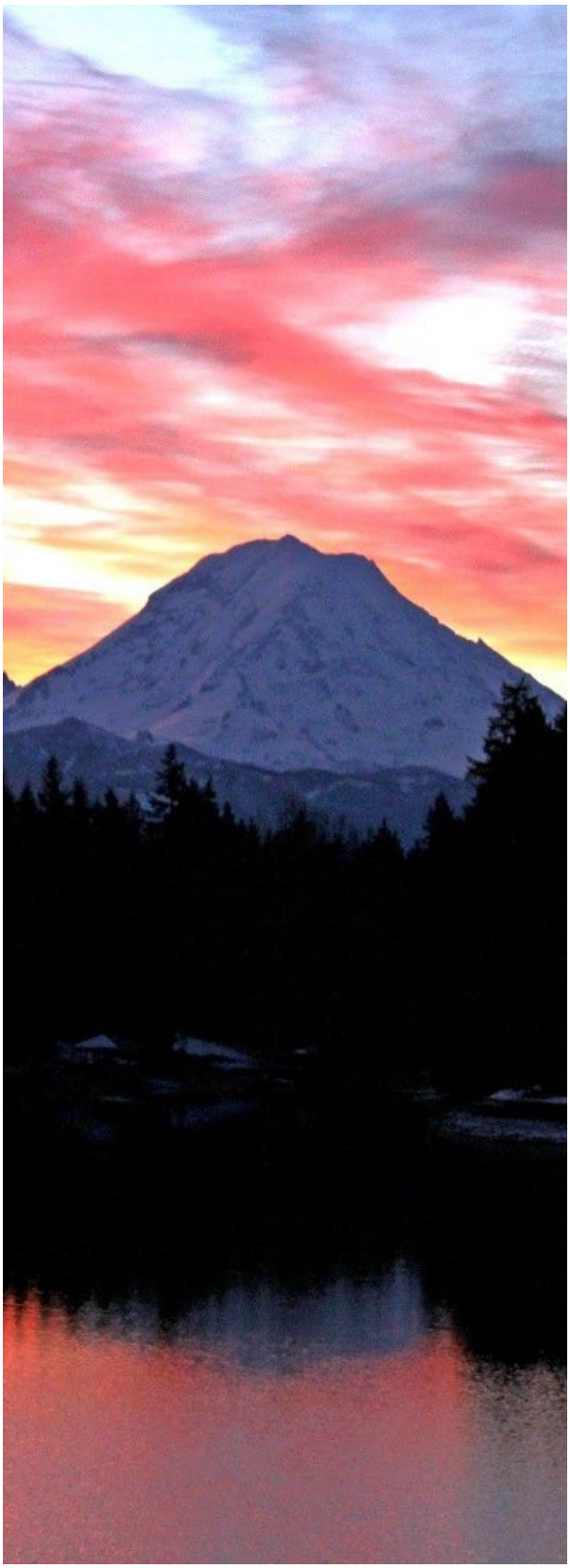

CAPITAL FUNDING PLAN

Cascade Supply Program: Phase I

FINAL

2026-09-13

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Abbreviations, Acronyms, Key Terms

Abbreviation, Acronym, or Term	Definition
Board	Cascade Water Alliance Board of Directors
Cascade	Cascade Water Alliance
CCF	Hundred Cubic Feet
CERU	Cascade equivalent residential units
CIP	Capital Improvement Program, a 6-year program adopted as part of Cascade's biennial budget
CSP	Cascade Supply Program, or "Program", including all phases
DWSRF	Drinking Water State Revolving Fund
Funding Plan	Also: "Capital Funding Plan", "Plan" This document, the Funding Plan for Phase I of the Cascade Supply Program
PWB	Washington Public Works Board loan program
RCFC	Regional Capital Facilities Charge
MGD	Millions of gallons per day
SDC	System Development Charge
SPU	Seattle Public Utilities
Supply Project	Also: "Water Supply Project", "Phase I" Phase I of the Cascade Supply Program
TCTL	Tacoma-Cascade Transmission Line
TPU	Tacoma Public Utilities
WIFIA	U.S. EPA Water Infrastructure Finance and Innovation Act loan program
WSDF	Water Supply Development Fund
WRLTR	White-River Lake Tapps Reservoir, or "Lake Tapps Reservoir"

Executive Summary

Cascade is embarking on a major supply program to deliver Tacoma water to Cascade members. For projects of this scale, Cascade code requires Board adoption of a Capital Funding Plan designed to fulfill capital funding needs while satisfying applicable fiscal policies, mitigating risks, and limiting rate impacts on Members and their customers. This document provides a funding plan structured to satisfy these objectives, to document the policy decisions of the Board, and to define the long-term rate strategy guiding future budget and rate development.

A. The Water Supply Project

This Capital Funding Plan ("Funding Plan") is for Phase I of the Cascade Supply Program ("CSP", "Program"). The CSP is discussed in Cascade's 2025 Water System Plan, and in Section 1 of this report. The CSP began with Board authorization of two supply contracts with Tacoma Water to replace the Seattle Public Utilities ("SPU") supply contract scheduled to ramp down beginning in 2040. Phase I of the CSP provides the transmission infrastructure needed to deliver Tacoma supply. The existing conceptual Phase I plans include a pipeline from Tacoma's Second Supply Pipeline in the Covington area extending to the Cascade service area (Tacoma-Cascade Transmission Line). It will also incorporate related features such as storage and re-chlorination facilities.

Key Takeaways:

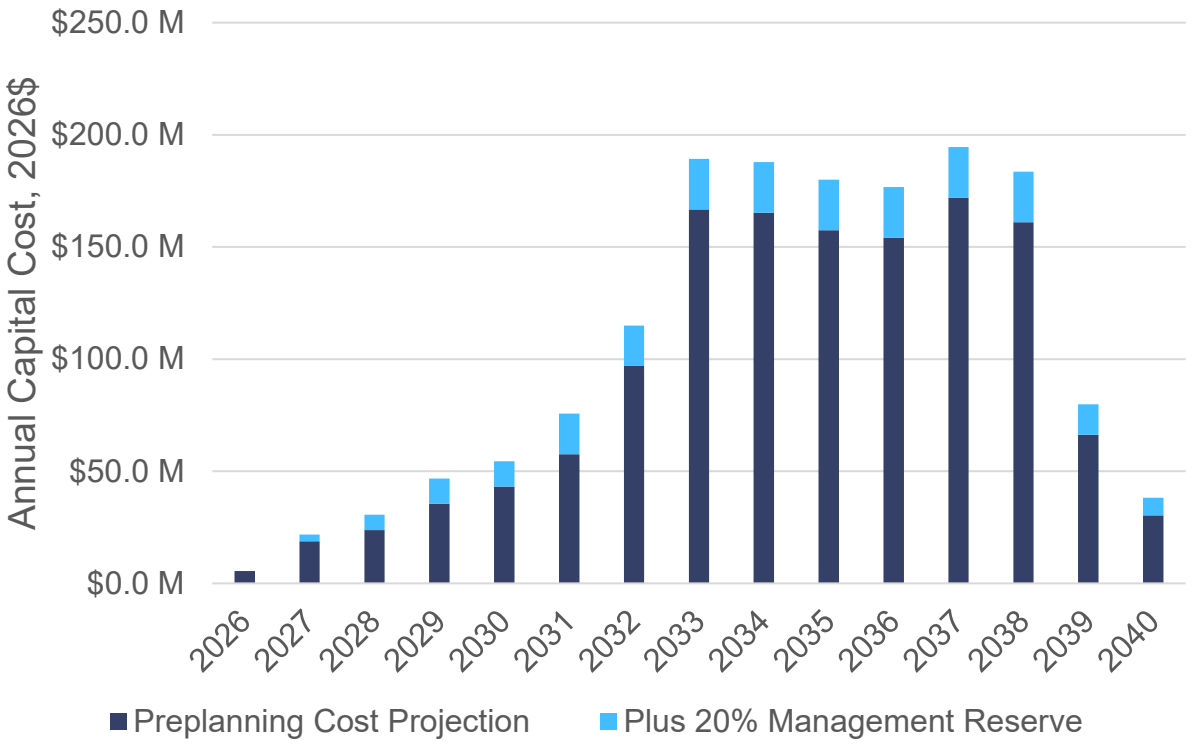
- **CSP Phase I** delivers Tacoma water when needed due to Seattle contract decline; project completion by 2041.
- **Recommended funding strategy** improves rate outcomes but requires earlier rate and borrowing decisions.
  - Cascade should pursue **WIFIA** funding from EPA, including actions to support the program.
  - A **$60 million bond issue** is needed in the next 12 months.
  - Annual **rate increases of 9.5%** for the next biennium.
  - Funding ***risk centers on Phase I cost and success of outside funding assistance.***
- **Biennial Capital Funding Plan updates**, in addition to when conditions change significantly.
- **Board Action** required to adopt Funding Plan and implement key elements such as rate and borrowing decisions.

Phase I of the Program is anticipated to begin with detailed facility planning, followed by design and then construction, with anticipated completion by 2041. At present, the White River-Lake Tapps Reservoir ("WRLTR") supply is projected to be needed at or near the termination of the Tacoma Water temporary supply agreement in 2062; the water supply infrastructure built to convey Tacoma supply may also convey water from WRLTR in the future.

While some initial costs are incurred in 2026, the Funding Plan addresses the 2027-2040 timeframe. The CSP team developed preplanning cost projections in February 2026. These projections define a recommended cost range, rather than a single number, given the level of uncertainty at the initiation of the supply project. Based on those ranges, the cost range for Phase I of the CSP is currently projected at $1.13 billion to $1.35 billion in 2026 dollars, and actual outlays with inflation are projected to total between $1.53 billion and $1.84 billion in year of expenditure dollars. Cost projections will continue to be updated throughout the supply

project. The current cost projection and schedule of outlays for Phase I is summarized in **Exhibit ES-1**.

EXHIBIT ES-1. CSP PHASE I PREPLANNING COST PROJECTION RANGE AND SCHEDULE, 2026 COSTS



B. Key Fiscal Policies

Cascade's fiscal policy structure is designed to be stable and predictable. This is manifested in policies guiding capital reinvestment, stable revenues, direction of funds toward capital purposes, and limits on capital structure to avoid over-leveraging. In anticipation of this and other supply projects, Cascade established a Water Supply Development Fund ("WSDF") in 2021 to accumulate cash funding for major projects and to help ensure that a strong financial structure is maintained. Other policies include a debt limit, capital reinvestment, establishment of a Regional Capital Facilities Charge ("RCFC"), and more. These policies become rate-setting rules that drive necessary rate increases. Financial forecasts are structured to satisfy all applicable fiscal policies.

C. Key Funding Sources

Traditionally, funding would derive from direct cash funding and revenue bond debt. There also are many state and federal assistance programs oriented towards infrastructure that could help fund the supply project, although in most cases the scale of assistance is small relative to the anticipated supply project costs. However, even in these cases, the availability of grants or below-market loans can be beneficial to rate outcomes. Further, some sources can be substantial and materially improve projected financial performance. Among the available

programs, the Water Infrastructure Finance and Innovation Act ("WIFIA") loan program administered by the U.S. Environmental Protection Agency is both substantial and could be extremely beneficial. The program can fund up to 49% of supply project costs for approved projects. For Phase I of the CSP, the total available financing could be between $700 and $850 million through this source.

Other grant and loan opportunities also remain available and while on a smaller scale, they can help lower project cost impacts. There are also opportunities for partnership with local and regional water utilities to increase regional resilience and may provide investment or revenue opportunities for Cascade as the project proponent and owner.

Cascade should pursue WIFIA loans as a central funding vehicle and other assistance programs in parallel.

D. The Recommended Funding Strategy

The recommended funding strategy uses financial forecasts to develop actionable and specific rate and funding decisions. This provides specific steps to initiate the funding program and tools for adapting the funding strategy as assumptions and conditions change. It relies on revenue bonds as a significant source of financing, while using public assistance programs and potential partnering opportunities to enhance financial performance and help constrain rate impacts. In all cases, elements that enhance cash funding are preferred, as they reduce debt burden and improve flexibility for meeting future capital needs.

The key components of Cascade's Recommended Funding Strategy are:

- Assume successful pursuit of federal and state funding assistance,
- Plan conservatively, using the high end of the projected cost range in the near term while overall uncertainty is higher, to preserve flexibility and avoid worse rate outcomes in the future, and
- Adopt a policy of smoothing rates over the term of the supply project, rather than only the five-year smoothing of Cascade's current policy.

The Recommended Funding Strategy reflects Cascade's total anticipated operating and capital needs, including both Phase I of the CSP and other known or anticipated capital costs. The components of Cascade's capital program between 2027 and 2040 are summarized in **Exhibit ES-2**.

EXHIBIT ES-2. TOTAL CASCADE CAPITAL COST SUMMARY: 2027-2040

Cost Component	2026$ Cost Range	Inflated Cost Range
CSP Phase I *	$1.13 B to $1.35 B	$1.53 B to $1.84 B
Tacoma Water Supply Capital Costs †	$95,431,000	$95,431,000
6 year CIP (2027-2032) - Excludes Costs Shown Elsewhere	$25,390,000	$25,390,000
Forecasted Long-term Other Capital Costs (2033-2040)	$36,390,000	$56,460,000
Total	**$1.29 B to $1.51 B**	**$1.71 B to $2.01 B**

** CSP Phase 1 costs reflect estimated total capital cost beginning in 2026, and excludes operating costs in 2025 and 2026.*
† Tacoma Water Supply Capital Costs are set by contract with no additional provisions for inflation adjustments.
Differences in totals due to rounding

The Recommended Funding Strategy includes a WIFIA loan and limited other loans and grants, along with cash and revenue bond funding. If successful, it yields a capital funding structure summarized below in **Exhibit ES-3**.

EXHIBIT ES-3. CAPITAL FUNDING SOURCES FOR RECOMMENDED FUNDING STRATEGY

	Inflated Dollars	Percentage
Total Capital Program Expenditures, 2027-2040	$2,008,000,000	
Cash Funding	$456,000,000	22.7%
Revenue Bond Funding (net of issue and reserve costs)	$662,000,000	33.0%
Federal (WFIA) Loans	$850,000,000	42.3%
State Loans	$20,000,000	1.0%
Grants and Partner Contributions	$20,000,000	1.0%
Total Capital Funding	**$2,008,000,000**	

The totals shown above reflect all components of Cascade's anticipated capital program, including both the supply project and other anticipated capital needs.

Although a supply project of this scale will stress financial and rate capacity, Cascade fiscal policies and financial objectives remain satisfied. Cash funding is also increased, providing improved debt structures and overall financial outcomes. The key metrics projected under current assumptions for the supply project cost and schedule are summarized in **Exhibit ES-4**:

EXHIBIT ES-4. KEY FINANCIAL METRICS FOR RECOMMENDED FUNDING STRATEGY

Average Annual Rate Increase (2027-2040):	**8.96%**	
Maximum Debt to Fixed Asset Ratio (2027-2040):	**69.7%**	**2040**
Min Debt Service Coverage 2027-2040 (All Debt):	**1.40**	**2040**

	2025	2030	2035	2040
Total Debt Outstanding	$55 M	$90 M	$0.722 B	$1.408 B
Debt Service as % of Member Charges	20.1%	18.3%	41.0%	58.1%
Debt Service Coverage (All Debt)	2.18	4.14	1.97	1.40
Cost per CCF (Member Charges / Total Sales)	$3.38	$5.07	$7.61	$11.27

The recommended strategy mitigates rate trends and reduces total debt burden as compared to traditional funding or reduced rate smoothing. **Exhibit ES-5** summarizes annual rate increases for the 2027-2040 period. The recommended strategy results in smoothed rates and longer loan terms, which spread the impact of rate increases more evenly across the period of the supply project and avoid short term rate spikes, relative to less conservative rate strategies.

EXHIBIT ES-5. ANNUAL RATE INCREASES FOR RECOMMENDED FUNDING STRATEGY

The cumulative impact of these rate increases on the average cost of Cascade water is shown in **Exhibit ES-6** in terms of cost per hundred cubic feet per month ("CCF"). Cost impacts on members varies based on the proportion of independent vs Cascade water supply.

EXHIBIT ES-6. PROJECTED COST PER CCF OF SUPPLY FOR RECOMMENDED FUNDING STRATEGY

E. Risks and Uncertainty

This Funding Plan relies on the existing projections of the supply project cost and schedule, as well as related forecasts of other Cascade costs, growth and inflation rates, and other factors. Assumptions related to the supply project costs and cost trends over the next 15 years are central to longer-term expectations for project financing and rate impacts. While forecasts were developed to continue to meet Cascade fiscal policies, unanticipated adverse trends could worsen the financial forecast and increase volatility.

The Funding Plan examines various factors and evaluates risks and consequences for those factors through sensitivity analyses. The sensitivity analyses suggest a range of outcomes, rather than a single expectation, and initial decisions as summarized in this Plan can be made based on a broader understanding of potential outcomes.

Four groups of sensitivity analyses were developed:

- Major risk factors: these scenarios evaluate the sensitivity of the outcomes to supply project cost and schedule.
- Demonstrating financial capacity: these scenarios test extreme negative scenarios to demonstrate that Cascade has the financial capacity to respond to those conditions without violating covenants or other financial policies, as required by the Cascade Code.
- Evaluating conservatism: these scenarios recognize that there is a range of uncertainty today, and test what happens if assumed conditions changed for better or worse during the course of the supply project.
- Other sensitivity reviews: these reviews evaluate underlying economic assumptions such as inflation, growth rate, or water demand.

In all cases tested, fiscal policies were satisfied regarding debt burden, debt coverage, and financial performance. However, unanticipated impacts or trends can materially increase necessary rates and destabilize financial outcomes. Financial outcomes are summarized in **Exhibit ES-7**.

EXHIBIT ES-7. SENSITIVITY ANALYSIS – SUMMARY OF KEY FINANCIAL METRICS

Scenario	Phase I Cost, 2026$	Avg Annual Rate Increase	2040 Cost per CCF	% Cash Funding	Max Debt to Net Asset Ratio	Min Debt Service Coverage
Policy or Covenant					**80%**	**1.25**
Base Scenario	$1.13 B	8.12%	$10.11	25.6%	63.2%	1.42
Funding Assistance	$1.13 B	7.82%	$9.73	26.2%	65.9%	1.42
Scenarios for Major Risk Factors						
1. Higher Capital Costs	$1.35 B	9.17%	$11.58	20.3%	71.8%	1.41
2. Accelerated Schedule	$1.13 B	7.53%	$9.37	23.1%	56.3%	1.41
3. Delayed Schedule*	$1.13 B	6.77%	$11.54	27.8%	60.6%	1.54
Scenarios Demonstrating Financial Capacity						
4. Adverse Ensemble	$1.35 B	9.00%	$11.33	20.6%	66.9%	1.41
5. Cost Over-run	$1.63 B	10.20%	$13.20	18.5%	70.3%	1.40
Scenarios Evaluating Conservatism						
6. Conservative, then lower cost	$1.13 B	7.71%	$9.58	28.5%	63.5%	1.44
7. Optimistic, then higher cost	$1.35 B	9.39%	$11.91	20.8%	69.1%	1.41
8. Extremely Conservative	$1.94 B	11.68%	$15.92	19.0%	71.7%	1.40
Recommended Funding Strategy						
Recommended Funding Strategy	**$1.35 B**	**8.96%**	**$11.27**	**22.7%**	**69.7%**	**1.40**

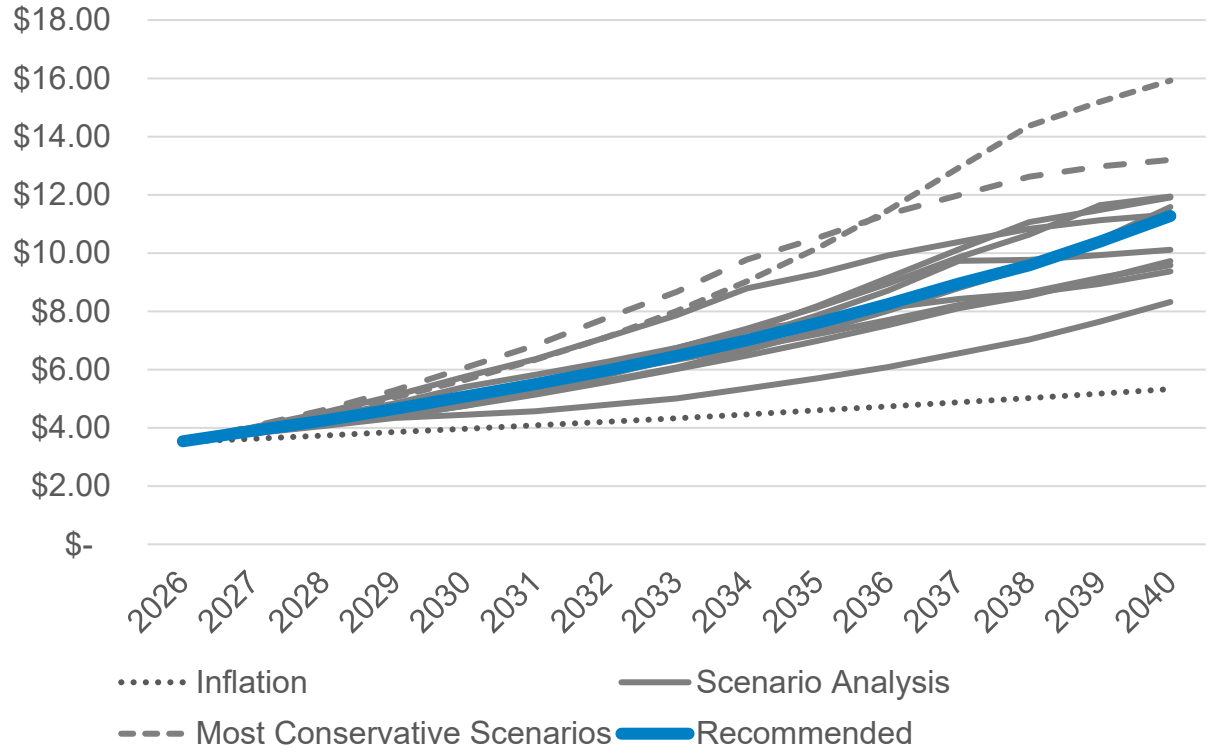
** Scenario 3 shows 2045 Cost per CCF, reflecting full impact of Phase I*

Key conclusions from the sensitivity analysis include:

- Rate increases necessary to deliver Phase I of the CSP are significant: even the most optimistic scenarios are significantly higher than inflation.
- With the exception of the most conservative scenarios, and the delay scenario, the long term cost per CCF is relatively tightly grouped, ranging between $9.37 per CCF and $11.94 per CCF.
- For scenarios with consistent assumptions, higher initial increases reduce long term cost by reducing necessary borrowing.
- There are a number of components of uncertainty that will not be resolved until the CSP is well under way: any strategy needs to be flexible to manage that uncertainty.

