

June 15, 1995

Introduced By: Phillips

Proposed No.: 95-430

MOTION NO. **9625**

A MOTION adopting financial policies for the water quality program within the Department of Metropolitan Services of King County.

WHEREAS, on May 11, 1995 the county executive transmitted the proposed 1996 water quality rates for the department of metropolitan services, and

WHEREAS, included within this water quality rate submittal are financial policies which define the role and service expectations of the wastewater program over the next year, and

WHEREAS, the Regional Water Quality Committee developed and adopted financial policies for the water quality program for the fiscal year 1995 with Motion No. RWQ 94-1, and

WHEREAS, the financial policies approved by the Regional Water Quality Committee were adopted by the Metropolitan King County council on August 29, 1994 in Motion No. 9359, and

WHEREAS, the 1996 water quality rate proposal was developed based on seventeen financial policies adopted for the 1995 fiscal year, and two new additional policies proposed in 1996;

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

The following financial policies are adopted for the Water Quality program within the department of metropolitan services of King County.

1. Multi-year Planning. The Water Quality Program will maintain a multi-year financial plan and cash-flow projection of six years or more, estimating service growth, operating expenses, capital requirements, reserves and debt service. The financial plan will

1 be reviewed and adopted by the council and used as a policy basis
2 for budget and related financial planning.

3 2. Prudent Budget Standards. Bond covenants set requirements that
4 ensure a prudent budget standard. Net operating income (operating
5 income minus operating expense) must exceed parity bond debt
6 service requirements by at least 15 percent. The resulting
7 balance on operations is available along with bond proceeds to
8 cover annual capital expenditures. Staff will advise council if
9 either operating or capital expenditures are expected to exceed
10 adopted levels.

11 3. Alternative Financial Plan. If the operations and maintenance
12 component of the proposed annual budget increases by more than a
13 reasonable cost of the addition of new facilities, increased
14 flows, new programs authorized by the council, and inflation, a
15 feasible alternative spending plan shall be presented, identifying
16 steps to reduce cost growth. An alternative spending plan shall
17 also be available in the event that actual revenues drop below
18 prudent estimates. A program of reviewing business practices for
19 savings and efficiency potential shall be ongoing.

20 4. Future Claims and Liabilities. Reserves needed for future
21 liabilities, claims, and replacement will be reported in budget
22 planning.

23 5. Minimum Fund Balance: To maintain sufficient funds to meet bond
24 covenants for betterment reserves, requirements for cash flow and
25 potential future liabilities, the water quality program will
26 maintain a minimum cash balance of \$5 million each year. This
27 amount may be changed in budget planning and will be included in
28 the annual Sewer Rate Explanation Report.

29 6. Sewer Rates. Sewer rates will be set at a level sufficient to
30 meet the following financial policies:

31 A. Debt Service Coverage. Bond covenants require the ratio
32 of net operating income to debt service to be 1.15. For rate-

1 setting purposes, the policy is to target the ratio at a minimum
2 of 1.25. Budgets will be planned and monitored against this 1.25
3 standard. This policy assures budgets are planned with a margin
4 of error so that bond covenant agreements are met.

5 B. Emergency Reserves. Bond covenants require three
6 emergency funds. The Operating Reserve is required to have a
7 balance the greater of \$300,000 or five percent of total operating
8 and maintenance costs and may be used for operating costs if
9 sufficient revenues are not available. The Contingency Reserve is
10 required to have a minimum balance of \$2,000,000 and may be used
11 for emergency repairs or unforeseen capital improvements. The
12 Betterment Reserve is required to have a minimum deposit each year
13 of \$750,000 and may be used for emergency repairs, capital
14 improvements in the Comprehensive Water Pollution Abatement Plan,
15 replenishment of other reserves, and payment of outstanding parity
16 bonds. Council approval shall be sought for any use of these
17 funds.

18 C. Maintenance of the System. Revenues will be sufficient
19 to maintain capital assets in sound working condition, providing
20 for maintenance and rehabilitation of facilities at a level
21 intended to minimize total cost while continuing to provide
22 reliable, high quality service and maintain high water quality
23 standards.

24 D. Sewer Bond Covenant Provisions. Covenants contained in
25 Resolution No. 90 and subsequent resolutions authorizing issuance
26 of bonds are hereby affirmed.

27 7. Capital Funding. Metro will attempt to structure the term of
28 its borrowings to match the expected useful life of the assets to
29 be funded. The Water Quality capital program will be financed
30 predominantly by annual staged issues of long-term general
31 obligation or parity bonds backed by sewer revenues, provided
32 that:

1 A. All available sources of grants are utilized;

2 B. The balance on operations available after reserve
3 requirements are met will be used for the capital program; any
4 excess reserves may also be used for capital;

5 C. Consideration is given to competing demands for use of
6 Metro's overall general obligation debt capacity; and

7 D. Consideration is given to the overall level of debt
8 financing that can be sustained over the long term given the size
9 of future capital expenditures, potential impacts credit ratings,
10 and other relevant factors.

