

A large-scale construction site in a rural area. Several yellow and white cranes are positioned on a dirt road, lifting long, yellow pipes. In the foreground, there are stacks of concrete blocks and large spools of steel wire. The background shows a green field, trees, and mountains under a cloudy sky.

2023

BUDGET

PUBLIC UTILITY DISTRICT
NO. 1 OF SKAGIT COUNTY

November 2022

Skagit
PUD
PUBLIC UTILITY DISTRICT

In accordance with Resolution No. 2262-19, we are pleased to present the Public Utility District No. 1 of Skagit County 2023 budget.

SECTION 1: BUDGET OVERVIEW

The budget serves as a financial plan that guides and governs the spending commitments of the organization. It's designed to balance *resources* and *requirements* by fund, where "resources" consist of beginning fund balances plus projected revenues, and "requirements" consist of authorized expenditures plus planned end-of-year reserve balances. The budget balances resources with requirements to ensure sufficient funds are available to meet all the District's financial commitments. By adopting the budget, the Board also creates *appropriations*, which is the upper limit on spending authority delegated to managers.

The budget was presented at a public hearing on October 11, 2022. Public comments were taken during the public hearing and at subsequent work sessions. Board members have had the opportunity to incorporate public comments and direct changes to the budget before its adoption. The adopted budget will take effect on January 1, 2023.

During the year, circumstances may arise that affect the budget. Any modifications to the budget that may be needed will be approved by the Board and tracked as the revised budget.

SECTION 2: FUND OVERVIEW

A. GENERAL REVENUE FUND

This account receives all income, revenue, and receipts for the District plus any proceeds from the sale, lease, or deposition of District assets. The funds in this account are used for the District's general operation and maintenance, including repairs, replacements, extensions, and improvements.

B. CAPITAL PROJECT FUND

Construction funds for large capital projects are commonly obtained from the issuance of bonds with the proceeds restricted by bond covenants. Federal or state loans and restricted grant funds would also be accounted for in this fund.

C. SYSTEM DEVELOPMENT FUND

This account is comprised of funds imposed as a condition of service on customers connecting to the system. Fees are based on a blend of historical and planned future capital investments in the system infrastructure – its underlying premise is that future customers should pay an equitable share of capital costs that the utility has or will incur to provide system capacity. The funds are restricted by the Commission and used for growth or capacity-related projects.

D. DEBT SERVICE & BOND RESERVE FUND

Funds are set aside in this account from the Revenue Fund and are used to pay principal and interest on all District debt and meet reserve requirements of the bond covenants.

SECTION 3: DISCUSSION OF BUDGET

A. REVENUES

A1. UTILITY RATE REVENUE

In 2019, the District engaged the services of FCS Group to complete a Cost-of-Service Analysis and Water Utility Rate Study. The study provided the District with a sustainable, multi-year financial plan that meets the projected total financial needs of the District. Financial needs include expenses to operate and manage the water system, capital project funding, funds for new and existing debt obligations, and meeting the fiscal policy goals established by the Board.

The cost-of-service analysis established a basis for assigning costs and establishing “equity” between water system customers. This was accomplished by developing a series of allocations based on customer data and engineering/planning criteria to assign utility cost recovery to customers in proportion to their estimated demands.

A2. SYSTEM DEVELOPMENT FEES

System Development Fees (SDF) are one-time fees imposed as a condition of service on new development or on expanded connections to the system. The cost-of-service study included a review and update of the SDF calculation. SDF revenue is accounted for in a separate fund and used only for the water system’s growth and capacity-related capital expenditures.

A3. REVENUE PROJECTIONS

The budget was developed utilizing FCS Group’s rate study recommendations of a five percent increase in base water rates. To promote conservation, the tiered water rates are phasing in larger increases for high consumption. In addition, the District removed the capital surcharge and modified the tiered water rates to increase equity across water customers over time.

The proposed rate increases will take effect on January 1, 2023, and are projected to increase water revenues by almost \$1.5 million. These funds will finance the large Capital Improvement Plan and related debt service. It is anticipated that capital contributions and non-operating revenue may be lower next year as the economy struggles with inflation, supply chain issues, and economic uncertainty.

Exhibit 1: Projected Revenues

	2021 Actual	2022 Forecast	2023 Budget	2022-2023 % Change
Operating Revenues				
Residential/Multi-family	20,390,408	21,000,000	22,050,000	5.0%
Commercial & Gov't.	6,253,547	6,530,000	6,857,000	5.0%
Agriculture	812,765	870,000	914,000	5.1%
Irrigation	867,321	800,000	840,000	5.0%
Resale	174,819	200,000	210,000	5.0%
Total Rate Revenue	28,498,860	29,400,000	30,871,000	5.0%
Misc Operating Revenues	90,279	174,092	183,000	5.1%
Total Operating Revenue	28,589,139	29,574,092	31,054,000	5.0%
Capital Contributions				
Work Orders (Non-Donated Plant)	359,787	377,938	300,000	-20.6%
Services	371,543	680,387	450,000	-33.9%
System Development Fees	1,913,570	1,004,473	1,000,000	-0.4%
Total Capital Contributions	2,644,900	2,062,797	1,750,000	-15.2%
Non-Operating Revenues				
Rental Revenue	22,809	24,882	24,883	0.0%
Investment Income	26,921	350,000	350,000	0.0%
Misc Non-Operating Income	46,923	106,546	150,000	40.8%
LUD Interest Income	12,294	9,054	10,000	10.4%
LUD Penalty Income	2,116	2,200	2,200	0.0%
LUD Assessments	83,970	67,904	65,000	-4.3%
Total Non-Operating Revenue	195,033	560,586	602,083	7.4%
Total Revenue and Capital Contributions	31,429,072	32,197,475	33,406,083	3.8%

B. OPERATING EXPENSES

B1. SUMMARY OF OPERATING EXPENSES CHANGES

The financial forecast model includes a projection of operating expenses for the next 10 years based on the historical average of the Consumer Price Index (CPI) and the Construction Cost Index (CCI). For salaries, benefits, and the cost of water purchased from Anacortes, the forecast assumes an annual aggregated cost increase of approximately 4.5%. In each budget cycle, line-item expenses are reviewed, adjusted according to current market conditions, and incorporated as part of the budget.

