

CITY OF SEATTLE
RESOLUTION 31516

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

WHEREAS, the City Council in 2004 approved Resolution 30695 adopting financial policies for the Solid Waste System; and

WHEREAS, the Mayor and City Council desire to update Policy 5 of Resolution 30695 to revise debt service coverage targets; NOW, THEREFORE,

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

Section 1. Policy 5 of Resolution 30695 is amended to read as follows:

Policy 5. Debt Service Coverage Ratios: The City should maintain two debt service coverage ratios: (((the ratio of revenues available for debt service to the annual debt service requirement) should be maintained at a minimum of))

A. Adjusted Net Revenue equal to at least 1.7 times ((the annual debt service coverage)) Adjusted Annual Debt Service, as these terms are defined in the most recent solid waste revenue bond ordinance (currently ordinance 124046).

B. Adjusted Net Revenue (further adjusted by deducting from Adjusted Net Revenue the following: City taxes and capital and operating fees, contributions, grants and transfers) equal to at least 1.5 times Adjusted Annual Debt Service, as these terms are defined in the most recent solid waste revenue bond ordinance (currently ordinance 124046).



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Adopted by the City Council the ____ day of _____, 2014, and
signed by me in open session in authentication of its adoption this ____ day
of _____, 2014.

President _____ of the City Council

THE MAYOR CONCURRING:

Edward B. Murray, Mayor

Filed by me this ____ day of _____, 2014.

Monica Martinez Simmons, City Clerk

(Seal)



FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	CBO Analyst/Phone:
Seattle Public Utilities	Michael Van Dyck/4-8347	Aaron Blumenthal 3-2656

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:

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:





City of Seattle
Edward B. Murray
Mayor

March 25, 2014

Honorable Tim Burgess
President
Seattle City Council
City Hall, 2nd Floor

Dear Council President Burgess:

I am pleased to transmit the attached proposed Council Resolution that would update the debt service coverage financial policy for the Solid Waste System and bolster Seattle Public Utilities' Solid Waste Fund.

Nearly a decade ago, the Council approved a resolution setting financial targets for the City's Solid Waste Fund, including a policy dealing with debt service coverage. 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 due to the transfer stations).

More recently, closure of the North Transfer Station, which occurred in January of this year, has resulted in a tonnage decline that is larger than expected. This reduction in tonnage has lowered revenues to the Solid Waste Fund. 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. As a result, we need to establish a new debt service coverage financial policy that will strengthen SPU's financial position. 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.

I recognize that any level of rate increase will be challenging for our low-income customers. To help address such impacts, I remain committed to expanding the City's existing Low Income Rate Assistance Program (LIRA). To that end, an interdepartmental team that includes representatives from SPU, City Light, the Human Services Department and the Mayor's Office is currently working to develop concrete proposals for the policy and procedural changes needed to achieve this goal.

Timing is important because the Solid Waste Fund's next debt issuance is expected in May 2014. Consequently, I am seeking Council approval of this change before April 28. Thank you for your consideration of this legislation. Should you have questions, please contact Michael van Dyck at 684-8347.

Sincerely,

A handwritten signature in black ink, appearing to read "Edward B. Murray", written over a horizontal line.

Edward B. Murray
Mayor of Seattle

cc: Honorable Members of the Seattle City Council

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