



SPANAWAY WATER COMPANY
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2022 ANNUAL COMPANY REPORT

November 21, 2022

This report provides members with information about the past year's activities and future planning efforts. It is also 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 had determined that in the interest of public health, no public meeting would be held for 2020 and 2021. The two Board of Director member positions that would have stood for election in 2020, the two in 2021, and the two this year will stand for elections at this 2022 annual meeting.

Pandemic Response:

The SWC Board of Directors would like to take this opportunity to publicly thank our entire staff for the effort and the fortitude that it took to get this Company through 2 years of global pandemic. Shutting down, like so many businesses had to do, was never an option for this Company. The Board appreciates the commitment it took to keep the water system operating continuously during that time.

Articles of Incorporation:

The 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 In April of last year the legislature passed SB 5034 (the "New Act") which would have repealed and replaced the "Existing Act". In many respects the "New Act", addresses matters of specific relevance to charitable non-profit organizations.

The Spanaway Water Company Board of Directors, having consulted with legal counsel, recommended 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 believed the "Nonprofit Mutual Act" was better aligned with the business operations of a nonprofit water utility, and adopted a resolution stating that it would be in the best interest of SWC to amend and restate its Articles of Incorporation for reorganizing under the "Nonprofit Mutual Act". This recommendation was put to a vote of the membership last fall and passed overwhelmingly. Thank you to all members who voted. We reorganized under the "Nonprofit Mutual Act" in February 2022.

Rate and Membership Fee Study:

In the fall of 2021 Spanaway Water Company contracted with FCS Group to perform a 'Water Utility Rate Study' and a 'Water Membership Fee Study'. The analysis included operations, maintenance, improvements to water treatment processes, proposed capital improvement projects, and telemetry system upgrades. The SWC Board has approved and adopted the recommendations that came from those studies. Both recommendations will be put in place starting January 1, 2023.

Lakewood Water District Wholesale Agreement:

Spanaway Water has entered into an agreement to purchase two million gallons per day of wholesale water from the Lakewood Water District. We will be paying for the installation of 12-inch water main connecting us to Lakewood's existing wholesale water transmission main. This main currently provides water to Summit Water & Supply, Firgrove Mutual Water and Washington Water Services (previously Rainier View Water). This required connection is the result of the growth within our service area and the challenges to obtain additional water rights from the Department of Ecology. We anticipate taking water from Lakewood Water District starting in January 2023.

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 2021 was 249 gallons per unit per day (GPU). 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. We believe the increase for 2020 and 2021 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%. SWC will plan to keep the current conservation goal of .5% annual reduction in household water usage.

To help address water loss SWC contracted for a water system leak detection survey in 2022. Due to the gravelly soils throughout the water system, leaks are difficult to identify as they rarely surface. For this reason we plan and budget for full system leak surveys every three years.

CAPITAL PROJECTS:

Capital Projects:

The Company invests capital projects fees back into the water system – replacing aging infrastructure and installing new facilities. This work has been performed in the past without loans and the additional cost of loan interest payments. This process is maintained through the regular collection of capital project fees incorporated within the water billing base rate.

Secondary Booster Pump Station:

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.

Main Replacement Program:

The ongoing Renewal and Replacement (R&R) is our infrastructure replacement program. The focus is on the sixty miles of aging asbestos cement (A/C) water mains. These projects effectively rebuild the water system, section by section, work includes water mains, service lines, valves, fittings and fire hydrants. Currently these projects are focused on areas with on-going leak issues as we work our way through all of the existing A/C mains over the next fifty plus years. Last year's R&R #5 project replaced water mains in the area west of Pacific Avenue from 167th Street South to 169th Street South. This project included the replacement of over 4,000 lineal feet of water main. The next project will be a continuation of neighborhoods located to the south of this work. Thank you again for

your patience dealing with flaggers and the temporary road closures required to complete these projects.

Well 11:

We have started the process to determine the viability of drilling Well 11 at our office/shop property. A test well has been drilled to approximately 600'. The drilling company has performed pump tests to try to identify the potential production at two different water-bearing levels. We received the water quality tests taken to determine if there will be a need to treat for iron and manganese. We will have the well driller develop the test well at the shallower level and perform a 24 hour pump test. The decision to proceed with the development of a permanent production well at this site will be based upon the test well production levels.

Meter Replacement Program:

We will be entering our fifth year of replacing mechanical meters with electronic meters. The new meters are also 'radio read', and they provide a level of reliability and low flow registration not possible with mechanical meters. We hope to see a water use efficiency benefit at a five to ten percent decreases in unaccounted water as documented by other water systems. It is planned for this replacement project to continue over the next two to three years before completed.

