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SPU Solid Waste Bonds FISC
March 10, 2014
Version 3

Form revised: December 12, 2012

FISCAL NOTE FOR NON-CAPITAL PROJECTS

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Legislation Title: A RESOLUTION amending Resolution 30695; updating the debt service coverage financial policy for the Solid Waste System.

Summary of the Legislation: This legislation would amend the resolution that defines financial policy targets for the Solid Waste Fund of Seattle Public Utilities by creating an additional target with a more comprehensive definition of revenues available for debt service coverage.

Background:
In 2004, the City Council approved Resolution 30695, which set financial targets for the Solid Waste Fund, including a target for debt service coverage (DSC). Further, in recognition of the volatility and uncertainty of the Solid Waste Fund financials, Council approved rate increases of 4.3% in 2015 and 3.4% in 2016, as well as provisions for a mid-term rate opener.

Since that time, the Fund's financial strength has been challenged by a number of factors including a decline in revenue (due to both the 2008 recession and the success of recycling) and larger debt issuances to fund the capital program (primarily to the transfer stations). When the North Transfer Station closed for construction in January 2014, tonnage dropped more than expected. This reduction in tonnage resulted in lower revenues. SPU is taking several steps to increase customer demand and is also evaluating programmatic reductions to the solid waste budget. Despite these efforts to mitigate the effects of declining business and lower revenues, SPU will have difficulty meeting all Solid Waste Fund financials metrics.

In addition, recent discussions with bond rating agencies have informed SPU staff that the Utility needs to use a more comprehensive definition of revenue available for debt service and that our current policy is inadequate for such high bond ratings. In the fall of 2013, Moody's upheld the Solid Waste Fund's Aa3 bond rating but with some reservation. Failure to plan for a higher DSC (based on the more comprehensive method) may result in a bond ratings downgrade, which would increase borrowing costs (estimated impacts are an additional 0.75% on bond rates and $18 million more in interest expense for the remaining bonds). In addition to higher interest expense, ratepayers would likely see a rate increase of 1.2% in 2016.

To address both revenue shortfalls and rating agency concerns about debt service coverage calculations, SPU proposes to create a new DSC policy. The new policy would not affect the Solid Waste Fund's outstanding bonds or the legal definition of debt service coverage used in bond disclosure. The estimated rate increases associated with the proposed debt service coverage policy are an additional 1.6% for 2015 and additional 2.5% for 2016, above current Council approved rate increases for these years. The size and timing of the rate increases will depend on actual revenues generated and actual expenditures in 2014.

SPU recognizes that any level of rate increase will be challenging for our low-income customers. The Mayor's current goal of expanding the Low Income Rate Assistance Program (LIRA) will help address the issue of bill affordability and SPU will continue to partner with City Light and HSD to increase the participation in this program.

Timing is critical as the Solid Waste Fund's next debt issue will be in May 2014 and the fund will again be reviewed by Moody's and Standard & Poor (in late April)p. This proposed policy will best position the Utility to sell bonds at the lowest possible interest rates and produce the most value for our ratepayers. This policy will not affect SPU's outstanding bonds or the legal definition of debt service coverage used in bond disclosure.

Please check one of the following**:**

__X__ This legislation does not have any financial implications.

____ This legislation has financial implications.

Other Implications:

a) **Does the legislation have indirect financial implications, or long-term implications?**
This legislation has various indirect financial implications. Strengthening and meeting both the existing and proposed debt service coverage policy targets will put the Solid Waste Fund in the best position to keep its strong bond ratings from rating agencies. Maintaining strong ratings enables the Fund to sell bonds at the lowest possible interest rates, reducing long-term interest expense.

b) **What is the financial cost of not implementing the legislation?**
The primary cost of not implementing this legislation would be a potential downgrade to the Solid Waste bond rating and increased interest expense on future long-term debt issuances in the form of higher interest rates.

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?**
An informal policy target similar to the proposed legislation is a possible alternative, but it would unlikely carry much, if any, significance for outside parties.

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:

List attachments to the fiscal note below: