



City of Everett
Utilities Division

2003

Annual Report

City of Everett Utilities Division

3200 Cedar Street • Everett, Washington 98201

Phone 425.257.8800 • Fax 425.257.8882

MESSAGE FROM THE DIRECTOR

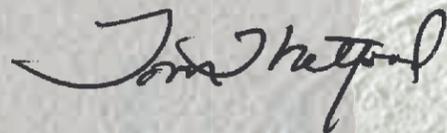
In 2003, our utility met many goals that demonstrate our continued efforts to plan for future needs, meet or exceed customer expectations and demonstrate good stewardship of our environment and infrastructure.

The best example of a project that meets these goals is the joint outfall project. The City of Everett has partnered with Kimberly Clark to construct a new outfall in Port Gardner Bay. This project allows Everett to move wastewater effluent from the Snohomish River estuary to the deep waters of Port Gardner Bay. This will improve water quality in the Snohomish River and the inner harbor of Port Gardner Bay. Everett started construction on a pump station that will convey both Everett's and the City of Marysville's treated effluent to the joint outfall project. Another example is the Smith Island Habitat Restoration Project. Everett has partnered with the Corps of Engineers and is restoring approximately 100 acres to natural tidal conditions.

Our utility continuously strives to improve the services we provide. We routinely seek opportunities to improve our customer service. We also meet with our customers, peers and other agencies on a regular basis to get their input and ideas.

The utility continues to maintain a strong fiscal position while methodically improving our capital facilities to meet the needs of our customers. Our financial model continues to predict that minor rate increases will be necessary in the water, sewer and surface water areas of the utility to cover treatment and capital projects. In 2003, a new utility billing system software package was purchased and placed into service with a minimum of interruption of service.

As we plan for the future and review our 2003 accomplishments, our success can be attributed to our fine staff of dedicated employees, positive relationships with the many agencies we work with, and the excellent leadership and support of Everett Mayor Ray Stephanson and our City Council.



