



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

[Signature]
Executive Secretary

April 30, 1992

(Special Budget Committee--Information)
Board of Directors (Finance & Insurance Committee--Information)

General Manager

Status of Five-Point Cost Reduction Program
and Variance Reporting, March, 1992

Report

The General Manager's five-point program to reduce costs has been in effect for six months. Overall, savings have exceeded the target-to-date estimates by about \$2.8 million. The additional savings are primarily associated with delays in securing additional office space. Attached is a summary of actual savings compared to estimated savings as of March 31, 1992. Also attached are quarterly variance reports for the period ending March 31, 1992. Included are: (1) a cash basis summary which compares budget with actual receipts and expenditures by major categories, (2) an operations and maintenance summary which compares budget with cost by division and other major line items, and (3) variance explanations for both the cash basis summary and operations and maintenance summary.

Explanations are provided for variances in the cash basis summary if:

Actual receipts or expenditures vary from budget by \pm \$500,000 or more and the difference is at least 10 percent.

Explanations are provided for variances in the operations and maintenance summary if:

Costs are under budget by \$250,000 or more and the variance is at least 15 percent;

Costs are over budget by \$100,000 or more and the variance is at least 5 percent;

Costs vary from budget by \$500,000 or more regardless of the percentage difference.

Currently, operating revenues and expenses are below estimates. Year-end projections indicate receipts will be about \$111.8 million under estimates. This variance is due water sales of 1.73 million acre-feet of water which is 270,000 acre-feet below estimates, coupled with incentive payments to member agencies under the Incremental Interruptible and Conservation Plan and discount sales under the seasonal storage program. Additionally, hydroelectric power generation is down and lower interest rates are producing less interest income than budgeted.

Expenditures are projected to be under estimates by about \$75 million at year-end. MWD O&M, including operating equipment, is projected to be about \$29 million below budget reflecting the five-point cost reduction program and savings associated with delays in securing additional office space. This is about \$7 million more than the five-point program estimates developed in October 1991. State Water Contract payments, including the 1991 water bank, are projected to be \$32.4 million under budget reflecting the receipt of additional power credits associated with prior-year power cost adjustments and the 1991 water bank. Debt service payments will be about \$11.8 million less than the budget. The debt service amount included in the budget was for a \$450 million revenue bond issue; however, the actual issue was only \$300 million which will result in this favorable variance. The balance of the variance reflects lower Colorado River Aqueduct pumping costs.

Based on these estimates, it is estimated that approximately \$235 million of rate stabilization funds will be used to cover revenue deficits and for transfers to restricted reserve funds and working capital.

Board Committee Assignment

This letter was sent for information to:

The Special Budget Committee pursuant to its authority review budgets under Administrative Section 2531.

The Finance and Insurance committee because of its authority to study, advise and make recommendations with regard to preparation of budgets and authorization of appropriations, pursuant to Administrative Code Section 2441 (a) and (d).

Recommendation

For information only.


Carl Boronkay

MCF:lg
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Attachments

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
1991-92 FIVE-POINT PROGRAM CUTS
PROJECTED MWD SAVINGS AS OF MARCH 31, 1992
(\$ in Thousands)

	TOTAL 1991-92 SAVINGS TARGET	ESTIMATE OF SAVINGS TO-DATE	ACTUAL SAVINGS TO-DATE	DIFFERENCE OVER/ (UNDER)
DISTRICT O&M				
CUT CONSULTANT BUDGET BY 25%	\$6,800	\$5,080	\$6,392	\$1,312
CUT STAFF TRAVEL & EXPENDITURES BY 25%	400	300	452	152
CUT DIRECTORS TOURS BY 25%	200	150	220	70
CUT DIRECTORS TRAVEL & CONFERENCES BY 25%	75	56	112	56
CUT MATERIALS & SUPPLIES BY 20%	2,600	1,845	990	(855)
FREEZE 79 O&M POSITIONS	4,500	3,375	3,314	(61)
FREEZE TEMPORARY HELP (MWD & AGENCY)	1,500	1,125	0	(1,125)
SUBTOTAL	\$16,075	\$11,931	\$11,480	(\$451)
OTHER COSTS				
CONSERVATION CREDITS PROGRAM CUTS	\$4,000	\$3,000	\$3,437	\$437
OPERATING EQUIPMENT CUTS	2,000	1,500	1,831	331
SUBTOTAL	\$6,000	\$4,500	\$5,268	\$768
ADDITIONAL SAVINGS NOT IDENTIFIED IN FIVE-POINT PROGRAM				
OFFICE SPACE RENTAL AND MISCELLANEOUS	\$0	\$0	\$2,464	\$2,464
TOTAL SAVINGS	\$22,075	\$16,431	\$19,212	\$2,781

