Council Meeting Date: January 16, 2001 **Agenda Item:** 6(a)

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	North City Sub-area Plan –Status Report
DEPARTMENT:	Planning and Development Services
PRESENTED BY:	Timothy Stewart, Director Anna Kolousek, Assistant Director

EXECUTIVE / COUNCIL SUMMARY

The purpose of this staff report is to inform your Council about the Planning Commission recommendations regarding the North City Sub-area Plan, the preparation of the environmental documents for this plan, and the strategies for implementation.

The implementation of the North City Sub-area Plan is Goal No.7 on your Council's 2000 – 2001 Work Plan. On September 21, 2000, during the joint workshop with the Planning Commission, your Council and the Commission discussed the North City Sub-area Plan draft (see Attachment A). Following this workshop the Commission held a public hearing, continued their discussion, and on October 19, 2000, unanimously recommended to your Council the adoption of the plan, subject to the following recommendations:

1. Eliminate the density limitations within the Main Street Overlay Zones.
2. Develop traffic mitigation measures as part of the SEPA (State Environmental Policy Act) Planned Action Ordinance and ensure that the neighborhood streets will not be impacted by the potential cut-through traffic resulting from the redesign of 15th Avenue NE.
3. Advance the Capital Improvement Program for 2001 to begin implementation of the traffic improvements that are proposed for the 15th Avenue NE overlay zones together with the necessary mitigation that will be required by the Planned Action EIS Ordinance.

The Planning Commission reserved their rights to review the Draft EIS (Environmental Impact Statement) together with the proposed mitigation, and if necessary, to make adjustments to their October recommendations.

RECOMMENDATION

No Council action is required at this time. Staff welcomes Council questions, comments, and seeks your concurrence with the Planning Commission recommendations.

Approved By: City Manager LB City Attorney N/A

BACKGROUND / ANALYSIS

The North City Sub-area Plan draft consists of two documents:

- Comprehensive Plan Amendment – North City Sub-area (Attachment A)
- Special District - North City Sub-area, supplement to the Development Code (Attachment B).

The market and financial analysis, based on the demonstration projects illustrated in the Sub-area Plan draft, was presented to your Council during the joint workshop on September 21, 2000. The purpose of the market and financial analysis is to provide estimates of the financial feasibility for redevelopment of specific demonstration projects in accordance with the proposed plan.

After the joint workshop with your Council, the Planning Commission held a public hearing on the draft plan, discussed it and asked staff to address the following issues:

Issue #1 - Density for the Main Street Overlay Zones

The overriding objective of the North City Sub-area Plan is to encourage new development proposals that fit with the design concept illustrated in the plan. This concept proposes a pedestrian oriented "main street", with medium-rise buildings located tightly to the sidewalk, and housing located above ground floor retail. Two Overlay Main Street Zones are proposed in the plan. Zone 1 would require retail at ground floor level; while Zone 2 would allow residential units on the ground floor. The accompanying market and financial analysis suggests that achieving this concept may be financially risky without adequate residential density to support new retail uses.

Staff and Planning Commission recommend eliminating the restriction on the number of dwelling units in both Overlay Zones, subject to compliance with the Special District, Main Street Overlay Zones development standards. Elimination of the density limit (48 dwelling units/acre) will allow the project proponents to establish the most economical distribution of spaces and dwelling units within a building envelope. (For example, there could be more one-bedroom dwelling units within the same size building.) Please note, that the building size ("bulk") is regulated through height, impervious surface, parking, and design standards specified in the Development Code, adopted in June 2000. The proposed addition to the Development Code, the Special District: North City Sub-area, includes new development standards, specifically tailored for the 15th Avenue NE. The new standards include elimination of setback requirements for commercial buildings, requirements for stepping back upper-levels of the building facade, treatment of corners, permitted encroachments into rights-of-way, signs, alley access, parking, and circulation.

Issue #2 – Traffic, Tapering Down 15th Avenue NE

There are two issues involved in tapering down 15th Avenue, which will impact the future redevelopment of properties in accordance with the proposed vision:

1. The physical dimension of the rights-of-way, or the distance between the future buildings (right-of-way width for travel lanes, street parking, and sidewalks). This is illustrated in the plan as the back of the sidewalk distance of 71 feet (distance between future buildings that could be constructed without any front yard setback) for "mid-block " areas and 75 feet for corner areas (distance of 50 feet from the corner). The actual curb-to-curb distance would be 50 feet, with a 10.5-foot wide sidewalk (including a 4-foot wide strip for landscaping/amenity zone). The plan eliminates the requirement for a 10-foot front yard (street) setback for commercial buildings along 15th Avenue NE, within the Main Street Overlay Zones. The existing curb-to-curb distance is 60 feet, with a 6.5-foot wide sidewalk on each side of the street, and required a 10-foot setback for all buildings, total distance between future buildings of 93 feet. The existing right-of way ranges between 60 and 80 feet.

   Staff and Planning Commission recommend no change to the physical dimension of the rights-of-way (60 feet). However, there will be reduction of the distance between future buildings from 93 feet (existing) to 71 feet (proposed), due to the elimination of the front yard setback.

2. The design of traffic lanes, or the operational character of the rights-of-way. Several options for the 15th Avenue NE design of traffic lanes were considered during the charrette. The consensus of the participants was to proceed with the three-lane option - two travel lanes (one in each direction), center left-turning lane, and parallel parking on both sides of the street. This option best supports the "main street" concept that allows pedestrians to move more easily from one side of the street to the other, without feeling the automobile dominance of the street. The street width designated for cars would be narrower, cars would move more slowly, and the buildings and sidewalks (instead of cars) would dominate the street scene.

   Traffic analysis will be conducted during the preparation of the EIS for the draft plan. EIS will address the traffic issues and mitigation necessary to accomplish this concept.

   Staff believes that the proposed three-lane concept for 15th Avenue NE is an important part of the North City Sub-area Plan and the vision for the North City Business District. Even if the traffic analysis, developed during the EIS process, demonstrates that the three-lane concept would not work from the operational point of view, the physical dimension of the rights-of way, 71 feet distance between the buildings, does not need to change. The design of the traffic lanes (and the sidewalk) within the rights-of-way may be modified as part of the traffic mitigation and may include other options. For example, the parking lane could be converted to a traffic or bus lane, perhaps only in peak traffic periods. Or, the existing four travel lanes could be retained with some modifications to the parking and sidewalk layout.

Staff and the Commissioners recommend no changes to the draft plan, however, if the EIS presents a need for operational changes, the Planning Commission reserved the right to review them prior to City Council action on the plan (and the SEPA Planned Action Ordinance).

Issue #3 – Potential for Cut-through Traffic on Neighborhood Streets

Planning and Development Services and Public Works Department staff are working on a comprehensive traffic mitigation plan that will be prepared as part of the EIS and the SEPA Planned Action Ordinance. The mitigation plan may include alternate route signage, traffic signals, traffic circles, curb extensions, some one-way streets, construction of alleys, pedestrian and bike pathways, and traffic calming devices. The close proximity of different uses (residential, retail, offices) will enhance the opportunity for pedestrian and bike trips, instead of relying exclusively on automobiles. Making walking and bicycling more attractive to residents may reduce the necessity of some automobile trips. Traffic calming will create a safer environment for pedestrians and bicyclists by encouraging reduced traffic speeds.

Public Works Department included the traffic mitigation plan in the Capital Improvements Program (CIP).

Issue #4 - Strategies to Support the Redevelopment in North City Consistent with the Plan Vision

1. Planned Action SEPA

The North City Sub-area Plan Environmental Impact Statement (EIS) will be a Planned Action EIS (RCW 43.21C.031(2)(a). The Planned Action EIS will meet all requirements of SEPA and at the same time provide a substantive incentive to development projects that comply with the North City Sub-area Plan. The incentives include:

- Environmental review of these projects will consist only of compliance with the SEPA Planned Action Ordinance.
- These projects will be reviewed under Type A review procedure.
- More certainty for permit review for these projects.
- Reduced cost of review.
- Shorter permit review times.

The public also will benefit from this process:

- All impacts of development considered in this plan will be disclosed and evaluated prior to the adoption of the Sub-area Plan.
- Mitigation measures for development impacts will be part of the SEPA Planned Action Ordinance; they will be reviewed and adopted together with the Sub-area Plan.
- Mitigation will be implemented in accordance with the mitigation schedule, instead of piecemeal, on a project-by-project basis.

The threshold determination and scoping notice and scoping were distributed and published on October 3, 2000. We did not receive any comments on the scoping notice.

2. Advance the Capital Improvement Program (CIP) with Emphasis on 15th Avenue NE

The City Council allocated in CIP for year 2001 the sum of $900,000 for environmental review and design of the traffic improvements for the 15th Avenue NE together with the necessary mitigation that will be required by the Planned Action EIS Ordinance, such as cut-through traffic on neighborhood streets. The total allocation for the North City improvements in the approved CIP is $5,450,00.

3. Economic Development Program

Our Economic Development Coordinator will work on a variety of strategies to position North City as a desirable location for successful development. The strategies may include:

- Additional improvements to the permit review process and avoiding unnecessary delays for proposals consistent with the plan.
- Facilitate transit oriented development and work with the transit agencies to improve bus connections between the business district and surrounding areas.
- Identify small, neighborhood oriented businesses and assist them with the development needs and marketing efforts.
- Assist with parcel assembly for coordinated development proposals that meet the criteria identified in the program.
- If necessary, assist with business relocation.

Planning Commission Action

On October 19, the Planning Commission, based on public input, recommended unanimously to the City Council the adoption of the North City Sub-area Plan (Comprehensive Plan Amendment and the Development Code, Special District), subject to the following:

1. Eliminate the density limitations within the Main Street Overlay Zones.
2. Develop traffic mitigation measures as part of the SEPA Planned Action Ordinance and insure that the neighborhood streets will not be impacted by the potential cut-through traffic resulting from the redesign of 15th Avenue NE.
3. Advance the Capital Improvement Program for 2001 to begin implementation of the traffic improvements that are proposed for 15th Avenue NE overlay zones together with the necessary mitigation that will be required by the Planned Action EIS Ordinance.

The Planning Commission reserved their right to review the Draft EIS together with the proposed mitigation, and if necessary, to make adjustments to their October recommendation.

Next Steps

The following is a summary of the next steps and timelines for the North City Sub-area Plan and the Planned Action SEPA.

	Timelines	
Steps	**North City Sub-area Plan**	**SEPA Planned Action**
Preparation of the Draft EIS		December 2000 through February 2001
Public Review and Comments on the DEIS		March 2001
Preparation of the Final EIS, Planned Action SEPA Ordinance, the draft North City Sub-area Plan, and the Code documents for the City Council Action	April, May 2001	April, May 2001
City Council Action on the Planned Action SEPA Ordinance, the Comp. Plan: North City Sub-area Plan, and the Development Code: Special District	June 2001	June 2001

RECOMMENDATION

No Council action is required at this time. Staff welcomes Council questions, comments, and seeks your concurrence with the Planning Commission recommendations.

ATTACHMENTS

Attachment A: Comprehensive Plan Amendment – North City Sub-area Plan
Attachment B: Development Code, Special District: North City Sub-area
Attachment C: Planning Commission Minutes of September 21 and October 19

Copies of Attachments A and B are available for public review in the City Clerk's Office, Planning and Development Services Department, Richmond Beach and Shoreline Libraries, East and West Police Neighborhood Centers. A computer CD that contains copies of Attachments A and B are available from the Planning and Development Services Department and on the City's web site.

These Minutes Approved
October 19, 2000

CITY OF SHORELINE

SHORELINE PLANNING COMMISSION
SUMMARY MINUTES
SPECIAL JOINT WORKSHOP WITH CITY COUNCIL

September 21, 2000
6:30 P.M.

Shoreline Conference Center
Board Room

PRESENT
Chair Gabbert
Commissioner Maloney
Commissioner Doennebrink
Commissioner Marx
Commissioner Doering
Commissioner Harris
Commissioner Monroe
Commissioner McClelland

ABSENT
Vice Chair McAuliffe (Excused)

Councilmembers Present
Mayor Scott Jepson
Councilmember Ransom
Councilmember Gustafson
Councilmember Montgomery
Councilmember Lee

STAFF PRESENT
Tim Stewart, Director, Planning & Development Services
Anna Kolousek, Assistant Director, Planning & Development Services
Rachael Markle, Senior Planner, Planning & Development Services
Kirk McKinley, Planning Manager, Planning & Development Services
Bill Conner, Director, Public Works
Sarah Bohlen, Transportation Planner, Planning & Development Svcs.
Andrea Spencer, Planner, Planning & Development Services
Paul Cornish, Capital Projects Manager, Public Works
Joanne Dillon, Management Analyst, Planning & Development Svcs.
Brian Krueger, Technical Asst., Planning & Development Services
Lanie Curry, Planning Commission Clerk

Chair Gabbert described the process that would be followed for both the work session and the regular meeting.

1. North City Sub-Area Plan

Mr. Stewart provided background information regarding the North City Sub-Area Planning process which was led by Anna Kolousek with participation from various staff members.

Ms. Kolousek said that the North City Sub-Area Plan is a result of the design charette that was conducted in June. The major purpose of the Sub-Area plan was to provide a planning framework that would be unique to the North City area. Another purpose was to preserve the privacy and safety of the existing neighborhoods. Many of the citizens who attended the charette were very concerned about the spill-over affect to the surrounding neighborhoods. The third purpose of the plan was to provide incentives to encourage redevelopment, particularly in the business area concentrated on 15th Ave NE. Lastly, the plan was intended to provide a design direction for the development and improvements along 15th Ave NE between 172nd and 180th Streets.

Ms. Kolousek said the first document before the Commission and Council is the amendment to the Comprehensive Plan. The second document includes special district development standards for the newly adopted Development Code. Included in the attachments is a prepared financial and Market Analysis to show some of the demonstrated projects and test their viability. Ms. Kolousek said the redevelopment concept of the plan is structured around what has been determined to be walkable distances to the business district. These walkable distances create four distinguished neighborhood units that are approximately one half mile from the heart of the business district. Ms. Kolousek said that within the heart of the business district, the plan proposes to create an interesting and safe walking street that is surrounded by a mix of office, retail and residential development. The street, itself, would be narrowed to three lanes. Traffic would have to slow down significantly to allow for public interaction.

Ms. Kolousek said that a market consultant reviewed the potential feasibility of this area. The Market Analysis showed that the aggregate potential income, within the two-mile radius, is $2 billion. This translates into a potential of $800 million in consumer spending per year. The results indicate that there is clearly a potential for over 100,000 square feet of new retail space between 172nd and 180th Streets. However, she noted that the current rental rates do not support new construction. The plan identifies two options. The City can continue with the status quo until sufficient disinvestment retires the poor performing properties existing today and allows redevelopment of larger, low-density, auto-oriented uses. The other option would be to capture higher volumes by bringing the local potential into the higher density development of more retail oriented uses. Capturing the surrounding spending and achieving the higher rental rates requires several actions to improve the existing environment, and that is the aim and vision of the proposed plan.

