



City of Spokane, Washington
\$200,000,000 Water and Wastewater System
Revenue Bonds, 2014

An aerial photograph of Spokane, Washington, showing a mix of urban buildings, green trees, and a river. A prominent clock tower is visible on the right side of the image.

Rating Presentation

October 24, 2014



Participants and Contacts

- City of Spokane
 - David Condon, Mayor
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Schedule

- Rating Meeting: **October 24**
- Final Council Approval: **October 27**
- Rating Available: **November 4**
- Sale: **November 12**
- Closing: **November 25**



Purpose of the Bond Sale



- Improve the health of the Spokane River
- Protect the region's sole-source aquifer
- Make other needed improvements to the Water Wastewater System

A Business Case



- Community
 - Attributes & Strengths
 - Acceptance of the Projects
- Regulatory
 - Green Bonds
 - Environmental Responsibilities
 - Integrated Clean Water Plan
- System
 - System Description
 - Natural Advantages
- Financial
 - Current Data
 - Long-term projections & affordability

Community: Spokane, WA

- Economic hub of the Inland Northwest
- Second largest city in Washington
 - 2014 Population 212,300
- Recovering from the Downturn
 - Sales tax up 8.5% through July
 - New construction permit valuation at record levels
- Diversifying Economic Base
 - Health Care, Research & Biotech
 - Higher Education – University District & 4-Year Medical School
 - High Technology & Aerospace
 - *Traditional:* Military, Government & Resource-based





By the Numbers

Spokane County Top Employers as of Nov. 1, 2013

Employer	No. of Employees
92 nd Air Refueling Wing, Fairchild Air Force Base	4,392 ⁽¹⁾
State of Washington	4,165 ⁽²⁾
Providence Health Services (incl. Sacred Heart Medical Center, Holy Family Hospital, Providence Health Care)	3,715
Spokane Public Schools	3,049
City of Spokane	1,956
Spokane County	1,935
Central Valley School District	1,427
Wal-Mart Stores	1,393
URM Stores Inc.	1,332
Rockwood Clinic PS	1,306

- (1) Includes 1,000 Air National Guard personnel and 500 civilians employed at Fairchild Air Force Base and excludes an indeterminate number of Air Force Reserve personnel.
- (2) Headcount. State figures include Department of Corrections, Department of Transportation, Department of Social and Health Services, Department of Veterans Affairs, Employment Security Department and various other departments.

Historical Population

Year	Spokane County (1)	City of Spokane
2014	484,500	212,300
2013	480,000	211,300
2012	475,600	210,000
2011	472,650	209,100
2010 (2)	471,221	208,916

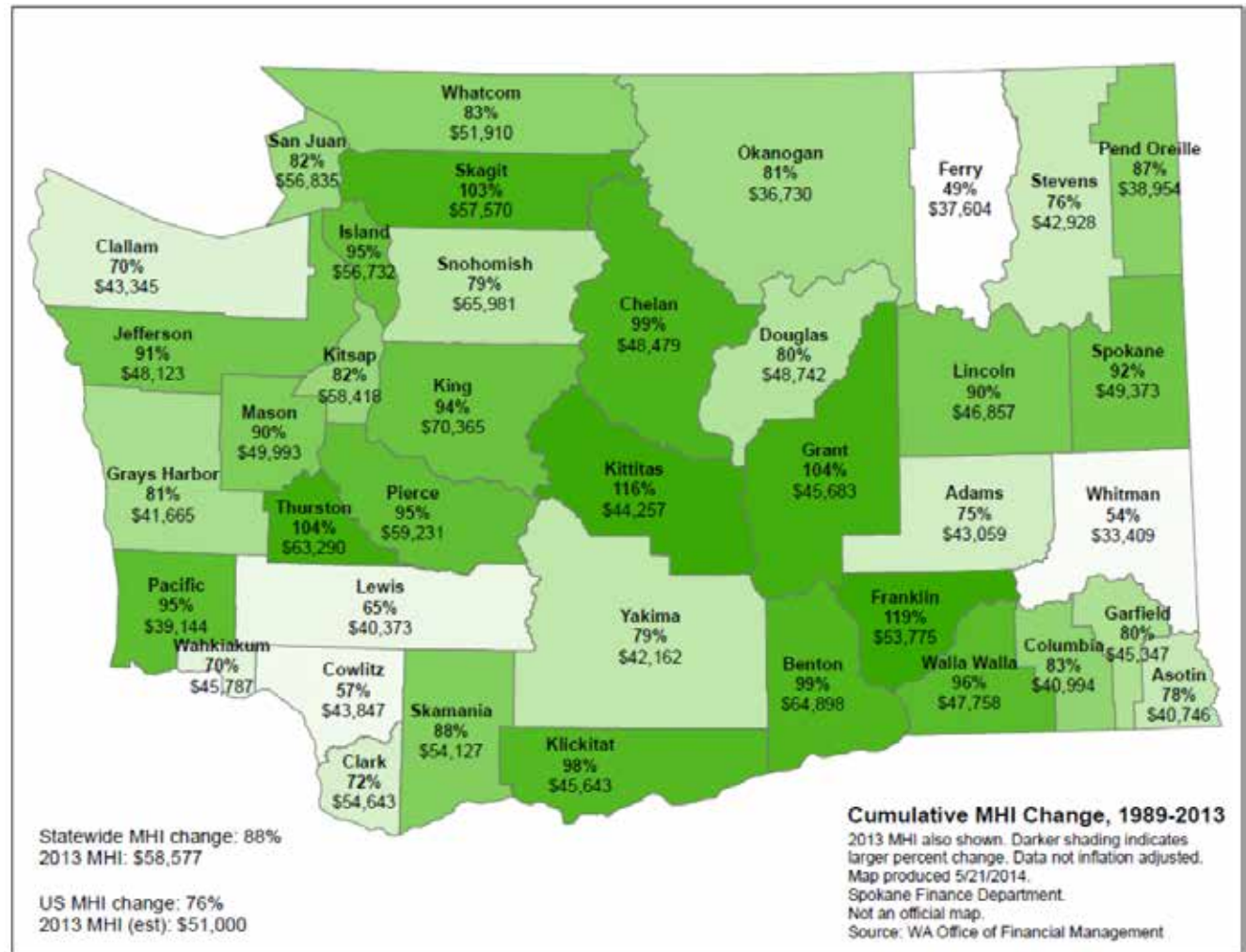
- (1) Includes the City.
- (2) Census figures.

