

March 7, 2019

**MWPAAC Rates and Finance Subcommittee
2020 Sewer Rate and Capacity Charge Proposal
Agenda**

- I. 2018 Performance Overview, assumptions and outlook – Dan Kaplan
- II. 2020 Sewer Rate Options – Dan Kaplan
- III. 2020 Capacity Charge and Affordability Program – Tom Lienesch
- IV. Next Steps – Hiedi Popochock

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**MWPAAC Rates and Finance Subcommittee
2020 Sewer Rate Proposal and Financial Plan**

Favorable variances

- Unaudited 2018 actuals were better than last year's projections.
 - \$11.1 million of additional capacity charge revenues.
 - \$ 5.3 million of additional other revenues (mostly RINs).
 - Operating expenses were \$12.5 million lower than projected.
- Cash transfers in support of the capital program were 47% of 2018 capital spending.
- Preliminary all-in debt service coverage in 2018 was 1.49x compared to 1.28x projected and 1.51x actual for 2017
- \$22.5 million West Point insurance settlement brought into the financial plan.
- \$ 6.7 million of other insurance settlements in 2018.
- \$27.2 million of new low-interest State Revolving Fund/Public Works loans will be drawn in 2019-2021.
- \$14.7 million of additional projected capacity charge revenues, 2019-2021.
- 2019-2020 debt issuance reduced by \$44.5 million.

Unfavorable variances and developments

- 2018 revenues from Municipal Customers were \$645,000 below projections; 2018 RCEs grew by 0.45% vs. 0.60% projected. SPU RCEs decreased by 0.36% in 2018.
- Current projected RCE growth for 2019 is 0.39%. 2020-2025 projected growth rates of 0.62% are unchanged from last year's financial plan.
- \$12.6 million reduction in revenues from Municipal Customers (2019-2025) due to lower than projected growth in 2018 and 2019.
- Impact of SPU audit is uncertain.
- \$9.3 million reduction in capacity charge revenues (2022-2025) as accelerated level of prepayments is expected to reduce future revenues.

**King County Wastewater Treatment Division
Summary of Sewer Rate Options**

	2019	2020	2021	2022	2023	2024	2025
2019 Sewer Rate (June 2018)							
Rate	\$45.33	\$45.33	\$47.37	\$47.37	\$48.45	\$49.56	\$52.17
% Increase	2.5%	0.0%	4.5%	0.0%	2.3%	2.3%	5.3%
Rate Stabilization Fund (RSF) (\$s in millions)							
RSF Deposits (Draws)	\$ -	\$ -	\$ -	\$ (14.40)	\$ (19.85)	\$ -	\$ -
RSF Balances	\$ 46.25	\$ 46.25	\$ 46.25	\$ 31.85	\$ 12.00	\$ 12.00	\$ 12.00
Cash Financing Average	40% *						

2020 Sewer Rate Alternatives

A) No Change in Rates in 2021 & 2022; Biennium rates for 2023 & 2025; No withdrawals from RSF

Rate	\$45.33	\$45.33	\$47.37	\$47.37	\$49.50	\$49.50	\$51.90
% Increase	2.5%	0.0%	4.5%	0.0%	4.5%	0.0%	4.8%
Change from June 2018	\$ -	\$ -	\$ -	\$ -	\$ 1.05	\$ (0.06)	\$ (0.27)
RSF Deposits (Draws)							
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
RSF Balances							
	\$ 46.25	\$ 46.25	\$ 46.25	\$ 46.25	\$ 46.25	\$ 46.25	\$ 46.25
Cash Financing Average	40%						

B) Lower Biennium Rates; Reduced withdrawals from RSF

Rate	\$45.33	\$45.33	\$ 47.14	\$ 47.14	\$ 49.04	\$ 49.04	\$ 51.90
% Increase	2.5%	0.0%	4.0%	0.0%	4.0%	0.0%	5.8%
Change from June 2018	\$ -	\$ -	\$ (0.23)	\$ (0.23)	\$ 0.59	\$ (0.52)	\$ (0.27)
RSF Deposits (Draws)							
	\$ -	\$ -	\$ -	\$ -	\$ (4.00)	\$ (4.00)	\$ -
RSF Balances							
	\$ 46.25	\$ 46.25	\$ 46.25	\$ 46.25	\$ 42.25	\$ 38.25	\$ 38.25
Cash Financing Average	40%						

* 47 percent if Brightwater settlement included.

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Wastewater Treatment Division 2020 Capacity Charge Proposal Considerations

The 2020 Capacity Charge is the three-year comprehensive review of the charge, representing an update of the underlying projections since the 2017 capacity charge proposal in 2016. The 2017 capacity charge rate of \$60.80 was a 3.6% increase from the 2016 rate; with 3% rate increases in 2018 and 2019. The capacity charge rate for 2019 is \$64.50.

Context

The capacity charge is calculated to increase at a 3% annual rate through 2030 with “true-ups” (actuals replacing projections) every three years. The highlights of this update are the actual results through 2018, which in 2016, only projections were available:

Based on 2015 to 2018 actuals

- Total capital spending was approximately \$36 million less than projected
- Capacity charge revenues were approximately \$25 million more than projected
- Capacity charge new connections were approximately 3,500 more than projected
- Overall debt costs were significantly reduced due to refundings and non-market rate financing.

The extraordinary growth of the last several years affects the capacity charge in a somewhat unbalanced way

- Revenues from the new connections are being realized
- The cost side has not yet been fully developed.
 - Operating cost increases are identified and included
 - Long-run capital project forecasts reflecting additional capacity have yet to be developed

As such, the base capacity charge proposal will likely show a less than 3% increase.

Affordability

WTD’s affordability initiatives for the capacity charge are estimated to result in an annual revenue reduction of approximately \$2.25 million. The capacity charge proposal will include an additional charge of \$.50 per month to recover these revenues for the first 3 years. During this time, alternative means of funding will be investigated. With the additional charge the most likely range still centers on a 3% increase.

Proposed 2020 Capacity Charge Range

Base Rate	Base Change	Affordability¹	Change
\$64.50	- - -	\$65.00	0.8%
\$65.15	1.0%	\$65.65	1.8%
\$65.47	1.5%	\$65.97	2.3%
\$65.79	2.0%	\$66.29	2.8%
\$65.95	2.3%	\$66.45	3.0%
\$66.11	2.5%	\$66.61	3.3%
\$66.27	2.8%	\$66.77	3.5%
\$66.44	3.0%	\$66.94	3.8%

¹assumes additional \$.50 for affordability