

BOARD OF MASON COUNTY COMMISSIONERS' PROCEEDINGS

July 19, 2011

1. Call to Order – The acting Chairperson called the regular meeting to order at 9:00 a.m.
2. Pledge of Allegiance – Bob Harris led the flag salute.
3. Roll Call – Present: Commissioner District 2 – Tim Sheldon; Commissioner District 3 – Jerry Lingle.
Absent: Commissioner District 1 - Lynda Ring Erickson.
4. Correspondence and Organizational Business
 - 4.1 Correspondence
 - 4.1.1 The Washington State Liquor Control Board sent notice of recruitment for six new contract liquor store managers.
 - 4.1.2 The Skokomish Indian Tribe provided a listing of their new Council Members for 2011 and 2012.
 - 4.1.3 The Port of Allyn and Gary Chrey expressed concerns regarding proposed Belfair Wastewater connection charges and monthly fees.
 - 4.1.4 Charles Lane provided information regarding Mason County District Court indigent defense contracts.
 - 4.1.5 Jeanie Gruber is seeking appointment to the Mental Health task force.
 - 4.2 Recognition - Mason County Fire District 4. Cmmr. Lingle presented Chief Bob Burbridge with a Merit Award for his participation in saving the life of a local bus driver.
 - 4.3 Michael MacSems, Department of Community Development, read a news release announcing a vacancy on the Historic Preservation Commission.
 - 4.4 Charlie Butros, Public Works, announced the selection of KPFF Consulting Engineers from the Professional Services Roster for Structural Consultant Services for County Road Project 1829-R, Skokomish Valley Road, Hunter Creek Bridge in the amount of \$159,959.98.
5. Open Forum for Citizen Input –
 - 5.1 Bob Harris commented that he recently went to the Mason County transfer station in Belfair. There was garbage everywhere by the recycle center. It used to be neat and tidy and well managed. Now it doesn't look anything like that. He wanted to make the Board aware of the situation.
6. Adoption of Agenda - **Cmmr. Lingle/Sheldon moved and seconded to adopt the agenda as published. Motion carried unanimously. RE-absent; S-aye; L-aye.**
7. Approval of Minutes – July 5, 2011 and July 12, 2011 regular meeting minutes.

Cmmr. Lingle/Sheldon moved and seconded to approve the July 5, 2011 and July 12, 2011 regular meeting minutes. Motion carried unanimously. RE-absent; S-aye; L-aye.
8. Approval of Action Agenda:
 - 8.1 Approval to award the bid for the Mason County Jail Transfer Switch Project to MB Electric in the amount of \$72,800, not including sales tax. Project will be funded from the Real Estate Excise Tax (REET) I capital funds.
 - 8.2 Approval of an agreement with Robert Droll to assist Mason County Parks and Trails Department with the planning, design, and engineering services for the MCRA Infield Renovation Project. Project budget to be paid from a grant from the Recreation and

BOARD OF MASON COUNTY COMMISSIONERS' PROCEEDINGS
July 19, 2011 - PAGE 2

- Conservation Office (50%) and Real Estate Excise Tax (REET) II Capital Funds (50%). Total contract cost is not to exceed \$19,982.
- 8.3 Approval of Veterans Assistance Fund applications for: Tara L. Cox – Utilities \$121.94; Douglas Hanson – Housing \$325.00 and Food \$75.00; Harold McCray – Utilities \$129.96; and Randolph (Rena) Parker – Food \$75.00 and Utilities \$150.00 for a total of \$876.90.
- 8.4 Approval to cancel the July 26, 2011 Board of Health meeting. The next regular meeting of the Board of Health is scheduled for Tuesday, August 23, 2011.
- 8.5 Approval to sign the acceptance and certification form approving the Kamilchie Cemetery into the Mason County Historic Register.
- 8.6 Approval to authorize the Equipment Rental & Revolving (ER&R) Fund Manager to repair equipment #620, 2007 Volvo wheel loader, as a sole source purchase to Clyde West of Kent, WA, the Volvo dealer. The estimated cost to repair is \$24,846.61 and will be funded by the ER&R fund.
- 8.7 Approval to authorize the Utilities Director to sign the amendment to the Harris and Associates services contract to include the additional scope and fees necessary to provide required document management and daily inspections for the pond and sprayfield phase of the Belfair Wastewater Reclamation Facility project for an amount not to exceed \$247,868.00.
- 8.8 Approval to authorize the Utilities Director to sign the amendment to the Apex Engineering contract to include the additional scope and fees necessary to provide the required survey for the pond and sprayfield phase of the Belfair Wastewater Reclamation Facility project for an amount not to exceed \$55,050.
- 8.9 Approval to authorize the Utilities Director to sign the amendment to the Materials Testing and Consulting Services contract to include the additional Scope and Fees necessary to provide required special inspections for the pond and sprayfield phase of the Belfair Wastewater Reclamation Facility project for an amount not to exceed \$139,782.50.
- 8.10 Approval of Warrants
- | | | |
|----------------------|--------------------------|----------------|
| Claims Clearing Fund | Warrant #s 189813-190386 | \$2,403,741.85 |
| Salary Clearing Fund | Warrant #s 4882-4940 | \$ 316,295.40 |
| Direct Deposit Fund | Deposit #s 30916-31277 | \$ 556,253.86 |
- 8.11 Approval to sign a letter stating there are no objections to the Shelton Mason County Chamber of Commerce hosting the Beer and Wine Garden at the Mason Area Fair on Friday, July 29 from 1:00 PM to 9:00 PM, Saturday, July 30 from 1:00 PM to 9:00 PM and Sunday, July 31 from 1:00 PM to 5:00 PM at the Mason County Fairgrounds located at 751 W Fairgrounds Rd, Shelton, WA 98584.

Audience members had questions on items 8.5, 8.7, 8.8, 8.9 and 8.11.

Tom Davis asked for a separate vote on items 8.7, 8.8 and 8.9.

Item 8.5

Mary Jo Cady noted that the property was turned over to the Squaxin Tribe in 1995. She asked if the request to put this on the Historic Register came from the Tribe.

Mr. MacSems replied that the tax records show that the property belongs to the County. The nomination came directly from the Historic Commission. The Squaxin Tribe does have an ex-officio on the Commission so they were aware of it.