Exhibit 2: Operations Budget by Line Item

Skagit PUD - 2023 Budget		2021	2022	2023	\$ Change	% Change
Summary by Line Item		Budget	Budget	Budget	2022-2023	
6010	Salary, Wages and Benefits	\$ 10,188,375	\$ 10,890,697	\$ 11,626,003	\$ 735,306	6.8%
6100	Water Purchased from Others	200,000	200,000	200,000	\$ -	0.0%
6150	Power Purchased for Pumping	530,000	530,000	530,000	\$ -	0.0%
6180	Chemicals	598,000	601,200	685,200	\$ 84,000	14.0%
6200	Materials & Supplies	951,600	988,200	1,046,100	\$ 57,900	5.9%
6215	Rain Barrels	3,600	4,200	4,500	\$ 300	7.1%
6221	Community Relations	21,500	16,000	53,500	\$ 37,500	234.4%
6222	Insurance Claims and Reimbursements	20,000	20,000	20,000	\$ -	0.0%
6225	Maintenance Contracts	16,000	24,000	8,800	\$ (15,200)	-63.3%
6226	Memberships, Licenses, Certifications	89,649	94,511	95,367	\$ 856	0.9%
6228	General Supplies & Non-Professional Services	372,224	370,474	397,424	\$ 26,950	7.3%
6229	Postage and Shipping	83,100	83,100	80,600	\$ (2,500)	-3.0%
6230	Professional Services	560,908	579,808	699,587	\$ 119,779	20.7%
6231	Security	3,240	18,240	134,040	\$ 115,800	634.9%
6232	Tools and Small Equipment	82,060	86,460	104,460	\$ 18,000	20.8%
6234	Utilities	271,455	236,730	387,030	\$ 150,300	63.5%
6235	Permits	35,365	35,365	35,365	\$ -	0.0%
6251	Computer Hardware, Communications, SCADA	284,310	238,800	178,000	\$ (60,800)	-25.5%
6252	Computer Software, Licenses and Support	547,453	561,473	493,654	\$ (67,819)	-12.1%
6255	Education and Professional Development	150,740	192,300	171,672	\$ (20,628)	-10.7%
6260	Building, Furniture, Grounds and Roads	365,764	378,664	368,014	\$ (10,650)	-2.8%
6261	Safety	60,163	65,113	90,511	\$ 25,398	39.0%
6266	Advertising	23,900	25,800	29,400	\$ 3,600	14.0%
6267	Bad Debts	40,000	50,000	40,000	\$ (10,000)	-20.0%
6500	Transportation-Fuel	100,000	100,000	100,000	\$ -	0.0%
6501	Transportation-Parts	60,000	60,000	60,000	\$ -	0.0%
6502	Transportation-Outside Services	30,000	30,000	30,000	\$ -	0.0%
6505	Transportation-Enterprise Fleet Mgmt Fee	4,178	4,178	4,178	\$ -	0.0%
6560	Insurance-Property	281,648	344,989	398,180	\$ 53,191	15.4%
6570	Insurance-Liability	311,737	374,882	393,058	\$ 18,176	4.8%
6590	Insurance-Other	2,350	2,350	2,000	\$ (350)	-14.9%
<i>Expenditure Offsets:</i>					\$ -	
6550	Transportation Overhead Charge	(555,000)	(555,000)	(455,000)	\$ 100,000	-18.0%
6750	Inventory Administrative Overhead	(250,000)	(250,000)	(250,000)	\$ -	0.0%
6751	Administrative Expense Transferred	(625,000)	(625,000)	(725,000)	\$ (100,000)	16.0%
<i>State Taxes:</i>					\$ -	
4080	Utility Taxes	1,293,000	1,415,000	1,500,000	\$ 85,000	6.0%
<i>Other Expenditures:</i>					\$ -	
4082	State Excise Taxes	25,000	30,000	50,000	\$ 20,000	66.7%
4084	Fire and Dike District Taxes	16,520	16,520	16,520	\$ -	0.0%
Total Operating Expenditures		\$ 16,215,239	\$ 17,260,455	\$ 18,603,764	\$ 1,343,309	7.8%

The 2023 budget increases operating expenses by \$1,343,309, or 7.8%. The largest dollar increase is in the *Salary, Wages & Benefits* line item of \$735,306 for cost-of-living adjustments and increases to medical, vision, dental, and life insurance benefits. Other line items with significant dollar increases include: *Chemicals* \$84,000, *Materials & Supplies* \$57,900, general inflationary increases in cost-of-goods, *Professional Services* \$119,779, customer survey and grant consultants, *Security* \$115,800, cyber security software and hardware enhancements, *Utilities* \$150,030, increased electrical and gas, *Insurance Property & Liability* \$71,367, industry increases in response to global events, *Utility taxes* \$85,000, corresponding increase in rate revenue.

The following section provides insight into District operations by comparing expenses across functions, departments, and years.

