

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Council Goal No. 2: Acquisition of Seattle Public Utilities Water System in Shoreline
DEPARTMENT:	Public Works & City Manager Office
PRESENTED BY:	Mark Relph, Public Works Director Debbie Tarry, Assistant City Manager
ACTION:	<input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Discussion <input type="checkbox"/> Public Hearing

PROBLEM/ISSUE STATEMENT:

City Council Goal No. 2, [Improve Shoreline's utility, transportation, and environmental infrastructure](#), includes an action step to acquire the Seattle Public Utility's (SPU) water system in Shoreline. In November of 2011, the City of Seattle and the City of Shoreline announced a tentative agreement in principle to the sale of the water system assets at a price of \$25 million in the year 2020. This price has been adjusted to \$26.8 million as a result of the value of improvements being performed by SPU on the Richmond Highlands water storage tank and Aurora improvements.

In late 2011, the City began the next step in the process, which was to perform an engineering and financial analysis to test the viability of creating a City water utility. This "due diligence" process has been aided by a citizen steering committee, created by the City Manager to review the analysis and process. The City Manager tasked the committee to make a recommendation to her, for which she will then evaluate and make a recommendation to City Council as to how to proceed or not.

The Council was briefed on the progress of the citizen steering committee and the due diligence process on March 5, May 7, and June 11. Tonight's briefing is to provide an update on the committee's recommendation, review the continued negotiations with SPU and the process with the City of Seattle, review the next steps in the process and seek consensus from the Council that it is Council's intention to put the SPU acquisition on the November 2012 ballot.

FINANCIAL IMPACT:

There is no immediate financial impact. However, if the acquisition is to proceed, the financial mechanism to purchase the system would be a revenue bond issued at the time of acquisition and paid for by the utility rate payers within the SPU service area. Citizens who receive their water service from the Shoreline Water District (SWD) are not financially affected by this decision. Repayment of the revenue bond, or debt service, would be incorporated within the future water utility rate structure approved by City Council.

RECOMMENDATION

The City Manager recommends that the City Council proceed with the acquisition of SPU and place the question of acquisition on the November 2012 ballot. Tonight Council should provide staff direction on its intent to place the SPU acquisition on the November 2012 ballot. If there is Council consensus to place the issue on the ballot staff will prepare the required resolution and ballot title for Council consideration on August 6. If there is Council consensus to place the issue on the ballot staff will proceed with the advertisement for members to the Pro and Con committees so that the City Council can appoint these committees on August 6.

Approved By: City Manager: **JU** City Attorney: **IS**

INTRODUCTION

The goal to acquire the SPU water system within the City of Shoreline has been a specific Council goal since 2009; however, the issue has been discussed perhaps as far back as the time of the City's incorporation. The central issues regarding the SPU water system have been the lack of direct citizen representation on issues such as rates and service, plus limited control over decisions that affect infrastructure improvements since the utility is owned and operated by Seattle. The Council's goal with the acquisition has been to address such concerns, but within a rate structure that would be equal to or less than the forecasted SPU rate structure for Shoreline customers.

The Council was briefed on the progress of the citizen steering committee and the due diligence process on March 5, May 7, and June 11. Tonight's briefing includes:

- An update on the continued negotiations with SPU and the City of Seattle process.
- The recommendation from the Citizen Advisory Committee
- The next steps in the process.

BACKGROUND

The SPU water system is located approximately west of I-5 and a small section in the south-east corner of Shoreline (see attachment A) and serves roughly two thirds of the City. The water system within Shoreline is a distribution system. It includes water storage tanks and pump stations, but does not include a watershed or water treatment. There are larger transmission lines that pass through the City, providing treated water supply to larger wholesale customers (e.g. Shoreline Water District, Olympic View Water & Sanitation District) and south to the Seattle distribution systems. With the SPU system in Shoreline being solely a distribution system, the costs and responsibilities are more narrowly focused and less substantial had it included the water supply system.

The infrastructure itself varies in age from the 1930s to present day with a large phase of construction in the 1950s through the 1960s, as the Shoreline area developed into an unincorporated suburb of King County. While the pipelines are perhaps moderate in age, the question that many have raised is whether or not the level of maintenance performed over that time has been adequate, and if the investment in capital improvement programs (CIP) has met the demands of redevelopment and fire protection. This has been one of the central issues staff has discussed with SPU during the past several months.

In November 2011, the City of Seattle and the City of Shoreline announced a tentative agreement on the sale of the water system assets at a price of \$25 million in the year 2020. In May 2012 this acquisition price was updated to include the value of the work being completed on one of the Richmond Highlands water towers and the main replacements happening as a result of the Aurora project. The new acquisition cost is \$26.6 million.

With the announcement of the tentative agreement, the City began a more detailed engineering and financial analysis for creating a City water utility. This “due diligence” phase was completed by the firm EES Consulting.

