



Transaction Services

City of Lake Stevens / Lake Stevens Sewer District
Synergy Assessment
Final

November 4, 2020

October 30, 2020

999 3rd Ave., Suite 2800
Seattle, WA 98104

Mayor Gailey
City of Lake Stevens
City Hall
1812 Main Street
Lake Stevens, WA 98258

Dear Mayor,

Moss Adams LLP (“Moss Adams,” “we,” “us,” and “our”) has completed our engagement to assist the City of Lake Stevens. (“Client,” “City,” “you,” and “your”) in performing certain procedures in connection with your contemplated merger with the Lake Stevens Sewer District (“LSSD,” “Target”) in accordance with the professional services agreement between City of Lake Stevens, Washington and Moss Adams LLP for consultant services dated Sept 29, 2020.

The objective of our engagement was to assist you with your assessment of the risks and opportunities of the proposed Transaction. The primary scope of our engagement was to obtain, read, make inquiries concerning, and comment on information that you provided to us, directed toward those business activities and related operational data that you identified as important to the Transaction.

The SOW describes the procedures that we performed; a summary of those procedures is included on page 5 of this report. We make no representation regarding the sufficiency of our work either for purposes for which this report has been requested or for any other purpose. The sufficiency of the procedures we performed is your responsibility and those procedures will not necessarily disclose all significant matters about the LSSD or reveal errors in the underlying information, instances of fraud, or illegal acts, if any. Had we been requested to perform additional work, additional matters might have come to our attention that would have been reported to you. You have reviewed a draft of our report and confirmed that the procedures were consistent with those requested by you.

The procedures that we performed do not constitute an audit, examination or review of LSSD’s historical or prospective financial statements in accordance with standards established by the American Institute of Certified Public Accountants (“AICPA”) or by the Public Company Accounting Oversight Board. Except for ascertaining that certain information in tabulations and reports received from the LSSD agreed with the accounting records (as specifically identified in the accompanying working document), we performed no procedures to evaluate the reliability or completeness of the information obtained. Accordingly, we express no opinion or any other form of assurance on the historical or prospective financial statements, management representations, or other data of the LSSD included in or underlying the accompanying information. Accordingly, we express no opinion or any other form of assurance on the historical or prospective financial statements, management representations, or other data of the LSSD included in or underlying the accompanying information, or whether the City will achieve any future cost savings or other financial benefit from the merger with the LSSD.

The data included in this report was obtained from you and the LSSD on or before October 30, 2020. Since many aspects of the contemplated Transaction have either not been finalized or are not yet documented, changes may occur that materially affect the financial and other information we received and reported to you. We have no obligation to update this report or revise the information contained herein to reflect events or transactions occurring after the date of this report.

Finally, this report is intended for your internal use only. No other party is entitled to use or rely on this report.

Please contact Aaron Martinez at (206) 245-5560 if you have any questions or comments on this report. We appreciate the opportunity to assist you in connection with the contemplated Transaction.

Moss Adams LLP



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Section I

Scope of Work

Scope of Work

Summary of Work

The City of Lake Stevens engaged Moss Adams to provide advisory services in connection with the contemplated Merger. Our analysis was limited to a review of the Lake Stevens Sewer District 2019 Actual Expenses, 2020 Budget and supplemental information provided by the LSSD (see table below). In addition, interviews were conducted with the Attendees listed below. The results of our analysis provided a range of synergy options that range from Moderate to Optimal and could result in a cost savings or a cost increase to operations. All work was performed remotely and no onsite inspections were conducted.

Our work was performed from October 5, 2020 through the date of this report, including meeting with the City and the LSSD virtually beginning October 4 and several dates thereafter.

Attendees

1. Tonya Christoffersen, District General Manager
2. Mickie Cooper, Senior Accountant
3. Johnathan Dix, Assistant General Manager
4. Kevin Kosche, Commissioner

Scope of Work

The information in this report is derived from internal information provided by LSSD. Our scope of work did not include physical visitation of the LSSD's main office or facilities nor did we perform any analysis of financial data. Our work solely focused on the scope of work as outlined.

