



DATE: October 7, 2019

TO: WSUD Board of Commissioners

CC: Department Managers

FROM: Randy Screws, General Manager
Joy Ramsdell, Finance Manager

SUBJECT: **2019 WSUD Mid-year Budget Status Report**

I. INTRODUCTION

This report has been prepared to provide an overview of the financial activities of West Sound Utility District (WSUD) operations through the end of the second quarter of fiscal year 2019. Although the District accounts for its various funds on a “full/modified accrual” basis (transactions are recognized when they occur regardless of the timing of related cash flows), the District prepares its operating and capital budgets and these budget status reports on a “cash basis”.

The various fund summaries display year-to-date budget to actual comparisons illustrating the variances that have occurred with each of the funds. The revenue and expenditure comparisons to budget are based on West Sound Utility District’s 2019 Budget. The tables and charts presented throughout this report provide a more detailed comparison of actual revenues and expenditures to anticipated amounts.

II. OVERVIEW

The District’s 2019 Budget was prepared using a “program budget” format and contains nine (9) active budgets/funds comprised of the following categories:

- Four *Enterprise* operating and capital funds (*Water Utility, Water Capital, Wastewater Utility and Wastewater Capital*)
- One *Internal Service* funds (*Equipment Repair*)
- Three *Reserve* funds (*Facility Construction Fee Reserve, Debt Reserve and Rate Stabilization*)
- One *Debt Service* fund (*Revenue Bonds*)

In evaluating the financial health of WSUD, overall the District ended the second quarter in relatively good fiscal condition with more than sufficient cash flow to meet the expenditure requirements of all of the Funds. The water and wastewater utilities Capital Funds continues to struggle to generate enough revenue from new connections and sufficient transfers of operating revenue to fund Capital Projects to limit long term liability of an aging infrastructure.

The “All Funds – Cash Flow Activity” table below, provides a cumulative overview of the cash flow activity for all District funds through June 30, 2019. The combined “cash/ investments” of all of District funds at mid-year totaled \$10,537,577. This represents an increase of \$818,103 from the amount of cash/investment accumulated at the beginning of 2019. The “cash flow” highlights through June 30, 2019, are as follows:

- The combined *Water Operating and Capital Fund’s* actual fund balance at the beginning of 2019 was \$4,289,531 and ended the second quarter with a balance of \$4,838,084, resulting in an increase of \$548,554.
- The combined *Wastewater Utility Operating and Capital Fund’s* actual 2019 beginning fund balance was \$1,694,217 and ended the second quarter with a fund balance of \$2,366,128, which reflects an increase of \$671,911.