EES completed four key tasks:

1. Performed a preliminary engineering due diligence on the distribution and general plant water system
2. Completed a financial analysis and feasibility study
3. Developed a Business or Operating Plan
4. Provided an overview and study of water supply options in the region

The City also contracted with CH2MHill to conduct a critique of the EES engineering report. This along with the final engineering and financial reports and the preliminary business plan were included as attachments to the June 11 staff report. The June 11 staff report and attachments can be found at the following link:

<http://cosweb.ci.shoreline.wa.us/uploads/attachments/cck/Council/Staffreports/2012/Staffreport061112-8a.pdf>

SPU Citizen Steering Committee

The City Manager appointed a 23 member (26 members were originally appointed, but three never attended a meeting) Citizen Steering Committee to review the due diligence process and information. The committee was charged with providing the City Manager with a recommendation on whether to proceed with the SPU acquisition. The June 11 staff report contained detail on the progress and work of the committee. The information that the committee reviewed over a six month period can be found at the following link: <http://shorelinewa.gov/index.aspx?page=851>.

The citizen committee also formed two sub-committees, and Engineering Subcommittee and a Financial Subcommittee. The sub-committees spent additional time reviewing the details of the due diligence work and asking questions of EES on their respective topics. The Engineering Subcommittee three times and the Financial Subcommittee met twice. The information reviewed by the subcommittees can be found at the same link listed in the previous paragraph.

The Citizen Steering Committee completed their work and submitted a recommendation to the City Manager that will be discussed later in this staff report.

Due Diligence

The purpose of the due diligence is to evaluate the feasibility of the acquisition from an engineering and financial perspective. The Council briefing of May 7th provided a detailed summary of the draft Engineering Report, the draft Financial Report and sensitivity analysis, plus the Efficiency Report for integrating the utility with City operations. On June 11 staff provided an update on the engineering and financial due diligence and provided Council with the final engineering and financial reports. The reports are available on the City's SPU Acquisition web page at the following link: <http://shorelinewa.gov/index.aspx?page=762>.

The Engineering Report provided the basis for the condition of the system, the separation alternatives, the future maintenance, operation, and capital needs of the system. CH2MHill's critique of the engineering cost estimates used in the separation concepts and the capital improvement program concluded that the engineering cost

estimates are reasonable for this level of engineering analysis. The hydraulic modeling critique by CH2MHill concluded that the separation concept (B3 of the Engineering report) is reasonable and both the Shoreline and Seattle systems function reasonably with no fatal flaws in the separation concept and in operation. Further modeling in the future is expected per the Business Plan to a large part in setting priorities within the water main replacement program.

Below is a table summarizing the final Financial Report:

Acquisition & Initial Costs	Final Report
Purchase Price (2012 \$)	\$26,600,000
Separation Cost (2012 \$)	\$5,938,300
Upfront Costs (2012 \$) (Facilities, Equipment, Water Storage, Pump Station Improvements)	\$8,293,470
Total Acquisition & Initial Costs	\$40,831,770
20 Year Main Replacement Program	
Mains Replacement (2012 \$)	\$32,901,908
Year 2020 Base Case First Year Revenues/Costs	
Revenues	\$14,941,318
Wholesale Water Cost	\$3,443,399
Labor	\$1,759,465
Materials & Supplies	\$945,339
Employee Benefits	\$703,787
Administrative Overhead	\$1,567,134
Taxes	\$1,639,976
Debt Service	<u>\$3,062,131</u>
Expenses before CIP	\$13,121,230
Amount Remaining for CIP	\$1,820,088

The base case financial analysis results in the ability to fund 111% of the main replacement program during the first 20 years of the utility operation. Most importantly, not only does the base case scenario demonstrate that the City should be able to operate, maintain, acquire, and reinvest into the water system at rates equal to or less than the projected SPU rates, but in the various alternative scenarios considered in the financial analysis the City should be able to provide a higher level of reinvestment into the Shoreline system than that anticipated to be done by SPU within the projected SPU rate structure.

The startup of the utility is divided into three time periods, 2012-2016, 2016-2020 and the initial operating period of 2020-2021. The first time period will require execution of the Agreement between Seattle and Shoreline, plus negotiation of the wholesale water contract and preliminary planning for the maintenance facility.

The second time period will be focused on the planning and engineering of the separation and other initial system improvements, plus the continued planning for the maintenance facility, new equipment and staffing. It is also during this time period where

the City will develop a Comprehensive Plan for the utility. This plan will need to be reviewed and approved by the Department of Health.

The last two years of the second time period will be a time of construction for the separation of the system and the other initial capital improvements necessary to make the Shoreline system a standalone water utility (e.g. pump station modifications, storage tank construction, SCADA system, utility billing, etc.). To accomplish this task, short term financing will have to be arranged to fund all of the initial improvements. The cost of this financing would be included in the revenue bond which is to be issued once the City takes ownership in 2020. The cost of this short-term financing has been included in the financial model of the utility.

The third time period is the first year of operation. The physical handoff from SPU to Shoreline on January 1, 2020 will take careful planning and coordination. The Department of Health will also require specific certifications to operate as a water utility; Satellite Management Agency - SMA. This may be accomplished either through a contract with another water utility (SPU), or the City may apply for such status. It is the goal of the City to the SMA as soon as possible.

