

## Considerations Regarding a Water Supply Contract with the City

### With a Contract

1. Water rates should stay relatively stable except for inflation, Sallal business continues as usual.
2. All of the costs to construct the needed interties will be paid for by a grant from the Department of Health (funding has been included in the Senate's proposed capital budget for fiscal years 2023-2025).
3. While not a guarantee, the City would have far less reason to take over Sallal.
4. Sallal maintains independent ownership and governance. All members continue to have representation.
5. The contract allows Sallal to purchase additional water to serve new connections in the urban growth area of North Bend. The contract also frees up water capacity so that Sallal can continue to provide water to new connections in rural areas as well.
6. Mitigation water is made available for the river from a reliable source. Hobo Springs/Seattle Public Utilities remains a mitigation source. This is not "paper water".

### Without a Contract

- Sallal will soon reach a level of connections that fully consumes its annual water right allotment of 696 AF per year. After that point, Sallal can't serve new connections – resulting in a moratorium for the foreseeable future.
- Without the ability to add new connections, Sallal must shift its rate model so that existing members pay a larger share of costs to replace facilities/pipes as they wear out. Currently, new membership fees pay for most of this capital cost. This will cause rates to go up for all existing members by a preliminary average of at least \*\$39/month/household ([Exhibit A](#)).
- Sallal loses its right to an exclusive service area. Other systems that can serve water to new customers, like the City, can legally invade the former exclusive service area and serve new customers at will.
- Sallal becomes more vulnerable to City condemnation.
- For new rural home construction, property owners only option will be permit exempt well drilling, when possible, including forming group B systems based on permit exempt wells. They could also need to convince the City to extend mains into rural zones. Permit exempt wells represent unregulated water use, potentially impacting stream flows.
- Without access to water, undeveloped property values may be negatively impacted.

**\*Estimated rate increases do not take into account, inflation, loan interest, or additional costs from any litigation in the case of the City initiating condemnation.**

# Considerations Regarding a Water Supply Contract with the City

**Summary:** The contract is the best way to keep Sallal in business, independent, our system in good condition, and our rates low. It also gives the river a more reliable source of mitigation water when it's needed. A supply contract with the City is recommended by a majority of the Board of Trustees, Sallal's management, our legal counsel, and engineer. Without the contract, there will be no Sallal.

## **The Details**

### **1. Rate Effects**

The contract will allow Sallal to continue to fully serve its service area. It will also allow for substantial amounts of new connections in the Urban Growth Area (UGA), which will pay for replacing aging pipes/infrastructure. Without a contract, Sallal will enter a long-term moratorium and rates could potentially increase by a preliminary average of at least \$39 per household per month ([Exhibit A](#)) to cover the cost of replacing aging pipes and infrastructure that would have been paid for by new connections. This is equivalent to a 100% rate increase to 25% of Sallal's current households. We also won't be able to spread operations costs over as many connections, meaning that existing members bear the full brunt of inflation-based cost increases. These estimated rate increases do not take into account additional costs from any litigation in the case of the City initiating condemnation.

### **2. Costs to Implement the Contract**

Sallal's cost for constructing the intertie between Sallal's pipes and the City's is estimated to be \$1.2 to \$1.5 million. Senator Mark Mullet has informed Sallal that the full \$1.5M has been set aside in the State Senate's approved 2023-2025 Capital Budget to make funds available through a Department of Health grant.

### **3. Condemnation Risks and Possible Impacts**

Earlier this year, Sallal met with the City Mayor as well as legislators that were prepared to pursue a takeover (condemnation) of Sallal. The Mayor has said several times that the City will condemn if there is no supply contract and had a lobbyist poised to propose legislation to aid the City in condemnation. Every level of government wants water supplied to the Urban Growth Area (UGA) to serve previously planned residential and commercial growth as well as the proposed National Guard project. Department of Health (DOH) has suggested that Sallal should revise its Water System Plan to give up all growth in the UGA. This change would not stop growth in the UGA as the service area would very likely be taken over by the City (as it already did with the Mule Pasture and National Guard properties). Even if Sallal didn't revise its water system plan as suggested, the Department of Health and King County could unilaterally remove properties from our service area due to our inability to provide water in a timely manner. There has been no proof provided to support claims that the City will have to stop providing water to serve growth if there is no supply contract. In fact, the City's takeover of the Mule Pasture and National Guard properties are proof that the opposite is true.

