

2023 Sewer Rate Process
**Review of Adopted 2022-2031
Sewer Rate Plan and
Preliminary 2023 Rate-setting
Policy Direction**

King County Wastewater Treatment
MWPAAC General Meeting

January 26, 2022

Agenda

1. 2023-2032 Sewer Rate Goals and Schedule
2. Adopted 2022-2031 Sewer Rate Plan
3. New Operating Costs
4. New Capital Costs
5. Capacity Charge
6. Next steps

Goals for 2023 Sewer Rate Development

- Increase reliability at off-site locations and West Point Treatment Plant
- Respond to increasing regulatory pressure
- Respond to growth-related demand on the system
- Address the most critical asset management risks
- Respond to King County Executive's priorities: Clean Water Healthy Habitat, Strategic Climate Action Plan and Equity and Social Justice

2023 Sewer Rate Schedule (Jan-Feb)

MONTH	ACTIVITIES
January	January 6 – Rates & Finance Subcommittee meeting <ul style="list-style-type: none"> • Review WTD Goals for 2023 Rate-setting Process and Schedule • Review Adopted 2022-2031 Rate Plan • Discuss Preliminary 2023 Rate-setting Policy Direction
	WTD continues preliminary 2023-2032 Rate Plan policy discussions with Department of Natural Resources and Parks (DNRP) Director's Office and Office of Performance, Strategy and Budget (PSB)
	January 26 – MWPAAC General meeting <ul style="list-style-type: none"> • Review WTD Goals for 2023 Rate-setting Process and Schedule • Review Adopted 2022-2031 Rate Plan • Discuss Preliminary 2023 Rate-setting Policy Direction
	WTD continues 2023-2032 Rate Plan policy discussions with DNRP Director's Office
	WTD CIP Portfolio development continues
February	2021 year-end finalization by end of month
	Feb. 3 – Rates & Finance Subcommittee meeting <ul style="list-style-type: none"> • Discuss updates on 2023 rate-setting policy direction, if possible
	WTD continues discussions with DNRP Director's Office: Present sewer rate and capacity charge estimates
	WTD continues discussions with the County's Office of Performance, Strategy and Budget: Present sewer rate and capacity charge estimates
	Feb. 23 – MWPAAC General meeting <ul style="list-style-type: none"> • Discuss updates on 2023 rate-setting policy direction, if possible

2023 Sewer Rate Schedule (March)

March	Early March – Brief King County Executive on DNRP/WTD 2023 Sewer Rate and Capacity Charge Proposal
	Early March – WTD transmits 2023 Sewer Rate and Capacity Charge Proposal to DNRP Director's Office
	March 3 – Rates & Finance Subcommittee meeting <ul style="list-style-type: none">• Review key points of meeting with DNRP Director's Office and Executive's Office, if possible• Discuss key points for draft MWPAAC letter on sewer rate recommendation to Executive for consideration and action <u>at</u> March 23 MWPAAC General meeting
	Mid-March – DNRP Director's Office transmits 2023 Sewer Rate and Capacity Charge Proposal to King County Executive
	March 16 – Draft MWPAAC sewer rate recommendation letter is emailed to MWPAAC members one week in advance of MWPAAC's March 23 General meeting
	March 23 – MWPAAC General meeting <ul style="list-style-type: none">• Present DNRP/WTD 2023 Sewer Rate and Capacity Charge proposal• MWPAAC considers and <u>takes action</u> on its recommendation letter to King County Executive

