

November 28, 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

A summary of the Fiscal Years 2018 and 2019 Budget Status Report (in millions) for the fifteen-month period of July 1, 2017 through September 30, 2018 are as follows:

	FY 2018 & 2019 Amended Budget	FY 2018 & 2019 (15 months - 63%)			
		Period-to-Date		Variance	
		Amended Budget	Actual	\$	%
Net Water Sales Revenues	\$ 272.8	\$ 183.9	\$201.5	\$ 17.6	10%
Revenues & Other Income	218.5	124.0	140.6	16.6	13%
Total Revenues	491.3	307.9	342.1	34.2	11%
Expenses	436.0	266.6	263.2	3.4	1%
Net Revenues Before CIP	55.3	41.3	78.9	37.6	91%
CIP Expenses	137.6	93.2	75.5	17.7	19%
Net Fund Withdraws	\$ (82.3)	\$ (51.9)	\$ 3.4	\$ 55.3	107%

Net Revenues after CIP

At September 2018, the Water Authority is fifteen months into its two-year budget and has a favorable variance of \$55.3 million in Net Revenues after CIP. The period-to-date budget provided for a withdraw from fund balance of \$51.9 million, but due to the actual excess of net revenues over expenses in the amount of \$3.4 million, no withdraw has been required.

The Budget Status Report (Attachment 4) compares actual revenues and expenses, on a budgetary basis, to the period-to-date adopted budget, as amended by the Board. Budgeted amounts for the fifteen-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. Period-to-date budgeted expense categories for the QSA Mitigation and CIP Expenses were adjusted for periodic items.

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 three water suppliers: Metropolitan Water District (MWD), Imperial Irrigation District (IID), and Poseidon Resources (Channelside) LP.

Net Water Sales Revenue was \$201.5 million, or 10 percent higher than the budgeted amount of \$183.9 million. Actual Water Purchase and Treatment Costs were lower than budgeted by 10 percent due to lower than projected water sales of 6 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 578,316 AF. Actual water sales volume was 547,078 AF or 5 percent lower than budgeted (Attachment 1). Total Water Sales Revenue was \$794.1 million or 6 percent lower than the budget of \$842.0 million (Attachment 2). Lower water sales volume 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 \$658.1 million. Actual costs were \$592.6 million or 10 percent lower than budgeted (Attachment 3). This cost category included \$95.6 million for 147,497 AF of water purchased from IID, \$113.0 million for MWD's conveyance charges related to IID, Coachella Canal and All-American Canal water, and \$130.2 million of water purchased from Poseidon Resources (Channelside) LP. The primary driver for the variance is the shutdown that occurred at the Plant in the summer of 2017 (FY18) for 53 days due to a mechanical coupling failure and 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. A provision exists in the Water Purchase Agreement that allows Poseidon to make up for shortfalls within the fiscal year, but they were not able to make up the cumulative difference by the end of Fiscal Year 2018. In Fiscal Year 2019, however, Poseidon has been delivering water as requested.

Revenues and Other Income

As shown in Attachment 4, total Revenues and Other Income were budgeted at \$124.0 million for the fifteen-month period ended September 30, 2018. Actual revenues were \$140.6 million or \$16.6 million higher than budgeted.

Actual revenues materially higher than the period-to-date budget are as follows:

- **Capacity Charges:** \$11.6 million higher than budgeted due to a greater number of permits issued than anticipated because of several major housing developments in San Diego, Santee, and Escondido
- **Other Income:** \$9.6 million more than budgeted due to shortfall revenue related to the Claude "Bud" Lewis Carlsbad Desalination Plant of \$7.2 million, an insurance refund for the Emergency and Carryover Storage Project of \$0.9 million, and \$1.5 million of miscellaneous revenue reimbursements received

Actual revenues materially lower than the period-to-date budget are as follows:

- Grant Reimbursements: \$4.2 million lower than budgeted due to the timing of reimbursements received for Integrated Regional Water Management Program (IRWMP)
- Contributions in Aid of Capital Improvement Program: \$1.6 million lower than budgeted as there has been minimal corresponding revenues due to timing of projects
- Build America Bonds Subsidy: \$0.9 million lower than budgeted due to subsidies reduced by Congressionally-mandated sequestration rates

