



DATE: April 4, 2024

TO: Environmental Services Commission

FROM: Lucy Liu, Utilities Director
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SUBJECT: **2023 Financial Performance Report – Water, Sewer, Storm & Surface Water, and Solid Waste Utility Funds**

BACKGROUND

The purpose of this informational briefing is to provide the Commission a summary of the 2023 financial performance for the Water, Sewer, Storm & Surface Water, and Solid Waste utility funds. All four utilities ended 2023 in positive financial condition with operating revenues sufficient to meet operating expenses, and fund balances above expectations.

KEY FINDINGS

All four utility funds are well positioned entering 2024 to meet adopted 2024 financial obligations. The following table summarizes the 2023 financial performance for each utility fund.

Table 1. 2023 Utility Operating Fund Financial Performance (\$000)

	Water	Sewer	Stormwater	Solid Waste
Beginning Fund Balance	\$22,056	\$13,614	\$8,491	\$3,389
Revenues	78,874	78,990	30,615	1,289
Expenditures	79,366	78,730	30,493	916
Ending Fund Balance	\$21,564	\$13,874	\$8,613	\$3,762

Differences may exist due to rounding.

Consistent with Utilities financial policies, operating reserves above fund target levels at the end of the biennium in 2024 will be transferred to the utility capital renewal and replacement (R&R) account for future infrastructure needs. No transfer was made at the mid-biennium in 2023.

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

WATER UTILITY

The Water Utility finished 2023 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 following the pandemic. Expenditures were higher than budgeted levels due to settlement costs and higher taxes resulting from the higher-than-expected revenues. This was partially offset by vacancy savings and delayed capital outlay expense.

Table 2: Water Utility Fund 2023 Year End Results (\$000)

	Budget	Year End Actuals	Variance Over/(Under) Budget	% Collected or Spent
Beginning Fund Balance	\$15,669	\$22,056	\$6,387	140.8%
Revenues				
Service Revenue	\$68,476	\$71,499	\$3,023	104.4%
Interfund Water Services	83	83	0	100.0%
Interest Income	235	692	457	294.5%
RCFCs	2,305	1,395	(910)	60.5%
Developer Fees	893	592	(301)	66.3%
Fire Flow Capacity Revenue	3,325	3,837	512	115.4%
Other	630	776	146	123.2%
Total	\$75,947	\$78,874	\$2,927	103.9%
Expenses				
Wholesale	\$23,103	\$23,103	\$0	100.0%
Personnel	9,129	8,605	(524)	94.3%
Transfer to CIP/R&R	22,345	22,345	0	100.0%
Capital Outlay	1,733	606	(1,127)	35.0%
Taxes	9,807	11,276	1,469	115.0%
RCFCs	2,305	1,473	(832)	63.9%
Interfunds	3,650	8,145	4,495	223.2%
Professional Services	1,053	1,388	335	131.8%
M&O	2,687	2,425	(262)	90.2%
Total	\$75,812	\$79,366	\$3,554	104.7%
Ending Fund Balance	\$15,804	\$21,564	\$5,760	136.4%

Differences may exist due to rounding.

Revenue Highlights

The beginning Water Utility fund balance was \$6.4M or 40.8% higher than budgeted levels primarily due to strong water sales in the prior year. In 2023, total water operating revenues were \$2.9M or 3.9% above budgeted levels. This was primarily driven by the following:

- **Water Service** revenues exceeded budgeted levels by \$3.0M. Better than forecasted economic activity in 2023 and warmer, dryer weather 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 2023, total water operating expenditures were \$3.6M or 4.7% above budgeted levels primarily driven by the following:

- **Interfund** expenses were \$4.5M above budget due to unanticipated legal settlement costs.
- **Tax** expenses were \$1.5M above budget, which is due, in part, to higher than anticipated revenues, as discussed in the previous section. Revenue-driven taxes correlate directly with revenue levels. Utilities will continue to evaluate its forecasting methodology to ensure alignment with actual expenditures going forward.
- **Capital Outlay** expenses were \$1.1M below budget due to delays in vehicle replacement purchases.
- **Personnel** expenses were \$0.5M below budget, reflecting staffing vacancy savings from open positions.

SEWER UTILITY

The Sewer Utility finished 2023 in positive financial condition. The following table summarizes the utility's financial performance. Revenues exceeded budget due to strong water sales and the resulting sewer usage. Expenditures were above budgeted levels due to increased wastewater treatment costs from increased wastewater flows and higher taxes due to increased revenues. This was partially offset by vacancy savings and delayed capital outlay expense.

