

KING COUNTY WASTEWATER TREATMENT DIVISION

2017 Sewer Rate Overview



Metropolitan Water Pollution Abatement Advisory Committee

April 27, 2016



PRESENTER

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

TODAY'S AGENDA

Overview of the Executive's 2016 Rate and Capacity Charge Proposal

- **Elements of the 2017 Rate Proposal**
- **Debt Management**
- **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:

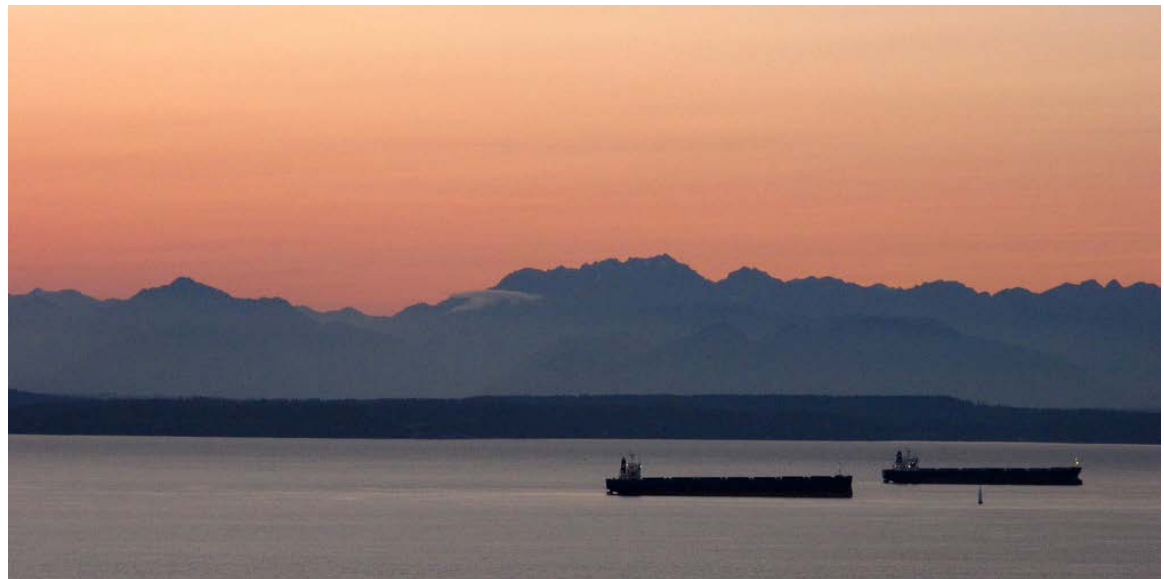
Protecting Water Quality - maintaining and improving regional water quality in compliance with federal, state, and local regulations;

Producing Capacity - providing sufficient system capacity to support economic growth;

Reliability - ensuring continued reliability of our wastewater conveyance and treatment assets; and

Sustainability - creating renewable resources from wastewater.

Reducing Debt – increasing the amount of cash-paid capital.