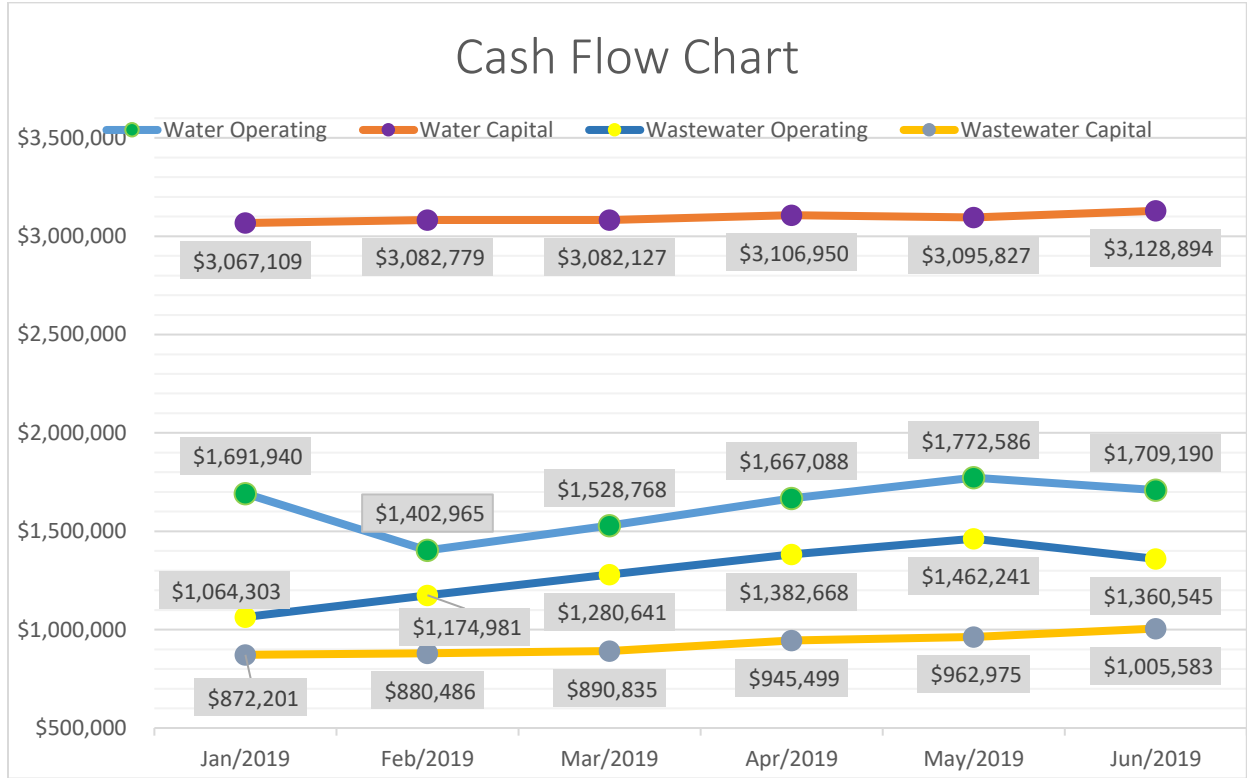
The District’s “Fund Balance/Cash Flow Policies” provide that a minimum fund balance of fifteen percent (15%) of total operating expenses should be maintained to meet daily operating expenses. In following this cash flow standard, the *Water Utility Operating* Fund should maintain a minimum fund balance of \$528,484; the *Sewer Utility Operating* Fund should maintain a minimum fund balance of \$500,861. This standard is intended to serve as “a set-aside of funds” to provide adequate cash flow to cover variations in revenue collections (e.g., lower water/sewer payments during winter months) and expense payments (e.g., PWTF loan payments in June). Water and Sewer Operations maintained sufficient operating fund balances at mid-year.

All Funds – Cash Flow Activity

Funds	Beg.Cash & Invest. 01/01/19	Total Receipts 06/30/19	Total Disburse. 06/30/19	End.Cash & Invest. 06/30/19
ENTERPRISE FUNDS:				
Water Operating (91926)	\$ 1,691,940	\$ 1,722,765	\$ 1,620,290	\$ 1,709,190
Water Capital (91930)	\$ 2,588,591	\$ 679,387	\$ 139,443	\$ 3,128,894
Total Water Utility	\$ 4,280,531	\$ 2,402,152	\$ 1,759,733	\$ 4,838,084
Wastewater Operating (91925)	\$ 876,810	\$ 2,186,455	\$ 1,774,075	\$ 1,360,545
Wastewater Capital (91933)	\$ 817,407	\$ 190,422	\$ 2,246	\$ 1,005,583
Total Wastewater Utility	\$ 1,694,217	\$ 2,376,877	\$ 1,776,321	\$ 2,366,128
INTERNAL SERVICE FUNDS:				
Equip. Repair/Replace. (91934)	\$ 1,512,866	\$ 17,706	\$ -	\$ 1,530,573
Total	\$ 1,512,866	\$ 17,706	\$ -	\$ 1,530,573
DEBT SERVICE FUNDS:				
Water Revenue Bonds (91924)	\$ 279,354	\$ 2,119	\$ 123,096	\$ 158,378
Wastewater Revenue Bonds (91924)	\$ 977,715	\$ 10,244	\$ 301,068	\$ 686,891
	\$ 1,257,069	\$ 12,363	\$ 424,164	\$ 845,269
RESERVE FUNDS:				
District Debt Reserve (89751)	\$ 458,769	\$ 5,369	\$ -	\$ 464,139
SKWRF Cons. Fee Reserve (91929)	\$ 508,183	\$ 177,958	\$ 200,000	\$ 486,142
Rate Stabilization (91927)	\$ 7,839	\$ 14	\$ 637	\$ 7,242
Total	\$ 974,791	\$ 183,341	\$ 200,637	\$ 957,523
TOTAL ALL FUNDS	\$ 9,719,474	\$ 4,992,439	\$ 4,160,855	\$ 10,537,577

