

**NORTH BEACH WATER DISTRICT
PACIFIC COUNTY, WASHINGTON**

RESOLUTION NO. 18-2008

**A RESOLUTION OF THE BOARD OF COMMISSIONERS OF NORTH
BEACH WATER, PACIFIC COUNTY, WASHINGTON, ADOPTING THE
DUE DILLIGENCE REVIEW OF THE NORTH BEACH PUBLIC
DEVELOPMENT AUTHORITY AND NORTH BEACH WATER UTILITY.**

WHEREAS, the Board of Commissioners believed it in the best interests of the public to complete a due diligence review of the North Beach Public Development Authority's management of the North Beach Water Utility prior to transferring the assets and liabilities of the Utility to the District.

WHEREAS, It was recommended by the District's Attorney that the Board of Commissioners complete a due diligence review of the NBPDA/NBWU based on seven separate categories including a review of meeting minutes, financial statements, debt/loan agreements, resolutions, private system acquisition agreements and title reports, speaking with NBPDA/NBWU Staff and Board, speaking with relevant regulatory entities, review records for any legal actions,


WHEREAS, The District Board of Commissioners has completed the Due Diligence exercise as outlined by the District's Attorney and will compile its finding in a report summary that will be attached to this resolutions ; now, therefore

BE IT RESOLVED by the Board of Commissioners of the North Beach Water District, Pacific County, Washington as follows:

The North Beach Water District Board of Commissioners has completed a due diligence review of the North Beach Public Development Authority and North Beach Water Utility and upon adoption of this resolutions considers the review as completed in the best interests of the Public.

ADOPTED by the Board of Commissioners of North Beach Water District, Pacific County, Washington, at a ~~special~~ ^{REGULAR} meeting held on July 7, 2008.

NORTH BEACH WATER DISTRICT

By 
Commissioner

By 
Commissioner

By 
Commissioner

July 7, 2008

To: North Beach Water District
Board of Commissioners

From: Brian Sheldon *BS*

Re: Summary of Due Diligence

The following pages contain my assessment of multiple areas related to a due diligence exercise as proposed by the North Beach Water District's (District) Attorney, Rod Kaseguma. The specific areas I was asked to review were resolutions completed by the North Beach Public Development Authority (PDA), a review of relevant regulatory issues, a review of water system acquisition agreements, and a review of any legal issues. In completing my assessment I considered not only specific documents, interviews, public comment, etc. in regard to each specific issue, I also considered an array of other information including:

- State auditor Reports 73815 and 73816 filed through 2006
- 2005 Valuation Study of Ocean Park Water Company and Pacific Water Company completed by Herta Ingram (Fairbanks)
- Review of the North Beach Water System Plan
- Review of the North Beach Water Rate Study
- Interviews with Various Pacific County, state agency, and other knowledgeable staff.
- Inspection and tour of the North Beach Water System with the General Manager
- Other relevant documents, general water system information, web searches, and discussions with knowledgeable individuals.

Based on my assessment of the status of North Beach Water (NBW) as well as of the management activities of the system by the PDA I do not see any significant issues, beyond normal business issues, related to NBW that cause me undue concern. The specifics of management of NBW may differ in opinion with my own or other commissioner views and goals, but in regard to the ability of NBW to function from a regulatory standpoint I see no reason for alarm. It has been clarified to me that the current financial status of NBW is that it is operating at approximately a 4.5% loss, but the PDA has taken a rate action to correct that situation and to begin building reserve funds. Overall NBW appears to have been managed reasonably well since the PDA formed the entity. Based on my review of the specific areas listed in the following pages I recommend that the District Board of Commissioners move ahead with the transition of the assets and liabilities of the PDA/NBW to the District. While I want to clearly state that I do not have expertise in completing due diligence exercises, I have utilized what I believe are commonly accepted and common sense practices in order to complete this exercise in the best interests of the public, and have pursued expertise as necessary to adequately establish the status of NBW.