Summary of the Executive's 2017-2018 Rate Proposal

Monthly Sewer Rate increase from \$42.03 to \$44.22

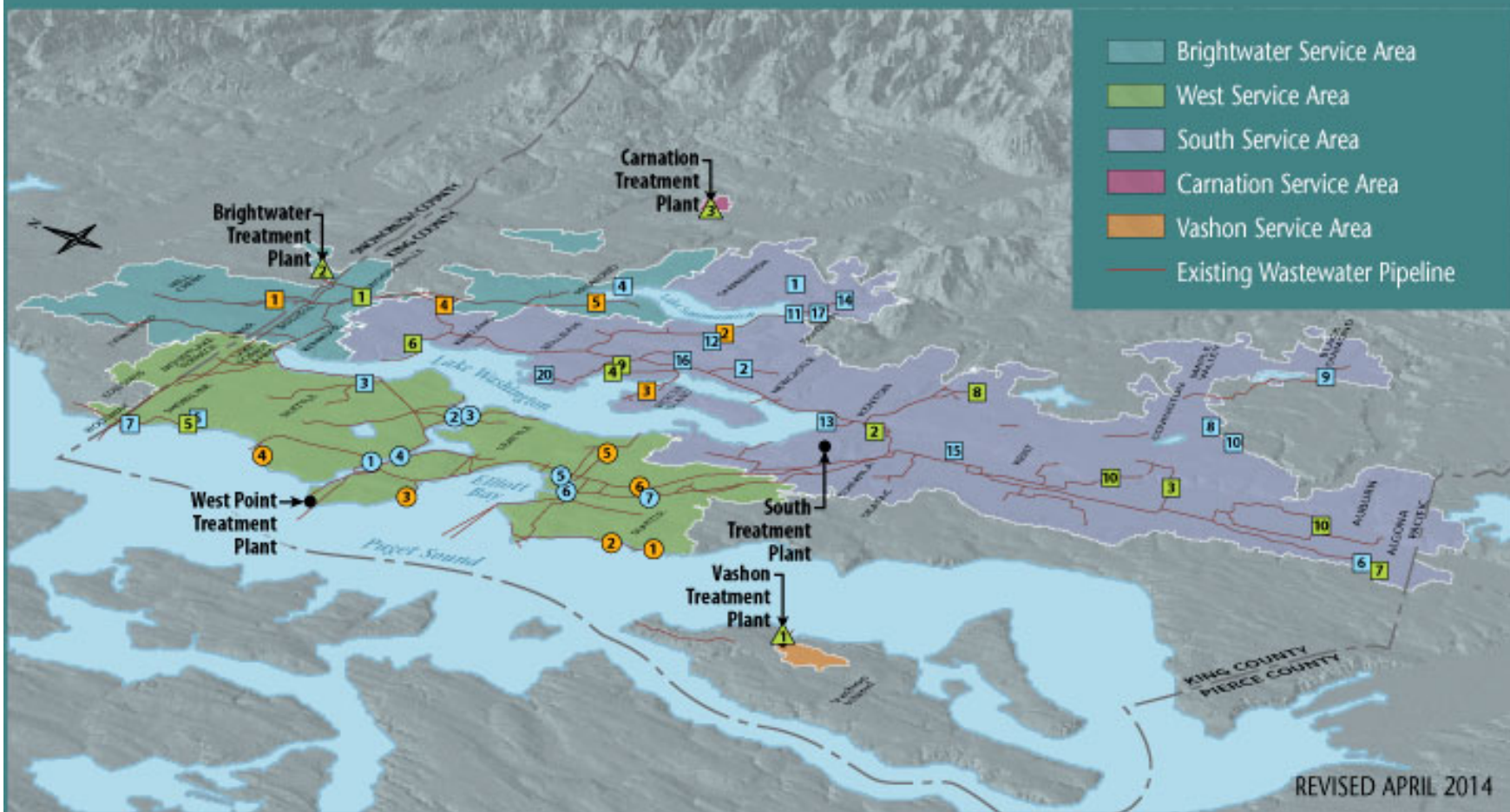
- In effect for 2017 and 2018
- Lowest rate increase since 2001
- Reduces future debt
- Maintains excellent bond ratings
- An increase of 5.2% from 2016 rate of 42.03, 2.6% average annual increase

Capacity Charge of \$60.80 per month

- Paid by new connections to the system
- 3.6 percent increase 2016 to 2017
- \$ 8,974 with early payment discount of 2.8 percent, \$10,944 if paid quarterly for 15 years

