



**Utility Committee Meeting Minutes  
January 26, 2021 4:00 pm**

City of Lake Stevens / Lake Stevens Sewer District  
By remote participation via Go To Meeting, Lake Stevens, Washington

1. **Called to Order:** 4:01 PM by Dan Lorentzen
2. **Roll Call:**

Attendees Representing the District: All virtually via GoToMeeting.com Commissioners Dan Lorentzen, Jennifer Stevenson and Kevin Kosche; Staff: Mariah Low, Johnathan Dix, Mickie Cooper and Melonie Grieser.

Attendees Representing the City of Lake Stevens: All virtually via GoToMeeting.com Councilmember Gary Petershagen and Marcus Tageant. Mayor Brett Gailey and City Staff: Gene Brazel and Barb Stevens.
3. **Action Items:**
  - A. **Approval of Meeting Minutes of December 17, 2020** – Gary Petershagen moved to table the minutes for another time stating the City does not think they are accurate. Marcus Tageant seconded the Motion. Kevin Kosche agreed to let them take time to review them. The Motion was approved to wait until a future meeting for approval.
  - B. **Franchise Fee & Utility Agreement Fee (4.4, 4.7, 7.4): Increase the Utility Agreement Fee and Stormwater Billing** – City Employee, Barb Stevens referenced the Interlocal Agreement and that the City is currently paying the District \$109,980 a year for activities related to sewer and has for many years. In 2013/2014 the City looked at this and the surface water fees that the District pays to the City and started reducing the sewer fees. The City hadn't looked at time spent on the joint District and City operations of the utility agreement, but the last couple of years shows very minimal staff time. This year the surface water fees are over the \$15,000 utility agreement fee bringing up a potential increase in that fee. It was suggested to leave it this way while the merger is underway or use the Utility fees towards surface water fees. Kevin stated that the District should be paying the City as agreed and should keep fees billed for surface water separate and not bundled together. Mariah Low pointed out that under the Agreement, a quorum and vote is needed if the committee decides to make changes to the fees. Barb recommended separate billing for surface water fees in the amount of \$15,420.15 for 2021. The City would bill the District directly for stormwater and utility agreement fees per the contract. Kevin moved to keep things as they've been, to bill surface water management fees that Snohomish County has identified as District owned properties, directed to the District and the District make payment. Gary Petershagen seconded the Motion. Barb clarified both fees will remain separate. The Motion passed unanimously.
4. **Public Forum** – Non-action items (please limit comments to 3 minutes) Dan Lorentzen asked both District and City if there were any comments or questions received prior to the meeting

start. Both Mariah and Gene answered no. Dan asked if any callers joining the meeting had questions or comments. There were none.

**5. Information Sharing**

**A. Annexations (4.3) Southeast Interlocal Annexation** – Mariah Low stated that the joint meeting is set for March 9 at 6pm with City Council, Snohomish County Council and District Board. Dan would like to make sure the invite goes out on the calendar.

**B. Rates and Charges (7.6)**

**i. Reserve Funds Assurance** – Discussion Topic is whether the Rate Stabilization Fund was funded by rate payer money or borrowed funds. Mickie Cooper shared her report that showed the ten-year rated forecast for the District's rate increase in 2022, 2024, and 2026. If the District pays off the SRF, loan # L110012, with money from the Rate Stabilization Fund (\$3,537,375 owing) rates would stay at \$86 for an additional year. 2023 would raise rate to \$90, 2025 to \$95, and 2027 to \$98. The District is also putting in \$2 per month rate transfer from M&O to the capital fund. If the District pays off the loan and continues the \$2/month transfer to the Operating Reserve Fund, in 2030 there would be a shortfall of \$1.9 million. There would still be cash, but it would be \$1.9 million lower than operating reserves. The District will go negative for the first time in 2027 in our reserve by \$96,000 so we have to look if we don't get enough monthly rate payers going forward to offset that, we might need to raise rates again later on. The planned Treatment Plant upgrade in 2025 is set for a \$36 million by loan at 4%. The District is hopeful that the loan won't need to be that large. Johnathan Dix added that we are conservative with our growth forecast of about 179 new customers and the District has exceeded that by at least double the past two years and the revenue forecast is not necessarily indicative of what we've seen the past two years. Brett asked for clarity about the 179 customers. That total is new customers which goes to operating revenues and connection fees which goes right to capitol. Mickie Cooper explained new customers will start going down for the next four years due to buildable land availability becoming scarce unless something changes. Johnathan Dix explained that The District took the Buildable Lands Report that the City issued a few years ago and divided up the remaining buildable land by four years and the developments that were already on the books to come up with the estimated growth for the forecast. Kevin asked Mickie if was a true statement that applying the Rate Stabilization Fund to the loan would be placing that money where we said they would be placed, that this would decrease our OPEX expense, and that it would postpone at least a year of rate increase. Mickie replied yes. Gary Petershagen asked for some background info on the Rate Stabilization Fund (RSF), how it came about, and Kevin propose last month that the District should refund those monies to the ratepayer. Kevin noted if anything he says in not correct for staff to correct him. He explained that the plant was going to be very expensive, so the District started advancing rates faster than what was required for the existing running current rate of OPEX in anticipation of the expense of the plant. Those monies collected ahead of time went into the Rate Stabilization Fund, to be used for either paying down principal on the loans or not to have to borrow in financing of the plant and also instead of having to expand those rates faster it would be used to slow down the increase of rates over a period of time. Total monies collected were around \$8 million and none of it was borrowed. It strictly collected from rate payers and connection fees. The District could have chosen to put that \$8 million to pay down the loan at the time the plant was built