Resolutions

As part of the Due Diligence activities recommended by the District's Attorney I have reviewed the resolutions of the PDA for 2005, 2006, 2007, and up to June of 2008. I requested copies of the resolutions from NBW General Manager Mike Berlien, and he delivered these for review. It should also be noted that an audit performed by the Washington State Auditor (reports 73815 and 73816) included a review of all resolutions through December 31, 2006. As part of this due diligence exercise these reports were also reviewed.

In general I found the resolutions to be well written and organized so as to capture the actions taken by the PDA. The resolutions follow a similar format and so are relatively easy to follow. They act to clearly document the history of actions taken by the PDA in regard to setting policy and relevant goals for NBW, as well as documenting efforts to develop a comprehensive plan for the Utility for the next several years.

I found no significant issue in my review of the resolutions for the timeframe referenced above. The PDA demonstrated a well organized and standard approach to creating, reviewing, and managing its resolution development and as such has provided a good history of its activities and actions. While I in no way wish to imply that I am an expert on the formalities of resolution forming as related to the specifics of the associated legalities, my opinion is that the resolutions have followed generally accepted guidelines in their creation and adoption by the PDA.

I consider the review of NBPDA resolutions as part of the NBWD Due Diligence exercise to be complete.

Regulatory:

The second item I completed as part of the due diligence exercise was to contact relevant regulatory agencies to discuss North Beach Water's (NBW) regulatory status. The most notable issue in regard to the Washington Department of Ecology (DOE) is in regard to an application for water rights filed by Ocean Park Water in 2000 under application G2-29907. I have communicated with Phil Crane at DOE and he has informed me that he was in receipt of a draft Report of Examination from "Aspect Consulting". He said that he had not had time to review the report, but that "it is an approval of the application". Mr. Crane believed he would review the document this week and then it would be posted to the DOE web site for a comment period at: https://fortress.wa.gov/ecy/wrx/wrx/roe/wrroe_draft.aspx?region_cd-SWRO. I visited this web site June 7, 2008 and the report had not yet been posted. There are no other issues reported from DOE.

I have also contacted the Washington Department of Health office of Drinking Water (DOH) and spoke with Teresa Walker. We discussed the status of the Water System Plan submitted by the PDA and it is close to approval after a few issues are resolved. I asked her if there were any significant issues in regard to compliance and she said there were

not. I asked if she had any concerns and she noted that she had seen numerous complaints about water color, odor, and taste from NBW customers. She noted that she had received more complaints of this "secondary" classification type in regard to NBW than from any other water system she deals with. She expressed a concern that the NBW General Manager (GM) may need additional training or experience on system operational techniques to remove these negative secondary impacts from the water. She felt that previous GM Phil Leach had a good understanding of how the system operated and that allowed him to minimize the impacts poor of water quality. She also suggested cross training to allow a person to back up the GM if needed. We discussed that there are plans to improve system flushing through an increased flush program, and through capital improvements to the system to increase looped flow capabilities. She noted that she felt the deep wells may be one of the issues due to higher iron content than the more shallow wells used by most private wells.

I have spoken with both DOE and DOH in regard to the status of NBW from a regulatory perspective and have found no significant issue in regard to the long term viability of NBW. There may be other regulatory entities that could provide comment on other issues regarding NBW, but these are the primary agencies in regard to adherence to Washington State Law. I have also spoken on several occasions to NBW GM Mike Berlien, PDA Board members, and other NBW staff and asked if they were aware of any issues and was told there were none. I also toured the entire water facility with Mike Berlien and was not made aware of any significant issues that were not already being addressed. In general, Mike Berlien appeared to have a good understanding of not only the system's operational characteristics, but also of any issues needing attention within the system as well as a plan/proposal for addressing these issues.

I have also learned from Mike Berlien that he has tested for and passed the required exam(s) to bring himself and NBW into certification compliance in regard to Washington law related to public water systems. He has also informed me that other field staff has tested for water system certifications and will soon learn their test results.

Based on my review of the regulatory status of the NBW I do not believe there are any significant issues of threat to NBW. Based on my assessment I recommend the District Commissioners accept this review of the regulatory status of NBW as complete.

