2016. Their rising sewer rates are attributed to costs associated with projects to meet federal wastewater and stormwater mandates. Closer to home, Pierce County's wastewater treatment system currently serves an estimated 252,000 people in the unincorporated areas of the county and eight cities. But its regional treatment plant will soon be expanded to increase its capacity from an average of 28 million gallons to 43 million gallons daily and upgraded to meet stricter treatment regulations. Ratepayers began paying for the expansion with a series of rate hikes starting in 2010 that will result in a 63 percent increase over four years according to the Tacoma News Tribune. When the final rate hike in January 2013 goes into effect to support this expansion, the monthly sewer rate for single family residences will have increased from $25.72 to $41.86.

A national survey of over 150 utilities by the National Association of Clean Water Agencies found that sewer rates across the country have been rising faster than the pace of inflation. Their survey is consistent with the Black and Veatch study in finding a steady rise in sewer rates nationwide.

NACWA concluded that utilities continue to fund needed infrastructure repairs to maintain current levels of service despite current economic conditions. Thus, the King County system is not alone in the challenges it faces to deliver a functioning regional wastewater system while containing costs and rates for residents.

Figure 3. King County average monthly sewer rate increase[1] (wholesale only) compared to national average and CPI from NACWA study.



As was reported at the May 15 committee briefing, the Metropolitan Water Pollution Abatement Advisory Committee (MWPAAC[2]) has expressed its concern that if the county continues on its present trajectory, the increasing debt service may leave WTD with insufficient financial flexibility to address unanticipated new costs or constraints. WTD staff have stated that this is a good time for conversations on this topic, and meetings are being planned in the upcoming months with MWPAAC to discuss this issue. In addition, MWPAAC's concerns are expected to be addressed by policy and other pragmatic discussions at the Regional Water Quality Committee which provides policy guidance for water quality and wastewater issues.

It is worth reiterating that there is one more sizeable rate of 11.1% projected for 2015 in the WTD financial plan (Attachment 1, Attachment A to proposed ordinance) before King County rates are projected to level off. Therefore, now is a critical time for conversations about the county's long-term debt outlook and long-range plans for asset management, capacity building, and regulatory compliance.

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[1] For King County multi-year rates, a straight average of the rate increase over the multi-year period was taken (e.g., a 10.4% two-year increase is represented as two one-year 5.2% increases).

[2] MWPAAC advises the King County Council and Executive on matters related to water pollution abatement. It was created by state law (RCW 35.58.210) and consists of representatives from cities and local sewer utilities that operate sewer systems with in King County. Most of these cities and sewer utilities deliver their sewage to King County for treatment and disposal.

Timing

The wastewater contracts specify that the sewer rate be in place by June 30 of each year. For a non-emergency ordinance, after Council approval, the Executive would need to sign by June 20 to meet this deadline. Therefore, the Council would ideally adopt the rate by its June 11 meeting, but no later than June 18 for a non-emergency ordinance. **This item should be expedited to Council.**

REASONABLENESS:

Proposed Ordinance 2012-0144 would raise sewer rates from $36.10 to $39.85 (10.4% increase) and increase the capacity charge from $51.95 to $53.50 (3.0% increase). Operating and capital costs of delivering King County's regional wastewater treatment and conveyance system appear reasonable. Adopting the rate as proposed appears to be a reasonable and prudent financial and business decision.

However, given the continuing fragile economic recovery in the region and other utility increases that are necessary at this time, to the extent that WTD operating and capital expenditures can be further reduced in 2013-2014, it would ease rate increases in the near-term for residents and businesses and shift more of the costs to the out-years.

INVITED:

- Pam Elardo, Director, Wastewater Treatment Division, DNRP
- Tim Aratani, Manager, Finance and Administrative Services, Wastewater Treatment Division, DNRP
- Tom Lienesch, Economist, Wastewater Treatment Division, DNRP
- Dwight Dively, Director, Performance, Strategy and Budget

ATTACHMENTS:

1. Proposed Ordinance 2012-0144 (with Attachment)
   A. WTD Financial Plan for the 2013 Proposed Sewer Rate
2. Fiscal Note
3. Executive's Transmittal Letter and Attachments
4. WTD capital project prioritization process
5. WTD 2013 Significant Capital Improvement Projects organized by project type

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King County

1200 King County Courthouse
516 Third Avenue
Seattle, WA 98104

KING COUNTY

Signature Report

June 4, 2012

Ordinance

Proposed No. 2012-0144.1 **Sponsors** McDermott

AN ORDINANCE determining the monetary requirements for the disposal of sewage for the fiscal year beginning January 1, 2013, and ending December 31, 2013, setting the sewer rate for the fiscal year beginning January 1, 2013, and ending December 31, 2013, and approving the amount of the sewage treatment capacity charge for 2013, in accordance with RCW 35.58.570; and amending Ordinance 12353, Section 2, as amended, and K.C.C. 4A.--.---, and Ordinance 11398, Section 1, as amended, and K.C.C. 28.84.055.

BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

SECTION 1. Ordinance 12353, Section 2, as amended, and K.C.C. 4A.--.--- are each hereby amended to read as follows:

A. Having determined the monetary requirements for the disposal of sewage, the council hereby adopts a ((~~2012~~)) 2013 sewer rate of ((~~thirty-six dollars and ten~~)) thirty-nine dollars and eighty-five cents per residential customer equivalent per month. Once a sewer rate ordinance becomes effective, the clerk of the council is directed to deliver a copy of that ordinance to each agency having an agreement for sewage disposal with King County.

B. The King County council approves the application of Statement of Financial Accounting Standards No. 71 (FAS 71) to treat pollution remediation obligations as regulatory assets, and establish a rate stabilization reserve for the purpose of leveling rates between years.

C. As required for FAS 71 application, amounts are to be placed in the rate stabilization reserve from operating revenues and removed from the calculation of debt service coverage. The reserve balance shall be an amount at least sufficient to maintain a level sewer rate between ((~~2011 and 2012~~)) 2013 and 2014, and shall be used solely for the purposes of: maintaining the level sewer rate in ((~~2012~~)) 2014; and if additional reserve balance is available, moderating future rate increases beyond ((~~2012~~)) 2014. The estimated amount of the reserve, as shown in the financial forecast, Attachment A to ((~~Ordinance 17102~~)) this ordinance, shall be revised in accordance with the ((~~2012~~)) 2013 adopted budget and financial plan. If the reserve needs to be reduced to meet debt service coverage requirements for ((~~2011~~)) 2012, the county executive shall notify the council of the change by providing an updated financial forecast.

D. The executive shall provide monthly cost reports to the council on Brightwater as outlined in K.C.C. 28.86.165.

SECTION 2. Monetary requirements for the disposal of sewage as defined by contract with the component sewer agencies for the fiscal year beginning January 1, 2013, and ending December 31, 2013. The council hereby determines the monetary requirements for the disposal of sewage as follows:

Administration, operating, maintenance repair and replace (net of other income): $66,207,551.

Establishment and maintenance of necessary working capital reserves: $22,378,688.

Requirements of revenue bond resolutions (not included in above items and net of interest income): $294,445,034.

TOTAL: $338,273,898.

SECTION 3. Ordinance 11398, Section 1, as amended, and K.C.C. 28.84.055 are each hereby amended as follows:

A. The amount of the metropolitan sewage facility capacity charge adopted by K.C.C. 28.84.050.O. that is charged monthly for fifteen years per residential customer or residential customer equivalent shall be:

1. Seven dollars for sewer connections occurring between and including January 1, 1994, and December 31, 1997;

2. Ten dollars and fifty cents for sewer connections occurring between and including January 1, 1998, and December 31, 2001;

3. Seventeen dollars and twenty cents for sewer connections occurring between and including January 1, 2002, and December 31, 2002;

4. Seventeen dollars and sixty cents for sewer connections occurring between and including January 1, 2003, and December 31, 2003;

5. Eighteen dollars for sewer connections occurring between and including January 1, 2004, and December 31, 2004;

6. Thirty-four dollars and five cents for sewer connections occurring between and including January 1, 2005, and December 31, 2006;

7. Forty-two dollars for sewer connections occurring between and including January 1, 2007, and December 31, 2007;

8. Forty-six dollars and twenty-five cents for sewer connections occurring between and including January 1, 2008, and December 31, 2008;

9. Forty-seven dollars and sixty-four cents for sewer connections occurring between and including January 1, 2009, and December 31, 2009;

10. Forty-nine dollars and seven cents for sewer connections occurring between and including January 1, 2010, and December 31, 2010;

11. Fifty dollars and forty-five cents for sewer connections occurring between and including January 1, 2011, and December 31, 2011; ((~~and~~))

12. Fifty-one dollars and ninety-five cents for sewer connections occurring between and including January 1, 2012, and December 31, 2012; and

13. Fifty-three dollars and fifty cents for sewer connections occurring between and including January 1, 2013, and December 31, 2013.

B.1. In accordance with adopted policy FP-15.3.d. in the Regional Wastewater Services Plan, K.C.C. 28.86.160.C., it is the council's intent to base the capacity charge upon the costs, customer growth and related financial assumptions used in the Regional Wastewater Services Plan.

2. In accordance with adopted policy FP- 6 in the Regional Wastewater Services Plan, K.C.C. 28.86.160.C, the council hereby approves the cash balance and reserves as contained in the attached financial plan for ((~~2012~~)) 2013.

3. In accordance with adopted policy FP- 15.3.c., King County shall pursue changes in state legislation to enable the county to require payment of the capacity charge

in a single payment, while preserving the option for new ratepayers to finance the capacity charge.

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

_____

Larry Gossett, Chair

ATTEST:

_____

Anne Noris, Clerk of the Council

APPROVED this _____ day of _____, _____.

