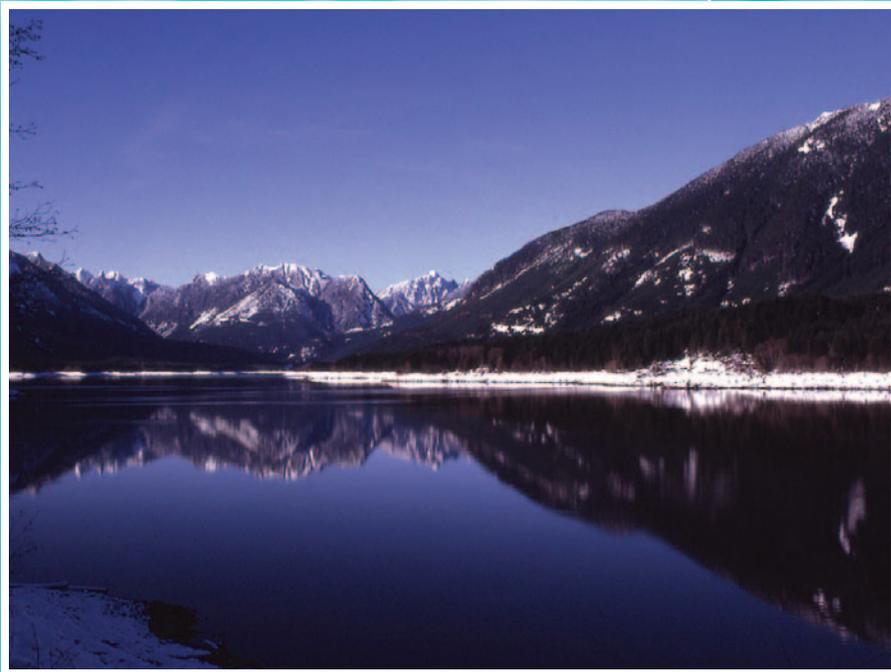


2010 Utilities Annual Report



City of Everett
Public Works Department

Director's Message



Everett's Utilities division is committed to providing the very best water, sewer and surface water services at the lowest cost possible. We provide water service to about 600,000 people and sewer service to about 160,000 people. This report highlights our 2010 accomplishments.

One fact that stands out in the report is that the Utilities division continues to be financially sound. The Utilities division was successful in maintaining its bond rating with Standard and Poor's at AA+. Of particular note are our division's favorable financial performance, debt coverage and liquidity level, strong financial management and ample water supplies and treatment capacity.

With natural disasters garnering headline news recently, a major focus in 2010 was emergency preparedness. Our goal is to be ready to respond the day of the "event," during the integral period of four to 10 days following the event and in the months that follow. To meet our goal we are developing an emergency response plan for a 7.4 earthquake scenario.

Our capital improvement plan also plays a role in this by assessing the durability of our infrastructure, addressing deficiencies and prioritizing projects to best meet the needs of our many customers. In 2010, we continued to replace, improve and add new infrastructure. You can find more information about our major construction projects in this report.

While we regularly plan for the future needs of our community, we credit much of our success to the leadership and excellent cooperation we receive from Everett Mayor Ray Stephanson and the Everett City Council, the diligence and dedication of our staff and the excellent working relationships we have with our customers.

Sincerely,

A handwritten signature in black ink, appearing to read "Dave Davis".

Dave Davis
Public Works director

Culmbach Dam and Spada Lake reservoir



Spada Lake reservoir



PHOTO PROVIDED BY JOE DREMILLER

Everett obtained its first water right for withdrawal from the Sultan River in 1917. Since then the Everett water system has grown to a vital regional water provider, which now supplies water to the majority of Snohomish County through a network of water providers.

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

- Spada Lake reservoir — 50 billion gallon capacity
- Lake Chaplain reservoir — 4.5 billion gallon capacity
- Everett Drinking Water Treatment Plant at Lake Chaplain reservoir — a maximum flow rate of 132 million gallons per day (MGD) Washington State Department of Health approved maximum rate
- Four main transmission lines — ranging from 48- to 51-inches in diameter
- Four pump stations
- 19 pressure zones
- 15 storage facilities — ranging from 100,000 gallons to 24 million gallons in capacity
- 370 miles of distribution pipelines

Everett has water rights for 255 million gallons of water per day from the Sultan River system and a pending water right application for an additional 129 MGD for long term future needs. By maintaining a strong, working partnership with the utility's wholesale customers and continuing the regional water conservation program, Everett is well equipped to meet the water needs of our community for years to come.

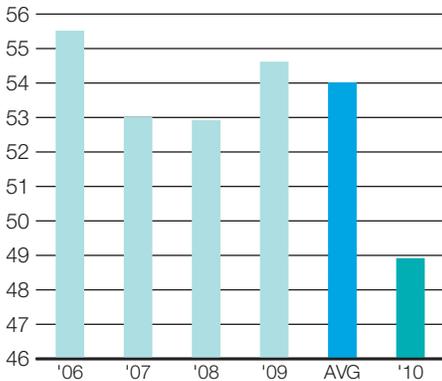
Areas served by Everett water



Water Utility

Average Daily Production of Drinking Water

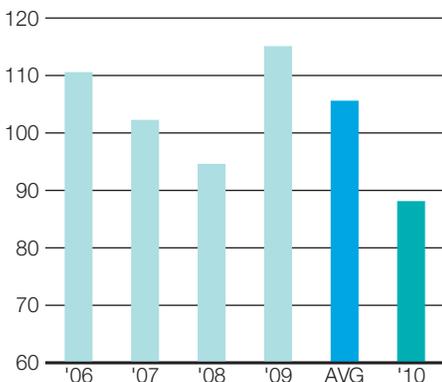
(Million Gallons Per Day)



The Everett Drinking Water Treatment Plant produced an average of 48.9 MGD of water in 2010 — an 11.6 percent decrease compared to the 54.6 MGD produced in 2009 and a 10.3 percent decrease from the previous four year average of 54 MGD. This can be attributed to fluctuations in annual temperatures and rainfall levels.