Procedures Performed

1. Review of District study –
 - Baseline City and District operating costs
 - Identify Top Down Synergy Opportunities by Department
 - Quantify all potential initiatives based on top-down hypotheses
 - Provide synergy targets to functional teams and set expectations
 - Benchmark combined operating spend against similar peers (a comparable merger was not available to benchmark combined spend; therefore our report relied upon Moss Adams' integration experience to prepare recommendations using a reasonable estimate if data from 2020 Budgets, 2019 Actuals or 3rd parties was not available)
2. Baseline cost profile
3. Approved list of synergies to investigate
4. Assigned ownership of initiatives

Data reviewed		Provider
1	Unification Cost Savings	Tonya C & Mickie C
2	To Merge or Not...	Tonya C
3	Tasks Outline11092018	Tonya C
4	District Org Chart	Tonya C
5	District 2020 Budget	District Website
6	District employee salaries and benefits	Mickie C
7	City Cost Allocation Plan	Barb S
8	City Administration Salaries and Benefits	Barb S
9	2020 01-02 Snohomish County - Information Technology Services (IT)	District Website
10	Job Descriptions	Mickie C
11	Signed 2019-2020 CBA	Mickie
12	11-27-2018 Agenda	Tonya
13	Org Chart	Tonya
14	Building Spreadsheet Insurance	Tonya
15	CBA Ratification February 2019 – Final	Tonya
16	Email: Subject: Engineering Support	Johnathon



Section II

Synergy Assessment

Executive Summary

Synergies

The primary source of synergies are from restructuring the back-office and eliminate of duplicate expenses across Facilities, Professional Services (i.e., audit, engineering), and other administrative costs (i.e., commissioner salaries, elections, administrative functions).

Costs to Achieve

Migrating to an accrual accounting system presented the largest one-time cost. Less significant costs were identified related to severance, facility changes, and technology replacements.

There are significant ongoing costs increases related to property and general liability insurance, which are anticipated to go into effect in Year 2 since rates apply to the prior year.

Pre-Close Costs

The most significant and variable pre-close cost is legal fees. This analysis is based on the assumption that legal fees will range between \$450,000 and \$1 million.

Financial Impacts

If the merger is accomplished at the lowest estimated cost and the highest estimated savings “Optimal Range”, the 3-year net impact to the merged City/District financial position is a positive cost savings of nearly \$595,000.

If the merger is accomplished at the highest estimated cost and the lowest estimated savings “Moderate Range”, the 3-year net impact to the merged City/District financial position is a negative cost of just over \$28,000.



Optimal Range Scenario

Overview

The following summary presents an optimal-range scenario of the potential financial impacts of a merger to both the District’s Enterprise Fund and the City’s General Fund over a three year period. This analysis includes all one-time and ongoing savings and costs, including pre-close costs.

If the merger is accomplished at the lowest estimated cost and the highest estimated savings, the 3-year net impact to the merged City/District financial position is a positive savings of over \$595,000 with just over a 3 year payback on pre-close costs.

The two largest factors that differentiate the Optimal Case from the Moderate Case are the costs/savings related to human resources and pre-close legal costs.

Combined Synergy Analysis		Year 1	Year 2	Year 3	Total
1	Synergy Savings	\$ 479,659	\$ 563,833	\$ 633,903	\$ 1,677,395
2	One-time Costs	\$ 424,934	\$ 30,000	\$ -	\$ 454,934
	Total Synergy Savings	\$ 54,725	\$ 533,833	\$ 633,903	\$ 1,222,461
3	Ongoing Costs	\$ --	\$ 313,609	\$ 313,609	\$ 627,218
	Total Ongoing Synergy (Cost) Savings	\$ 54,725	\$ 220,224	\$ 320,294	\$ 595,243

