



**MWD**  
 METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

FILED  
 By the Board of Directors of  
 The Metropolitan Water District  
 of Southern California  
 at its meeting held

41908

MAY 14 1996

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*Dawn Chin*  
 EXECUTIVE SECRETARY  
*for*

April 29, 1996

**To:** Board of Directors (Finance and Insurance Committee -- Information)  
 (Special Budget and Financial Analysis Committee -- Information)

**From:** General Manager *Edward J. Meoz III*

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

**Subject:** March 1996, Variance Report

**RECOMMENDATION**

For information only.

**DETAILED REPORT**

**Nine-Month Report**

The budget versus actual variance report for the nine months ending March 31, 1996, 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. Currently, receipts are \$12.9 million under budget primarily due to reduced water sales. Water sales are about 130,800 acre-feet under budget through March. Expenditures are \$89.3 million under budget primarily due to reduced State Water Contract charges. More detailed explanations are provided in the attachment.

**Year-End Projections**

Projected year-end receipts are estimated to be \$765.2 million. This is 4.6 percent under budget. Water sales are projected to be 1.52 million acre-feet compared to the budget of 1.7 million acre-feet. Lower water sales have also resulted in lower power recovery sales. Power recovery receipts are estimated to be \$10.4 million, or \$3.7 million under budget. Receipts from the Readiness-to-Serve Charge (RTS) and Connection Maintenance Charge are estimated to be \$54.7 million, or \$7.1 million under budget, due

to the timing of when RTS receipts will be received and the fact that the Connection Maintenance Charge was revised from \$5.8 million to \$2.7 million subsequent to the budget process. These underruns are offset somewhat by higher interest earnings of \$46.3 million which is \$13.3 million over the budget estimates. The increase in interest earnings is the result of lengthening the average portfolio maturity from 395 days to 437 days, improved cash forecasting, and increases in overall interest rates.

Projected year-end expenditures are estimated to be \$757.8 million, which is under budget by approximately \$71.7 million. This is primarily the result of lower State Water Contract payments which are projected to be about \$74.7 million under budget. The Department of Water Resources (DWR) revised its calendar year 1995 billing in June of 1995 which resulted in lower Off-Aqueduct power charges of approximately \$27.1 million. Variable power charges are projected to be \$19.6 million under budget due to lower deliveries from DWR. Credits are estimated to be \$59 million which is \$28 million greater than estimated. The additional credits are for adjustments to the 1992, 1993, and 1994 Off-Aqueduct billings, revised O&M costs, and power sales.

Colorado River supplies are anticipated to be \$10.2 million under budget due to lower than expected supplemental energy rates.

MWD O&M costs are projected to be approximately \$17.6 million over budget at year end. Divisional expenditures for the current year are estimated to be \$10 million under budget estimates. However, these savings are offset by payments associated with the Early Retirement Program, a lower overhead credit associated with the revised Capital Improvement Program for the current year, a change in the method used to report operating equipment purchases, and vendor payments made this fiscal year for goods or services rendered on or before June 30, 1995 of the prior fiscal year. Most of these vendor payments were delayed as a result of system conversion changes associated with the implementation of the Oracle Financial System.

Capital program costs (debt service and PAYG funding) are estimated to be about \$4.4 million under budget due to favorable interest rates for MWD's commercial paper program.

Based on these estimates, it is expected that receipts will exceed expenditures by approximately \$7.4 million this fiscal year.

