



## **Quarterly Financial Report Second Quarter 2024**

Lake Whatcom Water and Sewer District  
Bellingham, Washington

## Summary

During the second quarter of 2024, Lake Whatcom Water and Sewer District's (District) financials largely followed budgeted revenue projections in both the Water Utility Fund and the Sewer Utility Fund. Noteworthy financial events in the second quarter of 2024 included official notice that the District was approved for a Hazard Mitigation Grant to replace the Chlorine Contact Basin at the Sudden Valley Water Treatment Plant. The grant is approximately \$1.7 million in both federal and state dollars with District contributions approximately \$245,000. Further, the District was approved for another Hazard Mitigation Grant to complete seismic retrofits to the Geneva Reservoir and the Sudden Valley Water Treatment Plant Booster Station. This grant is approximately \$1.9 million with a District match of approximately \$101,000. Due to the receipt of these grant funds, the District received Board approval for Budget Amendment 3 to the 2023-2024 Biennial Budget to recognize these additional revenue sources as well as costs within the capital program.

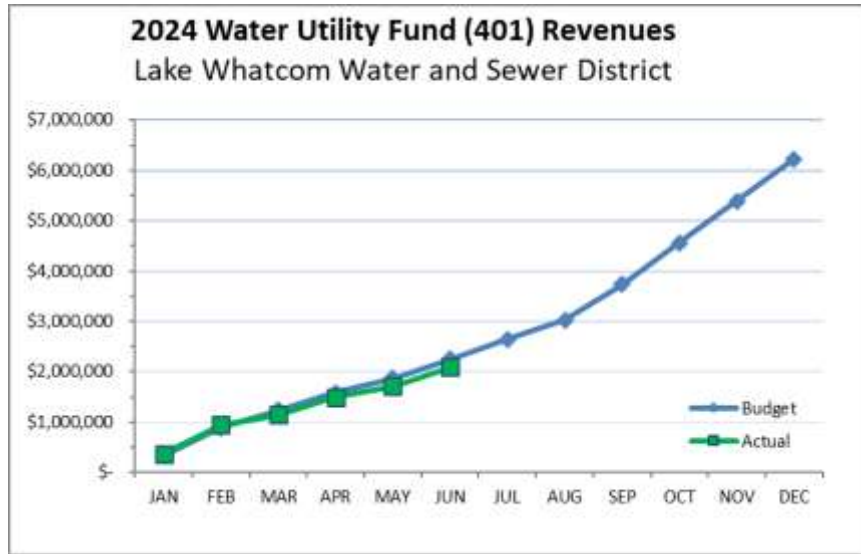
In April, the District received notice from Standard & Poor's Global Ratings (S&P) that its credit rating had been withdrawn due to untimely audits by the Washington State Auditor's Office (SAO). To have the rating reinstated, the District worked swiftly with the SAO to have the 2022 and 2023 financial statements audited and submitted. The audit was completed in June and the final report was published on June 14, 2024, with no findings. The District is moving forward with the assistance of bond counsel and underwriters to facilitate meetings with S&P to mitigate the long-term affects of this and ensure that the SAO completes future audits of the District in a timely manner.

In May, the Board received a formal report detailing the progress and results of the implantation of the Waterworth rate modeling software. The Finance Department provided analysis on the District's current financial standing as well as provided projections through 2040 relating to rates, operating expenditures, debt implications, and the capital improvement program. This report largely followed the philosophy of the most recent rate study performed by FCS Group in late 2021 and provided updated projections based on actual financial data from 2021 through 2023. The report has been published on the District's website and can be found [here](#).

During the second quarter of 2024, the District invested an additional \$300,000 in the Local Government Investment Pool (LGIP). By maximizing investments in the LGIP, the District is ensuring that as we begin progress on large capital projects, we maintain liquidity while getting the highest return on our investments. While the District has secured outside funding sources to pay for most of the Division 7 Reservoir Replacement costs and other large capital projects mentioned above, these grant funds are only available as reimbursement, and we anticipate delays in receiving those reimbursable funds. By maintaining the District's funds in the LGIP, we are afforded the safety, liquidity, and yield as we build up cash to support costs until funds are received from the grant funding agencies. As the market continues to change, the District will monitor options for both short-term and long-term investment strategies that continue to ensure safety, liquidity, and yield.

