



Agenda
City Council Workshop Meeting
Tuesday, September 22, 2015
City Hall Council Chamber | 505 Swift Boulevard

City Council Workshop - 6:00 p.m. - (Discussion Only)

Agenda Items:

1. Electric Utility Special Equipment Policy (15 minutes)
 - Bob Hammond, Energy Services Director
2. Electric Revenue Bonds (45 minutes)
 - Bob Hammond, Energy Services Director

Adjournment

Special City Council Meeting - 7:00 p.m.

Ordinance - Second Reading/Passage:

1. Ordinance No. 54-15, Increase in Appropriations in the Park Project Construction Fund for the Construction of a Parking Lot at Trailhead Park and Revising the 2015-2030 Capital Improvement Plan
 - Phil Pinard, Planning and Capital Projects Manager

Resolutions for Adoption:

1. Resolution No. 165-15, Adopting a Policy Framework for Electric Revenue Bond Sales - Option 1
 - Bob Hammond, Energy Services Director
2. Resolution No. 166-15, Adopting a Policy Framework for Electric Revenue Bond Sales - Option 2
 - Bob Hammond, Energy Services Director
3. Resolution No. 164-15, Award of Bid to D & D Tri-River Excavating, Inc. for the Construction of a Parking Lot at Trailhead Park
 - Phil Pinard, Planning and Capital Projects Manager

Adjournment

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COUNCIL WORKSHOP COVERSHEET

Council Date: 09/22/2015

Department: Energy Services

Key Element: Key I - Financial Stability & Operational Effectiveness

Subject:

Electric Utility Special Equipment Policy (15 minutes)

Summary:

See attached materials from September 8, 2015 Utility Advisory Committee meeting related to a proposed Special Electric Equipment ordinance.

Attachments:

- I. September 8, 2015 UAC Report



UTILITY ADVISORY COMMITTEE AGENDA ITEM COVERSHEET

Meeting Date: 09/08/2015

Agenda Category: Other Informational Items

Prepared By: Bob Hammond, Energy Services Director

Subject:

Proposed Special Electrical Equipment Policy

Department:

Energy Services

Recommended Motion:

This is an informational item only and requires no action.

Summary:

Energy Services Department (RES) staff, through policy previously endorsed by the City's Utility Advisory Committee (UAC) and codified in Richland Municipal Code RMC Title 14 Electricity, has adopted policy and administered procedures to ensure as much as is practical that new development pays for itself, thereby not creating a subsidy from existing electric utility customers.

RES staff believes there is one substantive gap in meeting this fundamental principle. That gap relates to customers receiving enhanced service through the deployment and operations of special electrical equipment installed on the electric utility system. At present, such special equipment comes in the form of automated switching devices that allow on-site re-routing of power from a redundant source. Automated Transfer Switches and Loop Restoration Switches have both been installed on the RES electrical system to meet individual customer needs. While working well for those customers, the results are delivering above-standard service and should be paid for by the customers benefitting from that special equipment. While the cost of this equipment has been paid for by the requesting customers, we believe we should also address the life cycle costs (replacement/upgrade, operations and maintenance).

RES staff intends to forward for City Council consideration and adoption the attached draft ordinance related to Special Electrical Equipment. The schedule is to present the issue in workshop to City Council on September 22, then process for first and second ordinance readings on October 20 and November 3, respectively.

Fiscal Impact:

Attachments:

1. Draft Ordinance Adding Special Equipment to RMC Title 14

ORDINANCE NO. XX-15

AN ORDINANCE OF THE CITY OF RICHLAND Amending Chapters 14.08 and 14.30: Electricity of the Richland Municipal Code regarding Special Equipment.

WHEREAS, Energy Services Department (RES) staff administers new development scoping and costing in accordance with policy set forth generally in Title 14 RMC, Electric Utility, and specifically in Title 14.30 RMC, Line Extensions; and

WHEREAS, the intent of the development policy is to assign the sunk costs for new capital infrastructure associated with each development project to its respective sponsor; and

WHEREAS, once the new development sponsor has paid for the electric utility infrastructure associated with each project, the subsequent operations, maintenance and lifecycle replacement costs associated with that new infrastructure are included in the analysis and determination of electric retail rate development; and

WHEREAS, certain customers have requested and been granted the provision for special equipment to be installed as a portion of the RES electrical system infrastructure, thereby allowing various levels of enhanced service not normally included within the utility's level of service standards; and

WHEREAS, the existing line extension policy framework results in project sponsors paying for the initial cost of special equipment; and

WHEREAS, after installation of special equipment, the subsequent operations, maintenance, and lifecycle replacement costs, by being included in retail rate development, results in undue rate burden on the vast majority of rate payers who get no benefit from that special equipment; and

WHEREAS, this revision to Title 14 RMC will result in assigning the operations, maintenance, and lifecycle replacement costs associated with special equipment to the respective new development sponsors;

NOW, THEREFORE, BE IT ORDAINED by the City Council of the City of Richland as follows:

Section 1. RMC Chapter 14.08, Definitions, as enacted by Ordinance No. 90 and last amended by Ordinance No. 39-15, is hereby amended to read as follows:

DEFINITIONS

Sections:
14.08.010 Definitions.

- 14.08.020 Billing month.
- 14.08.030 Customer.
- 14.08.040 Construction costs of distribution facilities.
- 14.08.050 Construction payment.
- 14.08.060 Demand.
- 14.08.070 Department.
- 14.08.080 Distribution extension.
- 14.08.090 Distribution reinforcement.
- 14.08.100 Extension completion date.
- 14.08.110 Indeterminate service.
- 14.08.115 Investment cost recovery incentive.
- 14.08.120 Multiple dwellings.
- 14.08.130 Net metering.
- 14.08.140 On-peak period.
- 14.08.150 Permanent service.
- 14.08.160 Person.
- 14.08.170 Point of delivery.
- 14.08.175 Power quality.
- 14.08.180 Refund of construction payment.
- 14.08.190 Residence.
- 14.08.200 Service lateral.
- [14.08.205 Special equipment.](#)
- 14.08.210 Standard construction allowance.
- 14.08.220 Temporary service.

14.08.010 Definitions.

The following words and phrases shall, when used in this title, have the meanings attributed to them in this chapter. [Ord. 90; Ord. 12-94; Ord. 15-03].

14.08.020 Billing month.

“Billing month” means the month which includes the last day of the period of electrical consumption for which the customer will be billed. [Ord. 12-94].

14.08.030 Customer.

“Customer” means any person who uses, has used, or has contracted to use department electric energy. [Ord. 12-94].

14.08.040 Construction costs of distribution facilities.

“Construction costs of distribution facilities” means the combined costs of all facilities necessary to the distribution extension or reinforcement, including satisfactory right-of-way. [Ord. 12-94].

14.08.050 Construction payment.

“Construction payment” means the amount advanced by the applicant to pay all construction costs in excess of the standard construction allowance. [Ord. 12-94].

14.08.060 Demand.

“Demand” for any billing period means the average kilowatt delivery during the 30-minute period in which the consumption of energy is the greatest during the billing period. [Ord. 12-94].

14.08.070 Department.

“Department” means the energy services department of the city. [Ord. 12-94].

14.08.080 Distribution extension.

“Distribution extension” means distribution facilities including primary and secondary distribution lines, service laterals, and all appurtenant facilities excepting transformers and meters necessary to supply service to an additional customer. [Ord. 12-94].

14.08.090 Distribution reinforcement.

“Distribution reinforcement” means increase in size of existing facilities necessitated by applicant’s estimated electric requirements. [Ord. 12-94].

14.08.100 Extension completion date.

“Extension completion date” means the date on which the construction of the distribution extension or distribution reinforcement is completed as shown by the city’s records. [Ord. 12-94].

14.08.110 Indeterminate service.

“Indeterminate service” means service where the amount and permanency of service cannot be assured including industrial or commercial enterprises of speculative nature, real estate subdivisions, development of property for sale, enterprises where the applicant will not be the user of electric service or where there is little or no immediate demand for service. [Ord. 12-94].

14.08.115 Investment cost recovery incentive.

The “investment cost recovery incentive” is an incentive in addition to net metering in cooperation with the generating customer, the city, and Washington State Department of Revenue. Customers shall meet the requirements of WAC 458-20-273 as currently written or as it may hereafter be amended. [Ord. 14-07; Ord. 14-12 § 1].

14.08.120 Multiple dwellings.

For rate purposes, premises including two or more residential units are residences only if separate metering circuits for each unit are provided without costs to the department. All other premises including two or more residential units shall be considered multiple dwellings. Such premises are billed at a commercial rate. [Ord. 12-94].

14.08.130 Net metering.

“Net metering” is the application of a meter that measures the net difference between delivered real energy (kWh) to a customer and received real energy (kWh) from a customer over a billing interval. Any remaining received real energy (kWh) from the customer at the end of each calendar year is forfeited by the customer. Net metered locations are limited to a generation capacity of not more than 100 kilowatts; use solar, wind or hydropower as fuel; and are intended to offset part or all of a customer’s electrical load. The cumulative generating capacity of net metering systems connected

to the city distribution system is limited to 1,023 kilowatts on a first-come basis (based upon one-half percent of the 1996 city of Richland peak demand of 204,768 kilowatts as required by Chapter 80.60 RCW). [Ord. 14-07].

14.08.140 On-peak period.

“On-peak period” means the interval of time from 7:00 a.m. to 10:00 p.m., Monday through Saturday. All other hours are considered the “off-peak period.” [Ord. 12-94].

14.08.150 Permanent service.

“Permanent service” means service to residential, commercial or industrial customers where the use of service, including amount and permanency, can be reasonably assured. [Ord. 12-94].

14.08.160 Person.

“Person” means any natural person, firm, partnership, or corporation. [Ord. 12-94].

14.08.170 Point of delivery.

“Point of delivery” means the point where the department’s electric facilities are first connected to the electric facilities of a customer. The location of the point of delivery will be determined by the city in accordance with standard practice or as individual circumstances may dictate. [Ord. 12-94].

14.08.175 Power quality.

Acceptable “power quality” at the point of common coupling demarcation point is that which meets general, steady state, transient, and harmonics recommendations of ANSI C84.1, IEEE 1159, IEEE 1250, IEEE 519, IEEE 446, IEC 868, and other recognized standards as determined by the chief electrical engineer. Interconnection power quality shall additionally meet recommendations of IEEE P1453 and IEEE 929. [Ord. 14-07].

14.08.180 Refund of construction payment.

“Refund of construction payment” means the amount of construction payment returned to customers or assignees by the city. [Ord. 12-94].

14.08.190 Residence.

“Residence” means any residential unit with a separate meter, any mobile home in a mobile home park if it is supplied with electricity through a separate meter, and any house or building used on a farm; any building used as a place of worship, school, grange building, or building used by a fraternal organization, if the connected load is less than 25 kilowatts. [Ord. 12-94].

14.08.200 Service lateral.

“Service lateral” means the secondary overhead or underground electric circuit and associated facilities located between department’s distribution line and the point of delivery to a customer. Service lateral provides service for customer’s exclusive use. [Ord. 12-94].

14.08.205 Special equipment.

“Special Equipment” means equipment above and beyond what is normally included in each rate structure to provide electrical service on the distribution system. Special

equipment are items not stocked as part of warehouse inventory and ordered for specific installations at a customer's request with the intent of providing additional reliability, capacity, or enhanced service. [Ord. ##-15].

14.08.210 Standard construction allowance.

“Standard construction allowance” means that portion of necessary construction made by the department at its expense. Separate allowances will be established for residential customers and for nonresidential customers. [Ord. 12-94].

14.08.220 Temporary service.

“Temporary service” means service to customers where the expected period of usage is less than 12 months, including service to circuses, bazaars, fairs, concessions and construction sites. [Ord. 12-94].

Section 2. RMC Chapter 14.30, Line Extensions, as enacted by Ordinance No. 90 and last amended by Ordinance No. 37-07, is hereby amended to read as follows:

LINE EXTENSIONS

Sections:

- 14.30.010 General provisions.
- 14.30.020 Ownership of facilities.
- 14.30.030 Standard construction and construction payment classifications.
- 14.30.040 Calculation and payment of refund.
- 14.30.050 Reinforcements.
- 14.30.060 Overhead to underground conversion, relocations.
- 14.30.065 Special equipment.
- 14.30.070 Exceptions.

14.30.010 General provisions.

When one or more applicants request overhead or underground electric service at premises not connected to the department's distribution system or request an increase or change in service to premises already connected where such increase necessitates additional investment, the department, after consideration of applicant's electric requirements, will designate the service requested as permanent, indeterminate or temporary in accordance with the definitions.

The determination of facility type and routing will be made by the department to be consistent with the characteristics of the territory in which service is to be rendered and the nature of the department's existing facilities in the area.

In all cases, the facilities provided will be constructed to conform to the department's construction specifications. Distribution line extension contracts will be based upon the department's estimate of the cost of construction and installing the facilities necessary to adequately supply the service requested by the applicant. Such cost will include the cost of all materials, labor, rights-of-way, trench and backfill, tree trimming, etc., together with all incidental and overhead expenses connected therewith including, but

not limited to, engineering and legal expenses. Where special items, not incorporated in said specifications, are required to meet construction conditions, the cost thereof will also be included. [Ord. 12-94].

14.30.020 Ownership of facilities.

Distribution system extensions installed by the department shall be and remain the property of the department and any payments made by the applicant shall not entitle the applicant or anyone other than the department to any ownership and easement right herein. [Ord. 12-94].

14.30.030 Standard construction and construction payment classifications.

A. Permanent Service. Permanent service is applicable to overhead or underground electric line extensions for secondary or primary service where the use of service is to be permanent and where a continuous return to the department of sufficient revenue to support the necessary investment is reasonably assured.

For electric service of a permanent character, the department will install, at its expense, necessary overhead or underground electric distribution extension facilities equivalent in cost to the gross embedded investment per customer as the standard construction allowance. A review and recalculation of the standard construction allowances will be made from time to time.

Applicant shall be required to pay to the department as a construction payment all estimated costs for electric distribution facilities necessary to serve applicant in excess of the standard construction allowance. Said construction payment shall be refundable in part or in its entirety during a five-year period. At the end of said five-year period, any remaining construction payment becomes nonrefundable.

B. Indeterminate Service. Indeterminate service is applicable to overhead or underground electric line extensions for service which is of an indefinite or indeterminate nature, such as that required by, but not limited to:

1. Real estate subdivisions and development of property for sales;
2. Other enterprises of speculative characteristics; or
3. All other service to which neither permanent service or temporary service is applicable.

For electric service of an indeterminate character involving real estate subdivisions and development of land for sale, applicant shall be required to pay to the department as a construction payment all estimated costs for necessary overhead or underground electric distribution extension facilities. Said construction payment may be refundable to the developer in part or in its entirety during a five-year period commencing with the extension completion date after which any remaining unrefunded construction payment becomes nonrefundable. For all other types of electric service of an indeterminate character, applicant shall be required to pay to the department the entire estimated cost for necessary overhead or underground electric distribution extension facilities as a

nonrefundable construction payment. No standard construction allowance will be permitted in these instances.

The amount of the refund to developers of commercial real estate, where more than one meter can be installed, shall be determined by the department on a case-by-case basis. The refund amount shall be based on investment and projected revenue considerations. In no event shall the standard construction allowance be greater than the nonresidential standard construction allowance or less than the applicable residential standard construction allowance.

C. Temporary Service. Temporary service is applicable to overhead or underground electric line extensions where service is of a known temporary nature.

For electric service of a temporary character, the applicant shall be required to pay to the department as a construction payment, an amount equal to the estimated cost of installing and removing all necessary overhead or underground electric distribution extension facilities, less the estimated salvage value. If temporary service is continued for more than 18 months following the extension completion date, the nature of such continued service will be evaluated and, if appropriate, reclassified as indeterminate service. [Ord. 12-94].

14.30.040 Calculation and payment of refund.

Distribution line extensions requiring customer construction payment are subject to refunds during the five-year period commencing with the extension completion date. Such refunds will be made in conformance with the provisions applicable to refunds under the appropriate classification under which the extension is identified. No refunds will be made after the five-year period following the extension completion date and any remaining unrefunded customer construction payment becomes a permanent contribution and no longer subject to refund for any reason. In no case shall refunds be made which exceed in total the amount of construction payment made by any customer. Where a permanent service customer who has made a construction payment terminates service within the refund period and another permanent customer takes service at the same location, the first customer may transfer his right to refunds, if any, to the new customer, provided a written agreement covering such transfer is executed by the customers and accepted by the department at the time the new customer applies for service. A permanent customer who terminates service and does not transfer refund eligibility to a new customer shall bear full responsibility of notifying the department of address changes such that refunds, if any, can be forwarded. In no event shall any indeterminate or temporary customer who has terminated service be eligible for any refund after such termination.

A. Permanent Service. Construction payments made under this extension shall be subject to refund without interest during the five-year period following the extension completion date as follows:

For each additional permanent service customer connected directly to an electric distribution extension upon which there are unrefunded construction payments remaining, the department will recalculate the construction cost of the distribution

facilities, based upon the standard construction allowance corresponding to such additional customer or customers, as well as appropriate sharing of construction payment requirements among all customers to be served by the distribution line extension. Construction payments as required of each additional customer or customers must be made prior to connection of electric service laterals. Refunds of construction payments, where appropriate, will be calculated and paid once each year during the refund period and at the time determined by the department. Each customer having made a construction payment will receive as a refund the amount necessary to adjust the construction payment to the proper level considering the additional customers served from the extension and considering the standard construction allowance effect, if any, from a subsequent extension.

In the case of a subsequent extension made from an extension on which there are remaining unrefunded customer construction payments and where the initial calculated standard construction allowance from customers on said subsequent extension would exceed the construction costs for such extension, the excess standard allowance will be credited to the extension on which there are remaining unrefunded customer construction payments and become a part of the annual refunds made thereon.

Additional customers of an indeterminate service or temporary service classification can be served from a permanent extension on which unrefunded customer construction payments remain only after first allocating a portion of the construction costs of the permanent extension on a permanent basis to such indeterminate service or temporary service customers. The portion of customer construction payments required from such indeterminate service or temporary service customers resulting from said allocation will correspondingly reduce the responsibility of customers on the permanent extension and become a part of the annual refund made to such customers.

B. Indeterminate Service. Construction payments made under indeterminate extension for real estate or land development shall be subject to refund without interest during the five-year period following the extension completion date as follows:

At the end of each year for five years following the extension completion date, a refund will be made to the developer based on the additional standard construction allowances for additional customers served from the extension after first increasing the original extension costs and customer payment requirements to reflect additional secondary and service lateral investment.

Customers of a permanent service or temporary service classification can be served from an indeterminate extension on which construction payments remain only after first allocating a portion of the costs of the indeterminate extension on a permanent basis to such permanent service or temporary service customers. The portion of customer construction payments required from said allocation will then become a part of an annual refund to be made to customers on the indeterminate extension, and would be in addition to the amount of refund based on the standard construction allowance being made otherwise.

C. Temporary Service. No refund of construction payments for temporary service will be made unless the subject extension is subdivided by the addition of permanent service or indeterminate service customers or in the event that the temporary service customer is reclassified as an indeterminate service customer as follows:

1. Customers of a permanent service or indeterminate service classification can be served from a temporary extension only after first allocating a portion of the costs of the temporary extension on a permanent basis to such permanent service or indeterminate service customers. The portion of customer construction payments required from said permanent service or indeterminate service customers resulting from said allocation will be refunded to customers on the temporary extension.
2. A temporary service customer continuing to require service after an 18-month period will be subject to reevaluation as to the nature of service. If appropriate, such customer and the associated construction will be reclassified as indeterminate service with costs and refund consideration being reevaluated. In no event shall the total amount refunded to any customer exceed the total construction payment made by that customer. [Ord. 12-94].

14.30.050 Reinforcements.

Where electric distribution system reinforcement is required for serving a residential applicant's total load requirements, other than for three-phase considerations, the department will make such reinforcements at its expense. For all classes of service, any required reinforcement shall generally recognize the construction cost, standard construction allowance, and customer construction payment provisions of this extension policy in accordance with individual agreements between applicant and the department based upon the amount, character and permanency of the load.

14.30.060 Overhead to underground conversion, relocations.

Customer or customers desiring to have existing overhead facilities installed underground or desiring to have existing overhead or underground facilities relocated may request the department to make such changes.

If the department determines that such conversion or relocation can reasonably be made, the department will make such conversion or relocation on the following basis:

The estimated remaining life value of the department's existing facilities plus the cost of removing such facilities less salvage value shall be paid by the customer or customers as a nonrefundable payment. New facilities to be installed will then be considered in all respects as a new distribution extension under the terms and conditions of this extension policy.

In areas where undergrounding of existing overhead facilities is required by actions of the department, the costs of the conversion will be borne by the department. [Ord. 12-94].

14.30.065 Special Equipment.

Where special equipment is requested by customers, the life cycle costs associated with the design, procurement, installation, operation & maintenance of the special

equipment shall be paid by the requesting customer in advance of installation. The fully burdened costs are to be based upon a standard estimation framework developed and approved by the Chief Electrical Engineer. The Chief Electrical Engineer reserves the right to not provide special equipment if the equipment or installation will cause more risk or harm to other customers or to the electrical distribution system. [Ord. #-15].

14.30.070 Exceptions.

In the situation where the extension is of such length and the prospective customer revenue temporarily or permanently to be derived therefrom is so limited as to make it doubtful whether necessary fixed costs on the investment would be earned, the department reserves the right to require applicant to pay in advance all construction costs and, in addition, contract to pay the department annually an amount to cover the cost of depreciation, operation and maintenance, and pertinent costs related to such facilities.

Where line extensions are required for three-phase industrial or commercial customers, the department, at its sole discretion, shall permit the applicant to enter a five-year agreement for electric service which will guarantee the department sufficient return on investment to justify the line extension in lieu of a construction payment. This option may only be offered to permanent customers. If offered, the department may construct extensions to an applicant; provided, that applicant guarantees to pay the department five annual payments, each payment equal to 20 percent of the actual extension cost. The first payment shall be made one year from issuance of the certificate of occupancy of the applicant's facility or the date of substantial completion, whichever comes first. The department may, at its sole discretion, require the applicant to provide cash, surety bond, or approved letter of credit to secure the revenue grantee. [Ord. 12-94; Ord. 37-07].

Section 4. This ordinance shall take effect the day following its publication in the official newspaper of the City of Richland

PASSED by the City Council of the City of Richland, at a regular meeting on the _____ day of _____, 2015.

DAVID W. ROSE
Mayor

ATTEST:

APPROVED AS TO FORM:

MARCIA HOPKINS
City Clerk

HEATHER KINTZLEY
City Attorney

Date Published: _____



COUNCIL WORKSHOP COVERSHEET

Council Date: 09/22/2015

Department: Energy Services

Key Element: Key I - Financial Stability & Operational Effectiveness

Subject:

Electric Revenue Bonds (45 minutes)

Summary:

Energy Services Department (RES) and Finance Division staff along with the consulting assistance of Public Financial Management, Inc. (PFM), the City's financial advisor, have engaged the Utility Advisory Committee (UAC) for most of 2015 regarding upcoming electric revenue bonds. The main emphasis of this discussion has been on debt service repayment. This discussion has resulted in two contrasting alternatives for structuring the upcoming 2015 and future bonds. One alternative is supported by RES and Finance staff, the PFM Group, and the majority of the UAC. The other is supported by the minority of the UAC.

