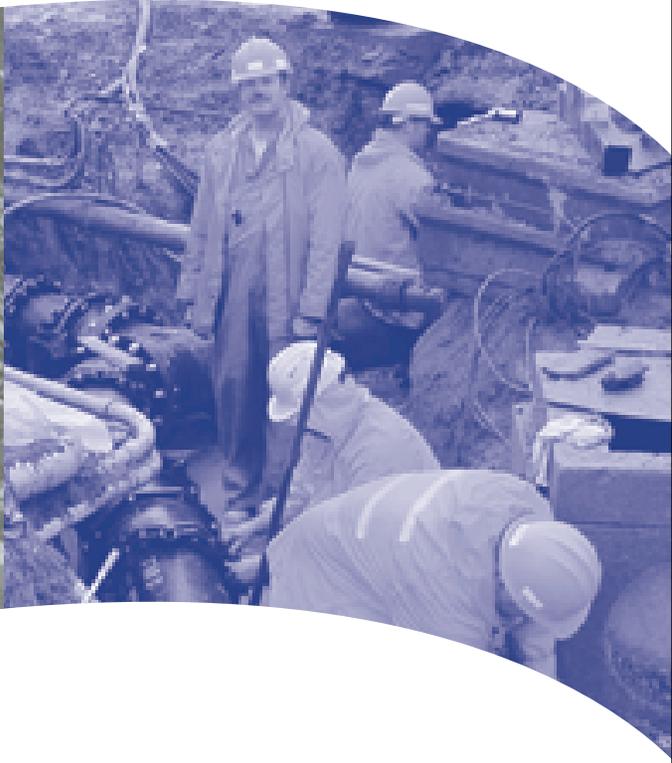




City of Everett
Utilities Division

2 0 0 4

Annual
Report



Looking back at 2004, our utility accomplished many objectives that demonstrate our commitment to maintaining effective water and sewer systems, preparing for the future and promoting practices that exhibit sound stewardship of our environment.

We completed a major project that moved effluent from the Everett Pollution Control Facility from the Snohomish River to a deep-water outfall, thereby reducing the impact on our environment. We completed a number of projects that enhance our water distribution system including an effort to safeguard our transmission lines at river crossings. We also continued our aggressive maintenance program—inspecting, cleaning and repairing more than 32 miles of pipelines.

Our utility constantly explores ways to improve the way we do business. We seek feedback from customers and staff on a regular basis. We are also active in state and regional forums, always eager to learn from our peers, and anxious to hear about new products and methods that will help us provide the very best service possible.

Key to this is maintaining a strong fiscal position. We strive to maintain substantial cash reserves while methodically improving our capital facilities. Our current financial plan calls for minor annual sewer and surface water rate increases in the near future to fund treatment and conveyance projects.

As we review our 2004 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 the Everett City Council: Council President Marian Krell, Vice President Arlan Hatloe, and council members Ron Gipson, Drew Nielsen, Mark Olson, Bob Overstreet and Brenda Stonecipher.



