



## **Quarterly Financial Report Fourth Quarter 2023**

Lake Whatcom Water and Sewer District  
Bellingham, Washington

## Summary

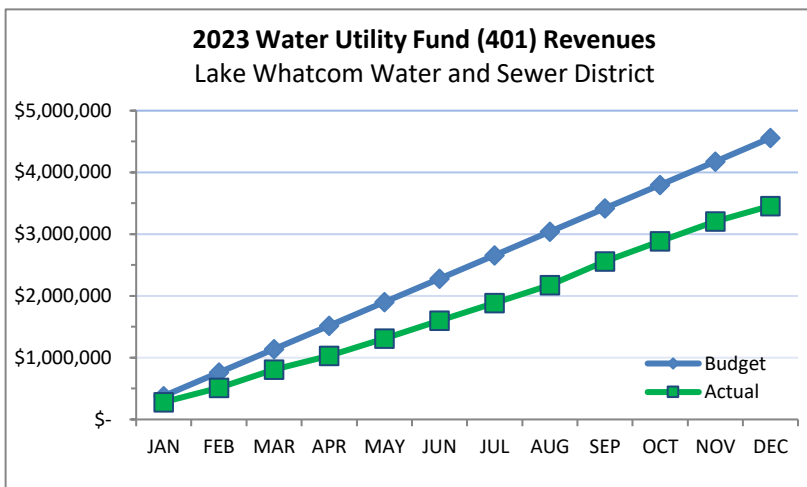
Lake Whatcom Water and Sewer District's (District) commitment to its conservative fiscal policies throughout 2023 allowed the District to close out the year with stable fund balances and fully funded operations and contingency reserves. The District adopted many policy changes in 2023 that related directly to the financial management of the District. These policies ranged from the rescission of the voluntary billing suspension policy, revision to the capital improvement plan to allow for capital surpluses to be accumulated for future capital projects, revision to the high use water adjustment policy, the elimination of accepting cash and maintaining petty cash drawers, revision to the District's utility billing cycle, and an overall review of all financial policies within Title 2 of the District's Administrative Code. Along with these revisions to policies, the District performed two budget amendments in the fourth quarter to the approved 2023-2024 Biennial Budget to allow for changes in anticipated funding and expenditures associated with capital improvement projects and operating expenditures. Other noteworthy highlights of 2023 included the District's approval of an \$800,000 Public Works Board low interest loan for funding gaps in the Division 7 reservoir replacement as well as FEMA Grants that were either approved or managed in 2023. These grants specifically related to the final stages of recovery from the November 2021 flood event, the Division 7 reservoir replacement project, and most recently the approval of a FEMA grant for the replacement of a chlorine contact basin at the District's Sudden Valley Water Treatment Plant.

The District received \$360,986 from FEMA for the November 2021 flood event in the second quarter of 2023 for expenditures from 2022 and 2023, with total expenditures projected to be approximately \$1.1 million over the course of several years. Since the November 2021 flood event, the District has expended approximately \$430,000 in federal funds for recovery from the flood event. Revenue associated with the hazard mitigation grant for the Division 7 reservoir replacement is expected to be approximately \$250,000 for the first phase and approximately \$1.6 million for the second phase. Lastly, the District received notice in early December 2023 regarding approval of a FEMA grant for the chlorine contact basin replacement at the Sudden Valley water treatment plant and no expenditures were incurred in 2023 relating to this project. As such, the District isn't anticipating a single audit for 2023 (required when more than \$750,000 is expended in federal award funds in a fiscal year).