The UAC rules call for both the majority and minority policy opinions to be presented to City Council when there is not a unanimous opinion. At workshop both alternative opinions will be presented. The workshop meeting packet includes materials to be used in those presentations.

Following the workshop, a Special Meeting has been called wherein City Council will be presented with two alternative resolutions that represent the policy framework deemed appropriate to administer the 2015 and future electric revenue bond sales. The policy framework adopted by City Council through the approval of one of these resolutions will then supplement policy set forth in the Bond Ordinance for each future bond sale.

Attachments:

1. PFM Presentation
2. Mr. Kosmata's Report

ATTACHMENT

PUBLIC FINANCIAL MANAGEMENT, INC. PRESENTATION
Dated September 22, 2015



City of Richland, Washington City Council

September 22, 2015

Susan Musselman, Director
Public Financial Management, Inc.
(360) 445-0238
musselmans@pfm.com

Duncan Brown, Senior Managing Consultant
Public Financial Management, Inc.
(206) 858-5367
brownd@pfm.com

Overview of Topics

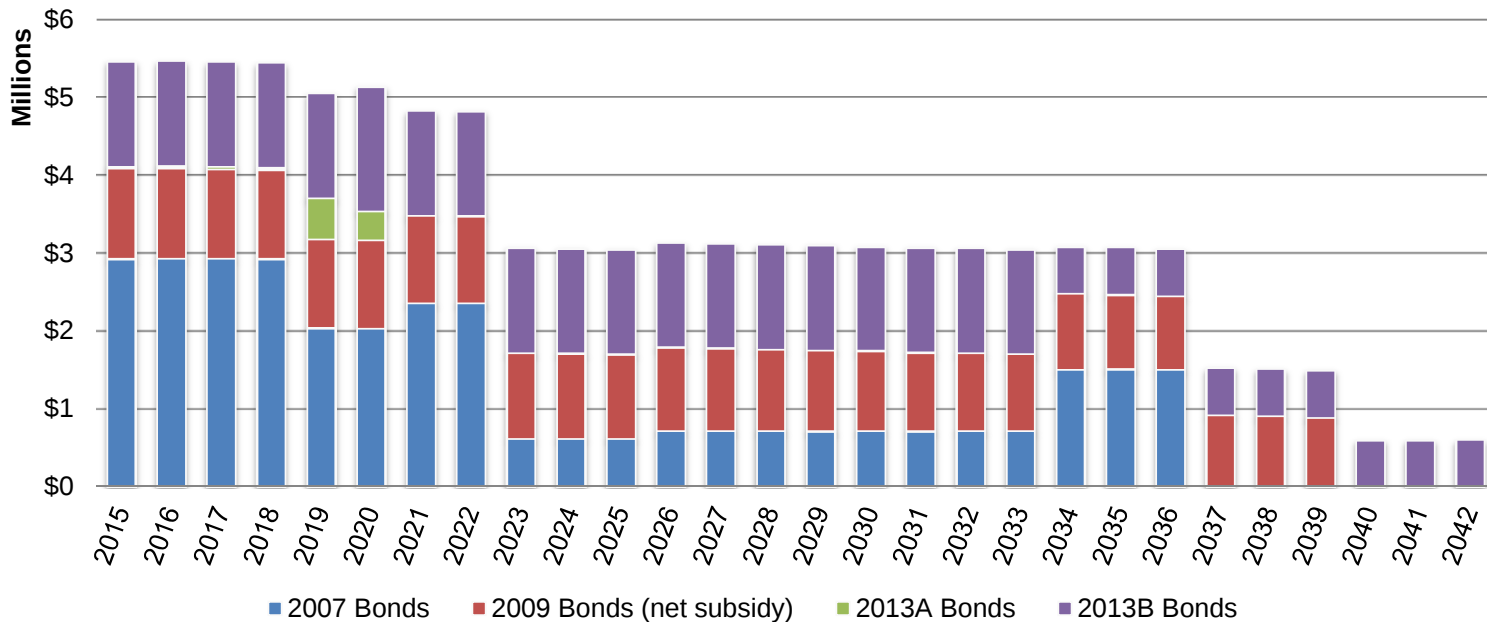
1. Current and Historical Electric Utility Debt Structure
2. Comparison of Debt Structures
3. Bond Sale Process & Next Steps

Outstanding Electric System Debt

Series	Purpose	Issue Size	Delivery Date	Final Maturity	Call Date	Outstanding Coupons	Outstanding Par	Insurer
2007	Electric Utility improvements and equipment purchase	\$25,775,000	1/4/2007	11/1/2036	5/1/2017	4.00%-5.00%	\$24,040,000	Ambac
2009 (Build America Bonds)	City's Plan of Additions	11,200,000	10/26/2009	11/1/2039	11/1/2019	3.568% - 6.375%	9,995,000	Assured Guaranty
2013A	Refunding 2003 Bonds	925,000	5/16/2013	11/1/2020	5/1/2023	1.25% - 2.50%	915,000	N/A
2013B	City's Plan of Additions and reimburse the Electric Utility	19,455,000	5/16/2013	11/1/2042	5/1/2023	2.00% - 5.00%	18,855,000	N/A
Total							\$55,365,000	

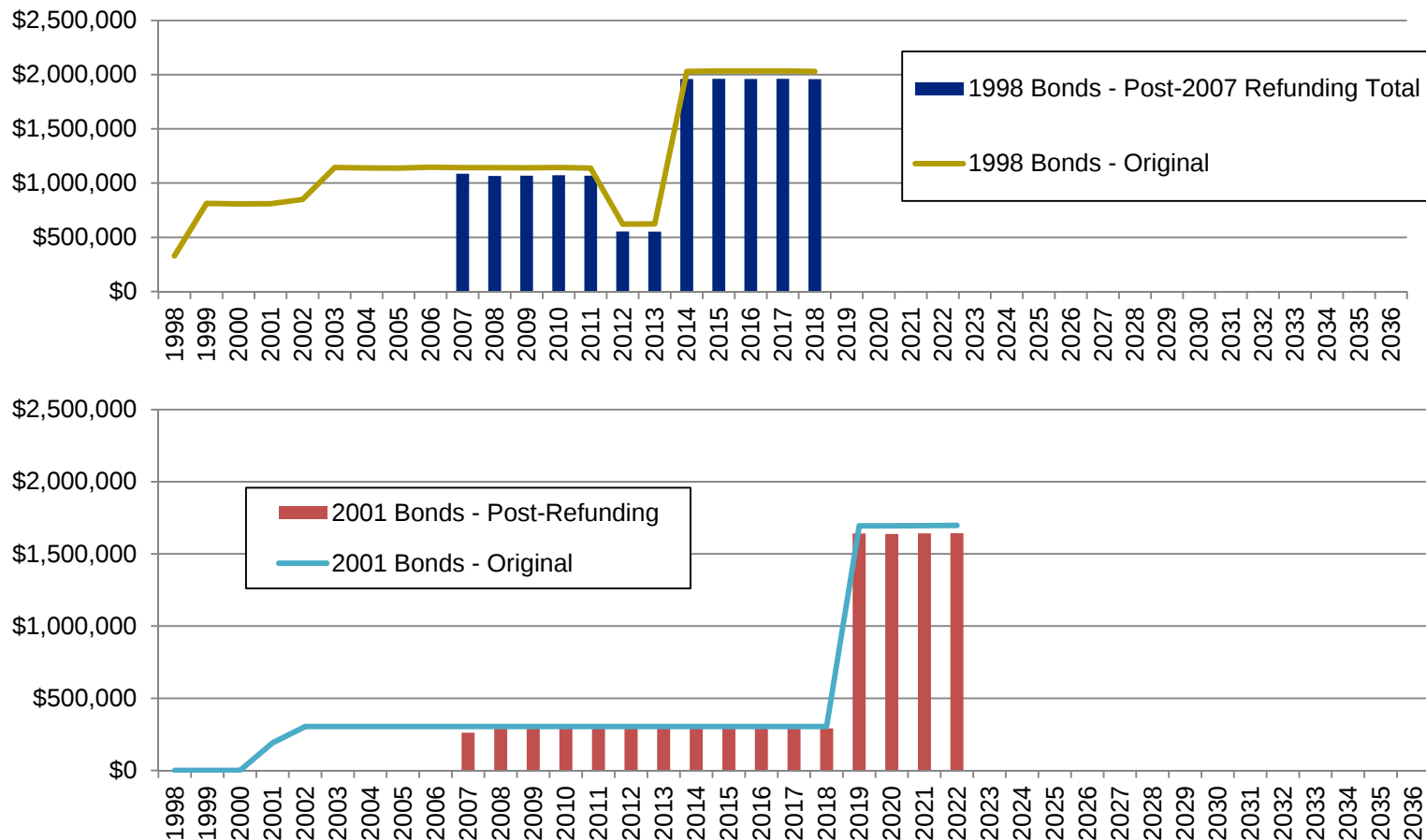
The weighted average net coupon of the City's outstanding electric system revenue bonds is approximately **4.30%**.

Annual Debt Service



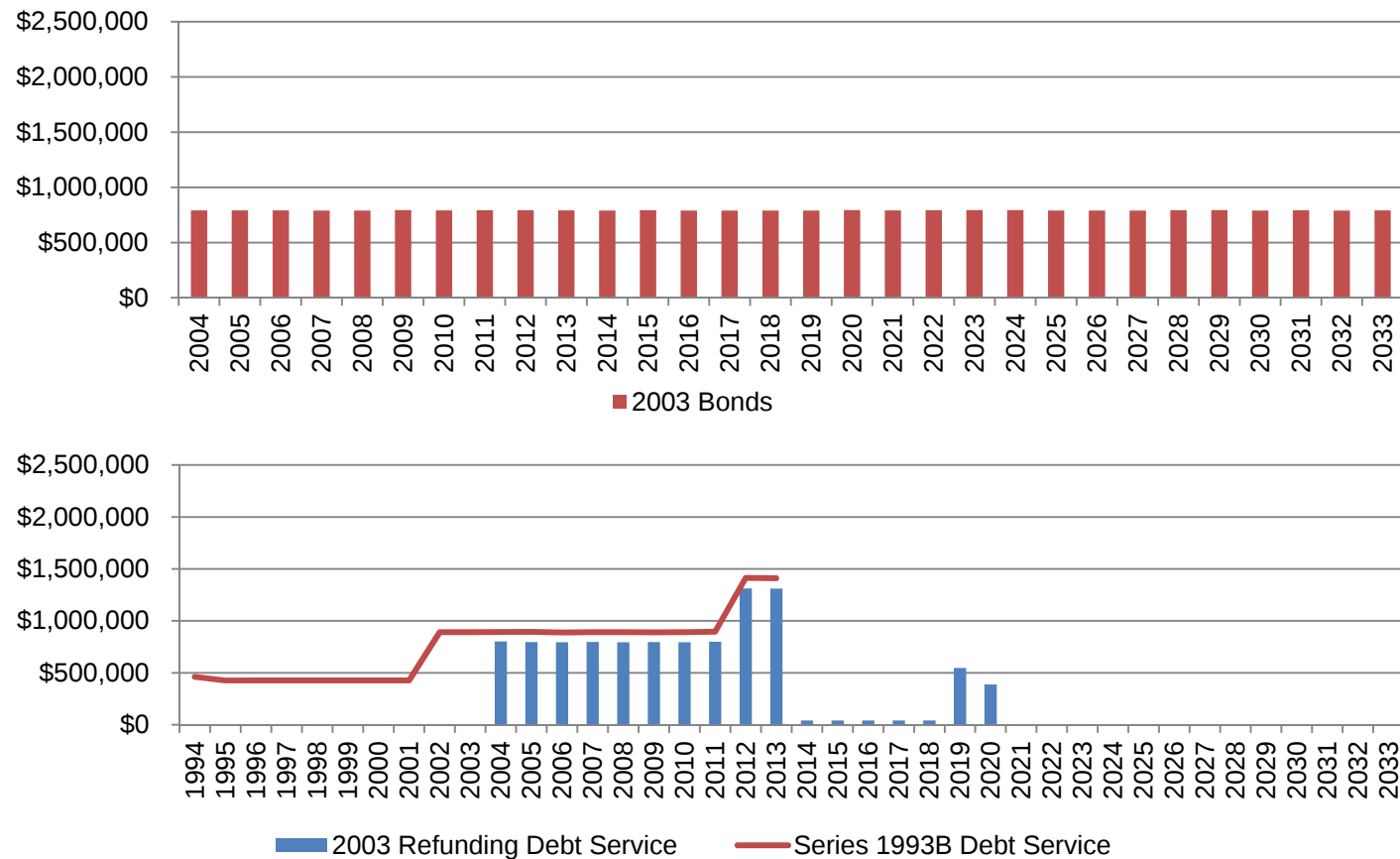
Electric Revenue Bonds, 1998 and 2001

- The charts below display the original debt service of the City's Electric Revenue Improvement and Refunding Bonds, 1998, and Electric Revenue Bonds, 2001
- The original debt service is shown along with the debt service associated with those bonds after they were refunded (refinanced) with the City's 2007 Bonds



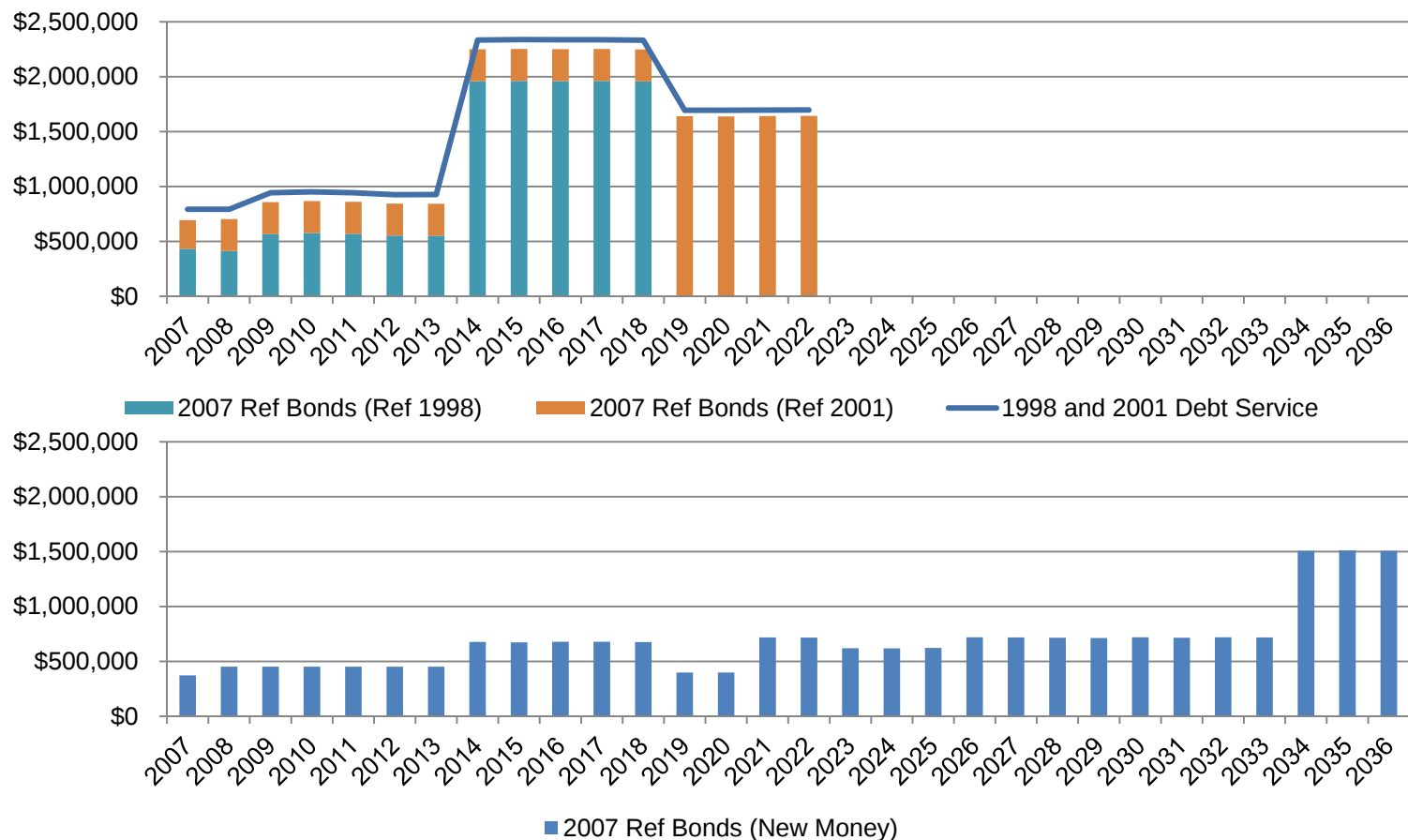
Electric Revenue Bonds, 2003 and Electric Revenue Refunding Bonds, 2003

- Shown below is debt service for the City's Electric Revenue Bonds, 2003 and Electric Revenue *Refunding* Bonds, 2003



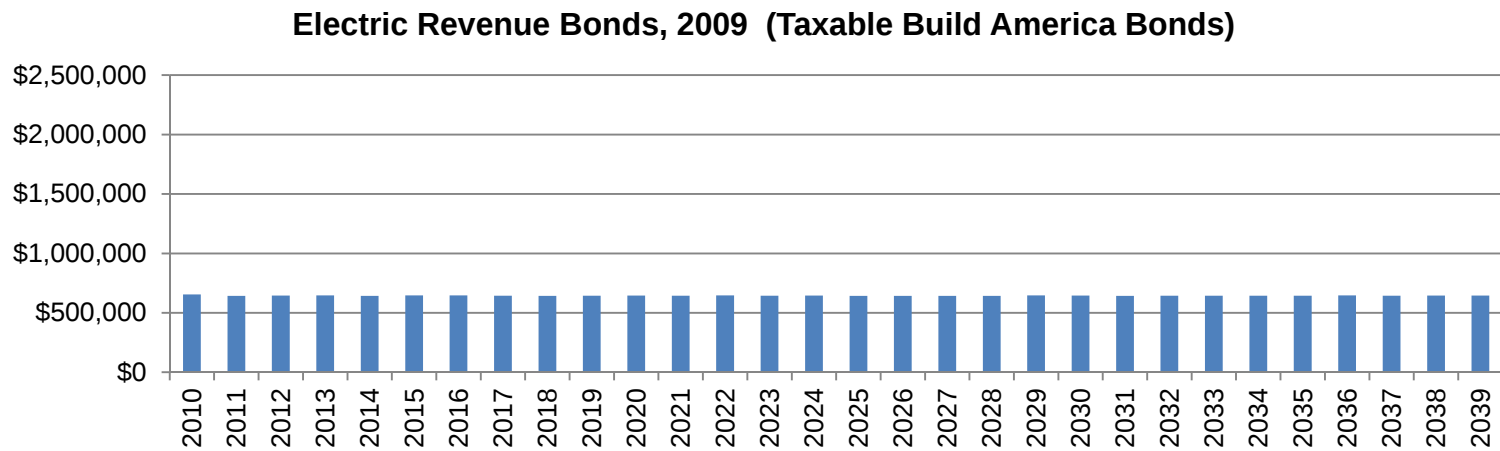
Electric Revenue Capital Improvement and Refunding Bonds, 2007

- The charts below show debt service associated with the City's Electric Revenue Capital Improvement and Refunding Bonds, 2007, broken down into 3 components:
 - Refunding the 1998 Bonds
 - Refunding the 2001 Bonds
 - Capital improvements (new borrowing)



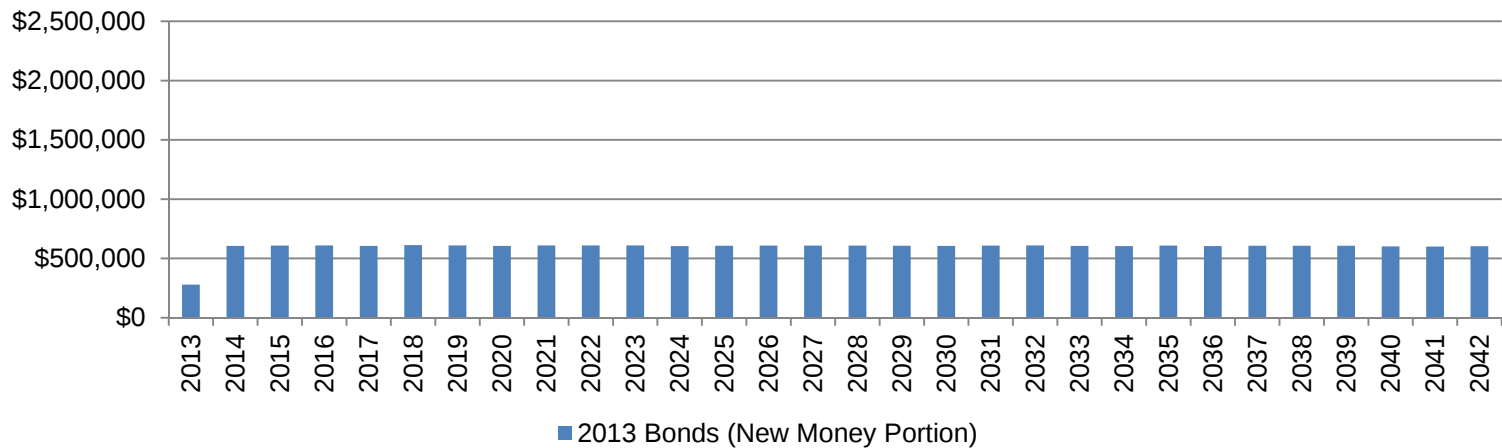
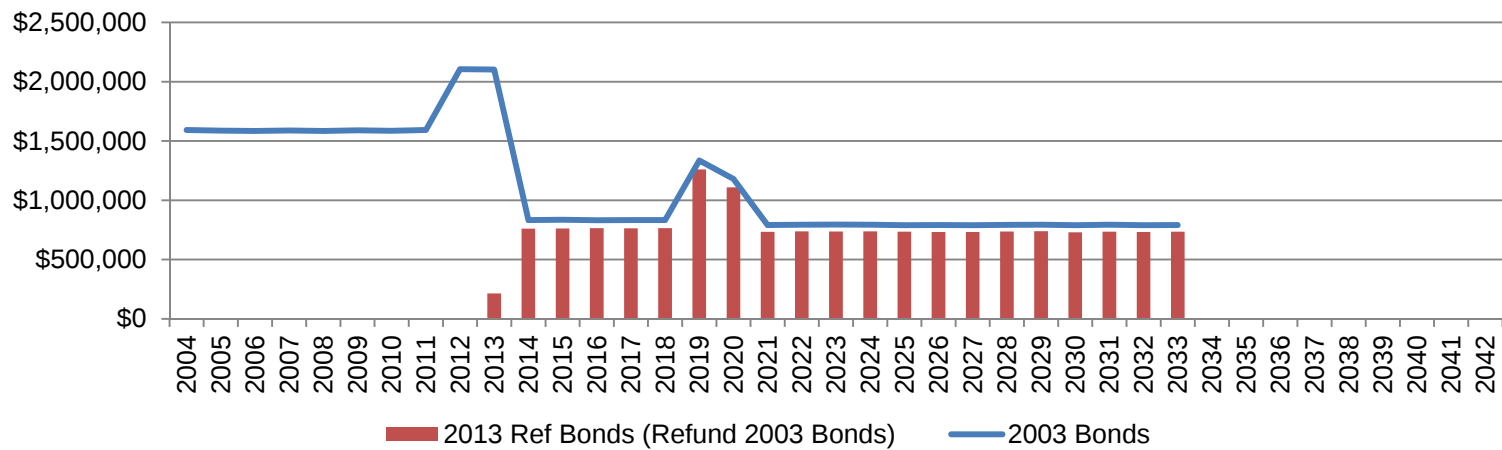
Electric Revenue Bonds, 2009