Exhibit 3: Summary of Operations Budget by Function

2023 O&M Budget	Supply	Treatment	Transmission Distribution	Customer Service	Administration	Expenditure Offsets	Taxes and Non-Operations	Total
Commissioner					267,620			267,620
Executive					1,518,246			1,518,246
Human Resources					454,207			454,207
Safety					205,700			205,700
Information Technology			65,000		1,849,593			1,914,593
Broadband					-			-
Finance					637,735			637,735
Stores					386,702	(250,000)		136,702
Meters				660,429				660,429
Customer Service				805,780				805,780
Billing				263,139				263,139
Community Relations				344,505				344,505
Engineering	48,000		39,200		2,040,703			2,127,903
Construction & Maintenance	20,000	50,000	1,952,708		355,770			2,378,477
Operations Support		-	8,000		960,029	(455,000)		513,029
Water Treatment Plant	389,500	2,644,356						3,033,856
Water Quality and Lab	18,000	26,600	151,226		202,498			398,324
Distribution	421,000	5,000	142,865		1,189,106			1,757,971
Facilities		-	71,000	-	228,224			299,224
Non-Departmental					44,203	(725,000)	1,567,120	886,323
Total Cash Operating Expenses	896,500	2,725,956	2,429,999	2,073,852	10,340,337	(1,430,000)	1,567,120	18,603,764

District Functions:

1 - Supply: pipes or mains used to convey water from the source to the water treatment plant. Judy Reservoir, watershed intakes, and wells are all examples of supply function assets.

3 - Treatment: the water treatment plant located at Judy Reservoir and the Guemes Island osmosis water treatment plant are the assets associated with this function

5 – Transmissions & Distribution: the daily operations and maintenance of the transmission, distribution, and service lines to District customers throughout Skagit County are the expenses associated with this function.

7 – Customer Service: expenses related to customer service, billing, and meter reading departments.

8 – Administration & General Expenses: costs incurred for the general operations of the District not related to a specific water system.

9 – Taxes & Other Non-Operations Expenses: taxes including property, excise, utility, fire, and dike assessments are included in this budget section.

Expenditure Offsets: allocations for services provided by staff to other departments and projects. These allocations reduce District operating expenses by charging them to outside entities and capital projects.

Exhibit 4: Historical Summary of Operating Budget by Function

Summary by Function	2021	2022	2023	Budget Comparison	
	Budget	Budget	Budget	2022-2023 \$ Change	% Change
Supply (01)	831,500	848,000	896,500	48,500	6%
Treatment (03)	2,377,109	2,354,093	2,725,956	371,863	16%
Transmission & Dist. (05)	2,214,567	2,334,209	2,429,999	95,790	4%
Customer Service (07)	1,787,835	1,872,195	2,073,852	201,657	11%
Administration (08)	7,669,108	8,389,838	8,910,337	520,499	6%
Taxes and Other (09)	1,335,120	1,462,120	1,567,120	105,000	7%
Total	16,215,239	17,260,455	18,603,764	1,343,309	7.8%

The large increase in the *Treatment (03)* budget from the prior year is associated with cost-of-living adjustments, benefit increases, and increased costs for chemicals and other materials and supplies to operate the Water Treatment Plant.

The *Customer Service (07)* budget increase is to pay for a customer service survey called for in the District’s strategic plan, as well as a new website, inflationary increases in postage, supplies, and customer processing fees.

The increase in the *Administration (08)* budget is primarily due to increased property and liability insurance premiums as the reinsurance and excess insurance markets continue to respond to unfavorable global underwriting events. In addition, there are several planned expenditures for computer hardware, software, professional services, and security services to enhance our cyber security infrastructure.

The *Taxes & Other (09)* budget increase is for the taxes associated with the anticipated growth in rate revenue.

Department budgets are prepared by each manager based on their goals and objectives for the coming year. Variations between years are usually due to changes in personnel or new projects being undertaken.

Exhibit 5: Changes in Department Budgets

Department	2022	2022	2023	Change	Change
	August YTD	Budget	Budget		
Human Resources	232,077	444,037	454,207	2%	
Commissioners	132,040	266,563	267,620	0%	
Administration	797,626	1,391,964	1,518,246	9%	Insurance, & Professional Services
Safety Program	159,841	196,485	205,700	5%	
Const. Maintenance	1,181,843	2,221,474	2,378,477	7%	Increase in supplies & materials
Water Treatment Plant	1,645,578	2,663,492	3,033,856	14%	Increase chemicals & power
Distribution	1,076,639	1,805,336	1,757,971	-3%	SCADA retirement
Lab & Water Quality	204,394	367,187	398,324	8%	Increase in supplies & materials
Operations Support	449,991	355,023	513,029	45%	Increase Yard Bird to year round
PUD Main Campus	126,685	321,519	299,224	-7%	
Information Technology	952,841	1,746,990	1,914,593	10%	Cyber security & software
Finance	402,865	709,144	637,735	-10%	Reduced FTE
Stores	85,425	137,155	136,702	0%	
Meter Crew	363,128	618,775	660,429	7%	Increase in supplies & materials
Customer Service	513,043	712,237	805,780	13%	Increase in vendor services
Billing	126,686	296,222	263,139	-11%	
Community Relations	135,669	244,959	344,505	41%	Strategic Plan survey
Engineering	1,288,950	1,915,305	2,127,903	11%	Increase supplies, Software audit & upgrade
Non-Departmental	564,392	846,588	886,323	5%	Increase supplies, Software audit & upgrade
Total	\$ 10,439,713	\$ 17,260,455	\$ 18,603,764	7.8%	

The budget is prepared using an estimate for the number of developer and capital projects that will be worked on during the upcoming year. Capitalized projects offset the District's operations budget for salaries and benefits, inventory, and equipment expenses. The budget anticipates roughly the same number of capital and maintenance projects as the current year.

The following chart compares the estimated capitalized labor expense between the current year's budget and the 2023 budget. There is no change to the overall percentage of salaries and benefits budgeted for capital projects next year, but there is an increase in the percentage of engineering staff time dedicated to projects and an increase in dollars. It is anticipated that 30% of salaries and benefits, or \$1,560,068, will be charged to capital projects.

