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Mission Statement: Meeting the challenge of protecting the environment and providing quality sewer service to the community.

MINUTES OF SPECIAL MEETING BOARD OF COMMISSIONERS

**September 25, 2018
Utility Committee**

Attendees: Commissioners Dan Lorentzen, Mariah Low and Kevin Kosche; Administration Manager Tonya Christoffersen, Collections Manager Johnathan Dix, Mickie Cooper and Tara Bighouse. District Engineers Barry Baker, G&O.

Guests from the City of Lake Stevens: Councilmembers Kim Daughtry, Gary Petershagen and Marcus Tageant, Mayor John Spencer, Public Works Director Eric Durpos and Kathy Pugh,

1. **Called to Order** at 4:00 PM by Commissioner Kosche. Commissioner Kosche moved into the meeting agenda item "Utility Committee Meeting". John spencer moved to excuse Kim Daughtry, Gary Petershagen seconded the Motion. On vote the Motion passed.
2. **Utility Committee Meeting** – The Committee discussed mutual projects and planning for the Lake Stevens UGA and study areas.
 - A. **Approval of Meeting Minutes of May 22, 2018** – John Spencer moved to approve the May 22, 2018 minutes. Commissioner Kosche seconded the Motion. On vote the Motion passed.
 - B. **Resolution re Accelerated Unification** – John Spencer reported they do not have anything to talk about today, they will be bringing two documents to the committee. Commissioner Kosche noted the District is preparing a resolution to go to November and the focus to be around transparency and planning, not around operational aspects. If it needs to have a role into operational then deeper discussion may be needed. In terms of the spirit and the letter, as a general of guiding principles. John Spencer noted it's on reports and knowing what's going on, otherwise issues that come up or changes, on capital it's fair to report on reporting and it's fair to put the city in a place of regulating operational performance. John added Olympia tried to do that and it was a mess, so it is understandable. Commissioner Kosche stated it is on cash and its being updated, he is hoping for more dialog and there will be discussion the rate situation, the District focus is on reduction with a goal to have less debt than there is now. John Spencer added the ILA is to unify and the protocols to this group is building a relationship and as we move forward there is a seamless handoff.
 - C. **Interim GFC Rate** – Johnathan Dix handed out the update from Rodney Langer with CHS on the District Comp Plan. Cliff note on the status report; so far growth has been consistent with what was forecasted as well as the Treatment plant loading. It is estimated that the needed upgrade for the Treatment plant is still on track for 2025. Rodney met with Johnathan, Gene and Russ to discuss some of the discrepancies with the lots that are vest

to the City versus the District for a better number of buildable lots. The District is working on its CIP based on the comp plan. To summarize the Commission has asked to create an interim GFC charge that would change the District contribution to regional facilities and bring those into an interim GFC connection fee. The two projects that are at the top of list, the SW regional lift station at Machias and Downtown. The intent is to bring these areas out of moratorium and provide sewer to the SW corridor and the Downtown Lift Station 2C to support the downtown area plan. Johnathan explained Lift Station 2C would bypass 1C freeing up capacity at Lift Station 1C. Johnathan added Rodney is working on calculating the interim GFC. John Spencer asked if the District charges a capacity fee and if the interim GFC includes anticipation for new houses using additional capacity. Barry Baker stated any improvement in the timeframe of 10 years can be included in the GFC calculation. CHS is looking at what will need to be included in the final GFC. Johnathan explained that the capacity contribution is captured in the GFC as it is a contribution to the future needs. Barry explained when paying a GFC includes buying into the system as well as future costs of the improvements that will happen in the next 10 years. Mickie concurred. Commissioner Kosche noted that's how the calculation works, however if you take the actual costs and buildable lots left that it doesn't cover all costs, so risk is that costs not recovered in GFC will be reallocated to the rate payer. He added, to balance it out and to recapture costs, it is important to identify the remaining number of buildable lots within the Urban Growth Boundary to discover the true remainder of contributors to capital needs. Johnathan added if ever the argument is made to expand the UGA, these projects would help make the argument for expanding because we could show that we have capacity to serve the expanded area. Marcus Tageant noted on the CIP there is \$3.37 million for a decant facility. Eric Durpos added he has been working with the District on it as well. Johnathan noted the City of Arlington has been looking to partner with it as well. There may be some saving there as well. Once he hears back from DOE about the old Treatment Plant facility they will know more