BOARD OF MASON COUNTY COMMISSIONERS' PROCEEDINGS
July 19, 2011 - PAGE 3

Items 8.7, 8.8 and 8.9

Tom Moore explained that these items were put on the agenda before the preconstruction meeting. Now he has a better understanding of the needed scope for Harris and Assoc. They were able to eliminate a night time inspector and plant commissioning activities so the number has now dropped \$124,248. The items are supporting the county in the administration of the pond and spray field project. There are only two people in the department so they rely heavily on consultants. Apex Engineering will do surveys. There are multiple phases and payments. The Materials Testing number was provided by the company based on the plans and specifications. It is not to exceed cost and it could very well run lower.

Mr. Harris asked if all three items are known costs or additional costs.

Mr. Moore responded that he knew these things would have to be done but they didn't know costs until the preconstruction meeting.

Mr. Harris was concerned about the costs and overtime rates.

Mr. Moore explained that the Materials Testing cost has been inflated by 10% so they wouldn't need to ask for more money. They are likely to run under. There has to be an inspector at night during the critical periods. The surveying also includes the survey for the access road. There is about \$10,000 that isn't part of the pond project. The Harris contract also includes the commissioning for the lead certification. He is projecting that they will run under about \$103,000 for their existing contract. Hopefully the net will be about \$24,000. He is doing his best to hold down costs.

Cmmr. Sheldon noted that in a project of this magnitude there are issues at the end of the project. This was originally estimated to be about 26 million dollars with an anticipated 12 million dollars in debt. Now at the end it is a 45 million dollar project with only a 6 million dollar debt service. The County has been mindful of the debt service. Much of the moneys have been funded from grants and low interest loans.

Brian Petersen asked if this is \$500,000 more.

Mr. Dobey responded that no, this is not more money.

Tom Davis asked if these are recurring costs or if there are ongoing costs after the term of the contract.

Mr. Moore explained that after the dam is constructed there would be inspection costs. It would be part of the O&M costs.

Patricia Vandehey asked how many acres the pond and spray field entail.

Mr. Moore responded that the pond is 18 acres and the sprayfield is on 56 acres.

Ms. Vandehey asked if it is over an aquifer.

Mr. Moore replied that it is in Coulture Creek drainage area. He wasn't sure if it was identified as an aquifer.

Connelly Watson asked where the 40,000 tons of dirt would be dumped.

Mr. Moore stated that the contractor has a site adjacent to the facility.

BOARD OF MASON COUNTY COMMISSIONERS' PROCEEDINGS
July 19, 2011 - PAGE 4

An audience member asked for clarification as to whether this money is part of the original budget of the project.

Mr. Moore responded that it was.

Item 8.11

Annette McGee asked how the Board could approve a liquor license for the Mason County Fairgrounds when there is no longer a Mason County Fairgrounds.

Cmmr. Sheldon stated that the wording could be changed to state the Port of Shelton property.

Cmmr. Lingle noted that the Board isn't approving the liquor license. They are just not voicing objections to the approval by the Liquor Control Board.

Cmmr. Lingle/Sheldon moved and seconded to approve Action items 8.1 through 8.6 and items 8.10 and 8.11, changing item 8.11 to read Port of Shelton property. Motion carried unanimously. RE-absent; S-aye; L-aye.

Cmmr. Lingle/Sheldon moved and seconded to approve Action items 8.7, 8.8 and 8.9, changing the amount in item 8.7 from \$247,868.00 to \$124,248.00. Motion carried unanimously. RE-absent; S-aye; L-aye.

Cmmr. Sheldon called for a recess at 9:47 a.m. The meeting reconvened at 9:56 a.m.

9. 9:30 a.m. Public Hearings and Items Set for a Certain Time –

- 9.1 Public hearing on interim rates for connection charges for the Belfair Wastewater Reclamation System and establish minimum construction standards.

Cmmr. Sheldon gave a history of the project. He stated that it has been years in the making. The Belfair Urban Growth Area plan was adopted in 2004. Brian Petersen was the Co-Chair of the Belfair Sub Area Planning Committee. Through the State's Growth Management Act, Urban Growth Areas were designated in Shelton, Allyn and Belfair. The Board of Commissioners is mandated to provide urban services to those areas. He feels that Belfair is going to be Mason County's Silverdale. It will be an incredible magnet for commercial growth in the north end of the county. He read some excerpts from the original sewer planning document. The Commission at the time decided to go through with a wastewater facility. The legislature provided 15 million dollars in grant money for the project in 2005. The money was taken back because the project wasn't ready to go at that time, but the County persevered and obtained the money again. Additional funds for the project were also obtained over the years. This is the biggest public works project the County has undertaken. He complimented staff and the contractors on their work and thanked the citizens for their time spent sitting in traffic delays. He stated that the reason the County was able to get money for this project was because the project was doable. It is now a bigger and more definitive project that will serve more people. He thinks in the long run infrastructure creates jobs. This tangible infrastructure will make a big difference for the County's tax revenues and will increase property values in commercial areas. There have been many public meetings, mailings, newspaper articles, calls and emails. It is coming to the point now where people can apply for the hook up and permitting. Today's meeting is about setting an interim rate. It is not the final say of what the rates and connection charges will be. He didn't expect that he would be able to vote today. He wanted to continue the meeting to the night meeting to allow another group of people to express their views.

BOARD OF MASON COUNTY COMMISSIONERS' PROCEEDINGS
July 19, 2011 - PAGE 5

Cmmr. Lingle commented that he finds it disturbing that this is an inherited project. Other Commissioners have made decisions on the project. Now it is coming to an end and people are feeling sticker shock. It started as a 26 million dollar project but there isn't really a cost overrun. There is increase in costs of materials and wages. There have been allegations of gain or attempting to make businesses fail. He doesn't believe there is an effort in the County to make a certain area or project fail. There is no way to tell what will happen in the future. These projects need input from everyone. He asked that everyone realize that this is a shared problem. He doesn't believe in a north county and south county. He feels that everyone is a Mason County resident and this needs to be a concerted effort. There will be accountability and information will be presented. The Board will be the watchdog. The figures he has show this is a 44 million 900 thousand dollar project but he doesn't know that for sure. He agreed with Commissioner Sheldon that it could be voted on today. He thought it should be tabled for two weeks to gather more information.

Emmett Dobey, Utilities and Waste Management noted that there are only two people in the County to manage the project so they have relied heavily on consultants. He introduced the consultants from FCS Group.