Taxable Retail Sales

Year	Spokane County (1)	City of Spokane
2013	\$7,561,668,826	\$4,103,528,002
2012	7,122,104,043	3,880,296,199
2011	7,006,378,465	3,630,930,644
2010	6,755,693,011	3,674,779,611
2009	6,834,241,691	3,715,784,226

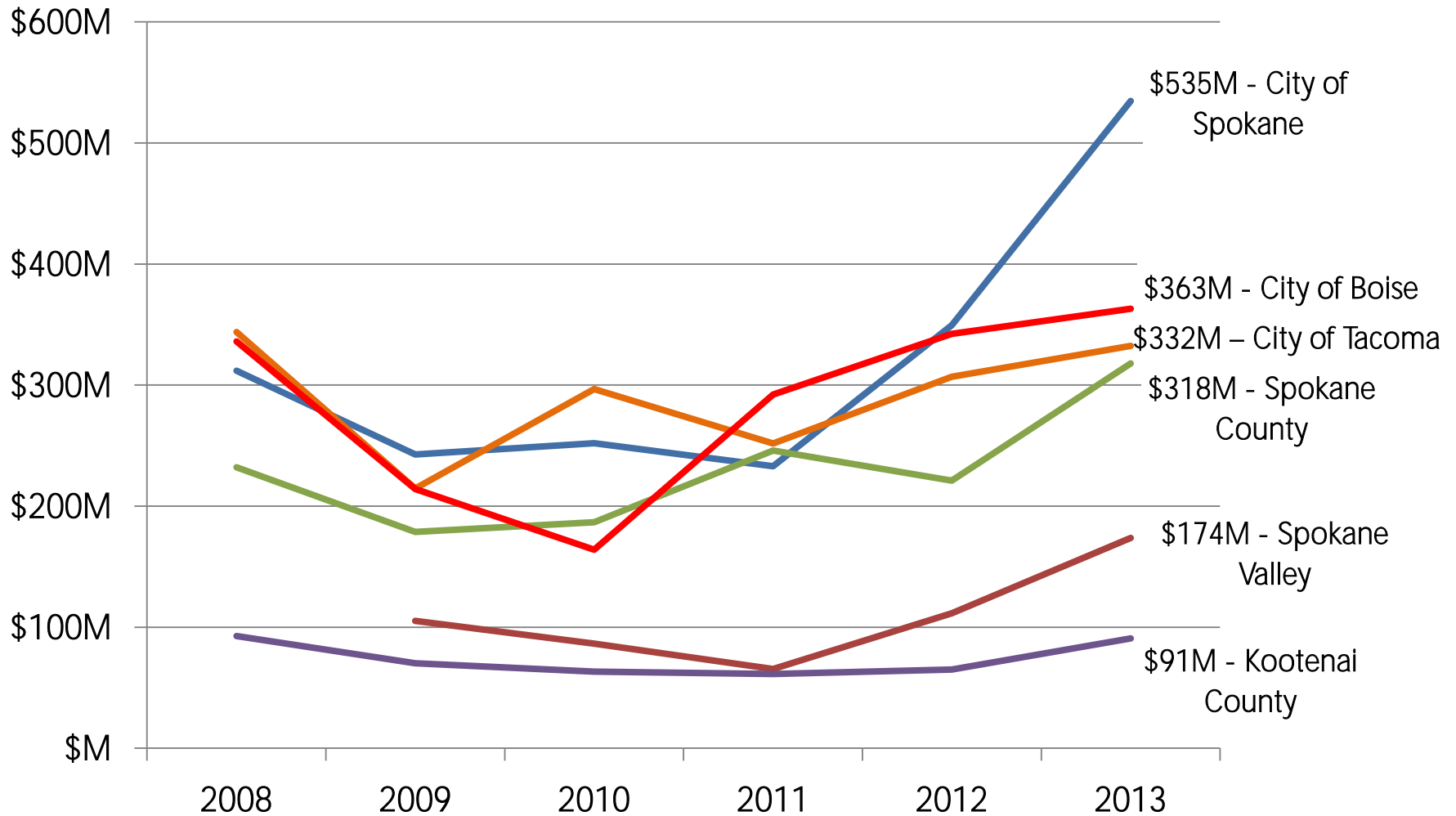
- (1) Includes incorporated and unincorporated Spokane County.

