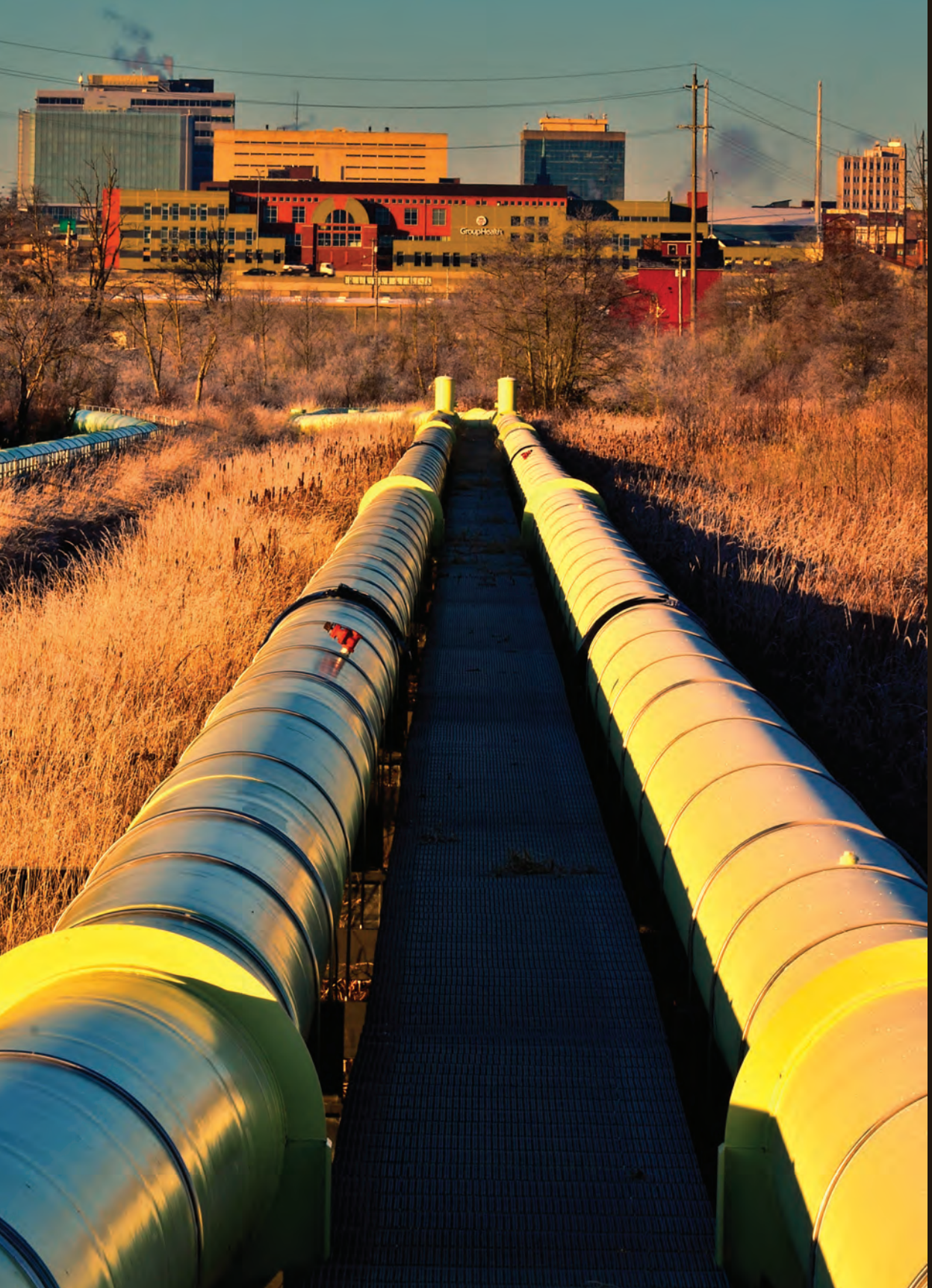
City of Everett Public Works Department

UTILITIES ANNUAL REPORT

2013



EVERETT

2013 Utilities Annual Report

Contents

Director's Message

The City of Everett's Utilities Division is committed to providing the very best water, sewer and surface water services at the lowest cost possible. This report presents our 2013 operating results. I hope you find it informative.

Preserving a healthy fiscal position, while methodically improving capital facilities, helps us meet current and future needs. In 2013, Everett Utilities maintained a Standard and Poor's bond rating of AA+. Careful financial management was one of several factors cited by Standard and Poor's for this rating.

Our water and sewer comprehensive plans are integral parts of our financial management. They allow us to evaluate critical infrastructure and plan for its maintenance, replacement and expansion. In 2013, we started updating these plans and expect to complete them in 2014.

Another component of our success is the excellent leadership of Mayor Ray Stephanson and the Everett City Council. Additionally, our dedicated staff provides outstanding customer service and works hard to get the job done in the most cost-effective and efficient way possible. This combination provides a firm foundation for responding to new financial challenges.

Sincerely,

Dave Davis
Public Works director

CONTRIBUTORS:

Editor: Lori Tobin • **Cover Photo, Water Transmission Pipelines No. 2, 3 and 4:** Matt Welborn • **Inside Photos:** Lori Tobin • **Dave Davis portrait:** Forest Park Studio, Mark Somers

Water Service

During the last century, the Everett water system has grown from a simple localized system that supplied water to the residents of Everett, to a vital regional water provider. The Everett water system now supplies water to an estimated 566,000 residents of Snohomish County through a network of water providers.

