Water Supply Development Fund (WSDF)
Frequently Asked Questions (FAQs)

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1. **What is the current development schedule for the Lake Tapps Reservoir water supply project?**

   Cascade's water right permits require construction of the White River-Lake Tapps Reservoir water supply project ("Project") to start by December 31, 2040, with substantial completion by 2055 and full water use by December 31, 2060. However, Cascade's water supply contract with Seattle begins to decline in 2040 and expires in 2064. If Cascade hasn't negotiated a contract extension with Seattle or secured a new "bridge" contract with Tacoma or Everett, the Project will need to be **operational by 2042**, which means construction needs to start in the early 2030s.

2. **Do we need to remain on the current development schedule for the Lake Tapps Reservoir?**

   The current development schedule for the Project is not Cascade's preferred option. Since acquisition of the Lake Tapps Reservoir, Cascade has had a strategy of using available regional wholesale water contracts to "bridge" Cascade's demand requirements until the Project is brought on-line. Analysis of current conditions indicates an abundance of supply in the three-county region through 2060 and likely beyond. Developing the Project can be delayed if Ecology grants Cascade an extension of its water rights development schedule <u>and</u> Cascade either secures a contract extension with Seattle or a new bridge contract with Tacoma or Everett. Until both of these occur, the Project needs to be operational by 2042.

3. **What is the Water Supply Development Fund (WSDF) and why is it needed?**

   The WSDF is a structured means to accumulate cash to meet Cascade's 20% equity requirement and mitigate project financial impacts when the time is ready to develop the Project or to pay for other water supply needs, such as constructing transmission pipes if Cascade were to contract with Tacoma (see FAQ #7). Without sufficient equity, Cascade would overly rely on debt, and its access to low-cost borrowing could be significantly hampered or even terminated, ultimately leading to higher rate increases.

   The Project is a major financial undertaking. Deferring construction is only beneficial if the resulting added time is used wisely to build capacity to fund the Project. Otherwise, the financial feasibility of the Project continues to decline as costs escalate. The WSDF provides an accountable means to accomplish this goal.

   Cascade's fiscal policy has a target capital structure with a ratio of no more than 80% debt to 20% equity (cash). This is akin to a 20% cash down payment on a new home. Development of the Project on the current 2042 schedule is estimated to cost roughly $800M in current costs, or about $1.6B in inflated costs. At $1.6B, the equity share needed could exceed $300M. This is roughly six times current annual revenues. If development of the Project is deferred, the construction costs and corresponding equity share will be even higher due to inflation.

   If Cascade were to pursue other supply options, such as a bridge contract with Tacoma or Everett, WSDF funds would be used cover the 20% equity portion of construction costs required to deliver water to Cascade members.

4. What are the sources of revenue for the WSDF?

The WSDF will be funded by both planned and unplanned contributions. Planned contributions to the fund will derive from two primary sources: 1) budgeted rate (Demand Share) contributions; and 2) budgeted Regional Capital Facilities Charges (RCFC) contributions.

- The 20-year financial forecast will identify projected annual contributions that will help meet equity funding goals while also smoothing rate increases over time. During the biennial rate and budget process, Cascade will identify annual rate revenue that can be transferred from the Operating Fund to the WSDF. At present, such contributions are projected to begin in 2024 and ramp upwards thereafter.

- If the Construction Fund balance plus available capital funding over a six-year period exceeds planned capital needs for that same period, corresponding transfers of RCFC revenues to the WSDF will be budgeted and made. For example, if Construction Fund resources are $60M for a six-year period and the CIP requirements are $54M, then annual RCFC contributions of $1M ($6M total) could be made to the WSDF.

In terms of unplanned contributions, a concept of "Shared Benefit" will be used to divide the use of any windfalls equally between rate mitigation and the WSDF. For one-time net gains, this will be a single transaction, while an ongoing or recurring gain will be divided equally for its duration. Examples of the type of savings or revenues that will 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*

5. Why is the WSDF needed now? What are the impacts on rates?

There is no better time to begin WSDF funding as delay compounds adverse financial and rate outcomes. **Even with planned contributions to the WSDF, Cascade's rate increases are projected to stay below inflation for the next decade.** This is thanks to lower bond costs and a favorable trend in Seattle costs. During construction, rate increases will be around 9% per year (versus 20% per year <u>without</u> the WSDF). The cost of delaying or not having the WSDF is enormous: hundreds of millions in added debt with retail bills averaging an added $10 per month (or more). The results may actually be much worse as this does not factor in erosion of our bond rating or rejection in the bond market due to declining financial integrity and violation of adopted fiscal policies.

