



# 2026 BUDGET

PUBLIC UTILITY DISTRICT  
NO. 1 OF SKAGIT COUNTY

Adopted | November 12, 2025

*Skagit*  
**PUD**  
PUBLIC UTILITY DISTRICT

In accordance with Resolution No. 2262-19, we are pleased to present the 2026 budget for Public Utility District No. 1 of Skagit County.

## **SECTION 1: BUDGET OVERVIEW**

The budget serves as a financial plan that guides and governs the spending commitments of the organization. It is designed to balance *resources* and *requirements* of the District, where “resources” consist of beginning fund balances plus projected revenues, and “requirements” consist of authorized expenditures plus planned end-of-year reserve balances. The budget balances resources with requirements to ensure sufficient funds are available to meet all the District’s financial commitments. By adopting the budget, the Board also creates *appropriations*, which are the upper limit of spending authority delegated to managers.

The Proposed Budget is published in October on the District’s website as well as presented at a public hearing. Public comment is accepted during the public hearing and at subsequent work sessions until the budget is adopted in November. Board members may incorporate public comments and make changes to the budget before its adoption. The adopted budget takes effect on January 1, 2026.

Circumstances may affect the budget during the year. The board will approve any necessary modifications to the budget and track them as the revised budget.

## **SECTION 2: FUND OVERVIEW**

### **A. GENERAL REVENUE FUND**

This account receives all income, revenue, and receipts for the District plus any proceeds from the sale, lease, or disposal of District assets. The funds in this account are used for the District’s general operation and maintenance, including repairs, replacements, extensions, and improvements.

### **B. CAPITAL PROJECT FUND**

Construction funds for large capital projects are commonly obtained from the issuance of bonds, the proceeds of which are restricted by bond covenants. Federal or state loans and restricted grant funds would also be accounted for in this fund.

### **C. SYSTEM DEVELOPMENT FUND**

This account is comprised of funds imposed as a condition of service on customers connecting to the system. Fees are based on a blend of historical and planned future capital investments in the system infrastructure – its underlying premise is that future customers should pay an equitable share of capital costs that the utility has or will incur to provide system capacity. The funds are restricted by the Commission and used for growth or capacity-related projects.

### **D. DEBT SERVICE & BOND RESERVE FUND**

Funds are set aside in this account from the Revenue Fund and are used to pay principal and interest on all District debt and meet reserve requirements of the bond covenants.

## **SECTION 3: DISCUSSION OF BUDGET**

### **A. REVENUES**

#### **A1. UTILITY RATE REVENUE**

In 2019, the District engaged the services of FCS Group to complete a Cost-of-Service Analysis and Water Utility Rate Study. The study provided a sustainable, multi-year financial plan that meets the projected total financial needs of the District. Financial needs include expenses to operate and manage the water system, capital project funding, funds for new and existing debt obligations, and meeting the fiscal policy goals established by the Board.

The cost-of-service analysis established a basis for assigning costs and establishing “equity” between water system customers. This was accomplished by developing a series of allocations based on customer data and engineering/planning criteria to assign utility cost recovery to customers in proportion to their estimated demands.

#### **A2. SYSTEM DEVELOPMENT FEES**

System Development Fees (SDF) are one-time fees imposed as a condition of service on new development or on expanded connections to the system. The cost-of-service study included a review and update of the SDF calculation. SDF revenue is accounted for in a separate fund and used only for the water system’s growth and capacity-related capital expenditures.

#### **A3. REVENUE PROJECTIONS**

This budget was developed to continue to utilize the 2019 Rate Study recommendations for a five percent increase in base water rates. To promote conservation, the tiered water rates are phasing in larger increases for high consumption customers.

The proposed rate increase of five percent (5%) will take effect on January 1, 2026, and is projected to increase water revenue by \$1,600,000. These funds will finance operations, the Capital Improvement, Plan and related debt service. It is anticipated that capital contributions and non-operating revenue will be lower next year as the economy continues to struggle with inflation, supply chain issues, high interest rates, and economic uncertainty.

**Exhibit 1: Projected Revenues**

	2024 Actual	2025 Forecast	2026 Budget	2025-2026 % Change
<b>Operating Revenues</b>				
Residential/Multi-family	22,688,300	23,547,102	24,725,000	5.0%
Commercial & Government	8,005,528	8,092,417	8,497,000	5.0%
Agriculture	760,744	750,000	788,000	5.1%
Irrigation	677,183	700,000	735,000	5.0%
Resale	202,726	200,000	210,000	5.0%
<b>Total Rate Revenue</b>	<b>32,334,481</b>	<b>33,289,519</b>	<b>34,955,000</b>	<b>5.0%</b>
Misc Operating Revenues	325,206	371,529	390,000	5.0%
<b>Total Operating Revenue</b>	<b>32,659,687</b>	<b>33,661,049</b>	<b>35,345,000</b>	<b>5.0%</b>
<b>Capital Contributions</b>				
Work Orders for others	517,835	348,440	366,000	5.0%
Services	282,246	550,116	578,000	5.1%
System Development Fees	1,205,798	1,116,281	1,172,000	5.0%
<b>Total Capital Contributions</b>	<b>2,005,879</b>	<b>2,014,837</b>	<b>2,116,000</b>	<b>5.0%</b>
<b>Non-Operating Revenues</b>				
Investment Income	1,593,997	750,000	600,000	-20.0%
Misc Non-Operating Income	106,057	88,294	50,000	-43.4%
LUD Assessments	20,874	20,000	20,000	0.0%
<b>Total Non-Operating Revenue</b>	<b>1,741,957</b>	<b>858,294</b>	<b>670,000</b>	<b>-21.9%</b>
<b>Total Revenue and Capital Contributions</b>	<b>36,407,523</b>	<b>36,534,179</b>	<b>38,131,000</b>	<b>4.4%</b>

\*Forecast based on September year-to-date numbers

**B. OPERATING EXPENSES**

**B1. SUMMARY OF OPERATING EXPENSES CHANGES**

The financial forecast model includes a projection of operating expenses for the next five (5) years based on the historical average of the Consumer Price Index (CPI) and the Construction Cost Index (CCI). For salaries, benefits, and the cost of water purchased from Anacortes, the forecast assumes an annual aggregated cost increase of approximately 4.5%. In each budget cycle, line-item expenses are reviewed, adjusted according to current market conditions, and incorporated as part of the budget.

