



City of Seattle  
City Budget Office

April 5, 2012

Honorable Sally Clark  
President  
Seattle City Council  
City Hall, 2<sup>nd</sup> Floor

FILED  
CITY OF SEATTLE  
2012 APR -5 PM 4:19  
CITY CLERK

Dear Council President Clark:

I am transmitting the attached report describing the operational and financial implications of the potential annexation of the South Park 'Sliver on the River' and Duwamish Industrial Triangle areas into the City of Seattle. In response to a City Council request, Mayor McGinn directed the City Budget Office and the Office of Intergovernmental Relations to assist in developing an analysis of the operational issues and financial impacts associated with the potential annexation of these areas. The attached report includes an assessment of potential revenues, on-going operations and maintenance costs, capital infrastructure costs, and major risks and liabilities.

After considering the findings, the Mayor believes that City departments are capable of providing day-to-day services to the residents and businesses in the area, assuming King County follows through on earlier commitments to cover 50% of the operating, maintenance and replacement costs of the South Park Bridge. However, annexing these areas could obligate the City to a number of substantial one-time capital and environmental remediation costs for which there is no supporting revenue, in particular in costs to Seattle Public Utilities. Assuming the risk of these financial obligations would put pressure on the City's budget and require increases in City utility rates. These costs could total in excess of \$120 million. In addition, there are risks to the General Fund of approximately \$730,000 related to costs to operate, maintain, and replace the South Park Bridge and other transitional costs that would not be covered by revenues. To protect the City from these costs, the Mayor recommends that the Mayor and City Council work together to:

1. Negotiate agreements with King County, and other appropriate parties, to address environmental liabilities associated with past pollution and drainage and sewer facilities;
2. Negotiate an agreement with King County to secure a long-term commitment to fund the County's proportionate share (50%) of the operation, maintenance, and replacement of the South Park Bridge; and

Beth Goldberg, Director  
City Budget Office  
600 4<sup>th</sup> Avenue, 6<sup>th</sup> Floor  
PO Box 94747  
Seattle, WA 98124

Tel (206) 233-7115  
Fax (206) 223-0022  
Beth.Goldberg@seattle.gov

3. Secure a commitment that all outstanding LEOFF 1 liabilities of the North Highline Fire District will be shared on a proportional basis between all parties that are proposing to annex a portion of the District's territory.

If the costs of these risks cannot be mitigated through negotiations, it would be difficult for the Mayor to support the annexation of these areas into the City of Seattle given the City's existing financial challenges.

The Mayor remains committed to working with the Council as it considers the information in this report. Please do not hesitate to contact me at 733-7115 or Cameron Keyes at 684-8048 if you have any questions about the content of this report.

Sincerely,



Beth Goldberg  
Director, City Budget Office

Attachment: Analysis of the Potential Annexation of the Sliver on the River and the Duwamish Industrial Triangle: A Report to the Seattle City Council

Copy: Honorable Members of the Seattle City Council  
Michael McGinn, Mayor  
Ben Noble, City Council Central Staff Director  
Meg Moorehead, City Council Central Staff  
Julie McCoy, Chief of Staff, Mayor's Office  
Ethan Raup, Director of Policy and External Affairs, Mayor's Office  
Jaline Quinto, Council Relations, Mayor's Office  
Hall Walker, Deputy Budget Director

# **Analysis of the Potential Annexation of the Sliver on the River and the Duwamish Industrial Triangle into the City of Seattle**

Prepared by the City Budget Office and the Office of Intergovernmental Relations

April 5, 2012

## **1. SUMMARY**

This report summarizes the operational issues and financial impacts associated with the potential annexation by the City of Seattle of two unincorporated areas on the Duwamish River adjacent to Seattle's South Park neighborhood known as the "Sliver on the River" and the "Duwamish Industrial Triangle". The Sliver is located on the area on the west bank of the South Park Bridge and includes 46 homes, approximately 155 residents, and a handful of businesses. The Triangle is the industrial/commercial area bounded by SR-99 to the Southwest, the Duwamish River to the East, and S Director Street to the North, and includes approximately 6 residents and 12 businesses.

Annexation of the Sliver on the River would result in the City realizing an estimated additional \$164,000 in annual revenue and \$592,000 in expenses, for a total of \$431,000 in unsupported costs per year. Annexation of the Duwamish Industrial Triangle would result in the City realizing an estimated additional \$1,021,000 in annual revenue and \$51,000 in expenses, for a net revenue increase of \$961,000 per year. The two areas combined represent an estimated \$530,000 in additional net annual revenue to the City.<sup>1</sup>

However, annexing these areas could obligate the City to a number of substantial one-time capital and environmental remediation costs for which there is no supporting revenue. Specifically, annexation of the areas could result in the following potential long-term cost responsibilities, risks and liabilities:

- Sliver Outfall Cleaning and Past Pollution;
- Sliver Drainage and Septic Infrastructure;
- Triangle S 96th Street Outfall and Drainage;
- Triangle Sewer Past Pollution;
- Sliver and Triangle Rights-of-Way – Street Paving and Soil Contamination;
- LEOFF Fire Pension Liabilities; and
- South Park Bridge Operating and Major Maintenance.

Assuming the risk of these financial obligations would put pressure on the City's budget, requiring increases in city utility rates and straining General Fund resources. These obligations could potentially exceed \$120 million in one-time costs for sewer and drainage infrastructure and environmental liabilities, and \$730,000 in annual General Fund costs related to fire pension liabilities and King County's anticipated share of South Park Bridge operations and major maintenance and replacement if King County is not able cover its portion of the costs.