Ideally, Cascade would have implemented the WSDF years ago to accumulate savings over a longer period of time and thus further moderating rate impacts. Similar to planning for retirement, the sooner you start, the more you'll save and the less painful it is to meet your goals. Deferral in building up the WSDF may have short-term rate benefits but will have much larger negative long-term impacts. Using this analogy, Cascade is like a 50-year-old person with no retirement savings, so we need to start saving as soon as possible.

6. What is the annual dollar impact to member agencies over the next 10 and 20 years?

The WSDF is projected to accumulate to about $30M by 2030. Of this, about $13M comes from member charges, while the remainder comes from RCFCs, fund balances and investment earnings. The following table provides a representation of annual funding during this decade derived from <u>member charges,</u> allocated among members based on demand shares:

	TOTAL 2021-2029	2021*	2022	2023	2024	2025	2026	2027	2028	2029
Derived from Operations (Member Charges)										
Bellevue	***$ 6,727,186***	$ -	$ 1,181	$ 151,356	$ 399,470	$ 660,071	$ 941,080	$ 1,228,352	$ 1,522,008	$ 1,823,667
Issaquah	***$ 753,972***	$ -	$ 100	$ 13,416	$ 37,601	$ 65,771	$ 100,285	$ 138,072	$ 178,400	$ 220,327
Kirkland	***$ 1,835,402***	$ -	$ 314	$ 40,968	$ 106,957	$ 177,694	$ 254,854	$ 334,647	$ 417,154	$ 502,813
Redmond	***$ 2,340,304***	$ -	$ 398	$ 50,963	$ 136,807	$ 226,700	$ 324,962	$ 426,687	$ 532,121	$ 641,665
Sammamish Plateau WSD	***$ 446,673***	$ -	$ 78	$ 8,361	$ 21,508	$ 37,919	$ 57,791	$ 80,431	$ 106,010	$ 134,574
Skyway WSD	***$ 137,323***	$ -	$ 24	$ 3,149	$ 8,143	$ 13,463	$ 19,203	$ 25,069	$ 31,059	$ 37,213
Tukwila	***$ 829,768***	$ -	$ 149	$ 18,981	$ 49,501	$ 81,690	$ 116,303	$ 151,555	$ 187,431	$ 224,158
Total	***$ 13,070,627***	*$ 5,000,000*	$ 2,245	$ 287,195	$ 759,987	$ 1,263,308	$ 1,814,478	$ 2,384,812	$ 2,974,184	$ 3,584,417
Note: does not total to ending fund balance due to unallocated fund earnings										
** - Initial funding of WSDF is made from operating reserves and does not impact 2021 Member charges*										

For the 2030s, the WSDF becomes active in funding supply projects, so funds are both entering and leaving the WSDF, to the point that a delineation of sources becomes meaningless. In total, **member charges are lower in the 2030s with WSDF funding than without, a benefit which continues through the 2040s, 2050s and 2060s.** Modest investments in the WSDF now provide decades of substantial rate savings.

7. What can the WSDF be used for?

The WSDF will be a separate fund that provides accountability, transparency and auditability. As a separate fund, Cascade will be able to participate in the King County Pool Plus investment programs to enhance investment earnings and help offset inflating construction costs. **The WSDF will be restricted from use except as part of a strategy to develop a permanent long-term water supply as authorized by Board policy and action**. Allowable uses of the WSDF include the costs associated with various supply options:

- Costs to develop the Project. The estimated cost based on the current 2042 schedule is $1.6B. If Cascade were to negotiate a 15-year extension with Seattle the estimated cost is $2.4B due to inflation.
- Costs to develop transmission infrastructure if Cascade were to contract with Tacoma or Everett either via a "bridge" contract or on a more permanent basis. The estimated cost for a Cascade-Tacoma intertie is $621M without wheeling and $377M with wheeling, both in inflated dollars.
- Lump sum payments related to new supply contracts or extensions.
- "Buy-in" costs to secure a permanent purveyor contract with Seattle. Cascade's current "block contract" cost per CCF is lower than that of Seattle's Full and Partial Contracts, referred to as purveyor contracts. Given this, if Cascade were to transition to a purveyor contract with Seattle, Cascade may be required to pay Seattle for those past savings, estimated to be $60M in current dollars.

