2027 Preliminary Sewer Rate

Metropolitan Water Pollution Abatement Advisory Committee

February 25, 2026

King County | Wastewater Treatment

Disclaimer

- *Materials and scenarios presented here are purely intended to illustrate potential impacts over time and do not represent, imply, or establish any plan, commitment, or intent by WTD*

Agenda

- Calendar
- Assumptions for 2027
- Capital Scenarios
- Rate Forecast and Financial Analysis
- Summary and Next Steps

2027 Sewer Rate Process Calendar

Agency	Date	Briefing
WTD DO	1/15/2026	2027 WTD Preliminary Sewer Rate Proposal
DNRP DO	1/26/2025	2027 WTD Preliminary Sewer Rate Proposal
MWPAAC Gen (WTD U)	1/28/2026	Rate Strategy Discussion
Executive Budget Team	1/29/2026	2027 WTD Preliminary Sewer Rate Proposal
RWQC	2/4/2026	2027 WTD Preliminary Sewer Rate Proposal
MWPAAC R&F	2/5/2026	2027 WTD Preliminary Sewer Rate Proposal
WTD DO	2/18/2026	2027 WTD Sewer Rate Proposal
DNRP DO	2/19/2026	2027 WTD Sewer Rate Proposal
MWPAAC Gen	2/25/2026	2027 WTD Preliminary Sewer Rate Proposal
Executive Budget Team	2/26/2026	2027 WTD Sewer Rate Proposal
RWQC	3/4/2026	2027 WTD Sewer Rate Proposal
MWPAAC R&F	3/5/2026	2027 WTD Sewer Rate Proposal
Executive	3/18/2026	2027 WTD Sewer Rate Proposal
DNRP DO	3/20/2026	Tech Memo due to DNRP DO
MWPAAC Gen	3/25/2026	2027 WTD Sewer Rate Proposal
Executive	3/27/2026	2027 WTD Sewer Rate Proposal

Background

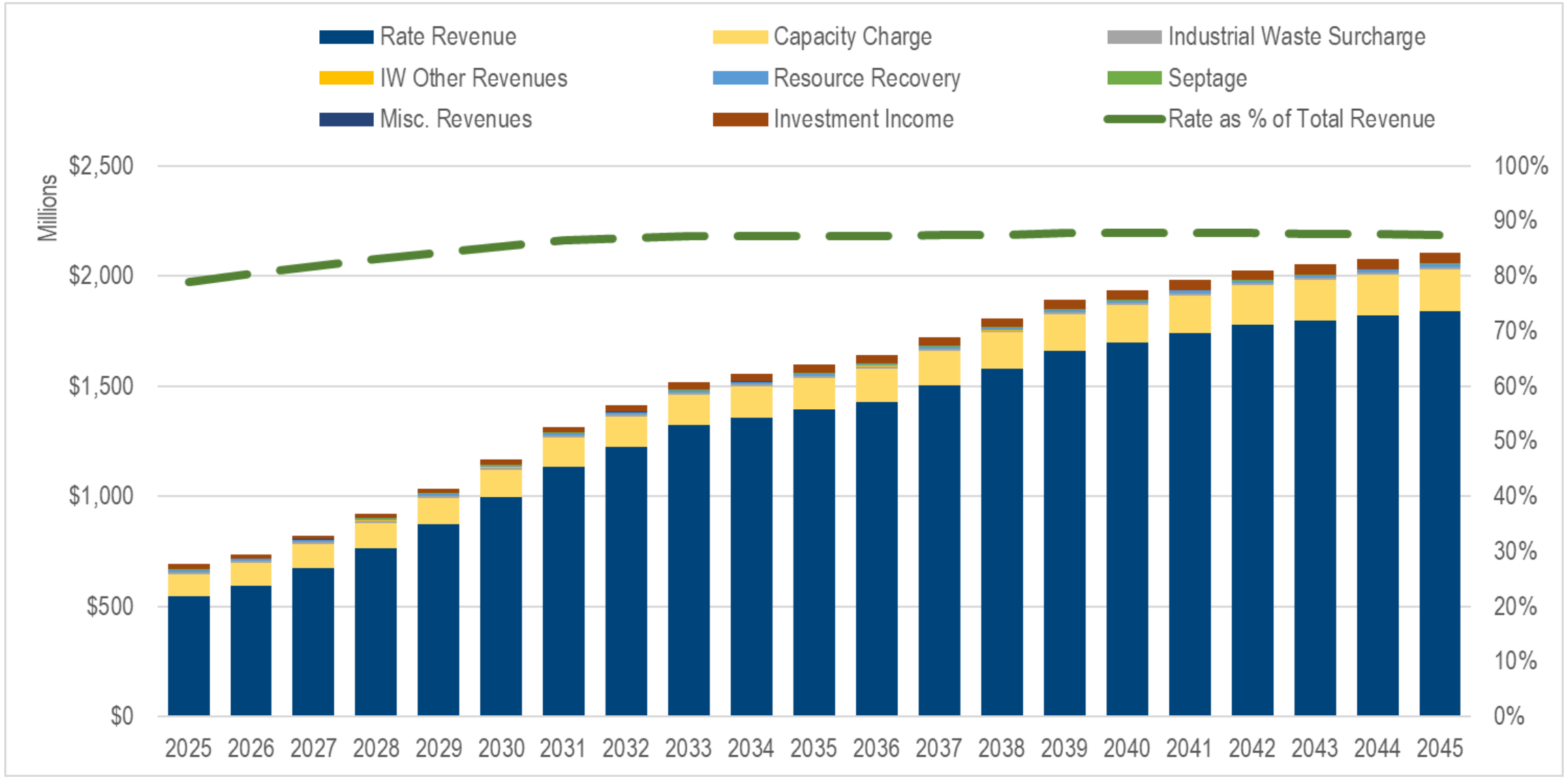
- Wastewater Treatment Division's (WTD) mission to protect public health and the environment is facing a convergence of unprecedented challenges
- Rapidly escalating construction costs driven by macroeconomic conditions are coinciding with mandated delivery of major regulatory infrastructure on fixed and overlapping deadlines
- Simultaneously WTD must maintain an aging system largely built in the 1960's and meet contractual capacity obligations – these demands are converging in the same planning horizon, significantly amplifying cost and impacts on sewer rates
- These costs are being imposed on a region already facing acute affordability challenges across essential household needs, including housing, food, and other utilities
- 2026 sewer rate process resulted in significant concerns about rapidly rising rate path and impacts on customer affordability
- WTD only builds necessary projects and has already deferred lower risk projects and operating costs to help moderate rates