Expenses

As shown in Attachment 4, total Expenses were budgeted at \$266.6 million for the fifteen-month period ended September 30, 2018. Actual expenses were \$263.2 million or 1 percent lower than budgeted. Actual expenses materially lower than the period-to-date budget are as follows:

- Grant Expenses: \$5.0 million lower than budgeted from the timing delay in expense recognition of the pass-through IRWMP grants
- Operating Departments: \$1.5 million below budgeted due to vacant staff position savings and lower professional and technical services costs from the timing of projects
- Equipment Replacement: \$1.4 million below budgeted due to the timing of purchases

Actual expenses materially higher than the period-to-date budget are as follows:

- Debt Service: \$3.6 million higher than budgeted due to the net effect of bond interest and commercial paper fee payments being higher than budget (this variance will increase through the remainder of the fiscal year until the full pipeline debt payments are made)
- Other Expenses: \$0.9 million more than budgeted due to maintenance expenses associated with the Mission Trails Chlorine Injection project and Skinner Plant project

CIP Expenses

Attachment 4 shows CIP Expenses were budgeted at \$93.2 million through September but actual expenses amounted to \$75.5 million or \$17.7 million lower than budgeted. This was due to project work delays as well as contractors submitting their invoices late. However, budgeted CIP program expenses in total are projected to be fully spent by the end of the fiscal year.

Cash and Investments

As of September 30, 2018, the Water Authority's cash and investments balance was \$376.4 million, approximately 68 percent unrestricted funds with the remaining 32 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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Approved by: Christopher Woidzik, CPA, Controller

Attachments:

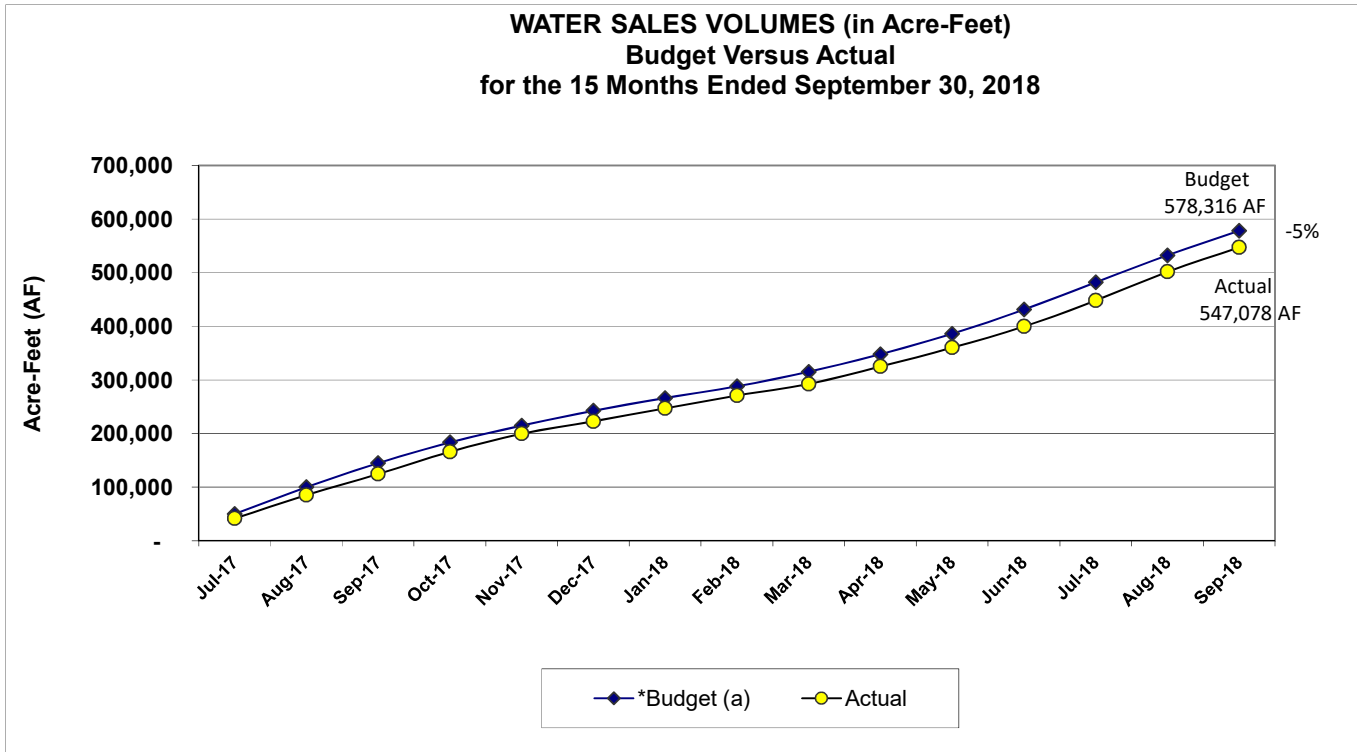
Attachment 1 – Water Sales Volumes

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 2018 and 2019.

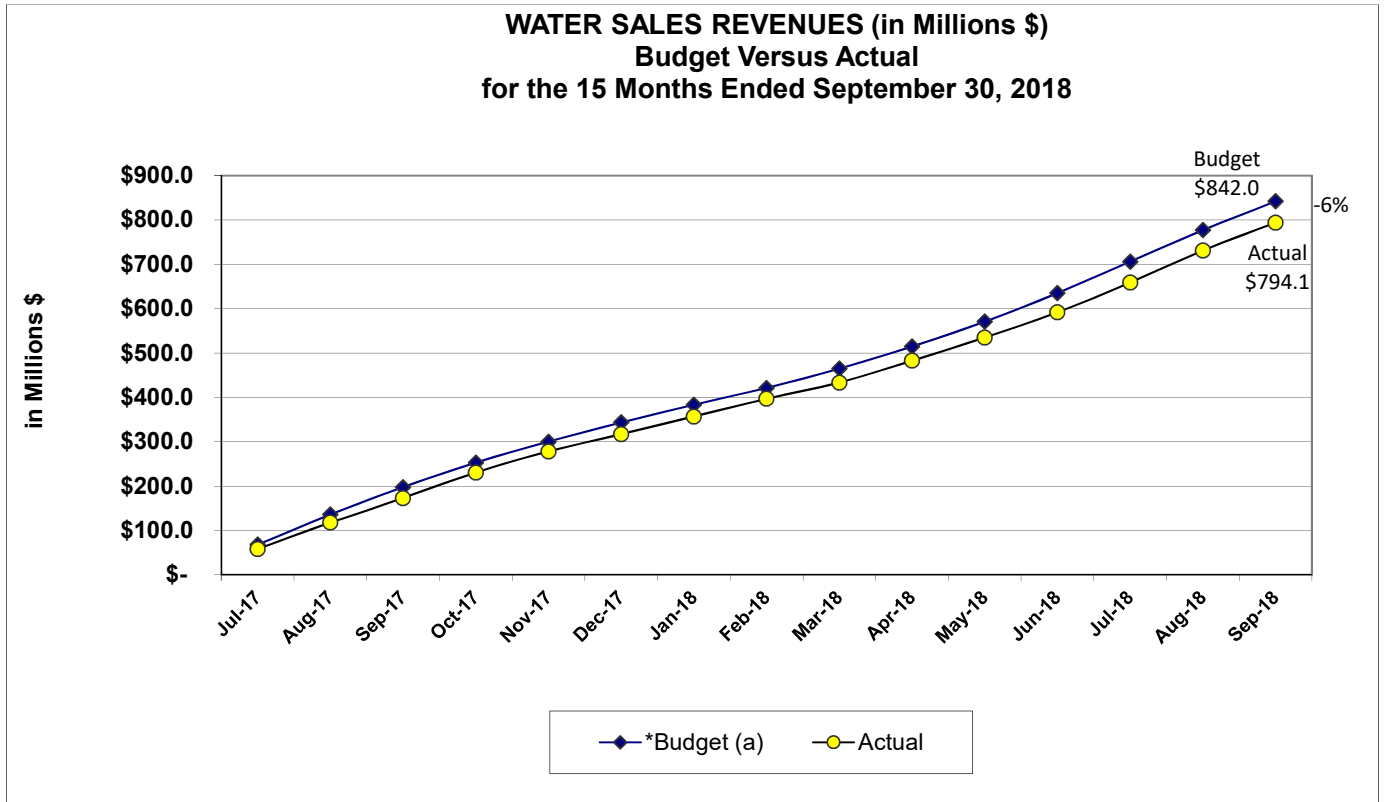
Fiscal Year 2018 Cumulative Water Sales (AF)

