

Briefing to MWPAAC regarding revised Executive’s Proposed 2021 Sewer Rate – April 29, 2020

In 2019, Council adopted Ordinance 18915, to set the 2020 sewer rate at \$45.33 and adopt a rate plan for the outer years (2020-2025) shown below. The adopted 2020 rate plan projected a 4.5 percent increase as a two-year rate.

Adopted 2020 Rate Plan

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

Revised 2021 Sewer Rate Proposal. The Executive’s sewer rate proposal is a 4.5 percent rate increase for 2021. By adopting a one-year rate, WTD will have better information on the COVID-19 impacts to inform a decision on the 2022 rate proposal.

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.

A one-year rate increase would also allow WTD to work with MWPAAC over the next year to gather their input on approaches to address a backlog in asset management.

The 4.5 percent rate increase in 2021 would maintain the current service level for operations and fund existing capital program commitments.

The proposed rate plan through 2030 includes approximately \$700 million in unfunded priority asset management inventory beginning in 2022. This does not include any new investments for operations in 2021 and 2022; however, beginning in 2023 the proposed rate plan includes \$2.5 million in investments for operations to increase support at our off-site facilities and support the asset management program.

- *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.

Proposed 2021 Rate Plan*

Proposed 2021 Rate & Rate Plan	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase %	0.0%	4.50%	0.00%	10.25%	0.00%	10.25%	0.00%	14.00%	0.00%	14.00%	0.00%
Rate	\$45.33	\$47.37	\$47.37	\$52.23	\$52.23	\$57.58	\$57.58	\$65.64	\$65.64	\$74.83	\$74.83
Rate Increase \$	\$0.00	\$2.04	\$0.00	\$4.86	\$0.00	\$5.35	\$0.00	\$8.06	\$0.00	\$9.19	\$0.00

Operating Program: 2021-2022 Biennial Total: \$354.9 million

Capital Program: 2021-2022 Biennial Total: \$570.4 million

** The proposed rate increase of 0% in 2022 is a placeholder that recognizes the uncertainty regarding the impacts of COVID-19 and the need for more information on the impacts as part of any discussion on the 2022 rate. The rate projections in 2023 and beyond include \$700 million in unfunded priority asset management projects with the caveat that WTD will work with MWPAAC over the next year to provide more detail on these projects and get feedback on how to best address this project inventory.*

By annualizing the proposed rate increase 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.

The CIP is significantly backloaded 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.

Table 1: Smooth Rate Plan – Growing CIP:

