



SPANAWAY WATER COMPANY
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2021 ANNUAL COMPANY REPORT

November 15, 2021

This report provides members with information about the past year's activities and future planning efforts. This report is posted along with our annual accountant's report on our website, spanaway-water.org. Spanaway Water Company (SWC) is owned by its members, who in turn elect the Board of Directors that govern the operations of the Company under our Articles of Incorporation and By-laws.

Due to the coronavirus pandemic, the Board of Directors has determined that in the interest of public health, no public meeting would be held. The two Board of Director members who would have stood for election last year and the two this year, will continue in their positions for one additional year and will stand for elections at the 2022 annual meeting. We anticipate that by next November, we should be able to return to normal, in person, annual meetings where the members vote for, and if interested run for, Board of Director positions.

Articles of Incorporation:

Spanaway Water Company (SWC) was incorporated in 1953. The original Articles of Incorporation were amended in 1977 to conform to the Washington Nonprofit Corporation Act, RCW 24.03 (the "Existing Act"). In April of this year the legislature passed SB 5034 (the "New Act") which will repeal and replace the "Existing Act". In many respects the "New Act", addresses matters of specific relevant to charitable non-profit organizations. The "New Act" goes into effect 1/1/2022.

The Spanaway Water Company Board of Directors, having consulted with legal counsel, recommends that SWC reorganize as a nonprofit mutual corporation under RCW 24.06, the Nonprofit Miscellaneous and Mutual Corporations Act (the "Nonprofit Mutual Act"). The Board believes the "Nonprofit Mutual Act" is better aligned with existing business operations as a nonprofit water utility, and has adopted a resolution stating that it is in the best interest of SWC to amend and restate its Articles of Incorporation for reorganizing SWC under the "Nonprofit Mutual Act". The "Nonprofit Mutual Act" was developed specifically for utilities like SWC. The vast majority of the nonprofit water utilities represented in the Regional Water Cooperative of Pierce County are organized under the "Nonprofit Mutual Act".

CAPITAL PROJECTS for the Existing Water System funded from Capital Project Fees:

Secondary Booster Pump Station (FY 2021): SWC had identified a need for a redundant booster pump station to supply the 610 Pressure Zone. A packaged pump station was installed within the former abandoned Clarewood facility building located on 196th Street East. This facility previously housed a packaged booster pump system that was re-located to Tank No. 3 several years ago. This secondary booster system provides much needed redundancy and allows shut down of the primary booster station for maintenance and repairs.

Meter Replacement Program (FY 2019-25): We are in a six-year, 2,000+ meters per year, replacement process installing new Kamstrup ultrasonic meters. These new meters register low flows better than mechanical meters. The water use efficiency benefit should be a five to ten percent decreases in unaccounted water as documented by other water systems.

Well Telemetry (SCADA) (FY 2019-23): We are past the midpoint of updating our telemetry control system which helps us operate the water system by providing remote access to well and tank sites. The system also monitors tank levels and provides alarms for many site conditions including water quality and site security. The new system also allows greater programming access for our staff and local engineering support.

Water Main Renewal and Replacement Program - R&R (on-going projects): The fourth A/C (asbestos cement) main replacement project, not associated with a County road or sewer project, is scheduled for this winter. This R&R project will be the reconstruction of selected water mains on the west side of Pacific Avenue, between 167th St S and 169th St S. These projects replace aging 4-inch and 6-inch A/C mains, rebuild water services, and replace fire hydrants and other system infrastructure. Additional future R&R projects will first address known areas with problematic failing A/C mains, generally the oldest portions of the water system.

CAPITAL PROJECTS related to growth funded from new Membership System Development Fees:

174th St E - east of 22nd Ave E (FY 2021): This main installation project included the installation of approximately 600 feet of 8-inch ductile iron water main and one new fire hydrant. The extension connected the existing 12-inch main within 22nd Ave E to the existing 8-inch main near 24th Ave Ct E.

Waller Rd E Main Extension (FY 2021): This water main installation project included the installation of approximately 800 feet of 12-inch ductile iron water main. The extension connected the existing 12-inch main within 176th St E and the 12-inch main installed for the new Katherine G. Johnson Elementary School providing a direct hydraulic connection between 176th St E and Military Rd E.

Additional Primary Water Rights (FY 2019-2022): With on-going growth within our service area and the difficulty of obtaining additional water rights, the Company is actively pursuing additional supply under the 2018 “Hirst/Foster” fix legislation. As one of five designated pilot projects across the State, we are pursuing additional water rights with the understanding that we will be required to mitigate any surface water impacts the use of those new rights create. Key to this project is the update to the Chambers/Clover Creek USGS groundwater model. As potential mitigation, the Company purchased the Brookdale Golf Course water rights. These rights will either be used as part of a larger water right mitigation package or transferred to the Company’s existing wells should mitigation prove to be unfeasible. With the growth occurring in the Company’s service area, it is clear that the Company’s current water rights will eventually not be sufficient to meet future demands although conservation can and does help extend the existing water supply. With the delays and uncertainties in the USGS model and possible mitigation process, the Company has entered into a wholesale water agreement with Lakewood Water District.

