

MWPAAC Rates & Finance

Rate-Setting 101

King County Wastewater Treatment Division

November 2, 2023

Generally Accepted Rate-Setting Methodology (M1, American Water Works Association)

1

Revenue Requirement: Compares the revenues of the utility to its operating and capital costs to determine the adequacy of the existing rates to recover the utility's costs

Focus of this presentation

2

Allocation to Customer Classes (Cost of Service Analysis): Allocates the revenue requirements to the various customer classes of service in a fair and equitable manner

Single family residential, multi-family/commercial, industrial strength surcharge

3

Rate Design: Considers both the level and structure of the rate design to collect the distributed revenue requirements from each class of service

One sewer rate fee per RCE (750 cubic feet of water use per month)

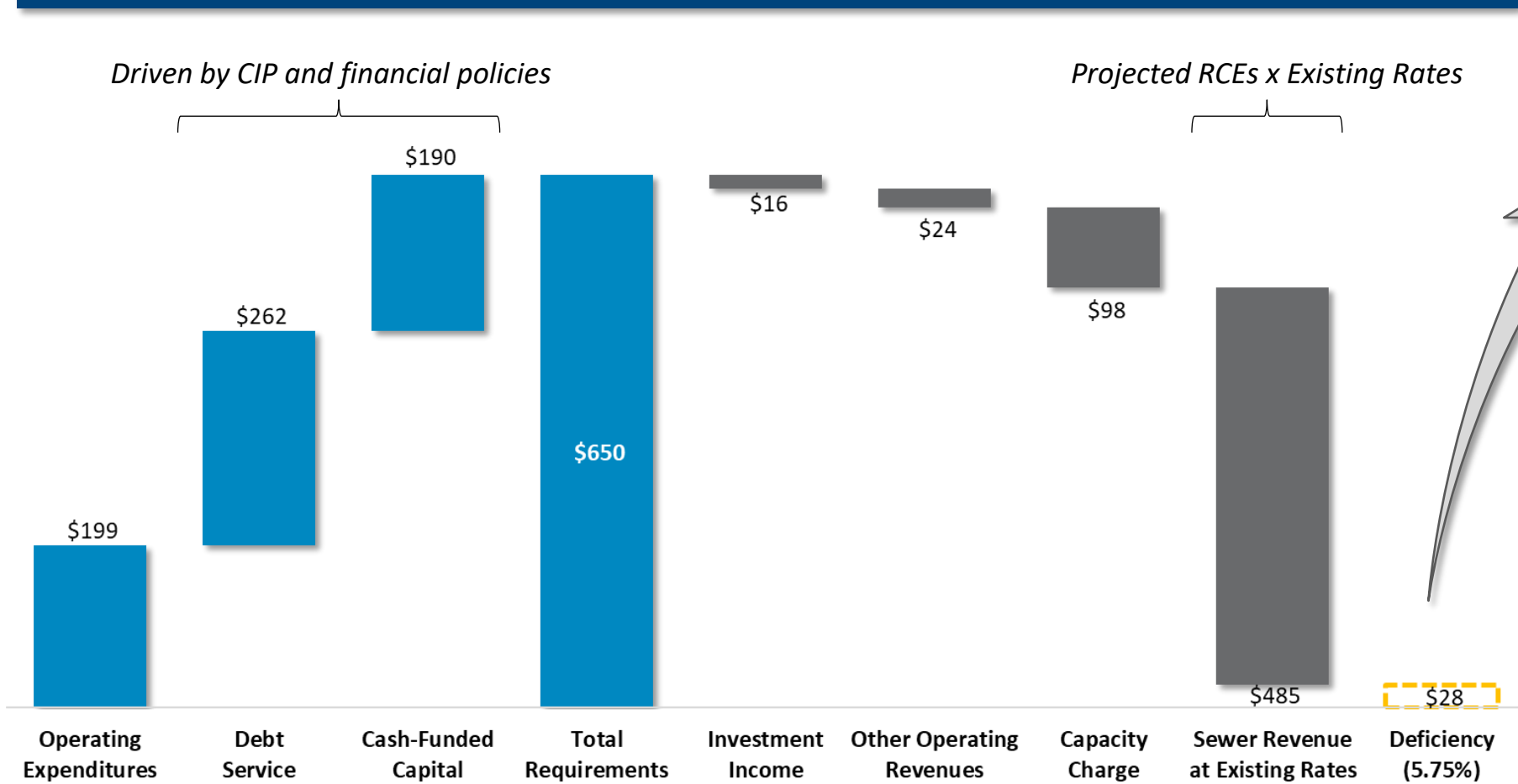
Determined by existing contracts

Introduction to Revenue Requirement

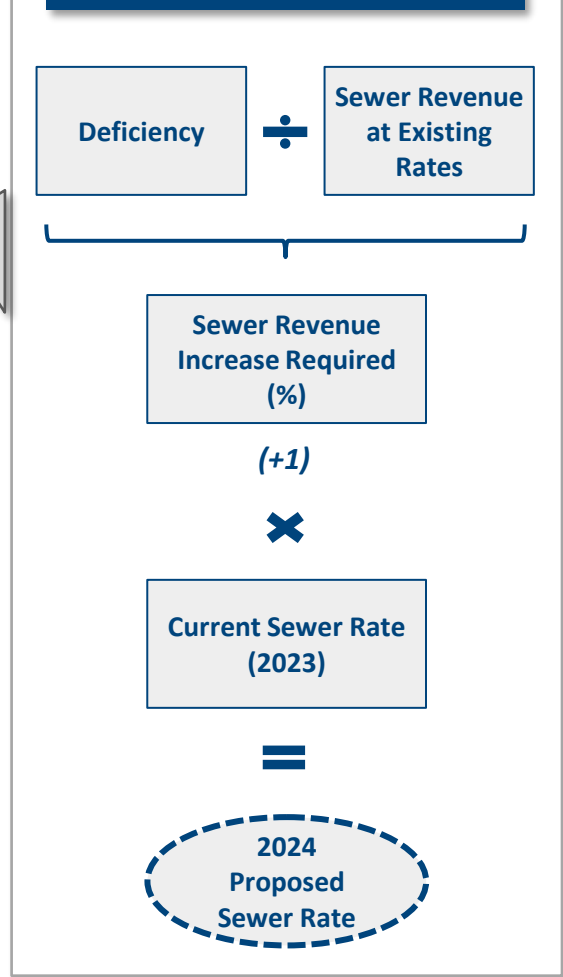
- Utility enterprise funds (such as WTD) must set user fees to recover the cost of providing services and this cost is known as the utilities' revenue requirement. **In short: How much cash we need**
 - ✓ Revenue requirements are impacted by financial policies and include operating expenditures, debt repayment, reserves, and cash-funded capital
- The sewer rate is adopted annually, as required by King County Code, and the funding needs and revenues generated are viewed as part of a 10-year financial forecast

