



MEMORANDUM

TO: Water and Sewer Board
FROM: Virgil Pierce, Rates and Budget Analyst
DATE: March 8, 2023
RE: 2022 Year-End Financial Report

Overview

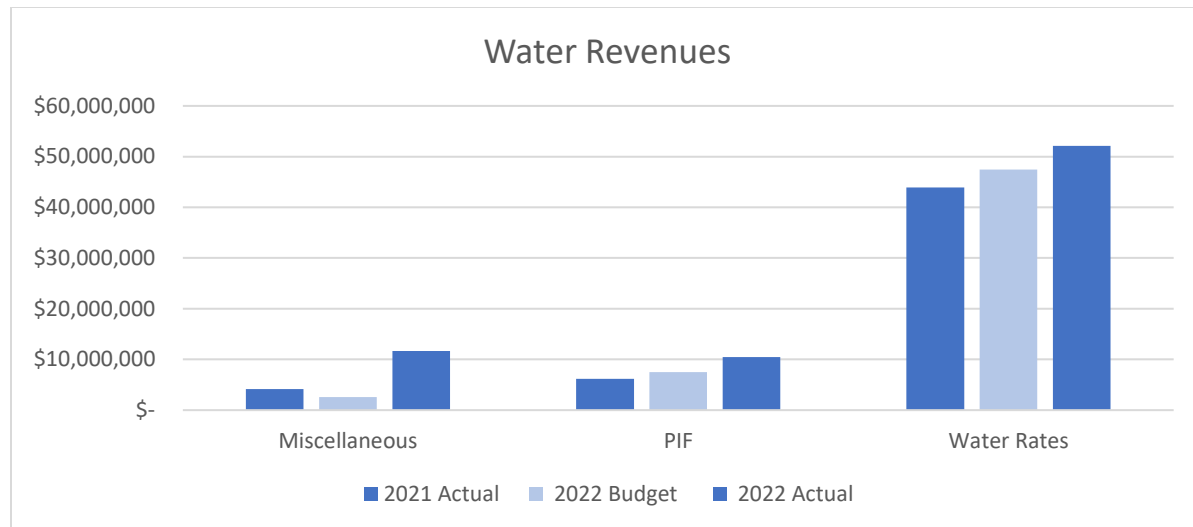
The year-end 2022 water and sewer revenue report is enclosed with all additional detail available in the attached appendices. Water rate revenues ended up meeting or exceeding budgeted numbers, due to revenue being higher than expected in nearly every customer class. Conversely, sewer rate revenues were 3% shy of budgeted targets with small drops in planned revenue noted across most customer classes. Plant investment fees greatly exceeded budgets and customers opted for cash-in-lieu payments for water dedications rather than Terry Ranch credits. Miscellaneous revenues for 2022 exceeded forecasts significantly in both water and sewer. Interest revenue is now included in this report and made a significant contribution in 2022 owing to large cash balances with the bond proceeds and fund balances. Water miscellaneous revenue also benefited from a capital asset sale in 2022.

The department continued to receive significant federal and state funding for Cameron Peak Fire Mitigation efforts. These numbers are reported separately in the appendices as they do not reflect anticipated long term operational expenses or revenues, and the department is functioning as a pass-through.

