Resolution No. 31181

A RESOLUTION relating to the City Light Department; establishing transitional financial policies for setting electric rates for 2010 and superseding a portion of Resolution 30933, and declaring the Council's intent to complete a full review of the utility's financial policies in 2010 with the goal of enhancing the utility's ability to absorb predictable fluctuations in wholesale revenue without negatively impacting customer rates.

Related Legislation File:

Date Introduced and Referred:	To: (committee):
1.4.10	Energy + Technology
Date Re-referred:	To: (committee):
Date Re-referred:	To: (committee):
Date of Final Action: 1-11-10	Date Presented to Mayor: 1-12-10
Date Signed by Mayor: 1.15.10	Date Returned to City Clerk: 1.19.10
Published by Title Only ✓ Published in Full Text	Date Returned Without Concurrence:

The City of Seattle – Legislative Department

Resolution sponsored by: Bruce A. Harrell

Committee Action:

Date	Recommendation	Vote
1/6/10	Passed As Amended	BH, RC

This file is complete and ready for presentation to Full Council.

Full Council Action:

Date	Decision	Vote
1-11-10	Adopted	9-0

Tony Kilduff
LEG - SCL Financial Policies - RES
Dec 03, 2009
Version #2

RESOLUTION 31181

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WHEREAS, since 1977 the Mayor and City Council have set City Light electric rates in compliance with specific financial policies adopted by resolution; and

WHEREAS, Resolution 30933, adopted by the City Council on November 20, 2006, established long-term rate setting objectives and specific financial policies to be used in setting rates; and

WHEREAS, City Light's financial status has improved significantly since the West Coast power crisis in 2000-2001, with the debt-to-capitalization ratio lowered from 85% in 2002 to approximately 63% in 2009; and

WHEREAS, the national recession that began in January 2008 has been the longest and deepest since the 1930s, and from which most economists predict only a slow recovery in the next few years; and

WHEREAS, a consequence of the recession has been a steep decline in the price of wholesale power across the nation; and

WHEREAS, revenue from the sale of wholesale power is a significant component of City Light's overall revenue; and

WHEREAS, because of these lower prices, City Light now expects to earn approximately $74 million from net wholesale power sales in 2009, compared with $142 million assumed in its 2009 financial plan; and

WHEREAS, the national recession has had a major effect on Seattle area businesses and residents, with the unemployment rate in the Seattle metropolitan area rising to 9.3% in October 2009; and

WHEREAS, in response to the wholesale revenue shortfall, the Mayor proposed a 2010 budget for City Light that included budget reductions and an 8.8% rate increase which combined would have yielded a debt service coverage of 1.6; and

WHEREAS, on November 23, 2009, the City Council approved a 2010 budget for City Light that made further budget reductions, added funding for long-term conservation efforts, and increased rates 13.8% effective on January 1, 2010; and

WHEREAS, the Council's budget and rate actions are intended to yield a debt service coverage ratio of 1.8 for 2010; and

WHEREAS, the Council determined that the larger rate increase that would have been needed to achieve a debt service coverage ratio of 2.0 would be too damaging to City Light customers in the midst

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of a severe recession and could possibly reduce City Light's long-term load and revenue as a consequence; and

WHEREAS, the Council intends to complete a comprehensive review of City Light's financial policies by March 31, 2010, with the singular goal of establishing policies and processes that will protect both the utility's financial integrity and the rate payers from the volatility of wholesale power revenues while ensuring the revenue from such sales are available to the utility to meet the needs of its customers; NOW, THEREFORE,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SEATTLE, THE MAYOR CONCURRING, THAT:

Section 1. Section 4.B of Resolution 30933 is superseded and replaced by the following policies: The City Light Department's revenue from electric rates shall be sufficient to meet the following financial policies. These policies shall serve as the basis for developing City Light's revenue requirements unless modified by subsequent Council action.

1. Rate Setting Guideline. It is the policy of the City of Seattle to set electric rates at levels which will ensure that net revenue available to fund capital requirements in each calendar year will be positive with a probability of at least 95%, taking into account the variability of cash flows resulting from the uncertainty of water conditions, market prices, and system load. For purposes of implementing this financial policy, net revenue available to fund capital requirements is defined as the amount of revenue remaining after payment of operating and maintenance costs, principal and interest on outstanding debt, taxes, all other current obligations and deposits to the Contingency Reserve Account described below. It is also the policy of the City of Seattle that rates shall be set to ensure a debt coverage ratio of 1.8 beginning in 2010.

2. Contingency Reserve Account. A Contingency Reserve Account in the amount of $25 million will be maintained in the Light Fund. Funds in the Contingency Reserve Account may be used to cover current obligations in any year in which the amount of net revenue available to fund capital requirements is not positive, or for up to six months thereafter. Within two years of the withdrawal of funds from the

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Account, available net revenues or bond proceeds shall be deposited in the Account until the targeted balance of $25 million is restored.

3. Operating Cash Balance. In addition to funds in the Contingency Reserve Account, the City Light Department shall maintain sufficient operating cash balances in the Light Fund to absorb fluctuations in its operating cash flow. In its rate proposals, the City Light Department shall target a minimum month-end operating cash balance of $30 million.

