



SPECIAL MEETING OF THE BOARD OF DIRECTORS

AGENDA
CASCADE WATER ALLIANCE
Held via Zoom Meeting
November 30, 2021
4:00 PM

	<u>Page</u>
1. CALL TO ORDER	
2. ROLL CALL	
3. PUBLIC COMMENT	
4. EXECUTIVE SESSION	
5. APPROVAL OF AGENDA	
6. CHIEF EXECUTIVE OFFICER'S REPORT - Copy of Emergency Declaration For Plunge Pool Wall Failure	<u>3</u>
7. CONSENT ITEMS	
a. Board Meeting Minutes for November 17, 2021.	<u>5</u>
8. OTHER ACTION ITEMS	
a. Motion to adopt:	<u>8</u>
Resolution 2021-10, Establishing the Water Supply Development Fund and Amending Cascade Water Alliance Code 5.10.020 and 5.20.040;	
Resolution 2021-11, Amending Chapter 5.05 Cascade Water Alliance Code, Fiscal Policies;	
Resolution 2021-12, Amending the Cascade Funds Management Matrix in CWAC 5.65.040;	
Resolution 2021-13, Amending the Amended 2021-2022 Budget to Transfer Funds into the Water Supply Development Fund; and	
Resolution 2021-14, Regarding Application to the King County Pool Plus Investment Program for the Water Supply Development Fund.	
9. STAFF PRESENTATIONS	
10. COMMITTEE REPORTS	
a. Executive Committee – <i>no meeting held.</i>	

- b. Finance and Management Committee – *no meeting held.*
 - c. Public Affairs Committee – *no meeting held.*
 - d. Resource Management Committee – *no meeting held.*
11. NEW BUSINESS
 12. NEXT REGULAR MEETING – December 15, 2021 – *Cascade Office or Via Zoom Meeting – 3:30 p.m.*
 13. ADJOURN



Date: November 11, 2021
To: Ray Hoffman, Chief Executive Officer
From: Joe Mickelson, Operations Manager
Re: Declaration of Emergency at Powerhouse Plunge Pool

As part of the White-River Lake Tapps Project (“Project”), Cascade Water Alliance owns and operates conveyance facilities that direct water from the Lake Tapps Reservoir through a series of penstocks and exiting into a plunge pool adjacent to the Powerhouse building in the City of Sumner. On November 9, 2021, the south wall of the plunge pool gave way, collapsing into the pool (below-grade) along with a portion of an embankment. The plunge pool wall and the embankment directly abut the Powerhouse building. Following collapse of the plunge pool wall, Cascade shut down a portion of the conveyance system that directs water from the Reservoir into the plunge pool to minimize additional subsidence along the embankment, to assess the damages and need for repair, and to identify potential consequences and risks resulting from collapse of the wall.

Based on a preliminary assessment by Cascade staff and on-call structural and geotechnical engineers, it was determined that collapse of the plunge pool wall and embankment could degrade the foundation of the adjacent Powerhouse building. Temporary measures to support the embankment are needed to avoid compromising the stability of the Powerhouse building. Permanent replacement of the plunge pool wall will also be necessary, but that work can be conducted at a later date so long as the temporary measures are installed to avoid compromise to the Powerhouse building.

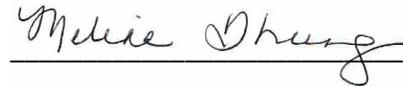
For purposes of qualifying for an exemption from competitive bidding under CWAC 5.60.030 and for authorizing the CEO to enter into a contract for emergencies under CWAC 5.60.020, an emergency is defined as: “Unforeseen circumstances beyond Cascade’s control that either: 1. Present a real, immediate threat to the proper performance of essential Cascade functions; or 2. Will likely result in material loss or damage to property, bodily injury, or loss of life if immediate action is not taken.

Collapse of the plunge pool wall was unforeseen and beyond the control of Cascade. Failure to take immediate measures to shore up the embankment will likely result in compromising the foundation of the Powerhouse building, and in turn, damage Cascade property and potentially threaten bodily injury to persons in and around the building. Cascade must hire a general contractor to promptly provide temporary support to the embankment above the plunge pool.

Therefore, I am recommending that the Chief Executive Officer declare this an emergency.

Statement of Concurrence:

For the reasons stated above, I am declaring that temporary repairs to address collapse of the plunge pool wall at the Project and constitutes an emergency. This finding is made in accordance with Cascade Water Alliance Code, Chapter 5.60, and following the execution of any contracts made pursuant to this declaration, will be reported to the Board of Directors at its next regular meeting.



Ray Hoffman, Chief Executive Officer

November 11, 2021

Date



MEETING MINUTES OF THE
BOARD OF DIRECTORS
VIA ZOOM
NOVEMBER 17, 2021

1. CALL TO ORDER

At 3:32 p.m., Ms. Sweet 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 (Stokes¹), the City of Kirkland (Sweet), the City of Redmond (Birney), Sammamish Plateau Water & Sewer District (Warren) Skyway Water and Sewer District (Ault), and the City of Tukwila (Ekberg)

Board Member Absent: the City of Issaquah (Pauly)

Board Alternates Present: the City of Issaquah (Hall), the City of Redmond (Anderson), and Sammamish Plateau Water & Sewer District (Hooshangi)

3. PUBLIC COMMENT

None.

4. EXECUTIVE SESSION

None.

5. CHIEF EXECUTIVE OFFICER'S REPORT

Ray Hoffman, Cascade CEO, reviewed the Chief Executive Officer's Report that was included in the Board packet.

6. APPROVAL OF AGENDA

There was general consensus to approve the meeting agenda.

7. DISCUSSION ITEM

A. Water Supply Development Fund

Mr. Hoffman and Mr. Cebron provided an overview of the following resolutions: (1) Resolution No. 2021-10, Establishing the Water Supply Development Fund in the Cascade Water Alliance Code and Amending Sections 5.10.020, and 5.20.040 of the Code and providing direction on Implementation; (2) Resolution No. 2021-11, Amending CWAC Chapter 5.05, Fiscal Policies; (3)

¹ Arrived at 4:03 p.m.

Resolution No. 2021-12, Amending the Cascade Funds Management Matrix in CWAC 5.65.040; (4) Resolution No. 2021-13, Amending the Amended 2021-2022 Budget to Transfer Funds into the Water Supply Development Fund; and (5) Resolution No.2021-14, Authorizing the Application to the King County Pool Plus investment program for the Water Supply Development Fund. The above resolutions would provide a new “Water Supply Development Fund”, or “Development Fund.”

Mr. Hoffman explained that on March 3, 2021, and June 30, 2021, staff presented to the Board options for future water supply and potential development of a source of equity (cash) funding to support its future supply development. As directed by the Board, staff presented the decisions for the Board which, if approved, would include the following elements:

- Establishing the Development Fund.
- Planned sources of funding to be transferred into the Development Fund.
- Capturing of unplanned funding sources or opportunities to contribute to the Development Fund.
- Monitoring of equity funding progress relative to the capital funding objective.
- Strategies for modifying or adjusting contribution levels as expected needs or schedules change.
- Guidelines for use of the Development Fund for the Water Supply Project.
- Strategies for distributing all or part of the Development Fund if it is overfunded, if capital funding needs materially change, if Cascade’s mission is materially altered, or if Cascade is liquidated.

Mr. Hoffman said that 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. Mr. Hoffman added that the aggressive use of the Development 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.

Chair Stokes spoke about a detailed review of the Bellevue City Council’s November 8, 2021 meeting and Bellevue staff recommendations.

Cascade staff and the Finance & Management Committee recommend approval of the resolutions listed above. Staff also responded to various questions from Board Members.

8. CONSENT ITEMS

- A. Board Meeting Minutes for October 27, 2021.
- B. Motion to authorize the Chief Executive Officer to enter into a contract with the recommended firm from the selection process to provide On-Call Electrical Engineering Services in an amount not to exceed \$100,000.
- C. Motion to adopt Resolution No. 2021-09 amending the 2021-2022 Budget and the 2021-2026 Capital Improvement Program.