- Shown below is the debt service for the City's Electric Revenue Bonds, 2009 (net of the federal 35% "Build America Bonds" interest subsidy)



Electric Revenue Bonds, 2013A and Electric Revenue Refunding Bonds, 2013B

- Below is the debt service for the 2013 A&B Bonds, separated between the new money and refunding portions

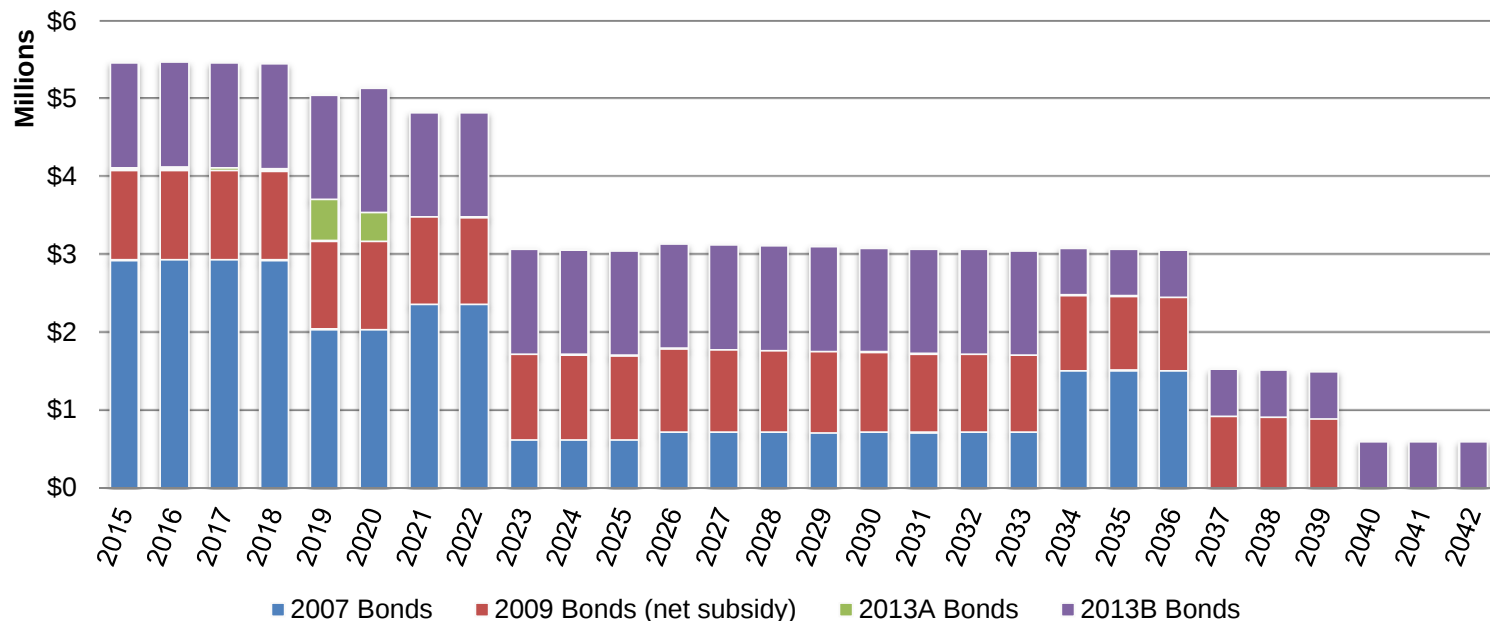


Outstanding Electric System Debt

Series	Purpose	Issue Size	Delivery Date	Final Maturity	Call Date	Outstanding Coupons	Outstanding Par	Insurer
2007	Electric Utility improvements and equipment purchase	\$25,775,000	1/4/2007	11/1/2036	5/1/2017	4.00%-5.00%	\$24,040,000	Ambac
2009 (Build America Bonds)	City's Plan of Additions	11,200,000	10/26/2009	11/1/2039	11/1/2019	3.568% - 6.375%	9,995,000	Assured Guaranty
2013A	Refunding 2003 Bonds	925,000	5/16/2013	11/1/2020	5/1/2023	1.25% - 2.50%	915,000	N/A
2013B	City's Plan of Additions and reimburse the Electric Utility	19,455,000	5/16/2013	11/1/2042	5/1/2023	2.00% - 5.00%	18,855,000	N/A
Total							\$55,365,000	

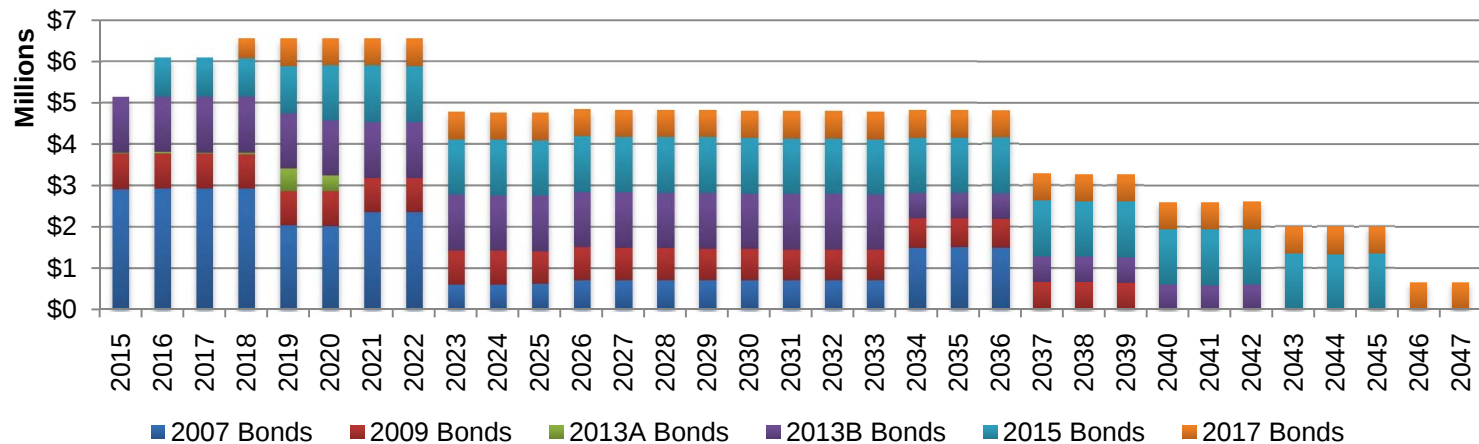
The weighted average net coupon of the City's outstanding electric system revenue bonds is approximately **4.30%**.

Annual Debt Service

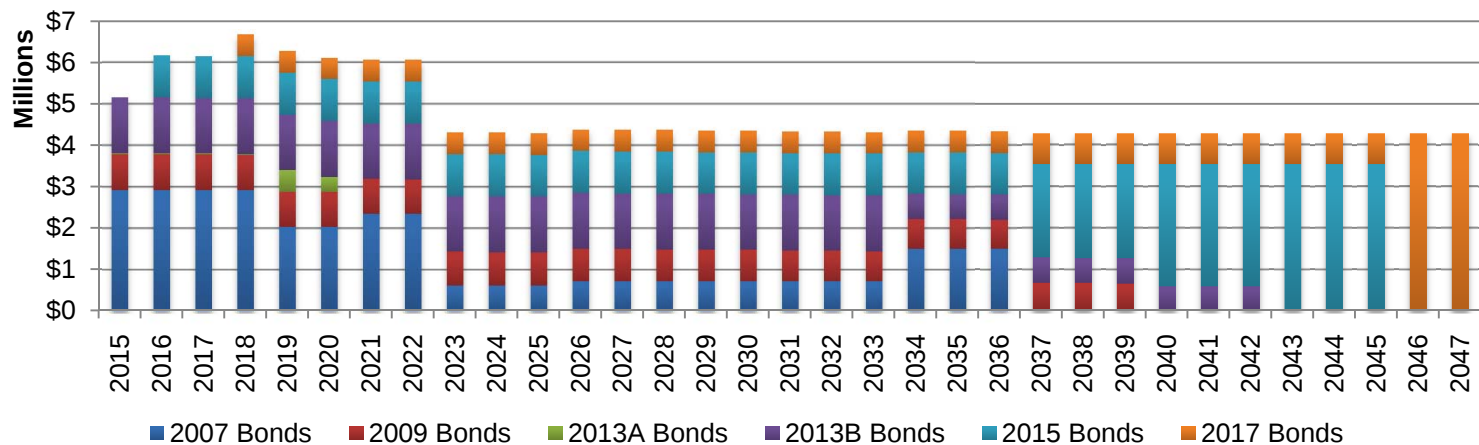


Overview of Bond Structure Alternatives

- *PFM Recommendation:* bond issues generally structured to produce level debt service on a series-specific basis

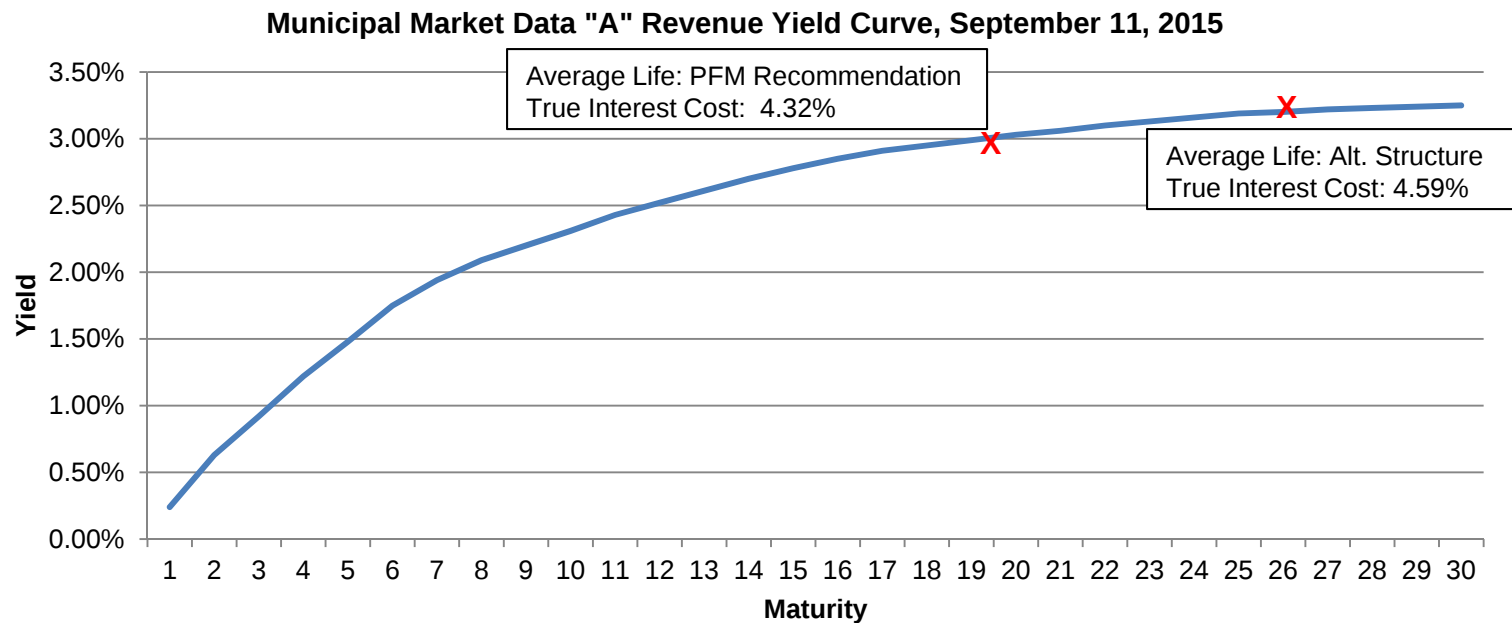


- *Alternative Structure:* bond issues structured such that new debt service is “wrapped” around existing debt service



Overview of Bond Structure Alternatives

- The chart below shows the Municipal Market Data “A” Revenue Bond yield curve, as of September 1, 2015
- The “average life” of the proposed 2015 Bonds, as structured, is shown along the yield curve below
 - Under PFM’s recommended structure, the average life would be 19.9 years
 - Under the alternative structure, the average life would be 26.9 years
- Continued use of a “wrap” structure requires borrowing on the longer end of the yield curve, which results in a higher interest rate



Overview of Bond Structure Alternatives

- Each series of bonds assumed to have a 30 year final maturity
- The 2015 bonds were sized to produce \$20 million in available construction proceeds; the 2017 bonds produced \$10.5 million of construction proceeds
- *PFM Recommendation*: Generally structured to produce level debt service on a series-specific basis
- *Alternative Structure*: Structured such that new debt service is “wrapped” around existing debt service

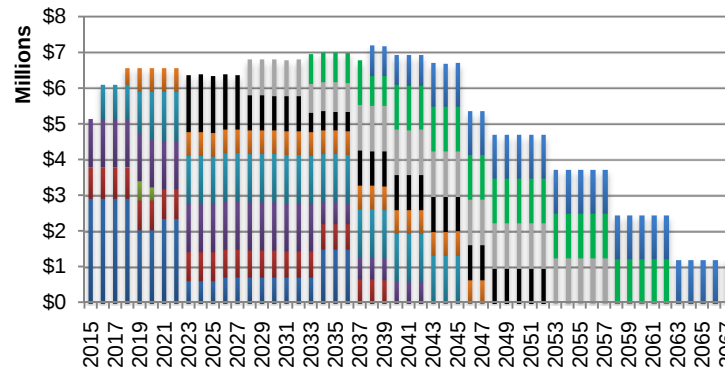
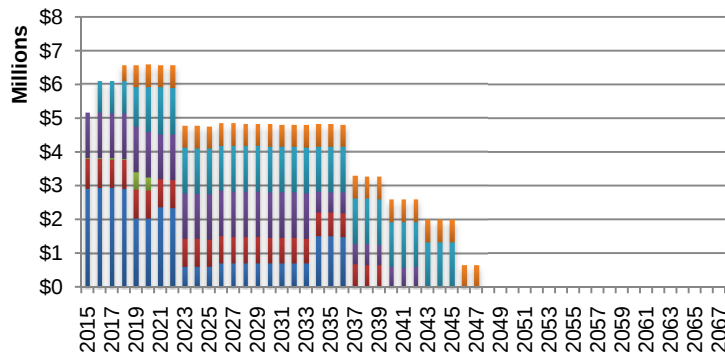
	PFM Recommendation	Alternative Structure
2015 Bonds Average Annual Debt Service	\$1,297,462	\$1,577,823
2017 Bonds Average Annual Debt Service	656,873	842,692
Total:	\$1,954,335	\$2,420,515
2015 Bonds Total Debt Service	\$38,923,872	\$47,334,695
2017 Bonds Total Debt Service	19,706,200	25,280,750
Total:	\$58,630,072	\$72,615,445
2015 Bonds True Interest Cost	4.32%	4.59%
2017 Bonds True Interest Cost	4.32%	4.62%
2015 Bonds Average Life	19.91 Years	26.88 Years
2017 Bonds Average Life	19.15 Years	28.27 Years

- *Alternative Structure* would result in lower debt service on the combined 2015 and 2017 Bonds in years 2019-2036: approximately \$465,000 annually
 - Translates to approximately \$0.95 per month for residential customers
- However, the *PFM Recommendation* results in approximately \$14 million in lower debt service over the life of the 2015 and 2017 Bonds

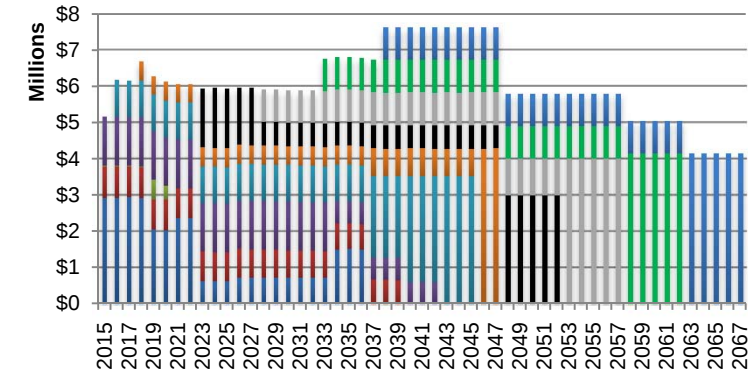
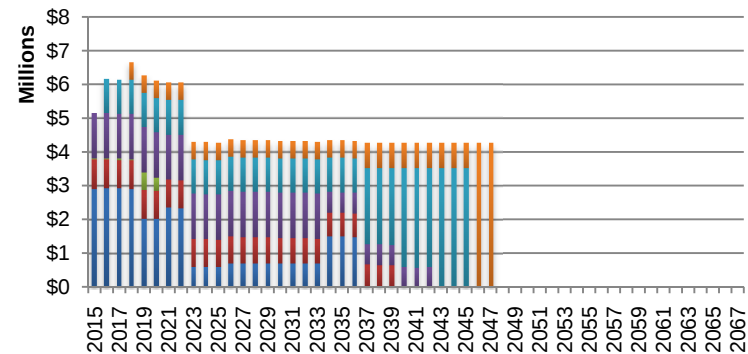
Overview of Bond Structure Alternatives

- The charts below show the “shape” of debt service under the two scenarios
- They also indicate the effects of hypothetical \$15 million bond issues in 2022, 2027, 2032, and 2037, structured along the same lines as the 2015 and 2017 issues (i.e., level debt service and “wrapped,” respectively)

PFM Recommendation

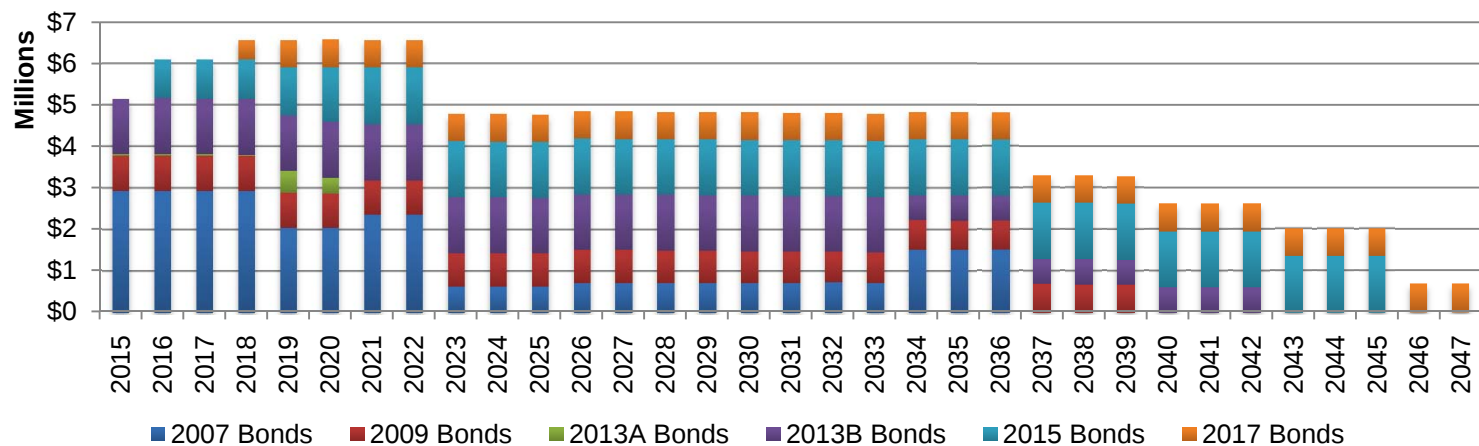


Alternative Structure



PFM Recommended Bond Structure

- In general, PFM recommends substantially level debt service for future bond issues:
 - Debt is structure across the yield curve
 - Maintains capacity to accommodate future debt service
 - Maintains greater flexibility to shape future debt service
 - Inter-generational equity: current and future ratepayers share the cost of each round of financed improvements
- Drawbacks of “wrapped” debt service structures include:
 - Forces the City to borrow on the long end of the yield curve for each bond issue (highest relative interest cost)
 - Limited flexibility to shape future debt service
 - Lack of inter-generational equity: near-term improvements funded substantially by future ratepayers



Bond Sale Process – Next Steps

SEPTEMBER						
S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

OCTOBER						
S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	30	30	31

NOVEMBER						
S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

Current schedule – next steps:

- City Council work session and special meeting
- Conference call with bond rating agency
- Finalize bond disclosure
- Bond sale
- Bond closing (funds available)

September 22
Late September
Early October
October 21
November 2

Contact Information



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Senior Managing Consultant

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ATTACHMENT

MR. KOSMATA'S MEMO TO THE UAC

Dated September 2, 2015

MR. KOSMATA'S REVISED MEMO TO CITY COUNCIL

Dated September 9, 2015

RICHLAND RATEPAYER TIME VALUE OF MONEY

Dated September 15, 2015

ISSUE PAPER

Dated August 21, 2015

To: UAC Members

September 2, 2015

From: Hank Kosmata

Subject: Option 2

With the distinct possibility of a divided viewpoint on the two options for the 2015 bond sale I have prepared a draft position in support of Option 2 which at this time I would support. Pending any new information at the meeting on the 8th I would propose sending this letter to the Council describing the reasoning behind the support for Option 2. I solicit comments and would welcome comments at our upcoming meeting and any who are of like mind are of course welcome to co-sign the letter.

Thanks

Hank

Attachment: Draft Richland City Council Members

To: Richland City Council Members

September 9, 2015

From: Hank Kosmata, Steve Arneson

Subject: Electric Utility Bond Sales

The UAC is appointed by the Council to advise them with respect to policy and planning for the managing, financing and operation of the utilities. One of the specific duties is advice with respect to the issuance of utility bonds. The City has recently authorized the sale of \$20 Million in new funds for the Electric Utility. At the request of the UAC the Financial Advisor has prepared two options for the structure of the debt service for these bonds and for another expected sale in 2017. At this time there is not unanimous agreement in the UAC with respect to which option to use as we move forward to the sale.