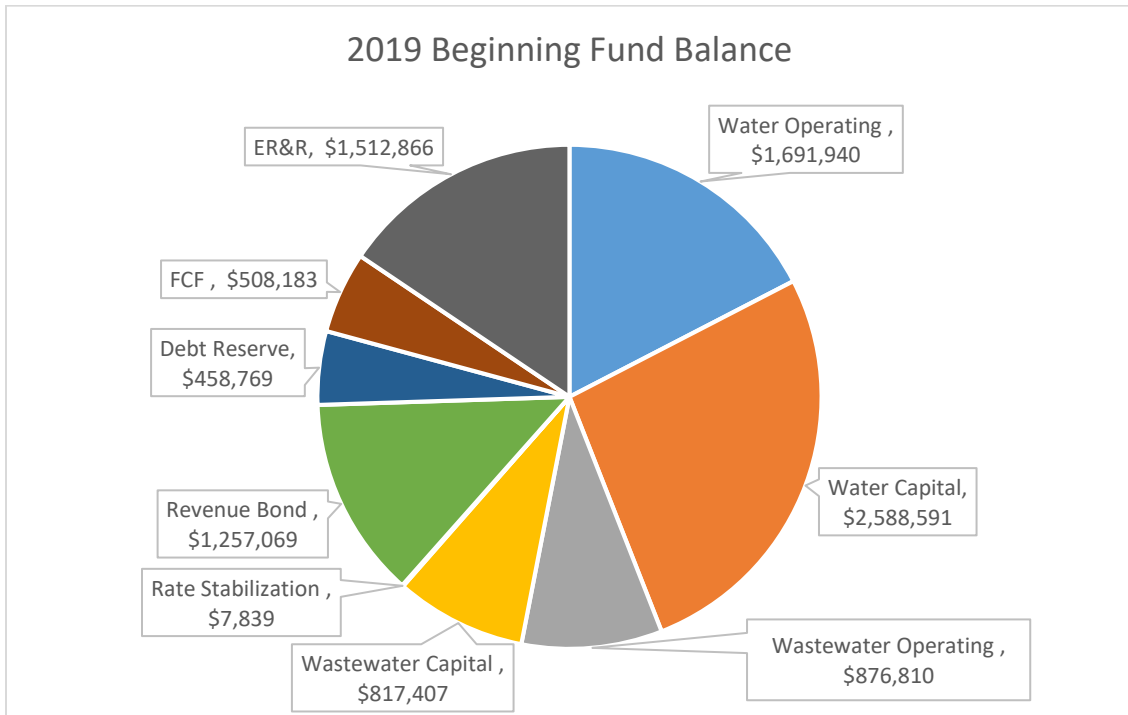
Note: Time elapsed 50% and revenues exclude beginning fund balance.