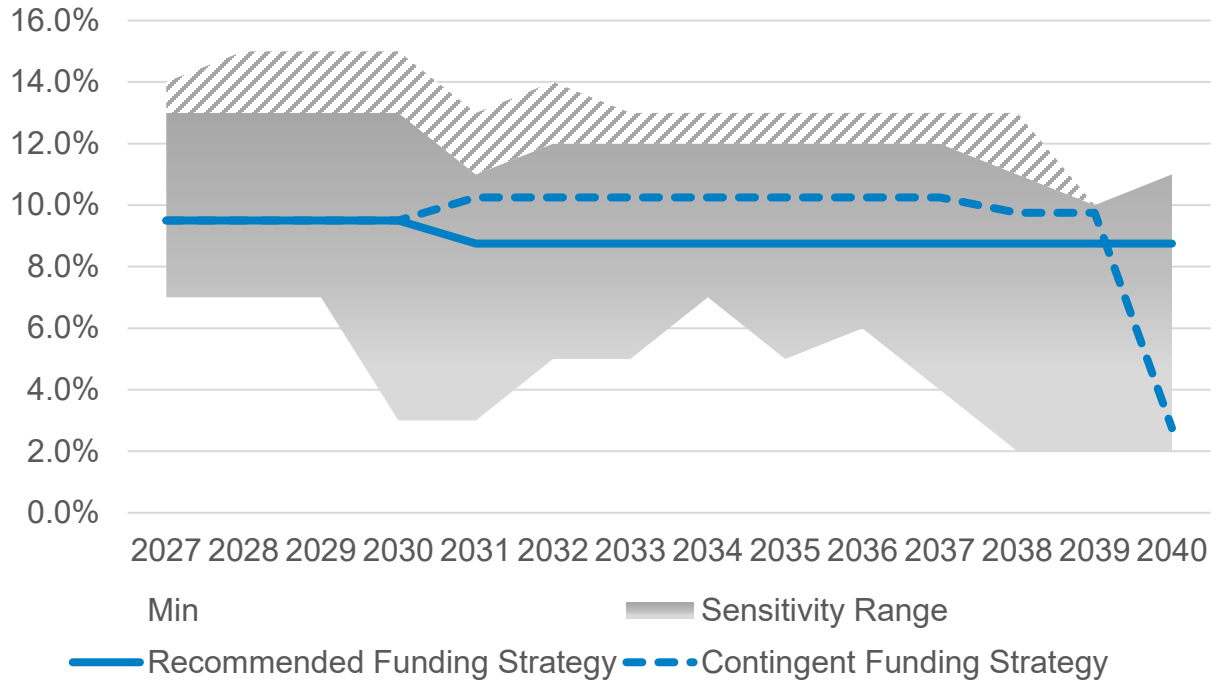
The recommended funding strategy has been developed recognizing the uncertainty in both risks and opportunities. It represents a moderately conservative rate path that positions Cascade to be preserve financial flexibility while uncertainty remains high. **Exhibit ES-8** shows the recommended funding strategy in terms of cumulative cost per CCF, along with the range of sensitivity analysis outcomes.

EXHIBIT ES-8. PROJECTED COST PER CCF FOR RECOMMENDED FUNDING STRATEGY



One key area of uncertainty is whether Cascade will be successful in pursuing outside funding assistance. **Exhibit ES-9** shows how the rates under the Recommended Funding Strategy would need to shift to accommodate a change to revenue bond funding if WIFIA loans are not available. The exhibit shows how Cascade's rate strategy would need to change beginning in 2031, increasing to 10.25% per year rather than dropping to 8.75% per year.

EXHIBIT ES-9. CONTINGENT RATE STRATEGY



F. Recommended Policies and Actions

According to the Cascade code, the Board must adopt a capital funding plan before materially embarking on a project of this scale. Budget and rate planning should then reflect financial needs identified by the plan.

There are three primary areas for policy input and action related to the Funding Plan for the Supply project. The recommended policy actions reflected in the strategy discussed above are:

- Adopt a policy of pursuing outside funding assistance, and direct Cascade staff to take actions necessary to pursue federal and state funding, including coordination with Members regarding support for Cascade's applications and for program funding.
- Direct Cascade staff to develop budgets, rate proposals, and forecasts using a level of cost conservatism that is consistent with the Recommended Funding Strategy.
- Adopt a policy of smoothing rates over the duration of the supply project.

In adopting the Capital Funding Plan, the Board should anticipate the following near-term actions to implement the Plan:

- For the 2027-2028 biennium, implement rate increases of 9.5% annually.
- Charge the full RCFC as determined by the adopted methodology, but with a phasing in of the charges to prevent extreme impacts. This results in recommended charges of $10,622 for 2027 and $12,747 for 2028. The 2026 RCFC is $8,852. Update the RCFC

methodology and forecast with major changes to project configuration, cost and schedule.

- Plan and execute a revenue bond issue in late 2026 or early 2027 on the order of $60 million, intended to meet two years of projected capital costs. Consider expanding the bond issue to take advantage of opportunities for refunding or restructuring existing debt (revenue bonds and Tacoma capacity payments).
- Vigorously pursue funding through the WIFIA program and maximize use of this program.
- Initiate applications for other state and federal grant and loan programs according to program guidelines, as well as pursuit of legislative appropriations.
- Pursue regional partnerships to enhance the regional value of the project and Cascade's financial outcomes.
- Periodically update the Funding Plan and adopt a revised version when material changes in costs, schedule or other assumptions occur.

The Capital Funding Plan does not authorize or constitute separate action or approval by Cascade with regard to any project, activity, or program that has not been separately and expressly approved by Cascade after compliance with all applicable SEPA environmental review requirements. Adoption of this Plan does not authorize Cascade to make expenditures for capital projects, to pay for the purchase of existing capital improvements, or to purchase water supply.

G. Future Actions and Board Role

In adopting the Plan, the Board is directing staff to take actions consistent with implementing the Recommended Action. The Board retains authority related to issuing new revenue bond debt, adopting Cascade budgets and rates, accepting terms for public grants and loans, and all major Phase I funding decisions. Separately, the Board will be engaged in project oversight and authorization related to planning, design, and construction-related activities required to implement Phase I of the Cascade Supply Program.

The Capital Funding Plan will be periodically updated and revised as supply project information evolves. The Board will be asked to periodically adopt the updated Funding Plan to supersede this initial Funding Plan. It is anticipated that this may initially occur as frequently as annually, perhaps later slowing to biennial updates linked to budget, rate, and funding cycles.

In addition to regular updates, Cascade anticipates a number of key points that would merit updates to the Capital Funding Plan. The preplanning schedule anticipates reaching a design milestone where a baseline cost estimate is established between 2029 and 2030. This will represent a significant update to the cost assumptions. Additionally, this design milestone is necessary for application for construction funding through WIFIA. Subsequently, the preplanning schedule anticipates that commencement of construction in approximately 2032 will also prompt an update to the Funding Plan.

This Capital Funding Plan is limited to the funding for Phase I of the CSP, but it has been developed with recognition that additional infrastructure beyond Phase I will be needed to execute Cascade's supply strategy. At this time, the program definition for subsequent phases is conceptual, with no formal planning or design having been completed since the 2012

Transmission Supply Plan. Phase II will comprise the infrastructure necessary to distribute water to the Cascade Member agencies, with internal planning in the 2030s and material consultant costs beginning in the late 2030s. Phase III will comprise the infrastructure necessary to bring Lake Tapps Reservoir in to drinking water service, including the remaining transmission pipeline and water treatment plant. It is anticipated that Phase III would be brought into service in roughly 2060. As preplanning and planning activities improve definition of the subsequent Phases, these will also prompt updates to the Capital Funding Plan.

1.0 Introduction and Purpose

Cascade Code requires that the Board adopt a Capital Funding Plan ("Funding Plan", "Plan") before undertaking substantial capital project efforts. The Funding Plan provides a strategy for funding major capital projects. It is intended to be flexible and adaptable and should be routinely reviewed and updated.

While the Funding Plan primarily addresses the initial Supply project needed to deliver Tacoma water to the Cascade service area by 2041, including a transmission line and appurtenant infrastructure as outlined below, it also includes Cascade's other expected capital expenditures, both near-term and long-term, including supply payments to Tacoma. These other projected costs are considered fixed costs in the analyses and not subject to the sensitivity analyses that are performed for the projected Cascade Supply Program ("CSP") Phase I costs. In other words, Cascade is not evaluating the risk and uncertainty related to supply payments, WRLTR capital needs, or future CSP phases.

Although developed in the context of the broader CSP extending over decades, this Plan does not directly address funding alternatives for subsequent phases of the CSP, relying on standard assumptions regarding use of cash resources and revenue bond debt. Cascade expects to include the projected costs for future phases and ongoing supply payments in future capital funding plans as necessary. For this current Plan, cost projections for those later phases/projects are included in all related financial forecasts for purposes of evaluating longer-term financial needs as affected by Phase I funding decisions.

A. Requirements for a Capital Funding Plan: Cascade Code

Recognizing the impact of major capital initiatives on Cascade, the Cascade Code requires that such initiatives be accompanied by timely and adequate financial planning. This takes the form of a Funding Plan to be adopted by the Board.

Section 5.05.050 of the Cascade code (Fiscal Policies) specifically requires advance planning when projects could lead to high levels of debt leverage or when projects are substantial relative to existing Cascade infrastructure. Specifically, subsections E and F provide:

> *"E. Advance Financial Planning. It is Cascade's intent that major capital projects, such as regional water supply and conveyance, be implemented in a planful manner that moderates impacts on Member charges and Cascade's capital structure. When planned capital projects could lead to an accumulation of debt that ultimately exceeds 80 percent of Cascade's net book value, Cascade will develop and implement a strategy for generating and accumulating a cash contribution toward the project in advance of the project's scheduled development so that this policy is satisfied and volatile impacts on Member charges are mitigated. The Board will adopt appropriate measures to enable the accumulation of such funds and safeguard the funds for their intended purpose.*
>
> *F. Project Funding Plan. For specific major capital projects that would represent 25 percent or more of Cascade's total fixed assets (undepreciated original cost) when completed, such as development of a major new supply source, a project funding plan will be developed that identifies and includes a schedule of anticipated costs, planned*

> *sources of cash, grant and debt financing, a planned schedule of debt issuance, compliance with fiscal policies, and a projection of impacts on Member charges. The project funding plan will also include a contingent funding strategy in the event that project costs were to increase up to 20 percent above estimates or if assumed grant funding were lost. The project funding plan will be adopted by the Board in advance of initiating the project and will be subject to periodic update as appropriate during the development of the project."*

In 2021, after over a year of development and review, the Cascade Board created the Water Supply Development Fund ("WSDF"), whose primary purpose is to provide direct cash funding for major supply projects in compliance with fiscal policies limiting debt leverage and calling for rate planning to provide smooth and predictable transitions in member costs (rates).

As part of the WSDF formation, further guidance on capital planning requirements related to use of the WSDF was adopted in Cascade Code section 5.70.040.B, which provides:

> *"B. Funding Plan. When development of the Water Supply Project is imminent, but in no case later than the budgeting process for the biennium in which work shall materially commence, Cascade shall, in consultation with Cascade's financial advisors and other consultants, develop and present to the Board a funding plan for its consideration of the Water Supply Project capital funding, and its authorization of related financial activities including bond issues, rate increases and use of the Water Supply Development Fund. The funding plan shall:*
>
> *1. Address the planned and scheduled use of equity funds, loans, grants, and revenue bonds during development of the Water Supply Project.*
>
> *2. Outline a schedule for the use of equity and debt resources that enables rational and timely access to bond markets, adequate funding throughout the Water Supply Project construction period, and a reasonable rate strategy to transition Member charges to a level that fully funds the development of Water Supply Project.*
>
> *3. Include reasonable contingencies for unanticipated cost increases and schedule alterations.*
>
> *4. If grants or low-cost loans cannot be confidently relied upon, address a structure without those sources, but with flexibility to accommodate the benefits of such funding sources if and when they are secured."*

Together, these elements of code indicate the high priority placed by the Board on adequate capital financial planning that contemplates contingencies and risks when developing a thorough funding strategy. This Funding Plan is structured to satisfy the requirements of both 5.05.050 and 5.70.040 as related to Phase I of the Cascade Supply Program needed to deliver Tacoma wholesale water to Cascade members.

B. The Supply Project

1. General Supply Strategy

Cascade's supply strategy centers on Cascade's ownership of White River-Lake Tapps Reservoir ("WRLTR", "Lake Tapps Reservoir") and related municipal water rights as a future drinking water supply source. Cascade's business model calls for the use of available regional water to bridge demand until the Lake Tapps Reservoir is developed. Existing Seattle contract supplies begin to decline after 2039. With an estimated 20-year planning horizon to develop the Lake Tapps Reservoir, in July 2021, Cascade's Board directed staff to pursue potential supply contracts with Seattle and Tacoma. The objectives of the contract discussions were as follows:

1. 20-year (or longer) extension of contract supply.
2. Extension sufficient to defer development of the Lake Tapps Reservoir.
3. Reasonable and predictable costs.
4. Net economic and/or rate benefit versus developing Lake Tapps Reservoir.
5. Flexibility to allow for future variation in supply and demand.
6. Possible further extensions if mutually beneficial given supply/demand status.
7. Possible partnership opportunities for assets of regional significance.

In May 2024, after nearly three years of discussions with both Seattle and Tacoma, Cascade's Board directed staff to develop a new supply contract with Tacoma. Seattle and Tacoma both proposed contract terms that would allow Cascade to cost-effectively defer development of the Lake Tapps Reservoir. However, Tacoma's proposal offered longer supply certainty, greater financial benefit, and an opportunity to move towards a regionalized water system. The financial advantage extended over a wide range of sensitivity analyses. Recent update of the sensitivity to project costs ranging to 100% above estimate continued to illustrate a distinct advantage for the Tacoma supply option.

In March 2025, Cascade and Tacoma finalized and signed two separate and complementary agreements – the Agreement for Market-Priced Wholesale Water Supply (2025 Market-Priced Agreement) and the Wholesale Water Supply Agreement (2025 Wholesale Agreement). Cascade plans to phase into Tacoma's delivery, starting around 2041, as supply from Seattle's Block Contract declines and demand begins to exceed Seattle's contractual supply.

The following are key supply terms in each agreement:

- 2025 Market-Priced Agreement (temporary supply)
    - Restates and replaces the 2012 Tacoma Agreement that provides up to eight (8) MGD of water.
    - Provides water supply from 2041 through 2062 and may be extended upon mutual agreement.
    - Provides up to 12 MGD annual average and 17.5 MGD peak day water supply.

- 2025 Wholesale Agreement (permanent supply)
    - Commences on the agreement signature date and remains in effect until Tacoma ceases making wholesale water sales.
    - Provides up to 15 MGD (peak day) water supply with no lower annual limit.

Cascade is responsible for constructing the facilities necessary to connect Cascade's system with the Tacoma system.

With the Tacoma contracts in place, development of the WRLTR water supply can now be deferred until roughly 2060. Infrastructure needed to deliver Tacoma water will continue to be used to deliver the permanent portion of the Tacoma supply, while also able to be used as a part of the system to deliver WRLTR water after it is developed. In addition, Cascade can also continue to explore other regional opportunities that might provide further cost-effective deferrals.

2. Cascade Supply Program

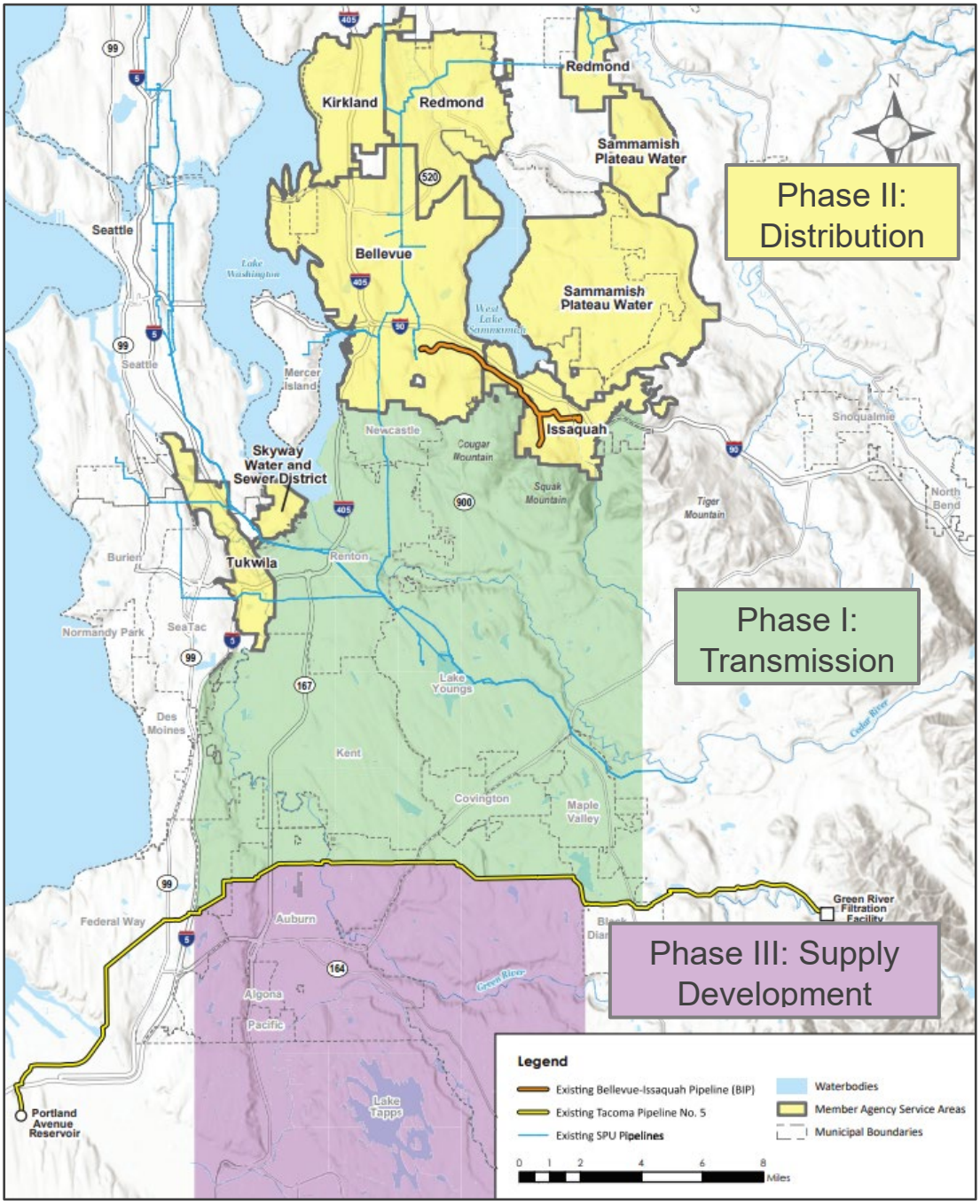
As discussed in its 2025 Water System Plan, Cascade's system planning efforts reflect the anticipated infrastructure necessary to support the long-term general supply strategy discussed above. Cascade's 2012 Transmission Supply Plan considered the new facilities that would be required to deliver Tacoma -provided water to Cascade Members using a new pipeline known as the Tacoma-Cascade Pipeline. That program has been re-envisioned, and the conveyance required to deliver Tacoma water to Cascade Members is now called the Cascade Supply Program ("CSP"). This transmission line and associated infrastructure is Phase I of the CSP. Cascade will be responsible for planning and constructing the final alignment of the Tacoma-Cascade Transmission Line ("TCTL") by 2041. Phase II of the CSP will comprise the infrastructure necessary to distribute water to the Cascade Member agencies, with internal planning in the 2030s and material consultant costs beginning in the late 2030s. Phase III of the CSP will include the infrastructure necessary to bring the White River Lake Tapps Reservoir in to drinking water service, including the remaining transmission pipeline and water treatment plant. It is anticipated that Phase III would be brought into service in roughly 2060.

The phases of the CSP and anticipated project components are summarized below. These components are based on the existing pre-planning efforts, and are expected to be refined and changed as the CSP planning efforts commence in 2026. These phases are shown in

Exhibit 1-1.

- Phase I: Supply transmission from Tacoma Second Supply Pipeline to Cascade service area. (in-service by about 2040)
  - Supply transmission lines (Tacoma-Cascade Transmission Line, TCTL)
  - Storage tank (Cascade Storage Tank #1, CST1)
  - Re-chlorination (Cascade Re-chlorination Station, CRS)
  - Building facilities for SCADA, Storage, and Operations and Maintenance
  - Permitting and property acquisition
- Phase II: Supply distribution to Cascade members (components are assumed future needs, subject to change). (2040s and 2050s as sources of supply shift)
  - Additional storage tank (Cascade Storage Tank #2, CST2)
  - Bellevue-Issaquah Pipeline distribution improvements (assuming the TCTL follows the alignment from prior planning efforts)
  - Pumping (if needed)
  - Eastside distribution lines serving Bellevue/Kirkland/Redmond (BKR)
  - Multiple new connection points to members
- Phase III: The White River-Lake Tapps Reservoir system and related water rights (components are assumed future needs, subject to change). (in-service around 2060 as Tacoma temporary supply reaches its end)
  - Water intake and filtration plant (Lake Tapps Reservoir Water Treatment Plant, LTR WTP) with partial treatment capacity
  - Transmission pipeline from Lake Tapps Reservoir to near Cascade TCTL intake at Tacoma Second Supply Pipeline (Lake Tapps Transmission Line, LTL)
  - Appurtenant facilities
  - Full build out of the LTR WTP treatment capacity anticipated between 2080 and 2100.

EXHIBIT 1-1. CSP VICINITY MAP WITH ANTICIPATED PROGRAM PHASES



The entire Cascade system will evolve and develop over multiple decades and be scheduled according to need as contracted supplies decline or terminate, new supplies are integrated into the system and demands change. The supply strategy for the CSP will also evolve over time as more is known about available regional resources including Lake Tapps Reservoir. New supply options and revisions to availability of existing options could lead to material changes to the long-term supply strategy. However, the Phase I projects are needed for timely delivery of Tacoma water and remain essential even as questions regarding sizing and routing remain to be resolved.

3. Scope of this Funding Plan

This Funding Plan is limited in focus to funding Phase I of the CSP, ("Supply Project", "Water Supply Project"), as well as the capital costs associated with the 2025 Tacoma agreements. It addresses the Supply Project period from 2027-2040. For 2025 and 2026, some initial Phase I and Tacoma costs are already included in the 2025-2026 budget and adopted rates and do not need to be further considered for funding.

