

CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

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

EXECUTIVE / COUNCIL SUMMARY

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. A report articulating the conclusion of that analysis is transmitted to your Council by this report (See Attachment A). CH2M Hill's key findings are summarized and discussed below. The purpose of this report is to inform your Council's discussion regarding the appropriate and desirable role of the City in the ensuring the adequate provision of water services to Shoreline residents and businesses.

Based on past Council deliberations in 1999 and in January and February 2000, the following three alternative courses of action for the City are under consideration by your Council:

- 1. Annexing to the Shoreline Water District ("District"):** Staff would focus on negotiating an interlocal supporting District efforts to acquire and operate SPU's service area in Shoreline.
- 2. Assuming the District's 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.

The purpose of the CH2M Hill analysis was to respond to public interest and discussion which since February 2000 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 raised a number of very specific issues regarding this alternative. A summary of these issues and responses is provided in the table below. A more detailed discussion is included in both the Executive Summary and body of the attached CH2M Hill report.

Question	Summary Response
What would assumption mean for rates?	Due to revised policies relating to capital expenditures, rates are expected to go down by 9% to 15% depending on the taxation policies of the host city (Shoreline or Lake Forest Park).
What would happen to current assets of the District?	All assets currently owned by the District will become the property of a City utility and could not be converted to another use or transferred to another entity without compensation back to the utility and all its ratepayers.
How would District employees be integrated into the City?	All full-time District employees would be offered full-time employment by the City in the Public Works or Finance departments depending upon expertise. All employment contracts would be honored. Public Works would be organized into three divisions (Engineering, Operations, & Utilities) (See Figure 2 of Attachment A).
What changes would current customers perceive?	Most customers, those who rarely interact with the utility, would recognize little to no change. Policy decisions related to utility operations have been designed to maintain current service levels. Developers within Shoreline would be able to get development permits and water certification at one location. Lake Forest Park developers would still be faced with the need to get two separate authorizations. Those customers with greater interest in utility operations would have additional means to contact the utility through the City's 1700 number and webpage, and additional ways to track policy development through Gov. channel broadcasts of Council meetings and online access to staff reports, but would ultimately be working with the same utility staff. Customers may perceive a greater accountability through being able to contact the same government officials that they already interact with for many other issues.

Current Strategic Issues

City staff and your Council have been developing information regarding water services and the City's potential role therein since prior to incorporation. That focus was intensified in 1999 through specific analysis comparing alternatives for a City role. At the direction of your Council, the analysis relating specifically to District assumption being presented with this item was initiated in 2000. Your Council has increased the emphasis on this and similar issues by making them a part of your Council's 2001-2002 work plan. There are also a number of current strategic issues that recommend that the City take action to clarify its intentions related to water service delivery. These issues include:

- ❖ **Long-Term Water Supply Contract With Seattle** – The District Board has stated a desire to execute a supply contract with Seattle as soon as this June. They have been working with the Water Supply Association (WSA). Both contracts developed by the WSA being considered by the District include a provision canceling those

contracts should a City assume a district. WSA members refer to this as a "poison pill" clause and clearly intend for it to interfere with future assumptions.

- ❖ **DNR Property/Facility Development** – The District has jointly purchased a significant piece of undeveloped property with the School District. The District has plans to construct a number of improvements on this property potentially including a large reservoir, administrative offices, maintenance facilities, and a potential water treatment facility. The City is also developing strategies for developing facilities to meet its growing need for administrative office space and maintenance facilities. A lack of coordination in this area could result in inefficient public investment.
- ❖ **Seattle Public Utilities (SPU) Planning** – SPU's water division is in the final stages of developing an update to their comprehensive water services plan. This plan will set both short-term capital investment priorities and long-term system development plans. Both of these issues will drive the complexity and cost of any future action to separate the SPU served area of Shoreline from Seattle and will determine near term service quality.

These issues and others are discussed in more detail in Attachment A.

Options

Your Council, staff, and the District Board of Commissioners has been discussing three primary options including:

- 1) **Interlocal With The District** – The District has offered to begin discussions regarding the development of an interlocal with the City to address pressing City issues related to water service and to foster a closer working relationship. Your Council is scheduled to meet with the District Board prior to the presentation of this issue to discuss this option.
- 2) **Take No Action** – Your Council could decide to take no action to change the City's current role in water services directing staff to simply focus on developing long-term franchises with both providers and monitoring issues as appropriate.
- 3) **Assume The Water District** – Your Council could direct staff to initiate necessary action to bring an assumption ordinance to your Council for consideration at the earliest opportunity. Based on prior discussions with your Council, selection of this option would also imply an intention to move toward the eventual consolidation of water service for the entire City under a City water utility. All actions and interactions with SPU would be consistent with this vision.

These options are discussed in more detail in the body of this report.

RECOMMENDATION

This item is for discussion purposes only. No formal action is required. Consensus, however, directing staff to pursue one of the three options discussed above is requested.

Approved By:

City Manager



City Attorney



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 recognized that the City has 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 additional analysis regarding the City's options in this area, but directed staff to focus initially on electrical services.

In January of 2000, 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 for the City, presented in the report, 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:

Matrix Analysis Chart

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 clear consensus regarding Council's desired future actions to address this issue.

In June 2000, your Council directed staff to perform additional analysis on 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. On January 16, 2001, staff returned to your Council with a set of recommended policy decisions to be used as the basis for completing the analysis regarding potential impacts of District assumption. Your Council concurred with those recommendations and the attached analysis is based upon that discussion.

History with the District

In 1996, the District submitted a proposal to the City that requested authorization for them to take over SPU's water service territory within the City. Staff analysis at that time and the District's proposal, both indicated that this authorization would lead to a significant increase in the rates paid by Shoreline residents served by SPU and would add long-term water supply uncertainty. This issue was scheduled to come before your Council for discussion, but a change in City administration and a shift in priorities prevented any detailed discussion regarding the District's proposal.

In 1999, Staff and CH2M Hill worked with both the District and SPU to develop information regarding the comparative condition of both systems and to explore 5 options for future City action. The District provided significant information that formed the basis of this analysis, which was presented in January 2000. During your Council's discussion of that report, the District requested that the City perform further analysis and suggested the formation of an advisory committee to make a recommendation to the Council. Your Council responded by directing staff to work with the District and SPU to perform some of the additional analysis requested by the district on a subset of the options presented (See Matrix Analysis Chart above). The outcome of that effort was presented to your Council in February 2000 and the District presented your Council with a matrix of sixteen issues that they felt should be addressed before any decision was made and again suggested the creation of an advisory committee.

That spring the District developed a flyer regarding the City's process and distributed it to all its customers and throughout the community. Staff notified the District of inaccuracies and misrepresentations in that flyer, which, for example, stated that the City intended to transfer District reserves and assets to other City uses (a violation of state law), but the District took no action to correct the flyer. The District instead took a number of actions designed to build opposition to the City's process. These actions culminated in a special meeting of the District Board attended by between 50 and 70 District customers the majority of whom based upon the flyer and other information provided by the District, expressed discomfort with the City taking a role in providing water services.

Staff and CH2M Hill contacted District staff in late summer 2000 to begin collecting financial information necessary to complete the attached report. District staff was cooperative in providing that information and suggested a more cooperative approach toward a potential assumption. While the District Board has since stated that they will not be a party to any agreement that will result in the City's assumption of the District, they have offered to discuss an interlocal agreement to assist the City with the acquisition of SPU's service territory. They have also expressed a willingness to enter into a franchise agreement with the City similar to that executed with SPU in 1999. The franchise is nearing completion and is expected to be ready for presentation to your Council in April. Your Council is currently scheduled to have an opportunity to meet directly with the District Board to discuss their interest in a more cooperative relationship prior to the discussion of this issue.

The following analysis focuses on the City's options for next steps. Detailed discussion and analysis related to potential impacts of City action to assume the District is included in the attached report.

ANALYSIS

There are three general options for City action regarding water services presented for your Council's consideration.

- 1) **Interlocal With The District** – The District has offered to begin discussions regarding the development of an interlocal with the City to address pressing City issues related to water service and to foster a closer working relationship. Your Council is scheduled to meet with the District Board prior to the presentation of this issue to discuss this option.
 - a) **Staff Actions** – Staff would focus on completing discussions with the District regarding a temporary franchise and developing an interlocal agreement consistent with direction from your Council.
 - b) **Strategic Issues** – To the extent possible, these issues would be addressed in the interlocal agreement. Staff would also communicate with SPU regarding these issues indicating that the City is developing an interlocal that would authorize the District to take action to acquire their service area on our behalf.
 - c) **Anticipated District Action** – The District Board has expressed an interest in working on such an interlocal as long as it is silent regarding assumption. Discussions are expected to be productive and professional as long as there is no change in District administration. Your Council is scheduled to meet the District Board prior to the presentation on this agenda item and should be in a better position to judge the potential for a quick and successful negotiation on this agreement. The role of Lake Forest Park is unclear.
 - d) **Council Direction** – If this option is selected, then Council consensus regarding key elements or issues that should be addressed in the interlocal would be very valuable. Elements your Council may wish to consider include:
 - i) Steps toward assumption,
 - ii) Steps the District may consider to prevent assumption,
 - iii) Steps to acquire SPU's service area,
 - iv) Division of authority regarding the SPU service area once acquired,
 - v) City's role in long-term water supply contract approval, and
 - vi) Interdependence (what services will the City provide the District?)
- 2) **Take No Action** – Your Council could decide to take no action to change the City's current role in water services directing staff to simply focus on developing long-term franchises with both providers and monitoring issues as appropriate.
 - a) **Staff Actions** – Staff would focus on concluding the short-term franchise with the District and would begin discussions with SPU regarding a long-term franchise agreement and engage in SPU's planning process to the degree possible. Future action regarding water service would be consistent with the City's currently limited authority to review proposed water plan amendments and to regulate the use of the City's right-of-way.

