Metropolitan Water Pollution Abatement Advisory Committee
April 24, 2019
Executive’s 2020 Rate Proposal

Maintains 2019 rate of $45.33 for second year
  • No use of rate stabilization funds through 2025
  • Below inflation increases forecast through 2025
  • Reflects positive 2018 financial performance
  • $346 million in debt reduction by 2025
  • Provides capital and operations support for safety, resiliency and asset management

Capacity charge of $66.35 for 2020
  • Increase of 2.9 percent from 2019
  • Includes expanded affordability options
  • Expands affordability options for capacity charge
Collectively, the Sewer Rate and Capacity Charge Generate $510 million or 95% of the Utility’s 2020 Revenue.

WTD 2020 operating revenues of $536.4 million with proposed 2020 sewer rate.
Proposed 2020 Sewer Rate Distribution of Expenditures

2020 Proposed Sewer Rate $45.33

- Intergovernmental Services: $3.23 (7%)
- Direct Capital Payments: $9.30 (21%)
- Operating Expense: $10.48 (23%)
- Debt Service Payments: $22.32 (49%)

Intergovernmental services include services received from other County agencies and $.05 of contribution to liquidity reserve. Total may not add due to rounding.
Positive 2018 Financial Performance

$16.6 million above planned revenues
  • Capacity charge revenues $11.2 million above planned
  • Other income includes $5.3 million above planned from RINS (environmental credits for methane production)

West Point Insurance claim
  • Final settlement with insurance at $22.5 million
  • Potential for additional $3 million from the State

Debt Service Coverage 1.50x

Brightwater Judgment Funds
  • Initially designated for cash payment of capital
  • Under current conditions, retiring outstanding debt proved more fiscally sound
West Point

- Final settlement of $22.5 million
- WTD in discussions with Emergency Management Division of the Washington State Military Department and Federal Emergency Management Agency (FEMA) for reimbursement of costs not allowed by County’s insurers
  - Potential of up to $2 million in additional claim.
- FEMA 406 Grant Program
  - Cost-sharing assistance on mitigating future risk
  - May be eligible for up to $24.55 million
Conservative practices yield debt reduction

- Funding, on average, 40% of the capital program from cash
- Estimated $346 million less debt through 2025
Rate stabilization fund balance held through 2025

- 2018 financial performance
- Recognizes current revenues in future periods
- Helps manage and stabilize future rates
- Effective tool in case of unanticipated expenses

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<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
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<tbody>
<tr>
<td>Beginning balance</td>
<td>$46.25</td>
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<td>Additions</td>
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<td>Reductions</td>
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<td>Ending balance</td>
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Residential Customer Equivalent growth moderates

• Residential Customer Equivalent growth peaked in 2016 at 2.25 percent
• Lower growth and billing adjustments yield growth averaging .42 percent in 2018 and 2019
• Return to long-term trends projected for the Financial Plan in 2020

Residential Customer Equivalents Forecast

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<tr>
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<tbody>
<tr>
<td><strong>2020 Rate Proposal</strong></td>
<td>760,571</td>
<td>763,552</td>
<td>768,286</td>
<td>773,049</td>
<td>777,842</td>
<td>782,665</td>
<td>787,517</td>
<td>792,400</td>
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<tr>
<td><strong>Percent Increase from Prior Year</strong></td>
<td>0.44%</td>
<td>0.39%</td>
<td>0.62%</td>
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<td>0.62%</td>
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<tr>
<td><strong>2019 Adopted Sewer Rate</strong></td>
<td>761,790</td>
<td>765,980</td>
<td>770,730</td>
<td>775,500</td>
<td>780,310</td>
<td>785,150</td>
<td>790,018</td>
<td>794,922</td>
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<tr>
<td><strong>Percent Increase from Prior Year</strong></td>
<td>0.60%</td>
<td>0.55%</td>
<td>0.62%</td>
<td>0.62%</td>
<td>0.62%</td>
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<tr>
<td><strong>Change between 2020 Rate Proposal and 2019 Adopted Sewer Rate</strong></td>
<td>(1,219)</td>
<td>(2,428)</td>
<td>(2,444)</td>
<td>(2,451)</td>
<td>(2,468)</td>
<td>(2,485)</td>
<td>(2,501)</td>
<td>(2,522)</td>
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</table>
New sewer connection projections unchanged

- During the 1998 to 2008 period the number of new connections averaged 11,200 per year with a peak of 12,700.

- Average connections for 2009-2011, a period dominated by the Great Recession, dropped to a low of 5,700.

- Growth returned hitting a peak of 13,485 in 2018.