Motion by Ms. Birney and second by Mr. Warren to approve Consent Action Items A-C as presented in the Board Packet. Motion carried unanimously (6-0).

9. OTHER ACTION ITEMS

- A. Motion to authorize the Chief Executive Officer to renew contracts for engineering, vendor, and consulting services as shown in the table included in the Board packet totaling \$2,084,370 and in accordance with the adopted 2021 - 2022 Cascade budget.

Cascade staff called attention to the vendors and consultants list that was included in the Board packet. These vendors and consultants are entities that Cascade contracted for services during 2021, and whose current contracts expire on December 31, 2021; and that staff recommends renewal for 2022. The listed vendors and consultants provide services for legal, conservation, dam engineering, community relations, information technology support, USGS joint funding agreements, and legislative outreach initiatives. All the contractors listed in the Board packet have been evaluated positively in 2021. Information about the prior year expenditures for each vendor and consultant was also included in the Board packet.

Motion by Mr. Warren and second by Ms. Birney to authorize the Chief Executive Officer to renew contracts for engineering, vendor, and consulting services as shown in the table included in the Board Packet totaling \$2,084,370 and in accordance with the adopted 2021-2022 Cascade budget. Motion carried unanimously (6-0).

10. COMMITTEE REPORTS

- A. Executive Committee – no meetings held.
- B. Finance & Management Committee – Meeting held November 9, 2021.
- C. Public Affairs Committee – no meetings held.
- D. Resource & Management Committee – Meeting held November 4, 2021. The meeting recap was included in the Board Packet.

11. NEW BUSINESS

None.

12. NEXT REGULAR MEETING

The next regular Board meeting will be held on December 15, 2021 at 3:30 p.m. via Zoom.

13. ADJOURN

The meeting adjourned at 4:39 p.m.

APPROVED BY:

John Stokes, Chair

Penny Sweet, Vice-Chair

AGENDA MEMORANDUM

SUBJECT

Motion to adopt: (1) Resolution No. 2021-10, Establishing the Water Supply Development Fund in the Cascade Water Alliance Code and Amending Sections 5.10.020, and 5.20.040 of the Code and providing direction on Implementation; (2) Resolution No. 2021-11, Amending Chapter 5.05 CWAC, Fiscal Policies; (3) Resolution No. 2021-12, Amending the Cascade Funds Management Matrix in CWAC 5.65.040; (4) Resolution No. 2021-13, Amending the Amended 2021-2022 Budget to Transfer Funds into the Water Supply Development Fund; and (5) Resolution No. 2021-14, Authorizing the Application to the King County Pool Plus investment program for the Water Supply Development Fund.

BACKGROUND

A. Introduction

The mission of the Cascade Water Alliance is to provide water supply for its Members. The current strategy relies on contract wholesale supplies and Members' Independent Supplies until development of the White River/Lake Tapps Reservoir project water supply project ("Water Supply Project" or "Project"). 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. The actions approved by this Motion would define a policy structure for equity accumulation to help fund the Water Supply Project, currently scheduled to begin construction in the mid-2030's. These actions would establish a Water Supply Development Fund and initiate implementation of the Fund by amending the Cascade Water Alliance Code ("CWAC") and by authorizing an application to the King County Pool Plus investment program.

B. 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 Water Supply Project 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 Water Supply 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 likely 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 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 of the Project, the minimum 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 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 Water Supply Project, 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.

C. Presentations to the Board and Direction

On March 3, 2021, and June 30, 2021, Cascade presented to the Cascade Board of Directors ("Board") options for future water supply and potential development of a source of equity (cash) funding to support its future supply development. Based on the Board discussion, the Board directed Cascade to develop and bring forward for Board consideration the development of a new "Water Supply Development Fund", or "Development Fund." As directed by the Board, Cascade is presenting the decisions for the Board which, if approved, would include the following elements:

- 1) Establishing the Development Fund.
- 2) Planned sources of funding to be transferred into the Development Fund.
- 3) Capturing of unplanned funding sources or opportunities to contribute to the Development 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 Development Fund for the Water Supply Project.
- 7) Strategies for distributing all or part of the Development Fund if 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 Development 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.

D. Establishing the Water Supply Development Fund

1. Separate Fund. By this Motion, Resolution No, 2021-10 would be approved establishing a new and separate fund providing the highest level of accountability and ease of administration. The funds placed into the Development Fund would 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 would be credited to and accumulated within the Development Fund.

Given the long-term nature of investments in this fund, it is anticipated that an application will be made for the King County Pool Plus investment program to enhance investment earnings and for elimination of the RCFC Fund if no longer needed.

2. Planned Contributions to the Development Fund. Planned contributions to the Development Fund would consist of general contributions identified through the budgeting process and the long-term financial forecast. Planned contributions to the Development Fund would derive from two primary sources: budgeted rate (Demand Share) contributions; and budgeted Regional Capital Facilities Charges ("RCFC") contributions.

RCFC contributions would 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 Development Fund would 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 Development Fund.

Rate contributions would also be budgeted through the biennial budget process, as approved by the Board. Through incremental increases in rate funding, both cash contributions and financial capacity for future debt service can be accumulated. The 20-year financial forecast would

identify projected annual contributions that would help meet equity funding objectives while also smoothing rate increases over time. The forecasted amounts would be used in the biennial budget process to identify specific annual contributions from the Operating Fund to the Development 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 would continue upward to fund planned contributions to the Development Fund and to build financial capacity to support major debt issues needed for the water supply project, although ultimately to lower levels than otherwise needed in the absence of such a strategy.

3. Unanticipated and Unplanned Contributions to the Development 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” would 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 Development 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 Development 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.

As stated above, necessary consequence of this strategy is that rate trends would 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:

<u>One-time</u>	<u>Recurring</u>
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 Development Fund through this Shared Benefit approach, it would remain dedicated as an incremental annual contribution, in addition to planned contributions.

4. Monitoring Development Fund Progress and Adequacy. With each biennial budget process, Cascade would present a summary of the Development Fund to the Board including the following elements:

- 1) Development Fund balance and status as compared to prior forecast.

- 2) Planned contributions to the Development Fund included in the proposed biennial budget, including any recurring Shared Benefit contributions.
- 3) Planned changes to the Development Fund balance for the biennium.
- 4) Forecast of Development 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.

5. Guidelines for Use of the Development Fund. When water supply development is imminent, but in no case later than the budgeting process for the biennium in which work would materially commence, Cascade would work with its financial advisors and other consultants to develop a project capital funding plan to meet project cash flow needs. That funding plan would address the planned and scheduled use of equity funds, loans, grants and revenue bonds during project development. The plan would 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 Water Supply Project. The plan would include reasonable contingencies for unanticipated cost and schedule increases. The funding plan would be reviewed with the 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 Development Fund. To the extent that grants or low-cost loans cannot be confidently relied upon, the plan would be structured without those sources, but would be 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 would likely dictate when equity funds are best utilized during the Project.

6. General Guidelines for Liquidation of the Development Fund. The sole intended use of the Development Fund is for water supply development, currently intended to be the Water Supply Project. However, it is possible that funds accumulated in the Development

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 reduces, delays or eliminates the need for a new water supply project.
- b) Project partnerships materially reduce the Cascade funding obligation.
- c) Major assistance in the form of grants or loans materially reduces the Cascade funding obligation and rate impacts.
- d) "Overfunding" of the Development Fund to the point that anticipated cash funding exceeds 50% of estimated project cost.
- e) Adverse actions by other governmental agencies or persons potentially targeting Cascade and its funds for unintended uses.
- f) Other causes that alter Cascade's intended funding of water supply development as determined by the Board.

In such cases, all or part of the Development Fund might be identified for potential liquidation by the 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.

In the event of a determination by the Board that any portion of the Water Supply Development Fund is not to be used for the Water Supply Project, the Board would direct the use or distribution of funds for a reduction in Demand Share Charges, distribution to Cascade Members, or as directed by the Board.

7. Additional Code Changes to Establish Water Supply Development Fund. To establish the Water Supply Development Fund, by this Motion, references to the Fund would be added to existing sections of the CWAC: CWAC 5.10.020 (Establishing of Funds) and CWAC 5.20.040 (Demand Share Charges).