After considering the findings of this report, the Mayor believes that City departments are capable of providing day-to-day services to the residents and businesses in the area, should a decision be made to annex these areas. However, the costs associated with the environmental and other liabilities have the

---

<sup>1</sup> These financial impacts assume that King County would retain 50% of the operating and maintenance costs of the South Park Bridge. If the City is not successful in negotiating this with the County, the on-going costs of annexation would increase by \$573,000, resulting in a net cost to the City.

## 1. Summary

potential to put significant pressure on the City's budget and require increases in City utility rates. To protect the City from these costs, the Mayor recommends that the City negotiate agreements with King County, and other appropriate parties, to retain ownership of the environmental, bridge operation, and fire pension liabilities. If these negotiations do not result in sufficient financial protections for the City, the Mayor would be unable to support the annexation of these areas given the City's financial situation.

## 2. REVENUE ANALYSIS

This chapter summarizes estimates for new City revenue if the Sliver on the River and the Duwamish Industrial Triangle areas are annexed by the City of Seattle.<sup>2</sup> New incremental revenues fall largely into two categories: General Fund revenues described in this Chapter and Seattle Public Utilities rate-based enterprise revenues described in Chapter 4. Revenues also include a small increment of transportation-related revenues from vehicle license fees and gas tax.

Incremental General Fund revenues resulting from the potential annexation of these areas are estimated to be \$164,000 for the Sliver on the River and \$1,021,000 for the Duwamish Industrial Triangle annually, and primarily consist of business and occupation (B&O) tax, property tax, sales tax, and utility tax. Because the majority of the Sliver on the River is residential, business related tax revenues are minimal. The Duwamish Industrial Triangle is mostly commercial and has a comparatively larger tax base. Due to the size and demographics of the areas, incremental increases in other types of revenue are small or negligible.

**Table 2.01 Estimated Annual Revenues**

General Fund Source	Sliver on the River	Duwamish Triangle
Business & Occupation Tax	79,000	515,000
Property Tax including EMS	53,000	321,000
Sales Tax, incl. Criminal Justice	9,000	90,000
Utility Taxes	21,000	94,000
Business License Fees	1,000	1,000
E-911 Reimbursements & Cellular Tax	1,000	0
<b>Total General Fund</b>	<b>\$164,000</b>	<b>\$1,021,000</b>
<b>Other Sources</b>	<b>Sliver on the River</b>	<b>Duwamish Triangle</b>
Gas Tax	3,000	0
Vehicle Licensing Fees	6,000	0
<b>Total Other Sources</b>	<b>\$9,000</b>	<b>\$0</b>
 <b>Total Revenues</b>	 <b>\$173,000</b>	 <b>\$1,021,000</b>

<sup>2</sup> Costs and revenues in this report are given in 2012 dollars, unless indicated otherwise. Miscellaneous revenues and sources estimated to contribute less than \$500 annually are not included in this report. All sources are rounded to the nearest \$1,000.

### 3. GENERAL FUND SERVICE LEVEL AND EXPENDITURE ANALYSIS

General Fund related costs for the Sliver on the River are estimated to be \$592,000 in per year, with the majority of the obligations related to the operation and maintenance of the South Park Bridge. Services in the Duwamish Industrial Triangle are estimated to cost \$51,000 per year. Other General Fund impacts include SDOT's costs for basic services and SPU's non-rate based costs for hydrant maintenance, litter pickup and graffiti cleanup. Costs related to Seattle Department of Transportation and Seattle Public Utilities are described in Chapters 4 and 5.

**Table 3.01 General Fund Related Annual Expenditure Estimates**

Department	Sliver on the River		Duwamish Triangle	
	Ongoing	One-Time	Ongoing	One-Time
Public Utilities - Non Rate Costs	5,000	0	15,000	0
Transportation - Basic Services	15,000	2,000	36,000	0
Transportation - South Park Bridge	572,000	0	0	0
<b>Total Expenditures</b>	<b>\$592,000</b>	<b>\$2,000</b>	<b>\$51,000</b>	<b>\$0</b>

In most cases, this analysis assumes that the areas would receive the same level of service as is generally provided in other parts of the City of Seattle and that the City's existing policies for investing in infrastructure and services will not change. Most neighborhood-based services will be extended from those that the City already provides in the South Park neighborhood. Net costs to conduct City regulatory services such as land use permitting, fire code enforcement, and business licensing are largely incidental compared to the current citywide resources and should not require additional staffing. The following departments have indicated that most incremental costs will be negligible or can be absorbed within existing resources:

- Criminal Justice Contracted Services (CJCS)
- Office of Economic Development (OED)
- Office for Education (OFE)
- Department of Finance & Administrative Services (FAS)
- Seattle Fire Department (SFD)
- Office of Housing (OH)
- Department of Human Services (HSD)
- Law Department
- Seattle Public Library (SPL)
- Seattle Municipal Court (SMC)
- Department of Neighborhoods (DON)
- Department of Parks and Recreation (DPR)
- Department of Planning & Development (DPD)
- Seattle Police Department (SPD)
- Seattle City Light (SCL)

Upon annexation, there may be some minor implementation costs for departments that would be identified during the transition planning process. For example, DPD may need to plan and implement the transition of regulatory activities from the County to the City. Estimates for these unknown costs are not included in this report.

#### 4. SEATTLE DEPARTMENT OF TRANSPORTATION

Table 4.01 lists the approximate inventory that will be added to the Seattle Department of Transportation's (SDOT's) system as a result of the potential annexation of the two areas. Table 4.02 summarizes SDOT's estimated annual costs to maintain and operate this additional inventory and also pay a share of costs for operating and maintaining the South Park Bridge, which is partially located in the Sliver.

