Our water department not only provides clean, reliable drinking water, they service our community's fire hydrants. Building and maintaining our water system infrastructure is vitally important.

IMPORTANT INFORMATION ABOUT YOUR WATER BILL

JANUARY 2020

Effective Feb. 1, 2020, the monthly base charge for water will increase. The amount of change will vary depending on your customer class (residential or commercial) and meter size.

MANAGER'S MESSAGE

For more than 100 years, we have provided high-quality drinking water at the lowest price possible. Our water rates have been much lower than other services, in part because we had access to ample water supply, stable costs, and predictable demand. That reality has changed.

Our water supply is becoming tight, our infrastructure is aging and in need of reinvestment, and our costs to provide service is increasing.

At our December board meeting, our directors adopted new water rates. Effective Feb. 1, 2020, the monthly base charge for water will increase. The amount of change will vary depending on your customer class (residential or commercial) and meter size.

With our rate structure, the cost to serve is equitably linked to each customer class and meter size. The increased monthly base charge will help to procure additional water rights and to replace aging pipes, pumps, plant, and improve the infrastructure.

For the average residential customer, who lives on the valley floor and has a 3/4" water meter, the monthly base charge will increase by $1.65 to a total of $18.65.

Customers with larger meters will see higher price rises. Meter size determines the amount of water that can flow to your home or business. Larger meters can place a greater demand on the water system and are charged based on that potential.

Booster customers—typically located on hillsides—will see an even higher increase in their monthly base charge because it costs significantly more to pump water twice, first from the aquifer and then up the hill. It is also stored

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ABOVE: THE SPOKANE RIVER IS PART OF THE SPOKANE VALLEY-RATHDRUM AQUIFER, OUR SOLE SOURCE OF DRINKING WATER.

OUR WATER SUPPLY IS TIGHTENING

"AS WE CONTINUE TO GROW, WE ARE EVENTUALLY GOING TO MEET AND EXCEED OUR WITHDRAWAL LIMITS"

The Washington State Department of Ecology (DOE) issues permits to individuals and companies to withdraw water from either ground or surface sources. These are called water rights and are limited to specific amounts of capacity and total volume of water that can be pumped. Our water rights allow us to withdraw groundwater from the Spokane Valley Aquifer.

Over the years, the number of water rights that we have has changed, the type has been modified, and the use of the water adjusted. Currently, there is a difference between the number of water rights that we claim, and the amount that the DOE believes is correct.

This issue will play out in time through court action, adjudication, and negotiations. Regardless of the outcome, as we continue to grow, we are eventually going to meet and exceed our withdrawal limits.

Increased demand for water due to growth

At this time, only about 60 percent of the land within our legal boundaries is fully developed. We are legally required to provide service to all the properties within our District.

It used to be as agricultural lands were developed, the water use actually declined. Today, most of the current land development is on properties that were not previously irrigated, and the increase in water use is significant. Clearly, we will need access to more water rights.

Procuring new water rights

There are many ways to address the shortage of water rights, but the simplest, applying for more water rights from the DOE, is incredibly limited.

As a regional community, we only use a small part of the aquifer's capacity. One of the problems is that over the past century, the issued number of water rights is equal to or greater than the total capacity of the aquifer.

This puts the DOE in a difficult position when water rights are requested. The DOE is generally not going to grant the request.

Fortunately, there are alternatives available to address our future water needs. First and foremost, we have started with procedures to resolve our differences with the DOE.

Additionally, we are negotiating with other entities that have excess water rights to see if we can purchase those rights. We have even gone so far as to explore the possibility of a merger or creating a cooperative agency with an entity that has excess rights.

The good news about water rights is that there are available solutions. The bad news is that none is inexpensive.

It doesn't matter if the answer is a legal proceeding with the state, market purchases, or other solutions; All of them come with a hefty price tag.

SYSTEM PUMPING CAPACITY
NEEDS TO BE INCREASED

Over the last two years, we have asked for your help in addressing our system pumping capacity shortage. As the number of automated sprinkler systems installed in our district has multiplied — from just a few users not that many years ago to an overwhelming majority today —the demand on our system in the early morning hours has skyrocketed. Just a couple of decades ago, our water system peaks were in the morning at 6:30 a.m. when people hit the showers and in the evenings at 6 p.m. when they adjusted their hoses and sprinklers.

Now the demand starts early in the morning and by 4 a.m. we are at peak pumping. Put simply, every pump we own is running, and the reservoirs are being drained. By 6 a.m., when people are rising, the water demand drops, and we are starting to refill the reservoirs.

Over the last couple of years, we have asked for your help to shift the peak demand by changing the start time of sprinkler systems away from 4 a.m. This was successful in mitigating this peak enough that we had fewer problems meeting demand needs in 2018 and 2019 as compared to 2017.

As this is being written, we are installing a new larger pump in one of our wells, which will increase our pumping capacity by over 2,000 gallons per minute to meet the morning demand. This new pump, combined with your continued help, could delay the installation of an entirely new well by two to four years. This new well, planned to be built on a site we already own, would be constructed to increase overall capacity and be capable of delivering 5,000 gallons per minute. This will require us to build new water mains to deliver the water from the well to your location.

We are currently installing a new larger pump in one of our wells, which will increase our pumping capacity by over 2,000 gallons per minute to meet the growing demand for water in the morning.

Again, a solution exists. We have the preliminary engineering work completed to show that it can be done. **However, the cost is high, and we expect the expenses for the necessary work in this decade to be between $2 to $3 million.**

MANAGER'S MESSAGE, CONTINUED

twice, once at the lower elevation and then at the higher. Finally, **our customers at the higher elevations and with larger meters** will see price increases for both demand-capacity and pumping.