but opted to set it aside in reserve to smooth out rates or at some time in the future to pay down principle. Mickie added that the Rate Stabilization Fund was originally \$14 million but when the housing market tanked in 2008 and the District was already committed to building the new Plant and the District had to come up with more money than expected and applied for \$30 million in bonds to cover the expense and leaving the money in the RSF for the District to stabilize rates until the economy picked back up again. By 2008 to 2010 the District was anticipating another 800 ERUs that did not come in. The Commissioners decided to keep the RSF and The District used \$6 million then to help stabilize rates to help offset the rates, approximately \$4 million was used a year or two ago for the bond refinancing to pay down principle, and the last \$4 million in the RSF is the remaining amount which can only be used to stabilize rates or pay down principle on existing loans by resolution the RSF can only be used to pay debt. Gary clarified it is not borrowed money but some of it is from bonds that were sold. Kevin stated no, none of it was borrowed. In 2008 when the market crashed bond sales were used for the Treatment Plant. Mickie clarified the \$14 million was all from connection fees and rate set aside money for future expenses of the Plant. Mariah noted that this information was in the packet provided. Gary asked if there is \$3.5 million left. Mickie clarified \$4.3 million is left in the account, the SRF loan is at \$3.5 million. Kevin noted options for that money and the cleanest is paying off the \$3.5 million loan and leaving \$800,000 in the fund or using it to slow down increasing rates or to refund it directly to the ratepayers. Brett asked what the annual savings in interest for paying off loan now. Marcus asked what the rate is for that loan. Mickie replied it is 2.8% and \$628,352.63 in interest savings by paying off the loan. The yearly payment is \$362,237.16 for that loan and it matures in 2032. Marcus asked about the plant upgrade amount, which is scheduled for 2025, for \$36 million and would it need new funding. Mickie said Comp Plan currently says \$36 million for the loan and are looking at alternative ways to not have to do the full upgrade in 2025. Marcus asked if it might be better to save that money for the upcoming plant upgrade instead of paying off debt. Brett asked what kind of fund and how much interest is being earned on the \$4.3 million Rate Stabilization Fund? Mickie answered it is in a Snohomish County Pool and it is a long-term fund which is higher interest than the State Pool. Brett also asked if the rate increases talked about earlier take the treatment plant upgrade into consideration or would rates have to be raised to include that upcoming debt. Mickie said that the District's forecast is a working document so it's constantly changing. It would depend on how many ERUs we get as opposed to what we forecast. Kevin stated those rate increases do take the treatment plant upgrade into consideration. He is highly confident the upgrade will not be \$36 million. Even if it was, he is reluctant to hold on to \$4 million of rate payer money that was told it would be used for the Plant, public trust is really important and if told it will be used for principle it should be used on that. Dan asked if the City really thinks there will be a large 20-30,000 person increase in the next few years. The City of Lake Stevens and what is left in the growth management of the UGA, unless the City builds 4 or 5 story buildings, the District won't need that sizable of an upgrade. Kevin asked if all the buildable lands is built out how many would it be. Brett replied 2000. Kevin asked Johnathan if the Plant could handle that additional amount, Johnathan relied yes. It would be approximately 12,000 new people and the Plant can handle 45,000 more people. The Plant 2025 date is an ear mark since growth hasn't happened. Chances

are it will go out passed 2033 if the big upgrade is needed. The District is looking at smaller incremental upgrades to get the Plant slowly rered for capacity that will buy the District 10 years' worth of growth rather than build out conditions right away. Kevin noted sticking to the original 2033 merger the District would ideally be handing over debt free Plant and District.

