

WaterOne

Water District No. 1 of Johnson County

POPULAR ANNUAL FINANCIAL REPORT 2020

For the Year Ended
December 31st, 2020



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DIRECTOR'S NOTE



DARIN KAMRADT, DIRECTOR OF FINANCE

At WaterOne, one of our strategic objectives is to provide our customers and stakeholders with accurate and timely information about WaterOne’s finances. The Finance Division takes the responsibility to provide sound financial management of customer resources seriously and is proud to present WaterOne’s Popular Annual Financial Report (PAFR) for the fiscal year ended December 31, 2020.

The PAFR is based on the 2020 financial statements which were audited by RubinBrown LLP and received an unmodified (clean) opinion. Please note that this report is unaudited. The PAFR is designed to summarize WaterOne’s financial activities in a condensed and simplified way.

The COVID-19 pandemic had WaterOne partially implementing its emergency operations plan beginning in March 2020. As always, the priority of WaterOne was its commitment to providing an essential public service while also ensuring the health and safety of its employees. Throughout the year there were pandemic related budget impacts to water sales revenue and expenses. As stay at home orders were issued throughout the service territory, commercial water sales dropped while residential water sales increased. WaterOne also incurred additional pandemic related expenses related to premium pay for onsite essential employees, additional vehicle rentals to maintain recommended social distance, and safety supplies including masks



and sanitizer, as well as unanticipated savings due to restrictions on travel, local meetings, and participation in school outreach programs. I am pleased to report only minimal overall financial impacts to WaterOne ending the year within 5% of the budget.

In spite of all the challenges presented in 2020, WaterOne experienced positive customer growth, refunded outstanding debt for a cost savings to the rate payers, constructed new facilities to improve and simplify the delivery and treatment of water, and invested in the replacement of existing infrastructure based on our proactive asset management plan. All of this was achieved with only a 1.4% rate increase in 2020 while maintaining a AAA bond rating and over 90% customer service satisfaction.

I am honored to work with, and want to thank, the dedicated and professional finance staff who are committed to WaterOne’s mission and long-term financial health. As you review this report, if you would like additional information on the annual budget or audited financial statements, you can access these reports at waterone.org. If you have any questions or concerns, I want to hear from you. Don’t hesitate to contact me at dkamradt@waterone.org.

Darin Kamradt
Director of Finance

Governing Board



L-R: Bob Reese, Vice Chair Kay Heley, Greg Mitchell, Whitney Wilson, Board Chair Brenda Cherpitel, Mark Parkins, and Melanie Kraft.

Water District No. 1 of Johnson County, better known as WaterOne in this report, is pleased to present this Popular Annual Financial Report (PAFR) to the citizens of Johnson County who utilize our services.

Shown above are members of the WaterOne Governing Board serving in 2020. Board members serve as the decision makers who ensure WaterOne maintains the ability to provide safe, reliable, and affordable water now and for future generations.

This report on the fiscal year ending December 31, 2020 is meant to provide information that is easy to understand and will inform our customers of important milestones of the year that just ended.

Financial information referenced is sourced from WaterOne's financial statements and conform to Generally Accepted Accounting Principles.

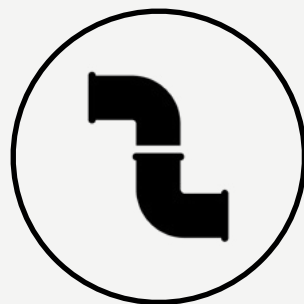
Who We Serve



AREA SERVED
272
SQUARE
MILES



POPULATION SERVED
455,000
RESIDENTS



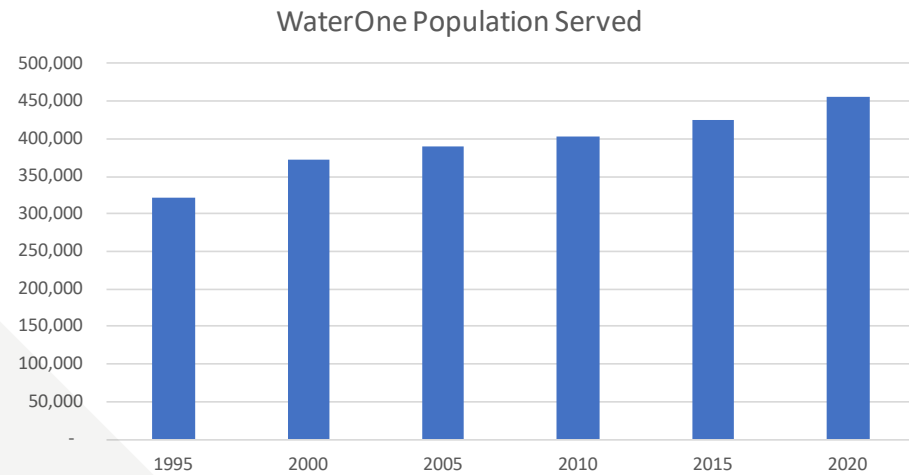
SERVICE CONNECTIONS
150,000+



RESIDENTIAL CONNECTIONS
91%



COMMERCIAL CONNECTIONS
9%

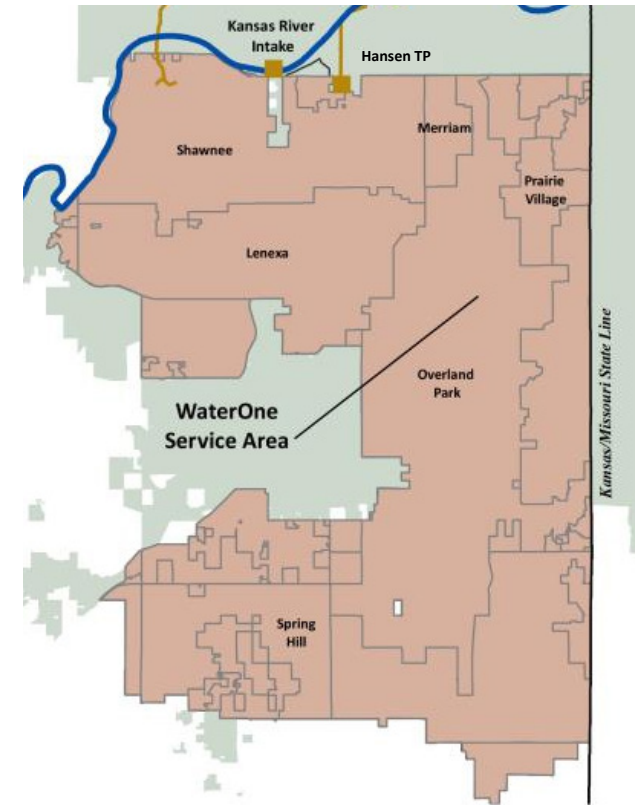


TOP COMMERCIAL ACCOUNTS*

1. Coca Cola Bottling
2. Johnson County Wastewater
3. Blue Valley School District
4. Corporate Woods
5. Shawnee Mission Medical Center
6. Ceva Biomune
7. City of Overland Park
8. City of Lenexa
9. Malkin Properties
10. OPS-KC LLC

*WaterOne's top 10 customers account for less than 3% of total revenue.

