

DRAFT GUIDING PRINCIPLES

Regional Wastewater Treatment Agreement Negotiations

Completed April 18, 2014

PURPOSE: The purpose of these Guiding Principles is to lay a foundation for a new, long-term regional wastewater treatment agreement and to develop strong, highly constructive and long-lasting working partnerships between King County and wastewater contract agencies. These Guiding Principles work in concert and context together. They are not meant to stand alone, nor does one principle take priority over another. We, the regional partners will:

1. Develop contract language that is clear so that both the intent and meaning are understood by all parties.
2. Develop a contract that supports a stronger, more transparent partnership that fosters openness, timely review and participation in decision making, and clarity of roles and processes.
3. Recognize that we strive to be good environmental stewards and protect environmental quality and public health.
4. Be accountable to our ratepayers and be good financial stewards by providing regional wastewater services, practices, operations, financing, and capital investments in a cost-effective manner for current and future ratepayers.
5. Strive to meet regulatory compliance.
6. Endeavor to meet level of service expectations of customers.
7. Recognize the constraints and obligations of one another's regulatory framework, consent decrees, permits, and agency needs.
8. Understand that there is an interrelationship between our respective systems and agencies and that all parties will work to optimize operational effectiveness and investments through improved coordination to reduce costs and better serve ratepayers.
9. Seek to understand each other's issues and work proactively and collaboratively to maximize benefits and avoid or address adverse impacts to the operation of our respective systems.
10. Provide for certainty and build in capacity to be flexible for future and unforeseen needs and opportunities.
11. Develop a contract that is viewed as fair by all the regional partners.

DRAFT CONCEPTS GOVERNANCE

Version May 16, 2014

Develop a governance structure that establishes and formalizes a partnership between King county and component agencies to address regional wastewater issues. To achieve this, the following interests are offered to guide discussion about contract terms for a new model for providing input and regional decisions on wastewater treatment services.

- A. Interests in new governance structure
 1. Establish partnership between King County and contract holders for guiding regional regulatory and financial decisions related to our regional wastewater treatment system.
 2. Provide a formal voice for contract agencies.
 3. Increase DNRP efficiency for consulting with contract agencies.
 4. Recognize that DNRP and contract holders share the same goals of protecting public health and environmental quality, and assuring regulatory compliance.
 5. Achieve the most cost effective solutions for all rate payers.
 6. Provide a structure that enables each contract agency to be represented through a manageable (fewer) number of voting members.
 7. Clearly define roles for DNRP, King County Council, and contract agencies in planning, establishing policies, deciding on the CIP program, determining budget and rates, developing and approving contract amendments, and directing regional operations.
 8. Build in mechanisms for flexibility to deal with future unplanned or unexpected issues.
 9. Create a structure that achieves the interests above and includes the following features:
 - a. TBD
 - b. Composition of Board
 - i. Representation
 - ii. Number of members
 - iii. Distribution of members, e.g. by % RCE, geographic location, city v. district
 - iv. How members are selected
 - v. Selection of Independent member
 - vi. Alternative members selection and role
 - vii. Terms of members
 - c. Administration
 - i. Voting
 - ii. Role of Chair and how elected
 - iii. Operating procedures of Board
 - d. Staffing
 - e. Reporting
 - f. Review of Board
 - i. Purpose
 - ii. Frequency
 - iii. Limitations
 10. Determine relationship to, or actions to take related to, existing governance structure
 - a. MWPAAC
 - b. RWQC

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Our Waters

Tentatively Finalized on July 18, 2014

1. Development and ongoing management of the “Our Waters” program shall be performed in a spirit and manner of true partnership between King County and MWWPAC agencies, so that the program provides benefit to all partners in the region and there is an assurance of value to the rate payers.
2. The contract will provide clarity, consistency and certainty regarding key elements of the Our Waters Program, such as:
 - Program drivers and guidelines
 - Funding amounts and how they are derived
 - A fair and equitable process for project selection (that includes initial selection criteria in the contract and has a mechanism for how the criteria is revised by the Governance Board)
 - Program management process that provides regional representatives with a voice and that provides transparency and accountability for use of ratepayer funds.
3. The Our Waters Program shall include strong elements of:
 - community education
 - wastewater customer engagement
 - creating a water quality benefit to wastewater service area and rate payers

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Reclaimed Water
Tentatively Finalized on October 8, 2014

King County WTD and its contract partners support reclaimed water to be used for addressing environmental or water supply goals, consistent with the following principles and process. These principles are also intended to provide flexibility for possible future scenarios.