2023 Sewer Rate Schedule (April-June)

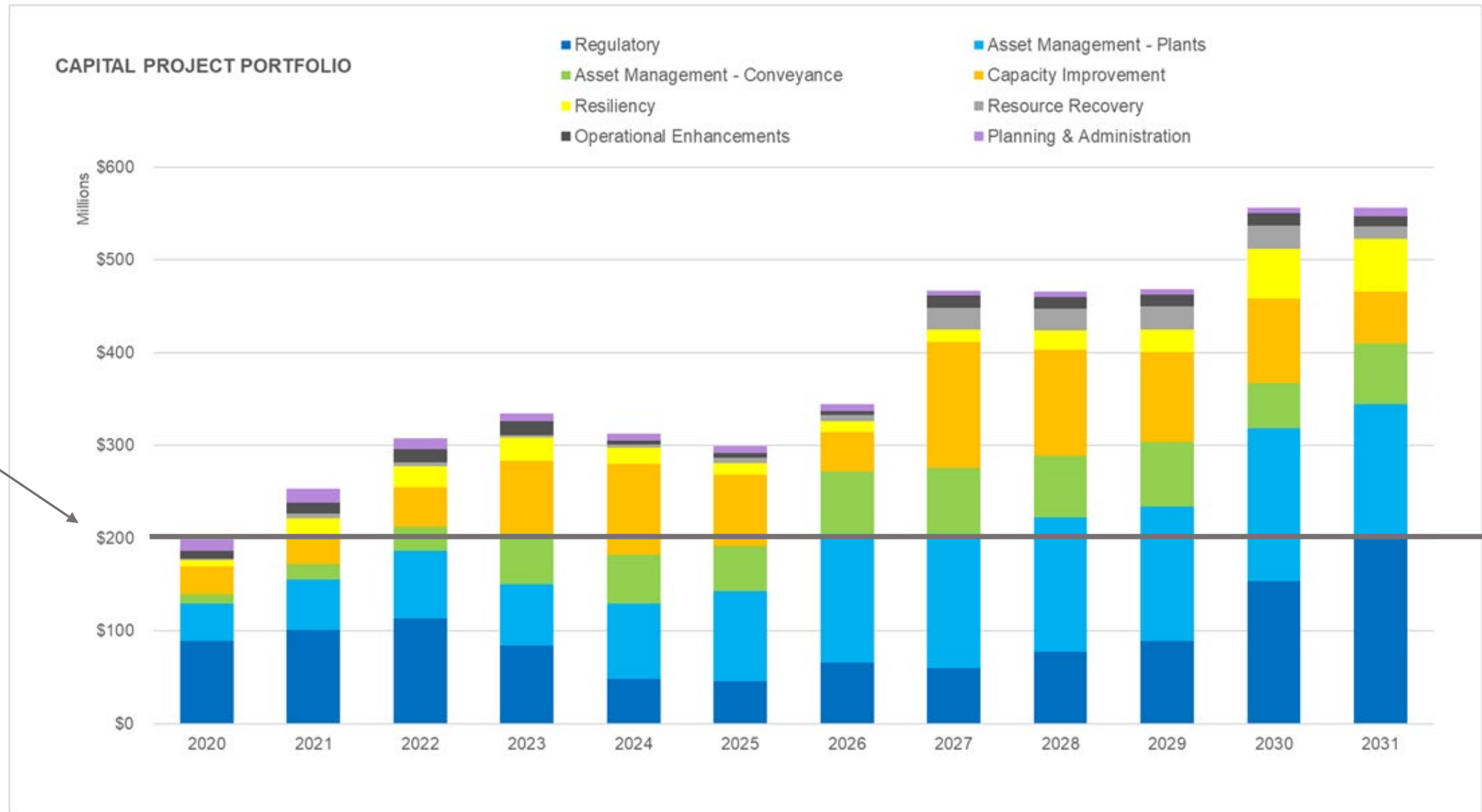
MONTH	ACTIVITIES
April	April 7 – Rates & Finance Subcommittee meeting <ul style="list-style-type: none"> • Review Executive's Proposed 2023 Sewer Rate and Capacity Charge recommendation to King County Council • Discuss whether MWPAAC wants to send a separate sewer rate and capacity charge recommendation letter to the King County Council
	April XX – Rates & Finance Subcommittee special meeting <ul style="list-style-type: none"> • Should the Rates and Finance Subcommittee recommend a separate letter to Council, the draft MWPAAC sewer rate recommendation letter is e-mailed to MWPAAC members one week in advance of MWPAAC's April 27 General meeting
	Mid-April – King County Executive transmits 2023 Sewer Rate and Capacity Charge Recommendation to King County Council
	April 27 – MWPAAC General meeting <ul style="list-style-type: none"> • Present King County Executive's Proposed 2023 Sewer Rate and Capacity Charge • MWPAAC consideration and action on separate sewer rate recommendation letter provided there is support for a separate letter to King County Council
May	May 4 – WTD briefs the Regional Water Quality Committee on the King County Executive's Proposed 2023 Sewer Rate and Capacity Charge
	Brief the Budget and Fiscal Management Committee on the Executive's Proposed 2023 Sewer Rate and Capacity Charge
June	Budget and Fiscal Management Committee makes a recommendation on the Executive's Proposed 2023 Sewer Rate and Capacity Charge
	Public hearing and action on the Executive's Proposed 2023 Sewer Rate and Capacity Charge by King County Council