Assumptions for 2027

- Consistent w/December presentation to MWPAAC, WTD will examine multi-year rates beginning with the 2028 rate year; the 2027 rate process will establish rate for one year only
- WTD will develop options to improve multi-year sewer rate predictability, as noted in 2026 rate letters and in the Work Plan implemented by Motion 16900 approved in November 2025
- Operating expenditures are assumed at forecasted amount for 2027 in 2026 adopted rate. Outyear assumptions for inflation and growth remain the same
- Budget proviso Section 115 P4 requires at least two additional scenarios to complement the Executive's 2027 rate proposal. One scenario must be at least 2% less than the official Executive proposal. Executive Work Plan also requires other scenarios and associated tradeoffs. **All scenarios presented in this presentation are illustrative. Executive has not yet proposed an official rate.**
- Inflation and **schedule risk adjustment** assumptions in the CIP remain constant
- **Conservatism Factor**: WTD has identified a conservatism factor to be incorporated at the macro rate level as part of the rate proposal to provide a risk-adjusted margin for cost increases for regulatory-mandated investments that are still in early development. This will be proposed as part of the predictability options in the 2028 rate process
- Scenarios assume WTD will maintain its strong financial policies to minimize debt burden

Key Takeaways: *Illustrative scenarios are not resulting in significant long-term rate reductions. The benefits of the reductions are uncertain and introduce great ratepayer risk.*

2026 Adopted Forecast—Revenue by Year



Capital Scenarios Summary

☑ =Minimal impact on risk ⚠ = Moderate impact on risk ☒ = Substantial impact on risk

Scenario	10 yr Total CIP (2026-2036)	Change from Current State	Rate Increases			Asset Reliability and Safety Risk	System Capacity Risk	Regulatory Compliance Risk
			2027	2028	2029			
Current State* (2026 Rate Timing + Current Project Forecasts)	$14.2 B	$0 B	12.75%	12.75%	12.75%	⚠	⚠	☑
Previous 2027 Rate Forecast/ Ceiling* (Limit to forecasted 12.75% Rate Increase in 2027)	$13.1 B	-$1.1 B	12.75%	12.75%	12.75%	⚠	☒	☑
2027 Rate Increase of 10.75% (2% below Previous 2027 Rate Forecast)	$12.8 B	-$1.4 B	10.75%	10.75%	12.75%	☒	☒	☑
Regulatory Deadline Extension (Spreading Out Regulatory Projects)	$12.4 B	-$1.8 B	9.75%	9.75%	11.50%	⚠	⚠	☒

**These first two scenarios appear very similar in the first 3 years, however in the 10-year period the current state scenario exceeds the prior rate forecast and would require balancing/deferrals to stay on the same trajectory*

Major Changes in Current State from 2026 Adopted Sewer Rate Forecast

Project/Program	2026-2036 Impact	
Minor Asset Management Programs	+ $490M	Annual forecasts increased as part of 2026/2027 Budget Submittal decisioning
Sammamish Plateau Diversion	+ $460M	Prelim Gate 2 estimate in Oct 2025
Elliott West WWTS	+ $320M	Gate 3 approved June 2025
East Ship Canal CSO Program	+ $270M	ROM estimate for combined alternative
South Magnolia Supplemental Compliance Project	+ $235M	Identified in options analysis
South Plant Electrical Improvements	+ $170M	Charter approved July 2025
Lake Hills Trunk/NW Sammamish Interceptor Upgrade	+ $110M	Revised 90% estimate reflected in May 2025 forecast save
Brightwater Aeration Basin No. 4	+ $85M	Revised conceptual estimate from Treatment Planning Program