**ii. Rate Stabilization Fund (history of this account such as if it was funded by rate payers or loan)**

- C. Personnel (7.7)** – Employee Retention Kevin Kosche wanted to revisit this and shared with the City, in writing, his ideas about employee retention so they could review. Gary asked Kevin with his experience in mergers has he ever seen anything like this that he is proposing. Kevin replied, yes, all the time. Ten years from now is unique to this contract. Sometimes even more significant than what he shared. Retention plans are very normal and typical. Keeping employees is no cost to ratepayers going forward. Marcus stated it's unusual and thinks it is more a subject for Mariah and Gene to discuss or a firm to help work through it with. Kevin thinks that the City should anticipate some sort of response from the District regarding the Ordinance that the City passed. The back and forth between the District and the City, regarding the merger, instills uncertainty in the workplace for the employees. People want to work for municipalities, not because of the pay, which is often greater in the corporate world, but rather for the stability and certainty. One of the ways we've been able to achieve positive financial stability is from employees being very engaged and accountable and having a culture where the employees hold themselves accountable which helps employees stay locked in and continue to do good work. Marcus asked Gene to clarify regarding an RCW that protects District employees. Kevin stated unrepresented administrative staff aren't covered under that RCW. Gary agreed the unrepresented are not covered. He believes the operations wouldn't allow for the need of the employees. Marcus stated the he didn't think this discussion was necessary because both organizations are working through the assumption in good faith trying to work out the merger. Kevin stated that the sense of the good faith with the ordinance and how it occurred left the District with concern and concern around employee base. Mariah stated the RCW is 35.13A.090 and it doesn't have to do with the union represented employees but full-time employees that deal with the operations of the District. Johnathan stated the Moss Adams report also questioned the definition of "operations employees" and whether the City would have to keep them after the merger. Gary stated one thing that doesn't help in his opinion the "Did You Know" section in the District's last Newsletter informing ratepayers about the Interlocal Agreement was unnecessary and needed to stop. The constant drum beating of the inadequacies of the City are uncalled for and asked for it to stop because it does not help anyone and both organizations should move forward Dan and Gary talked about this issue in December. Dan added that he was part of the City during that time and he understands the need to move past these things, but both sides need to come together and move forward. The City felt surprised with the Newsletter, the District felt surprised with the unannounced Ordinance. No one had the courtesy to pick up the phone and talk about it. Dan noted that he is the only one reaching out and has never heard from the City councilmembers or the Mayor. He doesn't feel like this relationship is a two-way street. Marcus stated he felt the same way without Utility Committee having a say and it's inappropriate. Kevin stated that Marcus is not correct about the Interlocal Agreement. Gary added that Gene and Mariah need to sit down and talk about employee retention and some of the other issues. Dan stated that we

should focus on the topic of employee retention and asked if anyone else had more to contribute. Brett said he values the employees and wants to moving forward.

**D. Other Process Needs (4.20)**

i. **Lake Level** – Brett Gailey stated the lake level has gone down quite a bit. The City received an emergency permit from Fish and Wildlife to clear out debris from Catherine Creek up to 20<sup>th</sup> St NE bridge and are gaging about 22% more flow out of the lake right now with more debris to be cleared out soon and a ditch work behind Jay's Market. The City will apply for a regular maintenance permit to get in there every fish window for the next 5 years including the one coming up soon. Marcus added staff did an excellent job, the lake looks great and clear. He couldn't commend District staff enough.

ii. **Co-Location of "One Stop Shop"** – Gary Petershagen suggested that Gene and Mariah should talk about this administratively.

**E. Transfer of Service Planning (7.8)** – Marcus Tagueant stated that Gene and Mariah should work through this without the electeds because they have a better scope around what to move forward with on these items.

i. **Attorney Fees Spent on Unification**

ii. **Internal Logistics of Pending Merger (operating systems, accounting processes, housing staff, etc.)**

**6. Project Review:**

**A. Comprehensive Sewer Plan / City Comprehensive Plan (6, 7.9)** – Johnathan Dix stated that the District and City staff will have first deliverable in February to share with Utility Committee.

