



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

9-7

April 29, 1997

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

From: *for* General Manager

Edward J. Meese III

Submitted by: Lambertus H. Becker
Chief Financial Officer

L. H. Becker

Subject: March 1997, Variance Report

RECOMMENDATION

For information only.

DETAILED REPORT

Third Quarter Report

The budget versus actual variance report for the quarter ending March 31, 1997, 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 are \$44.6 million over budget primarily due to higher water sales which are about 86,700 acre-feet over budget through March. Expenditures are \$20.7 million over budget due to the temporary funding of expenditures for the Union Station Headquarters Building from the General Fund offset by underruns in Colorado River supplies and MWD O&M. The budget did not include General Fund expenditures for the Headquarters Building project. More detailed explanations are provided in the attachment.

Year-End Projections

Projected year-end receipts are estimated to be \$858.2 million. This is 5.6 percent, or \$45.8 million, over budget primarily due to higher water sales than budgeted. Water sales are projected to be 1.76 million acre-feet which is about 96,000 acre-feet

more than the budget. Receipts from taxes, interest earnings, readiness to serve, connection maintenance and power recovery are anticipated to be slightly higher than budget projections. Miscellaneous income is projected to be \$8.4 more than budget due to the sale of the Bolsa Chica property. Receipts coupled with \$17 million prior year carryover Pay-as-you-go (PAYG) funds will provide \$875.2 million for expenditures and other obligations.

Projected year-end expenditures are estimated to be \$842.4 million, which is approximately \$41.7 million more than the budget. This reflects the temporary funding (\$62.3 million) of the design and construction of the Union Station Headquarters Building from the General Fund which is partially offset by cost underruns noted in the subsequent paragraph. Upon completion of the Headquarters Building, the Metropolitan Water District Asset Financing Authority Corporation will issue debt and the proceeds from that sale will be used to reimburse the General Fund.

Pumping costs on the Colorado River Aqueduct are projected to be \$14.7 million less than budget due to lower energy rates than assumed in the budget. State Water Contract (SWC) payments are anticipated to be over budget by approximately \$10.3 million. This is primarily due to SWC credits which are estimated to be \$7.8 million less than budgeted due to lower Off-Aqueduct and variable power credits and deferral of Metropolitan's share of the anticipated Replacement Accounting Fund refund. MWD O&M is projected to be about \$2.9 million under budget. Debt service costs are projected to be \$13.4 million under budget. A second bond sale scheduled for this fiscal year was deferred due to changes in the Capital Improvement Program. By deferring the second sale, debt service costs are projected to be below the budget estimate.

The budget also included \$34 million for deposits into the Water Transfer Fund or water transfer payments. Expenditures for the year are anticipated to total \$9 million for the Semitropic and Friant-Kern agreements, and \$25 million will be deposited into the Water Transfer Fund.

Total obligations (expenditures and Water Transfer Fund deposits) are projected to be \$867.4 million.

Based on these estimates, it is expected that approximately \$7.8 million will be available to deposit into the Water Rate Stabilization Fund at year end.

Attachment

BUDGET VS. COST REPORT

CASH BASIS
(\$ in Thousands)

FISCAL YEAR 1996-97

RECEIPTS

	ANNUAL BUDGET	BUDGET THROUGH MARCH 1997	ACTUAL THROUGH MARCH 1997	VARIANCE		X-REF.(2)
				DOLLARS	PERCENT	
WATER SALES	\$602,681	\$467,635	\$496,892	\$29,257	6.3%	
TAXES	82,620	51,106	53,689	2,583	5.1%	
INTEREST	47,280	35,409	39,772	4,363	12.3%	(a)
SALE OF HYDROELECTRIC POWER	12,035	7,992	11,360	3,368	42.1%	(b)
READINESS-TO-SERVE CHARGES	64,050	40,902	37,514	(3,388)	-8.3%	
CONNECTION MAINTENANCE CHARGES	2,978	2,132	2,152	20	0.9%	
OTHER	750	460	8,846	8,386	+100%	(c)
TOTAL RECEIPTS	\$812,394	\$605,636	\$650,225	\$44,589		