The Funding Plan covers:

- **CSP Phase I**, the transmission line and associated facilities connecting the Tacoma system to Cascade's service area, to be completed by 2041. Provisions for operating and maintenance costs are also included as the project goes into service.
- **Capital components of 2025 Tacoma agreements**, including the system development charges and restated restructuring payments.
- **Other forecasted Cascade capital needs** during the Phase I timeframe, not exclusively the CSP Phase I elements.
- **All Cascade existing and projected operating costs**.

As mentioned above, all Cascade capital cost projections are included in the rate models, but only the CSP Phase I is considered in sensitivity analysis and the description of potential funding sources and impacts. Funding for Phase I of the CSP is most critical for several reasons:

- Cascade's existing infrastructure is limited in scale relative to the Supply Project. Developing Cascade's financial capacity to fund and support the project requires a systematic strategy that builds funding capacity while limiting long-term impacts on rates. This strategy will rely on both debt and cash funding. This initial transition is critical to Cascade's sustainable approach to funding ongoing system development while fulfilling adopted fiscal policies.
- Supply Contract payment obligations to both Tacoma and Seattle are established costs that Cascade must continue to fund. Some flexibility exists related to Tacoma payments that could be considered as options for reducing or restructuring cost impacts on Cascade.
- Cascade's fiscal policies constrain overaccumulation of debt burden (leveraging) by limiting the amount of debt relative to the fixed asset base. Given the relatively small existing asset base and remaining debt related to those assets, these policies dictate a substantial cash contribution toward initial new supply projects. Together with policies stressing stable rate trends, compliance requires planful accumulation of cash funding capacity.
- Subsequent phases of development will also impose financial pressure, but in the context of an established ability to support major capital needs. As debt is repaid,

funding alternatives for subsequent phases will enjoy greater flexibility regarding the use of cash and debt. Regional partnership opportunities may also arise related to transmission and supply assets which could mitigate cost impacts on Cascade.

- Cascade currently enjoys a high bond rating that can serve it well in funding the initial capital needs. However, unless carefully anticipated and planned for, the total amount of debt required can impose financial pressure and threaten the financial integrity that has earned this rating and associated reduced borrowing costs now and in the future.
- With Phase I costs imminent, the Funding Plan needs to be established and implemented now to assure financial viability and coordinate near-term decisions (like rates and budget) with the funding strategy.

While this Capital Funding Plan is limited to the funding for Phase I of the CSP, it has been developed with recognition that additional infrastructure beyond Phase I will be needed to execute Cascade's supply strategy. At this time, the program definition for subsequent phases is conceptual, with no formal planning or design having been completed since the 2012 Transmission Supply Plan. As discussed in **Section 9.0**, Cascade anticipates updating the Capital Funding Plan as pre-planning work on subsequent phases is completed.

The Capital Funding Plan does not authorize or constitute separate action or approval by Cascade with regard to any project, activity, or program that has not been separately and expressly approved by Cascade after compliance with all applicable SEPA environmental review requirements. Adoption of this Plan does not authorize Cascade to make expenditures for capital projects, to pay for the purchase of existing capital improvements, or to purchase water supply.

C. Future Supply Alternatives

Financial planning to date has focused on designing and constructing a pipeline capable of conveying the full water right of Cascade's future Lake Tapps Reservoir supply, reaching delivery capacity of up to 48.5 mgd annual average. The schedule, route, and size of the transmission project remain subject to more detailed facilities planning.

With respect to pipeline route and size, the ultimate capacity of the Lake Tapps Reservoir supply is unlikely to be needed until the 2070's at the earliest. Reduced sizing of the initial pipelines could reduce initial cost and retain flexibility with respect to later provision of additional transmission capacity. In particular, the ultimate development of multiple pipelines, either in a single or dual corridor, would enhance both operational flexibility and system reliability and resiliency. In addition, related facilities such as treatment, storage, chlorination, and pumping could be accelerated, delayed, phased, or expanded depending on the results of the initial and ongoing facilities planning efforts.

Options will remain available after Phase I. To date, a common finding of supply options analyses has been that Cascade can benefit from using available regional resources (if made available on reasonable terms) before initiating its own new supply. This strategy also benefits Cascade's regional partners by productively using their available surplus(es) to generate revenue. However, the Phase I projects are needed for timely delivery of Tacoma water and can integrate with evolving plans for longer-term supply.

D. Existing Cost Projections and Capital Projects

The Phase I projects currently envisioned and addressed in this Funding Plan are based on an earlier phase of planning and design between 2005 and 2012. Until CSP planning efforts commence in earnest (following development of this Plan), Cascade is using the following key assumptions for the facilities needed to deliver Tacoma water, namely:

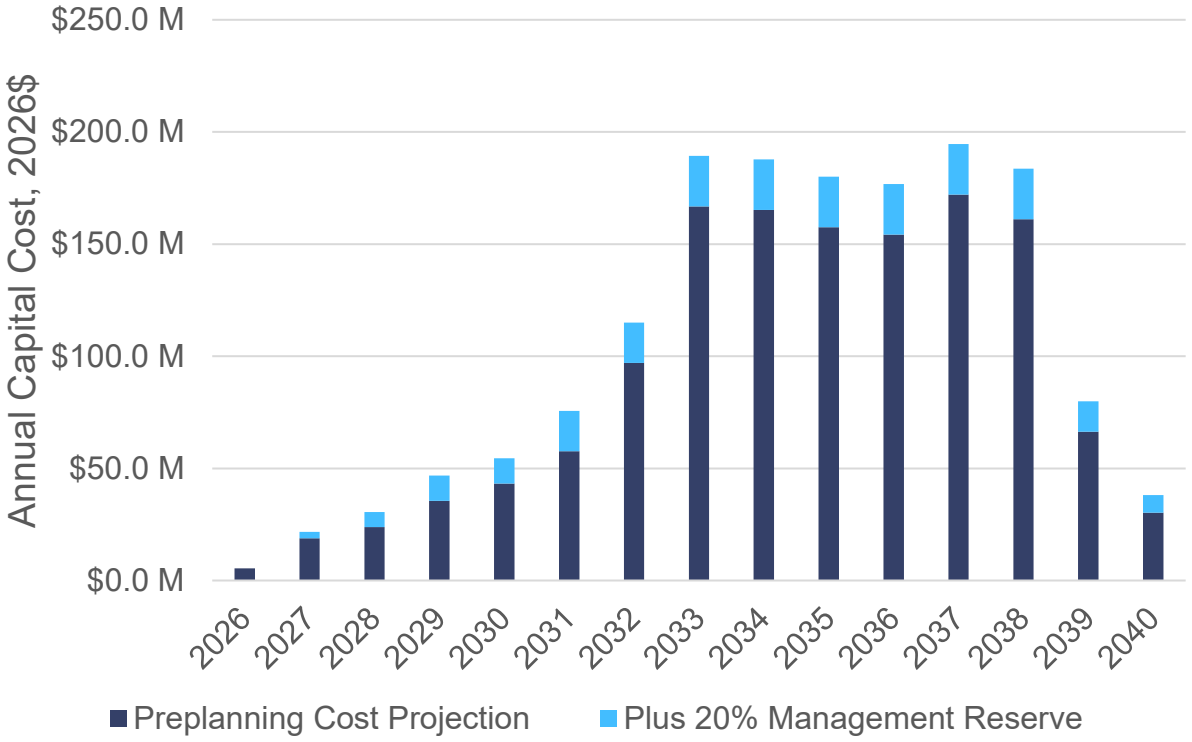
- A Tacoma Cascade Transmission Line ("TCTL"):
  - 19 miles of 54-inch pipeline running roughly from the Tacoma Second Supply Pipeline in the Covington vicinity to Cascade's service area
- A storage facility
  - A 15-million-gallon storage tank located at or near the northern terminus of the TCTL
- A re-chlorination station to maintain adequate disinfection
  - Located near the northern terminus of the TCTL
- Building facilities for SCADA, storage, and Operations and Maintenance
- Permitting and property acquisition to support the above facilities
  - Purchase and easements for the tank, buildings and pipeline alignment

The CSP team developed preplanning cost projections in February 2026.[1] These projections define a recommended cost range, rather than a single number, given the level of uncertainty at the initiation of the Supply Project. Based on those ranges, the Supply Project cost range is currently projected at $1.13 billion to $1.35 billion in January 2026 dollars, and actual outlays inflated to time of expenditure are projected to total between $1.53 and $1.84 billion. This cost projection range will continue to be updated throughout the Supply Project. These cost projections include the base costs, contingencies, program reserves, staffing, and program management expenditures to deliver Phase I of the Cascade Supply Program. Completion of Phase I is targeted by the end of 2040. Scenarios considering cost risk and schedule risk are discussed in **Section 6.0**.

The existing anticipated schedule of cash needs for the Supply Project is outlined in **Exhibit 1-2**, including the planning, design, construction, and program administration of Phase I as currently envisioned. This cost schedule is the schedule basis for the Funding Plan and will be updated as more detailed planning is conducted as part of the project.

[1] *Cascade Supply Program Phase I Preplanning Cost Projection,* February 24, 2026.

EXHIBIT 1-2. CSP PHASE I PREPLANNING COST PROJECTION RANGE AND SCHEDULE, 2026 COSTS



This Funding Plan includes sensitivity analyses and scenarios regarding the cost and schedule associated with Phase I of the CSP. In addition to Phase I, Cascade bears other capital costs related to the Tacoma supply contract payments and ongoing Cascade capital projects not related to Phase I of the CSP. Cascade's financial forecasting model incorporates all of these projected capital costs, but uncertainty remains regarding the timing or magnitude of existing asset capital costs or future CSP phase costs. The Funding Plan incorporates and identifies funding sources for all of these capital needs when forecasting financing requirements, fiscal compliance and member charges.

The total capital outlays anticipated in the Funding Plan for 2027-2040 are summarized in **Exhibit 1-3**.

EXHIBIT 1-3. TOTAL PROJECTED CASCADE CAPITAL COSTS, 2027-2040

Cost Component	2026$ Cost Range	Inflated Cost Range
CSP Phase I *	$1.13 B to $1.35 B	$1.53 B to $1.84 B
Tacoma Water Supply Capital Costs †	$95,431,000	$95,431,000
6 year CIP (2027-2032) - Excludes Costs Shown Elsewhere	$25,390,000	$25,390,000
Forecasted Long-term Other Capital Costs (2033-2040)	$36,390,000	$56,460,000
Total	**$1.29 B to $1.51 B**	**$1.71 B to $2.01 B**

** CSP Phase 1 costs reflect estimated total capital cost beginning in 2026, and excludes operating costs in 2025 and 2026.*
† Tacoma Water Supply Capital Costs are set by contract with no additional provisions for inflation adjustments.
Differences in totals due to rounding

E. Contents of this Funding Plan

The Funding Plan for Phase I contains the following elements:

- Outline financial standards that guide the Plan development.
- Identify and summarize potential funding sources including cash, bonds, loans, grants and partnering.
- Establish a Base funding scenario utilizing known available resources, specifically cash (including the WSDF) and revenue bonds. Rate impacts are projected for the Base scenario. Compliance with fiscal policies is tested and documented.
- Develop scenarios that evaluate positive and negative assumptions, including addressing potential success related to public assistance, sensitivity of cost and schedule. Rate impacts and fiscal outcomes are projected and compared.
- Based on the evaluation of the scenarios, policy options, and rate strategy options, develop and document a recommended funding strategy that defines specific practical actions to implement the Plan including debt financing, generation and use of cash funding, pursuit of outside assistance, and a rate-setting strategy. This recommended strategy is intended to balance opportunity and risk to provide a responsible and adaptable funding program.
- Identify the areas for policy input, regarding the policy for funding assistance, level of cost conservatism, and the policy for rate smoothing.
- Identify likely future review points for the Funding Plan in conjunction with this schedule.

F. Use of this Funding Plan

Consistent with Cascade Code, the Funding Plan is to be adopted by the Cascade Board and used by Cascade staff as guidance on project financing, cash flow management, and near-term

rate and RCFC strategy. It will inform the biennial budget and rate setting process but does not replace it.

The Funding Plan is intended to be flexible and dynamic. It targets a recommended strategy while being structured for a secure funding package under adverse conditions. This means that recommended financial and rate decisions are outlined based on balancing risks and benefits for a reasonable range of outcomes. Future revisions for beneficial developments such as grant and loan success would improve the outcomes of the Plan, while detrimental developments such as higher costs, interest rate increases or adverse growth trends could degrade the anticipated financial outcomes for the project.

While it will be used to guide the biennial budget and rates, bond issuance and applications for grants and loans, periodic updates will be needed as more becomes known about Phase I costs and schedule, cash flow needs, and levels of success in securing project support through grants and loans. Multiple updates of the Funding Plan should be expected over the next ten years.

2.0 Financial Standards for the Funding Plan

A. Fiscal Standards and Policies for a Viable Funding Plan

The Funding Plan is structured to meet the funding needs of Phase I of the CSP while satisfying key fiscal policies and supporting ongoing Cascade costs for supply and delivery of water to Members. The Cascade Board has adopted fiscal policies embodied in Cascade Code Section 5.05. Key fiscal policies that help structure the Funding Plan include:

1. Bonds and Debt Coverage

Debt coverage is a common measure used by municipal utilities to assess their ability to meet debt obligations. Revenue bond covenants typically define minimum coverage standards, while agency policy often defines higher targets that help assure the utility's ability to meet its debt obligations. The debt coverage factor is expressed as a multiple (e.g. 1.25) of debt service. Higher coverage generally reflects stronger financial standing by providing a means for generating cash to support capital needs.

a) The bond covenants establish a coverage requirement in which allowed revenues must at least equal all operating expenses plus debt service. For this purpose, revenue excludes Regional Capital Facilities Charge ("RCFC") revenues but can include certain dedicated reserves. As Cascade moves to issue new debt, it is recommended that Cascade consider revising the coverage requirement for new issues to provide a clearer basis for calculating coverage and planning revenues.
b) In addition to the bond requirements, Cascade has a coverage requirement of 1.25 as established by fiscal policy. This means that total Cascade revenues, in this case including rates, RCFCs, investment earnings and other operational revenues, will at least equal all operating expenses plus 125% of debt service. This requirement excludes revenues from bonds, loans grants or asset sales. The "surplus" is not a payment due but a revenue standard that then provides a cash flow surplus available to meet capital and other needs of Cascade after meeting operational and debt service outlays.
c) In Cascade's budgeting and rate adoption processes, rates are adjusted to ensure compliance with both of the above coverage standards (in addition to meeting all cash flow and policy objectives). The revenues needed to meet the coverage requirement will increase as total debt is increased.

2. Debt Ratio (Leveraging)

A prudent utility balances the use of debt with direct funding for capital purposes to avoid excessive debt loads which can reduce flexibility, increase risk and ultimately increase costs. Sometimes referred to as debt/equity ratio or debt to net fixed asset ratio, these metrics measure debt burden relative to utility asset base. In general, high ratios indicate high debt service costs that burden ratepayers and reduce rate flexibility, while a low ratio indicates ample financial capacity but can also mean that current ratepayers are directly bearing costs to meet future needs.

a) Adopted Cascade policy limits debt to 80% of net fixed assets. Cascade's current debt load is roughly 50% of its recorded assets. In contrast, Cascade's member

utilities have debt loads ranging from 0% to 15%, with most less than 10%. Utility debt loads vary over time as projects are funded and debt is then paid off, typically faster than the related assets depreciate.

b) To satisfy the 80% debt limit, Cascade must generate cash resources from rates and RCFCs to be used directly for capital funding. While imposing an earlier cost to generate such funds, the result is lower debt burden and lower long-term rates for Members.

3. Use of RCFCs

Regional Capital Facilities Charges are Cascade's form of a system development charge ("SDC") imposed on new growth. The RCFC is based on a proportional share of system costs needed to serve new growth and is calculated using the adopted RCFC Methodology. Unlike member SDCs, the RCFC is charged to Members rather than the new retail customers, although Members in practice pass this cost on to new development. As a growth-related charge, RCFCs are a volatile source of revenue with high variation from year to year. Despite this variability, they play a vital role in rate and generational equity and provide direct capital funding over the course of the Supply Project.

a) Cascade fiscal policy restricts the use of RCFC revenues to support capital costs, which can include debt service to a limited degree. Under adopted policy, at least 75% of RCFC revenues are committed to direct capital funding, while up to 25% could be used for debt service. Currently, 100% of RCFCs are dedicated to direct capital funding of current and planned system needs.

b) The fiscal policy also allows for temporary reliance on a greater share of RCFCs to support debt service, with a short-term limit of 50% of RCFC revenues that could be used to support debt service. This flexibility can be valuable to manage rate trends and spread rate impacts by temporarily redirecting RCFCs when major new debt burdens are incurred.

4. Rate Smoothing

Cascade policy directs that the rate planning process avoids rate shock by planning rates over a multi-year period. A five-year rate smoothing policy guides budget and rate planning, allowing year-to-year deviation from immediate needs to smooth out rate impacts. In particular, a forecast of high costs to bear new debt and operating burdens requires earlier rate increases, which in addition to smoothing rates provides a source of direct capital funding and ultimately reduces overall rate requirements.

5. Cash Balances

Cascade policy establishes requirements for fund management to assure liquidity and sufficiency of funds that include target, minimum and maximum balances and specify corrective actions when needed. As funding needs increase, related cash balances for operating, debt repayment and construction also increase according to the adopted policy. This has a relatively minor overall impact on rates and capital funding but is important to retain cash flow flexibility and financial viability. The WSDF is also a part of the available funds, with its use limited to directly funding major elements of the capital program.

B. Key Assumptions Used in Analysis

1. Budget and Operating Assumptions

The 2027/2028 budget and 6-year Capital Improvement Program ("CIP") define projected operating and capital expenses including wholesale contract payments, debt service and near-term capital funding. The related rates and charges define member charges and RCFCs that provide revenue for Cascade. The Cascade financial planning and rate model then projects costs and revenues throughout an analysis period extending through the year 2100, overlaying future capital outlays, contract payment obligations, debt issuance and repayment and provisions for capital reinvestment while satisfying the adopted fiscal policies. Each new budget cycle will update and recalibrate the analysis, as will capital planning efforts that update and refine project cost projections.

2. Capital Cost Projections and Contingencies

As discussed in Section 1.D, the capital cost projections for Phase I of the CSP are based on pre-planning cost projections developed by the CSP team in February 2026. For subsequent phases of the CSP, cost projections are based on a combination of original Transmission and Supply Plan projections in 2006 and 2012 and more recent consultant work to update water treatment (2020) and transmission (2023) cost projections. It is expected that cost projections, contingencies, and probability factors will be updated throughout the course of the Supply Project, as overall uncertainty reduces at appropriate program stage gates.

It is also noteworthy that Cascade has ongoing capital needs in addition to the Supply Project, most notably for the WRLTR system. These capital needs are separately identified in the CIP and included in the Funding Plan analysis. Beyond the 6-year CIP period, a comparable ongoing level of annual capital outlay is assumed for those other system capital costs.

3. Customer and Demand Growth

Customer growth directly affects Cascade member charges by providing RCFC revenues. In addition, growth helps mitigate impacts of Cascade revenue increases by spreading them over a progressively larger customer base. Customer base is defined in terms of Cascade Equivalent Residential Units ("CERUs"), with 1 CERU equivalent to the demand of a single-family residence. RCFCs are imposed based on new CERUs added to member systems.

Cascade has historically experienced annual customer growth of nearly 1,400 CERUs per year. However, growth has averaged less than 1,200 CERUs over the past 5 years. Based on this, a reduced assumption of 1,150 CERUs per year is used to project growth and RCFC revenues. Higher growth would reduce the need for new debt and spread costs over more customers, generally improving the rate forecast.

Water demand growth is forecast separately. Demand growth is projected to remain low for a variety of reasons including the lower customer growth assumption, efficiency and conservation improvements, densification, and price elasticity. Overall, water demand is projected to increase less than 10% over the next 25 years while customer growth exceeds 16%. Even if demands were to increase at a higher rate, the projected CSP schedule is not materially affected until moderate adjustments might be needed in the late 2050s.

4. Cost Escalation

After the biennial budget and 6-year CIP periods, future cost escalation is projected using an annual escalation factor of 3.0% per year for operating and administrative costs and 3.5% for capital costs. The higher capital cost escalator reflects adjustments to the inflation assumption for higher long-term trends in construction costs relative to inflation and a small annual contingency to reflect increasing regulatory and project complexity over time.

In general, higher inflation adversely impacts the financial forecast, although the cost trends relative to inflation remain consistent. This means that resulting rates may increase faster due to general cost trends.

5. Interest Rates

For invested funds, such as the WSDF, an interest earnings rate of 3.5% is assumed. The average interest rate for new revenue bond debt is assumed to be 4.5% with a bond term of 30 years, including issuance costs.

Higher interest rates would increase rate impacts of the projects. Typically, higher interest rates are also tied to higher inflationary trends, in which case the impact relative to inflation would be mitigated. However, there are also times when interest rates increase relative to inflation (real interest rates). Such a trend would then adversely affect rate outcomes relative to inflation.

6. Debt Term and Structure

A debt term of 30 years is assumed with a level repayment schedule. For forecasting purposes, bonds may be issued in any year that capital spending requires bond support. In practice, bond issuances are bundled to provide multiple years of funding and reduce both transactional costs and market risk. A bond strategy can also be developed to help attenuate (spread out) rate impacts by phasing in annual repayment costs. These options would be open to further evaluation when specific debt issues are being planned.

Interest rates and debt terms for other sources of borrowing such as State or Federal loans are based on the terms of the loan program (see summaries below).

7. Fiscal Metrics Used in Scenario Comparisons

Cascade has already adopted budgets and rates through 2026. Given this, the evaluation period for Phase I focuses on 2027-2040. The key fiscal metrics used for this evaluation are:

- Cascade average wholesale rate. Since the Cascade charge structure uses several components, the average wholesale rate is expressed as total Cascade member charges (excluding RCFCs) divided by total projected water supplied by Cascade, expressed in hundred cubic feet (“CCF”).
- Average annual increase in Cascade average wholesale rate.
- Total cash funding and total debt funding.
- Debt outstanding as a % of net capital (fixed) assets.
- Annual debt service as a % of annual member charges.

3.0 Potential Sources of Funding

The core elements of the funding strategy are cash and revenue bond financing. Cash funding will include cash flow generated from rates and RCFCs along with available funds in the Construction and Water Supply Development Funds. Other potential sources including grants and loans can support the funding strategy if and when available and potentially improve financial outcomes.

