

2024 Sewer Rate Process
**Review of 10-Year (2023-2032) Sewer
Rate Forecast and Preliminary 2024
Rate-setting Policy Direction**
King County Wastewater Treatment Division
MWPAAC

January 25, 2023

Agenda

1. 2024 Sewer Rate Goals and Schedule
2. 2023-2032 Sewer Rate Forecast
3. New Operating Costs
4. New Capital Costs
5. Capacity Charge
6. Next steps

Goals for 2024 Sewer Rate Development

- Respond to increasing regulatory requirements
- Increase reliability at off-site locations and West Point Treatment Plant
- Respond to growth-related demand on the system
- Address the most critical asset management risks
- Respond to King County priorities: Clean Water Healthy Habitat, Strategic Climate Action Plan, and Equity and Social Justice

2024 Sewer Rate Schedule (Jan-Feb)

MONTH	ACTIVITIES
January	WTD Capital Improvement Program (CIP) Portfolio development
	WTD 2022 year-end activities
	WTD continues preliminary 2024-2033 Rate Forecast policy discussions with Department of Natural Resources and Parks (DNRP) Director's Office and Office of Performance, Strategy and Budget (PSB)
	January 25 – Full MWPAAC meeting <ul style="list-style-type: none"> • Review WTD Goals for 2024 Rate-setting Process and Schedule • Review 2023-2032 Rate Forecast • Discuss Preliminary 2024 Rate-setting Policy Direction
February	WTD CIP Portfolio development completed for 2024 rate forecast
	WTD 2022 year-end activities substantially complete
	WTD continues discussions with DNRP Director's Office and PSB: Present Sewer Rate and Capacity Charge estimates
	Feb. 2 – Rates & Finance Subcommittee meeting <ul style="list-style-type: none"> • Discuss updates on 2024 rate-setting policy direction, if possible
	Feb. 22 – Full MWPAAC meeting <ul style="list-style-type: none"> • Discuss updates on 2024 rate-setting policy direction, if possible

2024 Sewer Rate Schedule (March)

MONTH	ACTIVITIES
March	Early March – Brief King County Executive on DNRP/WTD 2024 Sewer Rate and Capacity Charge Proposal
	Early March – WTD submits 2024 Sewer Rate and Capacity Charge Proposal to DNRP Director’s Office
	March 2 – Rates & Finance Subcommittee meeting <ul style="list-style-type: none"> • Review key points of meeting with DNRP Director’s Office and Executive’s Office, if possible • Discuss key points for draft MWPAAC letter on sewer rate recommendation to Executive for consideration and action at March 22 full MWPAAC meeting
	Mid-March – DNRP Director’s Office submits 2024 Sewer Rate and Capacity Charge Proposal to King County Executive
	March 15 – Draft MWPAAC sewer rate recommendation letter is emailed to MWPAAC members one week in advance of MWPAAC’s March 22 general meeting
	March 22 – MWPAAC General meeting <ul style="list-style-type: none"> • Present DNRP/WTD 2024 Sewer Rate and Capacity Charge proposal • MWPAAC considers and takes action on its recommendation letter to King County Executive