As described below, the levels of service SDOT proposes to provide in the potential annexation areas are consistent with the service levels SDOT provides elsewhere in the City of Seattle for these types of assets, unless otherwise noted. Some sections of streets in the Sliver and Triangle are in worse condition than Seattle streets in neighborhoods adjacent to the areas, and many of the non-arterial streets in the areas do not have sidewalks, curbs, and drainage features. However, there are areas in Seattle that are currently in similar poor condition, including a large number of the non-arterial streets in the City's Greater Duwamish industrial area. The service levels and cost estimates described below assume that the potential annexation areas would not receive any special priority from SDOT, and accordingly do not assume that SDOT would undertake significant new paving projects or construct new street sidewalks upon annexation outside of existing prioritization policies and processes.

**Table 4.01 SDOT Inventory Estimates**

	<b>Sliver by the River</b>	<b>Industrial Triangle</b>	<b>Total</b>
Street Miles	0.5 miles	2.0 miles	2.50 miles
Right-of-Way	7.25 acres	31.60 acres	38.85 acres
Bicycle Facilities	0.25 miles (shared roadway)	0.90 miles (shared roadway)	1.15 miles
Sidewalks	0	0.60 miles	0.60 miles
Signals	0	0	0
Shoreline Streets Ends	5 (potential)	0	5 (potential)

**Table 4.02 SDOT Annual Cost Estimates**

	<b>Sliver on the River</b>	<b>Industrial Triangle</b>
Traffic Management	5,000	3,000
Street Maintenance	8,000	33,000
Retaining Walls and Seawalls	2,000	0
South Park Bridge O&M	427,000	0
South Park Bridge Major Maintenance	146,000	0
<b>Total</b>	<b>\$587,000</b>	<b>\$36,000</b>

##### 4.1. Traffic Management

SDOT's costs associated with traffic management in these two areas would be for maintenance of roadway markings and signs. SDOT estimates that the Sliver would add approximately \$5,000 in annual operations and maintenance costs for the Traffic Management division and the Triangle would add

## 4. Seattle Department of Transportation

approximately \$3,000. This estimate is based on limited Geographic Information System (GIS) information available to the city, and on multiple assumptions about the number of signs and the extent of roadway markings.

### 4.2. Street Maintenance

For both potential annexation areas, SDOT's Street Maintenance Division would provide a level of service for routine operations and maintenance, such as pothole repair and removal of debris, consistent with the service level provided in the rest of the City of Seattle. Based on the Division's current operating levels, the financial impact of annexing these two areas is expected to be minimal. However, there are some risks and uncertainties, as described in Chapter 6, because SDOT has not done an in-depth road condition analysis in the area, and the streets in the two areas are believed to be in generally poor condition.

Pavement requiring major maintenance would be identified via SDOT's pavement management program. SDOT would provide a level of pavement maintenance in the two areas consistent with the service level provided elsewhere in the City. Given this, and in light of limited funding for pavement repair and major maintenance citywide, the potential annexation areas would be expected to receive only limited paving on arterial streets and little or no paving on non-arterials. These service levels would not address any deferred maintenance in the two potential annexation areas. Rather, deferred maintenance costs associated with the two areas would be added to the City's existing transportation system maintenance backlog.

SDOT's street pavement inventory would increase by roughly 0.5 new lane miles of pavement (an increase of about 0.03%) with annexation of the Sliver, and by 2.0 new lane miles of pavement with annexation of the Duwamish Industrial Triangle (an increase of about 0.12%). Together, the two areas would represent an additional 2.5 lane miles to SDOT's existing 1,675 lane mile inventory, for an increase of about 0.15%. At the current city-wide level of spending, base street maintenance for the additional streets would cost approximately \$8,000 annually for the Sliver and \$33,000 for the Duwamish Industrial Triangle.

### 4.3. Retaining Walls and Seawall

The Sliver on the River area includes one large retaining wall and several seawalls at the shoreline street ends. The retaining wall slope has about 75° grade and about 50 feet vertical height. King County did not have record of the retaining wall and believes the wall is private. If the wall is public, SDOT's condition inspection and inventory work and annual maintenance costs are estimated to be less than \$1,000. Most of the seawall shoreline bulkheads are built from riprap-rock buttress and they do not appear to be in good condition. For the seawalls, SDOT estimates one-time costs of \$2,000 for condition inspection and inventory and annual maintenance costs of \$2,000.

### 4.4. Street Use Permitting

The Sliver includes up to five sites that could be designated as Shoreline Street Ends. However, this analysis does not assume permitting or encroachment revenue from these areas. Designation of these sites as Shoreline Street Ends requires approval through the Council Ordinance process and revenue would be subject to the regulations defined in SMC Chapter 23.60.

#### 4. Seattle Department of Transportation

The annexation of these areas would result in additional workload for SDOT if the SDOT Street Use Division identifies other private encroachments, including private fences, rockeries, material storage, in the right of way. If the Street Use Division identifies encroachments, and they would work with the property owners to have the encroachments removed or brought under permit.

#### 4.5. South Park Bridge Operation, Maintenance, and Major Maintenance

King County is in the process of constructing a 'new' South Park Bridge (SPB) that is located within two jurisdictions, King County and Tukwila. The new bridge is scheduled to be completed in late 2013. Several years ago, Tukwila negotiated a binding agreement with King County to divest itself of all financial responsibility for all future O&M costs. Because of this agreement, the County is responsible for Tukwila's financial support of the new bridge, which would be a 50% share if Seattle annexes the Sliver on the River. Under state law, all infrastructure (roads, bridges, etc.) located within an annexed area, unless agreed to through negotiations, becomes the responsibility of the annexing city. Presently, King County is responsible for all operation, maintenance and other costs associated with the SPB.

