



August 28, 2019

By USPS Regular Mail & Certified Mail

Commissioners
Lake Stevens Sewer District
1106 Vernon Road, Suite A
Lake Stevens, WA 98258

Re: Bond Resolution 969

Dear Commissioners,

I am writing to underscore that the City is fully supportive of the District's plan to refinance existing bond obligations and reduce the interest rate and save ratepayers' money. It is a prudent objective, one that should be applauded by all. I have no doubt that issuance of the refinancing bonds is consistent with the 2005 Unification Agreement ("the Agreement") and is fully supported by the City. We know that under the Unification Agreement and existing law, any transfer of the unified system of sewerage to the City by Assumption is subject to any outstanding indebtedness, bonded or otherwise, of the District. An assumption cannot impair the obligation of any indebtedness or contractual obligation. That is why Section 4.18 of the Agreement requires all new debt obligation of either party be assumable by the other. Investors should have no reason to doubt that in the event of a transfer to the City, their investment remains secure. If, in the District's opinion, there is a need to make this even clearer to facilitate bond refinancing, the City is open to consideration of an amendment that emphasizes and gives even greater clarity to the intent of section 4.18 while not extending the maturity date in section 5.1 or jeopardizing the transfer.

However, the Commission vote at its last meeting was not consistent with the Agreement or necessary to achieve the benefits of a refinancing bond issue. This is of great concern to the City and raises significant legal issues which are discussed below. To reiterate, the refinancing bond issue may be accomplished under the Agreement and we are prepared to support an amendment if needed to make even clearer the intent of section 4.18.

The Commission voted to approve Resolution 969 over objection from Lake Stevens City Administrator Gene Brazel. Gene reminded you that the Utility Committee, charged as an oversight committee under Article 7 of the 2005 Unification Agreement ("the Agreement"), had not yet reviewed or recommended approval by a quorum of its members.¹ Article 9 of the Agreement, cited by your bond counsel, is not a stand-alone provision and must be read consistent with the other provisions of the Agreement, including Article 7. Your unilateral action to approve Resolution 969 was taken without compliance with Article 7 in breach of the Agreement.

¹ Under Section 7.3 "A quorum consisting of a minimum of two (2) members from both the City and the District is required to conduct business and make recommendations.

Chapter 39.34 RCW the Interlocal Cooperation Act is cited in Article I as authority for the District and the City to enter into the Agreement. RCW 39.34.030(4) states that where the agreement *“does not establish a legal entity to conduct the joint or cooperative undertaking, the agreement shall contain Provision for an administrator or a joint board responsible for administering the joint or cooperative effort.”* The Agreement in Article 7 and multiple subsections of Article 4 made provision for a joint board having such responsibility. The District’s ongoing disregard of the Utility Committee’s administrative responsibility will be a significant subject in the upcoming mediation. The District’s lack of regard for the administrative oversight function of the Utility Committee is at the heart of the material issues requiring mediation. Those issues are described in the letter of our City Attorney of May 6, 2019 to your legal counsel. The District’s paper promises in the Agreement with respect to Article 7 are looking more and more illusory over time.

The City Administrator also voiced specific objection to section 16(k) of Resolution 969 and the District commitment not to transfer the System pursuant to the Unified Sewer Agreement prior to the earlier of the maturity date or bond redemption or defeasance. This provision appears totally unnecessary to a successful bond refinancing and negates the mutual promise in section 5.1 of the Agreement, to allow the timing of a section 5.1 transfer to be extended or accelerated at the mutual agreement of the City and District. Section 4.18 of the Agreement requiring the obligation instruments of the District to be assumable by the City is also breached by the commitment in section 16(k). Again, Article 9 cannot be read in contradiction of the other provisions of the Agreement.

I trust this action by the Commission can be remedied prior to issuance of the Bond Disclosure and that the ongoing breach of the Agreement by the District with respect to the responsibilities of the Utility Committee, can be remedied through the dispute resolution process required by the Agreement.

Sincerely,



John Spencer
Mayor