Committee of the Whole
(Special Meeting of the Board)
Water Supply Development Fund Workshop

March 3, 2021
10:30 – 12:30

Time	Agenda Item	Presenter
10:30am	**Call to Order and Approval of Agenda**	John Stokes
10:35am	**Roll Call**	Ray Hoffman
10:40am	**Issue Background**	Ed Cebron
	The Water Supply Development Fund 1. Setting up the Fund 2. Contributing to the Fund 3. Oversight 4. Using the Funds 5. Liquidation 6. Baseline Forecast 7. Funding Decision Examples 8. Actions Needed to Implement	Ed Cebron
12:20am	**Executive Session (if needed)**	
	Discussion and Direction	Ray Hoffman/ Ed Cebron
	Next Regular Board Meeting – March 24, 2021 at 3:30 p.m. held via a Zoom meeting	John Stokes
12:30 am	**Adjourn**	John Stokes

CASCADE WATER ALLIANCE

DRAFT CASCADE POLICY FOR A WATER SUPPLY DEVELOPMENT FUND

January 27, 2021

The mission of the Cascade Water Alliance is to provide water supply for its Members. The current strategy uses contract wholesale supplies until development of the White River/Lake Tapps (WRLT) water supply system. That development will impose substantial challenges to Cascade both in terms of executing a major capital program and bearing the cost of development and operation of that source of supply. This document is intended to define a policy structure for equity accumulation to help fund the WRLT supply project, currently scheduled to begin construction in the mid-2030's.

POLICY BACKGROUND AND DISCUSSION

Introduction and Background

Cascade Water Alliance ("Cascade") currently provides wholesale water to its Members via contract purchases. Those contracts have defined terms and limits on water supply. As the capacity secured through these sources declines, beginning in the late 2030's, and as Member demands for wholesale water increase, Cascade intends to develop the WRLT supply system to provide potable municipal water supply to its Members. Currently, this project is anticipated to be needed in the early 2040's, although demand trends and potential contract extensions and/or expansions could alter this timeline.

Cascade is currently a moderate sized regional utility, with annual revenues on the order of $50 million (2020). The current Cascade asset base is roughly $150 million including both tangible and intangible assets. The Lake Tapps project has an estimated cost of roughly $800 million in current costs, and over $1.6 billion in costs inflated to the anticipated construction period. Operating costs for the project are also projected to be well in excess of $10 million per year at that time. This expansion of Cascade's capital infrastructure and scope of operations can only be borne through a dramatic increase in Cascade's financial capacity, namely rates, and through substantial reliance on public finance markets (primarily revenue bonds). Cascade will undoubtedly pursue grants and low-cost loans as available, but these are likely to be supplemental or complementary to traditional financing methods.

Cascade's fiscal policies define a conservative financial structure intended to avoid over-leveraging (borrowing too much) and excessive rates and rate increases. Included in those policies is a target capital structure with a ratio of no more than 80% debt to 20% equity. Given the relatively low base of existing physical assets as compared to the cost of the new supply project, this effectively requires advance planning and funding to maintain a reasonable balance sheet and avoid over-leveraging. A viable funding strategy will prudently include a substantial equity (cash) contribution. With a current estimate of $1.6 billion for development of Phase 1, the equity share needed could exceed $300 million or roughly six times current annual revenues just to meet the 80/20 fiscal policy standard. Greater levels of equity funding would provide additional rate relief and should be pursued when opportunities arise.

In addition to complying with existing fiscal policies, prudent capital planning points toward this same approach for other vital reasons. Potential rate impacts and ultimate rate levels are adversely impacted by a strategy relying solely or primarily on debt financing: project debt service plus operating costs are projected to exceed current annual revenues by factor of three (new costs approaching $125 million per year versus roughly $40 million in current non-RCFC revenues) under such an approach, in addition to other ongoing utility costs. Through steady increases in revenue capacity over time and use of the resulting funds to reduce borrowing, both the severity of rate increases and the ultimate cost of water are materially reduced.

Finally, Cascade's current AAA bond rating (Standard & Poor's) is based in significant part on Cascade's approach to capital funding. Maintaining a high bond rating will be essential to access low cost borrowing at the time of the project. Under a highly leveraged approach relying on large compounding rate increases and ultimately unproven revenue levels, a substantial decline in bond rating could be expected during project development, and the result would be even greater cost to secure debt financing. Again, a strategy that establishes a larger revenue base and reduces reliance on debt will help to protect access to new debt on more favorable terms, ultimately reducing rate impacts.

Even in the event of supply strategies that delay or defer the development of the Lake Tapps water supply, these same constraints and objectives remain material in the long-term financial planning for supply development. With continued escalation of construction prices expected, continued progress toward a meaningful share of equity funding is also called for regardless of when the project is developed.

For these various reasons, Cascade has determined it prudent to strategically develop a source of equity (cash) funding to support its future supply development. This paper outlines a strategy centered around a new "Water Supply Development Fund", or *Supply Fund*, and a funding strategy that contains the following elements:

1) Establishing the Supply Fund
2) Planned sources of funding to be transferred into the Supply Fund
3) Capture of unplanned funding sources or opportunities to contribute to the Supply Fund
4) Monitoring of equity funding progress relative to the capital funding objective
5) Strategies for modifying or adjusting contribution levels as expected needs or schedules change
6) Guidelines for Use of the Supply Fund for the Water Supply Project
7) Strategies for liquidating all or part of the Supply Fund in the event that it is overfunded, if capital funding needs materially change, if Cascade's mission is materially altered, or if Cascade is liquidated.