Lakewood Water District (LWD) Wholesale Agreements (FY 2020 on): The Company faces continued growth, limited water rights, and difficulty or impossibility obtaining additive water rights. Under Department of Health and Pierce County regulations, we must plan to have water supply available for all development within our designated service area. Because of the delays and

uncertainties of the USGS model and Foster project mitigation, the Company entered into an agreement with Lakewood Water District to purchase two million gallons of water per day (2 MGD). We have partnered with Summit Water and Supply, Firgrove Mutual Water, Washington Water Services (formerly Rainier View Water Company), and LWD to build the infrastructure needed to provide SWC wholesale water. Construction of the main connecting the Company's system with the LWD transmission main is expected in 2022 with actual water use in January of 2023.

Well 11 (FY 2021-2023): SWC has contracted with our engineers to permit the drilling of a test well at our office/shop facility on 'B' Street E. The future development of an actual production well at this site will be determined by the flow and capacity results of the test well.

All of these projects address both current and long-term needs. As the projects move forward, the Company works to ensure that growth pays for growth while existing customers support the needs of the existing system. Between 2013 and 2021, SWC has invested over eighteen million dollars back into the water system, not including new construction/plats donated to the system by plat developers.

REGULATORY UP-DATE & ISSUES:

Unregulated Contaminant Monitoring Rule IV (UCMR 4): This fourth round of testing included 20 unregulated contaminants (two metals, eight pesticides plus one pesticide manufacturing byproduct, three brominated haloacetic acid [HAA] disinfection byproducts groups, three alcohols, and three semi-volatile organic chemicals [SVOCs]). Sampling under UCMR 4 was completed in the 2020 monitoring period and involved two sets of samples taken 5 to 7 months apart. Spanaway did not have issue with any unregulated contaminants under UCMR 1, 2, and 3.

PFAS Per- and polyfluoroalkyl substances: PFAS continues to have extensive reporting in the media, and active regulatory consideration at both the State and Federal levels. The State Department of Health is currently developing rules for five PFAS compounds. Spanaway Water sampled for PFOS and PFOA, the two major legacy compounds, as part of the UCMR 3 with no detections at any of our wells.

Customer Assistance Program: COVID-19 has placed a hardship on everyone, especially those whose income has been impacted. Thank You to all of you who have worked to keep your water service current! To help those adversely affected by COVID and with guidance under Governor Inslee's proclamations 20-23.1-9, the Company discontinued charging late fees and disconnecting water services for lack of payment until the moratorium was lifted on September 30, 2021. We have also developed a "Customer Assistance Program". This program is now in place. In order to allow time for our customers to sign up for this program, we will continue to stop charging late fees and disconnecting water service until January 1, 2022.

The key component of the Program is the use of "Deferred Payment Arrangements". The program will provide an extended period during which past due deferred accounts can be paid down. After the payment deferral period begins, customers will be required to request a payment arrangement period to spread out the past due payments over that arrangement period. During their arrangement period, current billings will need to be paid and kept current while the past due amounts are also being paid.

To participate in the program, customers will have to complete a payment arrangement application and attest that their ability to pay water bills has been adversely impacted by COVID-19.

Applications are available on the website or at the office. Those struggling with utility bills due to COVID should see similar programs from other utilities as well. We hope that each of you impacted by the pandemic recover well.

America's Water Infrastructure Act: Under this federal act, water utilities were required to develop a utility specific risk assessment and emergency plan update. These required documents expanded on work we have already completed for vulnerability assessments and emergency response planning under state and federal directives. The new plans must be updated every five years and certified to the EPA.

Water Rates: After completing the annual review of operations, maintenance, improvements to water treatment processes, increased non-growth related required system capital improvement projects, and needed telemetry upgrades, 2022 will see a small bi-monthly increase in water rates. The average two-month bill is anticipated to increase from \$72.25 to \$74.30 or \$1.03 per month.

For 2022, the water rates will increase as follows:	2021:	2022:
Base Rate:	\$ 20.00	\$ 21.00
EPA Treatment Charge:	\$ 7.00	\$ 7.00
Capital Projects Fee:	\$ 24.00	\$ 24.00
0 — 500 cubic feet	\$ 1.05	\$ 1.10
501 — 1,500 cubic feet	\$ 1.15	\$ 1.20
1,501 — 2,500 cubic feet	\$ 1.50	\$ 1.60
2,501 — 4,000 cubic feet	\$ 2.10	\$ 2.25
4,001 — 7,500 cubic feet	\$ 2.75	\$ 2.95
7,501+ cubic feet	\$ 3.25	\$ 3.50

The following shows 2021 and 2022 bi-monthly water rates at different usage levels based on typical bi-monthly water use by general season:

	2021:	2022:
Winter: 1,500 cubic feet (11,220 gallons)	\$ 67.75	\$ 69.50
Summer: 3,500 cubic feet (26,180 gallons)	\$ 103.75	\$ 108.00
High Usage: 7,500 cubic feet (56,100 gallons)*	\$ 210.50	\$ 222.50

For homes on the Spanaway Water System, the 2021 annual average water use per bill cycle for the entire year was 1,800 cubic feet (equals 224 gallons per day), slightly above the winter volume in the table above.

