

April 23, 1999

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

From: General Manager _____

Submitted by: Lambertus H. Becker
Chief Financial Officer _____

Subject: March 1999 Variance Report

RECOMMENDATION

For information only.

REPORT

Third Quarter Variance Report

The budget versus actual variance report for the quarter ending March 31, 1999, 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 \$595.4 million. This was \$38.4 million, or 6.0 percent under budget primarily due to lower water sales. These receipts combined with the use of \$15.0 million of prior year Pay-As-You-Go (PAYG) funds, \$404.7 million of debt proceeds for construction, and \$152.1 million in reserves provided \$1.1673 billion to fund expenditures through the third quarter. Expenditures totaling \$1.1673 billion, were \$150.5 million over budget. Most of the variance is related to the Union Station Headquarters financing assumptions used when the 1998-99 Annual Budget was developed. A credit of \$129 million was included in the budget based on the assumption that the Metropolitan Water District Asset Financing Corporation (MWD AFC) 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 to proceed with the reimbursement. The balance of the variance is associated with higher year-to-date construction expenditures on the Inland Feeder Project than anticipated.

Year-End Projections

Operating receipts are projected to be \$796.3 million which is \$47.3 million, or 5.6 percent, under budget. This is primarily due to reduced water sales. Water sales are projected to be approximately 1.482 million acre-feet compared to the budget of 1.6 million acre-feet. Use of debt proceeds for construction is projected to be \$483.3 million which is approximately \$32.7 million over budget because construction on the Inland Feeder Project is ahead of schedule. Use of stabilization funds is projected to be between \$83.0 million and \$93.0 million. Funding from prior year Pay-As-You-Go (PAYG) funds will match the budget estimate of \$15.0 million.

Total sources of funds are estimated to be between \$1,377.5 billion and \$1,387.5 billion for the year.

Projected year-end expenditures, excluding construction financed through debt 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 as explained earlier.

State Water Project (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 the development of the Bay/Delta and Planning Model. 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 Supply costs 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.

Construction expenditures financed from debt proceeds and PAYG reserves are projected to be \$483.3 million. This is approximately \$32.7 million over budget. The over budget variance is mainly attributable to construction work that is ahead of schedule on the Inland Feeder Project. The contractor has completed installation of all 6.3 miles of pipe on the Riverside South Pipeline and is expected to complete the project this fiscal year, approximately seven months ahead of schedule. Work is also ahead of schedule on the Riverside North Pipeline and the Arrowhead West Tunnel. These projects are currently estimated to be completed between three to eleven months earlier than planned.

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

As noted earlier, 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. Since authorization to use WRSFs was not requested when the Board approved the 1998-99 Annual Budget, a companion board letter, 9-3, is being presented to your Board this month requesting such authorization.

MF/mb

Attachment 10-7A

Attachment 10-7B

Attachment 10-7A

BUDGET VS. COST REPORT
July 1, 1998 to March 31, 1999
CASH BASIS
(\$ in Thousands)

