

**INTERLOCAL AGREEMENT BETWEEN CITY OF VANCOUVER AND
CLARK REGIONAL WASTEWATER DISTRICT
REGARDING MERGER TRANSITION FEASIBILITY STUDY**

THIS AGREEMENT ("Agreement") is made and entered into this 9th day of January 2007, by and between CITY OF VANCOUVER ("City") and CLARK REGIONAL WASTEWATER DISTRICT ("District"), Clark County, Washington (collectively, the "Parties"), each Washington municipal corporations.

RECITALS

A. An HDR Engineering report entitled "Clark County Public Works Department Regional Wastewater Study," dated August 2005 ("Wastewater Study"), examined the regional wastewater treatment alternatives in the areas of governance and representation, financial impacts and planning, management and operations. The Wastewater Study concluded generally that none of the governmental agencies is the best regional wastewater treatment provider, either in the long term (beyond 20 years) or the near term (next 10 years). The Wastewater Study observed that Clark County and Clark Public Utilities rank highly as long-term regional wastewater treatment and resource management agencies, having county-wide authority and representing a broad range of planning, integrated resource management and funding options. However, the Wastewater Study noted that neither had indicated an interest in assuming such a long-term regional wastewater treatment role. Additionally, the Wastewater Study primarily focused on county-wide regional wastewater treatment issues and did not examine wastewater collection issues or consider the feasibility of consolidating services at a level less than county-wide.

B. In view of the Wastewater Study, in April 2006 the District and Clark County entered into a Memorandum of Understanding to do a Preferred Alternative Study (PAS) that would investigate and consider the transfer of all or some of the facilities and real property of the District to Clark Public Utilities, in order to facilitate the creation of a countywide regional wastewater utility.

C. The District's Board of Commissioner's reasoning for participating in the PAS, was to determine if there could be significant long-term cost savings to existing customers with the consolidation of both water and wastewater services into a single utility.

D. However, neither the County Wastewater Study or PAS considered consolidation of District services with the City of Vancouver as a viable option in more than just a cursory manner.

E. Accordingly, both the City and the District desire to conduct a study to review the benefits associated with a coordinated transitional consolidation of the District's service area into the City's service area. Both the District and the City are interested to ascertain whether their

respective customers could realize long-term cost savings through a coordinated transitional merger over the next ten years.

F. The District's Board of Commissioners are interested in a comparative analysis of the two options and a status quo option (not consolidating services with either the City of Vancouver or Clark Public Utilities), and agree it would be in the best interest of its customers to enter into a Merger Transition Feasibility Study with the City of Vancouver at this time.

G. The purpose of this Interlocal Agreement, entered into pursuant to Chapter 39.34 RCW, is to authorize and fund a Merger Transition Feasibility Study for the District service area.

AGREEMENT

The Parties agree as follows:

1. Study Lead Agency. The Parties authorize the District to serve as lead agency for the preparation and administration of the Merger Transition Feasibility Study.

2. Scope of Work; Execution of Consultant Contract. The scope of work for the Merger Transition Feasibility Study shall be substantially in the form of the Scope of Work prepared by Financial Consulting Solutions Group dated December 12, 2006, which is attached hereto and incorporated herein. The District shall enter into a consultant contract with Financial Consultant Solutions Group ("Consultant") for the preparation of the feasibility study. Pursuant to the contract, the Consultant shall perform the work as an independent contractor, and not as an employee of any of the parties.

3. Cost of Study; Payment Share. The cost of the feasibility study shall be based on time and materials, and shall not exceed \$110,185. The Parties shall each pay for one-half of the cost of the feasibility study. Upon receipt of a billing from the Consultant, the District shall send an invoice for one-half of the billing amount to the City. The City shall pay the invoice within 30 days of receipt. Interest shall accrue on any unpaid amount at the rate of twelve percent (12%) per annum from the date due until payment in full.

4. Entire Agreement. This Agreement contains the entire written agreement of the Parties and supersedes all prior discussions. This Agreement may be amended only in writing, signed by both Parties.

5. Execution and posting. Duplicate originals of this Agreement shall be procured and distributed for signature by the necessary officials of the parties. Upon execution, one executed original of this Agreement shall be retained by the Vancouver City Clerk and one shall be retained by each of the other parties. The Vancouver City Clerk shall cause a copy of this Agreement to be posted on the City website pursuant to RCW 39.34.040. Upon execution of the originals and posting of a copy on the City's website, each such duplicate original shall constitute an agreement binding upon all parties.

6. Amendments. The Parties expressly reserve the right to modify this Agreement, from time to time, by mutual agreement. No modification or amendment of this Agreement shall be effective unless in writing and signed by the authorized representatives of the Parties.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their authorized representatives on the date first above written.

CLARK REGIONAL WASTEWATER
DISTRICT

APPROVED AS TO FORM:

SIGNATURE ON FILE

SIGNATURE ON FILE

Norm Harker, President

Rod P. Kaseguma, District Counsel

CITY OF VANCOUVER

CITY OF VANCOUVER

SIGNATURE ON FILE

SIGNATURE ON FILE

Royce E. Pollard, Mayor

Pat McDonnell, City Manager

ATTEST:

APPROVED AS TO FORM:

SIGNATURE ON FILE

SIGNATURE ON FILE

R. Lloyd Tyler, City Clerk
By: Carrie Lewellen, Deputy City Clerk

Ted H. Gathe, City Attorney

December 12, 2006

Mr. Robert Bandarra
General Manager
Clark Regional Wastewater District
8000 NE 52nd Court
PO Box 8979
Vancouver, WA 98668

Re: Enclosed Scope of Services and Budget Exhibit A – Merger Transition Feasibility Study

Dear Mr. Bandarra:

Enclosed is the final version of Exhibit A - Scope of Services and Tasks – Merger Transition Feasibility Study along with our final budget estimate and schedule work sheet for you to include or use as appropriate. As noted in our November 30 cover letter with the final draft scope, this will be a study jointly funded and participated in by the Clark Regional Wastewater District (CRWD) and the City of Vancouver (COV). This final document incorporates the suggested edits and revisions that you and Brian Carlson requested via your telephone call to me yesterday December 11, 2006. I believe that this document now incorporates the final edits and revisions that address your collective thoughts. Again, it is my assumption that this Exhibit A can be appended to a District consulting agreement, and that we can proceed to get a contract executed in time to start work by mid-January 2007.

