



REVISED AGENDA V.2

SHORELINE CITY COUNCIL SPECIAL MEETING

Monday, August 14, 2017
5:45 p.m.

Conference Room 222 · Shoreline City Hall
17500 Midvale Avenue North

TOPIC/GUESTS: Hopelink and Center for Human Services

SHORELINE CITY COUNCIL REGULAR MEETING

Monday, August 14, 2017
7:00 p.m.

Council Chamber · Shoreline City Hall
17500 Midvale Avenue North

	<u>Page</u>	<u>Estimated Time</u>
1. CALL TO ORDER		7:00
2. FLAG SALUTE/ROLL CALL		
3. REPORT OF THE CITY MANAGER		
4. COUNCIL REPORTS		
5. PUBLIC COMMENT		
<i>Members of the public may address the City Council on agenda items or any other topic for three minutes or less, depending on the number of people wishing to speak. The total public comment period will be no more than 30 minutes. If more than 10 people are signed up to speak, each speaker will be allocated 2 minutes. Please be advised that each speaker's testimony is being recorded. Speakers are asked to sign up prior to the start of the Public Comment period. Individuals wishing to speak to agenda items will be called to speak first, generally in the order in which they have signed. If time remains, the Presiding Officer will call individuals wishing to speak to topics not listed on the agenda generally in the order in which they have signed. If time is available, the Presiding Officer may call for additional unsigned speakers.</i>		
6. APPROVAL OF THE AGENDA		7:20
7. CONSENT CALENDAR		7:20
(a) Approving Minutes of Regular Meeting of July 17, 2017	<u>7a-1</u>	
(b) Approving Expenses and Payroll as of July 28, 2017 in the Amount of \$3,539,173.41	<u>7b-1</u>	
(c) Adopting Ordinance No. 788 – Development Code Amendment to Expand Use of Civil Fees and Other Fees Collected	<u>7c-1</u>	
(d) Authorize the City Manager to Execute a Contract with Integriss LLC in the amount of \$25,000 for Process Consulting in Support of the Financial/HR System Implementation	<u>7d-1</u>	
(e) Authorize the City Manager to Execute an Amendment to the Agreement with Dorsey & Whitney LLP in an Amount Not to Exceed \$150,000 to Increase Funds for Legal Assistance with Matters Related to the City's Assumption of the Ronald Wastewater District	<u>7e-1</u>	
(f) Adopting Ordinance No. 781 Granting a Non-Exclusive Franchise	<u>7f-1</u>	

to MCIMetro Access Transmission Services Corp., dba Verizon Access Transmission Services, to Construct, Operate, and Maintain a Telecommunications Fiber Optic System Within City Rights-of-Way

8. STUDY ITEMS

- | | | | |
|-----|--|-------------|------|
| (a) | Discussing Ordinance No. 796 – Amending the 2017 Salary Classification Table with the Removal of the Construction Inspection Supervisor, the Addition of a Development and Construction Manager Classification, the Removal of the Wastewater Utility Maintenance Manager, and the Addition of the Wastewater Manager | <u>8a-1</u> | 7:20 |
| (b) | Discussing Ordinance No. 780 – Amending the Shoreline Municipal Code Establishing City Governance Authority to Own and Operate a Wastewater Utility | <u>8b-1</u> | 7:40 |
| (c) | Discussing: <ul style="list-style-type: none"> • Resolution No. 417 – Establishing Customer Service Policies to Manage a Wastewater Enterprise • Ordinance No. 793 - Amending SMC Chapter 2.60 Purchasing Code • Ordinance No. 795 - Amending SMC Chapter 3.50 Sale and Disposal of Surplus Personal Property • Resolution No. 416 Amending the City’s Business Expense Policy | <u>8c-1</u> | 8:25 |
| (d) | Update of the Business & Occupation Tax Workplan | <u>8d-1</u> | 8:55 |

9. ADJOURNMENT

9:25

The Council meeting is wheelchair accessible. Any person requiring a disability accommodation should contact the City Clerk’s Office at 801-2231 in advance for more information. For TTY service, call 546-0457. For up-to-date information on future agendas, call 801-2236 or see the web page at www.shorelinewa.gov. Council meetings are shown on Comcast Cable Services Channel 21 and Verizon Cable Services Channel 37 on Tuesdays at 12 noon and 8 p.m., and Wednesday through Sunday at 6 a.m., 12 noon and 8 p.m. Online Council meetings can also be viewed on the City’s Web site at <http://shorelinewa.gov>.

CITY OF SHORELINE

SHORELINE CITY COUNCIL SUMMARY MINUTES OF REGULAR MEETING

Monday, July 17, 2017
7:00 p.m.

Council Chambers - Shoreline City Hall
17500 Midvale Avenue North

PRESENT: Mayor Roberts, Deputy Mayor Winstead, Councilmembers McGlashan, Scully, Hall, McConnell, and Salomon

ABSENT: None

1. CALL TO ORDER

At 7:00 p.m., the meeting was called to order by Mayor Roberts who presided.

2. FLAG SALUTE/ROLL CALL

Mayor Roberts led the flag salute. Upon roll call by the City Clerk, all Councilmembers were present.

(a) Proclamation of Parks, Recreation and Cultural Services Month

Mayor Roberts read a proclamation declaring July 2017 as Parks, Recreation and Cultural Services Month. He invited Beth Neils to the podium to accept the proclamation. She said she is honored to accept the proclamation on behalf of the Community. She shared that her family has been using Shoreline recreation programs since 2004 and described how they have benefited from using PRCS resources.

3. REPORT OF CITY MANAGER

Debbie Tarry, City Manager, provided reports and updates on various City meetings, projects and events.

4. COUNCIL REPORTS

Councilmember McConnell reported visiting an affordable housing community in Cleveland, Ohio, and said she retrieved information to share with the Council, City Manager, and Assistant City Manager about the project.

Councilmember Salomon reported that the Best Start for Kids Youth Advisory Board is recruiting to fill five youth member positions to provide their perspective on where to allocate funding.

Mayor Roberts thanked Councilmember Salomon for presenting a proclamation recognizing the Seattle Summer City Music Games, and congratulated Councilmember Hall on his re-election to the Association of Washington Cities Board.

5. PUBLIC COMMENT

Barbara Braden, Shoreline resident, shared that she has used the Shoreline pool since the 1970s and currently teaches water aerobics. She spoke about the benefits of water aerobics and said she is in favor of a new state of the art aquatic center.

John Wickson, Shoreline resident, disagreed with the City installing a bike lane on 5th Avenue between 155th Street and 175th Street. He said the process was rushed and residents were not adequately notified. He said few bicyclists are on that street and if public outreach had been done, residents would have informed the City that they did not want a bike lane on 5th Avenue.

John Lombard, Thornton Creek Alliance, stated support for the Park Impact Fee, but at a higher rate than recommended by City staff. He said the PROS Plan identifies unmet needs of \$91 Million by 2023 and another \$48 Million through 2029. He suggested the City use the Park Impact Fee to generate more revenue to go towards funding these needs, and then less funding would be required from property taxes and bonds.

Kim Jarvis, Shoreline resident, said 5th Avenue residents were not informed a bike lane was being installed on 5th Avenue. She expressed dislike for the zig zag pattern and said it is impractical. She questioned why the bike lane was installed on 5th Avenue and not on Meridian Avenue. She also questioned why chip seal was placed on 175th Street from 15th Avenue to Interstate 5 when it is under the sun all day, and has resulted in pot holes.

Mickey Telling, Shoreline Little League, talked about the Hamlin 5 and 6 baseball fields. She said children need play areas and there are not enough fields for the League. She said it would be nice to have turf baseball fields so play can occur in rainy weather.

Gary Molvik, Shoreline resident, questioned why 5th Avenue residents were not notified about the bike lane installation, and asked if the Council voted on the matter.

Tom Moores, Shoreline resident, said he talked to a staff member about the bike lane and his questions were answered. He said the construction surprised him and the bike lane is preventing residents from parking in front of their houses.

Sandeep Raichur, Shoreline resident, said he shares the same concerns about the bike lane on 5th Avenue, and questioned how the decision was made. He said his parking is gone and it is now difficult to get his car out of the driveway.

Janet Way, Shoreline resident, agreed with Mr. Lombard on increasing the Park Impact Fee. She talked about the differences in the public outreach processes for the PROS Plan, as compared to the 5th Avenue bike lane installation. She asked how much the project cost and suggested the City start over and redo the project.

Debbie Tarry, City Manager stated that Randy Witt, Public Work Director will be available to speak with 5th Avenue residents. She apologized that the City missed the public outreach notification process, and said it was a failure on the City's part. She said she will inform the Council on what happened when she receives more information from City staff. Councilmember Scully stressed the City needs a public outreach process for Capital Projects. Ms. Tarry responded that the City has a process but there was a failure to implement it in this case.

6. APPROVAL OF THE AGENDA

The agenda was approved by unanimous consent.

7. CONSENT CALENDAR

Upon motion by Deputy Mayor Winstead and seconded by Councilmember Hall and unanimously carried, 7-0, the following Consent Calendar items were approved:

- (a) Approving Minutes of Regular Meeting of May 22, 2017 and Regular Meeting of June 5, 2017**
- (b) Authorizing the City Manager to execute a construction contract with B&B Utilities and Excavating, LLC in the amount of \$332,853 for the 2017 Stormwater Pipe Replacement Project**
- (c) Authorizing the City Manager to execute Two Memoranda of Understanding with the Cultural Development Authority of King County (4Culture) for the Purpose of Defining Responsibilities for two pieces of County Owned Public Art located in the City of Shoreline**

8. ACTION ITEMS

- (a) Public Hearing and Discussing Resolution No. 412 - 2017-2023 Parks, Recreation and Open Space Plan**

Eric Friedli, Parks, Recreation and Cultural Services Director, recalled that the Parks, Recreation and Open Space (PROS) Plan was presented to Council on June 12, 2017. He informed the Council that the PRCS/Tree Board unanimously recommended adoption of the PROS Plan at its June 22, 2017 Regular Board Meeting.

Mayor Roberts opened the Public Hearing.

Bob Lohmeyer, Shoreline/Lake Forest Park Senior Center Director, stated he reviewed the PROS Plan and generally supports it. He said he supports Initiative #4 (Serve the Full Spectrum of Aging Adult Recreation Needs) but feels the language in it stating the Senior Center focuses on providing social services support is misleading. He then listed all the services and activities the Senior Center provides to seniors. He recommended adoption of the Plan, and said he looks forward to seeing how the Senior Center fits into the overall planning.

John Lombard, Thornton Creek Alliance, said he supports the PROS Plan, but expressed concerns with how long it will take to implement it and the related costs of delay. He said they would like the open space acquisitions to be a high priority, because delay will result in increased land costs higher than the 3% inflation rate identified by staff. He requested acquisitions be moved up as funding allows.

Robin Lesh, Cascade Swim Club, stated aquatics is a lifetime sport and it is time for a new pool and Community Center in Shoreline. She shared her family's experience with the Shoreline Pool, talked about young competitive swimmers, and the Club's desire to partner on this venture.

Janet Way, Shoreline resident, stated support for the PROS Plan, read goals identified in the Plan, and said it is a much better Plan than the first one presented in 1996.

Joanne Peterson, Shoreline Pool Water Aerobics Instructor, said the Water Aerobics Program is a good program that can be expanded. She shared how water aerobics help restore her mobility after an injury.

Chris Neils, Shorelake Soccer Club, said he is excited about the acquisition of Cedarbrook for a park, requested maximum soccer space, and offered Shorelake's support.

Mary Lippold, North End Otters Master Swim Team, described the swimmers that use the pool and said it offers social benefits. She supports a new pool, and pointed out the need for cooler water to swim laps and a warmer side for aerobics and other swimming. She suggested installing a 50 meter pool.

Bob Pfeiffer, Lake Forest Parks Arts Council Board President, voiced strong support for a Community Center and space for the arts. He is pleased the PROS Plan calls for partnerships to secure funding and to serve the largest number of people possible, and thanked staff for their efforts.

Seeing no other speakers, Mayor Roberts closed the Public Hearing.

Councilmembers acknowledged City Staff and the PRCS/Tree Board for the great work done on the PROS Plan. They also thanked the Community for their participation and feedback.

Deputy Mayor Winstead explained why it is important for the Senior Center to have a commercial kitchen, and for the City to have facilities that can be used for wedding and others events that generate revenue. She said the City needs to plan ahead, think on a grand scale, and work with partners to ensure that there is a space to serve all the Community's needs.

Councilmember McConnell shared that water aerobics is important to seniors, and noted baby boomers are entering senior age. She recommended having more than one type of pool and stressed the importance of having a vibrant center with multiple uses.

Councilmember Hall commented on financing options and looking for opportunistic ways to acquire property as it becomes available.

Councilmember McGlashan said a lot of discussion has focused on the pool, but the Plan is also good for parks. He said he appreciates the Plan addressing park needs, improvements and expansions.

Mayor Roberts asked if a 50 meter pool was studied and what the timeline is for the design phase. Mr. Friedli responded that staff focused on smaller pools, and as the design progresses a larger pool and a commercial kitchen can be considered. He said the design phase will occur after the finance and funding plan is completed which could be a six to nine month process.

9. STUDY ITEMS

(a) Continue Discussing the Update of the 2017 Surface Water Master Plan

Uki Dele, Surface Water Manager, and Nathan Foged, Brown and Caldwell Consultant, provided the staff report. Mr. Foged shared the Plan's key plan elements includes an Asset Management Program Update; Conditional Assessment Management Plan; System Capacity Modeling; Stormwater Treatment Analysis; Stormwater Management Policy; and the Project and Program Prioritization Process. He reviewed the Prioritization Process in detail and said it articulates customers' expectations. He provided an overview of the Management Strategies for capital and operation expenses based on minimum, proactive, or optimum evaluation scores to determine rate impacts and address levels of service. He summarized results from the July 13, 2017 Open House and the Public Involvement Survey.

Ms. Dele presented the next steps in the process include refining the project and program recommendations, and preparation of the draft master plan document.

Councilmember McGlashan asked if the National Pollution Discharge Elimination System Permit's new requirements are included in the Plan, and if the Highland Barrier should be a higher priority. Ms. Dele responded that future requirements will be included in the Plan, and explained the Highland Barrier is a part of the Boeing Creek Restoration and therefore not rated as high.

Councilmember Hall talked about climate change impacts affecting precipitation and asked if there is data that forecasts futures demands on the system. He suggested the Council review the total demand on the stormwater, roads, and sidewalks systems, look at their infrastructure needs, decide whether management strategies should be minimum, proactive, or optimum, and ensure funds are invested appropriately. Ms. Dele pointed out climate change is addressed in each project and the Plan includes a Climate Impacts and Resiliency Study (Project #19).

Councilmember Scully commented on the variety of projects included in the Plan, and asked how the City will ensure both infrastructure and habitat/wetland enhancement projects will get some attention each year.

Mayor Roberts asked for an explanation on how a "proactive" approach is design or permitting, and an "optimum" approach is providing the benefit to system. Mr. Foged responded that the management strategy focuses on the next six years, and anything designed or permitted during

that period would be constructed over a twenty year time frame. Accelerating the project timeline would be an “optimum” approach.

(b) Discussing Ordinance No. 786 - Park Impact Fees

Eric Friedli, Parks, Recreation and Cultural Services Director, provided a brief overview of the presentation and introduced Michaela Jellicoe, Community Attributes Consultant. Ms. Jellicoe reminded Council what an impact fee is and reviewed State Law governing them. She reviewed impact fee calculations, growth forecasts, impact fee rates, and rate comparisons with other cities.

Councilmember Scully asked about the City of Seattle’s Park Impact Fee. Ms. Jellicoe responded that Seattle does not charge a Park Impact Fee. Councilmember Salomon questioned why Seattle does not charge a fee. Mr. Friedli said Seattle looked at impact fees, and reached the point in the analysis that Council is at now, but decided not to move forward for political reasons.

Mr. Friedli said staff is recommending a Park Impact Fee of \$3,979.72 for single family developments, and \$2,610.48 for multi-family.

Dan Eernisse, Economic Development Manager, reviewed how the Park Impact Fee will impact the development community. He shared developer’s feedback was that the cost to develop in Shoreline is higher than Seattle, but the rent and sale prices are not as high as Seattle’s. He said development has been moving along in Shoreline, and Seattle will be implementing a new fee initiative soon. He shared his thoughts that Park Impact Fees will make Shoreline a more desirable place for renters and homebuyers and drive up prices.

Mr. Friedli requested Council’s feedback on the following five policy questions:

1. Implement residential only or residential and non-residential park impact fee.
2. Implement 71% reduction to maximum allowable rate or select a lower reduction.
3. Implement 100% of the reduced park impact fee or opt for a phased approach.
4. Revisit Park Impact Fee in 2023 or sooner.
5. Implement Park Impact Fee with effective date of January 1, 2018 or select an alternative effective date.

Councilmember Scully asked if Council adopts the maximum rate, would it be charged to every development of that type. Ms. Jellicoe responded in the affirmative.

Councilmember Salomon stated it is important to respect and be fair to current residents by requiring new development to pay for growth to the system. He shared he is not sure setting the fee rate at a 71% reduction of the maximum allowable rate is the best policy decision, and stressed the need to look at Shoreline’s individual factors like the arrival of Light Rail and development pressures which may merit a higher rate. He said he is in favor of considering a higher rate, a no-phased approach, and making the fees effective January 1, 2018.

Councilmember Scully expressed concern about the flat nature of the fee and said it might encourage builders to build larger homes. He said he likes Bothell's use of square footage in the fee structure, and suggested using the maximum allowable rate and apply a reduction as square footage decreases. He said he does not see a need to tie fees to non-residential development, and favors less than a 71% reduction, a no-phased approach, and the January 1, 2018 implementation date.

Councilmember Hall agreed with the January 1, 2018 implementation date and said revisiting it is reasonable. He said there is no benefit to phasing in the impact fee. He supports staff's recommended rate reduction and prefers to charge fees for both residential and non-residential development.

Councilmember McGlashan asked about Assessor Dwelling Unit (ADU) exemptions. Ms. Jellicoe responded that exemptions qualify under the Board Public Purposes clause and are based on how ADUs are defined in the Municipal Code.

Councilmember McGlashan agreed that impact fees are not needed for non-residential development. He said he supports the 71% reduction, a phased approach, and the January 1, 2018 implementation date. He asked about awarding credits for developments that include park space on their property. Ms. Jellicoe responded that credit can be awarded through land dedication. Councilmember McGlashan stated he was disappointed to hear developers are still having challenges with the permitting process.

Councilmember McConnell stated she agrees with the January 1, 2018 implementation date, and is comfortable with staff's other recommendations.

Deputy Mayor Winstead stated she agrees with staff recommendations, and not including non-residential development. She echoed Councilmember McGlashan's comments about inefficiencies in the permitting process.

Mayor Roberts questioned what is keeping developers from Shoreline. He said he struggles with determining an appropriate park impact fee based on other costs and fees developers incur. He requested an analysis of total fees and costs to develop in Shoreline, as compared to other jurisdictions, and asked that it include Seattle, Edmonds, Lynnwood, and Kenmore.

Councilmember Hall requested that utility connection charges be included as part of the analysis.

Councilmember Salomon said he would also be interested in considering a square footage rate.

Councilmember McConnell reiterated her support for staff recommendations, and expressed that the Council's decision can be revisited. She said growth will occur in the rezone areas because there are no other areas to develop in Shoreline.

Ms. Tarry confirmed that an ordinance will be prepared based on staff's recommendations, and Councilmembers can propose desired amendments. She said she will inform the Council if staff is able to do the development costs comparison analysis for the July 31, 2017 Meeting.

10. ADJOURNMENT

At 9:20 p.m., Mayor Roberts declared the meeting adjourned.

Jessica Simulcik Smith, City Clerk

DRAFT

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: Approval of Expenses and Payroll as of July 28, 2017
DEPARTMENT: Administrative Services
PRESENTED BY: Sara S. Lane, Administrative Services Director

EXECUTIVE / COUNCIL SUMMARY

It is necessary for the Council to formally approve expenses at the City Council meetings. The following claims/expenses have been reviewed pursuant to Chapter 42.24 RCW (Revised Code of Washington) "Payment of claims for expenses, material, purchases-advancements."

RECOMMENDATION

Motion: I move to approve Payroll and Claims in the amount of \$3,539,173.41 specified in the following detail:

***Payroll and Benefits:**

Payroll Period	Payment Date	EFT Numbers (EF)	Payroll Checks (PR)	Benefit Checks (AP)	Amount Paid
6/18/17-7/1/17	7/7/2017	72890-73139	15007-15057	67345-37350	\$579,926.89
7/2/17-7/15/17	7/21/2017	73140-73394	15058-15100	67401-67408	\$760,290.53
					<u>\$1,340,217.42</u>

***Wire Transfers:**

Expense Register Dated	Wire Transfer Number	Amount Paid
7/26/2017	1123	\$37,520.31
		<u>\$37,520.31</u>

***Accounts Payable Claims:**

Expense Register Dated	Check Number (Begin)	Check Number (End)	Amount Paid
7/13/2017	67272	67300	\$432,325.86
7/13/2017	67301	67311	\$84,559.67
7/13/2017	67312	67339	\$18,209.04
7/13/2017	67340	67344	\$3,775.00

***Accounts Payable Claims:**

Expense Register Dated	Check Number (Begin)	Check Number (End)	Amount Paid
7/19/2017	67351	67352	\$42,275.98
7/19/2017	67353	67353	\$8,106.37
7/20/2017	67354	67374	\$152,534.33
7/20/2017	67375	67391	\$12,383.56
7/20/2017	67392	67398	\$1,655.93
7/25/2017	67327	67327	(\$88.26)
7/26/2017	67399	67400	\$4,453.79
7/26/2017	67409	67423	\$83,425.98
7/26/2017	67424	67441	\$62,336.07
7/27/2017	67442	67460	\$4,814.12
7/27/2017	67461	67468	\$35,822.89
7/27/2017	67469	67487	\$1,016,776.54
7/27/2017	67488	67504	\$197,728.66
7/27/2017	67505	67507	\$224.78
7/27/2017	67508	67508	\$115.37
			<u>\$2,161,435.68</u>

Approved By: City Manager **DT**

City Attorney **MK**

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Adoption of Ordinance No. 788 - Development Code Amendment to Expand Use of Civil Penalties and Other Fees Collected		
DEPARTMENT:	Planning & Community Development		
PRESENTED BY:	Paul Cohen, Planning Manager Kristi Anderson, Code Enforcement Officer		
ACTION:	<input checked="" type="checkbox"/> Ordinance	<input type="checkbox"/> Resolution	<input type="checkbox"/> Motion
	<input type="checkbox"/> Discussion	<input type="checkbox"/> Public Hearing	

PROBLEM/ISSUE STATEMENT:

Currently, Shoreline Municipal Code (Development Code) Section 20.30.775(A) states that civil penalties and abatement funds must be used for abatement of code violations. Staff recommends that the code be amended to expand potential uses of this fund to include other code enforcement activities in support of Shoreline's code enforcement program. The City's abatement fund contains more money than is required to address abatement needs annually and could be used in support of these other code enforcement activities.

Tonight, Council is scheduled to adopt proposed Ordinance No. 788, which provides for this code amendment to SMC 20.30.775(A). Council discussed proposed Ordinance No. 788 on July 31, 2017, and had no concerns with the code amendment. The proposed code amendment was also discussed by the Planning Commission on June 1, 2017, and the Commission subsequently held a public hearing on the amendment on July 6, 2017. The Commission recommended the proposed amendments for approval.

RESOURCE/FINANCIAL IMPACT:

No additional resource or financial expenses will be needed since the added proposed use of the abatement fund will be from the current abatement fund surplus.

RECOMMENDATION

Staff recommends that Council adopt Ordinance No. 788.

Approved By: City Manager **DT** City Attorney **MK**

BACKGROUND

Currently, Shoreline Municipal Code (Development Code) Section 20.30.775(A) states that civil penalties and abatement funds must be used for abatement of code violations. Staff recommends that the code be amended to expand potential uses of this fund to include other code enforcement activities in support of Shoreline's code enforcement program. The City's abatement fund contains more money than is required to address abatement needs annually and could be used in support of these other code enforcement activities.

The code defines "Abate" as:

"To repair, replace, remove, destroy or otherwise remedy a condition which constitutes a Code Violation by such means, in such a manner, and to such an extent as the Director determines is necessary in the interest of the general health, safety and welfare of the community and the environment." (Ord. 406 § 1, 2006)

Tonight, Council is scheduled to adopt proposed Ordinance No. 788 (Attachment A), which provides for this code amendment to SMC 20.30.775(A) (Exhibit A). Council discussed proposed Ordinance No. 788 on July 31, 2017, and had no concerns with the code amendment. The staff report for this Council discussion can be found at the following link:

<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2017/staffreport073117-9a.pdf>.

The proposed code amendment was also discussed by the Planning Commission on June 1, 2017, and the Commission subsequently held a public hearing on the amendment on July 6, 2017. The Commission recommended the proposed amendments for approval.

DISCUSSION

As noted above, on July 31, the City Council discussed proposed Ordinance No. 788. The Council had no concerns with the content of the proposed code amendment and provided to direction to staff to bring the ordinance back to Council for adoption on the Council's consent calendar.

Council did identify an error in the proposed code language (Exhibit A) and asked the City Attorney's office to review the proposed code language and fix the error. The City Attorney's Office has re-reviewed Exhibit A and it now reads correctly.

RECOMMENDATION

Staff recommends that Council adopt Ordinance No. 788.

ATTACHMENTS

Attachment A - Proposed Ordinance No. 788

Attachment A, Exhibit A - Amendments to SMC Section 20.30.775

ORDINANCE NO. 788

AN ORDINANCE OF THE CITY OF SHORELINE, WASHINGTON AMENDING SUBCHAPTER 9 CODE ENFORCEMENT OF SHORELINE MUNICIPAL CODE CHAPTER 20.30

WHEREAS, the City of Shoreline is a non-charter optional municipal code city as provided in Title 35A RCW, incorporated under the laws of the state of Washington, and planning pursuant to the Growth Management Act, Title 36.70A RCW; and

WHEREAS, with Subchapter 9 of Shoreline Municipal Code (SMC) Chapter 20.30, the City has adopted regulations to address code violations and to collect penalties, abatement costs, and other expenses related to those violations ; and

WHEREAS, SMC 20.30.775(A) require that monies collected from the assessment of civil penalties and for abatement costs be placed in a code abatement fund; such a fund is established by SMC 3.35.180; and

WHEREAS, SMC 20.30.775(A) limits the expenditures of monies collected from the assessment of civil penalties and for abatement costs from this fund only to support expenditures for abatement; and

WHEREAS, broadening the types of expenditures that these monies can be utilized for a variety of types of code enforcement action expenses, including education and outreach, better serves the intent an purposes of the City's code enforcement efforts; and

WHEREAS, on June 1, 2017, the City of Shoreline Planning Commission reviewed the proposed Development Code amendments; and

WHEREAS, on July 6, 2017, the City of Shoreline Planning Commission held a public hearing on the proposed Development Code amendments so as to receive public testimony and, at the conclusion of public hearing, the Planning Commission, recommended approval of the proposed Development Code amendments to the City Council; and

WHEREAS, on July 31, 2017, the City Council held a study session on the proposed Development Code amendments; and

WHEREAS, the City Council has considered the entire public record, public comments, written and oral, and the Planning Commission's recommendation; and

WHEREAS, the City provided public notice of the amendments and the public hearing as provided in SMC 20.30.070; and

WHEREAS, amendments to SMC 20.30.775 in Exhibit A are procedural resulting in no substantive change respecting the use or modification of the environment, and are therefore exempt from review under the State Environmental Policy Act (SEPA) in accordance with WAC 197-11-800(19); and

WHEREAS, pursuant to RCW 36.70A.370, the City has utilized the process established by the Washington State Attorney General so as to assure the protection of private property rights; and

WHEREAS, pursuant to RCW 36.70A.106, the City has provided the Washington State Department of Commerce with a 60-day notice of its intent to adopt the amendment(s) to its Unified Development Code; and

WHEREAS, the City Council has determined that the amendments are consistent with and implement the Shoreline Comprehensive Plan and serves the purpose of the Unified Development Code as set forth in SMC 20.10.020;

THEREFORE, THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON DO ORDAIN AS FOLLOWS:

Section 1. Amendment to Subchapter 9 Code Enforcement of SMC Chapter 20.30. Section 20.30.775 of the Shoreline Municipal Code is amended as set forth in Exhibit A to this Ordinance.

Section 2. Corrections by City Clerk or Code Reviser. Upon approval of the City Attorney, the City Clerk and/or the Code Reviser are authorized to make necessary corrections to this ordinance, including the corrections of scrivener or clerical errors; references to other local, state, or federal laws, codes, rules, or regulations; or ordinance numbering and section/subsection numbering and references.

Section 3. Severability. Should any section, subsection, paragraph, sentence, clause, or phrase of this ordinance or its application to any person or situation be declared unconstitutional or invalid for any reason, such decision shall not affect the validity of the remaining portions of this ordinance or its application to any person or situation.

Section 4. Publication and Effective Date. A summary of this Ordinance consisting of the title shall be published in the official newspaper. This Ordinance shall take effect five days after publication.

PASSED BY THE CITY COUNCIL ON AUGUST 14, 2017.

Mayor Christopher Roberts

ATTEST:

APPROVED AS TO FORM:

Jessica Simulcik-Smith
City Clerk

Margaret King
City Attorney

Date of Publication: , 2017

Effective Date: , 2017

20.30.775 Collection of penalties and costs.

- A. All monies collected from the assessment of civil penalties, costs, and for abatement reimbursements recovered from violators resulting from code enforcement actions ~~costs and work shall be allocated to support expenditures for abatement, and shall be accounted for through either creation of a fund or other appropriate accounting mechanism in the Department issuing the notice and order under which the abatement occurred~~ shall be deposited in a code enforcement/abatement fund and utilized for future code enforcement action expenses. Eligible expenses shall include, but not be limited to, all costs for abatement whether or not the responsible party is identified, education and outreach, and one-time expenses associated with a specific case necessary for obtaining code compliance.
- B. The amount of cost of repairs, alterations or improvements; or vacating and closing; or removal or demolition by the Director shall be assessed against the real property upon which such cost was incurred unless such amount is previously paid. For the purposes of this section, the cost of vacating and closing shall include (1) the amount of relocation assistance payments advanced to the tenants under RCW [59.18.085](#) that a property owner has not repaid to the City, and (2) all penalties and interest that accrue as a result of the failure of the property owner to timely repay the amount of these relocation assistance payments under RCW [59.18.085](#).

Upon certification by the City Finance Director of the assessment amount being due and owing, the County Treasurer shall enter the amount of such assessment upon the tax rolls against the property for the current year and the same shall become a part of the general taxes for that year to be collected at the same time and with interest at such rates and in such manner as provided for in RCW [84.56.020](#), as now or hereafter amended, for delinquent taxes, and when collected to be deposited to the credit of the general fund of the City.

If the dwelling, building, structure, or premises is removed or demolished by the Director, the Director shall, if possible, sell the materials from such dwelling, building, structure, or premises and shall credit the proceeds of such sale against the cost of the removal or demolition and if there be any balance remaining, it shall be paid to the parties entitled thereto, as determined by the Director, after deducting the costs incident thereto.

The assessment shall constitute a lien against the property, which shall be of equal rank with State, county and municipal taxes.

- C. In addition to, or in lieu of, the provisions set forth in this subchapter, the City may commence a civil action in any court of competent jurisdiction to collect for any such charges incurred by the City to obtain compliance pursuant to this chapter and/or to collect any penalties that have been assessed.

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Authorize the City Manager to Execute a Contract with Integris LLC in the Amount of \$25,000 for Process Consulting in Support of the Financial/Human Resource System Implementation
DEPARTMENT:	Administrative Services Division
PRESENTED BY:	Katherine Moriarty, Information Technology Manager
ACTION:	<input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Discussion <input type="checkbox"/> Public Hearing

PROBLEM/ISSUE STATEMENT:

The City is implementing a new Financial/HR system. Staff have included funding in the project to review certain processes and make appropriate changes that may be needed to better serve the City's customers and/or internal operations prior to implementing the new technology.

The City has embarked on foundational work with a consulting firm that specializes in this work and has worked with a number of local governments in providing training and guidance on continuous process improvement. In an effort to align with the City's continuous improvement values, staff is desirous of using the same consulting firm (Integris LLC) to provide assistance in the assessment of two core processes: Timecards and P-Card processing.

The scope of work defined as a part of the Finance/HR project is not within the scope of the overall City effort that has involved departments on a city-wide basis. To date, \$88,727 has been spent/encumbered with Integris through contracts for specific scopes of work each less than \$25,000. An additional \$10,000 is anticipated for work identified in the City's 18-month process improvement roadmap. With the work related to the Finance/HR system implementation, the total amount being spent with Integris, in combination with the other contract will exceed \$100,000. Staff are seeking Council approval to authorize the City Manager to contract for this defined work with Integris that exceeds \$100,000.

RESOURCE/FINANCIAL IMPACT:

There is no financial impact. The funding is already appropriated as a component of the Financial/HR System Implementation project approved by Council as a part of the 2017 budget.

RECOMMENDATION

Staff recommends that the City Council authorize the City Manager to execute a contract with Integris LLC in the amount of \$25,000 for process improvement consulting in support of the Financial/Human Resource System Implementation.

Approved By: City Manager ***DT*** City Attorney ***MK***

BACKGROUND

The City is implementing a new Financial/HR system. Staff have included funding in the project to review certain processes and make appropriate changes that may be needed to better serve the City's customers and/or internal operations prior to implementing the new technology.

The City has embarked on foundational work with a consulting firm that specializes in this work and has worked with a number of local governments in providing training and guidance on continuous process improvement. In an effort to align with the City's continuous improvement values, staff is desirous of using the same consulting firm (Integris LLC) to provide assistance in the assessment of two core processes: Timecards and P-Card processing.

The scope of work defined as a part of the Finance/HR project is not within the scope of the overall City effort. To date, \$88,727 has been spent/encumbered with Integris through individual contracts for specific scopes of work each less than \$25,000. An additional \$10,000 is anticipated for work identified in the City's 18-month process improvement roadmap. With the work related to the Finance/HR system implementation, the total amount being spent with Integris will exceed \$100,000. Staff are seeking Council approval to authorize the City Manager to contract for this defined work with Integris that exceeds \$100,000.

ALTERNATIVES ANALYSIS

Alternative 1: Attempt process review with internal personnel

If the City Council chooses to not approve this amendment and staff proceeds with this work without consulting assistance, the following is noted:

- The quality of the work will be impacted since staff do not possess the skillset to perform this work;
- The work will not align with emerging methodologies for continuous improvement efforts being developed for and used by the City;
- Allocated funding for this effort will not be expended.

Alternative 2: Contract with another consultant skilled at facilitating business process and continuous process endeavors

The City may administratively select through an RFQ process a consulting entity skilled at providing support for business analysis and continuous process improvement. If this alternative is selected, the following is noted:

- A separate methodology that does not conform to the City's emerging standards for continuous process improvement will be used;
- The opportunity for working with the consultant selected for the Citywide continuous process improvement foundational work will be missed – along with a training opportunity for staff;
- The funds allocated for this effort (\$25,000) will be expended.

Alternative 3: Approve the execution of a contract with Integrus LLC (Recommended)

The Council may authorize the City Manager to execute a contract with Integrus LLC in the amount of \$25,000. If this alternative is selected, the following is noted:

- The emerging methodology that will be used by the City will be used for the assessment and improvement of the two processes identified as a part of the Finance/HR system implementation project;
- Personnel working on this effort will be trained on the methodology and will begin to prepare them to be able to facilitate other efforts in the City without consulting assistance;
- The consultant has become familiar with the City, which will improve their effectiveness in facilitating this body of work.
- The funds allocated for this effort (\$25,000) will be expended.

DISCUSSION

Staff is requesting that the City Manager be authorized to execute a contract with Integrus LLC in the amount of \$25,000 for process improvement consulting in support of the Financial/HR System Implementation. The scope of work for this contract is attached to this staff report as Attachment A. Process Charters for the two core processes that the City will be assessing (Timecards and P-Card processing) are attached to this staff report as Attachment B and C respectively.

RESOURCE/FINANCIAL IMPACT

There is no financial impact. The funding for this contract is already appropriated as a component of the Financial/HR System Implementation project approved by Council as a part of the 2017 budget.

RECOMMENDATION

Staff recommends that the City Council authorize the City Manager to execute a contract with Integrus LLC in the amount of \$25,000 for process improvement consulting in support of the Financial/Human Resource System Implementation.

ATTACHMENTS

Attachment A – Integrus LLC Scope of Work
Attachment B – Timesheets Process Charter
Attachment C – P-Card Process Charter

City of Shoreline
Scope of Work: Continuous Improvement Projects #1 and #2
July 2017

Introduction

Integris's proposed approach to the City of Shoreline's Timesheet and P-card process continuous improvement projects can be divided into three phases—1) process walk; 2) process mapping session; 3) rapid improvement event and follow-up. More detail on each phase of the approach is below. The steps would be replicated for each project.

1. **Process walk:** The purpose of a process walk or “go to Gemba” walk is to build profound knowledge of a process by interview the subject matter experts. The team that is chartered to improve each of the processes will be invited to participate in the process walk. Individuals responsible for each step in the process share what they do at their workspaces and answer a series of questions, including how long each step takes, whether there is work waiting, what the problems are in the flow of the process, etc. Pre-work will be done with the team leader to document the process in six to eight broad steps to determine interviewees and order. At the end of each 15-minute interview, the team members meet to discuss what they've heard and gather observations and potential solutions including quick hits. This initial continuous improvement step leads to a shared understanding of the process and what the opportunities might be that is not developed by sitting in a conference room and reviewing desk manuals or policies. A briefing conversation with the project sponsor(s) will follow the end of this step. Depending on the number of steps, this will take between 1 and 1.5 days.
2. **Process mapping:** The next step of the continuous improvement project will be to map the current state in more detail. Having an understanding of the process as it stands—including where handoffs occur between work groups and individuals—is most clearly built by a group developing a swim lane map together that shows steps and responsibilities. During this phase, the team will not map out each step in minute detail but rather dig deeper into the step or steps that were determined to be poised for improvement during the process walk. Using this view of the process, the team can determine which steps add value to the customer and which do not, and then seek to eliminate or minimize those non-value-added steps and create a new flow during the rapid improvement event below. A briefing conversation will take ½ to 1 day.
3. **Rapid improvement event:** The rapid improvement event builds on the process walk and process mapping steps. During this phase, the team works together to draw out improvements to the process or the “future state” that incorporates improvements. Often, “just do it” items become apparent and can be implemented immediately. Other times, this phase will require some data gathering and other research such as looking into software capabilities. Teams separate short- and long-term actions and agree to implementation timelines and responsibilities. This step will take place in 1 day.

Depending on the complexity of the issues uncovered during the initial sessions, additional sessions may be requested by the City of Shoreline. Also, Phone follow-up by Integris to ensure the improvements are moving along is recommended to follow in this phase.

Deliverable

The three-day approach will result in a map of the two processes and a plan for improving the processes. The two process project charters are attached.

Delivery

The two three-day sessions (one for each project as attached) will be staffed by one consultant from Integris Performance Advisors.

Cost

The cost for the six days to complete phases 1-3 as noted above for each project is \$2,760 per day plus expenses (passed through at cost) including travel.

Timecard Process Charter

Problem Statement:

Timecards rely on a paper process that require duplicated entries by the user and payroll. Users are unable to validate against leave balances and projects.

Goal Statement:

To gain efficiencies in approval/routing process and reduce paper time sheets and eliminate double entry process. Allow users to validate leave balances, org keys and projects.

Scope In/Out

In Scope:

Leave validation
Approval validation
Timecard calculations

Out of Scope:

Policy updates due to business practice changes

Business Case & Benefits:

Reducing the time to process timesheets will increase Payroll and other staff capacity. More timely and accurate timekeeping data will reduce last minute updates after the due date. Efficiencies will reduce the need for additional payroll hours for special processing.

Timeline:

Define: Summer-Fall 2017

Measure: Summer 2018

Analyze: TBD

Improve: TBD

Control: TBD

Team Members:

ASD - Gaylene Hill Dunphy, Nan Peterson, Stela Rajic , Jay Clark

Dept Stakeholders

PRC - TBD

CA - Darcy Forsell

PCD – Ray Allshouse

PW – TBD

CMO – TBD

Clerks – TBD

P-Card Process Charter

Problem Statement:

Process is heavily manual and dependent on paper review and approval process. The whole process can take over 2 weeks from beginning to end.

Goal Statement:

Reduce the number of calendar days from the statement received to payment. Streamline the review and approval process. Eliminate duplicate data entry. Improve the ability for staff to search P-Card transaction records.

Scope In/Out

In Scope:

- Purchase
- Bank Statement review
- Approval
- Data entry into system
- Payment

Out of Scope:

- P-Card training
- P-Card policies

Business Case & Benefits

Reduced cycle time increase staff capacity. Quicker payment times increases the rebate. Improved search and reporting would improve customer experience and reduce demand on ASD staff.

Timeline

Define: Summer-Fall 2017

Measure: Summer 2018

Analyze: TBD

Improve: TBD

Control: TBD

Team Members:

ASD - Nan Peterson, Janet Bulman, Monica Rehnstrom, Jay Clark

Dept Stakeholders:

PRC - Lynn Gabriel

CA - Darcy Forsell

PCD - Matt Brophy

PW – TBD

CMO – TBD

Clerks – TBD

Police - TBD

Council Meeting Date: August 14, 2017

Agenda Item: 7(e)

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Authorize the City Manager to Execute an Amendment to the Agreement with Dorsey & Whitney LLP in an Amount Not to Exceed \$150,000 for Legal Assistance with Matters Related to the City's Assumption of the Ronald Wastewater District
DEPARTMENT:	City Attorney's Office
PRESENTED BY:	Margaret King, City Attorney
ACTION:	<input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Discussion <input type="checkbox"/> Public Hearing

PROBLEM/ISSUE STATEMENT:

On January 1, 2017, the City contracted with Dorsey & Whitney LLP to provide specialized outside litigation assistance in the amount of \$30,000 for legal matters related to the City's assumption of the Ronald Wastewater District. On May 12, 2017 the City increased the contract by \$50,000, for a new do not exceed amount of \$80,000. Multiple appeals of Board decisions and Superior Court decisions necessitates additional work that will exceed \$100,000. Staff is seeking Council approval to authorize the City Manager to contract for this additional specialized litigation support work with Dorsey & Whitney LLP in an amount not to exceed \$150,000.

RESOURCE/FINANCIAL IMPACT:

There is no financial impact. The funding is already appropriated as a part of the 2017 budget.

RECOMMENDATION

Staff recommends that Council authorize the City Manager to execute an amendment of Contract No. 8710 with Dorsey & Whitney LLP with a not to exceed amount of \$150,000 for assistance with hearing, litigation, and appeal matters related to the City's assumption of the Ronald Wastewater District.

Approved By: City Manager **DT**

City Attorney **MK**

BACKGROUND

The City of Shoreline is currently engaged in three different proceedings before various courts or boards all relating to the assumption of the Ronald Wastewater District.

On June 29, 2016 Ronald Wastewater District filed a Complaint for Declaratory Judgment and Injunctive Relief in an attempt to resolve a dispute between the Ronald Wastewater District and Olympic View Water and Sewer District in regards to service areas within the Point Wells area. Summary Judgment Motions were filed and the Court issued its decision on May 9, 2017, granting a portion of the requested relief in Ronald's (and the City's) favor. The trial on the remaining issues was set for June 26, 2017, but the Court granted the Town of Woodway's motion to certify the decision to allow them to file an appeal without waiting for the remaining issues in the case to be decided. On June 5, 2017 Olympic View filed a Notice of Appeal to the Washington State Supreme Court and the Town of Woodway filed its Notice of Appeal to the Washington State Supreme Court on June 7, 2017. A Statement for Grounds of Direct Review to the Washington State Supreme Court were filed by both Olympic View and Town of Woodway with the City and the Ronald Wastewater District's answers filed on July 17, 2017. A decision by the Supreme Court allowing direct review has not been issued to date.

The City also filed its second Notice of Intent to Assume the Ronald Wastewater District with the Snohomish County Boundary Review Board (BRB) on February 17, 2017 seeking to assume only that portion of Ronald within the Point Wells area of unincorporated Snohomish. A public hearing was held on June 15 and June 22, 2017. The BRB denied the City's proposed assumption on July 11, 2017. The City will be filing a Notice of Appeal with the Superior Court.

Finally, on February 22, 2017 Olympic View Water & Sewer District filed a Petition for Review with the Superior Court appealing the Growth Management Hearings Board's January 25, 2017 Final Decision and Order in which the City and Ronald challenged Snohomish County's Amended Motion No. 16-135 approving Olympic View Water and Sewer District's Comprehensive Sewer Plan Amendment No. 2. A trial date has not been scheduled.

All three of these proceedings require specialized outside legal counsel support. The City has chosen Dorsey & Whitney LLP to support these proceedings.

DISCUSSION

The City originally contracted with Dorsey & Whitney LLP (contract No. 8710) to provide assistance with legal matters related to the City's assumption of the Ronald Wastewater District on January 1, 2017 in the amount of \$30,000. On May 12, 2017 the City increased the contract by \$50,000, for a new do not exceed amount of \$80,000. The multiple appeals of Board decisions and Superior Court decisions noted above necessitate additional work that will exceed \$100,000.

Staff is seeking Council approval to authorize the City Manager to further amend this contract by \$70,000 for this additional specialized litigation support work with Dorsey & Whitney LLP. The new do not exceed amount of this contract would be \$150,000.

RESOURCE/FINANCIAL IMPACT

There is no financial impact. The funding is already appropriated as a part of the 2017 budget.

RECOMMENDATION

Staff recommends that Council authorize the City Manager to execute an amendment of Contract No. 8710 with Dorsey & Whitney LLP with a not to exceed amount of \$150,000 for assistance with hearing, litigation, and appeal matters related to the City's assumption of the Ronald Wastewater District.

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: Adoption of Ordinance No. 781 Granting a Non-Exclusive Franchise to MCIMetro Access Transmission Services Corp., dba Verizon Access Transmission Services, to Construct, Operate, and Maintain a Telecommunications Fiber Optic System Within City Rights-of-Way

DEPARTMENT: City Manager's Office

PRESENTED BY: Alex Herzog, Management Analyst

ACTION: X Ordinance Resolution Motion
 Discussion Public Hearing

PROBLEM/ISSUE STATEMENT:

The City has received an application for a new right-of-way franchise from MCIMetro Access Transmission Services Corp., doing business as (dba) Verizon Access Transmission Services, for a telecommunication (fiber optic) system in Shoreline. Verizon will provide competitive local exchange (voice and data) services, internet access, private line services, and cell network front- and backhaul services to an existing cell phone tower. Verizon may also make available dark fiber or other facilities to third parties, including conduit access and dark fiber. Verizon does not presently intend to provide cable television service and understands that a separate franchise may be required to provide cable services.

Verizon will be installing infrastructure and facilities in many of Shoreline's neighborhoods, including Richmond Beach, Hillwood, Echo Lake, Ballinger, Meridian Park, Ridgecrest, Parkwood, North City, and Highland Terrace. Services offered may vary in each neighborhood. Verizon intends to deploy fiber optic strands attached to already-existing utility poles wherever possible, unless underground construction is required.

Proposed Ordinance No. 781 would grant this non-exclusive right-of-way franchise to Verizon (Attachment A). At its May 8, 2017 meeting, Council discussed and held a public hearing on proposed Ordinance No. 781. Council expressed concerns about Verizon's initial plans to trench new fiber optic lines along Aurora Avenue N so soon after completion of the Aurora Avenue Project. Council asked staff to work with Verizon to find alternatives to trenching along Aurora Avenue N if possible.

Staff are currently negotiating a lease agreement for physical space in existing City-owned conduit that runs the length of Aurora Avenue N in Shoreline. If executed,

Verizon would likely pay the City for this physical space, though the rate and payment structure has not yet been determined. Staff will return at a later date for Council consideration of execution of the conduit space lease agreement.

Tonight, Council is scheduled to adopt proposed Ordinance No. 781, contingent upon:

- Both parties agreeing to negotiate a conduit lease agreement in good faith within the next 60 days
- Written mutual acceptance of the terms of the conduit lease agreement within 60 days of Council adoption of Ordinance No. 781
- And, Council authorization of the conduit lease agreement within 60 days of mutual acceptance of the terms of the agreement.

If one of these contingencies are not met, the ordinance granting the franchise would be considered null and void.

RESOURCE/FINANCIAL IMPACT:

The fiscal impact in adopting proposed Ordinance No. 781 is unknown, as Verizon has yet to market its telecommunication services to retail customers in Shoreline. As such, Verizon does not have the available information to determine what those revenues will be at this time.

Under State law, the City is precluded from imposing franchise fees upon a “telephone business” as defined in RCW 82.16.010, and “service providers”, as defined in RCW 35.99.010, for use of the right-of-way. Given that Verizon warrants that their operations are those of a telephone business company and service provider as defined in these statutes, the City is not able to collect franchise fees based on gross revenue generated in Shoreline by Verizon on these activities. This being said, Verizon will be subject to the City’s utility tax as set forth in Chapter 3.32 of the Shoreline Municipal Code. The City may also assess full administrative costs for processing the franchise application and right-of-way permits for new system improvements.

Generally speaking, a new franchisee for fiberoptic services in Shoreline promotes economic development by allowing utilization of unused capacity of an existing right-of-way by a new business. As well, adoption of this franchise makes telecommunication services more competitive for commercial properties in the City as the system is expanded.

RECOMMENDATION

Staff recommends Council adopt proposed Ordinance No. 781 granting a non-exclusive franchise to MCIMetro Access Transmission Services Corp., dba Verizon Access Transmission Services, to construct, operate, and maintain a telecommunications fiber optic system within City rights-of-way. Proposed Ordinance No. 781 is contingent upon:

- Both parties agreeing to negotiate a conduit lease agreement in good faith within the next 60 days

- The agreement being written for presentation to Council within 60-days of Council passage of Ordinance No. 781
- Council authorization to execute the conduit lease agreement within 60 days of presentation of the agreement.

If one of these contingencies are not met, the ordinance granting the franchise would be considered null and void.

Approved By: City Manager ____ City Attorney ____

BACKGROUND

RCW 35A.47.040 authorizes code cities to permit and regulate non-exclusive franchises for use of public streets for a variety of public and private utilities, including conduits and wires for the transmission and distribution of signals and other methods of communication. An ordinance granting a franchise must receive a majority vote of the full council.

As well, fiber optic telecommunications firms which use the City's rights-of-way for telecommunications systems are required to have a non-exclusive franchise with the City. Shoreline Municipal Code (SMC) section 12.25.030 states that "it shall be unlawful to construct, install, maintain or operate any facility in, on, above, or below the public right-of-way without a valid franchise agreement obtained pursuant to the provision of this chapter."

Shoreline has regulations relating to franchises – SMC 12.15 and SMC 12.25. SMC 12.15 provides regulations for permitting the use of rights-of-way, including utilities (and will be applied if a franchise is not successfully negotiated). This chapter also includes expedited blanket and minor use permit processes for work in the right-of-way by franchisees in good standing, e.g. those in compliance with a long term franchise agreement.

SMC 12.25 *Right-of-Way Franchises* establishes the requirement for a franchise or other right-of-way agreement for use of the City's rights-of-way and application procedures. Verizon has complied with the application requirements of this chapter including providing a \$5,000 fee deposit. Grounds for revocation of a franchise are set forth in SMC 12.25.100, and these are incorporated by reference in the Proposed Ordinance No. 781.

Verizon initially plans to extend 'back-haul' fiber transport from its existing network access points to an active existing cell site and connect with existing network infrastructure as it enters and leaves Shoreline. Fiber optic communications lines will be placed both overhead on utility poles and underground (as necessary) within conduit. Verizon intends to use utility poles wherever possible and avoid underground construction except where required in some areas, such as Aurora Avenue N. Undergrounding of electric and communication facilities is regulated by SMC 13.20 *Electric and Communication Facilities*, and will be applicable to this franchisee.

DISCUSSION

Verizon will provide competitive local exchange (voice and data) services, internet access, private line services, and cell network front- and backhaul services to an existing cell phone tower. Verizon may also make available dark fiber or other facilities to third parties, including conduit access and dark fiber. Verizon does not presently intend to provide cable television service and understands that a separate franchise may be required to provide cable services.

Verizon is a new entrant as a fiber telecommunications system operator in Shoreline, though the company briefly held a cable franchise with the City. This cable franchise was approved by Council on October 27, 2008, and transferred to Frontier Communications on September 14, 2009.

Verizon is a publicly owned company (trading under the symbol "VZ" on the New York Stock Exchange), and its ultimate parent company is MCI Communications Corporation. Verizon has not filed for relief under any provision of the bankruptcy laws of the United States, had an involuntary petition against them pursuant to the Bankruptcy Code, been the subject of any state law insolvency proceeding such as a transfer for the benefit of creditors, have had a franchise agreement revoked, have been found guilty by any federal, state, or municipal court or administrative agency in the United States, of a) violation of a security, or antitrust law; or b) felony or any other crime involving moral turpitude.

This being said, WolrdCom filed for Chapter 11 bankruptcy protection in 2002. In 2003, WolrdCom changed its name to MCI. MCI emerged from bankruptcy in 2004. Verizon acquired MCI in 2005. Staff does not consider Verizon's purchase of MCI to have negatively affected its business or hinder its ability to provide telecommunications services in Shoreline. Verizon has provided its Form 10-K for the year ending on December 31, 2016 as submitted to the US Securities and Exchange Commission. A Form 10-K is an annual report that gives a comprehensive summary of a company's financial performance.

Considering Verizon's application packet and conversations with its staff, Verizon has sufficiently met the requirements of the City's code in pursuit of a franchise agreement, including acquiring and submitting a performance bond in the amount of \$30,000 and submitting a deposit of \$5,000 for the costs associated with the City's evaluation of the application for franchise.

Verizon Franchise Sections

The substantive portions of the proposed franchise are outlined below:

- **Section 3:** The term for this franchise is 15 years.
- **Section 5:** All construction, installation, maintenance, and restoration activities shall be conducted such that they conform to City's Engineering Development Manual and with Title 12 of the Shoreline Municipal Code, including sufficient financial guarantees for performance of work. Although new fiber installation will primarily make use of existing utility poles, any undergrounding work must comply with undergrounding requirements of SMC 13.20 when relocation is required by that chapter. As-built plans for new installations must be provided and installed facilities may not be abandoned without city consent. Prior to any new installations, a bond is required (and has been received by staff) in the amount of \$30,000.
- **Section 6:** Grounds of violation of the franchise set forth in SMC 12.25.100 are incorporated by reference. Procedures for compliance under emergencies are detailed.

- Section 7: Standard insurance provisions are included in this section, including \$2,000,000 of Commercial General Liability and \$1,000,000 of auto and pollution liability coverage.
- Section 9: Includes a City approval process for transfer of franchise rights.
- Section 10: Assesses administrative expenses for franchise administration under a representation by Verizon that it is exempt from franchise fees beyond those expenses under state law. Affirms that Verizon is subject to the 6% utility tax imposed by SMC 3.32 for telecommunication services provided to customers within Shoreline.
- Section 12: Verizon must employ reasonable and appropriate precautions in installing, maintaining, repairing and operating their system in the right-of-way, and provides indemnification and defense to the City for claims arising from the performance of the franchise by Verizon.

May 8, 2017 Council Discussion

At its May 8, 2017 meeting, Council discussed and held a public hearing on proposed Ordinance No. 781. Council expressed concerns about Verizon's initial plans to trench new fiber optic lines along Aurora Avenue N so soon after completion of the Aurora Avenue Project. Council asked staff to work with Verizon to find alternatives to trenching along Aurora Avenue N if possible. Materials from the May 8, 2017 meeting are available on the City's website, here:

<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2017/staffreport050817-8b.pdf>.

Staff are currently negotiating a lease agreement for physical space in existing City-owned conduit that runs the length of Aurora Avenue N in Shoreline. The existing conduit has four innerducts and was installed during the Aurora Avenue Project. Staff analysis shows that after potentially leasing space in one innerduct, the City will retain enough physical space for likely future demand. Staff will return at a later date for Council consideration of execution of the conduit space lease agreement.

Staff are returning to Council tonight for potential adoption of the franchise in accordance with requirements of [RCW 35.99.030\(1\)\(b\)](#) which states that cities "shall act upon a complete [franchise] application within one hundred twenty (120) days from the date a service provider files the complete application for the master permit to use the right-of-way." Staff calculates that Verizon submitted its full application on April 17, 2017, and therefore the deadline for acting upon the franchise is August 15, 2017.

[RCW 35.99.030\(1\)\(b\)\(i\)](#) states that action upon a complete application may be delayed with the agreement of the applicant. Staff proposed to Verizon that action by Council on the franchise be delayed by 60 days (until October 13, 2017) to allow progress on the potential lease agreement for physical space in existing City-owned conduit along Aurora Avenue N. Verizon did not agree to this proposal and Council must act on the franchise by August 15, 2017.

As a result, staff proposes Council adopt proposed Ordinance No. 781, contingent upon:

- Both parties agreeing to negotiate a conduit lease agreement in good faith within the next 60 days
- The agreement being written for presentation to Council within 60-days of Council passage of Ordinance No. 781
- Council authorization to execute the conduit lease agreement within 60 days of presentation of the agreement.

If one of these contingencies are not met, the ordinance granting the franchise would be considered null and void.

RESOURCE/FINANCIAL IMPACT

The fiscal impact in adopting proposed Ordinance No. 781 is unknown, as Verizon has yet to market its telecommunication services to retail customers in Shoreline. As such, Verizon does not have the available information to determine what those revenues will be at this time.

Under State law, the City is precluded from imposing franchise fees upon “telephone business” as defined in RCW 82.16.010, and “service providers”, as defined in RCW 35.99.010, for use of the right-of-way. Given that Verizon warrants that their operations are those of a telephone business company and service provider as defined in these statutes, the City is not able to collect franchise fees based on gross revenue generated in Shoreline by Verizon on these activities. This being said, Verizon will be subject to the City’s utility tax as set forth in Chapter 3.32 of the Shoreline Municipal Code. The City may also assess full administrative costs for processing the franchise application and right-of-way permits for new system improvements.

Generally speaking, a new franchisee for fiberoptic services in Shoreline promotes economic development by allowing utilization of unused capacity of an existing right-of-way by a new business. As well, adoption of this franchise makes telecommunication services more competitive for commercial properties in the City as the system is expanded.

RECOMMENDATION

Staff recommends Council adopt proposed Ordinance No. 781 granting a non-exclusive franchise to MCIMetro Access Transmission Services Corp., dba Verizon Access Transmission Services, to construct, operate, and maintain a telecommunications fiber optic system within City rights-of-way. Proposed Ordinance No. 781 is contingent upon:

- Both parties agreeing to negotiate a conduit lease agreement in good faith within the next 60 days
- The agreement being written for presentation to Council within 60-days of Council passage of Ordinance No. 781
- Council authorization to execute the conduit lease agreement within 60 days of presentation of the agreement.

If one of these contingencies are not met, the ordinance granting the franchise would be considered null and void.

ATTACHMENTS

Attachment A: Proposed Ordinance No. 781, Franchise Agreement for Telecommunication Services with MCIMetro Access Transmission Services Corp., D/B/A Verizon Access Transmission Services

ORDINANCE NO. 781

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON, GRANTING A NON-EXCLUSIVE FRANCHISE, SUBJECT TO CONDITIONS, TO MCIMETRO ACCESS TRANSMISSION SERVICES CORP., D/B/A VERIZON ACCESS TRANSMISSION SERVICES, LEGALLY AUTHORIZED TO CONDUCT BUSINESS IN THE STATE OF WASHINGTON, FOR THE PURPOSE OF CONSTRUCTING, OPERATING, AND MAINTAINING A TELECOMMUNICATIONS SYSTEM IN THE PUBLIC RIGHTS-OF-WAY IN THE CITY; PROVIDING FOR SEVERABILITY; AND ESTABLISHING AN EFFECTIVE DATE

WHEREAS, MCIMETRO ACCESS TRANSMISSION SERVICES CORP., D/B/A VERIZON ACCESS TRANSMISSION SERVICES, herein after referred as "VERIZON," is a telecommunications company that, among other things, provides voice, and data services to customers, including those in the Puget Sound Region; and

WHEREAS, VERIZON's desired route through the City of Shoreline, hereinafter referred to as "City," requires the use of the City rights-of-way for the installation, operation, and maintenance of a telecommunications system; and

WHEREAS, the City Council has determined that the use of portions of the City's rights-of-way for installation of a telecommunications system benefits local businesses and the region as a result of such services; and

WHEREAS, the franchise for use of public rights-of-way allows for the construction of amenities necessary to serve the future needs of the citizens of Shoreline and the coordination, planning, and management of the City's rights-of-way is necessary to ensure that the burden of costs relating to use of the public rights-of-way are fairly allocated; and

WHEREAS, RCW 35A.11.020 grants the City broad authority to regulate the use of the public right-of-way and RCW 35A.47.040 grants the City broad authority to grant nonexclusive franchise agreements; now therefore;

THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON, DOES ORDAIN AS FOLLOWS:

Section 1. Non-exclusive Franchise Granted Subject to Conditions.

