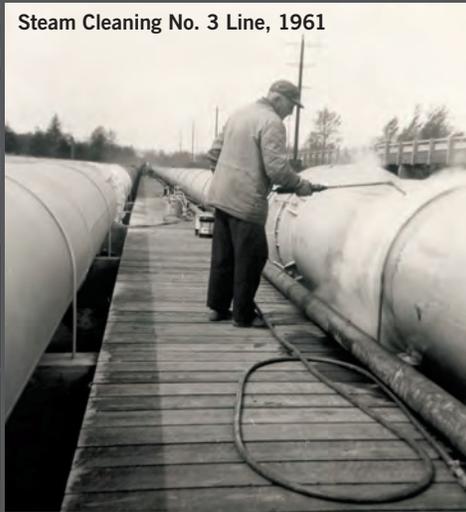


2012 UTILITIES ANNUAL REPORT

Service: Past, Present and Future



Snowmobile Near Dam Control House, 1967



Steam Cleaning No. 3 Line, 1961



Repairing Slide Damage Near Headworks, 1953



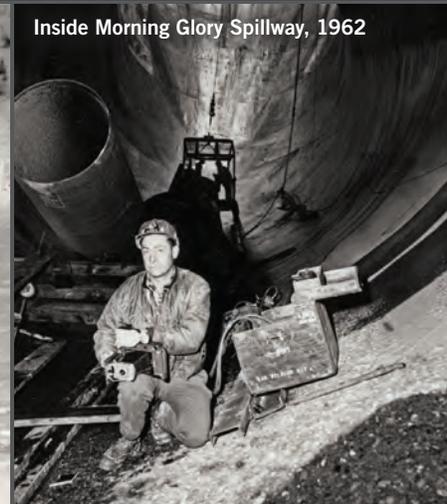
Everett Water Supply
Chris Hansen
May 23, 30

Diver, 1930

2551



Dog Sled on Lake Chaplain, 1950



Inside Morning Glory Spillway, 1962



2012 Utilities Annual Report

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Director's Message

We are committed to providing the very best water and sewer services at the lowest cost possible. This report looks back to our foundations, where we are today and toward our future. It presents our 2012 financial data and operating results. I hope you find it informative.

One fact that stands out is that Everett Utilities continue to be financially sound. We have benefited from a strong local economy and effective internal cost-containment strategy. We continue to carry large cash reserves in anticipation of future capital improvement projects and our bond coverage exceeds our goal.

Mayor Ray Stephanson and the Everett City Council have provided the leadership that has allowed Everett Utilities to thrive. Our excellent staff maintains a service-oriented vision in which we strive to provide outstanding customer service. This combination will ensure our continued success as we respond to the challenges ahead.



Sincerely,

A handwritten signature in blue ink, which appears to read "Dave Davis".

Dave Davis

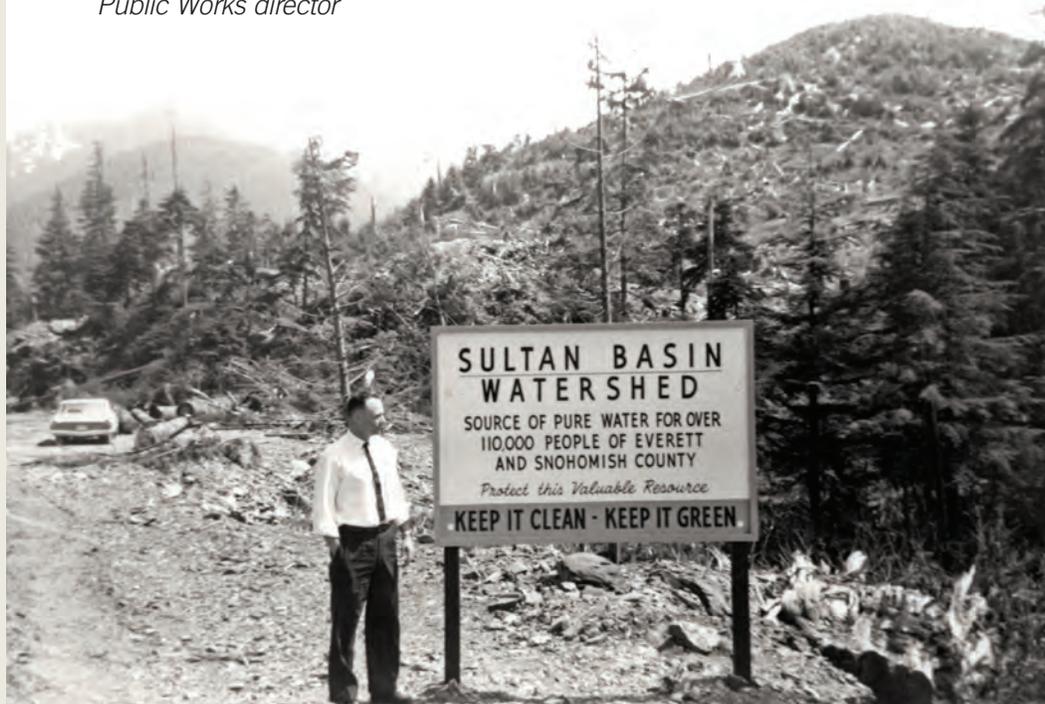
Public Works director

CONTRIBUTORS:

Editor: Lori Tobin

Graphic Design: Lori Vonderhorst Design

Photos: Public Works archives



Sultan Basin Watershed, 1963

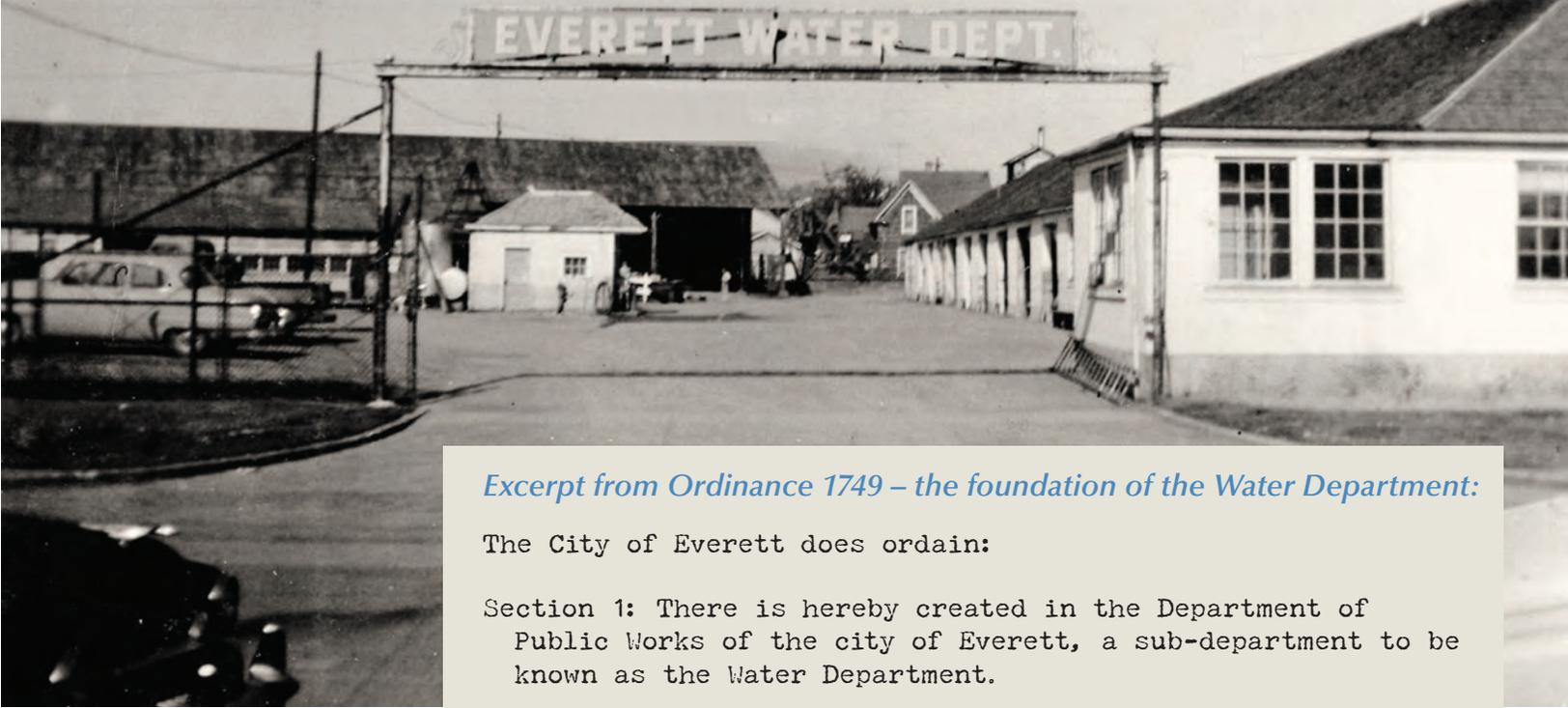
Water Service

Water Department Early Years

Two ordinances laid the groundwork for Everett's water system:

- Ordinance 1662, passed in June 1915, proposed "that the city acquire the Sultan River water supply for said city."
- Ordinance 1663, passed in August 1915, proposed "that Everett acquire from Everett Railway Light and Water Company the present system now used for the purpose of supplying Everett."

Then in October 1916, the Everett Water Department was officially founded with the passage of Ordinance 1749.



Excerpt from Ordinance 1749 – the foundation of the Water Department:

The City of Everett does ordain:

Section 1: There is hereby created in the Department of Public Works of the city of Everett, a sub-department to be known as the Water Department.

Section 2: There shall be in said Water Department the following officers and employees: One superintendent, one foreman of construction and maintenance, one cashier, one assistant cashier, one blacksmith, one pipe fitter, two inspectors, one pump operator, one time and storekeeper, and so many laborers as may be necessary. Additional pipe fitters, inspectors, pump operators, and time keepers may be appointed temporarily, as needed.

Section 3: The superintendent of said Water Department shall be experienced in the management and operation of water and hydraulic systems, and shall have in his charge and under his control, subject to the Commissioner of Public Works the maintenance, management and operation of the Water system of the city of Everett, including when completed, the Sultan River gravity supply line and all auxiliary pumping apparatus, reservoirs and pipes and of all persons employed thereon, and of all construction work undertaken by the city in connection with said water system.

The official title of said superintendent shall be Superintendent of Everett Water Department. He shall be appointed by the city council of Everett.



Everett Water Department, 1958

Water Service

Historic Water Rates

Excerpt from ordinance 1749 – a few original water rates:

Section 36: Flat Water Rates. Monthly water rates where meters are not in use, shall be as follows:

Bakery	Using not more than 1 barrel flour daily	\$1.50
	Each additional barrel	\$0.50
	Each person in excess of 5	\$0.10
Banks	Not more than 5 persons	\$1.50
	Each additional person	\$0.10
Barber Shops	One chair	\$1.25
	Each additional chair	\$0.25
Bath Tubs	Private one	\$0.50
	Each additional one	None
	Public one	\$1.50
	Each additional one	\$1.50
Beer Pump	Each	Meter
Blacksmith Shop	One fire	\$1.25
	Each additional one	\$0.25
Boarding House	Not more than eight persons	\$1.25
	Each additional person	\$0.10
Church	One cold water faucet	\$0.75
Cows	Two	\$0.50
	Each additional one	\$0.25
Dairy	Not more than five cows	Meter
	Each additional animal	Meter
Dwelling	Not more than 5 Rooms or 5 persons	\$0.90
	Six rooms	\$1.00
	Seven rooms	\$1.10
	Eight rooms	\$1.15
	Each person in excess of 5	None



Today: A Penny a Gallon

Water is a life-essential resource.

Revenues generated from water sales pay for everything needed to operate the water system, from storage and treatment, to delivering water to customers throughout 80 percent of Snohomish County. Today's water revenues also help pay for system improvements that ensure that we will continue to provide high-quality drinking water for generations to come.

Yet, at about a penny a gallon, it costs very little compared to its value.

Wood pipe, near sta. 550.
Everett, Wash.
Dec. 4, 1929.

Water Service

Water Service Today

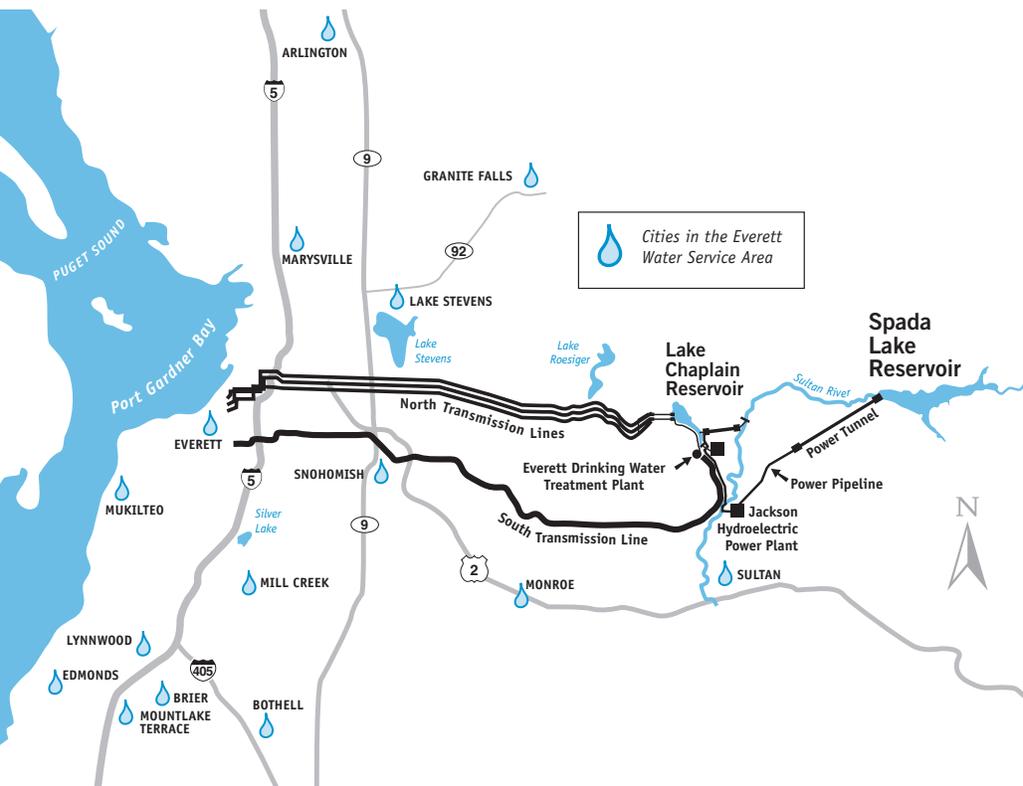
During the last century, the Everett water system has grown from a simple localized system for the residents of Everett to a vital regional water provider. The Everett water system now supplies water to the majority of Snohomish County (more than 600,000 residents) through a network of local water providers.

