

2021 Sewer Rate Proposal: March 25, 2020 MWPAAC Briefing

CRITICAL ASSUMPTIONS:

- **What is included:** The rate increases in this proposal are set to accomplish significant catch up on the deferred inventory of priority asset management investments.
- **What is NOT included:** The Combined Sewage Overflow (CSO) project costs have not been updated from 2018 forecasts pending the Consent Decree renegotiation, in-progress cost estimate updates (expected by December 2020), and the Clean Water Plan (Q4 2022).
- **Also NOT included:** Potential new regulatory requirements from Ecology on nutrient removal have not been defined and no reasonable cost estimates are available. The proposed rate plan does not provide funding capacity to make system investments to comply with potential new regulation.

Proposal Basis: A **9.5%** sewer rate increase in 2021 is proposed to begin to address the deferred asset management inventory. The significant unknowns related to CSOs and nutrient regulation will be integrated in 2023 rate-setting.

Table 1: Proposed Rate Plan

2021 Proposed Rate Plan - Asset Management Inventory Catch-Up, Strategic CSO Investments, Treatment Planning & Plant Optimization Programs											
Proposed	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase %	0.0%	9.5%	0.0%	10.0%	0.0%	10.0%	0.0%	10.0%	0.0%	10.0%	0.0%
Rate	\$45.33	\$49.64	\$49.64	\$54.60	\$54.60	\$60.06	\$60.06	\$66.07	\$66.07	\$72.67	\$72.67
Rate Increase \$	\$0.00	\$4.31	\$0.00	\$4.96	\$0.00	\$5.46	\$0.00	\$6.01	\$0.00	\$6.61	\$0.00
Build (Use) of Rate Stabilization Reserves	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,000	\$ 10,000	\$ (8,000)	\$ (30,000)	\$ -	\$ -
Beginning Balance \$46,250											Ending Balance \$ 46,250

Table 2: Rate Plan Alternatives Summary

Below, please see the 2020 Rate Plan that was adopted in June 2019, as well as the current 2021 Proposed Rate Plan. WTD also is providing two other alternatives with information on what can and cannot be funded with these alternative.

2020 Rate Plan

Adopted ORD 18915	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase %	0.0%	4.5%	0.0%	4.5%	0.0%	4.8%	0.0%	5.6%	4.5%	2.8%	5.1%
Rate	\$45.33	\$47.37	\$47.37	\$49.50	\$49.50	\$51.90	\$51.90	\$54.80	\$57.28	\$58.86	\$61.84
Rate Increase \$	\$0.00	\$2.04	\$0.00	\$2.13	\$0.00	\$2.40	\$0.00	\$2.91	\$2.48	\$1.58	\$2.98
Build (Use) of Rate Stabilization Reserves	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Beginning Balance \$46,250											Ending Balance \$ 46,250

2021 Proposed Rate Plan - Asset Management Inventory Catch-Up, Strategic CSO Investments, Treatment Planning & Plant Optimization Programs

Proposed	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase %	0.0%	9.5%	0.0%	10.0%	0.0%	10.0%	0.0%	10.0%	0.0%	10.0%	0.0%
Rate	\$45.33	\$49.64	\$49.64	\$54.60	\$54.60	\$60.06	\$60.06	\$66.07	\$66.07	\$72.67	\$72.67
Rate Increase \$	\$0.00	\$4.31	\$0.00	\$4.96	\$0.00	\$5.46	\$0.00	\$6.01	\$0.00	\$6.61	\$0.00
Build (Use) of Rate Stabilization Reserves	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,000	\$ 10,000	\$ (8,000)	\$ (30,000)	\$ -	\$ -
Beginning Balance \$46,250											Ending Balance \$ 46,250

Funds Current Program With 2019 Supplemental and Existing Project Cost Increases [1] - No New Investments in AM or Treatment Plant Programs

