

KING COUNTY WASTEWATER TREATMENT DIVISION

2018 Sewer Rate Presentation



Metropolitan Water Pollution Abatement Advisory Committee

April 26, 2017



PRESENTER

**Tim Aratani, Finance Manager
King County Wastewater Treatment Division**

TODAY'S AGENDA

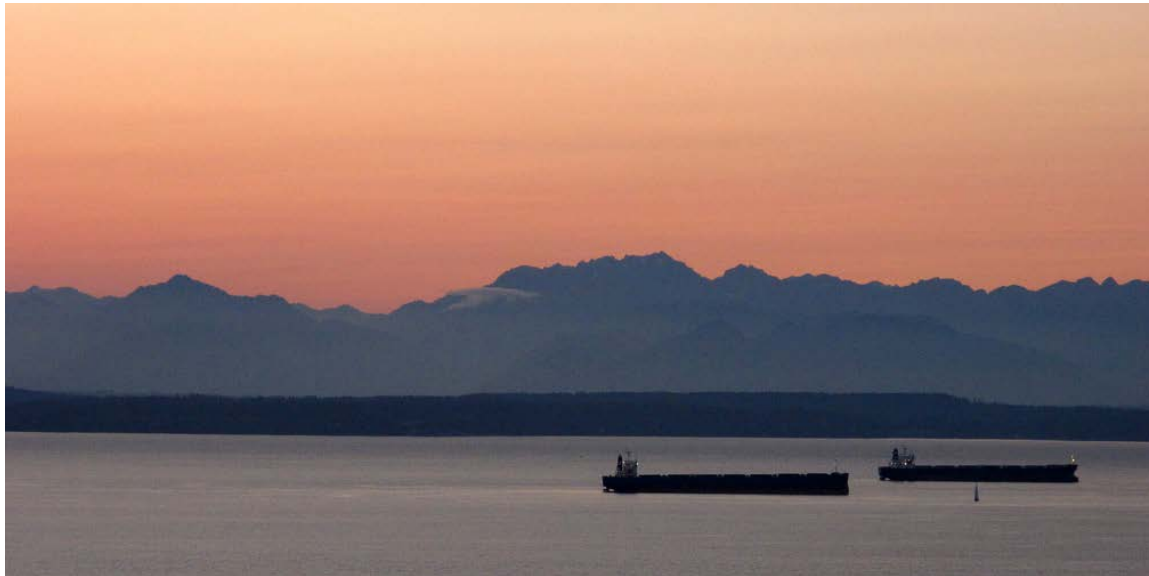
Overview of the WTD's 2018 Rate and Capacity Charge Proposal

- **Components of the 2018 Rate**
- **West Point Restoration**
- **Capacity Charge**
- **Summary of Proposal**

King County's Wastewater Treatment Division has been committed to protecting and improving water quality for more than 50 years.

What the sewer rate pays for:

- Maintaining and improving regional water quality in compliance with federal, state, and local regulations;
- Providing sufficient wastewater conveyance and treatment capacity to meet the long-term needs of people and businesses in the Wastewater Treatment Division's (WTD's) service area;
- Ensuring continued operation and reliability of existing wastewater conveyance and treatment assets; and
- Creating renewable resources from wastewater.



