Shoreline Water and Wastewater Utility Unification and Efficiency Study

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Executive Summary

The City of Shoreline (the City) has begun a process to become the water and wastewater provider to the majority of the residents within the City. The City has an agreement with the Ronald Wastewater District (RWD) to assume the wastewater utility as part of an Inter-local Operating Agreement in October of 2017. In addition, the City is in the process of negotiating an Agreement with Seattle Public Utilities (SPU) to purchase SPU's water facilities inside the City boundaries in the year 2020. These actions will add water and wastewater service to the public works department, along with the existing surface water utility and street operations.

About two-thirds of the residents in the City are currently served by SPU, with the remaining residents served by the North City Water District (NCWD). The City has an existing franchise agreement with NCWD that runs through the end of 2027. Unlike RWD, NCWD is not entirely within the City of Shoreline as it serves customers within the City of Lake Forest Park.

The following table shows the 2014 expected revenues and rough number of customers associated with each of the three utilities. Note that the RWD revenues include the pass-thorough amount for treatment expenses and the NCWD numbers represent the 77% portion that is within the City of Shoreline.

	2014 Revenues	2014 Number of Customers
RWD Wastewater Service Area	$14.5 million	16,000
SPU Water Service Area	$11.2 million	11,000
NCWD Water Service Area Within Shoreline	$4.4 million	6,000

The City is looking at the cost savings associated with efficiency gains by operating the RWD and SPU service areas on a unified basis once they are assumed or acquired by the City. In addition, further efficiencies associated with assuming the NCWD service area within the City's boundaries are being examined to determine if the City should further pursue that course of action.

Overview of the Study Approach

To quantify the potential efficiencies of operating a unified water and wastewater utility within the public works department, the revenues and costs for water and wastewater service were forecast under various scenarios. For purposes of this study it was assumed that the water and wastewater service areas operated by the City would be treated as one combined utility with a single budget. In all cases the separate budget for costs assigned to the water/wastewater utility was used rather than the entire City budget.

Four scenarios were examined in this study, with the difference between the options quantifying the potential cost savings due to expected efficiencies. The options include:

- Option 1: Independent Operation of the Utilities
  - Option 1a: SPU Service Area Operated by the City
  - Option 1b: RWD Service Area Operated by the City
- Option 2: City Operates Unified SPU and RWD Service Areas
- Option 3: City Operates Unified SPU and RWD Service Areas, adds NCWD in 2028
- Option 4: City Operates Unified SPU, RWD and NCWD Service Areas in 2020
- Option 5: City Operates RWD Service Area, adds NCWD in 2028

For Option 4, the City would need to negotiate an assumption for the year 2020 as it does not have the right of assumption until the existing franchise agreement expires at the end of 2027.

For all five scenarios, the expected revenues and costs for the period 2020 through 2040 were forecast. To alleviate any differences between the inflation rates used by different sources, all of the analysis was done in 2014 dollars. The revenues and costs for the SPU service area were based on the financial analysis previously completed for the City in 2012. Revenues and costs for RWD and NCWD were based on the 2014 budgets for the districts, along with the most recent Comprehensive Plans.

To determine the costs for the various options, cost efficiencies were identified and subtracted from the sum of the costs of the individual utilities. Cost efficiencies were broken down between Direct Utility savings and General Operations savings. Direct Utility savings include items that are no longer required as a result of combining the utilities and reflect savings in staff levels and other expenses. General Operations savings reflect existing costs of the City that are allocated to the new water/wastewater utility, thereby reducing the allocation of those costs to other departments within the City.

Summary of Cost Efficiencies

Based on the financial analysis for the various options considered, savings range from $5 million to $82 million over the 2020-2040 period used in the study. While savings occur as a result of operating the RWD or SPU service areas alone, the greatest savings levels occur when water and wastewater utilities are unified to provide a more efficient utility. The following table provides the savings over time for each of the options.

Because a large portion of the revenues and costs for RWD include the pass-through of treatment expenses from Metro, the percent savings are calculated first including the treatment revenues and then without the treatment revenues. The amount without treatment revenues reflects the amounts associated with the rates that would be set by the City utility.

	Total Direct Utility Savings 2020-2040 (2014 Million Dollars)	Average Annual % Savings (Includes Treatment Revenue)	Average Annual % Savings (Excludes Treatment Revenue)
Option 1a – SPU Alone	$26.5	10.4%	10.4%
Option 1b – RWD Alone	$4.9	1.6%	5.5%
Option 2 – SPU and RWD	$56.2	9.9%	16.3%
Option 3 – Add NCWD in 2028	$69.4	10.3%	15.5%
Option 4 – Add NCWD in 2020	$81.6	12.2%	18.2%
Option 5 – RWD plus NCWD in 2028	$12.0	2.9%	6.2%

These cost savings can be used to cover additional CIP or to reduce cost increases in the future. In the case of the SPU acquisition, the savings will in part be used to fund an extensive mains replacement program that is needed and not expected to be funded with continued SPU operation of the service area. Unifying the water and wastewater service areas under Options 2, 3 and 4 results in savings that range from 15% to 18% of total revenues (excluding treatment revenues) for the combined utilities.

Other Benefits of Unification

In addition to the direct utility savings identified, the City will benefit from sharing the cost of existing staff and services with the new water/wastewater utility. The City currently allocates administrative, legal, office building space, and other shared services among existing departments. It was assumed in the financial analysis that the new water/wastewater utility will be allocated a portion of those shared services with the amount ranging from $500,000 to just under $2 million per year. This cost has been incorporated in the costs for the utility under each option. Other savings occur from the reduction in outsourcing costs that are feasible due to the new staff and equipment for the new water/wastewater utility. The total reflects a savings in general operations costs to other departments within the City. As costs are allocated to the new utility, each of the other departments receives a reduction in its allocation leading to lower costs for those departments. The following table summarizes the general operations savings for each option.

	Total General Operations Savings 2020-2040 (2014 Million Dollars)
Option 1a – SPU Alone	$28.7
Option 1b – RWD Alone	$17.5
Option 2 – SPU and RWD	$36.7
Option 3 – Add NCWD in 2028	$39.5
Option 4 – Add NCWD in 2020	$41.3
Option 5 – RWD plus NCWD in 2028	$22.1

In some cases these general operations savings surpass the direct savings to the new water/wastewater utility.

While the quantified benefits of utility unification are substantial, there are additional benefits that have not been quantified. These benefits fall into the following three categories:

- Simplicity for Residents
- Sharing of City Resources
- Unified City Policies

Residents see simplicity by having one entity to deal with rather than two or three, a combined bill for water and wastewater, single payments for multiple services, and customer service from one location. The City will have coordination of maintenance and emergency response among various functions and will be able to provide a unified message through combined Public Relations functions and customer information. The City will also be able to unify the policies for such issues as financial policies, rate setting, maintenance and growth. Together these non-quantified benefits will provide for a more cohesive City operation and better service for residents.

Introduction and Background

In 2012, the City conducted a "due diligence" review of the SPU acquisition, for which a city-wide vote passed in November 2012. As part of the due diligence, the City retained EES Consulting to provide three inter-related analyses. The first was an Engineering Review to assess the SPU assets that are included in the acquisition, develop operating costs and procedures for the new utility, and develop the short-term and long-term capital needs of the utility. The second was a long-term financial analysis to determine the projected revenues and costs associated with operating the water utility, along with the associated financial risks. The third component was a Business Plan to address how the tasks and responsibilities required of the new water utility will be carried out. These three studies are jointly referred to as the 2012 SPU Report.

This study looks at the efficiencies associated with unifying both RWD and SPU into the City's public works department. An option for assuming NCWD is also considered as the City has the right to assume the customers within the City at the end of the franchise agreement.

History

In 1995 the City of Shoreline was first incorporated as a City to improve services and have control over decisions that affected their community. One of the goals since the incorporation has been to consolidate services and create greater efficiency, as well as providing "one-stop shopping" for its residents. Water and wastewater were areas where consolidation was considered.

To further this goal of consolidation, the City entered into an Inter-local Operating Agreement with the RWD to unify sewer services with City operations. The unification is to occur in October of 2017. The City will acquire the utility through an assumption, which means all assets, reserve funds, employees, equipment and any District debt will be assumed by the City and the Ronald Wastewater District will cease to exist as a separate government entity.

The City has had discussions regarding the SPU water system in the City since at least 1999 and have evaluated numerous options for how SPU in Shoreline should be operated in the future including acquisition, re-negotiating the franchise agreement, and applying additional surcharges to Shoreline rate payers to fund capital improvements within the City.

In 2009, the City Council adopted a specific goal of acquiring the SPU water system in Shoreline, but in 2012 had set a specific objective as:

Acquire the system at a price that, when added to other costs to operate and maintain the system, would fall within a rate structure equal or less than what SPU would forecast over a reasonable period of time.

The goal of the City Council is based on the desire for the citizens of Shoreline to have a direct say in how rates are set and how the utility is managed. Currently those decisions are made by the City of Seattle. The City also wishes to invest in the water system at a higher rate than is planned by SPU. A higher investment in the system will improve fire protection and better facilitate economic development. Controlling the water utility will also streamline the permitting process, allow the City to improve infrastructure in areas where the City wants to encourage growth, and improve coordination between utility work and street work.

Under the current structure, Shoreline residents have no ability to impact the service they receive from SPU. They cannot vote for the Seattle City Council members that oversee SPU and they have little, if no, negotiating strength in terms of capital spending or rate setting. A portion of the rates charged by SPU include a tax paid to the City of Seattle that provides no financial benefit for Shoreline residents. At the same time, because Shoreline residents are outside the City of Seattle, they are subject to an additional 14% charge above the rates for residents within the City of Seattle.

After adopting the goal of acquiring SPU, the City began more detailed negotiations with Seattle on a value for the SPU system within the City. Negotiations were based on preliminary estimates for the costs to own and operate the system.

On November 9, 2011 the City announced it had entered into a tentative agreement with the City of Seattle to purchase the SPU water system located in the City for $25 million. The acquisition is to take place in the year 2020.

