

May 16, 1996

Introduced By: Larry Phillips

Proposed No.: 96-351

MOTION NO.

9869

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

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 reflected the seventeen financial policies adopted for 1995 and two additional policies proposed for 1996; and

WHEREAS, the 1997 water quality rate proposal reflects various modifications and additions to the foregoing nineteen policies; and

WHEREAS, the financial policies adopted by this motion are applicable to the water quality program within the Department of Natural Resources of King County, equivalent to the former Metro water pollution control division; and

WHEREAS, the County Council has combined the water quality program and the surface water management agency effective January 1, 1997, and the Regional Water Quality Committee intends to develop financial policies that would apply to any regional funding managed by this newly combined division before it is established, but has not yet done so;

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 Natural Resources of King County.

1 I. Introduction and Purpose: The mission of the Water Quality
2 Program is to support an improved quality of life by
3 protecting the public health and enhancing the quality of the
4 aquatic environment. This is accomplished through programs
5 that plan, operate and maintain wastewater treatment
6 facilities, manage certain combined sewer overflows (CSOs),
7 provide education and technical assistance regarding action
8 leading to clean water, reduce generation and disposal of
9 hazardous materials into collection systems, manage reuse of
10 wastewater treatment products and provide regional
11 environmental laboratory services. This mission is conducted
12 through the exercise of powers granted by Chapter 35.58 RCW
13 and in conformance with the agreements for sewage transport
14 and treatment between King County and the cities and special
15 purpose districts it serves. The financial policies for the
16 Water Quality Program provide a policy framework for financial
17 planning of operating and capital programs. The purpose of
18 these policies is to assure long term service integrity and
19 stability by sound and prudent management of the Water quality
20 Program's financial resources.

21 II. The Financial Policies:

22 1. Multi-year Planning. The Water Quality Program will maintain
23 a multi-year financial plan and cash-flow projection of six years
24 or more, estimating service growth, operating expenses, capital
25 requirements, reserves and debt service. The financial plan will
26 be reviewed and adopted by the Council and used as a policy basis
27 for budget and related financial planning.

28 2. Prudent Budget Standards. Bond covenants set requirements that
29 ensure a prudent budget standard. Net operating income
30 (operating income minus operating expense) must exceed parity
31 bond debt service requirements by at least 15 percent. The
32 resulting balance on operations is available along with bond
33 proceeds to cover annual capital expenditures. Staff will advise
34 Council if either operating or capital expenditures are expected
35 to exceed adopted levels.

1 3. Alternative Financial Plan. If the operations and maintenance
2 component of the proposed annual budget increases by more than a
3 reasonable cost of the addition of new facilities, increased
4 flows, new programs authorized by the Council, and inflation, a
5 feasible alternative spending plan shall be presented,
6 identifying steps to reduce cost growth. An alternative spending
7 plan shall also be available in the event that actual revenues
8 drop below prudent estimates. A program of reviewing business
9 practices for savings and efficiency potential shall be ongoing.

10 4. Future Claims and Liabilities. Reserves needed for future
11 liabilities, claims, and replacement will be reported in budget
12 planning.

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

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

21 A. Debt Service Coverage. Bond covenants require the ratio
22 of net operating income to debt service to be 1.15. For rate-
23 setting purposes, the policy is to target the ratio at a minimum
24 of 1.25. Budgets will be planned and monitored against this
25 1.25 standard. This policy assures budgets are planned with a
26 margin of error so that bond covenant agreements are met.

27 B. Emergency Reserves. Bond covenants require three
28 emergency funds. The Operating Reserve is required to have a
29 balance the greater of \$300,000 or five percent of total
30 operating and maintenance costs and may be used for operating
31 costs if sufficient revenues are not available. The Contingency
32 Reserve is required to have a minimum balance of \$2,000,000 and
33 may be used for emergency repairs or unforeseen capital
34 improvements. The Betterment Reserve is required to have a
35 minimum deposit each year of \$750,000 and may be used for
36 emergency repairs, capital improvements in the Comprehensive

1 Water Pollution Abatement Plan, replenishment of other reserves,
2 and payment of outstanding parity bonds. Council approval shall
3 be sought for any use of these funds.

4 C. Maintenance of the System. Revenues will be sufficient
5 to maintain capital assets in sound working condition, providing
6 for maintenance and rehabilitation of facilities at a level
7 intended to minimize total cost while continuing to provide
8 reliable, high quality service and maintain high water quality
9 standards.

10 D. Sewer Bond Covenant Provisions. Covenants contained in
11 Resolution No. 90 and subsequent resolutions authorizing issuance
12 of bonds are hereby affirmed.

