Council Meeting Date: February 22, 2000 **Agenda Item:** 6(a)

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Water Services Study – Evaluation of Possible City Role in Water Service Delivery - Follow-Up
DEPARTMENT:	City Manager's Office
PRESENTED BY:	Kristoff T. Bauer, Assistant to the City Manager

EXECUTIVE / COUNCIL SUMMARY

On January 18, 2000, staff presented a report on water services authored by CH2M Hill to your Council. The accompanying staff report revisited 5 options for the City's future role in ensuring the adequate provision of water services within the City. Council consensus at that time directed staff to work with Seattle Public Utilities (SPU) and the Water District to perform additional analysis on this issue. Specifically staff was asked to compare the effect of three options on three specific criteria and to bring the results of that analysis back to your Council as soon as possible. The conclusion of that analysis is presented for Council consideration. Staff seeks Council consensus at this time to pursue one of the presented options.

Council's direction to staff was to provide further analysis focusing only on options 3 – 5 as identified in the January 18th staff report (Attachment A), thus, eliminating further work on Option 1 (Maintaining the status quo) and Option 2 (Acquiring SPU's current water service system). Options 3 – 5 are defined as follows:

3. **Annexing to the District:** Staff would focus on negotiating an interlocal supporting District efforts to acquire and operate SPU's service area in Shoreline.
4. **Assuming the Districts' current water service system:** Staff would focus on analysis and legal process, as established by state law, necessary to assume the District's assets, liabilities, and personnel. The current relationship with SPU would not change.
5. **Acquiring SPU's and assuming the District's service systems and serving all of Shoreline:** This combines the forth option with acquiring SPU's service area resulting in a City utility serving all of Shoreline and potentially part of Lake Forest Park.

The criteria stem from discussion with your Council on January 18th and have been defined for the purpose of this analysis as follows:

1. **Growth Management Act (GMA) Responsibility & Capital Improvement Program (CIP) Coordination:** Whether the option would assist the City in fulfilling its responsibility under GMA to ensure the adequate provision of urban services in part through the implementation of a coordinated CIP resulting in concurrency of zoning and supporting infrastructure. Under this criterion, more dynamic City

involvement in regional water supply issues and closer coordination between transportation and water service CIP's were considered positive changes.

2. **Efficient Use of Public Resources:** Whether the option would reduce overall public expenditure for providing the same level of service. Under this criterion, changes that would likely reduce collective administrative costs and/or allow for the utilization of assets for more than one purpose were considered positive.
3. **SPU Infrastructure Needs:** Whether the option would assist in addressing deficiencies in SPU's local distribution system described in the CH2M Hill report. Under this criterion, changes that increase the likelihood of capital investment in the local distribution system to address these deficiencies were considered positive.

The following chart summarizes the results of the requested analysis:

OPTION \ CRITERIA	GMA Responsibility & CIP Coordination	Efficient Use Of Public Resources	SPU Infrastructure Needs
Annex Current SPU Service Area To The District	No Significant Improvement	No Significant Improvement	Potential for Significant Improvement
Assume The District	Potential for Significant Improvement **(eastside only)**	Potential for Significant Improvement **(eastside only)**	No Significant Improvement
Assume The District & Acquire SPU	Potential for Significant Improvement	Potential for Significant Improvement	Potential for Significant Improvement

Each of the squares above is the accumulation of several anticipated consequences of the identified option (Attachment B). In almost all cases there are consequences that could be considered either positive or negative. The summary above attempts to weigh each anticipated consequence in accordance with the above definitions of the individual criteria. This analysis is intended to supplement, not replace, the previous analysis presented to your Council.

Process

The matrix included as Attachment B was developed after two productive meetings with staff from the Shoreline Water District. A meeting with SPU staff was cancelled by SPU on short notice. Staff was not able to get a second opportunity to meet with SPU prior to returning to your Council, but SPU staff did review a draft of this matrix and had no comment.

Next Steps

If your Council reaches consensus on a proposed option, staff will proceed on the appropriate course of action proposed below to move toward that option. As previously discussed, some options are more administratively burdensome than others. In those cases, it may be advisable to set interim objectives toward a long-term goal.

3. **Annexing to the District:**

- Staff would contact the District to negotiate a franchise agreement in accordance with Council objectives and the minimum terms previously communicated by the District.
- Staff would also develop an interlocal agreement with the District similar to that executed with the Wastewater Management District establishing a work plan and respective roles and responsibilities for the District's acquisition of SPU's territory and bring that distribution system up to an acceptable standard.

4. **Assuming the Districts' current water service system:**

- The first step in this process is the completion of a SEPA checklist. After that has been completed and submitted, there is a short public comment period prior to the determination by the SEPA official.
- While the SEPA process is moving forward, staff would contact Lake Forest Park to brief them on the Council's chosen action and determine how staff can support Lake Forest Park's decision making process.
- After the SEPA decision has been rendered, Staff will bring back an ordinance initiating the assumption process along with feedback from Lake Forest Park.
- As the assumption process moves toward review by the Boundary Review Board, staff will work with Lake Forest Park to develop any interlocal agreements that may be necessary.
- Staff will also be working with District staff on a transition plan should the annexation eventually be approved.

5. **Acquiring SPU's and assuming the District's service systems and serving all of Shoreline:**

- Assumption of the District would be the first step toward this option. All of the steps above would be followed.
- As the administrative burden associated with the process of assuming the District's service system and the implementation of the transition plan subside, staff would initiate talks with SPU regarding optional paths toward future consolidation. This would clearly be a second phase of the project with a more detailed action plan yet to be determined.

RECOMMENDATION

No specific action is requested at this time. We are seeking consensus directing staff to pursue one of the three remaining options described above.

Approved By: City Manager JB City Attorney N/A

ATTACHMENTS

Attachment A – January 18, 2000, staff report Water Services Study – Evaluation Of Possible City Role In Water Service Delivery (without attachments)

Attachment B – Water Service Alternative Matrix

Attachment A

January 18, 2000, staff report (without attachments)

Water Services Study
Evaluation Of Possible City Role In Water Service Delivery

Council Meeting Date: January 18, 2000 **Agenda Item:**

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Water Services Study – Evaluation of possible City role in water service delivery
DEPARTMENT:	City Manager's Office
PRESENTED BY:	Kristoff T. Bauer, Assistant to the City Manager

EXECUTIVE / COUNCIL SUMMARY

The Growth Management Act ("GMA") places the responsibility to plan and ensure the provision of adequate utility services on cities. Your Comprehensive Plan provides direction that also suggests we have a role in ensuring cost effective utility services. Since just after incorporation, the City has been evaluating utility services and determining the appropriate role of the City in fulfilling its responsibility under the Growth Management Act. Water service is the next service area to be considered. Two separate entities, the Shoreline Water District ("District") and Seattle Public Utilities ("SPU") provide water service within Shoreline. The District was operating under a franchise that expired December 31, 1999. The City recently adopted a two-year franchise with SPU.

On October 11, 1999, staff presented to your Council analysis regarding the potential impacts of the passage of Initiative 695 on the City's ongoing revenues. The two-year franchise with SPU, which includes a franchise fee, was negotiated in response to your Council's discussion on that date. Staff has also contacted the District regarding a new franchise that would include a franchise fee. The District's initial position is that they would accept a franchise with a fee only if it was part of a long-term agreement ensuring the District's independence and giving the District the ability to assume SPU's service area (See Attachment A). For this reason, and the fact that your Council has expressed an interest in determining our long term role in the water area, staff is bringing forward recently completed analysis regarding water service within the City to assist your Council in determining the City's appropriate role in providing this service and next steps in working with the Water District.

This report transmits and summarizes the findings of a study comparing and contrasting the level of service provided by the District and SPU (See Attachment B). Optional roles for the City in ensuring adequate water service and next possible steps based thereon follow that summary.

The study examines five areas of water service; i.e. Water Supply, Rate and Financial Levels, Service Levels, Operation and Maintenance Programs, and Customer Service, contrasting the two providers against each other and industry standards when appropriate. The study was performed by engineering firm of CH2M Hill with Dave Parkinson, former Chief Engineer for SPU, as the project manager.

Key findings of this study include:

- **Water Supply**
  - –SPU, which owns both the Tolt and Cedar watersheds and the water rights therefrom, has a secure water supply
  - –The District, which purchases water from SPU via a contract that expires in 2012, will need to take action to secure a water source in the near future either through joining the Cascade Water Alliance, re-negotiating with Seattle, or finding an alternative source
- **Rate and Financial Levels**
  - –SPU's rates include an ≈ 14% out of city surcharge and a Seattle utility tax
  - –SPU's rates are still ≈ 30% lower than the District's rates[1]
  - –SPU does not hold reserves in excess of that necessary to satisfy the dept coverage requirements of its revenue bonds
  - –The District's rates 5th highest among the 28 water service providers (including the City of Seattle) in the greater Seattle area[2]
  - –The District has established rates and policies that have accumulated reserves that equaled $2.7 million[3] at the end of 1998
- **Service Levels**
  - –SPU's system is aging and a sustained and increased pipe replacement program is recommended
  - –The District has almost completed an aggressive pipe replacement program and further pipe replacement is seen as unnecessary for the near future
  - –The District has established and achieved a higher water pressure standard
  - –Some of SPU's customers experience low water pressure
  - –Some of SPU's service area does not have adequate fire flow
  - –A focused hydrant installation program is recommended for both utilities
- **Operation and Maintenance Programs**
  - –SPU has two Shoreline water reservoir maintenance projects in its 6-year CIP
  - –It is estimated that ≈ $1 Mil. a year in CIP funding would be necessary for the next 6 years for SPU to begin making recommended system improvements
  - –The District's draft CIP includes projects estimated to cost ≈ $34 Mil. over the next 12 years including ≈ $25 Mil. for a water treatment plant
  - –Other than hydrant installation, no significant capital expenditures on the District's system are recommended in the near future
  - –The District has a regular line flushing program and fewer dead-end lines likely resulting in fewer water quality complaints
  - –Recent regulatory changes have hampered SPU's flushing program and their system experiences a slightly higher number of water quality complaints
- **Customer Service**
  - –SPU has a fully staffed centralized customer service office in downtown Seattle that tracks and responds to questions and requests for service
  - –The District has staff easily accessible through a local office

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[1] Based on an average monthly bill calculation for an "average" customer using 8ccf/month in winter and 12 ccf/month in summer.

[2] See Figure 1 included in Attachment B.

[3] $.6 Million Debt Reserve, $1.9 Million Sinking Fund, $.2 Million Construction Reserve.

This study is presented to assist your Council in understanding the water service area from a policy and service delivery perspective and to begin working towards a consensus regarding the appropriate role of the City in ensuring the adequate provision of water services to Shoreline residents as required by the GMA. It is also meant to implement some other policy goals found in your Comprehensive Plan such as ensuring cost-effective public investment and service delivery for utilities.

Staff has previously presented five options for the City in addressing this issue for discussion purposes. Hybrids or combinations of these options are possible. Each of the five options presented has a particular set of pros and cons that are addressed in the body of the report.

1. Maintaining the status quo: The City would retain its current dual provider relationship for water service. Staff would focus on developing long-term franchises with current providers.

2. Acquiring SPU's current water service system: Staff would focus on transfer negotiations with SPU.

3. Annexing to the District: Staff would focus on negotiating an interlocal supporting District efforts to acquire and operate SPU's service area in Shoreline.

4. Assuming the Districts' current water service system: Staff would focus on analysis and legal process, as established by state law, necessary to assume the District's assets, liabilities, and personnel.

5. Acquiring SPU's and assuming the District's service systems and serving all of Shoreline: This combines the second and forth options discussed above requiring the same activities and resulting in the same Pros and Cons with the additional draw back of attempting to accomplish two administratively difficult tasks at once.