System Investments Map

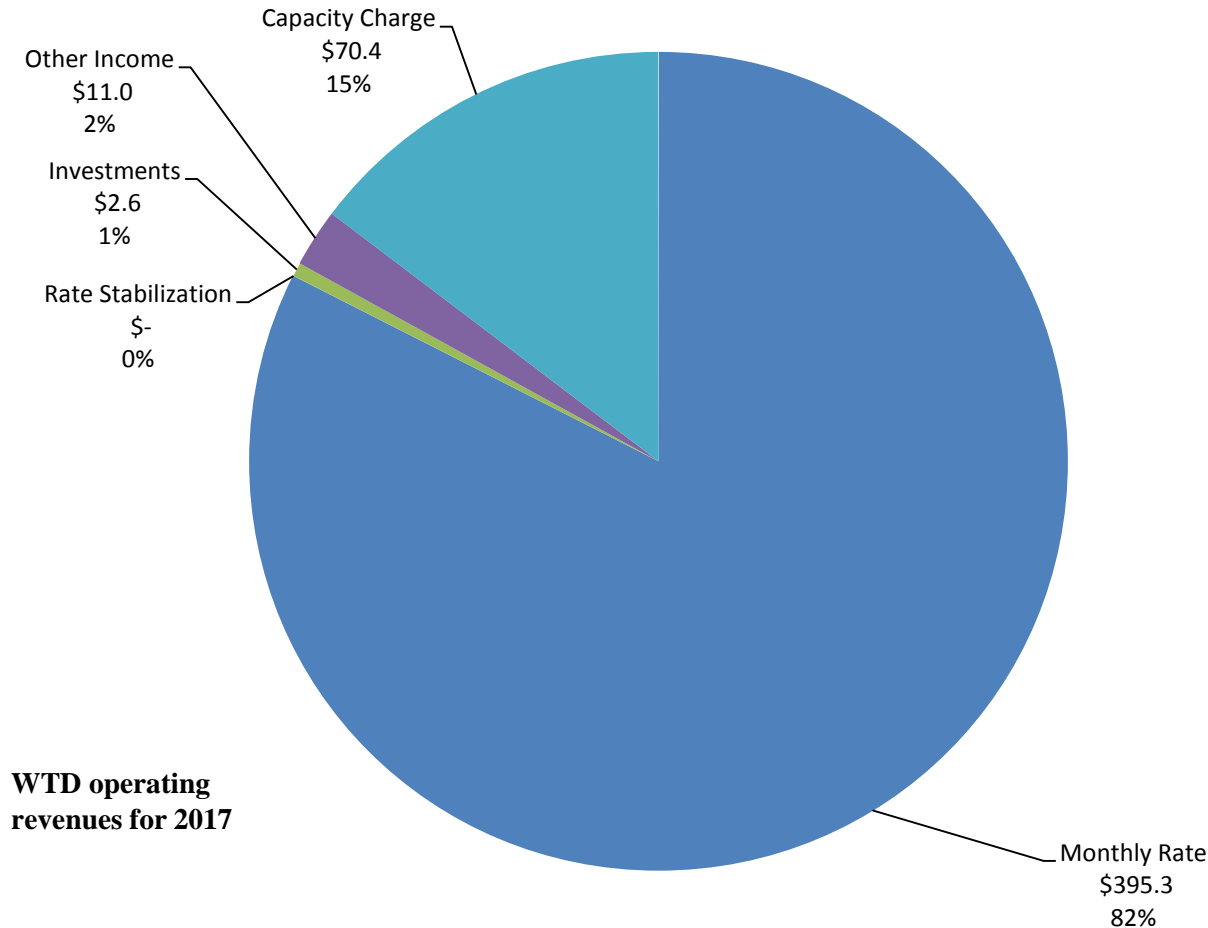
Regional Wastewater Services Plan Projects and Service Areas (1999-2030)