Tom Thetford,
Utilities Director

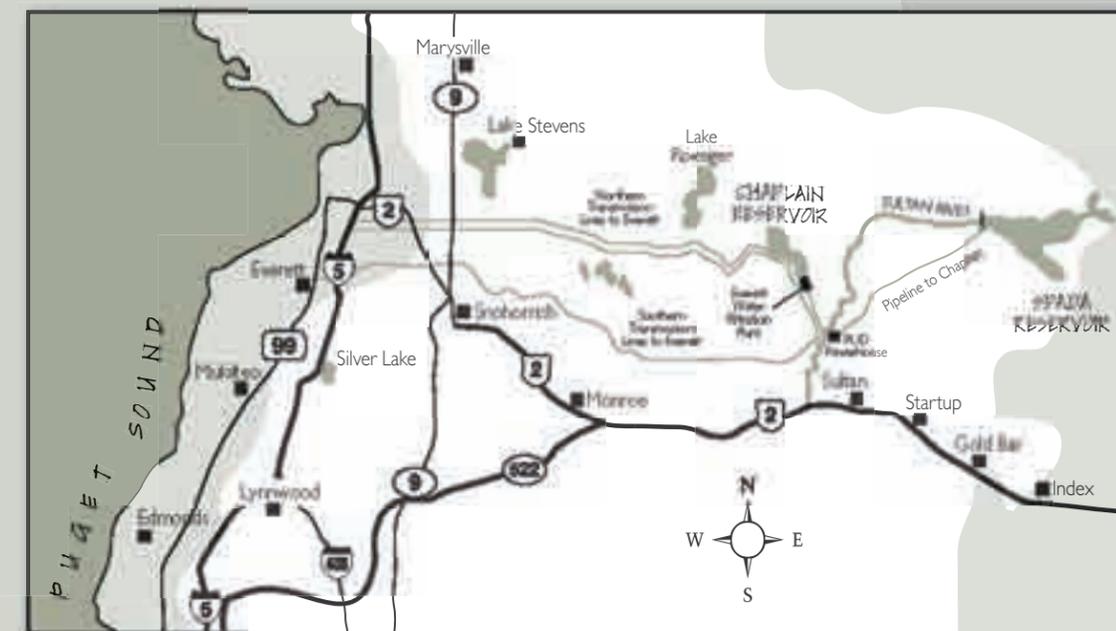


WATER UTILITY

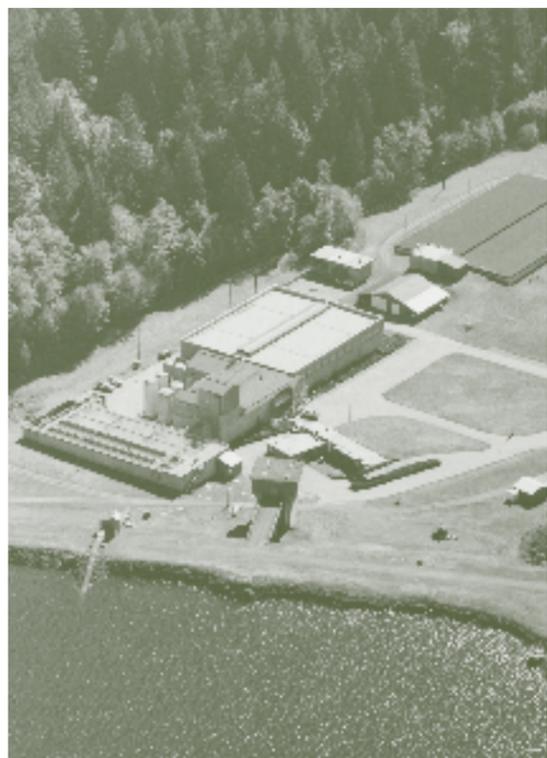
For nearly a century, the City of Everett has developed its water system to provide water to the citizens of Everett and numerous neighboring communities. From reservoirs, to water treatment facilities, to transmission lines, the City has worked proactively to keep pace with the rapid growth in the area. Today, the City has water rights for 246 million gallons of water a day from the Sultan River system and operates a state-of-the-art system that provides drinking water to nearly a half-million residents of Snohomish County, Washington.

The City of Everett enjoys an abundant supply of pure, clean water from Spada Reservoir. Spada Reservoir was created in 1964 and holds about 50 billion gallons of water. It is located in the Sultan River Watershed, about 30 miles east of Everett. The Sultan River Watershed covers an area of 84 square miles and is one of the wettest watersheds in the Cascade Mountains.

Everett has long been committed to a strong security program to protect water quality in Spada Reservoir. The watershed is patrolled on a continual basis and human activities are carefully managed. While there have been no direct threats to the water supply system, security has been increased even further since the September 11, 2001 terrorist attacks and the City continues to evaluate and adjust security measures.



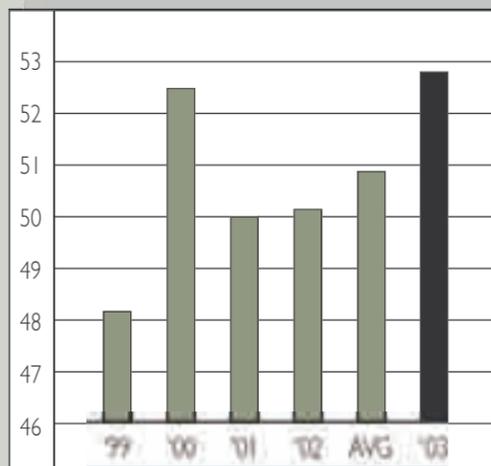
WATER UTILITY



Chaplain Reservoir

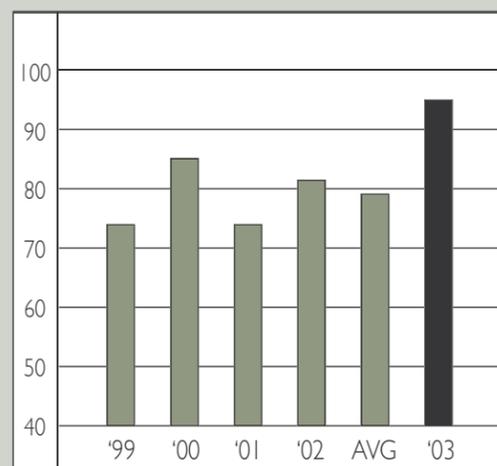
From Spada Reservoir, the water travels through a pipeline to Chaplain Reservoir where the City's water treatment plant is located. The plant is a direct filtration facility with a hydraulic capacity of 140 million gallons a day (MGD) and an approved treatment capacity of 100 MGD. In addition to filtration, the facility provides chemical treatment for disinfection, corrosion control and fluoridation. After treatment, the water is conveyed to Everett through 76 miles of pipelines and tunnels.

The Washington State Department of Health (DOH) requires water utilities to prepare comprehensive water system plans (CWSP) every six years. CWSPs review existing water systems and population projections for the next 50 years to ensure systems will have adequate water supplies well into the future. In 2000, the City of Everett submitted its most recent CWSP to the DOH. This plan carries forward the policies of the 1994 CWSP and provides the documentation and direction for implementing the key functions of the utility.



