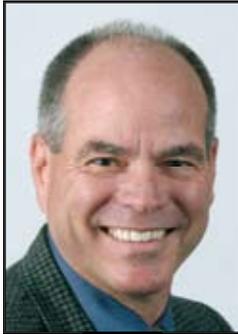




City of Everett
Utilities Division



2007 ANNUAL REPORT



Message from the Director

In 2007, our utility accomplished many objectives that demonstrate our continued efforts to plan for future needs, meet customer expectations and establish good stewardship of our environment and infrastructure.

To help meet our future needs the utility:

- completed a large wastewater treatment expansion project.
- began two projects at the drinking water treatment plant, a sodium hypochlorite treatment facility and a second 6.7 million gallon clearwell.
- continued with a variety of capital projects in our water distribution and sewer collection systems identified in our capital improvement plans.

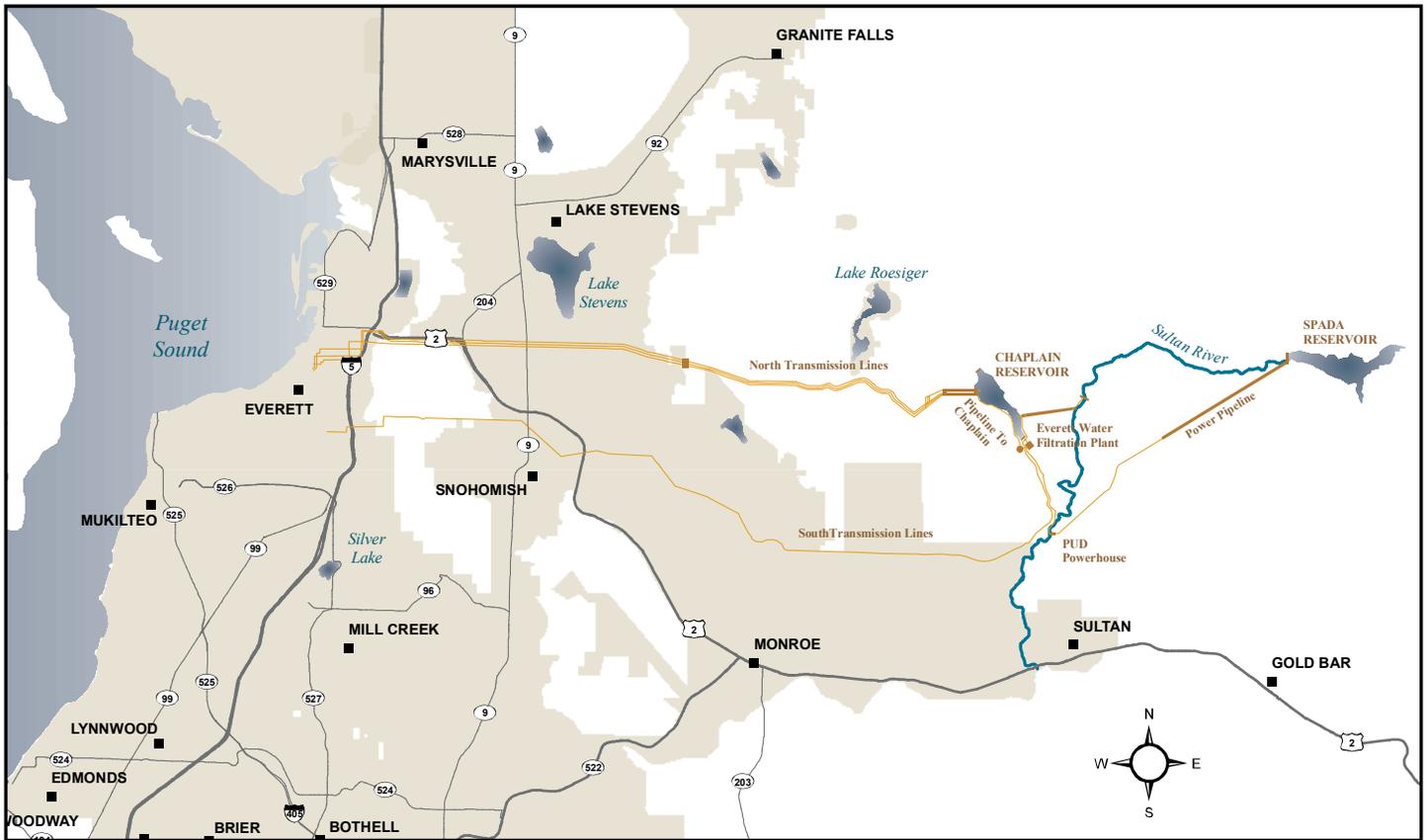
These projects help us continue to provide quality service while preparing for future needs.

