

King County Water Quality Enterprise Fund Financial Status Report May 15, 2022

This report provides a forecast of the 2022 financial results for the King County Water Quality Enterprise Fund (the “Enterprise”) and compares this first quarter forecast to the sewer rate plan for 2022 that was adopted in May 2021.

First Quarter Forecast

Revenues

The updated forecast for 2022 projects a 13,643 increase in Residential Customer Equivalents (RCEs) from last year’s forecast, due to an increase in the water consumption of multi-family, commercial, and industrial customers, and an increase in single-family residential (SFR) housing. This change represents a better-than-expected recovery from the economic impacts of the pandemic, including the reopening of businesses and increased construction activity. This increase led to a corresponding 1.9% increase in sewer revenue, or \$8.1 million.

Capacity charge revenues are forecasted to decrease by \$2.4 million (2.5%) due to fewer new connections and pre-payments than projected in 2021’s forecast.

Other income is projected to increase by \$6.9 million (42%) due to an increase in revenue from the sale of Biomethane Renewable Identification Numbers (RINs)¹ and industrial surcharges. Investment income increased by \$1.9 million (58.2%) due to higher than projected interest rates from the King County Investment Pool (average of 0.75% compared to 0.55%).

- *Total revenue in 2022 is forecasted to exceed 2021’s audited results by \$24.4 million (4.5%) due to an increase in rates, RCEs, and new connections, illustrating an incremental return to pre-pandemic levels. However, a full recovery in RCE levels is not anticipated until 2024.*

Expenditures

Projected operating expenses remain mostly unchanged, decreasing by \$1.6 million or 0.9%.

- *Operating expenses in 2022 are forecasted to exceed 2021’s audited results by \$19.1 million (12.2%) primarily due to increases in labor, supplies, and services.*

Projected capital expenditures decreased by \$24.9 million (8.1%) due to various economic factors related to the pandemic including supply chain challenges and labor market challenges.

- *Capital expenditures in 2022 are forecasted to exceed 2021’s audited results by \$81.7 million (40.6%) based on awarded construction contracts.*

¹ EPA’s Renewable Fuel Standard Program that allocates credits for compliance in the program.

Debt

The Enterprise was awarded a \$66 million State Revolving Fund (SRF) Loan agreement from the Washington State Department of Ecology on December 17, 2021. The Enterprise anticipates drawing on \$34.9 million – \$5.5 million more than projected (18.7%) – to retire outstanding interim financing commercial paper (CP) in 2022. The remaining \$31.1 million will be drawn upon in 2023.

On January 6, 2022, the Enterprise issued \$31.4 million in CP to provide interim financing for the Georgetown (\$14.8 million) and Joint Ship Canal (\$16.6 million) projects. These projects have already secured low-interest rate loans from the state and the federal government. Draws on these loans will then be used to repay the CP notes near project completion. This interim financing strategy is expected to reduce the Enterprise's borrowing costs for the projects, as short-term tax-exempt rates are expected to be below the long-term rates for the state and federal loans.

Senior lien debt service is \$10.2 million lower than projected due to the savings achieved from refundings in 2021, a November 2021 defeasance undertaken as part of a cash optimization strategy, and the refunding² of the 2012 Sewer Revenue Bond (\$9.7m) and a 2012 LTGO Bond (\$16.9m) with 1/1/2022 call dates. Subordinate lien debt service is \$12.5 million lower than projected due primarily to the SRF refunding in 2021.

Due to these decreases in debt service and the increase in total net revenue, the Enterprise is projected to comfortably exceed both of its key coverage targets in 2022, namely 1.25 times senior lien debt service and 1.15 times total debt service.

² The secondary purpose of the CP program is to provide funds to refund high interest outstanding and future junior lien sewer revenue and multi-modal LTGO bonds under ordinance 18898. Debt service on the 2012 refunded bonds will be paid according to their original maturities.

King County Water Quality Enterprise Fund - Q1 2022 Financial Status Report

Operating Program (\$ '000)	Adopted Rate Plan for 2022	Forecast Q1 2022	Variance
Monthly Sewer Rate	\$49.27	\$49.27	\$0.00
Rate Increase	4.00%	4.00%	0.00%
Residential Customer Equivalents (RCEs)	733,403	747,046	13,643
Revenue			
Sewage Disposal Fees	\$ 433,617	\$ 441,683	\$ 8,066
Capacity Charge	95,999	93,600	(2,399)
Other Income	16,495	23,424	6,929
Investment Income	3,230	5,109	1,879
Use (Transfer to) Rate Stabilization Reserve	-	-	-
Total - Revenue	\$ 549,342	\$ 563,817	\$ 14,475
Expenditures & Transfers			
O&M Expenses	\$ (177,121)	\$ (175,490)	\$ 1,631
Senior Lien Debt Service ⁽¹⁾	(215,231)	(205,021)	10,210
Subordinate Lien Debt Service ⁽²⁾	(30,201)	(17,718)	12,482
Debt Retirement/ Defeasance Use of Cash	(13,923)	(27,571)	(13,649)
Minimum Operating Reserve Contribution	(134)	(1,977)	(1,843)
Total - Expenditures & Transfers	\$ (436,609)	\$ (427,778)	\$ 8,831
Net Cash Flow	\$ 112,733	\$ 136,039	\$ 23,306
Beginning Balance	\$ -	\$ 73,154	\$ 73,154
Net Cash Flow	112,733	136,039	23,306
Policy Cash-Funded Capital (Transfer to Capital Fund)	(112,733)	(209,193)	(96,460)
Ending Balance	\$ -	\$ -	\$ -
Ending Reserve Balances			
Operating Liquidity Reserve	\$ 17,712	\$ 17,549	\$ (163)
Rate Stabilization Reserve Account	\$ 46,250	\$ 46,250	\$ -
Debt Service Coverage Ratio on Senior Lien Debt	1.73x	1.89x	0.16x
Debt Service Coverage Ratio on Total Debt Payments	1.52x	1.74x	0.23x

Capital Program (\$ '000)	Adopted Rate Plan for 2022	Forecast Q1 2022	Variance
Beginning Balance	\$ 225,615	\$ 233,909	\$ 8,294
WIFIA Proceeds	-	-	-
State Loan Proceeds	29,465	34,974	5,509
Variable Rate Debt Proceeds	1,914	-	(1,914)
Commercial Paper / Interim Financing	54,225	48,650	(5,575)
Retirement of Interim Financing	(67,955)	(34,304)	33,651
Net Bond Proceeds	63,527	-	(63,527)
Debt Reserve Contribution/(Requirement)	602	-	(602)
Grants, Settlements, and Other	546	2,612	2,065
Capital Expenditures	(307,939)	(282,999)	24,940
Ending Balance Before Transfers	\$ -	\$ 2,842	\$ 2,842
Year-end Transfers from Operating Fund	112,733	209,193	96,460
Ending Balance	\$ 112,733	\$ 212,035	\$ 99,302
Ending Reserve Balances			
Capital Liquidity Reserve	5,000	5,000	-
Emergency Capital Reserve	15,000	15,000	-
Revenue Bonds Reserve Account	132,449	124,076	(8,373)
State Revolving Fund Reserve Account	12,899	981	(11,918)

¹Represents debt service payments on Parity Bonds and Parity Lien Obligations

²Represents debt service payments on Junior Lien Obligations, Multi-Modal LTGO/Sewer Revenue Bonds, and State Revolving Fund & Public Trust Loans