**Exhibit 2: Operations Budget by Line Item**

Skagit PUD - 2026 Budget		2024	2025	2026	\$ Change	% Change
Summary by Line Item		Actual	Budget	Budget	2025-2026	
6010	Salary, Wages and Benefits	\$ 11,457,260	\$ 13,576,647	\$ 13,831,550	\$ 254,903	2%
6100	Water Purchased from Others	224,328	200,000	200,000	-	0%
6150	Power Purchased for Pumping	691,053	655,000	655,000	-	0%
6180	Chemicals	505,119	756,500	756,500	-	0%
6200	Materials & Supplies	653,500	943,100	945,900	2,800	0%
6204	Broadband Sales Costs	4,676	-	-	-	-
6205	Broadband Supplies and Materials	50,457	-	-	-	-
6215	Rain Barrels	5,652	5,500	6,000	500	9%
6221	Community Relations	6,121	21,500	21,500	-	0%
6222	Insurance Claims and Reimbursements	3,463	-	-	-	-
6225	Maintenance Contracts	11,710	8,800	44,800	36,000	409%
6226	Memberships, Licenses, Certifications	87,141	101,329	107,146	5,817	6%
6228	General Supplies & Non-Professional Services	473,327	414,200	412,035	(2,165)	-1%
6229	Postage and Shipping	86,792	70,100	70,100	-	0%
6230	Professional Services	523,755	662,919	650,925	(11,994)	-2%
6231	Security	30,056	141,800	261,528	119,728	84%
6232	Tools and Small Equipment	80,042	200,230	163,930	(36,300)	-18%
6234	Utilities	262,473	344,710	408,610	63,900	19%
6235	Permits	34,419	35,365	35,365	-	0%
6251	Computer Hardware, Communications, SCADA	139,947	230,500	162,500	(68,000)	-30%
6252	Computer Software, Licenses and Support	1,043,150	731,038	677,216	(53,822)	-7%
6255	Education and Professional Development	150,870	171,464	182,872	11,408	7%
6260	Building, Furniture, Grounds and Roads	379,064	473,015	475,515	2,500	1%
6261	Safety	61,139	50,280	60,010	9,730	19%
6266	Advertising	21,331	29,900	30,000	100	0%
6267	Bad Debts	32,360	30,000	28,000	(2,000)	-7%
6500	Transportation-Fuel	137,691	100,000	100,000	-	0%
6501	Transportation-Parts	65,602	60,000	60,000	-	0%
6502	Transportation-Outside Services	52,171	30,000	30,000	-	0%
6505	Transportation-Enterprise Fleet Mgmt Fee	6,909	4,178	4,178	-	0%
6560	Insurance-Property	471,805	534,247	567,686	33,439	6%
6570	Insurance-Liability	422,884	458,721	451,065	(7,656)	-2%
6590	Insurance-Other	1,466	2,360	2,380	20	1%
<i>Expenditure Offsets:</i>					\$ -	
6550	Transportation Overhead Charge	(163,131)	(455,000)	(455,000)	-	0%
6750	Inventory Administrative Overhead	(468,738)	(250,000)	(250,000)	-	0%
6751	Administrative Expense Transferred	(790,632)	(725,000)	(725,000)	-	0%
<i>State Taxes:</i>					\$ -	
4080	Utility Taxes	1,584,101	1,614,814	1,652,175	37,361	2%
<i>Other Expenditures:</i>					\$ -	
4082	State Excise Taxes	39,302	90,000	79,000	(11,000)	-12%
4084	Fire and Dike District Taxes	11,924	16,520	16,520	-	0%
4087	Miscellaneous Taxes	6,478	600	600	-	0%
<b>Total Operating Expenditures</b>		<b>\$ 18,397,037</b>	<b>\$ 21,335,337</b>	<b>\$ 21,720,606</b>	<b>\$ 385,269</b>	<b>1.8%</b>

The 2026 operating budget is \$21,720,606, which is a 1.8% increase over last year's budget. Overall, operating expenses increased \$385,269 with the largest increase in the salaries & benefits category of \$254,903. Cost-of-living adjustments and increases to medical, vision, dental, and life insurance benefits were offset with two fewer positions and a decrease in the contribution rate for the Public Employee Retirement System. Other line items with significant dollar increases include *Maintenance Contracts* \$36,000 for fiber, copiers, AV services, *Security* spending increased by \$119,728 for cyber protection and cloud data backup, and *Utilities* \$63,900 expenditures for fiber, sewer, gas, and electricity.

The following section provides insight into District operations by comparing expenses across functions, departments, and years.

***Exhibit 3: Summary of Operations Budget by Function***

2026 O&M Budget	Supply	Treatment	Transmission Distribution	Customer Service	Administration	Expenditure Offsets	Taxes	Total
Commissioner					317,870			317,870
Executive					1,835,844			1,835,844
Human Resources					552,831			552,831
Safety					292,240			292,240
Information Technology			74,000		2,320,084			2,394,084
Finance					712,447			712,447
Stores					424,736	(250,000)		174,736
Meters				696,596				696,596
Customer Service				887,570				887,570
Billing				277,198				277,198
Community Relations				355,788				355,788
Engineering	119,000		66,000		2,268,493			2,453,493
Construction & Maintenance	20,000	50,000	2,045,212		444,418			2,559,630
Operations Support		-	76,000		1,232,573	(455,000)		853,573
Water Treatment Plant	396,500	3,151,526						3,548,026
Water Quality and Lab	18,000	26,600	161,498		246,011			452,109
Distribution	366,000	5,000	142,165		1,409,015			1,922,180
Facilities		-	71,000	-	288,985			359,985
Non-Departmental					51,111	(725,000)	1,748,295	1,074,407
<b>Total Cash Operating Expenses</b>	<b>\$ 919,500</b>	<b>\$ 3,233,126</b>	<b>\$ 2,635,875</b>	<b>\$ 2,217,152</b>	<b>\$ 12,396,657</b>	<b>\$ (1,430,000)</b>	<b>\$ 1,748,295</b>	<b>\$ 21,720,606</b>

District Functions:

1 - Supply: pipes or mains used to convey water from the source to the water treatment plant. Judy Reservoir, watershed intakes, and wells are all examples of supply function assets.

