



Quarterly Financial Report First Quarter 2020

Lake Whatcom Water and Sewer District
Bellingham, Washington

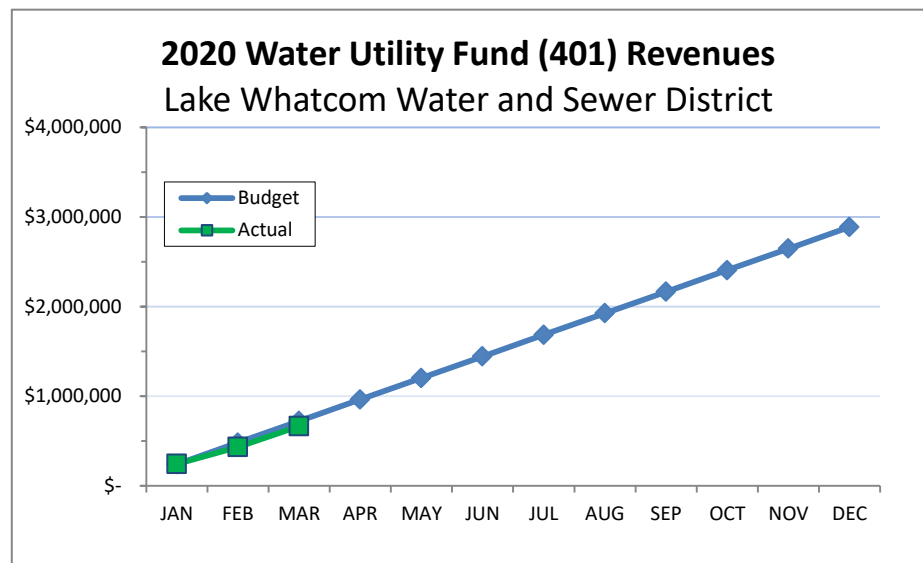
Summary

Through the first quarter of 2020, expenditures and revenues associated with the Lake Whatcom Water and Sewer District's (District) Water Utility Fund (Fund 401) and Sewer Utility Fund (Fund 402), which serve as the primary operational funds for the District's water and sewer utilities, respectively, largely followed financial projections reflected in the 2020 Budget. While both funds' expenditures slightly lagged behind projections, it is anticipated that expenses associated with large capital improvement projects will increase once the Lake Whatcom land disturbance window opens (June 1) to allow for construction to begin. What was not anticipated in the 2020 Budget are the impacts on District operations associated with the COVID-19 pandemic. While it is too early to fully assess the pandemic's effects on both revenue and expenditures, staff continue to closely monitor District funds and will make necessary adjustment to expenses, if warranted.

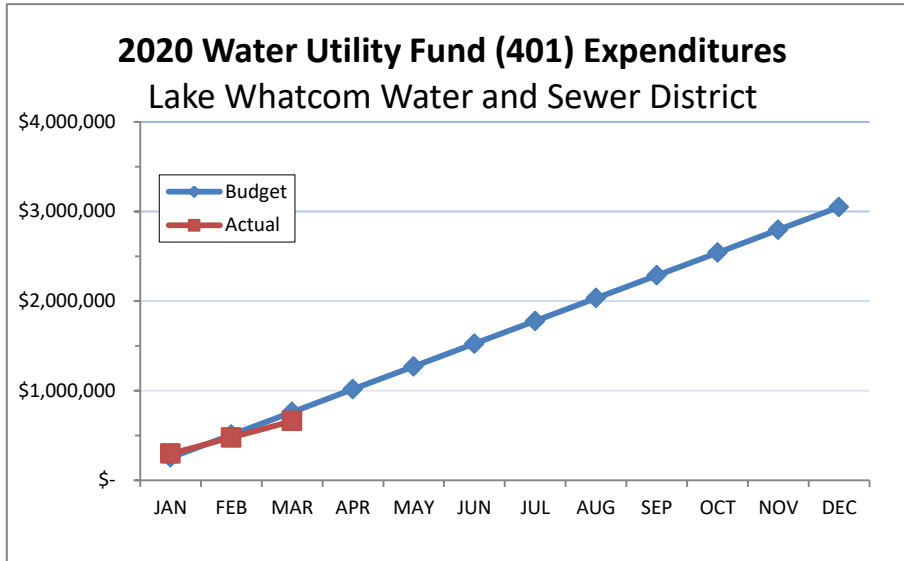
Water Utility Fund (Fund 401)

