



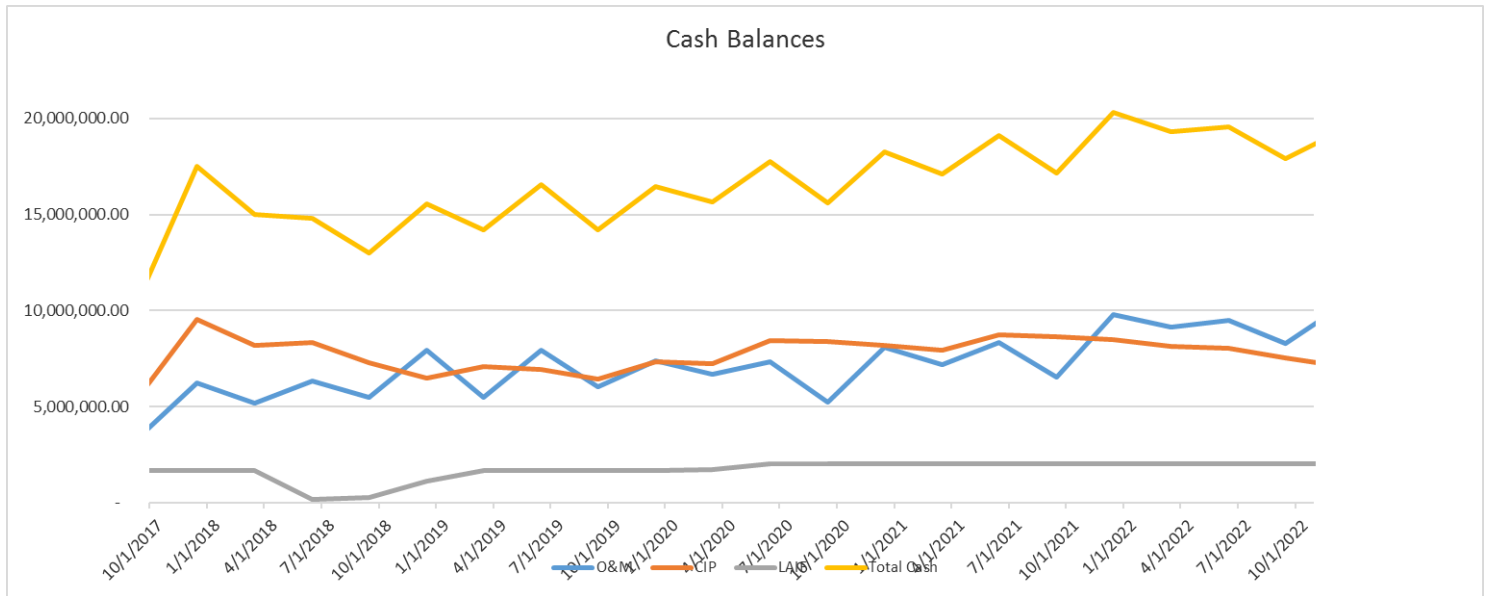
**Fiscal Year 2022-23 Unaudited Second Quarter  
Financial Summary Memo**

**For the Period Ended 12/31/2022**

## FINANCIAL HEALTH AND CASH POSITIONS

As of December 31, 2022, the District is in a sound financial position. It maintains a healthy cash balance sufficient to cover its short term and long term obligations. The District also maintains an unofficial reserve balance of approximately **\$2M** in its LAIF account, which is equal to approximately **4.65** months of Operations & Maintenance (O& M) expenditures (currently **\$430,063** per month). Typical business practice is to hold at least 3-6 months of cash on hand for emergencies, along with adequate insurance holdings. Based on this metric the District is within that range with its LAIF account.

Below is a chart detailing the District’s cash positions over the past five years:



Below is a chart detailing the current cash balances the District maintains compared to last quarter:

	Balance at 9/30/2022	Balance at 12/31/2022	Difference
Operations & Maintenance	\$ 8,306,833	\$ 10,299,189	\$ 1,992,356
Capital Improvement Projects	7,562,507	7,102,134	(460,373)
LAIF (Reserve)	2,025,781	2,032,674	6,893
<b>Total Available Cash</b>	<b>\$ 17,895,121</b>	<b>\$ 19,433,997</b>	<b>\$ 1,538,876</b>

## REVENUES

For Fiscal Year 2022-23, the District expects approximately \$7.4M in revenues between its two main revenue types: Operating and Non-operating revenue. The District receives 96% of its revenues through two allocations from the County of Santa Barbara’s Property Tax apportionment, in December and April. The District received approximately \$3,935,000 in its first apportionment from the County and expects another approximately \$3,500,000 in April 2023. The District has sufficient cash on hand to handle the timing of revenues, so no temporary borrowing is necessary for the District to meet its obligations.

Table 1 below shows the breakdown of revenue received for the period ending December 31, 2022.

