

**KING COUNTY WASTEWATER TREATMENT DIVISION
2020 Monthly Sewer Rate & Capacity Charge Proposal**



Regional Water Quality Committee

May 1, 2019



Executive's 2020 Sewer Rate and Capacity Charge Proposal

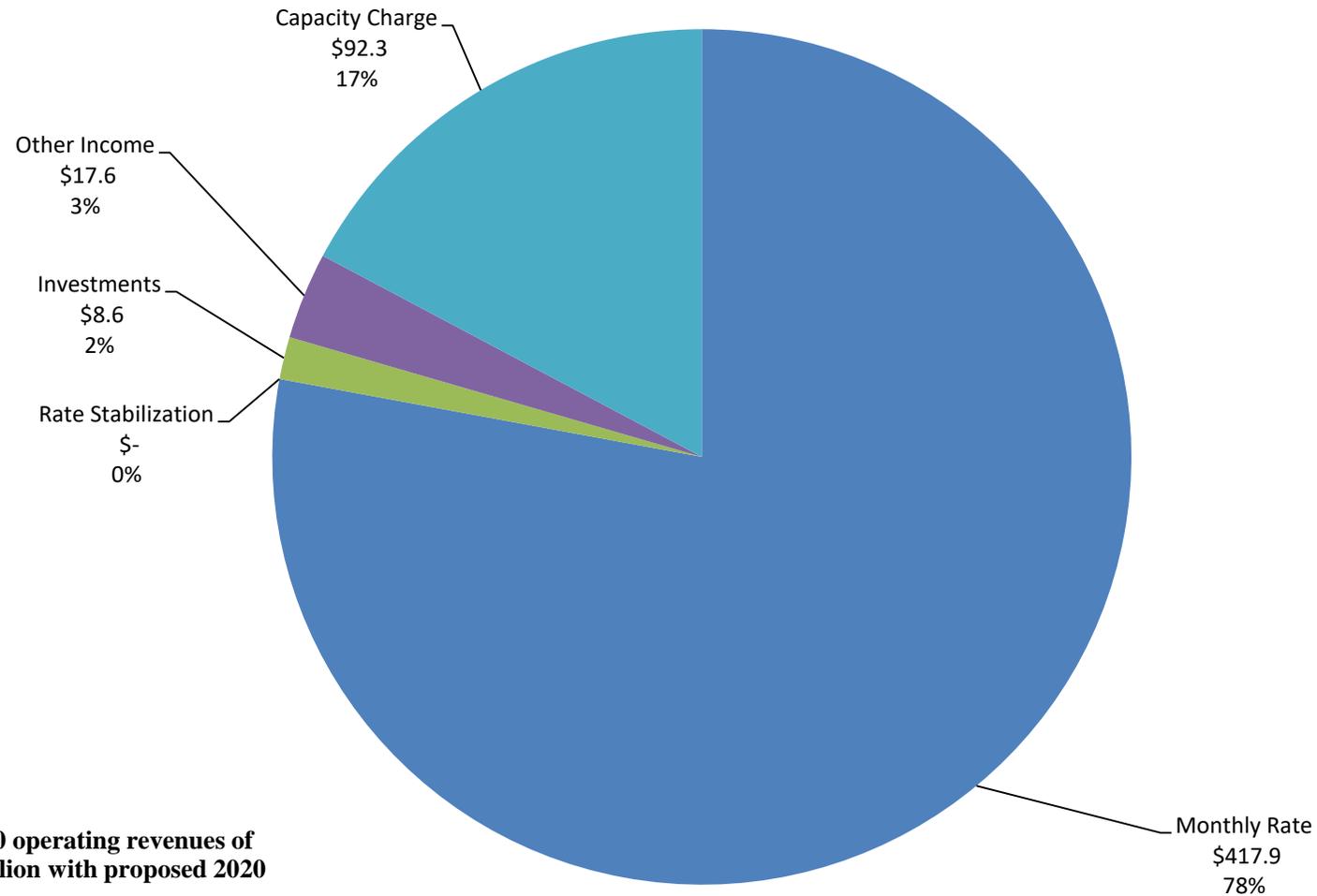
Maintains 2019 sewer rate of \$45.33 for second year