2022-2031 Adopted Sewer Rate Plan

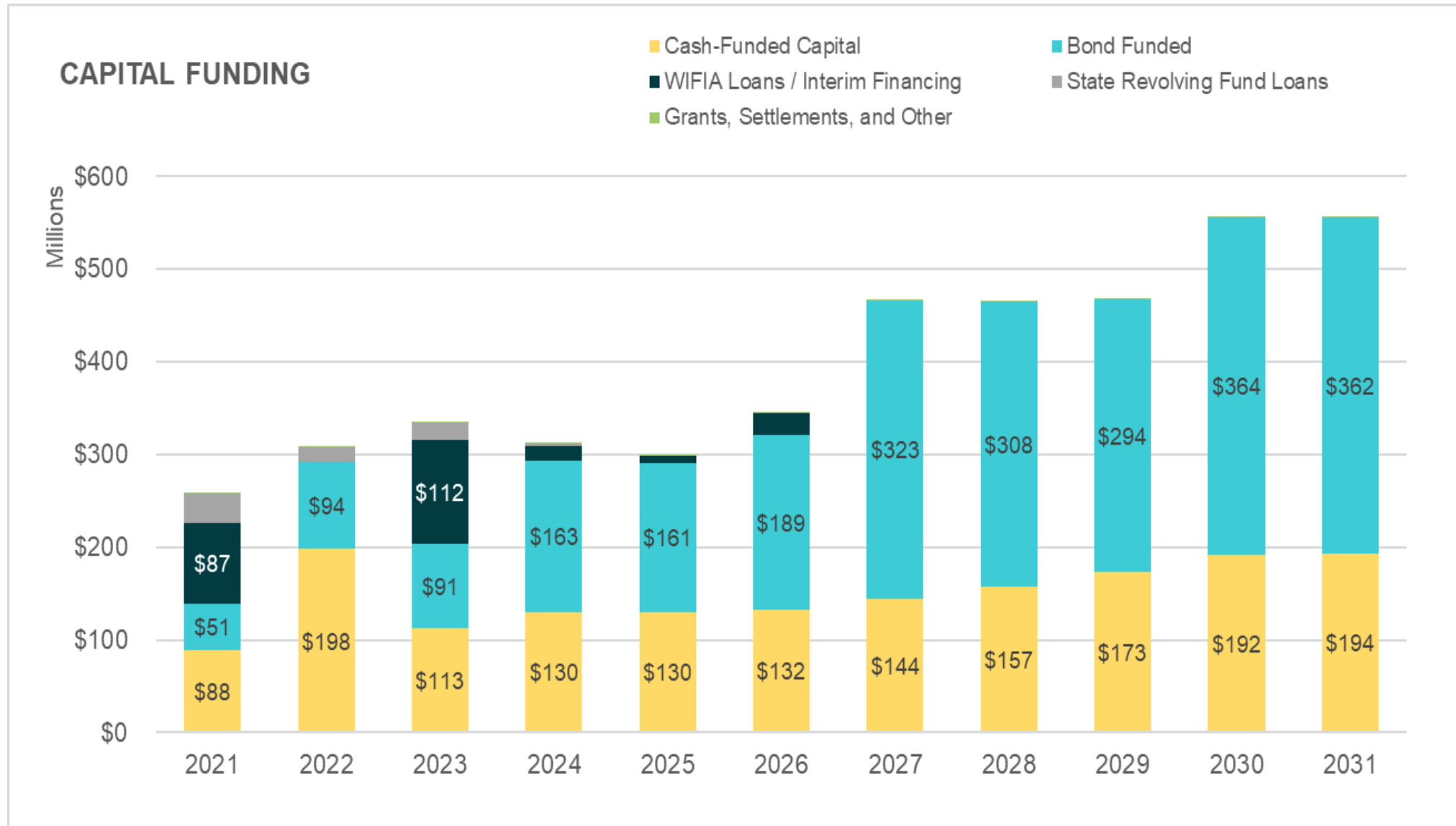
- Responded to feedback from RWQC, MWPAAC, Sound Cities Association, and local sewer agencies
- Annualized rate increases – smoother rate pattern and customer bill impacts
- Financial capacity to accelerate asset management projects, provided staffing capacity is available
- Funds a sharp increase to the capital program, including power reliability projects at West Point
- Provides net cash that can be used to refinance debt at lower interest rates

