

2021 Rate-Setting Rate Plan Strategy

King County Wastewater Treatment
MWPAAC Rates & Finance

October 1, 2020

2021 Rate-Setting	Topic
August 6	Capital Funding Analysis
September 3	Operating Forecast
October 1	Rate Plan Strategy
November 5	COVID-19 Revenue Impact Estimates & Reserves Management
December 3	TBD

Agenda

Forecasting Risks

A Growing Capital Program

Asset Management Strategy

Debt Portfolio Strategy

Rate Plan Strategy

The Cloudy Crystal Ball – Forecasting Risk

- Interest rates
- Inflation: capital labor, energy markets, raw materials
- New or changing regulatory pressures
- Customer base: commercial recovery, conservation
- Natural disasters and pandemics



Annual rate plan review allows for calibration to both abrupt and evolving financial impacts

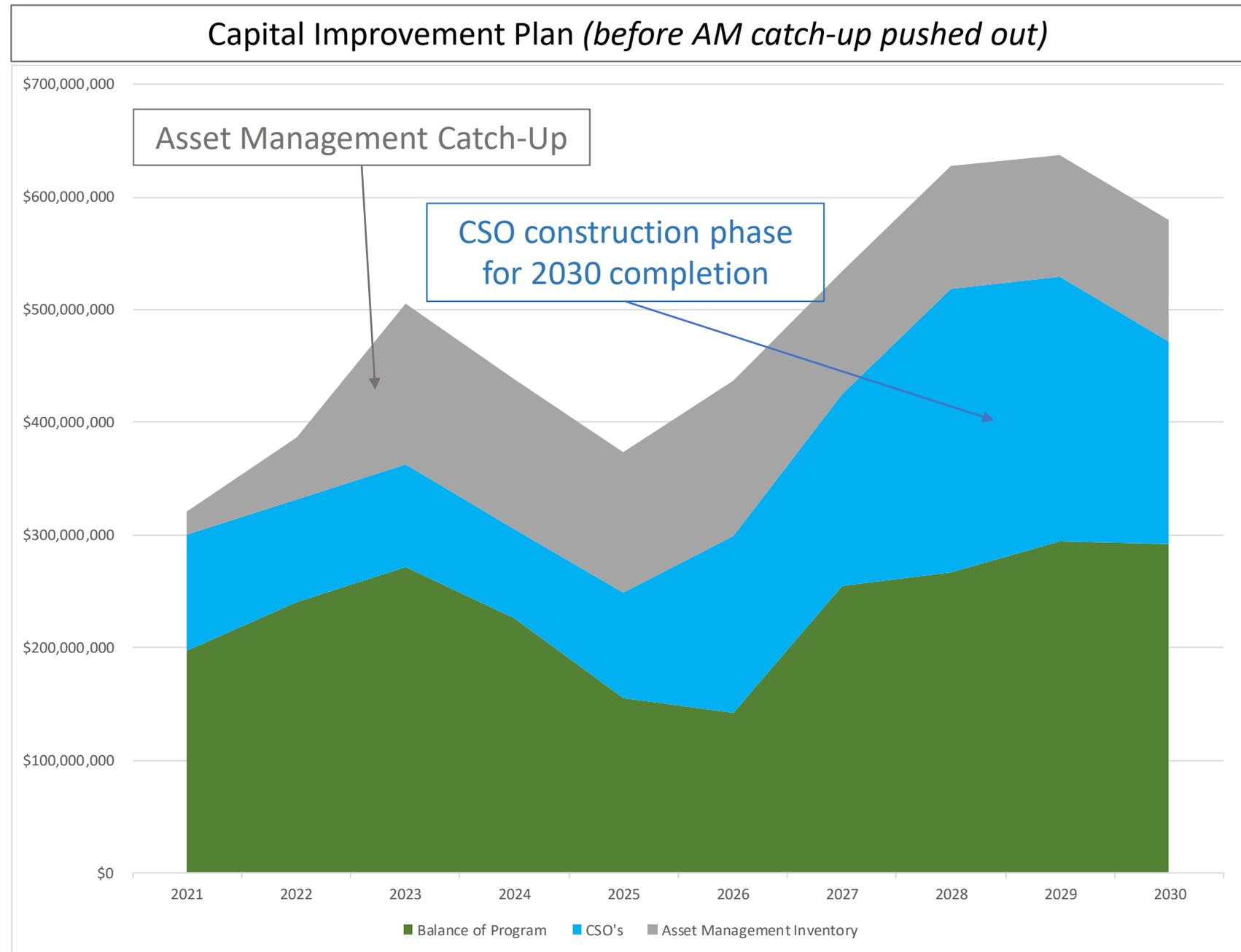
Rate Strategy Charts

Charts and tables in this presentation are sourced from various stages of 2021 rate strategy development.