_____

Dow Constantine, County Executive

Attachments: A. Wastewater Treatment Division Plan for the 2013 Proposed Sewer Rate

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ATTACHMENT A: Wastewater Treatment Division Financial Plan for the 2013 Proposed Sewer Rate

2012-0144

	2011 Unaudited	2012 Forecast	2013 Forecast	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast
RESIDENTIAL CUSTOMER EQUIVALENTS (RCEs)	707.28	707.28	707.28	709.05	712.59	716.15	721.53	726.94
MONTHLY RATE	$36.10	$36.10	$39.85	$39.85	$44.26	$44.26	$44.77	$45.09
% Increase		0.0%	10.4%	0.0%	11.1%	0.0%	1.1%	0.7%
BEGINNING OPERATING FUND	61,368	86,886	72,262	50,204	21,537	16,774	13,701	14,249
OPERATING REVENUE:								
Customer Charges	306,407	306,393	338,220	339,066	378,504	380,396	387,652	393,340
Investment Income	1,720	1,060	996	1,015	1,131	4,988	8,562	11,541
Capacity Charge	48,693	43,774	46,338	49,351	54,038	59,638	65,907	72,446
Rate Stabilization *	(25,500)	15,900	22,600	29,100	5,300	3,600		
Other Income	7,927	9,188	9,492	10,968	11,187	11,411	11,639	11,988
TOTAL OPERATING REVENUES	339,247	376,314	417,647	429,500	450,160	460,034	473,761	489,316
OPERATING EXPENSE	(103,862)	(116,620)	(122,038)	(126,370)	(131,742)	(137,012)	(142,492)	(148,192)
DEBT SERVICE REQUIREMENT PARITY DEBT	(167,517)	(197,355)	(222,534)	(227,539)	(234,684)	(240,520)	(248,352)	(256,455)
SUBORDINATE DEBT SERVICE	(12,684)	(15,699)	(16,611)	(16,728)	(23,942)	(25,554)	(29,626)	(33,913)
DEBT SERVICE COVERAGE RATIO PARITY DEBT **	1.41	1.32	1.33	1.33	1.36	1.34	1.33	1.33
DEBT SERVICE COVERAGE RATIO TOTAL PAYMENTS	1.31	1.15	1.15	1.15	1.15	1.15	1.15	1.15
INTER-FUND LOAN REPAYMENTS	(20,300)	(20,090)	(20,030)	-	-	-	-	-
LIQUIDITY RESERVE CONTRIBUTION	(18)	(1,276)	(542)	(433)	(537)	(527)	(548)	(570)
TRANSFERS TO CAPITAL	(34,866)	(25,274)	(35,892)	(58,429)	(59,254)	(56,422)	(52,742)	(50,185)
RATE STABILIZATION RESERVE *	76,500	60,600	38,000	8,900	3,600			
OPERATING LIQUIDITY RESERVE BALANCE	10,386	11,662	12,204	12,637	13,174	13,701	14,249	14,819
OPERATING FUND ENDING BALANCE	86,886	72,262	50,204	21,537	16,774	13,701	14,249	14,819
CONSTRUCTION FUND								
BEGINNING FUND BALANCE	5,000	95,579	5,461	5,329	5,000	5,000	5,000	5,000
REVENUES:								
Parity Bonds	245,000	80,000	55,000	81,763	115,761	104,913	122,992	127,540
Variable Debt Bonds	78,380	15,000	65,000	10,000	10,000	14,559	9,081	9,172
Grants & Loans	8,233	16,085	14,510	784	-	-	-	-
Other	2	500	500	500	500	500	500	500
Transfers From Operating Fund	34,866	25,274	35,892	58,429	59,254	56,422	52,742	50,185
TOTAL REVENUES	366,482	136,859	170,902	151,476	185,514	176,394	185,315	187,397
CAPITAL EXPENDITURES	(273,262)	(203,644)	(166,181)	(144,856)	(174,645)	(175,418)	(174,892)	(176,590)
DEBT ISSUANCE COSTS	(1,874)	(554)	(1,425)	(1,685)	(2,365)	(2,171)	(2,505)	(2,597)
BOND RESERVE TRANSACTIONS	11,547	(20,795)	(3,428)	(5,264)	(7,453)	2,246	(7,918)	(8,211)
DEBT SERVICE, CAPITALIZED INTEREST RESERVE	(28,795)	(7,366)	-					
ADJUSTMENTS	16,481	5,381	-	-	(1,051)	(1,051)	-	-
ENDING FUND BALANCE	95,579	5,461	5,329	5,000	5,000	5,000	5,000	5,000
CONSTRUCTION FUND RESERVES								
Bond & Loan Reserves	160,424	181,218	184,646	189,910	198,413	197,218	205,136	213,347
Policy Reserves	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
TOTAL FUND RESERVES	175,424	196,218	199,646	204,910	213,413	212,218	220,136	228,347
CONSTRUCTION FUND BALANCE	271,002	201,679	204,975	209,910	218,414	217,219	225,137	233,348

* This revenue is accounted for as a regulatory asset to be deferred to future years in accordance with FAS-71.

** This includes a Regulatory Asset for a $53.9 million estimate of Environmental Remediation Liability in accordance with FAS-71 which will be amortized over a 30-year average bond term.

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FISCAL NOTE

Ordinance/Motion No. 2012-XXXX
Title: 2013 Sewer Rate and Capacity Charge Ordinance
Affected Agency and/or Agencies: Wastewater Treatment Division, Department of Natural Resources and Parks
Note Prepared By: Greg Holman, Financial Analyst
Note Reviewed By: Tom Lienesch, Economist

Impact of the above legislation on the fiscal affairs of King County is estimated to be:

Revenue: ($000's)

Fund/Agency	Fund Code	Revenue Source	2012	2013	2014	2015
Water Quality/WTD	4610	Customer Charges		31,828	31,907	32,067
Water Quality/WTD	4610	Capacity Charge		1,933	5,244	4,573
TOTAL			**0**	**33,761**	**37,151**	**36,640**

Expenditures:

Fund/Agency	Fund Code	Department Code	2012	2013	2014	2015
TOTAL			**0**	**0**	**0**	**0**

Expenditures by Category

	2012	2013	2014	2015
Salaries & Benefits				
Supplies and Services				
Capital Outlay				
Other				
TOTAL	**0**	**0**	**0**	**0**

Assumptions:

This legislation increases the sewer rate to $39.85 for 2013.

The capacity charge would increase from $51.95 to $53.50 per residential customer equivalent for 15 years for customers that connect in 2013. Most of the revenue impact is delayed until after 2013 due to a lag in the beginning of the 15-year billing period. Revenues increase sharply in 2014 as a portion of the new customers choose to make a lump sum payoff of their future payments. The capacity charge for customers connecting in previous years remains fixed at rates established for their year of connection.

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April 19, 2012

The Honorable Larry Gossett
Chair, King County Council
Room 1200
C O U R T H O U S E

Dear Councilmember Gossett:

This letter transmits an ordinance that outlines my 2013 monthly wholesale sewer rate and capacity charge proposal. I am proposing a monthly sewer rate of $39.85, with the intent for this rate to be in effect through 2014. This proposal represents an increase of 10.4 percent over the current rate. This proposed monthly sewer rate for 2013 is $.03 less than projected in the 2012 adopted budget. My proposal for the 2013 monthly capacity charge is $53.50, an increase of 3 percent over the current capacity charge. The contracts with our component sewer agencies require the King County Council to adopt the 2013 sewer rate by June 30, 2012. King County Council's support of this legislation will protect the financial health of our clean-water utility.

The rate proposal aligns with the environmental and financial stewardship goals of King County's Strategic Plan. The proposal guarantees funding for infrastructure that is crucial for continuing to protect our region's water quality, public health, and economic development. In addition, implementation of the proposal will help generate the necessary revenue and debt service coverage to preserve the Wastewater Treatment Division's (WTD) excellent credit ratings of Aa2 by Moody's and AA+ by Standard and Poor's.

I believe this proposal is fair and consistent with the long-term rate projections to cover the significant capital investments and service level commitments outlined in the 1999 Regional Wastewater Services Plan. The County's high-quality and effective wastewater treatment is an excellent value for the dollar. WTD—our clean-water utility—continues to find efficiencies and maximize its investments. To help keep the 2013 rate in effect in 2014, the utility has committed to identifying operating efficiencies of $1.9 million by 2014.

This proposal reflects prudent financial management and was developed pursuant to the County's adopted financial policies for the wastewater utility that are included in King County Code 28.86.160. I also considered the recommendations of the Metropolitan Water Pollution Abatement Advisory Committee (MWPAAC) in my proposal. This advisory committee includes representatives of the 34 customer agencies that contract with the County for wastewater treatment services.

My proposal emphasizes the following objectives:

- **Conservative financing**. The main driver of the proposed rate increase is the accommodation of debt service from previous bond issues. During the height of Brightwater construction, 2008 to 2010, WTD structured debt service from bond issues in order to bring the full amount into the financial plan incrementally. This was designed to produce a series of nearly equal rate increases including the 2013 rate. Looking forward, the 2013 rate proposal reflects continuing the more conventional principal and interest financing practices that have been under way since 2011. This has been well received by the bond rating agencies, resulting in lower borrowing costs. This has allowed WTD to meet the final stages of the long-range plan to accommodate debt service from the completion of the Brightwater Treatment Plant. In WTD's financial plan, rates are projected to increase less than 1 percent annually from 2016 through 2020.
- **Cost containment.** WTD continues to maintain tight control of its operating expenditures. This is evidenced by its ability to open and operate the Brightwater Treatment Plant without adding any new full-time employees. Although the division's Productivity Initiative ended in 2011, WTD is implementing a continuous improvement program to identify and implement new efficiencies as well as optimize the efficiencies made through the Productivity Initiative. In addition, debt service savings have been realized through recent debt refinancings. These savings helped offset impacts from increases in chemical costs at the treatment plants. In addition, WTD is now able to carry out additional water quality monitoring to collect data to address emerging water quality concerns.
- **Successful implementation of WTD's Capital Program.** With the near completion of the Brightwater treatment system, WTD capital spending levels are returning to more typical long-run levels. Even at reduced levels of spending, the construction activity generated by the capital program supported by this proposal will generate as many as 1,100 full- and part-time jobs with earnings of $59 million. To ensure we are meeting our capital priorities, WTD has been critically reviewing project scopes, schedules, cash flow projections, and risk analyses to insure that projects addressing our most critical current needs are funded.