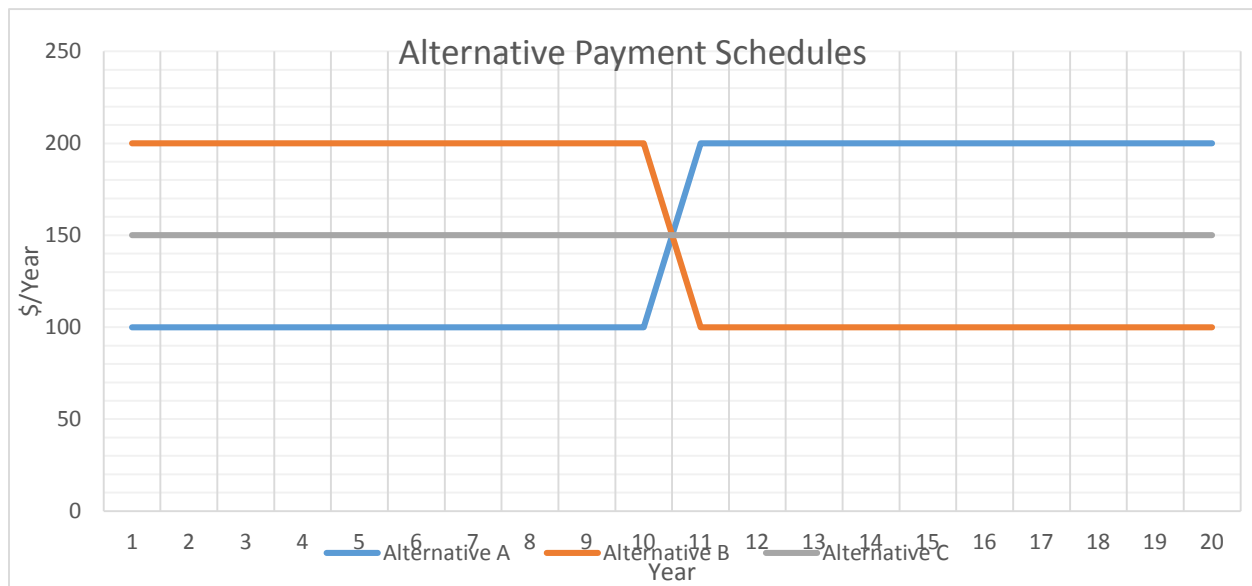
This paper has been prepared for your consideration to present the argument in support of Option 2. The final decision and direction is, of course, the responsibility of the Council.

The primary difference between the two options rests on the concept of the time value of money. The two options present two debt repayment schedules. The accepted financial method of evaluating two different payment schedules stretching over a 30 year period is to reduce the two payment streams to a present value sum of money, the alternative with the lowest present value is then judged the more favorable from the standpoint of the party having the responsibility of making the payments.

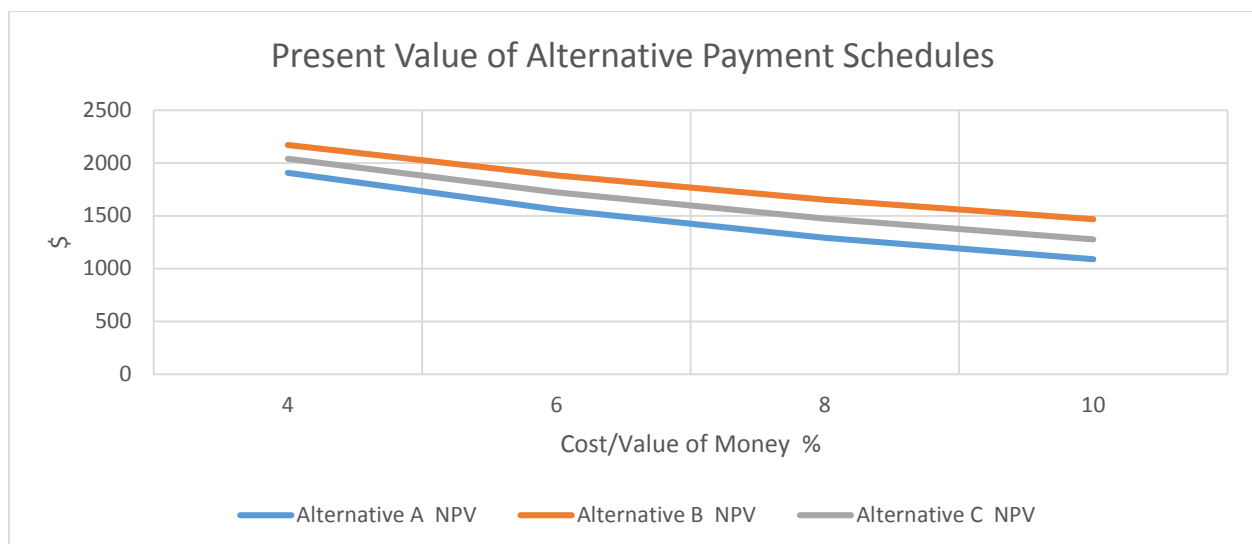
There are two key issues in the above statement, the first of which should be without dispute, that is, who pays the bill. We must remember it is **not** the City but rather the **utility customers** who actually provide the payments. This is critical because of the second point, and that is, the time value of money which is used to make the present value calculation must be the time value of the parties paying.

Since the customers of the utility each have their own time value of money we must make a judgement as to a reasonable number which is representative of the whole body. Since we are making decisions regarding 30 year payments, it is reasonable to consider the long term expectations for customers who have long term investments. Even the simplest diversified index funds like the Vanguard 500 has a long term record of over 10%. For our for-profit commercial and industrial customers, they expect a higher return on their investments than they could achieve by simply investing in index funds. The only way to accurately determine a reasonable number would be a survey of the customers, but lacking that we can make a **conservative** estimate. For the following analyses it is only necessary that we acknowledge that a representative time value of money is at least 6%, a very low bar.

To review the impact of the time value of money we can consider the following examples. Given a 20 year obligation of payments we are presented with three payment schedules, each schedule has the **same** total payment. Example 1



Alternative A is a \$100/ year payment for ten years followed by a second ten years of \$200 per month. Alternative B is the opposite, the \$200 payments in the early years and the \$100 payments in the final years. Alternative C is a uniform payment of \$150 per month for the full 20 years. Most people would intuitively choose Alternative A, and for good reason as we see below when we examine the present value analysis of these alternatives.

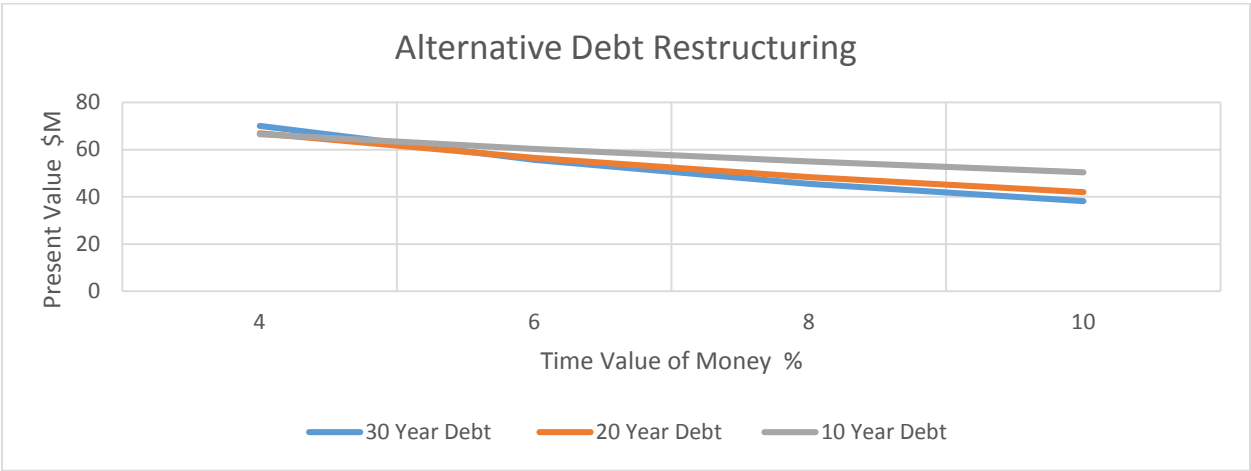
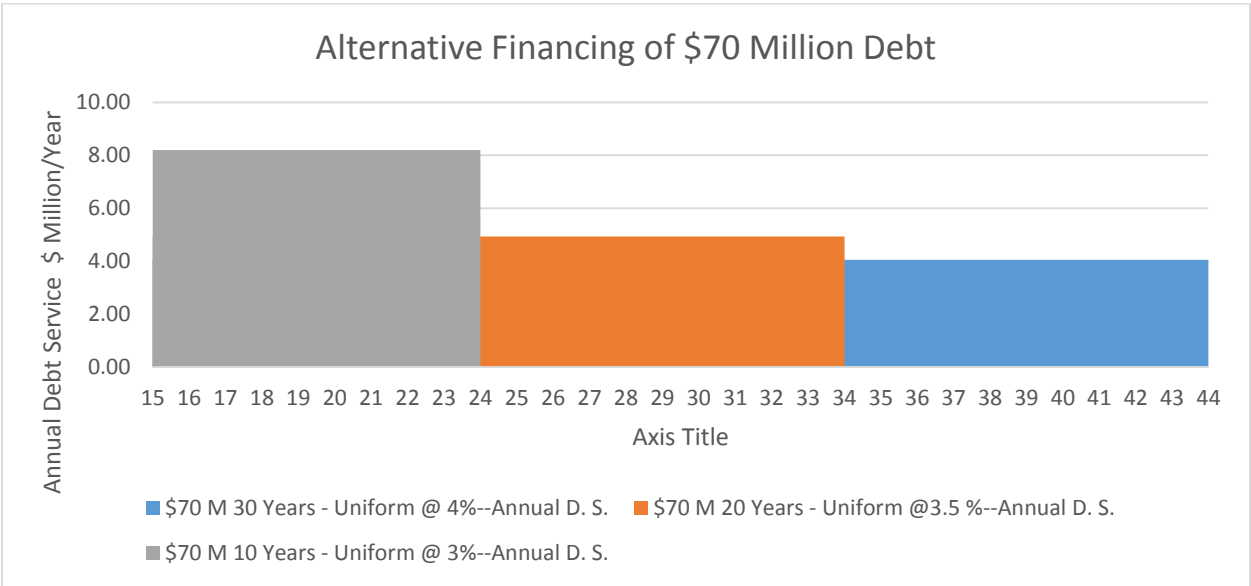


Alternative A is clearly the best choice, (the lowest present value of total payments) over the whole range of money time values, and alternative B is the worse.

A similar analysis can be made of our current total debt. After the upcoming bond sale we will have an outstanding debt of about \$70 Million. We could examine three alternative ways in which this whole debt could be restructured. Example 2

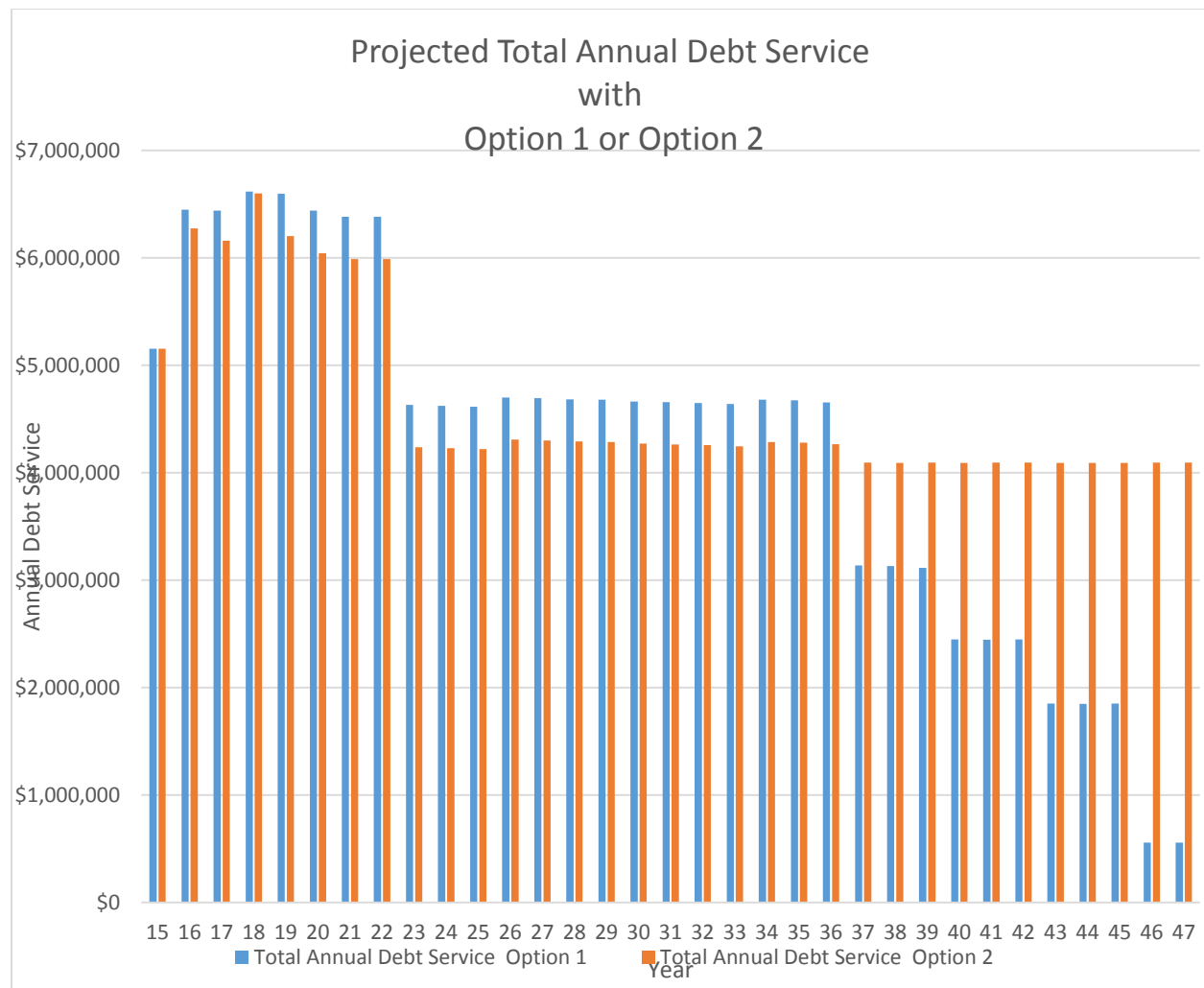
	Annual Debt Service	Total Debt Service
Alternative A--30 year uniform @ 4%	\$4.05 M/Year	\$121.5 M
Alternative B--20 year uniform @ 3.5%	\$4.93 M/Year	\$98.6M
Alternative C --10 year uniform @ 3%	\$8.2M/Year	\$82M

If we just look at total debt service, Alternative C is the winner but if we consider the time value of money we come to a different result.



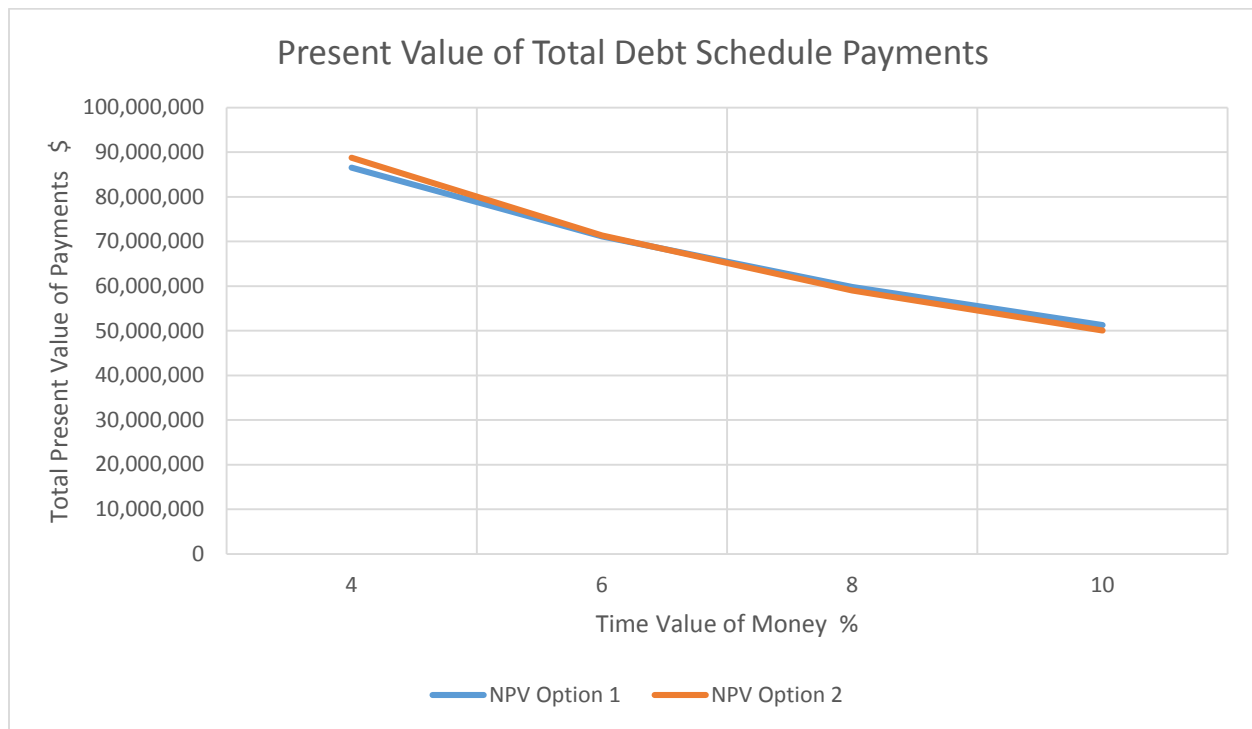
The longer debt repayment has a lower present value for **any** time value of money over 5 %.

These examples of the importance of the time value of money are germane because the primary argument that has been presented in favor of Option 1 is that the resulting debt service for that option is less than that for Option 2. If we examine the chart below we see the two options side by side. This chart incorporates the expected debt service payments from either option combined with the debt service schedule of our current debt.



Option 2 has lower debt service from 2016 through 2036, a true savings of about \$7.5 Million to current and near future ratepayers. Option 1 penalizes current ratepayers and after 2036 rewards future ratepayers. On the other hand the striking advantage of Option 2 is the uniform debt service for **all** ratepayers from 2023 through 2047. This is clearly in accordance with the long standing policy position of the UAC that current and future ratepayers are treated equally in as much as is possible. (The unfortunate peak of debt service in the 2015 through 2022 period is the residual of a 2007 bond sale that front loaded the debt service schedule with little regard to the time value of money—see example 1, Alternate B--- and needs to be treated with a restructuring of that debt.)

Again, in order to judge the merits of two different long term payment schedules we should examine their present value over a range of money time values.



We see that the two are essentially equal with a slight edge to Option 2.

So now, Option 2 passes three tests: (1) it has significant near term savings for current and near term ratepayers, (2) it has slightly lower present values for total debt service payments, and (3) when combined with the current debt service schedule, it does not penalize or reward future ratepayers. The latter point is important because the system cost is based on the total resultant debt service, and that is the profile that impacts the ratepayer.

It is of interest that the City used the Option 2 method of debt service in a succesful bond sale in 2001 without any repercussions or adverse events. Had we continued that process through the next 5 bond sales we would now have a much more attractive debt service schedule.

The support for Option 1 that it has a lower total debt service is factual, but not sufficient, given even a low time value of money.

We recommend the Council should persue Option 2 for the upcoming and future bond sales and refinancings. A major advantage of the Option 2 approach for future bond sales is that we can look forward to a uniform payment schedule for the **total** resulting debt service which will prevent the unnecessary peaks and bumps we are now having to deal with.

In 2014 the Richland electric utility sold 895.83 M kWh of electricity to its customers.

Residential customers made up 39.1% of the load, industrial and commercial customers made up 60.2%, and 0.6% went to city services. The for-profit I&C customers were 43.7% of the total.

The City utilities often are faced with long term financial decisions with respect to investments and/or issuing debt. In many cases two or more options are available to meet these needs and this results in alternative long term cash flows. The **universally accepted** manner of choosing the best alternative for the ratepayers is to reduce the alternatives to a present value using the time value of money for the party that pays the bill, and this is **not** the City, but the utility customers.

Each customer has their own time value of money and an accurate number could be obtained by a survey of customers. Lacking such a survey it is appropriate to do what is done in many business and engineering problems, we can make reasonable estimates using readily available economic information and common sense. A range of estimates can be made for each customer class and subdivision of class in order to arrive at approximations of a time value of money which can stand in for the whole rate base when making economic decisions.

For example, a certain percent of residential customers invest in the stock market either through individual stocks or stock mutual funds or self- directed 401(k) or IRA accounts. A recent national poll (Gallup) puts this number as high as 55%.

Simple index funds like Vanguard 500 have a 38 year history of a 10.8 % return and other highly diversified funds have comparable long term returns. (If we are examining long term debt options then it is appropriate to consider long term investment options for ratepayer investors.)

Other residential customers carry credit card balances, the national records say 30-40% of households, paying 10-15% on these balances. For these customers the value of money is clear.

For-profit industrial and commercial customers expect higher returns on their investments than they can get by simply investing in index funds.

The balance of the ratepayers have a cost of money at what could be called the default level, the City cost of money, at about 4%, either because of mortgage payments or investments in, for example, long term tax exempt bonds.

To arrive at a composite rate representing the total ratepayer base, assumptions are made for the various classes and then a weighted number can be calculated to stand for the total.

The calculations shown on the following page show a reasonable number of 8.59%, with a high of 10.68% and a low of 7.40%. Using the City value of about 4% would appear to have no merit and is misleading if used to represent the entire ratepayer base-the people who pay the bills.

Those who question the assumptions are welcome to show their basis for other assumptions.

	Share of load	Expected rate of return - %	Share of total return- %
Base estimate			
For-profit I&C Customers	0.437	12	$0.437 \times 12 = 5.24$
Investor residential-20%	$0.2 \times 0.39 = 0.078$	10	$0.078 \times 10 = 0.78$
Debtor residential ---20%	$0.2 \times 0.39 = 0.078$	12	$0.078 \times 12 = 0.94$
Balance of load	0.407	4	$0.407 \times 4 = 1.63$
Total return			8.59

Low estimate			
For-profit I&C Customers	0.437	10	$0.437 \times 10 = 4.37$
Investor residential -20%	$0.2 \times 0.39 = 0.078$	8	$0.078 \times 8 = 0.62$
Debtor residential - 20%	$0.2 \times 0.39 = 0.078$	10	$0.078 \times 10 = 0.78$
Balance of load	0.407	4	$0.407 \times 4 = 1.63$
Total return			7.40

High estimate			
For-profit I&C Customers	0.437	15	$0.437 \times 15 = 6.56$
Investor residential - 40%	$0.4 \times 0.39 = 0.156$	10	$0.156 \times 10 = 1.56$
Debtor residential – 30%	$0.3 \times 0.39 = 0.117$	12	$0.117 \times 12 = 1.40$
Balance of load	0.29	4	$0.29 \times 4 = 1.16$
Total return			10.6

One could also simply assume a 10% time value of money for the for-profit Industrial and Commercial customers and assign a default rate of 4% to the balance of the customer load to arrive at minimal group rate less likely to be challenged. The math is as follows:

$$0.437 \times 10 = 4.37$$

$0.563 \times 4 = 2.25$ The result is 6.62%-suggesting a survey of I&C customers would be worthwhile.

ELECTRIC UTILITY LONG TERM DEBT

SUMMARY

In spite of the unanimous and long term (15 years) policy advice of the UAC that we strongly urge equity between current and long term ratepayers, we find that our current debt service schedule has been shaped in a manner that significantly penalizes current ratepayers. While there is little to be done immediately to correct that problem, we can try to make sure that upcoming bond sale debt service schedules better fit our stated policies.

To that point, we have a proposed bond sale this year and another potential sale in 2017. In response to the UAC request the financial advisor prepared two optional methods of structuring the debt service for those sales. Option 1 used a uniform debt service schedule. Option 2 used a shaped debt service which the advisor termed as “wrapped”.