2022-2031 Rate Plan	Adopted 2020	Adopted 2021									
Adopted Rate Plan	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Rate Increase %	4.50%	4.00%	4.00%	4.00%	4.00%	5.00%	6.00%	6.00%	6.00%	6.00%	7.50%
Monthly Sewer Rate	\$47.37	\$49.27	\$51.25	\$53.30	\$55.44	\$58.22	\$61.72	\$65.43	\$69.36	\$73.53	\$79.05
Rate Increase \$	\$2.04	\$1.90	\$1.98	\$2.05	\$2.14	\$2.78	\$3.50	\$3.71	\$3.93	\$4.17	\$5.52
All-In Debt Service Coverage	1.55x	1.44x	1.48x	1.46x	1.45x	1.47x	1.48x	1.50x	1.53x	1.48x	1.53x

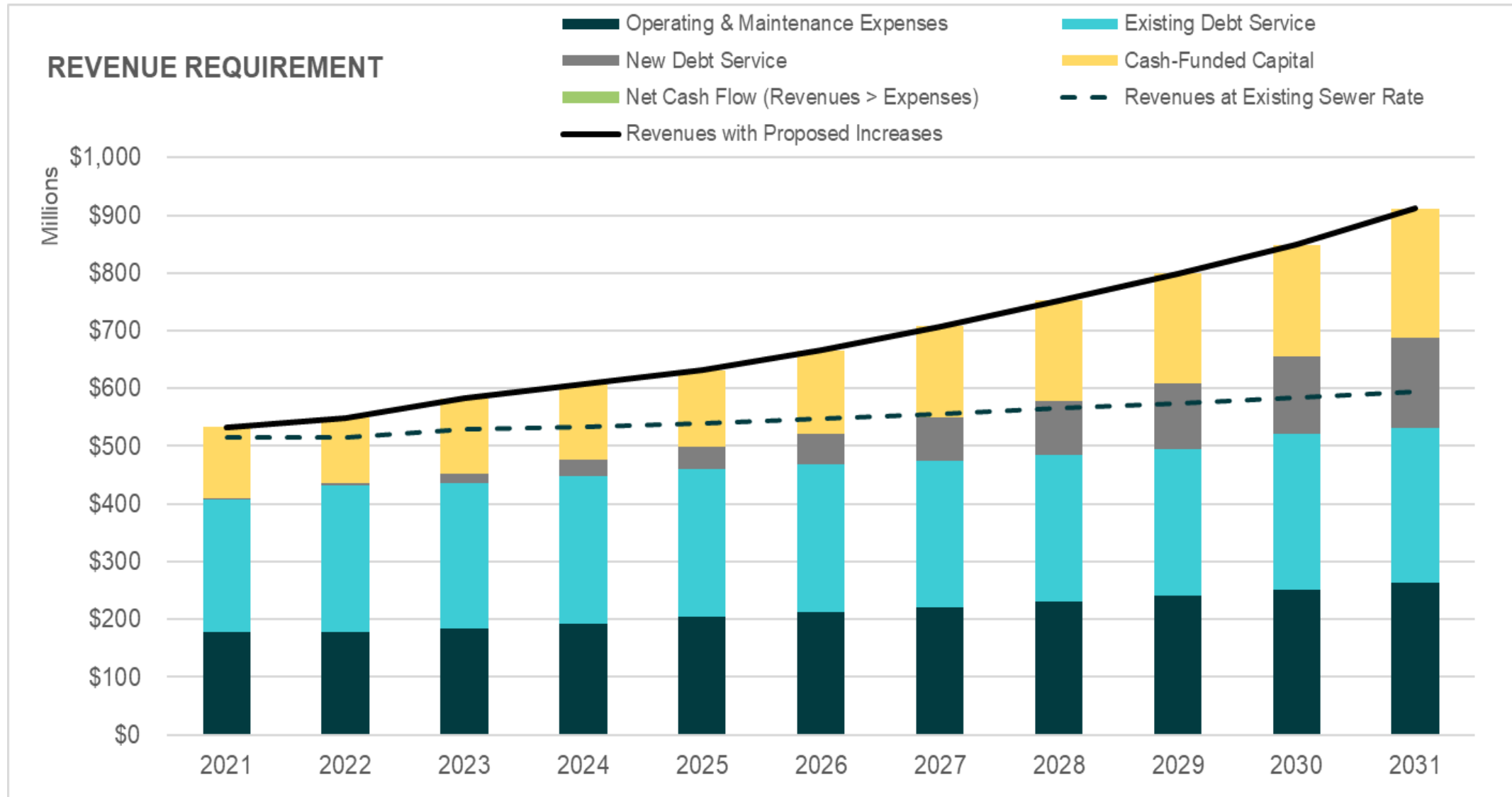
Capital Plan – Adopted 2022-2031 Sewer Rate Plan