Ms. Kolousek explained that the Comprehensive Plan portion of the document presents two schemes. The five-year scheme includes the following demonstration sites (the corner of 180th and 15th Ave NE, immediately across from 177th Street, across from the Shoreline Water District, and the post office and Safeway sites located south of 175th Street). The property owners of these sites were heavily involved in the design cherette. The 15-year scheme involves the stretch of 15th Ave NE between 175th and 180th Streets, which would be surrounded by mixed-use development with parking located behind the buildings and accessible from the alleys. There would only be limited access from 15th Ave NE. This scheme would create a type of "main street" development with retail on the ground floor and residential units above.

Ms. Kolousek said the North City Sub-Area plan also presents options for creating more pedestrian friendly streets. Page 25 of the North City Sub-Area Plan Draft shows the concept of changing the existing four-lane street with limited street parking, sporadic sidewalks and numerous access points into a three-lane street with a left turn lane, wider sidewalks on both sides and pedestrian crossings at key points. The engineer provided a diagram to illustrate both the existing and proposed street alignment. The concept also considers the surrounding residential areas. She noted that one of the purposes of the plan is to encourage people to walk into the business area, but the present street system does not encourage pedestrian interaction. The consultant indicated that the streets should be made more pedestrian friendly and traffic on surrounding streets should be designed to discourage fast moving traffic.

Ms. Kolousek reviewed the designs proposed in the Plan for each demonstration site. The plan proposes that the North City district be identified as a special district in the Development Code. This would involve two overlay zones. Zone 1 (located from approximately 175th to 177th Streets) would not allow residential units on the ground floor. The ground floor would have to be occupied by 100 percent retail uses. There would be no required setbacks for buildings located in this zone. The same setback standards for retail uses would apply to Zone 2, as well. However, Zone 2 would allow residential units to be located on the ground floor. The code would require that these units be setback 10 feet from the sidewalk to allow for a residential type of access. The plan also recommends that there be a vertical setback along the street for taller buildings so that shadow and tunnel affects do not impact adjacent properties. To emphasize the corners, buildings within 50 feet of the street corners would be allowed a greater height with no setback requirements, but upper stories on properties more than 50 feet from the corner would have a required setback.

Ms. Kolousek referenced Table 1, and asked that Planning Commission and City Council consider the option of allowing a density bonus in order to make projects in this area more feasible. She concluded that redevelopment potential exists. Based on the financial analysis, the plan seems to provide a realistic concept. The City is concurrently preparing the traffic study to analyze what could happen if the street is constrained to three lanes. At the same time, they are preparing a planned action SEPA review. Once the SEPA review is complete, there will be no need for developers to go through additional SEPA review if their proposed project is consistent with the plan.

Commissioner Doennebrink inquired what the current rental rates are in the North City area. Ms. Kolousek answered that the rental rates are about $15 per square foot. Mr. Stewart noted that Page 5 of the North City Sub-Area Plan Draft identifies the current rates and the rates that would be needed to support retail uses. The conclusion was that retail would be financially feasible at triple rent of $17 to $18 per foot ($22 to $23 gross per square foot).

Councilmember Lee said there are many different opinions regarding mixed retail and residential uses. She noticed that in areas of Bellevue and Redmond, for example, property owners are still having trouble filling their spaces. She inquired if studies have concluded that this type of development is successful in cities. Mr. Stewart agreed that is one of the risks the City is facing, but the market study concluded that the area could support mixed-use development.

Commissioner Harris pointed towards downtown Ballard which is in a "dying phase." It seems that the key to the plan's success is the 1,500 more housing units that are identified. The trend seems to be towards the big block stores such as Costco. He likes the proposed plan, but it appears to be risky.

Commissioner Doering inquired what the average income of the area is. She said she is concerned about whether or not the people living in the area will be able to afford the units. Mr. Stewart referred to Page 8 of the Market Feasibility Study, which is the data that was used to calculate feasibility and whether or not mixed-use development would work. The team considered the revenue stream and the realistic construction costs of development, and the conclusion was that it appears to be feasible.

Councilmember Montgomery agreed that if 15th NE is narrowed to three lanes it would make a beautiful roadway, but it could create a traffic boondoggle that would cause people to avoid doing business in the area. Mr. Stewart referred to Page 16 of the North City Sub-Area Plan Draft, which illustrates, through the use of a schematic diagram, the impacts associated with a narrower road. If they constrain 15th NE, the cars would be pushed somewhere else. Cutting through the neighborhoods is unacceptable. The other alternative would be to push the traffic on to large arterial streets. The consultant guessed that perhaps as much as 40 percent of the traffic during peak hour on 15th NE has origins and destinations outside of the City. That is the target population that they want to constrain or reduce.

Commissioner Maloney suggested that by identifying as many as 1,500 units for this area, it seems to make a statement to the Growth Management Board that the City can readily accept more of the population growth than they have presently agreed to take. Mr. Stewart said that based on economics or demographics, the consultant is suggesting that there is a market for 1,500 units. This is not being recommended as a target for North City. The intent is to demonstrate the strength of the market to individual site developers. Ms. Kolousek noted that this figure would not become part of the actual plan. It is only identified in the Market Analysis, which will be an appendix to the plan.

Councilmember Gustafson inquired if the ESA listing would have a significant impact on the cost of construction or review. Mr. Stewart explained that most of the property included in the plan is already impervious surface. For example, a change from a parking lot to a building would not increase the amount of impervious surface. The drainage area for North City is in a depressed basin, which goes into a detention basin right off of 15th NE next to the bus barn. Water quality issues in North City are going to be much easier to deal with than some of the other areas of the City.

Mayor Jepson said it seems grandiose to think that there would be 1,500 residential units constructed in the City in the short term. He supports mixed-uses in this area. He said his largest concern is how this plan will be implemented. He referenced Page 5 of the North City Sub-Area Plan Draft which lists specific actions, and said he would like this process to result in a more articulate set of strategic actions with phasing or time frames and responsibilities identified. The City, as a public agency, needs to understand their role in assisting the implementation.

Mayor Jepson referred to opportunities for tax abatement. He noted that in redevelopment around the country, tax abatement is a big issue. The City's percentage of the property tax is so small that it would not be a significant waiver. If the City wants to spur economic development and long-term sustainability, they should approach the other jurisdictions to see if they support this type of approach.

Commissioner Monroe said that there are certain types of land uses that would not generate a cash flow substantial enough to pay the rents that are necessary. The types of businesses that are encouraged in this area need to be able to generate sufficient cash flow to make the rents realistic. Also, they must consider the types of ambiance they need to attract people to the area to spend money.

Commissioner Marx pointed out that on Page 15 of the North City Sub-Area Plan Draft there is a typographical error. The amount of sidewalk should be 50 feet and not 75 feet.

Commissioner McClelland suggested that there may be many people living within walking distance, but there is no guarantee that they would come to the area to shop. She suggested that a more in-depth market study should be done to identify the people who are living in the area and match their needs with the types of services and businesses that are constructed. She concluded that retail businesses cannot succeed without housing opportunities. The Market Analysis should be much deeper before they ask the merchants to invest more money into development and improvements. But she agreed that the proposed plan is an excellent step in the right direction.

Councilmember Ransom said his main concern is the Market Analysis. He pointed out that the North City area is the poorest in the district. The residence of three of the four areas identified in the plan are lower income. The study indicates that the average family income in the area would be $60,000 per year by today's standards. The reality is more likely $40,000 per year. That means the whole marketability for the area is grossly over estimated. A 1,000 square foot home, based on the study, would be $170,000. There would be a completely different clientele living in the new homes than the people living in the residential areas now. He suggested that this may end up displacing the current residents.

Ms. Kolousek commented that the Leland Consulting Group is one of the most reliable firms in the region. They have done extensive work for jurisdictions throughout the area.

The Commission continued to discuss the issue raised by Councilmember Ransom regarding the demographics of the people who live in the area now, and those who would move in if the proposed mixed-use development is implemented.

The meeting was adjourned at 7:50 p.m.

Marlin J. Gabbert
Chair, Planning Commission

Lanie Curry
Clerk, Planning Commission

These Minutes Approved
October 5, 2000

CITY OF SHORELINE

SHORELINE PLANNING COMMISSION
SUMMARY MINUTES
REGULAR MEETING

September 21, 2000
7:50 P.M.

Shoreline Conference Center
Board Room

PRESENT
Chair Gabbert
Commissioner Maloney
Commissioner Doennebrink
Commissioner Marx
Commissioner Doering
Commissioner Harris
Commissioner Monroe
Commissioner McClelland

ABSENT
Vice Chair McAuliffe

STAFF PRESENT
Tim Stewart, Director, Planning & Development Services
Anna Kolousek, Assistant Director, Planning & Development Services
Kirk McKinley, Planning Manager, Planning & Development Services
Rachael Markle, Senior Planner, Planning & Development Services
Andrea Spencer, Planner, Planning & Development Services
Lanie Curry, Planning Commission Clerk

1. CALL TO ORDER

The regular meeting was called to order at 7:50 p.m. by Chair Gabbert.

2. ROLL CALL

Upon roll call by the Commission Clerk, the following Commissioners were present: Chair Gabbert, Commissioners Doering, Doennebrink, McClelland, Harris, Marx, Maloney and Monroe. Commissioner McAuliffe was excused.

3. APPROVAL OF AGENDA

Because there was no one in the audience who desired to address the Board on any issue except the Sub-Area Plan, the Commission agreed to eliminate the following agenda items: Public Comment, Staff Report and Reports of Commissioners.

4. APPROVAL OF MINUTES

Commissioner Doennebrink asked that his comments regarding parking comparisons to the theater, impacts and conflicts to Shorewood High School and walkability liability be added to the minutes of September 7. The Commission determined that the minutes should be revised and presented at the October 19th meeting for approval.

5. PUBLIC HEARING

a. Type L Action: North City Sub Area Plan

Chair Gabbert reviewed the rules for the public hearing.

Ms. Kolousek reminded the Commission of her request that they consider the staff recommendation from Table 1. This would allow a density bonus in order to make projects in the area feasible.

Cynthia Driscoll, District Manager, Shoreline Water District, 1519 NE 177th Street, spoke in support of the proposed plan and encouraged the Planning Commission to address the issues related to traffic and the impacts to neighborhoods. She also asked them to take into consideration the cost of development. She noted that if a Local Improvement District (LID) is used to help develop the area, it is important that the majority of the business groups agree to support the LID. She felt that the presentation given by Ms. Kolousek at the joint meeting was excellent, and Commissioner McClelland's position of expanding the market study might make a tremendous difference in marketing the development. There is a huge cultural diversity in that small area.

Clark Elster, 1729 NE 177th Street, complimented the staff for the work they have put into the proposed plan. He said he supports the plan and recommends its adoption. However, he suggested that some of the issues related to traffic impacts have been overlooked. Those living on the eastside of 15th NE(in the vicinity of 177th St and Serpentine) find that the street is already being used as a short cut route from the freeway to Bothell. He would like to see more emphasis on mitigating the impacts of cut through traffic. He felt that narrowing a portion of 15th NE from four to three lanes is a good idea, but it should be extended further north and south to slow the traffic down in the business area and encourage more pedestrian access.

Mike McMahon, 17763 15th Ave NE, thanked the staff and the consultants for creating an excellent plan for consideration. It covers almost everything the property owners and potential developers asked for. However, he suggested that there are a few issues that need to be further discussed, refined and acted upon. First is the timing and cost of the proposed street improvements and who would be responsible to pay. Parking is also a major concern. They should carefully consider any option that would increase the amount of public parking opportunities. The City also needs to make a commitment to expedite the building permit process. Mr. McMahon suggested that perhaps the City's economic development coordinator could consider the issue of tenant relocation assistance. Lastly, he said the density issue must be considered. If the density is left as it is currently proposed, he could not build a feasible project on his property. Residential units would spur on and subsidize the retail development.

Mr. McMahon provided copies of photographs and comments illustrating development projects that are located in the North Seattle area. This information was labeled as Exhibit A. He concluded that a specific bonus density for projects that are consistent with the plan would encourage new market rate develop to occur. He suggested that at least a 50-percent density bonus would be necessary to encourage the development of affordable housing.

Mr. McMahon pointed out that the current code provides for a height bonus to encourage mixed-use development in the M, NB and O zones. He suggested that the current density along 15th would not justify development of his property consistent with the plan. He commented that the financial feasibility analysis contained in the plan should have identified the market value of the land, as well as current prices and rents. He suggested that perhaps they should eliminate the maximum density standard for development in the commercial zones within the North City Sub-Area Plan Draft only. This would be similar to what is already allowed in the regional business zones. Mr. McMahon suggested that rezoning the North City planning area to a regional business classification would be the easy, quick and logical solution to implement the proposed development density. It would increase land costs, increase living opportunities for residents, allow for lifestyle changes for existing residents, meet the Growth Management Requirements and provide the financial impetus for retail space to serve the new residents.

Gretchen Atkinson, 17714 – 15th Ave NE, said she is the president of the North City Business Association, which was formed to help clean up and improve the area. She said they are very excited about the plan, and she complimented the staff for the opportunity to participate in the design charette. The drawings provided in the plan and the diversity of the building styles is wonderful. They are concerned about whether the density allowed is sufficient to support the buildings and whether there is sufficient parking and lighting, as well. They are hoping that as the City reviews the plans, the codes will be changed so that the permitting process is easier to accomplish. She asked that the Commission encourage the City Council to approve the plan and proceed with implementation.

Commissioner Monroe inquired about whether the North City business community would support the concept of an architectural design review function. Commissioner McClelland explained that this would require that the City first establish some design standards. Once this is done, the City could require a design review to make sure that the buildings are designed to comply with the design standards. The City does not have this type of review process, but some City's use this to control the appearance of development in certain areas. Ms. Atkinson answered that the concept is probably very good, but she would worry that this would slow the permitting process down significantly. She said she would need to know more about the concept before she could provide further comment. Commissioner Monroe suggested that perhaps the City could establish some design guidelines for the North City Sub Area to ensure compatibility with the surrounding development.

Peter Schwindt, 2209 NE 177th Street, commended staff for their work on the project. He supports the project in general, but he is concerned that the plan is not quite complete as written. He suggested that overflow parking issues should be considered. He also suggested that the traffic control plan is too vague. He would like to see more details provided to identify plans for controlling the impacts to neighborhood streets. He suggested some options that could be used to control the traffic and discourage cut through traffic.

Charlotte Haines, 836 NE 194th Street, said she represents the residents of the North City and Ridgecrest neighborhoods. She commended Ms. Kolousek and the other staff for the design charette program. She said that some have the misconception that the City is expecting the business district to be totally supported by the people that live in and around 15th NE. The City is only three miles across. Perhaps the people in neighboring communities could be encouraged to shop in the North City area if there is a variety of retail opportunities. She noted that the City is close to Seattle, and they should expand upon that opportunity. They are located on a major bus line and next to the freeway.

Cornelia Miller, 18200 15th Ave NE, said she moved to her home because it was close to the church she attends and she can walk to the businesses in the area. She is very excited about the proposed plan. However, she is concerned about the traffic. Walking along 15th Ave NE is dangerous. She suggested that they should lower the speed limit on 15th NE and get the police to patrol the area more to encourage people to slow down.