3 - Treatment: the water treatment plant located at the Judy Reservoir and at the Guemes Island osmosis water treatment plant are the assets associated with this function

5 - Transmissions & Distribution: the daily operations and maintenance of the transmission, distribution, and service lines to District customers throughout Skagit County are the expenses associated with this function.

7 - Customer Service: expenses related to customer service, billing, and meter reading departments.

8 - Administration & General Expenses: costs incurred for the general operations of the District across all water system.

9 - Taxes & Other Non-Operations Expenses: taxes including property, excise, utility, fire, and dike assessments.

Expenditure Offsets: allocations for services provided by staff to other departments and projects. These allocations reduce District operating expenses by charging them to outside entities and capital projects.

**Exhibit 4: Summary of Operating Budget by Function**

Summary by Function	2024 Actual	2025 Budget	2026 Budget	Budget Comparison 2025-2026	
				\$ Change	% Change
Supply (01)	905,066	938,500	919,500	(19,000)	-2.0%
Treatment (03)	2,597,933	3,166,206	3,233,126	66,920	2.1%
Transmission & Dist. (05)	1,539,759	2,645,488	2,635,875	(9,613)	-0.4%
Customer Service (07)	2,087,620	2,309,341	2,217,152	(92,189)	-4.0%
Administration (08)	9,624,854	10,553,867	10,966,657	412,791	3.9%
Taxes and Other (09)	1,641,805	1,721,934	1,748,295	26,361	1.5%
<b>Total</b>	<b>\$ 18,397,037</b>	<b>\$ 21,335,337</b>	<b>\$ 21,720,606</b>	<b>\$ 385,269</b>	<b>1.8%</b>

The *Supply* (01) budget increase from the prior year is associated with professional services for a hydraulic modeling project, watershed stream monitoring, and certification of water rights.

The decrease in the *Customer Service* (07) budget is associated with the retirement of one Meter Technician in the Meter Department.

The *Administration* (08) budget increase is primarily due to spending on security for cyber protection, data backup, and property and liability insurance. In addition, there are several planned expenditures for computer hardware, software, and professional services.

Each manager prepares department budgets based on their goal and objectives for the coming year. Variations between years are usually due to changes in personnel or new projects.

**Exhibit 5: Changes in Department Budgets**

Department	2025 YTD September	2025 Budget	2026 Budget	2025 -2026 Change	Description	
Human Resources	362,021	529,116	552,831	4.5%	Election Year	
Commissioners	194,501	262,569	317,870	21.1%		
Administration	1,273,354	1,796,024	1,835,844	2.2%	Safety Retrieval quipment	
Safety Program	235,780	246,147	292,240	18.7%		
Construction Maintenance	1,313,998	2,503,957	2,559,630	2.2%		
Water Treatment Plant	2,432,453	3,481,106	3,548,026	1.9%		
Distribution	1,185,878	1,860,369	1,922,180	3.3%		
Lab & Water Quality	281,043	437,446	452,109	3.4%		
Operations Support	754,608	801,208	853,573	6.5%		
PUD Main Campus	249,280	349,985	359,985	2.9%		
Information Technology	1,574,488	2,174,490	2,394,084	10.1%		Cyber security, cloud storage, and software
Finance	457,344	707,170	712,447	0.7%		
Stores	115,937	158,817	174,736	10.0%	Safety Equipment - PPE	
Meter Crew	587,708	845,654	696,596	-17.6%	One Retirement	
Customer Service	613,545	854,546	887,570	3.9%	One Retirement	
Billing	162,494	268,607	277,198	3.2%		
Community Relations	221,622	340,534	355,788	4.5%		
Engineering	1,943,031	2,668,638	2,453,493	-8.1%		
Non-departmental	1,788,620	1,048,951	1,074,407	2.4%		
<b>Total</b>	<b>\$15,747,705</b>	<b>\$ 21,335,337</b>	<b>\$ 21,720,606</b>	<b>1.8%</b>		

The budget is prepared using an estimate for the number of developer and capital projects that will be undertaken during the coming year. Capitalized projects offset the District’s operations budget for salaries and benefits, inventory, and equipment expenses. The budget anticipates roughly the same number of capital and maintenance projects as the current year.

The following chart compares the estimated capitalized labor expense between the current year and the 2026 budget. There is no change to the percentage of construction and maintenance salaries budgeted for capital projects next year, but there is a small increase in the percentage of engineering staff time dedicated to projects and an increase in dollars. It is anticipated that 30% of salaries and benefits, or \$1,729,102, will be charged to capital projects.

***Exhibit 6: Salary & Benefits Capitalization Comparison***

Salary & Benefits Cost				
2026 Budget	Total	To Capital	% Capital	To O&M
Engineering	3,557,369	1,375,776	39%	2,181,593
Construction & Maint.	2,260,606	353,326	16%	1,907,280
<b>Total</b>	<b>5,817,975</b>	<b>1,729,102</b>	<b>30%</b>	<b>4,088,873</b>

Salary & Benefits Cost				
2025 Budget	Total	To Capital	% Capital	To O&M
Engineering	3,522,328	1,276,790	36%	2,245,538
Construction & Maint.	2,189,663	341,962	16%	1,847,702
<b>Total</b>	<b>5,711,991</b>	<b>1,618,751</b>	<b>28%</b>	<b>4,093,240</b>

**B2. AGENCY MEMBERSHIPS**

The District is a member and participates in several local and regional organizations and events where a District business interest has been identified. The following list of these organizations and groups is included in the District’s operational budget.