Through March 30, 2020, Water Utility Fund revenues were \$664,253, which are slightly less than revenues projected through the first quarter of the year in the 2020 Budget (\$721,686). This is consistent with prior years' revenues, which typically lag projections through the first half of each year, and then grow significantly during the third quarter due to increased water sales (e.g., lawn watering during dry summer months). That said, 2020 may ultimately be a slight anomaly, as staff have noted a larger than normal water demand during March due to more customers being home

under Governor Inslee's Stay Home—Stay Healthy order in response to the COVID-19 pandemic (the District's customer base is predominantly residential). While this increase in water sales isn't reflected in the first quarter revenues, it will likely be evident in the second quarter revenues should the Stay Home—Stay Healthy order remain in-place.



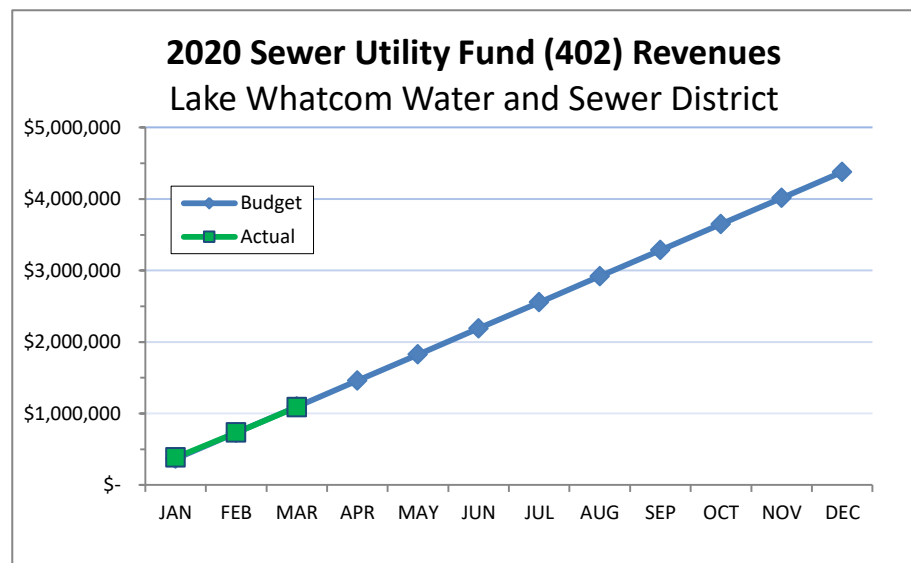
Water Utility Fund expenditures were approximately \$100,000 under first quarter budget projections (21.7% of the budget expended over the first quarter), with a small decrease in expenditures during March. This is consistent with prior years, where expenditures associated with large capital improvement projects are incurred during the Lake Whatcom land disturbance window (June 1 through September 30). As with revenues, expenditures may also be affected by the COVID-19 pandemic. With the District's operations significantly curtailed to solely essential functions necessary



to operate its water systems and the organization, District expenditures related to both operations and capital projects may ultimately be much lower than originally budgeted.

