

DRAFT
Summary of Rates & Finance Subcommittee November 5, 2020 meeting
(No MWPAAC General Meeting in November, 2020)

1. COVID-19 Revenue Impact Estimates and Reserves Management

Presenter: Courtney Black – Rates, Capital, & Debt Management Unit Supervisor

As part of WTD’s efforts to detail the process for rate setting, Ms. Black presented the fourth of five planned discussions on WTD’s rate development process. This meeting’s topic was anomalous but very relevant to the rate setting process in coming years: “COVID-19 Revenue Impact Estimates and Reserves Management”. A very detailed presentation was provided to attendees, and the following topics were discussed:

- Current Status of Revenue Impacts Sensitivity Forecast. Based on the timing of normal RCE reporting and billing, there is a lag in the possibility to measure revenue impacts. So far, data from Q2 2020 has been analyzed, as well as 64% of the data that collected to date from Q3 2020.
- Relative Scale of WTD Revenue Sources. Revenue from the Sewer Rate and Capacity Charge make up 97% of all WTD revenues.
- Findings from the Limited Data – Sewer Rate. In Q2 2020, there was a 15% reduction from Q2 2019 in RCEs in the Commercial / Multi-Family customer class, which is billed based on flow. It is expected that this is mostly from a drop in Commercial water use.
- Findings from the Limited Data – Capacity Charge. Historically, 85% of capacity charge is from those making monthly payments, and 15% is from prepayments (although this figure varies widely and is difficult to forecast). So far in 2020, most months are seeing a drop in prepayment revenue, although this was true in Q1 2020 – before the stay-home orders were issued.
- WTD Billing Structure – Impact on Revenue Timing
 - It’s important to understand that Commercial / Multi-Family data is reported to WTD quarterly but billed based on a rolling 4-quarter average. Therefore revenue impacts from this billing class will be smoothed.
 - The billing for Q3 2021 will include 4 full COVID quarters and may show the largest impact.
 - A slide was shown with charts showing reported Single-Family and Commercial / Multi-Family RCEs vs. billed RCEs from those categories. Here we can see a noticeable dip in the Commercial / Multi-Family reported RCEs in Q2 2020, but the Q4 2020 billing (based on the average of Q3 2019 – Q2 2020) shows a gradual decrease.
- Assumptions Used to Estimate Revenue Impacts. Assumptions from 2020 – 2022 for Single-Family, Commercial / Multi-Family, Capacity Charge Ongoing Billings and Capacity Charge Prepayments were shown.

- Estimated Net Revenue Impact
 - Aside from revenue reductions, the pandemic-related slowdown has resulted in expense reductions too – most notably in debt service savings from record low interest rates. Operating Expense savings are also projected.
 - With the assumptions mentioned above, WTD is estimating a total revenue reduction of \$63.1 million from 2020 – 2022 and a total expense reduction of \$35.3 million in the same period. This nets out to a loss of \$27.8 million from 2020 – 2022.
- Use of Reserves. Uncommitted Water Quality Operating Reserve balances are sufficient to absorb the forecasted loss. If the loss ends up much bigger than expected, funds in the Rate Stabilization Reserve are also available.

Ms. Black took time for Q&A at the end of the discussion. One attendee commented that local agencies are prevented by State orders from charging late fees and collecting past due balances from many customers of all classes, but are still required to pay the full amounts to WTD. King County staff responded that they would return to this topic for discussion in the future, but also mentioned that the contract between local agencies and King County leaves few options for reduced or delayed payment.

The next Rates and Finance Subcommittee meeting will be held on December 3, 2020. WTD will continue its series on rate development; the topic will be the Adopted 2021-2022 Biennial Budget and 2022 Rate-Setting Goals. Please attend this teleconference meeting.

Questions?

Jack Broyles, Jr., Rates & Finance Subcommittee Chair
Woodinville Water District
jbroyles@woodinvillewater.com 425.487.4106

Gregg Cato, Rates & Finance Subcommittee Vice-Chair
Alderwood Water & Wastewater District
GCato@awwd.com 425.741.7955