



Quarterly Financial Report First Quarter 2024

Lake Whatcom Water and Sewer District
Bellingham, Washington

Summary

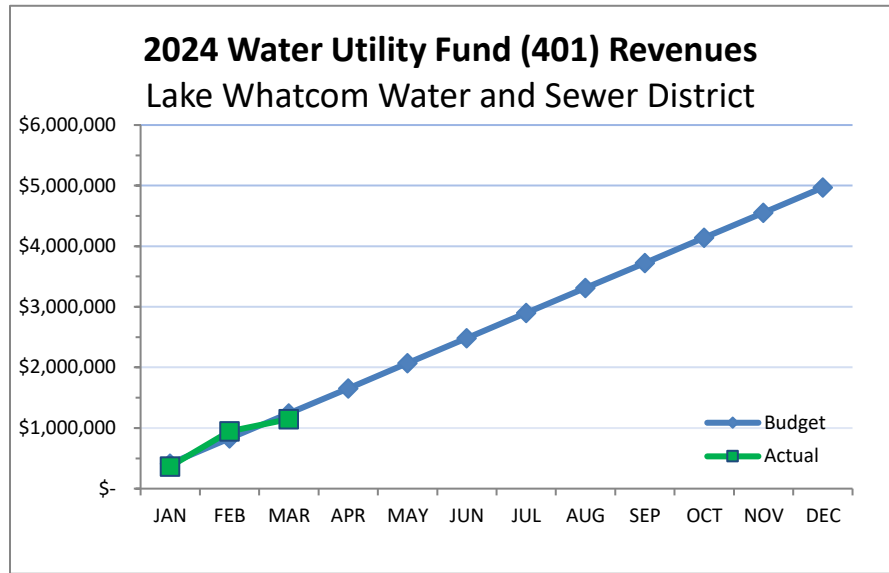
Lake Whatcom Water and Sewer District's (District) commitment to its conservative fiscal policies throughout 2023 allowed the District to close out the previous year with stable fund balances and fully funded operations and contingency reserves to begin the new fiscal year. Noteworthy financial events in the first quarter of 2024 included official notice from Congressman Larsen's office that the District will receive a \$220,000 congressional earmark through the Department of Interior to help fund the replacement of the District's Division 7 Reservoir. The official press release can be viewed [here](#). The funding is an instrumental component for the replacement of this aging reservoir with two new reservoirs that are designed to meet current seismic standards and will be outfitted with ShakeAlert earthquake warning system which will contribute to a safer and more reliable drinking water system to the customers served within the District. The total cost of this project is estimated at \$2.9 million and includes funding sources from a Hazard Mitigation Grant through FEMA, loan proceeds from a low interest rate loan from the Public Works Board, and matching dollars from the District.

Other items worth mentioning in the first quarter include the purchase of rate modeling software from Waterworth. This new software will allow the District to have a greater understanding of cash-flows and the impacts future operating and capital costs will have on the District's finances. It will help ensure the District's commitment to financial viability and sustainability through rates while delivering the best possible service to our customers at the lowest cost possible. Also taking place in the first quarter, January was the first month that the District's new billing cycle took effect. The District still maintains a billing cycle of every two months but shortened the due date from approximately 55 days to pay to 25 days to pay with disconnections taking place at 60 days past due rather than approximately 100 days past due.

The District continues to take advantage of the higher interest rates in 2024 and is strategically investing 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 first quarter of 2024, the District invested approximately \$800,000 additional funds in the LGIP. By keeping more of our portfolio in LGIP, we are not only getting the highest return on our money but we are also ensuring that as we head into the second and third quarters of the year, we maintain liquidity to pay for large capital projects that are anticipated to begin in those quarters. While the District has secured outside funding sources to cover the majority of the Division 7 Reservoir replacement, these funds are only available as reimbursement and we anticipate delays in receiving those funds. As it is unclear if the Federal Open Market Committee (FOMC) will raise rates again or begin cutting rates, the District continues to monitor the market closely and continues to perform cash flow analysis on a regular basis. 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.

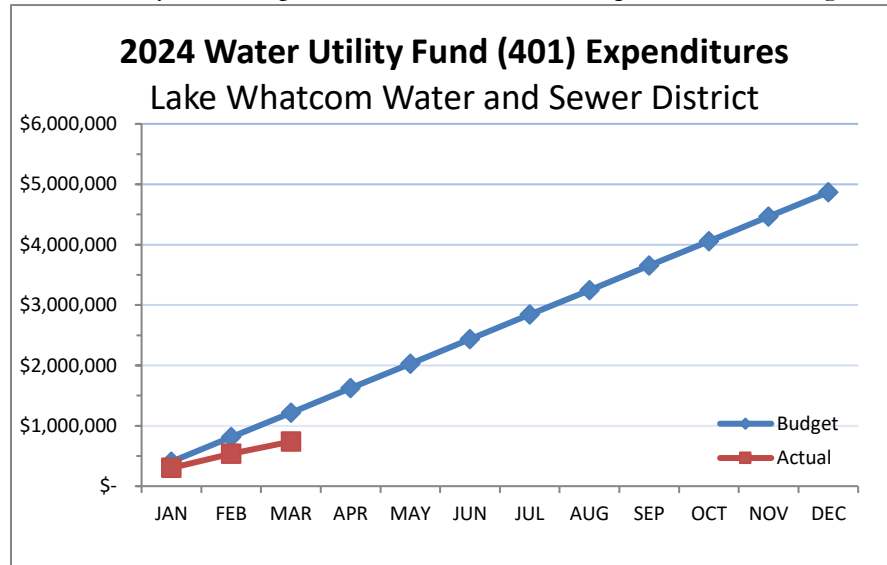
Water Utility Fund (Fund 401)