Pre-Close Merger Cost		Proposed in FY 2018	Optimal Case
4	Comprehensive Plan Merge	\$ 100,000	\$ 100,000
5	Annexation/UGA	\$ 20,000	\$ 20,000
6	Development Standards Review	\$ 5,000	\$ 5,000
7	Asset Transfer	\$ 25,000	\$ 20,000
8	Legal Fees	\$ 1,000,000	\$ 450,000
	Total Pre Close Cost	\$ 1,150,000	\$ 595,000



Moderate Range Scenario

Overview

The following summary presents an optimal-range scenario of the potential financial impacts of a merger to both the District's Enterprise Fund and the City's General Fund over a three year period. This analysis includes all one-time and ongoing savings and costs, including pre-close costs.

If the merger is accomplished at the lowest estimated cost and the highest estimated savings, the 3-year net impact to the merged City/District financial position is a negative cost of \$28,081 with just over a 7 year payback on pre-close costs.

As noted previously, the two largest factors that differentiate the Optimal Case from the Moderate Case are the costs/savings related to human resources and pre-close legal costs.

Combined Synergy Analysis		Year 1	Year 2	Year 3	Total
1	Synergy Savings	\$ 201,287	\$ 255,509	\$ 633,903	\$ 1,090,698
2	One-time Costs	\$ 441,200	\$ -	\$ 30,000	\$ 471,200
	Total Synergy Savings	\$ (239,913)	\$ 255,509	\$ 603,903	\$ 619,498
3	Ongoing Costs	\$ --	\$ 327,183	\$ 320,396	\$ 647,579
	Total Ongoing Synergy (Cost) Savings	\$ (239,913)	\$ (71,674)	\$ 283,507	\$ (28,081)

Pre-Close Merger Cost		Proposed in FY 2018	Optimal Case	Moderate Case
4	Comprehensive Plan Merge	\$ 100,000	\$ 100,000	\$ 100,000
5	Annexation/UGA	\$ 20,000	\$ 20,000	\$ 20,000
6	Development Standards Review	\$ 5,000	\$ 5,000	\$ 5,000
7	Asset Transfer	\$ 25,000	\$ 20,000	\$ 25,000
8	Legal Fees	\$ 1,000,000	\$ 450,000	\$ 1,000,000
	Total Pre Close Cost	\$ 1,150,000	\$ 595,000	\$ 1,150,000



Fund Impact

While it is critical to understand the overall impact of the merger on the combined City/District financial position, it is also important to note the specific impacts to the District's Enterprise Fund and the City General Fund—as these impacts can ultimately effect rate payers and/or tax payers.

As a result, costs and savings were aligned to show the various impacts to the District's Enterprise Fund and the City's General Fund.

General Fund Offset

Based on the City's current Cost Allocation Plan, the District would be required to contribute almost \$280,000 per year to support City overhead expenses. This funding would essentially provide an increase to the City's General Fund.

For this analysis, the General Fund Offset is considered a cost for the District's Enterprise Fund, and a source of revenue for the City's General Fund.

Assumptions

This analysis assumes that all pre-close costs are paid for exclusively by the City, apart from legal expenses. Legal expenses are assumed to be divided 50/50 between the District and the City.



Fund Impact: Optimal Range

Overview

The table below presents an optimal range of the potential financial impacts of a merger to the District's Enterprise Fund and the City's General Fund, respectively, over a three year period. This analysis includes all one-time and ongoing savings and costs, including pre-close costs and the General Fund offset.