Tom Thetford,
Utilities Director



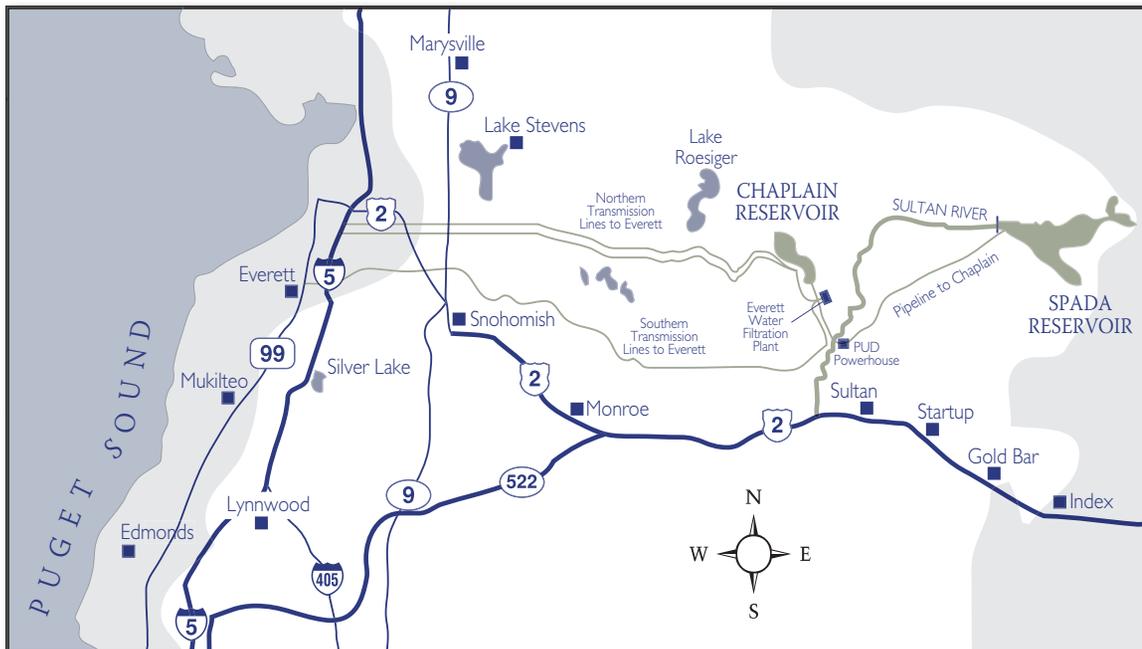
MESSAGE
FROM THE
DIRECTOR

For nearly a century, the City of Everett has developed a system to provide water to Everett and numerous neighboring communities. From reservoirs, to water treatment facilities, to transmission and distribution lines, the City has worked proactively to keep pace with the rapid growth in the area. Today, the City has water rights for 255 million gallons of water a day from the Sultan River system and provides drinking water to nearly a half million residents in Snohomish County, Washington.

The City of Everett enjoys an abundant supply of pure water from Spada Reservoir. Spada Reservoir was created in 1964 in partnership with the Snohomish County PUD as part of the

Jackson Hydroelectric Project 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 84 square miles and is one of the wettest watersheds in the Cascade Mountains. The average rainfall is 165 inches a year.

Everett has long been committed to a strong security program to protect water quality in Spada Reservoir. The watershed is patrolled on a regular basis and human activities are limited. While there have been no threats to the water supply system, security was increased following the Sept. 11, 2001 terrorist attacks, and the City continues to evaluate and adjust security measures as needed.



WATER
UTILITY

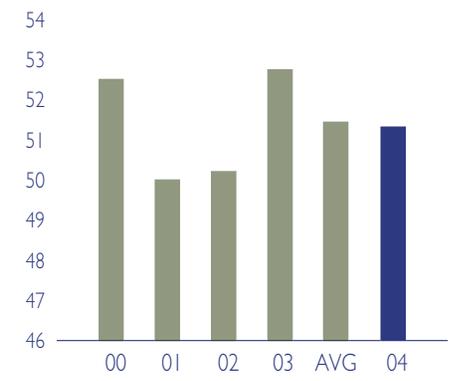


CHAPLAIN RESERVOIR

From Spada Reservoir, our 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 120 million gallons a day (MGD) with the existing clearwell, and an approved treatment capacity of 140 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.

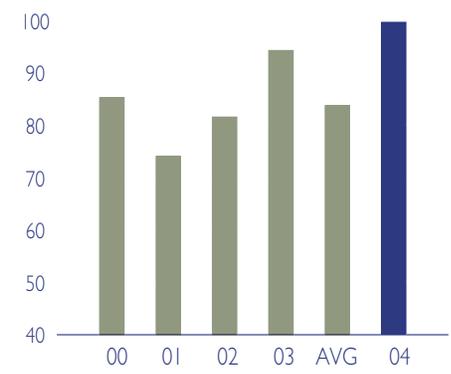
The City of Everett is one of the largest water purveyors in the State of Washington. The City's extensive supply and transmission system provides the backbone for water supply in Snohomish County. The City delivers potable water to the citizens of Everett, areas adjacent to the City, 31 wholesale water purveyors and 64 small water systems and associations. The City also sells non-potable water to the Kimberly-Clark Corp. paper plant located on the Everett waterfront.

Average Daily Consumption
(Million Gallons Per Day)