Ed Cebron, FCS Group, gave an overview of how the project fits in with other utility projects in the State. He stated that the project has evolved to a new utility. There are a number structural actions and construction actions to define how the utility exists. In the big picture, the Belfair utility is a utility enterprise under municipal and governmental accounting in Washington. These enterprises are self sufficient and intended to be self contained business in the government that houses them. They are intended to fully fund their needs through traditional rate mechanisms. The authorities established in statute allow the ability to impose rates and charges, define customer classes, the rules of engagement and the standard of care. The utility started with a fuzzy picture of costs in the pre-planing stages and those are now clarifying to an increasing understand of capital costs. Operating costs are also beginning to be clear. Those costs are still preliminary until the budget process takes place.

He explained that within the utility structure there are different ways to fund the cost of the system. The most common is the monthly rate. The monthly rate is a catchall. It must cover the operating costs of the system and the capital costs of the system, in particular, the repaying of the debt. The interim ordinance deals with the initial structure and level for capital facilities charge. Those are intended to be capital contributions for customers connecting to the system. They are structured as a connection charges and are intended to cover a prorata of the cost of the system. Another alternative is to debt finance everything and raise rates in lieu of capital facility charges. It is a difficult financial strategy for a utility because it is always highly leveraged. As a start up utility, the challenges related to imposing those charges are that there are existing properties that are addressing their wastewater issues. The objective is to make the transition as affordable as practical, while fulfilling the mission that the utility has to pay for itself. The success in obtaining grants and forgivable loans has reduced the debt finance costs to around 6 million dollars. The capital costs for the customers to be connected initially are around \$70,000 per ERU. Much of the infrastructure is being scaled and constructed to serve customers beyond the initial connections. By the end of the system the cost would be on the order of \$30,000 per ERU. The charges in the interim ordinance are well below those numbers because of the success in obtaining grants. The capital costs being borne by the facility are a small fraction of the total capital costs.

He noted that utilities historically have a separation of capital and operating function in the way they're funded and the way they are managed in an accounting sense. In looking at the capital facilities charge, one of the strategies that was brought to play to make this affordable for existing development was to look at the grant funding that was oriented towards solving existing water quality issues in Hood Canal and Puget Sound. The focus of those funds has been on the collection system that converts existing development. The remaining costs that need to be recovered are for the growth of the system as it

BOARD OF MASON COUNTY COMMISSIONERS' PROCEEDINGS
July 19, 2011 - PAGE 6

connects in the future. That cost is about \$14,500. The ordinance shows a graduated increase in charges. To fully recover a proportional share of costs for new development the fees would progress to \$14,500. That is not currently in the ordinance being considered but should be considered as part of the context of decisions being made.

He explained that the issue of future extensions cause new capital costs to be borne. A common utility option used in those situations is a developer extension arrangement. A developer of a property would pay for an extension to the system and if there were a corollary benefit to other properties a reimbursement agreement would be part of the transaction. The developer would be reimbursed as the other properties connect to the system. Another option would be for the County to undertake the project as a utility project and impose a connection charge specific to that area to recover the capital costs. The third option would be to use a local improvement district to assess benefited properties and recover the costs of the extension. That option has fallen out of favor because it tends to be more expensive. There are administrative and legal costs to establish the district and to do the assessments and the appraisals to support the assessments. There risks as to whether you can demonstrate enough benefit to individual properties under a generalized rule of allocation to justify the assessments. It also adds time to the process. The format where the developer does the extension is often a lower cost to construct because the developer isn't subject to the same procurement rules as a public works project.

He noted that the interim ordinance does contemplate phasing in a beginning level of \$5,000 for new development. There is a reduction in revenue for any growth that does occur and there is a shift of burden. If it isn't collected from one place it needs to be collected somewhere else. The City of Blaine eliminated their general facilities charges in the face of the economic downturn. They immediately had to raise their sewer rate to mitigate the loss of revenue. With a system with a lot of growth, the rate impact could be even more profound. He pointed out that there has been a number of meetings where the consultants have stated that this was 48 million dollar project. There were two line items that should be noted. There was a 1.2 million dollar line item that was shown as a cost to repay internal loans to the County. If it isn't part of the permanent funding structure it can be deleted and the cost goes down 1.2 million. The other issue is a 1.4 million dollar item related to the local connection program. It is an entirely optional program being offered to the properties to fund and implement the connection to the sewer. If everyone participated the County might incur 1.4 million in costs. It is not a core part of the project so if those two pieces are taken out it goes back to the 45 million dollar number.

Mr. Dobey presented the Board with a transcript of the questions and comments from the last community meeting. He discussed the numbers and what has been spent on the project. At the moment the County has available \$45,229,241.17 for the project. Originally the project started out costing 26 million dollars and about 12 million dollars in debt. That estimation was in 2006. He distributed a handout with the current calculations of the project. The cost for utilities has dramatically increased over the last 10 years because of the cost of steel and concrete. That escalation cost was 2.5 million dollars. An additional pump station added 2 million dollars. A soil issue also added to the cost, bringing the initial cost to about \$31,700,000. That should have been the starting point in 2009 at the beginning of the project. The bid for the conveyance system was \$11,527,792. The wastewater treatment plant cost \$10,917,642. The irrigation and pond cost \$3,523,448. That total is \$25,968,882, which is close to the original estimate with construction costs alone and the original estimate included engineering. \$800,000 was the cost added to remove the contaminated soil from the area. Three sites were originally identified with contaminated soil and six were actually encountered. The level of contamination found was much higher than what was expected. He believes a portion of that will be recovered. Two land purchase were not included in the original estimate. The treatment plant site and the irrigation area were purchased for a total of \$780,000. A leasing agreement was considered, but after reviewing the lease, the deputy prosecutor estimated that the property could have been purchased every four years. It was more cost effective to purchase the land, which saved eight dollars per month for everyone. Value engineering was

BOARD OF MASON COUNTY COMMISSIONERS' PROCEEDINGS
July 19, 2011 - PAGE 7

done, which showed that the costs were real and about 1 million dollars had been saved through different changes to the project.