King County

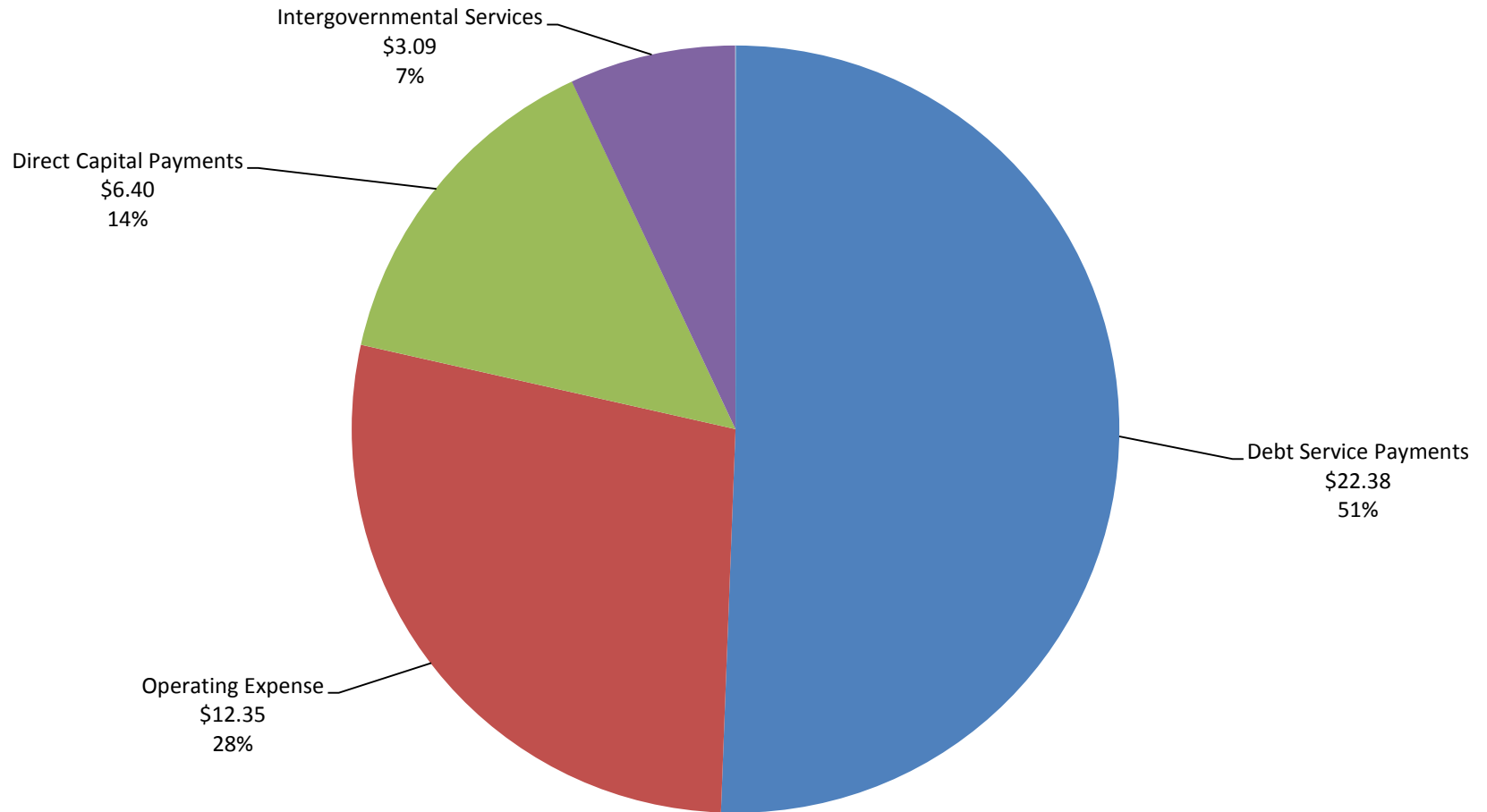
Sewer Rate Generates Most of the Utility's Revenue

**Monthly Sewer Rate and Capacity Charge yield
\$479.3m or 97% of Operating Revenue (millions of \$)**



The Major Uses of Sewer Rate Revenues

Components of the 2017 Sewer Rate of \$44.22



* Intergovernmental services includes activities such as local hazardous-waste fees, insurance, information technology, and environmental lab services.

Operating Expenses: 2017-18 Summary

2017 operating expenses are projected to increase 4.2 percent to \$147.4 million

- Projected increases due to general inflation
- External painting of South Treatment Plant
- Fuel reduction efforts highlighted in Strategic Climate Action Plan

2018 operating expenses are projected to increase 3.3 percent to \$152.3 million

- Projected additional increases due to general inflation
- Projected increases in electricity and chemical costs

Capital Program

- Allocates limited funds among multiple priorities, including Combined Sewer Overflow (CSO) control, Conveyance System Improvement projects (CSI) to meet capacity demands and asset management to maintain facilities and infrastructure.
- Incorporate King County's Strategic Climate Action Plan (SCAP)
- 2015 Capital spending was \$152.8 million, -6% below predicted.
- Planned spending of \$175.9 million in 2016
\$162.8 million in 2017



Capital Program

- CSO Beach Projects at Murray, Magnolia, Barton and North Beach -- substantial completion expected by year end 2016
- Michigan-Brandon CSO (Georgetown Station) underway. Completion is scheduled for 2022
- CSO Control at Hanford at Rainier and Bayview North scheduled for substantial completion in 2017
- WPTP OGADS (oxygen generation and dissolution system)
Replacement: the existing system is early generation equipment, energy intensive and expensive to operate and maintain. Substantial completion is schedule for completion at the end of 2019.
- Joint cost share agreement with Seattle Public Utilities (SPU) in which two WTD CSO sites (3rd Ave W and 11th NW) are addressed with several SPU sites along the north side of the Ship Canal in Ballard.
- Lake Hills and NW Lake Sammamish Interceptor Upgrade is currently in predesign and scheduled for substantial completion in 2021.