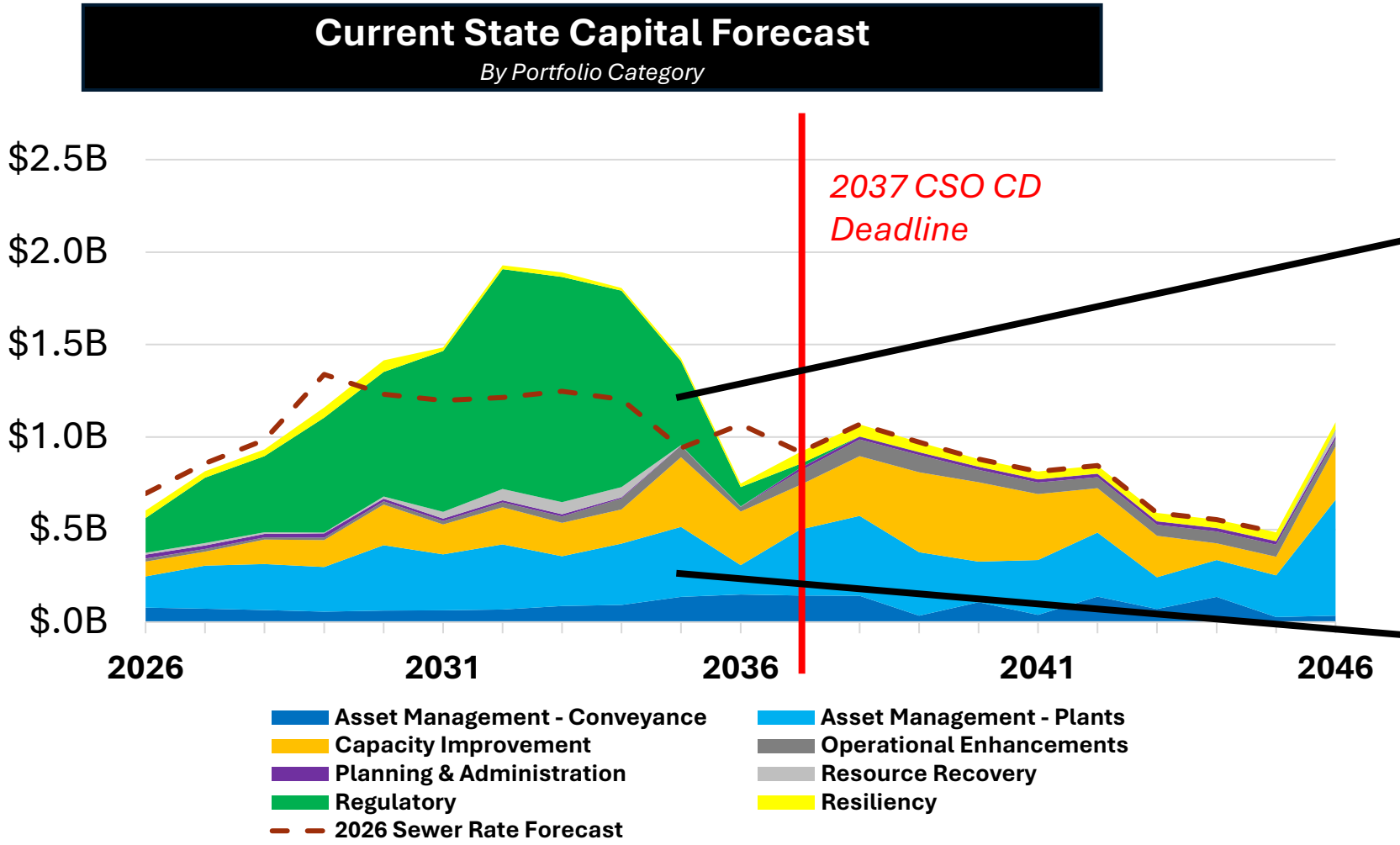
Current State Capital Portfolio Assumptions

1. **Regulatory (50% of 1st Decade Forecast)**
   - The current state prioritizes meeting regulatory commitments over all other policy drivers
   - Meet all known regulatory requirements: CSO Consent Decrees, Lower Duwamish, West Point NPDES requirements
   - Balanced approach to nutrient discharge regulation: funds nutrient reduction evaluation and near-term optimization strategies, but does not include large-scale nitrogen reduction in first decade
   - Does not fund any other potential regulation (large-scale nitrogen removal, CECs, etc.)
2. **Asset Management Conveyance and Plants (27% of 1st Decade Forecast)**
   - Addresses the highest risk (assets that have been identified to be in poor condition) large scale (>$5M) major asset renewal and replacement
   - Includes funding (about $80M per year) to address small scale asset replacements that do not require major system overhauls (replace in-kind, low-cost assets)

Current State Capital Portfolio Assumptions

3. **Capacity (14% of First Decade Forecast)**
   - Prioritizes capacity constraints in the conveyance system and at plants that are driven by population growth
   - Deprioritize conveyance system areas that are near to exceeding capacity due to inflow and infiltration, captured in second decade forecast
4. **All Other Portfolio Categories (e.g., Resource Recovery, Op Enhancements, etc.) (7% of First Decade Forecast)**
   - Prioritizes system planning (RWSP Update, Conveyance System Improvements, Treatment Planning, Climate Adaptation Planning, etc.)
   - Prioritizes small, cost-efficient investments to meet County climate action goals in the near-term, with larger investments in the reuse of resources in wastewater to the second half of the 1st decade and beyond
   - Deprioritizes proactive investment in seismic resiliency to the second half of the 1st decade and beyond
   - Does not invest in proactive construction to address climate resiliency of existing system

Rate Drivers



Regulatory projects – and the state and federal requirements that drive them – are the **largest driver** of the current sewer rate increases. **Changing this** requires modification of regulatory and consent decree deadlines.