Attachment

## BUDGET VS. COST REPORT

CASH BASIS  
(\$ in Thousands)

FISCAL YEAR 1995-96	ANNUAL BUDGET	BUDGET THRU Mar. 96	ACTUAL THRU Mar. 96	VARIANCE		X-REF.
				DOLLARS	PERCENT	
<b>RECEIPTS</b>						
WATER SALES	\$612,436	\$479,869	\$466,275	(\$13,594)	-2.8%	
TAXES	81,000	51,170	50,418	(752)	-1.5%	
INTEREST	33,000	24,992	36,780	11,788	47.2%	(a)
SALE OF HYDROELECTRIC POWER	13,356	11,611	7,905	(3,706)	-31.9%	(b)
READINESS-TO-SERVE CHARGES	56,000	39,200	34,885	(4,315)	-11.0%	(c)
CONNECTION MAINTENANCE CHARGES	5,775	4,046	1,750	(2,296)	-56.7%	(d)
OTHER	750	558	556	(2)	-0.4%	
<b>TOTAL RECEIPTS</b>	<b>\$802,317</b>	<b>\$611,446</b>	<b>\$598,569</b>	<b>(\$12,877)</b>		
<b>EXPENDITURES</b>						
O&M	213,282	154,728	171,286	(16,558)	-10.7%	(e)
OPERATING EQUIPMENT	3,313	2,484	5,898	(3,414)	-137.4%	(f)
<b>STATE WATER SUPPLIES</b>						
SWC CAPITAL	136,301	136,301	121,685	14,616	10.7%	(g)
SWC OMP&R	88,503	64,278	66,168	(1,890)	-2.9%	
OFF AQUEDUCT	74,965	56,559	29,475	27,084	47.9%	(h)
SWC VARIABLE POWER	21,646	18,095	922	17,173	94.9%	(i)
SWC CREDITS	(20,000)	0	(32,101)	32,101	100.0%	(j)
WATER TRANSFERS \ OPTIONS	14,000	0	4,668	(4,668)	-100.0%	(k)
<b>COLORADO RIVER SUPPLIES</b>						
IID CAPITAL	10,405	10,405	6,250	4,155	39.9%	(l)
IID O&M AND INDIRECT	4,416	4,416	1,891	2,525	57.2%	(m)
ARIZONA GROUNDWATER	4,455	0	4,446	(4,446)	-100.0%	(n)
CRA POWER	28,442	23,437	13,248	10,189	43.5%	(o)
<b>MWD CAPITAL PROGRAM</b>						
REVENUE BOND DEBT SERVICE	94,327	86,842	86,241	601	0.7%	
G.O. BOND DEBT SERVICE	56,998	56,998	56,764	234	0.4%	
COMM. PAPER DEBT SERVICE	8,500	6,372	2,738	3,634	57.0%	(p)
PAYG CONSTRUCTION	90,000	61,200	53,232	7,968	13.0%	(q)
<b>TOTAL EXPENDITURES</b>	<b>\$829,553</b>	<b>\$682,115</b>	<b>\$592,811</b>	<b>\$89,304</b>		
<b>NET CHANGE IN CASH</b>	<b>(\$27,236)</b>	<b>(\$70,669)</b>	<b>\$5,758</b>	<b>\$76,427</b>		

Note: Trust Account Transactions are not reflected in this report.

CONSTRUCTION EXPENDITURES ( As Revised ) *	\$461,000	\$341,200	\$262,689	\$78,511	23.0%	(r)
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\* Includes PAYG Construction, also shown in table above.

**CASH BASIS SUMMARY  
VARIANCE EXPLANATIONS  
Through March 31, 1996**

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

**RECEIPTS:**

- (a) Interest on investments are \$11.8 million over budget due to lengthening of the average portfolio maturity from 395 days in December 1995 to 437 days in March 1996, improved cash forecasting, and increases in overall interest rates.
- (b) Revenues from power recoveries are \$3.7 million under budget due to lower water demands and flows through the power plants than were anticipated in the budget.
- (c) Readiness-to-serve (RTS) charges are \$4.3 million under budget due to the uncertainty during the budget process regarding the timing of RTS payments during the fiscal year. Staff anticipates that RTS charges may be under budget for the fiscal year.
- (d) Revenues from Connection Maintenance Charges are \$2.3 million or 56.7 percent below budget because the amount actually charged to member agencies was revised subsequent to the budget process.