A. Cash (including use of the Water Supply Development Fund)

Cascade maintains a Construction Fund which funds ongoing capital needs as identified in the 6-year Capital Improvement Program. This includes capital needs of the existing system as well as the CSP. The Construction Fund is the ultimate repository for RCFC revenues designated for capital funding.

The Cascade Board authorized the creation of the WSDF in late 2021 as a mechanism to generate and hold cash funding for major supply projects and to improve long-term rate outcomes. Since then, funds have accumulated through a strategy of planned and opportunistic contributions as defined in the Cascade code. The WSDF balance is currently approximately $18.5 million and can be used as cash funding for water supply capital projects. When use of WSDF funds is authorized, funds would be transferred to the Construction Fund to pay project costs.

Transfers from the Operating Fund to the Debt Service Fund are made monthly to comply with bond covenants and provide for bond repayment. An annual transfer from the Operating Fund to the Construction Fund is also budgeted related to capital reinvestment as specified in Cascade code. This provides an ongoing level of capital funding related to the scale of assets under management. Within the Construction Fund, funds are not further segregated or restricted and all funds are available for any capital purpose.

Finally, fiscal policies provide that if the Operating Fund balances exceed the targeted range of operations, either due to higher revenues or lower costs than planned, the excess balance will be transferred to the Construction Fund to support the capital program, or alternatively, in the absence of a need for such capital funding, to retire debt.

While debt is the major funding source for large capital projects, significant cash funding is needed to satisfy fiscal policies and maintain financial strength. The Funding Plan uses the WSDF, RCFC revenues, capital funding generated from rates, and available fund balances to provide the cash portion of the capital program funding.

B. Revenue Bonds

Revenue bonds are tax-exempt municipal bonds that would be issued in the bond market by Cascade and secured by repayment through use of Cascade's revenues, primarily Member Charges. In the Cascade structure, revenue bonds are an obligation of Cascade that extends through to its Members through "step-up" provisions that help to ensure repayment. The security provided through this structure helps support Cascade's high bond rating.

Revenue bonds are structured to be repaid over time, with the term determined by the issuer (and acceptance of the market). Bond term is commonly 20 to 30 years. Level debt repayment is most common, although structural variations exist. Generally, both interest rates and total interest costs are lower for shorter term bond issues, while longer bond terms bear higher interest rates but generally result in lower annual payments.

Revenue bonds are subject to security conditions incorporated in the bond covenants. These conditions are essential to the marketability of the bonds. These include:

- A commitment to maintain revenues adequate to repay the debt. Debt repayment is typically junior only to operating expenses in the priority assigned to Cascade revenues and is senior to other uses of revenues such as capital funding or other non-operating expenditures.
- For Cascade, additional revenue commitments pertain to its wholesale status. Member payments to Cascade are treated as operating expenses by Members and are therefore senior to the Members' own debt repayment and capital uses. In addition, Cascade's Joint Municipal Utility Services Agreement and bond covenants contain a "step-up" provision, which provides that Members must make additional payments to Cascade should any Member fail to meet its payment obligations. Simply put, remaining Members cover any deficit created if a Member defaults on or withholds payments. This structure provides substantial security to the bond market, particularly given the strong credit rating of Cascade Members, and is a significant factor in Cascade's own high credit rating.
- A commitment to meet a specified bond coverage factor, defined as a level of revenue that meets or exceeds operating expenses plus debt service plus an additional margin of debt service. A coverage factor of 1.25, for example, would mean that Cascade sets Member Charges so that revenues at least equal the total of operating expenses plus 1.25 times the annual debt service. The added margin would then be available to use for capital or other purposes. Through this feature, the bond market has provided a safety cushion against unexpected costs or revenue loss and a longer-term tool to ensure some level of capital reinvestment.
- In many cases, a bond reserve is required that helps ensure that debt payments are made. While there has been a market trend toward bond issues without a bond reserve requirement, Cascade currently has a bond reserve related to some of its past bond issues. If required, the bond reserve is invested and the earnings help offset the cost of providing this reserve.
- A commitment that any future debt financing of equal priority of payment satisfies these same criteria. This protects against an erosion of safeguards and makes it difficult to alter the security provisions once established. There are methods for accomplishing some restructuring while bonds are outstanding, most commonly by issuing new debt with different terms at a junior position to the existing debt or by introducing revised terms that only kick in once the existing debt has been retired (so-called "leaping provisions").

Revenue bonds are issued in the municipal bond market through either a negotiated or competitive sale of the bonds. This is accomplished through the assistance of a financial advisor and bond counsel. Cascade currently has Northwest Municipal Advisors under contract as its financial advisor and Foster Garvey PC as its bond counsel.

Revenue bonds are expected to be the single largest source of project funding, at least in the Base scenario. The analysis assumes that debt is issued with a 30-year term, level debt service and a bond reserve equal to 1 year of debt service financed from proceeds. An interest rate of 4.50% is assumed for each bond issue inclusive of bond issuance costs.

C. Governmental Assistance

There are many programs at the state and federal levels that offer support to public infrastructure projects in general and water projects in particular. This includes both grant and loan programs. The following summaries highlight programs potentially applicable to Cascade's projects.

1. U.S. Department of the Interior, Bureau of Reclamation

Water SMART Financial Assistance	
Description:	Provides grants related to critical water planning including drought resiliency and resource enhancement. Cascade is eligible as a water planning and supply agency. Grants for planning, design and implementation of qualified projects.
Program(s):	Water Strategy Grants, Project Design Grants, Drought Response Program
Scale:	Up to $3 million in project funding including planning assistance.
Local Match:	At least 50%
Advantages:	Could help fund early planning efforts and design work. Potentially physical and chronological separation of projects could enable qualification for multiple program elements.
Drawbacks:	Federal funding requires specific project and agency accounting for cost recovery, as well as procurement constraints (e.g. Build America, Buy America). [Compliance may also support other assistance programs.]
Status/Schedule:	Initial contacts made with the Bureau of Reclamation. Need to confirm details and process.
Contact/Information:	Application through: grants.gov Information: https://www.usbr.gov/watersmart/index.html

2. Washington State Department of Commerce, Public Works Board

Public Works Board Loans ("PWB")	
Description:	Provides low-cost loans in support of infrastructure projects. Cascade is eligible as a municipal agency with an adopted capital facilities plan
Program(s):	Planning and Pre-Construction Funding (Loans) Construction Funding (Loans), Loans
Scale:	Up to $1 million for pre-construction planning Up to $10 million total per jurisdiction per biennium
Local Match:	None
Loan Terms:	Pre-Construction: 5 years at 1.06% Construction: 20 years at 2.12%
Advantages:	Provides low interest loans. Could help fund early planning efforts. Could fund multiple projects. Multiple loans possible, based on schedule.
Drawbacks:	Competitive process for dwindling funds; $170 million funded in 2024 out of $240 million in applications.
Status/Schedule:	No activity to date. Quarterly windows for planning loans; annual for construction loans.
Contact/Information:	Application through: zoomgrants.com Information: https://www.commerce.wa.gov/pwb/pwb-financing/

3. Washington State Department of Health: Drinking Water State Revolving Fund (DWSRF)

Drinking Water State Revolving Fund ("DWSRF")	
Description:	Provides low-cost loans in support of drinking water projects. Cascade is eligible as a Group A water system.
Program(s):	Planning and Engineering Loans Construction Loans
Scale:	Up to $500,000 for pre-construction planning Up to $12 million per project
Local Match:	None
Loan Terms:	Planning: 10 years at 0% with 2% issuance fee Construction: 20 years at 2.25% with 1% issuance fee
Advantages:	Provides low interest loans. Could help fund early planning efforts. Could possibly fund multiple projects.
Drawbacks:	Competitive process for limited funds. Program includes Federal funding and subject to accounting and procurement regulations.
Status/Schedule:	No activity to date. Quarterly windows for planning loans; annual for construction loans.
Contact/Information:	Application through: zoomgrants.com Information: https://doh.wa.gov/community-and-environment/drinking-water/water-system-assistance/drinking-water-state-revolving-fund-dwsrf

4. United States Environmental Protection Agency: Water Infrastructure Finance and Innovation Act (WIFIA)

Water Infrastructure Finance and Innovation Act ("WIFIA")	
Description:	Provides low-cost loans in support of infrastructure projects. Cascade is eligible as a local government entity with water infrastructure projects
Program(s):	Planning and Pre-Construction Funding (Loans) Construction Funding (Loans)
Scale:	For projects $20 million and larger; no explicit upper limit. Funds up to 49% of eligible project costs.
Local Match:	51% must come from non-WIFIA sources, which can include other sources. Total federal involvement cannot exceed 80%.
Loan Terms:	Interest rate set at time of contract based on the yield of Treasure securities of comparable maturity. Term of up to 35 years from completion of project. Repayment can be structured including up to 5 years with no payments after project completion. Loan must be on par with other debt. Interest accrues on disbursements, but repayment is delayed until after project completion.
Advantages:	Provides large scale loans with flexible terms. Could fund a major share of multiple projects. Extended repayment period and deferral of payment until after project completion mitigates rate impacts.
Drawbacks:	Federal funding with related accounting and procurement requirements.
Status/Schedule:	No activity to date. Annual funding with funding appropriations; continuous application.
Contact/Information:	Application through forms at: https://www.epa.gov/wifia/wifia-public-borrowers Information: https://www.epa.gov/wifia/about-wifia-program

5. Federal or State Direct Appropriation Grants

Federal or State Direct Appropriations	
Description:	Provides grant funding for public projects through State legislative or congressional action, typically through budget and appropriations legislation.
Program(s):	Direct Appropriation Grant
Scale:	Determined by legislation. Typically, a specified level of funding for a specific project.
Local Match:	n/a
Loan Terms:	n/a
Advantages:	Provides project funds without repayment, reducing local funding needs.
Drawbacks:	Federal funding with related accounting and procurement requirements. Funding subject to passage of authorizing legislation. Competitive demand for funds.
Status/Schedule:	No activity to date. Work would be through local congressional and legislative representatives to initiate and secure funding.
Contact/Information:	Washington State Information: wa.gov Congressional Information: https://www.congress.gov/crs-product/R47106

6. Regional Partnership

Partnership with Regional and/or Local Agencies	
Description:	Construction of the pipeline and infrastructure to deliver Tacoma water provides potential access to other utilities for regional resiliency or for delivery of wheeled water.
Program(s):	Cost Sharing through Partnership or Joint Use Agreement
Scale:	Determined by negotiation and purpose.
Local Match:	n/a
Loan Terms:	n/a
Advantages:	Shares program costs and benefits with other interested utilities.
Drawbacks:	Complicates design, operation and administration of facilities. Requires proactive Cascade efforts to explore and pursue opportunities and structure potential terms.
Status/Schedule:	Needs to be pursued during initial planning endeavors to establish facility function and design needs. Agreements would define terms regarding facility use and financial participation. Limited activity to date.
Contact/Information:	n/a

4.0 Base Scenario

The Base Scenario uses the existing assumptions discussed in **Section 2.0**, including the lower range of the existing cost projection and schedule, and Cascade's current adopted fiscal policies, and is forecasted using Cascade's rate modeling tools to arrive at the outcomes discussed in this section.

Cascade maintains a financial forecasting model that provides the basis for budgeting, rate-setting and other financial and economic evaluations. The model is used on an ongoing basis to evaluate outcomes and to generate recommendations for member charges. The model is not exclusive to the Supply Project and models the total forecasted financial needs of Cascade, inclusive of other operating and capital needs.

In the model, capital funding is derived from cash funding planned through RCFC revenues, cash flow from bond coverage, and planned contributions to the WSDF. When the model projects that additional capital funding is needed, revenue bonds are issued and sized to meet that year's funding needs. During a multi-year project, the model calculates annual bond issues to satisfy funding needs. Under this scenario, no outside funding (Federal, State) is assumed.

Operating costs are estimated for new projects based on engineering estimates that were part of past planning and cost estimating. These costs are added to the projected ongoing operating and maintenance expenses as assets are brought into service.

Fiscal policies related to debt coverage, capital reinvestment funding, maintenance of adequate reserves, use of RCFCs, funding of the WSDF and rate smoothing are all integrated into the forecast as fiscal requirements. Projected increases in Member charges are determined at a level sufficient to satisfy all applicable policies.

A separate model determines RCFCs based on the adopted methodology. The projected RCFCs are incorporated into the rate model in order to calculate RCFC revenues for the forecast period.

A. Capital Project Funding

The Base scenario uses a traditional mix of cash and debt funding to meet the capital needs and fund both the Water Supply Project and other ongoing capital projects (primarily related to the maintenance and upgrade of the White River-Lake Tapps Reservoir System). Debt is not issued unless cash resources are insufficient to fund scheduled capital outlays. The total costs for capital outlays noted below include not only the identified projects but also all other planned or anticipated capital outlays.

As mentioned above, the model considers the total cash needs of Cascade, including the Supply Project, all other capital costs, operating expenses and debt service. For the capital program, the total capital outlays anticipated in the Funding Plan for 2027-2040 are summarized in **Exhibit 4-1**.

EXHIBIT 4-1. TOTAL CASCADE CAPITAL COST SUMMARY FOR BASE SCENARIO: 2027-2040

Cost Component	2026$ Cost	Inflated Cost
CSP Phase I *	$1.13 B	$1.53 B
Tacoma Water Supply Capital Costs †	$95.4 M	$95.4 M
6 year CIP (2027-2032) - Excludes Costs Shown Elsewhere	$25.4 M	$25.4 M
Forecasted Long-term Other Capital Costs (2033-2040)	$36.4 M	$56.5 M
Total	**$1.29 B**	**$1.71 B**

** CSP Phase 1 costs reflect estimated total capital cost beginning in 2026, and excludes operating costs in 2025 and 2026.*
† Tacoma Water Supply Capital Costs are set by contract with no additional provisions for inflation adjustments.
Differences in totals due to rounding

Sources of capital funding for all capital expenditures through 2040, expressed in escalated outlays are:

EXHIBIT 4-2. CAPITAL FUNDING SOURCES FOR BASE SCENARIO

	Inflated Dollars	Percentage
Total Capital Program Expenditures, 2027-2040	$1,707,000,000	
Cash Funding	$437,000,000	25.6%
Revenue Bond Funding (net of issue and reserve costs)	$1,270,000,000	74.4%
Federal (WFIA) Loans	$0	
State Loans	$0	
Grants	$0	
Total Capital Funding	**$1,707,000,000**	

B. Financial Metrics for Base Scenario

Exhibit 4-3 summarizes the key financial metrics for the period through 2040.

EXHIBIT 4-3. KEY FINANCIAL METRICS FOR BASE SCENARIO

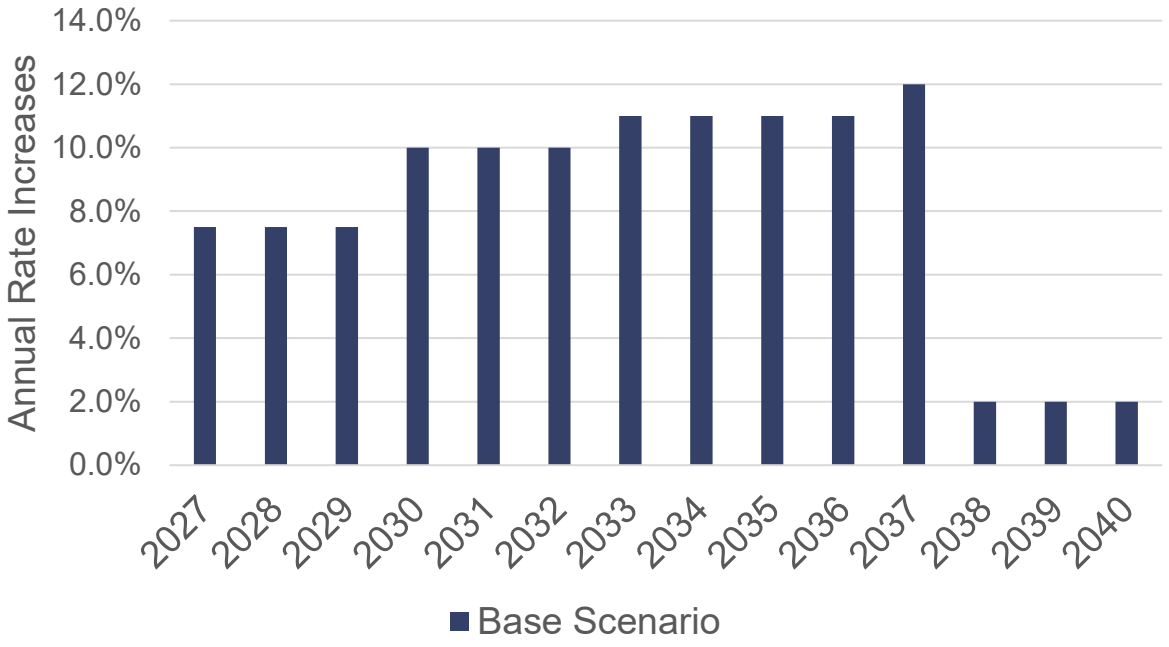
Average Annual Rate Increase (2027-2040):	**8.12%**	
Maximum Debt to Fixed Asset Ratio (2027-2040):	**63.2%**	**2038**
Min Debt Service Coverage 2027-2040 (All Debt):	**1.42**	**2040**

	2025	2030	2035	2040
Total Debt Outstanding	$55 M	$64 M	$578 M	$1.098 B
Debt Service as % of Member Charges	20.1%	16.6%	44.0%	55.6%
Debt Service Coverage (All Debt)	2.18	4.28	1.94	1.42
Cost per CCF (Member Charges / Total Sales)	$3.38	$4.82	$7.87	$10.11

The Base scenario satisfies all applicable fiscal policies. It achieves Supply Project completion within reasonable targets for reliance on debt by funding 25% of the total capital needs through direct cash funding and results in a maximum debt ratio of 63% in 2040, within the policy limit of 80%.

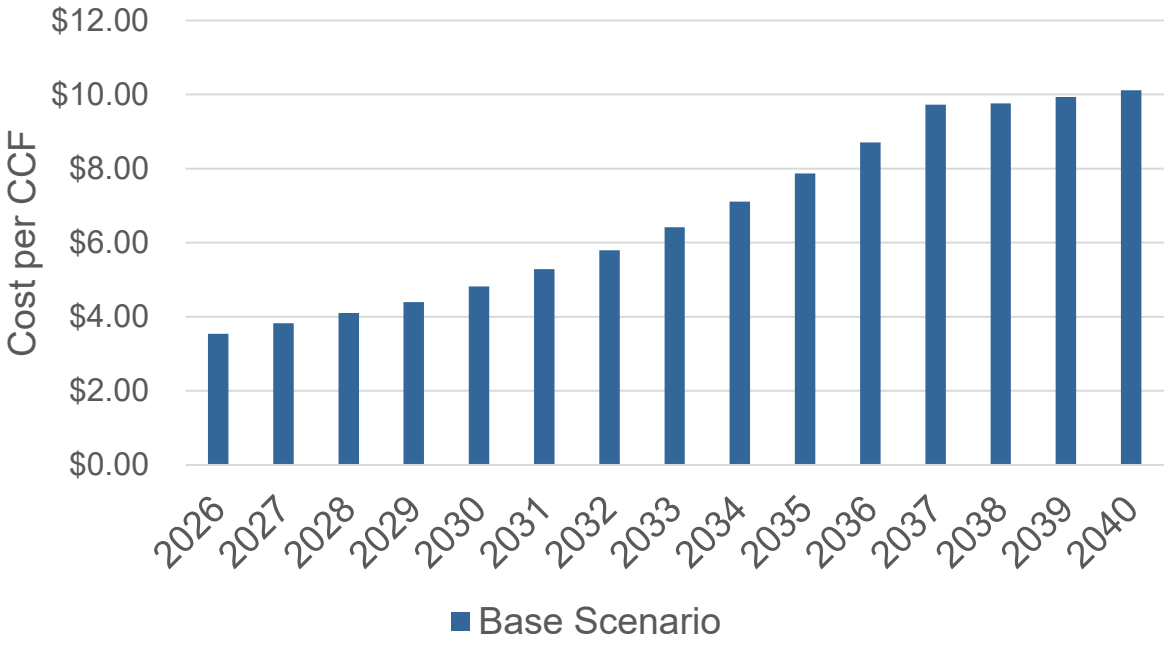
Projected rates (annual increase in Member Charges) by year are shown in **Exhibit 4-4**. Rate increases are significant for the project period, averaging 8.1% annually. The rates shown are smoothed using Cascade's existing 5-year rate smoothing policy.

EXHIBIT 4-4. ANNUAL RATE INCREASES FOR BASE SCENARIO



The cumulative impact of these rate increases is shown in **Exhibit 4-5**. This exhibit shows the impact based on the cost per hundred cubic feet ("CCF"). The actual cost impact to retail bills will vary for each member, based on individual water usage behavior, retail rate structure, and the proportion of independent vs Cascade water supply.

EXHIBIT 4-5. PROJECTED COST PER CCF FOR BASE SCENARIO



5.0 Funding Assistance Scenario

The Funding Assistance scenario examines the merits of outside grant and loan assistance as related to funding and rates. With respect to assumptions regarding cost and schedule, it remains aligned with the Base Scenario.

A successful funding outcome is contingent on gaining access to assistance programs, both grants and loans. While specific outcomes cannot be assured, a scenario based on reasonably successful use of available programs can help to illustrate the value of committing time and resources to funding assistance.

It is a policy decision to pursue this funding, and it requires actions by Cascade staff, Member staff, and Board members to successfully secure. While some actions are administrative, successful pursuit of funding assistance typically requires engagement at many levels. In some cases, the very survival of available programs may rely on successful ongoing lobbying (State and Federal) for program authorization and funding in addition to direct application for available assistance.

The Funding Assistance Scenario assumes the existing Supply Project schedule, and the low end of the projected cost range, but applies a mix of traditional funding and assistance in the form of grants and loans. This strategy relies on access to assistance programs, which vary in terms of availability. The key differentiating element is the WIFIA loan program, which can fund nearly half of the Supply Project and provides a favorable loan repayment structure. To date, the WIFIA program has been generally accessible for large projects but remains subject to Federal funding decisions. Funding for WIFIA, like many federal programs, is currently at risk and dependent on continued funding and support at the federal level. Maintaining the availability of this program should be a major ongoing objective for Cascade.

As this summary shows, the WIFIA loan program as part of a funding strategy has significant beneficial impact on project financial outcomes and should remain a high priority for Cascade. This is in part due to the assumption that grant funding sources are limited relative to the scale of this project. However, if significant grant funding could be secured, the costs borne by Cascade members would be directly reduced.

The introduction of funding resources through assistance programs tends to reduce projected impacts on rates and improve financial outcomes. However, success in securing such assistance is not certain, particularly due to the risk of the program losing federal support.