AVERAGE DAILY CONSUMPTION
(MILLION GALLONS PER DAY)

Treated water production at the Everett Water Treatment Facility averaged 50.9 MGD from 1999 to 2002. In 2003, the City produced 52.8 MGD - about a 4 percent increase from 2002 and the previous 4-year average. This increase can be attributed to population increases and fluctuations in summer temperatures and rainfall levels.



ANNUAL PEAK DAY DEMAND
(MILLION GALLONS PER DAY)

The peak day demand for treated water in the Everett Water Service Area usually occurs in July or August. The average peak day demand from 1999 to 2002 was 78.8 MGD. The 2003 peak day demand was 94.8 MGD - a new record high. This can be attributed to a prolonged period of high temperatures and no rainfall.

2003 FINANCIAL STATUS

NOTES TO FINANCIAL STATEMENTS

Capital Improvement Projects (CIP)

The Division spent \$27.1 million on capital improvement projects (CIP) in 2003. These programs were financed primarily from operations revenues. The year ended with \$51.2 million in unrestricted cash and investment balances. The overall strong financial performance of the Utilities Division ensures future funding for capital projects.

Historical Rates

The rates shown are based on an average single-family usage of 1,000 cubic feet of water. Water rates have remained constant since 1997. In 2003, the sewer rate was increased \$2.50, from \$25.65 to \$28.15, to cover the capital cost of expanding the Water Pollution Control Facility, increasing operations and maintenance costs, and other sewer projects.

	Water Rates	Sewer Rates
1999	\$16.50	\$25.65
2000	\$16.50	\$25.65
2001	\$16.50	\$25.65
2002	\$16.50	\$25.65
2003	\$16.50	\$28.15

Major Water Customers

The eight largest water customers in the Everett Water Service Area accounted for over 96 percent of the 2003 water service revenues:

Customer	Revenue
Everett Retail Customers	\$ 8,508,092
Alderwood Water District	6,649,249
Kimberly Clark	1,387,175
Silver Lake Water District	1,417,935
Mukilteo Water District	1,054,141
City of Marysville	1,040,608
PUD/City of Lake Stevens	1,123,183
City of Monroe	579,305
Total	\$ 21,759,688

NOTES TO FINANCIAL STATEMENTS

Major Sewer Customers

The four service areas served by the Water Pollution Control Facility accounted for about 95 percent of the sewer service revenues in 2003:

Customer	Revenue
City of Everett Customers	\$ 13,699,032
Silver Lake Water District	2,772,089
Alderwood Water District	1,340,236
Mukilteo Water District	607,144
Total	\$ 18,418,501

2003 FINANCIAL STATUS

HISTORICAL OPERATING RESULTS*

	2001	2002	2003**
Operating Revenue			
Charges for Services:			
Water	\$ 20,333	\$ 21,342	\$ 22,889
Sewer	18,052	18,622	19,907
Total Operating Revenues	38,385	39,964	42,796
Operating Expenses			
Wages	10,973	11,481	11,937
Supplies	3,044	2,914	2,663
Professional Services	2,368	3,389	2,323
State Taxes	796	777	780
Outside/Intragov't Services	5,277	6,343	5,952
Total Operating Expenses	22,458	24,904	23,655
NET OPERATING REVENUE	15,927	15,060	19,141
Other Revenue (Expense)			
Grant Revenue	31	128	226
Investment Income	2,062	1,227	764
Rent	519	502	437
Other Revenue	583	533	97
Timber Sales	270	442	0
LID/ULID Assessments	66	95	84
Gain on Sale of Assets	5,268	7	19
Total Other Revenue	8,799	2,934	1,627
TOTAL AVAILABLE FOR DEBT SERVICE	24,726	17,994	20,768
Debt Service Requirements			
Existing Senior Parity			
Debt Service	5,887	5,589	7,311
Existing PWTF Loan***	768	789	1,335
Total Debt Service	6,655	6,378	8,646
Parity Lien Debt Service			
Coverage Ratio	4.20	3.22	2.84
Total Debt Service			
Coverage Ratio***	3.72	2.82	2.40
Less Payment in Lieu of Taxes			
	2,395	2,382	2,413
ENDING BALANCE AVAILABLE	\$ 15,676	\$ 9,234	\$ 9,709

* In thousands of dollars

** For the year ended December 31, 2003 (unaudited)

*** Junior lien note

NOTES TO FINANCIAL STATEMENTS

Debt Administration

The City of Everett issues revenue debt and pledges to pay the debt requirements from the sales derived from the Utilities Fund. The City of Everett revenue bond rating is A1 by Moody's Investors Services and AA- by Standard and Poors Investor Service. As of December 31, 2003, the Division had the following outstanding debts (excluding interest): \$68.7 million of water and sewer revenue bonds, \$14.8 million of Public Works Trust Fund loans, and \$0.3 million proprietary fund lease. The City has set aside cash reserves of \$4.0 million to finance the redemption funds and annual debt service requirements. Additionally, the City complies with all significant limitations and restrictions as disclosed in the bond covenants. The City is required by its bond covenant to maintain debt service coverage of 1.25.