A public process was included as an important part of the acquisition process. The City Manager formed a citizen's Steering Committee to provide a recommendation on whether the City should move forward with the acquisition. The Steering Committee was made up of 26 members with varying interests and expertise surrounding water utilities. The Steering Committee was presented with all of the due diligence completed by the City, including the Engineering Review, the Financial Analysis and the Business Plan.

A vote was included in the November 2012 elections and the vote was successfully passed, allowing the City to proceed with the SPU acquisition.

Report Objectives and Organization

It is the objective of this study to quantify the financial opportunities and challenges of integrating the SPU water system, the RWD and potentially the NCWD into the City operations. These financial efficiencies are to be identified for the individual utilities as well as the City's existing operations. In addition, this study will survey neighboring jurisdictions for water and sewer connection charges, plus rates with the intent of making some judgment as to the City's

opportunities to be more competitive with economic development. The report also introduces the subject of future utility financial policies and the types of decisions and tradeoffs the City Council will need to consider.

The report is organized around four scenarios with the difference between them being quantification of the potential cost savings due to expected efficiencies. The report begins with an overview of scenarios and the analytical approach used to quantify potential savings. The next section summarizes the projected revenues and expenses expected from unification. The following two (2) sections provide savings estimates from Staff and non-Staff Efficiencies. A section review utility rate and policy issues is also included. The report closes with sections describing the resulting economic and non-economic benefits of unification. Supporting Appendices are included at the end of the report and contain: Organizational Charts, Salary & Benefit Unification Savings, Non-Staff Unification Savings and Revenue and Cost Data.

Overview of Scenarios and Approach

To quantify the potential efficiencies of operating a unified water and wastewater utility within the public works department, the revenues and costs for water and wastewater service were forecast under various scenarios. While this study primarily focuses on the financial forecast for the various utility options, it also considers the net impact on the City's General Operations. The latter is an efficiency separate from the utilities and is an additional efficiency to the residents of Shoreline.

With City operation of the water and/or wastewater service, a new utility will be set up within the existing City structure. The revenues and costs associated with the utility will be tracked separately from all other departments. For purposes of this study it was assumed that a single utility with a combined budget would be used, however, the City may choose to set up a structure with two distinct utilities, each with their own budget. The utility budget will include direct costs that apply only to utility staff and expenses. In addition, they will be allocated a portion of any shared expense items for the City.

The revenues and costs for both water and wastewater service within the City were forecast under various scenarios and compared to one another. Efficiencies were identified for those cases where one or more of the utilities were combined into the City's public works department. Overall benefits associated with utility unification options were compared to one another as well as being assessed in terms of their potential impacts on the City and its residents. Both quantifiable financial benefits as well as non-financial, or qualitative benefits are considered in this study.

This section identifies the scenarios that were considered and provides an overview of the approach taken. Details associated with the analysis and the results are provided in subsequent sections.

Identification of Options

Four scenarios were examined in this study, with the difference between the options quantifying the potential cost savings due to expected efficiencies. The following describes the four options considered:

Option 1: Independent Operation of Utilities

This option is the baseline scenario case where the all three utilities are operated independently as they are now, and not by the City. This case is used as a starting point to be able to identify the savings associated with unification of the utilities. Differences between option 1 and the other options allow efficiencies to be quantified. Because there is an agreement between RWD and the City for assumption of the wastewater utility, this option is used only for comparison purposes.

Option 1a: SPU Service Area Operated by the City

This option is a modification of independent operation of all three utilities, but reflects the case where the City acquires the SPU service area in 2020 as planned. Both RWD and NCWD continue to operate as is for the foreseeable future. This case is used to identify the savings associated with the SPU acquisition by itself. Because there is an agreement between RWD and the City for assumption of the wastewater utility, this option is used only for comparison purposes.

Option 1b: RWD Service Area Operated by the City

This option is a modification from Option 1 in that the RWD assumption is assumed to occur in 2018 with the City operating the wastewater utility. This option assumes that the SPU water acquisition does not occur, it also reflects operations during the two years prior to the SPU acquisition. As with Option 1, it is prepared for comparison purposes so that the savings associated with the RWD assumption can be identified separately from the SPU acquisition.

Option 2: City Operates Unified SPU and RWD Service Areas

The City has long recognized there will be efficiencies associated with assuming the RWD and the SPU service areas. A comparison of Option 2 to the baseline Option 1 allows for a direct measurement of the anticipated efficiencies and benefits to Shoreline residents. The RWD assumption is to occur at the end of the franchise agreement in October 2017. For purposes of this study the year 2018 was used as the starting point for comparing the options, with most analysis starting in the year 2020. The City will acquire the utility in its entirety, including all buildings and staff. Because this action occurs prior to the SPU acquisition in 2020, there will be two years where the wastewater utility continues in a similar fashion as it does now, with efficiencies identified primarily on the administrative side. When the City begins operating the water utility in 2020, it is expected that efficiencies will be seen on the operations and maintenance side.

Option 3: City Operates Unified SPU and RWD Service Areas, adds NCWD in 2028

The current franchise agreement with NCWD runs through the end of 2027. The City will have the right to assume the portion of the water service area within the City at that time. This option assumes that will occur with a start date of 2028. It is assumed under this option that the City would assume the distribution facilities and customers but that the NCWD would either continue to exist to serve the Lake Forest Park customers, or the city of Lake Forest Park could assume the remaining balance of the NCWD. In either case, this study assumes the system would not be physically separated and Inter-local Agreements would be executed to share billing information as a means to distribute the cost of operations and maintenance. Therefore, this study will assume a conservative approach where the buildings and staff would not be transferred to the City. The City would, however, take on the obligations of the pro-rata share of the wholesale water contract and the debt service.

Option 4: City Operates Unified SPU, RWD and NCWD Service Areas

Option 4 is a full unification of the three utilities by the year 2020. It is assumed for purposes of this study that the City could come to agreeable terms with NCWD to acquire the utility in its entirety. This option would assume the City acquires all buildings and staff, along with the water contract and debt. No specific assumptions were made with respect to the portion of the utility outside of the City, however, only the revenues and costs for the portion of the service area within the City were included in the analysis.

Option 5: City Operates RWD Service Area in 2017, Adds NCWD in 2028

This option is a modification where the RWD assumption occurs with the City operating the wastewater utility but that the SPU water acquisition does not occur. As with Option 3, the NCWD service area within the City is assumed in 2028 at the end of the existing franchise agreement.

Because The City would not already be operating a water utlity, it was assumed the City acquires all NCWD buildings and staff, along with the water contract and debt. No specific assumptions were made with respect to the portion of the utility outside of the City, however, only the revenues and costs for the portion of the service area within the City were included in the analysis.

This study is designed to provide an estimate of efficiency savings associated with the various options to assist the City in making decisions about how to proceed with respect to utility unification. The legal and contractual requirements for assumption of RWD or NCWD are not considered as part of this study and would need to be considered in addition to the financial impacts. In addition, several simplifying assumptions were made in order to provide comparable analysis for each option. The City recognizes that some issues are more complex than presented in this study and that additional work will be required to implement utility unification.

Approach for the Financial Analysis

For all five scenarios, the expected revenues and costs for the period 2020 through 2040 were forecast. To alleviate any differences between the inflation rates used by different sources, all of the analysis was done in 2014 dollars. This allows items to be readily compared to today's costs and makes real changes in costs and revenues from year to year more transparent.

The revenues and costs for the SPU service area were based on the 2012 financial analysis completed for the City in 2012. Because those revenues and costs were provided in nominal dollars, the amounts in each year were discounted back to 2014 dollars using the assumed inflation rate for that study.

Revenues and costs for RWD were based on the 2014 budget for the district. CIP projections were based on the RWD Comprehensive Plan. Growth in the number of customers was

standardized to the growth rates used for the City in the 2012 analysis for the SPU service area. Based on the 20-year forecast for RWD it was determined that rates would be sufficient to meet the costs and CIP needs of the utility as long as both rates and costs increase at the rate of inflation without any increases in real terms. The assumptions and resulting revenues and costs were reviewed by RWD staff to ensure the financial forecast was appropriate.

Revenues and costs for NCWD were based on the 2013 budget for the district. CIP projections were based on the 2011 NCWD Comprehensive Plan. Growth in the number of customers and water consumption was standardized to the growth rates used for the City in the 2012 SPU Study. Based on the 20-year forecast for NCWD it was determined that the district would need to increase rates 1% above the rate of inflation for the years 2026 to 2030 in order to cover costs and leave an adequate reserve level.

Once the revenues and costs were projected for each utility separately, they were added together to develop the revenues and costs for the Option 1 baseline scenario.

As a starting point it was assumed that rate levels and revenues were the same regardless of the option. While one of the goals of utility unification is to reduce costs for utility service, and thereby potentially reduce the water and wastewater rates paid by customers, this study sets out to quantify the savings associated with combining utilities. Once the savings are quantified they can be examined in terms of how they may impact rates in the future.

To determine the costs for the various options, cost efficiencies were identified and subtracted from the sum of the costs of the individual utilities. In order to quantify the efficiency gains, a general plan for operating a combined utility within the City's public works department was developed. Note that this plan was developed for purposes of this study and provides a broad approach. However, much more detail will be developed in order to provide a smooth transition when the unification of the utilities occurs.

Cost efficiencies were broken down between Direct Utility savings and General Operations savings. Direct Utility savings include items that are no longer required as a result of combining the utilities and reflect savings in staff levels and other expenses. General Operations savings reflect efficiencies between the new water/wastewater utility and the other departments in the City. These items reflect existing costs that are allocated to the new water/wastewater utility, thereby reducing the allocation of those costs to other departments within the City. Cost savings will be addressed in more detail later in this report, along with the potential impacts associated with the Direct Utility and General Operations savings.

Projected Base Case Revenues and Expenses

To determine the financial results of the various scenarios used in this study, the revenues and costs were projected for the 2020 to 2040 period. This section will address the methodology and sources of data used to project the revenues and costs for each of the three separate utilities. The sum of the costs for the three utilities reflects the results for Option 1. This is the starting point to determine the cost savings associated with utility unification.