I have enclosed a letter from MWPAAC regarding the current rate proposal. I appreciate their comments about long-term debt and capital program spending, and I am confident that we are addressing such concerns by relying on more conservative financing approaches, cost containment strategies, and review of financial policies. I have directed WTD to work with MWPAAC to further discuss and address their concerns.

I have also enclosed an issue paper that includes a discussion of critical forecasting parameters, assumptions, and policy options as required per Financial Policy-16. Financing for WTD's capital program continues to follow the guidance outlined in Financial Policy-13.

A detailed financial forecast for the wastewater utility for the period 2012-2018 is attached to the ordinance.

If you have any questions, please feel free to contact Pam Elardo, P.E., Division Director of the Wastewater Treatment Division in the Department of Natural Resources and Parks, at 206-684-1236.

Sincerely,

Dow Constantine
King County Executive

Enclosures

cc: King County Councilmembers
ATTN: Michael Woywod, Chief of Staff
Mark Melroy, Senior Principal Legislative Analyst, BFM Committee
Anne Noris, Clerk of the Council
Rob Shelly, Financial Advisor, Seattle NW Securities
Carrie S. Cihak, Chief Advisor, Policy and Strategic Initiatives, King County Executive Office
Dwight Dively, Director, Office of Performance, Strategy and Budget
Caroline Whalen, County Administrative Officer, Department of Executive Services (DES)
Ken Guy, Division Director, Finance and Business Operations Division, DES
Christie True, Director, Department of Natural Resources and Parks (DNRP)
Pam Elardo, P.E., Division Director, Wastewater Treatment Division, DNRP

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King County
Department of Natural Resources and Parks
Wastewater Treatment Division

King County Executive 2013 Monthly Sewer Rate and Capacity Charge Proposal

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Funding Our Clean Water Utility

April 19, 2012

This information is available in alternative formats upon request by calling 206-684-1280 (voice) or Relay Service 711 (TTY).

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List of Tables

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1.0 Introduction

This report describes the underlying assumptions, projections, and key factors considered in developing the King County Executive's proposal for the Wastewater Treatment Division's (WTD) 2013 monthly sewer rate and capacity charge. The proposal for the 2013 monthly sewer rate is $39.85, an increase of 10.4 percent from the 2012 rate of $36.10. The intent is to maintain this rate through 2014. The proposal for the 2013 monthly capacity charge is $53.50, an increase of 3 percent from the 2012 charge of $51.95. In support of this proposal, WTD has committed to identify operating efficiencies of $1.9 million by 2014. In addition, the capital program has been carefully structured to ensure highly prioritized projects are funded and to defer those of lesser priority through schedule modifications.

The main driver of the proposed sewer rate increase is the inclusion of increments of debt service from previous bond issues. During the height of the Brightwater Treatment System (Brightwater) construction, 2008 to 2010, WTD structured bond payments to bring the full debt service amount into the financial plan through measured steps. This was designed to produce a series of nearly equal rate increases of which the 2013 rate is one. Higher costs in specific areas of the operating and capital programs provide additional sources of upward pressure on rates, especially in 2013 and 2014. The first of these is an increase in planned capital expenditures associated with completing Brightwater. This planned Brightwater spending includes a combination of increased spending required to finish construction at the treatment plant, costs associated with delays in completing the conveyance system, and additional builder's risk insurance premiums. The second source of upward rate pressure is higher operating expenses which are summarized in Section 3.2.

The remainder of this document outlines the major factors underlying the 2013 monthly sewer rate and capacity charge proposal: (1) sewer rate management; (2) WTD's operating revenues and expenses; (3) WTD's capital improvement program's spending, revenues, and financing; (4) new customer connections; (5) changes from the 2012 sewer rate to the 2013 proposed rate; and (6) a summary of projections and assumptions. The document concludes with a comparison of King County's sewer rates with similar agencies.

2.0 Sewer Rate Management

In its simplest form, the monthly sewer rate is determined by the amount of revenue required to pay all the costs of the utility in a given year, consistent with financial polices and requirements. During periods of time in which costs (capital or operating) are particularly volatile the resulting revenue requirements could lead to large annual fluctuations in the rate. Examples include (1) the energy crisis in 2001, which led to a sharp spike in operating costs and (2) the construction of Brightwater, which led to a period of high capital costs. Unmanaged, the resulting rate fluctuations could prove disruptive to residential and commercial customers.

During these periods, the level and pattern of changes in the monthly sewer rate can be managed in several ways. One of these is by structuring interest and principal payments on debt (debt service) to affect the annual revenue requirements and therefore the resulting sewer rate. The

common characteristic of this approach is to structure the payment of debt service such that either principal or principal and interest payments are at levels less than full amortization for a period of time. A simple example is for debt service to reflect interest payments only for a period of time before commencing full principal and interest payments. Another example is capitalizing a portion of interest payments during the construction period and including them in the total bond issue amount. This produces a period of relatively low debt service payment that is then "made up" in subsequent periods once the facility begins operation.

While useful for shaping the patterns of rate increases, some of these structures come with higher costs over time. In recognition of these costs and following Executive direction, WTD adopted a more conservative financial approach in structuring debt service for bond issues after 2010. However, approximately $3.35, or 89 percent of the 2013 rate increase can be attributed to accommodating additional debt service from bonds issued in 2008 through 2010.

Two other effective means of managing sewer rates are the deferral of revenues through the use of a rate stabilization reserve and effective cost containment. These are the preferred methods of managing rate increases, and each is discussed in greater detail in the following sections.

2.1 Rate Stabilization

It is King County policy to have multi-year sewer rates when financially prudent. A rate stabilization reserve allowing the deferral of operating revenues into a future year has been used to help manage multi-year rate patterns starting with the 2005 and 2006 sewer rates. Current projections show the rate stabilization reserve is anticipated to have a balance of $60.6 million by the end of 2012, which contrasts to the 2012 adopted budget forecast where an ending 2012 balance of $55 million was projected. This difference reflects debt refunding and positive overall financial results, discussed later in the paper, which allows for additional future sewer rate mitigation. The 2013 proposal assumes that this reserve balance will be zero entering 2017, that is, it will be used to manage sewer rates between 2013 and 2016.

As shown in Table 2-1, the rate stabilization reserve balance of $76.5 million at the end of 2011 is expected to decrease by $15.9 million in 2012. Thereafter, the reserve will be drawn down by $22.6 million in 2013, $29.1 million in 2014, $5.3 million in 2015, and finally $3.6 million in 2016. This pattern of rate stabilization usage maintains the utility's required minimum debt service coverage ratio of 1.15.

Table 2-1. Rate Stabilization Reserve, 2011-2016 (million dollars)

	2011	2012	2013	2014	2015	2016
Beginning balance	$51.0	$76.5	$60.6	$38.0	$8.9	$3.6
Additions	$25.5	---	---	---	---	---
Reductions	---	$15.9	$22.6	$29.1	$5.3	$3.6
Ending balance	$76.5	$60.6	$38.0	$8.9	$3.6	---

The continued use of rate stabilization in 2016 and beyond will need to be re-evaluated as projected sewer rate increases are forecast to be relatively small for that time period. During the

2016 to 2020 period, sewer rates are projected to increase by 0.8 percent on an average annual basis. This future period of relatively small projected rate increases reflects four major elements:

1. Completion of Brightwater with a return of the capital program to lower, long-term levels.
2. The stabilization of debt service payments.
3. The growing importance of the capacity charge as a share of total revenues.
4. A larger share of the capital program will be funded with transfers from the operating fund (cash funding).

2.2 Cost Containment

While the rate stabilization reserve provides a means of managing rate increases by redistributing a portion of operating revenues, it is only one of the tools of rate management. Cost containment is another. As in prior years, WTD scrutinized all planned capital and operating expenditures with the goal of making reductions while continuing to fulfill its regulatory obligations to protect public health and the environment. As part of the King County Executive's "Three Percent Efficiency" initiative, WTD presented a list of 24 efficiency proposals for implementation in 2012. In the 2012 budget process, WTD reduced operating expenses by $0.6 million and increased revenue by $0.2 million. This rate proposal has incorporated an additional $0.7 million in operating expense reductions for 2013. While not yet included in the expense estimates for 2013 and 2014, it is WTD's intent to identify an additional $1.9 million in efficiency savings by 2014.

The following sections provide additional detail on the progress made in managing costs in the operating and capital programs of WTD and how they affect the current rate proposal.

3.0 Operations

3.1 Revenues

Total operating revenues (including capacity charge receipts[1]) are projected to be $417.6 million in 2013, a 10.2 percent increase over the 2012 budget of $379.1 million. Most of this increase results from the proposed sewer rate increase for 2013 and a projected increase in the number of early payments for the capacity charge. As shown in Table 3-1, revenue from the sewer rate and capacity charge account for $37 million or 96.1 percent of the total operating revenue increase compared to the 2012 adopted budget.

[1] Although the capacity charge does not fund any operating expenses, capacity charge revenues are categorized as operating revenue for purposes of debt service coverage calculation.

Table 3-1. 2012 and 2013 Operating Revenues (million dollars)

	2012 Budget	2013 Proposed	Difference	% Change
Sewer Rate	$305.1	$338.2	$33.1	10.8%
Investment Income	$1.3	$1.0	($0.3)	-23.1%
Capacity Charge	$42.4	$46.3	$3.9	9.2%
Rate Stabilization	$21.5	$22.6	$1.1	5.1%
Other Income	$8.7	$9.5	$0.8	9.2%
Totals	**$379.1**	**$417.6**	**$38.5**	**10.2%**

Note: Totals may not add due to rounding

3.2 Expenses

Operating expenses for 2012 are planned to be $116.6 million, a 12.3 percent increase over 2011 actual expenses. This atypically large increase reflects the inclusion of the first full-year of Brightwater operation costs. In 2013, operating expenses are expected to be $122 million, an increase of $5.4 million or 4.6 percent over the 2012 budget.