Water System Acquisition Agreements:

In forming NBW the PDA purchased two separate private water systems including Ocean Park Water Company and Pacific Water Company. Each company was purchased utilizing separate purchase arrangements. Much of the discussion in regard to these purchases is recorded within the resolutions adopted by the PDA as the utility was being formed. I have completed a cursory review of these agreements based on available information I have received. It is also my understanding that as a part of the loan acquisition activity of the PDA property ownership has been documented as a requirement related to acquiring the four current loans to the PDA.

The significant issue related to the review of the above referenced acquisition agreements is assuring clear title to all properties, easements, water rights, etc. The District's Attorney has taken the position that because these transfers are relatively recent as opposed to having been under public control for a longer timeframe, it will be prudent for the District to assure proper title assurances are a part of any transfer agreement for assets and liabilities. I support that position and recommend to the District that it assure a review of all property ownerships, easements, and related documents are examined by the appropriate title company professionals to assure the public interests are protected. Given the complexity of this review it is not possible for me to provide an adequate review beyond reflecting on discussions with PDA representatives, NBW Staff members, reading available agreement documentation, etc. Based on that cursory review I do not see any issues at this time. I consider this portion of the due diligence exercise as complete. I recommend the District Board follow its Attorney's advice and assure a complete title review is completed as part of any transfer agreement with the PDA.

Legal Issues:

The fourth due diligence activity I completed was a review of any existing legal issues related to the PDA or NBW. At this time I am aware of a case that has been filed under filing number 08-2-00040-2 with Pacific County Superior Court. Because this is what I understand to be an ongoing legal issue with the PDA, I do not believe it would be prudent to discuss specifics of this case at this time. Additionally, while I have been briefed on a few items related to the case, I am not current on the topic and thus do not have current information to comment on. My recommendation to the District is to continue to monitor the issue and work with the PDA Board as needed to resolve the issue prior to completing the transfer of assets and liabilities. In the event the issue is not resolved it will need to become part of any transfer agreement between the District and PDA. The District will need to seek and adhere to the advice of its attorney in regard to this matter.

In addition to the case referenced above it has been suggested that there could be another filing against the PDA. However, as of this date I am not aware of any other filing in regard to this or any other issue. I confirmed this status with NBW GM Mike Berlien and multiple PDA Board members who said there were no other issues they were aware of in regard to legal actions. As such, I consider the only legal issue at hand to be the above mentioned case. This has been disclosed to the District by the PDA, and the District's Attorney is aware of the situation. Since there are no known additional legal issues I consider this portion of the due diligence complete. If there are unknown or future issues these can be considered when they are brought to the District's attention.

Summary

In my review of the above issues I have found no significant reason not to support the transfer of the assets and liabilities of the PDA/NBW to the District. It is clear that while

there may be differences in goals and management styles between the PDA and District as far as operating NBW, the PDA has done a good and responsible job bringing the two private water systems together and setting up operational infrastructure for the utility. Based on my review I consider the due diligence exercise related to the issues referenced in this report as complete and recommend that the District Board adopt these findings to the formal record.

June 30, 2008

TO: North Beach Water District Commissioners

RE: Financials of the North Beach Public Development Authority
Report of Due Diligence

Prepared by: Gwen Brake, Commissioner and Secretary

Financial information about the North Beach Public Development Authority has been reviewed from numerous perspectives. The following due diligence has been conducted in an attempt to reach a conclusive understanding of the financial structure and operations of the North Beach Public Development Authority:

- 6 Year Water System Plan: Includes the North Beach Water Policy Resolution 05-2006 which is a complete break down of utility fees, rate structures and service charges.
- 6 Year Water System Plan: Also includes a Capital Improvement Plan which identifies a comprehensive schedule of capital projects for 2008-2013 anticipating \$3.6 million in expenditures.
- Outstanding Loans (4): Cashmere Valley Bank funded the purchase of the two water systems for \$3.6 mil in 2006. Annual repayment is \$275,100 through 2026. The other three loans are from the Public Works Trust Fund. Loans #117 and #129 for \$1 mil each have a debt repayment of \$57,700 (x 2) annually through 2025. Loan #204, due in full in 2012, is for \$100,000 with no annual repayment. Total debt payment per year is fixed at \$410,364.
- North Beach Water General Manager conducted a formal rate study in March. According to this study, the NBPDA has revenues of approximately \$1.089 mil per year and expenses of approximately \$1.137 mil with a capital reserve of \$100k.

