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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

November 8, 2018

Attendees: Commissioners Mariah Low and Kevin Kosche. District Staff: Tonya Christoffersen, Johnathan Dix, Tara Bighouse and Mickie Cooper.

City Attendees: Mayor John Spencer, City Administrator Gene Brazel, City Councilmembers: Gary Petershagen, Rauchel McDaniel and Marcus Tageant.

1. **Called to Order** Commissioner Kosche called the meeting to order at 7:01 AM.
2. **Utility Merger Sub-Committee** – Commissioner Kosche opened the meeting and turned it over to Gene Brazel. Gene noted he, Tonya, and Johnathan met and refocused the direction on the information from the last meeting. He explained the handout was from their collaborative meeting; guiding questions/statements and the risks and benefits. Tonya explained each person ended up taking on a section. Marcus asked why Johnathan Dix was a part of this when it was decided at the last subcommittee meeting to have Tonya and Gene work on it. Tonya replied the relationship is starting with Gene, Eric, Johnathan and herself and building the relationship together as all four met initially.

Marcus stated let's start from the top of the document Gene handed out. Why now: Tonya Christoffersen started with building trust and how the staff has trust issues. Marcus Tageant was passionate about why is this an issue and expressed this is not an issue and we are not moving forward. Commissioner Kosche added building trust and District staff has trust issues. He explained looking at the pattern and we have beat on it and hopped over it, finally checking that box. He believes diligently this is painful to walk through but when relationship and trust is the top item from the District perspective and why it matters. Marcus stated we went through the risks and benefits and why we made the decision to move forward. Commissioner Kosche stated no, no we didn't.

He read a statement he wrote from his perspective stating the District and City have been working on risks and benefits analysis of accelerating reunification since July 2017. Both parties are committed to finalizing this analysis by the end of November.

He continued from the Districts perspective, the question of "Why Now" is a key question to address. The benefits of "Now" should outweigh, the risks that could be potentially mitigated by executing the unification on it's original schedule. Further, the benefits of "Now" should be benefits that could not easily be achieved by better planning and transparency between the District and City, as two separate entities. At the joint meeting on October 31st and while there was some disagreement as to what extent an

item was a “risk” or an item was a “benefit”, a general consensus was established on all seven items. For example, there was little debate on the City’s ability to take on (transfer of) the Districts debt, nor was there debate as the City’s ability to take on more debt as the result of accelerating the reunification. There was some level of disagreement as to the amount of financial benefit, related to the length of time horizon, but again general consensus that there would be a degree of financial benefit and operational synergy, over the long term.

Commissioner Kosche continued There also appears to be general consensus that there is not an individual compelling event such as financial, operational or structural that needs to be immediately addressed, rather the consideration for accelerating the reunification is more about future and optimization, and not “fixing” something that is broken. In his experience being involved in dozens of mergers/acquisitions they typically fall into two categories: merger done because of a compelling event or organizational value. He views the City/District reunification to be more closely aligned with the later.

The question of Relationship / Trust is of great importance and goes to the heart of the, “Why Now or Why Later” question. Relationship / Trust is one of those items that is the sum total of many, many interactions (positive and negative) that ultimately determines how a decision maker “feels” about moving forward. I have learned that just because something cannot be easily quantified, beyond binary, it does not mean that Relationship/Trust is not of paramount importance to the successes, or failure, of accelerating unification.

The question of, “Mission: District Standards” has one particular item that cuts to a philosophical difference between the City and District and I would suspect is of keen interest of our mutual constituents. The topic is one of who pays for attracting future growth. The Districts position is we look to balance Operational Expense against Operational Income. When these are in balance, or near balance, we hold rates stable. When more funds are needed beyond what we can reasonably glean from operational savings, we raise rates. Further, the District attempts to size our capital plans against what we anticipate being available in our capital funds. In short, the District’s general approach is, “Growth pays for growth”. The City would like to be more proactive in attracting growth. There are good reasons for this, given Lake Stevens tax base being primarily residential. In general, the City would like to see the District proactively invest beyond existing capital availability. In short, the City’s desired approach for the District is, “Building so they will come”. Neither approach is wrong, but the differing approaches are a source of healthy (and sometimes unhealthy) conflict. At its core, the conflict goes to, “who will pay”.

The City has suggested to the District, that the District should raise rates in advance of Operational need, and that the District should not accelerate debt payments, rather allow those bond / loan obligations to run their full course.

