



Lake Whatcom Water & Sewer District

Rate Analysis & Cash Forecasting Model

2024 - 2040

May 29, 2024

It is the mission of Lake Whatcom Water & Sewer District (District) to provide the best possible water and sewer services to its customers in a cost-efficient manner, and in a way that contributes to protecting Lake Whatcom's water quality.

WATER UTILITY FUND

The District provides water service to approximately 4,000 residential connections within an 18 square mile service area surrounding Lake Whatcom. The District operates three Group A water systems that includes two water treatment plants eight reservoirs, five pump stations, and over 70 miles of transmission and distribution lines serving the communities of Sudden Vally, Geneva, Agate Heights and Eagleridge around Lake Whatcom.

Bi-monthly service charges are collected by the District to provide resources to plan, manage, design, construct, maintain, and upgrade the District's systems. The main goal in reviewing rate models is to develop funding strategies that will support the District's water utilities for the next 20 years and beyond. The revenue requirement identifies the total revenue needed to fully fund the water utility on a stand-alone basis, considering operating and maintenance expenditures, capital project needs, debt service obligations, and fiscal policy achievement through adequate reserves and cash flow forecasting.

This model reflects guidance consistent with the 2022 FCS Group Utility Rate Study report. It should be noted that the FCS Group report only reflected revenues and expenditures through 2021, whereas this report reflects revenues and expenditures through 2023 and the approved budget for fiscal year 2024. Other noteworthy revisions include inflationary numbers based on current market projections for operating costs as well as the new debt issuance of the Public Works Board Loan and grant funding through FEMA for the Division 7 Reservoir Replacement Project. Along with this, the anticipated costs and revenues associated with the Sudden Valley Water Treatment Plant Chlorine Contact Basin are also reflected in this model.

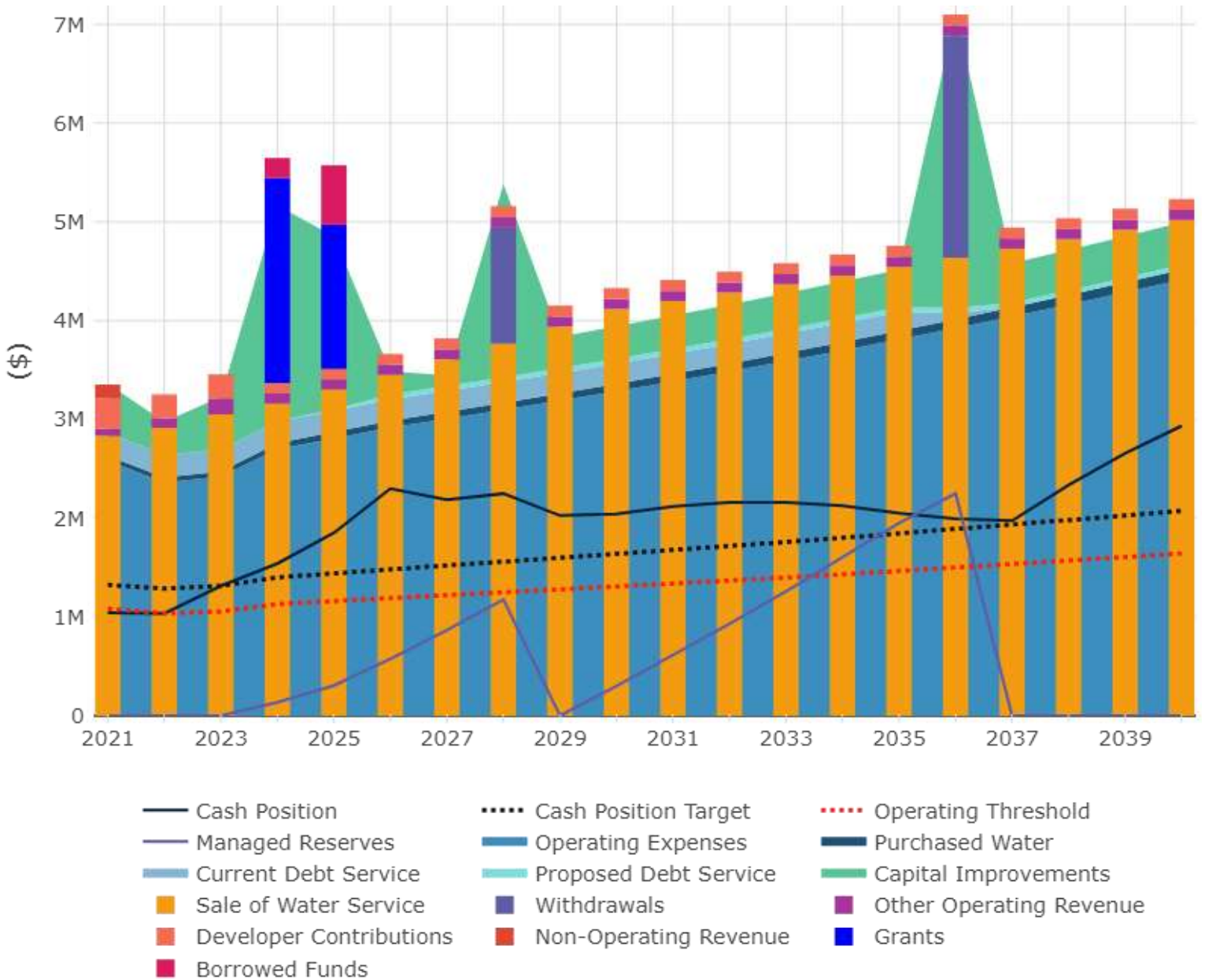
This forecast also reflects the District's utility revenue needs to preserve sound fiscal policies that align with Washington State statute and financial best practices. The District maintains an operating reserve that is designed to provide a liquidity cushion and protect the utility from the risk of short-term variation in the timing of revenue collection or payment of expenses. This forecast achieves a 90-day operating reserve within the water utility fund throughout the 20-year forecast period. Further, the District also maintains a Capital Contingency Reserve fund as well which provides a source of emergency funding for unexpected asset failures or other unanticipated capital needs. This fund is fully funded at 1% of the original cost of the utility. With both these reserves fully funded, the District maintains slightly higher reserves to reach 180 days of operating cash on hand throughout this model.

Further, the District also maintains a rate funded system reinvestment strategy that is designed to plan for long-term infrastructure replacement through a regular and predictable rate provision which helps minimize the reliance on debt. This fund is increased \$10,000 per year and is also modeled throughout this forecast.

The remainder of this report focuses on actuals from fiscal years 2021-2023 and the approved budget of 2024. Rates have been modeled consistent with the information provided by FCS Group. However, it should be noted that different assumptions have been made regarding the current state of the U.S. economy to reflect more realistic inflationary percentages and projections in years to come. Along with this, revisions to the Capital Improvement Program (CIP) have also been reflected in this model that differs from that which was modeled by FCS Group to provide more up to date information and the state of current fiscal impacts.

Figure 1 below reflects the complete analysis of revenue requirements, operating costs, capital project costs, and fiscal policies as it relates to reserves, debt service coverage requirements, and cash on hand. This figure shows a 20-year forecast with stacked expenses as area, revenue sources as columns, and various cash amounts as lines. Further, the Cash Position Target line reflects the District’s goals in relation to the 90-day operating reserve, 1% Capital Contingency Reserve, and the System Reinvestment target while the Operating Threshold only reflects the 90-day operating reserve and the Contingency Reserve. The Managed Reserves relates to the Capital Surplus for future capital projects. The following pages will discuss in further detail assumptions as of the date of this report and the revenue requirements reflected in Figure 1 below.

Figure 1 – Financial Model Overview



Operations & Maintenance

Figures 2 and 3 show Operating and Maintenance Expenses over a 20-year forecast for the District’s Water Utility Fund. These expenses are derived from actual data, plus projected expenses with an average inflation rate of 3.3%.