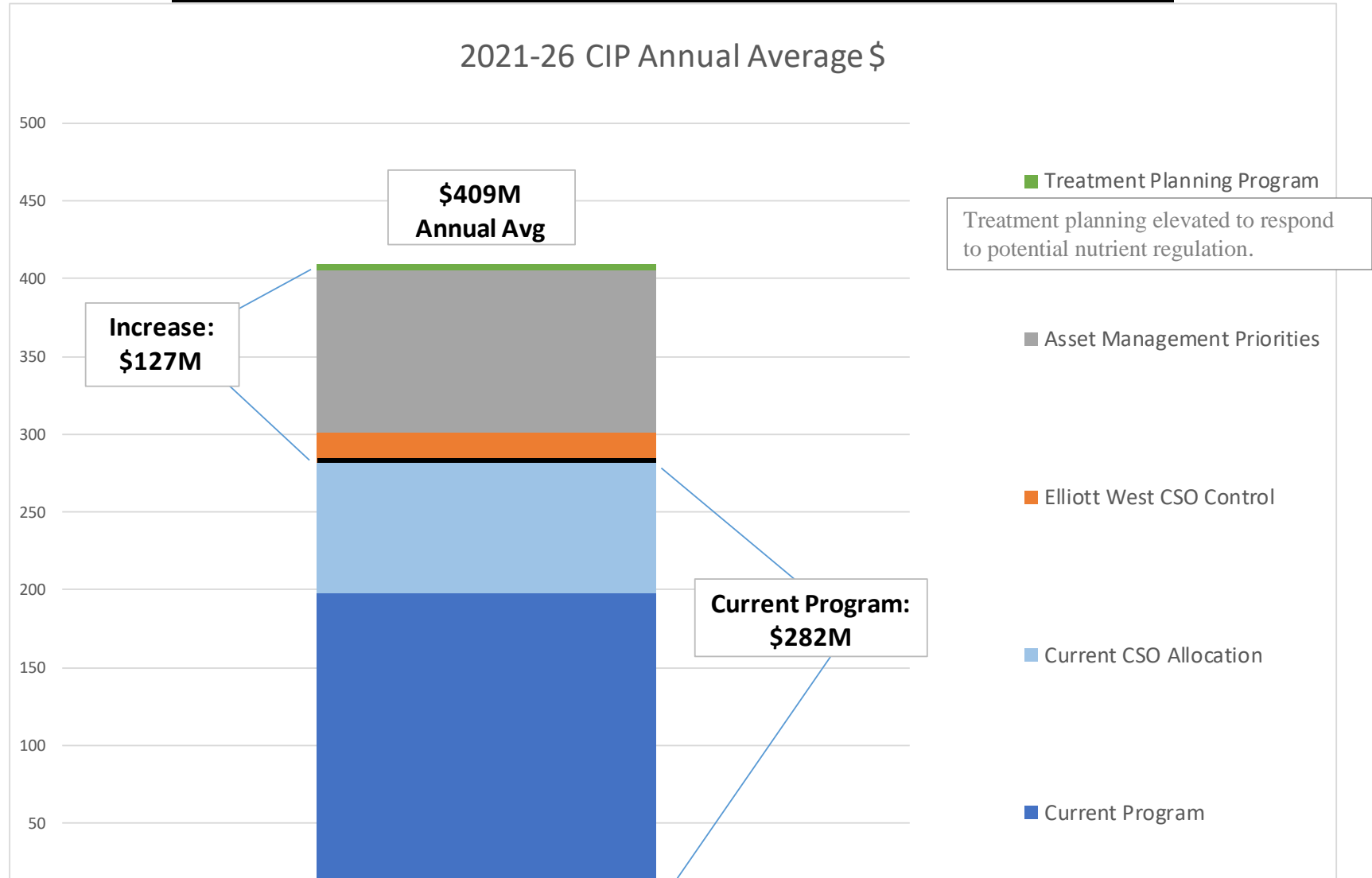
Current Program	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase %	0.0%	6.0%	0.0%	6.25%	0.0%	6.25%	0.0%	6.25%	0.0%	6.25%	0.0%
Rate	\$45.33	\$48.05	\$48.05	\$51.05	\$51.05	\$54.24	\$54.24	\$57.63	\$57.63	\$61.24	\$61.24
Rate Increase \$	\$0.00	\$2.72	\$0.00	\$3.00	\$0.00	\$3.19	\$0.00	\$3.39	\$0.00	\$3.60	\$0.00
Build (Use) of Rate Stabilization Reserves	\$ -	\$ -	\$ -	\$ 10,000	\$ 30,000	\$ 80,000	\$ 52,000	\$ (8,000)	\$ (42,000)	\$ (40,000)	\$ (82,000)
Beginning Balance \$46,250											Ending Balance \$ 46,250