**B. Capital Projects: (6)**

i. **Costco** – Brett Gailey stated the Governor paused two of the projects on Highway 9 projects for roundabouts near Costco and the 9 and 204 projects. There's pressure being put on the Governor to un-pause these projects. More than likely it will be un-paused soon. Today the final appeal against Costco was thrown out by a judge so that is no longer an obstacle. Gary noted that Eric indicated the City has issued building permits for Costco. Marcus added they are targeting a Thanksgiving opening with construction starting in April as it stands right now.

ii. **Civic Center** – No comments.

iii. **Hartford Industrial Area** – Gary asked if the District is still including the Hartford Industrial areas in the Comp Plan. Johnathan stated it has been identified since 2007 and he and Mariah will present to City council on the February 4<sup>th</sup>. Brett stated that one of his goals as Mayor is to revamp the Industrial area, Machias area, and the Hartford area. He noted next week the City will start high level ideation with possible looks infrastructure wise, beautification wise, economic packages and ideas, light manufacturing, and job packages. Mariah and Johnathan have been invited to that meeting for sewer perspective for the plan. He also stated the City would like to start the Hartford and Machias projects next year and that the creative timeline will make sure the City will get into Grant cycles. Brett stated he would like to talk about changing the name of the area to something like Lake Stevens Industrial Area. Dan stated that the Industrial area was a town name of Hartford before Lake Stevens was formed. This topic was identified since approximately 2007 and the Utility Committee will have a report in February.

iv. **Transfer of Old WWTP** – Kevin Kosche stated the transfer through legal needs to happen soon. He noted that over time, targets have come and gone and asked about the timeline. Gene stated the City's attorney said to hold off because of the 90-day merger Ordinance. Kevin stated that the District wants the old Treatment Plant transferred and finished because it was voted on and decided a long time ago. Gary agreed and asked Gene if we can get it done now with maybe a quit claim deed which might be the easiest, quickest way. Gene stated he will ask the City's lawyer and get back to the committee. Gene will get the City's attorney on it immediately. Kevin mentioned that Ebey Drainage District #1 is interested in old pumps from the old plant and asked if the District and the City can work with them to get it done. Would it be alright to assign someone from the District and someone from the City to work with Mr. Ortega. Brett stated yes, Eric has talked to him, absolutely no problem. Mariah will decide who from the District will help.

v. **Decant Facility** – Brett Gailey reported asphalt is being poured this week and waiting on the building. The building should be delivered and up within 2 to 4 weeks.

7. **Development Review (4.20): Review of DEAs** – Johnathan Dix said there are a few projects nearing closeout Pellerin II, Lake Stevens Apartments, and a small short Plat of Weinberg by end of February. No new DEA applications are in the works as of now. Dan asked if the Batchelder Annexation will have a DEA coming soon. Johnathan replied the Boundary Review Board is still looking at it for another 30 days and feasibility work is still being done so we still don't know the magnitude of the project.

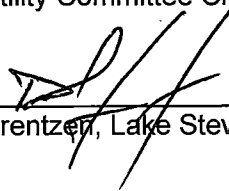
8. **Schedule the Next Meeting (7.2)**

A. **Quarterly Meetings** – April 27<sup>th</sup>, July 27<sup>th</sup> and October 26<sup>th</sup>, 2021: Dan Lorentzen asked if a meeting is needed in February. Kevin suggested leaving the scheduled meetings as is unless something comes up. Marcus stated that there is a lot going on and it will be useful to talk about and not put off. Gary asked Mariah and Gene to come up with a status report on projects. Dan and Marcus agreed.

Brett asked about the meeting that was held prior to the Utility Meeting, an Executive Session for the Commissioners. Brett stated that the Public Notice wasn't showing on the District website. Mariah stated the notice is showing on the District website. Gary asked that both Mariah and Gene inform each other of meetings instead of relying on notices, both agreed. Gene noted that Mariah sits in on the City's planning meetings already.

9. **Adjourn** – Brett Gailey moved to adjourn. Dan Lorentzen seconded the Motion. The Motion passed unanimously at 5:22 pm.

2021 Utility Committee Chair:

  
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Dan Lorentzen, Lake Stevens Sewer District