

Regional Utility Partnerships – *Lessons Learned After Five Years with the Joint Municipal Utility Services Act*

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September 21, 2016



Laying the foundation
for a **vibrant economy**
and **healthy environment**

Presentation Overview

- **Part 1 – Overview of JMUSA Regional Partnerships**
 - Regional utility partnerships in general
 - Joint Municipal Utility Services Act (JMUSA)
 - Examples of regional utility partnerships, organized with or without JMUSA
 - General Observations and Lessons
- **Part 2 – Discovery Clean Water Alliance**
 - Who, What, Where, When, Why, How
 - Lessons Learned



Presentation Overview

- **Part 3 – Collaborative Financial Planning at Discovery Clean Water Alliance**
 - Introduction
 - Finance and Treasury Services
 - Asset / Debt Transfer
 - Debt Issuance
 - Forecasting and Budgeting
 - Results
 - Lessons Learned
- **Questions & Answers**





Part 1: Overview of Regional Partnerships and the Joint Municipal Utility Services Act (JMUSA)

Intergovernmental Partnerships

- **Beyond the typical service provider/receiver or owner/customer relationships**
- ***Partnerships* involve some degree of shared authority, commitment and cost**
 - Voluntary for all parties
 - Parties might be unequal in size and resources, but there is some structured way to make joint decisions
- **Today's focus is on regional utility partnerships**
 - Examples: wastewater treatment, water supply, stormwater management

Why Regional Utility Partnerships?

- **Economies of Scale**
 - Taking advantage of existing investment rather than duplicating high capital costs
- **Natural Service Areas**
 - E.g., Gravity sewers follow stream basins, not boundary lines of political jurisdictions
- **Densely Populated Areas**
 - Not all jurisdictions have space for a treatment plant or access to adequate water supply
- **For those reasons, many local governments choose to create or participate in regional utility services**
 - Some (but not all) of these are partnerships, with membership and a shared decision-making process

What is the JMUSA?

- **Joint Municipal Utility Services Act (2011) – RCW 39.106**
- **Reduces barriers for regional utility partnerships by creating a clear legal framework**
 - Joint utility authorities are “municipal corporations,” not non-profit corporations
 - Can sell debt directly, buy and sell land directly
 - Exempt from state taxes
 - Any employees are clearly identified as “public employees”
 - Flexibility: If member agencies include more than one type of local government, can choose applicable administrative regulations – procurement, public works, liens, etc.
 - Board members are elected officials from member agencies
- **JMUSA would allow retail as well as wholesale services (e.g. joint meter reading and customer billing)**

Examples of Regional Utility Partnerships

- **Cascade Water Alliance**

- Water supply partnership formed in 1999
- Bellevue, Issaquah, Kirkland, Redmond, Sammamish Plateau Water & Sewer District, Skyway Water & Sewer District, Tukwila
- Originally a non-profit, first to adopt JMUSA form
- Advantage of JMUSA: now can sell debt directly instead of conduit financing through member agencies
- There is occasional sensitivity about the partnership's scope and power relative to member agencies
- Assets owned by members before partnership existed (water rights and wells) have been retained by original owners, not transferred to Cascade
- Double majority voting has been the key to the partnership, requires a lot of consensus
- Charges from Cascade to its members are built into retail rates, not visible to customers

Examples of Regional Utility Partnerships

- **Discovery Clean Water Alliance**
 - Wastewater treatment partnership, newly created under JMUSA
 - Clark County, Clark Regional Wastewater District, City of Battle Ground, City of Ridgefield
 - Previously there was a owner/customer relationship, with Clark County owning the treatment plant
 - Clark Regional Wastewater District serves as the managing agency for the Alliance, providing staff support and management
 - Described more fully in Parts 2 and 3 of this presentation