At present, a key advantage that Cascade holds is time, in the form of advance knowledge of potential future needs. During the intervening decade before design and construction commence, Cascade needs to build financial capacity in order for the project to be financially feasible. The aggressive use of the Supply Fund as part of this strategy focuses on building financial capacity that provides near-term cash flow to accumulate funds, transitioning to longer-term financial capacity to pay new debt obligations and project costs. Through steady and incremental rate increases, the financial strategy "ramps up" revenue capacity that can be used to bear future debt service and costs while also accumulating cash reserves to help fund the project and reduce the ultimate debt burden. Through

prudent planning and execution, these goals can be met while also maintaining Cascade's creditworthiness as related to bond ratings and related interest costs.

Establishing the Water Supply Development Fund

The Supply Fund should be a segregated fund or account that provides accountability and auditability. Options considered included an account within the Bond Fund, an account within the Construction Fund, and a new and separate fund. Of these options, a new and separate fund provide the highest level of accountability and ease of administration. Therefore, a new separate fund, the Water Supply Development Fund (Supply Fund) will be established and accounted for. The funds placed into the Supply Fund will be restricted from use except for development of a permanent long-term water supply as authorized by Board policy and action. In addition to direct contributions via transfer from other funds or accounts, investment earnings on any existing balance will be credited to and accumulated within the Supply Fund.

Planned Contributions to the Supply Fund

Planned contributions to the Supply Fund will consist of general contributions identified through the budgeting process and the long-term financial forecast. Planned contributions to the Supply Fund will derive from two primary sources: budgeted rate (demand share) contributions; and budgeted RCFC contributions.

RCFC contributions will be determined based on the general adequacy of the Construction Fund for planned near-term capital outlays (including budgeted items for capital risk contingencies). To the degree that the Construction Fund balance plus available capital funding over a 6-year period exceeds planned capital needs for that same period, corresponding transfers of RCFC revenues to the Supply Fund will be budgeted and made. For example, if available Construction Fund resources are $60 million for a 6 year period, and the CIP requirements are $54 million, then annual RCFC contributions of $1 million ($6 million total) could be made to the Supply Fund.

Rate contributions will also be budgeted through the biennial budget process. Through incremental increases in rate funding, both cash contributions and financial capacity for future debt service can be accumulated. The 20-year financial forecast will identify projected annual contributions that will help meet equity funding objectives while also smoothing rate increases over time. The forecasted amounts will be used in the biennial budget process to identify specific annual contributions from the Operating Fund to the Supply Fund. At present, such contributions are projected to begin in 2024 and ramp upwards while continuing into project construction.

It is important to note that a necessary consequence of this strategy is that rate trends will continue upward in order to fund planned contributions to the Supply Fund and to build financial capacity to support major debt issues needed for the water supply project.

Unanticipated and Unplanned Contributions to the Supply Fund

In addition to contributions identified in the long-term financial forecast, opportunities may arise to enhance annual contributions through commitment of unplanned or unanticipated available financial resources. In general, a concept of "Shared Benefit" will be employed to divide the use of any such windfalls equally between mitigation of current financial needs and accumulation for water supply development.

The "Shared Benefit" standard is intended to provide benefit to existing customers from new cost savings or new revenues while also increasing Supply Fund contributions. In each case that arises, 50% of the revenues would remain available for current operating and capital uses, thus helping offset requirements from Member charges, and 50% would be budgeted for transfer to the Supply Fund,

thus contributing toward water supply development. For one-time net gains, this would be a single transaction, while an ongoing or recurring gain would be divided equally for its duration.

It is again important to note that a necessary consequence of this strategy is that rate trends will continue upward, and that dedicated use of surpluses in this manner creates an upward bias on rate trends during the pre-construction period. The benefit from these actions accrues through funds accumulation and is realized through lower ultimate rates as the project is completed.

Examples of the type of savings or revenues that would be subject to the Shared Benefit model would include, but are not limited to:

One-time	**Recurring**
Underspending the annual operating budget	*Savings from a bond refunding*
Underspending the annual capital risk contingency	*Revenues from temporary water sales*
Higher than budgeted RCFC revenues	*Reduced SPU water purchase costs*
Revenues from asset liquidation	*Revenues from non-Member water purchases*

Once a recurring revenue is dedicated to the Supply Fund through this Shared Benefit approach, it will remain dedicated as an incremental annual contribution, in addition to planned contributions.

Monitoring Supply Fund Progress and Adequacy

With each biennial budget process, Cascade staff will present a summary of the Supply Fund including the following elements:

1) Supply Fund Balance and status as compared to prior forecast
2) Planned contributions to the fund included in the proposed biennial budget, including any recurring Shared Benefit contributions
3) Planned change to the Supply Fund balance for the biennium
4) Forecast of Supply Fund contributions and accumulation to and through the water supply development period, and evaluation of sufficiency in comparison to the minimum equity funding required by fiscal policy. Comparison of this forecast to the prior forecast estimate.
5) Proposed remedial steps, if any, in the event that projected funding is insufficient to satisfy fiscal policy requirements or maintain progress already made to exceed those minimum requirements.
6) An assessment of changes, known or potential, to project scope, cost or schedule that could materially alter funding requirements. Based on this, proposed modifications, if any, to the funding strategy to conform to those changing conditions.

