## STAFF REPORT

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| **Agenda Item:** | 5 and 6 | **Name:** | Mike Reed |
| **Proposed No.:** | 2020-0101 and2020-0102 | **Date:** | August 26, 2020 |

**SUBJECT**

Proposed revision to the rate structure and the financial policy governing the Wastewater Capacity Charge.

**SUMMARY**

The Executive has recommended revising the structure of the wastewater capacity charge to base it on the average number of persons per household for various structure types. This recommendation would require changes to two code sections: a revision to the Financial Policy of the Comprehensive Water Pollution Abatement Plan, and a change to existing code language that specifies the current amount charged by housing type.

Proposed Ordinance 2020-0101 would modify the existing capacity charge code language such that it is structured to align amounts charged according to size and type of housing, tying payment levels to average number of persons accommodated by the housing type.

Proposed Ordinance 2020-0102 would revise the Capacity Charge Financial Policy to specify that capacity charges would be based on average numbers of persons per household. Proposed Ordinance 2020-0102 was dually referred to the Regional Water Quality Committee (RWQC) and the Budget and Fiscal Management Committee and in July of this year, RWQC unanimously adopted this measure. It should be noted that Proposed Ordinance 2020-0101 was referred solely to the Budget and Fiscal Management Committee since this is a fiscal measure.

Striking Amendment S1 to Proposed Ordinance 2020-0101 would provide that customers connecting to the system after January 1, 2019 who meet the low income housing definition are eligible for the low income Residential Customer Equivalent assessment, to be applied to the remaining capacity charge due from those customers. Striking Amendment S1 would also include other technical changes. In case Striking Amendment S1 is not offered (or does not pass), Striking Amendment S2 to Proposed Ordinance 2020-0101 that would only make technical changes has also been prepared.

**BACKGROUND**

The wastewater capacity charge is assessed for each new connection to the wastewater system, including for households, businesses and industry. The capacity charge is administered under the concept that “growth pays for growth”—that is, additional system capacity needed to accommodate new system users should be paid for by those new users. The code provision for the capacity charge is as follows:

 **K.C.C. 28.84.050.O.1**.

All customers of a public or private sewage facility who connect, reconnect or establish a new service that uses metropolitan sewage facilities after February 1, 1990 shall pay a capacity charge in an amount established annually by the council in accordance with state law. Users of metropolitan sewage facilities shall be subject to the capacity charge upon connection or reconnection to public or private sewage facilities and/or establishment of a new sewer service.

 …

c. "Capacity charge," for purposes of this subsection, shall mean a charge levied on a property to recover capital costs needed to serve new customers.

Capacity charges are assessed based on the projected volume of domestic water consumption utilized by a given structure type, as expressed in “Residential Customer Equivalents” (RCE’s)[[1]](#footnote-1). A single family dwelling is assumed to consume one RCE (750 cubic feet) of water per month. The assessed level of the capacity charge is reviewed by the Council annually together with the sewer rate. For new connections to the system in 2020, the capacity charge paid over a 15-year period, is set at $66.41 monthly, as adopted by Council, totaling $11,954 over fifteen years (a discounted rate is available for those paying in a lump sum up front.)

The current capacity charge rate structure has been in place since its initial inception in 1990. County code defines the rate structure for the capacity charge as follows:

**K.C.C. 28.84.050.O.2**

Single detached dwelling units 1.00 RCEs

Multifamily structures with two to four dwelling units per structure 0.80 RCEs per unit

Multifamily structures with five or more dwelling units per structure 0.64 RCEs per unit

Senior resident, low income and special purpose housing 0.32 RCEs per qualifying dwelling unit

Since the establishment of this cost allocation structure, the profile of the regional housing stock has changed, heavily driven by growth dynamics and substantial cost escalation. Multifamily housing has increased substantially as a proportion of the regional housing stock. Alternative housing types, including Accessory Dwelling Units and microhousing, have become more popular, and interest in a more balanced cost allocation between housing types has emerged.

In 2019, the Wastewater Treatment Division, in consultation with the Metropolitan Water Pollution Abatement Advisory Committee (MWPAAC), coordinated a review of the current rate structure to address these changes. Among the goals of the review were to develop a structure which best reflects of the volume of wastewater generation for each structure type, and to assure administrative feasibility of any alternative structure. The review involved the retention of a consultant, and the utilization of a work group of MWPAAC, which represents the participating cities and sewer districts that are part of the regional wastewater system.

In considering alternative approaches to structuring the rate to address per-connection wastewater volumes, the review evaluated characteristics of structure types such as number of bedrooms, number of bathrooms, lot size, number of units in a multifamily structure, number of stories to a building, structure square footage, and water meter size. Consultants also surveyed other wastewater agencies for examples of rate structure options.

A stakeholder outreach process was also undertaken, involving briefings to the Washington Multifamily Housing Association, the Master Builders Association of King/Snohomish Counties, and the Seattle Builders Council. Additionally, an online survey was conducted, utilizing targeted emails and social media to connect persons with the survey. Input from that process surfaced a number of points of focus:

* Substantial support for the “persons per household” approach was evident;
* Interest emerged in disaggregating the single detached residence category in several levels, according to house size;
* Concern was expressed regarding the administrative feasibility of changes to rate classifications; and
* Multifamily developers supported greater disaggregation of structures by unit size or number of bedrooms.