As before, there is a slightly revised Budget Schedule 1 and a General Schedule 2 attached for inclusion in the Agreement. I adjusted some of the time to reflect the elimination of a start-up workshop. But I also increased some time to better address the spin off issue comparison of the potential 30% annexation to Vancouver given a CPU merger (hopefully to now be addressed by CH2M Hill per your thoughts).

Please do not hesitate to contact me with questions at 425-867-1802 Ext. 223. Otherwise, I look forward to receiving your draft Consultant Agreement for my review. Hopefully we will be able to work through any contractual issues quickly. Thank-you for this opportunity to again, work for the CRWD as well as for the COV.

Very truly yours,

David W. Findlay
Principal-in-Charge

**Clark Regional Wastewater District
City of Vancouver
Scope of Services and Tasks – Merger Transition Feasibility
Study
Exhibit A**

Study Overview

The Clark Regional Wastewater District (District) and the City of Vancouver (City) have mutually agreed "to evaluate the pros, cons and business or governance issues pertaining to a possible transitional form of transfer of the District's sewer collection operations and maintenance, personal and real property assets, and service area to the City within a mutually agreed upon timeframe. Separate sewer collection and treatment plant governance options have either already been evaluated by Clark County at a general level or are now being studied in more detail, e.g., the feasibility of the District merging with the Clark Public Utilities (CPU) and perhaps even the County transferring ownership of the Salmon Creek Wastewater Treatment Plant (SCWWTP) to CPU. The District is also interested in examining operating options and the potential for non-capital cost savings via having one party operate all three wastewater treatment plants e.g., the City's two plants and the SCWWTP. While the option of a merge with CPU is an important planning consideration for the District's Commissioners, the District has decided that it also needs to seriously evaluate a merger with the City of Vancouver as it plans for its future and governance options. The purpose of this study is to evaluate the potential cost savings and the governance option for the District and the City of Vancouver.

The District will contract with FCS Group to do the Study and its General Manager will serve as the client study manager. Study funding will be shared between the District and the City based on a mutually agreed upon arrangement.

About FCS Group

The District and the City have mutually agreed to retain FCS Group (Consultant) to assist the parties in their discussions and negotiations by conducting a thorough business like evaluation of the District-City merger option. FCS Group is a specifically qualified financial and management consulting firm with extensive investor-owned and municipal sewer and water utility assumption, merger and divestiture experience. Moreover, the core business of our consulting practice has been the completion of over 900 out of over 1,350 total engagements that have entailed sewer and/or water rate studies, capital recovery analyses, long range financial planning, reserve analyses, operational reviews and benchmarking. We currently, and have for a number of years, served over 330 municipal Districts located in 10 states and western Canada. FCS Group now employs 20 consultants and four (4) business management and office personnel, located in our three (3) offices: Redmond, WA, Milwaukie, OR and San Francisco, CA. We also have a long-standing professional relationship with the Clark Regional Wastewater District, the City of Vancouver, the City of Battle Ground and Clark County on a variety of utility rate, financial and management consulting assignments, and believe that we are well suited to *independently and objectively* perform this proposed work.

This scope of work is proposed as a two-phase process.

Phase I – Background Information, Issues and Impact Analysis

Phase II – Resolution Agreement & Implementation Services (Optional)

General Scope of Work Overview

Phase I – Background Information, Issues and Impact Analyses

The first phase will be a review, analysis and evaluation of:

- 1) The Status Quo or Base Case, defined as no change to the ownership, operation and maintenance of existing and new sewer collection infrastructure and growth area.
- 2) a partial Merger of the District and City of Vancouver at the end of 10 years or another shorter, agreed upon timeframe defined by the relative point in time that a full merger would not make economic or financial sense or that the remaining District could remain financially viable and representative because the service area, number of customers (representation issue), allocable share of all debt service, and overall operating and pay as you go capital costs would remain outside the then incorporated boundary, or
- 3) a full merger of the District into the City at the end of 10 years or another shorter, agreed upon timeframe if the City annexations include a sufficient portion of the formal service area at that time, to render the remainder portion of the District outside the City limits as potentially a non-financially viable or economically advantaged sewer agency..

Before this study, Clark County commissioned CH2M Hill to evaluate another governance or merger option, e.g., the Clark Regional Wastewater District with Clark Public Utilities. That governance option will also consider CPU taking over the County's Salmon Creek Wastewater Treatment Plant assuming a merger of the District into CPU was to occur. We have asked that the District expand the scope of the CPU Merger study to look at the legal feasibility of CPU being able to include the full District service area including that area where the City of Vancouver serves water and has near term annexation plans. In essence, that would be a comparable partial merger scenario to compare to with the partial Merger analysis to be done in this study. If the CPU Merger study is completed in advance of this study's draft report, it would be useful to review the draft report and compare the findings and conclusions from both studies. In other words, if a partial or full merger of the District into either the CPU or the City of Vancouver is warranted at some time in the future, we would want to make our own independent and objective assessment as to which option or options might best serve the interests of a majority of District-City sewer rate payers over the long run.

As with any potential business or utility merger or acquisition, there will be important human, financial and capital resource management issues and impacts to evaluate before a decision is made about the future governance of the District. Some questions we are already thinking about include:

- Could the District's rate payers realize lower costs of service and deferred rate revenue requirement increases due to being part of a much larger, existing sewer organization?