Water Revenues

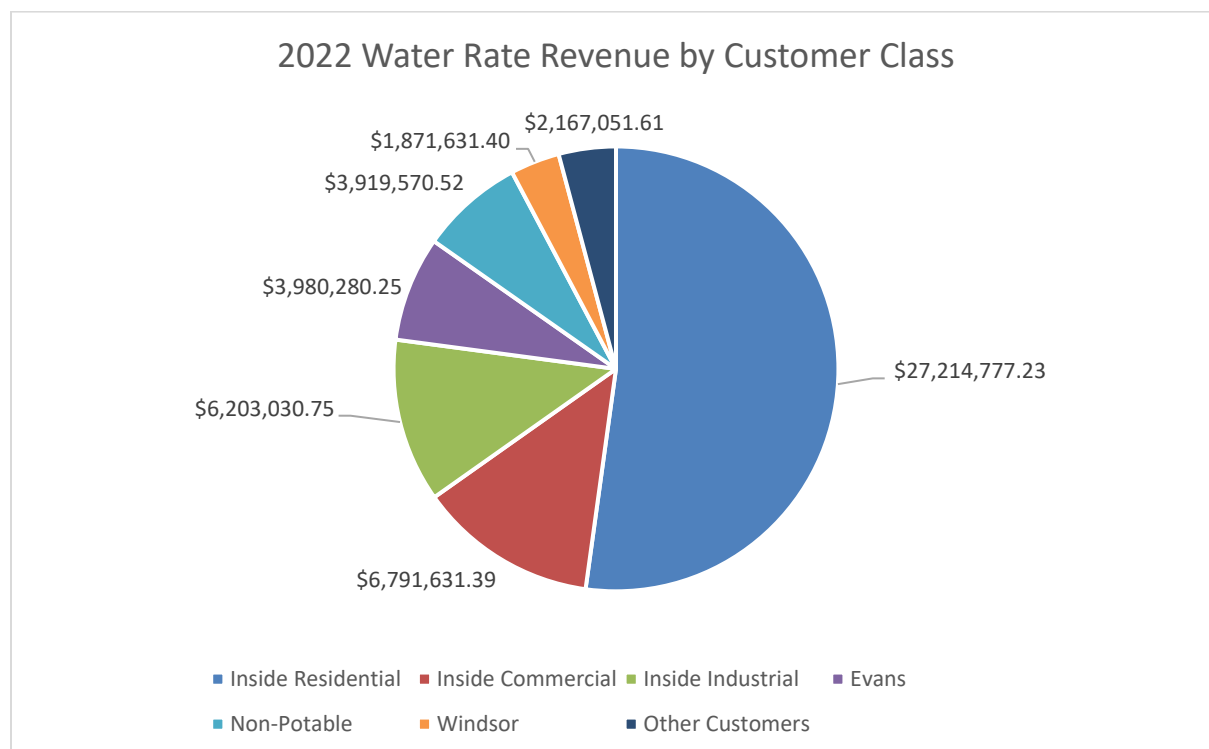
Water revenues can be grouped into three main categories: Water Rates which made up roughly 70% of total 2022 water revenue, Miscellaneous Revenue like water rentals and raw water sales which made up 16% of total water revenue, and Plant Investment Fees (PIFs) which made up 14% of total water revenue. 2022 year-end revenue compared to budget and 2021 year-end revenue for each of these categories can be seen in the chart below.

Both miscellaneous revenues and Plant Investment Fee revenue were well above budget and rate revenue was slightly above budget. The net total for water revenues compared to budgeted targets was + \$16.2M. We also note the increases of 2022 revenues over 2021 revenues. Water Rate revenue gained 19% over the predicted 8% increase in the budget.