2024 Sewer Rate Schedule (April-June)

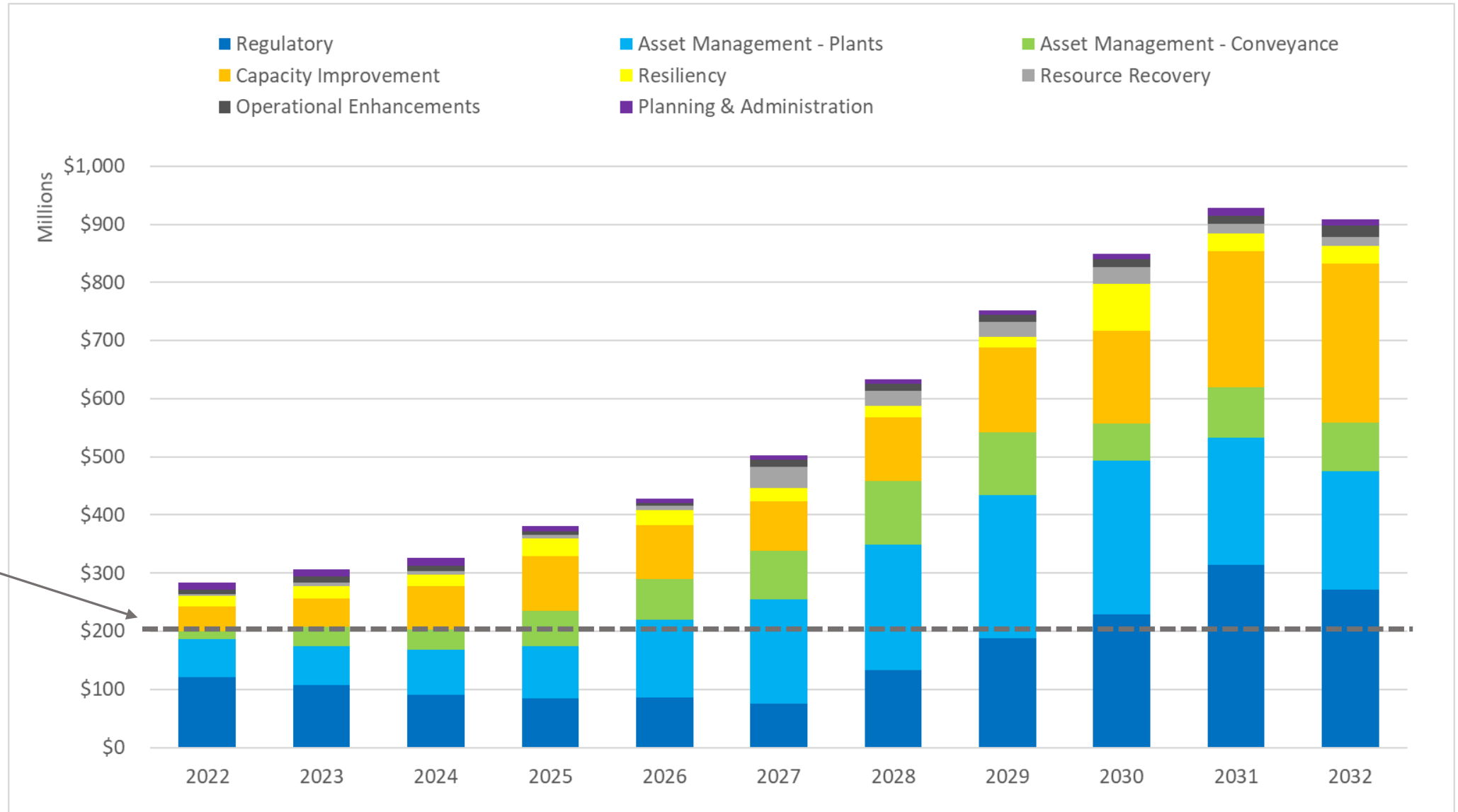
MONTH	ACTIVITIES
April	<p>April 6 – Rates & Finance Subcommittee meeting</p> <ul style="list-style-type: none"> Review Executive's Proposed 2024 Sewer Rate and Capacity Charge recommendation to King County Council Discuss whether MWPAAC wants to send a separate sewer rate and capacity charge recommendation letter to the King County Council
	<p>April TBD – Rates and Finance Subcommittee special meeting</p> <ul style="list-style-type: none"> Should the Rates and Finance Subcommittee recommend a separate letter to Council, the draft MWPAAC sewer rate recommendation letter is e-mailed to MWPAAC members one week in advance of MWPAAC's April 26 General meeting
	<p>Mid-April – King County Executive transmits 2024 Sewer Rate and Capacity Charge Recommendation to King County Council</p>
	<p>April 26 – MWPAAC General meeting</p> <ul style="list-style-type: none"> Present King County Executive's Proposed 2024 Sewer Rate and Capacity Charge MWPAAC consideration and action on separate sewer rate recommendation letter provided there is support for a separate letter to King County Council
May	<p>May 3 - WTD briefs the Regional Water Quality Committee on the King County Executive's Proposed 2024 Sewer Rate and Capacity Charge</p>
	<p>Brief the Budget and Fiscal Management Committee on the Executive's Proposed 2024 Sewer Rate and Capacity Charge</p>
June	<p>Budget and Fiscal Management Committee makes a recommendation on the Executive's Proposed 2024 Sewer Rate and Capacity Charge</p>
	<p>Public hearing and action on the Executive's Proposed 2024 Sewer Rate and Capacity Charge by King County Council</p>

