



Metropolitan Water Pollution Abatement Advisory Committee

King Street Center, 201 South Jackson Street, MS KSC-NR-0512
Seattle, WA 98104 206-263-6070

MEMBERS:

*Alderwood Water and
Wastewater District*

City of Algona

City of Auburn

City of Bellevue

City of Black Diamond

City of Bothell

City of Brier

City of Carnation

Cedar River Water and Sewer District

Coal Creek Utility District

Cross Valley Water District

Highlands Sewer District

City of Issaquah

City of Kent

City of Kirkland

City of Lake Forest Park

Lakehaven Utility District

City of Mercer Island

Midway Sewer District

Northeast Sammamish Sewer District

Northshore Utility District

Olympic View Water and Sewer District

City of Pacific

City of Redmond

City of Renton

Ronald Wastewater District

*Sammamish Plateau Water and
Sewer District*

City of Seattle

Skyway Water and Sewer District

Soos Creek Water and Sewer District

Southwest Suburban Sewer District

City of Tukwila

Val Vue Sewer District

Vashon Sewer District

Woodinville Water District

March 14, 2008

The Honorable Ron Sims
King County Executive
Bank of America Tower
201 Fifth Avenue, Suite 3210
Seattle, WA 98104

SUBJECT: 2009 Wastewater Treatment Division Rate Recommendation

Dear Executive Sims:

Upon review of the Wastewater Treatment Division's 2009 wastewater treatment rate proposal options, the Metropolitan Water Pollution Abatement Advisory Committee would like to present our recommendations, as developed by our Finance Subcommittee. We would also like to thank the Department of Natural Resources staff for their assistance in providing timely information used in the development of our rate recommendation.

MWWPAAC recommends the following:

- 1) **One Year Rate.** MWWPAAC recommends a one year rate rather than a multi-year rate given future cost uncertainties such as fuel, chemicals, concrete prices, and the current highly volatile municipal bond market. If future prices vary significantly from what is in the rate assumptions, the County could either substantially undercollect or overcollect customer revenues. Adopting a one year rate would minimize that risk. It would also result in a lower 2009 rate increase, since with a multi-year rate; relatively more revenue would have to be collected in the first year in order to maintain a stable rate.
- 2) **Issue Interest Only and Zero Coupon Bonds.** WTD staff shared with us many different financing options, including the issuance of Interest Only and Zero Coupon bonds. We support their use, since they push some of the costs into the future to be borne by those customers for which Brightwater is being built. Currently, existing customers are subsidizing the construction of Brightwater in large part due to new customers having the availability of a 15-year payment option on the capacity charge. Additionally, it will be years before there are enough new customers on board to pay their fair share of Brightwater and other

major investments. Using interest-only, zero coupon, or capitalized interest financing could go a long way in eliminating this subsidy, while reducing near-term rate increases. Therefore, we recommend that the County issue **10%** of its total future debt using interest only financing and **25%** of the total debt using zero coupon or capitalized interest financing. We understand that the County's financial advisors are comfortable with the use of these instruments

3) Increase the amount of short-term debt from 15% of total debt to 20%. Since short-term debt is issued at a lower interest rate than long-term debt, cost savings are achieved. WTD staff have discussed this change with the County's financial advisors and they are comfortable with the approach. This, however, would require a change in the Regional Water Quality Committee's financial policies.

4) Revisit the Culver policy. The current policy allows up to 1.5% of the WTD's operating budget to be used for non-wastewater related programs and projects. As WTD's operating budget continues to increase over time (and will potentially increase dramatically once Brightwater is operational), that 1.5% becomes a much larger amount than is currently going towards non-wastewater related items. In order to help minimize the rate increase, we recommend eliminating the Culver funding, or at the very least, freezing the current dollar amount (\$1.5 million) as Brightwater and other large programs come online.

5) Require new connections to pay up front. Currently the County allows customers a 15-year payment option on the Capacity Charge. Customers, however, can choose to pay up front and receive a 5.5% reduction in their total capacity charge. Requiring new customers to pay up front would generate more revenue in the near term, thereby reducing sewer treatment rate increases. To address low income customers, the County could allow a 15-year payment option for those homeowners who qualify on an income basis. MWPAAC supports this requirement, although it would require a change in State law.

6) Re-open contract negotiations with the jurisdictions. MWPAAC is concerned that the County has moved away from depending on the contracts with individual jurisdictions to secure bond debt. The potential for a jurisdiction or jurisdictions to treat their own wastewater after their contracts expires is now a real possibility. This could result in the remaining jurisdictions having to pick up the stranded debt service left behind by jurisdictions leaving the system. Therefore, we are encouraging the County to begin serious contract negotiations with the jurisdictions.

7) Continue to heavily scrutinize the capital program. Given the significant rate increase pressure due to the construction of Brightwater, we strongly recommend that the County continually scrutinize its capital program to ensure that only projects that are absolutely necessary will be constructed in the next few years to help minimize rate increases.

8) Carefully review long-term rate impacts. Given the significant rate increases needed to fund Brightwater and future large projects, such as the expansion of the Renton Treatment facility, MWPAAC recommends that the County should also focus on what rates could look like over the

The Honorable Ron Sims

March 14, 2008

Page 3

next 20 to 30 years. For if the long term rate path yields huge rate spikes, the County should seriously re-evaluate its planned programs and projects.

MWPAAC appreciates the time and effort put forth by the Wastewater Treatment Division staff as part of our evaluation. In particular, we especially appreciate receiving the information in a timely manner enabling the Finance Subcommittee to conduct a thorough evaluation of the rate proposal options. It is our hope that you seriously consider our recommendations as we feel they are in the best interests of our ratepayers.

Sincerely,



Scott Thomasson
MWPAAC Chair