DISTRICT SERVICE AREA



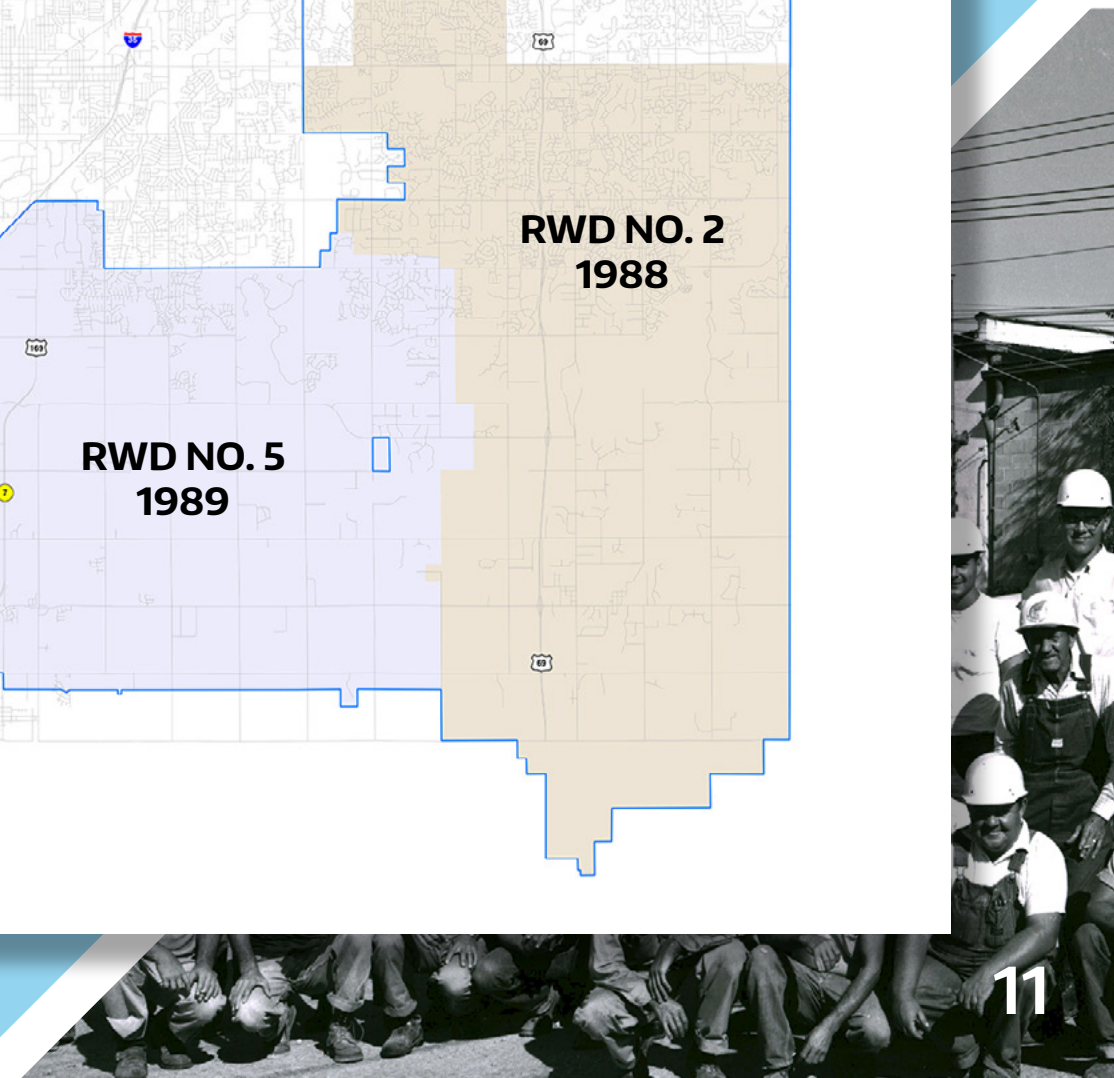
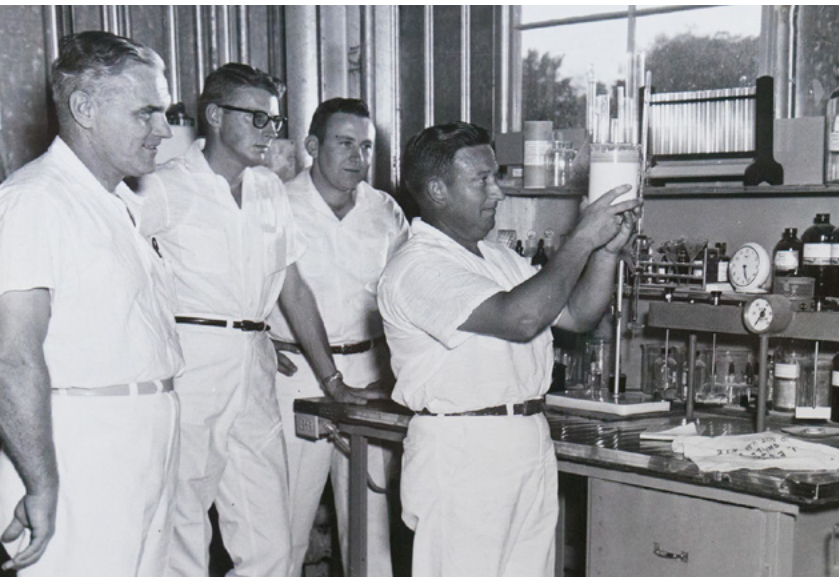
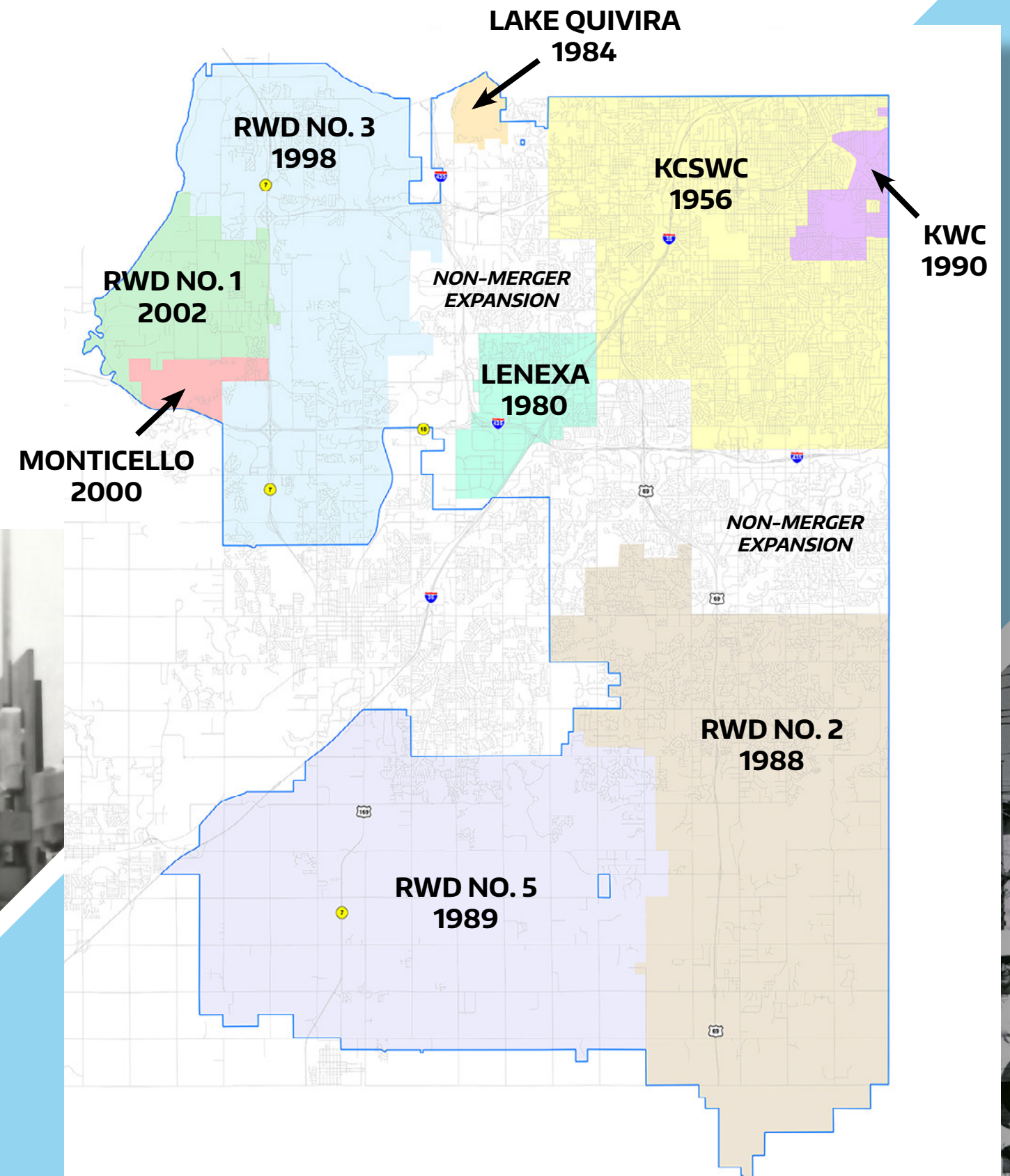
History