Polling

The City hired EMC to conduct polling regarding the potential SPU acquisition. The polling represents a statistically valid sampling of the Shoreline community. The polling represents results from 501 participants and has an error rating of +/- of 4.4%. The following three themes summarize the results from the poll:

1. The City receives very strong performance ratings – 74% of respondents say the City is headed in the right direction.
2. A majority initially support the acquisition, but there is considerably uncertainty – 51% of respondents initially supported the acquisition with 32% stating they didn't know.
3. Details about the process reassure residents and dramatically increase support – support for acquisition increases to 79% and those who don't know goes down to 11%. Those opposing the acquisition fall from 17% before additional details are shared to 10% after additional details are shared.

DISCUSSION

Citizen Steering Committee

On June 13, 2012, the committee concluded their work by writing a letter of recommendation to the City Manager that the City should proceed with the SPU acquisition (Attachment A). Twenty-one of the 23 members of the subcommittee supported the recommendation. The following is an excerpt from the recommendation letter:

*“..... As City staff, consultants, and the steering committee members have completed our due diligence review, **we have come to the point of making a recommendation to proceed with the acquisition.** The committee members are making their recommendation both on their fundamental understanding of the documents and discussions in the steering committee meetings, and their faith in the City of Shoreline to*

follow through with the planning and implementation of the acquisition, while being transparent to the community.

Based on our fundamental understanding of both the Engineering and Financial Reports, including the assumptions made in the reports, we have concluded that Shoreline would be able to acquire and maintain the SPU water system within the projected SPU rate structure....

... As City staff, consultants, and the committee members have acknowledged, there will be more detailed analysis to complete prior to the acquisition transaction occurring in 2020..."

Two members withheld their approval to move forward with the acquisition. Reasons for not moving forward with the acquisition included concerns that the City had not fully exercised its negotiating strength with SPU, it was premature to make a decision until the City has a draft of formal agreement with the City of Seattle, that there was no guarantee on rates, and that there was additional due diligence that should be performed prior to a recommendation.

The Shoreline Water District Board of Commissioners requested that their representative not approve moving forward with the acquisition and submitted a letter (Attachment B). The letter states some of the same reasons listed in the previous paragraph and also that the Shoreline Water District (SWD) cannot support the acquisition of SPU as they believe that a positive vote for the City to operate the water system would allow the City to assume the SWD at a future date without a vote by the Shoreline community.

City of Seattle SPU Acquisition Resolution

Staff has been working with the City of Seattle to develop the acquisition agreement. There are a number of issues that will need to be addressed in a final agreement, including not only the acquisition and system separation costs, but also the wholesale water agreement, transition of operations, and SPU system maintenance in the years between voter approval and 2020. In discussions with the City of Seattle, staff has agreed that it will take the next few months to work through the agreement. SPU staff has suggested that in light of the many demands on their staff that it would be beneficial to wait until after the November ballot outcome, assuming that the City Council moves forward on placing the issue on the November ballot, before fully investing staff time in completing the agreement. Given this, staff believes that it would be prudent to have the City of Seattle adopt a resolution, authorized by the Seattle City Council, supporting the sale of the SPU system in Shoreline and the negotiation of the related purchase/sale agreement. The intent of the resolution is to provide some certainty that the Seattle Council will approve the agreement before Shoreline puts the question on the ballot in November. The Seattle City Council Library, Utilities and Seattle Center Committee ("LUC Committee") will be considering the resolution on July 17. Staff is hopeful that the resolution will pass out of committee on this date. Staff anticipates that the entire Seattle Council will consider the resolution prior to August 6, which is the final date for the Shoreline Council to authorize placing the acquisition on the November General Election. A draft of the resolution that will be considered by the LUC Committee is included as Attachment C.

Olympic View Water District Concerns

Olympic View Water District has a wheeling agreement with SPU for water to pass through Shoreline to them. The attorney for Olympic View submitted a letter to the City (Attachment D) on June 11 stating the District's concerns that the agreement be maintained in whole under any potential acquisition by the City. It is the intent of the City to honor this agreement, as it would with any other existing wheeling agreement. In addition, the City Attorney's Office of Seattle has responded directly to Olympic View to support the assignment of the wheeling contract (Attachment E).

Mark Relph has been working with SPU staff and CH2MHill to perform additional hydraulic modeling to ensure that the proposed separation will still provide adequate water flow to meet Olympic View's concerns. This review is nearing completion and preliminarily staff is confident that there is adequate water flow for Olympic View. It is anticipated that a final letter will be issued from CH2MHill by July 20, at which time the letter will be forwarded to both the City Council and to the Olympic View District Manager.

Election Requirements

Ballot Title

The City Council will need to authorize placing the SPU acquisition on the ballot for a city-wide vote. Staff and Council have been targeting the November General Election. The deadline for the Council to authorize ballot language is August 6, since the ballot language must be submitted to King County Elections no later than August 7.

Except as provided to the contrary in RCW 82.14.036, 82.46.021, or 82.80.090, the ballot title of any referendum filed on an enactment or portion of an enactment of a local government and any other question submitted to the voters of a local government consists of three elements:

- a. An identification of the enacting legislative body and a statement of the subject matter;
- b. a concise description of the measure; and
- c. a question.