- No use of rate stabilization funds through 2025
- Below inflation increases forecast through 2025
- Reflects positive 2018 financial performance
- \$346 million in debt reduction by 2025
- Provides capital and operations support for safety, resiliency, and asset management

Capacity charge of \$66.35 for 2020

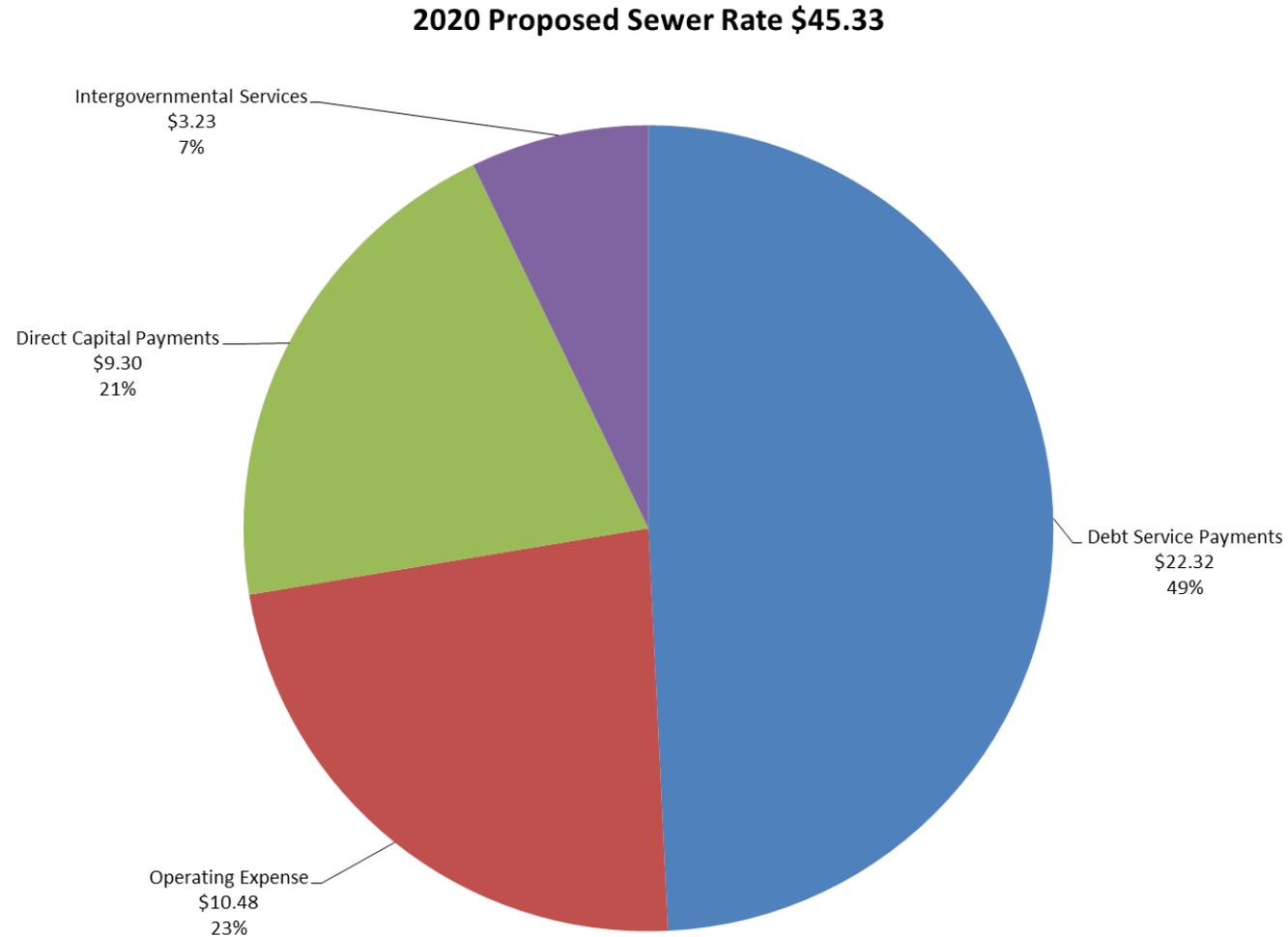
- Increase of 2.9 percent from 2019
- Expands affordability options for capacity charge

Collectively, the Sewer Rate and Capacity Charge Generate \$510 million or 95% of the Utility's 2020 Revenue



WTD 2020 operating revenues of \$536.4 million with proposed 2020 sewer rate.