Major components of the Everett water system include the following:

- Spada Lake Reservoir – which has a capacity of 50 billion gallons
- Lake Chaplain Reservoir – which has a capacity of 4.5 billion gallons
- Drinking Water Treatment Plant at Lake Chaplain Reservoir – capacity to treat 132 million gallons per day (MGD)
- Water transmission pipelines – four lines sized from 48- to 51-inches in diameter with a combined length of 81 miles
- Storage facilities – 15 tanks or reservoirs with storage capacities from 100,000 gallons to 24 million gallons
- Distribution pipelines – multiple pipelines with a combined length of 412 miles

Everett has water rights for withdrawal of 255 million gallons per day (MGD) of water from the Sultan River system and a pending water right application for an additional 129 MGD.

Everett Utilities works in partnership with regional water providers through the Everett Water Utility Committee (EWUC), an advisory group established in 1976 that includes wholesale water customers and representatives from the Washington State Department of Health, Snohomish Health District, Snohomish County government and the Tulalip Tribes. EWUC meets on a regular basis to keep members engaged in water system plans and decisions. This working partnership helps Everett Utilities meet today's water needs and plan for future water needs of the region.



Average Daily Production of Drinking Water

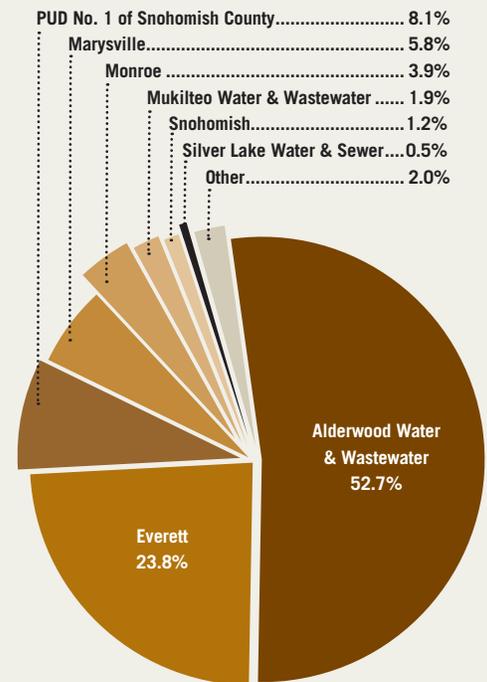
(MILLION GALLONS PER DAY)



The Everett Drinking Water Treatment Plant produced an average of 51 MGD of water in 2012, a 3.9 percent increase from the 49 MGD produced in 2011 and 0.8 percent decrease from the previous four-year average of 51.4 MGD.

Drinking Water Distribution

(PERCENT OF DEMAND)



Eight water systems account for about 98 percent of the demand for treated 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.

Sewer Service

Maintenance and Operations

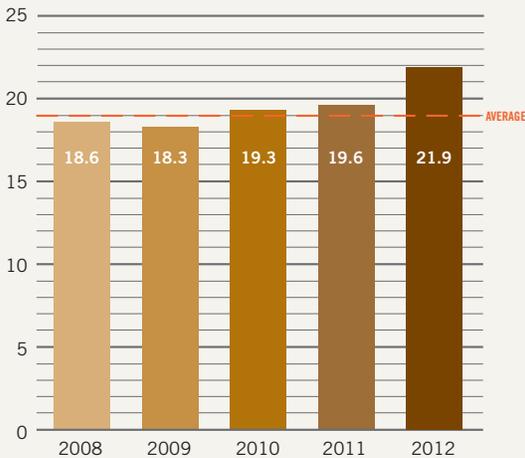
Everett Utilities owns and maintains approximately 334 miles of sewer mains (not including side sewer lengths) and 28 sewage pump stations.

In 2012, Everett Utilities accomplished the following sewage collection system operation and maintenance activities:

- Cleaned and inspected more than 100,000-feet of sewer mains
- Cleaned and inspected inlets within the combined sewer area
- Completed prioritized repairs and rehabilitation of sewer mains and side sewers
- Remotely operated and monitored sewage lift stations 24/7

Wastewater Processed

(MILLION GALLONS PER DAY)



In 2012, the Everett Water Pollution Control Facility processed an average of 21.9 MGD of wastewater, an increase of 10.6 percent from the 19.6 MGD processed in 2011 and 13.4 percent increase from the previous four year average of 19.0 MGD. The lagoon system processed about 52 percent and the mechanical system about 48 percent of the wastewater.

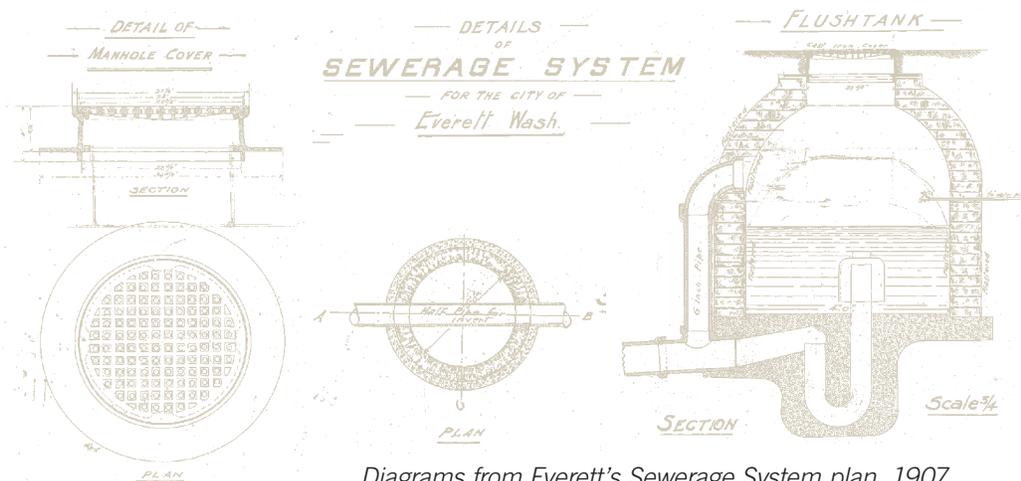
Sewer Service Development

In 1890, the first clay sewer pipes were installed along Broadway Avenue in Everett. The city incorporated in 1893 and a few years later construction began of the first citywide sewer system. The original system was a combined sewer system that collected wastewater and stormwater and discharged the combined wastewater into the Snohomish River.

