

DATE: April 7, 2022

TO: Environmental Services Commission

FROM: Nav Ota, Utilities Director
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SUBJECT: **2021 Year-End Financial 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 2021 financial performance for the Water, Sewer, Storm & Surface Water, and Solid Waste utility funds. All four utilities ended 2021 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 2022 to meet adopted 2022 financial obligations. The following table summarizes the 2021 financial performance for each utility fund.

Table 1. 2021 Utility Operating Fund Financial Performance (\$000)

	Water	Sewer	Stormwater	Solid Waste
Beginning Fund Balance	\$18,704	\$12,019	\$7,256	\$2,834
Revenues	75,327	69,139	28,212	1,353
Expenditures	75,275	68,881	26,966	1,074
Ending Fund Balance	\$18,756	\$12,277	\$8,503	\$3,113

Differences may exist due to rounding.

Per Council-adopted financial policy, at the end of the biennium in 2022, fund balances that are greater than anticipated and other one-time revenues will be transferred to the capital facilities renewal and replacement (R&R) account to fund future infrastructure investments. In 2021, a mid-cycle transfer of fund balances above planned levels was made, and is detailed in the following sections.

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

WATER UTILITY

The Water Utility finished 2021 in positive financial condition. The following table summarizes the utility's financial performance. Revenues exceeded budget largely due to strong water sales. Expenditures were lower than budgeted levels due to cost containment and vacancy savings. Operating fund balance above planned reserve levels have been transferred to the capital facilities R&R account.

Table 2: Water Utility Fund 2021 Year End Results (\$000)

	Budget	Year End Actuals	Variance Over/(Under) Budget	% Collected or Spent
Beginning Fund Balance	\$15,614	\$18,704	\$3,089	119.8%
Revenues				
Service Revenue	\$56,757	\$65,334	\$8,576	115.1%
Interfund Water Services	317	317	0	100.0%
Interest Income	327	39	(288)	12.0%
RCFCs	2,293	4,691	2,398	204.6%
Developer Fees	912	754	(158)	82.7%
Fire Flow Capacity Revenue	2,919	3,530	611	120.9%
Other	300	663	364	221.3%
Total	\$63,824	\$75,327	\$11,503	118.0%
Expenses				
Wholesale	\$22,003	\$22,003	\$0	100.0%
Personnel	8,848	8,093	(755)	91.5%
Transfer to CIP/R&R	15,630	23,230	7,600	148.6%
Capital Outlay	80	390	310	485.9%
Taxes	8,393	10,372	1,980	123.6%
RCFCs	2,322	4,756	2,434	204.8%
Interfunds	3,369	3,447	78	102.3%
Professional Services	927	971	44	104.8%
M&O	2,198	2,012	(186)	91.5%
Total	\$63,771	\$75,275	\$11,504	118.0%
Ending Fund Balance	\$15,668	\$18,756	\$3,088	119.7%

Differences may exist due to rounding.

Revenue Highlights

The beginning Water Utility fund balance was \$3.1M or 19.8% higher than budgeted levels primarily due to extraordinary water sales in 2020. Spring through fall of 2020 exhibited drier weather, which contributed to exceptional water sales. The trend of strong water sales continued in 2021. In 2021 total water operating revenues were \$11.5M or 18.0% above budgeted levels. This is largely driven by the following:

- **Water Service** revenues exceeded budgeted levels by \$8.6M due to a combination of stronger than anticipated water sales as a result of dry spring and exceptionally warm summer weather, and because budgeted water service revenues were based on conservative pandemic-related adjustments. 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.

- **Regional Capital Facility Charges (RCFCs)** are collected from customers for new connections to the water system and passed through to the Cascade Water Alliance (Cascade). RCFCs were \$2.4M above budget due to higher than anticipated development activity, which fluctuates with economic conditions. Corresponding RCFC payments to Cascade were also above budget. While there is no net financial impact to ratepayers from this item, differences do occur due to the timing of when RCFC revenues are collected and when it is paid to Cascade.

Expenditure Highlights

Utilities proactively took cost containment measures resulting in operating budget savings of \$0.5M. Overall, operating expenditures exceeded budget by \$3.9 million, due to higher RCFCs and taxes on higher water service revenues.