Peak Day Demand for Drinking Water

(Million Gallons Per Day)



The peak day demand for treated water occurs in the summer months, usually July or August. The 2010 peak day demand occurred in July at 88 MGD — a 19.9 percent decrease from the 2009 peak day demand of 115 MGD, and a 30.7 percent decrease from the 2006 to 2009 average peak day demand of 105.5 MGD.

Water travels through a pipeline from Spada Lake reservoir to Lake Chaplain reservoir where the Everett Drinking Water Treatment Plant is located. Water is delivered from Lake Chaplain reservoir in two processes. Fresh water is treated by our drinking water treatment plant with advanced filtration and disinfection methods. The potable water is then delivered to Everett in three transmission lines. Lines feed off the transmission lines to deliver water to about 80 percent of the businesses and residents of Snohomish County. The city also provides non-potable water in a separate pipeline to the Kimberly-Clark Corp. plant located on the Everett waterfront.

Washington State Department of Health 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. Everett is currently operating under the CWSP adopted by the City Council in 2007.

The 2007 CWSP identified a six-year capital improvement program of \$193 million and a 20-year capital improvement program of nearly \$500 million. These capital improvement plans outline system improvements in distribution and transmission pipelines, water storage facilities, booster pumping and treatment processes.

Everett Drinking Water Treatment Plant



PHOTO PROVIDED BY JOE DREIMILLER

Everett also adopted a water conservation savings goal in 2007 in compliance with the state water use efficiency requirements. The goal is to save 1.97 million gallons of water per day (MGD) in the Everett water service area by the end of 2012. These savings are based on a six-year regional water conservation plan (2007-2012) collaboratively developed with water systems in Snohomish County that receive Everett water.

The six-year plan calls for spending about \$2.95 million on behalf of the regional water conservation activities through 2012. The activities include youth education, indoor and outdoor water conservation kits and rebates for water efficient clothes washers and toilets. Everett is required to report annually on the progress of this program to the state and the customers we serve.

In 2010, 570 water conservation workshops were conducted in classrooms throughout Snohomish County, reaching more than 15,000 students. More than 5,100 clothes washer rebates and 660 toilet rebates were issued. Participating water systems also distributed 180,000 lawn watering calendars, 5,200 indoor conservation kits and 6,000 outdoor conservation kits. And, under a joint program with PUD No. 1 of Snohomish County, 690 low-flow showerheads and faucet aerators were installed in targeted multi-family buildings.

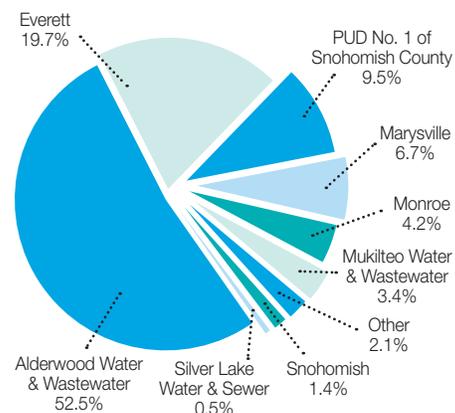
These activities achieved an estimated savings of 0.88 MGD, surpassing the 2010 savings goal of 0.80 MGD. This brings the cumulative water savings to date (2007-2012) to 1.98 MGD — 138 percent of the four-year goal (1.43 MGD) and 100 percent of the planned six-year goal (1.97 MGD). Through efficiency and cost minimization, these savings have been obtained for about \$290,000 less than the planned budget for the four-year period.

Earth Day water conservation display



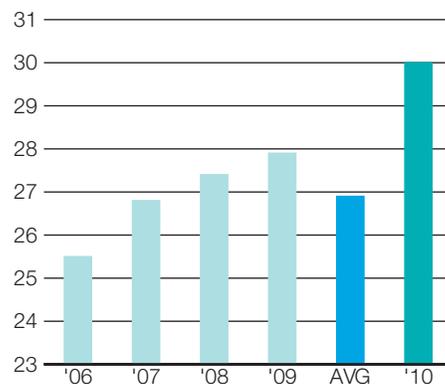
PHOTO PROVIDED BY LORI TOBIN

Drinking Water Distribution (Percent of Demand)



Eight water systems account for about 98 percent of the demand for drinking water: Alderwood Water & Wastewater, Mukilteo Water & Wastewater, Silver Lake Water & Sewer, PUD No.1 of Snohomish County, and the cities of Everett, Marysville, Monroe and Snohomish. The remaining 2 percent is used by small water districts and associations.

Non-Potable Water Distribution (Million Gallons Per Day)



In 2010, Everett provided an average of 30 MGD of non-potable water to Kimberly Clark Corp. — a 7 percent increase compared to the 27.9 MGD provided in 2009, and an increase of 10.4 percent compared to the previous 4-year average.

