



Mason County Public Utility District No. 1

Board of Commissioners Regular Board Meeting and Public Hearing
February 11, 2020 Potlatch, Washington

Present:

Ron Gold, President
Mike Sheetz, Vice President
Jack Janda, Board Secretary (via Skype)
Kristin Masteller, General Manager
Darin Hall, Director of Operations
Katie Arnold, District Treasurer
Julie Gray, Executive Assistant

Visitors:

Willie Pierce – Hoodsport Customer
Bill Randolph – Community Member

Excused:

Rob Johnson, Legal Counsel

APPROVAL OF CONSENT AGENDA:

Minutes: January 21, 2020 Regular Board meeting

Disbursements:	<u>Accounts Payable Check Register</u>	
	Accounts Payable Wire	\$ 90,742.76
	Check Nos. 118102-118138	\$ 82,500.83
	Check Nos. 118140-118189	\$ 131,594.91
	A/P Sub-Total	\$ 304,838.50
	<u>Payroll Expense</u>	
	Payroll Wire	\$ 68,873.56
	Check No. 118139	\$ 2,500.00
	Total	\$ 376,712.06

Mike made a motion to approve the consent agenda as presented; Jack seconded the motion. Motion carried.

PUBLIC COMMENT: Mr. Randolph gave a small presentation of the Electromagnetic Pulse Attack possibilities and provided District staff with reading materials to hand out. He urged the PUD to take notice of this threat.

BUSINESS AGENDA:

Authorize the Manager to Sign CRC Voting Delegate Registration – Mike made a motion to Authorize the Manager to sign the CRC Voting Delegate Registration; Jack seconded the motion. Motion carried.

4th Quarter & Year End 2019 Financials – Katie presented the 4th Quarter and Year End 2019 Financials.



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2019

**Status of Budget
As of December 31, 2019**

	2019 Actuals	2019 Budget	% of Annual Budget
Revenue	11,511,400.10	10,804,634.00	107%
<u>Expenditures</u>			
Distribution Operating & Maintenance	1,707,087.75	1,620,610.61	105%
Energy Services	3,484,346.22	3,469,177.00	101%
General & Administrative	2,199,030.90	2,331,621.30	94%
Tax, Depreciation, & Interest	2,722,333.00	2,633,425.00	103%
TOTAL EXPENDITURES	10,112,797.87	10,054,833.91	101%
NET OPERATING MARGINS	1,398,602.23	749,800.09	187%

The District’s total revenue was 7% higher, collecting \$706,766 more than what was budgeted for 2019. A few key factors that played into the additional revenue collected include the following components:

1. Kilowatt hour sales (kWh) increased slightly from 2018 to 2019. In 2018, the total kWh sales were approximately 78 million, while in 2019, total sales were around 78.9 million, for an overall increase of just under one million kWh.
2. In July 2018, the District purchased 32 water systems from Thurston County PUD. When the 2019 budget was developed, the District was not able to properly predict the revenue from the new system so a very conservative estimate based on data from Thurston PUD was utilized for budgetary purposes. After a full year of operating the additional systems, as well as completing a Cost of Service Analysis, the District had a better understanding of the projected consumption revenue, when developing the 2020 budget.
3. Other non-operating revenues increased primarily due to an increase in system development fees collected for new water system connections.
4. The rate of return for the District’s invested funds with the Local Government Investments Pool (LGIP) maintained an average of 2%. With the stability in the rate of return, in addition to increased funds invested in the LGIP, the District saw an increase of \$58,000, dollars in interest and dividend income for 2019.

The District’s operating expenses include purchased power, transmission and distribution, customer services, and administrative and general expenses. The Distribution Operating & Maintenance ended the year 5% higher than what was budgeted for 2019. This was in part due to normal operation and maintenance of the 32 new water



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systems in 2018. The winter snowstorm in February of 2019 also contributed to the increased expense over budget due to the amount of overtime spent to repair outages. The Energy Services (purchased power costs) was just over 1% of the budget, which coincides with the increase in kWh consumption for the year. General & Administrative expenses ended the year 6% under budget. These savings are largely attributed to various cost-savings efforts by District staff on regular goods and services and also service contracts.

How is the Net Operating Margin Allocated?