Our utility continues to focus on customer service. While we design and build new infrastructure, to better serve our customers we solicit feedback via meetings, comment cards and our web site. Regularly meeting with customers, peers and other agencies to find products and methods that help us improve is a vital part of our process.

Maintaining a strong fiscal position while methodically improving our capital facilities helps us to meet the needs of our customers and prepare for the future. Our financial planning continues to predict periodic rate increases will be necessary in our sewer, water and solid waste branches of the utility to cover treatment and conveyance capital projects.

As we plan for the future and review our 2007 accomplishments, our success can be attributed to our fine staff of dedicated employees, positive relationships with the many agencies with whom we work, and the leadership and support of Everett Mayor Ray Stephanson and our City Council: Council President Drew Nielsen, Council Vice President Brenda Stonecipher, and council members Paul Roberts, Mark Olson, Arlan Hatloe, Ron Gipson, and Shannon Affholter.

Tom Thetford,
Utilities Director



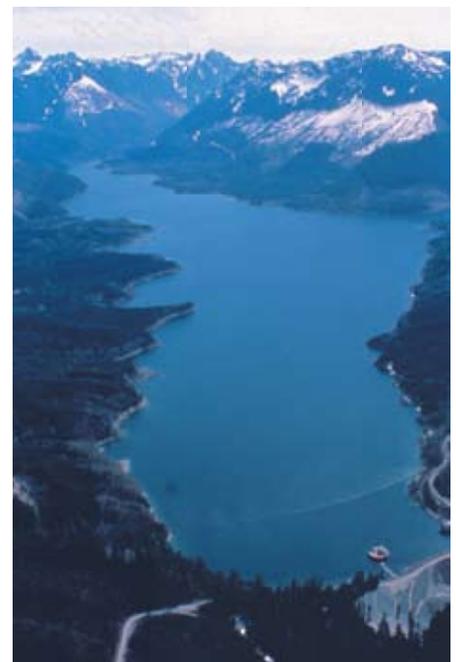
Water Utility

In the last century, the Everett water system has grown from a simple localized system for the residents of Everett to a vital regional water provider. The Everett water system supplies water to the majority of Snohomish County residents (more than 500,000 residents) through a network of 33 Class A and 63 Class B water systems.

Major facilities and characteristics of the Everett water system include the following:

- Jackson Hydroelectric Project on the Sultan River
- Spada Reservoir—50 billion gallon capacity
- Chaplain Reservoir—4.5 billion gallon capacity
- Water Filtration Plant at Chaplain Reservoir—132 million gallons per day (MGD) Department of Health approved flow rate
- 4 main transmission lines—ranging from 48 to 51 inches in diameter
- 4 pump stations
- 18 pressure zones
- 15 storage facilities—ranging from 0.1 to 24 million gallons in capacity
- 370 miles of distribution pipeline

Today, Everett has water rights for 255 million gallons of water a day (MGD) from the Sultan River system and a pending water right application for an additional 129 MGD. By maintaining a strong, working partnership with the Snohomish County PUD and the utility’s wholesale customers, we will continue to meet the water needs of the community.



