



GENERAL MANAGER'S

2024 BUDGET INTRODUCTION & 2023 BUDGET OVERVIEW & FINANCIAL SUMMARY REPORT

The Lakewood Water District celebrated 80 years of service to the Lakewood community in 2023. The District and its staff have been serving this community since it was formed on June 1, 1943, after a majority vote of the people on May 22, 1943. The District is a municipal corporation formed under RCW Title 57, governed by a three-member Board of Commissioners elected by the citizens in the District's retail service area. Lakewood Water District currently has 35 employees. The District has 35 wells, 31 of which are active. There are 4 wells that are turned off due to being above the State Action Levels (SAL) for PFAS adopted by the State of Washington in 2022. There are 13 active tanks and reservoirs with 27 million gallons of capacity and 280 miles of water main in the system. The District's 8.75 square-mile retail service area includes 16,748 connections within the City of Lakewood, 866 connections in a small area of unincorporated Pierce County, 64 connections within the Town of Steilacoom, and 2 connections within the City of Tacoma for a total of 17,680 connections.

Through its wholesale system, the District provides all the water to the Town of Steilacoom's 2,221 connections, and Summit Water & Supply Co. (Summit's) 4,858 connections. Additionally, the District supplies a portion of the water needed by Washington Water Service's (Washington Water's) Southwood Water system with 16,500 connections, Spanaway Water Company (Spanaway) with 11,775 connections, and Firgrove Mutual Water Company (Firgrove) with 11,033 connections. Collectively the total number of connections served through wholesale supply is up to 46,387.

2024 BUDGET INTRODUCTION

The Lakewood Water District and staff are pleased to present the District's 2024 Budget. It is important to note that so many of the District staff contribute to producing parts of the budget, which lends itself to a pride of authorship.

The 2024 Budget theme is ***"Serving Healthy Communities Through Responsible Water Practices,"*** as a reflection of the District's mission statement, which was refined in 2023. This budget includes the operational and maintenance expenses along with Capital Improvement and Replacement & Rehabilitation (R&R) system expenditures, a District forecast of cash flow for 2024, a summary of activities in 2023, and salary, benefit, and staffing level recommendations for 2024.

The 2024 budget has been challenging to assemble for multiple reasons. First, the State Action Level (SAL) and the new pending Maximum Contaminant Level (MCL) from the EPA, which is much lower than the SAL, posed a challenge for the District's 2024 budget. At this time, it is anticipated that in early 2024, the EPA will announce what the MCL will be for 6 PFAS compounds it plans on regulating. This shift in regulations changed what was previously an \$18.8 million capital budget for PFAS projects over a five-year period, to \$32.9 million over a seven-year period. Additionally, as was the case



in 2023, staff continued looking for ways to reduce the financial impacts of PFAS on our ratepayers through available grant opportunities and low interest loans through State and Federal programs. Finally, the District incorporated the individual input from the Board regarding the 2024 budget and how it impacts our ratepayers in combination with general inflation. Even with all of these moving pieces, staff has developed a comprehensive budget that balances sustainable rate impacts, protects community health, and invests in the long-term reliability of the water system. This budget truly reflects the District's mission of "Serving healthy communities through responsible water practices," and is one we are proud to present.

The purpose of this budget report for the Lakewood Water District and its customers is to provide financial direction and resources for the District's operations and maintenance (O&M) activities and provide funding for capital projects as well as the necessary ongoing replacement and rehabilitation of its existing infrastructure. The District's budget continues to be a map in guiding the year ahead and will adjust to meet the needs of our customers today and in the future.

There continue to be emerging issues facing the District. As has been the case the last two years, we will continue to face issues regarding per-and-polyfluoroalkyl substances referred to as PFAS. Additionally, the District will focus on lead and copper rule revisions, and other testing requirements under the Safe Drinking Water Act. PFAS started to emerge at the forefront of the District in 2016 when Joint Base Lewis-McChord detected high levels of PFAS in five wells. This led to the District testing for PFAS at its wells closest to the base to the lowest measurable level possible. It was discovered in 2016 at very low levels in six wells. At that time, the EPA had established a lifetime health advisory level of a combined 70 ppt (parts per trillion) for the two most common chemicals within PFAS chemicals: PFOA and PFOS. The EPA stated that above 70 ppt over the lifetime of exposure may have health risks. Over the last seven years, PFOA and PFOS are the two main chemicals found in quarterly testing that have been detected in some of the District's wells in the A & C aquifers. The Board of Commissioners established in 2019 that any wells tested above any state or Federal regulations would be taken out of service and evaluated for adding treatment or drilling the well into a deeper aquifer. Ponders Well Site was the first to have a Granular Activated Carbon (GAC) filtration system added to filter PFAS from the drinking water; the second was Scotts Well Site.