- A.** The City hereby grants to VERIZON, subject to the conditions prescribed in this ordinance ("Franchise Agreement"), the franchise rights and authority to construct, install, replace, repair, monitor, maintain, use and operate the equipment and facilities necessary for a telecommunications system in, under, on, across over, and through, all City-owned rights-of-way, hereinafter referred to as the "Franchise Area." Facilities includes all wires, lines, cables, conduit, equipment, switches, and supporting

structures located in the City's right-of-way, utilized by VERIZON in the operation of activities authorized by this Franchise Agreement.

- B.** The foregoing franchise rights and authority ("Franchise") shall not be deemed to be exclusive to VERIZON and shall in no way prohibit or limit the City's ability to grant other franchises, permits, or rights along, over, or under the areas to which this Franchise has been granted to VERIZON; provided, that such other franchises do not unreasonably interfere with VERIZON's exercise of franchise rights granted herein as determined by the City. This Franchise shall in no way interfere with existing utilities or in any way limit, prohibit, or prevent, the City from using the Franchise Area or affect the City's jurisdiction over such area in any way consistent with applicable law.
- C.** This Franchise Agreement authorizes VERIZON to occupy and use the Franchise Area. Nothing contained herein shall be construed to grant or convey any right, title, or interest in the Franchise Area to VERIZON.

Section 2. Authority. The Public Works Director or his or her designee is hereby granted the authority to administer and enforce the terms and provisions of this Franchise Agreement and may develop such lawful and reasonable rules, policies, and procedures as he or she deems necessary to carry out the provisions contained herein.

Section 3. Franchise Term. The franchise rights granted herein shall remain in full force and effect for a period of fifteen (15) years from the effective date of this ordinance. However, this Franchise Agreement shall not take effect and VERIZON shall have no rights under this Franchise Agreement unless a conduit lease agreement is executed pursuant to Section 4 and a written acceptance with the City is received pursuant to Section 5 of this agreement.

Section 4. Conditional Approval of Franchise – Conduit Lease Agreement.

- A.** This Franchise is conditioned upon the successful negotiation of a conduit lease agreement between the City and Verizon. The City owns underground conduit, along with necessary access vaults, within the public right-of-way commonly referred to as Aurora Avenue North, with the conduit extending northward from North 145th Street to north 205th Street (Aurora Conduit). The Aurora Conduit contains currently available capacity for which it would be in the public interest to lease this available capacity so as to preclude the unnecessary impact and interference within this public right-of-way that would result through the installation of new conduit.
- B.** The parties shall exercise good faith in negotiating a lease for VERIZON's use of a portion of the Aurora Conduit. A conduit lease agreement, mutually acceptable to both parties, shall be written for presentation to the authorizing bodies of each party for their authorization within sixty (60) calendar days of the passage of this Ordinance.
- C.** The authorizing bodies of each party shall have sixty (60) calendar days from presentation to authorize and fully execute the conduit lease agreement.

Section 5. Acceptance of Terms and Conditions. The full acceptance of this Franchise Agreement and all the terms and conditions shall be filed with the City Clerk within thirty (30) calendar days of the effective date of this ordinance in the form attached hereto as Exhibit B. Failure on the part of VERIZON to file said consent within thirty (30) calendar days of the effective date of this ordinance shall result in this ordinance having no further force or effect and all rights granted under this Franchise Agreement shall terminate.

Section 6. Construction Provisions and Standards. The following provisions shall be considered mandatory and failure to abide by any conditions described herein shall be deemed as noncompliance with the terms of this Franchise Agreement and may result in some or all of the penalties specified in Section 7.

- A. Permit Required.** No construction, maintenance, or repairs (except for emergency repairs) shall be undertaken in the Franchise Area without first obtaining appropriate right of way use permits required under SMC 12.15 from the City of Shoreline and compliance with the permit. In case of an emergency, VERIZON shall, within 24 hours of the emergency work performed, obtain a permit from the City of Shoreline Public Works Department.
- B. Construction Standards.** Any construction, installation, maintenance, and restoration activities performed by or for VERIZON within the Franchise Area shall be constructed and located so as to produce the least amount of interference with the free passage of pedestrian and vehicular traffic. All construction, installation, maintenance, and restoration activities shall be conducted such that they conform to City's Engineering Development Manual and with Title 12 of the Shoreline Municipal Code.
- C. Underground Installation Required.** All telecommunications cables and junction boxes or other vaulted system components shall be installed underground, unless otherwise exempted from this requirement, in writing, by the Public Works Director; provided that VERIZON may utilize existing aerial telecommunication facilities under lease or license from another franchisee. Should VERIZON utilize existing aerial telecommunication facilities, VERIZON agrees to cooperate in relocating to underground facilities when required by SMC 13.20 *Electric and Communication* for a City capital improvement project or joint trench opportunity.
- D. Relocation.**
 - 1.** Whenever the City causes a public improvement to be constructed within the Franchise Area, and such public improvement requires the relocation of VERIZON's facilities, the City shall provide VERIZON with written notice requesting such relocation along with plans for the public improvement that are sufficiently complete to allow for the initial evaluation, coordination and the development of a relocation plan. The City and VERIZON shall meet at a time and location determined by the City to discuss the project requirements including

critical timelines, schedules, construction standards, utility conflicts, as-built requirements, and other pertinent relocation plan details.

2. To ensure timely execution of relocation requirements, VERIZON shall, upon written request from the City, provide at VERIZON's expense, base maps, current as-built information, detailed relocation plan (including detailed schedule of relocation activities, identification of critical path, identification of facilities, and relocation procedures), and other design, technical or operational requirements within the timeframe specified by the City.
3. VERIZON may, after receipt of written notice requesting a relocation of its facilities, submit to the City written alternatives to such relocation within a reasonable time specified by the City. Such alternatives shall include the use and operation of temporary facilities in adjacent rights of way. The City shall evaluate such alternatives and advise VERIZON in writing if one or more of the alternatives are suitable to accommodate the work, which would otherwise necessitate relocation of the facilities. If requested by the City, VERIZON shall submit additional information to assist the City in making such evaluation. The City shall give each alternative proposed by VERIZON full and fair consideration. In the event the City ultimately determines that there is no other reasonable alternative, VERIZON shall relocate its facilities as otherwise specified in Section 6.E.
4. Upon final approval of the relocation plan by the City, VERIZON shall at its own expense, except as provided in RCW 35.99.060, and at the timeframe specified by the City, temporarily or permanently remove, relocate, place underground, change or alter the position of any facilities or structures within the right-of-way whenever the City has determined that such removal, relocation, undergrounding, change or alteration is reasonably necessary for the construction, repair, maintenance, installation, or operation of any public improvement in or upon the rights-of-way, or for public safety.
5. If during the construction, repair, or maintenance of the City's public improvement project an unexpected conflict occurs with VERIZON's facilities, VERIZON shall upon notification from the City, respond within 36 hours to resolve the conflict.
6. VERIZON shall reimburse the City for the direct costs incurred by the City in planning, designing, constructing, installing, repairing or altering any City infrastructure, structure, or facility as the result of the actual or proposed presence in the Public Right-of-Way of VERIZON's Facilities. Such costs and expenses shall include, but not be limited to, the direct costs of City personnel and contractors utilized to oversee or engage in any work in the Public Right-of-Way as the result of the presence of VERIZON's Facilities in the Public Right-of-Way, and any time spent reviewing construction plans in order to either accomplish the relocation of VERIZON's Facilities or the routing or rerouting of any public

utilities or Public Rights-of-Way so as not to interfere with VERIZON's Facilities. Upon request as a condition of payment by VERIZON, all billing will be itemized so as to specifically identify the direct costs for each project for which the City claims reimbursement.

- E. Removal or Abandonment.** Upon the removal from service of any VERIZON structures, facilities and amenities within the Franchise Area, VERIZON shall comply with all applicable standards and requirements prescribed by the City of Shoreline Public Works Department for the removal or abandonment of said structures and facilities. No facility constructed or owned by VERIZON may be abandoned in place without the express written consent of the City.
- F. Bond.** Before undertaking any of the work, installation, improvements, construction, repair, relocation, or maintenance authorized by this Franchise Agreement, VERIZON shall upon the request of the City, furnish a bond executed by VERIZON and a corporate surety authorized to operate a surety business in the State of Washington, in such sum as may be set and approved by the City as sufficient to ensure performance of VERIZON's obligations under this Franchise Agreement, provided, however, that such sum shall not exceed 100% of the project construction cost of the proposed telecommunications system work by VERIZON in the City rights-of-way. At VERIZON's sole option, VERIZON may provide alternate security in the form of an assignment of funds or a letter of credit, in the same amount as the bond. All forms of security shall be in the form reasonably acceptable to the City. The bond shall be conditioned so that VERIZON shall observe all the covenants, terms, and conditions and shall faithfully perform all of the obligations of this Franchise Agreement, and to repair or replace any defective VERIZON work or materials discovered in the City's roads, streets, or property.
- G. "One-Call" Location & Liability.** VERIZON shall subscribe to and maintain membership in the regional "One-Call" utility location service and shall promptly locate all of its lines upon request. The City shall not be liable for any damages to VERIZON's system components or for interruptions in service to VERIZON customers which are a direct result of work performed for any City project for which VERIZON has failed to properly locate its lines and facilities within the prescribed time limits and guidelines established by One-Call. The City shall also not be liable for any damages to the VERIZON system components or for interruptions in service to VERIZON customers resulting from work performed under a permit issued by the City.
- H. As-Built Plans Required.** VERIZON shall maintain accurate engineering plans and details of all installed system facilities, within the City limits, and upon request by the City, shall provide such information in both paper form and electronic form using the most current Autocad version (or other mutually-agreeable format) prior to close-out of any permit issued by the City and any work undertaken by VERIZON pursuant to this Franchise Agreement. The City shall reasonably determine the acceptability of any as-built submittals provided under this Section.

- I. Recovery of Costs.** VERIZON shall be subject to all applicable permit fees associated with activities undertaken through the authority granted in this Franchise Agreement or under ordinances of the City.
- J. Vacation.** The City shall have the right to vacate any City road, right-of-way, or other City property which is subject to rights granted by this Franchise Agreement. The City may, if practicable, reserve an easement for VERIZON in its vacation ordinance. If VERIZON's facilities must be relocated due to the vacation, the City may, at its option and by giving sixty (60) calendar days written notice to VERIZON, terminate this Franchise Agreement with respect to such City road, right-of-way, or other City property so vacated. The City shall not be liable for any damages or loss to VERIZON by reason of such termination other than those provided for in RCW 35.99.

Section 7. Franchise Compliance.

- A. Franchise Violations.** The failure by VERIZON to fully comply with any of the provisions of this Franchise Agreement or conditions of breach listed in SMC 12.25.100 may result in a written notice from the City which describes the violations of the Franchise Agreement and requests remedial action pursuant to SMC 12.25.100.
- B. Emergency Actions.**
1. If any of VERIZON's actions, or any failure by VERIZON to act to correct a situation caused by VERIZON, is deemed by the City to create a threat to life or property, financial harm, or cause a delay of the construction, repair or maintenance of the public improvement, the City may order VERIZON to immediately correct said threat, financial harm, or delay or, at the City's discretion, the City may undertake measures to correct said threat, financial harm or delay itself; provided that, except in emergency situations, as determined solely by the City, the City shall notify VERIZON and give VERIZON an opportunity to correct the situation within a reasonable time as specified by the City, said threat, financial harm or delay before undertaking such corrective measures. VERIZON shall be liable for all reasonable costs, expenses, and damages attributed to the correction of such an emergency situation as undertaken by the City to the extent that such situation was caused by VERIZON and shall further be liable for all reasonable costs, expenses, and damages resulting to the City from such situation and any reimbursement of such costs to the City shall be made within thirty (30) calendar days of written notice of the completion of such action or determination of damages by the City. The failure by VERIZON to take appropriate action to correct a situation caused by VERIZON and identified by the City as a threat to public or private safety or property, financial harm, or delay of the construction, repair or maintenance of the public improvement shall be considered a violation of the terms of this Franchise Agreement.

2. If during construction or maintenance of VERIZON's facilities any damage occurs to an underground facility and the damage results in the release of natural gas or other hazardous substance or potentially endangers life, health, or property, VERIZON or its contractor shall immediately call 911 or other local emergency response number.
- C. Other Remedies.** Nothing contained in this Franchise Agreement shall limit the City's available remedies in the event of VERIZON's failure to comply with the provisions of this Franchise Agreement, to include but not limited to, the City's right to a lawsuit for damages.
- D. Removal of System.** In the event that this Franchise Agreement is terminated as a result of violations of the terms of this Franchise Agreement, VERIZON shall at its sole expense, promptly remove all system components and facilities, provided that the City, at its sole option, may allow VERIZON to abandon its facilities in place.

Section 8. Insurance.

- A.** VERIZON shall maintain liability insurance written on a per occurrence basis during the full term of this Franchise Agreement for injuries and property damages. The policy or policies shall afford insurance covering all operations, vehicles, and employees with the following limits and provisions:
1. Commercial general liability insurance with limits of not less than \$2,000,000 each occurrence combined single limit for bodily injury and property damage, including contractual liability; personal and advertising injury; explosion hazard, collapse hazard, and underground property damage hazard; products; and completed operations.
 2. Commercial automobile liability insurance with limits not less than \$1,000,000 each occurrence combined single limit for bodily injury and property damage, covering all owned, non-owned, leased, and hired auto coverage, as applicable.
 3. Pollution Liability insurance, on an occurrence form, with limits not less than \$1,000,000 each occurrence combined single limit for bodily injury, property damage, cleanup costs and defense including costs and expenses incurred in the investigation, defense, or settlement of claims..
- B.** Such insurance shall include as additional insured the City, its officers, and employees, shall apply as primary insurance, shall stipulate that no insurance affected by the City will be called on to contribute to a loss covered thereunder. Upon receipt of notice from its insurer(s), VERIZON shall use all commercially reasonable efforts to provide at least thirty (30) calendar days prior written notice of cancellation by US mail to the City. VERIZON may utilize primary and umbrella liability insurance policies to satisfy insurance policy limits required herein.

- C. If the City determines that circumstances warrant an increase in insurance coverage and liability limits to adequately cover the risks of the City, the City may require a commercially reasonable amount of additional insurance to be acquired. The City shall provide written notice should the City exercise its right to require additional insurance.

Section 9. Other Permits & Approvals. Nothing in this Agreement shall relieve VERIZON from any obligation to obtain approvals or necessary permits from applicable federal, state, and City authorities for all activities in the Franchise Area.

Section 10. Transfer of Ownership.

- A. The rights, privileges, benefits, title, or interest provided by this Franchise Agreement shall not be sold, transferred, assigned, or otherwise encumbered, without the prior written consent of the City, with such consent not being unreasonably withheld, unreasonably conditioned or unreasonably delayed. No such consent shall be required, however, for a transfer in trust, by other hypothecation, or by assignment of any rights, title, or interest in VERIZON's telecommunications system in order to secure indebtedness. Approval shall not be required for mortgaging purposes provided that the collateral pledged for any mortgage shall not include the assets of this franchise. Approval shall not be required for any transfer from VERIZON to another person or entity controlling, controlled by, or under common control with VERIZON or if VERIZON adopts a new company name without a change in control. VERIZON may license fibers to other users operating a telephone business or service providers without the consent of the City provided that VERIZON remains solely responsible for the terms and conditions outlined in this Franchise Agreement and provides the City with written notice of licenses or leases for such purposes. The licensing or lease of fibers for other uses shall require a separate assignment, franchise or right of way agreement approved by the City.
- B. In any transfer of this Franchise which requires the approval of the City, VERIZON shall show that the recipient of such transfer has the technical ability, financial capability, and any other legal or general qualifications as reasonably determined by the City to be necessary to ensure that the obligations and terms required under this Franchise Agreement can be met to the satisfaction of the City. The qualifications of any transferee shall be determined by hearing before the City Council and the approval to such transfer shall be granted by resolution of the City Council. Any actual and reasonable administrative costs associated with a transfer of this Franchise which requires the approval of the City, shall be reimbursed to the City within thirty (30) calendar days of such transfer.

Section 11. Administrative Fees and Utility Tax.

- A. Pursuant to RCW 35.21.860, the City is precluded from imposing franchise fees for any "telephone business" as defined in RCW 82.16.010 or "service provider" as defined in RCW 35.99.010, except that fees may be collected for administrative

expenses related to such franchise and a utility tax may be assessed. VERIZON does hereby warrant that its operations as authorized under this Franchise Agreement are those of a telephone business as defined in RCW 82.16.010 or of a service provider as defined in 35.99.010. Nothing in this Franchise Agreement is intended to alter, amend, modify or expand the taxes and fees that may lawfully be assessed on VERIZON's business activities under this Franchise under applicable law.

- B.** VERIZON shall be subject to an administrative fee for reimbursement of the actual costs associated with the preparation, processing, and approval of this Franchise Agreement, not to exceed \$5,000. These costs shall include but not be limited to wages, benefits, overhead expenses, equipment, and supplies associated with such tasks as plan review, site visits, meetings, negotiations, and other functions critical to proper management and oversight of City's right-of-way. Administrative fees exclude normal permit fees for permits issued under Chapter 12.15 of the Shoreline Municipal Code. The franchise application deposit shall be applied to final payment of the one-time administrative fee within thirty (30) calendar days after franchise approval.
- C.** In the event VERIZON submits a request for work beyond the scope of this Franchise Agreement, or submits a complex project that requires significant comprehensive plan review, or inspection, VERIZON shall reimburse City for amendments and reasonable expenses associated with the project. VERIZON shall pay such costs within thirty (30) calendar days of receipt of bill from the City.
- D.** Failure by VERIZON to make full payment of bills within the time specified shall be considered sufficient grounds for the termination of all rights and privileges existing under this ordinance utilizing the procedures specified in Section 7 of this ordinance.
- E.** If VERIZON provides services which are not regulated by the Washington Utilities and Transportation Commission, then such VERIZON services shall become subject to the City's utility tax as set forth in Chapter 3.32 of the Shoreline Municipal Code, as amended, as may be lawfully be assessed.

Section 12. Notices. Any notice to be served upon the City or VERIZON shall be delivered to the following addresses respectively:

City of Shoreline
City Clerk's Office
17500 Midvale Avenue N
Shoreline, WA 98133-4905
Phone: (206) 801 – 2700

Verizon Access Transmission Services
600 Hidden Ridge
Irving, TX 75038
Attn: Franchise Manager

With Copy to (except for invoices):

Verizon Business Services
1320 N. Courthouse Road, Suite 900
Arlington, VA, USA 22201
Attn: Vice President and Deputy General Counsel

Section 13. Indemnification.

A. VERIZON shall use reasonable and appropriate precautions to avoid damage to persons or property in the construction, installation, repair, operation, and maintenance of its structures and facilities within the Franchise Area. VERIZON shall indemnify, defend and hold the City, its agents, officers or employees harmless from all third-party claims, actions or damages or expense of any nature, including reasonable attorney's and expert witness fees, which may accrue to or be suffered by any person or persons, corporation or property to the extent caused in part or in whole by any negligent or intentional act or omission of VERIZON, its officers, agents, servants or employees, contractors, or subcontractors in the performance of the rights, benefits, and privileges granted to VERIZON by this Franchise. In the event any claim or demand is presented to or filed with the City which gives rise to VERIZON's obligation pursuant to this Section, the City shall within a reasonable time notify VERIZON thereof and VERIZON shall have a right, at its election, to settle or compromise such claim or demand. In the event any claim or action is commenced in which the City is named a party, and which suit or action is based on a third-party claim or demand which gives rise to VERIZON's obligation pursuant to this Section, the City shall promptly notify VERIZON thereof, and VERIZON shall, at its sole cost and expense, defend such suit or action by attorneys of its own election. In defense of such suit or action, VERIZON may, at its election and at its sole cost and expense, settle or compromise such suit or action. This Section shall not be construed to require VERIZON to:

1. protect and save the City harmless from any claims, actions, or damages;
2. settle or compromise any claim, demand, suit, or action;
3. appear in or defend any suit or action; or,
4. pay any judgment or reimburse the City's costs and expenses (including reasonable attorney's fees), to the extent such claim arises out of the sole negligence or intentional acts of the City, its employees, agents or independent contractors.

B. The City shall have the right at all times to participate through its own attorney in any suit or action which arises out of any right, privilege, and authority granted by or exercised pursuant to this Franchise when the City determines that such participation is required to protect the interests of the City or the public. Such participation by the City shall be at the City's sole cost and expense.

- C. Should a court of competent jurisdiction determine that this franchise is subject to RCW 4.24.115, then, in the event of liability for damages arising out of bodily injury to persons or damages to property caused by or resulting from the concurrent negligence of VERIZON and the City, its officers, employees and agents, VERIZON's liability hereunder shall be only to the extent of VERIZON's negligence.
- D. With respect to the performance of this Franchise and as to claims against the City, its officers, agents and employees, VERIZON expressly waives its immunity under Title 51 of the Revised Code of Washington, the Industrial Insurance Act, for injuries to its officers, agents and employees and agrees that the obligation to indemnify, defend and hold harmless provided for in this paragraph extends to any claim brought by or on behalf of VERIZON's officers, agents or employees. This waiver has been mutually negotiated by the parties.

Section 14. Severability. If any section, sentence, clause or phrase of this ordinance is held to be invalid or unconstitutional by a court of competent jurisdiction, either party may deem the entire ordinance to be affected and thereby nullified. However, in the event that a determination is made that a section, sentence, clause, or phrase in this ordinance is invalid or unconstitutional, the parties may agree to treat the portion declared invalid or unconstitutional as severable and maintain in force the remaining provisions of this ordinance; provided that, if the City elects, without agreement by VERIZON, to enforce the remaining provisions of the ordinance, VERIZON shall have the option to terminate the Franchise Agreement.

Section 15. Reservation of Rights. The parties agree that this agreement is intended to satisfy the requirements of all applicable laws, administrative guidelines, rules, orders, and ordinances. Accordingly, any provision of this agreement or any local ordinance which may conflict with or violate the law shall be invalid and unenforceable, whether occurring before or after the execution of this agreement, it being the intention of the parties to preserve their respective rights and remedies under the law, and that the execution of this agreement does not constitute a waiver of any rights or obligations by either party under the law.

Section 16. Police Powers. Nothing contained herein shall be deemed to affect the City's authority to exercise its police powers. VERIZON shall not by this Franchise Agreement obtain any vested rights to use any portion of the City right-of-way except for the locations approved by the City and then only subject to the terms and conditions of this Franchise Agreement. This Franchise Agreement and the permits issued thereunder shall be governed by applicable City ordinances in effect at the time of application for such permits.

Section 17. Future Rules, Regulations, and Specifications. VERIZON acknowledges that the City may develop rules, regulations, and specifications, including a general ordinance or other regulations governing telecommunications operations in the City. Such regulations, upon written notice to VERIZON, shall thereafter govern VERIZON's activities hereunder; provided, however, that in no event shall regulations:

- A. materially interfere with or adversely affect VERIZON's rights pursuant to and in accordance with this Franchise Agreement; or

- B. be applied in a discriminatory manner as it pertains to VERIZON and other similar user of such facilities.

Section 18. Publication and Cost of Publication. This Ordinance or a summary thereof shall be published in the official newspaper of the City. The cost of the publication of this Ordinance shall be borne by VERIZON.

Section 19. Effective Date – Subject to Conditions. As provided in Section 4, this Franchise is conditioned upon the successful negotiation of a conduit lease agreement between the City and VERIZON. Therefore, the effective date of this Ordinance shall be the date on which the conduit lease agreement is fully executed by the parties. If a conduit lease agreement is not fully executed by the parties within one hundred twenty (120) calendar days of the date of passage of this Ordinance, than this Ordinance shall be considered NULL and VOID.

PASSED BY THE CITY COUNCIL ON AUGUST 14, 2017

Mayor Christopher Roberts

ATTEST:

APPROVED AS TO FORM:

Jessica Simulcik Smith
City Clerk

Margaret King
City Attorney

Publication Date: _____, 2017
Effective Date: _____, 2017

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: Discussing Ord. No. 796 – Amending the 2017 Salary Classification Table with the Removal of the Construction Inspection Supervisor, the Addition of the Development and Construction Manager, the Removal of the Wastewater Utility Maintenance Manager and the Addition of the Wastewater Manager

DEPARTMENT: Public Works

PRESENTED BY: Tricia Juhnke, City Engineer
Lance Newkirk, Utility and Operations Manager
Rick Kirkwood, Budget Supervisor

ACTION: ☐ Ordinance ☐ Resolution ☐ Motion
 ☒ Discussion ☐ Public Hearing

PROBLEM/ISSUE STATEMENT:

Staff is requesting that the 2017 budget be amended by adding two new job classifications to the salary table, Development Review and Construction Manager (Range 65) and Wastewater Manager (Range 59); and striking two job classifications, Construction Inspection Supervisor (Range 53) and Wastewater (WW) Utility Maintenance Manager (Range 54). Proposed Ordinance No. 796 provides for this budget amendment.

FINANCIAL IMPACT:

There is no financial impact associated with this action this year. The total appropriations in the 2017 budget do not need to be increased as the current vacancy of the Construction Inspection Supervisor classification will provide sufficient savings to cover any additional cost of filling the position as a Development Review and Construction Manager. Nor is a budget increase required for the Wastewater Manager position for 2017 as the incumbent RWD Wastewater (WW) Utility Maintenance Manager is a Y-rated position with salary set above Range 54 and just slightly under step 6 of Range 59, as well as appropriations for the higher level of salary, as adopted in Ordinance No. 777.

However, there is an ongoing financial impact due to the salary differences for both positions. The Construction Inspection Supervisor classification is in salary Range 53, and the Development Review and Construction Manager classification is proposed for salary Range 65, which is a \$31,480, or 35%, salary increase between the top step of each range. The Wastewater (WW) Utility Maintenance Manager is in salary Range 54 and if the incumbent were to remain in the employ of the City, the Y-rated salary would continue until the salary for Range 54 meets or exceeds that amount. However, staff is anticipating that the incumbent will separate from District employment upon merger of

the District with the City. Placing the Wastewater Manager classification in salary Range 59 will result in an annual salary increase of \$10,637, or 13%, from the top step of Range 54. Both of these increases will be addressed as part of the 2018 budget process.

RECOMMENDATION

No action is required by the City Council. This meeting will provide an opportunity for the City Council to ask specific questions and provide staff direction. Adoption of proposed Ordinance No. 796 is scheduled for September 11, 2017.

Approved By: City Manager **DT** City Attorney **MK**

INTRODUCTION

Staff is requesting that the 2017 budget be amended by adding to the salary table two new job classifications, Development Review and Construction Manager (Range 65) and Wastewater Manager (Range 59), and striking two job classifications, Construction Inspection Supervisor (Range 53) and Wastewater (WW) Utility Maintenance Manager (Range 54). Proposed Ordinance No. 796 (Attachment A) provides for this budget amendment. The amended 2017 salary table is provided in Attachment B.

BACKGROUND

While position reclassifications are typically requested as part of the annual budget process, the resignation of the Construction Inspection Supervisor from City employment earlier this year and additional pre-assumption analysis of the Ronald Wastewater District (RWD) Wastewater (WW) Utility Maintenance Manager position has provided opportunity to better align these positions with current and future department need.

Development Review and Construction Manager

The Public Works Department Engineering Division is currently organized with an Engineering Manager overseeing capital projects and development review teams, and a Construction Inspection Supervisor managing development and capital construction activities (Attachment C). A review of the anticipated capital project and development review activities (including assumption of wastewater permit issuance) identified that increased work supports a needed reorganization of the management structure (Attachment D).

The vacancy of the Construction Inspection Supervisor created the opportunity to review the structure and effectiveness in delivering Engineering Services within Public Works. Over time additional positions have been added under the Engineering Manager position resulting in the Engineering Manager supervising 13 direct reports performing capital project and development review activities, while the Construction Inspection Supervisor supervises two construction inspectors. The current structure does not allow for effective management and supervision, particularly for the Engineering Manager. This imbalance and excessive span of control prevents the City Engineer from providing engineering services effectively and creates a higher risk of errors and incomplete oversight. This review determined that combining development review and construction management services under a single manager was required to ensure the successful management of these work areas. It will also allow for better coordination and consistency in development review and construction as well as provide oversight and responsibilities for managing key asset types such as curbs, sidewalk, ramps and bridges. Further, it allows for the Engineering Manager to focus on capital project delivery. The need to revise this structure has become more essential with the upcoming assumption of wastewater and as the Sound Transit Lynnwood Link Extension Project moves towards construction.

With this change there will be more even distribution of management and supervision responsibilities between this position and the Engineering Manager. This new position will supervise eight staff in October (after Ronald Wastewater District staff are moved

over and with the Sound Transit project staff) and the Engineering Manager would supervise eight staff focused on capital projects (Attachment D).

Highlights of the Development Review and Construction Manager job description include:

- To direct, manage and oversee engineering development review to provide development services to developers, citizens, builders and contractors who want to develop or redevelop property.
 - Ensure development proposals are in compliance with planning, transportation, surface water, wastewater and engineering standards.
 - Provide oversight and guidance from the inception of a proposal through to construction, acceptance and completion. This includes reviewing plans for consistency with the City's overall plans, adopted land use policies, development standards, resulting in high quality public infrastructure constructed according to standards.
- Directs, manages and oversees construction inspection and contractor quality control for construction in the City's Right of Way and on City capital projects.
- Provide oversight and responsibilities for managing key asset types such as curbs, sidewalk, ramps and bridges.
- Provide and/or oversee updates and revisions to various codes and standards.

After a market review, the proposed salary for the Development Review and Construction Manager is recommended to be set at Range 65. The Engineering Manager classification, which is also in Range 65, was set in the 2015 compensation study based on the median compensation of our selected comparable cities. The classification is not based on the number of direct reports or total staff. Also of note, the City's current Engineering Manager's span of control has more than doubled since the compensation study and this action would return it to the level it was at when it was classified.

Wastewater (WW) Utility Maintenance Manager

On April 24, 2017, the City Council approved Ordinance No. 777, adding the Wastewater (WW) Utility Maintenance Manager position to the City's salary table at Range 54 (staff report available here:

<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2017/staffreport042417-7d.pdf>).

Subsequent to Council adoption of Ordinance No. 777, as additional work was performed to implement the RWD assumption implementation process, further analysis was performed for the Wastewater (WW) Utility Maintenance Manager position. This review determined that additional education, job skills and knowledge are required to ensure the successful short and long-term transition of wastewater operations and maintenance services from RWD to the City.

Highlight of changes to the position job description include:

- Additional job duty specificity added to the Essential Functions statements;

- Knowledge of the principles and practices Asset Management and Computerized Maintenance Management Systems;
- Work group and organizational development (continuous improvement) knowledge and skills;
- Comprehensive leadership and managerial skills;
- Public contract development and administration; and
- Equivalent education to a four-year degree in civil engineering, environmental science or related field.

The proposed new job title for this position is Wastewater Manager, and after a market review, the proposed salary is recommended to be set at Range 59. Staff is anticipating that the incumbent Wastewater (WW) Utility Maintenance Manager will separate from District employment upon merger of the District with the City, and thus, the Wastewater Manager position will be vacant in October of this year.

ALTERNATIVES ANALYSIS

Alternative 1: Take no action and fill the existing position

If the City Council chooses to not approve this budget amendment and staff proceeds with filling the existing classification of Construction Inspector Supervisor and Wastewater (WW) Utility Maintenance Manager, the following outcomes are likely to occur.

Outcome	Construction Inspector Supervisor	Wastewater (WW) Utility Maintenance Manager
There will be salary savings in the current year	X	X
Job experience and training requirements under represent current and future position need	X	X
Does not address span of control for the existing direct reports of the Engineering Manager; nor the two new direct reports when RWD plan review, permitting and inspection personnel become City employees beginning October 23, 2017	X	N/A

Alternative 2: Adopt Ordinance No. 796 (Recommended)

Adoption of proposed Ordinance No. 796 will add two new classifications to the salary table, Development Review and Construction Manager (Range 65) and Wastewater Manager (Range 59), and strikes two job classifications, Construction Inspection Supervisor (Range 53) and Wastewater (WW) Utility Maintenance Manager (Range 54), with the following outcomes likely to occur:

Outcome	Development Review and Construction Manager	Wastewater Manager
There will be salary savings in the current year	X	X
Improved managerial oversight in functional area	X	X
Advanced skill set for leading people, process and programs through continuous improvement	X	X
Increased capital program oversight through a reduction of direct reports for Engineering Manager and an improved span of control	X	N/A

NEXT STEPS

The Human Resources Department performed classification reviews and finalized new job descriptions for these two proposed positions. If this budget amendment is adopted by the City Council, staff will proceed with filling the new positions and will cover the additional cost of the higher classifications with savings provided by the vacancy of the Construction Inspection Manager and budget savings from the Y-rated Wastewater (WW) Utility Maintenance Manager. Adoption of proposed Ordinance No. 796 is scheduled for September 11, 2017.

FINANCIAL IMPACT

There is no financial impact associated with this action this year. The total appropriations in the 2017 budget do not need to be increased as the current vacancy of the Construction Inspection Supervisor will provide sufficient savings to cover any additional cost of filling the position as a Development Review and Construction Manager. Nor is a budget increase required for the Wastewater Manager position for 2017 as the incumbent RWD Wastewater (WW) Utility Maintenance Manager is a Y-rated position with salary above Range 54 and just slightly under step 6 of Range 59, as well as appropriations for the higher level of salary, as adopted in Ordinance No. 777.

However, there is an ongoing financial impact due to the salary differences for both positions. The Construction Inspection Supervisor classification is in salary Range 53, and the Development Review and Construction Manager classification is proposed for salary Range 65, which is a \$31,480, or 35%, salary increase between the top step of each range. The Wastewater (WW) Utility Maintenance Manager is in salary Range 54 and if the incumbent were to remain in the employ of the City, the Y-rated salary would continue until the salary for Range 54 meets or exceeds that amount. However, staff is anticipating that the incumbent will separate from District employment upon merger of the District with the City. Placing the Wastewater Manager classification in salary Range 59 will result in an annual salary increase of \$10,637, or 13%, from the top step of Range 54. Both of these increases will be addressed as part of the 2018 budget process.

RECOMMENDATION

No action is required by the City Council. This meeting will provide an opportunity for the City Council to ask specific questions and provide staff direction. Adoption of proposed Ordinance No. 796 is scheduled for September 11, 2017.

ATTACHMENTS

- Attachment A: Proposed Ordinance No. 796
- Attachment B: Amended 2017 Salary Table
- Attachment C: Current Public Works Engineering Division Organization Chart
- Attachment D: Proposed Public Works Engineering Division Organization Chart

ORDINANCE NO. 796

AN ORDINANCE OF THE CITY OF SHORELINE, WASHINGTON, AMENDING THE ANNUAL BUDGET OF THE CITY OF SHORELINE FOR THE YEAR 2017 TO RECLASSIFY TWO EMPLOYEE POSITIONS FOR THE PUBLIC WORKS DEPARTMENT AND TO AMEND THE SALARY TABLE AND BUDGETED POSITIONS TO REFLECT THIS RECLASSIFICATION.

WHEREAS, the 2017 Final Budget was adopted by Ordinance No. 758 and subsequently amended by Ordinance Nos. 773, 774, 777, 778, 779, 783 and 794; and

WHEREAS, City staff have determined that it is appropriate to reclassify an existing, vacant Construction and Inspection Supervisor position as a new classification specification, Development Review and Construction Manager; and

WHEREAS, City staff have determined that it is appropriate to reclassify an existing, vacant Wastewater Utility Maintenance Manager position as a new classification specification, Wastewater Manager; and

WHEREAS, the 2017 Final Budget, as amended, which includes a salary table and a listing of budgeted employee positions and employee allocations, needs to be amended to reflect the new classifications and their salaries to fulfill this need; now therefore

THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON DO ORDAIN AS FOLLOWS:

Section 1. Amendment. The City hereby amends the current 2017 Budget, specifically the 2017 Exempt and Non-Exempt Salary Table (2017 Salary Table) and the current 2017 Budgeted Positions and FTE (2017 Budget Positions) by making the following revisions:

All references to the position of “Construction Inspection Supervisor” (also referred to as Construction and Inspection Supervisor) within the Public Works Department is deleted from the 2017 Budget, including the Salary Table at Range 53 and the 2017 Budgeted Positions.

All references to the position of “WW Utility Maintenance Manager” within the Public Works Department is deleted from the 2017 Budget, including from the 2017 Salary Table at Range 54 and the 2017 Budgeted Positions.

The new position of “Development Review and Construction Manager” within the Public Works Department is added to the 2017 Budget, including the 2017 Salary Table at Range 65 and the 2017 Budgeted Positions.

The new position of “Wastewater Manager” within the Public Works Department is added to the 2017 Budget, including the 2017 Salary Table at Range 59 and the 2017 Budgeted Positions.

Section 2. Corrections by City Clerk or Code Reviser. Upon approval of the City Attorney, the City Clerk and/or the Code Reviser are authorized to make necessary corrections to this ordinance, including the corrections of scrivener or clerical errors; references to other local, state, or federal laws, codes, rules, or regulations; or ordinance numbering and section/subsection numbering and references.

Section 3. Severability. Should any section, paragraph, sentence, clause or phrase of this ordinance, or its application to any person or circumstance, be declared unconstitutional or otherwise invalid for any reason, or should any portion of this ordinance be preempted by state or federal law or regulation, such decision or preemption shall not affect the validity of the remaining portions of this ordinance or its application to other persons or circumstances.

Section 4. Effective Date. A summary of this ordinance consisting of its title shall be published in the official newspaper of the City. The ordinance shall take effect and be in full force five days after passage and publication.

PASSED BY THE CITY COUNCIL ON SEPTEMBER 11, 2017

Mayor Christopher Roberts

ATTEST:

APPROVED AS TO FORM:

Jessica Simulcik Smith
City Clerk

Margaret King
City Attorney

Publication Date: , 2017
Effective Date: , 2017

City of Shoreline
Range Placement Table
2.5% Between Ranges; 4% Between Steps

June '15 cpi-U 251.622
June '16 cpi-U 256.098
% Change 1.78%
90% of % Change: 1.60%

Mkt Adj: **1.60%**
Effective: January 1, 2017

The hourly rates represented here have been rounded to 2 decimal points and annual rates to the nearest dollar. Pay is calculated using 5 decimal points for accuracy and rounded after

Range	Title	FLSA Status	Min						Max
			Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	
1			n/a due to '17 WA State Min Wage	n/a due to '17 WA State Min Wage	n/a due to '17 WA State Min Wage	11.24 23,370	11.68 24,305	12.15 25,277	
2			n/a due to '17 WA State Min Wage	n/a due to '17 WA State Min Wage	11.07 23,033	11.52 23,954	11.98 24,912	12.46 25,909	
3			n/a due to '17 WA State Min Wage	n/a due to '17 WA State Min Wage	11.35 23,609	11.80 24,553	12.28 25,535	12.77 26,556	
4			n/a due to '17 WA State Min Wage	11.19 23,268	11.63 24,199	12.10 25,167	12.58 26,173	13.09 27,220	
5			11.03 22,932	11.47 23,850	11.92 24,804	12.40 25,796	12.90 26,828	13.41 27,901	
6			11.30 23,506	11.75 24,446	12.22 25,424	12.71 26,441	13.22 27,499	13.75 28,598	
7			11.58 24,094	12.05 25,057	12.53 26,060	13.03 27,102	13.55 28,186	14.09 29,313	
8			11.87 24,696	12.35 25,684	12.84 26,711	13.36 27,779	13.89 28,891	14.45 30,046	
9			12.17 25,313	12.66 26,326	13.16 27,379	13.69 28,474	14.24 29,613	14.81 30,797	
10			12.47 25,946	12.97 26,984	13.49 28,063	14.03 29,186	14.59 30,353	15.18 31,567	
11			12.79 26,595	13.30 27,658	13.83 28,765	14.38 29,915	14.96 31,112	15.56 32,357	
12			13.11 27,260	13.63 28,350	14.17 29,484	14.74 30,663	15.33 31,890	15.94 33,165	
13			13.43 27,941	13.97 29,059	14.53 30,221	15.11 31,430	15.71 32,687	16.34 33,995	
14			13.77 28,640	14.32 29,785	14.89 30,977	15.49 32,216	16.11 33,504	16.75 34,844	
15			14.11 29,356	14.68 30,530	15.26 31,751	15.88 33,021	16.51 34,342	17.17 35,716	
16			14.47 30,089	15.04 31,293	15.65 32,545	16.27 33,847	16.92 35,200	17.60 36,608	
17			14.83 30,842	15.42 32,075	16.04 33,358	16.68 34,693	17.35 36,080	18.04 37,524	
18			15.20 31,613	15.81 32,877	16.44 34,192	17.10 35,560	17.78 36,982	18.49 38,462	
19			15.58 32,403	16.20 33,699	16.85 35,047	17.52 36,449	18.22 37,907	18.95 39,423	
20			15.97 33,213	16.61 34,542	17.27 35,923	17.96 37,360	18.68 38,855	19.43 40,409	
21			16.37 34,044	17.02 35,405	17.70 36,821	18.41 38,294	19.15 39,826	19.91 41,419	

City of Shoreline
Range Placement Table
2.5% Between Ranges; 4% Between Steps

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Range	Title	FLSA Status	Min						Max
			Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 6
22			16.78 34,895	17.45 36,290	18.15 37,742	18.87 39,252	19.63 40,822	20.41 42,455	
23			17.20 35,767	17.88 37,198	18.60 38,686	19.34 40,233	20.12 41,842	20.92 43,516	
24			17.63 36,661	18.33 38,128	19.06 39,653	19.83 41,239	20.62 42,888	21.44 44,604	
25			18.07 37,578	18.79 39,081	19.54 40,644	20.32 42,270	21.13 43,961	21.98 45,719	
26			18.52 38,517	19.26 40,058	20.03 41,660	20.83 43,326	21.66 45,060	22.53 46,862	
27			18.98 39,480	19.74 41,059	20.53 42,702	21.35 44,410	22.20 46,186	23.09 48,033	
28			19.46 40,467	20.23 42,086	21.04 43,769	21.88 45,520	22.76 47,341	23.67 49,234	
29			19.94 41,479	20.74 43,138	21.57 44,863	22.43 46,658	23.33 48,524	24.26 50,465	
30			20.44 42,516	21.26 44,216	22.11 45,985	22.99 47,824	23.91 49,737	24.87 51,727	
31	Senior Lifeguard	Non-Exempt, Hourly	20.95 43,579	21.79 45,322	22.66 47,135	23.57 49,020	24.51 50,981	25.49 53,020	
32			21.48 44,668	22.33 46,455	23.23 48,313	24.16 50,245	25.12 52,255	26.13 54,345	
33			22.01 45,785	22.89 47,616	23.81 49,521	24.76 51,502	25.75 53,562	26.78 55,704	
34	Administrative Assistant I WW Utility Administrative Assist I WW Utility Customer Service Rep	Non-Exempt, Hourly Non-Exempt, Hourly Non-Exempt, Hourly	22.56 46,929	23.46 48,806	24.40 50,759	25.38 52,789	26.39 54,901	27.45 57,097	
35		Non-Exempt, Hourly Non-Exempt, Hourly	23.13 48,103	24.05 50,027	25.01 52,028	26.01 54,109	27.05 56,273	28.14 58,524	
36	Parks Maintenance Worker I PW Maintenance Worker I		23.70 49,305	24.65 51,277	25.64 53,328	26.66 55,462	27.73 57,680	28.84 59,987	
37	Finance Technician Recreation Specialist I WW Utility Accounting Technician	Non-Exempt, Hourly Non-Exempt, Hourly Non-Exempt, Hourly	24.30 50,538	25.27 52,559	26.28 54,662	27.33 56,848	28.42 59,122	29.56 61,487	
38	Administrative Assistant II Facilities Maintenance Worker I	Non-Exempt, Hourly Non-Exempt, Hourly	24.90 51,801	25.90 53,873	26.94 56,028	28.01 58,269	29.13 60,600	30.30 63,024	
39		Non-Exempt, Hourly Non-Exempt, Hourly	25.53 53,096	26.55 55,220	27.61 57,429	28.71 59,726	29.86 62,115	31.06 64,600	
40	Parks Maintenance Worker II Permit Technician PW Maintenance Worker II WW Utility Maintenance Worker	Non-Exempt, Hourly Non-Exempt, Hourly Non-Exempt, Hourly Non-Exempt, Hourly	26.17 54,424	27.21 56,601	28.30 58,865	29.43 61,219	30.61 63,668	31.83 66,215	

City of Shoreline
Range Placement Table
2.5% Between Ranges; 4% Between Steps

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Range	Title	FLSA Status	Min						Max
			Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 6
41	Recreation Specialist II	Non-Exempt, Hourly	26.82	27.89	29.01	30.17	31.37	32.63	
	Senior Finance Technician	Non-Exempt, Hourly	55,784	58,016	60,336	62,750	65,260	67,870	
	Special Events Coordinator	Non-Exempt, Hourly							
	Public Art Coordinator	Non-Exempt, Hourly							
42	Administrative Assistant III	Non-Exempt, Hourly	27.49	28.59	29.73	30.92	32.16	33.45	
	Communication Specialist	Non-Exempt, Hourly	57,179	59,466	61,845	64,318	66,891	69,567	
	Environmental Program Specialist	Non-Exempt, Hourly							
	Facilities Maintenance Worker II	Non-Exempt, Hourly							
	Human Resources Technician	Non-Exempt, Hourly							
	Legal Assistant	Non-Exempt, Hourly							
	Records Coordinator	Non-Exempt, Hourly							
43	Transportation Specialist	Non-Exempt, Hourly							
43	Payroll Officer	Non-Exempt, Hourly	28.18	29.30	30.48	31.70	32.96	34.28	
	Purchasing Coordinator	Non-Exempt, Hourly	58,608	60,953	63,391	65,926	68,563	71,306	
44	Assistant Planner	EXEMPT, Annual	28.88	30.04	31.24	32.49	33.79	35.14	
	Engineering Technician	Non-Exempt, Hourly	60,074	62,476	64,976	67,575	70,278	73,089	
45									
	CRT Representative	Non-Exempt, Hourly	29.60	30.79	32.02	33.30	34.63	36.02	
	PRCS Rental & System Coordinator	Non-Exempt, Hourly	61,575	64,038	66,600	69,264	72,034	74,916	
45	Recreation Specialist III - Aquatics	Non-Exempt, Hourly							
46	Deputy City Clerk	Non-Exempt, Hourly	30.34	31.56	32.82	34.13	35.50	36.92	
	IT Specialist	Non-Exempt, Hourly	63,115	65,639	68,265	70,996	73,835	76,789	
	Plans Examiner I	Non-Exempt, Hourly							
	Senior Facilities Maintenance Worker	Non-Exempt, Hourly							
	Senior PW Maintenance Worker	Non-Exempt, Hourly							
	Senior Parks Maintenance Worker	Non-Exempt, Hourly							
	Staff Accountant	EXEMPT, Annual							
	Surface Water Quality Specialist	Non-Exempt, Hourly							
	Senior WW Utility Maintenance Worker	Non-Exempt, Hourly							
47									
	Code Enforcement Officer	Non-Exempt, Hourly	31.10	32.35	33.64	34.99	36.39	37.84	
	Construction Inspector	Non-Exempt, Hourly	64,693	67,280	69,972	72,770	75,681	78,708	
47	Executive Assistant to City Manager	EXEMPT, Annual							
48	Associate Planner	EXEMPT, Annual	31.88	33.15	34.48	35.86	37.29	38.79	
			66,310	68,962	71,721	74,590	77,573	80,676	
49									
	PRCS Supervisor I - Recreation	EXEMPT, Annual	32.68	33.98	35.34	36.76	38.23	39.76	
49			67,968	70,686	73,514	76,454	79,513	82,693	
50	Budget Analyst	EXEMPT, Annual	33.49	34.83	36.23	37.68	39.18	40.75	
	Combination Inspector	Non-Exempt, Hourly	69,667	72,454	75,352	78,366	81,500	84,760	
	Community Diversity Coordinator	EXEMPT, Annual							
	Community Diversity Coordinator	Non-Exempt, Hourly							
	Emergency Management Coordinator	EXEMPT, Annual							
	Environmental Services Analyst	EXEMPT, Annual							
	Management Analyst	EXEMPT, Annual							
	Neighborhoods Coordinator	EXEMPT, Annual							
	Plans Examiner II	Non-Exempt, Hourly							
	Utility Operations Specialist	Non-Exempt, Hourly							
	WW Utility Specialist	Non-Exempt, Hourly							
51			34.33	35.70	37.13	38.62	40.16	41.77	
			71,409	74,265	77,235	80,325	83,538	86,879	
52									
	Senior Human Resources Analyst	EXEMPT, Annual	35.19	36.60	38.06	39.58	41.17	42.81	
52	Web Developer	EXEMPT, Annual	73,194	76,122	79,166	82,333	85,626	89,051	

City of Shoreline
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Range	Title	FLSA Status	Min						Max
			Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 6
53	Communications Program Manager	EXEMPT, Annual	36.07	37.51	39.01	40.57	42.20	43.88	
	Construction Inspection Supervisor	EXEMPT, Annual	75,024	78,025	81,146	84,391	87,767	91,278	
	CRT Supervisor	EXEMPT, Annual							
	Parks Project Coordinator	EXEMPT, Annual							
	PRCS Supervisor II - Aquatics	EXEMPT, Annual							
	PRCS Supervisor II - Recreation	EXEMPT, Annual							
54	CMO Management Analyst	EXEMPT, Annual	36.97	38.45	39.99	41.59	43.25	44.98	
	Grants Administrator	EXEMPT, Annual	76,899	79,975	83,174	86,501	89,961	93,560	
	Plans Examiner III	Non-Exempt, Hourly							
	PW Maintenance Superintendent	EXEMPT, Annual							
	Senior Planner	EXEMPT, Annual							
	Senior Management Analyst	EXEMPT, Annual							
55	Engineer I - Capital Projects	EXEMPT, Annual	37.90	39.41	40.99	42.63	44.33	46.11	
	Engineer I - Development Review	EXEMPT, Annual	78,822	81,975	85,254	88,664	92,210	95,899	
	Engineer I - Surface Water	EXEMPT, Annual							
	Engineer I - Traffic	EXEMPT, Annual							
56	Budget Supervisor	EXEMPT, Annual	38.84	40.40	42.01	43.69	45.44	47.26	
	City Clerk	EXEMPT, Annual	80,792	84,024	87,385	90,880	94,515	98,296	
	Parks Superintendent	EXEMPT, Annual							
57	GIS Specialist	EXEMPT, Annual	39.81	41.41	43.06	44.78	46.58	48.44	
	Network Administrator	EXEMPT, Annual	82,812	86,125	89,570	93,152	96,878	100,754	
	IT Projects Manager	EXEMPT, Annual							
58			40.81	42.44	44.14	45.90	47.74	49.65	
			84,882	88,278	91,809	95,481	99,300	103,272	
59	Engineer II - Capital Projects	EXEMPT, Annual	41.83	43.50	45.24	47.05	48.93	50.89	
	Engineer II - Development Review	EXEMPT, Annual	87,004	90,485	94,104	97,868	101,783	105,854	
	Engineer II - Surface Water	EXEMPT, Annual							
	Engineer II - Traffic	EXEMPT, Annual							
	IT Systems Analyst	EXEMPT, Annual							
	Structural Plans Examiner	EXEMPT, Annual							
	Limited Term Sound Transit Project Manager	EXEMPT, Annual							
60	<u>Wastewater Manager</u>	EXEMPT, Annual							
	Central Services Manager	EXEMPT, Annual	42.87	44.59	46.37	48.23	50.16	52.16	
	Community Services Manager	EXEMPT, Annual	89,179	92,747	96,457	100,315	104,327	108,501	
	Permit Services Manager	EXEMPT, Annual							
	Planning Manager	EXEMPT, Annual							
61	Recreation Superintendent	EXEMPT, Annual							
			43.95	45.70	47.53	49.43	51.41	53.47	
62			91,409	95,065	98,868	102,823	106,936	111,213	
			45.05	46.85	48.72	50.67	52.70	54.80	
63			93,694	97,442	101,340	105,393	109,609	113,993	
	Building Official	EXEMPT, Annual	46.17	48.02	49.94	51.94	54.01	56.17	
	City Traffic Engineer	EXEMPT, Annual	96,037	99,878	103,873	108,028	112,349	116,843	
	Economic Development Program Manager	EXEMPT, Annual							
	Intergovernmental Program Manager	EXEMPT, Annual							
64	SW Utility & Environmental Svcs Manager	EXEMPT, Annual							
			47.33	49.22	51.19	53.24	55.36	57.58	
65	Finance Manager	EXEMPT, Annual	98,438	102,375	106,470	110,729	115,158	119,764	
	Assistant City Attorney	EXEMPT, Annual	48.51	50.45	52.47	54.57	56.75	59.02	
	<u>Development Review and Construction Manager</u>	EXEMPT, Annual	100,898	104,934	109,132	113,497	118,037	122,758	
	Engineering Manager	EXEMPT, Annual							
66	Transportation Services Manager	EXEMPT, Annual							

City of Shoreline
Range Placement Table
2.5% Between Ranges; 4% Between Steps

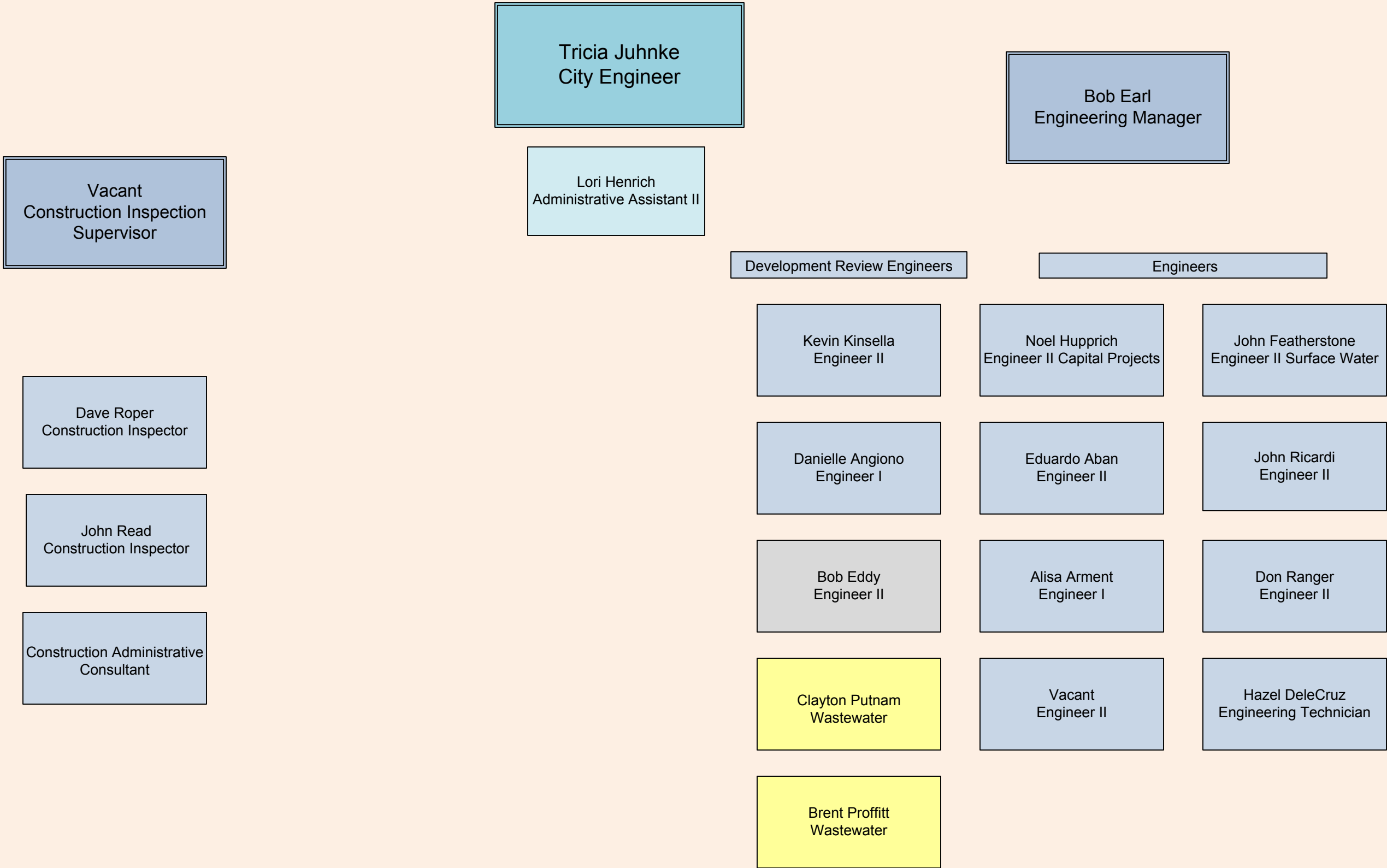
June '15 cpi-U 251.622
June '16 cpi-U 256.098
% Change 1.78%
90% of % Change: 1.60%

Mkt Adj: **1.60%**
Effective: January 1, 2017

The hourly rates represented here have been rounded to 2 decimal points and annual rates to the nearest dollar. Pay is calculated using 5 decimal points for accuracy and rounded after

Range	Title	FLSA Status	Min						Max
			Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 6
66	Information Technology Manager	EXEMPT, Annual	49.72 103,421	51.71 107,558	53.78 111,860	55.93 116,335	58.17 120,988	60.49 125,827	
67	Utility & Operations Manager	EXEMPT, Annual	50.96 106,006	53.00 110,247	55.12 114,657	57.33 119,243	59.62 124,013	62.01 128,973	
68			52.24 108,657	54.33 113,003	56.50 117,523	58.76 122,224	61.11 127,113	63.56 132,197	
69	City Engineer	EXEMPT, Annual	53.54 111,373	55.69 115,828	57.91 120,461	60.23 125,280	62.64 130,291	65.15 135,502	
70			54.88 114,157	57.08 118,724	59.36 123,473	61.74 128,412	64.21 133,548	66.77 138,890	
71			56.26 117,011	58.51 121,692	60.85 126,559	63.28 131,622	65.81 136,887	68.44 142,362	
72			57.66 119,937	59.97 124,734	62.37 129,723	64.86 134,912	67.46 140,309	70.15 145,921	
73	Human Resource Director	EXEMPT, Annual	59.10 122,935	61.47 127,852	63.93 132,967	66.48 138,285	69.14 143,817	71.91 149,569	
74			60.58 126,008	63.00 131,049	65.52 136,291	68.15 141,742	70.87 147,412	73.71 153,309	
75	Administrative Services Director Parks, Rec & Cultural Svcs Director Planning & Community Development Director Public Works Director	EXEMPT, Annual EXEMPT, Annual EXEMPT, Annual EXEMPT, Annual	62.10 129,159	64.58 134,325	67.16 139,698	69.85 145,286	72.64 151,097	75.55 157,141	
76	Assistant City Manager City Attorney	EXEMPT, Annual EXEMPT, Annual	63.65 132,388	66.19 137,683	68.84 143,190	71.60 148,918	74.46 154,875	77.44 161,070	

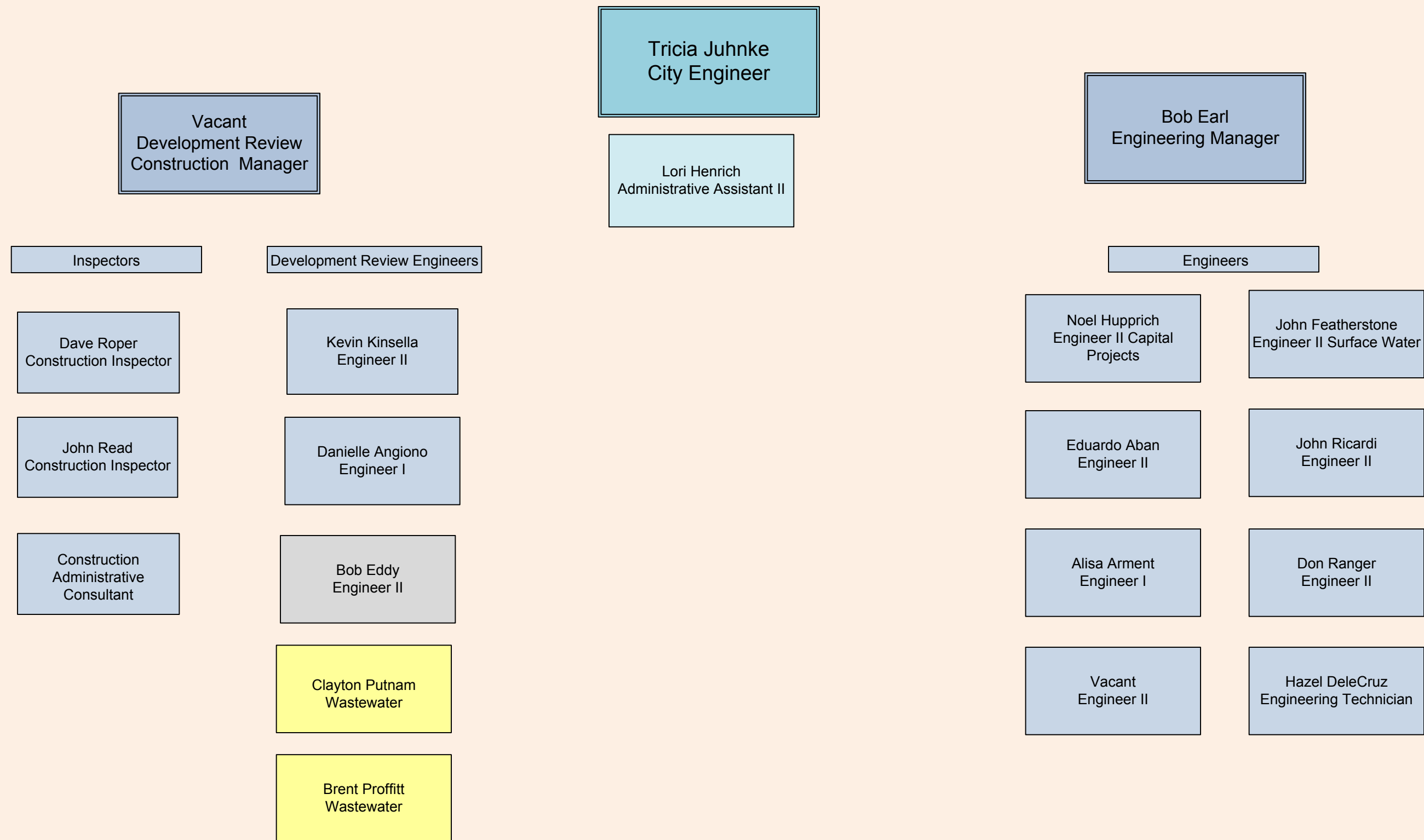
Current Engineering Division Organization Chart



ST Funded

Ronald Wastewater

Proposed Engineering Division Organization Chart



CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Discussing Ord. No. 780 – Amending the Shoreline Municipal Code Establishing City Governance Authority to Own and Operate a Wastewater Utility		
DEPARTMENT:	Public Works		
PRESENTED BY:	Randy Witt, Public Works Director Lance Newkirk, Utility and Operations Manager		
ACTION:	<input type="checkbox"/> Ordinance	<input type="checkbox"/> Resolution	<input type="checkbox"/> Motion
	<input checked="" type="checkbox"/> Discussion	<input type="checkbox"/> Public Hearing	

PROBLEM/ISSUE STATEMENT:

The assumption of the Ronald Wastewater District (RWD) requires that the City of Shoreline develop and implement a new municipal code chapter to establish its governing authority by which the City will own and operate the new wastewater utility.

