



King County

Metropolitan King County Council Budget and Fiscal Management Committee

AGENDA ITEM	<u>7</u>	DATE:	<u>May 15, 2012</u>
PROPOSED No.:	<u>2012-0144</u>	PREPARED BY:	<u>Amy Tsai, Beth Mountsier</u>

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:

Wastewater Services Contracts

King County provides wastewater services for 34 municipalities or sewer districts in King County, southern Snohomish County and the northern tip of Pierce County. The municipalities constitute approximately three-fourths of the county's ratepayer base and the sewer districts constitute roughly one fourth of the ratepayer base.

The County does not provide wastewater services directly to residential or business customers. Rather, the County collects wastewater from the cities or utility districts in large interceptor lines, and conveys the wastewater to County treatment plants for treatment and discharge. The sewerage service provided by the County includes construction, operation and maintenance of main trunk and interceptor sewers, pumping stations, and treatment plants.

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 County charges the contracted city and sewer district agencies the monthly sewer rate, which in turn bill the customers to whom they provide sewage collection services. Many residents see these charges on their sewer bills, but they are not paying the County directly. Their utility providers, as direct service providers, set their own rates to recoup the payments to the County for wastewater treatment plus their own “local” cost of service. Unlike the monthly sewer rate, the capacity charge is directly billed by and paid to King County.

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

Monthly Sewer Rate

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%
2005 - 2006	25.60	9.4%
2007 - 2008	27.95	9.2%
2009 - 2010	31.90	14.1%
2011 - 2012	36.10	13.2%
2013-2014	39.85	10.4%
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 & 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

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

The \$39.85 proposed monthly sewer rate is an increase of \$3.75 over last year's adopted rate of \$36.10. The components balanced by the Executive result in a rate that is \$0.03 less than projected in the adopted budget last fall, and \$0.07 less than projected when the 2012 rate was adopted last June.

The components feeding into the monthly sewer rate are described by the Executive as follows:

Table 3. Changes from 2012 Adopted Rate to 2013 Proposed 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)	
<i>Sub-total</i>	<i>(\$1.75)</i>	

Operating Expenses		
Supplies	\$0.38	
Labor	\$0.32	
Intragovernmental Services	\$0.19	
<i>Sub-total</i>	\$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)	
<i>Sub-total</i>	\$4.61	
Total Rate Increase		\$3.75
2013 Proposed Rate		\$39.85

The primary cause of the rate increase is the debt service payments on the capital program. The secondary cause is increases in operating expenses. A summary of the factors affecting the 2013 sewer rate compared to 2012 are as follows:

- Interest Rates on Investment Income - \$0.01**
 Just as the poor economy has allowed King County to issue bonds at favorable lower interest rates, it has in turn resulted in lower interest rates earned on investment income for the county. The rate of return on the county's investment pool was forecast last year to be 0.4% in 2012, but that forecast has been revised downward to 0.3%.
- RCE Forecasts – (\$0.05)**
 There were 707,280 Residential Customer Equivalents (RCEs) for 2011, previously projected to be 704,390. The current RCE forecast anticipates no change in RCEs for 2012 and 2013, a 0.25 percent increase in 2014, and a 0.5 percent increase in 2015. WTD's RCE estimates have been on the conservative side to avoid unwelcome surprises in the economic downturn.

Table 4. 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

- **Other Income – (\$0.12)**

There has been an increase in WestPoint Cogen charge income and industrial waste charge income due to both increased use as well as rate increases.

- **Capacity Charge – (\$0.48)**

New connections are expected to be less than had been projected last year, but this has been offset by an increase in the number of applicants paying the pre-payment amount, which creates a near-term increase in cash flow for WTD.

Table 5. 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

- **Rate Stabilization Reserve - (\$1.11)**

Rate stabilization is a way of reserving operating revenues for use in subsequent years to help smooth out (or offset) rate increases that would otherwise fluctuate more with the ups and downs in the revenues and expenses that occur. The planned draw-down of the rate stabilization reserve offsets/reduces what would otherwise be a greater increase in the sewer rate. The 2013 proposed rate uses \$22.6 million, leaving \$38 million in reserves. The reserve would be drawn down to zero by 2016.