- D. Sewer Rate** – Commissioner Kosche noted the District had a planning meeting yesterday. The philosophy is the rate should cover operating, expenses it would include debt service. Last year the District was cash flow positive; barely. The District should be able to sustain a positive flat line the debt pay off. With those two things in place we have a rate stabilization fund which could be used to pay off the debt in advance. These are some scenarios the District will run through. Mickie shows an overhead of the account spreadsheet, she took the debt payment consistent through the years. Commissioner Kosche pointed out keeping with the 150 ERU's per year. Mickie added tracking since 2005 the new rate payers per year has not gone below 150. Commissioner Kosche added it takes about a 2.5-3% increase to make the operating reserve to remain stable. John added the District argued against the UV requirement with no budget from DOE, denying our request. Marcus asked about the rates compared to the neighboring cities. Commissioner Kosche noted it's difficult to compare; Lake Stevens rate is close to Arlington, Marysville is less and Snohomish is higher. Mickie noted she will be looking into taking \$4mil out of the stabilization fund to make a one-time principle payment to on debt. Gary Petershagen asked in 2025 where would the debt be, Mickie replied we would have \$58 million in principle debt at the end of 2025 per the amortization schedule. Mickie added more of our PWTF loans are at 0.5-2% with the exception to the bonds at 4-6% and variable SRF loans ranging from 2.7-3.1%. The District is eligible in 2020 to refinance the Build America Bonds and that would depend on the

interest rate is low enough to benefit in 2020. Eric asked if the District has sent a minimum of where you want to be at the end of the year. Mickie replied we do not have that. Eric suggested rolling over the extra into a capital reserve for capital with the construction costs increasing to get more bang for your buck. John Spencer stated the City will be in support of any rate increase the District needs with no chirping from the side. He asked when would a decision be made. Commissioner Kosche replied we have the data, taking into consideration this conversation. Commissioner Kosche suggested holding off until the October Utility meeting. John Spencer would like to hold a Planning workshop with the entire City Council and the Commissioners to get everyone. Commissioner Kosche added the scenarios can be played with but the District will come with what they are leaning toward with discussion. Marcus would like to be responsive to the entire council since this committee reports back to city council. Dan agreed since everyone needs to be on the same page and with working with the city eventual the city will build out all the buildable lots everyone can rest easier knowing where we are. As it was stated we do not have enough buildable lots to pay off debt. John Spencer added running the numbers out is good to see how far we can go before running out of money. Johnathan added it's important to note the Treatment Plant upgrade will be needed in 2025. Eric asked what is the minimum for the rate stabilization fund. Mickie replied it is \$4 mil flat until the BABs is paid off. Commissioner Kosche added it's just a difference in philosophy. The rate stabilization fund is borrowed money to be able to ease the rates to help build the plant. Mickie explained how the rate stabilization fund was created and why. Tonya added the rate stabilization fund has not had to be used in the last 2-3 years. John Spencer asked for Eric to communicate with Tonya on setting a date that works for the Planning meeting. John added it would be interesting to see how close we can get. Eric asked hen rates increases are set is it annual, Tonya replied we have done it both ways. Commissioner Kosche replied which goes back to the philosophy of a larger increase at one time instead of several small increases. John Spencer asked about extending out the plant upgrade, Johnathan answered it all depends on capacity once it reaches 85%. Gary Petershagen added then the DEO will be breathing down the District. The next meeting is scheduled for October 23rd at 4pm.


3. **Conclude** – There being no further business, the Special Meeting was concluded at 4:51 PM

Signed at a regular open public meeting this 11th day of October 2018





Dan Lorentzen, Commissioner



Mariah Low, Secretary and Commissioner



Commissioner Kosche, President and Commissioner

VISITOR SIGN-IN

If you would like to address the Board of Commissioners, it will be necessary for you to sign in. Thank you.