Figure 2 – Operating Expenses Breakdown

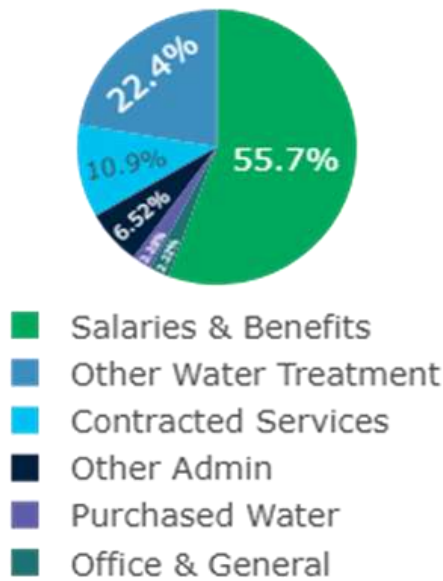
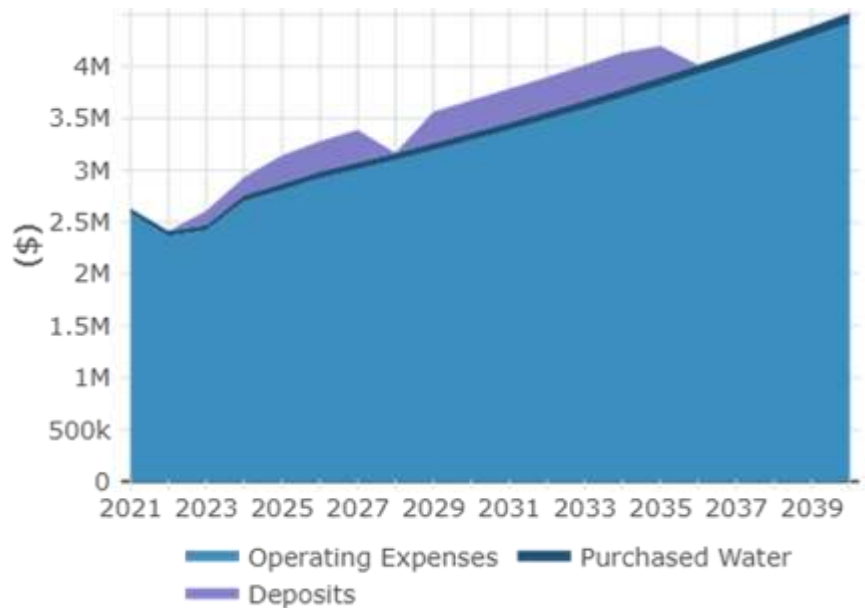


Figure 3 – Historical and Projected Operating Expenses



Historical data was used for fiscal years 2021 – 2023 and approved budgeted expenses for 2024 to generate the operating expenses in this model. Further, projections for years 2025-2040 were based on assumptions from current market conditions as of the date of this report. For fiscal years 2025 – 2026, a 4% inflationary projection was used based on the approved 2024 budget. Recognizing that the federal government’s target for inflation is 2%, for years beyond 2026, a more conservative inflation escalation was used of 3%. It should be noted that in the approved 2021 rate study, FCS Group projected and based assumptions on a 2.5% general cost inflation.

Figure 1 presents the revenue requirement forecast through 2040. For any utility to be self-sufficient, the utility must recover its full revenue requirements on a continuing basis. Operating expenses are the prudent and necessary costs to operate and maintain source of supply, treatment, pumping, transmission and distribution facilities as well as the cost of customer service, administrative, and general costs. Generally speaking, operating costs are on-going expenses that must have revenue to support on an on-going basis and should never be funded through reserves.

Figure 2 depicts how the District’s operating costs are accounted for with Salaries and Benefits being the largest expense of operations. Costs of operating the treatment plants and distribution of water is the next largest category. Expenses associated with this include supplies, repairs and maintenance, and small assets. Contracted services include costs associated with professional services (legal, engineering, testing, and merchant services). Purchased Water represents the cost of water purchased from the City of Bellingham to serve the Eagleridge water system. Other water supply costs include general administration costs such as supplies, training, travel, permits,

and memberships/dues. Further, the Deposits modeled, reflect funds reserved to increase the Capital Surplus for future large capital projects associated with the Sudden Valley Water Treatment Plant improvements.

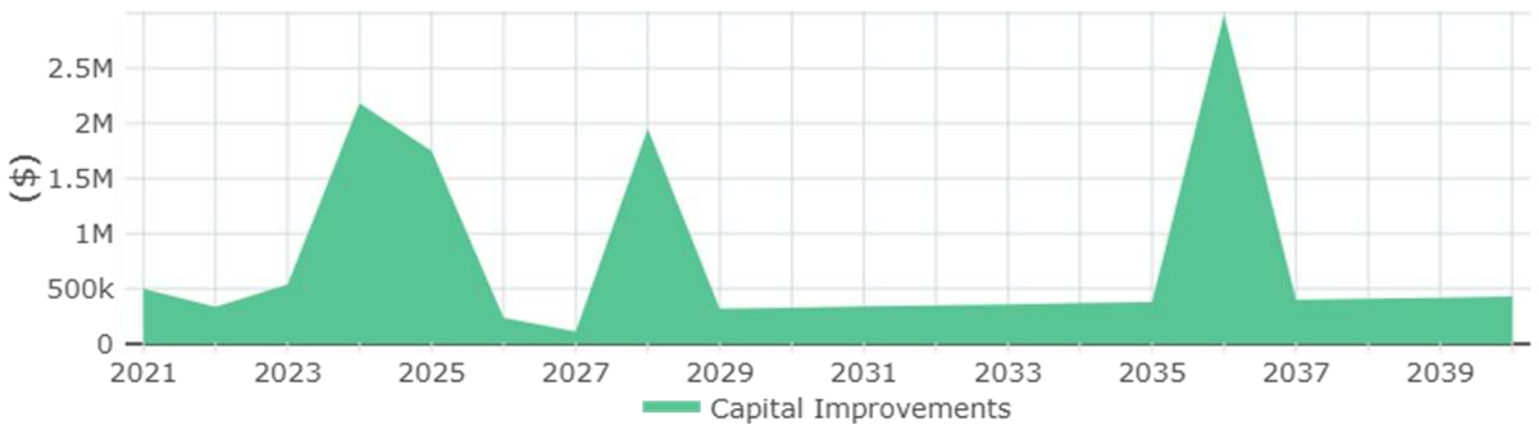
Capital Expenses

At the time the 2021 rate study was approved, the capital expenditure forecast for the District’s water utility fund was based on the 2021-2026 capital improvement program (CIP) as well as the 2023-2041 Sudden Valley Water Treatment Plant (SVWTP) CIP. Beyond 2026, annual repair and replacement projects were assumed at a level commensurate with annual rate-funded system reinvestment (\$10,000 escalation per year). Figure 4 reflects actual costs from 2021 – 2023 and approved budget for 2024 as they relate to the capital improvement program. It is worth noting that due to the Hazard Mitigation Grant received from FEMA for the Chlorine Contact Basin at the Sudden Valley Water Treatment in 2024, that project was moved up from fiscal year 2028 to fiscal year 2024 to begin design and permitting, with construction costs recognized in 2025. The grant agreement and contract were approved and awarded during the regularly scheduled board meeting on May 8, 2024. Further, due to some of the future improvements at the SVWTP being grant contingent, costs associated with those projects have been omitted from this model. However, the pump replacement in 2026 and the system improvements in 2036 are modeled as these are part of the critical components of the plant that must be maintained to ensure proper function of the plant.

Figure 4 presents the costs associated with administering the District’s water capital improvement program. Costs are provided by year with a total program cost through 2040 being approximately \$15 million with most of those costs expected to be cash funded or “pay-as-you-go” financing. While the District receives a portion of this funded through General Facilities Charges (GFCs), the majority of the responsibility falls on the rate payers to ensure funds are available to maintain and improve the water system throughout the District.

To minimize the amount of debt incurred, the capital reserve balances need to fluctuate in response to the timing of the CIP. In years with high cash demands for capital projects, the District will consider use of these funds and replenish them in future years where capital costs are lower. This is discussed in further detail later in the report.

Figure 4 – Capital Improvement Plan Expenditures



Debt Servicing

In the past, the District’s borrowing has included a mixture of low-cost State loans and revenue bonds. Debt financing is always a “fall back” option for the District in capital funding. To the degree sufficient capital funds are not available from reserve balances, rate funded capital, or general facilities charges, then the forecast assumes that revenue bonds would be issued to meet the remaining need. An example of this is illustrated in Figure 5 with the two bars indicating the use of funds from the Public Works Board low interest loan. These funds were necessary to minimize the funding gap because of a funding shortfall in the Division 7 Reservoir Replacement Project in which funding from the FEMA grant didn’t cover the full costs of the project. It should be noted that this is a deviation from what was represented in the 2021 rate study as it was unknown at the time that the Division 7 project would have such a significant funding gap. Further, Figure 5 also shows current debt service obligations illustrated by the light blue area and future debt service requirements illustrated by the turquoise line due to the Public Works Board loan.

