



May 16, 2018

Attention: Administrative and Finance Committee

Controller's Report on Monthly Financial Activity. (Information)

Purpose

The purpose of the Controller's Report is to provide summarized financial information on a monthly basis to the Board of Directors.

Financial Information

Attached for review by the Administrative and Finance Committee and the Board of Directors are the following financial documents comprising the Controller's Report:

1. Water Sales Volumes, in acre-feet
2. Water Sales Revenues, in millions
3. Water Purchases and Treatment Costs, in millions
4. Budget Status Report
5. Schedule of Cash and Investments

The Budget Status Report (Attachment 4) compares actual revenues and expenses, on a budgetary basis, for the nine-month period of July 1, 2017 through March 31, 2018, to the period-to-date adopted budget. Budgeted amounts for the nine-month period are presented on a straight-line basis unless noted herein. Water sales and purchases are budgeted based on projected monthly volume in acre-feet. Period-to-date budgeted revenue categories were all adjusted to reflect the expected timing of receipt. In addition, certain period-to-date budgeted expense categories were adjusted for periodic items and include the following: Debt Service, QSA Mitigation, and annual insurance premiums and contributions to the Six Agency Committee Fund that are included in the Administrative Services and Colorado River Program operating budgets, respectively.

Net Revenues after CIP

The Water Authority adopted a two-year budget covering Fiscal Years 2018 and 2019. Through March 2018, it is nine months into Fiscal Year 2018 and net revenues are more than expenses by \$15.6 million. However, timing is a big factor contributing to this variance as revenues and expenses can be delayed or accelerated due to timing of events. This is readily apparent with revenues related to grants and property taxes, and expenses related to CIP and Operating Departments. Fifteen months remain in the adopted two-year budget and the current favorable variance is expected to reduce over time. Any excess amounts have been added to reserves.

Net Water Sales Revenue

Net Water Sales Revenue is the Water Authority's principal source of revenue and is the difference between the sale of water and the cost of that water. Sales include revenues from:

Variable Commodity Charges

1. Supply
2. Treatment
3. Transportation

Fixed Charges

1. Customer Service
2. Energy Storage
3. Infrastructure Access Charge
4. Supply Reliability

Cost of water includes payments to three water suppliers:

1. Metropolitan Water District (MWD)
2. Imperial Irrigation District (IID)
3. Poseidon Resources (Channelside) LP

Net Water Sales Revenue was \$109.2 million, or 4 percent higher than the budgeted amount of \$105.4 million. Water Purchase and Treatment Costs were below anticipated amounts due to lower than projected water sales as well as reduced purchases from the Claude "Bud" Lewis Carlsbad Desalination Plant (Plant) resulting from unanticipated plant downtime for repairs. Detailed information relating to Net Water Sales Revenue is described below and shown on Attachments 1, 2, and 3.

Total acre-feet (AF) of water sold was budgeted to be 315,331 AF. Actual water sales volume was 292,608 AF, 22,723 AF or 7 percent lower than budgeted (Attachment 1). Total Water Sales Revenue was \$433.6 million, \$31.2 million or 7 percent lower than the budgeted amount of \$464.8 million (Attachment 2). While water sales continue to trend toward projections, lower water sales can be attributed to two primary factors: 1) the commencement of deliveries through the Indian Water Authority to Vista and Escondido that directly offset budgeted sales to those agencies and 2) greater than projected member agency use of local surface water supplies.

Total Water Purchases and Treatment costs were budgeted at \$359.4 million. Actual costs were \$324.5 million, \$34.9 million or 10 percent lower than budgeted (Attachment 3). With actual sales trending toward projections, the primary driver for the variance is the shutdown that occurred at the Plant late last summer due to a mechanical coupling failure. The Plant was shut down for approximately 53 days during the first six months of the fiscal year. This resulted in replacement water purchases from MWD. In addition, when the Plant is not producing at levels required by the Water Purchase Agreement, Poseidon is obligated to make a shortfall payment. This amount is recorded as Other Income in the financial statements. A provision does exist in the Water Purchase Agreement that allows Poseidon to make up for shortfalls within the fiscal year. It is not anticipated the cumulative shortfall amount will be fully cured by fiscal year end.

