



## **Quarterly Financial Report Third Quarter 2022**

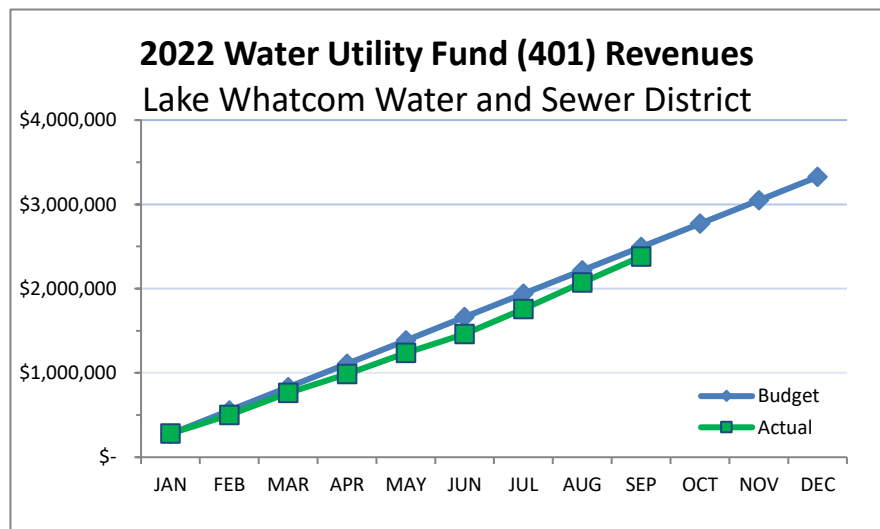
Lake Whatcom Water and Sewer District  
Bellingham, Washington

## Summary

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 2022 Budget throughout the third quarter of 2022. Though expenditures of both funds slightly lagged projections, this is consistent with prior years' expenditures. Expenditures will track more closely with that which was projected as the year draws to a close as a result of capital project expenses and debt service expenses being realized in the third and fourth quarters. The District continues to incur expenses as a result of the emergency flood event that took place during the fourth quarter of 2021. As the recovery efforts are ongoing and are anticipated to continue throughout the year, the District will monitor these costs closely. However, during the third quarter, the District was able to make significant progress on recovery and costs are starting to slow as they relate to this event. It should be noted that it is anticipated that the majority of these costs will be offset by insurance recovery and/or FEMA grant funds that should be paid to the District in the fourth quarter of 2022 and into 2023. It is also important to note that the District's service revenues remain relatively unaffected by the ongoing COVID-19 pandemic. With the Governor's emergency order for the COVID-19 pandemic also set to be lifted in October of this year, we don't anticipate this to affect revenues but will continue to monitor cash flows closely. Collection processes have returned to pre-pandemic standards and customer arrearages have significantly decreased also returning to pre-pandemic levels. The District continues to monitor the market closely as inflation costs continue to impact operating costs and supply chain issues. Along with monitoring inflation, the District has taken advantage of rising interest rates and strategically invested funds in short-term liquid investments through Washington State's Local Government Investment Pool (LGIP) to maintain and maximize reserve funds that can be accessed quickly if needed.