Cost efficiencies will occur as a result of combining operations of the utilities, leading to reduced expenses for the utilities when compared to Option 1. Cost efficiencies are identified and discussed in the following two sections. The resulting efficiencies are incorporated in the expenses and resulting financial forecast for Option 2, 3 and 4. Those findings are discussed later in this report.

SPU Service Area

The City examined the viability of acquiring and operating the SPU service area within the City limits in 2012. The 2012 SPU Report prepared by EES Consulting included a detailed forecast of revenues and expenses associated with operating the utility. Those results are incorporated into this study.

Revenues were based on the assumption that rates would remain the same as those projected for SPU. The City has committed to keeping rates at or below the level that would otherwise be charged by SPU. Rates for SPU were based on rates projected by SPU in the short-term and based on average historic rate increases over the long-term. The number of customers was forecast based on published growth rates for the City and average use per customer was based on SPU's own projections. The resulting growth rate for total water consumption ranges from 0.2% to 0.4% per year.

In the scenarios where SPU continues to operate the water service area within Shoreline, the expenses were assumed to equal the revenues for the service area. The revenues in this case would be consolidated with all other SPU revenues to cover the costs of the entire system. A portion of those revenues would flow through to the Seattle General Fund, without any benefit to Shoreline residents.

In the case where the City operates the service area, costs for operating the new water utility were based on the 2012 Engineering Report that examined the required separation costs; the staff required and associated salaries, upfront vehicle and equipment costs and long-term capital improvements required.

A financial model compared the revenues to costs for the 2020 to 2040 period. The net revenues from that model were assumed to either pay for a main replacement program or to reduce rates over time. For purposes of this report the entire amount was assumed to pay for main replacements over time so that the CIP projection was the same for each of the scenarios.

Because the financial results of the 2012 Report were in nominal dollars, all line items were discounted back to 2014 dollars using the assumed 4.6% cost escalator used in that study.

The following Table provides a summary of the revenues and costs for the 1st year of the analysis. The detailed financial tables showing annual data are provided in Appendix E.

Table 1
Financial Results for 2020 with City Operation of the SPU Service Area

	2020
Total Revenues	$11,407,719
Expenses	
Wholesale Water Supply/Treatment	$2,754,233
Non-Supply O&M	
Labor	$1,450,145
Materials & Supplies	$721,768
Employee Benefits	$580,768
Administrative	$1,185,099
State Tax Expense	$570,943
City of Shoreline Tax Expense (franchise fee)	$681,181
Total Operating Expenses	$7,943,426
Debt payments – Initial	$2,337,942
Cash Funded CIP	$1,126,352
Total Expenses (with Debt & CIP)	$11,407,719

Consistent with the 2012 SPU Report, the SPU water rates are projected to increase by 0.4% per year in real terms. The wholesale rate for water purchases are projected to decrease by 1.1% in real terms. This decrease is due to the fact that the majority of the costs for water supply are related to the large capital investment and there is sufficient capacity to meet expected growth. Operating costs are expected to increase at the rate of inflation only, reflecting no change in real dollars. State utility taxes were applied at a rate of 5.029% and a City of Shoreline utility tax of 6.0% was applied to replace the existing franchise fee already included in the SPU rate.

Ronald Wastewater District

To project the financial results for RWD as an independent utility through 2040, the budget provided by RWD for 2014 was used as the starting point. In addition the 2010 Comprehensive Plan was used and historic financial reports were examined.

Revenues for 2014 reflect a recent $1.00 reduction in the monthly rate. Rates were assumed to increase at the rate of inflation. Growth of 0.3% to 0.4% per year to reflect an increase in the

number of customers was applied to the revenue projections. These growth levels were taken from the 2012 SPU Report.

For costs associated with sewage treatment are collected in a separate charge on the bill rather than included in the basic rate charged by RWD. It was assumed that treatment charges would stay the same in real terms. Growth rates were also applied to reflect the added treatment required for the assumed growth in customers.

All other operating costs for RWD were assumed to remain the same in real terms. Expenses related to the franchise fee paid to the City were also included. RWD currently has zero debt. Annual CIP levels were based on net operating revenues, which are consistent with the 2010 Comprehensive Plan and are projected to remain in the range of $1.1 million per year in real terms through 2040. It was assumed that a reserve balance of $3 million would be available at the time of the assumption in 2018 and would remain at the level through 2040. This reserve level would be available for any unexpected CIP requirements for RWD.

Table 2 provides the financial results for RWD in 2020.

Table 2
Financial Results for 2020 for RWD

Revenues	
Rate Revenues (includes taxes)	$3,342,202
Wholesale Treatment Revenue (includes taxes)	$10,381,959
Misc. Revenues	$371,215
Capital Contributions	$515,285
Total Revenues	$14,611,662
Expenses	
Wholesale Water Supply/Treatment	$9,864,497
Non-Supply O&M	
Labor	$1,038,336
Materials & Supplies	$145,500
Employee Benefits	$416,534
Administrative	$1,129,703
City of Shoreline Tax Expense (franchise fee)	$823,510
Total Operating Expenses	$13,418,080
Debt payments - Initial	$0
Cash Funded CIP - Ongoing	$1,193,582
Total Expenses (with Debt & CIP)	$14,611,662

North City Water District

To project the financial results for NCWD as an independent utility through 2040, as with RWD, the budget provided by NCWD was used as the starting point. In this case the budget was for 2013 as NCWD did not produce a budget for the current year. In addition the 2011 Comprehensive Plan was used and historic financial reports were examined.

Revenues for 2013 were used as the starting point. Rates were initially assumed to increase at the rate of inflation. Once all of the costs were projected it was clear that there would be a shortfall in revenues in future years. In this case a 1% real rate increase was applied each year from 2026 to 2030. This rate increase was necessary to retain adequate reserve levels and cover the costs of projected capital needs. Also, some of the CIP expenditures were assumed to be covered by the existing reserve fund in the early years. Because rates are based on both meter charges and consumption charges, the growth associated with customers and usage rates used in the 2012 SPU Report were applied to NCWD revenues. While the number of customers and commercial water use were expected to increase, use per residential customer was forecast to decline over time. The resulting combined growth ranged from 0.1% to .03% per year. Revenue projections include the amount of the franchise fee collected in bills.

As in the 2012 SPU Report, rates for wholesale water purchases were forecast to decrease by 1.1% per year in real terms. The growth in total water usage was applied to the wholesale purchase amount as well.

All other operating costs for NCWD were assumed to remain the same in real terms. NCWD has an annual debt service payment of $575,000 in 2020. Expenses related to the franchise fee paid to the City were also included. Annual CIP levels were taken from the 2011 Comprehensive Plan and are projected to remain the same in real terms through 2040. It was assumed that there is a reserve level of $8 million in 2014 based on NCWD's financial statements, with roughly $4 million remaining in 2020.

Once all of the revenues and expenses were projected, an adjustment was made to reflect the percent of NCWD that is within the City limits. Based on 2012 and 2013 actual sales, the percent of water sold within the City was 77% of the total for the District. The remaining sales are within the City of Lake Forest Park. The 77% was applied across the board to all revenues and costs. While we recognize that this is a very simplistic assumption, it was appropriate for this initial examination of assuming NCWD at a later time. If the City proceeds with an assumption of NCWD it would be appropriate to conduct a more thorough examination of the split of sales, revenues, physical assets and operating costs between the two Cities.

Table 3 provides the financial results for NCWD in 2020, adjusted to reflect 77% of revenues and costs.

Table 3 Financial results for 2020 for NCWD Within the City of Shoreline	
Revenues	
Rate Revenues (includes taxes)	$4,405,194
Misc. Revenues	$114,206
Capital Contributions	$177,433
Total Revenues	$4,696,833
Expenses	
Wholesale Water Supply/Treatment	$1,069,573
Non-Supply O&M	
Labor	$806,878
Materials & Supplies	$428,076
Employee Benefits	$337,183
Administrative	$977,577
City of Shoreline Tax Expense (franchise fee)	$264,312
Total Operating Expenses	$3,883,597
Debt payments - Initial	$442,939
Cash Funded CIP - Ongoing	$370,296
Total Expenses (with Debt & CIP)	$4,696,833
CIP Budget	$773,388
Available from Cash	$370,296
Available from Reserve Fund	$403,092

Three Utilities Combined

Once the financial results were projected for the three utilities operated independent of one another, the associated revenues and costs were summed together to provide a baseline comparison to a unified utility. This reflects a simple summation using the portion of NCWD within the City limits, and the financial results for 2020 are shown in Table 4.

Table 4 Financial Results for 2020 for Three Utilities Combined	
Revenues	
Rate Revenues (includes taxes)	$19,101,409
Wholesale Treatment Revenue (includes taxes)	$10,436,665
Misc. Revenues	$485,421
Capital Contributions	$692,718
Total Revenues	$30,716,213
Expenses	
Wholesale Water Supply/Treatment	$13,688,303
Non-Supply O&M	
Labor	$3,295,358
Materials & Supplies	$1,295,343
Employee Benefits	$1,333,775
Administrative	$3,292,378
State Tax Expense	$570,943
City of Shoreline Tax Expense (franchise fee)	$1,769,002
Total Operating Expenses	$25,245,103
Debt payments - Initial	$2,780,881
Cash Funded CIP - Ongoing	$2,690,230
Total Expenses (with Debt & CIP)	$30,716,213
CIP Budget	$3,122,226
Available from Cash	$2,690,230
Available from Reserve Fund	$403,092

As the table shows, the combined revenue for the three utilities is roughly $31 million. The largest expense is wholesale water and treatment costs at almost $14 million. Utility taxes and franchise fees make up another $2 million. The total amount for internal costs is roughly $9 million in 2014 dollars. Debt service and CIP amounts are roughly $6 million per year.

To determine the financial results of the scenarios with unified utilities, it was necessary to look at reductions in labor and other cost categories. The next section addresses the staffing levels with unification and the resulting cost savings. That is followed by a section related to other direct and cost savings. Those savings are then incorporated into the financials for the combined utilities.