Additionally, this cost category included \$53.2 million for 82,499 AF of water purchased from IID, and \$66.6 million for MWD's conveyance charges related to IID, Coachella Canal and All-American Canal water. Also reflected in actual costs were water purchases from Poseidon Resources (Channelside) LP of approximately \$68.2 million.

Revenues and Other Income

As shown in Attachment 4, total Revenues and Other Income were budgeted at \$70.3 million for the nine-month period ended March 31, 2018. Actual revenues were \$81.2 million, \$10.9 million higher than budgeted.

Categories of revenues in which actual revenues were materially higher than the nine-month period-to-date budget included the following:

Capacity Charges - \$5.6 million higher than period-to-date budget. The significant increase in Capacity Charges was due a greater number of permits issued than anticipated because of several major housing developments in San Diego, Santee, and Escondido. Due to high housing demand, construction is expected to continue throughout the current year. For the fiscal year to date, the top three largest capacity charges revenue amounts received were from the following member agencies: City of San Diego at \$5.4 million, Padre Dam Municipal Water District at \$1.5 million, and City of Escondido at \$1.1 million.

Other Income - \$3.4 million more than period-to-date budget primarily due to an insurance refund received from Liberty Mutual for the Emergency and Carryover Storage Project of \$0.9 million, shortfall revenue related to the Claude "Bud" Lewis Carlsbad Desalination Plant of \$1.4 million, and \$1.2 million of miscellaneous revenue reimbursements received.

Property Taxes and In-Lieu Charges - \$0.8 million higher than period-to-date budget due to increased property values, as well as the temporary effect from prepayment of the second installment of property taxes due in April 2018 being paid in December 2017 resulting from the newly enacted 2018 tax reform law effective on January 1, 2018.

Grant Reimbursements - \$1.4 million more than budgeted due to the timing of reimbursements received for Integrated Regional Water Management Program (IRWMP). A minimal amount of grant revenues is retained by the Water Authority as grant administrator and the remainder is a pass-through to local project sponsors.

Categories of revenues in which actual revenues were less than the nine-month period-to-date budget included the following:

Contributions in Aid of Capital Improvement Program (CIAC) - \$1.2 million lower than period-to-date budget as there has been no corresponding revenues this year. CIAC is tied to grants or reimbursements from member agencies on projects benefitting them and these have been affected due to timing.

Build America Bonds Subsidy - \$0.6 million lower than period-to-date budget due to reduction in the annual subsidy from the sequestration rate by Congress that was not available at the time the budget was adopted. The Water Authority continues to receive semi-annual subsidy payments from the United States Treasury equal to 35 percent of interest payable on Series 2010B Bonds, net of the sequestration reduction.

Expenses

As shown in Attachment 4, total Expenses were budgeted at \$139.7 million for the nine-month period ended March 31, 2018. Actual expenses were \$130.8 million, \$8.9 million lower than budgeted. Material variances are explained as follows.

Operating Departments - \$6.4 million below period-to-date budget. Roughly half this variance is the result from vacant staff positions currently being recruited which have caused both salary and benefit expenses to be below budget. The other material difference is attributable to lower professional and technical services costs due to timing of projects.

Grant Expenses - \$2.0 million lower than period-to-date budget resulting from the timing delay in expense recognition of the pass-through IRWMP grants. Most of the expenses are offset with corresponding grant revenues.

Equipment Replacement - \$0.6 million below period-to-date budget due to timing of purchases. Budget assumes a straight-line level of purchases but timing of purchases is more complex due to the nature of the items being acquired resulting in temporary variances.

CIP Expenses

Attachment 4 shows CIP Expenses were budgeted at \$43.7 million. Actual expenses were \$43.9 million, \$0.2 million higher than the budgeted amount. Thus far 75% of CIP project expenses have been paid with the remainder to be paid according to project timelines through the end of the fiscal year. Fiscal Years 2018 and 2019 CIP expenses are all funded through the Pay-As-You-Go Fund.