Increases in labor costs account for $1.8 million of the 2013 increase. This includes the assumption of a 2 percent cost of living increase in 2013. Cost increases for treatment chemicals and maintenance materials total $1.4 million; however, other costs are projected to decrease by $0.4 million primarily due to planned reduced energy consumption at Brightwater. Intragovernmental costs are anticipated to increase $2.6 million of which $0.6 million is WTD's share of the annual debt service for King County's new financial system and $0.2 million for additional water quality monitoring. The additional water quality monitoring will focus on potential impacts of wastewater discharge to marine organisms and marine water quality as well as understanding more about existing and emerging contaminants of concern.

4.0 Capital Improvement Program

4.1 Capital Spending

In contrast to the past several years, WTD capital spending levels will return to more typical long-run levels in 2012 as Brightwater approaches completion. Reflecting this, total capital spending is estimated at $203.6 million in 2012 and $166.2 million in 2013. After 2013, spending is projected to remain near this level, at $144.9 million in 2014, $174.6 million in 2015, and $175.4 million in 2016. The planned spending in these years shows a substantial decrease from the peak of capital program spending of $455.5 million in 2009 and $400 million in 2010.

Although the WTD capital program is returning to more typical long-term levels, the construction activity generated continues to be a significant source of regional job creation. In 2012 it is estimated that approximately $100 million of associated construction spending will support more than 1,100 full and part-time jobs in the region, with earnings of $59 million. While total capital spending is less in 2013, the amount of construction spending is similar to 2012 levels and can be expected to produce similar levels of economic activity.

WTD has continued to exert effective control on capital expenditures during the period of maximum impact from Brightwater. In the process of defining capital priorities for 2012 and 2013, WTD critically reviewed project scopes, schedules, cash flow projections, and risk analyses to ensure funding for the most critical projects. Key criteria for assessing risk include ensuring the continued operation and reliability of existing wastewater conveyance and treatment assets; enhancing regional water quality in compliance with federal, state and local regulations pertaining to wastewater treatment; reducing combined sewer overflow events; and continuing to create resources from wastewater.

Two aspects of capital project spending can affect the sewer rate: (1) the total cost of the project over its lifetime and (2) the amount of spending in the specific rate period under consideration. In terms of impact on the sewer rate, changes in total project cost may not be reflected for many years in the future. However, it is the second element, changes in planned 2012 to 2014 spending that are crucial to the 2013-2014 sewer rate proposal. Key projects showing significant change in estimated total project cost and projected spending during the 2012-2014 timeframe compared to the 2012 adopted budget include:

- **Combined Sewer Overflow Projects** at Magnolia, Barton and North Beach. Total project cost estimates increased approximately $7.8 million or 10 percent compared to the 2012 adopted budget. The increase is due to updates in design engineering plus additional geotechnical and groundwater analysis to address permitting requirements. Project spending between 2012 and 2014 will increase by $5.7 million as a result of the updates.

- **Fremont Siphon Project.** The total project cost estimate increased $4.6 million or 10 percent relative to the 2012 adopted budget, reflecting updates to the preferred tunneling alternative and associated updates for geotechnical analysis, property acquisition, permitting, odor control, and coordination with Seattle Public Utilities. About $2.5 million of this increase will be spent in 2013 for property acquisition and permitting. The remaining $2.1 million is projected to be spent through 2016.

- **Kirkland Pump Station Modifications.** This project is located in a congested area of downtown Kirkland. The total project cost estimate increased $3 million or 15 percent due to unanticipated design and construction changes that address underground utility conflicts incurred in implementing the upgrades to the force main and pump station. The updated plan shows a net spending increase of $1.8 million in 2012 and $1.2 million in 2014.

- **Barton Street Pump Station Upgrade Project.** The project's cost estimate increased $2.5 million or 12 percent to reflect updates to the engineering and construction costs to comply with the City of Seattle's Department of Transportation's permit requirements and outside agency utilities relocation. The updated plan shows a net spending increase of $1.5 million in 2012 and $1 million through 2015.

- **North Creek Interceptor.** The preliminary total project cost estimate was reduced by $6 million or 9 percent. Because replacement of the northern section of the existing

interceptor was dropped from the scope of work. Based on current information, this section is not expected to reach capacity until 2028. Also, the project completion date has moved from 2016 to 2019, resulting in a planned spending reduction of $22 million through 2014.

- **South Plant Solids Control Replacement.** The project's total cost estimate was reduced by $1.7 million or 18 percent, reflecting a construction bid lower than the engineer's estimate. Also, the project duration was reduced by one year which, in turn, reduced labor and support costs. Planned project spending for 2013 is reduced by $1.7 million.

New project requests for 2013 are as follows:

- **South Plant Reclaimed Water Facility Modifications** ($1.3 million). This project will implement the required improvements at South Treatment Plant to meet Washington State reclaimed water disinfection requirements, improve reliability, and improve operator safety. The improvements are needed to comply with 2014 permit-renewal requirements. The project is scheduled for completion in 2016.

- **Jameson/ArcWeld Buildings Replacement** ($4.5 million). This project will define, evaluate and implement a replacement for the Jameson/ArcWeld Buildings. These buildings are currently used by section staff of both the West Section Offsite and North Construction Satellite facilities. The buildings do not meet current building or Americans with Disabilities Act codes, and the ArcWeld building is functionally unsafe. The project is scheduled for completion in 2016.

- **North Creek Force Main Reliability** ($11 million). This project will evaluate alternatives, such as lining or cathodic protection, to rehabilitate the force mains and then implement the design and construction of the selected alternative. The force main had a failure in late 2011, and upon further inspection significant corrosion was discovered and needs to be addressed. Project completion is scheduled in 2018.

- **West Point Oxygen Generation and Distribution (OGAD) System Evaluation** ($21.4 million). The equipment is nearing the end of its useful life and newer technology will be more effective and efficient than the current system. The OGAD system, including the aeration mixers, consumes approximately 30 percent of the West Point Treatment Plant's total electricity usage. Initial studies indicate that replacing the existing OGAD system and the aeration mixers may save approximately 5.9 million kilowatt hours annually, which equals an 11 percent reduction in the plant's electric usage, and an approximately 1.6 percent reduction of WTD's entire energy usage. This equates to approximately $325,000 savings in annual electricity costs when the project is completed in 2018. The project will likely qualify for an efficiency incentive grant from Seattle City Light for as much as $1,300,000.

- **North Lake Sammamish Flow Diversion** ($21.9 million). This project is a key component in the long-term plan to ensure flexibility in the regional wastewater system and enable flows to be sent to Brightwater or South Treatment Plants. The project will

divert North Lake Sammamish Basin flows to Brightwater and will also allow flows to be diverted from the Brightwater service area to the South Treatment Plant. The project is scheduled to be completed in 2018.

4.2 Capital Accomplishment Rate

Another important factor affecting the sewer rate and financing of the capital program relates to the accomplishment rate. The accomplishment rate is not intended as a measure of project delivery progress but provides an estimate of the cash needs of the program. It reflects the capital program as a whole and is arrived at by estimating the difference between planned capital spending in the budget and the capital spending that actually occurs. In this way, the program's revenue requirements account for possible delays in the execution of the capital program that reduce spending and therefore cash needs. The accomplishment rate is expressed as the percentage of the capital budget expected to actually be spent in a given year.

During 2011, the actual accomplishment rate for Brightwater was 90 percent compared to an assumed rate of 95 percent. The accomplishment rate for non-Brightwater projects was 89 percent. Going forward, the accomplishment rate for Brightwater is assumed at 100 percent in 2012 and 2013 as the project approaches completion in 2013. For non-Brightwater projects, the accomplishment rate is assumed to be 85 percent for the forecast period. Combining Brightwater and non-Brightwater projects in aggregate, the accomplishment rate for the entire program in 2013 is expected to be approximately 88 percent.

To further illustrate the relationship between the sewer rate and the accomplishment rate, if the aggregate accomplishment rate was lowered by 5 percentage points to 83 percent for 2013, estimated capital spending would be reduced by approximately $9.5 million or the equivalent of lowering approximately $0.08 from the sewer rates for 2013 and 2014. Conversely, if the program accomplishment rate was increased to 100 percent for 2013, estimated capital spending would increase by $22.8 million, or the equivalent of increasing approximately $0.18 to the sewer rates for 2013 and 2014. It is believed that 88 percent, reflecting the combined Brightwater and non-Brightwater projects is a prudent assumption for the accomplishment rate.

4.3 Capital Revenues and Financing

4.3.1 Capacity Charge

The proposed capacity charge for 2013 is $53.50, a 3 percent increase from 2012. The capacity charge is a monthly charge for 15 years levied on new connections to the wastewater system in accordance with King County Code (K.C.C) 28.84.050 and the financial policies in K.C.C. 28.86.160. It is set at a level to ensure that new sewer connections, over the long-term, will pay for the costs of the additional capacity required to serve them.

Financial Policy 15.3-d states that customer growth and projected costs, including inflation, shall be updated every three years. The 2011 capacity charge of $50.45 was the first year of the current three-year cycle. The 3 percent increase for the 2013 capacity charge sets the charge based on an assumed annual increase in the rate of inflation.

4.3.2 Bonds and Interest Rates

With Brightwater nearing completion and the capital program returning to more typical long-run levels, the need to issue new debt will also moderate. In March 2012, $80 million in long-term debt with a 4.65 percent interest rate was issued. New issuances of long-term bonds are projected at $55 million in 2013, $82 million in 2014, $116 in 2015, and $105 million in 2016.

In addition to long-term bonds, WTD uses the proceeds from short-term variable rate bonds to finance a portion of the capital program, subject to a 15 percent of total debt ceiling. Current plans are to use approximately $15 million in wastewater variable rate bond proceeds in the fall of 2012, followed by $65 million in 2013, $10 million in 2014, and $10 million in 2015. This will bring total wastewater treatment variable debt to approximately 15 percent of total long-term debt, which follows current policy for the use of variable debt.

The interest rate of 4.65 percent that WTD achieved on the March 2012 bond issue compares favorably to the 5.5 percent forecast in the 2012 adopted budget. In addition to this favorable rate on new debt, $97.8 million in old long-term debt was refinanced achieving $8.2 million in debt-service savings over the life of the bonds. All savings from the refinancing are included in this rate proposal. Although the recent debt issue and refunding have provided positive results, it should be noted that the outlook for future interest rates remains uncertain. The financial plan accompanying this rate proposal assumes interest rates rising after 2012, reaching 5.5 percent in 2013, and 5.75 percent in 2014.

