

METROPOLITAN WATER POLLUTION ABATEMENT ADVISORY COMMITTEE

Rates and Finance Subcommittee Meeting Summary – February 12, 2009 King Street Center, 9:00 am – 10:30 am

MWPAAC members in attendance:

Don Davidson, City of Bellevue
Trish Erickson, City of Seattle
Ken Goodwin, Alderwood Water and Wastewater District
Ron Sheadel, Cedar River Water and Sewer District
Scott Thomasson, City of Redmond
Ann Weigle, City of Bellevue
Margaret Wiggins, Northshore Utility District

Facilitator: Tamie Kellogg, Consultant

Staff:

Tim Aratani, DNRP/WTD - Finance & Administration
Greg Holman, DNRP/WTD - Finance & Administration
Maryann Ness, DNRP/WTD - Finance & Administration
Sharman Herrin, DNRP/WTD - Director's Office
Tom Lienesch, DNRP/WTD – Finance & Administration
Becky Spithill, DNRP/WTD

1. Opening Remarks

Subcommittee members and staff made introductions. Members approved summary of January 16th meeting. Tamie stated the objectives for the meeting were to review 2008 results, discuss current year funding and issues, and consider 2010 assumptions and forecast (see Agenda). Members commented that other discussion points for the meeting should include Regional Water Quality Committee policy changes with implications for MWPAAC and debt structure.

2. Review of 2008 Year-End Results

Tim reported that current market conditions for issuing long-term debt are improving. The county expects to issue up to \$300 million bonds with a 30-year term in mid-March. After March, the county will have remaining authority of \$250 million, which is expected to go out in July and August. The interest rate is about 5.5 percent; the financial plan assumes 6 percent. The county plans to issue double-barrel bonds in March (def: bonds that are backed by the revenue of the county and the Wastewater Treatment Division (WTD) revenues.

In response to a question about the possibility that WTD's bonding would be negatively affected by re-rating, Tim said this was not a concern with respect to ratings of utilities, because Standard & Poor's rating of King County will remain high, particularly relative to other municipalities. Rates for variable debt have dropped and WTD is looking at plan to get variable debt program back on track (3rd – 4th qtr.)

Greg referenced the chart showing the Bond Buyer Interest Rate index. The consensus is that we are past the bad news, for now, in terms of interest rates, yet a full menu of bond terms has yet to reappear.

3. 2008 year-end results

Tim reviewed the Wastewater Treatment Enterprise Financial Plan (see attached). The subcommittee requested a separate accounting that would detail actual costs and benefits. Concerns were expressed about costs that appear to come out of rates for solid waste.

Highlights of this document included:

Operating Fund/Expense, etc.

- Rate stabilization—No change; the transfer is set by the most recently adopted financial plan.
- Operating expense—under spent by about \$2 million. Tim commented that we'll come in less than expected, but that with policy changes will come increased expenses, i.e., the conversion from chorine to hypochlorite for disinfection will increase expenses from about \$750,000 to \$2 million. The budget will try to account for this transition.
- Costs were lower in part due less use of chemicals, as 2008 was a low-flow year while 2007 was one of the wettest years on record.
- Savings arising from the furlough initiative will be realized later
- With the exception of debt-service coverage, the county has no rules of thumb for the percent of budget that operating funds account for (in reference to the capital and liquidity reserve line items)
- Transfer to Capital—increase is the net result of higher revenues/lower expenses
- The Liquidity Reserve balance (10% of operating expenses)/key indicator is linked to debt service coverage.

Construction Fund

- Capital expenditure timing is difficult to predict, so accomplishment rate was 96% and higher than forecast.
- For Brightwater, the treatment plant is on schedule but conveyance is behind schedule.
- Brightwater budget is based on 2008 trend-estimate costs. WTD's borrowing is linked to the Brightwater capital needs.

Members of the subcommittee asked to what extent the stimulus package might affect the county's capital projects. The eligibility criteria are "shovel ready," but not under construction. King County has compiled a list of capital projects that might be eligible. Money would come through the State Revolving Fund. The funding structure will be a mix of loans and grants, with \$70 million to the state. King County projects would have been done anyway, but they might be done more quickly with the additional funding.

4. Review of 2008 CIP Cash Flow

In reviewing project spending during a year there are two considerations -- 1) available appropriation (authority to spend) and 2) the cash to spend. In a given year, a project can exceed its spending target as long as there is sufficient appropriation to cover the amount spent. A project's authority to spend in a given year cannot be exceeded without involving County council.

In reviewing the list of planning policies, subcommittee member noted that the Bellevue Pump Station's progress has been problematic, with delays and higher-than-expected bids. (Kathy Loland has been asked to speak to the full MWPAAC in March.)

5. Financial Assumptions

The subcommittee members had many questions and comments related to financial assumptions. The following are the highpoints of the information that came out of that discussion:

- Brightwater will be on line July/August 2011, at which point operating costs for the facility will kick in. The facility will not add any FTEs; changes will occur system-wide that will reduce operating costs at other facilities.
- Budget is set at the 2010 rate; council wanted to keep rate for 2009-2010 constant at \$31.90 per RCE.
- WTD will monitor the projected costs beyond 2010 in the 2010 rate process.
- WTD's 2010 rate request will assume the furlough ends.
- Construction FTEs do not necessarily transfer to operating FTEs when the capital project is completed.
- Rate stabilization – it is planned that the fund balance will be zero at the end of 2013.
- Capacity charge – 3 % growth annually through 2014. New connections will drop; with the long construction cycle, the impact will be felt most intensely in 2011-2012.
- Bond interest rate and term. We can only issue 30 year bond term, which is a 25% shorter bond term than originally projected.
- Variable debt interest rate is not estimated to go above 4 %.
- Will the level of capital spending decrease with the completion of Brightwater or will it shift to other projects that have been deferred? Some of those projects will

get underway, but capitalization that approaches the level at which WTD is operating now.

- WTD's capital program will return to normal levels after the completion of Brightwater.

6. In closing

Tentative schedule for MWPAAC:

- 3/10 R&F subcommittee meeting
- 3/20 R&F issues recommendation letter
- 3/25 full MWPAAC review and approval
- 4/13 Transmitting to Council

For future discussion:

- Policy on liquidity reserve contribution and formula
- Policies impact on financial projections and rates

For March 10th agenda:

- RCEs – don't anticipate growth in RCEs. Tom—more recent employment projections have not been incorporated since last March—2009 will be negative and carry into 2010.
- Capacity charge rate revenues/new connections
- Total debt service schedule
- Update on WTD bond sale
- Current status of 2010 operating and capital fund requests
- Feedback from March 6 rate discussion with Theresa Jennings
- Areas to focus on for March 20 meeting