***Exhibit 7: Memberships and Sponsorships***

Memberships & Sponsorships	
Washington PUD Association (WPUA)	\$ 70,000
American Water Works Association (AWWA)	7,600
American Water Works Association (PNW)	2,750
Economic Development Association of Skagit County (EDASC)	2,500
Skagit Council of Governments (SCOG)	1,750
Mount Vernon Chamber	900
Washington Association of Sewer & Water Districts	600
Burlington Chamber	550
<b>Total</b>	<b>\$ 86,650</b>

**B3. STAFFING**

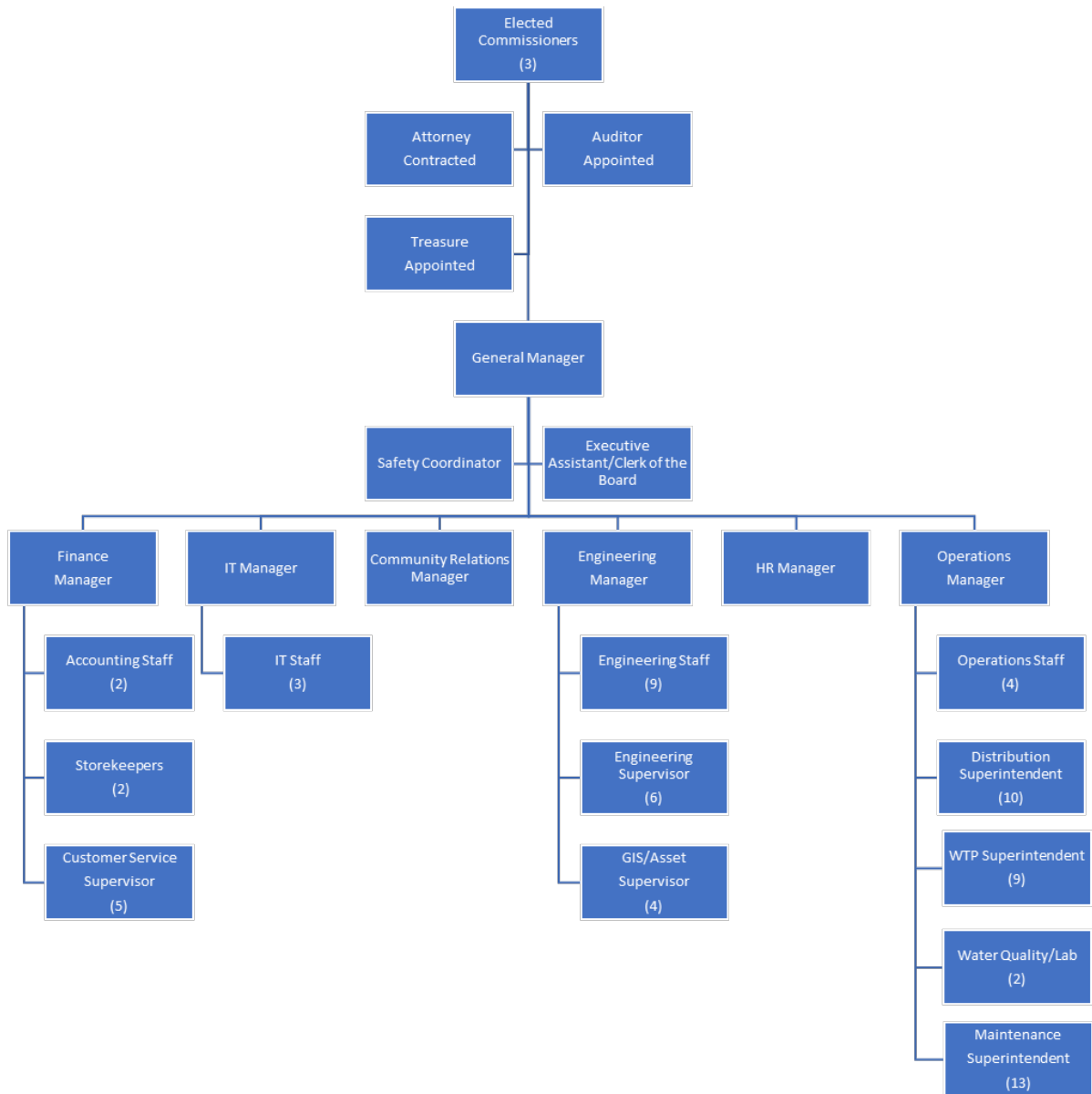
The District continues to assess its core functions and level of service and adjusts operations and staffing levels accordingly. The budget shows a decrease of two positions in the

overall number of full-time equivalent employees, returning to 2024 levels. Temporary employees were hired in 2025 in anticipation of a retirement in the meter department and one in the engineering department, which has since occurred. The District promotes professional development and looks to fill positions internally whenever there is an interest or a qualified applicant. Recent positions filled with internal promotions include the customer service supervisor, distribution, engineering, and meters.