Exhibit 6: Salary & Benefits Capitalization Comparison

2023 Budget	Salary & Benefits Cost			
	Total	To Capital	% Capital	To O&M
Engineering	3,334,517	1,405,484	42%	1,929,033
Construction & Maint.	1,828,711	154,584	8%	1,674,127
Total	5,163,229	1,560,068	30%	3,603,161
2022 Budget	Salary & Benefits Cost			
	Total	To Capital	% Capital	To O&M
Engineering	3,019,625	1,218,169	40%	1,801,456
Construction & Maint.	1,697,016	174,391	10%	1,522,625
Total	4,716,641	1,392,561	30%	3,324,081

B2. AGENCY MEMBERSHIPS

The District is a member and participates in several local and regional organizations and events where a business interest has been identified. The following list of these organizations and groups is included in the District's operational budget.

Exhibit 7: Memberships and Sponsorships

Memberships & Sponsorships	
Washington PUD Association (WPUDA)	\$ 63,000
American Water Works Association (AWWA)	6,700
Chlorine Institute	5,000
Washington Water Utilities Council (WWUC)	2,600
Economic Development Association of Skagit County (EDASC)	2,600
Skagit Council of Governments (SCOG)	1,479
Mount Vernon Chamber	850
Washington Association of Sewer & Water Districts	600
Burlington Chamber	600
Total	\$ 83,429

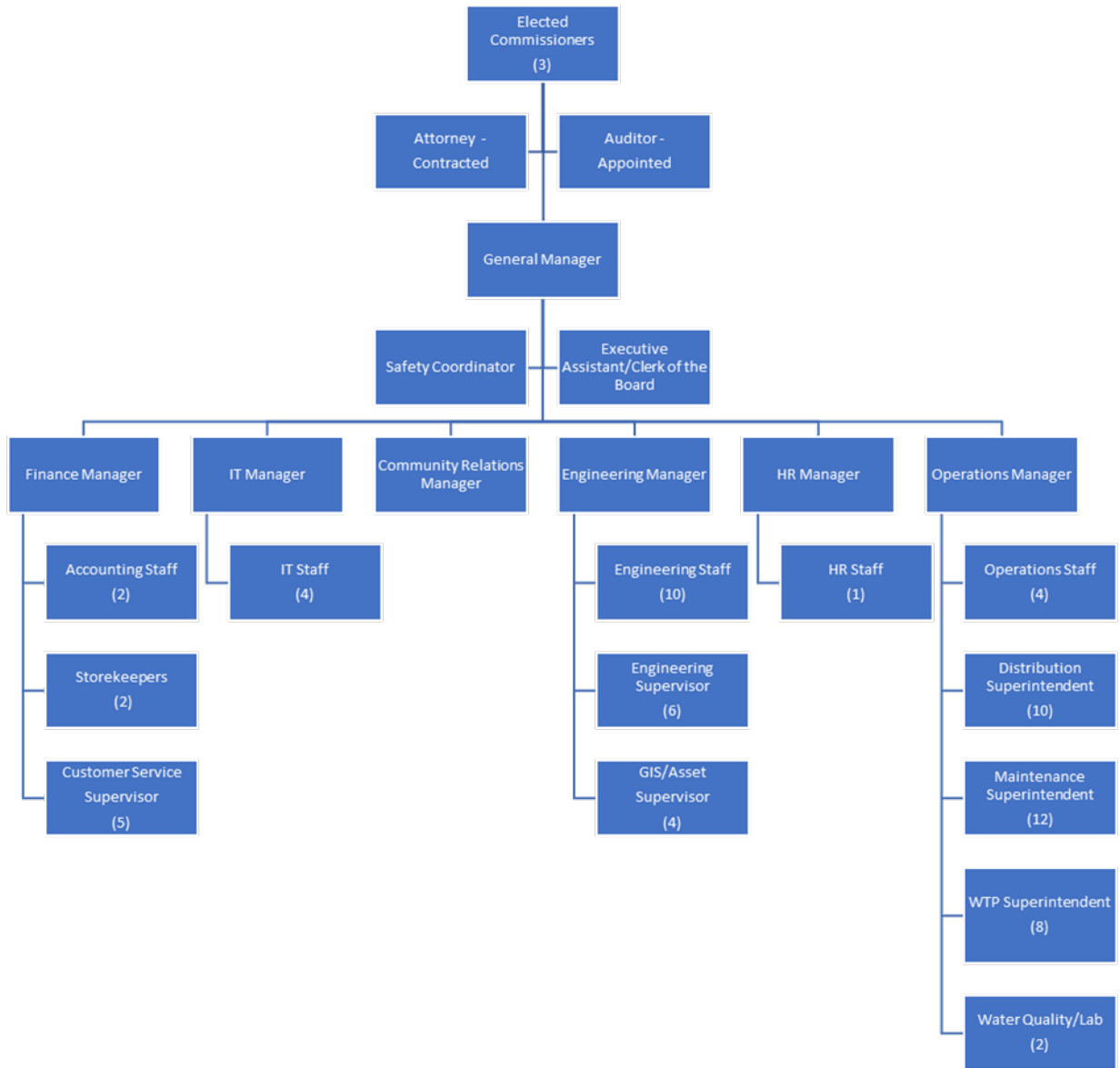
B3. STAFFING

The District continues to assess its core functions and level of service and adjusts operations and staffing levels accordingly. The budget shows a slight decrease in the overall number of full-time equivalent employees due to retirements and job assignments. The District promotes professional development and looks to fill positions internally whenever there is an interest and a qualified applicant. Recent positions filled with internal promotions include maintenance foreman, server administrator, Human Resources assistant, and accounting technician.