A Look at Income Growth



Spokane County
 2013 Median
 Household
 Income is 97%
 of National MHI

New Construction Comparisons



Community Support

Affordability for Citizens:

- Limit Rate Increases to Inflation (CPI) – 2.9% annually
- Leverage Street Levy & Utility Capital Construction

Accountability to Citizens:

- Manage Operating Costs Aggressively
- Pursue Opportunities to Expand Revenues
- Appropriate Reserve and Debt Levels
- 20-Year Planning Time Horizon

Alignment with Citizens' Priorities:

- A Cleaner River, Faster
- Integrate Projects Wherever Possible

Commitments led to Community Support



Green Bonds

- Using this new designation to demonstrate our commitment to Delivering Environmental Results!
- All projects to be funded are Environmentally Beneficial
 - Improve Water Quality in the Spokane River
 - Protect the Water Quality in the sole-source drinking water Aquifer
 - Preserve Water Resources
 - Implement Energy Efficiencies
 - Enable Resilience to Climate Change
- This is important to our entire community.
 - Our River and our Aquifer are important keys to economic health, the health of the public and the environment, and quality of life.

Environmental Responsibilities

Projects will deliver on our regulatory requirements:

- Clean Water Act & Safe Drinking Water Act
- Manage Combined Sewers by end of 2017
- Add tertiary treatment at Wastewater Treatment Plant and meet effluent standards by March 2021

Projects will deliver results that make sense:

- Voluntarily address stormwater in advance of regulations
- Run tertiary treatment all year for greater pollution benefits
- Advance water projects to address aging infrastructure

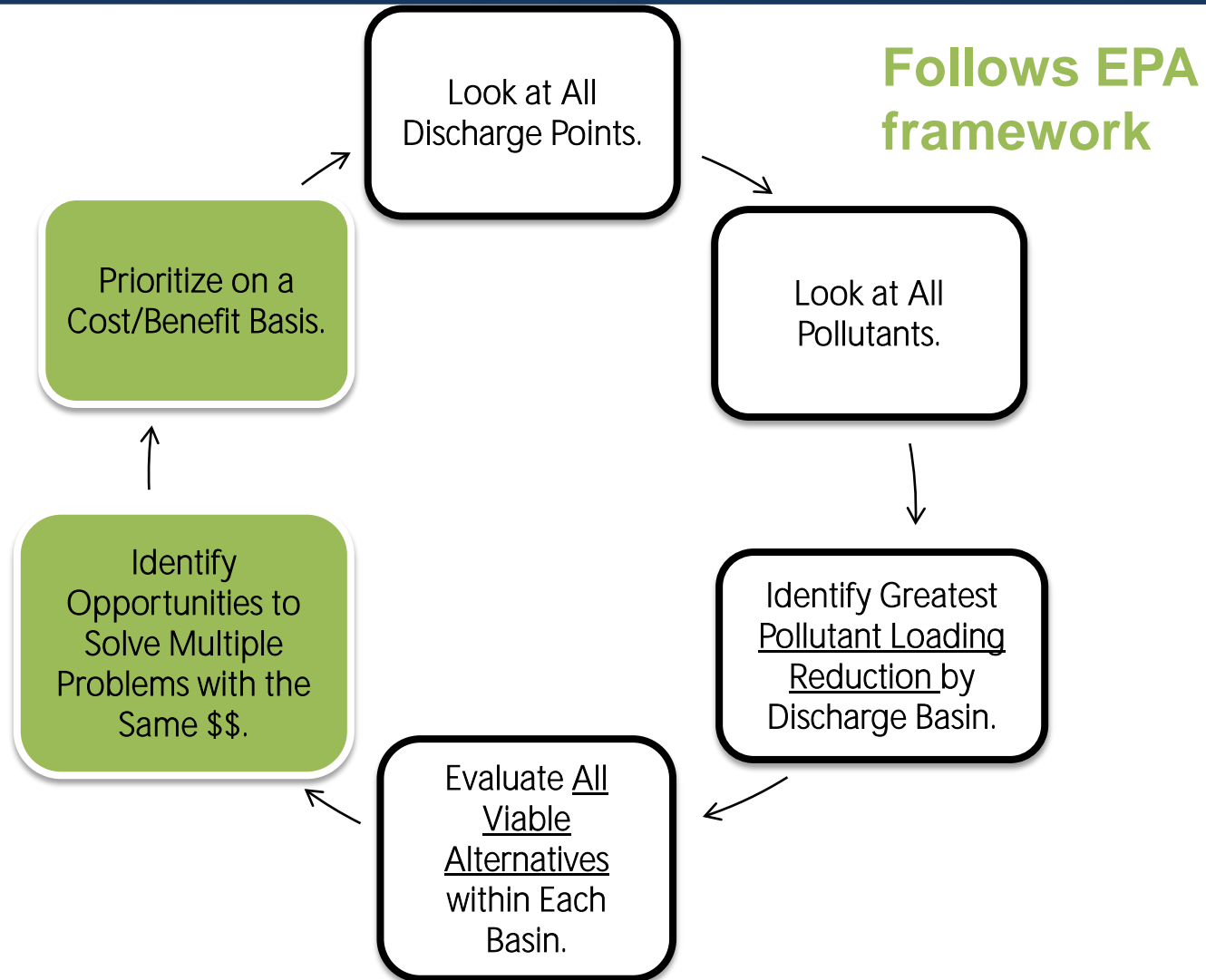
Bulk of work outlined in our Integrated Clean Water Plan.



