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Title: AN ORDINANCE revising a financial policy of the Regional Wastewater Services Plan addressing debt financing and borrowing; and amending Ordinance 13680, Section 16, as amended, and K.C.C. 28.86.160.

Sponsors: Larry Phillips

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Attachments: 1. Ordinance 17492.pdf, 2. 2012-0442 -0443 -0444 Attachment 4 FPWG Report.pdf, 3. 2012-0442-44 Reserves and short term debt policies (11-07-12)sr.doc, 4. PO 2012-0442 Amendment 1.docx, 5. 2012-0442-44 Reserves and short term debt policies (12-04-12)sr.doc, 6. 2012-0442-0444 Attachment 3 - FPWG reccs Reserves and Variable-Rate Debt.pdf

Date	Ver.	Action By	Action	Result
12/10/2012	2	Metropolitan King County Council	Passed	Pass
12/4/2012	2	Budget and Fiscal Management Committee	Recommended Do Pass Consent	Pass
11/7/2012	1	Regional Water Quality Committee	Recommended Do Pass Substitute	Pass
11/5/2012	1	Metropolitan King County Council	Introduced and Referred	

AN ORDINANCE revising a financial policy of the Regional Wastewater Services Plan addressing debt financing and borrowing; and amending Ordinance 13680, Section 16, as amended, and K.C.C. 28.86.160.

STATEMENT OF FACTS:

1. The metropolitan King County council, in assuming the legislative powers of the municipality of metropolitan Seattle, readopted the Comprehensive Water Pollution Abatement Plan by Ordinance 12074 on December 6, 1995.
2. The Regional Wastewater Services Plan ("RWSP") was adopted by the King County council in November 1999 by Ordinance 13680 and codified in K.C.C. chapter 28.86.
3. The RWSP is a supplement to the King County comprehensive water pollution abatement

plan. The RWSP identifies projects and programs needed to provide wastewater capacity for homes and businesses in the wastewater service area through 2030. The RWSP also provides policy direction for the operation and continued development of the wastewater system and its capital improvement program, including financial policies to guide financial forecasting and budgeting, debt financing and borrowing and collection of revenue to support the implementation of the RWSP.

4. In 2001 and 2006 the King County council amended policies in the RWSP, including amending and adding financial policies, as recommended by the regional water quality committee.

8. In 2009, the regional water quality committee's work plan included a task to review financial policies of the RWSP. In September 2009, the regional water quality committee chartered a financial policies work group ("FPWG") comprised of staff representing the metropolitan water pollution abatement advisory committee, sewer districts, the cities of Seattle and Bellevue, the executive and council. FPWG was directed to review a limited set of policies and make recommendations back to the committee.

9. In October 2010, FPWG presented its first recommendations regarding amendments to financial policies regarding reserves and short-term, variable-rate debt, while FPWG continues to review other policies.

10. The regional water quality committee concurred with the FPWG recommended policy amendments but subsequent review by legal counsel provided guidance recommending that King County adopt financial policies regarding reserves and short-term, variable-rate debt by motion rather than amending adopted policies by ordinance.

11. A motion addressing reserves and the short-term, variable-rate debt is concurrently recommended for introduction by the regional water quality committee.

12. On the issue of short-term, variable-rate debt, the regional water quality committee provided the following observations and guidance that are addressed in the motion:

a. The current limit on short-term debt as a percentage of overall wastewater treatment division debt is fifteen percent. This limit was established when the division had little experience with this type of financing; and

b. Increasing the limit on short-term debt to no more than twenty percent of overall wastewater treatment division debt is intended to provide greater flexibility to the division to utilize this method of financing when conditions are advantageous and there are opportunities to save ratepayers financing costs. The following factors shall be considered and analyzed before any increase in short-term debt is proposed:

- (1) The difference in yields of variable rate bonds compared to fixed rate bonds;
- (2) An estimate of potential risk and ability to manage the variable rate debt, including monitoring market conditions;
- (3) The total costs of issuing variable rate debt;
- (4) The need for an externally provided liquidity facility; and
- (5) Strategies for long-term financing and debt management.

12. In accordance with RWSP FP 15.2.c., the executive has, in consultation with the regional water quality committee, proposed policies to ensure that adequate debt service coverage and emergency reserves are established.

BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

SECTION 1. Ordinance 13680, Section 16, as amended, and K.C.C. 28.86.160 are each hereby amended to read as follows:

A. Under the provisions of the King County Charter and RCW 35.58.200, these financial policies are hereby adopted and declared to be the principal financial policies of the comprehensive water pollution

abatement plan for King County, adopted by the Municipality of Metropolitan Seattle (Metro) in Resolution No. 23, as amended, and the RWSP, a supplement to the plan.

B. Explanatory material.

1. Financial forecast and budget. Policies FP-1 through FP-~~((7))~~10 are intended to guide the county in the areas of prudent financial forecasting and budget planning and are included to ensure the financial security and bonding capacity for the wastewater system. This set of policies also addresses the county's legal and contractual commitments regarding the use of sewer revenues to pay for sewer expenses.

2. Debt financing and borrowing. Policies FP-~~((8))~~11 through FP-~~((11))~~14 are intended to guide the county in financing the wastewater system capital program. These policies direct that capital costs be spread over time to keep rates more stable for ratepayers by the county issuing bonds. A smaller share of annual capital costs will be funded directly from sewer rates and sewer revenues and capacity charges.

3. Collecting revenue. Policies FP-~~((12))~~15 through FP-~~((14))~~17 are intended to guide King County in establishing annual sewer rates and approving wastewater system capital improvement and operating budgets. Monthly sewer rates, which are the primary source of revenue for the county's regional wastewater system, are to be uniformly assessed on all customers. Customers with new connections to the wastewater system will pay an additional capacity charge. The amount of that charge is set by the council, within the constraints of state law.

4. Community treatment systems. Policy FP-~~((15))~~18 is intended to guide the county in the financial management of community treatment systems.

C. Policies.

1. Financial forecast and budget.

FP-1: The county shall maintain for the wastewater system a multiyear financial forecast and cash-flow projection of six years or more, estimating service growth, operating expenses, capital needs, reserves and debt service. The financial forecast shall be submitted by the executive with the annual sewer rate ordinance.

FP-2: If the operations component of the proposed annual wastewater system budget increases by more than the reasonable cost of the addition of new facilities, increased flows, new programs authorized by the council, and inflation, or if revenues decline below the financial forecast estimate, a feasible alternative spending plan shall be presented, at the next quarterly budget report, to the council by the executive identifying steps to reduce cost increases.

FP-3: The executive shall maintain an ongoing program of reviewing business practices and potential cost-effective technologies and strategies for savings and efficiencies; the results shall be reported in the annual budget submittal and in an annual report to the RWQC.

FP-4: New technologies or changes in practice that differ significantly from existing technologies or practices shall be reported to the council and RWQC with projected costs prior to implementation and shall also be summarized in the RWSP annual report.

FP-5: Significant new capital and operational initiatives proposed by the Executive that are not within the scope of the current RWSP nor included in the RWSP, or are required by new state or federal regulations will be reviewed by the RWQC and approved by the council to ensure due diligence review of potential impacts to major capital projects' schedules, including Brightwater, the bond rating or the sewer rate and capacity charge.

FP- 6: The county shall maintain for the wastewater system a prudent minimum cash balance for reserves, including, but not limited to, cash flow and potential future liabilities. The cash balance shall be approved by the council in the annual sewer rate ordinance.

FP-7: Unless otherwise directed by the council by motion, the King County department of natural resources and parks or its successor agency shall charge a fee that recovers all direct and indirect costs for any services related to the wastewater system provided to other public or private organizations.

FP-8: Water quality improvement activities, programs and projects, in addition to those that are functions of sewage treatment, may be eligible for funding assistance from sewer rate revenues after

consideration of criteria and limitations suggested by the metropolitan water pollution abatement advisory committee, and, if deemed eligible, shall be limited to one and one half percent of the annual wastewater system operating budget. An annual report on activities, programs and projects funded will be made to the RWQC. Alternative methods of providing a similar level of funding assistance for water quality improvement activities shall be transmitted to the RWQC and the council within seven months of policy adoption.

FP-9: The calculation of general government overhead to be charged to the wastewater system shall be based on a methodology that provides for the equitable distribution of overhead costs throughout county government. Estimated overhead charges shall be calculated in a fair and consistent manner, utilizing a methodology that best matches the estimated cost of the services provided to the actual overhead charge. The overall allocation formula and any subsequent modifications will be reported to the RWQC.