Exhibit 8: Summary of Full-Time Equivalent Positions (FTEs)

2023 Budget FTEs by Department	2021	2022	Budget 2023	2022-2023 Change	Description
Commissioner	-	-	-	-	
Executive	2.00	2.00	2.00	-	
Human Resources	1.00	2.00	2.00	-	Transfer from finance in 2022
Safety	1.05	1.00	1.00	-	
Information Technology	4.00	5.00	5.00	-	New Server Administrator in 2022
Finance	4.00	3.80	3.00	(0.80)	Retirement
Stores	2.00	2.00	2.00	-	
Meters	4.00	4.00	4.00	-	
Customer Service	5.00	5.00	5.00	-	
Billing	1.00	1.00	1.00	-	
Community Relations	1.00	1.00	1.00	-	
Engineering	21.80	21.80	21.80	-	
Construction & Maintenance	12.00	13.00	13.00	-	
Operations Support	4.42	4.42	5.00	0.58	Increase Yard Maint. Position
Water Treatment Plant	9.50	9.50	9.00	(0.50)	Intern removed
Water Quality and Lab	2.00	2.00	2.00	-	
Distribution	7.50	8.00	7.00	(1.00)	Retirement
Total	82.27	85.52	83.80	(1.72)	

Exhibit 9: Organization Chart



Like all organizations, changing circumstances in the economy, such as the pandemic and the subsequent supply chain disruptions, increase District expenses. Some of these expenses are one-time impacts, while others create ongoing costs that need to be included in future budgets. The capital improvement and financial plans are adjusted for these events as needed. Material changes in the budget are summarized below.

Exhibit 10: Additional Expenses 2023

Department Projects Summary	
Recurring Costs	
Badger Meter Battery Replacements	\$300,000
DOH Security Mandates	150,000
Out-of-region Disaster Recovery	78,000
Cathodic Protection	70,000
Seismic Resilience of Critical Infrastructure	50,000
Safe Access District Facilities	35,360
One-time Costs	
General Ledger Software Upgrade	\$300,000
Piezometer Dataloggers	82,000
Security for Raw Water Pump Station	75,000
Strategic Plan - Survey	35,000
Total	\$1,175,360

C. CAPITAL IMPROVEMENT PLAN

Exhibit 11 is a summary of the 10-year rolling Capital Improvement Plan (CIP). It contains estimates for projects planned through 2032. The new CIP table reflects updates in the schedule for the Transmission Line, Judy Reservoir to Mount Vernon Phase 2, which will be completed in 2023, and the construction of the new District campus. Other projects were updated as needed for market conditions and to balance the overall workload of staff and expenditures. The CIP anticipates \$130 million of projects over the next 10 years.

Capital Improvement needs were identified through:

- Comprehensive system planning process
- Internally developed capital improvement plan

Capital Improvement Plan Phases:

- Phase 1 - Needs/Condition Assessment
- Phase 2 - Cost analysis, feasibility, and prioritization
- Phase 3 - Design
- Phase 4 – Construction

The capital funding plan identifies the following funding sources:

- Cash reserves, rate funding, System Development Fees, developer contributions, loans, grants, and debt

Rate-funded capital replacement is a prudent fiscal target with the following purposes:

- Ongoing system reliability/sustainability
- Equity, charge customers commensurate with the consumption of facility useful life
- Rate stability

Exhibit 11: Summary of Planned Capital Improvements Projects 2022-2032

System Water Plan #	Description	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	Department Capital:										
	Computer Software/ IT	\$ 650,000	\$ 1,100,000	\$ 550,000	\$ 800,000	\$ 700,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000	\$ 300,000
	Customer/ Meter	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	50,000	50,000
	Equipment/Ops	400,000	850,000	650,000	200,000	200,000	200,000	200,000	200,000	125,000	125,000
	Water Treatment Plant	150,000	200,000	200,000	200,000	200,000	250,000	250,000	250,000	250,000	250,000
	Engineering	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
	Safety - Enhance Safe Access to District Infrastructure	30,800	46,200	46,200	61,600	61,600	61,600	46,200	30,800	15,400	15,400
	Department Capital Total:	\$ 1,305,800	\$ 2,271,200	\$ 1,521,200	\$ 1,336,600	\$ 1,236,600	\$ 886,600	\$ 871,200	\$ 855,800	\$ 790,400	\$ 790,400
	Pipe Replacement:										
MP20-3	Sky Ridge Pipe Replacement & Pump Station	2,000,000									
MP20-4	College Way, Urban to LaVenture and Crossing at Leigh, Windsor, N. 19th and 8inch Crossing W. of Skagit Country Club Pipeline Replacement	400,000	1,600,000								
MP20-5	Skagit Country Club Pipeline Replacement	3,100,000									
MP20-6	NW Burlington Pipeline Replacement		1,700,000								
MP20-2	Bored Crossings			960,000							
MP20-7	MV Belmont / Clarmont Pipeline Replacement			1,100,000							
	Sky Ridge supply pipeline			2,500,000							
MP20-8	West Mount Vernon Pipeline Replacement	1,200,000									
MP20-9	Peterson, Pulver - Avon Allen and Sunrise					1,285,000					
MP20-10	MV Hillcrest District Pipeline Replacement					1,700,000					
MP20-11	Bayview Community Pipe Replacement						1,100,000				
MP20-1	Little Mountain		3,000,000	3,000,000							
	State Grant Needed to fund Project		(3,000,000)	(3,000,000)							
MP13-8	North Fork Skagit River Crossing										1,000,000
MP20-14	Bow Hill to Alger							50,000			
MP20-13	South Conway Extension							50,000			
MP20-12	Conway to Lake McMurray Extension							50,000			
Coordinated Pipeline Replacement	Francis Road Pipe replacement	450,000									
	Laventure, Hoag, Martin, Intersection Improvement	800,000									
	Coordinated Pipeline Replacement & Infill			500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Fish Passage Pipeline Relocations	SR 534 (Pioneer Hwy) Fish Passage	300,000									
	State Credit SR534	(300,000)									
	Alger I-5 Lake Samish Road Fish Passage	250,000	2,000,000								
	Grant	(250,000)									
	Burlington East/West Connector	100,000									
	Gardem of Eden Fish Passage	75,000									
	I-5 at Anderson Road Fish Passage	100,000	400,000								
	SR9 and Kalloch Fish Passage	100,000	250,000								
	SR20 at Marblemount Fish Passage	375,000									
	Pipe Replacement Total:	\$ 8,700,000	\$ 5,950,000	\$ 5,060,000	\$ 500,000	\$ 3,485,000	\$ 1,600,000	\$ 650,000	\$ 500,000	\$ 500,000	\$ 1,500,000

