

CITY OF TACOMA ENVIRONMENTAL SERVICES DEPARTMENT

Financial Management Policy Statement

INTRODUCTION

The Environmental Services Department (ESD) supports healthy Tacoma neighborhoods and a thriving Puget Sound. We strive to protect and restore natural resources and to keep our city clean, safe and livable through the responsible management of our three Utilities (each a Utility or, collectively, Utilities), which include:

- Solid Waste - garbage, recycling and disposal of food/yard waste
- Surface Water - management of water leaving our streets, yards and driveways
- Wastewater - sewer and waste treatment facilities

The following policies give direction to planning decisions and help ESD provide wastewater, surface water, and solid waste services to all customers efficiently, reliably and at the lowest cost consistent with prudent utility management and environmental stewardship.

I. General Rate and Financial Management Policies

- A. Rate revenues are adopted every two years as a part of the City's biennial budget process. As part of the rate-setting and budget processes, ESD may develop and use projections and hold public meetings on proposed rates.
- B. ESD will solicit comments and feedback from the Environmental Services Commission (ESC) as a part of the rate-setting process before developing final rate recommendations.
- C. Rates will be set at levels that will generate revenue sufficient to meet:
 - Financial obligations of ESD,
 - Compliance with applicable bond covenants, and
 - 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 by phasing-in rates over time to avoid unnecessary rate spikes or other undesirable results.
- E. As part of the rate-setting process, ESD will consider affordability and may provide discounted rates and/or other programs to low-income households.

- F. Each Utility will establish rates and charges for their respective services sufficient to cover operating and maintenance costs, debt service, gross earnings taxes, capital costs, reserve fund contributions and any other costs or contributions as may be necessary.
- G. Each Utility may maintain, as needed, cash balances from operations and other funding sources in operating funds, rate stabilization funds, bond reserve funds, bond construction funds, other restricted funds, and/or any other funds as determined by each Utility.
- H. Financial commitments may be made only when funding is available, or certain to be available, as determined by the Director of ESD.

II. Management Policies for Debt Obligations

- A. In structuring debt financings, ESD may consider repayment options that minimize the cost of funds, provide generational equity over time, minimize volatility in rates, provide for the timely completion of capital facilities, and/or other considerations that are deemed prudent by ESD.
- B. ESD may analyze alternative debt issuance structures, timing, and amortization schedules based on market conditions at or near the time of sale.
- C. Debt will not be used to finance operating costs.
- D. ESD will not use debt financing of capital projects for longer than their expected useful lives.
- E. When funding capital projects, ESD will consider among other things, the satisfaction of applicable bond spend-down requirements and the utilization of an appropriate combination of bond proceeds, cash, grants, and/or other available resources.
- F. An average target range of 15-25 percent pay-go funding shall be applied to capital projects over their life cycles.
- G. Variable rate debt obligations may not exceed 15 percent of each Utility's total debt net of cash investments reasonably expected to be available to serve as a hedge against variable rate liabilities.
- H. ESD strives to maintain good working relationships with the various rating agencies that rate its bonds. Toward that end, it may maintain

regular communication with those rating agencies and provide information related to the Utilities in a timely manner.

III. Management Policies for Utility Funds

- A. To accommodate periodic unanticipated or unforeseen needs, each Utility will maintain, at a minimum, 90 days of operating cash.
- B. Each Utility will maintain a rate stabilization fund to provide a degree of rate stability in times of market volatility or other conditions. From time to time, deposits or withdrawals may be made to rate stabilization funds and used for any lawful purposes of the Utility.
- C. The rate stabilization fund of each Utility will have a target minimum balance of 10 percent of operating revenues. If the rate stabilization fund falls below the target, the Utility will develop a plan to re-establish the appropriate rate stabilization balance over the next seven years.
- D. All cash balances of the Utilities will be invested according to the City's Investment Policy.

Approved December 7, 2018

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