Print Name	Signature	Address	Phone	Purpose
Paul Knight	<i>Paul Knight</i>			LSSD
Theresa Williams	<i>Theresa Williams</i>			LSSD



**Utility Committee Meeting Minutes
September 25, 2018 4:00 pm**

City of Lake Stevens / Lake Stevens Sewer District
1106 Vernon Road, Suite A, Lake Stevens, Washington

1. **Called to Order:** 4:00 p.m. by Commissioner Kevin Kosche and Councilmember Marcus Tageant
2. **Roll Call:**
Attendees Representing the District: Commissioners Kevin Kosche, Mariah Low and Dan Lorentzen; Staff: Tonya Christoffersen, Jonathon Dix, Tara Bighouse and Mickie Cooper

Attendees Representing the City of Lake Stevens: Councilmembers Marcus Tageant, Kim Daughtry and Gary Petershagen, Mayor John Spencer, Public Works Director Eric Durpos and City Clerk Kathy Pugh
3. **Action Items:**
 - a. **Approval of Meeting Minutes of August 28, 2018:** Moved by Kevin Kosche, seconded by John Spencer, to approve the August 28, 2018 meeting minutes. On vote the motion passed.
4. **Public Forum:** No comments.
5. **Discussion Items:**
 - a. **Resolution re Accelerated Unification:** John Spencer said this will be discussed at a future meeting. He commented the City is preparing two documents, one on benefits and risks, and the other on operational protocols for the Sewer Utility Committee to move forward, that will be brought forward when City Administrator Gene Brazel is in attendance.

Kevin Kosche commented the Sewer District is preparing a resolution to have the benefits and risks of moving forward with unification identified by the end of November. He believes the focus needs to be around transparency and planning, and not around operational aspects.

John Spencer responded the operational side is generally on reporting to City when things come up. There is nothing that would interfere with the District's operating.

Kevin Kosche commented a lot of the information is in the Sewer District's comprehensive plan which is being updated, and which the City approves. The District's focus is around debt reduction.

John Spencer said the unification agreement provides a process for building relationships between the Sewer District and the City so that the two entities can be unified.

- b. **Interim GFC Rate:** John Dix reviewed the status of the Sewer District and said all is as forecast, and the District is on track for the 2025 Treatment Plant update. They have met with City staff with the goal of getting a better forecast on what the City needs are, including current information on buildable lots.

The commissioners have requested consideration be given to an interim connection fee charge that would change the district's contribution to regional facilities. These would be brought in under the interim GFC fee. The two projects at the top of the District's list are the Southwest Regional Lift Station located at Machias cutoff and the Downtown Lift Station. The district is working at calculating the GFC, and there was discussion on how the GFC would be calculated. Kevin Kosche commented the GFC is a challenge, particularly for existing and new ratepayers.

The discussion turned to capacity and how to best meet the needs both within the city limits and the urban growth area. There was also discussion about a new decant facility and partnering with neighboring cities.

- c. **Sewer Rate:** Kevin Kosche provided an overview of the philosophy, saying that the operational or rate revenue should cover the operating expenses, which includes debt service, and flatline debt payment so that debt payment is accelerated over the next two years. He added that the rate stabilization fund could be used to pay down some of the debt. Various scenarios were reviewed for managing the debt and it was discussed that the mid-level scenario would be the best to use.

John Spencer asked about increasing the rates in 2019 and again in 2020, and how that would affect the bottom line. He commented that the current debt service is based on paying off the bond over a period of time, and maybe current ratepayers should not be responsible for paying the debt down when there will be future ratepayers who could also assist with paying down the debt.

Responding to Marcus Tageant's question regarding rate studies, Kevin Kosche said there is no consistency in rates with neighboring jurisdictions. There was additional discussion regarding the legal requirements of the rate stabilization fund and how those will be met, and what the principal debt balance will be in 2025.

Public Works Director Durpos suggested that rather than accelerating the debt payment it would be more beneficial to roll extra funds into a capital reserve fund, particularly since the construction costs of undertaking capital improvements are only rising.

Kevin Kosche believes a decision on a new rate structure will be made within the next 60 days, the data is in place.


There was agreement to hold a joint meeting with the City Council to review the proposed rate structure and the philosophy in paying down the debt. Dan Lorentzen commented this is a marathon and not a sprint, and that as the debt is paid down, it is important to not run to the end; there is no capacity in the available buildable lands.

There was additional conversation regarding setting the minimum operating reserves versus using the rate stabilization fund, which is borrowed money.

John Spencer requested the joint meeting with the City Council take place before the next Sewer Utility Committee meeting.

6. **Schedule the Next Meeting** – October 23, 2018 at 4:00 p.m.
7. **Adjourn** – Moved and seconded to adjourn the meeting at 4:52 p.m. On vote the motion carried unanimously.

2018 Utility Committee Chair:



Marcus Tageant, Councilmember
City of Lake Stevens