To facilitate the development of the new wastewater code, the City hired Stantec Consulting Services to assist staff with this work. This work is now complete. Proposed Ordinance No. 780 repeals Shoreline Municipal Code (SMC) Chapter 13.05 in its entirety and replaces it with a new Chapter 13.05 that establishes the regulations for the new wastewater utility.

Tonight, Council will have an opportunity to discuss proposed Ordinance No. 780 and provide direction. Proposed Ordinance No. 780 will be brought back to Council in the coming weeks, depending on Council's discussion and comfort with these proposed policy changes. The effective date of the ordinance would be the date of formal RWD assumption by the City.

RESOURCE/FINANCIAL IMPACT:

No resource impacts are anticipated as a result of this discussion.

RECOMMENDATION

No action is required; tonight's discussion is for Council to ask questions of staff and provide direction on proposed Ordinance No. 780.

Approved By: City Manager **DT** City Attorney **MK**

INTRODUCTION

The assumption of Ronald Wastewater District (RWD) requires that the City of Shoreline develop and implement a new municipal code chapter to establish its governing authority by which the City will own and operate the new wastewater utility.

To facilitate the development of new wastewater code, the City hired Stantec Consulting Services to assist staff in this effort. This work is now complete. Proposed Ordinance No. 780 (Attachment A) repeals SMC Chapter 13.05 in its entirety and replaces it with a new Chapter 13.05 (Exhibit A) that establishes the regulations of the City's new wastewater utility.

BACKGROUND

In 2002, the City and RWD, a special purpose district, entered into an Interlocal Operating Agreement to unify wastewater services with City operations. The Agreement and state law outline the assumption process between the City and RWD.

In 2014, RWD and the City jointly agreed to create two subcommittees, a Committee of Elected Officials (CEO) and a Staff Committee, to plan for the eventual assumption of the District by the City per the 2002 Interlocal Operating Agreement. The goal of the committees was to develop an Assumption Transition Plan which identifies and addresses all policy issues necessary for the assumption of the District by the City.

The City Council and RWD Board of Commissioners both adopted the Assumption Transition Plan on February 29, 2017. The staff report for the City Council discussion can be found at the following link:

<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2016/staffreport022916-7c.pdf>.

Minutes from the Board of Commissioners discussion can be found at the following link:

http://www.ronaldwastewater.org/downloads/02_29_16_Approved_Minutes.pdf.

With the adoption of the Assumption Transition Plan complete, the project moved into the transition phase. The transition phase involved City and RWD staff working collaboratively to implement the various elements of the Assumption Transition Plan, including wastewater code development.

On February 27, 2017, Council authorized staff to enter into an agreement with Stantec Consulting Services Inc. (Consultant) to assist staff in the development of new City wastewater code, update the Engineering Development Manual (EDM) and review and update financial policies in preparation for RWD assumption. The staff report for this authorization can be found at the following link:

<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2017/staffreport022717-7c.pdf>.

DISCUSSION

The purpose of developing the new wastewater code is to establish a City Wastewater Utility and set forth the legal authority to set uniform requirements for wastewater discharges from residential, commercial, institutional and industrial users into the City's wastewater conveyance system.

Additionally, the code is required to promulgate regulations that conform to State and Federal wastewater requirements that protect the public's health, safety and welfare; revenue and financial considerations; as well as develop regulations that provide for equitable distribution of the cost of owning and operating the municipal wastewater conveyance system.

The following objectives guided staff and the Consultant in the development of the proposed wastewater code:

Jurisdictional alignment – Ensure that code aligns its authority under RCW 35 (municipalities) rather than RCW 57 (water and sewer districts).

Congruence with existing City code – Organize the code elements in a consistent and logical structure so that it fits in with other parts of the municipal code, including numbering, formatting, positioning, and captioning.

Establish statutory framework that delegates administrative authority – Provide authority to department directors to administer, implement and enforce policies established in the code; e.g. Public Works Director administering the engineering standards specified in the Engineering Development Manual, Administrative Services Director implementing financial procedures to collect monthly fees and connection charges, and etcetera.

Familiar business practices – Prepare the content of the code such that established regulations developed by RWD are retained where practicable.

Inclusivity – Include RWD staff in the code review and writing process to benefit from their experience and knowledge of operating a wastewater utility.

Community friendly – Ensure that resulting code is sensitive to the cultural and social norms of the community.

To achieve these objects, the Consultant performed a document review of RWD's existing regulations and four other Western Washington State municipal wastewater providers. The four codes reviewed were from cities that provide wastewater collection services only (no treatment plant). The four cities reviewed were Carnation, Bellevue, Mercer Island and Redmond.

From this review, the Consultant team developed draft code for City and RWD staff review and feedback. Over a series of meetings and additional drafts of the code the final draft code was deemed complete and accepted by staff on July 21, 2017.

However, to adopt the new wastewater code will require repealing Chapter 13.05 in its entirety. This action is required to recognize that the City's authority to own and operate a wastewater utility has changed with the assumption of RWD. The new Chapter 13.05 will replace the current chapter and is titled: *Chapter 13.05 Wastewater Utility* (Exhibit A). This change is reflected in Proposed Ordinance No. 780.

Next Steps

Proposed Ordinance No. 780 will be brought back to Council in the coming months, depending on Council's discussion and comfort with these proposed policy changes. If Council is comfortable with this proposed code amendment, staff would look to bring proposed Ordinance No. 780 back for adoption sometime in September or October of this year. However, given that City and RWD are currently negotiating a Wastewater Utility Operating Services Agreement as identified in the First Amendment to the 2002 Interlocal Operating Agreement, which is intended to identify the governing wastewater system code during the term of the First Amendment of the 2002 Interlocal Operating Agreement, the effective date of the proposed Ordinance No. 780 would be the date of formal RWD assumption by the City. In other words, this proposed code amendment would not likely take effect in October of this year as initially planned, but rather when the City formally assumes RWD, which could be in a couple of years.

COUNCIL GOAL(S) ADDRESSED

City Council Goal 2: Improve Shoreline's infrastructure to continue the delivery of highly-valued public services. The development of City wastewater code addresses a major element of the RWD Assumption Transition.

RESOURCE/FINANCIAL IMPACT

No resource impacts are anticipated as a result of this discussion.

RECOMMENDATION

No action is required; tonight's discussion is for Council to ask questions of staff and provide direction on proposed Ordinance No. 780.

ATTACHMENTS

Attachment A – Ordinance No. 780

Attachment A, Exhibit A – Shoreline Municipal Code Chapter 13.05 Wastewater Utility

ORDINANCE NO. 780

AN ORDINANCE OF THE CITY OF SHORELINE, WASHINGTON, REPEALING CHAPTER 13.05 WATER AND SEWER SYSTEMS CODE OF THE SHORELINE MUNICIPAL CODE IN ITS ENTIRETY AND REPLACING IT WITH A NEW CHAPTER 13.05 WASTEWATER UTILITY.

WHEREAS, on June 26, 1995, the City Council adopted Ordinance No. 15, establishing an interim Water and Sewer Systems Code, incorporating by reference King County Code Title 13 and, on June 24, 1996, the City Council adopted Ordinance No. 88 specifically adopting Title 13 as it existed on June 26, 1995, as the City's Water and Sewer Systems Code; and

WHEREAS, the City's Water and Sewer Systems Code is set forth in Shoreline Municipal Code (SMC) Chapter 13.05; and

WHEREAS, on October 22, 2002, the City of Shoreline and the Ronald Wastewater District entered into an Interlocal Operating Agreement which allowed the City to assume the full management and control of the Ronald Wastewater District pursuant to chapter 35.13A RCW; and

WHEREAS, on June 12, 2017, the City of Shoreline and the Ronald Wastewater District entered into a First Amendment to the 2002 Interlocal Operating Agreement, extending that agreement for two years from the effective date of the First Amendment, unless terminated sooner pursuant to its terms or written agreement of the parties; and

WHEREAS, the City of Shoreline and the Ronald Wastewater District are currently negotiating a Wastewater Utility Operating Services Agreement, as identified in the First Amendment to the 2002 Interlocal Operating Agreement, which is intended to identify the governing wastewater system code during the term of the First Amendment of the 2002 Interlocal Operating Agreement; and

WHEREAS, while the Services Agreement will identify the governing wastewater system code during this interim period of time, upon full assumption of the Ronald Wastewater District by the City, the City must have an adequate wastewater system code; and

WHEREAS, the City's existing Water and Sewer System Code set forth in SMC Chapter 13.05 does not adequately provide for the management and control of a wastewater utility within the City's governance; and

WHEREAS, a new SMC Chapter 13.05 is necessary to establish the wastewater utility and to provide for uniform regulations for the management and control of the utility; and

WHEREAS, new regulations were developed to ensure the orderly management and control of the utility and are in compliance with state and federal wastewater requirements so as to protect the public health, safety, and welfare; and

WHEREAS, an amendment is needed to SMC Title 13 to repeal the existing SMC Chapter 13.05 and replace it with a new SMC Chapter 13.05 to reflect these wastewater utility regulations;

NOW THEREFORE, THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON, DO ORDAIN AS FOLLOWS:

Section 1. Repeal of SMC Chapter 13.05. SMC 13.05 Water and Sewer Systems Code is repealed in its entirety.

Section 2. New Chapter SMC 13.05. A new Chapter SMC 13.05 Wastewater Utility is hereby adopted as forth in Exhibit A to this Ordinance.

Section 3. Corrections by City Clerk or Code Reviser. Upon approval of the City Attorney, the City Clerk and/or the Code Reviser are authorized to make necessary corrections to this ordinance, including the corrections of scrivener or clerical errors; references to other local, state, or federal laws, codes, rules, or regulations; or ordinance numbering and section/subsection numbering and references.

Section 4. Severability. Should any section, subsection, paragraph, sentence, clause, or phrase of this ordinance or its application to any person or situation be declared unconstitutional or invalid for any reason, such decision shall not affect the validity of the remaining portions of this ordinance or its application to any person or situation.

Section 5. Publication and Effective Date. A summary of this Ordinance consisting of the title shall be published in the official newspaper. This Ordinance shall take effect upon the official assumption of the Ronald Wastewater District by the City of Shoreline.

PASSED BY THE CITY COUNCIL ON _____, 2017

Mayor Christopher Roberts

ATTEST:

APPROVED AS TO FORM:

Jessica Simulcik Smith
City Clerk

Margaret King
City Attorney

Date of Publication: _____, 2017

Effective Date: _____, 2017

Attachment A - Exhibit A

Chapter 13.05

WASTEWATER UTILITY

Sections

13.05.100	Purpose
13.05.110	Definitions
13.05.120	Utility Created
13.05.130	City Liability Provisions
13.05.140	Duty to Serve
13.05.150	Severability
13.05.160	Minimum requirements and Conflict of Provisions
13.05.170	Requirements for connection
13.05.180	Revenues and Expenditures
13.05.190	Customer classifications
13.05.200	Establish monthly rates and charges
13.05.210	Qualified low income senior and low income disabled customer rate discount
13.05.220	Facility and treatment charges
13.05.230	Adoption of Engineering Development Manual
13.05.240	Relationship to Wastewater Master Plan
13.05.250	Developer Extension – Latecomer Agreements
13.05.260	Construction inspection
13.05.270	Record drawings and certifications
13.05.280	Operation and maintenance
13.05.290	Industrial and commercial discharge pretreatment required
13.05.300	Unlawful to tamper with or damage the sewer system
13.05.310	Prohibited discharges

13.05.320	Right of Entry for Inspections and investigations
13.05.330	Violations
13.05.340	Requirements to connect to the system
13.05.350	Definition of public and private sewer facilities
13.05.360	Sewer Facility Easement Requirements
13.05.370	Number of units allowed on side sewers
13.05.380	Use of existing side sewers and side sewer stubs for connection
13.05.390	Grinder pump policy

13.05.100 Purpose

This code is enacted as an exercise of the City of Shoreline's ("City") police power as set forth in Section 11 of the Washington Constitution to protect and preserve the public health, safety, and welfare. The purpose of this code shall be liberally construed to:

- A. Provide for the planning, security, design, construction, use, maintenance, repair, and inspection of public and private sanitary sewer systems;
- B. Establish programs and regulations to provide for the appropriate use of public and private sanitary sewer systems;
- C. Provide for the enforcement of the provisions of this code, the engineering standards and related city manuals and code provisions; and
- D. Provide for and promote the health, safety, and welfare of the general public and not to create, establish, or designate any particular class or group of persons who may be especially protected or benefitted.

13.05.110 Definitions

Except where specifically defined herein, all words used in this code shall carry their customary meanings. Words used in the present tense include the future, and the plural includes the singular; the word "shall" is always mandatory, whereas the word "may" denotes a use of discretion in making a decision. The following words and phrases, when used in this code, shall have the following meanings:

"Accessory Dwelling Unit" (ADU) means a single family residential structure as defined in Title 20 of the SMC.

"As-built" means a final drawing of the actual installation of the structures, materials and equipment as defined in the Engineering Design Manual.

"City" means the City of Shoreline.

"Connection charges" means charges imposed as a condition of providing utility service so that each connecting property bears its equitable share of the costs of the public sewer system and the utility's share of the cost of any regional sewer collection system and of the costs of facilities that benefit the property. Connection charges include those charges as defined by the utility's financial policies.

"Dangerous waste" means those solid wastes designated in WAC 173-303-070 through 173-303-100 as dangerous or extremely hazardous or mixed waste, as further defined under WAC 173-303-040.

"Developer extension" means an extension of existing city utility facilities to enable previously

unserved properties to be served, which extension is undertaken and paid for by any person, partnership, corporation or governmental entity other than the city.

“Director” means the City of Shoreline Public Works Director or designee.

“Emergency” means any natural or human caused event or set of circumstances which disrupts or threatens to disrupt or endanger the operation, structural integrity, or safety of the public sewer system; endangers the health and safety of the public; or otherwise requires immediate action by the utility.

“Engineering Development Manual” (EDM) means the city’s utility engineering standards, which include minimum standards for the design and construction of storm and surface water drainage and sanitary sewer facilities.

“FOG” means fats, oils, and grease.

“General facility charge” means a charge imposed on improvements, developments, redevelopments, or existing structures that place additional demand on the utility system. The capital recovery charge shall be based on an allocation of the utility capital investment costs as defined in the utility’s financial policies.

“Grinder Pump” means any privately-owned pump used by its owner to convey sewage into the sanitary sewer system.

“Industrial waste” means any liquid, solid or gaseous substance or combination thereof, resulting from any process of industry, manufacturing, commercial food processing, business, trade, or research, including development, recovering or processing of natural resources.

“Illicit connection” means any manmade conveyance that is connected to a public sewer without a permit, or that is not intended for collecting and conveying only sewage discharge. Examples of illicit connections include storm sewer connections, exterior floor drains, channels, pipelines, conduits, footing drains, downspouts, inlets, or outlets that should be connected directly to the municipal separate storm sewer system.

“Illicit discharge” means any discharge to a public sewer system that is not composed entirely of sewage and contains any liquid, solid or material prohibited by 40 Code of Federal Regulations and King County Code 28.84.060.

"Latecomer agreement" means an agreement, authorized by RCW 35.91.020

“Licensed side sewer contractor” means any person, partnership, corporation, or association licensed, with bonding and insurance as required by Washington State as a Contractor, duly qualified and competent to do work incident to the construction or repair of side sewers.

“Local Facilities Charge (LFC)” means a charge that applies to property owners in three areas defined in Ronald Wastewater District resolutions 2005-23 and 2006-15, where local sewer

infrastructure was not originally built by developers. The LFC is payable at the time a property is connected to the City sewer system. It recovers a proportionate share of the utility's investment in the local sewer infrastructure

"Local improvement districts" is a method of assisting benefiting properties in financing needed capital improvements through the formation of special assessment districts. Special assessment districts permit improvements to be financed and paid for over a period of time through assessments on the benefiting properties.

"Nonpolar fats" means fats, oils or grease of animal or vegetable origin.

"Polar fats" means fats, oils, or grease of mineral origin.

"Pretreatment device" means any approved device, structure, system, or method used and maintained for the purpose of bringing a waste stream within acceptable limits and standards of quality prior to its discharge to the public sewer system.

"Private sewer system" means any part of the sewer system that is not part of the public sewer system as defined in the code. This may include side sewers, sewer pipes, man holes, grinder pumps and other facilities that are specified as private facilities.

"Procedure" means a procedure adopted by the utility, by and through the director, to implement this code, or to carry out other responsibilities as may be required by this code, engineering standards, related manuals, or other codes, ordinances, or resolutions of the city or other agencies. "Procedure" as defined herein is often referred to as a standard operating procedure or SOP.

"Prohibited Discharge" means any material other than discharge intended from domestic plumbing fixtures and as defined by 40 Code of Federal Regulations, and King County Code 28.84.060.

"Property owner" means any individual, company, partnership, joint venture, corporation, association, society, or group that owns or has a contractual interest in the subject property or has been authorized by the owner to act on his/her behalf, including but not limited to an agent, contractor, applicant, or developer.

"Public sewer system" means the sanitary sewer system owned and operated by the utility.

"Redevelopment" means a site that is already substantially developed which is modified as defined by SMC Title 20 and the Engineering Design Manual.

"Residential Structure" means any structure whose primary purpose is to provide living quarters for customers. Residential Structures may be single family, multi-family, accessory dwelling unit, or micro-unit structures.

"Sanitary Sewer System" means any private or public facility that accepts and conveys sewage

or wastewater.

“Sewage” means liquid and solid waste discharged from the domestic plumbing fixtures of buildings and may include industrial wastes.

“Sewer facility” means any facility for the conveyance or storage of sewage, whether part of the public sewer system or a private sewer system, which is connected to or intended to be connected to the public sewer system.

“Sewer main” means a pipe designed or used to transport sewage, including the public side sewer stub, excluding private side sewers.

“Sewer pretreatment” means the treatment of industrial waste before discharge to the public sewer system.

“Sewer service” means providing for the disposal of sewage from a structure into the public sewer system.

“Sewer system” means any private or public facility that accepts and conveys sewage or wastewater.

“Sewer system plan” means the Wastewater Master Plan for the utility, as adopted by the City Council, as now or hereafter amended.

“Side sewer” means a privately owned pipe extending from the public side sewer stub to the connection with a building’s plumbing system.

“Side sewer stub” means that portion of the side sewer in the right-of-way or easement dedicated to the utility.

“SMC” means the City of Shoreline Municipal Code.

“Unsafe condition” means any condition on any premises, or in any private sewer system thereon, that is a hazard to public health, safety, welfare, or environment that does or may impair or impede the operation or functioning of any portion of the public sewer system or that may cause damage thereto.

“Utility” means the wastewater utility of the City of Shoreline.

“Utility developer extension agreement” means a contract between the utility and a property owner and/or developer that provides for plan review and inspection of wastewater system facilities that satisfy all applicable code requirements.

“Utility service area” means that geographic area defined by City of Shoreline as the area served by the Wastewater Utility and as may be expanded through subsequent Interlocal agreements.

“Wastewater” means sewage that is contained in and conveyed by any part of the sewer system.

“Wastewater Master Plan” means the sewer system plan or wastewater master plan as adopted by the City or as amended.

13.05.120 Utility Created

- A. There is hereby created and established the wastewater utility of the city of Shoreline under which the provisions of this chapter shall be carried out.
- B. The utility, by and through its director or his or her designees, including enforcement officers, is authorized to administer, implement, and enforce the provisions of this chapter, including but not limited to:
 - B.1. Develop, adopt, and carry out procedures as needed to implement this code and to carry out other responsibilities of the utility, including, but not limited to, emergency management and operations plans, procedures pertaining to the billing and collection of sewer service charges and all other fees and charges imposed pursuant to this code and procedures for periodic adjustment of fees and charges imposed pursuant to this code;
 - B.2. Prepare, adopt, update, administer and enforce, as needed, engineering standards to establish minimum requirements for the design and construction of sewer facilities and requirements for protecting existing facilities during construction. The engineering standards shall be consistent with this code and adopted city policies;
 - B.3. Administer and enforce this code and all procedures relating to the planning, acquisition, design, construction, inspection, maintenance, management, operation, and alteration of the public sewer system, including capital improvements;
 - B.4. Administer and enforce this code and all procedures relating to permitting and inspection of private side sewers and private sewer systems;
 - B.5. Advise the city council, city manager and other city departments and commissions on matters relating to the utility;
 - B.6. Direct the preparation of, prepare and recommend the Wastewater Master Plan for adoption by the city council and implementation by the utility;

- B.7. Perform or direct the performance of financial review and analysis of the utility's revenues, expenses, indebtedness, rates, and accounting and recommend budgets, rates, and financial policy for adoption by the city council;
- B.8. Develop and implement programs related to sewer use, including an industrial pretreatment waste management program for protection of the public sewer system;
- B.9. Direct Code enforcement action;
- B.10. Advise the City Council regarding easement agreements with property owners that are necessary for public facilities;
- B.11. Approve variances to the Wastewater Municipal Code in accordance with SMC Title 20;
- B.12. Advise the City Council pursuant to Chapter 35.91 RCW, the Municipal Water and Sewer Facilities Act, including contracts that provide for the reimbursement of owners constructing facilities (latecomer agreements) and agreements with private property owners for the extension of the sewer system (utility developer extension agreements);
- B.13. Advise the City Council regarding agreements with property owners for maintenance agreements;
- B.14. Advise the City Council regarding interlocal agreements with public agencies for procurement of personnel or equipment necessary in direct support of the public sewer system; and
- B.15. To accept ownership of private sewer facilities into the city's utility system.

13.05. 130 City liability provisions

- A. Nothing contained in this code is intended to nor shall be construed to create or form the basis for any liability on the part of the city, or its officers, employees or agents, for any injury or damage resulting from the failure of property owners or responsible parties to comply with the provisions of this code, engineering standards, or related manuals, or by reason or in consequence of any inspection, notice, order, certificate, permission or approval authorized or issued in connection with the application or enforcement of this code, engineering standards, or related manuals, or by reason of any action or inaction on the part of the city related in any

manner to the application or enforcement of this code, engineering standards, or related manuals by the city, its officers, employees, or agents.

- B. Nothing in this code, engineering standards, or related manuals shall impose any liability on the city or any of its officers, employees, or agents for cleanup or any harm relating to sites containing hazardous materials, wastes or contaminated soil.
- C. Nothing contained in this code, engineering standards, or related manuals shall require city involvement or enforcement of this code for private disputes occurring between property owners.

13.05.140 Duty to serve

- A. The utility is responsible for providing service to all customers with the utility service area, subject to the requirements of the Wastewater Code, other provisions within the Shoreline Municipal Code, and applicable Washington State law.
- B. The utility does not guarantee that sewer service will be continuously available within the sewer system.
- C. Sewer service may be interrupted or temporarily unavailable due to planned, unplanned events, unforeseen circumstances, or emergencies.
- D. The utility is not responsible or liable to any property owners, tenants or third parties for costs, damages, or other consequences for the service interruptions.

13.05.150 Severability

- A. If any provision of this code, engineering standards, or related manuals, or its application to any person or circumstance, is held invalid by a court of competent jurisdiction, the remainder of the code, engineering standards, or related manuals, or the application of the provision to other persons or circumstances is not affected, and to this end the provisions of this code are declared to be severable.

13.05.160 Minimum requirements and Conflict of Provisions

- A. The requirements of this chapter are the minimum requirements.
- B. They do not replace, repeal or supersede more stringent requirements, rules, regulations, covenants, standards or restrictions.
- C. Should a conflict occur between the provisions of this code, the engineering standards or manuals adopted by the city in relation to this code, or between this code, the engineering standards and related manuals with laws, regulations, codes, or rules promulgated by other authority having jurisdiction within the city, the

most restrictive requirement shall be applied, except when constrained by federal or state law, or where specifically provided otherwise in this code.

13.05.170 Requirements for connection

- A. Property owners seeking to or who are required to connect to the sewer system shall make application through the City's permit process.
- B. The applicant shall provide all designs, engineering plans and other documents required by the Engineering Development Manual.
- C. The applicant may proceed with construction only when approval of the designs and engineering plans are received from the Director.
- D. The applicant shall pay all permit fees, connection and treatment charges, as applicable.
- E. The applicant shall have received all approvals for final inspections on the sewer work.

13.05.180 Revenues and expenditures

- A. Fees, rates, and charges associated with the Wastewater Utility are set forth in Title 3 of the SMC. All fees, rates, and charges pursuant to this chapter shall be credited and deposited in the Wastewater Utility enterprise fund pursuant to Title 3.
- B. Fees deposited in the Wastewater Utility enterprise fund shall be expended for:
 - 1. Administering, operating, paying treatment costs, costs required to reduce treatment that may be required by King County Wastewater, maintaining, or improving the Sewer system, including any part of the cost of planning, designing, acquiring, constructing, repairing, replacing, improving, regulating, public education, or operation of the Sewer system owned by the City; and
 - 2. Paying or securing the payment of all or any portion of any debt issued for the purposes set forth for the improvements or operations of the system and the related reserve and coverage requirements.
- C. Fees shall not be transferred to any other funds of the City except to pay for expenses attributable to the Wastewater Utility.

13.05.190 Customer classifications

- A. The City Council may establish classifications of sewer customers based on criteria determined by the City Council, and may establish rates and charges for each customer classification.

13.04.200 Establish monthly rates and charges

- A. The City Council shall establish rates for sewer facility use and service. The utility may establish classifications of customers or service, using any method or methods authorized by law.
- B. Sewer rates shall be based on revenue requirements necessary to cover all costs of the utility, as authorized by the City Council by the adoption of City budgets and subsequent amendments.
- C. The sewer rates determined shall be guided by adopted financial policies and bond covenants.
- D. The sewer rates shall be evaluated periodically; rate adjustments shall be recommended as determined by the City Council and as needed to meet revenue requirements.

13.05.210 Qualified low income senior and low income disabled customer rate discount

- A. The City may establish service rates for qualified low income senior and low income disabled customers. The determination of qualified accounts shall be as defined in the City's financial policies.

13.05.220 Capacity, collection, facility and treatment charges

- A. Capacity charges shall be paid for all new or change of use wastewater connections that are served by King County.
- B. Collection charges shall be paid by property owners to recover all costs of operating the wastewater collection system.
- C. General facility charges (GFC) shall be paid by property owners in order that each new or change in use connection bears an equitable share of the cost of the public sewer system.
- D. Local facilities charges shall be paid by property owners located in previously unsewered areas in order to recover a proportionate share of the cost of the local sewer infrastructure.
- E. Treatment charges shall be paid by property owners served by either King County or the City of Edmonds.
- F. The administration of capacity, collection, facility and treatment charges shall be as defined in the City's financial policies.

13.05.230 Adoption of Engineering Development Manual

- A. The code adopts and references the City of Shoreline Engineering Development Manual, current edition, and all publications, standards, and codes referenced in the Manual.

13.05.240 Relationship to Wastewater Master Plan

- A. A wastewater system plan, which may also be referred to as the City's sewer system master plan, shall be developed by the utility for review and adoption by the city council as required by state law.
- B. The utility shall recommend supplements or updated plans for adoption by the city council as needed.

13.05.250 Developer Extension – Latecomer Agreement

- A. The City may enter into contracts with owners of real estate as provided in the Municipal Water and Sewer Facility Act (RCW 35.91) to provide for the extension of mainlines, prior to the property owner(s) initiating plans for the improvement, where the owner(s) of property desire to construct additional sewer facilities not previously provided by the City and where such facilities may upon completion and acceptance become a part of the City's wastewater collection system.
- B. No developer extension shall be undertaken without prior execution of a developer extension agreement. The Director or designee may approve and enter into developer extension agreements on forms prepared by the city attorney.
- C. In any case where a latecomer agreement is contemplated in connection with a developer extension, the latecomer agreement shall be finalized, approved and executed prior to or simultaneous with the city's acceptance of ownership of the developer extension.
- D. Developer extensions and latecomer agreements shall be executed in accordance with the requirements referenced in the Engineering Design Manual.

13.05.260 Construction inspection

- A. All work on public or private sewer systems shall be subject to inspection by the Director.
- B. All work for which a permit is required shall be subject to inspection by the Director and such work shall remain accessible and exposed for inspection until approved.
- C. The City shall not be liable for expenses for the removal or replacement of any material required to allow inspections.

- D. The standards of this Code and the Engineering Design Manual shall be enforced regardless of any inspection or approval of work.
- E. Certified reports of third party inspection agencies may be accepted only with advance concurrence by the Director.
- F. The permit holder shall notify the City when the work is ready for inspection and shall follow the procedures outlined in the permit.
- G. Any deviation from the prescribed procedures for notification or compliance with the permit process may result in the need for a re-inspection of the work.
- H. Any portions of the work that are not approved shall be immediately remedied and excavations shall not be backfilled until authorized by the Director.

13.05.270 Record Drawings and Certifications

- A. All private side sewer applicants shall file an as-built drawing showing the location and configuration of the private side sewer and private sewer facilities in accordance with the requirements referenced in the Engineering Design Manual.

13.05.280 Operation and Maintenance

- A. The utility has responsibility for maintenance of the public sewer system unless otherwise provided by agreement, local ordinance, or state law.
- B. Owners of private side sewers and sewer systems are solely responsible for maintenance and operation of such private systems unless otherwise provided by agreement.
- C. All side sewer cleaning contractors, side sewer contractors and owners, prior to cleaning or repairing existing side sewers shall notify the utility of such operations and comply with utility requirements. Debris cleaned from a side sewer shall be removed and shall not be caused to enter the sewer main. If debris causes a downstream blockage, the owner or his agent shall be liable for any resulting damages.

13.05.290 Industrial and commercial discharge pretreatment required

- A. All customers shall prevent, control and immediately correct illicit discharges, prohibited discharges or material prohibited by 40 Code of Federal Regulation or King County Code 28.84.060.
- B. Any wastewater utility customer, if directed by the utility shall discharge to the public sewer system as necessary to prevent and/or correct hazardous, dangerous,

or explosive conditions or blockage, operation failure or premature degradation of the public sewer system.

- C. All restaurants and food-processing businesses shall install pretreatment methods, such as grease interceptors, oil-water separators, biological or chemical treatment and other best available technology, to reduce or eliminate FOG discharges. All pretreatment systems are subject to review and periodic approval by the utility.
- D. The utility may require sampling tees or inspection tees or manholes in the side sewer connection to the public sewer system at their discretion.
- E. The Utility may inspect pretreatment devices periodically at their sole discretion. All violations of the pretreatment requirements or defects in the pretreatment equipment shall be corrected immediately by the customer. Repeat failures of the pretreatment requirements or failure to correct defects in pretreatment equipment may result in a violation of this Code and the customer may be subject to the enforcement outlined in the SMC Title 20.

13.05.300 Unlawful to tamper with or damage the sewer system

- A. It is a violation of this code to tamper with or damage any part of any sewer system, public or private, in any manner.
- B. It is a violation of this code to interfere with or hamper the operation of any part of the sewer system, public or private.
- C. It is a violation of this code to connect to the sewer system in any manner that is inconsistent with the requirements for connection.
- D. It is a violation of this code to discharge any material or liquid into the sewer system through manholes, cleanouts, or other structures without the prior approval of the Director.
- E. Any person causing damage by interference, tampering or connecting to the sewer system shall be determined to be responsible for all costs incurred by the City to repair the damage and for any damage claims tendered to the City by third parties that arise as a result of these acts.

13.05.310 Prohibited discharges

- A. It is unlawful to discharge or cause to be discharged any water from yard drains, footing drains, downspouts or any other source of groundwater, rainwater, or storm water, into the public sewer system.

- B. It is unlawful to discharge or cause to be discharged any liquids, solids or materials into the public sewer defined as illicit discharge and as defined in 40 Code of Federal Regulations or King County Code 28.84.060.
- C. It is unlawful to allow any illicit connection to the public sewer system that is defined under the SMC.
- D. It is unlawful to discharge or cause to be discharged any liquids, solids or materials defined as dangerous waste under Chapter 173-303 WAC as now enacted or hereafter amended.
- E. It is unlawful to discharge or cause to be discharged any liquids, solids or materials prohibited by King County Department of Natural Resources Wastewater Treatment Division's Industrial Waste Program.
- F. Any person with knowledge or suspicion of unlawful discharge, illicit connections, or illicit discharge into the public sewer system of any manner shall be obligated to contact and report the discharge to the Director immediately.

13.05.320 Right of Entry for Inspections and investigations

- A. An authorized representative of the utility may enter private property at all reasonable times to conduct inspections, tests or carry out other duties imposed by this code, provided that the utility has a recorded covenant, easement or other legal agreement granting such right of entry.
- B. Without a legally granted right of entry, the utility shall first notify the proper owner or person responsible for the premises and seek entry permission. If entry is refused, the Director shall have recourse to every remedy provided by law to secure entry.
- C. For inspection programs authorized by the director or his designee, the utility may provide advance mailings of its intent to inspect properties consistent with such inspection, testing or other utility programs.

13.05.330 Violations

- A. Any activity or action caused or permitted to exist in violation of this chapter is a threat to public health, safety, and welfare, and is declared and deemed a public nuisance. Such violations are subject to enforcement under SMC Title 20.
- B. If a violation of the code exists, the City may summarily and without prior notice abate the condition. Notice of such abatement, including the reason for the abatement, shall be given to the person responsible for the property and the violation as soon as reasonably possible after the abatement. The director shall

make the determination of a condition, substance, act or other occurrence constituting an imminent nuisance requiring summary abatement. Costs, both direct and indirect, of the abatement may be assessed as provided under SMC Title 20.

13.05.340 Requirements to connect to the system

- A. Any property containing a structure that contains fixtures or uses which generate sewage that must be disposed of by the sewer system shall connect to the sewer system when the property is sold or ownership interest transferred in any manner or when there is an order from King County Department of Health, or its successor agency, requiring the property to connect to the public sewer system.

13.05.350 Definition of public and private sewer facilities

- A. Utility Ownership of Sewer Facilities
 - 1. The utility owns all sewer facilities in public right-of-way and in easements dedicated to the public and accepted by the utility, except to the extent that private ownership is otherwise indicated as a matter of record. Such facilities typically include mains, pump/lift stations and side sewer stubs that are defined as that portion of the side sewer between the public sewer main and the edge of right-of-way or easement line.
- B. The utility may acquire existing private sewer facilities, provided:
 - 1. Utility ownership of the facility would provide a public benefit;
 - 2. Necessary and appropriate property rights are offered by the property owner at no cost to the utility;
 - 3. The facility substantially meets current standards, as determined by the utility, or is brought up to current standards by the owner;
 - 4. The utility has adequate resources to maintain the facility;
 - 5. The facility is transferred to the utility by bill of sale at no cost to the utility.
- C. Private Ownership of Side Sewers
 - 1. Side sewers located on private property are exclusively owned by the underlying property owner(s), unless otherwise assigned or dedicated by easement to and

accepted by the city, except to the extent that public ownership is otherwise indicated as a matter of record.

2. Property owners shall be responsible for the development, maintenance, and repairs of private side sewers and their appurtenances, including but not limited to connection to 6" sewer stub, check valves, cleanouts, and pumps.

13.05.360 Sewer facility easement requirements

- A. An easement is required to be granted to the utility whenever:
 1. A public sewer facility will be built on private property;
 2. The utility agrees to provide maintenance to privately owned facilities.
- B. An easement is required to be granted between property owners whenever:
 1. A private sewer facility will be built on property owned by a different private party; or
 2. A side sewer will serve two or more properties.

13.05.370 Number of units allowed on side sewers

- A. A maximum of four residential structures may be allowed on a six-inch diameter side sewer pipe.
- B. A maximum of six residential structures may be allowed on a six-inch diameter side sewer pipe.
- C. More than six residential structures require an eight-inch or larger diameter side sewer pipe.

13.05.380 Use of existing side sewers and side sewer stubs for connection

- A. Existing private side sewers or public side sewer stubs may not be used for service to new single family residential structures, commercial structures or for any property that has been redeveloped.
- B. Deviations to this code may be granted by the Director on a case by case basis subject to the connection criteria referenced in the Engineering Development Manual.

13.05.390 Grinder pump policy

- A. Grinder pumps and required appurtenances may be installed on a case by case basis and as approved by the Director.
- B. Grinder pumps shall be privately owned and maintained unless operation and maintenance agreements are approved by the Director.
- C. The utility may agree to provide maintenance service to maintain private individual grinder pumps or sewage pump stations that serve more than one residence, by contract and at the owner's expense, in order to meet the City's obligation to the Washington State Department of Ecology for maintenance responsibility.
- D. Grinder pumps shall only be used for sewage that may not physically be conveyed to the public side sewer stub by gravity. All sewage that may be conveyed to the public side sewer stub by gravity shall be conveyed by gravity.

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Discussing Resolution No. 417- Establishing Customer Service Policies to Manage a Wastewater Enterprise, Ordinance No. 793 – Amending SMC Chapter 2.60 Purchasing Code, Ordinance No. 795 – Amending Chapter 3.50 Sale and Disposal of Surplus Personal Property, and Resolution No. 416 - Amending the City's Business Expense Policy
DEPARTMENT:	Administrative Services
PRESENTED BY:	Sara Lane, Administrative Services Director
ACTION:	<input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution <input type="checkbox"/> Motion <input checked="" type="checkbox"/> Discussion <input type="checkbox"/> Public Hearing

PROBLEM/ISSUE STATEMENT:

The assumption of the Ronald Wastewater District (RWD) requires that the City of Shoreline develop and implement financial and customer service policies necessary to operate a wastewater utility. City staff worked with RWD staff and a consultant experienced in the merger of utilities, FCS Group, to conduct a review of RWD policies and the City's policies to identify any changes that might be needed to ensure the adopted policies follow best practices. City staff also took the opportunity to conduct an independent review of the City's financial policies to address any housekeeping changes that might be needed to existing City policies.

Tonight's discussion will cover changes recommended as a result of this review and include the following:

- Res. No. 417 – Establishing Customer Service Policies to Manage a Wastewater Enterprise,
- Res. No. 416 - Amending the City's Business Expense Policy,
- Ord. No. 793 Amending SMC Chapter 2.60 Purchasing Code, and
- Ord. No. 795 Amending SMC Chapter 3.50 Sale and Disposal of Surplus Personal Property.

RESOURCE / FINANCIAL IMPACT:

No financial impacts are anticipated as a result of this discussion. The recommended policy and code changes will ensure that the City has financial and customer services policies necessary to operate a wastewater utility, provide clarity, consistency, and provide operational efficiencies.

RECOMMENDATION

No action is required tonight. Staff seeks Council direction on the proposed changes. Resolution Nos. 416 and 417 and Ordinances Nos. 793 and 795 discussed tonight will be brought back to Council for adoption in the coming weeks, depending on Council's discussion and comfort with these proposed policy changes.

Approved By: City Manager ***DT*** City Attorney ***MK***

BACKGROUND

In 2002, the City and the Ronald Wastewater District (RWD), a special purpose district, entered into an Interlocal Operating Agreement (IOA) to unify wastewater services with City operations. The IOA and state law outline the assumption process between the City and RWD.

In 2014, RWD and the City jointly agreed to create two subcommittees, a Committee of Elected Officials (CEO) and a Staff Committee, to plan for the eventual assumption of the District by the City per the IOA. The goal of the committees was to develop an Assumption Transition Plan which identifies and addresses all policy issues necessary for the assumption of the District by the City.

The City Council and RWD Board of Commissioners both adopted the Assumption Transition Plan on February 29, 2017. The staff report for the City Council discussion can be found at the following link:

<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2016/staffreport022916-7c.pdf>.

Minutes from the Board of Commissioners discussion can be found at the following link:

http://www.ronaldwastewater.org/downloads/02_29_16_Approved_Minutes.pdf.

With the adoption of the Assumption Transition Plan complete, the project moved into the next phase, known as the Transition Phase. The Transition Phase involved City and RWD staff working collaboratively to implement the various elements of the Assumption Transition Plan, including review of financial policies.

On February 27, 2017, the Council authorized staff to enter into an agreement with Stantec Consulting Services Inc. (Stantec) to assist staff in the development of new City wastewater code, an update of the Engineering Development Manual (EDM) and a review and update of financial policies in preparation for RWD assumption. The staff report for this authorization can be found at the following link:

<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2017/staffreport022717-7c.pdf>

Stantec subcontracted the work on the review of financial policies to FCS Group, who had specific experience in the area of utility mergers. City staff worked with RWD staff and FCS Group to conduct a thorough review of RWD policies and the City's policies and identify any changes that might be needed to ensure the adopted policies follow best practices. City staff also took the opportunity to conduct an independent review of City policies to address any housekeeping changes that might be needed to existing City policies.

The consultant's focus was on reconciling RWD's policies and practices with the City's. In summary, they found that there is relatively little overlap between the written policies of the City and RWD. RWD has good policy documentation in areas where the City has no previous policies because it has not had a utility with customer accounts. Currently, King County bills for the City's surface water utility and the City contracts with Recology for its solid waste utility. The subjects for which the City has documented

financial policies tend to be areas where RWD's policy documentation is more limited. There are some generic financial management topics, such as purchasing authority, where RWD has current policies or practices that differ from those of the City. However, even in those cases, the reconciliation between the two seems quite straightforward.

The consultant's recommendation was that, in general, where a policy is generic to any City department, the wastewater utility should conform to the City's policy. Where there are policies or practices that result from the specific requirements of operating a utility—particularly in the management of customer accounts—they recommended that the District's current policies be adopted by the City.

The City's review focused on housekeeping changes and updates that will help clarify the code or policy, create administrative efficiencies, and adjust certain thresholds for inflationary impacts.

DISCUSSION

Tonight's discussion will cover changes recommended as a result of this review and include in following:

- Res. No. 417 – Establishing Customer Service Policies to Manage a Wastewater Enterprise,
- Res. No. 416 - Amending the City's Business Expense Policy,
- Ord. No. 793 Amending SMC Chapter 2.60 Purchasing Code, and
- Ord. No. 795 Amending SMC Chapter 3.50 Sale and Disposal of Surplus Personal Property.

Resolution No. 417 – Establishing Customer Service Policies to Manage a Wastewater Enterprise

As noted above, FCS Group recommended that the City utilize the existing RWD policies and practices in operating the wastewater utility. A copy of the FCS Technical Memo detailing the result of their analysis is provided at Attachment A.

The majority of the RWD's utility-specific policies are included in the 20-page annual rate resolution adopted just before the beginning of each year. The consultant notes that the policies are well defined and do not need to be adopted annually and recommends that only the rate table be adopted each year. City staff concur with this approach and recommend that the City adopt the Wastewater Customer Service Policies by Resolution No. 417 (Attachment B), effective immediately upon assumption of RWD by the City.

The following table provides a high level summary of the topics (by section) covered in the policy:

Topics		Summary/Key Points
Definitions and Abbreviations		
Section 1	Properties Subject to This Policy	Properties within 300 feet of a sewer line with exception for some properties with functioning septic systems in old King County Sewer District No. 3
Section 2	Structures Required to be Connected Where Sewer Lines are Available	Any improvements on property which are designed, intended or suitable for human occupancy, employment, recreation, habitation or other purpose. Also addresses demolition of structures
Section 3	Billing Procedures	Delivery by mail or electronic methods and timing of billing, duplicate bills, time limit on back billing, refunds
Section 4	Wastewater Service Charge Delinquency, Penalties, Interest, and Liens	10% delinquent payment charge, lien processing fee, interest charged should a lien be imposed. Timing for collection actions, application of payments on delinquent accounts,
Section 5	Customer Classification and Calculation of Wastewater Service Charge	Classification for Residential and Commercial customers, regular service charge and treatment charge Special Billing for Mountlake Terrace, provision for an industrial classification in the future.
Section 6	New Accounts	Estimation process for commercial accounts, mixed use properties, and new classifications.
Section 7	Surcharges	Surcharges allowed where needed where needed to support additional costs needed to service a particular area or customer. Provides for a local facilities charge for new connections from previously unsewered areas.
Section 8	Reduced Rates for Qualifying Low-Income Senior and Low-Income Disabled Citizens	Reduced rates for qualifying low income seniors. Available for property owners/occupants earning 60% of the Local Area Median Household Gross Annual Income.
Section 9	Protest/Appeal Process	Defines the process for filing a protest or appealing charges.
Section 10	General Facilities Charge and Edmonds Treatment Facilities Charge	Defines the situations where the General Facility Charge and the Edmonds Treatment Facility Charges will be applied.

Resolution No. 416 - Amending the City's Business Expense Policy

As part of the review for the transition of RWD, staff reviewed the City's Business Expense Policy, best practices from professional associations, and policies of other cities, and considered current areas of confusion to identify potential changes to the policy. The City's Business Expense policy details policy regarding the reimbursement of business expenses by the City including travel, subsistence and related expenses, and certain non-travel related expenses incurred by authorized persons while conducting City business or providing a service for the City.

The policy requires that expenses must be reasonable and prudent under the circumstances and directly related to the conduct of business or service for the City. Expenses should fit within the framework created by the City's core values, and they should pass the 'Reasonable Person Test': "Would the average, reasonable Shoreline resident agree that the expense was a legitimate use of their taxes?" Reimbursement for business expenses are made subject to the rules contained in the policy and with Chapter 42.24 RCW.

The City last adopted a resolution amending the City's business expense policy in April 2013. Following is summary of the specific recommended changes to the City's Business Expense Policy. Proposed Resolution No. 416 (Attachment C) provides for these policy changes.

Section 3.1: Prior Approval

- Clarifies requirement for prior approval for overnight and international travel.

Section 3.2: Documentation

- Language has been added to allow a "Declaration of Lost Receipt" after all reasonable attempts have been made to obtain a copy.
- A provision was added which clarifies that reimbursement is not allowed when payment was made with non-cash items such as gift cards, airfare credits and frequent flyer miles.

Section 3.3: Reimbursable Meal Costs

- Revised to provide that meal reimbursements while in travel status shall be based on per diem for the travel destination rather than on actual meal costs.
- Retains option for reimbursement of actual costs in limited situations (i.e., in the event of a meal attended by multiple employees.)

Section 3.5 C: Rental Vehicle

- Expanded to explain that when an exception to policy is granted to allow a rental car, employee's insurance coverage is primary for the rental vehicle and outlining the coverage offered by the City's insurance policy. It also provides for reimbursement of CDW coverage purchased from the rental car company.

Section 3.6: Air Travel

- Removed language relating to use of a travel agent to obtain government fares since those reduced fares are no longer available to the City.

- Added verbiage to clarify the requirements when personal travel is combined with business travel.

Section 6: Food and Beverages at City Meetings

- Clarified to specifically highlight several additional covered events.

Section 12: Sister City Program

- This section has been removed.

Ordinance No.793 - Amending SMC Chapter 2.60 Purchasing Code

This chapter of the Shoreline Municipal Code (SMC), which was last updated in 2011, directs the procurement of public works, goods, services and real property at a reasonable cost, using an open, fair, documented and competitive process whenever reasonable and possible. While there were no changes recommended to the City's purchasing code to accommodate the operation of a wastewater utility, staff's review of the code identified some changes that will provide consistency with RCW and between certain procurement types. These changes also make some housekeeping updates and provide some operational efficiency. The following table summarizes the recommended changes included in proposed Ordinance No 793 (Attachment D):

Purchasing Code Update Table

Section	Current	Proposed	Reason
Housekeeping			
2.60.050 C (6) 2.60.060 D (1) and 3	Purchasing officer	Administrative Services Director	Edited to eliminate title and simplify. Former title no longer exists. The Administrative Services Department already has responsibility for implementing this section, so further delegation in the code is not necessary.
Public Works			
2.60.030 F	\$200,000 threshold specifically set in Code	Link code to RCW "than the threshold for small public works projects as provided under RCW 39.04.155 as amended"	Ensures that code is consistent with RCW public works thresholds. This change was made throughout the code in 2007 code, but this particular reference was missed.

2.60.060 G	Bond level specifically set in code at 50 percent	“ request to have the city accept the percentage allowed by RCW 39.08.010”	Changing to point to RCW levels as amended and give the city the option to accept the in lieu of bond or not
Services			
2.060.070 B	Requires that a contract be created for purchase of services over \$3,000	Recommend that a contract or purchase order be required for services over \$3,000	Allowing low risk services over \$3,000 to be executed on a purchase order or other streamlined agreement would simplify the procurement process and create efficiencies.

Staff will be conducting a review of the contract routing process later in 2017 with the intent to identify additional efficiencies. Additional changes to the SMC may be needed following that review.

Ordinance No. 795 - Amending SMC Chapter 3.50 Sale and Disposal of Surplus Personal Property

Chapter 3.50 of the SMC governs the sale and disposal of surplus personal property for the City. While there were no changes recommended to the City’s surplus code to accommodate the operation of a wastewater utility, staff’s review of the code identified some changes that address the impacts of inflation in approval levels, gain consistency and provide some operational efficiency.

Chapter 3.50 of the SMC requires City Council approval for the sale of surplus property for an individual item valued in excess of \$2,000. Staff is requesting City Council amend SMC 3.50 to increase the City Manager’s authority to approve surplus of individual items valued up to \$5,000.

The request to surplus property is always contingent upon a review and determination that the surplus property which is owned by the City is no longer of public use. Once surplus is approved, SMC 3.50 allows the sale of the surplus property by sealed bids and live auction. The code also allows trade-in when purchasing new equipment provided the City receives appropriate trade-in value for the surplus equipment.

Staff researched other cities, such as the City of Mountlake Terrace and the City of Edmonds, and learned that they also have \$5,000 in their surplus limitation for capital assets. Staff will continue to research asset values through the use of the Kelly Blue Book and other appraisal sources. The increase would provide the following changes and process improvement:

Section	Current	Proposed	Reason
3.50.010	N/A	New section E with guidance on surplus of items purchased with grant funds to ensure compliance with granting agency requirements.	
3.50.020 & 3.50.030	\$2,000	\$5,000	<ol style="list-style-type: none"> 1. Align with capital asset values at \$5,000 or greater including sales taxes for vehicle and equipment assets versus small and attractive assets that are valued at \$5,000 or lower. 2. Expedites the sale of surplus vehicles and equipment that ultimately reduces City storage space, reduces insurance coverage expenditures and returns revenue back to the City.

Proposed Ordinance No. 795 (Attachment E) provides for this amendments.

COUNCIL GOAL ADDRESSED

This item addresses City Council Goal 2: Improve Shoreline's infrastructure to continue the delivery of highly-valued public services. The development of financial and customer service policies necessary to operate a wastewater utility addresses a major element of the RWD Assumption Transition.

RESOURCE/FINANCIAL IMPACT

No financial impacts are anticipated as a result of this discussion. The recommended policy and code changes will ensure that the City has financial and customer service policies necessary to operate a wastewater utility, provide clarity, consistency, and provide operational efficiencies.

RECOMMENDATION

No action is required tonight. Staff seeks Council direction on the proposed changes. Resolution Nos. 416 and 417 and Ordinances Nos. 793 and 795 discussed tonight will be brought back to Council for adoption in the coming weeks, depending on Council's discussion and comfort with these proposed policy changes.

ATTACHMENTS

- Attachment A – FCS Technical Memo
- Attachment B – Proposed Resolution No. 417
- Attachment C – Proposed Resolution No. 416
- Attachment D – Proposed Ordinance No. 793
- Attachment E – Proposed Ordinance No. 795



Technical Memorandum

To: Sara Lane, Director of Administrative Services
City of Shoreline

Date: July 31, 2017

From: Gordon Wilson, Senior Program Manager *Gordon Wilson*

RE: Comparison of Financial Policies – City of Shoreline and Ronald Wastewater District

The purpose of this memo is to compare the financial policies of the City of Shoreline and Ronald Wastewater District and to develop suggestions about how the City's wastewater financial policies should be modified after the City assumes the District.

Summary of Findings

A more detailed review is contained below, but the short summary is that there is relatively little overlap between the written policies of the City and the District. The District has good policy documentation in areas where the City has no previous experience because it has not had a utility with customer accounts. The subjects for which the City has documented financial policies tend to be areas where the District's policy documentation is light.

There are some generic financial management topics such as purchasing authority, where the District has current policies or practices that differ from those of the City. However, even in those cases the reconciliation between the two seems quite straightforward.

In general, where a policy is generic to any City department, the wastewater utility should conform with the City's policy. In fact, District management is expecting to convert to City procedures. Where there are policies or practices that result from the specific requirements of operating a utility—particularly in the management of customer accounts—we recommend that the District's current policies be adopted by the City, except where the District's current approach might need to be adapted to the City's legal authority.

Because so few of the written policies overlap between the City and the District, the following detailed review is not written in a side-by-side format. Instead, this memo will summarize the key policies and -practices followed by each agency, starting with the District. Following a review of each agency's financial policies, we will make some suggestions for the City's Revenue and Customer policies following its assumption of the Ronald Wastewater District.

District Financial Policies and Practices

Annual Rate Resolution

The majority of the District's utility-specific policies are included in the 20-page annual rate resolution adopted just before the beginning of each year. We will go into detail about its contents here, so you are aware of the range of subjects that should be addressed when you have a utility with customer accounts.

Firm Headquarters

7525 166th Ave. NE., Suite D-215
Redmond, Washington 98052

Locations

Redmond, WA | 425.867.1802
Lake Oswego, OR | 503.841.6543

The annual rate resolution contains information about the following:

- A requirement that properties be connected to sewer service if a sewer line is within 300 feet of a sewer line.
 - There is an exception for properties within the former King County District No. 3 (KC3), provided that the septic system is functioning.
- The definition of a structure that must be connected.
- When billing begins for a newly connected customer.
- When billing can stop—that is, if a structure is demolished or made unfit for use, and the property owner caps the side sewer in a manner satisfactory to the District.
 - Note: a practice not mentioned in the annual rate resolution is that after discontinuing service, if a property owner rebuilds a structure on the site within five years, a credit will be given against the subsequent General Facilities Charge (GFC) corresponding to the number of Residential Customer Equivalents (RCEs) for which the previous GFC was paid. After five years, an entirely new GFC must be paid. This is consistent with King County’s approach to its capacity charge.
- The timing of billing.
 - Commercial accounts are billed monthly; residential accounts are billed bi-monthly.
 - Billing is not in arrears. Instead, the bill is sent out at the beginning of the period for which sewer service is provided and is due at the end of that period—either 30 days later or 60 days later, depending on whether the customer is commercial or residential.
- The definition of the property owner as the party responsible to pay the bill.
- Procedures for a property owner to request that someone else (for example, a property management company or tenant) receive a duplicate copy of the bill.
- Who receives the bill for condominiums.
- A policy that the District is not responsible for prorating the bill in the event of a change in ownership, a change in tenant, or a change in property manager.
- A policy that there are no refunds because of changes in ownership, tenancy, or a period of vacancy.
- A policy that if for some reason sewer service has been available but the property has not been billed, the District may back-bill for up to 36 months, based on then-current rates.
- The authority of the General Manager to determine the classification of mixed use properties, where more than there is one type of use and a single meter.

- For commercial properties, regardless of whether individual water meters have been installed for individual units, all billing must be directed to the property owner or condo association.
- Procedures for requesting refund of overpayments on an account.
- Account service fees for duplicate billing statements or account information changes.
- Definition of account delinquency, and procedures for notifying owner of delinquency.
- Penalties for delinquent accounts.
 - Late charge of 10% of current charges, which applies to each billing period for which the account is delinquent.
 - Late charge will be removed if total unpaid balance is paid in full by the end of first month of the billing cycle in which the late charge first appears on bill.
 - Lien processing fee of \$85 when a lien is recorded against delinquent accounts, removable for good cause.
- Procedures and fees and interest charges applicable if there is a change in property ownership while there is a delinquent account.
- The lien amount includes the outstanding sewer service charges, lien recording fees, applicable penalties, all legal fees, costs of title search, and legal costs incurred by the District. The lien will be inferior only to the lien for general taxes. The liens are certified to the King County Department of Records and Elections.
- A schedule of actions to be taken at various points in time after a sewer account is delinquent, ranging from one to six billing periods of delinquency.
- Authority for the General Manager to make exceptions on a case-by-case basis.
- Procedures to follow if the District receives a Notice of Trustee Sale or Foreclosure or a Notice of Bankruptcy.
- Procedures for foreclosure.
- Priority of payments received after delinquency; priority of payments made after the District initiates legal action.
- Classification of properties and structures into residential and commercial rate types.
 - Residential includes single family with or without accessory dwelling units, duplexes, triplexes, four-plexes, and trailer sites with sewer service.
 - Commercial includes all other uses (including apartments with more than four units).

- Calculation of District charge.
 - “District charge” and “treatment charge” are defined in a two-page “Definitions” section at the beginning of the annual rate resolution. The treatment charge is a pass-through of charges the District receives from King County or City of Edmonds. The “District charge” recovers the cost of pipes, pumps, and everything else.
 - After the City assumes the District, we suggest that the “District charge” be referred to as the “wastewater collection charge.” That label will still be recognizable by customers as distinct from the charge imposed by King County or the City of Edmonds, and it is reasonably descriptive about what types of costs are recovered with that charge.
 - “Unit” is also defined. The District’s customer database contains a record of the number of units for both multi-family and commercial structures. For commercial structures other than multi-family, “units” correspond to separate offices, suites, stores, or other commercial establishments.
 - “Residential Customer Equivalent” (RCE) is also defined, equal to 750 cubic feet per month for commercial customers.
 - For residential customers, a “unit” and an “RCE” are always the same. No matter how much water is consumed, a single family home is always counted as one RCE, a duplex is always 2 RCEs, a triplex is 3 RCEs, a four-plex is 4 RCEs, and an accessory dwelling unit attached to or on the same lot as a single family home adds one RCE to that home.
 - For commercial accounts, a “unit” and an “RCE” can be different. A unit is based on the number of separate business spaces, as described above. An RCE is based on metered water consumption.
 - Note: due to the data limitations of a sewer-only utility, the RCE count for commercial customers is updated only once a year. The District receives an annual download of water consumption from North City Water, City of Mountlake Terrace, and Seattle Public Utilities for each commercial customer. and the average monthly water consumption during the previous year divided by 750 cubic feet per month becomes the number of RCEs for that account during the following year.
 - For residential accounts, the District charge is a flat rate per unit (same as RCE rate).
 - Qualified low-income senior and disabled citizens—as defined later in the resolution—receive a 50% discount.
 - For certain Apple Tree Lane properties, there is a special surcharge that continues through 2020 and an ongoing credit for grinder pump electrical costs borne by the customer.