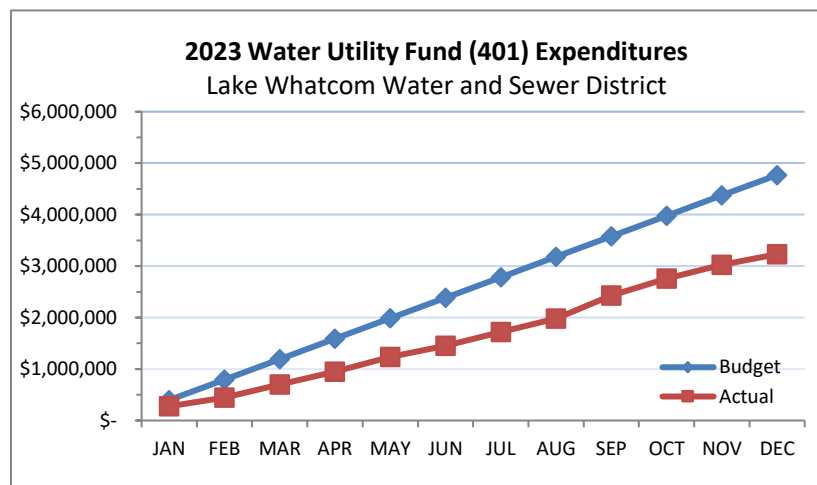
The District took advantage of interest rates in 2023 and strategically invested funds in both short-term liquid investments through Washington State's Local Government Investment Pool (LGIP) and long-term investments with Time Value Investments to maintain and maximize reserve funds that can be accessed if needed. During the fourth quarter of 2023, the District invested approximately \$750,000 in US Treasury notes with a maturity date in the fourth quarter of 2025 earning over 4%. As it is unclear if the Federal Open Market Committee (FOMC) will raise rates again or begin cutting rates, the District made this investment through the transfer of funds from the LGIP to lock in that higher rate for the next two years. As the market continues to change, the District will monitor options for both short-term and long-term investment strategies that ensure safety, liquidity, and yield.

## Water Utility Fund (Fund 401)

As of December 31, 2023, Water Utility Fund revenues closed the year approximately \$1.2 million less than projected for the year. (\$4.5 million budgeted vs. \$3.4 million actual). This is a direct result of grant funds that were budgeted for and anticipated to be received in the fourth quarter but weren't as well as a budgeted interfund transfer from the Water Contingency Fund that wasn't utilized, and the \$800,000 in loan proceeds that were budgeted for but not requested from the Public Works Board. This lag in revenue was associated with administrative requirements and slow progress of the capital projects associated with these revenue sources. However, it



should be noted that service revenue in the Water Utility fund met and slightly exceeded budgeted projections (\$3,050,800 actual vs. \$3,025,251 budgeted). As noted in the summary above, the District took advantage of higher interest rates in 2023. Through the strategic investment of funds in both short-term and long-term instruments, the District earned approximately \$80,000 in interest in the Water Utility Fund during 2023. This is approximately \$20,000 more than what was originally anticipated in the 2023 – 2024 Biennial Budget. It is anticipated that rates in the LGIP will remain stable into the first quarter of 2024. However, the District continues to monitor changes from the FOMC closely in an effort to maximize return on investments and ensure adequate cash flow, safety, liquidity, and yield of District funds. Ultimately, the District's revenues remained sufficient to support operations, capital, and debt service obligations throughout 2023.



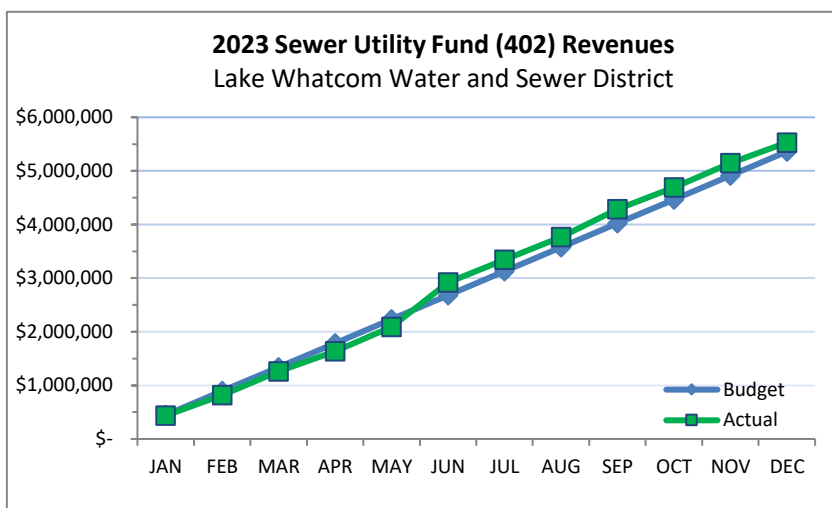
Water Utility Fund expenditures closed the year significantly under budgeted projections (\$3,230,695 actual vs. \$4,769,638 budget). This largely is a result of capital improvement projects that were scheduled to be completed in 2023 but will now not be completed until 2024 or later. That said, operating expenditures in the Water Utility Fund were 10% less than

