

**METROPOLITAN WATER POLLUTION ABATEMENT ADVISORY COMMITTEE**

**Advisory Subcommittee on Rates and Finance (Project Number 421553)**

**Meeting Summary – December 5, 2008**

King Street Center, 9:15 am – 10:45 am

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**MWPAAC members in attendance:**

Walt Canter, Cedar River Water and Sewer District

Trish Erickson, City of Seattle

Ken Howe, Woodinville Water District

Arnie Lind, City of Ronald

Ron Speer, Soos Creek Water and Sewer District

Ron Sheadel, Cedar River Water and Sewer District

Scott Thomasson, City of Redmond

Art Wadekamper, Ronald Wastewater District

Ann Weigle, City of Bellevue

**Staff:**

Tim Aratani, DNRP/WTD - Finance & Administrative

Greg Holman, DNRP/WTD - Finance & Administrative

Maryann Ness, DNRP/WTD - Finance & Administrative

Sharman Herrin, DNRP/WTD - Director's Office

Becky Spithill, DNRP/WTD

**1. Opening Remarks**

Tim opened the meeting. The subcommittee's objective for that day was to review the operating and capital budget recently adopted by County Council, as well as to discuss the subcommittee's 2009 work plan. See agenda [U:\MWPAAC\R&F\12\\_5\\_08 Meeting\Agenda.pdf](U:\MWPAAC\R&F\12_5_08 Meeting\Agenda.pdf).

**2. Operating Fund**

Maryann led the subcommittee through a review of the document Crosswalk 2008 Adopted to 2009 Proposed Budget (see [U:\MWPAAC\R&F\12\\_5\\_08 Meeting\Handout\\_xwalk\\_08Ado\\_09PA.pdf](U:\MWPAAC\R&F\12_5_08 Meeting\Handout_xwalk_08Ado_09PA.pdf)). She noted the following:

- Total savings for 10 days unpaid furlough is estimated to be \$2 million—about \$1.2 million related to operating FTEs and \$800,000 related to capital FTEs;
- Total WTD Adopted Operating Budget is \$102.9 million. It will go up to \$103.7 million (to correct for capital portion of the furlough adjustment);
- There have been decreases in central charges, but WTD operating expenses haven't changed since adopted rate budget in July;

- Budget reductions have resulted in a significant number of layoffs in the department. The Environmental Laboratory has been able to contract some of its services (about \$500,000) to other departments and public agencies in order to avoid layoffs;
- Making adjustments to cost-of-living increases is not feasible, as they are tied to labor contracts;
- Similarly, the furlough was an acceptable approach to addressing the deficit that was negotiated with the unions;
- The balancing reserve is to account for and reconcile changes that may occur between the time that WTD adopts its sewer rate in June and the county adopts its budget in November;
- The 2010 rate will be based on January/February 2009 calculations and WTD will go forward on best guess estimates;

Discussion: In addition to King County, Snohomish County is discussing the use of furloughs to address deficits; some members of the subcommittee expressed concern about this approach and the opinion that the county is digging itself into a hole by not cutting COLA rates instead.

### 3. Capital Improvement Program

The County Council made no changes to the Executive's proposed budget. Some of the changes in capital projects since April include the Ballard Siphon and Ravenna projects, which have gone up in cost. Otherwise there are no significant increases in capital program costs. Greg and Tim led the subcommittee through a review of the CIP Spending Plan for 2009 (see [U:\MWPAAC\R&F\12\\_5\\_08\\_Meeting\Handout\\_2009\\_CIP.pdf](U:\MWPAAC\R&F\12_5_08_Meeting\Handout_2009_CIP.pdf)). Subcommittee members focused on the following projects and issues:

- **Black Diamond Storage Facility.** Ron suggested that CIP staff consider alternative options, specifically a deferral of the project. As a result of the economic slowdown, the need for this facility is further out than previously planned.
- **RWSP Conveyance System Improvements.** This represents multiple projects, and Scott believes each of the individual projects within this category should be identified. Greg said that this category includes projects that are not fully defined yet, but are expected to lead to eventual capital construction. Scott also asked whether some projects under this category and identified as capital improvement are not actually operating costs, and that there may be an accounting issue in terms of how projects are categorized. Tim agreed to provide the subcommittee with details of 2010 projects within this category.
- **Future Water Reuse / Inflow & Infiltration Total.** Additional discussion about the difference between operating expenses and capital improvements, noting that list of capital projects includes projects entitled "Future Water Reuse," "RWSP Conveyance System Improvements" and "Reclaimed Water – Comprehensive Plan." Greg and Tim said that these efforts are expected to result in capital projects and are therefore

appropriately capitalized. Biosolids equipment is funded separately from Fleet, so Fleet doesn't collect replacement costs from WTD for these assets. Under the Environmental Lab projects "Future AM Master Plan Projects" have \$24 million in 2013 and \$26 million in 2014. Including these costs is an asset management issue—maintains a placeholder in the CIP budget for anticipation of costs based on historical data and the needs of the capital program over time.

