

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Adoption of Ordinance No. 644, Authorizing Acquisition and Local Control of Seattle Water Services in Shoreline
DEPARTMENT:	City Manager's Office
PRESENTED BY:	Debbie Tarry, Assistant City Manager

PROBLEM/ISSUE STATEMENT:

On July 23, 2012, the City Council authorized the City Manager to proceed with the acquisition of SPU and place the question of acquisition on the November 2012 ballot. Proposed Ordinance No. 644 approves the key terms of the acquisition plan and estimated costs and is consistent with the City of Seattle's resolution approving the same agreement for sale of the SPU distribution system. The proposed ordinance must be submitted to the City's voters, and includes proposed ballot measure language for the acquisition of the Seattle Public Utility (SPU) water system in Shoreline. This ballot proposition will appear on the November 6, 2012, general election, if the City Council adopts Ordinance No. 644. In order for the measure to appear on the November ballot King County Elections must receive the City's approved ordinance no later than August 7, 2012. The following is the proposed language for the ballot measure:

CITY OF SHORELINE

PROPOSITION 1

ACQUISITION AND LOCAL CONTROL OF SEATTLE
WATER SERVICES IN SHORELINE

The Shoreline City Council passed Ordinance No. 644 concerning the City of Shoreline's acquisition and operation of water services of Seattle Public Utilities (SPU) within Shoreline.

The Ordinance would authorize Shoreline to acquire SPU's water utility in Shoreline without increasing projected rates. The \$26.6 million acquisition in 2020 and \$14.2 million in pre-acquisition improvements (without adjustment for inflation) would be financed by water rates in the Shoreline service area. The Ordinance would remove the current surcharge and utility tax paid by Shoreline customers to Seattle. Shoreline local control of rates, upgrades, and water supply for firefighting would replace Seattle control.

Should Ordinance No. 644 be:

Approved _____

Rejected _____

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 ratepayers 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

Staff recommends that Council adopt Ordinance No. 644, placing the acquisition of the Seattle Public Utility (SPU) water system in Shoreline on the November 6, 2012, general election.

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 regarding 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, June 11, and July 23.

BACKGROUND

The SPU water system, within Shoreline, is located approximately west of I-5 and a small section in the south-east corner of Shoreline 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 than a system including water supply and treatment.

The infrastructure itself varies in age, dating 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.

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. Twenty-one of the 23 members of the subcommittee supported the recommendation. A copy of the letter may be found on the "Acquisition of SPU water system in Shoreline" webpage at <http://shorelinewa.gov/index.aspx?page=762>.

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.

Due Diligence

The purpose of the due diligence was 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 webpage 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 base case scenario:

Acquisition & Initial Costs	Base Case 2012 Value	Base Case 2020 Value
Purchase Price	\$26,600,000	\$26,600,000
Separation Cost	\$5,938,300	\$8,542,269
Upfront Costs (Facilities, Equipment, Water Storage, Pump Station Improvements)	\$8,293,470	\$11,930,190
Total Acquisition & Initial Costs	\$40,831,770	\$47,072,459
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, which includes an annual “conservative” inflation factor of 4.6% for separation costs until they are financed in 2018, 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 or the City may apply for SMA status.

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 believed that it was 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") recommended this resolution on July 17. The entire Seattle Council approved the resolution on July 30. The resolution approved by the LUC Committee is included as Attachment B.

DISCUSSION

For this measure to appear on the November ballot, the City Council needs to take formal action by adopting proposed Ordinance No. 644 establishing the SPU acquisition plan and cost estimates. Ballot language approved in the ordinance will be delivered to King County by August 7, 2012. The following table summarizes the actions that must occur over the next week if the Council votes to place the measure on the November ballot:

Item	Deadline to Deliver to King County	Anticipated Council Action Date
Ballot Title Adoption	8/7/2012	8/6/2012
Explanatory Statement of Ballot Title	8/10/2012	N/A
Pro/Con Committee Appointments	8/10/2012	8/6/2012

The proposed ballot language addresses the potential increase in separation costs related to inflation between 2012 and 2018.

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 ratepayers 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

Staff recommends that Council adopt Ordinance No. 644, placing the acquisition of the Seattle Public Utility (SPU) water system in Shoreline on the November 6, 2012, general election.

