



DATE: May 4, 2023

TO: Environmental Services Commission

FROM: Nav Ota, Utilities Director
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SUBJECT: **2022 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 a summary of the 2022 financial performance for the Water, Sewer, Storm & Surface Water, and Solid Waste utility funds. All four utilities ended 2022 in positive financial condition with operating revenues sufficient to meet operating expenses, and fund balances above expectations.

All four utility funds are well positioned entering 2023 to meet adopted 2023 financial obligations. The following table summarizes the 2022 financial performance for each utility fund.

Table 1. 2022 Utility Operating Fund Financial Performance (\$000)

	Water	Sewer	Stormwater	Solid Waste
Beginning Fund Balance	\$18,756	\$12,277	\$8,503	\$3,113
Revenues	74,193	74,395	29,198	1,412
Expenditures	70,893	73,059	29,210	1,135
Ending Fund Balance	\$22,056	\$13,614	\$8,491	\$3,390

Differences may exist due to rounding.

Consistent with Utilities financial policies, operating reserves above fund target levels at the end of the biennium in 2022 are transferred to the utility capital renewal and replacement (R&R) account for future infrastructure needs. The 2022 transfer to R&R, as a result of the positive net financial performance, is detailed in the following sections.

The remainder of this report presents the performance of each fund in more detail.

WATER UTILITY

The Water Utility finished 2022 in positive financial condition. The following table summarizes the utility's financial performance. Revenues exceeded budget largely due to strong water sales and conservative revenue budgeting during the pandemic. Expenditures were higher than budgeted levels due to higher taxes, resulting from the higher-than-expected revenues. This was partially offset by vacancy savings. Operating fund balance above planned levels has been transferred to the capital facilities R&R account.

Table 2: Water Utility Fund 2022 Year End Results (\$000)

	Budget	Year End Actuals	Variance Over/(Under) Budget	% Collected or Spent
Beginning Fund Balance	\$15,668	\$18,756	\$3,088	119.7%
Revenues				
Service Revenue	\$59,598	\$66,076	\$6,479	110.9%
Interfund Water Services	325	325	0	100.0%
Interest Income	328	205	(123)	62.5%
RCFCs	2,306	2,620	314	113.6%
Developer Fees	933	720	(213)	77.1%
Fire Flow Capacity Revenue	3,116	3,558	442	114.2%
Other	306	689	384	225.6%
Total	\$66,912	\$74,193	\$7,282	110.9%
Expenses				
Wholesale	\$22,359	\$22,359	\$0	100.0%
Personnel	8,940	8,453	(488)	94.5%
Transfer to CIP/R&R	18,000	19,900	1,900	110.6%
Capital Outlay	41	49	8	121.4%
Taxes	8,851	10,949	2,098	123.7%
RCFCs	2,336	2,552	216	109.2%
Interfunds	3,456	3,539	83	102.4%
Professional Services	1,079	687	(393)	63.6%
M&O	2,340	2,405	65	102.8%
Total	\$67,402	\$70,893	\$3,491	105.2%
Ending Fund Balance	\$15,178	\$22,056	\$6,879	145.3%

Differences may exist due to rounding.

Revenue Highlights

The beginning Water Utility fund balance was \$3.1M or 19.7% higher than budgeted levels primarily due to strong water sales in the prior year. In 2022, total water operating revenues were \$7.3M or 10.9% above budgeted levels. This is primarily driven by the following:

- **Water Service** revenues exceeded budgeted levels by \$6.5M. The 2022 budgeted water revenues were conservatively forecasted in 2020 based on anticipated customer behavior during the pandemic. Better than forecasted economic activity in 2022 contributed to higher than budgeted water sales. Water demand is 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, actual water service revenues will vary relative to budget in any given year.

Expenditure Highlights

In 2022, total water operating expenditures were \$3.5M or 5.2% above budgeted levels. This includes \$1.9M of operating reserves above fund target levels that were transferred to the R&R account. The remaining \$1.6M or 2.4% of expenditures above budgeted levels are primarily driven by the following:

- **Tax** expenses were \$2.1M above budget due to higher than anticipated revenues, as discussed in the section above. Revenue-driven taxes correlate directly with revenue levels.
- **Personnel** expenses were \$0.5M below budget, reflecting staffing vacancy savings from open positions.

SEWER UTILITY

The Sewer Utility finished 2022 in positive financial condition. The following table summarizes the utility’s financial performance. Revenues exceeded budget due to strong water sales and resulting sewer usage. Expenditures were below budgeted levels (exclusive of the transfer to R&R) due to vacancy savings. This was offset by higher taxes due to higher-than-expected revenues. Operating fund balance above planned levels has been transferred to the capital facilities R&R account.