Cash and Investments

As of March 31, and February 28, 2018, the overall balance in the Water Authority's cash and investments was \$406.4 million and \$401.6 million, respectively (Attachment 5). As of March 31, 2018, the cash and investments balance was approximately 65 percent unrestricted funds with the remaining 35 percent of funds restricted for specific purposes. To maximize investment returns, the Water Authority Treasurer pools the cash of the Pay-As-You-Go Fund with total unrestricted funds. For additional information on cash positions and purposes, see the Schedule of Cash and Investments (Attachment 5).

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Reviewed by: Geena Balistrieri, Accounting Supervisor

Approved by: Chris Woidzik, Controller

Attachments:

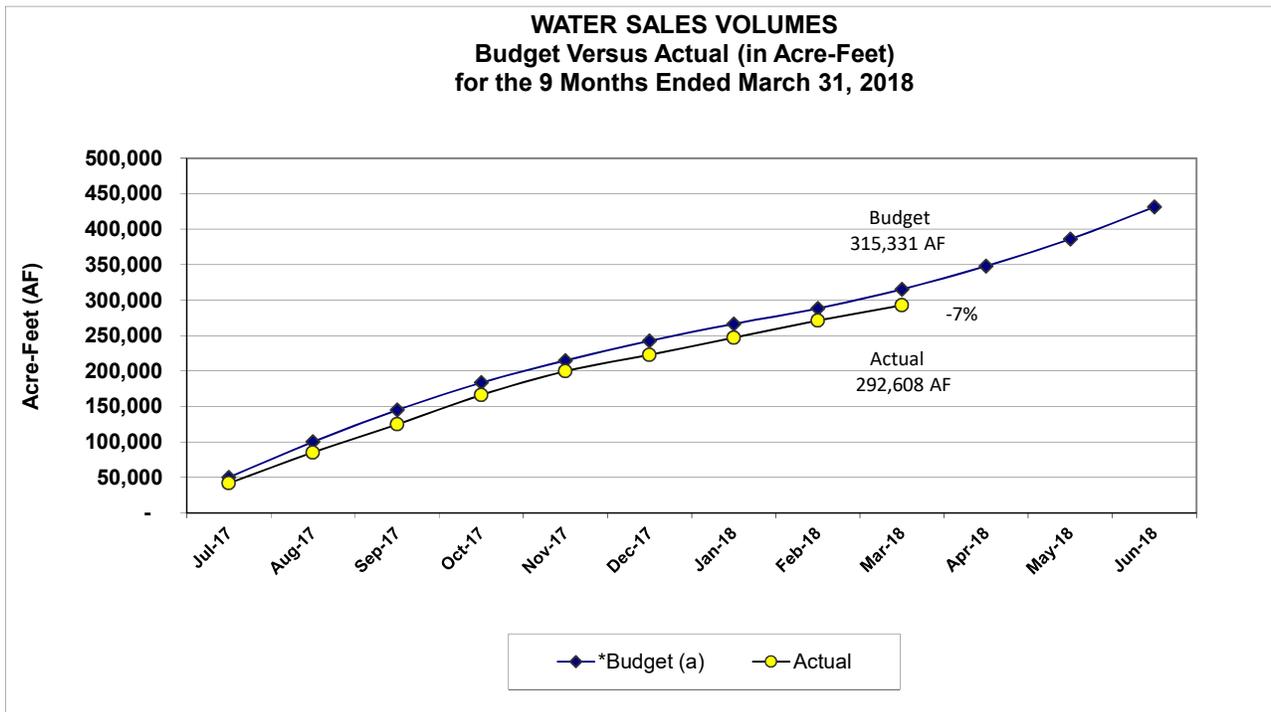
Attachment 1 – Water Sales Volumes

Attachment 2 – Water Sales Revenues

Attachment 3 – Water Purchases and Treatment Costs

Attachment 4 – Budget Status Report

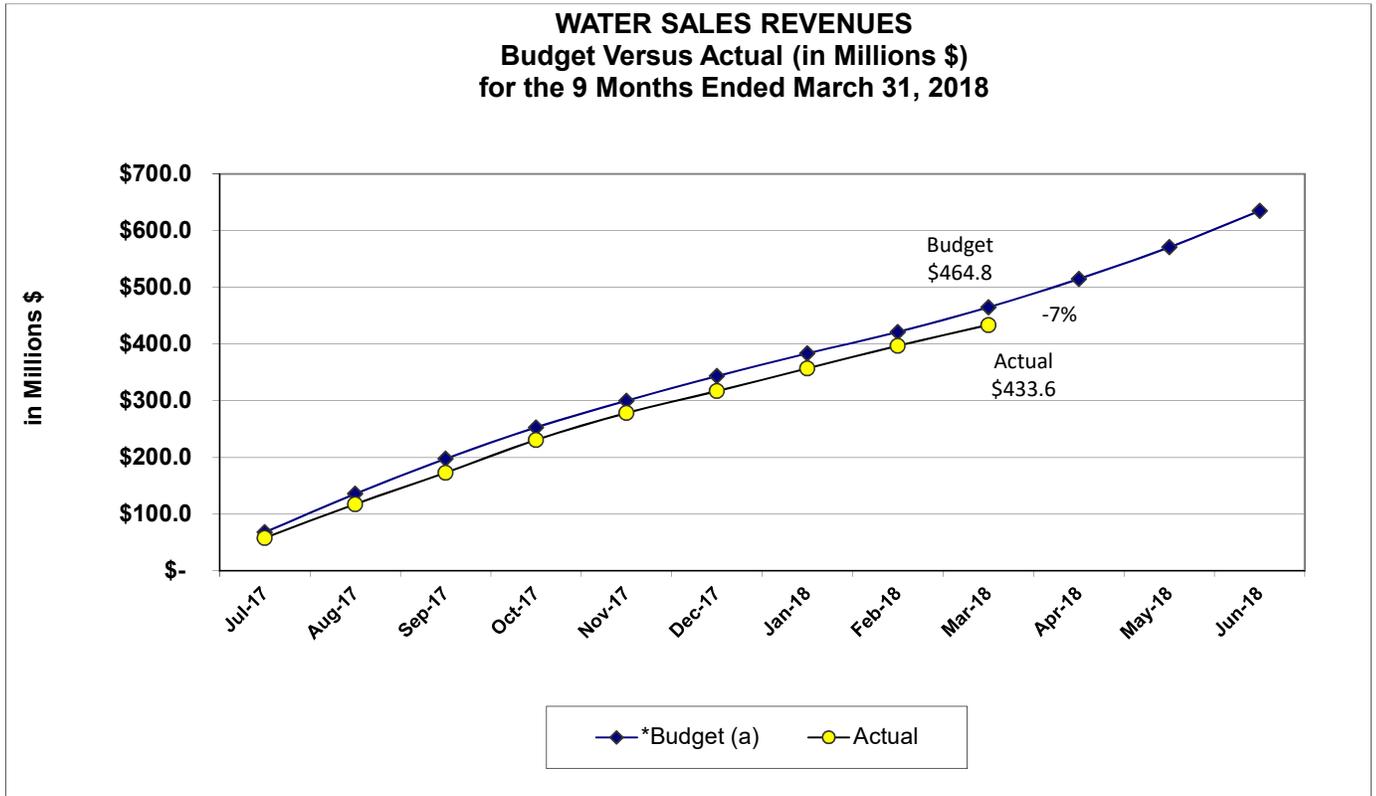
Attachment 5 – Schedule of Cash and Investments



*Budgeted amounts are based on the Adopted Multi-Year Budget for Fiscal Years 2018 and 2019.

Fiscal Year 2018 Cumulative Water Sales (AF)