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ATTACHMENTS

Attachment A – Ordinance No. 644

Attachment B – City of Seattle Resolution

ORDINANCE NO. 644

AN ORDINANCE AUTHORIZING THE CITY TO ACQUIRE AND OPERATE A WATER UTILITY WITHIN THE SEATTLE PUBLIC UTILITY SERVICE AREA IN THE CITY OF SHORELINE; AND PROVIDING FOR THE SUBMISSION OF THIS ORDINANCE TO THE QUALIFIED ELECTORS OF THE CITY OF SHORELINE AT AN ELECTION TO BE HELD ON NOVEMBER 6, 2012.

WHEREAS, the City is authorized by RCW 35.92.010 to purchase, maintain and operate waterworks for the purpose of furnishing the city and its inhabitants with an ample supply of water for all purposes, with the full power to regulate and control the use, distribution and price; and

WHEREAS, the City operates solid waste and stormwater utilities but is served by special purpose districts and the City of Seattle for water and other utility services; and

WHEREAS, the City Council established the acquisition of the SPU system in Shoreline as a formal Council goal in 2009; and

WHEREAS, a primary reason why Shoreline residents incorporated in 1995 was to exercise more local control over governmental decisions that impacted them directly; and

WHEREAS, acquisition of the SPU water utility in Shoreline will provide citizens with a direct voice in how decisions are made, including setting rates and charges, service standards, and capital investments, and

WHEREAS, acquisition will also allow all of the money collected for infrastructure investment and maintenance from Shoreline ratepayers to stay in Shoreline, enabling the City to provide the appropriate level of maintenance and system improvements to address issues of fire protection and planned growth; and

WHEREAS, the due diligence engineering and financial analysis completed by engineering and financial experts demonstrates that the City will be able to acquire, operate and maintain the SPU system, within Shoreline, within a rate structure that will be equal to or less than the projected SPU water rates for Shoreline customers; and

WHEREAS, Seattle and Shoreline have been negotiating the acquisition of the entire SPU service area in Shoreline but have not resolved separation and storage solutions for a small SPU service area in southeast Shoreline; and

WHEREAS, Shoreline intends to pursue solutions for acquiring the remaining SPU service area in southeast Shoreline in the future as part of the acquisition agreement

negotiated with Seattle, -Shoreline and Seattle have negotiated an acquisition of Seattle's water distribution system west of Interstate 5 including the assumption of water wheeling agreements which utilize that distribution system and Seattle has adopted Seattle Resolution No. 31394 approving the material terms of that agreement as set forth in this Ordinance; and

WHEREAS, RCW 35.92.070 requires that an ordinance that specifies the proposed plan and the estimated costs be passed and submitted to voters of the city for ratification or rejection, proposed for the November 2012 election, with notice of the election published weekly beginning thirty days prior to the election; now therefore

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

Section 1. Acquisition of Water Utility System. Pursuant to RCW 35.92.010 and RCW 35.92.070 it is found to be in the best interest of the City of Shoreline to acquire the Seattle water utility distribution system within the City of Shoreline west of Interstate 5 in 2020, with expenditures necessary to assume operations and to separate the system from the Seattle distribution system beginning in 2018. The plan for system acquisition includes the following:

A. The transfer of all retail distribution system facilities and related real property owned by Seattle within the SPU water service area within the City of Shoreline west of Interstate 5 to take effect in 2020, excluding storage and transmission facilities serving Seattle customers outside Shoreline ("regional facilities"). The transfer agreement will be contingent on Shoreline offering a new franchise agreement prior to closing for Seattle's regional facilities with a term extending until 2062 and to include a substantially similar provision for utility protection and relocation as the current SPU- Shoreline franchise.

B. 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 the new City of Shoreline retail distribution system. The separation plan will require Shoreline 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. The City of Shoreline will pay all costs associated with the separation plan, including reimbursement of costs incurred by Seattle ("Separation Costs").

C. 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 of the SPU assets through 2062.

D. The City of Shoreline will assume Seattle's rights and obligations contained in any wheeling agreement between the City of Seattle and its wholesale customers which depend on distribution system assets to be transferred to Shoreline.