As a result of extraordinary revenues and cost containment measures, Utilities was able to transfer \$7.6 million above budgeted levels to the R&R account.

- **Personnel** expenses were \$0.8M below budget, reflecting cost containment measures related to staffing vacancies.
- **Maintenance and Operating (M&O)** expenses were \$0.2M below budget. The under-expenditure was largely due to operational savings and delays in spending for anticipated technology upgrades.
- **Regional Capital Facility Charge (RCFC)** payments exceeded budget by \$2.4M. The overrun reflects growth in new connections due to higher than forecasted development activity. As discussed above, these are pass-through payments to Cascade and have no net financial impact to the Water Utility.
- **Tax** expenses were \$2.0M above budget due to higher than anticipated revenues, as discussed above. Revenue-driven taxes correlate directly with revenue levels.
- **Renewal and Replacement (R&R)** expenses were \$7.6M above budget due to a year-end transfer of excess fund balance to the R&R account. Utilities performs an analysis to determine if the ending fund balance is above planned operating reserve levels. Per Utilities financial policies, operating reserves above planned levels are to be transferred to the utility capital R&R account for future infrastructure needs, or to be used for one-time expenditures.

SEWER UTILITY

The Sewer Utility finished 2021 on positive financial condition. The following table summarizes the utility's financial performance. Revenues exceeded budget due to strong water sales. Expenditures were lower than budgeted levels due to cost containment and vacancy savings. Operating fund balance above planned reserve levels have been transferred to the capital facilities R&R account.

Table 3. Sewer Utility Fund 2021 Year End Results (\$000)

	Budget	Year End Actuals	Variance Over/(Under) Budget	% Collected or Spent
Beginning Fund Balance	\$8,642	\$12,019	\$3,378	139.1%
Revenues				
Service Revenue	\$63,496	\$68,106	\$4,610	107.3%
Interfund Sewer Services	135	135	(0)	100.0%
Interest Income	104	26	(78)	24.9%
Developer Fees	515	418	(98)	81.1%
Other	266	454	188	170.8%
Total	\$64,517	\$69,139	\$4,622	107.2%
Expenses				
King County WTD	\$36,117	\$35,712	(\$405)	98.9%
Personnel	6,494	5,942	(552)	91.5%
Transfer to CIP/R&R	13,440	18,340	4,900	136.5%
Capital Outlay	0	449	449	100.0%
Taxes	4,366	4,373	7	100.2%
Interfunds	2,522	2,595	73	102.9%
Professional Services	425	304	(121)	71.6%
M&O	1,572	1,166	(406)	74.2%
Total	\$64,936	\$68,881	\$3,945	106.1%
Ending Fund Balance	\$8,222	\$12,277	\$4,055	149.3%

Differences may exist due to rounding.

Revenue Highlights

The beginning Sewer Utility fund balance was \$3.4M or about 39.1% higher than budgeted levels, primarily due to wastewater flows from extraordinary water sales in 2020. In 2021 sewer revenues were \$4.6M or 7.2% above budgeted levels. This is largely driven by wastewater flows from higher than anticipated water consumption in 2021.

Expenditure Highlights

Utilities proactively took cost containment measures resulting in operating budget savings of \$0.6 million. Overall, operating expenditures were below budget by \$1.0 million, due to lower than budgeted King County wastewater treatment costs, in addition to operational cost savings.

As a result of extraordinary revenues and cost containment measures, Utilities was able to transfer \$4.9 million above planned levels to the R&R account.

- **King County Water Treatment Division (WTD)** expenses represent payments made to King County for wastewater conveyance and treatment services. This charge is paid quarterly and is based upon a four-quarter moving average of historical wastewater flows conveyed to King County. In 2021, wastewater treatment costs were \$0.4M below budget, due to King County billing being based on historical average, rather than actual usage during the current year.
- **Personnel** expenses were \$0.5M below budget, reflecting cost containment measures related to staffing vacancies.
- **Maintenance and Operating (M&O)** expenses were \$0.4M below budget due to operational savings and delays in spending for anticipated technology upgrades.
- **Capital Outlay** expenses were \$0.5M above budget due to delayed purchases that were planned for 2020, but initiated in 2021.
- **Renewal and Replacement (R&R)** expenses were \$4.9M above budget due to a year-end transfer of excess fund balance to the capital facilities R&R fund.

