Supplemental Information
Item 5.H

San Gorgonio Pass Water Agency

DATE: January 23, 2025

TO: Finance and Budget Committee

FROM: Lance Eckhart, General Manager

BY: Tom Todd, Jr., Chief Financial Officer

SUBJECT: MID-YEAR BUDGET REVIEW FY 2024-25

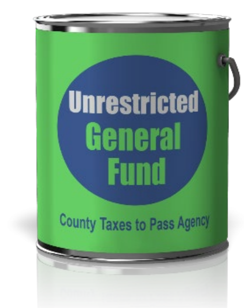
Executive Summary

Overall, the expenditure and income levels are performing as expected in all budget buckets and almost all budget categories. The Agency is on-track to end the fiscal year with surpluses as planned. As this is a six month review, 50% of the annual approved budget amount would be a suggested target to review income and expenditure levels.

In the General Fund, the overall percentage of income received is about 25%, which is less than 50%, but this is a typical pattern. The percentage of expenditures is less, at about 12%, due primarily to the large Consulting and Engineering Services budget, of which little has been expended in the first half of the fiscal year.

In the Debt Service Fund, a higher percentage of income has been received, about 38%, which is again typical of the income pattern experienced in both buckets. Expenditures are very close to 50%, so right on target.

Unrestricted Funds – General Fund – 'The Green Bucket'
Revenue



General Fund income is derived primarily from two sources, water sales and tax revenue. Both of these revenue sources are out of phase with a six-month cycle, for different reasons.

Revenue generated by water sales always lags by one or two months from the time it was delivered. Specifically, we just received the payment from BCVWD for November and December deliveries, which increases the total to about $6.7 million. In addition, this year's revenue is markedly different than last year, as the Agency sold 6,000 AF to Westside Water Authority, for an additional unexpected sum of $3,000,000. Water sales are ahead of budget at this time, and even considering the current low allocation for deliveries for 2025, water sales will meet its FY 24-25 budget at fiscal year-end.

Revenue received for the Agency allocation of the 1% property tax assessed by Riverside County usually is divided into two major portions. The first portion is delivered starting in December and extending through February. As of December, the Agency had received about 15% of its expected tax revenue. In January, it is expected that will increase to about 40%. This is the pattern of receipts that the Agency has previously experienced.

Finally, income from interest on investments has significantly increased. The state of the economy really impacts interest, so it has been hard to predict what Agency interest income will be. At this time, General Fund allocated interest has exceeded the budget for the entire year.

Expenditures

Expenditures for the General Fund are grouped into major categories for context. The first category is Commodity Purchases. This includes purchased water invoices from the Department of Water Resources (DWR), through invoices commonly known as variable invoices. The invoices arrive mid-month following the delivery month and are paid that month. As of December, only 12% of the budget had been used. Even though the allocation for 2024 was only 40%, the overall unit rate for water deliveries is significantly less than 2023.

All other Categories are within budget, or ahead of budget, with one exception, Legal Services. Almost all line items are also within budget with a few exceptions:

- General Manager and Staff Travel (row 43) has used 30%, due to increased travel by new staff members.
- Insurance and Bonds (row 45) is over budget for the entire year by 5%, due to unexpectedly high renewal costs. However, very few invoices are expected for the rest of the fiscal year.
- Accounting and Auditing (row 46) is on budget for the whole year, but over budget at this time. A minor invoice is expected in February.
- Dues and Assessments (row 47) is over budget for the whole year, due to new memberships and permits by Riverside County.
- Vehicle Maintenance (row 53) is over budget for the whole year due to unexpected vehicle repairs.
- LAFCO Cost-Share (row 57) is also over budget for the first half of the fiscal year, but will be under budget at year-end.
- Yucaipa and Verbenia GSA (row 76) is currently over budget, but is expected to be within budget at year-end.
- SAWPA Regional Projects (row 89) is currently over budget, but is expected to be within budget at year-end.

Legal Services billing comes in the month after services have been performed. Currently, the December balance in the general ledger includes services provided through November 2024. Increases in legal fees include review of Agency policies, review of agreements for Heli-Hydrant and County Line Projects, and additional review of agreements for the Sites Project.

Major and Capital Expenditures includes potential expenditures for building maintenance and replacements for office equipment and furniture and other equipment. At this time, no expenditures have been made in this category.

Unrestricted Funds - Consigned State Water Project (SWP) Fund – 'The Orange Bucket'

The Board authorized the SWP Fund starting in FY 2021-22, with the provision that expenditures would not be authorized by the Board for two to three years. At this time, no expenditures have been authorized by the Board.

As mentioned under the General Fund, interest income allocated to the Consigned SWP Fund continues to exceed expectations.

Restricted Funds – Debt Service Fund – 'The Red Bucket'
Revenue

Debt Service Fund tax revenue follows a similar pattern of timing as the General Fund, but with slightly larger percentages. As of December, the Agency has received about 47% of the expected Debt Service revenue. By the end of January, it is expected to increase to about 55%.