As the city grew an improved wastewater treatment system was needed. Major construction highlights of the Everett wastewater treatment system include:

- 1959 Oxidation and polishing ponds **2** **3**
Effluent discharge – north river outfall **6**
- 1972 North contact channel – disinfection **4**
Aeration pond **1**
- 1984 Headworks – bar screens and grit collectors **1**
- 1991 Biological trickling filters, aeration tanks **1** **3** **4**
and secondary clarifiers
South contact channel – disinfection **5**
Trickling filter bar screen **4**
- 1994 North effluent pump station **5**
- 1998 Headworks biofilter – odor control **2**
- 2002 South effluent pump station **6**
Effluent discharge – pipeline to Port Gardner Bay outfall **7**
- 2005 Primary settling tanks and skimmers **3**
Primary biofilter – odor control **5**
Secondary biofilter – odor control **2**

Everett continues to upgrade and expand its Water Pollution Control Facility to meet the needs of the growing population.



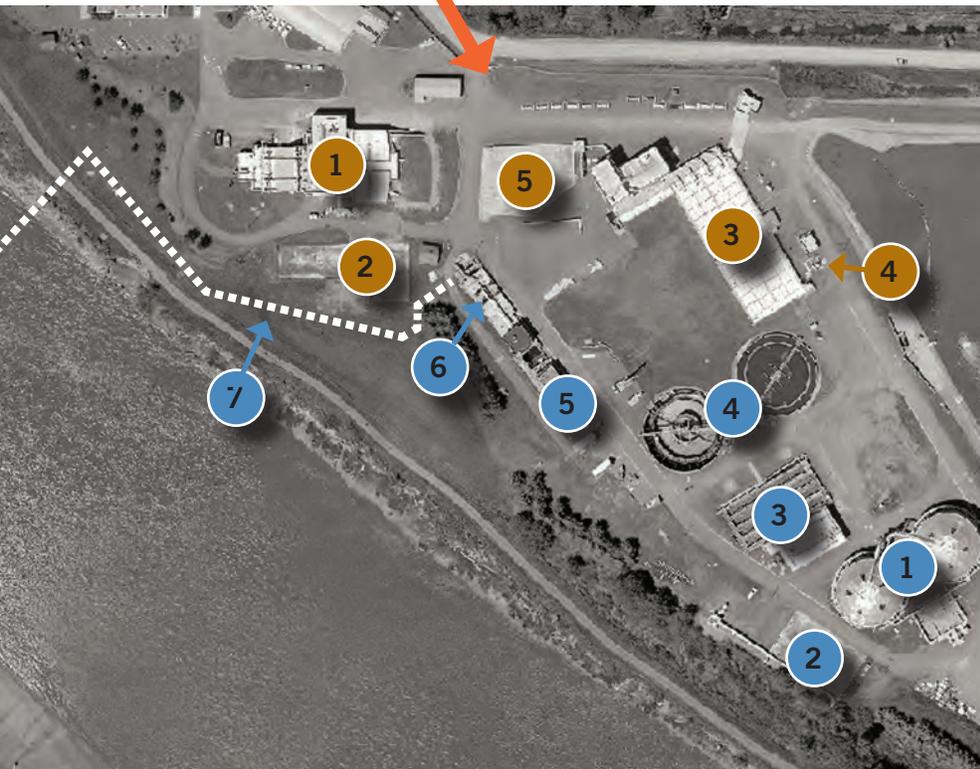
Diagrams from Everett's Sewerage System plan, 1907

Sewer Service

Wastewater Treatment Today



SOUNDVIEW AERIAL PHOTOGRAPHY



PICTOMETRY

Treatment Steps

All of the wastewater arriving at the Everett Water Pollution Control Facility flows through preliminary and primary treatment.

Preliminary treatment

- 1 Headworks – bar screens and grit collectors
- 2 Headworks biofilter – odor control

Primary treatment

- 3 Primary settling tanks and skimmers
- 4 Trickling filter barscreen
- 5 Primary biofilter – odor control

Then some of the wastewater flows through the pond system.

Secondary treatment: the pond system

- 1 Aeration pond
- 2 Oxidation pond
- 3 Polishing pond
- 4 North contact channel – disinfection
- 5 North effluent pump station
- 6 Effluent discharge – north river outfall

And some of the wastewater flows through the mechanical system.

Secondary treatment: the mechanical system

- 1 Biological trickling filters
- 2 Secondary biofilter – odor control
- 3 Aeration tanks
- 4 Secondary clarifiers
- 5 South contact channel – disinfection
- 6 South effluent pump station
- 7 Effluent discharge – pipeline to Port Gardner Bay outfall

Conservation

Conservation Early Years

Most people think of conservation as a modern issue, but preserving the water supply was important as far back as 1916 when restrictions were imposed on when sidewalks and streets could be washed and lawns could be watered. When the restrictions were violated penalties were imposed.

Excerpt from ordinance 1749 – a few rules and penalties:

Section 32: Washing Streets, Time for. The use of hose for washing walks or streets is prohibited except between the hours of six o'clock and eight o'clock a.m. and six o'clock and eight o'clock p.m., except when meters are used. For violation of this rule a penalty of one dollar shall be imposed and taxed against the person and premises supplied and the water shall be turned off, and so remain until the same is paid.



Cooling Off, 1916

Section 34: Size of Hose. The inside diameter of hose used for sprinkling purposes must not be more than three-quarters of an inch and the inside diameter of the orifice to the nozzle of the same, or for lawn fountains, must not be more than one-fourth of an inch. The use of hose without nozzle or allowing any faucet, pipe or fixture to run open (thus wasting water) is prohibited, except where meters are used. For violation of this rule a penalty of two dollars (\$2.00) for each offense shall be imposed and taxed against the person and premises supplied, and the water shall be turned off therefore; in no case shall the water be turned on to the same premises until such penalty has been paid.

Section 48: No water from the Everett Water System shall be used by any person for sprinkling purposes except through a nozzle or automatic sprinkler, nor except between the hours of 6 to 8 a.m. and from 6 to 8 p.m.

Section 49: No automatic sprinkler shall be set upon or so near a sidewalk that the water therefrom will fall upon the walk.