Water Utility

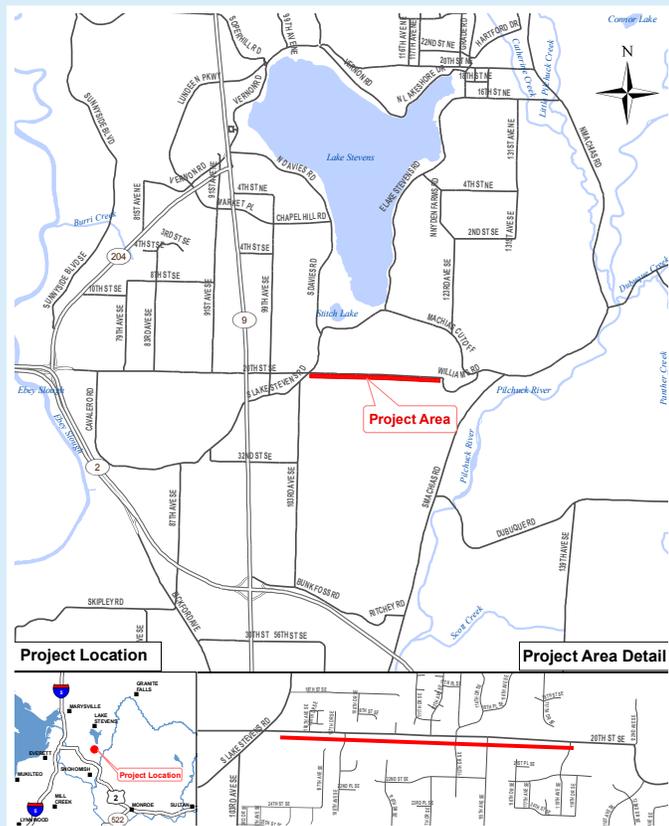
Water Transmission Line No. 2 Replacement, Phase 8B

Everett's capital budget includes replacement of Water Transmission Lines No. 2 and No. 3. The replacement will occur over many years in several phases. Portions of Water Transmission Line No. 2 are 78-years old.

The Phase 8B work consisted of replacing approximately 5,400-feet of 48-inch diameter buried steel pipe located in city easements south of 20th Street SE, between South Lake Stevens Road and 119th Avenue SE in the City of Lake Stevens/Snohomish County.

The design and construction were completed during 2010.

Water Transmission Line No. 2 Replacement, Phase 8B vicinity map



Everett Drinking Water Treatment Plant Recovered Water Outfall

The Everett Drinking Water Treatment Plant Recovered Water Outfall project extends the recovered water outfall about 4,000-feet into Lake Chaplain and upgrades the recovered water pumps to accommodate the extension. By extending the outfall there is greater distance between the intake pipe and the outfall allowing the natural dilution process time to work before discharged water is taken back into the plant for treatment.

Modifications to the recovered water pump station included a new pump station building, new pumps and motors and electrical upgrades.

Assembling and inserting pipe into Lake Chaplain reservoir



PHOTO PROVIDED BY BILL FISHER

Diver's barge used to position and sink pipe and make the underwater connections



PHOTO PROVIDED BY BILL FISHER

Stormwater and Surface Water

Everett encompasses about 47-square miles of land and water and is comprised of 15 drainage basins. Surface water runoff from one-fourth of the city drains to a combined sewer system that conveys the combined sewage and stormwater flows to the Everett Water Pollution Control Facility (EWPCF) for treatment. Stormwater from the rest of the city drains to the Puget Sound by way of local tributaries.

Stormwater discharges in Everett are regulated under the Phase II National Pollutant Discharge Elimination System (NPDES) Municipal Stormwater Permit issued by the Washington State Department of Ecology.

2010 saw a number of significant activities relating to stormwater and surface water:

- Completed a high flow bypass on 126th Street SE, which should alleviate water problems for homeowners in the area.
- Completed and implemented a new Stormwater Management Manual, tailored to city processes and conditions, which meets the equivalency requirements of the Department of Ecology. The manual regulates stormwater flow control and water quality best management practices on construction sites within the city limits.
- Started the Surface Water Comprehensive Plan, which is expected to take three years to complete. The new plan will identify and prioritize flooding concerns, water quality and habitat issues, position the city to actively pursue grant funding for qualifying projects and establish our future work plan.
- Inspected and maintained city stormwater structures per NPDES requirements.
- Partnered with volunteers to build a demonstration rain garden in the Everett Arboretum at Legion Park. Also developed an agreement with Washington State University Extension and the Snohomish Conservation District to install rain gardens in the combined sewer area of north Everett.
- Inspected 213 private stormwater facilities for compliance with NPDES maintenance requirements.
- Participated in region-wide planning to develop a regional stormwater monitoring program.
- Continued to refine programs and build partnerships that enhance efficiency and cost effectiveness of stormwater programs.

Demonstration rain garden at Legion Park



PHOTO PROVIDED BY KAREN MILLER

Typical grass swale located on 5th Avenue West



PHOTO PROVIDED BY
KAREN MILLER

Sewer Utility

Everett Water Pollution Control Facility



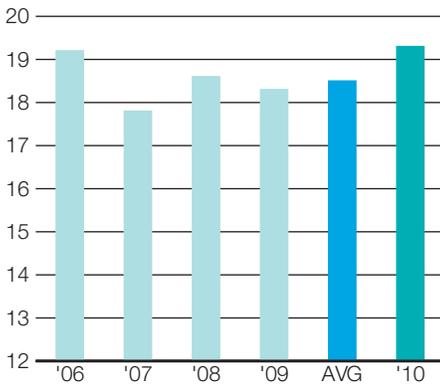
PHOTO PROVIDED BY SOUNDVIEW AERIAL PHOTOGRAPHY

The city's first sewers were constructed in 1890 and construction of a citywide system began in 1897. Everett is divided into two separate sewerage systems. The north end of the city has a combined sewer system that carries stormwater, together with sewage, to the Everett Water Pollution Control Facility (EWPCF). To avoid overloading sewers or the treatment plant, the system in newer areas of the city routes stormwater to local streams and lakes through separate storm drain systems while sewers deliver sewage to the EWPCF.

