

February 19, 2020

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

A summary of the Fiscal Year 2020 Budget Status Report (in millions) for the six-month period of July 1, 2019 through December 31, 2019 are as follows:

	FY 2020 Adopted Budget	For the 6 months ended December 31, 2019		\$ Variance Positive/ (Negative)	% Budget Above/ (Below)
		6 Months Budget	6 Months Actual		
Water Sales	\$ 632.6	\$ 357.7	\$ 306.7	\$ (51.0)	-14%
Water Purchases & Treatment	518.5	288.0	250.8	37.2	-13%
Net Water Sales Revenues	114.1	69.7	55.9	(13.8)	-20%
Revenues & Other Income	120.9	48.7	44.6	(4.1)	-8%
Total Revenues	235.0	118.4	100.5	(17.9)	-15%
Total Expenses	229.5	91.2	77.7	13.5	-15%
Net Revenues Before CIP	5.5	27.2	22.8	(4.4)	-16%
CIP Expenses	81.4	36.5	27.0	9.5	-26%
Net Fund Withdraws	\$ (75.9)	\$ (9.3)	\$ (4.2)	\$ 5.1	-55%

Summary

The Water Authority was six months into the twelve-month budget and had a favorable variance of \$5.1 million for the period ending December 31, 2019. Water Sales had a negative variance of \$51.0 million because actual revenues were less than budget, or -14% below budget. Water Purchases & Treatment costs had a positive variance of \$37.2 million because actual expenses were less than budget, or -13% below budget. The six-month budget provided for a withdrawal from fund balance of \$9.3 million, but the actual amount required from fund balance was a withdrawal of \$4.2 million. The result was a favorable variance of \$5.1 million, or -55% below budget, because total expenses and CIP expenses together were lower than budget by \$23.0 million; however, this was partially offset by total revenues coming in lower than budget by \$17.9 million. Additional details on these variances follow.

The Budget Status Report (Attachment 4) compares actual revenues and expenses, on a budgetary basis, to the period-to-date adopted budget. Period-to-date budgeted amounts for the six-month period are presented on a straight-line basis unless adjusted for the timing of periodic items, as noted on Attachment 4 footnote (n). Water sales and water purchases are budgeted based on projected monthly volume in acre-feet.

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 for supply, treatment and transportation, as well as from fixed charges for customer service, storage, infrastructure access charge, and supply reliability. Cost of water includes payments to the following water suppliers: Metropolitan Water District (MWD), Imperial Irrigation District (IID), and Poseidon Resources (Channelside) LP.

Net Water Sales Revenue for the six-month period ended December 31, 2019 was \$55.9 million, or 20 percent lower than the budgeted amount of \$69.7 million. Actual Water Purchase and Treatment Costs were lower than budgeted by 13 percent due to lower than projected water sales of 14 percent. 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 at 243,725 AF. Actual water sales volume was 201,341 AF or 17 percent lower than budgeted (Attachment 1). Total Water Sales Revenue was \$306.7 million or 14 percent lower than the budget of \$357.7 million (Attachment 2).

Total Water Purchases and Treatment costs were budgeted at \$288.0 million. Actual costs were \$250.8 million or 13 percent lower than budgeted (Attachment 3). This cost category included \$53.5 million for 80,000 AF of water purchased from IID, \$58.9 million for MWD's conveyance charges related to IID, Coachella Canal and All-American Canal water, and \$68.7 million of water purchased from Poseidon Resources (Channelside) LP.

Revenues and Other Income

As shown in Attachment 4, total Revenues and Other Income were budgeted at \$48.7 million for the six-month period ended December 31, 2019. Actual revenues were \$44.6 million or 8 percent lower than budget. Actual revenues materially lower than the period-to-date budget include Grant Reimbursements category which were lower by \$4.4 million due to the timing of reimbursement requests related to the Integrated Regional Water Management Program. Other Income was \$0.6 million lower than the period-to-date budget due to the sales tax audit reimbursements relating to the Claude "Bud" Lewis Carlsbad Desalination Plant construction experiencing a delayed payout schedule. Contributions in Aid of CIP were budgeted at \$0.4 million but has no year-to-date activity yet.

