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A Member Owned Water Co-op

Jae Hill, Chair  
King County Utilities Technical Review Committee  
Department of Local Services  
201 S Jackson Street KSC-LS-0815  
Seattle, WA 98104

October 12, 2022

Re: September 29, 2022, letter requesting additional information regarding Sallal's interim moratorium

Dear Mr. Hill,

Thank you for your request for more information regarding Sallal's water supply. Sallal's Board made a hard decision to enter an emergency, interim moratorium because we want to maintain a strong and healthy water system and take a conservative approach to managing this precious natural resource with care, as expected by our member-owners.

I have inserted your questions below and followed each with Sallal's responses:

1) *What happened between July 6, 2021 and July 28, 2022 that abruptly changed Sallal's position from having enough water for the next ten years, to requiring an interim—and possibly permanent—moratorium?*

Two primary changes have occurred since the time the Water System Plan was prepared and today that have impacted Sallal's water availability. They are as follows:

1. The pace of development has exceeded projections.
2. The amount of water assigned to Distribution Leakage (DSL) has increased.

The Water System Plan utilized population forecasting information that was available at the time. Unincorporated County population growth rates were obtained from the Puget Sound Regional Council using April 2017 data for the Forecast Analysis Zones (FAZ) FAZ6506 (Snoqualmie/North Bend) and FAZ 6910 (East King County). Based on these data, the projected population growth in unincorporated King County was assumed to be approximately 0.3 percent.

Projected growth rates for the City and UGA areas were developed from the North Bend Economic Profile Report (September 2018) and the North Bend Wastewater Facilities Plan. Based on this information, the City served area growth rate was assumed to be that given in

the Economic Profile Report for the years 2019 (12 percent), 2020 (15 percent), 2021 (10 percent) and 2022 (5 percent). For the following years, 2023 - 2038 the City’s growth rate was assumed to be that given in the Wastewater Facilities Plan which ranges from 3.1 percent to 1.9 percent. Table 1 below compares the rate of growth assumed in the Plan to the actual growth experienced by Sallal over that last several years. As indicated in Table 1, in the last four years, there have been an additional 162 ERUs of meters connected to the system beyond the projected growth from the Water System Plan. Actual growth has now reached levels that were projected for the 2028 timeframe – nearly a six-year acceleration. Since the City of North Bend reviewed and did not take exception to any of the growth projections represented in the Water System Plan there was no reason to believe those projections would be exceeded by the actual growth that has been permitted by the City.

**TABLE 1**

**Comparison of Projected Growth to Actual Growth in Connections**

<b>Year</b>	<b>Projected ERUs</b>	<b>Projected Additional ERUs</b>	<b>Actual Meters Connected</b>
2018	1,837		
2019	1,947	110	71
2020	2,033	86	138
2021	2,094	61	116
2022	2,133	39	133
2023	2,168	35	
2028	2,341	173	
2033	2,508	167	
2038	2,665	157	
2040	2,728	63	

It should be noted that the process to complete a water system plan and obtain approvals from the appropriate agencies can take years. The conditions within the real estate and development market can change dramatically during that period. Sallal began development of this Water System Plan in 2018. In preceding years, growth in the system had averaged 1%-2% per year. Sallal completed a draft of the Water System Plan in April 2020 and submitted it to agencies for review and comment. It was not formally approved until July 2021. The pace of development increased substantially between the time the plan was started and June 21, 2022, when Sallal instituted the interim moratorium.

In 2018, Sallal DSL was approximately 8.8% and had historically been between 5% and 8%. The plan assumed that DSL would decrease from 10% to 8% from 2019-2022 and then remain at 8% through the planning period. Over the last several years, Sallal has seen an increase in apparent DSL to approximately 12-14%. Sallal is in the process of investigating this increase and it is not clear yet whether this increase is due to additional pipe leakage or metering and accounting issues.