WSUD Funds – Cash Flow Chart
 January through June 2019

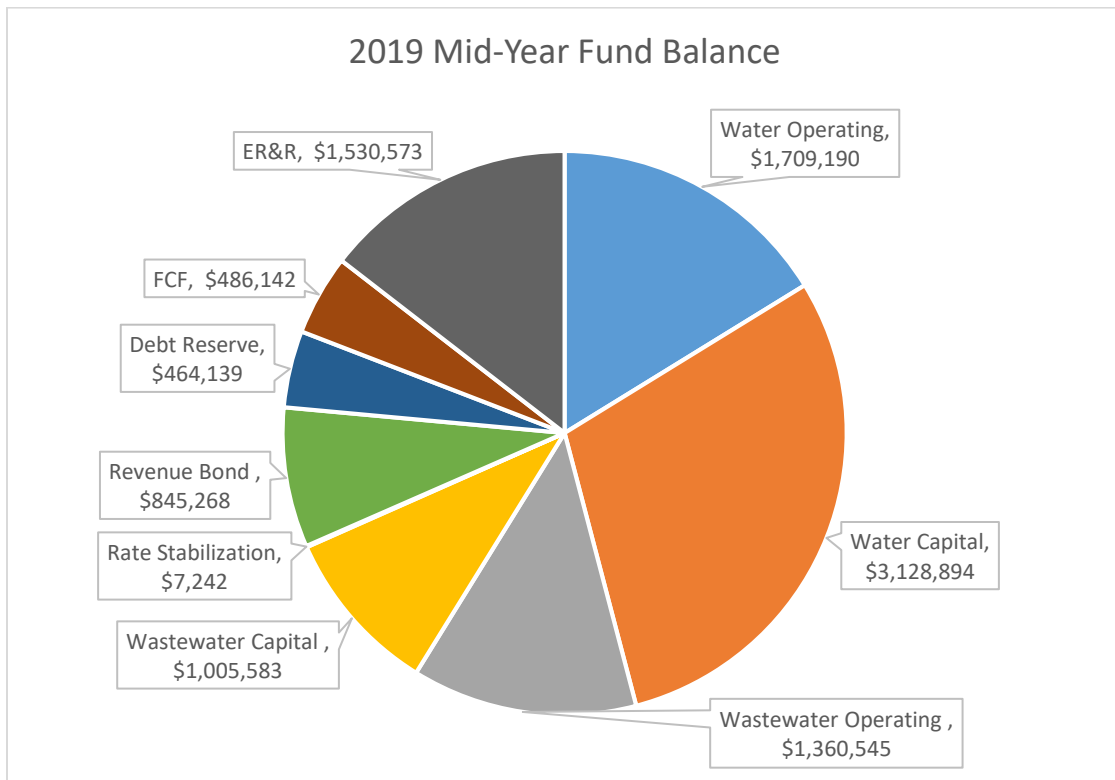


2019 Fund Balance

Total Fund Balance \$9,719,474 January 1, 2019



Total Fund Balance \$10,537,577 as of 06/30/2019



III. ENTERPRISE FUNDS

The District operates and manages its utility service programs using four (4) enterprise funds. These funds include the following: *Water Operating* and *Water Capital Improvement* combined funds, *Wastewater Operating* and *Wastewater Capital Improvement* combined funds. These *Enterprise Funds* are proprietary funds that operate in a manner similar to private business. Detailed revenue and expenditure tables have been prepared for these *Enterprise Funds*.

Enterprise Funds – Revenues and Expenditures

Funds	Fund Balance 01/01/19	Budgeted Revenue	Revenue thru. 06/30/19	Percent to Date
Water Operating (91926)	\$ 1,691,940	\$ 3,745,500	\$ 1,722,765	46%
Water Capital (91930)	\$ 2,588,591	\$ 1,359,000	\$ 679,387	50%
Total Water Utility	\$ 4,280,531	\$ 5,104,500	\$ 2,402,152	47%
Wastewater Operating (91925)	\$ 876,810	\$ 4,479,500	\$ 2,186,455	49%
Wastewater Capital (91933)	\$ 817,407	\$ 613,000	\$ 190,422	31%
Total Wastewater Utility	\$ 1,694,217	\$ 5,092,500	\$ 2,376,877	47%
TOTAL	\$ 5,974,748	\$ 10,197,000	\$ 4,779,029	47%

Funds	Fund Balance 06/30/19	Budgeted Expenditures	Expenditures thru. 06/30/18	Percent to Date
Water Operating (91926)	\$ 1,709,190	\$ 3,523,206	\$ 1,620,290	46%
Water Capital (91930)	\$ 3,128,894	\$ 2,881,960	\$ 139,443	5%
Total Water Utility	\$ 4,838,084	\$ 6,405,166	\$ 1,657,916	26%
Wastewater Operating (91925)	\$ 1,360,545	\$ 3,339,070	\$ 1,774,075	53%
Wastewater Capital (91933)	\$ 1,005,583	\$ 611,200	\$ 2,246	0.4%
Total Wastewater Utility	\$ 2,366,128	\$ 3,950,270	\$ 1,776,321	45%
TOTAL	\$ 7,204,212	\$ 10,355,436	\$ 3,434,237	33%

A. Water Utility Funds - Utility fees and charges provide revenue for the operation and maintenance of the Water Utility. Water capital improvement projects are paid through revenue generated from rates and construction-related fees. The following are the mid-year expenditure and revenue highlights:

- The *Water Utility* collected \$1,722,765 in revenue and expended \$1,620,290. As a result, revenues exceeded expenditures by \$102,475.
- The *Water Operating* revenue from water sales generated 46% of the amount budgeted.
- The *Water Utility* expenses included \$181,127 in funds to cover debt service payments of two eight Public Works Trust Fund loan payments. This amount represents 11% of the *Water Operating* Fund's mid-year expenditures. Additional fund transfers through mid-year (CIP, Equipment and Transfer to the Wastewater Fund to cover balance of Revenue Bond debt obligation) totaled \$546,982.
- The *Water Capital Fund* budgeted \$325,000 in anticipated revenue generated from the receipt of "general facility charges"; and \$137,309 or 42% of the budgeted amount collected through June.
- The *Water Utility* expended \$139,443 at mid-year of the \$2,881,960 appropriated in *Water Capital Improvement* Fund's budget.