CASH BASIS SUMMARY
VARIANCE EXPLANATIONS
(Through March 31, 1992)

Criteria: ±\$500,000 and 10 percent or more

OPERATING RECEIPTS

- a. Receipts from water sales are 10 percent under budget estimates through March mainly due to incentive payments to member agencies under the Incremental Interruption and Conservation Plan, and because of discount sales under the Seasonal Storage Program. The budget anticipated no water to be sold at the discounted Seasonal Storage rate during the fiscal year.

OPERATIONS AND MAINTENANCE EXPENDITURES

- b. Actual payments for water deliveries from the 1991 state water bank are over budget through March reflecting higher power costs than originally estimated. However this variance should diminish during the last quarter of the year because it is anticipated that credits associated with the power charges will be received from DWR.
- c. SWC variable power is \$6.5 million over budget because deliveries from DWR have been greater than anticipated coupled with higher deliveries through the east branch of the aqueduct than budgeted. Costs for water delivered through the east branch are greater than water delivered through the west branch.
- d. The payment which was made to the Imperial Irrigation District in January included a capital and O&M portion. The portion of the payment that represents O&M expense has not been determined yet, thus a \$1.2 million overrun on IID O&M and Indirect is reflected. The necessary adjustments to capital and O&M will be made by the end of the fiscal year.

OTHER RECEIPTS

- e. Receipts from power recoveries are 39 percent under budget mainly due to less energy produced at the hydroelectric power recovery plants. With the exception of October 1991, some of the power plants were out of service each month.
- f. Interest received on investments is 22 percent under budget mainly due to declining reserve levels and the current downturn in market interest rates. It is anticipated that interest earnings will probably remain below budget estimates for the fiscal year.

DEBT SERVICE PAYMENTS

- g. The debt service payments for the junior lien revenue bonds are \$10.9 million less than budgeted. The budget anticipated a \$450 million revenue bond issue and the actual issue was \$300 million. In addition, \$1.3 million was received from bond proceeds for accrued interest on the \$300 million junior lien revenue bond sale in July.
- h. Debt service payments for the \$60 million in outstanding commercial paper have been 27 percent less than budgeted. The budget assumed interest at five percent, but interest rates for commercial paper have been less than five percent throughout the fiscal year.

FUNDS AVAILABLE FROM OPERATIONS

- i. Pay-As-You-Go and General Fund construction disbursements are \$9.7 million under budget reflecting reimbursements from outside agencies for relocations, service connection construction, and other services.
- j. Operating equipment purchases and other receipts are \$9.1 million under budget mainly due to the timing of cash disbursements for operating equipment purchases and implementation of the General Manager's five-point cost reduction program.

FIXED OBLIGATIONS

- k. SWC capital payments are 12 percent over budget reflecting a March East Branch Enlargement debt service payment. This payment was budgeted to be paid in April.
- l. SWC off-aqueduct capital is 35 percent under budget because payments to DWR for MWD's share of reallocated costs were less than budgeted and because some SWC credits that were applied to the off-aqueduct capital component had been budgeted to be applied to the O&M component.

CONSTRUCTION

- m. Construction expenditures from bond proceeds are 40 percent below budget mainly because work on the Garvey Reservoir has been delayed due to filing of the Environmental Impact Report; payments for construction on the Jensen Treatment Plant expansion have been less than anticipated; and design work has been delayed on the Cleveland Tunnel, San Diego Pipeline No. 6, and the Inland Feeder due to environmental considerations. Additionally, work on a number of projects has been deferred in accordance with the General Manager's five-point cost reduction program.