Stormwater, Wastewater Flows

Volume	From Where
54 Million Gallons	From combined sewers to River annually
28.5 Million Gallons	From two largest combined sewer basins to River annually
1 Billion Gallons	Untreated stormwater to River annually
300 to 600 Million Gallons	Stormwater going to River from Cochran Basin alone
34 Million Gallons	Average amount processed at City's Water Reclamation Plant daily

What is an Integrated Approach?



Integrated Plan: Reducing Cost of Compliance

- **Components:**

- **CSO:** Manage flows going to River from combined sewers
- **Stormwater:** Include Cochran Basin project, largest stormwater contributor to the River
- **Treatment Plant:** Add tertiary treatment
- **Long Term:** Commitment to eliminate stormwater as other infrastructure is upgraded

- **Results:**

- More Affordable
- Magnitudes Greater Pollution Reduction
- Voluntary Program
- Anticipates Future Regulation



Water and Wastewater System

Built around Natural Assets that lower operating costs:

- Abundant Spokane Valley-Rathdrum Prairie Aquifer
 - 322 acres, 10 trillion gallons of water
 - Very high quality
 - Avoids water filtration systems required by communities who rely on surface water sources
- Geography that enables an efficient, gravity-fed wastewater collection system
 - Need very few pumps or lift stations to move wastewater
 - Delivers to a single wastewater treatment plant
 - Reduces power demands with no need for multiple points of treatment

Water

- Delivers up to 180 million gallons of water per day
- Provides water service to 99.9% of residents in City limits
- 93.6% of water accounts are in the City
 - Rest in Spokane County, Airway Heights & Spokane Valley
- Expects water supply to be adequate for future
 - Water rights total 147,000 acre-feet per year
 - City currently uses about 75,000 acre-feet per year
- Owns Upriver Dam, providing power for water delivery



Water

- Water Operating Statistics

	2009	2010	2011	2012	2013
Number of Connections	72,983	73,199	73,311	73,514	73,879
Water Revenues	\$31,822,251	\$31,585,996	\$33,428,370	\$32,805,944	\$35,732,176
Average MGD ⁽¹⁾ Consumption	61.4	56.5	56.7	57.6	58.0
Peak MGD ⁽¹⁾ Consumption	126.2	125.6	119.4	119.1	128.2

(1) Million gallons per day.