Actual Capacity Charges were \$1.3 million higher than anticipated compared to the period-to-date budget due an increase in the number of permits issued.

Expenses

As shown in Attachment 4, total Expenses were budgeted at \$91.2 million for the six-month period ended December 31, 2019. Actual expenses were \$77.7 million or 15 percent lower than

budget. Actual expenses materially lower than the period-to-date budget include Grant Expenses which were lower by \$6.7 million due to timing of reimbursement requests received from the local project sponsors and, secondly, due to the practice of reversing the prior year retention accrual so retention payments match back to the period in which the payments are made. The Operating Departments category was lower than budget by \$4.5 million due to the timing of payments related to budgeted expenses. Debt Service was \$2.6 million lower than budget due to savings from the commercial paper program. Equipment Replacement was \$0.3 million lower than budget due to the timing of purchases.

Actual Other Expenses exceeded the period-to-date budget by \$0.6 million due to other miscellaneous and conservation reimbursable expenses.

CIP Expenses

Attachment 4 shows CIP Expenses were budgeted at \$36.5 million through December but actual expenses amounted to \$27.0 million or \$9.5 million lower than budget. The variance was primarily attributed to the timing of expenses.

Cash and Investments

As of December 31, 2019, the Water Authority's cash and investments balance was \$315.7 million, approximately 79 percent unrestricted funds with the remaining 21 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, see the Schedule of Cash and Investments (Attachment 5).

Prepared by: Jocelyn Matsuo, Senior Accountant

Reviewed by: Geena Xiaoqing Balistreri, CPA, Accounting Supervisor

Approved by: Christopher Woidzik, CPA, Controller

Attachments:

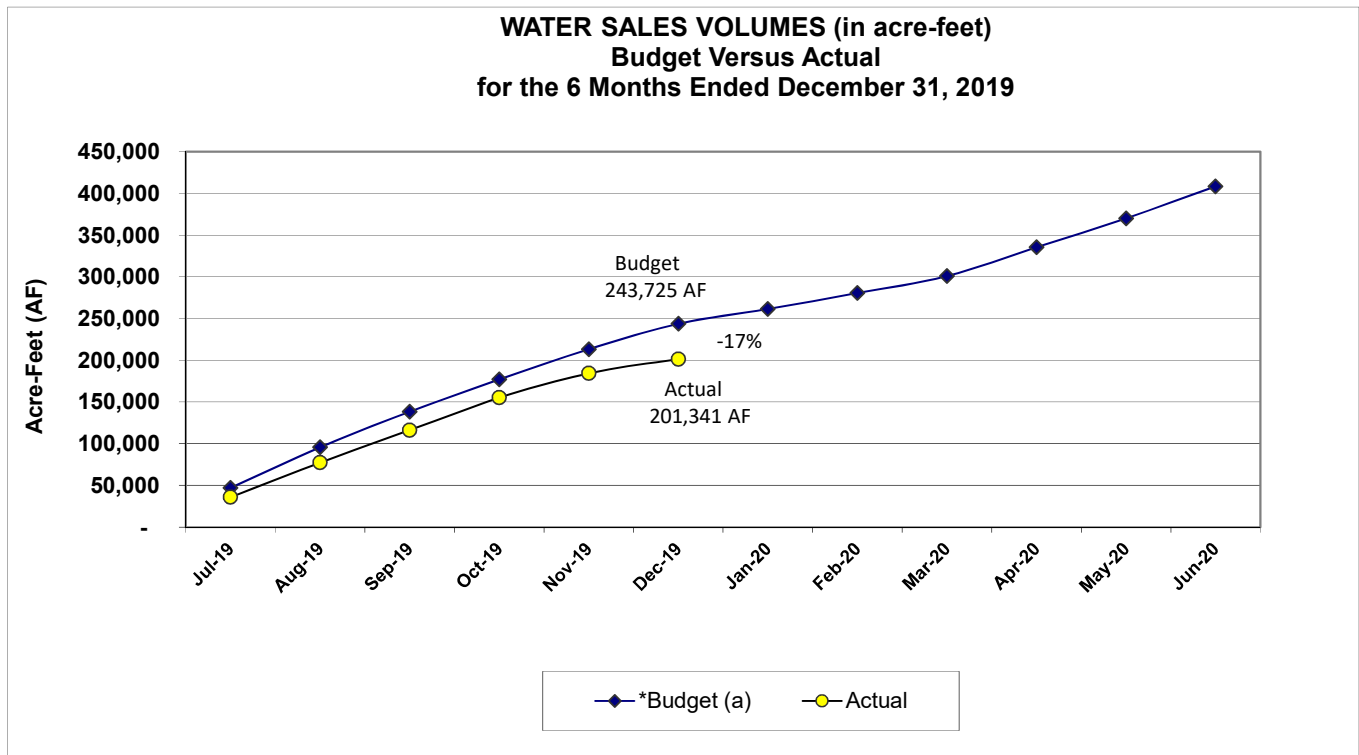
Attachment 1 – Water Sales Volumes

Attachment 2 – Water Sales Revenues

Attachment 3 – Water Purchases and Treatment Costs

Attachment 4 – Budget Status Report

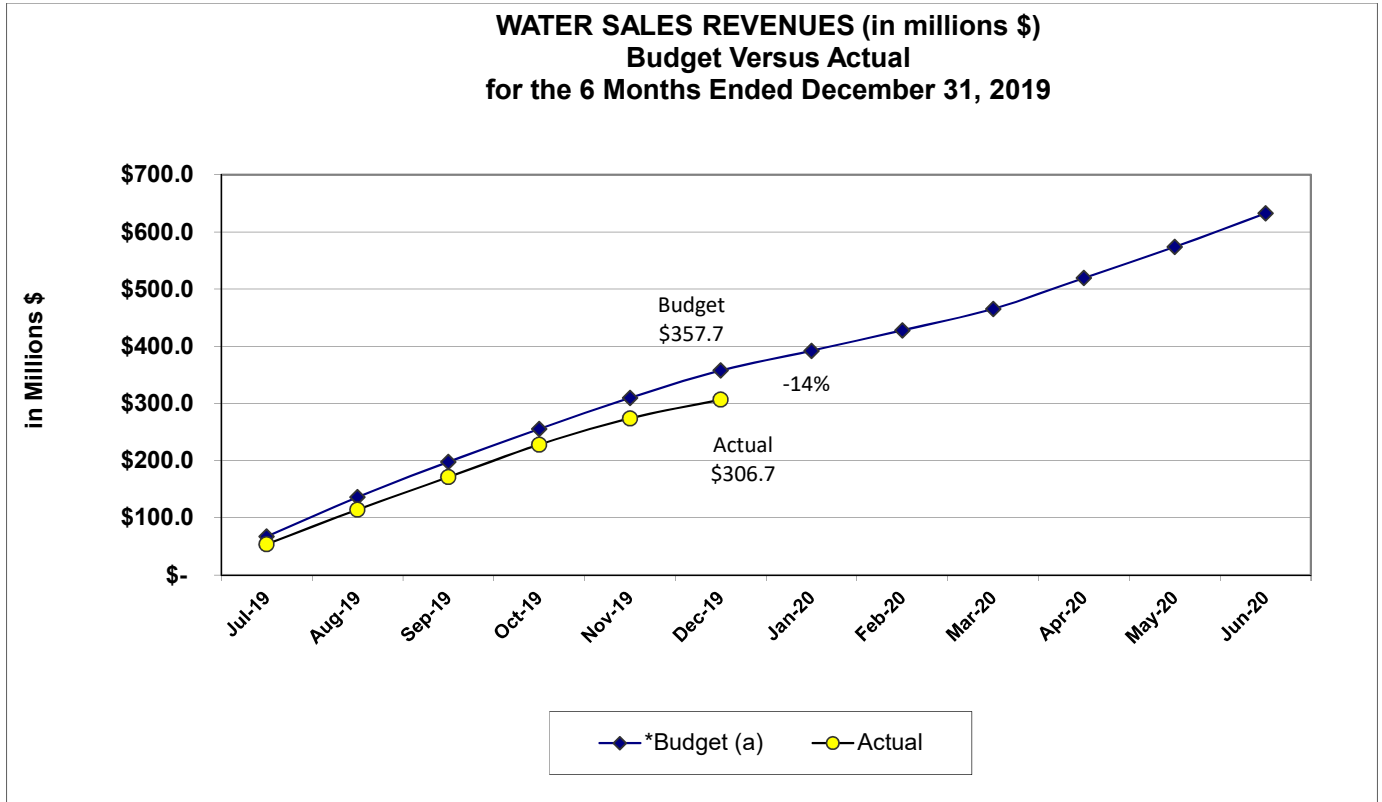
Attachment 5 – Schedule of Cash and Investments