Approval of the final agreement effectuating the sale of Seattle water system facilities, assumption of Seattle wheeling agreements to wholesale customers by Shoreline and transfer of retail water service provided by Seattle to the City of Shoreline will be subject to public hearing and adoption by ordinances of the Seattle and Shoreline City Councils.

Section 2. Estimated System Acquisition Cost. The system acquisition costs are estimated as follows:

A. Acquisition Cost. The base purchase price for the water system facilities and related real property owned in fee by Seattle is expected to be at least \$26.6 million (in year 2020 dollars) to be paid prior to transfer in 2020, which may be adjusted according to the terms of any final agreement to address changes in circumstances, including but not limited to, additions or deletions to the inventory of water system facilities or real property included in the base purchase price due to operational needs of Seattle in the Shoreline service area prior to transfer.

B. Separation Costs. These costs include construction of capital improvements to separate the Seattle and Shoreline systems, construction of water storage facilities, construction of pump stations and controls, construction or acquisition of utility buildings, purchase of heavy equipment and vehicles, and purchase of tools and inventory. Separation costs are estimated at \$14.2 million in 2012 dollars. The separation costs are anticipated to increase with inflation from 2012 to 2018. The base case for 2018, when these costs will be financed, assumes inflation of 4.6% annually during this time frame, and was believed by staff, consultants and the financial experts on the citizens committee to be a conservative scenario. This would result in an estimated cost in 2018 of \$20.5 million for separation costs. Separation costs would be funded by interim financing, with the interim financing and accumulated interest retired with water revenue bonds issued after the 2020 system transfer to Shoreline.

Section 3. Proposition to Ratify Ordinance. Pursuant to RCW 35.92.070, this ordinance shall be submitted for ratification or rejection by the qualified voters of the City at the November 2012 election. The City Clerk is hereby authorized and directed, not less than 84 days prior to such election date, to certify the proposition to the King County Records, Elections and Licensing Services Division in the following form:

CITY OF SHORELINE

PROPOSITION 1

ACQUISITION AND LOCAL CONTROL OF SEATTLE
WATER SERVICES IN SHORELINE

The Shoreline City Council passed Ordinance No. 644 concerning the City of Shoreline's acquisition and operation of water services of Seattle Public Utilities (SPU) within Shoreline west of Interstate 5.

The Ordinance would authorize Shoreline to acquire SPU's water utility services in Shoreline without increasing projected rates. The \$26.6 million acquisition in 2020 and \$14.2 million in pre-acquisition improvements (without adjustment for inflation) would be financed by water rates in ~~the~~ Shoreline's new service area. The Ordinance would remove the current surcharge and utility tax paid by Shoreline customers to Seattle. Shoreline local control of rates, upgrades, and water supply for firefighting would replace Seattle control.

Should Ordinance No. 644 be:

Approved _____

Rejected _____

The City Manager and City Attorney are authorized to make such minor adjustments to the wording of such proposition as may be recommended by the King County Records, Elections, and Licensing Services Division, so long as the intent of the proposition remains consistent with the intent of this Resolution.

Section 4. Severability. Should any section, paragraph, sentence, clause or phrase of this ordinance, or its application to any person or circumstance, be declared unconstitutional or otherwise invalid for any reason, or should any portion of this Ordinance be preempted by State or Federal law or regulation, such decision or preemption shall not affect the validity of the remaining portions of this ordinance or its application to other persons or circumstances.

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

ADOPTED BY THE CITY COUNCIL ON AUGUST 6, 2011.

Keith A. McGlashan, Mayor

ATTEST:

APPROVED AS TO FORM:

Scott Passey
City Clerk

Ian Sievers
City Attorney

ATTACHMENT B

Resolution Number: 31394

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

Status: Held until July 30, 2012

Date introduced/referred to committee: July 9, 2012

Committee: Libraries, Utilities, and Center

Sponsor: GODDEN

Index Terms: KING-COUNTY-CITIES, SHORELINE, WATER, WATER-SUPPLY-FACILITIES, WATER-SUPPLY

Fiscal Note: [Fiscal Note to Resolution 31394](#)

Text

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

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

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

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

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

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

Section 1. Seattle will consider the sale of certain water system facilities and transfer of responsibility for water service to the City of Shoreline in 2020 in the area defined as City of