System Water Plan #	Description	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	Major Capital:										
	Operations & Maintenance:										
MO20-2	WTP Backwash Pump Replacement / Portable Gen	1,000,000	4,000,000								
MO20-4	WTP SCADA Replacement & data center	100,000	550,000								
MO20-7	WTP Filtration Conversion & Optimization			1,000,000	2,000,000					1,000,000	
MO20-6	WTP Disinfection Study - System Replacement	375,000	375,000								
MO20-15	WTP Electrical Upgrades							50,000			
MO20-12	WTP Building Seismic Improvements								840,000		
MO20-14	Lagoons solid Handling Improvements								930,000		
MO20-5	Dedicated Power feed Norlum substation SW to t	-								50,000	
MO20-11	Sodium Chlorite & CO2 Tank Replacement									700,000	
MO20-13	Finished Water Flow Meter		70,000	180,000							
MO20-16	Disinfection System Replacement										500,000
MO20-17	Instrument Flow Meters										125,000
MO20-18	Clearwell Seismic Expansion Joints										250,000
MO13-8	Badger ORION 5/8 Meter Transmitter Replace 9Th Street Pump	300,000	350,000	350,000	350,000	400,000	400,000	500,000	500,000	500,000	
	Operations & Maintenance Total:	\$ 1,775,000	\$ 5,425,000	\$ 1,530,000	\$ 2,350,000	\$ 400,000	\$ 400,000	\$ 550,000	\$ 2,270,000	\$ 2,250,000	\$ 875,000
	Transmission Pipelines:										
MT13-4	Transmission Line, Judy - MV Phase 2	10,000,000									
MT13-4	Transmission Line, Judy - County Portion	(598,000)									
MT13-9	Judy SW TransmissionPhase 3 river section		1,300,000	1,300,000	5,800,000						
MT20-2	Judy SW Transmission Phase 4	-	-	500,000	700,000	9,250,000	9,250,000				
MT20-1	Judy SW Transmission Phase 2 top of hill	-	-								1,000,000
	Transmission Pipelines Total:	\$ 9,402,000	\$ 1,300,000	\$ 1,800,000	\$ 6,500,000	\$ 9,250,000	\$ 9,250,000	\$ -	\$ -	\$ -	\$ 1,000,000
	Reservoirs:										
MR13-2	Cascade Ridge Reservoir (.1 MG)								255,000		
MR13-3	Big Lake Storage Tank (356 HGL)							510,000			
MR13-5	N. Sedro Woolley Storage (430/350 HGL)							320,000			
MR13-6	Burlington Tank (214 HGL)										250,000
	Clearwell Painting	160,000	160,000	160,000							
	Seismic Resilience of District Critical Infrastructure	50,000	205,000	75,000	410,000	75,000	410,000	75,000	410,000	75,000	410,000
	Reservoirs Cathodic Protection - Ongoing	70,000	90,000	33,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
	Montborne Tank										3,500,000
	Reservoirs Total:	\$ 280,000	\$ 455,000	\$ 268,000	\$ 460,000	\$ 125,000	\$ 460,000	\$ 955,000	\$ 715,000	\$ 125,000	\$ 4,210,000
	Facilities										
MO20-3	WTP Dam Pipe Replacement		300,000								
	Potlatch RO Replacement	200,000	300,000								
MX20-2	PUD Campus Design & Construction	15,000,000	5,000,000								
	SRD Recondition Pumps & Set Motors Rotation	500,000			500,000			500,000			500,000
	SRD Valve Actuator Change	250,000									
	Facilities Total:	\$ 15,950,000	\$ 5,600,000	\$ -	\$ 500,000	\$ -	\$ -	\$ 500,000	\$ -	\$ -	\$ 500,000
	Fiber & Other:										
FO13-5	Annual Fiber Optic Installation Program	100,000		150,000	200,000	200,000	200,000	200,000	250,000	250,000	250,000
FO13-6	Kulshan Trail Fiber		75,000								
FO13-4	Kulshan Ave. Fiber		75,000								
	9Th Street Fiber		80,000								
	Replace Fill Station Software & Add Burlington Location			180,000							
	Major Capital Total:	\$ 27,507,000	\$ 13,010,000	\$ 3,928,000	\$ 10,010,000	\$ 9,975,000	\$ 10,310,000	\$ 2,205,000	\$ 3,235,000	\$ 2,625,000	\$ 6,835,000
	Total Capital Projects	\$ 37,512,800	\$ 21,231,200	\$ 10,509,200	\$ 11,846,600	\$ 14,696,600	\$ 12,796,600	\$ 3,726,200	\$ 4,590,800	\$ 3,915,400	\$ 9,125,400