- Largest Water Customers

- The 10 largest customers accounted for \$829,504 or 2.6% of 2013 revenue
- Consist mostly of higher education facilities, healthcare facilities, and apartment complexes

Water

- Water System Capital Improvements – Total of \$35 M
 - Improve source well stations
 - Add a well to the City’s distribution system
 - Replace and add pumps at booster stations
 - Add storage capacity to accommodate growth, provide hydraulic consistency, and offer service redundancy
 - Replace or construct new transmission mains to improve the system and accommodate growth



Wastewater

- The City owns and operates the Riverside Park Water Reclamation Facility
- More than 34 million gallons of wastewater treated per day
 - Maximum daily treatment capacity of 75 million gallons
 - Headworks can accommodate a peak flow rate of 150 million gallons per day
 - Effluent is discharged into the Spokane River
- Interlocal agreement with Spokane County:
 - County retains up to 10 million gallons in treatment capacity
 - The County pays 10/44th of capital improvements at the Treatment Plant
- Wholesale agreement with Fairchild Air Force Base

Wastewater

- Wastewater Operating Statistics

	2009	2010	2011	2012	2013
Number of Accounts	70,428	70,551	70,595	70,639	70,814
Wastewater & Stormwater Revenues ⁽¹⁾	\$58,392,559	\$65,297,300	\$73,553,670	\$76,828,892	\$79,592,268

(1) Includes stormwater. Includes Fairchild Air Force Base and Spokane County.

- Largest Retail Wastewater Customers

- The 10 largest customers accounted for \$3.2 million or 4.2% of 2013 revenue
- Consist mostly of apartment complexes, higher education and health care facilities

Wastewater

- Capital Improvements
 - Implementation of Integrated Clean Water Plan
 - \$180 M to manage overflows from combined sewers
 - \$100 M tertiary treatment system at treatment plant
 - Green infrastructure projects, totaling \$3 M
 - \$20 M project to manage Cochran Basin stormwater
 - Additional Capital Projects
 - \$14 M solids digester at the treatment plant.
 - \$6.1 M fifth primary clarifier at the treatment plant



Rates

- Historical Rate Changes:

Year	Water % Change	Wastewater & Stormwater % Change
2014	2.90	2.90
2013	3.50	3.50
2012	4.50	13.70
2011	3.75	15.00
2010	3.75	15.00
2009	3.40	3.50

- Current Commitment to Affordable & Predictable Rates

- Council is adopting 3-year rate at average inflation (2.9%)
- 20-year planning efforts assume 2.9% annual increases

- Competitive with other communities:

Comparative Monthly Water, Wastewater & Stormwater Charge

Spokane County Cities		Other Washington Cities	
Liberty Lake	\$ 48.74	Vancouver	\$ 61.68
Cheney	50.32	Tacoma	101.72
Medical Lake	54.80	Seattle	186.99
Spokane (Inside City)	75.41		
Airway Heights	98.30		
Spokane (Outside City)	111.65		



Financial Basics

Item of Interest	Spokane Water Wastewater System
Service Area Wealth	97% of 2013 Median Household Income
Yearly Operations & Maintenance	\$90 M
Debt Coverage Ratio	4.0x to 5.0x
Days of Cash on Hand	>150 days
Total Debt to Operating Revenues	< 2 years
Rate Management	Council intends to approve a 3-year rate change; planning anticipates 20 years of inflationary rate changes at 2.9%
Regulatory Compliance	Currently in full compliance; proactive program will maintain compliance; anticipating future regulations
Rate Covenant	1.5x without reserve; 1.25x with reserve