Using the data provided by the advisor, in comparing the debt service payments over the 30 year life of the bonds, Option2 shows significant immediate and long term (\$400,000 per year) savings out through 2036. At that point the costs for Option 1 are lower.

In a discounted cash flow analysis of the two payment streams Option 2 has an advantage for any cost/value of money over 6%.

Given the significant long term savings and a true saving considering the present value of the payment streams, it would appear there is good reason to choose Option 2 or the “wrap” as the recommended debt service schedule.

ELECTRIC UTILITY LONG TERM DEBT

The Richland electric utility plans to add \$20 million in new debt in the last quarter of this year and as this will be used for capital projects it will result in a net infrastructure base of about \$100 M. The resource base (the capital base) of the utility is financed by three primary cash streams: long term debt, rate financed capital and facility fees. Each of these sources of cash has a specific purpose.

A facility fee is assessed to a developer to pay for the new distribution infrastructure needed in a new development and is passed on to the owners of the new homes. The rationale here is that current and past ratepayers have already paid for the infrastructure that serves them and now the payment by new home owners puts everybody in an equal position.

Rate financed capital is an annual charge to all ratepayers which is used to maintain and replace current infrastructure. It is estimated that the current system has a useful average life of about 30 years. The amount charged each year as rate financed capital, if properly done, should mean that the current resource base continues to have a **moving** 30 year useful life.

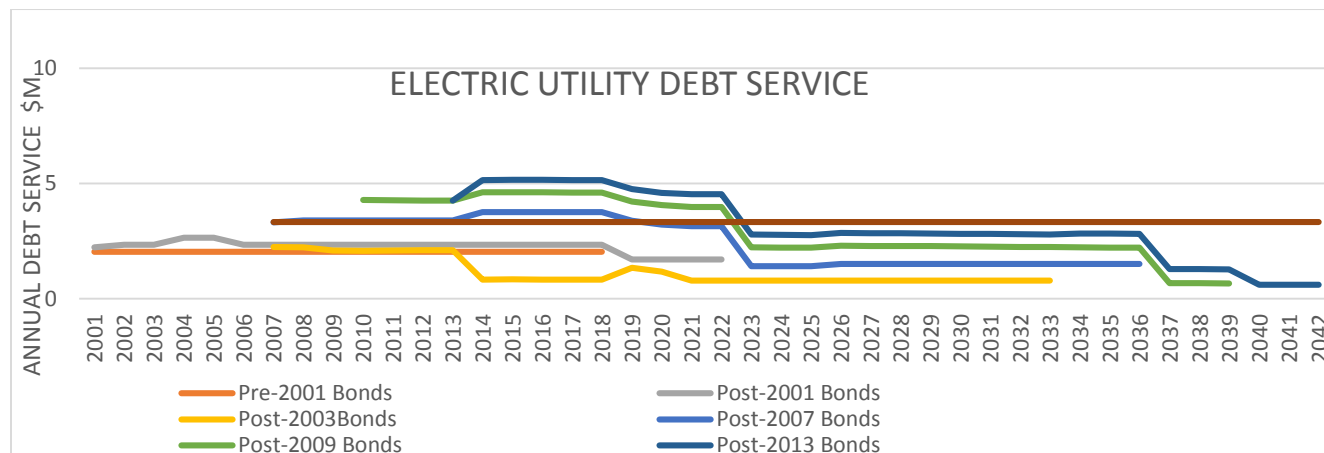
Long term debt is used to provide additional infrastructure to serve **new** growth caused either by increases in customer, energy or capacity or combinations of these factors. If the utility base was stable (no growth) no new long term debt would be needed as the rate financed capital would be sufficient to continue to maintain the system.

Richland, of course, has been growing and has seen the need to periodically add new long term debt. The growth rate for energy consumption between 1997 and 2014 has been at a rate of 1.8% per year. The growth rate for debt has been 8%/year in the same period, which suggests that over that whole period we have not been uniformly charging enough in rate financed capital.

With the sale of \$20M in new debt our outstanding debt at the beginning of 2016 will be about \$70M. The debt repayment period will be 30 years. It is generally accepted that the debt repayment period should be comparable with the useful life of the resource base which it has helped provide. If we have a **moving** resource base with an average 30 year life then a **moving** 30 year debt repayment period is appropriate.

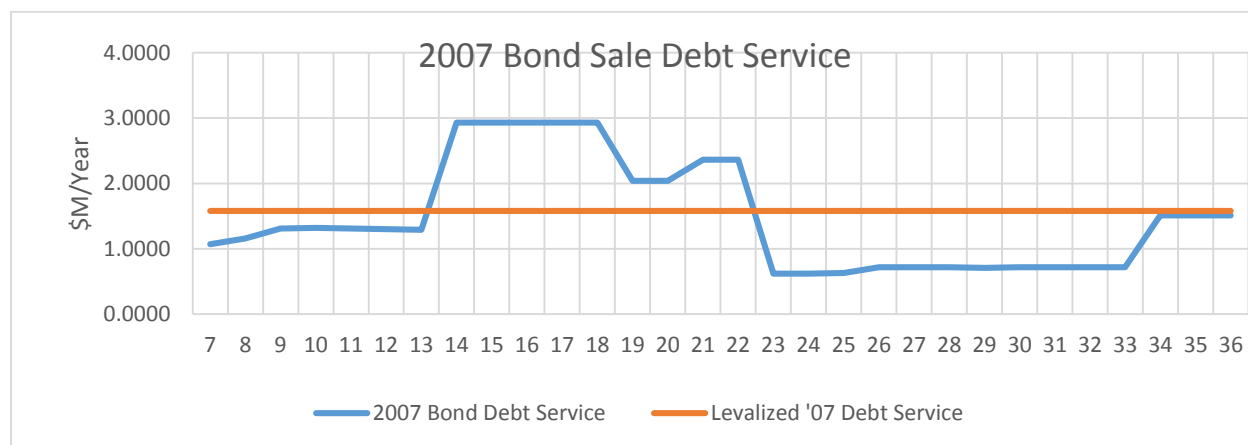
In July of 2014, the staff presented proposed rate increases of 5.33% in 2015 and 13.8% in 2016. In examination of the causes for these large proposed increases one of the major drivers was debt service payments of over \$5M/year in 2015 through 2018. These seemed totally out of proportion for the size of our debt and on examination were found to be caused primarily by what could only be described as a bizarre debt service shape from the 2007 bond sale. What could have been uniform payments of little over \$1.5M/ year shot to almost \$3M/year in years 2014-2018. These payments are imbedded and can't be changed until 2017, but we have found solutions to reduce the proposed rate increases, primarily by reducing our rate financed capital charges in those years. This, of course, is a short term fix and we need to return to our normal rate financed rate in the near future.

This surprise in the distorted debt service schedule led me to analyze our past bond sales and their resultant debt service profiles and I wrote a paper on the subject in August of 2014 titled Electric Utility Debt Service. I showed the cumulative result of bond sales from 2001 through 2013. (See Appendix 2 to see how this evolved.)



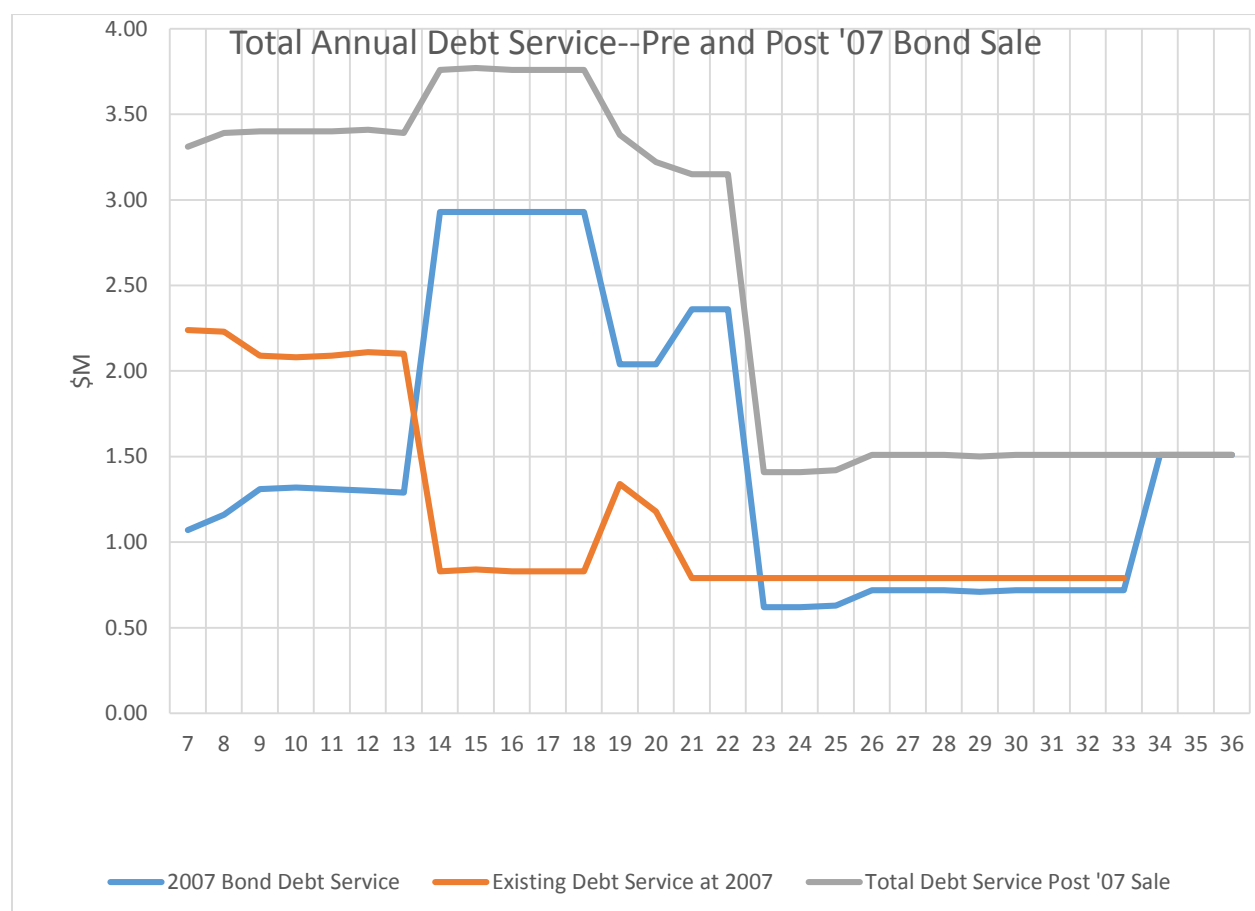
The red line through the middle shows what the annual debt service could have been if the total debt was refinanced and leveled. (See Appendix 2 to see how this evolved.)

Since 2000 the UAC has recommended a policy of no subsidization of one rate class in favor of another and no subsidization of future rate payers at the expense of current rate payers, and vice versa. We have also asked for 30 year debt for new bonds. What we failed to do was to ask for uniform debt service, to the extent possible, over the forward projection of our outstanding debt. We certainly never asked for the distorted debt service we now have. I'm sure the **utility staff** never asked for this either. What occurred was the financial staff and their financial advisors and the bond underwriters designing their own shaped debt service, most likely lured by buyers and underwriters satisfying the desires for individual interests in certain maturities. Why else would we find principal jumping from \$165,000 to \$1,805,000 in year 7 of a 30 year bond? Does this '07 schedule make any sense?



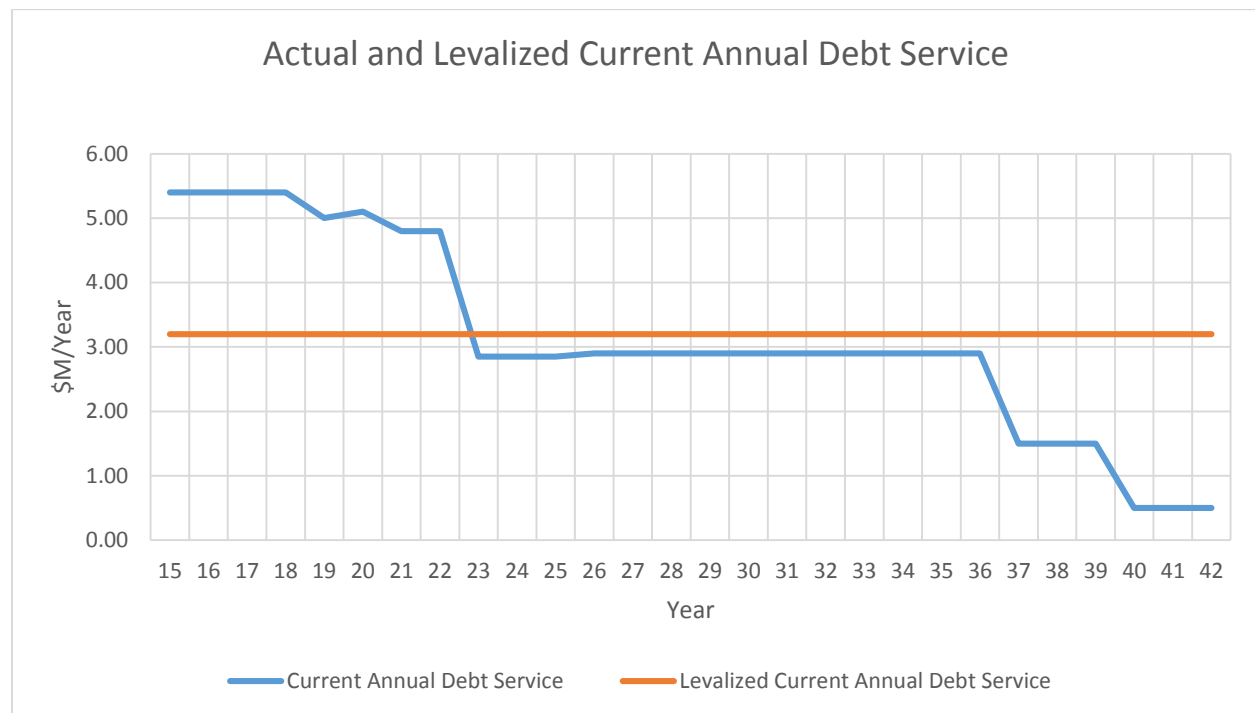
The blue line above is the actual debt service schedule from this sale and the red line shows what it could have been if it had been structured on a levelized basis. The chart below shows the results of the '07 sale as it was then included in the then existing debt service schedule.

It has been suggested that this sale might have been purposely shaped as it was to adjust the **final** total debt service schedule-if so it certainly could have been much better accomplished. The results are shown below.



Again, what utility manager would ask for this kind of debt service schedule? There has been some concern about “shaping” the annual debt service schedule, but we must realize that it **has been done**, and done to an extreme in the past, and certainly not to aid the utility manager nor the current ratepayers. The fairness doctrine is ignored and for most practical purposes the 30 year spread is ignored, as most of the debt service is clustered in the first 17 year period.

The chart below shows the actual **current** annual debt service schedule that the utility is dealing with and also shows what it would have been had it been levelized as it was developed. The total current debt service is \$87.6M and the levelized debt schedule would be \$96M. However, in addition to the sizeable savings to current rate payers that the level debt service would have provided, for any ratepayer with a cost/value of money greater than 4% the levelized debt payments would be lower.



Debt service payment is an annual obligation that must be paid for by the ratepayers each year so the \$2M unnecessary bump we are now coping with represents about 3.6% in rates which we are having to work our way around by cutting our rate financed capital, which means we are forcing some of the burden of renewal and replacement on new debt.

In anticipation of a new bond sale in late 2015 or early 2016 the UAC discussed with the new financial advisor the possibility of shaping the **resulting total debt structure** to be more uniform out over the next 30 years. At the July UAC meeting the financial advisor presented two options for the resulting debt service with the sale of \$20M in late 2015 and an additional \$9M in 2017. Option 1 used level debt service for each of the future sales and added that to the current debt service for the current debt. Option 2 “wrapped” the debt service using interest-only payments in early years in order to achieve a very even debt service from years 2023 through 2047. Option 2 was “shaped” to give us what would seem to better fit our fairness doctrine between current and future rate payers.

Then financial staff and the financial advisor indicated a preference for Option 1. When pressed for a reason, the bottom line seemed to be that the total debt service for Option 1 would be less than for Option 2. Now here we have a problem. **Uniform debt service over 30 years and minimized total debt service are not compatible goals.** If we were seeking a reduced **total** debt service for our outstanding debt we could refinance it over 20 years or even 10 if we were seeking a minimum total debt service.

At the beginning of 2016 we will have an outstanding debt of \$70M. We could look at these 3 refinancing options.

TABLE 1	Annual Debt Service	Total Debt Service
30 year uniform @4%	\$4.05M/year	\$121.5M
20 year uniform @3.5%	\$4.93M/year	\$98.6M
10 year uniform @3%	\$8.2M/year	\$82M

We could make the case that 10 year debt would save \$39.5M, (\$121.5M minus \$82M). Of course we would also have to explain to the rate payers in those first 10 years why we are increasing their rates by almost \$4M/year for 10 years, or about an additional 7%. We could tell them to look ahead to the good times in year 11 when we will be able to reduce their rates by 14%. Is this how we want to run the utility?

Of course we **know** that extending the debt uniformly over the life of the asset base will cost more than jamming it to current rate payers, but we got past that back in '98 when we finally got the staff to use long term debt to finance the city shops rather than rate finance them over 3 years, as was their original intent. Our stated goal is fairness between current and future ratepayers with respect to paying for the assets they use to provide the service they want.

If we were **forced** to skew the debt service with respect to current or future ratepayers **why would we choose to punish the current ratepayers?** The point is we can provide fairness to both. It is perfectly alright to shape the debt service to meet our needs. It is common for utilities, corporations or individuals to reshape debt service. People shape debt service all the time for various reasons. It has certainly been done **to** us rather than **for** us. The fact that the financial advisor uses the term "wrap" indicates we are not inventing anything.

There also seemed to be a sense that using interest-only debt payments for a period is somehow improper, but you will find that in our own past bond sales we have used this method from time to time. Utilities like Chelan and the State of Washington, and I'm sure others, also issue zero coupon bonds at times. These bonds pay no interest or principal until a maturity date when both are paid at once. The clear purpose of these bonds is to extend debt payments and shape debt service schedules, and certainly Chelan is one of the oldest and most sophisticated utilities in the country.

Finally, the question of how to add future debt. Future debt can be added in three basic ways:

- 1 Uniform debt service over the life of the debt.
- 2 Interest-only payments for a period followed by uniform payments for the balance.
- 3 “Wrapped” payments using a combination of zero interest and interest-only payments to keep the debt service as equal as possible over the **new** period of debt service.

Examples are shown in Exhibits 1 and 2. First we see the ideal uniform payment over 30 years for \$70M in debt. Then \$15M in new debt is added after 5 years using each of the 3 alternatives. (It should be noted that \$15M at a 5 year increment is in effect a 3%/year growth rate over an asset base of \$100M and should be compared to our energy use growth rate of less than 2%/year.) The “wrap” alternative would seem to better achieve the “fairness doctrine”.

If we have continued growth and we add new debt every 5 years then it is appropriate to place most of the repayment of the new increments out into the end of the **new** 30 year debt repayment structure which the “wrap” option does. We should also note this option also adds a **minimum** new added annual debt service payment and of course, if the cause of the new debt is a growth in new customers, then the total debt service cost **per** customer should be little changed.

Then the question comes up with regard to successive additions of new debt. Even with excessive continual (greater than requirement growth) the “wrap” option adds a minimum new annual debt service and pushes the bulk of the new debt repayment out into the end of the **new** 30 year period. I emphasize new because we must remember as we periodically add new debt the whole new debt service period continues to move forward to match the continuing new useful life of our asset base as it continues to be renewed and replaced by a proper level of rate financed capital. This is a dynamic rather than a static system.

Using the actual numbers from the financial advisor for the prospective bond sales this year and in 2017, we find an immediate advantage of over \$400,000 for the 2016 and 2017 period and a **continuing advantage of almost \$400,000 a year through 2036** for Option 2 or the “wrap”. In addition, the total comparison of the two alternatives over a 30 year period shows an advantage for Option 2 for any ratepayer having a higher cost/value of money over 6%. (See Appendix 3)

In summary, if we continue to believe and promote the “fairness doctrine” then it is reasonable, acceptable and doable to request our new financial staff and our new financial advisor to take the steps necessary to design the debt service schedule of our upcoming and future bond sales to insure that: (1) The debt extends over a 30 year period, (2) that our current costs are minimized and (3) that the **total resulting system debt service profile** is as uniform as possible-and that’s a “wrap”.