- 2) *Is the information that was provided to the County during the UTRC review and approval process still accurate for operational purposes, or was there an error in forecasting?*

The Water System Plan information provided to the County during the UTRC review and approval process is still accurate for operational purposes. Sallal uses this Plan as a guide for many of its functions. Sallal carefully tracks water produced and consumed each month and also tracks the number of connections and approved, but not yet connected developments. As a result of this tracking, Sallal identified the potential to exceed its available water capacity with proposed developments well before actually exceeding its capacity. Sallal used the best available growth projection data in its Plan. The only potential error in forecasting resulted from a reliance on the growth projection data prepared by regional land use authorities. The actual pace of growth exceeded the pace that was projected by the referenced planning documents, which indicates that the land use projections prepared by others proved to be inaccurate.

- 3) *Given the UTRC’s previous concerns about the outsized contribution of connection charges to Sallal’s budget, how does this six-month (or possibly permanent) moratorium affect the fiscal health of the Association in the immediate term and in the longer plan-approval period?*

Due to the more rapid pace of development than was projected, Sallal has collected connection charge revenues more quickly than was anticipated. This puts Sallal in a stronger financial position than it would have been had these connection charge revenues been collected over a longer period. Sallal still has approximately 200 more ERUs of approved developments that have not yet connected to the system. Some of these connections have paid in advance, and it is anticipated that these connections will continue to provide a source of capital revenue over the next several years. Each year Sallal reviews its historical and projected revenues and expenditures along with its planned capital projects and makes appropriate adjustments to its water rates to reflect current conditions. Sallal is currently engaged in a rate study to determine future rates with and without a supply contract with the City. Sallal will continue to evaluate rates over the next several years as it adapts to changes in growth rates and connection charge revenues.

- 4) *What actions is Sallal undertaking to end the moratorium? What is the status of those actions?*

Sallal has undertaken a number of steps to address this moratorium. These steps and their current status are shown in Table 2.

**TABLE 2**

**Steps Undertaken to Address the Moratorium**

<b>Step</b>	<b>Current Status</b>
1. Continue pursuing water supply agreement with North Bend	Sallal has continued to try to negotiate a water supply agreement with North Bend

	and remains willing to engage with the City on an agreement that would be in the best interest of its members. Sallal transmitted proposed language revisions to the City in September and are waiting for their response.
2. Complete leak detection on water distribution mains	Leak detection has been completed on approximately 70% of the system. A number of smaller leaks have been found that have been repaired. Sallal intends to complete leak detection on the remainder of its distribution by the end of 2022.
3. Evaluate authorized unmetered uses and identify strategies to optimize this use	Sallal has evaluated its sampling, pump pre-lube, and flushing practices and has developed a strategy to save up to 50 ERUs of water through optimization. These changes are approximately 80% implemented. The remaining changes are planned to be implemented by the end of 2023.
4. Replacing aging, underreporting water meters	Sallal has reviewed and assessed water metering data and has replaced 145 meters in 2022 that had questionable accuracy.
5. Pursue additional sources of water	Although Sallal has so far been unsuccessful in pursuing a new water right due to impossible mitigation requirements put in place by the Foster Decision, we continue to engage with Seattle Public Utilities for additional potential sources of supply.

5) *What is the status of Sallal's coordination with the City of North Bend to obtain supply water which could end this moratorium?*

Sallal has been engaged in on-going negotiations with the City (first Mayor Hearing and then Mayor McFarland) since April of 2019. Sallal has never ended those negotiations. We have made significant progress in figuring out the details over this 3 ½ year period. Our remaining obstacle is the City's terms that will require all Sallal members to curtail water usage when the City is unable to obtain sufficient mitigation water to allow Centennial Well to match demand (from both the City residents and Sallal UGA members). This negative impact of the water supply to all Sallal members would effectively subordinate Sallal's senior water rights to the mitigation requirements of the City water system. This unresolved issue is at the heart of why Sallal has been unable to execute the supply contract with the City. Despite the challenges, we remain engaged in negotiations and recently (September 13, 2022) submitted new drafts of key water supply and mitigation provisions to the City; we await their response.

We appreciate this opportunity to explain the unique circumstances Sallal is in and welcome any further questions from the committee.

Sincerely,

A handwritten signature in black ink on a light gray background. The signature is written in a cursive style and reads "Daylin Baker".

Daylin Baker  
Vice President  
Board of Trustees  
Sallal Water Association