Revenue Requirement Overview

2024 Adopted Sewer Rate (\$ million)



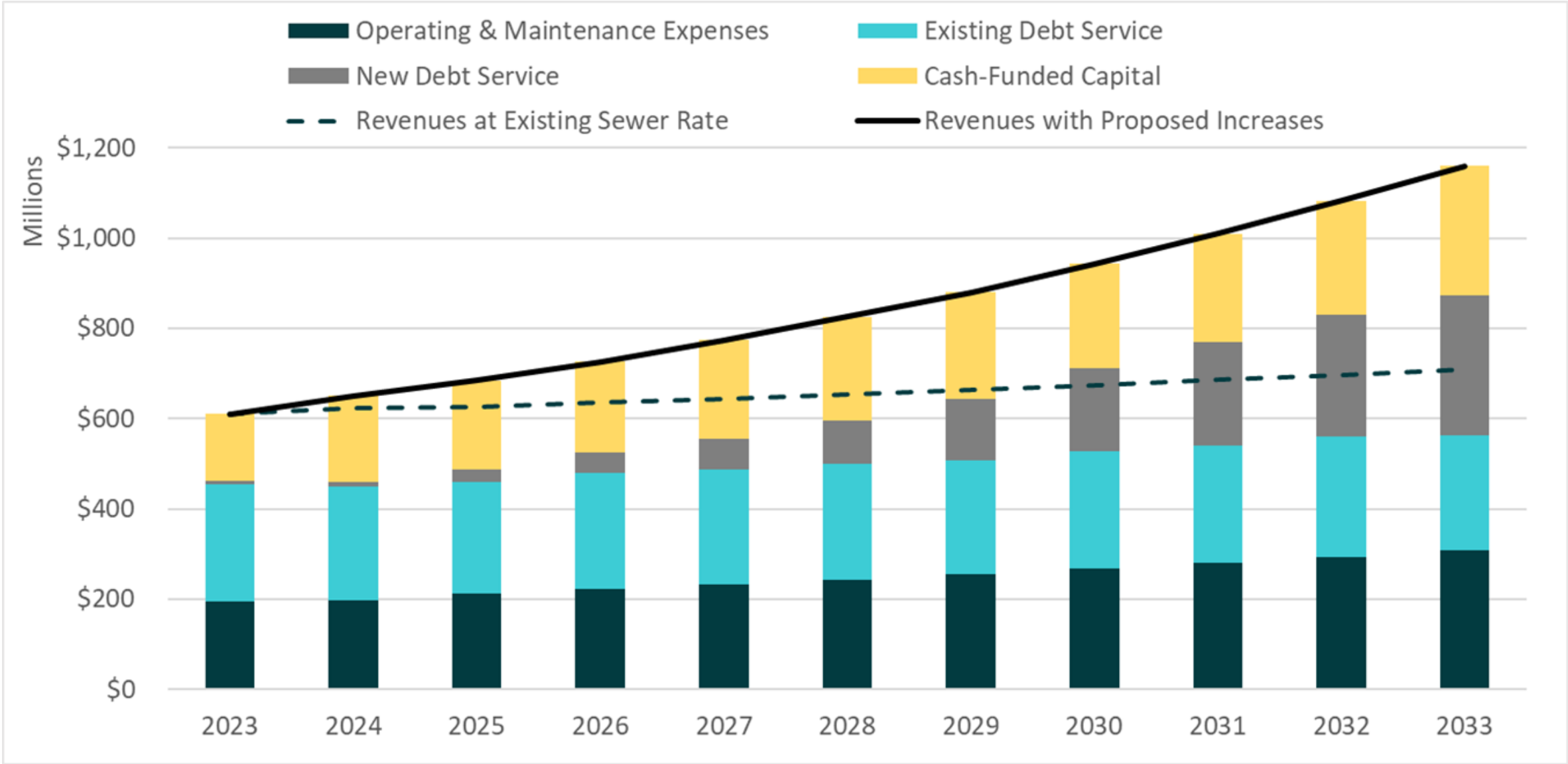
Sewer Rate Calculation



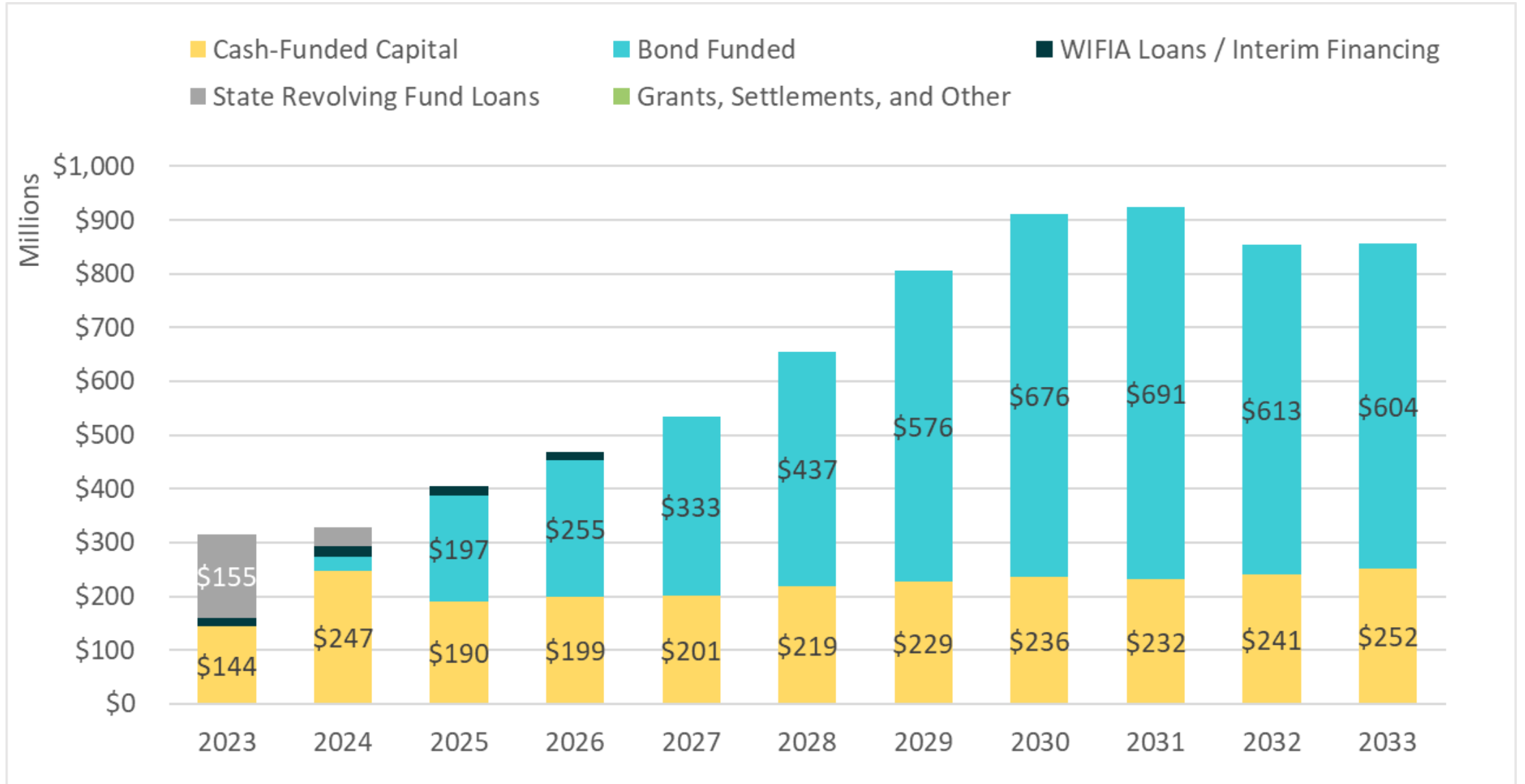
2024-2033 Sewer Rate Projection

2024-2033 Sewer Rate Projection		Adopted									
2024 Adopted Sewer Rate	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Rate Increase %	5.75%	5.75%	5.75%	5.75%	6.50%	6.50%	6.50%	7.00%	7.00%	7.00%	7.00%
Monthly Sewer Rate	\$52.11	\$55.11	\$58.28	\$61.64	\$65.65	\$69.92	\$74.47	\$79.69	\$85.27	\$91.24	\$97.63
All-In Debt Service Coverage	1.56x	1.73x	1.73x	1.67x	1.68x	1.65x	1.61x	1.53x	1.50x	1.47x	1.51x
Projected CIP Spend (\$m)	\$316	\$328	\$406	\$469	\$534	\$656	\$805	\$912	\$924	\$854	\$856
Annual Cash Funding	60%	58%	49%	43%	41%	35%	29%	25%	26%	30%	34%
Average Cash Funding					6-Year Average			39.8%	10-Year Average		33.9%