The EWPCF has a 36.3 MGD total hydraulic capacity and serves more than 160,000 people. Sewage is conveyed through approximately 345 miles of sewer mains, interceptors, laterals, and 29 lift stations to the EWPCF. Everett also treats a portion of the sewage from three neighboring sewer systems: Mukilteo Water and Wastewater District, Alderwood Water and Wastewater District and Silver Lake Water and Sewer District.

The EWPCF has two parallel systems for secondary treatment: a pond system and a mechanical plant. The two systems perform identical functions, but the treatment process is different in each system. Wastewater is treated in the mechanical plant using a process called trickling filter/solids contact. This process takes up much less space and is much faster than the original pond system. The mechanical plant treats up to 21 million gallons per day (MGD) and can clean wastewater in a matter of hours, while it takes several weeks in the pond system.

Wastewater Processed
(Million Gallons Per Day)



In 2010, the Everett Water Pollution Control Facility processed an average of 19.3 MGD of wastewater — an increase of 5.3 percent from the 18.3 MGD processed in 2009 and a 4.4 percent increase from the previous four year average of 18.5 MGD. The lagoon system accounted for about 54 percent and the mechanical system for about 46 percent of the discharge.

Everett Water Pollution Control Facility secondary clarifier



PHOTO PROVIDED BY CHARLES JOHNSTONE

Discharge of effluent from the two treatment systems is through two separate outfalls. In the past, all EWPCF discharge was to the Snohomish River. Since 2005, the trickling filter/solids contact system discharges to a marine deep-water outfall in Port Gardner Bay shared with Kimberly-Clark Corp. and the City of Marysville.

Everett staff work to enhance the operation of the EWPCF 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.

Everett Water Pollution Control Facility headworks



Everett Water Pollution Control Facility trickling filter No. 2 and pump station



Great Blue Heron on recirculation channel wall of oxidation pond

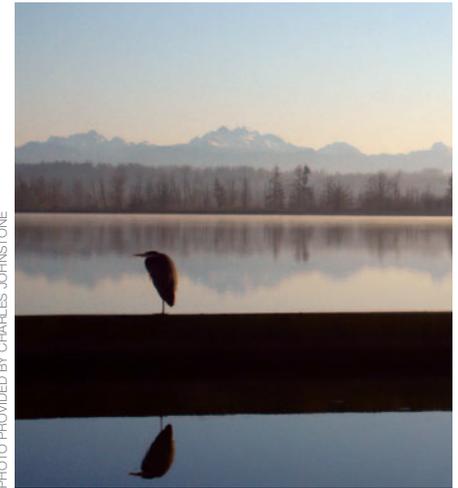


PHOTO PROVIDED BY CHARLES JOHNSTONE

Inspections, Cleanings & Repairs

(Feet, Side Sewers, Basins, Cubic Yards)

Sewer mains inspected	73,095 ft
Sewer mains cleaned	103,255 ft
Side sewers inspected	3,815 ft
Side sewers cleaned	1,117 ft
Side sewers repaired	73
Drain lines installed	2,255 ft
Drain lines inspected	1,955 ft
Drain lines cleaned	29,874 ft
Drainage ditches cleaned	1,648 ft
Catch basins cleaned	3,602
Total spoils dumped at Riverside Yard	4,103 cu yds

Maintaining and upgrading the wastewater infrastructure is a high priority for Everett. This is enhanced by responsible maintenance practices. During 2010, more than 41 miles of pipes and drainlines were inspected, cleaned or replaced.

PHOTO PROVIDED BY CHARLES JOHNSTONE

PHOTO PROVIDED BY CHARLES JOHNSTONE

Everett Water Pollution Control Facility Expansion, Phase B

Recently the amount of sewage and stormwater flowing into the Everett Water Pollution Control Facility (EWPCF) for treatment caused the facility to approach its treatment capacity. In April 2010, Carollo Engineers completed an engineering report that identified the phased modification needed at the EWPCF in order for the plant to maintain compliance with its Department of Ecology discharge permit.

The design and construction of the Phase B expansion project began in 2009 and will continue through 2012. Improvements constructed to date include new aerators, a sheet pile wall in aeration cell No. 2, center dike monorail and crane, modifications to the headworks biofilter fan building, an emergency generator for the aeration pond level control valves and a pipe bypass system at the final effluent north (FEN) lagoon. Improvements currently underway include mechanical speed control of the trickling filter arms, headworks structure rehabilitation (electrical, mechanical and piping), modifications to the FEN lagoon, existing pipe joint repairs due to settlement, slip line of pipes between aeration cell No. 2 and the oxidation pond, replacement of the headworks biofilter media and preload for the Phase C improvements.