- For commercial accounts, the District charge is *the greater of*: (1) the number of *units* or (2) the number of *RCEs*, multiplied by the flat rate per RCE.
- Calculation of the treatment charge.
 - There is a flat rate per unit (or per RCE) for the treatment charge just as there is for the District charge.
 - The flat rate per unit differs based on where the sewage flows. The large majority of customers (97%) flow toward King County and pay a higher RCE rate for treatment. About 3% of the customers flow toward the Edmonds treatment plant and pay a lower treatment charge per RCE.
 - For residential customers, the number of units is multiplied by the applicable RCE rate (either King County or Edmonds).
 - Again, qualifying low-income senior or disabled citizens receive a 50% discount.
 - For commercial customers, only the number of RCEs is used for the treatment charge, not the number of units. So the treatment charge for a given commercial account is based only on the average monthly metered water consumption for the previous year.
- Calculation of a special billing to the City of Mountlake Terrace to account for the City's customers that flow through District pipes. In general, this special charge consists of 50% of the District charge and 100% of the applicable treatment charge.
- Gives the District authority to define a separate "industrial" customer class if needed.
- Gives the General Manager authority to estimate consumption for new accounts, where there is no water consumption history.
 - In practice, the District uses an estimate based on "fixture units," following the methodology used by King County for its capacity charge. After the first year, actual usage is known, and the estimate is no longer needed.
- Gives the General Manager authority to assign a new account to the appropriate classification if there is not a specific classification already.
- Defines a variety of account service fees.
- Authorizes the District to establish surcharges where necessary to recover special costs not otherwise recovered through the District and treatment charges.
- Authorizes a Special Assessment Charge for new connections from three particular unsewered areas.
- Defines the eligibility and administration of the qualified low-income senior and low-income disabled discount.
- Establishes a protest and appeal process for customers who believe they have been billed in error.

The concepts in this resolution are carefully thought out and workable for a collection-only wastewater utility flowing mostly into the King County system. We suggest that the City use them as the basis for a set of ongoing adopted Wastewater Revenue and Customer policies.

The ongoing Wastewater Revenue and Customer policies need not be updated or re-adopted every year. We suggest that there be a separate ordinance or resolution adopted by the Council containing the wastewater rates for at least the current year. A rate study could be prepared along with the next update of the Comprehensive Sewer Plan. At that time, we suggest adoption of a multi-year schedule of rates, based on the forecasted rate revenue needed for that time period. Multi-year rate schedules are typically five or six years, depending on the length of the CIP and financial forecast.

The language in the ongoing policies should be coordinated with the recommended Wastewater Code language developed for this project, to ensure consistency.

General Facilities Charge Resolution

The most recent complete set of General Facilities Charge (GFC) rates for the District were adopted in 2010 (Resolution 10-12). CHS Consulting had just performed an analysis for the District of projected growth based on the King County 20-year Buildable Lands Study, and it had projected the capital improvements to pipes and pumps made necessary due to the higher density growth allowed under City zoning rules. Based on that analysis, FCS Group prepared a two-tiered GFC—\$1,257 per RCE for low-density development and \$2,506 per RCE for high-density development—which was adopted by the Board. This is in addition to the capacity charge imposed by King County for a new development's share of the capital cost of treatment facilities. For the ULID #2 area of the District—which flows toward the Edmonds treatment plant—the treatment-related GFC surcharge is \$1,222 per RCE. King County collects its capacity charge separately, but the Edmonds treatment charge is collected by the District along with its own GFC.

In addition to the 2010 adopted GFCs, this past year the District Board has been studying the GFC in relation to micro-apartment developments, which is a growing trend in multi-family construction. Up until now in the District, the GFC for all multi-family developments has been based on the number of dwelling units in the development, with each unit being charged the per-RCE connection charge. (For commercial developments other than multi-family housing, the GFC is based on an RCE estimate drawn from the number of fixture-units, which is consistent with the approach King County takes with its treatment capacity charge.) Micro-apartments typically consist of eight or ten bedroom/bathrooms surrounding a common kitchen area and laundry facilities, and the argument made by developers is that the wastewater demand from a micro-apartment bedroom/bathroom will be lower on average than the demand from a typical multi-family apartment with its own kitchen and laundry facilities. After discussing the issue over several months, the District Board decided to base the number of RCEs for a micro-apartment development on 50% of the number of separate bedroom/bathrooms. This approach affects the calculation of the GFC but not the monthly rates, which are still based on water usage.

The wastewater utility's comprehensive sewer plan and capital improvement plan need to be updated, and at that time, an update to the GFC would be appropriate. If the assumption takes effect on schedule in October 2017, that task will fall to the City. Until the updated plan and CIP are prepared, we suggest that the City adopt the existing GFC and its method of application, including its approach to micro-apartment developments. After Shoreline and other communities gain more experience with the actual water consumption of micro-apartment developments, the City will be able to re-calibrate the micro-apartment GFC if necessary. King County is also beginning a study of how its capacity charge is applied

to various types of development. When completed, that study can also inform the City’s choices about the structure of its own GFC.

Accounting Policies

The District uses full accrual accounting for its enterprise fund, just as the City does for its Surface Water Utility Fund. Its accounting policies are described in detail in its annual report to the State Auditor’s Office (SAO), and they conform to SAO requirements. We anticipate that little or no adjustment to its methods of financial reporting will be necessary.

The District’s internal accounting system does not match the BARS¹ chart of accounts, so currently the District’s external CPA converts the internal reports into BARS-compliant reports for the SAO. Of course, the wastewater utility would use the City’s chart of accounts after becoming part of the City.

The historical data in the District’s fixed assets records is not always complete, but it is better than the fixed asset databases of many of our other clients. We reviewed the District’s fixed asset database in 2014 and made some recommendations to help it both catch up and keep up with asset retirements since it began its pipe replacement program in 2007. A copy of that memo is attached to this one. The District does have a maintenance management system with a current inventory of assets tied to GIS maps. In our observation, nearly all utility managers feel that their historical fixed asset data is inadequate, but from our perspective, the District has worked harder at getting this right than most other agencies. We do not expect that the City will need to make changes to the fixed asset accounting beyond improvements that are outlined in our 2014 memo and any others that the District staff might already be trying to make.

Utility Billing Adjustment Procedure

The District has a set of written procedures for handling billing adjustments, dated December 15, 2015. Because they are so recent, they were probably written to reflect current reality, and they can be taken as a guideline for actual practices by the customer billing staff and District management.

The procedures identify four main types of billing adjustments that might be needed. For each type of adjustment, the procedure identifies who is authorized to approve the adjustment, along with any relevant criteria or dollar threshold. The procedures also identify the process for tracking each adjustment.

The procedures seem appropriately careful about the process of allowing bill adjustments. There is one change that we would suggest. At present, billing adjustments are submitted to the Board, and the procedures are aimed at ensuring that what is submitted to the Board can be clearly justified. For the City, I would suggest that the Director of Administrative Services or her designee have the authority to approve billing adjustments and that they need not go to the City Council. As long as the existing criteria and procedures are followed, there will be sufficient accountability to make sure that any billing adjustments are reasonable and justified.

¹ BARS stands for “Budgeting, Accounting, and Reporting System.” It is a set of procedures and account classifications required by the State Auditor’s Office.

Generic Financial Management Policies

The District does have some written policies that we consider to be generic financial management practices applicable to an entire organization rather than utility-specific. Most of these are documented in its Purchasing Manual, last updated on June 2013.

- The Purchasing Manual includes a code of ethics and a statement addressing conflicts of interest.
- It refers to the District's Petty Cash Fund of \$1,500, which has subsequently been updated (in Resolution 13-17) to \$2,500. That total currently consists of the petty cash checking account containing \$2,000, the front counter cash drawer containing \$150, and the petty cash box containing \$350. The petty cash policy language does not describe procedures for using, replenishing, monitoring, or reconciling the Petty Cash Fund.
- The Purchasing Manual's paragraph about credit cards no longer reflects current practice. The District no longer has any general credit cards such as Mastercard or Visa. The only credit cards maintained by the District are store-specific—for example, a Home Depot card or a Lowe's card. Those cards are kept in the District's vault. An employee must contact the Accounting Department Office Clerk to check out a card, and upon return, must present the card and the receipts for any purchases made. The office clerk then returns the card to the book in the vault. The Purchasing Manual states that credit cards are not for personal use.
- To make *purchases of materials, supplies, equipment, and small works*, the District uses the Municipal Research and Services Center (MRSC) small works roster and also has cooperative purchasing arrangements with the City of Lynnwood and other governments.
- For *professional services*, the District follows procedures outlined in RCW 39.80.040 or RCW 39.34 for architectural or engineering contracts. For other professional services contracts, it uses an RFP or RFQ process.
- For *public works and construction projects*, the District again follows State statutes. The policy states that the entire project cost must be used—the District cannot break a project into smaller amounts to avoid bidding requirements.
- Competitive bidding requirements may be waived for the reasons listed in RCW 39.04.280 – sole source; special facilities or market conditions; emergency purchases; emergency public works; or purchases of insurance or bond. Emergency purchases must receive follow-up Board approval.
- The Purchasing Manual describes procedures and approval requirements for the following:
 - Public works projects less than \$9,999;
 - Public works projects between \$10,000 and \$199,999;
 - Public works projects of \$200,000 and over;
 - Materials, supplies, and equipment purchases of \$100 to \$2,499;
 - Materials, supplies, and equipment purchases between \$2,500 and \$9,999;

- Materials, supplies, and equipment purchases between \$10,000 and \$49,999; and
- Materials, supplies, and equipment purchases of \$50,000 and over.
- A separate paragraph defines “capital expenditures” as projects and purchases of \$5,000 or more, with a projected useful life of at least 1 year. Capital expenditures are to be identified in the capital budget unless they are for a declared emergency.

The District does not have written policies for cash handling, though there are practices followed by the staff. Likewise, it does not have a policy on small and attractive assets.

There is not a written policy on travel advances or the reimbursement of expenses for authorized travel. In practice, since the Board eliminated the general use credit cards, the general rule is that Commissioners and managers pay for their own travel expenses and are reimbursed after the fact. However, the District does have a checking account called Advance Travel, funded at \$3,000. Occasionally upon the request, this can be used to reimburse Commissioners for airfare expenses in advance of a conference if the amount is significant. For staff below management level, the District advances funds for a trip, usually on a per diem basis for food, gas, and parking costs. The District pays directly for hotel expenses, so the amount reimbursed for non-management staff is generally minimal.

The District does not have written policies comparable to those in the City’s Financial Policies (pp. 407-416 of the 2017 Proposed Budget), which deal with budget priorities and process, reserves, and debt management. The District currently has no debt. The District does not have a written investment policy; instead, it invests all of its cash with the King County Treasurer.

City of Shoreline Financial Policies

This memo does not need to go into as much detail about the City’s financial policies, because you are already well acquainted with how the City does business. Instead, we will list below the topics addressed by the financial management policies provided to us by the City staff. In the following section, we will discuss the areas where some adaptation or reconciliation would be needed.

One of the documents provided by the City was a set of guidelines for how to allocate Ronald support staff costs between the wastewater utility and the General Fund after the assumption. The allocation method outlined in that policy looked reasonable and practical, and we suggest that it be implemented. Over time, as the integration of the two organizations proceeds, you will naturally want to update the method, but it takes a few years to gain experience with the assignment of staff duties. Those guidelines will help you set your budget during the City’s first few years of being in the wastewater business.

Other than the policy about the allocation of Ronald support staff cost, none of the City’s financial policies are utility-specific; all of them are generic policies that apply citywide.

The 2017 Proposed Budget document contains a “Financial Policies” appendix that addresses the following topics:

- General Budget Policies
 - These mostly address general priorities to be followed in making budget decisions.

- Formulation and Approval of Budgets
 - This is a description of the steps in the City budget process.
- Budget Adjustment and Amendment Processes.
 - As its title implies, this section of the City’s financial policies describes how the budget is kept up to date in the course of a fiscal year.
- Reserve and Contingency Fund Policies
 - These are guidelines for minimum reserve fund balances. For instance, the Surface Water Utility Fund has a target reserve of at least 20% of operating budget revenue. The District has no comparable policy for its fund balances.
- Capital Improvement Program (CIP) Plan Policies, including the following:
 - The relationship between the budgeted CIP and underlying system plans.
 - The process for developing the CIP.
 - The types of capital projects to be considered and general priorities to be followed by the CIP Coordination Team, and how to respond to changes in scope or budget of projects.
 - Direction to take into account the ongoing O&M costs associated with capital projects.
 - A policy about when and how to make use of Local Improvement Districts (LIDs) to make needed capital improvements.
 - The CIP is to be balanced between funding sources and capital costs over a six-year time frame. The Council is to appropriate the full estimated project cost for the CIP.
 - Guidelines about the use of debt to fund the CIP.
 - Authority of the Finance Director to initiate interim and long-term borrowing, when called for in the CIP and approved by the Council.
 - Procedures for updating the CIP not less often than once a year.
 - Direction to formalize any cost sharing or cost reimbursement agreements between the City and other jurisdictions.
 - Direction that CIP cost estimates should include all costs necessary and applicable. Staff charges to CIP projects are limited to time spent actually working on those projects, plus an appropriate overhead factor.
- Debt Management Policy
 - Policies about when and how to issue debt, what type of debt, and limits on the amount of debt. Also addresses refunding debt, LID debt, and interfund borrowing.

Topics addressed in other City financial policies provided by City staff:

- Credit card policies
- Debt collection policies
- General cash receipting guidelines
- Policy on allowable business expenses
- Policy and procedures for safeguarding small and attractive items
- Investment policy
- Capital asset management policy
 - The policy was not provided, but a Council resolution authorizing the policy was provided, so we know there is one.
- Grants management policy
 - Again, we did not receive a copy of the actual policy, but we know it exists because we were sent a copy of the authorizing Council resolution.
- Policy on contract change orders or amendments
- City purchasing manual. This covers the same territory as the District's purchasing manual, but it is more complete. The City's manual is 87 pages, while the District's version is 8 pages. The City manual includes sections addressing the following:
 - Quotes and awards
 - Requisitions, purchase orders and receiving
 - Procuring materials, supplies and equipment
 - Procuring services
 - Public works
 - Contracts
 - Credit cards and procurement cards (P-Cards)
 - Special exemptions
 - Office supplies
 - Travel

Suggestions for City Financial Policies After Assumption

Following are some suggestions to guide the adaptation of City financial policies to the upcoming assumption of Ronald Wastewater District.

- Most of the content of the District’s annual rate resolution should become a City Wastewater Revenue and Customer Policy, with appropriate language changes to reflect the fact that the utility will be owned by a City rather than a District.
 - In preparing the draft financial policy, we will examine the District’s annual rate resolution together with the proposed Wastewater Code language, to see if there would be some topics that might be more appropriately addressed in the Code or that are already included in the draft Wastewater Code.
- The annual rate resolution goes into detail to describe the calculation of the sewer service charges but not the General Facilities Charges. The new City Wastewater Revenue and Customer Policy should also include the method for calculating the GFCs, because that method is similar but not exactly the same as the calculation of the sewer service charges.
- Current wastewater rates and GFCs should be adopted by the Council separately from the ongoing Wastewater Revenue and Customer Policy, so the rates can be updated regularly. If SMC 3.01 is updated annually, that can be where the actual rates would be found.
- Because it deals with issues that could be the source of customer complaints at some point in the future, it would be wise for the Council to consider and formally adopt the Wastewater Revenue and Customer Policy, rather than have it be an administrative policy. The policy can and should grant discretion to appropriate managers in the execution of the policy, but the policy itself should have the formal approval of the Council. At the very least, the section describing the reduced rate program for low-income senior and low-income disabled citizens must be adopted by the Council in order to comply with State statute.
- The Wastewater Revenue and Customer policy should include language allowing the City to pass through to wastewater customers any industrial wastewater surcharges that might be imposed on the District by King County. The District has not had to deal with these industrial surcharges in the past, but the County is undergoing a major study to more fully identify which businesses might be subject to them, and it might become relevant in the future. The County would be the agency to test the businesses and determine the amount of the charge, but the City would be the one to collect the money and forward it to the County. All the policy will need to do is authorize pass-through collection from any applicable customer.
- That policy should also explicitly authorize the Director of Administrative Services or designee to make billing adjustments. Then the District’s current procedure on when to authorize billing adjustments can become an administrative policy.
- There are some generic financial management topics—such as purchasing procedures and petty cash—where the District and City both have written policies. In those areas, we suggest that the City keep its existing policies.

- There are several other areas where the City has a formal financial management policy in place and the District does not. Again, we suggest that the City retain its existing policies and practices in these areas.

Including City Utility Tax in Surface Water Management Rates

Following is a suggested change to the surface water management rate table in the Shoreline Municipal Code. While this suggestion does not address the wastewater utility directly, it would bring consistency to the way that surface water management rates and wastewater rates are presented to customers.

Currently, the surface water management rate table in SMC 3.01.400 shows a column for the annual service charge, a separate column for the 6% City utility tax, and a third column for the fee plus utility tax. For example, the fourth row (for properties with a “Moderate” percentage of impervious surface area) shows a 2017 annual charge of \$764.13 per acre, the City utility tax is shown as \$45.85 per acre, and the “fee plus utility tax” column is \$809.98, the sum of the two. The current rate table is shown below.

Existing Surface Water Rate Table in SMC 3.01.400

Rate Category	Percent Impervious Surface	2016 Annual Service Charge	2017 Annual Service Charge	Per Unit	6% Utility Tax	Fee + Utility Tax
1. Residential: Single-Family Home		\$151.67	\$159.25	Parcel	\$9.56	\$168.81 *
2. Very Light	less than or equal to 10%	\$151.67	\$159.25	Parcel	\$9.56	\$168.81 *
3. Light	More than 10%, less than or equal to 20%	\$352.26	\$369.87	Acre	\$22.19	\$392.07
4. Moderate	More than 20%, less than or equal to 45%	\$727.74	\$764.13	Acre	\$45.85	\$809.98
5. Moderately Heavy	More than 45%, less than or equal to 65%	\$1,411.45	\$1,482.02	Acre	\$88.92	\$1,570.94
6. Heavy	More than 65%, less than or equal to 85%	\$1,788.16	\$1,877.57	Acre	\$112.65	\$1,990.22
7. Very Heavy	More than 85%, less than or equal to 100%	\$2,342.23	\$2,459.34	Acre	\$147.56	\$2,606.90
Minimum Rate		\$151.67	\$159.25		\$9.56	\$168.81

* Corrected amount

For the sake of clarity, accuracy, and consistency with the wastewater rates, we suggest that the annual service charge for surface water management be defined to include the 6% City utility tax. The wastewater rates for Ronald Wastewater District already incorporate the payment that Ronald now makes to the City, which is roughly equivalent to the City utility tax.

The following table shows our suggested presentation of the surface water management rates in SMC 3.01.400.

Suggested Surface Water Rate Table in SMC 3.01.400

Rate Category	Percent Impervious Surface	2016 Annual Service Charge	2017 Annual Service Charge	Per Unit
1. Residential: Single-Family Home		\$160.77	\$168.81	Parcel
2. Very Light	less than or equal to 10%	\$160.77	\$168.81	Parcel
3. Light	More than 10%, less than or equal to 20%	\$373.40	\$392.07	Acre
4. Moderate	More than 20%, less than or equal to 45%	\$771.40	\$809.98	Acre
5. Moderately Heavy	More than 45%, less than or equal to 65%	\$1,496.14	\$1,570.94	Acre
6. Heavy	More than 65%, less than or equal to 85%	\$1,895.45	\$1,990.22	Acre
7. Very Heavy	More than 85%, less than or equal to 100%	\$2,482.76	\$2,606.90	Acre
Minimum Charge		\$160.77	\$168.81	Parcel

** Service charges include 6% City utility tax.*

There is not a single right way to treat utility taxes on the bills--some cities include their utility taxes in their rates, while others break out their taxes separately. However, it would be confusing if one of the City's utilities defined its rate one way and the other defined its rate the other way. Our suggestion is that the surface water management utility conform to the approach used by the wastewater utility, because people in Shoreline are accustomed to seeing wastewater rates on their monthly or bi-monthly bills. It is more likely to be confusing if the wastewater utility were to change methods than if the surface water management utility were to change methods.

Suggested Operating Reserve

You had also asked for our opinion about an adequate operating reserve for the wastewater utility. In our practice with water and wastewater utilities with monthly or bi-monthly billing, the most common minimum operating reserve is 60 days of operating expenditures for water and 45 days for wastewater. The lower level for wastewater reflects a more stable revenue source. (For the City's surface water management utility, a higher reserve is needed not because the revenue stream is risky but because the revenue only comes in twice a year along with the property tax bills—the reserve serves as a cash flow management tool.) But for the new wastewater utility, a minimum of 45 days of operating expenditures should be adequate for an operating reserve. That is equivalent to about 12.3% of the annual operating budget.

ATTACHMENT

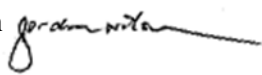
Memorandum on Ronald Wastewater District Fixed Accounting Practices

May 27, 2014

Date: May 27, 2014

To: Michael Derrick, General Manager, Ronald Wastewater District

Copy: Mark Gregg, Accounting Supervisor
Scott Christensen, CHS Engineers

From: Gordon Wilson 

Subject: Fixed Asset Accounting Practices

The purpose of this memo is to review the fixed asset accounting practices of the Ronald Wastewater District and suggest improvements for the future.

The District began a major infrastructure replacement program in 2007, with the first batch of replacement projects identified in the 2007 capital improvement program (CIP) and completed in 2009. Last year, representatives of the State Auditor's Office noted that the net book value of the District's fixed assets is probably overstated in District financial statements, because the District has not been retiring segments of sewer line that were replaced as part of the District's CIP. The decision to retire a replaced piece of sewer line is complicated by inadequate historical record-keeping and the past practice of lumping together large sections of pipe under a single asset, without clear geographic references. Without knowing which asset is being replaced, it is hard to know whether the asset has already been fully depreciated.

In conducting this review, I met with District staff and the District engineer. I also reviewed relevant accounting data, including the District's fixed asset database and depreciation schedules, project summaries for sewer replacement projects beginning in 2009, and inventory and reconciliation spreadsheets prepared by District staff.

This review is focused on sewer infrastructure, since the CIP replacement program has mostly involved sewer lines. Because of the lag time in designing and constructing a group of capital projects once they are authorized, the completed replacement projects in this review go through the 2011 CIP.

My goals in this memo are to address the following two questions:

- ◆ What should the District do now to bring its fixed asset records as current as possible, given the lack of reliable information from past years?
- ◆ What should the District do from now on to maintain an accurate fixed asset inventory and depreciation schedule in the future?

The first question is how best to *catch up*; the second question is how best to *keep up*. After sharing background information about the District's fixed asset data and discrepancies among data sources, I will address those two questions in that order.

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Background

Sources of Data about Fixed Assets

Fixed asset inventory from accounting system - The District maintains a series of spreadsheets and a binder with printouts of current and historical fixed assets inventories, including depreciation schedules. This binder is updated each year as part of the year-end capitalization process.

These assets are grouped into broad categories. This review is focused on Asset Class 05, Sewer Lines. Within that class, the asset descriptions are very general, with very few geographic references. For assets booked before 1998, most of the descriptions are either “Mainlines Conveyed” or “Misc Sewer Line” or just “Miscellaneous,” though several descriptions do refer to the number of the ULID. Since 1998, the descriptions usually refer to a neighborhood or a set of streets. The main clue to help link the inventory entries with the physical reality is the year the asset was placed in service.

A copy of the fixed asset inventory for Asset Class 05, Sewer Lines, is shown as Appendix A.

Paradox system – The District also maintains a maintenance management system using Paradox software. The Paradox system contains information about what year a given section of sewer lines was originally constructed, which is useful in trying to determine the area to which a given asset on the accounting inventory refers.

Project Files – For infrastructure built in past years, there are hard copy project files. Because they contain contemporaneous records of construction, those files are the most authoritative source of information about what was built where and when. However, these files are not easily searchable.

Pipelines 2013.xlsx spreadsheet - Another source of data is a spreadsheet, Pipelines 2013.xlsx, prepared originally last year by the District Operations & Maintenance Manager, George Dicks. This list focuses only on sewer lines, not other types of assets. In this analysis, George started with the accounting system list, with its general descriptions and dates. Drawing on research in the Paradox database and the original project files, he identified as closely as possible which segments of sewer line correspond to which fixed asset in the accounting inventory. He then added additional information for each of those fixed assets—pipe diameter, pipe material, number of lineal feet, and the applicable quarter section on the map. He also created an estimate of the original cost of the segments that have been replaced since the sewer replacement program began. Since the replaced segments are all part of a larger “asset” on the original list, he used average original cost per lineal foot as a way to estimate the per-foot cost of the replaced segment. A copy of Pipelines 2013.xlsx is shown as Appendix B.

CIP project summaries - Another source of data is available to the District for infrastructure assets booked in 2009 or later. This source is the project summaries prepared by CHS Engineers, the engineering firm that supports the District’s current capital improvement program and has supervised the replacement projects. These summaries are prepared at the completion of each project and contain detailed information about what was built, including pipe diameter, length, and material, the number of manholes, cleanouts, and side sewer stubs in public right-of-way. The District’s CIP projects have also included the replacement of side sewers on private property, and the project summaries show how many private side sewers were replaced as part of each project. The project summaries show construction costs before tax. Because they exclude State sales tax and indirect costs (such as engineering or project management), the costs shown in the project summaries are less than the costs shown in the general ledger (GL) accounting system for the same project. The District’s capitalization of fixed assets should rely on total costs recorded in the GL. A copy of one of the project summaries (for the sewer main replacements funded by the 2008 CIP) is shown as Appendix C.

Discrepancies between Data Sources

I did not examine the Paradox system or the project files, but I did compare the other three sources of data—the fixed asset inventory, the Pipelines 2013.xlsx worksheet, and the project summaries of 2007-2011 CIP projects. There are several cost discrepancies between the inventory and Pipelines 2013.xlsx, but here I will just point out some of the discrepancies between the project summaries and Pipelines 2013.xlsx having to do with the most recent projects—the 2007-2011 CIP projects. Appendix D shows the part of Pipelines 2013.xlsx that is relevant to the 2007-2011 projects.

The project summaries show significantly lower costs for those projects, but that is explained by the fact that the project summaries only include direct construction costs. However, when it comes to the number of lineal feet, diameter, and type of pipe installed in the 2007-11 CIP projects—items about which the sources should agree—Pipelines 2013.xlsx and the CHS project summaries still do not agree. This is shown in Exhibits 1 and 2. Exhibit 1 shows the 2007-2011 assets as they appear in Pipelines 2013.xlsx. Exhibit 2 groups them by project and gives more detail about pipe diameter and length, highlighting the discrepancies with the project summaries.

Exhibit 1: Asset Inventory Compared with Project Summaries for 2007-2011 CIP Projects

Ronald Wastewater District										
Assets from 2007-2011 CIP Projects:							From Pipelines2013.xlsx			
Project / File Name	Qtr Sect	Date of Constr.	Size	Length	Material Type	Adjusted Original Cost	Direct Cost	Year Completed	Length (l.f.)	Difference in Length
2007 CIP - Replaces LCSD Acquisition Pipe Lines + King County #3	G5, B5	2007	8	1,790 l.f.	HDPE	\$ 594,162	\$ 389,462	2009	1,903 l.f.	1,878 l.f.
King County #3/Replaced 2007 If part of 2007 CIP, construction date should be 2009	B6	1964	10	317 l.f.	PVC	98,587	\$ -	2009		
2007 CIP - Replaces LCSD Acquisition Lines & King County #3	H1: A5: J2: F1	2010	8	1,674 l.f.	HDPE	594,149	\$ -	2009		
2008 CIP - Replaces King County #3 Acquisition Pipe Lines	N/A	2008	8	1,665 l.f.	HDPE	554,153	\$ 403,872	2011	1,887 l.f.	-222 l.f.
2009 CIP - Replaces LCSD Acquisition Pipe Lines	N/A	2009	8	1,726 l.f.	HDPE	705,275	\$ 508,083	2010	1,721 l.f.	5 l.f.
Echo Lake Pipeline Replacement - Replaces Part ULID #2, Contract 8	F5	2010	18	1,711 l.f.	HDPE	690,638	\$ 683,533	2011	2,250 l.f.	-237 l.f.
Echo Lake Pipeline Replacement - Replaces Part ULID #2, Contract 8	F5	2010	15	302 l.f.	HDPE	121,901	\$ 121,901	2011		
2010 CIP BC 1&2 - Replaces LCSD Acquisition Pipe Lines+G58	I1	2010	8	4,236 l.f.	HDPE	1,222,545	\$ 958,348	2011	3,842 l.f.	394 l.f.
2011 CIP NC 1&2 - Replaces LCSD Acquisition Pipe Lines	I3	2011	8	4,088 l.f.	HDPE	1,237,367	\$ 964,800	2012	4,086 l.f.	2 l.f.
Total 2007-2011 Replacement CIP				17,509 l.f.		\$ 5,818,777	\$ 4,029,999		15,689 l.f.	1,820 l.f.
Echo Lake By-Pass - New Construction	F5	2010	18	678 l.f.	HDPE	490,800	\$ 380,311	2011	840 l.f.	-162 l.f.
Total 2007-2011 CIP Projects				18,187 l.f.		\$ 6,309,577	\$ 4,410,310		16,529 l.f.	1,658 l.f.

Exhibit 2: Reconciliation of Pipe Length, Diameter and Material for 2007-2011 CIP Sewer Projects

CIP Project	Per Pipelines 2013.xlsx Worksheet		Per CHS Project Summaries		Discrepancy in Length (l.f.)	What is it Replacing?		
	Length	Size &Type	Length	Size &Type		Per George Dicks Analysis	Per Inventory Description	
Replacement Projects:								
2007 Replacement CIP								
	1,790 l.f.	8" HDPE	1,758 l.f.	8" HDPE		1958 LCSD lines	KC#3 & LCSD lines	
	317 l.f.	10" PVC	145 l.f.	6" HDPE		1958 LCSD lines	KC #3 lines	
	1,674 l.f.	8" HDPE				1958 LCSD lines	KC#3 & LCSD lines	
Total 2007 CIP	3,781 l.f.		1,903 l.f.			1,878 l.f.		
2008 Replacement CIP						-222 l.f.	1958 LCSD lines	KC #3 lines
2009 Replacement CIP								
	1,726 l.f.	8" HDPE	1,403 l.f.	8" HDPE			1964 KC #3 lines	LCSD lines
			318 l.f.	10" HDPE			1964 KC #3 lines	
Total 2009 CIP	1,726 l.f.		1,721 l.f.		5 l.f.			
Echo Lake Trunk Replacement								
	1,711 l.f.	18" HDPE	1,038 l.f.	20" HDPE		1960 ULID #2	ULID #2	
	302 l.f.	15" HDPE	347 l.f.	12" HDPE		1960 ULID #2	ULID #2	
			865 l.f.	PVC				
Total Echo Lake Trunk	2,013 l.f.		2,250 l.f.		-237 l.f.			
2010 Replacement CIP								
Briarcrest #1			2,022 l.f.	8" HDPE				
Briarcrest #2			1,820 l.f.	8" HDPE				
Total 2010 CIP	4,236 l.f.	8" HDPE	3,842 l.f.		394 l.f.	1958 LCSD lines	LCSD lines	
2011 Replacement CIP								
North City #1			2,056 l.f.	8" HDPE		1958 LCSD lines		
North City #2			2,030 l.f.	8" HDPE		1964 KC #3 lines		
Total 2011 CIP	4,088 l.f.	8" HDPE	4,086 l.f.		2 l.f.		LCSD lines	
Total Replacement Pipe	17,509 l.f.		15,689 l.f.		1,820 l.f.			
New Construction:								
Echo Lake Bypass	678 l.f.	18" HDPE	840 l.f.	18" DI	-162 l.f.	N/A	N/A	
Total Pipe Length	18,187 l.f.		16,529 l.f.		1,658 l.f.			

Nearly every project has differences between the two data sources in the pipe length, diameter, or material. The total discrepancy in pipe length is 1,658 lineal feet, with Pipelines 2013.xlsx showing more lineal feet than the project summaries. If the CHS project summaries are the authoritative source for this information, then the total lineal feet in Pipelines 2013.xlsx would be overstated. This does not mean that the costs are overstated—after all, the general ledger totals are what determine the cost of a given asset. But there might be errors in the costs as well as the length. If the project summaries omit some of the segments that were replaced, then perhaps they are understated. The District Engineer and O&M Manager would need to look together at each of the recent projects to ascertain which database is more accurate.

One part of the discrepancy might be explainable as a double-count and misclassification in Pipelines 2013.xlsx. According to the CHS project summaries, the 2009 CIP project totaled 1,721 lineal feet, which included 318 lineal feet of 10" pipe. Pipelines 2013.xlsx shows approximately the same total length (1,726 l.f.) for the 2009 CIP, though it is all shown as 8" pipe. At the same time, the Pipelines 2013.xlsx list shows 317 feet of 10" pipe as part of the 2007 CIP. It is possible that the 2009 CIP figure in Pipelines 2013.xlsx incorporates the 318 feet (albeit misclassified as 8" pipe), but then the 2007 CIP project lists the same stretch of pipe, this time with the correct diameter but the wrong year. If this explanation is correct, it would only account for a fraction of the total discrepancy, but it does illustrate the types of errors that can easily occur in a fixed assets database.

Another potential error has to do with the 2007 CIP replacement project. Exhibit 1 shows that Pipelines 2013.xlsx shows two entries with approximately the same length (1,790 vs. 1,674 l.f.) and the same cost (\$594,162 vs. \$594,149), with one entry in 2007 and the other in 2010. Exhibit 1 also shows that the ratio

between total cost and direct cost for that project is more than double that of other projects. That is significant because the total cost figures come from the asset inventory, while the direct cost figures come from the project summaries. If somehow the same set of costs were booked twice in the inventory, it would result in the ratio being about double what we would expect. In addition, total length of the 2007 CIP is 1,878 l.f. greater in Pipelines 2013.xlsx than in the project summaries. For all these reasons, District staff might want to review the records to see if there was a double-count in capitalizing that project.

In addition, the District's O&M Manager prepared an estimate of the retirement adjustments needed due to the replacement CIP. This is shown at the bottom of Appendix D. His methodology was sound (it is described in more detail below), but his data about the amount of pipe replaced was different from both Pipelines 2013.xlsx and the CHS project summaries. Whereas the project summaries show a total of 15,689 feet of pipe replaced and Pipelines 2013.xlsx shows a total of 17,509 feet, the asset retirement calculations show a total of 18,759 feet replaced. There is a need for reconciliation between the various sources of data.

Catching Up

Resolving the Data Discrepancies

There are several steps that the District should take in the coming year in order to resolve the data discrepancies and create as accurate a fixed assets database as possible.

- ◆ In addressing the data discrepancies, the District will need to rely on a *default data source*—that is, a source presumed to be authoritative and most likely to be accurate about a particular type of information, absent any detectible errors. Following are some suggestions about default data sources:

Characteristics of pre-2007 infrastructure assets (such as location, lineal feet, type of material, diameter): Original project files.

Characteristics of 2007-2013 infrastructure assets: CHS Engineers project summaries (subject to reconciliation with Paradox database and project files).

Original cost of pre-2007 capital assets of all types: Accounting system fixed asset inventory.

Original cost of 2007-2013 assets: Accounting system fixed asset inventory (since these costs were drawn from general ledger), unless a records review reveals a double-count or other error.

Matching of CIP replacement projects with historical assets from which pipe was replaced: George Dicks analysis in Pipelines 2013.xlsx.

- ◆ The District Engineer should meet with the O&M Manager to reconcile data regarding pipe material, diameter, and lengths for the projects built since 2007. This will result in either confirmation or correction of the data in Pipelines 2013.xlsx regarding those projects. For matching the replacement projects with historical assets in the inventory, Pipelines 2013.xlsx should be considered authoritative, but for the characteristics of the work done in recent CIP projects (such as pipe length, diameter, and material), the data from CHS Engineers should be considered authoritative.
- ◆ District accounting staff should work with the O&M Manager to reconcile the cost data in Pipelines 2013.xlsx and the current fixed assets inventory. The great value of the Pipelines 2013.xlsx spreadsheet is its matching of inventory asset listings with the physical reality. It is worth improving—both by reconciling its pipe data to the project summaries and by reconciling its cost data to the asset inventory. After the data bugs are worked out, Pipelines 2013.xlsx can serve as the initial version of a “crosswalk” database (which is discussed later).

How Should Old Sewer Lines Be Retired When a Replacement CIP Project is Completed?

In the absence of specific historical data, an analytical approach is needed in order to retire pipe segments that have been replaced. Any given pipe segment to be replaced will almost surely be a subset of a larger set of pipes that were originally constructed and defined as a capital asset many decades ago.

The method that George Dicks used in the Pipelines 2013/xlsx worksheet is the right one to use. Once the data about the length of the replacement pipe is reconciled with the CHS project summaries, this approach will yield the best estimate of how much should be retired from the books, and how much the remaining asset value should be. In future years, as future CIP replacement projects are completed, this approach should be replicated to ensure that the correct portion of the old assets are subtracted from the inventory.

This approach consists of the following:

- ◆ Using both the Paradox system and research into the original project files, determine the age of the pipes to be replaced, and based on the year of construction and the diameter and length of pipe, make an informed assumption about which of the assets on the inventory corresponds to the replacements. Bear in mind that for the District's historical infrastructure, an "asset" probably corresponds to a large section of infrastructure built in a particular year.
- ◆ Determine the total lineal feet of the pipe that was originally installed as part of that asset. Divide the original cost shown on the inventory by the total lineal feet for that asset to calculate a unit cost of construction that year. Reducing the original construction cost to a "per lineal foot" basis simplifies the reality, because a collection system includes more than just pipes. However, the manholes, lateral stubs, and other items that are part of a collection system were part of both the original system and the replacement system, and their cost can be assumed to be in rough proportion to the length of the mainline pipe. So the "unit cost of pipe" is really the per-foot cost of pipe and related collection system features, such as manholes, lateral stubs and cleanouts.
- ◆ The unit cost of the original pipe multiplied by the length of the replaced portion yields the amount of original cost to be subtracted from the inventory.
- ◆ An alternative approach yielding the same result would be to divide the number of lineal feet replaced by the total lineal feet for a given asset. The resulting percentage can be multiplied by the original cost of the asset to give the amount of original cost to be retired.
- ◆ In addition, the percentage of original pipe that was replaced should be used to adjust downward the annual depreciation and accumulated depreciation shown for the original asset.

Example: For example, let's look at the 317 or 318 lineal feet of 10" pipe that was replaced as part of either the 2007 or 2009 CIP. (For the purpose of this discussion, we'll assume 317 l.f. and the 2007 CIP.) The O&M Manager's research using Paradox and the project files shows that 317" of replaced pipe was probably part of an asset that originally consisted of 3,708 feet of 10" pipe installed by the former King County Sewer District #3 for \$28,668 in 1964. This length of pipe was subsequently transferred to the Ronald Wastewater District. Because the original cost was \$28,668 for 3,708 feet, the unit cost is \$7.73 per lineal foot. Multiplying the unit cost by the amount replaced, the original cost to be retired from the fixed asset inventory is 317 l.f. x \$7.73/l.f., or \$2,451. Alternatively, the percentage of original pipe that was replaced would be $317 \text{ l.f.} \div 3,708 \text{ feet} = 8.55\%$, and that figure can be multiplied by \$28,668 to reach the same result--\$2,451 of original cost to be retired from the asset inventory.

So the remainder of the asset built in 1964—the part not yet replaced—now consists of only 3,391 lineal feet with an original cost of \$26,218. It is as though the 1964 asset shrunk to only 91.45% of its previous length and cost. That 91.45% factor can be applied to annual depreciation and net book value as well.

This 1964 asset is shown on the inventory with an expected useful life of 50 years, so its annual depreciation was \$573.36 per year, and with only two years of expected useful life remaining as of the end of 2012, its net book value was \$1,146.72. However, after we retire the part that was replaced, the annual depreciation of the remainder will be $91.45\% \times \$573.36 = \524.34 per year, and its net book value as of the end of 2012 was $\$91.45\% \times \$1,146.72 = \$1,048.67$.

In this case, the old 1964 asset will be fully depreciated by the end of 2014, but as long as those pipes are still in service, they should still be shown on the inventory, because the remaining original cost of \$26,218 is still part of the calculation of the District's General Facilities Charge. In addition, there is now a new asset, which the inventory shows as having cost \$98,587, consisting of 317 feet of 10" pipe. If an expected useful life were to be likewise assumed at 50 years, its annual depreciation will be \$1,971.74 per year.

The O&M Manager's research to match projects with assets showed that the CIP projects completed since 2007 have replaced parts of four original assets: a large group of former Lake City Sewer District (LCSD) sewer lines built in 1958, some 8" pipes that originally belonged to King County Sewer District #3 (KC#3) and were built in 1964, a group of 10" pipes from the same KC#3 area also built in 1964, and the Utility Local Improvement District (ULID) 2 section 7, built in 1960.

In order to complete the "catch up" work, the assumptions about pipe length now in the asset retirement calculation should be reconciled with the District Engineer's project summaries. Once that is done and the adjustments are recalculated, those adjustments should be incorporated into the fixed asset inventory. This should reduce the original cost, annual depreciation, and net book value of the historical assets.

Adjustment for Private Laterals

During the year-end capitalization process, total project cost is determined by the accumulated balances in the general ledger for a particular project, including Construction Work in Progress (CWIP) from prior-year expenditures on that project. However, the projects since 2007 have included replacement of laterals on private property as well as in the street right-of-way. Laterals constructed on private property do not result in an asset owned by the District, and for this reason, their total cost (including a factor for engineering, taxes, and other indirect costs) should be expensed each year rather than being capitalized and included in the fixed asset inventory. Only the part of the project cost corresponding to assets on public property should be included in the original cost of the asset.

To do this, the project summary prepared by CHS Engineering at project closing should be consulted to determine the number of private laterals constructed as part of that project. The District's engineer estimates that the average direct cost of a private lateral is about \$2,500, and that estimate can be multiplied by the number of private laterals to yield the estimated direct cost of the private laterals. The ratio of total cost (from the General Ledger) to direct cost (reported on the project summary) should then be applied to the estimated direct cost of the private laterals, so that the amount expensed is appropriately loaded with its share of indirect costs.

Exhibit 3 summarizes this approach for the 2007-2011 CIP Replacement project.

Exhibit 3: Summary of Private Lateral Construction 2007-2011

Private Laterals Constructed as part of 2007-2011 CIP Projects				
Source: Project Summaries from CHS Engineering	Number of Private Laterals	Est. Cost at \$2,500 per Lateral	Ratio of Direct to Total Cost	Assumed Total Cost
2007 Replacement CIP *	16	\$ 40,000	1.32	\$ 52,871
2008 Replacement CIP	22	55,000	1.37	75,466
2009 Replacement CIP	28	70,000	1.39	97,168
Echo Lake Trunk Replacement *	10	25,000	1.32	33,045
2010 Replacement CIP	67	167,500	1.28	213,676
2011 Replacement CIP	78	195,000	1.28	250,090
Echo Lake Bypass	1	2,500	1.29	3,226
Total	222	\$ 555,000	1.32	\$ 725,542

* Capitalization error assumed for 2007 CIP and Echo Lake Trunk, so use average ratio of other projects.

During this time period, if we assume some type of error in the capitalization process for the 2007 CIP project and the Echo Lake Trunk Replacement project, the average ratio of total cost to direct cost is 1.32. (In Exhibit 1, we saw that the actual calculated ratios for those two projects are 3.30 and 1.01, respectively. Because they were outliers and the underlying cost data for the 2007 CIP project is suspect, Exhibit 3 assumes that for those two projects, the ratio of total to direct cost matches the average of the other projects.) Going forward, if cost data specific to a project is not available, the District could choose to just apply a 1.32 ratio to the estimated direct cost of the private laterals.

Exhibit 3 shows that since the annual main replacement program began with the 2007 CIP, an estimated total of about \$725,000 should have been expensed rather than capitalized. This is a large enough figure to be considered material. As part of the “catch up” work with the District’s capital asset inventory, a prior period adjustment should be made to subtract the amounts shown on Exhibit 2 from the original cost and recalculate the annual depreciation and accumulated depreciation since each project was placed in service.

Keeping Up

Year-end Capitalization Process

Capitalization is the process of recognizing the capital expenditures incurred during the fiscal year and creating a capital asset on the books. It consists of a series of journal entries, typically at the close of the fiscal year. In order to “keep up” the accuracy of the fixed asset inventory and make future asset retirements easier to accomplish, the following steps should be taken each year.

- ◆ Define the asset—what is it, specifically? Where is it? What does it include? What is its expected useful life? If the asset consists of sewer line, it should consist of only one pipe diameter and material. If there is a set of unique identifying codes that refer to another database, that code should be recorded at this time, so future staff will know what the asset is. If the general assets have inventory control tags, that should be included in the asset database. If there is no reference to another, more detailed database to identify the asset specifically, then other information (such as the map quadrant, number of lineal feet, pipe diameter, and pipe material) should be included for the asset. That information should be carefully reconciled to the project summaries from CHS Engineers to ensure an accurate transfer of information from the engineering staff to the accounting staff.
- ◆ When should a project be capitalized? At the close of the year in which the asset is placed in service.
 - ◆ After construction is completed, there is typically a two-year period over which the District may require changes from the contractor before final acceptance. If expenditures are incurred after the

year in which the asset is placed in service, they should be added to the asset value as part of the following year's capitalization process.

- ◆ If expenditures have been incurred for a given project but the project is not complete and the asset not yet placed in service, the accumulated General Ledger expenditures for that project during the year are recorded in Construction Work in Progress (CWIP). Later, when the asset is placed in service and the capitalization take place, the "original cost" of the asset includes prior-year expenditures as well as current-year expenditures on that project.
- ◆ The primary source for construction costs is the General Ledger. However, the GL might not break out costs at a level of detail that is most useful when capitalizing an asset. If the construction contract covers more than one asset, the costs will need to be allocated.
- ◆ After completion of a project, CHS Engineers can provide a project summary. An example of the project summary for the 2008 CIP is attached to this memo as Appendix C. The project summaries only contain direct costs before taxes, but the direct costs can be used to allocate costs across more than one asset that might be built from a single contract. As a hypothetical example, if the total General Ledger cost for a group of assets (including tax, engineering costs, and other indirect costs) were \$1,300,000, while the direct cost shown in the project summary for that same group of assets were \$1,000,000, then the direct cost of each individual asset should be multiplied by $1,300,000 \div 1,000,000 = 1.30$ to yield the original cost of each individual asset.
- ◆ The project summaries will also show the number of private laterals (or side sewers) included in the project. CHS Engineers' recommended assumption is that the average direct cost of a private lateral is \$2,500. If the District decides to use the average total-to-direct ratio of 1.32 for future private lateral adjustments, then the adjustment would be $1.2 \times \$2,500 = \$3,300$ total cost per private lateral. The District can also decide to make the private lateral adjustment using the same ratio used to allocate costs to individual assets (1.30 in the above example). In either case, the ratio times \$2,500 times the number of private laterals will yield the amount to be expensed.

Retirement of Replaced Assets

As part of the year-end capitalization process, the assets that have been replaced should be retired from the inventory, along with their original cost, annual depreciation, and any remaining net book value. The method discussed above should be used for the asset retirements of sewer collection infrastructure. It is important to have an accurate record of the pipe length for replacement projects, because it is needed in order to retire the appropriate percentage of the original asset.

For other types of assets (including vehicles), the same process applies—when a fixed asset is disposed of or taken out of service, it should be subtracted from the inventory.

Unique Identifying Codes

The Paradox system and GIS identify the locations of assets by the upstream manhole. For example, a segment of sewer line might be characterized as "Upstream manhole H3042 to H3043." If a crosswalk file can be created that identifies—with that level of specificity—the location of each asset listed in the accounting inventory, it will help link the accounting database to the District's other databases and make it easier for future staff to retire assets or make adjustments to their value as portions of a given asset are replaced in the future. This crosswalk file would explicitly match each asset in the accounting inventory to an asset in the GIS and Paradox systems. It would help prevent in the future the same thing the District experiences now—the need to do research in the paper files and make a best guess about which of the assets listed in the inventory is being replaced by a current capital project. The Pipelines 2013 worksheet is a head start toward that type of linkage. For each of the historical assets dealing with sewer lines, the

Pipelines 2013.xlsx worksheet now lists basic information about the asset—year of construction, pipe size and material, lineal feet, and location by quadrant. The next step to create a crosswalk file would be to add a column for each asset that identifies the specific location—referring to the upstream manholes—rather than just the general location referring to quadrant.

For infrastructure assets, the accounting inventory need not be very detailed—after all, the only essential information for an accounting inventory is the asset category, an asset description or unique identifying code, the date it was placed in service, original cost, and expected useful life, from which depreciation can be calculated. As long as the inventory is linked to some other database reliably, it need not show the number of lineal feet, the location, or any other characteristic of the asset. But without a crosswalk database, it will always be more challenging to identify the physical reality referred to in the accounting inventory, and the inventory itself would need to contain more identifying information.

Appendix A

2007-2011 Projects from the Pipelines.xlsx Worksheet

Ronald Wastewater District								
2013 Depreciation Ledger								
05	Sewer Lines							
			Straight Line	Cost Basis	Current Depreciation	2012 Accum Depre	2013 Accum Depre	Net Book Value
1	Mainlines Conveyed	01/01/61	50	4,818.00	0.00	4,818.00	4,818.00	0.00
2	Mainlines Conveyed	01/01/62	50	23,331.00	0.00	23,331.00	23,331.00	0.00
3	ULID 2	01/01/62	50	70,890.30	0.00	70,890.30	70,890.30	0.00
4	Mainlines Conveyed	01/01/63	50	18,216.00	0.00	18,216.00	18,216.00	0.00
5	Mainlines Conveyed	01/01/64	50	5,856.00	0.00	5,856.00	5,856.00	0.00
6	Mainlines Conveyed	01/01/65	50	55,836.00	1,117.35	53,592.08	54,709.43	1,126.57
7	ULID 3, 4, 5, 6 & 7	01/01/65	50	2,589,960.18	51,763.82	2,486,007.14	2,537,770.96	52,189.22
8	Mainlines Conveyed	01/01/66	50	25,233.00	505.51	23,712.35	24,217.86	1,015.14
9	ULID 8 & 9	01/01/67	50	551,311.87	11,017.87	507,119.72	518,137.59	33,174.28
10	Mainlines Conveyed	01/01/67	50	8,970.00	179.92	8,248.42	8,428.34	541.66
11	Mainlines Conveyed	01/01/68	50	28,574.00	571.79	25,708.82	26,280.61	2,293.39
12	ULID 10, 11, & 12	01/01/69	50	2,399,457.22	47,956.32	2,111,193.79	2,159,150.11	240,307.11
13	Mainlines Conveyed	01/01/69	50	26,712.00	534.21	23,500.97	24,035.18	2,676.82
14	Mainlines Conveyed	01/01/70	50	54,045.00	1,081.34	46,463.77	47,545.11	6,499.89
15	ULID 13 & 15	01/01/70	50	165,601.31	3,309.87	142,395.86	145,705.73	19,895.58
16	ULID 16	01/01/71	50	289,063.18	5,776.95	242,768.42	248,545.37	40,517.81
17	ULID 14	01/01/72	50	944,727.72	18,881.06	774,539.44	793,420.50	151,307.22
18	Mainlines Conveyed	01/01/72	52	34,905.00	668.65	28,878.06	29,546.71	5,358.29
19	Mainlines Conveyed	01/01/73	52	8,960.00	172.12	7,236.39	7,408.51	1,551.49
20	ULID 17	01/01/73	50	359,945.52	7,193.98	287,907.09	295,101.07	64,844.45
21	Mainlines Conveyed	01/01/74	50	8,500.00	169.89	6,628.92	6,798.81	1,701.19
22	Mainlines Conveyed	01/01/75	50	7,310.00	146.26	5,552.41	5,698.67	1,611.33
23	197th & 40th Ext	01/01/75	50	105,202.20	2,102.51	79,937.63	82,040.14	23,162.06
24	Mainlines Conveyed	01/01/76	50	46,652.00	932.41	34,515.36	35,447.77	11,204.23
25	MH 139 Rev	01/01/77	48	9,107.61	188.53	6,465.09	6,653.62	2,453.99
26	Mainlines Conveyed	01/01/77	50	16,895.00	337.67	12,162.10	12,499.77	4,395.23
27	Mainlines Conveyed	06/01/78	51	30,034.36	591.80	20,901.11	21,492.91	8,541.45
28	Mainlines Conveyed	01/01/79	50	32,406.03	647.72	22,030.05	22,677.77	9,728.26
29	Mainlines Conveyed	07/01/79	50	131,853.47	2,622.04	88,550.31	91,172.35	40,681.12
30	Mainlines Conveyed	01/01/80	49	204,000.00	4,130.65	133,699.77	137,830.42	66,169.58
31	Mainlines Conveyed	01/01/84	51	59,487.00	1,173.56	34,816.45	35,990.01	23,496.99
32	Mainlines Conveyed	01/01/85	49	105,142.47	2,134.34	58,140.10	60,274.44	44,868.03
33	ATL	01/01/85	49	250,581.42	5,076.17	138,794.29	143,870.46	106,710.96
34	KC3	01/01/86	50	435,487.00	8,709.74	364,529.40	373,239.14	62,247.86
35	Harris Sunrise	01/01/88	49	22,805.06	461.48	11,256.73	11,718.21	11,086.85
36	Mainlines Conveyed	01/01/88	48	558,595.91	11,519.80	270,317.04	281,836.84	276,759.07
37	Firlands Line	01/01/92	49	314,773.02	6,363.43	130,059.02	136,422.45	178,350.57
38	Misc Sewer Line	01/01/93	50	31,644.42	632.45	12,653.39	13,285.84	18,358.58
39	Misc.	01/01/94	50	130,824.22	2,614.69	49,697.26	52,311.95	78,512.27
40	Misc.	01/01/95	49	59,444.53	1,214.04	20,558.74	21,772.78	37,671.75
41	Misc Disaster	01/01/97	50	373,126.84	7,465.07	119,089.61	126,554.68	246,572.16
42	KC #3	01/01/98	10	57,786.00		57,786.00	57,786.00	0.00
43	ML D3039 1&173 NW	06/01/98	50	47,361.22	948.19	13,751.26	14,699.45	32,661.77
44	Laura Cliff- G5020 23&189 N	12/31/98	50	13,900.00	277.80	3,913.55	4,191.35	9,708.65

Ronald Wastewater District 2013 Depreciation Ledger								
05	Sewer Lines							
			Straight Line	Cost Basis	Current Depreciation	2012 Accum Depre	2013 Accum Depre	Net Book Value
45	Sea Golf C- D2041 1&155 NW	06/30/00	39	54,274.00	1,376.85	17,064.94	18,441.79	35,832.21
46	Whitm Terr- E1099 8&145 N	12/31/01	50	25,500.00	509.66	5,649.55	6,159.21	19,340.79
47	LCSD Sewer Lines	12/31/01	20	3,342,973.91	167,148.69	1,922,635.59	2,089,784.28	1,253,189.63
48	Sutton Hghts- A6009 26&204 NW	01/01/02	49	34,005.00	687.36	14,052.76	14,740.12	19,264.88
49	Mrdn Pk- E2085 163&Linden N	12/31/02	40	54,550.92	1,363.77	13,637.73	15,001.50	39,549.42
50	Rich Bch Cf-C5005 14&Rich NW	12/31/03	50	42,942.00	858.84	7,729.56	8,588.40	34,353.60
51	Wilson- E2013 150&Dayton N	12/31/03	50	104,159.39	2,083.19	18,748.69	20,831.88	83,327.51
52	ULID 2 I&I	12/31/03	50	170,200.07	3,404.00	30,636.01	34,040.01	136,160.06
53	Sold LFP (% RWD Area) 12/31/02	12/31/03		-1,848,087.00		-1,284,017.84	-1,284,017.84	-564,069.16
54	Sold LFP / % in LCSD area	12/31/03		-654,995.45		-81,957.83	-81,957.83	-573,037.62
55	Adj fm AP-Trmt Chrg	12/31/03		-1,355,907.40		0.00	0.00	-1,355,907.40
56	Hillw ood Est- D5069 192&6 NW	03/31/04	50	52,369.00	1,047.38	9,164.58	10,211.96	42,157.05
57	Prmnt Pk-H1105 145&12 NE	06/30/04	50	47,716.00	954.32	8,111.72	9,066.04	38,649.96
58	Viking Lea-E4087 175&Npk N	06/30/04	50	62,566.03	1,251.32	10,636.23	11,887.55	50,678.48
59	Viking Hlnds- D4027 175&8 NW	06/30/04	50	40,556.79	811.14	6,894.65	7,705.79	32,851.00
60	Ron 002 Pilot Project	12/31/04	50	565,837.82	11,316.76	90,534.05	101,850.81	463,987.01
61	Stimac- D6087 198&Npark N	03/31/05	50	46,918.00	938.36	7,272.29	8,210.65	38,707.35
62	15th Ave NE Revitalized	12/31/05	50	317,157.36	6,343.15	44,402.03	50,745.18	266,412.18
63	Pipe Bridge	12/31/05	20	58,821.21	2,941.06	20,587.42	23,528.48	35,292.73
64	Chrysalis Cottage-191st & 8 NW	06/30/06	50	28,462.00	569.24	3,700.06	4,269.30	24,192.70
65	Cedar Hghts DE, 190 & 15 NE	01/31/07	50	123,100.00	2,462.00	14,566.83	17,028.83	106,071.17
66	Walgreen's DE, 175 & Aurora N	02/28/07	50	67,412.00	1,348.24	7,864.73	9,212.97	58,199.03
67	N City Apts DE, 180 & 15 NE	03/31/07	50	7,750.00	155.00	891.25	1,046.25	6,703.75
68	Urban Trls TH DE, 145 & Whitman	07/31/07	50	81,620.01	1,632.40	8,842.17	10,474.57	71,145.44
69	Viking DE, 200 & 3 NW	09/30/07	50	47,616.00	952.32	4,999.68	5,952.00	41,664.00
70	USA- Corliiss & 189th	12/31/07	50	245,255.83	4,905.12	24,525.58	29,430.70	215,825.13
71	USA- 23rd & Balgr	12/31/07	50	439,256.48	8,785.13	43,925.52	52,710.65	386,545.83
72	USA- 23rd & 145 NE	12/31/07	50	483,018.13	9,660.36	48,301.42	57,961.78	425,056.35
73	Shoreline TH, 192 & Ashw orth	08/31/08	50	216,400.00	4,328.00	18,754.67	23,082.67	193,317.33
74	Reserve on Stone, 180 & Stone	08/31/08	50	73,741.69	1,474.83	6,390.95	7,865.78	65,875.91
75	KC Hidden Lake Project	12/31/09	50	366,150.00	7,323.00	21,969.00	29,292.00	336,858.00
76	Cost DE	04/30/10	50	57,930.00	1,158.60	2,510.30	3,668.90	54,261.10
77	2007 CIP, NE 185th	04/30/10	50	534,162.42	10,683.25	23,090.99	33,774.24	500,388.18
78	NW 190 Sewer Ext	04/30/10	50	77,927.41	1,558.55	3,368.67	4,927.22	73,000.19
79	MH 3011 Slide Project	04/30/10	50	34,160.15	683.20	1,476.68	2,159.89	32,000.26
80	Baldw in DE, 145 & 32 NE	07/31/10	50	72,973.00	1,459.46	2,675.68	4,135.14	68,837.86
81	Balgr Highlands DE, 200 & 15 NE	10/31/10	50	10,570.00	211.40	281.87	493.27	10,076.73
82	20040 15 NE DE	10/31/10	50	10,500.00	210.00	280.00	490.00	10,010.00
83	Ronald Bog S DE	12/31/10	50	127,669.94	2,553.40	5,106.80	7,660.20	120,009.74
84	Echo Lake Mixed Use Vge DE	12/31/10	50	1,375,057.00	27,501.14	55,002.28	82,503.42	1,292,553.58
85	Shoreline Sch Central Kitchen DE	10/01/11	50	46,731.00	934.62	1,869.24	2,803.86	43,927.14
86	2008 CIP, Richmond Bch	12/31/11	50	554,153.23	11,083.06	11,083.06	22,166.13	531,987.10
87	2009 CIP, North City	12/31/11	50	705,275.96	14,105.52	14,105.52	28,211.04	677,064.92
88	ELTL Project Trunk Line	09/30/12	50	1,704,326.96	34,086.54	8,521.63	42,608.17	1,661,718.79
89	2010-01 CIP, Briarcrest I	09/30/12	50	526,333.89	10,526.68	2,631.67	13,158.35	513,175.54
90	2010-02 CIP, Briarcrest II	09/30/12	50	696,210.99	13,924.22	3,481.05	17,405.27	678,805.72
91	Aurora Corridor Phase I & II	09/30/12	50	355,528.50	7,110.57	1,777.64	8,888.21	346,640.29
92	166th & Meridian	12/31/12	50	12,422.86	248.46	0.00	248.46	12,174.40
93	North City CIP 1	04/30/13	50	584,949.53	3,899.66	0.00	3,899.66	581,049.87
94	North City CIP 2	10/31/13	50	655,225.24	10,920.42	0.00	10,920.42	644,304.82
95	North City CIP 4	11/30/13	50	23,320.25	427.54	0.00	427.54	22,892.71
				22,226,101.20	611,108.77	9,791,966.29	10,403,075.06	11,823,026.14