E. Implementing the Water Supply Development Fund

To implement the Water Supply Development Fund, this Motion would also approve 4 other Resolutions.

1. By Resolution No. 2021-11, Cascade's Fiscal Policies in Chapter 5.05 CWAC would be amended to add sections on cost contingencies, advance financial planning, Project funding plan development, and to delete the RCFC Fund.

2. By Resolution No. 2021-12, the Cascade Funds Management Matrix in CWAC 5.65.040 would be amended to add the Water Supply Development Fund and to delete the RCFC Fund.

3. By Resolution No. 2021-13, Cascade would amend the 2021-2022 budget to transfer funds into the Development Fund.

4. By Resolution No. 2021-14, Cascade would be authorized and directed to apply to submit an application to participate in the King County Pool Plus investment program with funds from the Development Fund, for corresponding revisions to budgeted fund transfers within

Cascade's 2021 and/or 2022 budgets, for an initial transfer of \$5,000,000 from Cascade's Operating Fund.

PROCUREMENT PROCESS

Not applicable.

FISCAL IMPACT

The fiscal impact of this proposed action is not readily summarized in terms of changes to adopted budgets for revenues or expenses. While there would be some changes to near-term fund transfers, there are no anticipated impacts to near-term rates or expenses. There would be some proposed changes in authorized transfers to begin funding the Development Fund, but these will occur within Cascade's existing financial capacity. In future budgets, there would be specific line items related to funding the Development Fund that would contribute to Cascade's revenue requirements. These have been incorporated into existing financial forecasts. The forecasts remain generally consistent with past forecasts, with future changes primarily related to steadier near-term increases and lower ultimate rates as the Project is undertaken.

The long-term fiscal impact of this proposed action is a substantial reduction in projected debt, debt service, and demand share charges. The average cost of delivered water from Cascade in 2042 would be reduced by 6% from the adopted budget package, with the potential for additional savings from "Shared Benefit" opportunities. This cost would be reduced by roughly 15% from the "no increase" scenario considered during the last budget cycle. This strategy also enhances Cascade's fiscal strength and reduced risks related to bond de-ratings or potential constraints on bonding capacity, either of which could threaten Cascade's ability to successfully complete the Water Supply Project.

OPTIONS

1. Adopt (1) Resolution No. 2021-10, Establishing the Water Supply Development Fund in the Cascade Water Alliance Code and Amending Sections 5.10.020, and 5.20.040 of the Code and providing direction on Implementation; (2) Resolution No. 2021-11, Amending Chapter 5.05 CWAC, Fiscal Policies; (3) Resolution No. 2021-12, Amending the Cascade Funds Management Matrix in CWAC 5.65.040; (4) Resolution No. 2021-13, Amending the Amended 2021-2022 Budget to Transfer Funds into the Water Supply Development Fund; and (4) Resolution No. 2021-14, Authorizing the Application to the King County Pool Plus investment program for the Water Supply Development Fund.
2. Do not adopt Resolution No. 2021-10, Resolution No. 2021-11, Resolution No. 2021-12, Resolution No. 2021-13, and Resolution No. 2021-14 and provide further instruction to Cascade.

RECOMMENDED ACTIONS

Adopt (1) Resolution No. 2021-10, Establishing the Water Supply Development Fund in the Cascade Water Alliance Code and Amending Sections 5.10.020, and 5.20.040 and providing direction on Implementation; (2) Resolution No. 2021-11, Amending Chapter 5.05 CWAC, Fiscal Policies; (3) Resolution No. 2021-12, Amending the Cascade Funds Management Matrix in CWAC 5.65.040; (4) Resolution No. 2021-13, Amending the Amended 2021-2022 Budget to

Transfer Funds into the Water Supply Development Fund; and (5) Resolution No. 2021-14, Authorizing the Application to the King County Pool Plus investment program for the Water Supply Development Fund.

ATTACHMENTS

1. Resolution No. 2021-10, Establishing the Water Supply Development Fund in the Cascade Water Alliance Code and Amending Sections 5.10.020, and 5.20.040 and providing direction on Implementation.
2. Resolution No. 2021-11, Amending Chapter 5.05 CWAC, Fiscal Policies.
3. Resolution No. 2021-12, Amending the Cascade Funds Management Matrix in CWAC 5.65.040.
4. Resolution No. 2021-13, Amending the Amended 2021-2022 Budget to Transfer Funds into the Water Supply Development Fund.
5. Resolution No. 2021-14, Authorizing the Application to the King County Pool Plus Investment Program for the Water Supply Development Fund.



A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CASCADE WATER ALLIANCE,
A WASHINGTON MUNICIPAL CORPORATION
ESTABLISHING THE WATER SUPPLY DEVELOPMENT FUND AND AMENDING CASCADE WATER ALLIANCE
CODE 5.10.020 AND 5.20.040

WHEREAS, the Cascade Water Alliance (“Cascade”) is a Washington Municipal Corporation composed of seven Members, which are municipal corporations and special purpose districts that are party to the Joint Municipal Utilities Services Agreement (“2012 Agreement”) under the authority of Chapter 39.106 RCW for the purpose of providing water supply to meet the growing demands of its Members;

WHEREAS, the 2012 Agreement obligates Cascade to provide a full supply commitment for all of its Members’ water needs now and in the future, and Cascade’s strategy relies on contract wholesale supplies and Members’ Independent Supplies until development of the White River/Lake Tapps Reservoir Water Supply Project (“Water Supply Project”);

WHEREAS, the development of the Water Supply Project will impose substantial challenges to Cascade in terms of executing a major capital program and bearing the cost of development and operation of that source of supply and, without advance financial planning, would threaten the financial viability of Cascade in contravention of its fiscal policies on financial integrity and stability;

WHEREAS, the Cascade Water Alliance Board of Directors (“Board”) desires to establish a new fund, to be known as the Water Supply Development Fund, to accumulate equity to help fund the development of the Water Supply Project;

WHEREAS, the Board desires to monitor and actively oversee and manage the Development Fund to ensure that it fulfills its stated purposes in a responsible manner and to adapt the fund’s management in response to evolving water supply strategies;

WHEREAS, by Resolution 2006-03 §4 the Board established the funds of Cascade, codified as CWAC 5.10.020, and now wishes to establish an additional fund; and

WHEREAS, by Resolutions 2020-13 §1, 2012-13 §4, and 2006-01 §1 (3), the Board established the Demand Share Charge cost basis, codified as CWAC 5.20.040 and now wishes to amend that cost basis.

NOW THEREFORE BE IT RESOLVED BY THE BOARD as follows:

Section 1. Establishing the Water Supply Development Fund. The Board approves and adopts the Water Supply Development Fund as follows:

NEW CWAC 5.70.010 Water Supply Development Fund, Location

The Water Supply Development Fund is established and shall be held by King County and invested in the King County Investment Pool Plus investment program pursuant to CWAC 5.65.035.

NEW CWAC 5.70.020 Oversight and Sources of Funding for Water Supply Development Fund

A. Board Oversight. Contributions to the Water Supply Development Fund shall be subject to Board approval during the biennial budget process and managed, monitored and adjusted by the Board, pursuant to CWAC 5.70.030, including regular periodic review of status and approval of transfers to or from the Water Supply Development Fund from the Planned Sources of Funding and utilizing the Shared Benefits strategy in this Section CWAC 5.70.020.

B. Planned Sources of Funding. Planned contributions to the Water Supply Development Fund shall be identified and budgeted through the biennial budgeting process and the long-term financial forecast and shall derive from the following three primary sources:

1. Regional Capital Facilities Charges contributions. RCFC contributions shall 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 six-year period exceeds planned capital needs for that same period, corresponding transfers of RCFC revenues to the Water Supply Development Fund shall be budgeted and made.
2. Demand Share contributions. The 20-year financial forecast shall identify projected annual contributions that shall help meet equity funding objectives while also smoothing rate increases over time. The forecasted amounts shall be used in the biennial budget process to identify and authorize specific annual contributions from the Operating Fund to the Water Supply Development Fund.
3. Investment earnings. Investment earnings on the Water Supply Development Fund balance shall be credited to and accumulated within the Water Supply Development Fund.

