



2021

ANNUAL REPORT

GETTING THINGS DONE

2021 was a year of cautiously optimistic planning and vigorous pursuit of grant monies. While the pandemic did not subside the way we had hoped, the PUD 1 workforce stayed healthy through the year and was able to tackle an amazing number of projects, with electric line rebuilds being a primary focus, along with seeking grant funding to pay for capital water projects to connect customers who have been waiting years for water connections.

In addition to tackling our outside projects, we also focused internally on getting our project list pre-engineered and building our customer payment assistance program to help our customers catch up and get ahead on their utility bills. The Mason County commission awarded us three American Rescue Plan Act grants (ARPA) for water projects and a customer assistance program to help clean up arrearages due to the pandemic. We also worked with our community partners on connecting customers with assistance for rent, mortgage, and other utilities like phone, internet, sewer and garbage bills. Over \$168,460 in assistance funding was awarded or applied to customer accounts in 2021. This was important, given that the moratorium on disconnections ended after 18 months, and several accounts were past due. Our staff worked very hard to bring these dollars in to help our customers and bring the debt down for the PUD. After reaching over \$150,000 in past due accounts, only \$43,000 was written off to the collection agency as bad debt after almost two years. The rest was brought current through payment arrangements and assistance programs. Some of that \$43,000 will also be collected down the road.

The year also brought a new endeavor to the PUD's business model. We were awarded over \$1 million to build a middle-mile section of fiber to help expand broadband to our rural community. While the PUD had no intention of getting into the broadband business, the way the grant funding was set up, our friends at Hood Canal Communications had a plan to serve the west Hood Canal but weren't eligible to apply for the funds as a private company. They approached PUD 1 about a public-private partnership and, with the help of HCC's own ARPA grant from Mason County, nearly 10 total miles of fiber was put out to bid and construction will begin in early 2022. The PUD is not looking to expand its role in broadband, however we are working with private and public partners in Mason and Jefferson Counties on grant applications, community support, and coordination of utility construction to help expedite the deployment of broadband in our rural communities. The pandemic has shown that high-speed internet has become an essential utility service and if Mason and Jefferson County residents want to remain competitive in industry, economic development and education, it's paramount that public and private agencies do whatever they can to help deploy fiber to rural homes and businesses. We are pleased that we were able to step up and assist in a key portion of this overall project plan to eventually deploy fiber all the way up to Mt. Walker and throughout south Jefferson County.

Lastly, the PUD 1 board of commissioners was incredibly proud of this utility for its work during the pandemic. That pride was accentuated when PUD 1 was selected for the "Sue Kelly Community Service Award" from the American Public Power Association. The work that this small team of 26 utility professionals does on behalf of our community is tremendous and we were honored to have this national award bestowed on us in front of our peers and colleagues on behalf of the employees, commission and community at Mason County PUD No. 1. We have a great team, and we work for a great community that takes care of us so we can take care of them. Together, we put the "Public" in PUD.



Kristin Masteller

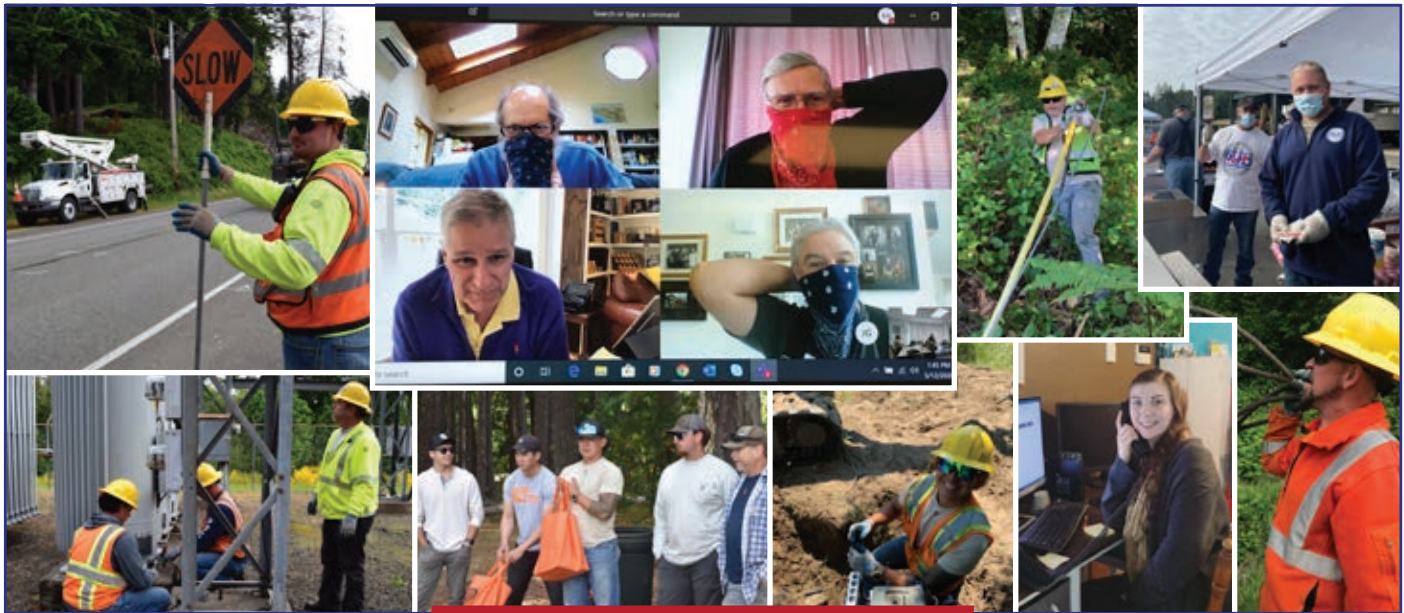
Kristin Masteller
GENERAL MANAGER



Mike Sheetz

Mike Sheetz
BOARD PRESIDENT

YOUR PUD TEAM



PUD 1 RATEPAYERS

BOARD OF COMMISSIONERS

Commissioner District 1
MIKE SHEETZ

Commissioner District 2
RON GOLD

Commissioner District 3
JACK JANDA

GENERAL MANAGER

KRISTIN MASTELLER

ENGINEERING MANAGER

JAMES REYES

District Engineer
JEREMIAH W.

DIRECTOR OF BUSINESS SERVICES

KATIE ARNOLD

Credit/Collections
SHIANE S.

Bookkeeper
JOYCE G.

Customer Service Rep
LISA C.
TRISH M.

IT Contractor
HOOD CANAL COMMUNICATIONS

WATER RESOURCE MANAGER

BRANDY MILROY

Water Foreman
TJ G.

Lead Water Operator
ROOSTER O.

Water Tech
COLE C.
MARTY C.
REESE S.

ELECTRIC OPERATIONS

Line Foreman
MIKE R.

Reader/Utility Person
JORDAN A.

Linemen
BARNEY B.
MIKE Y.
TIM B.

Apprentice Linemen
KYLE W.
LJ V.

Engineering Tech
JJ L.

Groundman
RUDY G.

Purchaser
RICH C.