Appendix B

Pipelines 2013 Worksheet

Ronald Wastewater District						
Capital Assets - Collection System 2013						
Qtr Sect	Date of Constr.	Size	Length	Material Type	Cost	Project / File Name
H3	1957	8	12,341	Concrete	\$ 367,762	ULID 12 (As-Builts)
N/A	1958	6	340	Concrete	\$ 3,635	LCSD Aquisition
N/A	1958	10	1,317	AC	\$ 14,079	LCSD Aquisition
N/A	1958	10	18,970	Concrete	\$ 202,789	LCSD Aquisition
N/A	1958	8	4,936	AC	\$ 52,766	LCSD Aquisition
N/A	1958	8	551	D.I.	\$ 5,890	LCSD Aquisition
N/A	1958	10	551	D.I.	\$ 5,890	LCSD Aquisition
N/A	1958	8	321,232	Concrete	\$ 3,433,971	LCSD Aquisition
N/A	1958	12	7,351	Concrete	\$ 78,582	LCSD Aquisition
N/A	1958	12	502	D.I.	\$ 5,366	LCSD Aquisition
F2	1959	24	1,729	Concrete	\$ 14,316	ULID 16 #2 (As-Builts)
F2	1959	18	2,947	Concrete	\$ 24,401	ULID 16 #2 (As-Builts)
F2	1959	8	23,885	Concrete	\$ 197,768	ULID 16 #2 (As-Builts)
F2	1960	30	3,159	Concrete	\$ 94,138	ULID 10 # 1 (As-Builts)
E5	1960	8	34,013	Concrete	\$ 66,666	ULID 2 #7 (As Builts)
E5	1960	6	160	Concrete	\$ 314	ULID 2 #7 (As Builts)
F2	1960	10	1,562	Concrete	\$ 46,548	ULID 10 # 1 (As-Builts)
E2	1960	15	1,324	Concrete	\$ 17,980	ULID 3 & 4 #1 (As-Builts)
F2	1960	8	32,135	Concrete	\$ 957,623	ULID 10 # 1 (As-Builts)
E2	1960	8	12,318	Concrete	\$ 167,278	ULID 3 & 4 #1 ULID 16 # 1 (As-Builts)
E2	1960	18	2,956	Concrete	\$ 40,172	ULID 3 & 4 #1 (As-Builts)
E2	1960	24	100	Concrete	\$ 1,358	ULID 3 & 4 #1 (As-Builts)
E2	1960	21	1,047	Concrete	\$ 14,229	ULID 3 & 4 #1 (As-Builts)
E4	1961	8	431	Concrete	\$ 4,818	Firlands
G5	1961	8	580	Concrete	\$ 55,863	Echo Lane
F5	1961	8	132	Concrete	\$ 5,856	Echo LakeView Homes
E6	1961	8	180	Concrete	\$ 7,985	Michael's First Addition
F2	1962	8	230	Concrete	\$ 18,216	Maywood Acres
D5	1962	10	2,439	Concrete	\$ 33,146	ULID 3 & 4 #4 (As-Builts)
E3	1962	10	2,290	Concrete	\$ 31,121	ULID 3 & 4 #4 (As-Builts)
E3	1962	8	12,703	Concrete	\$ 172,634	ULID 3 & 4 #4 (As-Builts)
D5	1962	8	22,420	Concrete	\$ 304,688	ULID 3 & 4 #5 (As-Builts)
E1 & 2	1962	12	673	Concrete	\$ 9,146	ULID 3 & 4 #3 (As-Builts)
D5	1962	15	2,627	Concrete	\$ 35,701	ULID 3 & 4 #5 (As-Builts)
E3	1962	15	1,615	Concrete	\$ 21,948	ULID 3 & 4 #1 (As-Builts)
E1 & 2	1962	15	1,499	Concrete	\$ 20,371	ULID 3 & 4 #3 (As-Builts)
E4	1962	15	715	Concrete	\$ 9,717	ULID 3 & 4 #2 (As-Builts)
C4	1962	18	400	Concrete	\$ 54,367	ULID 5 & 6 (As-Builts)
E3	1962	18	3,033	Concrete	\$ 41,218	ULID 3 & 4 #1 (As-Builts)
E4	1962	18	1,615	Concrete	\$ 21,984	ULID 3 & 4 #2 (As-Builts)
E3	1962	21	900	Concrete	\$ 12,231	ULID 3 & 4 #1 (As-Builts)
E3	1962	24	923	Concrete	\$ 12,544	ULID 3 & 4 #1 (As-Builts)
E1 & 2	1962	8	28,574	Concrete	\$ 388,321	ULID 3 & 4 #3 (As-Builts)
G5	1962	8	650	Concrete	\$ 23,331	Echo Lane #2
E3	1962	8	28,226	Concrete	\$ 383,591	ULID 3 & 4 #1 (As-Builts)
E4	1962	8	27,151	Concrete	\$ 368,711	ULID 3 & 4 #2 (As-Builts)
E1 & 2	1962	10	2,361	Concrete	\$ 32,086	ULID 3 & 4 #3 (As-Builts)
D5	1962	12	1,644	Concrete	\$ 22,342	ULID 3 & 4 #4 (As-Builts)
C4	1962	8	7,758	Concrete	\$ 105,431	ULID 5 & 6 (As-Builts)
D5	1962	8	21,549	Concrete	\$ 292,851	ULID 3 & 4 #4 (As-Builts)
D5	1962	12	1,239	Concrete	\$ 16,838	ULID 3 & 4 #5 (As-Builts)
E6	1963	8	125	Concrete	\$ 3,904	Madelon Park
E6	1963	8	262	Concrete	\$ 8,182	Mac-Land = N 201st & Dayton
E4	1963	8	150	Concrete	\$ 4,685	Richmond Village
E4	1964	8	280	Concrete	\$ 8,745	St. Lukes Pl
C4	1964	8	385	Concrete	\$ 12,024	Garden Park

Ronald Wastewater District						
Capital Assets - Collection System 2013						
Qtr	Date of	Size	Length	Material	Cost	Project / File Name
Sect	Constr.			Type		
C5	1964	12	4,936	Concrete	\$ 67,080	ULID 7 (As-Builts)
C5	1964	8	8,065	Concrete	\$ 109,603	ULID 7 (As-Builts)
B6	1964	10	3,391	Concrete	\$ 26,218	King County # 3
B6	1964	8	48,379	Concrete	\$ 336,532	King County # 3
B6	2007	10	317	PVC	\$ 98,587	King County # 3 / Replaced 2007 CIP
B6	1964	12	490	Concrete	\$ 3,788	King County # 3
C5	1965	8	17,018	Concrete	\$ 551,311	ULID 8 & 9 #2 (As-Builts)
N/A	1965	8	222	Concrete	\$ 2,373	LCSD Aquisition
C6	1965	8	450	Concrete	\$ 25,233	Michael's Park 2, 3 & 4
N/A	1966	8	21,388	Concrete	\$ 228,638	LCSD Aquisition
J6	1967	8	27,754	Concrete	\$ 827,069	ULID 10 #2 (As-Builts)
J6	1967	15	506	Concrete	\$ 15,079	ULID 10 #2 (As-Builts)
J6	1967	10	195	Concrete	\$ 5,811	ULID 10 #2 (As-Builts)
J6	1967	12	2,974	Concrete	\$ 88,626	ULID 10 #2 (As-Builts)
E6	1970	8	308	Concrete	\$ 2,619	Aurora Ave N @ N 205th St
B3	1970	18	1,933	Concrete	\$ 361,606	ULID 14 #4 (outfall) (As-Builts)
E6: D6	1970	8	67,049	Concrete	\$ 165,601	ULID 13 & 15 #1 (As-Builts)
H6	1970	8	6,339	Clay	\$ 289,063	ULID 16 # 1 (As-Builts)
C5	1970	8	614	Concrete	\$ 54,045	Castmont - NW 193rd @ 8th NW
B3	1970	8	3,117	Concrete	\$ 583,097	ULID 14 #4 (outfall) (As-Builts)
C6	1970	8	275	Concrete	\$ 26,712	Overton Vista
I6	1971	8	351	Concrete	\$ 26,500	Charlelew Add.
I5: I4	1971	8	17,509	Concrete	\$ 359,945	ULID 17 #1 (As-Builts)
D6	1972	8	230	Concrete	\$ 17,364	Courdelane - 2nd NW & NW 200th
C6	1974	8	980	Concrete	\$ 62,461	Stimson Estates
B4/C3	1975	N/A	N/A	Rewire to 2- phase	\$ 9,724	Innis Arden - LS Revision - LS 1, 2, & 4
G5	1977	8	200	Concrete	\$ 5,745	Pine View Estates
I4	1977	8	790	Concrete	\$ 29,450	Koleana Nelson
I6	1977	8	651	Concrete	\$ 11,442	23rd Ave NE
D6	1977	8	760	Concrete	\$ 12,043	Highland Woods DE
I6	1977	8	610	Concrete	\$ 11,442	Ballinger Woodlands Ext. II
C3	1978	6	56	PVC	\$ 9,107	MH 139 Revision ULID 16 # 1 (As-Builts)
I6	1978	8	145	Concrete	\$ 6,716	Ballinger Woodlands Ext. II
F5	1979	6	347	Concrete	\$ 12,418	Shore Glen
E2	1979	8	460	Concrete	\$ 11,684	Trophy Highlands
F6	1979	8	600	Concrete	\$ 20,880	Commons - Wallingford & N 201st St
F5	1979	8	855	Concrete	\$ 30,609	Shore Glen
C3	1980	8	1,146	PVC	\$ 71,300	Shorewood Hills
E3	1983	12	775	Concrete	\$ 38,750	Christa
I6	1983	8	353	Force Main / Generator	\$ 240,661	Forest Creek Condos
E3	1983	8	158	Concrete	\$ 7,900	Christa
A6	1985	N/A	N/A	N/A	\$ 250,581	Apple Tree Lane Grinder Pumps
H6	1985	8	230	DI	\$ 24,650	Stevens Properties
G5	1985	8	215	PVC	\$ 17,731	Pipe Crossing
I4	1988	8	380	PVC	\$ 22,805	Harris Sunrise DE
I6	1989	LS #9	0	Concrete	\$ 13,887	Forest Creek ML Ext.
G5	1989	8	181	PVC	\$ 20,981	Cary PI - NE 198th & 5th Ave NE
C6	1990	8	375	PVC	\$ 19,003	Chapman Ext. - 203rd PI NW & 12th NW
C6	1990	8	50	D.I.	\$ 227	Chapman Ext. - 203rd PI NW & 12th NW

Ronald Wastewater District						
Capital Assets - Collection System 2013						
Qtr Sect	Date of Constr.	Size	Length	Material Type	Cost	Project / File Name
A6	1991	8	1,692	Clay	\$ 121,638	Firlands (As-Built)
A6	1991	15	328	RCP	\$ 23,580	Firlands (As-Built)
A6	1991	8	1,550	PVC	\$ 111,430	Firlands (As-Built)
A6	1991	8	806	RCP	\$ 57,943	Firlands (As-Built)
A6	1992	6	155	PVC	\$ 9,618	Sutton Heights (As-Built)
A6	1992	8	355	PVC	\$ 22,028	Sutton Heights (As-Built)
I5	1993	8	17	PVC	\$ 6,245	Stewart/Lasswell
A5	1993	N/A	N/A	Move Grinder Pump	\$ 2,693	Pump Rework - 19539 27th Ave NW
F6	1994	8	250	D.I.	\$ 5,667	Aurora Village
F6	1994	8	2,482	PVC	\$ 55,064	Aurora Village
B5	1994	8	338	PVC	\$ 20,501	Careage - 19237 15th NW
C4	1995	8	100	PVC	\$ 19,297	Pipeline Replacement - Hydrogen Sulfide Damage
C6	1995	8	465	PVC	\$ 30,200	Maple Knoll
C4	1995	6	100	PVC	\$ 19,297	Pipeline Replacement - Hydrogen Sulfide Damage
E5	1997	8	40	PVC	\$ 10,480	Richmond Highland Apts.
D4	1997	N/A	N/A	N/A	\$ 314,773	Flood Repair - 6th NW
A5	1997	N/A	N/A	2 Grinder Pumps	\$ 30,145	Apple Tree Lane Lots 22 - 27
G5	1998	8	316	PVC	\$ 13,900	Laura Cliff #2
E2	1998	8	200	PVC	\$ 47,361	1st NW & NW 172nd St
D1	2000	8	284	PVC	\$ 54,274	Highland Golf Course DE
E2	2001	8	239	PVC	\$ 33,090	Wilson Bunglos
E1	2001	8	252	PVC	\$ 25,500	Whitman Ave
E2	2001	8	265	PVC	\$ 49,721	Greenwood Ave Cottages
E3	2002	8	268	PVC	\$ 54,550	Linden Ave N & N 163rd (As-Built)
F4	2002	8	225	PVC	\$ 104,159	Meridian Park Cottages
E2	2002	8	250	PVC	\$ 21,460	Hageman DE
D2	2003	8	239	PVC	\$ 104,159	Wilson - 150th & Dayton
C5	2003	8	152	PVC	\$ 42,942	Richmond Beach Cafe
G1	2003	N/A	N/A	Manhole	\$ 9,073	14900 1st Ave NE
C4	2004	8	318	PVC	\$ 40,556	Haley Estates DE
D5	2004	8	541	PVC	\$ 52,369	Hillwood DE
E6	2004	8	140	D.I.	\$ 18,346	Aurora Ave N @ Whitman Ave N
E3	2004	8	212	PVC	\$ 62,556	Viking - N 175th St
H1	2004	8	150	PVC	\$ 47,716	Paramont Park Townhomes
I4	2005	8	1,350	HDPE	\$ 317,157	15th Ave NE Pipe Replacement - Replaces LCSD Aquisition Lines
E6	2005	8	221	PVC	\$ 46,918	Stimac DE
C3	2005	8	1,216	PVC	\$ 366,150	Hidden Lake (As-Built)
D5	2006	8	471	PVC	\$ 28,452	Chrysalis Cottages DE
H5	2006	8	374	PVC	\$ 123,100	Ceder Heights DE
J1	2007	8	1,221	PVC	\$ 483,018	USA - NE 145th & 23rd NE
F4	2007	8	205	PVC	\$ 67,412	Walgreens

Ronald Wastewater District						
Capital Assets - Collection System 2013						
Qtr Sect	Date of Constr.	Size	Length	Material Type	Cost	Project / File Name
G5, B5	2007	8	1,790	HDPE	\$ 594,162	2007 CIP - Replaces LCSD Aquisition Pipe Lines + King County #3
E1	2007	8	212	PVC	\$ 81,620	Urban Trail Townhomes
C5	2007	6	80	PVC	\$ 77,927	NW 190th Sewer Ext. (As-Built)
H5	2007	8	35	PVC	\$ 7,750	North City Apts.
I6	2007	6	205	PVC	\$ 70,515	USA - NE 23rd & Ballinger
I6	2007	8	1,072	PVC	\$ 368,741	USA - NE 23rd & Ballinger
D6	2007	8	192	PVC	\$ 47,616	Viking - 3rd NW & NW 200th
G5	2007	8	702	PVC	\$ 245,255	USA - Corliss & N 189th
N/A	2008	8	1,665	HDPE	\$ 554,153	2008 CIP - Replaces King County #3 Aquisition Pipe Lines
F4	2008	8	187	PVC	\$ 73,741	Reserve On Stone
F6	2008	18	398	PVC	\$ 164,480	Shoreline Townhomes
F6	2008	8	236	PVC	\$ 51,920	Shoreline Townhomes
E6	2009	8	210	PVC	\$ 57,930	Costco DE
N/A	2009	8	1,726	HDPE	\$ 705,275	2009 CIP - Replaces LCSD Aquisition Pipe Lines
B3	2009	8	108	HDPE	\$ 34,160	MH3011 Slide Project
F5	2010	18	678	HDPE	\$ 490,800	Echo Lake By-Pass - New Construction
F5	2010	8	594	PVC	\$ 1,375,057	Echo Lake Mixed Use Village
J1	2010	8	125	PVC	\$ 72,973	Baldwin DE
F5	2010	15	302	HDPE	\$ 121,901	Echo Lake Pipeline Replacement - Replaces Part ULID #2, Contract 8
H1: A5: J2: F1	2010	8	1,674	HDPE	\$ 594,149	2007 CIP - Replaces LCSD Aquisition Lines + King County #3
E4	2010	8	234	PVC	\$ 127,669	Ronald Bog South
H6	2010	8	145	PVC	\$ 10,500	20040 15th Ave NE
I6	2010	8	145	PVC	\$ 10,570	Ballinger Highlands DE
F5	2010	18	1,711	HDPE	\$ 690,638	Echo Lake Pipeline Replacement - Replaces Part ULID #2, Contract 8
I1	2010	8	4,236	HDPE	\$ 1,222,545	2010 CIP - Replaces LCSD Aquisition Pipe Lines
I3	2011	8	4,088	HDPE	\$ 1,237,367	2011 CIP - Replaces LCSD Aquisition Pipe Lines
			945,849		\$ 25,756,767	

Appendix C

Example of Project Summary from CHS Engineers
2008 Replacement CIP

**Ronald Wastewater District - Sanitary Sewer Rehabilitation
Project Summary: 2008 CIP (Contract # 09-B)**

Neighborhoods: Echo Lake, Richmond Beach, Richmond Highlands

Project Construction Complete: May 11, 2011

Permits: City of Shoreline Right-of-Way Permit

Project Areas: N 185th St between Meridian Ave N and 1st Ave NE; NW 194th Pl between Richmond Beach Dr NW and 25th Ave NW;
NE 167th St between Whitman Ave N and Aurora Ave N

Condition Assessment: Through the District's ongoing maintenance, TV inspection personnel assess the entire system once every six to eight years, noting the various types and severity of defects in the sewer mainlines. Pipe segments in the 2008 CIP were selected for replacement due to significant roots throughout pipe runs, broken/cracked pipes, bellies, pulled joints, and evidence of infiltration and inflow (I/I).

Notes: The Final Construction Cost can be less than Bid Price because not all the materials, side sewers, and force account funds were used. Also all side sewer stubs and all full length side sewers in the project area are both bid for price comparison.

Cost/Construction:

Engineer's Estimate: \$515,480 (w/o tax)

Contractor's Bid Price: \$418,105 (w/o tax)

Change Orders: N/A

Final Construction Cost: \$403,871.76 (w/o tax)

Engineer: Scott Christensen, P.E., Kristen Orndorff, CHS Engineers, LLC

Inspector: David Jensen, CHS Engineers

Contractor: Landis & Landis Construction, LLC

Cost per lineal foot main line: \$214.03 per LF

Replacement/Rehabilitation:

8" Concrete Sanitary Sewer Pipeburst with 8" HDPE: 1,887 LF

Manholes Replaced (48"): 2

Manholes Rehabilitated (Frame, Cover and Neck): 5

% Participation of Eligible for Side Sewer Replacement: 88%

Cleanouts Installed: 27

Private Side Sewers Replaced: 22

Side Sewer Stubs Replaced: 12

Ex. PVC Side Sewers Not Replaced: 10

Private Replacement/Participation:

Number of private side sewers in project: 35

Number of property owners that signed up (signed ROE): 21

**Ronald Wastewater District - Sanitary Sewer Rehabilitation
Project Summary: 2008 CIP (Contract # 09-B)**

	House #	Street	ROE	Original Pipe (Stub/SS)	New Pipe (Stub/SS)	Replacement		Size	Notes
						Stub	SS		
1	18505	Meridian Court N	Y	Conc/ABS	HDPE/PVC		x	6"/4"	Replaced joint stub and 2 SS's with joint stub and 2 SS's
2	18512	Meridian Court N	Y	Conc/ABS	HDPE/PVC		x	6"/4"	
3	18504	Meridian Court N	Y	Conc/ABS	HDPE/ABS		x	6"/4"	Replaced joint stub and 3 SS's with joint stub and 3 SS's
4	18510	Meridian Court N		Conc/ABS	HDPE/ABS		x	6"/4"	
5	18530	Meridian Ave N	Y	Conc/ABS	HDPE/ABS		x	6"/4"	
6	2122	N 185 th St	Y	Conc	HDPE		x	4"	Replaced stub and SS
7	2128	N 185 th St	Y	Conc	HDPE		x	4"	Replaced stub and SS
8	2134	N 185 th St	Y	PVC	HDPE/PVC	x		4"	Replaced joint stub to original pipe
9	2137	N 185 th St	Y	Conc	HDPE		x	4"	Replaced joint stub and SS with joint stub and SS
10	2140	N 185 th St	Y	Conc	HDPE		x	4"	Replaced stub and SS
11	2146	N 185 th St	Y	Conc	HDPE		x	4"	Replaced stub and SS
12	2152	N 185 th St	Y	Unknown	HDPE		x	4"	Replaced stub and SS
13	2156	N 185 th St	Y	Unknown	HDPE		x	4"	Replaced stub and SS
14	2308	N 185 th St		PVC	HDPE/PVC	x		4"	Replaced stub to original pipe
15	2310	N 185 th St		PVC	HDPE/PVC	x		6"	Replaced joint stub to original pipes
16	2312	N 185 th St							
17	2322	N 185 th St	Y	Conc	HDPE		x	4"	Replaced stub and SS
18	2330	N 185 th St	Y	Conc	HDPE		x	4"	Replaced stub and SS
19	2334	N 185 th St	Y	Conc	HDPE		x	6"/4"	Replaced joint stub and 2 SS's with joint stub and 2 SS's
20	2336	N 185 th St		PVC	HDPE		x	6"	
21	2338	N 185 th St	Y	Conc	HDPE		x	4"	Replaced stub and SS
22	2340	N 185 th St		Conc	HDPE/Conc	x		4"	Replaced stub to original pipe
23	18515	N 185 th St	Y	Conc/ABS	HDPE		x	4"	Replaced stub and SS
24	18509 (shed)	N 185 th St	Y	Conc/ABS	HDPE/ABS	x		4"	Replaced stub to original pipe

**Ronald Wastewater District - Sanitary Sewer Rehabilitation
Project Summary: 2008 CIP (Contract # 09-B)**

	House #	Street	ROE	Original Pipe (Stub/SS)	New Pipe (Stub/SS)	Replacement		Size	Notes
						Stub	SS		
25	18509	N 185 th St	Y	Conc/ABS	HDPE/ABS	x		4"	Replaced stub to original pipe
26	2537	NW 194 th Pl	Y	Conc	HDPE		x	4"	Replaced stub and SS
27	2533	NW 194 th Pl		Unknown	HDPE/Unknown	x		4"	Replaced stub to original pipe
28	2534	NW 194 th Pl		Conc	HDPE/Conc	x		4"	Replaced stub to original pipe
29	2527	NW 194 th Pl		Unknown/PVC	HDPE/PVC	x		4"	Replaced stub to original pipe
30	2526	NW 194 th Pl	Y	Unknown	HDPE		x	4"	Replaced stub and SS
31	2523	NW 194 th Pl		Conc/PVC	HDPE/PVC	x		4"	Replaced stub to original pipe
32	2520	NW 194 th Pl	Y	ABS	HDPE		x	4"	Replaced stub and SS
33	16706	Whitman Ave N		PVC/ABS	PVC/ABS	x		4"	Replaced stub to original pipe
34	16549	Aurora Ave N		Conc/PVC	PVC	x		6"	Replaced stub to original pipe
35	16707	Aurora Ave N		Clay	PVC		x	4"	Replaced stub and SS
TOTALS						12	22		

Total Homes: 35 (including 1 shed)

Homes not eligible, existing plastic pipe (SS not replaced): 10

Homes with stub replacement only: 12

Homes eligible: 35 – 10 = 25

Homes with side sewer replacement: 22

% Participation of Eligible for Side Sewer Replacement: 22/25 = 88%

Appendix D

Assets from 2007-2011 CIP Plus Related Retirements from Original Assets

Ronald Wastewater District										
Pipelines 2013 Worksheet, Showing Only Assets from 2007-2011 CIP Projects plus Assets with Replaced Pipes										
Project / File Name	Qtr Sect	Date of Constr.	Size	Length After Asset Retirement	Length Before Asset Retirement	Retirement Adjustment (l.f.)	Material Type	Adjusted Original Cost	Per Original Asset Inventory	Retirement Adjustment (\$)
Assets with Replaced Pipes:										
LCSD Acquisition	N/A	1958	8	321,232 l.f.	334,227 l.f.	12,995 l.f.	Concrete	\$ 3,433,971	\$ 3,572,887	\$ 138,916
ULID 2 #7 (As Builts)	E5	1960	8	34,013 l.f.	36,026 l.f.	2,013 l.f.	Concrete	\$ 66,666	70,611	3,945
King County # 3	B6	1964	8	48,379 l.f.	51,813 l.f.	3,434 l.f.	Concrete	\$ 336,532	360,432	23,900
King County # 3	B6	1964	10	3,391 l.f.	3,708 l.f.	317 l.f.	Concrete	\$ 26,218	28,668	2,450
Total Assets with Replaced Pipes				407,015 l.f.	425,774 l.f.	18,759 l.f.				169,211
Assets from 2007-2011 CIP Projects:										
From Fixed Asset Inventory										
Project / File Name	Qtr Sect	Date of Constr.	Size	Length			Material Type	Adjusted Original Cost	Per Original Asset Inventory	Variance
2007 CIP - Replaces LCSD Acquisition Pipe Lines + King County #3	G5, B5	2007	8	1,790 l.f.			HDPE	\$ 594,162	\$594,149	(\$13)
King County #3/Replaced 2007 If part of 2007 CIP, construction date should be 2009	B6	1964	10	317 l.f.			PVC	98,587	98,587	0
2007 CIP - Replaces LCSD Acquisition Lines & King County #3	H1: A5: J2: F1	2010	8	1,674 l.f.			HDPE	594,149	594,149	0
2008 CIP - Replaces King County #3 Acquisition Pipe Lines	N/A	2008	8	1,665 l.f.			HDPE	554,153	552,580	(1,573)
2009 CIP - Replaces LCSD Acquisition Pipe Lines	N/A	2009	8	1,726 l.f.			HDPE	705,275	703,274	(2,001)
Echo Lake Pipeline Replacement - Replaces Part ULID #2, Contract 8	F5	2010	18	1,711 l.f.			HDPE	690,638	690,638	0
Echo Lake Pipeline Replacement - Replaces Part ULID #2, Contract 8	F5	2010	15	302 l.f.			HDPE	121,901	121,901	0
2010 CIP BC 1&2 - Replaces LCSD Acquisition Pipe Lines+G58	I1	2010	8	4,236 l.f.			HDPE	1,222,545	1,214,671	(7,874)
2011 CIP NC 1&2 - Replaces LCSD Acquisition Pipe Lines	I3	2011	8	4,088 l.f.			HDPE	1,237,367	1,237,367	0
Total 2007-2011 Replacement CIP				17,509 l.f.				\$ 5,818,777	\$ 5,807,316	(\$11,461)
Echo Lake By-Pass - New Construction										
	F5	2010	18	678 l.f.			HDPE	490,800	490,800	0
Total 2007-2011 CIP Projects				18,187 l.f.				\$ 6,309,577	\$ 6,298,116	(\$11,461)

George Dicks' Analysis of Retirement Adjustments Attributable to 2007-11 Replacement CIP	Retirement Adjustments	Lineal Feet Replaced
1. LCSD - 8" concrete lines replaced = 12,995 L.F. 1958 8" lines = 334,227 L.F. @ \$3,572,887 = \$10.69/L.F. 12,995 x \$10.69 = \$138,916 Removed from LCSD 8" Line Depreciation List: 334,227 L.F. - 12,995 L.F. = 321,232 L.F. \$3,572,887 - \$138,916 = \$3,433,971	\$ 138,916	12,995 l.f.
2(a). King County #3 - 8" concrete lines replaced = 3,434 L.F. 1964 8" concrete lines = 51,813 @ \$360,432 = \$6.96/L.F. 3,434 L.F. x \$6.96 = \$23,900 Removed from King County #3 8" Line Depreciation List: 51,813 L.F. - 3434 L.F. = 48,379 L.F. \$360,432 - \$23,900 = \$336,532	\$ 23,900	3,434 l.f.
2(b). King County #3 - 10" concrete Lines replaced = 317 L.F. 1964 10" concrete lines=3,708 L.F. @ \$28,668=\$7.73/L.F. 317 L.F. x \$7.73 = \$2,450 Removed from King County #3 10" Line Depreciation List: 3,708 L.F. - 317 L.F. = 3,391 L.F. \$28,668 - \$2,450 = \$26,218	\$ 2,450	317 l.f.
3. Echo Lake Pipeline Upsizing (replacement) - ULID 2 #7 8" Pipeline replaced = 2,013 L. F. 1960 - 8" concrete Pipe = 36,026 L.F. @ \$70,611 = \$1.96/L.F. 2013 L.F. x \$1.96 = \$3,945 Removed from ULID 2 #7 8" Line Depreciation List 36,026 L.F. - 2,013 L.F. = 34,013 L.F. \$70,611 - \$3,945 = \$66,666	\$ 3,945	2,013 l.f.
Total	\$ 169,211	18,759 l.f.

RESOLUTION NO. 417

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON, ADOPTING A WASTEWATER REVENUE AND CUSTOMER POLICY FOR THE CITY OF SHORELINE'S WASTEWATER UTILITY.

WHEREAS, on October 22, 2002, the City of Shoreline and the Ronald Wastewater District entered into an Interlocal Operating Agreement which allowed the City to assume the full management and control of the Ronald Wastewater District pursuant to chapter 35.13A RCW; and

WHEREAS, on June 12, 2017, the City of Shoreline and the Ronald Wastewater District entered into a First Amendment to the 2002 Interlocal Operating Agreement, extending that agreement for two years from the effective date of the First Amendment, unless terminated sooner pursuant to its terms or written agreement of the parties; and

WHEREAS, upon the full assumption of the Ronald Wastewater District by the City, the City will need customer service policies and practices to address the operation of the wastewater utility; and

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF SHORELINE, WASHINGTON, HEREBY RESOLVES AS FOLLOWS:

Section 1: The City Of Shoreline Wastewater Revenue and Customer Policy, attached hereto as Exhibit A to this Resolution, is adopted as the City's customer service policies and practices for the operation of a wastewater utility.

Section 2: This Resolution shall be in full force and effect upon the official assumption of the Ronald Wastewater District by the City of Shoreline.

ADOPTED BY THE CITY COUNCIL ON _____, 2017.

Mayor Christopher Roberts

ATTEST:

Jessica Simulcik Smith, City Clerk

**City of Shoreline
Wastewater Revenue and Customer Policy**

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Definitions and Abbreviations

Apple Tree Lane Accounts: Properties on Apple Tree Lane in the Richmond Beach neighborhood, which are served by grinder pumps funded originally by the Ronald Wastewater District, and which pay a monthly surcharge through December 2020.

Availability of Service: Unless and until superseded by City action, defined as under the Ronald Wastewater District Rules and Regulations, Resolution No. 01-29.

Billing Cycle: The period for which wastewater service charges are owed, and the frequency at which they are billed. In general, residential accounts are billed bi-monthly on either odd or even months. All commercial accounts are billed monthly.

Bi-Monthly: Every two months.

cf: One cubic foot of water, a measurement used in calculating the City commercial service charges. One cubic foot is approximately 7.48 gallons.

ccf: 100 cubic feet of water.

City: The City of Shoreline, which either owns the City wastewater utility under the direction of the City Council or, during an interim period prior to assumption of the utility, operates the City wastewater utility under the authority of the Ronald Wastewater District.

City Sewer Service Area: The geographic area within which the City wastewater utility has the right and duty to plan for and provide wastewater service to properties. The City sewer service area boundaries correspond to the Ronald Wastewater District service area boundaries as of October 23, 2017, unless subsequently modified.

City Sewer System: The collection of fixed assets used to convey wastewater from individual properties in the City sewer service area to the points of discharge into the transmission and treatment facilities owned by either King County or the City of Edmonds. These assets include but are not limited to sewer mains, manholes, lift stations, and general assets such as vehicles, equipment, and buildings.

City Wastewater Utility: The business of providing wastewater conveyance and treatment for property owners within the City sewer service area. It includes the City sewer system plus the customers, employees, legal authority, obligations, organizational procedures, and financial assets, among other things, necessary to meet its service responsibility.

Commercial Customers: Accounts representing all structures other than residential structures of four or fewer dwelling units. Commercial customers include multi-family structures of five or more units.

Customer Class: A category that determines a customer's applicable rates and billing cycle. Currently, the City wastewater utility has two customer classes for wastewater service charges: residential and commercial.

Development Charges: For convenience, in this policy the general facilities charge and Edmonds treatment facilities charge are collectively referred to as the "development charges."

Edmonds Treatment Facilities Charge: A one-time charge at the time of development that recovers from properties in the ULID #2 area a proportionate share of past and planned capital costs of the Edmonds Wastewater Treatment Plant. It is paid by newly connecting customers and

existing customers where the structure has been modified to increase the number of dwelling units or fixture-units. (King County also has a capacity charge that recovers a proportionate share of the capital cost of its treatment and transmission facilities. However, the King County capacity charge is not collected by the City; instead, the County bills property owners directly for it.)

Estimated Residential Customer Equivalents (Estimated RCEs): A measure of wastewater demand that is the basis for calculating the general facilities charge and Edmonds treatment facilities charge. Estimated RCEs rely on information about a property that is knowable at the time of development. Specific definitions are in Section 10.5.

General Facility Charge (GFC): A one-time charge at the time of development that recovers a proportionate share of the past and planned capital costs of the City sewer system other than costs paid by grants, developer donations, or property assessments. The charge is paid by all customers newly connecting to the City sewer system or existing customers where the structure has been modified to increase the number of dwelling units or fixture-units. It applies across the City sewer service area, including in ULID #2. The GFC is separate from Utilities Local Improvement District assessments or Local Facilities Charges, which have been used in certain areas to recover a proportionate share of the capital cost of local sewer infrastructure fronting the property, including mains, stubs, and manholes.

Industrial Waste Surcharge: A surcharge that can be imposed by King County, applicable to particular customers whose effluent is determined by the King County Wastewater Treatment Division (KCWTD) to meet its criteria for high strength sewage. If a surcharge is imposed, KCWTD will notify the City of which customers should receive the surcharge and the amount. The City will collect the surcharge from the designated customers and remit the money to the County. This is separate from the King County treatment charge based on the number of RCEs.

Local Facilities Charge (LFC): A charge that applies to property owners in three areas defined in Ronald Wastewater District resolutions 2005-23 and 2006-15, where local sewer infrastructure was not originally built by developers. The LFC is payable at the time a property is connected to the City sewer system. It recovers a proportionate share of the utility's investment in the local sewer infrastructure—mains, manholes, and stubs—fronting a particular property.

Multi-Family Customer: This class is used only for calculating the GFC. It refers to new development that is residential in purpose that has more than one dwelling unit on a lot. It includes duplexes, triplexes, four-plexes, and single family houses with accessory dwelling units.

Non-Residential Customer: This class is used only for calculating the GFC. It refers to all new development that is not single family or multi-family residential in purpose.

Party to be Billed: The property owner.

Residential Customer: An account representing a residential structure with four or fewer dwelling units, including trailer sites with sewer service. The residential class is used in calculating the ongoing wastewater service charges and for all purposes other than the calculation of the general facilities charge.

Residential Customer Equivalent (RCE): A measure of wastewater demand that is the basis for calculating monthly wastewater service charges. Specific definitions are in Section 5.2.

Ronald Wastewater District: The predecessor owner of the City wastewater utility. References to Ronald Wastewater District in previous policies, Board actions, or intergovernmental

agreements still apply to the City wastewater utility unless specifically superseded by this policy or other City action.

Single-Family Customer: This class is used only for calculating the GFC. It refers to new residential development that consists of only one dwelling unit on a lot. It excludes duplexes, triplexes, four-plexes, and single family houses with an accessory dwelling unit—all of which are included in the multi-family class.

Structure: Any improvements situated on a property within the City sewer service area which are designed, intended or suitable for human occupancy, employment, recreation, habitation or other purpose, shall be considered a structure subject to this Policy.

Wastewater Service Charges: Ongoing charges to all customers connected to the City sewer system, to recover the City's cost of providing wastewater service. Rates for wastewater service charges are characterized as a charge per month, even though the billing cycle may be monthly or bi-monthly. Wastewater service charges are comprised of two components: the wastewater collection charge and the treatment charge. For residential customers, both components of the wastewater service charge are based on the number of units. For commercial customers, the treatment charge is based on the number of RCEs, and the wastewater collection charge is based on the greater of the number of units or the number of RCEs.

Surcharge: An additional charge that may be imposed in addition to the regular wastewater service charge.

Treatment Charge: The charge to recover the cost of wholesale treatment charges paid to either the King County Department of Natural Resources or the City of Edmonds, excluding costs that are recovered from the King County industrial waste surcharge.

ULID #2: Utility Local Improvement District #2, an area that in the past was organized and annexed to the Ronald Wastewater District for the purpose of providing property owner funding for the capital cost of constructing local sewer mains and side sewers. This is the only part of the City sewer service area from which wastewater flows to the Edmonds Wastewater Treatment Plant by direct agreement between the City and the City of Edmonds. (There are other areas from which wastewater ends up in Edmonds because of a flow swap agreement between King County and Edmonds, but the customers in those areas still are counted as part of the King County system.) Customers in ULID #2 pay the Edmonds treatment rates, and new development in that area pays the Edmonds treatment facilities charge in addition to the City GFC.

Unit: A unit shall mean any portion of a structure available, suitable, intended or otherwise used as a separate business office or separate suite of business offices, store, or other commercial establishment, apartment, condominium, single family dwelling, duplex, triplex, fourplex, trailer, or an accessory dwelling unit added to a single-family dwelling. An individual storage space in a self-storage building shall not count as a "unit" for the purposes of this policy.

Wastewater Collection Charge: A charge that recovers all costs of operating the City wastewater utility except for wholesale treatment charges paid to King County and the City of Edmonds and industrial waste surcharges paid to King County.

Section 1 Properties Subject to This Policy

- 1.1 Except as provided below in Section 1.1.1, the owner of each lot or parcel of real property within the City sewer service area, abutting any street, alley or right-of-way in which there is now or in the future will be located any sewer facilities of the City, and which property now has or in the future may have constructed or placed upon it a structure, described in section 2, which structure lies within 300 feet of sewerage facilities maintained by the City, shall be subject to and comply with the terms of this policy.
 - 1.1.1 Structures situated on property within the former boundaries of King County Sewer and Drainage District No. 3 (KC3), that were served by an on-site septic system on the date that KC3 was transferred to the Ronald Wastewater District, shall not be subject to this policy, unless such property is within the boundary of a Utility Local Improvement District formed after the date of this Policy; or is made subject to this policy by order of the King County Health Department compelling connection of such property to the City sewer system; or is made subject to this policy by the owner's request for service through the City sewer system, or requests a change of use that would increase the number of dwelling units or fixture-units in a structure.
- 1.2 The owner of any property which in the future shall have constructed or placed upon it a structure shall, 30 days prior to permitting any use, comply with and become fully subject to the terms of this policy.

Section 2 Structures Required to be Connected Where Sewer Lines are Available

- 2.1 Any improvements situated on property within the City sewer service area which are designed, intended or suitable for human occupancy, employment, recreation, habitation or other purpose, shall be considered a structure subject to this Policy.
- 2.2 Any structure which is located on property within the City sewer service area shall for all purposes be deemed to have sewerage service available.
- 2.3 In the event a structure otherwise subject to the requirements of this policy is demolished or otherwise made unfit for use, the City will upon the owner's capping off the side sewer connection at a point designated by the City Public Works Director or designee, and upon inspection of such capping off by the City, cease billing wastewater service charges against the property until such time as the property is again connected to the City sewer system and put to use, at which time billing for wastewater service will commence.
 - 2.3.1 Structures which are not connected to the City sewer system shall be billed the wastewater service charges until such time as the City shall have inspected the property at the owner's request and confirmed that the structure on the property has been demolished or is otherwise unfit for the purposes intended.

Section 3 Billing Procedures

- 3.1 Wastewater service charges shall be billed and mailed to the owner of property to which service is available. Failure to receive such bill shall not relieve the owner of the obligation to pay the wastewater service charges, nor shall the property to which such service is available be relieved from the attachment of any lien against such property. For customers who register for paperless billing, the electronic address given as part of the registration shall be considered equivalent to a U.S. Post Office mailing address.
- 3.2 Timing of Wastewater Service Charge Rates. For existing customers, billing of wastewater service charges under a new rate schedule shall commence on the effective date of the rate schedule. If a rate change becomes effective during the middle of a billing cycle, the bill shall be prorated between the old and new rates. For example, if a rate change takes effect on January 1, residential accounts billed for the December-January billing cycle will be charged one month at the old rate and one month at the new rate.
 - 3.2.1 Structures built or placed on property within the City sewer service area after the effective date of this policy shall be billed on the first day of the first month commencing 60 days after the City inspects the structure's side sewer connection; or upon occupancy of the structure, whichever occurs first.
 - 3.2.2 Existing structures to which sewer service becomes newly available shall be billed on the first day of the first month commencing 60 days after the date of the City's mailing of a notice stating that service is available to the structure, and that such structure is to be connected to the sewer system; or upon the first day of the first month after the connection of such structure, whichever occurs first.
- 3.3 Commercial accounts shall be billed monthly. In general, residential accounts are billed bi-monthly.
- 3.4 The City bills in advance, not in arrears. Bills are mailed at the beginning of the billing cycle for which the service is being charged, and payment is due by the end of that billing cycle.
- 3.5 For the purposes of this policy, the City's giving of notice, or the mailing of a bill, to any party who has the care, custody, control or management of any structure shall be deemed the giving of such notice to the property owner.
- 3.6 Duplicate Bills.
 - 3.6.1 It is the policy of the City to always send bills to the owners of a property, even if the property owner has authorized another party to receive duplicate bills.
 - 3.6.2 Commercial properties: At the written request of the property owner on a form provided by the City, the City will send a duplicate invoice to either a property manager or a tenant, but not both.

- 3.6.3 Residential properties: At the written request of the property owner on a form provided by the City, the City will either send a duplicate bill to a designated property manager, or send a duplicate bill addressed to “Resident” at the service address.
- 3.6.4 A duplicate billing fee shall be added to the account each month for which duplicate bills are sent. The amount of this fee is set forth in SMC 3.01.620. This monthly fee will be waived if either of the bill recipients signs up for paperless billing.
- 3.6.5 A one-time fee will be added to the account for any account information changes, including designating or revoking the designation of a party to receive a bill or duplicate bill, changing the name or address of the recipient of a duplicate bill, or changing the name or address of the property owner. The amount of this fee is set forth in SMC 3.01.620.
- 3.6.6 Designation by the owner of another party to receive duplicate bills shall not relieve the property owner from the charges due as a result of the property manager or tenant’s failure to pay wastewater service charges. If a lien is recorded against the property as a result of the property manager or tenant’s failure to pay, the billing will be changed back to the owner of said property. It is the responsibility of the property owner to notify the City of any address changes, including electronic address changes for paperless billing.
- 3.7 In the case of condominiums, it is the policy of the City to bill a single aggregate bill for all units of the condominium either to the Condominium Association or, if so designated in writing, to a property manager.
- 3.8 The City shall not be responsible for prorating wastewater service bills upon a change in property ownership, change in tenant, or change in property manager. The parties to the transfer of responsibility—whether it be between seller and buyer, owner and tenant, or owner and property manager—are solely responsible for prorating the bills.
 - 3.8.1 No credit or refund shall be given by the City because of changes in ownership or tenancy of any property or because the property is vacant for a period of time.
- 3.9 Time limit on back billing and credits.
 - 3.9.1 If wastewater service is available to a property, and if for any reason the City has not billed the charges, the City may back bill such property for the availability of sewer service for a period not to exceed 36 months. The bill will be based on the rate for the actual period(s) due.
 - 3.9.2 If for any reason a credit is owed to the account, credits will be for a period not to exceed 36 months. The credit will be based on the rate for the actual period(s) credited.

- 3.10 In the case of commercial properties, regardless of whether individual water meters have been installed to serve these properties, the City requires that all billing be directed to the property owner or condominium association.
- 3.11 If overpayments or duplicate payments are received on the account, a refund request must be presented to the Billing Supervisor by the property owner in writing to approve the refund. Refunds will only be issued to the property owner. A fee for the refund request will be added to the next billing statement unless the overpayment or duplicate payment was caused by City error. The fee is set forth in SMC 3.01.620.
- 3.12 A fee shall be imposed for returned checks and bank disallowance of Automated Clearinghouse (ACH) withdrawals, as set forth in SMC 3.01.810.

Section 4 Wastewater Service Charge Delinquency, Penalties, Interest, and Liens

- 4.1 Wastewater service charges are charges against the property to which wastewater service is available and shall be imposed as set forth in Section 5 below at the rates set forth in SMC 3.01.600.
 - 4.1.1 The property owner shall be responsible for timely payment of the monthly or bi-monthly wastewater service charges and for any accruing interest or penalty for the entire premises. It is for the property owner and the tenants/occupants of the premises to decide on the contributory share of wastewater service charges due from each tenant/occupant. The City takes no responsibility for enforcing contributions from the tenants/occupants and looks solely to the property owner for payment of wastewater service charges.
- 4.2 The wastewater service charges shall be delinquent when they are not paid by the end of the billing period.
 - 4.2.1 All notices pertaining to “notice of delinquent sewer service charges” for the property shall be delivered to the property owner.
- 4.3 Penalties shall be added to all delinquent accounts upon their becoming delinquent.
 - 4.3.1 A late charge of 10% of the current billing shall be imposed each billing period in which the account is delinquent.
 - 4.3.1.1 The 10% late charge will be removed if the total unpaid balance is paid in full by the end of the first month of the billing cycle in which the late charge first appears on the bill.
 - 4.3.2 The City may remove penalties for good cause.
- 4.4 When a lien is recorded against delinquent accounts, a lien processing fee shall be imposed, and interest shall begin to be assessed at 8% per year on the unpaid balance from the date of delinquency, as set forth in SMC 3.01.620.
- 4.5 Change of ownership of property which has delinquent wastewater service charges outstanding or against which liens have been filed does not relieve the

property of penalties imposed upon delinquent wastewater service charges nor of liens filed nor legal costs incurred prior to and in foreclosure proceedings. Proration of wastewater service charges and penalties, where a change of ownership has occurred, is not the obligation of the City, but shall be the responsibility of the old and/or new property owners.

4.5.1 When an escrow report is requested, an account service fee shall be added to the next billing statement, as set forth in SMC 3.01.620.

4.6 The wastewater service charges levied against a property, together with lien recording fees, penalties thereon, all legal fees, costs of title search, and legal costs incurred by the City, shall be a lien against the property to which service is available or provided. Such lien shall be inferior only to the lien for general taxes. The City's lien against the property for delinquent wastewater service charges and penalties shall be certified to the King County Department of Records and Elections.

4.6.1 The following schedule applies to those accounts who have not paid in full for three billing periods.

Billing	Past Due	Billing Status	Lien/Collection Action
1 st Billing	None	Current Charges (CC) only	None
2 nd Billing	1 Past Due (PD)	CC + 1PD + Late Charge (LC)	None
3 rd Billing	2PD	CC + 2PD + 2LC	None
4 th Billing	3PD	CC + 3PD + 3LC	10 days after billing: Lien Alert Notice: Hand deliver a copy of Lien Alert Notice to the property. If rental property, mail to property owner a lien alert notice and a copy of the signed Authorization for Duplicate Bill (if residential) or Authorization to Bill Commercial Tenant (if commercial).
		CC + 3PD + 3LC and Lien Processing Fee	24 days after billing: If rental property, change billing address to property owner. Lien filed and Lien Processing fee added to account and Notice of Lien mailed
5 th Billing	4PD	CC + 4PD + 4LC	Final Notice mailed via Certified & Regular mail (All balance has to be paid in one month)
6 th Billing	5PD	CC + 5PD + 5LC	Notice of Legal Action via Certified and Regular mail (demands full payment in two weeks)
			Door Hanger to property: "Please contact City Wastewater Utility billing office immediately regarding your account."
7 th Billing	6PD	CC + 6 PD + 6 LC	Send account to Attorney

4.6.2 Special arrangements for delinquent accounts may be made on a case-by-case basis with the Director of Administrative Services or designee.

- 4.6.3 If the City receives a Notice of Trustee Sale or Foreclosure, and the account is at least sixty (60) days past due, the City will file a Lien Alert Notice and adhere to the lien filing schedule set forth in 4.5.1 above.
- 4.6.4 If the City receives a Notice of Bankruptcy, a Proof of Claim will be filed with the Bankruptcy Court.
- 4.7 After recording a lien against a property with the King County Department of Records and Elections, the City may foreclose such lien by a civil action in the Superior Court of the State of Washington for King County. The City shall recover in such action the delinquent service charges and penalties, together with its costs of suit, title search and attorney's fees.
- 4.8 Whenever any lien, together with penalties and all attorney's fees and costs incurred by the City pursuant to this policy, has been paid in full, the Director of Administrative Services is authorized and directed to execute and file any instrument required to release and discharge the City's lien of record.
- 4.9 Payments after delinquency.
- 4.9.1 Partial payments received by the City prior to referral for collection or suit shall be applied against the balance due in the following order:
- First King County recording fee
 - Second Lien processing fee
 - Third Late charges
 - Fourth Past due balance
 - Fifth Current sewer service charges
- 4.9.2 Partial payments received by the City after the account has been submitted to the City's attorney for collection, or after suit has been commenced shall be applied as follows:
- First The City's legal costs.
 - (A) court filing fees;
 - (B) service of process fees;
 - (C) publication costs;
 - (D) title search;
 - (E) attorneys' fees and all other costs;
 - Second King County recording fees, lien processing fee, and late charges;
 - Third Past due balance; and
 - Fourth Current sewer service charges.

Section 5 Customer Classes and Calculation of Wastewater Service Charges

- 5.1 The City has classified properties and structures to which sanitary sewer service is available into residential and commercial rate classes. These rate classes are used in calculating wastewater service charges and for all purposes other than calculating the general facilities charge and Edmonds treatment facilities charge. Such classifications into rate classes are based upon factors listed in RCW 35.67.020, and upon the differing impacts of such rate classes upon the City, constituting reasonable grounds of difference between such rate classes. The City may periodically review its definition and treatment of rate classes and reserves the right to change such classes in light of conditions existing in the City at the time of such review, including potentially creating an industrial rate class if needed to properly differentiate the costs of serving industrial customers.
- 5.1.1 Residential customers consist of single family residences with or without accessory dwelling units; duplexes; triplexes; fourplexes; and trailer sites to which sewer service is available.
- 5.1.2 Commercial customers consist of miscellaneous businesses, offices, stores, apartments with four or more units, condominiums, hotels, motels, trailer/mobile home parks, industrial parks to which sewer service is available, and all other uses not included in the residential customer class.
- 5.1.3 For the purpose of calculating the general facilities charge and Edmonds treatment facilities charge (collectively “development charges”), the customer classes are Single-Family, Multi-Family, and Non-Residential. These customer classes and the method of determining estimated RCEs for the two development charges reflect the fact that the estimated RCE must be calculated based on information that is knowable at the time of development, before there is a history of water usage for a given property. Therefore, the estimated RCE relies primarily on the number of dwelling units or the number of fixture-units. Of those two measures, the number of dwelling units is considered to be preferable where it can be used; the number of fixture-units is only used for non-residential properties, where there are no dwelling units.
- 5.2 Definition of RCE for the purpose of calculating wastewater service charges.
- 5.2.1 Residential. The number of RCEs for residential customers is always equal to the number of units, regardless of the amount of water consumed. For example, a single-family home with no accessory dwelling unit is one RCE, and a four-plex is four RCEs.
- 5.2.2 Commercial. The number of RCEs for commercial customers is a separate measurement from the number of units. One RCE is defined as 750 cubic feet of water consumed in a month. The number of RCEs for a given commercial customer is determined by dividing the average monthly water usage for the previous year (in cubic feet) by 750 cubic feet per RCE, provided that there is a minimum of one RCE per structure. The

RCE calculation is updated annually, based on water usage data provided by North City Water District and Seattle Public Utilities.

5.3 Calculation of Wastewater Collection Charge.

5.3.1 Residential.

5.3.1.1 The wastewater collection charge consists of the number of units multiplied by the rate shown in SMC 3.01.600.

5.3.1.2 Qualified low income senior and disabled citizens receive a 50% discount.

5.3.1.3 There is a surcharge of \$25.54 per month per unit for each Apple Tree Lane property for 15 years from January 2006 to December 2020.

5.3.1.4 There is a credit of \$0.50 per month for sewage pump electrical for Apple Tree Lane accounts where a sewage pump serves one property.

5.3.1.5 There is a credit of \$1.00 per month for sewage pump electrical for Apple Tree Lane accounts where a sewage pump serves two properties.

5.3.2 Commercial.

5.3.2.1 The wastewater collection consists of the rate shown in SMC 3.01.600, applied to either the number of units or the number of RCEs, whichever is greater.

5.3 Calculation of Treatment Charge – both Edmonds and King County Treatment areas.

5.3.1 Residential.

5.3.1.1 Treatment charge consists of the number of units multiplied by the rate shown in SMC 3.01.600 for the applicable treatment provider.

5.3.1.2 Qualified low income senior and disabled citizens receive a 50% discount.

5.3.2 Commercial.

5.3.2.1 Treatment charge consists of the number of RCEs multiplied by the rate set forth in SMC 3.01.600 for the applicable treatment provider.

5.4 Special Billings.

5.4.1 Special billings to the City of Mountlake Terrace for sanitary sewer service for properties outside the City sewer service area, per agreement with Ronald Wastewater District dated April 15, 1968, amended on July 30, 2003, Resolution 03-32. The City of Mountlake Terrace provides the City yearly certification of the number of units of residential customers in

the applicable area and the metered water usage of commercial customers. Billing to the City of Mountlake Terrace is based on the following:

5.4.1.1 Residential properties, including multi-family with four or fewer units: A combined rate based on 50% of the current wastewater collection charge and 100% of the treatment charge per connection, as set forth in SMC 3.01.600, shall be multiplied by the number of units of residential customers in the applicable area.

5.4.1.2 Commercial properties, including trailer courts and multi-family apartments of more than 4 units: A combined rate based on 50% of the current wastewater collection charge and 100% of the treatment charge, as set forth in SMC 600.01.600, shall be multiplied by total number of RCEs by commercial customers in the applicable area, based on 750 cubic feet per RCE.

5.4.2 At such time as application for wastewater service by an industrial user is made, the City may establish an industrial rate based on the volume and strength of industrial waste discharged into the City sewer system. The City reserves the right to make all determinations as to whether or not the proposed usage shall be classified as an industrial usage or whether it should be classified as a commercial customer. In the absence of any special rate established by the City at the time that sanitary sewer service is requested for an industrial use, the industrial use rate shall be generally the same as the commercial customer rate, subject to adjustment based on the particular usage planned or actually made by the industrial user.

Section 6 New Accounts

6.1 No consumption history for commercial accounts. Where no water consumption history is available for a structure, the Director of Administrative Services or designee shall estimate consumption for purposes of establishing service charges until such history is available.

6.2 Mixed use properties. Where a structure is used for purposes described by more than one classification and if the structure is served by a single water meter, the Public Works Director or designee shall assign the structure to a customer class and determine an appropriate method for calculating the charges to be imposed. The determination shall take into account the relative proportion of uses, the nature of the demand on the sewer system, the definitions used by wholesale treatment providers, and the most applicable customer class definitions contained in this policy.

6.3 New Classification. If a new account is to be served by the City and there is no specific classification for this account, the Public Works Director or designee will make the determination as to how it will be classified and charged. The determination shall take into account the nature of the demand on the sewer system, the classification of other accounts with similar characteristics, the definitions used by wholesale treatment providers, and the most applicable customer class definitions contained in this policy.

Section 7 Surcharges and Local Facilities Charge

- 7.1 Surcharges. The City may establish a surcharge in addition to the rate for any account type or area based on the additional cost of serving those properties beyond costs generally incurred for properties served by the City sewer system. Additional costs which shall be considered in establishing surcharges shall include but not be limited to additional or special maintenance required; electricity costs; necessary replacement of system components, including individual pumps, pump stations, electrical service panels, and monitoring and warning devices; additional labor or equipment costs resulting from providing such service; and any other costs incurred for services not generally provided systemwide.
- 7.2 Local Facilities Charge for new connections from previously unsewered areas. Properties in three previously unsewered areas described in Ronald Wastewater District resolutions 2004-44, 2005-23 and 2006-15 were allowed to remain on septic systems until the septic system fails or the property is sold, even if sewer lines are within 300 feet of the property line. When a property owner in those areas requests connection to the City sewer system, the City will impose a local facilities charge of \$29,088.29 per connection to recover a proportionate share of the cost of local sewer infrastructure. The City allows property owners to enter into a “Hook Up Charge in Lieu of Assessment Agreement,” through which the local facilities charge can be paid over 15 years with interest.

Section 8 Reduced Rates for Qualifying Low-Income Senior and Low-Income Disabled Citizens

- 8.1 The State of Washington, through the legislative adoption of RCW 74.38.070 entitled “Reduced utility rates for low income senior citizens and other low-income citizens,” authorized municipal corporations which provide utility service to offer reduced rates to low-income senior citizens and other low-income citizens disabled citizens, provided that the definition of qualifying customers is adopted by the governing body of the utility.
- 8.2 The City’s reduced rates for qualifying low-income senior and low-income disabled citizens may be continued, discontinued, or modified at the option of the City Council at the end of each year, based on its fiscal viability and its effect on the City and ratepayers as a whole. In addition, the City Council shall have the power to modify the rules and conditions under which eligibility is established for the reduced rates.
- 8.3 The following describes the eligibility, requirements, and the annual process for establishing eligibility for the Low-Income Senior/Low-Income Disabled Citizen Reduced Rate Program. The discounted rates are set forth in SMC 3.01.600.
- 8.4 Eligibility.
- 8.4.1 To qualify for the reduced rates, the applicant must own and occupy residential property within the City, and the applicant must be either a low-income senior citizen or a low-income disabled citizen.

- 8.4.1.1 If two people occupy and jointly own the same residence and their joint income meets the threshold to be considered low-income, then they can qualify for the reduced rates if at least one of them is a senior citizen or a disabled citizen.
- 8.4.2 To qualify as a senior citizen, the applicant must be at least 62 years of age at the time application is made.
- 8.4.3 To qualify as a disabled citizen, the applicant must be considered disabled by the U.S. Social Security Administration.
- 8.4.4 The applicant(s) must own and reside at the property for at least one year prior to the date of application and or renewal of the qualification.
- 8.4.5 To qualify as low-income citizens, the applicant(s) must have earned less than 60% of the Local Area Median Household Gross Annual Income during the previous year using the most recent official annual income guidelines established by the United States Department of Housing and Urban Development (HUD) for single and married ratepayers.
- 8.4.6 The applicant(s) must not reside in housing which is federally subsidized public housing.
- 8.5 Requirements.
- 8.5.1 Complete and submit to the City a completed application form and the required evidence of eligibility.
- 8.5.2 The documents providing evidence of eligibility must verify the income of the applicant, the fact that the applicant owns and occupies a residential property in the City, and either the age or disabled status of the applicant.
- 8.5.3 Applications must be received at least 15 days prior to the end of a billing cycle.
- 8.6 The effective date of the reduced rates will be the beginning of the next bi-monthly billing cycle after approval of the application. There will be no retroactive qualification for the reduced rates.
- 8.7 Annual Renewal Process. To continue to qualify for the reduced rates, eligibility must be re-established no later than by May 1 of each year. If citizens have qualified for the program for three continuous years, they may continue under the program by certifying that they continue to be qualified.
- 8.8 Acceptable forms of evidence that the ratepayer is eligible for the reduced rates.
- 8.8.1 For income: copy of IRS Form 1040, or copy of Form SSA-4926 SM or SSA-1099 for the previous calendar year.
- 8.8.2 For property ownership in the City: copy of property tax statement or assessment card.
- 8.8.3 For senior citizens: copy of driver's license or birth certificate.
- 8.8.4 For disabled citizens: copy of the disability verification letter from the U.S. Social Security Administration.

- 8.8.5 Other documentary evidence as the City may reasonably require or choose to accept related to income, property ownership, and either age or disability.

Section 9 Protest/Appeal Process

- 9.1 A ratepayer who believes that the City has charged the wrong rate or made a billing error with respect to the ratepayer's property, may make a written request to the Billing Supervisor to correct the alleged error or the rate charged. No request for a refund will be considered for any period more than three years prior to the date of the written request. The Billing Supervisor shall issue a written decision on the request and mail the same to the ratepayer.
- 9.2 Within twenty days of the date the Billing Supervisor's decision was mailed, the ratepayer may file a written appeal to the Director of Administrative Services by mailing or delivering the appeal to the office of the Department of Administrative Services in City Hall. The Director of Administrative Services or designee will review and decide the appeal and inform the ratepayer in writing of the decision. The written decision of the Director of Administrative Services shall constitute the final action of the City with respect to wastewater billing matters.

Section 10 General Facilities Charge and Edmonds Treatment Facilities Charge

- 10.1 A General facilities charge (GFC) shall be imposed on all properties which are newly connected to the City sewer system and on existing connected properties where the structure is being modified so as to increase the number of dwelling units (for single-family or multi-family structures) or the number of fixture-units (for non-residential structures). The GFC recovers a proportionate share of the past and planned capital costs of the City sewer system other than costs paid by grants, developer donations, or property assessments, and it ensures that new development pays a proportionate share of the costs imposed by new development. The GFC applies across the City sewer service area, including in ULID #2.
- 10.2 An Edmonds treatment facilities charge shall be imposed on properties in the ULID #2 area which are newly connected to the City sewer system and on existing connected properties where the structure is being modified so as to increase the number of dwelling units (for single-family or multi-family structures) or the number of fixture-units (for non-residential structures). The Edmonds treatment facilities charge recovers on behalf of the City of Edmonds a proportionate share of past and planned capital costs of the Edmonds Wastewater Treatment Plant.
- 10.3 The GFC and, if applicable, Edmonds treatment facilities charge shall be paid prior to making the connection or receiving a permit to improve the structure.
- 10.4 The GFC and Edmonds treatment facilities charge are calculated based on the number of estimated Residential Customer Equivalents (RCEs) for a new structure or the estimated incremental increase in RCEs for a modified structure.