Robert Lamp, 18310 15th Ave NE, said that he has both a residence and business in the North City area. He moved to the area because of the opportunities for easy commute to both Seattle and Bellevue. He said he would like to see improvements made so that people living in the area could spend their disposable income locally instead of having to drive to another area. He commended the City for trying to improve the situation, and he would like to see the plan approved and implemented.

Mayor Scott Jepson, 20201 21st Place NW, thanked everyone who put time and effort into the plan. He agreed that the charette process was effective and the plan is a good document. His desire is that the Planning Commission review the plan, make the necessary changes and forward it to the City Council for consideration and implementation. Mayor Jepson said the City Council has identified this plan as a priority, and has already started talking about budget opportunities to begin the implementation of the plan. Commissioner Monroe inquired if the City could make low-interest loans available for development. Mayor Jepson answered that the Council is discussing opportunities to support the goals of the plan without tacking on more taxes and payments due.

Commissioner McClelland inquired if this type of project would be eligible for block grant funding. Mayor Jepson answered affirmatively. The Council has asked staff to consider whether the income level of the census tract would qualify the project for the block grant program.

Chair Gabbert said some of the developers have indicated that, if the City were to fund the up front costs of the street improvements, the developers would be willing to pay money back to the City over a period of time. They were not against paying for the improvements, as long as it didn't have to be done up front.

Mayor Jepson said that a lot of exploration is needed to address the financial aspects of implementing the plan. It is important to clearly understand the phasing and timing of the project. For example, he felt that the City must first take the initiative to implement the street changes in order to drive the process forward.

Mike McMahon pointed out that as properties are improved, there will be more tax revenue available to the City.

Elvirna Jackson, 1702 NE 179th Street, #102A, said that she certainly has enjoyed the improvements that are taking place and the ideas that are being considered. She suggested that they need to encourage the types of shops that will draw people to the area. Perhaps the City should consider a theme for the style of shops in the district.

THE PUBLIC PORTION OF THE HEARING WAS CLOSED.

The Commission decided that the discussion would be continued to the regular October 19, 2000 meeting.

Mr. Stewart summarized some of the issues that were presented and provided his thoughts on how they could be addressed. One of the major themes addressed by a number of people was that of density. There are two options available: a density bonus or a density free-zone that would rely upon massing and sizing as a constraint. Staff could prepare both of these options in written form for the Commission's further consideration. Another major concern was related to the tapering down of 15th NE Street. Staff has discussed this internally and feels that it is a good idea. Perhaps this should be addressed as an amendment to the transportation element of the plan. The concerns regarding cut through and spill over traffic are legitimate and can be dealt with during the environmental review process. Perhaps staff could articulate this concept better to illustrate how the negative impacts could be mitigated. Mr. Stewart agreed with Mayor Jepson that they should create a strategic plan to address the 13 key points. Staff will try to provide more details as to what the strategies might be.

Commissioner Monroe agreed with Commissioner McClelland's comment regarding flushing out the economic part of the plan. He suggested that perhaps they should seek help from the consultant who was responsible for providing the plans for the changes that took place at Crossroads Mall and Third Place Books as mentioned by Commissioner McClelland. Mr. Stewart answered that the City has spent all of the funds available for consultant services for this project. However, he agreed that this type of information could be useful when implementing the plan. It could be identified in the strategic plan as a work item in the future to assist in the implementation of the project. Commissioner McClelland suggested that it may be possible to get Ron Shear, the consultant for the Third Place Books and Crossroads developments to come before the Commission at no charge to share some of his success stories.

Chair Gabbert inquired about the City's plans to hire a new Economic Development staff person. Mr. Stewart said that the City is currently in the process of advertising and accepting applications to fill this position. He concluded that filling this position is a high priority.

Commissioner McClelland referred to the photographs provided by Mr. McMahon. She said that if the Commission were to consider the option of eliminating a density maximum and use bulk, scale, etc. they must be more attentive to design and how the project will look in the end. The Commission may need to discuss the street design further. Development such as this is supposed to be done in anticipation of better transit in the future. Commissioner McClelland thanked those who provided public testimony, and applauded them for taking the initiative to participate in the process.

Commissioner Harris inquired how many actual citizens and business owners participated. Ms. Kolousek said that within the three days approximately 80 people attended the design charette. Ms. Haines said that residents of her neighborhood are very vocal at the public meetings and are usually the first ones to let the City know that they are unhappy. However, she said she has not heard a single negative remark against the plan. While they are concerned about issues such as spill over traffic, they are excited to have plans for a viable shopping area.

Commissioner Doennebrink said that he agrees with the concerns raised by the public about traffic. He said he would like to see the other design alternatives that were considered throughout the process. He would also like to have more solid information regarding the traffic volume count.

COMMISSIONER DOENNEBRINK MOVED TO EXTEND THE MEETING FOR TEN MINUTES. COMMISSIONER MCCLELLAND SECONDED THE MOTION. MOTION CARRIED UNANIMOUSLY.

Commissioner Maloney said he is also concerned about the traffic and the impact of the increased density, as well as the impact the buses will have on the other traffic if the number of lanes is reduced to three. Before the Commission endorses this plan, they should have a good traffic impact study available for review. Mr. Stewart said the basic traffic study would consider all of the points and issues that have been identified on Page 19 of the North City Sub-Area Plan Draft. The City needs to understand the amount of traffic that would be redirected as a result of the constraints placed on 15th NE. Then they need to figure out how to increase the resistance on neighborhood streets so the traffic does not spill over.

The Commission discussed the traffic impacts associated with the proposed increase in density. Mr. Stewart said the intent of the plan is that the area become a transit friendly (not transit oriented) development. They are hoping that they can minimize cars by providing shared parking and reducing the parking requirements, etc.

Commissioner Doering referenced an article in the June 2000 *Costco Connections*, which was titled, "Good Neighborhoods Can Stimulate Small Business Growth." This article speaks specifically to the types of development now being considered for North City. She also referenced the Wallingford area, which is a vibrant community that illustrates that this type of development can be successful.

Commissioner Doering said that Mr. McMahon referenced a need to expedite the permitting process. Ms. Kolousek answered that the planned action SEPA process that is proposed would eliminate a lot of time consuming elements of the review process. Any type of project that complies with the design standards of the plan would not require additional SEPA review. However, a building permit would still be required. Ms. Kolousek further stated that the plan highly recommends the consolidation of properties. The Council is considering a budget proposal that would allow anyone who comes with an application that consolidates at least three properties, would only have to pay the fees for the development of one of the properties.

COMMISSIONER DOERING MOVED TO EXTEND THE MEETING FOR TEN MORE MINUTES. COMMISSIONER MARX SECONDED THE MOTION. MOTION CARRIED UNANIMOUSLY.

Commissioner Marx agreed that there needs to be more information provided regarding traffic. She said she would like to see a freeway flyer stop at 185th or 175th Streets. She also agreed that the strategic action plan should include funding next year for additional market study.

Chair Gabbert said he would like to have more information regarding other parking options that would allow more parking along the streets. He said he would also like verification of the average income for the area. Ms. Kolousek said that the data provided in the document is the only information that is available to indicate the average income of any area. Chair Gabbert said he would like more research on options that would enhance or build upon the design standards—particularly in terms of the density that is required to make a viable economic base.

Commissioner Monroe said that he would like to see diverse job or commercial opportunities addressed in addition to retail opportunities.

Chair Gabbert thanked the residents and business owners in the North City area for their participation in the plan. He also thanked the staff for their hard work.

6. UNFINISHED BUSINESS

There was no unfinished business scheduled on the agenda.

7. NEW BUSINESS

There was no new business scheduled on the agenda.

8. ADJOURNMENT

The meeting was adjourned at 9:50 p.m.

Marlin J. Gabbert
Chair, Planning Commission

Lanie Curry
Clerk, Planning Commission

These Minutes Approved
November 2, 2000

CITY OF SHORELINE

SHORELINE PLANNING COMMISSION
SUMMARY MINUTES OF REGULAR MEETING

October 19, 2000
7:00 P.M.

Shoreline Conference Center
Board Room

PRESENT
Chair Gabbert
Commissioner Maloney
Commissioner Doennebrink
Commissioner Marx
Commissioner Doering
Commissioner Harris
Commissioner Monroe
Commissioner McClelland

STAFF PRESENT
Tim Stewart, Director, Planning & Development Services
Anna Kolousek, Assistant Director, Planning & Development Services
Kirk McKinley, Planning Manager, Planning & Development Services
Rachael Markle, Senior Planner, Planning & Development Services
Lanie Curry, Planning Commission Clerk

ABSENT
Vice Chair McAuliffe

1. CALL TO ORDER

The regular meeting was called to order at 7:00 p.m. by Chair Gabbert.

2. ROLL CALL

Upon roll call by the Commission Clerk, the following Commissioners were present: Chair Gabbert, Commissioners Doering, Doennebrink, McClelland, Harris, Marx, Maloney and Monroe. Vice Chair McAuliffe was excused.

3. APPROVAL OF AGENDA

The Commission unanimously approved the agenda as proposed.

4. APPROVAL OF MINUTES

COMMISSIONER MALONEY MOVED TO ACCEPT THE MINUTES OF OCTOBER 5, 2000 AS SUBMITTED. COMMISSIONER MARX SECONDED THE MOTION. MOTION CARRIED UNANIMOUSLY.

COMMISSIONER MALONEY MOVED TO ACCEPT THE MINUTES OF SEPTEMBER 21, 2000 AS CORRECTED. COMMISSIONER DOENNEBRINK SECONDED THE MOTION. MOTION CARRIED UNANIMOUSLY.

5. PUBLIC COMMENT

Daniel Mann, 17920 Stone Avenue North, Shoreline, commented regarding the Aurora Avenue project. He encouraged the Commission to carefully review the project plan and solicit comments from the business owners who are concerned about the "stroke" of the current plan that is being developed. He concluded that there are a number of merchants who are supportive of change and improvements, but they feel that the present configuration of the plan is too large. They feel that the proposed continuous medians would be very detrimental to the business owners.

Mr. McKinley said that staff has scheduled a long work item on the Commission's November 2 agenda to walk them through the Aurora Avenue project process from the Comprehensive Plan and the citizens advisory task force to the decision by the Council on August 23, 1999. They will also address the next steps in the process and the questions and concerns that were raised at the open house.

6. REPORTS OF COMMISSIONERS

Commissioner Monroe said he was impressed with the recent public open house, and a number of citizens have expressed that this was a good opportunity for the public to discuss issues with the Commission and staff on an informal basis. He recommended that these meetings be held at least twice a year.

Commissioner Monroe noted that at the open house, several members of the public asked why the Planning Commission has not held a hearing on the currently proposed Aurora Corridor Plan. He concluded that by not holding a hearing on the different permutation of the Aurora Corridor Plan, the City is, in fact, denying the citizens their first amendment rights. He stated that a paramount law in design is that "form follows function." He questioned what the function of a 12-foot wide sidewalk would be other than to destroy dozens of valuable tax paying businesses.

Commissioner Doennebrink said that he, too, heard a lot of comments about the Aurora Corridor Plan at the open house. He has also noticed a lot of advertisements about the issue. He suggested that what is being advertised is not necessarily what the citizens advisory group approved. He agreed that the public should be given the opportunity to comment regarding the proposed plan.

Commissioner McClelland requested that when the Aurora Corridor Plan is discussed on November 2, staff provide information about which pieces of the plan are still negotiable and which are not.

Commissioner Maloney asked that the following issues be addressed on November 2:

- For the last several weeks, he has surveyed traffic at various locations and hours on Aurora Avenue (pedestrian, bus and car). He concluded that he does not believe that there is a bus problem on Aurora at this time. He is, therefore, totally confused about why they are planning to devote two lanes to buses. The problem is cars.
- It is not sensible to consider significant projects without furnishing responsible cost estimates at the time the alternatives are being considered.
- There is almost no foot traffic on Aurora Avenue, except in the vicinity of Shorewood High School. He cannot believe that building a 12-foot wide sidewalk would encourage massive foot traffic.
- It is important to identify the cost of the sidewalks. He noted that Shoreline already has one of the highest tax rates in the state, and he is hesitant to spend large amounts of money on projects when no justification has been provided.
- Who is going to maintain the landscaping that is placed in the proposed medians? What is the cost associated with the maintenance of the landscaping?
- Every alternative must be pursued to make the project sufficiently flexible so that businesses are not impaired by the project.

Commissioner McClelland added that she would like more information regarding business relocation. She would like to understand the City's provisions for displacement and relocation, etc.

Commissioner McClelland thanked the City for supporting the Commission's participation in the American Planning Association (APA), and for allowing three Commissioners to attend the recent conference. She noted that Carol Swain, a Planning Commissioner for Bellevue, Nebraska, travels the country speaking to Commissions regarding ethics. She suggested that perhaps the City could invite her to make a presentation before the Shoreline Planning Commission. The Commission concluded that Commissioner McClelland, Commissioner Monroe, Chair Gabbert and the staff members who attended the conference each provide a brief synopsis on the sessions that they attended. The presentation would take place at the Commission's regular meeting on November 16, 2000.

7. STAFF REPORTS

a. North City Sub-Area Plan Response

Ms. Kolousek recalled that at the last hearing on the North City Sub-Area Plan, the Commission asked staff to address a number of issues.

Ms. Kolousek said that staff is recommending that the restriction on the number of dwelling units in the commercial business zone be eliminated subject to compliance with the North City Plan and special district street overlay zones. She advised that at this time there are two commercial zones on the Main Street. The regional business zone has no density limitations, but the majority of the area is zoned commercial business. Commercial business allows a maximum of 48 dwelling units per acre, but an unlimited amount of business and office space. Because there is a 60-foot height limitation, standards for facade modulation, setback requirements for upper stories, etc., the building will look the same from the outside regardless of what is within the building envelope. The financial analysis indicates that 60 dwelling units would be feasible in the same amount of space that is currently limited to 48. Therefore, staff is recommending that the area within the overlay zone be density free. If a developer complies with all of the standards identified in the code, they could choose the interior design of the building and how many dwelling units would be constructed.

Ms. Kolousek said the Commission expressed concern about the necessary design standards. She stated that the design standards for the North City Sub-Area Plan would supplement the design standards already identified in the Development Code which was recently approved by the Commission and Council. She referred to Pages 154 to 168 of the new Development Code which provide illustrations of the design standards. She reviewed each of the illustrations and standards which address setbacks, building entries, street facades, corners, etc. She clarified that these standards apply to all development in the City. The proposed sub-area plan would supplement the development standards with site-specific standards for the main street overlay zone. These standards identify and address the priorities discussed by the public at the design charette such as corner buildings, building coverage, vertical setbacks, ground floor clearance for residential units, sidewalk encroachment and size. She concluded that the additional standards are appropriate as proposed.