- A. When capital or O&M project costs involved wastewater ratepayer funding, the following principles apply as well as the principles in Sections B (if impact to purveyor) and C of this document.
 - 1) The process to consider a proposed reclaimed water project or collection of projects will be transparent, collaborative and efficient;
 - a. There will be opportunity for thorough input and discussion;
 - b. Identification of reasonable alternatives, including “no action,” and subsequent analysis of the costs and benefits of alternatives shall be completed within a reasonable time frame
 - 2) The Board will review reclaimed water programmatic and project planning to ensure the analysis includes the following:
 - a. The objectives and potential benefits and costs of the project as defined by King County WTD in collaboration with the governance board
 - b. All good faith, reasonable alternatives identified by WTD and others will be considered including those that can be implemented by WTD or by others
 - c. The analysis will include financial, social, and environmental costs, risks and benefits to determine whether projects or programs demonstrate overall net benefits.
 - 3) Decisions to determine cost share allocation of reclaimed water projects will be guided by the principle that the full cost of constructing, maintaining and operating a reclaimed water project shall be allocated, to the extent possible, among groups in proportion to the benefits received.
 - a. Wastewater ratepayers shall only contribute to reclaimed water projects to the extent the project benefits the wastewater system.
 - b. Costs associated with a project that benefits only one or a subset of contract customers will be allocated to those customers specifically.
- B. In considering reclaimed water programs and projects that offset current or future demands for potable water, the following principles apply:
 - 1. Where reclaimed water is proposed for use in lieu of potable water supply WTD will coordinate with affected retail and wholesale water utilities such that their concerns, including stranded costs, are adequately addressed.
 - 2. During the consideration of the reclaimed water project, the project shall go before the board for its determination of whether it meets the Reclaimed Water Guiding Principles.
- C. Ensure reclaimed water planning and projects are incorporated into capital planning and capital projects decision-making matrix.

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Innovation

Tentatively Finalized on October 17, 2014

1. We all want an effective and efficient system of conveying and treating the region's wastewater
2. We all want to encourage innovation, but done so in a way that protects the financial and operational integrity of the system
3. Pursuit of Innovation should occur at both the planning and project levels
 - A. Undertake a comprehensive evaluation during the planning phase
 - B. Undertake a comprehensive evaluation of alternative technologies and facilities options available when facing a significant investment in maintaining, replacing, or expanding an existing facility
 - C. Steps A and B above will occur during the capital planning and project processes to ensure it's effective and efficient
4. Support partnerships, both public and private, to leverage new technologies
 - a. to improve the wastewater conveyance and treatment system
 - b. to enable other beneficial uses, such as heat capture from conveyance pipes
5. Consider opportunities to conduct studies and pilot programs to further our understanding of technologies and alternative approaches

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Capital Projects and Planning
Tentatively Finalized on 1-16-15

1. Capital program development, capital project planning (both new and replacement), and project delivery work shall be conducted with adequate and appropriate opportunities for review and input by contract agencies in order to provide transparency and accountability in planning, policy setting and alternatives analysis. The level of involvement should be proportionate to the scale of the project.
2. The contract should define the governing body's role for regional capital program planning.
3. The Board role for projects will vary based on project size or scale. For example: High level of involvement for large regional investments (e.g., Brightwater, regional treatment plant upgrades); medium level of involvement for medium scale projects (e.g., CSO control facilities, new pump station construction); and a lesser level of involvement for everything else. [This needs to be reflected in the roles matrix. Medium level is currently missing.]
4. There will also be different levels of Board involvement depending upon whether there are options available to meet the regulatory requirements.
5. Capital program development will occur in a manner that will ensure appropriate investments for current and future system needs that are in the best interests of the ratepayers and will support the inclusion of innovation to meet objectives for efficiency as outlined in the Guiding Principles for Innovation.
6. All agencies will cooperate to optimize operational effectiveness and capital investments through improved coordination.
7. Apply value engineering principles where appropriate.
8. Apply asset management principles where appropriate as outlined in the Guiding Principles for Asset Management. [Need to revisit this after the Asset Management principles are developed.]
9. The agencies will commit to close working relationships to ensure consideration of local impacts from regional projects.
10. WTD and the agencies recognize that the most cost-effective, efficient way to provide regional service may be to enter into an agreement to jointly participate in a project where there are avoided capital, operations and maintenance costs for the regional system.
11. Where a shared or joint capital project, or a local facility, has potential benefit for the regional system the agencies will seek an agreement that results in an equitable cost-share between WTD and the local agency (or agencies) through consideration of factors such as capital costs, operation and maintenance costs, operational efficiencies, and other benefits accruing to each agency.

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Local vs. Regional Wastewater Facility Ownership
Tentatively Finalized on 2-20-15

The following principles are intended to govern the transfer of facilities between WTD and local agencies, and to establish the role of the Board in such transfers.

1. A facility is defined as a regional facility if it meets the following criteria:
 - a. At the point of connection to the local system, the facility serves a basin of 1000 acres or more, or
 - b. At the point of connection to the local system the facility serves a basin of less than 1000 acres, AND the Board decides the project is regional by other criteria (such as flow/volume, size of pipe, # connections, geographic features, # agencies served).
2. Transfers from local agencies to the regional system are voluntary, meaning a local agency may opt to retain ownership of facilities that meet the regional definition. Likewise, transfers from WTD to a Local Agency for facilities that no longer meet the regional definition are voluntary, meaning WTD may opt to retain ownership of these facilities.
3. Approval by the Board shall be required on financial agreements between a local agency and WTD, when a local agency desires financial contribution by the County for design, construction or operation of a facility that is built and owned by the local agency and that meets the definition of a regional facility.
4. Approval of the Board shall be required for the transfer of facilities between WTD and local agencies. Such transfers can be either when a Local Agency desires WTD acquire ownership of a facility that meets the regional definition OR when WTD desire that a Local Agency acquire ownership of a facility that no longer meets a regional definition. In either case, the Board shall review the conditions of the proposed facility transfer, factoring in appropriate valuation of the transfer, and include the following elements:
 - a. Facility age (remaining useful life);
 - b. Level of past asset management (O&M) over the life of asset to date;
 - c. Capacity to serve, including future growth,
 - d. Design issues
 - e. Operational impacts
 - f. Financial impacts
 - g. Any previous payment for the facility by the region if being transferred from local facility to regional facility, and
 - h. Other elements deemed appropriate for consideration by the Board.

