



August 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

The Water Authority is in the process of closing Fiscal Year 2020 and preparing the audit schedules, the financial statements, and the related documents required for the audited Comprehensive Annual Financial Report (CAFR). This report contains **preliminary/unaudited** financial information for the twelve-month period of July 1, 2019 through June 30, 2020. Cash and Investment fund balances, as shown in Attachment 5, will be adjusted for any year-end budgeted transfers between the Operating Fund, Rate Stabilization Fund, and Pay-As-You-Go Fund. In addition, other as yet undetermined adjustments for other line items will be made prior to completion of the CAFR.

A summary of the Fiscal Year 2020 Budget Status Report (in millions) for the twelve-month period of July 1, 2019 through June 30, 2020 are as follows:

	FY 2020 Adopted Budget	For the 12 months ended June 30, 2020			
		12 Months Budget	12 Months Actual	\$ Variance Positive/ (Negative)	% Budget Above/ (Below)
Water Sales	\$ 632.6	\$ 632.6	\$ 565.8	\$ (66.8)	-11%
Water Purchases & Treatment	518.5	518.5	449.8	68.7	-13%
Net Water Sales Revenues	114.1	114.1	116.0	1.9	2%
Revenues & Other Income	120.9	120.9	115.9	(5.0)	-4%
Total Revenues	235.0	235.0	231.9	(3.1)	-1%
Total Expenses	229.5	229.5	213.0	16.5	-7%
Net Revenues Before CIP	5.5	5.5	18.9	13.4	244%
CIP Expenses	81.4	81.4	63.7	17.7	-22%
Net Fund Withdraws	\$ (75.9)	\$ (75.9)	\$ (44.8)	\$ 31.1	-41%

Summary

For the fiscal year ended June 30, 2020, the Water Authority is twelve months into its adopted two-year budget and is showing a preliminary favorable variance to budget of \$31.1 million. The first year of the two-year budget provided for a withdrawal from fund balance of \$75.9 million, but based on preliminary and unaudited amounts, only a withdrawal of \$44.8 million has been required. Even though water sales are below budget by 11 percent, water purchases and treatment costs are off by a similar amount as can be seen in the summary table. The net result is that actual net water sales revenue of \$116.0 million is greater than the \$114.1 million annual budgeted amount by \$1.9 million. Through June, when comparing the twelve-month budget and actual amounts, other revenues are \$5.0 million below budget, and other expenses and CIP are \$16.5 million and \$17.7 million, respectively, below budget. The net effect of these differences has resulted in a significantly lower draw from fund balance than projected through June. Additional details on these variances follow.

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 twelve-month period ended June 30, 2020 was \$116.0 million, or 2 percent more than the budgeted amount of \$114.1 million. Actual Water Purchase and Treatment Costs were lower than budgeted by 13 percent due to lower than projected water sales of 11 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 408,524 AF. Actual water sales volume was 354,007 AF or 13 percent less than budgeted due to lower demand (Attachment 1). Total Water Sales Revenue was \$565.8 million or 11 percent lower than the budget of \$632.6 million (Attachment 2). Reduced water sales continued through this reporting period and cumulatively are lower due to (1) member agencies using more local surface water supplies than anticipated, and (2) the demand dampening effects of significant local rainstorms experienced over the November, December and April months. (Please note staff is also reviewing potential demand impacts of the Governor's shelter-in-place order issued on March 19, 2020; however, additional data is required to make an assessment.)

Total Water Purchases and Treatment costs were budgeted at \$518.5 million. Actual costs were \$449.8 million or 13 percent lower than budgeted (Attachment 3). This cost category included \$118.6 million for 177,498 AF of water purchased from IID, \$121.5 million for MWD's conveyance charges related to IID, Coachella Canal and All-American Canal water, and \$109.0 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 \$120.9 million for the twelve-month period ended June 30, 2020. Actual revenues were \$115.9 million or 4 percent lower than budget.