Spada Reservoir



Everett Drinking Water Treatment Plant

Water Utility

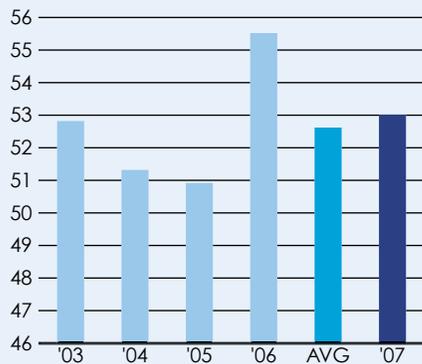
From Spada Reservoir, water travels through a pipeline to Chaplain Reservoir where the Everett Water Treatment Plant is located. The plant has an approved treatment capacity of 132 MGD. In addition to filtration, the facility provides chemical treatment for disinfection, corrosion control and fluoridation. After treatment, the water is conveyed to Everett through 76 miles of pipelines and tunnels.

The City also sells non-potable water to the Kimberly-Clark Corporation paper plant located on the Everett waterfront.

System reliability encompasses multiple issues that together ensure that Everett can continue to provide safe water to meet the future demands of growth. These issues include yield analysis, watershed protection and alternative sources of supply, interties and shortage plans. A yield analysis concluded that climate change has the potential to reduce Everett's safe yield by about 10 percent.

To counter the growing system demands, Everett administers conservation programs throughout the Everett water service area. Our program goal is to maximize the benefits of the Sultan River resource by encouraging the efficient use of water. In 2007, 650 water conservation presentations were conducted in elementary, middle and high school classrooms located in 12 school districts and reaching more than 18,000 students. More than 8,600 water conservation kits were also distributed by both the City of Everett and participating water systems served by Everett water.

Average Daily Consumption (Million Gallons Per Day)



The Everett Water Treatment Facility produced an average of 53.0 MGD of water in 2007—a 4.8 percent decrease compared to 55.5 MGD produced in 2006 and less than a 1 percent increase from the previous 4-year average of 52.6 MGD. This can be attributed to fluctuations in annual temperatures and rainfall levels.

Annual Peak Day Demand (Million Gallons Per Day)



The peak day demand for treated water occurs in the summer months, usually July or August. The 2007 peak day demand was 102.16 MGD—an 8.1 percent decrease from the 2006 peak day demand of 110.48 MGD, but 3.4 percent higher than the 2003 to 2006 average peak day demand of 98.7 MGD.

Water Utility

The Washington State Department of Health (DOH) requires water utilities to prepare a comprehensive water system plan (CWSP) every six years. CWSPs examine existing water systems and 50-year population projections to ensure there will be adequate water supplies well into the future. The Everett 2007 CWSP was adopted by the Everett City Council through Resolution No. 5965 on Nov. 21, 2007.

The 2007 CWSP identifies a six-year capital improvement program of \$193 million and a 20-year capital improvement program of nearly \$500 million. These capital improvement plans were developed to mitigate system deficiencies in distribution pipelines, storage, booster pumping, source, treatment and transmission pipelines.

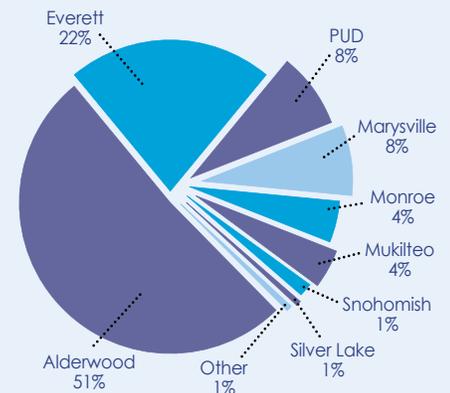
The City of Everett has plans to upgrade the drinking water treatment plant in two stages: adding 26.3 MGD capacity by 2013 and an additional 26.3 MGD by 2018.



Everett Drinking Water Treatment Plant

Distribution of Treated Water (Percent of Demand)

Eight water systems account for nearly 99 percent of the demand for water: Alderwood Water, Mukilteo Water, Silver Lake Water, Snohomish County PUD and the cities of Everett, Marysville, Monroe and Snohomish. The remaining 1 percent is used by small water districts and associations.