- b) Strategic Issues – Staff would communicate with Seattle regarding the “poison pill” language in the proposed WSA contracts and would clarify that no action to change the current water purveyor system in Shoreline is pending.
 - c) Anticipated District Action – They will likely be comfortable with this decision and continue to act as they have in the past including taking actions to pre-empt, or provide disincentives for, future action to assume the District. Coordination regarding the development of capital facilities is not expected to improve.
 - d) Council Direction – No additional direction is necessary for this option.
- 3) **Assume The Water District** – Your Council could direct staff to initiate necessary action to bring an assumption ordinance to your Council for consideration at the earliest opportunity. Based on prior discussions with your Council, selection of this option would also imply an intention to move toward the eventual consolidation of water service for the entire City under a City water utility. All actions and interactions with SPU would be consistent with this vision.
- a) Staff Actions – Staff would focus on completing short-term franchise with the District and initiating discussions with Lake Forest Park on a cooperative agreement authorizing Shoreline to operate the portion of the District’s system that is within Lake Forest Park. City legal staff would move forward with necessary actions to complete assumption.
 - b) Strategic Issues – Staff will take action designed to prevent the District’s adoption of a long-term water supply contract that includes a “poison pill” clause. Staff will communicate with SPU regarding the City’s intention to begin working with them to acquire their service territory within Shoreline and will begin analysis regarding options to move in this direction as resources allow.
 - c) Anticipated District Action – The District is expected to take action to oppose assumption including adopting “poison pill” contracts or regulations in diverse areas, fomenting opposition to the City’s actions through flyers direct mailed to their customers, ads in local papers, and direct communications with Lake Forest Park elected officials. They may also take action to reduce planned capital expenditures and rates consistent with City recommendations and are likely to pull out of negotiations regarding a City franchise. They are likely to pursue all available legal challenges to the City’s assumption action.
 - d) Council Direction – No additional Council Direction is required for this option.

RECOMMENDATION

This item is for discussion purposes only. No formal action is required. Consensus, however, directing staff to pursue one of the three options discussed above is requested.

ATTACHMENTS

Attachment A – Analysis of Impacts Related to Potential Assumption of Shoreline Water District

Analysis of Impacts Related to Potential Assumption of Shoreline Water District

Submitted to
City of Shoreline

February 2001

CH2MHILL

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I. 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. On January 16, 2001 a report titled "Policy Decisions Related to the Impact Analysis of the Assumption of the Shoreline Water District" was presented to the City Council. The report contained a number of optional policy choices and recommendations. This report is consistent with the recommendations made in that report and reviewed by the City Council on January 16, and summarizes the impacts of those recommendations on water customers in the City.

Executive Summary

During the transition period from assumption of the District by the City, customers would notice very few changes in water services. Below is a list of water services that would not change:

- Water supplies to customers in the City and the District-served part of Lake Forest Park would continue to originate from the Seattle Public Utilities water system.
- The boundary of the water utility would be the same as that of the District.
- Customers would not experience any difference in water pressure or water quality.
- The water system would be operated and maintained by generally the same personnel as before the assumption.
- The existing rate schedule would be maintained in the short-term, following the District's existing pattern of annual rate increases.

By the City assuming the District, a limited number of changes would be noticed by water utility customers. These include:

Consistency with Other Comprehensive Plans

- The City would create and update a Comprehensive Water System Plan for the operation of the water utility.
- Customers in Shoreline would no longer need to track separate processes for water system and land use planning.
- Customers in Lake Forest Park would still have the opportunity to comment on the water utility planning documents.

Cooperation with Lake Forest Park

- Since the City plans to assume the entire District, the City would need a franchise or interlocal agreement with Lake Forest Park for water service within Lake Forest Park.

- Lake Forest Park customers would work through their City Council to influence the water utility's operations within their jurisdiction.
- If the Lake Forest Park Council establishes service requirements that differ from those established by the Shoreline Council, Lake Forest Park customers may experience different rates.

Long-Term Water Supply

- The City would join the Cascade Water Alliance (CWA) or the Water Supply Association (WSA) to secure a cost effective, long-term water supply.
- A long-term contract would decrease the need for capital expenditures and would ensure stable water supply and rates for the City's customers.
- The City would likely follow a path similar to that charted by the District, so no customer impact is likely in this area.

Regional Government and Agencies

- City officials supported by past District employees would participate in discussions on the future of water supplies in the region.
- Participation in regional discussions would focus on satisfaction of the broader interests of the entire Shoreline community providing opportunities for interjurisdictional cooperation and legislative action relating to water supply and services.

Local Control and Accountability

- The District Board of Commissioners would be dissolved and the Shoreline City Council would have oversight responsibility for operations of the City water utility.
- Customers in the City and Lake Forest Park would be able to vote for their respective City Council members who would oversee the operations of the water utility within their jurisdiction via an interlocal agreement or franchise.
- Citizens would have increased opportunities to become aware of and affect policy decisions related to water system operation, capital improvements, and rates.
- Citizens could focus their energy on monitoring a single elected body, the City Council.
- Actual accountability would follow perceived accountability, i.e. District customers who currently believe that the City Council is accountable for decisions related to water would be right.

Finances, Debt Structure and Contracts

- The City would pursue a scaled back water supply and replacement/expansion Capital Improvement Program (CIP). This CIP is projected to require rates in 2010 that are 22% less than those rates projected from the District's draft CIP.
- Separate CIP's would be prepared for the water service areas in the City and Lake Forest Park in order to affect policy setting authority of both City Councils.
- District operations would be integrated into the City organization and central services cost allocation model increasing utility operation costs compared to current projections, but lowering the cost pressure on other City services by a greater amount due to efficiencies.

- The City would assume the District's existing financial policies, debts, and contracts. The City would repay water utility debt according to the existing District schedule.
- The City would maintain a minimum capital reserve balance of \$1,000,000 to fund emergency capital projects, avoid sudden rate increases, and to obtain low interest loans.

Financial – Rates

- The City would maintain a cost-of-service policy for establishing rates, following the District pattern of annual rate increases.
- An additional 6% utility tax would be added to water bills for customers living within the area of the City currently served by the District (this would be in place of a proposed 6% franchise fee, not in addition thereto, and, therefore, may not have any impact on comparative rates).
- Water rates may be adjusted once the City completes an updated cost-of-service rate study.

Summary of Financial Impacts

- Rates would be expected to be 9% to 15% lower by 2010, than would be expected under current District plans and policies.
- Additional resources would be available for City activities and costs would be reduced for other City services.

Staffing Requirements

- By assuming the District, the City would incorporate the District's existing 14 full-time staff and three unfilled positions into the City's staff.
- Between District and City facilities, space would be made available to incorporate District staff and equipment.
- Water customers would see a different phone number for customer service, perhaps a new address to send their water bill payments, and a new or additional location to get customer assistance and pay bills in person.

Current Strategic Issues

While most of this report focuses on an exploration of the impacts listed above, the last section discusses a number of current issues that support City action to clarify its desired role in providing water services. Continued uncertainty in this area could have undesirable results or limit the City's ability to take certain future actions as discussed in more detail below.

II. Background - Existing Water System and Services

Water service to the residents of the City of Shoreline generally west of Interstate 5 is delivered directly by Seattle Public Utilities (Seattle) as part of its Direct service area. Those residents east of I-5 are served by the Shoreline Water District. At the present time the District serves approximately 30,000 residents of Shoreline and Lake Forest Park and Seattle serves approximately 45,000 residents of Shoreline. The City is served by water primarily from the South Fork Tolt Watershed whether Seattle or the District delivers it. The residents in the City served by Seattle pay an outside Seattle retail rate, which for a customer with an average level of consumption is \$21.65 per month at 1999 rates ¹ as compared to the District at \$28.96 and inside Seattle at \$19.01. The District's average monthly bill is 7th highest out of the 28 regional purveyors. The outside Seattle rate would rank 23rd out of 28 if it was considered as a purveyor rate. Water rates in the City are expected to increase at between 8% to 14% per year until 2004. After 2004 the rates are expected to reflect the rate of inflation.