Table 6. Amount of Rate Stabilization Reserve and Use

	2011	2012	2013	2014	2015	2016	2017
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	-

The Executive's proposal draws down less of the rate stabilization reserve than previously forecast, which results in the reserve being available longer. Although

the amount of the draw-down is built into the Executive's rate projections, how much to draw down each year is a policy decision.

- **WTD Operating Costs - \$0.89**

This rate proposal incorporates an additional \$0.7 million in operating expense reductions for 2013. WTD intends to identify an additional \$1.9 million in efficiency savings by 2014.

Other operating cost factors feeding into the rate this year include increased costs of supplies (primarily chemicals) for \$0.38, costs of intragovernmental services (including 'overhead' for central services and other interagency services such as the Environment Lab) for \$0.19, and labor and benefit costs for \$0.32.

In regards to labor costs, it is worth noting that staffing levels at WTD have remained the same for a long period of time from 598.7 FTEs in 2005 to 594.7 FTEs in 2011 and 585.7 FTEs in 2012.

The intragovernmental costs include, among other things, \$600K for WTD's share of the ABT financial system and over \$200K for additional water quality monitoring. The Executive states that the additional water quality monitoring would focus on the potential impacts of wastewater discharge to marine organisms and marine water quality and understanding more about existing and emerging contaminants. The Executive has transmitted a 2012 budget proviso report regarding the water quality program that documents the decreases in water quality monitoring over the last two rate cycles, and the related reductions in funding. In response to the proviso, the report has an attached matrix of potential water quality monitoring activities that *could be* restored, enhanced or added – resulting in approximately an additional 30 cents on the rate (which is equivalent to the amount that has been eliminated/reduced over the last four years). The Executive's proposed rate incorporates his recommendation for additional monitoring in the Duwamish River and in Puget Sound.

Staff analysis of operating expenses is continuing. However, specific plans by the Executive for WTD reductions would be expected to be addressed with the 2013 budget adoption this fall.

- **Capital - \$4.61**

Existing debt costs \$3.35 on the rate. New bond issuances add \$1.33 to the rate. Debt refinancing at favorable rates in 2011 offsets \$0.07 on the rate. The capital program and debt service are the primary drivers of the rate increase. Debt service and planned capital projects are discussed in greater detail below.

WTD Capital Projects

The table below shows the differences in WTD's proposed Capital Spending Plan compared to the capital spending projections made last year. The WTD budget does

not include any cost impact from the Brightwater litigation (neither the amount claimed by King County nor the amount cross-claimed against King County).

Table 7. WTD Capital Spending Plan (2011-2017) in \$Millions

Brightwater	2011	2012	2013	2014	2015	2016	2017
2012 Adopted	\$194.1	52.9	15.2				
2013 Updated	174.7	89.1	32.6				
Difference	(19.4)	36.2	17.4				
Non-Brightwater	2011	2012	2013	2014	2015	2016	2017
2012 Adopted	111.0	114.4	155.5	179.4	193.7	212.0	175.1
2013 Updated	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 CIP	2011	2012	2013	2014	2015	2016	2017
2012 Adopted	305.1	167.3	170.7	179.4	193.7	212.0	175.1
2013 Updated	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

With the Brightwater Project winding down and nearing completion, WTD will return to normalized capital budgets and borrowing on an annual basis. Projects that could be safely deferred during construction of Brightwater were delayed – but now there is something of a backlog of projects that will need to be completed. Careful evaluation, prioritization and timing of these projects will still 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.

WTD's Capital Project Prioritization Process

WTD employs a prioritization scoring process for all active projects each year until they reach the Implementation Phase (e.g., when a construction contract is signed). The purpose of the process is to allocate resources to the most needed projects in alignment with WTD's goals and objectives.

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, 3) planning for regional service needs.