Asset management projects represent **minimal opportunity** to modify the rate and the **greatest risk** if deferred. Risks include overflows, sinkholes, equipment damage, permit violations, and life safety hazards.

Deferred investment in aging assets can cause catastrophic failures in King County's Wastewater System

Example: West Point Grit Classifier

Future Implications

Equipment and piping across the system are operating beyond useful life. Further deferral increases the risk of sudden failures, with significant consequences for safety, human health, and water quality.

The **Current State** policy choice prioritizes regulatory investment and includes significantly higher rates

Implications & Risks: Summary

⚠ **Asset Reliability and Safety, System Capacity, and Financial Risk**

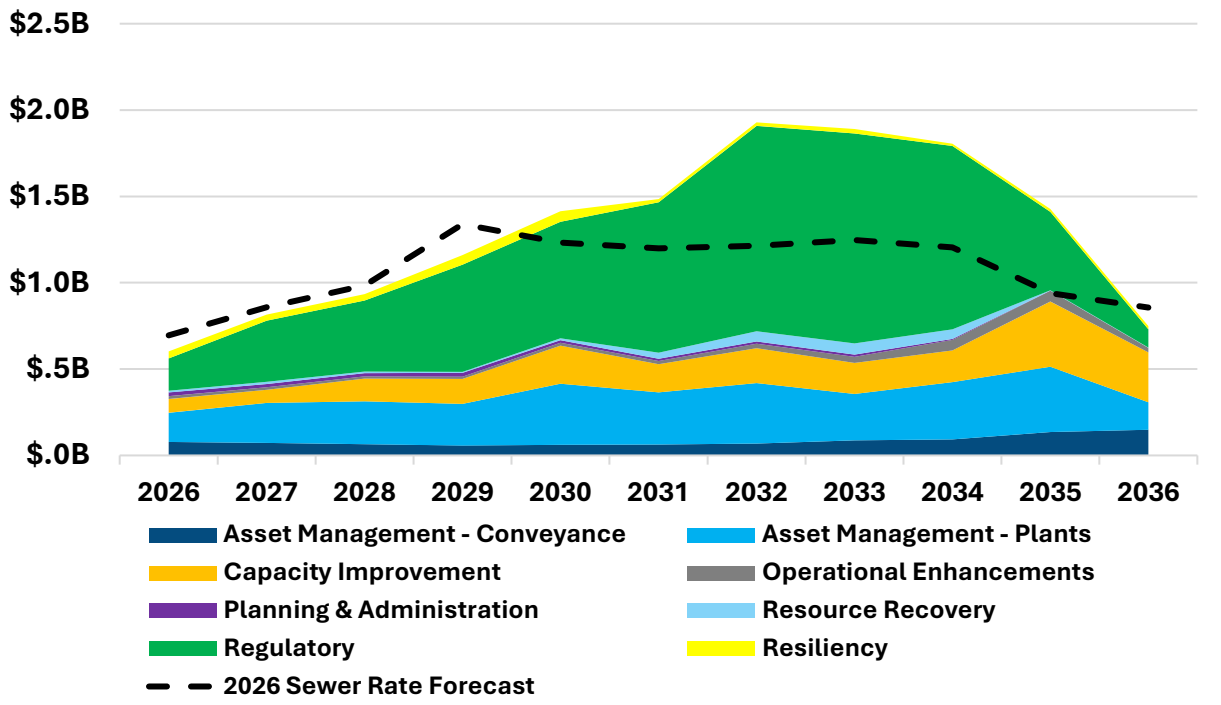
- Defers some AM projects that have been identified as being in poor to very poor condition. Risk of failure includes overflows, sinkholes, equipment damage, permit violations, and life safety hazards.
- Defers I/I driven capacity projects with low levels of service, risks include sewer overflows
- Deferrals affecting asset remaining useful life and condition also poses risk to credit ratings

☑ **Regulatory Compliance Risk**

- Includes significant investments (50% of 10-year CIP) to meet regulatory milestones

Current State Capital Forecast*

By Portfolio Category



*Subject to changes in current forecast and input to overall Sewer Rate Model by Finance Rates Team

2027 Forecast Ceiling accepts additional risks for Asset Reliability and System Capacity by further deferring projects while maintaining previous rate path

Implications & Risks: Summary

⚠ Asset Reliability and Safety Risk

- Incremental risk posted by assets identified to be in poor condition; consequences of failure include overflows, sinkholes, equipment damage, permit violations, and life-safety risks