2023-2032 Sewer Rate Forecast

- Responded to requests for earlier information and more transparency
- Combined Sewer Overflow (CSO) control project timing reflected approaching milestones (34% of costs included in forecast)
- Prioritized West Point Treatment Plant investments in power quality
- Initial investments to comply with the Puget Sound Nutrient General Permit (\$50 million total)
- Maintained commitment to address highest priority asset management projects (Tier 1)
- New operating investments to support increasing capital program delivery and operating programs (\$11 million beginning in 2023)
- 96 new full-time equivalent positions (costs distributed between capital and operating budgets)

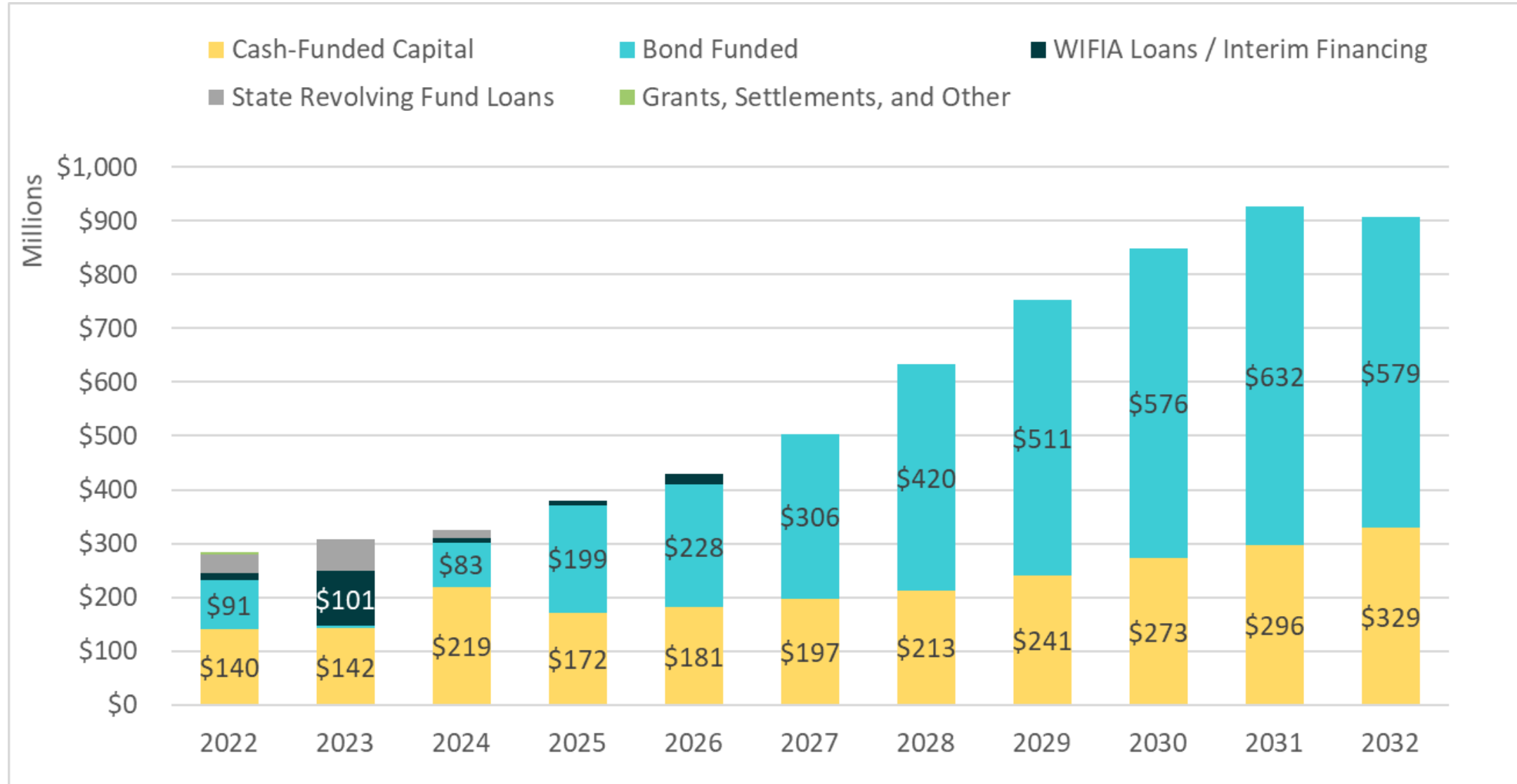
2023-2032 Rate Forecast	Adopted 2021	Adopted 2022									
Adopted	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Rate Increase %	4.00%	5.75%	5.75%	5.75%	5.75%	5.75%	9.00%	9.00%	9.00%	9.00%	9.00%
Monthly Sewer Rate	\$49.27	\$52.11	\$55.11	\$58.28	\$61.64	\$65.19	\$71.06	\$77.46	\$84.44	\$92.04	\$100.33
Rate Increase \$	\$1.90	\$2.84	\$3.00	\$3.17	\$3.36	\$3.55	\$5.87	\$6.40	\$6.98	\$7.60	\$8.29
All-In Debt Service Coverage	1.55x	1.59x	1.63x	1.64x	1.65x	1.67x	1.69x	1.72x	1.70x	1.70x	1.71x
Projected CIP Spend (\$m)	\$283	\$307	\$326	\$381	\$429	\$503	\$633	\$752	\$849	\$928	\$908