Actual revenues materially lower than the twelve-month budget include the following:

- Grant Reimbursements: \$12.4 million lower than budgeted primarily due to construction and implementation delays for the IRWM projects and to a lesser extent timing of reimbursements from the Department of Water Resources

Actual revenues materially higher than the twelve-month budget include the following:

- Contributions in Aid of CIP: \$1.9 million higher than budgeted due to \$2.6 million capital grant received relating to the DWR Prop 50 Desal Relining Project K0304
- Other Income: \$1.9 million higher than budgeted due to \$1.1 million contracted shortfall payment revenues due from Poseidon for the months of May and June; and \$0.6 million due to miscellaneous revenue reimbursements
- Capacity Charges: \$1.5 million higher than anticipated due to an increase in the number of permits issued
- Property Taxes: \$1.5 million higher than anticipated due to increased property values
- Investment Income: \$0.8 million higher than budgeted due to higher yield on investments

Expenses

As shown in Attachment 4, total Expenses were budgeted at \$229.5 million for the twelve-month period ended June 30, 2020. Actual expenses were \$213.0 million or 7 percent lower than budget, with these continued savings offsetting reduced revenues.

Actual expenses materially lower than the twelve-month budget include the following:

- Grant Expenses: \$12.0 million lower than budget similar to the reduction in grant revenues because of construction and implementation delays for the IRWM projects. There have also been more advance funded grants thereby increasing revenues without the matching expenses being received until later dates.
- Debt Service: \$5.0 million lower than budget due to commercial paper program savings
- Equipment Replacement: \$1.8 million lower than budget due to the deferral of purchases

Actual Other Expenses exceeded the period-to-date budget by \$2.0 million primarily due to engineering and construction project costs related to the MWD Skinner bypass line.

Additionally, higher pension and OPEB plan expenses due to updated actuarial valuations caused the Operating Departments category to exceed the budget in total. Operating Department budgets include contributions for pension and OPEB benefits, but these expenses can vary significantly once actuarial reports are received based on updated assumptions and experience studies. The \$4.1 million amount shown will actually be paid through increased contributions over the next twenty years.

CIP Expenses

Attachment 4 shows CIP Expenses were budgeted at \$81.4 million for the twelve-month period ended June 30, 2020. Actual expenses were \$63.7 million or 17.7 million lower than budget due to the deferral of projects.

Cash and Investments

As of June 30, 2020, the Water Authority's cash and investments balance was \$263.8 million, approximately 78 percent unrestricted funds with the remaining 22 percent of funds restricted for specific purposes (Attachment 5). The Water Authority Treasurer pools the cash of the Pay-As-You-Go Fund with total unrestricted funds to maximize investment returns.

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Reviewed by: Geena Xiaoqing Balistrieri, CPA, Accounting Supervisor

Approved by: Christopher Woidzik, CPA, Controller

Attachments:

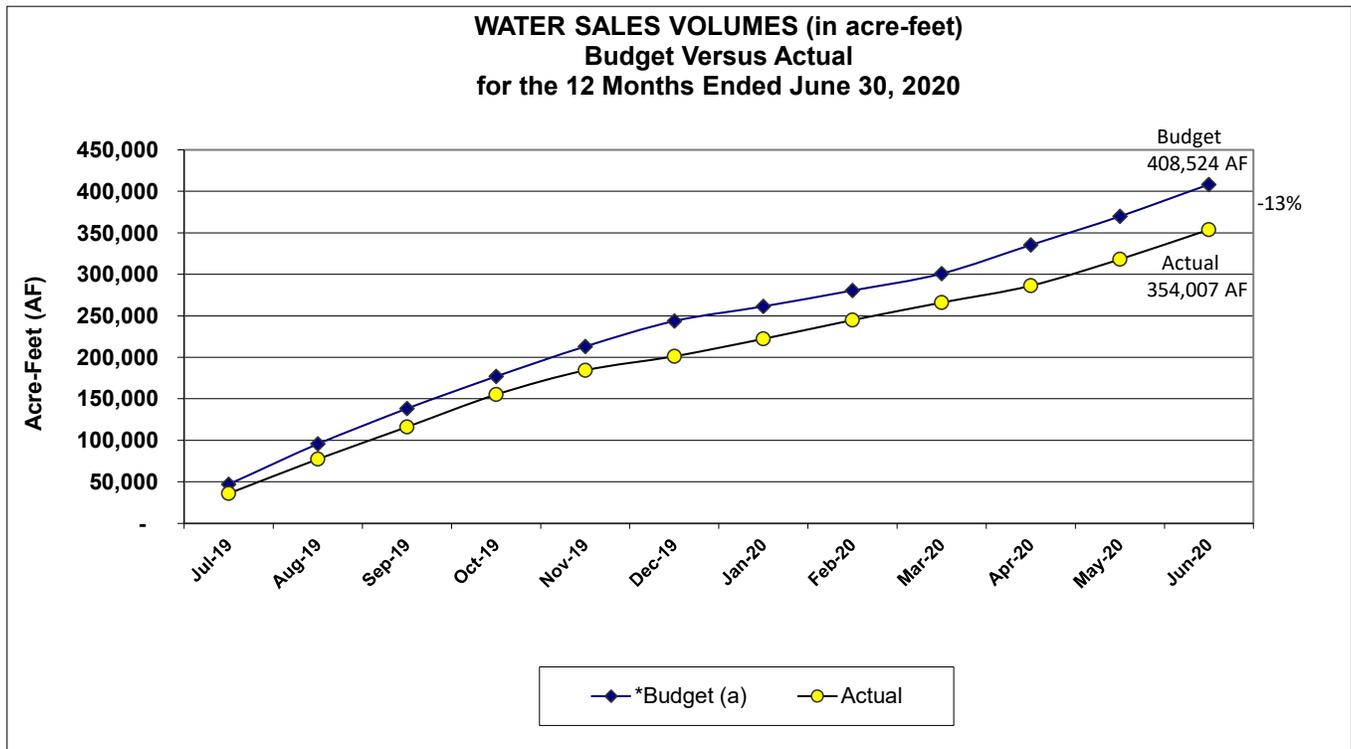
Attachment 1 – Water Sales Volumes

Attachment 2 – Water Sales Revenues

Attachment 3 – Water Purchases and Treatment Costs

Attachment 4 – Budget Status Report