In 1957, northeastern Johnson County was served by a privately-owned water company, the Kansas City Suburban Water Company, which couldn't keep up with demand during the hot, dry summers. Frustrated residents took the matter into their own hands and overwhelmingly voted to buy them out and re-establish it as Water District No. 1 of Johnson County, a publicly-controlled, non-profit water utility. After years of sound leadership, careful planning, and responsible investment, the district now known as WaterOne has grown to become the largest water utility in the state of Kansas, serving over 455,000 customers throughout Johnson County every

day. On the right you can see the expansion of WaterOne through the years.

Not many utilities like WaterOne exist. WaterOne is a public utility by customers and for customers, led by a democratically elected Governing Board. It's fully independent from city or county control, has no taxing authority, and funds its operations entirely through service fees and the water it sells. And unlike other municipal services provided by local governments, WaterOne has one and only one job: water. This lets WaterOne focus wholly on its mission of providing a safe, reliable, high-quality water supply with exceptional service and value.

WaterOne Service Area Expansion



WaterOne's Guiding Principles

WaterOne has thousands of decisions to make every year that shape the way it serves Johnson County in ways both large and small. To make sure the best interests of its customers are served, each decision is viewed through the prism of eight guiding principles. These principles are at the heart of everything WaterOne does.

Strategic Goals

1. Ensure a safe, reliable, high quality water supply
2. Provide excellent customer service
3. Be an employer of choice
4. Ensure financial stability and predictable rates
5. Continuously improve business processes
6. Proactively manage infrastructure
7. Be good stewards of the environment
8. Promote a safe work environment and establish a security conscious culture



Mission

To provide a safe, reliable, high-quality water supply with exceptional service and value.

Vision

Setting the standard for utility excellence.

Values

Quality | Integrity | Safety
Accountability | Respect

2020 Financial Overview

Prior to every fiscal year, WaterOne estimates the amount of funding necessary to meet payroll, provide benefits, maintain infrastructure, pay off debts, and many other needs. Then, based on the estimated water sales projected for the upcoming year, it sets the water rates needed to meet these needs.



REVENUES
ESTIMATED

RATES
SET

REVENUE
REQUIREMENTS
ESTABLISHED

Where does the money come from?