Debt service coverage is typically a requirement associated with revenue bonds and some State loans, and it is an important benchmark to measure the riskiness of the utility’s capital funding plans. Coverage is most easily understood as a factor applied to annual debt services. In such case, if it issues revenue bonds, the utility agrees to collect enough revenue to meet operating expenses and not only pay debt service but to collect an additional 25% above bonded debt service. The extra revenue is a “cushion” that makes bondholders more confident debt service will be paid on time.

Figure 5 – Debt Servicing

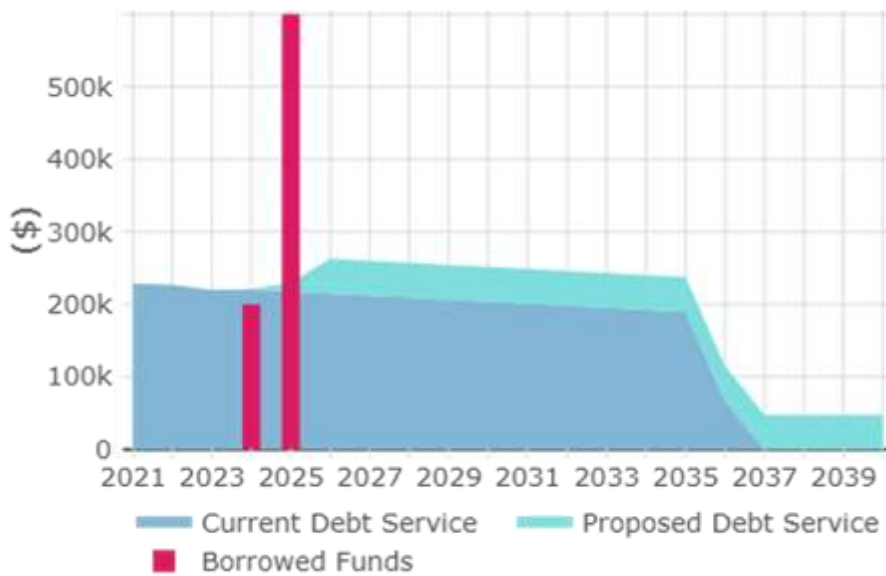
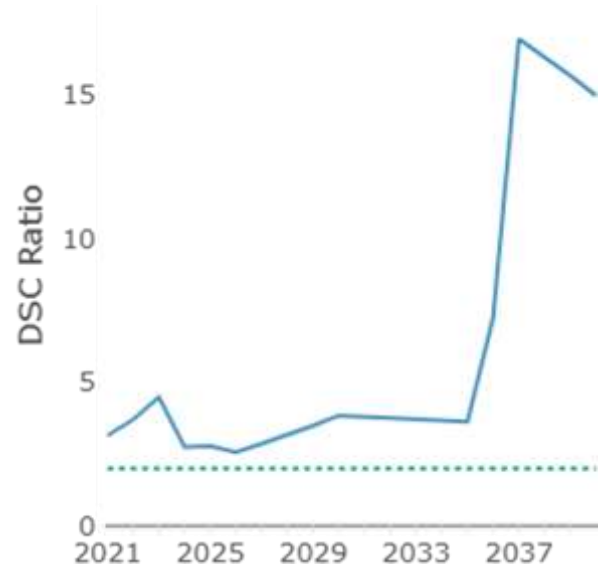


Figure 6 – Debt Service Coverage



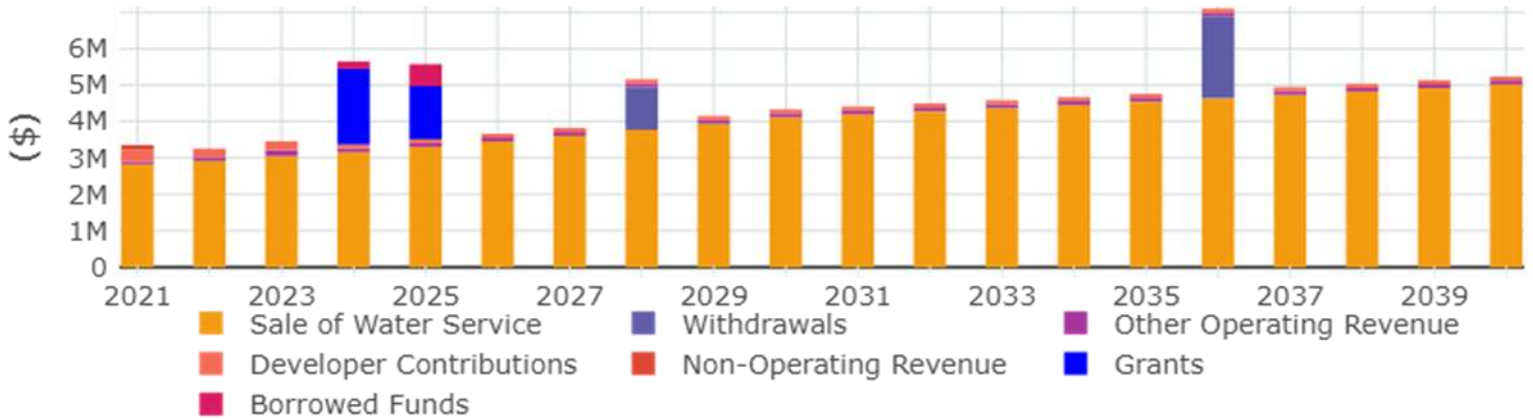
In actual practice, revenues from utilities within a single agency are cross-pledged, meaning either utility could conceivably be required to pay debt service for the other’s obligations. This is true for the District. Currently the District has two Drinking Water State Revolving Fund loans and the Public Works Board loan in the water utility fund, however, within the sewer utility fund is a revenue bond from a refinance in 2016. Per the contractual obligations of that bond, the District has a minimum bonded debt service coverage requirement of 1.25. However, the District has taken a more conservative approach and has set a target debt service coverage of 2.0 on bonded debt that is assumed throughout this forecast. The District also maintains a separate bond reserve fund that is

fully funded at \$772,000. In addition, the majority of the debt the District currently holds will be paid in full by 2035, with the exception of the debt issued in 2024 that will be paid in full by 2044. This results in a significant increase in debt coverage in 2036, as presented in Figure 6.

Revenues

Figure 6 shows the various sources of revenue for the District’s water utility fund, and how they change over a 20-year period. Revenue predominantly comes from Sale of Water Service.

Figure 6 – Revenues



The revenue requirement analysis evaluates whether the utility’s revenues are sufficient to meet the financial obligations of operating costs, capital costs, and debt service costs. In determining this, the District uses two tests as described below:

- **Cash Flow Test** – The cash flow test determines whether the utility’s annual revenues are sufficient to cover the known cash requirements for each year of the forecast. The District can temporarily waive these requirements of the cash flow test as part of a conscious decision to phase in rate increases, as long as its operating reserve balance is sufficient to absorb the resulting cash flow deficit.
- **Coverage Test** – The coverage test evaluates the utility’s ability to meet applicable bond coverage requirements. As this test focuses on annual financial performance, it precludes the use of reserves to cover shortfalls.

When determining rates, the test with the greatest deficiency generally drives the rate increase in any given year. Most often that test is the cash flow test.