*Budgeted amounts are based on the Adopted Multi-Year Budget for Fiscal Years 2020 and 2021.

Fiscal Year 2020 Cumulative Water Sales (AF)

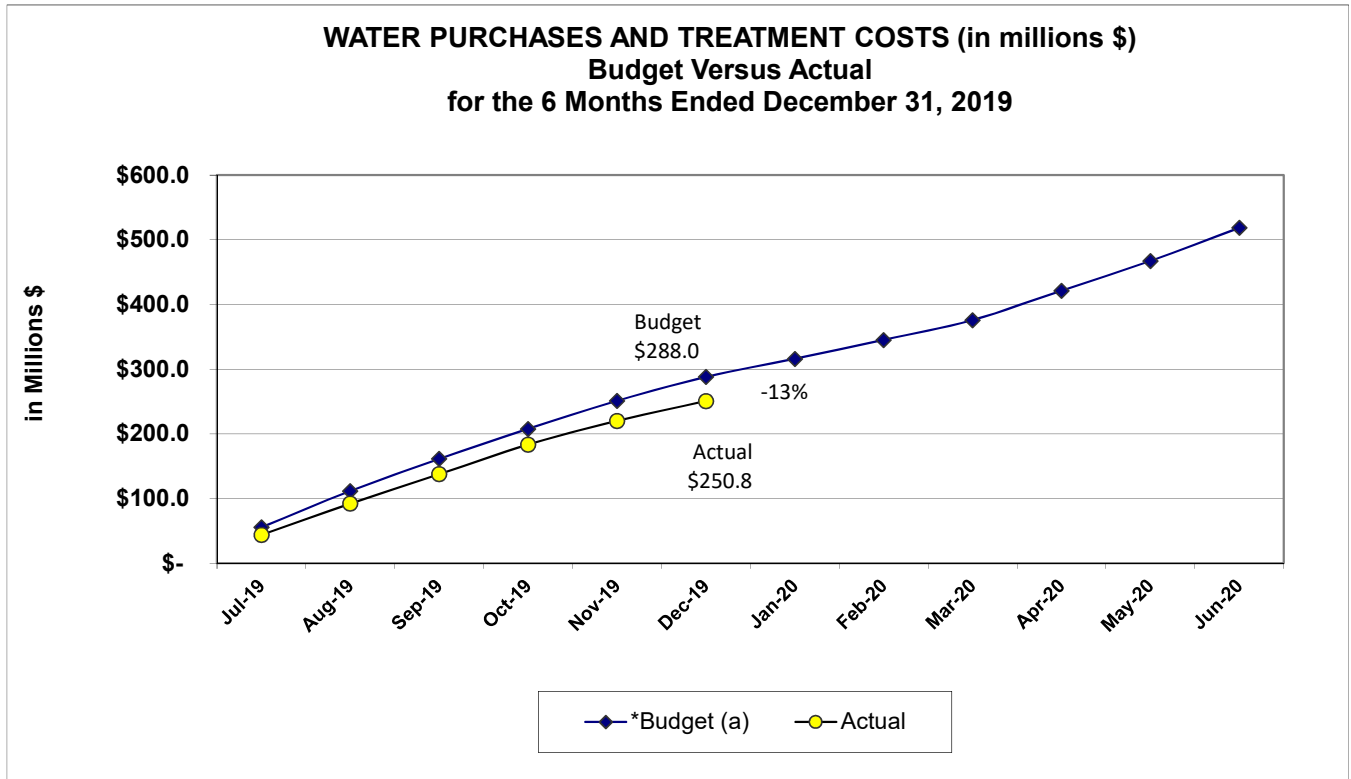
Months	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
*Budget (a)	47,103	95,717	138,285	177,013	213,249	243,725	261,414	280,533	300,877	335,479	370,081	408,524
Actual	35,833	77,374	116,148	155,148	184,280	201,341	-	-	-	-	-	-
AF Difference (b)	(11,270)	(18,343)	(22,137)	(21,865)	(28,969)	(42,384)						
Cum. Actual AF												
% Difference (b/a)	-24%	-19%	-16%	-12%	-14%	-17%						