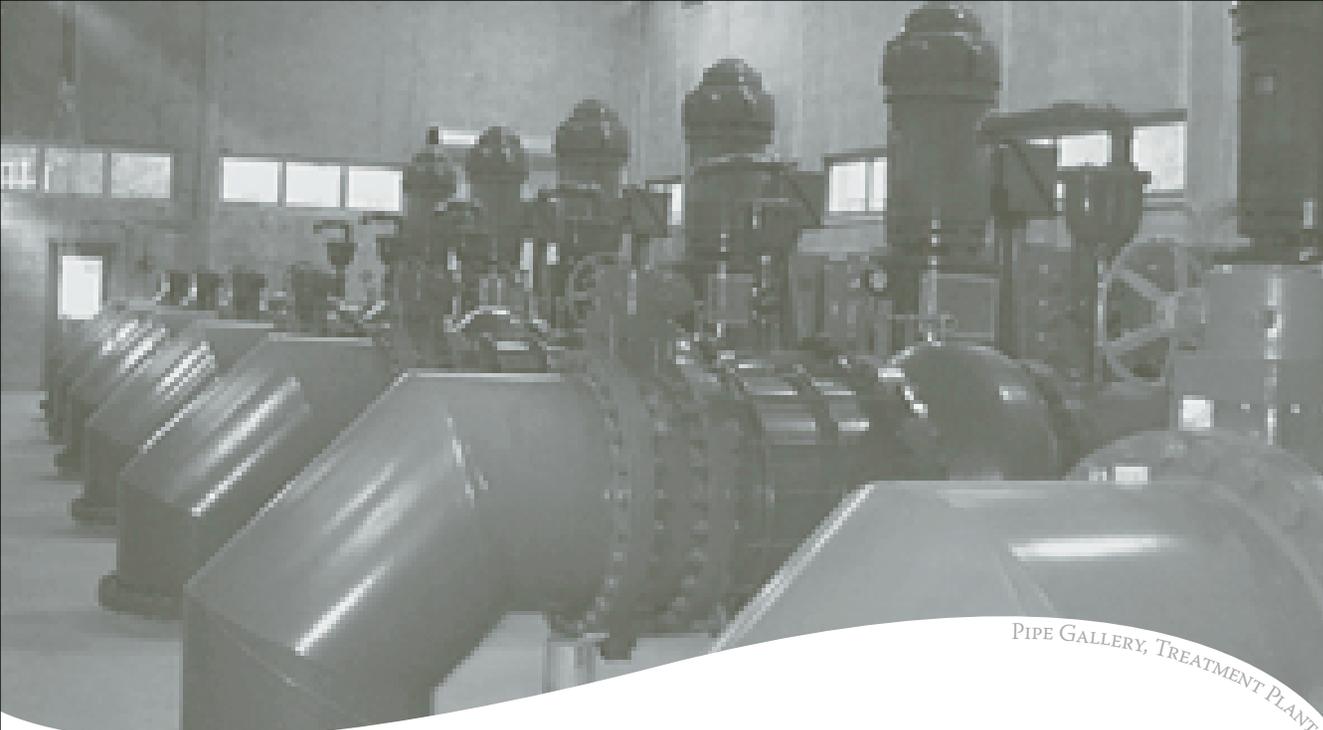


In 2004, the water treatment plant produced an average of 51.3 MGD—a 2.9 percent decrease from 2003 (52.8 MGD) and slightly below the previous four-year average (51.4 MGD). This can be attributed to variations in annual temperatures and rainfall and our water conservation programs.

Annual Peak Day Demand
(Million Gallons Per Day)



The peak day demand for treated water in the Everett Water Service Area occurs in the summer, usually in July or August. The 2004 peak day demand occurred in July and was 99.3 MGD—higher than the previous four-year average (84.0 MGD). This can be attributed to a two-week period of unusually high temperatures.

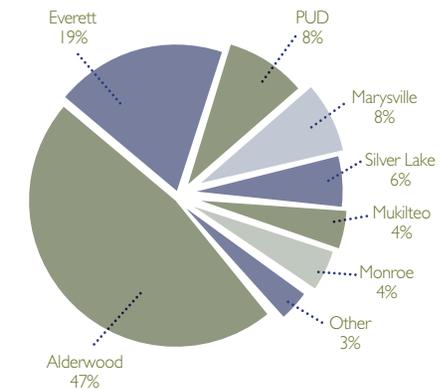


PIPE GALLERY, TREATMENT PLANT

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 50-year population projections to ensure there will be adequate water supplies well into the future. In 2000, the City of Everett submitted its most recent CWSP to the DOH. The City is in the initial stages of developing its next CWSP, which will be submitted to the Washington State DOH in 2006.

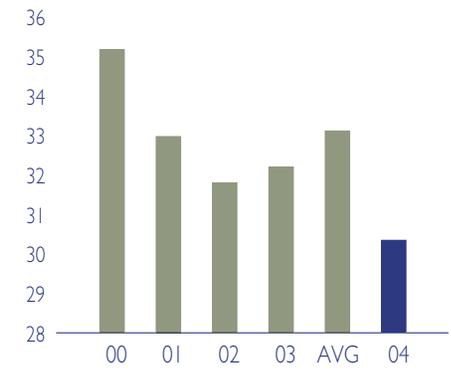
The 2000 CWSP identifies a six-year capital improvement program of \$60 million and a 20-year capital improvement program of more than \$140 million. These investments are necessary to replace aging infrastructure and keep pace with the growing demand for water. The CWSP also includes a regional water conservation program that includes demand measures for residential and commercial customers. When completed, these activities will reduce demand by more than 4 MGD.

