

SPU Frequently Asked Questions June 2012

ACQUISITION

Q: How much will it cost to acquire SPU?

A: \$26.6 million Purchase price (pays for the infrastructure)
 \$14.2 million Initial capital improvements and separation costs*
 \$40.8 million Total cost for acquisition

*2 million gallon storage tank, pump stations and controls, utility buildings, heavy equipment and vehicles, and tools and inventory = \$8.3 million. Separation = \$5.9 million.

Q: How will the City pay for the acquisition?

A: There will be NO impact on property taxes. The acquisition, separation, and initial improvements are paid for with a "Revenue Bond." The revenue bond will be repaid from water utility revenues. Due diligence projections show that Shoreline can operate and acquire the water utility within the projected SPU water rates for Shoreline ratepayers.

Q: How can I be guaranteed that if Shoreline buys the SPU system that my water rates won't be higher than what I would pay to SPU?

A: The Council's stated goal is to acquire the system at a price, when added to other costs to operate and maintain the system, would fall within a rate structure equal to or less than what SPU would forecast. The financial due diligence tested many different assumptions and in all cases the analysis indicated that the City could acquire, operate, and maintain the system within the same rates that Shoreline residents, within the SPU service area, would pay to SPU.

Q: If the water system is in bad shape and needs more maintenance, why would we want to take it over?

A: You are right that the system needs more maintenance. Preventative maintenance helps to ensure long-term reliability of the water system and avoid more costly emergency repairs over the long-term. SPU has a large system to maintain and their focus is not strictly on the needs of the Shoreline community. The City of Shoreline was created by our community 17 years ago to provide a higher level of service than we would get from Seattle or King County, and the community's updated vision continues that goal. Over the past 15 years, the City has reduced flooding through infrastructure projects like Ronald Bog and Cromwell Park, created new parks and protected forests like South Woods, and really cleaned up Aurora. In the same way, gaining control over the maintenance and operations of the SPU water infrastructure will enable the City to do the improvements needed to make the system reliable in the long term.

Q: Why do we have to wait until 2020 to purchase the system?

A: This was the year in which the City was able to negotiate a reasonable price with SPU (\$26.6 million).

Q: Did the City try to renegotiate the current franchise with SPU to get a better deal instead of having to acquire the system?

A: Yes. Over the years the City has discussed and evaluated numerous options for how the SPU water system should be operated including acquisition, re-negotiating the franchise agreement, and additional surcharges to Shoreline rate payers for capital improvements. Those discussions, dating back to at least 1999, have brought the City to the current opportunity of acquiring the SPU water system.

Q: What due diligence process has the City done regarding the acquisition of SPU?

A: The City hired a consulting firm, EES, to help evaluate the condition of the SPU system in Shoreline, how the system would operate in Shoreline once separated from Seattle, what capital improvements need to be made to the system, the cost of operating the system, and the financial feasibility of the City purchasing and operating the system. The City hired CH2M Hill to provide a peer review of the engineering work completed by EES and to evaluate the hydraulic modeling completed by SPU. The City Manager also appointed a 23 member citizen advisory committee to evaluate the due diligence work completed by staff and EES. The work completed by EES, SPU, and CH2M Hill indicate that Shoreline should be able to acquire, operate, and maintain the SPU water system within projected SPU water rates. The citizen advisory committee has recommended to the City Manager that the City proceed with the acquisition of the SPU system. The committee also acknowledged that the City's due diligence work supports that the City can acquire, operate, and maintain the SPU system within the projected SPU rate structure. This includes a higher level of system maintenance than currently occurs under SPU ownership. The committee acknowledges that additional analysis will be required as the City approaches the acquisition date of 2020 including more detailed construction plans of the separation and initial capital improvements.

Q: Why not have Shoreline Water District purchase the SPU System?

A: The City of Seattle has stated that they are only interested in selling the SPU system in Shoreline to the City of Shoreline.

Q: Who gets to decide if Shoreline should purchase the SPU system?

A: The City Council will decide if they should place the SPU acquisition on the ballot for voters. The Council is scheduled to decide this in August of this year. If they decide to put this on the ballot, it will be for the November 2012 election. All voters in Shoreline will have an opportunity to vote on the issue, even those currently served by the Shoreline Water District.

Q: Why not purchase the Shoreline Water District at the same time?

A: The City is focused on acquiring the SPU system in order to address local control and improve reinvestment in the Shoreline system. The City is in the process of negotiating a 15 year franchise agreement with the Shoreline Water District.

Q: If I am served by the Shoreline Water District will acquiring SPU impact me?

A: No, there is no direct impact on Shoreline Water District customers other than they have an opportunity to vote. In the long-term, the City will improve the SPU system, resulting in a system that can support future economic development which will benefit all residents of the City of Shoreline.

WHY IS ACQUISITION GOOD FOR SHORELINE?

Q: Who decides the current SPU rates?

A: Seattle decides Shoreline rates and charges, what capital investments are made in Shoreline and maintenance schedules for Shoreline. Owning the utility means that Shoreline elected officials will be responsible for making decisions about rates and investment choices – not Seattle.

