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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 28, 2018

Attendees: Commissioners Dan Lorentzen, Mariah Low and Kevin Kosche. District Staff: General Manager Tonya Christoffersen, Collections Manager Johnathan Dix and Mickie Cooper. District Engineer: Leigh Nelson, G&O. District Attorney Brad Cattle. City of Lake Stevens: Gene Brazel and Eric Durpos

1. **CALL TO ORDER** – Commissioner Kosche called the meeting to order at 4:30 PM
2. **PLEDGE OF ALLEGIANCE** – Commissioner Kosche led those present in the Flag Salute
3. **AGENDA APPROVAL** – Commissioner Kosche asked for a Motion to move the Evaluation of Merger to the end as Mayor Spencer has been held up another meeting. Commission Low made a Motion to move the Evaluation of Merger to the end of the Agenda. Commissioner Lorentzen seconded the Motion. The Motion passed unanimously.
4. **CONSENT ITEMS**
 - A. Mountain View DEA – Leigh Nelson showed the location on the map, it is recommended for approval. Commissioner Low moved to approve the Mountain View DEA. Commissioner Lorentzen seconded the Motion. The Motion passed unanimously.
 - B. O'Day Addendum to DEA – Leigh Nelson showed the location on the map. This addendum modifies the reimbursables and it is recommended for approval. Commissioner Low moved to approve the O'Day Addendum to DEA. Commissioner Lorentzen seconded the Motion. The Motion passed unanimously.
5. **PUBLIC FORUM – Non-action Items** (please limit comments to 3 minutes)

Patrick McCourt asked if the Commission would be taking comments at the discussion of Evaluation of Merger. Commissioner Lorentzen stated the Commission would be taking comments on it now. Patrick talked about being a developer for many years and has had a great working relationship with the District over the years. Patrick stated he was around when the original Inter Local Agreement was signed. Two years ago, when development picked backed up and there were issues with development, he had come to the Commission to find solutions. Patrick added he has always been heard and able to work with the Commission. Patrick stated when the accelerated merger talks started, he went back through his documents. Patrick stated his biggest concern about accelerating the merger is about the Districts piggy bank and how it would become assessable to the City for things other than sewer projects. Patrick stated he has great faith in the Commissioner's decision making and unless the current board becomes the Jim Mitchells, they won't be here when the merger happens, and a new board would have to be educated. Patrick stated in his opinion, if the Commission decides to proceed with the

accelerated merger, it should be done post haste with the current Commission as they have the knowledge. The current Commission could negotiate that capital funds could not be used for anything other than sewer capital projects. Patrick stated that Lift Station 22 is extremely important, along with the sewer project for the big box store on 20th street and the downtown lift station. Patrick added he doesn't object to the accelerated merger, he just believes the current commissioners are the best to negotiate it. Patrick stated he believes the staff have done a great job of educating the current board and it will take time for the relationship and trust to be built.

Gene Brazel from the City of Lake Stevens thanked the Board and the District staff for all of the hard work that has been done. Gene stated he believes now is the time to merge with this team that has been working through this.

6. NEW BUSINESS - None

7. MANAGERS' REPORTS

- A. General Manager – Tonya Christoffersen stated the State Auditor is tentatively schedule the Audit Exit Conference for December 13th, the same day as next scheduled board meeting. Tonya asked if any of the commissioners would be attending the Anderson Hunter Christmas party on Thursday, December 6th as she would need to post it. Commissioner Kosche stated no, Commission Low stated no and Commissioner Lorentzen stated maybe. Tonya thanked the Commission for having the special meeting today and she thanked Gene and his team for all their hard work on the merger.
- B. Manager of Collections – Johnathan Dix reported there have been 362 connection fees paid to date and 263 permits.
- C. Treatment Plant Update – Casey Mullins reported flows are averaging 3.6 plus MGDs per day. The processes are doing okay, and the plant is status quo. The first week of December the plant staff will be taking the centrifuge apart and there will more R&D after that.