- Could the District and/or the City's rate payers benefit from a gradual transition of operations, maintenance and finally asset ownership to the City over an agreed upon period of years?
- Could the City benefit by having a more direct involvement in the associated land use planning, permitting and building code processes by owning and operating sewer collection systems throughout its current Urban Growth Area?
- How might the District-City governance option look financially in comparison with the District-CPU option, if the City of Vancouver ownership of the SCWWTP was to become part of a final regional treatment capacity management solution, e.g., a regional wastewater collection and treatment agency with a significant customer base and resources, reduced treatment labor costs, and more optimal treatment capacity management?
- What might be the City of Battle Ground's concerns and interests in a District merger with the City, and possibly City ownership of the real and personal SCWWTP properties e.g., the City of Battle Ground has an on-going legal and financial interest in its treatment capacity at the plant?
- Would it be financially and pragmatically feasible to establish uniform sewer rate and connection fee structures within the District and City service areas before a partial or full merger takes place after 10 years?
- What is the relative cost benefit to the District and cost impact to the City of a "true cost of service" rate for the City to treat District wastewater?
- What can and should be the City's and the District's future role (assume merged) be with how wastewater treatment services are provided to the north county area (Ridgefield, Battle Ground, La Center, the tribe and the District), e.g., areas outside the City's designated Urban Growth Area? Is the answer to this question different than the conclusion reached in the County's own governance study which was that the County or CPU would be the best providers, at least in terms of regional authority, of regional wastewater treatment service in the broader, rural areas?
- At what point within the context of actual City annexations within its UGA, would a partial City assumption of District service areas and assets leave the remaining District in a likely position of being financially non-viable to economically serve the remaining unincorporated service areas?
- How might the transition from a District and City to a full City sewer utility incorporate the concept of keeping the District in place (no immediate dissolution after the merger), along with its Commissioners, to address outside City representation issues?
- Would the City be willing to charge outside City customers of the District and the City the same as inside City customers? This is essentially an issue of blending rate revenue

requirements as opposed to the City continuing to charge customers outside the City a 50% surcharge.

- Should or would the City also be able to charge the outside City customers obtained via a merger with the District, the City's local utility tax? If no, then can the sewer rates be blended – be the same- inside the city and outside and still provide economic and equitable benefit from a merger?

In many similar assignments, technical engineering issues have had a material effect on the merger feasibility, net benefit question and/or implementation process of two utilities. Some of the well known system engineering issues have been:

- potential for integration of sewer collection systems operations and/or maintenance scheduling;
- potential for improved 24-7 sewer system monitoring and timely critical response to emergencies with a consolidated telemetry system;
- significantly different capital improvement planning and spending requirements;
- opportunities for improving systems maintenance and operations;
- opportunities to improve collection systems performance;
- problems with adaptation of unified development standards; and
- opportunities to drastically improve wastewater treatment resource capacity management.

In this case, many of the technical issues of governance have been or are already being studied by the County, the District and/or the City of Vancouver's consulting engineers. The City of Battle Ground has also studied various technical options for treating its own future growth related wastewater flows. In addition, the District does not own the Salmon Creek Wastewater Treatment Plant (SCWWTP), so that might not be an immediate matter of a merger impact between the District and the City, e.g., as long as the County owns the SCWWTP, it is unlikely that operating costs could be assumed to materially change due to a District merger with the City of Vancouver.

However, there could be other benefits for the District's rate payers such as increasing the diversion of District wastewater flows to one or both of the Vancouver treatment plants (the City has significant treatment capacity to apply in certain areas of the UGA), thus there is the potential to cost effectively free up more capacity to serve planned growth at the County's SCWWTP. Of course that potential also exists with both the status quo or merger options. Again, within the limited Phase I County governance study, the potential benefits of Vancouver owning the SCWWTP were not considered to outweigh a more "regional governance model" such as turning over those assets to Clark Public Utilities. *So for this study, the objective is to determine if the "merger" of collection systems is first and foremost a merger that can stand on its own merits as a substantial net long-term benefit to the rate payers* We are not engineers, but it certainly stands to reason that effective, long-term management of the existing and near-

term expansion of wastewater treatment plant capacity within the City and the County could provide further opportunities to delay the need for further treatment capacity expansion and provide significant cost economies of scale. We do hope to explore the potential cost benefit of the City of Vancouver owning and operating the SCWWTP via its contract operator, Veolia.

As such, we do *not plan to subcontract* for an independent engineering review and analysis of the respective comprehensive plans and technical feasibility and benefits of managing wastewater treatment plant capacity per se. The District and City should address those issues with the County when the time is right. Rather, we propose to review the findings and conclusions contained in the other applicable studies, and from a business perspective of a merger, look for critical or important issues and information that might help us sort out the pros and cons of unifying the District and the City. As the Consultant for this study, we ask that we be allowed to meet or contact the City's engineers and/or the District's consulting engineer as appropriate to obtain input, information and perhaps answers to questions relevant to the study objectives. The District shall coordinate any contact with the respective consulting engineers and also require timely cooperation. In addition, we would expect that the City will retain at their expense Veolia, its wastewater treatment contract operator to perform an independent analysis of what it would take in terms of manpower to operate the SCWWTP if owned by the City and operated and maintained by Veolia. This is a tangential matter of importance to the merger question because although the SCWWTP is operated and managed by County employees, it seems that in the long-run, the City's approach to contracting its operations of the SCWWTP would offer significant potential for annual cost savings.

Please note, any detailed analysis or necessary amendments to the existing comprehensive plans would become part of a future effort by the District and the City depending on the direction the Commissioners and City Council decide to take.

