1. **Capacity Charge Affordability Q&A**
   Presenter: Alison Saperstein, Program Manager – King County WTD

Alison gave a brief presentation on the status of the affordability project and next steps in the process:

- WTD received (and appreciates!) input from several local sewerage agencies.

- Next steps include seeking additional agency feedback, implementation of the program, possibly using one or more FTEs to administer, and development of an interim and long-term solution for logging and tracking eligible housing/projects.

After her presentation, Alison handed out a lengthy list of questions from component agencies and WTD’s answers. That document is attached to this summary.

**The next Rates and Finance Subcommittee meeting will be held on August 1, 2019. Please attend!**

**Questions?**
Jack Broyles, Jr., Rates & Finance Subcommittee Chair
Woodinville Water District
jbroyles@woodinvillewater.com 425.487.4106

Gregg Cato, Rates & Finance Subcommittee Vice-Chair
Alderwood Water & Wastewater District
GCato@awwd.com 425.741.7955
Responses to Questions regarding Capacity Charge Affordability Funding Post 2022

1. What other sources of revenue were considered in addition to sewer rate and capacity charge?

WTD considered a bill round-up option to collect voluntary contributions from capacity charge customers. Because each contribution typically is less than a dollar regardless of the size or frequency of the bill, round-up programs are more effective when billings are relatively frequent and small. In contrast, capacity charge bills are infrequent (quarterly) and higher than the typical monthly sewer bill. Since the expected benefit from this funding source would be low and the administrative burden would likely be high, this option is not recommended at this time.

2. Are additional administrative costs included in the estimates?

No additional administrative costs are expected for 2019. WTD is still analyzing future administrative costs related to outreach and administration of increasing enrollment.

3. Would the revenue from the incremental increase in the capacity charge go into a separate fund that is dedicated to offset the discounts? Or will it go toward general revenue requirements?

Revenue collected from the capacity charge, including the incremental increase, will go toward WTD’s revenue requirements. Capacity charge and sewer rate revenues cannot be directed to the General Fund.

4. How does the use of the capacity charge funds align with the idea of growth paying for growth?

The proposal included with the 2020 Sewer Rate maintains the concept of assigning growth-related costs (e.g., foregone revenue from capacity charge customers) to the capacity charge, as established in existing policies.

5. What is the basis for the qualifications for the low income rate classification (e.g. are these state or federal requirements)?

While funding sources for affordable housing often use their own thresholds and calculation methods to determine eligibility, the language of the proposed ordinance mirrors the most common maximum allowable income and price to be considered for affordable housing subsidies: 80 percent of area median income and 35 percent of gross income. For many projects, the criteria are even more stringent, frequently aimed at creating housing that is affordable to households with incomes at 30, 50, or 60 percent of median.

6. What is the verification process to determine if a property owner qualifies for the reduced rate?

The owner or operator must provide documentation to WTD, including the covenant language and back-up information about the project, to demonstrate that the property meets the criteria required in Code.
Responses to Questions regarding Capacity Charge Affordability Funding Post 2022

7. What is the oversight to ensure that a unit continues to meet the qualifications?

To qualify as low income housing, a structure must be bound by a legally enforceable covenant to maintain the qualifications for income, rent, and minimum percentage units restricted for a minimum of forty years. The covenant must name a government authority that is responsible for regularly monitoring and enforcing of the covenant. Typically, these projects use state and/or federal funding sources and must meet eligibility requirements or risk losing funding. If the property no longer meets WTD’s criteria for low income housing, WTD would calculate the number of residential customer equivalents for the market-rate housing of the appropriate type of structure (single detached or multifamily) and would collect the incremental difference due for all payments from the time of disqualification until paid off.

8. What is the reference geography for the median income threshold (state, county, or other)?

The reference geography is the county in which the structure is located.

9. Should this be a regional responsibility or should local governments be responsible for supporting low income housing?

King County’s Equity and Social Justice Plan (2016-2022) calls for an assessment of fees and rates to identify opportunities to create a more equitable structure. WTD views the affordability study and resulting recommendations as consistent with the plan’s direction.

10. If a developer gets a benefit from the reduced capacity charge, are they obligated to return a benefit to the community?

Low income units qualifying for the capacity charge discount are required to be rent-restricted. Detached single-family homes qualifying for the discount must remain affordable under criteria outlined in the proposed ordinance. Note that the organizations building these structures are typically mission-driven, non-profit organizations created and funded for the purpose of providing housing for low income households or people experiencing homelessness.

11. Are funds available only within King County or also other areas (Snohomish County)?

The proposed changes in definitions and criteria would apply equally across WTD’s service area for any new connections subject to the capacity charge, including those portions of Snohomish County and Pierce County served by WTD.

12. Are property owners/developers precluded from passing the capacity charge costs to renters after receiving a discount on the charge?

Low-income, renter-occupied must be rent-restricted to qualify for the discount.
13. What is the statutory authority WTD relies on for this program?

RCW 36.94.140 allows for the establishment of customer classifications and sets forth the factors which may be considered by the County in establishing rate classes, including providing assistance for low-income persons and the nonprofit public benefit status of the land user.

14. Table showing how rate impact changes over time, what revenue is being collected over time, and projected costs over time.

The following illustrates the revenue impacts of the proposed changes to how the capacity charge is assessed for low income, special purpose, and shelter housing. Additionally, it shows how these revenue impacts could be addressed through adjustments to either the capacity charge or the monthly sewer rate. Numbers are based on approximate projections to demonstrate the timing of revenues associated with the options under consideration.

The value of the discounts grow by three percent annually to reflect the assumption that the capacity charge will increase at that rate through 2030. In this way, the number of housing units qualifying for the discounted rate classes remains constant throughout the time period. The green highlighted present values demonstrate how the expected total revenue impact of the first three years of the changes would be offset through capacity charge revenues collected from the customers connecting between 2020 and 2030. The gold boxes in 2021 show the expected revenue impacts could be offset by the monthly sewer rate in the year they occur.

**PV = Present value in 2019. CC = capacity charge. SR = sewer rate.**

<table>
<thead>
<tr>
<th>Discounts:</th>
<th>Year</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
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<th>2028</th>
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<tr>
<td>Value of discounts to qualified housing ($)</td>
<td>2,250,000</td>
<td>2,317,500</td>
<td>2,387,025</td>
<td>2,458,636</td>
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<td>2,686,618</td>
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<td>PV of cumulative discounts, 2020-2023 ($)</td>
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<table>
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<tr>
<th>Capacity Charge Adjustment:</th>
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<td>Proposed capacity charge (CC) adjustment ($)</td>
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<td>Revenue from CC adjustment ($)</td>
<td>323,730</td>
<td>377,730</td>
<td>431,730</td>
<td>485,730</td>
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<td>593,730</td>
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<td>PV cumulative revenue from CC adjustment ($)</td>
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<td>Alternative SR adjustment ($)</td>
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<td>0.29</td>
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<tr>
<td>Revenue from SR adjustment ($)</td>
<td>2,317,500</td>
<td>2,387,025</td>
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