8. CITY REPORT – Eric Durpos thanked the District for donating candy canes for the City's Winterfest on December 1st. The City will be handing out ornaments at this year's Winterfest and is hoping to make this an annual tradition. Eric stated the City has 27 capital projects for \$13 million lined up for next year. Eric added the City Council passed their 2019 budget last night.

9. COMMISSIONERS' REPORT – nothing to report

10. OLD BUSINESS

- A. Evaluation of Merger – Commissioner Kosche talked about how the Commission put in over 20 hours debating the deal points they put together. Commissioner Kosche read the deal points documents. Commissioner Kosche stated the Commission even went as far as to put together a joint press release. Commissioner Kosche then read his personal statement regarding the acceleration of the merger. He addressed the question "Why Now" in his opinion the benefits of "Now" should outweigh the risks that could potentially be mitigated by executing the unification on its original schedule. He noted the memorandum from October 2018 by Gene and Mayor Spencer outlining the seven areas to be analyzed. These included: 1) Land Use / "Who Makes the call for the future growth of Lake Stevens"; 2) Operating Synergy; 3) Labor Benefits VS Defections; 4) Financial; 5) Increased Public Involvement; 6) Assumption of Debt and 7) Ability to Secure More Debt. This was debated

during the subcommittee meeting on October 31st. He continued on with reasons for accelerating the merger stating there is not one 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 fact, by all objective accounts (State Auditor, bench marking against similar districts and the Commissioners own assessments) the District's finances are sound, District's Operations are well ran, and the District's Leadership is held in high regards. Commissioner Kosche stated for him the question of relationship, absent a compelling event, is of great importance. In fact, relationship goes to the heart of the, "Why Now or Why Later" question. Relationship is one of those items what does not lend itself to numbers on spreadsheets or left-brain analytics, rather, it 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 a binary decision, it does not mean that relationship is not of paramount importance to the successes, or failure, of accelerating reunification. He continued about the meeting on November 15th regarding the 11 Tasks of Unification document including associated costs and timeframes and a more detailed analysis that was presented to the Utility Committee on November 27th. Unification costs were estimated at \$2.2M, and estimated cost savings over 10 years, NOT including unification costs, are estimated at approximately \$50K per year on average, or approximately 4/10's of 1% of the District's annual operating expenses. Commissioner Kosche stated in his final analysis he does not believe they should accelerate the reunification, rather believes the City and District should continue to strengthen their working relationship as two independent entities, focused on serving the Lake Stevens Community. He listed four areas of focus which include relationship, disposition of the old Treatment Plant, more planning and transparency on non-operational aspects at the Utility Committee meetings and explore using a combination of utility tax and rate bonds to secure required funding to build sewer infrastructure the City desires to have in place ahead of development. He finished his statement with his sincere desire that the City and District use the next few months to constructively, and expeditiously, move forward with renewed focus across the four areas where our responsibilities naturally intersect for the benefit of our mutual rate payers.

Commissioner Low then read her personal statement regarding the acceleration of the merger stating the assumption has been a major topic since she was appointed and everyone has put in a considerable amount of time putting together the documents that outlined (1) risks and benefits of an accelerated assumption, (2) Tasks of Unification, (3) Unification Savings and Incurred Costs, and (4) a draft terms of assumption. She thanked everyone for their joint effort and those that reached out to her with their opinions. The question for her comes down to "does it make sense for the rate payer to accelerate this merger?" She continued, from her seat as commissioner, representing the rate payer, that there is not a single compelling event effecting public trust. There is not a management or leadership problem with the District and the District is on good financial footings. Commissioner Low commented that the District has amazing staff and we as commissioners have given them public recognition repeatedly at meetings. She noted she reminds herself, it's about the rate payer and development community of Lake Stevens and their best interest. Commissioner Low stated the individuals involved in the Unified