Staffing Levels and Related Savings

It is expected there will be savings in staffing levels associated with unified utility operations, particularly with respect to management and administrative functions. To project the savings in staffing costs, the staff required under the various scenarios was identified. The first step was to identify the staff and associated costs with the three independent utilities. From there, staff levels under the combined utilities were developed with the assumption, in some cases, that staff from the existing utilities would be transferred to the City at the time of assumption. The difference between the staff levels and costs for the three independent utilities were compared to the various options to calculate the cost savings associated with salaries and benefits.

Currently the City has a seven-person elected City Council as its governing body. Within those seven members, a Mayor and Deputy Mayor are chosen. The City Manager reports directly to the City Council and oversees all City staff. Several Directors manage the various City departments and report to the City Manager, including the Public Works Director and the Administrative Services Director. For the City operation of one or more of the existing utilities, the overall structure will fit within the current Public Works Department. It is expected that several of the staff dedicated to the utility function will reside within the Administrative Services Department.

Many of the functions required for the water utility, particularly within the administrative and general function, can be managed with existing City departments and staff. Because those functions are needed for other City responsibilities, it is best to use the existing expertise for efficiency, coordination and consistency. Those functions will be referred to as Shared Services within this report. The City currently conducts an overhead allocation of these various Shared Services to different departments and the water/wastewater utility will be included in this allocation at the time of initial operation.

This section of the report will address only those staff assigned directly to the utility function. Costs for the staff providing shared services within the City will be addressed in the next section related to the allocation of shared services costs.

Option 1 Staffing

Option 1 is the base case and includes the staff for the City operation of the SPU service area as projected in the 2012 SPU Report. Added to this was the existing staff for RWD and NCWD. While the staffing for the SPU service was provided for each position, the staff levels and costs for RWD and NCWD were split into four categories: management, administrative, planning & development, and maintenance.

The following provides information for each of the three utilities. In the case of the SPU service area staffing, each position was assigned in either the Public Works Department (PWD) or the

Administrative Services Department (ASD). Organizational charts that correlate with the SPU service area staffing along with the unified utility options can be found in Appendix A.

It is important to note that in the case of the SPU service area, the specific positions and organizational structure has changed slightly from what was used in the 2012 SPU Study. It is projected that 23 FTEs will be required for the operation of the new water utility. Four of the positions are allocated 50% to the water utility, with the remainder allocated to the Street and Surface Water Departments.

Management positions include two existing positions within the Public Works Department and two new positions. Existing positions include a Business Manager reporting directly to the Public Works Director and a Utility Resource Manager reporting to the existing Operations & Utility Manager. The two new management positions include a Maintenance Supervisor reporting to the Operations & Utility Manager and an Office Manager reporting to the Administrative Service Director. The Business Manager, Utility Resource Manager and Operations & Utility Manager are allocated 50% to the new water utility. Another 13.5 positions are included on the PWD side for various operations and maintenance positions, and seven positions are added on the ASD side.

For the new water utility serving the SPU service area, the listing of positions and the resulting salary and benefit costs are shown in Table 5.

Table 5
Staffing for New City Water Utility (SPU Service Area)
2014 Dollars

Classification Title	Department	Required Staff	Total Salaries & Benefits
Utility Resource Manager	PWD	0.5	$90,353
Business Manager	PWD	0.5	$90,353
Maintenance Superintendent	PWD	0.5	$65,461
Pipeline Maintenance Supervisor	PWD	1	$117,812
Lead Field Crew Worker	PWD	4	$418,808
Field Crew Worker	PWD	4	$290,839
Field Crew Helper	PWD	2	$141,250
Buyer/Warehouse Technician	ASD	1	$72,710
GIS/Asset Mgmt Technician	PWD	0.5	$48,264
Water Quality Technician	PWD	1	$90,878
Utility Permit Tech	PWD	1	$72,710
Office Manager	ASD	1	$98,676
Meter Readers	ASD	2	$141,250
Administrative	ASD	4	$290,839
Total		23	$2,030,202

For the existing RWD staffing, there are a total of 15 positions. Positions are shown in categories rather than individual positions. Details are provided in Table 6.

Note that in the case of Option 1a, where the City assumes and operates RWD without the SPU acquisition, the existing RWD staff would be placed in the PWD and ASD.

Table 6
Existing Staffing for RWD
2014 Dollars

Classification Title	Department	Staff	Total Salaries & Benefits
Management		3	$419,932
Administrative		4	$281,364
Planning & Development		2	$180,721
Maintenance		6	$572,853
Total		15	$1,454,870

For NCWD, there are 14 existing staff. Details are provided in Table 7.

Table 7
Existing Staffing for NCWD
2014 Dollars

Classification Title	Department	Staff	Total Salaries & Benefits
Management		2	$301,528
Administrative		4	$362,793
Maintenance		8	$821,472
Total		14	$1,485,793

When SPU and RWD are combined, the total staffing level is 38 FTE for a cost of $3.5 million. When all three utilities are added together, there are a total of 52 FTE with a total cost of nearly $5 million. This is the starting point for the comparison of the other options to determine the savings associated with salaries and benefits.

Option 2 Staffing

Option 2 combines the SPU and RWD systems into a joint water/wastewater utility within the City. It was assumed that staff will work together on both the water and wastewater facilities. The City will be assuming all of the staff for RWD in 2018 and those staff will operate the wastewater utility until the SPU acquisition in 2020. The organizational structure will be similar to that set up for the SPU water utility, however, the allocation of FTE for the shared employees

will increase from 50% to 70% to reflect the operation of both water and wastewater utilities.

Staff from RWD was not assigned to particular positions within the organizational chart, however, salaries will remain the same and general responsibilities will be similar.

Additional staff will be added for the 2020 SPU acquisition, including 1 management position, 8 maintenance staff, a water quality technician, 2 administrative staff and 2 meter readers. The details are provided in Table 8.

Table 8
Staffing for Option 2 – Combined Water/Wastewater Utility (SPU and RWD Service Area)
2014 Dollars

Classification Title	Department	Staff	Total Salaries & Benefits
Staff Moved from RWD			
Management	PWD	2	$279,955
Planning & Development	PWD	2	$180,721
Maintenance	PWD	6	$572,853
Management	ASD	1	$139,977
Administrative	ASD	4	$281,364
New Staff for Water in 2020			
Management	PWD	1	$149,184
Maintenance	PWD	8	$673,485
Water Quality Technician	PWD	1	$90,878
Meter Readers	ASD	2	$141,250
Administrative	ASD	2	$154,494
Total		29	$2,664,161

With the unified utility, the staff requirements are estimated at 29 FTE at a cost of $2.6 million. This is a reduction of 9 positions that are primarily management and administrative positions due to the efficiency of operating on a combined basis. The total savings in salaries and benefits is $820,000 per year in 2014 dollars.

Option 3 Staffing

Option 3 is the same as Option 2 until the year 2028 when the NCWD service area within the city limits is assumed. For this option, it is assumed that the City would assume the distribution facilities associated with the service area but would not acquire any of the staff for the utility nor the office buildings as they would be needed to operate the remaining portion of the utility. Adding this service area would be an expansion of roughly 50% compared to the SPU service area.

To operate and maintain that expansion, a total of 6 staff were added for 2028, including 4 maintenance staff, one meter reader and 1 administrative staff. The total staff would be 35 in the year 2028.

Table 9
Staff for Option 3
2014 Dollars

Classification Title	Department	Staff	Total Salaries & Benefits
Staff Moved from RWD			
Management	PWD	2	$279,955
Planning & Development	PWD	2	$180,721
Maintenance	PWD	6	$572,853
Management	ASD	1	$139,977
Administrative	ASD	4	$281,364
New Staff for Water in 2020			
Management	PWD	1	$149,184
Maintenance	PWD	8	$673,485
Water Quality Technician	PWD	1	$90,878
Meter Readers	ASD	2	$141,250
Administrative	ASD	2	$154,494
New Staff for Expansion in 2027			
Maintenance	PWD	4	$336,743
Meter Readers	ASD	1	$70,625
Administrative	ASD	1	$72,710
Total		35	$3,144,239

Total numbers for the combined utilities are not readily comparable to the total of the three independent utilities as this option does not include the entire NCWD service area. After accounting for the 77% share of the NCWD salaries and benefits, the savings for Option 3 include $820,000 from 2020 through 2027 and $1.6 million in 2028 and beyond.

Option 4 Staffing

Option 4 assumes a unification of all three utilities at the same time. This option can only be achieved with the cooperation of NCWD as the City does not have the right to assume that service area until 2028. With this option, the City would negotiate with NCWD to fold the utility into the City for the benefit of the NCWD customers. In this case it was assumed that the City would assume the entire utility, including staff and facilities. The portion of the service area within the City of Lake Forest Park would be assigned to them, again on a negotiated basis. For purposes of this study, it was assumed the City of Shoreline would operate and maintain the service area for the City of Lake Forest Park on a contract basis, until such time as they could

operate it on their own. The revenues for that contract would be equal to 23% of the costs for the utility and therefore 77% of the costs would be included for the City of Shoreline and included in the financial results.

In this case the staff for RWD and NCWD was assumed to be included. Additional staff was added to reflect the same total number of 35 staff for Option 3 in 2028.

As with Option 2, specific staff from RWD and NCWD was not assigned to specific positions but were kept at current salaries and with similar responsibilities. Note that 1 of the 4 administrative staff from NCWD were assumed to be transferred to the City but would fill open positions in departments other than the new water/wastewater utility and therefore their costs were not included. Additional staff that would need to be added includes 5 maintenance workers and 2 meter readers.

The total staffing levels for Option 4 are shown in Table 10.

Table 10
Staff for Option 4
2014 Dollars

Classification Title	Department	Staff	Total Salaries & Benefits
Staff Moved from RWD			
Management	PWD	2	$279,955
Planning & Development	PWD	2	$180,721
Maintenance	PWD	6	$572,853
Management	ASD	1	$139,977
Administrative	ASD	4	$281,364
Staff Moved from NCWD			
Management	PWD	1	$150,764
Maintenance	PWD	8	$821,472
Management	ASD	1	$150,764
Administrative	ASD	3	$272,095
New Staff for Water in 2020			
Maintenance	PWD	5	$353,125
Meter Readers	ASD	2	$141,250
Total		35	$3,344,339

Given the combined operations of all three utilities, total savings are similar to what is achieved in Option 3 by the year 2028. The savings would, however, would begin in 2020 and therefore provide benefits over a much longer time period. Total savings in salaries and benefits for this option are roughly $1.6 million per year.

