

DATE: April 3, 2025

TO: Environmental Services Commission

FROM: Lucy Liu, Utilities Director
Scott Edwards, Utilities Deputy Director

SUBJECT: **2024 Financial Performance Report – Water, Sewer, Storm & Surface Water, and Solid Waste Utility Funds**

ACTION REQUIRED

No action by the Commission is required. This is an informational briefing.

BACKGROUND / ANALYSIS

The purpose of this briefing is to provide the Commission with a summary of the 2024 financial performance for the Water, Sewer, Storm and Surface Water, and Solid Waste utility funds. All four utilities remain self-supporting and fiscally sound. The Water, Sewer, and Solid Waste funds ended 2024 with positive net cash flows due to higher-than-expected revenues. The Storm and Surface Water Fund ended 2024 with a negative net cash flow (-\$1.3 million) primarily due to consulting services to support the new billing system implementation, higher-than-expected repair and maintenance activity, and capital outlay expenses.

Consistent with the City's Comprehensive Financial Policies, operating fund balances above target reserve levels at the end of the biennium in 2024 were transferred to the utility renewal and replacement (R&R) reserve for future capital reinvestment needs. The following tables summarize 2024 financial performance for each utility fund.

Table 1. 2024 Utility Operating Fund Financial Performance (\$000)

	Water	Sewer	Stormwater	Solid Waste
Beginning Fund Balance	\$21,564	\$13,874	\$8,613	\$3,762
Revenues	80,861	85,259	31,863	1,281
Expenditures	79,363	77,290	33,172	1,016
Operating Reserve Transfer	4,385	5,136	0	0
Ending Fund Balance	\$18,677	\$16,707	\$7,304	\$4,027

Table 2. 2024 Utility Renewal & Replacement Reserve (\$000)

	Water	Sewer	Stormwater
Target Minimum Fund Balance	\$65,560	\$40,000	\$17,088
Ending Fund Balance	\$71,765	\$163,052	\$116,547

Differences may exist due to rounding.

WATER UTILITY

The Water Utility finished 2024 with a positive net cash flow. The following table summarizes the utility's financial performance. Revenues exceeded budget largely due to strong commercial class water sales and conservative revenue budgeting following the pandemic. Expenditures, exclusive of the transfer of excess operating fund balance to the capital R&R reserve, were higher-than-budgeted levels primarily due to higher

taxes resulting from the higher-than-expected revenues, consulting services to support the new billing system implementation, and capital outlay that was delayed from 2023. These higher-than-budgeted expenses were partially offset by vacancy savings and lower-than-expected RCFC pass-through expenses to Cascade Water Alliance.

Table 3: Water Utility Fund 2024 Year End Results (\$000)

	Budget	Year End Actuals	Variance Over/(Under) Budget	% Collected or Spent
Beginning Fund Balance	\$15,804	\$21,564	\$5,760	136.4%
Revenues				
Service Revenue	\$71,730	\$73,242	\$1,512	102.1%
Interfund Water Services	86	86	0	100.0%
Interest Income	235	885	649	375.7%
RCFCs	2,379	1,431	(948)	60.2%
Developer Fees	893	749	(144)	83.8%
Fire Flow Capacity Revenue	3,519	4,044	525	114.9%
Other	682	425	(257)	62.3%
Total	\$79,525	\$80,861	\$1,336	101.7%
Expenses				
Wholesale	\$23,640	\$23,640	\$0	100.0%
Personnel	9,377	9,059	(318)	96.6%
Transfer to CIP/R&R	24,828	29,213	4,385	117.7%
Capital Outlay	42	354	312	848.4%
Taxes	10,332	11,575	1,243	112.0%
RCFCs	2,379	1,543	(836)	64.9%
Interfunds	3,992	3,995	3	100.1%
Professional Services	1,007	1,524	517	151.4%
M&O	2,733	2,847	114	104.2%
Total	\$78,329	\$83,748	\$5,419	106.9%
Ending Fund Balance	\$17,000	\$18,677	\$1,677	109.9%

Differences may exist due to rounding. Expenditures are inclusive of year-end operating reserve transfers.

Revenue Highlights

The beginning Water Utility fund balance was \$5.8M or 36.4% higher-than-budgeted levels primarily due to strong water sales in the prior year. In 2024, total water operating revenues were \$1.3M or 1.7% above budgeted levels. This was primarily driven by the following:

- **Water Service** revenue exceeded budgeted levels by \$1.5M. Commercial water sales continue to recover following the COVID-19 pandemic, with 2024 volume almost returning to 2019 levels. Irrigation and residential water sales were lower in 2024 due in part to a ten-year record low in summer temperatures. Annual changes in water demand are dependent upon a combination of

factors including weather conditions, general economic conditions, and ongoing conservation as a result of stricter plumbing code requirements and more water-efficient fixtures and appliances. These factors vary from year to year and as a result, Utilities staff develops its water sales revenue budget based on reasonable and conservative assumptions.