Commissioner Monroe noted that the City is already concerned about traffic on 15th Avenue NE and some of the ancillary streets, yet they are proposing to place a lot more residential units in the area. This will increase the number of automobiles using the streets. Ms. Kolousek explained that 1,500 additional units are proposed for a four-mile radius. Within the two-mile radius the plan proposes up to 785 dwelling units between 1999 and 2004. The financial analysis indicates that the business area could serve up to a four-mile radius. They are not saying that the 1,500 people would move within the 2-mile radius. Commissioner Monroe said that if they are going to encourage an increase of up to 1,500 residential units and encourage these people to shop in the North City area, they need to address the traffic. Ms. Kolousek agreed that traffic is a significant issue which she would address later on.

Chair Gabbert suggested that they need to clarify the actual number of dwelling units that are anticipated. Commissioner McClelland questioned how many acres are included in the sub-area plan. Mr. McKinley answered that the four development sites in the plan add up to about 9 acres total.

Commissioner McClelland inquired about the net increase in population associated with the proposed plan. She questioned why the City feels a need to create an opportunity to invite 1,500 more people to the City in a nine-acre confined area. Mr. Stewart clarified that the Shoreline Comprehensive Plan has a 20-year target of 1,600 to 2,400 new units, starting in 1998. The City has an obligation to meet this target, which calculates into 100 dwelling units per year. The big policy debate is where to place this additional population. One option is to reduce the lot sizes and allow short platting to occur in all existing neighborhoods. However, the City adopted the policy of increasing the lot size to 7,200 square feet minimum throughout all neighborhoods and then finding other opportunities for more intensive development. The North City area is one of the neighborhoods that articulated an interest in increasing their density. It is hoped that this plan would provide a model for other developments of this type throughout the City. He added that after the 2000 census standards are released the growth numbers will be reallocated. The City's projected increase, as identified in the Comprehensive Plan, may need to be adjusted.

Mr. Stewart clarified that the market analysis indicated that there was sufficient market in North City's general catchment area of four miles to support 1,500 units. It does not really matter what the target is if the demand is not present, as well. This area has a strong market and could easily accommodate 200 dwelling units in the first phase of the plan.

The Commission continued to discuss the 1,500 units that were identified in the market analysis. Staff provided further clarification of the market analysis. They also discussed the pros and cons and feasibility of building smaller condominiums and apartments verses single-family homes. Ms. Kolousek particularly referred to Page 23 of the sub area plan (the market analysis), which indicates the past trends in household growth and projected growth for the two-mile radius. It also identifies the number of units that could potentially be developed within the four-mile radius based on the past trends.

Commissioner McClelland questioned whether the City would be willing to offer a break to a developer who finds that he cannot feasibly meet all of the design standards. She said that if the plan is to be successful, it is imperative that the City does not equivocate on design under any circumstances. Chair Gabbert said that he did three mixed-use developments in Seattle during a time when they were just putting their mixed-use ordinance into affect. The City of Seattle was not willing to give or take to make the projects feasible. He suggested that the City should allow some flexibility so the developer is not locked into a specific density number, but he agreed that the parameters of the design code should not be weakened. Mr. Stewart agreed that it is critical that design standards are established to remove the risks associated with change.

Mr. Stewart clarified that staff recommends that no density limit be established. The density would be determined by the mass and bulk of the building allowed. This would give the developer flexibility to determine the appropriate size and number of residential units necessary to make the project feasible. The City will have to consider the potential impacts of the plan to the environment as part of the Planned Action Environmental Impact Statement (EIS).

Regarding the impact to schools, Mr. Stewart pointed out that the Comprehensive Plan already states that schools will have to absorb the impacts associated with 1,600 to 2,400 more dwelling units. However, this issue and other site-specific impacts of development to the local network and abutting neighborhoods will be considered as part of the environmental review. As part of the environmental review, the City will consider whether there is sufficient utility capability to accommodate the potential growth associated with the plan. Mr. Stewart added that the EIS would identify the maximum build out and any mitigation that is necessary. However, what is actually built on the site will be based on what the market can support. Commissioner Maloney stated that if the utility capacity is not sufficient and cannot be mitigated, then the densities cannot rise above the capabilities of the infrastructure. Mr. Stewart agreed and said the purpose of the EIS is to establish those limits and identify mitigation measures. Commissioner Harris concluded that if the utility capacity is not sufficient, the developer would be required to mitigate the issue.

Mr. Stewart said one of the City's strategies (Page 18 of Staff Report) is to do a Planned Action EIS on an area basis to clear up the issues of concerns. The City is, basically, providing a subsidy to the developers. The City feels this is a valuable investment because it will encourage the redevelopment of North City.

Ms. Kolousek said it is a disappointing that most of the Commissioners did not attend the design charette. Many of the questions that are being raised were answered during the charette process.

Ms. Kolousek referred to the traffic study, which was divided into two sections: 15th Avenue and traffic on the adjacent streets. The necessary physical dimension of the right-of-way to accommodate the traffic volumes, pedestrian access and parking was determined to be 71 feet from the building façade on one side of the street to the building façade on the other side. She specifically referred to Page 20 of Part 1 of the sub-area plan, and said the physical right-of-way is currently 73 feet, but in most instances the sidewalk is not present. The right-of-way would be two-feet greater for corner lots.

Ms. Kolousek said the preferred option for the plan is to put two lanes of traffic (one each direction, and one turning lane in the center) and parallel parking and wider sidewalks on each side, but this will all be done within the same building setbacks that currently exist. This option, along with other options, will be analyzed and tested during the Planned Action EIS review.

Ms. Kolousek said that the traffic is already impacting the surrounding neighborhoods. Many citizens commented on this issue during the charette, and the recommendation in the plan is to mitigate the traffic on the adjacent streets. They are asking for a mitigation plan, as part of the SEPA review, for the traffic on the adjacent streets. This would ensure that the impacts of the traffic changes would not significantly affect the neighborhoods. Staff is proposing that this information be available by March or April of 2001. (Page 30 of the staff report).

Ms. Kolousek said that parking was also discussed as part of the charette. Almost every business has at least one access driveway and some have two. The current number of parking spaces possible is 60, but if the driveways were eliminated and access is provided from the alleys behind the buildings the number of parking stalls on the street could be doubled.

Commissioner Maloney questioned if it would be more sensible to collect all of the facts and complete the Planned Action SEPA review before voting to approve the plan. Ms. Kolousek said they have discussed this issue with the EIS consultant and other jurisdictions and both felt it was better to have a plan to analyze. The footprints are analyzed in the Comprehensive Plan, but the mitigation for the full development would be the major part of the SEPA review. The mitigation will be stated in the ordinance and would not change the plan. She said staff does not foresee that the design standards for the building would be changed, nor would the design of the built environment change. The exception is the mitigation of the adjacent road and the infrastructure underneath.

Commissioner Maloney suggested that Environmental Impact Statements are not pure documents. They are written to order according to the needs of the customer. If the writer of the EIS is given a plan, then he will try to make the EIS fit the plan. But, if he does not have a plan to consider, there is a better chance of getting a more objective EIS. Ms. Kolousek disagreed. She said the State does not allow an EIS to justify a plan. It allows the EIS to mitigate the impacts of the plan. She said the City could immediately recommend adoption of the plan and adoption of the Comprehensive Plan EIS by reference. Every expert from SEPA advised the City to do that. The Comprehensive Plan land use designation would not change. The planned action would refine the Comprehensive Plan data so that they do not have to require a SEPA review on a project-by-project basis. The other option would be to adopt the plan and then ask each individual developer to complete a separate SEPA review.

Commissioner Maloney said that he is not against the City seeking a blanket SEPA determination, but he is concerned that the determination will not be objective. Chair Gabbert explained one of his personal experiences with the SEPA review process. He concluded that the SEPA review process is effective in dealing with the mitigation measures. Mr. Stewart agreed, and stated that SEPA determinations are open to public challenge. He referenced Page 30 of the Staff Report and reviewed the proposed process for the Planned Action SEPA review and adoption of the ordinance. Staff is asking the Commission to take action on the proposed plan now. The City is about to embark upon a very large and expensive SEPA review within the next few weeks. Before he can commit the City's money to that effort, he needs to be confident that the Commission will support the plan. He clarified, however, that the Commission's support can be subject to environmental impacts and the City's ability to mitigate. The recommendation and approval would not be forwarded to the Council until after the detailed environmental work is done. If the data from the EIS shows that they are unable to mitigate the traffic issues, the Commission would have the ability to take appropriate action before the plan is forwarded to the Council.

Mr. Stewart said that the City is in the process of developing a budget for 2001. There is going to be a proposal for millions of dollars in capital improvements devoted to this effort starting next year. It is important that problems with the plan are identified before the staff seeks money for implementation.

Commissioner Monroe said that before he could feel comfortable recommending the plan, he needs to understand the costs of mitigating the primary and secondary impacts that are identified in the SEPA review.

Chair Gabbert said that at the charette they discussed parallel verses diagonal parking to maximize parking opportunities. He inquired if the Commission would have the ability and flexibility to reconsider the configuration of the street and parking after the plan is approved and forwarded for the environmental impact review. Ms. Kolousek said that none of the traffic engineers could provide data that would support diagonal parking in the area. Commissioner Doering said that Colby Avenue in Everett has diagonal parking, and there are many safety issues associated with it, including safety for bicycles. Chair Gabbert inquired if diagonal parking would be considered as part of the EIS review. Mr. Stewart said the fundamental goal of the plan, at build out, is to maximize shared parking opportunities. He concluded that the investor has the burden of making sure that the parking demand is satisfied. A successful project needs to have adequate parking.

Ms. Kolousek said the number one strategy for implementation of the plan is the completion of a Planned Action SEPA Review (Page 18 of the Staff Report), which would provide a certain degree of incentive to the developers who comply exactly with the plan. Plans that do not comply with all of the standards will be required to go through the regular development code process (neighborhood meeting, SEPA review, notification, public hearings, etc.). Plans that do comply with the standards will be able to skip this process. The Planned Action SEPA would evaluate each of the demonstration sites as proposed based on maximum potential build out. This SEPA review should be completed and released to the public and Commission for review by the end of January. If the data supports the EIS, then a final EIS will be presented to the Council together with the plan.

Ms. Kolousek said the staff is recommending an advance to the Capital Improvement Program for 2001 so that resources can be allocated to identify mitigation measures for the adjacent streets and develop designs for the sidewalks and traffic improvements proposed to satisfy the traffic flow. Also, the plan proposes that the City hire a new Economic Development Coordinator to market the area, improve the building permit review process, facilitate the transit oriented development and work with transit to improve bus connections, etc.

Ms. Kolousek concluded that staff recommends the Commission recommend approval of the proposed sub area plan and code, that a Planned Action SEPA be completed by the City, and that the Council advance the 2001 CIP to mitigate the traffic impacts associated with the plan.

8. UNFINISHED BUSINESS

a. Type L Action: North City Sub-Area Plan

Commissioner Doering inquired if there are guidelines, as part of the SEPA review, for the types of businesses that will support a community such as that being proposed. Ms. Kolousek replied that economic issues are not addressed as part of a SEPA review. However, Mr. Stewart added that the SEPA review would analyze the types of land uses that would provide services to the neighborhoods to make sure that there would not be a significant adverse impact. Ms. Kolousek described the Planned Action SEPA review process.

Commissioner McClelland said she helped with a sub area plan for Factoria ten years ago, and they are just now starting to implement the plans for bringing the buildings out to the sidewalk. This plan was regarded as an outlandish concept at the time. She said she would like to keep the plan in the context of a vision of the possibilities that could happen. It may take twenty years to implement. She said she doesn't want to get bogged down with too much detail because details would be addressed as part of the EIS review. She suggested the Commission should offer their support of the plan as recommended by staff.

Commissioner McClelland recalled that when the Commission met with the Council, many indicated that they would like to have more and stronger financial information. If the EIS won't include a more detailed economic analysis, she questioned where the City would obtain this data? Mr. Stewart said it was the consensus of the staff that they have probably gone as far from a public point of view as they can with the market analysis. The next market studies have got to be done by the private sector and by their lenders. Staff's intent was to clear up the permit and capital improvement issues, and then rely upon the private sector to consider the fiscal issues.

Commissioner McClelland said that she supports the Planned Action EIS, but she hopes that the traffic improvements are not contingent upon approval of the plan. Anything that can be done to improve pedestrian and bicycle circulation should be a stand-alone priority. Cut-through traffic should also be addressed whether or not the plan is approved. Mr. Stewart agreed, and said the intent of the plan is to make the post development traffic situation better than what currently exists.

Commissioner Maloney said he likes the plan, but he is concerned about how they can increase the number of local cars, reduce the number of traffic lanes and still say the traffic situation will be improved. Mr. Stewart said that it appears that as much as 40 percent of the traffic on 15th Ave NE is cut-through traffic. Eliminating this traffic on 15th Ave NE will alleviate much of this problem.

COMMISSIONER MALONEY MOVED TO EXTEND THE MEETING TO 9:45 P.M. COMMISSIONER MARX SECONDED THE MOTION. MOTION CARRIED UNANIMOUSLY.

Commissioner Harris suggested that whether the plan is implemented or not would be totally based on the economy. The City doesn't know what the economy will be like in the future. He said he agrees with Commissioner Maloney's concerns regarding traffic and parking. He agrees that the economy is responsible for public patterns. He does not feel that the City can change the way people operate just by creating a plan. He supports the plan if it can be built in the proposed configuration. He added, however, that the North City business district is viable in its current configuration. He noted several very successful businesses that are located in this area.

Commissioner Doennebrink said that he, too, likes the plan, but he supports Commissioner Maloney's concerns regarding traffic. He referred to the traffic count data that was collected in 1999. There is over 1,000 cars going through that street during peak hours. Where would this traffic be rerouted?

Commissioner Marx said the Commission is obligated to provide alternatives to driving. The Commission should ask the City Council to invest some money on a flyer stop at N 185th and I-5 from the HOV lane. This would significantly improve the City's opportunity to get some Sound Transit service. Mr. McKinley said that the Commission recommended to the Council, as part of the Comprehensive Plan, that either a flyer stop or direct access ramps at N 185th be considered. He agreed that this concept would be appropriately addressed as part of the North City Sub-Area Plan.

Commissioner Maloney inquired if the vote on the plan could be postponed until after the EIS is prepared. Instead, the Commission could express that they like the plan. Commissioner Marx suggested that the Commission should vote on the plan, but not forward it to the Council until after the SEPA results are available. Mr. Stewart said that the proposed process does not include a vote by the Council until after the Planning Commission has had the opportunity to review the EIS. Council approval of the plan and the Planned Action EIS must take place concurrently.

Commissioner Maloney asked staff to state, for the record, that if the Commission doesn't like what the EIS says, they can vote against the plan or make changes. Mr. Stewart answered affirmatively. The Commission will have the ability to adjust, amend or change their recommendation to the Council following the publication of the draft EIS.

COMMISSIONER MARX MOVED TO ACCEPT THE STAFF'S RECOMMENDATION FOR THE NORTH CITY SUB-AREA PLAN WITH THE ADDITION THAT THE STAFF ALSO CONSIDER A TRANSIT FLYER STOP AT N 185TH AS A POTENTIAL MITIGATION MEASURE. COMMISSIONER DOERING SECONDED THE MOTION. MOTION CARRIED UNANIMOUSLY.

b. Open House Discussion

The Commission did not have time to discuss this item.