## Water Utility Fund (Fund 401)

Historically, the Water Utility Fund receives less revenue in the first two quarters of the year, due to lower water usage in advance of summer. Likewise, General Facilities Charges revenues also tend to be higher during the summer months due to the Lake Whatcom Watershed land disturbance window that opens during late Spring and goes through early Fall (June 1<sup>st</sup> through Sept. 30<sup>th</sup>).

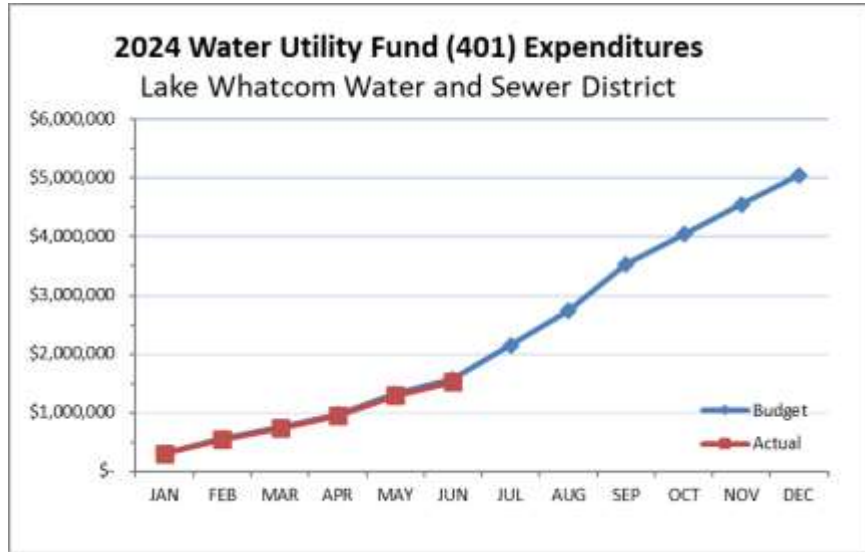


Accordingly, as of June 30, 2024, Water Utility Fund revenues largely followed projections (\$2,252,383 budgeted vs. \$2,098,233 actual). In addition, during the second quarter, the District received approximately \$49,000 in reimbursed grant funds associated with the Division 7 Reservoir project. As the year progresses and work continues on projects that have grant revenue associated with them, the District anticipates an increase in revenue through yearend associated with grant reimbursements.

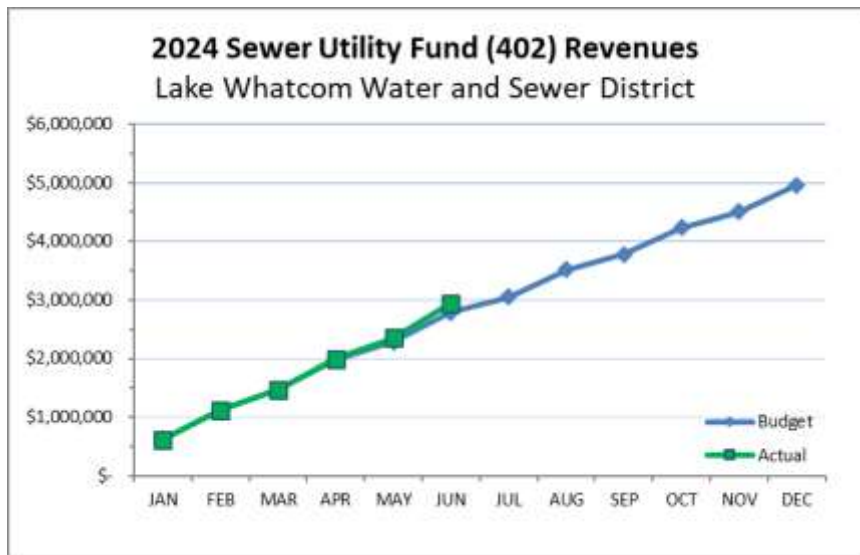
As noted in the summary, the District continues to manage its investment portfolio strategically to take advantage of higher interest rates and ensure liquidity throughout the year as capital costs are anticipated to be significant in 2024. Investment earnings in the second quarter for the Water Utility Fund totaled approximately \$26,100, a slight increase from the first quarter. It is anticipated that investment earnings will taper off towards the end of the year with anticipated rate cuts from the Federal Open Market Committee (FOMC) and the District's need to use investment funding for capital projects. Ultimately, the District's revenues remained sufficient to support operations, capital, and debt service obligations throughout the second quarter of 2024 while maintaining full funding of all reserves.