Lowering the new rotary distributor into trickling filter No. 2

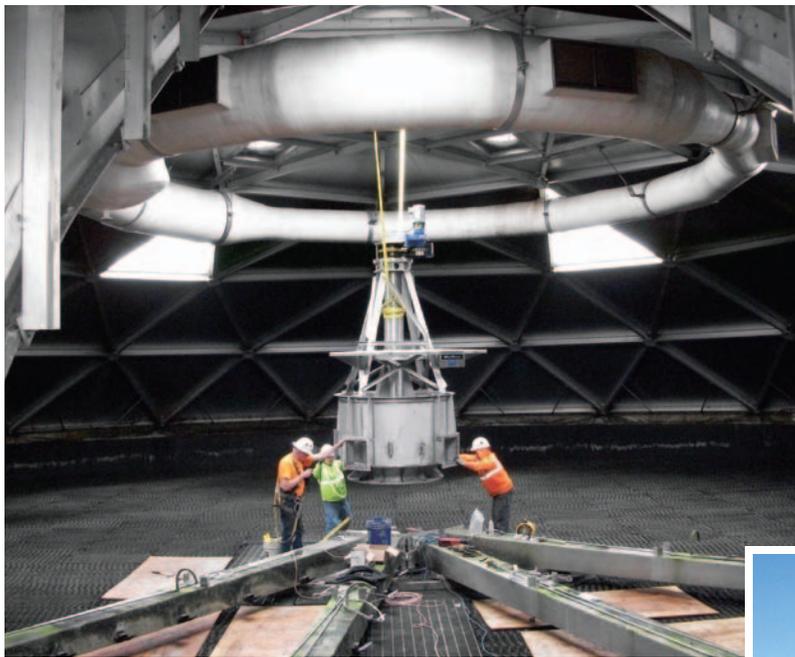


PHOTO PROVIDED BY BILL FISHER

Diver being cleaned off after diving in aeration cell No. 1



PHOTO PROVIDED BY BILL FISHER

Contractor assembling monorail crane between aeration cells No. 1 and No. 2



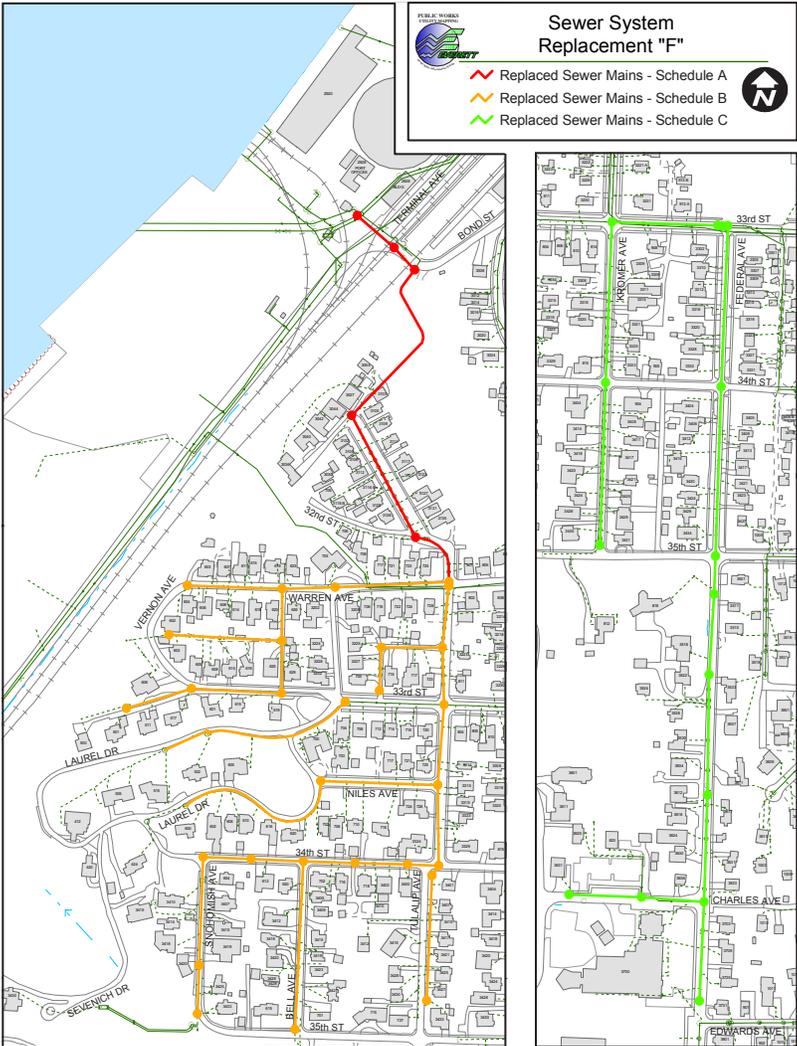
PHOTO PROVIDED BY BILL FISHER

Sewer System Replacement “F”, Schedules A, B and C

The sewers and manholes in the historic, residential Rucker Hill area were old and deteriorated. One short segment of 100-year old sewer was original hand-built arched brick, circa 1900. It was probably built by hand-dug tunneling methods.

The Sewer “F” project was separated in three project areas known as Schedule A, B and C. Schedule C was completed in 2007. Schedule A construction was completed in 2010 and included large diameter sewer pipe replacement and some preparatory work for the future Bond Street retention treatment basin project. The Schedule B project is currently in progress and consists of replacing about 7,000-feet of small-diameter collection sewers in the residential area.

Sewer System Replacement “F” vicinity map



Forming for sidewalk on Warren Avenue



PHOTO PROVIDED BY MIKE NGUYEN

New sidewalk and pavement on Warren Avenue



PHOTO PROVIDED BY MIKE NGUYEN

Restoration of landscaping on 33rd Street



PHOTO PROVIDED BY MIKE NGUYEN

2010 Financial Status

The Utilities division continues to maintain bond rating stability and a solid financial position. The fundamental financial strengths are based on stable product demand, conservative budget assumptions, adequate reserves and a strong debt service coverage ratio. The Utilities division is committed to providing quality water and sewer service and strives to keep pace with changes in the utility industry.