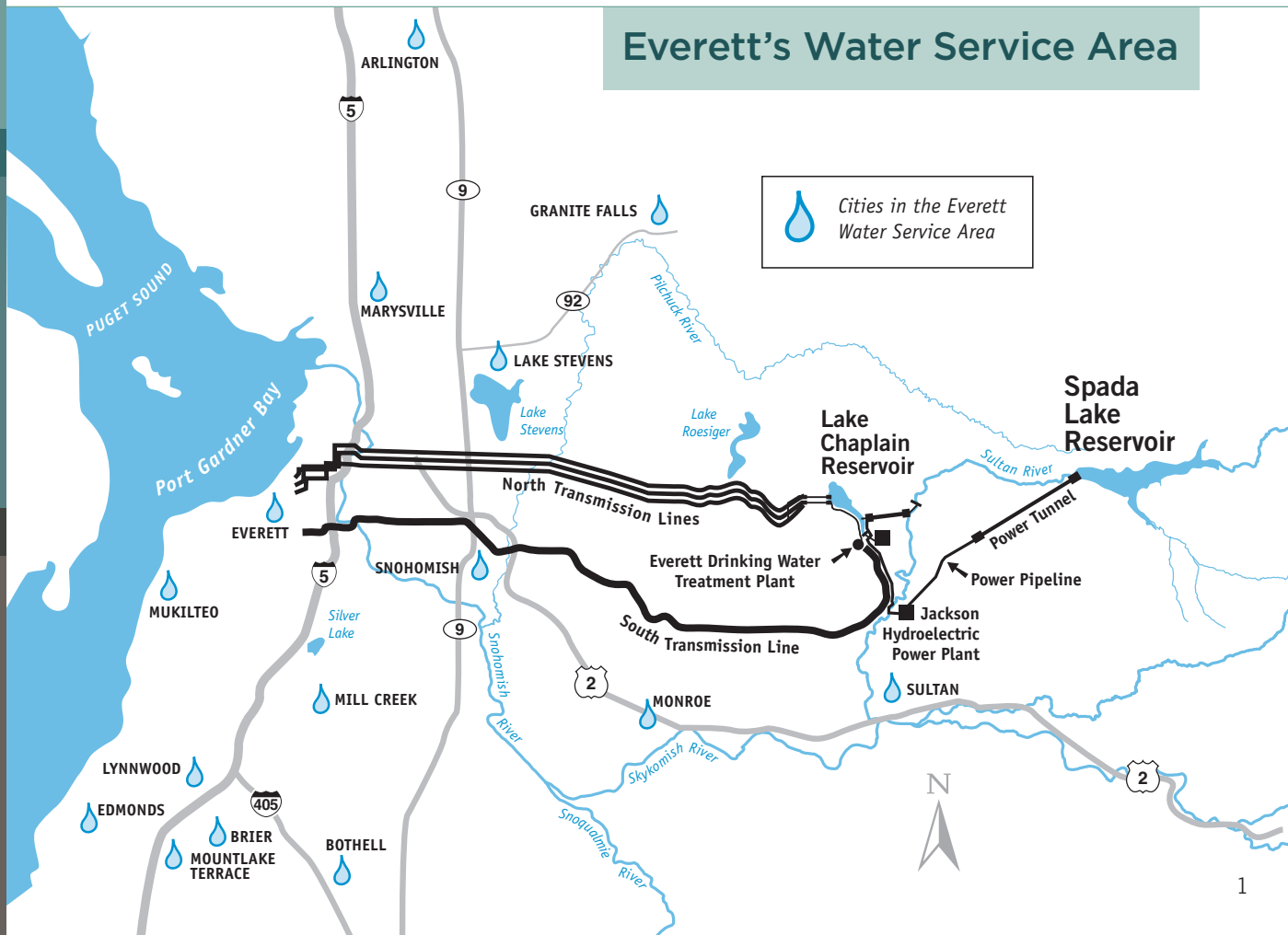
Major components of the Everett water system include:

- 50-billion-gallon Spada Lake water storage reservoir,
- 4.5-billion-gallon Lake Chaplain water storage reservoir,
- 132-million-gallons-per-day (MGD) Everett Drinking Water Treatment Plant,
- four water transmission pipelines with a combined transmission capacity of 200 MGD, and
- distribution pipelines, water tanks and reservoirs to serve in-city customers.

The City of Everett has water rights for the withdrawal of up to 255 MGD of water from the Sultan River system and a pending water right application for an additional 129 MGD.

Everett's Utilities Division works in partnership with local 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.

Everett's Water Service Area



Water Service

Everett Drinking Water Treatment Plant

From Reservoir to Treatment

The source of Everett's water, the Upper Sultan River Watershed, covers more than 80 square miles and receives an average annual rainfall of about 165 inches. To protect the naturally occurring pristine water quality, access to sensitive portions of the area is restricted and activities are limited.

Located about 30 miles east of Everett is Spada Lake Reservoir, which collects water from precipitation that falls in the Upper Sultan River Watershed. Some of this water is piped from Spada Lake Reservoir to the Jackson Hydroelectric Power Plant, owned and operated by the PUD No. 1 of Snohomish County. The power plant generates about five percent of the electricity used in Snohomish County.