Distribution of Treated Water
(Percent of Demand)



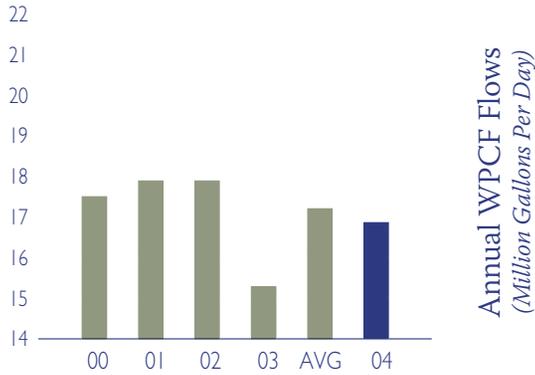
Seven large water utilities account for 97 percent of the demand for treated water: Alderwood Water, Silver Lake Water, Snohomish County PUD and the cities of Everett, Marysville, Monroe and Mukilteo. The remaining 3 percent are used by various cities and medium to small water systems.

Kimberly Clark Consumption
(Million Gallons Per Day)



In 2004, the City provided an average of 30.3 MGD to the Kimberly Clark facility—a 6.3 percent decrease from 2003 (32.2 MGD) and a 9.1 percent decrease from the previous four-year average (33.1 MGD). This can be attributed to variations in annual production levels and efficiency improvements at the plant.





In 2004, the Everett Water Pollution Control Facility processed an average of 16.9 MGD. This represents a 9.5 percent increase from 2003 (15.3 MGD) and a decrease of 1.4 percent from the previous four-year average (17.1 MGD). Approximately half of the effluent was from the lagoon system and half from the mechanical treatment facility.

Sewer mains inspected	75,890 ft
Sewer mains cleaned	68,030 ft
Side sewers inspected	2,020 ft
Side sewers cleaned	2,060 ft
Drain lines installed	3,220 ft
Drain lines inspected	5,010 ft
Drain lines cleaned	11,290 ft
Catch basins cleaned	2,100 basins
Total spoils removed	1,100,250 lbs

Inspections, Cleanings & Repairs
(Feet, Basins, Pounds)

Maintaining and upgrading the wastewater infrastructure is a high priority for the City. During 2004, more than 32 miles of sewer pipes and drain lines were inspected, cleaned and repaired.

The City of Everett's wastewater system includes more than 300 miles of sewer lines and a treatment plant, the Everett Water Pollution Control Facility, located in north Everett. The system plays a vital role in protecting public health. It also protects natural water bodies, rivers, lakes and streams from pollutants and minimizes harmful impacts to the natural environment.

The City of Everett provides sewer service to residential, industrial and commercial customers in Everett and the Mukilteo Water District and portions of the Alderwood

and Silver Lake Water Districts. The Water Pollution Control Facility provides primary and secondary treatment of wastewater through a 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 of the Water Pollution Control Facility to meet the future demand for wastewater treatment. When completed, the expansion will increase the total capacity of the facility to 37.3 MGD. Construction will begin in 2005.