Proposed 2018 rate of \$44.22 per month

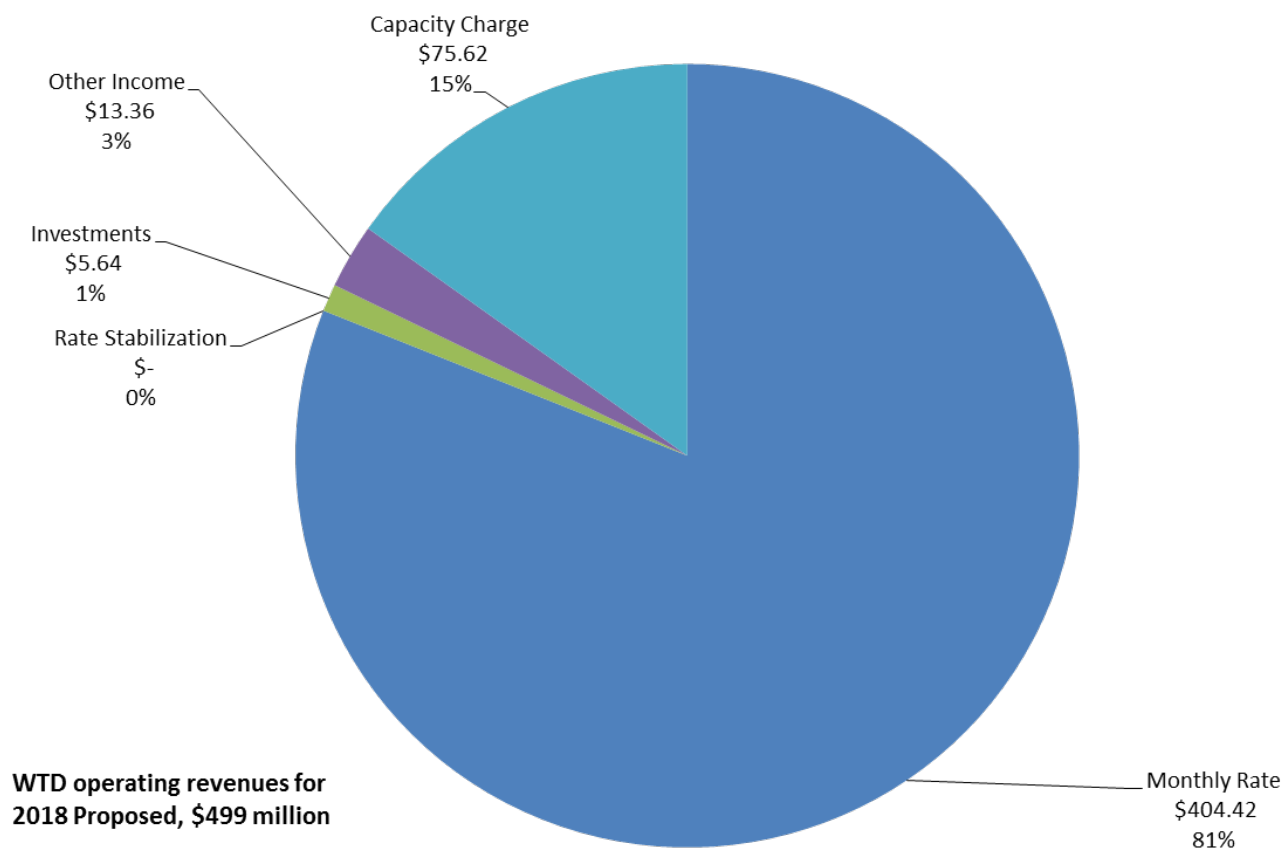
- Maintains the 2017 sewer rate into 2018 as planned
- Projected rates increases through 2023 average approximately 2.0 %
- Projected rates average \$.87 less through 2023

2018 Proposed Monthly Sewer Rate and Recent Benchmark

	2017	2018	2019	2020	2021	2022	2023	Annual Average 2018 - 2023
Adopted 2017 Rate (June 2016)	\$44.22	\$44.22	\$46.53	\$46.53	\$47.73	\$48.97	\$50.28	\$47.38
% change	5.2%	0.0%	5.2%	0.0%	2.6%	2.6%	2.7%	2.6%
Proposed 2018 Rate	\$44.22	\$44.22	\$45.85	\$45.85	\$46.64	\$47.79	\$48.71	\$46.51
% change	5.2%	0.0%	3.7%	0.0%	1.7%	2.5%	1.9%	2.0%
Difference \$ (proposed - adopted)		\$0.00	-\$0.68	-\$0.68	-\$1.09	-\$1.18	-\$1.57	-\$0.87
Difference % (% of adopted)		0.0%	-1.5%	-1.5%	-2.3%	-2.4%	-3.1%	-1.8%

