

TRANSMITTAL LETTER

December 31, 2009

Cascade Water Alliance Members, Board Members and Alternate Board Members:

We are pleased to present to you the 2010 Cascade Water Alliance Budget that was adopted by the Cascade Board on September 23, 2009, by Resolution No. 2009-14. The 2010 Budget establishes the financial plan to provide for continued improvement in the delivery of safe, reliable and clean water to Cascade's Members. The Budget will enable the provision of all Cascade services at no less than 2009 levels, as well as the operations, maintenance, planning, and infrastructure improvements needed for Cascade's water transmission and supply system.

The 2010 Budget positions Cascade well to advance three main initiatives in 2010: 1) the development of the 2010 Transmission and Supply Plan; 2) finalizing the Lake Tapps Environmental Impact Statement, water right, and Record of Examination; and 3) the first year of operation of Lake Tapps.

Cascade is required to submit an updated Transmission and Supply Plan (TSP) to the state Department of Health every six years. The last TSP was submitted in 2004 and work began in 2008 to update it for 2010. The TSP is providing a fresh look at Cascade's long-term water demands and is identifying and evaluating available options to meet the demands. The new TSP will provide the roadmap for Cascade's water supply activities for years to come. Until the 2010 TSP is completed in mid-2010, some uncertainty will remain regarding future costs related to water supply planning and infrastructure development.

As part of the 2010 TSP, Cascade is evaluating various water supply options, including Lake Tapps and new water contracts with Tacoma and Seattle Public Utilities to provide more water for a longer period. Cascade is preparing for negotiations with both utilities in 2010 and 2011. Cascade may also reach an agreement in 2010 with the "Four Cities" (Buckley, Sumner, Bonney Lake, and Auburn) to sell them surplus Cascade water and help offset Cascade's contracted water costs. Looking out further into 2010 and later years, Cascade will encourage a discussion among principal area water providers to strive for an optimal regional approach to delivering water across the greater metropolitan area.



The first year of operation of Lake Tapps will present new responsibilities and opportunities for Cascade. On December 18, 2009, a several-year process was completed by which Cascade purchased Puget Sound Energy's White River Project, including the Lake Tapps Reservoir. The transaction was completed on Friday December 18, 2009, and Cascade is now the owner of Lake Tapps. Cascade looks forward to continuing to work with the Lake Tapps Community in completing the remaining steps under Sections 1.1 and 1.2 of the agreement between that organization and Cascade. With the transfer of Lake Tapps from Puget Sound Energy to Cascade, work efforts will shift to much greater coordination between Cascade and:

- The Lake Tapps Community;
- Pierce County and the cities of Auburn, Bonney Lake, Buckley and Sumner;
- The Puyallup and Muckleshoot Indian tribes;
- Puget Sound Energy; and
- The Department of Ecology.

Cascade's conservation program continues to provide many opportunities for customers to conserve water and lower utility bills. In 2009, Cascade's WaterSense Toilet Replacement program began a market transformation in the region by offering homeowners a \$100 rebate for the purchase and installation of high efficiency toilets with the WaterSense label. Additional activities include WashWise, commercial irrigation audits, rebates for rain sensor installations, a conservation blog on Cascade's website, development of a Conservation Road Show and showerhead and aerator installations at apartment complexes. Cascade is on track to exceed its 6-year conservation savings goal and has new program elements planned for 2010 including an expanded rain sensor installation program and a conservation item order page on Cascade's website. Federal stimulus funds are planned to be used to offer added rebate incentives to customers beginning in February 2010. Cascade has reduced the number of efficient clothes washers eligible for its rebates, but the increased federal funds are something of a wild card for rebates in 2010 since it's difficult to accurately project the anticipated increase in clothes washer sales. Cascade will closely monitor this program and report to the board if it appears the planned conservation budget will be insufficient for the amount of rebates.

The 2010 Budget estimated resources and expenditure authority of Cascade Water Alliance is as follows:



Fund	2010 appropriation authority
Operating	\$42,527,955
Regional Capital Facilities Charge	16,695,257
Rate Stabilization	6,159,200
Construction	5,889,325
Bond	20,190,408
Total	\$91,462,145

In 2010, Cascade will collect **\$28,245,686** from its members (excluding RCFC’s, which are variable). Major budgeted operating expenses in 2010 include:

Water contracts with Seattle and Tacoma utilities	\$20,721,091
Lake Tapps operations and assessment	2,967,075
Cascade staff salary & benefits	1,427,808
Conservation program	1,109,248
2010 TSP completion	1,075,000
Other professional services	<u>853,900</u>
Total	\$28,154,122

The costs above do not include debt service payments and CIP costs, which are funded by RCFC revenue and debt in 2010. Also, due rate smoothing, reserve requirements, and prior year adjustments, member charges in any year will not exactly match budgeted operating expenses. The figures above are meant to provide an approximate correlation of member charges and operating expenses.