WATER POLLUTION CONTROL FACILITY, NORTHEAST VIEW





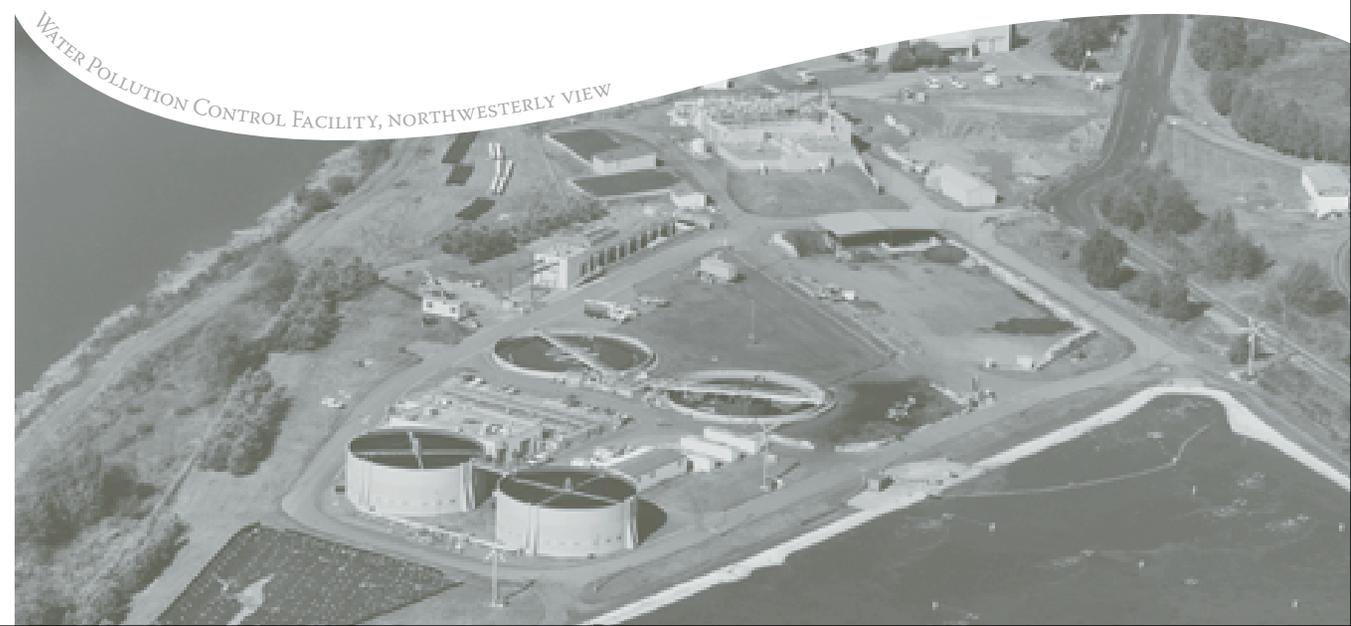
HEADWORKS, POLLUTION CONTROL FACILITY

The City of Everett is continually working to enhance the operation of the Water Pollution Control Facility 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.

Historically, the City's treated wastewater has been returned directly to the Snohomish River estuary. In 2004, the City of Everett and the Kimberly-Clark Corp. completed construction

of a deepwater outfall. This state-of-the-art outfall will remove substantial wastewater discharges from the Water Pollution Control Facility into the Snohomish River. It will also remove Kimberly-Clark's mill discharges from Everett's inner harbor.

The outfall project protects wetlands and improves water quality for fish and other marine life in the Snohomish River estuary and Port Gardner Bay. The project is also designed to allow Kimberly-Clark to reuse some of the treated effluent from the Water Pollution Control Facility for non-contact cooling. This portion of the project is scheduled to begin in 2005.



WATER POLLUTION CONTROL FACILITY, NORTHWESTERLY VIEW

D E E P W A T E R O U T F A L L



DEEPWATER OUTFALL PROJECT



DEEPWATER OUTFALL PROJECT

The **deepwater** outfall project was a joint effort of the City of Everett and Kimberly-Clark Corp. One of the major challenges was getting effluent from the Water Pollution Control Facility to the Everett waterfront, a distance of about three miles. Fortunately, the City was able to utilize an unused 42-inch water pipe that ran from the Snohomish River to the Everett waterfront. At the Kimberly-Clark plant, this pipe was connected to Kimberly-Clark's old outfall pipeline.

From that point, three new pipeline segments were constructed to carry the combined effluent

to the new deepwater outfall. First, a 6,600-foot pipeline was constructed to the shore of Port Gardner Bay. Second, a 1,400-foot pipeline was constructed and buried in the intertidal zone to carry the effluent to a water depth of about 50 feet. Third, a 2,800-foot pipeline was constructed to carry the effluent to a depth of about 350 feet. The 2,800-foot pipeline included a 1,500-foot diffuser section.

The 2,800-foot deepwater segment of the pipeline was constructed in the Snohomish River and towed by tug boats to the outfall site. Two barges

were anchored in position and utilized five winch cables to support and lower the pipe to a depth of 350 feet. To submerge the pipe, water was pumped into the pipe to displace air, and the pipe was slowly lowered and monitored with a camera mounted on a remotely operated vehicle (ROV).

This project serves as an excellent model of public/private cooperation. By working together, the City and Kimberly-Clark each saved more than \$10 million. The project has received the Water Environmental Federation's Industrial Water Quality Achievement Award.

In 2004, the City of Everett identified several areas where water transmission lines from the Water Treatment Plant were exposed at river and slough crossings. The City evaluated these situations and determined one transmission line (the No. 5 Line) was exposed, damaged and at risk of failure in a 100-year storm event where it crosses the Snohomish River and Ebey Slough.