B. Wastewater Utility Funds - The *Wastewater Utility* Funds track the revenue and cost of providing wastewater services to residents and commercial customers and capital project expenses.

- The *Wastewater Utility* collected \$2,186,455 in revenue, and expended \$1,774,075. As a result, revenues exceeded expenditures by \$412,380.
- Operating revenue generated from sewer utility rates was 49% of the amount budgeted.
- The *Wastewater Capital Fund* budgeted \$300,000 in anticipated revenue generated from “general facility charges”; and \$178,918 or 60% was collected through June for new sewer connections.
- The *Wastewater Utility* expenses included \$321,654 for payments on seven PWTF loans. These debt service payments represent 18% of the *Wastewater Operating Fund*’s mid-year expenditures.
- The *Waste Water Utility* expended \$2,246 at mid-year of the \$611,200 appropriated in *Waste Water Capital Improvement Fund*’s budget.

IV. INTERNAL SERVICE FUNDS

Water/Sewer Equipment Repair and Replacement (ER&R) Fund - The *Water/Sewer Equipment Repair and Replacement Fund* is an internal service fund used for maintaining/replacing vehicles and equipment. In 2020, there are two notable purchases; one utility service vehicle and a dump truck are proposed to be added to the fleet. Additionally, beginning in 2020, the water and Waste Water Utilities will utilize this fund to acquire, maintain, repair and minor upgrades of Capital Assets.

Internal Service Funds – Revenues and Expenditures

Funds	Fund Balance 01/01/19	Budgeted Revenue	Revenue thru. 06/30/19	Percent to Date
Equip. Repair/Replace-WSUD (91934)	\$ 1,512,866	\$ 20,000	\$ 17,707	89%
TOTAL	\$ 1,512,866	\$ 20,000	\$ 17,707	89%

Funds	Fund Balance 06/30/19	Budgeted Expenditures	Expenditures thru. 06/30/19	Percent to Date
Equip. Repair/Replace-WSUD (91934)	\$ 1,530,573	\$ -	\$ -	0%
TOTAL	\$ 1,548,062	\$ -	\$ -	0%

V. RESERVE FUNDS

The District maintains three *Reserve Funds* comprised of: *Water/Wastewater Bond Reserve/ Guaranty*, *SKWRF Facility Construction Fee Reserve* and *Rate Stabilization*.

The *Water/Wastewater Reserve/ Guaranty* fund was established to maintain a set aside of funds sufficient to meet revenue bonds covenants. As of June 30, 2019 this reserve fund had a balance of \$464,139; however, the legal requirement is to maintain a fund balance of \$410,912.

The *SKWRF Facility Construction Fee Reserve* fund serves as a fund for the deposit of sewer facility connection fees (FCF) that was set aside to be used for future capital facility expansion cost to the wastewater treatment plant and current debt reduction. The *Reserve* fund transferred \$200,000 into the *SKWRF Operating Fund* to fund debt service payments on the two PWTF loans. The 2019 Budget reflects collecting \$300,000 in FCF revenue. The actual revenue collected through June from facility connection fees has been \$171,782.

Reserve Funds – Revenues and Expenditures

Funds	Fund Balance 01/01/19	Budgeted Revenue	Revenue thru. 06/30/19	Percent to Date
District Debt Reserve (89751)	458,769	6,000	5,369	89%
FCF Reserve - SKWRF (91929)	508,183	305,000	177,958	58%
TOTAL	\$ 966,952	\$ 311,000	\$ 183,327	59%

Funds	Fund Balance 06/30/19	Budgeted Expenditures	Expenditures thru. 06/30/19	Percent to Date
District Debt Reserve (89751)	464,139	-	-	N/A
FCF Reserve - SKWRF (91929)	446,378	200,000	200,000	100%
TOTAL	\$ 910,517	\$ 200,000	\$ 200,000	100%

VI. DEBT SERVICE FUNDS

Prior to June 30, 2019, the District had two (2) outstanding water/sewer revenue bonds and fifteen (15) Public Works Trust Fund loans. As of June 30, 2019, three loans were paid off in the first half of 2019. It is important to note that these loans are not being paid out of the *Debt Service* fund, but are instead accounted for under the *Water Operating* Fund and *Sewer Operating* Fund budgets.