4. Debt-to-Capitalization Ratio. The City Light Department shall set rates to achieve a debt-to-capitalization ratio of no more than 60% by year end 2012. The debt-to-capitalization ratio is the total amount of debt outstanding divided by the sum of the accumulated equity and debt outstanding.

Section 2. The Council will complete a comprehensive review of City Light finances, budgets, financial policies and establish new financial policies by March 31, 2010. The intent of the review will be to design new policies that create a permanent mechanism to protect the utility and its rate payers from the volatility of its wholesale revenues and ensure its long-term financial strength. The review will consider a variety of mechanisms to accomplish this, including higher debt service coverage, additional reserves, and potentially automatic rate mechanisms to cover downside risk. A key component of the policies will be a closer integration of budget setting and rate setting to ensure that budgeted costs remain in line with those assumed for rate setting.

Section 3. The Council will also complete its initial review of the utility's proposed strategic plan by mid-2010. The review will involve broad public participation and the adopted plan will inform rate and budget decisions over the next six years.

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Adopted by the City Council the 11th day of January, 2010, and signed by me in open session in authentication of its adoption this 11th day of January, 2010.

President _____ of the City Council

THE MAYOR CONCURRING:

Michael McGinn, Mayor

Filed by me this 19th day of January, 2010.

City Clerk

(Seal)

COUNCIL CLERK

Form revised May 26, 2009

FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	DOF Analyst/Phone:
Legislative	Tony Kilduff/4-3580	Karl Stickel/4-8085

Legislation Title:

A RESOLUTION relating to the City Light Department; establishing transitional financial policies for setting electric rates for 2010 and superseding a portion of Resolution 30933, and declaring the Council's intent to complete a full review of the utility's financial policies in 2010 with the goal of enhancing the utility's ability to absorb predictable fluctuations in wholesale revenue without negatively impacting customer rates.

- **Summary of the Legislation:**

This resolution establishes the Council's intent to review City Light's existing financial policies early in 2010 with the goal of improving its ability to absorb wholesale market revenue shocks.

- **Background:** *(Include brief description of the purpose and context of legislation and include record of previous legislation and funding history, if applicable):*

In 2009, the Council adopted new rates for City Light that will generate a debt service coverage ratio (DSC) of 1.8 for the utility in 2010. Since this is below the DSC target of 2.0 in the extant financial policies, this resolution explains the reason for the change and states the Council's intent to establish new policies for the utility that are better suited to its current circumstances/

- *Please check one of the following:*

No **This legislation does not have any financial implications.** *(Stop here and delete the remainder of this document prior to saving and printing.)*

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RESOLUTION _____

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WHEREAS, the Council's budget and rate actions are intended to yield a debt service coverage ratio of 1.8 for 2010; and

WHEREAS, the Council determined that the larger rate increase that would have been needed to achieve a debt service coverage ratio of 2.0 would be too damaging to City Light customers in the midst

THIS VERSION IS NOT ADOPTED

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THIS VERSION IS NOT ADOPTED

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COUNCIL CLERK

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COUNCIL CLERK

Adopted by the City Council the ____ day of _____, 2010, and signed by me in open session in authentication of its adoption this_____ day of _____, 2010.

_____
President _____of the City Council

THE MAYOR CONCURRING:

_____
Mike McGinn, Mayor

Filed by me this ____ day of _____, 2010.

_____
City Clerk

(Seal)

THIS VERSION IS NOT ADOPTED

COUNCIL CLERK

STATE OF WASHINGTON – KING COUNTY

--ss.

249849 No.
CITY OF SEATTLE,CLERKS OFFICE

Affidavit of Publication

The undersigned, on oath states that he is an authorized representative of The Daily Journal of Commerce, a daily newspaper, which newspaper is a legal newspaper of general circulation and it is now and has been for more than six months prior to the date of publication hereinafter referred to, published in the English language continuously as a daily newspaper in Seattle, King County, Washington, and it is now and during all of said time was printed in an office maintained at the aforesaid place of publication of this newspaper. The Daily Journal of Commerce was on the 12th day of June, 1941, approved as a legal newspaper by the Superior Court of King County.

The notice in the exact form annexed, was published in regular issues of The Daily Journal of Commerce, which was regularly distributed to its subscribers during the below stated period. The annexed notice, a

CT:31173&31181 TITLE ONLY

was published on

01/25/10

The amount of the fee charged for the foregoing publication is the sum of $ 40.95, which amount has been paid in full.

Subscribed and sworn to before me on

01/25/10

Notary public for the State of Washington,
residing in Seattle

JENNIFER A. PATZER
COMMISSION EXPIRES
NOTARY
PUBLIC
OCT. 24, 2011
STATE OF WASHINGTON

Affidavit of Publication

State of Washington, King County

City of Seattle

TITLE-ONLY PUBLICATION

The full text of the following resolutions, passed by the City Council on January 11, 2010, and published here by title only, will be mailed upon request, or can be accessed at http://clerk.ci.seattle.wa.us. For further information, contact the Seattle City Clerk at 684-8344.

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RESOLUTION NO. 31173

A RESOLUTION recognizing Seattle as the City of Music and establishing a Seattle Music Commission.

Publication ordered by the City Clerk
Date of publication in the Seattle Daily Journal of Commerce, January 25, 2010.
1/25(249849)