Section 50: Water used for the sprinkling of lawns shall be reasonably used, and not wasted nor allowed to run into the street gutters.

Section 51: The person, firm or corporation responsible for any violation of Sections 48, 49 and 50 hereof, shall for the first offense pay the sum of one dollar in addition to his monthly water rate and two dollars for each subsequent offence.

Section 52: The Commissioner of Public Works is authorized in case of any shortage of water to order the stoppage of all sprinkling for such time as he may fix; and after such order has been published in the official newspaper every person violating the same shall, upon conviction, be fined in any sum not exceeding ten dollars, and the water may be shut off from the premises of such person until said fine is paid.

Conservation

Conservation Today

To help protect and conserve our precious water resources the Washington State Legislature passed the Municipal Water Law in 2003. This law directed the Department of Health to establish water use efficiency requirements for all municipal water suppliers to ensure that there will be enough water for people and the environment for generations to come.

Conservation protects fish and wildlife and helps make sure that water is used as efficiently as possible. Since Everett provides water to the majority of water systems in Snohomish County, we operate a regional water conservation program. The program, which was collaboratively developed with regional water providers and implemented in 2007, was designed to save 1.97 million gallons per day (MGD) of water by the end of 2012.

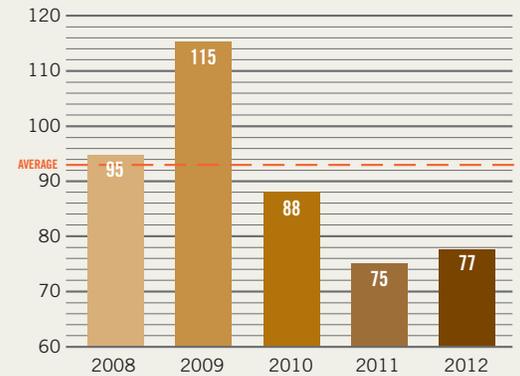
To accomplish this, Everett Utilities spent more than \$3 million on various water conservation activities since 2007. This includes such efforts as youth education, distribution of indoor and outdoor water conservation kits, rebates for water efficient clothes washers and toilets, and leak detection. We are required to report on the progress of this program annually to the state and the customers we serve.

In 2012, 660 water conservation workshops were conducted in classrooms throughout Snohomish County, reaching more than 17,000 students. More than 1,300 rebates were issued for high-efficiency toilets. Participating water systems also distributed 3,000 indoor conservation kits, 5,000 outdoor conservation kits, leak detection brochures and summer yard watering calendars.

Through these efforts, we collectively saved about 0.75 MGD in 2012. This brings the cumulative water savings from the regional program to 2.1 MGD, surpassing the program goal of 1.97 MGD and enough water to fill more than 50,000 bathtubs a day. By partnering together, these regional water savings were obtained for about \$400,000 less than what was originally budgeted for the six-year program.

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 2012 the peak day demand occurred in August at 77 MGD. This is a 2.6 percent increase from the 2011 peak day demand of 75 MGD and 21 percent decrease from the 2008 to 2011 average peak day demand of 93 MGD. Fluctuations in peak day demand can be attributed to year to year differences in summer temperatures and rainfall levels in Everett's water service area.



Everett Wn.
Lake Chaplain
W. Portal Tunnel to E. Portal #2
Nov. 19, '29

Surface and Stormwater

Volunteers Help Protect Water Quality

Marking storm drains, removing street-side litter and pet waste help protect water quality in Everett.

In 2012, volunteers:

- Removed 688 bags of litter from 46 miles of street-sides
- Marked 30 storm drains
- Filled 55 Mutt Mitt stations to encourage pet waste removal
- Donated 1,518 hours



KING TV filming Diversion Dam, 1967

Diversion Dam, 1956

Program Development and Implementation

Clean water is an important natural resource essential for public health and the economy. Water pollution degrades surface waters making them unsafe for beneficial uses. Current water quality regulations trace their foundations to the Federal Clean Water Act passed in 1972.

The Phase II National Pollutant Discharge Elimination System (NPDES) Municipal Stormwater Permit, issued by the Washington State Department of Ecology in 2012, requires Everett Utilities to conduct activities that reduce and prevent water pollution. The NPDES permit regulates point sources that discharge pollutants into surface waters.

Everett encompasses about 42.8 miles of land and water and is comprised of 17 drainage basins. In 2012, Everett Utilities conducted a number of significant activities related to surface and stormwater:

- Continued development of a Surface Water Comprehensive Plan. The new plan identifies and prioritizes flooding, water quality and habitat issues for each drainage basin. Everett obtained two grants for retrofit of outdated stormwater facilities as a result of this effort.
- Collected ambient water quality data on Everett lakes and streams.
- Held workshops on rain gardens and natural yard care that were attended by about 400 people.
- Inspected stormwater systems on private property and required systems to be cleaned where needed to function as designed.
- Inspected all catch basins and inlets in the separate stormwater system, cleaned more than 4,700 of these structures and repaired more than 600 of the structures.
- Inspected and maintained about 120 detention ponds, 100 detention pipes, 70 detention vaults, 50 bioswales, 20 oil and water separators, 720 ditches, and 480 culverts in the storm drainage system.



Capital Improvement Projects

PHOTO BY MIKE NGUYEN



PHOTO BY DON VEURINK



Sewer Lift Station No. 24 Replacement, construction in progress, June 2013.

Section of Transmission Line No. 5 and support system removed, April 2012.

Sewer Lift Station No. 24 Replacement

The City of Everett's 2006 Comprehensive Sewer Plan recommended the replacement of Lift Station No. 24 due to its limited wet well capacity, minimal safety clearances and antiquated mechanical and electrical equipment. The project site comprises two properties, the existing Lift Station 24 property located at 332 120th St. SE and an adjacent lot purchased by the City in 2010.

The project includes the construction of a new lift station building above an underground wet well, new underground site utility piping, an odor control system and a standby power generator. The new lift station building will house three 150-horsepower pumps and associated mechanical and electrical equipment for the operation of the station. The HVAC system for the building and standby generator will be equipped with sound attenuation required to meet the prescribed noise ordinances.

An existing metal culvert, which conveys surface drainage of Park Place Creek across the site, will be replaced by a fish-friendly stream channel. Once construction of the new lift station is complete, the existing lift station buildings will be demolished. Finally, the site will be landscaped and restored with native vegetation.

The contract for construction of this project was awarded to McClure & Sons Inc. of Mill Creek for \$4.3 million. Construction started in September 2012 and should be substantially complete by the end of 2013.

Water Transmission Line No. 5 Pile Replacement on Skipley Road

Transmission Line No. 5 is a 51-inch diameter steel pipeline that provides potable water to the city and south Snohomish County. One section of the transmission line crosses a deep ravine and is supported on piles. There was evidence of significant slope erosion at the east end of the pile-supported section of the transmission line, resulting in lateral pile movement and the deformation of at least four of the pile supports.