The ballot title must conform with the requirements and be displayed substantially as provided under RCW 29A.72.050, except that the concise description must not exceed seventy-five words. Ballot measures submitted by cities are developed by the City Attorney. Although additional work will be needed to develop the final ballot language for Council's consideration, the City Attorney has begun drafting language. Below is a preliminary draft of what Council may anticipate as the recommended ballot language:

PROPOSITION NO. 1 AUTHORIZING CITY OF SHORELINE WATER SERVICES AND SYSTEM ACQUISITION

The Shoreline City Council passed Ordinance No. XXX concerning City operation of a water utility within the Seattle Public Utilities (SPU) service area in the City of Shoreline, and approving acquisition of the SPU water distribution system within Shoreline, including all facilities, properties and contracts obligations, excluding storage and transmission facilities serving customers outside Shoreline.

The ordinance authorizes Shoreline to provide water service in the SPU service area in Shoreline, construct system improvements including facilities needed to separate the distribution system costing approximately \$14.4 million, and acquire the SPU water distribution system in Shoreline on December 31, 2019 for \$26.6 million; all to be financed with grant funds or revenue bonds repaid by water rates from customers in the SPU service area following acquisition.

Should this measure be:

Approved _____

Rejected _____

Voter's Pamphlet

For the primary and general election, King County publishes a voters' pamphlet. Districts placing measures on the ballot are automatically included in the voters' pamphlet.

The City must provide an explanatory statement of the ballot title for the voter's pamphlet. The statement describes the effect of the measure if it is passed into law, and cannot intentionally be an argument likely to create prejudice either for or against the measure. The explanatory statement is limited to 250 words, must be signed by the City Attorney, and submitted to King County Elections by August 10, 2012.

The City is also responsible for appointing committees to prepare statements in favor of and in opposition to the ballot measure. There is a limit of three members per committee. The committee appointments must be filed by August 10, 2012. Staff has scheduled Council to make appointments at the City Council meeting on August 6, 2012. Staff will be advertising for interested parties to submit applications starting July 24, 2012, assuming that tonight there is City Council consensus to bring forward a ballot title for Council approval.

The statements in favor of or in opposition to the ballot measure must be submitted by the Pro and Con committees to King County Elections no later than August 15, 2012. These statements are limited to 200 words. Rebuttal statements by each of the respective committees must be submitted to the County no later than August 17, 2012. Rebuttal statements are limited to 75 words.

Staff plans to use a similar process of advertising for interested members for the Pro and Con committees as that used in 2010 by advertising on the City's website, Shoreline Area News, Patch, Chanel 21, the City's Facebook, and notifying specific residents who have already expressed an interest in participating on the committees. Applicants will be asked to complete a community service application which will be available on-line. Applications will be due by 5 p.m. on August 1, so that staff can provide the applicant information and recommendation to the City Council prior to the August 6 meeting.

STAKEHOLDER OUTREACH

The City is committed to an extensive public process, which will occur over the next few months. Sharing the details and soliciting input on the level of water service problems, the CIP, maintenance, rates, and expectations on customer service will be important to

determine if a proposed budget will meet the public expectations and ultimately the financial parameters established by Council.

City staff has already attended several neighborhood meetings to provide information about the SPU acquisition held two public open houses on June 14 and June 19. The City has provided numerous articles in *Currents*, and is providing information about the potential SPU acquisition at events throughout the summer including the Strawberry Festival, Farmer's Market, Swingin Summer Eve, and Celebrate Shoreline. Staff has provided information to the Council of Neighborhoods and has provided a presentation at one of their meetings.

Staff has also provided a presentation to the Shoreline School District and the Fire District Commissioners. Staff intends to continue its outreach efforts.

RECOMMENDATION

The City Manager recommends that the City Council proceed with the acquisition of SPU and place the question of acquisition on the November 2012 ballot. Tonight Council should provide staff direction on its intent to place the SPU acquisition on the November 2012 ballot. If there is Council consensus to place the issue on the ballot staff will prepare the required resolution and ballot title for Council consideration on August 6. If there is Council consensus to place the issue on the ballot staff will proceed with the advertisement for members to the Pro and Con committees so that the City Council can appoint these committees on August 6.

ATTACHMENTS

Attachment A – Citizen Steering Committee Recommendation Letter

Attachment B – SWD Response to the Citizen Steering Committee

Attachment C – Draft City of Seattle Resolution

Attachment D – Letter from Olympic View Water District

Attachment E – Letter from SPU in response to the Olympic View Water District Letter

June 13, 2012

SPU Acquisition Steering Committee

Julie Underwood
City Manager
City of Shoreline

We, the undersigned members of the Seattle Public Utility (SPU) Acquisition Steering Committee, were tasked with making a recommendation to the City Manager concerning the City's acquisition of the SPU water system in Shoreline. We held nine meetings between January and June 2012. In addition, we held four Engineering Subcommittee meetings and two Finance Subcommittee meetings.

