

From: [Debbie Tarry](#)
To: [Will Hall](#); [John Norris](#)
Cc: [Carolyn Wurdeman](#); [Sara Lane](#); [Margaret King](#)
Subject: RE: Utility system definition
Date: Thursday, July 23, 2015 2:17:29 PM

Will -

Here is a combined response from our Bond Counsel and Financial Advisor:

“Why write the bond ordinance to cover a utility system that could include our stormwater system plus any other new utilities we acquire? Is there any intent that these bonds would benefit any other utility? And how does the definition of a separate system play into it? Would the sewer system we acquire with Ronald be part of the Utility System or would it be a Separate System? The Plan of Additions appears limited to the surface water utility, so why confuse and complicate matters by including "and any other utility system with which it may hereafter be combined"?”

This language is included to allow Council greater flexibility in the future.

Washington State law allows “combined utility systems” for bond purposes. RCW 35.67.331 permits cities to combine their water, garbage and sewerage (including sanitary and stormwater) so that they can pledge the revenues from any or all of those services to back the bonds. This can reduce interest on the bonds because it increases the number of customers and the potential net revenue stream backing the bonds. It is very clear that bond investors take greater comfort from a combined utility system. The combined pledge adds strength which is recognized by bond rating agencies and by investors and thus will definitely result in decreased borrowing costs. The combining of any other City of Shoreline utilities with this surface water utility will require Council action by ordinance, and of course the pros and cons can be discussed by the Council at that time. But if we don’t include this language in the ordinance, it will be much harder to combine them in the future. So the inclusion of this language in the ordinance is to preserve the Council’s future options.

Combined utilities rarely, if ever, call on revenues of one part of a combined utility to pay for the debt service on another part. For example, these bonds are being issued for surface water capital purposes. They will be repaid from net revenue of the surface water utility. If the Council later decides to combine the surface water utility and the sewer utility being transferred over from Ronald, and if future bonds are issued for sewer improvements, the debt service on those bonds come from the sewer side, not the surface water side. Most cities combine their utilities in this fashion. But most cities also keep careful books so that both operating and capital (bond) costs are allocated properly among the pieces of their combined utilities. That’s also important from a rate-setting standpoint, because you want to make sure that surface water customers just pay for surface water costs, and sewer customers for sewer costs. In the rare event that one part of a combined utility is called on to help with debt service obligations of another part, the “borrowing” service pays back the “lending” service, with interest, so that the costs are allocated appropriately.

But again, the reason to combine utilities is to reduce interests costs, thus helping to keep rates lower.

Debbie Tarry
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-----Original Message-----

From: Will Hall
Sent: Thursday, July 23, 2015 10:01 AM
To: Debbie Tarry; John Norris
Cc: Carolyn Wurdeman
Subject: Utility system definition

Why write the bond ordinance to cover a utility system that could include our stormwater system plus any other new utilities we acquire? Is there any intent that these bonds would benefit any other utility? And how does the definition of a separate system play into it? Would the sewer system we acquire with Ronald be part of the Utility System or would it be a Separate System? The Plan of Additions appears limited to the surface water utility, so why confuse and complicate matters by including "and any other utility system with which it may hereafter be combined"?

Will Hall, Councilmember
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