Rate Increase Reduces Future Debt

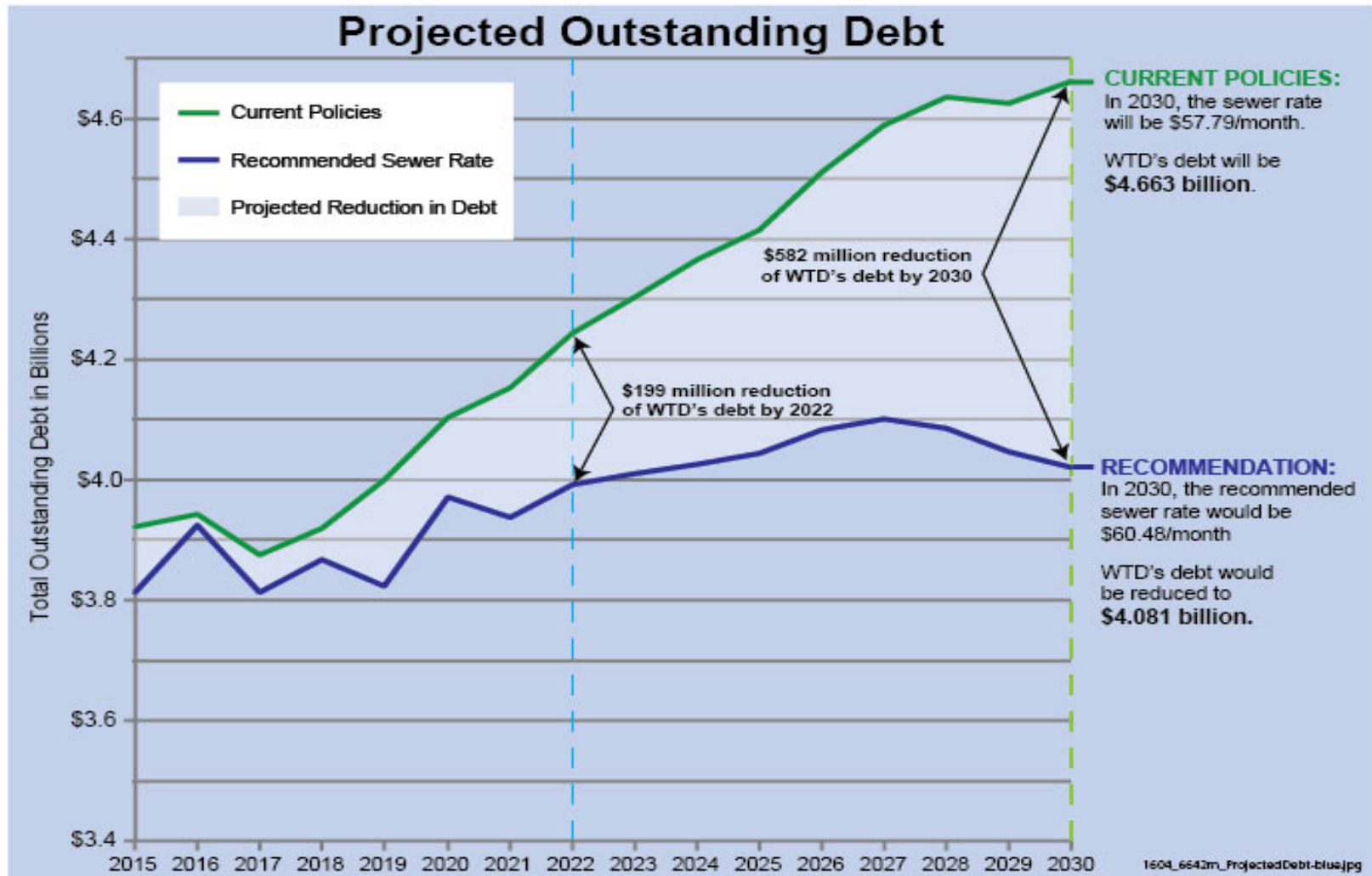
MWPAAC 2015 recommendation

- target 1.40x debt service coverage ratio by 2030
- 3% annual rate increases through 2030,
- \$539 million debt reduction by 2030