The 2010 budget will meet cash flow and reserve requirements as mandated by Cascade’s fiscal policies.

Increases in the 2010 Operating budget over 2009 are driven mostly by the 2010 TSP update, the first year of ownership of Lake Tapps, and increased consumer response to the conservation rebate program. Other components of the 2010 Operating budget are essentially identical to the 2009 Operating budget, with no general increase for inflation and no staff cost-of-living adjustments.

The 2010 Capital Improvement Program (CIP) is \$28,550,000, which includes \$25,945,000 to complete 2009 CIP projects, \$605,000 for new 2010 CIP projects, and \$2,000,000 of contingency funding. The 2009 CIP included significant capital costs related to the acquisition of Lake Tapps,



pipeline projects, and the Eastside reservoir (deferred until no earlier than 2011). The 2010 CIP will buy flow monitoring and water-quality checking equipment and will fund minor improvements to the Bellevue-Issaquah Pipeline (BIP). Starting in 2011, the CIP includes approximately \$2,000,000 per year for Lake Tapps improvements and \$100,000 per year for ongoing BIP improvements. Additional projects may be added pending the outcome of the 2010 TSP. In addition, Cascade is currently in negotiations with the Port of Seattle and other regional public entities to acquire right-of-way along a portion of the Eastside Rail Corridor. A successful outcome of these negotiations may result in additional capital outlays of approximately \$8 million to \$10 million in 2010.

The Debt Service budget in 2010 is \$9,363,731, which is \$3,339,121 higher than in 2009, due to the repayment of bonds issued in 2009. Existing debt service costs include \$62,632 for repayment of a Public Works Trust Fund loan and \$3,896,950 for repayment of bonds issued in 2006.

Funding for the 2010 Budget reflects an average 7.5% increase in Member water charges (adjusted to 7.3% after reconciling for actual 2008 water demand). Capital projects are funded by Cascade’s 2009 bond proceeds.

The 2010 Regional Capital Facilities Charge (RCFC) is the same as the 2009 level of \$6,005. The RCFC is being held steady for three main reasons: 1) the 2010 TSP, and its resulting CIP, will remain a work-in-progress until mid-2010; 2) the current CIP for 2011 through 2020 still includes substantial investments over the next ten years (almost \$100 million in current dollars), which could justify a higher RCFC if those costs are spread over projected growth over the same period; and 3) until the planning process and Lake Tapps assessments are complete, there is not a firm basis for increasing or decreasing the charge and freezing it for one year at least stabilizes the RCFC revenue stream, which is important because Cascade’s debt service is a real expense that rates would have to cover to the extent that RCFCs do not.

Staffing in 2010 will be at the full level (ten positions) authorized by the Board on March 18, 2008:

- | | |
|------------------------------|--|
| 1. Chief Executive Officer | 6. Intergovernmental & Communications Director |
| 2. Executive Assistant | 7. Management Assistant |
| 3. Capital Projects Director | 8. Director of Finance & Administration |
| 4. Director of Planning | 9. Water Resources Manager |
| 5. Business Manager | 10. Operations Manager |



In 2010, staff will propose to the Board that Cascade begin biennial budgets and rate setting. With Board approval, the first biennium will be 2011-2012. The biennial budgets would include mid-biennial reviews and budget and rate updates as needed.

Cascade’s budget development process and document continues to improve. It remains our goal for future budgets to pursue the Government Finance Officers Association of the United States and Canada (GFOA) Distinguished Budget Presentation Award, this is a goal for future Cascade budgets. This program establishes criteria that will help us improve Cascade’s Budget in a manner that enables the document to serve as a policy document, an operations guide, a financial plan, and a communications device. In an effort to build a budget document that meets recognized quality indicators, Cascade intends to apply the GFOA criteria to future budgets, with the goal of receiving the GFOA Distinguished Budget Presentation Award.

Preparation of the budget is a complex task. We would like to thank Member Staff and Cascade Staff for their role in identification and discussion of policy issues embodied in the 2010 Budget. Thanks are also extended to Ed Cebon and Chris Gonzalez, of Financial Consulting Solutions Group, who provided extensive rate modeling and financial analysis support for the development of the 2010 Budget.

Respectfully submitted,

A handwritten signature in black ink that reads "Chuck Clarke".

Chuck Clarke
Chief Executive Officer

A handwritten signature in black ink that reads "Scott Hardin".

Scott Hardin
Director of Finance and Administration