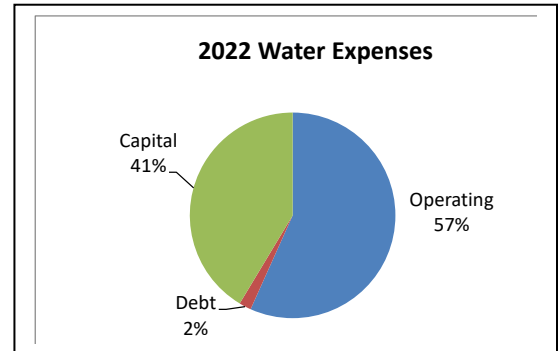


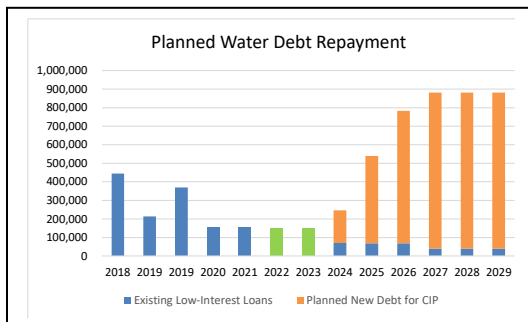


CROSS VALLEY WATER DISTRICT 2022-23 WATER RATE OUTLOOK (Board Adopted Rates, 12/7/21)

Cross Valley have been updating the Water System Plan (WSP), as required by the Washington State Department of Health, that evaluates service, capacity and growth over the next 20 years to continue to provide safe, reliable, drinking water for years into the future. The 2022-23 rate outlook includes the investments and improvements recommended in the WSP, With recent development activity, Cross Valley has built up reserves that will help in funding many of the improvements, such as the water treatment plant upgrades, however some new borrowing is required for the 640 zone east water main, reservoir at Lee Forest, and SR 9 west side improvements. The first pie chart shows the anticipated 2022 water expenses in three slices. The operating and debt slices are 59% of the \$8 million in expenses, with capital investment in the system at 41%. A six-year outlook was developed with rates focused on 2022-23.



Operations – The operating expenses are expected to increase over the next two years to include inflation in costs, purchased water and adjusting the staffing with key retirements. Together the new meters and leak detection equipment are identifying leaks more quickly to reduce costs and conserve resources. The District has its own wells and purchases water from the joint Clearview Water Supply Agency (CWSA) of which they are an owner, the City of Everett and a small amount from Silver Lake. CWSA also purchases water from the City of Everett at a lower rate.

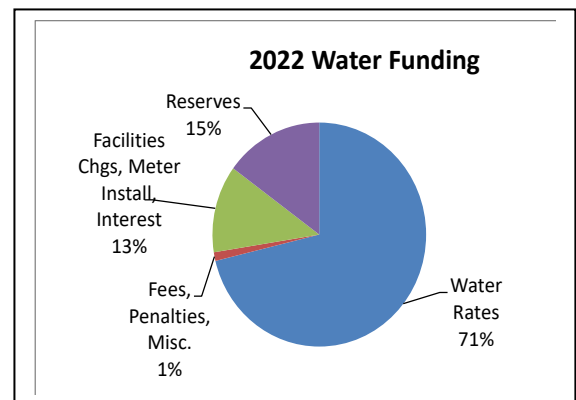


Debt Repayment – Cross Valley has been successful in obtaining low-interest loans from Washington State’s Public Works Trust Fund (PWTF) to complete major projects and is planning the same for construction of the 640 Zone East Main. Lee Forest reservoir and SR9 west side improvements. These projects have been identified for borrowing for construction as they are costly improvements that will serve the district beyond the life of the low interest loans. In 2024, Cross Valley will have paid off most significant loans and is fortunate to hold off on new debt until existing debt is low.

Capital Investment Program – As the system ages, the goal is to manage the system for continued safe, reliable water service, avoid large unplanned projects, and maintain stability in rates and revenues. Reserves have built up from new customers paying connection fees and from savings. Rates will continue to fund system replacement and investments on an annual basis, such as asbestos cement (AC) and undersized main replacement, culvert replacements with Snohomish County and WSDOT, CWSA improvements, PRV improvement program, well head protection program, and GIS/asset management programs.

Rate Outlook & Recommendation: 6.0% Annual Increase for 2022 & 2023

After reviewing the expense projections for savings, considering the anticipated increases in costs and the need to continue funding system replacement, a 6.0% annual rate increase is recommended to meet planned water expenses for 2022 & 2023. These rates continue to provide funding in every year to chip away at the highest priority needs, invest in the long-term sustainability of the water system and avoid drastic impacts on customers.





Impact on Average Single Family 2-Month Bill

The bimonthly base rate will increase \$3.60 to \$63.10 in 2022. After adding water charges, the typical single family using 1,600 cubic feet of water, will see an increase of about \$6.50 per 2-month bill for 2022, or about \$3.25 per month. See detailed water rates on page 4.