	Average Annual Capital - First Five Years CIP (2023-2027)					Average Annual Capital - Ten Year CIP (2023-2032)				
	2023 Budget	2022 Budget	Increase/(Decrease)			2023 Budget	2022 Budget	Increase/(Decrease)		
Department Capital	1,305,800	2,271,200	1,521,200	1,336,600	1,236,600	886,600	871,200	855,800	790,400	790,400
Pipeline Replacement	8,700,000	5,950,000	5,060,000	500,000	3,485,000	1,600,000	650,000	500,000	500,000	1,500,000
Major Capital	27,507,000	13,010,000	3,928,000	10,010,000	9,975,000	10,310,000	2,205,000	3,235,000	2,625,000	6,835,000
Total Capital Improvement Projects	\$ 37,512,800	\$ 21,231,200	\$ 10,509,200	\$ 11,846,600	\$ 14,696,600	\$ 12,796,600	\$ 3,726,200	\$ 4,590,800	\$ 3,915,400	\$ 9,125,400

C1. CATEGORIES OF CAPITAL PROJECTS:

Department Capital – These are capital expenses that are required to maintain the operation of District facilities and functions. Examples include vehicles, construction equipment, facility equipment, pump replacements, and replacement of equipment at the Water Treatment Plant.

Pipe Replacement – The District’s pipe replacement program includes surveying, designing, and constructing pipe replacement projects to replace old, undersized, or defective pipes.

Major Capital – These are all other large capital projects typically associated with a Capital Improvement Program. Projects vary from year-to-year and include pipeline replacement, reservoir construction, facility repairs, and fiber optic construction.

C2. CAPITAL PROGRAM SUMMARY

Based on the updated capital plan for the 2023 budget, the total value of capital projects planned for the next 10-years is \$130 million. Next year’s significant capital projects include the Sky Ridge pump station & pipe replacement project, continued work on the Transmission Line, Judy Reservoir to Mount Vernon Phase 2, and a new District campus.

a) Department Capital

The 2023 budget includes \$1.3 million of department capital projects from Operations, Engineering, Water Treatment Plant, Meters, and the IT Departments. Next year’s projects include vehicle and equipment replacements, software upgrades, security enhancements, improvements at the Water Treatment Plant, SCADA system replacements, and Department of Health (DOH) mandates.

b) Pipe Replacement

The 2023 budget includes \$8.7 million for pipe replacement projects. The two most significant projects are the \$2 million Sky Ridge pipe replacement project and the completion of the \$3.1 million Skagit Country Club pipeline projects. The other \$3.4 million of pipe replacement projects are split over several projects, including West Mount Vernon, Francis Road, Laventure and Hoag intersection, and others depending upon permitting and coordination with other entities.

c) Major Capital

A review of the projects in this category was performed to update construction costs based on recent projects and market conditions. Major projects scheduled for 2023 include \$500,000 SRD recondition pumps and motors, \$2 million WTP backwash pump replacement, \$10 million for the completion of the Transmission Line, Judy Reservoir to Mount Vernon Phase 2, and \$15 million for the construction of the District’s new campus building.

D. CAPITAL BUDGET AND DEBT SERVICE

Exhibit 12 compares the first year of the 2023 Capital Improvement Plan budget to the end of the year capital expenditure forecast. The budget anticipates an \$8 million increase in capital projects, primarily due to the Transmission Line, Judy Reservoir to Mount Vernon Phase 2 project, the District campus building, and other pipe replacement projects discussed earlier.

Exhibit 12: Capital Budget

Summary of Capital Budgets	2022 Forecast	2023 Budget	Change
Capital Budget			
Department Capital	\$ 970,000	\$ 1,305,800	\$ 335,800
Major Capital	\$ 25,000,000	\$ 27,507,000	\$ 2,507,000
Annual Pipe Replacement	\$ 3,450,000	\$ 8,700,000	\$ 5,250,000
Total Capital Budget	\$ 29,420,000	\$ 37,512,800	\$ 8,092,800

The capital improvement plan assumes that additional financing will be needed to fund a portion of the 10-year buildout. The financing timing depends on how fast the capital projects are completed and whether we successfully apply for additional state loans/grants. Our current reserves and loans of approximately \$14 million are sufficient to fund the capital projects through 2023 and into 2024.

Exhibit 13: 2023 Debt Service

Existing Debt Service	Interest	Principal	Total
Total Bonds	\$ 609,955	\$ 1,074,440	\$ 1,684,395
Total PWTF Loans	\$ 150,678	\$ 989,458	\$ 1,140,136
Total DWSRF Loans	\$ 418,555	\$ 1,337,570	\$ 1,756,126
Total Other State Loans	\$ 19,441	\$ 52,560	\$ 72,001
Total Debt Service	\$ 1,198,630	\$ 3,454,029	\$ 4,652,659

*Public Work Trust Fund (PWTF)
Drinking Water State Revolving Fund (DWSRF)

E. FISCAL MANAGEMENT TARGETS

The budget adequacy is tested by looking at it in the context of long-term financial policies and whether the budget achieves the District's fiscal management targets. The 2023 budget anticipates spending reserves and utilizing debt to pay for the capital improvements identified in this year's CIP.

a) Revenue Fund Ending Balance

Target: 2.5 months O&M + Depreciation = \$5,704,000.

Projected: 2023 ending balance = \$9,412,000, which exceeds the target.

b) Net Liquidity

Target: 180 days of O&M expenses, including fund balances for Revenue, Major Capital, SDF, and Debt Service funds.

Projected: 301 days, which exceeds the target.

c) Debt Service Coverage

Target: Minimum 1.25 for bonded debt; Planning target for bonded debt is 2.0

Projected: 7.19 Total Debt service coverage, which exceeds the target.

d) Rate Funded Capital

Target: Capital Expenditures target = \$9.1 million = Depreciation expense

Projected: Capital paid by rates = \$23,500,000, which exceeds the target.