District Enterprise Fund Analysis			Year 1	Year 2	Year 3	Total
1	Savings	\$ -	\$ 479,658.88	\$ 563,832.83	\$ 633,903.03	\$ 1,677,394.74
2	Ongoing Costs	N/A	\$ --	\$ 313,609.04	\$ 313,609.04	\$ 627,218.08
3	General Fund offset	N/A	\$ 279,858.40	\$ 279,858.40	\$ 279,858.40	\$ 839,575.19
	Total Ongoing Savings - Costs		\$ 199,800.49	\$ (29,634.61)	\$ 40,435.59	\$ 210,601.47
4	One-time Costs	\$ -	\$ 94,934.00	\$ 30,000.00	\$ -	\$ 124,934.00
5	Pre-Close Costs 50% of legal	\$ 225,000.00	\$ -	\$ -	\$ -	\$ -
	Total One-time and Pre-Close Costs		\$ 94,934.00	\$ 30,000.00	\$ -	\$ 349,934.00
	Cost/Savings Summary					\$ (139,332.53)
City General Fund Analysis			Year 1	Year 2	Year 3	Total
6	General Fund Offset	N/A	\$ 279,858.40	\$ 279,858.40	\$ 279,858.40	\$ 839,575.19
7	Ongoing Costs	N/A	\$ -	\$ -	\$ -	\$ -
	Total Ongoing Savings - Costs		\$ 279,858.40	\$ 279,858.40	\$ 279,858.40	\$ 839,575.19
8	One-time Costs	N/A	\$ 250,000.00	\$ -	\$ -	\$ 250,000.00
9	Pre-Close Costs	\$ 370,000.00	\$ -	\$ -	\$ -	\$ -
	Total One-time and Pre-Close Costs		\$ 250,000.00	\$ -	\$ -	\$ 620,000.00
	Cost/Savings Summary					\$ 219,575.19



Fund Impact: Moderate Range

Overview

The table below presents a moderate range of the potential financial impacts of a merger to both the District's Enterprise Fund and the City's General Fund over a three year period. This analysis includes all one-time and ongoing savings and costs, including pre-close costs.

District Enterprise Fund Analysis			Year 1	Year 2	Year 3	Total
1	Savings	N/A	\$ 201,286.61	\$ 255,508.81	\$633,903.03	\$ 1,090,698.45
2	Ongoing Costs	N/A	\$ --	\$ 327,183.04	\$320,396.08	\$ 647,579.12
	General Fund offset	N/A	\$ 279,858.40	\$ 279,858.40	\$279,858.40	\$ 839,575.19
	Total Ongoing Savings - Costs		\$ (78,571.79)	\$ (351,532.63)	\$ 33,648.55	\$ (28,080.68)
3	One-time Costs	N/A	\$ 111,200.00	\$ 30,000.00	\$ -	\$ 141,200.00
4	Pre-Close Costs	\$ 500,000.00	\$ -	\$ -	\$ -	\$ -
	Total One-time and Pre-Close Costs		\$ 111,200.00	\$ 30,000.00	\$ -	\$ 641,200.00
	Cost/Savings Summary					\$ (669,280.68)
City General Fund Analysis			Year 1	Year 2	Year 3	Total
1	General Fund Offset	N/A	\$ 279,858.40	\$ 279,858.40	\$279,858.40	\$ 839,575.19
2	Ongoing Costs	N/A	\$ -	\$ -	\$ -	\$ -
	Total Ongoing Savings - Costs		\$ 279,858.40	\$ 279,858.40	\$279,858.40	\$ 839,575.19
3	One-time Costs	N/A	\$ 250,000.00	\$ -	\$ -	\$ 250,000.00
4	Pre-Close Costs	\$ 650,000.00	\$ -	\$ -	\$ -	\$ -
	Total One-time and Pre-Close Costs		\$ 250,000.00	\$ -	\$ -	\$ 900,000.00
	Cost/Savings Summary					\$ (60,424.81)