- **Brightwater Project.** An updated projection of total project cost will come out in January.
- Years 2008 - 2010 are the peak period for the CIP program, during which WTD will rely heavily on borrowing.
- Ken asked if the division could provide information about its history of success in meeting estimates for CIP spending.

#### **4. Review other financial analyses**

The subcommittee reviewed several documents related to adopted budget and rates forecasts, as well as information about investments interest rates (see [U:\MWPAAC\R&F\12\\_5\\_08 Meeting\Handout Financials.pdf](U:\MWPAAC\R&F\12_5_08 Meeting\Handout Financials.pdf)). Staff and subcommittee members made the following observations:

- RCE Forecast assumptions: These will remain constant in 2009, but we will need to watch them closely. The year 2010 will show a negative number.
- City of Seattle is still growing but permits are falling off and some major developments will not be going forward.

A change in budgeting for the Environmental lab led to matching increases in operating expenses.

- The adopted budget financial plan forecasts that \$7.1 million will be set aside for rate stabilization in 2009.
- Interest Rates - Tim said that the rates of interest that were assumed at the time the rate was set were thought to be conservative, but are no longer conservative in the current economic climate. When King County goes to the bond market, the interest rate changes over the past several months will have a profound effect on 2010 projected numbers. We won't have a clear idea of the interest rate we will be paying until the next series of bonds are issued in January or February.
- The bond rating for the county is AAA. WTD's rating is high, but lower than the county's. If we issue double-barreled bonds, we can take advantage of the county's higher rating. Because the credits of several major insurance companies have been placed on credit watch lists, the county can no longer acquire surety bonds to guarantee payment on its bonds and will have to post additional cash reserves.

WTD Finance will go before the Executive Finance Committee to get approval to borrow \$100 million in order to replace WTD's 2006 variable bond issue. These bonds were insured by MBIA, whose bond rating was downgraded in June 2008. Interest rates on these bonds, and variable bonds generally, increased sharply during September and October. WTD's average variable bond rate increased from 2.9 percent in August to 5.2 percent in November. Interest rates on variable rate bonds have recently returned to normal levels, and WTD will retain two other existing short term bond issues totaling \$200 million.

- Rate adopted by the council was \$31.90 for 2009 and WTD will need the subcommittee's assistance to find the means to keep that rate for 2010 in the current volatile market.
- WTD is at the peak of spending in its CIP, which makes the situation more serious.
- Scott suggested that going into 2009, the subcommittee should do a careful review in the first quarter and adjust for inaccurate projections and repackage the 2010 rate. He asked what the expectation is about how much WTD will overshoot the budget and fall short.
- WTD will be close to operating budget projections and under CIP budget. The unknown is the division's need to acquire \$550 million in bonding for CIP—the wild card will be interest rates in the bond market in January and February.
- Scott asked if there were a price at which WTD would not go to the market to sell bonds—possibly suspend Brightwater. Decisions about the future of the Brightwater Project are not under consideration by the Rates and Finance Subcommittee.
- If we were to issue bonds now, our financial advisor has indicated that the interest rate we would likely pay would be in the range of 5.5 percent to 6 percent.

## **5. Work plan and closing comments**

The objective is to sync up the 2009 schedule with the work plan (see [U:\MWPAAC\R&F\12\\_5\\_08 Meeting\Handout\\_Work Plan Items 2009.pdf](U:\MWPAAC\R&F\12_5_08 Meeting\Handout_Work Plan Items 2009.pdf)). The subcommittee may choose to meet more than once in February. Members urged that the subcommittee be apprised of and be involved upfront in major budget decisions. In addition, the subcommittee:

- Approved the proposed meeting schedule.
- Suggested that the subcommittee address the issue of reclaimed water pricing, both retail and wholesale, and make a recommendation for the full committee. The subcommittee should address the issue on April 9; the proviso is due on June 1.
- Noted the discrepancy between Regional Water Quality Council's report on Brightwater and the numbers that WTD has provided.

- Heard a recommendation from Sharman that if the meeting topic is CSO issues, the Rates and Finance Subcommittee and the Engineering and Planning Subcommittee hold a joint meeting (perhaps in July).
- Requested a review of policies on reserve targets.
- Proposed the following agenda items and request for information for January's meeting:
  - Clarification on the list of projects
  - Reuse numbers
  - Accomplishment rate / rate of accuracy in projections of expenditures
  - Policy for reserve targets and setting reserves
  - Accounting rule on operating versus capital projects
  - Update on total cost of Brightwater
  - Report on Bond Market conditions
  - Explain the difference between the numbers for Brightwater in a recent report to the RWQC and the numbers provided by WTD