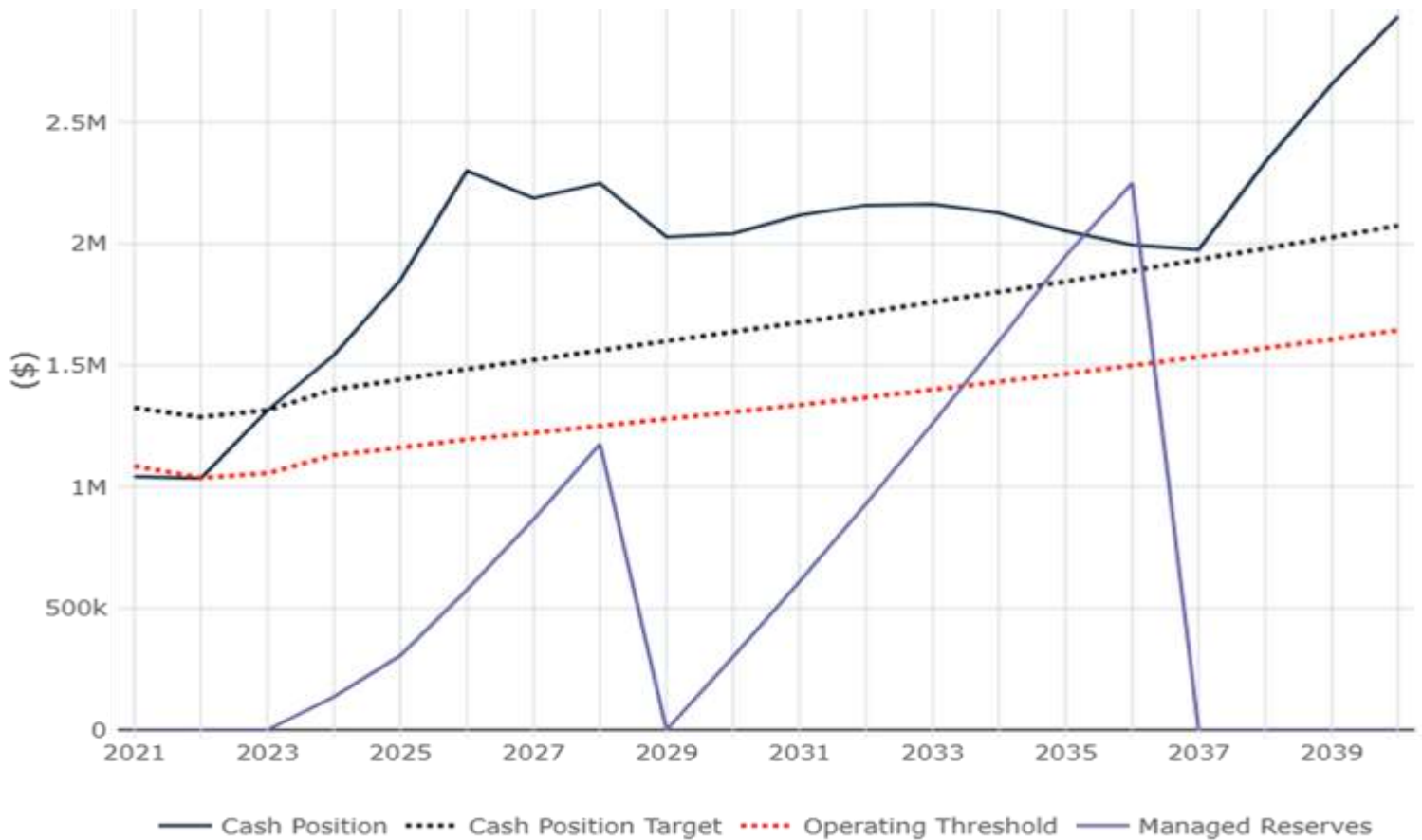
The forecast modeled in Figure 6 reflects revenues from fiscal years 2021-2023 and the approved budget from 2024 as well as anticipated revenues from grants and loans in 2025. Further, Figure 6 reflects annual rate increases of 4.5% approved through 2026. Along with this, the model reflects the long-term modeling from FCS Group to reflect a 4.5% increase through 2030 after which increases slow to 2% each year through 2040. The effects of these increases are illustrated in Figure 7 as it relates to cash and reserves for the District’s water utility fund. Also worth mentioning, the “Withdrawals” noted in dark purple are a direct correlation of the District using the Capital Surplus to cover improvements at the Sudden Valley Water Treatment Plant in 2028 and 2036.

Also included in Figure 6 are Developer Contributions, which are associated with new connections to the District’s water utility through approved General Facilities Charges (GFC) revenues through 2026 with year-over-year increases. The District takes a conservative approach in budgeting for these revenues and plans for ten GFCs in a fiscal year. The District reviews these charges approximately every five years to ensure newly connecting customers are paying a proportionate share of the utility’s investment in system capacity to include both historical cost of existing capital assets and the planned costs of future capital projects. General Facilities Charges serve two main purposes to provide equity between existing and future customers and to provide a source of capital funding. In keeping with past practices, these rates are increased 3% annually between review of rates.

Cash Position

Based on expenses and revenues modeled over 20 years, the black solid line (Cash Position) in Figure 7 indicates projected cash available to the District’s water utility fund over the planning horizon. When the Cash Position line trends upward, total revenues exceed the combined total of operating, capital, and debt service expenses for that year. When trending downward, the Cash Position line indicates the system receives less cash than it spends. Also shown is an Operating Threshold line, indicating the lowest cash levels allowed to operate the system, and a Cash Position Target which determines ideal cash levels over time.

Figure 7 – Cash Position



As noted above the solid black line, Cash Position, in Figure 7 projects the cash available to the District over the course of this model. The dotted black line reflects the necessary funds to fully fund the operating reserve (90 days), the contingency fund, and the system reinvestment program. The red dotted line, Operating Threshold, reflects the funds needed to fully fund the operating reserve and the contingency reserve fund. Further, the purple line (Managed Reserves) reflects the District’s Capital Surplus that ebbs and flows throughout this model for improvements at the Sudden Valley Water Treatment Plant. In fiscal years 2028 and 2036, the District will use these funds in an effort to avoid having to issue debt for these improvements resulting in the balance being reduced to zero in 2029 and 2036 (consistent with the Fund’s intent when it was created).

With the recommended rates modeled, the District is anticipated to maintain healthy cash balance levels. However, the District is aware of significant cost impacts associated with aging water reservoirs, the improvements to the Sudden Valley Water Treatment Plant that are planned for but not funded unless grants are received (per past Board policy), and potential increases in wages associated with the pending results of a salary survey study the District is currently conducting. It is anticipated that the costs associated with these capital projects and personnel will have a significant impact on the District’s finances. With that being said, the water utility maintains a combined ending fund balance above 180 days throughout the study and cash balances are well above reserve thresholds.

Summary

The recommended rate increases reflected in Table 1 allow the District to accomplish the following:

- Continue to fund existing operating expenses and debt service.
- Allow the water utility to cash-finance and/or cover new debt service obligations resulting from the capital funding strategy.
- Maintain utility reserves at a healthy level throughout the forecast.

Table 1 – Recommended Water Rates – Single Family

| Bi-Monthly Rate Charges | | | | | | | | | | |
|-------------------------|----------|----------|----------|----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Recommended Rate Plan | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
| Adjustment Rate | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 2.0% | 2.0% | 2.0% |
| Fixed Charge | \$ 86.79 | \$ 90.69 | \$ 94.77 | \$ 99.03 | \$ 103.49 | \$ 108.15 | \$ 113.01 | \$ 115.28 | \$ 117.58 | \$ 119.93 |
| Volume Charge Per ccf | | | | | | | | | | |
| 600-2,500 | \$ 12.31 | \$ 12.87 | \$ 13.45 | \$ 14.06 | \$ 14.69 | \$ 15.35 | \$ 16.04 | \$ 16.36 | \$ 16.69 | \$ 17.02 |
| >2,500 | \$ 15.41 | \$ 16.10 | \$ 16.82 | \$ 17.58 | \$ 18.37 | \$ 19.19 | \$ 20.06 | \$ 20.46 | \$ 20.87 | \$ 21.29 |

SEWER UTILITY FUND

The District does not treat sewage collected from its customers. Wastewater services within the District consist of the collection and transmission of sewage to the Post Point wastewater treatment facility operated by the City of Bellingham. The unique topography and forested areas within the District and Lake Whatcom watershed offer a challenging environment in which to operate utility services. The District owns and operates 28 sewer lift stations and maintains over 75 miles of sewage collection and transmission lines.

Similar to the water utility fund, bi-monthly service charges are collected by the District to provide resources to plan, manage, design, construct, maintain, and upgrade the District's systems. The main goal in reviewing rate models is to develop funding strategies that will support the District's sewer utilities for the next 20 years and beyond. The revenue requirement identifies the total revenue needed to fully fund the sewer utility on a stand-alone basis, considering operating and maintenance expenditures, capital project needs, debt service obligations, and fiscal policy achievement through adequate reserves and cash flow forecasting.

