



Metropolitan Water Pollution Abatement Advisory Committee

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Valley View Sewer District
Vashon Sewer District
Woodinville Water District

March 22, 2023

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

SUBJECT: Wastewater Treatment Division 2024 Rate Recommendation

Dear Executive Constantine:

The Metropolitan Water Pollution Abatement Advisory Committee (MWWPAAC) supports a well maintained and functioning treatment system. We believe substantially more work is needed to address the long-term affordability of the Wastewater Treatment Division's (WTD) rates. Part of this concern is with the rapidly increasing rate path, driven largely by the capital program. MWWPAAC supports the 2024 rate, but we do not have confidence in the proposed rate path. While we are pleased that WTD is providing rate projections that are lower than the initial 10-year forecast shared in February, the projected path is predicated on policy and Capital Program changes that have not received sufficient review and deliberation.

MWWPAAC values the increased transparency and more thorough and timely rate information provided by WTD staff over the past year. Member agencies have gained a greater awareness and understanding of the factors contributing to the increase. Managing expenditures will be key to rate stability and affordability as all agencies strive to meet their system needs with the rapidly growing treatment costs.

We continue to seek further improvements from WTD with the timing of the overall rate setting process, particularly the extent to which costs and rate scenarios are changed with so little time for discussion and understanding. We appreciate WTD's willingness to fact-check its assumptions and to adjust the plan to reflect current capital delivery conditions but were challenged by the limited time to consider the implications of these changes. We continue to have questions regarding the significant increase in both staffing and the proposed changes to both the capital projects and funding. We ask for further examination and detailed discussion of these investments to help keep rates as low as reasonably possible in the long-term.

Over the following year, MWWPAAC requests additional dialogue and information in the following areas:

Cash Funding Policy

WTD developed its current policy of funding 40 percent of its capital program through a multi-year process in collaboration with MWPAAC between 2014 and 2016. The stated goal of this approach was to reduce the reliance on debt financing, reduce future debt levels, and improve WTD's ability to deal with uncertainty, specifically those related to new environmental regulations, natural disasters, or increasing capital costs.

As part of the 2024 rate proposal, WTD proposes to change this policy. **This change would not reduce the 2024 rate and would have no impact on the rate path until 2027.** MWPAAC has serious concerns about the proposed strategy to reduce cash financing of capital based on original cost depreciation.

- WTD carries significantly more debt than comparable utilities - cited as source of concern on most recent Standard & Poor (S&P) rating: *Extremely high existing leverage*.
- WTD's proposed basis for cash funding, original cost depreciation, relies on an accounting metric that is incompatible with a forward-looking capital funding strategy. We want to see WTD use an approach founded in asset management or utility rate setting best practice.
- MWPAAC has expressed concerns about the long-term rate impacts of an over-reliance on debt. We look forward to WTD presenting information with an appropriate long-term horizon to quantify the long-term rate impact of this change.
- Using limited debt capacity today increases the risk of rate spikes in the future. WTD in its presentation to MWPAAC on Jan 25, 2023, has already acknowledged several large known risk areas that are not factored into current rate assumptions, including risk of adverse outcomes in the CSO consent decree negotiations, Nutrient General Permit compliance requirements, and per- and polyfluoroalkyl substances (PFAS)-related regulatory costs.
- Existing WTD cash funding policy was the result of a rigorous process. It should not be reverted without similar analysis and process.

During 2022, WTD staff presented materials regarding a proposed change in its level of cash funding for the capital program. In November 2022, MWPAAC expressed to the WTD director that while we support efforts to manage the affordability of the rates, WTD had not presented sufficient information regarding the long-term implications of a change to that policy and could not support changing the policy without information regarding the trade-offs being presented.

We look forward to revisiting this essential topic once more information is available and engaging in a thorough process to evaluate both the near and long-term implications of the policy.

Cost Savings and Focus on the Core Mission

MWPAAC appreciates the reports on cost savings that staff has provided – we look forward to this trend continuing. With the sobering numbers in the rate projections, it is even more important to understand how cost savings and efficiencies are being programmed by WTD to make the best use of ratepayers' dollars. Last year, WTD added 96 FTEs to support the capital program and this year they are adding another 73 FTEs, representing almost 25 percent growth in staffing between 2022 and 2024. MWPAAC's expectation is that WTD will seek efficiencies in operations and personnel and make the highest and best use of every FTE, as we all must at our individual agencies.

This focus on cost savings extends to prioritizing the portions of the operating and capital budget that are essential for achieving WTD's core mission. While the 2024 rate setting process has focused on capital needs and financing strategy, the impact of the operating budget on rates should not be neglected. We urge WTD to emphasize cost savings and prioritization of its core mission as it restarts efforts on the Clean Water Plan.

Growth Pays for Growth

Capacity improvements are a significant rate driver. One of the principles of the Robinswood Agreement was that WTD's financing structure should "achieve the principle of growth pays for growth." The capacity charge is intended to support this outcome, but in recent years WTD has not presented information comparing the overall cost of growth to the revenues received through the capacity charge. MWPAAC recognizes its role in setting priorities and developing our workplan, and highlighting the issues laid out in this letter contributes to our shared transparency. As we consider the affordability of the rates, it is essential that this balance be evaluated and adjusted to ensure that existing ratepayers are not subsidizing the cost of growth. MWPAAC looks forward to working with WTD on this issue both with the Capacity Charge Working Group and with the broader MWPAAC membership.

Asset Management and Capital Planning

The need to replace and refurbish aging infrastructure continues to be a significant driver of rate increases. MWPAAC recognizes the necessity of maintaining a resilient and functional system, and that the risk of failure increases over time. As we look to a future with enormous costs for asset replacements and refurbishments, we need continued discussion about capital prioritization and decision-making related to the Asset Management program. MWPAAC appreciates the detailed information WTD staff has shared in the past year on this subject. The Comprehensive Engineering and Planning Subcommittee (E&P) looks forward to deeply engaging in this work with WTD staff, particularly as it pertains to how capital accomplishment rates and project deferral assumptions align with the County's strategy for managing its assets at the lowest long-term cost to the ratepayer, while avoiding catastrophic system failures. E&P also appreciates WTD's proactive approach of completing an independent, third-party review of the Capital Improvement Program (CIP) in 2023 and looks forward to engagement on scope development and deliverables.

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MWPAAC appreciates this opportunity to communicate our recommendations and concerns. We thank WTD for providing in-depth rate development briefings to address some of our concerns over the compressed rate timeline. We are hopeful that 2023 will provide answers to very big questions – related to the Nutrient General Permit, consent decree negotiations, necessary system investments, and direction of the Clean Water Plan. We anticipate these answers will add more clarity to the ten-year rate plan in 2024. We recognize that there are no easy answers to these challenges we face, and we can only hope to make progress when we continue to work together. As always, we look forward to strengthening our collaborative relationship as we all strive to provide high value wastewater collection and treatment services for a rapidly growing region.

Sincerely,



John McClellan
MWPAAC Chair

e-cc: MWPAAC Members

Christie True, Director, Department of Natural Resources and Parks (DNRP)

Kamuron Gurol, Division Director, Wastewater Treatment Division, DNRP