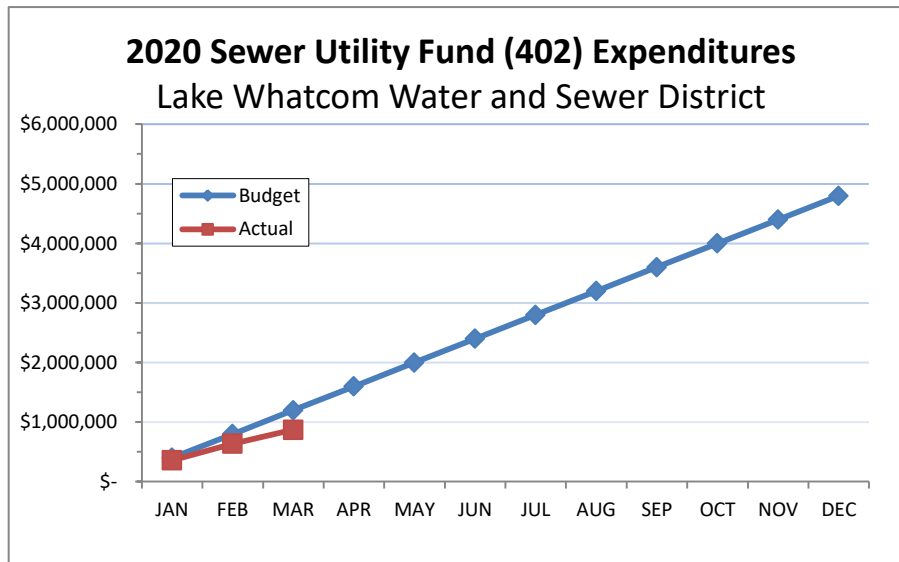
Sewer Utility Fund (Fund 402)

Sewer Utility Fund revenues were consistent with projections during the first quarter of 2020 (within \$6,000 of the budgeted \$1,094,862). This is largely due to the District’s uniform rate structure for sewer accounts, which allows for little variation in revenues throughout the year. Though there has been a noted increase in accounts being temporarily suspended due to the COVID-19 pandemic (customers whose second home is in the District but that are stuck elsewhere due to shelter-in-place orders), the overall number of suspended accounts relative to all sewer customers should have little impact on actual revenues, allowing the trend of actual revenues tracking with projections to continue through the remainder of the year.



Sewer Utility expenditures lagged behind projections during the first quarter (\$870,396 in actual expenditures relative to \$1,199,577 budgeted). As presented in the Water Utility Fund expenditures discussion above, Sewer Utility expenditures typically increase significantly during the summer months when expenses associated with large capital improvement projects are incurred. In regards to day-to-day operational costs of the District (personnel salary and benefits, professional services, utilities, etc.), these costs exceeded budget projections by approximately \$100,000, the entirety of

which can be attributed to a larger payment for sewage treatment to the city of Bellingham than was



budgeted (\$283,495 expended versus \$170,000 budgeted). Approximately \$60,000 of this is attributed to the April 2020 bill being paid in March to meet the due date of April 9, with the remaining \$40,000 attributed to high flows during January and February 2020.

District Fund Balances

The 2020 Budget marked a shift from prior budgets in the District’s overall fund structure for managing District monies. The new structure is comprised of five primary funds: Water Utility Fund, Sewer Utility Fund, Sewer Contingency Reserve Fund, Water Contingency Reserve Fund, and Bond Reserve Fund. To simplify the fund structure, prior system reinvestment funds and debt service funds associated with each utility have been integrated into that utility’s primary fund (401 and 402). The following discussion summarizes the activity associated with each fund over the first quarter of 2020.