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	325,042	360,219	399,826
AF Difference (b)	(8,360)	(14,916)	(20,196)	(17,372)	(15,103)	(19,718)	(19,361)	(17,178)	(22,723)	(23,002)	(25,836)	(31,527)
Cum. Actual AF												
% Difference (b/a)	-17%	-15%	-14%	-9%	-7%	-8%	-7%	-6%	-7%	-7%	-7%	-7%

Fiscal Year 2019 Cumulative Water Sales (AF)

Months	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
*Budget (a)	50,735	101,256	146,963	186,363	218,268	246,628	270,892	293,098	320,758	354,125	393,337	439,980
Actual	48,357	101,940	147,252	-	-	-	-	-	-	-	-	-
AF Difference (b)	(2,378)	684	289									
Cum. Actual AF												
% Difference (b/a)	-5%	1%	0%									

	FY18	FY19 through Sep-18	Total
Budget	431,353	146,963	578,316
Actual	399,826	147,252	547,078
Difference	(31,527)	289	(31,238)
% Difference	-7%	0%	-5%



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

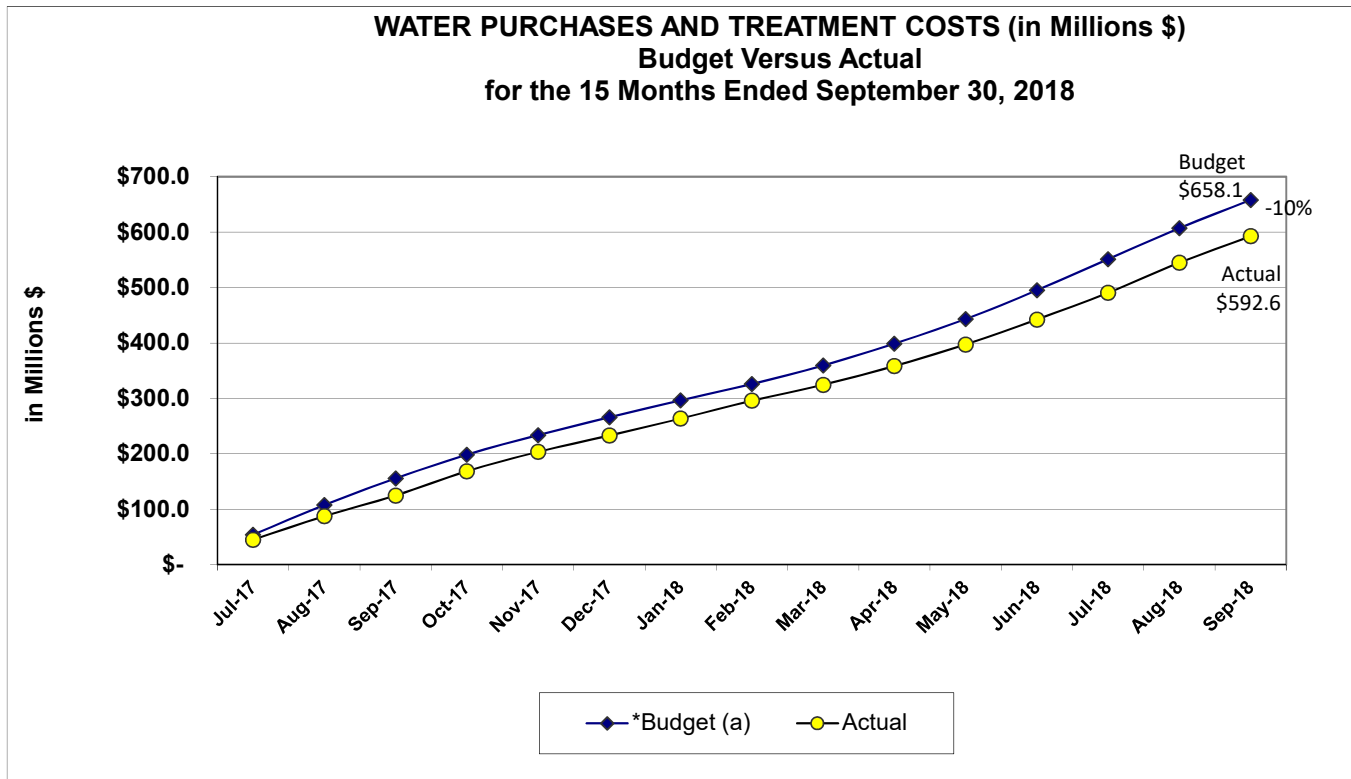
Fiscal Year 2018 Cumulative Water Sales (in Millions \$)