STORM AND SURFACE WATER UTILITY

The Storm and Surface Water Utility finished 2021 in positive financial condition. The following table summarizes the utility's financial performance. 2021 revenues and expenses were close to budget. Due to the storm and service water rate structure, the revenue of the Storm and Surface Water Utility is relatively stable and do not fluctuate with weather or economic conditions. Operating fund balance above planned reserve levels have been transferred to the capital facilities R&R account.

Table 4. Storm and Surface Water Utility Fund 2021 Year End Results (\$000)

	Budget	Year End Actuals	Variance Over/(Under) Budget	% Collected or Spent
Beginning Fund Balance	\$6,003	\$7,256	\$1,253	120.9%
Revenues				
Service Revenue	\$27,237	\$27,235	(\$2)	100.0%
Interfund Storm Services	174	174	0	100.0%
Interest Income	18	20	2	108.7%
Developer Fees	825	598	(227)	72.4%
Other	32	186	155	587.5%
Total	\$28,286	\$28,212	(\$74)	99.7%
Expenses				
Personnel	\$6,143	\$5,128	(\$1,015)	83.5%
Transfer to CIP/R&R	13,801	14,801	1,000	107.2%
Capital Outlay	83	242	159	291.9%
Taxes	1,848	1,735	(113)	93.9%
Interfunds	2,512	2,518	6	100.3%
Professional Services	1,193	1,312	120	110.0%
M&O	1,537	1,229	(308)	80.0%
Total	\$27,116	\$26,966	(\$151)	99.4%
Ending Fund Balance	\$7,173	\$8,503	\$1,330	118.5%

Differences may exist due to rounding.

Revenue Highlights

The beginning Storm and Surface Water Utility fund balance was \$1.3M or about 20.9% higher than budgeted levels due to operational savings in 2020. 2021 storm and surface water revenues were close to budgeted levels.

Expenditure Highlights

Utilities proactively took cost containment measures resulting in operating budget savings of \$1.0M. Overall, operating expenditures were below budget by \$1.1M.

As a result of cost containment measures, Utilities was able to transfer \$1.0 million above budgeted levels to the R&R account.

- **Personnel** expenses were \$1.0M below budget, reflecting cost containment measures related to staffing vacancies.
- **Renewal and Replacement (R&R)** expenses were \$1.0M above budget due to a year-end transfer of excess fund balance to the R&R fund.

SOLID WASTE UTILITY FUND

The Solid Waste Utility finished 2021 in positive financial condition. The following table summarizes the utility's financial performance. Operating revenue was higher than budgeted. Expenditures were lower than budgeted levels due to cost containment measures.

Table 5. Solid Waste Utility Fund 2021 Year End Results (\$000)

	Budget	Year End Actuals	Variance Over/(Under) Budget	% Collected or Spent
Beginning Fund Balance	\$2,321	\$2,834	\$513	122.1%
Revenues				
Interest Income	\$42	\$7	(\$35)	16.6%
Other	17	270	254	1636.1%
Admin/Recycling	811	810	(1)	99.9%
Grant Projects	297	266	(31)	89.5%
Total	\$1,166	\$1,353	\$187	116.0%
Expenses				
Personnel	\$162	\$69	(\$93)	42.6%
Interfunds	588	588	0	100.0%
M&O	566	417	(150)	73.6%
Total	\$1,316	\$1,074	(\$242)	81.6%
Ending Fund Balance	\$2,171	\$3,113	\$942	143.4%

Differences may exist due to rounding.

Revenue Highlights

The Solid Waste Utility beginning fund balance was \$0.5M or about 22.1% over budgeted levels primarily due to payments from Republic Services for not meeting recycling and contract performance expectations in prior years. 2021 other revenues were \$0.3M above budgeted levels largely due to similar reasons.

Expenditure Highlights

Expenditures were \$0.2M or 18.6% below budget largely due to staffing vacancies and pandemic-related operational savings.