(One CCF = 100 cubic feet = 748 gallons)

GENERAL WATER ITEMS:

2020-25 Water Use Efficiency Goal: Under Washington law and Washington Department of Health regulations, “municipal” water suppliers are required to develop and implement a Water Use Efficiency Program and Goal every six years. 2019 ended our second six-year planning period under these requirements.

Metered water consumption for fiscal year 2020 was 238 gallons per unit per day (GPU). The six-year planning period's prior years use were as follows 2019=208, 2018=221, 2017=211, 2016=199, 2015=230, 2014=201 with an average use of 211.67 GPU. The six-year average for the period 2008-2013 was 214.5 GPU. This is a reduction of 1.36%, just short of the desired 1.5%. We

believe the increase for 2020 was largely due to the anomaly of residents staying home and working from home during the pandemic. Since water use efficiency goal setting was established beginning in 2008 customer water use has been reduced from 251 GPU in 2007 to 238 GPU in 2020 - a reduction of 5%.

Spanaway Water had identified that water loss is increasing. To address this issue SWC will contract for another full water system leak detection survey in 2022. Due to the gravelly bank run material throughout the water system, leaks are difficult to identify as they rarely surface. For this reason we have planned and budgeted for full system leak surveys every three years.

Pierce County Coordinated Water System Plan: After nearly two years the update of the 2001 Countywide plan for water systems and supply has been completed. The plan is mandated under the Revised Code of Washington and primarily addresses service areas, service area obligations, design standards, population and demand forecasts, boundary review, joint projects, water use efficiency, fire flow requirements, procedures to address failing water systems, and includes all individual water system plans.

Local Water Organizations: Spanaway Water Company remains active with the Regional Water Cooperative of Pierce County, the Washington Water Utility Council, and the American Water Works Association, to help address the water needs of the Company's members.

- The Regional Water Cooperative of Pierce County has 26 members and is unique in the state. The Co-op benefits members through representation of public water interests at state and local governmental levels, member-shared equipment, water quality and technical coordination, group purchase price reductions, and information sharing. The Co-op actively represents the area's public water purveyors through participation in the Washington Water Utility Council, and as needed in legal issues.
- The Washington Water Utility Council (WWUC) continues activities on the statewide level representing public water systems before the legislature, state agencies, and the courts.
- Pacific Northwest Section of the American Water Works Association is a valuable resource that provides required training to maintain Department of Health operator certifications and a forum for information sharing.
- South Sound Subsection of the AWWA serves the southern sound area and is also active in providing continuing education classes and support for the AWWA's international "Water for People" and the Living Access Support Alliance through its regional golf tournament.

Your Employees at work: The management team would like to acknowledge the hard work of the Company employees to keep safe and reliable water flowing through the difficulties of the COVID-19 pandemic. The office staff processed bi-monthly billing for over 10,500 accounts, 1,332 move ins and outs, 2,788 meter/register change outs, 583 additional work orders, while also responding to a wide variety of customer calls. The field crew completed 500+ work orders, physically changed over 2,000 meters/registers, flushing hundreds of main blow-offs, tested and maintained a thousand fire hydrants, repaired 82 leaks, completed construction inspection, and installed meters. The water quality department maintains daily source inspections, on-going preventative maintenance, weekly analyzer calibrations, and collects over 400 water quality samples from the eleven wells and distributions system.

Abbreviated Profit/Loss Summary:

10/1/2020 to 9/30/2021	Income:	\$ 6,932,358.42
	Expense:	\$ <u>6,651,569.09</u>
	Total net for the period	\$ 280,789.33

2022 Proposed Budget:

10/1/2021 to 9/30/2022	Income:	\$ 6,458,325.00
	Expense:	<u>\$ 7,918,112.00</u>
	Total net for the period	\$ -1,459,787.00*

*Planned deficit - to be funded from system reserves

Future improvements planned for 2022-25:

- Continue to coordinate engineering and construction for the water main replacement program. Budgeted at \$1,000,000 per year.
- Coordinate Well #3 Lowry System air stripping engineering and construction to replace the existing sodium hydroxide system. Budgeted at \$650,000.
- Coordinate engineering and construction for the installation of an automatic isolation valve at Tank 1. Budgeted at \$150,000.
- Coordinate engineering and construction for the Tank #3 recoating. Budgeted at \$700,000.
- Complete engineering and permitting for an additional main zone storage tank, Tank #4, approximately 3.2 MG storage budgeted at \$3,100,000

IN CONCLUSION:

We hope this report serves to keep you informed of Company activities and issues. We continue this effort through the Company's Water Quality Report, Newsletter, Phone Tree, billing notes, and the Company's website at spanaway-water.org. We strive to provide you with safe reliable water at as low a cost as possible, while meeting our responsibilities to our members, Pierce County, the Washington Departments of Health and Ecology, and federal Environmental Protection Agency. Thank you for your interest in your Water Company.