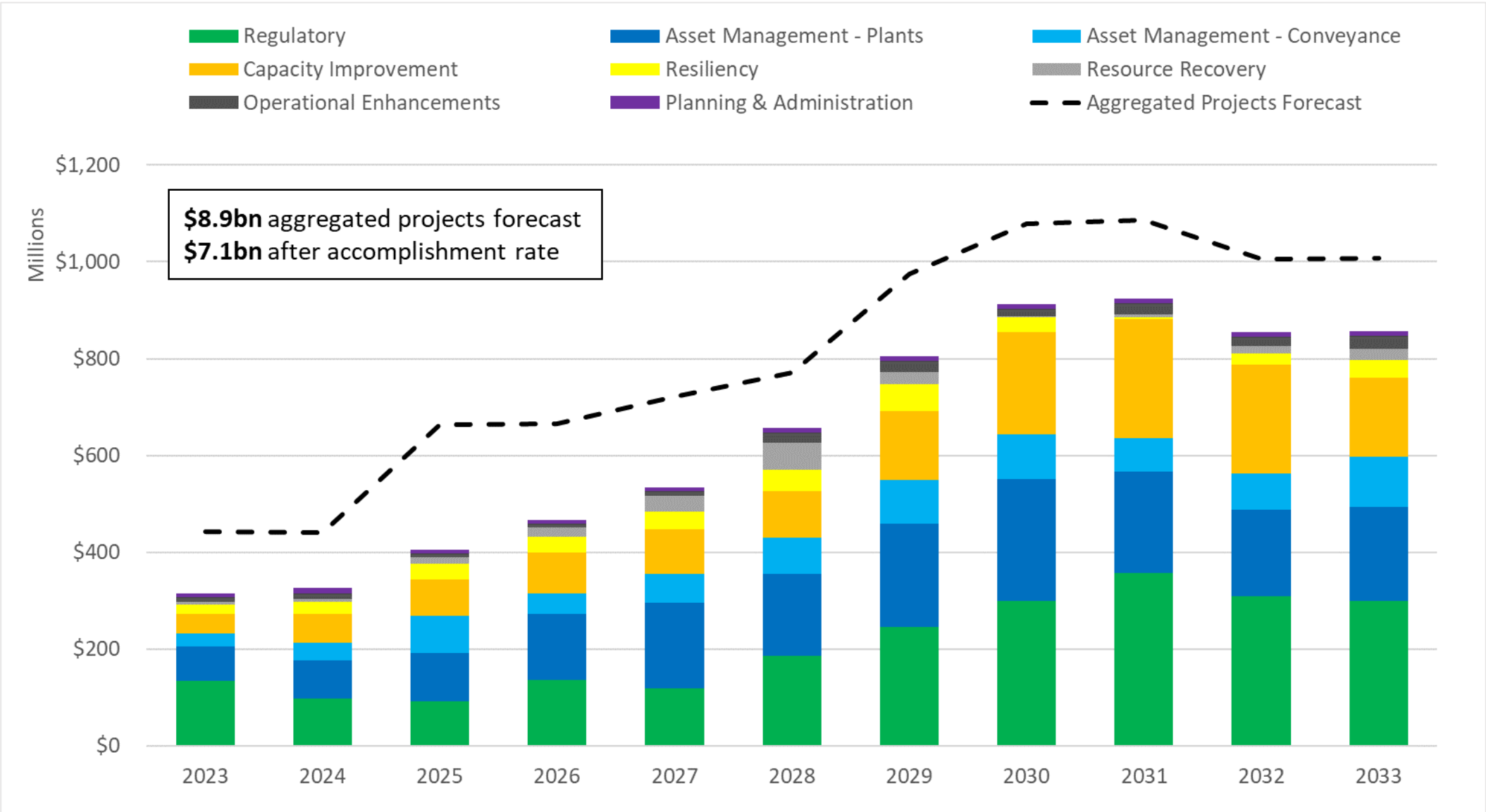
2023-2033 Revenue Requirements



2023-2033 Capital Funding Plan



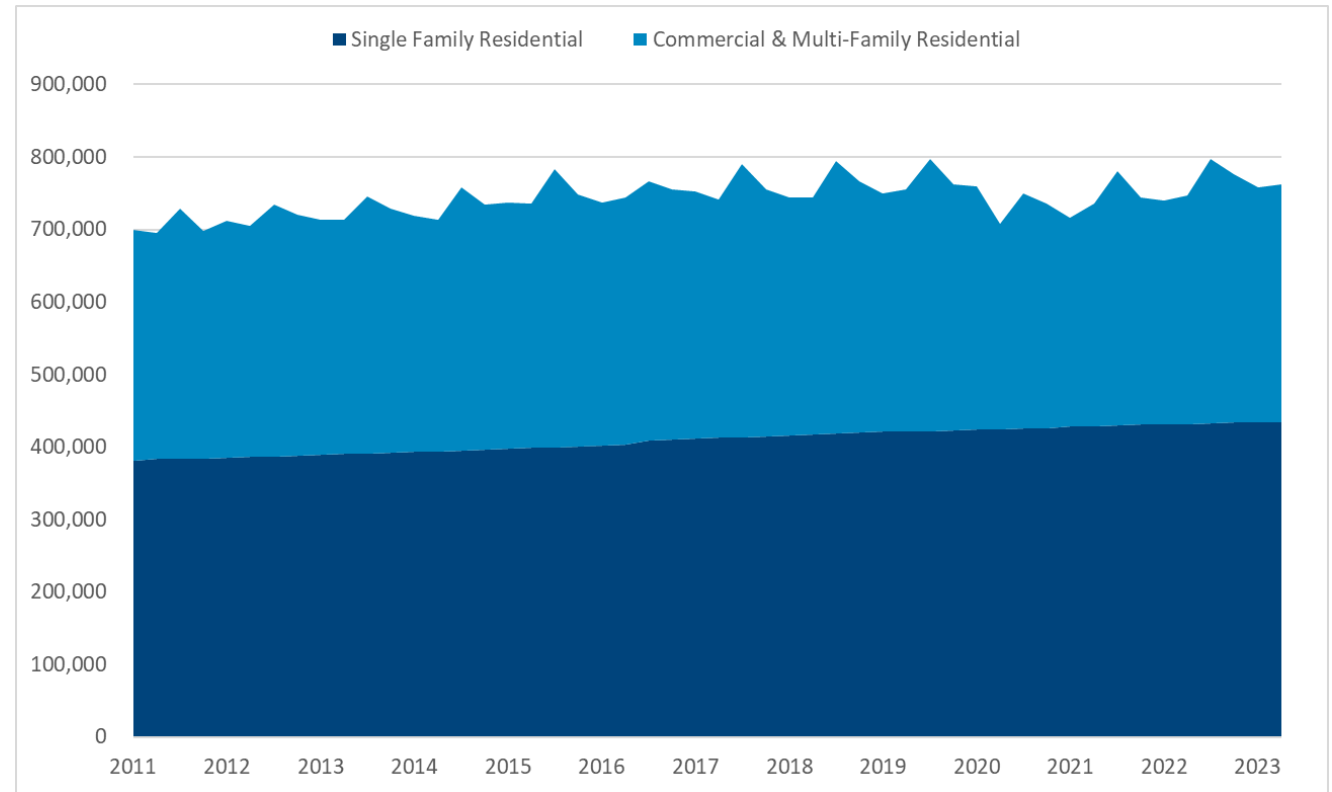
2023-2033 Capital Investments by Portfolio Category



Customers and Billing Structure



Historical Reported RCEs by Quarter Ending 2023 Q2



RCE Reporting to Sewer Rate Billing Lag

	2022				2023	
	Q1-22	Q2-22	Q3-22	Q4-22	Q1-23	Q2-23
Single Family Residential				Reported		Billed
Commercial / Multi-Family	Four quarter average					Billed

Affordability Considerations

The rate burden is shared by all WTD ratepayers (~850,000 households), regardless of their ability to pay

B19080 | Household Income Quintile Upper Limits

American Community Su...

Universe: Househ...

2022: ACS 1-Year Estimates Detailed...

King County, Washington

Label	Estimate	Residential Indicator ¹
▼ Quintile Upper Limits:		
Lowest Quintile	46,781	2.8%
Second Quintile	91,179	1.4%
Third Quintile	145,694	0.9%
Fourth Quintile	242,387	0.5%
Lower Limit of Top 5 Percent	250,000+	n.a.

Aggregated population metrics mask the affordability challenges that our region experiences: they do not take into account income inequality and cost of living differentials

¹*Based on an average full sewer bill (treatment, local collection, and stormwater) of \$107 a month. Each income quintile represents approximately 170,000 households*

Household income source: <https://data.census.gov/table/ACS1Y2022.B19080?q=king+county+wa+lowest+quintile+income>



Q&A





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

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