The illustrated concept remains valid even if the data behind the chart is from a phase before the final adopted rate plan.

Growing Asset Management & CSO Costs

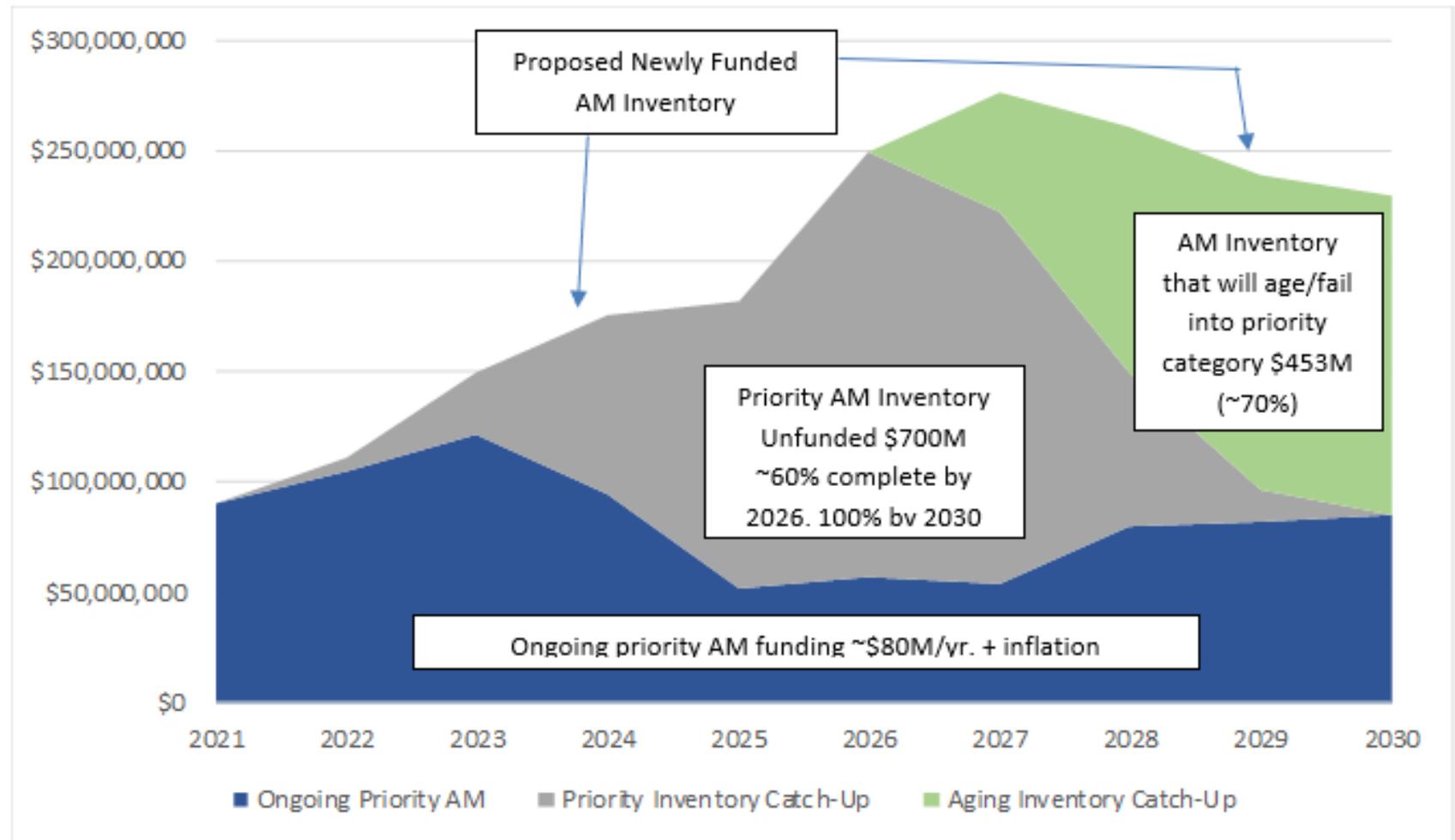
The rate plan and budget proposal do not incorporate funding toward increased nutrient removal regulation or revised CSO cost estimates.