This model reflects guidance consistent with the 2022 FCS Group Rate Study report. The FCS Group report only reflected revenues and expenditures through 2021, whereas this report reflects revenues and expenditures through 2023 and the approved budget for fiscal year 2024. Other noteworthy revisions include inflationary numbers based on current market projections for operating costs. In addition, since completion of the FCS Group report, significant changes have been made regarding the City of Bellingham's Post Point Wastewater Treatment Plant solids handling facility improvements (formerly referred to as the Resource Recovery Project), which is discussed later in this report.

This forecast also reflects the District's utility revenue needs to preserve sound fiscal policies that align with Washington State statute and financial best practices. The District maintains an operating reserve that is designed to provide a liquidity cushion and protect the utility from the risk of short-term variation in the timing of revenue collection or payment of expenses. This forecast achieves a 60-day operating reserve within the sewer utility fund throughout the 20-year forecast period. Further, the District also maintains a Capital Contingency Reserve fund as well which provides a source of emergency funding for unexpected asset failures or other unanticipated capital needs. This fund is fully funded at 1% of the original cost of the utility. With both these reserves fully funded, the District maintains slightly higher reserves to reach 180 days of operating cash on hand throughout this model.

Further, the District also maintains a rate funded system reinvestment strategy that is designed to plan for long-term infrastructure replacement through a regular and predictable rate provision which helps minimize the reliance on debt. This fund is increased \$10,000 per year and is also modeled throughout this forecast.

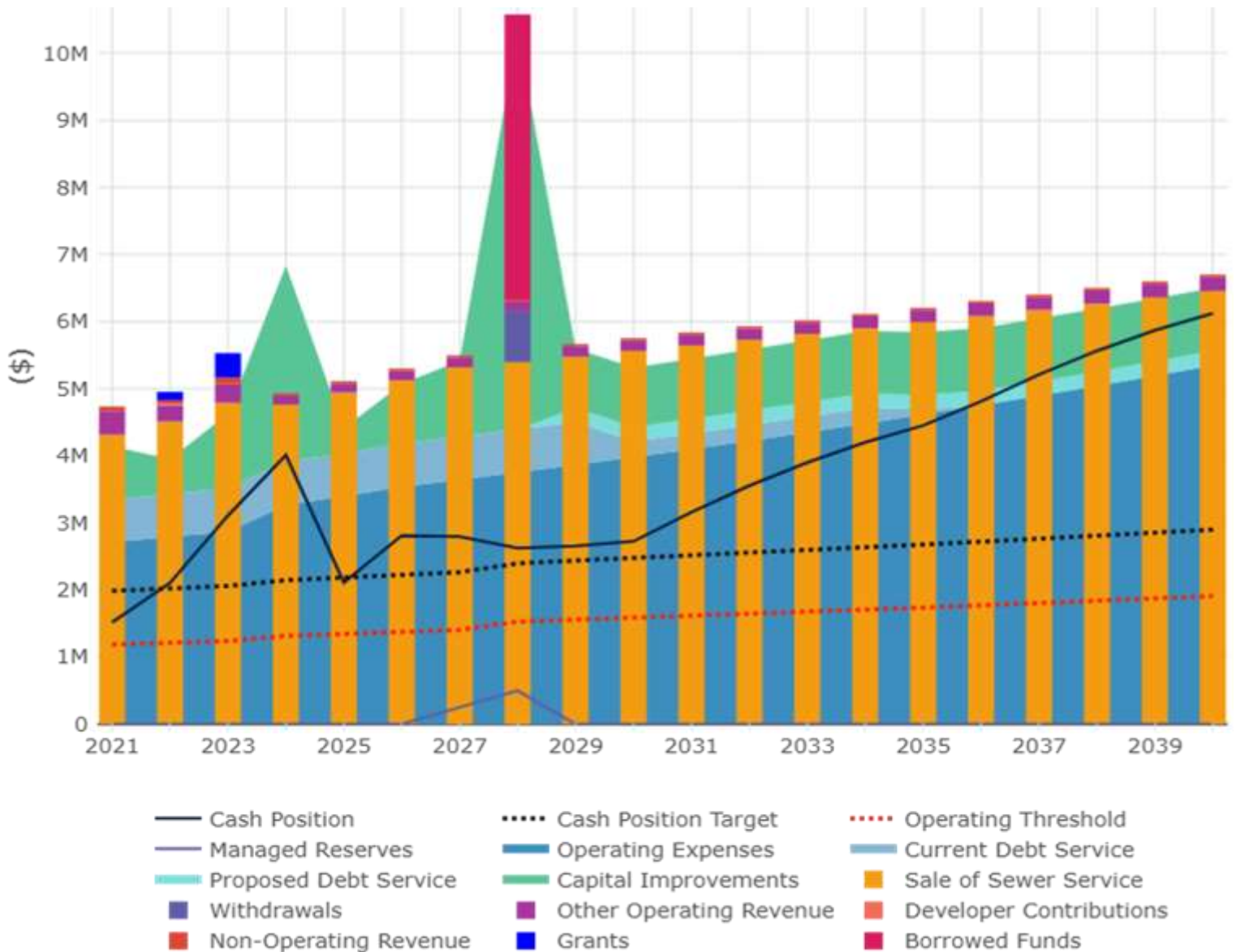
The remainder of this report focuses on actuals from fiscal years 2021-2023 and the approved budget of 2024. Rates have been modeled consistent with the information provided by FCS Group. However, it should be noted that different assumptions have been made regarding the current state of the U.S. economy to reflect more realistic inflationary percentages and projections in years to come.

Similar to the water utility fund, Figure 8 reflects the complete analysis of revenue requirements, operating costs, capital project costs, and fiscal policies as it relates to reserves, debt service coverage requirements, and cash on hand. This figure shows a 20-year forecast with stacked expenses as area, revenue sources as columns, and various cash amounts as lines. Further, the Cash Position Target line reflects all the District's goals in relation to the 60-

day operating reserve, 1% Capital Contingency Reserve, and the System Reinvestment target while the Operating Threshold only reflects the 60-day operating reserve and the Contingency Reserve.

A significant difference from the FCS Group report relates to the Post Point Wastewater Treatment Plant Resource Recovery Project. The costs associated with this at the time of the FCS Group report were forecasted to be realized in 2025. However, since that report, the Post Point Wastewater Treatment Plant Resource Recovery Project has underwent a significant change in scope, as has the timeline for completion. As a result, those costs and debt service have been moved to 2028. As of the date of this report, it is still unknown how the City of Bellingham will proceed with this project, but the District is taking a conservative approach to how the costs are reflected in the rate model and chose to recognize \$5 million of that project in the forecast for fiscal year 2028. Further discussion can be found in the Capital Expense section of this report.

Figure 8 – Financial Model



Operations & Maintenance

Figures 9 and 10 show Operating and Maintenance Expenses over a 20-year forecast for Lake Whatcom Water and Sewer District’s Sewer Utility Fund. These expenses are derived from actual data, plus projected expenses with an average inflation rate of 3.3%.

Historical data was used for fiscal years 2021 – 2023 and approved budgeted expenses for 2024 to generate the operating expenses in this model. Further, projections for 2025-2040 were based on assumptions from current market conditions as of the date of this report. For fiscal years 2025 – 2026, a 4% inflationary projection was used based on the approved 2024 budget. Recognizing that the federal government’s target for inflation is 2%, for years beyond 2026, a more conservative inflation escalation was used of 3%. It should be noted that in the approved 2021 rate study, FCS Group projected and based assumptions on a 2.5% general cost inflation.

Figure 8 depicts the revenue requirement forecast through 2040. For any utility to be self-sufficient, the utility must recover its full revenue requirements on a continuing basis. Operating expenses are the prudent and necessary costs to collect and convey waste as well as the cost of customer service, administrative, and general costs. Generally speaking, operating costs are on-going expenses that must have revenue to support on an on-going basis and should never be funded through reserves.

Figure 9 depicts how the District’s operating costs are accounted for with Salaries and Benefits being the largest expense of operations. Contracted Services is the next largest category and is largely a result of the cost associated with the City of Bellingham treating the sewage received from the District. Also included within contracted services are costs associated with professional services (legal, engineering, testing, and merchant services). Other Collection costs represent expenses associated with repairs and maintenance, supplies, and small asset purchases. Further, the deposits modeled in Figure 10 are a direct correlation to the Capital Surplus. These funds are being used to increase the Capital Surplus for future capital projects related to the City of Bellingham’s WWTP improvements.