Expenditure Highlights

In 2024, total Water operating expenditures included a \$4.4M transfer of excess operating fund balance to the utility capital R&R reserve. Exclusive of this transfer, operating expenditures were \$1.0M or 1.3% above budgeted levels primarily driven by the following:

- **Tax** expenses were \$1.2M above budget due to higher than anticipated revenues, as discussed in the section above. Revenue-driven taxes correlate directly with revenue levels with the exception of irrigation service revenue, which is exempt from state public utility taxes.
- **Professional Services** expenses were \$0.5M above budget due to consulting services to support the implementation of the new billing system.
- **Capital Outlay** expenses were \$0.3M above budget due to capital asset purchases (e.g., vehicles) that were delayed from 2023 due to availability.
- **Personnel** expenses were \$0.3M below budget, reflecting staffing vacancy savings from open positions.
- **RCFC** pass-through expenses to Cascade Water Alliance were \$0.8M below budget. RCFCs are assessed on permits for new connections, which generally ebb and flow in response to development activity. The total count of RCFCs in 2024 (72) was significantly lower than the previous three years (143 in 2021, 149 in 2022, and 120 in 2023).

SEWER UTILITY

The Sewer Utility finished 2024 with a positive net cash flow. The following table summarizes the utility’s financial performance. Revenues exceeded budget due to strong commercial water sales and the resulting sewer usage. Expenditures, exclusive of the transfer of excess operating fund balance to the capital R&R reserve, were below budgeted levels due to a timing difference resulting from a change in the year-end accrual process for wastewater treatment costs paid to King County, vacancy savings, and delayed capital outlay expense. This was partially offset by higher taxes due to increased revenues and consulting services to support the implementation of the new billing system.

Table 4. Sewer Utility Fund 2024 Year End Results (\$000)

	Budget	Year End Actuals	Variance Over/(Under) Budget	% Collected or Spent
Beginning Fund Balance	\$9,309	\$13,874	\$4,565	149.0%
Revenues				
Service Revenue	\$80,573	\$83,612	\$3,039	103.8%
Interfund Sewer Services	139	139	-	100.0%
Interest Income	139	490	351	353.6%
Developer Fees	475	432	(43)	91.0%
Other	645	585	(60)	90.7%
Total	\$81,971	\$85,259	\$3,288	104.0%
Expenses				
King County WTD	\$42,269	\$38,809	(\$3,461)	91.8%
Personnel	7,536	7,062	(474)	93.7%
Transfer to CIP/R&R	20,388	25,523	5,136	125.2%
Capital Outlay	644	321	(323)	49.8%
Taxes	5,300	5,559	258	104.9%
Interfunds	2,737	2,644	(93)	96.6%
Professional Services	458	612	154	133.5%
M&O	1,943	1,897	(46)	97.6%
Total	\$81,275	\$82,426	\$1,151	101.4%
Ending Fund Balance	\$10,005	\$16,707	\$6,702	167.0%

Differences may exist due to rounding. Expenditures are inclusive of year-end operating reserve transfers.

Revenue Highlights

The beginning Sewer Utility fund balance was \$4.6M or about 49.0% higher than budgeted levels, primarily due to wastewater flows from strong water sales in 2023. In 2024 sewer revenues were \$3.3M or 4.0% above budgeted levels. This is primarily driven by the following:

- **Sewer Service** revenues exceeded budgeted levels by \$3.0M due to wastewater flows from higher than anticipated commercial water sales. Commercial and multi-family residential sewer customers are billed for sewer services based on metered water demand, so strong water sales translate directly to strong sewer sales for these two classes of customers.

Expenditure Highlights

In 2024, total sewer operating expenditures included a \$5.1M transfer of excess operating fund balance to the utility capital R&R reserve. Exclusive of this transfer, operating expenditures were \$4.0M or 4.9% below budget primarily due to the following:

- **Wastewater Treatment** expenses were \$3.5M **below** budget due to a change in the year-end accrual process of wastewater treatment costs paid to King County, which resulted in 11 months of treatment costs being incurred in 2024. This was offset within the 2023-2024 biennium by an accrual made in the previous year, which resulted in 13 months of treatment costs being incurred in 2023.

- **Personnel** expenses were \$0.5M below budget, reflecting staffing vacancy savings from open positions.
- **Capital Outlay** expenses were \$0.3M below budget due to delays in asset replacements.
- **Tax** expenses were \$0.3M above budget due to higher than anticipated revenues, as discussed in the section above. Revenue-driven taxes correlate directly with revenue levels.

STORM AND SURFACE WATER UTILITY

The Storm and Surface Water Utility finished 2024 with a negative net cash flow. However, the Utility remains self-supporting, fiscally sound, and with financial reserve levels that are adequate to meet operating working capital needs. The following table summarizes the utility's financial performance. The utility relies almost exclusively on revenues derived from stormwater bills, which were in line with the budget. Due to the storm and surface water rate structure, the revenue of this utility is relatively stable and does not fluctuate with weather or economic conditions. Expenditures were higher-than-budgeted levels due to consulting services to support the implementation of the new billing system, higher-than-expected repair and maintenance activities, and capital outlay that were delayed from 2023. This was partially offset by vacancy savings. The 2025-2026 budget right sizes Stormwater's repair and maintenance budget to align with recent trends.