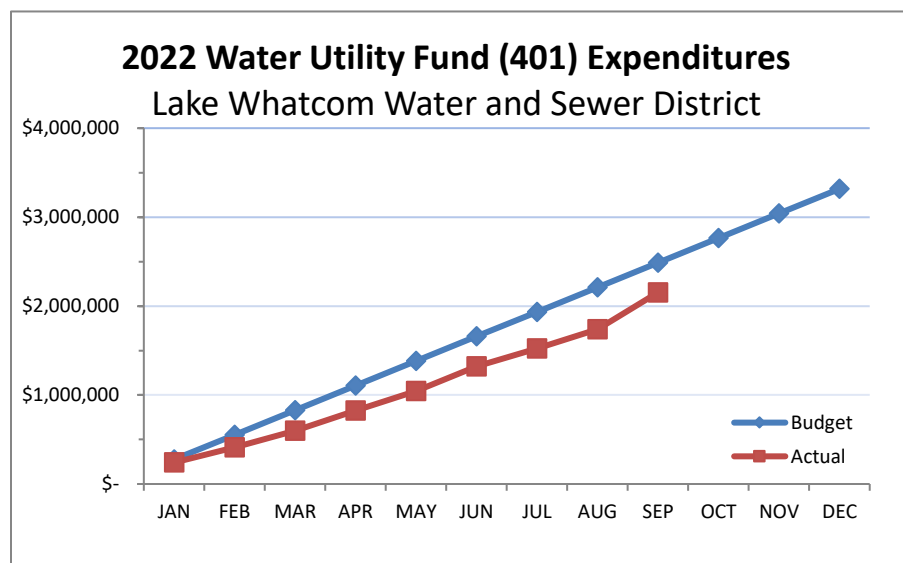
### Water Utility Fund (Fund 401)

As of September 30, 2022, Water Utility Fund revenues were \$2,380,538, which are slightly less than revenues projected through the third quarter of the year in the 2022 Budget (\$2,494,505). This is a direct result of water usage being significantly less during the



third quarter of 2022 compared to the third quarter in 2021. Compared to the third quarter of 2021, District customers used nearly 1.1 million CF less water in the third quarter of 2022. A number of

factors may have contributed to less water usage year over year, one of which may have been that temperatures in 2022 weren't as extreme during the summer months compared to those that Western Washington experienced in the summer of 2021. Another factor may be that customers are using less water during the summer months to be more conscience about water conservation and personal budgets. As we move through the remainder of the year and prepare the biennial budget for 2023-2024, the District may need to make potential adjustments to projected service revenues based on service revenues lagging behind projections for 2022. During the first quarter, the District also invested an additional \$500,000 in US Treasury Notes of which has been equally divided between the Water Utility Fund and the Sewer Utility Fund. As mentioned in the Summary above, the District took advantage of the rising interest rates and invested \$320,000 in Washington State's Local Government Investment Pool during May. As a result of these additional investments in the first half of the year, the District's investment interest is at 124% of projected budget for the entire year tracking nearly 50% higher than anticipated. The revenue from these investments is recognized in both the Water Utility and Sewer Utility Funds equally to represent the proportion of resources contributed by each fund. The District also finished the third quarter with revenues higher than expected from the General Facilities Charges (GFC's) revenue with actual revenue exceeding projected revenue for the year of 117%. Since the Whatcom land disturbance window is now closed (June 1 through September 30), it is anticipated that there won't be much revenue from GFC's in the last quarter.