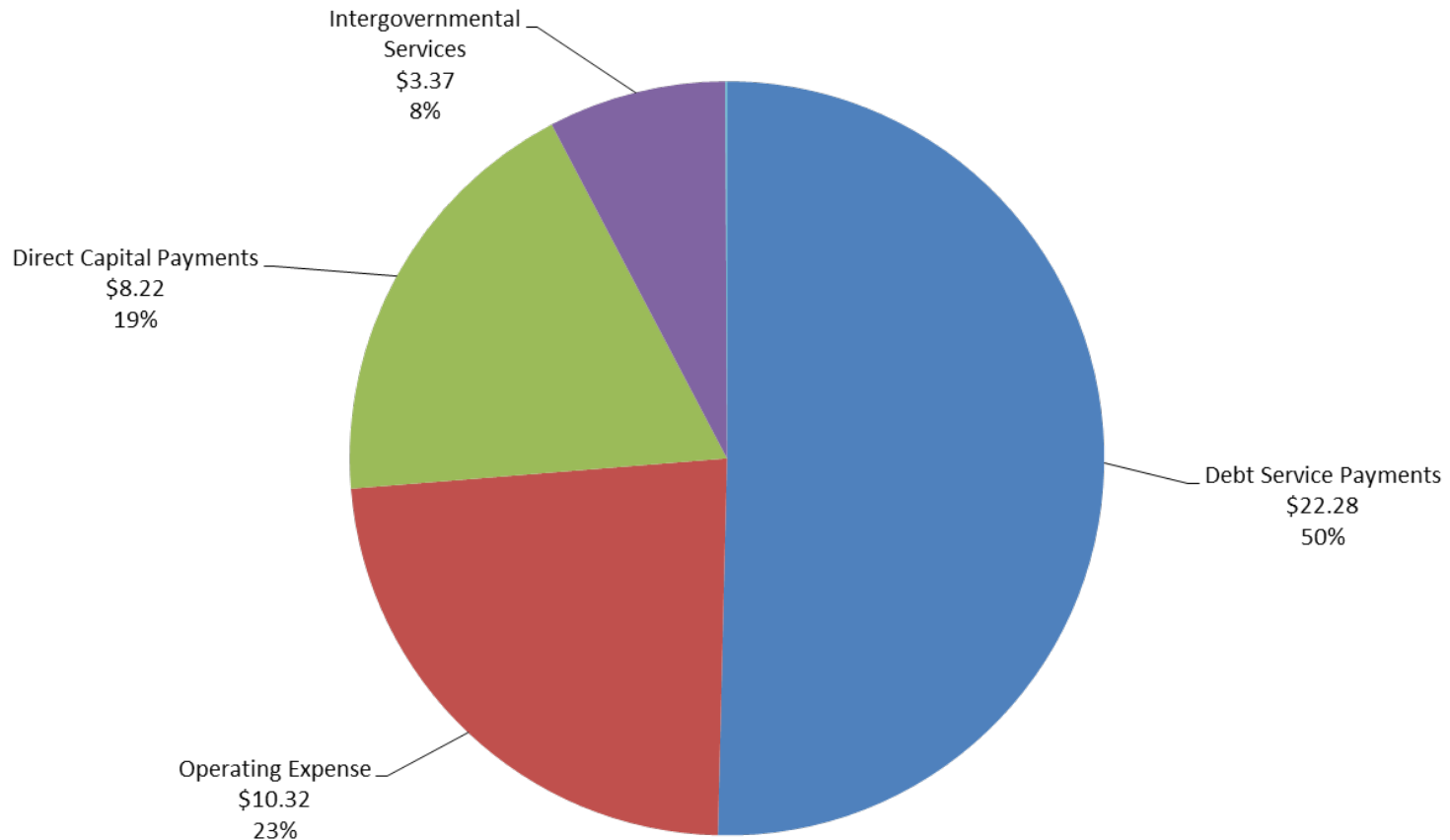
Sewer Rate Generates Most of the Utility's Revenue

The Proposed Monthly Sewer Rate and Capacity Charge yield \$499m or 96% of Operating Revenue in 2018 (millions \$)



Uses of Revenues from Rate Proposal

Components of the Proposed 2018 Sewer Rate of \$44.22



* Intergovernmental services includes services received from other County agencies.