Option 5 Staffing

In the case where RWD is first assumed in 2017, followed by an assumption of NCWD in 2028, it was assumed that all staffing from the two utilities would be transferred to the City. However, only 77% of the costs associated with the within-City portion of the NCWD service area was included in the anslysis.

In this case, it was assumed that there would be no savings in staffing as all employees would be transferred to the City. Over time, it is expected that there may be some efficiencies of operating jointly, particularly with respect to management and administrative positions.

Table 11 shows the staffing levels for Option 5.

Table 11
Staff for Option 5
2014 Dollars

Classification Title	Department	Staff	Total Salaries & Benefits
Staff Moved from RWD			
Management	PWD	2	$279,955
Planning & Development	PWD	2	$180,721
Maintenance	PWD	6	$572,853
Management	ASD	1	$139,977
Administrative	ASD	4	$281,364
Staff Moved from NCWD in 2028			
Management	PWD	1	$150,764
Maintenance	PWD	8	$821,472
Management	ASD	1	$150,764
Administrative	ASD	3	$272,095
Total		28	$2,849,964

Non-Staff Efficiencies and Related Savings

While the efficiencies related to more efficient staffing with unified utilities was discussed in the previous section, there are additional savings associated with contracts, overheads and capital related items. Those savings are identified in this section and are broken down between direct utility savings and general operations savings. Direct utility savings would reduce the expenses associated with the water/wastewater utility and would reflect the separate financials of the new utility. General operations savings would in some cases reflect a sharing of staff and overhead costs from existing City departments with the new utility, thereby reducing costs for those other departments. Additional savings would result in cases where the existence of the new utility would allow a reduction in the outsourcing contract costs for other departments.

Identification of Direct Utility Savings

Direct utility savings will occur due to the unification of utilities and were identified from the RWD and NCWD current expenses or the assumed expenses for the SPU utility. The savings for those three utilities were included in the total depending on what utilities were included in the particular Option.

In the case of the SPU service area, there are no costs directly assigned to the portion of the service area within the City limits. It was therefore assumed that the expenses associated with the service area equal the revenues for the service area. Without the detailed expenses for SPU, the total cost to be recovered through revenues was compared to the City's expected total costs for operating the service area. This differs from the savings identified for unification with RWD and NCWD, which were identified on the basis of detailed budgets for those two Districts.

For RWD, it was assumed that certain non-payroll expense items would be fully or partially offset. This included 100% of the costs for utilities and building maintenance as the RWD buildings would be sold, 100% of the costs associated with the District Commissioners and elections, 100% of legal and financial consulting expenses and 100% of certain bank fees. Also included were 50% of the costs for most office expenses, administrative costs, advertising and public relations and engineering. These cost savings are expected not because those functions are not needed, but because the functions will be provided by the City. The costs for those services will be assigned to the new utility with the Shared Services allocation, and in some cases it was assumed there will be efficiencies in items such as planning for a combined utility as opposed to two separate utilities. There were no savings estimated from the materials and supplies cost for the operation and maintenance of the utility facilities. The resulting savings for the identified items is approximately $600,000 in 2014 dollars.

The next direct savings for RWD would be the value of the buildings to be sold. Based on the book value of the facilities, the value was estimated at $2.3 million dollars. It is likely this amount could offset other capital costs required for the new water/wastewater utility and therefore the value was amortized over 20 years, resulting in a savings of $115,000 per year.

For NCWD, the expense savings were similar to RWD and included 100% of legal fees, utilities and phone service. Note that contracted legal fees were eliminated on a direct basis but would be included in the allocation of Shared Services from the City as the City has its own legal department. Other expenses were reduced by 50%, including consultants, insurance, office expenses, dues/memberships and public communications. Total administrative savings for NCWD is estimated at $460,000 for the portion to be served by the City.

As with RWD, the NCWD buildings would be sold and the value was identified as $6.6 million based on the capital amounts designated for the new office and maintenance buildings found in the 2011 Comprehensive Plan for NCWD. When amortized over 20 years, this equates to a savings of $330,000 per year.

On the SPU water side, capital costs for required vehicles were included in the 2012 SPU Report. Given the existing vehicles for RWD and NCWD, certain vehicles added for SPU could be eliminated. With RWD's vehicles the savings were $240,000 in capital cost with an equivalent amortization of $12,000 per year. With NCWD's vehicles there was an additional savings of $346,000 in capital and a corresponding reduction of $17,000 when amortized over 20 years.

Summary of Direct Utility Savings

The following tables summarize the direct utility benefits associated with each option. Note that direct savings include the salary and benefit savings identified in the previous section as well as those items identified in this section. Savings are also summed over the 2020 through 2040 period to reflect the total value over time. Because all numbers are in 2014 dollars they did not have to be discounted to reflect inflation in order to calculate total numbers.

Table 12
Direct Utility Savings for Option 1a – City Operates the SPU Service Area
2014 Dollars

Savings Summary	2020	2028	2040	Total 2020-2040
Total Direct Savings	$0	$944,853	$2,757,461	$26,513,829

With Option 1a, where the City acquires and operates the SPU service area, direct savings are $27 million over the 2020-2040 period. These savings may include staff savings as well as other items however there is insufficient data from SPU to further segregate the types of savings associated with the new utility.

Table 13 Direct Utility Savings for Option 1b – City Operates the RWD Service Area 2014 Dollars				
Savings Summary	**2020**	**2028**	**2040**	**Total 2020-2040**
Salaries & Benefits Savings	$0	$0	$0	$0
Administrative & Contract Savings	$628,000	$628,000	$628,000	$13,188,000
Amortization of Capital Items	$115,000	$115,000	$115,000	$2,415,000
Subtotal Direct Savings	$743,000	$743,000	$743,000	$15,603,000
Incremental Cost in Shared Services Allocation	-$507,730	-$507,730	-$507,730	-$10,662,323
Net Direct Savings	$235,270	$235,270	$235,270	$4,940,677

With RWD alone, savings to the RWD budget are roughly $740,000 per year. These reductions are replaced in part by the Shared Service allocation of roughly $500,000 per year. The resulting net benefit is roughly $250,000 per year or $5 million through the year 2040.

Table 14 Direct Utility Savings for Option 2 – City Operates Unified SPU and RWD Service Area 2014 Dollars				
Savings Summary	**2020**	**2028**	**2040**	**Total 2020-2040**
Salaries & Benefits Savings	$820,911	$820,911	$820,911	$17,239,136
Administrative & Contract Savings	$628,000	$628,000	$628,000	$13,188,000
Amortization of Capital Items	$127,035	$127,035	$127,035	$2,667,741
Subtotal Direct Savings	$1,575,947	$1,575,947	$1,575,947	$33,094,877
Incremental Cost in Shared Services Allocation	-$164,631	-$164,631	-$164,631	-$3,457,259
Net Direct Savings	$1,411,331	$1,411,331	$1,411,331	$29,637,617

When the SPU and RWD operations are combined, the savings to the utility increase. Savings are initially $1.5 million per year. This is offset by an incremental amount of $160,000 for the shared services allocation with the two utilities combined. Only the incremental cost of this allocation is included here because there is already an allocation of $1.1 million included in the operating costs for the SPU service area. Also, these savings are meant to reflect the savings associated with unifying the utilities. Therefore the total in Table 14 excludes the savings associated with the SPU acquisition alone. Those savings have been identified for use in an extensive mains replacement program and therefore are not included here. However, they are included later when the full financial impacts of the various options are considered.

Table 15 Direct Utility Savings for Option 3 – City Operates Unified SPU and RWD, Adds NCWD in 2028 2014 Dollars				
Savings Summary	**2020**	**2028**	**2040**	**21-Year Total**
Salaries & Benefits Savings	$820,911	$1,595,312	$1,595,312	$27,306,347
Administrative & Contract Savings	$628,000	$1,091,000	$1,091,000	$19,207,000
Amortization of Capital Items	$127,035	$127,035	$127,035	$2,667,741
Subtotal Direct Savings	$1,575,947	$2,813,347	$2,813,347	$49,181,088
Incremental Cost in Shared Services Allocation	-$164,631	-$382,799	-$382,799	-$6,293,432
Net Direct Savings	$1,411,331	$2,430,549	$2,430,549	$42,887,655

Under Option 3, savings to the utility are $1.4 million per year prior to the addition of the NCWD service area. Afterwards, the savings increase to $2.4 million per year, with a total savings of $43 million by the year 2040.

Table 16 Direct Utility Savings for Option 4 – City Operates Unified SPU and RWD, Adds NCWD in 2020 2014 Dollars				
Savings Summary	**2020**	**2028**	**2040**	**21-Year Total**
Salaries & Benefits Savings	$1,441,235	$1,441,235	$1,441,235	$30,265,926
Administrative & Contract Savings	$1,091,000	$1,091,000	$1,091,000	$22,911,000
Amortization of Capital Items	$474,366	$474,366	$474,366	$9,961,688
Subtotal Direct Savings	$3,006,601	$3,006,601	$3,006,601	$63,138,614
Incremental Cost in Shared Services Allocation	-$382,799	-$382,799	-$382,799	-$8,038,770
Net Direct Savings	$2,623,802	$2,623,802	$2,623,802	$55,099,844

The savings under Option 4 are $2.6 million per year for the entire period. This results in total savings to the combined water/wastewater utility of $55 million through the year 2040.