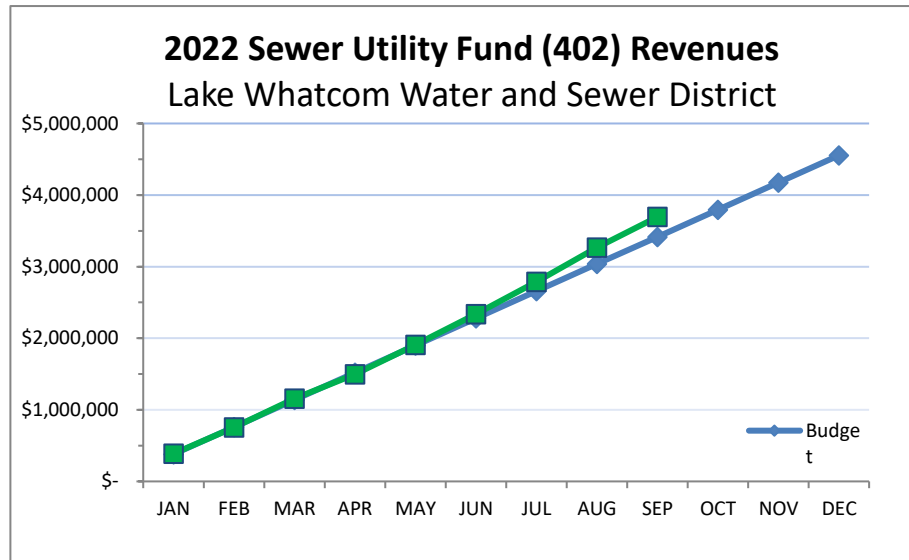


Water Utility Fund expenditures were approximately \$335,000 under budget projections as of September 30, 2022 (65% of the budget expended over the first three quarters of the year). This remains a result of large capital improvement projects not being complete with 52% of the budget remaining for the year. That said, it is

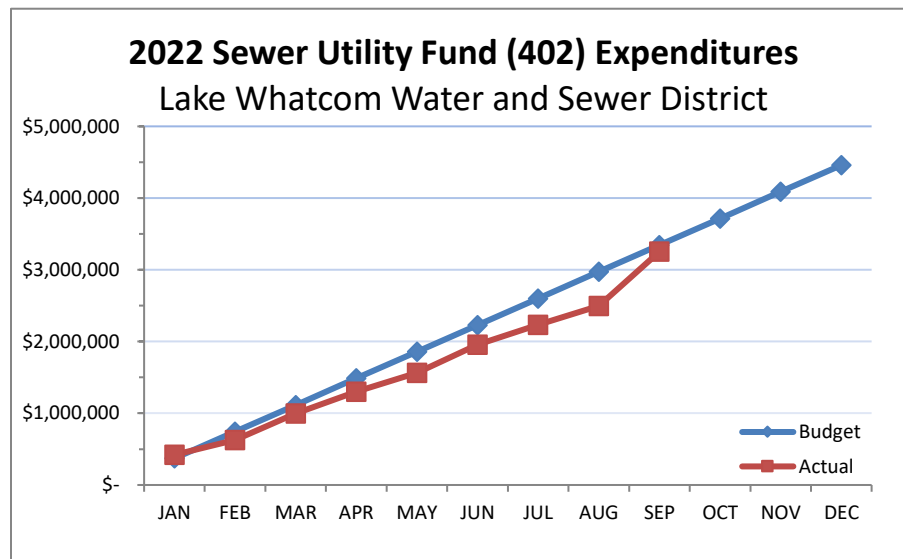
anticipated that about half of the remaining budget for capital expenditures will be carried over into the 2023-2024 biennium budget to align with the District's Capital Improvement Plan. Also worth noting is that operating expenditures are trending 8% below projected budget and 100% of the debt service budget has been expended with no further debt obligations for the year. It should also be noted that in accordance with the District's adopted 2021 rate study, District revenues will continue to outpace expenditures in the coming years as the District plans for significant capital projects in the coming years that will require reserves to be built up to ensure proper funding for the projects as outlined in the District's Capital Improvement Plan.

## Sewer Utility Fund (Fund 402)

Sewer Utility Fund revenues outpaced projections during the third quarter of 2022 (\$3,694,328 actual vs \$3,415,770 budgeted). This is largely due to increased General Facilities Charges (GFC's) revenue being more than budget projections during the third quarter. GFC revenue is 121% higher



than projected for the year. However, with the Watcom land disturbance window now closed, as stated in the Water Utility Fund, the District doesn't anticipate GFC revenue in the fourth quarter. Also as presented in the Summary discussion above, sewer utility service revenues remain relatively unaffected by the ongoing pandemic and with collection activity returned to pre-pandemic procedures, arrearages have decreased significantly since the onset of the COVID-19 pandemic. It should also be noted as mentioned in the Water Fund, interest revenues have also increased in the Sewer Fund as a result of the additional resources being strategically invested in the first half of the year. Along with this, as the District continues to follow the adopted 2021 Rate Survey, revenues will out pace expenditures in an effort to build reserves for large capital projects in the coming years associated mainly with the City of Bellingham's Post Point Resource Recovery Project. The District will be required to pay for part of this project as the City of Bellingham treats the waste from the District through an interlocal agreement.