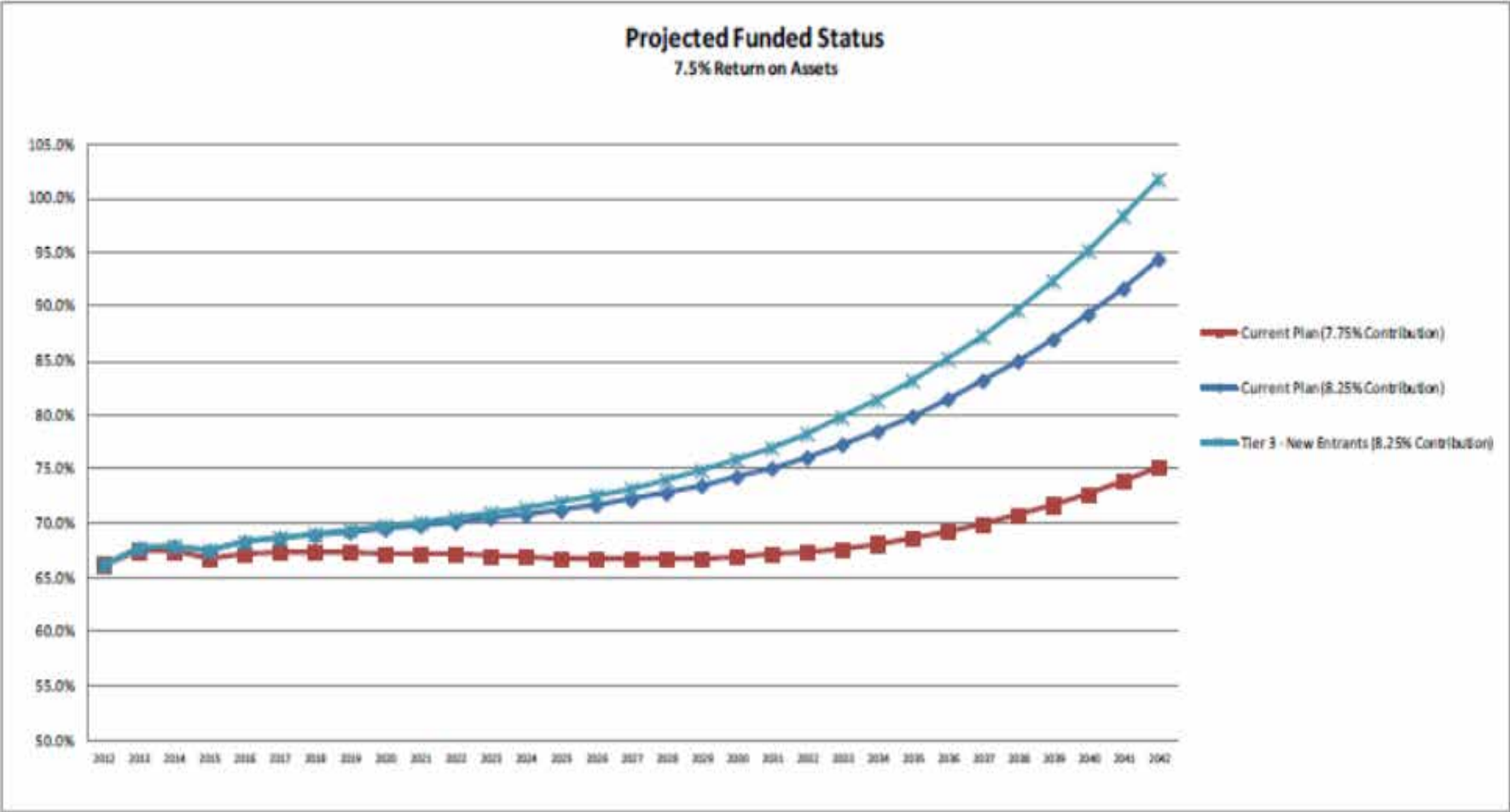


Labor Relations

Bargaining Unit	Employees Represented	Contract Term	COLA History	Total Cost of Compensation
Local 270	939	2012 – 2015	2012 – 0.0%; 2013 – 0.0%; 2014 – 0.0%; 2015 – 0.0%	1.97%
Local 270 – PA	10	2012 – 2015	2012 – 0.0%; 2013 – 0.0%; 2014 – 0.0%; 2015 – 0.0%	1.50%
M&P – A	42	2012 – 2014	2012 – 0.0%; 2013 – 0.0%; 2014 – 0.0%	- 0.17%
M&P – B	215	2012 – 2014	2012 – 0.0%; 2013 – 0.0%; 2014 – 0.0%	- 0.14%
Local 29	271	2012 – 2015	2012 – 0.0%; 2013 – 0.0%; 2014 – 1.9%; 2015 – 1.8%	2.35%
SAFO	13	2012 – 2015	2012 – 0.0%; 2013 – 0.0%; 2014 – 1.9%; 2015 – 1.8%	2.00%
Police Guild	272	2012 – 2016	2012 – 2.0%; 2013 – 2.0%; 2014 – 2.0%; 2015 – 2.0%; 2016 – 0.0%	2.76%
Lts & Cpts	21	2012 – 2016	2012 – 2.0%; 2013 – 2.0%; 2014 – 2.0%; 2015 – 2.0%; 2016 – 0.0%	2.76%

Updated October 2014

SERS Plan – 30 Year Projections





Historical Operating Results (1)