The District currently holds approximately \$25M in cash, which is a combination of Capital funds, Bond / Loan Reserves and Operating Reserves. The majority of these

funds have come directly from the rate payers with the expectation they will be used specifically for District operations, debt payment and maintenance of existing infrastructure. The City has not stated whether this sizable amount of funds could be utilized, post reunification, for other activities, other than existing sewer infrastructure. Commissioner Kosche listed the areas the District and City should increase transparency and planning regardless of accelerating the reunification: A. Relationship. Focus communications both public and private to be respectful, and to the extent possible, a fiduciary nature. B. Deposition of Old Sewer Plant. District wants the liability off the books as early as possible in 2019. The District is open to the City taking ownership. C. Utility Meeting. Finalize an agenda / communication protocols which are focused on planning and transparency, and NOT on operational aspects. Operational is defined as any item in the Operating Expense line items of the District budget. D. "Building so they will come". Explore using a combination of Utility Tax / Rate Bonds to secure required funding to build the sewer infrastructure the City desires to have in place ahead of development. The approach would provide a transparent way to communicate to the public how the funds will be used, and what benefits the public can expect as the result of the increased tax burden. He stated that's where he's at and is open to how to move forward.

John Spencer noted one of the comments stating, 'build it and they will come', he doesn't believe the City has suggested this. His experience is the City would like the facilities to be built where they need it. Knowing in the end the District Board would or would not do it. The City never got to that point, they kept getting push back from the District, the need is houses and when the builder puts it in. There were strong words from the District specifically regarding the SWI. It being difficult to get there. He takes issue with the statement we want you to take your money and use it for this or that. What they are really looking for is the moratorium to be released. He noted it took much work between himself and Commissioner Kirk to get there with CHS doing some work. He believes that is a little mischaracterized. He commented on why now. All the issues will be there when the elected officials are gone. Why do we have the governing body of three people governing who comes when and is why he is saying why not. Others would say ok rip the band aid off and do it now, others would say 2, 3, 5 years later and thinks building trust will come. He added the previous mayor stated lets merge and when there is a manager and the District's Finances are in place; well the District is there and its now. He added when the District began how the City was aghast and his thought is let's get over it. He gave an example from a Seattle situation. On standards John Spencer stated the City will take on the Districts standards. Tonya stated the standards are based on present day not on the past. Mayor Spencer stated he will not go there in regard to standards of today and the City not meeting the Districts standards. Commissioner Kosche asked about the 25 million the District has on hand. Gary Petershagen stated his understanding is all money from sewer would stay with sewer that was not ever a thought. John added it cannot be used for anything but sewer and it would be misappropriation of funds. Marcus added it's not even a thought nor be used for a slush fund. Commissioner Kosche noted it's in there because it has not been discussed. Marcus stated, to say there is no financial benefit is shocking and Commission Kirk stated there was \$500,000 to \$1 million benefit to merger. Commissioner Kosche added based on his knowledge it's based on the time horizon,

there is always going to be long term gains. Gary stated he agrees the next 2-3 years is questionable but the long term is doable. Commissioner Kosche added the relationship piece as he thinks of it, it is work on the relationship or accelerate and things get worse. John Spencer added he doesn't believe the relationship will get better until we merge. With a tug of war and accusations made. He pointed out one issue with the Herald article out about a City employee; where was the call from the District asking how are you doing? Until these types of situations happen there is no making the relationship better. Whether it happens now or in 20 years it will happen so why not now. He added what we really need to say is 'what's it's going to take to get it resolved; cultural issues, if it will cost money then let's spend the money. It won't be just him that wants the merger, it will be the next elected official and those after that. Commissioner Kosche stated there is a date set in 2032. He believes the relationship needs to be better to move it forward whether or not the merger happens now or later. John stated who is going to define when the relationship is adequate to merge. Commissioner Kosche stated the Sewer District Commission. John stated his feeling is the relationship will cause it from moving forward regardless. Marcus asked for the bottom line of do the Commissioners want to merge or not. He stated he feels the City has mitigated the risks; by stating they will guarantee everyone's employment, the District standards will be adopted, it's the same things that go back and forth; the City has answered all questions and believes it has been agreed we are there and financially it makes sense. He added don't the citizens deserve to have the best stewards. Commissioner Kosche stated to answer your question I don't know. He noted if we polled the citizens today, they wouldn't know the difference between the District and the City. Their only concern is amount of their bill. Kevin stated he ran on three things; relationship between the District and the City, merger to accelerate or not and rates. He added, he came in with an uneducated view with 'let's rip the band aid off'. As he has sat in the position the last 10 months, he has moved toward neutral. Like he has said he believes relationship matters and how it makes things successful. He added on the financial and public piece, he believes most of them do really care, whether it's separate or not its more about the rates and what they have to pay. Would they align with growth pays for growth he doesn't know. It's a question of the timing. Marcus stated it's a great political statement. Commissioner Kosche added financially looking out for the rate payer he would align with the District's view, just on operating expense pays for operating expense. If you don't step out beyond that then you wouldn't have parks. Gene added he believes this is deflecting. When he sat down with Tonya and Johnathan he knew exactly where the District stands, he believes it is caused by not living by the 2005 ILA. He stated for example from the ILA it states the old and new treatment plant are stated to be given back to the City. It is extremely frustrating, let's go back to the 2005 agreement, work on going by that agreement and move forward. Commissioner Kosche stated that agreement is an interesting one stating the committee will meet quarterly. John stated it also stated the Utility Committee has oversight. He doesn't intend for the Utility Committee to have fiduciary oversight, but the ILA would have oversight over all the functions at the District and the Utility Committee weighs in on things and needs to make it happen. Commissioner Kosche reviewed the ILA himself and with two attorney's they believe it's around transparency and planning, not operations. Whether to accelerate or not we need to get it together. He believes as it states meeting quarterly told him right away this is not written well. Gene added had this been utilized from the