Telemetry System Upgrades:

We have completed our two-year project of upgrading our SCADA control system hardware and technology. SCADA, short for Supervisory Control and Data Acquisition, is the control system that gives our staff the ability to operate and monitor our booster stations, wells, and storage tank operations either on-site or from our main office facility. The system also 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.

Planned Future Capital Improvements:

- Continue to coordinate engineering and construction for the ongoing R & R program.
- Continue to coordinate and commit staff to the meter replacement program.
- Continue to coordinate engineering and construction of Well 11.
- Coordinate engineering and construction for the recoating of Tank #3.
- Begin preliminary engineering and permitting for an additional main zone storage tank, Tank #4, approximately 3.2 MG storage.

2022 Abbreviated Profit/Loss Summary:

10/1/2021 to 9/30/2022	Income:	\$ 6,785,366.79
	Expense:	<u>\$ 6,575,278.14</u>
	Total net for the period	\$ 210,088.65

2023 Proposed Budget:

10/1/2022 to 9/30/2023	Income:	\$ 6,835,531.90
	Expense:	<u>\$ 11,443,448.21</u>
	Total net for the period	\$ (4,607,916.31)*

*Planned deficit (includes LWD wholesale water main and fees) to be funded from system reserves

REGULATORY UP-DATES:

Unregulated Contaminant Monitoring Rule V (UCMR 5):

This fifth round of testing included 30 unregulated contaminants (one metal, and twenty-nine per- and polyfluoroalkyl substances (PFAS)). Sampling under UCMR 5 will involve two sets of samples taken five to seven months apart. Spanaway did not have issue with any unregulated contaminants under UCMR 1, 2, 3 and 4.

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 for the testing levels required at that time.

Customer Assistance Program:

COVID-19 had placed a hardship on everyone, especially those whose income has been impacted. 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 had also developed a "Customer Assistance Program" that allowed the use of "Deferred Payment Arrangements". The program provided an extended period during which past due deferred accounts could be paid down.

Water Rates:

Per the FCS Group analysis of operations, maintenance, improvements to water treatment processes, capital improvement projects, and telemetry upgrades, 2023 will see a 7% increase in water rates. The average two-month bill is anticipated to increase from \$74.30 to \$77.08 or \$1.39 per month.

For 2023 the water rates will increase as follows:	2022:	2023:
Base Rate:	\$ 21.00	\$ 22.47
EPA Treatment Charge:	\$ 7.00	\$ 7.49
Capital Projects Fee:	\$ 24.00	\$ 25.68
Water Use Charges: (Usage: 1 CCF = 100 cubic feet = 748 gallons)		
0 — 500 cubic feet	\$ 1.10	\$ 1.18
501 — 1,500 cubic feet	\$ 1.20	\$ 1.28
1,501 — 2,500 cubic feet	\$ 1.60	\$ 1.71
2,501 — 4,000 cubic feet	\$ 2.25	\$ 2.41
4,001 — 7,500 cubic feet	\$ 2.95	\$ 3.16
7,501+ cubic feet	\$ 3.50	\$ 3.75

The following shows 2022 and 2023 bi-monthly water rates at different usage levels based on typical bi-monthly water use by general season:

	2022:	2023:
Winter: 1,500 cubic feet (11,220 gallons)	\$ 69.50	\$ 74.34
Summer: 3,500 cubic feet (26,180 gallons)	\$ 108.00	\$ 115.54
High Usage: 7,500 cubic feet (56,100 gallons)	\$ 222.50	\$ 238.19

(One CCF = 100 cubic feet = 748 gallons)

GENERAL WATER ITEMS:

Local Water Organizations:

Spanaway Water Company remains involved 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 caused by the COVID-19 pandemic. The office staff processed bi-monthly billing for over 10,500 accounts, 1,348 move ins and outs, 2,565 additional work orders, while also responding to a wide variety of customer calls. The field crew completed 800+ work orders, physically changed over 1,650 meters/registers, flushing hundreds of main blow-offs, tested and maintained a thousand fire hydrants, repaired 96 leaks, completed construction inspection, and installed new water service connections. 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.

In Conclusion:

We hope this report serves to keep you informed of Company activities and issues. We hope to continue this effort through the Company's Water Quality Report, Newsletter, Phone Tree, billing notes, and the Company's website at www.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 Fire Prevention Bureau, the Washington State Department of Health, Washington State Department of Ecology, and the federal Environmental Protection Agency. Thank you for your interest in your Water Company.