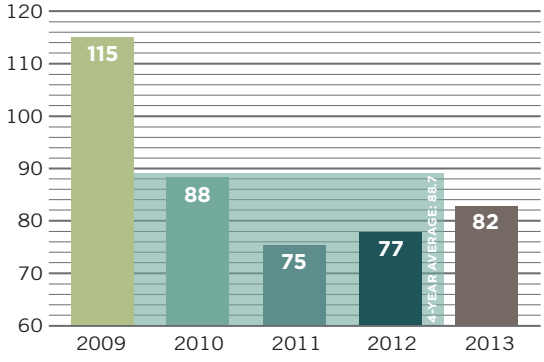
After traveling through the turbine-generators at the power plant, most of the water is returned directly to the Sultan River to maintain fish flows and support the river's ecosystem. The remainder of the water travels through a pipeline to supply Lake Chaplain Reservoir. When Lake Chaplain Reservoir is at an optimum level, the extra water is returned to the Sultan River for additional fishery management.

Lake Chaplain Reservoir is where the drinking water treatment process begins. As water sits in the reservoir, heavy particles, or sediments, settle to the bottom. Next water is piped into the Everett Drinking Water Treatment Plant and treated using coagulation, flocculation, filtration and disinfection.

Peak Day Demand for Drinking Water

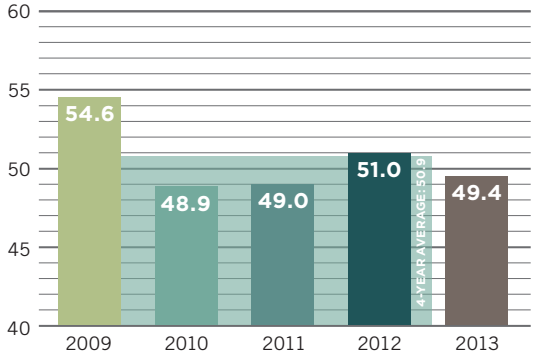
MILLION GALLONS PER DAY (MGD)

In 2013, the peak day demand occurred in September at 82.4 MGD. This was a 6.6 percent increase from the 2012 peak day demand of 77 MGD and a 7.6 percent decrease from the 2009 to 2012 average peak day demand of 88.7 MGD. Peak day demand fluctuations are due to temperature and rainfall variations.



Average Daily Production of Drinking Water *MILLION GALLONS PER DAY (MGD)*

The Everett Drinking Water Treatment Plant produced an average of 49.4 MGD of water in 2013, which was a 3.2 percent decrease from the 51 MGD produced in 2012 and a 3 percent decrease from the previous four-year average of 50.9 MGD.



Treatment Process Highlights

Water from Lake Chaplain Reservoir flows into large channels where aluminum sulfate is added to cause suspended particles to clump together so they can be removed. If needed, large paddles circulate the water to speed up the clumping process. This is called flocculation.

From the flocculation basin, water flows through large water filters containing anthracite coal. Each of these filters can process about 700,000 gallons of water per hour. At its current permitted limit, the Everett Drinking Water Treatment Plant can process up to 132 million gallons of water per day.

Each filter is cleaned every 48 hours under normal operations. Filters are cleaned more frequently during times of the year when algae or other materials are present in the water.

After filtration, the water flows into one of two holding reservoirs called clearwells. Three things are added to the water as it flows into the clearwells:

- sodium hypochlorite (high-test chlorine bleach) to disinfect the water and kill any disease causing microorganisms.
- soda ash to raise the pH of the water so it is less acidic. Low pH water is corrosive and can damage household plumbing.
- fluoride to improve dental health. Health agencies recommend and Everett voters approved the use of fluoride.

When the water leaves the clearwells, it travels through large water transmission pipelines to Everett. From the transmission pipelines and reservoirs in Everett, water is distributed to wholesale and retail water customers throughout Snohomish County.

Flocculation Basin

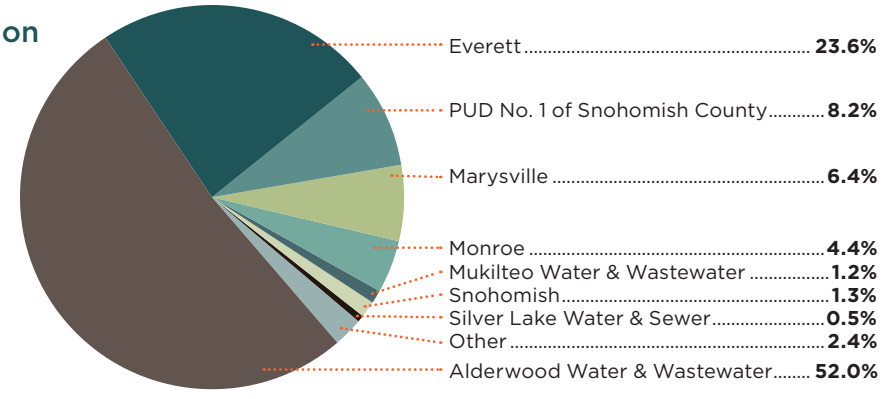
Water Filter

Sodium Hypochlorite Tanks

Drinking Water Distribution

(PERCENT OF DEMAND)

Eight water systems accounted for 97.6 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 2.4 percent was used by small water districts and associations.



Sewer Service

Everett Water Pollution Control Facility

Everett's first sewers were constructed in 1890. Following the passage of a sewer bond election in 1897, construction of a citywide system began. This original, north-end sewer system is a combined sewer system that carries sewage and stormwater to the Everett Water Pollution Control Facility (EWPCF) for treatment.