For each of the three categories of capital projects, first the Project Manager completes a project information sheet. Then a six-member scoring panel reviews the information and each member assigns a score to each project. The Project Management system generates project rankings based on the scores, for each project type (major capital, asset management, planning). Finally, the WTD Management team reviews the results in combination with cash flow, life to date budget performance, and other factors to develop WTD's proposed 6-year capital budget. The project list and prioritization is also reviewed with the Metropolitan Water Pollution Abatement Advisory Committee (MWPAAC) for feedback.

Capital Project Changes Affecting the 2013 Rate

Staff analysis of capital projects is continuing. As reported by the Executive, 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 the following:

- **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.**
 - The total project cost estimate increased \$3 million or 15 percent due to unanticipated design and construction changes that address underground utility conflicts incurred when implementing the upgrades to the force main and pump station. This project is located in a congested area of downtown Kirkland.
 - 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.
 - 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.
 - 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.

As reported by the Executive, 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.

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 might be proposed for deferral.

Metropolitan Water Pollution Abatement Advisory Committee

The Metropolitan Water Pollution Abatement Advisory Committee, or 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 within King County. Most of these cities and sewer utilities deliver their sewage to King County for treatment and disposal.

Attached to the Executive's transmittal of the proposed 2013 sewer rate is a letter from MWPAAC (see Attachment 3). In its letter, MWPAAC acknowledges the accomplishments of WTD in cost containment and productivity, but expresses concern about debt management and capital project prioritization.

As noted above, debt service is a significant component of the sewer rate. Below are two Figures showing 1) debt service for 2008-2012 long-term bonds in millions of dollars, 2) debt service expressed as cents on the sewer rate.

MWPAAC states that "with current trends, assets will soon be exceeded by liabilities." However, WTD's capital spending is building capacity and increasing its assets in order to meet the anticipated growth needs of the region. The concerns raised by MWPAAC will require further staff analysis.

However, WTD has already reported that the direct capital transfers/expenditures are expected to increase starting in 2014 after the interfund loan (originally arranged to pay off the short-term variable debt in 2008 when interest rates spiked) will be retired in 2013. In addition, capacity charge income is growing in comparison to what is owed on debt for capacity projects – meaning more of that income will be available for the operating budget and/or direct capital expenditures.

Figure 1. Cumulative Debt Service Associated with Long-term Bonds Issued 2008 through March 2012 (in millions of \$)