Guidelines for Use of the Supply Fund for Water Supply Development

When water supply development is imminent, but in no case later than the budgeting process for the biennium in which work will materially commence, Cascade staff will work with its financial advisors and other consultants to develop a project capital funding plan to meet project cash flow needs. That funding plan will address the planned and scheduled use of equity funds, loans, grants and revenue bonds during project development. The plan will outline a schedule for use of equity and debt resources that enables rational and timely access to bond markets, adequate funding throughout the

project construction period, and a reasonable rate strategy to transition Member charges to a level that fully funds the supply project. The plan will include reasonable contingencies for unanticipated cost and schedule increases. The funding plan will be reviewed with the Cascade Board to determine and adopt a funding strategy for the project and to authorize related financial activities including bond issues, rate increases and use of the Supply Fund. To the extent that grants or low-cost loans cannot be confidently relied upon, the plan will be structured without those sources, but designed with flexibility to accommodate the benefits of such funding sources if and when they are secured. The debt issuance strategy and provisions for cost contingencies will be likely to dictate when equity funds are best utilized during the project.

General Guidelines for Liquidation of the Supply Fund

The sole intended use of the Supply Fund is for water supply development, currently intended to be the WRLT water supply. However, it is possible that funds accumulated in the Supply Fund may not be needed as planned or to the extent anticipated, or that those funds cannot be protected for their intended use. Examples might include:

a) A major change in the Cascade supply strategy that reduces, delays or eliminates the need for a new supply project

b) Project partnerships materially reduce the Cascade funding obligation

c) Revision of the Cascade mission as related to water supply

d) Major assistance in the form of grants or loans materially reduce the Cascade funding obligation and rate impacts

e) "Overfunding" of the Supply Fund to the point that anticipated cash funding exceeds 50% of estimated project cost.

f) Adverse actions by other governmental agencies or persons potentially targeting Cascade and its funds for unintended uses

g) Other causes that alter Cascade's intended funding of water supply development as determined by the Board

h) Liquidation of Cascade

In such cases, all or part of the Supply Fund might be identified for potential liquidation by the Cascade Board through a finding of surplus. Such finding must be demonstrated to be consistent with satisfaction of fiscal policy requirements related to water supply development and capital funding, or found to be necessary to protect the funds from unintended or inappropriate uses as determined by the Board.

The funds identified will be removed from the Supply Fund and used as follows:

1) If continued Cascade operation provides an opportunity for Member cost savings, a plan for use of the funds to reduce demand share charges over a period of time that provides meaningful Member benefit and avoids disruptive changes in annual requirements from Members. The use of any such funds will be spread out to avoid abrupt impacts.

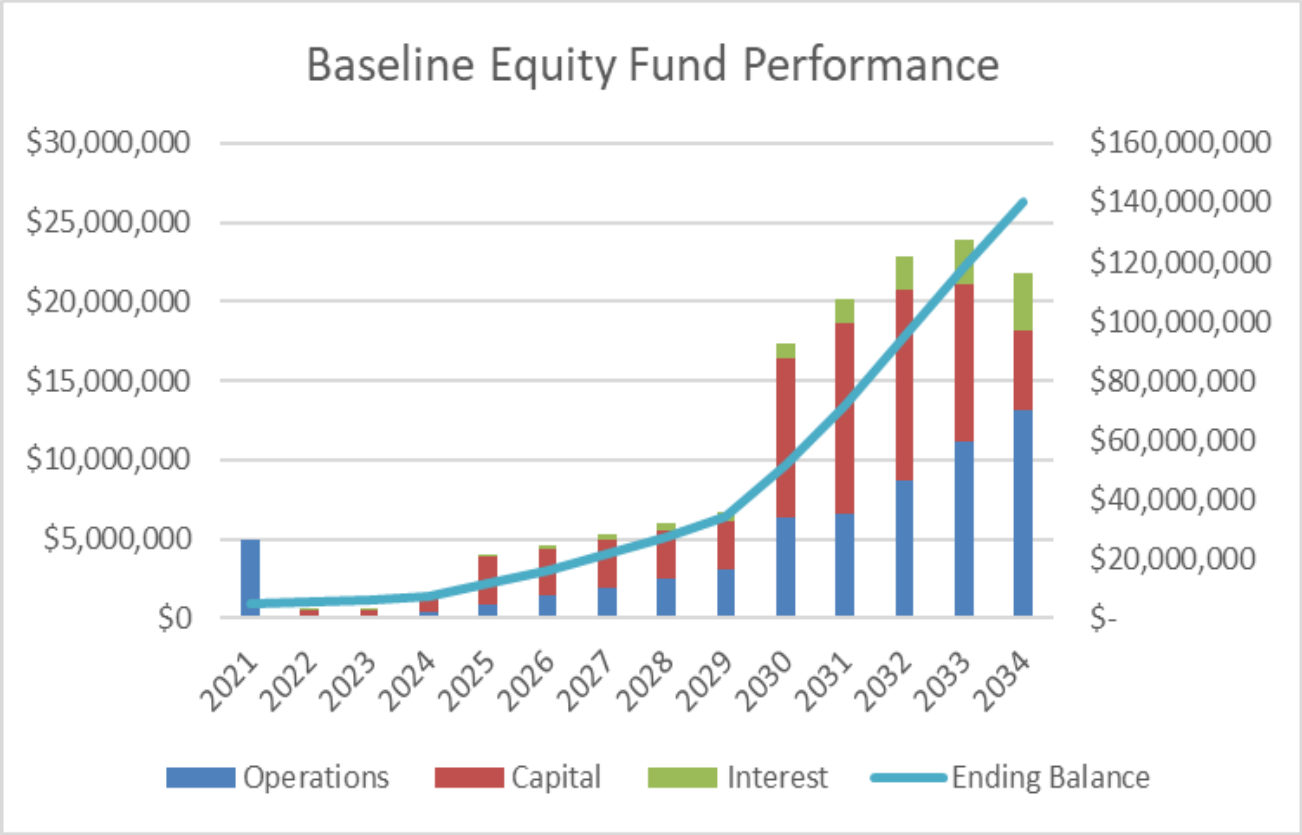
2) In the event of the liquidation of Cascade or takeover of jurisdiction by another agency, then the Supply Fund will be distributed from Cascade to Members in proportion to their relative payments of demand shares for the preceding 10 fiscal years. In other cases that the Board