9. NEW BUSINESS

There was no new business scheduled on the agenda.

10. AGENDA FOR THE NEXT MEETING

The Commission did not discuss this item.

11. ADJOURNMENT

The meeting was adjourned at 9:45 p.m.

Marlin J. Gabbert
Chair, Planning Commission

Lanie Curry
Clerk, Planning Commission

Council Meeting Date: January 16, 2000 **Agenda Item: 6(b)**

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Water Service Report – Discussion of Key Policy Issues
DEPARTMENT:	City Manager's Office
PRESENTED BY:	Kristoff T. Bauer, Assistant to the City Manager

EXECUTIVE / COUNCIL SUMMARY

In June, your Council authorized the execution of a contract with CH2M Hill to perform more detailed analysis regarding one of the options for development of the City's role in ensuring the adequate provision of water services, i.e. the assumption of the Shoreline Water District. CH2M Hill has reached a point in its analysis where direction from your Council regarding certain policy decisions is necessary in order for them to complete that analysis. A report from CH2M Hill outlining these issues, describing alternatives, and making specific recommendations is attached for Council's consideration.

Your Council's action in June and tonight's discussion are part of the City's continued effort to explore the City's role in ensuring the adequate provision of water services. This exploration has been narrowed by past Council direction in January and February 2000 to the following three potential service alternatives, i.e.:

1. **Annexing to the District:** Staff would focus on negotiating an interlocal supporting District efforts to acquire and operate SPU's service area in Shoreline.
2. **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.
3. **Acquiring SPU's and assuming the District's service systems and serving all of Shoreline:** This combines the second option with acquiring SPU's service area resulting in a City utility serving all of Shoreline and potentially part of Lake Forest Park.

Public interest and discussion since February has focused on the pros and cons of option 2. Your Council, the Shoreline Water District, the City of Lake Forest Park, and interested citizens have raised a number of very specific issues regarding this alternative, e.g. "what would this mean for rates?" "what would happen to current assets of the District?" "how would District employees be integrated into the City?" and more. Answering these questions requires detailed analysis based either upon actual policy decisions or specific policy alternatives. The purpose of the attached report and tonight's discussion is to obtain policy direction from your Council that will allow CH2M

Hill to answer these questions. The report addressing these questions directly will be presented at a later date.

The attached report attempts to provide sufficient information for your Council to understand each recommendation and alternatives thereto without providing overwhelming detail. It does not provide a detailed history and analysis on each issue, nor does it reflect the complete breadth of analysis that has been performed by CH2M Hill and/or staff on each issue. It is instead a summary and articulation of key details with the purpose of predicting the outcome of potential more detailed policy discussions that would occur if the City were to assume and then operate the Shoreline Water District. The intent of this process is to ascertain your Council's comfort with recommended assumptions that will form the basis of further analysis, not to arrive at specific policy decisions that can not be revisited and revised at a latter date based upon additional information.

CH2M Hill will utilize the discussion before your Council as the basis for the completion of its report regarding the potential impacts of assuming the Water District that should be completed in early 2001.

The attached report discusses policy issues in four topic areas, i.e. Cooperation with Lake Forest Park, Long Term Water Supply, Rates and Financial Management, and Resources. Key recommendations within these topic areas include:

- Working with Lake Forest Park to ensure that their elected officials are given the ability and authority to represent their citizens in the provision of water services;
- Focusing on participation in regional development of water supply options; and
- Reducing planned capital expenditures consistent with the recommendation on long-term water supply and prudent engineering practices.

Some of the detailed recommendations result in cost savings, while others would likely increase the cost of operating the water utility. The estimated cumulative impact of all recommendations is an estimated rate reduction of 17%.

RECOMMENDATION

This item is for discussion purposes only. No formal action is required. Consensus, however, supporting the recommendations included in the attached report from CH2M Hill is requested.

Approved By: City Manager DS City Attorney N/A

BACKGROUND

The Growth Management Act ("GMA") places the responsibility to plan and ensure the provision of adequate utility services on cities. The City's 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 was first discussed with your Council in June of 1996. At that time, your Council requested addition analysis regarding the City's options in this area, but directed staff to focus initially on electrical services.

In January of 1999, staff presented a report drafted by CH2M Hill comparing and contrasting the level of service provided by the Shoreline Water District ("District") and Seattle Public Utilities ("SPU"). Optional roles for the City in ensuring adequate water service and next possible steps based thereon were also explored. At that time, your Council directed staff to engage the District and SPU in an effort to perform further analysis regarding this issue. Specifically staff was asked to compare the effect of three of the five optional roles, presented in the report, for the City in ensuring adequate water services on three specific criteria and to bring the results of that analysis back to your Council.

The results of that analysis, summarized in the following chart, were discussed with your Council in February 2000:

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

The table above does not fully represent the complexity of the issues or the depth of analysis discussed with your Council, but is intended only to refresh your recollection of that discussion. At the conclusion of that discussion, staff was not provided with a clear consensus regarding Council's desired next steps regarding this issue.

In June 2000, your Council directed staff to perform additional analysis on the the potential impacts of the City assuming the District, which is an element of both the second and third optional City roles discussed by the February report. The discussion presented herein is a necessary step in completing that additional analysis.

ANALYSIS

The attached report makes recommendations in three areas: Cooperation with Lake Forest Park, Long Term Water Supply, and Rates and Financial Management. Not all of the issues discussed under these topic areas have quantifiable financial impacts on the operations of the water utility. Each does, however, affect the potential impact of

City action to assume the Shoreline Water District. The table below summarizes the recommendations contained in the report. The report itself contains further discussion of each recommendation and alternatives thereto.

Staff did provide a draft of the attached report to both the City of Lake Forest Park and the Shoreline Water District for comments. Some of those comments will be responded to in the following discussion.[1] The remainder will be discussed during staff's presentation to your Council on this item.

A Cooperation with Lake Forest Park

1) What is the proposed boundary of the water utility?

(1) Assume the entire District service area; (Recommended)

(2) Assume only that portion of the service area within the City of Shoreline; or

(3) Split the District with Lake Forest Park.

2) How does the LFP Council affect decisions made with respect to its residents?

(1) The Shoreline City Council could retain sole authority to set policies for the whole service area;

(2) The LFP Mayor and Council could be given a formal advisory role with respect to policies that impact LFP residents; or

(3) The LFP Council could be given authority to set or ratify policies that impact LFP residents. (Recommended)

3) How is the rate in Lake Forest Park set and changed?

(1) Maintain a uniform rate throughout the service area, set by Shoreline City Council with no formal input from LFP; or

(2) Maintain a uniform rate throughout the service area, set by Shoreline City Council with input from a Citizen's Rate Advisory Committee consisting of citizens throughout the service area including LFP; or

(3) Maintain a uniform rate throughout the service area, set by Shoreline City Council, which must be approved by the LFP Mayor and Council; or

(4) Allow differential rates with each jurisdiction having the authority to establish rates for the customers within their city. (Recommended)

(Lake Forest Park correctly pointed out that Shoreline could not transfer its statutory obligation to establish rates to the City of Lake Forest Park. If Shoreline were to assume the District, then your Council would have the sole authority and responsibility to establish rates that comply with state regulations. Shoreline could, however, give the Lake Forest Park Council authority, by contract, to make the decisions, i.e. capital investment and service levels, which form the basis for rate calculations. While the actual statutory authority and act of setting rates would stay with the City of Shoreline, the actual rate within Lake Forest Park could, and is recommended to be a result of decisions made by the Lake Forest Park Council.)

[1] The City did not receive the District's comments prior to the finalization of this and the attached report. Their comments will be addressed during the presentation on this item.

B Long Term Water Supply

1) How should a long-term water supply be secured?

(1) Negotiate a long-term wholesale agreement for the eastern portion of the City, with either the Cascade Water Alliance (CWA), Water Supply Association (WSA) or directly with Seattle; (Recommended)

(2) Convert the eastern portion of the City to a retail customer of Seattle, similar to the presently Seattle served area west of Interstate 5;

(3) Proceed on a separate pathway; or

(4) Proceed with the filter plant on Lake Washington.

C Rates and Financial Management

1) How much of the District's Capital Improvement Program does the City wish to pursue?

(1) District draft Water System Plan CIP;

(2) Scaled back replacement/expansion CIP;

(3) Scaled back water supply CIP; or

(4) Scaled back water supply and replacement/expansion CIP. (Recommended)

2) Will the City's central services allocation model be applied to the newly created water utility?

(1) Do not centralize administrative services and do not apply the City's allocation model; or

(2) Centralize administrative services and apply the City's allocation model. (Recommended)

3) Will the City share equipment between utilities to decrease overall costs to the ratepayer?

(1) Yes, to the maximum extent possible; or (Recommended)

(2) No.

4) How will existing District debt be repaid?

(1) Accelerate repayment of debt by using rate revenues and/or reserves to pay debt principal early;

(2) Repay debt according to existing District schedule; or (Recommended)

(3) Refinance existing revenue bond debt.

5) Is a utility tax included in the rate?

(1) No utility tax;

(2) 6% utility tax on entire utility; or

(3) 6% utility tax for City of Shoreline customers. (Recommended)

D Resources

1) How does the City wish to dispose of existing non-cash assets, e.g. land, building, and equipment?

(1) Sell DNR property, buildings, and equipment;

(2) Sell DNR property, keep buildings and equipment; or

(3) Keep DNR property, buildings, and equipment. (Recommended)

2) What to do with reserves accumulated in the past by the District?

(1) Minimum capital reserve balance of $0; or

(2) Maintain a minimum capital reserve balance. ***(For the purposes of this analysis, a minimum balance of $1,000,000 is suggested.)*** **(Recommended)**

AND

(1) Use capital reserves to fund capital improvements;

(2) Use capital reserves to fund capital improvements ***(including use of capital reserves as "local share" to obtain low interest loans)*****; (Recommended)**

(3) Use capital reserves to repay debt service;

(4) Use capital reserves to reduce rates; or

(5) Use capital reserves to provide direct "refund" to system customers.

The estimated cumulative quantifiable impacts of all these recommendations includes a 17% reduction in water service rates, an additional $190,000 in General Fund revenue, and a $275,000 reduction in administrative expenses allocated to existing City services, i.e. Parks, Recreation, and Cultural Services, and Planning and Development Services.

The final report will place these potential impacts in context with other, less quantifiable, impacts that may result from City action to assume the Shoreline Water District.

RECOMMENDATION

This item is for discussion purposes only. No formal action is required. Consensus, however, supporting the recommendations included in the attached report from CH2M Hill is requested.

Approved By: City Manager ____ City Attorney ___

ATTACHMENTS

Attachment A – Policy Decision Related to the Impact Analysis of the Assumption of the Shoreline Water District Alternative

Policy Decisions Related to the Impact Analysis of the Assumption of the Shoreline Water District Alternative

PREPARED FOR: City of Shoreline

PREPARED BY: David Parkinson, CH2M HILL

DATE: January 5, 2001

Introduction

The City of Shoreline (City) has been working for some time to determine the appropriate action it should take, if any, to fulfill its responsibility to ensure the adequate provision of water services to its citizens. Assuming the Shoreline Water District (District) is one of the options under consideration. To inform the decision making process, the City contracted with CH2M Hill to answer an apparently simple question, i.e. "what impact would Shoreline's assumption of the District have on current District customers?" The answer to this question is dependent on a number of policy decisions that the City Council would face should it proceed with such an assumption. The purpose of this report is to explore those policy decisions making a recommendation for each. These policy decisions will provide the basis for additional analysis that will result in a report to be presented to the City Council at a future date.

The following discussion is broken into three general decision areas. The first deals with the City of Lake Forest Park (LFP) and how an assumption could be coordinated with that agency. The second looks at long-term water supply and related issues. The third area focuses on financial management issues and operational issues that impact the finances of a potential City water utility. Each of these areas will discuss decisions that are necessary to form a complete picture of likely changes resulting from a decision by the City to assume the District.

Section A: Cooperation with Lake Forest Park

1) What is the proposed boundary of the water utility?

Background. The current boundary of the District's water service area encompasses approximately 5 square miles within the cities of Shoreline and Lake Forest Park. The boundaries are south to NE 145th St., north to the King/Snohomish County line at NE 205th St, west to I-5 and beyond, and southeast to Lake Washington and northeast to NE 35th Avenue. (See Figure 3.1 attached)[1]

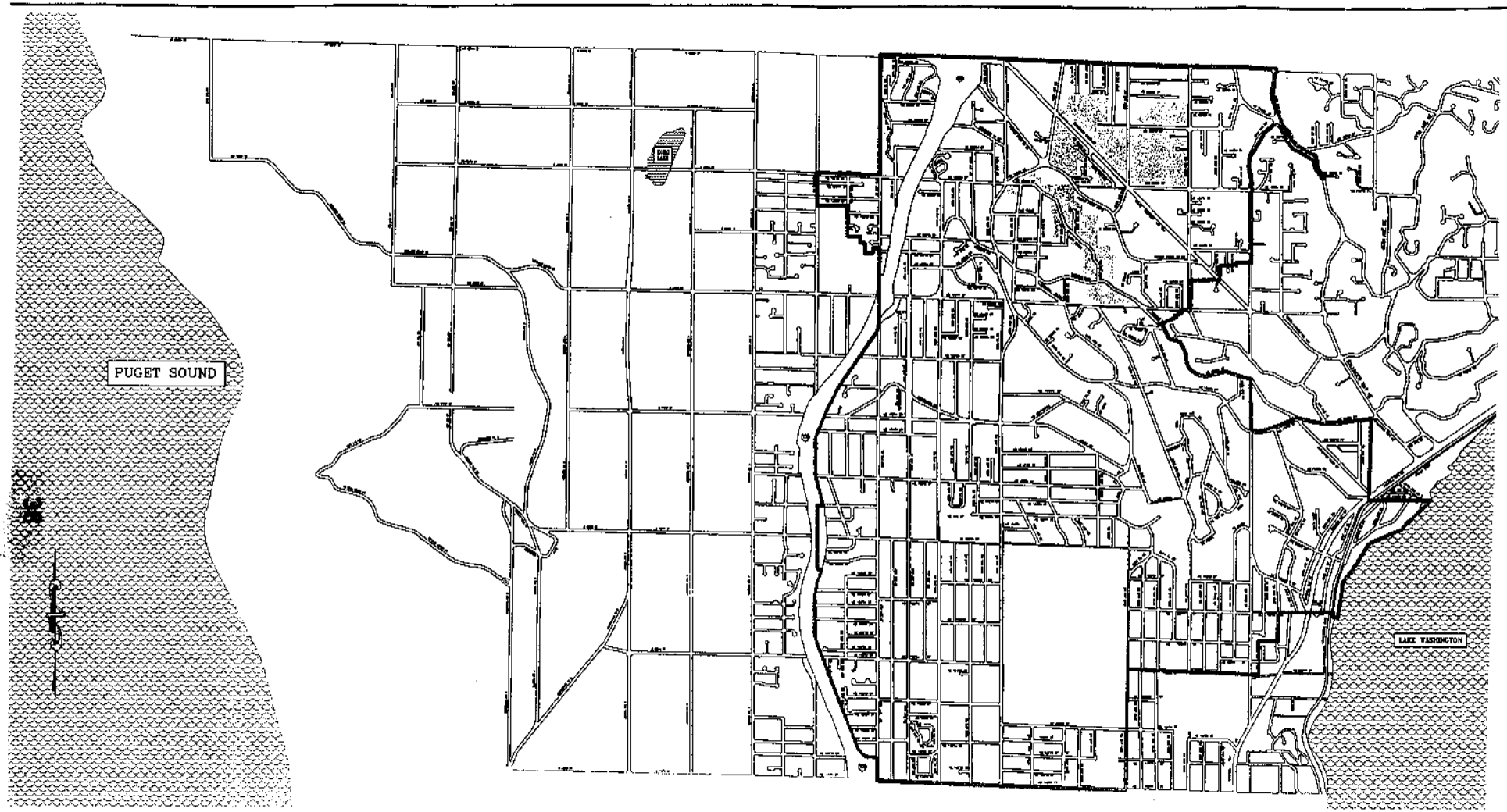
Evaluation. The City has three alternatives to consider:

(1) Assume the entire District service area;

(2) Assume only that portion of the service area within the City of Shoreline; or

(3) Split the District with Lake Forest Park.