CIP – 2023-2032 Rate Forecast

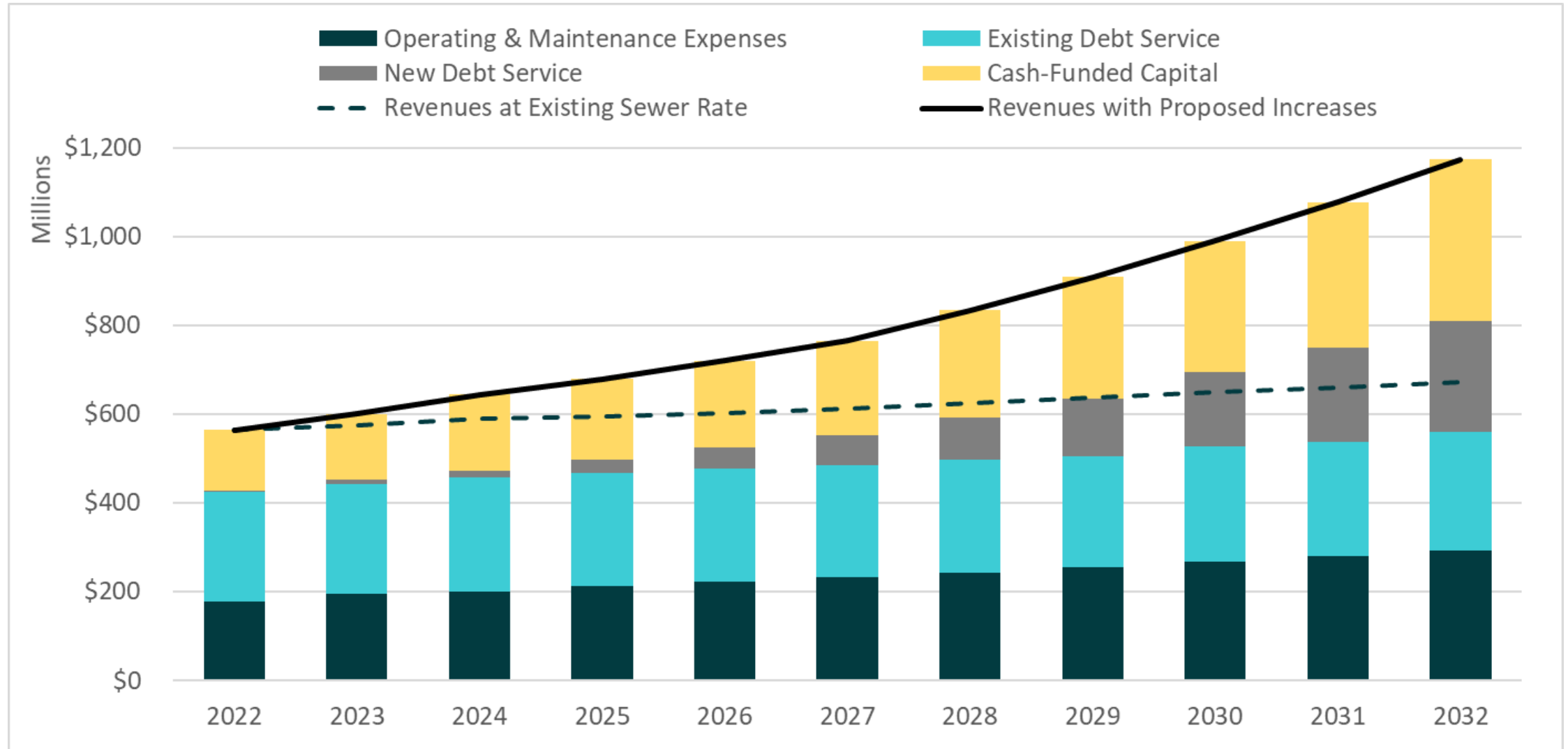


2021 actual spend \$205m

Capital Funding Sources – 2023-2032 Rate Forecast



Revenue Requirement – 2023-2032 Rate Forecast



Summary of Changes and Issues

Economic Conditions:

- Continued high inflation
- Supply chain challenges
- Labor supply shortage and cost increases

Regulatory:

- General Nutrient Permit finalized December 2021
- PFAS – Potential costs not included in the rate
- Project milestones nearing, more costs to be included in sewer rate forecast period

Emerging Capital Projects:

- Conceptual scope development and cost estimate updates for near-term projects

Updated Operating Assumptions

2023-2032
Rate Forecast
(Operating)

2023-2032 Rate Forecast	Adopted 2021	Adopted 2022		
Adopted	2022	2023	2024	2025
O&M Expenses	\$175,490	\$193,327	\$198,878	\$210,585

Excerpt from 2023 - 2032 Sewer Rate Forecast:

2023 Operating Forecast Total - \$193,327,000

2024 Operating Forecast Total - \$198,878,000



2023 Sewer
Rate

2023 New Operating Investments (\$11.33M)

- Nutrient Permit – 11 FTEs = \$1.40M
- Strategic Climate Action Plan – 3 FTEs = \$0.61M
- Capital Program – 50 FTEs = \$1.25M
- Operations – 32 FTEs = \$8.07M

Note: FTEs may have an operating/capital split allocation



Additions for
2024

General Wage Increase (GWI)

Coalition Labor Agreement (CLA) provides for a 4.0% GWI, resulting in a \$2 million labor cost increase.

New Operating Investment Requests

Currently under WTD management deliberations

Updated Capital Assumptions

Regulatory Key Assumptions

2023 Sewer Rate Forecast

- Nutrient Removal: Included near-term compliance costs for Final Puget Sound Nutrients General Permit
- CSOs: Assumed modification of the consent decree, but reflected a more conservative approach by moving forecasted expenditures up into the 2023-2032 timeframe

