



**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

9-5

April 21, 1998

**To:** Board of Directors (Budget and Finance Committee--Information)

**From:** *for* General Manager

**Submitted by:** Lambertus H. Becker  
Chief Financial Officer

*Edward J. Measitt*  
*Lambertus H. Becker*

**Subject:** March 1998 Variance Report

**RECOMMENDATION**

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For information only.

**REPORT**

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**Third Quarter Report**

The budget versus actual variance report for the quarter ending March 31, 1998, is attached for your review. Explanations are provided for variances when actual receipts or expenditures vary from budget by  $\pm$  \$500,000 and the difference is at least 10 percent.

Receipts totaled \$681.9 million. This was \$2.9 million, or 0.4 percent under budget. These receipts combined with the use of \$25.0 million of prior year Pay-As-You-Go (PAYG) funds, and \$294.1 million of debt proceeds for construction provided \$1.0 billion to fund expenditures through the third quarter. Expenditures totaling \$1.08 billion, were \$139.6 million under budget. The variance was due to lower year-to-date construction expenditures than anticipated, lower State Water Project costs, primarily due to credits, and lower O&M costs.

**Year-End Projections**

Operating receipts are projected to be \$849.7 million which is \$50.7 million, or 5.6 percent, under budget. This is primarily due to reduced water sales. Water sales are projected to be approximately 1.635 million acre-feet compared to the budget of 1.755 million acre-feet. Use of debt proceeds for construction is projected to be \$387.8 million which is approximately \$109 million under budget. Use of Pay-As-You-go (PAYG) reserves are projected to be \$25 million under budget due to lower than anticipated construction expenditures. Use of stabilization funds is projected to be \$92 million which is \$19 million more than budget. Other sources of funds are anticipated to be at budgeted levels. Total sources of funds are estimated to be \$1.354 billion for the year.

Projected year-end obligations, excluding construction financed through debt and PAYG reserves, are estimated to be \$941.7 million. This is \$31.7 million under the budgeted amount of

\$973.4 million. The variance is primarily due to lower State Water Project (SWP) costs and lower O&M expenses. SWP costs are projected to be \$29.6 million under budget due to revisions to the 1997 and 1998 calendar year billings, additional credits associated with prior year off-aqueduct charges, and return of reserves that had been earmarked for replacements. MWD O&M expenses are projected to be under budget due to personnel vacancies and lower than anticipated use of consultants.

Construction expenditures financed from debt proceeds and PAYG reserves are projected to be \$412.8 million. This is approximately \$130 million under budget. The underrun is primarily associated with construction delays at the Eastside Reservoir, partially due to El Nino; favorable construction bids on the Inland Feeder; and delays in right-of-way acquisition for the North Las Posas project. Total construction expenditures, including current year PAYG, are projected to be \$561.1 million.

As noted earlier, it is expected that approximately \$92 million from the Water Rate Stabilization Fund will be required to make up the shortfall between receipts and expenditures for fiscal year 1997-98. Authorization to use up to \$73 million was approved when your Board adopted the 1997-98 Annual Budget. Therefore, it will be necessary to request authorization to use an additional \$19 million. A Board letter requesting the increase, based on actual receipts and expenditures through May 1998, will be presented to your Board at its June 1998 meeting for action.

