



King County

Ron Sims

King County Executive

701 Fifth Avenue, Suite 3210
Seattle, WA 98104

206-296-4040 Fax 206-296-0194

TTY Relay: 711

www.kingcounty.gov

April 21, 2008

Scott Thomasson

Chair, Metropolitan Water Pollution Abatement Advisory Committee

King Street Center

201 South Jackson Street

MS KSC-NR-0501

Seattle, WA 98104

Dear Mr. Thomasson:

Thank you for your March 14, 2008, letter on behalf of the Metropolitan Water Pollution Abatement Advisory Committee (MWPAAC), which provided recommendations on the Wastewater Treatment Division's (WTD's) 2009 sewer rate proposal.

After carefully considering MWPAAC's recommendations, I transmitted my 2009 sewer rate and capacity charge proposal to the King County Council on April 17, 2008. I will briefly explain how my proposal compares with MWPAAC's recommendations.

- 1) **One-year rate:** Due to the uncertainties in the economy and critical timing of the Brightwater project schedule and cost estimates, I agree with your recommendation for a one-year rate, which is incorporated into my proposal.
- 2) **Capital financing strategy:** Given the large amount of capital spending in 2008 through 2010, I considered several financing options that would provide rate stability including the two MWPACC recommended: interest only and zero coupon. Interest only, which we used in the past and will likely continue to use in the future, does not provide as much stability in rate increases over time as the option I selected, which is known as capitalized interest financing. This option will enable us to delay some of the financial impact of the new debt service until Brightwater is completed. Zero coupon bonds can provide stability in rate increase over time but they cost more in the long run. Capitalized interest provides the optimum middle ground of smoothing out the rate increases without significantly increasing the debt costs over time.

- 3) **Increase the amount of short-term debt from 15 percent of total debt to 20 percent:** I agree with this recommendation. This proposed change to the county's financial policies will be transmitted to the King County Council and the Regional Water Quality Committee (RWQC) for their review and approval in the near future.
- 4) **Revisit the Culver Policy:** Financial Policy 8 of the Regional Wastewater Services Plan, as amended September 25, 2006, required that I transmit to the County Council and RWQC a report on alternative methods of funding assistance for water quality improvements. I transmitted the required report in April 2007. Several recommendations regarding continued Culver funding were included for County Council and RWQC consideration. My rate proposal complies with the existing policy on Culver and I have no plans to revisit Culver policies in the foreseeable future unless the County Council and RWQC wish to do so.
- 5) **Require new connections to pay up front:** King County has adopted policies in support of up front payment of the capacity charge. The county will continue to evaluate prospects for achieving the changes in state law that would be necessary for the county to require up front payment. In the interim, WTD will continue efforts to make new homeowners aware of the current early payment option through its communications with homeowners, real estate brokers, and escrow companies.
- 6) **Re-open contract negotiations with the jurisdictions:** I am committed to successfully amending and extending contracts with member agencies on a timely basis. WTD has been in contract discussions with several agencies and will continue to make contract negotiations a priority.
- 7) **Continue to heavily scrutinize the capital program:** In the 2009 rate proposal, we have delayed or eliminated more than \$113 million in capital projects during the 2008–2012 timeframe. WTD will continue to review its capital program prior to submitting its annual rate and budget.
- 8) **Carefully review long-term rate impacts:** Rate stability has and will continue to be one of my highest priorities when proposing sewer rates. Towards that end, this rate proposal includes a five-year forecast that includes a financial plan that will enable us to keep annual rate impacts at eight to nine percent per year even during this time of significant capital investment.

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I want to thank you and the MWPAAC Finance Subcommittee for the efforts you made in reviewing and developing recommendations on my proposed 2009 sewer rate and capacity charge. I look forward to MWPAAC's continued engagement in the development of the county's annual sewer rates and capacity charges.

Sincerely,



Ron Sims

King County Executive

cc: MWPAAC Members
MWPAAC Finance Committee Members
Theresa Jennings, Director, Department of Natural Resources and Parks
(DNRP)
Christie True, Division Director, Wastewater Treatment Division, DNRP