In 1999 and 2000, both the City of Seattle and Shoreline Water District updated their respective water comprehensive plans. Before the plans can be fully adopted, both utilities will need to acquire the approval of the City of Shoreline for the portions of the plan that are within the boundaries of the City. Both the District and Seattle have established clear CIP's. The pipelines serving the City within Seattle's service area are generally older than the pipelines in the District's service area. A significant pipeline replacement program will be required in the Seattle service area. The District is more aggressive in replacing older facilities and substandard piping, and replaced most of the piping in its system in the 1960's. A pipeline replacement program is essentially unnecessary in the District service area.

¹ 1999 Annual Purveyor Survey: Summary of Results, Seattle Public Utilities, December 1999.

III. City of Shoreline Goals - Why Assumption is Being Considered

Starting a few months prior to incorporation, the City has been exploring services provided within its boundaries in an effort to determine its appropriate role in providing each. Utility services have drawn significant focus due principally to some state law requirements. State law regarding incorporation and annexation, for example, requires new cities to recognize the authority to utilize the right-of-way to provide utility service granted by the previous jurisdiction. That initial authority, however, expires within five years forcing new cities to focus significant attention on developing the policies and relationships they need to manage the right-of-way.

The Growth Management Act (GMA) also places the responsibility to plan and ensure the provision of adequate utility services on cities. The GMA (RCW 36.70A) defines "Urban Governmental Services" as:

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

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

Consistent with a city's responsibilities under GMA, the Council adopted a number of framework goals as part of the City's Comprehensive Plan that relate to utility services. These goals, which articulate a number of interests expressed by your Council in addition to the statutory requirements, include:

- FG1: Accommodate anticipated levels of growth and enhance the quality of life within the City of Shoreline.
- FG7: Assure effective and efficient public investment for quality public services, facilities, and utilities.

This policy of seeking to ensure efficient public investment was re-articulated and emphasized during development of both the City Council's 1999-2000 goal Number 6, "Continue to strengthen intergovernmental relations ... strengthen communication and collaboration with the School District and other public agencies," and goal Number 9, "Accelerate City Hall planning."

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

- U1: Promote the provision of utility services citywide that meet service levels established in the Capital Facilities Element at reasonable rates.
- U2: Investigate alternative service provision options that may be more effective at achieving these service standards or in meeting other policy goals found in the Comprehensive Plan.
- U12: Investigate water reuse opportunities that: - may diminish impacts on water, wastewater and surface water systems, - promote the conservation or improvement of natural systems.
- U16: Support efforts which will ensure adequate water supply and wastewater treatment capacity for existing and anticipated development at service levels designated by the Capital Facilities Element.
- U17: Support efforts which will correct existing water and wastewater system deficiencies where deficiencies exist and ensure adequate infrastructure and services for all areas of the City.

Further, the City Council has evidenced the importance of these service issues by including them in their Council Work Plans in 1998, 1999-2000, and again in 2000-2001, which specifically emphasizes expedited review of the City's role in regards to providing utility services.

In response to Council's expressed policies in this area, City staff developed an interlocal agreement and franchise with the Shoreline Wastewater Management District (Wastewater District) through which the Wastewater District committed to pursuing the acquisition of Seattle's sewer service area within Shoreline. This move to change the current two-provider system was taken in an attempt to serve the above policies by supporting the unification of service under one local provider. In 1997 and 1998, City staff focused on analyzing electrical service and developed a long-term franchise with Seattle City Light to provide this service. This new franchise was framed to address multiple policy goals of the Council (rates, taxes, rights of way, etc.) In 1999, staff developed comparative analysis regarding the provision of water service within the City and presented an options analysis report developed in conjunction with CH2M HILL to the City Council in January of 2000. The City also took action in 2000 to take control and consolidate solid waste collection services under one provider effective March of 2001.

City staff recently conducted research on the role that other cities throughout the state play in providing water service. As evidence of the importance that municipalities have placed on controlling this crucial service area, it was found that 93% of Washington cities over 10 years old who responded to the Association of Washington Cities annual water fee study operate a water utility. If it is assumed that special purpose districts serve all cities that did not respond to this study, 78% of all Washington cities operate a water utility.

The articulation of these policies and the activities that the City has engaged in over the last four years reflects the importance the City has placed on its responsibility to ensure the quality provision of Urban Governmental Services to Shoreline residents.

IV. Issues Associated with Assumption

A. Consistency with other Comprehensive Plans

Background

State law requires that a special purpose district's comprehensive plan remain consistent with the comprehensive plans of general purpose jurisdiction(s) in which they operate. The Shoreline Water District, for example, is currently required to submit any updates to its Comprehensive Water System Plan to both the cities of Shoreline and Lake Forest Park (LFP) and King County for comments.

Cities have an obligation under the Growth Management Act to ensure the adequate provision of urban services including water. If the City assumes the District, then a newly created water department would have the responsibility of ensuring the integration and consistency of utility operations with the City's planning documents.

This limited review focuses solely on "concurrency," a determination of whether the District's proposed plan is designed to provide sufficient infrastructure to support land use designations included in the City's general planning documents. If there are specific areas that need additional investment (for example, a new water main), in order to support planned growth and that investment is not included in the District's plan, then Shoreline could comment on the proposed plan and request a change. The District can then make the requested changes, make an alternative change designed to meet the identified need, or choose to leave the plan unchanged.

If either Shoreline or LFP believes that a plan or plan amendment adopted by the District does not meet state concurrency requirements, then they can appeal its adoption to the Growth Management Hearings Board.

Analysis of Change

If Shoreline were to assume the District, then it would take on the responsibility for creating and updating a Comprehensive Water System Plan for the operation of the water utility. The concurrency review between this plan and Shoreline's land use plan would be internal. The utility planning document would be drafted with the assistance of Shoreline's Planning and Development Services personnel with the purpose of supporting the City's land use plan.

Since a portion of the utility's service area would be in LFP, Shoreline would need to submit the utility's planning documents to LFP for comments just as the District does today.

Impact on Customers

Shoreline customers would no longer need to track two separate planning processes. Planning for the water utility within Shoreline would be folded into the City's existing public involvement processes. The planning documents would be integrated, available from the same place, and comments or requested changes either in land use or water made through a single process.

LFP customers would face a process that is very similar to what they experience today. The City of LFP would have a formal role in reviewing the utility's planning documents and the ability to challenge any lack of concurrency with their land use plan. LFP customers would need to participate in the City's public involvement processes and submit comments to LFP, who could pursue them through their review process, or directly to the City.

B. Cooperation with Lake Forest Park

Background

The City is proposing to assume the entire District. The current boundary of the District's water service area encompasses approximately five square miles within the cities of Shoreline and LFP. The boundaries are south to NE 145th Street, north to the King/Snohomish County line at NE 205th Street, west to I-5 and beyond, and southeast to Lake Washington and northeast to NE 35th Avenue (see **Figure 1**).

An assumption of the District by the City raises issues related to water service to residents outside the City. If the City assumes the entire District, it would provide retail water service to a portion of LFP. Approximately 25% of the customers currently served by the District live in LFP. LFP does not presently operate a water system. Water service to its residents is provided by either the District, Water District 83, or the Northshore Utility District. Each of these entities have their own 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.

Under the present arrangement, all policy decisions related to water are made by the Board of Commissioners of the Shoreline Water District. 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. LFP must authorize the operation of that utility within its boundaries in order for this to occur.

Analysis of Change

Assuming the entire District would allow the City to continue to operate the water system in its existing configuration and manner, LFP would need to provide the City with a franchise or some other interlocal agreement allowing it to operate a water utility within its LFP city limits.

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.