ATTACHMENT B

Shoreline retail water service area and shown in Attachment 1, attached and incorporated herein (Transfer Area) with the understanding of the following major terms:

1. The base purchase price for the water system facilities and related real property owned in fee is expected to be at least \$26.6 million (in year 2020 dollars) to be paid prior to transfer in 2020, which may be adjusted according to the terms of any final agreement to address certain changes in circumstances, including but not limited to, additions or deletions to the inventory of water system facilities or real property 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. The City of Shoreline agrees to assume any or all of Seattle's rights and obligations contained in any wheeling agreement between the City of Seattle and its wholesale customers that may be assigned pursuant to the final transfer agreement.
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 substantially similar provisions for utility protection and relocation as the current franchise.
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:

ATTACHMENT B

Michael McGinn, Mayor

Filed by me this ____ day of _____, 2012.

Monica Martinez Simmons, City Clerk

(Seal)

Attachment 1 -- Transfer Area Map

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

[Attachment 1: Transfer Area Map](#)..TX

FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	CBO Analyst/Phone:
Seattle Public Utilities	Judi Gladstone/4-4642	Karl Stickel/4-8085

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

Summary of the Legislation:

This resolution expresses the City's support for the sale of SPU water system assets in the City of Shoreline where SPU currently provides retail water service. SPU would negotiate an agreement for the asset sale following approval by Shoreline voters of a measure to form a water utility in the city.

Background:

SPU provides retail water service to 11,000 customers in the City of Shoreline, west of Interstate-5. Seattle owns, operates and maintains infrastructure in Shoreline to serve those customers, who pay SPU retail water rates plus a 14% outside city differential and a 6% Shoreline franchise fee. 2012 annual retail revenues are approximately \$9.4 million and annual purchases of water are about 1.2 million ccf (hundred cubic feet).

The City of Shoreline became a city in 1996, allowing it to become a water service provider, with voter approval. There was a failed attempt to negotiate a sale in the early 2000s and informal discussions resumed in 2008. Negotiations began again in January 2010 as Shoreline officials made it a priority to gain control over decisions affecting service in their city. They also did not want their citizens paying the out-of-city mark-up and taxes to Seattle.

Under discussions to date, SPU would sell its assets to Shoreline in 2020 for approximately \$26.6 million. The actual price would be adjusted by factors included in a final agreement and that agreement would be subject to Seattle City Council approval via ordinance. Retail customers in Shoreline would continue to be SPU retail customers until 2020, when Shoreline would enter into a long-term, wholesale water supply contract with SPU. Shoreline would pay all costs for capital improvements to allow the Seattle retail distribution system to operate independently of a newly created City of Shoreline retail distribution system. Shoreline would also grant a new franchise agreement substantially similar to the existing franchise agreement as it relates to provisions for utility protection and relocation.

Please check one of the following:

 X **This legislation does not have any financial implications.**

 This legislation has financial implications.

ATTACHMENT B

Because this legislation does not have the force of law it does not have direct financial implications per se. When SPU has reached agreement for the sale of its assets with the City of Shoreline, the Executive will transmit an ordinance and related fiscal analysis to the Council for approval.

Other Implications:

a) Does the legislation have indirect financial implications, or long-term implications?

Yes. The legislation that ultimately authorizes the sale of SPU assets to the City of Shoreline (future ordinance) would result in 11,000 retail customers no longer paying retail rates, and instead would be covered under a wholesale contract with SPU. While proceeds from the sale may mitigate retail rate increases in the short-term, rates of remaining retail customers will likely need to increase to meet the 2020 revenue requirement. In addition, the General Fund will receive approximately \$2.1 million per year less in city utility tax starting in 2020 as a result of lost retail sales. If retail rates are increased, the net loss to the General Fund would be lower due to the additional city utility tax collected.

b) What is the financial cost of not implementing the legislation?

None

c) Does this legislation affect any departments besides the originating department?

No

d) What are the possible alternatives to the legislation that could achieve the same or similar objectives?

The purpose of this non-binding resolution is to express the intention of the Council and Mayor.

e) Is a public hearing required for this legislation?

No.

f) Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?

No

g) Does this legislation affect a piece of property?

Yes. A map of the properties that will be sold or leased as a part of this agreement is attached to the resolution.

List attachments to the fiscal note below:

None