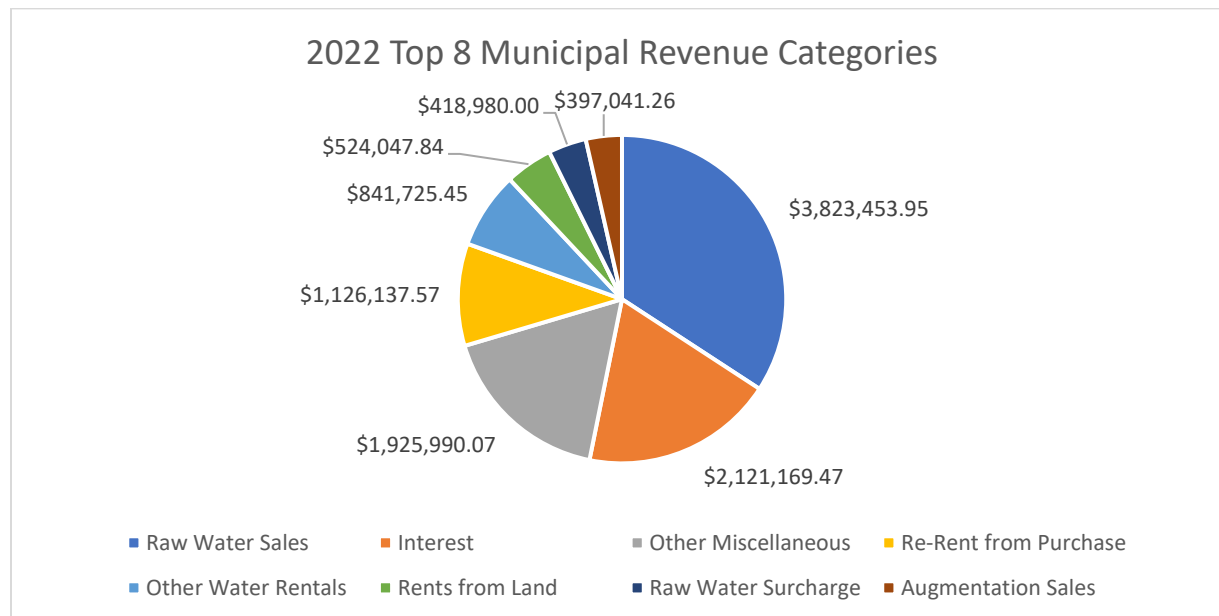
Water Rate Revenue Detail:

The following charts shows the share of the \$52M in water rate revenue made up by each class. System wide, water use was up about 5% from 2021, indicating the importance weather plays in water rate revenue. Non-Potable water is making up a much more significant portion of water rates collected now accounting for 8% of water rate revenue. Residential customers make up more than half of the collected rate revenue.



Miscellaneous Water Revenue Detail:

Miscellaneous revenues are budgeted conservatively due to their variable nature and the department will not be able to count on the high amounts gathered in 2022. In total, the miscellaneous revenue category was 169% over 2021 miscellaneous revenue (\$8.6M over budgeted targets). The Chart below illustrates the proportion of the miscellaneous revenue collected from various sources. A full listing of miscellaneous revenues is available in Appendix B.



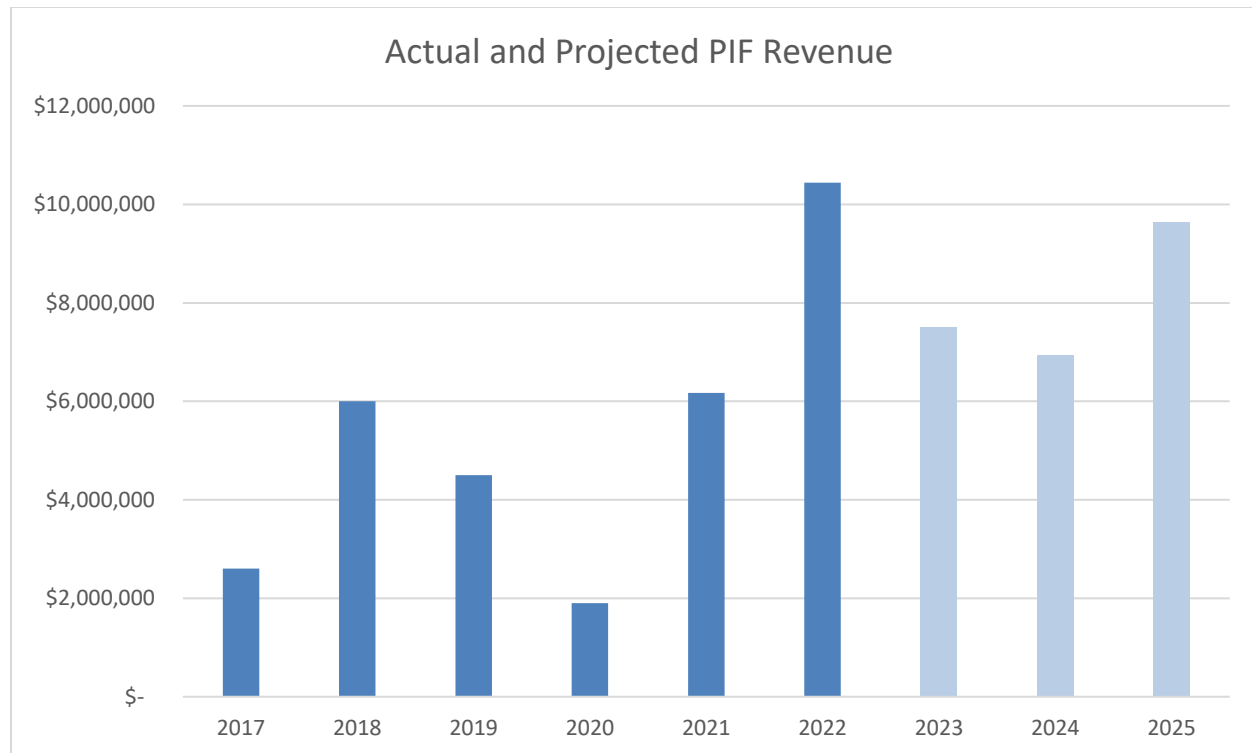
Notable accounts with dramatic increases include interest revenue, which was high due to the bond proceeds and high cash balances held in 2022, and other miscellaneous which includes a \$1.3m land sale in 2022.

