

**From:** [Diane Pottinger](#)  
**To:** [Debbie Tarry](#)  
**Cc:** [Shari Winstead](#); [Chris Eggen](#); [Will Hall](#); [Keith McGlashan](#); [Jesse Salomon](#); [Chris Roberts](#); [Doris McConnell](#); [Jessica Simulcik Smith](#)  
**Subject:** Comments on agenda item 8(b) on Monday night, May 19, 2014  
**Date:** Friday, May 16, 2014 4:58:12 PM  
**Attachments:** [Comments on Agenda Item 8b 5-19-2014 council meeting.pdf](#)

---

Ms. Tarry-

Attached please find my comments on Agenda item 8(b) on Monday night's council agenda.

Diane Pottinger, P.E.

District Manager



1519 NE 177<sup>th</sup> Street | Shoreline, WA 98155

p. 206.362.8100 | f. 206.361.0629

This e-mail message is a public document and may be subject to public disclosure if requested by another party.

NORTH CITY   
Water District

1519 NE 177th St. • P.O. Box 55367 • Shoreline, WA 98155 • Phone: 206.362.8100 • Fax: 206.361.0629

**Commissioners:**

*Ron Ricker*

*Charlotte Haines*

*Larry Schoonmaker*

**District Manager:**

*Diane Pottinger, P.E.*

May 16, 2014

By E-mail

Ms. Debbie Tarry  
City Manager  
City of Shoreline  
17500 Midvale Avenue N  
Shoreline, WA 98133-4905

RE: City Council 5-19-2014 Agenda Item 8(b)  
Utility Unification and Efficiency Study

Dear Ms. Tarry:

At the April 21, 2014 City Council meeting, there were a number of good questions that were raised during the discussion of the Utility Unification and Efficiency Study. As a former long time consultant to water and wastewater utilities in Washington State, I would like to offer the following comments pertinent to those questions.

1. Deputy Mayor Eggen asked **about the projected 10.4% savings** when the City acquires the SPU system, but when the city assumes Ronald Wastewater District (RWD), the projected savings declines to 9.9% (*page 8b-14*). It appears the data indicates that it will cost the citizens of Shoreline 0.5% more in sewer rates when the City takes over **both** SPU and RWD, than if the City were to leave Ronald Wastewater District a separate utility. It is unclear how this is a "double benefit" for the citizens of Shoreline.
2. Councilmember McConnell stated that the purpose of the report is to show how the money will be shifted around. "**Shifting money around**" is in direct conflict with Generally Accepted Accounting Practices (GAAP) and Government Accounting Standards Board (GASB), and State law regarding use of proprietary funds. Funds that are moved or transferred from a utility or proprietary fund to another fund become an obligation to the second fund. For example, if monies were to be "shifted" from the water or sewer utility to the general fund, it would become an obligation to the general fund to pay back those funds. This also applies between water and sewer funds, e.g., one fund may borrow from the other, with the intent to pay those funds back with interest.
3. Public Works Director Mark Relph answered Deputy Mayor Eggen's question asked about **the projected additional savings for other city functions**. Mr. Relph indicated that, with the incorporation of utilities, the study indicates the City would add additional staff. It was unclear from the report how many additional staff will be added or how many

spaces they will use within City Hall. As City Manager Debbie Tarry indicated, the actual overhead calculation is dependent upon a number of items. So at this point, no one knows how many additional staff will be added to the City's overhead cost burden which will have to be allocated to all the other city functions, such as parks, police, planning and development.