As Everett grew to the south, additional sewer capacity was needed. This newer system was designed as a separated sewer system. In a separated system, stormwater and surface water runoff is carried in pipelines to a discharge point and sewage is carried in other separate pipelines to the EWPCF for treatment.

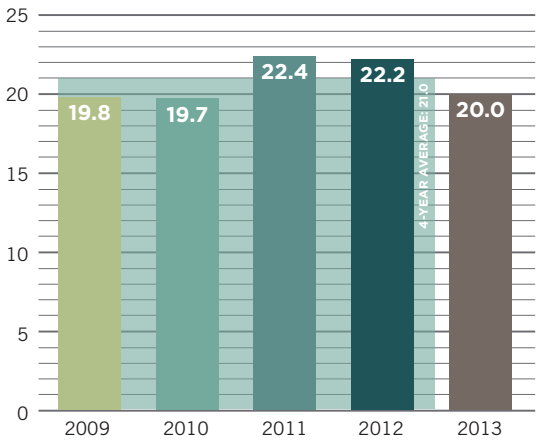
The EWPCF serves more than 160,000 people and has a total hydraulic treatment capacity of 33 million gallons per day (MGD). Sewage is conveyed through approximately 334 miles of sewer mains, interceptors, laterals and 33 lift stations to the EWPCF. Everett also treats a portion of the sewage from three neighboring sewer systems: Mukilteo Water and Wastewater District, Alderwood Water and Wastewater District and Silver Lake Water and Sewer District.

The EWPCF is unique in that it has two parallel systems for secondary treatment: a pond (lagoon) system and a mechanical system. 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 pond system. The mechanical plant treats up to 18 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 (MGD)

In 2013, the EWPCF processed an average of 20 MGD of wastewater—a decrease of 11 percent from the 22.2 MGD processed in 2012 and a 5.1 percent decrease from the previous four-year average of 21 MGD. The lagoon system accounted for about 51 percent and the mechanical system for about 49 percent of the discharge.



Secondary Treatment: Mechanical Process Highlights

In Everett's mechanical treatment process, wastewater enters the biological trickling filters and is sprayed onto plastic media, where microorganisms grow and consume pollutants as it trickles down through the media. Then the wastewater flows into aeration tanks. Blowers in these tanks inject oxygen into the wastewater to keep the microorganisms as active as possible while they continue digesting the pollutants.

Next, wastewater flows into secondary clarifiers where the flow of the wastewater is slowed, allowing microorganisms and suspended solids to settle to the bottom of the clarifiers. From this point, most of the microorganisms that settle to the bottom are recycled back to the aeration tanks, however some of them are sent to the aeration ponds. Wherever they are routed, they continue the important function of digesting pollutants.

From the clarifiers, wastewater flows into the south contact channel, where it is disinfected using sodium hypochlorite. Following disinfection, treated wastewater is sent through a pipeline to a deep-water outfall in Puget Sound.

Maintenance and Operations

The Everett Utilities Division owns and maintains approximately 334 miles of sewer mains (not including side-sewer lengths) and 33 sewage lift stations.

In 2013, the following sewage collection system operation and maintenance activities were accomplished:

- cleaned and maintained one-seventh of the sewer mains totaling about 48 miles,
- cleaned and inspected inlets within the combined sewer area,
- completed prioritized repairs and rehabilitation of sewer mains and side-sewers, and
- remotely operated and monitored sewage lift stations 24/7.

Biological Trickling Filter

Aeration Tank

Secondary Clarifier

Surface and Stormwater Service

Program Development and Implementation

Clean surface water is an important natural resource essential for public health and the economy. Water pollution reduces the quality of surface water, sometimes making it unsafe for beneficial uses.

The city of Everett is a community with abundant natural resources including about 42.8 square miles of land and water with 17 drainage basins. To protect these resources Everett conducts activities designed to reduce and prevent water pollution. These activities help us meet the requirements of our Phase II National Pollutant Discharge Elimination System (NPDES) Municipal Stormwater Permit issued by the Washington State Department of Ecology.

In 2013, Everett continued the development of a Surface Water Comprehensive Plan. The plan identifies and prioritizes flooding, water quality and habitat issues for each drainage basin. Based on this, Everett received grant money that is being used to retrofit outdated stormwater facilities.

In the fall of 2013, Everett launched the *Let it Rain* program. This program utilizes green stormwater infrastructure (GSI) techniques to help homeowners manage rainwater on their property. Components of the GSI program include installing rain gardens, using rain barrels and disconnecting downspouts. These measures allow the flow of rainwater to slow-down, spread-out, and soak into the ground, which lessens its impact on the storm and sewer system.

Other significant activities related to surface and stormwater that were completed in 2013 include:

- collected ambient water quality data on Everett's lakes and streams,
- held workshops on rain gardens and natural yard care that were attended by about 400 people,
- held 80 classroom workshops on surface water quality and watershed protection that reached about 1,250 students,
- targeted 644 businesses with charity car wash educational material,
- inspected stormwater systems on private property and required systems to be cleaned where needed to function as designed, and
- inspected 121 detention ponds, 101 detention pipes, 71 detention vaults, 41 bioswales, 18 oil and water separators, 781 ditches, 350 culverts and 900 catch basins in the storm drainage system and provided maintenance as needed.

Volunteers Help Protect Water Quality

Marking storm drains and removing street-side litter and pet waste help protect surface water quality in Everett. The City of Everett operates programs that encourage the reduction of nonpoint source pollutants by recruiting volunteers who:

- remove street-side litter—Adopt-a-Street program,
- stock dispensers with pet waste bags—Mutt Mitt program, and
- label storm drains *Puget Sound Starts Here*—storm drain stenciling program.