Financing Alternative - Increased Borrowing from 60% to 70% of Capital Program (resulting in debt-financing 34% of AM Program / \$374M)

Increased Borrowing	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase %	0.0%	7.0%	0.0%	8.25%	0.0%	8.25%	0.0%	8.25%	0.0%	8.25%	0.0%
Rate	\$45.33	\$48.50	\$48.50	\$52.50	\$52.50	\$56.84	\$56.84	\$61.53	\$61.53	\$66.60	\$66.60
Rate Increase \$	\$0.00	\$3.17	\$0.00	\$4.00	\$0.00	\$4.33	\$0.00	\$4.69	\$0.00	\$5.08	\$0.00
Build (Use) of Rate Stabilization Reserves	\$ -	\$ -	\$ -	\$ 16,000	\$ 4,000	\$ 40,000	\$ 7,000	\$ 6,000	\$ (30,000)	\$ (25,000)	\$ (18,000)
Beginning Balance \$46,250											Ending Balance \$ 46,250

[1] First and Second Omnibus and existing project cost increases are attributable in large part to five projects (\$227.3M CIP total increase): Interbay Force Main and Odor Control, Jameson/Arcweld Building Replacement, Alki Permanent Standby Generator, Coal Creek Siphon and Trunk Parallel, and North Mercer Island & Enatai Interceptors.

Table 3: CIP Annual Average 2021-2026 – Prioritized AM Inventory Catch-Up



CSO Strategy 2021-2022

In progress and under construction: Georgetown and Ship Canal. (+ non-CSO such as Lower Duwamish, and planning programs such as CSO Control & Improvement)

Planning phase investments: Elliott West CSO Control, University GSI, Montlake GSI, West Duwamish CSO Control

WQIA: \$2M Fresh Water Trust in 2021, 2021-2022 \$1.5M/annually for Water quality benefits analysis and associated planning costs, increasing beginning in 2025, for continued planning scope.

