

**METROPOLITAN WATER POLLUTION ABATEMENT ADVISORY COMMITTEE**

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

**Meeting Summary – March 10, 2009**

King Street Center, 9:00 am – 12:15 pm

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**MWPAAC members in attendance:**

Walt Canter, Cedar River Water and Sewer District

Don Davidson, City of Bellevue

Trish Erickson, City of Seattle

Ken Goodwin, Alderwood Water and Wastewater District

Joy Nickels, City of Bellevue

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 & Administrative

Greg Holman, DNRP/WTD - Finance & Administrative

Maryann Ness, DNRP/WTD - Finance & Administrative

Sharman Herrin, DNRP/WTD - Director's Office

Tom Lienesch, DNRP/WTD – Finance & Administration

Becky Spithill, DNRP/WTD

**Guests:**

Vicki Henderson, Roth Hill Engineering

**1. Opening Remarks**

Subcommittee may not meet on March 20<sup>th</sup>, as originally planned. The meeting was to be for the purpose of finalizing the recommendation letter for final review at MWPAAC General Meeting on March 25<sup>th</sup>, but members agree that they may be able to do the review electronically.

In response to the request that staff provide a copy of the debt schedule and the reserve policy, Tim led the discussion of the debt schedule handout (see *Debt Outstanding at 6/30/08*). He noted that King County is in the midst of a heavy borrowing period. Debt is retired over time as new debt is incurred.

Tim reviewed the Reserve Policy (see *Reserve Language from the 2009 LTGO OS* handout). The provision for “\$5.0 million + ten percent of operating expenses” came out of 2001 energy crisis. Reserve is cash that was established (10 percent is liquidity reserve vs. emergency reserve.)

## **Update on 2009 Bond Sale – Tim**

The county's only bond option is \$300 million for a 30-year term. Bids will open on Monday and will be submitted to the council on Monday afternoon. In recent weeks, large issues have gone out, which bodes well for King County. The county assumed an interest rate of 6.0 percent and a term of 40 years for this issuance. Future issuances may include an additional \$100 million in Limited Tax General Obligation bonds. Good ratings for WTD and King County place the county in good stead for their next bond issuance in July/August.

The county does not borrow to cover operating, only capital. It collects sufficient operating revenue to provide a debt service coverage ratio of 1.25 (net operating revenues divided by debt service).

### **2. 2010 Rate Proposal**

- a. Update on Operating and Capital Requests: Tim reviewed the 2010 operating budget crosswalk to 2009. He highlighted the following:
- Salaries and benefits increases constitute about one third of the total operating budget increase.
  - Vacancy rates will go down once Brightwater is on line.
  - Supply expenses are relatively stable, although polymer costs are going up.
  - Some changes in supply expenses will result from transition away from chlorine to sodium hypochlorite (numbers reflect a net reduction on chlorine costs).
  - Additional costs will come from Brightwater startup, proposed at \$851,832, half of which is energy cost.
  - Black River reimbursement is for WTD maintenance services on a surface water (WLRD) pump close to the South Treatment Plant.

The subcommittee asked to see a breakout of the services WTD purchases from WLRD. The budget handout shows that WTD will pay WLRD about \$400,000 more in 2010 than it did in 2009, but it does not show additional revenues to be credited to WTD. The lab is taking contract work to avoid layoffs and expand services to non-King County customers. The subcommittee wants to ensure that WTD, relative to other expenses, are accounted for and known. Other intergovernmental services are the result of budget office estimates. Any reported changes in the percent of allocated cost to WTD are estimates until November when the Council adopts the County's 2010 budget.

Subcommittee reviewed the 2010 WTD CIP Spending Summary, which provides the lifetime total for projects that are active. These project titles reflect the capital side reorganization; there are several new sections within which are collections of projects. FA&W includes finance and WLRD; PPD is divided into major project planning and delivery (CIP) and planning and asset management (comprehensive plans and minor CIP). Brightwater cash flow shows no increase in cost and for rate planning process, but there have been changes in the timing of expenditures. There is a shifting of pattern of

spending, not a decrease for Brightwater. The goal is to keep 2009/2010 balanced with total spending in the 2009 Adopted budget.