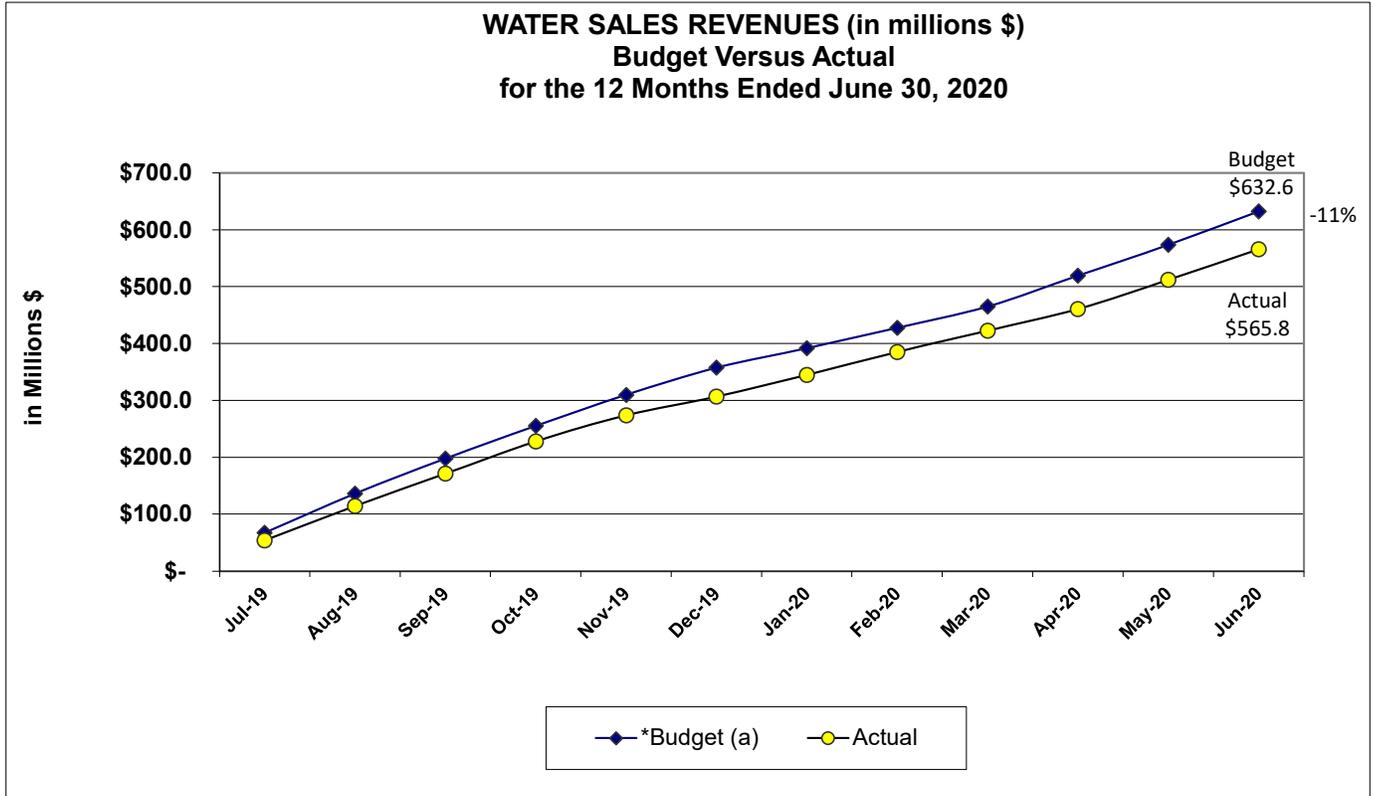
Attachment 5 – Schedule of Cash and Investments



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

Fiscal Year 2020 Cumulative Water Sales (AF)