☒ System Capacity Risk

- Substantial overflow/ risk for facilities that already have as much as a 20-50% chance of exceedance in one year

☑ Regulatory Compliance Risk

- Meets existing regulatory milestones (uncertainty remains around future nutrient requirements in operating permits)

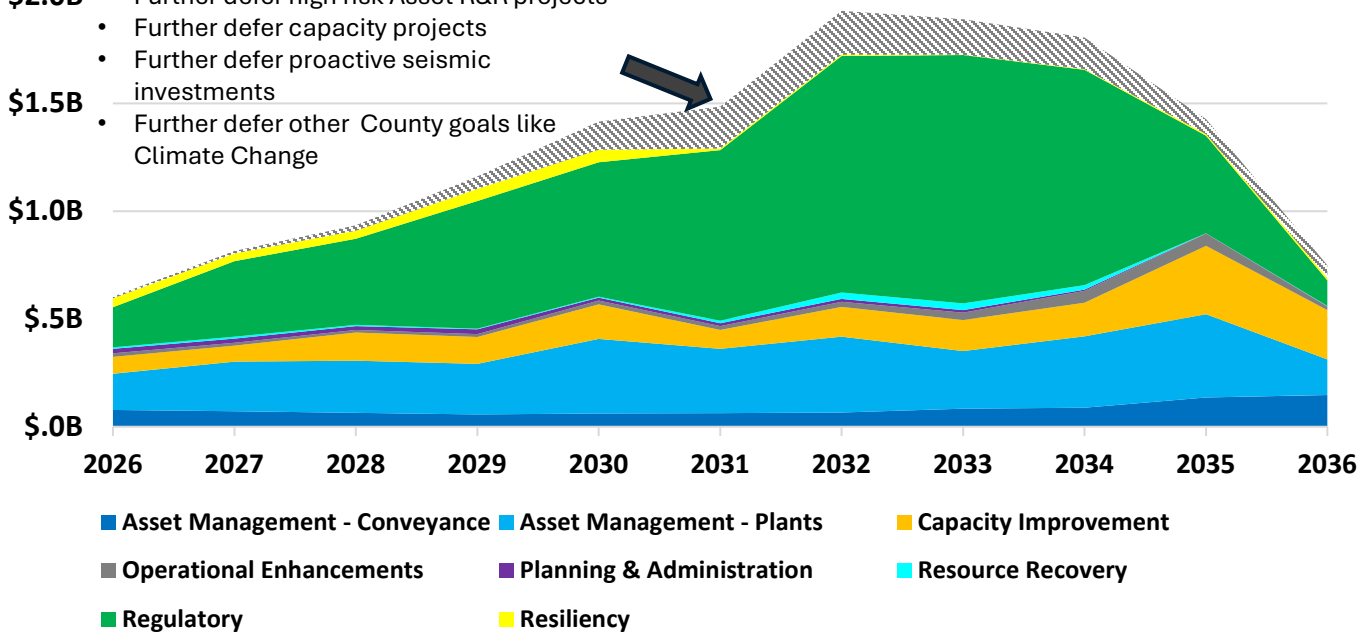
Financial Risk

- Maintains near-term rate path

Forecast Balancing to 12.75% Rate Increase*

Assumptions to balance to ceiling:

- Keep CSO and other near term regulatory investments on current timeline
- Defer Nutrient Reduction Optimization
- Further defer high risk Asset R&R projects
- Further defer capacity projects
- Further defer proactive seismic investments
- Further defer other County goals like Climate Change



**Subject to changes in current forecast and input to overall Sewer Rate Model by Finance Rates Team*

A **10.75% Rate Increase in 2027** builds on prior policy decisions and accepts higher additional risk of asset failure

Implications & Risks: Summary

Asset Reliability and Safety Risk + System Capacity Risk

- Increased likelihood of detrimental impacts such as overflows, sinkholes, equipment damage, permit violations, and life-safety risks

Regulatory Compliance Risk

Meets existing regulatory milestones (uncertainty remains around future nutrient requirements in operating permits)

Financial Risk

- Future Borrowing: moderate financial risk of credit rating downgrades and higher interest rates

Forecast Balancing to 10.75% Rate Increase*

Assumptions to balance to ceiling:

- Keep CSO and other near term regulatory investments on current timeline
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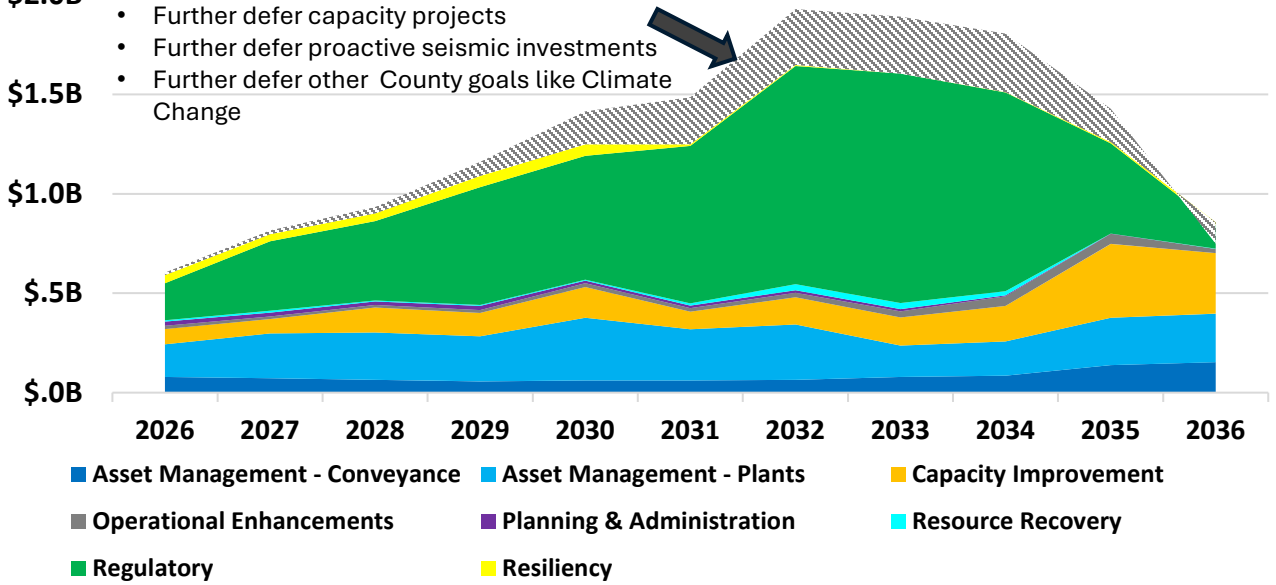


*Subject to changes in current forecast and input to overall Sewer Rate Model by Finance Rates Team

Regulatory Deadline Extension Disclaimer

- Regulatory deadline extension scenario is *illustrative only*
- Successful negotiations with state and federal regulators would be needed to implement a scenario like the Regulatory deadline extension
- Potential penalties for violating consent decree include:
  - increased future borrowing costs
  - civil contempt sanctions
  - injunctive relief
  - criminal contempt proceedings
- WTD has not yet determined order/timing of projects that would best fit environmental quality and financial sustainability

Regulatory Deadline Extension assumes successful renegotiation of regulatory requirements and deadlines

Implications & Risks: Summary

⚠ **Asset Reliability and Safety Risk & System Capacity Risk**

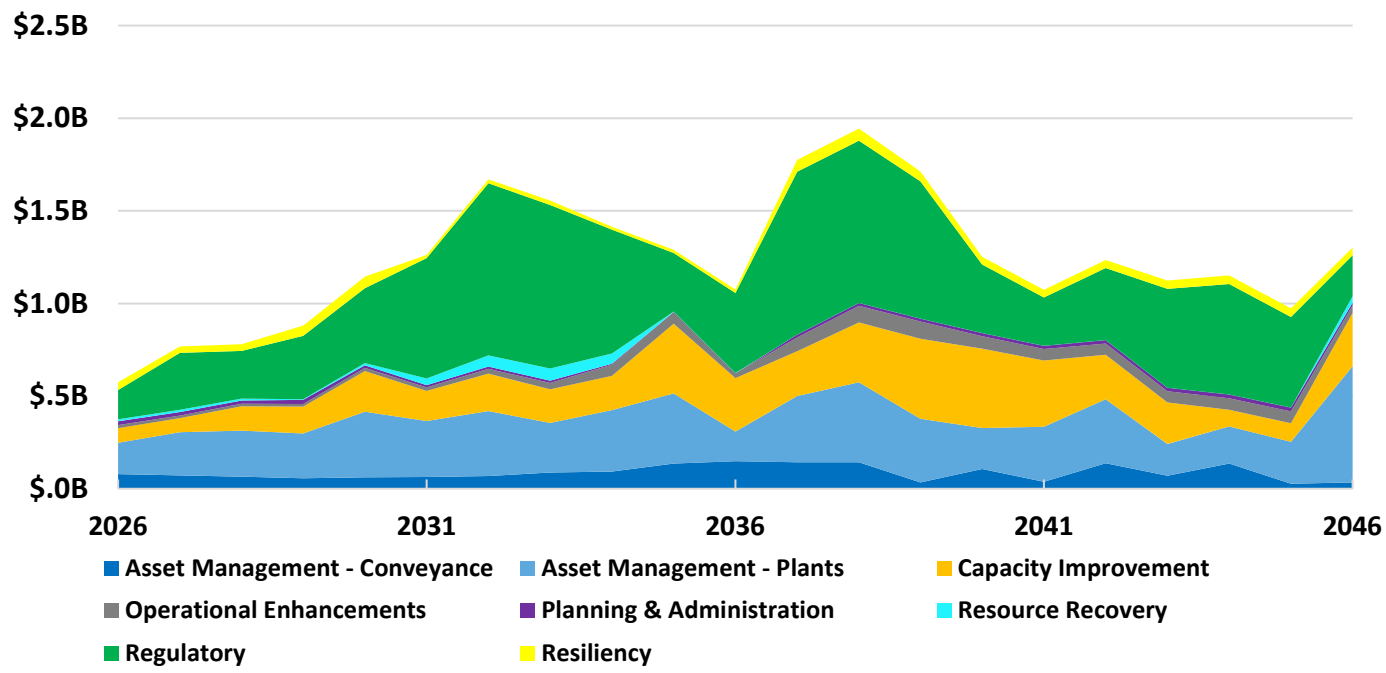
- Risk and implications remain the same for this criteria as the Current State scenario
- Capacity upgrade projects remain on same timeline as Current State scenario, posing moderate risk

