

Summary of Rates & Finance Subcommittee March 3, 2022, meeting For MWPAAC General Meeting March 23, 2022

1. Sewer Rate Discussion

Presenters: Hiedi Popochock, Financial and Administration Section Manager Wastewater Treatment Division (WTD); Courtney Black, Rates, Capital, and Debt Management Supervisor, WTD; and Phillip Kwon, Accounting, and Operating Budget Administrator, WTD

Courtney Black and WTD Director Kamuron Gurol presented the majority of the materials. They spoke from a handout titled “03.03.2022 MWPAAC Rates and Finance_2023-2032 Sewer Rate Briefing”, which was previously sent via email to the MWPAAC mailing list. Readers are advised to consult this handout in tandem with this summary.

Ms. Black spoke about the existing adopted 2022 – 2031 rate plan, which includes annual rate increases of 4.00% initially, and increases of 6.00% and 7.50% toward the end of the period. She then reminded the group about WTD’s strategy of providing early and transparent rate information, and their goals for the 2023 – 2032 rate plan process:

- Increase reliability at West Point and offsite locations
- Comply with regulatory requirements
- Respond to growth-related demand on the system
- Advance the most critical asset management projects
- Protect water quality and habitat consistent with the Clean Water/Healthy Habitat Strategic Plan
- Respond to and prepare for climate change consistent under the Strategic Climate Action Plan
- Address disparities in service delivery in alignment with the Equity and Social Justice Strategic Plan

The six rate drivers were summarized:

1. Economic Conditions
 - a. COVID-19 impacts, which are tracking close to the forecast in the 2022-31 rate plan
 - b. current high inflation, driving up the cost of capital projects
 - c. labor market constraints, slowing efforts to deliver a growing CIP
2. Reliability Investments
 - a. West Point Treatment Plant Power Quality Improvement Project
 - b. Asset Management Tier 1 critical inventory projects
3. Responding to Regulations
 - a. Ongoing negotiations to extend the timeline for the Consent Decree for Combined Sewer Overflow (CSO) projects; the WTD proposed rate plan assumes an extended deadline to 2040 for completion of these expensive projects.
 - b. General Nutrient Permit – the WTD proposed rate plan includes initial investments for planning, evaluation, and optimization, totaling \$50 million
4. Capacity Increasing Investments
 - a. Flows and Loadings study and Treatment Planning Program have identified project needs at all three regional plants
5. Clean Water Plan

- a. The process was paused in November 2021 to allow for more regulatory clarity and to consider feedback received to date
- 6. Climate Change
 - a. Investments of \$256 million in biogas and other projects that will reduce greenhouse gas emissions
 - b. Initial investments in a Codigestion partnership with the Solid Waste Division

She then shared the 2023- 2032 WTD proposed rate plan, showing annual increases of 5.75% increase in 2023 – 2027 and 9.00% increases in 2028 – 2032. This differs slightly from the rate sensitivity shared with MWPAAC in February, which showed increases of 5.50% in the initial years. It is important to note that this rate plan is not yet the official proposal. The King County Executive has yet to approve the final rate proposal.

The next three pages of the handout were covered, each showing financial information behind the rate proposal:

- 2022 – 2032 Capital Improvement Plan, a graph showing annual spending by capital portfolio “bucket”
- 2022 – 2032 Capital Funding Plan, a graph showing the annual mix of cash financing, debt instruments by type, and grants
- 2023 – 2032 WTD Proposed Sewer Rate Annual Revenue Requirement Components, a graph showing annual operating expenses, existing and new debt service, cash-funded capital costs, and needed revenue.