The charge of the steering committee was to review the due diligence analysis completed by EES Consulting and City staff regarding the acquisition of the SPU system. This included a review of the Engineering, Financial, and Business Plan reports. The City staff, led by Mark Relph, Public Works Director, and Debbie Tarry, Assistant City Manager and assisted by EES Consulting, Inc., provided responses to questions that committee members generated throughout the process. In addition some of us took a tour of the SPU system in Shoreline including a look at water tanks and pump stations; we listened to John Kirner who explained current and future regional water supply demands; and we heard from Fire Chief Mark Bunje on the fire department's water needs. By the end, our committee members had reviewed hundreds of pages of information.

As City staff, consultants, and the steering committee members have completed our due diligence review, we have come to the point of making a recommendation to proceed with the acquisition. The committee members are making their recommendation both on their fundamental understanding of the documents and discussions in the steering committee meetings, and their faith in the City of Shoreline to follow through with the planning and implementation of the acquisition, while being transparent to the community.

Based on our fundamental understanding of both the Engineering and Financial Reports, including the assumptions made in the reports, we have concluded that Shoreline would be able to acquire and maintain the SPU water system within the projected SPU rate structure. The reasons we support recommending that the City go forward with the SPU acquisition process include:

- The acquisition will allow Shoreline to have greater control and be able to represent the best interests of Shoreline citizens.
- Currently Shoreline ratepayers have no representation in how rates, charges and taxes are set and spent.
- Shoreline can acquire the system without any increase in property taxes and within the SPU water rates forecasted for Shoreline customers beginning in 2020. Our definition of customers is not only the residential and commercial customers within the system, but also the builders and developers who will invest in Shoreline. We would expect that the City continue a balanced policy of how growth and improvements of the water system are paid for by water customers.
- Shoreline ratepayers are charged a 14% premium for living outside Seattle – this money should stay in Shoreline and be reinvested in Shoreline's system.
- The financial analysis reviewed by the committee demonstrates that the future utility will be able to address annual capital improvements and fund a main replacement program that will help maintain the water system for Shoreline's future generations.
- Shoreline ratepayers pay a Seattle utility tax that partially funds Seattle's police, fire and parks.

We realize that ultimately it is the Shoreline residents who vote in November that will make the final decision on the SPU acquisition. As City staff, consultants, and the committee members have acknowledged, there will be more detailed analysis to complete prior to the acquisition transaction occurring in 2020, including providing responses to statements and concerns addressed/referred to by committee members in the following paragraph. We also expect that the City of Shoreline staff will provide timely and complete updates to the City Manager, the City Council,

and the community regarding the progress of the water utility investment.

While some committee members expressed reservations, 21 of the 23 attending committee members have signed this letter and support the recommendation as set forth above. In the interest of due diligence, the members who have reservations on this action have the following concerns:

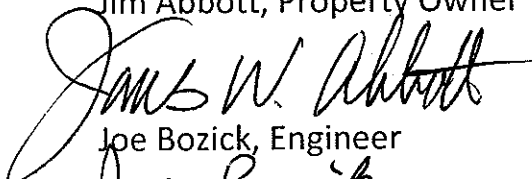
- It is believed that the City has not fully exercised their negotiating strength with SPU and that the City could accomplish much of the desired outcomes through a negotiation process with SPU.
- It is premature to make a decision until the City has a draft of a formal agreement from SPU with specific details.
- There are concerns that the following items were not adequately addressed: no guarantee on rates or how the improved piping will benefit commercial customers, not all government bodies who will be impacted by this decision were included in the committee (Olympic View Water and Sewer District, Ronald Wastewater District), SPU's field crew's experience was not adequately addressed, and the cost estimates and scheduling of the proposed projects are inadequate especially for the North City Pump Station.

These reservations were developed by very experienced public work employees of the committee. The intent is to inform the City regarding important steps to be considered and/or implemented in the coming years, and to encourage the City to strive for a thoughtful and thorough transition into the water utility ownership.

The committee appreciates the opportunity to have participated in the review of the SPU acquisition and the opportunity to present its recommendation to the City Manager.

Sincerely,


Jim Abbott, Property Owner



Joe Bozick, Engineer



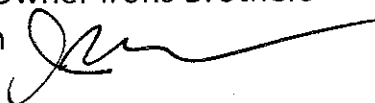
Cynthia Esselman, Architect & Planning Commissioner



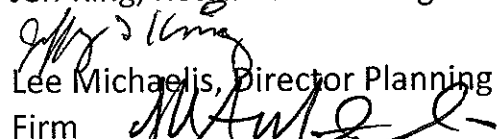
David Harris, Residential Home Builder

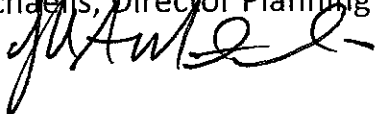


Joseph Irons, General Contractor/Owner Irons Brothers Construction



Jeff King, Retail Bank Manager

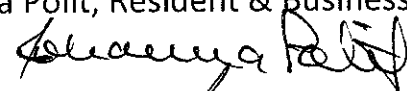

Lee Michaelis, Director Planning Firm



Edie Loyer Nelson, Retired Social Worker



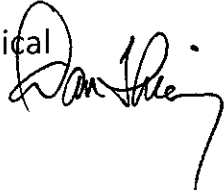
Johanna Polit, Resident & Business Owner



