

July 11, 1994
RWQACT;mjh

Introduced By: Fimia Sullivan, Miller

Proposed No.: 94-445

MOTION NO. 9359

A MOTION Acknowledging the fiscal policy review of the 1995 Metropolitan Services Department Water Quality Program by the Regional Water Quality Committee; and directing staff to prepare an ordinance enacting the recommendations of the Regional Water Quality Committee

WHEREAS, on May 2, 1994 the County Executive transmitted the proposed 1995 budget for the Metropolitan Services Department; and

WHEREAS, included within this budget submittal are Water Quality programs and financial policies which define the role and service expectations of the wastewater program over the next; and

WHEREAS, Motion RWQ94-1 adopted by the Regional Water Quality Committee on June 9, 1994 recommended eighteen financial policies be considered by the Metropolitan King County Council for the water quality program;

NOW, THEREFORE, BE IT MOVED that the Metropolitan King County Council commends the Regional Water Quality Committee for its successful participation in the policy review of the 1995 Metropolitan Services Department water quality program; and Council directs staff to prepare an ordinance for introduction by the Council and referral to Regional Water Quality Committee which adopts Motion RWQ94-1.

PASSED this 29th day of August, 1994.

KING COUNTY COUNCIL
KING COUNTY, WASHINGTON

Passed by a vote of 8-0.

Kent Pullen
Chair

ATTEST:

Gerald A. Peter
Clerk of the Council

Attachments:

June 30, 1994

Introduced By: Regional Water Quality Committee

Proposed No.: _____

MOTION NO. RWQ94-1

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6 WHEREAS, on May 2, 1994 the County Executive transmitted the
7 proposed 1995 budget for the Metropolitan Services Department;
8 and

9 WHEREAS, included within this budget submittal are Water
10 Quality programs and financial policies which define the role
11 and service expectations of the wastewater program over the next
12 year; and

13 WHEREAS, the Regional Water Quality Committee may develop
14 financial policies and make a recommendation regarding these
15 policies to the County Council;

16 NOW, THEREFORE BE IT MOVED by the Council of King County by
17 the Regional Water Quality Committee that the following financial
18 policies are recommended for the Water Quality program within the
19 Metropolitan Services Department of King County:

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

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

34 3. Alternative Financial Plan. If the operations and maintenance
35 component of the proposed annual budget increases by more than a

1 reasonable cost of the addition of new facilities, increased
2 flows, new programs authorized by the Council, and inflation, a
3 feasible alternative spending plan shall be presented,
4 identifying steps to reduce cost growth. An alternative spending
5 plan shall also be available in the event that actual revenues
6 drop below prudent estimates. A program of reviewing business
7 practices for savings and efficiency potential shall be ongoing.

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

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

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

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

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

1 and payment of outstanding parity bonds. Council approval shall
2 be sought for any use of these funds.

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

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

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

18 A. All available sources of grants are utilized;

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

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

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

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

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

34 B. Appropriate liquidity is in place to protect the day-to-
35 day operations of the agency.

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

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

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

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

16 **D. Policy Options.** Calculations and/or analyses of the
17 effect of certain policy options on the overall revenue
18 requirement. These options should include (1) alternative
19 capital improvement accomplishment percentages (including a 90
20 percent, a 95 percent, and a 100 percent accomplishment rate);
21 and (2) alternative financing of the capital improvement
22 programs, including variable rate debt.

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

30 **11.** King County should request the state legislature to revise
31 state statutes to specifically allow refunding of revenue bonds
32 with general obligation bonds at the option of the local
33 legislative authority.

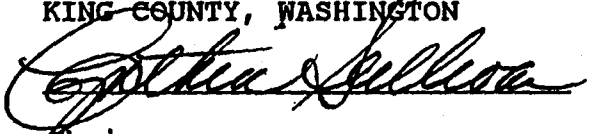
34 **12.** King County should periodically review the sewage treatment
35 capacity charge to ensure that the true costs of system expansion
36 are reflected in the assessed charge. All reasonable steps

- 1 should be taken to coordinate fee assessments and accounting with
2 local sewer service providers to reduce redundant program
3 overhead costs.
- 4 13. Selective monitoring should be increased for inflow and
5 infiltration system flows of component agencies. While this may
6 not have an immediate financial impact, it could better identify
7 long-term system operating and capital needs, and could aid in
8 the equitable distribution of costs.
- 9 14. As a program policy, Metro should continue its long standing
10 commitment to research and development funding at least at
11 current functional levels.
- 12 15. King County should develop and implement a program within the
13 Water Quality budget to address failing septic systems,
14 particularly within urbanized areas.
- 15 16. King County should attempt to adopt a multi-year sewer rate
16 to provide stable costs to Metro customers.
- 17 17. Metro should prepare explicit policies for the setting of
18 customer rates, in consultation with the Regional Water Quality
19 Committee, for adoption into future budget policies by the
20 Metropolitan King County Council.
- 21 18. The King County overhead charge to Metro should remain at the
22 originally adopted 1994 level until the current overhead
23 evaluation study is completed.

24 PASSED this 9th day of June, 1994.

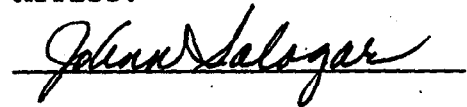
26 REGIONAL WATER QUALITY COMMITTEE

27 KING COUNTY, WASHINGTON

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29 Chair

30 ATTEST:

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32 Deputy Clerk of the Council

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