Balancing against the upward pressure on municipal bond rates is continuing weakness in the economic recovery in the United States and industrialized nations generally. This outlook, which is reflected in reduced investment earnings assumptions in the current 2013 sewer rate proposal, can also moderate interest rate increases for long-term bonds. The current bond rate assumptions are a conservative outlook based on this combination of upward and downward influences on future interest rates.

Investment interest rates have remained at historic lows in the market. The rate of return in the county investment pool was 0.58 percent in 2011. For 2012, the earnings rate on investments is assumed to be 0.3 percent. Beyond 2012, and in accordance with the “Preliminary Forecasts for the 2013 King County Budget” from King County’s Office of Economics and Financial Analysis (March 2012), the investment interest rate for this proposal is 0.3 percent in 2013 through 2015, before increasing to 1.32 percent in 2016.

4.3.3 Alternative Financing

This section highlights another element of cost containment achieved through WTD’s aggressive pursuit of low-cost financing for capital projects. As a result, some capital projects have been funded by grants or low-interest loans through the years. Collectively, these funds are referred to as alternative financing. Grants for capital projects tend to be funded by federal or state agencies and, for energy-related projects, local utilities. While the allowable use of these grants is often highly restricted, they have the obvious benefit of not having to be repaid in contrast to the low-interest loans. Grants received in the past assisted in the financing of upgrades to the South and West Point Treatment Plants, as well as the Alki Transfer/Combined Sewer Overflow (CSO)

Facilities project and the Denny Way CSO Control project. Currently, the following projects are financed in whole or in part with grants:

- West Point Waste-to-Energy, United States Environmental Protection Agency Grant of $8.2 million
- West Point Pre-aeration Blowers, United States Department of Energy, Efficiency and Conservation Block Grant of $0.3 million
- Lower Duwamish Waterway, Washington State Department of Ecology Grant, of $0.7 million

Low-interest loans are provided by the Washington State Department of Ecology's State Revolving Fund (SRF) or the Washington State Public Works Trust Fund (PWTF). Loan applications to fund specific water quality projects are submitted by local jurisdictions statewide on an annual basis. These loan applications then go through a competitive process where the first step is ensuring that specific criteria and thresholds are met in order to proceed to the review process. They are then ranked on a point system. The point system is based on minimum and maximum points earned for narrative portions of the loan application in order to fund the highest priority water quality projects statewide.

Capital projects selected for loan application submittal go through a review process to ensure that they are competitive enough to be considered a high priority water quality project in the ranking process, to ensure that the project schedule fits within the loan criteria, and to ensure that the project meets specific criteria or thresholds. Projects that meet all of these are then eligible for the loan application stage. The grants administrator then coordinates with the project manager to ensure that the thresholds are met in time and takes the lead in writing and completing the application.

Table 4-1 lists some of the completed projects that received SRF and PWTF funding. Table 4-2 lists the current SRF and PWTF loans that partially or entirely fund the indicated WTD capital projects.

Table 4-1.
Past State Revolving Fund and Public Works Trust Fund for WTD Loan Funded Capital Project (million dollars)

Project	Loan Amount	Loan Type	Term (Years)	Interest Rate	Estimated Debt Service Savings Compared to Conventional Financing
Brightwater Outfall	$1.6	SRF	20	2.6%	$11.8
Henderson/MLK CSO	$57.5	SRF	20	1.5%	$64.8
Denny Way CSO/Elliott West Pipelines	$12.5	SRF	20	1.5%	$14.1
Carnation Treatment Plant	$14.1	SRF	20	3.1%	$14.1
Vashon Treatment Plant	$5.0	SRF	20	1.5%	$3.9
Barton CSO Facilities Plan	$1.1	SRF	20	1.5%	$0.9
Murray CSO Facilities Plan	$0.6	SRF	20	1.5%	$0.5
North Beach CSO Facilities Plan	$0.5	SRF	20	1.5%	$0.4
North Creek Storage	$10.0	PWTF	20	0.5%	$10.4
Juanita Bay Pump Station	$10.0	PWTF	20	0.5%	$12.3
Brightwater Reclaimed Water Pipeline	$7.0	PWTF	20	0.5%	$8.6
Hidden Lake Pump Station	$10.0	PWTF	20	0.5%	$12.0

Table 4-2. Current State Revolving Fund for WTD Loan Funded Capital Projects (million dollars)

Project	Loan Amount	Loan Type	Term (Years)	Interest Rate	Estimated Debt Service Savings Compared to Conventional Financing
Ballard Siphon	$31.9	SRF	20	2.8%	$41.7
Ballard Siphon	$10.0	PWTF	20	0.5%	$13.4

The following capital projects are currently on the Washington State Department of Ecology's SRF Draft Offer List:

- Barton CSO Control – Final Design
- Murray CSO Control – Final Design
- North Beach CSO Control – Final Design
- South Magnolia CSO Control – Final Design
- Fremont Siphon – Facilities Plan

5.0 Residential Customer Equivalents and New Connections

The national and regional economic outlook has recently improved after heightened uncertainty during the second half of 2011 about the European sovereign debt crisis and the strength of the United States economic recovery. The March 2012 Conway-Pederson economic outlook forecasts that U.S. Growth Domestic Product growth will be 2.2 percent in 2012, and 2.6 percent in 2013. The forecast growth in employment for the Seattle-Tacoma region is 2.5 percent in 2012, and 2 percent in 2013.

Residential Customer Equivalents (RCE) projections for the proposed sewer rate remain conservative reflecting continuing economic uncertainty. Commercial, multi-family residential, and industrial customers can affect the number of customer equivalents they comprise, and therefore their sewer bill, through reducing water consumption. In this manner, increased water conservation or reductions in production can result in low growth or reductions in the WTD customer base. In 2011, there were 707,280 RCEs being served by WTD, an increase of 0.41 percent from 2010 levels. The current RCE forecast anticipates no change for 2012 and 2013, a 0.25 percent increase in 2014, and a 0.5 percent increase in 2015. Essentially, the customer base is expected to be flat for the next few years.

Table 5-1 shows projected RCEs and compares the current assumptions to those made for the 2012 budget. The current outlook is more positive, based in part on the stability of RCEs in 2011 and 2012 relative to the impacts of the economic downturn.

Table 5-1. Current Residential Customer Equivalents Forecast

	2011	2012	2013	2014	2015
2013 Proposed Rate	707,280	707,280	707,280	709,050	712,590
Percent Change	0.41%	0.00%	0.00%	0.25%	0.50%
2012 Budget	704,390	704,390	704,390	706,150	709,680
Percent Change	0.00%	0.00%	0.00%	0.25%	0.50%
Change from 2012 Forecast	2,890	2,890	2,890	2,900	2,910

New sewer connections to the regional wastewater system are levied a capacity charge to help pay for the cost of providing new capacity. New additions to the system tend to follow the residential and commercial construction cycle. For reference, during the 1998 to 2008 period, the number of new connections averaged 11,200 per year with a peak of 12,700. Average connections for 2009-2011 dropped to 5,700. The current forecast shown in Table 5-2 assumes there will be 5,800 connections in 2012, and connections will not fully recover to the pre-recession average of 11,000 until after 2016.[2]

Table 5-2. Projected New Sewer Connections by Year of Connection

	2011	2012	2013	2014	2015
2013 Rate New Connections	5,500	5,800	6,500	8,500	10,000
2012 Adopted Budget	5,600	6,000	7,500	9,000	10,500
Change	-100	-200	-1,000	-500	-500

The outlook for new connections has been adjusted slightly from the numbers in the 2012 adopted budget. The forecast for 2013 has been reduced from 7,500 to 6,500 connections, and the 2014 and 2015 forecasts have been reduced by 500 connections. This adjustment reflects the expectation of continuing weakness in the region's construction sector.

6.0 Change from 2012 Sewer Rate to 2013 Proposed Sewer Rate

Table 6-1 compares components of the sewer rate that are changing from the 2012 adopted sewer rate to the proposed sewer rate for 2013. The net impact of the changes, including the use of the rate stabilization reserve is an increase in the monthly sewer rate of $3.75 to $39.85 for both 2013 and 2014. This meets the commitment made last year to keep the sewer rate below $40.00. In addition, the current proposal is lower than the $39.88 and $39.93 forecasted in the King County 2012 Adopted Budget.

[2] Annual connection totals are for the year that new customers connect to the sewer system. WTD also monitors connections by the year that new capacity accounts are created. Connections by year connected are a better indicator of emerging trends.

Table 6-1.
Changes from 2012 Adopted Rate to 2013 Proposed and 2014 Intended Rate

Components of Change	Change	Rate
2012 Adopted Rate		**$36.10**
Revenues and Customer Charges		
Investment Income (interest rate decline)	$0.01	
Increased RCEs	($0.05)	
Increased Other Income (cogen, industrial waste)	($0.12)	
Capacity Charge (pre-payments and rate increase)	($0.48)	
Use of rate stabilization	($1.11)	
Sub-total	*($1.75)*	
Operating Expenses		
Supplies	$0.38	
Labor	$0.32	
Intragovernmental Services	$0.19	
Sub-total	*$0.89*	
Capital Program and Debt Service		
Prior Debt Issues (capitalized and interest only)	$3.35	
New Debt Issues	$1.33	
2012 Long-term Bond Refunding	($0.07)	
Sub-total	*$4.61*	
Total Rate Increase		**$3.75**
2013 Proposed Rate		**$39.85**

7.0 Summary of 2013 Rate Proposal Projections and Assumptions

Table 7-1 presents a summary of the general assumptions used in developing the 2013 rate proposal. Discussion of the various assumptions is included in the main body of the text in this report.