*Budgeted amounts are based on the Adopted Multi-Year Budget for Fiscal Years 2020 and 2021.

Fiscal Year 2020 Cumulative Water Sales (in millions \$)

Months	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
*Budget (a)	\$ 67.4	\$ 136.3	\$ 198.0	\$ 255.5	\$ 310.0	\$ 357.7	\$ 392.1	\$ 428.0	\$ 465.4	\$ 519.5	\$ 573.7	\$ 632.6
Actual	54.2	114.5	171.3	228.2	274.1	306.7	-	-	-	-	-	-
Difference (b)	\$ (13.2)	\$ (21.8)	\$ (26.7)	\$ (27.3)	\$ (35.9)	\$ (51.0)						
Cum. Actual												
% Difference (b/a)	-20%	-16%	-13%	-11%	-12%	-14%						



*Budgeted amounts are based on the Adopted Multi-Year Budget for Fiscal Years 2020 and 2021.

Fiscal Year 2020 Cumulative Cost of Water Purchases and Treatment (in millions \$)

Months	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
*Budget (a)	\$ 55.4	\$ 111.6	\$ 161.3	\$ 207.7	\$ 250.9	\$ 288.0	\$ 316.0	\$ 345.3	\$ 375.9	\$ 421.4	\$ 467.2	\$ 518.5
Actual	43.6	92.0	137.5	183.4	220.0	250.8	-	-	-	-	-	-
Difference (b)	\$ (11.8)	\$ (19.6)	\$ (23.8)	\$ (24.3)	\$ (30.9)	\$ (37.2)						
Cum. Actual												
% Difference (b/a)	-21%	-18%	-15%	-12%	-12%	-13%						

San Diego County Water Authority
Fiscal Year 2020 Budget Status Report
For the 6 Months Ended December 31, 2019
Unaudited