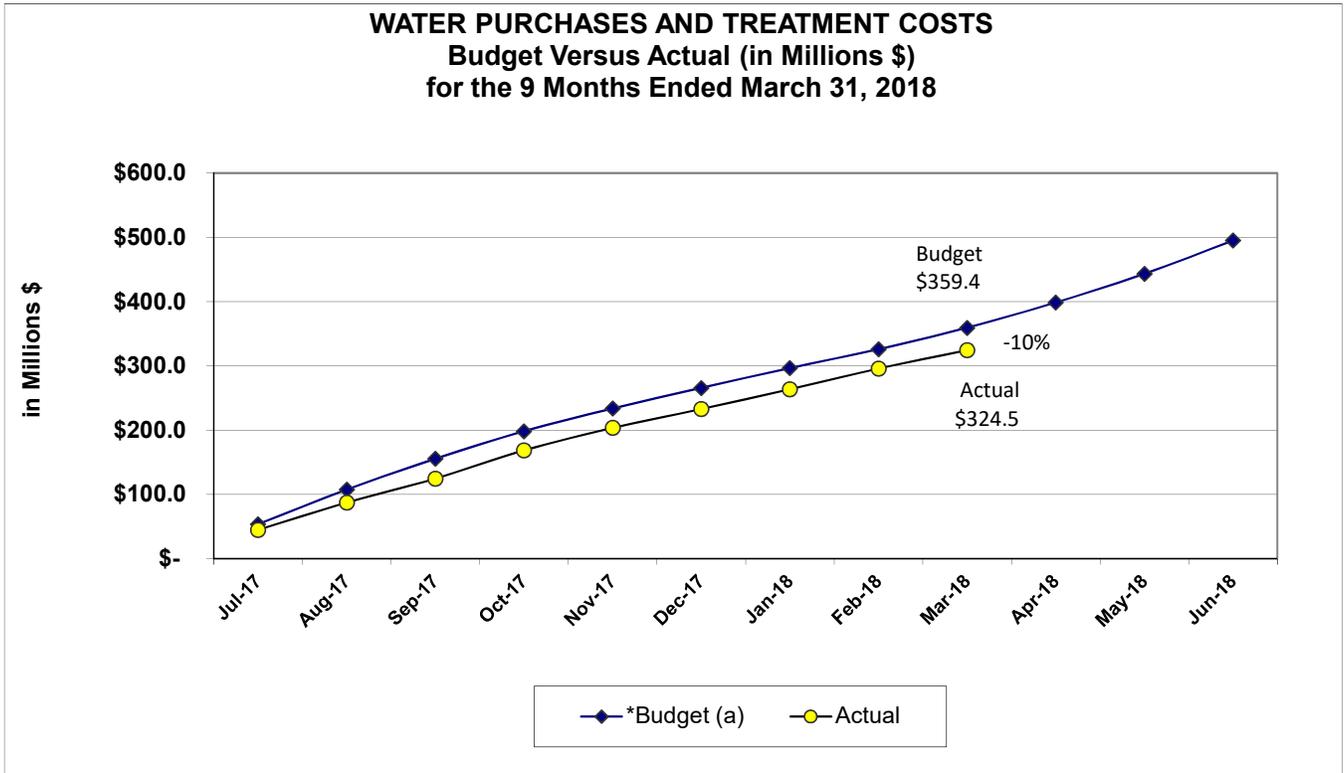
Months	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
*Budget (a)	50,172	100,133	144,944	183,572	214,851	242,655	266,443	288,214	315,331	348,044	386,055	431,353
Actual	41,812	85,217	124,748	166,200	199,748	222,937	247,082	271,036	292,608	-	-	-
AF Difference (b)	(8,360)	(14,916)	(20,196)	(17,372)	(15,103)	(19,718)	(19,361)	(17,178)	(22,723)			
Cum. Actual AF												
% Difference (b/a)	-17%	-15%	-14%	-9%	-7%	-8%	-7%	-6%	-7%			



*Budgeted amounts are based on the Adopted Multi-Year Budget for Fiscal Years 2018 and 2019.

Fiscal Year 2018 Cumulative Water Sales (in Millions \$)

Months	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
*Budget (a)	\$ 68.0	\$ 135.9	\$ 197.7	\$ 253.0	\$ 300.1	\$ 343.5	\$ 383.5	\$ 421.3	\$ 464.8	\$ 514.8	\$ 570.7	\$ 635.1
Actual	58.2	117.8	173.2	230.9	278.4	317.1	357.1	397.0	433.6	-	-	-
Difference (b)	\$ (9.8)	\$ (18.1)	\$ (24.5)	\$ (22.1)	\$ (21.7)	\$ (26.4)	\$ (26.4)	\$ (24.3)	\$ (31.2)			
Cum. Actual												
% Difference (b/a)	-14%	-13%	-12%	-9%	-7%	-8%	-7%	-6%	-7%			



*Budgeted amounts are based on the Adopted Multi-Year Budget for Fiscal Years 2018 and 2019.