Without the contract, Sallal will quickly enter a long-term moratorium. If the City attempts a takeover, Sallal will have to defend itself and use reserves for legal costs. Sallal consulted with experts in this area but can't share that information as it would reveal to the City our legal

## Considerations Regarding a Water Supply Contract with the City

defense strategy. There is no certainty Sallal would win or lose in court. Some people may be willing to risk Sallal being collateral damage in their battle against growth. But a court battle to fend off condemnation by the City is an “all in” gamble, as a loss means Sallal is gone – extremely high stakes.

*If Sallal wins* – we remain in a long-term moratorium, rates will have to increase, property values in the rural zone will be affected, and exempt wells may proliferate. Some members may be happy with this outcome, but other members will be stuck with undevelopable land and those with water will be subject to a large rate increase. Growth in the UGA can't be served by Sallal, so service area will still be lost, either by individual parcels petitioning to be removed, or by unilateral action by DOH.

*If Sallal loses* – all of Sallal is taken over by the City. (Cities *can* serve water outside of City limits). Former members that reside outside of City limits will be subject to the City's non-resident rates, have no representation; and the City will have Sallal's water right for mitigation use along with all our pipes, pumps, and reservoirs, making more growth easier.

### 4. Representation

A supply contract will not affect Sallal's legal structure; it will remain independent. While condemnation will remain a risk, the contract itself will not cause Sallal to lose its structure as a member owned and Board governed association. Sallal will become a wholesale purchaser of water for a portion of its supply, which is not unusual. If Sallal is taken over by the City, Sallal would dissolve. All former members that live outside the City limits and can't vote in City Council elections will have decisions about their water system made by a City Council that does not represent them. Those former members will have lost their voice – their ownership – in their water system.

### 5. Continuity of Service to Rural Members

The contract, with its access to more water rights, allows Sallal to continue business in the professional, member-focused manner it has practiced for over 60 years. Without the contract, Sallal will quickly be in a long-term moratorium, which means we won't be able to provide water to even a single new home or parcel. The City is prepared to extend water mains into the UGA so urban property owners won't become stranded. Rural lot owners in Sallal's service area that want to build will be stranded unless they can drill a permit exempt well (either individually or as part of a group B system), which are effectively unregulated.

### 6. River Impacts

The contract helps the river by putting a more reliable source of water back into the river right when its needed., This is the core purpose of mitigation. Groundwater doesn't flow like an underground river, but it is stored in - and slowly moves through - layers of soil, sand, and rock (called aquifers). Groundwater studies prepared by experts have proven that when the City pumps water out of their Centennial well, it impacts streamflow in the Snoqualmie river within 24 hours. However, Sallal's wells near Rattlesnake Lake are 2 miles from the river, and intercept groundwater slowly moving northward. The further a well is from the river, the less affect pumping will have on streamflow. This is why Sallal's former Hydrogeologist/Environmental Engineer estimated the length of time before the river would feel the impact of pumping water

## Considerations Regarding a Water Supply Contract with the City

out of Sallal's wells at more than 6 months. In a nutshell, if Sallal is taking City water during wet months and providing mitigation water in dry months, impacts on the river are lessened.

### **Additional Considerations**

#### What about buying from Seattle Public Utilities (SPU)?

Thirty years ago, SPU relocated the taps for all south end water purveyors to Lake Youngs, where it spent over \$100M on a water treatment plant. This was done because the federal safe drinking water act did not permit SPU to sell raw water from Chester Morse. This reason also led SPU to allow Sallal to drill wells at Rattlesnake so that Sallal could be removed from raw water purchases. Sallal asked SPU if they would sell us water from the Masonry Pool at Rattlesnake. They said they can't consider that request for 3-5 years while they work on long-term planning for their current customers. If they were to allow it, Sallal would first need to acquire land in that area and build a very expensive water treatment facility. Additionally, Sallal would need to negotiate a contract with SPU and pay charges for water purchased. This possibility is too remote to plan for.