determines that a surplus should be removed from the fund and most prudently returned to Cascade Members, such funds would also be distributed under the same allocation method.

Current Financial Plan and Examples of Fund Management

1) Current Plan

The current financial plan, as developed during the budget development process for 2021 and 2022, does not yet segregate the Supply Fund from other financial resources. However, the forecast includes accumulation of funds for water supply development, and a restructuring can be made to identify planned revenues that contribute to that accumulation. The following graph summarizes the annual contributions available to the Supply Fund from rates and RCFCs for the period from 2021 through 2034, and on the secondary axis the projected fund balance accumulation:



2) Examples of Funding Decisions

The following examples of Shared Benefit funding decisions are illustrative only at this time. They would only be implemented if and when the cost or revenue benefit is realized.

a) *Seattle wholesale water costs* – The 2021-22 budget includes estimated ongoing cost savings from the SPU block contract. SPU's prior rate study overestimated costs attributable to Cascade, and the new rate study projects an annual savings of $1.2m relative to the prior forecast. Using the Shared Benefit model, 50% of this savings, or $600k per year, could be dedicated to the Supply Fund during the 5-year period of the Seattle rate study. In lieu of

this annual provision, a one-time transfer of $5 million will initiate funding of the Supply Fund, reflecting this shared savings plus a one-time use of fund balance surplus.

b) *Seattle True-up* – The 2021 budget includes a contract true-up credit of roughly $1.5m, which has already been included in the budget and rate decisions made by the Board. The 2022 budget includes a provisional true-up estimate of $500k, also included in those plans. If the true-up amount for 2022 proved to be greater than this estimate, at say $1m, then an increased benefit of $500k would be realized. The Supply Fund contribution from this net difference would be a one-time amount of $250k in 2022.

c) *Advance Bond Refunding* – The 2012 bonds are being considered for an advance refunding, which would result in a $400k reduction in annual debt service costs beginning in 2023. The Supply Fund contribution from this reduction would be $200k per year for 2023-2037, totaling nearly $3m.

d) *Capital Risk Contingency* – The capital risk contingency is a CIP provision to ensure available funding for unanticipated capital improvements related to the aging Lake Tapps infrastructure. It varies from $500k to $1m over the next 6 years. If underspent an average of 25% during this period, an annual contribution to the Supply Fund of $62.5 to $125k would result. Each year's performance would be separately assessed and determined.

e) *Underspent Operating Budget* – Excluding fixed contract and debt payments, the operating budget contains about $7.8 million in expenditures. If this were underspent in a given year by 5%, the savings of $390k would result in a Supply Fund contribution of $195k.

f) *Temporary Water Sales* – The temporary sale contract with Issaquah would generate a revenue stream over about a 15-year period that would begin at $60k in 2024 and escalate to about $600k per year by 2028. This revenue stream would result in Supply Fund contributions of $30k-300k totaling nearly $3.5m over the 15-year period.

g) *Asset Sale* – A potential asset or water sale to Sumner could generate a one-time revenue on the order of $1.5m, likely in 2021 or 2022. This would result in a one-time Supply Fund contribution of $750k.

The following table summarizes the annual contributions that could be generated by each of these events, should they occur and should the Shared Benefit strategy be implemented. An equal amount of benefit would also accrue to the current funds of Cascade, resulting in added resources to mitigate rate impacts and trends.