Capital Funding – Adopted 2022-2031 Sewer Rate Plan



Sewer Rate Revenue Requirement (Adopted 2022-2031)



Summary of Changes to 2022-2032 Baseline

Economic Conditions:

- Record high inflation
- Supply chain disruptions
- Labor supply shortage and cost increases

Regulatory:

- General Nutrient Permit finalized December 2021
- Project milestones nearing, more costs to be included in rate plan period

Emerging Capital Projects:

- Newly identified priority asset management projects
- Further development of West Point Power Quality project approach and costs

New Operating Costs

Adopted as
Part of 2022
Sewer Rate


- 1) Asset Management Strike Team (12 FTEs - \$500,000 annualized): Catch-up on unfunded critical asset management projects, funding for which was contemplated for 2021 rate process but was deferred due to COVID-19 pandemic.
- 2) Long-Term Lease for Jameson and ArcWeld Building Employees (\$827,568 per year): Original plan was to replace the buildings but a viable lease opportunity was identified.



Additions for
2023

1) Asset Management Strike Team (1 FTEs - \$9,300 annualized): During the 2022 sewer rate process WTD indicated a 13th FTE will be proposed in the 2023 sewer rate process. A decision package for one (1) project control engineer has been submitted by the Project Planning and Delivery section.


2) Long-Term Lease for Jameson and ArcWeld Building Employees (\$550,000 for 9 months in 2023): Additional budget needed based on lease agreement. Assumed occupancy effective April of 2023.



General
Wage
Increases
(2021-2024)

A tentative agreement on a four-year Coalition Labor Agreement (CLA) includes the following general wage increases:

- 2021 – 1.5% (to be applied retroactively)
- 2022 – 3.0%
- 2023 – 3.0%
- 2024 – 3.0%



Central Rate Increases

Four central rates will be increased above planned levels beginning 2022:

- Risk (Insurance)
- Finance and Business Operations Division
- King County Information Technology
- General Fund Overhead

Increases are driven by multiple factors including changes in the insurance market, restoration of cuts, higher demand, and inflationary pressures.

