

Wastewater Treatment Division 2017 Sewer Rate Discussion
Monday, February 29, 2016
2:15-3:00pm, Executive's Office

Meeting Objective: Brief Executive, Deputy County Executive, Chief of Staff and Chief of Operations on WTD's 2017 sewer rate and capacity charge proposal and obtain feedback on next steps.

Background: The recommendation reflects a financial outlook better than projected last year; includes the refinancing of over \$1.1 billion in debt during the past year; does not include an outcome for the \$144 million lawsuit on disputed Brightwater costs; will enhance our already strong Sustainability/SCAP and ESJ programs; and will meet priorities with proposed rate.

Introductions

- 1) WTD's 2017 Sewer Rate Recommendation
- 2) Historical and Projected Sewer Rates
- 3) Current and Future Reduction Measures
- 4) Summary of Executive Initiatives Included In Recommendation
- 5) Next Steps
 - Target Transmittal Date is April 21

Summary of Recommendation

1. WTD's recommends rate increase of 5.8% for 2017 (intent to maintain through 2018)

- a. Increasing cash financing of capital improvement program targeting 40% cash funding from 2017-2022 compared to 32% under current policies
- b. Amortizing variable rate debt 10 years before final maturities; current practice is no amortization
- c. Projected rate increases with debt reduction approximately 3% per year for 2019-2024 and maintains a \$12 million balance in rate stabilization after 2022 to preserve strong bond ratings
- d. Both (a) , (b) and (c) will reduce total outstanding debt by over \$549 million by 2030 providing stronger financial management and addressing concerns expressed by MWPAAC
- e. Maintaining current debt practices would reduce annual rate increases to 2% per year for 2017-2024 but with greater total debt
- f. Capacity charge for 2017 still being developed; expected increase between 3.5% – 5%; Council Auditor reviewing WTD's methodology; additional internal review occurring; RCE growth strong

2. 2015 Financial Performance Positive

- a. Since January, 2015, over \$1.1 billion in bonds refinanced resulting in \$11.6 million in debt service savings in the 2017-8 biennium, reducing sewer rate increases by \$0.65
- b. RCE's stronger than predicted yielding additional revenue
- c. Operating expenditures lower than predicted
- d. Rate stabilization balance larger than projected;