PUD 1 COMMISSIONERS



MIKE SHEETZ

District 1
(Union & Alderbrook)
Term: 2017-2022

Mike Sheetz is currently serving his first term as Commissioner for the District. Contact Mike Sheetz at (360) 898-7934.



RON GOLD

District 2
(Skokomish Valley & West Union)
Term: 2021-2026

Ron Gold is currently serving his fourth term as Commissioner for the District. Contact Ron Gold at (360) 490-1560.



JACK JANDA

District 3
(Potlatch to Jefferson Co.)
Term: 2019-2024

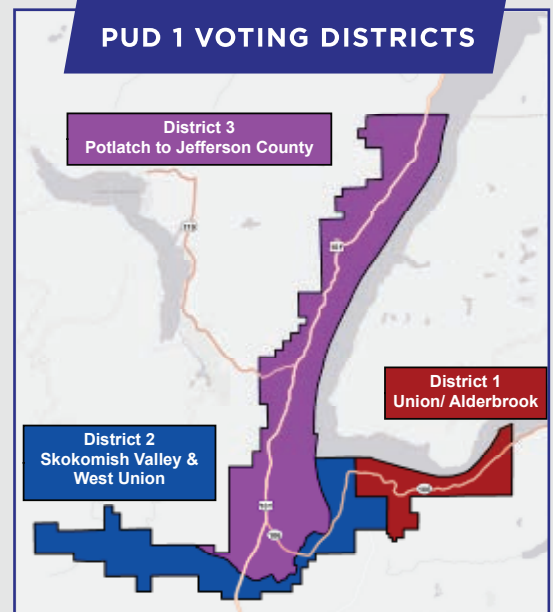
Jack Janda is currently serving his fourth term as Commissioner for the District. Contact Jack Janda at (360) 490-1800.

Mason County PUD No. 1 is a publicly owned entity governed by a Board of Commissioners elected by you, our ratepayers. The District is divided into three smaller voting districts and one commissioner is elected from each of these districts. They each serve a six-year term. The commission sets District policy, approves budgets and expenditures, as well as the strategic plan.

In 2021, citizens of Alderbrook voted to annex their community into the PUD 1 legal service territory. For years, due to the metes and bounds of the service lines, Alderbrook was served by PUD 1 but was technically in Mason PUD 3's service territory and could only vote for PUD 3 commissioners even though PUD 1 served their water and power. Now, Alderbrook is officially part of the PUD 1 district and the new commissioner districts were drawn as part of the redistricting process that occurs every decade with the census.

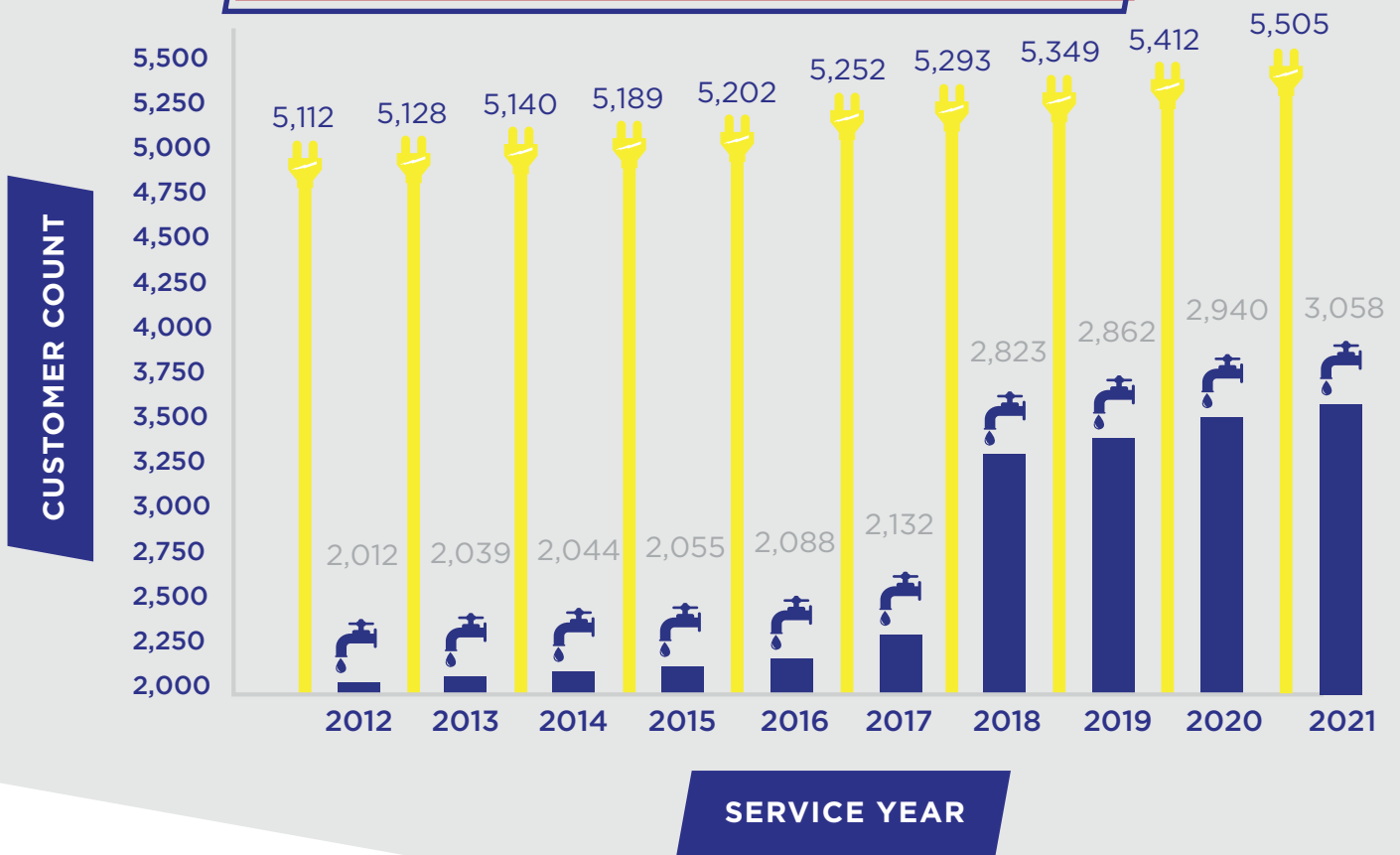
Board of Commissioner meetings are open to the public and held virtually during the pandemic. Customers and members of the public are encouraged to attend board meetings, which are typically held the first and third Tuesdays of each month at 1:00 p.m. Customers may call or Zoom into the meetings until the PUD office is reopened to the public. The information is listed on the PUD's homepage at www.mason-pud1.org or can be provided by calling the PUD office. Board packets and special meeting announcements are also posted on the homepage of the website for public viewing.

