



TO: Elizabeth Pauli, City Manager
FROM: Scott Dewhirst, Water Superintendent
COPY: City Council and City Clerk
SUBJECT: An Ordinance relating to Tacoma Water; approving an amendment and extension of the existing water supply agreement with WestRock; July 7, 2020
DATE: June 17, 2020

SUMMARY AND PURPOSE:

Public Utility Board Resolution U-11177 requests that the Board authorize the amendment and extension of the existing Water Supply Agreement with WestRock for one year and allow four additional annual 1-year extensions by mutual agreement of the City and WestRock. The resolution also requests that the Board seek concurrence of the City Council in the Board's decision if the Board approves the amendment and extension.

BACKGROUND:

The City of Tacoma, Department of Public Utilities, Water Division (d.b.a. Tacoma Water) entered into a 10-year Water Supply Agreement (Agreement) with the Simpson Tacoma Kraft Company commencing on January 1, 2006, and ending on July 31, 2015, which includes two optional 5-year extensions subject to mutual agreement of the parties. (Public Utility Board Resolution No. U-10006).

RockTenn, CP LLC, a wholly owned subsidiary of WestRock Company acquired substantially all of Simpson's Tacoma assets in 2014, and the Public Utility Board through Resolution U-10686 consented the assignment of the Contract from Simpson to RockTenn. The City and RockTenn agreed to extend the initial 10-year term with the first of the 5-year extensions commencing August 1, 2015 through July 31, 2020 (Public Utility Board Resolution No. U-10784).

RockTenn, now doing business as WestRock, does not require treated, potable water for process use and is seeking alternative water source(s) to reduce operating expenses to remain cost-competitive. A Memorandum of Agreement (MOA) between the City's Environmental Services Division, Tacoma Public Utilities Water Division, and WestRock exhibits the commitment of all parties to conduct a Preliminary Evaluation to study the potential of reclaimed water as an alternate source of supply. The MOA that is expected to be signed by all parties in conjunction with an extension of the Water Supply Agreement is attached for reference.

WestRock is unwilling to agree to the second 5-year extension afforded by the original Agreement due to business challenges and the economic uncertainty of the COVID-19 pandemic amongst other factors. Extending this Agreement for the first year of the potential five 1-year extensions, affords WestRock the ability to align with the Tacoma Power Supply Agreement expiration in 2021, to have preliminary results of the reclaimed water supply study, and to evaluate other alternative supply options and/or alternative rate structures.



Resolution U-11177 would authorize the Director of Public Utilities to sign the attached amendment to the original Water Supply Agreement which authorizes the first one year extension and up to four more 1-year extensions with the current mill operator, WestRock while water supply alternatives and rate structures are evaluated. If the City and WestRock want to exercise the additional one year extensions, those extensions will be brought to the Board for review and approval. Because all matters relating to rates are initiated by the Board, subject to approval of the City Council, if the Board adopts the resolution, the Board would also be requesting that the City Council concur in the Board’s approval of the amendment and extension.

ALTERNATIVES:

In lieu of the recommended action, not amending and extending the agreement is an option. This would result in a substantial rate increase and resulting higher water sales revenue; however given the potential immediate financial impacts, it is possible adjustments to mill operations up to and including shutdown could occur having significant negative economic impacts to the City, mill employees, and other businesses supporting mill operations.

Alternative(s)	Positive Impact(s)	Negative Impact(s)
1. Amend and Extend Existing Agreement	Retain water sales revenue Likely sustain mill operations	Does not address longer term
2. Do not extend Agreement	Higher water sales revenue possible	Difficult to predict but likely would affect mill operations including possibly closure
3.		

STAFF/SPONSOR RECOMMENDATION:

Approval of the amendment and extension is recommended to allow for additional time for the City and WestRock to evaluate alternative water sources, including reclaimed water from Tacoma’s Central Treatment Plant, for their operations and/or longer term rate structure adjustments.

FISCAL IMPACT:

Please provide a short summary of the fiscal impacts associated with the grant, agreement, policy action, or other action.

Fund Number & Name	COST OBJECT (CC/WBS/ORDER)	Cost Element	Total Amount
1. 4600 Water (Operating Fund)	581100	4343320	\$7,000,000 (Approximately)
2.			
TOTAL			



City of Tacoma

City Council Action Memorandum

Are the expenditures and revenues planned and budgeted in this biennium's current budget?

YES
Tacoma Water has included the anticipated revenue from WestRock in its revenue budget for 2020 and will be included in the 2021/2022 budget proposal.

Are there financial costs or other impacts of not implementing the legislation?

YES

Will the legislation have an ongoing/recurring fiscal impact?

YES

Will the legislation change the City's FTE/personnel counts?

NO

ATTACHMENTS: Public Utility Board Resolution No. U-10006 with the original water supply agreement, Public Utility Board Resolution No. U-10784 with Signed Extension/Amendment No. 1 with WestRock Guaranty, Proposed Memorandum of Agreement between Tacoma Environmental Services, Tacoma Water, and WestRock, Proposed Contract Amendment under consideration,.