Proposed 2020 Sewer Rate Distribution of Expenditures



Intergovernmental services include services received from other County agencies and \$.05 of contribution to liquidity reserve.
Total may not add due to rounding.

Positive 2018 Financial Performance

\$16.6 million above planned revenues

- Capacity charge revenues \$11.2 million above planned
- Other income includes \$5.3 million above planned from RINS (environmental credits for methane production)

West Point Insurance Claim

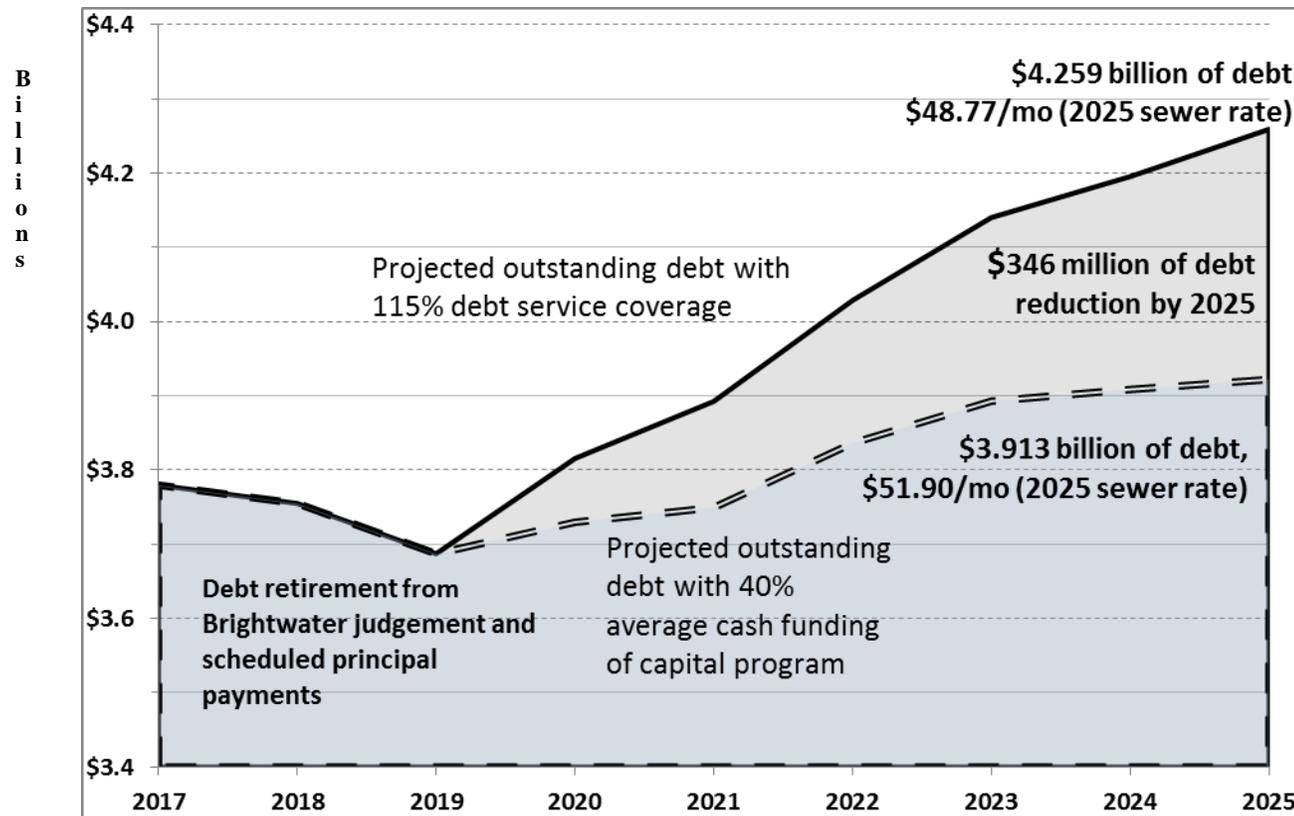
- Final settlement with insurance at \$22.5 million
- Potential for additional \$3 million from the State