Operating the bridge 24 hours per day, 365 days per year will require a bridge operations staff of 5 FTEs. The full estimated annual cost is \$757,000 for staff and \$97,000 for other costs related to operation and maintenance. Additionally, SDOT has identified major long-term maintenance and replacement costs associated with the bridge, listed in Table 4.52, which if annualized represent \$292,000 per year. Together, the total operation and maintenance costs are \$1,146,000 per year. This analysis assumes that once the annexation and the bridge construction are complete, SDOT would pay 50 percent of the expenses, or \$573,000, and King County would pay 50 percent, covering the portion of the Bridge that ends in Tukwila per King County's earlier agreement with the City of Tukwila.

**Table 4.51 South Park Bridge Annual Costs**

<b>Description</b>	<b>Annual Cost</b>
Bridge Operations Staff	\$757,000
Other O&M Costs	\$97,000
Major Maintenance and Replacement Costs	\$292,000
<b>Total</b>	<b>\$1,146,000</b>
 <b>50% of Total Costs</b>	 <b>\$573,000</b>

**Table 4.52 Bridge Major Maintenance and Replacement Costs**

<b>Component</b>	<b>Cycle (years)</b>	<b>Cost</b>
Bridge Painting	20	\$2,200,000
Bridge Control System	25	\$250,000
Deck Replacement	30	\$1,500,000

#### 4. Seattle Department of Transportation

Despite this assumption, there is uncertainty regarding the County's ability to pay its anticipated cost share. Because the South Park Bridge will land in Tukwila on the east side and would end in Seattle on the west side upon annexation, no part of the bridge will be located in unincorporated King County and County Road funds, an unincorporated taxing source, may no longer be legally eligible to support the bridge's O&M and major long-term maintenance and replacement. And, even if the costs are determined to be eligible for County Road funding, this is a funding source that is in severe distress. The County Road Fund is supported primarily through property taxes, which is legally capped at \$2.25/\$1,000 of assessed value. As a result of annexations, a decline in assessed valuation and the caps on property tax growth this is a funding source that is in decline. In fact, the 2012/2013 Biennial Budget for the County Road Fund was reduced by \$24 million, or 13%, and over 100 positions were eliminated.<sup>3</sup> With this financial picture in mind, it remains uncertain – even if deemed an eligible expense – that this is a reliable funding source to cover these costs.

These legal and financial challenges may constrain the County's ability and willingness to share costs related to South Park Bridge operation, maintenance, and major long-term maintenance and replacement as the County has suggested in earlier conversations. If the County does not or cannot make a long-term commitment to support the bridge, the City could be left to cover 100% of the bridge cost, which would represent an additional cost of \$573,000 per year beyond the amount assumed in this report, increasing the cost to the City of the annexations slightly beyond what revenues would cover. The other alternative, of course, would be for the County to cover its share of the costs through another funding source, such as its General Fund, or to negotiate with the City of Tukwila to cover the portion of the costs that are now being paid by King County. However, if the agreement between the County and the City of Tukwila is deemed binding, the City may not be successful in negotiating financial support from Tukwila in lieu of County funds.

---

<sup>3</sup> Source: King County 2012 Executive Proposed Budget  
[http://www.kingcounty.gov/exec/PSB/~media/exec/PSB/documents/2012ExecPropBudget/F\\_EGBE.ashx](http://www.kingcounty.gov/exec/PSB/~media/exec/PSB/documents/2012ExecPropBudget/F_EGBE.ashx)

## 5. SEATTLE PUBLIC UTILITIES

Upon annexation, the City would need to decide how to provide water, sewer, drainage and solid waste services to the two areas. There are a number of different operational models that can be considered. But, this report assumes -- as has been the case with other annexations -- that Seattle Public Utilities (SPU) would largely take full ownership of the infrastructure and service delivery of water, sewer and drainage, and the contracts for solid waste services<sup>4</sup>. Provision of service in the potential annexation areas would result in annual net revenue to SPU's enterprise funds of negative \$3,000 for the Sliver on the River and positive \$224,000 for the Duwamish Industrial Triangle after site specific costs, utility taxes, and transferred debt obligations. While the costs of providing the day-to-day services in the area would largely be covered by the revenues charged to the customers receiving the service, there are significant potential one-time and long-term costs and risks associated with the provision of drainage and sewer services in the two areas. These costs and risks are due largely to the prevalence of septic systems in the Sliver and the proximity of the two areas to the Lower Duwamish Waterway (LDW) Federal Superfund Site, which has significant environmental contamination issues. These costs and risks are described in this Chapter and also Chapter 6.

**Table 5.01 SPU Enterprise Funds Ongoing Annual Impacts of Annexation**

<b>Water</b>	<b>Sliver</b>	<b>Triangle</b>	<b>Total</b>
New Incremental Revenue	(4,000)	144,000	140,000
Costs	1,000	(79,000)	(75,000)
<b>Net Revenue</b>	<b>(\$3,000)</b>	<b>\$65,000</b>	<b>\$65,000</b>
<b>Sewer</b>	<b>Sliver</b>	<b>Triangle</b>	<b>Total</b>
New Incremental Revenue	(2,000)	\$372,000	370,000
Costs	2,000	(352,000)	(350,000)
<b>Net Revenue</b>	<b>\$0</b>	<b>\$20,000</b>	<b>\$20,000</b>
<b>Drainage</b>	<b>Sliver</b>	<b>Triangle</b>	<b>Total</b>
New Incremental Revenue	35,000	170,000	205,000
Costs	(32,000)	(36,000)	(68,000)
<b>Net Revenue</b>	<b>\$3,000</b>	<b>\$134,000</b>	<b>\$137,000</b>
<b>Solid Waste</b>	<b>Sliver</b>	<b>Triangle</b>	<b>Total</b>
New Incremental Revenue	53,000	72,000	125,000
Costs	(51,000)	(67,000)	(118,000)
<b>Net Revenue</b>	<b>\$2,000</b>	<b>\$5,000</b>	<b>\$7,000</b>
<b>Total Net Revenue All Funds</b>	<b>(\$3,000)</b>	<b>\$224,000</b>	<b>\$229,000</b>