Examples of Regional Utility Partnerships

- **LOTT Clean Water Alliance**

- “LOTT” stands for its member agencies: Lacey, Olympia, Tumwater, Thurston County
- Regional wastewater treatment partnership, formed by interlocal agreement in 1976
 - Treatment plant originally built by City of Olympia
 - Interlocal agreement updated in 2000, occasioned by need for capital upgrades to treatment plant
- Has not adopted the JMUSA form; instead, LOTT is a non-profit corporation owned jointly by its members
- Board of Directors consists of elected officials from member agencies; there are also management-level committees
- Like Cascade, there is occasional sensitivity about the partnership’s scope and power relative to member agencies
- LOTT has uniform per-ERU rate, visible to retail customers

Examples of Regional Utility Partnerships

- **Three Rivers Regional Wastewater Authority**

- Longview, Kelso, Cowlitz County, Beacon Hill W&S District
- Formed by interlocal agreement in 1972 to build and operate regional wastewater treatment plant
- Board of Directors used to be Public Works Directors or General Managers of member agencies
- Until this year, was dependent on Cowlitz County for administrative support
- In order to eliminate legal ambiguity, re-formed as a JMUSA partnership effective July 2016
- Going through administrative separation from County
- Now the Board of Directors consists of elected officials (per JMUSA), meets twice/year; management level still monthly
- Charges to member agencies built into rates, not visible to retail customers

General Observations

- Regional utility services can be provided through an “owner/customer” relationship—e.g., Seattle Public Utilities, Tacoma Public Utilities, City of Everett
- Regional utility *partnerships* sometimes arise when parties—typically facing a large capital cost—decide that sharing costs and risks will lead to better outcomes for their customers
- Partnerships require a process for joint decision-making
- Natural tension between scope and power of the partnership and that of members
- JMUSA
 - Can help pave the way legally and administratively
 - By itself does not create the political dynamics that push independent jurisdictions toward a regional partnership



Part 2: Discovery Clean Water Alliance



Alliance Overview

WHO?

- **Four Alliance Members**

- City of Battle Ground
- City of Ridgefield
- Clark County
- Clark Regional Wastewater District

- **“Discovery” Clean Water Alliance**

- Tied to Lewis & Clark & “Corp of Discovery” that traversed Clark County
- “Discovery” was lead ship in George Vancouver’s exploration of west coast of North America



Alliance Overview

WHAT?

- **Regional Wastewater Transmission & Treatment Utility**
 - Formed under Joint Municipal Utility Services Act (JMUSA) – 39.106 RCW
 - ✓ New Washington State statute – 2011
 - ✓ Second agency to form under statute
 - Designed to be expandable/scalable
 - ✓ Services – any form of municipal water service
 - ✓ Members – primarily Clark County-based municipalities (tribes also allowed by statute)