In late 2019, the Wastewater Treatment Division arrived at a recommendation for restructuring the capacity charge, based on this input. Key elements would include:

* Single family structures would be divided into three classes—small, medium and large—and assessed accordingly;
* Multifamily structures would continue to be assessed in two groups—2-4 units, and 5-plus units; a revision to the number of RCEs assigned to the smaller and larger building sizes would modestly decrease the per-unit capacity charge for larger buildings with more units, and would increase the per-unit capacity charge for smaller buildings with fewer units;
* Accessory dwelling unit charge would be established at 0.59 RCE; and
* The microhousing category would be established at 0.35 RCE.

These provisions are addressed in Proposed Ordinance 2020-0101, which includes the following Table 1:

**Table 1. Structure/Dwelling Unit Types and RCE Charges**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Structure/Dwelling Unit** |  | **RCEs for connections or establishment of new service on or before Dec. 31, 2020** |  | **RCEs for connections or establishment of new service on or after Jan. 1, 2021** |
| Single detached dwelling unit, net square footage less than 1,500 square feet |  | 1.00 |  | 0.81 |
| Single detached dwelling unit, net square footage 1,500 to 2,999 square feet |  | 1.00 |  | 1.00 |
| Single detached dwelling unit, net square footage 3,000 square feet or greater |  | 1.00 |  | 1.16 |
| Accessory dwelling unit |  | 0.60 |  | 0.59 |
| Multiunit structures containing two to four units, per unit |  | 0.80 |  | 0.81 |
| Multi-unit structures containing five or more units, per unit |  | 0.64 |  | 0.63 |
| Microhousing structures, per unit |  | 0.35 |  | 0.35 |
| Senior resident, low-income and special purpose housing, per unit |  | 0.32 |  | 0.32 |

The existing Financial Policy language, codified in K.C.C. 28.86.160.C.3.FP-15, would also need to be updated to reflect this proposed structure. Proposed Ordinance 2020-0102 provides for a change in the existing financial policy language that addresses the capacity charge, and thus Proposed Ordinance 2020-0102 includes the below proposed change:

 **Financial Policy 15**

3. Capacity charge. The amount of the capacity charge shall be a uniform charge((~~,~~)) applied to each residential customer class structure type based on an estimate of the average persons-per-household occupancy for each such a residential customer class structure type. The amount shall be approved annually and shall not exceed the cost of capital facilities necessary to serve new customers.

**ANALYSIS**

The code changes addressed in Proposed Ordinance 2020-0101 and Proposed Ordinance 2020-0102 would accommodate the recommendations of the Capacity Charge Rate Structure review. In broad terms, the change would provide for a more balanced allocation of capacity charge costs, based on the average numbers of occupants per household type.

The Metropolitan Water Pollution Abatement Advisory Committee (MWPAAC) has indicated its support for the legislation, in a letter dated December 11, 2019 (Attachment 9 to this staff report).

**AMENDMENTS**

The Council’s legal counsel, together with the Prosecuting Attorney Office (PAO), and the Code Reviser, have recommended the following two technical changes to Proposed Ordinance 2020-0101, as follows:

* The definition of “attached accessory dwelling unit” and “detached accessory dwelling unit” would be revised to refer to units that are properly permitted or approved, rather than designated as accessory dwelling units by local jurisdictions as the transmitted language provides, noting that local jurisdictions may or may not specifically designate units as accessory dwelling units, even where they meet size and other qualifications; and
* Change to the definition of Microhousing structures to clarify that the number of plumbing fixture units that are an element of the definition, would be determined by a fixture units table that is posted online on the Wastewater Treatment Division’s website, in addition to being simply maintained by the Wastewater Treatment Division, as provided in the proposed language.

Striking Amendment S2 to Proposed Ordinance 2020-0101 has been prepared to address the above technical changes.

Striking Amendment S1 has also been prepared to include the above technical changes and also the following changes:

* Provides that customers connecting to the system after January 1, 2019 who meet the low income housing definition are eligible for the low income RCE assessment, to be applied to the remaining capacity charge due from those customers. Customers must apply within one year of the effective date of this measure, and meet all applicable requirements. In addition, the revised RCE calculation will apply from the date of a written request to the Wastewater Treatment Division.

**INVITED**

* Hiedi Popochock, Financial Services Manager, Wastewater Treatment Division
* David Clark, Utilities Economist, Wastewater Treatment Division

**ATTACHMENTS**

1. Proposed Ordinance 2020-0101
2. Striking Amendment S1 to Proposed Ordinance 2020-0101
3. Striking Amendment S2 to Proposed Ordinance 2020-0101
4. PO 2020-0101 Transmittal Letter
5. PO 2020-0101 Fiscal Note
6. Proposed Ordinance 2020-0102
7. PO 2020-0102 Transmittal Letter
8. PO 2020-0102 Fiscal Note
9. Letter from the Metropolitan Water Pollution Abatement Advisory Committee
1. K.C.C.28.86.160.C.FP15.4 Based on an analysis of residential water consumption, as of December 13, 1999, King County uses a factor of seven hundred fifty cubic feet per month to convert water consumption of volume-based customers to residential customer equivalents for billing purposes. King County shall periodically review the appropriateness of this factor to ensure that all accounts pay their fair share of the cost of the wastewater system. [↑](#footnote-ref-1)