FP-10: The assets of the wastewater system are pledged to be used for the exclusive benefit of the wastewater system including operating expenses, debt service payments, asset assignment and the capital program associated therewith. The system shall be fully reimbursed for the value associated with any use or transfer of such assets for other county government purposes. The executive shall provide reports to the RWQC pertaining to any significant transfers of assets for other county government purposes in advance of and subsequent to any such transfers.

2. Debt financing and borrowing.

FP-11: The county shall structure bond covenants to ensure a prudent budget standard.

FP- 12: King County should structure the term of its borrowings to match the expected useful life of the assets to be funded.

FP-13: The wastewater system's capital program shall be financed predominantly by annual staged issues of long-term general obligation or sewer revenue bonds, provided that:

All available sources of grants are utilized to offset targeted program costs;

Funds available after operations and reserves are provided for shall be used for the capital program;

excess funds accumulated in reserves may also be used for capital;

Consideration is given to competing demands for use of the county's overall general obligation debt capacity; and

Consideration is given to the overall level of debt financing that can be sustained over the long term given the size of the future capital programs, potential impacts on credit ratings, and other relevant factors such as intergenerational rate equity and the types of projects appropriately financed with long-term debt.

FP-14: To achieve a better maturity matching of assets and liabilities, thereby reducing interest rate risk, short-term, variable rate borrowing shall be used to fund a portion of the capital program, provided that:

Outstanding short-term, variable rate debt comprises no more than (~~fifteen~~) twenty percent of total outstanding revenue bonds and general obligation bonds; and

Appropriate liquidity is available to protect the day-to-day operations of the system.

3. Rates - sewer rates and capacity charge.

FP-15: King County shall charge its customers sewer rates and capacity charges sufficient to cover the costs of constructing and operating its wastewater system. Revenues shall be sufficient to maintain capital assets in sound working condition, providing for maintenance and rehabilitation of facilities so that total system costs are minimized while continuing to provide reliable, high quality service and maintaining high water quality standards.

1. Existing and new sewer customers shall each contribute to the cost of the wastewater system as follows:

a. Existing customers shall pay through the monthly sewer rate for the portion of the existing and expanded conveyance and treatment system that serves existing customers.

b. New customers shall pay costs associated with the portion of the existing wastewater conveyance and treatment system that serves new customers and costs associated with expanding the system to serve new customers. New customers shall pay these costs through a combination of the monthly sewer rate and the

capacity charge. Such rates and charges shall be designated to have growth pay for growth.

2. Sewer rate. King County shall maintain a uniform monthly sewer rate expressed as charges per residential customer equivalent for all customers.

a. Sewer rates shall be designed to generate revenue sufficient to cover, at a minimum, all costs of system operation and maintenance and all capital costs incurred to serve existing customers.

b. King County should attempt to adopt a multiyear sewer rate to provide stable costs to sewer customers. If a multiyear rate is established and when permitted upon the retirement by the county of certain outstanding sewer revenue bonds, a rate stabilization reserve account shall be created to ensure that adequate funds are available to sustain the rate through completion of the rate cycle. An annual report on the use of funds from this rate stabilization account shall be provided annually to the RWQC.

c. The executive, in consultation with the RWQC, shall propose for council adoption policies to ensure that adequate debt service coverage and emergency reserves are established and periodically reviewed.

3. Capacity charge. The amount of the capacity charge shall be a uniform charge, shall be approved annually and shall not exceed the cost of capital facilities necessary to serve new customers. The methodology that shall be applied to set the capacity charge is set forth in FP-((12)) 15.3.a.

a. The capacity charge shall be based on allocating the total cost of the wastewater system (net of grants and other non rate revenues) to existing and new customers as prescribed in this subsection. The total system cost includes the costs to operate, maintain, and expand the wastewater system over the life of the RWSP. Total estimated revenues from the uniform monthly rate from all customers and capacity charge payments from new customers, together with estimated non rate revenues, shall equal the estimated total system costs. The capacity charge calculation is represented as follows:

$$\text{Capacity = Charge} = \frac{[\text{Total system costs — rate revenue from existing customers}] - \text{Rate revenue from new customers}}{\text{Number of new customers}}$$

where:

(1) total system costs (net of grants and other non rate revenues) minus rate revenue from existing customers equals costs allocated to new customers.