In 2013, volunteers:

- removed 649 bags of litter from 43.5 miles of street-sides,
- filled 56 Mutt Mitt stations to encourage pet waste removal,
- marked 16 storm drains, and
- donated 1,426 hours.

Demonstration Rain Gardens on Lombard Avenue

Conservation

In 2003, the Washington State Legislature passed the Municipal Water Law to help protect and conserve our precious water resources. 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. This program is planned and developed with the water systems we serve and funded from water system revenues.

Over the last decade, more than $6.5 million has been expended on regional water conservation activities. This includes things such as: youth education, indoor and outdoor water conservation kits, rebates for water-efficient clothes washers and toilets, leak detection, business water audits and school irrigation audits. Through these efforts, we collectively saved about 3.6 million gallons per day (MGD).

The regional conservation program is planned and implemented in six-year cycles, as part of Everett's comprehensive water plan, which is submitted to the Department of Health every six years. The first plan covered the period from 2001 through 2006, the second from 2007 through 2012. Everett is currently in the process of updating its comprehensive water plan and identifying the conservation activities that will be implemented through 2019.

In the interim, regional conservation efforts are focused on youth education and the distribution of conservation kits. In 2013, 650 water conservation workshops were conducted in classrooms throughout Snohomish County, reaching more than 17,300 students. In addition, participating water systems distributed more than 3,000 indoor conservation kits and 4,400 outdoor conservation kits. These 2013 activities are estimated to have saved about 0.72 MGD regionally.

Right: At the "Project WET" workshop, teachers learn how to teach about the competing demands for water.

Bottom: Teachers at the "Project WET" workshop decide where to locate drinking water and sewer pipelines using best management practices.

Comprehensive Plan Updates

2014 Addendum to the 2007 Comprehensive Water Plan

Everett submits a comprehensive water plan to the State of Washington Department of Health every six years. The last plan was submitted in 2007 and approved in January 2008. In 2013, Everett Utilities began updating the 2007 plan via an addendum to that plan. The city's contractor, HDR Engineering, Inc., prepared the 2007 plan and they are also preparing the update.

In addition to working with HDR, in April 2013, Everett staff began working on the addendum with a subcommittee of the Everett Water Utility Committee (EWUC). Members of the subcommittee represent Alderwood Water and Wastewater District, Silver Lake Water and Sewer District, PUD No. 1 of Snohomish County, the City of Marysville, Tulalip Tribes and Snohomish County.

Some of the topics that are being studied in the preparation of the addendum include:

- the impact of Kimberly-Clark Corp. closing their Everett facility,
- what to do with Water Transmission Pipeline No. 4—the pipeline that supplied non-potable water to the Kimberly-Clark Corp. facility,
- what to do with Reservoir No. 4—the reservoir that supplied non-potable water to the Kimberly-Clark Corp. facility, and
- the need and potential location for a Water Transmission Pipeline No. 6.

The 2014 Addendum to the 2007 Comprehensive Water Plan will be completed in 2014.

Comprehensive Sewer Plan Update

In 2013, Everett began developing a new comprehensive sewer plan. This plan will be used to provide guidance on implementing infrastructure improvements to Everett's existing sewer facilities. The primary timeframe of the new plan is the years 2013 through 2018, however the plan includes additional future six-year focus points through 2036.

City leaders and staff will use the new comprehensive sewer plan to assist them in decision-making to meet various sewer service needs, including capacity and condition-related areas of concern.

The goals of the new comprehensive sewer plan are to:

- define level-of-service goals,
- evaluate and recommend green stormwater infrastructure (GSI) projects,
- reduce basement flooding to the greatest extent possible,
- incorporate impacts of climate change in the planning of facilities,
- provide a cost-efficient and prioritized capital improvement plan with a primary goal of minimizing sewer backups into basements,
- develop a financing plan for the recommended improvements and assess potential impacts on utility rates, and
- comply with applicable federal, state and local regulations, policies and planning requirements.

The new plan will be completed in 2014.

2013 Financial Status

Financial Summary

The Everett 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 industry.

Operating revenues are primarily derived from wholesale and retail sales of water and sewer services. Other revenues are generated from connection charges, capital contributions, interest earnings on reserve balances, and grant proceeds. Total operating revenues increased 5.8 percent from $64.1 million in 2012 to $67.8 million in 2013.

In 2013, Everett Utilities realized a 5.2 percent increase in operating revenues for water service. This increase in water revenues was attributed to a 15.5 percent water rate increase and a 3.5 percent filtration rate increase. These rate increases were due to revenue losses caused by the closure of the Kimberly-Clark Corp. facility and changing consumption patterns of other water customers.

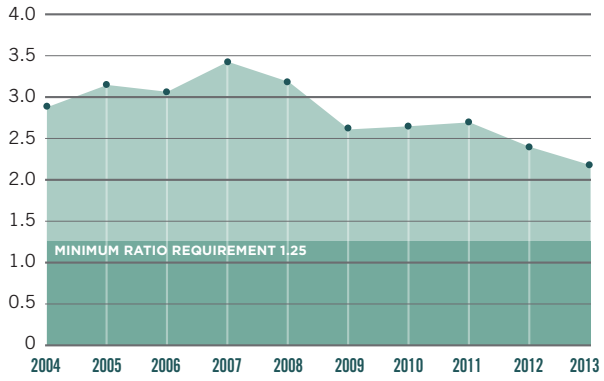
Sewer revenues increased from $32.8 million in 2012 to $34.9 million in 2013, a 6.4 percent increase. This increase in sewer revenues is attributed to a 2.8 percent rate increase for retail customers and a 7.1 percent rate increase for wholesale customers.