Alliance Overview

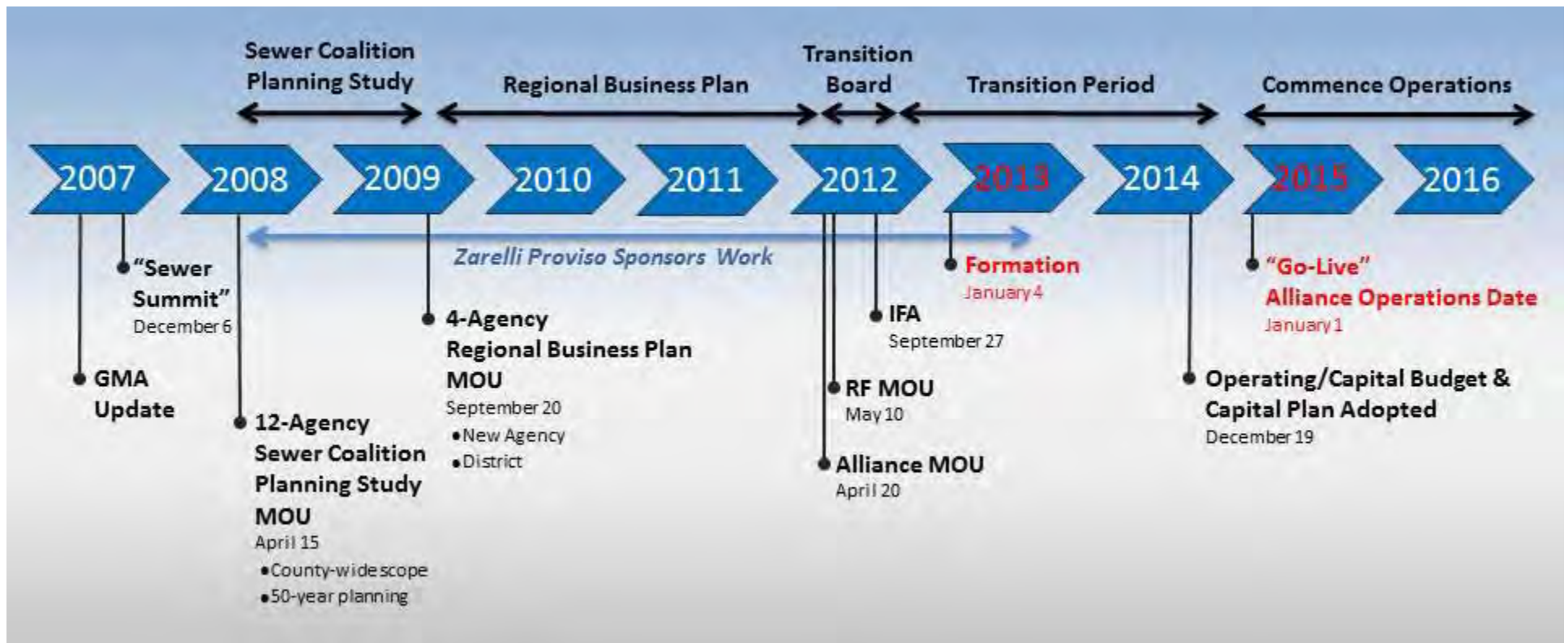
WHERE?

- **Located in central Clark County, WA**
 - Currently approximately 110k customers served
 - Mostly urban areas north of City of Vancouver
- **9 regional assets – \$126M book value**
 - Regional gravity interceptors
 - Regional pump stations/force mains
 - Regional treatment plants



Alliance Overview

WHEN?



Alliance Overview

WHY?

- Regional decisions are best made when stakeholders have a direct voice and vote
- Aligns authority to make decisions with responsibility to pay
- Finding right balance between capacity and cost



Alliance Overview



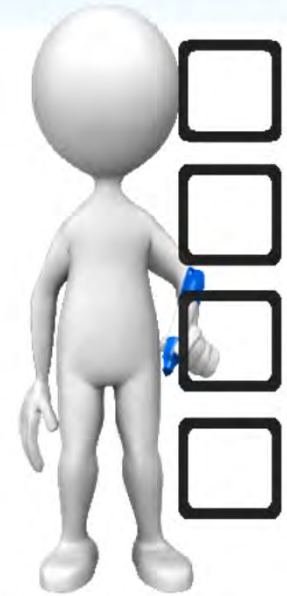
WHY JMUSA?

- Improve ability of local government utilities to own, operate and provide utility services to the public
- Reduce costs, improve benefits and quality of utility services
- Facilitate joint municipal utility services, not expand services
- Support regional economic development
- Provide reliable, predictable service
- Encourage participation by all Clark County municipal utility providers while protecting jurisdictional autonomy
- Flexibility to optimize guidance to operate under
- Legal recognition – issues/problems observed with other governance structures (ILA, NPOs, component units) – SAO jurisdiction, debt issuance, conduit debt