Only options 2, 4, or 5 would provide the City with a direct role in regional water issues related to ESA and the formation of a regional water supply consortium, the Cascade Water Alliance ("CWA"), that will impact the cost and availability of water to Shoreline residents. Only option 3 satisfies the District's request as articulated in Attachment A. Further, option 2 would be easier for the City with the staff, equipment, and infrastructure that would be available to the City by assuming the District (Option 4) first.

The District chose not to join the CWA by the November 15, 1999 deadline for its formation. The formation objective of achieving membership equal to 75% of current SPU wholesale customers was not satisfied and the future of the CWA and its role in regional water issues are now uncertain.

The assumption process is initiated by a City ordinance that would be followed by a report and notice to the Boundary Review Board. Since part of the District is within Lake Forest Park, they will have a role in determining the appropriate process and the eventual form of an assumption should your Council choose that option.

RECOMMENDATION

No specific action is requested at this time. We are seeking consensus directing staff to pursue one of the five options described above.

Approved By: City Manager ____ City Attorney ___

BACKGROUND / ANALYSIS

The Growth Management Act (GMA) (RCW 36.70A) defines "Urban Governmental Services" as:

> "...those public services and public facilities at an intensity historically and typically provided in cities, specifically including storm and sanitary sewer systems, domestic water systems, street cleaning services, fire and police protection services, public transit services, and other public utilities associated with urban areas..." (RCW 36.70A.030 (19))

The Act goes on to say in several sections that cities are the unit of local government most appropriate to provide Urban Governmental Services. Some cities assert that the GMA directs and authorizes cities to assume special purpose districts like the Shoreline Fire District, the Shoreline Wastewater Management District, or the Shoreline Water District. Most special purpose districts, however, dispute that interpretation of the law. There does appear to be some agreement that (at a minimum) higher planning and coordination responsibilities for Urban Governmental Services including water are placed on municipalities.

We did some research regarding the role current cities play in providing water service. As evidence of the importance that municipalities have placed on controlling this crucial service area, we found that **93%** of Washington Cities over 10 years old who responded to the Association of Washington Cities annual water fee study operate a water utility. If we assume that special purpose districts serve all cities that did not respond to this study, then we would find that **78%** of all Washington cities operate a water utility.

Consistent with a city's responsibilities under GMA, your Council adopted a number of framework goals as part of the City's Comprehensive Plan that relate to utility services. These include:

FG1: Accommodate anticipated levels of growth and enhance the quality of life within the City of Shoreline.

FG7: Assure effective and efficient public investment for quality public services, facilities, and utilities.

Your Council also adopted the following policies specifically relevant to this issue as part of the Utilities Element of the Comprehensive Plan:

U1: Promote the provision of utility services citywide that meet service levels established in the Capital Facilities Element at reasonable rates.

U2: Investigate alternative service provision options that may be more effective at achieving these service standards or in meeting other policy goals found in the Comprehensive Plan.

U12: Investigate water reuse opportunities that: - may diminish impacts on water, wastewater and surface water systems, - promote the conservation or improvement of natural systems.

U16: Support efforts which will ensure adequate water supply and wastewater treatment capacity for existing and anticipated development at service levels designated by the Capital Facilities Element.

U17: Support efforts which will correct existing water and wastewater system deficiencies where deficiencies exist and ensure adequate infrastructure and services for all areas of the City.

Further, the Council Workplan in 1998 and again in 1999-2000 has included the determination of the City's role in providing services including utility services.

In response to Council's expressed policies in this area, staff developed an interlocal agreement and franchise with the Shoreline Wastewater Management District through which Wastewater District committed to pursuing the acquisition of SPU's sewer service area within Shoreline. This move to change the current two-provider system was taken in an attempt to serve the above policies by supporting the unification of service under one local provider. In 1997 and 1998, staff focused on analyzing electrical service and developed a long-term franchise with Seattle City Light to provide this service. This new franchise was framed to address multiple policy goals of the Council (rates, taxes, rights of way, etc.) In 1999, Staff has been developing comparative analysis regarding the provision of water service within the City. The results of that analysis are included in this report and the attached report developed in conjunction with CH2M Hill.

The articulation of these policies and the activities that the City has engaged in over the last four years reflect the seriousness that the City has placed on it's responsibility to ensure the quality provision of Urban Governmental Services to Shoreline residents.

Your Council has also articulated a policy toward seeking efficiencies in the provision of governmental services. This policy was articulated during supporting discussions for both your Council's 1999-2000 goals number 6, "Continue to strengthen intergovernmental relations ... strengthen communication and collaboration with the School District and other public agencies,' and Number 9, "Accelerate City Hall planning."

REPORT METHODOLOGY

The report included as Attachment B, "Comparison of Water Services Provided Within the City of Shoreline by the City of Seattle and Shoreline Water District" ("Comparison Report"), was predominantly drafted by CH2M Hill engineering staff led by Dave Parkinson. One of the key objectives of the Comparison Report was to not only compare the service providers within Shoreline to each other, but also to accepted industry standards. Mr. Parkinson's 11 years of experience with SPU's water division, last holding the position of Chief Engineer, and his broader experience with CH2M Hill since leaving SPU provided the City with the expertise necessary to interpret the information provided by the current providers and to identify industry standards when available.

The City asked Mr. Parkinson to assist the City in collecting information and providing analysis on the five operational or service areas listed below.

1. Water Supply: Identify sources, quality thereof, and any future uncertainties or key decisions to be made regarding that supply
2. Rate and Financial Levels: How do the rates for various services compare between the current providers and others in the region, how are they expected to change in the future, and how do other financial policies affect service or the rates charge for service
3. Service Levels: What factors exist to indicate the service levels provided and how do the current providers compare in these areas
4. Operation and Maintenance Programs: What comparisons can be made regarding the daily operations of the service providers
5. Customer Service: How do the providers respond and interact with the customers in Shoreline

The current providers are very different both in the size and complexity of their respective operations and in their governance. The first step was simply to request the same information from both providers and then to identify the pieces of information provided that were or could be made to be comparable. This was accomplished through a number of information requests and meetings with staff from both utilities. With the exception of information about other service providers in the region and industry standards, all information was either provided by or derived from information provided by the two current service providers. Both providers were given opportunities to review drafts of this report and comment or provide additional information. EES Consulting of Bellevue provided additional financial analysis.

ADITIONAL INFORMATION

In order to supplement the analysis included in the attached report, we will go through the sections of the report to provide updated information and additional context and clarification.

Water Supply (Attachment B, Page 4)

As stated in the report, approximately 60% of the City is served directly by SPU. Planning analysis performed by SPU indicates that they have sufficient water supply to meet the anticipated needs of all their direct service customers, including those in Shoreline, through a 50-year planning horizon. SPU does not, however, have sufficient water to satisfy the growing needs of its current wholesale water customers, including the District, over that same period. SPU does not want to take on the responsibility of developing additional water supply sources. For this reason SPU is discontinuing its wholesale water contracts as of 2012 and has been supporting the formation of a new water supply organization, the Cascade Water Alliance ("CWA"). As demand begins to exceed current supply and supply already under development, other water purveyors will need to secure new sources of water either through CWA or on their own.

The District has been studying this water supply issue for some time. They have been involved in the formation of the CWA, but have not taken action to join the association. The CWA was supposed to gain the participation of 75% of the 27 existing wholesale customers of SPU by November 15, 1999, and execute a water purchase contract with SPU for water purchases post 2012 by that same date. Neither of these goals were accomplished. Only 10 purveyors have joined CWA to date. The CWA members are continuing efforts to define their goals and objectives and to develop a relationship with SPU.

A study commissioned by the District indicates that the CWA, should it complete the Tacoma Pipeline 5 project, would have sufficient water for its members (assuming 100% participation) into the foreseeable future.[4] The District, however, is working toward the development of Lake Washington as a water source. The District has no water rights and no authorization to pull water from Lake Washington. The District has proposed two potential means of gaining the ability to utilize Lake Washington as a source. The first is through King County's potential right to the use of treated water ('re-use" water), and the second is through a transfer of Seattle's water right.

The state Department of Ecology ("DOE") regulates water rights and use permits. Staff spoke with Dan Swenson, Section Supervisor Water Resource Program, at the regional DOE office in Bellevue and his supervisor, Keith Philips, at DOE's headquarters in Olympia. While the District did submit two applications for a permit to pull water from Lake Washington in 1994, the DOE does not anticipate taking any action to review these applications in the foreseeable future.

[4] Shoreline Water District "Water Supply Alternatives Study," RH2 Engineering, January 1998.

WAC 173-508 closed the Cedar watershed to new consumptive uses in 1979. A change in the administrative law would be required prior to the awarding a use permit to pull water from Lake Washington. The DOE is focusing its limited resources on watersheds that have not been closed. They also pointed out that if King County does build a third treatment plant, and a tertiary treatment facility, and gets the necessary environmental permits to discharge to Lake Washington, it would still take a change in state law to allow the District to pull water from Lake Washington utilizing King County's re-use water right. Neither had heard of a legal precedent that would allow Shoreline to acquire a portion of Seattle's water right. Mr. Swenson also pointed out that while the transfer of a permit from the headwaters to the lake may no longer be as inconceivable as it was a few years ago, it would still be necessary for the District to secure a right that could then be transferred and for the DOE to approve any permit application which, again, they are not processing at this time.

In addition to the significant legal uncertainty regarding the District's proposal, analysis regarding the financial advisability of such a project is limited and should be debated publicly before embarking on commitments of this financial magnitude. While the District spent just under $549,355 to purchase water in 1998 and budgeted $767,919 to purchase water in 1999, annual operation and maintenance costs alone for the proposed water treatment plant were estimated in early 1998 at $800,000 per year. Construction of the plant was estimated at an additional $23 million with another $1 million to be spent on legal costs associated with permitting the facility[5]. Still to be considered are potential reimbursement costs that may need to be paid to King County for "re-use" water or other water right holder. This also does not include expenditures budgeted for 1999 including $2.5 million for acquisition of the DNR property, the proposed site of the treatment plant, and $318,000 for studies and consultation fees related to the Lake Washington project.

Staff's analysis of water supply alternatives for the District is incomplete. The preceding information is provided to illustrate the magnitude and complexity of the issue. How this issue is resolved will directly influence the City's ability to ensure the adequate provision of water services to the 40% of the City serviced by the District over the long term. Further, one may want to consider that if after more complete investigation Lake Washington turns out to be the best source of water for Shoreline, then which of the City's optional roles would best facilitate efforts to secure that source.

Rates/Financial Comparisons (Attachment B, Beginning on Page 6)

In 1998, the District's average water rate ranked 5th highest among the 27 water purveyors who purchase water from SPU. SPU's average rate in Shoreline ranks 20th on this list and its rate inside Seattle ranks 24th. Why the District's rates are higher than most purveyors in King County is unclear. SPU has two wholesale water rates, i.e. an old water rate and a higher new water rate. The District purchases very little new water. Only five of the 27 purveyors purchase less new water. Bellevue purchases the most new water by a significant margin, but its rates are almost the lowest (25th out of 28 including Seattle). While we have not performed a comparative analysis of annual expenditures for administration, capital investment, or reserve policies between the District and other purveyors, the two possible drivers of this relatively high rate are the District's capital investment activities and excess revenue accumulation.

From 1995 to 1998 the District collected an average of 7.8% revenue in excess of expenses. Another way to examine the appropriateness of this revenue level is to examine the District's Debt Service Coverage ratio. This ratio compares excess revenue to annual debt service costs. A minimum ratio is established by bond convenants and is often a key driver in establishing

[5] Shoreline Water District "Water Supply Alternatives Study," RH2 Engineering, January 1998.

rates. It is not unusual for utilities to establish a ratio goal of 1.5 to 2 in its rate setting policies. The District's bond covenants establish a minimum ratio of 1.25. The average ratio achieved by the District from 1995 to 1998 is 2.92. As mentioned earlier, at the end of 1998 the District was holding $2.7 million in reserve accounts. A 10% operational reserve would equal about $240,000.