Section III

Detail Findings

Detail Findings: Human Capital

Opportunity Area	Observation	Consideration
<p>Water Treatment Plant</p>	<p><i>Treatment Plant:</i> The District's organization chart indicates eight employees at the Wastewater Treatment Plant. Because there are no functional overlaps or synergies with City operations, these staffing levels are likely to remain static.</p> <p><i>Sewer System Collections Operators:</i> The District's organization chart indicates six Collection System Operators and one Supervisor of Collections. Because there are no functional overlaps or synergies with City operations, these staffing levels are likely to remain the same.</p>	<p>Treatment plant employees and Collection System Operators are represented by two separate bargaining units; therefore a new negotiation would need to take place as part of the merger to revise the existing contract or consolidate representation with an existing bargaining unit at the City.</p>
<p>Middle office</p>	<p><i>Billing and collections:</i> The District employs three customer service representatives and four accountants to support collections. Billing services are currently outsourced, and the District is in the process of implementing additional online bill pay capabilities.</p>	<p>RCW 35.13A.090 requires the City to offer to employ every full-time employee of the District; however was unclear if retention of employees is required past close. Potential cost savings can be achieved by restructuring roles and responsibilities in the middle office.</p>
<p>Back office</p>	<p><i>Accounting:</i> The District employs four accountants (one Senior Accounting Clerk, three Accounting Clerks) and a Payroll Benefits Coordinator. The Accounting staff have been cross-trained to perform a variety of functions. The District estimates that the team could be reduced by at least one position. In addition, District indicated that a few staff are likely to retire within the next two to five years, which could result in further synergies with lower salaries.</p> <p><i>Customer services:</i> The District employs three customer service representatives (one Customer Service Lead, one CSR/General HR, and one CSR). These representatives process payments and respond to customer concerns. One of these positions could be repurposed to support HR.</p>	<p>RCW 35.13A.090 requires the City to offer to employ every full-time employee of the District; however was unclear if retention of employees is required past close. Potential cost savings can be achieved by restructuring roles and responsibilities in the middle office.</p> <p>The City will need to assess if financial reporting could be absorbed by current staff, which could result in further restructuring.</p> <p>Future retirements will also contribute to savings as replacing some positions will likely be at a lower starting salary.</p>



Detail Findings: Human Capital

No.	Description	Base Case	Moderate	Optimal
SYNERGY SAVINGS		FY 2019 Actuals	Total	Total
1	Salaries	\$ 2,201,518	\$ 261,147	\$ 628,712
2	Benefit savings related to restructuring	\$ 495,113	\$ 87,456	\$ 210,551
3	Medical, Dental, Vision	\$ 504,731	\$ 280,043	\$ 280,043
4	Commissioner Salaries	\$ 23,723	\$ 71,169	\$ 71,169
	Total Synergy Savings	\$ 3,225,085	\$ 699,815	\$ 1,190,475
ONE-TIME COSTS			Total	Total
5	Severance	\$ -	\$ 30,000	\$ 30,000
	Total 1x Costs	\$ -	\$ 30,000	\$ 30,000
ONGOING COSTS			Total	Total
6	Labor and Industry Employee Tax	\$ -	\$ -	\$ -
7	Sick Leave Tax	\$ -	\$ -	\$ -
	Total Ongoing Incremental Costs	\$ -	\$ -	\$ -

Notes

1. Estimate assumes a restructuring to four roles: i) GM (Nov 2020 retirement), ii) HR/ Cust Svcs. (full-time HR responsibilities from GM at retirement; 20% of HR Salary paid by District funds – role may be reassigned to the City on a permanent basis) iii) accounting (attrition), iv) customer service
2. Related employee benefit cost reduction do to restructuring i.e., medical
3. City medical, dental and vision rates are lower than current spend with the District
4. Removal of Commissioner Salaries
5. Possible severance related to early retirement



Detail Findings: Facilities

Opportunity Area	Observation	Consideration
Main office	<i>VBA Building:</i> The District owns its administrative building outright, therefore costs associated with the building are limited to taxes and fees, utilities, and maintenance.	The City and District need to develop a facility cost allocation to determine the amount that would be charged to the City for partial occupancy of the facility.
Maintenance	<i>PUD Building:</i> The District leases a maintenance building for the Sewer Collection System Operators' equipment. Given the City's remodeled maintenance facility, these facilities could be combined resulting in cost savings to the District. Seven employees and nine vehicles to be transferred to the City.	The City and District need to develop a facility cost allocation to determine the amount that would be charged to the District for partial occupancy of the facility.



