

FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	CBO Analyst/Phone:
Seattle City Light	Fernando Estudillo, 4-3832	Saroja Reddy, 5-1232

Legislation Title:

A RESOLUTION relating to the City Light Department; authorizing the deferral of certain environmental costs for cleanup of designated Superfund sites in accordance with *Governmental Accounting Standards Board Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA (GASBS 62)* and subsequent amendments.

Summary of the Legislation:

This legislation would allow City Light to use accounting practices for environmental cleanup costs that, while standard and common, are different from those it uses today. City Light’s independent auditors are looking for affirmation of these new accounting practices by Council Resolution.

Background:

City Light has been identified as a responsible party to perform cleanup of several designated environmental Superfund sites. These sites include those along the Duwamish River, Harbor Island, Georgetown Steam Plant, and others. For accounting purposes, City Light has traditionally recognized environmental cleanup costs on the income statement as operating expenses *as soon as they are identified*. However, for budget and rate-setting purposes, the Utility is required to reflect such expenses when the actual disbursements are made. In the case of future anticipated cleanup costs this will likely be many years after they are recognized on the income statement. This timing difference decreases the usefulness and understandability of the financial statements City Light is required to publish. Additionally, the associated income statement spikes can be perceived negatively by external parties such as credit rating agencies.

Generally Accepted Accounting Principles (GAAP) afford an alternative in the accounting treatment of environmental cleanup costs, allowing them to be deferred until the expenses are incurred. (Seattle Public Utilities uses the deferred method in accounting for its environmental cleanup costs and the approach is common throughout the industry.) The proposed Resolution would allow City Light to take advantage of this approach to provide for the same treatment of environmental cleanup costs for both financial reporting and rate-setting purposes.

Please check one of the following:

This legislation does not have any financial implications.

x This legislation has financial implications.

The proposed Resolution for deferral of certain environmental costs has reporting implications for accounting but does not have any other financial implications. For purposes of accounting, environmental costs that had previously been recorded as expense on the income statement when identified will now be deferred and recorded to expense when actual environmental cost cash outlays are made. The deferral of environmental costs utilizing GASB 62 will not have an effect on the retail electric rates charged to customers, since for rate-making purposes, the costs have and will continue to be recognized as cash outlays are made for actual environmental cleanup.

Appropriations:

Fund Name and Number	Department	Budget Control Level*	2013 Appropriation	2014 Anticipated Appropriation
TOTAL				

**See budget book to obtain the appropriate Budget Control Level for your department.*

Appropriations Notes: None.

Anticipated Revenue/Reimbursement Resulting from this Legislation:

Fund Name and Number	Department	Revenue Source	2013 Revenue	2014 Revenue
TOTAL				

Revenue/Reimbursement Notes: City Light adjusts retail electric rates to allow for recovery of the environmental costs deferred. The amount of the rate adjustment will depend on the amount of the environmental costs deferred in any given year. This action will also affect net income for financial accounting and reporting purposes.

Total Regular Positions Created, Modified, or Abrogated through this Legislation, Including FTE Impact:

Position Title and Department	Position # for Existing Positions	Fund Name & #	PT/FT	2013 Positions	2013 FTE	2014 Positions*	2014 FTE*

TOTAL							
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* 2014 positions and FTE are total 2014 position changes resulting from this legislation, not incremental changes. Therefore, under 2014, please be sure to include any continuing positions from 2013.

Position Notes: None.

Do positions sunset in the future? Not applicable.

Spending/Cash Flow:

Fund Name & #	Department	Budget Control Level*	2013 Expenditures	2014 Anticipated Expenditures
TOTAL				

* See budget book to obtain the appropriate Budget Control Level for your department.

Spending/Cash Flow Notes: Environmental costs will continue to be disbursed on schedule whether these costs are deferred or not. No additional budget appropriation is being requested. As noted above, environmental cost deferral will have an effect on reported net income in the year of deferral, reported amortization of deferred costs, and reported revenue based on recovery of deferred costs.

Other Implications:

a) Does the legislation have indirect financial implications, or long-term implications?

No other financial or long-term implications other than what has previously been noted. Specifically, future electric retail rates will be adjusted to ensure recovery of environmental costs deferred (as is currently the case).

b) What is the financial cost of not implementing the legislation?

If the legislation is not implemented, there will be a reporting misalignment of the accounting records in the financial statements and the amounts used for rate-making purposes. This leads to confusion and decreased value of the financial statements and increases unnecessarily the year to year volatility of net income in the accounting records.

Having a strategy for treatment of environmental costs assures the financial community and rating agencies of rate stability which in turn is critical to maintaining City Light's strong bond ratings that result in lower financing costs. Alignment of externally reported financial information with rate-making practice adds to the transparency of the information and improves its usefulness to the financial community and rating agencies.

c) Does this legislation affect any departments besides the originating department?

No.

d) What are the possible alternatives to the legislation that could achieve the same or

similar objectives? No known alternatives.

- e) **Is a public hearing required for this legislation?** No.
- f) **Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?** No.
- g) **Does this legislation affect a piece of property?** No.
- h) **Other Issues:** None.

List attachments to the fiscal note below: None.