Similar to revenues, the Water Utility Fund expenditures largely followed projections through the second quarter of 2024 (\$1,522,445 actual vs. \$1,570,000 budget) which are mainly operational costs.

As the year progresses, the District anticipates an increase in costs associated with capital projects as the Division 7 Reservoir construction phase has now begun. Furthermore, the District will have debt service costs in addition to the capital costs in the third quarter, which will increase projected expenditures by approximately \$220,000 as reflected in the steep increase in budgeted projections in the graph above.



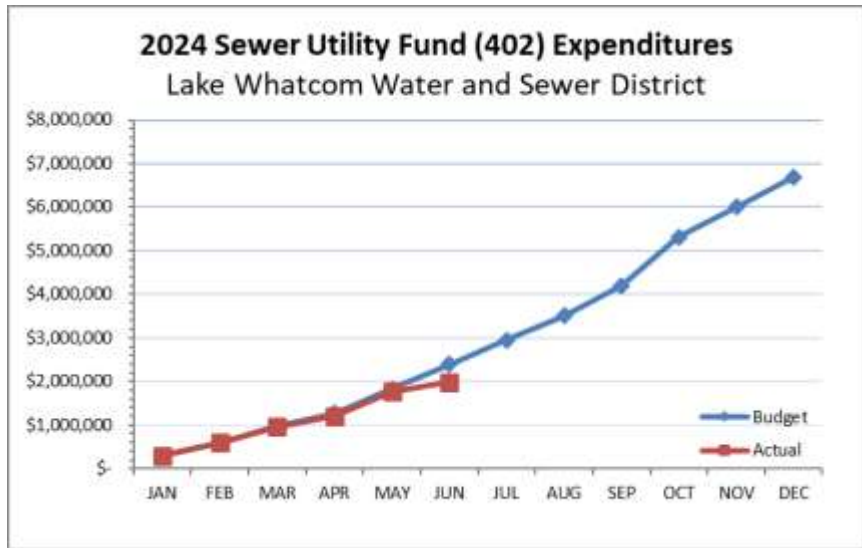
### Sewer Utility Fund (Fund 402)



The District’s bi-monthly billing cycle is broken up into two geographical areas: Geneva/North Shore and Sudden Valley. The Sudden Valley billing area has more connections, which result in higher revenues every other month. Because the District’s rates for sewer service are a flat rate and not based on water usage, revenues reflected in the graph are more consistent throughout

the year when compared to the Water Utility Fund. Also worth noting, the District does not anticipate receipt of any outside funding sources such as grants; therefore, all revenues come from rate and General Facilities Charges revenues. As of June 30, 2024, revenues largely followed projections of \$2,941,519 actual vs. \$2,790,000 budgeted. Consistent with the Water Utility Fund, the Sewer Utility Fund also earned approximately \$26,100 in investment revenue in the second quarter.

Sewer Utility Fund expenditures slightly lagged projections at the close of the second quarter (\$1,986,028 actual vs. \$2,953,103 budgeted). This is largely due to budgeted capital projects that have yet to be started or completed due to the Lake Whatcom Watershed land disturbance window. The District anticipates an increase in costs due to large capital projects and debt service payments through yearend.



### 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 through the second 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 \$2,117,207 through the second quarter. The overall fund balance is anticipated to continue to increase to build fund balances for significant capital projects in the coming years. This surplus is identified through the 2021 rate study and most recent rate and cash forecasting model discussed in the summary of this report.

#### 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 2024 with a balance of \$4,012,484 and increased to \$4,967,974 through the second quarter. Like the Water Utility Fund, the overall fund balance is anticipated to increase in an effort to build fund balances for significant capital projects in the coming years.