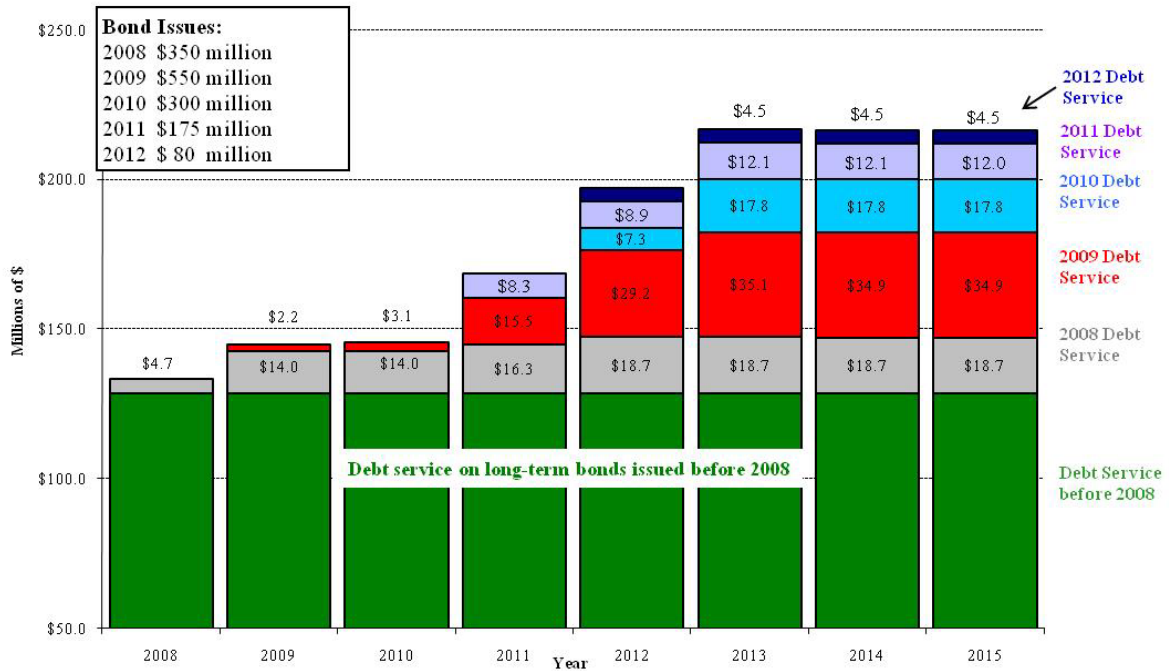
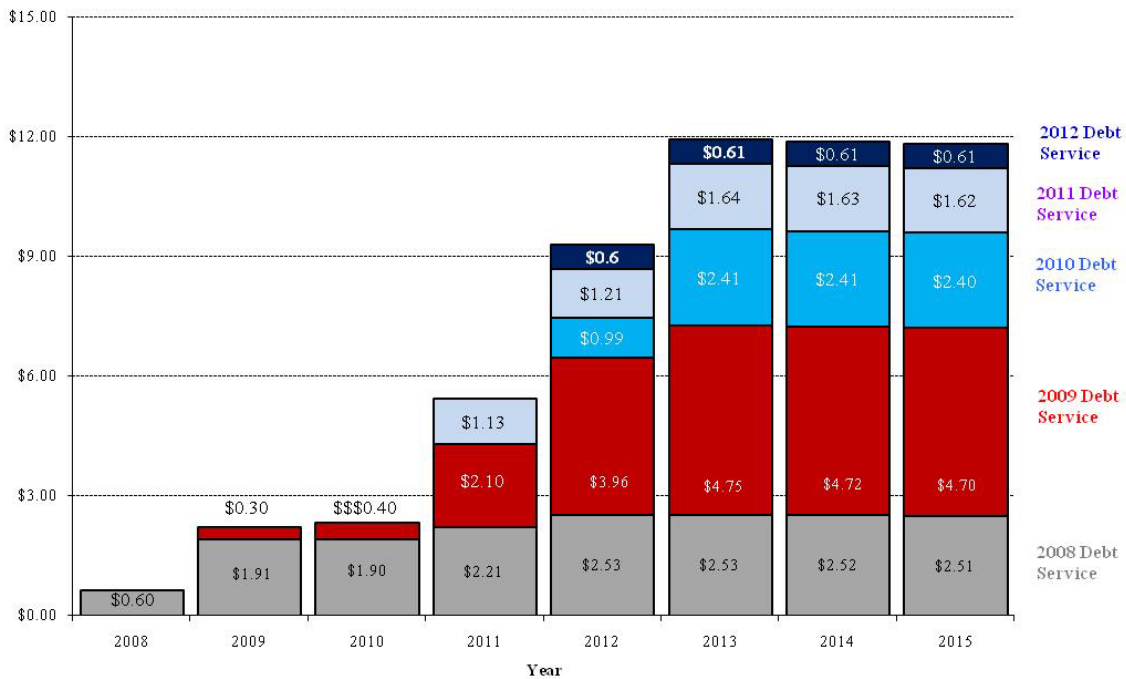


Figure 2. Cumulative Debt Service Associated with Long-term Bonds Issued 2008 through March 2012 (in \$ per RCE per month)



Comparison with Other Agencies

The Executive compared 2011 retail rates for 25 agencies across the country to King County. The Executive determined that King County ranks 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 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.

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. The last scheduled BFM committee meeting before those dates would be June 5.

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). Staff analysis of the rate proposal is continuing.