## OPERATIONS & MAINTENANCE BUDGET TO ACTUAL SUMMARY

### OPERATING AND NONOPERATING REVENUES

	2022-23 Budget	2022-23 Actuals	Difference
<b>Operating Revenues</b>			
Service Charges	\$ 6,600,000	\$ 3,549,596	\$ (3,050,404)
Connection Fees	100,000	83,708	(16,292)
Other Services	75,000	11,556	(63,444)
<b>Total Operating Revenues</b>	<b>\$ 6,775,000</b>	<b>\$ 3,644,860</b>	<b>\$ (3,130,140)</b>
<b>Nonoperating Revenues</b>			
Property Taxes	\$ 665,000	\$ 399,940	\$ (265,060)
Interest Income	-	62,565	62,565
<b>Total Nonoperating Revenues</b>	<b>\$ 665,000</b>	<b>\$ 462,505</b>	<b>\$ (202,495)</b>
<b>Total Revenues</b>	<b>\$ 7,440,000</b>	<b>\$ 4,107,365</b>	<b>\$ (3,332,635)</b>

Table 1. Fiscal Year 2022-23 Budget to Actuals for Revenue

Below is a deeper analysis or estimated versus actual revenues collected:

#### Operating and Non-operating Revenue Noteworthy Items:

- Sewer Service Charges - The District's primary source of revenues comes from Sewer Service Charges.**  
 The District submitted all Sewer Service Charges to the County for inclusion on connected properties Property Tax bills in early July. This method saves a substantial amount of administrative time having to bill, collect, and reconcile over 3,000 sewer service bills to customers. Total amount reported to the Auditor was **\$6,717,577**, so Staff anticipates Sewer Service Charges revenue coming in higher than budgeted for Fiscal Year 2022-23. This increase is mostly attributed to our Commercial account holders as a result of increased water usage coming out of the pandemic.
- Connection Fees** – The District has seen a higher number of connection fees processed in the first quarter of the fiscal year than anticipated. These properties have paid for their connection fees through the permitting process and will be included in the Property Tax Roll in the next fiscal year. The District also anticipates a sewer main extension project to be completed during FY 2022-23 to serve an additional 23 parcels. Once a Notice of Completion is approved by the Board it is expected the District will begin receiving a portion of the connection fees for the project.
- Property Tax** – The District's ½ of 1% Property Tax Revenue is collected in the same manner as the Sewer Service Charges. During the second quarter the County released estimated property tax revenue figures and the District is expected to receive **\$720,423**, which is **\$55,423** higher than budgeted for Fiscal Year 2022-23.

## OPERATING EXPENDITURES

	2022-23 Budget	2022-23 Actuals	Difference	% of Budget
<b>Operating Expenditures</b>				
Salaries and Benefits	\$ 3,143,763	\$ 1,506,638	\$ 1,637,125	48%
Insurance	86,000	35,043	50,957	41%
Maintenance & Repairs	180,000	47,312	132,688	26%
Goods & Supplies	148,500	50,951	97,549	34%
Professional Services	360,000	99,362	260,638	28%
Administrative Costs	385,000	114,606	270,394	30%
Plant & Lab Operating Costs	538,000	241,337	296,663	45%
Safety, Training, & Travel	53,500	11,924	41,576	22%
Utilities	266,000	125,991	140,009	47%
<b>Total Operating Expenditures</b>	<b>\$ 5,160,763</b>	<b>\$ 2,233,164</b>	<b>\$ 2,927,599</b>	<b>43%</b>

The District's Operations and Maintenance expenditure budget is lower than anticipated with what the District anticipated for end of Q2.

Salaries and Benefits expenditures are sitting at approximately **48%** of utilization, even with a large Unfunded Actuarial Liability (UAL) payment being made during the first quarter. That being said, Labor Negotiations for the Represented and Management group have not been settled and will inevitably have an impact on that figure. A Budget revision may be in order at that time, but will be dependent on what the settlements look like.

Services and Supplies budget has utilized approximately **36%** of the anticipated budget at the end of the second quarter. With the transition to a new General Manager many of the special projects that were planned to begin in FY 2022-23 may no longer be a top priority, so a deeper analysis of what the potential fiscal impacts will be available during the third quarter report.

Below is a deeper analysis of some of the areas the District wishes to highlight for the Board from its Operations & Maintenance budget to actuals:

### Operating Expenditures Noteworthy Items:

- 6400 – CalPERS Contribution** – Every year the District elects to prepay its UAL in July rather than paying in monthly installments in order to save money. This large expenditure early in the year is causing the percentage of budget utilized to be high, however, based on the UAL payment and estimated contributions for the rest of the fiscal year the District expects to be slightly under budget at year end.
- 7461 – Professional Services – Legal** – This line item will now only track costs for the District's General Legal Counsel (Colantuono Highsmith & Whatley). Based on current costs realized through the first quarter and a normal utilization of our General Legal Counsel, Staff expects to exceed the increased budget for FY 2022-23. As the District is healthy at the object level, Staff does not anticipate a budget revision to be needed, however, we will continue to monitor this item throughout the year.