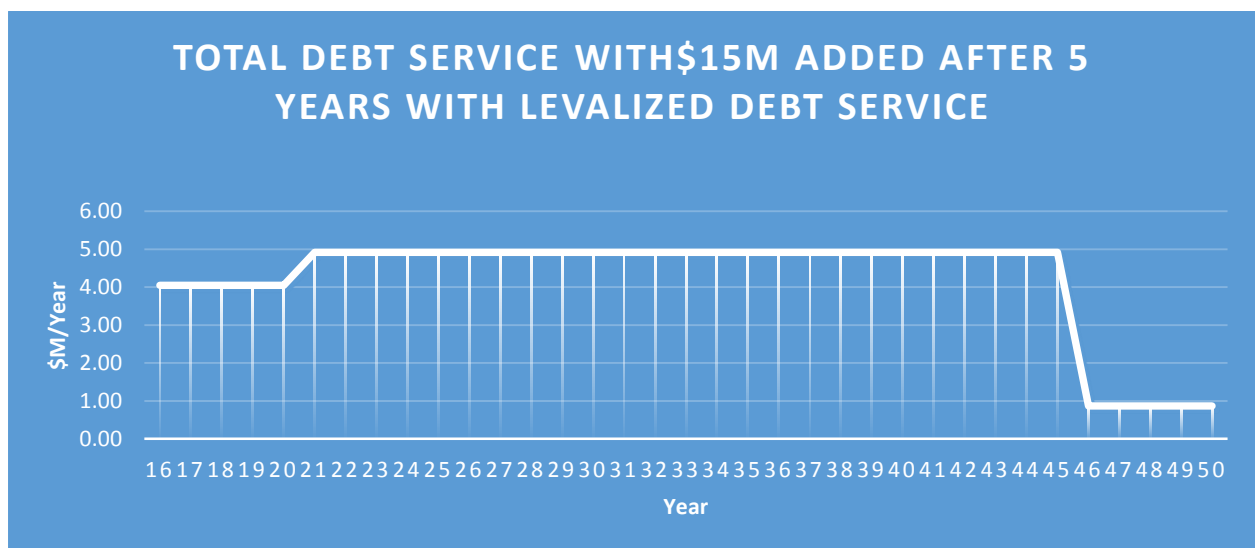
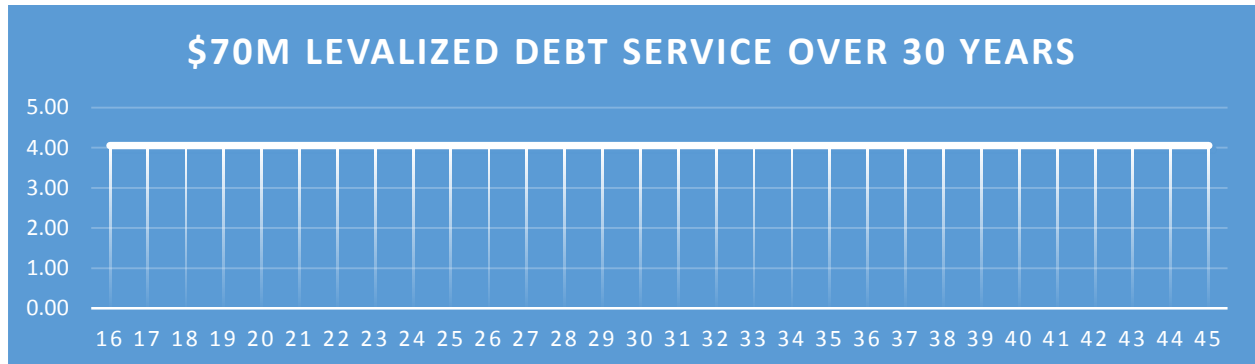
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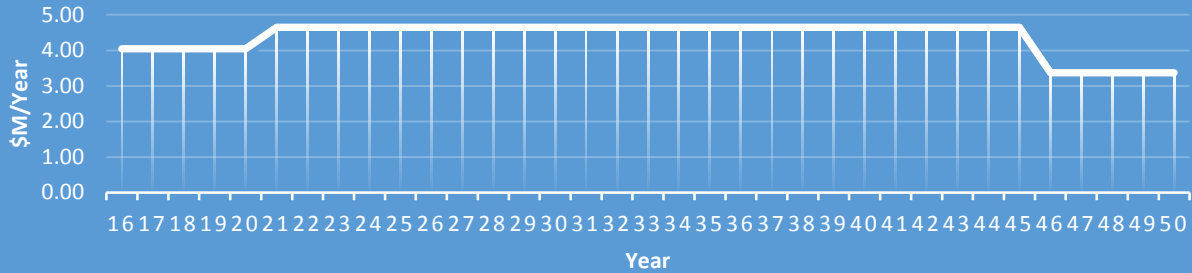
Appendix 1

DEBT SERVICE OPTIONS

EXHIBITS 1 AND 2



TOTAL DEBT SERVICE WITH \$15M ADDED AFTER 5 YEARS WITH INTEREST ONLY FOR 25 YEARS AND LEVALIZED D.S. FINAL 5 YEARS

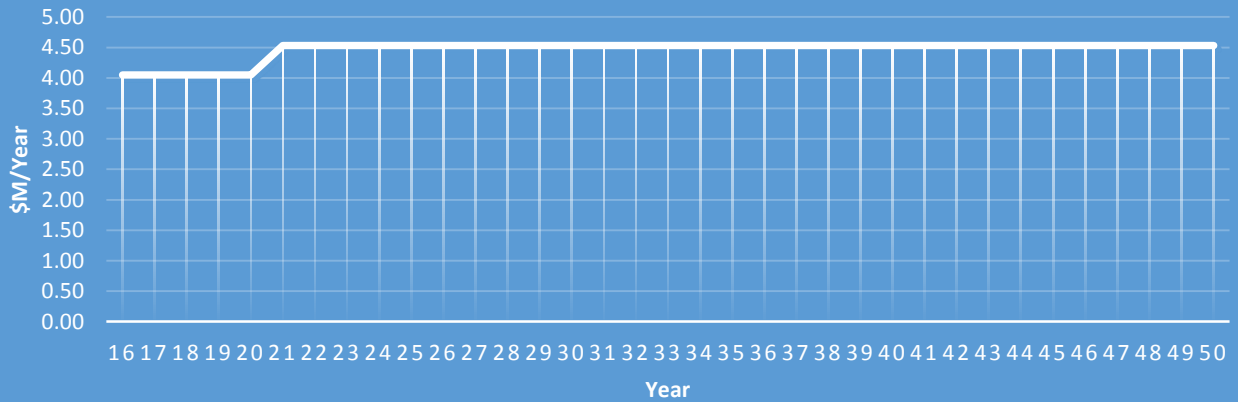


DEBT SERVICE OPTIONS

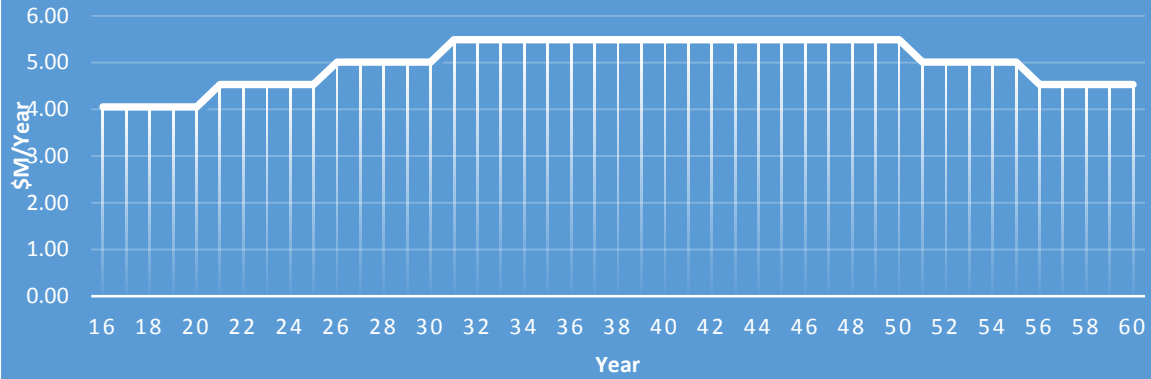
EXHIBITS 1 AND 2

Page 2A

TOTAL DEBT SERVICE WITH \$15M ADDED AFTER 5 YEARS WITH "WRAPPED" DEBT SERVICE

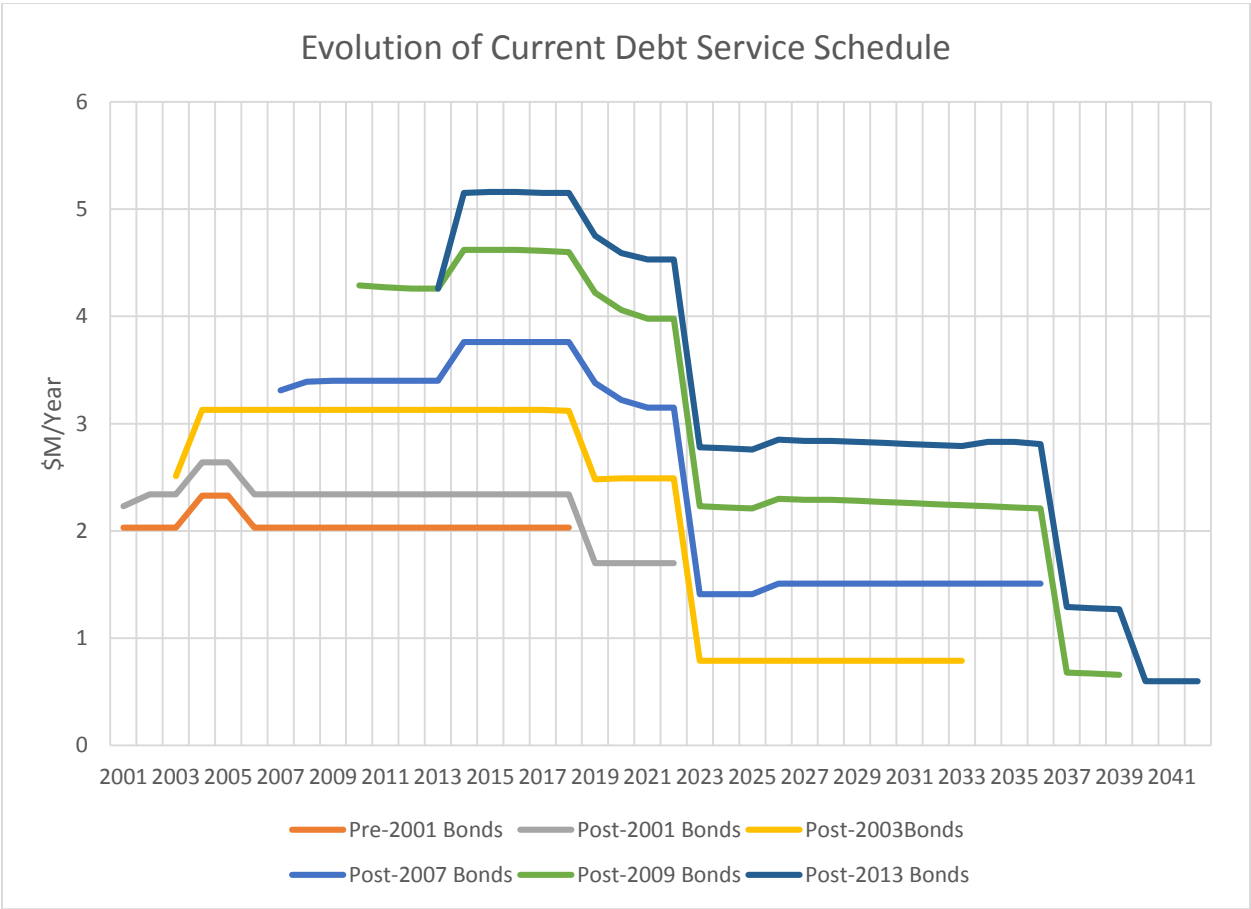


TOTAL DEBT SERVICE WITH SUCCESSIVE \$15M ADDITIONS EACH 5 YEARS WITH "WRAPPED" DEBT SERVICE



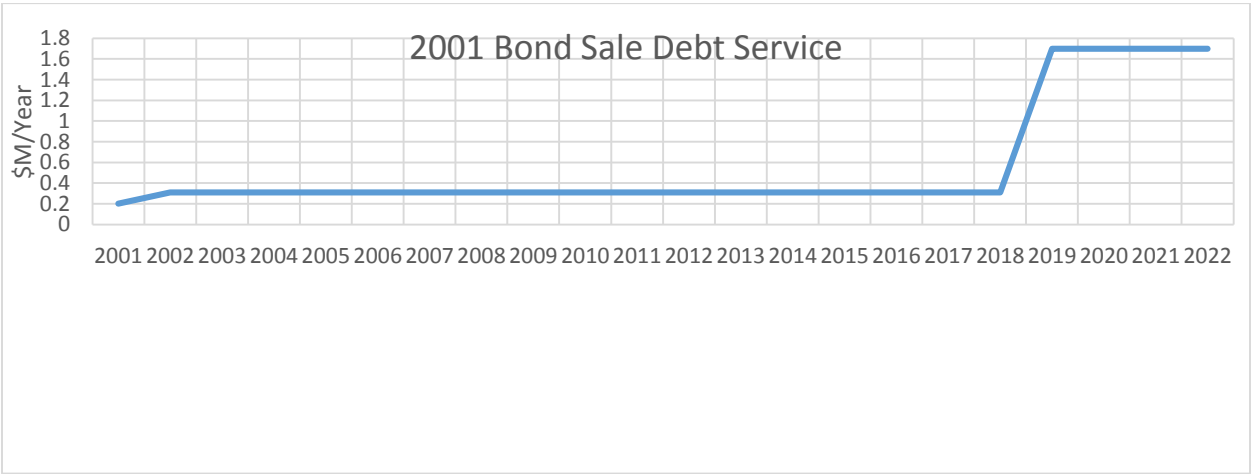
Appendix 2 EVOLUTION OF CURRENT DEBT SERVICE SCHEDULE

The chart below shows the actual resultant debt service schedule after each sale.

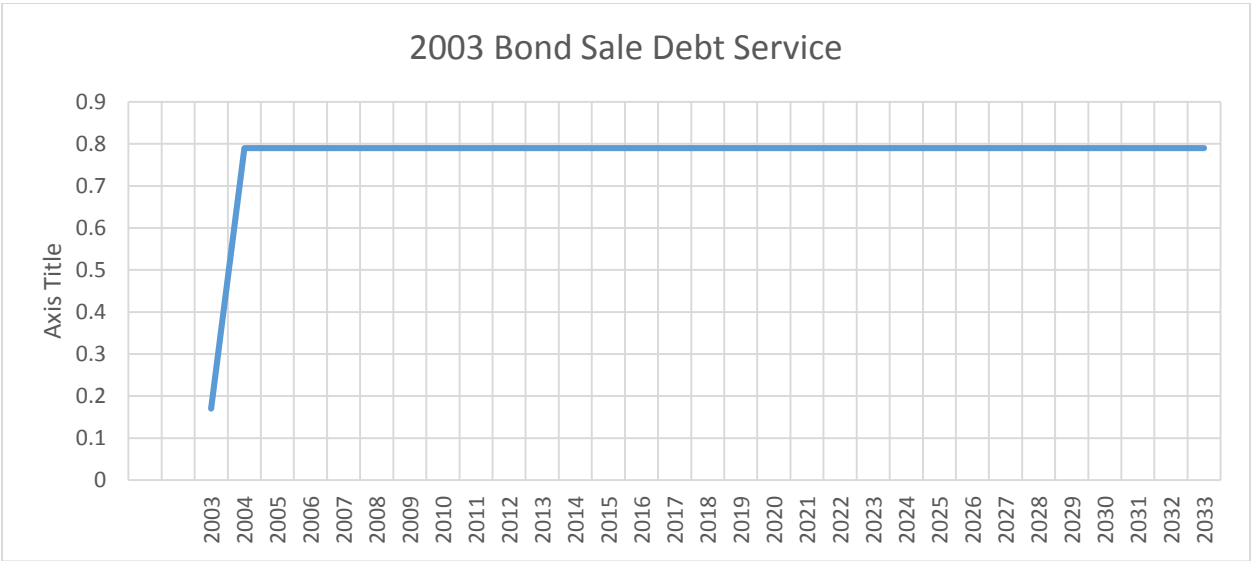


The following charts show the actual debt service schedule for each individual sale.

The 2001 sale was interest only for the first 18 years and uniform for the final 4 years.



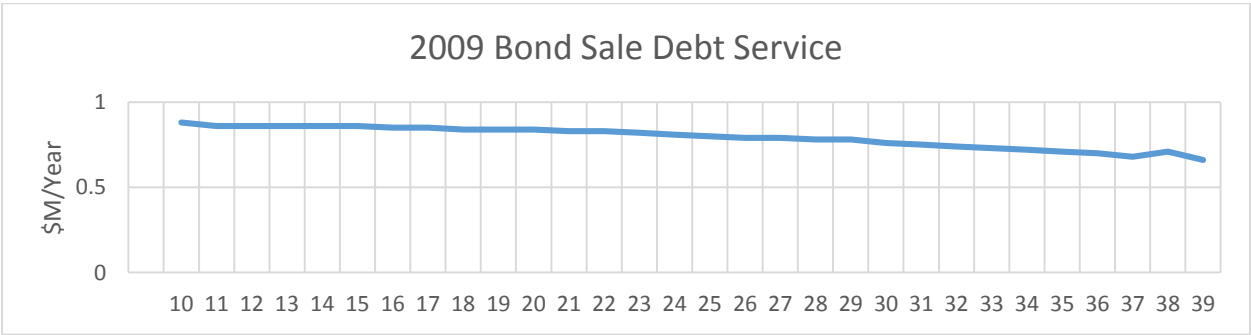
The 2003 sale was essentially uniform for a 30 year period.



The 2007 debt service schedule defies analysis.

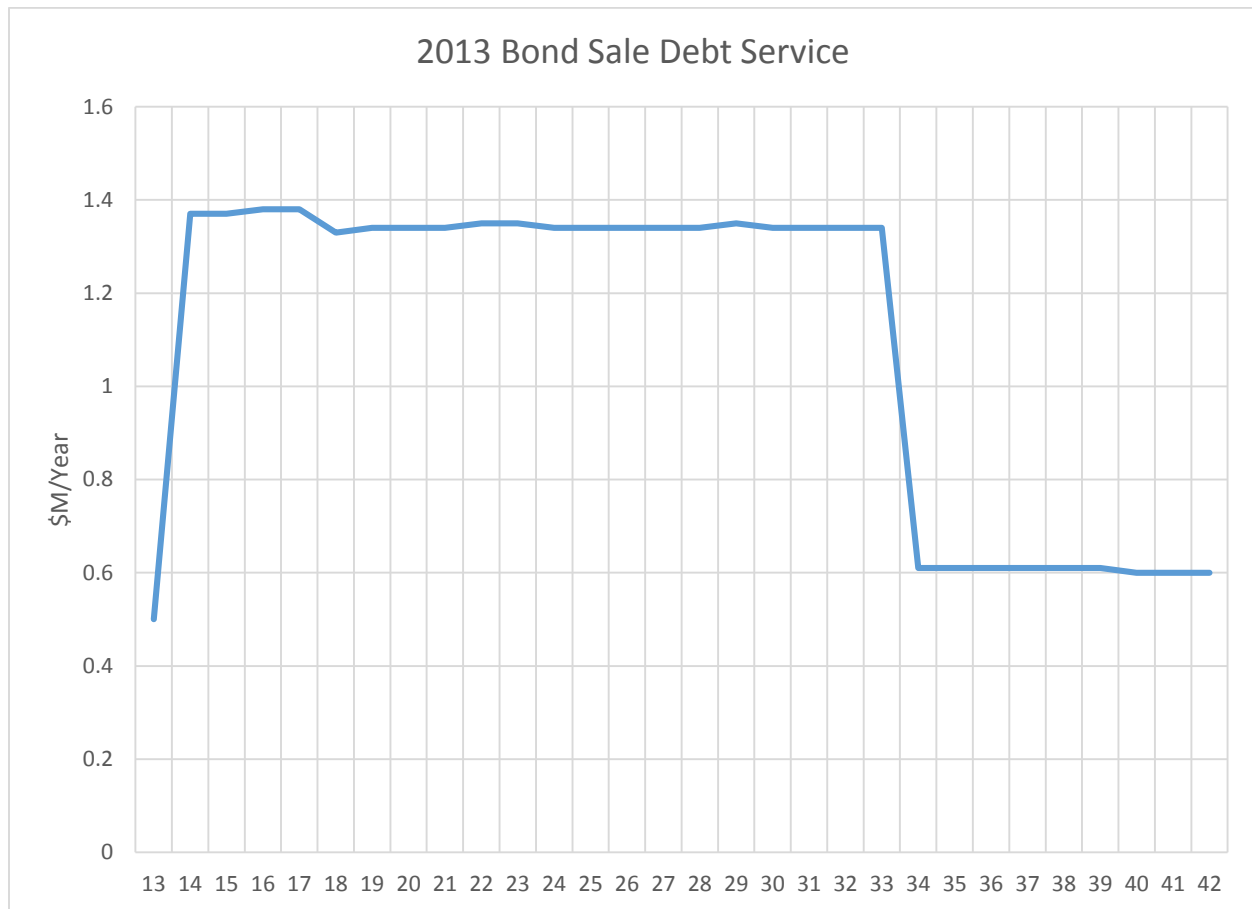


The 2009 sale was essentially a uniform debt service.



The 2013 sale was heavily front end loaded and much lower for the final 9 years.

The bottom line is that we have had a great variety of shaped, tweaked, skewed, wrapped (or whatever we might want to call them) debt service schedules which have resulted in an unnecessarily front end loaded final debt service. That said, there is no reason we can't shape or wrap the upcoming sale to best serve our current ratepayers.



