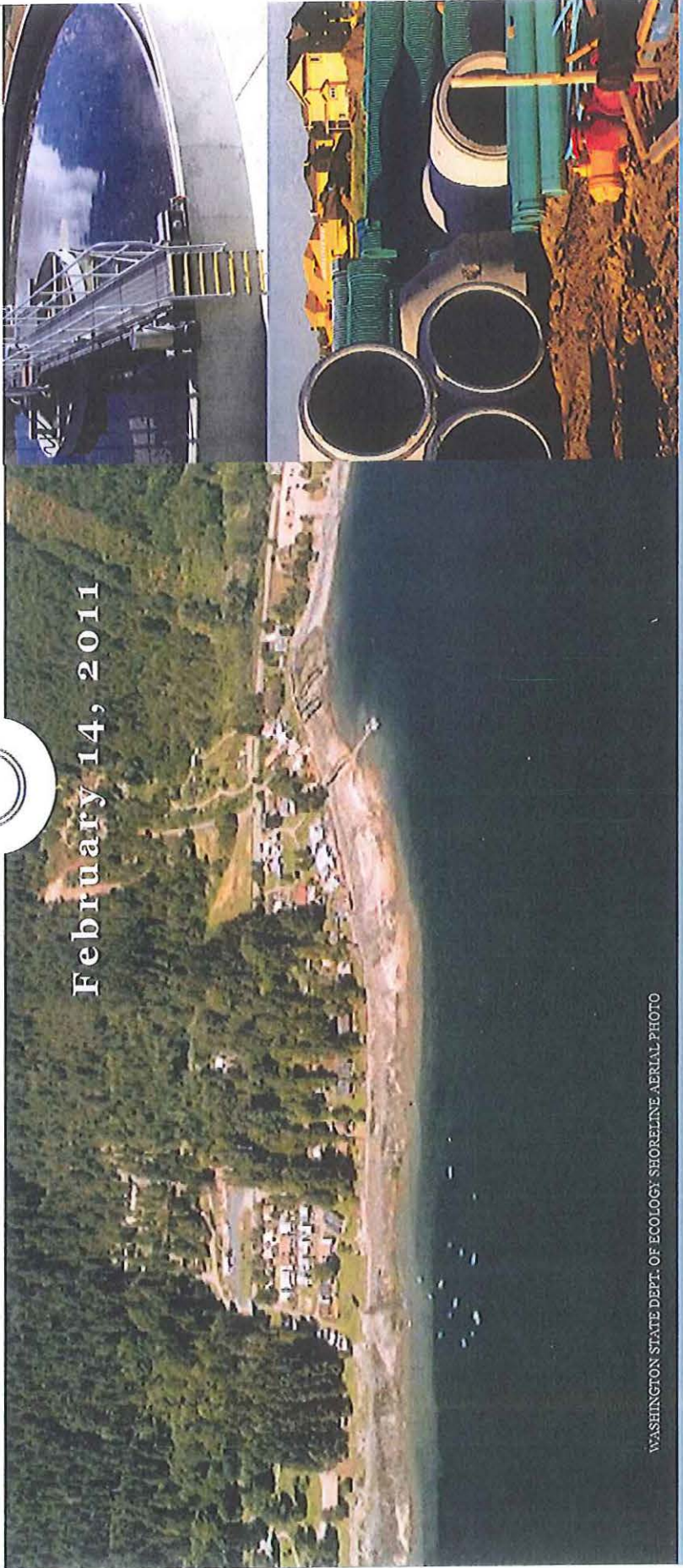




Governance Options for Mason County Utilities



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Overview of Presentation



- Response to Commissioners' request: explore divestiture of County-owned utilities.
- Five steps to study governance options:
 - Define the County's goals in making a change.
 - Define the options.
 - Discuss potential changes with others, narrow the options.
 - Evaluate the impacts of remaining options.
 - Define implementation steps.
- Today's discussion will concentrate on the first two steps, with some preliminary narrowing of options.
- Conceptual discussion only; no conversations with other agencies yet.

Background about Mason County Utilities



- Water and sewer utilities (now 8% of unincorporated county population, eventually 31%)
 - Rustlewood Water (130 connections)
 - Beard's Cove Water (405 connections)
 - Rustlewood Sewer (130 connections)
 - North Bay/Case Inlet Sewer (1,030 connections)
 - Belfair Sewer (under development)
- Solid Waste – landfill and four transfer stations
- Need for future sewer systems along Hood Canal and South Puget Sound, including Hoodsport/Potlatch
- Stormwater utility – created but no funding structure

Why Consider Governance Changes?