10.5 For the purposes of GFC and Edmonds treatment facilities charge, the number of estimated RCEs is calculated as follows.

10.5.1 Single-Family. single-family structure with no accessory dwelling units is 1.0 RCE.

10.5.2 Multi-Family. For a multi-family structure (including duplexes, triplexes, four-plexes, single family structures with accessory dwelling units, and apartment buildings with more than 4 units) , the estimated number of RCEs is equal to the number of dwelling units, except that for microhousing as defined in SMC 20.20.034, each single-room living space is counted at 0.5 RCE.

10.5.3 Non-Residential. For a non-residential structure, the estimated number of RCEs is based on the number of fixture-units plus additional wastewater flow projected above the fixture units. One RCE is equal to 20 fixture-units. If additional wastewater flow is projected for the structure above the fixture units, one RCE is equal to 187 gallons per day of additional flow. The number of fixture-units per plumbing fixture is shown in the following table.

Type of Fixture	Fixture-Units per Fixture	
	Public	Private
Bathtubs and shower	4	4
Shower, per Head	2	2
Dental units or lavatory	1	1
Dishwasher	2	2
Drinking fountain (each head)	1	0.5
Hose bib (interior)	2.5	2.5
Laundry tub or clothes washer	4	2
Sink, bar or lavatory	2	1
Sink, kitchen	3	2
Sink, other (service)	3	1.5
Sink, wash fountain, circle spray	4	3
Urinal, flush valve, 1 GPF	5	2
Urinal, flush valve, >1 GPF	6	2
Water closet, tank or valve, 1.6 GPF	6	3
Water closet, tank or valve, >1.6 GPF	8	4

10.6 To determine the amount of the GFC, the number of estimated RCEs is applied to the rates set forth in SMC 3.01.610. The low-density charge applies to single-

family structures with or without accessory dwelling units, duplexes, triplexes, and four-plexes. The high-density charge applies to non-residential structures and apartment buildings with more than 4 units.

- 10.7 To determine the amount of the Edmonds treatment facilities charge, the number of estimated RCEs is applied to the rates set forth in SMC 3.01.610.
- 10.8 If a preexisting structure is disconnected and wastewater service charges discontinued pursuant to the requirements of Section 2.3, and a new structure is later built on the same site within five years of the discontinuation of wastewater service charges, then the new structure shall be charged only for the estimated incremental increase in RCEs above the number for which a GFC was previously paid for the structure no longer receiving service. If a property with a disconnected structure has had wastewater service charges discontinued for more than five years, then a new structure built on the site shall be charged for the total number of estimated RCEs.
 - 10.8.1 If the lot is subdivided after wastewater service charges are discontinued, a credit against the GFC shall be applied in equal proportion to the new structure(s) within the new subdivided parcel(s). The credit shall offset the GFC charged to the new structures provided that the new structures are built within five years of the discontinuation of wastewater service charges. The credit shall consist of the number of RCEs for which a GFC was previously paid applied to the current GFC rate for low-density structures set forth in SMC 3.01.610.

RESOLUTION NO. 416

**A RESOLUTION OF THE CITY OF SHORELINE, WASHINGTON,
REVISING THE CITY BUSINESS EXPENSE POLICY FOR EMPLOYEES
AND OFFICIALS**

WHEREAS, the City Council wishes to revise the Business Expense Policy as adopted on April 8, 2013, under Resolution No. 342, to revise the sections related to travel and meal costs and remove the section regarding the Sister City; now therefore:

**BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SHORELINE,
WASHINGTON, AS FOLLOWS:**

1. The City Council hereby adopts *Business Expense Policy* No. 2.1709xx, Exhibit A attached hereto and incorporated by reference.
2. The City Council makes this Business Expense Policy revision effective October 1, 2017.

ADOPTED BY THE CITY COUNCIL ON _____, 2017.

Christopher Roberts, Mayor

ATTEST:

Jessica Simulcik Smith, City Clerk

Shoreline Policy and Procedure – ~~2.130408~~ 2.1709xx
ALLOWABLE BUSINESS EXPENSES

Category and Number: Finance No 2.130408 <u>2.1709xx</u>	Receiving Number: <u>7202 8870</u>
Code and statutory authority:	Authorized: Effective Date: <u>May 1, 2013</u> <u>October 1, 2017</u>
Supersedes: Finance No. 2.111024 <u>2.130408</u>	By: <u>City Council</u>

1.0 GENERAL PURPOSE

This document is the policy of the City of Shoreline, Washington for the reimbursement of business expenses by the City including travel, subsistence and related expenses, and certain non-travel related expenses incurred by authorized persons while conducting City business or providing a service for the City. To qualify for reimbursement, expenses must be reasonable and prudent under the circumstances and directly related to the conduct of business or service for the City. Expenses should fit within the framework created by the City's core values. They should pass the Reasonable Person Test: "Would the average, reasonable Shoreline resident agree that the expense was a legitimate use of their taxes?" Reimbursement will be made subject to the rules contained in this policy and with Chapter 42.24 RCW.

It shall be the responsibility of individual employees for becoming knowledgeable about appropriate expenditures and documentation requirements. It shall be the responsibility of the Administrative Services Department to ensure that these policies are adhered to and to provide the forms and instructions necessary for their implementation. Exceptions to the rules set forth herein may be made only for unusual or extenuating circumstances when such expenses reasonably relate to a benefit or service received by the City and compliance was not feasible. Policy exceptions may be authorized in writing by the City Manager or his/her designee.

2.0 DEPARTMENTS AFFECTED

All departments and City Council.

3.0 OVERNIGHT TRAVEL EXPENSES

This section covers expenses related to travel that requires an overnight stay. Section 4.0 covers guidelines for expenses related to local (non-overnight) activities.

The City will follow the US General Services Administration (GSA) schedules that provide for maximum reimbursement rates for lodging, meals and incidental expenses for authorized staff traveling on official business. Amounts exceeding those rates, except as

noted in Section 10, may be deducted from reimbursement claims or repaid by the employee. These rates are adjusted annually by the General Services Administration.

3.1 PRIOR APPROVAL

Prior approval for overnight travel is required for all employees except City Council and City Manager. A Travel/Training Authorization form must be completed and approved by the Department Director or City Manager. City Manager approval is required for international travel by all employees except City Council and City Manager (see Section 3.10). The approved form should be forwarded to the Administrative Services Department prior to travel.

3.12 DOCUMENTATION

No claim for reimbursement shall be paid unless it is accompanied by a Business Expense Report form, a copy of the Travel/Training Authorization Form and bona fide vendor's receipts, except for meal per diem claims. Such receipts should detail the following information when applicable: date, description of purchase, vendor identification and amount paid. Meal ticket stubs are not considered adequate documentation for reimbursement. Expense reports shall include name(s) of individual(s) incurring the expense and how the expense relates to City business.

A Declaration of Lost Receipt or Declaration of Lost Itemized Receipt is acceptable only after all reasonable attempts to locate or obtain a copy have been exhausted.

Credits such as gift cards, airfare credits and frequent flyer miles, whether earned on personal or business travel, are not reimbursable as there is no cash outlay for such a transaction.

Specific rules for the approval of a reimbursement claim are included in Section 7.0.

3.23 REIMBURSABLE MEAL COSTS

All City employees and officials shall be entitled to reimbursement for meals consumed while traveling overnight on City business. Reimbursement ~~may~~ will be based on ~~either actual meal costs or the current per diem rate of the final destination of travel. In either case, reimbursement may not exceed the M&IE (Meals and Incidental Expenses) rate for the area of travel.~~ These Meal and Incidental Expense rates are established by the GSA and are adjusted annually.

Per diem rates differ based on locations defined by the GSA; tax and tip are included. Current rates can be found at www.gsa.gov/perdiem or by calling Accounts Payable (Ext. 2314).

Per diem rates may be claimed for the first through the last day of travel provided the person is in travel status at the following times:

- 6:00 am for breakfast
- 12:00 pm for lunch
- 6:00 pm for dinner

Travel status begins at the time the employee would have left City Hall and ends at the time they would return to City Hall.

Receipts are not required for per diem reimbursement.

Actual meal costs may be submitted for reimbursement only in the event of meals attended by multiple employees (and invited business guests, i.e., lobbyists) in connection with conferences and business meetings. Employees will be responsible for keeping their cost as close as possible to the per diem rate; however, any reasonable excess will be paid by the City. Costs of invited business guests will be borne by the City. Costs of significant others will be reimbursed to the City based on a pro-rata share of the total bill.

~~If per diem reimbursement is claimed, receipts are not required.~~ If reimbursement is claimed for actual meal costs, an itemized restaurant receipt is required. Meal ticket stubs alone are not considered adequate documentation for reimbursement. In no event shall any single meal be reimbursed in excess of the equivalent per diem rate for that meal, unless approved in writing by the City Manager (except as allowed in the prior paragraph). If the excess is approved, it will be reported as taxable wages.

Payment for table service at a restaurant, commonly referred to as a tip, not to exceed 20% of the restaurant prices of the meal, is reimbursable as a reasonable and necessary cost for such service and as a reasonable and necessary part of the cost of the meal. Tips are included in the per diem rates as referenced above but may not exceed 20% whether or not the total cost of the meal exceeds the rate.

Any planned meals, the cost of which is included in a City-paid registration fee, whether or not the employee or official actually partakes of the meal, will not be reimbursable or eligible for per diem. Planned meals include ~~continental breakfast~~, box lunches and banquets. Receptions at which hors d'oeuvres are the primary offering are not considered meals.

When a meal is included in a meeting and the costs cannot be segregated, the actual cost of the event is reimbursable. A vendor receipt or copy of the meeting agenda is required as documentation.

3.34 EXPENDITURES NOT ALLOWED AS ACTUAL MEAL COSTS

Unauthorized expenditures include, but are not limited to:

- Liquor (including beer and wine)
- Expenses of a spouse or other persons not authorized to receive reimbursement under this policy.

3.45 VEHICLE EXPENSES

A. CITY VEHICLE

Costs of transportation and vehicle operation are acceptable, such as gas, oil, tires, tolls, ferry charges, parking and necessary repairs. Except in emergency situations, employees should contact the Fleet & Facilities Manager before incurring any repair expenses.

B. PERSONAL VEHICLE

Expenses shall be reimbursed for travel within a 300 mile radius of ~~the City Hall~~ at ~~such rate per mile as shall be established from time to time by the Administrative Services Department, but not to exceed the then- the~~ current maximum rate allowed by the United States Internal Revenue Service for reimbursement of such expenses for purposes of business travel expense deductions. Trips beyond this limit will be reimbursed in an amount equal to the lowest appropriate round trip air fare to the destination offered by a regularly scheduled commercial air carrier, plus an allowance for ground transportation based on the circumstances.

Mileage reimbursement will be calculated based on the round trip distance between City Hall and your destination or your actual mileage, whichever is less.

When travel is scheduled by public conveyance (bus, train, air, etc) outside a 300 mile radius, surface transportation to and from the conveyance depot/airport is appropriate.

Employees should exercise appropriate judgment and discretion in selecting a parking site when it is required to park a car while using other modes of transportation such as a plane. Often it is more cost effective to use parking services other than those provided directly within airports.

City employees and City officials who receive an automobile allowance in lieu of City provided transportation shall not be entitled to further reimbursement for surface transportation costs within a 300 mile radius of the City. Travel outside of a 300 mile radius will be calculated as

described above, except that no mileage reimbursement for surface transportation shall be allowed for travel to and from any Seattle area airport.

C. RENTAL VEHICLE

The cost of vehicle rental is considered an exception to this policy and its justification must be clearly stated on the Travel/Training Authorization Form, approved in advance by the Department Director. A copy of the written approval must be attached to the Business Expense Report Form or to any City credit card acquisition. The employee's automobile insurance will be considered the primary coverage on the vehicle. The employee should purchase Collision Damage Waiver insurance provided by the car rental company to ensure full coverage for property damage to the rental vehicle. The cost of the CDW insurance is reimbursable. The City's insurance policy provides excess liability coverage while the employee is conducting City business but only after the employee's coverage is totally exhausted. The City's insurance policy does not cover damage to the rental vehicle.

3.56 AIR TRAVEL

~~The City of Shoreline uses the State of Washington contract for air travel whenever possible. Government airfares, while higher than super saver fares, will allow changes to your travel itinerary without a penalty. If you are an individual whose job may require you to make last minute changes, a government airfare is best suited for your air travel. In some cases, the government airfare is the same or very close to the super saver fares.~~

~~To access the State of Washington airfares, all travel arrangements must be made through a travel agency listed on the State of Washington authorized list. The City has selected Travel Leaders as our authorized State of Washington travel agency.~~

~~Employees who wish to take advantage of government airfare shall use the following process:~~

- ~~1) Employee may call Patti Scudder at Travel Leaders (206-546-5131) to establish an air travel itinerary. She is also available at patti.scudder@travellleaders.com.~~
- ~~2) Once an itinerary had been developed, employee fills out the Air Travel Authorization Form and obtains supervisor's authorization.~~
- ~~3) Employee delivers Air Travel Authorization Form to Purchasing.~~

~~4) Purchasing will authorize the travel form and forward to Travel Leaders.
Travel Leaders will not book a ticket without approval from Purchasing.~~

~~5) Employee will receive tickets within a week.~~

~~Alternatively, e~~Employees may are expected to make their own air travel arrangements. They may use their own funds and submit a request for reimbursement or they may use a City credit card that has been designated for travel purposes. If they have been given authorization to use their P-card for travel expenses, they may also use that method. ~~The employee is only eligible to receive a reimbursement for self-arranged tickets up to the lowest cost that the City could have obtained directly.~~

When personal travel is combined with business-related travel, the traveling employee shall be responsible for paying the increase in airfare necessary to accommodate the personal part of the flight. The City shall pay for the lowest reasonable and available airfare for the round trip between a Seattle area airport and the business-related destination.

When personal travel is combined with business-related travel, the employee shall provide documentation showing the cost of airfare for travel for City business only (at the time the reservation is made) as well as the receipt for the actual cost which includes personal travel. If the addition of personal travel makes the cost higher, the employee should use their own funds to pay the fare and request reimbursement of the lesser amount. If the addition of personal travel makes the cost lower, the employee may use a City travel credit card or their P-card to pay the fare. The employee's payment for personal travel shall accompany the City's payment to the vendor for the tickets.

When changes in travel plans occur that are the result of City business requirements, (i.e. delays in departure, cancellations, extended stays, or revised itinerary) any associated costs shall be paid by the City. However, all increases in cost of travel due to changes for personal convenience will be borne by the employee.

3.67 ACCOMMODATIONS

Directors ~~Supervisors~~ may authorize lodging within the Puget Sound metropolitan region for multi-day functions but should use discretion when doing so. Factors that should be considered are length of travel from the employee's regular work place, length of meeting and budget.

Reasonable hotel/motel accommodations for employees and officials are acceptable and will be reimbursed or paid at a rate not to exceed the GSA maximum lodging rate for the area of travel. Rates may be obtained from the GSA website at www.gsa.gov/perdiem or by calling Accounts Payable (Ext.

2314). Note that rates listed by the GSA are for the base room rate only and do not include taxes or surcharges. These rates are adjusted annually by the GSA.

A vendor's itemized receipt for this category is required for all claims. ~~Direct billing of Hotel/Motel charges is only allowed when a purchase order is issued by the Purchasing division.~~

In the following situations, the maximum allowable lodging amounts may not be adequate and the Department Director or City Manager may approve payment of lodging expenses that exceed the allowable amount. ~~Approval must be made, in writing, in advance of the travel.~~ Justification for exceeding the per diem lodging rate must be stated on the Travel/Training Authorization Form.

- When lodging accommodations in the area of travel are not available at or below the maximum lodging amount and the savings achieved from occupying less expensive lodging at a more distant site are consumed by an increase in transportation and other costs.
- The traveler attends a meeting, conference, convention, or training session where local hotels offer conference rates. Further, it is anticipated that maximum benefit will be achieved by authorizing the traveler to stay at the lodging facilities where the meeting, conference, convention or training session is held.
- To comply with provisions of the Americans with Disabilities Act, or when the health and safety of the traveler is at risk.

3.78 INCIDENTAL EXPENSES

Incidental expenses allowed as part of the daily per diem rates ~~referenced in Section 3.2~~ include fees and tips given to porters, baggage carriers, bellhops and hotel maids. A vendor's receipt is not required; however, the daily total may not exceed \$5.00.

3.89 MISCELLANEOUS EXPENSES

This category includes all reasonable and necessary miscellaneous expenses and includes, but is not limited to, the following:

1. ALLOWABLE MISCELLANEOUS EXPENSES

- Bus, taxi, bridge or other tolls.
- Parking fees.
- Ferry costs.

- Laundry expenses if away from home three (3) or more working days.
- Baggage checking.
- Business telephone and postage expenses.
- One telephone call home per day if away from home for more than 24 hour duration is considered a business telephone expense. Phone calls home should not exceed 15 minutes per day.

2. NON-ALLOWABLE MISCELLANEOUS EXPENSES

- Personal entertainment.
- Theft, loss or damage to personal property.
- Expenses of a spouse, family or other persons not authorized to receive reimbursement under this policy.
- Barber or beauty parlor.
- Airline and other trip insurance.
- Personal postage, reading material.
- Personal toiletry articles.
- Fines or penalties, including parking or traffic violations.

A vendor's receipt will be required only when the single item cost of this type of expense exceeds \$10.00.

3.910 INTERNATIONAL TRAVEL

All international travel requires the prior approval of the City Manager.

4.0 LOCAL TRAVEL EXPENSES (NO OVERNIGHT STAY)

This section covers expenses related to meals and transportation for trips not requiring an overnight stay. See Section 3.0 for guidelines on overnight travel expenses.

The City will follow the US General Services Administration (GSA) schedules that provide for maximum reimbursement rates for meals and incidental expenses for authorized staff while on official business. Amounts exceeding those rates may be

deducted from reimbursement claims or repaid by the employee. These rates are adjusted annually by the General Services Administration.

4.1 DOCUMENTATION

No claim for reimbursement shall be paid unless it is accompanied by a Business Expense Report form, a copy of the Travel/Training Authorization Form and bona fide vendor's receipts. Such receipts should detail the following information when applicable: date, description of purchase, vendor identification and amount paid. Meal ticket stubs are not considered adequate documentation for reimbursement. Expense reports shall include name(s) of individual(s) incurring the expense and how the expense relates to City business.

A Declaration of Lost Receipt or Declaration of Lost Itemized Receipt is acceptable only after all reasonable attempts to locate or obtain a copy have been exhausted. No claim shall be paid for the value of items such as coupons used in lieu of cash.

Specific rules for the approval of a reimbursement claim are included in Section 7.0.

4.2 REIMBURSABLE MEAL COSTS

All City employees and officials shall be entitled to reimbursement for the actual cost of meals consumed while on City business. (Per diem rates apply only as a maximum allowable reimbursement.) In order to be eligible for reimbursement, justification must be provided which describes the public purpose, a list of people included in the meal claim and an agenda or details of the meeting to support the public purpose.

Requests for reimbursement of actual meal costs may not exceed the M&IE (Meals and Incidental Expenses) rate for the area. These rates are set by the General Services Administration and are adjusted annually. Current rates can be found at www.gsa.gov/perdiem or by calling Accounts Payable (Ext 2314).

Examples of allowable meal expenses include: ~~including, but not limited to the following:~~

- A. Meal expenses incurred while attending trade or professional association sponsored events (WFOA, APWA, etc.), conferences, business related functions or approved professional training.
- B. When a City employee or official conducts business with a customer or employee during a meal, reimbursement may be claimed for the cost of both meals; however, business meetings should not be scheduled during meal times unless another time is not practical. In the event of a group

meeting during a meal involving employees and invited business guests (more than 4), per diem rates should be kept in mind; however, the City will absorb a reasonable amount of excess cost.

~~Requests for reimbursement of actual meal costs may not exceed the M&IE (Meals and Incidental Expenses) rate for the area. These rates are set by the General Services Administration and are adjusted annually. Current rates can be found at www.gsa.gov/perdiem or by calling Accounts Payable (Ext 2314).~~

An itemized restaurant receipt is required. Meal ticket stubs alone are not considered adequate documentation for reimbursement. In no event shall any single meal be reimbursed in excess of the equivalent per diem rate for that meal, unless approved in writing by the City Manager. If the excess is approved, it will be reported as taxable wages.

Payment for table service at a restaurant, commonly referred to as a tip, not to exceed 20% of the restaurant prices of the meal, is reimbursable as a reasonable and necessary cost for such service and as a reasonable and necessary part of the cost of the meal. Tips are included in the GSA per diem rates as referenced above and may not exceed 20% whether or not the total cost of the meal exceeds the rate.

Payment for meals picked up or delivered may include a tip of 10-20% of the price of the meal, depending on the circumstances; for instance, difficulty of delivery.

Any planned meals, the cost of which is included in a City-paid registration fee, whether or not the employee or official actually partakes of the meal, will not be reimbursable or eligible for per diem. Planned meals include ~~continental breakfast~~, box lunches and banquets. Receptions at which hors d'oeuvres are the primary offering are not considered meals.

When a meal is included in a meeting and the costs cannot be segregated, the actual cost of the event is reimbursable. A vendor receipt or copy of the meeting agenda is required as documentation.

4.3 EXPENDITURES NOT ALLOWED AS ACTUAL MEAL COSTS

Unauthorized expenditures include, but are not limited to:

- Liquor (including beer and wine)
- Expenses of a spouse or other persons not authorized to receive reimbursement under this policy.

4.4 VEHICLE EXPENSES

A. CITY VEHICLE

Costs of transportation and vehicle operation are acceptable, such as gas, oil, tires, tolls, ferry charges, parking and necessary repairs. Except in emergency situations, employees should contact the Fleet & Facilities Manager before incurring any repair expenses. When using a City vehicle to cross the Evergreen Point Bridge or travel on Highway 405, a Good to Go pass may be checked out to use for tolls. Contact the Facilities Department for more information.

B. PERSONAL VEHICLE

Expenses shall be reimbursed for travel within a 300 mile radius of ~~the City Hall at such rate per mile as shall be established from time to time by the Administrative Services Department, but not to exceed the then the~~ current maximum rate allowed by the United States Internal Revenue Service for reimbursement of such expenses for purposes of business travel expense deductions.

Mileage reimbursement will be calculated based on the round trip distance between City Hall and your destination or your actual mileage, whichever is less.

City employees and City officials who receive an automobile allowance in lieu of City provided transportation shall not be entitled to further reimbursement for surface transportation costs within a 300 mile radius of the City.

Employees crossing the Evergreen Point Bridge or traveling on Highway 405 may check out a Good to Go pass from the Facilities Department or request reimbursement for toll costs.

4.5 MISCELLANEOUS EXPENSES

This category includes all reasonable and necessary miscellaneous expenses and includes, but is not limited to the following:

1. ALLOWABLE MISCELLANEOUS EXPENSES

- Bus, taxi, bridge or other tolls.
- Parking fees.
- Ferry costs.

- Business telephone and postage expenses.

2. NON-ALLOWABLE MISCELLANEOUS EXPENSES

- Personal entertainment.
- Theft, loss or damage to personal property.
- Expenses of a spouse, family or other persons not authorized to receive reimbursement under this policy.
- Personal postage, reading material.
- Fines or penalties, including parking or traffic violations.

5.0 MOVING EXPENSES

The reasonable moving expenses of new employees in certain management and “hard-to-fill” positions are reimbursable at the discretion of the City Manager. Moving expenses shall mean the costs of moving household goods, furniture, clothing and other personal effects of the new employee.

The City Manager may also approve reimbursements for reasonable transportation and lodging expenses. Expenses may not exceed GSA reimbursement rates. All moving expense reimbursement requests will be reviewed for taxation pursuant to IRS Publication 521. Reimbursed expenses that are not considered deductible under an accountable plan will be reported as taxable wages. For example, according to the IRS, only lodging reimbursement for the day of arrival is considered deductible. Approved lodging reimbursement for additional days after arrival will be reported as taxable wages.

6.0 FOOD AND BEVERAGES AT CITY MEETINGS, EVENTS AND EMERGENCIES

Food and beverages may be provided for events such as those listed below. Efforts should be made to keep the costs within per diem rates.

6.1 CITY COUNCIL MEETINGS

- At regular Workshop dinner meetings and special meetings over meal times, food and beverages may be provided for Council members, the City Manager, other staff, and invited guests directly involved in the business discussed at the meeting.

6.2 CITY SPONSORED PUBLIC MEETINGS/EVENTS

- The City may expend reasonable funds for food and beverages at City sponsored public meetings to encourage attendance and interaction. This includes, but is not limited to, Planning Commission, Park Board, Citizen Advisory Committee meetings and the State of the City event.

6.3 CEREMONIES/CELEBRATORY EVENTS

- Food and beverages may be served at ~~recognition ceremonies~~ employee appreciation celebrations (i.e., employee picnic and retirement celebrations which recognize an employee's years of service) held during normal office hours.
- Meals consumed in connection with recognition of nominees for employee of the year. (Per diem rates should be kept in mind; however, the City will absorb a reasonable amount of excess cost.)
- Food and beverages may be served at volunteer recognition events (including, but not limited to annual events honoring the contributions of volunteers).
- ~~Food and beverages may be served at celebratory/recognition dinners for Sister City delegates and employees to facilitate meetings between delegates, officials, and staff since the Sister City relationship provides a public benefit. (Refer to Section 11.0, Sister City Program)~~

6.4 TRAINING SESSIONS AND STAFF MEETINGS

- Food and beverages may be provided at staff meetings and training sessions of four hours or more.
- Food and beverages of minimal value may be provided to volunteers during staff supervised work or training sessions.
- Food and beverages may be provided during interviews with candidates for City positions.

6.5 COUNCIL AND STAFF RETREATS

- Food and beverages may be provided at both Council and staff retreats and should be budgeted for and provided as part of the retreat process.

6.6 WORKPLACE

- Beverage of minimal value may be provided to City employees at the work site during business hours.

6.7 EMERGENCIES

Emergency situations are events where it is determined that City assets or infrastructure and/or the public for which it protects is at risk. In these cases, City staff may be required to remain on-site outside of their normal work shift.

- Food and beverages may be provided when an emergency situation is expected to span over a regular meal period and employees are required to remain on-site or available to respond to an emergency.
- Reimbursement or direct City purchases may be made for food and beverage expenses incurred within an employee's official capacity to continue the operations of the City's programs or services that are necessary for the life, health or safety of Shoreline's citizens.
- The cost for City provided meals should generally be in line with allowable costs under the City's business expense policy.

7.0 CLAIMS AND APPROVAL PROCEDURE

An approved Business Expense Report Form must be submitted to the Administrative Services Department within fifteen (15) days after completion of each business trip, regardless of the method of payment of the travel expenses. Travel and subsistence expenses will not be paid from any Petty Cash Fund except as allowed by Petty Cash procedures.

Receipts must be attached to the Expense Report for all expenses incurred, with the exception of per diem calculations for meals and miscellaneous travel costs less than \$10. If the travel was related to a meeting, conference or seminar, attach a copy of the itinerary or similar document detailing dates, times and meals provided as a part of the registration cost. If documentation is not available, attach a brief memo with that information.

The Expense Report should detail expenditures individually applicable to the use of a City P-Card, City ~~Master~~ Travel Card, and/or cash expended out of pocket.

A copy of the Travel/Training Authorization form shall be attached to the Expense Report. Any special approvals required by this policy shall be obtained by employees prior to applicable travel and shall accompany the Business Expense Report ~~reconciliation form~~ when submitted to the Administrative Services Department. Such approvals shall be by separate memo, which identifies the policy exception being authorized and explains the reasons therefor.

All non-Council reimbursement claims must be authorized by the claimant's supervisor, Department Director, City Manager, or a management employee authorized to act on their behalf.

Claims may include the reimbursable cost of other City officials or employees who would be entitled in their own right to claim business expenses.

Claims of Council members must be approved by the City Manager or his/her designee.

Claims shall be reviewed by the Administrative Services Department for compliance with these policies. Claims that are rejected may be referred for review and disposition to the City Manager or his/her designee.

8.0 SEMINAR OR CONFERENCE REGISTRATION FEES

Payment of seminar or conference registration fees may be processed by the Administrative Services Department by initiating a ~~Purchase Requisition or a Check Request~~. Fees may also be paid by P-card or by following the appropriate reimbursement policy. Details of the conference/seminar should be included in the body of the ~~requisition or Check Request~~. Items such as dates, location, sponsoring organization, and registration deadline are useful information to assure prompt payment of the registration fee. If the conference or seminar is out of town and will result in overnight accommodations and/or travel expense, the traveling employee is responsible for obtaining a Travel/Training Authorization ~~the appropriate travel authorization~~ through his/her department which adheres to this business expense policy. Travel arrangements, i.e. airline passage or automobile travel, are subject to the applicable sections of this policy. A copy of the approved Travel/Training Authorization must be attached to the Check Request.

9.0 EMPLOYEE DUES AND MEMBERSHIPS

It is the policy of the City of Shoreline to pay for the annual dues and memberships for employees in professional and civic organizations which directly relate to their specific job classification and directly benefit the City and the employee by providing staff with the network and information to further develop themselves in their professional capacity.

10.0 RECRUITING COSTS

The reasonable expenses of candidates for certain management and “hard-to-fill” positions are reimbursable when such candidates are invited to visit Shoreline for a personal interview. Approval by the City Manager or designee is required for all expenses to be reimbursed.

At the time the invitation is made, the candidate shall be informed of the specific expenses and/or maximum amount which will be reimbursed. A Recruiting Expense form will be filled out and signed by the Candidate and Human Resources. The candidate will be informed of the requirement that the expenses be documented with itemized receipts and turned over to Human Resources, who will prepare the reimbursement claim. Unless otherwise directed by the City Manager, the invitation for interview and offer of reimbursement will be made by the Human Resources Director or designee.

Expenses which may be reimbursed include air fare, hotel expenses, car rental, meals and incidental expenses. Incidental expenses include transportation to and from Sea-Tac Airport and necessary telephone calls with City staff.

A check request, a copy of the Recruiting Expense form and copies of travel receipts will be used as the customary vendor's statement.

The expense guidelines contained in Sections 3.0 and 4.0 of this policy will be applied to recruiting claims.

11.0 GIFTS

Gifts of public funds are prohibited under Washington State Constitution Article VIII which states:

No county, city, town or other municipal corporation shall hereunder give any money, or property, or loan its money, or credit to or in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm, or become directly or indirectly the owner of any stock or bonds of any association, company or corporation.

In keeping with this law, the City will not expend funds which would be considered a gift. The City does occasionally award gift cards under its employee appreciation or Wellness programs; however, they are considered taxable fringe benefits and are reported as such on the employees' W-2 forms.

12.0 — SISTER CITY PROGRAM

~~The City of Shoreline has established a Sister City Program to seek an enhanced understanding of international culture, heritage and problem solving. Sister City relationships provide mutual benefit by creating opportunities to participate in social, cultural, educational, governmental, environmental and economic exchanges as well as promoting tourism and trade.~~

~~Sister City relationships often result in visits of City staff and officials to the Sister City as well as visits to Shoreline by dignitaries and officials of the Sister City. Typical activities when visiting with a Sister City (either at home or abroad) include meals, business meetings, receptions, official gift exchanges and other informational exchanges. Expenses associated with such activities are considered an appropriate public expense. Direct payment of and/or reimbursement of such expenses must comply with the following guidelines and internal controls as adopted by the City's business expense policy:~~

12.1 — TRANSPORTATION

- ~~The City may pay for airfare and transportation costs for Sister City delegates and staff.~~
- ~~The City may pay for airfare and transportation costs for City staff and City officials traveling to Sister City locations.~~
- ~~Airfare and transportation costs for non-staff is only allowable if the individual is directly involved in relations between the Sister City and Shoreline.~~

~~12.2—ACCOMMODATION~~

- ~~The City may pay reasonable costs for accommodation of Sister City delegates and staff and for our City staff visiting our Sister City location.~~

~~12.3—MEALS~~

- ~~Meals may be provided to Sister City delegates and staff members when provided as part of meetings with City officials and staff. The costs of all meals provided to the delegates and staff must be reasonable since it is difficult to justify excessive meal costs as a valid public purpose.~~
- ~~When Shoreline employees travel to our Sister City location, City staff can be reimbursed for the reasonable cost of their meals. The reasonableness of this expense is outlined in Section 3.2 of this policy.~~
- ~~Pursuant to Section 3.3 of this policy, public funds cannot be used to purchase alcoholic beverages.~~

~~12.4—ENTERTAINMENT~~

- ~~Entertainment cannot be paid for out of public funds. Entertainment is not considered a public purpose since its main purpose is for the private enjoyment of delegates or staff members.~~

~~12.5—CEREMONIES~~

- ~~The City may expend reasonable funds to sponsor and promote public ceremonies and receptions so long as the goal of the public event is to inform citizens of the Sister City relationship and provides a chance for citizens to share ideas and knowledge of the Sister City relationship. The City may provide modest refreshments to encourage attendance and interaction between Shoreline citizens and Sister City delegates and staff.~~

~~12.6—GIFTS AND ADVERTISING~~

- ~~Gifts intended to celebrate the Sister City relationship may be given to the Sister City as a governmental body in an amount commensurate to foster goodwill.~~
- ~~The City may give away minor promotional items to delegates, staff and the public, such as t-shirts, key chains, mugs, and pens, which advertise the Sister City relationship.~~
- ~~The City may expend public funds to advertise the Sister City relationship, such as through postings and fliers.~~

ORDINANCE NO. 793

AN ORDINANCE OF THE CITY OF SHORELINE, WASHINGTON AMENDING CHAPTER 2.60 PURCHASING OF THE SHORELINE MUNICIPAL CODE

WHEREAS, with Chapter 2.60 of Shoreline Municipal Code (SMC) the City has adopted regulations to direct the contracting for public works, goods, services, and real property; and

WHEREAS, SMC 2.60 requires housekeeping amendments to delete the defunct title of Purchasing Officer and replace it with the current title of Administrative Services Director and to delete specific dollar or percentage amounts that are based on Revised Code of Washington (RCW) provisions that are subject to amendment; and

WHEREAS, in the 2017 Legislative Session, with the passage of SB 5734, RCW 39.08.010 was amended to increase the dollar threshold amount for when the City may, in lieu of a bond, retain a percentage of the contract amount from \$35,000 to \$150,000 and SB 5734 also reduced the percentage amount the City may retain from fifty percent (50%) to ten percent (10%); and

WHEREAS, SMC 2.60.070(B) establishes a \$3,000 threshold from when contracts are required for the purchase of services and is recommended to be update to reflect current purchasing practices; and

WHEREAS, on August 14, 2017, the City Council held a study session on the proposed amendments to SMC Chapter 3.50; and

WHEREAS, the City Council has determined that the proposed amendments are in the best interests of the City of Shoreline;

THEREFORE, THE CITY COUNCIL OF THE CITY OF SHORELINE,
WASHINGTON DO ORDAIN AS FOLLOWS:

Section 1. Amendment to SMC Chapter 2.60. Shoreline Municipal Code Chapter 2.60 is amended as set forth in Exhibit A to this Ordinance.

Section 2. Corrections by City Clerk or Code Reviser. Upon approval of the City Attorney, the City Clerk and/or the Code Reviser are authorized to make necessary corrections to this ordinance, including the corrections of scrivener or clerical errors; references to other local, state, or federal laws, codes, rules, or regulations; or ordinance numbering and section/subsection numbering and references.

Section 3. Severability. Should any section, subsection, paragraph, sentence, clause, or phrase of this ordinance or its application to any person or situation be declared unconstitutional

or invalid for any reason, such decision shall not affect the validity of the remaining portions of this ordinance or its application to any person or situation.

Section 4. Publication and Effective Date. A summary of this Ordinance consisting of the title shall be published in the official newspaper. This Ordinance shall take effect five days after publication.

PASSED BY THE CITY COUNCIL ON _____, 2017.

Mayor Christopher Roberts

ATTEST:

APPROVED AS TO FORM:

Jessica Simulcik-Smith
City Clerk

Margaret King
City Attorney

Date of Publication: , 2017
Effective Date: , 2017

Chapter 2.60

PURCHASING

Amendment to Section 2.60.030 Definitions – Subsection (F)

F. “Small works roster” is a roster of qualified contractors maintained for use in a modified formal bid process. When the contract amount for a public works project is ~~\$200,000 or less~~ than the dollar threshold for small public works projects as provided under RCW 39.04.155, as amended, ~~a~~ the city may follow the small works roster process for construction of a public work or improvement as an alternative to formal competitive bid requirements.

Amendment to Section 2.60.050 Purchase of materials, supplies or equipment - Subsection (C)

C. Informal Competitive Quotes.

1. A city representative shall make an effort to contact at least three vendors. The number of vendors contacted may be reduced if the item being sought is only available from a smaller number of vendors. When fewer than three quotes are requested or if there are fewer than three replies, an explanation shall be placed in the procurement file.
2. Whenever possible, quotes will be solicited on a lump sum or fixed unit price basis.
3. At the time quotes are solicited, the city representative shall not inform a vendor of any other vendor’s quote.
4. A written record shall be made by the city representative of each vendor’s quote on the materials, supplies, or equipment, and of any conditions imposed on the quote by such vendor.
5. All of the quotes shall be collected and presented at the same time to the city manager or designee as appropriate for consideration, determination of the lowest responsible vendor and award of purchase.
6. Whenever there is a reason to believe that the lowest acceptable quote is not the best price obtainable, all quotes may be rejected and the city may obtain new quotes or enter into direct negotiations to achieve the best possible price. In this case, the ~~purchasing officer~~ Administrative Services Director or his/her designee shall document, in writing, the basis upon which the determination was made for the award.

Amendment to Section 2.60.060 Public works projects- Subsections (D) and (G)

D. Small Works Roster. There is established for the city of Shoreline a small works roster contract award process for accomplishment of public works projects with an estimated value threshold as provided under RCW 39.04.155, as amended. The city may create a single small works roster, or may create small works rosters for different categories of anticipated work.

1. Roster List. The ~~purchasing officer shall establish the~~ small works roster or rosters which shall consist of all responsible contractors who have requested to be on the list, and where required by law, are properly licensed or registered to perform such work in the state of Washington. In addition to mandatory criteria for determining a responsible vendor under RCW 39.04.350, ~~the purchasing officer may add~~ other criteria listed in SMC 2.60.050(E) may be added, including the basis for evaluation, in determining responsible vendors.
2. Publication. At least once a year, the city shall publish in a newspaper of general circulation within the city the notice of the existence of the roster or rosters and solicit the names of contractors for such roster or rosters. Responsible contractors shall be added to an appropriate roster or rosters at any time that they submit a written request and necessary records. The city may require master contracts to be signed that become effective when a

specific award is made using a small works roster. An interlocal contract or agreement between the city of Shoreline and other local governments establishing a small works roster or rosters to be used by the parties to the agreement or contract must clearly identify the lead entity that is responsible for implementing the small works roster provisions.

3. Prequalification and Appeal. Any contractor whose request to be on the list has been denied may appeal within 10 days after the denial ~~by the purchasing officer~~ to the city manager, and the city manager will make a decision within 30 days of the notice of appeal. Any contractor whose appeal to be on the list has been denied by the city manager may appeal, within 10 days after the denial by the city manager, to the city council, and the city council shall hold a hearing on the issue and make a decision within 45 days of the notice of appeal. A denial that is not appealed or that is appealed and results in a final decision against the contractor prevents the contractor from applying to be on the list for a period of one year from the initial application.

4. Process. Whenever work that has received city council approval in the current budget, or otherwise been approved by the city council, is sought to be accomplished using a small works roster, a city representative shall obtain telephone, written or electronic quotations from contractors on the appropriate small works roster to assure that a competitive price is established and to award contracts to the lowest responsible bidder as follows:

a. A contract awarded from a small works roster need not be advertised. Invitations for quotations shall include an estimate of the scope and nature of the work to be performed as well as materials and equipment to be furnished. However, detailed plans and specifications need not be included in the invitation. This subsection does not eliminate other requirements for architectural or engineering approvals as to quality and compliance with building codes.

b. Quotations may be invited from all appropriate contractors on the appropriate small works roster, sending a notice to these contractors by facsimile or other electronic means.

c. For purposes of this policy, "equitably distribute" means that the city may not favor certain contractors on the appropriate small works roster over other contractors on the appropriate small works roster who perform similar services. At the time bids are solicited, the city representative shall not inform a contractor of the terms or amount of any other contractor's bid for the same project.

d. A written record shall be made by the city representative of each contractor's bid on the project and of any conditions imposed on the bid. Immediately after an award is made, the bid quotations obtained shall be recorded, open to public inspection, and available by telephone inquiry.

e. At least once every year a list of the contracts awarded under this process are to be furnished to the city council and made available to the general public. The list shall contain the name of the contractor or vendor awarded the contract, the amount of the contract, a brief description of the type of work performed or items purchased under the contract, and the date it was awarded. The list shall also state the location where the bid quotations for these contracts are available for public inspection.

5. Determining Lowest Responsible Bidder. Where bidders have not been prequalified, the city shall award the contract for the public works project to the lowest responsible bidder; provided, that whenever there is a reason to believe that the lowest acceptable bid is not the best price obtainable, all bids may be rejected and the city may call for new bids.

6. Cancellation of Invitations for Quotations. An invitation for quotations may be canceled at the discretion of the administrative services director. The reasons shall be made part of the contract file. Each invitation for quotations issued by the city shall state that the invitation may be canceled. Notice of cancellation shall be sent to all parties that have been provided with a copy of the invitation. The notice shall identify the invitation for quotations and state briefly the reasons for cancellation.

G. Bid Deposit and Performance Bond for Public Works Improvement Projects. Whenever competitive quotes or bids are required, a bidder shall make a deposit in the form of a certified check or bid bond in an amount equal to not

less than five percent of the total bid, which percentage shall be specified in the call for bids. As part of any bid submitted, the bidder shall be required to warrant that the bid is a genuine bid, and that he/she has not entered into collusion with any other bidder or any other person.

All public works contractors shall furnish a performance bond in an amount equal to the total amount of the contract on a form approved by the city attorney. In lieu of a performance bond on contracts less than the dollar threshold provided under RCW 39.08.010, as amended, a contractor may request to have the city accept the percentage allowed by RCW 39.08.010 ~~choose to have 50 percent~~ of the contract retained for a period of 30 days after the date of final acceptance or until receipt of all necessary releases from the Department of Revenue and the Department of Labor and Industries and settlement of any liens filed under Chapter 60.28 RCW, whichever is later. Following the provisions of RCW 39.08.030 the city may, at its option, reduce the amount of a performance bond to not less than 25 percent of the total contract amount for on-call and scheduled maintenance contracts.

Amendment to Section 2.60.070 Services – Subsection B

B. Contract or Purchase Order Required. The purchase of services require that the city enter into a contract or purchase order for that service, with the exception of temporary employment agency services, and ~~standard~~ services with a total cost of \$3,000 or less in a calendar year, ~~such as auto repair, title reports, printing and messenger/process service.~~ Departments are allowed to make these purchases administratively in accordance with procedures adopted and approved by the city manager.

ORDINANCE NO. 795

AN ORDINANCE OF THE CITY OF SHORELINE, WASHINGTON AMENDING CHAPTER 3.50 SALE AND DISPOSAL OF SURPLUS PERSONAL PROPERTY OF THE SHORELINE MUNICIPAL CODE

WHEREAS, with Chapter 3.50 of Shoreline Municipal Code (SMC) the City has adopted regulations to govern the sale and disposal of surplus personal property owned by the City; and

WHEREAS, since adopted in 2001, SMC 3.50.020 has permitted the City Manager to sell or dispose of a surplus item with a value of \$2,000 or less while SMC 3.50.030 and SMC 3.50.020 have required City Council approval for the sale or trade in of a surplus item with a value in excess of \$2,000; and

WHEREAS, City Staff has analyzed these values given the impacts of inflation since 2001, in comparison with similarly-situated municipalities, and in regards to operational efficiency; and

WHEREAS, an increase in the value of a surplus item to require City Council approval for items in excess of \$5,000 would serve to expedite the disposition of surplus personal property so as to economically benefit the City; and

WHEREAS, clarification is needed in SMC Chapter 3.50 to ensure any city-owned personal property that was purchased with grant funds is disposed of in compliance with the grant requirements; and

WHEREAS, on August 14, 2017, the City Council held a study session on the proposed amendments to SMC Chapter 3.50; and

WHEREAS, the City Council has determined that the proposed amendments are in the best interests of the City of Shoreline;

THEREFORE, THE CITY COUNCIL OF THE CITY OF SHORELINE,
WASHINGTON DO ORDAIN AS FOLLOWS:

Section 1. Amendment to SMC Chapter 3.50. Shoreline Municipal Code Chapter 3.50 is amended as set forth in Exhibit A to this Ordinance.

Section 2. Corrections by City Clerk or Code Reviser. Upon approval of the City Attorney, the City Clerk and/or the Code Reviser are authorized to make necessary corrections to this ordinance, including the corrections of scrivener or clerical errors; references to other local, state, or federal laws, codes, rules, or regulations; or ordinance numbering and section/subsection numbering and references.

Section 3. Severability. Should any section, subsection, paragraph, sentence, clause, or phrase of this ordinance or its application to any person or situation be declared unconstitutional

or invalid for any reason, such decision shall not affect the validity of the remaining portions of this ordinance or its application to any person or situation.

Section 4. Publication and Effective Date. A summary of this Ordinance consisting of the title shall be published in the official newspaper. This Ordinance shall take effect five days after publication.

PASSED BY THE CITY COUNCIL ON _____, 2017.

Mayor Christopher Roberts

ATTEST:

APPROVED AS TO FORM:

Jessica Simulcik-Smith
City Clerk

Margaret King
City Attorney

Date of Publication: , 2017
Effective Date: , 2017

Chapter 3.50

SALE AND DISPOSAL OF SURPLUS PERSONAL PROPERTY

Sections:

- 3.50.010 Sale or donation of surplus and personal property owned by the city – General requirements.
- 3.50.020 Sale of surplus personal property with an individual item value of ~~\$2,000~~ \$5,000 or less.
- 3.50.030 Sale of surplus personal property with an individual item value in excess of ~~\$2,000~~ \$5,000.
- 3.50.040 Sale of surplus personal property to another governmental entity.
- 3.50.050 Trade-in of surplus equipment with an individual item value in excess of ~~\$2,000~~ \$5,000.
- 3.50.060 Sale of property originally acquired for public utility purposes.

3.50.010 Sale or donation of surplus and personal property owned by the city – General requirements.

A. Subject to this chapter, the city manager may authorize department directors to sell property that is in the custody of the departments and owned by the city when said property is no longer of public use to the city.

B. Department directors shall certify in writing to the city manager or duly authorized agent that city-owned property is no longer of public use to the city, or that the sale thereof would be in the best interests of the city.

C. The city manager may declare personal property that is of no current or future public use to the city with an individual item value of less than \$500.00 as scrap. Personal property declared scrap may be disposed of as prescribed by the city manager or sold by private sale at prices established by current market conditions.

D. The city manager may also authorize a donation of surplus property when the cost of disposition of the property is equal to or exceeds the current fair market value of the property, to a specific bona fide charitable organization which is tax exempt pursuant to Internal Revenue Code Sec. 501(c)(3).

E. If any surplus property is purchased with grant funds, the department directors shall consult with the granting agency to ensure sale or disposal of the property is consistent with any grant requirements or restrictions prior to providing certification to the city manager.

3.50.020 Sale of surplus personal property with an individual item value of ~~\$2,000~~ \$5,000 or less.

A. Approval of the city council is not required for the sale or disposition of any city-owned personal property with an individual item estimated value of ~~\$2,000~~ \$5,000 or less.

B. When such property has been certified for disposition by a department director, sale or disposition shall be made by the city manager or duly authorized agent in accordance with informal procedures. No member of the city council or members of their immediate family, and/or city employees or members of their immediate family, may acquire such property if the city employee or official had any role in establishing the valuation or price of said property.

3.50.030 Sale of surplus personal property with an individual item value in excess of ~~\$2,000~~ \$5,000.

Upon approval by the city council, surplus property owned by the city which is no longer of public use and which is valued at more than ~~\$2,000~~ \$5,000 shall be sold by calling for sealed bids or by live auction, at the council's discretion.

A. Sale by Sealed Bidding.

1. The call for sealed bids shall contain a description of the property to be sold, the location thereof, the name and address of the person with whom the bid is to be filed, the last date for filing bids, and any other pertinent information required by the city manager. Such call shall be published at least once in the official newspaper of the city not less than five days before the last date for filing of bids.

2. Each bid shall be accompanied by a deposit in the form of a certified or cashiers check in the amount equal to but not less than 10 percent of the amount of the bid. All such deposits so made shall be returned to the

unsuccessful bidders after award of a bid, if any. The deposit of the successful bidder shall be applied toward the bid price, or upon failure of such bidder to consummate the purchase, such deposit shall be forfeited as liquidated damages and such deposit shall be credited to the appropriate account.

3. Sealed bids shall be opened in public by the city clerk or duly authorized agent at the time and place specified in the call for bids. The city clerk or duly authorized agent shall make a tabulation of all bids received and forward the bids to the city manager for approval or rejection. The city manager shall accept the highest bid that exceeds the city's estimated value.

4. In the event no bids are received, all bids are rejected, or no bid exceeds the city's estimated value, the city manager may either ask for new sealed bids or direct the sale or disposition of such surplus property under the procedures adopted pursuant to SMC 3.50.020.

B. Sale by Live Auction.

1. Notice of the live auction, a description of the property to be sold and any other pertinent information required by the city manager shall be published at least once in the official newspaper of the city not less than five days before the auction.

2. The auction shall be conducted by the city manager or at his direction. The city shall accept the highest bid.

3. In the event no bids are received, the city manager may direct the sale or disposition of such surplus property under the procedures adopted pursuant to SMC 3.50.020

3.50.040 Sale of surplus personal property to another governmental entity.

A. Sale or disposition of surplus and personal property with an individual item value of \$50,000 or less to another governmental entity shall be in accordance with SMC 3.50.020.

B. Sale or disposition of surplus and personal property with a value of more than \$50,000 to another governmental entity shall be in accordance with the procedures for public notice and hearing in RCW 39.33.020.

3.50.050 Trade-in of surplus equipment with an individual item value in excess of ~~\$2,000~~ \$5,000.

A. Notwithstanding SMC 3.50.030, approval of the city council is not required for the trade-in of surplus equipment with an individual value of more than ~~\$2,000~~ \$5,000 when purchasing new equipment, so long as the city receives appropriate trade-in value for the surplus equipment. Appropriate trade-in value shall be determined by reference to "The Blue Book" or other similar published reference book.

B. When surplus city equipment has been certified for trade-in by a department director in accordance with this chapter, such trade-in may be approved by the city manager in accordance with informal procedures. No member of the city council or members of their immediate family, and/or city employees or members of their immediate family, may acquire such property if the city employee or official had any role in establishing the valuation or price of said property.

3.50.060 Sale of property originally acquired for public utility purposes.

Sale or disposition of surplus and personal property originally acquired for public utility purposes shall be in accordance with the procedures for public notice and hearing in RCW 35.94.040.

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Update of the Business & Occupation Tax Work Plan		
DEPARTMENT:	Administrative Services		
PRESENTED BY:	Sara Lane, Administrative Services Director Rick Kirkwood, Budget Supervisor		
ACTION:	<input type="checkbox"/> Ordinance	<input type="checkbox"/> Resolution	<input type="checkbox"/> Motion
	<input checked="" type="checkbox"/> Discussion	<input type="checkbox"/> Public Hearing	

PROBLEM/ISSUE STATEMENT:

The 10 Year Financial Sustainability Plan (10 YFSP), which was accepted by Council on June 16, 2014, prioritized seven target strategies to reduce projected future revenue and expenditure gaps. Council Goal No. 1, Action Step No. 3 directs staff to continue to implement the 10 YFSP including Strategy 6 – engaging the business community in a discussion regarding the potential implementation of a Business and Occupation (B&O) Tax. This discussion will focus on the results of staff’s business engagement and next steps should Council choose to move forward with this strategy.

RESOURCE/FINANCIAL IMPACT:

Assuming no new revenues or changes in service levels, the operating budget 10-year forecast, assuming current service levels, projects potential gaps between revenues and expenses to occur beginning in 2022 with a cumulative gap totaling \$9.685 million over the 10-year forecast. These potential budget gaps will be addressed as the City of Shoreline is required to pass a balanced budget and does so each year within the following policies:

- Current revenues will be sufficient to support current expenditures.
- Resources (fund balance) greater than budget estimates in any fund shall be considered “One-time” and shall not be used to fund ongoing service delivery.

There is no immediate financial impact associated with tonight’s discussion. However, the implementation of a B&O Tax has been identified as a potential revenue source to narrow the gap throughout the 10-year forecast. As discussed with Council previously, no single strategy in the 10 YSFP will solve the forecast shortfall. It will take a combination of all seven strategies to provide financial sustainability of the City’s existing services and to address other unfunded needs, such as urban forestry, long term facility maintenance, space needs for operational maintenance functions such as streets, surface water and parks as well as other unfunded operating and capital needs. The ongoing unreliability of State Shared Revenues further supports the need for an additional stable revenue source.

RECOMMENDATION

No formal action is required at this time. Staff is providing Council with an update on staff's progress related to implementation of Strategy 6 of the 10 YFSP. Staff recommends that the Council direct staff to continue to pursue implementation of a business and occupation tax and authorize staff to move into the next phase of implementation and bring back a draft Business and Occupation Tax Ordinance for Council consideration.

Approved By: City Manager ***DT*** City Attorney ***MK***

INTRODUCTION

In 2014, the City Council formed a subcommittee to develop a 10 Year Financial Sustainability Plan (10 YFSP). The purpose of the 10 YFSP is to strengthen Shoreline's economic base by identifying seven strategies for the City to maintain financial resiliency and financially sustain existing services. The 10 YFSP was accepted by Council on June 16, 2014. The staff report for this action is available at the following link:

<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/council/staffreports/2014/staffreport061614-8a.pdf>).

The City has successfully implemented, and continues to utilize, five of the seven strategies since acceptance of the 10 YFSP. Strategy 5 – replacing the \$290,000 transfer from the General Fund to the Roads Capital Fund with another dedicated funding source and Strategy 6 – engaging the business community in a discussion regarding the possible future implementation of a Business and Occupation (B&O) Tax, are the only remaining strategies to be implemented. The purpose of this discussion is to provide Council with an update on staff's progress in implementing Strategy 6 of the 10 YFSP.

BACKGROUND

RCW A.82.020 (available here: <http://app.leg.wa.gov/rcw/default.aspx?cite=35A.82.020>) provides cities the authority to impose a B&O Tax on businesses that operate in their cities. Cities may impose a B&O Tax primarily measured on gross proceeds of sales or gross income. For purposes of calculating the B&O Tax, businesses may be divided into several classifications (e.g., retailing, manufacturing, services, or wholesale) and those conducting multiple activities will report in more than one classification. The implementation of a B&O Tax, up to a rate of .002 does not require a public vote; however, the ordinance imposing the tax must include a provision for a referendum procedure.

During the Council's 2017 Strategic Planning Workshop held earlier this year, Council reviewed the plan to support implementation of the remaining strategies and directed staff to move forward with implementation of the 10 YFSP and provide an update of Strategy 6 in the summer. Since that time staff procured the support of BERK, a local consulting firm, to engage the business community in the discussion about the potential implementation of a B&O Tax in Shoreline. The following section provides information on BERK's engagement work with the business community in Shoreline.

Business Community Survey

BERK's consultants, Allegra Calder and Jennifer Tippins, worked with City staff to develop an online survey focused on soliciting input from businesses about the various options available to a city when implementing a B&O Tax. Options include rates to be levied, exemption thresholds, and business type exemptions. The survey also asked about the City services that are most valued by businesses and where they would like to see additional resources directed should additional revenue become available beyond that needed to maintain existing service levels.

To ensure that the survey was easy to understand, BERK interviewed representatives from three local businesses in Shoreline prior to releasing the survey: Club Hollywood, Chuck Olson Chevrolet/Kia, and Spiro's Pizza. The feedback that was solicited was beneficial and allowed them to make appropriate changes to the survey.

The survey was published using Survey Monkey and available to businesses from May 17 through June 1, 2017. An email invitation to take the survey was sent to over 2,000 businesses that are registered with the City of Shoreline or remit Sales Tax to the City. Reminders were sent to all businesses at the mid-point and just prior to the closing of the survey.

Business Outreach Workshops

Each survey email included information on two, two-hour Business Outreach Workshops scheduled for June 21 at 5:00 PM and June 22 at 11:00 AM. BERK facilitated the workshops, with City staff providing an overview of City services and the 10 YFSP, and BERK presenting survey results and facilitating a two way dialogue on the topic. The meeting dates were also published in Shoreline Area News, on the City's website, and using social media.

Targeted Outreach

Dan Eernisse, Economic Development Manager, and Sara Lane made a presentation on the proposed work plan to the Shoreline Chamber of Commerce, Economic Development Committee. The Chamber of Commerce suggested that the City make a special effort to ensure that the diverse business community be made aware of the survey and workshops. Staff created flyers and worked with Suni Tolton, Diversity and Inclusion Coordinator, to personally distribute the flyers advertising both the survey and workshops to businesses.

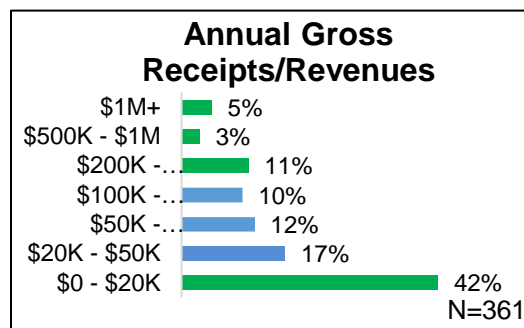
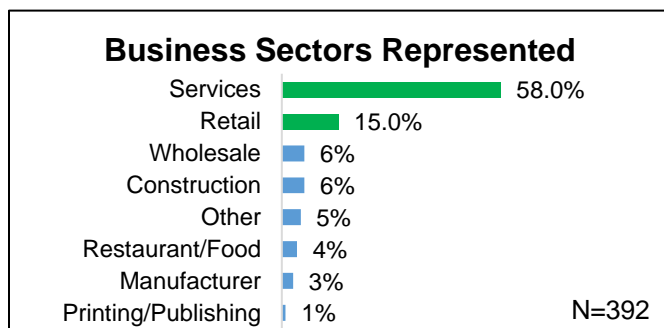
Business Interviews

BERK reached out to businesses to validate the survey and solicit feedback. They were able to interview representatives from seven businesses: Chuck Olson Chevrolet/Kia, Spiro's Pizza, and Club Hollywood prior to issuing the survey. After the survey was completed, BERK was able to conduct phone interviews with 4 additional businesses, Highland Ice Arena, Inland Construction, Central Market, and Bob Donegan President of Ivar's and a Shoreline resident.

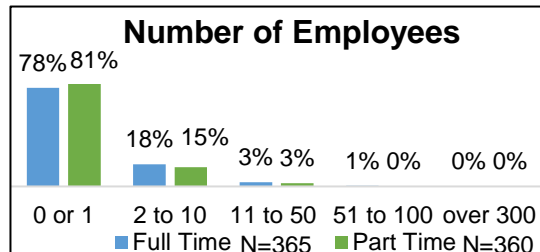
More information about BERK's outreach work, including the summary of their phone interviews, is included in their report (Attachment A). Results of business engagement are provided in the Discussion section below.