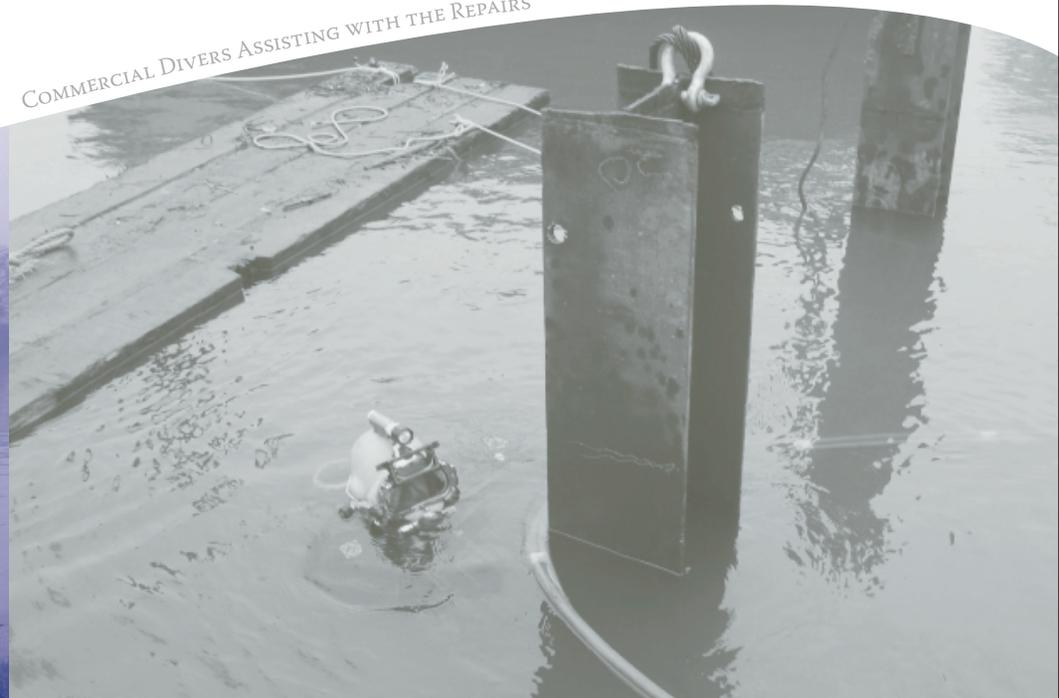
The No. 5 Line is a significant component of the City's infrastructure and carries 32-to-52 million gallons of water a day. To protect this critical facility, the Everett City Council approved an emergency declaration Sept. 15, 2004 for the needed repairs. This enabled City staff to complete the design, material procurement and repairs in less than a 10-week period.

To protect the transmission line, pilings were driven on both sides of the pipe and secured to the pipe with custom fabricated steel fittings. Steel screens were then attached to the upstream side of the piling to protect the pipe from logs and other debris. With these improvements, the City expects the pipeline to be secure for many years to come.

No. 5 LINE AT THE LOWELL RIVERFRONT PARK



COMMERCIAL DIVERS ASSISTING WITH THE REPAIRS



S U B M E R G E D P I P E L I N E R E P A I R S

The Everett Utilities Division

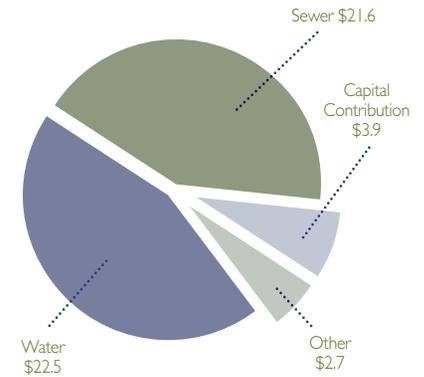
continues to maintain a strong financial position. This has been accomplished by conservative budget assumptions, adequate cash reserves and a strong debt service coverage ratio. The division is committed to providing the very best water and sewer services and strives to keep pace with changes in the utility industry.

Operating revenues are primarily derived from retail and wholesale sales of water, and fees for sewer service. Other revenues are generated from connection charges, capital contributions, interest earnings on reserve balances and grant proceeds. Total operating revenues increased 3 percent from \$42.8 million in 2003 to \$44.1 million in 2004. This positive increase in operating revenue reflects the growth in the City's service area, 2004 sewer and surface water rate increases and the favorable weather during the summer months. Water sales remained stable in 2004, however, sewer sales increased by \$1.7 million, or 8.5 percent. Other non-operating revenues contributed \$6.6 million for total revenues of \$50.7 million. Capital contributions dropped by \$2 million, from \$5.9 million in 2003 to \$3.9 million in 2004. This decline also impacted the

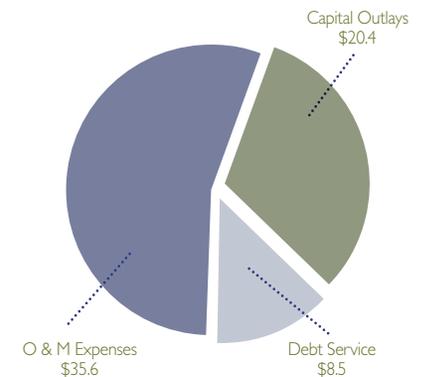
overall Utilities Division's net income of \$14.2 million resulting in a reduction of \$1 million from 2003 to 2004. The revenue recognition of capital contributions is in compliance with the Governmental Accounting Standard Board (GASB).