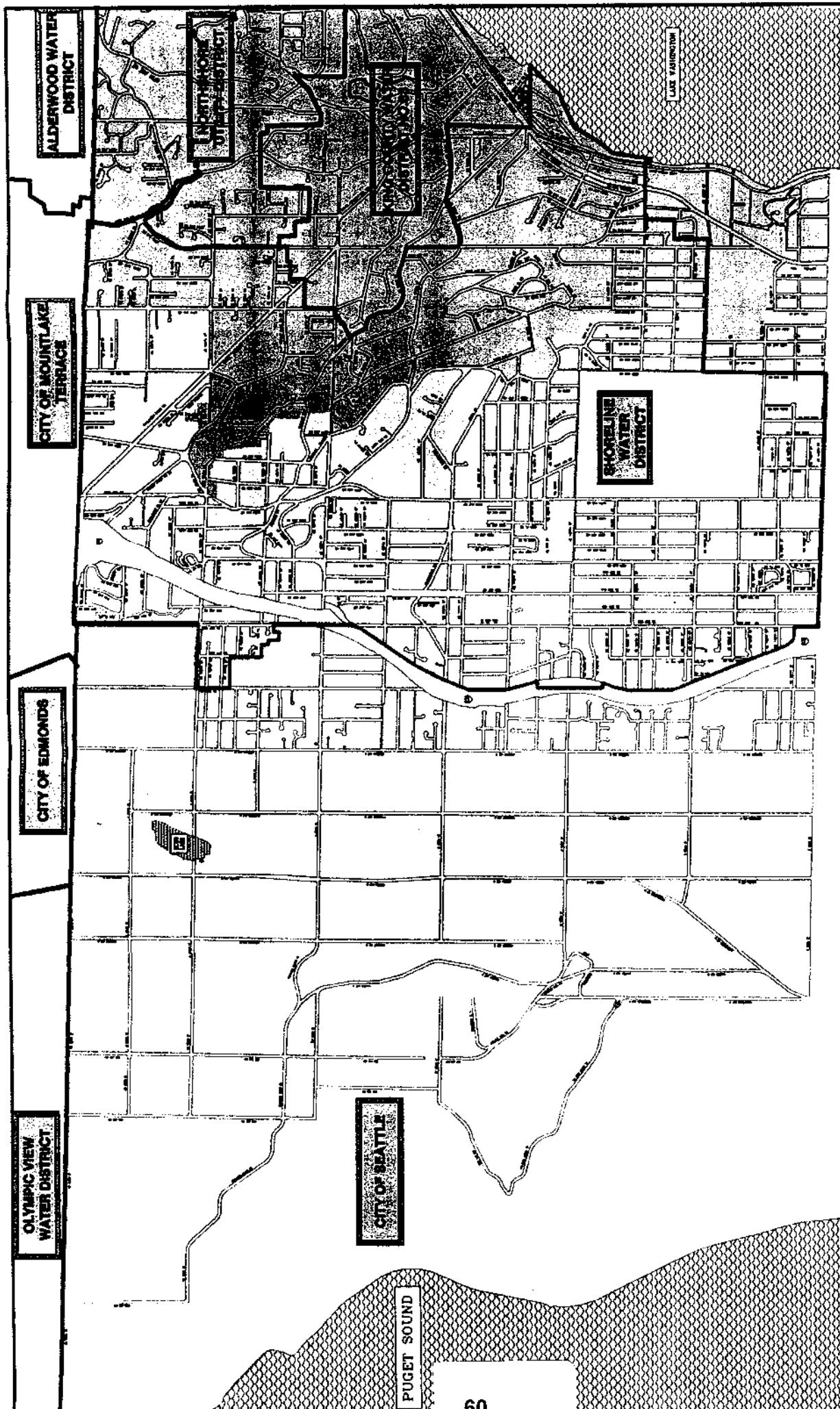


Figure 1
Jurisdictional Boundaries

Legend

	Shoreline Water District Boundary
	City of Shoreline
	City of Lake Forest Park

DRAWING IS NOT TO SCALE

LFP elected officials have expressed an interest in ensuring that water utility operations remain accountable to the customers within LFP. It is the City's intent that the LFP Council be given authority to set or ratify water system policies that impact LFP residents.¹ This arrangement is most likely to keep the system from being separated by ensuring that LFP customers continue to have elected officials representing their interests by making policy decisions relating to the utility's operations. Although this arrangement would be 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), the additional administrative cost is small in comparison to the expected cost of separating the system between the City and LFP. However, coordination of operations could be complex if policies diverge in significant ways.

The City would allow differential rates for Shoreline and LFP with each jurisdiction having the authority to establish rates for the customers within their city. This arrangement is not without costs or potential implementation pitfalls. Water system facilities, particularly the underground pipes, are not separated at the boundary between the City and LFP. 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. Although this arrangement is administratively burdensome, requiring both a duplicative rate setting process and the maintenance of a cost allocation model, it is wholly consistent with providing the LFP Mayor and Council the authority to set policies that impact LFP residents. Staff recommends this arrangement 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.

As noted above, 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, the arrangement between the City and LFP would simplify the transition because resources and costs would already be allocated between the two service areas. At the same time, granting LFP most if not all of the privileges of utility ownership as part of this arrangement should make it less likely that they would choose to exercise that option.

Impact on Customers

The City would assume the entire District service area. Therefore, the boundary for the water utility would stay the same as the existing District boundary. There would be little or no impact to customers from the City assuming the entire District, as the City would continue to operate the water system in its existing configuration and manner. Customers in LFP would continue to receive the same services as currently provided by the District.

Customers in the City would benefit from the administrative arrangement between Shoreline and LFP because the rates they pay would then be directly correlated with the service they receive. In addition, the City of Shoreline residents would no longer pay for facilities outside the City boundary. At present, the rates, costs, and benefits are averaged over all of the

¹ The LFP and City Council will influence the water rate for residents of LFP by determining the services and CIP within their city limits.

service area, which encompasses portions of Shoreline and LFP. Customers in LFP would benefit from this arrangement's intent to ensure accountability of Shoreline water utility operations to LFP elected officials and customers.

Allowing differential rates for each jurisdiction would ensure accountability of the elected officials of Shoreline and LFP to water utility customers within their city. City residents would have the ability to voice their support or disagreement with projects and service levels that would directly affect their water consumption without having projects benefiting LFP complicating the discussion. Initial rate setting and any future proposed rate changes would be required to follow the appropriate public processes in each jurisdiction.

C. Long-Term Water Supply

Background

City residents, those generally west of Interstate 5, in the Seattle service area have a secure source of water as long as Seattle continues to provide retail service outside its boundaries. The District currently purchases water through a contract with Seattle Public Utilities 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 would 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.

At the present time, two significant negotiation processes are occurring simultaneously. The first is a set of negotiations between the Cascade Water Alliance (CWA) and Seattle for Seattle to sell a block of water that CWA will resell to its members. The second is between the Water Supply Association (WSA) and Seattle for a new wholesale agreement between individual water utilities and Seattle. The CWA and Seattle are negotiating one agreement and the WSA and Seattle are negotiating two agreements; each offering different levels of service, cost, and responsibilities. Drafts of the three agreements are discussed in Section V below and attached in Appendix A. 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.

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. 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 (CWA) 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 the 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.
- **Lake Tapps:** This project is presently used for producing power and is owned and operated by Puget Sound Energy. It is not cost effective for them to continue to operate as a power project. The project is being re-evaluated as a water supply project. The water would flow from the project to Tacoma Pipeline 5 and ultimately to the CWA through the Tacoma-Seattle Intertie. The CWA and Puget Sound Energy are in early discussions regarding the development of this project.
- **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.

Analysis of Change

To obtain a cost effective, reliable, low risk supply of long-term water, it is the City's intent to 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. This would 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.

The new contracts being developed could offer the City significant benefits over the existing contract between the District and Seattle. The version of the new contract being negotiated by CWA is based on the development of the Tacoma project that is continuing to move forward. The following achievements have been completed or are underway: (1) Seattle City Council approved the agreement with Tacoma on a 9-0 vote; (2) the first section of the pipeline project was brought online 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.

One issue of potential concern to the City is that a term in the proposed WSA agreements provide the long-term contract currently being considered by the District would become null and void should the City assume the District. In that case, the City would have to either re-open negotiations with Seattle to develop a new long-term agreement or join the CWA and sign the CWA water supply contract.

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. If the processes continue to progress, then the contents of all new agreements between CWA, WSA and Seattle, and the final approval of the Tacoma Project's HCP should all be known by June, 2001. The signing of agreements between the members and Seattle could then begin as early as the summer of 2001.

Consideration of other policy options, including (1) converting the eastern portion of the City to a retail customer of Seattle, similar to the presently Seattle served area west of Interstate 5, (2) 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, and (3) proceeding with the filter plant on Lake Washington, would be held in abeyance without 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 re-evaluate 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 would be as a regional project, with the City paying their share of development costs through regional water supply rates and not as a project in the CIP of the utility. This would significantly decrease the current capital expenditures projected by the District.

Impact on Customers

Joining the CWA or WSA would give the City an opportunity to secure a contract for a long-term source of water for the City. Focusing on one of these processes for securing a stable water supply would reduce the need for capital expenditures relating to water supply and, therefore, reduce pressure on water service rates.

D. Regional Governments and Agencies

Background

At the present time the City of Shoreline is a player in many regional issues such as transportation, police, wastewater, solid waste, and regional services. However the City does not participate in regional discussions regarding meeting drinking water needs for the next 20 to 50 years. An assumption of the District or of the Seattle served area would provide the City with the opportunity and responsibility to participate in those discussions.

The major water issues proceeding at this time include evaluations of new supplies, changes to water rights law, and how water will be governed in the region. Several governments and combinations of governments are evaluating these issues, including the District, Seattle, WSA, and CWA. How these issues are decided over the next 1 to 2 years will have a significant impact on regional water supplies for the long-term. Key questions to answer are:

- What voice in regional water issues does the City want to have now and what role does the City acquire by assuming the District?
- What key regional decisions will be made in the near future that may impact the City's ability to ensure the adequate provision of water services within the City?

Analysis of Change

The City would participate in the regional discussions by attending appropriate regional forums and negotiating sessions. The City is the provider of last resort, that is if the District fails, then the City is required to ensure that water service is adequately provided. For this reason, the City Council could be held accountable for decisions currently in the hands of the District Board. By participating in regional discussions on water supply directly, the City Council would be in a position to make a decision regarding a long-term contract that is best for its citizens for which they are accountable.

Impact on Customers

Participation by the City in regional discussions would ensure a contractual agreement for long-term water supply that is accountable to the City's long-term need and its water customers.