**EXPENDITURES:**

- (e) O & M expenditures are \$16.6 million over budget due to invoices paid this year for goods and services that were rendered in 1994-95; salary adjustments and payments associated with the MOU negotiated with AFSCME; vacation and sick leave payoffs; and a lower overhead credit. Labor expenditures for the capital improvement program have been lower than estimated, this results in O&M absorbing more of the overhead burden.
- (f) The amount included in the budget line item represents the net amount of funds required to fund the operating equipment appropriation. The net amount is the annual change in the value of the operating equipment inventory. With implementation of Oracle Financials, the gross amount of the purchases are now being reported as opposed to previous years when the net amount was reported. The change in the reporting method has resulted in an invalid comparison. The total operating equipment budget is \$10.6 million (not \$3.3 million), of which \$5.8 million has been expended to date.

## STATE WATER SUPPLIES

- (g) SWC capital is \$14.6 million under budget due to the timing of capital payments for East Branch Enlargement Facilities. The budget anticipated a payment to be made in March, instead the payment will be made in April.
- (h) Expenditures for off-aqueduct power charges are 47.9 percent *under* budget due to adjustments from the Department of Water Resources for fiscal year 1995 off-aqueduct charges (as notified in June 1995).
- (i) State Water Contract variable power costs are \$17.2 million *under* budget. Staff anticipates that expenditures will continue to run under budget due to prior year cost adjustments and lower water deliveries resulting in lower monthly payments to DWR for the fiscal year.
- (j) Credits of \$32.1 million have been received through March from the Department of Water Resources for calendar years ended 1992, 1993, and 1994 off-aqueduct cost adjustments for revised water deliveries, revised O&M costs, and return of interest earnings. In addition, the credits include \$3.8 million from power sales for calendar year 1994.
- (k) A payment of \$4.7 million was made in August 1995 to the Semitropic Water Storage District under the terms of the water storage agreement between Semitropic and MWD. The payment was for delivery charges for 45,000 acre-feet of water placed into storage, and for O&M fees incurred last fiscal year.

## COLORADO RIVER SUPPLIES

- (l) Capital payments under the water conservation agreement with the Imperial Irrigation District (IID) are \$4.2 million under budget due to the timing of payments during the fiscal year. A second funding call is anticipated to be issued by IID for payment of the current year balance in June or July 1996.
- (m) O&M payments under the water conservation agreement with IID are \$2.5 million under budget due to the timing of payments during the fiscal year. A second funding call is anticipated to be issued by IID for payment of the current year balance in June or July 1996.
- (n) Payments to the Central Arizona Water Conservation District for underground storage of 39,000 acre-feet of Colorado River water were made in January 1996. The budget anticipated the payment to be made later in the fiscal year.
- (o) CRA power is \$10.2 million *under* budget mainly due to lower supplemental energy rates and lower demands than were anticipated in the Budget.

## **MWD CAPITAL PROGRAM**

- (p) Debt service payments under the District's commercial paper program are \$3.6 million under budget due to the timing of commercial paper maturities and lower interest rates than were anticipated in the budget. Staff anticipates that interest payments will remain below budget for the remainder of the fiscal year.
- (q) See explanation for TOTAL CONSTRUCTION EXPENDITURES (r).

## **TOTAL CONSTRUCTION EXPENDITURES**

- (r) Construction expenditures from bond proceeds and PAYG are 23 percent under the revised budget through March mainly due to refinement of expenditure profiles for Newport Road Relocation, Eastside Pipeline, and West Dam Excavation and delays in excavation on the East Dam for the Eastside Reservoir Project; delays with the San Diego Pipeline No. 6 project pending the results of negotiations between MWD and the San Diego County Water Authority; delays in implementing local Groundwater Storage agreements with member agencies; delays with the liner installation contract for the Garvey Reservoir Project; delays in payments to the prime contractor due to improperly submitted invoices on the Union Station project; deferral of right of way acquisition for the Perris Filtration Plant Study and portions of the Central Pool Augmentation Project; delays in implementing federally imposed regulations for Oxidation Retrofit at the Jensen and Mills Filtration Plants; and delays in the revised program schedule for the Inland Feeder.