Table 4: Asset Management Strategy 2021-2030

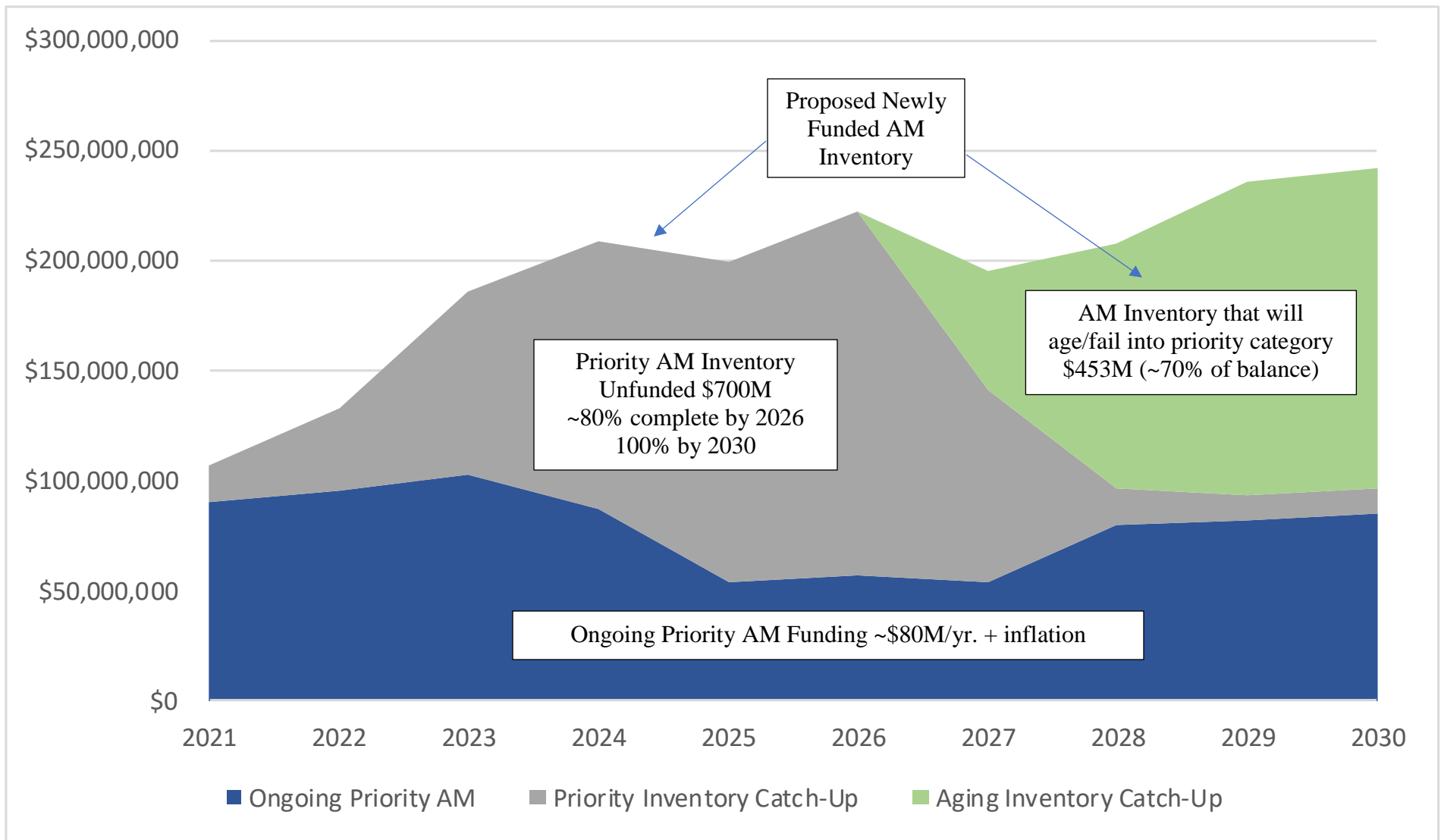


Table 5: Debt Accumulation Scenario Difference

- 2017 implementation of Council-directed 40% cash funding to reduce WTD debt balance and improve creditworthiness.
- Responded to MWPAAC Debt Review Committee priority to reduce WTD debt balance
- Produces lower rates over the long-term (~2041 rate is lower 40% vs 30% cash funding)
- **S&P August 2019 Ratings Median Data Report**
 - King County **WTD Debt-to-Capitalization Ratio 2018 92%**.
 - Northwest Utilities: **30%**
 - National “Very Large” Utilities: **47%**