E. Local Control and Accountability

Background

This section explores two distinct facets of local control and accountability. First, the specific legal ability to hold an elected official responsible for utility operations, and second, the actual opportunity of a customer to become aware of and easily participate in the oversight of utility operations. The first does not guarantee the second. While Shoreline citizens may have an opportunity to vote for both a federal senator and a city council member, for example, their ability to gain information regarding and influence the decisions of the city council member is significantly greater.

Three elected commissioners who must reside within the District's service area oversee the management of the Shoreline Water District. Two of the current commissioners reside in Shoreline and one resides in LFP. The District's Board of Commissioners meets regularly on Tuesday evenings to discuss District business. While these meetings are open to the public, attendance by District customers is rare. The meetings are less formal than those held by the Shoreline City Council. There is no public comment period regularly included on Board Meeting agendas, for example. The District has held issue based public meetings on occasion with broader notification and involvement by their customers. The District has also recently adopted the practice of occasionally placing ads in the Shoreline Enterprise mostly concerning water quality, and has a website where customers can get copies of minutes from past meetings and other information.

The District's offices are centrally located within its service area. Many customers reportedly stop by to pay their water bills and take that opportunity to ask questions or provide input on the service provided by the District.

Seven elected Council Members who must reside within Shoreline manage the operations of the City. The City Council meets regularly on Monday evenings. The agenda and discussion materials are made available to the public a week in advance at the public libraries in Shoreline and on the City's website. The meetings are well attended by the public with a number of formal opportunities for public comment on each agenda. The meetings are also taped and shown several times throughout the following week on the City's cable TV channel. The City also publishes a quarterly newsletter and a bi-monthly column in the Shoreline Enterprise highlighting issues of interest to the public.

The City has a strong history of seeking public input through holding public hearings or open houses throughout the community regarding key policy issues such as CIP development and the City's Comprehensive Plan. The City also supports the operation of local neighborhood associations and the operation of the Council of Neighborhoods. City staff makes issue specific presentations to the Council of Neighborhoods as requested and the Council of Neighborhoods is invited to speak to the City Council regarding issues and concerns on a regular basis.

Analysis of Change

If Shoreline assumes the District, then the District Board of Commissioners would be dissolved. The responsibility for overseeing the operations of the utility would then vest with the Shoreline City Council.

If this were to occur, the Shoreline City Council has committed to granting the LFP City Council the authority to oversee the operation of the water utility within their city's boundary. Both city councils may also agree that a utility advisory committee with representatives from both cities be established to assist in utility oversight.

Utility offices would likely remain in their current location for a time, but would eventually be integrated into Shoreline's City Hall. The distance between the two buildings is currently less than two miles.

Impact on Customers

Shoreline customers of the newly formed water utility would be able to vote for all seven of the Council Members charged with the responsibility of overseeing the operations of the water utility. LFP customers would also be able to vote for their Council Members who would also be provided authority to oversee utility operations through an interlocal agreement with the City of Shoreline. In addition, customers of both cities may be offered an opportunity to serve on a utility advisory committee. As discussed earlier, this ability to vote alone does not guarantee accountability. Openness, ease of access, and opportunity for interaction are also key indicators of accountability.

Customers of the utility would have the ability to become informed about water service issues before the Shoreline City Council through the City's multiple communications methods, i.e. Cable TV, Shoreline Enterprise, Shoreline Newsletter, website, and agenda packets located at both Shoreline libraries. LFP customers would not have ready access to all these communication methods, but could follow through their City's communications methods as water related issues are placed before their City Council.

Customers in either city could seek information regarding the water utility through a visit to the city hall of either city or through a call to Shoreline's central customer service number, (206) 546-1700.

In addition, the visibility of water service related policy decisions would significantly increase as citizens who follow each city's diverse agendas have an opportunity to observe and participate in water related decisions. The budget adoption process illustrates this point. While few current District customers take advantage of opportunities to participate in the District's annual budget process, many Shoreline citizens, including those customers, monitor the City's budget process. These customers would be able to participate in budget decisions regarding water, parks, streets, public safety, and more through participation in one process rather than two. Further, the City's budget process extends over several meetings, includes extensive detailed budget documents, public hearings, and is televised. This opportunity would provide a heightened level of scrutiny of the Council's decisions regarding water service.

Personal service contracts provide another illustration between the actual level of involvement and accountability provided by a city in contrast to a special purpose district. These contracts are public record and must be adopted by vote of the elected board or council. When the Shoreline City Council takes action to execute a contract with a new City Manager in the next few months, the consideration of that employment contract will be advertised on the City's Cable TV channel. The proposed contract itself will be available to the public a week in advance at both libraries and through the City's website. Key terms of this contract will be reviewed by Shoreline residents and may even be reported in the local paper as recently occurred with the terms of Bellevue's contract with its City Manager. This level of scrutiny will ensure that the contract is consistent with common industry practices and market conditions.

Actions by special purpose districts don't receive this level of scrutiny and their discussion process for considering such contracts are not as open. As a result, you may find that a district board may agree to an employment contract with their manager that contains unusual terms, such as a five-year guaranteed employment clause, for example. This kind of agreement develops in a situation where the elected officials develop a close relationship with staff unchecked by consistent and persistent public involvement and scrutiny.

In summary, the ability to vote for an elected official that has authority to represent their interests in obtaining quality water service would be maintained for all customers, even those within LFP through specific terms of an interlocal agreement. In addition, the ease of access to water related decisions and level of scrutiny by the public of those decisions would increase significantly.

F. Finances, Debt Structure and Contracts

By assuming the Shoreline Water District, the City would also be assuming the existing financial policies, debt, and contracts that the District has entered into. These include public works trust fund loans, bonds, the existing rate structure, a long-term water supply contract with Seattle, and others. This section explores the potential impact of assumption on the financial operation of the water utility. To ease the readers understanding of this complex topic area, the following discussion is divided into two subtopics; that is Expenditures and Resources.

Expenditures

Background

There are four major components of water utility expenditures, i.e.:

1. Purchased water expenses

The District has projected purchased water expenses. Assumption of the District by the City should not impact purchased water expenses over the next six years.

2. Other operating expenses and taxes

Other operating expenses include personnel, maintenance and administrative costs. Assumption of the District would impact these other costs due to differences in cost structure and how the City and the District track expenses. The City provides most administrative services internally with City staff. The expense of these services are allocated among the various City external services according to the City's "Central Services Allocation" model. Examples of services used by all City functions 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. This topic area is discussed in more detail in sections **G. Financial - Rates** and **H. Staffing Requirements** below.

3. Debt service

City assumption is not expected to affect debt service expenses since the City expects to make the same or similar policy decisions in this area. 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. Potential changes in interest rates, which directly impact debt service expenses, based upon changes in the rate market or bond

ratings are too speculative to support a change in the District's current projections in this area.

4. Capital improvement costs

One area where the City may have considerable ability to impact water utility expenses is in the selection and 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 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. The next section discusses changes to the utility's CIP in some detail and expected resulting rate impacts.

Analysis of Change

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, 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 as part of a scaled back water supply CIP 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. 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.

A scaled back pipeline 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.

Table 1 compares the District's draft Water System Plan CIP with a scaled back water supply and replacement/expansion CIP, showing projected capital expenditures (in 1999 dollars) through 2019.

TABLE 1
CIP Alternative Comparison: Projected Capital Project Costs, 1999 Dollars

Period	District CIP ⁽¹⁾	Scaled Back Water Supply and Replacement/Expansion CIP
2000 – 2006	\$9,944,000	\$6,887,000
2006 – 2011	\$7,350,000	\$750,000
2012 – 2019	\$3,950,000	\$2,950,000
Total 2000 – 2019	\$21,244,000	\$10,587,000

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

The total capital expenditure through 2019 (in 1999 dollars) with a scaled back water supply and replacement/expansion CIP is \$10,587,000. Compared with the District draft Water System Plan CIP, pursuing this scaled back water supply and replacement/expansion CIP would lower projected water rates. In 2010, this CIP is projected to require water rates that are 22% less than the District draft Water System Plan CIP.

The District water distribution system appears to be in sufficient shape to not warrant significant replacement. However, the field investigation of the pipelines has not been completed and a final determination of a level of expenditures for a pipeline replacement program should wait for that information. This assumption should be verified by completing the pipeline investigation in 2001-2002. Additionally, other options besides development of a Lake Washington water supply should 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.

Upon assumption of the District, the City would develop two separate CIPs - one CIP for the Shoreline portion of the District and one CIP for the LFP portion. This would allow LFP to set policy guidance related to capital improvements that affect LFP residents while not physically splitting the system. As mentioned previously, this arrangement is not without costs or potential implementation pitfalls. The Shoreline Water District facilities, particularly the underground pipes, are not separated at the boundary between Shoreline and LFP. Establishing separate capital improvements and levels of service for one city's residents without impact to the other city's residents may be difficult.

Upon assumption of the District, the City would centralize administrative services and apply the City's allocation model to the water utility to ensure that the City's costs are equitably apportioned. The District's current operation of the water utility includes a number of administrative functions that would be centralized if the City operated the utility, e.g. finance, legal, facilities, 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.

Using the City's central services allocation would 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, an approximation of the City's central services allocation model (spreadsheet model) was developed. A rigorous application of the central services allocation model, which requires some water utility operation data not yet available, has not yet been completed.