4. Councilmember McGlashen asked about the 2000 additional customers I had spoke about in public comment, and suggested the City of Shoreline would enter into an Interlocal Operating Agreement with the City of Lake Forest Park when the City of Shoreline assumes (takes over) North City Water District. Ms. Tabone responded that the report had used 77% of the expenses to determine the estimated expenses for the NCWD to be operated by the City of Shoreline. **Using water sales as an allocator for utility expenses is not a generally used methodology to establish a budget.** Water sales can vary dramatically from year to year based on weather, conservation, projects etc. A better indicator is comparing the number of miles of pipes or the age of the system or the labor hours spent maintaining the system. RCW 35.13A requires that the City of Shoreline offer employment to all North City Water District employees that the City of Lake Forest Park does not hire which is likely to not have any relationship to the water sales.
5. Councilmember Hall asked staff **what the City's track record was for managing utility rates.** As a sewer utility, Ronald Wastewater District passes on King County's cost of wastewater treatment directly to each customer as a separate charge. In addition, King County collects a capacity charge assessed to new connections for 15 years from many properties located in Shoreline every year. The Ronald Wastewater District-only charge has been very stable over the past decade, most recently going down. As a water utility, North City Water District cannot directly pass on the cost of wholesale water in the form of an SPU charge. Therefore, as the cost of wholesale water and therefore SPU rates increase, the average supply cost is recovered from the customers through revenue requirement based rate adjustments, primarily in the consumption (volume) rate. Seattle Public Utilities had a 28% rate increase in the wholesale water costs beginning in 2012, which had to be recovered from our customers based on metered flow plus some availability costs. A water utility carries the risk of unplanned water sale fluctuations such as weather related declining demand, that cause revenues to decrease and net operating income to go negative. A water utility's operating income cannot go negative for a sustained period. In 2013, the City of Shoreline's General Fund had to cover the \$819,637 gap between the collected revenue and the actual expenses of the Surface Water Utility (*from page 15 Year 2013 Year-end Financial Report*). This practice is not healthy or a best management practice for the long term stability of a utility. I suggest there should have been a rate increase rather than to have a negative balance for the year.
6. Councilmember Roberts asked if there would be **a savings to the Surface Water Utility by having Ronald Wastewater District** operate as part of the City. Mr. Relph indicated the savings were about \$500,000 (*page 8b-44*). We were unable to locate within the May 19, 2014 report what this savings specifically was for specifically in the Surface Water Utility. A memorandum to Councilmember Roberts in August 2013 (*see attached*), indicated the Surface Water Utility had paid \$571,520 in 2012 and about the same

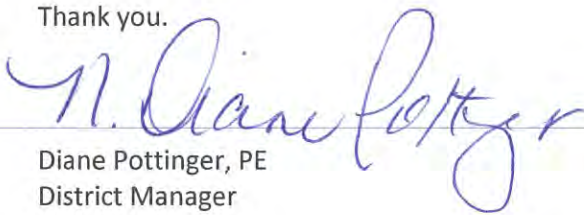


percentage since 2006, which was the Surface Water Utilities' portion of the General Fund Overhead. The staff report indicated the City would be able to operate the sewer utility cheaper than Ronald Wastewater District does, but the report does not address the additional costs to the city wide overhead or the additional overhead of Surface Water Utility with the additional administrative staff from Ronald Wastewater District. The point is, the sewer District needs its entire field staff to deal just with sewer. The office staff must be hired into the City. When they are hired by the city, the employee costs do not go away. If they are located in a city-wide overhead function , it is very unclear just how \$500,000 can be saved when all the labor costs will still be incurred.

7. Deputy Mayor Eggen asked about **the benefit of cross training the City employees with the sewer and water utilities, especially in the event of an emergency.** Because both Ronald Wastewater District and North City Water District are special purpose districts which respond to critical life infrastructure, both are trained to respond to a variety of emergencies. Both Districts currently have mutual aid agreements with the City of Shoreline, so I am unsure how cross training with City staff is incrementally beneficial for the utilities. Mr. Relph indicated that in the past at a previous place of employment, he had utility staff used for large snow events. In the state of Washington, if water and/or sewer utility staffs are used for large snow events to help clear snow, then their labor and benefits are to be paid for by the general fund. Typically, snow plowing is not considered an emergency situation, but rather a routine maintenance activity that should be budgeted for. The point is, the City's general fund still must pay for any general government costs that it incurs, which includes paying the utilities for help during emergencies.