Over the course of 2021, the Washington State Department of Health advanced its PFAS rule, which establishes State Action Levels (SALs) for five PFAS compounds. These SALs went into effect at the beginning of 2022 and were significantly lower than the federal EPA's Health Advisory Levels at the time. The SALs trigger monitoring and reporting requirements. In the first half of 2023, the EPA came out with an interim lifetime health advisory level for four PFAS compounds:

- PFOA 0.004ppt
- PFOS 0.02ppt,
- GenX chemicals 10ppt, and
- PFBS 2,000ppt.



However, no known laboratories currently can reliably test down to those levels. Later in 2023, EPA published it's draft MCLs for 6 PFAS compounds:

- PFOA at 4.0 ppt
- PFOS at 4.0 ppt, and
- a calculated health index that takes into account a combination of GenX, PFNA, PFBS, and PFHxS

It has been circulated that by 2024, the EPA will establish a Maximum Contaminate Level (MCL) for 6 PFAS compounds. If so, we have heard that utilities would have until 2026 to develop a PFAS strategy to be approved by the EPA. More information can be found in the Engineering Manager's 2024 budget forecast.

In 2023, lead and copper testing was completed in compliance with State and Federal requirements. Yet again, all samples taken were well below MCL for both lead and copper. The testing for lead and copper is directly related to the use of lead and/or copper pipes. When these pipes corrode, they can leach copper and lead into the drinking water. There are no known uses of lead pipes being used by the District other than a very limited period in the late 40s to mid-50s when leaded goosenecks were used. The District has been testing lead and copper for over 27 years. Fortunately, the neutral pH levels and the makeup of the water prevent corrosion of our water system materials. As always, the District will continue to diligently work as efficiently as possible to serve its ratepayers with high-quality, safe, reliable drinking water at the lowest rate practically possible. In 2024, the District will complete a service line inventory that will document the material of all the District's service lines as required by the State and EPA.

The District continues to address its aging distribution system through the Rehabilitation and Replacement (R&R) Program. The water system is now 80-plus years old. The District has replaced over 45 miles of the distribution system since 1995, which has resulted recently in the majority of water main materials no longer being AC. Several system components including tanks, wells, pumping facilities, and treatment equipment are approaching or past their designed useful life. This does not mean they have to be removed from service immediately but, rather, that an acceptable plan was adopted by the Board of Commissioners for replacement as needed and when needed. That includes assessing and determining the most cost-effective options and beginning the process to fund, design, and construct these capital and R&R projects, many of which will be extremely expensive and time-consuming to complete.

In 2021, the Board of Commissioners agreed to a plan to help pay for current and future large capital expenses through the revenue from wholesale water sales. The Board has set up a funding mechanism for both needs from consultant studies in 2017 and 2019, which identified the need for future tank replacements and rehabilitation of existing well sources and new wells.



2023 BUDGET FINANCIAL SUMMARY REPORT

The District has endeavored to complete all outlined capital projects and all annual programs each year. For the most part, the District's capital projects were completed as outlined in the 2023 budget, with only a few exceptions. The District's operation and maintenance programs were either completed early or on time. As the five-year financial forecast mentioned, the District planned to go to the bond market in 2023 to help with the capital projects in 2023. However, midway through 2023, some capital projects came in under budget, and others, due to timing issues, led to more cash on hand than originally planned. Capital spending is projected only to reach 72% of the total budgeted capital (\$8.2 million projected vs. \$11.5 million budget). This also adds to the beginning cash balances for 2024. The ending cash balance for 2023 was forecasted to be at \$9,164,037; however, it is now estimated that the ending cash balance for 2023 will be around \$9,906,375 without any bonds issued.