Application of the spreadsheet model indicates that utilization of the City's central service allocation is estimated to increase projected 2001 utility operating expenses by \$275,000. There would also, however, be an offsetting decrease in costs of an estimated \$125,000.

Therefore, compared with continued District operation, City operation of a water utility is expected to result in a net increased cost to the water utility of \$150,000, with a simultaneous reduction of costs to other City services 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 increase in cost to the water utility would be reduced.

The City already owns some construction equipment associated with its street and surface water management systems. The District owns vehicles and construction equipment. Upon assumption of the District, the City would share equipment between utilities to the maximum extent possible. 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 compensate the newly formed water department for value of that 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 would reduce costs for everyone.

Impact on Customers

Adopting the scaled back water supply and replacement/expansion CIP would result in reduced projected water rates, compared with rates resulting from adoption of the District draft Water System Plan CIP. In 2010, projected water rates from this policy change standing alone would be 22% less than the rates projected from the District's draft CIP. As a result, customers are likely to see reduced rates.

Separate CIPs for the City and LFP portions of the District would allow the two cities to make independent decisions regarding investments in water supply infrastructure. The Councils of both jurisdictions would be able to choose capital improvement projects that affect their residents and therefore affect the water rates their customers pay preserving accountability and the ability of LFP customers to influence their service and rates.

Centralizing support services would allow the water utility take advantage of existing City department staff and administrative systems. This built in efficiency would prevent any duplicative water utility expenses from being passed down to the customer and ensure consistency across City services. Standing alone, however, this policy change would increase rates by approximately 5%.

Sharing equipment between the proposed water utility and other existing City departments would eliminate the need to purchase new equipment and would reduce overall utility costs to water customers. Customers should perceive fewer pieces of idle equipment. Efficiencies in equipment utilization are not estimated to be of sufficient magnitude to affect rate projections at this level of analysis. Cumulative estimated impacts on projected rates flowing from expected policy changes following assumption are summarized in **Table 2** under **Summary of Financial Impacts**.

Resources

Background

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 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 was approximately \$2,970,000.

The District's existing total reserves (operating reserves, bond reserves, and capital reserves) total approximately \$350 per ERU (ERU, defined as a typical single-family residence). A survey of three other water utilities shows the following comparison of total water utility reserve balances in terms of a reserve amount per Equivalent Residential Unit:

- The Sammamish Plateau Water and Sewer District is projected, in 2015, to maintain total water reserves of approximately \$270 per ERU.¹
- The City of Bellevue's water utility, in 1994 – 1997, maintained reserves of approximately \$120 per ERU.²
- The Coal Creek Utility District, in 1994 – 1998, maintained total water and sewer reserves of \$303 per ERU.²

The above comparison is somewhat problematic due to the inclusion of bond reserves. As a result the comparison becomes, at least in part, a comparison of debt loads.

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

¹ 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.

² 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.

Analysis of Change

The City would maintain a minimum capital reserve balance of \$1,000,000. Maintaining some capital reserves, but less than currently exist, would 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. A \$1,000,000 minimum capital reserve policy would 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. Use of a portion of existing District reserves would reduce the magnitude of future debt service issuances, resulting in a reduced need to raise rates to pay future debt service expenses.

The City would use capital reserves to fund capital improvements, including use of capital reserves as "local share" to obtain low interest loans. 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 would minimize costs to rate payers. 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, for example, compared with a projected \$87,000 annual payment for a revenue bond.

As a second priority, the existing capital reserves would be used to fund capital projects out-of-pocket to reduce future issuance of revenue bond debt.

The minimum capital reserve policy, discussed above, is the only feature of City operation that differs significantly from the District's current policies and budget projections.

Impact on Customers

Although spending the capital reserves down to zero would likely result in the lowest rates for water utility customers, maintaining some capital reserves would allow the utility to pursue future capital projects without issuing future debt, which would reduce the need for future rate increases to pay debt service expenses.

Use of capital reserves to provide the local share for potential low-interest Public Works Trust Fund loans would minimize costs to rate payers. Long-term benefits to rates of a minimum capital reserve policy are expected, but are not yet quantified.

G. Financial – Rates

Background

Historically the water service rates experienced by Shoreline citizens in the area served by the Seattle have not been consistent with those charged in the area served by the District. The rates in the District-served area have generally been higher. For the three year period 1998 through 2000, an average customer in the District would pay a total of \$1,054.20 for water service over the three years, whereas an average customer in the Seattle served area would have paid \$866.16 for the same amount of water, a savings of \$188.04 or 22%.

Water rates in the Seattle served area are expected to increase at between 8% to 14% per year until 2004. After 2004 the rates are expected to reflect the rate of inflation. The expected rate increases in the District should be similar due to the fact that they buy all of their water from Seattle. One factor that could increase or decrease the future rate projections in the District is the decision regarding what major projects are included in the District's CIP.

Both utilities charge hook-up fees to new customers for installation of a service meter. The charges in the Seattle served area are approximately \$1,750 plus a Special Tap Charge if the Utility paid for installation of the water main in front of a property. The Special Tap Charge would equal approximately \$250 to \$350 for a property with a pipeline built in 1965 and approximately \$4,000 to \$5,500 for a pipeline built in 1995. In the District service area the charge is \$3,151.91. (If a developer installed the water main, total new service charges would be \$1,443.) Customers of both utilities are charged for extra services (for example, replacing and/or upsizing a water meter), through separate ancillary charges based on the costs to provide the services. These charges increase operating efficiency by discouraging unnecessary demand for services. Revenues from ancillary charges are used to finance annual operations and maintenance.

The City adopted a utility tax of 6% on most utilities, including water, in 1999, but both the District and Seattle Public Utilities have asserted immunity from this tax. Seattle Public Utilities agreed to a 6% franchise fee in 1999 and the District is currently considering a similar agreement. As a result, 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 Seattle's utility tax go to the City of Seattle General Fund. Revenues from the Shoreline franchise fee go to the City of Shoreline General Fund.

Unless the City changes current tax regulations, the water utility formed by the City's assumption of the District would be obligated to pay the 6% Shoreline utility tax adopted in 1999. If the City and District sign a franchise that includes a 6% franchise fee, that agreement would be cancelled by assumption avoiding the potential of subjecting water ratepayers to both a City tax and franchise fee. Neither the potential City of Shoreline franchise fee nor the utility tax would be applicable to water revenues collected from District, or City water utility, customers in LFP. The LFP Council has the option of requiring a franchise fee of either the District or the City that would impact the customers in their city.

Analysis of Change

Upon assumption of the District, the City would establish a water rate schedule based on a cost-of-service policy, following the existing District pattern of annual rate increases. A revision to the District's 1991 Rate Study would also be pursued to update the rate process consistent with City policies and prepare for potential integration with SPU customers. This would provide customers a new opportunity to review the elements and procedures for utility rate setting.

Additionally, if the City does pursue assumption of the SPU service area, the expected schedule of such acquisition may coincide with a rate study update. At the time of the rate study update, rate transitioning between the existing District service area and the SPU service area (if acquired by the City) would be investigated. This may impact the way rates are set or charged to City customers.

As mentioned earlier, the City utility formed by assumption of the District would be subject to the City's 6% utility tax for City of Shoreline customers. This utility tax would contribute approximately \$190,000 per year to the City's General Fund. If the District has not already agreed to pay a 6% franchise fee to the City, then this tax would increase water rates, inside the City of Shoreline, by an additional 6%. Should the City of LFP decide to implement a utility tax or franchise fee, the City of Shoreline could collect this tax revenue and pass it through to the City of LFP.

Impact on Customers

The existing cost-of-service rate schedule would be maintained in the short-term, following the existing District pattern of annual rate increases. Rates may be adjusted once an updated cost-of-service rate study is completed within two to three years after assumption. Rates may also be affected if the City decides to pursue assumption of the Seattle served area. At that time, rates may be re-structured to ensure consistency throughout the City.

A City water utility would be subject to the City's 6% utility tax. If the District has not already agreed to the proposed 6% franchise fee, then District customers in Shoreline would see a 6% increase in rates. The impact on District customers in LFP would be determined by the LFP Council.

Summary of Financial Impacts

Rate projections discussed in this report are based on a financial model developed from both District financial records and City central services allocation financial records. This model projects water rates through 2010, and **Table 2** summarizes the impacts of the various financial scenarios. Financial impacts are presented as a comparison between projected water rates for continued District operation through 2010 without policy change and projected rates of a City water utility with specific policy changes. Financial impacts are presented in a series of financial evaluations of each expected policy change of the impact on 2010 rates.

As mentioned, the base case for comparison is projected 2010 District rates. Ideally, this base case would be provided in the District's Draft Water System Plan. That Plan, however, only projects rates through 2005 and does not include the long-term financing necessary to support the CIP that is also included in that Plan. This understates expected rates based upon the District's proposed CIP and would make a comparison of the impact of different policy decisions relating to capital expenditures impossible. 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:

- Projections were extended through 2010 from the Draft Water System Plan's 2005 projections.
- Inflation was applied to capital project cost estimates at the same inflation rate applied by the District to operating expenses.
- Long-term financing was added 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 starts with the base case as described above and shows the estimated impact of each policy decision discussed above that is estimated to have a material impact on rates at this level of analysis. The factor with the largest financial impact is the establishment of a CIP. Comparing evaluations 2 and 3 shows the impact of changing from the District's CIP to the scaled back water supply and pipeline replacement/expansion CIP, where the projected 2010 average water bill would decrease by 22%¹.