1. Capital Project Funding

This scenario assumes a package of assistance resources to complement the use of cash and revenue bond debt. The following sources are assumed to be introduced:

- **Water Infrastructure Finance and Innovation Act** – WIFIA can fund up to 49% of the project or program cost through a loan program. This funding strategy aims to maximize this for the Supply Project, potentially funding between $750 and $850 million based on the projected inflated project cost range. While the program has flexibility in structure, for conservatism, the Funding Assistance scenario assumes interest payments on draws made during construction, with principal payments beginning in 2040, and continuing for

35 years. Based on current Treasury interest rates, interest is assumed to be 4.50%. The actual interest rate would be determined and locked in when the loan agreement is executed. As funds are drawn, interest can be paid on the balance drawn or accrued until project completion, increasing the total amount borrowed. For this analysis it is assumed that interest is paid annually to avoid the increase in debt while supporting a graduated increase in annual payments.

- **State Loans** – An assumption that two state loans (PWB or DWSRF) are obtained at the current biennial maximum of $10 million, assumed in 2030 and 2034. Terms are based on Public Works loans: 2.12% with level principal payments for 20 years. Cascade could possibly obtain more loan assistance through repeated biennial application for various project components, or potentially via a negotiated loan structure for a long-term project.
- **Grants** – An assumption of $10 million in grant funding is applied with funds assumed to be received in 2029 and 2032. Sources are not specifically identified, and Cascade's pursuits should not be limited in scope or scale.
- **Regional Partnership** – An assumption that partnering with other regional agencies (to accomplish bi-directional flow) and agencies along the pipeline corridor (for wheeling of regional water, or shared use of property for mutual benefit) results in project financial participation that reduces Cascade's net share of project costs by $10 million. Scale and details of any participation are currently speculative and included for purposes of evaluating potential benefit. A contribution year of 2035 is assumed.

With this funding package, the resulting capital funding sources include:

EXHIBIT 5-1. CAPITAL FUNDING SOURCES FOR THE FUNDING ASSISTANCE SCENARIO

	Inflated Dollars	Percentage
Total Capital Program Expenditures, 2027-2040	$1,707,000,000	
Cash Funding	$448,000,000	26.2%
Revenue Bond Funding (net of issue and reserve costs)	$469,000,000	27.5%
Federal (WFIA) Loans	$750,000,000	43.9%
State Loans	$20,000,000	1.2%
Grants	$20,000,000	1.2%
Total Capital Funding	**$1,707,000,000**	

2. Financial Results

Exhibit 5-2 summarizes key financial metrics for the Funding Assistance Scenario through 2040.

EXHIBIT 5-2. KEY FINANCIAL METRICS FOR THE FUNDING ASSISTANCE SCENARIO

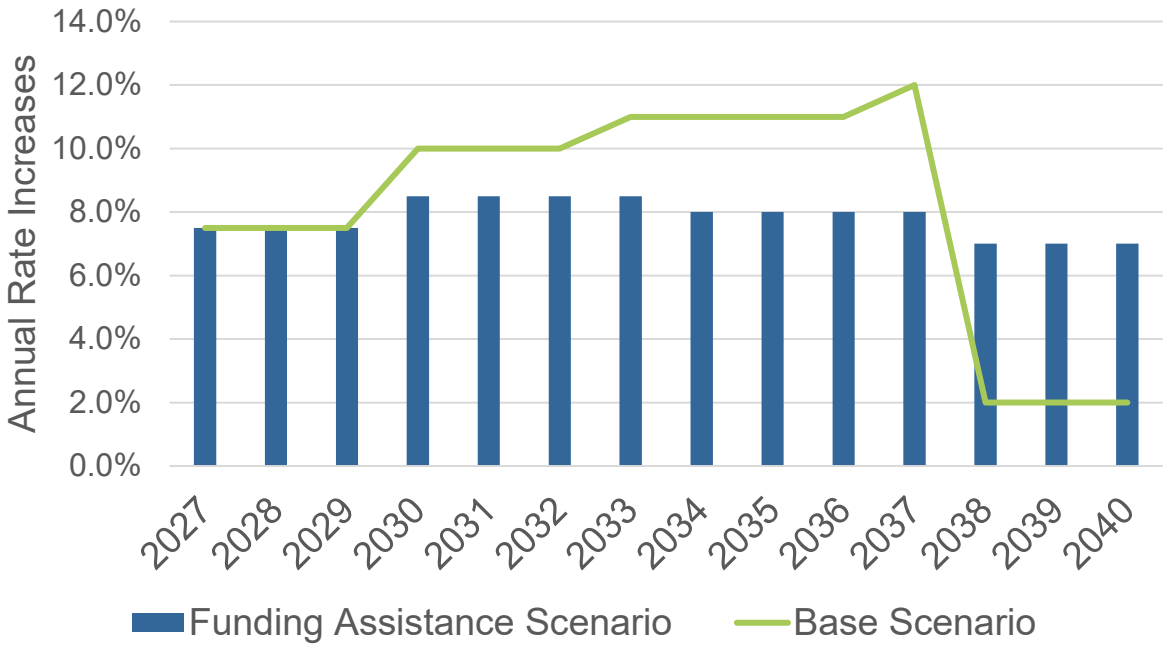
Average Annual Rate Increase (2027-2040):	**7.82%**	
Maximum Debt to Fixed Asset Ratio (2027-2040):	**65.9%**	**2040**
Min Debt Service Coverage 2027-2040 (All Debt):	**1.42**	**2040**

	2025	2030	2035	2040
Total Debt Outstanding	$55 M	$58 M	$574 M	$1.145 B
Debt Service as % of Member Charges	20.1%	16.6%	35.2%	52.3%
Debt Service Coverage (All Debt)	2.18	4.17	2.22	1.42
Cost per CCF (Member Charges / Total Sales)	$3.38	$4.75	$6.98	$9.73

This scenario satisfies all applicable fiscal policies. The use of a WIFIA loan reduces debt payments during construction and thus allowing reduced rates while still meeting overall funding policy requirements. Debt service as a percentage of member charges in 2040 is 52.3% versus 55.6%, despite member charges in 2040 being 4% lower.

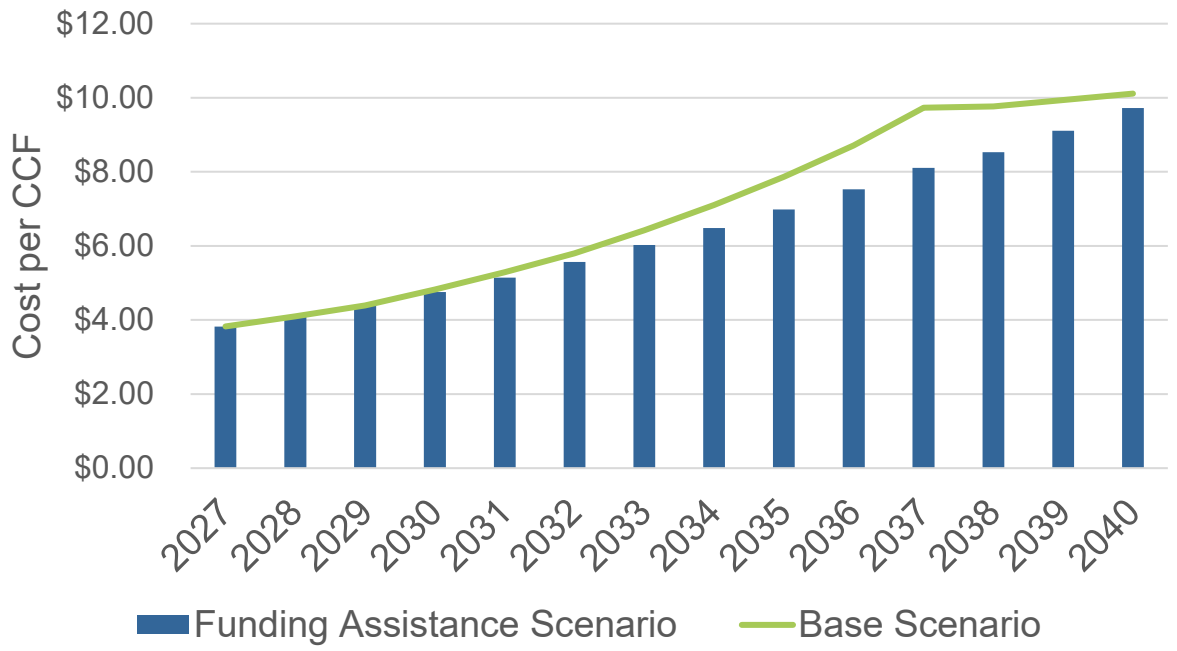
Projected rates (annual increase in Member Charges) are shown in **Exhibit 5-3**. Rate increases are significant for the period of construction, averaging roughly 7.8% over the Project term. This is an improvement over the Base Scenario, lowering projected rate increases by on average 0.3% per year, illustrating the benefits of WIFIA and other assistance. The Base Scenario rate increases are also shown (as a line graph) for comparison.

EXHIBIT 5-3. ANNUAL RATE INCREASES FOR THE FUNDING ASSISTANCE SCENARIO



The cumulative impact of these differences results in a significant improvement to the cost per CCF, as shown in **Exhibit 5-4**, lowering the cost per CCF by $0.39 per CCF in 2040.

EXHIBIT 5-4. PROJECTED COST PER CCF FOR FUNDING ASSISTANCE SCENARIO



The Funding Assistance Scenario is separately detailed as a strategy that Cascade should take all reasonable steps to accomplish. It makes no optimistic assumptions regarding cost and schedule relative to the Base Schedule but directly illustrates the value of a successful assistance program.

Success in realizing the results of this scenario will hinge on Cascade actions and focus on lobbying to maintain funding for grant and loan programs, lobbying for directly legislated assistance, pursuing partnership opportunities with regional and local utilities, and applying for funding in multiple budget cycles.

6.0 Sensitivity Analyses

In addition to the Base and Funding Assistance Scenarios, this Funding Plan evaluates a number of scenarios to test the sensitivity of the fiscal outcomes to both controllable and uncontrollable factors. The scenarios tested are summarized in **Exhibit 6-1** below.

EXHIBIT 6-1. DESCRIPTION OF SCENARIOS AND SENSITIVITIES

Scenario	Description
Base	Preplanning Cost w/o Mgmt Reserve. Scenario uses recommended schedule, does not rely on outside funding assistance, and uses 5-year rate smoothing.
Funding Assistance	Same as Base Scenario, but assumed success in pursuing outside funding assistance.
Scenarios for Major Risk Factors	
1. Higher Capital Costs	Higher end of Preplanning Cost Projection Range: Full use of 20% Mgmt Reserve. Otherwise same as Funding Assistance Scenario.
2. Accelerated Schedule	Frontloaded schedule, bringing higher costs forward as soon as 2027. Otherwise same as Funding Assistance Scenario.
3. Delayed Schedule	Delayed schedule, pushing costs out and delaying completion to 2045. Otherwise same as Funding Assistance Scenario.
Scenarios Demonstrating Financial Capacity	
4. Adverse Ensemble	Scenario combines the worst of the above permutations, with the higher end of the Preplanning Cost Projection Range, without funding assistance, and accelerated project schedule.
5. Cost Over-run	Scenario based on code requirements: higher end of cost range, plus additional 20% increase in supply project cost. Assumes no outside funding.
Scenarios Evaluating Conservatism	
6. Conservative, then lower cost	Start with rates based on high end of cost range. In 2030, determine that low end of cost range will be sufficient. Otherwise same as Funding Assistance Scenario.
7. Optimistic, then higher cost	Start with rates based on low end of cost range and assuming funding assistance. In 2030, determine that high end of cost range is needed, and fail to secure outside assistance.
8. Extremely Conservative	Scenario assumes +100% to construction costs. Rates are set assuming no outside funding assistance.
Other Sensitivity Reviews	
Inflation Risk	Impact of both higher general and construction cost inflation.
Growth	Impact of lower or higher growth.
Interest Rates	Impact of higher interest rates.
Water Demand	Impact of increased water demand.

The Base and Funding Assistance Scenarios use a common set of assumptions regarding cost, schedule, growth, economic factors such as inflation and interest rate, and rate policies. All of

these factors are expected to vary over a range of outcomes. Sensitivity analyses alter key assumptions to test and compare outcomes. These analyses are grouped in to four categories:

- Major risk factors: these scenarios evaluate the sensitivity of the outcomes to Supply Project cost and schedule.
- Demonstrating financial capacity: these scenarios test extreme negative scenarios to demonstrate that Cascade has the financial capacity to respond to those conditions without violating covenants or other financial policies. These scenarios address conditions required by the Cascade Code.
- Evaluating decision outcomes: these scenarios recognize that there is a range of uncertainty today, and test what happens if assumed conditions changed for better or worse during the course of the Supply Project.
- Other sensitivity reviews: these reviews evaluate underlying economic assumptions such as inflation, growth rate, or water demand.

A. Scenario 1 – High Capital Costs

For Scenario 1, the high end of the projected capital cost range is used, while maintaining the same funding assistance assumptions. Further, it is assumed that rates for 2027 and 2028 are established before the cost-increase outcome is known, meaning that the rate increases in the scenario cannot be fully smoothed out.

The higher Supply Project cost increases the use of revenue bond debt and increases total debt service costs. It also pressures the fiscal constraint on total debt load, which also increases pressure on rates.

The capital funding package for Scenario 1 is summarized as:

EXHIBIT 6-2. CAPITAL FUNDING SOURCES FOR SCENARIO 1: HIGH COST

	Inflated Dollars	Percentage
Total Capital Program Expenditures, 2027-2040	$2,008,000,000	
Cash Funding	$408,000,000	20.3%
Revenue Bond Funding (net of issue and reserve costs)	$710,000,000	35.4%
Federal (WFIA) Loans	$850,000,000	42.3%
State Loans	$20,000,000	1.0%
Grants	$20,000,000	1.0%
Total Capital Funding	**$2,008,000,000**	

Exhibit 6-3 summarizes key financial metrics for Scenario 1.

EXHIBIT 6-3. KEY FINANCIAL METRICS FOR SCENARIO 1: HIGH COST

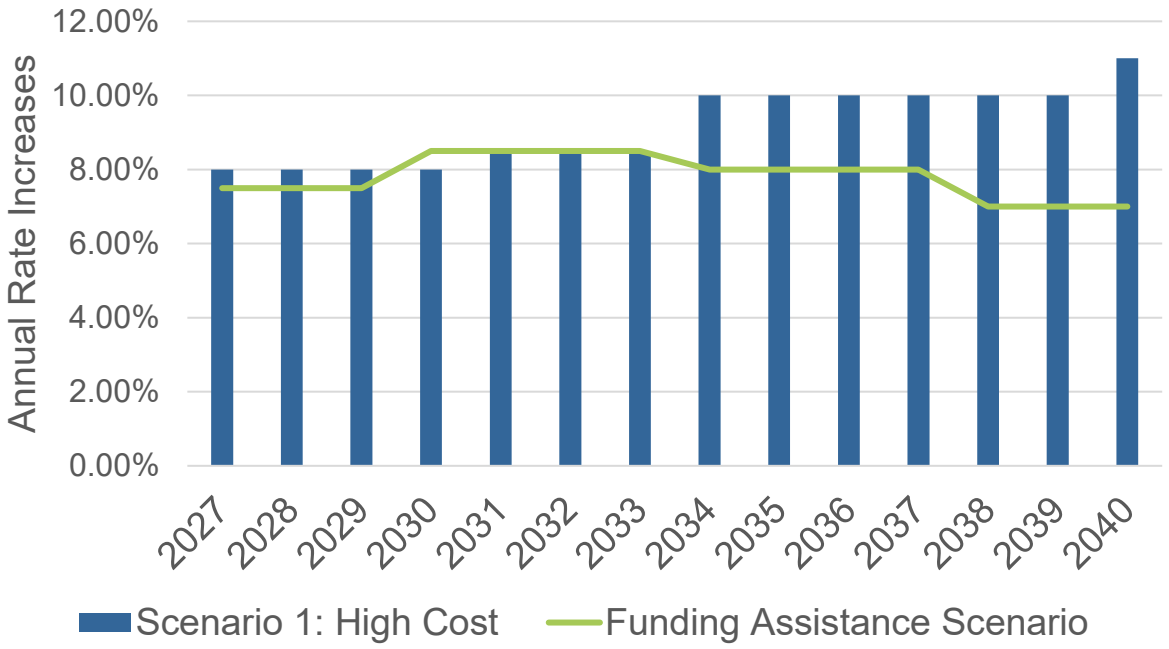
Average Annual Rate Increase (2027-2040):	**9.17%**	
Maximum Debt to Fixed Asset Ratio (2027-2040):	**71.8%**	**2040**
Min Debt Service Coverage 2027-2040 (All Debt):	**1.41**	**2040**

	2025	2030	2035	2040
Total Debt Outstanding	$55 M	$92 M	$0.747 B	$1.450 B
Debt Service as % of Member Charges	20.1%	19.4%	42.0%	58.9%
Debt Service Coverage (All Debt)	2.18	3.47	1.72	1.41
Cost per CCF (Member Charges / Total Sales)	$3.38	$4.80	$7.31	$11.58

With the higher Supply Project cost, the debt ratio reaches a peak of 71.8%, up from 65.9% in the Funding Assistance Scenario. The result is within the 80% policy maximum but leaves reduced flexibility for future capital funding after Phase I.

The annual average increase is 1.3% higher compared to the Funding Assistance Scenario, with the resulting compound effect increasing the 2040 average water cost from $9.73 to $11.58 per CCF. Projected rates are shown in **Exhibit 6-4**.

EXHIBIT 6-4. ANNUAL RATE INCREASES FOR SCENARIO 1: HIGH COST



The overall rate impacts and ultimate rate could be mitigated by adopting higher rate increases in the 2027-2028 biennium. This would increase available cash flow initially and throughout the

project period, reducing debt requirements and resulting impacts. It would also yield the benefit of reducing rate increases needed in the 2030s for any projected scenario outcome.

B. Scenario 2 – Accelerated Schedule

Scenario 2 examines the impact of accelerated Supply Project outlays. In particular, Cascade may wish to secure real estate and initiate construction sooner to reduce the risk of schedule delay. An accelerated schedule would increase short-term rate pressure but can reduce overall outlays through earlier expenditures with less cumulative inflationary effect. Adjustments made for this scenario are limited to schedule, with no change in project cost projections. Total Supply Project cost as expended does change due to changes in schedule and resulting inflationary adjustments.

To explore this scenario, property acquisition costs were accelerated into 2027 to reflect early action to secure property. In addition, the total project schedule was compressed by 1 year to also generate earlier financial needs.

The resulting Supply Project has a lower total capital outlay due to avoided inflation, with an assumed capital funding package summarized as:

EXHIBIT 6-5. CAPITAL FUNDING SOURCES FOR SCENARIO 2: ACCELERATED SCHEDULE

	Inflated Dollars	Percentage
Total Capital Program Expenditures, 2027-2040	$1,598,000,000	
Cash Funding	$369,000,000	23.1%
Revenue Bond Funding (net of issue and reserve costs)	$499,000,000	31.2%
Federal (WFIA) Loans	$690,000,000	43.2%
State Loans	$20,000,000	1.3%
Grants	$20,000,000	1.3%
Total Capital Funding	**$1,609,000,000**	

The key financial metrics for the Accelerated Scenario are summarized in **Exhibit 6-6**.

EXHIBIT 6-6. KEY FINANCIAL METRICS FOR SCENARIO 2: ACCELERATED SCHEDULE

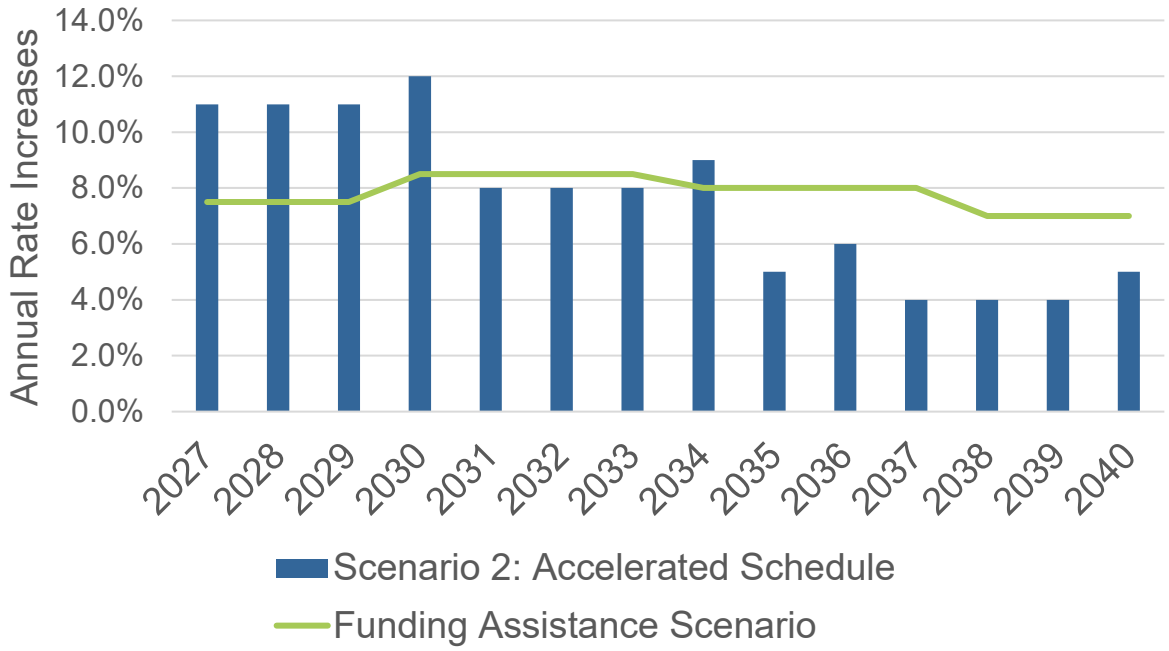
Average Annual Rate Increase (2027-2040):	**7.53%**	
Maximum Debt to Fixed Asset Ratio (2027-2040):	**56.3%**	**2038**
Min Debt Service Coverage 2027-2040 (All Debt):	**1.41**	**2040**

	2025	2030	2035	2040
Total Debt Outstanding	$55 M	$303 M	$0.693 B	$0.919 B
Debt Service as % of Member Charges	20.1%	32.2%	47.3%	55.3%
Debt Service Coverage (All Debt)	2.18	2.02	1.50	1.41
Cost per CCF (Member Charges / Total Sales)	$3.38	$5.40	$7.68	$9.37

Cash funding actually declines for this scenario compared to the Funding Assistance Scenario since earlier capital outlays consume financial capacity that might otherwise have provided cash funding. Average rate increases are lower, but are significantly front-loaded relative to the Funding Assistance Scenario to support higher initial debt issuances. Long term, this scenario remains advantageous relative to the Base Scenario due to the benefits that accrue from successful funding assistance.