He noted that in February 2009 it was communicated to the public what these new costs were likely to be. In 2010 some projects couldn't move forward through the State so the County was the beneficiary of a couple of grants. The Department of Ecology provided a 1.5 million dollar grant to expand the number of customers in the project. It provided additional extension lines for people to be connected. The County also received a \$1,233,000 grant for green project reserve money. That is a special pot of money from the Department of Ecology for green infrastructure, such as impervious pavement. There were also costs that weren't included in the original estimate. One of those costs was the purchase of grinder pumps, which cost \$200,000. The engineering design and services during construction were a major element of costs associated with the project. Those were costs attributed to CH2M Hill and were about 8 million dollars. The project had a 2 million dollar contingency, about half of which has been spent. The contingency is for unexpected issues that come up beyond the contaminated soil issue. Project management costs include legal fees, public outreach and special inspections. Those costs total about 4.5 million dollars. To date, the County has spent about \$44,981,882. He stated that at this time the County is very much in the budget as outlined.

Cmmr. Sheldon noted that the project has gotten much larger from State funding. He asked if the project now has about 45 million dollars in available resources and 6 million dollars in debt.

Mr. Dobey replied that about 9 million dollars came from stimulus money. About 15 million dollars came in special appropriation from the Legislature and then Ecology loans and grants. Right now there is 6 million dollars in debt. There is a proposal to sell about 5 million dollars in debt. 2 million will be paid next year, which leaves about 3 million. Ecology is withholding 2 million dollars until the project is complete. Primarily, the money will be used to get people connected to the system. Depending on the type of connection, people can borrow between \$5,000-\$8,000. Total debt will end up being about 9 or 10 million. The last part of the debt will be from getting people connected.

Cmmr. Lingle asked about the issue with grinder pumps.

Mr. Moore replied that about 50 residential grinders pumps were purchased. Some of the larger commercial sites would get the benefit of one pump, but they might require more so they would get a credit on their connection fee.

Gordon Wilson, FCS Group, went over costs and ERUs. He explained that the local share of capital costs has to come from some combination of connection charges and rates. Later there could be a LID or another method. With connection charges there is a combination of connection charge revenue from existing development and new development. One of the decisions incorporated in to the ordinance is to assign much of the grant revenue to offset the costs for existing development. That allows the connection charge for existing residents to be \$3,000 per ERU. The connection charge for new development was originally projected to be \$14,500. That was when the ULID method was expected to be used for phase two. When that financing method was replaced with the assumption to use General Obligation Bonds the connection charge would have been over \$20,000. That was too high to be realistic. Even \$14,500 is at the high end. Most connection charges are lower because they are old systems. In new systems, such as in Carnation, it is equivalent to \$14,000. He noted that the City of Carnation has a connection charge and a separate King County capacity charge. The \$14,500 presents a sticker shock problem. They want to encourage growth early on in the system. Sharing the cost burden is better for existing folks. They developed a plan to phase in the connection charge to eventually reach the \$14,500 level. This gives people with current development plans the incentive to act on those plans sooner than later. The strategy in the ordinance is to do this. The cost starts at \$5,000, then \$6,000

BOARD OF MASON COUNTY COMMISSIONERS' PROCEEDINGS
July 19, 2011 - PAGE 8

and then \$7,200. The ordinance does not address the future years. He would recommend adding a placeholder in the ordinance to state that beginning in 2015 the connection rate shall be \$14,500 per ERU. It would set the expectation that this is a temporary measure to encourage development early on. Having this phase in reduces the revenue into the system, which affects the rates.

He explained that the way the capital costs are paid through rates is by selling debt. So far the debt is over 6 million dollars. With the General Obligation Bonds it would go up. Revenue bonds unsupported by the General Obligation pledge would have required higher rates. The debt service in 2012 is about \$674,000 and that number will go up in 2018 because the GO Bonds pay just interest in the first years. The decisions made for capital costs have an effect on the ongoing costs. The O&M costs are the other big component of ongoing costs. Right now the forecast shows about \$600,000, but that number will get more specific. The first year budget isn't the best indicator of the ongoing cost level but it gets closer. You add the O&M and debt service and then subtract offset revenues. The major offset revenue is the connection charges. The connection charges should pay for the 2012 debt service and a little bit to be saved for the future, called a sinking fund. That way they can keep the numerator in the \$600,000 range. ERUs are the denominator. ERUs are a rough measure. They are needed and used for sewer only facilities. Water and sewer facilities are different because water meter data is available. That kind of data isn't accessed in a sewer only utility. An ERU is an expression of the amount of consumption relative to the average for a single family. One single family structure is relative to one ERU. It assigns the impact of flow to the sewer system from a commercial customer in relation to the average residential customer. When measuring how much flow there are different projections needed at different times. First, how much flow that needs to be accommodated by the plant must be designated. It is the maximum monthly flow including infiltration. It has to be a higher number than what actually passes the water meter. In the past the planning criteria for the design of the plant was 250 gallons per day per structure. In the rate making forecast a different quantity is estimated. The early estimate was 150 gallons. They got real data a couple of weeks ago from the Water District. He handed out a copy of the data. Anything shaded in a different color was not used in the data average. June, July and August weren't used because that water usage relates to irrigation. Obvious leaks and vacant homes also weren't used. Anything that was less than half of the winter average was backed out. 500 cubic feet per year was the minimum to be used. The right column contains the numbers included in the average. The average turns out to be 135 gallons. That is less than expected. He thought it would be about 150 gallons. They are trying to emphasize equity in the measurement ERUs so they are rounding to the nearest 1/10th. The total ERUs were guessed to be about 573 and now it is about 30 ERUs less than projected. The result of having less than expected would mean that there would be a connection charge of \$14,500 and rate of \$96. If the connection charge is phased in fairly quickly the \$96 rate stays, but with no cushion. If the connection charge were phased in slower, over about seven years, it would start at \$99 and increase to about \$112. The phase in of the connection charge will create an impact in the rate. It is worth doing because the forecast is sensitive to the growth projections. Sticker shock is a real concern. The \$96 rate is not in the ordinance. It would be in the final ordinance in November or December. The \$3000 and initial \$5000 for new development are in the ordinance. The benchmark of 135 gallons per day is also in the ordinance, which is important in assigning the ERUs to commercial businesses.