budgeted projections (\$2,472,832 actual vs. \$2,736,524 budgeted). This is a result of the conservative

approach staff took in preparing the 2023-2024 Biennial Budget and continued monitoring of costs throughout the year in an effort to keep inflationary cost impacts to a minimum. Also, in accordance with the District's adopted 2021 rate schedule, District revenues will continue to outpace expenditures in the coming years as the District prepares for significant capital projects that will require reserves to be built up to mitigate reliance on debt financing.

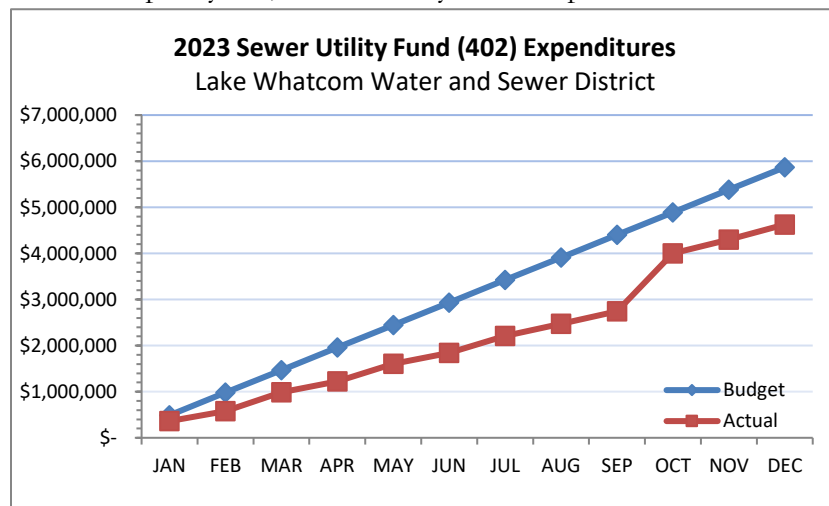
## Sewer Utility Fund (Fund 402)

Sewer Utility Fund revenues largely followed budgeted expectations throughout 2023 (\$5,530,392 actual vs. \$5,360,863 budgeted). Service revenue in the Sewer Utility Fund slightly exceeded expectations by 4% and during the second quarter of 2023, the District received reimbursement from FEMA for disaster recovery associated with the November 2021 flood event



in the amount of approximately \$361,000. Lastly, like the Water Utility Fund, investment interest also outpaced projections in the 2023 – 2024 Biennial Budget closing the year with approximately \$80,000 in revenue earned from interest. As stated in the Water Utility Fund, as the District continues to follow the adopted 2021 rate schedule, revenues will outpace expenditures in an effort to build reserves for large capital projects in the coming years associated mainly with the City of Bellingham's wastewater treatment plant capital improvements. The District may be required to pay for part of these costs as the City of Bellingham treats the wastewater from the District through an interlocal agreement.