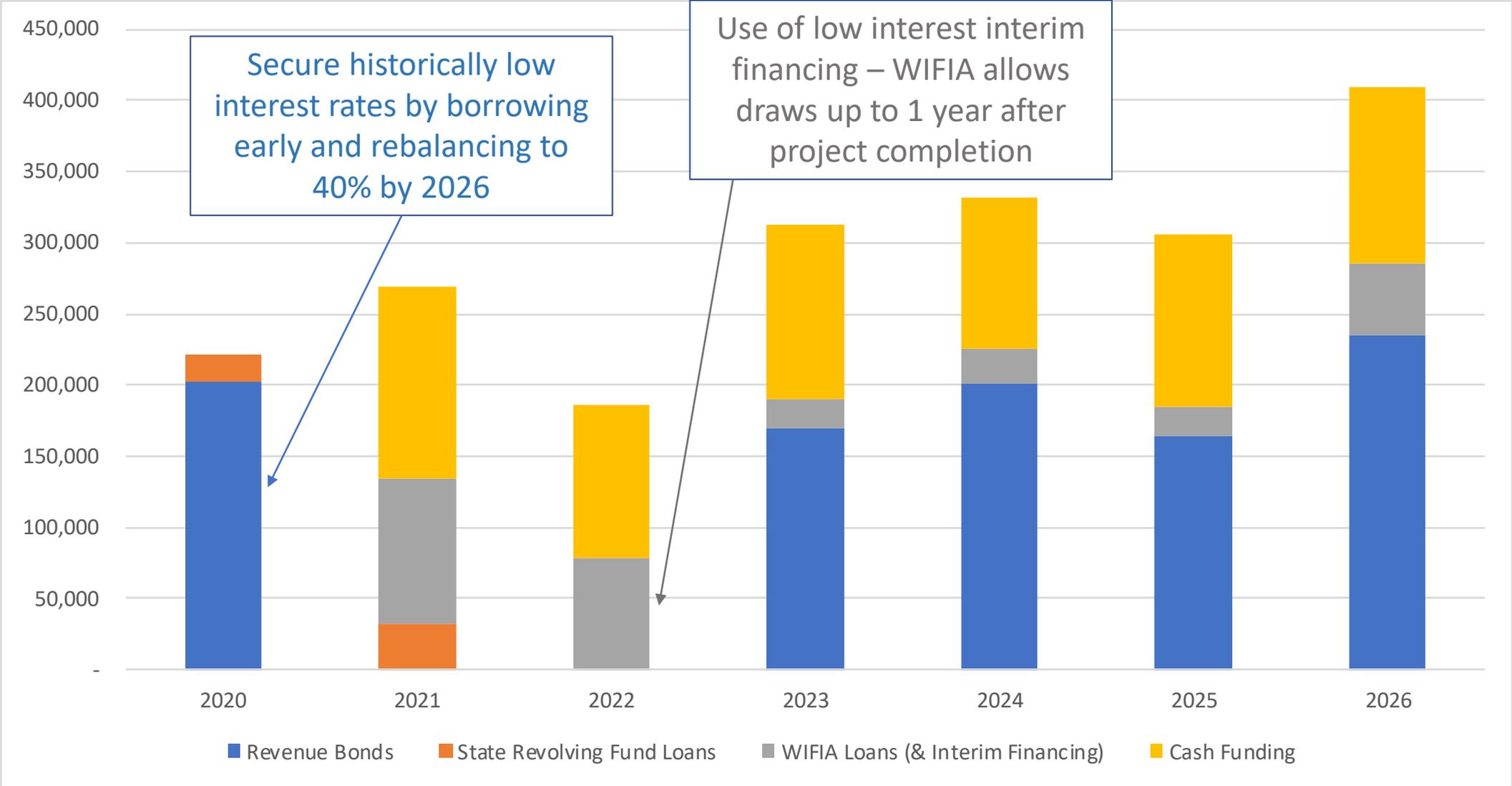
Drill Down - Asset Management Strategy

- Growing asset management focus and portfolio implementation resulted in better understanding of aging infrastructure
- Risk/priority ranking and early cost estimates were developed
- The initial target was completion of \$700m of unfunded priority projects by 2026
- Timeline and construction phase peak need to allow time to build staffing resources to deliver the larger program (not only AM growing in this period)