Sewer and Annexation Agreement chose the 2032 date and required a mutual agreement to accelerate that date, they setup the Utility Committee to spread that planning time over many years to facilitate a smooth transition. There are incremental benefits to be gained via better coordination through that committee even as two separate entities. That committee is also the ideal place to build a consistent and dependable mature working relationship. The only way she foresees this assumption going smoothly and successfully is with mutual trust and respect. To accelerate is not a trivial decision. In analyzing each of the prepared documents with the question of accelerating in mind, not an eventual assumption, the benefits do not overshadow the costs. In fact, they seem net neutral in all but one area. She continued to bring back the question, is it in the rate payer's best interest to accelerate? She stated in her opinion weighing the information in the four documents and her assessment of the operations of the District as a utility district today, the rate payer is better served at this time without an accelerated assumption while the Utility Committee works on what they were intended to do.

Commissioner Lorentzen stated this being the second time in the chair and looking at the audience seeing familiar faces. He remembered when the City reached out to the District many years ago to unify the system. He added he has lived through the many annexations making the City larger and has experienced the growing pains of those annexations. Commissioner Lorentzen added that it was the previous board that started looking at accelerating the merger and he relied on the other Commissioners to educate him seeing that he is not on the sub-committee and has not been a part of those discussions. He stated he is a proponent of one community, the District and City have made a lot of headway, but still have a long way to go. Commissioner Lorentzen stated he is worried about not seeing a plan on how this will all work, bringing the two cultures together and accelerating the merger is taking on a lot as a community and listening to Eric stating the City has 27 projects to be done in 2019, adding the merger just seem to much. He stated he is not sure we are there quite yet, but will eventually get there, and the former Commissioners bound all of us together through the current Interlocal Agreement. Commissioner Lorentzen stated at this time he does not feel unifying would be seamless and are just not there yet. Commissioner Kosche asked Tonya and Brad to draft a resolution for the next board meeting for them to vote on. Brad stated the Commission should make a motion today articulating the Commissions comments and have staff bring back a resolution at the next meeting. Commissioner Low made a motion for the collective reasons of the Commission to decline the acceleration of the merger and to have staff bring resolution to the next Board meeting. Commissioner Lorentzen seconded the Motion. The Motion passed unanimously.

11. EXECUTIVE SESSION – None


12. CONCLUDE - Commissioner Kosche concluded the meeting at 5:00 PM.

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





Dan Lorentzen, Commissioner






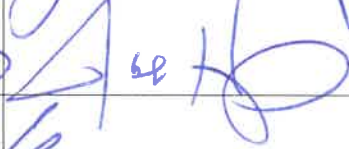



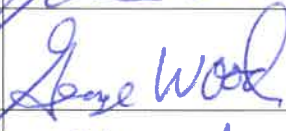

Mariah Low, Secretary and Commissioner



Kevin Kosche, President and Commissioner







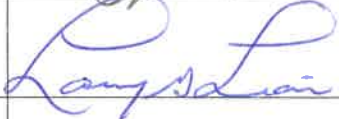
VISITOR SIGN-IN

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		LSSD		
Brett Guley		7722 13 th St SE Laker Stearns WA		
Eric Durpos		City		
Gene Brazel		City		
Jim Farrell		LSSD		
Josh Herschlip		526 83rd Ave SE Lake Stevens 98258		
Chris Crossen		LSSD		
Brandon		LSSD		
Lonna		LSSD		
George Wood		2700 101 st Avenue NE L.S.		Observe
Jeff Baesch		LSSD		

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
Casey K. Mullins		LSSD		
WD Tackitt		Buzz Inn		
BRENT KIRK		GRANITE FALLS ¹¹		
GARY PETERSHAGEN		CITY	425 418.1245	
PATRICK McLEWIS		LANDPRO	425-308 5701	
Ryan Larsen		Land Pro		
Loray Lion		JOAN L Scott LST 408 N DAVIES RD	425 343 2923	