Alliance Overview

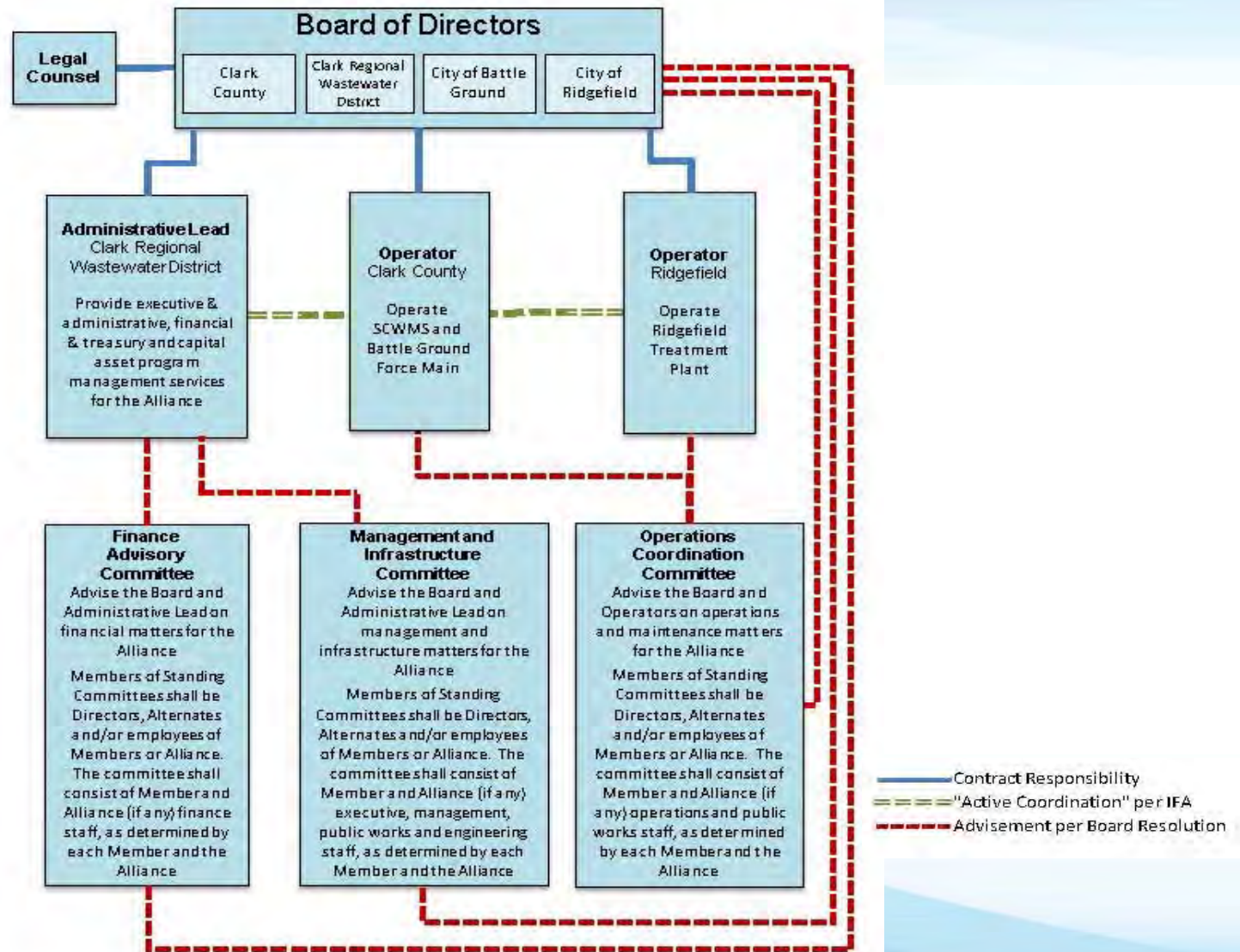
HOW?