The District reports that its Debt Service Coverage ratio goals used for setting rates were 2.2 in 1998 and 1999, and is 1.58 for 2000. They report that the ratio achieved in 1998, 3.56, was high due to water sales in excess of their forecast. Water sales are currently below forecast for 1999 indicating that this ratio may be closer to the established target. They also report that all reserves have been dedicated for specific purposes by action of the Water Commission and that they believe that their current reserve level and past rate performance has allowed them to maintain a strong bond rating in the face of Initiative 695.

The report forecasts a 14% increase in SPU's retail rate from 1999 to 2000 and additional increases of 8% or greater over the following three years. Due to the passage of Initiative 695, the Seattle Utilities Committee's recommendation to the full Seattle City Council at the time this report was written is to combine planned increases for 2000 and 2001 into a larger 2000 increase of ≈ 19%. SPU's rate proposal also includes an increase in the old water wholesale rate of ≈ 21%. Wholesale water purchases were about 32% of District's total budgeted operating expenses for 1999. The District plans to increase single family residential rates by 2.5% and all other rates (i.e. multi-family, commercial, institutional) by 5.6%. The District's modest rate increase in the face of increasing wholesale water rates and Initiative 695 may be an attempt to reduce the excess revenues that have been generated over the last few years. SPU's large rate increase and the District's modest increase should reduce the rate differential between the two providers.

Service Levels (Attachment B, Beginning on Page 13)

This section of the report discusses five different areas that are considered indicators of the level and quality of service provided by the utilities, i.e. Facilities Design Criteria and Quality, Age of the Water Supply Infrastructure, Pressure Service Levels, Water Storage Capacity, and Fire Flow Service. The report clearly articulates that, through significant capital investment, the District has provided a higher level of service in most of these areas. The questions are; is further investment by the District prudent and what are the likely consequences of continued under investment by SPU?

The District is in the final phase of a significant pipe replacement program, and the report concluded that no further investment in pipe replacement is expected to be necessary for at least 35 years. The report does recommend a fire hydrant installation program, not currently part of the District's CIP, and does not comment on the reservoir and other maintenance activities included in the District's CIP. The report also finds that the District's current storage capacity is adequate, approaching the upper limit of the state standard of 200 to 800 gallons per customer. The District, however, has disclosed plans to construct a new reservoir on the recently acquired DNR property. Whether this significant investment is necessary in the absence of plans to also construct a treatment plant on this property is the key question that staff is exploring.

In addition to the need for a hydrant installation program, SPU's system suffers from the lack of a sufficient pipe replacement program and low water pressure levels. Simply put, water pressure levels at the low end of SPU's standard, 25 to 30 psi, would result in it taking a noticeably long period to fill a tub for a bath or in an aggravatingly weak shower. Old, corroded interior plumbing may exacerbate this problem to the point of dysfunction. *Seattle is in the*

process, however, of studying this problem (i.e. testing during different times of the year and under diverse conditions to identify the areas most affected) and is expected to design system improvements to improve the pressure in the areas experiencing this problem. Problems created by SPU's aging infrastructure in Shoreline are both more significant and more difficult to resolve.

There are basically two reasons to replace pipe, i.e. either it is undersized to satisfy the current demand for water or it is failing or at significant risk of failing due to its age. Six to eight inch water mains are standard today and reliability decreases as pipe passes 50 to 60 years of age. In Mr. Parkinson's considerable experience, increasing repair costs usually justify replacement of pipe approaching 85 years of age. SPU's inventory of pipe in Shoreline includes 144,067 feet of pipe that is three inches or less, or will be over 85 years of age by 2035. Replacing this pipe over the next 35 years will require a 50% increase in Seattle's current program. There is also an additional 47,793 feet of 4-inch pipe that is substandard, will not support a fire hydrant, and may not provide adequate flow. There is a further 268,575 feet of pipe that will pass 85 in the 20 years from 2035 to 2055. If SPU does not increase its pipe replacement rate in Shoreline significantly in the near future and over the next 50 years, then they can expect increasing maintenance and repair costs and Shoreline citizens can expect increasing failures that could constitute a risk to adjacent infrastructure, i.e. the City's right-of-way and other utilities.

As demonstrated by the rate proposals mentioned above, SPU has increased its wholesale and retail rates significantly over the past few years including 1999-2000. The primary purpose of these increases is to support capital investment in water supply related to new federal clean water regulations and ESA. Shoreline is not the only area within SPU's retail service territory that is faced with infrastructure problems. One would hope that after completion of SPU's current CIP, that the resources generated by recent rate increases will be turned to its distribution system. However, we currently have no means to ensure that increased investment will occur and this would not be a standard issue addressed in a franchise agreement.

Operation and Maintenance Program (Attachment B, Beginning on Page 28)

The two major differences identified in this section relate to capital improvement programs and system flushing. We have already discussed the capital programs of both providers in some detail. In regards to water main flushing programs, the District has been able to maintain a program in the face of changing federal and state regulations, while SPU has not.

These regulations now restrict the release of chlorinated and fluoridated drinking water into surface water systems. In order to comply with these regulations, both SPU and the District must flush their systems into the Wastewater Management District's sewer system. In order to gain authorization to do so, the Wastewater Management District required both to sign an interlocal agreement that placed the responsibility on the entity placing water into their system for <u>any</u> sewer system failure during a water main flushing event regardless of the cause. SPU did not feel comfortable signing such an agreement and, as a result, has not flushed its pipes in Shoreline for about five years. The District felt like it had no choice but to sign the agreement and has continued its flushing program. Without regular flushing, sedimentation and stagnation can occur in low flow areas potentially leading to discolored or odd tasting water. SPU's lack of a flushing program likely explains most of the water quality difference between the two providers.

Customer Service (Attachment B, Page 38)

Which provider has better customer service depends on the customer's preference. SPU's customers can almost always get someone on the phone. The someone, however, will be in

downtown Seattle and may, or may not, be familiar with Shoreline. The District's customers can during normal business hours walk into the District's offices in the North City neighborhood and talk with someone face to face who is likely able to assist them. The City has not integrated its Development Services with either provider at this point and a stop at the offices (i.e. downtown Seattle or North City) of one of the providers is a necessary step in most development projects.

Accountability / Coordination and Duplication Among Shoreline Public Agencies

Even though this topic area was not specifically covered by the consultant's report, it has been at the top of your Council's priority list for some time.

Every decision made by your Council has a level of public disclosure that is extremely high. Your meetings are televised and advertised on television. Key issues are communicated to citizens in advance of the decision via newspaper and newsletters. Not only are Council agendas on the web page, but the entire staff report is available as well. Citizen advisory groups are utilized as additional conduits for ideas, opinions and information. Key policy documents are readily accessible via libraries, Kinkos, etc. The budget document is comprehensive and well written for citizen's use. These are all a reflection of your Council's value of accountability and openness to the citizenry. The two water providers have varying degrees of accountability and public disclosure, neither of which reaches the level of the City. Given the rising cost of water and that key decisions regarding the future supply of water and the use of a prime piece of property in the City are about to be decided, it is important that a public discussion take place in this area before decisions are finalized.

Due to the length of time this community was unincorporated, we have various independent public agencies (WSDOT, sewer district, water district, fire district, schools) that have developed (and are still developing) their administration and operations facilities, their own support systems (data processing, human resources, finance / accounting, etc.) and their own fleet.

The Water District recently purchased property from the State adjacent to the Fircrest site. Use of that site may have impacts on our community through its future development or from missed opportunities. As you know, the City is also developing plans to address our own needs. It will be extremely unfortunate to eventually have six separate public administrative buildings and six operations yards in a City that has limited taxable property. Furthermore each agency shares similar needs for fleet, finance/accounting, human resources, etc. Duplication of these assets or overhead services should be avoided as well.

SUMMARY COMPARISONS

The Executive Summary of the Comparison Report (Attachment B) articulates several key comparisons between the two providers. Rather than repeating those here, we will attempt to draw some conclusions from combinations of those comparisons.

1. The District's rates are higher than most providers in the region and significantly higher than SPU's rates due at least in part to a capital investment program that may be unnecessarily aggressive, and due in part to reserves and spending in preparation for their Lake Washington Project. A project that has many questions, impacts, benefits, and challenges. In contrast, SPU's rates in Shoreline are some of the lowest due in part to its lack of sufficient capital investment in its distribution system.
2. SPU holds the largest water right in the County and is in the process of preserving that right exclusively for direct service customers, including those within Shoreline, by ending current fixed quantity purchase contracts with existing purveyors like the District as of 2012. The

District holds no water rights and is in the process of trying to secure a water supply after 2012.

3. The Seattle City Council controls SPU and customers outside Seattle are not represented in that governance process and are treated differently. Three locally elected Commissioners are responsible for oversight of District operations, but public participation in Commission decisions is limited and the level of accountability is at a much different level than typically seen in a general purpose government like the City of Shoreline.
4. The District's rates could be lowered, or future increases deferred, through prudent changes to capital investment policies. SPU's rates do not support an adequate level of capital investment decreasing current service quality and increasing the risk of future distribution system failures.
5. These could be a duplication of facilities and/or support costs, which is not unique to just the Water District.

These comparisons and those contained in the attached report form the basis for the following analysis of how each of the 5 options presented fit with Council's stated objectives and the City's responsibilities under GMA.

OPTIONS ANALYSIS

The following analysis is offered in support and clarification of the summary statements made in the executive summary regarding each of the five options presented were necessary.

1. Maintaining the status quo: The City would retain its current dual provider relationship for water service. Staff would focus on developing long-term franchises with current providers.

Pros:

- Presents lowest administrative burden on the City
  The City already has the resources necessary to develop franchises with the current providers and, since the City would not be taking on any responsibilities with regards to water services, no additional resources would be needed. This is seen as a positive due to the limits on City resources and the lack of any funding under this option to support City activities in this area.
- May provide the groundwork for developing positive long-term relations.
  This would address at least one of the District's desires, that is to stay independent. We would avoid the tension that may occur as a result of an assumption process.

Cons:

- City would continue to have no role in water service issues unrelated to the management of the right-of-way
  This places the City in the position of being a silent guarantor of the utility operations for a basic, life supporting service. If a special purpose district begins to fail in the long term, they or the citizens they serve will often seek the intervention of municipalities, as the Richmond Beach Water District sought assumption by SPU in the 1960's. If both providers continue to operate and provide an adequate level of service, then the City is uninterested. If, however, either fails and the City is required to intervene by operation of the GMA or demand of the public, then the City may be faced with paying the price for past missed opportunities.
- Franchising is an intermittent process that is not well suited for addressing emerging service issues
  A franchise is a legal document with limited flexibility. If an unanticipated issue arises during its term, then the City may have limited recourse to address it.

- ❖ The level of accountability for this key service will not be at the level provided by the City.
- ❖ To the extent there is a duplication of facilities and costs, it may continue in the future.
- ❖ The Council has expressed an interest in streamlining land use/building permitting via a one step process. This will be more difficult to achieve.
- ❖ The District's current statement position as expressed in Attachment A would indicate that it may be very difficult to reach agreement on a franchise.

  This option would provide for a continued service role for SPU. The District's request includes the City's facilitation of the District's assumption of SPU's service area within Shoreline as discussed in Option 3 below. Issues such as guaranteed independence and being the sole provider are unnecessarily finding their way into the franchise discussions making this option less viable.