Capital contributions increased by $800,000 or 27.6 percent, to $3.8 million in 2013. This is primarily credited to increased wholesale contributions for sewer construction.

Capital and operating expenditures consist of capital improvements, debt service, and operations and maintenance. Capital expenditures totaled $13.3 million and debt service totaled $13.3 million in 2013. Total operating expenses increased by $3.1 million, or 5.9 percent in 2013.

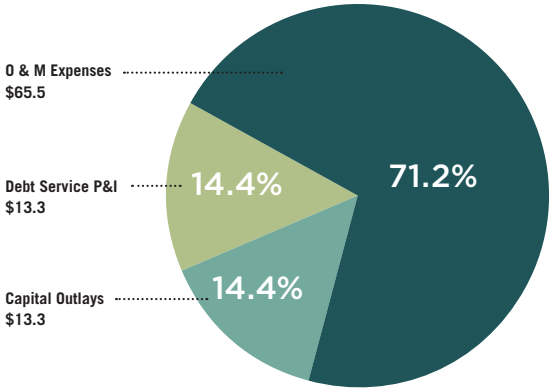
Overall, Utilities Division senior lien debt service coverage continues to remain strong at 2.16 in 2013, in excess of the 1.25 bond requirements.

Debt Service Coverage: Last 10 Years



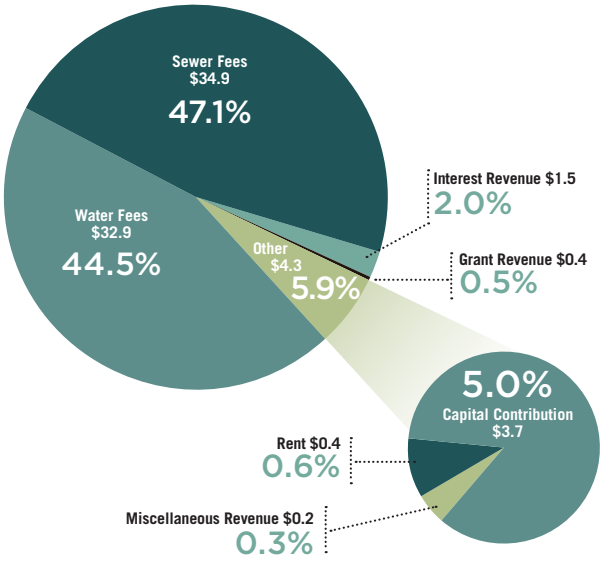
2013 Total Expenses

(MILLIONS OF DOLLARS)



2013 Total Revenues

(MILLIONS OF DOLLARS)



2013 Financial Status

Statement of Operations

From January 1, 2011 to December 31, 2013

	2011	2012	2013*
OPERATING REVENUES			
Charges for Services			
Water	$ 29,982,137	$ 31,282,950	$ 32,918,245
Sewer	31,265,948	32,837,412	34,874,789
Total Charges for Services	**61,248,085**	**64,120,362**	**67,793,034**
OPERATING EXPENSES			
Personnel Services	18,551,314	20,165,443	20,739,370
Supplies	3,682,536	3,619,446	3,929,793
Professional Services	3,737,373	6,967,366	5,381,561
Depreciation/Amortization	11,108,348	12,180,388	12,463,722
Taxes	1,376,056	1,441,682	2,288,671
Outside/Intragovernmental Services	9,896,884	8,579,122	11,298,285
Total Operating Expenses	**48,352,511**	**52,953,447**	**56,101,402**
OPERATING INCOME	**12,895,574**	**11,166,915**	**11,691,632**
NON OPERATING REVENUES (EXPENSES)			
Grant Revenue	29,395	214,893	364,244
Interest Revenue	3,031,842	1,244,198	(2,465,025)
Rent	448,283	453,030	435,604
Equity in Income (Loss) of Joint Venture	-	(548,149)	-
Other Non-Operating Rev.	455,970	159,051	125,111
Gain (Loss) on Sale of Assets**	171,380	855,039	60,198
Interest Expense	(5,522,085)	(5,392,358)	(6,547,948)
Other Non-Operating Expense	-	-	-
Total Non-Operating Revenue (Expense)	**(1,385,215)**	**(3,014,296)**	**(8,027,816)**
Income Before Contributions and Transfers	**11,510,359**	**8,152,619**	**3,663,816**
Capital Contributions	2,195,601	2,858,868	3,720,289
Special items	-	-	-
Operating transfers In (Out)	(3,693,600)	(3,808,625)	(3,692,400)
NET INCOME	**10,012,360**	**7,202,862**	**3,691,705**
Net Equity - Beginning	**354,813,169**	**363,393,237**	**370,596,100**
Prior Period Adjustments	(1,432,292)	-	(1,694,120)
NET EQUITY - ENDING	**$ 363,393,237**	**$ 370,596,100**	**$ 372,593,685**

* *For the year ended December 31, 2013 (unaudited)*
** *Sale of Surplus Property*