Cascade Water Alliance

Summary of Baseline Equity Fund Contributions

October 5, 2020

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Potential "Shared Benefit" Additions to Equity Fund:														
Seattle Wholesale water costs														
Total savings	$ 1,954,910	$ 2,567,176	$ 2,821,269	$ 2,701,441	$ 3,011,642									
Shared Benefit to EF	***$ 977,455***	***$ 1,283,588***	***$ 1,410,635***	***$ 1,350,721***	***$ 1,505,821***									
Potential Additional Seattle True-Up in 2022														
Total savings		$ 500,000												
Shared Benefit to EF		***$ 250,000***												
Advance Refunding of 2012 Bonds														
Total savings	$ -	$ -	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000	$ 400,000
Shared Benefit to EF	***$ -***	***$ -***	***$ 200,000***	***$ 200,000***	***$ 200,000***	***$ 200,000***	***$ 200,000***	***$ 200,000***	***$ 200,000***	***$ 200,000***	***$ 200,000***	***$ 200,000***	***$ 200,000***	***$ 200,000***
Potential Unspent Capital Risk Provision														
Total savings	$ 125,000	$ 150,000	$ 175,000	$ 200,000	$ 225,000	$ 250,000								
Shared Benefit to EF	***$ 62,500***	***$ 75,000***	***$ 87,500***	***$ 100,000***	***$ 112,500***	***$ 125,000***								
Potential Unspent Operating Budget (10 years assumed at 5% savings)														
Total savings	$ 392,022	$ 403,782	$ 415,896	$ 428,373	$ 441,224	$ 454,461	$ 468,094	$ 482,137	$ 496,601	$ 511,499				
Shared Benefit to EF	***$ 196,011***	***$ 201,891***	***$ 207,948***	***$ 214,186***	***$ 220,612***	***$ 227,230***	***$ 234,047***	***$ 241,069***	***$ 248,301***	***$ 255,750***				
Potential Temporary Water Sales to Issaquah														
Total revenue	$ 80,000	$ 160,000	$ 225,522	$ 276,001	$ 356,203	$ 438,891	$ 529,166	$ 591,200	$ 637,663	$ 650,776	$ 675,694	$ 695,350	$ 727,969	$ 761,172
Shared Benefit to EF	***$ 40,000***	***$ 80,000***	***$ 112,761***	***$ 138,001***	***$ 178,102***	***$ 219,446***	***$ 264,583***	***$ 295,600***	***$ 318,831***	***$ 325,388***	***$ 337,847***	***$ 347,675***	***$ 363,984***	***$ 380,586***
Potential Asset Sale to Sumner														
Total revenue	$ -	$ 1,500,000												
Shared Benefit to EF	***$ -***	***$ 750,000***												
TOTAL POTENTIAL ADDITIONAL CONTRIBUTIONS TO EQUITY FUND														
	$ 1,275,966	**$ 2,640,479**	**$ 2,018,844**	**$ 2,002,908**	**$ 2,217,035**	**$ 771,676**	**$ 698,630**	**$ 736,669**	**$ 767,132**	**$ 781,138**	**$ 537,847**	**$ 547,675**	**$ 563,984**	**$ 580,586**

Grand Total ***$ 16,140,568***

Cascade Water Alliance

Overview of the Proposed Water Supply Development Fund

March 3, 2021

Contents of the WSDF Policy Paper

1. **Issue Background**
2. **Setting up the Fund**
3. **Contributing to the Fund**
4. **Oversight**
5. **Using the Funds**
6. **Liquidation**
7. **Baseline Forecast**
8. **Funding Decision Examples**
9. **Actions Needed to Implement**

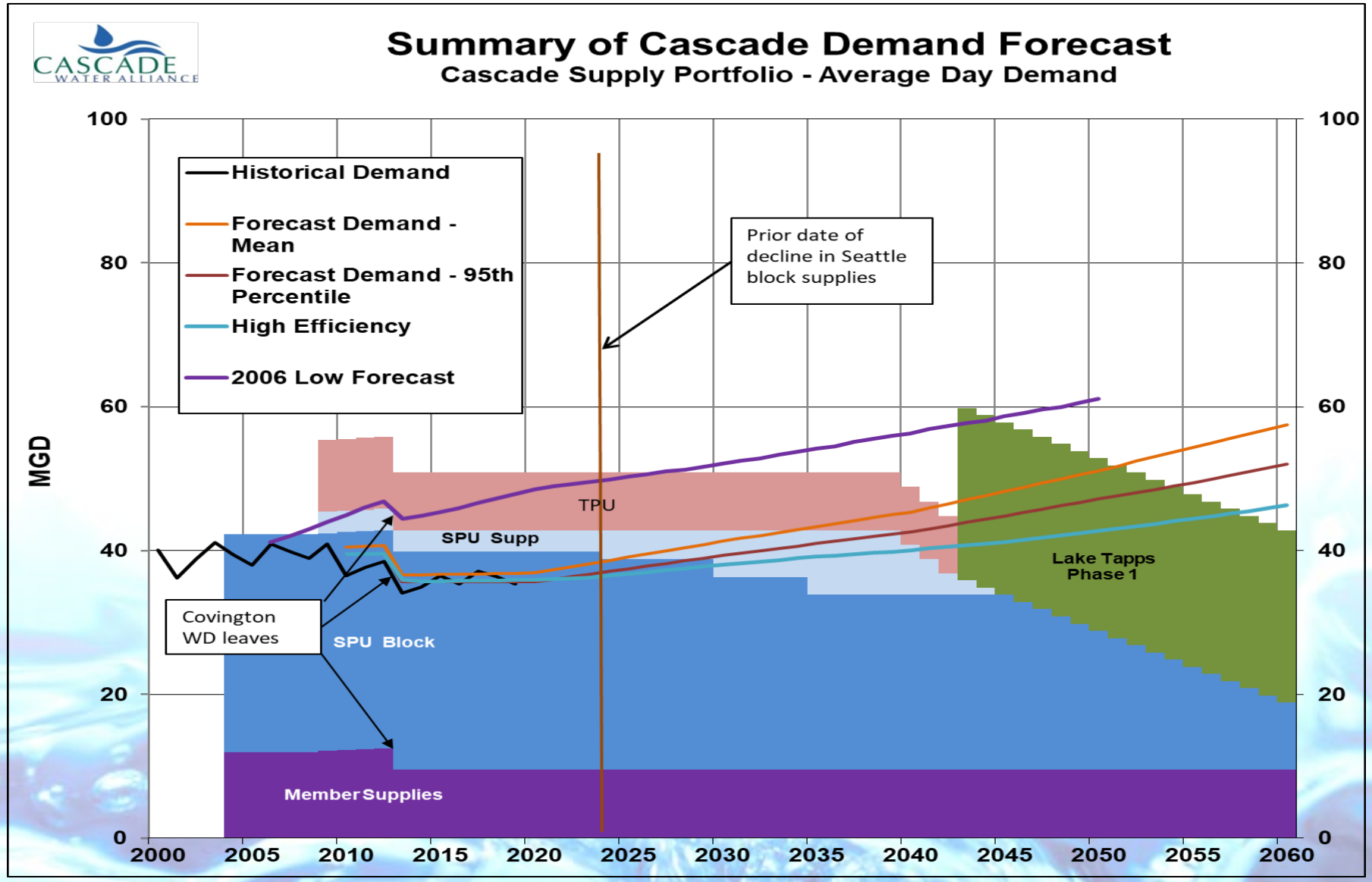
Before we review:

Does the proposal make sense?