Four expense funds are identified in the rate study: Operational expenses cover day-to-day operations. Operational Reserves is a rainy day fund for maintenance and repairs. Capital Reserves for projects listed in the Water System Plan. Debt Repayment and Debt Service is stipulated by lenders.

- Pacific County Treasurer: Debt Reserve, Cashmere Valley Bank Reserve, Capital Reserve and PDA Investment accounts are maintained by the Pacific County Treasurer. District Commissioners were provided training on monthly vouchers and debt service payments. A spreadsheet of cash flow style accounting was presented. February 2008 showed a capital reserve of \$105,437.01 and a cash balance of \$57,507.88
- Nancy Edmondson gave a complete review of PDA financial reports using the accrual accounting methodology in April. The board agreed to forward the 2007 Annual Financial Report to the State of Washington.
- Herta Fairbanks, Senior Financial Analyst of HDR Engineering gave a comprehensive presentation in June that provided an overview of water district financing, explained why establishing and maintaining cost-based rates is important, and reviewing methodologies used to establish cost-based rates. She presented the board a copy of the "2007 Annual Financial Reporting Package" prepared by the State Auditor's Office.
- The 2008 NBPDA Budget, Resolution 01-2008, was reviewed. Monthly vouchers are approved at each regular meeting.

June 30, 2008

TO: North Beach Water District Commissioners

RE: Minutes of the North Beach Public Development Authority
Report of Due Diligence

Prepared by: Gwen Brake, Commissioner and Secretary

After reviewing the minutes of the North Beach Public Development Authority from the period of January 21, 2008 to the present, the business activities of the North Beach PDA have included the following:

- Adopting the 2008 Budget as Resolution 01-2008. Monthly vouchers are approved at each regular meeting.
- Estimating, repairing and reporting the December storm damage. RD Williams and Mike Berlien designated as authorized agents for state and federal emergency applications. Completed claims submitted to FEMA and WGEP were awarded: \$18,574.25 from FEMA and \$21,749.70 from WGEP. Work must be completed or funding is withdrawn.
- Researching an emergency radio interface with the fire district. A bid of \$15,000 for 6 handheld radios and one repeater was received from County Communications of Camas.
- Interfacing with the North Peninsula Improvement Association in creating the voter information campaign to establish the North Beach Water District. Election on February 19th with 10 days to certify results. PDA President Williams meets with new commissioners on March 5.
- Resolution 04-2008 created an Interlocal Operations Agreement between the North Beach PDA and the North Beach Water District on February 18.
- A transition team was formed with Brad Weatherby, as newly appointed Vice President, and Tom Downer, Treasurer.
- Attorney Suzanne Michael of Alexander-Michael LLC was hired to represent a legal case made against the PDA and RD Williams. Brad Weatherby is appointed negotiator and liaison.
- Manager's Report has involved discussions of the transfer from a vacuum system to a pressure system, two line breaks making a warning system

advisable, generators all needing maintenance (EC Power was identified as contractor), and south well #1 has dropped to 50 gpm, when south well #2 comes online and south well #4 will be shut down until new filtration for iron/manganese is online.

