



KING COUNTY AUDITOR'S OFFICE



AUGUST 2, 2019

Follow-up on Wastewater Capacity Charge: Unclear Whether Growth Is Paying for Growth

For several years, the Wastewater Treatment Division (WTD) has been working with Seattle and other local sewer agencies to modify the capacity charge to make it simpler and more transparent, but that work is not yet complete and the issues we identified in 2016 have not been addressed.

WTD estimates that it could propose a redesigned capacity charge to the Regional Water Quality Committee and the King County Council as early as 2020. While waiting for negotiations with the component agencies to conclude, WTD has continued to calculate the capacity charge using the same methodology it used during our audit in 2016. This audit found that the current methodology was overly complex, susceptible to errors, and might not meet the twin policy goals that "growth should pay for growth" and that all new customers should pay an "equal share" of these costs. Based on these findings, the audit made seven recommendations to make the capacity charge more transparent, verifiable, equitable, predictable, and sustainable.

Of the seven audit recommendations:

	0 DONE		1 PROGRESS		6 OPEN
Fully implemented Auditor will no longer monitor.		Partially implemented Auditor will continue to monitor.		Remain unresolved Auditor will continue to monitor.	

Please see below for details on the implementation status of these recommendations.



Recommendation 1

PROGRESS



The Wastewater Treatment Division, working with its component agencies, should develop an approach to determining the capacity charge that leads to a simpler and more transparent model, and propose for consideration by the Regional Water Quality Committee and the County Council any changes to the financial policies necessary to implement such an approach.

STATUS UPDATE: The Wastewater Treatment Division (WTD) was conducting negotiations with its component agencies at the time of the audit, and those negotiations are still ongoing three years later. The capacity charge was the central issue discussed at a series of meetings with the City of Seattle and other local agencies in the second quarter of 2019. Depending on the pace of the negotiations, WTD anticipates that it could be prepared to propose a simpler and more transparent model to the Regional Water Quality Committee and the King County Council in 2020. Such a proposal would likely take effect in 2022.

WHAT REMAINS: To implement this recommendation, WTD would need to conclude negotiations with its component agencies, develop a simpler and more transparent approach to the capacity charge, and propose related changes to financial policies.

Recommendation 2

OPEN



The Wastewater Treatment Division should have an independent party review the validity of the model's methodology and calculations on a regularly scheduled basis.

STATUS UPDATE: WTD is waiting until the contract negotiations discussed in Recommendation 1 conclude before addressing the other recommendations made in this audit. WTD expects that once the component agencies agree on a new structure for the capacity charge, a defined and timely response to this recommendation will follow.

Recommendation 3

OPEN



The Wastewater Treatment Division should ensure that the approach developed in Recommendation 1 allows a reviewer to verify the extent to which growth costs equal growth revenues based on values estimated independently of the model.

STATUS UPDATE: WTD is waiting until the contract negotiations discussed in Recommendation 1 conclude before addressing the other recommendations made in this audit. WTD expects that once the component agencies agree on a new structure for the capacity charge, a defined and timely response to this recommendation will follow.

Recommendation 4

OPEN



The Wastewater Treatment Division should either stop discounting growth costs and revenues in the capacity charge model by more than the inflation rate or propose that the King County Council modify the financial policies to explicitly authorize such a practice, consistent with state law.

STATUS UPDATE: WTD is waiting until the contract negotiations discussed in Recommendation 1 conclude before addressing the other recommendations made in this audit. WTD expects that once the component agencies agree on a new structure for the capacity charge, a defined and timely response to this recommendation will follow.

Recommendation 5

OPEN



The Wastewater Treatment Division should continue developing a new methodology that fully estimates how much existing excess capacity should be allocated to growth costs.

STATUS UPDATE: WTD is waiting until the contract negotiations discussed in Recommendation 1 conclude before addressing the other recommendations made in this audit. WTD expects that once the component agencies agree on a new structure for the capacity charge, a defined and timely response to this recommendation will follow.

Recommendation 6

OPEN



The Wastewater Treatment Division should propose to the King County Council, as part of the proposal in Recommendation 1, a way to resolve conflicts between other financial policies and KCC 28.86.160(C)(3)(FP-15)(3)(d), which mandates that each new customer pay an equal share.

STATUS UPDATE: WTD is waiting until the contract negotiations discussed in Recommendation 1 conclude before addressing the other recommendations made in this audit. WTD expects that once the component agencies agree on a new structure for the capacity charge, a defined and timely response to this recommendation will follow.

Recommendation 7

OPEN



The Wastewater Treatment Division should propose to the King County Council, as part of the proposal in Recommendation 1, a way to resolve the ambiguities in KCC 28.86.160(C)(3)(FP-15)(3)(g), which allocates growth-related capital costs.

STATUS UPDATE: WTD is waiting until the contract negotiations discussed in Recommendation 1 conclude before addressing the other recommendations made in this audit. WTD expects that once the component agencies agree on a new structure for the capacity charge, a defined and timely response to this recommendation will follow.

Peter Heineccius, Principal Management Auditor, conducted this review. If you have any questions or would like more information, please contact the King County Auditor's Office at KCAO@KingCounty.gov or 206-477-1033.