As of March 31, 2024, Water Utility Fund revenues tracked closely with projections. (\$1.2 million budgeted vs. \$1.1 million actual). The Water Utility Fund saw slight increases in revenue during the months of January and February due to the overlap in the revised billing cycle. However, it is anticipated that these will track more closely with projections and



past trends as the year continues. As noted in the summary above, the District continues to manage its investment portfolio strategically to take advantage of higher interest rates and ensure liquidity throughout the year as capital costs are anticipated to be significant in 2024. Investment earnings in the first quarter for the Water Utility Fund totaled approximately \$25,000. It is anticipated that the investment earnings will surpass budgeted expectations in the second quarter but will more than likely taper off towards the end of the year with anticipated rate cuts from the FOMC and the District's needs to use investment funding for capital projects. Ultimately, the District's revenues remained sufficient to support operations, capital, and debt service obligations throughout the first quarter of 2024.

Water Utility Fund expenditures closed the first quarter of 2024 significantly under budget. (\$737,966



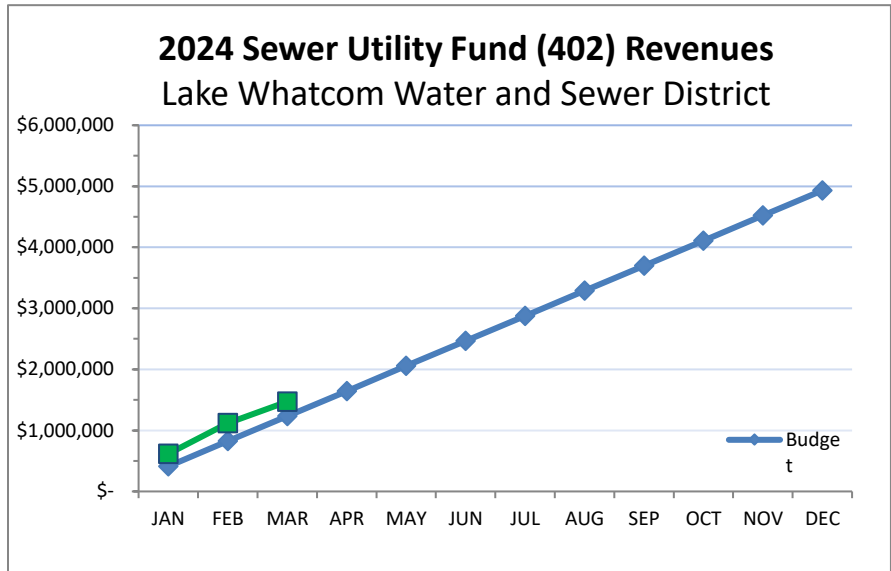
actual vs. \$1,217,262 budget). This largely is a result of capital improvement projects that are scheduled to be completed later in 2024 and will track more closely with budgeted projections. That said, operating expenditures in the Water Utility Fund remained on budget through the first quarter. This is a result of the conservative approach

staff took in preparing the 2023-2024 Biennial Budget and continued monitoring of costs throughout the year to keep inflationary cost impacts to a minimum. Also, in accordance with the District's

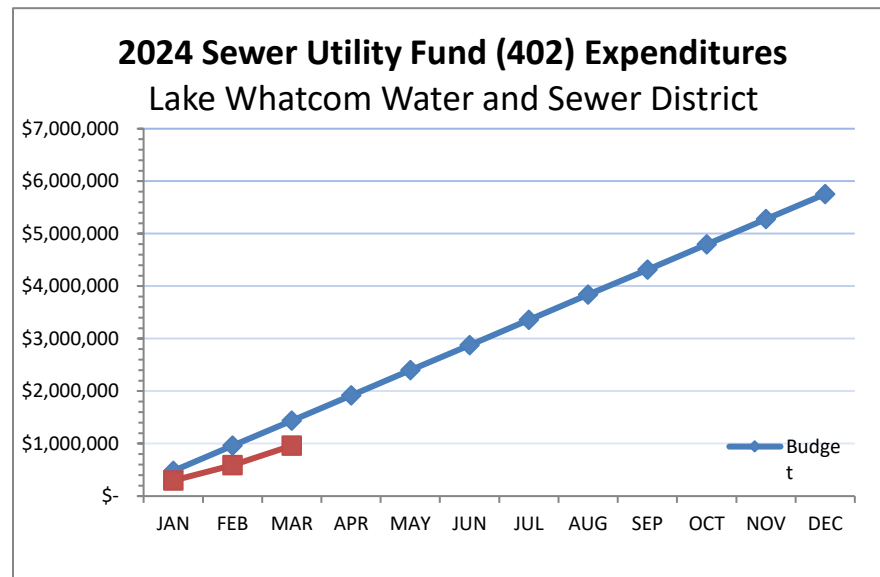
adopted rate schedule, District revenues will continue to outpace expenditures in the coming years as the District prepares for significant capital projects that will require reserves to be built up to mitigate reliance on debt financing.