Table 3. Sewer Utility Fund 2023 Year End Results (\$000)

	Budget	Year End Actuals	Variance Over/(Under) Budget	% Collected or Spent
Beginning Fund Balance	\$9,792	\$13,614	\$3,822	139.0%
Revenues				
Service Revenue	\$75,406	\$77,360	\$1,954	102.6%
Interfund Sewer Services	134	134	0	100.0%
Interest Income	147	487	340	331.3%
Developer Fees	475	378	(97)	79.6%
Other	593	631	38	106.4%
Total	\$76,755	\$78,990	\$2,235	102.9%
Expenses				
King County WTD	\$39,951	\$43,468	\$3,517	108.8%
Personnel	7,302	6,145	(1,157)	84.2%
Transfer to CIP/R&R	18,765	18,765	0	100.0%
Capital Outlay	1,141	319	(822)	28.0%
Taxes	4,953	5,074	121	102.4%
Interfunds	2,701	2,634	(67)	97.5%
Professional Services	522	570	48	109.2%
M&O	1,903	1,755	(148)	92.2%
Total	\$77,238	\$78,730	\$1,492	101.9%
Ending Fund Balance	\$9,308	\$13,874	\$4,566	149.1%

Differences may exist due to rounding.

Revenue Highlights

The beginning Sewer Utility fund balance was \$3.8M or about 39.0% higher than budgeted levels, primarily due to wastewater flows from strong water sales in 2022. In 2023 sewer revenues were \$2.2M or 2.9% above budgeted levels. This is primarily driven by the following:

- **Sewer Service** revenues exceeded budgeted levels by \$2.0M due to wastewater flows from higher than anticipated water consumption.

Expenditure Highlights

In 2023, total sewer operating expenditures were \$1.5M or 1.9% above budget primarily due to the following:

- **Waste Treatment** expenses were \$3.5M above budget due to increased wastewater flows as discussed in the previous section. Utilities will continue to evaluate its forecasting methodology to ensure alignment with actual expenditures going forward.
- **Tax** expenses were \$0.1M above budget due to higher than anticipated revenues, as noted. Revenue-driven taxes correlate directly with revenue levels.
- **Personnel** expenses were \$1.2M below budget, reflecting staffing vacancy savings from open positions.
- **Capital Outlay** expenses were \$0.8M below budget due to delays in vehicle replacements.

STORM AND SURFACE WATER UTILITY

The Storm and Surface Water Utility finished 2023 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 due to vacancy savings.

Table 4. Storm and Surface Water Utility Fund 2023 Year End Results (\$000)

	Budget	Year End Actuals	Variance Over/(Under) Budget	% Collected or Spent
Beginning Fund Balance	\$8,358	\$8,491	\$133	101.6%
Revenues				
Service Revenue	\$29,627	\$29,585	(\$42)	99.9%
Interfund Storm Services	29	29	0	100.0%
Interest Income	125	305	180	244.0%
Developer Fees	680	549	(131)	80.7%
Other	96	147	51	153.1%
Total	\$30,557	\$30,615	\$58	100.2%
Expenses				
Personnel	\$7,013	\$6,463	(\$550)	92.2%
Transfer to CIP/R&R	15,793	15,793	0	100.0%
Capital Outlay	1,129	336	(793)	29.8%
Taxes	2,008	1,943	(65)	96.8%
Interfunds	2,753	2,851	98	103.6%
Professional Services	1,333	1,380	47	103.5%
M&O	1,752	1,728	(24)	98.6%

Total	\$31,781	\$30,494	(\$1,287)	96.0%
Ending Fund Balance	\$7,134	\$8,612	\$1,478	120.7%

Differences may exist due to rounding.

Revenue Highlights

The beginning Storm and Surface Water Utility fund balance was \$0.1M or about 1.6% higher than budgeted levels due to operational savings in 2022. 2023 storm and surface water total revenues were close to budgeted levels.

Expenditure Highlights

In 2023, total storm and surface water operating expenditures were \$1.3M or 4.0% below budgeted levels primarily driven by the following:

- **Personnel** expenses were \$0.6M below budget, reflecting staffing vacancy savings from open positions.
- **Capital Outlay** expenses were \$0.8M below budget due to delays in vehicle replacements.

SOLID WASTE UTILITY FUND

The Solid Waste Utility finished 2023 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 the shifting of costs related to grant funded environmental outreach activities to the City's Grant Fund.

Table 5. Solid Waste Utility Fund 2023 Year End Results (\$000)

	Budget	Year End Actuals	Variance Over/(Under) Budget	% Collected or Spent
Beginning Fund Balance	\$2,957	\$3,389	\$432	114.6%
Revenues				
Admin/Recycling	\$872	\$863	(\$9)	99.0%
Interest Income	8	137	129	1,712.5%
Other	18	289	271	1,605.6%
Total	\$898	\$1,289	\$391	143.5%
Expenses				
Personnel	\$215	\$178	(\$37)	82.8%
Interfunds	569	569	0	100.0%
M&O	244	169	(75)	69.3%
Total	\$1,028	\$916	(\$112)	89.1%
Ending Fund Balance	\$2,827	\$3,762	\$935	133.1%

Differences may exist due to rounding.

Revenue Highlights

The key revenue stream for the Solid Waste Utility consists of administrative payments from Republic Services, the city's solid waste collection vendor.

The Solid Waste Utility beginning fund balance was \$0.4M or about 14.6% 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. Total 2023 revenues were \$0.4M above budgeted levels largely due to similar reasons.

Expenditure Highlights

Expenditures were \$0.1M or 10.8% below budget primarily due to lower grant related operational expense in the Solid Waste Utility.