A key adverse outcome is that 2027-2030 rates would need to increase 11-12% per year annually in order to support earlier debt issuance; the increases then taper off more quickly. **Exhibit 6-7** summarizes projected rate increases.

EXHIBIT 6-7. ANNUAL RATE INCREASES FOR SCENARIO 2: ACCELERATED SCHEDULE



C. Scenario 3 – Delayed Project Completion (2045)

Schedule delays also pose a potential project risk. Scenario 3 contemplates an extended construction period and delays in bringing on supply capacity. For this scenario, it is assumed that the Supply Project completion is delayed to 2045. The assumed completion date is critical to the evaluation, since material delay creates a period of supply deficiency that must be addressed. The attenuated construction schedule increases inflationary effects although also providing a longer timeframe for implementing rate increases.

In the early 2040s, supply shortages arise as the Seattle contract declines. For purposes of evaluation, it is assumed that Cascade and Seattle would negotiate a short-term contract extension to address the gap between forecasted demand and contracted supply in the 2040s, with a cost estimated based on the existing contracts. Meanwhile, Tacoma fixed payments are also applicable, although no volume charges would apply until water is taken. It is worth noting that other options may exist, including short-term purchases from other neighboring utilities.

Cascade has previously studied short-term supply options to bridge contract supplies and would likely update this investigation if schedules are delayed materially.

Since the schedule is now extended through 2045, the Supply Project funding and financial metrics are modified to address this longer timeframe and incorporate all Phase I costs.

The capital funding summary shows the increased outlays due to inflation and the resulting sources of funding. While expenditures go down moderately through 2040 due to the assumed delays, total expenditures increase substantially by Supply Project completion in 2045. Cash funding also increases due to the longer available timeframe, helping to mitigate adverse impacts, although total debt issued reaches $1.5 billion and debt outstanding exceeds $1.2 billion by 2045.

EXHIBIT 6-8. CAPITAL FUNDING SOURCES FOR SCENARIO 3: DELAYED SCHEDULE

	Inflated Dollars	Percentage
Total Capital Program Expenditures, 2027-2040	$2,144,000,000	
Cash Funding	$595,000,000	27.8%
Revenue Bond Funding (net of issue and reserve costs)	$709,000,000	33.1%
Federal (WFIA) Loans	$800,000,000	37.3%
State Loans	$20,000,000	0.9%
Grants	$20,000,000	0.9%
Total Capital Funding	**$2,144,000,000**	

The key financial metrics are summarized in **Exhibit 6-9**. For this scenario, 2045 is added as a summary year and to the average rate calculations to more fully illustrate the impacts of this scenario.

EXHIBIT 6-9. KEY FINANCIAL METRICS FOR SCENARIO 3: DELAYED SCHEDULE

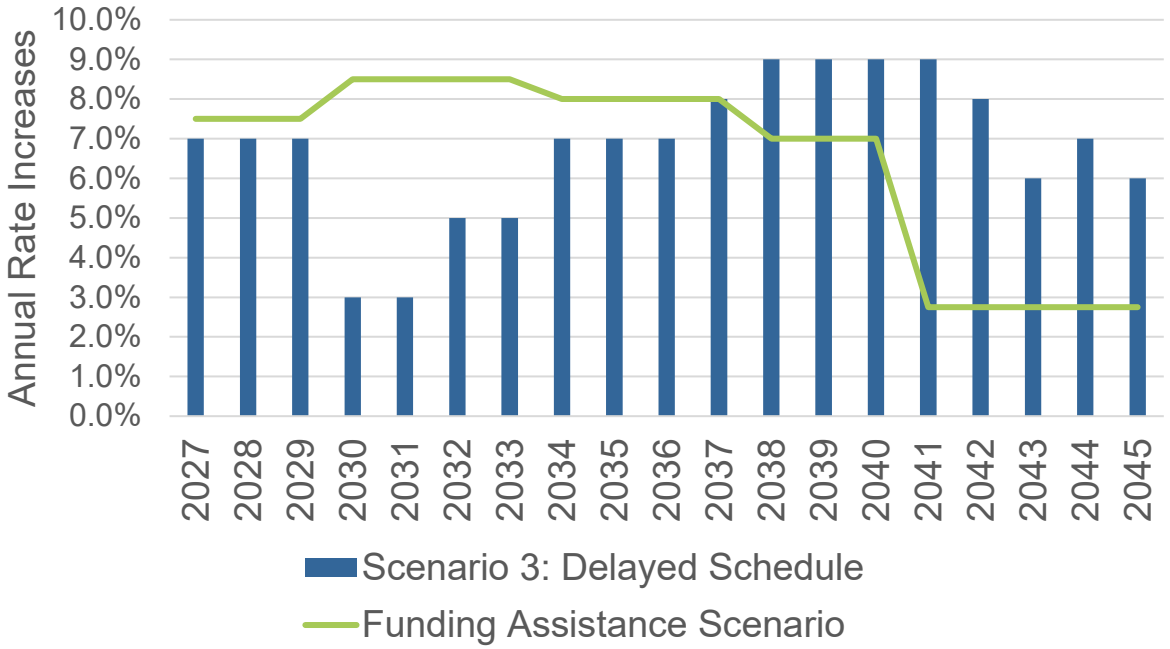
Average Annual Rate Increase (2027-2040):	**6.77%**	
Maximum Debt to Fixed Asset Ratio (2027-2040):	**60.6%**	**2039**
Min Debt Service Coverage 2027-2040 (All Debt):	**1.54**	**2045**

	2025	2030	2035	2040	2045
Total Debt Outstanding	$55 M	$49 M	$0.326 B	$0.880 B	$1.239 B
Debt Service as % of Member Charges	20.1%	16.4%	26.3%	38.8%	53.6%
Debt Service Coverage (All Debt)	2.18	3.77	2.53	1.89	1.54
Cost per CCF (Member Charges / Total Sales)	$3.38	$4.45	$5.71	$8.32	$11.54

Overall, rate impacts are moderated for the original project period, but the period of substantial annual increases is extended. While not shown, the addition of more debt load also adversely impacts future rates during the 2040s and 2050s.

Exhibit 6-10 summarizes annual rate increases, now extended through Supply Project completion in 2045.

EXHIBIT 6-10. ANNUAL RATE INCREASES FOR SCENARIO 3: DELAYED SCHEDULE



D. Scenarios 4 and 5 – Testing Financial Capacity

Cascade Code requires that the Funding Plan consider significantly adverse scenarios in order to demonstrate the implications for Cascade's financial capacity to fund the Supply Project. Scenarios 4 and 5 show different permutations of adverse scenarios, and demonstrate that while they would create significant rate impacts, Cascade could react to these changing conditions and continue to both deliver the Supply Project and meet its minimum financial obligations.

1. Scenario 4 – Adverse Ensemble

Scenario 4 is an ensemble scenario of the adverse outcomes considered. It evaluates the impacts of accelerated costs, the high side of the cost projection range, and loss of grant/loan assistance as one combined scenario. This imposes increased rate and financial pressure throughout the Supply Project period.

The capital funding summary in **Exhibit 6-11** shows the funding sources used for this scenario. High use of revenue bonds is noteworthy, with nearly $1.5 billion of revenue bond funding. Cash funding is 20.6% for the Supply Project and the debt load constraint is satisfied.

EXHIBIT 6-11. CAPITAL FUNDING SOURCES FOR SCENARIO 4: ADVERSE ENSEMBLE

	Inflated Dollars	Percentage
Total Capital Program Expenditures, 2027-2040	$1,900,000,000	
Cash Funding	$392,000,000	20.6%
Revenue Bond Funding (net of issue and reserve costs)	$1,508,000,000	79.4%
Federal (WFIA) Loans	$0	0.0%
State Loans	$0	0.0%
Grants	$0	0.0%
Total Capital Funding	**$1,900,000,000**	

The key financial metrics are summarized in **Exhibit 6-12**.

EXHIBIT 6-12. KEY FINANCIAL METRICS FOR SCENARIO 4: ADVERSE ENSEMBLE

Average Annual Rate Increase (2027-2040):	**9.00%**	
Maximum Debt to Fixed Asset Ratio (2027-2040):	**66.9%**	**2037**
Min Debt Service Coverage 2027-2040 (All Debt):	**1.41**	**2039**

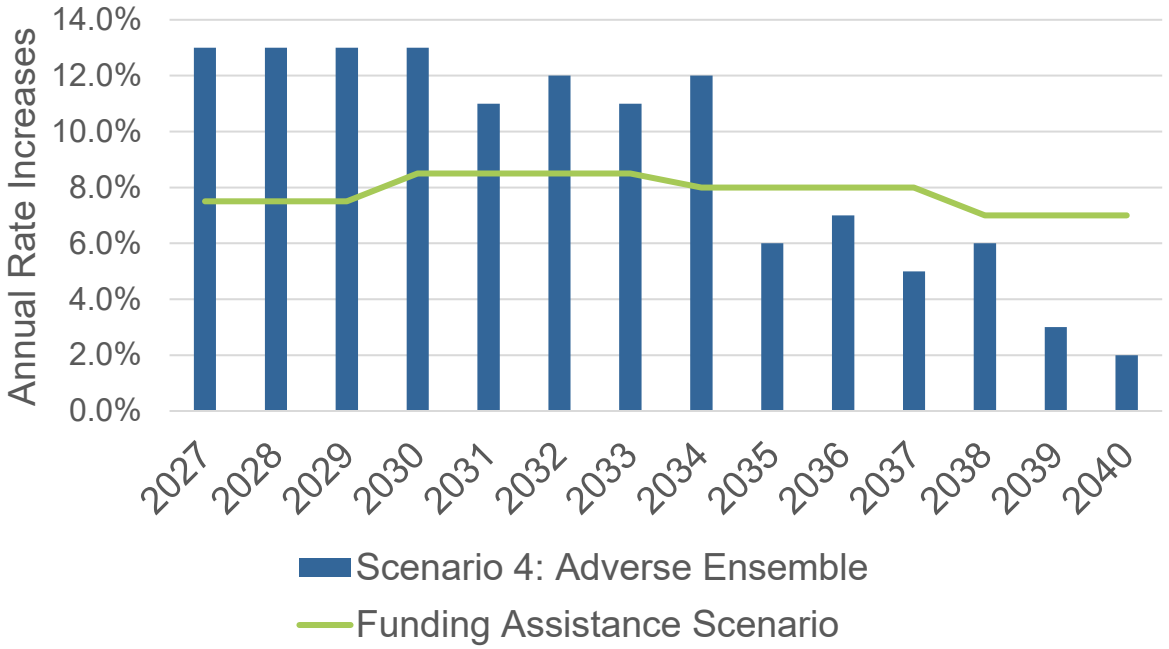
	2025	2030	2035	2040
Total Debt Outstanding	$55 M	$335 M	$0.990 B	$1.257 B
Debt Service as % of Member Charges	20.1%	33.7%	53.1%	60.4%
Debt Service Coverage (All Debt)	2.18	2.05	1.53	1.42
Cost per CCF (Member Charges / Total Sales)	$3.38	$5.75	$9.29	$11.33

Overall, rate impacts are substantially higher than preceding scenarios, particularly in the initial construction years. Debt service exceeds 60% of rate revenues, indicating a high level of debt leverage and reduced financial flexibility. While not shown in the Supply Project period through 2040, the addition of more debt load also adversely affects future funding impacts during the 2040s and 2050s.

Despite these negative impacts, this level of rate increases is sufficient to remain within the 80% maximum debt to fixed asset ratio requirement, and no other fiscal policies or covenants are violated, demonstrating that Cascade has the capacity to respond should this scenario develop.

Exhibit 6-13 summarizes annual rate increases for Scenario 4. The compound effect of the rate increases is best illustrated by the projected 2040 cost per CCF shown above. The $11.33 cost compares to $9.73 in the Funding Assistance Scenario, an added 16% cumulative increase.

EXHIBIT 6-13. ANNUAL RATE INCREASES FOR SCENARIO 4: ADVERSE ENSEMBLE



The timing of impacts for this scenario is sensitive to when the changing conditions are recognized. Delay in awareness compounds and concentrates the adverse rate impacts.

2. Scenario 5 – Cost Over-run

Scenario 5 is a cost over-run scenario where costs increase a further 20% beyond the high range of the capital cost projection. This imposes increased rate and financial pressure throughout the Supply Project period.

The capital funding summary in **Exhibit 6-14** shows the funding sources used for this scenario, and the key fiscal metrics are presented in **Exhibit 6-15**. High use of debt is noteworthy, with over $1.8 billion of revenue bond debt funding. Cash funding would fall to 18.5% for the Supply Project, but Cascade as a whole would remain within its fiscal policy cap of 80% debt to fixed asset ratio, at 70.3%.

EXHIBIT 6-14. CAPITAL FUNDING SOURCES FOR SCENARIO 5: COST OVER-RUN

	Inflated Dollars	Percentage
Total Capital Program Expenditures, 2027-2040	$2,245,000,000	
Cash Funding	$415,000,000	18.5%
Revenue Bond Funding (net of issue and reserve costs)	$1,830,000,000	81.5%
Federal (WFIA) Loans	$0	0.0%
State Loans	$0	0.0%
Grants	$0	0.0%
Total Capital Funding	**$2,245,000,000**	

EXHIBIT 6-15. KEY FINANCIAL METRICS FOR SCENARIO 5: COST OVER-RUN

Average Annual Rate Increase (2027-2040):	**10.20%**	
Maximum Debt to Fixed Asset Ratio (2027-2040):	**70.3%**	**2033**
Min Debt Service Coverage 2027-2040 (All Debt):	**1.40**	**2036**

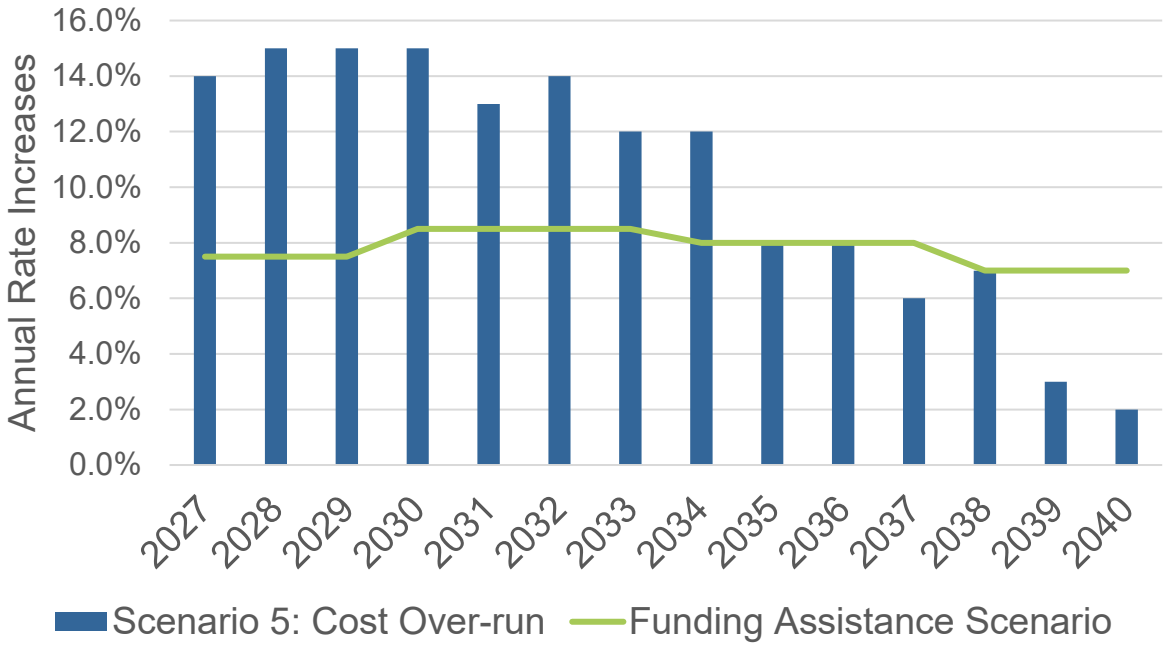
	2025	2030	2035	2040
Total Debt Outstanding	$55 M	$413 M	$1.215 B	$1.524 B
Debt Service as % of Member Charges	20.1%	36.6%	57.3%	63.1%
Debt Service Coverage (All Debt)	2.18	1.90	1.49	1.41
Cost per CCF (Member Charges / Total Sales)	$3.38	$6.06	$10.53	$13.20

As with Scenario 4, the overall rate impacts are substantially higher, particularly in the construction years. Debt service is significantly above 60% of rate revenues, indicating high debt leverage and reduced financial flexibility. This increased debt load adversely affects future funding flexibility in the 2040s and 2050s.

Despite these negative impacts, Cascade's fiscal policies and covenants would still be satisfied, demonstrating that Cascade has the capacity to respond in this scenario.

Exhibit 6-16 summarizes the annual rate increases for Scenario 5. The compound effect of the rate increases is best illustrated by the projected 2040 cost per CCF shown above. The $13.20 cost compares to $9.73 in the Funding Assistance Scenario, a 36% additional increase.

EXHIBIT 6-16. ANNUAL RATE INCREASES FOR SCENARIO 5: COST OVER-RUN



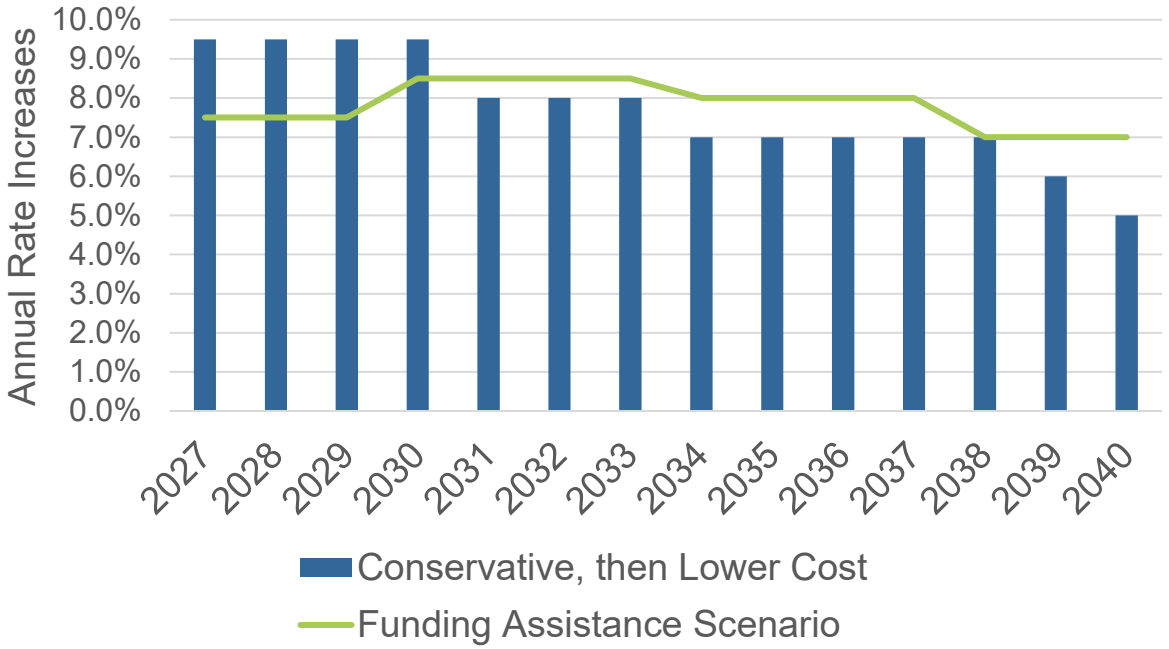
E. Scenarios 6 through 8 – Conservatism

Scenarios 6 and 7 recognize that there is a range of uncertainty today, and test what happens if assumed conditions changed for either the better or worse during the course of the Supply Project.

1. Scenario 6: Conservative, then Lower Cost

In Scenario 6 a more conservative rate path is chosen early in the Supply Project, with the high end of the projected cost range being used. The scenario assumes that rate increases of 9.5% per year are adopted in 2027 through 2030. It is assumed that the lower overall cost is identified during 2030, and the subsequent rate path reflects that outcome, as shown in **Exhibit 6-17**.

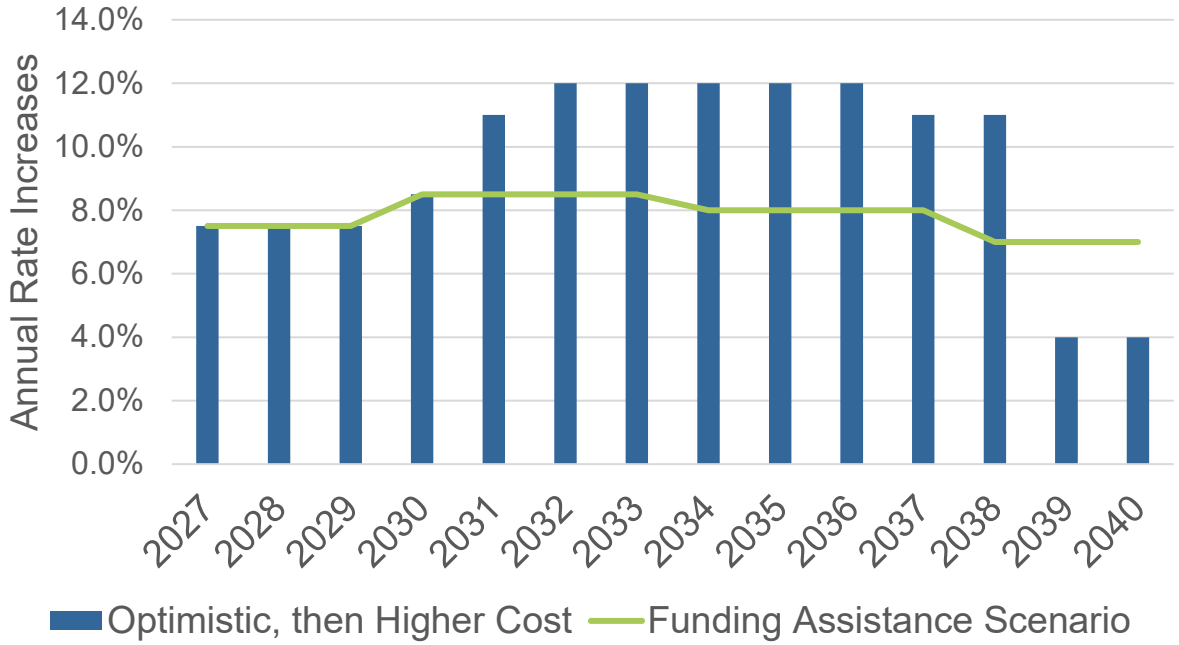
EXHIBIT 6-17. ANNUAL RATE INCREASES FOR SCENARIO 6: CONSERVATIVE, THEN LOWER COST



2. Scenario 7: Optimistic, then Higher Cost

Under Scenario 7, the rate increases identified in the Funding Assistance Scenario for 2027-2030 are adopted. It is assumed that in 2030 both a higher overall cost outcome is identified, and Cascade fails to secure funding assistance for the Supply Project. The resulting rate path reflects the need to raise rates abruptly to between 11.0% and 12.0% per year to support revenue bonding for the higher cost, as shown in **Exhibit 6-18**.