Kimberly-Clark Consumption (Million Gallons Per Day)

In 2007, Everett provided an average of 28.8 MGD to the Kimberly-Clark Corporation—an 11.5 percent increase compared to the 25.5 MGD provided in 2006 but equal to the previous 4-year average. This can be attributed to production levels and efficiency improvements.



Sewer Utility

The City's first sewers were constructed in 1890, three years before Everett was incorporated. In 1897, the construction of the citywide system began in the north end of Everett. This system is combined, carrying stormwater and sanitary sewage to the Everett Water Pollution Control Facility (WPCF). With population growth, Everett expanded to the south and a separate system was installed in the new areas to avoid overloading sewers or the treatment plant. The existing system serves more than 136,000 people, conveying sewage through approximately 345 miles of sewer mains, interceptors, laterals, and 29 lift stations to the WPCF. Everett also treats a portion of the



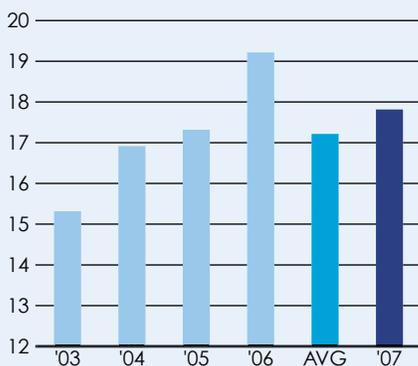
Everett Water Pollution Control Facility

sewage from three neighboring sewer systems: Mukilteo Water District, Alderwood Water and Wastewater District and Silver Lake Water and Sewer District. The system plays a vital role in protecting public health. It also protects rivers, lakes and streams from pollutants and minimizes harmful impacts to the natural environment.

The Everett Water Pollution Control Facility has two parallel treatment systems. The trickling filter/solids contact system provides secondary treatment, along with disinfection, for up to 16 million gallons per day (MGD) of wastewater. The aeration/oxidation pond system treats wastewater flows that exceed 16 MGD. Discharge of the effluent from each system to the Snohomish River is through two separate outfalls. The WPCF shares a marine outfall in Port Gardner Bay with the Kimberly-Clark Corporation, which eliminated the discharge of effluent to the Snohomish River under normal conditions.

Everett completed a \$38 million expansion of the Everett Water Pollution Control Facility in 2007 which increased the total hydraulic capacity of the facility by 16 percent to 36.3 MGD.

Annual WPCF Flows
(Million Gallons Per Day)



In 2007, the Everett Water Pollution Control Facility processed an average of 17.8 MGD of wastewater—a 7.9 percent decrease from the 19.2 MGD processed in 2006 and a 3.5 percent increase from the previous four-year average of 17.2 MGD. Approximately half was from the lagoon system and half from the mechanical treatment facility.

Sewer Utility

Everett staff work to enhance the operation of the Everett Water Pollution Control Facility and minimize 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 into the environment.

Protection and preservation of the environment and the wetlands surrounding the plant remain a priority. Located within one mile of downtown

Everett, the Smith Island Habitat Restoration Project was designed to restore 93-acres of intertidal, riverine habitat. In 2004 setback levees were constructed to protect the Water Pollution Control Facility and other neighboring lands from flooding. In 2007, the second project phase began. The \$7.5 million project between City of Everett and US Army Corps of Engineers involved excavating three 180-foot breaches in the old flood control dike to allow tidal waters to enter the acreage for the first time in 75 years. The transition from a fresh water environment to an intertidal environment began. The result should provide a rearing habitat for the Chinook, coho and chum salmon and various waterfowl that historically existed along the Union Slough.



Everett Water Pollution Control Facility

Smith Island Habitat Restoration



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

Maintaining and upgrading the wastewater infrastructure is a high priority for the City. This is enhanced by responsible maintenance practices. During 2007, more than 34 miles of pipes and drain lines were inspected, cleaned or replaced, and more than 875 tons of spoils were removed.