<sup>4</sup> This report assumes that the City will negotiate with the County for the County to retain ownership of the S 96<sup>th</sup> Street outfall because it serves a drainage area that is larger than and outside of the City's potential annexation area, as described in Section 6.3. Upon annexation, the City would need to provide a required 7-year notice to Waste Management for its solid waste franchise in the areas.

## 5. Seattle Public Utilities

### 5.1 One-Time Capital Costs and Liabilities

In addition to the on-going costs and revenues described above, SPU has identified significant potential one-time capital costs and environmental liabilities associated with assumption of drainage and wastewater service responsibilities in the two areas. These costs are listed in Table 5.11 and described in more detail further below.

**Table 5.11 SPU Potential One-Time Cost Impacts of Annexation**

<b>Sliver on the River</b>	<b>Amount</b>	<b>Est'd Rate Impact<sup>1</sup></b>
Sewer infrastructure	\$26,000,000	4%
Drainage infrastructure	24,000,000	12%
Drainage past pollution and outfalls <sup>2</sup>	2,500,000	1%
<b>Total</b>	<b>\$52,500,000</b>	

  

<b>Duwamish Industrial Triangle</b>	<b>Amount</b>	<b>Est'd Rate Impact<sup>1</sup></b>
Water infrastructure	\$80,000	
Sewer needs assessment and site specific costs	2,000,000	0.3%
Sewer environmental liabilities <sup>2</sup>	10,000,000	2%
Drainage needs assessment and site specific costs	2,000,000	1%
Drainage past pollution and outfalls <sup>2</sup>	62,500,000	32%
<b>Total</b>	<b>\$76,580,000</b>	

<sup>1</sup>Estimated first-year impacts of these potential one-time costs on SPU's drainage and wastewater rates citywide, based on current financial policies.

<sup>2</sup>These costs are believed to be negotiable to some extent, as described in Chapter 6.

#### **Sliver - Sewer and Drainage Major Infrastructure One-Time Costs**

If the City assumes service responsibilities from King County, potential one-time costs and liabilities for sewer and drainage in the Sliver could reach or exceed \$52.5 million.

- The majority of properties within this area have informal drainage and septic tanks that will eventually fail and need repair. Due to the topography of this location, installing new sewer infrastructure and connections to existing sanitary and drainage facilities will require a significant infrastructure investment. An estimated cost of \$50 million to install this sewer and drainage infrastructure is anticipated to occur in the 1 to 30 year timeframe. This cost is not likely to be mitigated through negotiation with the County. This item is further discussed in Section 6.2.
- County liability for past pollution from transferred outfalls within the federally designated Superfund area and costs to clean drainage infrastructure prior to City assumption are estimated to have a combined cost of \$2.5 million. It is recommended that this liability is addressed through negotiations with the County. This item is further discussed in Section 6.1.

## 5. Seattle Public Utilities

### **Triangle – Drainage and Sewer One-Time Costs**

If the City assumes drainage service responsibilities from King County and sewer responsibilities from the Valley View Sewer District, potential one-time costs and liabilities related to drainage and sewer in the Triangle could reach or exceed \$76 million. These costs include the following components:

- Costs for drainage-related one-time needs assessments, system isolation, and minor area improvements are estimated at \$2 million. If annexation occurs, some investments would be needed in the near future and others over the next 30 years.
- One-time costs are estimated at \$2 million for needs assessments and improvements associated with assumption of services currently provided by the Valley View Sewer District. If annexation occurs, some infrastructure investments would be needed in the near future and others sometime over the next 30 years.
- Potential costs and liabilities to address drainage past pollution and outfalls in the Triangle are estimated at \$62.5 million. Addressing these costs is complicated in this area due to having a large part of the area's drainage basin remain under King County jurisdiction and the presence of suspected contamination. City negotiations with the County to limit drainage related responsibilities and liabilities could significantly reduce or minimize these drainage costs. This item is further discussed in Section 6.3.
- Costs are estimated at \$10 million to address sanitary sewer overflow problems and liabilities, if assessments point to these problems. If annexation occurs, some infrastructure investments would be needed in the near future and others sometime over the next 30 years. It is recommended that this liability is addressed through negotiation with the Valley View Sewer District. This item is further discussed in Section 6.4.

### **5.2 Utility Bill Impacts on Area Customers**

Annexation of the two areas would result in changes to the utility bills paid by area residents and businesses. These changes would be driven primarily by differences between the rates that current utility service providers charge to area residents and businesses, and the rates SPU would charge those same residents and businesses. For example, SPU's water rate structure is designed to create incentives to conserve water. Under SPU's rate structure, businesses in the Triangle (which are anticipated to have relatively high water usage) would see a higher bill than with their current service provider.

#### **Sliver on the River Utility Bills**

Under SPU's rate structure, drainage bills for Sliver residents would increase. Water bills for all properties and sewer bills for the seventeen sewered properties in the Sliver will decrease with the removal of 'out of City' surcharges. However, many of the residential properties that do not currently pay a sewer bill would begin to receive such a bill. Specifically, under City code requirements, approximately 30 properties that are on septic systems and located within 300 feet of a sewer would pay sewer bills regardless of whether or not they are connected to the sewer system. For these 30 properties, typical SPU bills would increase from \$77 per month to \$141 per month. Fifteen properties on septic systems and not located within 300 feet of a sewer would not be required to pay sewer bills. A comparison of typical residential monthly utility bills pre- and post-annexation is provided below.