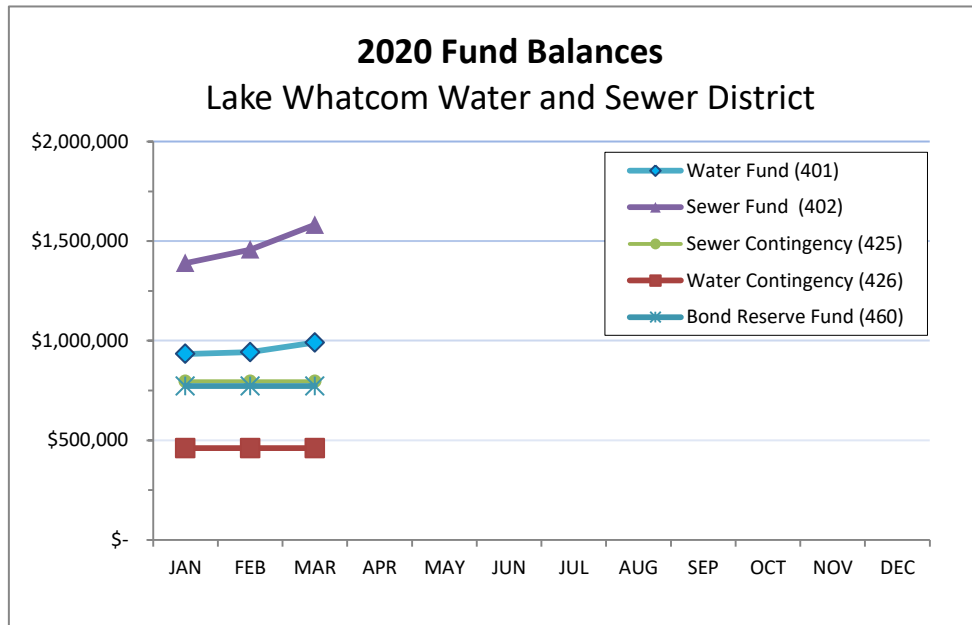
Water Utility Fund (Fund 401)

The Water Utility Fund, which serves as the primary operating fund for the District’s water utility, derives most of its revenue from rates charged to water customers. Fund expenditures are comprised of general operating expenses (personnel salary and benefits, professional services, utilities, etc.), payments relative to debt service on past capital improvement projects, and expenditures on water system reinvestment-defined equipment and projects. Also managed within the Water Utility Fund are monies allocated towards an operating reserve, which is equal to the cost of operating the water utility for 90 days (\$520,000). The fund entered 2020 with a balance of \$987,272. Over the first quarter, fund revenues remained consistent with expenditures, with the March 30 balance being \$990,826. As is reflected in the 2020 Budget, there was a significant amount of funds carried over from 2019 that are allocated towards 2020 projects. As a result, the overall Water Utility Fund balance is expected to be drawn down by approximately \$160,000 over the course of the year as projects are completed.

Sewer Utility Fund (Fund 402)

Like the Water Utility Fund, the Sewer Utility Fund serves as the primary operating fund for the District's sewer utility. Revenues are comprised primarily of rates charged to sewer customers, and expenditures consist of general operating expenses (personnel salary and benefits, professional services, utilities, etc.), payments relative to debt service on past capital improvement projects, and expenditures on sewer system reinvestment-defined equipment and projects. Also managed within the fund are monies allocated towards an operating reserve, which is equal to the cost of operating the sewer utility for 60 days (\$420,000). The fund entered 2020 with a balance of \$1,363,375. Over the first quarter, fund revenues outpaced expenditures by approximately \$200,000, with the March 30 balance being

\$1,582,068. As is reflected in the 2020 Budget, there was a significant amount of funds carried over from 2019 that are allocated towards 2020 projects. As a result, the overall Sewer Utility Fund balance is expected to be drawn down by approximately \$420,000 over the course of the year as projects are completed.



Sewer Contingency Reserve (Fund 425)

A sewer contingency reserve is maintained in accordance with District financial policies at one percent of the sewer utility infrastructure replacement cost (\$796,088). This fund provides for paying for unanticipated costs that may be incurred by the Sewer Utility. The Sewer Contingency Reserve was fully funded throughout the first quarter.

Water Contingency Reserve (Fund 426)

A water contingency reserve is maintained in accordance with District financial policies at one percent of the water utility infrastructure replacement cost (\$460,000). This fund provides for paying for unanticipated costs that may be incurred by the Water Utility. The Water Contingency Reserve was fully funded throughout the first quarter.

Bond Reserve Fund (Fund 460)

The District's Bond Reserve Fund is a restricted fund associated with covenants of the 2016 bond sale. It was fully funded at \$772,334 through the first quarter with no revenues or expenditures anticipated through yearend.

District Investments

In accordance with its financial policies, the District invests its funds in a manner that provides the highest return with maximum security while meeting daily cash flow demands. Attached is the Investment/Cash Summary as of March 30, 2020.