

**METROPOLITAN WATER POLLUTION ABATEMENT ADVISORY COMMITTEE**

**Rates and Finance Subcommittee (Project Number 421553)**

**Meeting Summary – January 16, 2009**

King Street Center, 9:00 am – 10:30 am

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**MWPAAC members in attendance:**

Don Davidson, City of Bellevue  
Trish Erickson, City of Seattle  
Ken Howe, Woodinville Water District  
Ron Speer, Soos Creek Water and Sewer District  
Ron Sheadel, Cedar River Water and Sewer District  
Linda Swanson, Soos Creek Water and Sewer District  
Scott Thomasson, City of Redmond  
Ann Weigle, City of Bellevue

**Facilitator:** Tamie Kellogg, Consultant

**Staff:**

Tim Aratani, DNRP/WTD - Finance & Administrative  
Greg Holman, DNRP/WTD - Finance & Administrative  
Maryann Ness, DNRP/WTD - Finance & Administrative  
Sharman Herrin, DNRP/WTD - Director's Office  
Tom Lienesch, DNRP/WTD – Finance & Administration  
Becky Spithill, DNRP/WTD

**1. Opening Remarks**

The subcommittee's objective for the meeting was to review the capital program and to address some issues raised in the December meeting. See revised agenda [Agenda.pdf](#). Generally, new connections will probably decrease.

Tom directed the subcommittee to the first document: the Water Treatment Division Organization chart (see [WTD Organization.pdf](#)). Subcommittee members asked that staff provide a more legible copy of the organizational chart. [Staff will provide a larger, color copy of organizational chart at the February 12<sup>th</sup> meeting.]

## **2. Capital Project Prioritization Process**

Tom led the subcommittee in a review of the WTD Capital Project Prioritization Process (see [WTD Capital Project Prioritization Process.pdf](#)).

### Overview

- System devised to provide a more systematic way for WTD to evaluate and compare capital projects.
- This is an annual process, and currently, WTD is entering into its annual update of capital projections in support of the 2010 rate process.
- The prioritization process is integral to rate setting, though it does not stand alone.
- It allows WTD to rank order projects.
- Prioritization of projects occurs within three project types (Major Capital, Asset Management and Planning) and then among the project types.
- Risk of overflow is a deciding factor in determining extent of capacity needs (Major Capital projects).

In response to member questions, Tom emphasized that the prioritization process does not consider cost estimates or potential funding. These factors are considered after project evaluation, scoring, ranking and reporting to WTD Management (Steps 1-3 of the Prioritization Process). In the fourth and final step of the process, WTD Managers, as part of budget decision making, look comprehensively at the CIP, including cash flow, life-to-date budget performance, and other factors, in order to develop the six-year budget (see [Prioritization Process schematic.pdf](#)). Cost will then become a comparative criterion.

Ron Speer asked if component agencies are involved in the prioritization process and expressed concerns that this process did not include any oversight, that MWPAAC has no representation in the process. Tom said that oversight wasn't at issue in this case, as the project prioritization process is not a project generation process. Sharman restated the concern of some subcommittee members that MWPAAC should have an opportunity to be more informed about this process and offer comments.

## **3. Review of 2009 adopted Capital Improvement Program**

Tom led the subcommittee in a review of the new projects within the CIP (see [2009 Adopted CIP New Projects.pdf](#)). Some of the projects on this list are generated within programmatic projects and then broken out into stand alone projects. Additionally, in cases where several projects were focused on one location a separate project was formed to provide an umbrella projects, i.e., Barton Pump Station Upgrade, includes a variety of existing smaller projects at that pump station that are now identified collectively under a new name. Once projects transition from planning to implementation, they become part of the CIP.

Tom said that in adopting the CIP, the sewer rates to a much greater degree than the King County budget process drives the WTD process. WTD has to have its 2010 CIP in place by March 2009 in order to capital expenditure numbers needed to set rates.

Don asked what has past experience shown in terms of whether WTD accurately estimates in any given year; Tamie asked if there is a performance measure that tracks the accuracy of estimates. Don stated that he was concerned that WTD justifies rates based on CIP costs, and then if projects are not completed as scheduled, that cost is carried over to subsequent years with impacts on subsequent rates.

