



Metropolitan Water Pollution Abatement Advisory Committee

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

MEMBERS:

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Wastewater District
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City of Auburn
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Coal Creek Utility District
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Vashon Sewer District
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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

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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 horizontal line extending to the right.

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