Water Rate Recommendation	2021	2022	2023
Average Single Family 2-Month Bill	\$107.23	\$113.74	\$120.61
<i>\$ Increase per 2-Mo. Bill</i>		\$6.51	\$6.87
Average Single Family per Month	\$53.62	\$56.87	\$60.31
<i>\$ Increase per Month</i>		\$3.26	\$3.44

Adjustment for Non-Residential Meters Larger than 5/8"

As the type of development in Cross Valley changes, particularly in the Maltby urban growth area, the base rates for larger meter sizes need to be updated to better reflect the demand placed on the system and be sure customers are paying a fair share. Cross Valley is taking the next step in adjusting the base rates for Non-Residential and Mixed Use/Other customer classes from 60% to 80% of American Water Works Association (AWWA) industry standard meter capacity factors. This means that base rates for larger meter sizes will increase more than for a 5/8" meter, which is a typical single family meter. The base rate for residential customers depends on the number of dwelling units, not the size of the meter. See details on proposed rates on page 4.

Capital Improvements Planned for 2022-23

There are \$4.48 million in capital improvements planned for 2022-23, about half and half paid for with rates and reserves, which include connection fees paid by new development. No new borrowing is anticipated for 2022-23, however the 640 Zone East Water Main (C-6) and a new reservoir at Lee Forest (C-10) will require borrowing for construction in 2024-26.

WATER CIP FUNDING:				
The following projects are included by identified funding source.				
#	Cross Valley Water Capital Improvements	Subtotal 2022-23	2022	2023
Reserves & Connection Charges				
C-1	60th Ave Main Replacement		168,000	-
C-2	Back-up Generators		283,500	-
C-3	Storage Tank Seismic Retrofit Improvements		328,125	328,125
C-4	Water Treatment Study		52,500	-
C-5	Water Treatment Plant Upgrades		-	100,000
C-6	640 Zone East Water Main - prelim/design with reserves		-	350,000
C-10	Reservoir at Lee Forest - prelim/design with reserves		-	200,000
P-1	AC Water Main Replacement Program (50/50 Reserves/Rates)		250,000	275,625
Subtotal Reserves		2,335,875	1,082,125	1,253,750
Rates				
P-1	AC Water Main Replacement Program (50/50 Reserves/Rates)		250,000	250,000
P-2	Undersized Main Replacement Program		300,000	300,000
P-3	Misc. Snohomish County & WSDOT Road/Culvert Improv.		250,000	250,000
P-4	CWSA System Improvements		100,000	100,000
P-5	PRV Improvements Program		100,000	100,000
P-6	Well Head Protection Implementation Program		30,000	30,000
	Financial Plan, Connection Charges, Rates		10,000	25,000
	GIS Update/Asset Management		30,000	30,000
Subtotal Rates		2,145,000	1,060,000	1,085,000
Total		4,480,875	2,142,125	2,338,750



Growth

Growth has been active in 2021 and expected to continue about the same level in 2022 at the equivalent of 80 new homes (ERU's). There are a number of small, medium and large-scale projects being planned within the District boundaries. Because there is no certainty on the timing of the development, the rate outlook is conservative in the growth assumption with the ERU's stepping back to 40 in 2023, and down to 20 by 2026. Additional new connections will improve the financial outlook through building reserves to fund capital projects with the connection charges, and more ratepayers to share in the cost of operations.

Six-Year Outlook

This water outlook demonstrates the impact on rates and reserves for completing the six-year capital improvement program. After a 6.0% increase in 2022 and in 2023, it appears that a continued 6.0% annual increase for 2024-2026 will be necessary to fund the system replacement and recommended CIP with new debt. Cross Valley will revisit the financial outlook and capital improvements scheduled in two years before future increases are considered. Other notable items:

- Now that the District has updated recommendations for capital improvements, the financial plan balances the use of reserves and new debt to achieve the necessary financing for the next 6-year rate outlook and 10-year CIP. An example is paying cash for the design and preconstruction activities for the new 640 water zone and new reservoir at Lee Forest and borrowing for the construction. This should help the project to score higher for the competitive low-interest loan Public Works Trust Fund program.
- At some point, Washington State Department of Transportation will be widening SR 9 and require our water mains to be moved. The CIP anticipates the \$4 million in west side improvements to be constructed in 2026-27 (borrowed). The major improvement will be more than \$10 million and will be subject to WSDOT's funding and schedule. This project is currently at the end of the 10-year CIP as a reminder that it is out in the future and beyond the schedule control of the District.
- Cross Valley will also be updating the connection fees in 2022 to reflect the recommended capital improvements in the Water System Plan after it is approved by Department of Health and adopted by the Board. General and Local Facilities Charges are typically updated each September.
- The financial plan reflects the recommendations in the draft Water System Plan.