## 5. Seattle Public Utilities

**Table 5.21 Potential Sliver Customer Impacts – Typical Monthly Utility Bills**

	<b>Current Bill w/ Sewer (17 properties)</b>	<b>Current Bill no Sewer (45 properties)</b>	<b>Post Annexation w/ Sewer Charge (47 properties)</b>	<b>Post Annexation no Sewer (15 properties)</b>
Water	\$32	\$32	\$28	\$28
Solid Waste	\$35	\$35	\$35	\$35
Sewer	\$78	\$0	\$60	0
Drainage	\$10	\$10	\$18	\$18
<b>Total</b>	<b>\$155/mo</b>	<b>\$77/mo</b>	<b>\$141/mo</b>	<b>\$81/mo</b>

### **Duwamish Industrial Triangle Utility Bills**

The 12 businesses in this area will see an overall increase in monthly utility costs if the City takes ownership of the services. A monthly billing comparison for a typical property in the area is provided below.

**Table 5.22 Potential Triangle Customer Impacts – Typical Monthly Utility Bills**

	<b>Current</b>	<b>Post Annexation</b>
Water	\$629	\$1,026
Solid Waste	\$200	\$400
Sewer	\$1,179	\$1,922
Drainage	\$587	\$877
<b>Total</b>	<b>\$2,596/mo</b>	<b>\$4,225/mo</b>

Note: the bill comparison estimates in this chapter are based on SPU's 2011 utility rates and do not reflect actual or planned changes in SPU's rates subsequent to 2011. These estimates are also based on estimates of consumption of utility service.

## 6. MAJOR POTENTIAL RISKS AND LIABILITIES

This chapter provides a preliminary identification and assessment of financial risks and legal liabilities associated with the potential annexation of the two areas. Table 6.01 below summarizes the following information, with regard to each of these potential risks:

- The potential or estimated cost to the City of addressing the risk or incurring the liability.
- An initial assessment by SPU staff of the probability that the risk or liability will materialize and need to be addressed by the City, either at the time of annexation or at some time in the future.
- Whether the risk is deemed at this time to be negotiable between the City and other entities, in particular King County.
- The time frame in which costs associated with the risk or liability is anticipated to occur.

**Table 6.01 Major Potential Risks and Liabilities Associated with Annexation**

Description	Cost	Probability	Negotiable	Time Frame
Sliver Outfall Cleaning and Past Pollution	\$2.5M	High	Yes	w/annexation
Sliver Drainage and Septic Infrastructure	\$50M	High	No	1 to 30 years
Triangle S 96th St. Outfall and Drainage	\$62.5M	Medium – High	Yes	w/annexation
Triangle Sewer Past Pollution	\$10M	Low	Yes	w/annexation
Street Paving and Major Maintenance and Soil Contamination	unknown	Low - High	No	1 to 30 years
LEOFF Fire Pension Liabilities	\$160,000/yr	High	Yes	w/annexation
King County South Park Bridge Cost Share	\$578,000/yr	Medium	Yes	w/annexation

Several of these potential risks and liabilities relate to the proximity of the two potential annexation areas to the Lower Duwamish Waterway (LDW) federal Superfund site, which has significant environmental contamination issues. The site is jointly overseen by the United States Environmental Protection Agency (EPA) and Washington State Department of Ecology and includes the sediments within the boundaries of the Duwamish waterway and any upland sources that may be contributing to contamination of the waterway. Ecology and EPA are currently in the process of identifying potential upland sources of contamination that may be impacting the waterway. Potential upland sources include historical or current commercial industrial operations, contaminants entering the waterway from spills during product shipping and handling, surface runoff and storm water discharge.

## 6. Major Potential Risks and Liabilities

### **6.1 Sliver Outfalls Cleaning and Past Pollution - \$2.5 Million Estimated Cost**

Under the State Model Toxics Control Act (MTCA) and Federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) statutes regarding contaminated sites, the owner/operator of an outfall is liable for contamination in the sediments and water column that is associated, even in small part, with discharges from the outfall. The City will already be paying a large share of the cost to clean up sediments in the Duwamish River area due to its own outfalls. If the City becomes the owner/operator of additional outfalls, its share of the costs will increase unless there is an agreement with King County that the transfer of ownership/operation does not alter the pre-existing shares of liability. In addition, the outfalls and infrastructure leading to the outfalls have contamination present. The cost to address liability for past pollution from outfalls within the Sliver that King County would transfer to the City, and to clean those outfalls and associated infrastructure, is estimated at \$2.5 million. Depending on the results of City negotiations with King County, this potential City cost could be eliminated or significantly reduced.

**Recommendation:** The City should negotiate with King County for the County to:

- Retain liability for past pollution (including sediment cleanup) related to all current and former County outfalls in the area, including drainage infrastructure associated with the former South Park Bridge.
- Jet clean existing drainage system infrastructure prior to SPU taking on these services.

### **6.2 Sliver Drainage and Septic Infrastructure - \$50 Million**

45 out of 62 properties in the Sliver on the River currently rely on septic tank systems. SPU estimates that the majority of the septic tanks will eventually fail and major drainage and sewer infrastructure will be needed to connect the properties to the City's sanitary sewer system. With annexation, the City is not legally required to install drainage and sewer infrastructure where there is none or what exists is insufficient (there are a few areas within the City limits still on septic and with similar drainage), nor is the City required to assume service provision from King County. Septic conversions are typically the responsibility of private property owners. However, environmental regulators could require the City to address failing septic systems in the future. These infrastructure costs are likely unavoidable and simply a matter of timing. The City could commit to providing the upgrades as part of the annexed services in the near term or put improvements off into the future.