C. Shared Benefits. Capture of unanticipated or unplanned funding sources or opportunities. In the event of unplanned or unanticipated available financial resources, a concept of "Shared Benefit" shall 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 shall provide benefit to Members from new cost savings or new revenues while also increasing Water Supply Development Fund contributions. In each case that arises, 50% of the revenues or savings shall remain available for current operating and capital uses, thus helping offset requirements from Member charges, and 50% shall be budgeted for transfer to the Water Supply Development Fund. For one-time net gains, this shall be a single transaction, while an ongoing or recurring gain shall be divided equally for its duration. Once a recurring revenue is dedicated to the Water Supply Development Fund

through the Shared Benefit approach, it shall remain dedicated as an incremental annual contribution, in addition to planned sources of funding.

NEW CWAC 5.70.030 Monitoring and Adjustments to Water Supply Development Fund

For the purposes of the Board's (a) monitoring of equity funding progress relative to the capital funding objective and (b) modifying or adjusting contribution levels as expected needs or schedules change, for each biennial budget process, Cascade shall present to the Board a summary of the Water Supply Development Fund including the following elements:

1. Water Supply Development Fund balance and status as compared to prior forecast.
2. Planned contributions to the Water Supply Development Fund included in the proposed biennial budget, including any recurring Shared Benefit contributions.
3. Planned changes to the Water Supply Development Fund balance for the biennium.
4. Forecast of the Water Supply Development Fund contributions and accumulation to and through the period of development of the Water Supply Project, and evaluation of sufficiency in comparison to the minimum equity funding required by fiscal policy and 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.

NEW CWAC 5.70.040 Use of Water Supply Development Fund, Distribution

A. Use. Except as provided in CWAC 5.70.040.C, funds in the Water Supply Development Fund shall be used only for the development of the Water Supply Project as set forth in the funding plan in CWAC 5.70.040.B.

B. Funding Plan. When development of the Water Supply Project is imminent, but in no case later than the budgeting process for the biennium in which work shall materially commence, Cascade shall, in consultation with Cascade's financial advisors and other consultants, develop and present to the Board a funding plan for its consideration of the Water Supply Project capital funding, and its authorization of related financial activities including bond issues, rate increases and use of the Water Supply Development Fund. The funding plan shall:

1. Address the planned and scheduled use of equity funds, loans, grants, and revenue bonds during development of the Water Supply Project.
2. Outline a schedule for the use of equity and debt resources that enables rational and timely access to bond markets, adequate funding throughout the Water Supply Project construction period, and a reasonable rate strategy to transition Member charges to a level that fully funds the development of Water Supply Project.
3. Include reasonable contingencies for unanticipated cost increases and schedule alterations.
4. If grants or low-cost loans cannot be confidently relied upon, address a structure without those sources, but with flexibility to accommodate the benefits of such funding sources if and when they are secured.

C. Exceptions. If funds in the Water Supply Development Fund are determined by the Board to not be needed as planned or to the extent anticipated or to not be protected for their intended use, then those funds shall be distributed as directed by the Board under CWAC 5.70.040.D. Examples of exception circumstances may include, but are not limited to:

1. A major change in the Cascade supply strategy that reduces, delays or eliminates the need for the Water Supply Project.
2. Water Supply Project partnerships that materially reduce the Cascade funding obligation.
3. Major assistance in the form of grants or loans that materially reduces the Cascade funding obligation and rate impacts.
4. Adverse actions by other governmental agencies or persons potentially targeting Cascade and its funds for unintended uses.
5. Other causes that alter Cascade's intended funding of water supply development as determined by the Board.
6. Liquidation of all or part of the Water Supply Development Fund.

D. Alternative Use or Distribution. In the event of a determination by the Board that any portion of the Water Supply Development Fund is not to be used for the Water Supply Project, the Board shall direct the use or distribution of funds for a reduction in Demand Share Charges, distribution to Cascade Members, or as directed by the Board. In the event of distribution to Members, any such distribution shall be made in proportion to the total payments of Demand Shares and RCFCs made by each Member in the preceding ten calendar years.

Section 2. Amendment of CWAC 5.10.020 and Resolution 2006-03 § 4. The Board approves the following addition to CWAC 5.10.020:

There are hereby established the following funds of Cascade:

- E. A water supply development fund.

Section 3. Amendment of CWAC 5.20.040 (Demand Share Charge) and Resolutions 2020-13 § 1, 2012-13 § 4, and. 2006-01 § 1 (3). The Board approves the following addition to CWAC 5.20.040.E:

The cost basis for the Demand Share Charge will include capital and operating cost components including but not limited to:

- E. Budgeted rate funding for capital purposes and the Water Supply Development Fund.

Section 4. Implementation. The Board directs Cascade to develop for Board consideration all resolutions necessary to implement the establishment of the Water Supply Development Fund, including but not limited to for fund transfers, budget amendments, investment management and other related actions.

Section 5. Effect. This Resolution shall be in full force and effect on the date of its adoption.

ADOPTED AND APPROVED by the Board of Directors of the Cascade Water Alliance at a regular meeting thereof, held the ___ day of _____ 2021.

CASCADE WATER ALLIANCE

John Stokes, Chair

Attest – Ray Hoffman, Chief Executive Officer

Penny Sweet, Vice Chair

Members

Yes _____

No _____

Demand Share

Yes _____ %

No _____ %

Angela Birney, Secretary/Treasurer

Include in CWAC?

Yes

No



A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CASCADE WATER ALLIANCE,
A WASHINGTON MUNICIPAL CORPORATION
AMENDING CHAPTER 5.05 CASCADE WATER ALLIANCE CODE, FISCAL POLICIES

WHEREAS, the Cascade Water Alliance (“Cascade”) is a Washington Municipal Corporation composed of seven Members, which are municipal corporations and special purpose districts that are party to the Joint Municipal Utilities Services Agreement (“2012 Agreement”) under the authority of Chapter 39.106 RCW for the purpose of providing water supply to meet the growing demands of its Members;

WHEREAS, the Cascade Water Alliance Board of Directors (“Board”) by resolution this same day, desires to establish a new fund, to be known as the Water Supply Development Fund and also desires to initiate implementation of the Water Supply Development Fund; and

WHEREAS, by Res. 2018-14; Res. 2016-20; Res. 2012-14; Res. 2012-07, and Res. 2006-05 the Board established and amended the Fiscal Policies codified as Chapter 5.05 CWAC and now wishes to amend portions of the Policies to implement the Water Supply Development Fund.

NOW THEREFORE BE IT RESOLVED BY THE BOARD as follows:

Section 1. Amendment of Chapter 5.05 CWAC and Resolutions 2018-14, 2016-20, 2012-14, 2012-07, and 2006-05. The Board approves the following amendments to Chapter 5.05 CWAC. (The commentary in the margin is explanatory only and is not formally adopted by the Board.)

5.05.010 Adopted.

The Board of Directors of Cascade approves and adopts fiscal policies codified in this chapter.

5.05.020 Generally.

The Board of Directors of Cascade (the Board) has determined that Cascade shall maintain fiscal policies that promote:

- A. Financial integrity and stability.
- B. Rate equity.
- C. Efficiency and conservation.

From time to time, the Board may amend these policies as it deems appropriate. It is the

exclusive authority of the Cascade Board to revise these fiscal policies as appropriate. The Board may delegate review and evaluation of the fiscal policies and any proposed amendments to its Finance and Management Committee for this purpose.

5.05.030 Financial integrity and stability.

Cascade will provide a stable financial structure that enables it to fulfill its mission to provide regional water supply and transmission services in an efficient and cost-effective manner.

A. Revenue Stability. Cascade will establish and maintain a financial structure that provides for stable and predictable revenues, relying primarily on fixed charges to members.

B. Operating Reserves (Operating Fund Balance). Cascade will maintain an operating fund and establish and budget for a beginning and ending operating fund target balance of no less than 13.7 percent (50 days) of budgeted annual operating expenses. Cascade may routinely budget higher levels of reserves to mitigate unpredictable lump sum expense adjustments, such as the annual Seattle contract true-up, and to reflect accruals toward intermittent large scale operating expenditures. In the event that the operating fund balance falls below the target balance, Cascade shall budget and set rates so that target fund levels are restored within two years.