This project relocated the pipe under the road and restored the structural integrity of approximately 270-feet of the transmission line in Skipley Road, between the intersections of 83rd Avenue SE and 72nd Avenue SE, east of Everett.

IMCO was awarded the contract for this project for \$900,000. Construction began in April 2012 and the project was completed in June 2012.

2012 Financial Status

Financial Summary

Everett Utilities continue to maintain a solid financial position. This comes from stable product demand, conservative budget assumptions and maintaining adequate reserves and a strong debt service coverage ratio. Everett Utilities are committed to providing quality water and sewer service and strive to keep pace with changes in the utility industry.

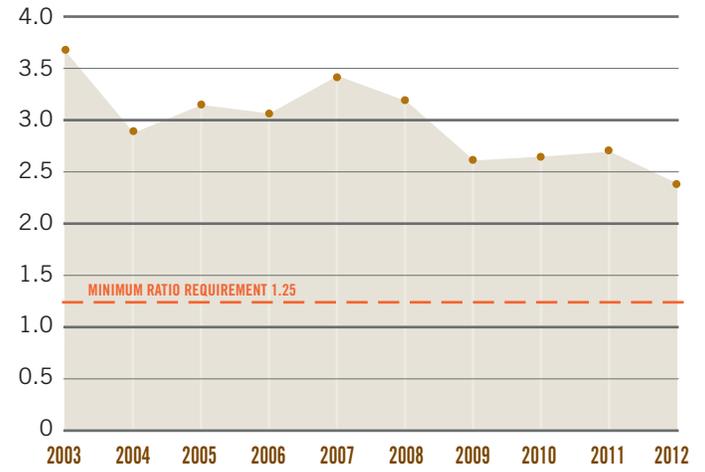
Operating revenues are primarily derived from wholesale and retail water sales and charges for sewer services. Other sources of revenue are connection charges, capital contributions, interest earnings on reserve balances and grant proceeds. Total operating revenues increased 4.7 percent from \$61.2 million in 2011 to \$64.1 million in 2012.

Everett Utilities experienced a 4.3 percent increase in operating revenues in water. A 6 percent water rate increase and 9 percent filtration rate increase in 2012 allowed us to offset a significantly reduced water demand due to an unusually cool summer and the closure of Kimberly-Clark plant in early 2012. Sewer sales increased to \$32.8 million in 2012 from \$31.3 million in 2011, a 5 percent increase. The increase is attributed to a 5 percent sewer rate increase in 2012. Capital contributions increased by \$660,000 or 30.2 percent, to \$2.9 million in 2012, primarily credited to wholesale sewer capital contributions. In 2012, the non-operating revenues included timber sales of \$850,000.

Capital and operating expenditures consist of capital improvements, debt service and operations and maintenance (O&M). Capital expenditures totaled \$24.7 million. Debt service totaled \$12.8 million in 2012. Total operating expenses increased by \$4.6 million, or 9.5 percent in 2012. An increase of \$1.6 million in personnel services, or 8.7 percent, was brought about by the additional temporary personnel placement from other funds for Phase II National Pollutant Discharge Elimination System stormwater regulation compliance, administrative transfers, clean up of capital work in progress and increased medical costs for employees. The clean-up activity of capital work in progress and correction of the capital projects of the joint venture account in our books also affected a substantial increase in professional service expenditures for 2012 to \$7 million, an 86.4% increase from 2011 of \$3.7 million. This is an isolated case. The City of Everett adopted interest capitalization provision numbers 34 and 62 of the Governmental Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB).

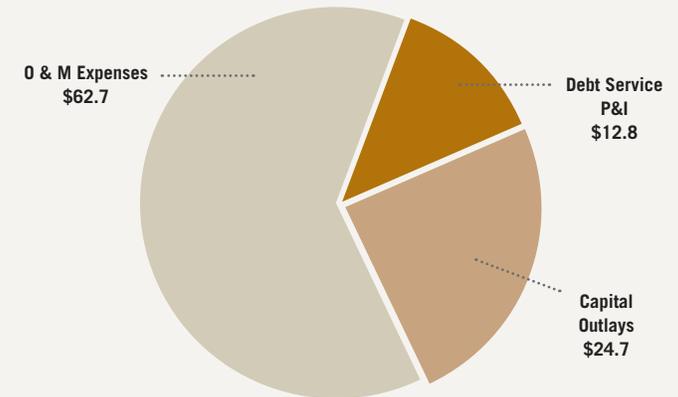
Overall, Everett Utilities senior lien debt service coverage continues to remain strong at 2.30 in 2012, in excess of the 1.25 bond requirements.

Debt Service Coverage: Last 10 Years



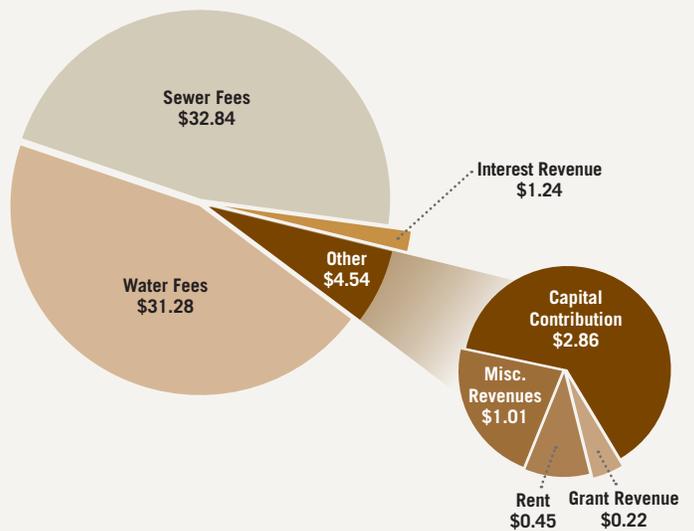
2012 Total Expenses

(MILLIONS OF DOLLARS)



2012 Total Revenues

(MILLIONS OF DOLLARS)