Detail Findings: Facilities

No.	Description	Base Case	Moderate	Optimal
	SYNERGY SAVINGS	FY 2019 Actuals	Total	Total
1	Field Building PUD Lease	\$ 35,844	\$ 71,688	\$ 101,558
2	Field Building PUD O&M	\$ 10,759	\$ 21,518	\$ 30,484
3	Office Admin Relocation		\$ -	\$ -
	Total Synergy Savings	\$ 46,603	\$ 93,206	\$ 132,042
	ONE-TIME COSTS		Total	Total
4	Build out at District facility	\$ -	\$ 80,000	\$ 80,000
5	PUD Building Lease Buy-out	\$ -	\$ -	\$ 5,974
	Total 1x Costs	\$ -	\$ 80,000	\$ 85,974
	COST TO ACHIEVE		Total	Total
6	Property Insurance		\$ 287,866	\$ 287,866
	Total Ongoing Incremental Costs	\$ -	\$ 287,866	\$ 287,866

Notes

- Optimal: Assumes that the lease is not renewed before 12/31/2021 (District maintenance building lease expires 12/31/2021) and moves to the City facility within two months; Field crew (7 employee and 9 vehicles) will transfer to City PW Building at no additional expense one-time or ongoing.
Moderate: Assumes that the lease is retained thru 12/31/2021 (District maintenance building lease expires 12/31/2021); no lease renewal
- Associated reduction of utility and maintenance expense reduction for the Field Building
- City admin staff will move to the District facility to consolidate operations; since both the City and District own their building no additional rent savings are expected; additional City utility savings are likely and need to be researched
- Estimated cost to build-out office space for City admin to work from District building ~25 employees; assumes transfer will be completed within 3 months after post close; depending on condition of current facility lease improvements could range between \$40,000 - \$80,000 for a moderate upgrade.
- No early lease termination costs are expected if merge is completed before 12/31/21; lease requires 60 days advanced notice to terminate agreement
- Incremental property insurance for District to be added to the City's plan, assumes the District no longer leases the PUD Building and moves into the City's Public Works facility. Assumes property insurance would be applied starting in Year 2 since rates are retroactive.



Detail Findings: Professional Fees

Opportunity Area	Observation	Consideration
Engineering	<i>Grey & Osbourne:</i> The District contracts with G&O to perform sewer-specific engineering tasks, including some plan review and inspections. While there may be synergies related to the City inspector conducting inspections, there will likely be an ongoing need for G&O services to provide specialized sewer engineering expertise.	Additional diligence would be required to understand types of engineering service and inspections that can be shared with the City.
Internal Service Support	<p><i>Accounting:</i> The District contracts with a CPA to conduct a third party review of financials, which could be eliminated and conducted by the City's Finance team.</p> <p><i>HR Support:</i> The District contracts a small amount of HR Support and lacks dedicated HR staff; the City could take on this additional responsibility. HR is a dual role shared by the General Manager and a Customer Service resource.</p> <p><i>Legal Fees:</i> The District contracts with a Legal firm to perform general support (including \$12,000 to attend monthly meetings), bargaining support, and unification support. Unification legal fees are accounted for separately in one-time costs and the City Attorney's Office could provide general legal support for District operations.</p>	The District has a \$12,000 retainer with its contracted attorney to attend monthly commission meetings. May be additional synergies if the City attorney can take over this responsibility.
Audit	<i>State Auditor:</i> The annual State Audit for the District would be combined with the City's annual audit, resulting in cost savings.	