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	482.7	535.0	591.8
Difference (b)	\$ (9.8)	\$ (18.1)	\$ (24.5)	\$ (22.1)	\$ (21.7)	\$ (26.4)	\$ (26.4)	\$ (24.3)	\$ (31.2)	\$ (32.1)	\$ (35.7)	\$ (43.3)
Cum. Actual												
% Difference (b/a)	-14%	-13%	-12%	-9%	-7%	-8%	-7%	-6%	-7%	-6%	-6%	-7%

Fiscal Year 2019 Cumulative Water Sales (in Millions \$)

Months	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
*Budget (a)	\$ 71.1	\$ 141.9	\$ 206.9	\$ 265.0	\$ 314.3	\$ 359.6	\$ 401.4	\$ 441.0	\$ 486.7	\$ 539.3	\$ 598.7	\$ 667.2
Actual	67.2	139.4	202.3	-	-	-	-	-	-	-	-	-
Difference (b)	\$ (3.9)	\$ (2.5)	\$ (4.6)									
Cum. Actual												
% Difference (b/a)	-5%	-2%	-2%									

	FY18	FY19 through Sep-18	Total
Budget	\$ 635.1	\$ 206.9	\$ 842.0
Actual	591.8	202.3	794.1
Difference	\$ (43.3)	\$ (4.6)	\$ (47.9)
% Difference	-7%	-2%	-6%



*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	358.4	397.2	442.4
Difference (b)	\$ (9.0)	\$ (20.2)	\$ (30.9)	\$ (29.9)	\$ (30.2)	\$ (32.9)	\$ (32.8)	\$ (30.1)	\$ (34.9)	\$ (40.4)	\$ (45.9)	\$ (52.7)
Cum. Actual												
% Difference (b/a)	-17%	-19%	-20%	-15%	-13%	-12%	-11%	-9%	-10%	-10%	-10%	-11%

Fiscal Year 2019 Cumulative Cost of Water Purchases and Treatment (in Millions \$)

Months	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
*Budget (a)	\$ 56.2	\$ 112.2	\$ 163.0	\$ 208.4	\$ 246.1	\$ 280.4	\$ 314.4	\$ 346.9	\$ 384.1	\$ 427.6	\$ 476.8	\$ 534.4
Actual	48.3	102.5	150.2	-	-	-	-	-	-	-	-	-
Difference (b)	\$ (7.9)	\$ (9.7)	\$ (12.8)									
Cum. Actual												
% Difference (b/a)	-14%	-9%	-8%									

	FY18	FY19 through Sep-18	Total
Budget	\$ 495.1	\$ 163.0	\$ 658.1
Actual	442.4	150.2	592.6
Difference	\$ (52.7)	\$ (12.8)	\$ (65.5)
% Difference	-11%	-8%	-10%