EXHIBIT 6-18. ANNUAL RATE INCREASES FOR SCENARIO 7: OPTIMISTIC, THEN HIGHER COST



These scenarios illustrate the consequence of more or less conservatism given the relatively high uncertainty in both costs and potential for funding assistance.

3. Scenario 8: Extremely Conservative

Scenario 8 evaluates the rate implications of taking an extremely conservative approach. As discussed, at the initiation of the Supply Project there is high uncertainty in the range of potential costs. This scenario assumes a 100% increase in construction costs for the project, based on the range established by AACEI cost estimation guidelines. Additionally, it assumes no reliance on outside funding assistance.

This approach would require an aggressive initial rate strategy in order to comply with Cascade's fiscal policies, with rate increases of 12.5% annually beginning in 2027 and continuing until 2037. Maximum debt to fixed asset ratio would rise to 72%, and the cost per CCF would rise to $15.92 per CCF by 2040, as shown in **Exhibit 6-19**.

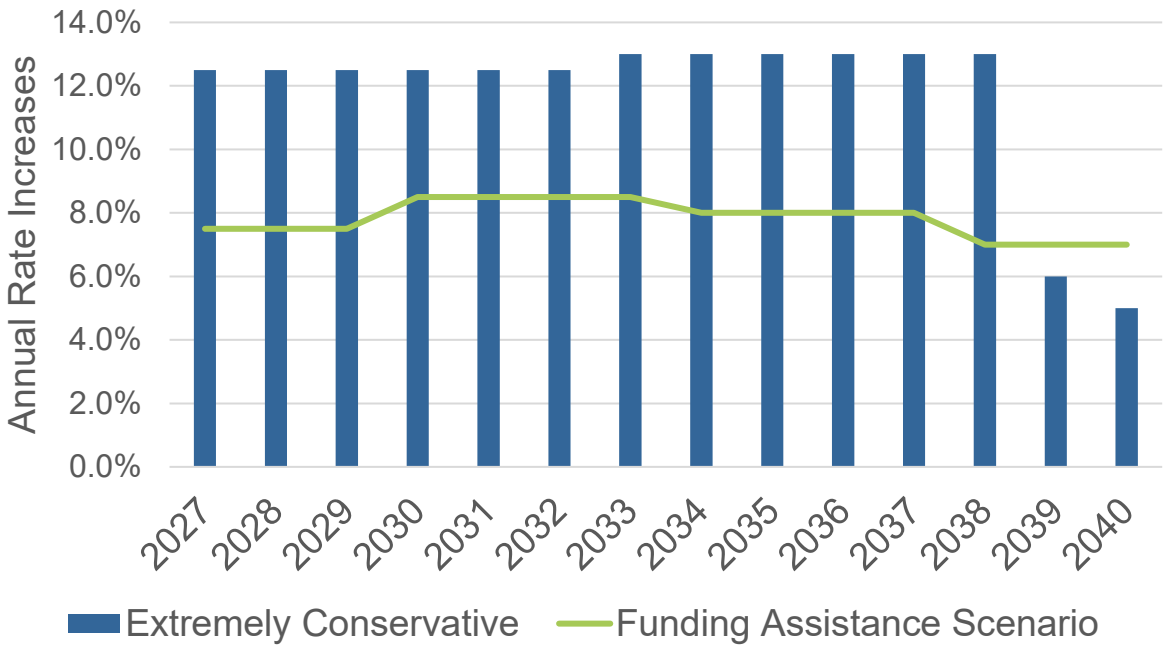
EXHIBIT 6-19. KEY FINANCIAL METRICS FOR SCENARIO 8: EXTREMELY CONSERVATIVE

Average Annual Rate Increase (2027-2040):	**11.68%**	
Maximum Debt to Fixed Asset Ratio (2027-2040):	**71.7%**	**2040**
Min Debt Service Coverage 2027-2040 (All Debt):	**1.40**	**2039**

	2025	2030	2035	2040
Total Debt Outstanding	$55 M	$127 M	$1.082 B	$1.995 B
Debt Service as % of Member Charges	20.1%	23.2%	50.6%	64.8%
Debt Service Coverage (All Debt)	2.18	3.60	1.89	1.41
Cost per CCF (Member Charges / Total Sales)	$3.38	$5.65	$10.17	$15.92

The rate path necessary to meet fiscal policies under this extremely conservative set of assumptions is shown in **Exhibit 6 20.**

EXHIBIT 6-20. ANNUAL RATE INCREASES FOR SCENARIO 8: EXTREMELY CONSERVATIVE



F. Sensitivity to Other Key Assumptions

Other key assumptions were tested to evaluate sensitivity. The results are briefly summarized below, and are compared to the Funding Assistance Scenario:

- ***Higher Inflation*** – The inflation assumption is increased from 3% to 4% annually, including for wholesale contracts, and for construction costs increased from 3.5% to

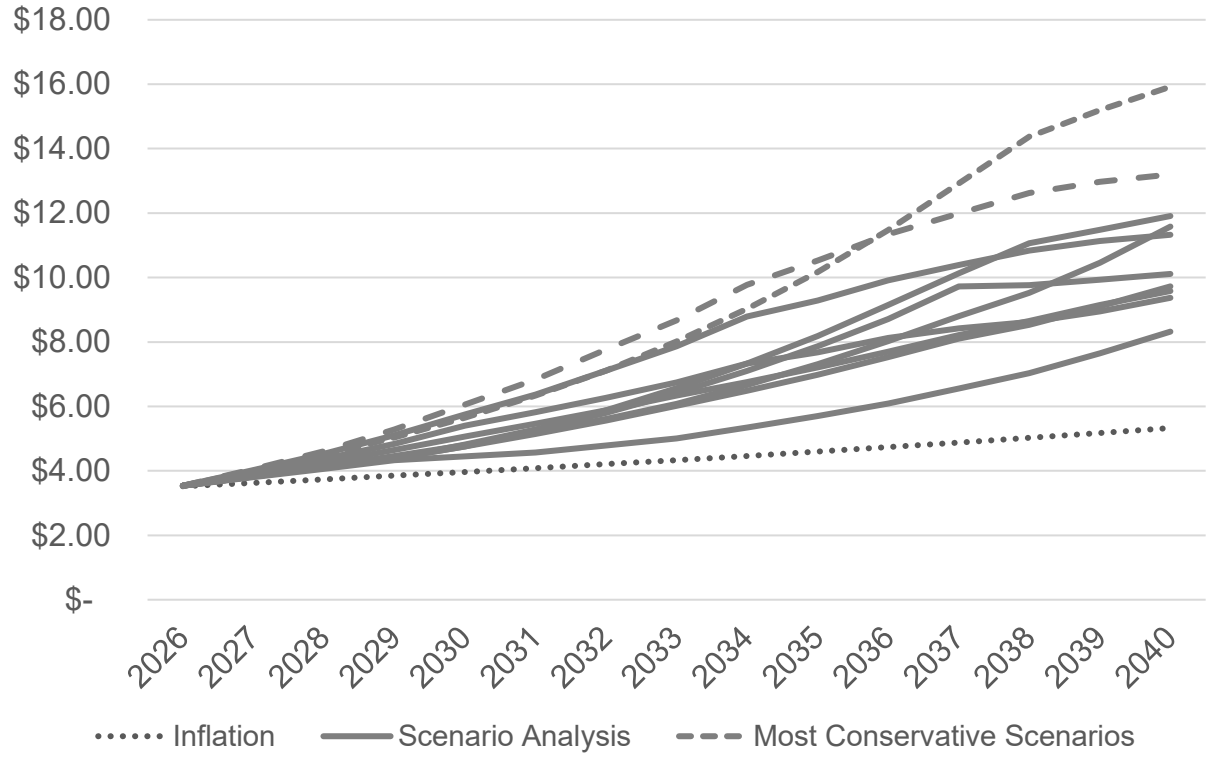
4.5%. This results in average annual rate increases rising an additional 1.1% per year for 2027-2040.

- ***Lower Growth*** – The assumed growth rate of 1,150 is reduced to 1,000 CERUs per year. This reduces RCFC revenues and projected demands. Cash funding declines by $20 million, increasing debt. The average annual rate increase rises an additional 0.3% per year for 2027-2040.
- ***Higher Growth*** – The assumed growth rate is increased to 1,300 CERUs per year. This increases revenues and demand growth. Cash funding increases about $15 million, reducing debt. The average annual rate increase declines by 0.2% per year for 2027-2040.
- ***Higher Interest Rates*** –With large debt issuances, the forecast is sensitive to assumed interest rates for new debt. The interest rate assumption is increased from 4.5% to 5.5% for both revenue bonds and WIFIA loans. The primary impact is on rates, with the average annual rate increase rising by 0.6% per year for 2027-2040.
- ***Water Demands*** – Within reasonable bounds, trends in water demands do not alter funding or rates, except that the average cost per CCF varies as usage does. With supplies complemented by remaining Seattle contract water, supply constraints would be limited to extreme cases in the late 2030s if demands increase substantially. Even then, early completion or payment of moderate penalties could address the impact. Higher demand trends would also accelerate later phases of the CSP.

G. Summary of Analyses

The sensitivity anlyses evaluate a range of different factors, and are used to develop a recommended funding strategy based on this evaluation of uncertainty and potential outcomes. **Exhibit 6-21** presents the range of cumulative cost impacts in terms of projected cost per CCF.

EXHIBIT 6-21. SUMMARY OF SENSITIVITY ANALYSES – PROJECTED COST PER CCF



There are a number of key conclusions from the sensitivity analysis:

- Rate increases necessary to deliver Phase I of the CSP are significant: even the most optimistic scenarios are significantly higher than inflation.
- With the exception of the most conservative scenarios, and the delay scenario, the long term cost per CCF is relatively tightly grouped, ranging between $9.37 per CCF and $11.62 per CCF.
- For scenarios with consistent assumptions, higher initial increases reduce long term cost by reducing necessary borrowing.
- There are a number of components of uncertainty that will not be resolved until the CSP is well under way: any strategy needs to be flexible to manage that uncertainty.

The key financial metrics for the sensitivity analyses are shown in **Exhibit 6-22**. While the rate increases necessary vary, Cascade is able to meet its key fiscal policy and covenant requirements in all scenarios evaluated.

EXHIBIT 6-22. SUMMARY OF SCENARIO FINANCIAL METRICS

Scenario	Phase I Cost, 2026$	Avg Annual Rate Increase	2040 Cost per CCF	% Cash Funding	Max Debt to Net Asset Ratio	Min Debt Service Coverage
Policy or Covenant					**80%**	**1.25**
Base Scenario	$1.13 B	8.12%	$10.11	25.6%	63.2%	1.42
Funding Assistance	$1.13 B	7.82%	$9.73	26.2%	65.9%	1.42
Scenarios for Major Risk Factors						
1. Higher Capital Costs	$1.35 B	9.17%	$11.58	20.3%	71.8%	1.41
2. Accelerated Schedule	$1.13 B	7.53%	$9.37	23.1%	56.3%	1.41
3. Delayed Schedule*	$1.13 B	6.77%	$11.54	27.8%	60.6%	1.54
Scenarios Demonstrating Financial Capacity						
4. Adverse Ensemble	$1.35 B	9.00%	$11.33	20.6%	66.9%	1.41
5. Cost Over-run	$1.63 B	10.20%	$13.20	18.5%	70.3%	1.40
Scenarios Evaluating Conservatism						
6. Conservative, then lower cost	$1.13 B	7.71%	$9.58	28.5%	63.5%	1.44
7. Optimistic, then higher cost	$1.35 B	9.39%	$11.91	20.8%	69.1%	1.41
8. Extremely Conservative	$1.94 B	11.68%	$15.92	19.0%	71.7%	1.40

** Scenario 3 shows 2045 Cost per CCF, reflecting full impact of Phase I*

7.0 Recommended Strategy: Policies, Funding, Rates, and RCFCs

The Recommended Funding Strategy is a combination of assumptions based on the analysis presented in Sections 4.0, 5.0, and 6.0 and policy decisions as discussed in Section 8.0 below. It relies on the high range of the existing cost and schedule assumptions, successful funding assistance, and a policy of rate smoothing over the term of the Supply Project.

Based on the preceding analysis, the Recommended Funding Strategy uses forecast results as guidelines for a strategy and near-term action plan addressing capital funding, rates, and RCFCs. While the scenarios provide guidance on the scale of funding needs, sources, and potential uncertainty, this strategy translates that information into specific steps to be taken to achieve the desired outcomes. The recommended strategy defines specific actions for rate and RCFC increases and outlines bond issuance and grant/loan pursuit efforts. It provides a basis for making near-term decisions in the context of total Phase I funding needs. While steps are outlined throughout the Supply Project tenure, it is reasonably expected that later decisions will be modified as information improves and conditions change.

Key Recommended Funding Strategy Elements

- Policy: Take all actions possible to pursue **grant and loan applications** as well as coordinating with Members to support State and Federal funding assistance programs.
- Policy: Adopt a policy of smoothing rates over the term of the Supply Project.
- Policy: Use a **more cost conservative** approach with the high range of the existing cost projection.
- Action: Impose ***rate increases*** of 9.5% per year for the 2027-2028 biennium, and expect comparable for 2029-2030.
- Action: Implement ***RCFC increases*** of roughly $1,800 in 2027 and $2,100 in 2028.
- Action: Issue ***$60 million in revenue bonds*** in late 2026 to fund 2 years of project development.
- Action: Explore ***regional partnership*** opportunities.

The Recommended Funding Strategy seeks to balance opportunity and risk, with near-term decisions compatible with a range of the scenarios examined. Specific elements of this balanced approach are provided below. In general, it relies on the Funding Assistance Scenario as its basis, but with a bias toward conservative near-term decisions to mitigate risks identified in the sensitivity analyses. The two greatest risks moving forward are level of success in funding assistance and the project cost; both are mitigated by increasing early rate decisions to generate funding capacity. The proposed actions remain consistent with the longer-term rate trends indicated in the funding analysis and compatible with longer-term funding needs.

A. Summary of Recommended Funding Strategy

The Recommended Funding Strategy is developed based on the information gained from the various scenarios. It works to balance near-term impacts against long-term risks. It recognizes that rate increases continue throughout the Supply Project, so early actions to increase rates mitigate risks while avoiding the risk of overshooting.

The proposed strategy is largely based on the Funding Assistance Scenario as an objective that should remain Cascade's focus in the upcoming years. At the same time, near-term actions are proposed that mitigate the risks related to funding success and project costs. The strategy might be described as being based on a central successful forecast but with near-term decisions tempered by unresolved risks.

The strategy can be summarized as follows:

1) Aggressive pursuit of assistance programs – Successful access to WIFIA materially alters (improves) the financial impacts of project development. All other assistance also provide benefits, especially if they can become cumulatively meaningful as a part of the total funding package.
2) Assume the high end of the projected cost range. A more conservative approach to cost uncertainty at the early phases of the project, to reduce the risk of rate spikes shown in the sensitivity analyses where cost increases were reacted to after the fact with later rate increases.
3) A broader perspective on rate smoothing - Near-term rate decisions should be made on the context of the total project time horizon and not limited to 5-year smoothing. This will mean higher initial increases than previously forecast, but provides numerous benefits over the life of the project:
    a. Lower ultimate rate increases due to increased cash funding.
    b. Reduced risk related to funding success or project cost trends due to the earlier increase in Cascade financial capacity.
    c. Smoother rate trends over the course of the Phase I project and improved ability to adapt to adverse outcomes
    d. Smoother rates in terms of annual incremental dollar increases as compared to the compounding effect of level percentage increases.
4) Maximize RCFCs under the adopted methodology – With a reduced growth estimate, RCFC contributions toward capital projects are reduced. Maintaining full cost recovery under the RCFC methodology is important to bolster this source of funding and mitigate impacts on rates.
5) Rational periodic bond issues – Cascade will issue revenue bonds multiple times during the Phase I project in addition to any loan assistance from WIFIA and others. For efficiency, bond issues should be bundled to address multiple years of funding needs.

This strategy leads to a series of near-term recommendations to begin funding plan implementation. They are all consistent with a successful funding strategy as projected while also hedging against any adverse developments. The actions include:

1) A bond issue in late 2026 or 2027 on the order of $60 million to fund initial project costs.
2) Rate increases of 9.5% in 2027 and 2028 to support funding needs, anticipate longer-term rate trends and mitigate risks related to project cost and funding success.
3) RCFC increases of roughly $1,800 per CERU in 2027 and $2,100 in 2028.
4) Initial lobbying and administrative activities to secure funding assistance, with particular focus on WIFIA as a primary objective.
5) Explore partnership opportunities with regional water utilities to provide mutual benefit and provide cost-sharing or revenue opportunities for Cascade.

With the Recommended Strategy, capital funding for the project period is summarized as follows based on the high end of the projected cost range:

EXHIBIT 7-1. CAPITAL FUNDING SOURCES FOR RECOMMENDED FUNDING STRATEGY

	Inflated Dollars	Percentage
Total Capital Program Expenditures, 2027-2040	$2,008,000,000	
Cash Funding	$456,000,000	22.7%
Revenue Bond Funding (net of issue and reserve costs)	$662,000,000	33.0%
Federal (WFIA) Loans	$850,000,000	42.3%
State Loans	$20,000,000	1.0%
Grants & Partnerships	$20,000,000	1.0%
Total Capital Funding	**$2,008,000,000**	

Key financial metrics resulting from this strategy are:

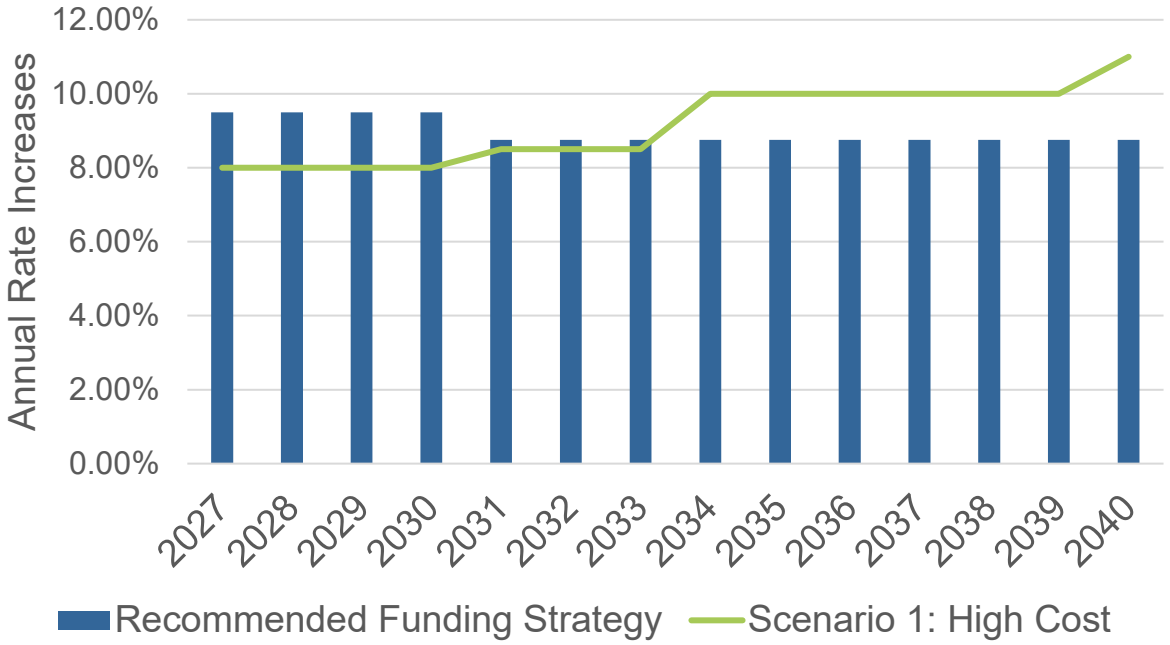
EXHIBIT 7-2. KEY FINANCIAL METRICS FOR RECOMMENDED FUNDING STRATEGY

Average Annual Rate Increase (2027-2040):	**8.96%**	
Maximum Debt to Fixed Asset Ratio (2027-2040):	**69.7%**	**2040**
Min Debt Service Coverage 2027-2040 (All Debt):	**1.40**	**2040**

	2025	2030	2035	2040
Total Debt Outstanding	$55 M	$90 M	$0.722 B	$1.408 B
Debt Service as % of Member Charges	20.1%	18.3%	41.0%	58.1%
Debt Service Coverage (All Debt)	2.18	4.14	1.97	1.40
Cost per CCF (Member Charges / Total Sales)	$3.38	$5.07	$7.61	$11.27

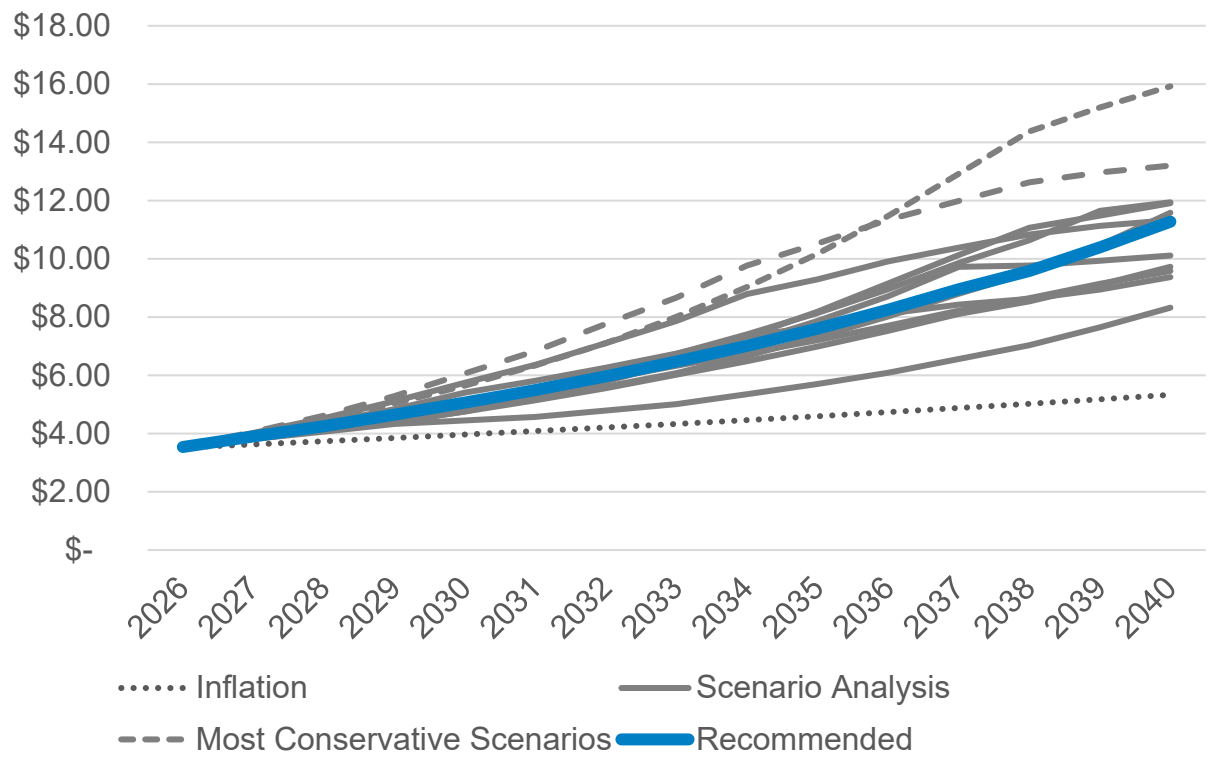
Finally, the rate trends for this strategy are shown below. These are compared against the High Cost Scenario, showing the benefit of a longer rate smoothing approach in avoiding double digit rate increases in the 2030s.

