



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

9-6

January 26, 1998

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

From: *you* General Manager

Eduardo J. Meana

Submitted by: Lambertus H. Becker
LH Chief Financial Officer

Antoinette Chaisson

Subject: December 1997 Variance Report

RECOMMENDATION

For information only.

REPORT

Second Quarter Report

The budget versus actual variance report for the quarter ending December 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 totaled \$509.1 million. This was \$19.8 million, or 4.0 percent over budget. These receipts combined with the use of \$50.0 million of prior year Pay-As-You-Go (PAYG) funds, and \$196.9 million of debt proceeds for construction provided \$756.0 million to fund expenditures through the second quarter. Expenditures totaling \$701.2 million, were \$76.7 million under budget. The variance was primarily due to lower year-to-date construction expenditures than anticipated. Detailed explanations are provided in the attachment.

Year-End Projections

Sources of Funds

Projected year-end total sources of funds are estimated to be \$1.3915 billion. Included in this amount are operating receipts of \$906.3 million which are projected to be \$5.9 million, or 0.6 percent, over budget. Water sales are projected to be approximately 1.819 million acre-feet compared to the budget of 1.755 million acre-feet. Although water sales are projected to be 64,000 acre-feet above the budgeted amount, the mix of sales has included substantially more lower priced seasonal storage water sales than originally estimated. As a result, water sales receipts are projected to only slightly exceed budget by \$2.3 million. Interest income is projected to be \$47.8 million which is \$3.5 million or 7.9 percent over budget. Use of debt proceeds for construction is projected to be \$395.7 million which is approximately \$100 million

under budget. Use of stabilization funds is projected to be \$39.5 million which is \$33.5 million less than budget. Other sources of funds, including \$50 million from PAYG reserve, are anticipated to be at budgeted levels.

Use of Funds

Projected year-end obligations (use of funds) are estimated to be \$1.3915 billion. This is \$128.7 million under the budgeted amount of \$1.5202 billion. The variance is primarily due to lower construction expenditures and lower State Water Project (SWP) costs. Construction expenditures are projected to be about \$100 million lower due to construction delays at the Eastside Reservoir, favorable construction bids on the Inland Feeder, and delays in right-of-way acquisition for the North Las Posas project. SWP costs are projected to be \$28.7 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.

Based on these estimates, it projected that approximately \$39.5 million will be used from the rate stabilization funds to cover the shortfall between receipts and expenditures. This is \$33.5 million less than the budgeted amount of \$73 million. The reduction is due primarily to slightly higher receipts and lower SWP obligations.

MCF:jg

Attachments

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BUDGET VS. COST REPORT
JULY 1, 1997 to DECEMBER 31, 1997
CASH BASIS
(\$ in Thousands)