Table 3. Sewer Utility Fund 2022 Year End Results (\$000)

	Budget	Year End Actuals	Variance Over/(Under) Budget	% Collected or Spent
Beginning Fund Balance	\$8,222	\$12,277	\$4,055	149.3%
Revenues				
Service Revenue	\$67,991	\$73,103	\$5,112	107.5%
Interfund Sewer Services	139	139	0	100.0%
Interest Income	117	187	70	159.2%
Developer Fees	531	409	(122)	76.9%
Other	273	557	284	204.3%
Total	\$69,051	\$74,395	\$5,344	107.7%
Expenses				
King County WTD	\$37,760	\$37,926	\$166	100.4%
Personnel	6,527	5,857	(670)	89.7%
Transfer to CIP/R&R	14,526	19,626	5,100	135.1%
Capital Outlay	0	18	18	100.0%
Taxes	4,552	5,041	489	110.7%
Interfunds	2,543	2,543	0	100.0%
Professional Services	413	454	41	109.9%
M&O	1,667	1,594	(73)	95.6%
Total	\$67,988	\$73,059	\$5,071	107.5%
Ending Fund Balance	\$9,285	\$13,614	\$4,328	146.6%

Differences may exist due to rounding.

Revenue Highlights

The beginning Sewer Utility fund balance was \$4.1M or about 49.3% higher than budgeted levels, primarily due to wastewater flows from strong water sales in 2021. In 2022 sewer revenues were \$5.3M or 7.7% above budgeted levels. This is primarily driven by the following:

- **Sewer Service** revenues exceeded budgeted levels by \$5.1M due to wastewater flows from higher than anticipated water consumption.

Expenditure Highlights

In 2022, total sewer operating expenditures were \$5.1M or 7.5% above budgeted levels. This includes \$5.1M of operating reserves above fund target levels that were transferred to the R&R account. Excluding the transfer to R&R, sewer operating expenditures were close to budgeted levels, with the following key highlights:

- **Personnel** expenses were \$0.7M below budget, reflecting staffing vacancy savings from open positions.
- **Tax** expenses were \$0.5M 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 2022 in positive financial condition. The following table summarizes the utility's financial performance. Revenues met budget. Due to the storm and surface water rate structure, the revenue of the Storm and Surface Water Utility is relatively stable and does not fluctuate with weather or economic conditions. Expenditures were lower than budgeted levels (exclusive of the transfer to R&R) due to vacancy savings. Operating fund balance above planned levels has been transferred to the capital facilities R&R account.

Table 4. Storm and Surface Water Utility Fund 2022 Year End Results (\$000)

	Budget	Year End Actuals	Variance Over/(Under) Budget	% Collected or Spent
Beginning Fund Balance	\$7,173	\$8,503	\$1,330	118.5%
Revenues				
Service Revenue	\$28,136	\$28,186	\$50	100.2%
Interfund Storm Services	180	180	0	100.0%
Interest Income	35	121	86	344.2%
Developer Fees	850	583	(266)	68.7%
Other	34	128	94	376.2%
Total	\$29,235	\$29,198	(\$36)	99.9%
Expenses				
Personnel	\$6,406	\$5,155	(\$1,251)	80.5%
Transfer to CIP/R&R	15,084	16,210	1,126	107.5%
Capital Outlay	90	114	25	127.4%
Taxes	1,909	1,959	50	102.6%
Interfunds	2,730	2,735	5	100.2%
Professional Services	879	1,163	284	132.3%
M&O	1,557	1,874	317	120.3%
Total	\$28,655	\$29,210	\$555	101.9%
Ending Fund Balance	\$7,753	\$8,491	\$739	109.5%

Differences may exist due to rounding.

Revenue Highlights

The beginning Storm and Surface Water Utility fund balance was \$1.3M or about 18.5% higher than budgeted levels due to operational savings in 2021. 2022 storm and surface water revenues were close to budgeted levels.

Expenditure Highlights

In 2022, total storm and surface water operating expenditures were \$0.6M or 1.9% above budgeted levels. This includes \$1.1M of operating reserves above fund target levels that were transferred to the R&R account. Excluding the transfer to R&R, storm and surface water operating expenditures were \$0.6M below budgeted levels. This was primarily driven by:

- **Personnel** expenses were \$1.3M below budget, reflecting staffing vacancy savings from open positions.
- **Professional Services** and **Maintenance & Operations** expenses were \$0.6M above budget, due to higher-than-anticipated costs related to excavation, sampling, and transportation for sediment removal projects.

SOLID WASTE UTILITY FUND

The Solid Waste Utility finished 2022 in positive financial condition. 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 pandemic-related delays in environmental outreach activities.

Table 5. Solid Waste Utility Fund 2022 Year End Results (\$000)

	Budget	Year End Actuals	Variance Over/(Under) Budget	% Collected or Spent
Beginning Fund Balance	\$2,171	\$3,113	\$942	143.4%
Revenues				
Admin/Recycling	\$831	\$747	(\$84)	89.8%
Grant Projects	304	292	(12)	96.1%
Interest Income	45	43	(2)	95.4%
Other	17	330	313	1950.7%
Total	\$1,197	\$1,412	\$215	118.0%
Expenses				
Personnel	\$171	\$152	(\$19)	88.8%
Interfunds	603	603	0	100.0%
M&O	578	380	(198)	65.8%
Total	\$1,352	\$1,135	(\$217)	84.0%
Ending Fund Balance	\$2,015	\$3,389	\$1,374	168.2%

Differences may exist due to rounding.

Revenue Highlights

The Solid Waste Utility beginning fund balance was \$0.9M or about 43.4% over budgeted levels 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. 2022 other revenues were \$0.2M above budgeted levels largely due to similar reasons.

Expenditure Highlights

Expenditures were \$0.2M or 16.0% below budget primarily due to pandemic-related operational savings.