

Executive’s Proposed 2021 Sewer Rate – MWPAAC Rates & Finance Committee Briefing April 15, 2020

The Executive’s 2021 rate proposal responds to rapidly changing economic conditions based on Covid-19 through a one-year rate increase of 4.5%.

By annualizing the originally proposed rate increase of 9.5% and allowing a portion of the increase to shift to the years outside the biennium, this plan provides a measure of near-term relief to customers.

This rate proposal also allows time for WTD to work with MWPAAC over the next year on approaches to address critical system risks through proposed asset management investments.

While the updated proposal spreads and reduces the increase in the biennium, it does not alter the CIP. The CIP is significantly back loaded and the proposed rate plan shows a smooth pattern. [See Table 1: Smooth Rate Plan – Growing CIP] The trade-off for near-term relief is increased revenue risk in the biennium and a shift of rate increase impacts to already high outer years.

COVID-19 has introduced added risks to revenue collection and the bond market which are *NOT* reflected in these forecasts.

- Significant variance from projections is likely, though insufficient data is available to reasonably estimate and adjust.
- **2021 is the most “at risk” revenue year** due to the four-quarter rolling average billing structure.
- Reserves are maintained to mitigate expected revenue shortfalls – including emergency capital reserves for potential asset failure response.

The rate proposal is for a one year rate versus the standard two year rate increase. By adopting a one year rate, we will have better information on the COVID 19 impacts to inform a proposed 2022 rate increase and input from MWPAAC on approaches to address the asset management backlog.

Proposed 2021 Rate Plan

	Set in 2020	Set in 2021	<i>Does not includes updated CSO project costs and plant investments for potential nutrient caps.</i>							
WTD Proposed 2021 Rate Plan	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase %	4.50%	4.50%	10.25%	0.00%	10.25%	0.00%	10.25%	0.00%	10.25%	0.00%
Rate	\$47.37	\$49.50	\$54.58	\$54.58	\$60.17	\$60.17	\$66.34	\$66.34	\$73.14	\$73.14
Rate Increase \$	\$2.04	\$2.13	\$5.07	\$0.00	\$5.59	\$0.00	\$6.17	\$0.00	\$6.80	\$0.00

Operating Program: Biennial Total: \$367.8 million

Capital Program: Biennial Total: \$595.9 million

WTD Financial Risk Evaluation – COVID-19

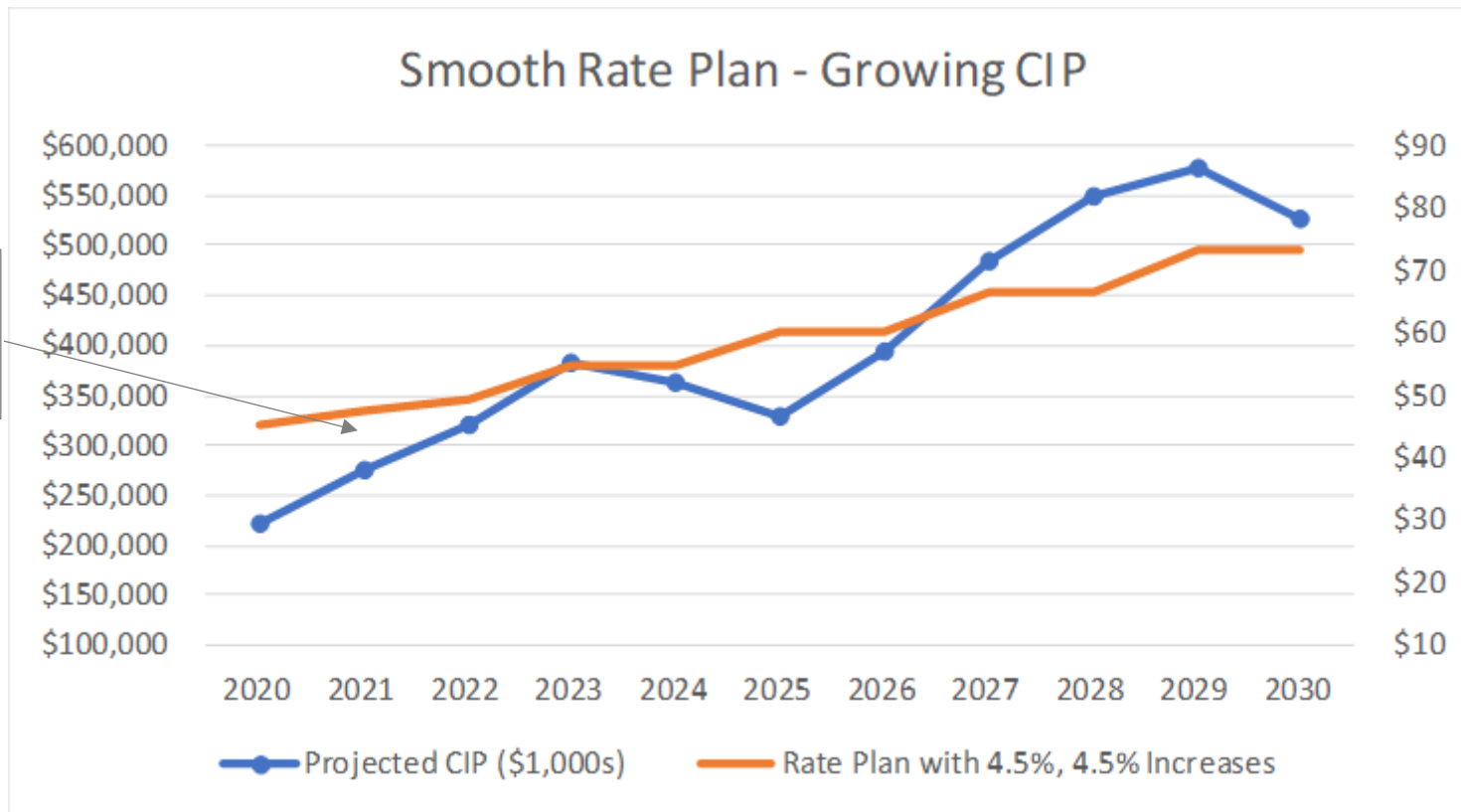
Revenue:

1. Mass telecommute will likely result in diversion of metered water use from commercial accounts in the WTD service area to residences both within and outside of the WTD service area. Expected contraction in water use-based commercial Residential Customer Equivalents (RCEs) will eventually impact WTD sewer rate revenue collection, peaking in 2021 due to the four quarter rolling average billing basis.
2. Capacity charge prepayments are expected to slow.
3. With the Federal Reserve cutting interest rates, there is risk to the investment pool and the interest earnings forecast.

Cost of Debt:

4. Market volatility could impact the availability and cost of debt when WTD goes out for defeasance/new money issuance in 2020. Though, the WTD rate forecast uses conservative interest rate assumptions, the impacts are not fully known.

Table 1: Smooth Rate Plan – Growing CIP:



This timing is why we can push rate increases to outer years with no CIP change.