



Legislation Text

File #: 2012-0444, **Version:** 2

Clerk 11/01/2012

A MOTION adopting water quality fund financial policies regarding reserves and debt.

WHEREAS, 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, and

WHEREAS, 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, and

WHEREAS, 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, and

WHEREAS, in 2001 and 2006, the council amended policies in the RWSP, including amending and adding financial policies, as recommended by the regional water quality committee, and

WHEREAS, beginning in 2009, the regional water quality committee's work plan included a task to review financial policies of the RWSP and 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 the council,

and

WHEREAS, FPWG was directed to review a limited set of policies and make recommendations back to the committee, and

WHEREAS, in October 2010, FPWG presented its first recommendations regarding amendments to financial policies regarding reserves and short-term, variable rate debt, while FPWG continued to review other policies, and

WHEREAS, the regional water quality committee concurred with the FPWG recommended policy amendments, but subsequent legal counsel and guidance recommended that King County adopt financial policies by motion rather than an ordinance amending adopted policies, and

WHEREAS, the regional water quality committee is also considering an ordinance to raise the short-term, variable rate debt limit set in K.C.C. 28.86.160.C.1. FP-14, and

WHEREAS, in accordance with K.C.C. 28.86.160.C.1. FP-15.2, 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;

NOW THEREFORE, BE IT MOVED by the Council of King County:

A. The following water quality fund financial policies are adopted:

1. Definition. For the purposes of this motion “short-term, variable rate debt” means certain junior lien obligations of the wastewater treatment utility, that have interest rates that reset periodically.
2. Reserves in the Wastewater Treatment Division operating and capital budgets.
 - a. The current practice of maintaining a liquidity reserve of at least ten percent of operating expenses plus five million dollars in the construction fund has been viewed favorably by rating agencies and has improved bond ratings, and should therefore continue.
 - b. The proposed financial plan for each fiscal year should include a minimum cash balance, to be utilized for reserves, at the beginning of the year equal to or greater than ten percent of operating expenses plus

five million dollars in the construction fund.

c. If the cash balance or reserve has been utilized in the current or preceding year, the financial plan will show how and when it will be restored to the minimum.

d. In addition to this minimum cash balance, the financial plan should include an emergency capital reserve at the beginning of year with a minimum of fifteen million dollars to be used for unanticipated system repairs or equipment replacement in the event of a natural disaster or some unforeseen system failure.

e. Interest earnings on the emergency capital reserve shall be available for operations.

f. If the emergency capital reserve has been utilized in the current or preceding year, the financial plan will show how the capital reserve will be replenished to fifteen million within five years.

g. As a part of each Regional Wastewater Services Plan review and update, the dollar amounts for reserves stipulated in this motion should be reviewed to ensure they are appropriate in future years.

2. Short-term, variable rate debt limits.

a. The limit on short-term, variable rate debt as a percentage of overall wastewater treatment division debt is no more than twenty percent of the total wastewater treatment division debt to provide flexibility for the division to utilize this method of financing when conditions are advantageous and there are opportunities to save ratepayers financing costs.

b. The following factors shall be considered, analyzed, and reported to the council before or at the time any increase in short-term, variable rate debt is proposed by the executive through debt issuance to be approved by the council:

(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) An estimate of 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.