PUD 1 VOTING DISTRICTS

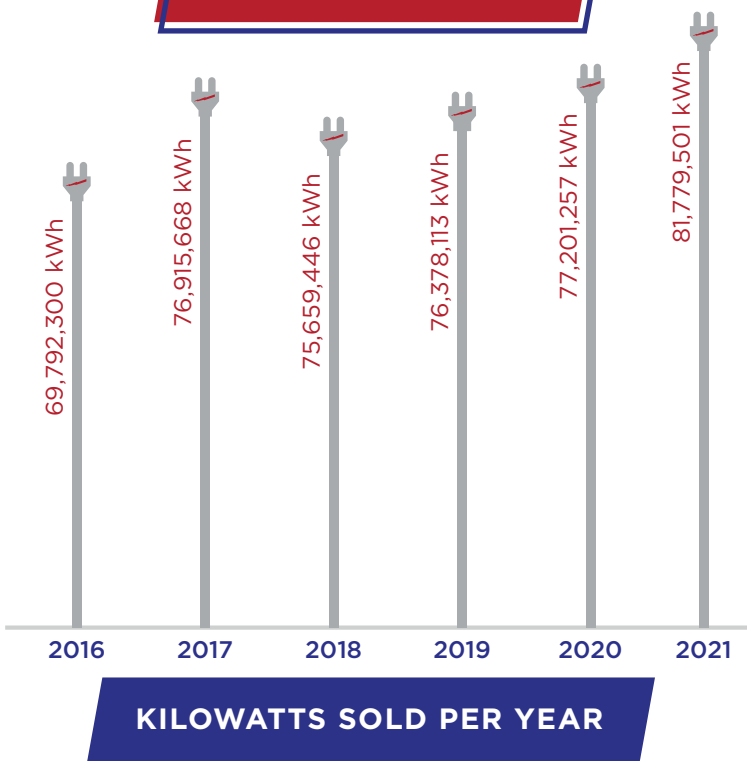


2021 QUICK STATS

WATER AND ELECTRIC CUSTOMER COUNTS



KILOWATTS SOLD



2021 OPERATING BUDGETS

ELECTRIC:
\$9.1 MILLION

WATER:
\$2.2 MILLION

SEWER:
\$10 THOUSAND



SAFETY & AWARDS



52,236

HOURS WORKED
IN 2021



2

REPORTABLE INCIDENTS,
5 DAYS OF TIME LOSS



1

SAFETY AWARD: FEDERATED
RURAL ELECTRIC COOPERATIVE

NORTHWEST PUBLIC POWER ASSOCIATION'S EXCELLENCE IN COMMUNICATIONS AWARDS

(GROUP A <10,000 CUSTOMERS)



FIRST PLACE

Newsletter *The Connector*
Special Publication
Customer Appreciation Event Flier
Internal Communications
Strategic Work Plan



SECOND PLACE

2020 Annual Report



THIRD PLACE

Advertising Campaign
Value of Hydropower
Social Media

AMERICAN PUBLIC POWER ASSOCIATION'S SUE KELLY COMMUNITY SERVICE AWARD

Congratulations to
Mason County Public Utility District No. 1
recipient of the Sue Kelly Community Service Award



AMERICAN
**PUBLIC
POWER**
ASSOCIATION



CUSTOMER APPRECIATION



CUSTOMER APPRECIATION



CUSTOMER APPRECIATION



PUD 1 ELECTRIC



INCREASING RELIABILITY

We continue to focus our attention on vegetation management and infrastructure upgrades to reduce tree and equipment related outages. We prioritize high outage areas and tackle trouble spots as they arise, while planning for long term solutions and infrastructure upgrades.

FIRE MITIGATION ACTIVITIES

The north end of our system from Lilliwaup to Mt. Walker saw an increase in the frequency of outages over the summer due to wildfire mitigation actions that we implemented in response to the early drought and extreme heat we experienced, and the devastating wildfires in the Pacific Northwest. During drought declarations or extreme weather events, we now program our electrical system to higher sensitivity so our reclosers (that function like a breaker in your house) shut off the first time a tree or limb comes in contact with the lines.

Usually, the system can handle up to three power interruptions before it shuts itself off. During peak fire season, however, we cannot afford to have anything sitting on the lines and burning, throwing sparks on the dry ground; nor can we afford the risk of broken lines burning on the ground and setting it afire. We do not want a situation on the Hood Canal like we've seen in recent years in eastern Washington, Oregon and California. It's unfortunately the world we live in now as we continue to experience drier, hotter seasons. Luckily, our region has been omitted from Bonneville Power Administration's Public Safety Power Shutoff program, with their focus being on routinely drier climates in remote areas.

We also developed a Wildfire Mitigation Plan and comprehensive vegetation management plan that is tracking the effectiveness of our trimming cycle to ensure we are getting the 5-7 years of clearance that we're requesting, in addition to more rigorous trimming for fast-growing trees and brush.

VEGETATION MANAGEMENT

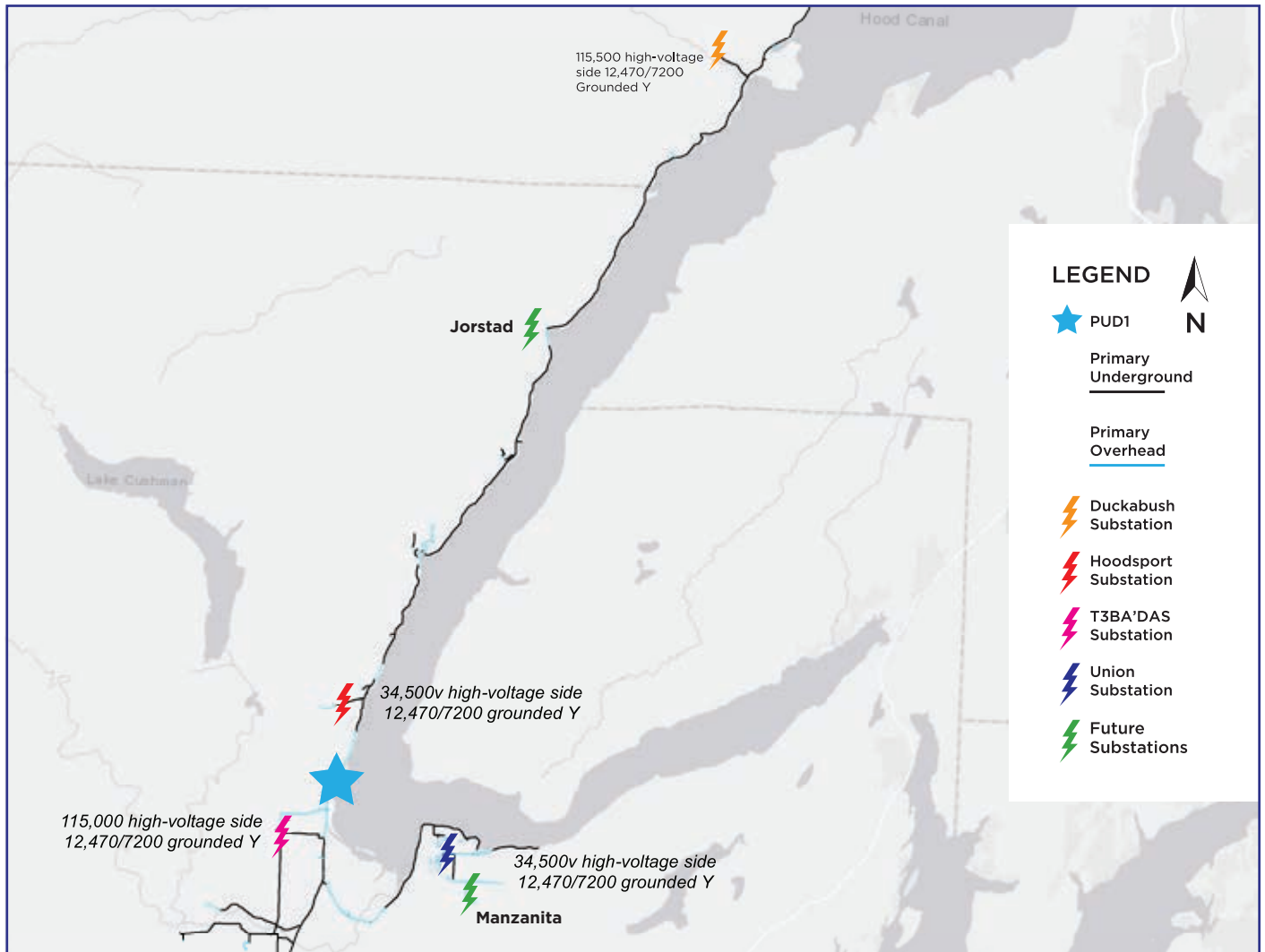
Working in the Olympic Rainforest and along the Hood Canal, we have some of the world's most pristine scenery as our daily backdrop, but it also creates challenges for electric reliability. The PUD is not able to underground most of the line along Highway 101 and the rainforest canopy hangs over cliffs above the power lines. Tree related outages are inevitable. That being said, the PUD has increased its budget and in-house efforts to trim back the vegetation and remove danger trees to help avoid nuisance outages and wildfires. Those efforts are paying off as we realize savings in overtime costs, poles, and wire, as well as customer outage hours. The crew was able to tackle several tap lines and side roads that were problem areas for us while the contracted crew focused their efforts in the Brinnon area.