Annual Debt Service

Senior Parity Bonds

YEAR	PRINCIPAL	INTEREST	ANNUAL REQUIREMENT*
2004	\$ 4,165,000	\$ 3,146,164	\$ 7,311,164
2005	4,250,000	3,058,214	7,308,214
2006	4,380,000	2,929,526	7,309,526
2007	4,585,000	2,718,570	7,303,570
2008	3,765,000	2,514,795	6,279,795
2009	3,940,000	2,338,395	6,278,395
2010	4,140,000	2,151,008	6,291,008
2011	2,095,000	1,951,200	4,046,200
2012	2,185,000	1,857,825	4,042,825
2013	1,630,000	1,759,500	3,389,500
2014	1,710,000	1,678,000	3,388,000
2015	1,800,000	1,592,500	3,392,500
2016	1,890,000	1,502,500	3,392,500
2017	1,980,000	1,408,000	3,388,000
2018	2,080,000	1,309,000	3,389,000
2019	2,185,000	1,205,000	3,390,000
2020-2027	21,915,000	5,211,000	27,126,000
Total	\$ 68,695,000	\$ 38,331,196	\$ 107,026,196

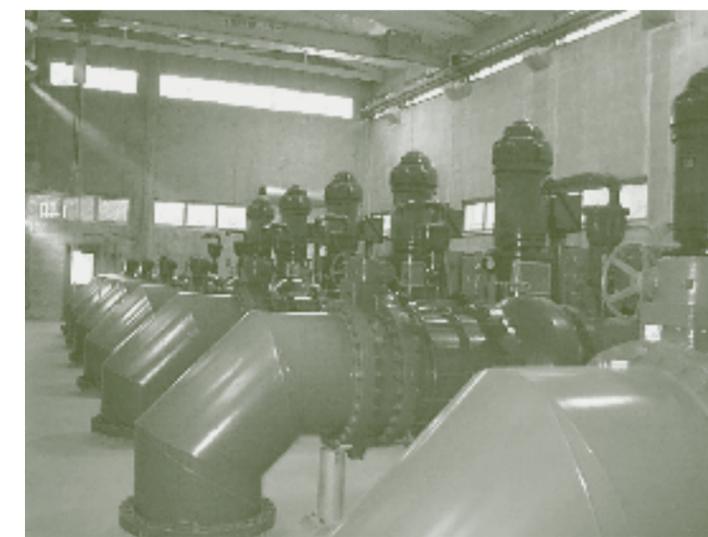
* Outstanding bonds include 1997 Bonds, 2002 Bonds, and 2003 Bonds.

On May 14, 2003, the City of Everett's Utilities Division issued a revenue bond amounting to \$58.1 million with a combination of \$15.1 million of refunding bonds and \$43.0 million of new issuance with competitive interest rates averaging 2.0 percent to 5.0 percent. This issuance was established to finance the future capital projects both in the area of water and sewer system improvement projects. With the new and refunding 2003 revenue bond issuance, the outstanding water and sewer bonds increased from \$31.0 million in December 31, 2002 to \$68.7 million in December 31, 2003. The advance refunding of \$15.1 million was undertaken to reduce total debt payments over the next four years by \$0.9 million (note figure). The Division was also authorized a Washington State Public Trust Fund Loan of \$5.5 million with a competitive interest rate of 1%. The City received \$2.5 million as of December 31, 2003 to finance the construction and replacement of the water transmission systems.