	[A]	[B]	[C]	Revenues = [-B + C] Expenses = [B - C]	[C / A]
		FY 2020 (6 months - 50%)			
	FY 2020 Adopted Budget	6 Months Period-to-Date Adopted Budget (a)	6 Months Period-to-Date Actual	Variance Positive (Negative)	Actual to FY 2020 Adopted Budget
Net Water Sales Revenue					
Water Sales	\$ 632,571,819	\$ 357,737,213 (b)	\$ 306,692,278	\$ (51,044,935)	48%
Water Purchases & Treatment	518,502,779	288,037,110 (b)	250,824,845	37,212,265	48%
Total Net Water Sales Revenue	114,069,040	69,700,103	55,867,433	(13,832,670)	49%
Revenues and Other Income					
Infrastructure Access Charges	36,829,000	16,626,678	16,626,678	-	45%
Property Taxes and In-Lieu Charges	14,012,000 (c)	5,744,946 (n)	6,010,086	265,140	43%
Investment Income	5,967,000 (d)	3,520,644 (n)	3,681,591	160,947	62%
Hydroelectric Revenue	3,675,000 (e)	1,837,500	1,447,383	(390,117)	39%
Grant Reimbursements	19,185,000	6,714,796 (n)	2,311,362	(4,403,434)	12%
Build America Bonds Subsidy	10,565,000	5,282,543	5,306,737 (l)	24,194	50%
Other Income	2,264,000	2,132,000 (n)	1,547,891	(584,109)	68%
Capital Contributions:					
Capacity Charges	16,463,000 (f)	3,951,033 (n)	5,234,334	1,283,301	32%
Water Standby Availability Charges	11,110,000 (g)	2,444,196 (n)	2,427,310	(16,886)	22%
Contributions in Aid of Capital Improvement Program (CIP)	800,000 (h)	400,000 (n)	-	(400,000)	0%
Total Revenues and Other Income	120,870,000	48,654,336	44,593,372	(4,060,964)	37%
Total Revenues	234,939,040	118,354,439	100,460,805	(17,893,634)	43%
Expenses					
Debt Service	147,712,000 (i)	52,016,742 (n)	49,406,345	2,610,397	33%
QSA Mitigation	2,810,053 (j)	2,810,053 (n)	2,810,053	-	100%
Equipment Replacement	3,174,000	1,015,753 (n)	687,774	327,979	22%
Grant Expenses	18,392,000	6,620,977 (n)	(32,730)	6,653,707	0%
Other Expenses	2,244,000	1,122,000	1,741,415	(619,415)	78%
Operating Departments (see below)	55,160,378 (k)	27,580,191	23,070,474	4,509,717	42%
Total Expenses	229,492,431	91,165,716	77,683,331	13,482,385	34%
Net Revenues Before CIP	\$ 5,446,609	\$ 27,188,723	\$ 22,777,474	\$ (4,411,249)	418%
CIP Expenses*	\$ 81,409,000	\$ 36,458,152 (n)	\$ 26,976,570	\$ 9,481,582	33%
Net Fund Withdraws	\$ (75,962,391) (m)	\$ (9,269,429)	\$ (4,199,096)	\$ 5,070,333	

*(CIP Expenses are all funded by Pay-As-You-Go Fund)

Operating Departments Detail					
Administrative Services	\$ 6,507,936	\$ 3,253,968	\$ 3,182,508	\$ 71,460	49%
Colorado River Program	1,686,006	843,003	790,212	52,791	47%
Engineering	3,891,805	1,945,903	1,885,161	60,742	48%
Finance	2,592,286	1,296,143	1,216,738	79,405	47%
General Counsel	4,018,182	2,009,091	1,111,409	897,682	28%
General Manager & Board of Directors	4,713,419	2,356,710	2,082,957	273,753	44%
MWD Program	1,982,105	991,053	754,914	236,139	38%
Operations & Maintenance	20,921,383	10,460,692	8,326,824	2,133,868	40%
Public Outreach and Conservation	4,421,856	2,210,928	1,760,809	450,119	40%
Water Resources	4,425,400	2,212,700	1,958,942	253,758	44%
Actuarial amounts related to Pensions/OPEB	-	-	-	-	---
Total Operating Departments	\$ 55,160,378	\$ 27,580,191	\$ 23,070,474	\$ 4,509,717	42%