C. Bond Reserves. Cascade will maintain a bond fund for bond reserves and debt repayment and shall maintain bond fund balances consistent with corresponding debt covenants. In the event that the bond fund balances are found to fall below target levels, Cascade shall remedy the shortfall within 90 days or, if unable, within that period make partial remedy as able and adopt an action plan to complete the remedy.

D. Contingency Planning. Cascade will incorporate adequate contingencies in its capital planning to provide for orderly cash flow on capital projects and accommodate reasonable adjustments to capital budgets, scope, and schedule, including an explicit provision for capital risk to provide for as-yet unidentified capital needs.

E. Rate Stabilization Fund. Cascade will maintain a rate stabilization fund (RSF) to be used to mitigate fluctuations in revenues, expenses, or rates. Cascade shall target a RSF balance equal to 5% of operating revenues plus provisions for accruals for intermittent large scale operating expenditures. The Board shall establish rules for rate and fund management addressing additions to or withdrawal from the RSF with the objective of smoothing rate transitions and impacts and may modify these by resolution.

F. Asset Management. Cascade shall establish capitalization and asset management policies and will maintain a fixed asset schedule and depreciate or amortize assets based upon reasonable expectations of useful life. When infrastructure assets are not booked as depreciable assets (e.g., alternate method accounting), Cascade shall estimate useful life and annual depreciation for purposes of establishing equivalent annual depreciation and net book value of assets for fiscal policy compliance.

G. Capital Reinvestment. Cascade will budget, generate, and restrict funds for system repair and replacement (R&R), which will be made available for projects that replace assets or extend their lives whether or not such expenditures are capitalized. The annual budgeted amount will be total annual depreciation and amortization of system assets, less planned debt principal repayment, but in no case less than one-half percent of total asset value (original cost before depreciation). Subject to realization of sufficient revenues and cash balances to fund and transfer the budgeted

amount, and net of R&R expenditures made through the operating budget, the net remaining annual R&R provision will be transferred into the construction fund, to be used as cash funding toward Cascade capital projects.

5.05.040 Funding growth-related system expansion.

Cascade will establish and impose member charges that provide for equitable recovery of growth-related costs from member agencies experiencing growth. The regional capital facilities charge (RCFC) is the member charge imposed for this purpose and is applicable to all new or expanded water services within Cascade member service areas as defined in the RCFC methodology.

A. RCFC Basis. Cascade will adopt an RCFC methodology consistent with equity and revenue-generating purposes as required by the Cascade Joint Municipal Utility Service Agreement. The methodology will define the basis for determining the charge and the structure for imposing it.

B. RCFC Structure. The RCFC will be imposed on members based on customer growth. Any future revisions of the basis for RCFCs shall be limited to prospective purposes and shall not affect past payments or previously determined RCFC credits.

C. RCFC Credits. Cascade may provide credits against RCFC payments due from members. Credits issued shall be defined in terms of a number of Cascade Equivalent Residential Units (CERUs) provided and the manner in which they may be redeemed. Revisions in the definition of CERUs shall not be cause for a restatement of available credits.

D. RCFC Use and Restrictions. RCFC revenues will be used to offset system capital costs, including debt service and funding of debt related reserves. RCFCs shall be deposited into an RCFC fund, where they may be used for any authorized capital purpose.

As a part of Cascade's adopted budget, the Board shall set a minimum annual transfer of RCFC revenues from the RCFC fund to the capital fund to be used as cash funding for capital projects, attaining a minimum transfer of 75 percent of annual RCFC revenues by 2020. For this purpose, the portion of RCFCs used in support of debt service will be funded first, with all additional RCFC revenues then allocated to capital purposes. The Board will also determine appropriate restrictions, if any, on transferred funds as related to specific projects or uses.

When major construction projects cause a substantial increase in debt burden, when accumulated construction funds exceed reasonably projected needs, or when debt funding obligations require increased deposit into the debt funds (such as for bond reserves), the Board may take action to temporarily reduce the annual capital transfer of RCFC revenues to as little as 50%, provided that the 75% transfer level is restored within 10 years.

5.05.050 Capital program funding.

In conjunction with establishing, planning, or updating its capital program, and for major capital projects, Cascade will develop and adopt a corresponding capital-financing plan that supports execution of that program in compliance with Cascade's adopted fiscal policies.

A. Construction or Acquisition of Assets. Capital funding, net of any grants, dedications, or other assistance, will consist of a combination of cash (equity) and debt financing.

B. Capital Structure of Project Financing. Cascade's capital funding strategy will be developed with an objective that total cumulative debt outstanding shall not exceed 80% of the net book value (original cost net of depreciation or amortization) of fixed assets and asset-backed capacity rights. Cascade may establish, by Board action, more stringent limits on debt levels and debt funding of the capital program as it deems prudent to sustain Cascade's fiscal integrity.

C. Cost Contingencies. Recognizing that project capital costs are estimates made using engineering judgement prior to known project costs, Cascade's capital improvement program will incorporate cost contingency factors appropriate for the corresponding level of planning and design. For major capital projects, Cascade's project funding plan will reflect these contingencies as part of anticipated project costs and will also provide a strategy for funding any further unanticipated cost increases.

D. Operating Costs. Cascade's capital funding strategy will consider estimated impacts on operating expenses related to planned capital improvements.

E. Advance Financial Planning. It is Cascade's intent that major capital projects, such as regional water supply and conveyance, be implemented in a planful manner that moderates impacts on Member charges and Cascade's capital structure. When planned capital projects could lead to an accumulation of debt that ultimately exceeds 80% of Cascade's net book value, Cascade will develop and implement a strategy for generating and accumulating a cash contribution toward the project in advance of the project's scheduled development so that this policy is satisfied and volatile impacts on Member charges are mitigated. The Board will adopt appropriate measures to enable the accumulation of such funds and safeguard the funds for their intended purpose.

F. Project Funding Plan. For specific major capital projects that would represent 25% or more of Cascade's total fixed assets when completed, such as development of a major new supply source, a project funding plan will be developed that identifies and includes a schedule of anticipated costs, planned sources of cash, grant and debt financing, a planned schedule of debt issuance, compliance with fiscal policies, and a projection of impacts on Member charges. The project funding plan will also include a contingent funding strategy in the event that project costs were to increase up to 20% above estimates or if assumed grant funding were lost. The project funding plan will be adopted by the Board in advance of initiating the project and will be subject to periodic update as appropriate during the development of the

Explanation only - not adopted.

This revision of CWAC 5.05.050 requires project-specific capital plans for major projects that demonstrate fiscal policy compliance. The plan must be adopted by the Board.

This section C. requires reasonable conservatism in project cost estimating to reduce risk of cost over-runs.

This section E. contemplates the type of advance financial planning currently underway when the CIP includes major capital projects, with the intent to ensure adequate planning to reasonably comply with fiscal policies regarding capital funding.

This section F. similarly requires a more detailed funding plan for specific major projects to be adopted before embarking on the project, and requires stress testing for cost over-runs and loss of grant assistance.

project.

G. Master Meter Replacement. Cascade delivers water to its members through one or more wholesale master meters, owned and maintained either by Cascade or other regional water utilities such as Seattle Public Utilities and Tacoma Public Utilities. Costs to maintain, repair and replace master meters shall be considered Cascade operating and maintenance costs to be recovered through the uniform demand share structure of Cascade. Costs to install new wholesale master meters initiated by Cascade shall be Cascade capital costs. Costs to install new master meters initiated by a member shall be the responsibility of the member and charged directly to that member.

5.05.060 Managing debt.

A. Use of Debt for Capital Assets. Cascade will issue debt for investments in system infrastructure that provide tangible or intangible assets. Debt will not be used to fund ongoing operating and maintenance costs that cannot be capitalized.