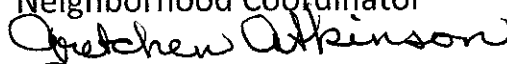
Kyle Roquet, VP Facilities & Construction



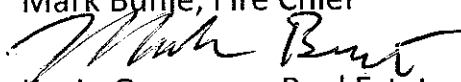
Dan Thwing, Technical Director/Engineer



Gretchen Atkinson, Meridian Park Neighborhood Coordinator



Mark Bunje, Fire Chief



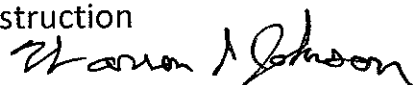
Kevin Grossman, Real Estate Consultant



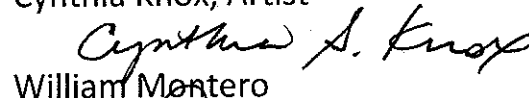
Marcia Harris, Public School District Administrator

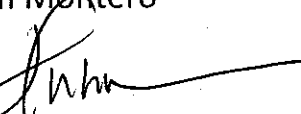


Warren Johnson, VP of Commercial Construction

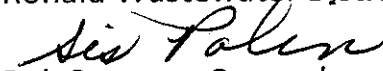


Cynthia Knox, Artist

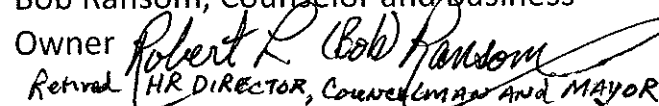

William Montero



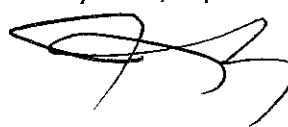
Sis Polin, Retired General Manager of Ronald Wastewater District



Bob Ransom, Counselor and Business Owner


Retired HR DIRECTOR, COUNCILMAN AND MAYOR

Jesse Sycuro, Operations Manager



Committee members withholding approval.

Les Nelson, Senior Civil Engineer
Water System Engineering Seattle Public Utilities

Diane Pottinger
Shoreline Water District Manager

Commissioners:

Ron Ricker

Charlotte Haines

Larry Schoonmaker

Dear SPU Steering Committee Members-

At today's Shoreline Water District Board of Commissioners Meeting, we discussed the Steering Committee Charter and the request by the City for Diane Pottinger to sign a letter in favor of the acquisition of the Seattle Public Utility water system by the City of Shoreline.

District Manager:

Diane Pottinger, P.E.

Diane Pottinger, as a representative of the Board of Commissioners of Shoreline Water District, cannot recommend supporting the City of Shoreline in proceeding with its acquisition of the SPU water system at this time. It is premature to make such a decision without the Committee reviewing a draft of a formal agreement from SPU with specific details.

A key issue in that agreement will be the amount of water SPU will agree to sell to the City. Knowing this amount is critical in determine the amount of required storage for the utility. During our Engineering Meetings, the City of Shoreline Public Works Director indicated SPU will sell to the City of Shoreline "whatever flow rate we want". The Steering Committee has yet to review a draft of the agreement to see the guaranteed flow rate and storage, if any, SPU will give to Shoreline as part of the acquisition, as well as if they will allow another connection on 145th and Aurora. Not knowing this information could invalidate the engineering assumptions included in the reports prepared by both EES and CH2MHill.

CH2MHill completed their hydraulic modeling assuming only one pump at the North City Pump Station (6,500 gpm) and one at the Dayton Pump Station (70 or 1,400 gpm). They did not complete an emergency storage evaluation. In the event of an emergency, this North City Pump Station must provide water to Olympic View Water and Sewer District (1,400 gpm) and Shoreline Water District (500 gpm tentative, as we are completing our negotiations at this time). This station only feeds the 660 Zone and cannot be used to meet the demands in the rest of the system. Therefore, only 4,600 gpm can be used to meet the demands on the Shoreline/SPU system. We do not expect SPU to offer any part of the regional storage to Shoreline. Neither EES nor CH2MHill have identified any fire storage as part of their calculations.

We assume that Seattle will offer the City of Shoreline a quantity of water similar to the other SPU purveyors of similar size. We believe the storage capacity and the contracted flow rate could be lower than the numbers used in the City's analysis. If it is, the consultants will need to re-investigate the storage requirements and if they can meet

the requirements of the Department of Health and the expectations of the community. It appears meeting fire flows could be a problem with a lower guaranteed flow rate.

To illustrate the situation, I've identified the flow rate and storage of other SPU purveyors in the table below to compare to the SPU guaranteed flow rate and storage that was used in the EES engineering analysis and CH2MHill hydraulic modeling. Please note the last column, the gallons of storage per account. This provides an easy comparison.