Summary of Highlights (see 2010 WTD CIP Section Highlights)

- Sediment Management Plan/Lower Duwamish – challenging projects with lots of partners.
- Under Resource Recovery, water reuse project schedule reflects the idea that capital projects end and new projects are initiated as needed.
- MWPAAC may make a recommendation that no new projects should be proposed until completion of the Reclaimed Water Comprehensive Plan (RWCP).
- Subcommittee has questions about how projects are categorized for cost, i.e., operating vs. capital. [Note: Future discussion will focus on what costs are within the capital expenses category, specifically water reuse projects.]
- Finance & WLRD: Lab Camp and Water Quality Capital Outlay include mostly IT and recurring capital equipment replacement.
- New projects include Phase III for South Plant odor control – implementation time horizon is unclear.
- Maintenance and Monitoring fall under CIP, but how does WTD make the distinction between capital and operating costs?
- Prism and Mainsaver Conversion to ABT involves coordinating and interfacing the comprehensive project management and tracking system with the new ABT system.

b. General Assumptions: See handout 2009 Adopted Rate/Budget/2010 Preliminary Base Case. In terms of appropriation vs. cash flow, WTD cannot overspend its appropriation, but exceeding cash flow in any one year can be balanced out by net expenditures over several years, so that the bottom line remains constant.

1. Operating – base matches 2009 adopted budget (operating). 2011 and 2012 reflect new operating costs for Brightwater.
2. Capital – refer to capital summary sheet rather than this part of the table.
3. Accomplishment rate – of the total budget, Brightwater will spend 95 percent of the current forecast/projected cash flow (within forecasting margins of error).
4. Bond interest rate – based on forecasted 6 percent that came out of unexpectedly volatile bond market. The upcoming issuance will likely be lower.
5. Variable debt interest rate (up to 15 percent of total debt); assumption was reduced until 2012 in order to bring those rates in line with investment interest rates.
6. Rate Stabilization Reserve balance – 2010 rate isn't the problem, but the 2011 rate will reflect the current economic downturn. The question the County will face next year is how to manage rate increases after 2010 in a combination of one year or two year rates.
7. Bond Reserve – a cash contribution to bond reserves is not required with double barrel bonds Remaining LTGO capacity is about \$100 million. Residential Customer Equivalent (RCEs) – The adopted budget showed a modest increase in forecast RCEs, compared to declining RCEs under three

current recession scenarios (see page 8, WTD RCES 2009 Preliminary Projections). Comparison graphs show the forecasted RCE decline is comparable to the decline during the 2001-2003 recession years. Committee members commented that projected RCE growth after 2012 may be too optimistic. WTD will consider whether to revise the growth rates after 2012. The committee discussed the 750 cubic feet per month assumption for single family water consumption. Analysis of water usage from SPU's annual survey of wholesale customers suggests that King County's current assumption is not unreasonable, but the adequacy of the estimate needs additional review.

c. RCEs and New Connections – MWPAAC letter may include a reference to too many RCEs after 2012. The 3 percent increase in the capacity charge will be revisited. As of 2014, revenue from growth customers will bring down the balance of growth funding paid by existing customers.

### **3. Summary of meeting with Christie True and Theresa Jennings**

Recommendation was to keep operating and capital expenditures at or below 2009 levels. WTD will recommend that it maintain the \$31.90 rate for 2010. Theresa asked Finance to work at maintaining a managed rate over the next 5 years. Budget is calculated relative to 2009 rates by adding the difference of proposed to current. Under 2011, any change is based on a comparison with 2009 rates. Currently, the plan is to brief the Executive and his staff. Higher level review focuses less on the assumptions and more on the rates themselves, but staff reviews assumptions carefully.

### **4. 2010 Rate Setting Process**

#### a. Schedule/Major Milestones

- DNRP/WTD recommendation for \$31.90 rate for 2010.
- Brief the Executive and get direction.
- Week of 4/13 transmit Executive's 2010 proposed rate and capacity charge.

MWPAAC Letter: Support 2010 budget, but raise issues of subsequent years; adopting financial plan for many years. Sharman will be assisting with the drafting of the letter.

#### b. Topics & timeline for R&F Subcommittee meetings.

The core issues on which the subcommittee wants to focus:

- Gradual increase may be more in order so that the change from year to year is not so dramatic.
- If the economic downturn continues, WTD may have to take drastic steps in 2011, the extraordinary economic situation demands holding off on any rate increase.

- MWPAAC letter should explain this rationale.
- RCE projections may be too high (2013 – 2014).
- ASAP prior to Executive Transmission, need a MWPAAC review of draft of the letter by March 20<sup>th</sup>. The committee will review the draft electronically.
- Trish will lead the March 26<sup>th</sup> discussion; staff will prepare a one-page information sheet.

**5. Other (plans for future meetings)**

- WLRD costs and services (April 9)
- Capital vs. operating expenses (May)
- Update on bond rates, etc. (April 9)
- Changing assumptions (April 9)
- May cancel March 20<sup>th</sup> meeting.