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CHAPTER 9

FINANCIAL PROGRAM

King County Water District No. 49 is a special purpose district, formed in the State of Washington under the laws governing municipal entities. The District has its funds invested in the King County Government Pool which is responsible for the District's investment and accounting functions.

9.1 PAST AND PRESENT FINANCIAL STATUS

Table 9.1 presents a summary of operating performance for 2013 through 2017. The District has historically maintained and currently maintains a strong financial base. The 2017 year-end total funds balance was approximately \$10,355,000.

The District currently has two outstanding Public Works Trust Fund (PWTF) loans, which will be paid off in 2020 and 2025 respectively. The District has recently secured a third PWTF loan, for preconstruction funding of the 575 Zone Reservoir and Booster Pump Station project. The District sold Revenue Bonds in December 2007 for system capital improvements. The 2007 revenue bond covenant requires a bond debt coverage ratio of 1.25 and is backed by net operating revenue and connection charges. The District sold additional Revenue Bonds in 2017 for capital improvements identified in the 2017 Water System Plan and this update. The 2017 bond proceeds were used to refinance nearly all the outstanding 2007 bond debt and to provide a significant share of the funds needed for the reservoir project. The refinance action yielded significant savings for the District. The 2017 bond covenant requires a bond debt coverage ratio of 1.25 and is also backed by net operating revenue and connection charges.

Table 9.2 presents forecasted budgets through 2028. The District anticipates that funding for projects listed in this plan will be obtained first from its funds on hand, rate increases, and new customer revenues. The budget forecast includes capital improvement expenditures per Table 8.1. As anticipated in the District's 2017 Rate Study, additional funding will be necessary in 2019. With the addition of a significant project for office and shop facilities in 2025, additional funding is anticipated to be necessary by 2024. This forecast is general in nature. A more detailed forecast will be presented in a Rate Study being completed concurrently with completion of this 2019 Plan.

9.2 ALLOCATION OF REVENUE SOURCES

In preparation for the 2017 bond sale, the District reviewed and updated its financial management policies. The 2017 policy update include goals to maintain a capital contingency reserve fund of at least \$350,000, a bond reserve fund as required by bond covenants, an unrestricted cash reserve of five months of operating expenses (including the capital contingency reserve fund), and a parity debt service coverage ratio of 1.75 or greater. The 2017 rate study recommended rates and general facilities/connection

charge increases in support of these goals, for continued operations and implementation of the capital improvement plan per Chapter 8. The District implemented rate increases effective January 1, 2017 and January 1, 2018. The 2017 rate study is being updated concurrently with completion of this 2019 WSP. Adoption of increased rates and charges are anticipated in the first half of 2019, and likely annually thereafter.