2. Acquiring SPU's current water service system: Staff would focus on transfer negotiations with SPU.

Pros:

- ❖ Would give the City and its citizens local control of the level and quality of water service provided to a segment of the City (Shoreline City Council instead of Seattle City Council)
- ❖ Would give the City a role in regional water supply discussions

  Current discussions regarding the formation of the CWA and other regional water issues including ESA are restricted to municipalities and other governmental entities that actually provide water services. This is one of the drivers behind King County's move to gain rights to water reclaimed from its wastewater treatment process. These discussions will shape water supply far into the future and currently your Council has no role in this important regional discussion.
- ❖ Would provide the opportunity to keep Shoreline tax dollars in Shoreline

  SPU currently collects rate proceeds from Shoreline customers to pay a utility tax to the Seattle General Fund. This burden on Shoreline customers does not benefit them other than providing SPU with some incentive (some Seattle politicians analogize this tax to profit) to continue serving the Shoreline area.

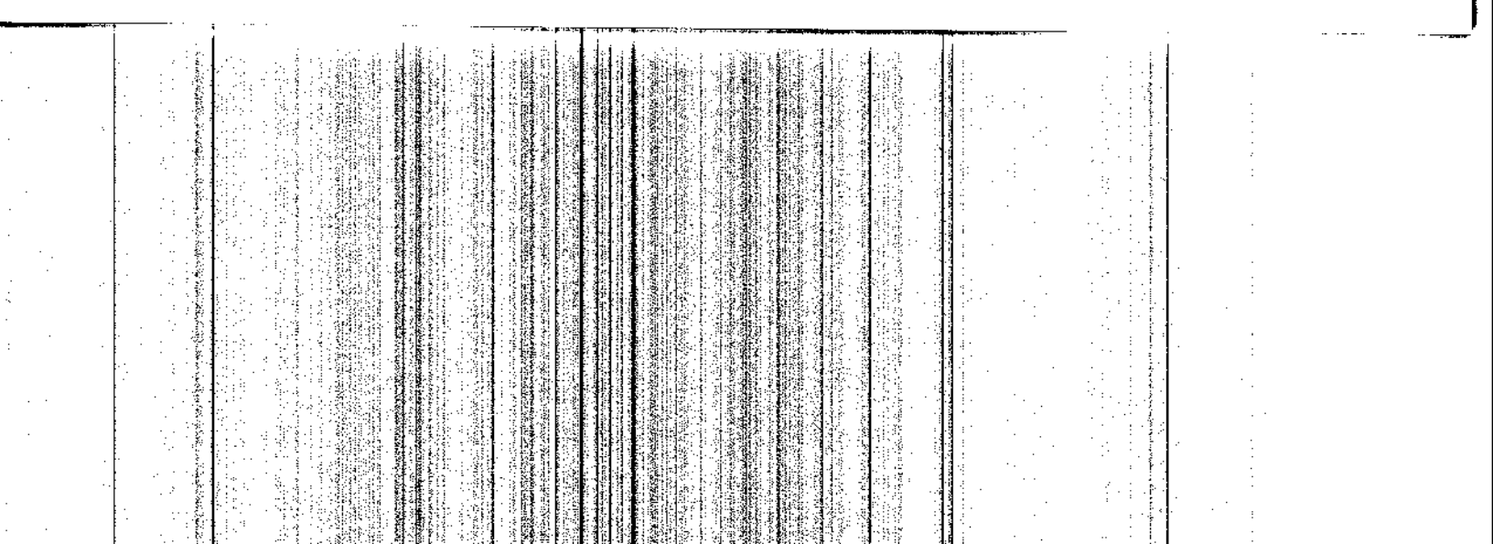
Cons:

- ❖ May increase water supply uncertainty for existing SPU customers

  This would convert current SPU customers from retail to wholesale customers through the City. As previously discussed, contracts with wholesale customers for water supply are scheduled to expire in 2012. It may be possible to negotiate a different arrangement as part of the service transition, but this is uncertain at this time.
- ❖ Would require the purchase of the system from SPU and capital investment to separate the two systems to some degree

  SPU has made it clear that their system within Shoreline has value and that they would expect payment for that value. They also have a history in working with other entities of looking at value based upon revenue stream rather than actual asset value. In addition, this area is seamlessly integrated with SPU's system and most of the water storage serving Shoreline is located outside the City. Some separation between the system would be necessary to allow for independent operation and storage would need to be provided for.
- ❖ May require a rate increase even if current service levels are maintained

  This would be principally due to the cost of acquiring and separating the system.
- ❖ May require the City to acquire the staff, equipment, and infrastructure (office space, service yard, etc.) to operate the utility



- ❖ Will add to the administrative burden of the City.

3. Annexing to the District: Staff would focus on negotiating an interlocal supporting District efforts to acquire and operate SPU's service area in Shoreline.

Pros:

- ❖ Would consolidate water service under one provider
- ❖ Would eliminate Seattle utility tax on water in Shoreline
- ❖ May lead to an improved level of service in SPU's service area
  The District would be expected to implement its higher capital investment standards within the acquired service area.
- ❖ May allow for the imposition of a franchise fee
  As mentioned earlier, this option is consistent with the District's requests regarding a franchise that includes a fee as expressed in Attachment A. Yet it doesn't provide for the long-term independence of the district; another request of theirs.

Cons:

- ❖ City would continue to have no direct role in water service issues unrelated to the management of the right-of-way
- ❖ May increase water supply uncertainty for existing SPU customers
  (See discussion for Option 2)
- ❖ Would require the District to purchase SPU's system and to make capital investments to separate the two systems to some degree
  (See discussion for Option 2)
- ❖ Would result in a rate increase for current SPU customers even if current service levels are maintained
  The City, with condemnation and permitting authority, arguably is in a stronger position than the District to negotiate acquisition terms with SPU. The same cost items discussed in Option 2 would place upward pressure on the District's rates.

4. Assuming the Districts' current water service system: Staff would focus on analysis and legal process, as established by state law, necessary to assume the District's assets, liabilities, and personnel.

Pros:

- ❖ Would give the City a role in regional water supply discussions
- ❖ Would give the City control of the level and quality of water service provided to a large segment of the City allowing it to ensure concurrency with the City's comprehensive plan
  This would provide the best opportunity for close integration of zoning for planned growth and existing infrastructure or planned infrastructure.
- ❖ Would allow for the consolidation of duplicative governmental and operational functions and assets
  The District has expressed an interest in developing a mutual aid interlocal and consolidating GIS services, but has shown very little interest in working with the City to consolidate other duplicative resources. Office and maintenance space, administrative functions including finance, human resources, and management, and operations including planning, engineering, and permitting could all be consolidated.
- ❖ Would provide the City with staff, equipment, and infrastructure necessary to provide water services
  State law requires the City to maintain the employment of current District staff and transfers all of the District's assets to the City.

- ❖ Would allow the imposition of a franchise fee or utility tax
- ❖ Would provide the City with billing infrastructure and cost support increasing opportunity to communicate with residents and perhaps consolidate other billings
  The District currently bills its customers every other month. The City could include informational flyers with the billing statements and may be able to take over surface water billing from the County and discuss consolidated billing with other utilities. This would reduce postal fees and the cost of collecting surface water revenues.
- ❖ May allow the City to reduce current water rates or future rate increases in this service area
  Efficiencies gained through consolidation with other City services and a re-examination of the District's CIP may provide opportunities for reduced capital expenditure and ongoing operational savings.
- ❖ Would enhance citizen accountability for key decisions (CIP decisions, budgets, etc.)
- ❖ Would add land to our inventory to address City policy and operational goals.

Cons:

- ❖ Would increase the size of the City staff
- ❖ May divert staff resources from other priorities
- ❖ May damage relations with other special purpose districts operating in Shoreline
- ❖ May result in a protracted public debate and legal process

5. Acquiring SPU's and assuming the District's service systems and serving all of Shoreline: This combines the second and forth options discussed above requiring the same activities and resulting in the same Pros and Cons with the additional draw back of attempting to accomplish two administratively difficult tasks at once.

SUMMARY

Both service providers present a unique set of opportunities and challenges that likely support increased City involvement in ensuring the continued adequate provision of water service consistent with the City's responsibilities under GMA and your Council's priorities. Resource limitations resulting from the passage of Initiative 695 place have increased pressure on local government to find efficiencies in order to continue providing the services citizens demand and provides additional emphasis on City efforts to clarify this issue. The difficult decision before your Council is what eventual role for the City in providing water services best serves the community and which of the presented options should be pursued at this time to move toward that role.

RECOMMENDATION

No specific action is requested at this time. We are seeking consensus directing staff to pursue one of the five options described above.

ATTACHMENTS

Attachment A – Letter Regarding Franchise Terms From Cynthia Driscoll to Robert E. Deis Dated November 10, 1999 (Published on January 18, 2000)

Attachment B - Comparison of Water Services Provided Within the City of Shoreline by the City of Seattle and Shoreline Water District (October 1999 – CH2MHill) (Published on January 18, 2000)

Attachment B

Water Service Alternative Matrix

Water Service Alternative Analysis

Option 3. Annex West Side to the District

SPU territory annexed by the District - City execute franchise with District

GMA Responsibilities – CIP Coordination	Efficient Use of Public Resources	SPU Infrastructure Needs
1. Review Creation of Comp. Plan ▪ One water system plan produced, including a CIP, by District, reviewed and approved by Council for concurrency. ▪ Also reviewed and approved by KC, LFP, DOE. & Dept. of Health. ▪ District develops in compliance with City zoning and land use plan. **2. Decision Responsibility (CIP, Budget, LOS, etc.)** ▪ Resides with District Board of Commissioners. ▪ City has role in review and approval of water system plan as amended (6-year max.) **3. Future Water Supply** ▪ Seattle's obligation to be a retail water provider in the west side end. ▪ District would be responsible for providing adequate water for entire service area (may seek alternatives. ▪ Seattle's continuing obligation to provide wholesale water to west side and long-term to entire service area needs to be negotiated. **4. City's Role** ▪ No change from status quo. **5. Intergovernmental Coordination** ▪ City's role is to coordinate with the District. **6. Methodology of CIP Coordination** ▪ Shoreline and District – notice and information sharing.	**1. Overhead (Indirect Costs)** ▪ Overhead to the District's current customers will be reduced, based upon greater economies of scale. ▪ The impact on overhead costs in SPU's service area is unknown. If the District can achieve lower overhead costs than are currently included in SPU rates, then overhead on a per customer basis may be reduced. **2. Water System Capital Assets** ▪ It will be necessary to acquire some of Seattle's existing storage facilities or construct additional water storage. ▪ It may be necessary to locate a new facility inside the City. **3. Office Space / O&M Assets** ▪ It may be possible for the District to serve SPU's current service area without significantly increasing the size of planned facilities. **4. External (Non-water) Services** ▪ Water availability certificates would be available locally. ▪ The District's non-water services would be available to the west side, may be different than currently provided by SPU. **5. Support for Elected Officials** ▪ The District Board of Commissioners may be expanded to five members with the goal of providing representation to the west side. **6. Communication** ▪ One less relationship, including CIP coordination, Comp. Plan, permitting, franchise, etc., would need to be maintained. ▪ The District's offices and personnel are located locally easing communication for both citizens and the City. **7. Staffing** ▪ Will result in some increase in District staff, presumably from existing SPU staff.	**1. Resources Available to Address SPU's Infrastructure Needs** ▪ Significant effort will be required to design and implement a consolidated distribution system separate from SPU's. ▪ While the District may need to acquire additional staff, it has demonstrated an ability to design and implement an aggressive capital improvement program utilizing full-time and contract staff. **2. City's Role in Determining Level of Investment** ▪ Since the electorate of both agencies overlap, likely to be a more effective and closer working relationship. ▪ May negotiate LOS standards as part of franchise agreement. **3. Funding** ▪ Financial resources to acquire and improve the system would likely come from a combination of existing SPU customers, the entire rate base, and/or realized economies of scale. The size of the rate impact on existing District and SPU customers is unknown, but increased rates for SPU's current customers would be likely.