Finally, 5 appendices were covered:

- Appendix A: COVID-19 Updated Projections
- Appendix B: CIP Delivery Capacity Constraints
- Appendix C: New Operating Cost Priorities
- Appendix D: Sewer Rate Plan Alternatives Evaluated
- Appendix E: Forecast Assumptions & Financial Policies

Throughout the presentation, attendees asked the following questions, mostly using the chat feature on Teams. Those questions were addressed by Ms. Black and Mr. Gurol. Below, questions are presented in bold, and answers are provided in italics:

- **Were Conveyance System Improvement (CSI) projects in rate plan?**
Yes, they are included.
- **Are the capital costs expressed in 2022 \$?**
Expenses are expressed in \$\$\$ for the year in which they are planned to be spent.
- **Do climate projects produce long-term savings?**
Yes, although actual savings amounts are not at hand during the meeting.
- **How much of the \$256M planned for climate change projects is for the Brightwater recycled water project?**
WTD Staff did not have the number handy but will bring it back to a future meeting.
- **What kind of sensitivity analysis done around funding plan for interest rate risk given volatile economic climate?**
Testing the municipal revenue bond debt service in the forecast at a 1% higher interest rate in all years results in higher debt service for the full forecast period equal to about \$97 million.

Spreading the higher 2032 final year debt service over the 2032 projected RCEs results in about a \$2.50 higher 2032 rate than in the proposed plan.

- **Request for clarification for number of FTEs, and request for future discussion on plan to hire so many people so quickly.**

WTD staff clarified that 96 is the number of planned new FTEs; WTD agreed to keep MWPAAC informed on progress toward hiring this high number of new people.

- **What's the relationship between the inflation assumption and the rate plan, on a rough-order-of-magnitude basis? If long run capital and general inflation is 6% instead of 3%, how does that impact the rate plan?**

Capital inflation persisting for ten years at 6% rather than 3% in the proposed plan results in about \$1.3 billion higher CIP to fund. Assuming all of it were financed, the 2032 rate would be about \$8.50 higher than in the rate plan.

- **Can you summarize the differences in costs and key assumptions made since last year's rate setting?**

Staff were directed to rate-related materials from the February MWPAAC meetings

- **Has rate smoothing been considered?**

WTD clarified that the rate scenarios presented in appendix D (Sewer Rate Plan Alternatives Evaluated) include smoothing the effects of the various scenarios, i.e. a 4th treatment facility if required to comply with nutrient limits, CSO placeholder, etc. If these scenarios did not include smoothing, they would demonstrate even greater rate volatility in the years when major, rate-driving capital project costs were incurred.

- **Request to see rate scenarios with high-rate outcomes (high nutrient compliance costs, unfavorable CSO outcomes) presented together, not in separate buckets. What is the worst-case scenario?**

WTD clarified that the three alternative rate plan scenarios presented in Appendix D are not all negative scenarios. 1 might be considered worst-case, another is a positive scenario, and a third is more of a shift of costs from short to long term. Mr. Gurol further answered that WTD expects to learn much more about nutrient regulations and CSO consent decree status (two enormous cost drivers) during 2022 and should be able to provide much more information to MWPAAC by fall 2022.

- **Question about seeing a rate sensitivity analysis with a recalibrated RCE.**

Attendees were directed to a recent report that contains a rough estimate of a % change in RCE [changing it from current value of 1 RCE = 750cf / month.]). This percentage could be applied to the rate forecast to arrive at this scenario. WTD staff further clarified that changing the RCE value would first require changes to the sewer contract each MWPAAC agency has signed with WTD.

- **Is there a proposal for if the Consent Decree extension is not allowed, forcing completion by 2030?**

Such a scenario was in last year's rate proposal and would look very similar if analyzed today. For various reasons, this scenario was not included in this year's proposal.

- **In addition to making good progress on nutrients and CSO definition this year, is it possible to do deeper planning on asset management costs so that can be greater defined as well?**

Yes – and it is WTD's intent to keep pulling on that string and provide better information over time to MWPAAC.

Several attendees thanked WTD staff for their detailed presentation and continued transparency with MWPAAC as the rate proposal continues to evolve. Many believe this is the best rate proposal packet and presentation we have ever seen.

Finally, there was a brief discussion about the upcoming MWPAAC rate letter to the King County Executive and how to proceed since the final rate proposal is not yet known. Due to time constraints we decided to have a separate meeting of the Rates & Finance Subcommittee on March 10, after WTD Staff meets with County Executive and has a final rate proposal. At that special meeting, attendees will discuss items to include in rate letter. The rate letter needs to be sent to WTD for inclusion in MWPAAC General meeting materials by March 16.

The next R&F meeting will be held on April 7, 2022. Please attend this teleconference meeting.

Questions?

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