

MWPAAC Rates & Finance
Cash-Funding Capital

King County Wastewater Treatment Division

October 5, 2023

Agenda

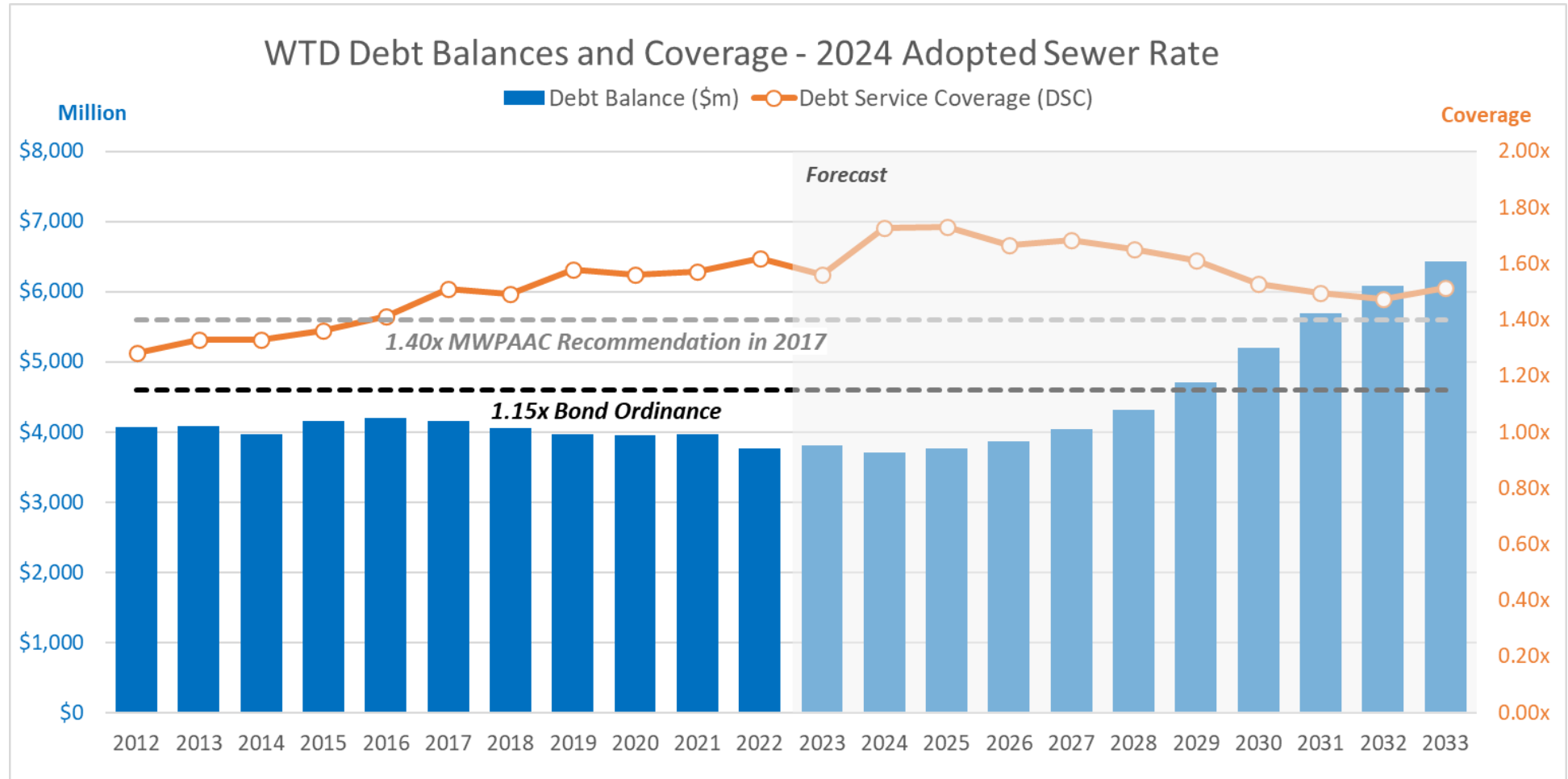
1. Initial Goals and Progress to Date
2. Analyzing Cash-Funding Performance and Projections
3. Original Cost Depreciation vs Repair & Replacement (R&R)
4. Discussion