Survey Results

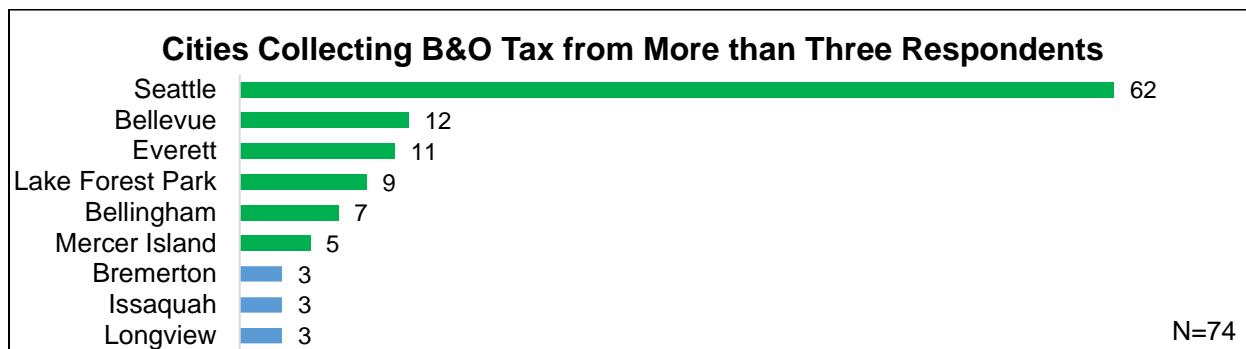
The business community survey was sent to over 5,000 business email addresses for businesses located or doing business in Shoreline. Staff received 435 responses to the survey. Of the respondents, 75% are located in Shoreline, 58% are service businesses, 15% are retail, 42% generate gross receipts of less than \$20,000 per year, and 19% generate more than \$200,000 per year. Demographic data regarding survey respondents is below:



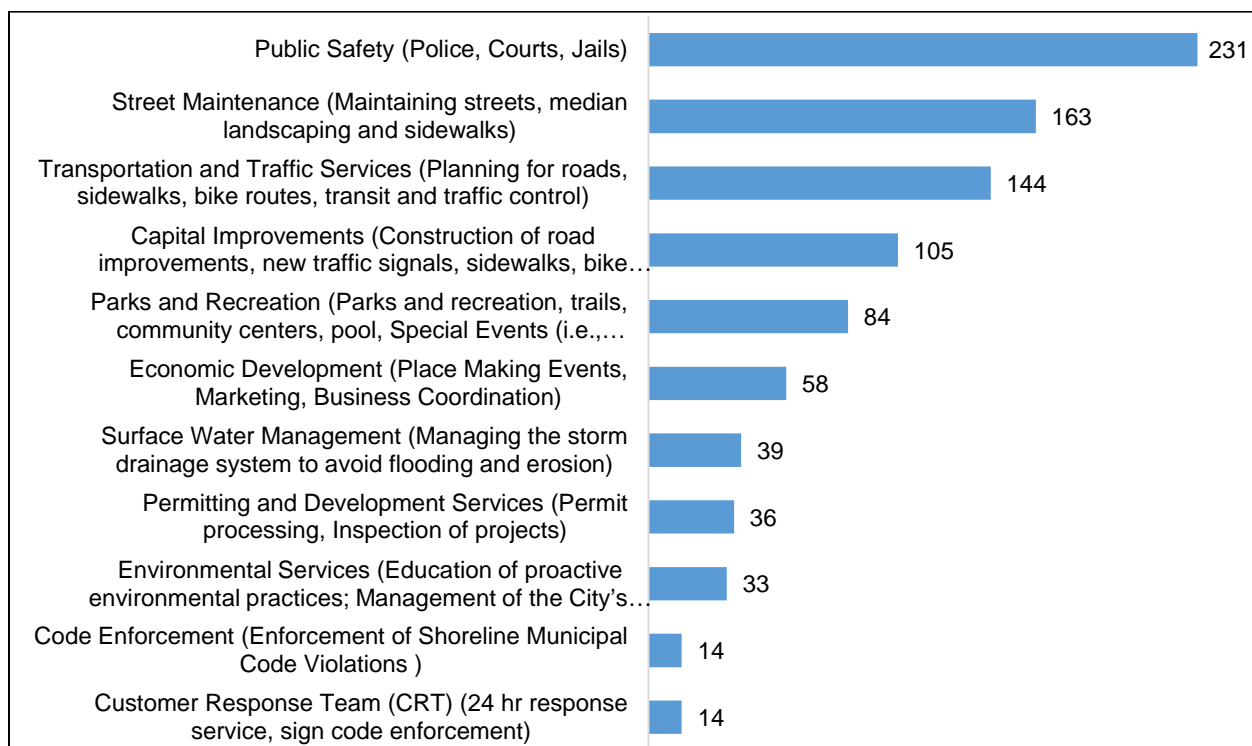
# of Full Time Employees	Respondents	%
0 or 1	285	78%
2 to 10	64	18%
11 to 50	12	3%
51 to 100	2	1%
over 300	1	0%



While only 20% of respondents pay B&O Tax to one or more of 88 other cities, 41% with gross receipts over \$50,000 pay B&O Tax to other cities. The top six cities collecting B&O Tax from respondents are Seattle, Bellevue, Everett, Lake Forest Park, Bellingham, and Mercer Island.

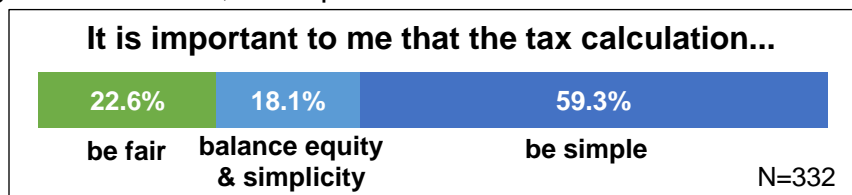


The following chart exhibits which services provided by the City are most important to the respondents.



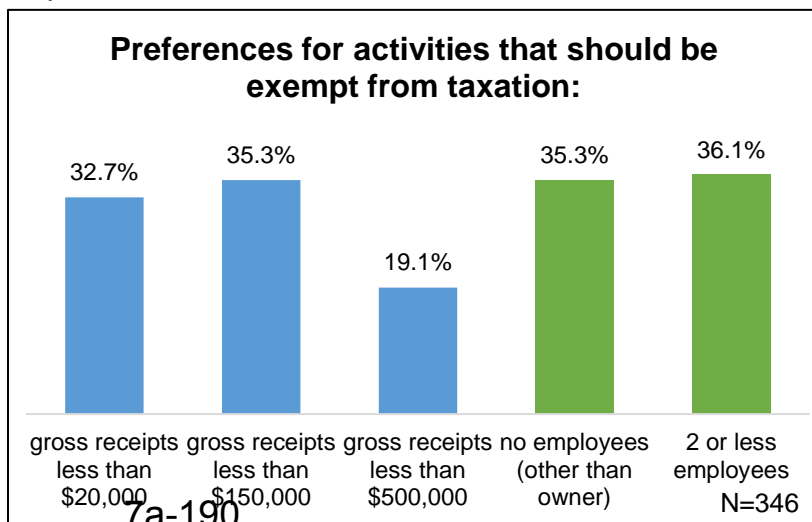
Equity & Complexity vs. Simplicity

The majority of respondents (59.3%) felt that it was important to keep the administrative provisions of the B&O Tax as simple as possible. Simplicity is achieved through limiting deductions and factors used in calculating the tax. For example, a tax that is based solely on gross receipts, or a business license fee solely based on the number of employees or square footage of a business, is simpler to calculate than one that is based on a combination of factors. The down side is that it may not achieve the same level of equity, or fairness, that some might desire.



Exemption Thresholds

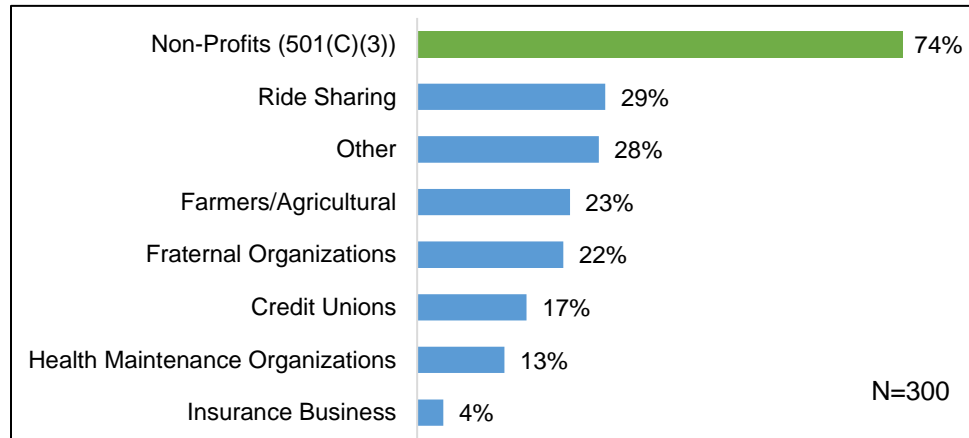
The [Association of Washington Cities' 2012 B&O Tax Model Ordinance](#) (Attachment B) requires that cities create an exemption threshold for small businesses with annual gross receipts equal to or less than \$20,000. The City can choose to set the gross receipts exemption threshold at a higher level to meet individual City objectives. Because it is an exemption threshold, businesses that have gross receipts of less than the threshold amount do not have to pay any B&O



Tax. If the business exceeds the threshold, then all gross receipts are taxable (no exemption for the base exemption). The City can also use additional factors, like number of employees, to create a more generous exemption threshold.

Exemptions

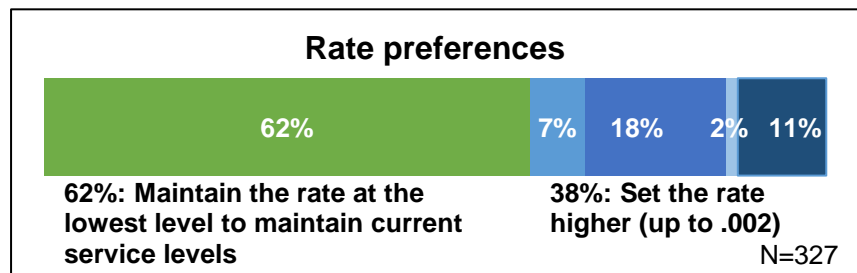
Certain business activities are specifically exempted from B&O Tax in the Model Ordinance. Cities also have the right to set economic policy and exempt additional businesses in



order to maintain local control. This chart exhibits support for business activities identified by respondents as those that should be considered to receive an exemption.

Tax Rate

In the modeling of the 10 YFSP, the City anticipated a B&O Tax rate of .001, or ½ of the rate allowed by RCW, being set to maintain financial sustainability for existing service levels. In the survey, staff asked businesses where they would like to see additional resources directed should the rate be set higher than .001 (up to .002.) Of the respondents, 62% would prefer to maintain the rate at the lowest level to maintain current service levels while 38% would prefer to set the rate higher.



The following tables provide more detail regarding this survey question:

Preference	Respondents	%
Maintain the rate at the lowest level to maintain current service levels.	203	62%
Set the rate higher to fund...		
...some new or enhanced services to specifically benefit businesses.	23	7%
...new or enhanced services for the whole community.	59	18%
...capital projects to specifically benefit the business community.	5	2%
...capital projects to benefit the whole community.	37	11%

For those that would like to see services expanded, the following services areas were mentioned in comments:

Service Area	Respondents	%
Public Safety	7	19%
Human Services	7	19%
Parks	6	16%
Business Workshops	4	11%
Traffic	3	8%
Economic Development	2	5%
Community Building	2	5%
Misc.	6	16%

Impact of a B&O Tax on Businesses

In the survey, staff asked businesses, “If the City were to impose a B&O Tax at a rate of .001, my business would...” The following table provides the responses (please note that businesses were asked to check all that apply):

Response	Respondents	%
Absorb the expense/maintain and operate business as usual.	149	45.7%
Decrease hours of existing employees.	22	6.7%
Lay off existing employees.	11	3.4%
Leave vacant positions open.	21	6.4%
Close business.	21	6.4%
Consider moving to a different location.	80	24.5%
Immediately increase prices to pass the expense on to our customers.	85	26.1%
Other	67	20.6%

DISCUSSION

Policy Options

Prior to implementing a B&O Tax, Council would need to make decisions on the policy questions that were addressed in the Business Survey. These decisions would be incorporated in the City’s Ordinance adopting a B&O Tax/ Following is a discussion of the options for Council consideration.

Exemption Threshold

The State has a Model Ordinance (Attachment B) for B&O Tax that cities are required to utilize when developing their B&O Tax Ordinance. The model requires that cities adopt an exemption threshold of at least \$20,000, where a business grossing less than the threshold would not be subject to the tax. Cities are able to set the exemption thresholds at any level. Attachment C includes a list of all Washington B&O Cities with their rates and exemption thresholds. The exemption thresholds vary from the minimum \$20,000 up to a high of \$1,500,000. The value of the exemption threshold is to exempt

small business from the tax and ease the administrative burden associated with collecting smaller tax due amounts. The following table provides the exemption thresholds for the King County Cities that have a B&O Tax:

City	Exemption Threshold
Kenmore	\$20,000.00
Lake Forest Park	\$20,000.00
North Bend	\$20,000.00
Pacific	\$20,000.00
Des Moines	\$50,000.00
Issaquah	\$100,000.00
Seattle	\$100,000.00
Mercer Island	\$150,000.00
Bellevue	\$160,000.00
Burien	\$200,000.00
Kent	\$250,000.00
Renton	\$1,500,000.00

The following table reflects the estimated number of businesses that would be exempt from tax based on an analysis of information on Shoreline businesses and business that currently remit Sales Tax to Shoreline and the associated revenue estimated to be collected at each exemption threshold level assuming a tax rate of .001 for all classifications:

Exemption Threshold	# of Businesses Exempted	Estimated B&O Gross Revenue* (\$ in '000's)	Estimated Revenue Impact (\$ in '000's)
All Businesses	2,033	\$1,058	
< \$20,000	737	\$1,055	-\$3
< \$50,000	1,000	\$1,050	-\$8
< \$100,000	1,222	\$1,043	-\$15
< \$150,000	1,343	\$1,037	-\$21
< \$200,000	1,429	\$1,033	-\$25
< \$500,000	1,675	\$991	-\$67
< \$1,000 000	1,812	\$953	-\$105

**Not adjusted for administrative costs*

Staff recommends setting the exemption threshold at \$200,000 to minimize impact to small business and the administrative burden of collecting a small tax from a larger number of businesses.

Basis & Rate of the Tax

- *Gross Receipts: Single rate vs. varying rates per classification.*
The City can set a single rate for all tax classifications or a varying rate at its discretion. A flat rate provides consistency and simplicity while a varying rate provides some recognition that certain business classifications tend to have

higher or lower overhead. It also can provide the opportunity to accomplish certain economic development goals by setting rates lower for tax classifications that the City may be interested in attracting. Currently, 44 cities in Washington State impose a B&O Tax and 16 of those have set at least one varying rate. The State has varying rates for each classification. Cities with varying rates charge services at a higher rate than retail at a factor ranging from 125% to 364%, with a mean of 200%. For the three King County cities (Issaquah, Kent, and Seattle) that have varying rates between services and retail the factor range is 125-33%. Attachment C provides information on the rates charged by the 44 cities in the State of Washington.

Staff recommends that the City set the service rate two times the retail rate. This maintains significant simplicity but does recognize that the profit margin for service revenue is generally higher than for other categories, a concern that was mentioned frequently in the survey and interviews. The primary source of data available for our evaluation was received from the State and relates to sales tax. Based upon that information all businesses reporting service revenue would appear to fall under a \$200,000 exemption threshold. However, there are likely some service businesses not in the data provided by the state that might not meet the threshold.

- *Gross Receipt Rate Setting*

As part of the 10YFSP staff used a rate of .001 for modeling the impact of this revenue source to support current service levels. Council could set the rate at a higher level of up to .002 to generate additional revenue to meet other unfunded needs such as Urban Forestry, Maintenance Facility, Capital Facility Maintenance, and other capital and operating needs. Assuming an exemption threshold of \$200,000, each addition .5% increase in rate (i.e. going from a rate of .001 to .0015) will generate approximately \$500K in additional revenue.

Staff recommends that Council implements the B&O tax at a minimum rate of .001 for all classifications other than services and .002 for services to support current service levels in the 10 YFSP and consider what additional Council priorities could be addressed by a higher rate.

- *Use of other factor such as number of employees and square footage.*

Some cities will use multiple factors to determine the total tax due. While these other factors are considered a license for revenue they can be collected in combination with the gross receipts tax. Generally additional factors are utilized to help ensure that the tax is more equitable for businesses that may have a business location in the City but for varying reasons a significant portion of gross receipts would not be taxable to the City. This is especially prevalent in warehousing where the gross receipts would be reported to the location where goods are delivered to- not delivered from. This type of option adds a significant amount of complexity both for the businesses filing the tax and for the City collecting the tax.

Staff recommends that the City solely utilizes gross receipts as the basis for its B&O tax due to the complexity that is created for businesses to accurately calculate tax based on multiple factors.

Tax Exemptions & Deductions

- *Exemptions*

Section .090 of the Model Ordinance identifies the following mandatory and standard exemptions from B&O Tax:

1. Public utilities where a Utility Tax is imposed.
2. Investments - dividends from subsidiary corporations.
3. Insurance business.
4. Employees.
5. Amounts derived from sale of real estate.
6. Mortgage brokers' third-party provider services trust accounts.
7. Amounts derived from manufacturing, selling or distributing motor vehicle fuel (Mandatory).
8. Amounts derived from liquor, and the sale or distribution of liquor (Mandatory).
9. Casual and isolated sales.
10. Accommodation sales.
11. Taxes collected as trust funds.

Cities are required to include the mandatory exemptions and encouraged to include the standard to provide consistency for businesses that need to comply with multiple local tax codes.

Cities also have the authority to identify additional exemptions to help address unique situations and accomplish operational objectives. Some of the most common optional exemptions include:

- Athletic Exhibitions
- Fraternal Organizations
- Credit Unions
- Farmers / Agricultural
- Health Maintenance Organizations
- Non-Profits (501(C)(3))
- Racing
- Ride Sharing
- Other gross receipts taxes imposed on the business

Staff recommends that the City adopt all of the mandatory and standard exemptions identified in the Model Ordinance. We would also recommend that all revenue subject to another gross receipts tax imposed by the City on the business be exempt from the B&O Tax. For example, the City currently levies both gross receipt taxes on utility revenue at 6% and card room revenue at 10% and pull tab revenue at 5%. The intent would be to exempt these revenues from the B&O Tax; however other types of revenue generated by those businesses (like service or retail) would still be subject to the City's B&O Gross Receipts tax.

Finally, 74% of respondents to the City's survey indicated a desire to exempt Non-Profit 501c3 businesses from the B&O tax. Staff therefore recommends that Council exempt Non-Profit 501C(3) business revenue from the B&O Tax.

Attachment D provides a matrix of the unique exemptions provided by other B&O cities.

Deductions, Credits, and Allocation

Section .070-.078 of the Model Ordinance mandates a system of deductions, credits and allocation methodology that ensures that businesses are not taxed on the same revenue by multiple jurisdictions.

Section .100 of the model ordinance defines some additional mandatory and standard deductions:

1. Receipts from tangible personal property delivered outside the State (Mandatory).
2. Cash discount taken by purchaser.
3. Credit losses of accrual basis taxpayers.
4. Constitutional prohibitions (Mandatory).
5. Receipts From the Sale of Tangible Personal Property and Retail Services Delivered Outside the City but Within Washington.
6. Professional employer services.
7. Interest on investments or loans secured by mortgages or deeds of trust.

While some cities have retained unique deductions, outside the standard and mandatory deductions, most would be better addressed as an exemption.

Staff recommends that the City adopt all mandatory and standard deductions identified in the Model Ordinance.

Licensing and Tax Administration

Should Council choose to implement a B&O Tax, there are several options for tax administration that need to be considered, particularly relating to business licensing and collection of the tax.

- *State Department of Licensing*
The City currently partners with the State for annual business licensing. The State is not able to provide B&O tax administration or collection services to the City. The City could choose to continue to utilize the State for business licensing and administer and collect the B&O tax independently or administer the tax independently and partner with *FileLocal* for online collection of the tax.
- *FileLocal*
FileLocal is an online system created through the partnership of the cities of Seattle, Bellevue, Everett, and Tacoma that allows businesses to apply for City business licenses and file and pay their City B&O taxes at the same time (website: https://www.filelocal-wa.gov/Default_FileLocal.aspx). The original four cities have been working with smaller cities to develop a process to allow the

smaller cities to join with the objective of minimizing the impact on businesses of filing local B&O tax. Lake Forest Park is currently working with FileLocal with the goal of implementation by the end of 2017. The City could choose to join FileLocal for both licensing and tax collection services or just for tax collection.

- ***Tax Administration***

Regardless of which of the above options the City selects, the City will need to administer the collection of the tax. The City would need to maintain all filing history, accounts receivables, track delinquencies, audit information, for each taxpayer account. Generally, city financial systems are not able to fulfill the requirements for tax administration, so a separate tax administration system would need to be procured, implemented and integrated to the licensing and collection systems. Additionally, the City will need some provision for collecting taxes that are not paid online, such as using a lockbox like we will for wastewater utility payments. Alternatively, if we choose to partner with FileLocal and set a significant exemption threshold we could mandate online filling. The costs of administration of a B&O tax have not been included in the revenue analysis presented.

The following table provides the pros and cons of these three licensing and tax administration options:

Option	Pros	Cons
License w/ the State & Collection with <i>FileLocal</i>	Process for licensing works well. All businesses are supposed to register with the State so detection is improved.	More interfaces/integration and relationships to maintain.
License and Collection with <i>FileLocal</i> (or Collection Only)	Easy online filing and renewal. Any business that does business with other cities on <i>FileLocal</i> can do all local tax filing in one place.	<ul style="list-style-type: none"> • <i>FileLocal</i> may not be ready for us in time. • Additional cost.
License with the State and Independent Collection	May be a lower cost. May be necessary if <i>FileLocal</i> isn't ready to bring us on board.	<ul style="list-style-type: none"> • For businesses that file in more than one city it adds an administrative burden to complete one additional tax return. • Online filing and payment is challenging to implement.

Specific decisions around tax administration do not need to be made prior to Council action. Staff recommends that we perform a more thorough cost benefit analysis of the administration options after decisions on tax structure have been made.

Implementation Steps

If Council chooses to continue to explore the option of implementing a B&O Tax, it is important to recognize that the implementation of the tax would likely take at least one year. The following are the major steps that would need to be completed:

1. Draft Ordinance
2. Council Discussion and Policy Direction on Draft Ordinance
3. Adopt the Ordinance (subject to referendum)
4. Develop the administration plan, evaluating options including:
 - a. Contract with the State for administration
 - b. Implement a system and partner with *FileLocal* (Seattle, Bellevue, Everett, Tacoma, Lake Forest Park) to provide joint filing
5. Implement administration plan, including staff training
6. Business education

If Council should adopt an ordinance implementing a B&O Tax prior to the end of 2017, staff estimates that the tax could be implemented by January 1, 2019.

SUMMARY

The 10 Year Financial Sustainability Plan (10 YFSP), which was accepted by Council on June 16, 2014, prioritized seven target strategies to reduce projected future revenue and expenditure gaps. Council Goal No. 1 directs staff to continue to implement the 10 YFSP including Strategy 6 – engaging the business community in a discussion regarding the potential implementation of a Business and Occupation (B&O) Tax. The City continues to face a structural imbalance in operating revenues where, even with diligent care and effort, costs are growing faster than revenues. Attachment E highlights the historic vulnerability of State Shared Revenues. The City has limited revenue options for stable revenue sources to address this structural challenge. A B&O Tax is one of those few options.

COUNCIL GOALS ADDRESSED

This item addresses Council Goal 1, “Strengthen Shoreline's economic base to maintain the public services that the community expects”, and specifically, Action Step #3 of that Goal: “Continue to implement the 10-year Financial Sustainability Plan to achieve sufficient fiscal capacity to fund and maintain priority public services, facilities, and infrastructure”, with a specific focus on Strategy 1 – encouraging a greater level of economic development, Strategy 5 seeking to replace the General Fund support of the Roads Capital Fund with another dedicated funding source, and Strategy 6 – engaging the business community in a discussion regarding the potential implementation of a Business & Occupation (B&O) tax.

RESOURCE/FINANCIAL IMPACT

Assuming no new revenues or changes in service levels, the operating budget 10-year forecast projects potential gaps between revenues and expenses to occur for providing our current service level beginning in 2022 with a cumulative gap totaling \$9.685 million over the 10-year forecast. These potential budget gaps will be addressed as the City of

Shoreline is required to pass a balanced budget and does so each year within the following policies:

- Current revenues will be sufficient to support current expenditures.
- Resources (fund balance) greater than budget estimates in any fund shall be considered “One-time” and shall not be used to fund ongoing service delivery.

There is no immediate financial impact associated with tonight’s discussion. However, the implementation of a B&O Tax has been identified as a potential revenue source to narrow the gap throughout the 10-year forecast. As discussed with Council previously, no single strategy in the 10 YSFP will solve the forecast shortfall. It will take a combination of all seven strategies to provide financial sustainability of the City’s existing services and to address other unfunded needs, such as urban forestry, long term facility maintenance, space needs for operational maintenance functions such as streets, surface water and parks as well as other unfunded operating and capital needs. The ongoing unreliability of State Shared Revenues further supports the need for an additional stable revenue source.

RECOMMENDATION

No formal action is required at this time. Staff is providing Council with an update on staff’s progress related to implementation of Strategy 6 of the 10 YFSP. Staff recommends that the Council direct staff to continue to pursue implementation of a business and occupation tax and authorize staff to move into the next phase of implementation and bring back a draft Business and Occupation Tax Ordinance for Council consideration.

ATTACHMENTS

Attachment A: Report from BERK Consulting
Attachment B: Model B&O Tax Ordinance
Attachment C: AWC Local Business (B&O) Tax Rates
Attachment D: Summary of Local Exemptions
Attachment E: State Shared Revenues Summary



Shoreline Potential B&O Tax

Business Outreach Summary

Introduction

The City hired BERK Consulting to assist with outreach to Shoreline business owners to solicit their perspectives on a potential business and operations (B&O) tax. The City is considering a B&O tax because, like most cities in Washington, it faces a structural imbalance in funding core operations, where the cost of maintaining services is growing faster than the revenues available to support them. In 2014, the City Council developed a 10 Year Financial Sustainability Plan that identifies seven strategies to help achieve financial sustainability over the 10 Year forecast. Since this time, five of the seven strategies have been implemented, and the City forecasts sufficient revenues through 2021, primarily relying on a voter-approved levy lid lift that expires in 2022.

One of two remaining strategies to be implemented is engagement of the business community regarding the potential implementation of a Business & Occupation (B&O) Tax. Currently, the City's revenue stream is primarily supported by residents and residential property owners. Commercial properties are only 10% of the City's assessed valuation largely because commercial properties depreciate the value of their improvement leaving comparatively low assessed values for commercial properties.

This document describes the outreach activities that were implemented to gain feedback and comments from local businesses.

Outreach Activities

Outreach to Shoreline businesses was conducted from May through July 2017. The City employed several engagement methods, including an online survey, phone interviews, and two public workshops.

ONLINE SURVEY

The City created an online survey to better understand the types of businesses in Shoreline, as well as their preferences for a potential B&O tax and its structure. The online survey was open from May 17 through June 2, 2017. The City sent an email with the survey link to 5,180 businesses. In total, there were 435 responses. For detailed results of each of the survey questions, please see Appendix A.

Survey Summary Findings

Who we heard from

- **75% of survey respondents have a business located in Shoreline.** Of the 25% that are not located in Shoreline, many are Shoreline residents, or have businesses located in Seattle and neighboring cities such as Mountlake Terrace, Lynnwood, Edmonds, Lake Forest Park, etc.
- **80% of respondents do not pay a B&O tax to other cities.** Of those that do, most pay a B&O tax in Seattle.
- **58% of respondents were in the service sector,** followed by retail (15%), construction (6%), and wholesale (6%).
- Most respondents were small, sole proprietor businesses. **Approximately 80% of respondents have zero to one full- or part-time employee.**
- **More than half of respondents earn less than \$50,000 annually.** 42% made \$20,000 or less, and 17% made \$20,000 to \$50,000 annually.

Preferences for a B&O tax

- Most respondents (59%) preferred that the tax calculation be **simple**, as opposed to more complex.
- Preferences for activities that should be exempt from taxation include businesses with two or less or no employees, as well as businesses with gross receipts of less than \$150,000. Respondents also supported an exemption for non-profits (74%).
- **62% of respondents wanted the tax rate to be kept at the lowest level** to only maintain current service levels only. Among respondents who would support a higher tax rate, they were interested in a range of public service enhancements including more human services to address homelessness, mental health, services for low income families, improvements for parks, sidewalks, roads, and public space, and support for small businesses.
- If the City were to impose a B&O tax, **most respondents said they would absorb the cost (48%).** 26% of respondents said they would immediately increase prices, and another 25% said they would consider moving.

BUSINESS WORKSHOPS

The City of Shoreline held two public workshops to engage Shoreline business owners in conversation around the need to explore a potential B&O tax. The workshops were held at City hall on the evening of June 21 and morning of June 22, 2017 as a follow-up to the online survey. Businesses were notified via email, and the workshop dates were included at the end of the online survey.

The workshop began with a presentation by City staff and BERK Consulting to explain the City's budgeting issues, approach to long-term financial sustainability, and to share the results of the online survey. This provided business owners with more information about why the City was exploring a B&O tax and how the tax fits into the City's larger plan for financial sustainability. Following the presentation, an open group discussion facilitated further dialogue between business owners and City staff.

Who Attended

In total, the two workshops had nine attendees. There were four attendees at the evening workshop on June 21, all of whom were sole proprietors living and working in Shoreline. The morning workshop on June 22 had five attendees representing four companies with 100 to 150 employees. The represented companies included Carter Subaru, Club Hollywood Casino, Shoreline Health and Rehab, and Northwest Civil Engineers. Among this group, the representative from Northwest Civil Engineers was the only one who lived in Shoreline.

Workshop Comments

All the sole proprietors expressed a desire to be exempt from a B&O tax, as they felt they did not make enough money to justify the filing cost. They also thought a tax structure based on a square footage assessment would not be feasible, as many do not have a physical plant or office.

Representatives of the larger companies were concerned about how an additional tax would further impact their business's bottom line. They noted that the Affordable Care Act and minimum wage mandates have already increased costs for businesses in health care. The representatives of Shoreline Health and Rehab depend on Medicaid and Medicare reimbursement, which they felt was already insufficient. Representatives voiced concerns about limited opportunities for their businesses to increase revenues, should they have to absorb the additional cost of a B&O tax. Both Carter Subaru and Northwest Civil Engineers pay B&O taxes to other cities. The Carter Subaru representative had concerns about a tax calculation based on gross receipts, which while a large dollar amount would not reflect profit margins.

Phone Interviews

Several phone interviews were conducted in May 2017 to test the online survey before it went live. BERK walked through the online survey questions with business owners to ensure that the questions were clear and understandable and also captured general comments businesses had in regards to the B&O tax. Because the survey respondents and workshop attendees were mainly small business owners, BERK also contacted several larger businesses in July 2017 for their thoughts and comments on a potential B&O tax. The following business owners provided feedback:

- Greg Olson, Chuck Olson Kia/Chevrolet
- Evan Voltsis, Spiro's Pizza
- Victor Mena, Club Hollywood Casino
- Rick Stephens, Highland Ice Arena (20 employees, 1-2 million in revenue)
- Bob Donegan, president at Ivar's and Kidd Valley Restaurants (restaurants in surrounding cities, but not in Shoreline)
- Ben Armstrong, Inland Construction (1-4 employees on active project, 22-23 million in revenue)
- Ken Yette, Central Market (190 employees in Shoreline store)

Summary Comments

- Among the businesses interviewed for feedback on the survey, there was some confusion around

B&O tax collection at the state, county and city levels, and some thought Shoreline was already collecting a B&O tax. There were general questions about the City's revenue and expenditures, City management, and why there was a need to implement a B&O tax.

- One interviewee suggested considering business profits rather than just gross receipts. Even though a business may sell high dollar goods, it doesn't mean that the business is profitable.
- One business owner expressed a preference for an income-based tax because revenue-based taxes are hard to pass along and become an additional business expense.
- Because B&O tax rates are different for every city, it creates an administrative cost to businesses. Another interviewee had similar sentiments suggesting it would be easier for businesses that operate in multiple cities to have a B&O tax that was the same across jurisdictions.
- One interviewee cautioned against the use of exemptions, which they feel are unfair. Exemptions create a headache for both the city and businesses, and diminish the revenue collected. If there is a decision made to implement a tax, everyone should have to pay.
- Another felt that the exemptions on gross receipts should be as high as possible while still generating the revenue the City needs.
- Interviewees also highlighted other challenges and pressures that businesses face. These included the pressure of increasing wages, particularly the repercussions the Seattle minimum wage on other locations, costs for employee healthcare, and the increasing cost of occupancy (rents).
- Among those interviewed there is some general dissatisfaction with any new tax, but many also see it as the cost of doing business. An additional tax might be absorbed or passed along to the customer, but taxes are one of many factors that are considered when a business decides how and where to operate.

Appendix A: Online Survey Questions

Q1. Does your business have a physical location in Shoreline?

Answer Options	Response Percent	Response Count
Yes	75.2%	324
No	24.8%	107
<i>answered question</i>		431

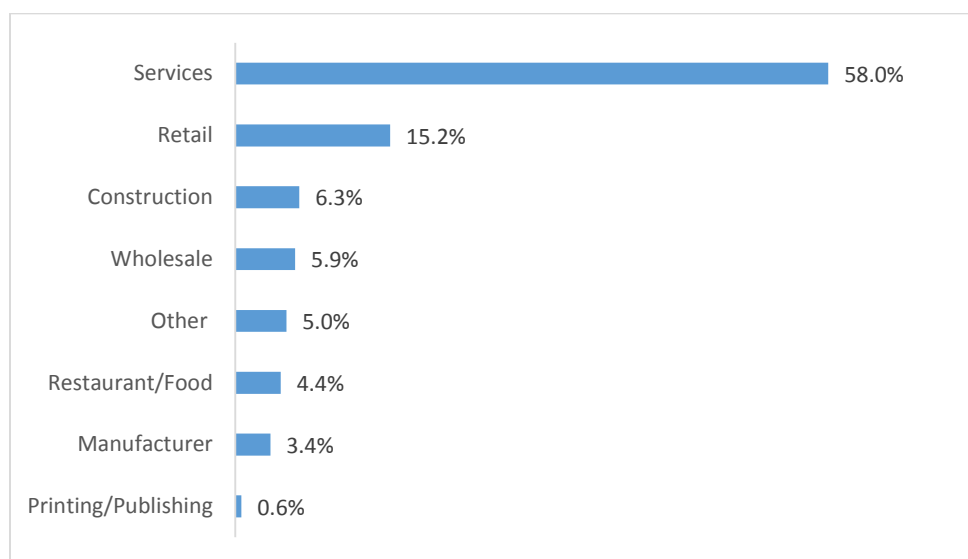
Q2: If you are not located in Shoreline, what city is your business located in?

Categories	Total
Bellevue	1
Des Moines	1
Edmonds	5
Lake Forest Park	2
Lynnwood	4
Mountlake Terrace	4
Redmond	1
Seattle	19
Shoreline	23
Snoqualmie Pass	1
Tacoma	1
Unincorporated King County	1
Woodinville	2
Business is Closed	5
Multiple locations	4
N/A or Other	4
Online/mobile	4
Outside of U.S.	1
Outside WA State	1
<i>answered question</i>	84

Q3: If your business is not located in Shoreline, how frequently do you do business in Shoreline?

Answer Options	Response Percent	Response Count
rarely (1-2 times a year)	59.5%	50
monthly (1-2 times a month)	13.1%	11
weekly (1-2 times a week)	13.1%	11
daily	14.3%	12
<i>answered question</i>		84

Q4: Which business sectors apply to your business? Select all that apply. (N=392)



Q5: Do you pay B&O tax to other cities?

Answer Options	Response Percent	Response Count
Yes	20.2%	79
No	79.8%	312
<i>answered question</i>		391

Q6: Which cities do you pay B&O tax to?

Answer Options	Response Percent	Response Count
Seattle	83.8%	62
Bellevue	16.2%	12
Everett	14.9%	11
Lake Forest Park	12.2%	9
Bellingham	9.5%	7
Mercer Island	6.8%	5
Bremerton	4.1%	3
Issaquah	4.1%	3
Longview	4.1%	3
Aberdeen	2.7%	2
Burien	2.7%	2
Cosmopolis	2.7%	2
Darrington	2.7%	2
Des Moines	2.7%	2
Kenmore	2.7%	2
Kent	2.7%	2
Lacey	2.7%	2
Olympia	2.7%	2
Renton	2.7%	2
Shelton	2.7%	2
Snoqualmie	2.7%	2
Tacoma	2.7%	2

Answer Options	Response Percent	Response Count
Yelm	2.7%	2
Algona	1.4%	1
Bainbridge Island	1.4%	1
DuPont	1.4%	1
Everson	1.4%	1
Granite Falls	1.4%	1
Hoquiam	1.4%	1
Ilwaco	1.4%	1
Kelso	1.4%	1
Long Beach	1.4%	1
North Bend	1.4%	1
Ocean Shores	1.4%	1
Pacific	1.4%	1
Port Townsend	1.4%	1
Rainier	1.4%	1
Raymond	1.4%	1
Roy	1.4%	1
Ruston	1.4%	1
South Bend	1.4%	1
Tenino	1.4%	1
Tumwater	1.4%	1
Westport	1.4%	1

answered question

74

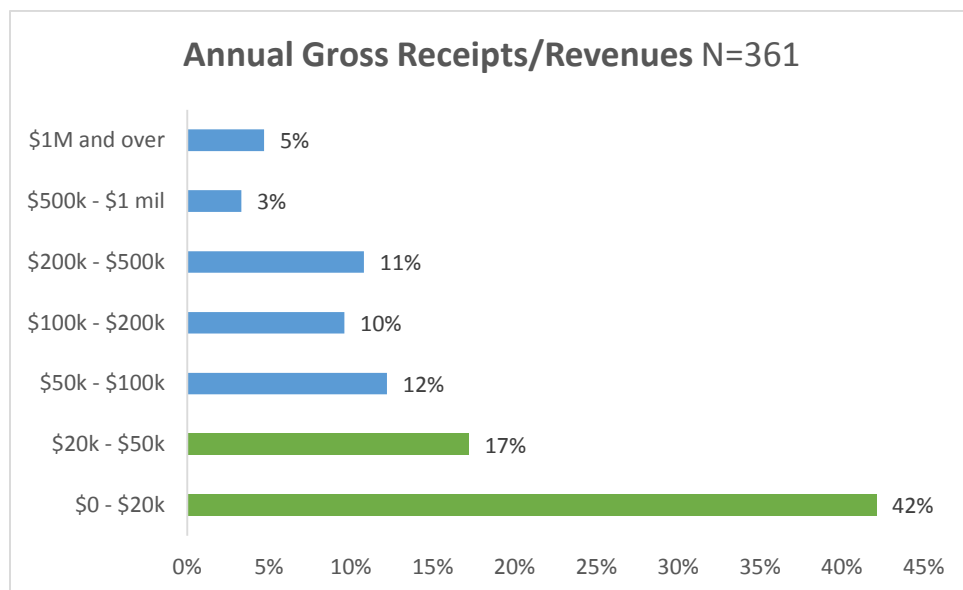
Q7. Approximately how many full-time employees (more than 35 hours/week) does your business have, including yourself? (N=365)

# of Full Time Employees	Count	Percent
0 or 1	285	78.1%
2 to 10	64	17.5%
11 to 50	12	3.3%
51 to 100	2	0.5%
over 300	1	0.3%
<i>answered question</i>	365	

Q8. Approximately how many part-time employees (less than 35 hours/week) does your business have?

# of Part-Time Employees	Count	Percentage
0 to 1	292	81%
2 to 10	55	15%
11 to 50	9	3%
50 and over	1	0%
Not operating	1	0%
Volunteers	1	0%
<i>answered question</i>	360	

Q9. What are your approximate annual gross receipts/revenues for the business conducted in Shoreline?



Q10. Which services provided by the City are most important to you as a business? Pick your top 3.

Answer Options	Response Percent	Response Count
Public Safety	64.2%	231
Street Maintenance	45.3%	163
Transportation and Traffic Services	40.0%	144
Capital Improvements	29.2%	105
Parks and Recreation	23.3%	84
Economic Development	16.1%	58
Surface Water Management	10.8%	39
Permitting and Development Services	10.0%	36
Environmental Services	9.2%	33
Customer Response Team (CRT)	3.9%	14
Code Enforcement	3.9%	14
<i>answered question</i>	360	

Q11. If Shoreline were to impose a B&O tax, which statement below do you think would be the best approach? Choose only 1.

Answer Options:	Response Percent	Response Count
It is important to me that the tax calculation...		
...be equitable to all businesses even if that means the tax calculation might be more complex and rely on multiple factors (e.g. square footage, number of employees, gross receipts).	23%	75
...strike a balance between equity and simplicity. I would accept some complexity but keep it as simple as possible.	18%	60
... be simple and based upon information that I can easily calculate or that I am already required to provide to the State.	59%	197
<i>answered question</i>		332

Q12. If Shoreline were to impose a B&O tax, we could set our own exemption threshold. Which of the following options do you think would be the best approach for Shoreline? Choose up to 2.
Exempt businesses with:

Answer Options	Response Percent	Response Count
gross receipts < \$20,000	33%	113
gross receipts < \$150,000	35%	122
gross receipts < \$500,000	19%	66
no employees (other than owner)	35%	122
2 or less employees	36%	125
<i>answered question</i>		346

Q.13 A city can exempt certain types of business activity; some common exemptions are listed below. Please mark any activities that you think should be exempt from taxation if the City was to impose a B&O Tax.

Answer Options	Response Percent	Response Count
Non-Profits (501C (3))	74%	222
Ride Sharing	29%	86
Other (please specify)	28%	83
Farmers/Agricultural	23%	70
Fraternal Organization	22%	67
Credit Unions	17%	50
Health Maintenance Organizations	13%	40
Insurance Business	4%	12
<i>answered question</i>		300

“Other” Comments:

Top suggestions for other kinds of business exemptions included exempting individual freelancer/consultants (11%), no exemptions at all (10%), no B&O tax at all (10%), and exempting care giving services and businesses for children and seniors (7%).

Q14. If a B&O tax on gross receipts set at a rate of .001 would balance the City's 10 Year operating forecast, but would not provide any revenue for new or enhanced services, would you prefer to:

Answer Options	Response Percent	Response Count
Maintain the rate at the lowest level to maintain current service levels.	62%	203
Set the rate higher (up to .002) to fund new; or enhanced services for the whole community.	18%	59
Set the rate higher (up to .002) to fund capital projects to benefit the whole community.	11%	37
Set the rate higher (up to .002) to fund some new or enhanced services to specifically benefit businesses.	7%	23
Set the rate higher (up to .002) to fund capital projects to specifically benefit the business community.	2%	5
<i>answered question</i>		327

Q15. What additional or enhanced services would you propose to be funded if there was a higher tax rate?

Category	Specific Comments
Public Safety	<ul style="list-style-type: none"> ■ The biggest concern I have in Shoreline is what looks like racial discriminatory practices by the police department. I'd like to see this remedied. More education, our own police department (rather than KC Sheriff), specific training. 90% of cars I see pulled over are people of color. The population of people of color in Shoreline is no way near 90%. We have a racial bias problem. We need to fix it. ■ Police patrols on the interurban trail/ public safety/ homeless, drug and mental health services ■ Public safety - police/fire ■ Anti-drug / anti-crime / anti-loitering enforcement. services for homeless / marginalized. programs to fix up blighted vacant lots, abandoned buildings, or enforce business / property owners to fix up their derelict storefronts / buildings / lots. ■ Law enforcement
Human Services	<ul style="list-style-type: none"> ■ More human services - address homelessness, hunger, mental health, basic needs ■ Program to check on Elderly citizens that live alone. ■ Increased funding for mental health services. ■ More security, eldercare and holistic healthcare non-conventional services like energy Medicine and meditation. ■ Access to mental health services for no/low income persons; services for the working poor in Shoreline - housing/medical/food; services for children.

Category	Specific Comments
	<ul style="list-style-type: none"> ▪ Anything that supports the education of our children, unifying the members of our community or protecting our amazing green spaces in shoreline. ▪ An Emergency Fund ▪ Homelessness and limited income assistance. ▪ Housing for the homeless in Shoreline.
Parks, Roads, Sidewalks, Public Space	<ul style="list-style-type: none"> ▪ Beautification ▪ More parks, more green spaces, more places for the community to come together in a way that feels like a downtown or town square. ▪ Sidewalks, road maintenance, Traffic solutions/roads ▪ Traffic solutions/roads ▪ Library, parks ▪ Dog parks ▪ Parks and sidewalks ▪ Larger community center or additional location with pickleball courts! ▪ Redevelopment of the Aurora Square and nearby Triangle property in to a more vibrant business and community gathering space.
Small Business Support	<ul style="list-style-type: none"> ▪ Networking events ▪ Business assistance on state and local licensing and tax compliance. ▪ More office rental space for small businesses that do not need a storefront. ▪ New and small business workshops for understanding legal codes and city expectations. ▪ Coordinated services with the state for starting new businesses, especially supporting women and minority new businesses. ▪ Support for small business owners when it comes to marketing and networking. ▪ More support to help small businesses thrive in Shoreline. ▪ Support for small business owners when it comes to marketing and networking. ▪ More support to help small businesses thrive in Shoreline.
No B&O Tax	<ul style="list-style-type: none"> ▪ NO TAX. You will drive business out of Shoreline with an additional tax. ▪ I'm already planning on leaving WA due to the INSANE tax burden for little return in services. ▪ I don't have any specific services in mind but I think that if there are enhanced services, the cost should be spread between residents and businesses. ▪ STOP TAXING BUSINESSES MORE!!! TAX PEOPLE, not business. ▪ Business is still recovering from the recession any new tax would hurt badly ▪ NO B&O Taxes in Shoreline. Shoreline does not need to be Seattle. That is why people and businesses moved here from Seattle! ▪ There should not be a B&O tax. You should look within the city structure and get rid of positions that are not part of the core city operations. Stop taxing us to death.

Category	Specific Comments
Other	<ul style="list-style-type: none"> ▪ I think you should find a way to fund these services with the whole community involved, not just the business community. It is the residents that benefit from these services and therefore all should. ▪ I just want a city that continues to improve for the greater good of the whole community.

Q16. If the City were to impose a B&O tax at a rate of .001, my business would...(Check all that apply)

Answer Options	Response Percent	Response Count
Absorb the expense/maintain and operate business as usual	45.7%	149
Immediately increase prices to pass the expense on to our customers	26.1%	85
Consider moving to a different location	24.5%	80
Other (please specify)	20.6%	67
Decrease hours of existing employees	6.7%	22
Leave vacant positions open	6.4%	21
Close business	6.4%	21
Lay off existing employees	3.4%	11
<i>answered question</i>		326

“Other” Comments

Category	Specific Comments
Gross Receipts	<ul style="list-style-type: none"> ■ Please keep in mind that gross receipts do not equate to profit. I often had receipts over \$100,000 and after paying my employee salaries, benefits, rent and other operating expenses I most often earned less than what the government considers poverty income. If gross receipts or any other method is used, the exemption should be as high as possible. ■ I am thinking of dissolving the business anyway, I don't think it should be calculated on gross income. Most of my gross income is paid to tour expenses in India. My net profit is small and my income from the company is minuscule. ■ The B&O tax is one of the dumbest forms of taxation available. You should understand it as a gross receipts tax and all that implies. The State is already a national oddity for having one. Don't join the fools parade!
Leave Shoreline	<ul style="list-style-type: none"> ■ I have previously moved businesses out of Seattle due to their B and O tax ■ I've moved to Lynnwood. ■ We would move elsewhere. Not consider it. We would go. ■ LEAVE ■ I would not move my business back to shoreline ■ Move to another municipality that doesn't impose them. ■ Work in Seattle is more lucrative. I choose projects in Shoreline in large part because of simpler codes and lower costs. if you impose a B&O tax, and I have to deal with your paperwork and increasingly aggravating bureaucracy, I might as well work in Seattle where I can make a lot more money. ■ Not do business in Shoreline. ■ Not in Shoreline ■ I'm too small to pay it, however my business is entirely online, so I do periodically consider moving to a location with lower overall taxes once my kids are out of school. I suppose this would potentially contribute to making such a decision, if my business grows when I have more time for it.
Raise Prices	<ul style="list-style-type: none"> ■ Since my products can be price matched on any app I cannot "just raise my prices." I will have to raise my prices on the services we provide. My lease is coming up. Any more increase in costs and I will fire my two employees and close my business. Why not lower the salaries of and services of Shoreline Gov't? That is what you are making businesses do, with constantly adding taxes and fees. ■ Until I couldn't, then I'd raise prices. ■ We would need to raise tuition to our students and many are on scholarships that we fundraise for. ■ Increase price cost to customers
Close Business	<ul style="list-style-type: none"> ■ I am closing this business in 2018, at the same time my husband will be retiring. ■ Increase rents and attach your tax form. ■ Might sell ■ My business is not profitable. Any new tax will make it harder for me to stay in business

Category	Specific Comments
Cut Government Spending	<ul style="list-style-type: none"> ▪ Urge policymakers to cut spending. ▪ Why don't you stop throwing money away to begin with? You have redone Echo Lake park 3 times, you have sidewalks (new Meridian) that go nowhere... into a pole, you run a museum that could fit in a corner of city hall, shall I go on? ▪ Figure you aren't managing the money you have well.
Consider Other Revenue Sources	<ul style="list-style-type: none"> ▪ This cannot be answered without an understanding of the rate, exemption allowances, etc. ▪ Suggestion: impose the tax on government employees. And every time government wants to increase our taxes, that amount has to be equaled by a tax on government employees. ▪ Wonder why there's no income tax ▪ challenge the legality of double-taxation ▪ We cannot increase prices because our market has thin margins. We already have a punitive sales tax because you don't enforce use tax. PEOPLE need to pay their tax, not businesses. ▪ This is a push poll. You did not offer the option of reducing city expenses/services. Seems it's always about more taxation.
Hope for exemption	<ul style="list-style-type: none"> ▪ All our funding comes from the State of Washington. As a not for profit contracted by the State, we do not function as a typical might. I would be happy to further explain, if needed. ▪ My business not large enough to be taxed. ▪ My business is tax exempt ▪ Since we exist on less than \$10,000 year and sell nothing I feel we would be exempted so this question would be better answered by businesses that would be affected ▪ It will hurt for sure. Maybe try staying under exempt amount. ▪ Probably not have to pay anything until I actually make money. ▪ My business is currently exempt ▪ Sounds like I would probably be exempt so the impact would be none ▪ Would depend on whether I qualify for exemption or not. If I could not pay the tax and absorb the expense I would consider closing the location in Shoreline or consider moving to a different location. ▪ most likely be exempt ▪ At my present income, I would likely qualify for an exemption, so a B&O tax would not impact me right away, giving me time to plan accordingly. ▪ This homeowner's association (HOA) is Not a business and therefore should not be taxed. Our HOA is simply a means to hold four homeowners accountable for upkeep of their houses. ▪ Not be required to pay. State law exempts child cares that provide care for children 7 and under. ▪ Hopefully not pay it since I have no physical location in the city and only get my mail there.

Category	Specific Comments
Absorb the cost/ No effect	<ul style="list-style-type: none"> ▪ We operate in Seattle so already pay a B&O (absorb the cost) ▪ Be unaffected ▪ Would not affect me. ▪ I most likely wouldn't be affected by the tax due to self-employment and income average around 20 to 25 K. ▪ I would be exempt, but I would happily pay and continue business as usual if my business qualified. ▪ My business is too small to be affected. ▪ No impact since my business is currently not generating revenue
Impacts to small business	<ul style="list-style-type: none"> ▪ We are barely surviving with current income ▪ It would be a burden for my small business. ▪ Why does small business need to absorb the burden of more taxes? Are small business discouraged?
Unsure, Wait and See	<ul style="list-style-type: none"> ▪ I have no idea, I produce YouTube videos ▪ Assess the best interests of our operations to include staying in or moving out of Shoreline. ▪ Wait and see, perhaps close ▪ Not sure

Model Ordinance

Final revised version of the City model ordinance for business license tax. Dated October 2012.

The legislative intent information contained in the boxes indicates the intent of the ordinance and provide guidance for courts and administrators in the uniform interpretation of the ordinance. They should not be adopted as part of the ordinance, but as a supporting document to the ordinance.

While the tax provisions of this chapter are intended to provide a uniform methodology for levying a gross receipts tax on business entities, nothing in this chapter should be construed as limiting a city's ability to levy and collect a business privilege tax on any other basis; such as a tax on square footage, a tax on annualized full-time equivalents [head tax], graduated annual license tax, or any other tax calculated on a basis other than a gross receipts tax [gross income of the business, gross proceeds of sales, or value of products multiplied by rates.]

MODEL ORDINANCE CHAPTER ____.

.010 Purpose. [CITY MAY ENACT A "PURPOSE PROVISION" IN THIS SECTION.]

.020 Exercise of revenue license power. The provisions of this chapter shall be deemed an exercise of the power of the City to license for revenue. The provisions of this chapter are subject to periodic statutory or administrative rule changes or judicial interpretations of the ordinances or rules. The responsibility rests with the licensee or taxpayer to reconfirm tax computation procedures and remain in compliance with the City code.

Legislative intent information

This section implements Washington Constitution Article XI, Sec. 12 and RCW 35A.82.020 and 35A.11.020 (code cities); 35.22.280(32) (first class cities); RCW 35.23.440(8) (second class cities); 35.27.370(9) (fourth class cities and towns), which give municipalities the authority to license for revenue. In the absence of a legal or constitutional prohibition, municipalities have the power to define taxation categories as they see fit in order to respond to the unique concerns and responsibilities of local government. See Enterprise Leasing v. City of Tacoma, 139 Wn.2d 546 (1999). It is intended that this model ordinance be uniform among the various municipalities adopting it.

.028 Administrative Provisions. The administrative provisions contained in chapter _____ shall be fully applicable to the provisions of this chapter except as expressly stated to the contrary herein.

.030 Definitions. In construing the provisions of this chapter, the following definitions shall be applied. Words in the singular number shall include the plural, and the plural shall include the singular.

"Business." "Business" includes all activities engaged in with the object of gain, benefit, or advantage to the taxpayer or to another person or class, directly or indirectly. **(Mandatory)**

"Business and occupation tax." "Business and occupation tax" or "gross receipts tax" means a tax imposed on or measured by the value of products, the gross income of the business, or the gross proceeds of sales, as the case may be, and that is the legal liability of the business. **(Mandatory)**

"Commercial or industrial use." "Commercial or industrial use" means the following uses of products, including by-products, by the extractor or manufacturer thereof:

(1) Any use as a consumer; and

(2) The manufacturing of articles, substances or commodities;

"Delivery" means the transfer of possession of tangible personal property between the seller and the buyer or the buyer's representative. Delivery to an employee of a buyer is considered delivery to the buyer. Transfer of possession of tangible personal property occurs when the buyer or the buyer's representative first takes physical control of the property or exercises dominion and control over the property. Dominion and control means the buyer has the ability to put the property to the buyer's own purposes. It means the buyer or the buyer's representative has made the final decision to accept or reject the property, and the seller has no further right to possession of the property and the buyer has no right to return the property to the seller, other than

under a warranty contract. A buyer does not exercise dominion and control over tangible personal property merely by arranging for shipment of the property from the seller to itself. A buyer's representative is a person, other than an employee of the buyer, who is authorized in writing by the buyer to receive tangible personal property and take dominion and control by making the final decision to accept or reject the property. Neither a shipping company nor a seller can serve as a buyer's representative. It is immaterial where the contract of sale is negotiated or where the buyer obtains title to the property. Delivery terms and other provisions of the Uniform Commercial Code (Title 62A RCW) do not determine when or where delivery of tangible personal property occurs for purposes of taxation. **(Mandatory)**

"Digital automated service," "digital code," and "digital goods" have the same meaning as in RCW 82.04.192. (Mandatory)

"Digital products" means digital goods, digital codes, digital automated services, and the services described in RCW 82.04.050(2)(g) and (6)(b). (Mandatory)

"Eligible gross receipts tax." The term "eligible gross receipts tax" means a tax which:

- (1) Is imposed on the act or privilege of engaging in business activities within section .050; and
- (2) Is measured by the gross volume of business, in terms of gross receipts and is not an income tax or value added tax; and
- (3) Is not, pursuant to law or custom, separately stated from the sales price; and
- (4) Is not a sales or use tax, business license fee, franchise fee, royalty or severance tax measured by volume or weight, or concession charge, or payment for the use and enjoyment of property, property right or a privilege; and
- (5) Is a tax imposed by a local jurisdiction, whether within or without the State of Washington, and not by a Country, State, Province, or any other non-local jurisdiction above the County level. **(Mandatory)**

[Comment: This definition is worded slightly different from the state's definition (RCW 82.04.440) in that it goes into more detail in describing what constitutes an eligible gross receipts tax. In addition, it makes it very clear that an eligible gross receipts tax for which a credit can be calculated must be imposed at the local level.]

"Engaging in business" - (1) The term "engaging in business" means commencing, conducting, or continuing in business, and also the exercise of corporate or franchise powers, as well as liquidating a business when the liquidators thereof hold themselves out to the public as conducting such business.

(2) This section sets forth examples of activities that constitute engaging in business in the City, and establishes safe harbors for certain of those activities so that a person who meets the criteria may engage in de minimus business activities in the City without having to register and obtain a business license or pay City business and occupation taxes. The activities listed in this section are illustrative only and are not intended to narrow the definition of "engaging in business" in subsection (1). If an activity is not listed, whether it constitutes engaging in business in the City shall be determined by considering all the facts and circumstances and applicable law.

(3) Without being all inclusive, any one of the following activities conducted within the City by a person, or its employee, agent, representative, independent contractor, broker or another acting on its behalf constitutes engaging in business and requires a person to register and obtain a business license.

- (a) Owning, renting, leasing, maintaining, or having the right to use, or using, tangible personal property, intangible personal property, or real property permanently or temporarily located in the City.
- (b) Owning, renting, leasing, using, or maintaining, an office, place of business, or other establishment in the City.
- (c) Soliciting sales.
- (d) Making repairs or providing maintenance or service to real or tangible personal property, including warranty work and property maintenance.
- (e) Providing technical assistance or service, including quality control, product inspections, warranty work, or similar services on or in connection with tangible personal property sold by the person or on its behalf.
- (f) Installing, constructing, or supervising installation or construction of, real or tangible personal property.
- (g) Soliciting, negotiating, or approving franchise, license, or other similar agreements.
- (h) Collecting current or delinquent accounts.
- (i) Picking up and transporting tangible personal property, solid waste, construction debris, or excavated materials.

- (j) Providing disinfecting and pest control services, employment and labor pool services, home nursing care, janitorial services, appraising, landscape architectural services, security system services, surveying, and real estate services including the listing of homes and managing real property.
 - (k) Rendering professional services such as those provided by accountants, architects, attorneys, auctioneers, consultants, engineers, professional athletes, barbers, baseball clubs and other sports organizations, chemists, consultants, psychologists, court reporters, dentists, doctors, detectives, laboratory operators, teachers, veterinarians.
 - (l) Meeting with customers or potential customers, even when no sales or orders are solicited at the meetings.
 - (m) Training or recruiting agents, representatives, independent contractors, brokers or others, domiciled or operating on a job in the City, acting on its behalf, or for customers or potential customers.
 - (n) Investigating, resolving, or otherwise assisting in resolving customer complaints.
 - (o) In-store stocking or manipulating products or goods, sold to and owned by a customer, regardless of where sale and delivery of the goods took place.
 - (p) Delivering goods in vehicles owned, rented, leased, used, or maintained by the person or another acting on its behalf.
 - (q) Accepting or executing a contract with the City, irrespective of whether goods or services are delivered within or without the City, or whether the person's office or place of business is within or without the City.
- (4) If a person, or its employee, agent, representative, independent contractor, broker or another acting on the person's behalf, engages in no other activities in or with the City but the following, it need not register and obtain a business license and pay tax.
- (a) Meeting with suppliers of goods and services as a customer.
 - (b) Meeting with government representatives in their official capacity, other than those performing contracting or purchasing functions.
 - (c) Attending meetings, such as board meetings, retreats, seminars, and conferences, or other meetings wherein the person does not provide training in connection with tangible personal property sold by the person or on its behalf. This provision does not apply to any board of director member or attendee engaging in business such as a member of a board of directors who attends a board meeting.
 - (d) Renting tangible or intangible property as a customer when the property is not used in the City.
 - (e) Attending, but not participating in a "trade show" or "multiple vendor events". Persons participating at a trade show shall review the City's trade show or multiple vendor event ordinances.
 - (f) Conducting advertising through the mail.
 - (g) Soliciting sales by phone from a location outside the City.
- (5) A seller located outside the City merely delivering goods into the City by means of common carrier is not required to register and obtain a business license, provided that it engages in no other business activities in the City. Such activities do not include those in subsection (4).

The City expressly intends that engaging in business include any activity sufficient to establish nexus for purposes of applying the tax under the law and the constitutions of the United States and the State of Washington. Nexus is presumed to continue as long as the taxpayer benefits from the activity that constituted the original nexus generating contact or subsequent contacts. **(Mandatory)** [Comment: Section (2) has been added to the State's definition of engaging in business to give guidelines and parameters to businesses in order for them to better ascertain whether or not they need to license and pay tax to the cities.]

"Extracting." "Extracting" is the activity engaged in by an extractor and is reportable under the extracting classification. [Comment: This definition is not contained in state law; however, RCW 35.102.120 requires that the model ordinance include this definition.]

"Extractor." "Extractor" means every person who from the person's own land or from the land of another under a right or license granted by lease or contract, either directly or by contracting with others for the necessary labor or mechanical services, for sale or for commercial or industrial use, mines, quarries, takes or produces coal, oil, natural gas, ore, stone, sand, gravel, clay, mineral or other natural resource product; or fells, cuts or takes timber, Christmas trees, other than plantation Christmas trees, or other natural products; or takes fish, shellfish, or other sea or inland water foods or products. "Extractor" does not include persons performing under contract the necessary labor or mechanical services for others; or persons meeting the definition of farmer.

