



KING COUNTY

1200 King County Courthouse
516 Third Avenue
Seattle, WA 98104

Signature Report

December 11, 2012

Ordinance 17492

Proposed No. 2012-0442.2

Sponsors Phillips

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

5 STATEMENT OF FACTS:

- 6 1. The metropolitan King County council, in assuming the legislative
7 powers of the municipality of metropolitan Seattle, readopted the
8 Comprehensive Water Pollution Abatement Plan by Ordinance 12074 on
9 December 6, 1995.
- 10 2. The Regional Wastewater Services Plan ("RWSP") was adopted by the
11 King County council in November 1999 by Ordinance 13680 and codified
12 in K.C.C. chapter 28.86.
- 13 3. The RWSP is a supplement to the King County comprehensive water
14 pollution abatement plan. The RWSP identifies projects and programs
15 needed to provide wastewater capacity for homes and businesses in the
16 wastewater service area through 2030. The RWSP also provides policy
17 direction for the operation and continued development of the wastewater
18 system and its capital improvement program, including financial policies

19 to guide financial forecasting and budgeting, debt financing and borrowing
20 and collection of revenue to support the implementation of the RWSP.

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

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

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

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

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

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

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

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

56 (1) The difference in yields of variable rate bonds compared to fixed
57 rate bonds;

58 (2) An estimate of potential risk and ability to manage the variable rate
59 debt, including monitoring market conditions;

60 (3) The total costs of issuing variable rate debt;

61 (4) The need for an externally provided liquidity facility; and

62 (5) Strategies for long-term financing and debt management.

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

67 BE IT ORDAINED BY THE COUNCIL OF KING COUNTY:

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

70 A. Under the provisions of the King County Charter and RCW 35.58.200, these
71 financial policies are hereby adopted and declared to be the principal financial policies of
72 the comprehensive water pollution abatement plan for King County, adopted by the
73 Municipality of Metropolitan Seattle (Metro) in Resolution No. 23, as amended, and the
74 RWSP, a supplement to the plan.

75 B. Explanatory material.

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

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

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

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

95 C. Policies.

96 1. Financial forecast and budget.

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

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

107 FP-3: The executive shall maintain an ongoing program of reviewing business
108 practices and potential cost-effective technologies and strategies for savings and

109 efficiencies; the results shall be reported in the annual budget submittal and in an annual
110 report to the RWQC.

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

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

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

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

129 FP-8: Water quality improvement activities, programs and projects, in addition to
130 those that are functions of sewage treatment, may be eligible for funding assistance from
131 sewer rate revenues after consideration of criteria and limitations suggested by the

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

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

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

152 2. Debt financing and borrowing.

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

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

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

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

161 Funds available after operations and reserves are provided for shall be used for
162 the capital program; excess funds accumulated in reserves may also be used for capital;

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

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

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

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

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

176 3. Rates - sewer rates and capacity charge.

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

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

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

188 b. New customers shall pay costs associated with the portion of the existing
189 wastewater conveyance and treatment system that serves new customers and costs
190 associated with expanding the system to serve new customers. New customers shall pay
191 these costs through a combination of the monthly sewer rate and the capacity charge.
192 Such rates and charges shall be designated to have growth pay for growth.

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

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

198 b. King County should attempt to adopt a multiyear sewer rate to provide
199 stable costs to sewer customers. If a multiyear rate is established and when permitted

200 upon the retirement by the county of certain outstanding sewer revenue bonds, a rate
201 stabilization reserve account shall be created to ensure that adequate funds are available
202 to sustain the rate through completion of the rate cycle. An annual report on the use of
203 funds from this rate stabilization account shall be provided annually to the RWQC.

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

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

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

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

219 where:

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

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

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

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

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

236 d. The capacity charge shall be set such that each new customer shall pay an
237 equal share of the costs of facilities allocated to new customers, regardless of what year
238 the customer connects to the system. The capacity charge shall be based upon the costs,

239 customer growth and related financial assumptions used for the Regional Wastewater
240 Services Plan adopted by Ordinance 13680 as such assumptions may be updated.

241 Customer growth and projected costs, including inflation, shall be updated every three
242 years beginning in 2003.

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

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

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

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

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

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

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

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

270 4. Based on an analysis of residential water consumption, as of December 13,
271 1999, King County uses a factor of seven hundred fifty cubic feet per month to convert
272 water consumption of volume-based customers to residential customer equivalents for
273 billing purposes. King County shall periodically review the appropriateness of this factor
274 to ensure that all accounts pay their fair share of the cost of the wastewater system.

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

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

281 Significant financial projections: all key projections, including the annual
282 projection of operating and capital costs, debt service coverage, cash balances, revenue

283 requirements, revenue projections and a discussion of significant factors that impact the
284 degree of uncertainty associated with the projections;

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

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

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

297 FP- 18: The cost of community treatment systems developed and operated in

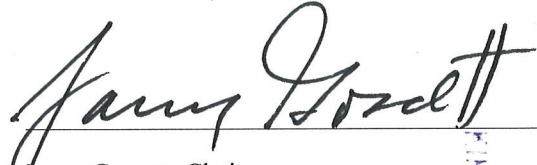
298 accordance with WWSP-15 would not be subsidized by the remaining ratepayers of the
299 county's wastewater treatment system.

300

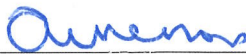
Ordinance 17492 was introduced on 11/5/2012 and passed by the Metropolitan King
County Council on 12/10/2012, by the following vote:

Yes: 8 - Mr. Phillips, Mr. von Reichbauer, Mr. Gossett, Ms. Hague,
Ms. Patterson, Ms. Lambert, Mr. Dunn and Mr. McDermott
No: 0
Excused: 1 - Mr. Ferguson

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON



Larry Gossett, Chair

ATTEST:



Anne Noris, Clerk of the Council

APPROVED this 20 day of December, 2012.



Dow Constantine, County Executive

Attachments: None

RECEIVED
2012 DEC 21 AM 10:05
CLERK
KING COUNTY COUNCIL