EXPENDITURES

O&M	213,268	156,814	153,351	3,463	2.2%	
OPERATING EQUIPMENT	7,070	5,301	3,744	1,557	29.4%	(d)
<u>STATE WATER SUPPLIES</u>						
SWC CAPITAL	139,132	139,132	141,070	(1,938)	-1.4%	
SWC OMP&R	94,517	77,921	79,801	(1,880)	-2.4%	
OFF AQUEDUCT	41,916	32,415	30,001	2,414	7.4%	
SWC VARIABLE POWER	9,118	8,301	9,116	(815)	-9.8%	
SWC CREDITS	(50,871)	(22,529)	(20,479)	(2,050)	9.1%	
BAY DELTA CATEGORY III FUNDING	10,000	0	0	0	0.0%	
WATER TRANSFERS \ OPTIONS (1)	9,000	3,053	3,053	0	0.0%	
<u>COLORADO RIVER SUPPLIES</u>						
IID CAPITAL	6,781	6,781	9,365	(2,584)	-38.1%	(e)
IID O&M AND INDIRECT	3,779	3,779	2,238	1,541	40.8%	(f)
CRA POWER	37,364	27,282	15,570	11,712	42.9%	(g)
<u>MWD CAPITAL PROGRAM</u>						
REVENUE BOND DEBT SERVICE	106,330	97,744	90,174	7,570	7.7%	
G.O. BOND DEBT SERVICE	56,332	56,332	55,123	1,209	2.1%	
COMMERCIAL PAPER DEBT SERVICE	9,974	7,068	4,523	2,545	36.0%	(h)
PAYGO FUND CONSTRUCTION	107,000	79,742	88,255	(8,513)	-10.7%	(i)
GENERAL FUND CONSTRUCTION	0	0	(5,911)	5,911	100.0%	(j)
HEADQUARTERS BUILDING EXPENDITURES (3)	0	0	40,827	(40,827)	-100.0%	(k)
TOTAL EXPENDITURES	\$800,710	\$679,136	\$699,821	(\$20,685)		
NET CHANGE IN CASH	\$11,684	(\$73,500)	(\$49,596)	\$23,904		

CONSTRUCTION

EXPENDITURES (As Revised) *	\$517,813	\$353,600	\$337,930	\$15,670	-4.4%	
--------------------------------------	------------------	------------------	------------------	-----------------	--------------	--

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

(1). \$34M will be deposited into the Water Transfer Fund during the fiscal year.

(2). See cross-reference on following pages as noted by X-REF. for the variance explanation.

(3). Currently paid from the General Fund, to be reimbursed from debt proceeds in 1999.

* Includes PAYGO Construction, General Fund Construction, and Headquarters building costs, also shown in table above.

**CASH BASIS SUMMARY
VARIANCE EXPLANATIONS
Through March 31, 1997**

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

RECEIPTS:

- (a) Interest on investments are \$4.4 million over budget due to the lengthening of the average portfolio maturity date of investments, increases in overall interest rates and an increase in the amount of money available to invest due to higher than anticipated water sales.
- (b) Revenues from hydroelectric power recoveries are \$3.4 million over budget due to higher water demands and the subsequent increases in water flow through the power plants.
- (c) Other revenues are \$8.4 million over budget as a result of a gain on the sale of land for the Bolsa Chica property.

Expenditures

- (d) Purchases of Operating Equipment are \$1.5 million under budget as computer purchases have been delayed pending completion of all related contracts and the final setup for the Microsoft Windows NT operating system integration program. Staff anticipates operating equipment purchases for the fiscal year to be at least at budgeted levels.

COLORADO RIVER SUPPLIES

- (e) IID Capital payments are \$2.6 million greater than budget because the second funding call for calendar year 1996 was not made until January 1997. [The budget anticipated the second funding call for calendar year 1996 to be made during fiscal year 1995-96.] In addition, construction costs were lower than anticipated, and prior year reserves were adequate to fund construction through December 1996.

Continued on next page

COLORADO RIVER SUPPLIES (continued)

- (f) IID O&M and Indirect costs payments are \$1.5 million less than budget because the second funding call for calendar year 1997 O&M costs will not be made until next fiscal year. The budget anticipated two funding calls to be made during 1996-97.
- (g) CRA power is \$11.7 million under budget due primarily to lower supplemental energy rates and lower water flows through the CRA than were anticipated in the budget.

MWD CAPITAL PROGRAM

- (h) Debt service payments for the District's commercial paper program are \$2.5 million under budget. The primary factor explaining the variance is lower than anticipated interest rates.
- (i) Expenditures for the PAYGO Construction Program are \$8.5 million or 10.7 percent more than budgeted due to accelerated payments from this funding source through March 1997. Payments during the remainder of the year will not exceed the budgeted amount by the end of the fiscal year.
- (j) General Fund Construction activity is a non-budgeted item. Reimbursements have been received for the cost basis for the sale of the Bolsa Chica property, and for numerous other reimbursable construction projects.
- (k) The Headquarters' building costs are paid from the General Fund and will be reimbursed from future debt sales of the Metropolitan Water District Asset Financing Corporation (MWD AFC) in late 1998 or early 1999.