Mr. Cebron added that this is a self sufficient enterprise, but the County has assisted the project in a number of ways. There was seed money, a waiver of a repayment, a commitment of REET money in the forecast and the commitment of General Obligations, which dramatically reduces the rate impact of the debt incurred. Staff management of the project has also saved money. He addressed comparability with other communities. Rates of \$80-\$100 are not uncommon for new systems. The North Bay/Case Inlet system is in that range. The City of Blaine is also at about \$80. The advantage of existing systems is that they already had the collection system built. Spokane managed a \$67 rate because they only had to build a treatment plant. They also funded money through advance rate increases. The City of Carnation

BOARD OF MASON COUNTY COMMISSIONERS' PROCEEDINGS
July 19, 2011 - PAGE 9

has a rate of \$93. That money is inclusive of the whole system. They also have a \$14,000 connection charge, which is comparable. In regards to ERUs there are a number of examples where the usage of single family homes comes into play. The new standard is about 150 gallons in winter water use. King County charges 187.5 gallons, which was set in the early 90's. A recent study shows that is 20% too high compared to the current reality. Average usage per customer continues to go down due to plumbing code changes. The City of Olympia is closer to 120 gallons. The City of Seattle is near 100 gallons. Airway Heights is at 140 gallons. The 135 isn't out of balance with what is happening in the industry. It could be on the low side of what could be used. It could be too high compared to what the true average is. Ultimately, the decision on ERUs, rates and charges is the judgment of the legislative body, as long as there is reasonable information to support the decision. If the Board thought 150 gallons made sense based on particular reason they could construct charges based on that.

Mr. Wilson clarified that the total number of ERUs to the system is 546.6. Earlier estimates had been 573.

Questions for Staff

Alisha Harrison asked if census data was taken into consideration when coming up with the averages.

Mr. Wilson replied that if real water consumption data wasn't available they would have used that data. They have real data so they don't use census data.

Mr. Dobey added that in Rustlewood there are no water meters so the flow is estimated. In the grant the design was estimated at 250 gallons. It is all residential so there are no ERUs in Rustlewood.

Ms. Harrison asked if they knew how many people live in each house.

Mr. Wilson replied that they don't use the number of people because it isn't relevant when actual water meter data is available.

Randy Neatherlin asked what the actual ERU rates are in Allyn and Olympia.

Mr. Wilson responded that Olympia's local collection rate is based on their actual winter water usage, which is about 120 gallons. They charge single family, multi family and commercial the same on a gallon basis. The conversion is that the flat charge for residences is based on 120 gallons and the businesses pay the same for 120 gallons per use.

Mr. Dobey added that there is not water data for Allyn. There are 1,558 charges and only about a dozen are commercial establishments. It is primarily a single family area. There is not an ERU. The 214 ERU relates to the design of the facility.

Ken VanBuskirk asked if the water use data was inside or outside of the UGA.

Mr. Wison answered that it was the entire water district.

Mr. VanBuskirk thought those properties outside of the UGA should be scrubbed.

An audience member asked why so much time was being wasted on ERUs when it is up to the Board how much it will cost for the businesses.

BOARD OF MASON COUNTY COMMISSIONERS' PROCEEDINGS
July 19, 2011 - PAGE 10

Mr. Cebron responded that the ERU isn't irrelevant. It is the basis for equitably sharing costs. If everyone were charged the same, the rate would need to be perhaps \$300 per month. The ERUs are part of the equation of what it is fair to charge. If the rate were just set at \$96 for everyone the utility would go bankrupt.

An audience member asked why the businesses have to absorb this mandated sewer system. It should be paid for statewide.

Cmmr. Sheldon explained that the State Constitution says that the State's credit cannot be lent to a site specific system. A tremendous amount of money has already been received from State grants because the Legislature recognized that Hood Canal is a protected body of water. When Urban Growth Areas are designated the County is required by law to provide an urban level of service, which includes sewers. If a sewer system wasn't put in or if this didn't move ahead there would be a moratorium on all growth in Belfair.

Brian Peterson asked the difference between the Allyn and Belfair residential equivalences.

Mr. Dobey replied that in Allyn there was an estimate of the flow that was used. It could be looked at again and the ERU could be recalculated with water data.

Dr. Peterson asked why an Allyn business would pay less for a County wastewater system than a Belfair business.

Mr. Dobey responded that it is based on water usage. Every utility could be looked at again.

Jack Johnson asked how many accounts there are for the 546 ERUs.

Mr. Wilson was unsure but could count it up.

Mr. Johnson asked why charges for monthly rates and strength charges aren't being included in the ordinance.

Mr. Wilson replied that the strength charges are defined as either the actual strength increment, or 25%, which ever is less. The strength charge is intended to be avoidable. It is intended to have people adopted best management practices to minimize the impact of extra strength effluent.

Mr. Dobey added that it doesn't have impact on the budget. It is considered to be revenue neutral because it has no impact on the rate.

Mr. Cebron also noted that it would be premature to set the rate without a budget adopted for the operation of the system. The budget process is only about a month away.

Mr. Dobey explained that the connection fee needs to be established so people can get connected in the summer. Costs associated with working in the mud in the winter are much higher than in the summer. They are trying to keep costs associated with the actual connection at the \$5,000 to \$7,900 mark.

Butch Boad asked if there was distinction between the residential and commercial volume in the data collected from the Water District.

BOARD OF MASON COUNTY COMMISSIONERS' PROCEEDINGS
July 19, 2011 - PAGE 11

Mr. Wilson replied that the whole purpose of getting the average from residential properties is so when they get water consumption from a commercial establishment they know how many residential equivalents it is. About 70% of the commercial estimates are from water usage data. The others are either at the minimum or the rough engineering formulas have been used.

Cassandra Hoffman asked if there is a formal process to appeal an ERU calculation.

Mr. Wilson replied that there isn't a formal process. They have been applying the criteria in the ordinance to the situations that are raised. The case by case analysis has helped improve the ordinance.

John Milne, special legal council, added that normally when a county adopts a facility connection charge there is no appellate process. In a few circumstances there is an appeal to the Director of Utilities for relief.

Cmmr. Sheldon noted that people could certainly challenge their rate and the Commissioners could make sure it is fair. Ultimately it would be better to talk to the Director who has more knowledge of the system.

Mr. Cebron thought it would be valuable to add that an appeal could be made to the Director in the portion of the ordinance that defines the residential and commercial ERUs.

Ms. Hoffman asked if the affect of the foreseeable closures of businesses has been taken into consideration in the total ERUs.

Mr. Wilson replied that it is a risk. If the total number of ERUs goes down the rates would have to be higher.