B. Structure of Debt. The Board shall determine the term and structure of debt issued by Cascade. In determining debt structure, the Board shall consider the useful life of assets, existing debt, and debt service load, plans for future debt issuance, market conditions, impacts on rates and charges, potential effect on Cascade's creditworthiness, and other factors that the Board deems relevant. When debt is issued in support of ~~used for~~ capital development investment, the term of debt shall not exceed the reasonable useful life of the asset being acquired, constructed, or enhanced.

C. Nontraditional Debt. Cascade will not use nontraditional debt, such as derivatives, swaps, variable rate obligations or other financial mechanisms, unless such instruments are allowable under Washington law, determined by the Board to be in the best interest of Cascade, and found by the Board to provide financial benefit to Cascade without undue risk. Cascade will not use derivatives or swaps without the Board first adopting policy by resolution on the use of such mechanisms and approval by a 65 percent dual majority vote. Cascade will also provide in payment agreements for derivatives or swaps that termination payments to a provider will be subordinate to debt service on a member's bond obligations.

D. Debt Modification. Cascade may consider debt refunding, defeasance or restructuring when demonstrated to be financially advantageous. When Cascade accumulates cash and investments in excess of identified near-term requirements, Cascade will consider debt reduction as one of the potential uses for such resources.

E. Disclosures. Cascade shall make timely filings of regular disclosures of information required by its bond covenants to the Municipal Securities Rulemaking Board (MSRB), including certain financial information and operating data of Cascade and of its Members and notices of the occurrence of certain enumerated events, if material. The specific nature of the information to be contained in the annual disclosure report and in notices of material events is set forth in the continuing disclosure certificates of Cascade's bonds. The Chief Executive Officer (CEO) will be responsible to execute the disclosures and notify the Board of such reports.

5.05.070 Financial planning and revenue sufficiency.

Cascade shall establish member charges sufficient to meet all cash operating requirements of the system.

A. Cash Requirement. Cash operating requirements are defined to include operating expenses, debt repayment, planned equity funding of the capital program, and planned addition to operating, bond or other reserves. Resources considered for this purpose shall include, in addition to member charges, available interest earnings, ancillary energy and resource recovery revenues, miscellaneous revenues, and planned use of available reserves.

B. Coverage Requirement. Cascade shall comply with bond covenants and satisfy related coverage requirements. In addition, Cascade will establish member charges sufficient to maintain net revenues that provide a debt coverage factor of no less than 1.25 times total annual debt service. For this purpose, available revenues shall include member charges, interest earnings, ancillary energy and resource recovery revenues, miscellaneous revenues, and transfer to the operating fund from the rate stabilization fund. Expenses shall include operating expenses and transfers from the operating fund into the rate stabilization fund. Expenses shall not include capital expenditures, capacity investments such as supply acquisition **investment** or conservation **investment** with quantifiable return in reduced water demand, or minimum payment obligations related to maintaining unused capacity rights.

C. Rate Transitions/Planning. In order to maintain orderly and reasonable transitions in rates, Cascade shall rely on the most current rate forecast as guidance in establishing member charges. Member charges (meaning unit charges applied to calculate member payments) shall not be reduced any year when a net increase in required revenues derived from member charges is projected within the upcoming five-year period. When substantial future revenue increases are forecast, Cascade shall, to the extent practical, increase member charges in an orderly fashion through a series of moderate annual adjustments with an intent to provide smoothing of increases and impacts over a prospective five-year period.

5.05.080 Budgeting and accounting.

Cascade shall develop and approve biennial budgets as provided by the Cascade Water Alliance Joint Municipal Utility Services Agreement (“Cascade Agreement”) and bylaws and consistent with adopted fiscal policies.

A. Annual Budget. Each annual Cascade budget shall establish authorized expenditure levels, estimated revenues and reserve levels. Cascade shall amend the adopted budget, as deemed appropriate, by Board action to reflect material changes in anticipated revenues or expenditures. The CEO shall establish procedures and practices for periodic reporting to the Board on budget performance.

B. Rate Planning. In support of the budget process, Cascade shall determine corresponding rates and charges and provide such information to members. Cascade shall issue a preliminary rate forecast no later than July 1st of each year. Cascade shall issue a revised rate forecast no later than October 1st of each year. These rate forecasts shall address no less than a 10-year planning horizon. Cascade shall issue additional rate analyses and forecasts as directed by the Board.

In addition, Cascade shall periodically, but no less than every ten years, develop a financial forecast encompassing at least a 20-year planning period. This forecast shall project member charges as required to satisfy financial requirements and performance standards.

C. Financial Reporting. Cascade shall establish and maintain financial records in a format consistent with Washington State BARS system of accounts. Cascade shall conform with generally accepted accounting with principles in its accounting, reporting and procedures.

D. Audit. Cascade shall be audited by an independent outside auditor no less than annually. Such audit shall be performed by the State Auditor or their agent or by a public accounting firm knowledgeable in Washington municipal accounting practices.

E. Funds. Cascade shall establish and maintain appropriate segregation of monies as required to provide adequate accounting for to the source and use of funds. To this end, Cascade shall maintain: (1) an operating fund; (2) ~~an RCFC fund;~~ (3) a rate stabilization fund; (4)(3) a bond fund; (5)(4) a construction fund; ~~and (6 and (5) a water supply development fund.~~ Any additional funds or accounts shall be established and maintained as defined by Board resolution.

F. Investments. The Board shall adopt by resolution an investment policy which is fully compliant with statutory requirements, and which protects the security of invested funds. The investment strategy contained in that policy will consider appropriate maturities for investments as related to corresponding yield and intended uses of various funds and reserves. The investment strategy may be executed through contract with third party governmental investment pools that comply with statutory limits, such as King County or the State investment pool, provided that those pools are also consistent with Cascade’s investment policies and objectives.

G. Board Oversight. Cascade’s Board shall receive regular reports and briefings on Cascade’s financial status. The Board shall receive directly, or

*Explanation only
- not adopted.*

*Section E is revised
to add the
Development Fund
and to delete the
now superfluous
RCFC fund.*

through its Finance and Management Subcommittee, at a minimum:

1. Net Assets Report, Balance Sheet, Treasurer's Report, Contracts Status Report, Budget-versus-Actual Report, Income Statement, and Warrants and Wires Listing (no less frequently than quarterly);
2. Direct reports from Cascade's independent outside auditor reporting the results of quarterly financial reviews conducted for quarters one, two, and three of every year;
3. Direct reports from Cascade's independent outside auditor reporting the results of the annual independent financial audit and Government Auditing Standards examination of Cascade;
4. Direct reports from the State Auditor's Office reporting the results of the state's annual audit of Cascade;
5. A written monthly narrative that reports on Cascade's financial and administrative activities;
6. Written Exception reports including material variance from budget;
7. Notice of disclosure submittals related to outstanding bonds;
8. Any other information as requested or directed by the Board.

5.05.090 Rate structure and equity.

Cascade has established a uniform structure of charges to all members regardless of location. This structure reflects Cascade's uniform regional commitment of service to its members. Members shall not enjoy or suffer from geographic advantage as an element of the allocation of regional water resources or their costs. Cascade may identify rate classes within this standard structure, through which unique service commitments may be reflected that alter attributable costs of service and warrant unique or revised rate features.

A. Cascade Revenue Sources. The basic member charges imposed by Cascade are defined by the Cascade Agreement and include:

1. Annual administrative dues.
2. Conservation program charge.
3. Demand share charges.
4. Volume charges.
5. Regional growth charge (RCFC).

B. Credits and Adjustments. Cascade's fixed charge structure can in certain cases lead to results of overpayment or underpayment by members in a given fiscal year. Cascade shall identify and correct for overpayment and underpayment caused by estimation. Cascade will determine the net of such payments no later than June 30th of the next fiscal year. The net credit or surcharge due will be applied during the budgeting process for the following fiscal year, with corresponding adjustments to that year's scheduled payments. For example, overpayment received in 2020 would be identified in 2021 and credited against 2022 payments. As approved by Board resolution, earlier payment of credits to members may be approved, but Cascade may not unilaterally require early payment from members. Such credits, surcharges or adjustments shall not accrue interest. They shall be treated by Cascade as revenues or expenditures in the year payments are to be made.