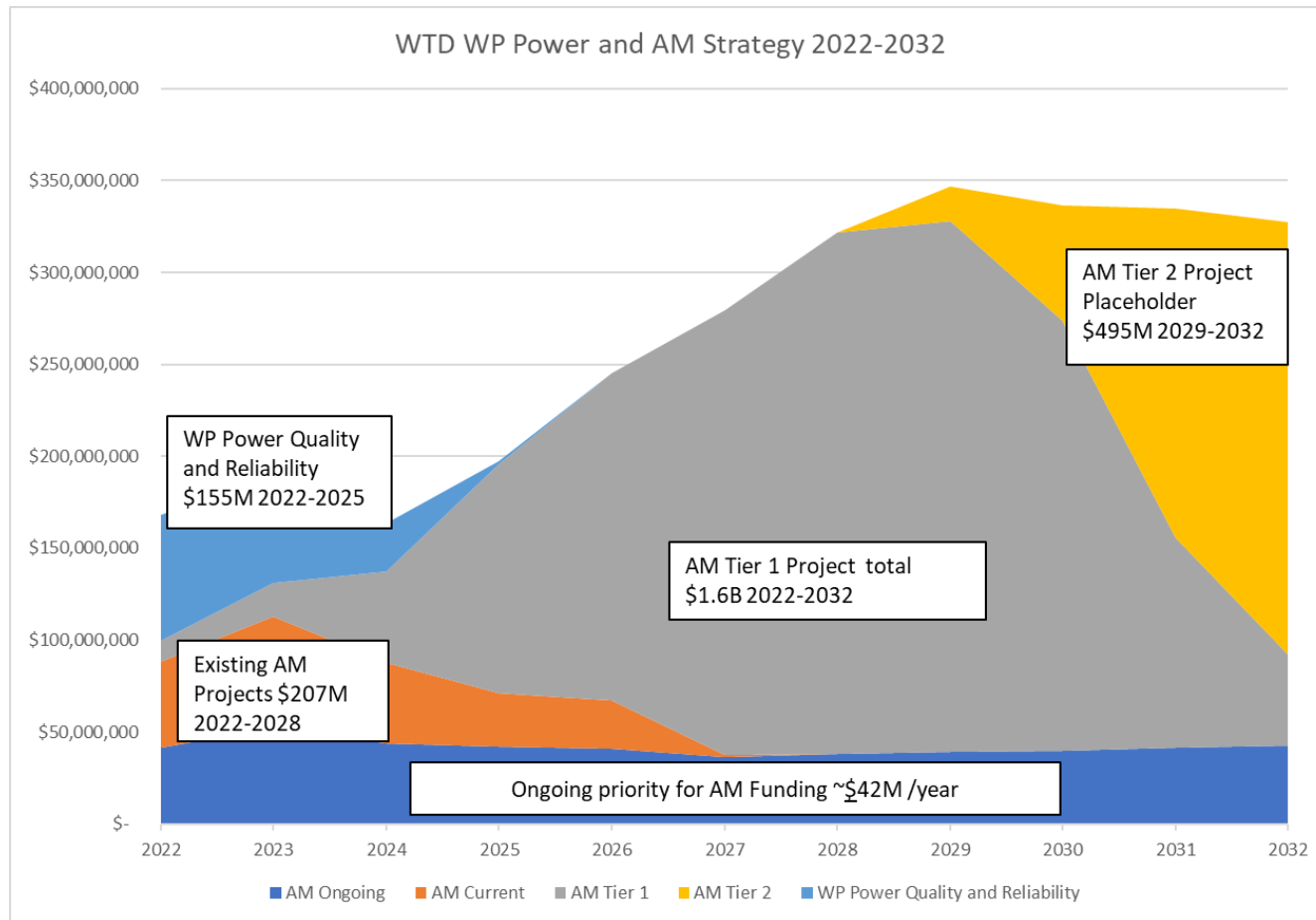
2024-2033 Key Assumptions

- Nutrient Removal: Maintain assumption
- CSOs: Maintain assumption
- Per- and Polyfluoroalkyl substances (PFAS): No capital costs included in forecast. Potential regulations unknown and will be monitored for change

King County PFAS Coordination Group

- Subject matter experts from various county departments
- Tracking, developing and implementing policy, actions, and work to eliminate PFAS and reduce impacts
- Working to identify, prioritize, reduce and control sources, exposures, and risk from PFAS to environment and people in King County