San Diego County Water Authority
Fiscal Years 2018 and 2019 Budget Status Report
For the 15 Months Ended September 30, 2018
Unaudited

[A]	[B]	[C]	Revenues = [-B + C] Expenditures = [B - C]	[C / A]	
FY 2018 & 2019 (15 months - 63%)					
FY 2018 & 2019 Amended Budget	15 Months Period-to-Date Amended Budget (a)	15 Months Period-to-Date Actual	Variance Positive (Negative)	Actual to FY 2018 & 2019 Amended Budget	
Net Water Sales Revenue					
Water Sales	\$ 1,302,329,168	\$ 841,957,128 (b)	\$ 794,132,082	(47,825,046)	61%
Water Purchases & Treatment	1,029,543,474	658,104,333 (b)	592,596,793	65,507,540	58%
Total Net Water Sales Revenue	272,785,694	183,852,795	201,535,289	17,682,494	74%
Revenues and Other Income					
Infrastructure Access Charges	67,991,290	41,355,686 (p)	40,770,294	(585,392)	60%
Property Taxes and In-Lieu Charges	25,360,573 (c)	13,323,391 (p)	14,597,400	1,274,009	58%
Investment Income	10,421,636 (d)	5,174,743 (p)	6,792,654	1,617,911	65%
Hydroelectric Revenue	7,105,700 (e)	4,427,675 (p)	4,586,383	158,708	65%
Grant Reimbursements	26,635,000	15,470,000 (p)	11,297,993	(4,172,007)	42%
Build America Bonds Subsidy	22,605,916	14,128,697 (p)	13,184,902 (l)	(943,795)	58%
Other Income	985,432	488,763 (p)	10,040,713	9,551,950	1019%
Capital Contributions:					
Capacity Charges	33,423,807 (f)	16,628,760 (p)	28,188,424	11,559,664	84%
Water Standby Availability Charges	22,244,752 (g)	11,447,923 (p)	11,147,327	(300,596)	50%
Contributions in Aid of Capital Improvement Program (CIP)	1,683,012 (h)	1,598,070 (p)	16,000	(1,582,070)	1%
Total Revenues and Other Income	218,457,118	124,043,708	140,622,090	16,578,382	64%
Total Revenues	491,242,812	307,896,503	342,157,379	34,260,876	70%
Expenses					
Debt Service	280,945,000 (i)	169,486,570	173,041,922	(3,555,352)	62%
QSA Mitigation	18,829,481 (j)	11,914,814 (p)	11,914,814	-	63%
Equipment Replacement	4,855,000	3,019,810	1,626,819	1,392,991	34%
Grant Expenses	27,135,000	16,877,970	11,895,925	4,982,045	44%
Other Expenses	1,000,000	622,000	1,489,202	(867,202)	149%
Operating Departments (see below)	103,202,095 (k),(m)	64,710,558	63,202,679	1,507,879	61%
Total Expenses	435,966,576	266,631,722	263,171,361	3,460,361	60%
Net Revenues Before CIP	\$ 55,276,236	\$ 41,264,781	\$ 78,986,018	\$ 37,721,237	143%
CIP Expenses*	\$ 137,617,918 (n)	\$ 93,165,604 (p)	\$ 75,498,833	\$ 17,666,771	55%
Net Fund Withdraws	\$ (82,341,682) (o)	\$ (51,900,823)	\$ 3,487,185 (o)	\$ 55,388,008	

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

Operating Departments Detail					
Administrative Services	\$ 11,917,782	\$ 7,472,778	\$ 7,067,060	\$ 405,718	59%
Colorado River Program	3,393,607	2,127,885	1,664,656	463,229	49%
Engineering	7,656,312	4,800,719	4,007,483	793,236	52%
Finance	4,969,187	3,115,817	2,869,440	246,377	58%
General Counsel	6,775,956	4,248,711	3,381,317	867,394	50%
General Manager & Board of Directors	9,197,614	5,767,157	5,137,582	629,575	56%
MWD Program	4,286,992	2,688,062	2,333,631	354,431	54%
Operations & Maintenance	38,855,858	24,363,694	21,750,656	2,613,038	56%
Public Outreach and Conservation	8,136,211	5,101,629	4,084,860	1,016,769	50%
Water Resources	8,012,576	5,024,106	4,255,307	768,799	53%
Additional Pension Expense	-	-	6,650,687 (q)	(6,650,687)	---
Total Operating Departments	\$ 103,202,095	\$ 64,710,558	\$ 63,202,679	\$ 1,507,879	61%