C. New Member Buy-In Charges. As contemplated and provided in Section 3.2 of the Cascade Agreement, Cascade shall establish and require appropriate buy-in payments from new members. The Board shall consider net value of the Cascade system, supply requirements of the new member, Cascade's supply status, and other relevant factors as relevant to determining an equitable and appropriate payment that protects the interests and investments of existing members.

D. Sales or Capacity Commitments to Nonmembers. Cascade may determine that it is in its best interests to enter into water contracts to supply or otherwise serve nonmember utilities or agencies. In such cases, no commitment or supply to nonmembers may offer terms that are financially favorable in comparison to those offered to members except as the Board determines that such terms are of material benefit to Cascade and its members. The Board may consider material differences in service or supply commitments in its consideration of such terms.

E. Special Projects and Programs. It is expected that there may be occasional opportunities for arrangements of mutual benefit between Cascade and its

Explanation only - not adopted.

Consistent with other elements of Cascade code, this revision of CWAC 5.05.090 recognizes that rate classes, such as temporary block sales, may warrant unique rates while still satisfying the standards for uniform charges available to all Members.

members, or with nonmembers. The Board shall have the discretion to consider and enter into special agreements related to Cascade's and its members' resources and programs on a case-by-case basis; provided, that such agreements are uniformly available to any members able to participate.

5.05.100 Efficiency and conservation.

Cascade is committed to efficient and responsible use and stewardship of water resources. Water efficiency and conservation provide cost-effective means to avoid or delay costly system expansions while reducing environmental impacts on water systems.

A. Recovery of Conservation Program Costs. Cascade shall fund conservation and efficiency measures consistent with its service obligations and shall recover related program costs through a uniform conservation program charge that best relates to the cost and benefits attributable to its member agencies.

B. Cost-Effectiveness of Conservation and Efficiency Measures. As a means of meeting its members' demands, Cascade shall periodically evaluate potential efficiency and conservation measures and determine cost-effectiveness of those measures relative to related system expansion. That cost-effectiveness determination shall consider direct realized and avoided costs but may also consider external costs or benefits related both to the measure and its alternate supply development option.

C. Access to Conservation and Efficiency Program and Measures. Cascade shall endeavor to develop conservation and efficiency programs that are broadly and universally available throughout its member service areas, recognizing that some measures are specific to retail customer activities and land uses that may not be uniformly distributed among members.

D. Wholesale Wheeling. When the Cascade Board determines it to be efficient and cost-effective, Cascade may contract with member or other water utilities, to "wheel" or transfer water through their systems to member or contract customers of Cascade in lieu of facility construction by Cascade. Payments made by Cascade for wheeling shall be considered a Cascade operating and maintenance expense.

E. Master Metering. To support efficient use of water resources, Cascade shall meter all water delivered to its members through one or more wholesale master meters, owned and maintained either by Cascade or other regional water utilities such as Seattle Public Utilities and Tacoma Public Utilities. Member charges shall include charges based on water delivered to each member.

Section 2. Effect. This Resolution shall be in full force and effect on the date of its adoption.

ADOPTED AND APPROVED by the Board of Directors of the Cascade Water Alliance at a regular meeting thereof, held the ___ day of _____ 2021.

CASCADE WATER ALLIANCE

John Stokes, Chair

Attest – Ray Hoffman, Chief Executive Officer

Penny Sweet, Vice Chair

Members

Yes _____

No _____

Demand Share

Yes _____%

No _____%

Angela Birney, Secretary/Treasurer

Include in CWAC?

Yes

No



Cascade Water Alliance
RESOLUTION NO. 2021-12

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CASCADE WATER ALLIANCE,
A WASHINGTON MUNICIPAL CORPORATION
AMENDING THE CASCADE FUNDS MANAGEMENT MATRIX IN CWAC 5.65.040

WHEREAS, the Cascade Water Alliance (“Cascade”) is a Washington Municipal Corporation composed of seven Members, which are municipal corporations and special purpose districts that are party to the Joint Municipal Utilities Services Agreement (“2012 Agreement”) under the authority of Chapter 39.106 RCW for the purpose of providing water supply to meet the growing demands of its Members;

WHEREAS, the Cascade Water Alliance Board of Directors (“Board”) by resolution this same day, desires to establish a new fund, to be known as the Water Supply Development Fund and also desires to initiate implementation of the Water Supply Development Fund; and

WHEREAS, by Res. 2016-22, the Board adopted the Cascade Funds Management Matrix, codified as Cascade Water Alliance Code 5.65.040 and now wishes to amend portions of the Matrix to implement the Water Supply Development Fund.

NOW THEREFORE BE IT RESOLVED BY THE BOARD as follows:

Section 1. Amendment of CWAC 5.65.040 and Resolutions 2016-22. The Board approves the following amendments to CWAC 5.65.040:

The Board hereby adopts the attached Cascade Funds Management Matrix guiding the management and planning of fund balances for Cascade’s financial resources, which is subject to adjustment during the biennial budget process.

Cascade Water Alliance Fund Management Rules

Fund / Purpose	Target (\$2016) (\$2022*)	Minimum (\$2016) (\$2022*)	Maximum (\$2016) (\$2022*)	Causes of Deviation	Response to Replenish Deficiency	Response to Draw Down Surplus
Operating Fund <i>Reserve to provide cash flow liquidity and cushion against budget deviation</i>	50 days of budgeted operating expense (\$4.3m) <u>plus funding accruals for major cyclical expenses such as sediment removal and system plans (\$0.3m)</u>	n/a <u>45 days of budgeted operating expense (\$4.0m) plus funding accruals for major cyclical expenses such as sediment removal and system plans (\$0.3m)</u>	n/a <u>75 days of budgeted operating expense (\$6.7m) plus funding accruals for major cyclical expenses such as sediment removal and system plans (\$0.3m)</u>	1) Variations in revenues, expenses or transfers 2) Rate Smoothing	Continue rate planning to target fund balance, contingent on 5-year rate smoothing (max. of 5 years to recover)	Budgeted transfers to construction fund, contingent on requirements for projected 5-year rate smoothing
Rate Stabilization Fund <i>Reserve to provide source of revenues to offset significant budget deviation and satisfy cash flow, coverage requirements</i>	5% of budgeted operating revenues (excluding RCFCs) (\$1.7m) <u>(\$2.1m)</u>	n/a <u>4% of budgeted operating revenues (excluding RCFCs) (\$1.7m)</u>	n/a <u>7% of budgeted operating revenues (excluding RCFCs) (\$2.9m)</u>	1) Fund earnings 2) Use of RSF 3) <u>Delayed or reduced transfers from Operating Fund</u>	Continue rate planning to target fund balance, contingent on 5-year rate smoothing (max. of 5 years to recover)	No additions to fund; if excess is projected for more than 5 years, budget transfer to construction (subject to meeting coverage policy)
RCFC Fund <i>Repository for RCFC receipts until transferred to debt repayment and construction funds per policy and budget</i>	No target (\$0)	n/a	n/a	RCFC revenues (remainder) not transferred	n/a	Transfer balance to debt and construction funds in accordance with policy direction for funds
Construction Fund <i>CIP funding and repository for bond proceeds until expended on projects</i>	No specific target except to provide adequate funds for ongoing construction projects and obligations (\$5.4m) <u>(\$7.5m)</u>	\$5.4m <u>\$6.0m</u> based on January capital payment due to TPU	Long-term CIP funding needs as determined by the Board	1) Project costs in excess of budget 2) Delay in bond proceeds or other funding sources	1) Transfer from WSDF, Operating or other funds 2) Debt issuance	1) Debt Retirement 2) Reduce capital funding from RCFCs 3) Transfer to other funds including WSDF