- **7466 – Professional Services – Human Resources** – This line budgets for and tracks costs for Human Resources legal support by Price, Postel and Parma for Human Resource Special under a retainer agreement. Current period costs are in alignment with what the District budgeted for the fiscal year.
- **7467 – Professional Services – Special Legal Counsel** – This new line item for Fiscal Year 2022-23 tracks costs associated with special legal counsel hired by the District for special projects. Currently, that is Liebert, Cassidy, and Whitmore for work performed on negotiations with SEIU Local 620. The District entered into a not to exceed contract for \$25,000, of which the District is currently under that budget at the end of the second quarter. There is still much work to do as it relates to negotiations and finalizing a Memorandum of Understanding, so Staff will continue to monitor the contract and inform the Board of any need to increase at the appropriate time. No expenditures have been made for legal review from Colantuonno, Highsmith and Whatley as it relates to analysis performed for the Special District Consolidation Feasibility Study.
- **7510 - Contracted Services/Labor** - The District paid its annual Smartcover System Service Warranty in September totaling \$31,560. This large expenditure early in the year is causing the percentage of budget utilized to be high, however, this was planned for during the budget process and the remaining transactions are expected to be within the budgeted amount.
- **7653 – Chemicals** – Plant chemicals costs associated with the delivery of sodium hypochlorite (Hypo) and sodium bisulfate (Bisulfate) used for the disinfection process are one of the largest expenditure categories in the operation and maintenance budget. The District’s supplier, Univar, has provided both chemicals since 2010. Since then, prices have trended very closely with inflation. This fiscal year has been a period of hyper-inflation, and as such, Univar has instituted multiple price increases totaling 16% for Hypo and 14% for Bisulfate. District staff completed a Request for Quote for both chemicals and began receiving more advantageous terms (namely a guarantee of future cost increases not exceeding certain thresholds) near the end of quarter 2.

### CAPITAL IMPROVEMENTS PROJECTS

The District maintains separate Capital Improvement Project band of accounts from its Operations and Maintenance funds. As of the end of the period the balance held in CIP accounts totals **\$6,582,791**.

The budget passed for Fiscal Year 2022-23 utilizes estimates for the anticipated expenditures for CIP work including permitting, design, construction management, and all other costs associated with projects. The annual budget passed by the Board this Fiscal Year totaled **\$4,991,945**. The following table shows total budget and amount expended through the quarter by program.

	2022-2023 Approved Budget	2022-23 Expenditures Through 12/31/2022
<b>Collections</b>	\$ 2,638,445	\$ 1,031,436
<b>Lift Stations</b>	\$ 140,000	\$ -
<b>Treatment &amp; Laboratory</b>	\$ 2,026,000	\$ 77,599
<b>Facilities</b>	\$ 117,500	\$ -
<b>Sewer Main Extensions</b>	\$ 70,000	\$ -
<b>Recycled Water</b>	\$ -	\$ 5,138
<b>Total</b>	<b>\$ 4,991,945</b>	<b>\$ 1,114,173</b>

The following highlights noteworthy capital expenditures for Q2 and Attachment C provided includes all CIP activity through the period ending December 31, 2022.

- **FY 2021-22 Carryover – Lilac-Oak Grove Sewer Main Extension** –A large portion of Collections CIP expenditures for Q2 was for the Lilac-Oak Grove Sewer Main Extension project. Staff are in the process of finalizing invoicing for the project and a Notice of Completion will be brought to the Board in early 2023. Once the Notice of Completion is issued, Staff can notify the participating property owners and begin the process of collecting reimbursements of the proportionate construction costs.
- **FY 2021-22 Carryover – Highway 101 Sewer Main Relocation – Design** – Staff continued working with MNS Engineers to finalize the design and bid the project. Design costs for work in Q2 totaled 58,368.

### **2017 SEWER REFUNDING REVENUE BONDS – CALIFORNIA SPECIAL DISTRICTS ASSOCIATION (CSDA) FINANCE CORPORATION**

In May 2017 the District refunded its 2007 Certificates of Participation (COP). The District will make two payments on its bond during Fiscal Year 2022-23 totaling \$936,500. Of this total \$685,000 will be applied to principal and \$251,500 will be applied to interest.

### **ANNUAL DEPRECIATION FUNDING**

Annually, District’s Operations & Maintenance accounts contribute to the Capital Replacement Fund. Typically, this contribution has been based on the prior fiscal year’s annual depreciation expense. The current year contribution based on the Fiscal Year 2020-21 Financial Audit was \$1,228,291. Once the Fiscal Year 2021-22 audit is finalized the figure used for the coming year will be known. Staff expects it to be similar to last year’s figure as there were minor assets added to our Capital Asset inventory during Fiscal Year 2021-22.

#### **Attachments:**

- Attachment A – Quarterly Cash and Investments Holdings as of **12/31/2022**
- Attachment B – Quarterly Operations & Maintenance Expenditure Status Report as of **12/31/2022**
- Attachment C – Quarterly Capital Improvement Projects Expenditure Status Report as of **12/31/2022**
- Attachment D – Quarterly Investment Certification