

MINUTES OF THE MEETING OF THE COMMISSION

May 8, 2018

The regular meeting of the Board of Commissioners of Public Utility District No. 1 of Whatcom County was called to order at 8:00 a.m. by Commissioner Mike Murphy. Said meeting was open to the public and notice thereof had been given as required by law. Those present included Commissioner Paul Kenner and Legal Counsel Jon Sitkin. Staff: Steve Jilk, General Manager; Ann Grimm, Administrative Assistant; Annette Smith, Director of Finance; Rebecca Schlotterback, Manager of Contracts and Compliance; Duane Holden; Director of Utility Operations; Alec Strand, Project Manager; Mike Macomber, IT/SCADA Technician; Aaron Peterson, IT/SCADA Technician and Traci Irvine, Accountant I.

Public attending: Carole Perry, Citizen
Max Perry, Citizen
Rick Maricle, Citizen
Dave Olson, Citizen

◆ Public Comment

Mrs. Perry commented that at the last Watershed Management Board meeting, she wondered why the Lummis did not want to continue acting as the fiscal agent – apparently, there was no background information given. This will be the subject of agenda item number eight (8) and General Manager Jilk will address her comment at that time.

◆ Approval of the Meeting Minutes and Claims

The Commissioners were presented with the Minutes of the Meeting of April 24, 2018 and the following Claims of May 8, 2018:

VENDOR NAME	AMOUNT
AMAZON BUSINESS	108.73
APERTURE ELECTRICAL	4,799.77
CARL'S MOWER & SAW, INC	43.47
CARLSON STEEL WORKS, INC	388.59
CDW/COMPUTER DISCOUNT WAREHOUSE	923.95
EDGE ANALYTICAL LABORATORIES	24.00
FASTENAL	20.89
FLOWSERVE FSD CORPORATION	3,823.36
FRONTIER	1,374.51
GRAYBAR ELECTRIC COMPANY, INC	68.93
GUARDIAN SECURITY SYSTEMS, INC	78.00
HARDWARE SALES, INC.	90.70
HD FOWLER CO, INC	1,079.30
KCDA PURCHASING COOPERATIVE	188.98
LOOMIS, CHRIS	300.00
LYNDALE GLASS	380.45
MASSMUTUAL RETIREMENT SVCS LLC	11,683.33
NESS CRANE SERVICE, INC	1,668.55
NORTHWEST MOWING & GARDENING	514.54
OVERHEAD DOOR COMPANY	1,081.20
P&P EXCAVATING, LLC	2,408.70
PLATT ELECTRIC SUPPLY CO	697.43
PORTAL WAY FARM & GARDEN	99.46
PROBUILD - OSO LUMBER	66.46
PUGET SOUND ENERGY, INC	6,636.21
REGENCE BLUE SHIELD	37,571.04
REISNER DISTRIBUTION, INC	1,135.32
RICOH USA	295.24
SHRED-IT USA	29.96
SMITH MECHANICAL	1,554.15
SMITH, ANNETTE	163.50
SOFTWIRED	1,000.00
SOUND WATER SERVICES	950.00
SSC - SANITARY SERVICE COMPANY	365.88
STAR RENTALS	59.78
TEAMSTER LOCAL #231	396.00
UNITED WAY OF WHATCOM COUNTY	371.00
UTILITIES UNDERGROUND LOCATION	21.93
VERIZON WIRELESS	1,652.13
WA ST DEPT OF REV PRIVLGE	220,460.02

WASHINGTON DENTAL SERVICE	2,762.40
WASHINGTON TEAMSTERS WELFARE	9,747.90
WATERHOUSE ENVIRONMENTAL SERVICES	16,970.81
WHATCOM FARMERS CO-OP	90.00
WHATCOM JANITORIAL	1,250.00
ZEE MEDICAL SERVICE	690.35
GRAND TOTAL	\$336,086.92

ACTION: Commissioner Kenner motioned to APPROVE THE MINUTES OF THE MEETING HELD APRIL 24, 2018 AND THE CLAIMS OF MAY 8, 2018. Commissioner Murphy second the motion. Motion passed unanimously.

◆ **Approve 2018 District Financial Report**

Finance Director Smith provided an overview of the 2017 District Financial Report. The District's financial policies conform to the Generally Accepted Accounting Principles (GAAP) and the financial statements have been developed in compliance with the Governmental Standards Board (GASB) Statement 34 – Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments.