	Audited (000s)				
	2009	2010	2011	2012	2013
Operating Revenues					
Charges for goods and services	\$ 90,123	\$ 96,741	\$ 106,602	\$ 109,225	\$ 115,126
Other operating revenues	92	143	379	410	199
Total Operating Revenue	\$ 90,215	\$ 96,884	\$ 106,981	\$ 109,635	\$ 115,325
Operating Expenses					
Operations ⁽²⁾	\$ 25,755	\$ 26,461	\$ 27,823	\$ 29,801	\$ 23,208
Maintenance	17,222	17,258	18,030	17,322	17,368
Administration ⁽³⁾	5,237	5,091	5,434	5,870	9,572
Depreciation	14,782	14,868	15,435	16,980	19,015
Taxes	21,287	22,330	25,251	26,073	26,362
Total Operating Expenses	\$ 84,282	\$ 86,008	\$ 91,972	\$ 96,045	\$ 95,524
Operating Income	\$ 5,932	\$ 10,875	\$ 15,010	\$ 13,590	\$ 19,801
Non Operating Revenues & Expenses					
Interest income	\$ 685	\$ 347	\$ 261	\$ 379	\$ 176
Net increase (decrease) in fair value of investments	(252)	159	(62)	385	(743)
Gain (loss) on disposition of fixed assets	53	(2,621)	67	445	320
Interest expense	(193)	(153)	(151)	(146)	(127)
Net revenues (expenses) from contract work	21	(185)	(125)	31	(232)
LID losses and engineering expenses	(949)	(1,059)	(852)	(317)	(608)
Rent and lease income	543	573	642	662	586
Other non-operating revenue	46	94	1,676	3,621	72
Total Non-Operating Revenues	\$ (46)	\$ (2,845)	\$ 1,457	\$ 5,060	\$ (556)
Income before contributions and transfers	\$ 5,886	\$ 8,030	\$ 16,467	\$ 18,650	\$ 19,245
Capital contributions	\$ 7,437	\$ 5,927	\$ 6,677	\$ 7,486	\$ 5,419
Net transfers	\$ (124)	\$ 166	\$ (324)	\$ 12	\$ (20)
Change in Net Position	\$ 13,199	\$ 14,123	\$ 22,820	\$ 26,148	\$ 24,644
Debt Service Calculation Adjustments					
Income before contribution and transfers	\$ 5,886	\$ 8,030	\$ 16,467	\$ 18,650	\$ 19,245
Plus: County capital contributions	1,882	2,907	2,946	2,396	2,069
Plus: General facilities charges	1,430	1,384	1,364	1,542	1,874
Plus: Depreciation expense	14,782	14,868	15,435	16,980	19,015
Plus: City utility tax expense	19,098	19,662	22,269	23,063	23,439
Less: Net increase (decrease) in fair value of investments	252	(159)	62	(385)	743
Less: Gain (loss) on disposition of fixed assets	(53)	2,621	(67)	(445)	(320)
Plus: Interest Expense	193	153	151	146	127
Balance Available for Debt Service	\$ 43,470	\$ 49,465	\$ 58,626	\$ 61,946	\$ 66,191

- (1) Prior to 2013, the Water and Wastewater Funds were separate funds and were audited accordingly. For purposes of comparison, financial information for these funds have been combined for the years 2009-2012.
- (2) The \$6.5 million decrease in Operations expenses from 2012 to 2013 was due to: (1) \$3.7 million reduction in expenses that were recorded as Operations in 2012 and Administration in 2013; (2) \$1.0 million reduction in the allocation of salaries/benefits expenses; (3) \$0.7 million reduction in interfund expenses; and (4) \$0.5 million reduction in general expenses.
- (3) The \$3.7 million increase in Administration expenses from 2012 to 2013 was due to: (1) \$2.0 million increase in expenses related to the hydro dam that were recorded as Operations in 2012 and Administration in 2013; and (2) \$1.7 million in interfund information technology, engineering, and fleet costs that were recorded as Operations in 2012 and Administration in 2013.



Projected Operating Results

	Projected (000s)*		
	2014 ⁽¹⁾	2015	2016
Operating Revenues ⁽²⁾	\$ 117,963	\$ 121,384	\$ 124,904
Operating Expenses ⁽³⁾	<u>83,901</u>	<u>85,227</u>	<u>87,698</u>
Operating Income	\$ 34,062	\$ 36,157	\$ 37,206
Non Operating Revenues & Expenses ⁽⁴⁾	\$ (335)	\$ 31	\$ 17
<i>Income before contributions and transfers</i>	<i>\$ 33,727</i>	<i>\$ 36,189</i>	<i>\$ 37,223</i>
Debt Service Calculation Adjustments			
<i>Income before contribution and transfers</i>	<i>\$ 33,727</i>	<i>\$ 36,189</i>	<i>\$ 37,223</i>
Plus: County capital contributions	2,650	5,825	10,000
Plus: General facilities charges	1,500	1,500	1,500
Plus: City utility tax expense	23,585	24,269	24,973
Plus: Interest expense	<u>145</u>	<u>147</u>	<u>151</u>
Balance Available for Debt Service	\$ 61,607	\$ 67,930	\$ 73,847
Debt Service on the Bonds	\$ -	\$ 13,637	\$ 13,641
Debt Service Coverage	N/A	4.98x	5.41x
Balance Available	\$ 61,607	\$ 54,293	\$ 60,206
Less: Debt service on subordinate obligations	1,517	1,648	3,333
Less: City utility tax expense	<u>23,585</u>	<u>24,269</u>	<u>24,973</u>
Balance Available for Other Purposes	\$ 36,505	\$ 28,376	\$ 31,900

- (1) In 2014, the City expects to exceed performance reflected in the projection.
- (2) Assumes 2.9% annual rate increases.
- (3) Assumes 2.9% growth in operating expenses from 2015 into the future. Excludes depreciation.
- (4) Excludes net increase (decrease) in fair value of investments and gain (loss) on disposition of fixed assets.

* Preliminary; subject to change.