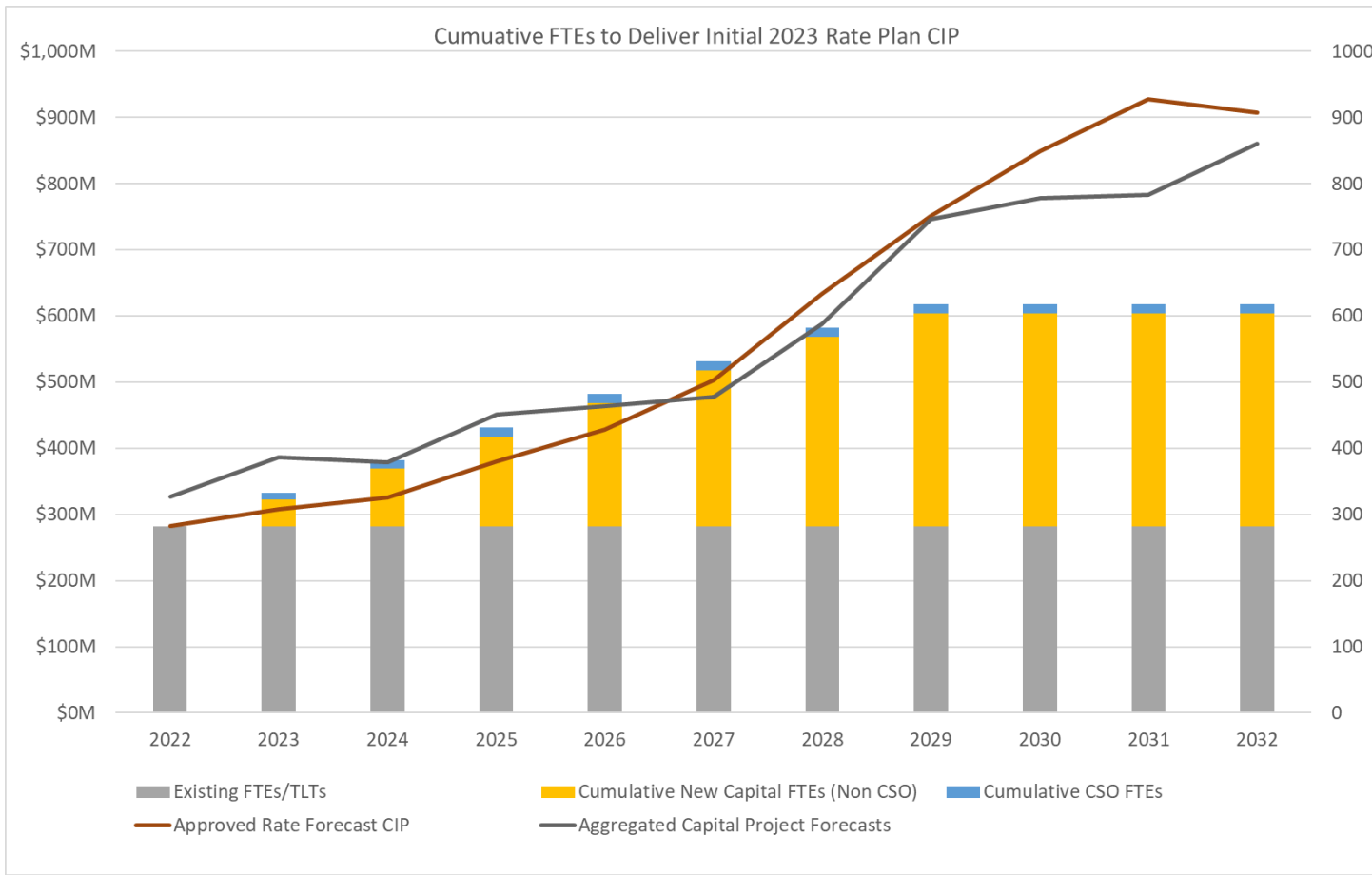
Asset Management Inventory – Key Assumptions



- 2023 Sewer Rate proposal maintained 2022 Sewer Rate assumption to initiate Tier 1 Asset Management projects in 2022 with a target completion date of 2033
- Tier 1 projects are defined as:
 - Poor condition, unserviceable, or for which spare parts cannot be found
 - Asset not meeting all the functions it was intended to do or is currently at risk of having a catastrophic failure due to the condition or does not have spare parts available and is in an area where failure would have unacceptable consequences
 - Consequences of failure include sewage overflows, other operating permit violations, or would disrupt operations in a way that there would be no easy workarounds

Project Delivery

Capital Expenditure Forecast Delivery Resource Analysis



- Assumes recent consultant to staff ratio (1.3:1) for growing CIP
- Exception for large CSO project, Mouth of the Duwamish (MoD), which will have a different resourcing profile
- Throughput will be limited near-term by existing staff limitations

Why Collaborative Delivery?