New Capital Costs

Regulatory Key Assumptions

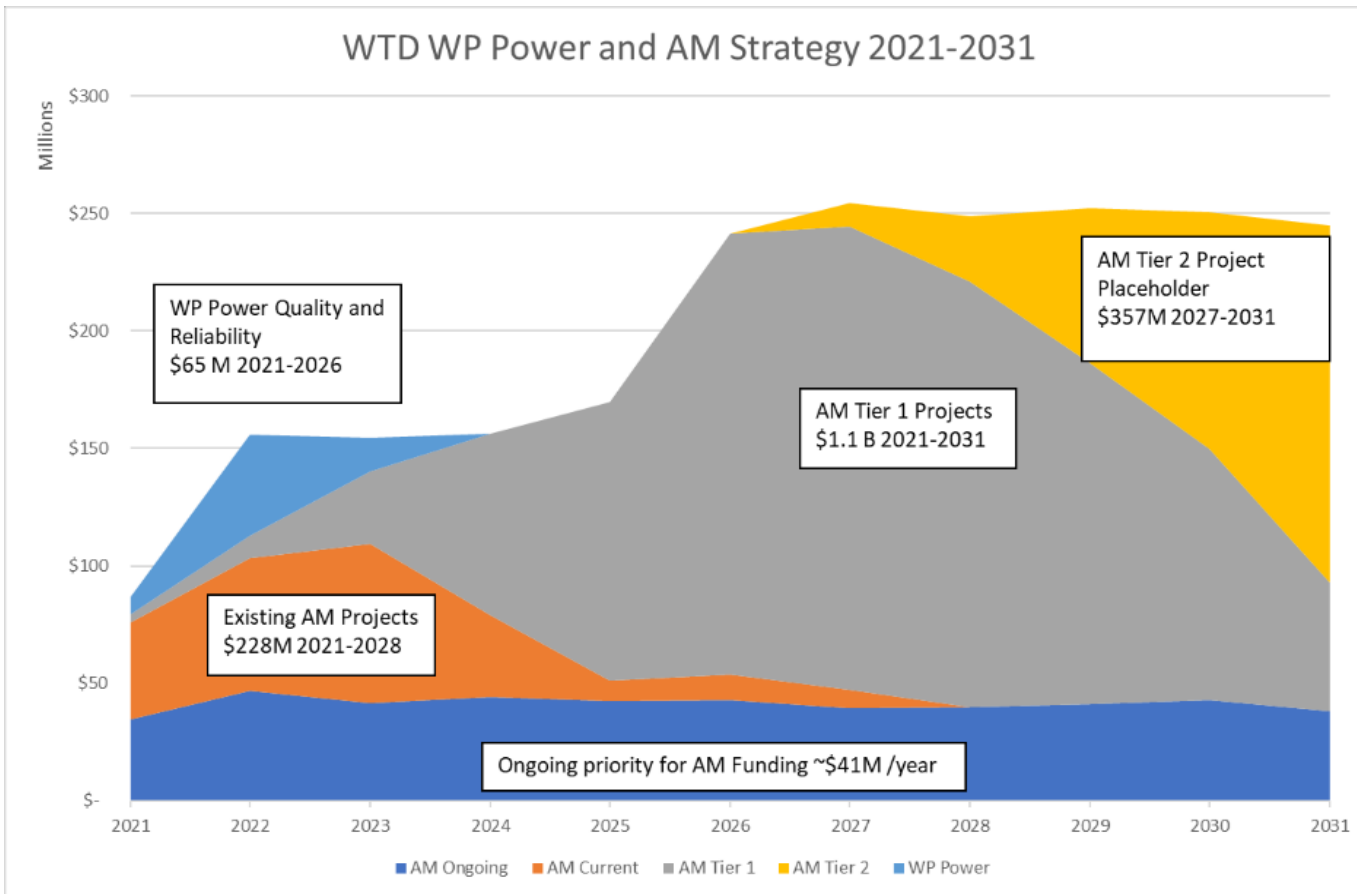
2022 Sewer Rate Plan Key Assumptions

- Nutrient Removal: No costs were included due to speculative nature at the time of forecast.
- CSOs: Assumed modification of the existing consent decree to a 2040 completion and included 11% of the total remaining estimated CSO costs (\$486 million) in the first decade, with the remaining 89% included in the second decade (\$3.75 billion).