Capital and operating expenditures consist of operation and maintenance (O&M), capital improvements and other services. Capital expenditures amounted to \$20.4 million and debt service amounted to \$8.5 million in 2004. Total operating expenses increased \$2.1 million, from \$33.5 million in 2003 to \$35.6 million in 2004. The increase in total operating expenses is attributed to a 25 percent increase in professional services and a 10 percent increase in taxes. The City of Everett adopted GASB-34 guidelines regarding capitalization of interest derived from the new issuance of bonds for capital construction projects. As a result, interest expense was at \$800,000 in 2004, substantially lower than the \$2.2 million in 2002 and \$2.1 million in 2003.

Overall, Utilities Division senior lien debt service coverage continues to remain resilient at 2.90, well in excess of the bond requirements of 1.25.



2004 Total Revenues
(Millions of Dollars)



2004 Total Expenses
(Millions of Dollars)

2004
FINANCIAL
STATUS

Statement of Operations*

	2002	2003	2004*
Operating Revenues			
Charges for Services			
Water	\$ 21,341,834	\$ 22,889,164	\$ 22,487,658
Sewer	18,622,596	19,906,523	21,602,088
Total Charges for Services	\$ 39,964,430	\$ 42,795,687	\$ 44,089,746
Operating Expenses			
Wages	\$ 11,480,882	\$ 11,937,223	\$ 12,740,846
Supplies	2,914,410	2,663,449	2,848,203
Professional Services	3,389,319	2,322,545	2,897,134
Depreciation/Amortization	6,690,567	7,438,201	7,644,747
Taxes	3,158,538	3,193,204	3,521,044
Outside/Intragovernmental Services	6,343,415	5,951,783	5,979,738
Total Operating Expenses	33,977,131	33,506,405	35,631,712
OPERATING INCOME	\$ 5,987,299	\$ 9,289,282	\$ 8,458,034
Non-Operating Revenue (Expense)			
Grant Revenue	\$ 128,194	\$ 225,786	\$ 122,830
Interest Revenue	1,227,180	764,462	904,616
Rent	501,736	436,558	560,225
Capital Contributions	1,276,855	5,934,807	3,865,669
Timber Sales	441,695	0	567,242
Operating Transfers In (out)	2,420	648,997	367,745
Other Non-Operating Revenue	532,583	95,805	107,332
Gain (Loss) on Sale of Assets**	7,416	18,860	65,026
Interest Expense	(2,184,697)	(2,121,448)	(835,499)
Total Non-Operating Revenue (Expense)	1,933,382	6,003,827	5,725,186
NET INCOME	\$ 7,920,681	\$ 15,293,109	\$ 14,183,220
Net Equity - Beginning	242,955,208	250,875,889	266,168,998
NET EQUITY - ENDING	\$ 250,875,889	\$ 266,168,998	\$ 280,352,218

Balance Sheet*

	2002	2003	2004*
Current Assets			
Cash & Cash Equivalents	\$ 270,499	\$ 7,245,498	\$ 3,061,830
Investments	19,616,869	43,921,615	47,647,039
Accounts Receivable	8,744,857	12,978,598	8,078,479
Inventory	413,800	408,833	429,188
Total Current Assets	29,046,025	64,554,544	59,216,536
Restricted Assets			
Cash & Cash Equivalents	2,078,084	3,147,188	2,794,186
Investments	797,941	935,431	912,248
Special Assessment Reserve	303,418	213,612	155,536
Total Restricted Assets	3,179,443	4,296,231	3,861,970
Fixed Assets			
Plant & Equipment (Net)	237,246,263	246,435,275	257,577,976
Construction in Progress	26,485,040	40,527,011	45,308,263
Total Fixed Assets	263,731,303	285,962,286	302,886,239
Other Assets	2,619,379	2,423,015	3,672,548
TOTAL ASSETS	\$ 298,576,150	\$ 357,236,036	\$ 369,637,293
Liabilities			
Current Debt	\$ 6,301,341	\$ 7,588,967	\$ 7,104,326
Accounts Payable	2,745,103	1,804,944	1,965,890
Employee Benefits Payable	638,843	559,009	919,893
Total Current Liabilities	9,685,287	9,952,920	9,990,109
Long-Term Liabilities			
Long-Term Obligations	37,965,669	81,800,258	79,283,216
Deferred Revenues	49,305	24,695	11,750
Total Long-Term Liabilities	38,014,974	81,824,953	79,294,966
TOTAL LIABILITIES	\$ 47,700,261	\$ 91,777,873	\$ 89,285,075
Fund Equity			
Capital Assets, Net of Debt	\$ 220,885,048	\$ 233,383,099	\$ 218,117,128
Retained Earnings (Reserved Restricted Assets)	3,139,739	4,281,921	3,848,940
Retained Earnings (Unreserved)	26,851,102	28,503,978	58,386,150
Total Retained Earnings	29,990,841	32,785,899	62,235,090
TOTAL FUND EQUITY	\$ 250,875,889	\$ 266,168,998	\$ 280,352,218
TOTAL LIABILITIES/ EQUITY	\$ 298,576,150	\$ 357,946,871	\$ 369,637,293