☒ **Regulatory Compliance and Financial Risk**

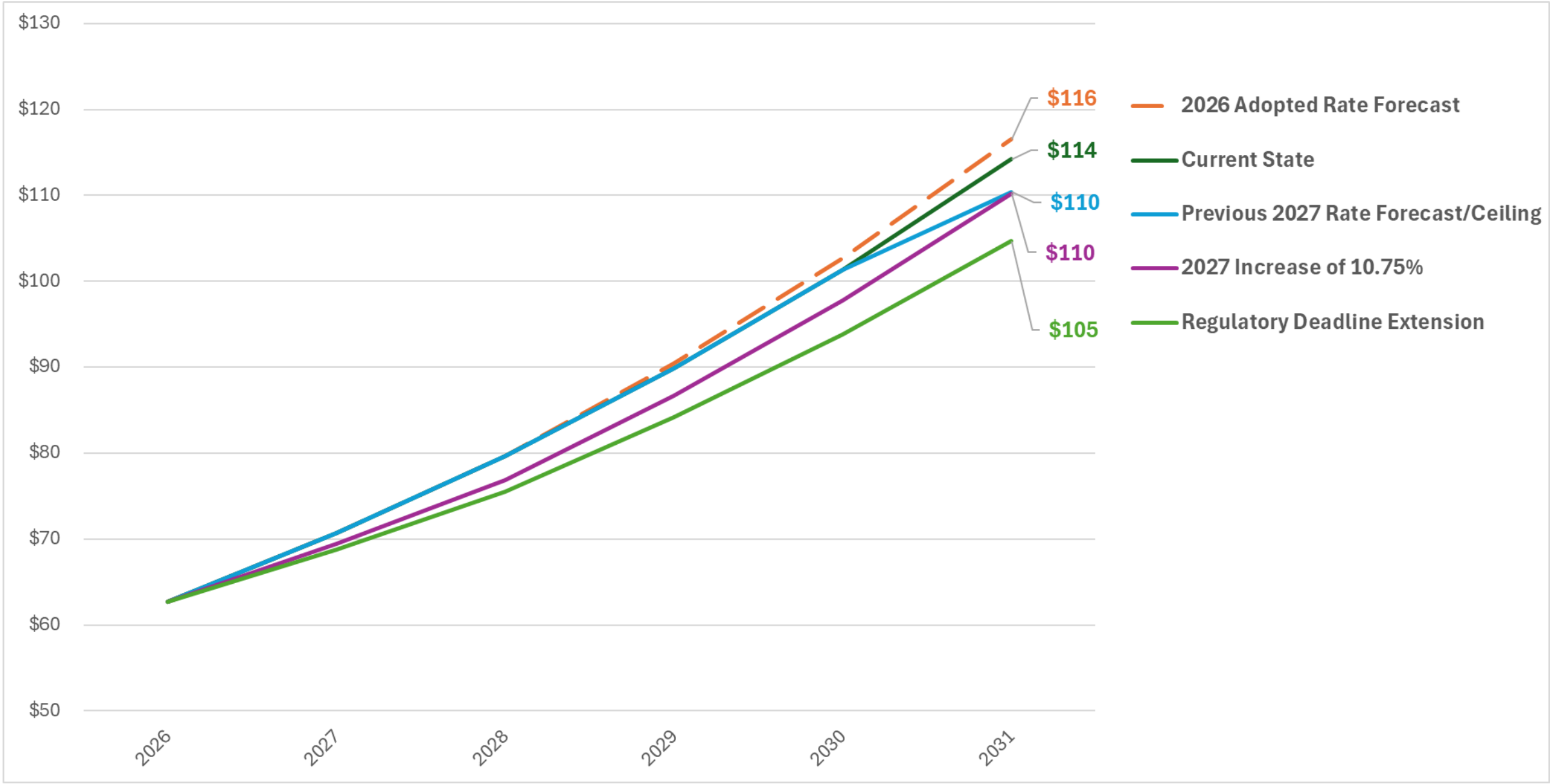
- Regulatory compliance projects are no longer assumed to meet established deadlines
- Additional risks include:
  - future borrowing costs
  - civil contempt sanctions
  - injunctive relief
  - criminal contempt proceedings.