2023-2032 Key Assumptions

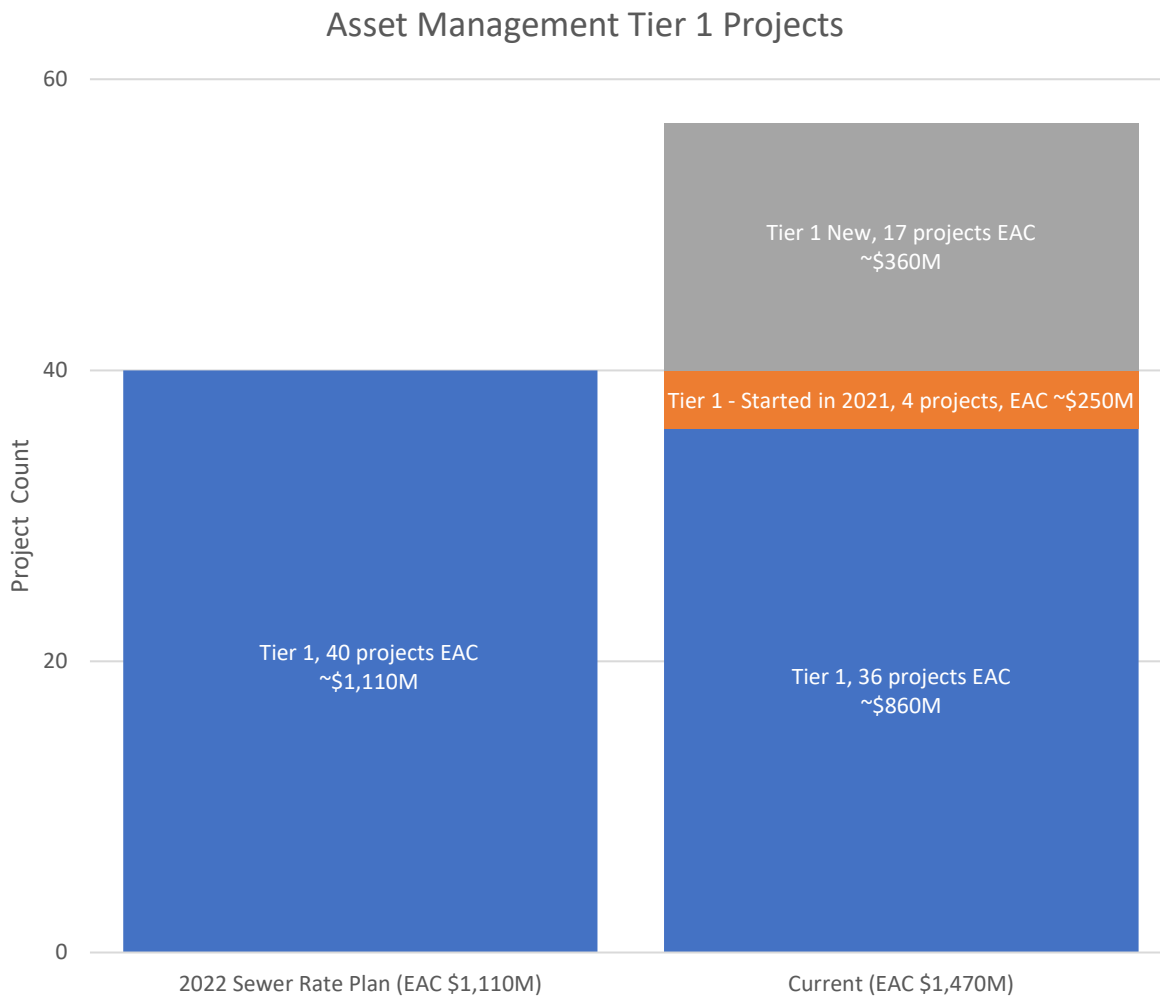
- Nutrient Removal: Final Puget Sound Nutrients General Permit has been issued, near-term compliance cost to be included.
- CSOs: Still will assume modification of the consent decree but will reflect a more conservative approach by moving forecasted expenditures up into the 2023-2032 timeframe.

Asset Management Inventory – Key Assumptions



- 2022 Sewer Rate proposal assumed initiation of Tier 1 Asset Management projects in 2022 with a target completion date of 2033.
- Tier 1 projects are defined as:
 - Poor condition, unserviceable, or for which spare parts cannot be found.
 - Asset not meeting all the functions it was intended to do or is currently at risk of having a catastrophic failure due to the condition or does not have spare parts available and is in an area where failure would have unacceptable consequences.
 - Consequences of failure include sewage overflows, other operating permit violations, or would disrupt operations in a way that there would be no easy workarounds.

Asset Management Inventory – Key Assumptions



- Updated project request inventory and completed prioritization in September 2021.
- 17 new project requests scored in the Tier 1 range.
- 4 projects were moved into project delivery in 2021.
- EAC = “Estimate at Completion”, or the total conceptual costs of the conceptual projects in the inventory. Estimates are very high level, with broad expected cost accuracy ranges (-50% to +400%).

West Point Power Quality Improvements - Key Assumptions

- February 2022 pre-planning concept was based on the expansion of the existing Co-Generation system with an expected cost accuracy range of -50% to +400%.
- \$62M was allocated for the project in the 2022 Sewer Rate Plan.
- Since the rate plan was adopted, the project has quickly progressed through planning and preliminary design.
- 2023 Sewer Rate Plan will have a revised allocation based on the current cost estimate, that is still in development, of approximately \$160M.
- This is based on the baseline design concept of an Uninterruptible Power Supply and has an expected cost accuracy range of -20% to +30%.

West Point Power Quality Improvements - Key Assumptions

- Co-Generation Expansion concept assumed that system could be upsized within the existing building.
- In April 2021, after an alternatives analysis, an Uninterruptible Power Supply (UPS) solution was selected as the most effective and reliable technology to fulfill the project objective.
- The UPS solution requires the demolition of an existing building and construction of a new one, construction will require complex demolition, significant underground utility work and an auger cast pile foundation.