Revisiting MWPAAC Debt Review Team Recommendations

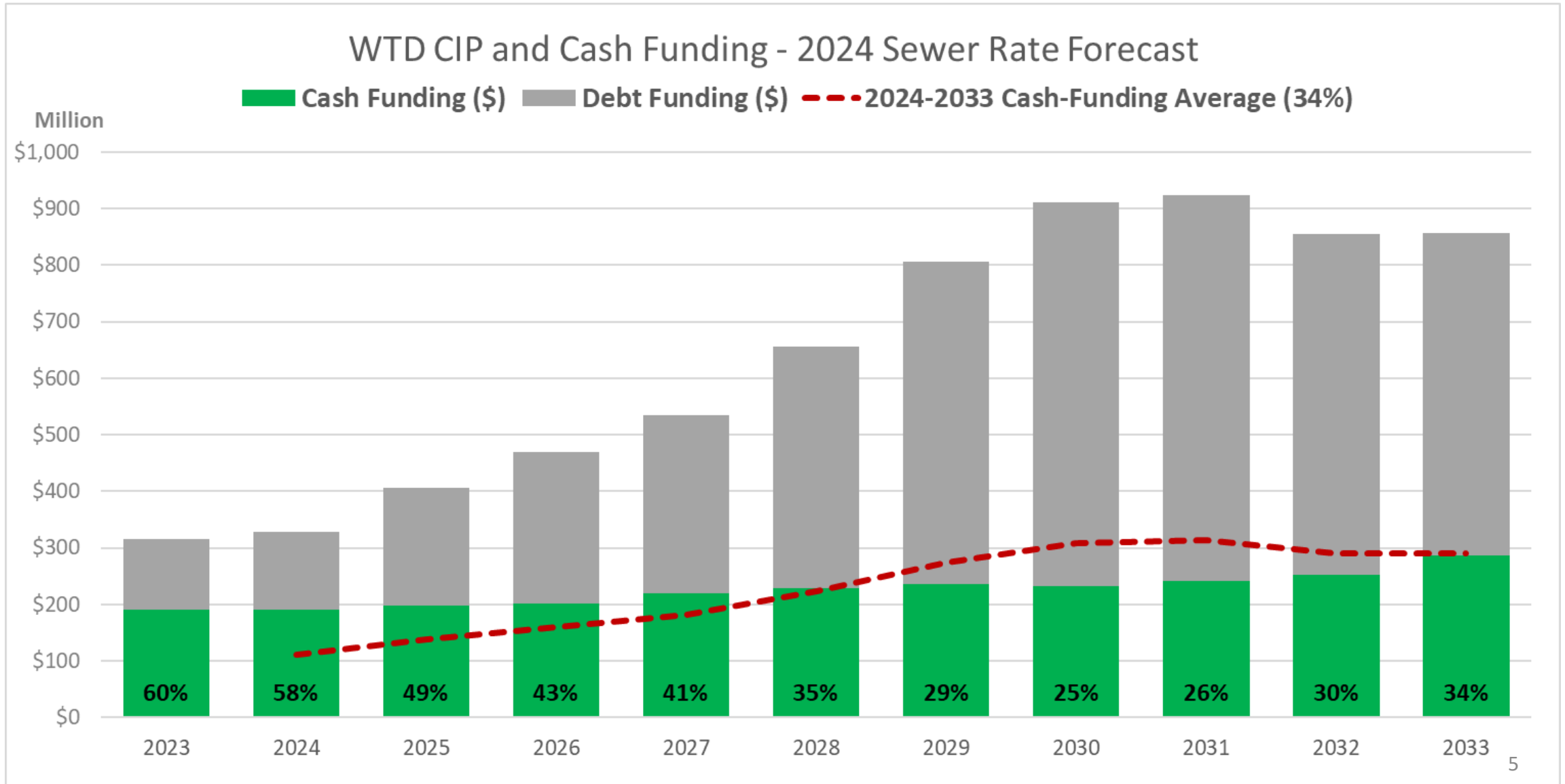
- In December 2015, MWPAAC recommended higher debt service coverage, to be achieved through higher sewer rates. Key takeaways from MWPAAC's recommendation letter:
 - a) 1.40x coverage target by 2030 (instead of 1.15x)
 - b) Slower growth in debt balances: ~\$4bn projected by 2022
 - c) Higher annual sewer rate increases: from 2.1% to 3.0%
- In response, WTD implemented an average 40% cash-funding target, which at the time translated into 1.30x coverage by 2022

Progress to Date: Initial Goals Have Been Met

- a) 1.40x coverage was achieved in 2016 (instead of 2030) and reached 1.72x in 2022
- b) Debt growth not only slowed, but total balances have decreased (\$3.8bn in 2022)
- c) Average annual rate increases of 2.7% (2017-2022) and forecasted at 6.4% (2023-2032)



Frontloading: Cash Contributions Above 40% Until 2028



Original Cost Depreciation vs Repair & Replacement (R&R)

Original Cost Depreciation

Cash funding based on WTD forecasted depreciation (existing and future assets)

- Uses depreciation schedule expenses and assumptions for future projects useful lives
- Does not fully take inflation into account
- Cash requirements are smooth

Repair & Replacement (R&R)

Cash funding based on WTD's projected spending in Asset Management projects

- Matches replacement cost of existing assets
- Costs are associated with project timing
- Takes inflation into account
- Cash requirements can be lumpy and require more rate smoothing

Commitment to maintain a minimum 1.40x debt service coverage



Discussion



Original Cost Depreciation vs Repair & Replacement (R&R)

Comparison Table	Original Cost Depreciation	Repair & Replacement (Asset Management)
10-year Cash Funding Average	34%	36%
Sewer Rates in 2033	\$97.63	\$99.97
Meets 1.40x DSC in 2033	1.51x	1.57x
Total Debt Balance in 2033 (\$bn)	\$6.4	\$6.3
Rate Volatility	Less	More

- WTD's estimated capital spending in the next 10 years in the asset management portfolio category is \$2.4bn (36% of total CIP), compared to \$2.3bn (34%) in estimated future depreciation
 - WTD will continue tracking how those two metrics compare in each rate cycle



**Wastewater Treatment Division
Rates, Capital, & Debt Management**

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