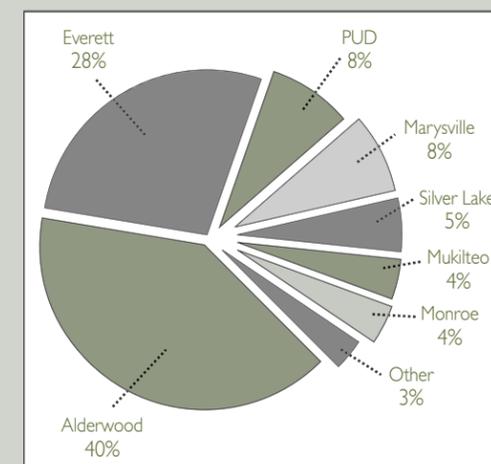
WATER UTILITY

The 2000 CWSP identifies a 6-year capital improvement program of \$60 million and a 20-year capital improvement program of over \$140 million. These investments are needed to meet the future water system needs. The CWSP also includes a water conservation program that is designed to help meet the growing demand for water in the Everett Water Service Area. Approximately \$7 million will be spent through 2012 on a variety of water conservation measures. When completed, these measures are projected to save over 4 MGD.

The City of Everett is one of the largest water purveyors in the State of Washington. The City's water system delivers potable water to its citizens and 31 wholesale customers. The Everett Water Service Area includes the cities of Everett, Marysville, Monroe, Snohomish, Lynnwood, Edmonds, Sultan, Mountlake Terrace and Granite Falls; the Alderwood, Mukilteo and Silver Lake Water Districts; the Snohomish County PUD, and other small water systems and associations. The City also sells non-potable water to the Kimberly Clark paper plant on the Everett waterfront.

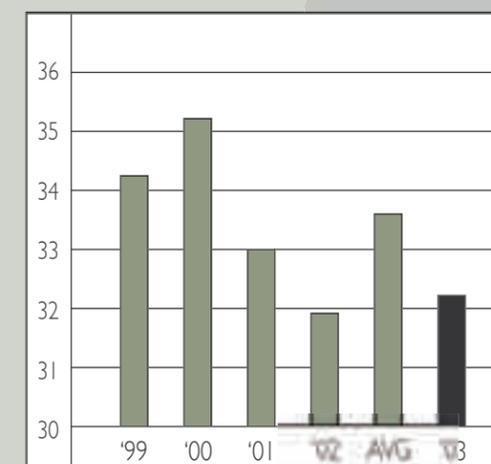


Pipe gallery, treatment plant



DISTRIBUTION OF TREATED WATER (PERCENT OF DEMAND)

Most treated water demand can be attributed to seven water utilities: the Alderwood Water District, Silver Lake Water District, Snohomish County PUD, and the cities of Everett, Marysville, Monroe and Mukilteo. In 2003, these utilities accounted for 97 percent of the treated water consumption.



KIMBERLY CLARK CONSUMPTION (MILLION GALLONS PER DAY)

From 1999 to 2002, the City provided an average of 33.6 MGD to Kimberly Clark. In 2003, the City provided 32.2 MGD - a 1 percent increase from 2002 but a 4 percent decrease from the previous 4-year average. This can be attributed to production levels and efficiency improvements at the plant.

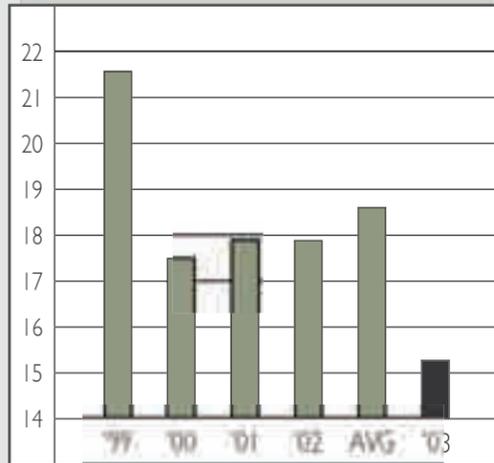
SEWER UTILITY



Water pollution control facility, northeast view

The City of Everett's wastewater system provides sewage collection and treatment for over 140,000 people in the Everett area. In addition to Everett, the system serves the Mukilteo sewer service area and portions of the Silver Lake and Alderwood sewer service areas. The system includes over 300 miles of sewer lines and a large treatment facility, the Everett Water Pollution Control Facility (EWPCF), located on Smith Island at the north end of Everett.

The EWPCF provides primary and secondary treatment of wastewater through a large lagoon system and a mechanical treatment plant. The facility is licensed to treat 31.3 million gallons per day (MGD). The City is planning an expansion that will increase total capacity to about 36 MGD. Construction is scheduled to begin in 2005.



ANNUAL DAILY PLANT FLOWS
(MILLION GALLONS PER DAY)

From 1999 to 2002, the Everett Water Pollution Control Facility processed an average of 18.7 MGD. In 2003, the plant processed 15.3 MGD. This can be attributed to low rainfall levels since some surface water enters the system. Approximately half of the effluent was from the lagoon system and half from the mechanical treatment facility.