3. Future Uncertainties

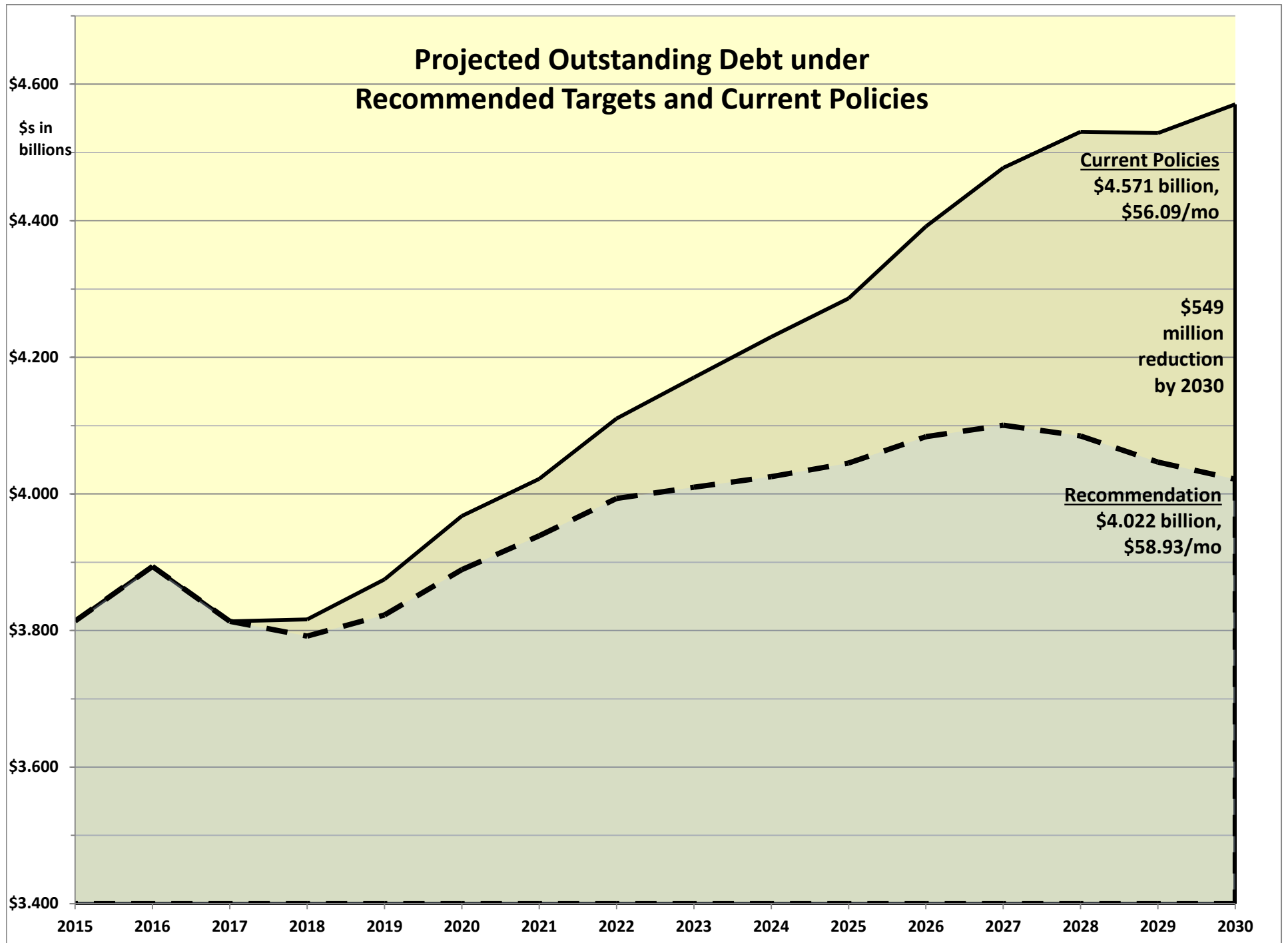
- a. Timing and amount of Brightwater disputed costs
- b. Outlook for continued customer growth and interest rates