Tom explained that prior to implementation, all projects go through a benchmarking phase, wherein their budgets and schedules are set. Deviations from the benchmarks go through review boards; when benchmarks are not met, it is documented and addressed systematically, so that there are early warnings when projects are not on course. The project delivery system makes this process specific and overt by the setting of benchmarks along the way.

Tamie proposed that the subcommittee take up the issue of targets and performance measures at a later meeting.

Anne asked how WTD is responding to the changes in the economy. Tom stated that it closely monitors economic indicators and continues to factor in three percent inflation.

#### **4. Significant Changes in the CIP**

Tom recommended that the subcommittee members consider the extent of changes that have occurred in the CIP from 2008 to 2009 (see [2009 CIP Significant Changes.pdf](#)). WTD will update the significant changes document following updates to the CIP in 2009. Compared to the 2007 Brightwater estimate, the 2008 Brightwater trend estimate increased the total cost of the project by about \$33 million. In terms of the rate, the cash flow pattern changed in which planned spending decreased in 2009 and increased in 2010 compared to the 2007 plan. He noted that this is why last year in the rate process, WTD attempted to get as much out of 2009/10 as possible.

Tom referenced the appropriation plan document among the materials, and stated that it wasn't relevant to the subcommittee's discussion because the rate focuses on cashflow, not appropriation. However, the appropriation plan matches up with documents in the King County budget (see [2009 WTD CIP Appropriation Plan.pdf](#)). Appropriation, or spending authority, is odd for WTD in that it includes adjustments of the full value of multi-year construction contracts, budget year spending and amounts previously appropriated; project management concentrates on cash flow (spending in a year). Projects are multi-year and expenditures over the years of construction vary, as will the appropriations.

#### **5. Conveyance System Improvements**

Project number 423373 is a roll-up project that reflects the long-run conveyance system improvement plan composed more detailed subprojects (see [Conveyance System Improvement Project 2009.pdf](#) and [Conveyance System Components.pdf](#)). Along with

the CSO program, conveyance system improvements are the most significant projects within the CIP.

Ron Sheadel asked why this document does not reference the Fairwood Interceptor Project. [Staff will talk with Kathy Loland, Acting Project Planning and Delivery Manager, and provide information to Ron regarding the status of the Fairwood Interceptor.]

Scott asked about the classification of the Decennial Flow Monitoring as a capital expense. Monitoring flows are commonly considered a part of operations. Don cautioned against the practice of including lots of operating expenses within the capital program.

Tim responded that according to WTD policy, if an expense leads ultimately to construction of a capital asset, then it is a capital expense. Staff and subcommittee members discussed the need to make explicit definitions of capital versus operational expenditures. These definitions are put forth by WTD policy and in GASB and go beyond mere accounting policies, insofar as they have impacts on rates. They are subject to interpretation. [At a future date staff will provide the subcommittee with the policy and the GASB rule pertaining to how expenditures are technically defined.]

## **6. Other issues and closing comments**

Tim informed the group that the Brightwater Trend Report is being prepared and will be ready in March or early April.

Ron Speer requested that staff provide an analysis of the impact to the rate of instituting a furlough in lieu of deferring employee raises. His concern is that the cost of raises is incurred each year, and unless furloughs continue indefinitely as a permanent budget fix, rates will need to increase. [Staff will provide information on the rate impacts.]

Scott commented that in the E&P meeting, there was discussion about the West Point NPDES permit and that changes to the permit will likely introduce some changes to rates. People for Puget Sound and others are pushing for nutrient removal as a requirement, and if this goes forward, it will have significant implications for future rates.

Tim said that the next two meetings would involve very detailed information focusing on short- and long-term debt programs and urged the subcommittee members to adjust the meeting schedule to accommodate the need for more time. The subcommittee agreed to the following schedule:

- February 12 meeting from 9 a.m. – 10:30 a.m. (as previously scheduled)
- March 12 meeting from 9:00 a.m. – 12:15 p.m.
- March 27 meeting from 9:00 am. – 12:15 p.m.

Materials:

1. Agenda.pdf
2. WTD Organization.pdf
3. WTD Capital Project Prioritization Process.pdf
4. Prioritization Process schematic.pdf
5. 2009 Adopted CIP New Projects.pdf
6. 2009 CIP Significant Changes.pdf
7. 2009 WTD CIP Appropriation Plan.pdf
8. Conveyance System Improvement Project 2009.pdf
9. Conveyance System Components.pdf