\$144.9 million in Brightwater Judgment Funds

- Initially designated for cash payment of capital
- Under current conditions, retiring outstanding debt proved more fiscally sound

Conservative practices yield reduction in future debt

- Funding, on average, 40% of the capital program from cash
- Estimated \$346 million less debt through 2025



Residential Customer Equivalent growth moderates

- Residential Customer Equivalent (RCE) growth peaked in 2016 at 2.25 percent
- Lower growth and billing adjustments yield growth averaging 0.42 percent in 2018-2019
- Return to long-term trends projected for the Financial Plan in 2020

Residential Customer Equivalents Forecast

	2018	2019	2020	2021	2022	2023	2024	2025
2020 Rate Proposal	760,571	763,552	768,286	773,049	777,842	782,665	787,517	792,400
Percent Increase from Prior Year	0.44%	0.39%	0.62%	0.62%	0.62%	0.62%	0.62%	0.62%
2019 Adopted Sewer Rate	761,790	765,980	770,730	775,500	780,310	785,150	790,018	794,922
Percent Increase from Prior Year	0.60%	0.55%	0.62%	0.62%	0.62%	0.62%	0.62%	0.62%
Change between 2020 Rate Proposal and 2019 Adopted Sewer Rate	(1,219)	(2,428)	(2,444)	(2,451)	(2,468)	(2,485)	(2,501)	(2,522)

Operating Expenses: 2019 - 2020 Summary

- Planned spending based on 2019 - 2020 Adopted Budget
- 2019 operating expenses projected at \$167.8 million
 - Implementation of resiliency programs at West Point
 - Staff development and succession planning
 - Projected increase in electricity, chemical and diesel prices
 - Additional renewable energy, operating and maintenance costs associated with West Point cogeneration facilities and renewable identification number revenue generation at South Plant
- 2020 operating expenses are expected to change by less than 1 percent to \$168.1 million reflecting a transition to operating the Georgetown Wet Weather Station

Future Sewer Rate Outlook

Sewer rate projections for 2021 to 2025 indicate average annual increases of approximately 2.2 percent per year

Based on preliminary long-term projections, average annual rate increases of the sewer rate are 2.9 percent for 2019 to 2030

Uncertainties in projections:

- Outlook for changes in bond and investment interest rates
- Outlook for continued growth in RCEs and new connections
- Changes in regulatory requirements
- Outcome of Clean Water Plan

Capital Program Highlights

- 2018 Capital spending was \$231 million, yielding an accomplishment rate of approximately 94%
- Planned capital spending of \$272 million in 2020 \$269 million in 2021
- 2019-2020 construction spending supports about 2,550 full and part time jobs in the economy

Georgetown Wet Weather Treatment Station - \$242M

- Building a Wet Weather Treatment Station (WWTS), conveyance pipelines, and outfall structure to treat Combined Sewer Overflows (CSOs)
- Secured low interest WIFIA loan and State Revolving Fund loan

Joint Ship Canal CSO Control - \$178M

- Joint project with Seattle Public Utilities to control 5 CSO outfalls

North Mercer Island and Enatai Interceptors Upgrade - \$116M

- Increasing reliability and capacity of North Mercer Island and Enatai Interceptors



Georgetown Wet Weather Treatment Station

Capital Program Highlights continued

Thorton Creek Trunk Replacement - \$41M

- Replaces approximately 4,000 feet of pipe
- Relocates some pipe segments away from sensitive areas
- Control system upgrades

