



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

8-3

May 26, 1998

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

From: *for* General Manager

Edward S. Meas III

Submitted by: Lambertus H. Becker
for Chief Financial Officer

Christine Christensen

Subject: Use of Rate Stabilization Funds for Fiscal Year 1997-98

RECOMMENDATION(S)

It is recommended that the Board of Directors approve an increase of \$16 million from \$73 million to \$89 million to cover expenditures for Fiscal Year 1997-98 from the Water Rate Stabilization Fund (WRSF).

EXECUTIVE SUMMARY

As part of the adoption of the 1997-98 Annual Budget, your Board authorized the General Manager to use up to \$73 million from the WRSF to pay a portion of 1997-98 projected expenditures. Due to reduced water sales, it is anticipated that an additional \$16 million will be needed to cover the shortfall between receipts and expenditures. Therefore, it is necessary to obtain authorization to use an additional \$16 million from the WRSF. The projected draw from the WRSF for fiscal year is estimated to be approximately \$89 million.

DETAILED REPORT

As part of the adoption of the 1997-98 Annual Budget, your Board authorized the General Manager to use up to \$73 million from the WRSF to pay a portion of 1997-98 projected expenditures. Due to reduced water sales, it is anticipated that an additional \$16 million will be needed to cover the shortfall between receipts and expenditures. Therefore, it is necessary to obtain authorization to use an additional \$16 million from the WRSF. The projected draw from the WRSF for fiscal year is estimated to be approximately \$89 million.

Receipts from water sales, readiness-to-serve-charge, taxes, interest, power recoveries, business development, and other income were budgeted at \$900.4 million for Fiscal Year 1997-98. Actual receipts are projected to be \$846.8 million, a variance of \$53.6 million. This is primarily due to lower water sales than budgeted. The unusually high precipitation experienced since January 1998 has resulted in substantially reduced water sales. Water sales were budgeted at 1.755 million acre-feet and actual sales are projected to be 1.634 million acre-feet, a reduction of 121,000 acre-feet.

Expenditures, excluding construction financed through debt and PAYG reserves, are projected to be \$916.4 million. This is \$45.5 million under the budget estimate of \$961.9 million. The variance is primarily due to lower State Water Project (SWP) costs and lower O&M expenses. SWP costs are projected to be \$28 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. MWD O&M expenses are projected to be under budget by \$12.3 million primarily due to personnel vacancies and lower than anticipated use of consultants.

Adjustments in reserves are projected to be \$7.4 million higher than estimated. This reflects the interest and principal bond reserve requirement associated with the debt sales conducted during 1997-98.

Other sources and uses of funds include debt proceeds, Pay-As-You-Go (PAYG) reserves, and the WRSF. Use of debt proceeds for construction expenditures is projected to be \$372.7 million which is approximately \$124.1 million under budget. Use of PAYG reserves is projected to be \$25 million under budget due to lower than anticipated construction expenditures. The underrun is primarily associated with construction delays at the Eastside Reservoir, partially due to El Nino; favorable construction bids on the Inland Feeder; and delays in right-of-way acquisition for the North Las Posas project.

Based on these estimates, it is expected that approximately \$89 million from the WRSF will be required to make up the shortfall between receipts and expenditures for fiscal year 1997-98. Authorization to use up to \$73 million was approved when your Board adopted the 1997-98 Annual Budget. Therefore, it is necessary to obtain authorization to use an additional \$16 million from the WRSF to cover expenditures for Fiscal Year 1997-98. The balance in the WRSF as of June 30, 1998, after the draw, is projected to be between \$115 - \$120 million, depending on interest earnings.

The attached Financial Summary shows budget versus projected actual amounts.

MCF:jg

Attachment

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FINANCIAL SUMMARY
FISCAL YEAR 1997-98
(\$ in Thousands)
(Cash Basis)

	1997-98 Adopted Budget	1997-98 Projected Actual	Variance
Sources of Funds			
<u>Receipts</u>			
Water Sales	\$ 676,600	\$ 623,155	\$ (53,445)
Taxes	84,272	84,273	1
Readiness to Serve Charge (RTS)	76,050	76,051	1
Interest on Investments	44,277	44,840	563
Power Recovery and Miscellaneous	15,684	14,923	(761)
Business Development	3,545	3,609	64
Total Receipts	\$ 900,428	\$ 846,851	\$ (53,577)
Projected Use of Stabilization Funds	72,956	88,470	15,514
Projected Use of Prior Year PAYG Funds	50,000	25,000	(25,000)
Projected Use of Debt Proceeds for Construction	496,834	372,701	(124,133)
Total Sources of Funds	\$ 1,520,218	\$ 1,333,022	\$ (187,196)
Uses of Funds			
<u>Expenditures</u>			
State Water Project	\$ 288,320	\$ 260,338	\$ (27,982)
Water Transfer Payments	21,800	21,800	0
Colorado River Supplies	28,691	28,075	(616)
Debt Service	204,571	199,188	(5,383)
PAYG Construction Funded from Current Year Receipts	90,000	90,000	0
Union Station Headquarters Construction	54,437	57,153	2,716
MWD O&M and Operating Equipment			
- Departmental Costs	216,348	207,467	(8,881)
- Other Costs	34,412	31,086	(3,326)
- Operating Equipment	8,111	8,001	(110)
Local Resources Program	15,193	13,307	(1,886)
Subtotal	961,883	916,415	(45,468)
PAYG Construction Funded from PAYG Reserves	50,000	25,000	(25,000)
Debt-Financed Construction Expenditures	496,834	372,701	(124,133)
Total Expenditures	1,508,717	1,314,116	(194,601)
Water Transfer Deposits	2,200	2,200	0
Adjustments in Reserves	9,301	16,706	7,405
Total Uses of Funds	\$ 1,520,218	\$ 1,333,022	\$ (187,196)