



Metropolitan Water Pollution Abatement Advisory Committee

King Street Center, 201 S Jackson St, MS: KSC-NR-5504, Seattle, WA 98104
206-477-4435

MEMBERS:

Alderwood Water and Wastewater District
City of Algona
City of Auburn
City of Bellevue
City of Black Diamond
City of Bothell
City of Brier
City of Carnation
Cedar River Water and Sewer District
Coal Creek Utility District
Cross Valley Water District
Highlands Sewer District
City of Issaquah
City of Kent
City of Kirkland
City of Lake Forest Park
Lakehaven Water and Sewer District
City of Mercer Island
Midway Sewer District
Muckleshoot Indian Tribe
Northeast Sammamish Sewer and Water District
Northshore Utility District
Olympic View Water and Sewer District
City of Pacific
City of Redmond
City of Renton
Ronald Wastewater District
Sammamish Plateau Water and Sewer District
City of Seattle
Skyway Water and Sewer District
Soos Creek Water and Sewer District
Southwest Suburban Sewer District
City of Tukwila
Valley View Sewer District
Vashon Sewer District
Woodinville Water District

March 24, 2021

The Honorable Dow Constantine
County Executive, King County
401 Fifth Avenue
Seattle, WA 98104

SUBJECT: Wastewater Treatment Division 2022 Rate Recommendation

Dear Executive Constantine:

The Metropolitan Water Pollution Abatement Advisory Committee (MWWPAAC) is proposing to build a more stable bridge to our costly and uncertain future. Recognizing that double digit biennial rate increases likely await our agencies, we are requesting to transition to annualized rate proposals, starting in 2022. According to Appendix E of the Rate Proposal, this would translate to a 4.0 percent increase in 2022. While we are still seeing reduced revenues as a result of the pandemic, recent months have allowed us to envision a post-COVID future. In this future, a more stable, predictable rate path will help each of our agencies offer more affordable services to our customers. In order to begin funding the needed improvements identified in the Asset Management Program, MWWPAAC would support a 4 percent rate increase in 2022 coupled with annual rate increases going forward.

MWWPAAC would like to express appreciation to the Wastewater Treatment Division (WTD) for its presentation of the Rate Setting Process that occurred over a five-month period in the late summer and fall of 2020. This series of presentations provided more transparency on the rate setting process than had been discussed in recent years, allowing member agencies a look into the methods used by WTD to develop rates. We request that this continue and expand in scope and detail.

MWWPAAC also recognizes WTD's response to its request for additional information on the Clean Water Plan. Due to the scope (and upcoming effects on rates), members requested a "deeper dive" into the drivers of the plan. WTD responded by forming a technical advisory group which allowed participants an improved view of how WTD is proposing to prioritize system improvements. This is still a work in progress, however, more consistent, substantive review and input is desired, as well as engagement of third-party experts to improve the technical review.

WTD has also responded to MWWPAAC requests for more information on its asset management program. While there remains a huge number of unknowns related to asset management and the relationship to proposed

capital investments, it is currently a topic being discussed regularly, as it should be. MWPAAC requests that this transparency continues and grows, as asset management is expected to be a large driver of rate proposals over the next decade or longer.

MWPAAC recognizes the extraordinary nature of the times in which we are operating. In addition to the COVID pandemic, the region continues to experience rapid population growth which has caused an acceleration in the need for system improvements. The upcoming nutrient limitations in wastewater effluent present a new and mostly unknown challenge to wastewater treatment systems across the state (WTD has estimated costs in excess of \$6 billion to comply with the permit). Finally, asset management costs continue to spiral and represent a larger and larger portion of needed future rate proposals. These issues, and others, are of concern to member agencies and MWPAAC is requesting further information or changes in the way we do business with WTD, as detailed below:

Request for Annual Rate Proposals

Given the double-digit rate increases projected, MWPAAC members request WTD move to annual rate proposals instead of biennially. This would assist agencies in avoiding rate spikes from double-digit treatment rate increases, which are difficult for rate payers and utilities to manage. Agencies are trying to thread the needle of balancing short-term realities such as COVID, affordability, and stable rate paths and the proposed double-digit rate increases “crowd-out” or make it more difficult for local agencies to raise their own rates, which cover the costs of operating and maintaining the collection system on which WTD relies for treatment.

Long Term Capital Project Cost Projections

WTD has many large expenses in its future, totaling billions of dollars. Member agencies are actively planning 20+ years into the future and are stymied and frustrated by lack of information for their largest rate driver, treatment expense. We understand there are many unknowns at this time, but enough is known to assess and provide high level impacts. This could be accomplished by providing a range of rates projections. We cannot afford to operate in a vacuum, but instead request that WTD create transparency and enrich the necessary conversation about our region’s future.