This year we also contracted for danger tree removal and will continue this into ensuing years. With the help of our friends at Mason PUD 3 and a local contracted logger, we fell two giant trees in Lilliwaup that were badly damaged in a fire, as well as rotten trees on Bourgault Rd. in Skokomish Valley, several madronas that kept breaking the lines on the Skokomish Reservation along Highway 101, and other various danger trees throughout our system. Danger tree removal is now a recurring budget item each year.



Removing danger trees in Lilliwaup.

PUD 1 ELECTRIC



LINE REBUILDS AND CONVERSIONS

Our annual work plans have an emphasis on rebuilding sections of aging underground line in problem areas, as well as completing overhead-to-underground conversions. In 2021, the Bourgault Road line in the valley was rebuilt, which allowed us to move our old pole line away from the bank of the Skokomish River. A failing section of underground line was replaced on Bambi Farms Road in the valley as well. Sylopash Lane in Brinnon was replaced, as was a bad section of underground on Vine Maple in Alderbrook. The rebuild of WaWa Point began at the end of 2021 and will be wrapped up in 2022.

A major and exciting development for PUD 1 was the approval of the cross-country rebuild project by FEMA. There is a treacherous section of overhead transmission line that runs across a ravine and heavily treed area. It is a frequent cause of major outages during wind and snow events and because of its terrain, the line crew has to walk the mini excavator and supplies back into the line to rebuild it each time. It is laborious and slow to repair. FEMA has approved the funding to reconstruct that line, move it off of the highway and out of the ravine, into a new pathway at the top of the hill in Hoodspport. This is great news because it should drastically reduce outages and outage times and without the funding, the PUD would not have been able to afford to do this rebuild. This work is in the design and permitting phase now and should be put out to bid in 2022.



Underground line replacement on Bambi Farms Rd.

PLANNING FOR THE FUTURE

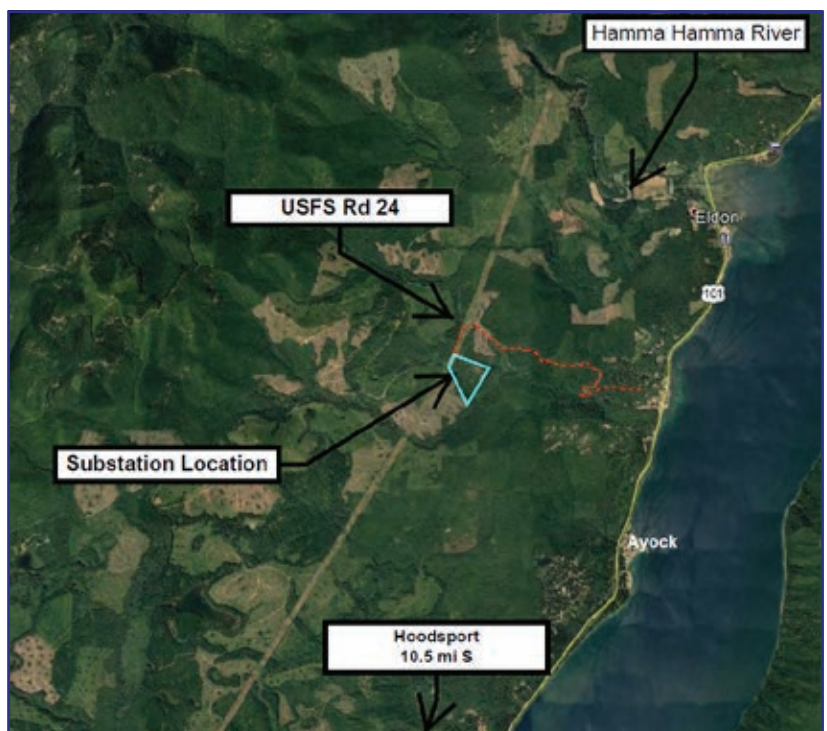
The PUD is developing a 10-year substation plan. This plan will outline the steps that have to be taken each of the next 10 years to fully commission two new substations, as well as the ongoing maintenance and upgrades that need to be performed on our three other existing subs. The plan will also inform staff how much to budget in each year to cover the required tasks slated for the year.

The Manzanita Substation reserve fund is nearly fully funded and activities have begun to start the design of the substation at the PUD's property on the corner of McReavy Rd. and Manzanita Drive in Union. It will replace the 60+ year old Union substation on Dalby Rd. This substation is being funded through operations, meaning the PUD is not borrowing money to construct it. Most of the site prep and infrastructure leading to the substation has already been completed over the last several years. Construction of the substation itself is slated to begin in late 2023 or early 2024. It is currently in the engineering and design phase with the goal to put it out to bid by the end of 2022 or early 2023.

