

The Liberty Lake Sewer and Water District is a Special Purpose District owned by our rate payers. We rely solely upon utility rates to cover the cost of the services we provide. Sewer and water utilities are operated as separate enterprises, have different operation and debt service costs, and consequently have different rates. We will discuss the impact to the rates for water and sewer individually below. We routinely conduct rate studies on both systems to be sure we are collecting the ideal amount of revenue to cover operation, maintenance, future replacement, and debt service costs. Rates are also correlated to the level of service. We strive for the lowest rates possible while maintaining the highest level of service expected by our customers.

Water: The District conducted a water rate study in 2015 to evaluate a water rate that had not been adjusted in 21 years (since 1994). The District Board of Commissioners supported a series of rate increases to cover the cost of operation and maintenance (excluding future replacement needs) over 3-years. The Board decided to accomplish this by increasing only the base water rate by 10% annually (not increasing the average rates or other fees) 2016 through 2018. Base water rates were further adjusted based upon inflation in 2019, 2020, and 2021 by 2%, 2.6%, and 1.6% respectively. In 2021, the base water rate for irrigation was aligned with the domestic water rate. The District Board of Commissioners supported a one-time 10% increase of water average rates for 2021 (the first increase since 1994). The District will continue to propose rate adjustments based upon the expected cost of operation and maintenance. We will only increase rates to the degree necessary to cover costs, conducting water utility rate studies as needed.

Sewer: This is a much more complicated utility and rate analysis. Similar to water, the District also conducts sewer utility rate studies. The last sewer utility rate study was conducted in 2012 in anticipation of mandates to upgrade our Water Reclamation Facility (WRF). The primary cost driver for sewer utility rate increases is the unfunded mandates imposed upon the District by the State Department of Ecology to meet increasingly stringent water quality standards for our discharge of reclaimed water to the Spokane River. To put this into perspective, the District was mandated to upgrade our WRF in 2006 to meet Phosphorus criteria in our discharge to the Spokane River. The cost of this upgrade was \$12.5M; paid in part with District resources and a 20-year \$6.3M loan. In just ten short years, in 2016 the District was again mandated to upgrade our WRF to meet additional Phosphorus removal limits. The cost of this upgrade was \$22.7M; paid in part with District resources and a 20-year \$15.9M loan. The combination of these two upgrades (\$35.2M) and the related debt service is the primary factor for recent sewer utility rate increases. Additionally, the most recent upgrade has increased our annual operation and maintenance costs from \$0.5M to \$1.3 million (2021). The District increased the sewer utility rate by 10% annually 2015 through 2019 and 5% annually 2020 through 2021. Following that, the District will propose rate adjustments based upon the expected cost of operation and maintenance. We will only increase rates to the degree necessary to cover costs, conducting sewer utility rate studies as needed.

All wastewater dischargers to the Spokane River, in both Washington and Idaho, have, are, or will be upgrading their facilities similar to our upgrade for tertiary treatment. Rates for those entities will likely also increase. The most challenging aspect of these upgrades is our small customer base of only 4,823. The larger the utility customer base, the smaller the impact to each customer. \$25.78 of the 2021 monthly sewer rate of \$66.58 is for annual debt service of \$1,491,812, and the District's debt service requirements total \$17,680,363 through 2038; all in support of these mandatory upgrades to our Water Reclamation Facility. That leaves only \$40.80 toward operation and maintenance costs. Even with the rate increases, the sewer utility operates at a modest deficit.

We strive to maintain the lowest rates and best service possible for our customers. We are always available for any and all questions. Please do not hesitate to contact us at 922-5443.