Rates & Revenues for 2020

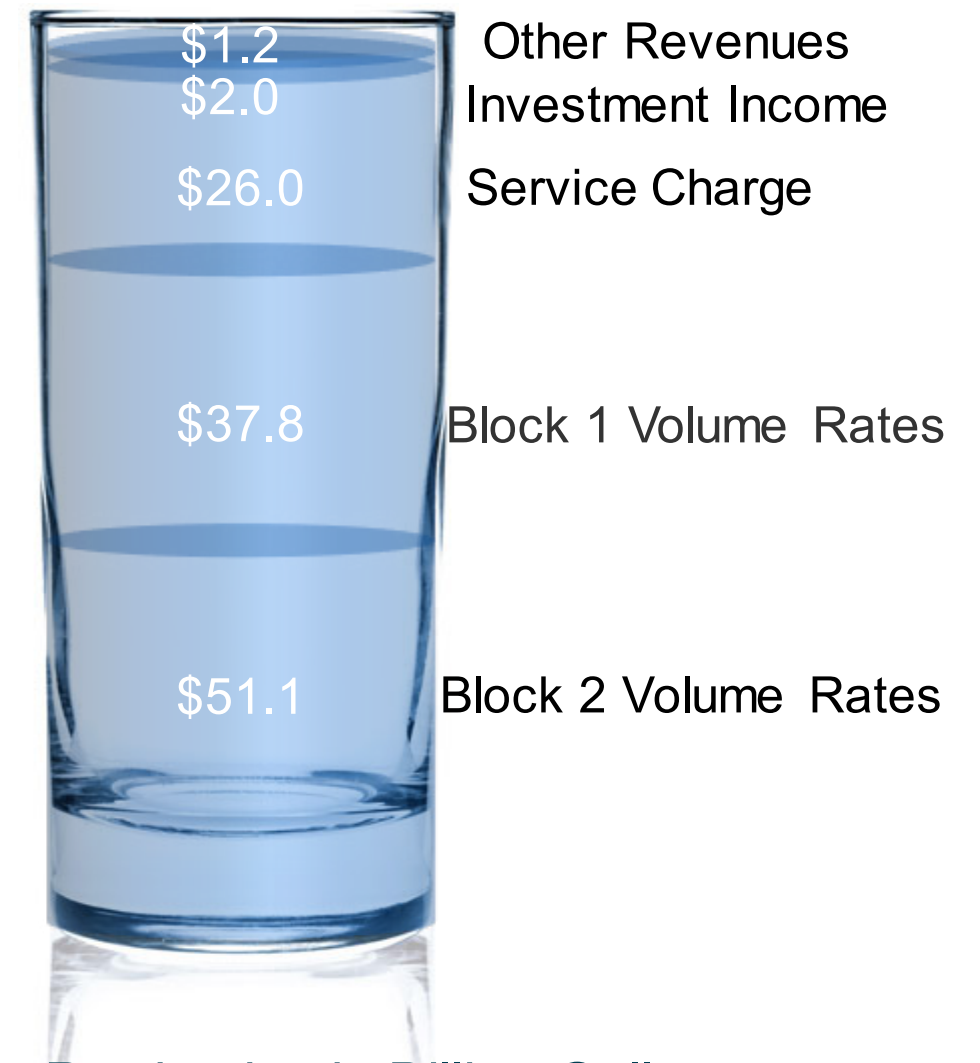
There was a 1.4% rate increase from 2019 to 2020. Rate increases are required to ensure adequate investment in WaterOne's capital infrastructure and to help offset the impact of declining base (winter) consumption.

WaterOne receives most of its revenues from water sales, and therefore weather can heavily influence its revenue in a given year due to the volume of water that is used for lawn irrigation.

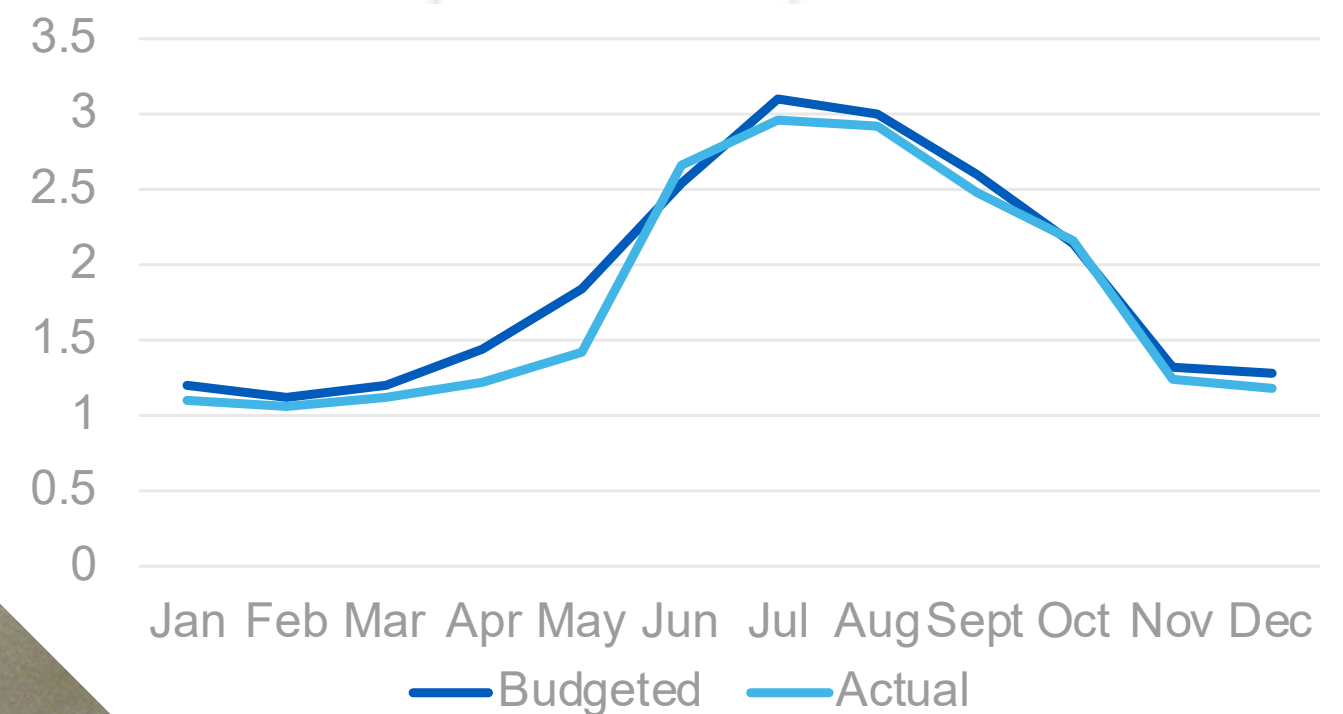
The COVID-19 pandemic provided a challenging environment in 2020 that shifted water use away from commercial to residential, drove down investment yields, and created an unexpected work environment as well as causing pandemic related expenses. However, this did not impact WaterOne's ability to keep rates low and provide great service.