- For example, at the March 3, 2021, Regional Water Quality Committee meeting, future Asset Management program options were discussed, ranging in values up to \$15 billion over the next 40 years. This volume of work implies Asset Management program costs could be significantly higher than what was communicated in the 2022 rate projections.
- Additionally, MWPAAC members have been learning about the potential upcoming impact of the “nutrients” issue on treatment rates. Although we recognize there is a lack of clarity about important specifics of state nutrient regulation, WTD should be able to provide a preliminary estimate of upcoming rule changes on rates.
- Another area of concern for member agencies is the ongoing update to WTD’s comprehensive services plan (Clean Water Plan). While MWPAAC members support updating the plan, the completion of the planning work may identify many more costly capital project needs. These potential costs further emphasize the need for careful review

and input by member utilities. Additionally, by providing MWPAAC preliminary cost estimates now, member agencies would be able to plan for the effects on rates of the projects identified in the Clean Water Plan.

- Finally, the 2022 rate projections shifted 90 percent of the County's CSO program to the next decade (2030-40). It is a huge assumption to presume the regulator will modify their consent decree, allowing WTD to push out all their CSO commitments by at least another 10 years. MWPAAC is not aware of any changes made by regulators at this time and requests WTD publish two rate paths, one where the Environmental Protection Agency and Washington State Department of Ecology require more CSO investment in the current decade, and another one where they're able to shift costs out. This action also raises the question of how large the rate increases will be in the 2030-2040 window. We are concerned the strategy of trying to defer CSO investments will lead to a huge balloon increase in rates in the next decade as the County may need to fund CSO, nutrient, and asset management investments at the same time.

The County's presentations have shown that investment requirements over the next several decades will be multiple billions of dollars. As noted earlier, the scale of investment and rate impact on our customers continues to confirm the need for third party review of the County's Clean Water Plan. Member agencies cannot constructively engage with WTD without the full picture of expenses, timing, and rate impacts.

Timing of Rate Proposals

A repeating theme: MWPAAC must again object to the timing of the information we receive related to rate adjustments. For over a decade, MWPAAC has voiced its discontent with the condensed time it has for review and comment on the rates. The time frame has, in-fact, been shortened by one month since we raised concerns over the rate setting calendar. Member agencies are committed to partnering with the County as the region moves through a period of intense construction and expense. This partnership is challenged by inadequate time for review, analysis, and feedback, particularly by policy makers, many of which may meet only two times per month, or less. MWPAAC requests WTD provide updated rate projections as well as a range of long-term projections earlier in the rate development cycle. MWPAAC members should have at minimum one full month to allow local elected officials time for review and input, to develop substantive understanding of the rate path, and prepare a formal response to those proposals that all members can support. We understand final rate paths are not complete until March, but rate development does not happen spontaneously. We request the most currently available rate paths be presented at the February Rates & Finance Subcommittee meeting.

Other Areas of Concern

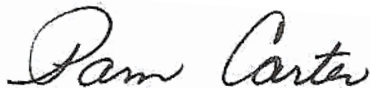
- WTD presentations indicated that the 2022 rate projections were being responsive to the King County Executive's priorities including the Clean Water Healthy Habitat priority. However, information on the \$9 billion, decade-long Clean Water Healthy Habitat priority has not yet been shared. Due to the lack of information MWPAAC is unclear about its scope, the nexus to wastewater programs, and wastewater costs and rate impacts. MWPAAC should have had the time and information to be able to provide

comment. There is a concern that if such costs are imbedded in future revenue streams they will be considered a "given" in future rate and budget discussions.

- Debt continues to add to the stress on rates. The wastewater system has historically relied on highly leveraging debt to pay for capital programs. While policies were changed in 2017 to require 40 percent cash funding for projects, WTD staff recently noted that even at 40 percent cash funding this amount "is less than the annual system value loss." In other words, the total amount of debt will increase as the capital programs grow as expected. This debt service will continue to be a strain on revenue requirements and affordability into the foreseeable future. MWPAAC requests more information on how WTD will recover costs of depreciation through rates, which should be the primary source of system replacement revenues.
- MWPAAC members need reliable construction time schedules for future regional conveyance system improvements so that they can make informed decisions about their own capital and operating needs. We request that the WTD establish a defined appeals process to review any changes in prioritization so that the impacts on local agencies can be considered.

MWPAAC and its member agencies appreciate the annual opportunity to communicate our concerns and your consideration of them. We look forward to continuing a relationship of collaboration as we all strive to provide efficient and cost-effective wastewater collection and treatment for a rapidly growing region.

Sincerely,

A handwritten signature in black ink that reads "Pam Carter". The signature is fluid and cursive, with the first name "Pam" and last name "Carter" clearly distinguishable.

Pamela Carter
MWPAAC Chair

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