Cash-in-Lieu of Raw Water Revenue Detail:

Cash-in-lieu revenue, counted in the miscellaneous group and labeled in the chart above as “Raw Water Sales” was predicted to be minimally used going forward, and in fact was budgeted at \$0 in 2022. Customers elected to use cash-in-lieu payments instead of purchasing Terry Ranch credits as forecast. The Promontory Development agreement also gave developers a favorable price for water dedication and contributed to this revenue. Water staff will continue to monitor the water dedication contributions and adjust future forecasts as appropriate.

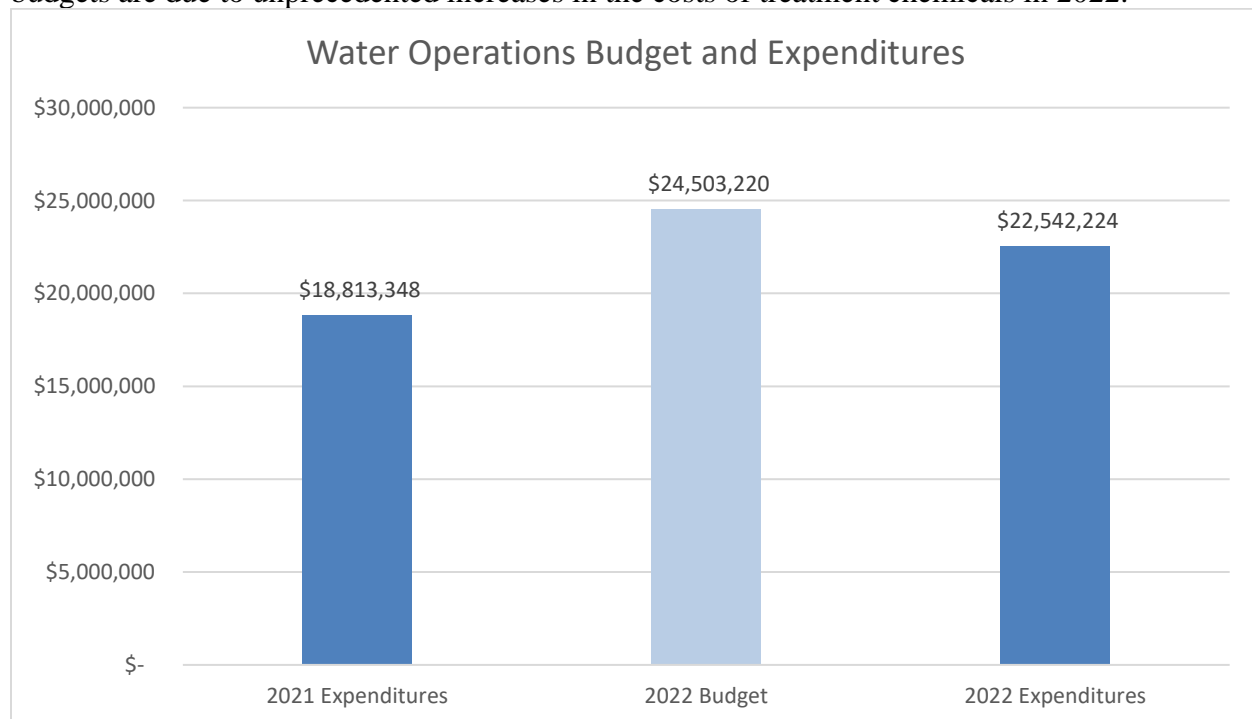
Water Plant Investment Fee Revenue Detail:

2022 Plant Investment Fee (PIF) revenue surpassed the pre-COVID values collected, representing several large development projects in 2022. The chart below shows actual PIF revenue for the past five years with a look ahead at modeled figures. The PIF revenue estimates for 2023 on will be re-evaluated during the modeling process this spring. Not included in the chart is an expected payment of \$11M by one of the municipal customers for increasing their usage cap per our intergovernmental agreement which will further supplement the water construction fund for 2023.



Water Operating Expenditures

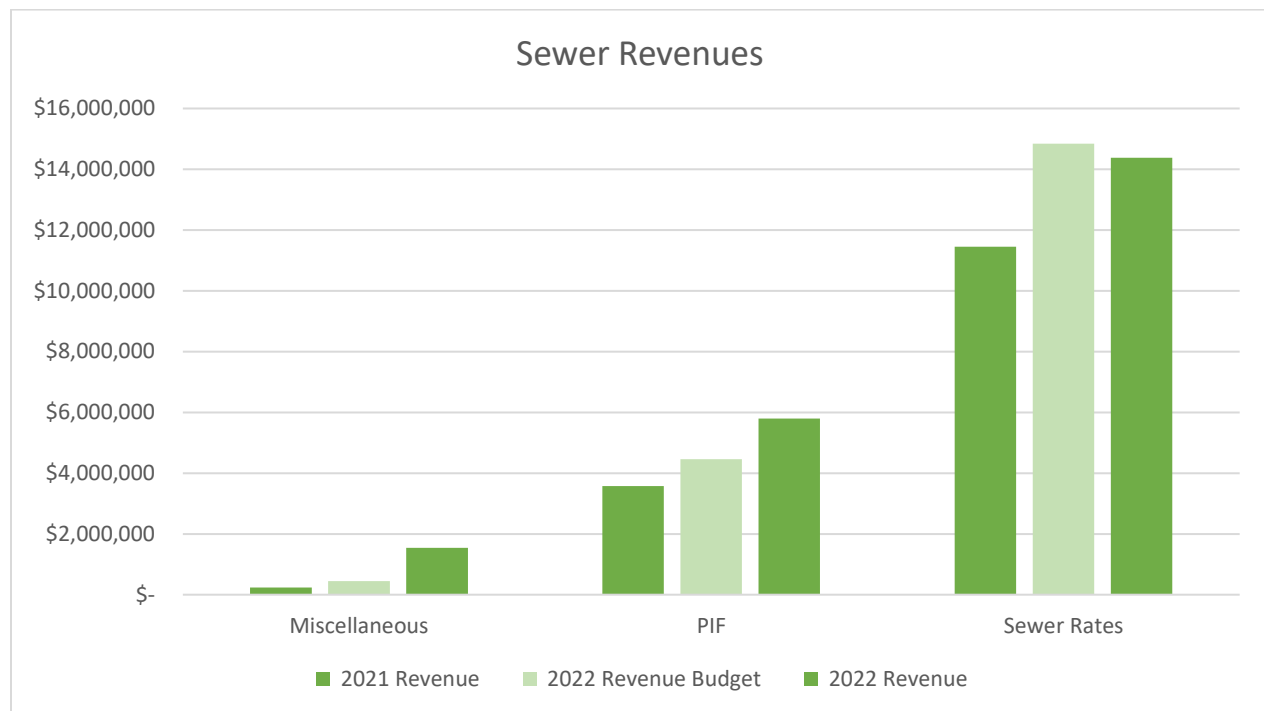
The water operating budget for 2022 was \$24.5M. Expenditures were at \$22.5M, with the differences being largely felt in unspent salary budget from vacant positions. Details of expenditures can be found in Appendix D. Overages noted in treatment plant and transmission budgets are due to unprecedented increases in the costs of treatment chemicals in 2022.