The PUD finally obtained an easement with the Washington State Department of Natural Resources for a section of land down at the end of Jorstad Creek road on FS Road 24. This property is adjacent to the BPA transmission line and will be the new site for the future Jorstad Substation. This substation will begin construction around 2030, unless grant funding is secured to expedite the construction schedule. Currently, the Duckabush substation feeds everything from Mt. Walker to Lilliwaup, which is a very long stretch of line. The Jorstad Substation will help with system redundancy and allow us to pick up load from the north and south ends of the highway when there is an issue at either Duckabush or Hoodspport substations. It also will enable us to take those substations offline for maintenance without outages.



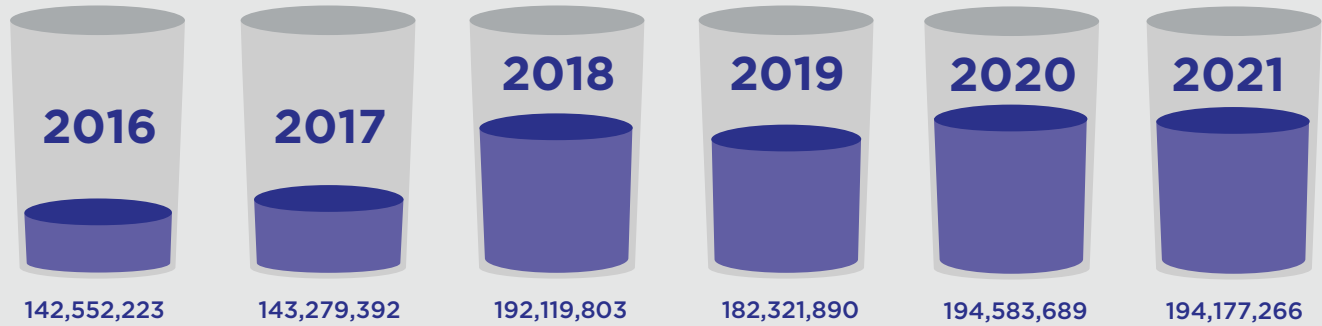
Future site for Manzanita Substation in Union.



Future site of Jorstad Substation in Lilliwaup.

PUD 1 WATER

GALLONS OF WATER SOLD



NEW SYSTEMS

Holiday Beach, a Group A water system in Hoodsport, joined PUD 1 this year, adding 51 connections and bringing the 2021 total of PUD-owned systems to 74. The PUD also manages three systems.

Group A systems have 15 or more service connections or serve 25 or more people at least 60 days out of the year. Group B systems are smaller than the Group A. Another system is in the works for transfer of ownership, slated for early 2022.

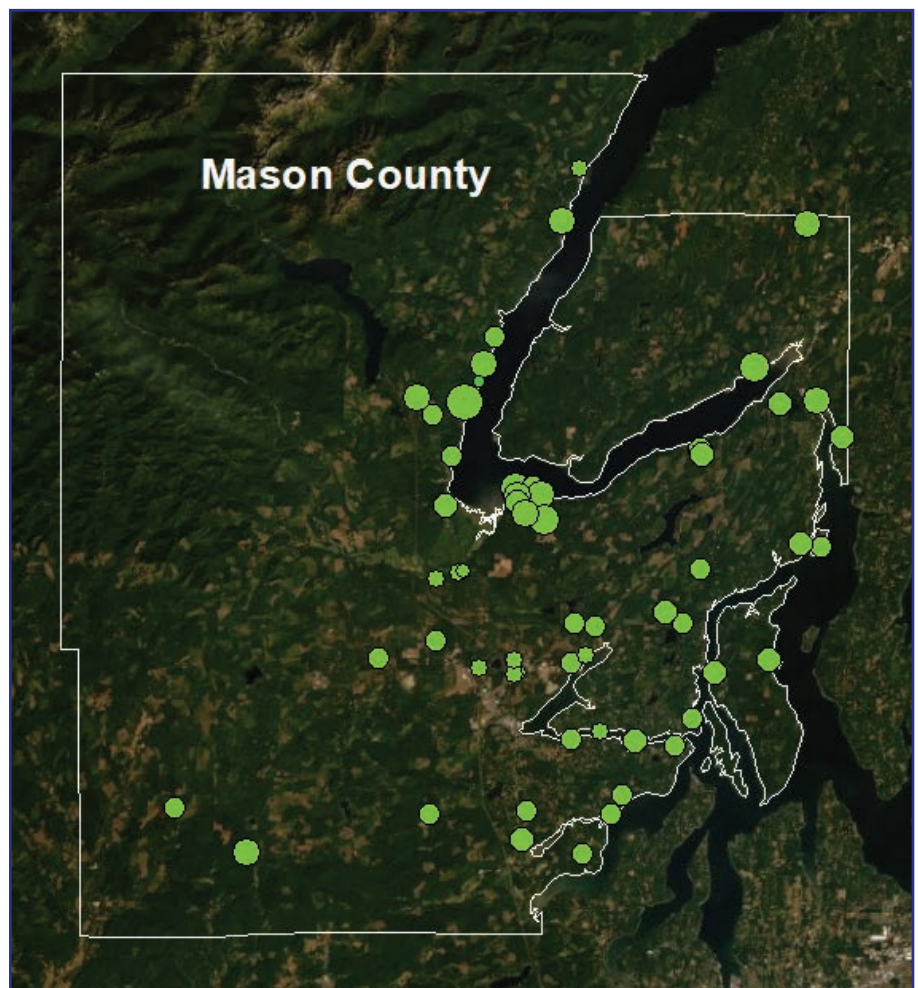
WATER SYSTEM PLANNING

Minerva Terrace Part B water system plan was approved. Canyonwood Beach water system plan was completed and submitted to Department of Health for approval.

Canal View received approval for additional water rights and connections from Departments of Ecology and Health. That water system also has a water system plan in the works, along with a mainline design to be constructed soon.

Highland Estates water system finally received their water rights certificate from Department of Ecology after a several year process to secure them.

LOCATION OF PUD-OWNED WATER SYSTEMS



WATER PROJECTS



PUD water crew at work.

Much like the electric business, the water side also struggles with aging infrastructure that needs to be upgraded and replaced. To ensure compliance with state drinking water regulations, the PUD has prioritized several projects to reduce distribution system leakage, ensure maintenance and safety of our reservoirs and pump houses, while continuing to put out the regular day-to-day fires with emergency leak repairs, adverse sample results, and keep up on our maintenance schedule. Our water technicians responded to 744 service calls in addition to their scheduled projects. That's a 40% increase over 2020. We also added a new water tech to our crew, promoting our longtime lead water operator to a water superintendent position to help oversee all the projects that are now being conducted each year.

Agate Beach's entire system mainline was replaced. PUD 1 also received an ARPA grant to complete Phase 2 of their system upgrades which will include a reservoir and allow us to serve the vacant lots in the community that have been on a wait list for connections.

The PUD purchased a piece of property in the **Vuecrest** system to site a new reservoir. An ARPA grant will cover the cost of this property purchase and the design of a new reservoir which will also allow us to serve the vacant lots in the community on a wait list for connections.

Over 500 feet of mainline was replaced in **Canal Beach Tracts** water system.