[1] This figure is taken from the Shoreline Water District's planning document. Its representation of City boundaries is not accurate.



Legend

- Shoreline Water District Boundary
- City of Shoreline
- City of Lake Forest Park
- Unincorporated King County

RH2 ENGINEERS PLANNERS SCIENTISTS

DRAWING IS NOT TO SCALE

Figure 3-1

Land Use Planning Jurisdictions

Shoreline Water District
Comprehensive Water System Plan

JUL 07, 1999

Alternative 1. Assuming the entire District, would allow the City to continue to operate the water system in its existing configuration and manner. The City of Lake Forest Park would need to provide the City with a franchise or some other agreement allowing it to operate a water utility within Lake Forest Park.

Alternative 2. Assuming only that portion of the District's service area located within the City would leave the District operating in Lake Forest Park. To accomplish this division the City would have to demonstrate the viability of the remaining District which may be difficult given the distribution of facilities (most of the storage and supply facilities along with the District's administrative and operational buildings are located in the City). Cooperative operational or asset sharing agreements with the District and/or potentially significant capital expenditures would be required to ensure the viability of the separated system.

Alternative 3. Similar to alternative 2, this option would require a demonstration by both LFP and the City that the separated system would be viable. Cooperative operational and/or asset sharing agreements between the cities would be necessary. Agreement regarding how District assets, liabilities, and personnel would be distributed between the cities would need to be reached. Most important, both cities would have to agree on the desirability of this course of action.

Additional Notes. The Shoreline Wastewater Management District is in the process of acquiring Seattle Public Utilities' wastewater service area within both the City and LFP. This process requires the Wastewater Management District to gain the same authorization from LFP that the City would need to assume the District. LFP granted that authorization with the condition that it could decide to acquire and operate that portion of Seattle Public Utilities' system within its boundaries under specific terms and conditions. Preliminary discussions with LFP indicate that they would likely require a similar option be included in any agreement necessary to allow the City to assume the entire District.

Recommendation. Staff recommends Alternative 1. LFP is not, at this time, as far along as the City is in its analysis of utility service options. In addition, both options 2 & 3 would be more time consuming and costly to complete due to the additional required analysis regarding viability and the complexities of separation.

2) How does the LFP Council affect decisions made with respect to its residents?

Background. An assumption of the District by the City raises issues related to water service to residents outside the City. Approximately 25% of the customers currently served by the District live in LFP.

LFP does not presently operate a water system within its boundary. Water service to its residents is provided by either the District, Water District 83, or Northshore Utility District. Each of these entities have their own separately elected board of commissioners who establish the policies under which service is provided to their respective customers. The LFP Mayor and Council have no role in making those policy decisions.

If the City were to assume the District, the Shoreline City Council would have the authority to make all the policy decisions related to the operations of the newly formed utility even for those operations within LFP. As discussed above, LFP must authorize the operation of that utility within its boundaries in order for this to occur.

Evaluation. The City has three broad alternatives to consider:

(1) The Shoreline City Council could retain sole authority to set policies for the whole service area;

(2) The LFP Mayor and Council could be given a formal advisory role with respect to policies that impact LFP residents; or

(3) The LFP Mayor and Council could be given authority to set or ratify policies that impact LFP residents.[2]

Alternative 1. This alternative is analogous to the City's current relationship with Seattle Public Utilities and Seattle City Light. This alternative is the most efficient, because utility operations are accountable to only one elected body, and policies and operations are consistent across the entire service area. LFP customers, however, would not have the ability to hold the Shoreline City Council accountable for the service that they receive.

Alternative 2. This alternative would increase the administrative burden of operating the utility due to the burden of informing and working with LFP in order to make policy decisions. It does, however, ensure that customers within LFP have a formal mechanism through which to influence policies that impact their water service.

Alternative 3. This alternative would be the most administratively burdensome requiring utility staff to potentially act as if managing two separate utilities, i.e. expenses, revenues, and policies would need to be segregated. Coordination of operations could be complex if policies diverge in significant ways.

Additional Notes. It was noted in the discussion above regarding service boundary that LFP would likely require that any agreement authorizing the City to operate a utility in its city include an option for LFP to acquire that service area in the future should it form its own utility. Should LFP choose to exercise this option alternative 3 would simplify the transition because resources and costs will already be allocated between the two service areas. At the same time, granting LFP most if not all of the privileges of utility ownership in accordance with alternative 3 should make it less likely that they will choose to exercise that option.

LFP elected officials have expressed an interest in ensuring that water utility operations remain accountable to the customers within LFP.

It should also be noted that LFP would need to approve a new utility's comprehensive plan and updates there-to regardless of the alternative selected above.

Recommendation. Staff recommends Alternative 3. The additional administrative cost represented by this alternative is small in comparison to the expected cost of separating the system. This alternative is most likely to keep the system from being separated. This alternative ensures that LFP customers continue to have elected officials representing their interests in making policy decisions relating to the utility's operations.

3) How is the rate in Lake Forest Park set and changed?

Background. This question is simply a more specific illustration of the previous question. Again, if the City assumes the entire District as recommended, it will provide retail water service to a portion of Lake Forest Park. Specifically, how will the rate setting process be accountable to those LFP customers?

Evaluation. The City has the following alternative models to consider:

(1) Maintain a uniform rate throughout the service area, set by Shoreline City Council with no formal input from LFP;

[2] The Mayor and City Council will set the water rate for residents of LFP by determining the services and Capital Improvement projects to be completed within the LFP city limits.

(2) Maintain a uniform rate throughout the service area, set by Shoreline City Council with input from a Citizen's Rate Advisory Committee consisting of citizens throughout the service area including LFP;

(3) Maintain a uniform rate throughout the service area, set by Shoreline City Council, which must be approved by the LFP Council;

(4) Allow differential rates with each jurisdiction having the authority to establish rates for the customers within their city.

Alternative 1. This is the simplest and most operationally efficient alternative, but it fails to provide LFP utility customers with clear opportunity to impact policy decisions that impact them.

Alternative 2. This alternative adds the administrative burden of establishing and staffing an advisory committee to review rates slowing the rate setting process. It also provides some defined role for LFP residents and customers in general to have input into the rate setting process.

Alternative 3. This alternative adds the administrative burden of seeking rate approval twice. It does provide LFP a direct and substantial role in setting rates. It also may threaten the stability of utility funding if the jurisdictions don't agree on appropriate rate policy.

Alternative 4. This is the most administratively burdensome alternative requiring both a duplicative rate setting process and the maintenance of a cost allocation model. This is also the only alternative that is wholly consistent with the previous recommended alternative, i.e. providing LFP Mayor and Council the authority to set policies that impact LFP residents. It also maintains clear lines of accountability.

As mentioned, Alternative 4 is not without costs or potential implementation pitfalls. Water system facilities, particularly the underground pipes, are not separated at the boundary between Shoreline and Lake Forest Park. Establishing levels of service for one city's residents without impact to the other city's residents may be difficult. Establishing separate rates based on differing levels of service implies that all water utility expenses and revenues must be tracked separately for each city, in effect, setting up two separate utilities.

Recommendation. Staff recommends Alternative 4 despite its risks and costs, due to the importance of maintaining clear lines of accountability for utility operations and the importance of a comfortable working relationship with LFP.

Section B: Long Term Water Supply

1) How should a long-term water supply be secured?

Background. The District currently purchases water through a contract with Seattle Public Utilities (Seattle) that expires on December 31, 2012. The contract was signed in 1982 with a 30-year term, and the option for Seattle and the District to extend for another 15 years in 1997. Seattle chose not to extend the contract at that time. If the City assumes the District, then it will need to decide how to proceed with securing a long-term water supply for the eastern portion of the City prior to the end of 2012.

The water utilities in King, Pierce, and Snohomish Counties along with the State Departments of Ecology and Health have examined the need for additional water in the region and have determined that a Tacoma Pipeline Project and conservation should meet the future water needs in the region until at least 2020. With additional conservation, the needs could be met by the Tacoma Pipeline Project and existing sources until 2050 or other projects could be needed after 2020 depending on conservation efficiency and the growth in water demand. The Tacoma Pipeline Project has already acquired permits, about one-half of the pipeline has been built, and the SEPA and NEPA processes have been completed. Seattle and the Cascade Water Alliance have an agreement for the portion of the water that could be conveyed to the greater Seattle area; Seattle owns 33% of the project and will transfer that to CWA following the signing of a long-term agreement between those two entities. The proposed intertie between Tacoma and Seattle's systems would supply the Seattle area with about 22 million gallons of water a day. The agreement between the Cities of Tacoma and Seattle for he project has been approved by the Seattle City Council.

Several other long-term water supply options are being evaluated across the region at this time; they include but are not necessarily limited to:

- Weyerhaeuser Water Right: This project is being evaluated by Department of Ecology for the potential approval of a transfer of water rights from Weyerhaeuser to Northshore Utility District, Woodinville Water District and the City of Everett. These three utilities have formed the Snohomish River Regional Water Authority (SRRWA). The amount of water to be provided will depend upon the decision of Ecology as part of the transfer.
- North Bend Aquifer: This project is being evaluated by the East King County Regional Water Association. It will provide water from a large wellfield near North Bend. The volume available has not been agreed to with Ecology. It presently does not have a water right; a water right application has been filed with Ecology.
- Lake Washington Filter Plant: The Shoreline Water District is evaluating this project. It involves the treatment and distribution of potable water from Lake Washington. The District has purchased a site for the filter plant and is having discussions with King County, Seattle and Ecology. At the present time, it is against state regulations to pump water from Lake Washington. No water rights or necessary permits have been acquired, nor has a SEPA process been initiated.

Alternatives

To acquire a long-term source for the eastern portion of the City, the City can:

1) Negotiate a long-term wholesale agreement for the eastern portion of the City, with either the Cascade Water Alliance (CWA), Water Supply Association (WSA) or directly with Seattle;

2) Convert the eastern portion of the City to a retail customer of Seattle, similar to the presently Seattle served area west of Interstate 5;

3) Proceed on a separate pathway; or

4) Proceed with the filter plant on Lake Washington.

Evaluation

Alternative #1: At the present time, two significant negotiation processes are occurring simultaneously. The first is a set of negotiations between the CWA and Seattle for Seattle to sell a block of water to CWA to sell to its members, and the second is between WSA and Seattle for a new wholesale agreement between individual water utilities and Seattle. Both processes have the goal of developing a contract amenable to both sides within the next several months. The new contracts will guarantee water supply past 2011 and potentially to as long as 2050.

These negotiations offer the City several potential benefits as a potential member of the CWA or WSA, as compared to the existing wholesale contract between the District and Seattle. Those include direct representation and voting on major policy issues as compared to today where the Seattle City Council decides; a vote on rate structure and rate levels; and a guaranteed supply for 50 years.

The new contracts being developed could offer the City significant benefits over the existing contract between the District and Seattle. The new contract is based on the development of the Tacoma project which is continuing to move forward with: (1) Seattle City Council approving the agreement with Tacoma on a 9-0 vote; (2) the first section of the pipeline project was brought on-line this year; (3) the second pipeline section is presently in design; (4) an agreement with the Muckleshoot Indian Tribe has been signed and approved; (5) the Habitat Conservation Plan (HCP) is under final review and could be approved in a few months, and (6) the Routing Study and SEPA process for the intertie between the Tacoma and Seattle systems is anticipated to start in January 2001. It is estimated that water could be available from this additional source between 2003 and 2005.

The contents of all new agreements between CWA or WSA and Seattle and the final approval of the Tacoma Project's HCP should all be known within the next 12 months.

Alternative #2: The western portion of the City is presently being served by Seattle as an "outside the City of Seattle" direct service customer. The eastern portion of the City could also be shifted over to this service level. This alternative allows the City to have a guaranteed source of water for the eastern portion of the City beyond 2012. However, the City will have little voice in the rates its residents must pay, or the level of service, or the level of capital investments. In addition, Seattle would likely collect its utility tax in this new service area as it now does in its current service area. Seattle would continue to own and operate all of the facilities and the City would then have to transfer ownership of all the facilities they "assumed" from the District back to Seattle. There is no time restriction on when the City could approach Seattle and request the changeover to occur.

Alternative #3: In addition to joining the CWA or WSA, there are other supply options that the City could participate in. Those include participating in the SRRWA and pursuing water from the Weyerhaeuser water right or participating in the East King County Regional Water Association and pursuing the North Bend water right. In addition, the City could choose to study what other options might be available for receiving water from other regional sources. The City would need to develop contractual arrangements with these other agencies and develop a plan to transmit the water to its boundaries, wheel the water through another utility, for example Northshore Utility District, or it would need to develop an agreement with Seattle to mix the water in its pipes and deliver the water through Seattle's system. Studies would include but not be limited to assessment of technical feasibility, costs, SEPA impacts, ESA conformance, permitting and water quality impacts

Alternative #4: Since 1994, the District has been investigating the feasibility of using Lake Washington as a source of supply. At the present time, it is against state regulations to pump water from Lake Washington. This regulation will need to be changed for this project to proceed.

In 1994, the District filed applications for water right permits to withdraw water from the lake. The Department of Ecology has not acted on that application and has no timetable for doing so. Results of water sampling conducted in 1996 indicated that deep lake water is comparable, in terms of water quality, to water that Seattle is currently diverting from the Cedar River. The District predicts that Lake Washington as a supply source is technically feasible and developing that source is estimated to require $23 million. Additional funding is required to attempt to resolve the uncertainty associated with legal issues of water rights, environmental issues and regional support. Studies would include but not be limited to assess technical feasibility, costs, SEPA impacts, ESA conformance, permitting and water quality impacts.

It should be noted that the District has chosen to join the WSA, which is primarily composed of special purpose districts, and has been actively working on a new contract with Seattle.