Water Service Alternative Analysis

Option 4. Assume the District (Impact on east side – District's current service area)
City own and operate District area - franchise with SPU

GMA Responsibilities – CIP Coordination	Efficient Use of Public Resources	SPU Infrastructure Needs
1. Review Creation of Comp. Plan ▪ City prepares water system plan & the capital facilities element would include water CIP for east side. ▪ Also reviewed and approved by KC, LFP, DOE. & Dept. of Health. ▪ City would comply with LFP zoning & land use plan in that jurisdiction. **2. Decision Responsibility (CIP, Budget, LOS, etc.)** ▪ Resides with Shoreline City Council. ▪ LFP has role in review and approval of water system plan as amended (6-year max.) **3. Future Water Supply** ▪ Shoreline would be responsible for providing adequate water for east side service area (may seek alternatives). ▪ Seattle's continuing obligation to provide wholesale water long-term to east side service area is unclear. **4. City's Role** ▪ Owns and operates east side system. **5. Intergovernmental Coordination** ▪ City's role to coordinate with LFP, water supply agency (Seattle, CWA, Everett, etc.), KC, DOH, DOE, etc. **6. Methodology of CIP Coordination** ▪ Shoreline interdepartmental – notice and information sharing, joint creation.	**1. Overhead (Indirect Costs)** ▪ Once District operations are consolidated with existing City operations, then City Administration would support, and be supported by, this new customer base. ▪ Overhead on a per customer basis may be reduced. **2. Water System Capital Assets** ▪ It may be possible to achieve a higher utilization of existing assets owned by the District by making them available to other operational departments, i.e. Public Works and Parks. ▪ Some real property may no longer be required to provide service and may be available for alternate use by the City (may require compensation to the utility fund). **3. Office Space / O&M Assets** ▪ Office and operations space could be consolidated with existing City services reducing duplicative investment. ▪ Single point of contact at City Hall. **4. External (Non-water) Services** ▪ City permitting and District water availability certification could be consolidated. ▪ Planning, engineering, and maintenance could be consolidated with existing City services potentially reducing service cost. ▪ Water billing could be consolidated. **5. Support for Elected Officials** ▪ Expenses related to elections and salaries for District Commissioners would be eliminated. ▪ Administrative support for correspondence, notices, and meetings would be reduced. ▪ The workload of the City Council would increase. **6. Communication** ▪ Utility billing would provide a new source of communication between the City and residents. ▪ Communication necessary for coordination of CIP, planning, and other policy discussions would be inter-departmental rather than inter-agency. **7. Staffing** ▪ District staff would be incorporated into City staff allowing their expertise and energy to become a resource for all City operations, flowing to the area of greatest need. ▪ Some services currently provided to the District by contract staff would either need to be incorporated into existing work plans, require additional staff resources, be discontinued, or continue to be contracted out. (The District makes the point that most of the above benefits can be achieved through interlocal agreements.)	**1. Resources to address the infrastructure needs in SPU's territory** ▪ Not Applicable **2. City's role in determining of level of investment** ▪ Not Applicable.

Water Service Alternative Analysis

Option 4. Assume the District (Impact on west side – SPU's current service area)
City own and operate District area - franchise with SPU

GMA Responsibilities – CIP Coordination	Efficient Use of Public Resources	SPU Infrastructure Needs
1. Review Creation of Comp. Plan ▪ Seattle prepares water system, including a CIP; reviewed and approved by Shoreline Council for concurrency. ▪ Also reviewed and approved by KC, City, DOE. & Dept. of Health. ▪ Seattle would comply with Shoreline zoning & land use plan in that jurisdiction. **2. Decision Responsibility (CIP, Budget, etc.)** ▪ Resides with Seattle City Council. ▪ Shoreline has role in review and approval of water system plan as amended (6-year max.) **3. Future Water Supply** ▪ Seattle's obligation to be a retail water provider in the west side continues. **4. City's Role** ▪ No Change in status quo. **5. Intergovernmental Coordination** ▪ City's role is to coordinate with Seattle. **6. Methodology of CIP Coordination** ▪ Shoreline and Seattle – notice and information sharing (but Seattle does not maintain specific project level CIP).	**1. Overhead (Indirect Costs)** ▪ No change. **2. Water System Capital Assets** ▪ No change. **3. Office Space / O&M Assets** ▪ No change. **4. Services** ▪ No change, the inclusion of District staff into the City may ease efforts to consolidate some permitting functions. **5. Support for Elected Officials** ▪ No change. **6. Communication** ▪ No change. District staff may provide additional expertise and resources to assist in the maintenance of the City's relationship with SPU. **7. Staffing** ▪ No change.	**1. Resources to Address the Infrastructure Needs in SPU's Territory** ▪ No Change. ▪ SPU has the resources to improve its distribution system within Shoreline. **2. City's Role in Determining Level of Investment** ▪ May negotiate LOS standards as part of franchise agreement. ▪ May not be able to require the same LOS standards provided in the east side. **3. Funding** ▪ Financial resources to improve the system may come from Seattle's entire rate base or from those customers in Shoreline benefiting from the improved system. The rate impact on existing SPU customers in Shoreline is unknown.

Water Service Alternative Analysis

Option 5. City Assumes District & Acquires SPU

GMA Responsibilities – CIP Coordination

1. **Review Creation of Comp. Plan**
   - City prepares one water system plan & the capital facilities element would include water CIP for entire service area.
   - Also reviewed and approved by KC, LFP, DOE. & Dept. of Health.
   - City would comply with LFP zoning & land use plan in that jurisdiction.
2. **Decision Responsibility (CIP, Budget, etc.)**
   - Resides with Shoreline City Council.
   - LFP has role in review and approval of water system plan as amended (6-year max.)
3. **Future Water Supply**
   - Seattle's obligation to be a retail water provider in the west side ends.
   - Shoreline would be responsible for providing adequate water for entire service area (may seek alternatives).
   - Seattle's continuing obligation to provide wholesale water to west side and long-term to entire service area needs to be negotiated.
4. **City's Role**
   - City owns and operates east and west side service areas.
5. **Intergovernmental Coordination**
   - City's role to coordinate with LFP, water supply agency (Seattle, CWA, Everett, etc.), KC, DOH, DOE, etc.
6. **Methodology of CIP Coordination**
   - Shoreline interdepartmental – notice and information sharing, joint development.

Efficient Use of Public Resources

1. **Overhead (Indirect Costs)**
   - Once District operations are consolidated with existing City operations, then City Administration would support, and be supported by, this new customer base.
   - Overhead on a per customer basis may be reduced.
2. **Physical Assets**
   - It may be possible to achieve a higher utilization of existing assets owned by the District by making them available to other operational departments, i.e. Public Works and Parks.
   - Some real property may no longer be required to provide service and may be available for alternate use by the City (may require compensation to the utility fund).
3. **Office Space / O&M Assets**
   - Office and operations space could be consolidated with existing City services reducing duplicative investment.
   - Single point of contact at City Hall.
4. **External (Non-water) Services**
   - City permitting and District water availability certification could be consolidated.
   - Planning, engineering, and maintenance could be consolidated with existing City services potentially reducing service cost.
   - Water billing could be consolidated.
5. **Support for Elected Officials**
   - Expenses related to elections and salaries for District Commissioners would be eliminated.
   - Administrative support for correspondence, notices, and meetings would be reduced.
   - The workload of the City Council would increase.
6. **Communication**
   - Utility billing would provide a new source of communication between the City and residents.
   - Communication necessary for coordination of CIP, planning, and other policy discussions would be inter-departmental rather than inter-agency.
7. **Staffing**
   - District staff would be incorporated into City staff allowing their expertise and energy to become a resource for all City operations, flowing to the area of greatest need.
   - Some services currently provided to the District by contract staff would either need to be incorporated into existing work plans, require additional staff resources, be discontinued, or continue to be contracted out.

SPU Infrastructure Needs

1. **Resources to Address the Infrastructure Needs in SPU's Territory**
   - Significant effort will be required to design and implement a consolidated distribution system separate from SPU's.
   - While the City may need to acquire additional staff, District staff gained through the assumption would be a valuable resource.
2. **City's Role in Determining Level of Investment**
   - City would determine all actions taken to address any distribution system deficiencies that may exist.
4. **Funding**
   - Financial resources to acquire and improve the system would likely come from a combination of existing SPU customers, the entire rate base, and/or realized economies of scale. The size of the rate impact on existing District and SPU customers is unknown, but increased rates for SPU's current customers would be likely.

Council Meeting Date: February 22, 2000 **Agenda Item: 6(b)**

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Economic Development Program Strategy
DEPARTMENT:	Planning and Development Services
PRESENTED BY:	Tim Stewart, Director Kirk McKinley, Planning Manager Ross Cutshaw, Economic Development Coordinator

EXECUTIVE / COUNCIL SUMMARY

The City of Shoreline's Council goals for 1999 and 2000 identified economic development as a priority. Goal #2 states: "Create and Implement an aggressive Economic Development Effort: pursue business development; remove blight and improve aesthetics." To begin this process staff has outlined a project describing the goals, strengths and weaknesses, defining roles, examples and proposed alternatives in achieving these goals.

The purpose of this agenda item is to bring to your Council three different approaches or strategies for creating and implementing an economic development program for the City of Shoreline. In order to clarify the definition of economic development as it relates to Shoreline, your Council must clearly articulate its vision. Understanding what the citizens and leadership bodies of the community would realistically like to see in 20-30 years helps define what kind of economic development efforts we should take today. The Shoreline Comprehensive Plan contains broad policy directions. The challenge is to implement those policies in a manner consistent with our community's values and resources.

The Economic Development Element of the Comprehensive Plan identified many policies and goals to provide direction in the economic development effort. Some of the key Comprehensive Plan goals and policies pertinent to the discussion on the City role in economic development include:

- Goal ED II and III: *To increase and diversify Shoreline's job base….and leverage opportunities for economic development.*
- Goal ED IV: *To improve the City's role to facilitate and initiate economic development opportunities.*
- Goal ED V: *To support and attract economic development with reliable infrastructure.*

- Policy ED 2: *Improve economic vitality by: encouraging existing businesses to thrive…recruiting new businesses…encouraging economic services…cooperating with businesses to create strategies and action plans…*
- Policy ED 10 and 11: *Recognize the Aurora Corridor as the economic core of the City with potential for revitalization…and the North City business district as a local commercial area ready for revitalization…*
- Policy ED 19: *Create partnerships with major landholders…to participate in the economic well-being of the community.*

Based on the Council goal and the goals and policies in the Comprehensive Plan this item is intended to inform your Council of various economic development options for the City. Staff is requesting that your Council discuss the merits and options and ultimately select an approach for the City's Economic Development Program.

Staff is presenting your Council three different approaches to create an economic development effort.

Your Council is being asked to select (or modify) an approach that best reflects the vision and goals of your Council and the Comprehensive Plan.

Staff has prepared three approaches that are detailed in this staff report. Attachment A includes background on strategies or approaches and Attachment B provides examples of the three different approaches. The three approaches (or three P's) are in order of level of cost and effort:

1. " Passive" approach – support and moderate assistance upon request.
2. " Partnering" approach – pursuing partners and aggressively promoting Shoreline; City as a catalyst for change.
3. "Proactive" (aggressive) approach – aggressive financial and involved leadership to bring in new development; includes potential land acquisition or assemblage.

The Passive and Partnering approach (to a limited degree) can be implemented within the current budget whereas a Proactive approach is beyond the current city budget.

An Economic Development effort that reflects the Councils Vision will provide staff with the security and support as it works toward implementing the vision.