Operating revenues are primarily derived from wholesale and retail sales of water and charges for sewer services. Other revenues are generated from connection charges, capital contributions, and interest earnings on reserve balances and grant proceeds. Total operating revenues decreased 4.6 percent from \$58.7 million in 2009 to \$57.8 million in 2010.

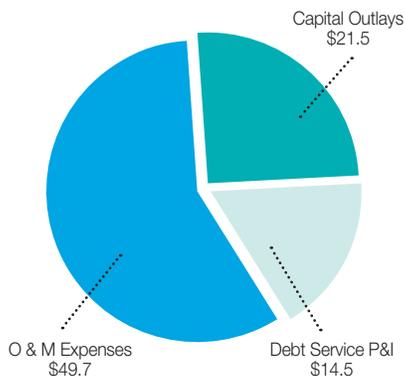
Due to an unusually cool summer that significantly reduced water demand and the retirement of a three and one-half cent per unit billing surcharge from Alderwood Water and Sewer District for its obligation to partially fund the Finished Water Pump Station, Utilities experienced a 5.9 percent decrease in operating revenue. This occurrence was felt in spite of the 6 percent water rate increase and 9 percent filtration rate increase in 2010. Sewer sales increased to \$29.1 million in 2010 from \$28.2 million in 2009, a 3.2 percent increase. A 5 percent sewer rate increase in 2010 allowed us to offset the impact of reduced water consumption. Capital contributions increased \$600,000 or 69.6 percent, to \$1.3 million in 2010, primarily credited to private capital development.

Capital and operating expenditures consist of capital improvements, operations and maintenance (O&M), and debt service. Capital expenditures totaled \$21.5 million. Debt service totaled \$14.8 million in 2010. Total operating expenses increased by \$2.9 million, or 8.5 percent in 2010. An increase of \$1 million in personnel services, or 6.6 percent, was brought about by the

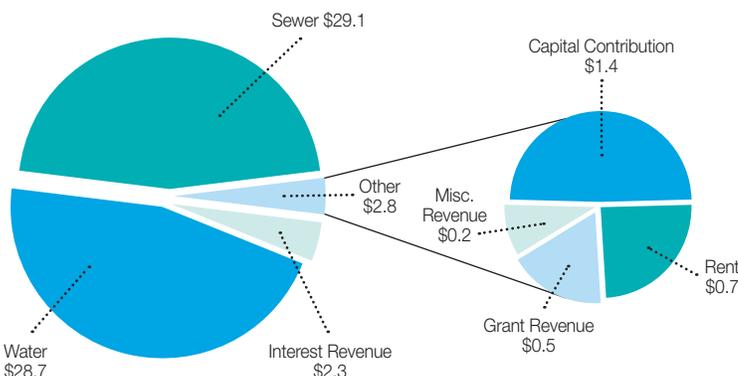
additional temporary personnel placement from other funds for Phase II Stormwater Regulation Compliance, and administrative transfers. Outside and intra-governmental services increased by \$2 million, or 3.8 percent, due primarily to \$1 million in flood damage claims resulting from a storm event that temporarily overwhelmed the combined sewer system in Everett's north end. Everett adopted interest capitalization provision numbers 34 and 62 of the Governmental Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB).

Overall, the Utilities division's senior lien debt service coverage continues to remain strong at 2.65 in 2010, in excess of the 1.25 bond requirements. At this level, we are maximizing the utilization of our capital by retrofitting major infrastructure and improvements needed in our current facilities.

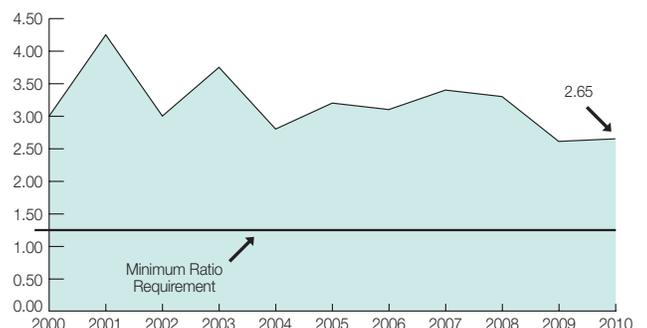
2010 Total Expenses
(Millions of Dollars)