11 8. Short-term Borrowing. To achieve a better maturity matching of
12 assets and liabilities, thereby reducing Interest rate risk,
13 short-term borrowing will be used to fund a portion of the capital
14 program, provided that:

15 A. Short-term debt outstanding comprises no more than 10
16 percent of total outstanding parity and general obligation bonds;

17 B. Appropriate liquidity is in place to protect the day-to-
18 day operations of the agency.

19 9. Sewer Rate Explanation. A report shall be prepared in support
20 of the proposed annual sewer rates, including the following
21 information:

22 A. Key Assumptions. Key financial assumptions such as
23 inflation, bond interest rates, investment income, size and timing
24 of bond issues, and the considerations underlying the projection
25 of future growth in residential customer equivalents;

26 B. Significant Financial Projections. All key projections,
27 including the annual projection of operating and capital costs,
28 debt service coverage, cash balances, revenue requirements,
29 revenue projections, and a discussion of significant factors that
30 impact the degree of uncertainty associated with the projections;

1 C. Historical Data. A discussion of consistent over or
2 under projections of costs and revenues from previous recent
3 budgets; and

4 D. Policy Options. Calculations and/or analyses of the
5 effect of certain policy options on the overall revenue
6 requirement. These options should include (1) alternative capital
7 improvement accomplishment percentages (including a 90 percent, a
8 95 percent, and a 100 percent accomplishment rate); and (2)
9 alternative financing of the capital improvement programs,
10 including variable rate debt.

11 10. Fees and Reimbursement. Water Quality services performed for
12 a fee for other public or private organizations will be reimbursed
13 to recover all direct and indirect costs of the service unless
14 otherwise directed by council. The Executive Director may waive
15 this policy in specific circumstances where recovery of all direct
16 and indirect expenses may interfere in the Water Quality Program
17 goals or mission.

18 11. King County should request the state legislature to revise
19 state statutes to specifically allow refunding of revenue bonds
20 with general obligation bonds at the option of the local
21 legislative authority.

22 12. King County should periodically review the sewage treatment
23 capacity charge to ensure that the true costs of system expansion
24 are reflected in the assessed charge. All reasonable steps
25 should be taken to coordinate fee assessments and accounting with
26 local sewer service providers to reduce redundant program overhead
27 costs.

28 13. Selective monitoring should be increased for inflow and
29 infiltration system flows of component agencies. While this may
30 not have an immediate financial impact, it could better identify
31 long-term system operating and capital needs, and could aid in the
32 equitable distribution of costs.

1 14. As a program policy, Metro should continue its long standing
2 commitment to research and development funding at least at current
3 functional levels.

4 15. King County should develop and implement a program within the
5 Water Quality budget to address failing septic systems,
6 particularly within urbanized areas.

7 16. King County should attempt to adopt a multi-year sewer rate to
8 provide stable costs to Metro customers.

9 17. Metro should prepare explicit policies for the setting of
10 customer rates, in consultation with the Regional Water Quality
11 Committee, for adoption into future budget policies by the
12 Metropolitan King County council.

13 18. The King County overhead charge to Metro should remain at the
14 originally adopted 1994 level until the current overhead
15 evaluation study is completed.

16 19. Pricing Policy. The customers of the Metro sewer system
17 shall pay their pro rata share of the cost of the system which
18 serves them. To implement this policy:

19 A. A capacity charge is levied against new connections,
20 reconnections, or establishment of a new service. This charge is
21 to pay for the capital cost of excess capacity that has already
22 been built to serve future customers. The charge is currently set
23 at the maximum amount permitted by state law.

24 B. Based on an analysis of residential construction
25 patterns, Metro currently uses a value of 750 cubic feet per month
26 to convert water consumption of volume-based customers to
27 residential customer equivalents for billing purposes. Metro will
28 periodically review the appropriateness of this value to ensure
29 that all accounts pay their fair share of the cost of the sewer
30 system.

31 20. Use of Funds Not Directly Related to Sanitary Sewerage
32 Function: In 1988, the Culver subcommittee of the Metro Council

1 found that: "The current level of water pollution abatement
 2 activities not directly related to the sanitary sewerage function
 3 (approximately 3.0 percent of the operating budget) is a
 4 reasonable base level for the future. Inasmuch as substantial
 5 rate increases will be required to support the capital facilities
 6 necessary for the sanitary sewerage function, it is anticipated
 7 that this level should not exceed 3.5 percent of the operating
 8 budget and not more than 2.5 percent of the total rate. This
 9 would be a reasonable level between now (1988) and 1995 at the
 10 completion of the Secondary/CSO Program. These increases would be
 11 considered as a function of the annual budget process requiring
 12 council approval." Consistent with the Culver subcommittee's
 13 recommendations, Metro is reviewing the direction of the programs
 14 considered to fall under the umbrella of the Culver Report. The
 15 current focus is on each individual program rather than the
 16 percentage of the budget. Working with Key stakeholders, the
 17 executive and the council, metro will recommend new policies and
 18 guidelines for these programs at the end of 1995 in the context of
 19 the Regional Wastewater Services Plan.

20 PASSED by a vote of 12 to 0 on this 3/rd
 21 day of June, 1995.

24 KING COUNTY COUNCIL
 25 KING COUNTY, WASHINGTON

26 Kent Pullen
 27 Chair
 28

29 ATTEST:

30 Gerald A. Peter
 31 Clerk of the Council
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