The Net Operating Margin for 2019 was 87% higher than 2019's budget. It's important for the District's commission and customers to understand what the Net Operating Margin is used for. The income statement does not include the principle portion of the District's debt service, or any of the designated reserve funding approved through the budget. It also only includes a portion of the capitalized construction work plan, which is depreciated over a period of time. Here are the key components of how the Net Operating Margin is allocated:

1. At the end of 2019, the District invested just over \$2.5 million in capital assets. The investment includes land, distribution, general plant, and equipment. The total increase in the District's investment from 2018 to 2019 was 5%.
2. The District plans to construct the Manzanita Substation in 2025, without adding additional debt to the District's portfolio. Because the District plans to pay for the substation through general cash flow, and not debt, the District has determined that it needs to fund a designated reserve with \$342,000 each year. As of the end of 2019, the balance in the fund is just over \$1.6 million.
3. At the end of 2019, the District had \$15.8 million in outstanding debt, an overall decrease of \$791,000. With the 2019 budget, the District approved 1% of the overall rate increase to go specifically towards paying down long-term debt. With that 1%, the District was able to fund \$109,062 into the debt reserves fund. With the 1% funding of the reserves each year, in conjunction with the interest earned on the balance of the funds, being invested in the LGIP, the District plans to be able to pay off its debt by 2030, which is five to ten years earlier than the debt tables shows.
4. The District has a policy goal to reach 90 days general cash on hand, not including the designated reserves, by 2025. To reach this goal, the District budgeted to fund five days a year, which equates to approximately \$100,000 annually that is set aside. Cash on Hand is a savings account, of sorts, that ensures that the District can continue to make payroll and cover operating expenses if there is a catastrophic event or severe economic downturn that limits the PUD's ability to collect revenue. In this case, the board-set policy goal is to be able to cash flow operations for up to three months.

Approval of Resolution No. 2033 SEPA Policies & Procedures – Board President Ron Gold opened a public comment session at 1:27 p.m. to allow the public to comment on the SEPA Policies & Procedures. There were no comments. President Gold closed the session at 1:29 p.m. Mike made a motion to approve Resolution No. 2033 SEPA Policies & Procedures; Jack seconded the motion. Motion carried.

Staff Reports

General Manager – Kristin reported that this year is the 85th Anniversary of Mason PUD 1. She is planning to incorporate this into our Customer Appreciation day in October. She and James reviewed the footings at the new building site. All is going well, and everything seems to be running on schedule. Kristin reported that the water reclamation grant is moving forward. The PUD has received letters of support from the Skokomish Tribe, Mason County and Alderbrook Golf & Yacht Club and its members.



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The Squaxins have stated that they plan to send a letter as well. Kristin, Rob and Sarah Mack attended a meeting at Squaxin Island to further negotiate the terms of an MOU with the Squaxin Tribe. Kristin reported that Mason PUD 1 has won four top communication awards through American Water Works Association. Kristin has been asked to present at their PNW annual conference in Spokane in May. Joyce, Trish and Kristin will be attending WPUDA's Day on the Hill in Olympia on Wednesday, February 12. She also reported that the large load customer is ready to sign the power purchase contract.

Director of Operations – Darin reported that the electric crew was working on brushing problem areas. Also, they will be replacing old poles and underground that need replaced. That project will start at the Duckabush Tap. The water crew has been working on the water loss at Hamma Ridge. Rob Johnson is currently working on the purchase and sale agreements for two water systems. Bel Aire Cove, has approximately 37 customers and is 8 miles out the North Shore. 2 Jackies is a 6-customer system near Phillips Lake. There has not been a safety meeting since the last board meeting, but there have been no accidents or near misses.

Treasurer Report – Katie reported that the State Auditor's exit conference for the 2018 audit will be Tuesday, February 18 at 1:00 p.m. Ron will attend with her.

Legal Counsel – Excused.

Correspondence: None

Board Reports:

Mike Sheetz: Mike attended the WPUDA meetings last week.

Jack Janda: None

Ron Gold: Ron also attended WPUDA and PPC last week.

Adjournment: 2:12 p.m.

Ron Gold, President

Mike Sheetz, Vice President

Jack Janda, Secretary