Table 17 Direct Utility Savings for Option 5 – City Operates RWD, Adds NCWD in 2028 2014 Dollars				
Savings Summary	**2020**	**2028**	**2040**	**21-Year Total**
Salaries & Benefits Savings	$0	$0	$0	$0
Administrative & Contract Savings	$628,000	$1,091,000	$1,091,000	$19,207,000
Amortization of Capital Items	$115,000	$474,366	$474,366	$7,086,759
Subtotal Direct Savings	$743,000	$1,565,366	$1,565,366	$26,293,759
Incremental Cost in Shared Services Allocation	-$507,730	-$789,945	-$789,945	-$14,331,122
Net Direct Savings	$235,270	$775,421	$775,421	$11,962,637

Finally, the savings under Option 5 range from $235,000 to $775,000 per year, resulting in total savings to the combined water/wastewater utility of $12 million through the year 2040.

The direct savings have been reflected in the financial details associated with each option, but they have been allowed to flow through to the reserve fund over time. The use for those direct savings were not identified at this time but they can be used to offset future rate increases, increase spending for capital items over time or some combination of the two. Note that for the 2012 SPU Study, it was assumed that revenues were based on SPU rate projections and any net cash flow would fund ongoing CIP as well as an extensive mains replacement program. It was discussed in that report that going forward the City could look at the mains replacement needs in more detail and determine how much of the net cash flow would be used for capital items versus avoiding future rate increases.

Identification of General Operations Savings

General operations savings items are related to savings in other departments within the City. Sometimes they represent a reduction in costs due to the fact that a portion of existing costs are now allocated to the new water/wastewater utility, meaning that less is allocated to their departments. Sometimes they reflect a cost that no longer exists.

The first general operations item is the allocation of the Shared Services cost. An amount of $1.1 million was allocated to the new water utility in the 2012 SPU report. When there are two or three unified utilities the allocation increases. The shared services allocation covers a share of the costs from the ASD and other departments to recover the work that is related to the utility but not directly assigned through staffing levels or expenses. This covers items such as accounting, legal costs, human resources, use of office space, etc. An allocation process is currently used by the City and is based on factors such as number of staff, revenues, etc. The allocation to the new water utility means that the amounts allocated to other departments will be reduced by a corresponding amount. This item is both a cost to the new utility and a savings to other departments.

Next, the cost of existing employees that will take over certain utility responsibilities in addition to their current roles were accounted for. In this case, there are two existing staff that will have a portion of their salary re-assigned to the new utility. The general operations savings for this item is $180,000 with RWD added to the City and $252,000 with both RWD and NCWD added to the City. This item is both a cost to the new utility and a savings to other departments.

The final general operations item is the cost for contracts held by the City that will no longer be needed due to the addition of RWD. This includes a $95,000 per year reduction in an existing contract for vactor truck services and $50,000 per year for a small works contract. These contracts can be reduced substantially because the City will have the equipment and staff to provide these services within the new utility.

Summary of General Operations Savings

The following tables summarize the general operations benefits associated with each option. Savings are summed over the 2020 through 2040 period to reflect the total value over time. Because all numbers are in 2014 dollars they did not have to be discounted to reflect inflation in order to calculate total numbers.

Table 18
General Operations Savings for Option 1a – City Operates the SPU Service Area
2014 Dollars

Savings Summary	2020	2028	2040	Total 2020-2040
Amount of Shared Services Allocation	$1,185,099	$1,185,099	$1,185,099	$24,887,076
Reduction in FTE Assigned to Other Departments	$180,707	$180,707	$180,707	$3,794,839
Reduction in City Contracts	$0	$0	$0	$0
Subtotal General Operations Savings	$1,365,805	$1,365,805	$1,365,805	$28,681,915

With Option 1a, where the City acquires and operates the SPU service area, general operations savings are $1.3 million per year and $28.7 million over the 2020-2040 period.

Table 19 General Operations Savings for Option 1b – City Operates the RWD Service Area 2014 Dollars				
Savings Summary	**2020**	**2028**	**2040**	**Total 2020-2040**
Amount of Shared Services Allocation	$507,730	$507,730	$507,730	$10,662,323
Reduction in FTE Assigned to Other Departments	$180,707	$180,707	$180,707	$3,794,839
Reduction in City Contracts	$145,000	$145,000	$145,000	$3,045,000
Subtotal General Operations Savings	$833,436	$833,436	$833,436	$17,502,161

With RWD alone, savings to general operations is $830,000 per year and $17.5 million through the year 2040.

Table 20 General Operations Savings for Option 2 – City Operates Unified SPU and RWD Service Area 2014 Dollars				
Savings Summary	**2020**	**2028**	**2040**	**Total 2020-2040**
Amount of Shared Services Allocation	$1,349,730	$1,349,730	$1,349,730	$28,344,335
Reduction in FTE Assigned to Other Departments	$252,989	$252,989	$252,989	$5,312,774
Reduction in City Contracts	$145,000	$145,000	$145,000	$3,045,000
Subtotal General Operations Savings	$1,747,719	$1,747,719	$1,747,719	$36,702,109

When the City operates both the SPU and RWD service areas under Option 2, the savings to general operations increases to $1.7 million per year and $36.7 million through the year 2040.

Table 21 General Operations Savings for Option 3 – City Operates Unified SPU and RWD, Adds NCWD in 2028 2014 Dollars				
Savings Summary	**2020**	**2028**	**2040**	**Total 2020-2040**
Amount of Shared Services Allocation	$1,349,730	$1,567,897	$1,567,897	$31,180,508
Reduction in FTE Assigned to Other Departments	$252,989	$252,989	$252,989	$5,312,774
Reduction in City Contracts	$145,000	$145,000	$145,000	$3,045,000
Subtotal General Operations Savings	$1,747,719	$1,965,887	$1,965,887	$39,538,282

For Option 3, general operations savings are initially $1.7 per year and increase to $1.9 million once the NCWD service areas are added. Total savings are $39.5 million through the year 2040.

Table 22
General Operations Savings for Option 4 – City Operates Unified SPU and RWD, Adds NCWD in 2020
2014 Dollars

Savings Summary	2020	2028	2040	Total 2020-2040
Amount of Shared Services Allocation	$1,567,897	$1,567,897	$1,567,897	$32,925,845
Reduction in FTE Assigned to Other Departments	$252,989	$252,989	$252,989	$5,312,774
Reduction in City Contracts	$145,000	$145,000	$145,000	$3,045,000
Subtotal General Operations Savings	$1,965,887	$1,965,887	$1,965,887	$41,283,620

With the Option 4, savings are $1.9 million in all years, for a total of $41 million through the year 2040.

Table 23
General Operations Savings for Option 5 – City Operates RWD, Adds NCWD in 2020
2014 Dollars

Savings Summary	2020	2028	2040	Total 2020-2040
Amount of Shared Services Allocation	$507,730	$789,945	$789,945	$14,331,122
Reduction in FTE Assigned to Other Departments	$180,707	$252,989	$252,989	$4,734,513
Reduction in City Contracts	$145,000	$145,000	$145,000	$3,045,000
Subtotal General Operations Savings	$833,436	$1,187,934	$1,187,934	$22,110,635

With the final Option 5, savings range from $833,000 to $1.2 million, for a total of $22 million through the year 2040.

Looking at the general operations savings, the identified savings would benefit other departments within the City. The reductions to those budgets could allow the reduction of other fees charged to residents of the City of Shoreline. For example, surface water charges or property taxes could potentially be reduced as a result of the lower costs that need to be recovered by those charges.

The general operations savings range from $800,000 to $1.9 million per year. We have not separated these savings between all the various other departments within the City; however it is beneficial to look at the magnitude of the savings relative to the budget for the Surface Water Utility.

Table 24 Surface Water Utility Savings Breakdown per Year 2014 Dollars				
Savings Summary	**Reduction in Administrative Allocation**	**Reduction in FTE Assigned**	**Reduced Contracts**	**Total Reductions**
Option 1a	$113,568	$252,989	$145,000	$511,557
Option 1b	$82,609	$252,989	$145,000	$480,598
Option 2	$137,178	$252,989	$145,000	$535,167
Options 3 and 4	$155,125	$252,989	$145,000	$553,114
Option 5	$107,696	$252,989	$145,000	$505,685

The Surface Water Utility will see a reduction in the administrative services allocation as a result of the new water/wastewater utility. In addition, the savings associated with reduced FTEs and contracts are all attributed to the Surface Water Utility. Surface Water revenues for 2014 are expected to be roughly $5 million. All of the options examined would therefore provide a net savings in the neighborhood of 10% for the Surface Water Utility.

The amount of general operations savings that are not attributed to the Surface Water Utility range from $300,000 to $1.5 million. Revenues from property taxes are roughly $10 million per year. The total City-wide revenue from all sources is in the neighborhood of $34 million per year. In relation to these totals, it is clear that the expected general operations savings will have a significant impact on the charges that will need to be collected from other sources.

Table 25 General Operations Savings Breakdown per Year 2014 Dollars			
Savings Summary	**Total General Operations Savings**	**Savings for Stormwater Utility**	**Net Savings to Other Departments**
Option 1a	$1,365,805	$511,557	$854,248
Option 1b	$833,436	$480,598	$352,838
Option 2	$1,747,719	$535,167	$1,212,552
Options 3 and 4	$1,965,887	$553,114	$1,412,773
Option 5	$833,436	$505,685	$327,751

Water & Wastewater Rate Issues

For purposes of this study, all rates were assumed to be the same regardless of the option considered. This was done to provide a direct comparison between the options and identify the savings associated with unification. This is a simplifying assumption and does not reflect the fact that one of the primary goals in considering unification is the ability to reduce costs for residents within the City. It is expected that the savings achieved will be used in large part to keep rates low over the next 20 years. This would likely come in the form of offsetting future inflationary rate increases rather than actually reducing the rates in a given year. These rate reductions would be in addition to the amount related to the SPU acquisition that is assumed to be used for an extensive mains replacement program.

In practice, rates will be set for a year or two at a time based on budgeted revenues and expenses, including CIP needs. For the SPU service area it was determined in the 2012 SPU Report that maintenance has fallen behind in the City of Shoreline and that additional funds were needed to replace and repair the system to the level desired by the City. For the RWD and NCWD service areas, we have not looked at maintenance levels and assume that the CIP projections provided in the Comprehensive Plans for the two Districts are appropriate.