Table 5. Storm and Surface Water Utility Fund 2024 Year End Results (\$000)

	Budget	Year End Actuals	Variance Over/(Under) Budget	% Collected or Spent
Beginning Fund Balance	\$7,134	\$8,613	\$1,479	120.7%
Revenues				
Service Revenue	\$31,212	\$31,160	(\$52)	99.8%
Interfund Storm Services	30	30	0	100.0%
Interest Income	105	179	74	170.2%
Developer Fees	680	465	(216)	68.3%
Other	130	29	(101)	22.2%
Total	\$32,157	\$31,863	(\$294)	99.1%
Expenses				
Personnel	\$7,157	\$7,054	(\$103)	98.6%
Transfer to CIP/R&R	16,535	16,535	0	100.0%
Capital Outlay	68	661	593	979.1%
Taxes	2,115	2,044	(71)	96.6%
Interfunds	2,886	2,935	48	101.7%
Professional Services	1,016	1,820	804	179.1%
M&O	1,778	2,123	345	119.4%
Total	\$31,555	\$33,172	\$1,617	105.1%
Ending Fund Balance	\$7,736	\$7,304	(\$432)	94.4%

Differences may exist due to rounding.

Revenue Highlights

The beginning Storm and Surface Water Utility fund balance was \$1.5M or about 20.7% higher-than-budgeted levels due to operational savings and delayed capital outlay purchases (e.g., vehicles) in 2023. Storm and surface water total revenues in 2024 were in-line with budgeted levels.

Expenditure Highlights

In 2024, total storm and surface water operating expenditures were \$1.6M or 5.1% above budget primarily driven by the following:

- **Professional Services** expenses were \$0.8M above budget due to consulting services to support the implementation of the new billing system and higher-than-expected repair and maintenance activity.
- **Capital Outlay** expenses were \$0.6M above budget due to capital outlay purchases (e.g., vehicles) that were delayed from 2023 due to availability.
- **Personnel** expenses were \$0.1M below budget, reflecting staffing vacancy savings from open positions.

SOLID WASTE UTILITY FUND

The Solid Waste Utility finished 2024 with a positive net cash flow. The following table summarizes the utility's financial performance. Operating revenues were higher-than-budgeted levels due to unearned performance incentive bonuses returned to the City by the solid waste collection vendor. Expenditures were lower than budgeted levels due to a combination of vacancy and other operational savings.

Table 6. Solid Waste Utility Fund 2024 Year End Results (\$000)

	Budget	Year End Actuals	Variance Over/(Under) Budget	% Collected or Spent
Beginning Fund Balance	\$2,827	\$3,762	\$935	133.1%
Revenues				
Admin/Recycling	\$904	\$906	\$2	100.2%
Interest Income	8	134	126	1643.0%
Other	18	242	223	1310.9%
Total	\$931	\$1,281	\$351	137.7%
Expenses				
Personnel	\$222	\$212	(\$10)	95.5%
Interfunds	592	656	64	110.8%
M&O	287	148	(139)	51.6%
Total	\$1,102	\$1,016	(\$86)	92.2%
Ending Fund Balance	\$2,656	\$4,027	\$1,371	151.6%

Differences may exist due to rounding.

Revenue Highlights

The Solid Waste Utility beginning fund balance was \$0.9M or about 33.1% above budget primarily due to payments to the City from the solid waste collection vendor for unearned performance incentive bonuses for not meeting recycling and contract performance expectations in prior years. Total 2024 revenues were \$0.4M above budgeted levels largely due to similar reasons. As a practice, Utilities staff does not budget revenue for unearned performance incentive bonus.

Expenditure Highlights

Expenditures were \$0.1M or 7.8% below budget primarily due to vacancy and other operational savings.

FINANCIAL OUTLOOK

Utilities is well-positioned to continue building upon the financial strength of the Water, Sewer, Storm and Surface Water, and Solid Waste funds in 2025. That said, the below preliminary outlook reflects known areas of opportunity and risk that may impact our financial performance going forward.

Opportunities

The following are anticipated to contribute favorably to Utilities' financial performance.

- **Right-sizing adjustments** that were made for the 2025-2026 budget will help to ensure that operating budgets, particularly for Storm and Surface Water repair and maintenance activities, will better align with historical actuals and anticipated expenditures.
- **Adopted rate adjustments** that went into effect on January 1, 2025, coupled with rate adjustments to become effective January 1, 2026, will drive increases in service revenues to cover the planned operational needs of each utility.

Risks

The following may contribute unfavorably to Utilities' financial performance.

- **Higher than anticipated inflationary costs**, influenced by the external regulatory environment.
- **Sewer treatment costs** are forecasted to be higher than budgeted in 2026 and beyond based on the latest financial projections provided by King County.

Consistent with past practice and city financial policies, Utilities staff will monitor financial performance throughout the year and provide timely updates to the ESC if action is needed to mitigate adverse financial impacts.