



August 14, 2024

Attention: Administrative and Finance Committee

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

Purpose

To provide a summary of key financial information to the Board of Directors.

Financial Information

Attached are the following graphs and financial reports comprising the Controller’s Report:

1. Water Sales Volumes Budget and Actual and YOY Comparisons
2. Water Sales Revenues Budget and Actual Comparison
3. Water Purchases and Treatment Costs Budget and Actual Comparison
4. Budget Status Report
5. Schedule of Cash and Investments

The Water Authority is in the process of closing Fiscal Year 2024 and preparing the audit schedules, the financial statements, and the related documents required for the audited Annual Comprehensive Financial Report (ACFR). This report contains **preliminary/unaudited** financial information for the 12-month period of July 1, 2023, through June 30, 2024. 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 ACFR.

The Budget Status Report compares actual revenues and expenses to the period-to-date adopted budget. Below is a summary of the financial activities for the period July 1, 2023, through June 30, 2024, in millions:

	FY 2024	For the 12 months ended June 30, 2024			
	Adopted Budget	Budget	Actual	\$ Variance Positive/ (Negative)	% Budget Above/ (Below)
Water Sales	\$ 699.7	\$ 699.7	\$ 598.6	\$ (101.1)	-14%
Water Purchases & Treatment	565.3	565.3	460.9	104.4	-18%
Net Water Sales Revenue	<u>134.4</u>	<u>134.4</u>	<u>137.7</u>	<u>3.3</u>	<u>2%</u>
Revenues & Other Income	154.8	154.8	152.3	(2.5)	-2%
Total Revenues	<u>289.2</u>	<u>289.2</u>	<u>290.0</u>	<u>0.8</u>	<u>0%</u>
Total Expenses	<u>250.3</u>	<u>250.3</u>	<u>232.0</u>	<u>18.3</u>	<u>-7%</u>
Net Revenues Before CIP	38.9	38.9	58.0	19.1	49%
CIP Expenses	<u>59.2</u>	<u>59.2</u>	<u>45.6</u>	<u>13.6</u>	<u>-23%</u>
Net Fund Withdraws	<u>\$ (20.3)</u>	<u>\$ (20.3)</u>	<u>\$ 12.4</u>	<u>\$ 32.7</u>	<u>-161%</u>

Water Sales Volume (in acre-feet) for the month of July 2024		This chart (left) shows water sales in acre-feet for the month of July 2024, while other sections of the Controller's Report pertain to the 12-month period ending June 30, 2024. The chart shows the most current water sales volume information available as of the date this report was prepared.
Budget	35,566	
Actual	37,048	

Summary

For the twelve months ended June 30, 2024, the Water Authority’s actual net revenues after CIP was a positive \$16.3 million due mainly to the \$39 million reimbursement received from IID as part of the System Conservation Implementation Agreement and the \$8.5 million exit fee received from the Fallbrook Public Utility District. Therefore, a draw from fund balance was not required for FY 2024. However, the Water Authority operates under a two-year budget, and the budgetary savings from year one is expected to be used in the second year.

Net Water Sales Revenue

Net water sales revenue is the difference between the receipts from the sale of water and the cost of that water, providing the Water Authority’s principal source of revenue. Sales include revenues from:

<u>Variable Commodity Charges</u>	<u>Fixed Charges</u>
Supply	Customer Service
Treatment	Storage
Transportation	Supply Reliability
	Infrastructure Access

For the twelve-month period ended June 30, 2024, total acre-feet (AF) of water sold was budgeted at 367,388 AF and actual water sales volumes were 295,069 AF or 20 percent below budget (Attachment 1). Water sales were below budget due to the above average rainfall in the San Diego region earlier in the year that resulted in a continued reduction in total water demand and increased member agency local surface water use. On a year over year basis, FY 2024 actual water sales volumes through June 2024 were 51,812 AF, or 14.9 percent lower compared to the prior fiscal year’s water sales volumes of 346,881 AF (Attachment 1). This reduction is tied to the two back-to-back wet winters of heavy rainfall that had not been experienced in the region in decades.

Net water sales revenue for the twelve-month period ended June 30, 2024, was \$141.9 million, or \$7.5 million higher than the budgeted amount of \$134.4 million. Even though water sales volumes and revenues were below budgeted amounts, the water purchases and treatment costs were lower by a greater factor due to (1) the savings from the System Conservation Implementation Agreement \$38.8 million reimbursement resulting in a \$22.8 million lower cost for the purchase of water in the year and (2) a storage valuation adjustment to match the price paid for the water delivered and placed into storage for the year to the supply source. (Previously, water added to storage was added at the MWD Tier 1 rate whereas the majority of the water that went into storage in FY 2024 was the IID Transfer water (a higher price). This

adjustment increased the cost of the water added to storage while reducing the water cost charged to expense. The additional AF of IID Transfer water is expected to be sold in FY 2025.)

