## STAFF REPORT

|  |  |  |  |
| --- | --- | --- | --- |
| **Agenda Item:** | 7 | **Name:** | Mike Reed |
| **Proposed No**.: | 2021-B0051 | **Date:** | April 7, 2021 |

**SUBJECT**

RWQC Engagement process preliminary to the 2022 wastewater rate transmittal.

**SUMMARY**

The Regional Water Quality Committee is briefed annually on recommended sewer rates and capacity charges, prior to adoption by Council. In the 2021 rate setting process, significant projected rate increases in coming years became a point of discussion, and Asset Management emerged as a key element in those discussions. For the 2022 rate setting process, the Wastewater Treatment Division committed to engaging key participants, including the Regional Water Quality Committee, in framework discussions to inform that rate setting effort. At the September, October and December, 2020 RWQC meetings, WTD briefed the Committee on asset management needs including the development of the wastewater physical plant, the executive review process for asset updating and upgrading, the history of wastewater asset management, the life cycle of wastewater assets, capital project prioritization, and asset management at regional treatment plants. At the March meeting, the Committee was briefed on the schedule for development of the sewer rate, with an anticipated April 15 transmittal date. The agency has noted that it anticipates briefing the Metropolitan Water Pollution Abatement Advisory Committee on the preliminary rate recommendation prior to the transmittal date; RWQC members have expressed interest in an early briefing on the rate recommendation. It is anticipated that today’s briefing will provide information on a preliminary rate recommendation.

**BACKGROUND**

Each year, the Executive recommends a proposed rate level for the sewer rate and capacity charge, pursuant to KCC 28.86.160 C:

*FP-15: King County shall charge its customers sewer rates and capacity charges sufficient to cover the costs of constructing and operating its wastewater system. Revenues shall be sufficient to maintain capital assets in sound working condition, providing for maintenance and rehabilitation of facilities so that total system costs are minimized while continuing to provide reliable, high quality service and maintaining high water quality standards.*

*2. Sewer rate. King County shall maintain a uniform monthly sewer rate expressed as charges per residential customer equivalent for all customers.*

*a. Sewer rates shall be designed to generate revenue sufficient to cover, at a minimum, all costs of system operation and maintenance and all capital costs incurred to serve existing customers.*

*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.*

Interlocal agreements with participating cities and sewer districts establish July 1 of each year as the date by which the County must approve the sewer rate.

**Rate Setting Process for 2021 Sewer Rate**

The regional wastewater rate-setting process for 2021 rates, which occurred at the MWPAAC and Council level in the spring of 2020, resulted in a heightened regional recognition of significant upward pressure on sewer rates that are projected to result in recommendations for substantial rate increases in coming years. Table 1 below depicts the rate history of recent years, and projected rates for coming years.

**Table 1. Sewer Rates (2009-2020 Actual; 2021 Proposed; 2022-2025 Projected)**

| **Year(s)** | **Rate**  **($/RCE/ Month)** | **% Increase** |
| --- | --- | --- |
| 2009 – 2010 | 31.90 | 14.1% |
| 2011 – 2012 | 36.10 | 13.2% |
| 2013 – 2014 | 39.79 | 10.4% |
| 2015 – 2016 | 42.03 | 5.6% |
| 2017 | 44.22 | 5.2% |
| 2018 | 44.22 | 0.0% |
| 2019 | 45.33 | 2.5% |
| 2020 | 45.33 | 0.0% |
| **2021** | **47.37** | **4.5%** |
| 2022 | 47.37 | 0.0% |
| 2023 | 52.23 | 10.25% |
| 2024 | 52.23 | 0.0% |
| 2025 | 57.58 | 10.25% |

It is important to note that, while the 2022 rate is projected to hold constant in the table above, that projection was included as a “placeholder” after initial indications of significantly higher level projected rates for the 2021-2022 period; it was inserted pending a robust engagement process leading to the development of a 2022 rate recommendation.