Sewer mains inspected	50,059 ft
Sewer mains cleaned	88,471 ft
Side sewers inspected	5,490 ft
Side sewers cleaned	1,040 ft
Drain lines installed	3,690 ft
Drain lines inspected	4,955 ft
Drain lines cleaned	20,122 ft
Drainage ditches cleaned	3,943 ft
Catch basins cleaned	860 basins
Total spoils removed	1,750,000 lbs

2007 Financial Status

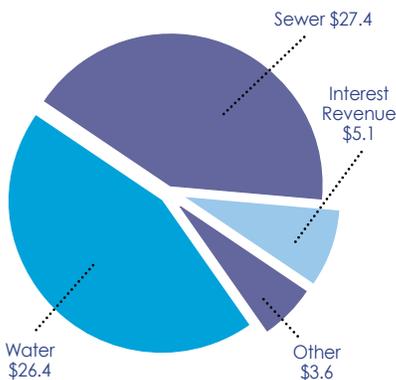
Everett Utilities continues to maintain a strong financial position. This has been accomplished by conservative budget assumptions, adequate reserves and a strong debt service coverage ratio. The division is committed to providing the best water and sewer services and strives to keep pace with changes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

Operating revenues are primarily derived from retail and wholesale sales of water, and charges for sewer service. Other revenues are generated from connection charges, capital contributions, interest earnings on reserve balances and grant proceeds. Total operating revenues increased 1.1 percent from \$53.8 million in 2006 to \$54.4 million in 2007. Water sales remained steady at \$26.4 million, close to the 2006 sales. Sewer sales increased 2.4 percent, or \$700,000, to \$27.4 million in 2007. Capital contributions decreased \$5.7 million, or 80 percent, to \$1.4 million in 2007 due to completion of the major construction of the Water Pollution Control Facility Capacity Expansion Phase A in 2006.

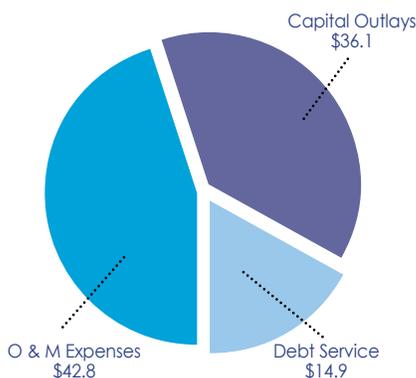
Capital and operating expenditures consist of operation and maintenance (O&M), capital improvements and debt services. Capital expenditures totaled \$36.1 million including capitalized interest. Debt service totaled \$14.9 million in 2007. Total operating expenses increased by \$1 million, or 2.6 percent, in 2007 due primarily to the \$800,000 watershed repairs and maintenance at the drinking water treatment plant and the increased personnel costs of an additional nine employees. The City executed an agreement with the Tulalip Tribes in 2006 which obligated \$5 million, paid into trust over three years for building a waterline between Everett and the Tulalip Reservation. The last payment will occur in 2008. The City of Everett adopted interest capitalization provision numbers 34 and 62 of the Financial Accounting Standards Board (FASB). From the usage of Public Works Trust Fund loans, the capitalized interest totaled \$90,000 in 2007.

Overall, Utilities Division senior lien debt service coverage continues to remain strong at 3.43 in 2007, as compared to 3.14 in 2006 and in excess of the 1.25 minimum bond requirement.

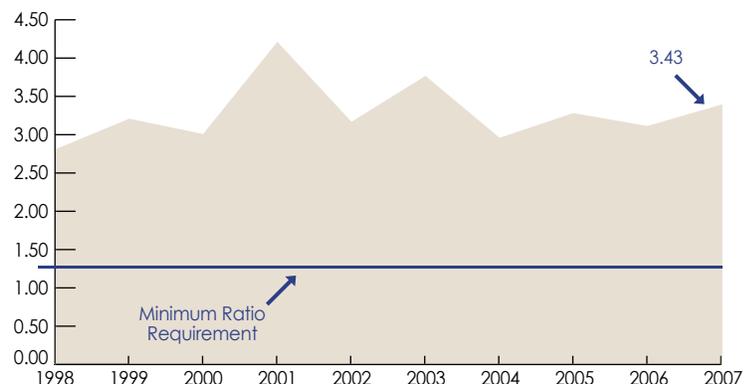
2007 Total Revenues
(Millions of Dollars)