Capacity Charge

A MWPAAC Capacity Charge Workgroup was engaged to review and provide feedback on a WTD capacity charge study with Raftelis Consultants:

- Three workgroup sessions in March, May, and July 2021
- Updated industry standard methodology alternatives presented
- Status and summary findings presented at the October 2021 MWPAAC Rates & Finance and MWPAAC General Meetings

Proposed Legislation transmitted to Council in 2021:

- Deferral of the capacity charge update calculation - requested to allow time to incorporate capital costs and system capacity data that emerge from a completed Clean Water Plan
- The proposed ordinance extends the capacity charge update until the rate transmittal following Council approval of the Clean Water Plan or 2024, whichever occurs earlier
- The annual three percent inflator will continue to be applied as is done in interim years between calculation updates

Next Steps before Executive Briefing & Proposal

WTD continues preliminary 2023-2032 Rate Plan policy discussions with Department of Natural Resources and Parks (DNRP) Director's Office and Office of Performance, Strategy and Budget (PSB)

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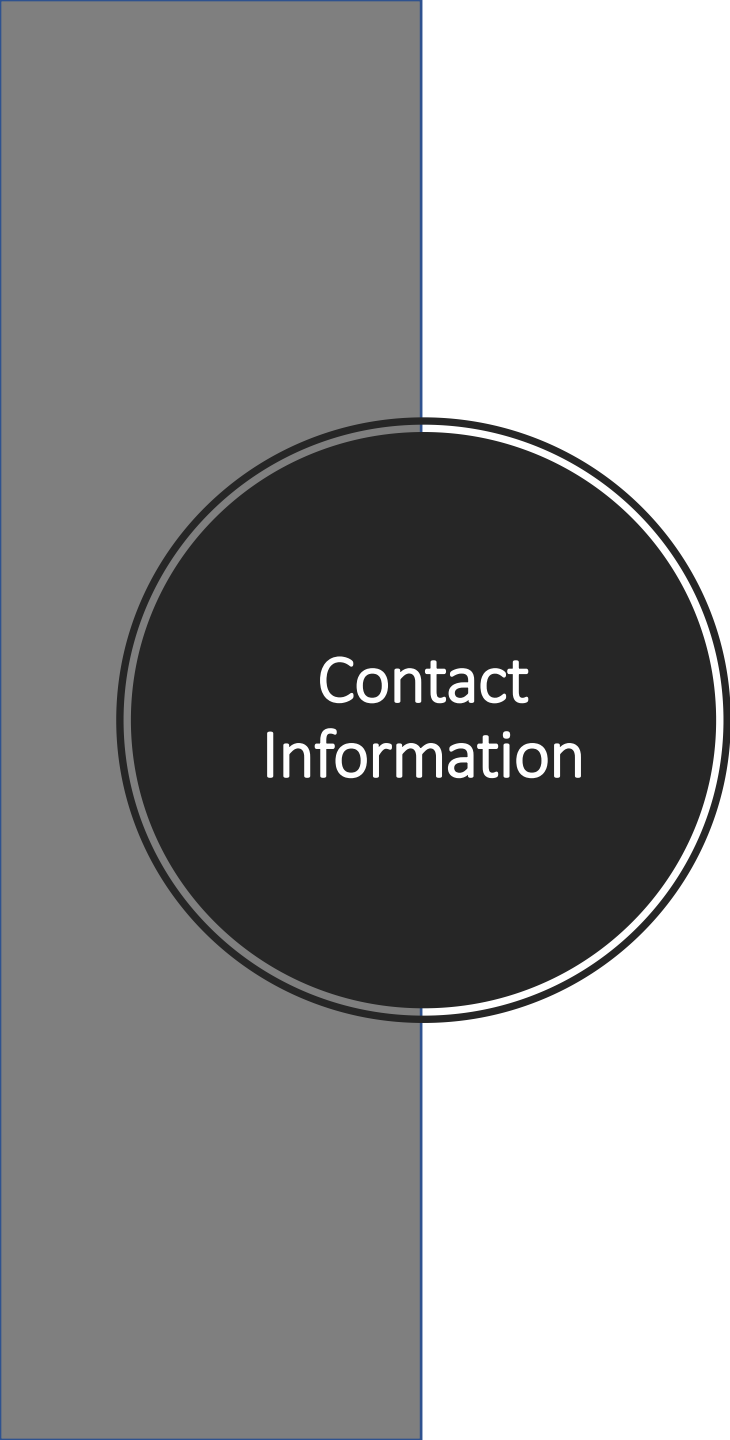
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