Hamma Ridge had two PVC water tanks full of sand buildup causing water quality issues. The pump house was rebuilt and the tanks were replaced with new larger tanks and now can be cleaned easily when this occurs.

Highland Estates and **Wonderland** water systems had backup generators installed at their pump houses to ensure water service during outages.

Mainline was installed along **Dalby Road** to the future **Manzanita** reservoir site at the PUD's substation property in Union.



Air tanks installed at Rainbow Lake.

Rainbow Lake got new bladder tanks installed to replace the old captive air tank.

Springwood also got new bladder tanks to replace the captive air tank and the roof was replaced on the well house.

Lake Arrowhead's 2,500 feet of mainline replacement was put out to bid and awarded. Construction will occur in 2022 when the water is lower.

Shadowood's new reservoir, manganese treatment, booster station and backup generator were funded through the Drinking Water State Revolving Fund with 50% loan forgiveness. The design for this overhaul started in 2021.

Three **Alderbrook** reservoirs and the **Madrona Beach** reservoir were cleaned and inspected.



Wonderland before (top) and after (bottom).



Island Lake Manor before (top) and after (bottom).

RENEWABLE ENERGY PROJECTS

ZERO EMISSIONS VEHICLES

PUD 1 partnered with the Skokomish Indian Tribe on a grant from Bonneville Environmental Foundation to get four Level 2 zero emissions vehicle car charging stations installed in the section between Lucky Dog Casino and Twin Totems convenience store. These chargers help increase access to ZEV infrastructure, which promotes tourism and also ZEV ownership in rural and underserved communities.



ZEV charging stations installed at Skokomish Indian Tribe's Lucky Dog Casino.

SOLAR POWER

The PUD hosts two community solar projects on the PUD's main campus.



Community Solar I was commissioned in 2016. It's 19.25kW in size and produced over 21 megawatt hours of renewable energy in 2021, equating to a combined total of \$1,658.62 in bill credits. There are 122 customers that participate in this project.



Community Solar II was commissioned in 2020. It's just over 53kW in size and produced just shy of 37 megawatt hours of renewable energy in 2021. 42 customers are general participants in this project, earning a total of \$1,899.82 in combined total bill credits for the year. 10 customers are part of the low-income portion of this project and received a combined total of \$1,015.00 in bill credits.

In addition to our community solar projects, 29 of our customers have their own rooftop solar arrays, with a nameplate capacity of over 320 kilowatts.

RENEWABLE ENERGY PROJECTS



HYDRO POWER

The PUD also has three small, privately owned hydroelectric generators on our system. The largest of the three systems sold over 5.3 megawatts of clean, renewable hydropower back to the PUD in 2021. Hydropower is the crucial piece of the energy puzzle to meet Washington's Clean Energy Standards goal to be carbon free by 2045.

2020 FUEL MIX SUMMARY*



HYDRO 85.70%



NATURAL GAS 0%



NUCLEAR 10.20%



BIOMASS 0%



COAL 0%



OTHER 4.10%

*2020's data reported at the end of 2021.

FINANCE AND ADMINISTRATION

CUSTOMER SERVICE

Our customer service team was focused on connecting customers with assistance throughout 2021. The disconnection moratorium was lifted on September 30th after 18 months, leaving several customers scrambling to develop a plan for bringing their past-due accounts current. Thanks to the work of our team and our partnerships with the Community Action Council, OlyCAP, Crossroads Housing, A Gift for Special Children, Love INC., the Skokomish Tribe, and others, we were able to set up long term payment arrangements and bring in assistance for all account holders still living in their residences.

QUICK STATS

\$168,460.54 was disbursed to customers for bill assistance including: **\$6,577.62** in ARPA funding, **\$98,451.21** in LIHEAP assistance, **\$8,331.02** in T-RAP assistance, and **\$55,100.69** from other various programs to help low-income households and those struggling with COVID-19 related financial hardships.

\$78,875 in energy rebates were issued in 2021 to customers who made approved upgrades to their homes and businesses.

\$7,545 was paid out in bill credits to **1,509** participants who chose to receive paperless statements. By going paperless, these customers saved the PUD just over **\$15,000** in printing and shipping costs. We split those savings with the participating customers by applying a \$5 bill credit in October.

\$6,753.43 was donated by generous PUD 1 customers in 2021 to help **45** low-income households with their power and water bills.

\$4,573.44 was issued in bill credits to customers who participate in the two Community Solar projects. **\$6,805.26** in state incentives were also paid for the Community Solar II project.

FINANCIAL POLICIES

The Board of Commissioners sets the financial policies for the District with recommendations from the District Auditor, District Treasurer and General Manager. Several financial policies have been implemented with the COSA and recommendations from the Washington State Auditor's Office. Here are a few highlights:

Reserve Funding

Funding of 5 days of cash-on-hand annually, to reach the policy goal of 90 days. These operating reserve funds are invested in the Local Government Investment Pool (LGIP) and earned an average of 0.09% in 2021. This is far less than previous years when the economy was stronger. The purpose of this cash-on-hand is to provide cash flow to the PUD in the instance of an economic recession, like we have seen in 2020/2021 with the pandemic. It ensures that the PUD's power bill to BPA can be paid, that we can make payroll for our employees, keep our fleet rolling, and purchase necessary materials and supplies, even when we are not able to collect revenue for an extended period of time.

Funding of Debt Reserves - 1% of the budgeted revenue is earmarked specifically toward paying down the District's long-term debt. This funding, in addition to the interest earned by investing the balances in the LGIP, will help the District pay off its debt almost 10 years sooner than the original amortization schedule, creating a savings of about \$464,700 in interest expense, or about 4% of our operating budget.

Debt Policy

The purpose of this policy is to ensure that all debt is issued both prudently and cost effectively. The Debt Policy sets forth comprehensive guidelines for the issuance and management of all financings of the District. Adherence to the policy is essential to ensure that the District maintains a sound debt position and protects the credit quality of its obligations.

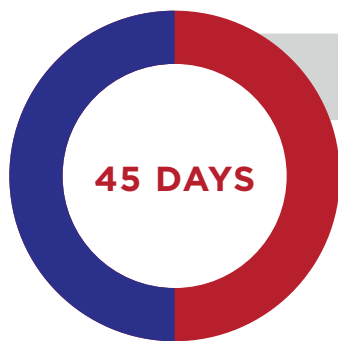
FINANCE AND ADMINISTRATION

Investment Policy

This policy directs the PUD to: invest public funds in a manner which will minimize risk, meet daily cash flow demands, conform to all state and local statutes governing the investment of public funds, and provide a market rate of return through budgetary and economic cycles.

LGIP INVESTMENT ACTIVITY 2021

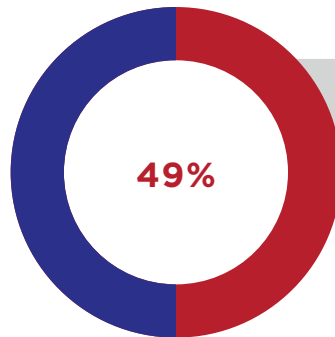
	1/1/2021	Transfer In	Interest Earned	Transfers Out	12/31/2021
TOTAL ALL FUNDS	\$4,882,650.44	\$2,725,968.32	\$5,319.63	-\$1,715,575.89	\$5,898,362.50



DAYS CASH ON HAND

GOAL: 90 DAYS
2019: 44 DAYS
2020: 50 DAYS
2021: 45 DAYS*

*Cash on hand was down overall at the end of 2021, due to customer account arrearages and awaiting reimbursements from FEMA and DOH for projects the PUD cash flowed up front.