Cmmr. Sheldon noted that everyone is faced with economic uncertainty. He believes that if infrastructure is built it will create jobs. Many companies have a corporate policy that they will not come to a community without sewer. The sewer had to be planned for because of the Growth Management Act and unfortunately some people will not be able to make it financially. Other people will see a tremendous increase in the value of their property. The County has to build this infrastructure and is trying to make it as affordable as possible with the assistance in connection charges.

Cmmr. Lingle added that it would be important for the community to communicate with the Director about the closure of businesses.

Bob Harris asked if you could opt out of the UGA.

Cmmr. Sheldon responded that it would be tough.

An audience member asked who the Director was.

Cmmr. Sheldon replied that the Director of Utilities and Waste Management is Emmett Dobey.

Mr. Johnson asked if a rate model has ever been done with a special assessment tax.

Mr. Wilson stated that scenario hasn't been run.

Mr. Johnson asked why the Commissioners haven't looked into that consideration.

BOARD OF MASON COUNTY COMMISSIONERS' PROCEEDINGS
July 19, 2011 - PAGE 12

Cmmr. Sheldon wondered if someone could be assessed without the tangible benefit of a sewer.

Mr. Milne stated that if there was an inability to connect that could not be done lawfully.

An audience member asked if Phase Two could buy an ERU now.

Mr. Dobey responded that if there is existing development you can buy in.

Gary Chrey asked if the scenario of businesses closing or lack of growth has been looked into. He wanted to know if the techniques for dealing with that type of scenario could be applied now to make the utility more affordable.

Mr. Dobey replied that an option would be to consolidate utilities to avoid duplication of services. Another option would be to restructure future debt.

Cmmr. Sheldon noted that Harstine Point was acquired by Mason County in the 70's. Mason County sunk a lot of money in to the operation, maintenance and upgrading of the system. The people of Harstine Island put a measure on the ballot to form their own utility and the County turned over the system to the ratepayers. The ratepayers now manage and operate the utility themselves. It would be a viable option for all of the utilities in Mason County. The citizens could for vote for a utility district to assume ownership of the system. Incorporation is also an option.

An audience member stated that when the Lower Hood Canal Clean Water Act was established every property owner was assessed \$57 for three years. Establishing a sewer system in Belfair would benefit the county so he wanted to know if there could be an assessment to raise the money.

Cmmr. Sheldon didn't think that would be legal.

Mr. Neatherlin asked the total cost of Phase II.

Mr. Dobey replied that to sewer the entire UGA was about 53 million dollars. He didn't have the numbers with him but thought it was about 8 million per phase.

Dr. Peterson asked if the phases would be net positive in cash flow before moving forward.

Mr. Cebron explained that each of the phases would be evaluated in that context. The net impact, whether positive or negative, would be part of the decision on whether to proceed.

Mr. Dobey added that septic tanks and drainfields couldn't be developed in an Urban Growth boundary in the next phases as an interim use.

Mr. Johnson asked if there were any provisions in the ordinance for recycling or conservation to allow a business to get their ERUs down.

Mr. Dobey responded that there is an annual review of the rate. There are typically incentives for that type of thing. That will be eventually be part of the utility if the County keeps it in the future. The only purpose of this ordinance is to allow a connection charge and establish the ERU. The other things will go with the final rate analysis in November.

Dr. Peterson asked if the system was only built for the Belfair UGA. He saw alternatives were it could be part of Kitsap County.

BOARD OF MASON COUNTY COMMISSIONERS' PROCEEDINGS
July 19, 2011 - PAGE 13

Cmmr. Sheldon replied that it was not his plan or intent for the sewer to go to Kitsap.

Dr. Peterson asked if that could be put in the ordinance.

Mr. Dobey explained that the system is designed for the Belfair UGA. It is not designed for another development. The Belfair boundary would have to be modified to bring other customers in the service area.

An audience member asked if there would be public testimony allowed in the furthering of the system.

Mr. Dobey stated that there would be the same opportunities for testimony as the ordinance is established.

Public Testimony

Mary Jo Cady felt that the ERU numbers should be manipulated up to 150. It should go as high as possible to protect the businesses. If the businesses go there will not be money to pay for the sewer system or the tax base to take care of Current Expense. Sales tax revenue is important for the operation of the County. She believes the costs should be spread through the total UGA now. Her other concern was with the grinder pumps for residential properties. If the owner of the property lives in the house they will be given a grinder pump but if there are renters living there they won't get a grinder pump, which doesn't make any sense. She suggested that the meeting be continued at least for two weeks.

Dr. Brian Peterson went over the ERU history and how it has changed. The ERU is now at 135 but he believes the more accurate ERU based on the provided data is 175.5. There have been comments about equality in the county but Allyn has a 218 ERU and Rustewood is at 250. He doesn't believe there is a 60% difference in Belfair's water habits. He asked the Board to look at the sewer system as a business. The project isn't doing well and if Phase 2 moves forward the project will continue to go backwards. He provided a packet of information to the Board on membrane technology. He felt that some of the GMA decisions could be challenged. He also addressed espresso stands. Half of the stands are self contained and will not be hooked up to the system. His stand is the busiest in town and it goes through 18 gallons a day. Under the current proposal every espresso stand would get 1 ERU, which he doesn't feel is equitable. He noted that definitions are not provided in the ordinance regarding the different commercial establishments. He questioned the methods used to determine ERU value. He also wanted to make sure the alternate plan with Kitsap County is exempted in the ordinance. He expressed concerns regarding overbuilding because it puts a financial burden on the initial customer base. He was concerned about the cost of sewer fees for future businesses. He hopes the Board looks at funding alternatives and ways to cut the debt service. He supports a sewer system, but only at 250 gallons per day.

Greg Porch explained that he has a company that is completely debt free so those saving can be passed on to his clients and patients. The sewer in Auburn went through this same process. His company is looking to expand but they don't know if they should do it in Belfair or go to Silverdale now. His business will have to expand elsewhere. He believes this project will kill growth in Belfair.

Earl Lincoln agreed to the other testimony. He reminded the Commissioners that they were elected to represent the citizens. He was disappointed that the Board would make a decision on rates that businesses couldn't afford. He asked that the cost be spread over the county instead of just the businesses in Belfair.