***Exhibit 8: Summary of Full-Time Equivalent (FTEs) Positions***

2026 Budget FTEs by Department	2024	2025	Budget 2026	2025-2026 Change	Description
Commissioner	-	-	-	-	
Executive	2.25	2.25	2.25	-	
Human Resources	2.25	2.25	2.25	-	
Safety	1.00	1.00	1.00	-	
Information Technology	5.00	5.00	5.00	-	
Finance	3.00	3.00	3.00	-	
Stores	2.00	2.00	2.00	-	
Meters	4.00	5.00	4.00	(1.00)	Meter Technician Retired
Customer Service	5.00	5.00	5.00	-	
Billing	1.00	1.00	1.00	-	
Community Relations	1.00	1.00	1.00	-	
Engineering	19.80	19.80	18.80	(1.00)	Engineering Technician Retired
Construction & Maintenance	14.00	14.00	14.00	-	
Operations Support	5.00	5.00	5.00	-	
Water Treatment Plant	9.00	10.00	10.00	-	
Water Quality and Lab	2.00	2.00	2.00	-	
Distribution	7.00	7.00	7.00	-	
<b>Total</b>	<b>83.30</b>	<b>85.30</b>	<b>83.30</b>	<b>(2.00)</b>	

**Exhibit 9: Organization Chart**



Like most organizations, the District’s expenses are influenced by and will fluctuate with the economy as a whole. Some of these expenses have a one-time impact, while others create ongoing costs that must be included in future budgets. The capital improvement and financial plans are adjusted for these events as needed. Material changes in the budget are summarized below.

**Exhibit 10: Noteworthy Expenses 2026**

Department Projects Summary	
<b>Recurring Costs</b>	
SCADA Hardware Replacement	\$200,000
Out of Region Disaster Recovery	\$125,000
Detection & Response Management Systems	\$50,000
PRV Valve Repair Program	\$50,000
<b>One-time Costs</b>	
Badger Meter Transmitter Replacement	\$600,000
Equipment Replacement	\$350,000
Turbidimeters & Piezometers at WTP	\$110,000
Network Access & Identity	\$75,000
<b>Total</b>	<b>\$1,560,000</b>

**C. CAPITAL IMPROVEMENT PLAN**

Exhibit 11 summarizes the ten-year rolling Capital Improvement Plan (CIP). It contains estimates for projects planned through 2035. The new CIP table reflects updates in the schedule for timing and expenses based on current market conditions. Other projects were updated as needed for market conditions and to balance the overall workload of staff and expenditures. The CIP anticipates \$150 million of projects over the next 10 years.

Capital Improvement needs were identified through:

- Comprehensive system planning process
- Internally developed capital improvement plan

Capital Improvement Plan Phases:

- Phase 1 - Needs/Condition Assessment
- Phase 2 - Cost analysis, feasibility, and prioritization
- Phase 3 - Design
- Phase 4 – Construction

The capital funding plan identifies the following funding sources:

- Cash reserves, rate funding, System Development Fees, developer contributions, loans, grants, and debt

Rate-funded capital replacement is a prudent fiscal target with the following purposes:

- Ongoing system reliability/sustainability
- Equity, charge customers commensurate with the consumption of facility useful life
- Rate stability



System Water Plan #	Description	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
MO20-2	WTP Generator	1,500,000	1,400,000								
MO20-7	WTP Filtration Conversion & Optimization	-								140,000	1,000,000
	Dam A Pipe Refurbishment (600 LF)			300,000							
MO20-16	Disinfection System Replacement	2,750,000	3,500,000								
MO24-2	WTP W-1 Pump System Replacement	100,000									
MO24-5	WTP Data Center & Office		200,000	800,000							
MO24-3	WTP Backwash pump upgrade	1,100,000									
MO20-18	Clearwell Seismic Expansion Joints							250,000			
MO13-8	Badger ORION 5/8 Meter Transmitter Replace	600,000	-								
	9Th Street Pump Monitor & Assessment	-		100,000							
	<b>Operations &amp; Maintenance Total:</b>	<b>\$ 6,050,000</b>	<b>\$ 5,100,000</b>	<b>\$ 1,200,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 250,000</b>	<b>\$ -</b>	<b>\$ 140,000</b>	<b>\$ 1,000,000</b>
MT13-4	Transmission Line, Judy - MV Phase 2	300,000									
MT20-1	Judy SW Transmission Phase 2 top of hill	-	300,000	1,000,000	1,000,000						
	<b>Transmission Pipelines Total:</b>	<b>\$ 300,000</b>	<b>\$ 300,000</b>	<b>\$ 1,000,000</b>	<b>\$ 1,000,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
MR20-1	Panorama - 2 MG storage tank & replace pump in RWPS	500,000	9,000,000	7,000,000	-	-					
MR13-5	N. Sedro Woolley Storage & Pump Station (430/350 HGL)			-	1,000,000	6,000,000	10,000,000				
MR13-6	Burlington/Sedro-Woolley Tank (214 HGL)										1,500,000
MR13-7	South Mount Vernon - Skagit County Tank (2 MG)										500,000
MR24-2	Remove Little Mountain Storage Tank									100,000	
	Bayview standpipe, Water Tank Rd reservoir									100,000	
	Sky Ridge Pump Station			700,000	1,500,000						
	Tinas Coma Pressure Zone Modifications (506 HGL)					200,000	1,000,000				
	Clearwell Painting		1,000,000								
	Storage Tank Recoating 9th & Highland	1,000,000									
	Storage Tank Recoating Duke Hill & Eaglemont			1,000,000	-	1,000,000	-	500,000	-	250,000	250,000
	Seismic Resilience of District Critical Infrastructure					400,000		400,000		400,000	
	Reservoirs Cathodic Protection - Ongoing	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
	<b>Reservoirs Total:</b>	<b>\$ 1,550,000</b>	<b>\$ 10,050,000</b>	<b>\$ 8,750,000</b>	<b>\$ 2,550,000</b>	<b>\$ 7,650,000</b>	<b>\$ 11,050,000</b>	<b>\$ 950,000</b>	<b>\$ 250,000</b>	<b>\$ 700,000</b>	<b>\$ 2,300,000</b>
MO20-3	Potlatch RO Replacement	150,000									
	PUD Remodel of Operations	600,000	600,000	200,000							
	SRD Recondition Pumps & Set Motors Rebuild 1,2, & 4	300,000	300,000								
	SRD Recondition Pumps & Set Motors Rotation				500,000			500,000			500,000
	Alger Well Capacity (Pump & Pumphouse)	500,000	800,000								
	<b>Facilities Total:</b>	<b>\$ 1,550,000</b>	<b>\$ 1,700,000</b>	<b>\$ 200,000</b>	<b>\$ 500,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 500,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 500,000</b>
	SCADA Alger, Lake 16, Skagit View, Cedar Grove	200,000		200,000		200,000		200,000		200,000	
	WTP to PUD Campus	800,000									
	I-5 and Kulshan Trail Bore	500,000									
	Commerce State Grant Credit	(500,000)									
	Division Street Bridge Painting (DOT)	500,000									
	<b>Major Capital Total:</b>	<b>\$ 10,950,000</b>	<b>\$ 17,150,000</b>	<b>\$ 11,350,000</b>	<b>\$ 4,050,000</b>	<b>\$ 7,850,000</b>	<b>\$ 11,050,000</b>	<b>\$ 1,900,000</b>	<b>\$ 250,000</b>	<b>\$ 1,040,000</b>	<b>\$ 3,800,000</b>
	<b>Total Capital Projects</b>	<b>\$ 16,000,000</b>	<b>\$ 24,165,000</b>	<b>\$ 19,500,000</b>	<b>\$ 15,250,000</b>	<b>\$ 15,950,000</b>	<b>\$ 19,150,000</b>	<b>\$ 10,000,000</b>	<b>\$ 8,350,000</b>	<b>\$ 9,140,000</b>	<b>\$ 11,900,000</b>