Detailed water purchases and treatment costs information by source will be provided in the final version of the June Controller's Report issued in September once all reconciliations and adjustments have been completed for FY 2024.

Revenues and Other Income

Total revenues and other income were budgeted at \$154.8 million for the twelve-month period ended June 30, 2024. Actual revenues were \$152.0 million or \$2.8 million lower than the budget (Attachment 4). Revenue categories materially higher than the budget include the following:

- Other Income: The \$11.3 million higher than budget with \$8.5 million representing the full detachment payment received from the Fallbrook Public Utility District; \$0.5 million in proceeds from the sale of San Miguel Conservation Bank mitigation credits previously approved by the Board to sell the excess credits when buyers are found; \$0.1 million representing FEMA reimbursements for the 2023 Winter Storms and COVID19 claims; \$0.3 million in various Water Authority owned property space lease revenues; and the balance relating to higher intergovernmental revenues and other one-time miscellaneous revenues all in excess of budgeted amounts
- Property Taxes: \$1.4 million higher than budget reflecting increased development activity in the county and property tax rate increases
- Capacity Charges: \$0.7 million higher than budget due to the continuing increased development in the region requiring new or larger water meter building permits

Revenue categories materially lower than the budget include the following:

- Grant Reimbursements: \$12.5 million lower than budget due to timing of project work completion by the Local Project Sponsors (LPS). Specifically, delays were experienced in areas of land easement acquisition, design, permitting, and construction in the Proposition 1, Rounds 1 and 2, projects, and in Drought Relief projects for underrepresented communities and tribal areas. The completion of Proposition 84, Round 4 projects in FY 2025 is expected to contribute about \$2M to the budget, including retention funding. Most construction will start in FY2025, with most revenues and expenses anticipated in FY 2026 and FY 2027.
- Contributions in Aid of Capital Improvement Program: the majority of the \$2.9 million budgeted to be received in FY24 pertained to a State budget allocation for the San Vicente Energy Storage Project that will now not happen given the State's current budget deficit; a similar allocation budgeted in FY25 is also now not expected to be received
- Investment Income: \$0.9 million lower due to the impact of lower water sales revenues causing less monies to be received and invested to earn a return; also, decreasing cash balances resulted in a similar reduction to interest income

Expenses

Total expenses were budgeted at \$250.3 million for the twelve-month period ended June 30, 2024. Actual expenses were \$232.0 million or \$18.4 million lower than the budget (Attachment 4). Expense categories materially lower than the budget include the following:

- Grant Expenses: \$10.9 million lower than budget due to timing of project work completion by the Local Project Sponsors (see explanation for Grant Revenues reduction above).
- Operating Departments: \$7.1 million lower expenses due to the timing of expenses planned in the two-year budget that is different than actuals associated with delayed contract start dates, shutdown maintenance periods shifting to later months and budget cuts directed by the General Manager.
- Equipment Replacement Fund: \$2.2 million lower than budget due mainly to timing of equipment to be received from manufacturers that has extended in FY 2025; it is expected that the two-year budgeted appropriation will be realized once the remaining vehicles and other equipment is received in FY 2025

CIP Expenses

Capital Improvement Program expenses were budgeted at \$59.2 million for the twelve-month period ended June 30, 2024, and actual expenses amounted to \$45.6 million or \$13.6 million lower than the budget (Attachment 4). The delayed starts for the \$41.6 million Southern First Aqueduct Structures Rehabilitation project and \$9.0 million Helix 9 Flow Control Facility project (contracts awarded in October) contributed to this variance. The underspend will be made up in the second year of the two-year budget with the full two-year appropriation of \$183.8 million being spent by the end of FY25.

Cash and Investments

Cash and investments totaled \$366.3 million. Approximately 62 percent is pooled funds available to meet Water Authority needs and Board set reserve requirements, and the remaining 38 percent represented bond proceeds with amounts restricted for specific purposes (Attachment 5). Based on the cash needs of the Water Authority, the Treasurer works to ensure sufficient balances are maintained to achieve favorable rating agency market ratings.

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Attachments:

Attachment 1 – Water Sales Volumes Budget and Actual and YOY Comparisons

Attachment 2 – Water Sales Revenues Budget and Actual Comparison

Attachment 3 – Water Purchases and Treatment Costs Budget and Actual Comparison

Attachment 4 – Budget Status Report

Attachment 5 – Schedule of Cash and Investments