Agency	No. of Accounts	SPU Guaranteed Flow, gpm	Contracted Source Amount, mgd	Storage, million gallons	Storage (gallons)/ Account
Northshore Utility District	21,045	11,975	17.2	29	1,378
Highline Water District	18,120	9,600	13.8	23	1,242
Soos Creek Water and Sewer District	21,784	7,400	10.6	15	689
Woodinville Water District	13,920	9,270	13.3	15	1,078
City of Shoreline (proposed)/SPU area	10,911	?	11.3	4*	367
King County Water District No. 20	9,200	6,140	8.8	6	652
Shoreline Water District	8,166	2,830	4.0	6	698

*assumed in the engineering analysis

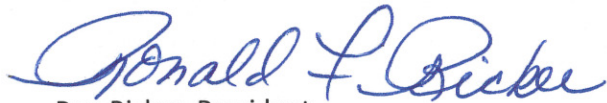
While SPU has owned and operated the water system in the Shoreline area, residents have had access to large quantities of stored water in the event of an emergency. Under the current engineering assumptions, Shoreline residents in the SPU area will have access to a lot less water in the event of an emergency. This is very concerning.

Second, in order for the City of Shoreline to purchase the SPU system, the citizens of Shoreline will have to vote in favor of the City becoming an authorized water utility. (We do not yet know what the form of that vote will be.) Once the City obtains that authority, it then can proceed, in the future, to take over ownership and operation of Shoreline Water District without a vote of the District residents. Thus, a simple majority vote by four members of the City Council could end the independence of the 80-year old water district without the ability of the District's customers or board of commissioners to do anything about it.

Understandably, Shoreline Water District is not in favor of that happening. It may be possible for the City to contract with the District to insure that a public vote occurs before a City assumption of the District happens. However, that type of agreement has not been developed yet.

In conclusion, we are not in favor of the City's purchase of SPU at this time.

Very truly yours,



Ron Ricker, President
Board of Commissioners

Judi Gladstone/mm
 SPUShoreline Asset Sale RES
July 11, 2012
 Version #2

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1 RESOLUTION _____

2 A RESOLUTION supporting the sale of certain water system facilities and transfer of a portion
 3 of retail water service to the City of Shoreline.

4 WHEREAS, Seattle owns and operates certain water system facilities for the distribution of
 5 potable water to retail customers within a portion of the corporate limits of the City of
 6 Shoreline; and

7 WHEREAS, the City of Shoreline desires to establish its own municipal water utility, which
 8 requires its City Council to adopt an ordinance that specifies the proposed plan and the
 9 estimated costs, which is then submitted to voters for ratification or rejection, which the
 10 City of Shoreline intends to do for the November 2012 election; and

11 WHEREAS, the City of Shoreline and Seattle Public Utilities have been discussing a sale of
 12 certain water system facilities owned by Seattle, and a transfer of responsibility for retail
 13 water service provided by Seattle within a portion of the City of Shoreline, to the City of
 14 Shoreline for its purposes in operating its own municipal water system; and

15 WHEREAS, the City of Shoreline has requested an expression of support for the sale of facilities
 16 and transfer of service responsibilities; NOW, THEREFORE,

17 **BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SEATTLE, THE** 18 **MAYOR CONCURRING, THAT:**

19 Section 1. Seattle supports the sale of certain water system facilities and transfer of
 20 responsibility for water service to the City of Shoreline in 2020 in the area defined as City of
 21 Shoreline retail water service area and shown in Attachment 1, attached and incorporated herein
 22 (Transfer Area) with the understanding of the following major terms:

- 23 1. The base purchase price for the water system facilities and related real property
 24 owned in fee ~~is expected to~~ be at least \$26.6 million (in year 2020 dollars) to be paid
 25 prior to transfer in 2020, which may be adjusted according to the terms of any final
 26 agreement to address certain changes in circumstances, including but not limited to,
 27 additions or deletions to the inventory of water system facilities or real property

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included in the base purchase price due to operational needs in the Transfer Area up to the date of transfer.

2. Seattle and the City of Shoreline will agree to a separation plan that will require capital improvements to allow the Seattle retail distribution system to operate independently of any newly created City of Shoreline retail distribution system and agreement by the City of Shoreline to incur all costs associated with the separation plan, including costs incurred by Seattle.

3. The City of Shoreline will agree to reimburse Seattle for costs incurred in processing the sale and transfer, e.g. data transfer, customer notices, etc, on a time and materials basis.

4. Seattle and the City of Shoreline will enter into an agreement for Seattle to provide water supply to the City of Shoreline as a wholesale water customer from the closing of the sale through 2062.

5. Any final transfer agreement between Seattle Public Utilities and the City of Shoreline pursuant to this resolution will require the City of Shoreline to assume Seattle's rights and obligations contained in any wheeling agreement between the City of Seattle and its wholesale customers.

6. The City of Shoreline agrees to grant a new franchise for Seattle's remaining water system facilities within the City of Shoreline through 2062, which will include

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substantially similar provisions for utility protection and relocation as the current franchise.

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7. Any final agreement effectuating the sale of Seattle water system facilities and transfer of retail water service provided by Seattle to the City of Shoreline will be subject to a public hearing and adoption by ordinance of the Seattle City Council.

Adopted by the City Council the ____ day of _____, 2012, and signed by me in open session in authentication of its adoption this ____ day of _____, 2012.

President _____ of the City Council

THE MAYOR CONCURRING:

Michael McGinn, Mayor

Filed by me this ____ day of _____, 2012.