BUDGET VS. COST REPORT - OPERATIONS AND MAINTENANCE
 JULY 1, 1991 - MARCH 31, 1992
 PRELIMINARY REPORT

DESCRIPTION	TOTAL ANNUAL 1991-92 BUDGET	BUDGET-TO-DATE			COST-TO-DATE			DIFFERENCE		
		Labor	Other	Total	Labor	Other	Total	Amount	%	
Executive Offices	6,792,900	3,568,000	1,436,416	5,004,416	3,475,549	1,114,204	4,589,753	414,663	8.3	
Resources	8,203,200	2,521,142	3,585,247	6,106,389	2,042,640	1,957,599	4,000,239	2,106,150	34.5	(a)*
Engineering	15,162,200	9,045,728	2,086,366	11,132,094	7,431,376	2,177,476	9,608,852	1,523,242	13.7	(b)
Operations	80,582,800	41,877,809	17,233,037	59,110,846	41,002,806	18,354,457	59,357,263	(246,417)	(0.4)	
Planning	8,327,100	2,064,971	4,151,051	6,216,022	2,002,107	2,674,009	4,676,116	1,539,906	24.8	(c)
Personnel	5,904,900	2,200,297	2,181,667	4,381,964	2,542,380	1,544,202	4,086,582	295,382	6.7	
Information Systems	16,828,100	6,224,260	6,693,275	12,917,535	5,936,657	6,036,791	11,973,448	944,087	7.3	(d)
Right of Way and Land	2,013,600	930,719	557,195	1,487,914	1,029,217	251,385	1,280,602	207,312	13.9	
Finance	6,652,300	3,133,646	1,774,425	4,908,071	2,836,730	1,605,889	4,442,619	465,452	9.5	
Public Affairs	6,022,200	1,795,928	2,688,875	4,484,803	1,839,548	1,648,270	3,487,818	996,985	22.2	(e)
Water Quality	8,654,000	4,256,735	2,128,959	6,385,694	4,228,390	1,819,998	6,048,388	337,306	5.3	
State Water Project/Conservation	29,653,600	2,055,767	20,436,491	22,492,258	1,952,273	15,844,064	17,796,337	4,695,921	20.9	(f)
Administrative Services	27,066,300	6,433,630	13,797,143	20,230,773	7,019,316	8,993,196	16,012,512	4,218,261	20.9	(g)
Environmental Compliance	10,252,600	3,093,959	4,539,992	7,633,951	2,365,328	2,915,236	5,280,564	2,353,387	30.8	(h)
Personnel Reduction Credit (Prorated to each division's labor budget-to-date)	(4,161,000)	0	0	0	0	0	0	0	--	
SUBTOTAL	227,954,800	89,202,592	83,290,139	172,492,731	85,704,317	66,936,776	152,641,093	19,851,638	11.5	
Taxes	67,100	0	37,450	37,450	0	116,102	116,102	(78,652)	(210.0)	
Contingency	2,000,000	0	975,379	975,379	0	1,183	598,028	377,351	38.7	(i)
Insurance Reserves	1,120,000	0	845,841	845,841	61,123	422,087	483,210	362,631	42.9	(j)
Depreciation of Minor Equipment	3,200,000	0	2,400,003	2,400,003	0	2,208,746	2,208,746	191,257	8.0	
Overhead Credit from Construction	(14,981,700)	0	(11,314,444)	(11,314,444)	0	(7,948,207)	(7,948,207)	(3,366,237)	(29.8)	(k)
Association Dues	630,000	0	630,000	630,000	0	586,854	586,854	43,146	6.8	
SUBTOTAL	(7,964,600)	0	(6,425,771)	(6,425,771)	61,123	(4,613,235)	(3,955,267)	(2,470,504)	38.4	
TOTAL OPERATION AND MAINTENANCE EXPENSE	219,990,200	89,202,592	76,864,368	166,066,960	85,765,440	62,323,541	148,685,826	17,381,134	10.5	

*VARIANCE REPORTING CRITERIA: Under budget \$250,000 or more and at least 15 percent
 Over budget \$100,000 or more and at least 5 percent
 Variance of \$500,000 or more regardless of percentage

OPERATIONS AND MAINTENANCE SUMMARY
VARIANCE EXPLANATIONS
(Through March 31, 1992)

Criteria: Under budget by \$250,000 and 15 percent or more
Over budget by \$100,000 and 5 percent or more
Variance of \$500,000 or more regardless of percentage

a. Resources Division under \$2,106,150; or 34.5 percent

Groundwater & Regional Resources Program: Personnel vacancies; one position frozen. Professional and Technical Services - Some contracts deferred; others in place but billings not received.

