



King County

Ron Sims

King County Executive

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CLERK
KING COUNTY COUNCIL

March 8, 2007

The Honorable Larry Gossett
Chair, King County Council
Room 1200
COURTHOUSE

2007-180

Dear Councilmember Gossett:

The enclosed proposed ordinance will enable continued implementation of the Regional Wastewater Services Plan (RWSP) with the best possible financing terms for our region's ratepayers. It provides security for the county's planned bond issue of up to \$250 million of sewer revenue bonds with a 40 year term to fund anticipated wastewater capital program capital expenditures during 2007. That bond issue would be authorized by a second ordinance being transmitted to you simultaneously. I ask that the council adopt both ordinances because my proposed 2008 sewer rate and capacity charge that will be transmitted to you in April is predicated on their adoption. This will allow me to propose a monthly capacity charge for 2008 that will be \$3.00 less than what I will otherwise be required to propose.

The enclosed ordinance is significant not only for the bond issue that would be authorized by the concurrently transmitted bond ordinance but also for those that will follow. Between now and 2010, the county plans to issue over \$1 billion in revenue bonds as the Brightwater wastewater conveyance and treatment project is constructed. This ordinance will enable the county to select optimal terms of 35 to 40 years for that projected debt. The county's wastewater bond issues since 2001 have been shorter than preferred to stay within the period covered by the current sewage disposal contracts with the local agencies we serve. Those contracts terminate in 2036.

King County and Metro before it have historically relied only on the sewage disposal contracts as security for wastewater system bonds. For most of this time, using only the contracts for security, they were able to issue debt with 35 to 40 year terms. The metropolitan system, including its major expansions and upgrades, was financed primarily with 35 to 40 year debt.

This longer term debt has always been considered appropriate because it matches the long life of the assets being financed, ensures that those using the assets over that long period will help pay their costs and minimizes the impact on annual sewer rates and charges. (Shorter term bonds have a greater impact on rates and charges because repayment of the principal is compressed into a shorter period.)

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Returning to the county's traditional borrowing terms lessens the year to year impact on both the monthly sewer rate and capacity charge. I have previously communicated to you that the current 2007 and planned 2008 sewer rate could have been \$0.28 less if we had not been truncating our debt term to stay within the term of the sewage disposal contracts. I also said the 2008 capacity charge would need to be \$3.00 higher per month than it would otherwise be if we did not return to longer term debt in 2007. I said further that every year that we continue to shorten the debt term to stay within the term of the contracts, the penalty on both the sewer rate and capacity charge would increase. Adoption of these ordinances will avoid the \$3.00 penalty on the capacity charge for 2008 and stop the annually increasing penalty on both the sewer rate and capacity charge in the years thereafter.

The enclosed ordinance imposes the county's sewer rate structure on any local agencies in King County that deliver sewage to the county for treatment after 2036 without a sewage disposal contract. It also compels local agencies in King County to deliver their sewage to the county as long as it can be delivered to county interceptor and trunk sewers by gravity flow. This ordinance is relevant only for the period after 2036, inasmuch as the county has contracts with the agencies it serves that are in full force and effect until 2036. This ordinance essentially provides the debt security for the post 2036 period that the sewage disposal contracts provide up until that time. The sewer rate structure imposed by this ordinance is identical to that which is detailed in the contracts.

For over five years the county has engaged in an effort to extend the term of the sewage disposal contracts beyond their current 2036 termination date so that the county would be able to continue to rely on them as security for its preferred debt term of 35 to 40 years. Under the county's proposal the new termination date would be 2056. In addition to the term extension, the county has also proposed amendments that would enable out of cycle sewer rate increases in emergency situations and create a super-majority standard for future contract amendments.

Unfortunately, our progress in extending and amending the contracts has been very slow. We have not been able to secure an extension with the City of Seattle, which constitutes 42 percent of the county's sewer ratepayer base, and review of our proposal by the Metropolitan Water Pollution Advisory Committee (MWPAAC) was lengthy and inconclusive.

Seattle steadfastly refuses to extend its contract unless the King County Council relinquishes its legal authority to adopt and modify policies governing the county's sewage treatment capacity charge. In accordance with the county charter, the council has adopted capacity charge policies that were recommended by the Regional Water Quality Committee (RWQC). Seattle has proposed its own capacity charge methodology and further proposed that it be included in its sewage disposal contract. The council's ability to adopt any future capacity charge policies that might be recommended by the RWQC over the next 50 years would then be nullified.

MWPAAC did not object to the county's proposed contract changes but tied its endorsement to other considerations, which changed over time. Favorable action on the county's proposed contract changes in 2006 by the Suburban Cities Association has effectively jump started the

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effort with its members but we simply do not, as of this writing, have enough of the ratepayer base under extended contracts to use those contracts as security for the extended debt term. Only the Cities of Renton, Pacific and Carnation; Vashon Sewer District; and the Muckleshoot Indian Tribe have executed extended contracts.