Revenues (millions)

Total \$118.1



Water Production in Billion Gallons



Water Rate Structure

WaterOne uses a Peak Management Rate fee structure for water rates. This is an inclining rate structure designed to encourage customers to reduce peak usage. This delays the need for additional capacity and/or recovers costs more equitably from those customers who choose to have peak water usage. Block 1 rates are for volumes up to 125% of the customer's Average Winter Consumption (AWC). The AWC is calculated based on a customer's average daily consumption from January through April. Block 2 rates are for those gallons used in excess of 125% of the customer's AWC.

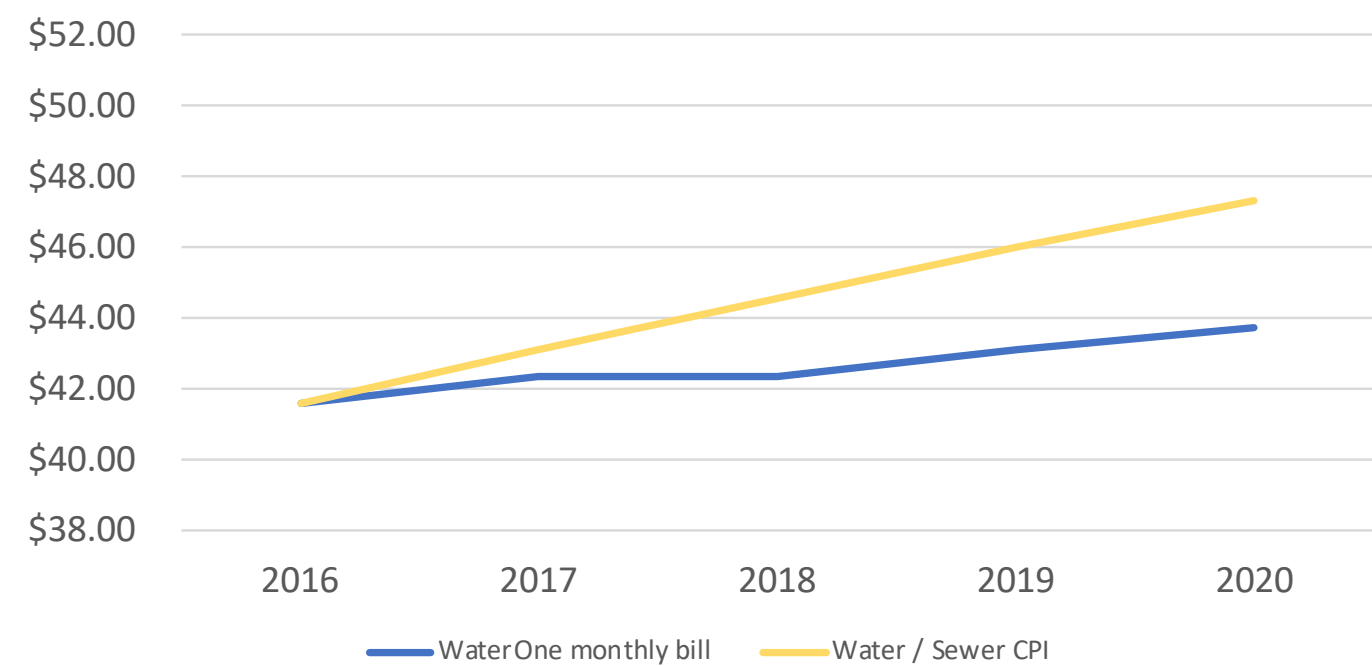
The table below shows a calculation for a customer with a 5/8" meter using 7,000 gallons per month with 75% of their usage at the Block 1 rate.

*rates shown are per 1,000 gallons

Block	Gallons	2020 Rates	Total
1	5,250	\$4.24	\$22.26
2	1,750	\$5.64	\$9.87
Service Charge	NA	\$11.60	\$11.60
	7,000		\$43.73



Water Rates have been rising slower than the comparable Water / Sewer Index.

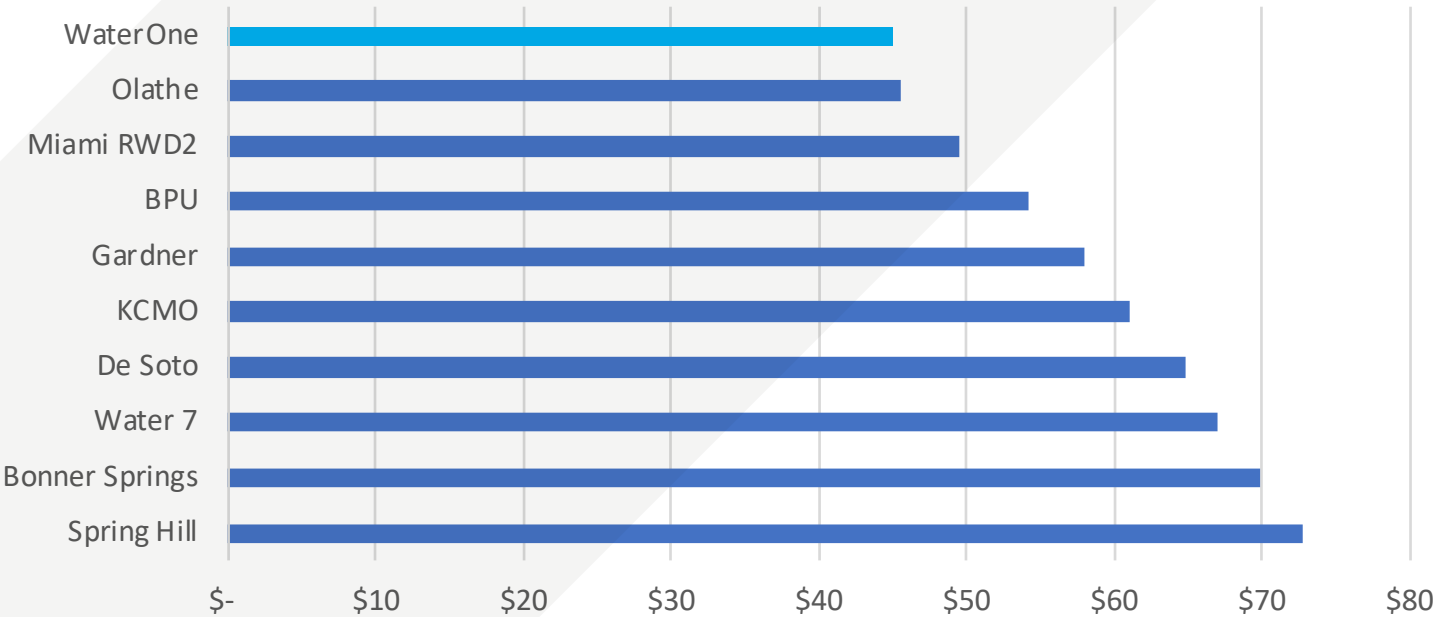


Even with the rising cost of health insurance, water treatment commodities, energy, and infrastructure maintenance, the monthly bill for a typical WaterOne customer has risen at a rate significantly lower than the comparable water/ sewer consumer price Index. This has been true even as consumption per customer has decreased.