2010 Total Revenues
(Millions of Dollars)



Debt Service Coverage - Last 10 Years



2010 Financial Status

Statement of Operations*

	2008	2009	2010*
Operating Revenues			
Charges for Services			
Water	\$ 27,002,470	\$ 30,479,725	\$ 28,674,597
Sewer	28,218,303	28,187,525	29,076,895
Total Charges for Services	\$ 55,220,773	\$ 58,667,250	\$ 57,751,492
Operating Expenses			
Personnel Services	\$ 15,410,979	\$ 16,524,046	\$ 17,617,553
Supplies	4,563,118	3,924,189	3,789,673
Professional Services	3,552,414	3,748,677	3,580,509
Depreciation/Amortization	8,835,165	10,504,700	10,498,802
Taxes	951,132	1,008,822	1,101,850
Outside/Intragovernmental Services	9,140,249	7,472,418	9,485,347
Total Operating Expenses	42,453,057	43,182,852	46,073,734
Operating Income	\$ 12,767,716	\$ 15,484,398	\$ 11,677,758
Non-Operating Revenue (Expense)			
Grant Revenue	\$ 18,682	\$ 229,747	\$ 479,165
Interest Revenue	3,143,332	813,780	2,277,423
Rent	577,465	601,690	675,200
Other Non-Operating Revenue	186,447	324,595	241,498
Gain (Loss) on Sale of Assets**	39,292	(7,260)	12,604
Interest Expense	(4,148,559)	(3,981,716)	(5,841,010)
Other Non-Operating Expense	(13,485)	(1,208)	0
Total Non-Operating Revenue (Expense)	(196,826)	(2,020,372)	(2,155,120)
Income Before Contributions & Transfers	12,570,890	13,464,026	9,522,638
Capital Contributions	1,775,837	1,007,012	1,368,663
Special Item	0	(1,738,006)	0
Operating Transfers In (Out)	(3,307,109)	(4,090,902)	(3,629,004)
Net Income	\$ 11,039,618	\$ 8,642,130	\$ 7,262,297
Net Equity - Beginning	328,085,624	339,125,242	347,550,872
Prior Period Adjustments	0	(216,500)	0
Net Equity - Ending	\$ 339,125,242	\$ 347,550,872	\$ 354,813,169

* For the year ended Dec. 31, 2010 (unaudited)

** Sale of Surplus Property

Balance Sheet*

	2008	2009	2010*
Current Assets			
Cash & Cash Equivalents	\$ 3,983,570	\$ 6,709,911	\$ 4,755,690
Investments	22,811,281	41,311,942	38,519,168
Accounts Receivable	19,376,664	14,692,266	7,760,286
Prepayments	0	0	94,927
Inventory	692,442	644,318	646,363
Total Current Assets	46,863,957	63,358,437	51,776,434
Restricted Assets			
Cash & Cash Equivalents	3,580,473	1,040,610	2,455,327
Investments	7,078,530	2,353,871	1,305,844
Total Restricted Assets	10,659,003	3,394,481	3,761,171
Fixed Assets			
Plant & Equipment (Net)	317,909,955	348,379,052	391,263,576
Construction in Progress	100,261,864	100,130,465	69,158,337
Total Fixed Assets	418,171,819	448,509,517	460,421,913
Other Non-Current Assets	2,486,645	3,062,211	2,816,753
Total Assets	\$ 478,181,424	\$ 518,324,646	\$ 518,776,271
Liabilities			
Current Debt	\$ 8,702,995	\$ 9,901,616	\$ 9,212,484
Accounts Payable	6,894,988	2,972,320	2,884,202
Employee Benefits Payable	1,159,929	1,202,171	1,315,693
Total Current Liabilities	16,757,912	14,076,107	13,412,379
Non-Current Liabilities			
Long-Term Obligations	122,815,127	156,116,748	150,053,897
Other Non-Current Liabilities	476,514	575,570	492,757
Deferred Revenues	6,629	5,349	4,069
Total Long-Term Liabilities	122,298,270	156,697,667	150,550,723
Total Liabilities	\$ 139,056,182	\$ 170,773,774	\$ 163,963,102
Fund Equity			
Capital Assets, Net of Debt	\$ 289,358,526	\$ 283,825,746	\$ 302,577,062
Retained Earnings (Reserved Restricted Assets)	10,664,591	11,482,570	11,045,132
Retained Earnings (Unreserved)	39,102,125	52,242,556	41,190,975
Total Retained Earnings	49,766,716	63,725,126	52,236,107
Total Fund Equity	\$ 339,125,242	\$ 347,550,872	\$ 354,813,169
Total Liabilities/Equity	\$ 478,181,424	\$ 518,324,646	\$ 518,776,271

* For the year ended Dec. 31, 2010 (unaudited)

2010 Financial Status

Historical Operating Results*

	2008	2009	2010*
Operating Revenue			
Charges for Services:			
Water	\$ 27,003	\$ 30,480	\$ 28,674
Sewer	28,218	28,188	29,077
Total Operating Revenues	55,221	58,668	57,751
Operating Expenses**			
Wages	15,411	16,524	17,618
Supplies	4,563	3,924	3,790
Professional Services	3,552	3,749	3,581
State Taxes	951	1,009	1,102
Outside/Intragovernmental Services	9,140	7,472	9,485
Total Operating Expenses	33,617	32,678	35,576
Net Operating Revenue	\$ 21,604	\$ 25,990	\$ 22,175
Other Revenue (Expense)			
Grant Revenue	19	430	479
Investment Income	3,143	814	2,277
Non-Bond Interest	(352)	(459)	(601)
Rent	577	601	675
Other Revenue	186	324	241
Timber Sales	0	0	0
LID/ULID Assessments	0	0	3
Other Non-Operating Expenses	(14)	(1)	0
Gain (Loss) on Sale of Assets	39	(7)	13
Total Other Revenue	3,598	1,702	3,087
Total Available For Debt Service	\$ 25,202	\$ 27,692	\$ 25,262
Debt Service Requirements			
Existing Senior Parity Debt Service	7,911	10,597	9,542
Existing PWTF & SRF Loans**	3,357	3,674	4,706
Total Debt Service	11,268	14,271	14,248
Ratio Required by Covenants	1.25	1.25	1.25
Parity Lien Debt Service Coverage Ratio	3.19	2.61	2.65
Total Debt Service Coverage Ratio***	2.24	1.94	1.77
Less Payment in Lieu of Taxes**	3,302	3,518	3,629
Ending Balance Available	\$ 10,632	\$ 9,903	\$ 7,385

* In thousands of dollars for the year ended Dec. 31, 2010 (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

Utilities Sustained Bond Rating

The Utilities division was successful in maintaining its bond rating with Standard and Poor's Rating Services at AA+ in 2010. Standard and Poor's noted the Utilities division's favorable financial performance, debt coverage and liquidity level, strong financial management, ample water supplies and treatment capacity, and its metropolitan Seattle service area with above-average incomes.