TABLE 2
Financial Analysis Summary

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

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

** Does not include the proposed 6% franchise fee that may be applied to the portion of the District inside Shoreline as a result of the proposed franchise agreement between the City and the District.

*** LFP rate would be 85% of base case unless the LFP Council took action to add a 6% tax or fee.

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. The 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 the expected policy or operational differences after assumption is a 9% 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 comparative 9% reduction in water rates would increase to 15% if the proposed 6% franchise fee were adopted.

Impact on Customers

Customers could expect to see rates in 2010 that are 9% to 15% lower then projected District rates and the rates of other City services may also decrease and/or services improved due to the shared central services allocation and additional General Fund revenue.

¹ From 105% of the base case after the increase resulting from the central services allocation, Scenario 2, to 83% of the base case, Scenario 3.

The District could take action to reduce projected water rates in a similar amount by making similar CIP decisions, but it could not act independently to benefit other City services through shared central service costs.

H. Staffing Requirements

Background

The District currently has 14 full-time staff and three additional authorized full-time positions that are not currently filled. Positions within the District are as follows:

Filled Positions

District Manager
Water System Superintendent
Water System Lead
Water Quality Resource Specialist
Water System Technicians (5)
Administrative Assistant
Finance Officer
Office Accounting Supervisor
Customer Service Clerk (2)

Unfilled Positions

Communication Systems Coordinator
AutoCAD GIS
Capital Projects Coordinator

Under state law, the City must offer full-time jobs to all full-time employees of the District and honor all the contractual obligations of the District including employment contracts.

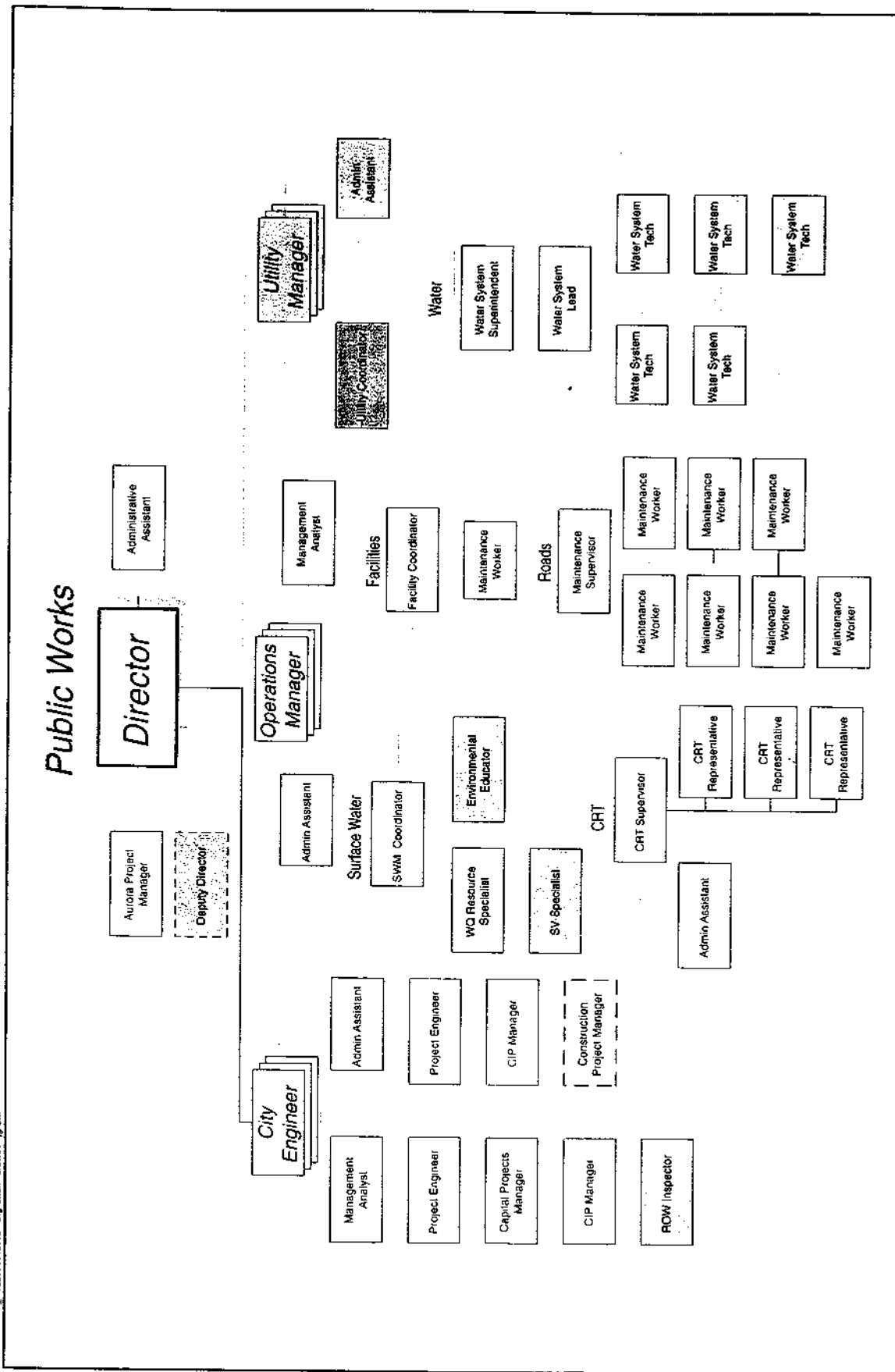
The District currently has offices in the North City area and a maintenance yard just south of North City along 15th Avenue NE.

Analysis of Change

By assuming the District, the City would take on full responsibility for serving water to those 30,000 people generally east of Interstate 5. This is a significant new responsibility for the City. This new responsibility would fall primarily on those 14 full-time staff that are presently working for the District. These employees would become City employees at the time of the assumption and would continue to manage the system. As a result, the City would not need to hire or train new staff. The District does have three staff positions that are not currently filled. The City would likely fill these positions, but otherwise the water system would continue to be managed by the experienced staff that is already delivering water to the residents today.

The City would be able to incorporate the District staff and benefit from all currently authorized District positions most of which would be located in the City's Public Works Department (see **Figure 2**).

The majority of the District staff would form a separate water service group in a new Utility division of the Public Works department under a Utility Manager. The District Manager would be offered the Utility Manager position. The City's Public Works Director is, however, likely to request the authorization of a Deputy Director of Public Works position to assist with the additional responsibility of a Utility division. If authorized, the District Manager could compete for this Deputy Director position. One position would report to the



**Figure 2-
Proposed Staffing Organization**

Engineering Division and one position would be included in the Surface Water group in order to keep all water quality and monitoring functions together.

All finance positions would be placed in the Finance Department and report to the City's Finance Operations Supervisor. Two of the District positions would report to the City's Information Services Manager within the IS Division of the Finance Department.

A comparison was made of the salary ranges between the 14 filled District positions identified above and the generally equivalent City positions. In general, the majority of the District positions had an identifiable equivalent City position and the salary ranges of each were compared. In most cases there was overlap between the two ranges and the tops of City salary ranges were higher.

In July 1999, the District Board of Commissioners amended the District Manager's contract to guarantee employment, or the continuation of salary payments, through December 31, 2005, at a pay range that is well above that of City division heads. The pay range of a City deputy or assistant director position, if available, would be more comparable, but regardless the City would be required to honor the terms and conditions of the District's employment contract with its Manager regardless of where the responsibilities of that individual within the City organization.

The City's intent is to assume the entire District service area, including that portion located within LFP. Therefore, no District staff would be transferred to LFP. All District staff would be used to operate and maintain the water system and/or provide support functions.

A preliminary comparison of benefits was made between the City and District programs. The following categories were evaluated for comparison: sick leave, vacation, holidays, insurance, bereavement leave, retirement, deferred compensation, COBRA, education assistance, uniforms, clothing allowances, commute options, payday schedule, pay deductions, work week requirements, overtime regulations and family leave policy. Generally, the City's benefit package appears to be equivalent to or better than that offered by the District. For example, the City offers 100% more sick leave, vacation accrues more quickly at the City in most instances, and the City offers an additional one-half day of holiday. A more detailed evaluation is required to assess insurance packages, comp time policies and any differences in PERS. Generally, both City salaries and benefits are in the District staff's favor.

One interesting note with regard to retirement benefits is that the City has opted out of the Federal Social Security system while the District has not. If District employees transition to the City, they would be able to place an amount equivalent to their current Social Security tax payment and the employer's match into a fully vested, self directed, retirement investment package. Their Social Security benefits would stabilize at their current level based upon past contributions.

It is assumed that between District and City facilities, space would be available to house District staff and equipment. As the City is considering to move to a new location in the future, an evaluation of a location for District staff would be completed in conjunction with the space planning for this move. In the meantime, however, most District staff would likely stay within their current offices.

