

## 2022 Sewer Rate and 10-Year Sewer Rate Plan (2022-2031)

### Background

- The 2021-2030 adopted sewer rate plan included a one-year 4.5% rate increase in 2021 and as a placeholder, no rate increase in 2022.

Adopted ORD 19106	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Rate Increase %	4.50%	0.00%	10.25%	0.00%	10.25%	0.00%	14.00%	0.00%	14.00%	0.00%
Rate	\$47.37	\$47.37	\$52.23	\$52.23	\$57.58	\$57.58	\$65.64	\$65.64	\$74.83	\$74.83
Rate Increase \$	\$2.04	\$0.00	\$4.86	\$0.00	\$5.35	\$0.00	\$8.06	\$0.00	\$9.19	\$0.00
All-In Debt Service Coverage	1.52x	1.45x	1.57x	1.48x	1.51x	1.53x	1.69x	1.63x	1.76x	1.62x

- The placeholder was to allow for (1) engagement with stakeholders on a recent approach to addressing an inventory of unfunded priority asset management projects and (2) a better understanding of COVID-19 financial impacts before evaluating the 2022 rate increase in Quarter 1 of 2021.
- The **Clean Water Plan** is currently developing and evaluating comprehensive approaches for meeting Clean Water, Healthy Habitat priorities and regulatory requirements while maintaining an affordable sewer rate. The preferred strategy is **targeted for delivery to Council year-end 2021**.
- After receiving input from MWPAAC and other stakeholders, the Executive’s proposed sewer rate plan includes a four percent rate increase for 2022, increasing the monthly sewer rate from \$47.37 to \$49.27.**

### Executive’s Proposed 2022-2031 Sewer Rate Plan

2022-2031 Rate Plan	Adopted 2020	Set in 2021									
Annualized Proposed	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Rate Increase %	4.50%	4.00%	4.00%	4.00%	4.00%	5.00%	6.00%	6.00%	6.00%	6.00%	7.50%
Monthly Sewer Rate	\$47.37	\$49.27	\$51.25	\$53.30	\$55.44	\$58.22	\$61.72	\$65.43	\$69.36	\$73.53	\$79.05
Rate Increase \$	\$2.04	\$1.90	\$1.98	\$2.05	\$2.14	\$2.78	\$3.50	\$3.71	\$3.93	\$4.17	\$5.52
All-In Debt Service Coverage	1.54x	1.42x	1.47x	1.45x	1.44x	1.44x	1.46x	1.49x	1.51x	1.47x	1.52x
Projected CIP Spend (\$m)	\$254	\$308	\$335	\$313	\$299	\$345	\$467	\$466	\$469	\$557	\$556
Est. Jobs Supported (Annual)	3,000 - 5,100	3,600 - 6,000	3,800 - 6,300	3,400 - 5,700	3,200 - 5,300	3,600 - 5,900	4,700 - 7,800	4,500 - 7,500	4,400 - 7,300	5,100 - 8,500	4,900 - 8,200

### Rate-Drivers Summary

For the purposes of evaluating the 2022 sewer rate and 10-year sewer rate plan, five critical rate-drivers are highlighted:

- COVID-19 impacts are delayed due to WTD billing structure and offset by record low interest rates in the bond market.**

Estimated reductions to sewer rate and capacity charge revenue are offset by savings from record low interest rates in the bond market, realized through the 2020 bond issuance to support the capital program and refinance outstanding debt.

**2. West Point Treatment Plant power reliability investments begin in 2021.**

The Administrative Order #19477 issued by the Washington State Department of Ecology requires King County to address power reliability issues at West Point Treatment Plant. WTD project delivery staff resources have been reallocated to prioritize initiation of progress on this coordinated effort with Seattle City Light. The 2022 sewer rate proposal includes the recommended suite of investments to address power reliability.

**3. Consent Decree Combined Sewage Overflow (CSO) cost updates available to include in the forecast; schedule considerations evaluated.**

At the time of the 2021 sewer rate proposal, the CSO costs were not updated and so the forecast did not fully reflect the cost of those investments and will not until Clean Water Plan completion. Early CSO strategies are slated to be shared by in the Clean Water Plan in 2021. while the 2022 sewer rate proposal will be in progress and the Consent Decree negotiations will be ongoing. In a 2019 letter to the U.S. Environmental Protection Agency, WTD requested schedule relief and opened negotiations on the CSO Consent Decree. *The example timeline of 2040 completion used in the forecast anticipates CSO Consent Decree modifications. Actual timeline and project sequencing will be determined following completion of the Clean Water Plan and Consent Decree negotiations.* The first decade includes 11% of the total CSO costs (\$486 million), with the remaining 89% included in the second decade (\$3.75 billion). This placeholder schedule results in a reduction of \$697 million through 2030 from the \$1.18 billion that was in the rate plan adopted in 2020.

**4. Critical asset management catch-up plan initiated in 2022 and completion timeline extended three years (2033).**

The 2021 sewer rate plan included catching up on an inventory of critical risk asset management projects by 2030. The current 2022 sewer rate proposal reflects an extended timeline and additional resources to maintain the intent to initiate those projects in 2022, while delivering the prioritized West Point power reliability investments and accelerated Sammamish Plateau Diversion conveyance project. The target completion date for catching up on the asset management projects has been extended by three years to 2033.

**5. Ecology nutrient permit impacts to be included in the next sewer rate plan. No costs included in this 2022-2031 sewer rate plan.**

The 2021 sewer rate proposal did not include system improvements related to nutrient removal. The preliminary draft permit was issued in January 2021 and the conditions. Conditions of the permit are not well defined and are subject to feedback and revision. Any nutrient cost impacts are speculative and, therefore, not included in the 2022 sewer rate proposal.

**Additional Key Assumptions:**

- The proposed **Jameson ArcWeld** Building Replacement was included in the Adopted 2021-2030 rate forecast. It was subsequently excluded from the 2021-2022 budget as new alternatives were in development. **A lower cost building lease option is under consideration and in negotiation.** The initial quote for leasehold improvements and annual lease cost is utilized in this forecast.
- Phase 1 of the **Sammamish Plateau Diversion** project has been **accelerated** to resume work in 2021 and 2022.
- As **project delivery staff resources** are currently shifting to meet the very near-term **accelerated priorities** [West Point Power Reliability, Sammamish Plateau Diversion], it is noteworthy that **doubling the capital program by 2027** will require additional staff resources to deliver. The Planning and Project Delivery Section conducted a series of strategic workforce and resource management workshops in March to identify staffing plans with recommendations for performing work already identified in the sewer rate plan.
  - Resource analysis indicates that additional full-time equivalents (FTEs) will be required and are included in the Executive's 2022 sewer rate proposal to deliver the critical asset management project delivery increase. The addition of 13 new FTEs is phased in through 2023 to support delivery of these projects. This would be in addition to the projects recently added to 2021-2022. Staff resources have been delivering at capacity,

leaving no excess available to absorb near-term project adds or for leave coverages. Lower priority projects that will potentially experience delays will be identified as project assignments shift to meet near-term prioritization changes. This limited capacity for additional projects with existing staff is forecasted to extend into at least 2023. **The Executive's proposed rate plan assumes 6 FTEs are added in 2021, 6 FTEs in 2022 and 1 FTE proposed in 2023, to support catching up on the Asset Management inventory. No new projects can realistically progress in 2022 unless resources are added, or existing projects are deferred.**