Sewer Revenues

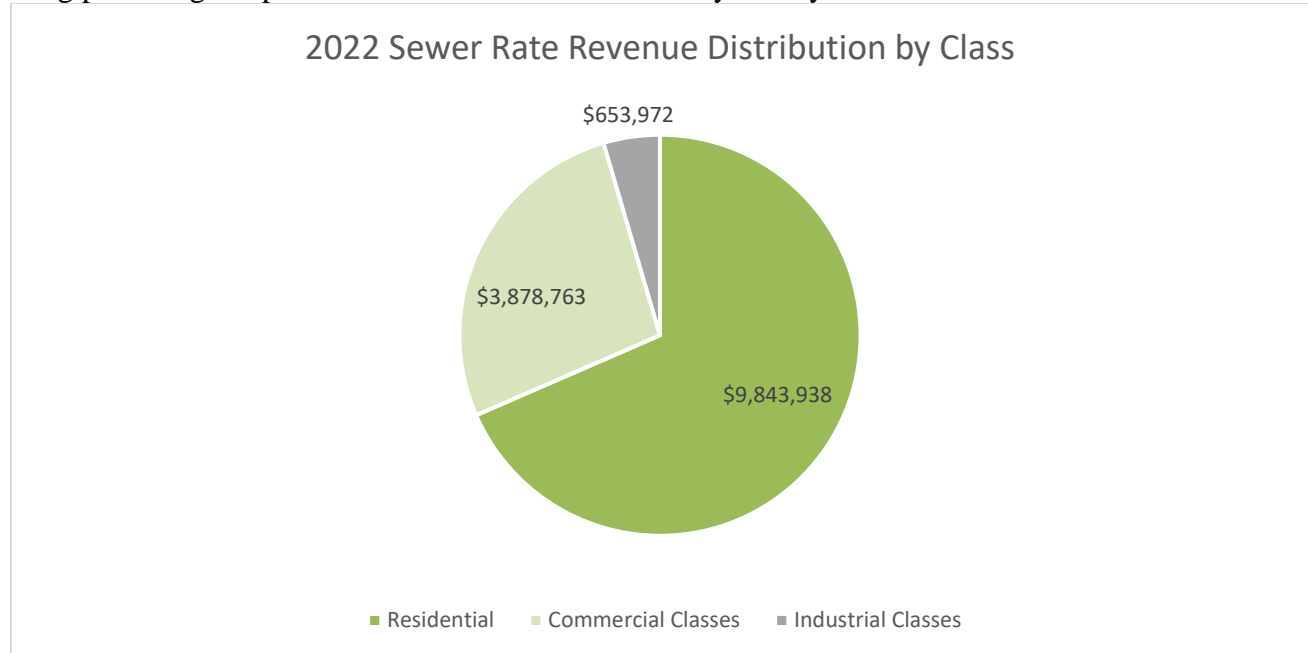
Like water revenues, sewer revenues can be grouped into the same three categories which comprise similar percentage shares of total revenue. Sewer rates made up 66% of total 2022 revenue while miscellaneous made up 7% and plant investment fees made up 27%. 2022 year-end revenue compared to budget and 2021 revenue are compared below. Increases from the 2021 revenue are noted for both the budget targets and the 2022 revenues.

Unlike on the water side, sewer production is not as impacted by weather. In total, sewer revenues exceeded budgeted revenue by nearly \$2M, primarily because plant investment fees and miscellaneous revenues exceeded expectations. Sewer rate revenue collected came in slightly under budget targets.