Due to the topography of this location, installing new drainage and sewer infrastructure and connections to existing sanitary and drainage facilities will require a substantial investment. SPU infrastructure upgrades would need to be coordinated with relevant area-wide combined sewer overflow (CSO) and flooding improvements as well as SDOT street improvements and potential right-of-way related soils cleanup. Further, without special Seattle municipal code provisions, area property owners would be required to pay for property specific utility construction and connection costs in addition to basic infrastructure above. Property specific costs are estimated at \$14,000 each.

## 6. Major Potential Risks and Liabilities

An estimated capital cost of \$50 million could occur in the 1 to 30 year timeframe. This cost would represent a potential Citywide 4% rate increase in sewer rates and 12% rate increase in drainage rates, compared to 2011 drainage rates based on current financial policies. The estimate includes the cost of the following elements:

- Area-wide needs assessment;
- Installation of sewer and drainage mainlines;
- Sewage pump station (due to elevation differences with adjacent areas);
- Additional CSO storage (due to area sewage system capacity);
- End of pipe (outfall) and area source control water quality treatment improvements; and
- Outfall tide gate improvements (due to tidal influence on outfalls).

**Recommendation:** The City should include these issues in negotiations with the County. The County is not likely to agree to retain ownership of these cost liabilities. However, these issues should be formally recognized as potential cost liabilities that the County is transferring to the City. The City should also negotiate with the County for the County to waive property specific capacity charges that would typically apply to future area septic conversions.

### 6.3 Triangle S 96th Street Outfall/Drainage - \$62.5 Million

Upon annexation, the City could face responsibility to control sources of contamination into the pipes that discharge into the Duwamish River. Under State and Federal Clean Water Acts, the City would be liable for contamination in discharges from the outfalls it owns and operates. This is a particular issue for the S 96th Street outfall because it serves a drainage area that is larger than and outside of the City's potential annexation area. Approximately 85% of the area's larger drainage basin discharging from the Triangle will remain under the jurisdiction of King County (and also of the City of Burien, if a portion is annexed by Burien) and the City would not have control or enforcement authority over activities outside of city boundaries. The discharge from these areas is expected to contain high levels of pollutants.

Costs to address responsibility for past pollution and make capital improvements to basin wide outfalls (including the outfall at S 96<sup>th</sup> Street) to improve future source control are estimated in the vicinity of \$62.5 million. These costs would represent a potential citywide 32% drainage rate increase compared to 2011 rates, based on current financial policies. Depending on the results of City negotiations with King County, this potential City cost could be eliminated or significantly reduced.

**Recommendation:** To appropriately define drainage service and infrastructure responsibilities and limit the City's cost exposure, the City should negotiate with King County for the County to:

- Retain ownership, responsibility and past and future liability for basin-wide King County outfalls (as opposed to outfalls that drain only with the annexation area) including the S 96<sup>th</sup> Street outfall.
- Retain primary responsibility for all area drainage infrastructure where flows are a mix of areas outside (under County jurisdiction) and within (under City jurisdiction) the annexation area. If necessary, assign County-City cost shares to infrastructure where the flow is a mix.
- Cost-share on any agreed upon improvements to isolate systems.

## 6. Major Potential Risks and Liabilities

- Jet clean the portion of existing drainage system infrastructure to be transferred to SPU, prior to SPU assumption.
- Retain liability for past and future pollution (including cleanup of sediments) related to any former County outfalls in the area.
- Ensure that any King County negotiations with the City of Burien regarding the County's drainage system and S 96<sup>th</sup> Street outfall liability for the North Highline annexation area either: 1) transfer all the County responsibilities described above to Burien upon annexation; or 2) result in County retaining responsibility. The City of Seattle should avoid situations where Seattle has to negotiate directly with Burien on liabilities or negotiations can be reopened with respective annexations.

### 6.4 Triangle Sewer Past Pollution - \$10 Million

Upon transfer of ownership of sewer services from the Valley View Sewer District to the City of Seattle, SPU will conduct an infrastructure assessment to determine whether sanitary sewer outflow problems exist in the Duwamish Industrial Triangle. If sewer overflow problems are identified, the City could face responsibility for sediment contamination into the Duwamish River, with costs for cleanup and infrastructure work estimated in the range of \$10 million. SPU is anticipating that the assessment will indicate that the area does not have such problems. Depending on the results of City negotiations with the Valley View Sewer District, this potential City cost could be eliminated or significantly reduced.

**Recommendation:** The City should negotiate an agreement with the Valley View Sewer District for the district to retain liability for any past pollution (including cleanup of sediments) caused by sanitary sewer overflows in the area.

### 6.5 Street Paving and Soil Contamination in Sliver and Triangle Rights-of-Way - Unknown Costs

Annexation of these two areas would present the City with several risks and potential costs associated with street major maintenance and potential soil contamination in public rights-of-way. These costs, which have not been estimated, are described as follows:

- Annexation of the two areas could potentially result in the City incurring costs to clean up contamination in the public rights of way at existing or future contaminated sites, given issues of historic environmental contamination in the areas. The City could also face increased street maintenance costs associated with the management and disposal of potential contaminated soils.
- The City could face regulatory requirements to upgrade existing drainage facilities or rights of way to control surface runoff or storm water discharge to waterways – i.e. to pave unpaved roads and shoulders to reduce contaminants from entering storm water, or to sweep paved roads for the same reason. The City could end up having to do this type of mitigation in the proposed annexation areas to reduce contaminants in discharges from the outfalls it takes from King County. The US EPA and Washington Department of Ecology have

## 6. Major Potential Risks and Liabilities

already pressed the City to perform paving in certain other areas of the Lower Duwamish Waterway federal Superfund site.