The District currently contracts out legal services, engineering, CAD/GIS and inspections services. Many of these services are currently included within the City structure. The City has staff that performs many of the duties that the District currently contracts out. The District's contract services are primarily in support functions, and not required for the daily operation and maintenance of the water system.

The City is under no obligations to 'hire' the District's contract staff. However, ancillary functions, such as human resources, billings, and engineering, would increase the workload on existing City staff. To handle the additional workload, a number of the District positions (specifically finance positions) are proposed to be added to the City functions to accommodate the additional tasks. Depending on the staff organization structure adopted, a number of other District staff positions may also serve to alleviate the additional work. The City may also find that it would want to consider using some contract staff, particularly in the first couple of years, to assist with the transition of workload until the City structure has adapted to the new role of water service.

The District currently has two customer service clerks that respond to customer questions and problems and set up new water system customer accounts. The City currently has three customer response team (CRT) representatives who respond to customer inquiries and complaints. The CRT group would add water service to its scope of work. Water customers would receive equal or greater service with the City operating and maintaining the water system. If required, one of the District staff could be assigned to the CRT group to respond to water customer service needs, as well as cross-train existing City staff.

Impact on Customers

Incorporating all existing District staff into City positions would maintain the current level of expertise for operating the water system. There would likely be no impact to customers from any salary and benefits adjustments as a result of District staff becoming City staff. The new salary and benefits levels were noted in the rate analysis discussed in earlier sections. In the long-term, the City expects to save money by depending on City staff to perform support functions instead of contracted staff. This would keep rate increases down in the future.

Water customers would see a new phone number, perhaps a new address for bill payments, and a new or additional location to get customer assistance and pay bills in person. Customers in Shoreline and LFP would contact the City offices for customer service and bill payments. Actual locations for District staff at new customer service counters would be determined in the space planning analysis. A benefit to the customer is that the City would be able to address water service issues in the same location as other City service issues. In addition, the permitting process for water and development could be combined within the Shoreline service area.

V. Current Strategic Issues

This section discusses four separate issues that can have significant impact to the customers of the City of Shoreline, but the elected officials and staff from the City do not presently have a role in the discussions. These issues are of significant strategic importance to the City in considering assumption of the District. If the City assumes the District, the City would have the ability to make decisions on these issues. However, if the City chooses not to assume the District or does not pursue assumption of the District in a timely fashion, the City may miss the opportunity to be involved in these decisions.

A. New Contracts (CWA, WSA)

The Cascade Water Alliance and the Water Supply Association are presently negotiating long-term agreements with Seattle. The City of Seattle and WSA version of the contract dated January 8, 2001 draft "Full Requirements Contract" is shown as Appendix A. In addition, two versions of Section I.B are shown with substitute language in section I.B.(1) for a "Partial Requirements Contract" and a "Block Purchase Contract."

Key points of interest in the draft agreement between Seattle and the WSA are summarized below: ¹

II.A. (3): Term of Contract:

The basic term of the contract is 60 years. However, this language basically changes the contract from a 60-year contract to a 15-year contract. It allows Seattle to unilaterally change the terms and conditions after the expiration of 15 years, or subsequent 15-year extensions.

II.A. (4): Termination:

Should Seattle unilaterally change the terms of the agreement, the Water District can withdraw from the contract at any time and give Seattle a one-year notice.

II.B. (3): Agreement to Supply and Purchase Water: Assumption or Transfer of Responsibilities:

If the District's service area responsibilities are assumed by another agency, then the contract shall become null and void.

II.E. Conservation (3): Development of Objectives:

This language allows for penalties associated with performance shortfalls to be assessed, as well as performance incentives. No penalties or performance standards are specified in the contract.

Section V. Operating Board:

¹ The draft agreement between Seattle and CWA is not presently available for public review. The draft is expected to be available in mid to late March 2001.

This is a section that deals with decision making. The authority given to the Board includes making decisions regarding regional project cost allocation and the Board's authority for all other responsibilities is limited to an advisory role.

B. Land Use – DNR property

Background

The District purchased the parcel in the City previously owned by Washington State Department of Natural Resources for \$1,900,000 as a site for a treatment plant, headquarters, operations yard and reservoir. The District also 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.

The District's ownership of the DNR property as an asset may be a driving factor in the City's decision to assume the District. City assumption of the District would allow the City to evaluate and decide the fate of the property. Without assumption of the District, the DNR property would remain in the ownership of the District.

Analysis of Change

Upon assumption of the District, the City would keep the DNR property, buildings, and equipment until alternate resources are provided and alternative uses for the DNR site are fully evaluated by the City. The City 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. The site would be evaluated to meet future needs in the next update of the City Comprehensive Plan. Those needs and a vision for the site should be determined in that plan. Upon completion of this evaluation, the DNR property could be sold, either to another City department, another public agency, a regional water supply entity, or a private party. 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. 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.

Impact on Customers

The City Council, staff and residents would be able to evaluate the long-term uses of open space on the DNR property, and determine what use of the property best meets the needs of the City. Although sale of the DNR property would result in a water rate reduction, holding this property until an investigation into future uses of the site is conducted is prudent for the City and would not result in any additional costs to the water utility and, therefore, to its customers.

C. Capital Expenditures

Lake Washington Filter Plant

The District is evaluating this project for treatment and distribution of potable water from Lake Washington. The District has purchased the DNR site as discussed above for the filter plant. At the present time, it is against state regulations to pump water from Lake Washington. This regulation would need to be changed for this project to proceed.

The District has estimated that it would cost \$23 million to develop Lake Washington as a supply source. At the present time, the \$16,900,000 included in the District's 1999 Draft Water System Plan CIP for the construction of a water treatment plant has been taken out of the proposed CIP. However, a \$575,000 pilot Lake Washington water source study is still included. Following assumption, the City would remain committed to ensuring that the citizens of Shoreline have a reliable long-term water supply. However, 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. 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 CIP of the utility. This recommendation would significantly decrease the current capital expenditures projected by the District for this project.

Operations Yard on DNR Property

As discussed above, the District purchased the DNR property as a potential site for a treatment plant, headquarters, operations yard and reservoir. The site should be evaluated in the next update of the City Comprehensive Plan to determine its use to meet future needs. If the City decides not to pursue the Lake Washington treatment plant, it would still need to determine the location of an operations yard to store water system equipment. It is recommended that the City keep the DNR property until an evaluation of potential uses of the property is conducted. If the City decides to sell the property, use it for other future needs, or preserve it as open space, an operations yard would need to be developed somewhere else within the City limits.

Administration Building

The District's offices are currently located within its service area. If the City assumes the District, utility offices would likely remain in their current location for a time, but would eventually be integrated into Shoreline's City Hall. As the City is considering to move to a new location in the future, an evaluation of space for water utility staff should be completed in conjunction with the planning for this move.

A new District building costing \$1,000,000 to be built on the DNR site is included in the District's 1999 Draft Water System Plan CIP. However, as discussed above, this expenditure may be eliminated if the District decides not to use Lake Washington as a long-term water supply source.

D. Seattle Public Utilities

The Seattle Public Utilities serves water directly to the City residents generally west of Interstate 5. The facilities that serve these approximate 45,000 customers are generally older

than the pipelines in the District's service area. A CIP to rebuild these facilities would be needed over the next 30 to 40 years. The decision by the Shoreline City Council affects these decisions and the management by Seattle in three general ways: (1) Franchise extension negotiations, (2) Capital investment planning, and (3) Comprehensive system planning.

Franchise Extension Negotiations

The present franchise negotiated between Seattle and the City for the Seattle water facilities within the City's right-of-way expires on December 31, 2001 and must be renegotiated and extended, or allowed to expire on December 31, 2001. The City would need to have clear direction for these negotiations regarding the direction the City wanted to pursue regarding ultimate dispensation of the facilities within the City limits.

Capital Investment Planning

At the present time Seattle is completing their Comprehensive Water Plan and subsequent to that the budget for the next few years. Seattle has identified four projects to replace/extend water mains in Shoreline (Midvale Avenue N, Ashworth Avenue N, Densmore Avenue N, and N 2nd Avenue). These projects are currently scheduled for 2003, but may be moved up to 2002. Feedback from the City would be helpful to Seattle in setting priorities for these projects. With the question unanswered regarding ultimate management of the water system within the City, an answer on which projects to upgrade cannot be efficiently and economically answered. If Seattle rebuilds some facilities the cost for the City to takeover the system would increase significantly. However if Seattle delays for many more years then the window for construction of the needed projects would condense and the rate impact would be much greater.

Comprehensive System Planning

As stated above, Seattle is finishing their Water System Plan and not knowing whether or not the City is going to operate and maintain the system in the city limits in the long-term adds significant complexity to how the water system should be configured in the future. The decisions made by the City would impact how Seattle operates the remainder of their system. With a clear direction determined by the City, then Seattle can have a set assumption to complete their own planning effort.

Appendix A

Proposed Water Supply Contracts

Appendix A

Provided to Council

Available upon Request from

Shoreline City Clerks Office