Sewer mains inspected	82,160 ft
Sewer mains cleaned	86,760 ft
Side sewers inspected	3,600 ft
Side sewers cleaned	2,570 ft
Drainlines installed	3,060 ft
Drainlines inspected	2,510 ft
Drainlines cleaned	21,530 ft
Catch basins cleaned	1,730 basins
Total spoils removed	1,028,710 lbs

INSPECTIONS, CLEANINGS & REPAIRS
(FEET, BASINS, POUNDS)

Maintaining and upgrading the wastewater infrastructure continues to be a high priority for the City of Everett. The reliability of the sewage and drainage systems is enhanced by responsible maintenance practices. During 2003, over 38 miles of sewer pipes and drainlines were inspected, cleaned and repaired.

2003 FINANCIAL STATUS

STATEMENT OF OPERATIONS

	2001	2002	2003*
Operating Revenues			
Charges for Services			
Water	\$ 20,333,306	\$ 21,341,834	\$ 22,889,164
Sewer	18,051,853	18,622,596	19,906,523
Total Charges for Services	38,385,160	39,964,430	42,795,687
Operating Expenses			
Wages	10,972,572	11,480,882	11,937,223
Supplies	3,044,090	2,914,410	2,663,449
Professional Services	2,368,054	3,389,319	2,322,545
Depreciation/Amortization	6,562,563	6,690,567	7,438,201
Taxes	3,191,433	3,158,538	3,193,204
Outside/Intragov't Services	5,277,471	6,343,415	5,951,783
Total Operating Expenses	31,416,183	33,977,131	33,506,405
OPERATING INCOME	6,968,977	5,987,299	9,289,282
Non-Operating Revenue (Expense)			
Grant Revenue	31,275	128,194	225,786
Interest Revenue	2,061,056	1,227,180	764,462
Rent	519,171	501,736	436,558
Capital Contributions**	1,621,002	1,276,855	5,934,807
Timber Sales	270,000	441,695	0
Operating Transfers In (out)	(119,057)	2,420	648,997
Other Non-Operating Revenue	583,462	532,583	95,805
Gain (Loss) on Sale of Assets***	5,268,284	7,416	18,860
Interest Expense	(2,312,425)	(2,184,697)	(2,121,448)
Total Non-Operating Revenue (Expense)	7,922,768	1,933,382	6,003,827
NET INCOME	\$ 14,891,745	\$ 7,920,681	\$ 15,293,109

* For the year ended December 31, 2003 (Unaudited)

** Capital contribution recognized as revenue effective 2001 in accordance with GASB 34. Capital contribution was totally dependent on the capitalized expenditures incurred for the ongoing Utilities capital construction projects.

*** Sale of Surplus Property

BALANCE SHEET

	2001	2002	2003*
Current Assets			
Cash & Cash Equivalents	\$ 2,843,640	\$ 270,499	\$ 7,245,498
Investments	26,908,720	19,616,869	43,921,615
Accounts Receivable	6,848,290	8,744,857	12,978,598
Inventory	460,525	413,800	408,833
Total Current Assets	37,061,175	29,046,025	64,554,544
Restricted Assets			
Cash & Cash Equivalents	2,954,594	2,078,084	3,147,188
Investments	0	797,941	935,431
Special Assessment Reserve	399,220	303,418	213,612
Total Restricted Assets	3,353,814	3,179,443	4,296,231
Fixed Assets			
Plant & Equipment (Net)	216,859,157	237,246,263	246,592,445
Construction in Progress	29,392,925	26,485,040	40,527,011
Total Fixed Assets	246,252,082	263,731,303	287,119,456
Other Assets	3,276,877	2,619,379	1,976,640
TOTAL ASSETS	\$ 289,943,948	\$ 298,576,150	\$ 357,946,871
Liabilities			
Current Debt	\$ 5,516,752	\$ 6,301,341	\$ 7,588,967
Accounts Payable	2,223,094	2,745,103	1,804,944
Employee Benefits Payable	571,241	638,843	559,009
Total Current Liabilities	8,311,087	9,685,287	9,952,920
Long-Term Liabilities			
Long-Term Obligations	38,603,739	37,965,669	81,800,258
Deferred Revenues	73,914	49,305	24,695
Total Long-Term Liabilities	38,677,653	38,014,974	81,824,953
TOTAL LIABILITIES	46,988,740	47,700,261	91,777,873
Fund Equity			
Capital Assets, Net of Debt	139,758,216	220,885,048	233,383,099
Retained Earnings (Reserved Restricted Assets)	4,026,225	3,139,739	4,281,921
Retained Earnings (Unreserved)	99,170,767	26,851,102	28,503,978
Total Retained Earnings	103,196,992	29,990,841	32,785,899
TOTAL FUND EQUITY	242,955,208	250,875,889	266,168,998
TOTAL LIABILITIES/ EQUITY	\$ 289,943,948	\$ 298,576,150	\$ 357,946,871