As I stated to the City Manager in a letter in January and last month during public comment at the April 21<sup>st</sup>, 2014 City Council meeting, I or anyone on the NCWD staff would be happy to provide the City a copy of the updated NCWD 2013 financial statements when they are complete to show how we financially operate our water utility and correct that portion of the report.

Thank you.



Diane Pottinger, PE  
District Manager

Attachment

cc: Board of Commissioners  
Andrew Maron, District Attorney

*Excellence in water quality for over 80 years*

[www.northcitywater.org](http://www.northcitywater.org)



## Memorandum

**DATE:** August 21, 2013

**TO:** Councilmember Roberts

**FROM:** Bob Hartwig, Administrative Services Director  
Patti Rader, Finance Manager  
Mark Relph, Public Works Director

**RE:** Surface Water Utility Questions

**CC:** City Councilmembers  
Julie Underwood, City Manager  
Debbie Tarry, Assistant City Manager

Recently you had specific questions regarding the Surface Water Utility. Your questions and staff's responses are below.

- In the last 10 years, what percentage of the surface water utility goes to direct services (including improvements, maintenance, basin plans, street sweeping etc.) and what percentage goes to administrative/overhead costs?*

Council created the Surface Water Utility Fund in 2006 to account for the proceeds and use of the surface water utility fee. Over the last eight years, on average, approximately 81% goes to fund direct services. Administrative/overhead costs are limited to the annual indirect overhead charge the Surface Water Fund pays to the General Fund. A history of these costs and the percentage of admin/overhead for the fund appears below.

	2006	2007	2008 <sup>1</sup>	2009 <sup>2</sup>	2010 <sup>3</sup>	2011****	2012	2013 Est.
<b>Total Expenditures</b>	\$2,264,702	\$2,887,542	\$7,239,131	\$4,210,381	\$4,679,734	\$3,689,103	\$3,735,330	\$5,314,837
<b>General Fund Overhead Paid (included in Total Expenditures)</b>	\$ 347,798	\$ 426,837	\$ 561,891	\$ 500,651	\$ 395,068	\$ 426,618	\$ 571,520	\$ 538,175
<b>Debt Service (included in Total Expenditures)</b>	\$ 319,943	\$ 326,475	\$ 326,475	\$ 326,475	\$ 326,475	\$ 326,475	\$ 326,475	\$ 326,475
<b>Debt Service %</b>	14%	11%	5%	8%	7%	9%	9%	6%
<b>Overhead %</b>	15%	15%	8%	12%	8%	12%	15%	10%

<sup>1</sup> Major Projects included Pan Terra Pond, Ronald Bog South and East Boeing

<sup>2</sup> Includes \$1 million Transfer to Aurora Project

<sup>3</sup> Includes \$300,000 Transfer to Aurora



*How will these percentages change with the acquisition of the Brugger's Bog facility?*

We anticipate that the acquisition of Brugger's Bog may add a nominal amount for facilities maintenance. We do not expect this to significantly change the admin/overhead percentage.

*Are there funds "left over" from the City's enterprise funds from year to year?*

Yes. In any year when the Surface Water Fund's revenues exceed expenses, the fund enjoys a positive change in its Net Position. In 2012 (unaudited) the net position increased by \$273,000 and the year ended with a positive Net Position of \$16.3 million. Of this amount \$3.8 million is in current assets (\$3.6 million in cash), offset by \$0.7 million in current liabilities. The remainder of the fund's Net Position is Noncurrent Assets of \$16.1 million (mostly utility infrastructure - \$15.4 million) in excess of Noncurrent Liabilities of \$2.7 million (mostly a Public Works Trust Fund Loan - \$2.6 million).