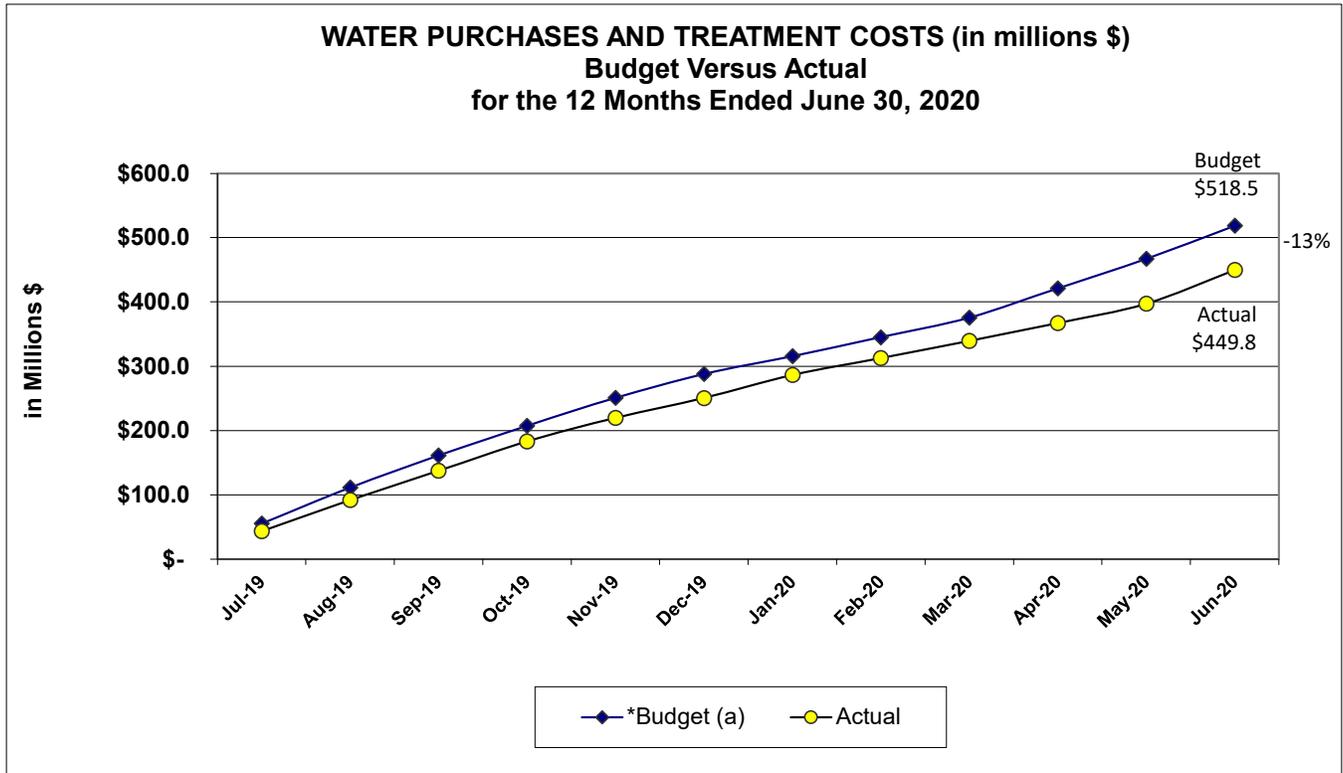
Months	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
*Budget (a)	47,103	95,717	138,285	177,013	213,249	243,725	261,414	280,533	300,877	335,479	370,081	408,524
Actual	35,833	77,374	116,148	155,148	184,280	201,341	222,340	245,178	266,012	286,277	318,292	354,007
AF Difference (b)	(11,270)	(18,343)	(22,137)	(21,865)	(28,969)	(42,384)	(39,074)	(35,355)	(34,865)	(49,202)	(51,789)	(54,517)
Cum. Actual AF												
% Difference (b/a)	-24%	-19%	-16%	-12%	-14%	-17%	-15%	-13%	-12%	-15%	-14%	-13%



*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	\$ 519.4	\$ 573.7	\$ 632.6
Actual	54.2	114.5	171.3	228.2	274.1	306.7	345.2	385.5	423.0	460.9	512.0	565.8
Difference (b)	\$ (13.2)	\$ (21.8)	\$ (26.7)	\$ (27.3)	\$ (35.9)	\$ (51.0)	\$ (46.9)	\$ (42.5)	\$ (42.4)	\$ (58.5)	\$ (61.7)	\$ (66.8)
Cum. Actual												
% Difference (b/a)	-20%	-16%	-13%	-11%	-12%	-14%	-12%	-10%	-9%	-11%	-11%	-11%



*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	286.6	312.7	339.8	367.5	397.4	449.8
Difference (b)	\$ (11.8)	\$ (19.6)	\$ (23.8)	\$ (24.3)	\$ (30.9)	\$ (37.2)	\$ (29.4)	\$ (32.6)	\$ (36.1)	\$ (53.9)	\$ (69.8)	\$ (68.7)
Cum. Actual												
% Difference (b/a)	-21%	-18%	-15%	-12%	-12%	-13%	-9%	-9%	-10%	-13%	-15%	-13%

San Diego County Water Authority
Fiscal Year 2020 Budget Status Report
For the 12 Months Ended June 30, 2020
Preliminary/Unaudited