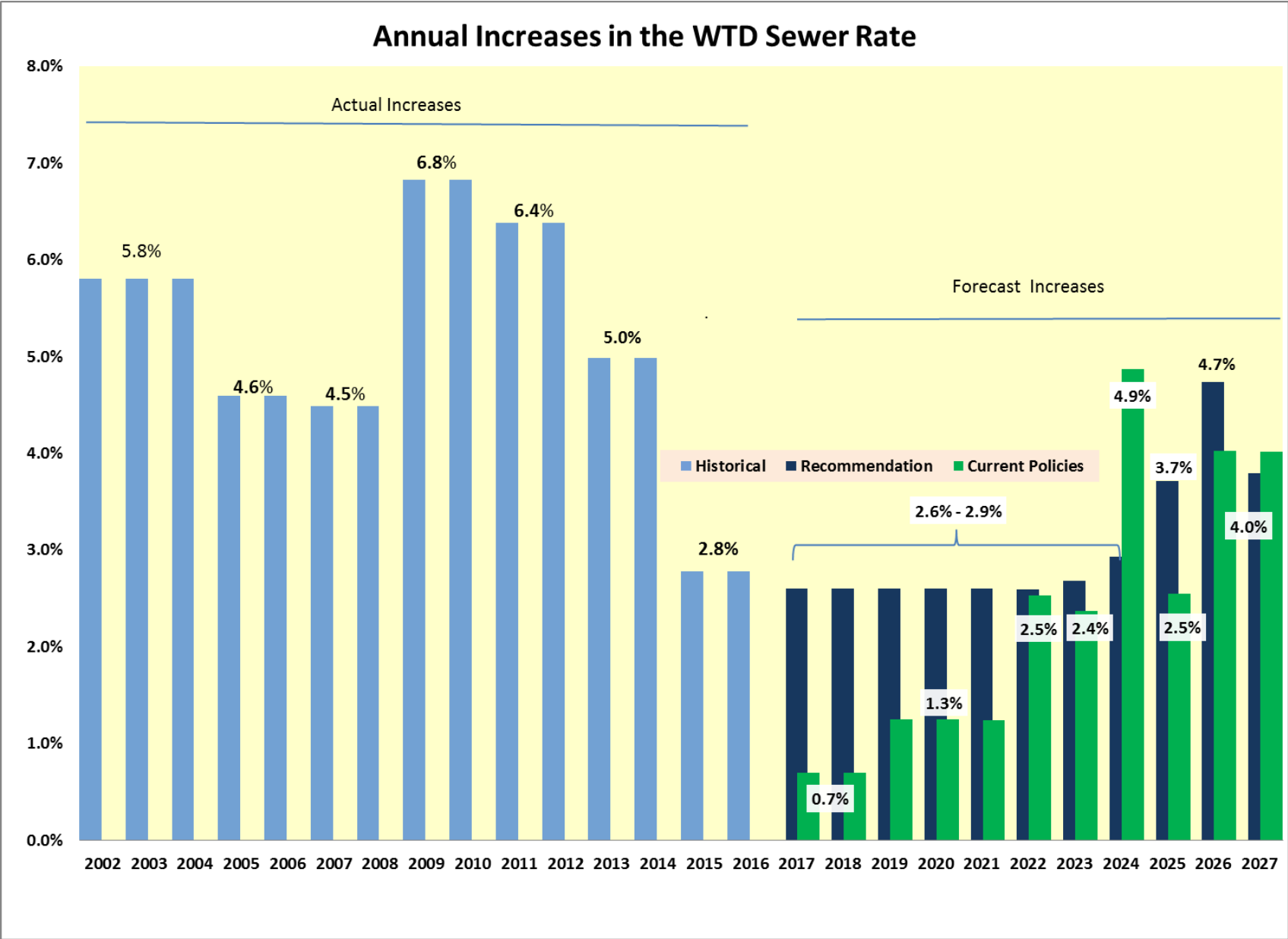
Proposed debt practice changes

- Cash-fund, on average, 40% of the CIP
- Amortize variable rate debt starting in the 10th year prior to maturity
- 2.6% average annual rate increases through 2030
- \$582 million debt reduction by 2030