Because of the lack of progress in extending the sewage disposal contracts I have undertaken an exhaustive and comprehensive review of the county's approach to securing wastewater debt. This review included a detailed examination of alternatives that the county might be able to employ. Outside legal counsel with the greatest expertise in the relevant areas of law and the county's financial advisors were extensively involved in this effort.

King County, exercising its Metro powers, has considerable statutory authority to provide regional sewage treatment and disposal. Legal counsel has confirmed that the county could rely on its statutory authority to impose its rates and charges on local agencies delivering sewage to the county for treatment. Counsel has confirmed further that the county could compel the local agencies it serves in King County to continue delivering their sewage to the county after the current contracts expire. The enclosed ordinance activates those statutory powers.

My research with experts in the bonding community also confirms that the county's competitive position in providing its wastewater treatment services is compelling. There are no realistic alternatives for sewage treatment, and disposal for the agencies we serve and the barriers to entry by others would be extremely high.

Metro was a new agency when it began incurring debt to develop the metropolitan sewage system in the early 1960's. The contracts were important security for an agency with no track record. With nearly a half century of borrowing history, circumstances are now different. As the county moves forward it can cite its legal powers to provide its service and its compelling competitive position as very credible security for its wastewater debt. Intensive consultation with legal and financial consultants indicates the county will experience no erosion of its enviable bond ratings by moving to this alternative means of securing debt. At the same time we will continue our efforts to extend and amend the sewage disposal contracts.

The primary elements of the enclosed ordinance would:

- 1) Apply the county's rates and charges for sewer service to any sewage collection entity delivering its sewage to the county that doesn't have a contract after 2036 for that purpose. (This is the same rate and charge system detailed in the sewage disposal contracts.)
- 2) Declare that the health safety and welfare of people within the Seattle metropolitan area requires that certain agencies discharge the sewage they collect to the county's metropolitan sewerage system. (This declaration mirrors and activates a provision in state law.)

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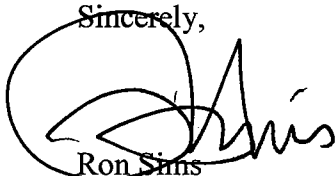
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Adoption by the council of this ordinance should immediately precede adoption of the simultaneously transmitted bond ordinance. If you have questions regarding this ordinance, please contact Bob Hirsch, Government Relations Administrator in the Wastewater Treatment Division of the Department of Natural Resources and Parks, at 206-684-1266.

I look forward to working with the council as it considers this ordinance.

Sincerely,

A handwritten signature in black ink, appearing to read "Ron Sims", is written over a circular stamp or mark.

Ron Sims
King County Executive

Enclosures

cc: King County Councilmembers
ATTN: Ross Baker, Chief of Staff
Shelley Sutton, Policy Staff Director
Anne Noris, Clerk of the Council
Bob Cowan, Director, Department of Office of Management and Budget
Nigel Lewis, Senior Debt Analyst, Treasury Operations, Finance and Business
Operations Section, Department of Executive Services
Pam Bissonnette, Director, Department of Natural Resources and Parks (DNRP)
Bob Hirsch, Governmental Relations Administrator, Wastewater Treatment Division,
DNRP

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FISCAL NOTE

Ordinance/Motion No. 2007-
 Title: Sewer Revenue Bonds: New Debt Issue
 Affected Agency and/or Agencies: Water Treatment Division
 Note Prepared By: Dennis Barnes and Tom Lienesch
 Note Reviewed By: Tim Aratani

Impact of the above legislation on the fiscal affairs of King County is estimated to be:

Revenue to:

Fund/Agency	Fund Code	Revenue Source	Current Year	2nd Year	3rd Year	4th Year
WTD Operating Budget	4610	30800	7,359,000	10,967,000	10,967,000	10,967,000
TOTAL			7,359,000	10,967,000	10,967,000	10,967,000

Expenditures from:

Fund/Agency	Fund Code	Department	Current Year	2nd Year	3rd Year	4th Year
WTD Operating Budget	4610		7,359,000	10,967,000	10,967,000	10,967,000
TOTAL			7,359,000	10,967,000	10,967,000	10,967,000

Expenditures by Categories

	Current Year	2nd Year	3rd Year	4th Year
Debt Service Payment	7,359,000	10,967,000	10,967,000	10,967,000
TOTAL	7,359,000	10,967,000	10,967,000	10,967,000

Assumptions:

This proposed legislation authorizes a maximum issuance of \$250 million in sewer revenue bonds. In accordance with the current WTD financial plan, this fiscal note reflects a planned issuance of \$209 million in 2007. The security ordinance enables WTD to issue these bonds, and subsequent issues, for a term of 40 years. The fiscal effect in 2007, assumes an interest-only payment for approximately 67 percent of the year based a target issuance date of May 1, 2007. The next planned debt issuance is for \$349 million in 2008.

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