WaterOne had the lowest water rates compared to its neighboring utilities in 2020.

Average monthly bill for typical customer in 2020



Where does the money go?

Breakdown of Expenditures

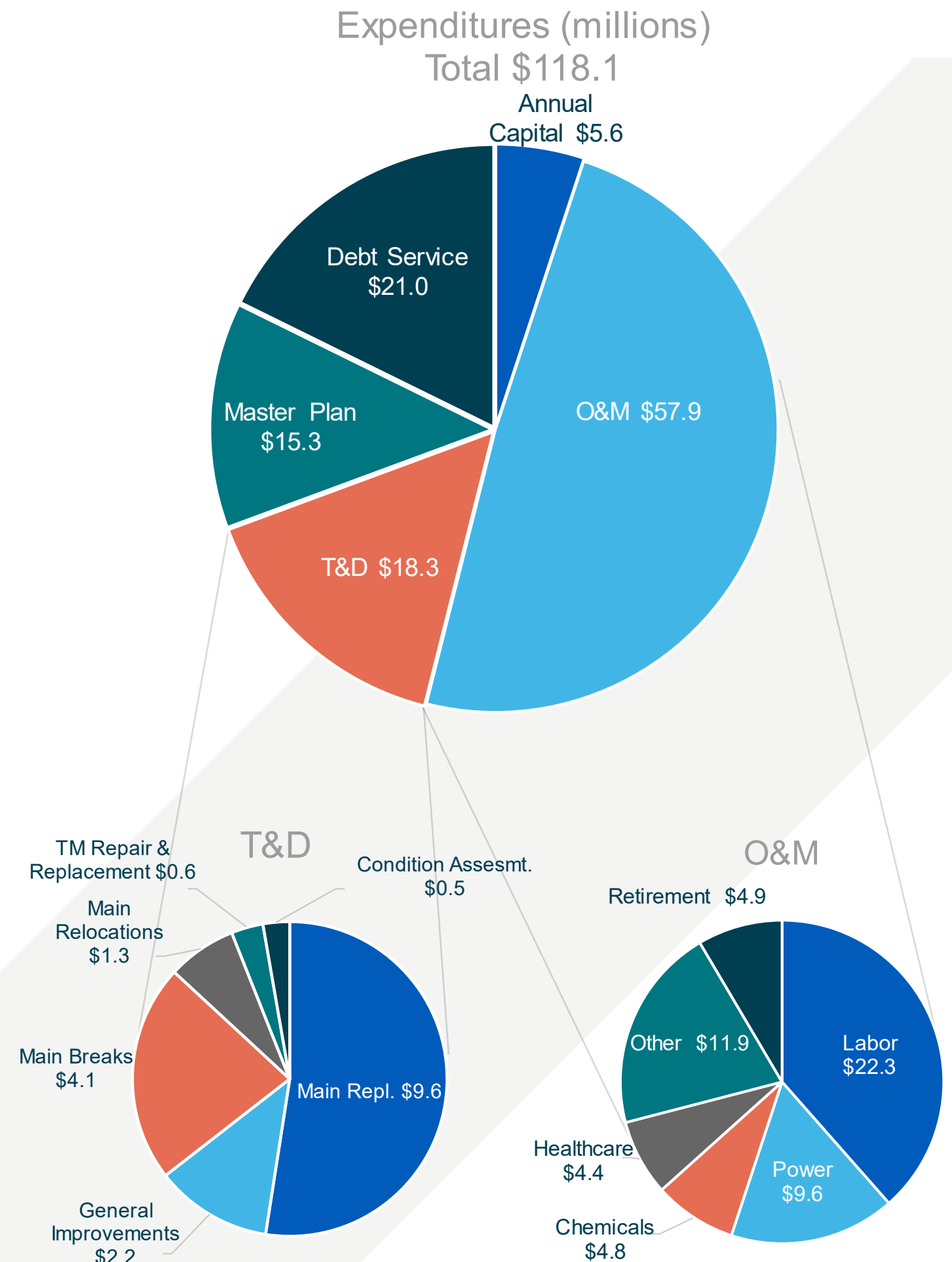
The largest portion of WaterOne's annual expenditures come from Operations & Maintenance (O&M). This includes costs like payroll, healthcare insurance, retirement benefits, and water treatment needs like power and water treatment commodities.

Debt service is for the repayment of long-term debt. WaterOne incurs long-term debt primarily by issuing tax-exempt bonds.

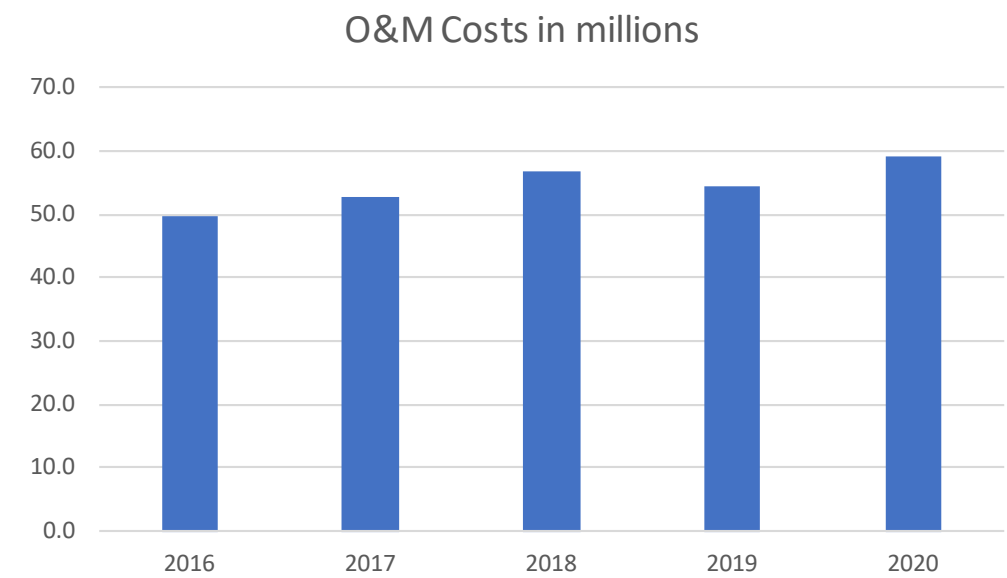
Transmission & Distribution (T&D) refers to the costs associated with replacing water mains, fixing main breaks, relocating mains, and assessing the condition of transmission mains.