MF/mb

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Attachments

BUDGET VS. COST REPORT						
JULY 1, 1997 to MARCH 31, 1998						
CASH BASIS						
(\$ in Thousands)						
FISCAL YEAR 1997-98	ANNUAL BUDGET	BUDGET THROUGH March 1998	ACTUAL THROUGH March 1998	VARIANCE		X-REF.
				DOLLARS	PERCENT	
<b>SOURCES OF FUNDS</b>						
<b>RECEIPTS</b>						
WATER SALES	\$ 676,600	\$ 537,600	\$ 530,047	\$ (7,553)	-1.4%	
TAXES	\$ 84,272	\$ 52,195	\$ 55,192	\$ 2,997	5.7%	
READINESS-TO-SERVE CHARGES	\$ 76,050	\$ 46,339	\$ 49,842	\$ 3,503	7.6%	
INTEREST ON INVESTMENTS	\$ 44,277	\$ 33,530	\$ 33,458	\$ (72)	-0.2%	
POWER RECOVERY AND MISCELLANEOUS	\$ 15,684	\$ 12,645	\$ 12,124	\$ (521)	-4.1%	
BUSINESS DEVELOPMENT	\$ 3,545	\$ 2,548	\$ 1,220	\$ (1,328)	-52.1%	(a)
<b>TOTAL RECEIPTS</b>	<b>\$ 900,428</b>	<b>\$ 684,856</b>	<b>\$ 681,883</b>	<b>\$ (2,973)</b>	<b>-0.4%</b>	
USE OF STABILIZATION FUNDS (1)	\$ 72,955	-	-	-	-	
USE OF PRIOR YEAR PAYG FUNDS	\$ 50,000	\$ 50,000	\$ 25,000	\$ (25,000)	-50.0%	(b)
USE OF DEBT PROCEEDS FOR CONSTRUCTIO	\$ 496,834	\$ 365,884	\$ 294,096	\$ (71,788)	-19.6%	(c)
<b>TOTAL SOURCES OF FUNDS</b>	<b>\$ 1,520,218</b>	<b>\$ 1,100,740</b>	<b>\$ 1,000,979</b>	<b>\$ (99,761)</b>	<b>-9.1%</b>	
<b>USES OF FUNDS</b>						
<b>EXPENDITURES</b>						
STATE WATER CONTRACT	\$ 288,320	\$ 278,026	\$ 251,189	\$ 26,837	9.7%	
WATER TRANSFERS \ OPTIONS	\$ 21,800	\$ 19,022	\$ 19,022	\$ -	-	
COLORADO RIVER SUPPLIES	\$ 28,691	\$ 22,974	\$ 22,686	\$ 288	1.3%	
<b>MWD CAPITAL CONSTRUCTION FINANCING PROGRAM</b>						
DEBT SERVICE	\$ 204,571	\$ 184,436	\$ 179,124	\$ 5,312	2.9%	
PAYG FUND CONSTRUCTION	\$ 140,000	\$ 103,730	\$ 79,168	\$ 24,562	23.7%	(d)
HEADQUARTERS BUILDING & OTHER (2)	\$ 54,437	\$ 40,828	\$ 42,300	\$ (1,472)	-3.6%	
MWD O&M and OPERATING EQUIPMENT	\$ 223,616	\$ 162,199	\$ 151,888	\$ 10,310	6.4%	
BUSINESS DEVELOPMENT	\$ 3,255	\$ 2,339	\$ 1,285	\$ 1,054	45.1%	(e)
PERS UNFUNDED LIABILITY PAYMENT	\$ 32,000	\$ 32,000	\$ 31,332	\$ 668	2.1%	
LOCAL RESOURCES PROGRAM - NET	\$ 15,193	\$ 10,918	\$ 10,662	\$ 256	2.3%	
<b>SUBTOTAL</b>	<b>\$ 1,011,883</b>	<b>\$ 856,472</b>	<b>\$ 788,656</b>	<b>\$ 67,816</b>		
DEBT-FINANCED CONSTRUCTION EXPENDITU	\$ 496,834	\$ 365,884	\$ 294,096	\$ 71,788	19.6%	(f)
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,508,717</b>	<b>\$ 1,222,356</b>	<b>\$ 1,082,752</b>	<b>\$ 139,603</b>	<b>11.4%</b>	
WATER TRANSFER DEPOSITS (3)	\$ 2,200	-	-	-	-	
ADJUSTMENTS IN RESERVES (1)	\$ 9,301	-	-	-	-	
<b>TOTAL USE OF FUNDS</b>	<b>\$ 1,520,218</b>	<b>\$ 1,222,356</b>	<b>\$ 1,082,752</b>	<b>\$ 139,603</b>	<b>11.4%</b>	
<b>Net Sources / (Uses) of Funds</b>	<b>\$ 0</b>	<b>\$ (121,616)</b>	<b>\$ (81,773)</b>	<b>\$ 39,843</b>	<b>-</b>	

**Note:** Trust Account Transactions are not reflected in this report. Minor differences are due to rounding.

(1) Actual amounts to be determined at end of fiscal year.  
(2) Other includes cash activity in the General Fund for reimbursable projects.  
(3) Deposit to the Water Transfer Fund during the fiscal year net of expenditures.

**Attachment to 9-5**  
**CASH BASIS SUMMARY**  
**VARIANCE EXPLANATIONS**  
**Through March 31, 1998**

*Criteria: (plus or minus) \$500,000 and 10 percent variance*

RECEIPTS:

- a) Revenues for Business Development are under budget due to the initial classification of grant revenues. Staff is currently reviewing grant acquisition and related revenues and expenditures that will be reclassified as appropriate by the end of the fiscal year.
- b) Use of prior year PAYG funds will be approximately \$25 million under budget as expenditures for the construction program have been less than anticipated during the fiscal year. The reduction in PAYG expenditures will enable the District to meet the 20% PAYG policy of the Board.
- c) Use of Debt Proceeds for Construction ( See explanation for item (f) ).

EXPENDITURES

- d) PAYG construction is under budget by \$24.6 million or 23.7%. See item (f) for explanation of construction payments to date. It is anticipated that PAYG expenditures will total approximately \$115 at year end which is \$25 million under budget. This level of expenditures will keep the cumulative PAYG amount within the District's policy of funding 20 percent of the CIP from operating revenues.
- e) Expenditures for Business Development are under budget due to the initial classification of grant expenditures. Staff is currently reviewing grant acquisition and related revenues and expenditures that will be reclassified as appropriate by the end of the fiscal year.
- f) Debt Financed Construction Expenditures are \$71.8 million under budget as of March 1998. The variance is primarily due to (1) lower contractor payments on the Eastside Reservoir Project than anticipated in the budget, (2) favorable construction bids on the Inland Feeder, (3) construction delay associated with El Nino, and (4) delays in right of way acquisition of North Las Posas and suspended negotiations with Raymond Basin projects in the Local Groundwater Storage program. It is estimated that year end debt financed construction expenditures will be \$387.8 million which will be \$109 million under budget.