



Metropolitan Water Pollution Abatement Advisory Committee

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Wastewater District*

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May 23, 2008

The Honorable Julia Patterson, Chair
The King County Council
King County Executive
Room 1200
C O U R T H O U S E

RE: 2009 Wastewater Treatment Division Rate Recommendation

Dear Councilmember Patterson:

The Metropolitan Water Pollution Abatement Advisory Committee (MWWPAAC) is pleased to have had the opportunity to provide input to the King County Executive during development of his 2009 sewer rate proposal. After review of the Executive's proposal submitted to the King County Council on April 17, 2008, we offer the following comments.

MWWPAAC appreciates the inclusion of several Metropolitan Water Pollution Abatement Advisory Committee (MWWPAAC) recommendations in the Executive's 2009 sewer rate proposal including:

1. One Year Rate.
2. Continue to heavily scrutinize the capital program to ensure that only projects that are absolutely necessary will be constructed in the next few years to help minimize rate increases.
3. Carefully review long-term rate impacts.

MWWPAAC appreciates the Executives consideration and ongoing work toward several recommendations in the 2009 sewer rate proposal including our recommendations:

1. Require new connections to pay up front.
2. Increase the amount of short-term debt from 15% of total debt to 20%.
3. Re-open contract negotiations with the jurisdictions.

A few MWWPAAC recommendations, not included in the Executives 2009 sewer rate proposal, remain important concepts to consider for effective fiscal stewardship of the wastewater program.

1. Issue Interest Only and Zero Coupon Bonds.

Our Recommendation: 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

Executives Proposal: 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.

2. Revisit the Culver policy.

Our Recommendation: 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.

Executives Proposal: Financial Policy 8 of the Regional Wastewater Services Plan, as amended September 25, 2006, required that I transmit to the 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 King 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 council and RWQC wish to do so.

The Honorable Julia Patterson

May 23, 2008

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MWPAAC appreciates the time and effort put forth by the Wastewater Treatment Division staff, and the consideration of our recommendations by the Executive. We would like to express our thanks for the Executive's evaluation of our recommendations and for the 2009 sewer rate proposal. It is our hope that King County remain in dialogue with MWPAAC on our remaining recommendations.

Sincerely,

Scott Thomasson,
MWPAAC Chair

cc: The Honorable Ron Sims, Executive, King County
King County Council
Operating Budget, Fiscal Management, and Select Issues Committee