4. Highlights of WTD's recommendation

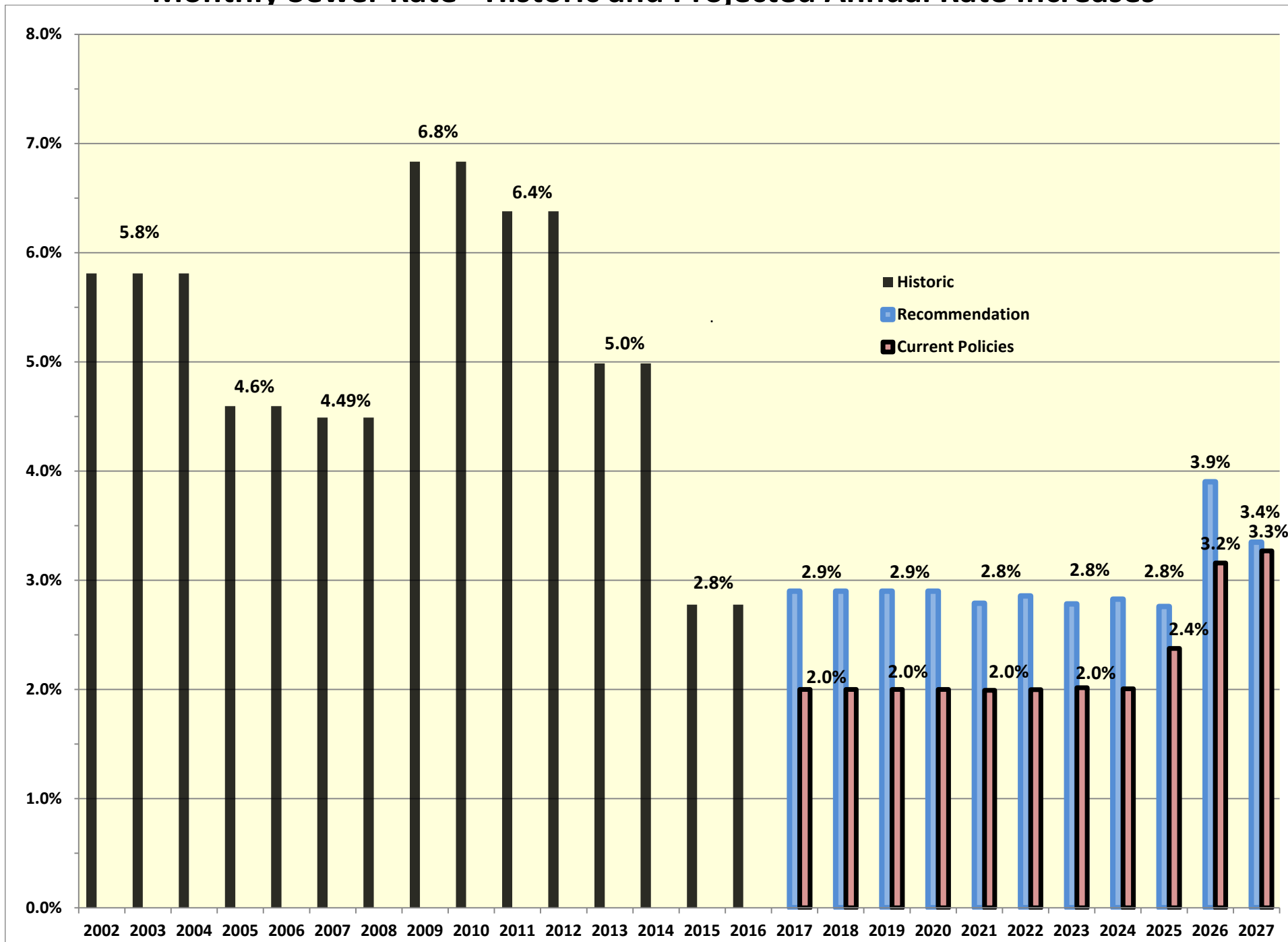
- a. Implements CSO and CSI programs and ensures continued regulatory compliance
- b. Provides base level of asset management for all infrastructure
- c. Continues support for key initiatives including Sustainability, SCAP, ESJ and prioritizes disaster resiliency and recovery efforts
- d. Operating fund totals consistent with projections from 2016 sewer rate

Wastewater Treatment Division 2017 Sewer Rate Recommendation

	2015	2016	2017	2018	2019	2020	2021	2022
Previous Benchmark								
2016 Adopted Rate (June 2015)	\$42.03	\$42.03	\$43.33	\$43.33	\$44.14	\$45.09	\$47.41	\$48.56
% change	5.6%	0.0%	3.1%	0.0%	1.9%	2.2%	5.2%	2.4%
WTD 2017 Sewer Rate Recommendation								
Rate with New Debt Targets	\$42.03	\$42.03	\$44.46	\$44.46	\$47.06	\$47.06	\$48.38	\$49.76
% change	5.6%	0.0%	5.8%	0.0%	5.8%	0.0%	2.8%	2.9%
Change From Previous Benchmark	\$0.00	\$0.00	\$1.13	\$1.13	\$2.93	\$1.98	\$0.96	\$1.20
Rate Alternatives for 2017								
1. Recommendation with Annual Rate Increases:	\$42.03	\$42.03	\$43.25	\$44.50	\$45.79	\$47.17	\$48.63	\$50.14
% change	5.6%	0.0%	2.9%	2.9%	2.9%	3.0%	3.1%	3.1%
Change From Previous Benchmark	\$0.00	\$0.00	(\$0.08)	\$1.17	\$1.66	\$2.08	\$1.22	\$1.58
2. Current Debt Policies	\$42.03	\$42.03	\$43.69	\$43.69	\$45.44	\$45.44	\$46.35	\$47.27
% change	5.6%	0.0%	4.0%	0.0%	4.0%	0.0%	2.0%	2.0%
Change from Previous Benchmark	\$0.00	\$0.00	\$0.36	\$0.36	\$1.31	\$0.36	(\$1.06)	(\$1.29)