West Point Restoration

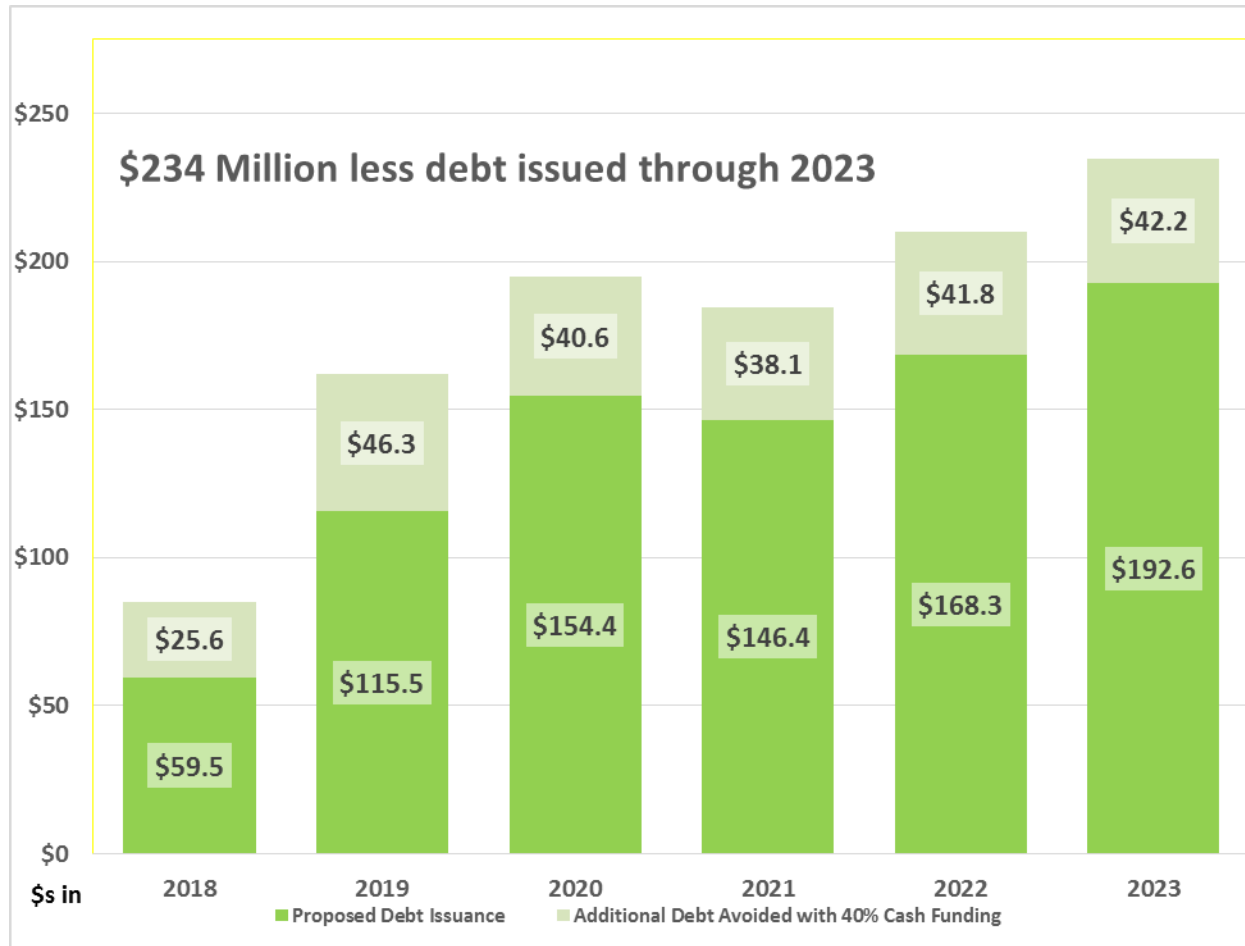
- Although WTD expects the costs to be paid for by insurance, the total restoration costs or the timing of insurance reimbursements are not yet known.
- WTD is not proposing a rate increase for 2018, in light of:
 - a) Strongly positive 2016 financial performance;
 - b) Receipt of funds from the favorable Brightwater judgment; and
 - c) Available rate stabilization funds.

2016 Financial Performance Provides Flexibility to Support Stable Rate

- In 2016, WTD refinanced \$770 million of outstanding bonds resulting in \$103.9 million in debt service savings over the remaining life of the bonds with a present value of \$73.9 million.
- Strong revenue collections allows the rate stabilization fund balance to remain at \$46.3 million through 2023.
- Strong 2016 RCE growth, 2.3 percent from 2015, broadened the customer base moving forward.
- Proceeds from the favorable Brightwater judgement released \$129 million. Currently held in reserve pending outcome of West Point restoration.

New practices yield debt reduction

- Funding, on average, 40% of the capital program from cash
- Amortizing the utility's \$500 million variable debt portfolio
- Estimated \$25.6 million less debt through 2018



Rate stabilization balance held steady

- Recognizes current revenues in future periods
- Helps manage and stabilize rates
- Effective tool in case of unanticipated expenses
- Executive's proposal maintains current balance through 2023

Rate Stabilization Reserve, 2017-2023 (millions of dollars)

	2017	2018	2019	2020	2021	2022	2023
Beginning balance	\$46.3	\$46.3	\$46.3	\$46.3	\$46.3	\$46.3	\$46.3
Additions	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Reductions	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Ending balance	\$46.3	\$46.3	\$46.3	\$46.3	\$46.3	\$46.3	\$46.3