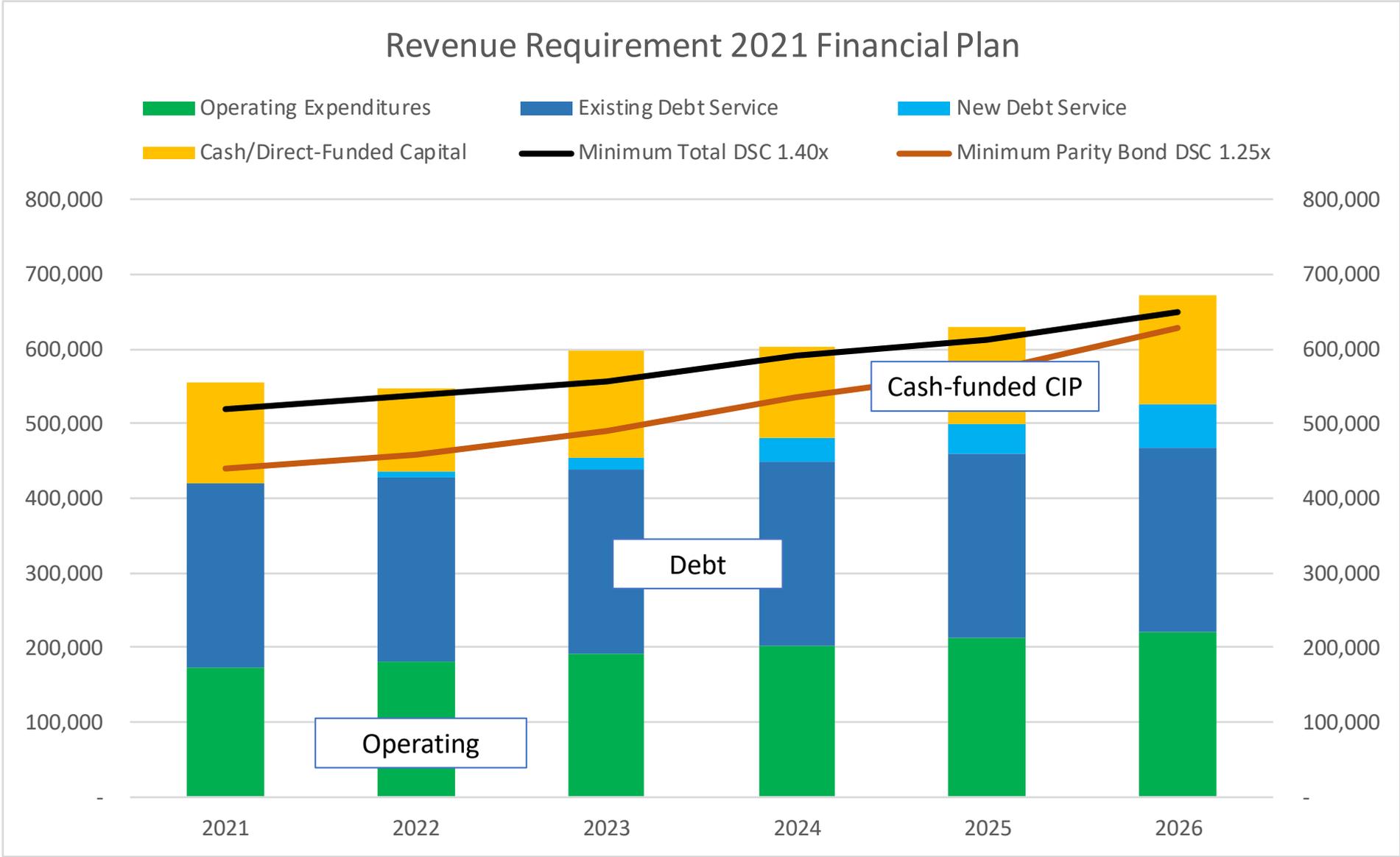
Table 4-5 Asset Management (AM) Investment Priority Strategy – 10-Year Plan