Sewer Utility Fund (Fund 402)

Sewer Utility Fund revenues slightly outpaced budgeted expectations during the first quarter (\$1,470,581 actual vs. \$1,232,883 budgeted). Similar to the Water Utility Fund, the Sewer Utility Fund saw increases in revenue during the first quarter due to the overlap of the new billing cycle. The District anticipates revenues to align more closely with projections as the year continues.



Lastly, like the Water Utility Fund, investment interest also outpaced projections in the first quarter in the Sewer Utility Fund earning approximately \$25,000.



Similar to the Water Utility Fund, the Sewer Utility Fund expenditures lagged projections (\$961,468 actual vs. \$1,438,791 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 due to the District’s adherence to the land disturbance window

allowed within the Lake Whatcom Watershed which limits construction activity and only allows for significant land disturbance between June 1st through September 30th. It is also worth noting that, similar to the Water Utility Fund, operating expenditures finished the first quarter under budgeted projections as well. 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 during the first quarter of 2024.

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 2024 with a balance of \$1,541,238 and increased to \$1,950,939 in the first quarter. The overall fund balance is anticipated to continue to increase to build fund balances for significant future capital projects in the coming months and 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 202 with a balance of \$4,012,484 and increased to \$4,521,596 in the first quarter. 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 months and years. This surplus is identified through the adopted 2021 rate study.

Sewer Contingency Reserve (Fund 425)

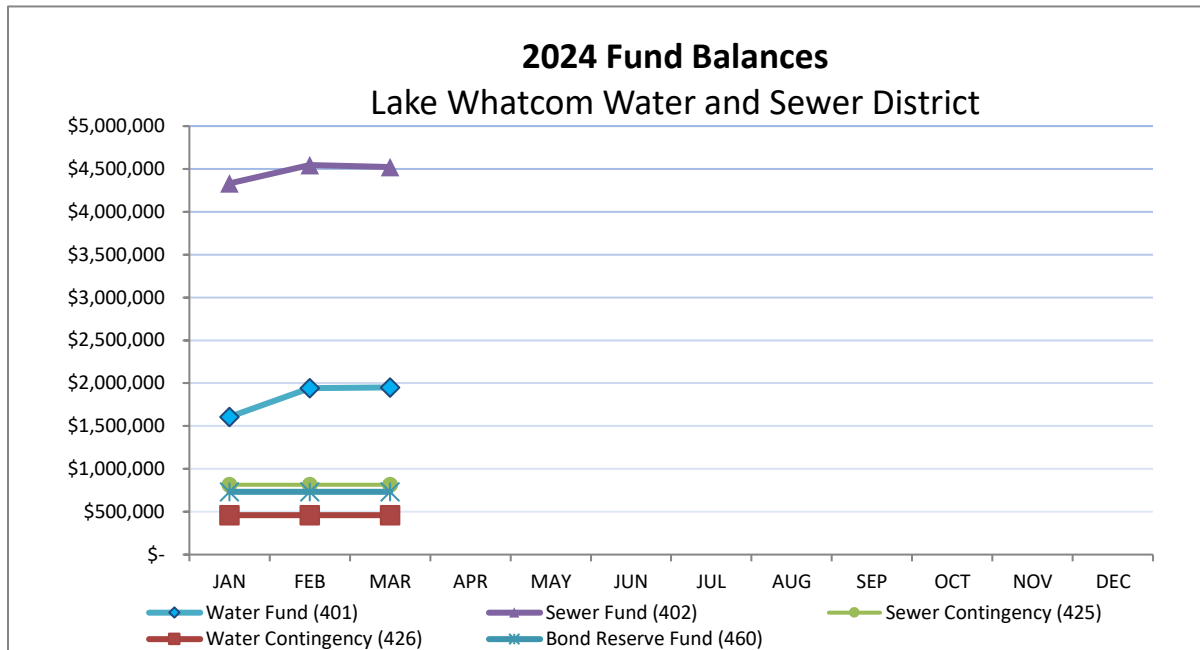
A sewer contingency reserve is maintained in accordance with District financial policies at one percent of the sewer utility infrastructure replacement cost (\$815,000). This fund provides for paying for unanticipated costs that may be incurred by the Sewer Utility. The Sewer Contingency Reserve was fully funded throughout the first quarter of 2024.

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 of 2024.

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 the first quarter of 2024.



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 31, 2024.