#### Water Supply Contracts Don't Lead to Loss of Autonomy

It is not unusual for water purveyors to buy water. SPU provides wholesale water to all suburban cities around Lake Washington and areas north and south of Seattle. In fact, Sallal sells water wholesale to the Wilderness Rim Homeowners Association. The cities and districts that buy water from SPU have retained their independence - they govern themselves. Likewise, Wilderness Rim maintains autonomy over their water system. This contract will not change Sallal's authority to manage its own system according to our members' needs.

# Considerations Regarding a Water Supply Contract with the City

## Exhibit A

**Sallal Water Association  
Table of Capital Improvement Projects (CIP)  
Over 10 year period  
*\*\*does not include inflation***

Summary	Rate Increase											Total /
Contract	\$	6	Per Member Avg (month)									Project
No-Contract	\$	39	Per Member Avg (month)									
Project	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total /	
Annual Meter Replacement	78,000	78,000	78,000	78,000	78,000	78,000	78,000	78,000	78,000	78,000	780,000	
PRV Station Upgrades	28,000	28,000	28,000	28,000	28,000						140,000	
Replace Operations Vehicles	50,000	75,000	75,000								200,000	
Installation of Zone Meters	80,000	35,000	80,000								195,000	
Meter Reading Upgrade	35,000										35,000	
SCADA Capital Project	25,000	25,000	25,000		25,000		25,000		25,000		150,000	
Water System Efficiency Projects	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	500,000	
Rattlesnake Generator and Install	249,257										249,257	
Main valve install (436th/142nd)	15,000										15,000	
Watermain replacement annually	80,000	250,000	2,201,000	1,089,000	1,089,000	2,335,000	1,636,500	1,636,500	1,616,000	1,616,000	13,549,000	
Rattlesnake Reservoir no 3		1,236,000									1,236,000	
Water System Plan						80,000					80,000	
Operations Equipment		75,000									75,000	
<b>Total</b>	<b>\$ 690,257</b>	<b>\$ 1,852,000</b>	<b>\$ 2,837,000</b>	<b>\$ 1,248,000</b>	<b>\$ 1,270,000</b>	<b>\$ 2,543,000</b>	<b>\$ 1,789,500</b>	<b>\$ 1,764,500</b>	<b>\$ 1,769,000</b>	<b>\$ 1,744,000</b>	<b>\$ 17,204,257</b>	

**Added Members per WSP with Contract Scenario**

Total added members in 10yr	375
Cost of General Facility Fee (GFF)	\$ 21,027 per 2022 rate schedule
<b>Total GFF</b>	<b>\$ 7,885,125</b>

Total 10 year CIP	17,204,257
Capital Reserves	7,551,735
<b>Additional GFF</b>	<b>7,885,125</b>
Net CIP	1,767,397
10 year average - for annual CIP	176,740
Current Members + Added	2,454
<b>Per Member Avg (Month)</b>	<b>\$ 6</b>
<b>Per Member Avg (Year)</b>	<b>\$ 72</b>

**No-Growth Scenario**

Total 10 year CIP	17,204,257
Capital Reserves	7,551,735
Net CIP	9,652,522
10 year average - for annual CIP	965,252
Current Members	2,079
<b>Per Member Avg (Month)</b>	<b>\$ 39</b>
<b>Per Member Avg (Year)</b>	<b>\$ 464</b>

**Variables to Consider**

- Inflation not included
- Gray & Osborne developed a prioritization plan for watermain replacement
 

The top 10 projects are considered high priority	\$ 26,549,000
This 10-year CIP plan estimates that only the top 5 will be completed	\$ 13,549,000
Remaining high priority replacements not included in this 10-year plan	\$ 13,000,000
- Gray & Osborne identifies moderate priority replacements totaling \$ 65,245,000
- Gray & Osborne identifies low priority replacements totaling \$ 71,942,000
- Project costs can increase beyond projections
- In the no-growth scenario: financing will have to be secured for the major water main replacement projects and interest payments. Which are not included in this 10-year plan
- Approximately 25.34% of Sallal Members monthly bills are \$40 or less