- WTD Capital program projected to grow 110% with several large projects and programs planned over the next 6 years
- Design, bid, build delivery method relies heavily on internal staff resources
- WTD is combining like projects into programs and supporting them with larger design and construction contracts
- The industry is increasingly using collaborative delivery as the preferred method for delivering large projects in public capital programs
- Collaborative delivery is quickly becoming a standard delivery option, although NOT suited for all projects
- Advantages include less internal resources and potential improvements in schedule, quality, and increased risk mitigation



What have we done so far?

- Formed a committee of subject matter experts to develop enhanced processes that include collaborative project delivery methods
- Implemented a training series for Design Build and GCCM delivery methods already attended by more than 50 WTD staff
- Developed a project evaluation process with specific criteria to determine if projects in the portfolio are good candidates for collaborative delivery
- Conducted significant industry outreach to contractors, consultants, and other public utilities regarding the use, best practices, and lessons learned around collaborative delivery and programmatic delivery approaches
- Incorporated collaborative delivery methods into standard WTD governance processes and stage gate reviews



Current WTD Projects Using Collaborative Delivery

The Eastside Interceptor (ESI) - [Progressive Design Build](#)

ESI rehabilitation will repair one of WTD's primary sewer conveyance systems that carries flows to the Renton South Treatment Plant. Project is estimated at \$70M and scheduled for completion in 2025.

M Street Trunk Rehabilitation - [Progressive Design Build](#)

Project will include repair of over 13,800 linear feet (LF) of severely deteriorated reinforced concrete sewer trunk pipe in Auburn. Project is estimated at \$37M and scheduled for completion in 2025.

West Point Treatment Plant Improvements - [General Contractor/Construction Manager \(GCCM\)](#)

Combines several projects and minor asset management needs into a single GCCM construction contract. Combined effort is estimated at \$175M and scheduled for completion in 2029.

Elliott West Wet Weather Treatment Station - [General Contractor/Construction Manager \(GCCM\)](#)

Upgrade of existing CSO control station and modification of outfall to meet regulatory compliance requirements. Project is estimated at \$350M and scheduled for completion in 2034.



Capacity Charge

Capacity Charge

- 2024 Capacity Charge proposal will use existing methodology for proposal development
- Capacity Charge Working Group updates will occur at a future date in 2023

Capacity Charge	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Capacity Charge	\$70.39	\$72.50	\$74.68	\$76.92	\$79.23	\$81.61	\$84.06	\$86.58	\$89.18	\$91.86	\$94.62
Increase %	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Increase \$	\$2.05	\$2.11	\$2.18	\$2.24	\$2.31	\$2.38	\$2.45	\$2.52	\$2.60	\$2.68	\$2.76
Annual Total	\$845	\$870	\$896	\$923	\$951	\$979	\$1,009	\$1,039	\$1,070	\$1,102	\$1,135
Total Pmts (15 yrs)	\$12,670	\$13,050	\$13,442	\$13,846	\$14,261	\$14,690	\$15,131	\$15,584	\$16,052	\$16,535	\$17,032
Upfront Payment*	\$10,901	\$11,228	\$11,566	\$11,913	\$12,270	\$12,639	\$13,018	\$13,409	\$13,811	\$14,226	\$14,654
*Discount rate of 2.1%											

Next Steps before Executive Briefing & Proposal

January 25 – Full MWPAAC meeting

- Review WTD Goals for 2024 Rate-setting Process and Schedule
- Review 2023-2032 Rate Forecast
- Discuss Preliminary 2024 Rate-setting Policy Direction

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- Discuss updates on 2024 rate-setting policy direction, if possible

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