



**LAKE STEVENS
SEWER DISTRICT**
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September 10th, 2019

John Spencer
Mayor
City of Lake Stevens
PO Box 257
Lake Stevens, WA 98258

RECEIVED
SEP 13 2019
CITY OF LAKE STEVENS

Re: Lake Stevens Sewer District Bond Refinancing

Dear Mayor Spencer:

On behalf of the Lake Stevens Sewer District, your letter of August 28, 2019 is acknowledged. That letter has been reviewed and shared with the Lake Stevens Sewer District's legal counsel, bond counsel, financial advisor and staff.

Since your letter references certain provisions in the Unified Sewer Services and Annexation Agreement ("Unification Agreement"), I will discuss those before I discuss some practical matters raised by your letter.

The overall thrust of your letter is to object to the Commission's adoption of bond Resolution 969. First, you suggest that the adoption of Resolution 969 was a breach of the Unification Agreement when, in fact, Section 9.1 of the Unification Agreement specifically states that both the City and the District retain their respective rights to issue bonds and other obligations in accordance with applicable law. Resolution 969 was not required to go before the Utility Committee based upon the express, retained authority stated in Section 9.1 of the Unification Agreement. To suggest that Article 7 of the Unification Agreement somehow affects the plain language of Article 9 and, specifically, Section 9.1, that each party retains their respective rights to issue bonds is simply not a credible reading of the Unification Agreement.

Second, in a further section of your letter you reference Chapter 39.34 RCW, the Interlocal Cooperation Act, and then make a more specific reference to RCW 39.34.030(4) suggesting that the Utility Committee is 'an administrator' because the Interlocal Agreement does not otherwise provide for an administrator. In fact, the District is the *legal entity* responsible for administering the cooperative effort for Step 1. That is clearly established in Sections 3.1 and 4.2 and fully consistent with RCW 39.34.030(4).

The Utility Committee is not intended to be a joint board under 39.34.030(4) to be responsible for administering the joint or cooperative effort. If you read Article 7 and, in particular, Section 7.2, the Utility Committee is to meet once a quarter (but may meet more frequently) so clearly the intent was not for the Utility Committee to be a joint administrative body.

Third, your letter argues that Section 16(k) of Resolution 969 conflicts with Section 5.1 of the Unification Agreement. The former provision provides that the District will not agree to transfer the System pursuant to the Unification Agreement prior to the bonds being paid off. The latter provision allows the City and the District to mutually agree to transfer the System at an earlier date than 2032. At this point, the District has the opportunity to save its rate payers over \$20 million in interest. That alone is a reason to stay with the original time frame and not *mutually agree* to an alternative time frame. While the District cannot speak to the City's priorities, saving its ratepayers such a substantial amount in interest is one of our primary concerns. We hope that would be shared by the City.

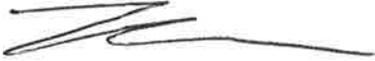
Finally, in that same paragraph, you make an argument that Section 4.18 is applicable to prohibit the bond resolution but, in fact, Section 4.18 applies to the effective date of Step 2, when the System is transferred to the City. As previously discussed, the bonds authorized by the Resolution would be paid off prior to Step 2.

Your letter as reviewed by the Lake Stevens Sewer District Staff and attorneys is not a correct interpretation of the Unification Agreement and is not supportable as a threat to the bond resolution or the bond disclosure statement. We find it hard to believe the City is threatening to jeopardize the savings of over Twenty Million Dollars of ratepayers savings to prove a point based on a flawed legal theory, when victory will just result in a significant financial loss to its citizens. The actions of the City simply defy logic.

As stated above you and the City Council are well aware, the pending Lake Stevens Sewer District bond refinancing will save the District's rate payers over \$20 million in interest plus millions of dollars in financed principal over the term of the bonds. Your letter can only be intended to impair the marketability of the bonds at the expense of its citizens. You are hereby requested to formally withdraw your August 28, 2019 letter and clarify for the record that your statement has been unfortunately and inaccurately confused. The District will expect to receive this letter no later than the close of business September 12, 2019.

If you, on behalf of the City, determine not to withdraw the letter as requested and the bond refinancing is jeopardized as a result of the mischaracterization of circumstances and implications with respect to the Unification Agreement, the District will provide accurate information to its rate payers concerning the bond refinancing.

Very truly yours,



Kevin Kosche

President

LSSD Board of Commissioners

CC: Commissioner Low
Commissioner Lorentzen
Tonya Christoffersen
Kinnon Williams
Brad Cattle