(2) costs allocated to new customers minus rate revenue from new customers equals the total revenue to be recovered through the capacity charge.

(3) total capacity charge revenue requirements divided by the total number of new customers equals the amount of the capacity charge to be paid by each new customer.

b. The capacity charge may be paid by new customers in a single payment or as a monthly charge at the rate established by the council. The county shall establish a monthly capacity charge by dividing that amount by one hundred eighty (twelve monthly payments per year for fifteen years). The executive shall transmit for council adoption an ordinance to adjust the discount rate for lump sum payment. The executive shall also transmit for council adoption an ordinance to adjust the monthly capacity charge to reflect the county's average cost of money if the capacity charge is paid over time.

c. King County shall pursue changes in state law to enable the county to require payment of the capacity charge in a single payment.

d. The capacity charge shall be set such that each new customer shall pay an equal share of the costs of facilities allocated to new customers, regardless of what year the customer connects to the system. The capacity charge shall be based upon the costs, customer growth and related financial assumptions used for the Regional Wastewater Services Plan adopted by Ordinance 13680 as such assumptions may be updated. Customer growth and projected costs, including inflation, shall be updated every three years beginning in 2003.

e. The county should periodically review the capacity charge to ensure that the actual costs of system expansion to serve new customers are reflected in the charge. All reasonable steps should be taken to coordinate the imposition, collection of and accounting for rates and charges with component agencies to reduce redundant program overhead costs.

f. Existing customers shall pay the monthly capacity charge established at the time they connected to the system as currently enacted by K.C.C. 28.84.055. New customers shall pay the capacity charge established at the time they connect to the system.

g. To ensure that the capacity charge will not exceed the costs of facilities needed to serve new customers, costs assigned and allocated to new customers shall be at a minimum ninety five percent of the projected capital costs of new and existing treatment, conveyance and biosolids capacity needed to serve new customers.

h. Costs assigned and allocated to existing customers shall include the capital cost of existing and future treatment, conveyance and biosolids capacity used by existing customers, and the capital costs of assessing and reducing infiltration and inflow related to the use of the existing conveyance and treatment capacity.

i. Capital costs of combined sewer overflow control shall be paid by existing and new customers based on their average proportionate share of total customers over the life of the RWSP.

j. Operations and maintenance costs shall be paid by existing and new customers in the uniform monthly rate based on their annual proportionate share of total customers.

k. Any costs not allocated in FP-~~((12))~~15.3, f., g., h., i. and j. shall be paid by existing and new customers in the sewer rate.

l. Upon implementation of these explicit policies, the Seattle combined sewer overflow benefit charge shall be discontinued.

4. Based on an analysis of residential water consumption, as of December 13, 1999, King County uses a factor of seven hundred fifty cubic feet per month to convert water consumption of volume-based customers to residential customer equivalents for billing purposes. King County shall periodically review the appropriateness of this factor to ensure that all accounts pay their fair share of the cost of the wastewater system.

FP-16: The executive shall prepare and submit to the council a report in support of the proposed monthly sewer rates for the next year, including the following information:

Key assumptions: key financial assumptions such as inflation, bond interest rates, investment income, size and timing of bond issues, and the considerations underlying the projection of future growth in residential customer equivalents;

Significant financial projections: all key projections, including the annual projection of operating and capital costs, debt service coverage, cash balances, revenue requirements, revenue projections and a discussion of significant factors that impact the degree of uncertainty associated with the projections;

Historical data: a discussion of the accuracy of the projections of costs and revenues from previous recent budgets, and

Policy options: calculations or analyses, or both, of the effect of certain policy options on the overall revenue requirement. These options should include alternative capital program accomplishment percentages (including a ninety percent, a ninety-five percent and a one hundred percent accomplishment rate), and the rate shall be selected that most accurately matches historical performance in accomplishing the capital program and that shall not negatively impair the bond rating.

FP-17. Expenditures from the wastewater revenues to correct water pollution problems caused by septic systems shall occur only if such expenditures financially benefit wastewater system current customers when the additional monthly sewer rate revenues from these added customers are considered.

FP- 18: The cost of community treatment systems developed and operated in accordance with WWSP-15 would not be subsidized by the remaining ratepayers of the county's wastewater treatment system.