Smith explained that while the Annual Report provides extensive information, it does not provide a budget to actual comparison of results. The summary financial statement format closely resembles the budget layout and brings the capital costs into the picture. The Phillips 66 pass-through costs for power, transmission and related taxes have been removed. The resulting statement provides a more relevant comparison between 2017 and 2016 actual results and the 2017 actual results to the 2017 budget.

Highlights of the presentation:

2017 FINANCIAL PRESENTATION

	2017	2016	Variance 2017-2016	%	2017 Budget	Variance Actual - Budget	%
REVENUE							
1 Service Revenues - Industrial Water	\$ 8,907,986	\$ 8,602,167	\$ 305,820	4%	\$ 9,037,161	\$ (129,175)	-1%
2 Service Revenues - Irrigation	81,386	72,790	8,596	12%	84,656	(3,270)	-4%
3 Service Revenues - Grandview Utility	197,443	198,414	(971)	0%	203,143	(5,700)	-3%
4 Service Revenues - Electric Utility	2,063,736	2,031,636	32,100	2%	2,051,336	12,400	1%
5 Misc Revenue	205,925	157,304	48,622	31%	405,886	(199,961)	-49%
TOTAL REVENUE	\$11,456,477	\$11,062,310	\$ 394,166	4%	\$11,782,182	\$ (325,705)	-3%
EXPENSES							
6 Labor & Benefits	(2,804,846)	(2,687,314)	(117,532)	4%	(2,679,447)	(125,399)	5%
7 O&M Expenses	(1,454,358)	(1,145,099)	(309,259)	27%	(1,867,153)	412,795	-22%
8 Administration Expenses	(1,265,047)	(1,426,414)	161,367	-11%	(1,559,358)	294,311	-19%
TOTAL EXPENSES	\$ (5,524,250)	\$ (5,258,827)	\$ (265,424)	5%	\$ (6,105,958)	\$ 581,708	-10%
BUSINESS SERVICES/GRANTS							
9 Business Service Revenue	79,233	32,330	46,903	145%	200,000	(120,767)	-60%
10 Business Service Expenses	(106,132)	(31,868)	(74,264)	233%	(200,000)	93,868	-47%
TOTAL BUSINESS SERVICES	\$ (26,899)	\$ 462	\$ (27,361)		\$ -	\$ (26,899)	
11 INCOME (LOSS) BUDGET	\$ 5,905,327	\$ 5,803,945	\$ 101,382	2%	\$ 5,676,224	\$ 229,103	4%
CAPITAL COSTS							
12 Debt Service	\$ (3,458,223)	\$ (3,449,560)	\$ (8,663)	0%	\$ (3,530,223)	\$ 72,001	-2%
13 Capital Transfer	(3,578,649)	(722,470)	(2,856,179)	395%	(1,622,341)	(1,956,308)	121%
14 Capital Projects	(1,209,704)	(718,816)	(490,888)	68%	(5,107,396)	3,897,692	-76%

The lines of the statement have been numbered and are discussed in more detail below:

Service Revenues:

SERVICE REVENUE	2017	2016	Variance 2017 - 2016	%	2017 Budget	Variance Actual - Budget	%
1 Industrial Water	\$8,907,986	\$8,602,167	\$305,820	4%	\$9,037,161	\$(129,175)	-1%
2 Irrigation	81,386	72,790	8,596	12%	84,656	(3,270)	-4%
3 Grandview Utility	197,443	198,414	(971)	0%	203,143	(5,700)	-3%
4 Electric Utility	2,063,736	2,031,636	32,100	2%	2,051,336	12,400	1%
5 Misc. Revenue	205,925	157,304	48,622	31%	405,886	(199,961)	-49%
TOTAL REVENUE	\$11,456,477	\$11,062,310	\$394,166	4%	\$11,782,182	\$(325,705)	-3%

- 1) *Service Revenues – Industrial Water* – Total water consumption for the Cherry Point area slightly decreased again between 2016 and 2017 (4,450,929,407 gallons to 4,299,835,900 gallons respectively, a 3% decrease). The 2017 revenues for Industrial Water increased from the 2016 revenues due primarily to the increase in rates for 2017. The 2017 actual revenues were just under budget.