West Point Primary Sedimentation Area Roof Structure - \$36M

- Removes Z beams, upgrades tank walls, and adds resilient roof structure
- Enhances life safety and seismic resiliency of the entire structure

Lake Hills Interceptor-A Refurbishment - \$30.5M

- Rehabilitates 3,300 feet of 48 inch diameter pipe
- Scheduled for construction in 2020

Capacity Charge Proposal

- New connections to the system pay additional charges to support the creation of new capacity
- Capacity charge revenue accounted for 16.8 percent of total operating revenues in 2018 (compared to 15.1 percent in 2017); projected to grow to 17.6 percent by 2025
- A monthly charge for 15 years or lump sum with a 3.6 percent discount

Capacity Charge	2019	2020	2021	2022	2023	2024	2025
Monthly Charge	\$64.50	\$66.35	\$68.34	\$70.39	\$72.50	\$74.68	\$76.92
Amount of Change	\$1.90	\$1.85	\$1.99	\$2.05	\$2.11	\$2.18	\$2.24
Percentage Change	3.0%	2.9%	3.0%	3.0%	3.0%	3.0%	3.0%
Annual Amount	\$773	\$796	\$820	\$845	\$870	\$896	\$923
Total Payments (15 years)	\$11,610	\$11,943	\$12,301	\$12,670	\$13,050	\$13,442	\$13,845
<u>Early Payoff Total*</u>	\$9,520	\$9,280	\$9,558	\$9,845	\$10,140	\$10,445	\$10,758

* Assumes the current early payoff discount rate of 3.6 percent

Capacity Charge Affordability Proposal:

Low-income homeowners may opt to defer payment with a low-interest property lien option

- Eligibility: Residents who qualify for property tax exemption for low-income seniors and persons with disabilities
- May opt to defer remaining fifteen-year amount as a lien at an interest rate of 5 percent

More affordable housing units qualify for low income housing rate class

- Can be multifamily, single detached, or owner-occupied (current: studio-sized units in multifamily only)
 - Occupied by and affordable for households with income at or below 80 percent area median income
 - Multifamily structure must be at least fifty-one percent low income
 - Owner-occupied units must be principal residence (current: rental units only)
 - Forty year covenant (current: in perpetuity)
- Qualifying units charged 0.32 RCEs per unit

Reduced Charge for Emergency Shelters and Transitional Housing

- Eligibility: Shelter housing for residents receiving support services for homelessness
 - Owned by a government or nonprofit
 - Legally bound to use structure for this purpose
- Transitional housing with distinct dwelling units (e.g., apartments or tiny home villages) charged 0.32 RCEs as special purpose housing (current: multifamily housing for people with disabilities)
- Dormitory-style or congregate shelter housing charged fifty percent less than schedule based on fixture count

Benefits and Financial Impacts of Affordability Proposal

Proposed Change	Households Assisted	People Assisted	Delayed Revenue	Foregone Revenue
Expanded Payment Plans	100	220	\$100k	---
Low-Interest Lien Deferral	1,800	3,000	\$1M	---
Expanded Rate Class: Low Income Housing*	760	1,500	---	\$2.25M
Expanded Rate Class: Special Purpose/Shelter Housing*		700	---	<\$100k

*Resulting in 50 percent reduction in capacity charge for most income restricted, affordable housing and housing for residents experiencing homelessness.

Proposal for Near-term Funding:

- \$0.50/RCE on the capacity charge generates enough revenue to offset the first three years of the expanded low income housing rate classification
- \$6.00/year for single family, \$90.00 total over fifteen years on the capacity charge

Options for Long-term Funding post 2022:

Option	Monthly Increase	Annual Impact	Discussion Points
Monthly Sewer Rate	≈\$0.25 per RCE starting in 2021	≈\$3.00 per RCE	Spreads impact over a much larger customer base. Revenue requirements assessed annually based on actuals and updated forecasts.
Capacity Charge	≈\$1.00 per RCE starting in 2023	≈\$12.00 per RCE	Spreads impact over smaller base of capacity charge ratepayers only. Rate increase would be based on long-term estimates with limited data.

If you have additional questions, please contact:

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King County

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