- Water & sewer utilities—mainly a source of bad news.
 - Not truly self-supporting.
 - Difficult to raise rates to sustainable levels.
 - Low-density development and lack of industrial/commercial base outside Shelton create inherent economic disadvantages.
 - Even though:
 - ✕ Amazingly successful at obtaining grants,
 - ✕ Shared staffing for maintenance and administration, and
 - ✕ Capital costs supplemented by general County resources,Rates still must be higher than residents expect.
- Solid waste facilities also have financial challenges.
- Feeling that it is not a countywide “core function”—if others can do it, County need not be in the business.
- Maybe overhead revenue not enough to justify keeping it.

Goals of Governance Change



- Economically viable service delivery, including enough financial capacity to keep up with capital investment requirements.
- More separation than at present between Commissioners and management/financial decisions of utilities. If possible, utilities should be independent of the County.
- Explicit designation about who is responsible for establishing new sewer utilities when they are needed in order to protect the environment.

Constraints



- Most options require a willing partner—either the creation of a new entity or the agreement of an existing entity.
- Belfair might need to be a “going concern” as a condition of transfer.
- Rate increases might also be a condition of transfer.
- State agencies might need to be satisfied that the change will not harm people or the environment.
- Sewer harder to transfer than water or solid waste.

Potential Partners

- **City of Shelton**
 - Water and sewer
- **Mason County PUD #1**
 - Water (including nearby)
- **Mason County PUD #3**
 - Neither water nor sewer
- **Kitsap County**
 - Sewer
- **Kitsap County PUD #1**
 - Water
- **West Sound Utility District**
 - Water and sewer (contract sewer in Mason County)
- **City of Bremerton**
 - Water and sewer
- **Private water companies**
 - Several multi-site companies in this area
- **Tribal governments**
 - Sewer
- **Other water/sewer districts**
 - Mostly water, small size
- **Private solid waste companies**
 - Several regional and national companies

General Strategies



- Strategy A: Break apart, transfer individual systems to someone else.
- Strategy B: Keep systems together, change governance structure.
- Strategy C: Keep systems together, merge with another entity.
- Strategy D: Keep sewer systems together, transfer water and solid waste to someone else.

Strategies Affect Two Key Variables



- **Scale of eventual entity**
 - Larger is probably better in this case – less risk of major rate upheavals from even moderate capital investment.
 - Tradeoff between economies of scale and local control.
 - Customers do not always prefer economies of scale.
- **Complexity of change process**
 - Negotiating with existing entities.
 - × Transfer of service area.
 - × Intergovernmental partnership.
 - Formation of new entities.
 - More complex process requires more time and money.

Specific Options – Strategy A



- Option A1: Individual Chapter 57 water/sewer districts created for all areas; solid waste facilities transferred to private firm.
- Option A2: Individual sewer districts created for sewer systems; water systems transferred to Mason County PUD #1; solid waste facilities transferred to private firm.
- Option A3: Individual sewer districts created for sewer systems; water systems and solid waste facilities transferred to private firms.

Specific Options – Strategy B



- Option B1: County Utilities Board appointed and given decision-making authority; water and sewer systems consolidated as proposed in 2007 but without Hartstene Pointe; solid waste facilities retained.
- Option B2: Chapter 57 water/sewer district created with separately elected board, countywide service area except for areas already served by other providers; solid waste facilities transferred to private firm.

Specific Options – Strategy C



- Option C1: Water and sewer systems transferred as a package to Mason County PUD #1; solid waste facilities transferred to private firm.
- Option C2: Water and sewer systems transferred as a package to West Sound Utility District; solid waste facilities transferred to private firm.
- Option C3: Intergovernmental partnership created to provide water, sewer, stormwater, and maybe solid waste disposal; potential partners include cities, counties, PUDs, districts in Mason and Kitsap counties.

Specific Options – Strategy D



- Option D1: Sewer systems consolidated; County Sewer Board appointed and given decision-making authority; water systems transferred to either Mason County PUD #1 or private firms; solid waste facilities transferred to private firm.
- Option D2: Chapter 57 sewer district created with elected board, countywide service area except Shelton and Hartstene Pointe; water systems transferred to either Mason County PUD #1 or private firms; solid waste facilities transferred to private firm.
- Option D3: Intergovernmental partnership created for sewer, maybe stormwater, with Shelton, Kitsap County, Bremerton, and/or West Sound as potential partners; water systems transferred to either Mason County PUD #1 or private firms; solid waste facilities transferred to private firm.