Because the funds can be used to offset costs for any supply strategy, the WSDF provides flexibility and benefit for all options and outcomes.

8. What happens if we get a contract extension with Seattle? Would we continue to build up the WSDF in the same manner?

If Cascade negotiates a contract extension with Seattle as well as a water rights development extension, we still need to begin building up capacity to fund the WSDF right away, although the rate strategy is moderated in the 2030's. Primarily, we can build more slowly in the 2030's from the foundation laid in the 2020's. However, continued progress toward a balanced funding plan is necessary. Assuming Cascade gets a 15-year extension and begins construction around 2055, project costs at that time rise from $1.6B to $2.4B due to inflation. Our corresponding equity (cash) share increases from $300M to $480M to meet our 80/20 fiscal policy, and even higher to mitigate escalating rate impacts. With continued slower contribution to the WSDF, we can actually exceed the 20% target and use the WSDF funds to further reduce debt burden and rate impacts when the Project is developed.

9. What other long-term supply options are being considered and what are the implications of these options to the WSDF?

The basic long-term supply options being considered are: (1) Status quo of developing the Project beginning in 2033 with completion by 2060; (2) an extension of the current block contract with Seattle; (3) a new contract with Tacoma; (4) a new contract with Everett; and (5) conversion of the current block contract with SPU to a purveyor contract. We are also studying alternate approaches to phasing and constructing the Lake Tapps Reservoir supply. In reality, there are variations on all the supply options. For example, under (3) a contract with Tacoma could either include or exclude wheeling with Seattle, and it could be a "bridge" or longer-term contract. Any Lake Tapps scenario could also evolve into a regional project, with regional partners sharing the supply and its costs.

All options which delay development of the Project benefit Cascade's members, but all still require major WSDF investments to work toward their viable implementation. The Seattle purveyor option also has a large price tag. Because there are significant costs associated with all options and the WSDF funds can be used for all options, the WSDF is critical for Cascade and its members, and building up the fund sooner rather than later is vital.

10. Do any of the long-term supply options contemplate sale or transfer of the Lake Tapps Reservoir? If so, are there limitations on the sale or transfer?

Yes, option (5) in FAQ # 9, conversion of the current block contract with SPU to a purveyor contract, contemplates the transfer of ownership of the Lake Tapps Reservoir by Cascade.

In 2009, Cascade entered into an agreement (called the Lake Tapps Community Agreement) with eight community organizations (the LTCC) that established, among other things, reservoir levels that the State Department of Ecology incorporated into Cascade's water rights. The Community Agreement contemplates possible transfer of the reservoir and the accompanying water rights by Cascade. LTCC wanted the opportunity to purchase the reservoir and/or water rights if another public entity was not going step into Cascade's position. If each step were fully taken, the opportunity process with LTCC could take 330 days:

- Once Cascade gives LTCC notice of its intent to sell to a non-public entity, LTCC can either terminate the Community Agreement or it could attempt to organize the community to make an offer within 150 days.
- Cascade then would have 60 days to accept, begin negotiations, or reject the LTCC first offer.

- If it rejects the LTCC's first offer Cascade can begin marketing the reservoir and water rights.
- If Cascade finds a third-party purchaser under acceptable terms and conditions, Cascade must provide LTCC 30 days to match.
- If Cascade does not find a suitable third-party purchaser, then under some limited circumstances LTCC will have an additional 90 days to make a last offer.

If LTCC thought Cascade breached these terms by not giving it notice and opportunity to purchase, it could give notice, go through dispute resolution, and file a lawsuit. Unless a court found Cascade's action of sale to be grossly negligent, wonton or reckless, Cascade's liability would be capped at $1M.

11. What happens if the WSDF isn't needed as currently planned or accumulates more money than needed?

The sole intended use of the WSDF is for water supply development, and currently this is planned for the development of the Lake Tapps Reservoir. However, it is possible that funds accumulated in the WSDF may not be needed as planned or to the extent anticipated. Some examples of such circumstances include:

- A major change in the Cascade supply strategy that reduces, delays or eliminates the need for a new water supply project.
- Cascade's funding obligation for a new water supply project is significantly reduced or the WSDF accumulates more money than is needed.
- Liquidation of Cascade.

