



MEETING MINUTES OF THE
COMMITTEE OF THE WHOLE
(SPECIAL MEETING OF THE BOARD OF DIRECTORS)
VIA ZOOM
MARCH 3, 2021

1. CALL TO ORDER

At 10:30 a.m. Chair Stokes called the meeting to order. Board Members confirmed that they received the meeting materials and could hear the speakers clearly.

2. ROLL CALL

Board Members Present: The City of Bellevue (Stokes), the City of Issaquah (Pauly), the City of Kirkland (Sweet), the City of Redmond (Birney), the City of Tukwila (Ekberg), Sammamish Plateau Water & Sewer District (Warren), and Skyway Water and Sewer District (Ault) were present.

Board Alternates Present: The City of Bellevue (Lee), the City of Kirkland (Pascal).

3. PUBLIC COMMENT

None.

4. EXECUTIVE SESSION

None.

5. APPROVAL OF AGENDA

6. DISCUSSION AND DIRECTION

The Water Supply Development Fund workshop provided a review of the draft proposal for accumulating funds to support Lake Tapps Water Supply development. In attendance were Board Members, alternates, Member staff, Cascade staff and legal counsel. Cascade staff provided an overview and forum for discussion and input through a PowerPoint presentation. (Attachment 1). The need and purpose of the fund were reviewed, along with the mechanics of creating and managing the fund. The projected impacts on Cascade's funding of supply development were also presented and reviewed. Discussion included questions regarding adapting to demand uncertainty, effect of supply alternatives on the strategy, opportunities for and consequences of delaying funding, generational equity, and flexibility to change course were raised and discussed. In general, the proposal seemed to incorporate these considerations and provide the Board appropriate oversight and control. The Board was supportive of the staff recommendation to develop and bring forward for Board consideration specific action items that would initiate the fund, consistent with the outline of next steps reviewed in the presentation. Those actions will return to the Board through introduction and review with the Finance & Management Committee.

7. OTHER ACTION ITEMS

None.

8. NEXT REGULAR MEETING

The next regular Board meeting will be held on March 24, 2021, at 3:30 p.m.

9. ADJOURN

The meeting adjourned at 12:30 p.m.

APPROVED BY:



John Stokes, Chair



Penny Sweet, Vice-Chair



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

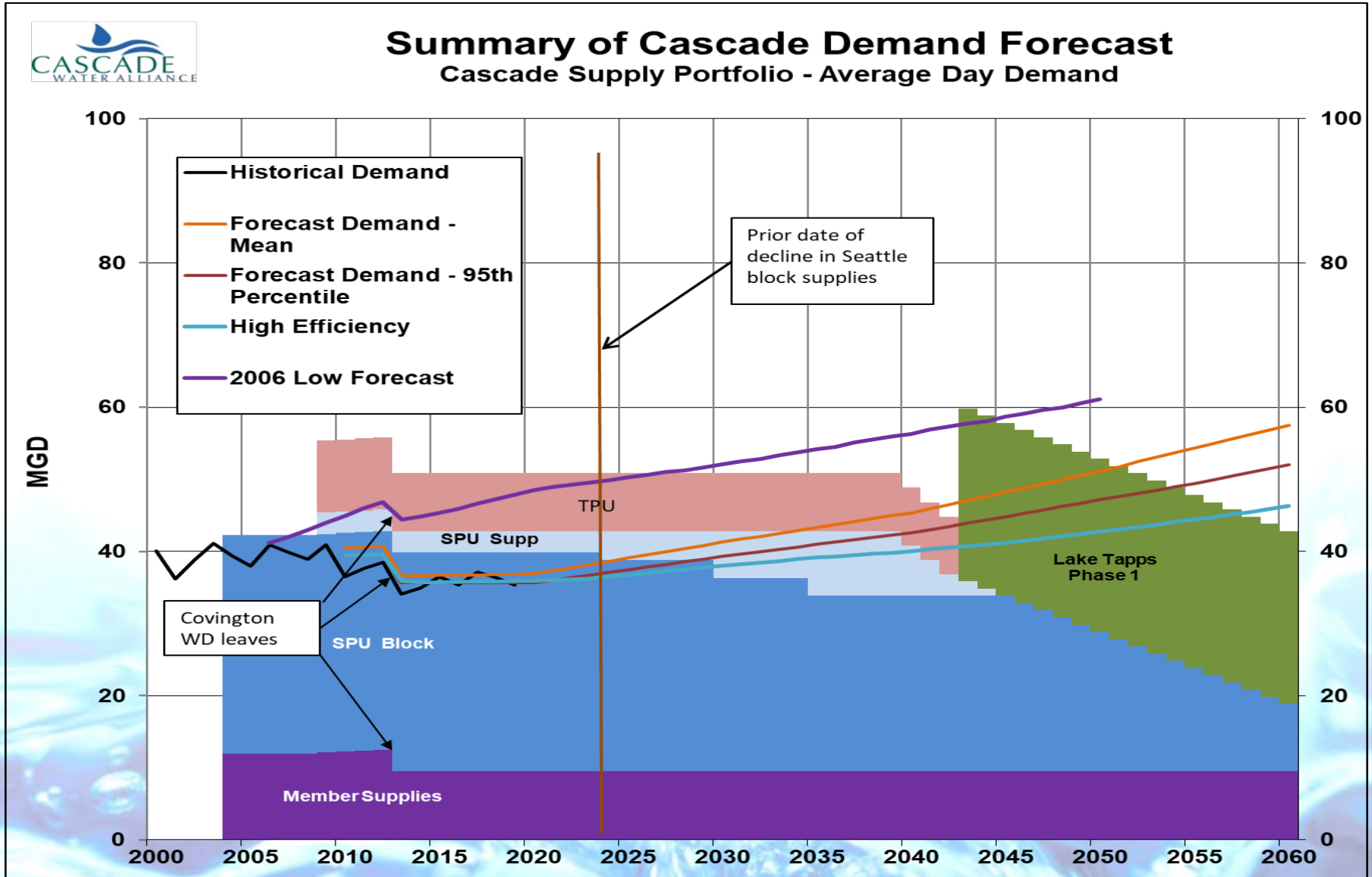
Before we review:

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.

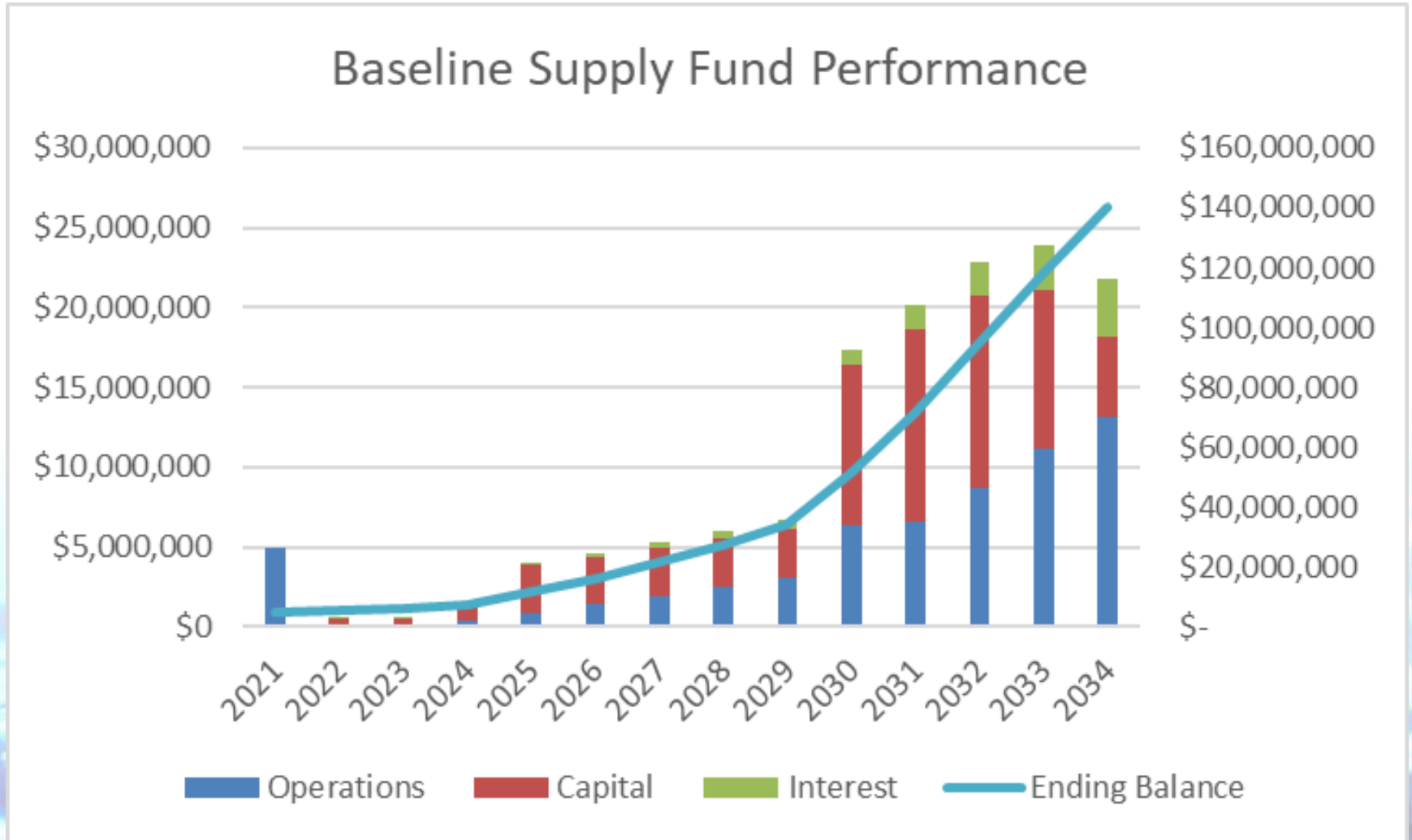
Contributions to the Supply Fund

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

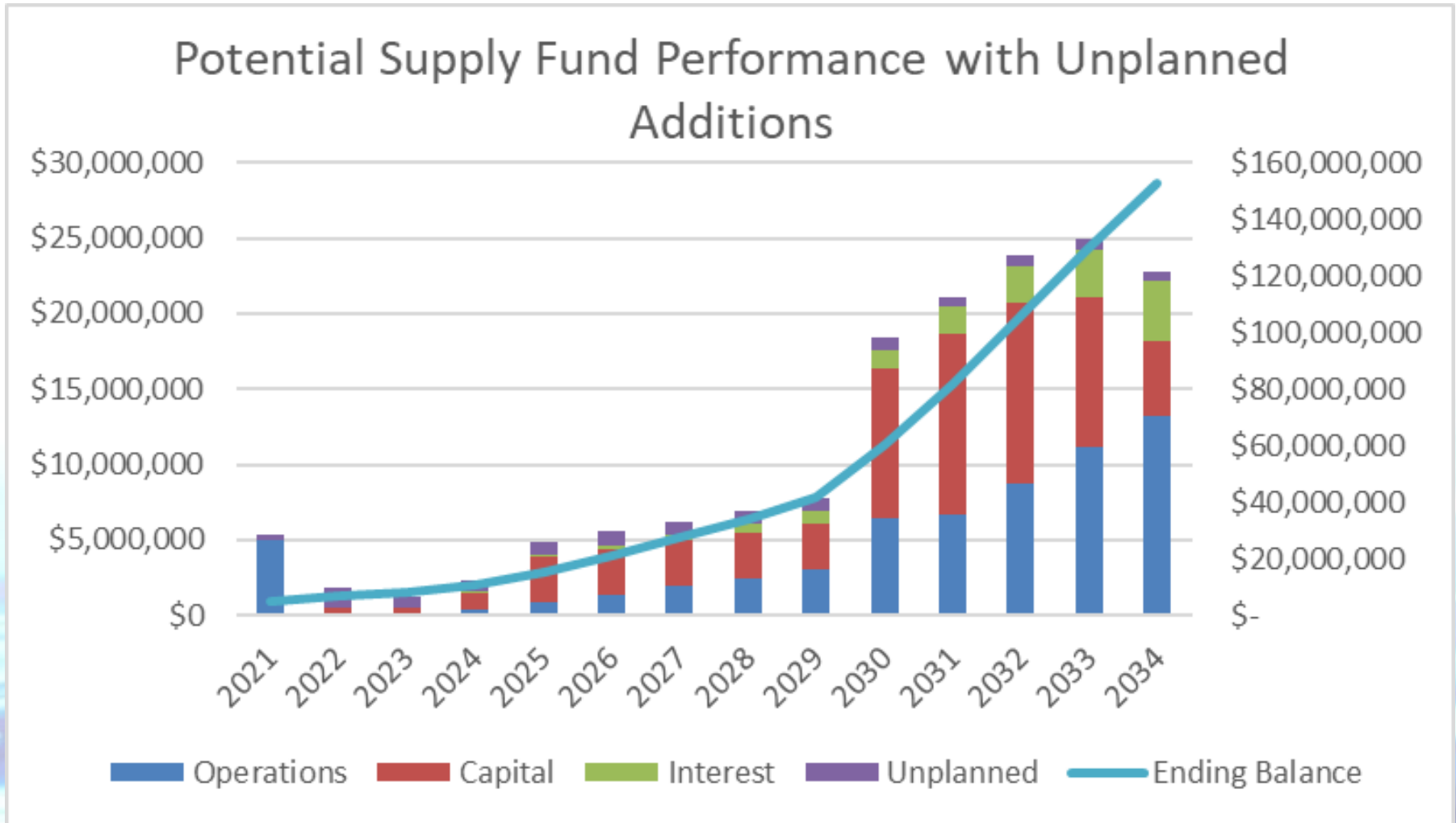
Planned Contributions to the Supply Fund



Potential Unplanned Contributions to the Supply Fund

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
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 Additional 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
Shared Benefit to SF	\$ 196,011	\$ 201,891	\$ 207,948	\$ 214,187	\$ 220,617	\$ 227,231	\$ 234,047	\$ 241,069	\$ 248,301	\$ 255,750
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	<u>What Changed?</u>	<u>2021-2025 Annual Rate Increase</u>	<u>2035-2041 Average Annual Rate Increase</u>	<u>Lake Tapps Debt (Phase 1)</u>	<u>2042 Average Charge for Water (\$/CCF)</u>
Original Scenario (June 2020)	<i>n/a</i>	3.0% per year	9.3%	\$1.199 Billion	\$ 9.28
"No Increase" Scenario	<i>no increase in 2021-22 biennium</i>	0/0/3/3/3%	19.6%	\$1.524 Billion	\$ 10.44
Adopted Package (September 2020)	<i>reduced SPU cost reduced initial rates</i>	2.20% per year	9.8%	\$1.260 Billion	\$ 9.47
Revised Forecast with Shared Benefits (January 2021)	<i>bond refunding temporary water WSDF</i>	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*