2007 Total Expenses
(Millions of Dollars)



Debt Service Coverage - Last 10 Years



2007 Financial Status

Statement of Operations*

	2005	2006	2007*
Operating Revenues			
Charges for Services			
Water	\$ 23,317,556	\$ 26,407,225	\$ 26,355,283
Sewer	24,408,816	27,373,069	28,029,941
TOTAL CHARGES FOR SERVICES	\$ 47,726,372	\$ 53,780,294	\$ 54,385,224
Operating Expenses			
Personnel Services	\$ 13,497,122	\$ 13,970,276	\$ 14,861,588
Supplies	3,907,679	4,290,567	3,914,761
Professional Services	3,098,750	3,543,205	3,039,262
Depreciation/Amortization	8,431,017	8,895,759	9,078,681
Taxes	823,963	928,201	907,503
Outside/Intragovernmental Services	5,338,823	7,068,312	7,917,168
Total Operating Expenses	35,097,354	38,696,320	39,718,963
OPERATING INCOME	\$ 12,629,018	\$ 15,083,974	\$ 14,666,261
Non-Operating Revenue (Expense)			
Grant Revenue	\$ 17,345	\$ 65,905	\$ 200,000
Interest Revenue	1,230,625	3,733,213	5,122,292
Rent	584,684	552,504	735,365
Timber Sales	0	0	983,781
Other Non-Operating Revenue	149,253	184,086	197,611
Gain (Loss) on Sale of Assets**	185,232	15,364	74,849
Interest Expense	(1,240,548)	(3,259,554)	(4,458,981)
Other Non-Operating Expense***	0	(5,000,000)	0
Total Non-Operating Revenue (Expense)	926,591	(3,708,482)	2,854,917
Income Before			
Contributions & Transfers	13,555,609	11,375,492	17,521,178
Capital Contributions	4,603,846	7,099,575	1,390,764
Operating Transfers In (Out)	(2,849,396)	(3,036,001)	(3,095,004)
NET INCOME	\$ 15,310,059	\$ 15,439,066	\$ 15,816,938
Net Equity - Beginning	280,352,218	296,829,619	312,268,685
Prior Period Adjustments	1,167,342	0	0
NET EQUITY - ENDING	\$ 296,829,619	\$ 312,268,685	\$ 328,085,623

* For the year ended Dec. 31, 2007 (unaudited)

** Sale of Surplus Property

*** Tulalip Tribes Settlement for a Waterline Construction between Everett and Tulalip Reservation.

Balance Sheet*

	2005	2006	2007*
Current Assets			
Cash & Cash Equivalents	\$ 21,673,724	\$ 13,653,695	\$ 8,268,619
Investments	60,391,815	69,299,276	62,432,056
Accounts Receivable	14,988,711	11,802,492	14,485,885
Inventory	492,569	701,712	653,400
Total Current Assets	97,546,819	95,457,175	85,839,960
Restricted Assets			
Cash, Equivalents & Investments	4,173,088	3,910,250	3,334,720
Fixed Assets			
Plant & Equipment (Net)	270,190,094	282,581,820	275,674,130
Construction in Progress	51,381,234	63,263,754	98,615,849
Total Fixed Assets	321,571,328	345,845,574	374,289,979
Other Non-Current Assets	4,551,014	3,719,025	2,860,229
TOTAL ASSETS	\$ 427,842,249	\$ 448,932,024	\$ 466,324,888
Liabilities			
Current Debt	\$ 7,524,500	\$ 8,123,073	\$ 8,077,952
Accounts Payable	2,466,772	4,245,788	7,337,108
Employee Benefits Payable	1,303,912	855,649	1,247,306
Total Current Liabilities	11,295,184	13,224,510	16,662,366
Non-Current Liabilities			
Long-Term Obligations	119,705,696	123,429,639	121,568,989
Deferred Revenues	10,469	9,190	7,909
Total Long-Term Liabilities	119,716,165	123,438,829	121,576,898
TOTAL LIABILITIES	\$ 131,011,349	\$ 136,663,339	\$ 138,239,264
Fund Equity			
Capital Assets, Net of Debt	\$ 206,700,855	\$ 219,014,548	\$ 246,304,668
Retained Earnings (Reserved Restricted Assets)	4,161,338	3,899,780	3,340,735
Retained Earnings (Unreserved)	85,967,426	89,354,357	78,440,221
Total Retained Earnings	90,128,764	93,254,137	81,780,956
TOTAL FUND EQUITY	\$ 296,829,619	\$ 312,268,685	\$ 328,085,624
TOTAL LIABILITIES/ EQUITY	\$ 427,840,968	\$ 448,932,024	\$ 466,324,888