In such cases, all or part of the WSDF might be identified for potential liquidation by the Board and used as follows:

- If continued Cascade operation provides an opportunity for member cost savings, the funds could reduce demand share charges over a period of time by retiring debt or directly using the funds to reduce those charges.
- In the event of the liquidation of Cascade or takeover of jurisdiction by another agency, the WSDF would be distributed from Cascade to members in proportion to their relative total payments of demand shares plus RCFCs for the preceding 10 fiscal years.
- In other cases that the Board determines that a surplus should be removed from the WSDF and returned to members, the funds would be distributed under the same allocation method as described above.

12. Is it possible for each member to simply bear and provide their share of cash funding rather than having Cascade do it?

Not under the current Joint Municipal Utilities Services Agreement. This approach is inconsistent with Cascade's partnership approach and is problematic. Members do not own specified shares of existing or future projects or supplies; instead, Cascade bears a duty in common to provide sufficient supply to meet all members' needs. Under this governance approach, there are not defined shares to be held by each member, but a common duty to support the Cascade program. Similarly, there is no specific share attributable to an individual member that would define a share of equity obligation. As a result, members would be making large capital payments with no explicit asset to book for this transfer. Such an approach would require a complete overhaul of the Cascade governance model and related supply commitments.

The existing model has already been proven durable and flexible, as initial forecasts of individual member needs have deviated significantly from actual results and would have created artificial supply surpluses and shortages across the membership.

Further, a decentralized approach is destabilizing and much higher risk, as all members will rely on every member meeting its funding needs when required. There are risks involved with relying on seven separate entities to develop and provide the cash funding required. If one or more members are not able to provide the funding when needed, it could threaten the viability of the municipal supply project, divide members during a critical period, and force some members to subsidize the shares of others with large unplanned contributions or higher rates in order to proceed forward. It could also compound rate increases as members raise rates to fund their allocated equity share while also bearing other rate pressures and escalating Cascade costs.

13. Could there at least be improved transparency regarding member's individual shares of the WSDF balance?

Cascade has reviewed financial reporting options with our outside auditors and have developed a template for a table to be included in the notes to our financial statements. This table would delineate the member shares of the WSDF in the event of fund liquidation according to the defined rules for distribution. Members would then be able to use this information regarding their allocated interest in the WSDF as they see fit. An example of the table is provided below using year-end 2029 as an illustration.

WSDF Allocation Allocated based on 10-year historical average of demand share and RCFC payments.		
Member	**Jan 1, 2030**	**% Share**
Bellevue	$13,864,617	46.9%
Issaquah	$2,112,763	7.1%
Kirkland	$4,214,562	14.2%
Redmond	$5,372,265	18.2%
Sammamish Plateau Water	$2,082,675	7.0%
Skyway Water & Sewer	$283,906	1.0%
Tukwila	$1,658,366	5.6%
WSDF Fund Balance as of 12/31/29	***$29,589,154***	**100.0%**

14. Do any of the members have capital reserve funds similar to the WSDF?

Yes, both Sammamish Plateau Water and Bellevue have separate funds for their capital programs and both are entitled the Capital Facilities Replacement Account. Like the WSDF, these behave differently from more common Capital Improvement Funds. The authorizing legislation for these funds are attached.

15. What is Cascade asking the Board to authorize now and what authority does the Board have with respect to the WSDF going forward?

Cascade is asking the Board to adopt a series of resolutions to establish and implement the WSDF. The first resolution will establish the Fund, adopt the policy framework for managing the Fund and allow Cascade to begin the Pool Plus application process. Additional resolutions will:

- Enable initial fund transfer of $5M from Operations (substitutes for Shared Benefit of reduced Seattle wholesale costs).
- Amend the budget to recognize WSDF as a fund, budget and allow planned transfers for the 2021-22 biennium.
- Authorize Pool Plus participation and acknowledge the attendant risks.

The Board's authority over the WSDF includes the following:

- On a biennial basis, approving the amount of all rate increases and transfers used to fund the WSDF.
- Being informed each time Cascade receives a windfall (e.g. unplanned revenue or savings) and the amount to be divided between the WSDF and rate mitigation.
- Reviewing the performance of the WSDF on a biennial basis, including the current amount in the fund and projected future fund levels, and affirming (or redirecting) the water supply strategy.
- Determining and authorizing any use of the funds.
- Reviewing and approving a project capital funding plan to meet projected cash flow needs prior to materially commencing capital work on the Board-approved water supply strategy. Authorizing related financial activities including bond issues, rate increases and use of the WSDF.
- Redirecting use of the funds in the WSDF if the Board determines they are not needed as planned or to the extent anticipated. This includes liquidating the WSDF wholly or partially.