	[A]	[B]	[C]	Revenues = [B + C] Expenses = [B - C]	[C / B]
	FY 2020 (12 months - 100%)				
	FY 2020 Originally Adopted Budget	12 Months Period-to-Date Adopted Budget (a)	12 Months Period-to-Date Actual	Variance Positive (Negative)	Actual to FY 2020 Adopted Budget
Net Water Sales Revenue					
Water Sales	\$ 632,571,819	\$ 632,571,819 (b)	\$ 565,784,174	\$ (66,787,645)	89%
Water Purchases & Treatment	518,502,779	518,502,779 (b)	449,752,095	68,750,684	87%
Total Net Water Sales Revenue	114,069,040	114,069,040	116,032,079	1,963,039	102%
Revenues and Other Income					
Infrastructure Access Charges	36,829,000	36,829,000	36,941,802	112,802	100%
Property Taxes and In-Lieu Charges	14,012,000 (c)	14,012,000	15,525,521	1,513,521	111%
Investment Income	5,967,000 (d)	5,967,000	6,788,844	821,844	114%
Hydroelectric Revenue	3,675,000 (e)	3,675,000	3,192,171	(482,829)	87%
Grant Reimbursements	19,185,000	19,185,000	6,797,244	(12,387,756)	35%
Build America Bonds Subsidy	10,565,000	10,565,000	10,624,779 (l)	59,779	101%
Other Income	2,264,000	2,264,000	4,119,787	1,855,787	182%
Capital Contributions:					
Capacity Charges	16,463,000 (f)	16,463,000	17,983,100	1,520,100	109%
Water Standby Availability Charges	11,110,000 (g)	11,110,000	11,164,067	54,067	100%
Contributions in Aid of Capital Improvement Program (CIP)	800,000 (h)	800,000	2,725,500	1,925,500	341%
Total Revenues and Other Income	120,870,000	120,870,000	115,862,815	(5,007,185)	96%
Total Revenues	234,939,040	234,939,040	231,894,894	(3,044,146)	99%
Expenses					
Debt Service	147,712,000 (i)	147,712,000	142,743,144	4,968,856	97%
QSA Mitigation	2,810,053 (j)	2,810,053	2,810,053	-	100%
Equipment Replacement	3,174,000	3,174,000	1,413,852	1,760,148	45%
Grant Expenses	18,392,000	18,392,000	6,417,766	11,974,234	35%
Other Expenses	2,244,000	2,244,000	4,257,883	(2,013,883)	190%
Operating Departments (see below)	55,160,378 (k)	55,160,378	55,308,227	(147,849)	100%
Total Expenses	229,492,431	229,492,431	212,950,925	16,541,506	93%
Net Revenues Before CIP	\$ 5,446,609	\$ 5,446,609	\$ 18,943,969	\$ 13,497,360	348%
CIP Expenses*	\$ 81,409,000	\$ 81,409,000	\$ 63,661,701	\$ 17,747,299	78%
Net Fund Withdraws	\$ (75,962,391) (m)	\$ (75,962,391)	\$ (44,717,732)	\$ 31,244,659	59%

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

Operating Departments Detail					
Administrative Services	\$ 6,507,936	\$ 6,507,936	\$ 6,327,631	\$ 180,305	97%
Colorado River Program	1,686,006	1,686,006	1,471,517	214,489	87%
Engineering	3,891,805	3,891,805	4,099,684	(207,879)	105%
Finance	2,592,286	2,592,286	2,578,448	13,838	99%
General Counsel	4,018,182	4,018,182	3,161,185	856,997	79%
General Manager & Board of Directors	4,713,419	4,713,419	4,263,543	449,876	90%
MWD Program	1,982,105	1,982,105	1,745,454	236,651	88%
Operations & Maintenance	20,921,383	20,921,383	19,803,336	1,118,047	95%
Public Outreach and Conservation	4,421,856	4,421,856	3,617,197	804,659	82%
Water Resources	4,425,400	4,425,400	4,116,395	309,005	93%
Actuarial amounts related to Pensions/OPEB	-	-	4,123,837 (n)	(4,123,837)	---
Total Operating Departments	\$ 55,160,378	\$ 55,160,378	\$ 55,308,227	\$ (147,849)	100%