*Do those funds stay with the utility?*

Yes. As a proprietary fund the Net Position cannot be used for purposes not related to the utility or moved out of the Surface Water Utility. State law only provides for two exceptions to this and neither apply to the City of Shoreline as Shoreline is a code city. The following is the information from the State Auditors BARS manual of those exceptions:

#### **Interfund Utility Surplus Transfers**

**Surplus** – The amount by which operating revenues exceeds operating expenses. When determining the available surplus in a proprietary fund, the following must first be deducted from the proprietary fund balance: capital asset replacement cost, future capital expansions and improvements and any legally restricted resources.

The surplus can be transferred to the general (current expense) fund under the following circumstances:

- Second class cities may transfer the excess income to the general (current expense) fund (RCW [35.23.535](#)).
- Cities under 20,000 (except first class) must transfer any surplus in utility funds to the general (current expense) fund unless the legislative body finds the money necessary for certain utility fund purpose (RCW [35.37.020](#)).

Basically there is no statutory authority that would allow the City of Shoreline to transfer any utility surplus to be used for non-utility purposes and the City has never used surface water funds for non-utility purposes.

2. *In the last 10 years, how many interfund transfers have been made from the Surface Water Utility to the general fund (if this is done monthly or even more regularly, I do not need an actual number but a sense on how often we make interfund transfers)?*

The chart above (page 1) displays the annual General Fund overhead charge that is transferred from the Surface Water Utility to the General Fund. The charge is recalculated each year, included in the annual budget and transferred on a quarterly basis. The utility has also transferred \$1.3 million to the Aurora Avenue Project to fund a portion of the cost of drainage improvements. More detail is provided in the response to Question 6.

*What is our City's policies (generally) about interfund transfers?*

Interfund transfers are included and discussed with the Council as budgeted items in the City's annual budget process. If they are not included the Council would need to approve an interfund transfer as part of a supplemental appropriation during the year.

*Does the Council need to pass a motion to approve an interfund transfer or has the Council delegated that authority?*

See previous answer above.

*Are these interfund transfers highlighted in the budget document or the expense registry?*

Interfund transfers appear as a separate line item in the budget for each fund.

**3.** *How many City employees have a percentage of their salary paid for by the Surface Water Utility?*

The 2013 Budget allocated a portion of 26 city employees equal to 12.0 FTE to the Surface Water Utility. Of these positions, 9.41 FTE are assigned to operations and 2.59 FTE to capital.

*Of these employees, can you tell me how many employees have less than 15% of their salary paid for by the Surface Water Utility?*

Three employees have less than 15% of their time allocated to the utility.

*How much does overhead/administrative costs cost the Surface Water Utility?*

See answer in question (1) above.

**4.** *How many/do we know how many properties in Shoreline are not directly connected to the Surface Water Utility?*

To clarify the question, all parcels that do not retain 100% of their surface water all of the time are technically connected to the City's stormwater system since they will use a combination of City pipes, drainage ditches, streams, lakes, detention ponds, etc. All of which are regulated by State and Federal law – NPDES. In addition, NPDES for cities has specific performance requirements managed by the Utility and based upon jurisdictional boundaries; in our case, this would include the Highlands. Using this definition, then staff would surmise that all parcels in the City are under the jurisdiction of the city and are therefore, "connected" to the City's stormwater system.

If the question has to do with which parcels are not paying a stormwater utility fee, then staff is currently reviewing this data and preparing it for the September 9 Council report. There are a couple hundred "non-structured" parcels currently not paying a fee. There should be considerable detail in the report that will assist Council in deciding on how Council might want to address these parcels.



*Where in the City are these properties located?*

If the question has to do with the “non-structured” parcels, these are peppered throughout the City. There will be a map attachment that will locate the parcels.

*Do those property owners pay Surface Water Utility fees?*

As noted previously, “non-structured” parcels currently have not paid a fee. In general, the Surface Water Utility is viewed as an integrated, citywide utility. All property owners in the City are deemed to benefit from an effective surface water system.