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

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KING COUNTY
Signature Report

1200 King County Courthouse
 516 Third Avenue
 Seattle, WA 98104

May 14, 2012

Ordinance

Proposed No. 2012-0144.1

Sponsors McDermott

1 AN ORDINANCE determining the monetary requirements
 2 for the disposal of sewage for the fiscal year beginning
 3 January 1, 2013, and ending December 31, 2013, setting
 4 the sewer rate for the fiscal year beginning January 1, 2013,
 5 and ending December 31, 2013, and approving the amount
 6 of the sewage treatment capacity charge for 2013, in
 7 accordance with RCW 35.58.570; and amending Ordinance
 8 12353, Section 2, as amended, and K.C.C. 4A.--.---, and
 9 Ordinance 11398, Section 1, as amended, and K.C.C.
 10 28.84.055.

11 BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

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

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

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

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

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

37 SECTION 2. Monetary requirements for the disposal of sewage as defined by
38 contract with the component sewer agencies for the fiscal year beginning January 1,
39 2013, and ending December 31, 2013. The council hereby determines the monetary
40 requirements for the disposal of sewage as follows:

41 Administration, operating, maintenance repair and replace (net of other income):
42 \$66,207,551.

43 Establishment and maintenance of necessary working capital reserves:

44 \$22,378,688.

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

47 TOTAL: \$338,273,898.

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

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

53 1. Seven dollars for sewer connections occurring between and including January
54 1, 1994, and December 31, 1997;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

88 in a single payment, while preserving the option for new ratepayers to finance the
89 capacity charge.
90

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

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 ADJUSTMENTS	(28,795)	(7,366)	-	-	(1,051)	(1,051)	-	-
ADJUSTMENTS	16,481	5,381	-	-				
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.

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.

The Honorable Larry Gossett
April 19, 2012
Page 3

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



King County

Department of Natural Resources and Parks
Wastewater Treatment Division

King County Executive 2013 Monthly Sewer Rate and Capacity Charge Proposal

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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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 policies 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 receipts¹) 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)	
<i>Sub-total</i>	<i>(\$1.75)</i>	
Operating Expenses		
Supplies	\$0.38	
Labor	\$0.32	
Intragovernmental Services	\$0.19	
<i>Sub-total</i>	<i>\$0.89</i>	
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)	
<i>Sub-total</i>	<i>\$4.61</i>	
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