Cascade Water Alliance Fund Management Rules

Fund / Purpose	Target (\$2016) (\$2022*)	Minimum (\$2016) (\$2022*)	Maximum (\$2016) (\$2022*)	Causes of Deviation	Response to Replenish Deficiency	Response to Draw Down Surplus
Bond Fund: Reserve Account <i>Comply with bond covenants and provide a safeguard against shortfall when payments are due</i>	Maximum annual debt service (\$12.2m) (\$4.4m)	Maximum annual debt service <u>requiring reserve</u> (\$12.2m) (\$4.4m)	Maximum annual debt service <u>requiring reserve</u> (\$12.2m) (\$4.4m)	Deficit in bond repayment draws down reserve account	Immediate transfer from RCFC or Operating Fund	Transfer to Bond <u>Debt Service</u> Account
Bond Repayment Fund: Debt Service Account <i>Accumulate funds for scheduled bond principal and interest payments</i>	Accrued principal and interest on outstanding bonds (\$5.3m) (\$5.8m) (12/31/21)	Accrued principal and interest on outstanding bonds (\$5.3m) (\$5.8m) (12/31/21)	Accrued principal and interest on outstanding bonds (\$5.3m) (\$5.8m) (12/31/21)	Inadequate or delayed transfer of funds from Operating or other Funds	Immediate transfer from Operating or other Funds	Reduce transfers from Operating or other Funds until target restored
Water Supply Development Fund (WSDF) <i>Accumulate funds for major water supply projects to moderate rate impacts and meet debt/equity policies</i>	<u>Determined by capital funding strategy for future supply projects</u> (\$5.0m)	<u>Determined by capital funding strategy for future supply projects</u> (\$5.0m)	<u>Determined by capital funding strategy for future supply projects</u> (\$6.0m)	<u>Inadequate or delayed transfer of funds, reduced earnings, or changes in fund targets</u>	<u>Budgeted increases in transfers from Operating and Construction Funds to meet capital funding strategy</u>	<u>Budgeted reductions in transfers from Operating and Construction Funds, transfers to other funds, or distribution to Members per resolution</u>

* 2022 estimates are based on adopted 2022 budget and financial requirements as of July 12, 2021.

Section 2. Effect. This Resolution shall be in full force and effect on the date of its adoption.

ADOPTED AND APPROVED by the Board of Directors of the Cascade Water Alliance at a regular meeting thereof, held the ___ day of _____ 2021.

CASCADE WATER ALLIANCE

John Stokes, Chair

Attest – Ray Hoffman, Chief Executive Officer

Penny Sweet, Vice Chair

Members

Yes _____
No _____

Demand Share

Yes _____ %
No _____ %

Angela Birney, Secretary/Treasurer

Include in CWAC?

Yes

No



A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CASCADE WATER ALLIANCE,
A WASHINGTON MUNICIPAL CORPORATION,
AMENDING THE AMENDED 2021-2022 BUDGET TO
TRANSFER FUNDS INTO THE WATER SUPPLY DEVELOPMENT FUND

WHEREAS, the Cascade Water Alliance (“Cascade”) is a Washington municipal corporation formed under authority of the Joint Municipal Utilities Authority Act (Chapter 39.106 RCW) to provide water supply to its Members;

WHEREAS, the Cascade Water Alliance Board of Directors (“Board”) by resolution this same day, desires to establish a new fund, to be known as the Water Supply Development Fund and also desires to initiate implementation of the Water Supply Development Fund;

WHEREAS, by Resolution 2010-08, the Board established a two-year fiscal biennium budget that will consist of the adopted two consecutive annual budgets, which together shall be referred to as “the biennial budget” which will appropriate funds for two consecutive but non-transferrable years;

WHEREAS, by Resolution No. 2020-10 the Board adopted the 2021-2022 Budget;

WHEREAS, by Resolution No. 2021-13 the Board amended the 2021-2022 Budget; and

WHEREAS, the Board now desires to amend the 2021-2022 Amended Budget to transfer funds into the Water Supply Development Fund.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE CASCADE WATER ALLIANCE as follows:

Section 1. Resolution 2021-08 is amended as follows:

2021 Budget.

- A. Estimated Resources and Expenditures. The 2021 budget estimated resources and expenditure authority of the Cascade Water Alliance is hereby amended as follows:

<i>Fund</i>	<i>2021 appropriation authority as adopted 9-23-2020</i>	<i>2021 appropriation authority as amended 11-17-2021</i>
Operating	\$57,737,157	\$57,737,157
Water Supply Development Fund	\$0	\$5,000,000
Regional Capital Facilities Charge	\$6,806,931	\$6,806,931
Rate Stabilization	\$2,147,452	\$2,147,452
Construction	\$20,997,906	\$20,997,906
Bond	\$21,735,264	\$21,735,264
Total	\$109,424,710	\$114,424,710

2022 Budget.

A. Estimated Resources and Expenditures. The 2022 Budget estimated resources and expenditure authority of the Cascade Water Alliance is hereby amended as follows:

<i>Fund</i>	<i>2022 appropriation authority as adopted 9-23-2020</i>	<i>2022 appropriation authority as amended 11-17-2021</i>
Operating	\$57,991,966	\$58,273,969
Water Supply Development Fund	\$0	\$6,668,363
Regional Capital Facilities Charge	\$6,950,366	\$0
Rate Stabilization	\$2,185,033	\$2,185,033
Construction	\$22,635,550	\$22,635,550
Bond	\$21,688,503	\$21,688,503
Total	\$111,451,418	\$111,451,418

Section 2. Effect. This Resolution shall be in full force and effect on the date of its adoption.

ADOPTED AND APPROVED by the Board of Directors of the Cascade Water Alliance at a regular meeting thereof, held the ___ day of _____ 2021.

CASCADE WATER ALLIANCE

John Stokes, Chair

Attest – Ray Hoffman, Chief Executive Officer

Penny Sweet, Vice Chair

Members

Yes _____

No _____

Demand Share

Yes _____ %

No _____ %

Angela Birney, Secretary/Treasurer

Include in CWAC?

Yes

No



A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CASCADE WATER ALLIANCE,
A WASHINGTON MUNICIPAL CORPORATION REGARDING
APPLICATION TO THE KING COUNTY POOL PLUS INVESTMENT PROGRAM
FOR THE WATER SUPPLY DEVELOPMENT FUND

WHEREAS, the Cascade Water Alliance (“Cascade”) is a Washington municipal corporation formed under authority of the Joint Municipal Utilities Authority Act (Chapter 39.106 RCW) to provide water supply to its Members;

WHEREAS, Cascade has historically maintained fund balances for purposes of financial management and invests those funds in the King County Investment Pool (KCIP) to generate income for the benefit of its Members;

WHEREAS King County introduced an alternative to its short-term investment pool called the King County Pool – Plus investment program (KCPP) which allows longer term investments in an administrative cost structure equal to the existing KCIP and can provide substantially higher investment yields;

WHEREAS, pursuant to authorization under Resolution 2017-09 and Resolution 2017-10, the Chief Executive Officer (“CEO”) submitted an application to the KCPP and by Resolution 2019-02 the Cascade Water Alliance Board of Directors (“Board”) acknowledged policies of the KCPP and designated Cascade to provide transaction instructions to King County;

WHEREAS, the Board by resolution this same day, desires to establish a new fund, to be known as the Water Supply Development Fund and also desires to initiate implementation of the Water Supply Development Fund; and

WHEREAS, the Board now desires for Cascade to make all necessary applications to the KCPP for investment of the Water Supply Development Fund.

NOW THEREFORE BE IT RESOLVED BY THE BOARD OF DIRECTORS OF
CASCADE WATER ALLIANCE as follows:

Section 1. Authorization

The Board hereby authorizes the CEO to complete an application to participate in the King County Pool Plus investment program for funds held in its Water Supply Development Fund

and, upon approval, to initiate an investment strategy to invest those funds in the KCPP, and to establish appropriate administrative controls for this investment program.

Section 2. Effect. This Resolution shall be in full force and effect on the date of its adoption.

ADOPTED AND APPROVED by the Board of Directors of the Cascade Water Alliance at a meeting thereof, held the ___ day of _____, 2021.

CASCADE WATER ALLIANCE

John Stokes, Chair

Attest – Ray Hoffman, Chief Executive Officer

Penny Sweet, Vice Chair

Angela Birney, Secretary/Treasurer

Members

Yes _____

No _____

Demand Share

Yes _____%

No _____%

Include in CWAC?

Yes

No