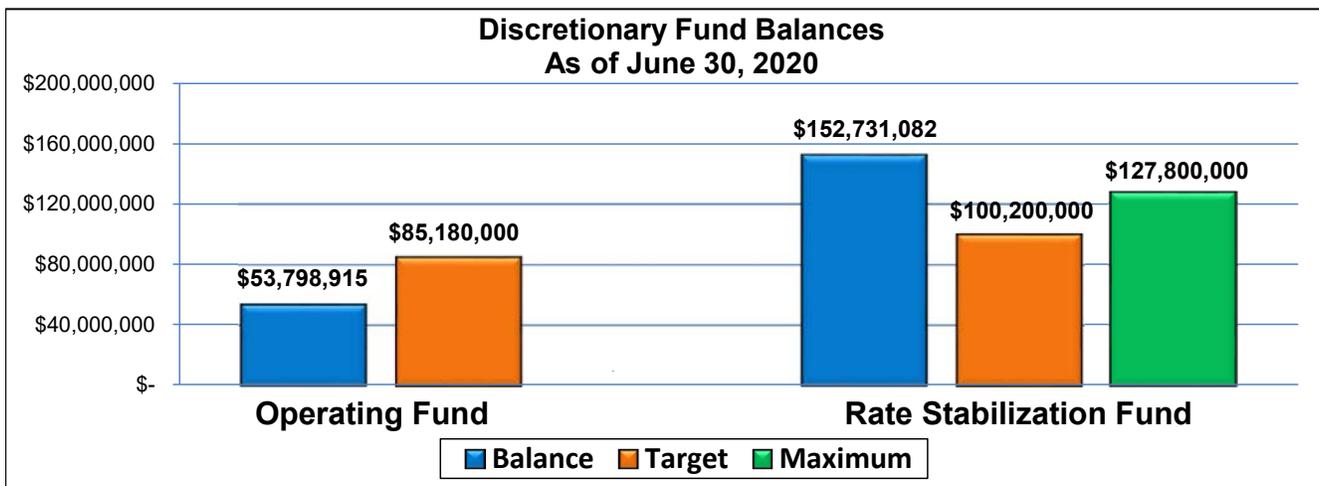
**San Diego County Water Authority
Fiscal Year 2020 Budget Status Report
For the 12 Months Ended June 30, 2020**

Notes to the Budget Status Report:

- a) Period-to-date budgeted amounts are 12/12ths (100%) 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) Represents withdraws from fund balances.
- n) Actuarial amounts related to pension/OPEB for measurement period ended June 30, 2019. Actuarial amounts are reported one year in arrears based on receipt of the actuarial valuation report.

**San Diego County Water Authority
Schedule of Cash and Investments
As of June 30, and May 31, 2020
Unaudited**

	<u>June</u>		<u>May</u>	<u>Target</u>
Operating Fund	\$ 53,798,915		\$ 54,199,997	\$ 85,180,000
Equipment Replacement Fund	235,531		266,161	
Rate Stabilization Fund	152,731,082		152,506,720	\$ 100,200,000
Total Unrestricted Funds ⁽¹⁾	78% 206,765,528	76%	206,972,878	
Pay-As-You-Go Fund ⁽¹⁾	35,039,210		42,068,500	
Debt Service Reserve Funds	21,959,150		21,959,150	
Total Restricted Funds	22% 56,998,360	24%	64,027,650	
Total Cash and Investments	\$ 263,763,888		\$ 271,000,528	



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 152% of the targeted value of \$100.2 million and 120% 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.