Table 7-1. Wastewater Treatment Division Comparison of Forecast Assumptions 2012 Adopted Budget and 2013 Proposed Rate

	2011	2012	2013	2014	2015	2016	2017
I. Wastewater Spending							
Operating Expense (000's)							
2013 Proposed Rate Forecast	$103,862	$116,620	$122,038	$126,370	$131,742	$137,012	$142,492
Adopted 2012 Budget Forecast	$109,616	$116,620	$120,101	$124,893	$129,889	$135,084	$141,999
Difference (proposed minus adopted)	($5,754)	-	$1,937	$1,477	$1,853	$1,928	$493
Capital Expenditures (000's)							
2013 Proposed Rate Forecast	$273,262	$203,644	$166,181	$144,856	$174,645	$175,418	$174,892
Adopted 2012 Budget Forecast	$278,682	$147,472	$159,712	$152,501	$164,682	$180,223	$148,817
Difference (proposed minus adopted)	(5,420)	$56,172	$6,469	($7,645)	$9,963	($4,805)	26,075
CIP Accomplishment Rate							
2013 Proposed Rate Forecast, Brightwater	95%	100%	100%	- - -	- - -	- - -	- - -
2013 Proposed Rate Forecast, Non-Brightwater	85%	85%	85%	85%	85%	85%	85%
Adopted 2012 Budget, Brightwater	95%	95%	100%	- - -	- - -	- - -	- - -
Adopted 2012 Budget, Non-Brightwater	85%	85%	85%	85%	85%	85%	85%
II. Customers							
Total RCEs							
2013 Proposed Rate Forecast	707,280	707,280	707,280	709,050	712,590	716,150	721,530
Percent Change	0.08%	0.00%	0.00%	0.25%	0.50%	0.50%	0.75%
Adopted 2012 Budget Forecast	704,390	704,390	704,390	706,150	709,680	715,360	721,080
Percent Change	0.08%	0.00%	0.00%	0.25%	0.50%	0.80%	0.80%
Difference (proposed minus adopted)	2,890	2,890	2,890	2,900	2,910	790	450
New Connections							
2013 Proposed Rate Forecast	5,500	5,800	6,500	8,500	10,000	11,000	11,500

	2011	2012	2013	2014	2015	2016	2017
Adopted 2012 Budget Forecast	5,600	6,000	7,500	9,000	10,500	11,000	11,000
Difference (proposed minus adopted)	(100)	(200)	(1,000)	(500)	(500)	-	500
III. Interest Rates							
Bond Interest Rate							
2013 Proposed Rate Forecast	4.54%	4.65%	5.50%	5.75%	5.75%	5.75%	5.75%
Adopted 2012 Budget Forecast	4.54%	5.50%	5.50%	5.75%	5.75%	5.75%	5.75%
Difference (proposed minus adopted)	0.00%	-0.85%	0.00%	0.00%	0.00%	0.00%	0.00%
Variable Debt Interest Rate							
2013 Proposed Rate Forecast	1.25%	1.25%	1.25%	1.25%	1.75%	2.50%	3.25%
Adopted 2012 Budget Forecast	1.25%	1.25%	1.25%	1.25%	1.75%	2.50%	3.25%
Difference (proposed minus adopted)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Investment Interest Rate							
2013 Proposed Rate Forecast	0.58%	0.30%	0.30%	0.30%	0.30%	1.32%	2.17%
Adopted 2012 Budget Forecast	0.60%	0.40%	0.30%	0.30%	1.22%	2.04%	2.74%
Difference (proposed minus adopted)	-0.02%	-0.10%	0.00%	0.00%	-0.92%	-0.72%	-0.72%
IV. Reserves							
Bond & Loan Reserves (000's)							
2013 Proposed Rate Forecast	$160,424	$181,218	$184,646	$189,910	$198,413	$197,218	$205,136
Adopted 2012 Budget Forecast	$187,805	$180,457	$186,101	$192,687	$200,189	$200,412	$207,225
Difference (proposed minus adopted)	($27,381)	$761	($1,455)	($2,777)	($1,776)	($3,194)	($2,089)
Rate Stabilization Reserve (000's)							
2013 Proposed Rate Forecast	$76,500	$60,600	$38,000	$8,900	$3,600		
Adopted 2012 Budget Forecast	$76,500	$55,000	$33,000	$4,000			
Difference (proposed minus adopted)	-	$5,600	$5,000	$4,900	$3,600	-	-
Rate Stabilization Use (000's)							
2013 Proposed Rate Forecast	($25,500)	$15,900	$22,600	$29,100	$5,300	$3,600	-
Adopted 2012 Budget Forecast	($25,500)	$21,500	$22,000	$29,000	$4,000	-	-
Difference (proposed minus adopted)	-	($5,600)	$600	($100)	$1,300	$3,600	-

8.0 Comparison of King County Rates with Similar Agencies

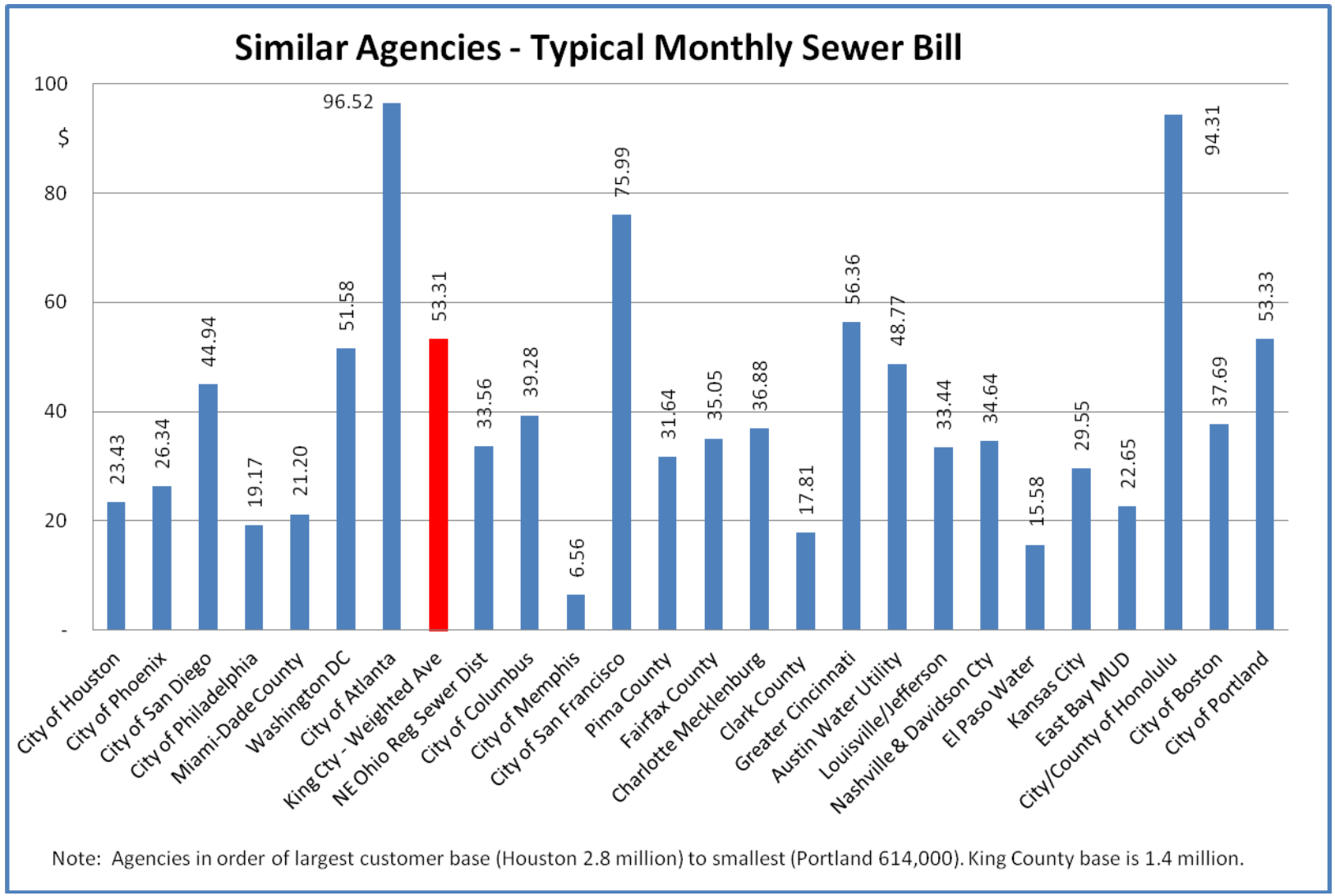
During 2010 and 2011, WTD surveyed the retail wastewater rates of 25 jurisdictions around the country. These retail rates were compared to the weighted average retail rates charged by the 14 largest jurisdictions in King County that contract with King County for wastewater treatment services. These agencies provide service to 90 percent of all customers in the sewer service area.

A consistent comparison of sewer rates is complicated by the myriad differences among utilities in sources of revenues, physical facilities, topography and weather, among others. A further complicating factor is the outlook for the various utilities being compared. For example, in the last decade WTD's rates have been heavily influenced by the construction of the largest project in its history in anticipation of growth to come in the future. In light of these complicating factors, WTD is committed to continuing to refine its rate comparison methodology in order to provide the best possible "apples to apples" comparison.

In addition to absolute rate levels and typical bills, another comparison of rates is the average annual percent increase over a given period of time. In Black and Veatch's, "50 Largest Cities Water and Wastewater Rate Survey", the average annual increase in wastewater rates between 2001 and 2009 was 5.5 percent for the 50 largest utilities in the country. During this same period WTD rates increased an average of 5.6 percent. If one adjusts for 2009 being the first of a two-year rate, the average annual WTD sewer rate increase between 2001 and 2010 is 5.1 percent. While this period includes the maximum years of spending for the Brightwater project, some of the rate impact of that activity is included in later years as discussed earlier in this paper. If the period is expanded to 2001 to 2014 to include the rates from this proposal, the average annual rate of increase is 5.2 percent.

The following charts present a comparison of 2011 retail rates for 25 agencies from various parts of the country to the weighted average for King County agencies. To approximate an average retail rate for King County, the rates of the largest 14 local component agency rates were weighted by the number of RCEs and an average was calculated. The resulting weighted average rate was $53.31 for the typical homeowner and $63.01 at the standard usage of 750 cubic feet per month.