Another positive factor contributing to the positive cash on hand in 2023 was receiving a low-interest loan from the Public Works Board. The District submitted two applications, one for Country Place Well, which was awarded the \$4.0 million loan that we requested, along with the 88th & Pine Well site for \$6.0 million. These loans are at a very low interest rate of 1.38%. The amount of money available for loans in this biennial budget approved by the state legislature was around \$221 million. However, the Public Works Board received over 85 applications, totaling \$312 million. Of the 85 applications received, 61 were approved for loans; the District's two projects were ranked 14 & 23 in the entire state!

Also, in March, the District received two Drinking Water State Revolving Fund loans totaling \$8.2 million and an interest rate of 2.25% from the State Department of Health. The first year of this loan in 2024 will be interest-only payments.

Capital is the most contributing factor that drives the need for increased rates. The fact is, even when customer rates need to be increased based on the needs of this utility, and we deliver on what we have told ratepayers the money was needed for, we continue to earn the trust, credibility, and confidence of our customers.

In the 2023 Budget, there were eleven areas of focus:

1. PFAS/PFOS – Year 1 of 5-Year Mitigation Plan
2. Federal grant funding new wells G-4 (Scott well site) K-3 (Lake Street well site)
3. Replacement wells at I-3, O-2, & O-3 – we will begin designing them in 2023.
4. Design Expenses for 2024 R&R Capital projects
5. Scott Well site improvements – carryover from 2022 to 2023
6. Building and Yard Expenses Paving and Drainage
7. Expand source capacity withdrawals from existing wells P-2 and F-2
8. Inspect/Rehab E-3
9. 104th & Bridgeport Generator
10. Washington Boulevard Seismic (Design)
11. 104th & Bridgeport Seismic (Design)



INTERNAL CONTROLS REVIEW

For the 28th year in a row, the State Auditor's Office (SAO) completed its annual review and awarded the District a clean audit. The SAO's official Accountability Audit and Financial Statement Audit Reports again noted no deficiencies. They complimented the District's strong financial policies, precise accounting internal controls, and competent and cooperative staff.

The General Manager reviewed areas within the organization and the internal controls and verified those controls. This led to a complete review of all departments of high-risk areas and a review of current internal controls. Each department was tasked with providing the General Manager with documentation of risks. In 2024, each department will be required to randomly review their risk areas twice a year and provide a report to the General Manager to help ensure checks and balances.

On several occasions, the General Manager reviewed with the Operations and Maintenance Manager, Finance Manager, Engineering Manager, Office Manager, and Human Resources Manager areas examined for any ethics violations or fraud by staff or management personnel, consultants, or vendor relationships with the District. Reports received from all managers identified the areas reviewed, and no issues were reported. The Human Resource Manager will also explain and remind the District staff of procedures and processes for reporting such activities within the organization.

The General Manager is very pleased to report the continued support of District employees in making wise and efficient use of District employment within the parameters of the Employee Handbook and business ethics and standards set forth by the Board of Commissioners.

2024 BUDGET OVERVIEW

In the 2024 Budget, there will be eleven areas of focus:

1. Replacing GAC media at Ponders Well Treatment Site
2. Drill new G-4 Well at Scott well site
3. Drill new K-3 Well at Lake Street well site
4. Drill replacement O-2 Well at Oakbrook site
5. Design and bid I-3 Well drilling at Hipkins site
6. Country Place U-1 Well GAC Facility
7. 88th & Pine J-Wells GAC Facility
8. Hipkins Road Water Main R&R Project
9. Design of Nyanza Road Water Main R&R Project
10. Inspect and Rehabilitate P-2 Well and E-3 Well
11. Final design of seismic retrofits for Washington Boulevard and 104th & Bridgeport tanks

Outlined in **Section One** of this 2024 Budget are the District's estimated revenues, expenses, and net income for the year.



All the financial components of this 2024 Budget are in keeping with the Board of Commissioners' direction to District staff to meet and maintain the District's financial health. It is remaining in line with its financial policies, including maintaining a 2.0 combined debt coverage ratio, and maintaining 180 days' cash coverage of operating expenses. For 2024, this means maintaining annual cash reserves to a level of \$2.3 million for the operating fund, \$2.1 million for the capital fund and \$805,000 for the debt reserve fund totaling to \$5.2 million.