This assessment shall be used by the Board to determine whether the receiving agency shall accept the facility, and if so under what conditions and what the reimbursement amount should be, if any. This amount shall be based on the value and cost to the receiving agency and shall

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include consideration of upgrade costs to the receiving agency's standards and/or the cost of operating the facility to meet the receiving agency's needs.

5. There will be an agreement with WTD and the local agencies that formalizes the terms of the transfer (WTD to local agency or local agency to WTD) as determined by the assessment in #4 above, which will be reviewed for consistency by the Board.

Draft in Progress

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Service Area Contraction and Expansion

Tentatively Finalized 1-16-15

KC WTD and its contract partners desire to establish Terms and Conditions for any proposed expansion or contraction to the KC WTD service area. The principals are intended to guide detailed terms and conditions for inclusion in the contract.

Definitions:

- Expansion: Any additional RCE count to KC WTD that is associated with a modification to the service area.
- Contraction: Any reduction of RCE count to KCWTD that results from a modification to the service area.

Goal/Objective

The goal of these guidelines is to assure that any proposed expansion or contraction to the KC WTD system is done in such a way as to ensure all costs of expansion or contraction are accounted for as part of the transaction and to protect the interests and investment of the partnership that is the King County WTD and the Component/Contract agencies.

The objective of these guidelines is to provide an overview of items to be included in the contract to assure the overall goal is achieved.

Note: Items such as Zero Discharge systems and related uses that utilize new technology will be addressed in the Innovations topic of discussion.

- A. When an existing contract agency or an outside agency requests KC WTD service to areas not in the current KC WTD service area or areas not currently under contract with KC WTD, conditions for such an expansion shall at a minimum include the following:
- 1) Determine if any existing sewer system facilities are to be turned over to WTD as part of the expansion. If so, then criteria developed as part of Local/Regional turnover of a facility shall apply.
 - 2) If the requesting agency is not already under contract or not at current maximum contract, that agency shall agree to and execute current service contract.
 - 3) A determination of value to buy in shall be required. A calculation of system equity per RCE shall be developed. Items shall include assumption of debt, operation costs, and participation in capacity charge.
 - a. The new agency, or the existing agency customer with expanded service territory, shall make such payment as is determined necessary to establish, in

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- conjunction with subsequent monthly sewer rate and capacity charge payments, an equitable contribution to the cost of building, operating and maintaining the KC WTD regional system.
- b. The need for and size of such payment shall be determined based on a comparison of the projected incremental revenues from the new area customers and the incremental costs of serving them over the then-current RWSP planning period.
 - i. The incremental revenues in this comparison will include the projected KC WTD monthly sewer rate revenues and capacity charge payments from the new customers.
 - ii. The incremental costs will include the costs of any expansion or acceleration of the KC WTD capital plan along with the associated increases in operating and maintenance costs of extending service to the new area.
 - c. Where the present value of the incremental system costs exceed the incremental revenues, a "buy-in" contribution will be assessed to the new agency equal to the difference.
 - d. The Board may approve an adjustment to this contribution in recognition of other benefits or costs associated with the addition of the new service territory.
- B. When an existing contract agency desires to remove either a portion of its current service area or its entire service area from the WTD system, the following minimum conditions shall be met:
- 1) The contract agency shall be solely responsible for all costs associated with disconnecting flows from the KC WTD system and for any improvements needed to facilitate other flows that operate through their system to KCWTD, including system flexibility.
 - 2) Prior to conducting analysis and consideration of disconnecting from the KC WTD system, the contract agency shall demonstrate viability to either discharge to another treatment agency or for their own agency to provide permitted treatment for the flows.
 - 3) The agency shall make payment to KC WTD as is necessary to prevent increases in cost responsibility to the other agencies remaining under contract to KC WTD.
 - a. Calculation of that payment shall be determined on a case-specific basis by KC WTD, and shall account for projected lost KC WTD revenue over the remaining contract period associated with the reduction in RCEs due to the agency's departure, offset by credits for the projected avoided KC WTD operating costs and deferred future capital cost associated with the agency's departure.
 - b. All projections used for such calculations will be consistent with the most recent KC WTD wastewater services plan and the flow and RCE forecasts underlying that plan.
 - c. Consideration shall also be given to the potential impact on KC WTD regarding current and future bonding ability, rating, and standing as it may apply to KC WTD's ability to execute long-term debt and the cost of such long-term debt.