Master Plan projects are major infrastructure enhancements that are planned over a time frame that is typically around 40 years and involves projects with useful lives of at least 20 years. These are typically larger projects that have been identified through infrastructure modeling as necessary to meet future system demands.

Annual Capital refers to projects that are typically smaller than Master Plan projects with a shorter useful life. They are often for the replacement of existing capital that has reached the end of its useful life.

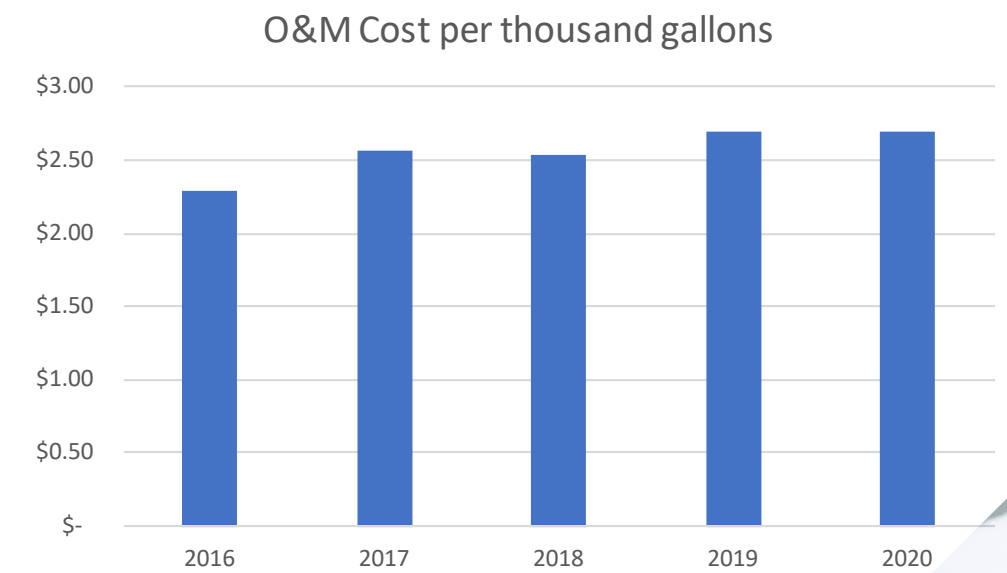


Operations & Maintenance Expenses



One of the ways that WaterOne can keep its rates affordable is to closely monitor its Operations and Maintenance expenses, and make sure that the money it spends is used as efficiently and effectively as possible.

There are many challenges to overcome in keeping O&M expenses down, from rising healthcare costs, to increases in the cost of power and water treatment commodities. WaterOne is continuously looking for ways to provide the level of service that our customers expect, while keeping costs down.



Long Term Debt

At times WaterOne will finance large projects by issuing bonds. WaterOne has the highest bond ratings possible with a AAA rating from Standard & Poors and a Aaa rating from Moodys. Better ratings mean WaterOne pays less in interest, and the savings can be passed on to the ratepayers. This is also a great indicator of WaterOne's strong financial position and stability.

Why should WaterOne use debt at all?

Let's assume the useful life of an asset, such as an ozone treatment facility, is 50 years. Why should today's residents pay 100% of the cost for 1/50th of its use. By using debt and spreading out the payments, the cost is distributed more fairly across time and more equally shared by the residents who benefit from the asset. The standard term for WaterOne's debt is twenty to twenty-five years.



Statement of Changes In Net Position

Net Position (Dollars in Thousands)				
Balance Sheet (in thousands)	December 31,		Variance	
	2020	2019	Dollars	Percentage
			Increase	(Decrease)
Capital Assets	1,145,344	1,105,519	39,825	3.60%
Total special funds	38,829	33,645	5,184	15.41%
Total current assets	126,471	135,550	(9,079)	-6.70%
Deferred outflows of resources	15,469	18,943	(3,474)	-18.34%
Total Assets And Deferred Outflows	1,326,113	1,293,657	32,456	2.51%
Long-term liabilities and other liabilities	260,497	274,142	(13,645)	-4.98%
Current liabilities	36,295	31,166	5,129	16.46%
Deferred inflows of resources	8,271	6,531	1,740	26.64%
Total Liabilities And Deferred Inflow Of Resources	305,063	311,839	(6,776)	-2.17%
Net investment in capital assets	909,200	860,928	48,272	5.61%
Restricted	32,378	27,083	5,295	19.55%
Unrestricted	79,472	93,807	(14,335)	-15.28%
Total Net Position	1,021,050	981,818	39,232	4.00%
Total Liabilities, Deferred Inflows Of Resources, And Net Position	1,326,113	1,293,657	32,456	2.51%

Assets and Deferred Amounts

Capital Assets: The current value of long-term investments in land, buildings, equipment and infrastructure under construction.

Special Funds: Cash and investments that have been pledged for a legal reason such as bond reserves, principal or interest payments on bonds, or bond proceeds held for future construction.

Current Assets: The value of cash and investments, accounts receivable, inventory and prepaid items.

Deferred Outflow of Resources: The consumption of resources that will be recognized in a future period.

Liabilities and Deferred Amounts

Long term Liabilities: Amounts owed on outstanding bond issues and as well as the value of future retirement benefits owed to employees and retirees.

Current Liabilities: Amounts owed to vendors, contractors, and employees.

Deferred Inflow of Resources: The acquisition of resources that will be recognized in a future period.

Total Net Position

Net Position: What you would have left if you used your assets to pay off your liabilities. The increase in net position is a useful indicator of WaterOne's positive financial position.

Major Projects of 2020

ELEVATED TANKS

K-7/K-10 and 199th & Lackman

An important milestone was reached in November 2020 as bowls were installed on top of WaterOne's two newest elevated tanks. The water towers are brand new additions to Johnson County's skyline and will support growing neighborhoods at the western and southernmost parts of WaterOne's distribution system.

The first tower is located near the K-7 & K-10 Highway Interchange in Olathe and has a 2 million gallon capacity. The second is located at 199th Street & Lackman Road in Spring Hill and has a capacity of 1 million gallons. The Lackman Road water tower is unique in that it's built directly next to an existing tower. This was a planned phase-in to match the pace of development and allows WaterOne to take the existing tower out of service for scheduled maintenance.