RECOMMENDATION

Staff recommends that your Council direct staff to pursue the Partnering approach to implement the city's economic development effort.

Approved By: City Manager LB City Attorney N/A

BACKGROUND / ANALYSIS

The City of Shoreline has contracted with real estate marketing and development consultants to conduct several studies to assess its strengths and weaknesses and opportunities for economic development, primarily along the Aurora Corridor and North City. These consultants have identified several barriers or weaknesses in Shoreline to economic growth. Staff feels, with the adoption of the Comprehensive Plan, and with approval of an economic development strategy, that these weaknesses can be turned into opportunities. Some of these challenges are:

Challenges / Weaknesses:

- **Identity**: Because of Shoreline's relative newness as a city, the development / business community does not know that we are here or that we have a plan and are interested in improving the our local economy. Strategies to overcome this barrier include marketing, outreach, image building and networking.
- **Infrastructure**: The general condition of Shoreline's roadway and drainage infrastructure is weak. Strategies to overcome this weakness include the adoption of the Capital Improvement Program (CIP) which includes critical projects such as Aurora, 15th NE, and the Interurban Trail. Also, efforts such as the North City Subarea Plan will identify infrastructure projects and redevelopment strategies.
- **Predictability**: This concern reflects the prior lack of planning and priority setting. In the past 15 months, your Council has adopted a Comprehensive Plan, a CIP, a design concept for Aurora (with a funding strategy), in addition your Council will be adopting a new development code this spring.
- **Land Assemblage**: One of the identified weaknesses is that there are limited large parcels available, and that many of the development opportunity areas are under several ownership's (e.g., Aurora Square has seven different owners). Many of the parcels along Aurora Corridor are also smaller parcels making it difficult to develop. One of the optional strategies discussed in this staff report is the level of effort the City is willing to undertake to "assemble" land into more attractive ownership configurations.
- **Permit Processing**: The building and land use permit process has experienced a temporary slowdown due to unexpected staff turnover. Staff has been working on improving the turnaround issue: we have contracted out some building permit reviews and right of way inspection; we will soon have a new development code that will greatly simplify the permit review and application process; will be hiring a new plans examiner this spring and the implementation and development of the permit tracking software will provide us with the ability to track and monitor turnaround.
- **Land Price**: Many of the small parcels have single businesses with absentee landowners, making it difficult for property owners and business owners to sell or make improvements. The Economy has been good and allows property owners to derive higher rental rates that have a direct impact on the value of the property.

Strengths / Amenities:

- **Shoreline School District:** The quality and reputation of the school district are very well known and will help continue to attract new residents.
- **Location as a city:** This creates tremendous access into Shoreline. Adjacent to the City of Seattle, Shoreline has the ability to attract new businesses who want to locate near Seattle, as well as residents who already work in Seattle.
- **Aurora Corridor:** This corridor is the heart of the city and future new development. The Aurora Corridor improvements will become a catalyst for new development.
- **Interurban Trail:** This trail parallels the Aurora corridor extending through the city. The trail project will create an opportunity for siting businesses that take advantage of the trail and backside frontage and creating greater access and parking.
- **Interstate 5:** Having this access creates obvious opportunities for the workplace as well as residents. Interstate 5 carries approximately 200,000 vehicles per day.
- **Major National Entities:** The city has many national and local quality retailers within the City (ie: Costco, Home Depot , Sears and many more). This provides the opportunity to convey a healthy image to other potential businesses ready to relocate.

Problem or Opportunity: The City of Shoreline currently seeks a clear, comprehensive Economic Development Program that will provide current and future City Councils with flexibility and multiple opportunities to vitalize the City in ways that are congruent with community values and goals.

Local governments in the state of Washington are very restricted as to what they may undertake in the area of economic development (RCW 35.21.703). Local cities are limited as to direct participation in private economic development projects and how public funds can be spent to attract private development.

The City should establish a way for your Council to select appropriate economic development projects that will achieve your Council's goals and Comprehensive Plan to improve the quality of life in Shoreline. By developing a program that has specific approaches defined and clear definitions of tools available to achieve economic development goals, your Council will be positioned to make better financial and political decisions regarding projects to be undertaken.

In addition, your Council has recently selected a design allowing for improved aesthetics, safety, access and mobility along the Aurora corridor. The City has already secured approximately $19 million in state and federal grant funds and allocated up to $ 8 million of the city Roads Capital Fund in the Capital Improvement Program to complete the first phase between 145th and 165th. This project may serve as a catalyst for redevelopment and featured improvements within the City. The opportunity to define and begin economic development efforts is excellent at this time.

Project Goals or Objectives: This report was created in order to outline the economic development program that will assist your Council in making decisions about current and future economic development projects. This program will:

1. Clarify your Council's expectations of successful economic development efforts.
2. Identify economic development tools and resources as well as limitations, (e.g. financial resources, permitted business incentives under state and local regulatory authorities, etc.).
3. Define particular opportunities for economic development projects and establish timelines, budgets, regulatory changes that may need to be made, and outcomes to be achieved.
4. Clarify how ongoing economic development activities will be conducted by your Council and staff.

The Three approaches

Below is a table that summarizes the three different approaches from which your Council may select the kind of strategy for staff to follow in pursuing economic development projects. Your council may add, delete or move tools from one package to another in developing the city strategy. It is assumed that each approach builds on and incorporates the prior approach (i.e., Partnering includes all of Passive, etc.).

	PASSIVE	PARTNERING	PROACTIVE
Tools available to achieve goals	• Business Retention • Property Investigation • Education and Answering Questions • React to proposed projects by developers	• All other tools available under passive strategy plus: • Marketing/Image • Brokering Deals • Attracting New Businesses • Research for more grants • Implement Aurora Corridor Project	• All tools available under passive and partnering strategies plus: • Urban Renewal Plan ➢ Condemnation ➢ Land Assemblage ➢ Relocation ➢ Financing or Grant Seeking • Joint Development
Legal implications	None or very little	Somewhat higher. Issues arising out of variances, zoning, etc. More opportunities for law suits to be filed.	Potentially very high. Issues arising out of too much government involvement in private projects, relocation, etc.
Community acceptance / reaction	None or very little unless groups expect Council to make something happen.	Has potential to be contentious. Council / staff may get resistance about certain projects.	Highly contentious. Council / staff will have to take a strong leadership role that may not be popular.

Time it may take to achieve noticeable change	Very long, maybe never. Very little influence by City.	Potentially shorter time to goal achievement than a passive strategy. Higher influence by City.	Potentially shorter with more City involvement in making projects happen.
Annual estimated cost	$100K +/- Can accomplish this approach with current level of effort.	$100K - $1M Can accomplish a limited amount of partnering with current levels of effort.	>$1 million Acquisition, demolition, relocation, land assemblage, and legal costs could be very high.
Staff will be doing these activities:	• Answering questions • Creating brochures • Meeting with developers, Chamber, etc. as needed. • Property inventory as needed.	• Same activities in passive plus: • Creating ➢ 25 yr. vision of City / re-fining comprehensive plan. ➢ Development strategies with brokers & developers. ➢ marketing plan for City. • Examining City's financial involvement in projects.	• All of the activities in passive and partnering plus: • Developing an Urban Renewal Plan. • Seeking out specific targeted areas for City projects to happen. • In essence, the City becomes a developer.

Note: For more detail on definitions and tools available for each approach, please review Attachment A.

Identify Tools and Resources

Once your Council selects an approach, the Economic Development Coordinator will conduct research and analysis to identify existing economic development resources that are available using the desired approach. He will identify resources including legal tools, policies and procedures guidelines, business inventory, land availability, natural and built amenities, financial resources, and permitted business incentives under state and local regulatory authorities.

Define Opportunities for Projects

City staff will provide your Council with various potential project opportunities (possibly locations) that could achieve your economic development goals using the agreed upon approach or strategy. Some of these projects may be directly taken out of the City's Economic Development Element of the Comprehensive Plan. In these alternatives,

staff will identify costs, timelines, and proposed course of action for creating the desired economic development outcomes for each project.

Ongoing Economic Development Actions

Staff will identify opportunities, guidelines, and procedures for economic development efforts at the City of Shoreline. Specific economic development plans, policies and procedures will need to be created so that new projects may be considered and acted upon swiftly over the years. Possible projects under this goal include things like developer relations' guidelines, business development procedures or plans, education plans, and workshops.

Other Tools or Processes to Continue Successful Progress

- A confirmed, accurate inventory of existing businesses and industries in each of the commercial districts in Shoreline.
- A market analysis of comparable business communities in geographic areas in the region.
- A system for conducting the annual review of the comprehensive plan to maintain current economic development goals and policies.
- A system that allows the City to identify future economic development opportunities through Customer Response Team / Code Enforcement/Community groups, building permit applications, possible business license fee or any other outside sources.
- Resources for updating development regulations to support economic development goals and policies.
- Resources for supporting improved business incentives allowed under state regulations (e.g., legislative analyst or lobbyist).

Timelines and Phases:

Phase 1: Council adopts an approach in February, 2000.

Phase 2: Inventory of resources: Accomplished by June, 2000.

Phase 3: Project Identification: Within 2 months of an approved direction from your council, a specific strategy of certain project development efforts can be created.

Phase 4: Ongoing maintenance of economic development: The work to accomplish this goal will continue throughout the life of economic development in the City. The end results may be manuals, videos, or some other documents that allow the department to follow the process and/or vision of economic development in the City. Specific project work programs will be drafted as necessary.

Summary

Approval by your Council of a strategy will provide staff with a work program to pursue the Economic Development vision of your council and the Comprehensive Plan.

RECOMMENDATION

Staff recommends that your Council direct staff to pursue the Partnering approach to implement to implement the city's economic development effort.

ATTACHMENTS

Attachment A – Background on Strategies or Approaches
Attachment B – Potential Projects Using Each Approach

Attachment A

Background on Strategies or Approaches

Definition of Economic Development

> "Change (can be) gradual, natural, non-cataclysmic and responsive to genuine economic and social needs. Cities do not deteriorate overnight, and similarly, are not reborn overnight. Quick fix responses at best, camouflage problems and at worst, exacerbate them. Cities respond most durably in the hands of many participants accomplishing gradually small bits, making small changes and big differences at the same time."
>
> --Roberta Brandes Gratz. "The Living City"

This quote was chosen to help all those working on economic development efforts within the City of Shoreline understand that economic development will occur over time—not as a quick fix. It starts out as a vision of what we want the City to be in 20-30 years, and gradually evolves through projects, education, and leadership.

Economic development is difficult to define. Some might describe it as job creation, while others may see it as improved aesthetics in the community. Others may see it as an increased tax base, both from a business and residential perspective. Economic development could be defined as: creating the look, feel, and revenue opportunities to support a thriving city for our citizens; or creating opportunities for planned growth in ways that improve quality of life for Shoreline citizens.

Something that is certain about economic development is that it is *always market driven*. We know for sure that economic development starts with *real estate* and ends on *return on investment*. Without available land (financially or physically), development or redevelopment will not occur. Furthermore, what a City, developer, landowner, or business owner is willing to do is all based on the economy at the time of development.

Strategies for Economic Development

As the City of Shoreline embarks on different strategies and directions for their economic development effort, there are basically three different approaches. A description and examples of each approach is presented below. We can identify them as the 3P's.

1. Passive
2. Partnering
3. Proactive

Passive Approach To Economic Development

A passive strategy involves minimal effort and some facilitation. Using a passive strategy, the City reacts to businesses, developers and citizens when they provide potential projects for economic development. It is more of a reactive approach in nature, responding to the needs and desires of the development community on as needed basis.