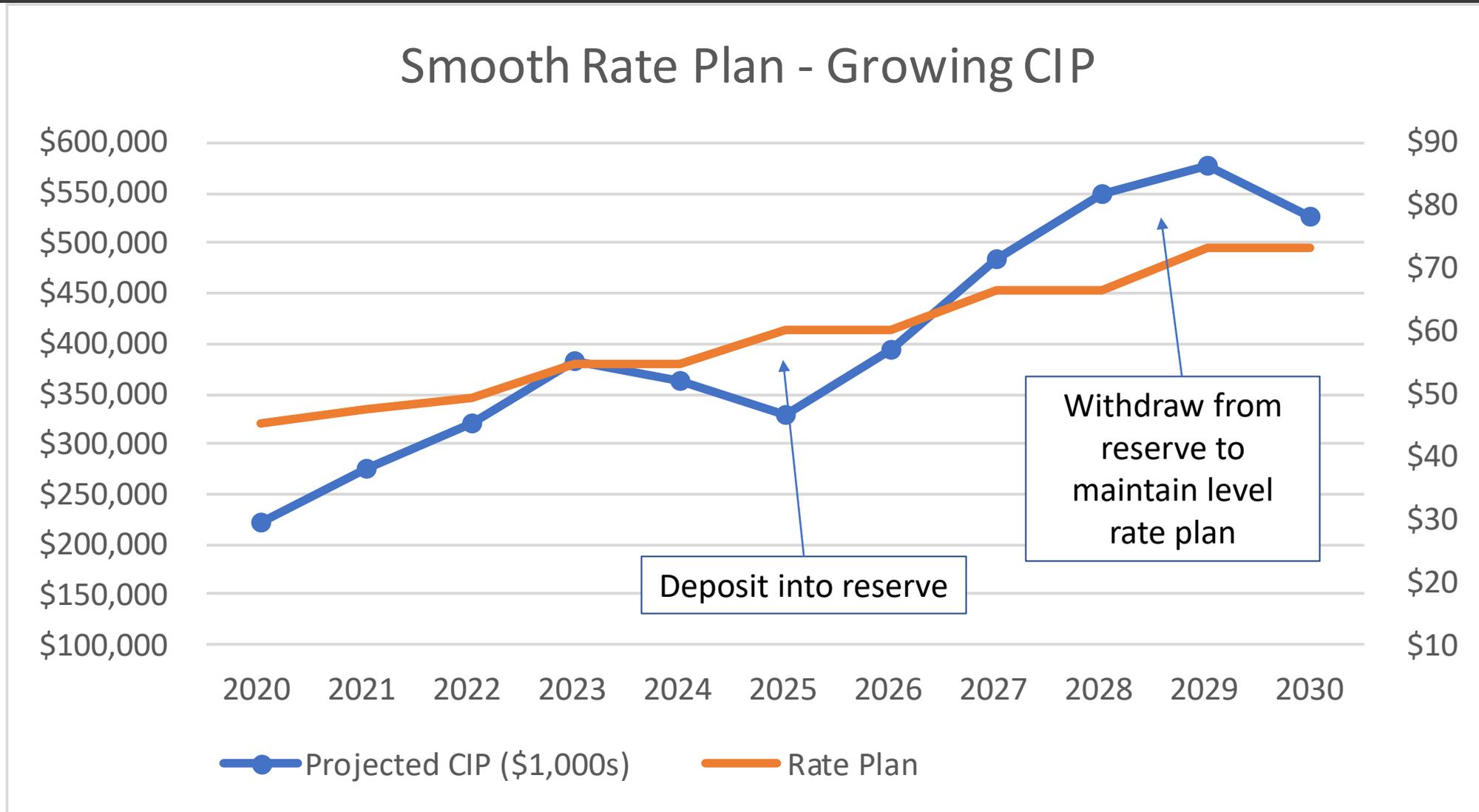
Capital Funding – Debt Strategy



RECAP:
Revenue
Requirement
Components



Rate Strategy – Use of Reserves to Allow Level Rate Increases through a Steep CIP Slope



Rate increases and CIP are not 1:1 relationship – combined on chart to illustrate the concept