*Does the Highlands have their own Surface Water Utility?*

We have searched for the financial statements of the Highlands and its utilities online. It appears that they operate water and wastewater utilities, but we have not yet seen any information relating to a separate Surface Water Utility. However, we are aware that the Highlands at times makes improvements to its surface water infrastructure. This may be paid for from a utility or possibly from a homeowner's association of some nature. Highland residents do pay the City's surface water utility fee.

5. *The City took out Public Works Trust Fund loans for the Ronald Bog and 3rd Avenue drainage improvement projects. What was the City's percentage of contributions to both projects?*

Expenditures on the 3<sup>rd</sup> Avenue Drainage Improvements project totaled \$3,177,780. The PWTFL totaled \$1,959,500. The City's (Surface Water Utility) percentage was approximately 38%. The PWTFL for Ronald Bog Drainage Improvements totaled \$3,852,725 with total project expenditures of \$5,640,069. The City's (Surface Water Utility) percentage was approximately 32%.

*What percentage of the Utility's enterprise fund is dedicated to paying back loans?*

See answer in question (1) above.

6. *How much has the Utility paid for drainage improvement of the Aurora project? Of the City's overall contribution to the project how much of that was from the Surface Water Utility?*

A history of the total project expenditures through 2012 versus the Surface Water Fund's expenditures for the Aurora Project, along with the percentage of Surface Water Fund to the total appears below.

<b>Aurora Avenue Improvements</b>	<b>145th-165th</b>	<b>165th -205th</b>	<b>Total</b>	<b>% of Total</b>
<b>Total Expenditures</b>	\$ 27,446,292	\$ 71,445,246	\$ 98,891,538	
<b>Grants/Utilities Reimbursements</b>	\$ 24,785,658	\$ 63,949,390	\$ 88,735,048	90%
<b>Surface Water Utility Contribution</b>		\$ 1,300,000	\$ 1,300,000	1%
<b>City Contribution</b>	\$ 2,660,634	\$ 6,195,856	\$ 8,856,490	9%
<b>Total Resources</b>	\$ 27,446,292	\$ 71,445,246	\$ 98,891,538	



*How much did total drainage improvements cost for the Aurora project?*

The drainage costs by segment of the Aurora project are listed below.

145-165	\$ 1,677,235.30
165-185	\$ 1,171,216.63
185-192	\$ 798,071.34
192-205	\$ 346,748.00
<b>TOTALS</b>	<b>\$ 3,993,271.27</b>

*What percentage of the City's total contribution to the Aurora project came from the Surface Water Utility?*

See answer above.

*Did the Surface Water Utility contribute to City Hall?*

No.

*What percentage of the costs of City Hall are attributed to the Utility?*

The utility pays for City Hall operations annually as part of the administrative/overhead calculation.

Facilities Allocation in 2013 Based on Square Footage

SWM Management	\$4,669
SWM Roads	\$9,575
SWM Capital	\$21,532
Total	\$35,776

The Surface Water Fund does not pay any of the annual debt service payments relating to City Hall.

*What will be the percentage of the Brugger's Bog Facility used by the Surface Water Utility?*

We are currently evaluating what will be the percentage. We plan to complete this calculation later in 2013.

*What percentage of the costs of Brugger's Bog will be attributed to the Utility?*

This will be the same percentage as the use calculation immediately above.

7. *Has there been any finding/note of concern issued by the State Auditor about the Surface Water Utility? (Online the oldest Shoreline audit is 2010).*

There have been no findings or management letter items from the auditor regarding the Surface Water Utility. The City did receive an Exit Item (discussion item) in the 2010 audit recommending that the City work with the County (SWM Billing Agent) to ensure that the

County complies with the City code and that the correct property acreage and rate categories are used for billing. During the 2010 audit, the State Auditor's Office reviewed surface billings in all of the cities where King County acts as the billing agent. In many cases, the County was following King County code and not the applicable city code. The county is now providing detailed billing data to the City which is being reviewed and monitored by City staff.

By selecting different date ranges on the State Auditor's website you can see the older audit reports.

We are hopeful that this memo answers your questions. Please do not hesitate to let us know if you have additional questions.