

DP: Number 1, the financial projections for NCWD are incorrect. As I stated to the City Manager in January, the district is currently in the process of changing over their financial reporting to a new updated format and we will provide that data to the City in June in the new format. It is premature and misleading to the public here in April, two months before the promised date and 13 years before our franchise agreement expires to be considering incorrect assumptions about NCWD operations and capital programs and their related costs.

Response:

The City Manager requested that both Ronald Wastewater District and that North City Water District participate in the City's study. Although Ronald Wastewater District agreed to do so, North City Water District declined to participate and as such our study has had to rely on the information provided North City Water District via e-mail requests or off of their website.

The City's analysis incorporates the 2013 budget provided by NCWD and the District's 2011 Water Comprehensive Plan Update. While the financial reporting format may change, that should not change the underlying budget requirements, revenue projections or CIP forecast from the Comprehensive Plan. The study does not project any significant changes in revenues and costs beyond inflationary impacts and customer growth in the City. As NCWD did not provide a 2014 budget, we assume that revenues and costs have not changed significantly from 2013 and that revenues at the existing rates for 2014 will be adequate to cover the costs for 2014.

The study focuses on the potential savings associated with combining utilities within the City. Those savings are based on the sharing of common functions such as combined billing and shared human resources, legal costs, etc. The savings are then applied to the expected cost of operating the utilities independently as they are now. Because the savings are a deduction, they will apply equally to any starting point for costs.

If there are significant changes in the revenues and costs facing the District, those impacts will be the same regardless of whether or not the City assumes the NCWD service area. For example, if the District's costs increase above the rate of inflation, the rates will have to increase to recover those impacts. The increase in revenues and costs will apply equally to the District and to the City if it operates the utility.

DP: Number 2, there are several immediate problems with the financial projections justifying taking over Ronald Wastewater District. First the projections assume that all but \$508,000 in general city overhead will be allocated to the new sewer utility. Ronald serves well over 90% of the City of Shoreline. As part of the City's SPU acquisition the City assumed \$1.09 million of overhead cost to the SPU system, which is 60% of the City.

Why is the overhead charge in this analysis, half of what it was projected as part of the SPU acquisition?

Response:

The overhead allocation is a function of several different factors and the number of customers is not one of them. One of the factors is staffing, with 23 FTE for SPU and 15 FTE for RWD. Other factors include square footage required, purchasing activity (pipes, supplies, etc.), expected agenda items, etc. The allocation is an established methodology that has been used by the City for several years.

If you look at the budget for SPU, excluding wholesale water purchases, the total is \$8.6 million for 2020 (in 2014 dollars). That same number for RWD, excluding treatment costs is \$4.7 million. This also compares to the comparable amount of \$4.7 million for NCWD. In this case the revenues required for NCWD are roughly the same as for RWD despite the fact that RWD serves twice as many customers. The size and requirements of the utilities is about more than just the number of customers served.

DP: It is not a good way making practice for the utility to use capital contributions to balance the budget. It appears that the City's consultant is assuming that the City sewer utility will continue to have an annual \$1.1 million sewer replacement project and a new project larger than the Polaris project at the old YMCA site in North City will be built each and every year for the next 20 years. It is the same as saying that the City of Shoreline is expecting the population growth to occur within the existing city limits equivalent to nearly twice that of the Point Wells area. If this large amount of growth does not occur, then the City's new sewer rates will have to go up to continue to have the same existing services that the residents of Shoreline currently get from Ronald Wastewater District and an annual rate increase of 20% would have to take place if these large development projects do not occur.

This will greatly over burden existing residents, businesses and our school district. We cannot afford an annual rate increase by simple having the City take over the sewer utility.

Response:

The roughly \$500,000 per year in capital contributions are based on the amount in the 2014 budget for 2014. This amount was discussed with RWD staff and they indicated that this was a reasonable number to use for forecasting. Further, the City is seeing significant redevelopment and expects to see continued growth, particularly in the commercial and multi-family sector.

Also, the capital contributions are collected to offset the cost of capital required to connect new customers. If the growth does not occur as forecast and the capital contributions are not collected, there will be a corresponding reduction in the CIP budget.

Whether that forecast is correct or not will not have an impact on the analysis. The impact of any change in capital contributions will apply whether RWD remains independent or if it is assumed by the City. The study focuses on the savings of the City operating the utility and the savings will remain regardless of the level of capital contributions.

DP: In summary, as a professional engineer and the manager of a water utility I can say that the City's study is inaccurate with respect of NCWD and it appears that there will be no cost savings for the City to take over the operations from the sewer utility from Ronald Wastewater.

I recommend the staff, the consultants and the Council, review and fully understand all the assumptions that are included in this draft report as it appears to contain incorrect and incomplete information.

Response:

There is a big leap made between pointing out the issues above and stating that no savings will occur. No evidence has been provided to support the claim that there will be no savings, in fact the study shows the exact opposite – there are savings to be gained through unification. The issues raised by Ms. Pottinger do not have a direct impact on the amount of savings that have been identified in the study and are not evidence that the study results are incorrect.

If we were to make changes to the costs and revenues based on NCWD's own projections and to reduce the customer contributions to RWD, the study would show a comparable amount of savings based on combining the utilities. We recognize that there is uncertainty in the forecasts of costs, particularly for the outlying years. This does not negate the magnitude of the cost efficiencies of operating the utilities jointly.