Utility Rate and Bill Comparisons

For wastewater service, the rate charged by RWD is a flat rate per residential customer and does not require detailed analysis. Larger accounts are charged on the basis of consumption as metered by the designated water provider. For SPU and NCWD, the water rates are based on cost of service studies that allocate costs among the various customer classes using standard methodologies. Rates contain both a fixed meter charge and a consumption charge that has an inverted block rate structure, with higher rates applies for customer that consume higher amounts of water.

There is a difference between the rate designs for SPU and NCWD. SPU has a lower customer charge and a higher rate per CCF while NCWD collects more in the meter charge. SPU bills on a monthly basis while NCWD bills on a bimonthly basis. The rate schedules for SPU within Shoreline and for NCWD can be found in Appendix D. There is also a significant difference between the system development charges and connection fees charges to new customers between the utilities.

The following tables provide a bill comparison for water customers based on average usage amounts within the City. Generally the rates for NCWD results in bills that are 14-21% lower for residential customers and 24% to 29% lower for commercial customers. This comparison is based on 2014 rates and may differ by the year 2020 as both utilities adjust rates in the future.

Table 26 Residential Water Bill Comparison Using 2014 Rates			
Winter Bill			
ccf/month	SPU	NCWD	% Diff
4	$40.90	$35.10	-14%
5	$46.95	$37.97	-19%
6	$53.00	$42.37	-20%
7	$59.05	$46.77	-21%
Summer Bill			
ccf/month	SPU	NCWD	% Diff
6	$55.49	$42.37	-24%
7	$63.18	$46.77	-26%
8	$70.87	$51.17	-28%
9	$78.56	$55.57	-29%

Table 27 Commercial Water Bill Comparison Using 2014 Rates				
Winter Bill				
Meter	ccf/month	SPU	NCWD	% Diff
1"	26	$174.50	$153.25	-12%
2"	60	$392.35	$373.90	-5%
4"	100	$760.80	$820.60	8%
Summer Bill				
Meter	ccf/month	SPU	NCWD	% Diff
1"	26	$217.14	$153.25	-29%
2"	60	$490.75	$373.90	-24%
4"	100	$924.80	$820.60	-11%

Rates with a Unified Utility

This study does not determine the rate structure under a unified utility. With the expected City operation of the new water/wastewater utility the City will have the opportunity to set rates to best meet the particular circumstances of the new utility apart from SPU and to best meet other objectives of the City. If the City assumes NCWD at some point in the future, whether to consolidate rates or not would need to be considered.

There are many factors to consider when it comes time for the City to set the rates for water and wastewater. On the wastewater side whether rates should continue to be fixed rather than consumption-based is an issue to consider. How soon to change rates after the assumption takes place will be an issue. This study does not specifically include the results of the RWD assumption for the 2017-2019 period for ease of analysis. That period will also be a time of transition and not all savings will be achieved on day one of the assumption. Also, the City does not have control over any changes made in the rates between now and the assumption of RWD in late 2017. Savings associated with the RWD assumption will be available to offset rate increases.

For water rates, the City has pledged to keep rates at or below the levels charged by SPU. That does not necessarily mean the rate structure needs to stay exactly the same, specifically when it comes to the amount in meter vs. commodity charges and between system development/connection charges and usage rates.

The City has provided a more comprehensive comparison of rates between those within the City of Shoreline those for other utilities in the region. This also includes a comparison of the amounts for system development charges. This comparison is included as Attachment B titled *Utility Rates and Charges Assessment Report.*

If the NCWD service area in Shoreline is assumed, there will need to be consideration of whether or not to equalize the rates. Generally this is done over time rather than all at once, but that will depend on the circumstances at the time. The savings associated with unification may allow rates to be equalized in the future without either set of customers facing a rate increase.

Also, the setting of water rates should be based on a Cost of Service Analysis (COSA) that allocates costs among the various customer classes on the basis of cost causation. A COSA study will address issues such as the level of the meter charge versus the consumption charge. This type of analysis is best done once the City has an actual operating history for the new utility.

Resulting Economic Benefits of Unification

To determine the overall impact of utility unification for the various options considered, the financial results for utility operations were developed for the 2020 through 2040 period. Revenues and expenses that incorporated the direct utility savings were compared between options. Specifically, this included a comparison of the base case with a continuation of the independent operation of each utility and City operation of the utilities on an individual or unified basis.

All of the comparisons incorporate the savings identified for the City operation of the SPU service area. While these savings are likely to be used for an extensive mains replacement program, they still reflect savings associated with City operation of the utility as these expenditures are not expected within this time frame with the continued operation by SPU.

SPU Service Area

The first comparison is for the SPU service area within the City of Shoreline. This option reflects a scenario where the City operates the SPU area alone without the assumption of RWD, and is presented to identify the savings specific to the SPU service area acquisition.

With continued operation by SPU, the expenses are assumed to be equal to the revenues for the service area. Even if the expenses are not tied directly to the service area within the City, those funds will be used by SPU to cover expenses within the entire SPU service area, with some amount transferred to the City of Seattle general fund. Revenues and expenses for continued operation by SPU range from $11 to $13 million per year in 2014 dollars. With Option 1a, City operation of the SPU service area, the expenses drop from nearly $13 million to $10 million per year by the year 2040. Over the entire 2020-2040 period, the savings associated with City operation is nearly $30 million. This reflects a 22.7% savings by the year 2040 and an 11.8% average savings over all years.

Table 28 Financial Results for SPU Service Area 2014 Dollars (Millions)				
	Revenues	**Expenses**	**Net Savings**	**% Savings**
Option 1 - Operated by SPU				
2020	$11.4	$11.4		
2030	$12.0	$12.0		
2040	$12.9	$12.9		
Sum of 2020-2040	$253.8	$253.8		
Option 1a - Operated by City				
2020	$11.4	$11.4	$0.0	0.0%
2030	$12.0	$10.8	$1.2	10.3%
2040	$12.9	$10.2	$2.8	21.3%
Sum of 2020-2040	$253.8	$227.3	$26.5	10.4%

In addition to the financial impacts on the water utility, this option will provide benefits to the general operations of the City. This benefit is equal to $1.3 million per year or $28 million through 2040. These benefits reflect existing costs that have been allocated to the new water utility resulting in a corresponding reduction in the costs allocated to other City departments.

RWD Service Area

The City is set to assume the RWD service area in October of 2017. Option 1b reflects a scenario where this occurs without the acquisition of the SPU service area in order to identify the savings associated with the RWD assumption alone.

Revenues and expenses under continued independent operation of RWD is roughly $15 million per year. With City operation of the wastewater utility, it is expected that expenses will decrease by roughly $250,000 per year or $5 million through 2040. This reflects a savings of 1.7% per year.

Table 29 Financial Results for RWD Service Area 2014 Dollars (Millions)				
	Revenues	**Expenses**	**Net Savings**	**% Savings**
Option 1 - Operated by RWD				
2020	$14.6	$14.6		
2030	$14.9	$14.9		
2040	$15.3	$15.3		
Sum of 2020-2040	$313.3	$313.3		
Option 1b - Operated by City				
2020	$14.6	$14.4	$0.2	1.6%
2030	$14.9	$14.6	$0.2	1.6%
2040	$14.9	$15.1	$0.2	1.5%
Sum of 2020-2040	$313.3	$308.3	$4.9	1.6%

In this case, the benefits to the general operations of the City are larger than to the wastewater utility. This benefit is equal to roughly $800,000 per year or $17 million through 2040. These benefits reflect existing costs that have been allocated to the new water utility resulting in a corresponding reduction in the costs allocated to other City departments.

Combined SPU and RWD Service Area

Option 2 reflects the expected case where the City assumes RWD in 2017 and acquires the SPU service area in 2020. This option is compared to the case where SPU and RWD continue to operate independent of the City. For the combined water and wastewater service, annual revenue and expenses range from $26 to $28 million per year. With combined operations by the City, significant savings can be achieved. Expenses can be reduced to roughly $24 million per year, netting savings of up to $4.4 million per year by 2020 for a total of $59.6 million over the entire period. This reflects a percent savings of 15% in 2040, and 10.5% on average for the entire period.

Table 30 Financial Results for Combined SPU and RWD Service Area 2014 Dollars (Millions)				
	Revenues	**Expenses**	**Net Savings**	**% Savings**
Option 1 - Operated Independently				
2020	$26.0	$26.0		
2030	$26.9	$26.9		
2040	$28.2	$28.2		
Sum of 2020-2040	$567.1	$567.1		
Option 2 – Combined Operation by City				
2020	$26.0	$24.6	$1.4	5.4%
2030	$26.9	$24.2	$2.6	9.9%
2040	$28.2	$24.1	$4.2	14.8%
Sum of 2020-2040	$567.1	$510.9	$56.2	9.9%

In addition to the financial impacts on the combined water/wastewater utility, this option will provide benefits to the general operations of the City. This benefit is equal to $1.7 million per year or $36 million through 2040. These benefits reflect existing costs that have been allocated to the new water utility resulting in a corresponding reduction in the costs allocated to other City departments.

Combined SPU, RWD and NCWD Service Area

The next comparison looked at serving all water and wastewater customers within the City through acquiring the portion of the NCWD service area within the City limits. The base case (Option 1) assumes each utility continue to operate independently from the City, with the costs of all three summed together. With Option 3, the NCWD service area is assumed in 2028 and therefore the 2020-2027 period reflects the costs of City operation of the SPU and RWD service areas added to the cost of the existing NCWD operation. Option 4 reflects a unified utility for all three service areas starting in the year 2020.

Revenues and expenses for the three utilities combined ranges from $30 to $33 million per year. Under Option 3, expenses are reduced to roughly $28 million starting in 2028, resulting in a savings of $73 million for the 2020-2040 period. Expenses are reduced by an average of 10.9% in this case. With option 4, expenses are reduced by a similar level starting in 2020 providing for a longer period of savings. The total savings under Option 4 are $85 million, with an average reduction of 12.7%. An additional $12 million can be saved with the City operating NCWD in 2020 rather than at the end of the franchise agreement in 2028.