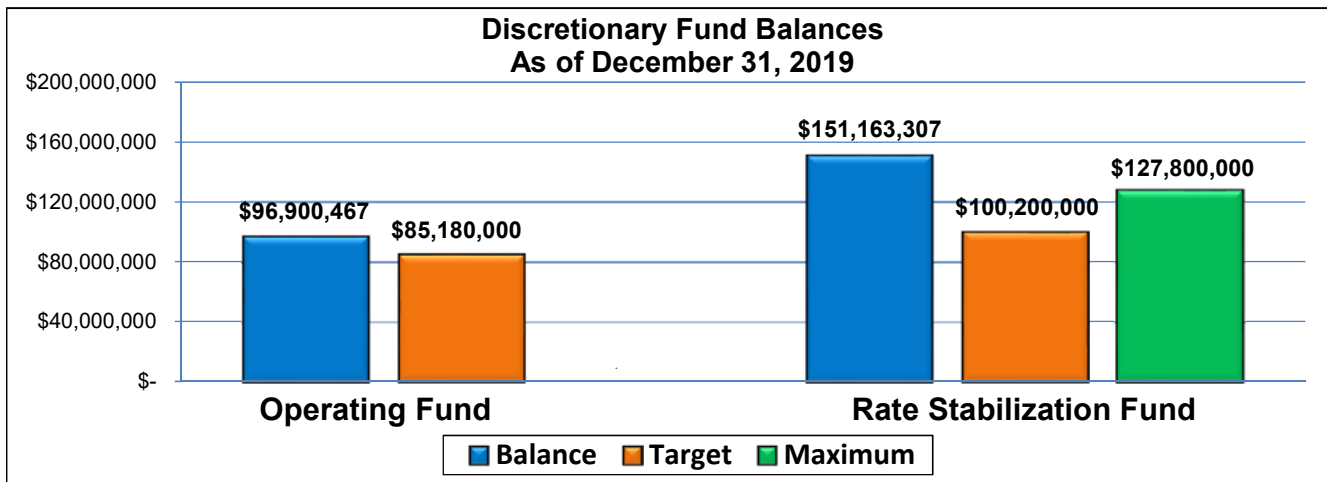
**San Diego County Water Authority
Fiscal Year 2020 Budget Status Report
For the 6 Months Ended December 31, 2019**

Notes to the Budget Status Report:

- a) Period-to-date budgeted amounts are 6/12ths (50%) of Fiscal Year 2020 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 \$625,709 for Fiscal Year 2020 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 Hydro-generation and Pressure Control Facility (Rancho Hydro) and Lake Hodges Pumped Storage Facility (Hodges Hydro).
- 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 2019 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 gain/loss on refunding are excluded because they are non-cash transactions. Short-term debt for Commercial Paper are paid monthly.
- j) QSA Mitigation includes: 1) Fiscal Year 2020 contributions of \$1,750,000 due July 1 and \$1,060,053 due December 31; and 2) Fiscal Year 2021 contributions of \$850,000 due July 1 and \$1,050,836 due December 31.
- k) Amounts include capital equipment purchases included in the project budget.
- l) 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.
- m) Includes withdraws from fund balances.
- n) Period-to-date budgeted amounts adjusted based on items occurring on a periodic basis.

**San Diego County Water Authority
Schedule of Cash and Investments
As of December 31, and November 30, 2019
Unaudited**

	<u>December</u>		<u>November</u>		<u>Target</u>
Operating Fund	\$ 96,900,467		\$ 92,535,022		\$ 85,180,000
Equipment Replacement Fund	257,949		365,559		
Rate Stabilization Fund	151,163,307		150,964,577		\$ 100,200,000
Total Unrestricted Funds ⁽¹⁾	79% 248,321,723		77% 243,865,158		
Pay-As-You-Go Fund ⁽¹⁾	45,369,598		49,643,720		
Debt Service Reserve Funds	21,973,525		21,973,525		
Total Restricted Funds	21% 67,343,123		23% 71,617,245		
Total Cash and Investments	\$ 315,664,846		\$ 315,482,403		



Note:

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

Reserve Fund Categories

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

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 151% of the targeted value of \$100.2 million and 118% of the maximum balance of \$127.8 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.