Is anything confusing, incomplete or contradictory?

Any explanations/clarifications that would help in our review?

The Need for Supply



The Need for the Fund

- ***Constructing Lake Tapps will cost over $1.6 billion in the late 2030's; operations will also cost roughly $15 million per year. If debt financed, the total annual burden would be over $120 million. Current revenues are $50 million including RCFCs.***
- ***Cascade fiscal policies limit debt to 80% of assets. This would require roughly $300 million in cash funding for Lake Tapps. (It would also reduce the annual rate burden by at least $20 million.)***
- ***Without advance financial planning:***
  - ***The rate profile projects a 7-year financing period with 20% annual increases, almost quadrupling rates.***
  - ***Access to debt may be limited and, at best, the cost of debt will increase with falling bond ratings. Thus, the estimates above are optimistic at best.***
- ***Even deferring the project has limited benefit; inflation raises the project cost by $25 million per year now, $50 million per year by 1940.***
- ***What about generational equity? This is largely sustaining supply capacity for existing customers.***

In short, Cascade's ability to meet its supply obligations depends on a commitment to a stable and prudent funding strategy, starting now.

Establishing the Water Supply Development Fund

- ***Options considered included restricted accounts residing within the construction or bond funds, or a new separate dedicated fund***
  - ***The bond fund was rejected due to bond covenant restrictions on how deposited funds can be used.***
  - ***The construction fund was rejected due to the complexity of separating revenue sources, including interest earnings, of the fund.***
  - ***A new Supply Fund provides transparency and simplifies administration.***
  - ***With sufficient funding, the Supply Fund can enter the Pool Plus investment option to improve interest earnings.***

A new Water Supply Development Fund, or Supply Fund, will be created to hold accumulating capital funds.

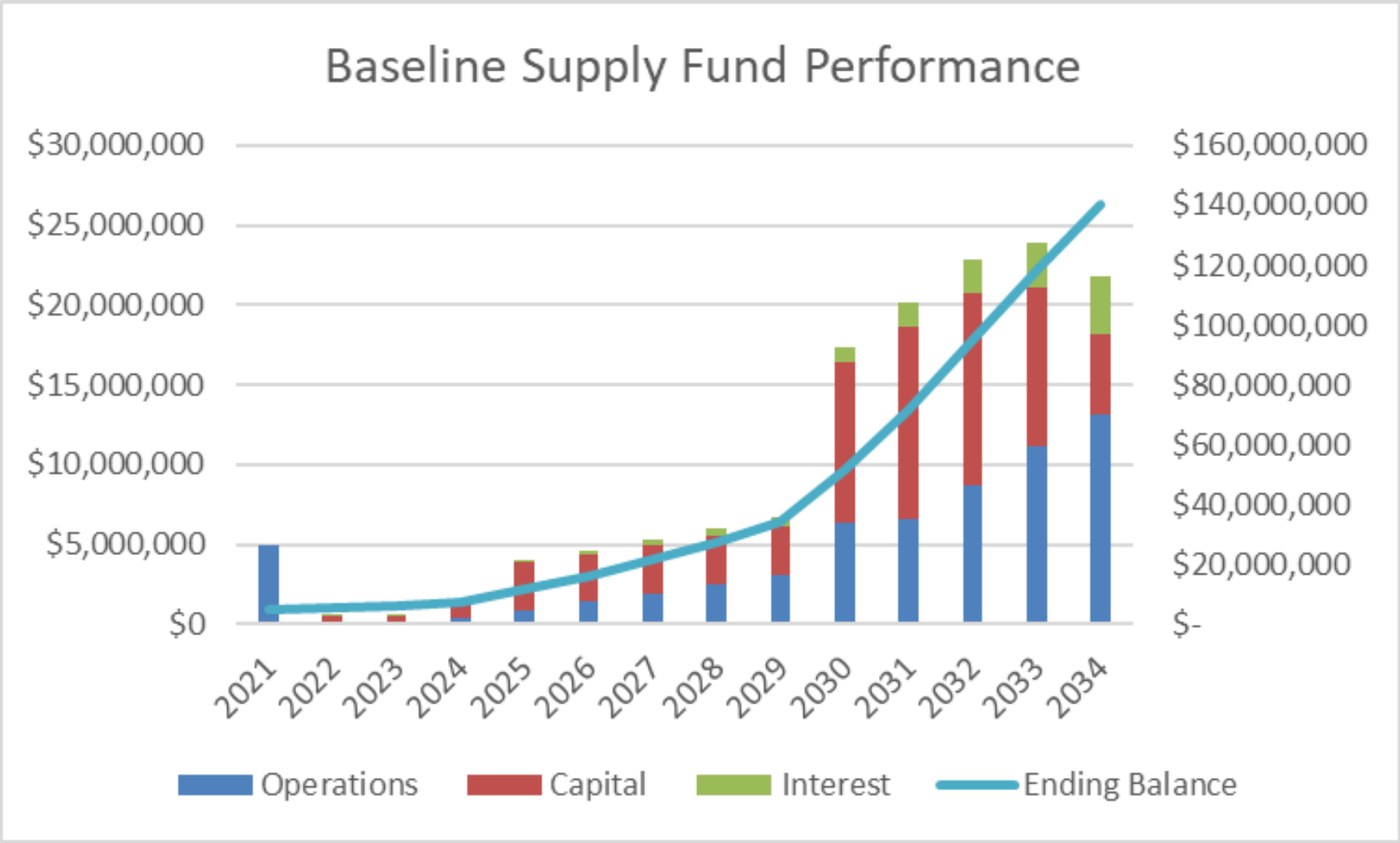
Contributions to the Supply Fund

Two primary sources of funding:

- ***Planned contributions based on the long-term financial plan. These include:***
  - ***Transfer of RCFC contributions to the extent that RCFCs exceed planned capital needs.***
  - ***Transfer of budgeted rate contributions (scheduled to begin in 2024 and escalate over time)***
- ***Unplanned/unanticipated funding opportunities using the "Shared Benefit" approach:***
  - ***Shared Benefits directing 50% of unanticipated cost savings***
  - ***Shared Benefits directing 50% of new revenue sources***

The planned contributions are projected to meet fiscal policy requirements regarding project funding; the additional unplanned contributions will help moderate rate impacts of the supply project

Planned Contributions to the Supply Fund



Potential Unplanned Contributions to the Supply Fund

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Potential Shared Benefit Additons to Supply Fund										
Seattle Wholesale water costs										
Total Savings	$ 1,954,910	$ 2,567,176	$ 2,821,269	$ 2,701,441	$ 3,011,643					
Shared Benefit to SF	***$ 977,455***	***$ 1,283,588***	***$ 1,410,635***	***$ 1,350,721***	***$ 1,505,822***					
Potential Additonal Seattle True-Up in 2022										
Total Savings		$ 500,000								
Shared Benefit to SF		***$ 250,000***								
Advance Refunding of 2012 Bonds										
Total Savings			$ 575,000	$ 575,000	$ 575,000	$ 575,000	$ 575,000	$ 575,000	$ 575,000	$ 575,000
Shared Benefit to SF			***$ 287,500***	***$ 287,500***	***$ 287,500***	***$ 287,500***	***$ 287,500***	***$ 287,500***	***$ 287,500***	***$ 287,500***
Potential Unspent Capital Risk Provision										
Total Savings	$ 125,000	$ 150,000	$ 175,000	$ 200,000	$ 225,000	$ 250,000				
Shared Benefit to SF	***$ 62,500***	***$ 75,000***	***$ 87,500***	***$ 100,000***	***$ 112,500***	***$ 125,000***				
Potential Unspent Operating Budget (10 years assumed at 5% savings)										
Total Savings	$ 392,022	$ 403,782	$ 415,896	$ 428,373	$ 441,234	$ 454,461	$ 468,094	$ 482,137	$ 496,601	$ 511,499
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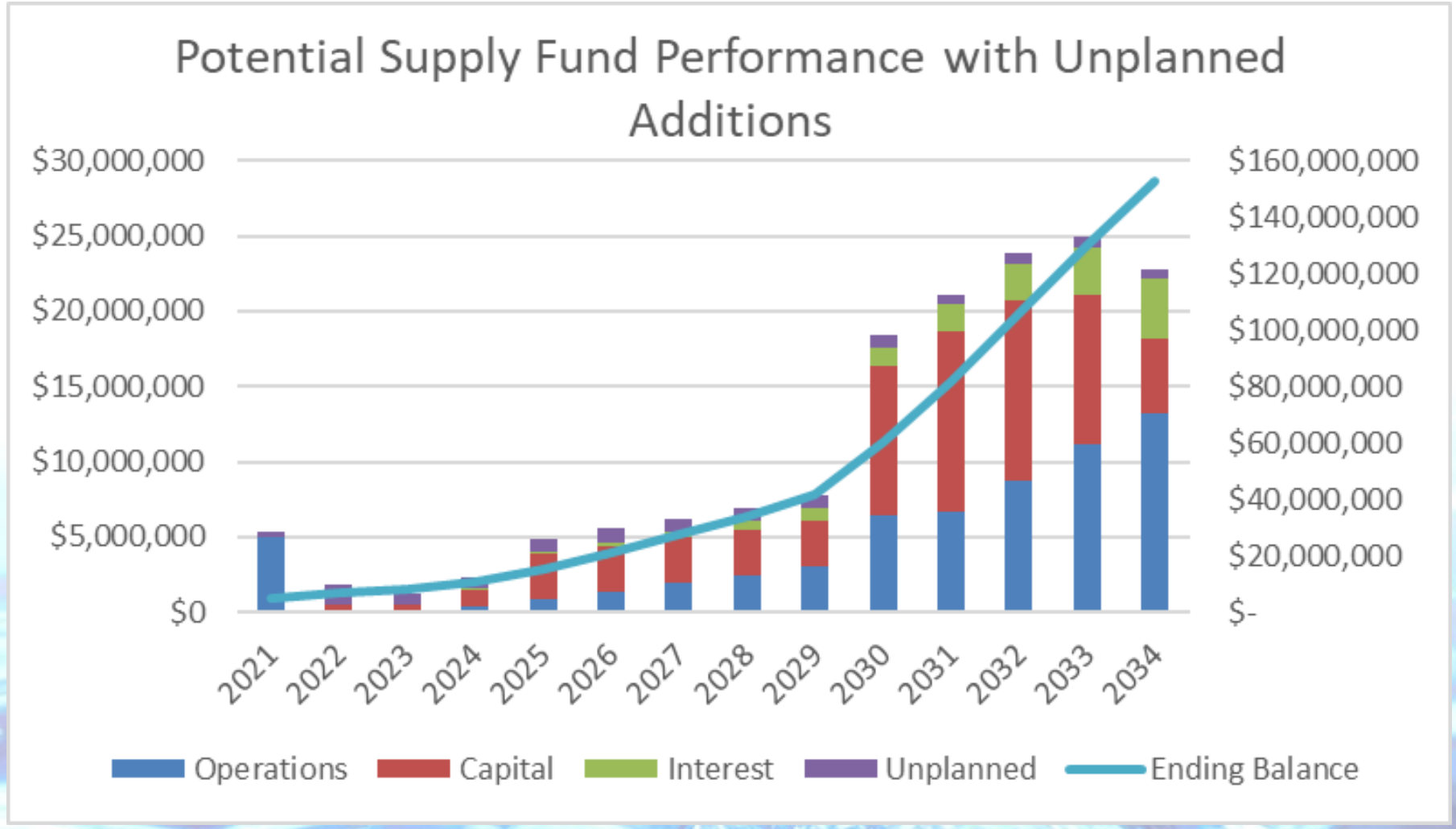
Potential Temporary Water Sales to Issaquah										
Total Savings	$ 80,000	$ 160,000	$ 225,522	$ 276,001	$ 356,203	$ 438,891	$ 529,166	$ 591,200	$ 637,663	$ 650,776
Shared Benefit to SF	***$ 40,000***	***$ 80,000***	***$ 112,761***	***$ 138,001***	***$ 178,102***	***$ 219,446***	***$ 264,583***	***$ 295,600***	***$ 318,832***	***$ 325,388***
Potential Asset Sale to Sumner										
Total Savings		$ 1,500,000								
Shared Benefit to SF		***$ 750,000***								
TOTAL POTENTIAL ADDITIONAL CONTRIBUTIONS TO SUPPLY FUND										
	$ 1,275,966	**$ 2,640,479**	**$ 2,106,344**	**$ 2,090,408**	**$ 2,304,540**	**$ 859,176**	**$ 786,130**	**$ 824,169**	**$ 854,632**	**$ 868,638**