Project moderate growth after very strong 2016

Residential Customer Equivalents (RCEs)

Current Projections Compared to Previous (thousands of RCEs)

	2016	2017	2018	2019	2020	2021	2022	2023
2018 Rate Proposal	752.7	757.6	762.2	766.3	771.1	775.9	780.7	785.5
% Change	2.25%	0.66%	0.60%	0.55%	0.62%	0.62%	0.62%	0.62%
2017 Sewer Rate (June 2016)	740.5	744.9	748.7	752.8	757.5	762.2	766.9	771.6
% Change	0.60%	0.60%	0.50%	0.55%	0.62%	0.62%	0.62%	0.62%
Difference 2018 minus 2017	12.2	12.7	13.5	13.6	13.6	13.7	13.8	13.9

New connections under projections in 2016

Projected New Connections

	2016	2017	2018	2019	2020	2021	2022	2023
2018 Rate Proposal	10,742	11,000	10,500	10,000	10,000	10,000	10,000	10,000
2017 Sewer Rate (June 2016)	12,000	11,000	10,500	10,000	10,000	10,000	10,000	10,000
Difference 2018 minus 2017	(1,258)	-	-	-	-	-	-	-

Operating Expenses: 2017-18 summary update

**2017 operating expenses are projected to increase
7.4 percent to \$151.9 million**

- Projected increase in electricity, chemical and diesel prices
- Carryover of WaterWorks grant funds from 2016
- Program support for the sale of bio-methane at South Treatment Plant
- Exterior painting at South Treatment Plant

**2018 operating expenses are projected to increase
2.2 percent to \$155.2 million**

- Projected increased insurance premiums under negotiation
- Projected increases in general inflation