Regulatory Deadline Extension Scenario: 20-year Forecast by Portfolio Category

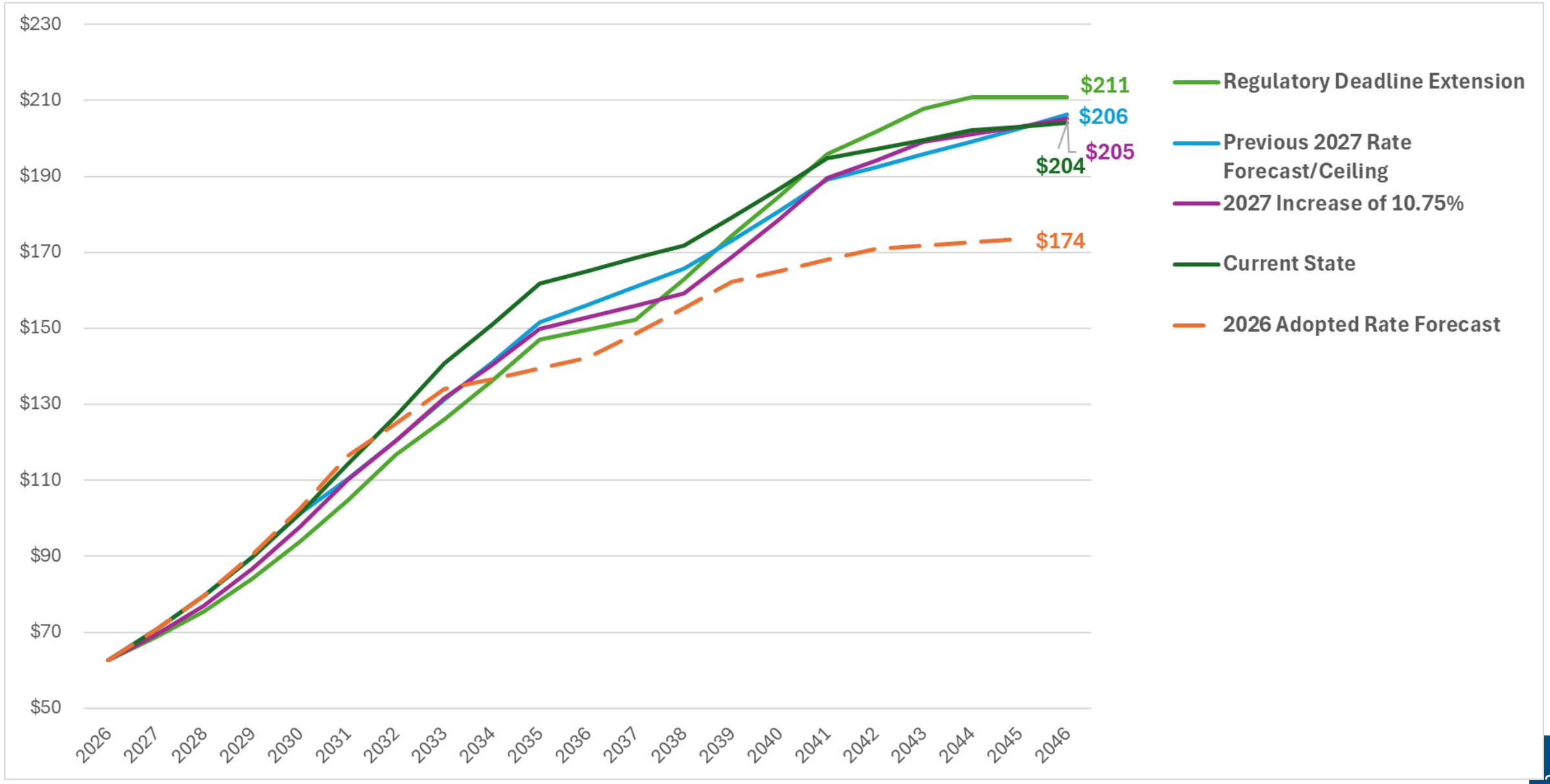
With Illustrative CSO Completion Milestones



Scenario Rate Paths (Next 5 Years)



Rate Impacts



Capacity Charge

	Adopted	Proposed	Forecast			
Capacity Charge	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
Monthly Charge	$77.99	**$83.10**	$85.86	$88.71	$91.65	$94.69
Increase %	2.50%	6.55%	3.32%	3.32%	3.31%	3.32%
Increase $	$1.90	$5.11	$2.76	$2.85	$2.94	$3.04
Annual Total	$936	$997	$1,030	$1,065	$1,100	$1,136
Total Payments (15 years)	$14,038	$14,958	$15,455	$15,968	$16,497	$17,044
Upfront Payment*	$9,870	$10,516	$10,865	$11,226	$11,598	$11,983

*Discount Rate of 5.14%

- WTD's rate consultant (Raftelis) recalculated the capacity charge based on industry standard methodology for 2027
- Broadly in line with previous charge
- Propose indexing capacity charge to Construction Cost Index (CCI)
- Will update after RWSP process results in new capital plans

Summary and Next Steps

- Significant rising costs, rates follow
- Driving factors include consent decree deadlines, aging infrastructure, and growing system demand
- WTD continuing to assess landscape of available and potential new approaches to funding large scale capital investments

> ***Key Takeaways:*** *Illustrative scenarios are not resulting in significant long-term rate reductions. The benefits of the reductions are uncertain and introduce great ratepayer risk.*

- WTD's Recommended Rate Proposal:

  March 4 – RWQC
  March 5 – MWPAAC Rates and Finance
  March 25 – MWPAAC General

Q & A

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