BOARD OF MASON COUNTY COMMISSIONERS' PROCEEDINGS
July 19, 2011 - PAGE 14

Steven Emereck didn't believe it was a question of whether the sewer was needed. He is not affected personally, but he is a member of the Belfair Baptist church and they don't know how they are going to pay for this. He doesn't understand why the Commissioners are supporting such a huge overrun. The Commissioners were elected to take care of the citizens and he hasn't seen that yet. They need to know how they are going to recover as a community. It affects everyone who lives and shops in the town. He has dealt with elected officials and most of them are professional, but he believes this project is a debacle. He wants everyone to be conscious of what they are doing. It needs to stop and it needs to be fixed. He doesn't think extending the hearing for just two weeks is going to do any good.

Rob Drexler spoke on behalf of the Realtors. He urged the Board of Commissioners to postpone action until all facts are available and disseminated. He is still waiting on answers to questions he has asked. If the Board approves this he would have to close his business. He believes there are other things that could be done. He appreciates that the Board isn't going to vote today. He hopes the Board can take other's ideas into consideration. He felt like he was being sold a house that he has to buy without knowing the price up front.

Harlan Olsen spoke on behalf of the Belfair Community Baptist Church. He started as a teacher in Belfair in the 60's and has seen Belfair grow. It has been a wonderfully place to raise his children. The church is in its 65th year of establishment. He provided examples of the services the church provides to the community. The church has been assessed 4 ERUs, which he doesn't believe is realistic. If they have to maintain that they will have to close their doors and the services to the community will be gone. They are depending on the generosity of the citizens in an economic downturn. He hopes the Board will look at alternative ways to pay for the sewer because it is a disaster.

Gary Chrey represented Belfair business owners, landowners and others in the Belfair community. He stated that the consensus that he is hearing from this group of people is remarkable to him. Everyone is asking for the same thing. He understands that one of the goals of the Growth Management Act is to encourage urban growth. He believes that if the present plan is put into effect it will have the exact opposite effect. Businesses would close now and in the future. Ultimately, Mason County will not see the revenue to service the debt or pay the maintenance and operation costs for the system. He wonders what would be done at that point. There would need to be a solution and he is suggesting that solution take place now. If it is done now the infrastructure will encourage growth. He encouraged the Board to ask staff to run the scenario of a negative impact to come up with a solution now. The other issue he would like the Board to look at is the issue of the ERUs. Staff and the public need to develop a consensus about the ERUs for transparency and credibility. He is pleased that the Commissioners are talking about taking more time. He has received good cooperation from Emmett Dobey. Allowing more time will also allow staff to do a better job.

Bob Harris testified that he owns two parcels in the Belfair UGA. He feels that this ordinance has been presented on short notice and everyone needs more time to look at it. He is pro sewer but not for this sewer. He doesn't think the issue is just sticker shock and he doesn't see more businesses coming to Belfair. He especially takes issue with the ERU calculations. They do 178 gallons a day in his home. His rental home is 198 gallons per day. The reality is well over 200 gallons per day. He has figures that show it would be cheaper to open a business in Silverdale than in Belfair. He doesn't think the consultants are providing accurate information. They are just providing information to justify the money they spent. The killer is that this is relying on a 5-6% growth rate in the Belfair UGA. Jefferson County has had a 2% increase and Kitsap has had a 1% increase. That was in good times and the county isn't in good times now. He doesn't understand the hidden fees in the ordinance. He doesn't think there is any insensitive to move to Belfair because it is cheaper to live somewhere else. He would like to see the hearing extended for 30 days to take oral and written comment. He handed out notice of this meeting last week and hand out flyers and talked to 200 business people. Most of them had no idea of

BOARD OF MASON COUNTY COMMISSIONERS' PROCEEDINGS
July 19, 2011 - PAGE 15

what was going on. He wants more people involved. He doesn't think the 546 ERUs will be there. He wants to know why his espresso stand would be charged an ERU when it won't put anything in the system. He wanted to know why a sewer stub has been installed on his property instead of in the right of way. He has addressed the issue with the department and hasn't gotten a response. Silverdale had a task force of people from the community that worked with the government from the beginning of the development of their sewer, which worked well. He encouraged the Board to extend the hearing for more than a few days.

Randy Neatherlin stated that the Port of Allyn has already presented their statement on this issue so he was speaking for himself. He brought up the issue of a ULID. He thought that was something that staff had been counting on and the Board has to be able to trust staff to give accurate information. The community is doing their homework and the numbers on this project have shifted. This is a problem for the whole community because the businesses could fail. 250 people can't bear this burden alone. There was a lot of grant money for the project but the citizens were not given the decision on how big the system would get. An out of control ERU is the biggest downfall of the issue. He wonders why the numbers are greater than Seattle. He would like to see a 215 ERU to compete with neighboring communities that have higher and cheaper ERUS. Belfair could be Mason County's Silverdale but only if the sewer works. He doesn't believe it will work the way it is set up. Belfair doesn't truly exist so every dime generated in Belfair goes to the County. Since it all goes to the County the burden should be shared through the county as a whole. He would like the Board to look at the different options because Belfair provides the revenue the County gets to work with. Losing businesses and jobs will matter. He thought the County could take the position to assume part of the debt. He would like the Board to look at different options for the future. These rates could be exclusionary for new businesses to come to Belfair. He thinks phase two of the project should be switched with phase 3. He also wanted the Board to consider working with the Port. If costs were shared it would increase chances for businesses. The last public hearing was very disappointing. He thought it was inappropriate to have someone running a meeting who is not an elected official.

Mike Shunk represented Belfair QFC. He appreciated the Board's willingness to defer their decision. He was concerned about the commercial equivalency for the ERU factor. It was alarming to hear that the water data was only available two weeks ago. The government entities should have been working together much sooner to compile the data. He believes the ERU factor affects everyone. QFC's service fee would be more than double of what they pay in other communities. It is the same with the connection fee. It will be hundreds of thousands of dollars for QFC to make the connection. He is hoping there could be a cap on some of the numbers. He hopes other avenues could be looked at to benefit the entire community.