Exhibit 14: Budget Fiscal Targets

F. RATE FORECAST SUMMARY

The budget was developed utilizing the rate study recommendations of annual five percent increases in base water rates and additional increases in the tiered rates to promote conservation. The rate increase is scheduled to take effect on January 1, 2023 and is projected to increase rate revenues by approximately \$1.5 million. This additional revenue will be used to fund the ten-year Capital Improvements Plan projects and to pay debt service on new and existing debt issued to fund the planned capital improvement program.

For 2023, this budget's average residential rate impact is approximately \$6.44 per two-month billing cycle, assuming 6 CCF of water use.

G. FUND SUMMARIES

The following two pages compare District fund summaries between this year's forecast and next year's budget.

Exhibit 15: Comparison by Fund

All Funds Summary forecast for 2022					
Cash Resources and Requirements					
	Revenue Fund	Major Capital Fund	System Development Fund	Debt Service	Combined
Resources:					
Beginning Fund Balance	16,291,624	4,648,333	8,376,603	1,321,174	30,637,734
External Revenue:					
Rate Revenue	29,574,092				29,574,092
System Development Fees			1,004,473		1,004,473
Capital Contributions	1,058,324				1,058,324
LUD Assessments, Interest, Penalties				79,158	79,158
Investment Income	350,000				350,000
Non-Operating Revenues	131,428				131,428
Total External Revenue	31,113,844		1,004,473	79,158	32,197,475
Debt Proceeds:					
Debt Proceeds -					
PWTF Loan - MV Transmission Line		3,000,000			3,000,000
Debt Proceeds - Bonds		13,500,000			13,500,000
Total Debt Proceeds		16,500,000			16,500,000
Transfers from Other Funds:					
System Development Fund	5,000,000				5,000,000
Major Capital Fund	21,148,333				21,148,333
Revenue Fund				3,862,608	3,862,608
Total Transfers from Other Funds	26,148,333			3,862,608	30,010,941
Total Revenue	57,262,177	16,500,000	1,004,473	3,941,766	78,708,416
Total Resources	73,553,801	21,148,333	9,381,076	5,262,940	109,346,150
Uses:					
Operating Expenditures:					
Operations and Maintenance	14,738,916				14,738,916
Utility and Excise Taxes	1,370,988				1,370,988
Total Operating Expenditures	16,109,904				16,109,904
Capital Expenditures:					
Service/Meters/Developer Projects	1,058,324				1,058,324
Department Projects	970,000				970,000
Pipeline Replacement	3,450,000				3,450,000
Major Capital Projects	25,000,000				25,000,000
Total Capital Expenditures	30,478,324				30,478,324
Debt Service Payments:					
Interest Payments				925,895	925,895
Principal Payments				2,936,713	2,936,713
Total Debt Service Payments				3,862,608	3,862,608
Transfers to Other Funds:					
Revenue		21,148,333	5,000,000		26,148,333
Debt Service	3,862,608				3,862,608
Total Transfers to Other Funds	3,862,608	21,148,333	5,000,000		30,010,941
Total Expenditures	50,450,837	21,148,333	5,000,000	3,862,608	80,461,778
Ending Fund Balance	23,102,965		4,381,076	1,400,332	28,884,373
Total Uses	73,553,801	21,148,333	9,381,076	5,262,940	109,346,150

All Funds Summary forecast for 2023					
Cash Resources and Requirements					
	Revenue Fund	Major Capital Fund	System Development Fund	Debt Service	Combined
Resources:					
Beginning Fund Balance	23,102,965		4,381,076	1,400,332	28,884,373
External Revenue:					
Rate Revenue	31,054,000				31,054,000
System Development Fees			1,000,000		1,000,000
Capital Contributions	750,000				750,000
LUD Assessments, Interest, Penalties				77,200	77,200
Investment Income	350,000				350,000
Non-Operating Revenues	174,883				174,883
Total External Revenue	32,328,883		1,000,000	77,200	33,406,083
Debt Proceeds:					
Debt Proceeds -					
PWTF Loan - MV Transmission Line		14,000,000			14,000,000
Debt Proceeds - Bonds					
Total Debt Proceeds		14,000,000			14,000,000
Transfers from Other Funds:					
System Development Fund	1,500,000				1,500,000
Major Capital Fund	14,000,000				14,000,000
Revenue Fund				4,652,659	4,652,659
Total Transfers from Other Funds	15,500,000			4,652,659	20,152,659
Total Revenue	47,828,883	14,000,000	1,000,000	4,729,859	67,558,742
Total Resources	70,931,848	14,000,000	5,381,076	6,130,191	96,443,114
Uses:					
Operating Expenditures:					
Operations and Maintenance	17,103,764				17,103,764
Utility and Excise Taxes	1,500,000				1,500,000
Total Operating Expenditures	18,603,764				18,603,764
Capital Expenditures:					
Service/Meters/Developer Projects	750,000				750,000
Department Projects	1,305,800				1,305,800
Pipeline Replacement	8,700,000				8,700,000
Major Capital Projects	27,507,000				27,507,000
Total Capital Expenditures	38,262,800				38,262,800
Debt Service Payments:					
Interest Payments				1,198,630	1,198,630
Principal Payments				3,454,029	3,454,029
Total Debt Service Payments				4,652,659	4,652,659
Transfers to Other Funds:					
Revenue		14,000,000	1,500,000		15,500,000
Debt Service	4,652,659				4,652,659
Debt Reserve - New Debt					
Total Transfers to Other Funds	4,652,659	14,000,000	1,500,000		20,152,659
Total Expenditures	61,519,223	14,000,000	1,500,000	4,652,659	81,671,881
Ending Fund Balance	9,412,625		3,881,076	1,477,532	14,771,233
Total Uses	70,931,848	14,000,000	5,381,076	6,130,191	96,443,114