Balance Sheet

December 31, 2011 to 2013

	2011	2012	2013*
CURRENT ASSETS			
Cash & Cash Equivalents	$ 17,880,033	$ 9,594,736	$ 8,372,662
Investments	50,673,726	48,917,084	47,447,542
Receivables	9,650,955	6,264,905	5,902,041
Prepayments	217,000	4,686,236	3,808,737
Inventory	586,741	748,415	921,945
Total Current Assets	**79,008,455**	**70,211,376**	**66,452,927**
RESTRICTED ASSETS			
Cash & Cash Equivalents	6,791,560	4,882,705	2,992,001
Investments	8,215,799	9,906,886	10,165,842
Total Restricted Assets	**15,007,359**	**14,789,591**	**13,157,843**
FIXED ASSETS			
Plant & Equipment - Net	424,928,713	438,072,407	470,133,712
Construction in Progress	52,501,960	49,002,718	17,922,247
Total Fixed Assets	**477,430,673**	**487,075,125**	**488,055,959**
Other Non-Current Assets	**3,069,452**	**2,368,761**	**671,852**
TOTAL ASSETS	**$ 574,515,939**	**$ 574,444,853**	**$ 568,338,581**
Deferred Outflow of Resources**			
Refunding of Debt	-	-	1,843,078
Total Assets and Deferred Outflow of Resources	**$ 574,515,939**	**$ 574,444,853**	**$ 570,181,659**
LIABILITIES			
Current			
Current Debt	$ 9,518,905	$ 8,883,922	$ 9,188,288
Accounts Payable	3,157,877	3,082,534	2,062,229
Employee Ben. Pay.	1,443,409	1,636,583	1,841,626
Total Current	**14,120,191**	**13,603,039**	**13,092,143**
Non-Current Liabilities			
Long Term Obligations	196,457,928	189,630,584	183,859,699
Other Non-Current Liabilities	541,794	613,621	636,132
Deferred Revenues	2,789	1,509	-
Total Long Term Liabilities	**197,002,511**	**190,245,714**	**184,495,831**
TOTAL LIABILITIES	**211,122,702**	**203,848,753**	**197,587,974**
FUND EQUITY			
Capital assets, net of debt	299,909,578	297,003,579	296,810,872
Retained Earnings			
Reserved-Restricted Assets	15,063,107	14,792,111	13,160,363
Unreserved	48,420,552	58,800,410	62,622,450
Total Retained Earnings	**63,483,659**	**73,592,521**	**75,782,813**
Total Fund Equity	**363,393,237**	**370,596,100**	**372,593,685**
TOTAL EQUITY / LIABILITIES	**$ 574,515,939**	**$ 574,444,853**	**$ 570,181,659**

* *For the year ended December 31, 2013 (unaudited)*
** *New requirement for the year ended December 31, 2013*

2013 Financial Status

Historical Operating Results

	2011	2012	2013*
OPERATING REVENUE			
Charges for Services:			
Water	$ 29,982	$ 31,283	$ 32,918
Sewer	31,266	32,837	34,875
Total Operating Revenues	**$ 61,248**	**$ 64,120**	**$ 67,793**
OPERATING EXPENSES**			
Wages	18,551	20,165	20,739
Supplies	3,683	3,619	3,930
Professional Services	3,737	6,967	5,382
State Taxes	1,376	1,442	2,289
Outside/Intragovernmental Services	9,897	8,579	11,298
Total Operating Expenses	**37,244**	**40,772**	**43,638**
NET OPERATING REVENUE	**$ 24,004**	**$ 23,348**	**$ 24,155**
OTHER REVENUE (EXPENSE)			
Grant Revenue	$ 29	$ 215	$ 364
Investment Income (Expense)***	3,032	1,244	(2,465)
Non-Bond Interest	(693)	(964)	(377)
Rent	448	453	436
Other Revenue	456	159	125
Timber Sales	150	848	-
LID/ULID Assessments	-	-	-
Other Non-Operating Expenses	-	-	-
Gain (Loss) on Sale of Assets	21	7	60
Total Other Revenue	**$ 3,443**	**$ 1,962**	**$ (1,857)**
TOTAL AVAILABLE FOR DEBT SERVICE	**$ 27,447**	**$ 25,310**	**$ 22,298**
DEBT SERVICE REQUIREMENTS			
Existing Senior Parity Debt Service	10,156	11,001	10,313
Existing PWTF, SRF and Other Loans**	4,686	4,580	3,896
Total Debt Service	**14,842**	**15,581**	**14,209**
Ratio Required by Covenants	1.25	1.25	1.25
Parity Lien Debt Service Coverage Ratio	2.70	2.30	2.16
Total Debt Service Coverage Ratio****	1.85	1.62	1.57
Less: Payment in Lieu of Taxes**	**3,694**	**3,810**	**3,692**
ENDING BALANCE AVAILABLE	**$ 8,911**	**$ 5,919**	**$ 4,397**

* *In thousands of dollars for the year ended December 31, 2013 (unaudited)*
** *Total expenses are exclusive of depreciation, payments in lieu of taxes and bond interest.*
*** *The 2013 figure includes a change in the Fair Value of Invesments.*
**** *The junior lien debt includes the Public Works Trust Fund (PWTF), State Revolving Fund (SRF) and other loans.*

NOTE: Debt Service Coverage only handles Operating Expenses.