Detail Findings: Professional Fees

No.	Description	Base Case	Moderate	Optimal
	SYNERGY SAVINGS	FY 2019 Actuals	Total	Total
1	Engineering & Inspections	\$ 34,477	\$ 10,343	\$ 20,686
2	CPA (Reflects 2020 budget amount; 2019 expense not incurred as of Sept 2020)	\$ 10,000	\$ 30,000	\$ 30,000
3	HR Support	\$ 4,533	\$ 13,599	\$ 13,599
4	Legal Fees	\$ 53,763	\$ 57,201	\$ 98,058
5	State Auditor's Office	\$ 17,382	\$ 52,146	\$ 52,146
	Total Synergy Savings		\$ 163,289	\$ 214,489
	ONE-TIME COSTS		Total	Total
6	Migrate from cash basis to partial accrual accounting	\$ -	\$ 250,000	\$ 250,000
	Total 1x Costs	\$ -	\$ 250,000	\$ 250,000
	ONGOING COSTS		Total	Total
	None noted.	\$ -	\$ -	\$ -
	Total Ongoing Incremental Costs	\$ -	\$ -	\$ -

Notes

- Assumes City engineer can replace up to 20% of existing workload; remainder of spend is allocated for expertise that may not reside with the City. Additional diligence into specific services may result in additional savings. Timing of when the City can take on additional responsibility will determine timing of synergy.
- Elimination of duplicate CPA costs (2020 budget).
- Assumes HR support provided by the City's HR Department i.e., legal, investigations.
- Combination of legal fees for regular needs (\$32,686), bargaining (\$21,077), and unification (\$34,417). Assume savings of \$32,686 annually (reflects regular fees), this function would be filled by the City Attorney. Unification costs accounted for separately in one-time costs and bargaining costs likely to continue on a biennial basis (cost incorporated into year 2).
- District enterprise fund audit will become a component of the City's annual audit.
- While this appears to be a conservative estimate to change accounting methods; additional diligence would be required to validate level of complexity, quality of subsidiary schedules in place, time required to investigate prior year expenses requiring reclassification.



Detail Findings: Other Items

Opportunity Area	Observation	Consideration
Elections	<i>Commissioner Elections:</i> In the event of a merger with the City, the District commissioner positions would be eliminated; therefore election costs associated with commissioner elections would be eliminated.	
Memberships	<p><i>Conferences:</i> The District currently provides commissioners with the opportunity to attend the WASWD Conference annually.</p> <p><i>Membership Dues:</i> The District currently participates in the WASWD, which would no longer be applicable in the event of a merger with the City.</p>	Continuing education should continue for the Sewer functions; while these costs reflect a reduction in this association's membership, additional costs are likely to arise to support continuing education and technical expertise.
Operating Fee	<i>UAF:</i> The District currently pays the City a small fee for services provided; this fee would be eliminated in the event of a merger.	
Technology	<p><i>IT:</i> In January 2020 the District outsourced IT services to Snohomish County, which includes hardware rentals and general IT support. This contract could be terminated and transitioned to the City.</p> <p><i>Software:</i> The District uses Caselle for its ERP and Cityworks for asset management; the City is interested in adopting these systems and retiring its existing systems. License fees per City user would be added, but the overall cost of the City system reduced.</p>	The District operates some highly technical software and systems in its operations including CCTV and SCADA. While the County also uses these systems, the City may not have experience with either.
Office Equipment	<p><i>Telephone/Internet:</i> The City's telephone and internet provider would not charge additional funds to add lines to the existing plan, which would result in potential cost savings for the District which currently maintains a separate system.</p> <p><i>Office Equipment:</i> Because of the City's larger size, an estimated 10% cost reductions associated with purchasing power may be realized on behalf of the District.</p>	