Expenditures

Expenditures for the Debt Service Fund tend to have a wider range of variances, depending on the type of expense. Salaries and related expenses, Utilities and Tax Collection Services track evenly throughout the year. The SWC Audit gets paid at the beginning of the year, so it currently is under budget of the first half of the fiscal year, but because no more invoices are expected, it will be within budget at the end of the fiscal year.

Other line items come in chunks, rather than being evenly spread over 12 months. Water Transfers are usually one-time payments, so look inactive, then exceed the monthly guide after the payment is made. Invoices for SWP Engineering and Maintenance and EBX Contract Operations come in when billed, depending on repairs needed and the amount of water delivered.

Finally, State Water Contract Payments are generally even month to month, with the exception of September (largest EBX payment) and March (large EBX payment), with slight increases in January and July, all of which relate to making bond payments.

And because State Water Contract Payments make up almost 75% of all the expenditures for the Debt Service Fund, any variance in that line item affects the total Debt Service expenditure percentage more significantly than any other item. That being said, expenditures for the first half of the fiscal year overall are within budget.

Gap Funding Program

The current balance of the Gap Funding program is $6,235,940.59. The largest portion of the funding is being utilized by South Mesa Water Company. A reimbursement for a significant amount of their outstanding balance is due soon. Additional funds have been allocated to Cabazon Water District. Additional agreements are expected later this fiscal year.

Considerations and Recommendations
General Fund

In looking forward to the second half of the fiscal year, Staff recommend making the following adjustments to the General Fund Budget for FY 2024-25:

- In order to hire a new employee in the Operations Department, make the following increases:
  - Salaries by $25,000 (row 17)
  - Payroll Taxes by $3,000 (row18)
  - Health Insurance by $3,000 (row 22)
  - ACWA Benefits by $1,000 (row 23)
- In order to cover newly PARS retirement fund administration costs and WEX administration costs, increase Payroll Service by $6,000 (row19)
- In order to meet budget expectations for General Manager and Staff Travel, increase the budget by $10,000 (row 43)
- In order to meet budget expectations for Vehicle Maintenance, increase the budget by $15,000 (row 53)
- In order to meet budget expectations for Legal Services, increase the budget by $60,000 (row 96)

In addition, while the liabilities for Retirement and Other Post-Employment Benefits are currently at appropriate levels, future staff and future retirements, as well as increases in medical costs suggest that putting additional funds into these areas would be advisable. Not only will these funds improve the Agency's balance sheet by lowering these liabilities, these funds can be working to produce additional income to offset future expenses. Staff recommends:

- Adding $100,000 to the Retirement line item (row 20). This will bring the total amount for an additional contribution to CalPERS retirement from the General Fund to $200,000 for the fiscal year.
- Adding $50,000 to the Other Post-Employment Benefits line item (row 21). This will bring the total amount for an additional contribution to the CERBT fund to $150,000 from the General Fund for the fiscal year.

The total for the above items is about $355,000. This represents an addition of about 1.7% for the General Fund Expenditure budget for FY 2024-25.

Debt Service Fund

After reviewing all Debt Service Expenditures, contract stipulations with the Department of Water Resources (DWR), and input with legal counsel, Staff recommends allowing the Debt Service fund to pay for commodity purchases from DWR.

For the rest of this fiscal year, this would represent a transfer of expenses from the General Fund to the Debt Service Fund of an estimated $1,800,000 for FY 2024-25.

Expenses for Nickel water payments to AVEK and Kern County would still be charged to the General Fund. Operationally, this would free up additional funds for capital projects and purchases of water from other sources. It would also allow for additional flexibility in future General Fund budgets.

Early Bond Payoff

Staff has given serious thought to the Board's request to consider paying off selected EBX bonds early, to mitigate the increase in payments projected between 2026 and 2029. It is estimated that the payments in those years would increase about $20 million over the average payment through to the end of 2035.

As the Agency has reserved sufficient funds to meet these additional payments and tax revenue to meet these payments has increased in the last 10 years, the main purpose of paying bonds early would be to reduce the amount of interest paid on those bonds.

At this time, Staff do not recommend pursuing this suggestion for the following reasons:

- Staff wish to retain control of the funds, in case an opportunity or necessary re-allocation should arise.
- Current interest rates offset the interest rate of the bonds. This could be reduced due to economic considerations, but current trends suggest that the amount saved by paying off the bonds early would be less than hoped for.
- DWR has been involved in a years-long reconciliation of costs associated with various projects and the bonds issued to pay for those projects. It is likely to take an additional 18 months to complete. However, preliminary findings presented by the State Water Project Accounting Office (SWPAO) indicate that the Agency will be receiving a $16 million credit towards EBX bonds as a result of their findings.