Similar to past years, Sewer Utility Fund expenditures closed the year under budgeted projections



(\$4,626,630 actual vs. \$5,867,928 budgeted). This is, again, largely due to capital projects that are budgeted as part of the District's capital improvement plan but have yet to be started or completed in the current year. That being said, the District did make significant progress in the fourth quarter towards the completion of several capital projects which will result in less

carry-over into 2024. It is also worth noting that, similar to the Water Utility Fund, operating expenditures closed the year approximately 10% under budgeted projections. This again, is a result of the District's conservative approach to budgeting and fiscal management of the District's resources.

## District Fund Balances

The District manages its monies within five funds: Water Utility Fund (401), Sewer Utility Fund (402), Sewer Contingency Reserve Fund (425), Water Contingency Reserve Fund (426), and Bond Reserve Fund (460). 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 throughout 2023.

### 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 (\$664,000). The fund entered 2023 with a balance of \$1,313,778 and closed the year with a fund balance of \$1,541,238. As discussed earlier, the overall fund balance is anticipated to continue to increase to build fund balances for significant future capital projects in the coming years. This surplus is identified 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 (\$521,000). The fund entered 2023 with a balance of \$3,108,723 and closed the year with a fund balance of \$4,012,484. Similar to the Water Utility Fund, the overall fund balance is anticipated to increase in an effort to build fund balances for significant future capital projects in the coming years. This surplus is identified through the adopted 2021 rate study.

### Sewer Contingency Reserve (Fund 425)

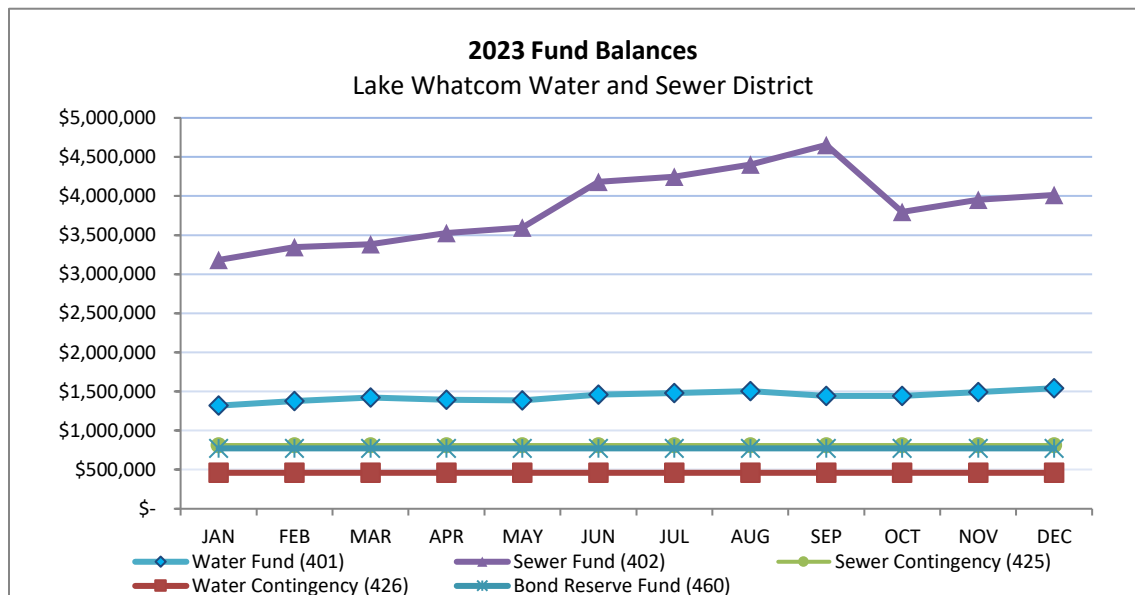
A sewer contingency reserve is maintained in accordance with District financial policies at one percent of the sewer utility infrastructure replacement cost (\$815,000). This fund provides for paying for unanticipated costs that may be incurred by the Sewer Utility. The Sewer Contingency Reserve was fully funded throughout 2023.

### 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 2023.

### 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 throughout 2023.



### 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 December 31, 2023.