There are a number of rate “drivers” that are often discussed as shaping the emerging rate picture. These include:

* + The requirement for establishment of Combined Sewer Overflow facilities to control discharge of untreated wastes during periods of high stormflow, resulting from the CSO Consent Decree between King County, the Washington Department of Ecology, the federal Environmental Protection Agency and the federal Department of Justice.
  + The Washington Department of Ecology is moving forward with development of a regulatory project that is expected to result in a limitation on the level of nutrients that can be discharged in the effluent of wastewater plants discharging into Puget Sound. Response to those regulations may have significant capital cost implications for King County wastewater processing facilities over the years.
  + Regional population growth, requiring assessment of the capacity of the existing system to effectively capture and process anticipated wastewater volumes; a briefing has been presented to the Committee on the Division’s Flows and Loadings study which has identified a number of near-term and longer-term capital project needs.
  + The need for system resilience, which was dramatically illustrated by the West Point system failure in 2017, and which resulted in a third-party analysis that emphasized system resilience as a key means of preventing recurrence of similar events
  + Aging of the physical plant. The primary elements of the wastewater conveyance and processing system, including the interceptor pipelines and West Point and South treatment plants, were constructed in the 1960s and 1970s. Those facilities are now approaching or exceeding 50 years old, and to a greater or lesser extent, experiencing the challenges of an aging system. The Wastewater Treatment Division is addressing the need to evaluate, rehabilitate and replace aging segments of the conveyance system through the Conveyance System Improvement project, which identifies segments in need of upgrade to assure conveyance capacity capable of handling a 20-year peak flood through the year 2060. The need to address conveyance system needs was highlighted in the 2021 rate discussion. Figure 1 below illustrates the age of various interceptor system segments:

These aging wastewater facilities, or system “assets”, are the subject of the agency Asset Management program. Asset Management is the systematic evaluation, project development, costing, and scheduling of projects intended to address the functioning and reliability of the wastewater physical plant.

Asset Management is emerging as a key element in discussions regarding rate drivers. The Wastewater Treatment Division has presented a series of briefings to city and sewer district participants in the wastewater system, through the Metropolitan Water Pollution Abatement Advisory Committee.

At the March 3, 2021 meeting of the Regional Water Quality Committee, the Wastewater Treatment Division briefed the Committee on asset management in the regional conveyance system, addressing:

* Upcoming major asset replacements or upgrades, such as
  + North Mercer and Enatai Interceptors Upgrade
  + Coal Creek Trunk capacity expansion
  + Lake Hills Trunk and Northwest Lake Sammamish Interceptor upgrade
  + Interbay Force Main upgrade
  + Pump station upgrades
    - Systemwide variable frequency drive replacements at pump stations
    - Medina and Alki pump station upgrades

The briefing also addressed the rate schedule, and revenue needs; . Highlights included:

Rate Schedule:

* + March 8—Executive Briefing, direction provided
  + March 24—MWPAAC vote on recommendation letter to Executive
  + April 1—MWPAAC Rates and Finance Subcommittee briefing
  + April 15—Executive’s 2022 Sewer Rate and Capacity Charge Proposal transmitted to King County Council
  + April 28—MWPAAC General Meeting—possible consideration of a recommendation letter to King County Council regarding proposed rate
  + May 5—RWQC briefing
  + May-June—King County Council Budget and Fiscal Management Committee briefings and Council action

The Wastewater Treatment Division has also acknowledged the interest of RWQC committee members in a briefing on the preliminary sewer rate prior to the April 15 transmittal date.

**INVITED**

* Hiedi Popochock, Financial Services Manager, Wastewater Treatment Division
* Courtney Black, Rates, Capital and Debt Management Supervisor, Wastewater Treatment Division

**ATTACHMENTS**

1. 2022 Sewer Rate Plan and 10-Year Sewer Rate Plan (2022-2031) Presentation