

April 23, 1999

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

From: General Manager _____

Submitted by: Lambertus H. Becker
Chief Financial Officer _____

Subject: Increase in the 1998-99 Annual Budget Appropriation and Use of Water Rate Stabilization Funds

RECOMMENDATIONS

It is recommended that the Board of Directors:

1. Increase the 1998-99 Annual Budget Appropriation by \$10 million to a total of \$536 million for district operations and maintenance (O&M) and State Water Project (SWP) operations, maintenance, power and replacement costs; SWP capital charges; and operations and maintenance costs associated with the Metropolitan/Imperial Irrigation District I Agreement.
2. Approve the use of up to \$93 million to cover expenditures for Fiscal Year 1998-99 from the Water Rate Stabilization Fund (WRSF).

EXECUTIVE SUMMARY

As part of the adoption of the 1998-99 Annual Budget, the Board appropriated \$526.0 million to cover district O&M and SWP operations, maintenance, power and replacement costs; SWP capital charges; and operations and maintenance costs associated with the Metropolitan/Imperial Irrigation District I Agreement. It is estimated that these costs could total as much as \$536 million for the 1998-99 fiscal year. The overrun is due to higher than anticipated SWP charges. Therefore it is necessary to increase the Annual Budget Appropriation by \$10 million.

Additionally, a credit of \$129 million was included in the 1998-99 Annual Budget based on the assumption that the Metropolitan Water District Asset Financing Corporation (MWDAFC) would reimburse Metropolitan for the construction costs of the Union Station Headquarters Building. Under this scenario, it was projected that approximately \$59 million would be added to the WRSF. However as part of the recent adoption of the 1999 Update of the Long Range Finance Plan, the Board decided not to proceed with the reimbursement. This decision coupled with lower than expected water sales and higher than expected expenditures for the SWP will result in the need to use between \$83 million and \$93 million from the WRSF to pay for a portion of anticipated expenditures and cover the shortfall between receipts and expenditures. Accordingly, it is necessary to obtain authorization to use up to \$93 million from the WRSF.

DETAILED REPORT

Expenditures, excluding construction financed through debt proceeds and PAYG reserves, are estimated to be between \$888.1 million and \$898.1 million. This is substantially over the budgeted amount of \$776.2 million. Most of the variance is related to the Union Station Headquarters financing assumptions. A credit of \$129 million was included in the 1998-99 budget based on the assumption that the MWDAFC would reimburse Metropolitan for the construction costs of the Union Station Headquarters Building. As part of the recent adoption of the 1999 Update of the Long Range Finance Plan, the Board decided not proceed with the reimbursement. The balance of the variance is due to higher than budgeted SWP costs.

SWP costs are estimated to be between \$253.6 million and \$263.6 million as compared to the budget estimate of \$240.3 million. The variance is due to increases in the Water System Revenue Bond Surcharges, a high allocation of East Branch Enlargement payments, costs associated with repairs to the aqueduct in 1997/98, power grid charges related to power industry deregulation, and planning costs for Bay/Delta and Planning Model developments. Additionally, the budget assumed that Metropolitan would receive \$63.7 million in credits. It is possible that approximately \$10.0 million of these credits may not be received until fiscal year 1999-2000. If the credits are received this year, SWP costs will be approximately \$253.6 million. Conversely, if the credits are received next fiscal year, SWP costs for 1998-99 will total about \$263.6 million.

The overrun on SWP will be somewhat offset by lower Colorado River aqueduct pumping costs, lower payments associated with the Metropolitan/Imperial Irrigation District I Agreement, and lower Local Resource Program costs. MWD O&M and operating equipment expenses are estimated to be approximately \$231.4 million which is slightly less than the budget.

The Board appropriated \$526.0 million to cover SWP operations, maintenance, power and replacement costs; SWP capital charges; MWD O&M costs; Colorado River aqueduct pumping costs; Local Resource Program costs; and operations and maintenance costs associated with the Metropolitan/Imperial Irrigation District I Agreement. These costs are now estimated to be as much as \$536 million for the 1998-99 fiscal year due to the SWP overrun. Based on these projections, an increase of \$10 million is needed in the 1998-99 Annual Budget Appropriation.

Expenditures for debt service on District general obligation and revenues bonds, interest payments on commercial paper, and payments for operating equipment and inventory supplies are within their approved appropriations.

Other uses of funds include construction funded from debt proceeds and Pay-As-You-Go (PAYG) reserves. Construction expenditures are projected to be \$32.7 million more than the 1998-99 estimate. This variance is mainly due to the timing of payments to contractors working on the Inland Feeder Project. Since there has been better than anticipated construction progress on the Inland Feeder Project, payments planned to be made in fiscal year 1999-2000 are being made in the current fiscal year. It should be noted that all capital project expenditures are within their respective appropriation amounts.