Example of a project pursued with a **passive** strategy:
A citizen group or developer identifies a particular parcel of land perfect for the location of restaurant or hotel. The City might market the idea in the newspaper and through newsletters. The City representative would be a liaison to the community that educates and markets the City's ideas for economic revitalization and hopes that a developer and landowner will follow the vision.

An important task the City can perform under a passive strategy will be to clarify and promote the vision of the City as described in the policies of the Comprehensive Plan.

The City can capitalize on already planned infrastructure improvements as a means for attracting new development or redevelopment (e.g., Aurora Ave.) and serves as a catalyst for improvement.

Tools to achieve results using a passive strategy:
Business Retention: Retaining the desired businesses that are in alignment with the vision through infrastructure improvements, education and marketing. Working with the Chamber of Commerce in our efforts to try and retain quality businesses.
Property Investigation: (as needed) Identifying parcels of land available for specific development projects, researching amenities, demographics, and providing data to developers, land-owners, or project sponsors interested in coming to Shoreline.
Education/Answer Questions: Acting as a liaison to the business community to educate them about construction loans, façade improvement loans, and other available resources to help them revitalize or expand their businesses congruent with City codes, values, and vision.

Ability for a passive strategy to reach desired goals:
If your Council adopts a passive approach to economic development projects, change will mostly occur through market driven opportunities. Clearly the development community will see Shoreline inviting new projects, but only if the right market/economic circumstances exist will the projects become a reality. Council expectations will need to be more limited using a passive strategy, because the City will not be able to lead/drive specific change. Elements of the City's Comprehensive Plan may take longer to achieve because incentives and disincentives are not as readily available as they are using other strategies. Under a passive or reactive approach, our influence would have little or no effect.

Costs of a passive strategy:

- The financial implications of a passive plan are far lower than a proactive or partnering strategy. Actual costs are primarily in developing a clear vision, and preparing marketing and educational information tools. Opportunity costs include loss of potential revenue from an increased tax base.
- It may take more time to achieve the desired outcome projects because the City is promoting and not leading specific change efforts.
- The City's vision might not become a reality. Market forces will drive what gets developed or redeveloped.
- Legal costs are lower than the other two strategies.
- Current funding levels can support a passive strategy.

Benefits of a passive strategy:

- It has very little political risk.
- It requires less money and leadership time.
- We could create a positive image for the City without using disincentives or becoming "too overly governmental" in a market driven environment.

Effect on the image of the City:

- The image of the City more or less remains status quo. It only requires the City to communicate and educate when asked. The City is an informer/facilitator instead of a developer or project leader.
- Citizens who believe the City should have less involvement in business development will embrace and encourage this strategy. People who think the City should do more to improve the quality of life in Shoreline may question this approach.
- This action could also create a negative image in so much as, if nothing was accomplished regardless of the market, a *passive effort* would have been the cause of lackluster results.

Potential Community acceptance and implications:
Some people may see the work of the City as a 'waste of time' or 'frivolous expenditure' on the part of the City. Some groups may see this approach as 'money well spent' if an actual project is generated through marketing efforts.

Partnering Approach To Economic Development

A partnering strategy involves more direct leadership and more facilitation, education, and marketing. Using a partner strategy, the City acts as more of a catalyst for change rather than directly involving its own funds in development projects or taking a leadership role. This approach allows the City to assist developers, landowners, and businesses in partnering to make city-desired changes.

Example of a project pursued with a **partnering** strategy:
The City identifies a particular parcel of land ripe for redevelopment. The City initiates (or brokers) a meeting between the landowner, new business owner, and or developer to identify a project. The goal is to create a development agreement that creates a special quality development that results in a win/win solution for the City and the project stakeholders.

In a partnering economic development strategy, the City's role is to identify possible target locations where redevelopment would be benefit the community. The City brings the appropriate parties together to accomplish a certain project. The City provides infrastructure, capital improvement projects, e.g. street improvements, sidewalks, curbs, assists with new property configuration, zoning and permitting.

The City can capitalize on already planned and new infrastructure improvements as a means for attracting new development or redevelopment (e.g., Aurora Corridor improvements will serve as a catalyst for improvement).

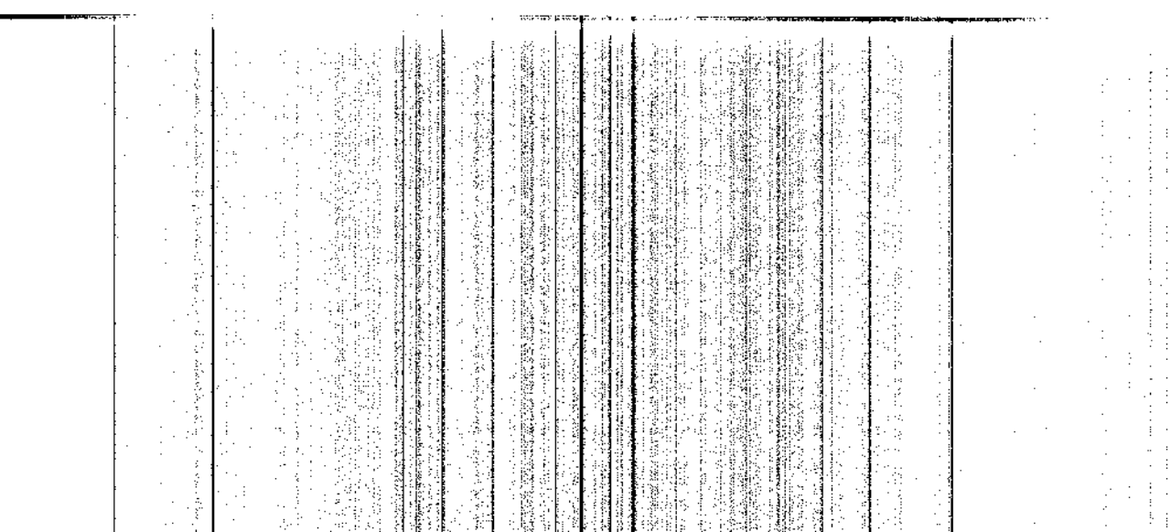
Tools to achieve results in a partnering strategy:
All of the tools available in the passive approach are available in a partnering approach. The following tools would be additionally available:

Recruitment and Marketing (Public Relations): Invite new businesses and residents to the City by creating a "City of Shoreline image" that is powerful and motivates new businesses/residents to move into Shoreline. The City acts as a promoter for change and creates positive excitement for projects to be developed here. The City can also piggyback on planned infrastructure improvements (sewer, roads, telephony, etc.) to attract development as well. (e.g., Aurora corridor improvements).

Brokering/Networking: Networking with developers, landowners, schools and institutions, users and business owners to find possible development projects. Working closely with the proper legal resource(s) to stay within the State regulated guidelines and procedures.

Ability for a partnering strategy to reach desired goals (per the vision):
If your Council adopts a partnering approach to economic development projects, change may occur more rapidly, and with more visible results than a passive strategy might achieve. In some cases, this approach may come close to achieving goals similar to a proactive strategy without the higher costs and legal implications. (Any legal implications can be determined at time of Pre development meeting).

With a partnering strategy, the City will promote and facilitate change, and guide outcomes. The vision outcomes will need to be more flexible using a partnering strategy because the City will only be able to influence (not drive) specific change. Elements of the City's vision may take longer to achieve (compared to a proactive strategy) because incentives and disincentives are not as readily available.



Costs of a partnering strategy:

- The financial implications of a partnering strategy are much lower than a proactive strategy but could be considerably higher than a passive approach. eg; The partnering approach would not require real estate acquisition, but would involve marketing, outreach, brokering deals and working with the business community for business retention and recruitment.
- Legal ramifications are lower than a proactive strategy, but may be slightly higher than a passive strategy. Legal issues may arise out of allowed variances, City involvement in business issues, or design issues.
- To achieve desired results, the City may need to have a strong public relations or marketing person/firm to promote the area with vigor and work collaboratively with other public and private agencies to create development opportunities. Costs might include a different or modified web site, advertising, signage, conferences and seminars. Funding under this approach could run from $ 100,000 - $1 million depending on level of effort, cooperation of principles, market conditions and many other factors.
- Some partnering activity may be supported with our current funding levels.

Benefits of a partnering strategy:

- This strategy allows the City to be somewhat proactive, somewhat involved, and still be in a position to 'strongly' influence development. Outside developers, community stakeholders and brokers will look to the city for guidance, opportunity and direction. A partnership approach (under the right conditions) can accomplish as much as a proactive approach without the expenditures.
- This strategy takes less money and has less risk and much fewer political ramifications than a proactive strategy.
- The City can target specific opportunities to facilitate development and focus our efforts in those areas. We can be assertive, proactive, and influential without the heavy hand of an Urban Renewal Plan, described in the proactive strategy section.

Effect on the image of the City:

- The image of the City is improved with developers and business owners who take advantage of the target opportunities upon which we focus.
- The image of the City may still be perceived negatively by some citizens or residents in the early stages of redevelopment, but has the potential to be perceived positively by other citizen groups and businesses. Primarily, those who see the City's influence as a catalyst to the development would share the positive viewpoint.
- The City may have the potential to become a showcase for new and innovative development in targeted sites or specific projects.

Community acceptance and implications:

Adopting a partnering approach requires the Council to approve specific targeted opportunities for development as identified by the City staff. The Council may also need to approve development agreements or other conditions to allow particular development projects to occur. Citizens won't be seeing bond issues or other financial expenditures that could make the headlines or draw a lot of attention to the City's fiscal circumstances.

Proactive Approach To Economic Development

The proactive approach to economic development means that the City and Council take an aggressive, financial, and involved leadership approach to creating new development in the City. The City would become a developer or at least a joint developer in certain projects. The City would need to create an Urban Renewal Plan for developing non public uses.

Example of a project pursued with a **proactive** strategy:
The City identifies a parcel of land suitable for the development of a desired office/administration building, with park-like amenities surrounding it. The land is currently occupied by residents/tenants. The City decides this location is not desirable in its present condition and would like to see the land developed into the pedestrian friendly office park described earlier (per the vision).

To pursue this project the City (under the legal constraints of the state of Washington) could either:

1. Create an Urban Renewal Plan(see below) that allows acquisition of property and the ability to resell the property to a private developer.
2. Develop the property as a Civic Center/public use building. (Urban Renewal Plan not required)

The City would still be responsible for relocating the present tenants/residents and other costs of 'exchanging', the property or owning it. Or the City could influence the private sector to acquire the land and develop it in the way the City would like to see it developed. The City would then need to assist with land acquisition, infrastructure, demolition, relocation of residents and/or any other GAP financing.