13 7. Capital Funding. King County will attempt to structure the
14 term of its borrowings to match the expected useful life of the
15 assets to be funded. The water quality capital program will be
16 financed predominantly by annual staged issues of long-term
17 general obligation or parity bonds backed by sewer revenues,
18 provided that:

19 A. All available sources of grants are utilized;

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

23 C. Consideration is given to competing demands for use of
24 water pollution control's overall general obligation debt
25 capacity; and

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

30 8. Short-term Borrowing. To achieve a better maturity matching
31 of assets and liabilities, thereby reducing interest rate risk,
32 short-term borrowing will be used to fund a portion of the
33 capital program, provided that:

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

1 B. Appropriate liquidity is in place to protect the day-to-
2 day operations of the agency.

3 9. Sewer Rate Explanation. A report shall be prepared in
4 support of the proposed annual sewer rates, including the
5 following information:

6 A. Key Assumptions. Key financial assumptions such as
7 inflation, bond interest rates, investment income, size and
8 timing of bond issues, and the considerations underlying the
9 projection of future growth in residential customer equivalents;

10 B. Significant Financial Projections. All key projections,
11 including the annual projection of operating and capital costs,
12 debt service coverage, cash balances, revenue requirements,
13 revenue projections, and a discussion of significant factors that
14 impact the degree of uncertainty associated with the projections;

15 C. Historical Data. A discussion of consistent over or
16 under projections of costs and revenues from previous recent
17 budgets; and

18 D. Policy Options. Calculations and/or analyses of the
19 effect of certain policy options on the overall revenue
20 requirement. These options should include alternative capital
21 improvement accomplishment percentages (including a 90 percent, a
22 95 percent, and a 100 percent accomplishment rate), and that rate
23 shall be selected which most accurately matches historical
24 performance for capital projects and which will not negatively
25 impair the bond rating.

26 10. Fees and Reimbursement. Water Quality services performed for
27 a fee for other public or private organizations will be
28 reimbursed to recover all direct and indirect costs of the
29 service unless otherwise directed by Council. The Executive
30 Director may waive this policy in specific circumstances where
31 recovery of all direct and indirect expenses may interfere in the
32 Wastewater Program goals or mission.

33 11. King County should periodically review the sewage treatment
34 capacity charge to ensure that the true costs of system expansion
35 are reflected in the assessed charge. All reasonable steps
36 should be taken to coordinate fee assessments and accounting with

1 local sewer service providers to reduce redundant program
2 overhead costs.

3 12. Selective monitoring should be increased for inflow and
4 infiltration system flows of component agencies. While this may
5 not have an immediate financial impact, it could better identify
6 long-term system operating and capital needs, and could aid in
7 the equitable distribution of costs.

8 13. As a program policy, King County should continue its long
9 standing commitment to research and development funding at least
10 at current functional levels.

11 14. Expenditures from the Water Quality Program budget on behalf
12 of septic systems shall be conducted only if financially
13 beneficial to sewer rate payers.

14 15. King County should attempt to adopt a multi-year sewer rate
15 to provide stable costs to water pollution control customers.
16 If a multi-year rate is established, a rate stabilization reserve
17 account shall be created to ensure that adequate funds are
18 available to sustain the rate through completion of the rate
19 cycle. Funds shall not be removed from this rate stabilization
20 account without prior review of the Regional Water Quality
21 Committee.

22 16. King County should prepare explicit policies for the setting
23 of customer rates, in consultation with the Regional Water
24 Quality Committee, for adoption into future budget policies by
25 the Metropolitan King County Council.

26 17. Pricing Policy. The customers of the water pollution
27 control sewer system shall pay their pro rata share of the cost
28 of the system which serves them. To implement this policy:

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

34 B. Based on an analysis of residential construction
35 patterns, water pollution control currently uses a value of 750
36 cubic feet per month to convert water consumption of volume-based

1 customers to residential customer equivalents for billing
2 purposes. Water pollution control will periodically review the
3 appropriateness of this value to ensure that all accounts pay
4 their fair share of the cost of the sewer system.

5 18. Use of Funds Not Directly Related to Sanitary Sewerage
6 Function: Water Quality activities, programs and projects, in
7 addition to those that are functions of sewage treatment, may be
8 eligible for funding assistance from sewer rate revenues as may
9 be recommended by the Regional Water Quality Committee after
10 consideration of criteria and limitations suggested by the
11 Metropolitan Water Pollution Abatement Advisory Committee, and
12 shall be limited to 1.5 percent of the water quality program's
13 annual operating budget. This policy will remain in effect
14 until such time as a financial plan for the Surface Water
15 Regional Needs Assessment is developed.

16 19. The calculation of general government overhead to be charged
17 to the wastewater fund shall be based on a methodology which
18 provides for the equitable distribution of overhead costs
19 throughout Metropolitan King county government. Estimated
20 overhead charges shall be calculated in a fair and consistent
21 manner, utilizing a methodology that best matches the estimated
22 cost of the services provided to the actual overhead charge. The
23 overall allocation formula and any subsequent modifications shall
24 be reported to the Regional Water Quality Committee.

25 20. The assets of the Water Quality fund are pledged to be used
26 for the benefit of the Sewer System including operating expenses,
27 debt service payments and capital improvements associated
28 therewith. The fund will be fully reimbursed for the costs
29 associated with any use or transfer of such assets for other
30 county government purposes. The Executive will provide reports
31 to the Regional Water Quality Committee pertaining to any

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significant transfers of assets for other county government purposes in advance of and subsequent to any such transfers.

PASSED by a vote of 10 to 0 on this 28th day of May, 1996.

METROPOLITAN KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

Ken Hazue
Chair

ATTEST:

Gerald A. Peterson
Clerk of the Council