



MEMORANDUM

☐ Action
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DATE: July 23, 2020

TO: Environmental Services Commission

FROM: Nav Ota, Utilities Director
Lucy Liu, Assistant Director – Resource Management and Customer Service
Jolie Liu, Utilities Fiscal Manager

SUBJECT: 2019 Year End Financial Report - Water, Sewer, Storm & Surface Water, and Solid Waste Utility Funds

Action Required at this Time

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

Background

The purpose of this briefing is to provide the Commission a summary of the 2019 financial performance for the Water, Sewer, Storm & Surface Water, and Solid Waste utility funds. All four utilities ended 2019 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 2020 to meet adopted 2020 financial expectations. The following table summarizes the 2019 financial performance for each utility fund.

Table 1. 2019 Utility Operating Fund Financial Performance (\$000)

	Water	Sewer	Stormwater	Solid Waste
Beginning Fund Balance	\$22,087	\$7,091	\$5,280	\$2,176
Revenues	65,570	66,419	25,911	1,431
Expenditures	61,078	62,908	24,849	1,131
Ending Fund Balance	\$26,579	\$10,602	\$6,342	\$2,476

Differences may exist due to rounding.

Per Council-adopted financial policy, at the end of the biennium in 2020, fund balances that are greater than anticipated and other one-time revenues will be transferred to the capital renewal and replacement account to fund future infrastructure investments.

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

WATER UTILITY

The Water Utility finished 2019 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 expenditure and position vacancy savings.

Table 2: Water Utility Fund 2019 Year End Results (\$000)

	Budget	Year End Actuals	Variance Dollars	% Collected or Spent
Beginning Fund Balance	\$15,468	\$22,087	\$6,619	142.8%
Revenues				
Water Service	55,021	57,402	2,381	104.3%
Developer Fees	939	1,030	91	109.7%
Fire Flow	3,145	3,148	3	100.1%
RCFCs	2,246	2,461	215	109.6%
Interfund Water Services	301	311	10	103.5%
Interest Income	160	490	330	305.1%
Other	624	728	104	116.7%
Total	\$62,436	\$65,570	\$3,134	105.0%
Expenses				
Wholesale	20,645	20,645	-	100.0%
Personnel	8,558	7,812	(746)	91.3%
CIP	15,168	15,168	-	100.0%
R&R	-	-	-	n/a
Taxes	9,112	9,174	63	100.7%
RCFCs	2,267	2,468	201	108.8%
Interfunds	2,467	2,677	211	108.5%
M&O	4,395	3,133	(1,262)	71.3%
Total	\$62,611	\$61,078	(\$1,533)	97.6%
Ending Fund Balance	\$15,293	\$26,579	\$11,289	173.8%

Differences may exist due to rounding. The budget displayed above is adjusted down to reflect an accounting technical adjustment with a net zero impact to the fund.

Resource Highlights

The beginning Water Utility fund balance was \$6.6M or 43% higher than budgeted levels primarily due to extraordinary water sales in 2018. The trend of strong water sales continued in 2019. 2019 water revenues were \$3.1 million or 5% above budgeted levels. This is largely driven by the following:

- **Water service revenues** exceeded budgeted levels by \$2.4 million due to stronger than anticipated water sales as a result of exceptionally warm spring weather. Water demand is dependent upon a combination of factors including weather conditions, general economic conditions, and 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 either be below or above budget in any given year.
- **Interest income** exceeded budgeted levels by \$330,000 due to higher than anticipated fund balance.
- **Regional Capital Facility Charges (RCFCs)** are collected from customers for new connections to the water system on behalf of the Cascade Water Alliance (Cascade), and passed through to Cascade. RCFCs were \$201,000 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

Water expenses were \$1.5 million or about 2% below budgeted levels. Highlights include:

- **Maintenance and operating (M&O) expenses** were \$1.3 million below budget due to operational savings and delays in spending for anticipated reservoir maintenance and technology upgrades.
- **Personnel expenses** were \$746,000 below budget reflecting staffing vacancies.
- **Interfunds expenses** represent costs paid to the General Fund for support services. Interfunds expenses were \$211,000 above budget due to higher than anticipated overhead expenses.
- **Regional Capital Facility Charge (RCFC)** payments exceeded budget by \$201,000, reflecting growth in new connections due to development activity. As discussed above, these are pass-through payments to Cascade and have no net financial impact to the Water Utility.

SEWER UTILITY

The Sewer Utility finished 2019 on positive financial condition. The following table summarizes the utility's financial performance. Revenues exceeded budget due to greater than anticipated wastewater flows from higher water sales, while overall expenditures were on target with budget.