Debt Administration

Everett issues revenue debt and pledges to pay the debt requirements from the sales derived from the Utilities Fund. As of December 31, 2010, the Utilities division had the following outstanding debts (excluding interest): \$111.8 million of water and sewer revenue bonds, \$23.3 million of Public Works Trust Fund, \$14.8 million of State Revolving Fund, and other loans payable of \$3 million. Everett has set aside cash reserves of \$1.3 million, deposited with the trustees, as insurance for our outstanding bond issuance and \$2.5 million to finance the redemption funds and annual debt service requirements. Additionally, Everett complies with all significant limitations and restrictions as disclosed in the bond covenants. Everett 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*
2011	3,305,000	5,277,686	8,582,686
2012	3,425,000	5,156,786	8,581,786
2013	3,560,000	5,024,961	8,584,961
2014	3,710,000	4,875,861	8,585,861
2015	3,890,000	4,695,836	8,585,836
2016-2020	22,375,000	20,547,732	42,922,732
2021-2025	28,345,000	14,581,619	42,926,619
2026-2030	35,885,000	7,035,493	42,920,493
2031-2033	7,290,000	684,500	7,974,500
Total	\$ 111,785,000	\$ 67,880,474	\$ 179,665,474

* Outstanding bonds include 2002, 2003, 2005 and 2009 Bonds.

In 2010, the outstanding Public Works Trust Fund Loans and State Revolving Fund Loans of \$38.1 million have interest rates ranging from 0.3 percent to 5 percent. There are other loans payable of \$3 million.

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

Year	Principal	Interest	Annual Requirement*
2011	4,144,860	545,823	4,690,683
2012	4,069,641	446,843	4,516,484
2013	3,425,275	407,441	3,832,716
2014	2,653,645	310,114	2,963,759
2015	2,468,412	282,458	2,750,870
2016-2020	12,202,972	1,028,012	13,230,984
2021-2025	10,243,695	428,700	10,672,395
2026-2029	1,856,942	49,324	1,906,266
Total	\$ 41,065,442	\$ 3,498,715	\$ 44,564,157

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

* Outstanding SRF loans include 2004, 2005, 2006, 2007, 2009 and 2010 loans.

Notes To Financial Statements

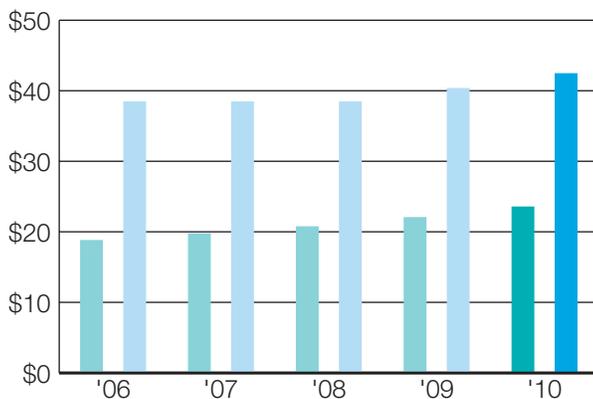
Capital Improvement Projects

The Utilities division spent \$21.5 million on capital improvement projects in 2010. These programs were financed from a combination of capital contributions, revenues from operations, government loans, revenue bonds and grants. The year ended with \$43.3 million in unrestricted cash and investment balances. The issuance of a Utilities revenue bond of \$51 million in March 2011 will finance upcoming water and sewer capital improvement projects. The overall strong financial performance of the Utilities division ensures future funding for capital projects.

Historical Rates

For single-family customers, the water flat rate increased by \$1.50 or 6.8 percent, from \$22 to \$23.50 per month in 2010 to cover increased water O&M and capital costs.

The sewer flat rate increased by \$2.10 or 5.2 percent from \$40.30 to \$42.40 per month in 2010.



	'06	'07	'08	'09	'10
Water Rates	\$18.75	\$19.70	\$20.70	\$22.00	\$23.50
Sewer Rates	\$38.40	\$38.40	\$38.40	\$40.30	\$42.40

Major capital asset investment included (in millions):

Water Transmission Lines No. 2 and No. 3 Replacement, Phase 6	\$4.9
Water Transmission Line No. 2 Replacement, Phase 8B	\$2.9
Everett Water Pollution Control Facility Expansion, Phase B	\$2.3
Sewer System Replacement "F"	\$1.5
Everett Drinking Water Treatment Plant Recovered Water Outfall	\$1.2

Major Water Customers

The six largest water customers in the Everett Water Service Area accounted for more than 94 percent of the 2010 water service revenues (in thousands of dollars):

Customer	Revenue
Everett Retail Customers	\$ 12,441
Alderwood Water & Wastewater District	8,299
PUD No.1 of Snohomish County	1,848
Kimberly-Clark Corp.	1,652
Mukilteo Water & Wastewater District	1,395
City of Marysville	1,294
Total	\$ 26,929

Major Sewer Customers

The four service areas served primarily by the Everett Water Pollution Control Facility in 2010 (in thousands of dollars):

Customer	Revenue
City of Everett	\$ 22,489
Silver Lake Water & Sewer District	4,300
Alderwood Water & Wastewater District	1,676
Mukilteo Water & Wastewater District	612
Total	\$ 29,077

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