<b>Total from 2025 Budget</b>	<b>\$ 13,100,000</b>	<b>\$ 14,650,000</b>	<b>\$ 5,450,000</b>	<b>\$ 7,550,000</b>	<b>\$ 6,850,000</b>	<b>\$ 1,050,000</b>	<b>\$ 1,900,000</b>	<b>\$ 250,000</b>	<b>\$ 4,440,000</b>	<b>\$ 28,665,000</b>
<b>Increase/(Decrease) from 2023</b>	<b>2,900,000</b>	<b>9,515,000</b>	<b>14,050,000</b>	<b>7,700,000</b>	<b>9,100,000</b>	<b>18,100,000</b>	<b>8,100,000</b>	<b>8,100,000</b>	<b>4,700,000</b>	<b>(16,765,000)</b>
<b>Average Annual Capital - First Five Years CIP (2026-2030)</b>										
	<b>2026 Budget</b>	<b>\$ 18,173,000</b>					<b>2026 Budget</b>	<b>\$ 14,940,500</b>		
	<b>2025 Budget</b>	<b>\$ 9,520,000</b>					<b>2025 Budget</b>	<b>\$ 8,390,500</b>		
	<b>Increase/(Decrease)</b>	<b>\$ 8,653,000</b>					<b>Increase/(Decrease)</b>	<b>\$ 6,550,000</b>		
<b>Department Capital</b>	1,125,000	1,400,000	1,250,000	1,750,000	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000	1,100,000
<b>Pipeline Replacement</b>	3,925,000	5,615,000	6,900,000	9,450,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000
<b>Major Capital</b>	10,950,000	17,150,000	11,350,000	4,050,000	7,850,000	11,050,000	1,900,000	250,000	1,040,000	3,800,000
<b>Total Capital Improvement Projects</b>	<b>\$ 16,000,000</b>	<b>\$ 24,165,000</b>	<b>\$ 19,500,000</b>	<b>\$ 15,250,000</b>	<b>\$ 15,950,000</b>	<b>\$ 19,150,000</b>	<b>\$ 10,000,000</b>	<b>\$ 8,350,000</b>	<b>\$ 9,140,000</b>	<b>\$ 11,900,000</b>

## C1. CATEGORIES OF CAPITAL PROJECTS:

**Department Capital** – Capital expenses required to maintain the operation of District facilities and functions. Examples include vehicles, construction equipment, facility equipment, pump replacements, and equipment replacement at the Water Treatment Plant.

**Pipe Replacement** – The District’s pipe replacement program includes surveying, designing, and constructing pipe replacement projects to replace old, undersized, defective, and pipes at the end of their useful life.

**Major Capital** – All other capital projects typically associated with a Capital Improvement Program. Projects vary year-to-year, including pipeline replacement, reservoir construction, facility repairs, and fiber optic construction.

## C2. CAPITAL PROGRAM SUMMARY

Based on the updated capital plan for the 2026 budget, the total anticipated value of capital projects planned for the next 10 years is \$150 million. Next year’s significant capital projects include replacing the WTP generator, the disinfection system, pipelines at Hillcrest, Conway, and Township, and design completion of a new Panorama storage tank.

### a) Department Capital

The 2026 budget includes \$1.1 million of department capital projects from Operations, Engineering, Water Treatment Plant, Meters, and the IT Departments. Next year’s projects include vehicle and equipment replacements, software upgrades, security enhancements, improvements at the Water Treatment Plant, SCADA system replacements, and other distribution system security updates.

### b) Pipe Replacement

The 2026 budget includes \$3.9 million for pipe replacement projects. Significant projects include the \$1.5 million pipeline relocation project at the Alger Interchange and the \$2.75 million Mount Vernon Hillcrest, Conway Pipeline \$750,000 pipeline projects.

### c) Major Capital

A review of the projects in this category was performed to update construction costs based on recent projects and market conditions. Major projects scheduled for 2026 include \$1.5 million WTP generator, a \$2.75 million Disinfection System replacement, and a \$1 million upgrade to the WTP Backwash Pump.

## D. CAPITAL BUDGET AND DEBT SERVICE

Capital Funding Strategy for the PUD’s capital improvement program includes an analysis of available resources from rate revenues, debt financing, and other resources that may be available (e.g., grants, outside contributions, etc.).