**Sewer Contingency Reserve (Fund 425)**

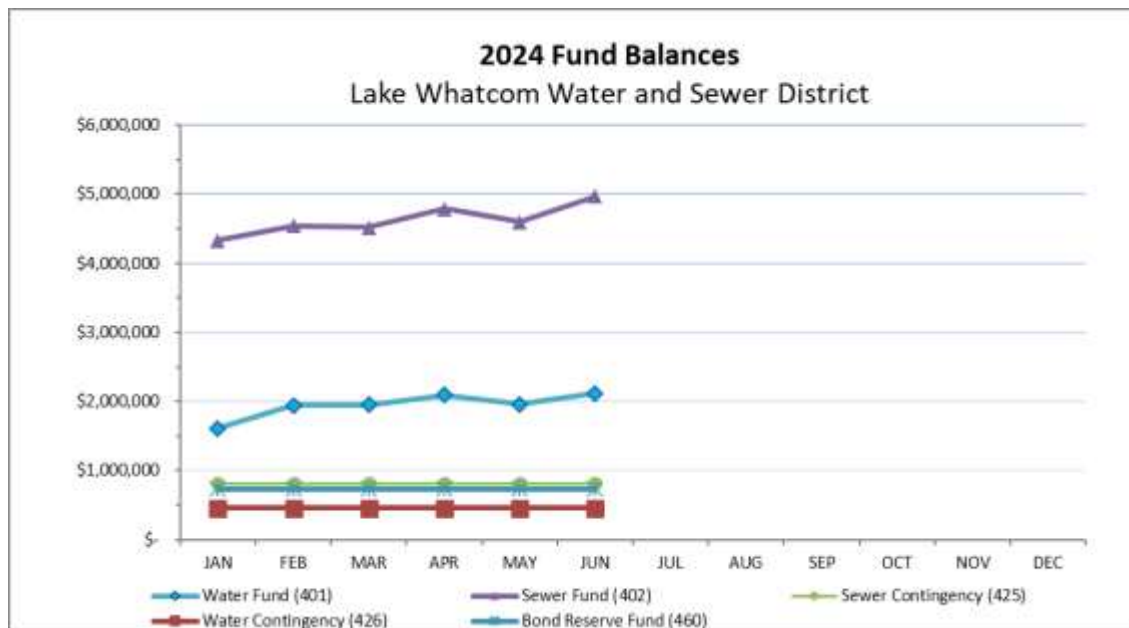
A sewer contingency reserve is maintained in accordance with District financial policies at one percent of the sewer utility infrastructure replacement cost (\$815,000). This fund provides for paying for unanticipated costs that may be incurred by the Sewer Utility. The Sewer Contingency Reserve was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



## District Cash and 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. Below is a summary of the District's cash and investments through June 30, 2024.

Petty Cash	\$	1,600	
Cash	\$	1,075,786	
Public Funds Account	\$	<u>278,503</u>	2.940%
<b>WA Federal</b>	<b>\$</b>	<b>1,355,889</b>	
<b>Local Gov't Investment Pool</b>	<b>\$</b>	<b>3,774,630</b>	5.400%

		PRINCIPAL COST	MARKET VALUE	MATURITY DATE	YIELD
US Treasury Note	Non-callable	\$ 492,488	\$ 500,000	Sep-24	0.375%
US Treasury Note	Non-callable	\$ 498,359	\$ 500,000	Jan-25	1.125%
US Treasury Note	Non-callable	\$ 499,082	\$ 536,000	Apr-25	4.921%
US Treasury Note	Non-callable	\$ 499,512	\$ 543,000	Jul-25	4.783%
US Treasury Note	Non-callable	\$ 747,615	\$ 810,000	Dec-25	4.440%
US Treasury Note	Non-callable	\$ 797,274	\$ 855,000	Jan-26	3.950%
US Treasury Note	Non-callable	\$ 467,667	\$ 500,000	Jun-26	4.500%
<b>US Bank Safekeeping</b>		<b>\$ 4,001,997</b>	<b>\$4,244,000</b>		
<b>TOTAL</b>		<b><u>\$ 9,132,516</u></b>			

### USE OF FUNDS:

Bond Reserve - Restricted	\$ 772,334
Contingency - Assigned	\$ 1,275,000
Operating Reserves	\$ 1,185,000
Operating Assigned	\$ 5,900,182
	<b><u>\$ 9,132,516</u></b>

### Fund Balance Summary

Water Utility Fund (401)	\$ 2,117,208
Sewer Utility Fund (402)	\$ 4,967,974
Sewer Contingency Fund (425)	\$ 815,000
Water Contingency Fund (426)	\$ 460,000
Bond Reserve Fund (460)	\$ 772,334
	<b><u>\$ 9,132,516</u></b>