The District has one *Debt Service* fund entitled *Water/Sewer Revenue Bonds*, which is, comprised two debt financed issues: *The 2010 Revenue Bond and 2016 Revenue Bond*.

The *2010 Revenue Bond* includes refinancing the 2001 water and sewer bonds used to fund the construction of the District’s Administration facilities. The last payment for this revenue bond will be made in 2021.

The *2016 Refunded Water/Wastewater Revenue Bond* was initiated to refund *2009 Bonds* to secure a better interest rate. The last payment for this revenue bond will be made in 2028.

The total debt obligation of the *Water/Sewer* combined utilities is \$4,293,724. The *Wastewater Utility’s* portion of this total debt obligation is \$1,949,642. The *Water Utility’s* portion of this total debt obligation is \$2,344,082.

Under WSUD’s financial management policies, the District will minimize dependency on debt financing capital projects. In the event such funding is needed, the District strives to maintain minimum “debt service coverage ratio” with the net revenue of the combined utilities being at least 1.5 times of the actual debt.

Debt Service Funds – Revenues and Expenditures

Funds	Fund Balance 01/01/19	Budgeted Revenue	Revenue thru. 06/30/19	Percent to Date
Water/Sewer Revenue Bond (91924)	\$ 1,254,442	\$ 25,400	\$ 4,892	19%
TOTAL	\$ 1,254,442	\$ 25,400	\$ 4,892	19%

Funds	Fund Balance 06/30/19	Budgeted Expenditures	Expenditures thru. 06/30/18	Percent to Date
Water/Sewer Revenue Bond (91924)	\$ 845,268	\$ 621,254	\$ 415,721	67%
TOTAL	\$ 845,268	\$ 621,254	\$ 415,721	67%

VII. DEBT SERVICE

Water/Sewer Long-term Debt

Description	Original Issue	Unmatured Debt
Water and Sewer Combined Debt:		
2010 Revenue Bond - Refunding Lund Ave.	\$ 3,595,000	\$ 820,000
2016 Revenue Bond - Refunding 2009 Bond	\$ 1,952,000	\$ 1,674,338
TOTAL	\$ 5,547,000	\$ 2,494,338
Water PWTF Loans		
PWTF 00-691-002 - Well 21	\$ 669,870	\$ 34,743.00
PWTF 00-691-003 - Water Mains	\$ 251,147	\$ 13,218.00
PWTF 01-691-003 - Storage Tank Painting	\$ 99,719	\$ 10,128.00
PWTF 01-691-004 - Bethel Rd Water Sys Improvement	\$ 939,573	\$ 98,902.00
PWTF 03-691-001 - Well 6 & 7 Decommission	\$ 143,438	\$ 31,523.00
PWTF 07-962-002 - Salmonberry Reservoir Painting	\$ 595,000	\$ 250,526.00
PWTF PC12-951-047 - Firmont Beach Water System	\$ 311,496	\$ 196,571.00
TOTAL	\$ 3,010,243	\$ 635,611
Sewer PWTF Loans:		
PWTF 00-691-032 - Retsil Wartime Sewer Relacement	\$ 1,005,210	\$ 45,798
PWTF 03-691-014 - Crownwood Lift Station	\$ 189,091	\$ 39,809
PWTF 03-691-015 - Beach Drive Pump Station Collection	\$ 148,750	\$ 33,056
PWTF 04-691-035 - Retsil Area A & B Improvements	\$ 1,360,000	\$ 400,000
PWTF PC08-951-017 - Sedgwick Rd. Sewer System	\$ 950,691	\$ 645,112
	\$ 3,653,742	\$ 1,163,775
TOTAL	\$ 12,210,985	\$ 4,293,724

VIII. INVESTMENT SUMMARY

West Sound Utility District had a cumulative total of \$9,840,130 invested at the end of the second quarter with the Washington State Investment Pool. The Investment Pool yielded an interest rate on the District's fund balance of 2.353%. The balance of the District's cash (\$666,847) is deposited in Key Bank through the Kitsap County Treasurer. In addition, the District has \$300 in petty cash, \$300 in front counter cash and \$30,000 in Bank of America.