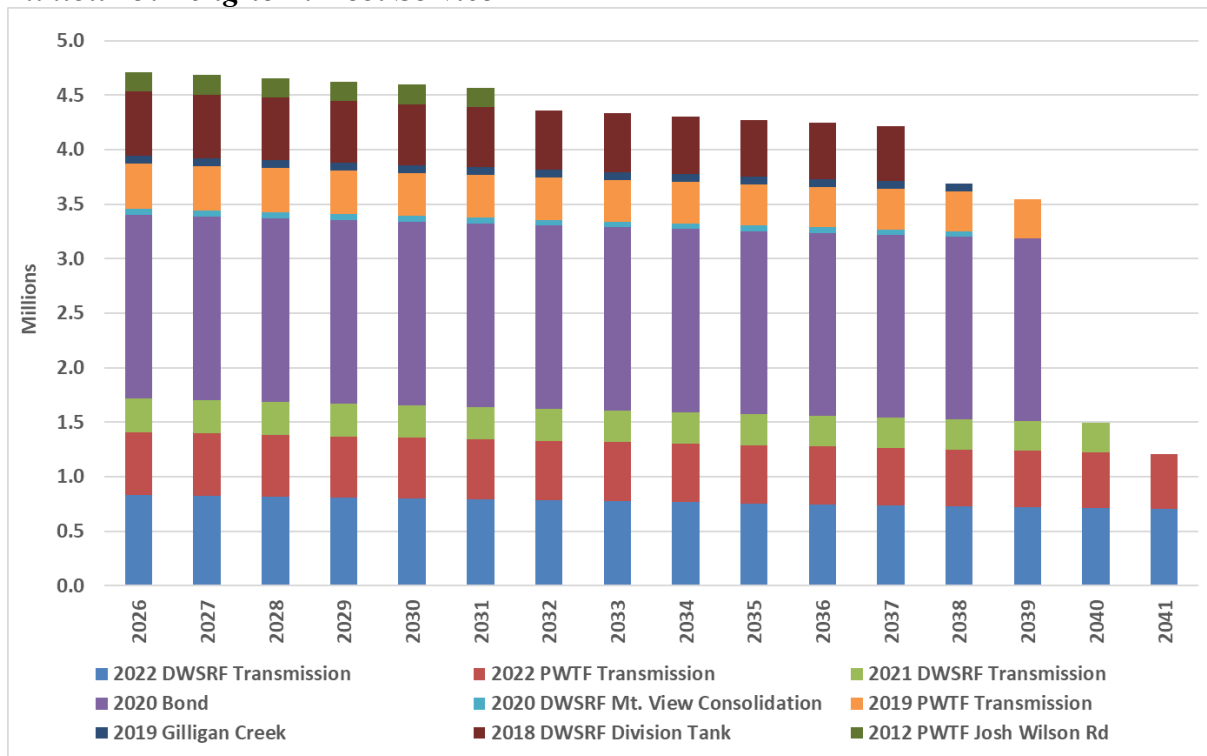
Exhibit 12 compares the first year of the 2026 Capital Improvement Plan budget to the end of the year capital expenditure forecast. The budget anticipates an additional \$6.3 million of capital projects being completed next year. The large multi-year projects include: \$2.9 million WTP generator, a \$2.75 million Disinfection System replacement, and a \$1 million upgrade to the WTP Backwash Pump, and Hillcrest Pipeline Replacement.

**Exhibit 12: Capital Budget**

Summary of Capital Budgets	2025 Forecast	2026 Budget	Change
<b>Capital Budget</b>			
Department Capital	\$ 1,432,000	\$ 1,125,000	\$ (307,000)
Major Capital	\$ 4,862,000	\$ 3,925,000	\$ (937,000)
Annual Pipe Replacement	\$ 6,388,000	\$ 10,950,000	\$ 4,562,000
<b>Total Capital Budget</b>	<b>\$ 12,682,000</b>	<b>\$ 16,000,000</b>	<b>\$ 3,318,000</b>

This Capital Improvement Plan budget assumes that no additional financing will be needed to fund the next three years of the CIP. District reserves and rate revenue are sufficient to fund the capital projects identified in the CIP.

**Exhibit 13: Long-term Debt Service**



The chart above shows the most recent loans that the District obtained to pay for the transmission line replacement and other capital projects. The loans are through the Drinking

Water State Revolving Fund or the Public Works Trust Fund, with rates ranging from .94% to 1.75%. The Bond is for 20 years and has a rate of 2.65%. The current year's debt service totals \$4,711,656 dollars.

**Exhibit 14: 2026 Debt Service**

Existing Debt Service	Interest	Principal	Total
Total Bonds	\$ 521,036	\$ 1,162,142	\$ 1,683,178
Total Public Works Trust Fund Loans	\$ 131,962	\$ 1,034,209	\$ 1,166,171
Total Drinking Water State Revolving Loans	\$ 278,716	\$ 1,511,590	\$ 1,790,306
Total Other State Loans	\$ 16,194	\$ 55,807	\$ 72,001
<b>Total Debt Service</b>	<b>\$ 947,907</b>	<b>\$ 3,763,749</b>	<b>\$ 4,711,656</b>

**E. FISCAL MANAGEMENT TARGETS**

The budget's adequacy is tested by considering long-term financial policies and whether the budget achieves the District's fiscal management targets. The 2026 budget anticipates spending reserves and rate revenue to pay for the capital improvements identified in this year's CIP.

a) Revenue Fund Ending Balance

*Target:* 2.5 months O&M + Depreciation = \$6,400,000.

*Projected:* 2026 ending balance = \$11,588,000, which exceeds the target.

b) Net Liquidity

*Target:* 180 days of O&M expenses, including fund balances for Revenue, Major Capital, SDF, and Debt Service funds.

*Projected:* 308 days, which exceeds the target.

c) Debt Service Coverage

*Target:* Minimum 1.25 for bonded debt; Planning target for bonded debt is 2.0

*Projected:* 3.65 Total Debt service coverage, which exceeds the target.

d) Rate Funded Capital

*Target:* Capital Expenditures target = \$9.1 million = Depreciation expense

*Projected:* Capital paid by rates = \$16,944,000, which exceeds the target.