Rate Increase Reduces Future Debt



Rate Increases Over Time



Proposed rate of \$44.22 per month for 2017- 2018

	2015	2016	2017	2018	Anticipated 2018 - 22 annual average
Previous Benchmark					
2016 Adopted Rate (June 2015)	\$42.03	\$42.03	\$43.33	\$43.33	
% change	5.6%	0.0%	3.1%	0.0%	2.3%
Executive's 2017 Sewer Rate Proposal					
Monthly Sewer Rate	\$42.03	\$42.03	\$44.22	\$44.22	
% change	5.6%	0.0%	5.2%	0.0%	2.1%
Difference from 2016 Adopted Rate	\$0.00	\$0.00	\$0.89	\$0.89	\$1.09
Current Debt Policies					
Analysis of March 11, 2016	\$42.03	\$42.03	\$42.62	\$42.63	
% change	5.6%	0.0%	1.4%	0.0%	1.5%
Difference from 2016 Adopted Rate	\$0.00	\$0.00	(\$0.71)	(\$0.70)	(\$1.57)

2015 showed continued customer growth

Strong Growth in Residential Customer Equivalents Forecast

	2015	2016	2017	2018	2019
2017 Rate Proposal	736,085	740,502	744,945	748,670	752,787
Percent Change Between Years	1.37%	0.60%	0.60%	0.50%	0.55%
2016 Sewer Rate Proposal	730,920	735,310	739,720	743,420	747,510
Percent Change Between Years	0.43%	0.43%	0.43%	0.43%	0.43%
Change between 2017 Rate Proposal and 2016 Sewer Rate	5,165	5,192	5,225	5,250	5,277

New connections continue at high levels in 2015

Forecast	2015	2016	2017	2018	2019	2020	2021
2017 Sewer Rate Proposal	12,119	12,000	11,000	10,500	10,000	10,000	10,000
2016 Adoted Sewer Rate	10,500	11,000	11,000	10,500	10,000	10,000	10,000

Rate stabilization

- Recognizes current revenues in future periods.
- Helps manage and stabilize rates
- Executive's proposal maintains a \$12 million balance from 2023

Rate Stabilization Reserve, 2015-2023 (\$ in millions)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Beginning balance	\$34.3	\$46.3	\$46.3	\$46.3	\$43.8	\$40.2	\$32.3	\$29.3	\$19.9
Additions	12.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reductions	0.0	0.0	0.0	2.5	3.6	7.9	3.0	9.4	7.9
Ending balance	\$46.3	\$46.3	\$46.3	\$43.8	\$40.2	\$32.3	\$29.3	\$19.9	\$12.0

Capacity Charge

- New connections to system pay additional charge to support the creation of new capacity
- A monthly charge for 15 years or up-front with a 2.8 percent discount
- Capacity charge accounts for 15.1% of total revenue in 2015; expected to grow to 17.2% by 2022
- 2017 proposal is \$60.80, a 3.6 percent increase; \$8,974 paid up-front; \$10,944 over 15 years

2017 Capacity Charge Proposal

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Monthly Capacity Charge	\$55.35	\$57.00	\$58.72	\$60.80	\$62.62	\$64.50	\$66.44	\$68.43	\$70.48
% Change	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Payments over 15 years	\$9,963	\$10,260	\$10,570	\$10,944	\$11,272	\$11,610	\$11,959	\$12,317	\$12,686
Proposed Sewer Rate	\$39.79	\$42.03	\$42.03	\$44.22	\$44.22	\$46.53	\$46.53	\$47.73	\$48.97
Proposed Capacity Charge	\$55.35	\$57.00	\$58.72	\$60.80	\$62.62	\$64.50	\$66.44	\$68.43	\$70.48
Total for New Connections	\$95.14	\$99.03	\$100.75	\$105.02	\$106.84	\$111.03	\$112.97	\$116.16	\$119.45

Future Rate Outlook

Rate projections for 2018 to 2022 indicate average annual increases of approximately 2.1% per year.

Factors that could impact projections:

- Ultimate resolution of Brightwater litigation recovery (\$144.3 million not factored into rates)
- Bond and investment interest rates
- Growth in RCEs and new connections

If you have additional questions, please contact:

King County Wastewater Treatment Division
Department of Natural Resources and Parks

Tim Aratani, Finance Manager
(206) 477-5351 or tim.aratani@kingcounty.gov



King County

Department of Natural Resources and Parks
Wastewater Treatment Division