EXHIBIT 7-3. ANNUAL RATE INCREASES FOR RECOMMENDED FUNDING STRATEGY



In order to compare the cumulative effect on cost, **Exhibit 7-4** presents the average monthly cost per CCF for the Recommended Funding Strategy. Lines showing the other scenarios discussed in Section 6.0 are shown for context. The Recommended Funding Strategy represents a moderately conservative approach relative to the range of scenarios evaluated.

EXHIBIT 7-4. PROJECTED COST PER CCF FOR RECOMMENDED FUNDING STRATEGY



The strategy and specific actions are discussed in further detail below.

B. Pursuit of Assistance Programs

The most significant beneficial impact for the Supply Project funding lies in successfully obtaining grant and loan assistance. Due primarily to its scale, the WIFIA program is most beneficial and should be pursued aggressively. Given the high range of the total projected Supply Project cost, WIFIA could provide on the order of $750-850 million in loans.

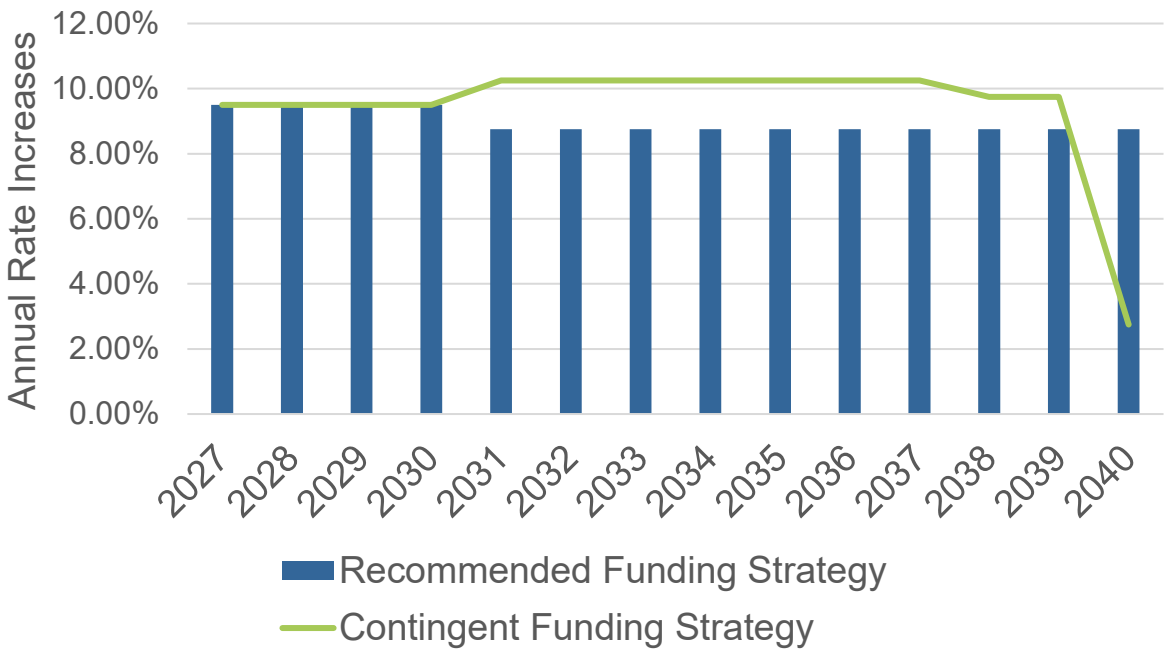
Some grant and loan programs have pre-construction elements that can help fund initial facility planning and design efforts. While often limited in scale for this window, success often helps improve the likelihood of funding for subsequent construction phases. Programs like the Bureau of Reclamation WATERSmart and state Public Works Board and Drinking Water Revolving Fund should be applied to early with the intent of securing ongoing funding. For the state programs, loan access can occur repeatedly in subsequent state biennial budget periods. Depending on how Phase I is delivered, there may also be multiple opportunities for funding different elements of the Supply Project separately.

In addition to pursuing these assistance programs, Cascade should incorporate support for the continued existence and funding of these programs into its legislative agenda, and coordinate with its Members to emphasize their importance to federal and state legislators.

C. Contingent Rate Strategy

The successful pursuit of outside funding assistance is not guaranteed. Cascade will not know if it is successful in securing WIFIA funding for construction assistance until between 2029 and 2030. Exhibit 7-5 shows how the rates under the Recommended Funding Strategy would need to shift to accommodate a change to revenue bond funding if WIFIA loans are not available. Rather than the rate of increases dropping to 8.75% per year, they would need to increase to 10.25% per year between 2031 and 2037. This would result in annual rate increases 1.0% higher per year between 2027 and 2040.

EXHIBIT 7-5. ANNUAL RATE INCREASES FOR CONTINGENT RATE STRATEGY



Overall compliance with Cascade's financial policies and covenants would be maintained, as shown in **Exhibit 7-6**.

EXHIBIT 7-6. KEY FINANCIAL METRICS FOR CONTINGENT FUNDING STRATEGY

Average Annual Rate Increase (2027-2040):	**9.94%**	
Maximum Debt to Fixed Asset Ratio (2027-2040):	**72.1%**	**2040**
Min Debt Service Coverage 2027-2040 (All Debt):	**1.40**	**2039**

	2025	2030	2035	2040
Total Debt Outstanding	$55 M	$95 M	$0.726 B	$1.382 B
Debt Service as % of Member Charges	20.1%	18.0%	44.7%	59.6%
Debt Service Coverage (All Debt)	2.18	4.22	1.67	1.44
Cost per CCF (Member Charges / Total Sales)	$3.38	$5.07	$8.15	$11.94

D. Rate Trends, Rate Smoothing, and Schedule of Increases

The various scenarios and sensitivity analyses highlight the risks of adverse outcomes compounded by a limited ability to anticipate them. For this reason, the recommended rate strategy leads to higher recommended increases for the upcoming 2027-2028 biennium, consistent with longer-term needs in the High Cost Scenario, but higher than the short-term minimums dictated by the existing five-year rate smoothing policy.

The resulting financial forecast indicates that increases of 8.0% each year are needed to satisfy the minimum funding needs, as shown in the High Cost Scenario. Overlaying 5-year rate smoothing would result in 8.1% annually for the 5-year period 2027-2031. In comparison, the adverse scenario indicates increases of 13% per year for the biennium and leaving annual increases of 11% and 13% per year later.

The recommended rate strategy is to look beyond the current five-year rate smoothing policy, and to adopt a policy of smoothing increases over the term of the Supply Project. This results in implementing higher rate increases for 2027 and 2028, which also mitigates various cost and project risks. For the 2027-2028 biennium, annual increases of at least 9.5% are recommended.

Increases of 10.0% would provide greater conservatism in case of higher inflation, other escalating costs, or other adverse conditions. It would also provide increased smoothing of discrete increments in costs in terms of cost per CCF. For example, a 10% increase in 2027 would increase the cost per CCF by roughly $0.35, while the average increase projected through 2040 is $0.50 per year. Higher initial increases would help smooth the year-by-year cost increases on a dollar basis and lower the ultimate cumulative increase. In addition, such actions contribute to financial integrity that can affect bond ratings and related cost of new debt.

Both the 9.5% and 10% options are consistent with the existing long-term needs, increase early cash formation, and would reduce the ultimate debt and rate burden. The higher initial increase provides greater future flexibility in the case of adverse developments and further improves long-term rate outcomes under all scenarios. With rates projected to increase by a cumulative total of +200% by 2040, neither option risks over-reaching with respect to rate levels.

E. RCFC Levels and Uses

The RCFC is imposed on new system connections. It provides a source of capital funding as well as equitably charging for access to the existing system. It is important for providing equity between existing and new customers as well as providing an important source of capital funding.

Recent updates to Supply Project costs have increased the calculated RCFC under the adopted RCFC methodology. The Recommended Funding Strategy's RCFC calculation shows an increase of roughly $1,800 in 2027, with another $4,800 in further increases by 2030. By comparison, if the High-Cost scenario proves more accurate, the RCFC would increase an additional $1,200 beyond that, to reflect the higher costs.

It is recommended that the RCFC for the 2027-2028 be based on the adopted RCFC methodology[2] using best available cost projections, with the findings phased in for any amount

[2] CWAC 5.25 Regional Capital Facilities Charge Methodology

over a 20 percent per year increase to avoid extreme impacts. In updating the RCFC, the most probable cost projection should be used to develop the RCFC schedule, rather than the high-end of the cost projection range, to ensure the defensibility of the RCFC methodology. Under this approach and using the lower end of existing cost projections, the RCFC would be $10,622 for 2027 and $12,747 for 2028. Further planning and pre-design will refine both Phase I and long-term supply costs, which should then be reflected in future RCFC adjustments.

F. Size and Timing of Bond Market Access

Initial forecasts and plans suggested that debt financing was necessary by late 2029 or 2030. However, adjustment to Supply Project expenditure schedules to move some expenditures forward, along with reduced growth that has reduced RCFC revenues, has led to an expectation that borrowing will be needed by 2027.

The financial model simply issues debt annually when needed. To minimize issuance costs and to provide adequate funds for longer periods, less frequent and larger bond issues are more practical. There are limits to advance funding based on bond conditions, which generally require expenditure of the funds within 3 years of borrowing.

Costs in initial years are focused on facility planning and design, with some costs for property acquisition. An initial $60 bond issuance is recommended to provide needed funding for the near-term capital program, which totals $68 million in 2027 and 2028. In addition, there may be opportunities for refunding existing bonds or prepaying the Tacoma system development charge as cost-saving measures. In such case, a bond issue of up to $110 million may be contemplated. The additional borrowing would be considered only if interest rates were such that it would reduce Cascade's overall costs net of the additional borrowing costs. For this initial issue, a level debt service structure with a 30-year term is recommended.

After the initial issue, bonds will likely be needed again around 2030 and periodically thereafter. Timing and sizing will be highly dependent on success in gaining WIFIA loan assistance and the way those funds are drawn for use. Future revenue bond issues could total on the order of $650 million if a WIFIA loan is secured or over $1.5 billion if loan assistance is not obtained. Subsequent bond issues can be structured to complement existing debt service as appropriate. Consultation with Cascade's financial (bond) advisor will be important for planning the initial and ongoing debt strategy.

It is worth noting that the bundling of bond issues accelerates debt service demands on rates, either reducing rate funding toward the project or increasing rate increases temporarily. The analysis shows a net increase in total debt issued due to prudent bundling of bond issues.

G. Compliance with Fiscal Policies

Based on analysis to date, all scenarios as presented comply with fiscal policies. The most sensitive policy relates to total debt burden, and even adverse scenarios remain compliant with the 80% limit on debt leveraging. To accomplish this, it is noteworthy that 2027-2028 rate increases need to be higher than shown in past forecasts, in part to support initial debt issuance and in part due to the reduced forecast for RCFC revenues. Forecasts also confirm that fiscal policies can continue to be satisfied beyond 2040 as other Cascade Supply Program phases are undertaken.

H. Schedule of Funding Activities

For the Recommended Funding Strategy, outcomes are contingent on success in accessing assistance programs and the timing of assistance received. The schedule of funding activities is structured so that initial steps are not dependent on immediate availability of funds, and later steps could be modified based on relative success.

Key Funding activities are summarized by year below, with a complete Schedule of Project Funding Sources by Year in **Appendix A**. This schedule relies on Cascade's success in pursuing assistance and commitment to rate and financing decisions needed to enable it and will be subject to substantial change as the Supply Project is developed.

- 2026: $60.0M in Revenue Bonds
- 2029: $5.0M in Grants
- 2030: $10.0M in State Loans and $147.0M in Revenue Bonds
- 2032: $5.0M in Grants
- 2033: $104.0M in Revenue Bonds
- 2034: $10.0M in State Loans
- 2035: $10.0M in Partner Cost-Sharing
- 2036: $236.0M in Revenue Bonds
- 2039: $115.0M in Revenue Bonds
- 2033-2038: $850.0M from WIFIA

As noted, the first funding action is a revenue bond issue on the order of $60 million proposed for 2026. Given current market trends and a goal that funding remain adequate to meet cash flow needs, Cascade should initiate a bond offering in 2026 and be prepared to take advantage of market conditions in late 2026 or early 2027, with specific sizing to be based on market conditions.

With the initial bond issue providing funds for early Supply Project outlays, use of the WSDF and other cash resources can be deferred, providing resources for cash flow management and some schedule flexibility for future debt issuances.

Cascade should also initiate loan applications for state loan programs, taking advantage of each biennial cycle to try to maximize this resource. State programs have pre-construction options that could assist in initial planning and design funding while also establishing project viability and perhaps improving access to later construction loans. State loans should be maximized as a funding source. Similarly, the federal WATERSmart program has pre-construction loans available.

Cascade may also wish to initiate pursuit of grant appropriations at state and federal levels. Potential regional aspects of the transmission system, which potentially links four watersheds through interconnection, may provide a compelling basis for significant grant assistance during both planning and Supply Project development.

Finally, Cascade should pursue a WIFIA funding commitment as soon as reasonably possible. While the schedule above does not access WIFIA funds until 2033, they could be used earlier in lieu of revenue bond issuance if advantageous. Once a WIFIA package is secured, a more

thorough analysis of options for use of WIFIA in conjunction with cash and other debt resources should be developed.

I. Recommended Rate Increases

With this upcoming $60M bond issue, rate increases of at least 9.5% per year are needed for the 2027-2028 period to meet debt and financial obligations. It is recommended that annual increases of at least this amount be adopted for 2027-2028 to enhance funding capacity and flexibility. This level of increase is consistent with the average increases needed in a successful program, while also providing some cushion against adverse project development. Consideration should be given to annual increases of 10.0% for 2027-2028, which would help mitigate various project and economic risks. The recommended annual increases associated with the recommended funding structure and schedule are shown in **Exhibit 7-7**. As shown, these are dependent on success in securing funding assistance.

EXHIBIT 7-7. ANNUAL RATE INCREASES FOR RECOMMENDED FUNDING STRATEGY

J. Member Roles and Responsibilities

Cascade Members play an important role in support of bond issuance, with disclosure requirements extending beyond Cascade to its individual members. Through Board representation, Members also control, direct and approve Supply Project funding decisions including debt issuance.

There are two important features related to Member support of Cascade's financial obligations. First, Cascade's financial structure obligates Members through "step-up" provisions to ensure payment of Cascade obligations. In the event of non-payment by any member, remaining members are required to fund the shortfall and satisfy related obligations. Second, Member payments to Cascade are treated as operating expenses, and as such are senior to Member debt obligations. As it relates to Cascade debt, this essentially means that Cascade debt is senior to the Member's own bonds, loans or other debt obligations and is on par with Members' other operating expenses as a first call on available revenues and funds.

8.0 Areas for Policy Influence

The scenarios evaluated in previous sections are not intended to represent the full range of possible outcomes, but rather to demonstrate a reasonable range of potential outcomes to inform decision-making about how to manage the uncertainty that these scenarios demonstrate. This section discusses the policy and rate strategy options available.

A. Policy for Funding Assistance

Successful state and federal funding assistance is the single greatest factor in determining the financial outcomes of the Supply Project for Cascade. As a result, any policy actions that will further Cascade's ability to successfully receive funding assistance, particularly WIFIA, are among the highest policy priorities. Support for WIFIA and state loan programs should be prioritized in Cascade's legislative agenda.

Even so, risk is best managed by a rate path that does not wholly rely on the success of these efforts. The recommended near-term decisions are chosen to be consistent with long-term needs regardless of success in this arena.

B. Policy for Cost Risk

As described in **Section 1.0**, Cascade Code requires that a Funding Plan include a contingent strategy if costs were to increase by 20 percent or if grant funding were lost. The range of scenarios evaluated reflect the cost risk that exists at this early stage of the Supply Project, in recognition that projects of this scale are exposed to a cost risk on many different avenues, such as changes in scope, high inflation, tariffs, and more. Scenarios evaluated reflect costs at the low end of the projected cost range, high end of the projected cost range, and 20 percent over the high end of the projected cost range. The Code does not require that the Board adopt rates that meet that 20 percent cost increase scenario; the decision of the risk tolerance of the Board for cost risk is a matter of policy for the Board to decide.

A more conservative or risk averse policy position results in a rate strategy that raises rates earlier to be able to mitigate the risk of an adverse cost outcome, which otherwise would produce a larger rate spike later. Taking a more conservative policy position on cost risk does not mean supporting a higher project cost, rather it preserves flexibility for rate strategy in case of adverse outcomes in the future.

Taking a less conservative policy position would result in a rates strategy with a lower rate path in the near term. If no adverse outcome occurs, then overall rates would be expected to follow the paths shown in the more optimistic scenarios. If costs do increase beyond the lower range of the cost projection however, then outcomes like those shown in the higher cost scenarios could occur where there is insufficient time to smooth rate increases out, and double-digit increases occur for an extended period.

C. Policy for Rate Smoothing

As discussed in **Section 2.0**, Cascade fiscal policies call for smoothing rates over a five-year period. This policy has provided gradual and reliable rates to Cascade's Members. However, given that the duration of the Water Supply Project is significantly longer than this, there is the option to consider smoothing rates over a longer period of time, such as the full period of the

Supply Project. A longer rate smoothing period implicitly means higher rates earlier than is necessary to meet the short-term revenue requirements, but by the same token means lower cumulative rate increases over the term of the Supply Project, and greater flexibility to manage uncertainty in outcomes in the future.

To some degree, the debt leverage policy forces this longer-term rate path for an extended project period. Lower initial rate increases diminish cash funding, increase subsequent increases, and increase the ultimate rate upon project completion.

A Board policy to make early rate decisions in the context of the entire Supply Project timeline will also help support Cascade's high bond rating by demonstrating financial commitment to project completion within a stable financial structure. This helps reduce borrowing costs and overall project rate impacts.

9.0 Adaptability of the Capital Funding Strategy

The Funding Plan reflects knowledge and status at the time of its development. As conditions change, the Plan will need to be updated. At the same time, it is intended to anticipate and adapt to changing conditions related to cost, schedule, and funding. For this reason, the Plan adopts a conservative approach to rates and capital funding that provides flexibility as conditions change. In general, this means establishing funding and rate actions that could exceed immediate minimum requirements, while not so aggressive that they exceed reasonably anticipated funding needs.

A. Adaptable Funding and Rate Strategies

Features of a flexible and adaptable strategy include:

- Rate increases consistent with longer term trends but perhaps greater than immediate needs. Such actions improve financial condition and overall funding capacity while also improving longer-term rate outcomes.
- Funding decisions intended to meet longer term Supply Project financing needs and based on assumed success in securing state and federal funding assistance. In particular, revenue bond issues should be based on multi-year project needs, potentially holding cash and assistance resources in reserve. While this imposes earlier debt service obligations, it remains consistent with the role of revenue bonds as a major funding source and provides greater flexibility as the Supply Project evolves.
- Updates upon reaching major Supply Project and financial milestones or to reflect changing conditions for cost trends, interest rates, Cascade growth, and other significant factors.

B. Anticipated Milestones for Future Updates

The Funding Plan should be updated whenever major changes occur related to the Supply Project and Cascade financial trends. Initial updates may be frequent as project development accelerates. Following this, the Plan may be more durable for longer periods and require fewer updates.

At a minimum, the Plan will be updated at each biennial budget cycle concurrent with adoption of Budget, Member Charges, RCFCs and Capital Improvement Plan.

Additional triggers for funding plan updates may include:

- Material completion of detailed Supply Project planning and updates of cost and schedule
- Substantive changes to other (non-project) Cascade costs and revenues
- Bond issuance
- Completion of the next Cascade Water System Plan
- Securing or failing to secure significant funding assistance (most significantly WIFIA)
- Significant changes in Cascade membership

- Other events or needs as directed by the Board

Completion of the budget process in 2026 is the first logical trigger for adoption of the Plan, which would include adopted rates and RCFCs for the 2027-2028 biennium. It would also include or reflect completed or planned bond issues to support Cascade's capital improvement needs.

10.0Board Oversight and Monitoring

The Cascade Board will be overseeing and monitoring the Supply Project via regular committee and Board updates, reviews, and decisions. The Funding Plan fits into this review process as an important element of project execution. The Board should direct the appropriate venues for reporting in terms of assigning committees and designating the frequency and content of full Board updates.

The Board has a further important role in supporting, promoting, and leading efforts to secure funding assistance. This will occur at the federal and state levels regarding existing programs and direct grant opportunities and at the regional level regarding potential partnership and regional features of the Cascade Supply Program. The policy guidance and leadership of the Board will support the success of the Program and its related financial outcomes.

Finally, the Board will continue to be explicitly responsible for major financial decisions including:

- Adoption of the Capital Funding Plan and future updates.
- Approval and adoption of budgets, capital improvement plans, member charges (rates) and RCFCs.
- Authorization to issue revenue bonds and acceptance of bond terms and conditions.
- Authorization to apply for federal and state grants and loans and acceptance of related terms and conditions.