- SDOT does not currently know if any streets in the two areas may require significant major maintenance, and if so, what the cost would be. SDOT estimates that the probably of major liability related to these costs is relatively low.

**Recommendation:** Additional analysis should be performed to assess these potential liabilities. The City should take these potential street maintenance and soil contamination issues into account in any annexation-related negotiations with King County.

### 6.6 LEOFF Pension Liabilities - \$160,000/year

Under state law, the North Highline Fire District (NHFD) would be required to transfer all of its assets and a proportionate share of its liabilities to the annexing city or fire district based on the assessed valuation of the area annexed. Currently, the NHFD Law Enforcement Officers' and Fire Fighters' Plan 1 (LEOFF 1) medical obligations represent a liability of \$1.65 million or \$160,000 per year.

The City of Burien has proposed an annexation of the North Highline/White Center area, that would likely result in the transfer of 94% of the territory from the North Highline Fire District (NHFD) to the Burien/Normandy Park Fire Department. This transfer is part of the negotiation process between the two fire districts. The Burien/ Normandy Park Fire Department's current position is that it is under no obligation to assume a proportionate share of the NHFD LEOFF 1 liability based on a Washington State Attorney General's Opinion which stated that LEOFF 1 pension benefits are not assets of the fire district (therefore they reason they are not a liability). The Attorney General's opinion went further stating that if a city or fire district were to annex 100% of a fire districts assessed valuation they would be responsible for the fire districts LEOFF 1 liability. Under that reasoning, if the City of Seattle were to annex the remaining portion of the NHFD after a Burien annexation, the City would in fact be annexing 100% of the remaining district and have to assume the NHFD's LEOFF 1 liability. The City disagrees with the Attorney General's opinion.

Upon annexation of the Sliver and the Triangle, the City could be liable for all or a portion of LEOFF 1 Fire Pension liabilities based on assessed value of the annexed area. The City's position has been that Burien should assume a proportionate share of the liability (94%), leaving an estimated city cost share of approximately \$100,000 total or \$9,600 per year.

**Recommendation:** The City should work with King County to engage in the negotiation process between the North Highline Fire District and the Burien/Normandy Park Fire Department to secure a commitment that all outstanding LEOFF 1 liabilities will be shared on a proportional basis between all parties that are proposing to annex the North Highline Fire District territory.

### 6.7 King County South Park Bridge Cost Share - \$573,000/year

As discussed in Chapter 4, the City and King County have initially discussed a 50-50 cost sharing on the ongoing O&M and long-term major maintenance of the South Park Bridge. Under a previous agreement with Tukwila, King County pays for Tukwila's share of bridge operation and maintenance. Because of this agreement, the County is responsible for Tukwila's financial support of the new bridge, which would be a 50% share if Seattle annexes the Sliver on the River. King County has recently raised concern over the

## 6. Major Potential Risks and Liabilities

County's ability to use the County Road Fund to pay for O&M costs on a facility that would no longer be part of the county road system (the bridge would be located in Tukwila and Seattle after a Seattle annexation of the South Park Sliver). There is concern about King County's ability to make a long-term commitment to cover their assumed share (50%) of the annual costs O&M and major maintenance costs of the South Park Bridge if the County cannot legally use the County Road Fund for this purpose.

In addition, the County Road Fund is under severe financial distress, as discussed in the County's 2012 Budget. For the 2012/2013 biennium, In the County's 2012 Budget, the County Road budget was reduced by \$24 million or 13%, and over 100 positions were eliminated. This County Road Fund is solely supported by property tax, with a cap of \$2.25/\$1,000 Assessed Value (AV). As the assessed value continues to drop in the County's unincorporated areas, the associated property tax revenues are declining.

These legal and financial challenges could constrain the County's ability and willingness to share costs related to South Park Bridge operation, major long-term maintenance and replacement. If the County will not or cannot make a long-term commitment to support the bridge, the City could be left to support 100% of the bridge cost, which represent an additional \$573,000 in costs per year beyond the amount assumed in this report, increasing the cost to the City of the annexations slightly beyond what revenues would cover. The other alternative, of course, would be for the County to cover its share of the costs through another funding source, such as its General Fund, or to negotiate with the City of Tukwila to cover the portion of the costs that are now being paid by King County. However, if the agreement between the County and the City of Tukwila is deemed binding, the City may not be successful in negotiating financial support from Tukwila in lieu of County funds.

**Recommendation:** The City should negotiate with King County to secure a long-term commitment to fund the County's proportionate share of South Park Bridge O&M and major maintenance and replacement costs.

## **7. Conclusion**

After considering the findings, the Mayor believes that City departments are capable of providing day-to-day services to the residents and businesses in the area, should a decision be made to annex these areas. However, annexing these areas could obligate the City to a number of substantial one-time capital and environmental remediation costs for which there is no supporting revenue, in particular in costs to Seattle Public Utilities. Assuming the risk of these financial obligations would put pressure on the City's budget and require increases in City utility rates. To protect the City from these costs, the Mayor recommends that the Mayor and City Council work together to negotiate agreements with King County, and other appropriate parties to retain ownership of the environmental, bridge operation, and fire pension liabilities described in this report. Absent this outcome, the Mayor would not be in a position to support the annexation of these areas given the City's existing financial challenges and the additional strains that annexation could bring.

### **List of Attachments**

Attachment 1 – Map of Annexation Areas