DEBT TO EQUITY RATIO

GOAL: LESS THAN 50%
2019: 55%
2020: 50%
2021: 49%

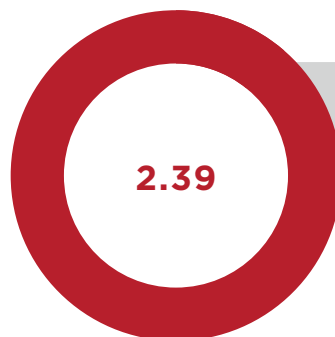
*This metric helps us track our debt service to ensure that the PUD is not overleveraged.



TIER

GOAL: 2.0 (minimum)
2019: 3.58
2020: 3.89
2021: 3.94

*Must keep TIER at or above 1.25 to comply with bond covenants.



DEBT SERVICE COVERAGE

GOAL: 2.0 (minimum)
2019: 2.32
2020: 2.49
2021: 2.39

*Must maintain DSC at or above 1.25 to comply with bond covenants.

FINANCE AND ADMINISTRATION

GRANTS

The District vigorously pursues grants and low-cost financing to assist in tackling capital improvement and strategic workplan projects. This includes funding from Department of Health, Department of Ecology, FEMA, Bonneville Power Administration, and other grant makers. In 2021, the PUD was awarded \$2,947,696.43 in grants and reimbursements to offset operations and capital expenditures.

- In 2021, **nine** water capital projects were submitted to Department of Health's Drinking Water State Revolving Fund program, totaling **\$8.3 million**. At the end of the year, the District had not yet received word on which projects would be funded and what percentage of principal forgiveness the projects would receive.
- **One** project submitted to FEMA at the end of 2020 is moving through the funding process and should be awarded within the first quarter of 2022. This estimated amount of the grant is just over **\$1 million**.
- **\$85,231.31** was also submitted to FEMA for disaster declaration events, resulting in a reimbursement of **\$75,577.31** to the PUD's general fund to offset both General and Administrative costs (G&A) as well as Operations & Maintenance costs (O&M).
- **\$7,937.16** was reimbursed by FEMA for COVID related expenses, to offset General and Administrative costs for purchasing sanitization supplies, PPE, and other COVID related costs that the PUD incurred.
- The PUD partnered with a local internet service provider and received an award of **\$797,040** from CERB, for fiber deployment along the 101 corridor.
- **\$842,284** in ARPA funding was received from Mason County to fund two water capital projects and provide arrearage assistance to customers who have struggled due to the COVID pandemic.
- **\$1 million** to assist with utility relocation on the Duckabush estuary restoration and bridge replacement project was included in Congressman Derek Kilmer's Community Project Funding program.
- **\$135,000** was received from Department of Ecology to assist with the PUD's pole yard cleanup project.
- The PUD received **\$4,629.65** in reimbursement from Department of Labor and Industries for participating in the Stay at Work program to keep injured workers on the job instead of collecting payments to be off work.

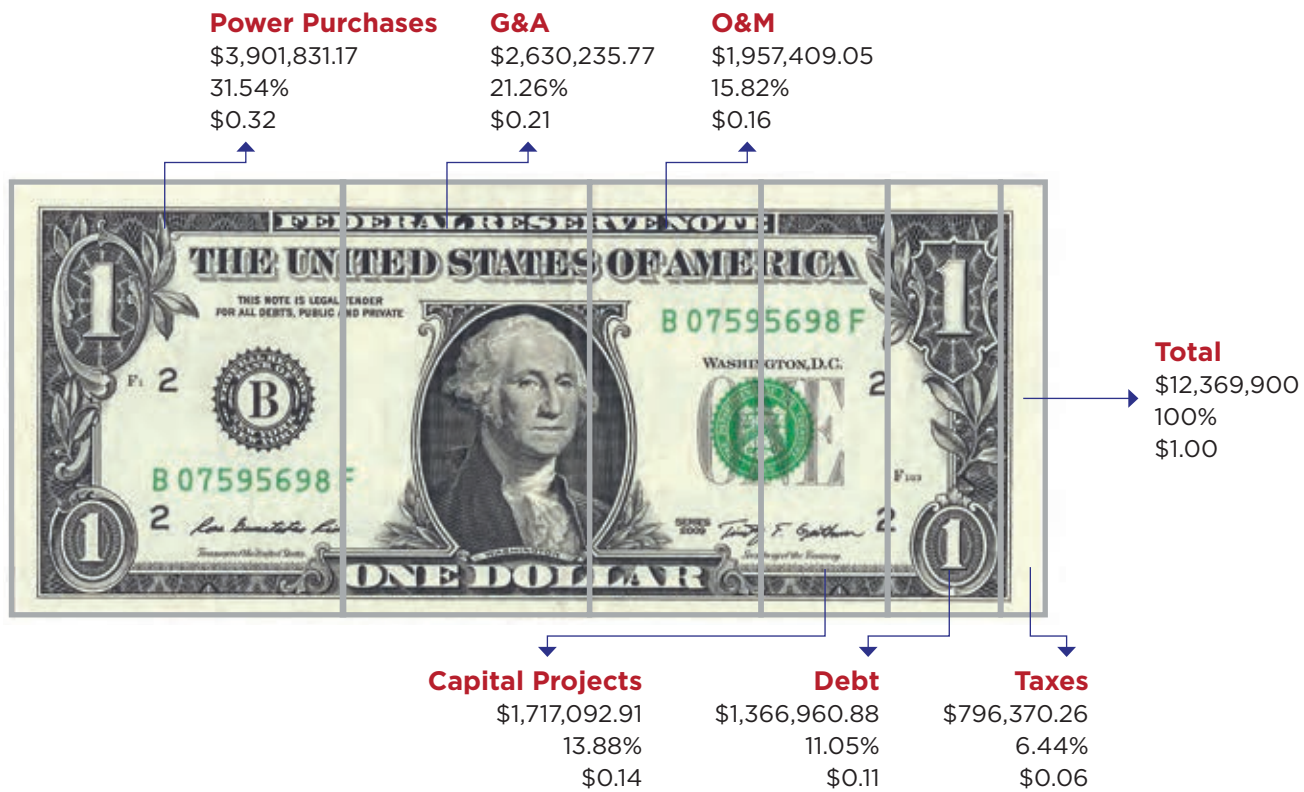
MEMBERSHIPS

Where we focus our participation and find value in our association:

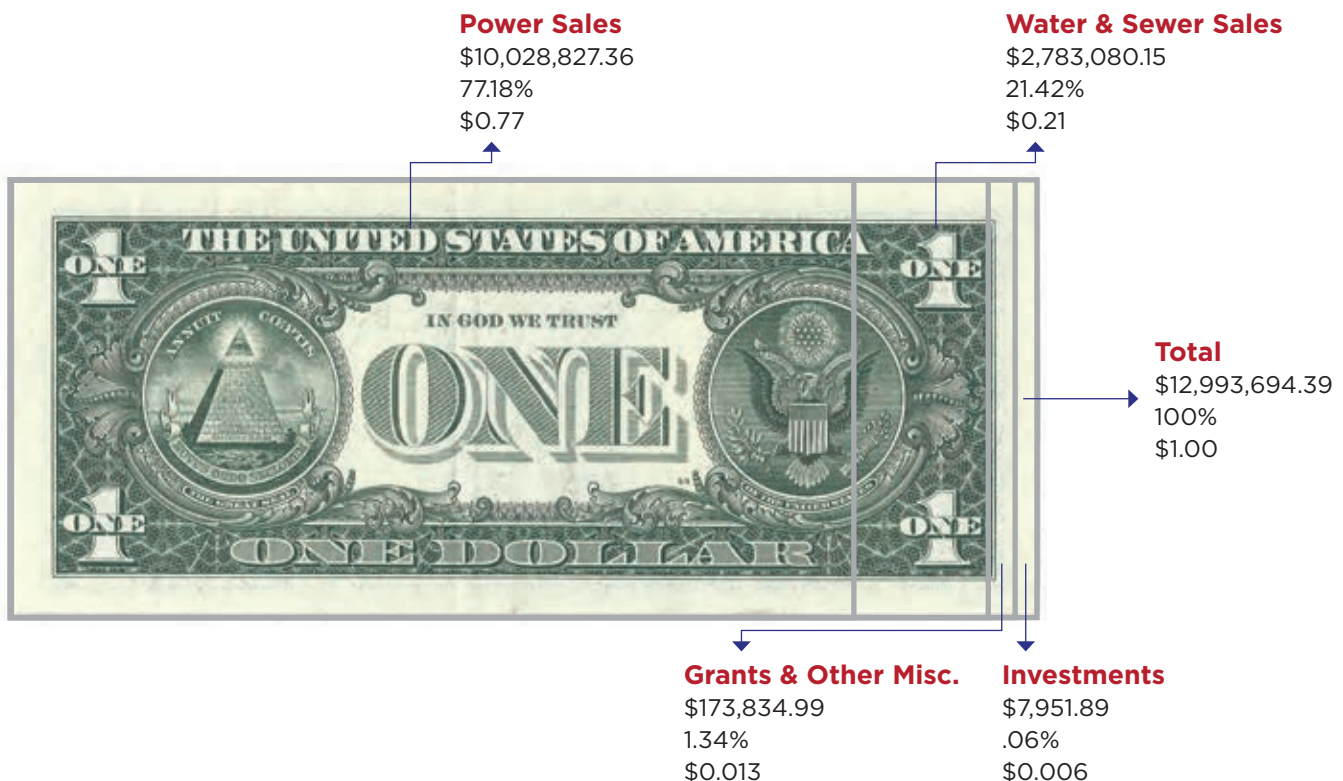
American Public Power Association	Public Power Council
Washington Public Utility Districts Association	Washington Public Agencies Group
Northwest Public Power Association	Mason County Economic Development Council
Water Resource Inventory Area (WRIA 14b & 16)	Hood Canal Kiwanis
Northwest RiverPartners	American Water Works Association - PNW Section
Evergreen Rural Water Association	Washington Water Utilities Council
Western Electricity Coordinating Council	
Energy Northwest	

FINANCE AND ADMINISTRATION

HOW PUD 1 SPENDS A DOLLAR OF ITS REVENUE



SOURCE OF PUD 1'S REVENUES



STATUS OF THE BUDGET

MASON COUNTY PUBLIC UTILITY DISTRICT #1 OVERVIEW OF THE STATUS OF BUDGET

2021

STATUS OF BUDGET AS OF DECEMBER 31, 2021

	2021 Actuals	2021 Budget	% of Annual Budget
Revenue	12,993,694.00	11,462,693.00	114%
Expenditures			
Distribution Operating & Maintenance	1,957,409.00	1,939,931.00	101%
Energy Services	3,901,831.00	3,567,360.00	110%
General & Administrative	2,630,236.00	2,630,771.00	100%
Tax, Depreciation, & Interest	2,928,196.00	2,915,518.00	101%
TOTAL EXPENDITURES	11,417,672.00	11,053,780.00	104%
NET OPERATING MARGINS	1,576,022.00	408,913.00	386%

The District's total revenue was 14% higher, collecting \$1,531,001 more than what was budgeted for 2021. A few key factors that played into the additional revenue collected include the following components:

1. Kilowatt hour sales (kWh) increased substantially from 2020 to 2021. In 2020, the total kWh sales were approximately 77.2 million, while in 2021, total sales were around 81.8 million, for an overall increase of just at 4.6 million kWh. The District has had record growth in 2021, with a total of 101 new services connected in 2021. The weather also played a role in the increased kWh sales in 2021, with a record-breaking heat wave in June, and then the cold snap we had in November and December.
2. The PUD received grant income to assist with various electric and water projects, as well as assistance with customer arrearages due to COVID related hardships. The total amount of grant funding received in 2021 for bill arrearages was \$189,500.
3. Other non-operating revenues increased primarily due to an increase in system development fees collected for new water system connections. The Water department also saw a record number of new connections in 2021 at 108 new services, with an overall increase of \$135,000 in system development fees over 2020. These funds will be applied to capital projects in 2022.

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 just over 1% of what was budgeted for 2021. The Energy Services (purchased power costs) was 10% higher than the 2021 budget. With the growth in new services, as well as the above average weather-related events, power costs increased as the customer's energy consumption increased. The General & Administrative expenses ended the year right at budget.

STATUS OF THE BUDGET

HOW IS THE NET OPERATING MARGIN ALLOCATED?

The Net Operating Margin for 2021 ended at \$1.5 million, which was \$1.2 million higher than the 2021 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 principal 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 2021, the District invested just over \$1.9 million in capital assets. The investment includes land, distribution, general plant, and equipment. The total increase in the District's investment from 2020 to 2021 was 3%.
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 2021, the balance in the fund is just under \$2.4 million.
3. At the end of 2021, the District had \$14.4 million in outstanding debt, an overall decrease of \$842,335. With the 2021 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 \$110,144 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 \$152,000 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.
5. Any remaining operating margins are applied to either capital projects that ran over budget due to pandemic-related inflation or are moved into the substation reserve fund to support the construction project.

STATE AUDIT REPORT

Due to the pandemic, the State Auditor's Office moved the District to a two-year audit cycle. The 2020 and 2021 year-end audits will occur concurrently at the end of 2022 and be presented in the 2022 annual report.

REQUESTS FOR INFORMATION

This financial synopsis is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report should be directed Katie Arnold, District Treasurer at N. 21971 Hwy. 101, Shelton, WA 98584 or (360) 877-5249.