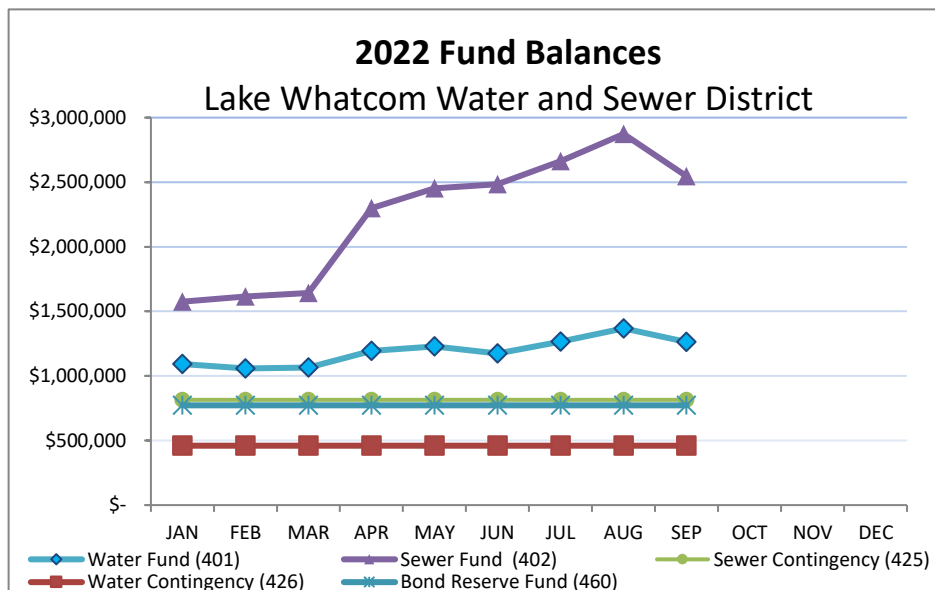


Sewer Utility Fund expenditures relatively aligned with projections during the third quarter of the year (\$3,253,242 in actual expenditures relative to \$3,344,241 budgeted). This is in large part due to debt service obligations being paid at the end of the third quarter. As presented in the Water Utility Fund, it

is anticipated that a large portion of the capital improvement budget will be carried forward to the 2023-2024 biennium budget to complete projects that align with the District's Capital Improvement Plan. As noted in the summary section, the District is still realizing the effects of the November 2021 flood event with increased repair and maintenance bills, and other expenditures associated with recovery. However, as stated in the Summary at the beginning of this report, the District anticipates costs will be recovered through District insurance and/or FEMA grant fund in the fourth quarter of the year and first part of 2023.

## District Fund Balances

The District manages its monies within five primary funds: Water Utility Fund (401), Sewer Utility



Fund (402), Sewer Contingency Reserve Fund (425), Water Contingency Reserve Fund (426), and Bond Reserve Fund (460). Of note, within the Water Utility and Sewer Utility funds are system reinvestment funds (i.e., funds dedicated to capital projects) and debt service funds associated with the

respective utility. The following discussion summarizes the activity associated with each fund through the third quarter of 2022.

### 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 (\$590,000). The fund entered 2022 with a balance of \$1,034,772. Over the course of the year, the fund balance has increased to \$1,262,450. As discussed earlier, the overall fund balance is anticipated to increase throughout 2022 in an effort to build fund balances for significant future capital projects in the coming years. This surplus is assigned through the adopted 2021 rate study.

#### 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 (\$470,000). The fund entered 2022 with a balance of \$2,105,875. Over the course of the year, the fund balance has increased to \$2,546,962. As discussed earlier in the Water Utility Fund, the overall fund balance is anticipated to increase throughout 2022 in an effort to build fund balances for significant future capital projects in the coming years. This surplus is assigned through the adopted 2021 rate study.

#### 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 (\$815,000). 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 third 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 third 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 third 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 September 30, 2022.