Adjustments to reserves are projected to be approximately \$30.2 million less than budget. It is anticipated that adequate cash will be on hand to meet bond reserve requirements at June 30, 1999, therefore, no transfer from the WRSF will be required for this purpose. Total obligations

including expenditures and adjustments in reserves are projected to be between \$1,377.5 and \$1,387.5 billion.

Receipts from water sales, readiness-to-serve-charge, taxes, interest, power recoveries, and other income were budgeted at \$843.6 million for Fiscal Year 1998-99. Actual receipts are projected to be \$796.3 million, a variance of \$47.3 million. This is primarily due to lower water sales than budgeted. The extremely low water sales for the current year are the result of the unusually high precipitation received in Southern California in 1998 that filled surface water reservoirs and groundwater basins in Southern California. Full local surface and groundwater reservoirs coupled with the projected supplies available to the City of Los Angeles from the Los Angeles Aqueduct has resulted in substantially lower water sales for 1998-99 and, consequently, lower estimated revenues. Water sales were budgeted at 1.6 million acre-feet and actual sales are projected to be 1.482 million acre-feet, a reduction of 118,000 acre-feet. The balance of monies needed to cover expenditures will be provided from debt proceeds and PAYG reserves for construction purposes and from the WRSF for operating expenditures.

Based on these estimates, it is expected that between \$83 million and \$93 million from the WRSF will be required to make up the shortfall between receipts and expenditures for fiscal year 1998-99. The balance in the WRSF as of June 30, 1999, after the draw, is projected to be between \$119 million and \$129 million. Total reserves (WRSF and Revenue Remainder Fund) are projected to be between \$252 million and \$262 million. This is above the projected minimum reserve requirement of \$133 million and below the maximum reserve requirement of \$311 million.

The attached Financial Summary shows budget versus projected actual amounts.

MF/mb

Attachment 9-3A

Attachment 9-3A

| FINANCIAL SUMMARY FISCAL YEAR 1998-99 (\$ in Thousands) (Cash Basis) | | | |
|---|------------------------------|--------------------------------|--------------------|
| | 1998-99 Adopted Budget | 1998-99 Projected Actual | Variance |
| Sources of Funds | | | |
| Receipts | | | |
| Water Sales | \$ 614,506 | \$ 570,600 | \$ (43,906) |
| Taxes | 85,958 | 88,958 | 3,000 |
| Readiness to Serve Charge (RTS) | 80,000 | 80,000 | 0 |
| Interest on Investments | 43,519 | 40,645 | (2,874) |
| Power Recovery and Miscellaneous | 19,645 | 16,087 | (3,558) |
| Total Receipts | \$ 843,628 | \$ 796,290 | \$ (47,338) |
| Projected Use of Stabilization Funds | 0 | 92,970 | 92,970 |
| Projected Use of Prior Year PAYG Funds | 15,000 | 15,000 | 0 |
| Projected Use of Debt Proceeds for Construction | 450,600 | 483,269 | 32,669 |
| Total Sources of Funds | \$ 1,309,228 | \$ 1,387,529 | \$ 78,301 |
| Uses of Funds | | | |
| Expenditures | | | |
| State Water Project | \$ 240,255 | \$ 263,600 | \$ 23,345 |
| Water Transfer Payments | 5,100 | 7,090 | 1,990 |
| Colorado River Supplies | 35,650 | 26,658 | (8,992) |
| Debt Service | 245,050 | 242,864 | (2,186) |
| PAYG Construction Funded from Current Year Receipts | 90,000 | 90,000 | 0 |
| Union Station Headquarters Construction | 22,422 | 21,929 | (493) |
| Reimbursement from MWDFAC | (129,000) | 0 | 129,000 |
| MWD O&M and Operating Equipment | 232,463 | 231,413 | (1,050) |
| Local Resources Program | 19,260 | 14,559 | (4,701) |
| Subtotal | 761,200 | 898,113 | 136,913 |
| PAYG Construction Funded from PAYG Reserves | 15,000 | 15,000 | 0 |
| Debt-Financed Construction Expenditures | 450,600 | 483,269 | 32,669 |
| Total Expenditures | 1,226,800 | 1,396,382 | 169,582 |
| Water Transfer Deposits | 18,900 | 16,910 | (1,990) |
| Adjustments in Reserves | 4,395 | (25,763) | (30,158) |
| Increase in Rate Stabilization Funds | 59,133 | 0 | (59,133) |
| Total Uses of Funds | \$ 1,309,228 | \$ 1,387,529 | \$ 78,301 |