The District shall manage the Study and shall provide coordination and communication within and between the District and the City in support of the Consultant's information needs, interviews with employees and respective consulting engineers. *Based on our experience with trying to get cooperation and coordination of meetings with other consultants such as engineers, we must ask that the District and the City formally require that their consultants respond to our requests for answers to questions, specific information and meetings in a timely manner. This will help to facilitate useful and timely support to our study from the other consultants in keeping with their other, perhaps more pressing professional obligations.*

We propose that the Phase 1 Scope of Services will:

1. Prepare a general history of the District's and City's sewer collection system, a description of the major components of physical plant owned by each utility, and a description of the management, administrative and operations structure of each organization.
2. Provide a financial summary for each utility to include the previous five (5) fiscal years (2002 through 2006, fiscal year ended December 31). Include a brief description of each utility's historical philosophy concerning sewer rates and charges;

e.g., funding depreciation and/or replacement of existing infrastructure, use of debt to fund capital improvement projects, capital recovery mechanisms, and other significant policies relevant to the study's objectives.

3. Evaluate and report on the potential impact of a merger on near and longer-term sewer rates and charges, with a stress test or two in terms of conservative and more optimistic assumptions concerning levels of labor cost and capital spending requirements.
4. Identify major capital improvement projects actually planned by each utility for the next ten (10) years, their timing and how they are expected to be funded. Use as much existing information from most recent rate study updates, coupled with optional spending assumptions given a merger and perhaps a change in use of the SCWWTP by diverting more District flows to existing City treatment plants.
5. Evaluate and comment on the affect that a merger might have upon the ability of each agency to finance previously planned improvements and/or avoid or defer some capital projects due to a merger.
6. Evaluate each utility's bond covenants and loan agreements for significant impacts of a merger. Identify political or financial issues that might affect the ability of either or both utilities to issue near or long term debt while working through this process.
7. Identify and outline the required legal process and procedural steps to follow given a natural, non statutory merger between the District and the City. The District and/or the City will retain a qualified legal consultant to do this work.
8. Assume that there are no external or internal issues and provide a reasonable time line to implement an interlocal agreement, implement critical or known regulatory and boundary review processes within Clark County (which no longer has a County Boundary Review Board), and whether a merger of the District into the City might trigger the need for a ratepayer vote (which is required for a statutory merger of two or more special districts). This study objective should assume a cooperative and mutually agreed upon decision to merge over a stipulated transition period, and that resolutions of intent will have been jointly approved by the District and the City that authorize legal implementation
9. Identify the legal advantages and disadvantages of a merger, including, if any, legal impacts upon the District's and the City's ratepayers.
10. Identify areas for potential long term administrative and operating cost savings as a consequence of a merger (exclude the consideration of direct staff reductions other than by an assumed level of normal attrition) or potential reorganization which would ultimately be a management issue. In turn, determine if there could be some additional and/or unanticipated expenses (one-time or on-going) that could be expected as a consequence of combining the District and City sewer collection utilities say in 10 years

11. Separately integrate Veolia's findings and conclusions pertaining to managing and operating all three (3) wastewater treatment plants, into this study in terms of potential, incremental benefit of a District- City merger
12. Identify and outline a recommended public outreach strategy that will serve both the interest of employees of the District and the City and the rate-payers, in order to better facilitate a merger.
13. Identify and list operations, human resources, and administrative support implementation issues with respect to a merger. These issues should include, but are not limited to:
 - Transition planning for administration, operations and maintenance, e.g. possibly a gradual shift in which utility replaces personnel as attrition might take place at the District.
 - Employment or retention agreements, extension provisions, and transitional policy issues.
 - Employment opportunities for all District personnel that might no longer be needed at CRWD at some point during the transition to a full merger with the City.
 - Possible disposition of duplicate facilities; e.g., buildings and property; major, high cost pieces of equipment, vehicles
 - Differences in health and liability insurance, e.g., employee and family coverage, employer payment of premiums, carry forward to retirement, disability coverage, etc.
 - Employee compensation, retirement and tenure policy comparison and gap assessments.
 - Possible organizational realignment issues within a larger sewer utility.
 - Other transition issues

Phase II – Resolution Agreement & Implementation Services

Assist management, staff and legal representation to prepare a draft Interlocal Merger Agreement (IMA), as appropriate to any merger authorization mutually approved by both governing bodies. This work shall be done through consultation with District and City staff, and respective elected officials. Consultant will provide consulting services as may be requested by District following the selected implementation process on a time and expense basis. Phase II goals and a task plan might be warranted, and can be developed and provided to the District and City if requested at that point in the merger process.

Phase I Study Goals and Objectives

The Consultant will obtain existing data and information to be provided by the District and City, and might decide to conduct some manager and supervisor level interviews, with the District coordinating the study process. The planned task objectives to meet the agreed upon scope of work are to:

- Determine the current and projected fiscal health of the District and the City by comparing and evaluating the 2002 through 2006 (5-years) balance sheet and income statement reports.
- Identify potential, significant administrative, operational and maintenance cost avoidance or savings that might be realized over the long-term by both the District and City sewer customers.
- Identify potential administrative and management work flow benefits, if any, from merging operations and maintenance staffing, equipment needs, and capital improvement planning and spending.
- Identify potential benefits, if any, from merging or co-administering general and administration functions, and the projected net merger impacts in the form of revenue or cost per ERU.
- Document critical legal processes and benefits or issues for each alternative to the status quo (City or District tasks).
- Identify issues and significant impacts of a merger in terms of existing and future long-term debt and other third party obligations.
- Identify Commissioner, City Council, and City of Battle Ground management and other staff issues and concerns, and the pros and cons that might result from entering into a long-term merger agreement.
- Address transition and post-merger sewer rate structure and rate and charge unification potentials.
- Determine how the City's true cost of wastewater treatment per gallon compares with the current and forecasted SCWWTP cost per gallon, operating, capital and fully loaded overheads included.

Phase I – General Work Plan

The Consultant's general approach to Phase I will be to:

- Initiate Study process and data and information collection, and conduct one or two all District-City staff workshop(s), and advise District and the City on form and substance of

public communications regarding the Study. Consider special invitations to City of Battle Ground and Clark County.