Grand Total 2021-2030 **$ 14,610,480**

Potential Contributions to the Supply Fund



Where Does this Take Us?
Rate Impacts of the Proposed Approach

Scenario	*What Changed?*	2021-2025 Annual Rate Increase	2035-2041 Average Annual Rate Increase	Lake Tapps Debt (Phase 1)	2042 Average Charge for Water ($/CCF)
Original Scenario (June 2020)	***n/a***	***3.0% per year***	***9.3%***	$1.199 Billion	***$ 9.28***
"No Increase" Scenario	***no increase in 2021-22 biennium***	***0/0/3/3/3%***	***19.6%***	$1.524 Billion	***$ 10.44***
Adopted Package (September 2020)	***reduced SPU cost reduced initial rates***	**2.20% per year**	**9.8%**	$1.260 Billion	***$ 9.47***
Revised Forecast with Shared Benefits (January 2021)	***bond refunding temporary water WSDF***	**2.20% per year**	**8.0%**	$1.190 Billion	***$ 8.90***

Oversight and Monitoring

Biennial Review:

- ***Fund Balance vs. Prior Forecast***
- ***Proposed Planned Contributions for Biennium (based on the long-term financial plan)***
- ***Proposed (Known) Unplanned Contributions for Biennium***
- ***Forecast of Supply Fund Balance and Projected Compliance with Fiscal Policies***
  - ***Remedial steps proposed if insufficient***
- ***Changes in Projected Supply Development Plans, Schedule, Costs***
  - ***Revised forecast for fund accumulation and use***

Using the Fund

1) For Water Supply Development:

- *Supply Project Funding Plan outlining use of cash and debt and schedule for funding activities*
  - *Authorize transfers to Construction Fund consistent with the funding plan*

2) For Other Purposes:

- *Finding of Surplus*
  - *Liquidation of Excess Funds (over 50% of estimated project cost)*
  - *Funds could be released for other Cascade purposes or distributed to Members*
- *Liquidation of Cascade*
  - *Funds distributed to Members*
- *Response to Hostile Actions*
  - *Funds distributed to Members to avoid involuntary transfer to a third party*
- *Any distributions to Members are in proportion to the last 10 years of demand share payments*

What is Next?

To move forward, a number of actions are needed:

1) **Adopt Policy Paper Defining the Purpose and Structure**

2) **Establish a New Fund**

3) **Authorize Initial Transfer of $5 million to the WSDF in lieu of wholesale rate benefit sharing**
   - *By making this transfer, funds are sufficient to enter the Pool Plus program.*

4) **Direct Staff to Initiate Pool Plus Application Process for WSDF**

5) **Adopt Pool Plus Enabling Resolution per KC Requirements**
   - *After application, resolution acknowledging risk and constraints of the Pool Plus program*

6) **Authorize the "Shared Benefit" approach for Bond Refunding Savings and Temporary Water revenues**

7) **Authorize revisions to planned fund transfers adopted in budget to accomplish moving funds into the WSDF**
   - *Enable fund transfers into the WSDF and modify other transfers that this may substitute for*