Figure 9 – Operating Expenses Breakdown

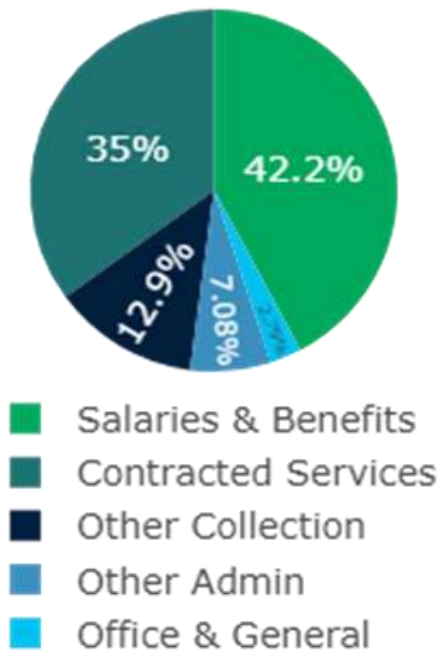
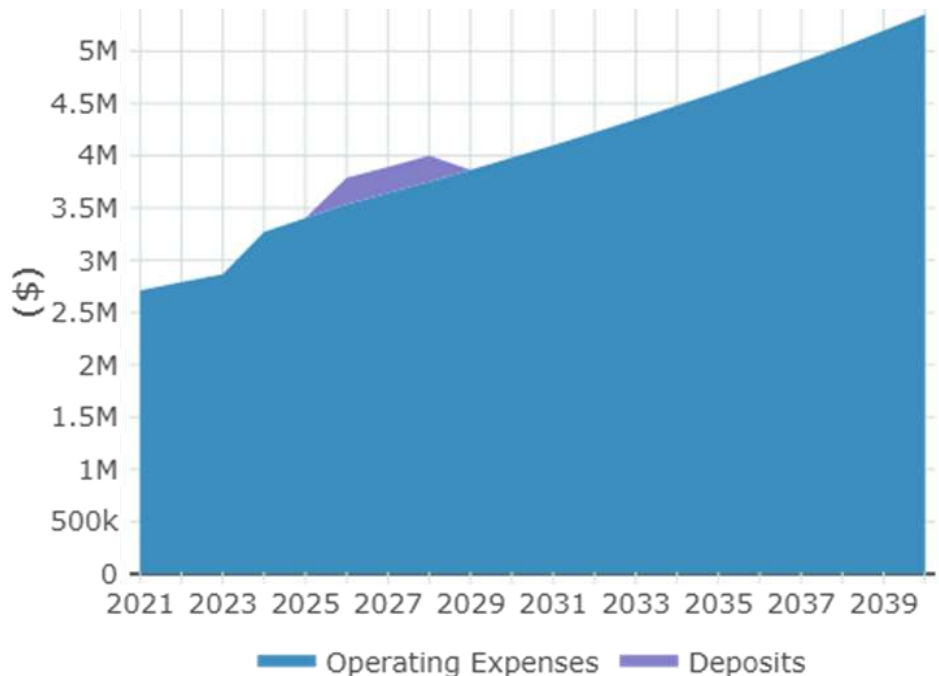


Figure 10 – Historical and Projected Operating Expenses



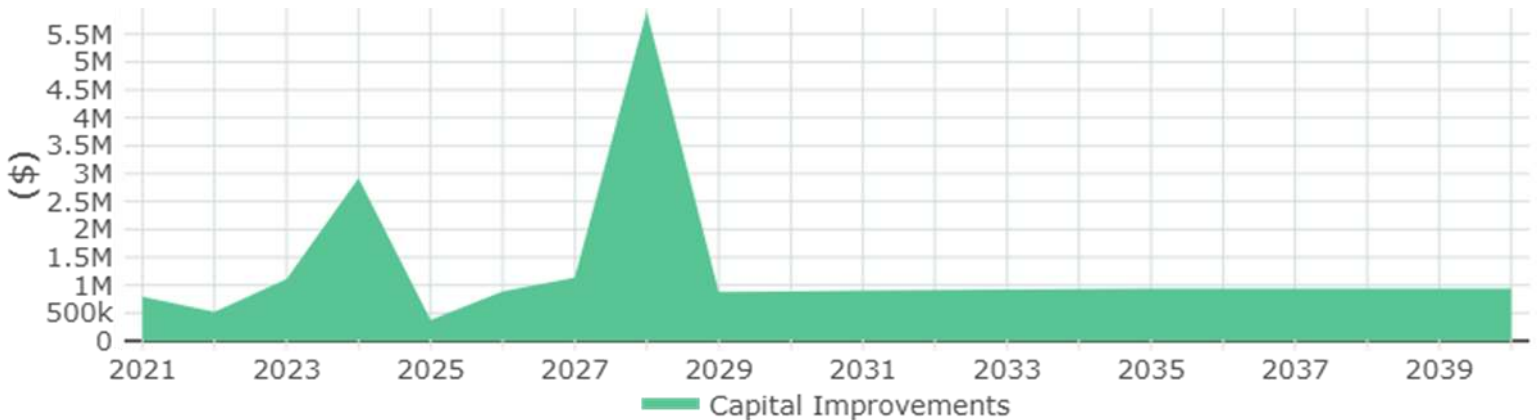
Capital Expenses

At the time the 2021 rate study was approved, the capital expenditure forecast for the District’s sewer utility fund was based on the 2021-2026 capital improvement program (CIP). Beyond 2026, annual repair and replacement projects were assumed at a level commensurate with annual rate-funded system reinvestment (with a \$10,000 escalation per year). With that being said, as discussed above, anticipated Post Point Wastewater Treatment Plant improvements are a large capital projects that the District built into its current rate model.

At the time of the 2021 rate study, it was anticipated the costs associated with the WWTP project would have a significant impact on the District’s finances. The costs were estimated to be approximately \$150 million in which the District would be responsible for 4.8% of those costs as outlined in the Interlocal Agreement between the District and the City of Bellingham. It was anticipated that construction would begin on this project in 2025. However, the City of Bellingham made the decision to halt progress on this project and shift the project scope significantly. As of the date of this report, the District remains unaware of the path forward and has chosen to take a conservative approach to accounting for these costs and shifted the \$5 million associated with the WWTP to fiscal year 2028 to continue building funds to limit the debt service reliance to fund the District’s portion of this project.

Figure 11 presents the costs associated with administering the District’s sewer capital improvement program. Costs are provided by year with a total program cost through 2040 being approximately \$25 million with most of those costs expected to be cash funded with the exception of the District’s portion of the City of Bellingham’s wastewater treatment plant, which is anticipated to be funded mainly by debt.

Figure 11 – Capital Improvement Plan Expenditures



Debt Servicing

In the past, the District’s borrowing has included a mixture of low-cost State loans and revenue bonds. Debt financing is always a “fall back” option for the District in capital funding. To the degree sufficient capital funds are not available from reserve balances, rate funded capital, or general facilities charges, then the forecast assumes that revenue bonds will be issued to meet the remaining need. As mentioned in the Capital Expenses discussion, the District anticipates significant costs for the City of Bellingham WWTP. Most of those costs will need to be borrowed to fund the District’s share.

Figures 12 and 13 model the District’s Debt Servicing and Debt Service Coverage, respectively. It is important to note that the District maintains a Debt Service Coverage ratio of 2.0 or greater throughout this forecast period.