Reclaimed Water & Local Resource Development Program: Personnel vacancies; two positions frozen. Professional and Technical Services - Consultant use has been cut back. Incidental Expenses - Travel reduced.

Special Projects Program: Personnel vacancies. Professional and Technical Services - Some contracts deferred; delayed; others in place but billings not received.

Power Operations Program: Personnel vacancies. Professional and Technical Services - Delayed contract work has commenced.

b. Engineering Division under \$1,523,242; or 13.7 percent.

Engineering Program: Personnel vacancies; 17 frozen positions in Civil, Mechanical, Office Engineering and Quality Control branches. Professional and Technical Services - Use of professional services has been reduced. Materials and supplies associated with Intergraph software have not been received.

Facilities Inspection Program: Personnel vacancies; some staff budgeted in this program shifted to work on capital projects; one frozen position. Professional and Technical Services - Use of professional services has been deferred in the seismic program.

Material Quality Control Program: Personnel vacancies; two frozen positions.

b. Engineering Division (continued)

Survey Program: Personnel vacancies; three frozen positions; one survey team has been assigned to the Eastside Reservoir project.

As-Built Program: Personnel vacancies; one frozen position. Frozen positions in Survey have also impacted work to be done by the Civil Branch.

c. Planning Division under \$1,539,906; or 24.8 percent

Advance Planning Program: Personnel vacancies; one frozen position. Other costs reduced in accordance with the five-point cost reduction program.

Environmental Investigations: Personnel vacancies. Professional and Technical Services - Delays in issuing contracts.

Water Supply and Demand: Personnel vacancies; one position frozen. Other costs reduced in accordance with the five-point cost reduction program.

Administration: Professional and Technical Services - Delays in securing professional services.

d. Information Systems Division under \$944,087; or 7.3 percent.

Division Management & Administrative Support Program: Personnel vacancies during part of the year; two positions frozen. Professional and Technical Services - Use of strategic planning consultants during first quarter was less than anticipated and other consulting services have been deferred as part of the five-point program.

Communications & Network Operations Program: Personnel vacancies; one position frozen. Professional and Technical Services - Delays in local area network installations and deferment of satellite leasing project. Equipment - Reduction in leased equipment for District facilities.

e. Public Affairs Division under \$996,985; or 22.2 percent

Media Program: Special media programs have not been implemented for this year to conform with the five-point cost reduction program.

e. Public Affairs Division (continued)

Community Relations Program: Inspection Tours - Fewer tours have been conducted this year as part of the five-point cost reduction program. Exhibits - Contracts for developing the 1992 county fair program have been deferred; partial funding for the Vista del Lago project has been deferred until next fiscal year.

Publications Program: Aqueduct publication schedule modified for this fiscal year; fewer commemorative books printed than originally budgeted.

f. State Water Project and Conservation Division under \$4,495,921; or 20.9 percent

Water Conservation Program: Program has been reduced. Personnel vacancies. Professional and Technical Services - Contracts deferred.

Bay-Delta Hearings: Professional and Technical Services - Use of consultants reduced due to delays in State Water Resources Control Board water rights hearings.

Water Transfers & Exchanges Program: Personnel vacancies. Professional and Technical Services - Consultant use is low during the build up phase of this program.

State Water Project: Professional and Technical Services - Consultant use reduced.

g. Administrative Services Division under \$4,218,261; or 20.9 percent.

Facilities Management and Services Program: Office furnishings purchases less than anticipated for the first three quarters of the year. Other costs - Delays in the final negotiation for and the move to leased office space in the downtown area.

h. Environmental Compliance Division under \$2,353,387; or 30.8 percent.

Regulation & Legislation Management Program: Personnel vacancies during the first part of the fiscal year.

Compliance Implementation Program: Personnel vacancies; five positions frozen. Professional Services - Contracts deferred. Other Costs - Costs incurred; billings in process.

- i. Contingency under \$377,351; or 38.7 percent.

Contingency funds in the amount of \$598,028 have been used to cover the costs incurred thus far for the implementation of the water standby charge.

- j. Insurance Reserves under \$362,631; or 42.9 percent.

The need for reserves for self-insured liability and property loss has been less than anticipated.

- k. Overhead Credit from Construction over \$3,366,237; or 29.8 percent.

Less overhead incurred than budgeted, therefore amount of overhead charged to construction is smaller. Since this is a credit, it produces an unfavorable variance.