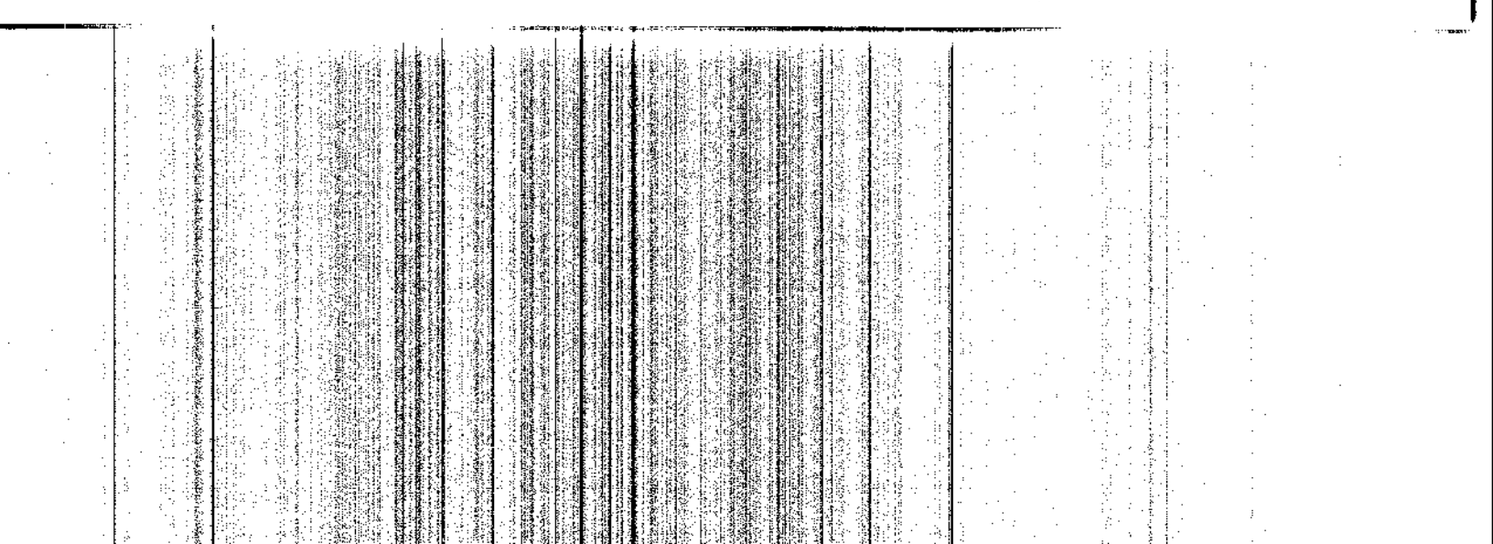
Tools to achieve results in a proactive strategy:
All of the tools available under the passive and partnering strategies are available in this strategy as well. Additional tools include:

Cash: The City could put a lot of money into a project and 'own' it for public purposes.

Joint Development: The City actually pays for some costs in developing a new project with the private sector (i.e., capital improvements, infrastructure, land acquisition, development costs, permitting fees, etc.)

Urban Renewal Plan: The City would create and adopt an Urban Renewal Plan that is in alignment with the City's vision and Comprehensive Plan. It may be one of the few tools available under Washington State law that achieves aggressive and proactive economic development results. With an Urban Renewal Plan, the following additional tools become available to the City:

- *Condemnation:* A last resort to acquire property. May be used to eliminate blight, eliminate multiple ownership, and improve health/safety conditions for citizens
- *Acquisition:* Purchasing property with City funds. The City can also resell the property to the private sector.
- *Land Assemblage:* Assembling adjacent parcels of land to create a larger project suitable for desired economic development results.
- *Relocation:* Making tenants/residents 'whole' after their property has been acquired.
- *Financing/Grant Seeking:* With an Urban Renewal Plan, more dollars may be available for urban redevelopment. Without a plan, grant funding is difficult to obtain.



Ability for a proactive strategy to reach desired goals (per the vision):
If your Council adopts a proactive approach to economic development projects, change may occur more quickly, and with visible results in a potentially shorter time frame. There are more opportunities to influence the market driven factors through the tools, techniques and policies available in this approach.

Costs of a proactive strategy:

- Time to prepare an Urban Renewal Plan can be extensive and expensive. It generally involves citizen participation and legislative approval as required by law.
- Requires substantial funds to not only prepare the plan but also land acquisition, relocation, demolition, site clearance / clean up. Cost's could run into the $10's of millions, depending on the size and type of project.
- Potential legal battles may arise.
- To aggressively go after projects, more consultants/ staff and or outside sources may need to be hired.
- The current budget does not support proactive activity.

Benefits of a proactive strategy:

- Quality of projects will be more in alignment with the city's vision and values.
- The types of projects that the Council would like to see developed, can be chosen by the City.
- City driven design and influence of project results. A strong proactive approach would certainly require additional consultants, attorneys and or staff.
- Although it takes time to create an urban renewal plan, implementation would be quicker and results could be more certain. (provided the market is right)
- A proactive approach could be focused on a specific project vs. an area.
- A proactive approach could also serve as an alternative or a last resort approach to a specific targeted opportunity.

Effect on the image of the City:

- The image of the City may be perceived as "heavy handed" by the business community and residents.
- The term " Urban Renewal" and condemnation will be perceived as negative.
- The image of the City is improved with developers, some business owners and some residents who see this as a great place for new opportunities and to create new projects.
- The City may have the potential to become a showcase for new and innovative development and projects.

Community acceptance and implications:

- This approach will require significant cohesion and leadership at the City Council level. The council may have to make very difficult and unpopular decisions for the benefit of the whole of the community not special interest groups.
- Adopting a proactive approach can be very precarious and create animosity within the community.
- This approach could certainly create alienation with the City Council and portions of the business community.

Attachment B

Potential Projects Using Each Approach

Once a particular approach is agreed upon by Council, under phase #3, staff will bring to your Council some specific projects that could be undertaken to forward our economic development efforts. Here are some examples of projects that might be considered using each approach:

PASSIVE

1. Work in conjunction with the Chamber of Commerce to create marketing brochures.
2. Educating developers, citizens, and business owners about our vision. (Primarily, when asked).
3. Identifying potential areas the City wants to see developed, and mentioning them at seminars, breakfast meetings, and other opportunities to network with developers and business owners.

PARTNERING

1. Same as above
2. Identify a parcel of property suitable for a new housing, or retail complex. Work with property owner and or new developer to sell / acquire for new proposed project. Could eliminate a blighted condition, stimulate the area for new projects, increase property values, jobs, housing and property and or sales tax,
3. Remove blighted conditions in areas to create an opportunity for new business to exist which creates jobs and tax revenue for the City. (example:
4. Identify underutilized properties by getting together with property owners, and introducing them to developers to create a whole new development.
5. Create generic drawings / visuals that provide examples of development at certain locations.

PROACTIVE

1. All of the above in passive and partnering.
2. Form an Urban Renewal Plan or Project(s) to allow the City maximum incentives and disincentives to create the vision of the City through economic development efforts.
   - Buy a piece of property suitable for an office building, housing or some other desirable project, and resell it to a developer to develop what the City feels would help improve the community.
   - Purchase a piece of property and sell it to the private sector to have it developed into something that is not for public purpose specifically.
   - Establish a joint development agreement that allows the City and a developer to jointly share in the cost of developing a property.
3. Purchase a piece of property that is underutilized or in a prime location suitable for public purpose, eg: City Hall, Administration Buildings, Police Department or any other public use.

Partnering Tools and Techniques

Washington local governments are very limited as to what they may undertake in the area of economic development. For cities, the statutory provision is in RCW 35.21.703. The statute does not define economic development. The original intent of the statute was to enable cities to join and pay dues to economic development councils and consortiums.

Due to strict constitutional limitations, cities and counties in *Washington State have very few avenues open for direct participation in private economic development projects.* There are potential legal issues regarding the loaning or gifting of public funds. The State of Washington is one of the more restrictive in the nation in regard to how public funds may be utilized to attract private investment. Specifically, Article VIII, Section 7 of the Washington State Constitution provides:

> No county, city, town or other municipal corporation shall hereafter give any money, 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.

A city or county does not have direct authority to construct and operate industrial and commercial facilities, or to pay city funds out for the purpose of attracting private industrial development, neither does the city have indirect authority to pay an industrial development council (not municipal corporation) for performing those functions [Morgan Jacobson & James Pharris, MRSC Information Bulletin No. 432 (1985).].

Most typical municipal economic development efforts include tourism, facilitating industrial development through land use policies, and creating the infrastructure framework that supports economic development activities. All activities must be for a proper public purpose and not in violation of the state's constitutional restrictions on the giving of money.

In order to carry out a partnering strategy in the City of Shoreline, the following represents our tools and opportunities available for economic development:

Legal Tools and/or Permitted Business Incentives

Business Incentives	***Legal Tools***
Work with the Chamber of Commerce	Join Local Govt. Economic Development Authorities.
King County Economic Development Council to promote the entire city.	Street vacation, Collaborating with King County EDC.
Public / Private Partnerships (schools)	Facilitator, promoter, regulator
Business Licensing	Implement a business tax
Building of infrastructure such as roads, sidewalks, lighting, etc.	Property takings, Grant funding, voluntary acquisitions.

Policies/Procedures/Guidelines

Document	*Available Tool*	*How It Is Used for ED*
Comprehensive Plan	Establishes the expectations of future development in the community.	A guide to developers and residents who want to know what will be expected of their projects.
Development Code	Establishes the allowable uses and development guidelines for properties within the City.	Will help define possible opportunities for development.
Aurora Corridor District Overlay	Establishes the allowable uses for properties along the Aurora Corridor	Will help define better uses of properties in the area.
Business Licensing A tool for City and Chamber of Commerce	Currently does not exist.	By creating a business license program, the City can monitor businesses coming into or leaving the City.

Targeted Development Inventory EXAMPLES ONLY

Business Name (if any)	*Description of Business or Property Location*	*The Opportunity For Economic Development*	*Approach*
Top foods..site	5 acres, 175th Street, good gateway to City.	Development of a complex	Passive / Partnering
Park & Ride Site 192nd and Aurora	5+ acres, 192nd and Aurora.	Build a Learning Tech. Center and mixed use complex. Possible site for new office buildings and housing (mixed).	Partnering
Mobile Home Park	8+ acres, on Echo Lake.	Possible site for mixed use or office complex. Excellent site in Center of City to draw focus.	Passive
Aurora Square	20 – 30+ acres, 160th and Westminster Way.	New destination retail site. Entertainment, and mixed use available.	Partnering
QFC Site	5+ acres, 185th and Aurora	Possible site for new retail complex.	Partnering
Walgreens site	1.5 acres, 145th and Aurora, good gateway to the City.	New retail store with City monument.	Partnering
Re-development of residential sites	Various	Opportunity to attract higher density housing.	Partnering

There may be other sites that could be potential opportunities for re-development. These were the few that have the best possibility to change in the next few years.

Land Availability

The City's Economic Development Coordinator would need to conduct a land inventory study to determine what land is available to be developed. We need to determine available vacant land and land available for assemblage (possible joining with multiple properties). To conduct this kind of study, the Economic Development Coordinator would need to physically inspect and investigate specific properties. The time it would take to conduct this study would be dependent upon how much of the City was to be considered in economic development efforts. If the target is along the Aurora corridor, this study could be completed in a few weeks.

Amenities / Opportunities on which to Capitalize

Amenity	*Description of Location*	*Opportunity for Economic Development*
Interurban Trail	Natural trail along the Aurora corridor, extending through the City. Excellent site for walking/biking, etc.	Siting businesses that take advantage of the trail and backside frontage, utilizing greater access / parking.
Echo Lake Other Parks area through city.	8+ acre lake surrounded by residential/commercial communities.	Re-development of some portion of the property next to the lake to eliminate blight and create new uses.
Shoreline School District & Community College, Learning Center	Through out the city Along Corridor.	Quality Reputation will help attract new residents. Create new Development.
Our location as a City. Interstate Freeway Aurora Corridor	Adjacent to Seattle Access Heart of new Development	We may be able to attract businesses who want to locate near Seattle. Also attract residents who want to work here and in Seattle.

Financial Resources We Can Foster

Due to the fact that the City can't spend money directly on private projects, we are limited as to what we can do to foster development. Below are some of the alternatives we have available to us:

- Broker financial institutions with developers and land owners. (Facilitate meetings and exchange phone numbers).
- Networking together with developers to create funding through joint development efforts.
- Working with lending institutions to assist with project funding.
- Reduce permitting fees and/or provide zoning variances.
- Build additional infrastructure and/or amenities to complement projects.
- Grants and specific loans may be available to the City for building certain projects. These would have to be explored on a project-by-project basis.

Targeted CIP projects to improve street environment and access. (e.g., Aurora Blvd.) If we want to explore specific projects and how to finance them, we would need to hire an economic development or financial expert (attorney) to assist us with the legal implications of the projects we are considering.