* For the year ended Dec. 31, 2007 (unaudited)

2007 Financial Status

Historical Operating Results*

	2005	2006	2007*
Operating Revenue			
Charges for Services:			
Water	\$ 23,317	\$ 26,407	\$ 26,355
Sewer	24,409	27,373	28,030
Total Operating Revenues	47,726	53,780	54,385
Operating Expenses**			
Wages	13,497	13,970	14,862
Supplies	3,908	4,291	3,915
Professional Services	3,099	3,543	3,039
State Taxes	824	928	908
Outside/Intragovernmental Services	5,339	7,068	7,917
Total Operating Expenses	26,667	29,800	30,641
NET OPERATING REVENUE	\$ 21,059	\$ 23,980	\$ 23,744

Other Revenue (Expense)

Grant Revenue	17	66	200
Investment Income	1,231	3,733	5,122
Non-Bond Interest	(232)	(305)	(277)
Rent	585	553	735
Other Revenue	149	184	198
Timber Sales	0	0	984
LID/ULID Assessments	49	40	45
Gain on Sale of Assets	185	15	75
Total Other Revenue	1,984	4,286	7,082

TOTAL AVAILABLE FOR DEBT SERVICE **\$ 23,043** **\$ 28,266** **\$ 30,826**

Debt Service Requirements

Existing Senior Parity Debt Service	8,991	8,991	8,991
Existing PWTF & SRF Loans**	2,564	2,958	3,002
Total Debt Service	11,555	11,949	11,993
Ratio Required by Covenants	1.25	1.25	1.25
Parity Lien Debt Service Coverage Ratio	2.56	3.14	3.43
Total Debt Service Coverage Ratio***	1.99	2.37	2.57
Less Payment in Lieu of Taxes**	2,769	3,036	3,095

ENDING BALANCE AVAILABLE **\$ 8,719** **\$ 13,281** **\$ 15,738**

* In thousands of dollars for the year ended Dec. 31, 2007 (unaudited)

** Total expenses exclusive of depreciation, payments in lieu of taxes and bond interest.

*** The junior lien debt is the Public Works Trust Fund ("PWTF") loan and State Revolving Fund (SRF) loans.

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 Aa3 by Moody's Investors Services and AA- by Standard and Poor's Investor Service. As of December 31, 2007, the Division had the following outstanding debts (excluding interest): \$86.3 million of water and sewer revenue bonds, \$29.8 million of Public Works Trust Fund, \$7.3 million of State Revolving Fund, and \$150,000 proprietary fund lease. The City has set aside cash reserves 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*
2008	3,765,000	4,202,433	7,967,433
2009	3,940,000	4,026,033	7,966,033
2010	4,140,000	3,838,645	7,978,645
2011	2,285,000	3,638,838	5,923,838
2012	2,385,000	3,538,337	5,923,337
2013-2017	13,755,000	15,862,413	29,617,413
2018-2022	17,545,000	12,082,462	29,627,462
2023-2027	22,290,000	7,329,850	29,619,850
2028-2030	16,210,000	1,562,450	17,772,450
TOTAL	\$ 86,315,000	\$ 56,081,460	\$ 142,396,460

* Outstanding bonds include 1997, 2002, 2003 and 2005 Bonds.