Table 31 Financial Results forCombined SPU, RWD and NCWD Service Area 2014 Dollars (Millions)				
	Revenues	**Expenses**	**Net Savings**	**% Savings**
Option 1 – Independently				
2020	$30.7	$30.7		
2030	$31.9	$31.9		
2040	$33.4	$33.4		
Sum of 2020-2040	$670.7	$670.7		
Option 3 – Combined Operation by City				
2020	$30.7	$29.3	$1.4	4.6%
2030	$31.9	$28.2	$3.7	11.5%
2040	$33.4	$28.2	$5.2	15.5%
Sum of 2020-2040	$670.7	$601.3	$69.4	10.3%
Option 4 – Combined Operation by City (NCWD in 2020)				
2020	$30.7	$28.1	$2.6	8.5%
2030	$31.9	$28.0	$3.9	12.1%
2040	$33.4	$28.0	$5.4	16.1%
Sum of 2020-2040	$670.7	$589.0	$81.6	12.2%

As with the other options, there will also be benefits to the general operations of the City. The benefit under Option 3 ranges from $1.7 to $1.9 million per year or $39 million through 2040. For Option 4, the benefits are $1.9 million in all years and total $40 million by 2040. These benefits reflect existing costs that have been allocated to the new water utility resulting in a corresponding reduction in the costs allocated to other City departments.

Combined RWD and NCWD Service Area

The assumption of RWD in 2017 and NCWD in 2028, without the SPU acquisition, was considered for the final comparison. The base case (Option 1) assumes each utility continue to operate independently from the City, with the costs of RWD and NCWD summed together.

Revenues and expenses for the two utilities combined ranges from $19 to $20 million per year. Under Option 5, expenses are reduced to roughly $19 each year, resulting in a savings of $12 million for the 2020-2040 period. Expenses are reduced by an average of 2.9% in this case.

Table 32 Financial Results forCombined RWD and NCWD Service Area 2014 Dollars (Millions)				
	Revenues	**Expenses**	**Net Savings**	**% Savings**
Option 1 – Independently				
2020	$19.3	$19.3		
2030	$19.9	$19.9		
2040	$20.4	$20.4		
Sum of 2020-2040	$416.9	$416.9		
Option 5 – Combined Operation by City				
2020	$19.3	$19.1	$0.2	1.2%
2030	$19.9	$19.1	$0.8	3.9%
2040	$20.4	$19.7	$0.8	3.8%
Sum of 2020-2040	$416.9	$404.9	$12.0	2.9%

As with the other options, there will also be benefits to the general operations of the City. The benefit under Option 5 ranges from $833,000 to $1.2 million per year or $22 million through 2040. These benefits reflect existing costs that have been allocated to the new water utility resulting in a corresponding reduction in the costs allocated to other City departments.

Resulting Non-Economic Benefits of Unification

While the potential to provide lower rates and/or greater investment in capital due to the unification of the water and wastewater utilities is a prime objective of the City, there are numerous non-economic benefits that are part of the consideration in unifying the utilities. Those benefits fall into three broad categories: simplicity for residents, sharing of City resources, and unified City policies. While the first category directly impacts the City's residents, all of the categories lead to overall benefits to the residents of the City.

Simplicity for Residents

Currently, with two different water providers and one wastewater provider in the City, residents have to deal with two different entities when signing up for service, when inquiring about bills, and when making payments. Those same residents will also have to interact with the City for surface water issues and building permits. A unified utility will allow customers to have one interface with the City for all of those tasks. This will reduce the amount of time the resident needs to spend in making arrangements and inquiries.

A unified utility will also reduce the confusion facing the resident as to who provides various utility services. While the boundaries for the two water providers are clear, a new resident to the City, or one moving from the east side to the west side of the City, will not have to make several calls to determine who provides their water service.

Billing will also be simplified as residents will receive one bill and make one payment to the City rather than making payments to two separate utilities. This allows for future consolidation with other City bills, such as surface water, if appropriate in the future.

For developers building in the City, the water/wastewater connections process can be combined with the process for building permits allowing the developer to meet with one entity rather than with three different ones. This will provide a more efficient process as well as providing greater customer service.

Sharing of City Resources

Previous sections discussed the efficiencies to be gained by the City operating the water and wastewater utilities together, as well as the ability to have shared services for functions such as human resources and accounting. There are other benefits that were not necessarily quantified as cost efficiencies but that will lead to improved service, a simplified process or potential cost reductions in the future.

One of the benefits that was not quantified includes the ability to coordinate maintenance for water/wastewater facilities with work being done by the street and surface water departments. This not only applies to planned maintenance but also for emergency service. With a unified City utility emergency there can be one point of contact for emergency situations and staff

from the appropriate departments can be dispatched to assess the issue and make repairs as needed. Improved coordination with fire service may also result from the water utility operation.

Another benefit is the ability to combine information provided to customers through direct mailings, bill stuffers, newsletters and other forms of communications. Rather than sending out information about each utility separately, the messages can be combined with other City-wide issues. The cost savings for combined publications and public relations have been accounted for; however, there are additional benefits to the City to be able to provide a unified message. Residents benefit as well as they have one source of information rather than from three different entities.

Unified City Policies

One of the issues facing City residents for the water service provided by SPU is that the residents had no ability to impact the policies made or the rates set by the Seattle City Council with respect to water service. Unlike the Seattle residents, the Shoreline residents cannot vote for the officials that make the decisions on water service. Note that this issue relates only to the SPU water service area as residents do having voting privileges for the Commissioners for RWD and NCWD. The SPU acquisition transfers control of the water utility to the Shoreline City Council, and ultimately to the Shoreline residents that vote for those Council members. By gaining control over the water utility, the City can make decisions for the benefit of the residents of the City without consideration for the residents in the City of Seattle.

Unification with SPU and RWD, and potentially with NCWD, will allow for the City to implement policies and decisions that are consistent across the utilities as well as consistent with other goals and policies of the City. This includes issues related to how much money to spend on capital improvements, whether to fund capital projects with debt or cash financing, how much money is collected through connection fees and meter charges versus consumption charges, and what level of water conservation should be implemented.

Because policies and decisions will be made by the City Council, residents that are impacted will be able to attend Council meetings and will therefore have transparency as to how those decisions are made. Residents will be able to provide comments on various issues, and as stated earlier, have the ultimate control over issues through the election process.

Summary

To determine whether benefits exist from operating a unified water/wastewater utility by the City of Shoreline, this study looked at the financial results under various options for operating one or more utility. With options 1a and 1b, the City would operate the SPU service area or the RWD service area on a separate basis. Option 2 unifies the SPU and RWD operations within the City and is the expected case for the City. Options 3 and 4 consider alternatives where the City adds the NCWD service with the newly formed water/wastewater utility from Option 2.

In all cases, there are expected savings under the options where the City operates one or more utility. Savings range from $5 million to $82 million over the study period. The results are summarized in Table 33. The greatest savings levels occur when water and wastewater utilities are unified to provide a more efficient utility.

Table 33
Total Direct Utility Savings with Unification

	Total Direct Utility Savings 2020-2040 (2014 Million Dollars)	Average Annual % Savings (Includes Treatment Revenue)	Average Annual % Savings (Excludes Treatment Revenue)
Option 1a – SPU Alone	$26.5	10.4%	10.4%
Option 1b – RWD Alone	$4.9	1.6%	5.5%
Option 2 – SPU and RWD	$56.2	9.9%	16.3%
Option 3 – Add NCWD in 2028	$69.4	10.3%	15.5%
Option 4 – Add NCWD in 2020	$81.6	12.2%	18.2%
Option 5 – RWD plus NCWD in 2028	$12.0	2.9%	6.2%

Because a large portion of the revenues and costs for RWD include the pass-through of treatment expenses from Metro, the percent savings are calculated first including the treatment revenues and then without the treatment revenues. The amount without treatment revenues reflects the amounts associated with the rates that would be set by the City utility.

These cost savings can be used to cover additional CIP or to reduce cost increases in the future. In the case of the SPU acquisition, the savings will in part be used to fund an extensive mains replacement program that is needed and not expected to be funded with continued SPU operation of the service area. Unifying the water and wastewater service areas under Options 2, 3 and 4 results in savings that range from 15% to 18% of total revenues (excluding treatment

revenues) for the combined utilities.

In addition to the direct utility savings identified, the City will benefit from sharing the cost of existing staff and services with the new water/wastewater utility. The City currently allocates administrative, legal, office building space, and other shared services among existing departments. It was assumed in the financial analysis that the new water/wastewater utility will be allocated a portion of those shared services with the amount ranging from $500,000 to just under $2 million per year. This cost has been incorporated in the costs for the utility under each option. Other savings occur from the reduction in outsourcing costs that are feasible due to the new staff and equipment for the new water/wastewater utility. The total reflects a savings in general operations costs to other departments within the City. As costs are allocated to the new utility, each of the other departments receives a reduction in its allocation leading to lower costs for those departments. The following table summarizes the general operations savings for each option.

Table 34
Total General Operations Savings with Unification

	Total General Operations Savings 2020-2040 (2014 Million Dollars)
Option 1a – SPU Alone	$28.7
Option 1b – RWD Alone	$17.5
Option 2 – SPU and RWD	$36.7
Option 3 – Add NCWD in 2028	$39.5
Option 4 – Add NCWD in 2020	$41.3
Option 5 – RWD plus NCWD in 2028	$22.1

In some cases these general operations savings surpass the direct savings to the new water/wastewater utility.

While the quantified benefits of utility unification are substantial, there are additional benefits that have not been quantified. These benefits fall into the following three categories:

- Simplicity for Residents
- Sharing of City Resources
- Unified City Policies

Residents see simplicity by having one entity to deal with rather than two or three, a combined bill for water and wastewater, single payments for multiple services, and customer service from one location. The City will have coordination of maintenance and emergency response among various functions and will be able to provide a unified message through combined Public

Relations functions and customer information. The City will also be able to unify the policies for such issues as financial policies, rate setting, maintenance and growth. Together these non-quantified benefits will provide for a more cohesive City operation and better service for residents.

Appendices