## F. RATE FORECAST SUMMARY

This budget was developed to continue the rate study recommendations of annual five percent (5%) increases in base water rates and additional increases in the tiered rates to promote conservation. The rate increase is scheduled to take effect on January 1, 2026, and is projected to increase rate revenues by approximately \$1.6 million. This additional revenue will fund the projects identified in the Capital Improvement Plan and pay existing debt service.

For 2026, this budget's average residential rate impact is approximately \$7.46 per two-month billing cycle, assuming 6 CCF of water use.

## G. FUND SUMMARIES

The following two pages compare District fund summaries between this year's forecast and next year's budget.

**Exhibit 15: Comparison by Fund**

<b>All Funds Summary forecast for 2025</b>					
<b>Cash Resources and Requirements</b>					
	Revenue Fund	Major Capital Fund	System Development Fund	Debt Service	Combined
<b>Resources:</b>					
Beginning Fund Balance	16,343,000		7,014,000	1,710,000	25,067,000
External Revenue:					
Rate Revenue	33,661,049				33,661,049
System Development Fees			1,116,281		1,116,281
Capital Contributions	898,556				898,556
LUD Assessments, Interest, Penalties				20,000	20,000
Investment Income	750,000				750,000
Non-Operating Revenues	88,294				88,294
Total External Revenue	35,397,898		1,116,281	20,000	36,534,179
Debt Proceeds:					
Debt Proceeds -					
PWTF Loan - MV Transmission Line					
Debt Proceeds - Bonds					
Total Debt Proceeds					
Transfers from Other Funds:					
System Development Fund					
Major Capital Fund					
Revenue Fund				4,633,740	4,633,740
Total Transfers from Other Funds				4,633,740	4,633,740
Total Revenue	35,397,898		1,116,281	4,653,740	41,167,919
<b>Total Resources</b>	<b>51,740,898</b>		<b>8,130,281</b>	<b>6,363,740</b>	<b>66,234,919</b>
<b>Uses:</b>					
Operating Expenditures:					
Operations and Maintenance	18,927,804				18,927,804
Utility and Excise Taxes	1,573,500				1,573,500
Total Operating Expenditures	20,501,304				20,501,304
Capital Expenditures:					
Service/Meters/Developer Projects	898,556				898,556
Department Projects	1,432,000				1,432,000
Pipeline Replacement	4,862,000				4,862,000
Major Capital Projects	6,388,000				6,388,000
Total Capital Expenditures	13,580,556				13,580,556
Debt Service Payments:					
Interest Payments				1,146,470	1,146,470
Principal Payments				3,487,269	3,487,269
Total Debt Service Payments				4,633,740	4,633,740
Transfers to Other Funds:					
Revenue					
Debt Service				4,633,740	4,633,740
Total Transfers to Other Funds				4,633,740	4,633,740
Total Expenditures	38,715,599			4,633,740	43,349,339
Ending Fund Balance	13,025,299		8,130,281	1,730,000	22,885,580
<b>Total Uses</b>	<b>51,740,898</b>		<b>8,130,281</b>	<b>6,363,740</b>	<b>66,234,919</b>

All Funds Summary forecast for 2026					
Cash Resources and Requirements					
	Revenue Fund	Major Capital Fund	System Development Fund	Debt Service	Combined
<b>Resources:</b>					
Beginning Fund Balance	13,025,299		8,130,281	1,730,000	22,885,580
External Revenue:					
Rate Revenue	35,345,000				35,345,000
System Development Fees			1,172,000		1,172,000
Capital Contributions	944,000				944,000
LUD Assessments, Interest, Penalties				20,000	20,000
Investment Income	600,000				600,000
Non-Operating Revenues	50,000				50,000
<b>Total External Revenue</b>	<b>36,939,000</b>		<b>1,172,000</b>	<b>20,000</b>	<b>38,131,000</b>
Debt Proceeds:					
Debt Proceeds -					
PWTF Loan - MV Transmission Line					
Debt Proceeds - Bonds					
<b>Total Debt Proceeds</b>					
Transfers from Other Funds:					
System Development Fund	5,000,000				5,000,000
Major Capital Fund					
Revenue Fund				4,711,656	4,711,656
<b>Total Transfers from Other Funds</b>	<b>5,000,000</b>			<b>4,711,656</b>	<b>9,711,656</b>
<b>Total Revenue</b>	<b>41,939,000</b>		<b>1,172,000</b>	<b>4,731,656</b>	<b>47,842,656</b>
<b>Total Resources</b>	<b>54,964,299</b>		<b>9,302,281</b>	<b>6,461,656</b>	<b>70,728,236</b>
<b>Uses:</b>					
Operating Expenditures:					
Operations and Maintenance	20,168,431				20,168,431
Utility and Excise Taxes	1,652,175				1,652,175
<b>Total Operating Expenditures</b>	<b>21,820,606</b>				<b>21,820,606</b>
Capital Expenditures:					
Service/Meters/Developer Projects	944,000				944,000
Department Projects	1,125,000				1,125,000
Pipeline Replacement	5,150,000				5,150,000
Major Capital Projects	12,750,000				12,750,000
<b>Total Capital Expenditures</b>	<b>19,969,000</b>				<b>19,969,000</b>
Debt Service Payments:					
Interest Payments				947,907	947,907
Principal Payments				3,763,749	3,763,749
<b>Total Debt Service Payments</b>				<b>4,711,656</b>	<b>4,711,656</b>
Transfers to Other Funds:					
Revenue			5,000,000		5,000,000
Debt Service	4,711,656				4,711,656
Debt Reserve - New Debt					
<b>Total Transfers to Other Funds</b>	<b>4,711,656</b>		<b>5,000,000</b>		<b>9,711,656</b>
<b>Total Expenditures</b>	<b>46,501,263</b>		<b>5,000,000</b>	<b>4,711,656</b>	<b>56,212,919</b>
Ending Fund Balance	8,463,036		4,302,281	1,750,000	14,515,318
<b>Total Uses</b>	<b>54,964,299</b>		<b>9,302,281</b>	<b>6,461,656</b>	<b>70,728,236</b>