Jack Johnson stated that staff has said that the interim ordinance is just being passed to establish a rate, but there is a lot more to it if it is passed. In general it is 1.3 million dollars per year and it is interest only until 2017. In 2018 there will still be 10 million dollars owed. It would be over \$200 per ERU. He would like to see the hearing extended for at least two weeks. He would like to see a sewer advisory committee for the future expansion and rates. People are very passionate about this and they could work hard on it, however, if the group had no authority it shouldn't be created. About 48 million will be spent when it's done but that doesn't include hook ups for everyone. He believes there are some major issues in the ordinance. Everyone within 500 feet has to connect to the sewer, which is a dangerous situation. It needs to show what the property owners would be obligated to pay for the 500 foot connection. He thinks it should be 200 feet for residences. If someone doesn't want to connect they shouldn't have to. Another major issue is ERUs. Early information said that it would be 250 gallons, and then it went down 135. It is an important issue for businesses. He provided data to staff before the information was received from the water district. He got the information from the water district and subtracted those properties not in the UGA. He also subtracted the accounts from the Golden Bell. The

BOARD OF MASON COUNTY COMMISSIONERS' PROCEEDINGS
July 19, 2011 - PAGE 16

total ERU calculated to 175 and it is exactly the same information that the consultants used. He and his family have lived in Belfair his whole life. He knows if the Board could agree on the 175 ERU it would be very important and mean a lot to the community. He noted that Allyn is at 218 and Rustlewood is 200. He believes the ERUs are the biggest issue to figure out. There is also the issue of small space connections that will have a big impact on people. It is assigning ERUs to every business in a building that has a fixture. They would be charged ERUs for their total business and the other businesses that are in the building. He believes there needs to be more time to have these issues explained. It shouldn't be left up to the Director's discretion. He felt that the ERUs assigned to the different business types were inflated.

The component that he felt was really important was the ability to buy a connection in phase 2 for \$3,000 and pay \$25 per month. He thought it was a great idea and should be extended to all of the phases. It would motivate people to develop their property sooner. He thought there needed to be a lot more time and thought in that section. There also needs to be more clarity in the strength charges. Before this is adopted those charges need to be clear. He felt that there needed to be a clear mechanism to raise and lower the ERU monthly fee. There should be allowances for recycling and conserving water. There needs to be a clear way to address the monthly rates and hook up fees. There should also be an audit system in place to address reduced consumption. There is also a big issue of low pressure instead of gravity collection. The project benefited from having low pressure because it saved money, but there is nothing in Title 13 that explains who pays for what. It needs to be spelled out who pays for grinder pumps. The biggest impact would be from QFC having to connect to a low pressure main and Safeway gets to connect to gravity. It is putting a burden on one business and a benefit on another. The Belfair UGA produces about 5 million per year in sales tax revenue. It is important that these taxes keep being produced. He asked the Board to adopt a 175 gallon ERU and to extended the hearing for at least a couple of weeks. He suggested that if there is any part of the ordinance that the Board doesn't agree to they shouldn't adopt it.

Mary Jo Cady noted that it wasn't mentioned in the correspondence that the North Mason Chamber submitted comments regarding the sewer system.

Ken Martig stated that if the O&M costs stay at \$600,000 per year with 50 accounts it would be \$1,000 a month, per account, just for the O&M. He thinks this is a runaway train and he just found out about it. Everyone has done a good job of pointing out the problems. He's been an engineer for four decades. He has done sewer studies and he can't believe where the community is with this. The thing with the ERUs is driving him crazy. This needs to be stopped and the impact on Belfair needs to be determined.

Cmmr. Sheldon passed the gavel to Commissioner Lingle and moved to continue the public hearing to July 26, 2011.

The motion died due to a lack of a second.

Cmmr. Lingle was concerned that a week wasn't enough. He thought the hearing should be extended for a two week period.

Cmmr. Sheldon/Lingle moved and seconded to continue the public hearing to consider the ordinance establishing connection charges for existing development to connect to the Belfair Wastewater Reclamation Utility to August 2, 2011. Motion carried unanimously. RE-absent; S-aye; L-aye.

Cmmr. Sheldon called for recess at 1:48 p.m. The meeting reconvened at 1:58 p.m.

BOARD OF MASON COUNTY COMMISSIONERS' PROCEEDINGS
July 19, 2011 - PAGE 17

10. Other Business (Department Heads and Elected Officials) –

10.1 Discussion to place a 60-day moratorium on cooperative marijuana grow gardens.

Cmmr. Sheldon explained that a new issue has come up statewide regarding medical marijuana. The Governor vetoed large sections of a medical marijuana bill. One portion that wasn't vetoed refers to cooperatives that could be formed to grow marijuana. Many cities have enacted a moratorium on the dispensary issue and he feels that it would be appropriate to enact a 60 day moratorium on this type of business in the county so the Commission would have time to gather information on the issue. He was concerned about potential land use implications.

Barbara Adkins, Department of Community Development, supported the idea of gaining some time to incorporate the information into the County's zoning regulations. The zoning district that would allow this type of business needs to be determined.

Dean Byrd wondered if 60 days was long enough. He thought that the health issues also needed to be considered. He stated that the growing, handling and dispensing of this type of product presents health risks at every stage. There needs to be some regulatory guidance on how it is grown so it doesn't create additional harm.

Cmmr. Sheldon was also concerned about the interpretation of the bill in the courts.

Sheriff Salisbury agreed that a moratorium would be appropriate until the issues could be sorted out and thought an extended moratorium would be a good idea.

Mike Dorcy, Prosecutor, noted that 60 days might not be long enough to make the appropriate decisions. He explained that the Board would have to hold a public hearing within 60 days of enacting a moratorium, but the moratorium could last up to six months.

Cmmr. Lingle commented that this could be looked at in many ways. He stated that he isn't in the position to decide whether this would help someone who is ill. However, in his history in law enforcement, he could this as an opportunity for drug dealers to profit. He felt that there needed to be more information regarding land use and the other issues. He agreed that 60 days wasn't enough time. He thought it should be a minimum of 120 days.

Cmmr. Lingle/Sheldon moved and seconded to place a moratorium on cooperative marijuana grow gardens in Mason County for up to 120 days, with a public hearing to take place within 60 days. Motion carried unanimously. RE-absent; S-aye; L-aye.

11. Board's Reports and Calendar - The Commissioners reported on meetings attended the past week and announced their upcoming weekly meetings.

12. Adjournment – The meeting adjourned at 2:18 p.m.


BOARD OF MASON COUNTY COMMISSIONERS' PROCEEDINGS
July 19, 2011 - PAGE 18

BOARD OF COUNTY COMMISSIONERS
MASON COUNTY, WASHINGTON


Lynda Ring Erickson, Chair


Tim Sheldon, Commissioner

ATTEST:


Shannon Goudy, Clerk of the Board


Jerry K. Lingle, Commissioner