beginning this situation would not have been an issue now. Commissioner Kosche thinks it would be beneficial to hit on some topics; a certain time to talk about rates, financials, etc. So, it's not a passed around agenda and more productive. John doesn't believe it accomplishes the oversight. Commissioner Kosche added then let's dive in and go over that. His perspective is reaching an intent and then we don't get there. John stated there is no intent. He gave the example of the old treatment plant and the City not being notified of it being surplus. The agreement states the Treatment Plants will be given back to the City, there should be a clarity on this and making sure it will be done. He added since 2005 there is a lot of catching up to do. There are a lot of items in the ILA that should be followed and it's the little things as much as the big things. John stated in no way will the City get involved on the operations and how money is spent, etc. But yes having oversight. This Utility committee gives input and yes, the Commissioners can make a decision. Tonya added she contacted Brett from the Tulalip Tribes letting him know no decisions were being made and Eric Durpos has been invited to those meetings and has been a part of all the conversations. She added she believes before step two is complete the Board would be in favor of it, but we must talk to our legal counsel to determine just exactly what legality there is to the 'do it now' vs waiting for the closure of the merger. These are things that the District is working on and moving forward with. She added Barb and Mickie will be doing a presentation for the Utility meeting on November 27th on merging financials. John Spencer asked the question are we deciding to move forward. Commissioner Low added she doesn't know as the Commission has not been able to talk. Marcus asked her opinion. Commissioner Low replied she would like to see it as more of a financial/business transaction and take the feelings out of it. Gary added that was his thought that this would be moving toward. Commissioner Low stated why now and what would that look like. Gene added thank you that is what he worked on due to a derailment and they have created stacks of work for nothing. He would like to see the nonsense stop and how the roles go and stop wallowing in the past. Gary asked could trust get pushed aside if we have more financial parts. Commissioner Low stated building a relationship and having a goal is important. Some of her frustration is the one-sided information and the moving target, some complaints heard today and the goals are not in line. She believes that is the point of the Utility Committee and believe they could work on it. John stated if we were to unify what would it look like and what would the trust look like. He added what do we have to do today to get there and how do we get it going in that direction and what will it look like. Commissioner Kosche asked for specifics, what is the deliverable and what time frame; is it an org chart, share and compare, what are the outputs to review so no one gets confused on the mission, what are the outcomes. Gary stated number one is an org chart. He stated one thing he hears from the staff at the District meetings is what is to come for the future. He believes the second part would come. Tonya added it has been discussed between her and Gene. She believes Gary is correct it needs to be seen on an org chart. She stated for her she is not afraid of the merger, but processes and long-term planning are a must. Gary suggested everyone take a look at the agreement and get an understanding of the ILA. Commissioner Low added on the org chart she would like to see where these positions will overlap. Gene stated he will send it out, it lists the roles and it wasn't his intent to do it without Tonya. She can put in the District roles. He appreciates it, he prefers to move forward. John would like to have it drilled down where the savings are and not, let's get it identified. Mickie added she and

Barb are working on the savings and what any additional costs will be. Commissioner Kosche added even if it's not a savings what is the benefit. Commissioner Low added she would like to see all the different boards and where is it and bringing it back. Tonya stated she has that, they have worked on it. Commissioner Kosche added it has been benchmarked and doesn't go smoothly due to relationships. If that can be resolved it should go faster. Tonya added CHS has been working on the Comp plan. Commissioner Kosche recapped the 4 things to do; org chart, process documents, 2005 ILA. John asked can the chart be brought as that can be a source chart when working with the public. Commissioner Kosche added it is more of a mutual doc and not a public document. Commissioner Low stated for number 5 adding a public document. Gary noted this is a good work order. Commissioner Kosche asked if this is enough clarity for Gene and Tonya. Tonya added a lot of the work is done and will take her and Gene sitting down and getting it organized. Mickie feels comfortable that by the 27th her part can be done. John thanked everyone and feels this is a good step forward. Gene looks forward to moving forward.

Next meeting is scheduled for next Thursday November 15th at 7:00 AM.

- 3. Conclude** – Commissioner Kosche concluded the meeting at 8:16 AM with no action taken.

Signed in a regular open public meeting this 13th day of December 2018





Dan Lorentzen, Commissioner



Mariah Low, Secretary and Commissioner



Kevin Kosche, President and Commissioner