2012 Financial Status

From January 1, 2010 thru 2012 to December 31, 2010 thru 2012

Statement of Operations

	2010	2011	2012*
OPERATING REVENUES			
Charges for Services			
Water	\$ 28,674,597	\$ 29,982,137	\$ 31,282,950
Sewer	29,076,895	31,265,948	32,837,412
Total Charges for Services	57,751,492	61,248,085	64,120,362
OPERATING EXPENSES			
Personnel Services	17,617,553	18,551,314	20,165,443
Supplies	3,789,673	3,682,536	3,619,446
Professional Services	3,580,509	3,737,373	6,967,366
Depreciation/Amortization	10,498,802	11,108,348	12,180,388
Taxes	1,101,850	1,376,056	1,441,682
Outside/Intragovernmental Services	9,485,347	9,896,884	8,579,122
Total Operating Expenses	46,073,734	48,352,511	52,953,447
Operating Income	11,677,758	12,895,574	11,166,915
NON OPERATING REVENUES (EXPENSES)			
Grant Revenue	479,165	29,395	214,893
Interest Revenue	2,277,423	3,031,842	1,244,198
Rent	675,200	448,283	453,030
Equity in Income (Loss) of Joint Venture	-	-	(548,149)
Other Non-Operating Rev.	241,498	455,970	159,051
Gain (Loss) on Sale of Assets**	12,604	171,380	855,039
Interest Expense	(5,841,010)	(5,522,085)	(5,392,358)
Other Non-Operating Expenses	-	-	-
Total Non-Operating Revenues (Expenses)	(2,155,120)	(1,385,215)	(3,014,296)
Income Before Contributions and Transfers	9,522,638	11,510,359	8,152,619
Capital Contributions	1,368,663	2,195,601	2,858,868
Special items	-	-	-
Operating transfers In (Out)	(3,629,004)	(3,693,600)	(3,808,625)
Net Income	7,262,297	10,012,360	7,202,862
Net Equity - Beginning	347,550,872	354,813,169	363,393,237
Prior Period Adjustments	-	(1,432,292)	-
Net Equity - Ending	\$ 354,813,169	\$ 363,393,237	\$ 370,596,100

* For the Year ended December 31, 2012 (Unaudited)

** Sale of Surplus Property

Balance Sheet December 31, 2010 to 2012

	2010	2011	2012
CURRENT ASSETS			
Cash & Cash Equivalents	\$ 4,755,690	\$ 17,880,033	\$ 9,594,736
Investments	31,236,926	50,673,726	48,917,084
Receivables	7,760,286	9,650,955	6,264,905
Prepayments	94,927	217,000	4,686,236
Inventory	646,363	586,741	748,415
Total Current Assets	44,494,192	79,008,455	70,211,376
RESTRICTED ASSETS			
Cash & Cash Equivalents	3,706,985	6,791,560	4,882,705
Investments	7,282,242	8,215,799	9,906,886
Total Restricted Assets	10,989,227	15,007,359	14,789,591
FIXED ASSETS			
Plant & Equipment - Net	391,263,576	424,928,713	438,072,407
Construction in Progress	69,158,337	52,501,960	49,002,718
Total Fixed Assets	460,421,913	477,430,673	487,075,125
Other Non-Current Assets	2,870,939	3,069,452	2,368,761
Total Assets	\$518,776,271	\$574,515,939	\$574,444,853
LIABILITIES			
Current			
Current Debt	\$ 9,212,484	\$ 9,518,905	\$ 8,883,922
Accounts Payable	2,884,202	3,157,877	3,082,534
Employee Ben. Pay.	1,315,693	1,443,409	1,636,583
Total Current	13,412,379	14,120,191	13,603,039
Non-Current Liabilities			
Long Term Obligations	150,053,897	196,457,928	189,630,584
Other Non-Current Liabilities	492,757	541,794	613,621
Deferred Revenues	4,069	2,789	1,509
Total Long Term Liabilities	50,550,723	197,002,511	190,245,714
Total Liabilities	163,963,102	211,122,702	203,848,753
FUND EQUITY			
Capital assets, net of debt	302,577,062	299,909,578	297,003,579
Retained Earnings			
Reserved-Restricted Assets	11,045,132	15,063,107	14,792,111
Unreserved	41,190,975	48,420,552	58,800,410
Total Retained Earnings	52,236,107	63,483,659	73,592,521
Total Fund Equity	354,813,169	363,393,237	370,596,100
Total Equity / Liabilities	\$518,776,271	\$574,515,939	\$574,444,853

* For the Year ended December 31, 2012 (Unaudited).

2012 Financial Status

Historical Operating Results

	2010	2011	2012*
OPERATING REVENUES			
Charges for Services:			
Water	\$ 28,674	\$ 29,982	\$ 31,283
Sewer	29,077	31,266	32,837
Total Operating Revenues	\$ 57,751	\$ 61,248	\$ 64,120
OPERATING EXPENSES**			
Wages	17,618	18,551	20,165
Supplies	3,790	3,683	3,619
Professional Services	3,581	3,737	6,967
State Taxes	1,102	1,376	1,442
Outside/Intragovernmental Services	9,485	9,897	8,579
Total Operating Expenses	35,576	37,244	40,772
Net Operating Revenues	\$ 22,175	\$ 24,004	\$ 23,348
OTHER REVENUES (EXPENSES)			
Grant Revenue	\$479	\$29	\$215
Investment Income	2,277	3,032	1,244
Non-Bond Interest	(601)	(693)	(964)
Rent	675	448	453
Other Revenue	241	456	159
Timber Sales	-	150	848
LID/ULID Assessments	3	-	-
Other Non-Operating Expenses	-	-	-
Gain (Loss) on Sale of Assets	13	21	7
Total Other Revenues	\$3,087	\$3,443	\$1,962
Total Available for Debt Service	\$ 25,262	\$ 27,447	\$ 25,310

DEBT SERVICE REQUIREMENTS

Existing Senior Parity Debt Service	9,542	10,156	11,001
Existing PWTF, SRF and Other Loans**	4,706	4,686	4,580
Total Debt Service	14,248	14,842	15,581
Ratio Required by Covenants	1.25	1.25	1.25
Parity Lien Debt Service Coverage Ratio	2.65	2.70	2.30
Total Debt Service Coverage Ratio ***	1.77	1.85	1.62
Less: Payment in Lieu of Taxes**	3,629	3,694	3,810
Ending Balance Available	\$ 7,385	\$ 8,911	\$ 5,919

* In thousands of dollars for the years ended December 31, 2012 (unaudited).

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

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

NOTES TO FINANCIAL STATEMENTS

Everett Utilities Sustained Bond Rating

Everett Utilities maintained their bond rating with Standard and Poor's Rating Services at AA+ in 2013. They noted Everett Utilities' favorable financial performance, debt coverage, liquidity level, strong financial management, ample water supplies and treatment capacity.

Debt Administration

The City of Everett issues revenue debt and pledges to pay the debt requirements from the sales derived from the Utilities Fund. As of December 31, 2012, Everett Utilities had the following outstanding debts (excluding interest): \$156.1 million of water and sewer revenue bonds, \$33.5 million of Public Works Trust Fund and State Revolving Fund, and other loans payable of \$600,000. Everett has set aside cash reserves of \$2.5 million, deposited with the trustees, as insurance for our outstanding bond issuance and \$2.3 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*
2013	3,560,000	7,444,426	11,004,426
2014	5,110,000	7,295,326	12,405,326
2015	5,345,000	7,059,301	12,404,301
2016	5,595,000	6,803,501	12,398,501
2017	5,835,000	6,566,151	12,401,151
2018-2022	33,485,000	28,531,531	62,016,531
2023-2027	42,505,000	19,505,776	62,010,776
2028-2032	41,680,000	8,485,848	50,165,848
2033	12,940,000	1,174,225	14,114,225
TOTAL	\$ 156,055,000	\$ 92,866,085	\$ 248,921,085

* Outstanding bonds include 2003, 2005, 2009 and 2011 Bonds.