- Evaluate the physical and political challenges involved with implementing either a partial or full merger compared to a status quo or Base Case option.
- Review and evaluate important interlocal agreements that might be affected by a change in governance or where a third party might be caused to intervene against or in support of a change.
- Provide a comparative fiscal evaluation of the options, including economic, financial and across-the-board rate revenue requirement impacts. Use an equivalent unit of service method of comparing options to avoid the problem of comparing policy and operating impacts that are embedded in different rate structures for collecting sewer revenues. Consultant will evaluate if and how merged general administration and non-capitalized engineering costs might blend without negatively impacting either District's customers as a result of a change in governance.

The final direction that Consultant's work will ultimately take will depend on the completeness and availability of requested information from both the District and the City, and the materiality or significance of embedded planning, long-range goals and political interest related issues to the governance evaluation process.

Task A. Study Initiation

The Consultant will begin the study by reviewing the joint District and City "press release" about the study and provide feedback, and then prepare for a study start-up meeting. We would urge that one or two key members of District and City management attend if possible to show support for the study. The purpose of the start-up meeting will be to:

- Communicate the study objectives, information requirements, and preliminary schedule.
- Differentiate this study objectives from the CPU Merger study objectives and potential outcomes, and
- Answer any questions or concerns about this study, its objectives and possible outcomes.
- Obtain feedback from staff about concerns with the idea of a future merger and possibly even a closer working arrangement over a transition period in terms of shared personnel and equipment.

Optional - The District and the City may invite the respective consulting engineers and legal consultants or internal advisors to attend the workshop(s) to facilitate coordination and assistance

in answering FCS Group questions about the respective sewer comprehensive plans, and any potential for significant impacts of a merger over the long-term (ten to twenty years) if any.

Deliverables:

- Start-up Meeting Preparation Time
- One ½ day study start-up meeting

Task B. Data and Information Collection

The District and City will provide “available” financial, accounting, engineering, planning, customer service and legal documents. The following types of studies, plans, information and data will likely be requested. After the Task A workshops have been conducted, a list of additional information needs might be identified and will be submitted to the District to round out the initial data and information collection task for Phase I. During the course of our Phase I work, there might also be new requests for follow-up data or explanatory information that will be submitted in writing to the District to coordinate responses from the District and the City.

1. General Data (from District and City if possible)

- Readily available “written” historic profiles for each sewer utility, along with a description of the physical plant, management, administration and operations structure of each organization. District and City will expand upon information as they might believe important to the merger question.
- Copy of recent sewer collection and/or treatment plant governance reports – this information will be referred to where there is a relationship with the merger study questions, issues, findings and conclusions.
- Directly related intergovernmental correspondence, resolutions and meeting minutes from the District and the City if any.
- Reconciled set of customer service areas demographic and statistical data from the District and the City, to include the number of sewer customer accounts and equivalent residential units of service inside and outside the City of Vancouver (COV).
- Major Facilities layout for the District and the City with existing occupied or common area space identified by color code. Information for both the District’s and City’s major facilities (lift stations, interceptors, etc.), including separate buildings for operations and maintenance crews and equipment, and the City’s two wastewater treatment plants should be included. Descriptive information including square footage now assigned to operations and administration, accounting and management should be added as color coded space layouts.
- 2006 actual and 2007 planned employee position descriptions and classifications, with an emphasis on the operations and maintenance personnel, specialty positions in

administration, accounting and customer service and development review, and the most recent and current organizational framework for utility.

2. Economic and Financial (City and District)

- Current and preliminary annual budgets and recent work programs for the sewer operations, including the District's budgeted support at the SCWWTP and the City's two wastewater treatment plants. Describe how District's and City's field operations and maintenance staff now cover critical 24-7 needs versus normal workweek staffing requirements, e.g., on-call, vacation, sick leave and holidays, etc; the District should isolate its part in management of the SCWWTP and associated County employees located at that plant, and the City should provide the same separate information in its treatment plant versus sewer collection O&M staffing plans.
- 2002 – 2005 and preliminary, if not final 2006 Annual Financial Statements and detailed expense and revenue information.
- 2007 revenue and operating budgets.
- Adopted sewer rate schedules, capital improvement and reinvestment planning schedules or financial planning chapters from the comprehensive plans, bonded and other long-term debt service schedules, including new bonds or loans, cash and cash equivalent reserve balances, restricted and unrestricted, operating and capital replacement or construction and bond reserve fiscal policies, etc
- Most recent sewer rate studies, whether externally or internally prepared (we have what we did, but not necessarily what has been done subsequently in-house by District and City financial personnel).
- Resolutions, agreements and/or covenants relating to all existing or upcoming long-term debt, e.g., bonds, loans, interfund agreements, developer latecomer agreements, etc.
- General Facility Charge resolutions or connection charge ordinances, and the most recent studies or documentation on the separate District and City calculation methods for sewer (again, we have what we developed for the two agencies, but need to have what actually was implemented)..
- Complete fully loaded construction cost inventory of all sewer utility plant in service, with ages, original cost and description of materials and quantity information (this should come from the engineering records such as the GIS or consulting engineer's physical inventory data bases). This information can hopefully be used to enable a layperson's general assessment of system book value and customer equity, and overall remaining useful life of assets that might be transferred between or shared by the District and the City.

3. Engineering and Planning Documentation (limited request)

- District's and City's water and draft sanitary sewer collection and wastewater treatment comprehensive plans.