**TABLE 9.1
FIVE YEAR HISTORICAL EXPENSES**

	Actual 2013	Actual 2014	Actual 2015	Actual 2016	Budget 2017
REVENUES					
Water Rates	\$3,395,861	\$3,214,760	\$3,731,502	\$3,732,267	\$3,806,912
Fees and Other Service	\$70,034	\$60,034	\$54,040	\$82,529	\$84,179
Other Revenues	\$57,475	\$48,415	\$63,827	\$65,778	\$67,094
TOTAL REVENUES	\$3,523,370	\$3,323,209	\$3,849,369	\$3,880,573	\$3,958,185
EXPENSES					
<i>Operation & Maintenance Expenses</i>					
Salaries Outside Employees	\$311,503	\$313,915	\$330,124	\$335,941	\$361,600
Power & Other Utilities	\$25,389	\$24,667	\$38,017	\$42,711	\$46,982
Materials, Supplies and Parts	\$87,961	\$80,156	\$144,734	\$235,113	\$242,166
Transportation Expenses	\$21,182	\$26,027	\$18,573	\$18,073	\$19,880
Miscellaneous Expenses (inc. water)	\$906,549	\$1,455,399	\$1,065,475	\$1,183,104	\$1,242,259
<i>Total Operation & Maintenance Expenses</i>	<i>\$1,352,584</i>	<i>\$1,900,164</i>	<i>\$1,596,924</i>	<i>\$1,814,941</i>	<i>\$1,912,887</i>
<i>General & Administrative Expenses</i>					
Salaries Inside Employees	\$365,438	\$264,631	\$251,139	\$258,553	\$221,671
Employees Benefits	\$317,709	\$325,748	\$389,185	\$243,260	\$248,125
Office Supplies & Postage	\$46,092	\$46,462	\$28,796	\$38,597	\$39,755
Insurance - Vehicles, Liability & Work Comp	\$34,100	\$34,758	\$35,379	\$45,492	\$46,857
Legal & Accounting	\$50,621	\$43,171	\$67,780	\$61,988	\$63,848
Engineering & Professional Services	\$26,467	\$70,897	\$89,772	\$76,682	\$78,983
Fees & Miscellaneous Expenses	\$269,582	\$108,217	\$304,371	\$189,816	\$227,779
<i>Total General & Administrative Expenses</i>	<i>\$1,110,009</i>	<i>\$893,884</i>	<i>\$1,166,421</i>	<i>\$914,387</i>	<i>\$927,017</i>
TOTAL EXPENSES	\$2,462,593	\$2,794,048	\$2,763,345	\$2,729,328	\$2,839,904
Taxes (Property, B & O, Income)	\$170,359	\$164,129	\$188,624	\$200,964	\$175,003
Annual Debt Payments-Loans/Bonds (P&I)	\$143,052	\$148,052	\$213,535	\$214,140	\$209,567
Total Outstanding Debt-Loans/Bonds (P&I)	\$2,106,678	\$1,858,577	\$1,812,573	\$1,557,472	\$1,511,469
Net CIP Expense	\$633,015	\$499,207	\$840,159	\$1,041,406	\$1,001,530
Capital Contributions (SFC & GFC)	(not available)	(not available)	\$174,350	\$440,927	\$160,800
TOTAL REVENUE REQUIREMENT	\$3,409,019	\$3,605,436	\$4,005,663	\$4,185,837	\$4,226,004
BUDGET SURPLUS (DEFICIT)	\$114,351	\$282,227	\$18,056	\$135,663	(\$107,019)

**TABLE 9.2
PROJECTED BUDGETS**

	Budget 2018	Budget 2019	Budget 2020	Budget 2021	Budget 2022	Budget 2023	Budget 2024	Budget 2025	Budget 2026	Budget 2027	Budget 2028
REVENUES											
Water Rates	3,883,050	3,960,711	4,138,943	4,325,196	4,519,830	4,723,222	4,935,767	5,157,877	5,389,981	5,632,530	5,885,994
Fees and Other Service	85,863	87,580	89,332	91,118	92,941	94,799	96,695	98,629	100,602	102,614	104,666
Other Revenues	68,436	69,804	71,200	72,624	74,077	75,558	77,070	78,611	80,183	81,787	83,423
TOTAL REVENUES	4,037,349	4,118,096	4,299,475	4,488,938	4,686,847	4,893,580	5,109,532	5,335,117	5,570,766	5,816,931	6,074,083
EXPENSES											
<i>Operation & Maintenance Expenses</i>											
Salaries Outside Employees	368,997	376,560	384,279	392,155	400,193	408,396	416,767	425,309	434,027	442,923	452,001
Power & Other Utilities	51,680	56,848	76,033	95,786	105,365	115,901	127,491	140,240	154,264	169,691	186,660
Materials, Supplies and Parts	249,431	256,914	264,622	272,560	280,737	289,159	297,834	306,769	315,972	325,451	335,215
Transportation Expenses	21,868	24,055	26,460	29,106	32,017	35,219	38,740	42,614	46,876	51,563	56,720
Miscellaneous Expenses	1,304,372	1,369,590	1,438,070	1,509,973	1,585,472	1,664,746	1,747,983	1,835,382	1,927,151	2,023,509	2,124,684
Total Operation & Maintenance Expenses	1,996,348	2,083,968	2,189,463	2,299,581	2,403,784	2,513,420	2,628,815	2,750,315	2,878,290	3,013,137	3,155,280
<i>General & Administrative Expenses</i>											
Salaries Inside Employees	226,344	232,284	238,379	244,634	251,054	257,642	264,403	271,341	278,461	285,769	293,288
Benefits	253,088	258,149	263,312	268,579	273,950	279,429	285,018	290,718	296,532	302,463	308,512
Office Supplies & Postage	40,947	42,176	43,441	44,744	46,086	47,469	48,893	50,360	51,871	53,427	55,030
Insurance - Vehicles, Liability & Work Comp	48,262	49,710	51,201	52,737	54,320	55,949	57,628	59,356	61,137	62,971	64,860
Legal & Accounting	65,764	67,736	69,769	71,862	74,017	76,238	78,525	80,881	83,307	85,807	88,381
Engineering & Professional Services	81,352	83,793	86,306	88,896	91,562	94,309	97,139	100,053	103,054	106,146	109,330
Fees & Miscellaneous Expenses (Training)	234,612	241,651	248,900	256,367	264,058	271,980	280,139	288,544	297,200	306,116	315,299
Total General & Administrative Expenses	950,369	975,498	1,001,309	1,027,819	1,055,048	1,083,017	1,111,744	1,141,253	1,171,563	1,202,698	1,234,680
TOTAL EXPENSES	2,946,717	3,059,466	3,190,772	3,327,400	3,458,832	3,596,437	3,740,560	3,891,568	4,049,853	4,215,835	4,389,960