In January 2013, Everett Utilities re-financed \$62.1 million water and sewer revenue refunding bonds and defeased 2003 revenue bonds and a portion of 2005 revenue bonds resulting to a net present value savings of \$10.5 million.

2012 Financial Status

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

In 2012, the outstanding Public Works Trust Fund Loans and State Revolving Fund Loans of \$33.5 million have interest rates ranging from 0.3 percent to 3 percent. There are other loans payable of \$600,000.

YEAR	PRINCIPAL	INTEREST	ANNUAL REQUIREMENT*
2013	3,474,615	420,652	3,895,267
2014	2,702,986	325,929	3,028,915
2015	2,542,766	296,639	2,839,405
2016	2,514,949	270,007	2,784,956
2017	2,514,949	243,653	2,758,602
2018-2022	12,222,698	823,402	13,046,100
2023-2027	7,487,931	268,899	7,756,830
2028-2032	655,588	21,451	677,039
2033	25,015	125	25,140
TOTAL	\$ 34,141,497	\$ 2,670,757	\$ 36,812,254

* Outstanding public trust loans include 1993, 1994, 1995, 2001, 2003, 2005, 2006, and 2011 loans. Outstanding SRF loans include 2004, 2005, 2006, 2007, 2009 and 2010 loans.

Capital Improvement Projects

Everett Utilities spent \$24.7 million on capital improvement projects in 2012. These programs were financed from a combination of capital contributions, revenues from operations, government loans, revenue bonds and capital grants. The year ended with \$58.5 million in unrestricted cash and investment balances. The overall strong financial performance of Everett Utilities ensures future funding for capital projects.

Major capital asset investment included (in millions):

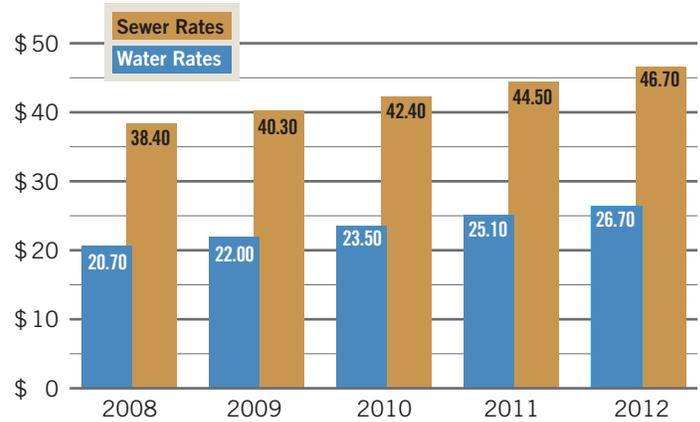
Water Transmission Line No. 5 Pile Replacement on Skipleigh Road	\$3.7
Lift Station No. 24 Emergency Force Main Replacement	\$3.2
Water Transmission Line No. 3 Replacement Phase 7	\$2.9
** EWPCF Expansion Phase B	\$2.1
Water Transmission Line No. 4 Cathodic Protection	\$1.2
Lift Station No. 2 Force Main Extension	\$1.1

** EWPCF = Everett Water Pollution Control Facility

Historical Rates

The single-family flat rate for water increased by \$1.60 or 6.4 percent, from \$25.10 to \$26.70 per month in 2012 to cover increased water O&M and capital costs.

The sewer flat rate increased by \$2.20 or 4.9 percent from \$44.50 to \$46.70 per month in 2012.



Major Water Customers

The six largest water customers in the Everett Water Service Area account for more than 94.6 percent of the 2012 water service revenues (in thousands of dollars):

CUSTOMER	REVENUE
Everett Retail Customers	\$ 13,604
Alderwood Water & Wastewater District	10,583
PUD No. 1 of Snohomish County	1,903
City of Marysville	1,364
City of Monroe	909
Mukilteo Water & Wastewater District	801
TOTAL	\$ 29,164

Major Sewer Customers

2012 sewer revenues came primarily from four service areas serviced by the Everett Water Pollution Control Facility (in thousands of dollars):

CUSTOMER	REVENUE
City of Everett Customers	\$ 25,462
Silver Lake Water & Sewer District	4,535
Alderwood Water & Wastewater District	1,952
Mukilteo Water & Wastewater District	684
TOTAL	\$ 32,633



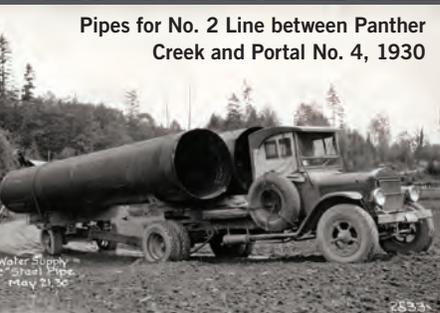
East Portal Tunnel, 1929



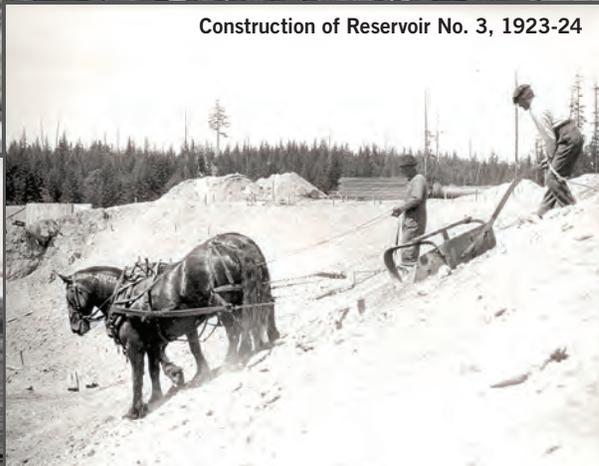
Tunnel No. 1 Lining Project, 1952



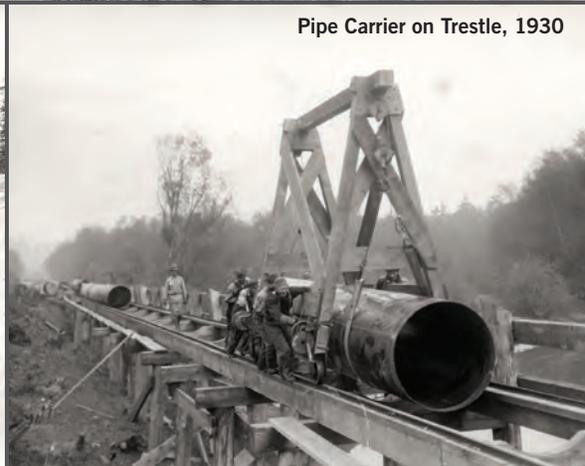
Repairing Slide Damage Near Headworks, 1953



Pipes for No. 2 Line between Panther Creek and Portal No. 4, 1930



Construction of Reservoir No. 3, 1923-24



Pipe Carrier on Trestle, 1930

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