Alternative Rate Plan Approaches

Two samples - many ways to reshape

Adoped Rate Plan	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase	4.50%	0.00%	10.25%	0.00%	10.25%	0.00%	14.00%	0.00%	14.00%	0.00%
Cumulative	4.50%	4.50%	15.21%	15.21%	27.02%	27.02%	44.80%	44.80%	65.08%	65.08%
Sewer Rate	\$47.37	\$47.37	\$52.23	\$52.23	\$57.58	\$57.58	\$65.64	\$65.64	\$74.83	\$74.83
New Revenue Total Over Time	\$ 18,904	\$ 18,904	\$ 64,365	\$ 64,365	\$ 115,010	\$ 115,010	\$ 192,068	\$ 192,068	\$ 280,830	\$ 280,830
Total Debt Service Coverage	1.52	1.45	1.57	1.48	1.61	1.53	1.69	1.58	1.73	1.62
Two-Year Level Increases	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase	4.50%	0.00%	12.00%	0.00%	12.00%	0.00%	12.00%	0.00%	12.50%	0.00%
Cumulative	4.50%	4.50%	17.04%	17.04%	31.09%	31.09%	46.82%	46.82%	65.17%	65.17%
Sewer Rate	\$47.37	\$47.37	\$53.05	\$53.05	\$59.42	\$59.42	\$66.55	\$66.55	\$74.87	\$74.87
New Revenue Total Over Time	\$ 18,904	\$ 18,904	\$ 72,127	\$ 72,127	\$ 132,359	\$ 132,359	\$ 200,523	\$ 200,523	\$ 280,876	\$ 280,876
Total Debt Service Coverage	1.52	1.45	1.60	1.51	1.67	1.58	1.72	1.60	1.73	1.62
Level Annual Increases	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase	4.50%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.00%
Cumulative	4.50%	9.99%	15.76%	21.84%	28.23%	34.97%	42.05%	49.51%	57.36%	65.23%
Sewer Rate	\$47.37	\$49.86	\$52.47	\$55.23	\$58.13	\$61.18	\$64.39	\$67.77	\$71.33	\$74.90
New Revenue Total Over Time	\$ 18,904	\$ 42,068	\$ 66,576	\$ 92,505	\$ 119,937	\$ 148,959	\$ 179,663	\$ 212,148	\$ 246,516	\$ 281,145
Total Debt Service Coverage	1.52	1.54	1.58	1.58	1.63	1.64	1.65	1.64	1.64	1.62

- The adopted rate plan represents minimum increases through 2026 to accomplish 40% cash-funding
- Alternatives are set to produce the same total revenue collection through 2030
- All rate plans characterized as “at least” based on the pending nutrient regulation and CSO cost estimates in progress

WTD Sewer Rate Process Timeline Summary - MWPAAC Input Opportunities

Rate Process Major Elements	2020					2021			
	August	September	October	November	December	January	February*	March	April
2021 Rate Proposal Legislation Transmitted to Council									
Budget Development - July 1 Submittal									
WTD/MWPAAC Engagement Sessions	Capital Funding Analysis	Operating Forecast	Rate Strategy	COVID-19 Estimates & Reserves	TBD				
Financial Plan Updates for COVID19 Impacts and Other Changing Financial Conditions									
Preliminary Draft Rate Plan Alternatives and Policy Development WTD/DNRP									
Project Manager Cost Projection Updates Based on Actuals									
Potential Early MWPAAC Briefing and Engagement on WTD Alternatives in Development									
Finalize Forecast + WTD/DNRP/Executive Team Review & Input									
Executive Review & Selection of Executive's Recommended Rate Proposal									
MWPAAC Feedback to Executive regarding Recommended Rate Proposal									
Draft Legislation Package Completed for Department and Executive Staff Review									
Executive Office's Review and Final Approval of Recommended Proposal									
2022 Rate Proposal Legislation Transmitted to Council									

*Highly compressed timeline preparing rate strategy alternatives and impact briefings in response to input from WTD & DNRP leadership and the Executive Team.

Next Steps

August 6

Capital Funding Analysis

September 3

Operating Forecast

October 1

Rate Plan Strategy

November 5

COVID-19 Revenue Impact Estimates & Reserves Management

December 3

TBD



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