*For the year ended Dec. 31, 2004 (unaudited)

** Sale of Surplus Property



2004
FINANCIAL
STATUS

Historical Operating Results*

	2002	2003	2004*
Operating Revenue			
Charges for Services:			
Water	\$ 21,342	\$ 22,889	\$ 22,488
Sewer	18,622	19,907	21,602
Total Operating Revenues	39,964	42,796	44,090
Operating Expenses			
Wages	11,481	11,937	12,741
Supplies	2,914	2,663	2,848
Professional Services	3,389	2,323	2,897
State Taxes	777	780	844
Outside/Intragovernmental Services	6,343	5,952	5,980
Total Operating Expenses	24,904	23,655	25,310
NET OPERATING REVENUE			
	\$ 15,060	\$ 19,141	\$ 18,780
Other Revenue (Expense)			
Grant Revenue	128	226	123
Investment Income	1,227	764	905
Rent	502	437	560
Other Revenue	533	97	107
Timber Sales	442	0	567
LID/ULID Assessments	95	84	59
Gain on Sale of Assets	7	19	65
Total Other Revenue	2,934	1,627	2,386
TOTAL AVAILABLE FOR DEBT SERVICE			
	\$ 17,994	\$ 20,768	\$ 21,166
Debt Service Requirements			
Existing Senior Parity			
Debt Service	5,589	7,311	7,309
Existing PWTF Loan**	789	1,335	1,486
Total Debt Service	6,378	8,646	8,795
Parity Lien Debt Service			
Coverage Ratio	3.22	2.84	2.90
Total Debt Service			
Coverage Ratio***	2.82	2.40	2.41
Less Payment in Lieu of Taxes			
	2,382	2,413	2,677
ENDING BALANCE AVAILABLE			
	\$ 9,234	\$ 9,709	\$ 9,694

* In thousands of dollars for the year ended Dec. 31, 2004 (unaudited)

** The junior lien debt is the Public Works Trust Fund ("PWTF") loan

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 Poor's Investor Service. As of Dec. 31, 2004, the Division had the following outstanding debts (excluding interest): \$64.5 million of water and sewer revenue bonds, \$16.7 million of Public Works Trust Fund loans and \$300,000 proprietary fund lease. The City has set aside cash reserves of \$3.7 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*
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	\$ 64,530,000	\$ 35,185,033	\$ 99,715,033

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

The City of Everett's Utilities Division was granted a Washington State Public Trust Fund Loan of \$5.5 million with a competitive interest rate of 1 percent. The City received the remaining balance of \$2.8 million as of Dec. 31, 2004 to finance the construction and replacement of the water transmission systems.



2004
FINANCIAL
STATUS

Notes to Financial Statements

Capital Improvement Projects (CIP)

The Division spent \$20.4 million on CIPs in 2004. These programs were financed primarily from operation revenues. The year ended with \$50.7 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. The water rate remained unchanged since 1997. The sewer rate increased by \$2.50 in 2003 and 2004, and currently is at \$30.65 to cover the capital cost of expanding the Water Pollution Control Facility, increasing sewer and surface water operations and maintenance costs and other sewer projects.

	Water Rates	Sewer Rates
2000	\$16.50	\$25.65
2001	\$16.50	\$25.65
2002	\$16.50	\$25.65
2003	\$16.50	\$28.15
2004	\$16.50	\$30.65

Major Water Customers

Eight large customers in the Everett Water Service Area accounted for more than 96 percent of the 2004 water service revenues:

Customer	Revenue
Everett Retail Customers	\$ 8,271,440
Alderwood Water District	6,225,690
PUD/City of Lake Stevens	1,389,408
Kimberly-Clark Corp.	1,377,843
Silver Lake Water District	1,373,301
Mukilteo Water District	1,127,814
City of Marysville	987,874
City of Monroe	660,254
Total	\$ 21,413,624

Notes to Financial Statements

Major Sewer Customers

The four service areas served by the Water Pollution Control Facility accounted for about 94 percent of the sewer service revenues in 2004:

Customer	Revenue
City of Everett Customers	\$ 14,904,863
Silver Lake Water District	3,137,590
Alderwood Water District	1,494,136
Mukilteo Water District	659,958
Total	\$ 20,196,547

The sewer service revenues in these four service areas have increased from \$18.4 million in 2003 to \$20.2 million in 2004.





City of Everett Utilities Division

3200 Cedar St. • Everett, Wash. 98201

Phone 425-257-8800 • www.ci.everett.wa.us

HEWITT AVENUE, EVERETT