- Detailed 2005 and 2006 sewer operations and maintenance labor, equipment and other direct or indirect expense (including indirect city wide overhead allocations and fleet charges) summary information and intra or inter fund cost sharing arrangements between water and sewer for the City.
 - Urban growth area projections – sewer. Provide in printed form with useful overlays for the City's and the District's service area and legally annexed boundaries if different than areas served (such as out side City and District customers) for inclusion in the final report as a technical description of each service area, separate and combined.
 - Any City and District joint operating agreements or Operations & Maintenance (O&M) agreements and historical cost summaries, e.g., wastewater treatment, equipment sharing, emergency response – backup, other.
 - District's and City's adopted 6-year sewer Capital Improvement Programs plus the sewer 2006 and the 2007 capital budget or plans and actual expenditure summaries for 2006 versus budget.
 - Current and projected District and City wastewater capacity paid for and number of available collection and separately, treatment connections within the respective service areas. This is where some technical input about whether existing and newly constructed collection and treatment capacities might be used to help District in terms of its planning toward serving growth within the City's UGA and outside that current
 - Telemetry systems and general ideas for some consolidation and improved utilization, e.g., lift or pump stations, Battle Ground metered flows, SCWWTP v City WWI plants. Identify compatibility issues in terms of hardware and software for sewer systems.
 - Known regulatory requirements and compliance issues from Clark County, the State Department of Health and/or the State Department of Ecology, supported by a copy of correspondence or separate reports.
- 4. Legal (to be provided from the District and City legal advisors)**
- Existing contracts and leasing agreements that would need to be honored by the City were the District to merge, or transfer ownership and part or all of its service area with the City.
 - Other statutory cites and provisions that the respective District and the City legal advisors believe to be important to a planned merger, now or ten years from now.
 - Management contracts if any.
 - Existing Bond and loan resolutions, ordinances, agreements and covenants. Obtain separate District bond counsel review and independent opinions pertaining to the novation or transferability to the City of all of the various District debts, including commitments to Clark County. Focus on legal issues if any, and input on how to resolve the issues.

- Existing latecomer and developer agreements.
- Existing interagency agreements between the District and the City, or between the District/City and other cities. Obtain District attorney's opinion about the SCWWTP agreement and ability to novate all terms and conditions to the City upon a merger.

5. District and City obtains directly related or supplemental information

The following information could be important to the study and might best be obtained through the District's or City's legal representation and/or sewer consulting engineer to facilitate coordination and improve efficiency in collecting the information if that can be done during the study's 90-120 day timeframe.

- Description of Clark County's and court process for hearing the merger case and addressing changes in service area boundaries (given that the County no longer has a boundary review board to hear the matter).
- Description of Clark County Department of Health administrative process for hearing and evaluating a change in ownership. Ask for an identification of concerns or process issues. Location of offices not the issue.
- Description of the Washington State Department of Health's administrative process for reviewing and evaluating a change in ownership, and concerns or issues with a merger of the District with the City, if any.
- Description of the State Department of Ecology's administrative process for reviewing and evaluating a change in ownership and concerns or issues with a merger or consolidation of sewer assets and operations, including wastewater treatment.

Deliverables:

- List of newly identified and missing information submitted to District and City for follow-up

C. Review and Summarize Data and Information

FCS Group will review all of the information actually provided in **Task B**, and flag the areas that are relevant and potentially useful in the analysis and evaluation of the merger-governance option. We will do the following with this information before beginning the analyses:

- Categorize the data and information into indexed folders; check for missing or incomplete items.
- Flag relevant material to the study.
- Summarize economic and financial information; compile and analyze as appropriate or necessary.

- Summarize high level technical engineering and planning information from a layperson's understanding as it might apply to a change in governance.
- Summarize legal information for evaluation.
- Summarize customer service information.
- Segregate summaries by partial and full merger.

Deliverables: None at this point; will be used in writing report where appropriate or applicable to evaluation of merger issues.

D. Analyze Information Relative to Each Option Listed in Scope of Work

FCS Group will analyze and evaluate the information as applicable to each of the governance options. There might be overlapping financial, management, operations, legal and customer service issues identified in this study. We will manage the Study budget and concentrate the evaluation on common versus beneficial and negative impacts between options. Until we have the requested information, we will not know what can be evaluated, however, we do expect that the Task D work elements might include:

Economic and Financial

- Prepare for the District and the City a comparative summary of historical balance sheet and income statement reports for fiscal year 2002 – 2006; evaluate key financial performance indicators per equivalent residential unit of sewer service (ERU).
Consultant will rely upon the formal annual reports for fiscal years 2002 - 2005 and draft internal financial statements for fiscal year ended December 31, 2006 to complete this work.
- Identify potential for material changes in operations, maintenance, customer service and general and administration staff needs, costs and related space and equipment needs that would apply to both the partial or full merger options and any adjustments where differentiation might be applicable. *We will rely upon District and City and the consulting engineers' input and response to questions to complete this work.*
- Develop a set of projected cost increases or savings assumptions to apply to each governance option, to be referred to as "governance cost adjustments". *We will use District and City ideas and input, or request a review of our ideas to complete this work.*
- Prepare projected District and City costs for the Base Case, and then for the merger options for sewer O&M for a ten-year period 2008 through 2018 (assumes 2007 is study and implementation year). Assume that the Commissioners will be retained for a partial merger (needed to continue to serve non-merged service areas). Assume for a full merger that the District's legal entity status will not be dissolved for an agreed upon period of time, say until the existing debt obligations are fully paid, and therefore Commissioner positions and attendant costs might continue to be paid. This is a matter of continuing some form of legal representation in the non-UGA or annexed areas, once a full merger is triggered by agreement.

- Review the District and City sewer fiscal policies and rate and connection charge structures and provide a general assessment of how the revenue recovery structural differences would need to be considered in a merger. *We will not do a rate study impact analysis at this time on the actual rate structures. That is too speculative to be very meaningful to study results let alone several years out. The important issue is whether it will be pragmatic for the District's cost recovery rates and fees to take on the City's mantle in form and ultimately in price.*
- Evaluate the sewer General Facility Charge or System Development Charge calculation differences between the District and City such as buy-in and/or future project costs embedded in the fees, and methods of calculation (ERU assumptions). *Note, the District has specific statutory authority to incorporate planned future capital projects within a period of up to and including 10 years in this calculation, cities do not have specific statutory authority to include future projects, but also there is no specific prohibition and no time limit for a cutoff for inclusion of future projects*
- Develop a basic benchmark for comparing each option in terms of employee requirements and FTE to customer count ratios.
- Evaluate the cash and cash equivalent reserves per ERU for each option and identify issues pertaining to how such existing and future reserves would be impacted assuming a change in governance. Focus on non-restricted reserves; restricted reserves should have third party legal requirements for segregation and use, however there might be District Resolutions or City Ordinances that establish separate, special reserve accounts or funds.
- Evaluate the impact on current outstanding revenue bond issues and State of Washington loans in terms of ability to transfer such debt, or any need to call or defease bonded debt given a change in ownership of water and/or sewer assets. Also look for any special loan covenants that the District has agreed to that are not transferable to the City, such as Rural Development loans.

