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City Council

Approval of Amendment to Interlocal Agreement for Sale of Water to Thurston PUD No. 1

Agenda Date: 4/15/2014
Agenda Item Number: 4.E
File Number: 14-0236

Type: contract **Version:** 1 **Status:** Passed

Title

Approval of Amendment to Interlocal Agreement for Sale of Water to Thurston PUD No. 1

Recommended Action

Committee Recommendation:

Not referred by a committee.

City Manager Recommendation:

Move to approve and authorize the Mayor to sign an updated interlocal agreement to sell water to Thurston PUD No. 1.

Report

Issue:

Whether to approve the updated Interlocal Agreement with Thurston PUD No. 1.

Staff Contact:

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Presenter(s):

None - Consent Calendar Item

Background and Analysis:

The City has supplied water to Thurston Public Utility District's (PUD) Tanglewilde water system since 1964.

In May 2005, the City and the PUD signed the *Intergovernmental Agreement for Sale of Water, Assignment of Water System Accounts, and Management of Water System*. This agreement defined new roles and responsibilities because the City had historically operated and maintained the PUD water system. In essence it changed the City's role from operation and maintenance to becoming a wholesale water supplier to Thurston PUD. The agreement also outlined the need for Thurston PUD to find a water supply source other than the City.

The PUD has actively pursued securing its own water supply. Over the past several years, the PUD redeveloped its existing well, drilled two new wells, and constructed a new reservoir. The new facilities means the PUD will no longer need to purchase water from the City. The PUD is currently waiting for the final water rights for its supply from the Department of Ecology. Once the water right is received, the transition will be formalized. The City and PUD are scheduled to make this transition formal no later than June 2014.

The updated interlocal agreement being considered by Council has two major changes.

- 1. Allows for a 9-month termination notice.** The 2005 agreement required the PUD to give the City 36 months written notice prior to termination. The notice allows the City to financially plan for reduced revenues collected from the PUD. However, the PUD has diligently communicated with City staff regarding their progress toward becoming independent of the City's water supply. Staff received adequate notice to plan for the loss of revenue from the PUD as a wholesale water customer. Given the coordination between the PUD and the City, a nine month notice is adequate.
- 2. Allows the PUD to collect full amount of revenue from new connections.** General Facility Charges (GFCs) are collected from new customers to help pay for upgrading the drinking water system. In the past, the PUD and the City shared this revenue. The new agreement allows the PUD to collect it in whole. This is appropriate because the PUD constructs their own infrastructure and facilities.

Neighborhood/Community Interests (if known):

None known.

Options:

1. Authorize the Mayor to sign the Agreement.
This new agreement does not require the PUD to pay GFCs to the City for new connections and allows the agreement to be terminated upon nine months written notice. It fulfills the terms of the 2005 agreement requiring the PUD to find an alternative water supply.
2. Do not authorize the Mayor to sign the Agreement.
The 2005 agreement will remain in effect. The PUD will be using their own water supply and they will still be required to pay the City for GFCs as well as a monthly-fixed water charge for 36 months (notice for termination).

Financial Impact:

The revenue collected for GFCs from the PUD varies from year to year depending upon the number of new connections. The number of new connections is typically low.

In 2013, the PUD had one connection and the City received a payment of \$1,357.41.

The PUD pays the City a base fee of \$5,286.61 per month for water service. With the new agreement, the City plans to collect \$5,286.61 per month for nine months rather than 36 months. This will result in a loss of revenue of \$142,738.47. This decrease in Utility revenue has been anticipated.

Attachment:

1. Intergovernmental Agreement for Sale of Water by the City of Olympia to PUD No. 1 of Thurston County
2. Map PUD Service Area