Monthly Sewer Rate - Historic and Projected Annual Rate Increases



Current and Future Rate Reduction Measures

2016 Budget Reductions From Operational Efficiencies	\$ 350,000
2017 Initiatives for Efficiency and Estimated Impact:	
Employee-initiated through Bright Ideas Program (2014 and 2015)	\$ 770,000
Carbon and Energy Fund efficiencies (2014, 2015 & est. 2016)	\$ 120,000
	<u>\$ 890,000</u>
2017 Debt Service Savings From Bond Refundings In 2015 and 2016	\$ 5,780,000
Estimated Annual Rate Reduction Measures	\$ 7,020,000
Future Energy Program Operational Savings from Capital Investments over Time (6-year estimate)	\$ 1,100,000

Summary of Strategic Climate Action Plan Efforts

WTD staff have performed a preliminary review of the NEW King County Strategic Climate Action Plan and identified actions that are pertinent to WTD. In summary, WTD has identified:

80 actions in the SCAP	<ul style="list-style-type: none"> • Pertinent to WTD
45 of the 80 =	<ul style="list-style-type: none"> • WTD is currently funding/investing in and implementing • Already built into the existing rate and finances
11 of the 80 =	<ul style="list-style-type: none"> • To be addressed through WTD's SCAP Line of Business planning
17 of the 80 =	<ul style="list-style-type: none"> • WTD will participate in efforts lead by the Executive's office or DNRP • Analyze & implement in partnership with those external to WTD
7 of the 80 =	<ul style="list-style-type: none"> • Implementation approach to be determined

Examples of current funded and ongoing efforts through sustainability/climate change/resiliency programs include:

- **Energy use reduction through the WP** – OGADS upgrade anticipated to reduce WestPoint energy use by almost 30% and overall WTD energy use by about 9%. SP – RSP & aeration upgrades anticipated to reduce WTD energy close to 4,000 MWH/year
- **Renewable Fuels** – Cogen and sale of biogas; making renewable energy available in the PNW
- **Water Conservation** – recycled water customer base and supply expanded in 2015 during drought conditions
- **Climate Adaption** – Sea-level rise and flooding studies to assess WTD facility vulnerabilities and address in future project planning

SCAP enhancements Included in 2017-8 rate:

- Approximately 30 actions will receive some enhanced efforts in the 2017-18 biennium. A number of enhancements can be funded within original projected rate increase.
- An additional 13 cents on rate is being requested for specific actions to reach SCAP goals that were identified through our Line of Business analysis. These include:
 - To achieve the all-Platinum building target, add a new dedicated staff position to provide green building expertise for projects, tracking and monitoring of progress, and training for all capital projects staff.
 - To achieve the targets for construction and demolition waste diversion, work with SWD to diagnose improvement opportunities; add a new dedicated staff position to help diagnose issues; track, enforce, and report on waste diversion at jobsites; and provide training for all capital projects staff.
 - To achieve fuel use reduction by 10% by 2020, WTD will update Loop trucks with instrumentation so that drivers can make real-time choices to optimize fuel use while driving. Drivers will be trained, monitored, and rewarded for performance.
- Additionally, the Capital program in 2017-18 will support WTD's development and retrofit of facilities to support and meet SCAP goals:
 - To produce a drier Class B cake, \$1 million is included in our capital program for upgrades to optimize centrifuges at both treatment plants and increasing the size and number of pumps.
 - To achieve multiple buildings and facilities energy goals, \$1.15 million will support capital projects in designing new facilities that are solar ready and conform the most stringent energy codes as well as ensuring that cost effective energy efficient projects are implemented in existing facilities and new projects.

Summary of Equity and Social Justice Efforts

Our rate proposal includes over \$1.65 million (mostly continuation of existing efforts) in the operating fund to support ESJ efforts in programs and projects. Key program areas include:

- Continuation of Operator in Training program at our treatment plants with increased efforts in the recruitment process (continuation at \$290,000 annually)
- Field trip programs for students which includes specific targets for participants
- Youth internship programs which includes video spots (expanded approximately 50% or \$30,000 annually)
- Identify improvements to Lower Duwamish strategy to support ESJ determinants
- Continued community partnerships (continuation at \$50,000 annually)
- Monitor screening and selection processes aimed at removing barriers to improve diversity throughout the hiring process (continuation at around \$40,000 annually)
- Expanded external communication through ethnic media outlets and informational pamphlets in multiple languages (expanded approximately \$40,000 annually)