- The current forecast has new sewer connections returning to a long-term rate of 10,000 new connections in 2019 and thereafter.
Operating Expenses: 2019 - 2020 Summary

- Planned spending based on 2019-2020 Adopted Budget
- 2019 operating expenses projected at $167.8 million
  - Implementation of resiliency programs at West Point
  - Staff development and succession planning
  - Projected increase in electricity, chemical and diesel prices
  - Additional renewable energy, operating and maintenance costs associated with West Point cogeneration facilities and RINs revenue generation at South Plant

- 2020 operating expenses are expected to change by less than 1 percent to $168.1 million reflecting the transition to operations of the Georgetown Wet Weather Station CSO
Capital Program

• 2018 Capital spending was $231 million, yielding an accomplishment rate of approximately 94%

• Planned capital spending of 
  $272 million in 2020 
  $269 million in 2021

• 2019-20 construction spending supports about 2,625 full and part time jobs in the economy
Capital Program Highlights

**Georgetown Wet Weather Treatment Station ($242M)**
- Building a Wet Weather Treatment Station (WWTS), conveyance pipelines, and outfall structure to treat Combined Sewer Overflows (CSOs)
- The WWTS includes an influent pump station, equalization basin, screening facility, CSO treatment process, and disinfection.
- Secured low interest WIFIA loan and State Revolving Fund loan

**Joint Ship Canal CSO Control ($176.2M)**
- Joint project with Seattle Public Utilities
- Will provide control for 5 current outfalls

**North Mercer Island and Enatai Interceptors Upgrade (total cost $116M)**
- Increasing reliability and capacity of North Mercer Island and Enatai Interceptors
- Improving service areas in North Mercer Island, the southwest portion of Bellevue, and the Town of Beaux Arts Village
Capital Program Highlights

Lake Hills Interceptor-A Refurbishment ($30.5M)
  o Rehabilitates 3,300 feet of 48 inch diameter pipe.
  o Scheduled for construction in 2020

Thorton Creek Trunk Replacement ($41M)
  o Replaces approximately 4,000 feet of pipe
  o Relocates some segments away from sensitive areas
  o Control system upgrades

West Point Primary Sedimentation Area Roof Structure ($36M)
  o Removes Z beams, upgrades tank walls, and adds resilient roof structure
  o Enhances life safety and seismic resiliency of the entire structure
Capacity Charge

- New connections to the system pay additional charges to support the creation of new capacity
- Capacity charge revenue accounted for 16.8% of total operating revenues in 2018 (compared to 15.1% in 2017); projected to grow to 17.6% by 2025
- A monthly charge for 15 years or lump sum with a 3.6% discount

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<tbody>
<tr>
<td>Monthly Charge</td>
<td>$64.50</td>
<td>$66.35</td>
<td>$68.34</td>
<td>$70.39</td>
<td>$72.50</td>
<td>$74.68</td>
<td>$76.92</td>
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<tr>
<td>Amount of Change</td>
<td>$1.90</td>
<td>$1.85</td>
<td>$1.99</td>
<td>$2.05</td>
<td>$2.11</td>
<td>$2.18</td>
<td>$2.24</td>
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<tr>
<td>Percentage Change</td>
<td>3.0%</td>
<td>2.9%</td>
<td>3.0%</td>
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<td>Annual Amount</td>
<td>$773</td>
<td>$796</td>
<td>$820</td>
<td>$845</td>
<td>$870</td>
<td>$896</td>
<td>$923</td>
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<tr>
<td>Total Payments (15 years)</td>
<td>$11,610</td>
<td>$11,943</td>
<td>$12,301</td>
<td>$12,670</td>
<td>$13,050</td>
<td>$13,442</td>
<td>$13,845</td>
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<tr>
<td>Early Payoff Total*</td>
<td>$9,520</td>
<td>$9,280</td>
<td>$9,558</td>
<td>$9,845</td>
<td>$10,140</td>
<td>$10,445</td>
<td>$10,758</td>
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* Assumes the current early payoff discount rate of 3.6 percent
Future Rate Outlook

Rate projections for 2021 to 2025 indicate average annual increases of approximately 2.2% per year.

Based on preliminary long-term projections, average annual rate increases of the sewer rate are 2.9% for 2019 to 2030.

Uncertainties in projections:
- Outlook for changes in bond and investment interest rates
- Outlook for continued growth in RCEs and new connections
- Changes in regulatory requirements
- Outcome of Clean Water Plan
If you have additional questions, please contact:

Dan Kaplan, Financial Services Administrator
King County Wastewater Treatment Division

Hiedi Popochock, Financial Services Manager
(206) 477-1842 or hiedi.popochock@kingcounty.gov