Fiscal Year 2018 Cumulative Cost of Water Purchases and Treatment (in Millions \$)

Months	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
*Budget (a)	\$ 53.9	\$ 107.6	\$ 155.6	\$ 198.5	\$ 233.8	\$ 265.8	\$ 296.6	\$ 325.9	\$ 359.4	\$ 398.8	\$ 443.1	\$ 495.1
Actual	44.9	87.4	124.7	168.6	203.6	232.9	263.8	295.8	324.5	-	-	-
Difference (b)	\$ (9.0)	\$ (20.2)	\$ (30.9)	\$ (29.9)	\$ (30.2)	\$ (32.9)	\$ (32.8)	\$ (30.1)	\$ (34.9)			
Cum. Actual												
% Difference (b/a)	-17%	-19%	-20%	-15%	-13%	-12%	-11%	-9%	-10%			

**San Diego County Water Authority
Fiscal Year 2018 Budget Status Report
For the 9 Months Ended March 31, 2018**

[A]	[B] = [A * 75%]	[C]	Revenues = [-B + C] Expenditures = [B - C]	[C / A]	
FY 2018 (9 months - 75%)					
FY 2018 Adopted Budget	9 Months (75%) Period-to-Date Adopted Budget (a)	9 Months Period-to-Date Actual	Variance Positive (Negative)	Actual to FY 2018 Adopted Budget	
Net Water Sales Revenue					
Water Sales	\$ 635,069,193	\$ 464,820,005 (b)	\$ 433,632,062	\$ (31,187,943)	68%
Water Purchases & Treatment	495,079,731	359,377,756 (b)	324,462,289	34,915,467	66%
Total Net Water Sales Revenue	139,989,462	105,442,249	109,169,773	3,727,524	78%
Revenues and Other Income					
Infrastructure Access Charges	32,477,000	24,346,533 (l)	24,194,286	(152,247)	74%
Property Taxes and In-Lieu Charges	12,555,000 (c)	8,164,939 (l)	8,982,760	817,821	72%
Investment Income	5,175,000 (d)	2,587,372 (l)	3,435,135	847,763	66%
Hydroelectric Revenue	3,535,000 (e)	2,353,260 (l)	2,658,759	305,499	75%
Grant Reimbursements	15,470,000	7,735,000 (l)	9,167,298	1,432,298	59%
Build America Bonds Subsidy	11,303,000	8,477,219 (l)	7,906,420 (m)	(570,799)	70%
Other Income	489,000	244,382 (l)	3,683,069	3,438,687	753%
Capital Contributions:					
Capacity Charges	16,629,000 (f)	8,314,380 (l)	13,956,527	5,642,147	84%
Water Standby Availability Charges	11,114,000 (g)	6,890,680 (l)	7,198,861	308,181	65%
Contributions in Aid of Capital Improvement Program (CIAC)	1,570,000 (h)	1,177,317 (l)	-	(1,177,317)	0%
Total Revenues and Other Income	110,317,000	70,291,082	81,183,115	10,892,033	74%
Total Revenues	250,306,462	175,733,331	190,352,888	14,619,557	76%
Expenses					
Debt Service	138,577,000 (i)	76,866,885 (l)	76,866,885	-	55%
QSA Mitigation	10,165,000 (j)	10,164,814 (l)	10,164,814	-	100%
Equipment Replacement	2,292,000	1,719,000	1,165,849	553,151	51%
Grant Expenses	15,720,000	11,790,000	9,784,650	2,005,350	62%
Other Expenses	500,000	375,000	432,675	(57,675)	87%
Operating Departments (see below)	51,370,917 (k)	38,754,908	32,367,300	6,387,608	63%
Total Expenses	218,624,917	139,670,607	130,782,173	8,888,434	60%
Net Revenues Before CIP	\$ 31,681,545	\$ 36,062,724	\$ 59,570,715	\$ 23,507,991	188%
CIP Expenses	\$ 58,323,000	\$ 43,742,250	\$ 43,938,082	\$ (195,832)	75%
(CIP Expenses are all funded by Pay-As-You-Go Fund)					
Net Revenues After CIP			\$ 15,632,633		
Operating Departments Detail					
Administrative Services	\$ 5,843,546	\$ 4,546,921 (l)	\$ 3,948,624	\$ 598,297	68%
Colorado River Program	1,669,583	1,314,646 (l)	962,368	352,278	58%
Engineering	3,532,727	2,649,545	2,399,799	249,746	68%
Finance	2,437,485	1,828,114	1,666,670	161,444	68%
General Counsel	3,480,151	2,610,113	1,758,529	851,584	51%
General Manager & Board of Directors	4,877,034	3,657,776	2,980,322	677,454	61%
MWD Program	2,238,155	1,678,616	1,560,231	118,385	70%
Operations & Maintenance	19,642,917	14,732,188	12,312,652	2,419,536	63%
Public Outreach and Conservation	3,882,715	2,912,036	2,342,393	569,643	60%
Water Resources	3,766,604	2,824,953	2,435,712	389,241	65%
Total Operating Departments	\$ 51,370,917	\$ 38,754,908	\$ 32,367,300	\$ 6,387,608	63%