Table 3. Sewer Utility Fund 2019 Year End Results (\$000)

	Budget	Year End Actuals	Variance Dollars	% Collected or Spent
Beginning Fund Balance	\$7,450	\$7,091	(\$359)	95.2%
Revenues				

Sewer Service	61,547	64,997	3,450	105.6%
Developer Fees	533	543	10	102.0%
Interfund Sewer Services	151	151	-	100.1%
Interest Income	75	149	74	198.2%
Other	563	579	16	102.8%
Total	\$62,869	\$66,419	\$3,550	105.6%
Expenses				
Wholesale	34,528	35,345	818	102.4%
Personnel	5,943	5,704	(239)	96.0%
CIP	9,678	9,678	-	100.0%
R&R	3,751	3,751	-	100.0%
Taxes	4,203	4,113	(90)	97.8%
Interfunds	2,275	2,465	190	108.3%
M&O	2,701	1,852	(849)	68.6%
Total	\$63,079	\$62,908	(\$170)	99.7%
Ending Fund Balance	\$7,241	\$10,602	\$3,362	146.4%

Differences may exist due to rounding. The budget displayed above is adjusted down to reflect an accounting technical adjustment with a net zero impact to the fund.

Resource Highlights

The beginning Sewer Utility fund balance was \$359,000 or about 5% lower than budgeted levels, primarily due to the timing of an expense entry that occurred after operating reserves above 2018 target levels were transferred to the renewal and replacement account to fund future infrastructure investments, as directed by Council-adopted financial policy. 2019 sewer revenues were \$3.6 million or about 5.6% above budgeted levels, primarily due to sewer service revenues from higher than anticipated wastewater flows.

Expenditure Highlights

Sewer expenses were \$170,000 or about 0.3% below budgeted levels. Highlights include:

- **Maintenance and operating (M&O) expenses** was \$849,000 below budget due operational savings and delays in spending for anticipated technology upgrades.
- **Personnel expenses** were \$239,000 below budget reflecting staffing vacancies.
- **Wholesale 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 2019, wastewater treatment costs were \$818,000 above budget, reflecting higher flows than anticipated. This is offset by higher service revenues.

STORM AND SURFACE WATER UTILITY

The Storm and Surface Water Utility finished 2019 in positive financial condition. The following table summarizes the utility's financial performance. 2019 revenues and expenses were close to budget. The revenue stream of the Storm and Surface Water Utility is relatively stable and do not fluctuate very much with weather or economic conditions.

Table 4. Storm and Surface Water Utility Fund 2019 Year End Results (\$000)

	Budget	Year End Actuals	Variance Dollars	% Collected or Spent
Beginning Fund Balance	\$4,900	\$5,280	\$380	107.7%
Revenues				
Storm and Surface Water Service	24,648	24,518	(130)	99.5%
Developer Fees	852	800	(53)	93.8%
Interfund Storm Services	170	178	9	105.1%
Interest Income	54	132	78	244.1%
Other	116	283	167	243.1%
Total	\$25,840	\$25,911	\$70	100.3%
Expenses				
Personnel	5,858	5,764	(94)	98.4%
CIP	3,496	3,496	-	100.0%
R&R	9,314	9,314	-	100.0%
Taxes	1,631	1,526	(104)	93.6%
Interfunds	2,194	2,425	231	110.5%
M&O	2,868	2,324	(544)	81.0%
Total	\$25,361	\$24,849	(\$512)	98.0%
Ending Fund Balance	\$5,380	\$6,342	\$962	117.9%

Differences may exist due to rounding. The budget displayed above is adjusted down to reflect an accounting technical adjustment with a net zero impact to the fund.

Resource Highlights

The beginning Storm and Surface Water Utility fund balance was \$380,000 or about 8% higher than budgeted levels due to operational savings in 2018.

Expenditure Highlights

Expenses were \$512,000 or about 2% below budgeted levels. Highlights include:

- **Maintenance and operating (M&O) expenses** were \$544,000 below budget due to operational savings and delays in spending for anticipated technology upgrades.
- **Interfunds expenses** were \$231,000 above budget due to higher than anticipated overhead expenses.

SOLID WASTE UTILITY FUND

The Solid Waste Utility finished 2019 in positive financial condition with operating revenues exceeding expenses. The following table summarizes the utility's financial performance.

Table 5. Solid Waste Utility Fund 2019 Year End Results (\$000)

	Budget	Year End Actuals	Variance Dollars	% Collected or Spent
Beginning Fund Balance	\$1,750	\$2,176	\$426	124.3%
Revenues				
Admin/Recycling	759	774	15	102.0%
Grants	282	270	(12)	95.8%
Interest Income	16	50	34	312.5%
Other	16	338	322	2,112.5%
Total	\$1,072	\$1,431	\$359	133.5%
Expenses				
Personnel	171	145	(26)	85.0%
Grant administration	282	283	1	100.3%
Interfund	505	502	(3)	99.5%
M&O	260	201	(59)	77.1%
Total	\$1,218	\$1,131	(\$87)	92.8%
Ending Fund Balance	\$1,604	\$2,476	\$872	154.4%

Differences may exist due to rounding.

Resource Highlights

The Solid Waste Utility beginning fund balance was \$426,000 or about 24% over budgeted levels primarily due to payments from Republic Services for not meeting recycling and contract performance expectations in prior years. 2019 revenues were \$359,000 or almost 34% above budgeted levels largely due to similar reasons.

Expenditure Highlights

Expenditures were \$87,000 or 7% below budget largely due to staffing vacancies and operational savings.