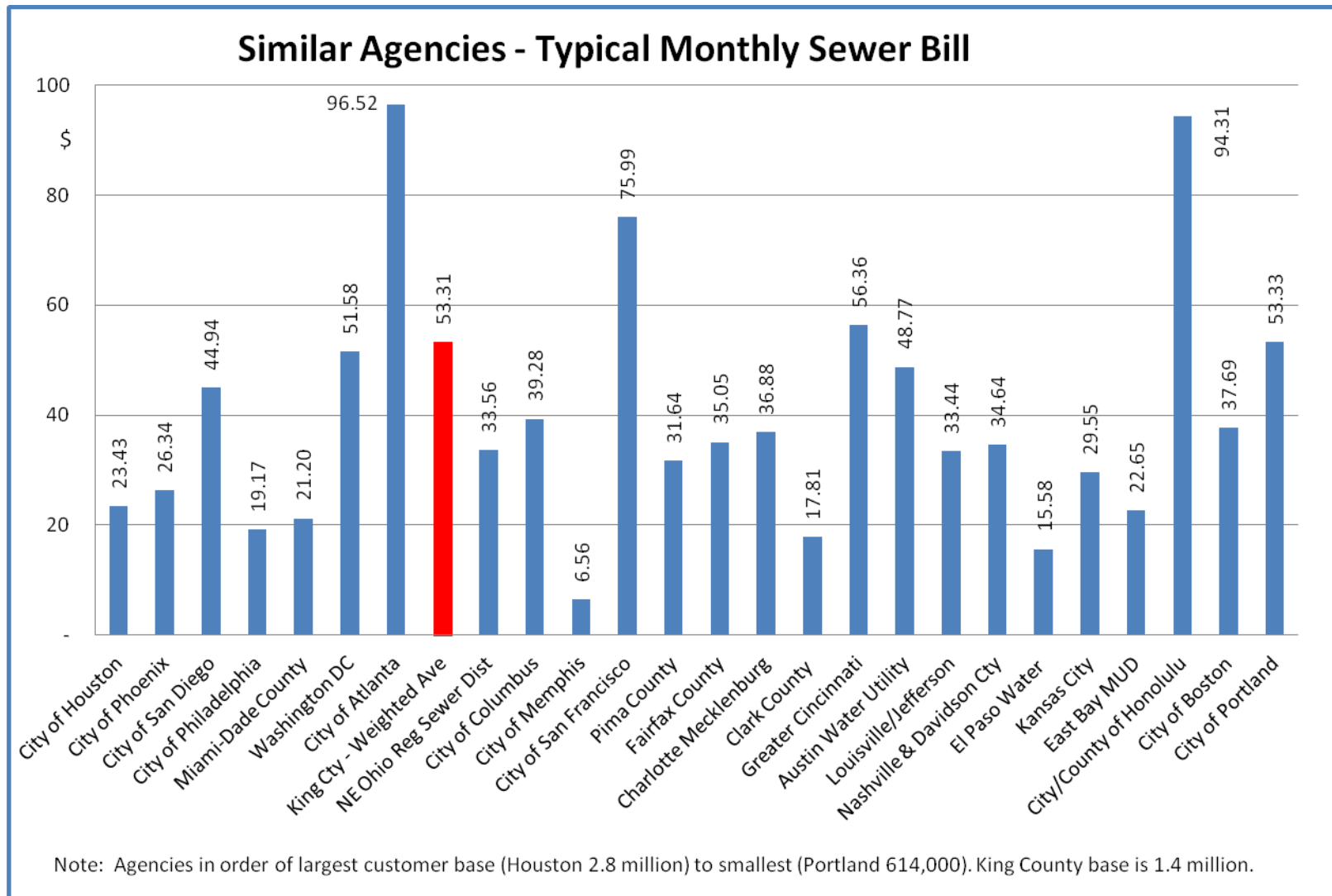
During 2010 and 2011, WTD surveyed the retail wastewater rates of 25 jurisdictions around the country. These retail rates were compared to the weighted average retail rates charged by the 14 largest jurisdictions in King County that contract with King County for wastewater treatment services. These agencies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

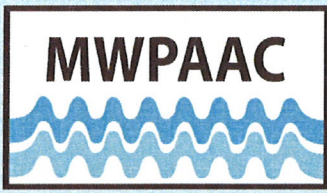
A consistent comparison of sewer rates is complicated by the myriad differences among utilities in sources of revenues, physical facilities, topography and weather, among others. A further complicating factor is the outlook for the various utilities being compared. For example, in the last decade WTD's 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.





Metropolitan Water Pollution Abatement Advisory Committee

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

MEMBERS:

Alderwood Water and
Wastewater District
City of Algona
City of Auburn
City of Bellevue
City of Black Diamond
City of Bothell
City of Brier
City of Carnation
Cedar River Water and Sewer District
Coal Creek Utility District
Cross Valley Water District
Highlands Sewer District
City of Issaquah
City of Kent
City of Kirkland
City of Lake Forest Park
Lakehaven Utility District
City of Mercer Island
Midway Sewer District
Northeast Sammamish Sewer District
Northshore Utility District
Olympic View Water and Sewer District
City of Pacific
City of Redmond
City of Renton
Ronald Wastewater District
Sammamish Plateau Water and
Sewer District
City of Seattle
Skyway Water and Sewer District
Soos Creek Water and Sewer District
Southwest Suburban Sewer District
City of Tukwila
Val Vue Sewer District
Vashon Sewer District
Woodinville Water District

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.

Honorable Dow Constantine

April 6, 2011

Page 3

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,

A handwritten signature in blue ink that reads "Scott Thomasson". The signature is fluid and cursive, with a long horizontal stroke at the end.

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