NOTES TO FINANCIAL STATEMENTS

Utilities Sustained Bond Rating

The Everett Utilities Division was successful in maintaining its bond rating with Standard and Poor's Rating Services at AA+ in 2013. They noted that the Utilities Division has favorable financial performance, debt coverage and liquidity level, strong financial management, and 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, 2013, the Utilities Division had the following outstanding debts (excluding interest): $147.9 million of water and sewer revenue bonds, and $32.1 million of Public Works Trust Fund and State Revolving Fund loans. The City has set aside cash reserves of $2 million, deposited with the trustees, as insurance for our outstanding bond issuance and $1 million to finance the redemption funds and annual debt service requirements. Additionally, the City complies with all significant limitations and restrictions as disclosed in the bond covenants. The City is required by its bond covenant to maintain debt service coverage of 1.25.

Annual Debt Service

Senior Parity Bonds

YEAR	PRINCIPAL	INTEREST	ANNUAL REQUIREMENT*
2014	4,915,000	6,620,651	11,535,651
2015	5,125,000	6,409,526	11,534,526
2016	5,370,000	6,164,726	11,534,726
2017	5,600,000	5,938,626	11,538,626
2018	5,825,000	5,710,351	11,535,351
2019-2023	33,710,000	23,979,306	57,689,306
2024-2028	42,790,000	15,483,503	58,273,503
2029-2033	37,445,000	6,271,820	43,716,820
2034	3,465,000	355,000	3,820,000
2035	3,635,000	181,750	3,816,750
TOTAL	**$ 156,055,000**	**$ 77,115,260**	**$ 224,995,260**

** Outstanding bonds include 2005, 2009, 20011 and 2013 Bonds.*

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

2013 Financial Status

Public Works Trust Fund (PWTF) Loans, State Revolving Fund (SRF) Loans and Proprietary Fund Lease

In 2013, the outstanding PWTF Loans and SRF Loans of $32.1 million have interest rates ranging from 0.3 percent to 3 percent.

YEAR	PRINCIPAL	INTEREST	ANNUAL REQUIREMENT*
2014	2,803,596	329,762	$ 3,133,358
2015	2,618,362	303,318	2,921,679
2016	2,590,545	276,308	2,866,852
2017	2,590,545	249,576	2,840,121
2018	2,590,545	222,844	2,813,389
2019-2023	12,270,798	719,441	12,990,239
2024-2028	6,034,694	201,336,	6,236,031
2029-2032	604,112	13,611	617,723
TOTAL	**$ 32,103,196**	**$ 2,316,196**	**$ 34,419,392**

** Outstanding PWTF include 1993, 1994, 1995, 2001, 2003, 2005, 2006, and 2013 loans. Outstanding SRF loans include 2004, 2005, 2006, 2007, 2009 and 2010 loans.*

Capital Improvement Projects

Utilities spent $12.3 million on capital improvement projects in 2013. These programs were financed from a combination of capital contributions, revenues from operations, government loans, revenue bonds and capital grants. The year ended with $55.8 million in unrestricted cash and investment balances. The overall strong financial performance of the Utilities Division ensures future funding for capital projects.

Major capital asset investment included (in millions):

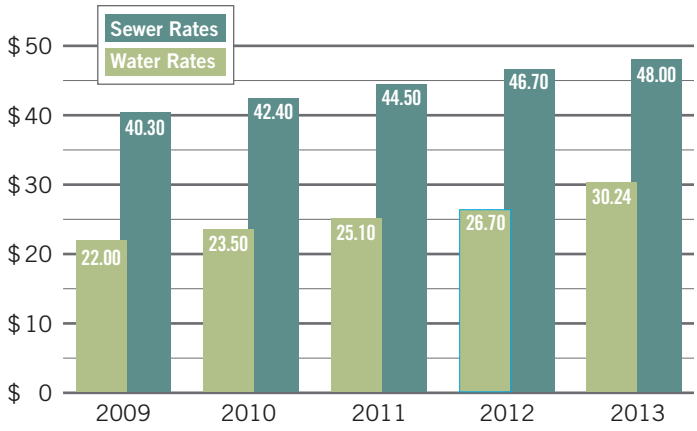
Water Transmission Pipeline No. 3 Phase 7	$ 6.4
** EWPCF Expansion Phase B	$ 5.5
Sewer Lift Station No. 24 Emergency Force Main Replacement	$ 3.5
Water Main Improvement Project K	$ 3.1
112th Street SE Road Widening, from I-5 to 19th Avenue SE	$ 1.3

*** EWPCF: Everett Water Pollution Control Facility*

Historical Rates

For single-family customers, the water flat rate increased by $3.54, or 13.3 percent, from $26.70 to $30.24 per month in 2013 to cover increased water O&M and capital costs.

The sewer flat rate increased by $1.30, or 2.8 percent, from $46.70 to $48.00 per month in 2013.



Major Water Customers

The six largest water customers in the Everett Water Service Area accounted for more than 91.7 percent of the 2013 water service revenues (in thousands of dollars):

CUSTOMER	REVENUE
Everett Retail Customers	$ 15,589
Alderwood Water & Wastewater District	9,790
PUD No. 1 of Snohomish County	1,842
City of Marysville	1,502
City of Monroe	963
Mukilteo Water & Wastewater District	492
TOTAL	**$ 30,178**

Major Sewer Customers

The Everett Water Pollution Control Facility provided treatment services primarily to four service areas in 2013 (in thousands of dollars):

CUSTOMER	REVENUE
City of Everett Customers	$ 18,981
Silver Lake Water & Sewer District	4,518
Alderwood Water & Wastewater District	1,752
Mukilteo Water & Wastewater District	558
TOTAL	**$ 25,809**

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