Figure 12 – Debt Servicing

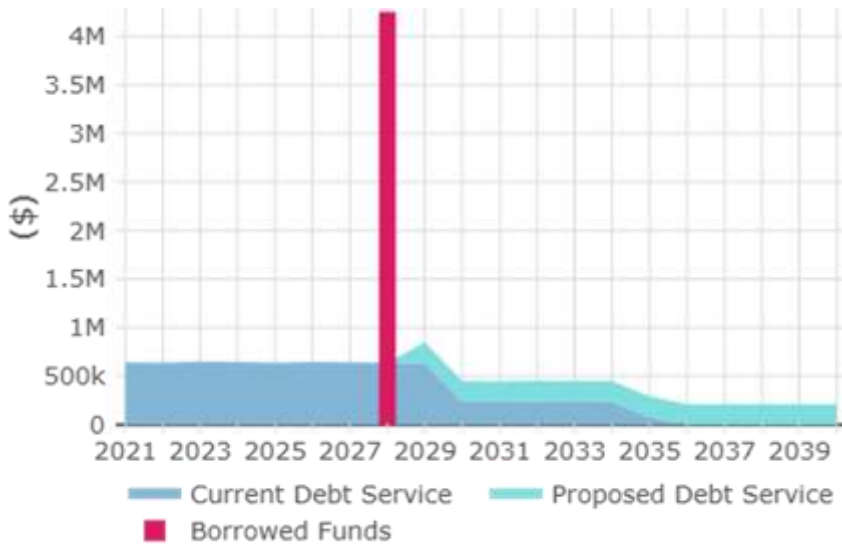
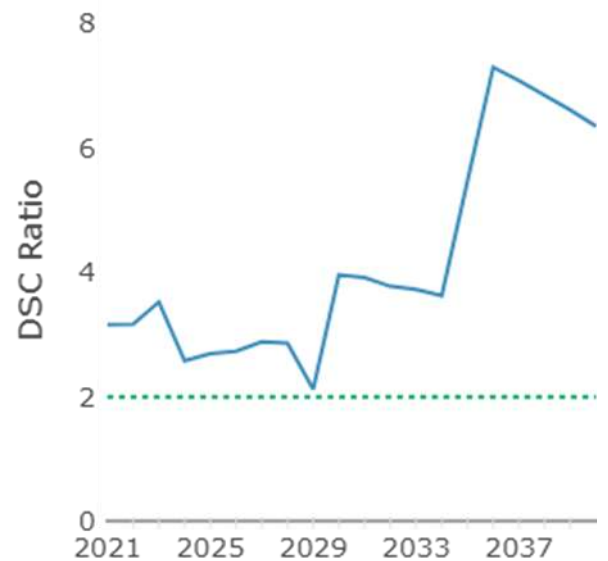


Figure 13 – Debt Service Coverage

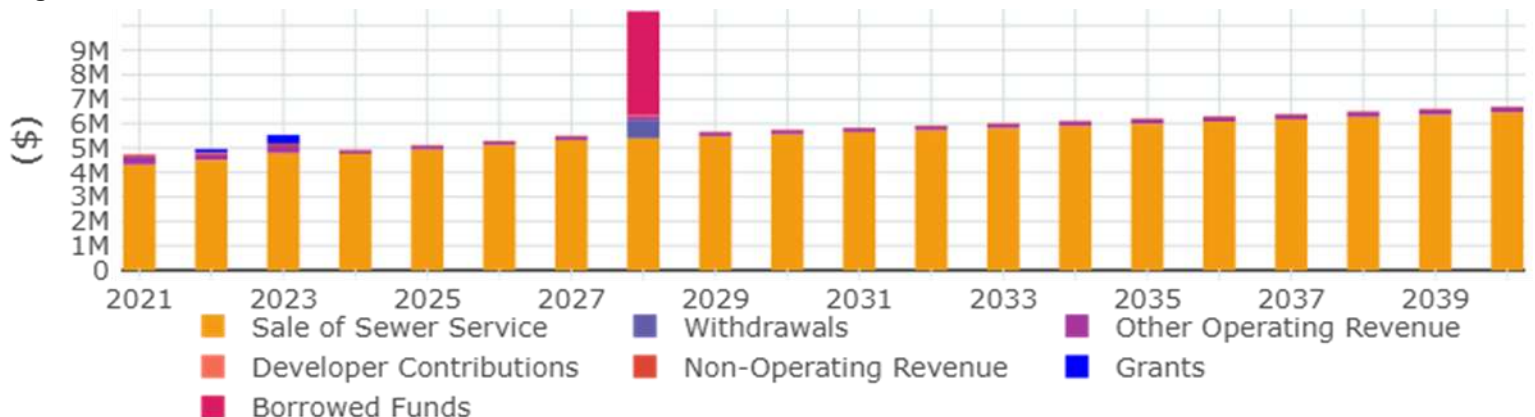


The impacts of \$5 million in additional debt service because of the WWTP improvements are anticipated to increase the annual debt service by \$250,000 in principal and interest payments. This makes the District’s total annual debt service approximately \$887,000 in 2029. This is modeled with the Borrowed Funds in Figure 12 as a bar and the Proposed Debt Service modeled as an area of the new requirement for principal and interest related to the new debt service. However, it should be noted that in 2030 the District’s annual debt service payment for the 2016 Bond reduces significantly to approximately \$230,000 annually until 2035. When the 2016 bond was issued, bond counsel constructed a schedule that allowed for interest only payments in 2027-2029 to allow the rates to phase-towards the full level of debt service.

Revenues

Figure 14 shows the various sources of revenue for the District’s sewer utility fund, and how they change over the 20-year planning horizon. Revenue predominantly comes from the Sale of Sewer Service.

Figure 14 – Revenues



Similar to the water utility fund, the revenue requirement analysis evaluates whether or not the utility's revenues are sufficient to meet the financial obligations of operating costs, capital costs, and debt service costs.

The forecast modeled in Figure 14 reflects revenues from fiscal years 2021-2023 and the approved budget from 2024. Further, Figure 14 reflects annual rate increases of 3.75% approved through 2026. Along with this, the model reflects the long-term modeling from FCS Group to reflect a 3.75% increase through 2027 after which increases slow to 1.5% each year through 2040. The effects of these increases are illustrated in Figure 15 as it relates to cash and reserves for the District's sewer utility fund. Similar to the water utility fund, the "Withdrawals" noted in dark purple are a direct correlation of the District using the Capital Surplus for a portion of costs associated with the City of Bellingham wastewater treatment plant improvements.

Also modeled above, are Developer Contributions which are associated with the District's approved General Facilities Charges (GFC) through 2026 with year-over-year increases. The District takes a conservative approach in budgeting for these revenues and plans for ten GFCs in a fiscal year. The District reviews these charges approximately every five years to ensure newly connecting customers are paying a proportionate share of the utility's investment in system capacity to include both historical cost of existing capital assets and the planned costs of future capital projects. General Facilities Charges serve two main purposes to provide equity between existing and future customers and to provide a source of capital funding.