Analysis of Options



	Description	Eventual Scale Water/Sewer	Complexity of Process		New Sewer Systems?	Storm- water?	OH Loss
			Negotiations?	New Entities?			
A1	Form individual water/sewer districts; solid waste to private.	Smaller	Yes (1)	Yes (5)	County	County	Yes
A2	Form individual sewer districts; water districts to PUD #1, solid waste to private.	Sewer smaller; water larger	Yes (3)	Yes (3)	County	County	Yes
A3	Form individual sewer districts; water districts and solid waste to private.	Sewer smaller; water larger	Yes (3)	Yes (3)	County	County	Yes
B1	Keep water/sewer together; consolidate; appoint Utilities Board; keep solid waste.	Same as now	No	No	County	County	No
B2	Form countywide water/sewer district; solid waste to private.	Same as now	Yes (1)	Yes (1)	New district	New district	Yes
C1	Keep water/sewer together; merge with PUD #1; solid waste to private.	Larger	Yes (2)	No	Maybe PUD	County	Yes
C2	Keep water/sewer together; merge with West Sound; solid waste to private.	Larger	Yes (2)	No	County	County	Yes
C3	Intergovernmental partnership for water, sewer, storm, solid waste.	Larger	Multi-party	Yes (1)	New entity	New entity	Yes
D1	Consolidate sewer, appoint Sewer Board; water & solid waste to private or PUD #1.	Sewer same; water larger	Yes (3)	No	County	County	Partial
D2	Form countywide sewer district; water & solid waste to private or PUD #1.	Sewer same; water larger	Yes	Yes (1)	New district	New district	Yes
D3	Intergovt. partnership for sewer; water & solid waste to private or PUD #1.	Larger	Multi-party plus 3 others	Yes (1)	New entity	New entity or County	Yes

Evaluative Comments about Options



- If goal is to exit the utilities business entirely, the key is to transfer responsibility for sewer systems, present and future.
- If interested buyers are allowed to “cherry pick” water and solid waste but not sewer, that leaves County and sewer systems in even worse position.
- None of the substitutes for rate increases needed in the short run.
- Some potential partners are long shots; still worth asking the question.
- Options A1, A2, and A3 leave very small service areas with even worse economic viability than at present.
- Option B1 is the equivalent of a “default” or “no go” option. Incremental improvements, low cost, implementation is under County’s control.
- All options except B1 involve loss of overhead revenue that now supports County central services.
- Mason County PUD #1 now does not have integrated rates, so a merger by itself would not solve capitalization issue.
- Intergovernmental partnerships could receive a boost by “Joint Municipal Utility Services Act” now being considered by legislature.

Preliminary Narrowing of Options



- We do not recommend A1, A2, A3.
 - Resulting entities too small to be viable over long run.
- We do not recommend D1, D2.
 - Cherry picking scenarios leave sewer systems worse off.
- Remaining options:
 - B1: More autonomy but still part of County; default option.
 - B2: New countywide water/sewer district; sell solid waste.
 - C1: Merge with Mason County PUD #1; sell solid waste.
 - C2: Merge with West Sound; sell solid waste.
 - C3: Intergovernmental partnership – all services.
 - D3: Intergovernmental partnership – sewer, maybe stormwater. Spin off water and solid waste.

Relationship to Other County Initiatives



- Belfair Sewer – Full speed ahead.
- County Coordinated Water System Plan – Still relevant; part of countywide coordinating and planning role. Applies to all water systems in the County, not just the two County-owned water systems.
- Stormwater utility – Still relevant; separate set of regulatory tools and funding mechanisms to address environmental concerns. Only if a new entity is created would someone else be likely to take it.
- Future sewer systems: County still involved unless someone else takes it. Most likely: new countywide water/sewer district or intergovernmental partnership, possibly Mason County PUD #1.

Next Steps



- Stage 1: Development of preferred and one or two alternate options.
- Stage 2: Evaluation, negotiation, and implementation planning.

Stage 1: Development of Preferred/Alternate Options



- Develop Board/management strategy; reach agreement about what County wants to achieve.
- Conduct a multi-agency planning/scoping workshop to explain background, share information, and assess preliminary interest.
- Conduct one-on-one meetings with potential partners to ascertain interest in:
 - Intergovernmental partnership, either sewer or all utilities;
 - Acquisition of existing County utility systems, individually or as a package.
- Conduct public meetings to assess interest in a water/sewer district and what scale is preferable.
- Summarize feedback and update list of potential options, so Board can select preferred and alternate options.

Stage 2: Evaluation, Negotiation, Implementation Planning



- Define capital assets to be transferred, including age, expected useful life, reproduction cost. Identify intangible assets.
- Determine fund balances, outstanding debt, cash & investments; revenues and expenses for each system.
- Based on above data, determine fair value for each system to be transferred, using cost, market, and income methods of valuation.
- Define procedural/legal requirements for forming new entities, along with constraints on their authority.
- Update 2007 consolidation analysis without Hartstene Pointe to create a baseline financial scenario.
- Develop forecast showing impact of governance change on rates, debt, reserves, County overhead revenue.
- Support negotiations by evaluation the cost of alternative negotiating positions and impact on existing customers.
- Identify organizational implementation steps, such as changes to salaries, benefits, accrued leave, customer databases, rate design, engineering standards, retirement obligations, IT systems, risk management policies, O&M practices.
- Support process of obtaining approval from State DOH and DOE, lenders.