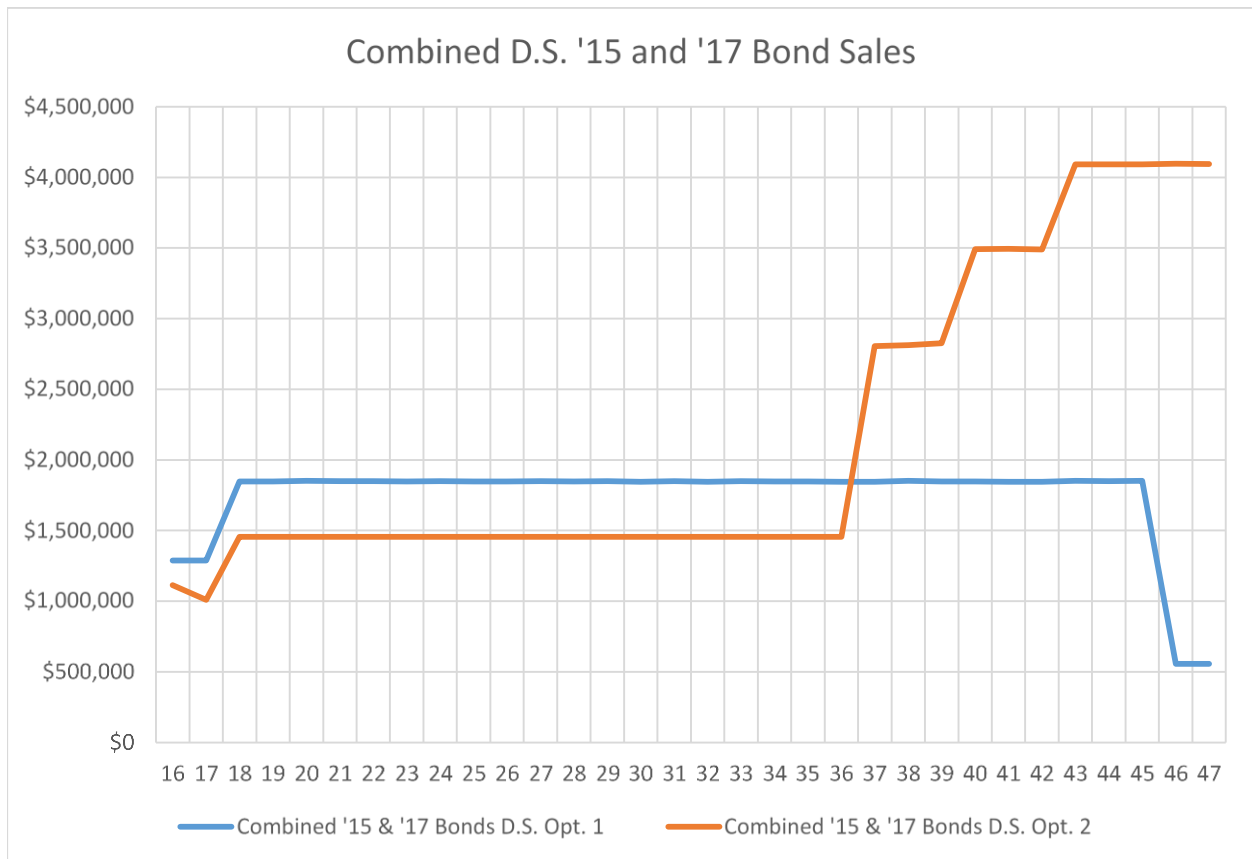
Appendix 3

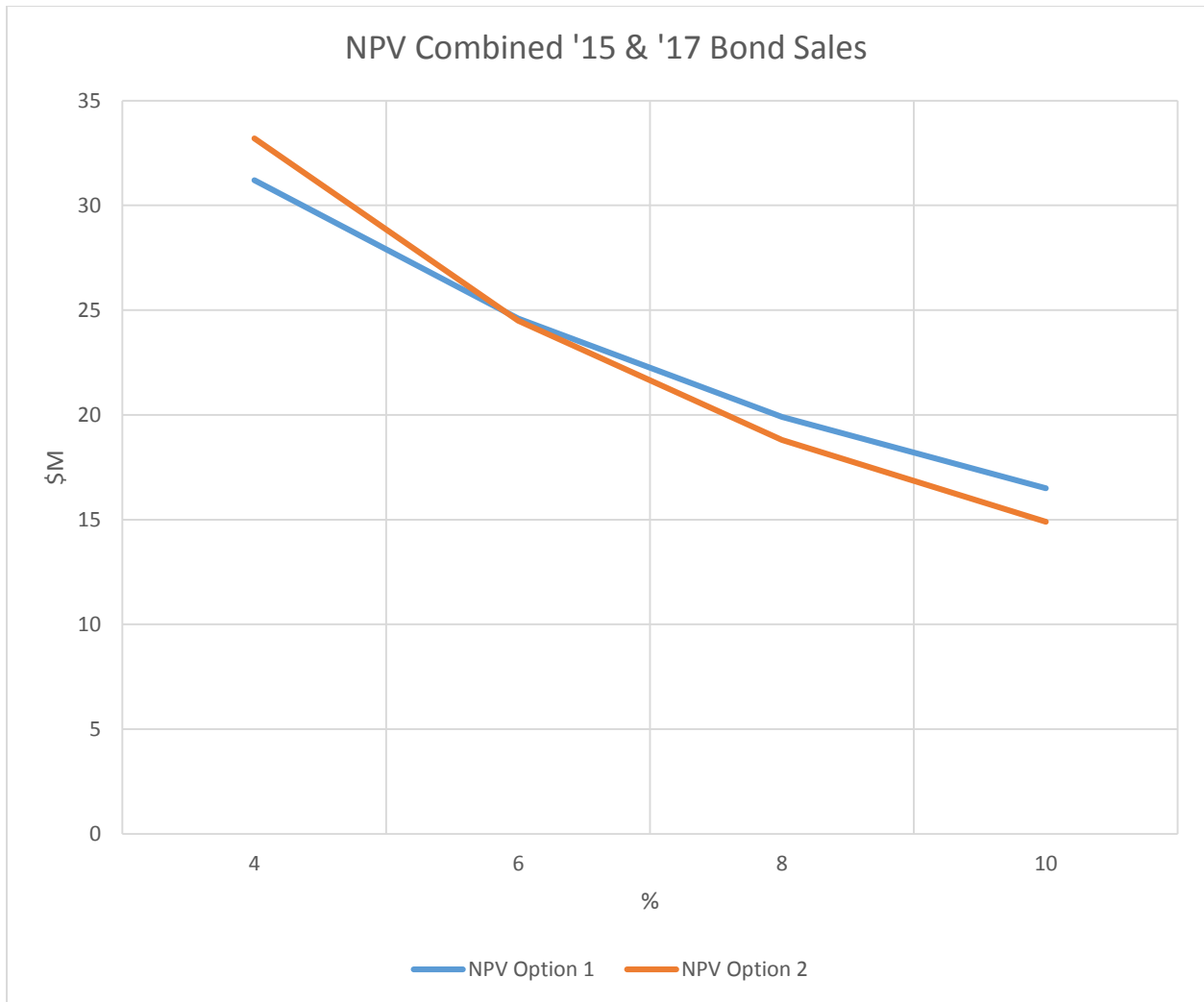
ELECTRIC UTILITY LONG TERM DEBT

Comparing the actual data from Options 1 and 2 prepared by the Financial Advisor, we see that Option 2 presents an immediate saving in debt service payments of about \$400,000 for the combined first two years followed by an **annual** saving of about \$400,000 per year out through **2036**. At that point the costs increase for Option 2. To evaluate two streams of uneven payments the proper analysis is to consider the time value of money in order to make a discounted cash flow. We must remember that it is the **ratepayer**, not the City that actually faces the payment stream so we must consider the cost/value of money to that group.

National data says that somewhere between 30 and 40% of households have credit card balances for which they pay at least 10% in finance charges. That is their cost of money. For customers who are long term investors, their value of money is what they expect for long term investments. Even the simplest index fund, the Vanguard 500 has a 40 year record of over 12%. For our commercial and industrial customers they expect a return on their investments that is higher than they could get from putting their money in an index fund. All told, our overall mixed rate of return is safely over 6%, and as can be seen in the second chart, for all rates above 6% the payment stream for Option 2 has a lower value.

If we have immediate significant savings **and** a more favorable discounted cash flow it is difficult to see why we should not choose Option 2, the “wrap” for our preferred method of debt service structure for our next bond sales.







COUNCIL AGENDA ITEM COVERSHEET

Council Date: 09/22/2015

Agenda Category: Ordinance

Key Element: Key 6 - Community Amenities

Subject:

Ordinance No. 54-15, Increase in Appropriations in the Park Project Construction Fund for the Construction of a Parking Lot at Trailhead Park and Revising the 2015-2030 Capital Improvement Plan

Department:

Parks & Public Facilities

Ordinance/Resolution Number:

54-15

Document Type:

Ordinance

Recommended Motion:

Give second reading and pass Ordinance No. 54-15, increasing the Park Project Construction Fund for the construction of a parking lot at Trailhead Park and revising the 2015-2030 Capital Improvement Plan.

Summary:

Washington State law requires that an ordinance be adopted to increase budgeted appropriations. Ordinance No. 54-15 proposes to increase appropriations in the Park Project Construction Fund, specifically to Trailhead Park for construction of a parking lot.

The Port of Kennewick desires to contribute \$150,000 and Benton County \$35,000 to the construction of the parking lot at Trailhead Park. The \$185,000 construction project was not included in the 2015 City budget or CIP.

On June 6, 2015, Council approved an interlocal agreement with the Port of Kennewick for \$150,000. The Benton County Board of County Commissioners are considering a resolution (unsigned resolution attached) September 22, 2015, for a \$35,000 funding commitment.

Award of bid for the project is also included on tonight's agenda.

First reading of Ordinance No. 54-15 was given at the September 15, 2015 Council meeting.

Fiscal Impact:

Increase the Parks Construction Fund by \$180,000 representing contributions from the Port of Kennewick (\$150,000) and Benton County (\$35,000).

Attachments:

1. 2) Ordinance No. 54-15
2. 1) Trailhead Park 2015-2030 CIP Sheet
3. 3) Benton County Resolution

ORDINANCE NO. 54-15

AN ORDINANCE of the City of Richland amending the 2015 Budget and 2015-2030 Capital Improvement Plan to provide for additional appropriations in the City's Park Project Construction Fund.

WHEREAS, on November 18, 2014, the Richland City Council passed Ordinance No. 36-14 approving the 2015 Budget; and

WHEREAS, on June 6, 2015, Council approved an interlocal agreement with the Port of Kennewick to accept a \$150,000 contribution to construct a parking lot at Trailhead Park; and

WHEREAS, staff recommends Council approval of an interlocal agreement with Benton County to accept a \$35,000 contribution to construct a parking lot at Trailhead Park; and

WHEREAS, no funds were appropriated in the Park Project Construction Fund to construct the Trailhead Park parking lot; and

WHEREAS, the intent of this ordinance is to increase appropriations in the Park Project Construction Fund; and

NOW, THEREFORE, BE IT ORDAINED by the City Council of the City of Richland as follows:

Section 1. Amendment of the 2015 Budget. The 2015 Budget and 2015-2030 Capital Improvement Plan, Exhibit A, is hereby amended to provide appropriations in the Park Project Construction Fund from contributions from the Port of Kennewick and Benton County for the Trailhead Park Parking Lot Project as follows:

Park Project Construction Fund

Current Appropriation: \$3,341,748

Increase in Appropriation: \$ 185,000

Amended Appropriation: \$3,526,748

Section 2. This ordinance shall take effect the day following its publication in the official newspaper of the City of Richland.

PASSED by the City Council of the City of Richland, at a regular meeting on the 22nd day of September, 2015.

DAVID W. ROSE
Mayor

ATTEST:

APPROVED AS TO FORM:

MARCIA HOPKINS
City Clerk

HEATHER KINTZLEY
City Attorney

Date Published: September 27, 2015

Swift Corridor Improvements/City Hall Replacement

Type of Project Waterfront		Partnership Project? NO	Waterfront Project? YES	Project # WF140003 Formerly MN130002
Key # 4	Goal # 2	Strategic Leadership Plan Project? Yes		
PROJECT NAME: Swift Corridor Improvements/City Hall Replacement				
PROJECT ADMINISTRATION: Parks & Public Facilities				
PROJECT LOCATION: Swift Boulevard				
PROJECT TIMELINE: 06/2011 - 12/2019				
RESPONSE TO *GMA LEVEL OF SERVICE? NO				

PROJECT DESCRIPTION

The Swift Corridor project is a multi-year, long-range economic development and infrastructure investment in the Central Business District. This project phase will replace three aging city buildings (Development Services, Administrative Annex and City Hall) into one approximately 44,000 square foot, three-story with basement municipal building in an effort to increase efficiencies and avoid costly building retrofits for ADA accessibility and other major system upgrades. The facility will be located on 1.8 acres purchased in 2015 on the northern portion of the GSA owned parking lot at the southwest corner of Swift Boulevard and Jadwin Avenue. Annual debt service estimated at \$893,719 would begin in 2017 and will be funded with savings resulting from the retirement of City Shops debt and from the approved 2016 increase in electric utility occupation tax to 8.5%. The project also includes the Swift Blvd. street improvements that will require mill and overlay street, widening sidewalks, add decorative street lighting, irrigation, on-street parking, bicycle lanes and street trees. The street project design is based on the public review process conducted as part of the 2012 downtown revitalization planning effort.

PROJECT ASSUMPTIONS

3.5% interest on a 30 year general obligation bond repaid from the authorized 2016 increase in electric utility occupation tax to the general fund and retirement of the City Shops debt funded by REET. Washington state design-build project delivery authority will be sought and utilized. The existing City Hall and Administrative Annex Building will be demolished to create a 1.5 acre site to be leased for economic development. A reconfiguration of the GSA parking lot will be necessary. The Development Services Building will be excess to the City's needs. Estimated annual lease revenue of \$69,000 for the former City Hall site is conservatively excluded from the revenue stream to service the bond debt. The street project will require acquisition of grant funds, most likely from the Washington State Department of Transportation.

BENEFITS

Municipal efficiency and better access to local government by combining three facilities into one. Avoidance of costly ADA and major system upgrades to each of the three facilities. Opportunity for economic development at the current location of Richland City Hall. The street project supports the City's redevelopment goals for the Swift Corridor by enhancing the street environment to support non-motorized travel and adding visual enhancements.

PROJECT COST ESTIMATE	Total Estimated Project Cost	Project Costs To-Date 12/31/14	Authorized Budget Remaining in 2015	2016	2017	2018	2019	2020	2021-2030
PROJECT PLANNING INCL DEBT ISSUANCE	350,000	150,000		200,000					
REMODEL UB AREA&SWIFT/JADWIN SIGNL DESIGN BUILD	105,000 16,604,681	105,000 104,681		300,000	8,100,000	8,100,000			
LAND ACQUISITION	770,000	770,000							
DESIGN - STREET IMPROVEMENTS	80,000					80,000			
CONSTRUCTION - STREET IMPROVEMENTS	1,175,455						1,175,455		
10% CONTINGENCY-STREET IMPROVEMENTS	109,545						109,545		
TOTAL	\$ 19,194,681	\$ 1,129,681	\$ -	\$ 500,000	\$ 8,100,000	\$ 8,180,000	\$ 1,285,000	\$ -	\$ -
RECOMMENDED FUNDING SOURCES	Total Estimated Project Revenues	Project Revenue To-Date 12/31/14	Authorized Budget Remaining in 2015	2016	2017	2018	2019	2020	2021-2030
GENERAL FUND - FACILITY RESERVES	205,000	205,000							
LAND SALE (SWIFT & GWW)	111,205	111,205							
INDUSTRIAL DEVELOPMENT FUND	242,960	242,960							
LTGO 98 FUND	70,516	70,516							
CAPITAL IMPRVMT FUND (REET 1ST 1/4%)	250,000	250,000							
LIBRARY CONST FUND (ADDED PARKING)	250,000	250,000							
BOND PROCEEDS	16,200,000			16,200,000					
2016 YEAR END FUND BALANCE				500,000					
GRANT FUNDS (UNSECURED)-STREET IMPRV	80,000					80,000			
BUSINESS LICENSE RESERVE-STREET IMPRV	1,285,000						1,285,000		
TOTAL	\$ 18,694,681	\$ 1,129,681	\$ -	\$ 16,700,000	\$ -	\$ 80,000	\$ 1,285,000	\$ -	\$ -
OPERATING & MAINTENANCE COSTS (IMPACTS)	Total Estimated Project Operating & Maint. Costs			2016	2017	2018	2019	2020	2021-2030
DEBT SERVICE (REET)	5,950,000				425,000	425,000	425,000	425,000	4,250,000
DEBT SERVICE (UTILITY TAX)	5,600,000				400,000	400,000	400,000	400,000	4,000,000
	-								
TOTAL	\$ 11,550,000			\$ -	\$ 825,000	\$ 825,000	\$ 825,000	\$ 825,000	\$ 8,250,000

Swift Corridor Improvements/City Hall Replacement

Type of Project Waterfront		Partnership Project?	NO	Waterfront Project?	YES	Project # WF140003 Formerly MN130002
Key # 4	Goal # 2	Strategic Leadership Plan Project?		Yes		
PROJECT NAME: Swift Corridor Improvements/City Hall Replacement						
PROJECT ADMINISTRATION: Parks & Public Facilities						
PROJECT LOCATION: Swift Boulevard						
PROJECT TIMELINE: 06/2011 - 12/2019						
RESPONSE TO *GMA LEVEL OF SERVICE? NO						

PROJECT DESCRIPTION

The Swift Corridor project is a multi-year, long-range economic development and infrastructure investment in the Central Business District. This project phase will replace three aging city buildings (Development Services, Administrative Annex and City Hall) into one municipal building in an effort to increase efficiencies and avoid costly building retrofits for ADA accessibility and other major system upgrades. The facility will be located on 1.8 acres purchased in 2015 on the northern portion of the GSA owned parking lot at the southwest corner of Swift Boulevard and Jadwin Avenue. Annual debt service estimated at \$825,000 would begin in 2017 and will be funded with savings resulting from the retirement of mature bonds in 2017 (City Shops) and the remaining from a new electric utility occupation tax. The project will stimulate downtown revitalization by creating a new redevelopment opportunity at the current location of Richland City Hall. The project also includes the Swift Blvd. street improvements that will require mill and overlay street, widening sidewalks, add decorative street lighting, irrigation, on-street parking, bicycle lanes and street trees. The project design is based on the public review process conducted as part of the 2012 downtown revitalization planning effort.

PROJECT ASSUMPTIONS

Interest rates will be 3.3% or better for a 25 year GO bond. Bonds will be sold in 2016 with debt service beginning in 2017. Revenues from the surplus site and lease space in the new building will ramp up to \$317,000/ year by 2021. Converting Swift & George Washington Way City Hall Site into private development will cost approximately \$500,000 in demolition but generate more than \$200,000 annually in new revenue. Replacement facility for City Hall (40,000 square feet) will include a small amount of concessionaire space that will generate approximately \$25,000 per year in new revenue. The project assumes a design-build project delivery. The street project will require acquisition of grant funds, most likely from the Washington State Department of Transportation.

BENEFITS

Municipal efficiency and better access to local government by combining three facilities into one. Avoidance of costly ADA and major system upgrades to each of the three facilities. Opportunity for redevelopment at the current location of Richland City Hall. The street project supports the City's redevelopment goals for the Swift Corridor by enhancing the street environment to support non-motorized travel and adding visual enhancements.

PROJECT COST ESTIMATE	Total Estimated Project Cost	Project Costs To-Date 12/31/14	Authorized Budget Remaining in 2015	2016	2017	2018	2019	2020	2021-2030
PROJECT PLANNING	100,000	100,000							
REMODEL UB AREA&SWIFT/JADWIN SIGNL	105,000	105,000							
DESIGN BUILD	13,899,681	104,681		200,000	4,598,333	8,996,667			
SWIFT & GWW SITE DEMOLITION	500,000						500,000		
LAND ACQUISITION	820,000	820,000							
DESIGN - STREET IMPROVEMENTS	80,000					80,000			
CONSTRUCTION - STREET IMPROVEMENTS	1,175,455						1,175,455		
10% CONTINGENCY-STREET IMPROVEMENTS	109,545						109,545		
TOTAL	\$ 16,789,681	\$ 1,129,681	\$ -	\$ 200,000	\$ 4,598,333	\$ 9,076,667	\$ 1,785,000	\$ -	\$ -
RECOMMENDED FUNDING SOURCES	Total Estimated Project Revenues	Project Revenue To-Date 12/31/14	Authorized Budget Remaining in 2015	2016	2017	2018	2019	2020	2021-2030
GENERAL FUND - FACILITY RESERVES	205,000	205,000							
LAND SALE (SWIFT & GWW)	111,205	111,205							
INDUSTRIAL DEVELOPMENT FUND	242,960	242,960							
LTGO 98 FUND	70,516	70,516							
CAPITAL IMPRVMT FUND (REET 1ST 1/4%)	250,000	250,000							
LIBRARY CONST FUND (ADDED PARKING)	250,000	250,000							
BOND PROCEEDS	13,849,000			13,849,000					
LEASE - GROUND	2,110,000							211,000	1,899,000
GRANT FUNDS (UNSECURED)-STREET IMPRV	80,000					80,000			
BUSINESS LICENSE RESERVE-STREET IMPRV	1,285,000						1,285,000		
TOTAL	\$ 18,453,681	\$ 1,129,681	\$ -	\$ 13,849,000	\$ -	\$ 80,000	\$ 1,285,000	\$ 211,000	\$ 1,899,000
OPERATING & MAINTENANCE COSTS (IMPACTS)	Total Estimated Project Operating & Maint. Costs			2016	2017	2018	2019	2020	2021-2030
DEBT SERVICE (REET)	5,950,000				425,000	425,000	425,000	425,000	4,250,000
DEBT SERVICE (UTILITY TAX)	5,600,000				400,000	400,000	400,000	400,000	4,000,000
	-								
TOTAL	\$ 11,550,000			\$ -	\$ 825,000	\$ 825,000	\$ 825,000	\$ 825,000	\$ 8,250,000

TRAILHEAD PARK

Type of Project Parks Project		Partnership Project? YES	Waterfront Project? 	Project #
Key # 6	Goal # 3	Strategic Leadership Plan Project? No		
PROJECT NAME: Trailhead Park				
PROJECT ADMINISTRATION: Parks & Public Facilities				
PROJECT LOCATION: Trailhead Park				
PROJECT TIMELINE: 2015				
RESPONSE TO *GMA LEVEL OF SERVICE? NO				

PROJECT DESCRIPTION

2015, construct a new 77 space parking lot

PROJECT ASSUMPTIONS

BENEFITS

Provide additional off street park near the Badger Mt. Centennial Preserve, Canyon Trail trailhead.

PROJECT COST ESTIMATE	Total Estimated Project Cost	Project Costs To-Date 12/31/14	Authorized Budget Remaining in 2014	2015	2016	2017	2018	2019	2020
Construction	185,000	-	-	185,000					
	-								
	-								
	-								
	-								
TOTAL	\$ 185,000	\$ -	\$ -	\$ 185,000	\$ -	\$ -	\$ -	\$ -	\$ -
RECOMMENDED FUNDING SOURCES	Total Estimated Project Revenues	Project Revenue To-Date 12/31/14	Authorized Budget Remaining in 2014	2015	2016	2017	2018	2019	2020
PORT OF KENNEWICK	150,000	-	-	150,000					
BENTON COUNTY	35,000	-	-	35,000					
	-								
	-								
	-								
TOTAL	\$ 185,000	\$ -	\$ -	\$ 185,000	\$ -	\$ -	\$ -	\$ -	\$ -
OPERATING & MAINTENANCE COSTS (IMPACTS)	Total Estimated Project Operating & Maint. Costs			2015	2016	2017	2018	2019	2020
	2,550			300	350	400	450	500	550
	-								
	-								
	-								
TOTAL	\$ 2,550	-	-	\$ 300	\$ 350	\$ 400	\$ 450	\$ 500	\$ 550

RESOLUTION

BEFORE THE BOARD OF COMMISSIONERS OF BENTON COUNTY, WASHINGTON

IN THE MATTER OF CONSTRUCTION OF A NEW PARKING LOT AT TRAILHEAD PARK NEAR BADGER MOUNTAIN – A PARTNERSHIP WITH THE CITY OF RICHLAND

WHEREAS, Benton County’s Badger Mountain Centennial Preserve (the “Preserve”) has become one of the most popular parks in the Tri-Cities area, receiving over 200,000 visitor each year; and,

WHEREAS, the majority of visitors to the Preserve enter the property via the “Canyon Trail”, which is accessed via Trailhead Park, which is located adjacent to the Preserve on the north side, and which is owned and maintained by the City of Richland; and,

WHEREAS, the City has constructed two parking lots in Trailhead Park over the years, but the popularity of the adjoining Preserve has outpaced the capacity of the parking lots to meet visitor parking demands on a regular basis throughout the year; and,

WHEREAS, the City intends to construct a third, larger lot, that will increase overall off-street parking capacity at Trailhead Park to more than 100 cars at any one time; and,

WHEREAS, through its own funds, and with funds donated toward the project by the Port of Kennewick, the City has the ability to construct the new parking lot with a gravel surface treatment; and,

WHEREAS, a finished parking lot with an asphalt surface treatment is preferred for maintenance, aesthetic, and traffic management reasons; but a paved parking lot is beyond capacity of the City’s capital budget for the project; and,

WHEREAS, the City has requested funding assistance from Benton County up to an amount of \$35,000.00 to go toward finishing the project with full asphalt paving and striping; and,

WHEREAS, the Benton County Park Board and Benton County Parks Department staff have reviewed the proposal, concur with its relevance and benefit to the County’s Preserve, and have recommended that Benton County participate in the project through the use of Park Development funds; **NOW THEREFORE**,

BE IT RESOLVED, by the Benton County Board of Commissioners that the proposed project to construct and pave a new parking lot at the City of Richland’s Trailhead Park will be a substantial improvement to the overall Badger Mountain visitation experience and will be a direct benefit to visitors of Benton County’s Badger Mountain Centennial Preserve.

BE IT FURTHER RESOLVED that the Board of Commissioners hereby directs County staff to work with the City of Richland to develop an agreement for review and confirmation by the Board at a future date for the transfer of up to \$35,000.00 to be paid from the Park Development Fund for the project.

Dated this _____ day of _____, 2015.

Chairman of the Board

Member

Member

Constituting the Board of Commissioners
of Benton County, Washington.

Attest.....
Clerk of the Board



COUNCIL AGENDA ITEM COVERSHEET

Council Date: 09/22/2015

Agenda Category: Resolutions for Adoptions

Key Element: Key I - Financial Stability & Operational Effectiveness

Subject:

Resolution No. 165-15, Adopting a Policy Framework for Electric Revenue Bond Sales - Option I

Department:
Energy Services

Ordinance/Resolution Number:
165-15

Document Type:
Resolution

Recommended Motion:

Adopt Resolution No. 165-15, adopting a policy framework for electric revenue bond sales.

Summary:

Resolution No. 165-15 (attached) provides a policy framework for City staff to use to supplement policy adopted through the Bond Ordinance for each future electric revenue bond sale. This policy framework is recommended by the Energy Services Department and Finance Division staff along with the City's financial advisor Susan Musselman with Public Financial Management, Inc. (PFM).