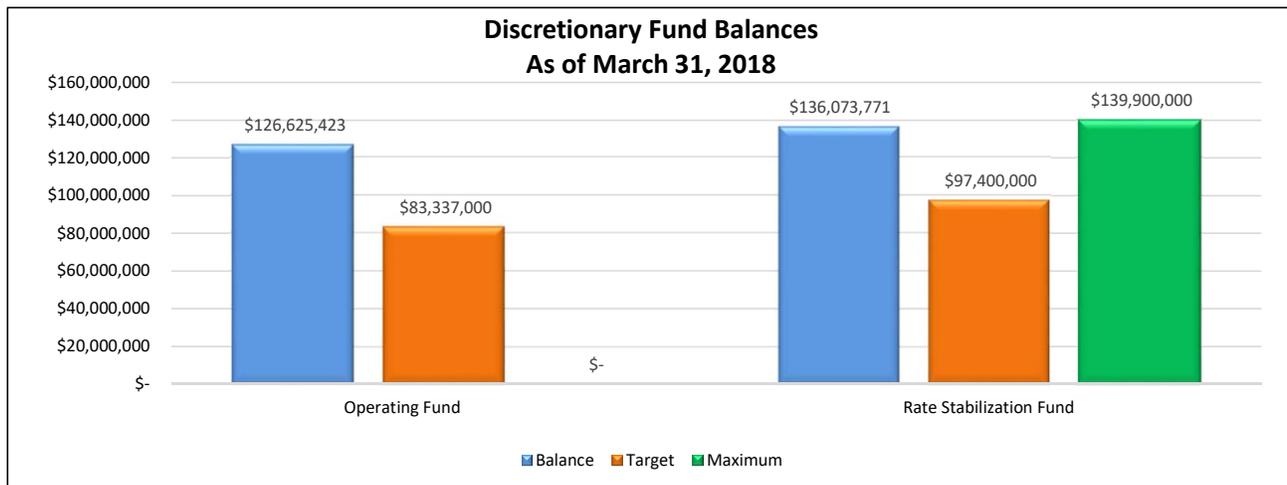
**San Diego County Water Authority
Fiscal Year 2018 Budget Status Report
For the 9 Months Ended March 31, 2018**

Notes to the Budget Status Report:

- a) Period-to-date budgeted amounts are 9/12ths (75%) of Fiscal Year 2018 adopted budget unless noted.
- b) Water sales and water purchases period-to-date budgeted amounts are based on projected acre-feet calculated per month.
- c) Property taxes are primarily received in December and April. In-lieu charges in the amount of \$559,402 for Fiscal Year 2018 are received quarterly from the City of San Diego.
- d) Investment income excludes unrealized gains/losses, which are non-cash transactions.
- e) Hydroelectric revenue budget amount includes Rancho Penasquitos Pressure Control and Hydroelectric Facility (Rancho Hydro) and Lake Hodges Pumped Storage Facility (Hodges Hydro). Power generating from both locations are sold to San Diego Gas and Electric.
- f) Capacity charges are primarily received in July, October, January and April, after the quarterly period ends, and accrued revenue are recorded for the quarter ending June.
- g) Water standby availability charges are primarily received in January and May.
- h) Contributions in aid of capital improvement program include planned reimbursements for miscellaneous projects.
- i) Bonds and Certificates of Participation debt service payments are due semi-annually on November 1 and May 1. Pipeline Bonds, Series 2012 debt service payments are due semi-annually on July 1 and January 1. Debt Service includes principal, interest expense, and debt service fees. Amortization expense relating to long-term debt, such as discounts, premiums, and deferred loss on refunding are excluded because they are non-cash transactions.
- j) The QSA mitigation payments includes: QSA JPA Fiscal Year 2018 contributions of \$1,850,000 is due in July 2017 and \$8,314,814 is due in December 2017; QSA JPA Fiscal Year 2019 contributions of \$1,750,000 is due in July 2018 and \$6,914,667 is due in December 2018.
- k) Amounts include capital equipment purchases included in the project budget and not funded through the Equipment Replacement Fund.
- l) Period-to-date budgeted amounts adjusted based on items occurring on a periodic basis.
- m) The semi-annual subsidy payments from the United States Treasury equal to 35 percent of the interest payable on the Series 2010B Bonds were reduced under Congressionally-mandated sequestration by \$389,952 in October 2017 and an additional \$372,998 in April 2018.

**San Diego County Water Authority
Schedule of Cash and Investments
As of March 31, and February 28, 2018**

		<u>March</u>		<u>February</u>	<u>Target</u>
Operating Fund		\$ 126,625,423		\$ 116,996,424	\$ 83,337,000
Equipment Replacement Fund		1,127,422		77,704	
Rate Stabilization Fund		136,073,771		135,939,577	\$ 97,400,000
Total Unrestricted Funds	⁽¹⁾ 65%	263,826,616	63%	253,013,705	
Pay-As-You-Go Fund	⁽¹⁾	119,963,772		126,003,960	
Debt Service Reserve Funds		22,618,610		22,606,664	
Total Restricted Funds	35%	142,582,382	37%	148,610,624	
Total Cash and Investments		\$ 406,408,998		\$ 401,624,329	



Note:

⁽¹⁾ Total Unrestricted Funds and the Pay-As-You-Go-Fund represent the Pooled Funds in the Treasurer's Report.

Fund Categories

Operating Fund: The Water Authority's working capital and emergency operating reserve. The Operating Fund's policy requires a maximum of 45 days of average annual operating expenses to be kept in reserves.

Stored Water Fund (SWF): This fund provides working capital to purchase water inventory necessary to fully utilize the Water Authority's storage facilities. A 70,000 acre-feet target was established for Carryover Storage inventory along with a maximum of 100,000 acre-feet, which is the storage capacity. The SWF is to only hold a cash position if the cost to replace the target amount is below the current value of water inventory in the fund.

Equipment Replacement Fund (ERF): The ERF is funded by transfers from the Operating Fund for capital equipment purchases such as computers, vehicles, and SCADA systems and is used to replace equipment which has reached the end of its effective useful life.

Rate Stabilization Fund (RSF): The RSF holds the water revenues greater than expenditures in years of strong water sales. Funds can then be used to mitigate "rate shock" in years of weak water sales and/or to manage debt service coverage. The RSF target balance is equal to the financial impact of 2.5 years of wet weather or mandatory restrictions and the maximum fund balance is equal to the financial impact of 3.5 years of wet weather or mandatory restrictions. The current balance in this fund represents approximately 140% of the targeted value of \$97.4 million and 97% of the maximum balance of \$139.9 million

Pay-As-You-Go-Fund (PAYGO): The PAYGO fund collects Capacity Charges and Water Standby Availability Charges to be used to pay for the cash portion of the CIP. The funds are dedicated for construction outlays as well as debt service.

Debt Service Reserve Fund: This fund contains the required legal reserve for Water Authority debt issues. Such reserves are held for the purpose of making an issue's annual debt service payments in the event the Water Authority should be unable to make such payments. The funds are held by trustees and interest earned is transferred into the Operating Fund and is not restricted.