Recommendations

If it is the City's goal to obtain a cost-effective, reliable, low risk supply of long-term water, then it is recommended that the City join the CWA or WSA and proceed to secure a long-term water supply jointly with the other regional members of one of those organizations; Alternative #1. This recommendation will allow the City to (1) decrease their future capital needs, (2) clarify uncertainties within a year, (3) secure a source that is feasible in today's environmental and regulatory environment, and (4) develop a long-term source with secure costs and rates.

In conclusion, Alternatives 2, 3, and 4 are recommended to be held in abeyance with no further expenditures until the outcome of the CWA/WSA negotiations with Seattle and the disposition of the Tacoma Project are known and final. At that time the City can reevaluate their options and pursue the one that meets their needs. In addition, if the Lake Washington Filter Plant project is pursued in the future, it should be done so as a regional project, with the City paying their share through regional water rates and not as a project in the Capital Improvement Program of the utility. This recommendation will significantly decrease the current capital expenditures projected by the District for this project.

Section C: Rates and Financial Management

Introduction

With City operation of a water utility, there are four major components of water utility expenses and two primary sources of funds to cover water system expenses. The four major components of water utility expenses are:

- purchased water expenses,
- other operating expenses and taxes,
- debt service, and
- capital improvement costs

Purchased water expenses have been projected by the District. Assumption of the District by the City should not impact purchased water expenses over the next six years. Other operating costs and taxes includes personnel, maintenance and administrative costs. Assumption of the District will impact these other operating costs and taxes, due to differences in how the City and the District track expenses.

Debt service expenses are not expected to be affected by a City assumption, unless, as discussed below, the City chooses to repay a portion of outstanding debt principal early. One area where the City may have considerable ability to impact water utility expenses, as discussed below, is in the scheduling of capital improvements. Capital improvements to the District's facilities can include improvements to and replacement of pipe, pumping facilities, reservoirs, or other District facilities.

The two primary sources of funds are water sales revenues and use of existing District reserves. Water sales revenues should cover all operating expenses, and are also typically used to pay all or part of debt service obligations and capital improvements.

The District has significant capital reserves which, as discussed below, can be used to cover capital project costs, retire debt service, or provide rate reduction. The District also obtains revenue from other smaller sources, including interest income, connection charges, rental income, and other miscellaneous sources. These other revenues are often used to fund capital improvements, accumulate capital reserves, or to pay a portion of debt service expenses.

In the following sections, a number of questions are presented and discussed relating to potential alternatives for handling 'Expenditures' and 'Resources' related to assumption of the District. Financial impacts of the various policy decisions are summarized at the end of this report.

Expenditures

1) How much of the District's Capital Improvement Program does the City wish to pursue?

Background. The District's draft Water System Plan (July 2000) contains a Capital Improvement Plan (CIP) showing recommended capital improvements through 2019. This CIP contains extensive budget allocations for water supply projects and water system replacement/expansion projects. Alternatives for the Shoreline City Council to consider include whether or not to pursue the water supply projects and the pipe replacement/enhancement program identified by the District.

Evaluation. The City has four CIP alternatives to consider for implementation:

(1) District draft Water System Plan CIP;

(2) Scaled back replacement/expansion CIP;

(3) Scaled back water supply CIP; or

(4) Scaled back water supply and replacement/expansion CIP.

Each alternative presented progressively decreases the amount of projected capital expenditures. Table 1 summarizes the Capital Improvement Plan alternatives, showing projected capital expenditures, in 1999 dollars, through 2019.

TABLE 1

CIP Alternative Comparison: Projected Capital Project Costs, 1999 Dollars

Period	Alternative 1: District CIP (1)	Alternative 2: Scaled Back Replacement/ Expansion	Alternative 3: Scaled Back Water Supply	Alternative 4: Scaled Back Water Supply and Replacement/ Expansion
2000 -- 2006	$9,944,000	$9,272,000	$7,559,000	$6,887,000
2006 – 2011	$7,350,000	$6,750,000	$1,350,000	$750,000
2012 – 2019	$3,950,000	$2,950,000	$3,950,000	$2,950,000
Total 2000 – 2019	**$21,244,000**	**$18,972,000**	**$12,859,000**	**$10,587,000**

(1) Source: Draft Shoreline Water District Comprehensive Water System Plan, July 2000

Alternative 1. The District's Draft Water System Plan CIP contains $21,244,000 in capital projects (1999 dollars) through 2019. The CIP contains five pressure zone improvements, thirteen facility improvements, four planning improvements, and four water main improvements. At the present time, the $16,900,000 included in the 1999 draft CIP for the construction of a water treatment plant has been taken out of the proposed CIP.

Significant capital costs related to this plant and future long-term water supply are still included. Specific estimates of cost included are: a $575,000 pilot Lake Washington water source study, $150,000 for reuse/water supply planning, and $222,000 related to coordination with adjacent purveyors). Significant costs are budgeted for storage, pumping improvements, and transmission improvements for water distribution associated with the long term water supply (including a $4,000,000 reservoir, $1,000,000 booster pump station, and $2,810,000 in transmission mains). A new District building costing $1,000,000 to be built on the DNR site is also included. The District's water main replacement program is budgeted at $4,000,000 through 2019, or approximately $200,000 per year.

Alternative 2. The scaled back replacement/expansion CIP reduces the expenditure for pipe replacement by $1,900,000 through 2019 and eliminates $372,000 in water system planning projects. A reduced pipe replacement program is based on the opinion that some of the pipe scheduled for replacement has not reached the end of its useful life, and replacement can be delayed without impacting the quality and reliability of service. This position could be verified by completing the pipeline investigation budgeted in 2001. The total capital expenditure through 2019, in 1999 dollars, with the Scaled Back Replacement/Expansion Alternative 2 is $18,972,000.

Compared with the existing District CIP (CIP Alternative 1), pursuing CIP Alternative 2 will lower projected water rates. In 2010, CIP Alternative 2 is projected to require water rates that are 3% less than CIP Alternative 1.

Alternative 3. The District currently has a contract with Seattle Public Utilities for water supply through 2012. The District's CIP contains projects necessary only if the District implements the use of Lake Washington as a long-term water supply source. Following assumption, the City would remain committed to ensuring that the citizens of Shoreline have a reliable long-term water supply. However, as discussed in Section 2 above, there appear to be other viable alternatives for ensuring a long-term water supply without the need to develop Lake Washington as a water source. Projects that could be eliminated include the $4,000,000 reservoir, $1,000,000 pump station, $2,810,000 piping improvements, the $575,000 pilot study, and $1,000,000 for construction of a new District office on the DNR property. With this alternative, the District's pipe replacement program would remain unchanged from that proposed in the District's Water System Plan. Since the District's Draft Water System Plan identified an existing District storage deficit, a $1,000,000 expenditure for a 1.5 million gallon reservoir is added within the next six years. The total capital expenditure through 2019, in 1999 dollars, with the Scaled Back Water Supply Alternative 3 is $12,859,000.

Compared with the existing District CIP (CIP Alternative 1), pursuing CIP Alternative 3 will lower projected water rates. In 2010, CIP Alternative 3 is projected to require water rates that are 19% less than CIP Alternative 1 and 16% less than CIP Alternative 2.

Alternative 4. This alternative includes the reduced pipe replacement expenditure of Alternative 2 and the reduced water supply expenditure of Alternative 3 (including the added $1,000,000 for a smaller reservoir). The total capital expenditure through 2019, in 1999 dollars, with the Scaled Back Water Supply and Replacement/Expansion Alternative 4 is $10,587,000.

Compared with the other CIP alternatives, pursuing CIP Alternative 4 will lower projected water rates. In 2010, CIP Alternative 4 is projected to require water rates that are 22% less than CIP Alternative 1, 19% less than CIP Alternative 2, and 3% less than CIP Alternative 3.

Recommendation. Alternative 4 is recommended. The District water distribution system appears to be in sufficient shape to not warrant replacement at the rate proposed by the District. Again, this assumption should be verified by completing the pipeline investigation in 2001. Additionally, it is recommended that other options besides development of a Lake Washington water supply be pursued prior to committing the multi-million dollar expenditure currently included in the District's CIP in preparation for a potential Lake Washington water supply alternative.

2) Will the City's central services allocation model be applied to the newly created water utility?

Background. Many City expenses are related to providing services used by all City funds. These expenses are allocated among the various City funds according to the City's "Central Services Allocation" model. Examples of expenses used by all City funds include the City Manager department expenses, City attorney expenses, Finance Department expenses, Public Works Administration, and Human Resources Department expenses.

These expenses are allocated among City departments (examples include Public Safety, Planning, Parks & Recreation, and Surface Water Management) by a series of formulas that consider each department's staffing requirements, budgeted expenses per department, number of council agenda items, and other factors.

Evaluation. The City has two alternatives to consider:

(1) Do not centralize administrative services and do not apply the City's allocation model; or

(2) Centralize administrative services and apply the City's allocation model.

Alternative 1. In this alternative, all water utility expenses would be treated separately. Financial impacts are evaluated by developing a comparison of projected District operating expenses with projected operating expenses for a City operated utility. The District operating expenses were obtained from the District's 2000 budget. Operating expenses for a City operated utility were estimated by estimating personnel costs using the City's wage and benefit scale, adding continued other District expenses, discontinuing some District expenses (such as commissioner's expenses) that would no longer be applicable, and adding some additional costs to the City (such as increased human resources department costs).

Comparing projected operating expenses, City operation of a water utility without using the City's central services allocation model is projected to cost, in 2001, approximately $125,000 per year less than continued District operation. This is due to some projected reduced staffing costs and a substantial decrease in projected contracted engineering and legal expenses.

Alternative 2. The District's current operation of the water utility includes a number of administrative functions that could be centralized if the City operated the utility, e.g. finance, legal, and human resources. Staff and contractual services currently utilized by the District to provide these services would be transferred to the appropriate department within the City reducing the direct costs of the utility. The utility would then, however, be allocated a portion of the cost of these departments in exchange for the services they would provide to the utility.

These added expenses include additional Finance Department services for budgeting and payroll, additional public works administration services, additional computer system support expenses, facilities, and additional Human Resources Department services.

Using the City's central services allocation will result in additional costs to the water utility, while simultaneously creating savings for all other City funds currently participating in the central services allocation program. Use of the central services allocation model does not change the total cost of these services to the City; rather, it changes how these costs are apportioned among City funds. An allocation of a portion of these costs to a water utility fund would be accompanied by a decrease in costs allocated to other City funds.

To evaluate the financial impact of applying the central services allocation model, a approximation of the City's model was developed. A rigorous computation of the model, which requires some water utility operation data not yet available, has not yet been completed.

Compared with Alternative 1, application of the City's central services allocation model is estimated to increase projected 2001 utility operating expenses by $275,000. Compared with continued District operation, City operation of a water utility using the central services allocation is expected to result in an increased cost to the water utility of $150,000 ($275,000 - $125,000), with a simultaneous reduction of costs to other City funds of $275,000. The exact amount of the central services allocation to a water utility is expected to change as information becomes available. If, for example, costs for existing District building heating and lighting are excluded from the central services model allocation, the increased cost to the water utility would be reduced.

Recommendation. Alternative 2 is recommended. Including the water utility in the central services allocation model will ensure that the City's costs are equitably apportioned.

3) Will the City share equipment between utilities to decrease overall costs to the ratepayer?

Background. The City already owns some construction equipment associated with its street and surface water management systems. The District owns vehicles and construction equipment.

Evaluation. The City has two alternatives to consider:

(1) Yes, to the maximum extent possible; or

(2) No.

Alternative 1. The City intends to manage and operate a water utility in an efficient manner. Other City departments are expected to use water utility equipment, and when doing so, would pay the newly formed water department for equipment use. The current District budget for equipment is approximately $50,000 per year, which is less than 1% of the total annual District budget between 2001 and 2006. While some reduction in equipment expenses may be feasible, complete elimination of the District's equipment expenses is not expected. The policy analysis described herein does not go to that level of detail to project exact equipment savings, but sharing equipment will reduce costs for everyone.

Alternative 2. This alternative does not foster efficient management of a utility.

Recommendation. Alternative 1 is recommended.

4) How will existing District debt be repaid?

Background. The District has six outstanding issues of debt. Three of the issues are Public Works Trust Fund (PWTF) loans, obtained in 1991, 1993, and 1994. Each of these low interest loans (1% and 2% interest rates) have repayment periods of 20 years, and the loans will be repaid in 2013. The total outstanding PWTF principal balance is $1,655,070. The District has three outstanding revenue bond issues, issued in 1993, 1994, and 1999, with remaining revenue bond debt issued at interest rates ranging from 4.75% to 6.125%. A total of $6,015,000 in outstanding revenue bond principal remains, and the District's three revenue bonds issues will be completely retired in 2006, 2010, and 2019.

Evaluation. The City has three alternatives to consider:

(1) Accelerate repayment of debt by using rate revenues and/or reserves to pay debt principal early;

(2) Repay debt according to existing District schedule; or

(3) Refinance existing revenue bond debt .

Alternative 1. Under all of the CIP scenarios described above, rate increases are forecast to provide rate revenue to cover projected water utility expenses. Use of rate revenue to repay debt principal means that less rate revenue would be required to repay the remaining outstanding debt. However, the District's existing capital fund reserves would not be available for capital projects, so additional future debt would need to be issued. Thus, any savings in existing debt service are offset by an increased amount of future debt service.

Use of reserves to repay outstanding debt principal should be considered only if future debt can be obtained at significantly more favorable terms compared with the debt being repaid early. Since the outstanding revenue bonds have higher interest rates than outstanding PWTF loans, all revenue bond debt would be repaid prior to any PWTF debt. Anticipated savings from repaying revenue bond debt, if any, would be expected to be small at current market conditions.

Any potential early repayment of revenue bond debt should be preceded by a legal review of existing District bond ordinances to determine whether these ordinances allow early debt service repayment.

Alternative 2. Compared with Alternative 1, repaying debt according to the existing District schedule, would reduce the need to issue future debt.

Alternative 3. The City may have the option of issuing refunding bonds. These bonds would refund the existing bondholders of the 1993, 1994, and 1999 revenue bonds. The refunding bonds would be issued with repayment typically over a 20-year period. Refinancing has the effect of spreading debt service payments out over a longer time. The near-term costs may be lower because of the longer payback period (repayment by 2021) compared with the existing bonds that are retired in 2006, 2010, and 2019. However, long-term interest costs may be higher because of the longer payback period.

Recommendation. Alternative 2 is recommended, provided that should interest rates decrease, early repayment of existing debt will be re-evaluated. At current interest rate conditions, there would be little or no difference in financial impact among the three alternatives.

5) Is a utility tax included in the rate?

Background. City residents with water service provided by Seattle Public Utilities pay a 10% City of Seattle utility tax and a 6% City of Shoreline franchise fee on water revenues. Revenues from the utility tax go to the City of Seattle. Revenues from the franchise fee go to the City of Shoreline General Fund.

The City adopted a utility tax of 6% on water in 1999, but the District is not currently collecting that tax. Unless the City changes current tax regulations, the water utility formed by the City's assumption of the District would be obligated to contribute 6% of its revenues to the City's General Fund.

The City and the District are also considering an agreement that would include a 6% franchise fee applicable to water revenues collected from the portion of the District inside the City of Shoreline. This possible franchise fee would not be applicable to water revenues collected from District customers in LFP.