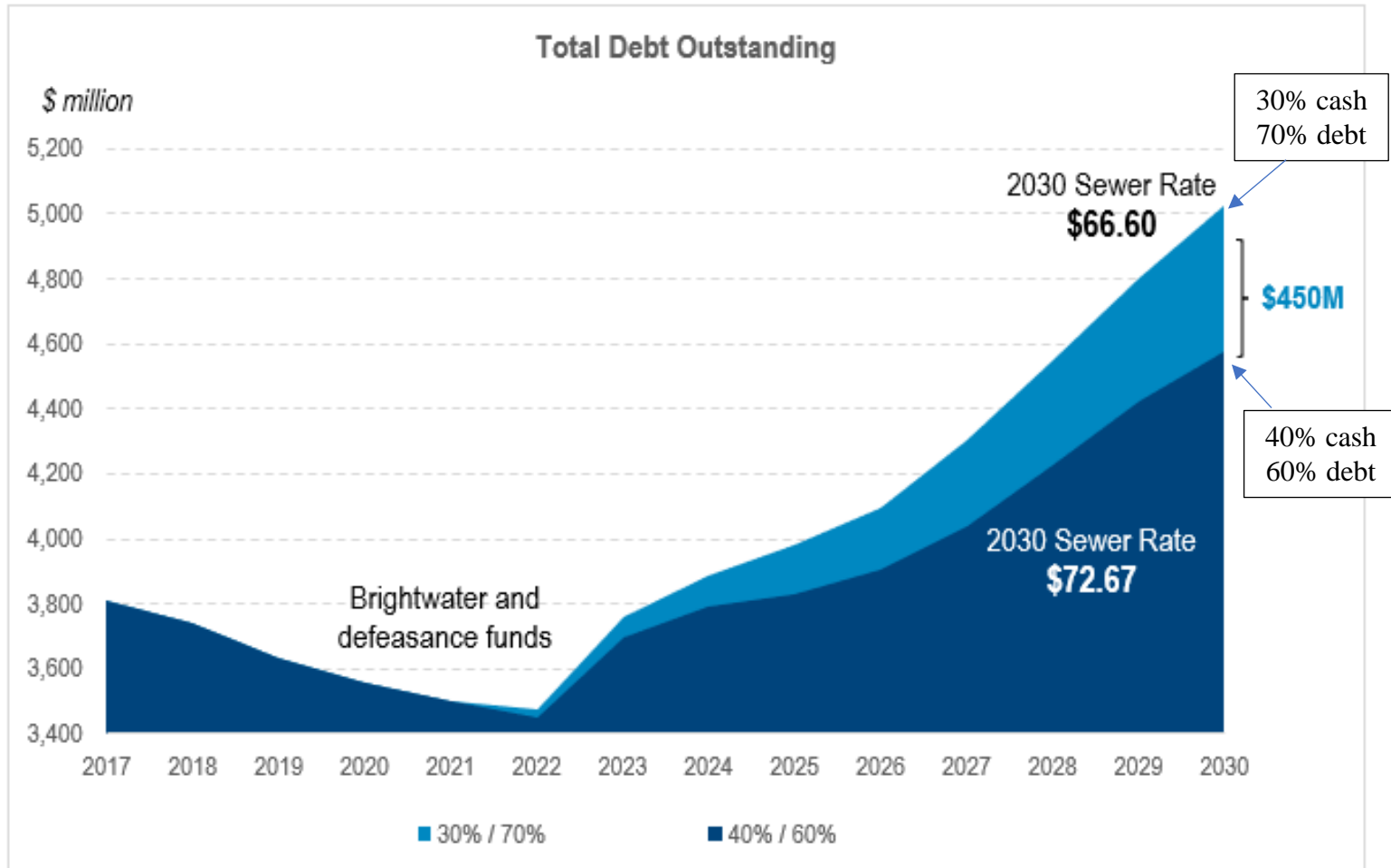


Table 6: History of Rate Increases

Year	Sewer Rate	Percent Change
1990	11.90	
1991	13.20	10.9%
1992	13.80	4.5%
1993	13.62	-1.3%
1994	15.90	16.7%
1995	17.95	12.9%
1996	19.10	6.4%
1997	19.10	0.0%
1998	19.10	0.0%
1999	19.10	0.0%
2000	19.50	2.1%
2001	19.75	1.3%
2002	23.40	18.5%
2003	23.40	0.0%
2004	23.40	0.0%
2005	25.60	9.4%
2006	25.60	0.0%
2007	27.95	9.2%
2008	27.95	0.0%
2009	31.90	14.1%
2010	31.90	0.0%
2011	36.10	13.2%
2012	36.10	0.0%
2013	39.79	10.2%
2014	39.79	0.0%
2015	42.03	5.6%
2016	42.03	0.0%
2017	44.22	5.2%
2018	44.22	0.0%
2019	45.33	2.5%
2020	45.33	0.0%
	annual avg	4.7%
	biennial avg	9.4%

Operational Highlights

- Increasing the reliability of our facilities with improved maintenance of existing assets with additional staffing, repair work, and protective measures. [\$5.4M biennial]
- Investing in resources to address a backlog of facility demands from additional population growth in our service area. [\$2.3M]
- Reducing the environmental footprint of the WTD operation by making investments in clean air (SCAP) and energy savings. [\$1.4M]
- Investing in resources for system upgrades and licensing of existing technology required to keep systems used by our staff current. [\$1.3M]
- Reducing organizational risks by proactively responding to public expectations to ensure compliance with auditors, financial accounting and legal requirements. [\$1.2M]
- Increased staffing to meet operational priorities (*staffing analysis still under review*)