**TABLE 9.2
PROJECTED BUDGETS**

	Budget 2018	Budget 2019	Budget 2020	Budget 2021	Budget 2022	Budget 2023	Budget 2024	Budget 2025	Budget 2026	Budget 2027	Budget 2028
EXPENSES											
Taxes (Property, B & O, Income)	181,556	183,643	185,754	187,889	190,048	192,233	194,442	196,677	198,937	201,224	203,537
Annual Debt Payments-Loans/Bonds (Principal & Interest)	506,427	715,631	1,015,576	968,358	968,925	1,370,105	1,367,547	1,364,389	1,343,479	1,217,303	1,350,327
Total Outstanding Debt-Loans/Bonds (Principal & Interest)	14,520,646	16,514,219	15,923,588	15,029,231	14,178,123	18,322,281	17,310,882	16,289,885	15,259,283	14,236,189	13,325,199
Net CIP Expense	716,856	5,549,562	7,203,000	675,000	473,000	932,512	738,000	4,498,000	547,000	739,000	464,000
Capital Contributions (SFC & GFC)	188,300	411,279	427,118	447,144	471,701	489,677	512,248	539,792	564,346	594,194	612,020
TOTAL REVENUE REQUIREMENT	4,054,918	9,508,302	11,595,102	5,158,647	5,090,806	6,091,287	6,040,549	9,950,634	6,139,270	6,373,363	6,407,825
BUDGET SURPLUS (DEFICIT)	170,731	(4,978,928)	(6,868,508)	(222,565)	67,742	(708,030)	(418,769)	(4,075,726)	(4,158)	37,762	278,278
Ending Balance, all funds	10,526,049	8,047,121	1,178,613	956,048	1,023,791	5,315,761	4,896,992	821,267	817,109	854,870	1,133,148

Values in Dollars.

9.3 AVAILABLE REVENUE SOURCES

Developer Financing

Developers of presently unimproved property will finance many of the new facilities constructed in the District. All of the improvements required for service to property within new plats or commercial and industrial developments or re-developments will be designed and constructed in accordance with either the District's *Developer Extension Manual*. In some cases, latecomer's agreements may be executed for any water main serving property other than the property owned by the developer that is financing the project.

Combination Financing by the District and Developers

It may be necessary in some cases to require the owner to construct a larger diameter line than is required by the current development in order to provide for the comprehensive development of the District. The District may enter into a latecomer's agreement or reimburse the developer for the extra cost of increasing the size of the line over that which is required to service the property under development. Oversizing should be considered when it is necessary to construct any pipe over eight inches in diameter in single-family residential areas to comply with the water system plan. Construction of any pipe in multi-family, commercial or industrial areas that is larger than the size required to serve that development is considered oversizing.

Revenue Bonds

Transmission lines and improvements to supply and storage facilities that are of a general benefit to a major portion of the District may be financed by revenue bonds. Improvements that will benefit primarily a single developer should be financed by the developer developing the property. The District may use whatever funds are available for the payment of the debt service on the revenue bonds. A major source of these funds is from the sale of water to the District customers. However, all funds, such as general facilities/connection charges or latecomer charges may be used for debt service.