In October, at the budget workshop, the rate analysis showed the need for a rate increase in order to meet the needed capital projects over the next five years. Fortunately, due to higher than anticipated water sales and the procurement of over \$18 million in low-interest loans, the rate increases projected in 2024 are significantly lower than originally anticipated in the 2023 budget.

In 2021 the Board approved using the net income revenue from wholesale water sales in order to help with needed funding for future tank replacements and address existing well sources. This revenue source helps to build up cash reserves and reduce borrowing for these facilities in the future. Ultimately, because of the new income from wholesale water sales and the financial capacity it affords the District, there is a benefit for existing and future ratepayers on utility rates.

For 2024, the District continues to incorporate wholesale water revenues resulting from the Wholesale Transmission Main Extension (WTME) project in the rate model and the wholesale contracts with the Town of Steilacoom, Summit Water and Supply, Washington Water, Firgrove Mutual, and Spanaway Water. Wholesale water revenues are projected to be \$6.2 million in gross revenue, which is \$416,425 or 7.2 percent higher than the 2023 budgeted revenue.

We are projecting the District's total operating revenue at \$19,471,318, which is \$1,719,541 or 9.7 percent higher than the previous year's budget. This results from two major factors—the proposed weighted average rate increase of 8.00 percent as well as the projected increase in the rate calculation for the District's wholesale partners, which accounts for the proportional cost sharing for several capital projects as documented in our wholesale partner contracts.

On the expenses side, power purchased for pumping expenses increased by 5.14 percent as a result of increased vendor rates. This expense account increased by \$50,553. Wholesale facilities O&M expenses increased to \$312,696 from \$272,698 of which 80.8 percent or \$252,742 accounts for power costs related to pumping water to the District's wholesale partners.

The Maintenance Expenses before depreciation increased by \$107,631 or 5.27 percent compared to the 2023 budget. This net increase is made up of different budgeted expense increases with a couple of decreases. Some of these key factors include the maintenance of pumping equipment, maintenance supervision, maintenance of meters and paid time off.

The bottom line here is that the District is projected to have a net income of \$4,609,092 for 2024 compared to 2023 projected net income of \$3,762,488 (22.5 percent increase in



net income). This projected increase in net income results from the higher usage projected in 2024 compared to the 2023 budget. It has been recommended, based on capital projects and expenses, a weighted rate increase of 8.00 percent on retail water for 2024.

The District's rate payers are reaping the benefits of the investments for the WTME in the form of \$6.2 million in gross revenue that helps buy down a significant portion of the rate changes for the fiscal year 2024.

As part of the 2024 budget, it is recommended that the Board of Commissioners adopt a weighted average rate increase for 2024 of 8.00 percent which means that the average customer using 1500 cubic feet of water will pay an additional \$2.05 per month or \$4.10 per billing cycle. It can be noted that in the past two years the cost of living in the region has increased nearly 15 percent: 10.1 percent in 2022 and 4.51 percent in 2023, which is a similar amount to our rates over the same time period.

Additionally, the needed rate increase for the upcoming fiscal year 2024, on both the General and R&R rates, is largely due to the capital needs over the next five years. The list of capital and R&R spending for 2024 can be seen on page 49. To help offset the impact to rates in the near-term due to capital projects driven by PFAS issues, the R&R spending is proposed to be reduced for 2024 and 2025 to roughly half of historical amounts. This has the effect of reducing the potential rate impacts in those years, while potentially extending the R&R program by one year unless additional R&R projects are completed in future years to make up for these years of reduced spending. Because of the evolving regulations regarding PFAS, the five-year capital budget may change once EPA has finalized their regulations regarding PFAS. We have taken a proactive approach in addressing our impacted sources and the five-year capital program reflects this. A list of the forecasted five-year capital and R&R spending can be found on page 55.

The District continues to meet best management practices as they relate to the rehabilitation of its pumping operation grounds, buildings, and facilities in order to minimize the rate impact on District customers.

The Commissioners continue to support financing resources needed to maintain maintenance, operations schedules, and practices avoiding deferred maintenance.