Evaluation. The City has three alternatives to consider:

(1) No utility tax;

(2) 6% utility tax on entire utility; or

(3) 6% utility tax for City of Shoreline customers.

Alternative 1. This alternative would require the revision of the City's utility tax ordinance, but would preserve the status quo, i.e. current customers of the District would not be subject to a City of Shoreline tax. This would also continue the current disparity between these customers and those served by Seattle who are subject to a 6% franchise fee.

Alternative 2. If the City assumed the District it would have the same authority to tax all the revenues of the newly formed utility, whether inside or outside the City, as currently exercised by the City of Seattle. This would result in residents of LFP paying a tax to the City of Shoreline, as Shoreline residents who buy water from Seattle, currently contribute to Seattle's General Fund.

Your Council has consistently opposed this practice by the City of Seattle and has gone as far as to direct staff to seek changes in state law to end this practice.

Alternative 3. A 6% tax just on Shoreline water utility customers would match the franchise fee currently paid by Seattle's customers in Shoreline. This utility tax would contribute approximately $190,000 per year to the City's General Fund. This tax would increase water rates, inside the City of

Shoreline, by an additional 6%. Should the City of Lake Forest Park decide to implement a utility tax or franchise fee, (consistent with earlier recommendations) the City of Shoreline could collect this tax revenue and pass it through to the City of Lake Forest Park.

Recommendation. Alternative 3 is recommended. This alternative is consistent with Council's policy established in adopting the utility tax and corrects a current inequity between District customers and those of Seattle. Since utility tax revenues are a percentage of water sales revenues, the actual amount of utility tax will depend on the service rate adopted by the Shoreline City Council following District assumption.

Section D: Resources

1) How does the City wish to dispose of existing non-cash assets, e.g. land, building, and equipment?

Background. The District recently purchased the DNR site for $1,900,000, and it owns two buildings, vehicles and construction equipment. It should be understood that by assuming the District these assets become the property of a newly formed City water utility, not the property of the City in general. A utility is an enterprise fund that is maintained separate from other City activities. If any of that utility's assets were to be sold, transferred to another department, e.g. parks, or dedicated in part to a non-utility use, then the utility must be compensated.

Evaluation. The City has three alternatives to consider:

(1) Sell DNR property, buildings, and equipment;

(2) Sell DNR property, keep buildings and equipment; or

(3) Keep DNR property, buildings, and equipment.

Alternative 1. The City is anticipating using the buildings and equipment in its operation of a water utility. Selling the buildings and equipment would require the City to find other buildings and equipment for the water utility's operations. This could be of benefit to the City and the utility if, for example, a central City Hall or a joint operations yard were developed. These assets could not be disposed of in the absence of alternative means of supporting utility operations. If CIP Alternative 4 is pursued as recommended, there will be no immediate water utility use for the DNR property. The CIP alternatives discussed above impact the amount of future construction on the DNR property. The CIP alternatives do not, however, address disposition of the property itself.

The benefit of all sales or other disposition by the utility of current District assets would accrue to current ratepayers by reducing rates. If the City utility sold the DNR property for its purchase price of $1,900,000, the proceeds could be used for capital projects and would reduce the need to collect $1,900,000 from water rates through 2010. Over the ten year period through 2010, a reduced water rate revenue requirement of $1,900,000 is estimated to result in a rate reduction of approximately 4.6% of an average 2001 single-family residential water bill.

Alternative 2. This alternative simply recognizes that the need and use of buildings and equipment currently owned by the District are clear and would continue after assumption. The need for the DNR property is less clear. The example articulated in Alternative 1 illustrates the potential benefit to the utility of selling or otherwise disposing of this property. As described in Alternative 1, sale of the DNR property for $1,900,000 would result in a reduction in future rate increase of $1.50 per month per residential unit, or approximately 4.6% of an average 2001 single-family residential water bill.

Alternative 3. This alternative recognizes both the current value of the buildings and equipment to the utility and the potential of future use of the DNR property by the City. The DNR property is one of the last undeveloped areas in the City. As such, it is a rare resource for a number of potential uses. Holding this property pending an investigation of other potential beneficial uses by the City would be prudent and not have any additional cost to the utility. If the property were ever to be converted to another use, then the utility would be compensated, again, as described in Alternative 1.

Recommendation. Alternative 3 is recommended. Keeping the DNR property and other capital assets is recommended until alternate resources are provided and alternative uses for the DNR site are fully evaluated by the City. At that time, the DNR property could be sold, either to another City department, another public agency, a regional water supply entity, or a private party. Since there is

no anticipated dedicated City water utility use for the property, water utility customers would benefit from either the expected future sale or joint use of the property.

2) What to do with reserves accumulated in the past by the District?

Background. The District maintains operating reserves, bond reserves, and capital reserves. Operating reserves are kept to accommodate short-term fluctuations in water system revenues and expenses. The District maintains bond reserves as required by past District ordinances authorizing the issuance of debt. The District's sinking fund reserves are used to fund capital projects. Maintaining a reserve to fund capital improvements is a common utility practice that provides funding for emergency projects. Maintaining capital reserves also promotes rate stability when capital expenditures are not evenly distributed in successive years. A capital reserve reduces the need for large, sudden rate increases in years with higher than average capital project expenditures. Utilities also maintain capital reserves as matching funds for capital projects partially funded by others, and to accumulate funds in anticipation of large capital expenses to avoid issuance of debt.

The District maintains a cash balance of approximately $340,000, which provides, according to District policy, operating capital for approximately 45 days. Bond reserves of approximately $447,000 are required according to previous District resolutions authorizing issuance of revenue bond debt. The District's Water System Plan indicates that the projected capital reserves (contained in the District's Sinking Fund) balance in January 2001 is approximately $2,970,000. There are two decisions to be made. The first is a policy on a minimum capital reserve balance. If this reserve balance is less than the current District reserve, the second policy decision is the disposition of accumulated reserves in excess of the minimum. In all cases, maintaining the existing bond reserves is required per existing ordinances, and maintaining the District's 45 day operating reserve is recommended.

A survey of three other water utilities shows a comparison of total water utility reserve balances in terms of a reserve amount per Equivalent Residential Unit (ERU, defined as a typical single-family residence). The Sammamish Plateau Water and Sewer District is projected, in 2015, to maintain total water reserves of approximately $270 per ERU.[2] The City of Bellevue's water utility, in 1994 – 1997, maintained reserves of approximately $120 per ERU.[3] The Coal Creek Utility District, in 1994 – 1998, maintained total water and sewer reserves of $303/ERU.[2] The District's existing total reserves (operating reserves, bond reserves, and capital reserves) total approximately $350 per ERU.

The District's Draft Water System Plan indicates use of all existing capital reserves by 2005 for capital improvement funding, as well as the issuance of additional long term financing in 2005 to fund capital projects expenditures in 2005 and in subsequent years.

Minimum Balance Evaluation. The City has two alternatives to consider:

(1) Minimum capital reserve balance of $0; or

(2) Maintain a minimum capital reserve balance. For the purposes of this analysis, a minimum balance of $1,000,000 is suggested.

Alternative 1. Spending down all of the capital reserves will result in the lowest rates for the water system customers. Water utility reserves would not be available to fund emergency repairs and the water utility may be vulnerable to sudden rate increases resulting from unanticipated expenses. This

[2] Source: Adapted from data contained in the draft Sammamish Plateau Water District Water Comprehensive Plan, Final Draft, October 2000, CH2M HILL in association with FCS Group, Inc.

[3] Source: Adapted from data contained in Coal Creek Utility District Service Area Study, Final Report, July 1999, prepared for the City of Bellevue by FCS Group, Inc.

appears to be consistent with the District's Draft Water System Plan, where all capital reserves were used prior to 2005 to fund capital projects.

Alternative 2. Maintaining some capital reserves, but less than currently exists, will enable use of capital reserves for capital projects and for funding repairs with water utility funds. For the purposes of this analysis, a $1,000,000 balance in 2010 is suggested. A $1,000,000 capital reserve will result in a total water utility reserve balance (including operating and bond reserves) of approximately $190 per ERU in 2010. This reserve amount ($190 per ERU) is of similar magnitude to the three utilities cited above.

Additionally, as discussed below, the City may be able to obtain low interest loans if the City can provide a portion of the project cost. Maintaining some capital reserves will allow the City more flexibility in seeking low interest capital project funding.

Use of a portion of existing District reserves, however, will reduce the magnitude of future debt service issuance's, resulting in a reduced need to raise rates to pay future debt service expenses.

Minimum Balance Recommendation. Alternative 2 is recommended. Leaving a capital reserve balance of $1,000,000 will allow the City the ability to finance emergency capital improvements out-of-pocket without issuing debt, and should allow the City an increased ability to avoid sudden rate increases.

Reserve Use Evaluation. The City has five alternatives to consider:

(1) Use capital reserves to fund capital improvements;

(2) Use capital reserves to fund capital improvements, including use of capital reserves as "local share" to obtain low interest loans;

(3) Use capital reserves to repay debt service;

(4) Use capital reserves to reduce rates; or

(5) Use capital reserves to provide direct "refund" to system customers.

Alternative 1. If capital reserves are used to fund capital improvements, then the City would not have to find alternate sources of capital project funding. Generally, an alternate source of capital project funding means issuance of debt, with debt service paid by increased water rate revenues. Therefore, use of reserves to fund capital improvements results in an avoided need to issue debt and raise rates to pay the debt service. Each $1,000,000 of reserves to fund capital projects results in a reduced need to issue $1,000,000 in debt; the debt service payments on this $1,000,000 is equivalent to $0.68 per month per ERU for a 20-year period, or 2.1% of an average 2001 single-family residential water bill.

Alternative 2. A state program called the Public Works Trust Fund (PWTF) offers low-interest loans for construction of water system facilities. Currently, the PWTF offers loans at an interest rate of 0.5% over 20 years if a 30% local share is provided. This low interest rate makes these loans particularly attractive. Use of capital reserves to provide the 30% local share for potential PWTF loans will minimize costs to rate payers. As a second priority, the existing capital reserves should be used to fund capital projects out-of-pocket to reduce future issuance of revenue bond debt. Because of the lower interest rates, PWTF debt service payments are lower than revenue bond debt service payments. In the initial years after a PWTF loan, a $1,000,000 PWTF loan at a 0.5% interest rate would have a debt service payment of approximately $58,000, compared with a projected $87,000 annual payment for a revenue bond.

Alternative 3. A previous recommendation is to repay the existing District debt according to the existing repayment schedules. This would be re-evaluated should interest rates decrease.

Alternative 4. Use of reserves to offer a rate reduction would prevent repayment of debt principal and would prevent use of reserves to fund capital projects. In the short-term, rates would be minimized. However, compared with other alternatives, there would be an increased need to issue future debt service. Thus, any advantage of short-term rate reductions would be offset with higher long-term rates. Additionally, the City is expected to be required to meet the covenants of existing debt ordinances. A reduction in rate revenue resulting from a rate decrease may impact the City's ability to meet these covenants in the future.

Alternative 5. Use of capital reserves to offer a refund to system customers results in the future rate increase and covenant concerns noted for Alternative 4, plus an administrative concern regarding how to determine, for each specific customer, the magnitude of the refund. There does not appear to be any data available to specifically identify exactly how much each individual customer contributed to the District's existing capital reserve balance.

Reserve Use Recommendation. Alternative 2 is recommended. Use of capital reserves to obtain low-interest loans and fund capital improvements is expected to have the lowest long-term rate impacts. Long-term benefits to rates are expected with this alternative, but are not yet quantified.

Summary of Financial Impacts

A spreadsheet-based financial model was developed to project the financial impact of the policy decisions discussed in this report. The financial model is based on water utility financial records provided by the District and also from City central services financial records. This model projects water rates through the 2010, and Table 2 summarizes the financial impacts of the various policy decisions. Financial impacts are presented as a comparison of projected water rates for continued District operation of the water system with projected 2010 water rates with the recommended policy decisions. Policy decision financial impacts are presented in a series of financial evaluations, beginning with the existing District operation and, one at a time, adding the impacts of the policy recommendations contained herein.

The base case for comparison is projected District rates in 2010. Ideally, this base case would be provided in the District's Draft Water System Plan. For the reasons described below, however, the base case was created as part of the City's analysis using information contained in the District's Draft Water System Plan. To create the base case financial analysis, the following modifications were made from the financial analysis contained in the District's Draft Water System Plan:

- Developing a projection through 2010, compared with the Draft Water System Plan's projections that end in 2005.
- Application of inflation to capital project cost estimates, at the same inflation rate applied by the District to operating expenses.
- Adding long-term financing in 2005 to provide funds for projected capital improvements in 2005 and 2006. This additional long-term financing is not included in the District's Water System Plan, although the need for additional long-term financing is acknowledged in the plan.

Table 2 shows that, compared with the base case, a City utility using the central services allocation would slightly raise water rates (with, as described above, concurrent savings to other City departments). The policy decision with the largest financial impact is the choice of a capital improvement program. Comparing evaluations 3 and 4 shows the impact of changing from the District's CIP (CIP alternative 1) to the recommended CIP (CIP alternative 4), where the projected 2010 average water bill would decrease from 105% of the base case to 83% of the base case. The remaining CIP alternatives, which have total capital expenditures between the District's CIP (most

expensive) and CIP alternative 4 (least expensive) have financial impacts that likewise are between those projected in evaluations 3 and 4.

TABLE 2

Financial Analysis Summary

	Financial Evaluation Scenario	Projected 2010 Water Bill, Compared With Base Case[1]
1.	Base case (District utility, District CIP, $0 2010 capital reserve)[2]	100%
2.	Impact of central services allocation (*City utility with central services allocation*, District CIP, $0 2010 capital reserve, no City tax)	105%
3.	Impact of CIP (City utility with central services allocation, *CIP alternative 4*, $0 2010 capital reserve, no City tax)	83%
4.	Impact of increased reserve (City utility with central services allocation, CIP alternative 4, *$1M 2010 capital reserve*, no City tax)	85%
5.	Impact of City tax (City utility with central services allocation, CIP alternative 4, $1M 2010 capital reserve, *6% City tax*)	91%[2]

1 Monthly water consumption of 10 ccf; 5/8x3/4-inch water meter

2 Does not include a 6% franchise fee, applied to the portion of the District inside Shoreline, that is being considered as a part of an agreement between the City and the District.

3 City of Shoreline Rate. LFP rate would be 86% of base case.

Increasing the reserve balance results in higher required water rates, as does implementation of a 6% utility tax (for Shoreline residents). None of the scenarios described in Table 2 include proceeds from the potential sale of DNR property. As described above, sale of the DNR property for its purchase price of $1,900,000 would result in a projected rates that are approximately 4% - 5% less than rates shown in Table 2. A sharing of the property with other City departments or other public agencies would reduce rates to a lesser degree.

The estimated cumulative quantifiable impacts of all of these recommendations includes a 17% reduction in water service rates, an additional $190,000 in General Fund revenue, and a $275,000 reduction in administrative expenses allocated to existing City services, i.e. Parks, Recreation, and Cultural Services, and Planning and Development Services.