



Metropolitan Water Pollution Abatement Advisory Committee

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

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Wastewater District*

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City of Auburn

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Woodinville Water District

April 9, 2010

The Honorable Dow Constantine
King County Executive
401 Fifth Ave., Suite 800
Seattle, WA 98104

SUBJECT: **Wastewater Treatment Division 2011 Rate Recommendation**

Dear Executive Constantine:

The Metropolitan Water Pollution Abatement Advisory Committee (MWPAAAC) remains concerned with the trend in wastewater treatment rates. While the funding of the Brightwater Treatment Facility remains the primary cause of rate increases, other financing, funding and cost imposition decisions of the County contribute to the escalating regional wastewater rates. The inevitable prospect of a sewer rate and capacity charge that combined will exceed \$100 for new homes and equivalent businesses in King County is extraordinary by both local and national standards and threatens to further inhibit a slow economic recovery. With this perspective in mind, MWPAAAC and its Finance and Rates Subcommittee have reviewed preliminary rate forecasts and scenarios. Based on this review, MWPAAAC recommends the following regarding rates and finance and specifically for rate strategies for 2011 and beyond:

- 1) **One Year Rate.** MWPAAAC recommends adoption of a one year rate, rather than a multi-year rate or adoption of a series of increases, given uncertainty regarding financing cost and structure, start-up costs at Brightwater, growth rates and patterns, developing trends in cost containment, and related Department efforts to further mitigate upward rate trends. Adopting a one year rate provides the necessary funding to continue essential programs and maintain the utility's fiscal health while providing the flexibility to adapt subsequent increases to changing costs and trends.

- 2) **Rate Stabilization Reserve.** MWPAAC recommends that the projected rate stabilization reserve balance of \$40 million be utilized as intended to mitigate rate increases during the current rate transition period. The purpose of the rate stabilization reserve (RSR) is to mitigate and attenuate near-term rate increases, and the current rate transition is a clear application of this intent. The RSR should be materially exhausted for this purpose during the 2011-2013 rate periods.
- 3) **Structure New Debt to Phase in Impacts.** In addition to the RSR, new issues can be structured to defer or phase in full debt service payments as a means to manage rate progressions. We applaud the Wastewater Treatment Division's (WTD) continued attention to this option, especially during a low growth period, and conclude that a structure with progressive payments during early years, such as interest only or reduced near-term maturities, can provide a reasonable mechanism for shifting costs into the future when more project beneficiaries are connected and supporting related costs. At the same time, we have philosophical concerns with the use of capital interest as a tool that both defers and increases costs. While recognizing that current economic conditions coupled with the need for substantial rate increases may warrant consideration of this tool at present, we also observe that rate stabilization funds are earning minimal interest far below the cost of borrowing new funds. Given this, we strongly favor more aggressive near-term use of available reserves in lieu of deferral of growing debt obligations.
- 4) **Revisit the Culver Fund policy.** The current policy allows up to 1.5% of the WTD's operating budget to be used for non-wastewater programs. For 2010, we strongly recommend limiting awards under this program and utilizing the savings to mitigate one-time costs such as the Green River flood protection costs borne by the division and escalating program costs. For the future, we recommend eliminating funding this program for reasons of economy and consistency with recent court actions (see *Lane v. Seattle*).
- 5) **Continue and Enhance Cost Containment Programs.** We applaud the WTD's efforts and accomplishments in cost containment, particularly as related to staffing, and encourage continued efforts in cost containment related to WTD activities and County overhead.
- 6) **Enhance Returns of Debt Reserves.** As bond reserves increase in value due to increasing debt load and market conditions, securing adequate returns on these invested funds is material to the resulting rate. We support the WTD's evaluation of methods for enhancing investment returns, possibly including removal of such funds from the King County Investment Pool and direct investment in longer term maturities, and wish to remain active in the review and evaluation of this option.

- 7) **Avoid Short-term Budget Actions that Increase Overall Costs.** Any decision to defer costs should be made with a purpose of stabilizing rates and finances. Recent decisions such as the deferral of PERS contributions have exacerbated the peak rate increases by deferring costs into, rather than out of, a critical rate period. MWPAAC recommends that management of cost trends is only valid in the context of a coherent rate policy that looks beyond immediate cost avoidance and considers the overall impacts of such decisions. We are fully aware that several such options are noted above in this letter, and note that these are targeted toward mitigating and attenuating rate trends, and not avoiding financial realities.

MWPAAC makes these recommendations with an eye toward a stable, affordable and predictable rate strategy. We hope you will give them due consideration.

MWPAAC would also like to express its appreciation of the time and effort put forth by the WTD staff in support of and as part of our evaluation.

Sincerely,



Dave Christensen, Vice Chair
for Scott Thomasson, MWPAAC Chair

cc: MWPAAC Members
Bob Burns, Interim Director, Department of Natural Resources and Parks (DNRP)
Christie True, Division Director, Wastewater Treatment Division, DNRP