The Utility Advisory Committee (UAC) has engaged with staff and Ms. Musselman throughout 2015 regarding upcoming 2015 (Bond Ordinance approved by Council on September 1, 2015) and prospective 2017 electric revenue bond sales. This discussion has primarily centered on the approach to structuring the debt service repayment schedules for future bonds. As set forth in the operating rules of the UAC, majority and minority UAC opinions regarding this matter have been presented to the City Council in workshop session on September 22, 2015.

The policy framework recommended through Resolution No. 165-15 aligns with the majority UAC opinion regarding the structuring of debt service payments for the 2015 and future bond sales.

Fiscal Impact:

Attachments:

- I. Proposed Resolution No. 165-15

RESOLUTION NO. 165-15

A RESOLUTION of the City of Richland adopting a policy framework for Electric Revenue Bond Sales.

WHEREAS, it is a long standing principle of the City of Richland (City), endorsed by the City's Utility Advisory Committee (UAC), that financial decisions are made in a manner in which current and future electric utility ratepayers are treated fairly and equitably in as much as possible; and

WHEREAS, it is a long standing principle of the City to approach all financial transactions in a manner to minimize short and long term retail rate burden on its electric utility ratepayers; and

WHEREAS, it is a long standing principle of the City to fund the maintenance of existing electrical infrastructure through retail rates (also known as "rate-financed"), to partially fund new electrical infrastructure through development contributions (also known as "facility fees"), and to finance the remaining costs of new electrical infrastructure through the sale of Electric Revenue Bonds (Bonds); and

WHEREAS, since 2003 a repayment term of thirty (30) years has been generally accepted by City staff, the UAC, and City Council (Council) as an appropriate Bond term; and

WHEREAS, historically the repayment schedules for Bonds have been structured inconsistently; and

WHEREAS, while each historical Bond repayment schedule can be analyzed as to the respective impact related to financial balance for current and future ratepayers, the cumulative effect on current and future ratepayers appear to be reasonably balanced; and

WHEREAS, the City has recently begun an industry accepted practice of consulting with a financial advisor to assist with the sale and administration of the Bonds; and

WHEREAS, the City's Designated Representative, as named and approved by Council through adoption of a Bond Ordinance for each respective Bond, has the statutory obligation and authority to represent the City in each Bond sale and to administer the repayment program for each Bond; and

WHEREAS, part of the duties of the City's Designated Representative is to ultimately determine the appropriate terms and conditions including but not limited to repayment schedule for each Bond sale; and

WHEREAS, it is reasonable for the City's Designated Representative, in the performance of his/her duties, to seek the advice of others, including but not limited to the City's financial advisor, electric utility staff, and the UAC; and

WHEREAS, historically no formal policy framework has been available as a tool for use by the City's Designated Representative in the performance of his/her duties; and

WHEREAS, Council wishes to establish a policy framework related to future electric revenue bond sales.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Richland, that City Council adopts the following policy to be administered by the City Manager through the designated and authorized Designated Representative for all future electric utility Bond sales.

Section 1.01 Financial transactions shall be conducted in a manner in which current and future City electric utility ratepayers are treated fairly and equitably in as much as possible.

Section 1.02 Financial transactions shall be conducted in a manner to minimize short and long term retail rate burden on the City's electric utility ratepayers.

Section 1.03 As a general practice, the City will attempt to fund the maintenance of existing electrical infrastructure through retail rates (also known as "rate-financed capital"), to partially fund new electrical infrastructure through development contributions (also known as "facility fees"), and to finance the remaining costs of new electrical infrastructure through the sale of the Bonds.

Section 1.04 A standard term of thirty (30) years shall be established for the repayment of the Bonds.

Section 1.05 A repayment schedule of future Bonds shall be established which meets the intent of the policy framework set forth herein as well as remaining in conformance with the parameters set forth through the approval and adoption by Council of each respective Bond Ordinance.

Section 1.06 The City shall continue to consult with a financial advisor to assist in the sale and administration of the Bonds.

Section 1.07 City staff, with advice from the City's financial advisor and after consultation and deliberation with the UAC, shall provide a report to Council after the passage of each respective Bond Ordinance and prior to the date of Bond sale; said report to include but not be limited to a compliance status regarding the policy framework set forth herein and any special considerations regarding the upcoming Bond sale.

BE IT FURTHER RESOLVED that this resolution shall take effect immediately.

ADOPTED by the City Council of the City of Richland at a regular meeting on the 22nd day of September, 2015.

DAVID W. ROSE
Mayor

ATTEST:

APPROVED AS TO FORM:

MARCIA HOPKINS
City Clerk

HEATHER KINTZLEY
City Attorney



COUNCIL AGENDA ITEM COVERSHEET

Council Date: 09/22/2015

Agenda Category: Resolutions for Adoptions

Key Element: Key I - Financial Stability & Operational Effectiveness

Subject:

Resolution No. 166-15, Adopting a Policy Framework for Electric Revenue Bond Sales - Option 2

Department:

Energy Services

Ordinance/Resolution Number:

166-15

Document Type:

Resolution

Recommended Motion:

Adopt Resolution No. 166-15, adopting a policy framework for electric revenue bond sales.

Summary:

Resolution No. 166-15 (attached) provides a policy framework for City staff to use to supplement policy adopted through the Bond Ordinance for each future electric revenue bond sale. Energy Services Department and Finance Division staff, along with the City's financial advisor Susan Musselman with Public Financial Management, Inc. (PFM) Group, do not recommend this policy framework.

The Utility Advisory Committee (UAC) has engaged with staff and Ms. Musselman throughout 2015 regarding upcoming 2015 (Bond Ordinance approved by Council on September 1, 2015) and prospective 2017 electric revenue bond sales. This discussion has primarily centered on the approach to structuring the debt service repayment schedules for future bonds. As set forth in the operating rules of the UAC, majority and minority UAC opinions regarding this matter have been presented to the City Council in workshop session on September 22, 2015.

The policy framework recommended through this Resolution No. 166-15 aligns with the minority UAC opinion regarding the structuring of debt service payments for the 2015 and future bond sales.

Fiscal Impact:

Attachments:

- I. Proposed Resolution No. 166-15

RESOLUTION NO. 166-15

A RESOLUTION of the City of Richland adopting a Policy Framework for Electric Revenue Bond Sales.

WHEREAS, an accepted financial method of evaluating two different payment schedules stretching over a thirty (30) year period is to reduce the two payment streams to a present value sum of money; and

WHEREAS, the alternative with the lowest present value is then judged the more favorable from the standpoint of the party having responsibility of making the payments; and

WHEREAS, Electric Utility customers, not the City, have the responsibility of making the debt service payments; and

WHEREAS, the time value of money used to make the present value calculation must be the time values of the parties responsible for making the debt service payments; and

WHEREAS, customers of the utility each have their own time value of money; and

WHEREAS, in making decisions for thirty (30) year bond payments, it is reasonable to consider the long term expectations for customers who have long term investments; and

WHEREAS, the simplest diversified index funds have a long term record of over 10% return on investment; and

WHEREAS, for-profit electric utility customers expect a higher return on their investments than they could achieve by simply investing in index funds; and

WHEREAS, without surveying electric utility customers, a conservative return on investment of at least 6% can be considered representative for the present value sum of money calculation; and

WHEREAS, analysis indicates the longer debt repayment has a lower present value for any time value of money over 5%; and

WHEREAS, it is a long standing position of the City's Utility Advisory Committee (UAC) that current and future ratepayers are treated equally in as much as possible; and

WHEREAS, a peak in current debt service payment in the 2015 through 2022 period is the result of a 2007 bond sale that front loaded the debt service schedule with little regard to the time value of money and needs to be treated with a restructuring of that debt.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Richland, that City Council adopts the following policy to be administered by the City Manager through the designated and authorized Designated Representative for all future electric utility bond sales.

Section 1.01 Accomplish near term savings for current and near term rate payers to the extent necessary to correct the front loaded debt service payment schedule resulting from the 2007 electric revenue bond sale.

Section 1.02 Calculate net present value for total debt service payments using no lower than a 6% return on investment, and choose payment schedules that represent the lowest present value of money (lower overall payment impact on customers after considering the value of money to those customers).

Section 1.03 Choose payment schedules which, combined with current debt service payment schedule(s), do not penalize or reward future ratepayers.

Section 1.04 Do not evaluate and/or value a lower total debt service payment without considering the time value of money from the utility customers', not the City's, perspective.

BE IT FURTHER RESOLVED that this resolution shall take effect immediately.

ADOPTED by the City Council of the City of Richland at a regular meeting on the _____ day of _____, 2015.

DAVID W. ROSE
Mayor

ATTEST:

APPROVED AS TO FORM:

MARCIA HOPKINS
City Clerk

HEATHER KINTZLEY
City Attorney



COUNCIL AGENDA ITEM COVERSHEET

Council Date: 09/22/2015

Agenda Category: Resolutions for Adoptions

Key Element: Key 6 - Community Amenities

Subject:

Resolution No. 164-15, Award of Bid to D & D Tri-River Excavating, Inc. for the Construction of a Parking Lot at Trailhead Park

Department:

Parks & Public Facilities

Ordinance/Resolution Number:

164-15

Document Type:

Resolution

Recommended Motion:

Adopt Resolution No. 164-15, authorizing the City Manager to sign and execute an agreement with D & D Tri-River Excavating, Inc. in the amount of \$180,280.62 for the Trailhead Park Parking Lot project.

Summary:

On May 5, 2015, Council adopted the Trailhead Park Master Plan which plan included a new parking lot. On June 16, 2015, Council approved an interlocal cooperative agreement with the Port of Kennewick and accepted a \$150,000 contribution toward the parking lot. On August 25, 2015, six (6) bids were opened for the project; the lowest bid submitted was by D & D Tri-Rivers Excavating, Inc. of Pasco, Washington in the amount of \$180,280.62, which includes the Base Bid and Alternate A (paving the parking lot). The high bid was \$226,343.89 and the Engineers estimate was \$204,934.99

Also on tonight's agenda is a budget adjustment to accept a \$35,000 contribution from Benton County for the project. Construction will begin in September and is scheduled to be completed by the middle of November. The parking lot will provide an additional 76 off street parking stalls.

The funds contributed by Benton County and the Port of Kennewick will provide adequate funding to pave the parking lot which will make the lot more attractive for parking and lessen the on-street parking impacts and congestion.

On-street parking on the east side of Queensgate Drive in the vicinity of Trailhead Park will be eliminated concurrent with opening the new parking lot.

Fiscal Impact:

The 2015 Budget and Capital Improvement Plan will be adjusted to allocate \$185,000 from the Port of Kennewick (\$150,000) and Benton County (\$35,000) to the Parks Project Fund.

Attachments:

1. Resolution 164-15
2. Bid Tab

RESOLUTION NO. 164-15

A RESOLUTION of the City of Richland authorizing award of bid to and execution of a construction contract with D & D Tri-Rivers Excavating, Inc., for the Trailhead Park Parking Lot Project.

WHEREAS, in 2015 the City of Richland adopted a master plan for Trailhead Park which includes a new parking lot; and

WHEREAS, on August 25, 2015 six (6) bids were opened; the lowest bid submitted by D & D Tri-Rivers Excavating, Inc. of Pasco, Washington in the amount of \$180,280.62, which includes the Base Bid and Alternate A (paving the parking lot); and

WHEREAS, the project budget is adequate to complete the project in accordance with the Capital Improvement Plan and project design; and

WHEREAS, it is in the City's best interest to proceed to complete the project.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Richland authorizes the City Manager to:

1. Sign and execute the contract with D & D Tri-Rivers Excavating, Inc. for the Trailhead Park Parking Lot Project, in the amount of \$180,280.62 in accordance with their bid received on August 25, 2015.

2. Direct the Parks and Public Facilities Department staff to administer the construction contract and execute change orders as required to fulfill the design intent of the contract within the constraints of the approved budget.

BE IT FURTHER RESOLVED that this resolution shall take effect immediately.

ADOPTED by the City Council of the City of Richland at a regular meeting on the 22nd day of September, 2015.

DAVID W. ROSE
Mayor

ATTEST:

APPROVED AS TO FORM:

MARCIA HOPKINS
City Clerk

HEATHER KINTZLEY
City Attorney

City of Richland



RECAP FOR BIDS OPENED:

JULY 25, 2015

FOR:

TRAILHEAD PARK PARKING LOT IMPROVEMENTS ITB 15-0108

				ENGINEER'S ESTIMATE		D&D Tri Rivers Excavating Inc PASCO SUBMITTED \$		D&D TRI RIVERS EXCAVATING INC PASCO, CORRECTED \$		BIG D'S CONSTRUCTION PASCO, WA		PREMIER EXCAVATION PASCO, WA		GRANITE CONSTRUCTION PASCO, WA		PROEXC, LLC BATTLE GROUND, WA		C&E TRENCHING PASCO, WA		ALLSTAR CONST RICHLAND SUBMITTED \$		ALLSTAR CONST RICHLAND, CORRECTED \$	
Item	Description	Qty	Unit	Unit Price	Total Price	Unit Price	Total Price	Unit Price	Total Price	Unit Price	Total Price	Unit Price	Total Price	Unit Price	Total Price	Unit Price	Total Price	Unit Price	Total Price			Unit Price	Total Price
BASE BID																							
1	MOBILIZATION	1	LS	5,000.00	5,000.00	2,500.00	2,500.00	2,500.00	2,500.00	11,700.00	11,700.00	13,000.00	13,000.00	24,200.00	24,200.00	19,550.00	19,550.00	14,000.00	14,000.00	3,771.00	3,771.00	3,771.00	3,771.00
2	EROSION CONTROL	1	LS	1,500.00	1,500.00	3,500.00	3,500.00	3,500.00	3,500.00	5,000.00	5,000.00	1,000.00	1,000.00	2,500.00	2,500.00	1,475.00	1,475.00	5,500.00	5,500.00	8,362.00	8,362.00	8,362.00	8,362.00
3	CLEARING & GRUBBING (APPROX. 1.0 ACRE)	1	LS	3,500.00	3,500.00	4,750.00	4,750.00	4,750.00	4,750.00	2,500.00	2,500.00	5,000.00	5,000.00	4,200.00	4,200.00	9,635.00	9,635.00	1,100.00	1,100.00	6,261.00	6,261.00	6,261.00	6,261.00
4	TRAFFIC CONTROL	1	LS	500.00	500.00	1,500.00	1,500.00	1,500.00	1,500.00	2,000.00	2,000.00	1,500.00	1,500.00	1,500.00	1,500.00	315.00	315.00	1,500.00	1,500.00	1,700.00	1,700.00	1,700.00	1,700.00
5	EXCAVATION (Approximately 2,000 CY)	1	LS	32,000.00	32,000.00	18,000.00	18,000.00	18,000.00	18,000.00	20,000.00	20,000.00	20,000.00	20,000.00	14,000.00	14,000.00	23,425.00	23,425.00	23,000.00	23,000.00	13,319.00	13,319.00	13,319.00	13,319.00
6	EMBANKMENT (Approximately 800 CY)	1	LS	11,200.00	11,200.00	9,500.00	9,500.00	9,500.00	9,500.00	2,000.00	2,000.00	2,400.00	2,400.00	13,000.00	13,000.00	10,100.00	10,100.00	6,500.00	6,500.00	12,553.00	12,553.00	12,553.00	12,553.00
7	GRADING	1	LS	5,000.00	5,000.00	11,250.00	11,250.00	11,250.00	11,250.00	12,000.00	12,000.00	10,000.00	10,000.00	3,000.00	3,000.00	11,150.00	11,150.00	30,000.00	30,000.00	10,877.00	10,877.00	10,877.00	10,877.00
8	CRUSHED SURFACING BASE COURSE (CSBC) AT 4 IN. THICK	840	TON	37.00	31,080.00	22.00	18,480.00	22.00	18,480.00	16.00	13,440.00	21.00	17,640.00	29.00	24,360.00	21.50	18,060.00	14.20	11,928.00	34.88	29,299.20	34.88	29,299.20
9	CRUSHED SURFACING TOP COURSE (CSTC) AT 2 IN. THICK	463	TON	47.00	21,761.00	30.00	13,890.00	30.00	13,890.00	18.00	8,334.00	21.00	9,723.00	33.60	15,556.80	35.50	16,436.50	14.50	6,713.50	39.13	18,117.19	39.13	18,117.19
10	SOIL RESIDUAL HERBICIDE	4000	SY	0.20	800.00	0.25	1,000.00	0.25	1,000.00	0.45	1,800.00	0.50	2,000.00	0.15	600.00	0.20	800.00	0.10	400.00	0.51	2,040.00	0.51	2,040.00
11	CEMENT CONCRETE CURB & GUTTER (STD)	100	LF	20.00	2,000.00	28.00	2,800.00	28.00	2,800.00	20.00	2,000.00	17.00	1,700.00	26.00	2,600.00	23.00	2,300.00	40.00	4,000.00	42.32	4,232.00	42.32	4,232.00
12	CEMENT CONCRETE SIDEWALK	20.2	SY	45.00	909.00	100.00	2,000.20	100.00	2,000.20	50.00	1,010.00	106.73	2,155.95	50.00	1,010.00	63.00	1,272.60	200.00	4,040.00	110.84	2,238.97	110.84	2,238.97
13	BLOCK RETAINING WALL	200	SF	25.00	5,000.00	48.00	9,600.00	48.00	9,600.00	57.00	11,400.00	80.38	16,076.00	19.20	3,840.00	29.00	5,800.00	41.00	8,200.00	106.76	21,352.00	106.76	21,352.00
14	42 INCH HIGH RAILING	80	LF	40.00	3,200.00	52.00	4,160.00	52.00	4,160.00	102.00	4,160.00	115.31	9,224.80	65.00	5,200.00	50.00	4,000.00	81.00	6,480.00	119.50	9,560.00	119.50	9,560.00
15	WHEEL STOP	64	EA	85.00	5,440.00	75.00	4,800.00	75.00	4,800.00	71.50	4,576.00	89.85	5,750.40	65.00	4,160.00	88.00	5,632.00	70.00	4,480.00	72.67	4,650.88	72.67	4,650.88
16	2"-4" BROWN BASALT ROCK	70	CY	50.00	3,500.00	80.00	5,600.00	80.00	5,600.00	79.00	5,530.00	85.00	5,950.00	56.00	3,920.00	57.00	3,990.00	46.00	3,220.00	116.62	8,163.40	116.62	8,163.40
17	2" REMOTE CONTROL VALVE	1	EA	350.00	350.00	985.00	985.00	985.00	985.00	737.00	737.00	770.50	770.50	400.00	400.00	420.00	420.00	400.00	400.00	750.40	750.40	750.40	750.40
18	1-1/2" PVC PIPE	146	LF	3.00	438.00	3.00	438.00	3.00	438.00	4.00	584.00	5.28	770.88	3.00	438.00	2.50	365.00	3.00	438.00	5.15	751.90	5.15	751.90
19	4" SCHD. 40 PVC SLEEVE	28	LF	12.00	336.00	9.00	252.00	9.00	252.00	8.00	224.00	14.17	396.76	10.00	280.00	4.50	126.00	9.00	252.00	13.80	386.40	13.80	386.40
20	1" LARGE CAPACITY FILTER	2	EA	250.00	500.00	185.00	370.00	185.00	370.00	160.00	320.00	184.00	368.00	165.00	330.00	195.00	390.00	165.00	330.00	179.20	358.40	179.20	358.40
21	1-1/2" CLASS 100 PSI POLY PIPE	1010	LF	2.00	2,020.00	3.25	3,282.50	3.25	3,282.50	3.00	3,030.00	2.67	2,696.70	1.40	1,414.00	1.60	1,616.00	2.00	2,020.00	2.60	2,620.00	2.60	2,620.00
22	RAIN BIRD MULTI-OUTLET EMITTER XBD81 WITH PRESSURE REGULATOR PRS05030	41	EA	50.00	2,050.00	65.00	2,665.00	65.00	2,665.00	66.00	2,706.00	60.15	2,466.15	30.00	1,230.00	50.50	2,070.50	70.00	2,870.00	58.58	2,401.78	58.58	2,401.78
23	SOD RESTORATION	226	LF	0.75	169.50	4.00	904.00	4.00	904.00	4.00	904.00	5.06	1,143.56	2.00	452.00	3.00	678.00	1.00	226.00	4.39	1,114.18	4.39	992.14
24	HYDRO-SEED NATIVE SEED MIX	0.25	AC	3,500.00	875.00	6,000.00	1,500.00	6,000.00	1,500.00	2,550.00	637.50	10,018.80	2,504.70	6,550.00	1,637.50	8,190.00	2,047.50	11,200.00	2,800.00	1,862.00	1,862.00	1,862.00	465.50
25	CONSTRUCTION ENTRANCE/SWPP PLAN	1	LS	2,500.00	2,500.00	1,500.00	1,500.00	1,500.00	1,500.00	5,000.00	5,000.00	3,000.00	3,000.00	8,000.00	8,000.00	2,850.00	2,850.00	8,700.00	8,700.00	1,674.00	1,674.00	1,674.00	1,674.00
SCHEDULE 1 SUB TOTAL					141,628.50		125,226.70		125,246.50		125,592.50		137,237.40		137,828.30		144,504.10		149,097.50		168,421.70		166,903.16
8.6% SALES TAX					12,180.05		10,769.50		10,771.20		10,800.96		11,853.23		11,853.23		12,427.35		12,822.39		14,484.27		14,353.67
SCHEDULE 1 TOTAL					153,808.55		135,996.20		136,017.70		136,393.46		149,090.63		149,681.53		156,931.45		161,919.89		182,905.96		181,256.83
ALTERNATE																							
A-1	HMA CL. 1/2 IN PG-64-28	455	TON	100	45,500.00	86.00	39,130.00	86.00	39,130.00	91.20	41,496.00	92.45	42,064.75	83.5	37,992.50	86.00	39,130.00	88.00	40,040.00	87.59	39,853.45	87.59	39,853.45
A-2	CENTERLINE STRIPE	162	LF	0.75	121.50	0.75	121.50	0.75	121.50	0.77	124.74	0.78	126.36	0.75	121.50	3.00	486.00	0.75	121.50	0.77	124.74	0.77	124.74
A-3	CROSSWALK	1	LS	200	200.00	250.00	250.00	250.00	250.00	244.20	244.20	255.30	255.30	250	250.00	1,800.00	1,800.00	250.00	250.00	248.69	248.69	248.69	248.69
A-4	PARKING LOT STRIPES	1675	LF	0.75	1,256.25	0.75	1,256.25	0.75	1,256.25	0.77	1,289.75	0.78	1,306.50	0.75	1,256.25	2.00	3,350.00	0.75	1,256.25	0.77	1,289.75	0.77	1,289.75
SCHEDULE 2 SUB TOTAL					47,077.75		40,757.75		40,757.75		43,154.69		43,752.91		39,620.25		44,766.00		41,667.75		41,516.63		41,516.63
8.6% SALES TAX					4,048.69		3,505.17		3,505.17		3,711.30		3,762.75		3,407.34		3,849.88		3,583.43		3,570.43		3,570.43
SCHEDULE 2 TOTAL					51,126.44		44,262.92		44,262.92		46,865.99		47,515.66		43,027.59		48,615.88		45,251.18		45,087.06		45,087.06