* For the year ended December 31, 2003 (Unaudited)

2003 FINANCIAL STATUS



Everett from Port Gardner Bay

The Everett Utilities Division continues to maintain a strong financial position. This is accomplished through conservative budgeting assumptions and maintaining adequate cash reserves and a strong debt service coverage ratio. The Division is committed to providing the very best water and sewer services possible and strives to keep pace with changes in the utility industry.

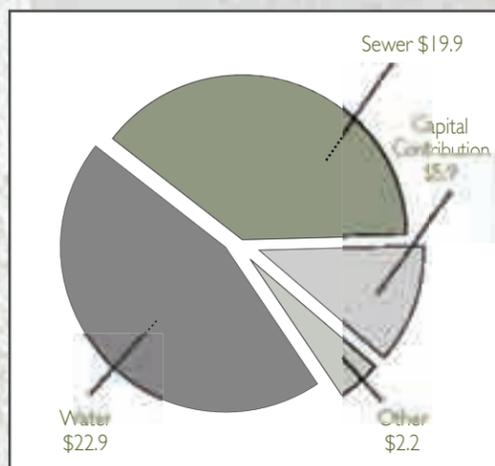
In 2003, the Division took a major step forward in implementing an aggressive capital improvement plan. To finance these projects, the Division issued \$58.1 million in revenue bonds and received a \$2.5 million Public Works Trust Fund Loan that offered competitive low interest rates.

Operating revenues are primarily derived from retail and wholesale sales of water, and charges

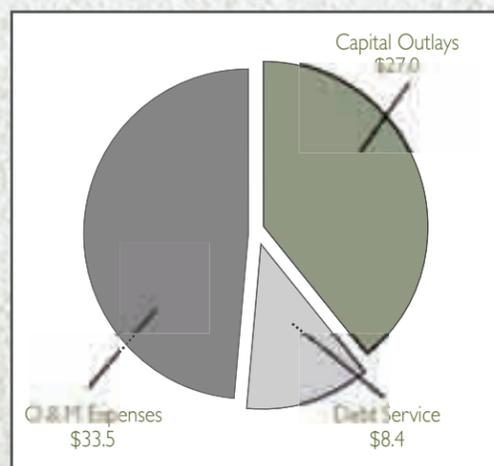
for sewer service. Other revenues are generated from connection charges, capital contribution, interest earnings on reserve balances, and grant proceeds. Total operating revenues increased 7.1% from \$40.0 million in 2002 to \$42.8 million in 2003. This positive increase in operating revenue reflects the growth in the City's service area, 2003 sewer and surface water rate increases, and the favorable weather factor during the summer months. Water sales increased \$1.5 million in 2003, or 7.3%, and sewer sales increased by \$1.3 million or 6.9%. Other non-operating revenues contributed \$8.1 million for total revenues of \$50.9 million. Capital contributions of \$5.9 million in 2003 provided a noticeable increase from \$1.3 million in 2002.

Operating expenditures consist of operation and maintenance (O&M), capital improvements and other services. Total operating expenses decreased 1.4% or \$0.5 million from 2002 to \$33.5 million. This encouraging reduction was attributed to a decrease in professional service expenses. The City of Everett also adopted GASB 34 guidelines regarding the capitalization of interest derived from the new issuance of bonds for capital construction projects. As a result, interest expense was maintained at \$2.1 million in 2003.

Overall, the Division's net income increased from \$7.9 million in 2002 to \$15.3 million in 2003. This increase was due primarily to the capital contribution derived from the ongoing aggressive capital construction improvement projects. The Division's senior lien debt service coverage remained strong at 2.84, well in excess of bond requirements of 1.25.



2003 TOTAL REVENUES
(MILLIONS OF DOLLARS)



2003 TOTAL EXPENSES
(MILLIONS OF DOLLARS)

SEWER UTILITY

The City of Everett is continually working to enhance the operation of the EWPCF and minimize the impacts on the environment. Wastewater is carefully monitored at each stage of the treatment process. Samples are taken and tested daily to make sure the facility is operating correctly and meets State and federal standards. Equally important, these tests ensure the treatment process is effective and the effluent leaving the plant is safe to be recycled back into the environment.

The City has operated an Industrial Pretreatment Program since 1987. Through this program, the City monitors business waste-flows, issues discharge permits and helps businesses find effective ways to remove harmful pollutants from their wastewater. This helps keep hard-to-handle pollutants such as acids, solvents, heavy metals and hazardous materials from entering the City's sewage system and being passed on to the environment.

Treated wastewater from the EWPCF is currently returned to the Snohomish River estuary. Although Everett is one of the largest communities in the region, the Snohomish River is an exceptionally clean waterway. It has received a Class A, or excellent, designation from the Washington State Department of Ecology. There is only one higher designation, Class AA, or extraordinary. This designation is typically found only in remote areas that are free from human activity.



Water pollution control facility



Headworks, pollution control facility

DEEPWATER OUTFALL



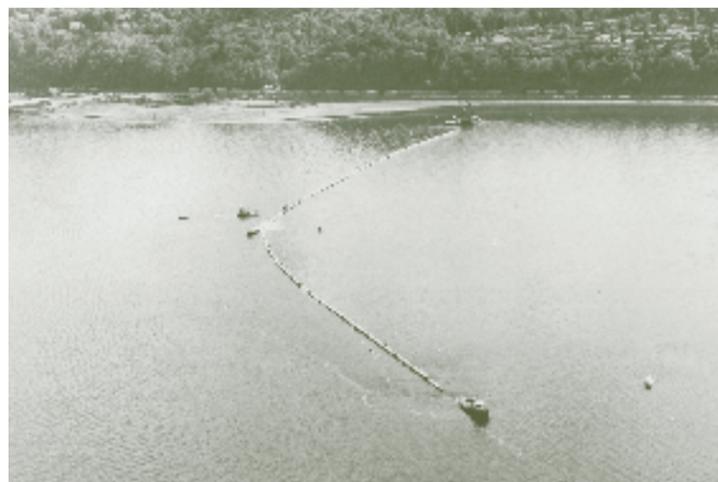
Port Gardner Bay

The City of Everett and Kimberly Clark are constructing a deepwater marine outfall in Port Gardner Bay. This \$18 million project will move the primary discharge point for the City of Everett's and the City of Marysville's treated wastewater from the Snohomish River estuary to the deep waters of Port Gardner Bay. It will also move Kimberly Clark's point of discharge from Everett's inner harbor to the deep waters of Port Gardner Bay and enable Kimberly Clark to use up to 8 million gallons of Everett's treated wastewater for non-contact cooling purposes.

The outfall project involves the construction of three pipelines. First,

a 6,600 foot on-land pipeline will carry the combined effluent to the shore of Port Gardner Bay. Second, a 1,400 foot pipeline will carry the effluent under the tide flat to a water depth of about 50 feet deep. Third, a 2,800 foot pipeline will carry the effluent to a depth of about 350 feet. This 2,800 foot segment was constructed in the Snohomish River, towed to the site of the deepwater outfall and submerged (see pictures). These activities are scheduled to be completed in 2004.

The goal of the deepwater outfall project is to provide cost-effective compliance with water quality standards and waste load allocations for the Snohomish River estuary. When completed, the project will benefit the environment and improve fish/wildlife habitat. The project will also serve as a model for public/private cooperation on infrastructure and environmental improvement projects.



Port Gardner Bay

HABITAT RESTORATION

The City of Everett is partnering with the Corps of Engineers on a habitat restoration project on Smith Island, located in the Snohomish River estuary. The purpose of this project is to restore approximately 100 acres to natural tidal conditions by breaching an existing dike along Union Slough.

The Snohomish River estuary is a unique and valuable habitat where freshwater from the river and stream flows mix with saltwater from tides. This creates a water salinity that is between salt and freshwater. The estuary is also a low flow environment that provides refuge from high flows in the winter.

Several salmon species use estuaries to improve their chances of survival during the ocean phase of their life cycle. Juvenile Chinook salmon, a species federally protected by the Endangered Species Act, spend up to 40 days in estuaries. During their stay, juvenile Chinook adjust to the higher salinity and increase their body weight by consuming prey that typically live in estuaries. Estuaries also support a diversity of other wildlife species.

By restoring 100 acres to natural estuary conditions, this project will increase the amount of habitat in the Snohomish River estuary available to Chinook and other salmon, hopefully increasing the survival of these species in the marine environment. The project will also increase habitat for other wildlife species and improve public access to the shoreline. The Smith Island Habitat Restoration Project follows the award-winning example of the Port of Everett's 2001 Union Slough Restoration Project, adjacent to I-5, just south of Marysville.



Snohomish Estuary



Smith Island Restoration Project