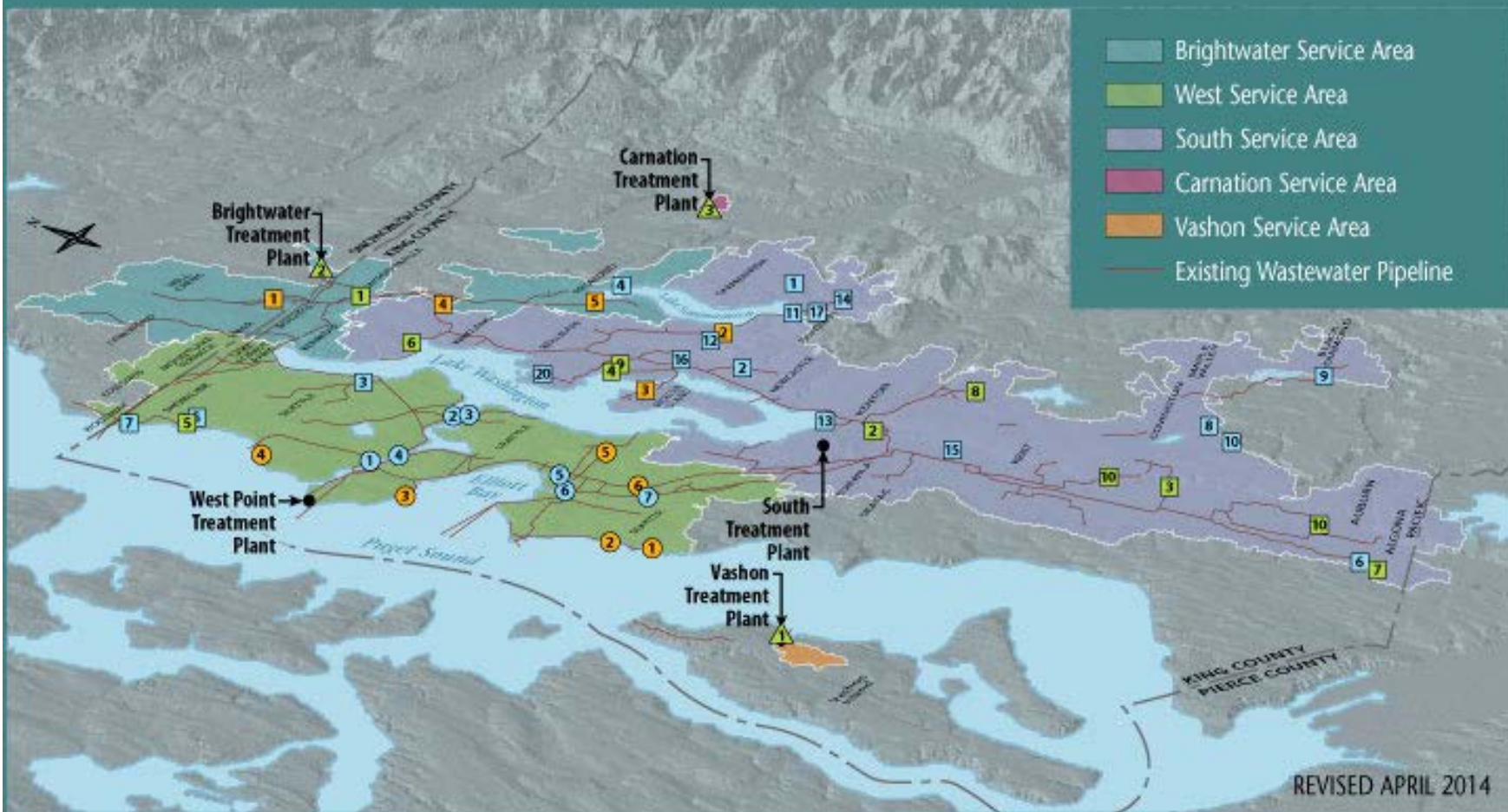
Capital Program

- 2016 Capital spending was \$167.5 million, \$8.5 million below predicted, yielding an accomplishment rate of approximately 80%
- Continuing evaluation of project scopes, schedules, and budgets
- Planned capital spending of
\$183.9 million in 2017
\$192.4 million in 2018
- Construction spending supports approximately 925 full and part time jobs



System Investments Map

Regional Wastewater Services Plan Projects and Service Areas (1999-2030)



King County

Capital Program Highlights

- **Chelan Ave CSO Control (\$118.7M)** The project designs and constructs a combined sewer overflow control facility to handle 4 to 5 million gallons of mixed storm and wastewater. Current project schedule for construction completion is June of 2022.
- **West Duwamish CSO Control (\$57.3M)** The project designs, constructs and acquires property to control combined sewer overflows as mandated by the consent decree. Construction completion is expected January 2025.
- **South Plant Biogas and Heat Systems Improvements (\$67M)** This project designs and constructs the replacement of the South Plant heating and gas scrubbing system which has reached the end of its useful life, becoming increasingly costly to maintain. The new system will be energy efficient and comply with the stricter standards for scrubbed biogas set by Puget Sound Energy. Completion is scheduled for February 2021.
- **Jameson/Arc Weld Buildings Replacement (\$23.4M)** The Jameson and Arc Weld buildings are beyond their useful life and need replacement. The project will design, construct and acquire property to address housing the West Division Maintenance and Construction Management staff. Substantial completion is scheduled for March 2022.

Capacity Charge

“Growth paying for growth”

- New connections to the system pay additional charges to support the creation of new capacity
- Capacity charge revenue accounted for 15.1% of total operating revenues in 2016; projected to grow to 17.7% by 2023
- A monthly charge for 15 years or lump sum with a 2.9% discount

2018 Capacity Charge Proposal

2018 Capacity Charge of \$62.60 per month

- 3% increase from 2017
- \$11,268 if paid during full 15 years
- \$9,171 with early payment discount of 2.9%

	2017	2018	2019	2020	2021	2022	2023
Monthly Capacity Charge	\$60.80	\$62.60	\$64.48	\$66.41	\$68.40	\$70.46	\$72.57
Percent Change	3.6%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Payment over 15 years	\$10,944	\$11,268	\$11,606	\$11,954	\$12,313	\$12,682	\$13,063
Proposed Sewer Rate	\$44.22	\$44.22	\$45.85	\$45.85	\$46.64	\$47.79	\$48.71
Proposed Capacity Charge	\$60.80	\$62.60	\$64.48	\$66.41	\$68.40	\$70.46	\$72.57
Total Charges to New Connections	\$105.02	\$106.82	\$110.33	\$112.26	\$115.04	\$118.25	\$121.28

Future Rate Outlook

Rate projections for 2018 to 2023 indicate average annual increases of approximately 2.0% per year.

Uncertainties in projections:

- Timing and amount of insurance reimbursement for West Point restoration
- Patterns of changes in bond and investment interest rates
- Return to sustainable growth in RCEs and new connections versus current boom

If you have additional questions, please contact:

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King County

Department of Natural Resources and Parks
Wastewater Treatment Division