Water towers ensure pressure reliability and storage capacity, and help support public safety by ensuring there is an adequate supply available for emergencies such as fighting fires. The towers represent a combined investment in our infrastructure of \$12.3 million. Construction should be completed by summer 2021.

OZONE

As part of a forward-looking approach to the future of water treatment, WaterOne constructed ozone water treatment facilities at Hansen Treatment Plant. Ozone is a powerful natural disinfectant and offers more effective treatment for bacteria, viruses, pharmaceuticals, and taste and odor compounds in the source water. Integrating ozone into the water treatment process makes WaterOne's operations more efficient by eliminating, reducing, or simplifying water treatment chemicals and processes.

The Ozone Facilities project was first planned in 2013. Ground was broken in December 2017. On December 1, 2020 Ozone became the primary disinfectant at the Hansen Treatment Plant Facility 2. The project cost approximately \$44M, has a useful life in excess of 40 years and reduced operating costs related to water treatment chemicals.



Major Projects, continued

RIMI

Nearly every employee generates records that must be retained and managed, whether for internal reference or to meet legal requirements. The Records and Information Management Initiative was commissioned to modernize WaterOne's entire records lifecycle process. RIMI will manage both paper and digital records and provide greater capability to find, manage, and dispose of those records at the appropriate time according to the records retention schedule.

In 2020, elements of RIMI were rolled out incrementally to various departments in the organization. The project continues to expand to additional WaterOne divisions in 2021.

SCADA

WaterOne's Supervisory Control & Data Acquisition is the automation system used to control treatment plants, distribution storage, and pumping operations. SCADA is like the nervous system of WaterOne's treatment operations and is the only way to operate many of the district's complex automated systems.

Throughout 2020 and continuing through 2021, WaterOne has been making progress on a \$30 million, 10-year overhaul of SCADA. The project includes switching to a new software platform, developing asset management and cyber security policies, and establishing a 10-year SCADA budget and master plan for maintenance and upgrades. This project represents the biggest update to SCADA since it was first implemented.

SLIP LINING

In 2020, Distribution completed their second main replacement project using Primus Line, an innovative slip-lining method. This project, going along 119th from Mission to Tomahawk Creek Parkway, replaced about 1,140 linear feet of a 20-inch main. The technology and outcomes of this project are significant as it allowed 119th and Mission Roads to remain completely open to traffic, with only a single lane drop to allow room for equipment and an open cut relocation. The total project cost was less than \$300,000 in 2020.

SOLAR ENERGY

In 2020, WaterOne entered into an agreement with the Board of Public Utilities (BPU) to utilize solar panels as part of a renewable energy program. As part of the agreement, WaterOne licensed 500 existing panels and received a \$0.08 credit per kilowatt hour generated by these panels. This license will extend for 22 years. In addition to providing a positive financial payoff over the licenses term, the agreement aligns with WaterOne's core value of being good stewards of the environment.



NALL AVENUE PUMP STATION PHASE II

WaterOne's Nall Avenue Pump Station, located at 146th and Nall, was originally built in 2012. As part of its Phase II upgrade project, additional internal pumping equipment and electrical gear is being installed inside the existing building, and the station's capacity will be expanded with an additional 6 million gallon underground reservoir to complement the existing 6 million gallon reservoir already on the site.

Only underground infrastructure is being added, and when the project is completed, the site will look the same as before. When the pump station was originally built, bedrock was removed in advance and backfilled to prep the site for the future reservoir. The project is expected to be finished by spring 2021 with a cost of approximately \$10 million.

AMI

WaterOne's multi-year Advanced Metering Infrastructure (AMI) project is on track. First green-lit by the WaterOne Board in early 2018 with project partner Sensus/Xylem, this district-wide project is advancing meter reading and paving the way for customers' easy access to their own water use information. Once the project is fully implemented, customers will be able to access their own daily water consumption and set alerts which may help them avoid large leaks or surprise high bills. In addition, WaterOne can better operate its system and provide services to customers at greater convenience and value such as confirmation readings, move-out readings, and detecting stuck meters.

Progress on residential and commercial customer conversions continued throughout 2020. Outdoor installations will be ongoing during Q1 2021, and indoor installations are scheduled throughout 2021 due to COVID-19 safety precautions. In 2021, WaterOne is also anticipating the release of a new online customer portal featuring a personalized water usage dashboard.



Financial Accomplishments & Awards



Government Finance Officers Association

FINANCIAL ACCOMPLISHMENTS

On October 13th, WaterOne held a competitive public sale of \$87.3 million in Taxable Water Revenue Refunding Bonds, Series 2020 to advance refund a portion of its outstanding 2014 Bonds for present value savings of approximately \$4.4 million. The WaterOne Board awarded sale of the bonds to Morgan Stanley & Co, LLC, who submitted the best bid with an effective interest rate of 1.33% (True Interest Cost method). WaterOne pays lower interest rates on its bonds because of exceptionally high bond ratings, which results in savings to its customers. Standard & Poor's (S&P) rated the bonds "AAA", outlook stable. These high ratings reflect on the organization's quality management, long-range planning, and customer demographics.

AWARDS

For the second year in a row, WaterOne's Procurement Department has earned the prestigious Achievement of Excellence in Procurement award recognizing their great work. The Achievement of Excellence in Procurement is an award established by the National Procurement Institute (NPI) to recognize success in public procurement. This annual program recognizes procurement organizations that embrace Innovation, Professionalism, Productivity, Leadership, and e-Procurement. The accolade is awarded annually to organizations who meet specific criteria. This year, only 188 organizations earned the honor in the US and Canada. WaterOne joined Wichita and Johnson County as the only organizations in the state to receive this recognition. Along with the award recognition, WaterOne was also highlighted as a "model" in three key areas – publishing an electronic procurement model for internal use, electronic data interchange, and continued pursuit of excellence – which did not occur in its first year receiving the award. The department also received a higher score this year, recognizing the continued strive for improvement in business processes.

The Finance Division was recognized with the Government Finance Officers Association's Distinguished Budget Presentation Award for WaterOne's 2019 Budget. This achievement is the highest form of recognition in governmental budgeting and reflects the commitment from WaterOne's Board and staff to meeting the highest principles of governmental budgeting. The award acknowledges how well the budget serves as a policy document, financial plan, operations guide, and communications device.

2020 By The Numbers





WaterOne
Water District No. 1 of Johnson County