Public Trust Fund Loans, State Revolving Fund Loans and Proprietary Fund Lease

YEAR	PRINCIPAL	INTEREST	ANNUAL REQUIREMENT*
2008	\$ 2,686,604	\$ 315,300	\$ 3,001,904
2009	2,637,095	298,629	2,935,724
2010	2,562,210	268,275	2,830,485
2011	2,492,055	240,453	2,732,508
2012	2,334,467	216,020	2,550,487
2013-2017	10,379,412	770,546	11,149,958
2018-2022	9,432,609	362,504	9,795,113
2023-2027	4,759,784	64,714	4,824,498
TOTAL	\$ 37,284,236	\$ 2,536,441	\$ 39,820,677

* Outstanding public trust loans include 1988, 2001, 2003, 2004, 2005 and 2006 loans.

In 2007, the outstanding loans for the Public Trust Fund Loans and State Revolving Fund Loans of \$37.1 million have average interest rates ranging from .5 percent to 3 percent. A proprietary fund lease has a remaining balance of \$150,000.

2007 Financial Status

Notes To Financial Statements

Capital Improvement Projects

Utilities spent \$36.1 million in 2007 on capital improvement projects, including \$90,000 of capitalized interest. These programs were financed from a combination of capital contribution, operation revenues, government loans, revenue bonds and grants. The year ended with \$70.7 million in unrestricted cash and investment balances. The overall strong financial performance of the Utilities Division ensures future funding for capital projects.

Major business-type capital asset investment included (in millions):

Water Treatment Plant Clearwell #2	\$6.7
Casino Water Tank	\$6.7
Jackson Hydro-electric Project	\$5.2
Water Treatment Plant Chlorine Building Replacement	\$4.3
*WPCF Capacity Expansion Phase A	\$2.7
Sewer System Replacement Phase F	\$1.8

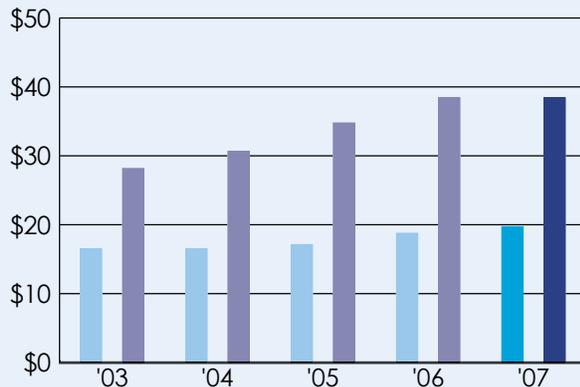
*WPCF = Water Pollution Control Facility

Historical Rates

For single-family customers, the water flat rate increased by 95 cents, or 5.1%, from \$18.75 to \$19.70 per month in 2007 to cover increased water O&M and capital costs.

The sewer flat rate remained at \$38.40 in 2007.

Historical Rates



	'03	'04	'05	'06	'07
WATER RATES	\$16.50	\$16.50	\$17.10	\$18.75	\$19.70
SEWER RATES	\$28.15	\$30.65	\$34.75	\$38.40	\$38.40

Major Water Customers

The nine largest water customers in the Everett Water Service Area accounted for more than 98 percent of the 2007 water service revenues:

CUSTOMER	REVENUE
Everett Retail Customers	\$ 11,347,513
Alderwood Water & Wastewater District	8,210,178
PUD	1,539,730
Kimberly-Clark Corporation	1,302,000
Mukilteo Water District	1,234,053
City of Marysville	1,171,811
City of Monroe	746,797
City of Snohomish	201,359
Silver Lake Water & Sewer District	181,723
TOTAL	\$ 25,935,164

Major Sewer Customers

The four service areas served primarily by the Water Pollution Control Facility in 2007:

CUSTOMER	REVENUE
City of Everett Customers	\$ 22,293,522
Silver Lake Water & Sewer District	3,450,401
Alderwood Water & Wastewater District	1,527,976
Mukilteo Water District	757,709
TOTAL	\$ 28,029,608

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City of Everett
Utilities Division

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