

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

July 31, 1992

To: Board of Directors (Special Budget Committee--Information)
From: General Manager
Subject: Status of Cost Reduction Program and Additional Expense Savings

Report

For fiscal year 1991-92, operations and maintenance (O&M) costs were \$40 million less than budget. Total savings were \$18 million more than the \$22 million target, reflecting each manager's commitment to reduce expenditures. The \$40 million in savings accrued primarily from freezing 79 vacant O&M positions, reducing consultant use, reducing travel expense and new operating equipment purchases by 25 percent, and curtailing certain aspects of the conservation credits program. An extensive evaluation of the capital improvements program was also performed, and projects totalling \$600 million were deferred. Of this total, \$500 million was deferred from the spending plan between 1992-93 and 1996-97.

The District is in the second year of a cost reduction program. For 1992-93 a target was set that called for a \$51 million O&M cost reduction from previous estimates. This was used as the basis for development of 1992-93 budget proposals. The adopted 1992-93 budget was within \$300,000 of the target. To reach this target, every division had to reduce program goals and objectives. For example, the frequency of routine preventive maintenance is being decreased; painting, grounds maintenance and weed abatement is being reduced; development of standardized drawings, design manuals, and specifications has been delayed; evaluation of some reclaimed water projects and regional resource development studies has been curtailed; and, negotiations with regulatory agencies on behalf of Metropolitan have been reduced. Support divisions such as Personnel, Finance, Information Systems and Administrative Services have had to reduce service levels which has affected the District's ability to efficiently conduct business. Division managers have been and will continue to scrutinize

all requests for expenditures and only crucial requests will be approved. Additionally, the use of consultants is continually being evaluated to ascertain if the work could be performed by staff or deferred.

In response to continuing financial challenges, your Board has requested staff to explore further reductions in O&M expenses in the areas of public affairs activities and employee travel. The specific measures are outlined below.

Two issues each of Focus and People and one issue of Aqueduct will be eliminated; revision of the currently out-of-print brochure on the District's 14 hydroelectric plants will be postponed; and the use of free-lance writers will be restricted. General Manager-sponsored Colorado River Aqueduct and State Water Project tours, employee and special tours will be suspended and hospitality suites at water association meetings will be eliminated. Media travel, media tours, and the number and frequency of distribution of newspaper articles related to the District and water issues (clip sheets) and water-awareness promotions will be reduced. The production of a water cycle video and an environmental video will be eliminated, and attendance at seminars and participation at exhibits related to the Education Program will be reduced. Special events such as the Skinner expansion dedication will be eliminated. Promotional materials made available to the public and member agencies will be reduced.

Travel expense has been reduced by booking accommodations at those hotels in Sacramento where the District has negotiated rates below the usual government rates, and for other destinations by using inexpensive hotels at the government rate; promulgating guidelines for meal expenses; limiting air travel to coach class except when it is necessary to conduct business during coast-to-coast flights and approved by the General Manager, and authorizing attendance at conferences only when essential to the mission of the District.

It is estimated that these proposals will reduce costs an additional \$500,000 to \$600,000 this fiscal year. This does not include reductions in Board Colorado River Aqueduct and State Water Project tours currently under consideration by the Board of Directors. During the year, staff will prepare quarterly reports which will include the

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status of the targeted reductions, incorporate the measures outlined in this letter, and identify other cost-saving proposals developed during the year. When Metropolitan's financial condition improves, staff will conduct a complete reassessment of the need for all cost reduction programs.

We feel that we are continuing to meet the challenge established by the Mission Statement while implementing the current cost cutting measures. However, it is becoming more difficult to provide the high level of service that our member agencies expect. As O&M reductions continue to be made, there is a concern that we will not be able to continue to support the District's capital construction program. Any future curtailment of O&M activities must be carefully examined to ensure that critical programs and objectives are not jeopardized.

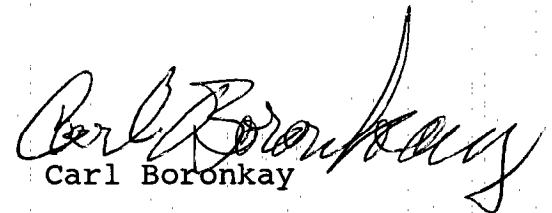
Board Committee Assignment

This letter was sent for information to:

The Special Budget Committee pursuant to its authority to review the annual budget under Administrative Code Section 2531.

Recommendation

For information only.


Carl Boronkay

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