Monica Martinez Simmons, City Clerk

(Seal)

Attachment 1 – Transfer Area Map

HENDRICKS - BENNETT, PLLC

ATTORNEYS AT LAW
402 FIFTH AVENUE SOUTH
EDMONDS, WA 98020
(425) 775-2751
(425) 670-8138 FAX

JOSEPH P. BENNETT
ALLEN J. HENDRICKS
MATTHEW R. HENDRICKS

June 11, 2012

Ian Sievers
City Attorney
City of Shoreline
175000 Midvale Avenue N.
Shoreline, WA 98133-4905

Kristin Lamson
Assistant City Attorney
600 4th Ave, 4th Floor
P.O. Box 94769
Seattle, WA 98124-4769

Re: Olympic View Water and Sewer District's Wheeling Agreement

Dear Mr. Sievers and Ms. Lamson,

I am writing to you on behalf of Olympic View Water and Sewer District. Our firm represents Olympic View Water and Sewer District.

It is my understanding that the City of Shoreline is proposing to purchase a portion of the the City of Seattle water system which lies in or near the boundaries of the City of Shoreline. It should be noted that there is a Wheeling Agreement between the City of Seattle and Olympic View Water and Sewer District. This Agreement involves a part of the system that the City of Shoreline is proposing to purchase. A copy of the Wheeling Agreement is attached for your reference.

Although there is a provision in the agreement that provides for conditions under which the Wheeling Agreement can be assigned, it is the position of Olympic View that such assignment can only occur if there is a transfer of all of the assets specified in Exhibit A of that agreement. It is my understanding that under the proposed purchase agreement between the City of Seattle and the City of Shoreline, there is only a partial transfer of the assets listed in Exhibit A of the Wheeling Agreement.

Furthermore, regardless of whether the Wheeling Agreement is assigned to Shoreline, Olympic View Water and Sewer will insist that all of the terms and conditions of the Wheeling Agreement be fully followed.

If you have any questions or concerns, feel free to contact me.

Sincerely,

HENDRICKS - BENNETT, PLLC


Allen J. Hendricks

cc: Board of Commissioners of Olympic View Water and Sewer District
Lynne Danielson, Manager



Seattle City Attorney

Peter S. Holmes

Kristin M. Lamson
Assistant City Attorney
Civil Division – Contracts and Utilities
206.233.2188

July 9, 2012

PUBLIC WORKS DEPARTMENT

JUL 10 2012

RECEIVED

Allen J. Hendricks
Hendricks – Bennett, PLLC
402 Fifth Avenue South
Edmonds, WA 98020

Re: Olympic View Water and Sewer District's Wheeling Agreement

Dear Mr. Hendricks;

I am writing to respond to your June 11, 2012 letter regarding the above-referenced matter on behalf of my client Seattle Public Utilities (SPU).

We are in full agreement with the position stated in your letter that regardless of whether the current Wheeling Agreement between our clients is assigned to the City of Shoreline, all terms and conditions of the agreement will be fully followed. Any assignment of the Wheeling Agreement will be pursuant to a final transfer agreement between Seattle Public Utilities and the City of Shoreline that will require the City of Shoreline to fully assume Seattle's rights and obligations that are assigned. Any assignment would not occur until the time of the proposed transfer in 2020. Up until that time, SPU retains full ownership and control of all water system assets serving your client and is responsible for the terms and conditions of the Wheeling Agreement. I also want to clarify that there is no intention to transfer SPU's water supply obligations, i.e. your client will continue purchasing water from SPU under its current wholesale water supply contract, even if system assets are transferred to the City of Shoreline. The City of Shoreline would simply wheel the water from the SPU system to your client's service connection under the terms of the Wheeling Agreement.

We do take a different position on your assertion that the Wheeling Agreement cannot be assigned unless all the assets specified in Exhibit A are transferred to the City of Shoreline. We are not aware of any limitation in law or the Wheeling Agreement provisions that would limit the assignment in the manner you suggest. In fact, the Wheeling Agreement purposefully includes language that allows, and even requires, periodic reviews and adjustments to the list of assets in Exhibit A to account for changes in assets or operations over time. (Please see Sections II.D.5 and III.C of the Wheeling Agreement.)

Allen J. Hendricks

July 9, 2012


Page 2

We appreciate that your client may have general concerns or want more information about the impact any potential transfer of water system assets to the City of Shoreline may have on them. We are available to discuss concerns or questions to the extent that SPU can address them. SPU has and will continue to be responsible for protecting both the spirit and letter of its agreements with your client as a regional wholesale customer. Please call me or have your client call Judi Gladstone, Corporate Policy & Performance Division Director, at (206) 684-4642 if you or your client wants to set up a meeting.

Very truly yours,

PETER S. HOLMES
Seattle City Attorney

By:


KRISTIN M. LAMSON
Assistant City Attorney
Civil Division – Contracts and Utilities

KL:hh

cc: Judi Gladstone, SPU
Ian Sievers, City of Shoreline
Mark Relph, City of Shoreline ✓
Lynne Danielson, Olympic View Water and Sewer District
Board of Commissioners, Olympic View Water and Sewer District