Sewer Rate Revenue Detail:

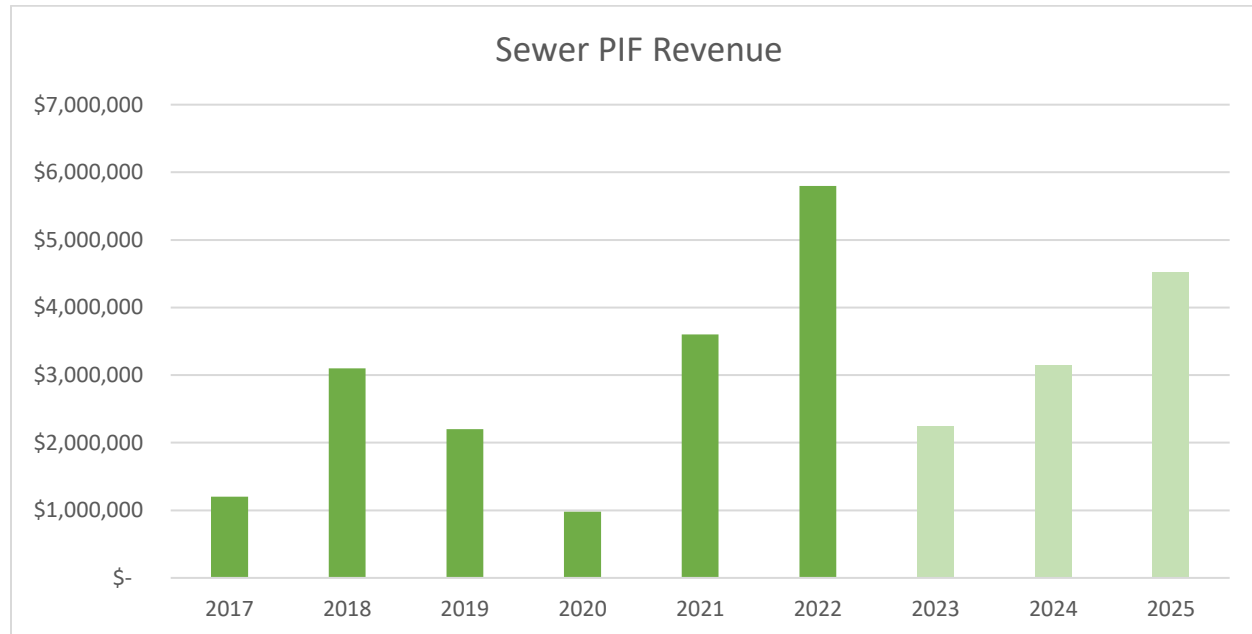
The following chart gives the distribution of sewer rate revenues among the customer classes. Residential customers make up a larger proportion of sewer rate revenue than for water rates. We also note that because the industrial classes are relatively small, small changes in their rates have a big percentage impact on the revenue collected from year to year.

Miscellaneous Sewer Revenue Detail:

Like on the water side, miscellaneous sewer revenues are budgeted conservatively. Full detail on miscellaneous sewer revenues is available in Appendix C. As with water, the sewer department benefited from a surplus of cash from bond proceeds and fund balances in 2022 leading to a high interest revenue.

Sewer Plant Investment Fee Revenue Detail:

Sewer PIF revenue was 66% above the 2022 budgeted target. As with water PIF revenue, we have seen an increase to above pre-pandemic amounts for this, however the forecast is that PIF revenue in 2023 will return to lower values as current development completes. The forecast for the next three years is included.

**Sewer Operating Expenditures**

The sewer departments operating budgeted expenditures are detailed in Appendix E. The following chart compares the 2021 expenditures, 2022 budget, and 2022 expenditures. 2022 Expenditures for sewer operating were 10% higher than 2021 expenditures, and under the 2022 budget. We note some continued overages in the individual units of the wastewater treatment plant due to accounting errors. Corrections have been submitted.