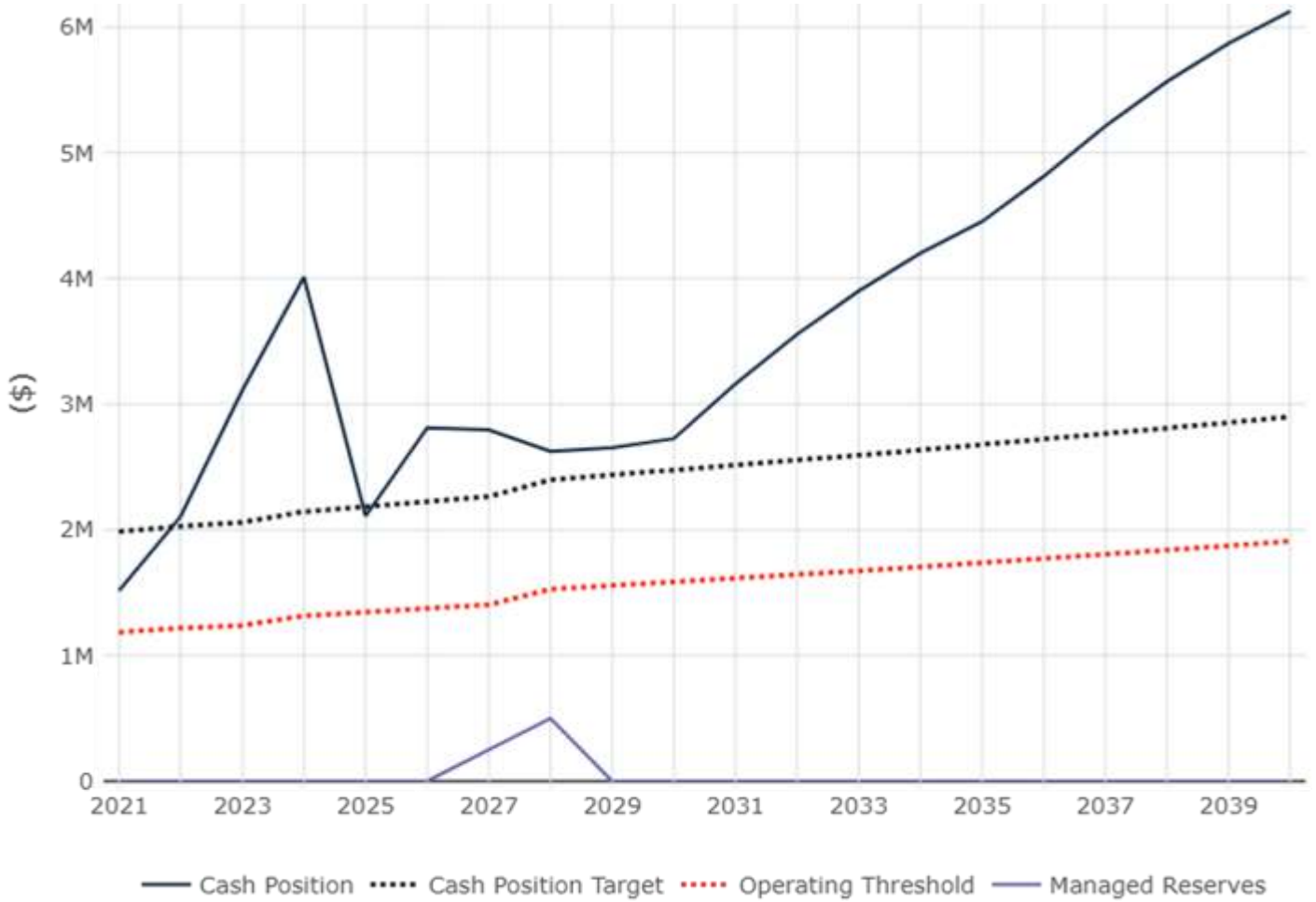
Cash Position

Based on expenses and revenues modeled over 20 years, the black solid line (Cash Position) in Figure 15 indicates projected cash available to the District's sewer utility fund over the planning horizon. When the Cash Position line trends upward, total revenues exceed the combined total of operating, capital, and debt service expenses for that year. When trending downward, the Cash Position line indicates the system receives less cash than it spends. Also shown is an Operating Threshold line, indicating the lowest cash levels allowed to operate the system, and a Cash Position Target which determines ideal cash levels over time.

The target operating balance is 60 days of total annual operating expenditures. Figure 15 shows that in each year of the forecast, the utility is expected to meet or exceed the 60-day mark. Any cash above this 60-day mark is assumed to be available for capital projects.

Further, Figure 15 also shows the forecast for the capital reserve through 2040. The reserve balance is projected to grow until the District uses these funds to limit the debt service associated with the City of Bellingham's wastewater plant improvements. As mentioned previously, the District will be responsible for 4.8% of those costs. While it is still unknown the exact costs or the direction the City of Bellingham will take regarding this project, the District has maintained a conservative approach to continue to plan for significant costs to ensure that the impacts to our customers are limited. Similar to the water utility fund, the sewer fund also uses a Capital Surplus to limit the amount of debt needed to fund a portion of the for the wastewater treatment plant improvements. However, due to the timing of this project, the Capital Surplus isn't anticipated to have a significant amount unless the project is moved beyond 2028. Should this project be pushed beyond 2028, the District will continue to increase the surplus to keep the amount of debt as minimal as possible. As soon as the City formalizes the cost estimates and schedule, this forecast model will be updated to reflect the most accurate costs and impacts to the District.

Figure 15 – Cash Position



Summary

The recommended rate increases modeled in Table 2 below will allow the District to accomplish the following within the sewer utility fund:

- Continue to fund existing operating expenses and debt service.
- Allow to cash-finance and/or cover new debt service obligations resulting from the capital fund strategy of approximately \$25 million in the sewer utility fund.
- Maintain reserves at a healthy level throughout the forecast.

Table 2 – Recommended Sewer Rates

| Bi-Monthly Rate Charges | | | | | | | | | | |
|-------------------------|-----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Recommended Rate Plan | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
| Adjustment Rate | 3.75% | 3.75% | 3.75% | 3.75% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% |
| Fixed Charge | \$ 191.72 | \$198.91 | \$206.36 | \$214.10 | \$217.31 | \$220.57 | \$223.88 | \$227.24 | \$230.64 | \$234.10 |

CONCLUSION

Figure 16 presents the District financial status holistically with both the Water and Sewer Utility Funds represented together. Figure 16 demonstrates that the District’s philosophy of building up reserves to pay for future capital projects is a model that is supportive of nearly all of its capital needs with the exception of the capital improvements associated with the City of Bellingham WWTP improvements in the Sewer Utility Fund. The District can stay above operating reserves as costs ebb and flow over the course of the next 10 years. Further, Figure 17 depicts the District Debt Service Coverage as a whole. This is also important because the District’s Revenue Bonds are secured by all operating revenue within the District whether it is water or sewer. It’s important to note that the District can stay above the 2 times coverage ratio throughout this forecast model. Lastly, Table 3 illustrates the overall impacts to customers through the should the District continue following these recommendations.

Figure 16 – District Wide Financial Model



Figure 17 – District Wide Debt Service Coverage

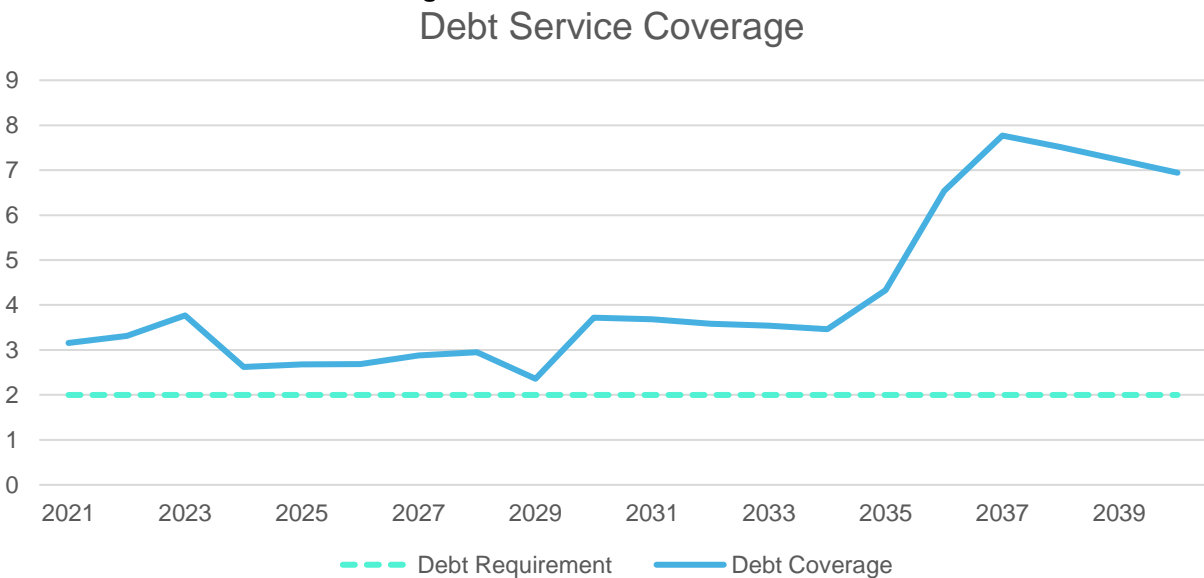


Table 3 – District Bi-Monthly Base Rate Charges

| Bi-Monthly Rate Charges | | | | | | | | | | |
|------------------------------|----------|----------|----------|----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Recommended Rate Plan | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
| Water Adjustment Rate | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 2.0% | 2.0% | 2.0% |
| Fixed Charge | \$ 86.79 | \$ 90.69 | \$ 94.77 | \$ 99.03 | \$ 103.49 | \$ 108.15 | \$ 113.01 | \$ 115.28 | \$ 117.58 | \$ 119.93 |
| Sewer Adjustment Rate | 3.75% | 3.75% | 3.75% | 3.75% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% | 1.5% |
| Fixed Charge | \$191.72 | \$198.91 | \$206.36 | \$214.10 | \$217.31 | \$220.57 | \$223.88 | \$227.24 | \$230.64 | \$234.10 |
| Total Base Charge | \$278.51 | \$289.60 | \$301.13 | \$313.13 | \$320.80 | \$328.72 | \$336.89 | \$342.52 | \$348.22 | \$354.03 |