In terms of typical monthly rates, King County ranks sixth among the surveyed agencies. The first chart shows the typical monthly sewer bill for each agency based on information from their websites. The agencies are in order of number of customers served, with the City of Houston being the largest (2.8 million) at the left margin and the City of Portland, Oregon, the smallest (614,000) on the right margin. In the case of the typical monthly bill, King County's weighted average ranks sixth. As the chart shows, rates vary widely for the 26 agencies from a high of $96.52 for Atlanta and a low of $6.56 for Memphis. Nine of the 26, including King County, fall within the range of $35 to $56 per month with an average of $39.98 for all agencies.



Note: Agencies in order of largest customer base (Houston 2.8 million) to smallest (Portland 614,000). King County base is 1.4 million.

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MWPAAC

Metropolitan Water Pollution Abatement Advisory Committee

King Street Center, 201 South Jackson Street, MS KSC-NR-0512
Seattle, WA 98104 206-263-6070

April 4, 2012

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

Re: Rates and Excessive Accumulation of Debt

Dear Executive Constantine,

The Metropolitan Water Pollution Abatement Advisory Committee (MWPAAC) has concerns about the current and future trends of King County Wastewater Treatment Division's (WTD) financial condition. In recent months, WTD provided an updated glimpse into the debt and financing situation, and from this many questions have emerged. Those questions and resulting concerns are outlined in a draft white paper submitted to the WTD Director, Pam Elardo, for her review.

Unfortunately, there was inadequate time between the presentation and consideration of the current rate proposal for a full vetting of the issues that would enable MWPAAC to provide a fully informed comment on the rate proposal. **Nevertheless, MWPAAC is concerned that the utility is highly leveraged and, that with current trends, assets will soon be exceeded by liabilities. The resulting financial inflexibility may leave WTD ill-prepared to address unanticipated new costs or constraints. We are convinced that debt management must now focus on reducing the long-term burden given the adverse trends we have noted.**

In its advisory role to King County, MWPAAC requires comprehensive financial information far enough in advance to accurately assess conditions, identify issues, and recommend approaches to address the issues. To accomplish that, MWPAAC strongly recommends that King County policy and practice with respect to WTD financing and financial structure be thoroughly reviewed during the next rate period through MWPAAC and the Regional Water Quality Committee. Only through careful review and development of new policies and practices related to prioritization of capital projects as well as their financing will we be able to better manage future rates.

A robust examination of the most consequential topics is especially needed. It should include careful evaluation of potential problems and consideration of alternative measures to address any problems determined to exist. These topics include, at a minimum:

1. the target debt service coverage ratio;
2. cash funding levels of the capital program;
3. appropriate uses of rate stabilization reserves;
4. debt maturities; and
5. future capital expenditures.

While MWPAAC does not have the necessary information to make a specific recommendation about the current rate proposal, there are several principles that WTD should follow in its rate setting:

1. **During the rate period, reduce capital spending and suspend non-essential capital projects until policy review is completed.** MWPAAC would include reclaimed water and deferrable projects in this category, and would recommend targeting a sustainable limit on capital expenditures.
2. **Continue to exclude Culver Fund and other non-wastewater costs from the WTD budget.** The Culver Fund was removed from the 2011 budget. MWPAAC recommends that the RWSP policy regarding Culver funding be eliminated. A policy should be created that limits costs imposed on WTD to those related to fulfilling basic wastewater treatment.
3. **Continue and Enhance Cost Containment Programs.** King County WTD should continue its efforts to contain costs, particularly as related to staffing.
4. **Enhance Returns of Debt Reserves**. Consider allowing WTD to directly manage investment of its bond reserves to increase yields.
5. **Avoid Short-term Budget Actions that Increase Overall Costs**. Any decision to defer costs is only valid when the strategy looks beyond immediate cost avoidance and considers the overall impacts of such decisions.

We also wish to acknowledge the accomplishments of WTD in cost containment and productivity, and the WTD Director's advocacy of rational approaches to regional issues such as the Duwamish clean-up and Puget Sound initiative that provide real opportunities for success. Also, while we have raised substantive concerns and issues, we remain appreciative of the time, effort and openness of WTD staff in helping us engage on and review these issues. We are fully supportive of the Director's initiative to partner with MWPAAC and enhance communication and coordination, and have collectively made progress in this regard. We jointly see further opportunities along this path.

MWPAAC looks forward to working with WTD staff to complete review of King County policies and WTD's debt structure by early summer. Further, MWPAAC recommends that any recommendations emerging from its analysis be incorporated into the next WTD rate proposal submitted to the King County Council in 2013.

We hope you will give this submittal due consideration. MWPAAC Officers are available to meet with you and help explain or discuss these recommendations.

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., Director, Wastewater Treatment Division, DNRP
Tim Aratani, Finance Manager, WTD, DNRP

WTD Prioritization Process

Purpose: Provide an objective priority-setting process; Allocate limited resources to the most needed projects; Assign priorities based on organizational goals and objectives

All active projects are prioritized every year until they reach the Implementation Phase; The Implementation Phase typically begins when a construction contract is signed

Project cost has no bearing on how projects are ranked

Capital projects are grouped into three categories so only like projects compete

- Major Capital

Regional Capacity Needs; Public Health, Safety, and Property; Regulatory or Contractual Requirements; Natural Resource Protection; Cost Savings

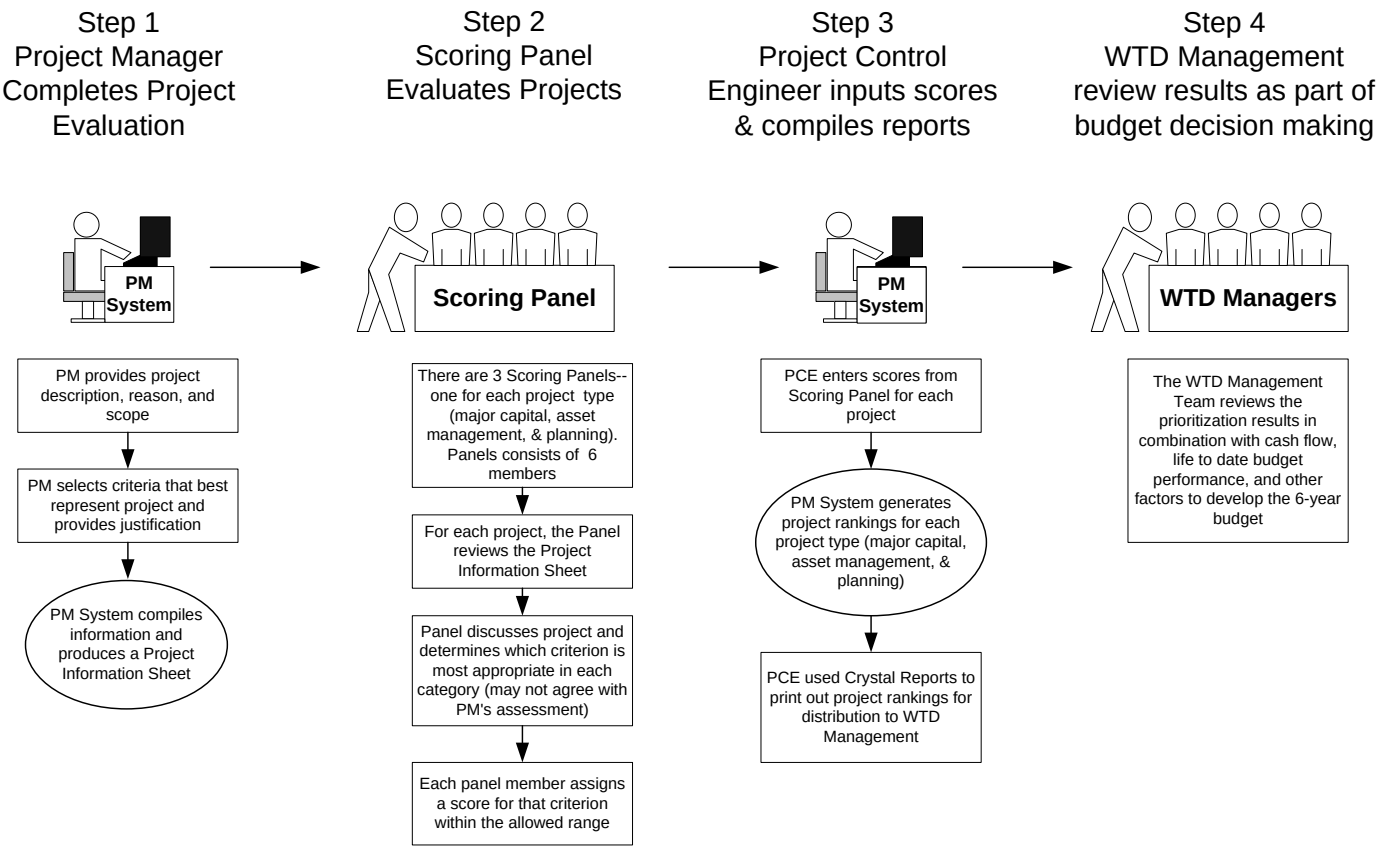
- Asset Management

Service Disruption and Impacts from Asset Failure; Employee Safety; Regulatory or Contractual Requirements; Remaining Equipment Life/ Asset Damage; Cost Savings

- Planning

Regional Service Needs; Public Health Protection; Regulatory Compliance; Contractual Requirements and Mandates; Natural Resources Protection; Cost Savings

Prioritization Process



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2013 WTD CIP Spending Plan by Category