Engineering and Planning

- Review the current interagency operating agreements and documentation, discuss questions with District and City staff and/or consulting engineers if necessary and evaluate potential positive and/or negative impacts of each service option.
- Identify potential impacts of a change in governance on wastewater treatment for District if any through a discussion with the District and City, and perhaps with input from the District's and City's consulting engineers.
- Identify the organizational and employee certification differences if any for the District and City, and the benefits or issues that a change in governance might trigger.
- Ask the District and City to provide a narrative description of sewer fieldwork levels of service and practices, and identify obvious, significant fieldwork practice differences based on input from sewer field crews if practical. If getting this self-evaluation is

impractical, then we must ask the District and City management and supervisory personnel to compare notes and make this assessment for review and use by FCS Group.

Legal (input from District and City legal advisors)

- Evaluate significant legal issues with for the District's and City's State retirement plans, VEBA, liability insurance and/or management contracts if applicable.
- Summarize statutory and County own boundary review process, and any identified Revised Code of Washington statutory transfer of utilities provisions.
- Summarize specific bond or loan covenants that must be addressed in any change in governance interlocal agreement and the significance of the provisions.
- Summarize significant interlocal agreements or developer contracts issues that could have an impact on the merged entities if not resolved by way of interlocal agreement.
- Summarize legal process and statutory timelines needed for each governance option.

Customer Service

- Obtain a description of customer service goals and differences between the District and the City from the two sewer Managers.
- Obtain a summary of the customer statistics, billing cycles and software used in customer billing and service functions for the District and the City and develop a summary for the report.
- Summarize the service call processes and response time targets for the District and the City.
- Evaluate potential for improved delivery of customer services via each governance option, such as improved response time for on-call events, or follow-up letters to customers to schedule response or corrections, or timely development review and permit issuance processes, etc
- Summarize general implementation considerations for each option.

Transition and Outreach

- Develop a general transition plan for moving forward with a "transitional" merger, *Detailed planning will be done in Phase II should the District and the City decide and resolve to proceed with a change in governance via a mutually agreed upon merger at a designated future point in time*
- Identify other issues or topics that will need to be addressed by the District and the City should a partial or full approach to a merger be selected. Examples include how to address outside city customer rates if a full merger leaves District customers in unincorporated areas, will there be bargaining/labor union agreement issues to address

during the transition period, will there be billing system conversion issues, and what might the new sewer organization look like.

- Outline an outreach strategy for employees and ratepayers to communicate the decision process if a District – City merger is found to be a good business decision and the best option compared to the status quo or merging with CPU.

Deliverables:

- Meet with staff to discuss general findings before preparing draft report

E. Draft Study Report

FCS Group will prepare a draft report of findings and conclusions. *We do not think that we need to make a recommendation on the best option. We will provide the results of the Study so that the District and the City can review, evaluate and then decide a course of action, e.g., the status quo, a transitional merger, or perhaps a City agreement to let the District merge with another agency like CPU.* The draft report will include an Executive Summary, accompanied by more detailed information in subsequent sections and/or as appended material, all integrated into a 3-ring binder. FCS Group will reproduce the draft reports and submit 15 binders to the District and City for review. We will:

- Review draft report with the District and City sewer managers or lead study representatives and appropriate staff, with up to one elected official also attending if interested – two (2) meeting (2 to 3 hours each).
- Review draft report with the Commissioners in a District meeting (1-2 hours) and the City Council in a City meeting (1-2 hours) or perhaps a joint meeting if possible. These types of review meetings by elected officials need to be thought out because sometimes, without a merger agreement already prepared and ready for their review, the political process can get in the way of the business process. So we suggest that the review process for the draft report be discussed and a plan included in the study contract for the approach that the District and the City think appropriate.

F. Finalize Study Report

Once the draft findings have been evaluated, FCS Group will make the appropriate revisions and edits, and produce the final report master. Our suggestion is that we update the 3-ring binders if all study results are included, but if only an Executive Summary level report is determined as appropriate for the Final Report, a comb-bound set of fifteen (15) copies will be produced and submitted to the District and the City plus two read-only CD-ROM copies, e.g., pdf. files.

Phase I Study Budget and Schedule

The actual amount of time and effort needed to do this study will depend on several factors:

- Availability and completeness of requested data and information listed under Task B versus the amount of data compilation and research required by FCS Group.
- Coordination of District and City staff interviews in blocks of time to minimize travel and optimize use of our time on-site.
- Timely response by District and City consulting engineers (always an issue unless the engineers are compensated for their cooperation and assistance in providing information).
- Avoidance of start and stop cycles due to incomplete or delayed receipt of requested information.
- Assumed two workshops, two staff review meetings before draft report is written and up to three (3) meetings with the District and City representatives to present the draft report findings and conclusions. Some time can be saved if one joint meeting with District and the City in attendance can be arranged.

Our budget estimate for this work is in fact somewhat conjectural and based on similar work performed for other agencies. **Schedule 1** following this Exhibit A represents an estimate of the hours to do the **Phase 1 work** extended by the standard 2007 hourly billing rates of FCS Group. Normally these studies take between 650 and 850 hours to complete, plus legal consulting work (which we have not planned to sub contract but can if asked), and also excluding engineering assistance. So this estimate will likely be at the lower end of the full cost spectrum that the District and the City might need to spend to complete this study, but should be doable since this is a mutually agreed upon and important study to both agencies.