- Employee manual was adopted in February (although initially presented in October 2007.) Work on the manual will continue. Distribution to employees planned for June. Medical options were explored and dental benefits were renewed. A drug screening program will be discussed with attorney.
- State Auditors report for 2005-06 was reviewed. The board was cautioned to observe prevailing wage requirements.
- \$25,000 was moved from capital reserve to operations in February due to storm related repairs. \$25,000 was returned from operations to capital reserve in April. The board directed Pacific County Treasurer to rename fund from Capital Reserve to Cash Reserve.
- The Six Year Comprehensive Water System Plan was sent to Department of Health. Submitted for final approval with comments in April.
- NBPDA board directed the general manager to conduct a formal rate study with a thorough operational review and consideration of improvements specified in the Water System Plan. Rate Hearings were set for Monday, May 12 and to continue on Monday, May 19. A special meeting of the PDA and the district was held to consider the testimony and rate options presented.
- David Thompson of K&L Preston Gates Ellis LLP was selected to represent the PDA in the transfer of assets and liabilities from the PDA to the district. \$5000 was the estimated cost.
- A discussion of retaining the PDA for further community projects. (Adjourned to executive session to discuss the future of the PDA.)
- State Bid Laws were presented with an agreement that board members and general manager become aware of mandates.
- A resolution was passed on the inspection and copying of public records.
- Approved the purchase of backhoe formerly rented for \$1900/month to \$2200/month lease-to-own purchase agreement with a service contract.

- Issued the final report to the Public Works Trust Fund Planning Loan #204 prior to April 30 to receive the remaining \$10,000.
- Nancy Edmondson gave a comprehensive review of financial reports on April 21. The board agreed to forward the 2007 Annual Financial Report to the State of Washington.
- The board decided to provide a Public Notice of Fire Flow Testing.
- Authorized the General Manager to contract for website work.

June 30, 2008

TO: North Beach Water District Commissioners

RE: Tour of the North Beach Public Development Authority
Report of Due Diligence

Prepared by: Gwen Brake, Commissioner and Secretary

The following summary was gathered about the North Beach Public Development Authority's utility, operating under the name of North Beach Water, through onsite tours, an overview of the water system plan, budget analysis, and dialogs with board members and staff:

The North Beach Public Development Authority was formed on October 26, 2004. As part of the formation and initial financing of the NBPDA, a major upgrade was implemented which included an inter-tie between the two purchased water systems, formerly known as Ocean Park Water Company and Pacific Water Company. A 210,000 gallon water storage tank was added and a new support building was erected to house new booster pumps and a new back-up generator (eventually it will house filtration expansion). The water rights for both systems will be combined when the 6 Year Comprehensive Water System Plan is approved.

The North and South Well Fields provide the system's water supply. The North Well Field consists of 8 wells and the South Well Field consists of 3 wells. To the extent possible, all water is treated at one of the two filtration plants prior to distribution.

The North Well Field consists of 4+ acres and contains 8 wells drilled between 1962 and 1996. The wells are from 102-130 feet deep with submersible pumps.

The South Well Field consists of two well sites: wells #1 and #4 in one location; well #2 in another. Wells in the South Well Field are from 50-125 feet deep and meet water quality standards with the exception of some incidences of elevated iron and manganese.

There are four filter trains in the North Well Field and one in the South Well Field. Ozone and filtration are used as the primary methods of treatment for iron, manganese and arsenic removal.

NBW has four water storage facilities with capacity totaling 748,000 gallons. Three of the concrete reservoirs are in the North Well Field and one in the South Well Field. With the exception of Well #2 in the South Well Field, all water in storage is treated.

Booster pump stations at both sites maintain a distribution system pressure of 45 to 55 psi. The total capacity of the booster pumps are 3,719 gpm. In the event of a power outage, generators at both locations are capable of powering all pumps.

The North Beach Water transmission system currently consists of pipes ranging from 2-12 inches in diameter covering over 25 miles. Pipes range in age from 1-45 years.

Approximately 2,400 residential and 200 commercial connections are provided ready-to-serve access to water supplied by North Beach Water. The average daily water consumption is 464,000 gallons per day with a maximum day of over 1 million gallons.

Currently the utility is managed by a General Manager with a Water Treatment Operator Grade II certificate and a Water Distribution Manager Grade II certification.

There are 6 other full time staff members including: an Office Manager, a Billing Clerk, 2 Water Treatment Service Worker II's with Water Distribution Manager Grade I certificates, and 2 Water Treatment Service Worker I positions.

The North Beach Water office space is approximately 1000 square feet and rents for \$1000/month. A rent increase is anticipated.