CITY OF TACOMA ENVIRONMENTAL SERVICES DIVISION

Financial Management Policy Statement

INTRODUCTION

The following policies are intended to give direction to planning decisions and help ensure that the Environmental Services Division provides for adequate wastewater, surface water, and solid waste services to all customers efficiently, reliably and at the lowest possible cost consistent with prudent utility management and environmental stewardship.

I. General Rate and Financial Management Policies

A. Rates will be adopted for a period of two years as a part of the City's biennial budget process. Rates will be reviewed at least annually and adjusted as appropriate.

B. The Environmental Services Utilities will solicit comments from the Environmental Services Citizens Advisory Panels (ESCAP) as a part of the rate-setting process, and will consider the groups' input before developing final recommendations for any rate increases. The ESCAP will include representatives from all the customer classes. The City Council will hold public hearings on the proposed rates as a part of the City's regular process for adopting ordinances.

C. Rates will be set at levels which will generate revenue sufficient to ensure payment of all operating and maintenance expenses and debt service, to ensure compliance with all applicable covenants to bond holders, and to meet such additional requirements as set forth in these policies.

D. Generally, rates charged for each class of customer will be set to reflect the cost of supplying service to that class. Rates that are out of balance with respect to costs may be adjusted over a multi-year period to avoid disruption to any class of ratepayers. Discounted rates are expected to be offered to aid low-income/elderly and low-income/disabled customers.

E. The operating and maintenance budget will be set at a level sufficient to maintain facilities in good condition, provide sufficient staffing to ensure safe and continuous operation, and carry out the operations and programs necessary to meet all permit requirements.

F. Necessary appropriations for annual debt service requirements will be included in each Utility's biennial budget.

G. The Environmental Services Division will exercise responsible cost control of department administration and overhead expenses consistent with industry standards.

H. Each Utility will establish separate rates and charges for their respective services sufficient to cover operating and maintenance costs, debt service, capital costs, and reserve fund contributions for each function in proportion to each function's relative cost. Administrative and overhead charges will be allocated between each Utility using a reasonable and consistent methodology.

I. Operating surpluses (after payment of debt service and any required deposits into the Bond Reserve Account) will be applied to the Operating Reserve, Equipment Replacement Reserve, Rate Stabilization Reserve, and capital construction.

J. Major capital investments and other commitments that would significantly affect costs or rates for Utility services will be evaluated using cost/benefit analysis before commitments are made. Such evaluations will address both short- and long-term impacts on costs and revenues, and address risks and uncertainties associated with the investments.

K. The Utilities will not approve any construction contract unless it has sufficient monies in its pay-as-you-go construction fund or bond funded construction fund, which together with approved grants or loans, is sufficient to pay for the amounts expected to become due under the contract.

L. When a capital project is funded from both rates and bond proceeds, the appropriate Utility will maintain records to allow a separate accounting of the expenditure of bond proceeds. Bond proceeds will be spent before drawing upon other available cash.

M. Debt will not be used to finance operating and maintenance requirements.

II. Management Policies for Debt Obligations

A. Capital projects financed through debt issuance will not be financed for a term longer than the expected useful life of the project assets.

B. Capital financings will be designed to minimize the cost of funds, ensure equity over time among ratepayers, and provide for the timely completion of capital facilities.

C. While both debt and pay-as-you-go financing may be used to finance utility capital needs, the debt-financing component will be managed to minimize annual volatility in rate requirements.

D. The Utilities have a goal of paying for a minimum of 20 percent of the capital program with cash from rates over the long run. As a rule, the Utilities' baseline level of capital expense for routine replacements, refurbishments, and capital outlay will be funded with cash.

E. With respect to any issuance of debt, alternative issuance timing and amortization structures will be analyzed to ensure the most cost-efficient financing, given prevailing market conditions at the time of sale.

F. Direct variable rate debt obligations will not exceed 15 percent of the Utilities' total debt, (net of cash investments reasonably expected to be available to serve as a hedge against variable rate liabilities), unless interest rate risk management tools are implemented to limit exposure to interest rate increases.

G. The City will set rates sufficient to provide debt service coverage in excess of the legal minimums. Rates will be set so that the debt service coverage ratio on the Utilities' senior lien debt shall be at least 170 percent. Rates will be set to provide debt service coverage of at least 125 percent on all senior and junior lien debt.

H. The amount and timing of any future debt offerings will be planned to comply with the additional bonds test and rate covenants for its senior lien bonds, as well as with these financial policies.

I. The Utility will maintain regular communication with rating agencies that rate the bonds and will update the agencies in the event of material adverse changes in its business position.

III. Management Policies for Utility Funds

A. To accommodate periodic unanticipated or unforeseen needs, each Utility will maintain at all times an Operating Reserve equal to at least 60 days of utility operating costs.

B. The Utilities will maintain Rate Stabilization Funds primarily as a means of managing potential volatility in rates. Rate Stabilization Funds are intended to mitigate the need for large changes in rates from one budget year to the next.

C. At the time funds in the Rate Stabilization Fund are to be used, there will also be a plan to replace the withdrawn funds over an appropriate period.

D. Each Utility will periodically review the level of funding for its Rate Stabilization Fund and recommend any adjustments based on a five-year forecast of its revenue requirements, particularly as the fund may be called upon to help phase in rate increases or meet projected expenditure spikes.

E. Utility funds, including all reserve funds established by this policy statement and any bond proceeds, will be invested according to the investment policies of the City.