In this case, the budget is allocated between the Consultant and the legal subconsultant as follows:

Consultant (FCS Group)	\$110,185
Legal Sub-consultant (optional)	<u>0</u>
Total Estimate	<u>\$110,185</u>

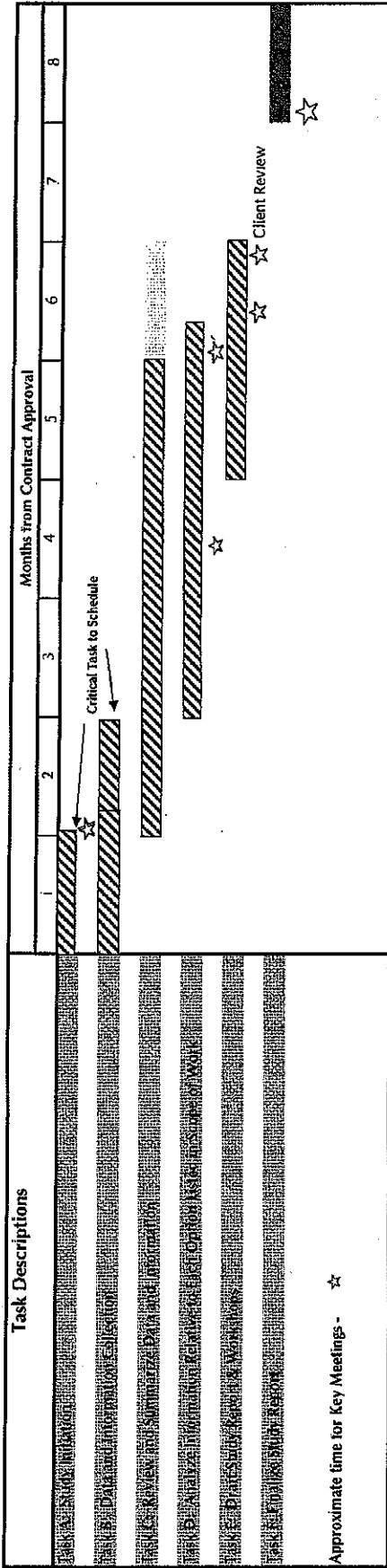
Schedule 2 provides a preliminary planning schedule to complete Phase 1. FCS Group's plan is to complete most of the work and provide a draft report to the District and City within six (6) months from the time all of the information is received and interviews performed, and then attempt to complete the entire study within eight (8) months from contract approval to proceed with the Study. To manage toward this schedule objective, the District in mutual agreement with the City and FCS Group will establish a target date when all requested data and information will be provided and interviews can be completed with selected staff from the District and the City. **Schedule 2** suggests that the data collection and interview process should be complete within about four (4) weeks from contract approval. If the Task B schedule needs to extend in

timeframe, it is likely that the overall study timeframe will also need to be extended. It goes without saying that we always run into questions requiring additional data and information, sometimes even when we are writing the report on findings and conclusions.

Caveat: The study schedule assumes that FCS Group will be under contract to begin this work about mid-January 2007. The objective is to get the draft report to the District and City before the summer vacation season begins. That way, there will be ample time in the last two months for the reviews to take place in spite of vacations, and we can wrap up the final report by mid August if all goes well.

**Clark Regional Wastewater District and City of Vancouver
Merger Transition Feasibility Study
General Schedule to Complete Phase I**

Schedule 2



**Clark Regional Wastewater District and City of Vancouver
Merger Transition Feasibility Study
Study Budget**

Schedule 1

Task	Description					Hours	Cost
		Findlay Principal/PM \$ 180	Wilson PM \$ 145	Dogan Pro Consultant \$ 120	Support \$ 55		
Task A: Study Initiation							
	Prepare Start-up Work Plan Materials - For Client and FCSCG	4	12	4	4	24	\$ 3,160
	Conduct Start-Up Meeting	8	8	8	0	24	\$ 3,560
	Develop staff interview plan and coordinate	2	6	0	1	9	\$ 1,285
		14	26	12	5	57	\$ 8,005
Task B: Data and Information Collection							
	Monitor and Follow-up with Client	2	20	6	0	28	\$ 3,980
	Conduct Interviews	8	48	8	0	64	\$ 9,360
		10	68	14	0	92	\$ 13,340
Task C: Review and Summarize Data and Information							
	Economic and Financial - Compile Schedules	8	24	48	0	80	\$ 10,680
	Engineering & Planning Information review	0	16	8	0	24	\$ 3,280
	Legal Informaiton Review	16	4	0	0	20	\$ 3,460
	Customer Service and Organizational Review	2	32	8	0	42	\$ 5,960
		26	76	64	0	166	\$ 23,380
Task D: Analyze Information Relative to Each Option Listed in Scope of Work							
	Economic and Financial	4	16	80	0	100	\$ 12,640
	Engineering and Planning	2	20	0	0	22	\$ 3,260
	Legal	1	12	0	0	13	\$ 1,920
	Customer Service & Administrative Functions	4	20	0	0	24	\$ 3,620
	Transition and Outreach	4	8	0	2	14	\$ 1,990
	Prepare & Meet with District Managers - results b/4 report	8	16	4	2	30	\$ 4,350
		23	92	84	4	203	\$ 27,780
Task E: Draft Study Report							
	Write, Review, Deliver & Present	36	120	24	12	192	\$ 27,420
		36	120	24	12	192	\$ 27,420
Task F: Finalize Study Report							
	Edit and Finalize Report	8	40	16	20	84	\$ 10,260
		8	40	16	20	84	\$ 10,260
Total Hours		117	422	214	41	794	
Total Labor Cost		\$ 21,060	\$ 61,190	\$ 25,680	\$ 2,255		\$ 110,185
Expenses							\$ -
Total Project Cost							\$ 110,185