<u>FISCAL YEAR 1997-98</u>	ANNUAL BUDGET	BUDGET THROUGH DEC. 1997	ACTUAL THROUGH DEC. 1997	VARIANCE		X-REF.
				DOLLARS	PERCENT	
SOURCES OF FUNDS						
RECEIPTS						
WATER SALES	\$ 676,600	\$ 395,200	\$ 401,532	\$ 6,332	1.6%	
TAXES	\$ 84,272	\$ 40,709	\$ 41,376	\$ 667	1.6%	
READINESS-TO-SERVE CHARGES	\$ 76,050	\$ 21,943	\$ 33,328	\$ 11,385	51.9%	(a)
INTEREST ON INVESTMENTS	\$ 44,277	\$ 19,649	\$ 22,952	\$ 3,303	16.8%	(b)
POWER RECOVERY AND MISCELLANEOUS	\$ 15,684	\$ 10,065	\$ 9,814	\$ (251)	-2.5%	
BUSINESS DEVELOPMENT	\$ 3,545	\$ 1,743	\$ 75	\$ (1,668)	-95.7%	(c)
TOTAL RECEIPTS	\$ 900,428	\$ 489,309	\$ 509,077	\$ 19,768	4.0%	
USE OF STABILIZATION FUNDS (1)	\$ 72,955	-	-	-	-	
USE OF PRIOR YEAR PAYG FUNDS	\$ 50,000	\$ 50,000	\$ 50,000	\$ -	0.0%	
USE OF DEBT PROCEEDS FOR CONSTRUCTION	\$ 496,834	\$ 251,761	\$ 196,892	\$ (54,869)	-21.8%	(d)
TOTAL SOURCES OF FUNDS	\$ 1,520,218	\$ 791,070	\$ 755,969	\$ (35,101)	-4.4%	
USES OF FUNDS						
EXPENDITURES						
STATE WATER CONTRACT	\$ 288,320	\$ 165,525	\$ 162,470	\$ 3,055	1.8%	
WATER TRANSFERS \ OPTIONS	\$ 21,800	\$ 5,092	\$ 5,092	\$ -	0.0%	
COLORADO RIVER SUPPLIES	\$ 28,691	\$ 12,569	\$ 16,318	\$ (3,749)	-29.8%	(e)
MWD CAPITAL CONSTRUCTION FINANCING PROGRAM						
DEBT SERVICE	\$ 204,571	\$ 96,492	\$ 95,245	\$ 1,247	1.3%	
PAYG FUND CONSTRUCTION	\$ 140,000	\$ 69,731	\$ 58,206	\$ 11,525	16.5%	(f)
HEADQUARTERS BUILDING & OTHER (2)	\$ 54,437	\$ 27,219	\$ 23,042	\$ 4,177	15.3%	(g)
MWD O&M and OPERATING EQUIPMENT	\$ 223,616	\$ 108,433	\$ 104,984	\$ 3,449	3.2%	
BUSINESS DEVELOPMENT	\$ 3,255	\$ 1,600	\$ 126	\$ 1,474	92.1%	(h)
PERS UNFUNDED LIABILITY PAYMENT	\$ 32,000	\$ 32,000	\$ 31,332	\$ 668	-	
LOCAL RESOURCES PROGRAM - NET	\$ 15,193	\$ 7,470	\$ 7,476	\$ (6)	-0.1%	
SUBTOTAL	\$ 1,011,883	\$ 526,131	\$ 504,291	\$ 21,840		
DEBT-FINANCED CONSTRUCTION EXPENDITURES	\$ 496,834	\$ 251,761	\$ 196,892	\$ 54,869	21.8%	(i)
TOTAL EXPENDITURES	\$ 1,508,717	\$ 777,892	\$ 701,183	\$ 76,709	9.9%	
WATER TRANSFER DEPOSITS (3)	\$ 2,200	-	-	-	-	
ADJUSTMENTS IN RESERVES (1)	\$ 9,301	-	-	-	-	
TOTAL USE OF FUNDS	\$ 1,520,218	\$ 777,892	\$ 701,183	\$ 76,709	9.9%	
Net Sources / (Uses) of Funds	\$ 0	\$ 13,178	\$ 54,786	\$ 41,608	-315.7%	

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.

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

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

RECEIPTS:

- (a) Revenues from the Readiness-To-Serve (RTS) charge are \$11.4 million over budget due to timing differences in collections. By year end, it is anticipated that actual RTS receipts will equal budget.
- (b) Revenues from interest on investments are \$3.3 million over budget due to a lengthening in the weighted average days to maturity in the portfolio and additional money available for investment from water sales and RTS charges.
- (c) Revenues for Business Development are under budget due to the initial classification of program revenues. The revenues from Seawater Desalination, real property leases and various other contracts have not yet been incorporated into this report. Staff is currently reviewing the program and reclassification of related revenues and expenditures. This review will be completed before the end of the fiscal year.
- (d) Use of Debt Proceeds for Construction (See explanation for item (i)).

EXPENDITURES

(e) **Colorado River Supplies**

CRA supplies are \$3.7 million over budget because a portion of the capital payment under the IID Agreement for Fiscal Year 1996-97 was made in September 1997, as approved by the Program Coordinating Committee.

MWD Capital Construction Financing Program

- (f) PAYG Fund Construction is under budget by \$11.5 million or 16.5 %. See (i) for explanation of construction payments to date. It is anticipated that PAYG expenditures will approximate budget by year end.

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- (g) The Headquarters' Building expenditures and other costs paid from the General Fund are under budget by 15.3 percent through December. Some invoices for the Headquarters facility have lagged from the initial contractor supplied payment schedule. By year end, it is anticipated that the Headquarters' expenditures will be slightly below or at budget.
- (h) Expenditures for Business Development are under budget due to the initial classification of program expenditures. The expenses from Seawater Desalination, real estate leases and various other contracts have not yet been included. Staff is currently reviewing the program and reclassification of related revenues and expenditures. This review will be completed before the end of the fiscal year.
- (i) Debt-Financed Construction Expenditures are \$54.9 million under budget as of December 1997, for the first half of the fiscal year. The variance is primarily due to (1) construction delays on the Eastside Reservoir Project, (2) favorable construction bids on the Inland Feeder, and (3) 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 anticipated that year end debt-financed construction expenditures will be approximately \$100 million under budget for the fiscal year.