- **Regional Board of Directors**
 - One elected official from each Member agency
- **House-Senate voting system**
 - Dual test requires majority for both:
 - ✓ Capacity ownership (House)
 - ✓ Number of Members – one agency, one vote (Senate)
- **Asset-based financial model**
 - Members pay for direct capacity purchase (capital) and actual flow utilization (operations)
- **Contracting for services with Members**
 - Not “another layer of government”
- **Standing Committees**



Alliance Overview

HOW?



Alliance Overview

LESSONS LEARNED

- **Alignment of authority and responsibility**
 - Voting system respecting all interests
- **Built on values of community**
 - Reliable service at affordable price
- **State level support**
 - Legislators/proviso
 - Service to core I-5 corridor
- **Quality process to build relationships first**
 - Tours, workshops, time
- **Quality information to support decisions**
 - Credible financial analysis, creative/respected legal





Part 3: Collaborative Financial Planning

Collaborative Financial Planning

INTRODUCTION

- **First real test of Alliance structure**
- **Integrated critical success factors**
 - Collaborative forum to honor Alliance ethic
 - Sound financial policies and practices
 - Adapted to level of service aligned with customer values – reliable service at affordable price
- **Intent: *Develop repeatable process to prepare biennial budget***



Collaborative Financial Planning

FINANCE AND TREASURY SERVICES (Administrative Services)

- **Treasurer**
- **Financial policies**
- **Financial accounting – A/P, A/R, F/A, G/L**
- **Financial reporting – monthly to management, quarterly to Board**
- **Capital project accounting**
- **Treasury services**
 - Investments - \$10M
 - Debt service, debt issuance - \$30M



Collaborative Financial Planning

ASSETS TRANSFER

- **Cash – O&M, debt service and capital reserves**
- **Fixed assets**
 - GASB 62, GASB 69
 - Coordination with SAO
 - Coordination of CAFR reporting with Members



Collaborative Financial Planning

DEBT TRANSFER

- PWTF – Department of Commerce
- SRF – Department of Ecology
- Conduit debt concerns
- Revenue bonds, LTGO bonds – nontransferable



Collaborative Financial Planning

DEBT ISSUANCE

- New legal entity
- No financial history in marketplace
- Credit rating concerns
- Municipal bond issuance vs. private placement
- \$12M, private placement, 2.4% interest



Collaborative Financial Planning

LONG-TERM FINANCIAL CONTEXT

- **6-Year Financial Plan**

- Provides revenue requirements for funding Members (all have 6-year financial models)
- Informs specific rate/charge architecture for funding Members (local decisions)

- **2-Year Adopted Budget**

- Fits within overall context established
- Regionally supported tied to collaborative process
- Rate predictability
- No surprises



Collaborative Financial Planning

BUDGET CYCLE

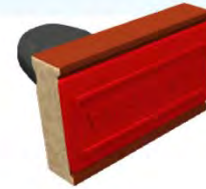
- **“Transition period” – 2013-2014 (\$1M budget)**
- **Full Operations – 2015-2016 (\$19M budget), 2017-2018 (\$22M budget)**
 - Contract services
 - ✓ Administration – District (administrative/executive, finance/treasury, engineering)
 - ✓ Operations – Clark County (SCWMS), Ridgefield (RTPO)
 - ✓ 20-year forecasting
 - 20-year Capital plan, Capital budget - \$170M
 - 20-year Operating budget - \$140M
- **Building block approach – Contracted services, debt service, capital/infrastructure**



Collaborative Financial Planning

RESULTS

- Full endorsement of all three Standing Committees
- Request to follow same process every two years in formation of biennial budget
- Unanimous approval of Capital Plan and Operating/Capital Budget by Board



Collaborative Financial Planning

LESSONS LEARNED

- **Quality information/quality process**
- **Engagement of all stakeholders**
- **Adaptable process to reflect values of community and agencies**



Questions & Answers



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PRESENTATION MATERIALS

- Complete presentation & support materials available at:
www.discoverycwa.org/documents.html

Thank you