Subordinate Obligations

- System has the following subordinate obligations:
 - Related to current capital plan
 - Amount Contracted \$33,833,785
 - Amount Drawn \$4,667,105
 - Principal Outstanding \$4,667,105

The City also been awarded \$50,526,810 of State loans, which may or may not be drawn
 - Related to other capital improvements
 - Amount Contracted \$32,298,064
 - Amount Drawn \$27,164,377
 - Principal Outstanding \$11,666,278
- City may seek additional subordinate obligations from the State to support its capital program

Bond Ordinance

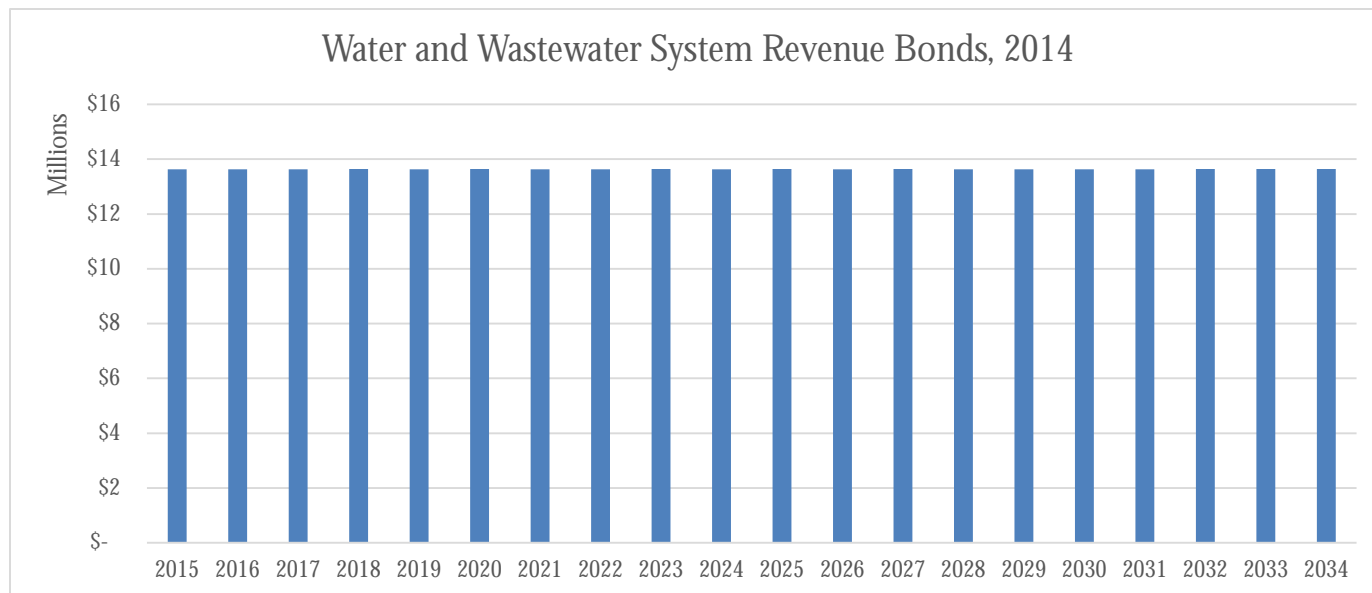
- Rate covenant coverage of 1.25 times on Parity Bonds
- Reserve Account
 - At the closing and delivery of the Bonds, the City shall not be obligated to fund the Reserve Requirement
 - If coverage is less than 1.50 times, then the City is required to fund the Reserve Account within 3 years
 - If required, Reserve Requirement is typical three-prong test
- Allows for Coverage Stabilization Account

Bond Ordinance

- Future Parity Bonds
 - The City may issue additional bonds on a parity lien or charge on Net Revenues if:
 - Not default on Rate Covenant
 - New Bond Ordinance includes Rate Covenant
 - Certificate of Chief Financial Officer or Consultant demonstrating fulfillment of the Parity Requirement
 - No certificate required for refunding for annual savings or completion bonds
 - No consultant required if Net Revenues for Base Period conclusively demonstrate fulfillment of Parity Requirement
 - Consultant may make certain adjustments
- City may issue Junior Lien Obligations

Plan of Finance

- Water and Wastewater System Revenue Bonds, 2014
 - Provide \$200 million for capital projects
 - Structured with level debt service and 20-year amortization
 - Final maturity December 1, 2034
- No Parity Bonds outstanding



Final thoughts

- Stable City operating budget
- Adopting a separate Citywide capital budget for the first time
- Rebuilding City revenue reserve following the economic downturn
- “Integrated” planning throughout the organization to:
 - Gain greater value for our citizens
 - Think holistically; find efficiencies
- Asking citizens to reinvest their dollars in smarter ways
 - Street Levy
 - Riverfront Park Bond

Question and Answer