Detail Findings: Other Items

No.	Description	Base Case	Moderate	Optimal
		FY 2019 Actuals	Total	Total
SYNERGY SAVINGS				
1	Election Costs	\$ 10,000	\$ 20,000	\$ 20,000
2	Admin Conf/Travel/Mileage/Meals	\$ 7,621	\$ 18,000	\$ 18,000
3	Dues Certs & Subscriptions	\$ 5,766	\$ 8,649	\$ 8,649
4	City Operating Fee (UAF)	\$ 15,000	\$ 45,000	\$ 45,000
5	Telephone/internet	\$ 2,550	\$ 7,650	\$ 7,650
6	Office equipment	\$ 12,590	\$ 3,777	\$ 3,777
7	IT Support/Computer Maintenance Expense	\$ 46,742	\$ 14,023	\$ 14,023
8	Field Computer Software Maintenance	\$ 17,633	\$ 5,290	\$ 5,290
9	Financial software transition	\$ 6,000	\$ 12,000	\$ 18,000
	Total Synergy Savings	\$ 123,902	\$ 134,389	\$ 140,389
ONE-TIME COSTS				
10	Technology replacement	\$ -	\$ 111,200	\$ 88,960
	Total 1x Costs	\$ -	\$ 111,200	\$ 88,960
ONGOING COSTS				
11	General Liability Insurance	\$ -	\$ 359,713	\$ 339,352
	Total Ongoing Incremental Costs	\$ -	\$ 359,713	\$ 339,352

1. Biennial election cost removal; reflects 2019 budget expenditure, (2020 not an election year)
2. Elimination of annual WASWD Conference costs for commissioners
3. Elimination of WASWD Dues and Subscriptions for commissioners
4. Eliminate of City Operating Fee for the District
5. According to the District's Senior Accounting Clerk, the District recently switched to County-provided telephone/internet service which resulted in a cost reduction-- therefore, we used 2020 budgeted numbers for this analysis rather than 2019 actuals. According to the City's CFO, there are no additional costs to add staff members to City phone lines.
6. Assumption that office equipment costs will go down due the bulk purchasing power of the City. Assume 10% cost saving advantage with the City.
7. Assumption of 10% savings to insource IT Support with the City
8. Assumption of 10% savings to insource IT Support with the City
9. Assumption that City would adopt the District's Caselle System and stop using Springbook system; City's Springbrook licenses costs \$15k per year - Caselle licenses are \$1000/person. According to the City's CFO, at least 9 employee would require Caselle licenses.
10. District leases IT equipment from Snohomish County; equipment will need to be replaced; 90 day advance notice to terminate agreement; agreement terminates Dec 2023 City should explore option to purchase existing equipment; contract suggest equipment may be purchased at amortized value
11. Assumption that general liability insurance for the District's properties would increase due to the City's higher liability rates. Rate estimated provided by the City's HR Director and adjusted to the human capital efficiencies expected. Rates applied starting in Year 2 since rates are applied retroactively.



Detail Findings: Pre-Close Costs

No.	Description	Proposed in FY 2018	RANGE	
			Moderate	Optimal
	Pre-Close Considerations			
1	Comprehensive Plan Merge	\$ 100,000	\$ 100,000	\$ 100,000
2	Annexation/UGA	\$ 20,000	\$ 20,000	\$ 20,000
3	Development Standards Review	\$ 5,000	\$ 5,000	\$ 5,000
4	Asset Transfer	\$ 25,000	\$ 20,000	\$ 25,000
5	Legal Fees	\$ 1,000,000	\$ 450,000	\$ 1,000,000
	Total One-Time Costs	\$ 1,150,000	\$ 595,000	\$ 1,150,000

Notes

1. CHS Engineering estimated cost for merging the new Comprehensive Plans. Estimate includes internal costs that is not incremental to the business and not considered a one-time cost.
2. Annexations needed to enable district service to areas that lie outside the City UGA. Estimate includes internal costs that is not incremental to the business and not considered a one-time cost.
3. Update of utility code and sewer construction standards. Estimate includes internal costs that is not incremental to the business and not considered a one-time cost.
4. Review of asset listing and tracking for replacement, funding schedules, and warranties. Estimate includes internal costs that is not incremental to the business and not considered a one-time cost.
5. Estimate is based on the Ronald-Shoreline merger where an estimate of their costs was derived for the City and District.



Section IV Organization

Detail Findings: Organization