Water distribution improvements that will cause extraordinary increases in the value of the properties receiving service may be financed through the establishment of a utility local improvement district (ULID). The financing is accomplished through the sale of revenue bonds. These bonds are retired with income from the assessments and/or other funds of the District.

Grant/Loan Funds

The state and federal authorities have previously provided funds under the various grant programs for the construction of major improvements to or rehabilitation of water systems. The primary programs available at this time are the Drinking Water State Revolving Fund loan and Public Works Trust Fund loan. The District should continuously monitor the activities of the state or federal agencies to determine the requirements of these programs or of any new grant or loan programs that may be developed in the future.

State budget challenges in recent years have prompted the legislature to divert funding services and funds on hand from the Public Works Trust Fund Program. The District has recently secured a pre-construction loan from this program. However, it is not known if the Public Works Trust Fund will return to its prior strength, or if so, what changes might be made.

General District Revenues

The District updated their general facilities charge (GFC) and Capital Improvement Program in 2017. The GFC update included establishment of different charges for domestic water service and fire flow service. As described in Section 9.2, projects will be supported by revenue from GFCs, developer projects and contributions, and from water service charges. The District will update the GFC again once this Plan is adopted.

It is expected that the capital improvement projects developed in Chapter 8 will be financed by general District revenues, loans, bond sales and cash on hand.

Reserve Funds

The 2017 Rate Study included specific attention to maintaining adequate operating reserves and capital contingency reserves. Each reserve level was determined based on review of industry standards and evaluation with the District management staff and Board. For operating reserves, a minimum of 90 days of operating and maintenance expenses was identified and implemented with the rates adopted in 2017 and 2018. Those values change as the budget and connections increase but the range from 2017 through 2026 was \$693,000 to \$947,000. For capital contingency reserves a target of two percent of total assets in service was established. This value ranges from \$463,000 to \$784,000. Given the significant expense of the near-term 575 zone reservoir project, rates are forecast to achieve that within several years. This analysis will be updated with the 2019 update of the rate study.

9.4 PROGRAM JUSTIFICATION

King County Water District No. 49 completed a rate study in 2017. The rate study included all sources of funds and made assumptions regarding growth, cost of living increases, debt issuance costs, and general facilities charge rate increases. The District periodically reviews its revenue forecast and compares how close they were to the actual revenue.

As indicated above, the District will be updating the 2017 rate and connection charge study in 2019 based on the recommendations and updated capital improvement plan in Chapter 8.

9.5 ASSESSMENT OF RATES

In October 2007, a three-tiered block rate structure was designed to encourage water conservation. The three-tiered block rate structure applies only to the single family residential customer class.

The water rate is composed of two charges. The first is a flat fee based on meter size that all customers pay. The second is the water consumption charge which is based on amount of water used. The water rates effective January 1, 2018 are shown in Table 9.3.

**TABLE 9.3
2018 WATER RATE STRUCTURE**

Category	Base Rate	0-10 ccf	11-16 ccf	17+ ccf
Single family Residential	\$37.21	\$3.58	\$4.41	\$6.06
Multi-family Residential	\$28.94	\$4.13	\$4.13	\$4.13
Commercial				
5/8" – 3/4"	\$61.46	\$4.13	\$4.13	\$4.13
1"	\$152.97	\$4.13	\$4.13	\$4.13
1-1/2"	\$306.77	\$4.13	\$4.13	\$4.13
2"	\$489.79	\$4.13	\$4.13	\$4.13
3"	\$979.58	\$4.13	\$4.13	\$4.13
4"	\$1,530.54	\$4.13	\$4.13	\$4.13
6"	\$2,079.59	\$4.13	\$4.13	\$4.13
8"	\$4,897.86	\$4.13	\$4.13	\$4.13
Irrigation				
5/8" – 3/4"	\$30.04	\$6.06	\$6.06	\$6.06
1"	\$75.25	\$6.06	\$6.06	\$6.06
1-1/2"	\$152.97	\$6.06	\$6.06	\$6.06
2"	\$245.58	\$6.06	\$6.06	\$6.06

As stated in Section 9.4 above, rates will be reviewed periodically to ensure the block rates are sufficient to meet the required revenue demands of the District and to insure adequate funds are available to meet all O&M, CIP and debt service requirements.

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