We work hard to balance the revenue required to maintain a dependable water system with what we charge in rates. We are always thinking about the financial impacts on our customers when raising prices. Over the last few years, we have worked hard to address significant concerns without having one extraordinarily large increase in customers' rates.

We expect to continue to adjust rates over the next few years, each time minimizing the near-term impact while making sure the District is financially healthy and the infrastructure sound in the long-run.

In this newsletter, the issues facing our water department are detailed. This information and the new rate schedule will be posted on our newly redesigned website, verawaterandpower.com. If you have any questions about the rate change drivers or how this affects you, please contact us at 509-924-3800 or info@verawaterandpower.com. We are happy to talk with you and to review your account.

Thank you for the opportunity to provide your water service and reassure you that we are doing everything possible to continue providing high-quality water in a reliable and sustainable method at the most reasonable price that we can.

Sincerely,

Kevin Wells
General Manager

SYSTEM DEFICIENCIES

SERVING THE UPPER ELEVATIONS

Two of the four booster stations that pump the water to our customers at higher elevations have reached the end of their safe and reliable life cycle. Both were originally designed and constructed in the 1970s to provide service to less than 100 homes. Both stations initially contained two small pumps and a fire pump, totaling about 300 gallons per minute.

Over the years, we have expanded both stations multiple times, so they serve almost 2,000 homes on the hillsides and pump several thousand gallons of water per minute.

We are finalizing the acquisition of an easement to construct a modern, safe and reliable replacement for one of these stations. The property for the other replacement was acquired a few years ago when the surrounding property was developed. We are in the design stage for the replacement of the station on Sullivan with a goal of asking for bids this spring. Our current design specifications allow for future growth and the addition of standby generation. This helps us avoid some of the growing pains that we have experienced in the past and provide water at higher elevations in the event of a power outage.

We intend to complete a portion of the design with our staff engineers and to do the interior piping and electrical work with our water crew and electrician. We believe this will save construction costs and will allow our own employees, who will operate this facility for the entirety of its useful life, to know every detail about its operation.

About two years after the construction of the first station is completed, we will start on the second booster station. As long as we try to obtain cost-savings by using our own workforce, we will need to stagger the timeline for construction.

Together these projects are estimated to be over $2 million.

AGING INFRASTRUCTURE

AGING WATER WELLS

Three of our wells— No. 1 at the Vera office, No. 3 at 16th and Evergreen, and No. 5 right across from Evergreen Middle School — are the original hand-dug wells completed between 1908 and 1914.

These wells have been well maintained over the last century, but they still contain the original building materials. We will need to make significant overhauls of these wells.

Left: Three of our hand-dug wells, including Well #1, are over 100 years-old and are in need of renovation.

These are only a couple of the issues we must plan for when operating a system that had been serving our customers for almost 112 years. It is difficult to predict when some of these facilities will reach the end of their productive lives. The only way to ensure we are prepared to act when their replacement is necessary is to keep our utility in a fiscally sound position and to consider creating a replacement fund to address these issues in the future.

AGING UNDERGROUND PIPE

In 1959, we replaced 95 miles – about 98 percent of the underground pipe – in just one construction season. Sixty years ago, that pipe had an estimated useful lifespan of 30 to 50 years. We have only replaced 2,000 feet of that pipe since 1959. The rest of that pipe is still in really good shape. The excellent drainage and low corrosive nature of the valley soils have been kind to the pipe.

With that said, at some point, this pipe will need to be re-lined or replaced. In 1959, the pipe was in the unpaved shoulder of the road; and there were no compaction, safety, and traffic control standards. What took a season to complete in 1959 will take a decade to complete now.

HOW DO WE PAY FOR THESE IMPROVEMENTS?

"WE WORK TO BALANCE THE IMPACT OF THIS BY MANAGING EXPENSES, TIMING PROJECTS, AND BUILDING RATE STRUCTURES IN A WAY THAT AVOIDS UNPREDICTABLE RATE SWINGS EVERY TIME THERE IS A NEW PROJECT."

Rates:

The beauty — and the beast — of a public water system is that there are no outside entities involved. Our rates have no "profit" built into them to pay shareholders. That also means we do not have capital coming from outside shareholders to pay for these improvements, so capital investment funds come from revenue generated through our customers' rates.

Impact fees from builders and developers:

When new developments require new facilities, the builders or developers are expected to provide all on-site infrastructure and pay a fee for the use of the existing pumping and storage systems. This money is used for the construction or replacement of infrastructure.

Grants and low-interest loans:

Occasionally, when there is an emergency declaration or a health issue, there are grants available to help with the construction costs. Grants are the least-cost and best funding option because the money is a gift and does not need to be repaid. In some circumstances, we qualify for a "Drinking Water Loan". In this case, the interest rate is really low, and we can finance the project well below the market rates.

Municipal (tax-free) bonds:

In most cases, we finance major construction projects with the sale of municipal "tax-free" bonds. Municipal bonds are available to public systems like ours and typically have interest rates that are excellent when compared to commercial loans. Bond sales allow us to spread the cost of the project out over a portion of the projects' life spans.

Of course, no matter how a construction project is financed, the costs end up in our rates. At the same time, we work to balance the impact of this by managing expenses, timing projects, and building rate structures in a way that avoids unpredictable rate swings every time there is a new project.

To do this, the 2020 rate adjustment includes funding for both current and future projects through a combination of bond sales and current revenues.

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