- Shoreline SPU customers currently pay a 14% surcharge for living outside of Seattle’s city limits – essentially subsidizing lower rates for Seattle ratepayers.
 - *SPU states that surcharge is necessary because crews have to travel further to service Shoreline.*
 - *The surcharge is not segregated for the Shoreline area – rather it is used system-wide by SPU.*
- Shoreline customers pay Seattle utility tax that goes to Seattle’s general fund to pay for such things as Seattle parks, police and fire.

Q: How does buying SPU allow for Shoreline to improve the SPU system?

A: Owning the water system allows the City to invest 100% of revenue collected for infrastructure and maintenance into Shoreline.

- *Currently, only 24% stays in Shoreline; other 76% used for improvements outside Shoreline.*
- *The financial due diligence analysis shows that Shoreline could replace approximately one quarter of the water mains in the City during the first 20 years of ownership. Funding is available starting in 2021. In the base case scenario the City could actually fund over 100% of this goal.*

Q: A claim has been made that SPU’s investment in Aurora has far exceeded what Shoreline residents have paid for infrastructure investments – ie. Seattle ratepayers are subsidizing Shoreline infrastructure.

A: This is incorrect. The total cost of construction improvements by SPU in the Aurora corridor is just over \$3M; this includes a \$676,000 estimate for the last phase. A portion of the SPU rate structure that is dedicated to general capital improvements within the entire SPU system. This includes replacements, extensions, relocations and upgrades of water mains. Based on analysis completed in the engineering due diligence the annual SPU investment in Shoreline should be approximately \$1.4M (pg 22 – ESS Consulting’s Engineer report). Therefore, the Aurora improvements would have taken approximately 2 years of those dedicated funds. The balance of those capital funds are largely used outside the City of Shoreline.

Q: How does acquisition of the water system impact Shoreline’s fire prevention system?

A: The financial and engineering due diligence reports included an annual capital improvement allocation for hydrant replacement and improvements to water pressure and fire flows. This cost is included in the future rates for Shoreline ratepayers.

Q: Won’t fire prevention be a cost that must be paid from Shoreline’s General Fund?

A: Recent case law suggests City may have to pay for hydrant replacement using City general fund dollars since fire suppression is part of general government duties. If so, Council could increase the utility tax to the amount needed to fund hydrant replacement and then decrease the utility’s O&M budget by the same amount. Rates would remain the same, the allocation would change.

Q: *Will I still have to pay utility tax?*

A: Yes. Currently Shoreline ratepayers pay a 6% franchise fee to Shoreline plus the utility tax they pay to Seattle. If Shoreline purchases SPU, the 6% franchise fee will be eliminated, but a 6% utility tax will be substituted – basically not changing the overall amount that ratepayers currently pay.

Q: *Can the City of Shoreline raise the utility tax rate in the future?*

A: Yes, Shoreline elected officials could raise the utility tax in the future, but so can Seattle at this time without any input from Shoreline residents. In the future Shoreline residents would be able to voice opposition or support to any change in the tax rate.

COMPARISONS TO OTHER CITIES/SPECIAL DISTRICTS

Q: I remember hearing that Shoreline has the highest total property tax rate in the county, and then we passed Proposition No. 1 to fund city services and we passed the school levies and bonds. Do we still have the highest tax rate in the county?

A: No, the City of Auburn, portions of Des Moines, and unincorporated areas of King County in the Federal Way, Tahoma, Kent, and Issaquah school districts all have higher overall property tax rates than Shoreline.

Q: Do other cities operate their own water utility?

A: Yes, in fact most comparable cities to Shoreline operate their own water utility. This includes Auburn, Edmonds, Kent, Kirkland, Lynnwood, Mountlake Terrace, Olympia, Redmond and Renton.

Q: I have been told that City operated utilities are always more expensive and that Shoreline Water District rates are so much lower because it is a separate utility district that only deals with water. (Tables from Financial Analysis from EES Consulting)

A: This is not true. A number of City operated water utilities actually have lower rates than water special districts. Even though this is the case, the SPU rates for Shoreline residents are high and yet they have no opportunity to influence the rates since they are decided by Seattle elected officials.

Annual Residential Bill Comparison of Seattle-Area Utilities	
	Total Average Annual Bill
SPU Shoreline residents	\$589.48
SPU Seattle residents	\$486.25
LFP Water District	\$450.00
Shoreline Water District	\$449.88
Tacoma Water	\$410.16
City of Bellevue	\$402.62
Northshore Utility District	\$395.52
City of Bothell	\$356.40
City of Edmonds	\$286.28
City of Everett	\$215.72

Annual Commercial Bill Comparison of Seattle-Area Utilities	
	Total Average Annual Bill
SPU Shoreline Business	\$3,753.20
SPU Seattle Business	\$3,093.64
Northshore Utility District	\$2,874.04
Shoreline Water District	\$2,644.52
City of Bellevue	\$2,613.21
City of Bothell	\$2,508.72
LFP Water District	\$2,334.00
City of Edmonds	\$1,678.14
City of Everett	\$1,485.72
Tacoma Water	\$1,463.96