Section Two is directly related to wholesale water. Page 33 outlines the history of the District's efforts to provide wholesale water to neighboring purveyors, the revenues generated by the District to benefit its customers, a summary of current activity to date, and forecasted activities for the upcoming year of 2024.

Wholesale water has been actively delivered to the Town of Steilacoom since 1997 from the distribution system in the west area of the District. In 2019, the Town of Steilacoom and the District successfully entered into a new wholesale contract which resulted in a switch from a rate based on a specific asset to a rate based on joint assets that are reflective of the current situation and also provides redundancy of assets to provide service to the Town.



Summit has been actively taking water since 2008 through the District's Wholesale Transmission Main. Additionally, Washington Water and Firgrove have been taking water since 2020. Spanaway, in January 2023 began taking water from the recently completed connection to the Wholesale Transmission Main. Now all wholesale partners are paying their share of the total capital cost of the transmission line as called out in their contracts through their monthly fixed charge.

Section Three, beginning on page 40, outlines the capital improvement and Replacement & Rehabilitation (R&R) projects proposed for 2024 and the extended forecasts for 2025 through 2029. The capital and R&R projects proposed for 2024 total \$14.5 million. The 2024 capital projects, as outlined, will once again be a very large capital spending undertaken by the District. These projects vary in size and scope. The R&R program was instituted by Board of Commissioners in 1995 and has been instrumental in replacing aging, undersized mains to improve fire flows, increase reliability and reduce water system leakage.

A few highlights of the planned activities for 2024 include drilling new and replacement wells and two new GAC filtration systems – all to offset the impacts of PFAS. Two of the new wells proposed are grant funded through Federal Direct Appropriation funds sponsored by Senator Murray. The two GAC facilities are funded through low interest loans received through the Public Works Board, with an interest rate of 1.38% over 20 years. Other highlights include the continued pursuit of the District lawsuit against the federal government as it relates to PFAS, the continuation of the District's 50-year R&R Program, and the replacement of the GAC filter media at our Ponders well site. We also continue to pursue an additional \$1.86 million in grant funding from the State to complete two proposed wells. This funding is included in the Governor's 2024 supplemental budget request to legislature.

Section Four, beginning on page 65 of this budget, reflects the District's organizational structure and personnel including 2023 accomplishments. This budget includes an allowance for a potential new hydrogeologist position for 2024. This position is proposed to be added due to the increased reliance on the deeper aquifer system, multiple new wells proposed over the next five years, and an increased interest level from the public and other regional stakeholders on the District's impact on groundwater resources. A specialist in aquifer system and groundwater resources would allow the District to offset some significant costs that would otherwise be spent on consultants and would better position the District to respond to questions or other issues that arise.

Section Five, beginning on page 85, provides employee salary and benefit information, including salary recommendations, benefit costs, staffing levels, employee classifications, and proposed recommendations for 2024. The General Manager will be proposing an overall employee annual wage increase of 7.51 percent, with 4.51 percent COLA (in keeping with the Seattle-Tacoma-Bellevue CPI-W and District peer projections) and up to 3 percent merit.

The January 1, 2024, renewal of the District's medical insurance plan through Regence Blue Shield came in at an increase of 4.5 percent, and Delta Dental of Washington came in at an increase of 3.5 percent. Principal Financial Group, which provides life insurance and long-term disability coverage, had an increase of 4.7 percent. The District currently



pays for medical and dental premiums at a rate of 100 percent of the employees, and 90 percent of the employee's dependents. Through surveys of other water utilities in the area, it is common for the utility to pay for 100 percent of dependent premiums as well. In order to remain competitive with peers in our industry, and in accordance with direction provided by the Board at the November 2023 regular meeting, the 2024 budget includes an increased benefit of the District covering 100 percent of premiums for employees and their dependents. This results in an increase of approximately \$41,000, or 0.7 percent of the total loaded labor costs for 2024.

Paid Family Medical Leave will decrease throughout the State of Washington. The District currently pays the employee side of the contribution. Employers with fewer than 50 employees are not required to pay the employer portion of the premium. In 2023, it was 0.8 percent split 27.24 percent for employers and 72.76 percent for employees. The total premium for PFML for 2024 will decrease to 0.74 percent. Employers will pay 28.57 percent of the total premium, and employees will pay 71.43 percent.