Project	Title	2013	2014	2015	2016	2017	2018	2013-18 TL
1037815	WTD Corrosion Prevention	476,565	546,608	622,277	638,322	657,472	677,196	**3,618,439**
1038447	STP Digester Floating Lids	475,002	489,252	503,930	329,779	1,164,201	-	**2,962,164**
1114367	SP Assess & Replace Raw Sewage Pumps, Motors and Drives	232,829	3,403,284	3,491,230	4,610,413	-	-	**11,737,756**
1114368	South Plant ETS Peaking Pumps VFDs, Asses & Replace	3,605,000	530,450	-	-	-	-	**4,135,450**
1114373	Assess and Refurbish or Replace Duty Pump's VFDs at South Plant ETS	3,090,000	424,360	-	-	-	-	**3,514,360**
1048071	SP Solids Controls Replacement	2,385,043	-	-	-	-	-	**2,385,043**
1037511	WP Digestion Improvements	1,429,804	-	-	-	-	-	**1,429,804**
1038124	WPTP Digester Floating Lids	546,218	562,605	579,484	595,709	1,164,201	-	**3,448,218**
1038125	West Section Control System Replacement	1,887,708	-	-	-	-	-	**1,887,708**
1038210	West Point Replacement of CM trailers and Control System Area	6,427	-	-	-	-	-	**6,427**
1048073	WPTP Primary Tank & Channel Restoration	569,360	540,786	136,991	-	-	-	**1,247,137**
1113250	WPTP Unit Substation 704 Replacement	1,826,151	-	-	-	-	-	**1,826,151**
1114374	West Point Solids Control System Replacement	1,864,740	3,862,176	4,108,451	2,007,660	2,079,999	1	**13,923,028**
1114376	West Point Liquids Control System Replacement	3,765,446	2,806,940	3,171,190	2,832,926	2,625,000	-	**15,201,502**
1114377	WP Centrifuge Replacement	1,654,946	1,744,883	1,780,839	1,419,266	-	-	**6,599,934**
1114378	WP Intermediate and Effluent Pump Station VFD Replacement	5,417,058	1,476,773	-	-	-	-	**6,893,831**
1114380	Biosolids Conveyor Replacement at WP	2,283,098	620,043	-	-	-	-	**2,903,141**
1114381	WPTP Raw Sewage Pump Engine Emissions	561,726	2,089,720	3,006,319	1,878,346	65,703	-	**7,601,813**
1116797	Jameson/Arcweld Buildings Replacement	558,750	1,676,249	1,676,250	558,750	-	-	**4,469,999**
1116798	WPTP OGADS Replacement	318,000	848,000	954,000	954,000	2,437,999	5,087,999	**10,599,998**
1116799	WPTP Mixer Replacement	318,000	848,000	954,000	954,000	2,437,999	5,087,999	**10,599,998**
1037769	WTD Technology Program Development	716,815	738,319	760,469	783,283	806,781	830,985	**4,636,651**
1038099	Mitigation Site Maintenance and Monitoring	342,121	297,805	253,852	181,983	91,489	42,528	**1,209,779**
1037512	Ballard Siphon Repair	15,030,434	12,817,840	-	-	-	-	**27,848,274**
1037544	Conveyance Pipeline Easement Reconciliation	884,570	136,748	142,865	-	-	-	**1,164,183**
1047697	Fremont Siphon	4,340,627	10,692,969	13,927,090	18,983,117	-	-	**47,943,802**
1048075	M Street Trunk Relocation	656,774	15,008	-	-	-	-	**671,782**
1116794	North Lake Sammamish Flow Diversion	595,022	697,682	956,433	5,998,050	5,164,264	7,391,550	**20,803,001**
1048076	Conveyance System H2S Corrosion Rehabilitation	3,139,878	3,726,293	2,827,787	2,827,787	942,596	-	**13,464,342**
1037766	Interbay Pump Station	4,863,015	2,190,891	1,821,486	-	-	-	**8,875,393**

2013 WTD CIP Spending Plan by Category

Project	Title	2013	2014	2015	2016	2017	2018	2013-18 TL
1116795	North Creek Force Main Reliability Improvements	1,000,000	2,000,000	3,500,000	3,500,000	-	-	**10,000,000**
1037513	Biosolids Transportation	1,521,369	992,684	157,571	162,298	167,167	-	**3,001,090**
1037768	Biosolids Agricultural Equipment	365,011	171,924	88,355	98,431	256,779	268,065	**1,248,565**
1038295	Biosolids Forestry Equipment	375,286	74,609	76,847	93,860	119,331	-	**739,933**
1037767	Biosolids Site Development	466,803	480,807	495,231	510,088	525,391	-	**2,478,320**
1116796	SP Reclaimed Water Facility Modifications	221,000	418,000	634,000	-	-	-	**1,273,000**
1037516	Reclaimed Water - Comprehensive Plan	85,471	-	-	0	-	-	**85,471**
1037543	Brightwater Reclaimed Water Pipeline	1,160,700	-	-	-	-	-	**1,160,700**
1114383	Reclaimed Water Planning & Infrastructure	1,320,941	1,279,976	1,259,368	1,145,205	1,352,293	1,384,503	**7,742,286**
1048077	Environmental Lab - Energy Improvements	-	1,226,981	1,263,791	-	-	-	**2,490,772**
1113351	Lab Camp	941,611	938,368	1,025,665	1,138,497	1,241,603	1,356,222	**6,641,967**
1037765	Water Quality Capital Outlay	321,258	330,896	340,823	351,048	301,048	310,079	**1,955,152**
1048078	ARC Flash Hazard Analysis	345,195	-	-	-	-	-	**345,195**
2005-010	Future AM Master Plan Projects	-	-	-	38,435,842	74,505,752	53,833,696	**166,775,290**
1048079	Roof Replacements for WTD Facilities	127,353	231,093	267,846	370,143	452,438	2,133	**1,451,007**
1038335	Electrical / I&C	1,543,778	1,568,117	3,362,683	3,350,177	3,318,604	3,343,346	**16,486,705**
1113196	Mechanical Upgrade & Replacement	1,882,626	1,885,192	3,398,058	3,398,058	3,398,058	3,462,751	**17,424,744**
1038273	Odor / Corrosion Control	515,000	530,450	3,398,058	3,398,058	3,398,057	3,343,346	**14,582,969**
1113247	Pipeline Replacement	1,540,788	1,591,350	3,398,058	3,398,058	3,398,058	3,343,346	**16,669,657**
1113189	Process Replacement/Improvement	1,877,932	1,885,192	3,398,058	3,398,058	3,398,058	3,343,346	**17,300,643**
1037498	Structures / Site Improvement	1,413,893	1,413,894	3,398,058	3,398,058	3,398,058	3,462,751	**16,484,713**
	Asset Management Total	**80,867,143**	**70,803,217**	**71,137,412**	**111,699,273**	**118,868,401**	**96,571,843**	**549,947,289**
1037546	Brightwater Conveyance	31,592,041	-	-	-	-	-	**31,592,041**
1037813	Brightwater Treatment Plant	1,019,158	-	-	-	-	-	**1,019,158**
1037514	SW Interceptor (2004-03)	8,055,645	4,871,549	-	-	-	-	**12,927,194**
1037789	RWSP Conveyance System Improvements	6,093,754	5,237,933	7,141,803	3,559,686	7,646,979	14,402,611	**44,082,767**
1038122	Sunset/Heathfield Pump Station Replacement and Forcemain Upgrade	1,982,156	2,265,541	5,698,588	17,186,742	20,142,013	30,944,901	**78,219,942**
1114382	North Creek Interceptor	2,569,676	2,186,780	18,184,367	19,831,468	4,208,738	10,135,114	**57,116,143**
1116800	North Mercer and Enatai Interceptor Parallels	499,937	2,675,898	4,329,424	8,660,000	8,659,424	4,040,715	**28,865,398**
1116801	Lake Hills and NW Lake Sammamish Interceptor Upgrade	447,000	4,465,999	6,698,000	13,396,999	13,396,998	6,251,999	**44,656,996**
1037510	Barton Pump Station Upgrade	6,723,824	4,783,754	3,235,472	-	-	-	**14,743,050**
1038313	Kirkland PS - Modifications	2,076,470	1,344,506	-	-	-	-	**3,420,976**

2013 WTD CIP Spending Plan by Category

Project	Title	2013	2014	2015	2016	2017	2018	2013-18 TL
1038220	Juanita Bay PS - Modifications	92,700	-	-	-	-	-	**92,700**
1037518	RWSP Local Systems I/I Implementation	365,424	-	-	-	-	-	**365,424**
1037808	RWSP Local Systems I/I Control	184,931	495,363	594,262	33,186	34,779	35,823	**1,378,344**
	Capacity Total	**61,702,718**	**28,327,323**	**45,881,916**	**62,668,080**	**54,088,933**	**65,811,164**	**318,480,134**
1037509	Influent Screening Improvements at the WPTP	12,623,601	7,034,983	2,177,886	-	-	-	**21,836,471**
1038098	CSO Control & Improvement	3,191,143	14,173,359	31,818,132	10,194,233	26,939,644	39,732,616	**126,049,128**
1038126	CSO Control & Improvements - Murray	7,284,990	12,274,237	10,105,325	6,608,307	-	-	**36,272,859**
1038127	CSO Control & Improvements - Barton	3,686,198	4,876,931	7,736,286	23,841	-	-	**16,323,256**
1038448	CSO Control & Improvements - Magnolia	5,781,102	13,204,631	10,557,841	7,702,981	-	-	**37,246,555**
1038449	CSO Control & Improvements - North Beach	3,935,427	4,359,737	2,240,416	-	-	-	**10,535,580**
1113334	Comp Planning & Reporting	4,199,056	1,977,561	2,129,882	2,345,241	2,157,800	1,420,787	**14,230,328**
2013-009	Hanford at Rainier and Bayview North	1,679,596	1,729,983	4,950,791	2,899,859	2,858,632	2,957,805	**17,076,667**
1037810	Sediment Management Plan	1,366,840	9,776,658	15,359,216	2,229,473	843,532	3,395,876	**32,971,595**
1038129	Lower Duwamish Waterway Superfund	3,337,424	1,821,426	1,347,829	-	-	-	**6,506,679**
1038294	Non-Project Specific - NOAA	107,601	61,628	-	-	-	-	**169,229**
	Regulatory Total	**47,192,977**	**71,291,135**	**88,423,605**	**32,003,937**	**32,799,608**	**47,507,084**	**319,218,346**
	WTD CIP Total	**189,762,838**	**170,421,675**	**205,442,933**	**206,371,290**	**205,756,941**	**209,890,091**	**1,187,645,768**