**San Diego County Water Authority
Fiscal Years 2018 and 2019 Budget Status Report
For the 15 Months Ended September 30, 2018**

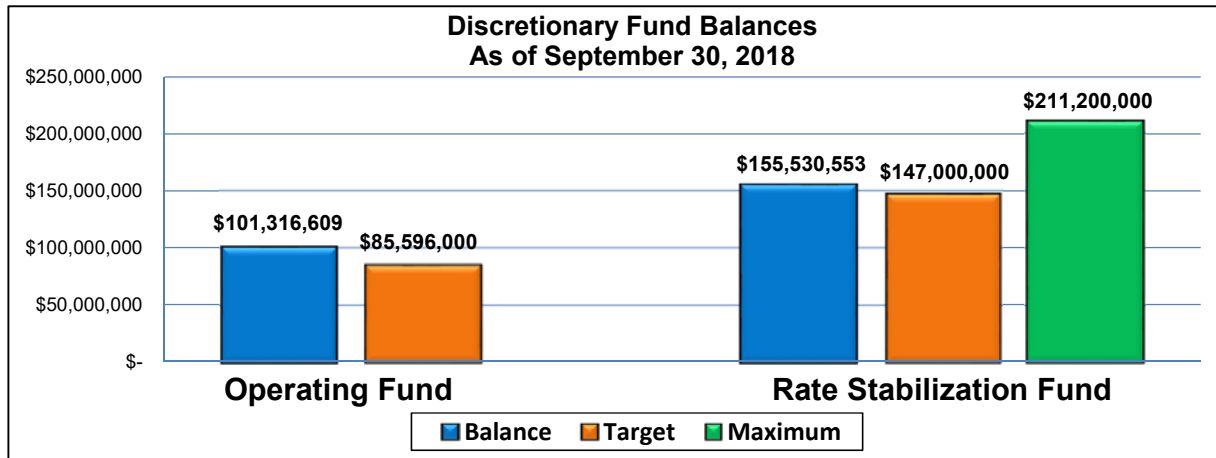
Notes to the Budget Status Report:

- a) Period-to-date budgeted amounts are 15/24ths (63%) of Fiscal Years 2018 and 2019 amended 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 and \$596,454 for Fiscal Year 2019 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) 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) In June 2018, the Board approved the mid-term budget adjustments which resulted in moving \$4,998 of Operating Department expenses from FY19 to FY18.
- n) In June 2018, the Board amended the Capital Improvement Program two-year appropriation by an increase of \$19.0 million.
- o) Includes withdraws from fund balances.
- p) Period-to-date budgeted amounts adjusted based on items occurring on a periodic basis.
- q) FY18 Actuarial amounts related to pension expense for measurement period ended June 30, 2017.

**San Diego County Water Authority
Schedule of Cash and Investments
As of September 30, and August 31, 2018**

Unaudited

	<u>September</u>		<u>August</u>		<u>Target</u>
Operating Fund	\$ 101,316,609		\$ 81,988,492		\$ 85,596,000
Equipment Replacement Fund	674,126		804,515		
Rate Stabilization Fund	155,530,553		155,425,934		\$ 147,000,000
Total Unrestricted Funds (1)	68% <u>257,521,288</u>	66%	<u>238,218,941</u>		
Pay-As-You-Go Fund (1)	96,157,489		97,676,317		
Debt Service Reserve Funds	22,720,972		22,702,130		
Total Restricted Funds	32% <u>118,878,461</u>	34%	<u>120,378,447</u>		
Total Cash and Investments	\$ 376,399,749		\$ 358,597,388		



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 a maximum of 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 106% of the targeted value of \$147.0 million and 74% of the maximum balance of \$211.2 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.