- 2) *Service Revenues – Irrigation* – Water consumption for the Irrigation customers increased 7% in 2017 compared to 2016. Irrigation revenues are highly contingent upon the amount of rainfall during the year and therefore vary from previous years and budget more than other services.
- 3) *Service Revenues – Grandview Utility* – Water consumption for the Grandview utility decreased by 7% in 2017 compared to 2016. The 2017 revenues for the Grandview utility were right in line with 2016 revenues due to the decrease in consumption offset by the increase in rates. 2017 revenue fell short of budget by 3%.
- 4) *Service Revenues – Electric Utility* - This line includes Electric service revenues for District services only (O&M, admin, labor, etc.). The pass-through revenues for BPA power, transmission, and tax costs have been removed from this statement. The budget, 2017 and 2016 actual amounts are in line with expectations. Starting in 2017, this revenue includes the internal charge to the Industrial Water Utility.
- 5) *Miscellaneous Revenue* – This line includes any miscellaneous income including late fees, interest income, rent, recycle income and any income or contribution for in-house projects. For 2017, the majority of the income came from interest income and reimbursement for upgrades to D station. The budget included reimbursement from PSE for a meter replacement which has not occurred.

Expenses:

EXPENSES	2017	2016	Variance 2017 – 2015	%	2016 Budget	Variance Actual- Budget	%
6 Labor & Benefits	\$(2,804,846)	\$(2,687,314)	\$(117,532)	4%	\$(2,679,447)	\$(125,399)	5%
7 O & M Expenses	(1,454,358)	(1,145,099)	(309,259)	27%	(1,867,153)	412,795	-22%
8 Administrative Exp.	(1,265,047)	(1,426,414)	161,367	-11%	(1,559,358)	294,311	-19%
TOTAL EXPENSES	\$(5,524,250)	\$(5,258,827)	\$(265,424)	5%	\$(6,105,958)	\$581,708	-10%

O & M EXPENSES	2017	2016	Variance 2017 – 2016	%	2017 Budget	Variance Actual- Budget	%
<i>Purchased Power for Water</i>	\$595,894	\$532,459	\$63,435	12%	\$494,763	\$101,131	20%
<i>BPA Credits</i>	(295,024)	(276,735)	(18,289)	7%	(285,259)	(9,765)	3%
<i>Chemicals</i>	225,690	162,314	63,376	39%	243,420	(17,730)	-7%
<i>O & M Services</i>	207,119	299,495	(92,377)	-31%	295,168	(88,049)	-30%
<i>O & M Materials</i>	166,143	126,982	39,161	31%	133,061	33,082	25%
Extraordinary Maintenance							
<i>Plant 1 Mud Basin Clean</i>	128,885	140,060	(11,174)	-8%	112,000	16,885	15%
<i>Douglas Rd Vault/Upgrades</i>	25,356	318	25,037	7865%	152,000	(126,644)	-83%
<i>High Head Pump Rebuild</i>	26,929	-	26,929	0%	178,000	(151,071)	-85%
<i>Plant 1 Major Maint.</i>	66,776	78,183	(11,407)	-15%	200,000	(133,224)	-67%
<i>Phillips66 Turnaround</i>	181,826	6,313	175,513	2780%	180,000	1,826	1%
<i>Sm. Maint. Projects</i>	124,763	47,565	49,053	65%	164,000	(39,237)	-24%
	\$1,454,358	\$1,145,099	\$309,259	27%	\$1,867,153	\$(412,795)	-22%

6) *Labor and Benefits* – This includes all the labor and benefits not associated with capital projects and extraordinary maintenance. The increase between 2017 and 2016 resulted from the 4% increase in labor and benefit costs budgeted, less labor costs capitalized. In 2017 two water operators retired, resulting in several months of overlap with the new hires. This was included in the 2017 budget. The increase was a direct result of frazil ice events in January and the Phillips 66 turnaround work.

7) *O & M Expenses* – This line includes all operating costs, including power costs for the water treatment plants, but excluding power costs passed through to Phillips 66. The Phillips 66 power costs are a straight pass-through from BPA and have a zero net effect. The 2017 actual costs of \$1,454,000 resulted in an overall increase from 2016 of \$309,000, with the differences being spread between all categories, but the largest being an increase in Extraordinary Maintenance. The difference between 2017 and the budgeted amount is again in Extraordinary Maintenance. The hi-head pump rebuilds, Douglas Road Vault upgrades and the Plant 1 Maintenance came in significantly under budget.

8) *Administration Expenses* – this category encompasses all the overhead, administrative type of expenses. 2017 decreased \$161,000 from 2016, with the largest decrease in outside services due to the decrease in general engineering services and the 2016 election costs which were budgeted into 2017, but were posted into 2016. The 2017 administration expenses were under budget due to the lower engineering and the 2016 election costs.