Cross Valley Water District	Estimated	PROJ.	PROJ.	PROJ.	PROJ.	PROJ.	Draft 11/12/21
WATER RATE OUTLOOK	2021	2022	2023	2024	2025	2026	COMMENTS
PREFERRED SCENARIO: LEVEL RATE INCREASES TO BE IN BALANCE THRU 2026							
Annual Increase/(Use) of Reserves	1,109,327	1,048,482	735,561	599,128	311,364	47,848	WITH CAPITAL
Rate Increase This Scenario		6.00%	6.00%	6.00%	6.00%	6.00%	
For Single Family Base Rate (2-Mo.)	\$59.50	\$3.57	\$3.78	\$4.01	\$4.25	\$4.51	
Ending Water Balance	9,821,489	8,619,846	8,101,657	5,385,792	2,978,298	2,072,338	+ \$4.5M Emergency

Water Reserve Balance

The six-year outlook shows the water reserve balance is reduced from \$9.8 million in 2021 to be about \$2.1 million at the end of 2026, plus an emergency reserve of \$4.5 million. The emergency reserve reflects one year of operating expense plus debt service in 2022. The water reserves are built up from a combination of rates from existing customers and connection fees from new development over time. It is available to be used for capital improvements but is not to be relied on for operations. Cross Valley's policy is to be sure the District is sustainable with rates sufficient to meet the operating expense and debt payments each year.



CROSS VALLEY WATER RATES - 6.0% Increase in January 2022 & 2023

a. RESIDENTIAL customers to pay a base rate per dwelling unit.

Bimonthly	Existing	2022	2023	
Base Rate per Unit	\$59.50	\$63.10	\$66.90	x number of dwelling units

b. NON-RESIDENTIAL (Commercial, Agriculture, Public, Industrial, Irrigation, etc.) to pay a base rate by meter size.

The differential between meter sizes adjusted from 60% to 80% of AWWA Industry Standard meter capacity factors.

Bimonthly Base Rates	2021	Meter Factor*	2022	2023
5/8" x 3/4" meter	\$59.50	1.00	\$63.10	\$66.90
3/4" x 3/4" meter	\$59.50	1.20	\$75.70	\$80.30
1" meter	\$89.30	2.00	\$126.20	\$133.80
1 1/2" meter	\$178.50	4.00	\$252.40	\$267.60
2" meter	\$285.60	6.40	\$403.80	\$428.20
3" meter	\$535.50	12.00	\$757.20	\$802.80
4" meter	\$892.50	20.00	\$1,262.00	\$1,338.00
6" meter	\$1,785.00	40.00	\$2,524.00	\$2,676.00

*Meter factors for base rates are based on 80% of AWWA meter factors

c. OTHER/MIXED-USE to pay a base rate combination of meter size and number of units.

A base rate by meter size as shown in Non-residential, plus a base rate for each additional unit.

Bimonthly Base Rates	2021	Meter Factor*	2022	2023
5/8" x 3/4" meter	\$59.50	1.00	\$63.10	\$66.90
3/4" x 3/4" meter	\$59.50	1.20	\$75.70	\$80.30
1" meter	\$89.30	2.00	\$126.20	\$133.80
1 1/2" meter	\$178.50	4.00	\$252.40	\$267.60
2" meter	\$285.60	6.40	\$403.80	\$428.20
3" meter	\$535.50	12.00	\$757.20	\$802.80
4" meter	\$892.50	20.00	\$1,262.00	\$1,338.00
6" meter	\$1,785.00	40.00	\$2,524.00	\$2,676.00
Plus a per unit charge	\$59.50	1.00	\$63.10	\$66.90

*Meter factors for base rates are based on 80% of AWWA meter factors

d. WATER CONSUMPTION CHARGES per 100 cubic feet on all metered water usage per bimonthly period.

Usage Tier	2021		2022	2023
0-1,500 cf	\$2.95	per 100 cf	\$3.12	\$3.31
1,501-3,000 cf	\$3.48	"	\$3.69	\$3.91
3,001-6,000 cf	\$4.55	"	\$4.83	\$5.12
6,001+ cf	\$5.93	"	\$6.29	\$6.67

1 cf = 7.48 gallons
100 cf = 748 gallons

e. Other adjustments:

Current locked off rates will be replaced by base rate.

f. Detector check rates per bimonthly period:

Bi-monthly Rate Detector Checks	2021	Meter Factor**	2022	2023
2" DC	\$23.80	0.40	\$25.20	\$26.80
2.5"-3" D.C.	\$44.60	0.75	\$47.30	\$50.20
4" D.C.	\$74.40	1.25	\$78.90	\$83.60
6" D.C.	\$148.80	2.50	\$157.80	\$167.30
8" D.C.	\$238.00	4.00	\$252.40	\$267.60
10" D.C.	\$342.10	5.75	\$362.80	\$384.70

**Meter factors for detector checks are based on 5% of AWWA meter factors



How do Cross Valley water rates compare?

While it is nice to know what others are paying for water, it is important to remember that each water system must be self-sufficient. The costs will vary depending on the type and source of water, treatment and storage requirements, transmission and distribution systems, number/type of customers and other factors.

This chart compares an average single family customer using 800 cubic feet of water in one month. Note that Cross Valley bills for two months but the typical industry comparison is on a monthly basis. The 2021 rate information was available on websites and does not reflect 2022 rates that may be under consideration for water utilities, except as proposed for Cross Valley. Many utilities adjust rates annually to keep up with cost escalation and avoid larger less-frequent increases. 11 of the water rates compared increased from 2020 to 2021.

