San Gorgonio Pass Water Agency

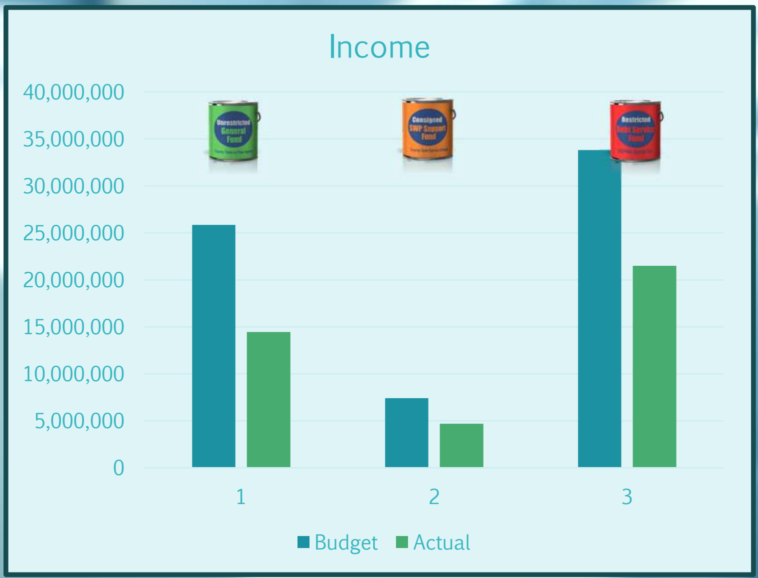
Mid-Year Budget Review
FY 2024-25

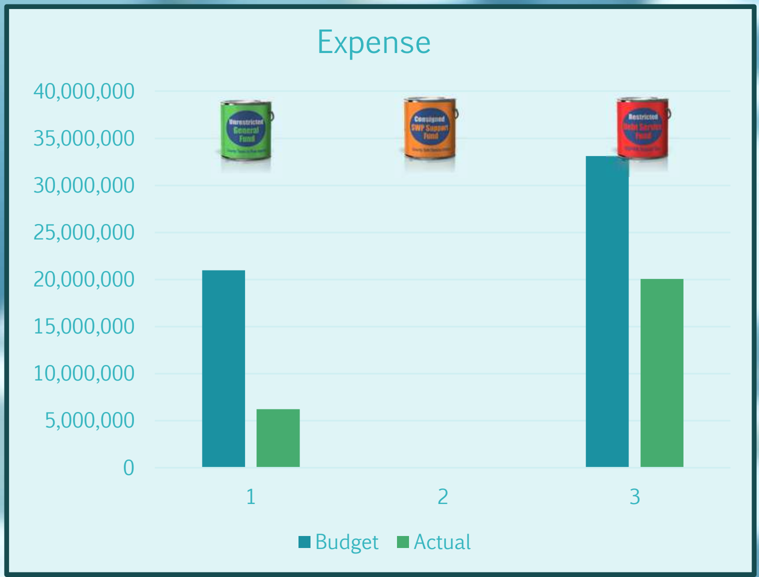
Finance and Budget Committee
February 19, 2025

Executive Summary

- Mid-Year
  - as of January 2025
  - six months of real activity
  - compare to 50% of budget
- All Funds performing as projected

Income and Expense Budget vs. Actual





Recommendations

- Increase General Fund expenses by $275,000

- Increase Debt Service Fund expenses by $1,800,000 for Water Purchases

- Do not pay off bonds early

San Gorgonio Pass Water Agency

DATE: February 19, 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.

Because financial activity and reporting is generally delayed by about a month, this review compares seven months of activity as if the year was just half over. So, 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 56%, which is a typical pattern. The percentage of expenditures is less, at about 30%, 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 63%, which is again typical of the income pattern experienced in both buckets. Expenditures are very close to 61%, which is expected because of the large EBX payment in September.

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. By including January information, November and December payments have been received, which increases the total to about $7.3 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 the FY24-25 budgeted amount 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 the end of January, the Agency had received about 55% of its expected tax revenue.

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. At the beginning of the calendar year, we usually received the invoices for Nickel Water as well. As of January, about 46% of the budget had been used.

Legal Services billing comes in the month after services have been performed. Currently, the January balance in the general ledger includes services provided through December 2024. Increases in legal fees include review of Agency policies, and review of agreements, including the Heli-Hydrant, 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 January, the Agency has received about 63% of the expected Debt Service revenue.

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 for 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 categories for FY 2024-25:

- Salaries and Employee Benefits: $188,000
- Administrative and Professional Services: $25,000

- Legal Services: $60,000

The total for the above items is about $275,000. This represents an addition of about 1.3% 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.

<u>Early Bond Payoff</u>

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:

- Current interest rates offset the interest rate of the bonds. Interest rates for bonds to be paid off in 2026 range from 0.92% to 5%. Interest rates for bonds to be paid off in 2029 range from 1.41% to 5%. Given current economic conditions, trends suggest that the Agency would earn more interest on its reserves than it would save by paying off bonds early.
- DWR has been involved in a years-long reconciliation of costs associated with various projects and the bonds issued to pay for those projects. Preliminary findings presented by the State Water Project Accounting Office (SWPAO) indicate that the Agency will be receiving a $16.6 million credit towards EBX bonds as a result of their findings, which significantly offsets the amount of the 'balloon' payments.