"Extractor for Hire" "Extractor for hire" means a person who performs under contract necessary labor or mechanical services for an extractor.

"Gross income of the business." "Gross income of the business" means the value proceeding or accruing by reason of the transaction of the business engaged in and includes gross proceeds of sales, compensation for the rendition of services, gains realized from trading in stocks, bonds, or other evidences of indebtedness, interest, discount, rents, royalties, fees, commissions, dividends, and other emoluments however designated, all without any deduction on account of the cost of tangible property sold, the cost of materials used, labor costs, interest, discount, delivery costs, taxes, or any other expense whatsoever paid or accrued and without any deduction on account of losses. **(Mandatory)**

"Gross proceeds of sales." "Gross proceeds of sales" means the value proceeding or accruing from the sale of tangible personal property, digital goods, digital codes, digital automated services or for other services rendered, without any deduction on account of the cost of property sold, the cost of materials used, labor costs, interest, discount paid, delivery costs, taxes, or any other expense whatsoever paid or accrued and without any deduction on account of losses. **(Mandatory)**

"Manufacturing." "Manufacturing" means the activity conducted by a manufacturer and is reported under the manufacturing classification. **(Mandatory unless you don't tax manufacturing activities)** [Comment: This definition is not contained in state law, however RCW 35.102.120 requires that the model ordinance include this definition.]

"Manufacturer," "to manufacture." (1) "Manufacturer" means every person who, either directly or by contracting with others for the necessary labor or mechanical services, manufactures for sale or for commercial or industrial use from the person's own materials or ingredients any products. When the owner of equipment or facilities furnishes, or sells to the customer prior to manufacture, materials or ingredients equal to less than twenty percent (20%) of the total value of all materials or ingredients that become a part of the finished product, the owner of the equipment or facilities will be deemed to be a processor for hire, and not a manufacturer. **(Mandatory)** (A business not located in this City that is the owner of materials or ingredients processed for it in this City by a processor for hire shall be deemed to be engaged in business as a manufacturer in this City.) **(Optional)** [Comment: This definition differs from that found in RCW 82.04.110. The manufacturing vs. processing for hire language has been included within this definition rather than covered by rule as provided in RCW 82.04.110. The optional portion of this definition is different from the RCW in that the RCW allows for the owner of materials that are processed in Washington to be excluded as a manufacturer. It is presumed that the RCW was written in this way to encourage material owners to bring their materials into Washington to be processed by Washington processors for hire. The State chooses to forego the tax that the owner would pay on the value of the materials under the manufacturing classification. The aluminum and nuclear fuel assembly provisions were excluded since no B & O city contains these types of activities.]

(2) "To manufacture" means all activities of a commercial or industrial nature wherein labor or skill is applied, by hand or machinery, to materials or ingredients so that as a result thereof a new, different or useful product is produced for sale or commercial or industrial use, and shall include:

- (a) The production of special made or custom made articles;
- (b) The production of dental appliances, devices, restorations, substitutes, or other dental laboratory products by a dental laboratory or dental technician;
- (c) Crushing and/or blending of rock, sand, stone, gravel, or ore; and
- (d) The producing of articles for sale, or for commercial or industrial use from raw materials or prepared materials by giving such materials, articles, and substances of trade or commerce new forms, qualities, properties or combinations including, but not limited to, such activities as making, fabricating, processing, refining, mixing, slaughtering, packing, aging, curing, mild curing, preserving, canning, and the preparing and freezing of fresh fruits and vegetables.

"To manufacture" shall not include the production of digital goods or the production of computer software if the computer software is delivered from the seller to the purchaser by means other than tangible storage media, including the delivery by use of a tangible storage media where the tangible storage media is not physically transferred to the purchaser. **(Mandatory)** [Comment: This definition is different from RCW 82.04.120. The cutting, delimbing, and measuring of felled, cut, or taken trees does not usually take place within cities so that was deleted. The RCW also states that some activities which are covered in other special taxing classifications at the State level are not manufacturing. Although some of these activities normally do not take place in cities we included them into manufacturing since they fall within the definition. Manufacturing activities covered in other tax classifications at the State level such as slaughtering, curing, preserving, or canning were included in this definition since the Cities do not have the other classifications.]

"Person." "Person" means any individual, receiver, administrator, executor, assignee, trustee in bankruptcy, trust, estate, firm, co-partnership, joint venture, club, company, joint stock company, business trust, municipal corporation, political subdivision of the State of Washington, corporation, limited liability company, association, society, or any group of individuals acting as a unit, whether mutual, cooperative, fraternal, non-profit, or otherwise and the United States or any instrumentality thereof. **(Mandatory)**

"Retailing." "Retailing" means the activity of engaging in making sales at retail and is reported under the retailing classification. **(Mandatory)** [Comment: This definition is not contained in state law, however RCW 35.102.120 requires that the model ordinance include this definition.]

"Retail Service." "Retail service" shall include the sale of or charge made for personal, business, or professional services including amounts designated as interest, rents, fees, admission, and other service emoluments however designated, received by persons engaging in the following business activities:

- (1) Amusement and recreation services including but not limited to golf, pool, billiards, skating, bowling, swimming, bungee jumping, ski lifts and tows, basketball, racquet ball, handball, squash, tennis, batting cages, day trips for sightseeing purposes, and others, when provided to consumers. "Amusement and recreation services" also include the provision of related facilities such as basketball courts, tennis courts, handball courts, swimming pools, and charges made for providing the opportunity to dance. The term "amusement and recreation services" does not include instructional lessons to learn a particular activity such as tennis lessons, swimming lessons, or archery lessons.
- (2) Abstract, title insurance, and escrow services;
- (3) Credit bureau services;
- (4) Automobile parking and storage garage services;
- (5) Landscape maintenance and horticultural services but excluding (i) horticultural services provided to farmers and (ii) pruning, trimming, repairing, removing, and clearing of trees and brush near electric transmission or distribution lines or equipment, if performed by or at the direction of an electric utility;
- (6) Service charges associated with tickets to professional sporting events; and
- (7) The following personal services: Physical fitness services, tanning salon services, tattoo parlor services, steam bath services, turkish bath services, escort services, and dating services.
- (8) The term shall also include the renting or leasing of tangible personal property to consumers and the rental of equipment with an operator. **(Mandatory)**

[Comment: This definition has been removed and separated from the definition of "sale at retail" since many cities have kept these activities taxable at a rate different from their "retailing" rate. The State changed these activities to retail from service a few decades ago. This separation of definitions enables those cities that have historically taxed retail sales and retail services at a different rate to continue to do so. The definition includes more examples under the amusement and recreation subsection than States definition and these examples originated from the State's rule on amusement and recreation.]

"Sale," "casual or isolated sale." (1) "Sale" means any transfer of the ownership of, title to, or possession of, property for a valuable consideration and includes any activity classified as a "sale at retail," "retail sale," or "retail service." It includes renting or leasing, conditional sale contracts, leases with option to purchase, and any contract under which possession of the property is given to the purchaser but title is retained by the vendor as security for the payment of the purchase price. It also includes the furnishing of food, drink, or meals for compensation whether consumed upon the premises or not.

(2) "Casual or isolated sale" means a sale made by a person who is not engaged in the business of selling the type of property involved on a routine or continuous basis. [Comment: the term "routine or continuous" comes from WAC 458-20-106.]

"Sale at retail," "retail sale." (1) "Sale at retail" or "retail sale" means every sale of tangible personal property (including articles produced, fabricated, or imprinted) to all persons irrespective of the nature of their business and including, among others, without limiting the scope hereof, persons who install, repair, clean, alter, improve, construct, or decorate real or personal property of or for consumers, other than a sale to a person who presents a resale certificate under RCW 82.04.470 and who:

- (a) Purchases for the purpose of resale as tangible personal property in the regular course of business without intervening use by such person; or
- (b) Installs, repairs, cleans, alters, imprints, improves, constructs, or decorates real or personal property of or for consumers, if such tangible personal property becomes an ingredient or component of such real or personal property without intervening use by such person; or

(c) Purchases for the purpose of consuming the property purchased in producing for sale a new article of tangible personal property or substance, of which such property becomes an ingredient or component or is a chemical used in processing, when the primary purpose of such chemical is to create a chemical reaction directly through contact with an ingredient of a new article being produced for sale; or

(d) Purchases for the purpose of consuming the property purchased in producing ferrosilicon which is subsequently used in producing magnesium for sale, if the primary purpose of such property is to create a chemical reaction directly through contact with an ingredient of ferrosilicon; or

(e) Purchases for the purpose of providing the property to consumers as part of competitive telephone service, as defined in RCW 82.04.065. The term shall include every sale of tangible personal property which is used or consumed or to be used or consumed in the performance of any activity classified as a "sale at retail" or "retail sale" even though such property is resold or utilized as provided in (a), (b), (c), (d), or (e) of this subsection following such use.

(f) Purchases for the purpose of satisfying the person's obligations under an extended warranty as defined in subsection (7) of this section, if such tangible personal property replaces or becomes an ingredient or component of property covered by the extended warranty without intervening use by such person.

(2) "Sale at retail" or "retail sale" also means every sale of tangible personal property to persons engaged in any business activity which is taxable under .050(1)(g).

(3) "Sale at retail" or "retail sale" shall include the sale of or charge made for tangible personal property consumed and/or for labor and services rendered in respect to the following:

(a) The installing, repairing, cleaning, altering, imprinting, or improving of tangible personal property of or for consumers, including charges made for the mere use of facilities in respect thereto, but excluding charges made for the use of coin-operated laundry facilities when such facilities are situated in an apartment house, rooming house, or mobile home park for the exclusive use of the tenants thereof, and also excluding sales of laundry service to nonprofit health care facilities, and excluding services rendered in respect to live animals, birds and insects;

(b) The constructing, repairing, decorating, or improving of new or existing buildings or other structures under, upon, or above real property of or for consumers, including the installing or attaching of any article of tangible personal property therein or thereto, whether or not such personal property becomes a part of the realty by virtue of installation, and shall also include the sale of services or charges made for the clearing of land and the moving of earth excepting the mere leveling of land used in commercial farming or agriculture;

(c) The charge for labor and services rendered in respect to constructing, repairing, or improving any structure upon, above, or under any real property owned by an owner who conveys the property by title, possession, or any other means to the person performing such construction, repair, or improvement for the purpose of performing such construction, repair, or improvement and the property is then reconveyed by title, possession, or any other means to the original owner;

(d) The sale of or charge made for labor and services rendered in respect to the cleaning, fumigating, razing or moving of existing buildings or structures, but shall not include the charge made for janitorial services; and for purposes of this section the term "janitorial services" shall mean those cleaning and caretaking services ordinarily performed by commercial janitor service businesses including, but not limited to, wall and window washing, floor cleaning and waxing, and the cleaning in place of rugs, drapes and upholstery. The term "janitorial services" does not include painting, papering, repairing, furnace or septic tank cleaning, snow removal or sandblasting;

(e) The sale of or charge made for labor and services rendered in respect to automobile towing and similar automotive transportation services, but not in respect to those required to report and pay taxes under chapter 82.16 RCW;

(f) The sale of and charge made for the furnishing of lodging and all other services, except telephone business and cable service, by a hotel, rooming house, tourist court, motel, trailer camp, and the granting of any similar license to use real property, as distinguished from the renting or leasing of real property, and it shall be presumed that the occupancy of real property for a continuous period of one month or more constitutes a rental or lease of real property and not a mere license to use or enjoy the same. For the purposes of this subsection, it shall be presumed that the sale of and charge made for

the furnishing of lodging for a continuous period of one month or more to a person is a rental or lease of real property and not a mere license to enjoy the same;

(g) The installing, repairing, altering, or improving of digital goods for consumers;

~~((g))~~ (h) The sale of or charge made for tangible personal property, labor and services to persons taxable under (a), (b), (c), (d), (e), ~~((and))~~ (f), and (g) of this subsection when such sales or charges are for property, labor and services which are used or consumed in whole or in part by such persons in the performance of any activity defined as a "sale at retail" or "retail sale" even though such property, labor and services may be resold after such use or consumption. Nothing contained in this subsection shall be construed to modify subsection (1) of this section and nothing contained in subsection (1) of this section shall be construed to modify this subsection.

(4) "Sale at retail" or "retail sale" shall also include the providing of competitive telephone service to consumers. [Comment: Cities can only include "competitive telephone service" since telephone business is taxed under the utility tax.]

(5) (a) "Sale at retail" or "retail sale" shall also include the sale of ~~((canned))~~ prewritten software other than a sale to a person who presents a resale certificate under RCW 82.04.470, regardless of the method of delivery to the end user~~((, but shall))~~ . For purposes of this subsection (5)(a) the sale of the sale of prewritten computer software includes the sale of or charge made for a key or an enabling or activation code, where the key or code is required to activate prewritten computer software and put the software into use. There is no separate sale of the key or code from the prewritten computer software, regardless of how the sale may be characterized by the vendor or by the purchaser.

The term "sale at retail" or "retail sale" does not include the sale of or charge made for:

(i) Custom ~~((custom))~~ software; or

(ii) The ~~((the))~~ customization of prewritten ~~((canned))~~ software.

(b)(i) The term also includes the charge made to consumers for the right to access and use prewritten computer software, where possession of the software is maintained by the seller or a third party, regardless of whether the charge for the service is on a per use, per user, per license, subscription, or some other basis.

(ii)(A) The service described in (b)(i) of this subsection 5 includes the right to access and use prewritten software to perform data processing.

(B) For purposes of this subsection (b)(ii) "data processing" means the systematic performance of operations on data to extract the required information in an appropriate form or to convert the data to usable information. Data processing includes check processing, image processing, form processing, survey processing, payroll processing, claim processing, and similar activities.

(6) "Sale at retail" or "retail sale" shall also include the sale of or charge made for labor and services rendered in respect to the building, repairing, or improving of any street, place, road, highway, easement, right of way, mass public transportation terminal or parking facility, bridge, tunnel, or trestle which is owned by a municipal corporation or political subdivision of the state, the State of Washington, or by the United States and which is used or to be used primarily for foot or vehicular traffic including mass transportation vehicles of any kind.

(Public road construction)

(7) "Sale at retail" or "retail sale" shall also include the sale of or charge made for an extended warranty to a consumer. For purposes of this subsection, "extended warranty" means an agreement for a specified duration to perform the replacement or repair of tangible personal property at no additional charge or a reduced charge for tangible personal property, labor, or both, or to provide indemnification for the replacement or repair of tangible personal property, based on the occurrence of specified events. The term "extended warranty" does not include an agreement, otherwise meeting the definition of extended warranty in this subsection, if no separate charge is made for the agreement and the value of the agreement is included in the sales price of the tangible personal property covered by the agreement.

(8) "Sale at retail" or "retail sale" shall also include the sale of or charge made for labor and services rendered in respect to the constructing, repairing, decorating, or improving of new or existing buildings or other structures under, upon, or above real property of or for the United States, any instrumentality thereof, or a county or city housing authority created pursuant to chapter 35.82 RCW, including the installing, or attaching of any article of tangible personal property therein or thereto, whether or not such personal property becomes a part of the realty by virtue of installation (government contracting).

(9) "Sale at retail" or "retail sale" shall not include the sale of services or charges made for the clearing of land and the moving of earth of or for the United States, any instrumentality thereof, or a county or city housing authority. Nor shall the term include the sale of services or charges made for cleaning up for the United States, or its instrumentalities, radioactive waste and other byproducts of weapons production and nuclear research and development. [This should be reported under the service and other classification.]

(10) "Sale at retail" or "retail sale" shall not include the sale of or charge made for labor and services rendered for environmental remedial action. [This should be reported under the service and other classification.]

(11) "Sale at retail" or "retail sale" shall also include the following sales to consumers of digital goods, digital codes, and digital automated services:

(a) Sales in which the seller has granted the purchaser the right of permanent use;

(b) Sales in which the seller has granted the purchaser a right of use that is less than permanent;

(c) Sales in which the purchaser is not obligated to make continued payment as a condition of the sale; and

(d) Sales in which the purchaser is obligated to make continued payment as a condition of the sale.

A retail sale of digital goods, digital codes, or digital automated services under this subsection [insert reference to section 5(11)] includes any services provided by the seller exclusively in connection with the digital goods, digital codes, or digital automated services, whether or not a separate charge is made for such services.

For purposes of this subsection, "permanent" means perpetual or for an indefinite or unspecified length of time.

A right of permanent use is presumed to have been granted unless the agreement between the seller and the purchaser specifies or the circumstances surrounding the transaction suggest or indicate that the right to use terminates on the occurrence of a condition subsequent.

(12) "Sale at retail" or "retail sale" shall also include the installing, repairing, altering, or improving of digital goods for consumers.

(Mandatory) [Comment: This definition is different than RCW 82.04.050. Retail services have been given their own definition. Public road construction and government contracting has been included into this definition since the Cities do not have special tax classifications for those two activities. Environmental or nuclear waste clean up are assigned to the service and other classification. And the sales to farmers will remain under the retailing classification. The reference to "telephone business and cable service" in subsection (3)(f) has been included to clarify to hotels and motels that such telephone services and cable services are taxable under the utility tax.]

"Sale at wholesale," "wholesale sale." "Sale at wholesale" or "wholesale sale" means any sale of tangible personal property, digital goods, digital codes, digital automated services, prewritten computer software, or services described in [insert reference to "sale at retail" section 5(b)(i)], which is not a retail sale, and any charge made for labor and services rendered for persons who are not consumers, in respect to real or personal property and retail services, if such charge is expressly defined as a retail sale or retail service when rendered to or for consumers. Sale at wholesale also includes the sale of telephone business to another telecommunications company as defined in RCW 80.04.010 for the purpose of resale, as contemplated by RCW 35.21.715. **(Mandatory)** [The last sentence must be included since telephone business would normally be taxed under the utility tax. The wholesale treatment of telephone business to another telecommunications company is dictated by State law.]

"Services." [Comment: RCW 35.102.120 requires that the model ordinance include this definition. However, no explicit definition will be included in this Model Ordinance until the RCW contains a definition of "service". In the absence of a definition of "service" in state law, the Cities generally use this term and classification to include those activities that do not fall within one of the other tax classifications used by a city.]

"Taxpayer." "Taxpayer" means any "person", as herein defined, required to have a business license under this chapter or liable for the collection of any tax or fee under this chapter, or who engages in any business or who performs any act for which a tax or fee is imposed by this chapter.

"Value proceeding or accruing." "Value proceeding or accruing" means the consideration, whether money, credits, rights, or other property expressed in terms of money, a person is entitled to receive or which is actually received or accrued. The term shall be applied, in each case, on a cash receipts or accrual basis according to which method of accounting is regularly employed in keeping the books of the taxpayer.

(Mandatory if you have a manufacturing tax)

"Value of products." (1) The value of products, including by-products, extracted or manufactured, shall be determined by the gross proceeds derived from the sale thereof whether such sale is at wholesale or at retail, to which shall be added all subsidies and bonuses received from the purchaser or from any other person with respect to the extraction, manufacture, or sale of such products or by-products by the seller.

(2) Where such products, including by-products, are extracted or manufactured for commercial or industrial use; and where such products, including by-products, are shipped, transported or transferred out of the City, or to another person, without prior sale or are sold under circumstances such that the gross proceeds from the sale are not indicative of the true value of the subject matter of the sale; the value shall correspond as nearly as possible to the gross proceeds from sales in this state of similar products of like quality and character, and in similar quantities by other taxpayers, plus the amount of subsidies or bonuses ordinarily payable by the purchaser or by any third person with respect to the extraction, manufacture, or sale of such products. In the absence of sales of similar products as a guide to value, such value may be determined upon a cost basis. In such cases, there shall be included every item of cost attributable to the particular article or article extracted or manufactured, including direct and indirect overhead costs. The Director may prescribe rules for the purpose of ascertaining such values. (3) Notwithstanding subsection (2) above, the value of a product manufactured or produced for purposes of serving as a prototype for the development of a new or improved product shall correspond to (a) the retail selling price of such new or improved product when first offered for sale; or (2) the value of materials incorporated into the prototype in cases in which the new or improved product is not offered for sale. [Comment: This definition is slightly different than that contained in RCW 82.04.450. The meaning is intended to be the same, and the only difference is in grammatical construction. The model also adds a sentence, taken from WAC 458-20-112, at the end of subsection (2) explaining the use of costs to ascertain the value of the products.]

(Mandatory if you have manufacturing or extracting tax)

“Wholesaling.” “Wholesaling” means engaging in the activity of making sales at wholesale, and is reported under the wholesaling classification. **(Mandatory)** [Comment: This definition is not contained in state law, however RCW 35.102.120 requires that the model ordinance include this definition.]

.050 Imposition of the tax - tax or fee levied. (1) Except as provided in subsection (2) of this section, there is hereby levied upon and shall be collected from every person a tax for the act or privilege of engaging in business activities within the City, whether the person’s office or place of business be within or without the City. The tax shall be in amounts to be determined by application of rates against gross proceeds of sale, gross income of business, or value of products, including by-products, as the case may be, as follows:

(a) Upon every person engaging within the City in business as an extractor; as to such persons the amount of the tax with respect to such business shall be equal to the value of the products, including by-products, extracted within the city for sale or for commercial or industrial use, multiplied by the rate of _____ of one percent (_____). The measure of the tax is the value of the products, including by-products, so

extracted, regardless of the place of sale or the fact that deliveries may be made to points outside the City.

(b) Upon every person engaging within the City in business as a manufacturer, as to such persons the amount of the tax with respect to such business shall be equal to the value of the products, including by-products, manufactured within the city, multiplied by the rate of _____ of one percent (_____). The measure of the tax is the value of the products, including by-products, so manufactured, regardless of the place of sale or the fact that deliveries may be made to points outside the City.

(c) Upon every person engaging within the City in the business of making sales at wholesale, except persons taxable under subsection ____ of this section; as to such persons, the amount of tax with respect to such business shall be equal to the gross proceeds of such sales of the business without regard to the place of delivery of articles, commodities or merchandise sold, multiplied by the rate of _____ of one percent (_____).

(d) Upon every person engaging within the City in the business of making sales at retail, as to such persons, the amount of tax with respect to such business shall be equal to the gross proceeds of such sales of the business, without regard to the place of delivery of articles, commodities or merchandise sold, multiplied by the rate of _____ of one percent (_____).

(e) Upon every person engaging within the City in the business of (i) printing, (ii) both printing and publishing newspapers, magazines, periodicals, books, music, and other printed items, (iii) publishing newspapers, magazines and periodicals, (iv) extracting for hire, and (v) processing for hire; as to such persons, the amount of tax on such business shall be equal to the gross income of the business multiplied by the rate of _____ of one percent (_____).

(f) Upon every person engaging within the City in the business of making sales of retail services; as to such persons, the amount of tax with respect to such business shall be equal to the gross proceeds of sales multiplied by the rate of _____ of one percent (_____).

(g) Upon every other person engaging within the City in any business activity other than or in addition to those enumerated in the above subsections; as to such persons, the amount of tax on account of such activities shall be equal to the gross income of the business multiplied by the rate of _____ of one percent (_____). This subsection includes, among others, and without limiting the scope hereof (whether or not title to material used in the performance of such business passes to another by accession, merger or other than by outright sale), persons engaged in the business of developing, or producing custom software or of customizing canned software, producing royalties or commissions, and persons engaged in the business of rendering any type of service which does not constitute a sale at retail, a sale at wholesale, or a retail service. [Comment: Most cities do not use all of the classifications listed above, so they need only adopt those that are imposed within their jurisdictions.] (Mandatory wording for those classifications that are adopted).

(2) The gross receipts tax imposed in this section shall not apply to any person whose gross proceeds of sales, gross income of the business, and value of products, including by-products, as the case may be, from all activities conducted within the City during any calendar year is equal to or less than \$20,000, or is equal to or less than \$5,000 during any quarter if on a quarterly reporting basis. **(Subsection (2) is mandatory)**

~~((.060 Doing business with the City. Except where such a tax is otherwise levied and collected by the City from such person, there is hereby levied a tax on the privilege of accepting or executing a contract with the City. Such tax shall be levied and collected whether goods or services are delivered within or without the City and whether or not such person has an office or place of business within or without the City.~~

~~Except as provided in _____ [insert city code reference to section .077], as to such persons the amount of tax shall be equal to the gross contract price multiplied by the rate under section .050 that would otherwise apply if the sale or service were taxable pursuant to that section.))~~

Legislative intent information

This "super-nexus" section is repealed to reflect changes effective January 1, 2008, when allocation and apportionment provisions in section .077 took effect for city B&O taxes. The intent is that this change would not affect any rights under contracts executed for periods under the old language prior to the change.

.070 Multiple activities credit when activities take place in one or more cities with eligible gross receipt taxes.

(1) Persons who engage in business activities that are within the purview of two (2) or more subsections of .050 shall be taxable under each applicable subsection.

(2) Notwithstanding anything to the contrary herein, if imposition of the City's tax would place an undue burden upon interstate commerce or violate constitutional requirements, a taxpayer shall be allowed a credit to the extent necessary to preserve the validity of the City's tax, and still apply the City tax to as much of the taxpayer's activities as may be subject to the City's taxing authority.

(3) To take the credit authorized by this section, a taxpayer must be able to document that the amount of tax sought to be credited was paid upon the same gross receipts used in computing the tax against which the credit is applied.

(4) Credit for persons that sell in the City products that they extract or manufacture. Persons taxable under the retailing or wholesaling classification with respect to selling products in this City shall be allowed a credit against those taxes for any eligible gross receipts taxes paid (a) with respect to the manufacturing of the products sold in the City, and (b) with respect to the extracting of the products, or the ingredients used in the products, sold in the City. The amount of the credit shall not exceed the tax liability arising under this chapter with respect to the sale of those products.

(5) Credit for persons that manufacture products in the City using ingredients they extract. Persons taxable under the manufacturing classification with respect to manufacturing products in this City shall be allowed a credit against those taxes for any eligible gross receipts tax paid with respect to extracting the ingredients of the products manufactured in the City. The amount of the credit shall not exceed the tax liability arising under this chapter with respect to the manufacturing of those products. (6) Credit for persons that sell within the City products that they print, or publish and print. Persons taxable under the retailing or wholesaling classification with respect to selling products in this City shall be allowed a credit against those taxes for any eligible gross receipts taxes paid with respect to the printing, or the printing and publishing, of the products sold within the

City. The amount of the credit shall not exceed the tax liability arising under this chapter with respect to the sale of those products. **(Mandatory)**

[Comment: The wording in this section .070 is not quite the same as RCW 35.102.060 (1). Subsection (1) is the same as (a) in RCW 35.102.060. Subsection (2) has the same meaning although the cities add the last phrase that the tax will be subjected to the greatest extent possible. Subsection (3) is not included in RCW 35.102.060—it merely states that the taxpayer must have records or proof that it paid another eligible gross receipts tax to another local jurisdiction.

In the case of manufacturing products that have been partially manufactured in another location with an eligible gross receipt tax, the cities have chosen to give a deduction and only tax the incremental increase in the value of the product. This should provide an equal or better treatment to the manufacturer than the credit provision contained in RCW 35.102.060 (1)(d). (Refer to subsection .075(2) below.)]

Legislative intent information

This section provides a tax credit for taxpayers engaged in multiple taxable activities. The section provides a credit against eligible selling or manufacturing taxes imposed by the City for extracting or manufacturing taxes paid to the City or to any other local jurisdiction with respect to the same products. The tax credit does not depend upon whether a person that sells in the City extracts or manufactures in the City or in another jurisdiction to which it has paid an eligible gross receipts tax. The tax credit does not depend on whether a person that manufactures in the City extracts in the City or in another jurisdiction to which it has paid an eligible gross receipts tax. The credit is available to any person that pays an eligible gross receipts tax on the applicable activities, regardless of where it conducts business. The result of this section is that a city in which selling takes place gives up the tax to the manufacturing jurisdiction and the manufacturing jurisdiction gives up the tax to the extracting jurisdiction, whether those jurisdictions are inside or outside the State of Washington.

.075 Deductions to prevent multiple taxation of manufacturing activities and prior to January 1, 2008, transactions involving more than one city with an eligible gross receipts tax.

(1) Amounts subject to an eligible gross receipts tax in another city that also maintains nexus over the same activity. For taxes due prior to January 1, 2008, a taxpayer that is subject to an eligible gross receipts tax on the same activity in more than one jurisdiction may be entitled to a deduction as follows:

(a) A taxpayer that has paid an eligible gross receipts tax, with respect to a sale of goods or services, to a jurisdiction in which the goods are delivered or the services are provided may deduct an amount equal to the gross receipts used to measure that tax from the measure of the tax owed to the City.

(b) Notwithstanding the above, a person that is subject to an eligible gross receipts tax in more than one jurisdiction on the gross income derived from intangibles such as royalties, trademarks, patents, or goodwill shall assign those gross receipts to the jurisdiction where the person is domiciled (its headquarters is located).

(c) A taxpayer that has paid an eligible gross receipts tax on the privilege of accepting or executing a contract with another city may deduct an amount equal to the contract price used to measure the tax due to the other city from the measure of the tax owed to the City. **(Mandatory)**

Legislative intent information

This section establishes deductions to be applied when a single taxable activity is taxable by more than one jurisdiction that imposes an eligible gross receipts tax for taxes due prior to January 1, 2008. Prior to January 1, 2008, under Washington State Law, more than one city that has established nexus can include 100% of the gross receipts from that transaction in its tax base. However, to eliminate the possibility of the same sale or service being taxed more than once by cities that maintain nexus and an eligible gross receipts tax, the cities have provided this deduction to taxpayers. For taxes due after January 1, 2008, the apportionment provisions in section .077 will provide the mechanism for all activities except manufacturing.

Sales. A taxpayer that has paid an eligible gross receipts tax on the sale to the jurisdiction where the product is delivered may deduct the gross receipts used to measure that tax from the measure of the tax owed to another jurisdiction on the sale. If a taxpayer has not paid tax to the jurisdiction where the product is delivered, then no deduction is allowed. The sale shall be taxed by the city where the office or place of business that generated the sale is located.

Service. A taxpayer that has paid an eligible gross receipts tax on services to the jurisdiction where the service is performed may deduct the gross receipts used to measure that tax from the measure of the tax owed to another jurisdiction on that service. If a taxpayer has not paid tax to the jurisdiction where the service is

performed, then the service income shall be taxed by the city where the office or place of business that generated the sale is located. For both sales and services, the order of taxing rights is delivery city, first; and business office location, second.

General Business Activities Other Than Services. The eligible gross receipts tax on income derived from intangibles such as royalties, licenses, trademarks, patents and goodwill, and reportable under the general business classification .050 (7), shall be assigned to the domicile/headquarters office.

Conducting Business With Another City. A taxpayer that has paid an eligible gross receipts tax on the privilege of accepting or executing a contract with a city may deduct the contract price used to measure the tax from the measure of the tax owed to another city on the same activity.

(2) Person manufacturing products within and without. A person manufacturing products within the City using products manufactured by the same person outside the City may deduct from the measure of the manufacturing tax the value of products manufactured outside the City and included in the measure of an eligible gross receipts tax paid to the other jurisdiction with respect to manufacturing such products.

(Mandatory)

.076 Assignment of gross income derived from intangibles.

Gross income derived from the sale of intangibles such as royalties, trademarks, patents, or goodwill shall be assigned to the jurisdiction where the person is domiciled (its headquarters is located).

.077 Allocation and apportionment of income when activities take place in more than one jurisdiction.

Effective January 1, 2008, gross income, other than persons subject to the provisions of chapter 82.14A RCW, shall be allocated and apportioned as follows:

(1) Gross income derived from all activities other than those taxed as service or royalties under _____ [insert city code reference to .050(1)(g)] shall be allocated to the location where the activity takes place.

(2) In the case of sales of tangible personal property, the activity takes place where delivery to the buyer occurs.

(3) In the case of sales of digital products, the activity takes place where delivery to the buyer occurs. The delivery of digital products will be deemed to occur at:

_____ (a) The seller's place of business if the purchaser receives the digital product at the seller's place of business;

_____ (b) If not received at the seller's place of business, the location where the purchaser or the purchaser's donee, designated as such by the purchaser, receives the digital product, including the location indicated by instructions for delivery to the purchaser or donee, known to the seller;

_____ (c) If the location where the purchaser or the purchaser's donee receives the digital product is not known, the purchaser's address maintained in the ordinary course of the seller's business when use of this address does not constitute bad faith;

_____ (d) If no address for the purchaser is maintained in the ordinary course of the seller's business, the purchaser's address obtained during the consummation of the sale, including the address of a purchaser's payment instrument, if no other address is available, when use of this address does not constitute bad faith; and

_____ (e) If no address for the purchaser is obtained during the consummation of the sale, the address where the digital good or digital code is first made available for transmission by the seller or the address from which the digital automated service or service described in RCW 82.04.050 (2)(g) or (6)(b) was provided, disregarding for these purposes any location that merely provided the digital transfer of the product sold.

(4) If none of the methods in subsection [insert city code reference to .077(3)] for determining where the delivery of digital products occurs are available after a good faith effort by the taxpayer to apply the methods provided in subsections [insert city code reference to .077(3)(a) through .077(3)(e)], then the city and the taxpayer may mutually agree to employ any other method to effectuate an equitable allocation of income from the sale of digital products. The taxpayer will be responsible for petitioning the city to use an alternative method under this subsection [insert city code reference to .077(D)]. The city may employ an alternative method for allocating the income from the sale of digital products if the methods provided in subsections [insert city code reference to .077(3)(a) through .077(3)(e)] are not available and the taxpayer and the city are unable to mutually agree on an alternative method to effectuate an equitable allocation of income from the sale of digital products.

(5) For purposes of subsections [insert city code reference to .077(3)(a) through .077(3)(e)], "Receive" has the same meaning as in RCW 82.32.730.

~~((3))~~ (6) Gross income derived from activities taxed as services and other activities taxed under _____ [insert city code reference to .050(1)(g)] shall be apportioned to the city by multiplying apportionable income by a fraction, the numerator of which is the payroll factor plus the service-income factor and the denominator of which is two.

(a) The payroll factor is a fraction, the numerator of which is the total amount paid in the city during the tax period by the taxpayer for compensation and the denominator of which is the total compensation paid everywhere during the tax period. Compensation is paid in the city if:

- (i) The individual is primarily assigned within the city;
- (ii) The individual is not primarily assigned to any place of business for the tax period and the employee performs fifty percent or more of his or her service for the tax period in the city; or
- (iii) The individual is not primarily assigned to any place of business for the tax period, the individual does not perform fifty percent or more of his or her service in any city and the employee resides in the city.

(b) The service income factor is a fraction, the numerator of which is the total service income of the taxpayer in the city during the tax period, and the denominator of which is the total service income of the taxpayer everywhere during the tax period. Service income is in the city if:

- (i) The customer location is in the city; or
- (ii) The income-producing activity is performed in more than one location and a greater proportion of the service-income-producing activity is performed in the city than in any other location, based on costs of performance, and the taxpayer is not taxable at the customer location; or
- (iii) The service-income-producing activity is performed within the city, and the taxpayer is not taxable in the customer location.

(c) If the allocation and apportionment provisions of this subsection do not fairly represent the extent of the taxpayer's business activity in the city or cities in which the taxpayer does business, the taxpayer may petition for or the tax administrators may jointly require, in respect to all or any part of the taxpayer's business activity, that one of the following methods be used jointly by the cities to allocate or apportion gross income, if reasonable:

- (i) Separate accounting;
- (ii) The use of a single factor;
- (iii) The inclusion of one or more additional factors that will fairly represent the taxpayer's business activity in the city; or
- (iv) The employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income.

~~((4))~~ (7) The definitions in this subsection apply throughout this section.

(a) "**Apportionable income**" means the gross income of the business taxable under the service classifications of a city's gross receipts tax, including income received from activities outside the city if the income would be taxable under the service classification if received from activities within the city, less any exemptions or deductions available.

(b) "**Compensation**" means wages, salaries, commissions, and any other form of remuneration paid to individuals for personal services that are or would be included in the individual's gross income under the federal internal revenue code.

(c) "**Individual**" means any individual who, under the usual common law rules applicable in determining the employer-employee relationship, has the status of an employee of that taxpayer.

(d) "**Customer location**" means the city or unincorporated area of a county where the majority of the contacts between the taxpayer and the customer take place.

(e) "**Primarily assigned**" means the business location of the taxpayer where the individual performs his or her duties.

(f) "**Service-taxable income**" or "**service income**" means gross income of the business subject to tax under either the service or royalty classification.

(g) "**Tax period**" means the calendar year during which tax liability is accrued. If taxes are reported by a taxpayer on a basis more frequent than once per year, taxpayers shall calculate the factors for the previous calendar year for reporting in the current calendar year and correct the reporting for the previous year when the factors are calculated for that year, but not later than the end of the first quarter of the following year.

(h) "**Taxable in the customer location**" means either that a taxpayer is subject to a gross receipts tax in the customer location for the privilege of doing business, or that the government where the customer is located has the authority to subject the taxpayer to gross receipts tax regardless of whether, in fact, the government does so.

~~((5))~~ (8) Assignment or apportionment of revenue under this Section shall be made in accordance with and in full compliance with the provisions of the interstate commerce clause of the United States Constitution where applicable.

[Mandatory – Effective January 1, 2008]

Legislative intent information

This section is required by RCW 35.102.130 and provides allocation and apportionment formulas to be applied when a single taxable activity takes place in more than one jurisdiction, whether or not that jurisdiction imposes a gross receipts tax. A definition of delivery has been added in section .030. Retail services will be allocated to where the activity takes place. Digital goods will be allocated according to the new factors set out in RCW 35.102.130, as amended.

.078 Allocation and apportionment of printing and publishing income when activities take place in more than one jurisdiction.

Notwithstanding RCW 35.102.130, effective January 1, 2008, gross income from the activities of printing, and of publishing newspapers, periodicals, or magazines, shall be allocated to the principal place in this state from which the taxpayer's business is directed or managed. As used in this section, the activities of printing, and of publishing newspapers, periodicals, or magazines, have the same meanings as attributed to those terms in RCW 82.04.280(1) by the department of revenue.

Legislative intent information

This section is required by RCW 35.102.150 and provides that printing and publishing income shall be allocated to the city in which taxpayer's business is directed or managed. This section is not mandatory for the model ordinance, but the tax treatment is required by RCW 35.102.150.

.090 Exemptions.

(1) **Public utilities.** This chapter shall not apply to any person in respect to a business activity with respect to which tax liability is specifically imposed under the provisions of **[local utility tax cite]**.

(2) **Investments - dividends from subsidiary corporations.** (a) This chapter shall not apply to amounts derived by persons, other than those engaging in banking, loan, security, or other financial businesses, from investments or the use of money as such, and also amounts derived as dividends by a parent from its subsidiary corporations.

(3) **Insurance business.** This chapter shall not apply to amounts received by any person who is an insurer or their appointed insurance producer upon which a tax based on gross premiums is paid to the state pursuant to RCW 48.14.020, and provided further, that the provisions of this subsection shall not exempt any bonding company from tax with respect to gross income derived from the completion of any contract as to which it is a surety, or as to any liability as successor to the liability of the defaulting contractor.

~~(4((3)))~~ **Employees.**

(a) This chapter shall not apply to any person in respect to the person's employment in the capacity as an employee or servant as distinguished from that of an independent contractor. For the purposes of this subsection, the definition of employee shall include those persons that are defined in the Internal Revenue Code, as hereafter amended.

(b) A booth renter is an independent contractor for purposes of this chapter.

~~(5((4)))~~ **Amounts derived from sale of real estate.** This chapter shall not apply to gross proceeds derived from the sale of real estate. This, however, shall not be construed to allow an exemption of amounts received as commissions from the sale of real estate, nor as fees, handling charges, discounts, interest or similar financial charges resulting from, or relating to, real estate transactions. This chapter shall also not apply to amounts received for the rental of real estate if the rental income is derived from a contract to rent for a continuous period of thirty (30) days or longer.

~~(6((5)))~~ **Mortgage brokers' third-party provider services trust accounts.** This chapter shall not apply to amounts received from trust accounts to mortgage brokers for the payment of third-party costs if the accounts

are operated in a manner consistent with RCW 19.146.050 and any rules adopted by the director of financial institutions.

(7)(6)) Amounts derived from manufacturing, selling or distributing motor vehicle fuel. This chapter shall not apply to the manufacturing, selling, or distributing motor vehicle fuel, as the term "motor vehicle fuel" is defined in RCW 82.36.010 and exempt under RCW 82.36.440, provided that any fuel not subjected to the state fuel excise tax, or any other applicable deduction or exemption, will be taxable under this chapter.

(Mandatory)

(7) Amounts derived from liquor, and the sale or distribution of liquor. This chapter shall not apply to liquor as defined in RCW 66.04.010 and exempt in RCW 66.08.120. **(Mandatory)**

(8) Casual and isolated sales. This chapter shall not apply to the gross proceeds derived from casual or isolated sales.

(9) Accommodation sales. This chapter shall not apply to sales for resale by persons regularly engaged in the business of making retail sales of the type of property so sold to other persons similarly engaged in the business of selling such property where (1) the amount paid by the buyer does not exceed the amount paid by the seller to the vendor in the acquisition of the article and (2) the sale is made as an accommodation to the buyer to enable the buyer to fill a bona fide existing order of a customer or is made within fourteen days to reimburse in kind a previous accommodation sale by the buyer to the seller.

(10) Taxes collected as trust funds. This chapter shall not apply to amounts collected by the taxpayer from third parties to satisfy third party obligations to pay taxes such as the retail sales tax, use tax, and admission tax.

.100 Deductions. In computing the license fee or tax, there may be deducted from the measure of tax the following items:

(1) Receipts from tangible personal property delivered outside the State. In computing tax, there may be deducted from the measure of tax under retailing or wholesaling amounts derived from the sale of tangible personal property that is delivered by the seller to the buyer or the buyer's representative at a location outside the State of Washington. **(Mandatory)**

(2) Cash discount taken by purchaser. In computing tax, there may be deducted from the measure of tax the cash discount amounts actually taken by the purchaser. This deduction is not allowed in arriving at the taxable amount under the extracting or manufacturing classifications with respect to articles produced or manufactured, the reported values of which, for the purposes of this tax, have been computed according to the "value of product" provisions.

(3) Credit losses of accrual basis taxpayers. In computing tax, there may be deducted from the measure of tax the amount of credit losses actually sustained by taxpayers whose regular books of account are kept upon an accrual basis.

(4) Constitutional prohibitions. In computing tax, there may be deducted from the measure of the tax amounts derived from business which the City is prohibited from taxing under the Constitution of the State of Washington or the Constitution of the United States. **(Mandatory)**

(5) Receipts From the Sale of Tangible Personal Property and Retail Services Delivered Outside the City but Within Washington. Effective January 1, 2008, amounts included in the gross receipts reported on the tax return derived from the sale of tangible personal property delivered to the buyer or the buyer's representative outside the City but within the State of Washington may be deducted from the measure of tax under the retailing, retail services, or wholesaling classification.

(6) Professional employer services. In computing the tax, a professional employer organization may deduct from the calculation of gross income the gross income of the business derived from performing professional employer services that is equal to the portion of the fee charged to a client that represents the actual cost of wages and salaries, benefits, workers' compensation, payroll taxes, withholding, or other assessments paid to or on behalf of a covered employee by the professional employer organization under a professional employer agreement.

(7) Interest on investments or loans secured by mortgages or deeds of trust. In computing tax, to the extent permitted by Chapter 82.14A RCW, there may be deducted from the measure of tax by those engaged in banking, loan, security or other financial businesses, amounts derived from interest received on investments or loans primarily secured by first mortgages or trust deeds on non-transient residential properties.

Subsection (6) is required by RCW 35.102.160 and provides that professional employer organizations may deduct the portion of fees for actual costs of employee wages and other benefits and taxes from gross income. This deduction is not mandatory for the model ordinance, but the tax treatment is required by RCW 35.102.160 and is taken from RCW 82.04.540(2).

.120 Tax part of overhead.

It is not the intention of this chapter that the taxes or fees herein levied upon persons engaging in business be construed as taxes or fees upon the purchasers or customer, but that such taxes or fees shall be levied upon, and collectible from, the person engaging in the business activities herein designated and that such taxes or fees shall constitute a part of the cost of doing business of such persons.

.130 Severability Clause.

If any provision of this chapter or its application to any person or circumstance is held invalid, the remainder of the chapter or the application of the provision to other persons or circumstances shall not be affected.

Note: The following Items contained in the model ordinance guidelines are omitted from this Core model ordinance.

Definitions omitted:

- (1) Advancement, Reimbursement
- (2) Agricultural Product
- (3) Artistic or cultural organization
- (4) Consumer
- (5) In this City, within the City
- (6) Newspaper
- (7) Non-profit organization or non-profit corporation
- (8) Office, or Place of business
- (9) Precious metal bullion or monetized bullion
- (10) Product, byproduct
- (11) Royalties
- (12) Software, canned software, custom software, customization of canned software, master copies, retained rights
- (13) Tuition fee

Sections omitted:

- (.040) Agency—sales and services by agent, consignee, bailee, factor or auctioneer
- (.110) Application to City's business activities.

Exemptions and Deductions omitted:

Numerous exemptions and deductions—compare with model guidelines to see if you need additional exemptions or deductions.

NOTE: Because of the wording contained in Section .050(2), cities should insure that their licensing or registration section contains the authority to impose the license or registration. Section .050(2) is intended to relieve persons engaging in business activities that total equal to or less than \$20,000 from tax obligations – but not from license or registration fee requirements.

Local Business (B&O) Tax Rates

Effective January 1, 2017

City	Phone #	Manufacturing rate	Retail rate	Services rate	Wholesale rate	Threshold	
						Quarterly	Annual
Aberdeen	(360) 533-4100	0.002	0.003 e	0.00375 e	0.003 e	\$5,000	\$20,000
Algona	(253) 833-2897	0.00045	0.00045	0.00045	0.00045	\$10,000	\$40,000
Bainbridge Island	(206) 780-8668	0.001	0.001	0.001	0.001		\$150,000
Bellevue	(425) 452-6851	0.001496	0.001496	0.001496	0.001496		\$160,000
Bellingham	(360) 778-8010	0.0017	0.0017	0.0044 e	0.0017	\$5,000	\$20,000
Bremerton	(360) 473-5311	0.0016	0.00125	0.002	0.0016		\$160,000
Burien	(206) 241-4647	0.001	0.001	0.001	0.001		\$200,000
Cosmopolis	(360) 532-9230	0.002	0.002	0.002	0.002	\$5,000	\$20,000
Darrington	(360) 436-1131	0.00075	0.00075	0.00075	0.00075		\$20,000
Des Moines	(206) 878-4595	0.002	0.002	0.002	0.002		\$50,000
DuPont	(253) 964-8121	0.001	0.001	0.001	0.001	\$5,000	\$20,000
Everett	(425) 257-8610	0.001	0.001	0.001	0.001	\$5,000	\$20,000
Everson	(360) 966-3411	0.002			0.002		\$1,000,000
Granite Falls**	(360) 691-6441						
Hoquiam	(360) 532-5700	0.00200	0.00200	0.00200	0.00200	\$5,000	\$20,000
Ilwaco	(360) 642-3145	0.00200	0.00200	0.00200	0.00200		\$20,000
Issaquah	(425) 837-3054	0.00120	0.00120	0.00150	0.00120	\$25,000	\$100,000
Kelso	(360) 423-0900	0.00100	0.00100	0.00200	0.00100		\$20,000
Kenmore	(425) 398-8900	0.00200 *				\$5,000	
Kent	(253) 856-6266	0.00046	0.00046	0.00152	0.00152	\$62,500	\$250,000
Lacey	(360) 491-3214		0.00100	0.00200		\$5,000	\$20,000
Lake Forest Park	(206) 368-5440	0.00200	0.00200	0.00200	0.00200	\$5,000	
Long Beach	(360) 642-4421	0.00200	0.00200	0.00200	0.00200	\$5,000	
Longview	(360) 442-5040	0.00100	0.00100	0.00200	0.00100		\$20,000
Mercer Island	(206) 275-7783	0.00100	0.00100	0.00100	0.00100		\$150,000
North Bend	(425) 888-1211	0.00200	0.00200	0.00200	0.00200	\$5,000	
Ocean Shores	(360) 289-2488	0.00200	0.00200	0.00200	0.00200	\$5,000	\$20,000
Olympia	(360) 753-8327	0.00100	0.00100	0.00200	0.00100	\$5,000	\$20,000
Pacific	(253) 929-1100	0.00200	0.00200	0.00200	0.00200	\$5,000	\$20,000
Port Townsend	(360) 385-2700	0.00200	0.00200	0.00200	0.00200	\$5,000	\$20,000
Rainier	(360) 446-2265	0.00200	0.00200	0.00200	0.00200	\$5,000	
Raymond	(360) 942-3451	0.00200	0.00200	0.00200	0.00200	\$5,000	\$20,000
Renton	(425) 430-6400	0.00085	0.00050	0.00085	0.00085		\$1,500,000
Roy	(253) 843-1113	0.00100	0.00200	0.00200	0.00100	\$5,000	\$20,000
Ruston	(253) 759-3544	0.00110	0.00153	0.00200	0.00102	\$5,000	\$20,000
Seattle***	(206) 684-8484	0.00219 v	0.00219 v	0.00423 v	0.00219 v		\$100,000
Shelton	(360) 426-4491	0.00100	0.00100	0.00100	0.00100	\$5,000	\$20,000
Snoqualmie	(425) 888-1555	0.0015	0.0015	0.0015	0.0015	\$5,000	
South Bend	(360) 875-5571	0.001	0.002	0.002	0.002	\$5,000	
Tacoma	(253) 591-5252	0.00110	0.00153	0.00400 e	0.00102		\$250,000
Tenino	(360) 264-2368	0.002	0.002	0.002	0.002	\$5,000	\$20,000
Tumwater	(360) 754-5855	0.001	0.001	0.002	0.001	\$5,000	\$20,000
Westport	(360) 268-0131	0.0025 e	0.005 e	0.005 e	0.0025 e	\$5,000	
Yelm	(360) 458-3244	0.001	0.002	0.002	0.001	\$5,000	

(v) = voter approved increase above statutory limit

(e) = rate higher than statutory limit because rate was effective prior to January 1, 1982 (i.e., grandfathered).

*Kenmore's B&O tax applies to heavy manufacturing only.

**Granite Falls repealed its B&O tax for all businesses other than extracting.

*** Seattle changed its rates effective January 1, 2017.

NOTE: Tax rates may apply to businesses categories other than those above. Thresholds are subject to change. Exemptions, deductions, or other exceptions may apply in certain circumstances. Contact the city finance department for more information.

Other Exemptions:

Cities offering unique exemptions that are not defined in the Model Ordinance need to declare these variations from the Model. The following table shows some of the other exemptions offered by Cities.

<http://mrsc.org/Home/Explore-Topics/Finance/Revenues/Business-and-Occupation-Taxes.aspx>

Exemptions	Bellevue	Bellingham	Burien	Des Moines	Kelso	Kent	Longview	Olympia	Seattle	Shelton	Tacoma
Adult family homes	X	X									
Admission tax							X				
Any person who accepts or executes contracts with City									X		
Athletic exhibitions	X				X	X			X	X	X
Boxing/wrestling exhibitions		X						X			
Auctions							X				
Business conducted from a temporary booth or shelter							X				
Carnival, street fairs and circuses							X				
Certain corporations furnishing aid and relief						X		X	X		
Certain fraternal and beneficiary organizations		X				X		X	X		X
Certain hospitals and clinics									X		
Child care/child care resources & referral services by non-profits		X							X		
City	X										
City annexation for three years											X
Community events and Farmers Markets								X			

Exemptions	Bellevue	Bellingham	Burien	Des Moines	Kelso	Kent	Longview	Olympia	Seattle	Shelton	Tacoma
Credit & debt services by non-profits		X									
Credit unions		X				X		X	X		X
Dances and dance halls							X				
Day care homes in residences	X										
Day care provided by churches									X		
Farmers - Agriculture	X	X			X	X		X	X	X	X
From Jan. 1, 2002 and thereafter for persons with gross income less than \$70,000)											X
Gambling activities subject to gambling tax	X						X				
Gross receipts taxed under other Municipal Code Sections								X	X		
Health maintenance organization, health care service contractor, certified health plan	X	X			X	X		X	X	X	
Healthcare facilities operated by religious society, religious association or religious corporation		X									
Higher minimum income threshold	X										
Income received by the US, Washington State,											X

Exemptions	Bellevue	Bellingham	Burien	Des Moines	Kelso	Kent	Longview	Olympia	Seattle	Shelton	Tacoma
or any municipal subdivision											
Insurance business	X	X			X			X	X	X	X
International banking facilities	X					X	X	X	X	X	X
Interstate Trucking											
Investments – dividends from subsidiary corporations		X									
Non-profit corporations or organizations (organized under IRC 501(C)(3), (4), or (7))	X				X	X		X	X	X	
Non-profit healthcare organization costs											X
Non-profit Organizations – Credit and Debt Services									X		
Non-profit Organizations that are Guarantee Agencies, Issue Debt, or Provide Guarantees for Student Loans									X		
Operation of sheltered workshops						X		X	X		
Persons with gross income less than \$10,000 will not be required to submit a tax return											X
Public utilities subject to taxation											X
Pool or billiard tables							X				
Racing	X	X			X	X			X	X	X

Exemptions	Bellevue	Bellingham	Burien	Des Moines	Kelso	Kent	Longview	Olympia	Seattle	Shelton	Tacoma
Real estate salesperson and associate broker commissions	X								X		
Research and development under federal contracts						X					
Ride sharing	X	X			X	X		X	X	X	X
Rummage and bake sale							X				
Sales of licenses to use grave sites											
Sales of secondhand merchandise conducted from residences							X				
Short-term public event											
Skill games							X				
Social welfare services – except employee benefit plans											
Taxes imposed by other code provisions							X				
Taxicab business							X				
Transport of empty containers											
United States, Washington State governmental entities						X					
United States gross income								X			
Utilities							X				

Deductions:

The Model Ordinance requires that each City creates a series of deductions, credits, allocations of revenue that ensure that local B&O tax is only paid to one jurisdiction. Because it is a gross receipts tax, rather than a net income tax, deductions are typically limited and jurisdictions use exemptions to protect certain industries from taxation.

Additional Mandatory and Standard Deductions are also defined in the Model Ordinance:

(1) **Receipts from tangible personal property delivered outside the State.** In computing tax, there may be deducted from the measure of tax under retailing or wholesaling amounts derived from the sale of tangible personal property that is delivered by the seller to the buyer or the buyer's representative at a location outside the State of Washington.

(Mandatory)

(2) **Cash discount taken by purchaser.** In computing tax, there may be deducted from the measure of tax the cash discount amounts actually taken by the purchaser. This deduction is not allowed in arriving at the taxable amount under the extracting or manufacturing classifications with respect to articles produced or manufactured, the reported values of which, for the purposes of this tax, have been computed according to the "value of product" provisions.

(3) **Credit losses of accrual basis taxpayers.** In computing tax, there may be deducted from the measure of tax the amount of credit losses actually sustained by taxpayers whose regular books of account are kept upon an accrual basis.

(4) **Constitutional prohibitions.** In computing tax, there may be deducted from the measure of the tax amounts derived from business which the City is prohibited from taxing under the Constitution of the State of Washington or the Constitution of the United States. **(Mandatory)**

(5) **Receipts From the Sale of Tangible Personal Property and Retail Services Delivered Outside the City but Within Washington.** Effective January 1, 2008, amounts included in the gross receipts reported on the tax return derived from the sale of tangible personal property delivered to the buyer or the buyer's representative outside the City but within the State of Washington may be deducted from the measure of tax under the retailing, retail services, or wholesaling classification.

(6) **Professional employer services.** In computing the tax, a professional employer organization may deduct from the calculation of gross income the gross income of the business derived from performing professional employer services that is equal to the portion of the fee charged to a client that represents the actual cost of wages and salaries, benefits, workers' compensation, payroll taxes, withholding, or other assessments paid to or on behalf of a covered employee by the professional employer organization under a professional employer agreement.

(7) **Interest on investments or loans secured by mortgages or deeds of trust.** In computing tax, to the extent permitted by Chapter 82.14A RCW, there may be deducted from the measure of tax by those engaged in banking, loan, security or other financial businesses, amounts derived from interest received on investments or loans primarily secured by first mortgages or trust deeds on non-transient residential properties.

Summary:

The City relies on three main state-shared revenue sources to fund certain programs in the General Fund: Criminal Justice Funding; Liquor Excise Tax & Board Profits; and, Marijuana Excise Tax. For 2010 through 2016, these sources provided on average 2.1% of the General Fund's operating revenues. The state legislature has taken significant actions that have threatened, and in some case actually reduced, the level of funding shared with the City.

- *Criminal Justice Funding:* Prior to 2000, state funding consisted of a combination of Motor Vehicle Excise Tax (MVET) and state general revenues. Due to the repeal of the MVET by the legislature, the MVET portion was eliminated. Subsequently, the only state funding anticipated is from the state's general fund.
- *Liquor Tax Distribution:* In 2012, legislation resulted in a permanent diversion of \$10 million per year of city and county money from the liquor excise tax fund to the state general fund. In addition, the 2013-2015 state budget reduced the share remitted to cities and counties from 35% to 22.5%. The distribution was returned to 35% with the 2015-2017 state budget.
- *Marijuana Excise Tax:* The formula in legislation adopted during the 2013-2015 state biennial budget required the legislature appropriate an amount equal to 30%, up to a maximum of \$15 million per year in fiscal years 2018 and 2019 and \$20 million annually thereafter, if marijuana excise tax collections deposited into the state general fund in the prior fiscal year exceed \$25 million, which it has easily surpassed every year so far. The state biennial budget for 2017-2019 amended the formula to lower the cap for fiscal years 2018 and 2019 to \$6 million annually unless the February 2018 forecast of state revenues for the general fund in the 2017-2019 biennium exceeds the amount estimated in the June 2017 revenue forecast by over \$18 million. In that event, the total share distributed to counties and cities will reset the cap to \$15 million annually for fiscal years 2018 and 2019, with the intent to reset all subsequent caps to \$6 million annually.

Criminal Justice Funding: There are two sources of dedicated funding for local criminal justice programs: an optional County sales tax of 0.1% and state shared funding. Prior to 2000, state funding consisted of a combination of Motor Vehicle Excise Tax (MVET) and state general revenues. Due to the repeal of the MVET by the State legislature, the MVET portion was eliminated, subsequently; the only state funding anticipated is from the State's General Fund.

Liquor Excise Tax & Board Profits: Revenue sources in this category used to be comprised of a portion of the liquor excise tax receipts collected by the State and a portion of the markups on liquor, commonly referred to as Liquor Board Profits. Liquor tax distribution has seen a lot of changes over the past ten years:

- Initiative 1183, passed in November 2011, privatized the distribution and retail sale of liquor effective June 1, 2012. The result of this initiative for local governments was that instead of a calculation based on the profits generated from state-run liquor sales, the revenue distribution for liquor profits is now based on the collection of license fees paid by retailers and distributors.
- 2012 legislation resulted in a permanent diversion of \$10 million per year (\$2.5 million per quarter) of city and county money from the liquor excise tax fund to the state general fund (RCW 82.08.170(3)). The reduction in liquor excise tax distributions is applied to cities and counties in the same proportion as the initial tax distribution; 80% of the liquor excise tax is distributed to cities and 20% to counties.

- The 2013-2015 state budget (3ESSB 5034, Section 1003) reduced the share of liquor taxes collected and remitted to cities and counties from 35% to 22.5%.
- The 2015-2017 state budget (ESSB 6052) returned the distribution from the liquor excise tax to 35% of revenues collected, and the current state budget for the 2017-2019 biennium (SSB 5883) maintains the 35% distribution.

Marijuana Excise Tax: HB 2136 was adopted during the 2013-2015 state biennial budget and amended the state's marijuana regulatory and taxation system. The state distributes a portion of the marijuana excise taxes to the Liquor and Cannabis Board (LCB) and various state agencies and programs on a quarterly basis. At the end of the fiscal year (June 30), the state treasurer must transfer any remaining unappropriated marijuana excise tax revenues into the state general fund.

Previously, the formula stated that beginning in state fiscal year 2018 (July 1, 2017 – June 30, 2018), if marijuana excise tax collections deposited into the state general fund in the prior fiscal year exceed \$25 million, which it has easily surpassed every year so far, then the legislature must appropriate an amount equal to 30% of those state general fund deposits to cities, towns, and counties, up to a maximum of \$15 million per year in fiscal years 2018 and 2019 and \$20 million annually thereafter.

However, the state biennial budget for 2017-2019 (SSB 5883) amended RCW 69.50.540 and lowered the cap for fiscal years 2018 and 2019 to \$6 million annually, with a caveat:

“If the February 2018 forecast of state revenues for the general fund in the 2017-2019 fiscal biennium exceeds the amount estimated in the June 2017 revenue forecast by over eighteen million dollars after adjusting for changes directly related to legislation adopted in the 2017 legislative session, the total share of marijuana excise tax revenue distributed to counties and cities [will reset the cap to \$15 million annually for fiscal years 2018 and 2019, with the intent to reset all subsequent caps to \$6 million annually].”

The City is considering the reduction in revenues for the remainder of 2017.