<u>FISCAL YEAR 1998-99</u>	BUDGET		ACTUAL		VARIANCE		X-REF.
	ANNUAL BUDGET	THROUGH March 1999	THROUGH March 1999		DOLLARS	PERCENT	
SOURCES OF FUNDS							
RECEIPTS							
WATER SALES	\$ 614,506	\$ 483,142	\$ 445,325	\$ (37,817)	-7.8%		
TAXES	\$ 85,958	\$ 53,228	\$ 58,919	\$ 5,691	10.7%	(a)	
READINESS-TO-SERVE CHARGE (RTS)	\$ 80,000	\$ 49,181	\$ 49,949	\$ 768	1.6%		
INTEREST ON INVESTMENTS (1)	\$ 43,519	\$ 32,666	\$ 29,292	\$ (3,374)	-10.3%	(b)	
POWER RECOVERY AND MISCELLANEOUS	\$ 16,345	\$ 13,206	\$ 11,536	\$ (1,670)	-12.6%	(c)	
BUSINESS DEVELOPMENT	\$ 3,300	\$ 2,371	\$ 439	\$ (1,932)	-81.5%	(d)	
TOTAL RECEIPTS	\$ 843,628	\$ 633,793	\$ 595,460	\$ (38,333)	-6.0%		
PROJECTED USE OF PRIOR YEAR PAYG FUNDS	\$ 15,000	\$ 15,000	\$ 15,000	\$ -	-		
PROJ USE OF DEBT PROCEEDS FOR CONSTRUCTION	\$ 450,600	\$ 342,379	\$ 404,666	\$ 62,287	18.2%	(e)	
TOTAL SOURCES OF FUNDS	\$ 1,309,228	\$ 991,172	\$ 1,015,126	\$ 23,954	2.4%		
USES OF FUNDS							
EXPENDITURES							
STATE WATER CONTRACT	\$ 240,255	\$ 274,067	\$ 268,313	\$ 5,754	2.1%		
WATER TRANSFERS \ OPTIONS	\$ 5,100	\$ 5,100	\$ 7,088	\$ (1,988)	-39.0%	(f)	
COLORADO RIVER SUPPLIES	\$ 35,650	\$ 19,816	\$ 18,528	\$ 1,288	6.5%		
DEBT SERVICE	\$ 245,050	\$ 226,673	\$ 224,487	\$ 2,186	1.0%		
PAYG CONSTRUCTION FROM CURRENT YEAR RECEIPTS	\$ 90,000	\$ 64,782	\$ 31,503	\$ 33,279	51.4%	(g)	
UNION STATION HEADQUARTERS & OTHER (2)	\$ 22,422	\$ 16,817	\$ 19,761	\$ (2,945)	-17.5%	(h)	
REIMBURSEMENT FROM MWDAFC	\$ (129,000)	\$ (129,000)	\$ -	\$ (129,000)	100.0%	(i)	
MWD O&M	\$ 223,252	\$ 160,407	\$ 163,770	\$ (3,363)	-2.1%		
OPERATING EQUIPMENT	\$ 9,211	\$ 6,908	\$ 5,922	\$ 986	14.3%	(j)	
LOCAL RESOURCES PROGRAM - NET	\$ 19,260	\$ 13,838	\$ 8,244	\$ 5,594	40.4%	(k)	
SUBTOTAL	\$ 761,200	\$ 659,408	\$ 747,616	\$ (88,208)	-13.3%		
PAYG CONSTRUCTION FUNDED FROM PAYG RESERVES	\$ 15,000	\$ 15,000	\$ 15,000	\$ -	-		
DEBT-FINANCED CONSTRUCTION EXPENDITURES	\$ 450,600	\$ 342,379	\$ 404,666	\$ (62,287)	-18.2%	(l)	
TOTAL EXPENDITURES	\$ 1,226,800	\$ 1,016,787	\$ 1,167,282	\$ (150,495)	-14.8%		
WATER TRANSFER DEPOSITS (3)	\$ 18,900	\$ -	\$ -	\$ -	-		
ADJUSTMENTS IN RESERVES (4)	\$ 4,395	\$ -	\$ -	\$ -	-		
INCREASE IN RATE STABILIZATION FUNDS (4)	\$ 59,133	\$ -	\$ -	\$ -	-		
TOTAL USE OF FUNDS	\$ 1,309,228	\$ 1,016,787	\$ 1,167,282	\$ (150,495)	-14.8%		
Net Sources / (Uses) of Funds	\$ -	\$ (25,614)	\$ (152,156)	\$ (126,541)	-		

Note: Trust Account Transactions are not reflected in this report. Minor differences are due to rounding.

(1) Excludes interest earned on construction and trust funds.

(2) Other expenditures include cash activity in the General Fund for reimbursable Projects. Actual expenditures exclude the \$10.2 million payment for property in Ventura County for desalination facilities. Proceeds from the sale of the Bolsa Chica property were used to make the payment.

(3) Deposit to the Water Transfer Fund during the fiscal year net of expenditures.

(4) Actual amounts to be determined at end of fiscal year.

Attachment 10-7B
CASH BASIS SUMMARY
VARIANCE EXPLANATIONS
Through March 31, 1999

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

RECEIPTS:

- (a) Revenues from Taxes are \$5.7 million over budget through March, mainly due to collections of prior year delinquent taxes.
- (b) Interest on Investments are under budget by \$3.3 million through March. Interest rates on investments have been less than budgeted as the monthly return on the portfolio has decreased from 5.99% to 5.64% during the year.
- (c) Power recoveries and miscellaneous receipts are approximately \$1.7 million under budget through March. Lower water sales during the first half of the fiscal year have reduced power generation from the District's hydroelectric power plants.
- (d) Business Development Revenues are \$1.9 million under budget through March. The Business Development Office budget includes revenues from reimbursable projects which have been determined to be non Business Development activities. This determination was supported in the recently completed internal audit on Business Development activities. Accordingly, actual revenues will not match budget by year end.
- (e) Use of Debt Proceeds for Construction. *(see explanation for item (l))*

EXPENDITURES:

- (f) Water Transfers\Options are approximately \$1.9 million over budget through March mainly due to costs for water deliveries under the Semi-Tropic storage agreement. The budget had a place holder of \$500,000 for various transfer payments for projects such as Semi-Tropic. Payments to date for Semi-Tropic are greater than \$500,000.
- (g) PAYG construction is under budget by \$33.3 million through March. This is due to the timing of construction disbursements to date. Expenditures are expected to match budget estimates of \$105 million at year end.

- (h) Expenditures for Union Station Headquarters and other costs paid from the General Fund are over budget due to the timing of cash payments for construction of the Headquarters Building. However, year end expenditures are projected to be under budget since the Headquarters Building project is projected to be below the project estimate.
- (i) At its March 1999 meeting, the Board decided not to reimburse the General Fund for Headquarters' construction expenditures through a proposed MWDAFC financing of \$129 million.
- (j) Operating Equipment is under budget by approximately \$1 million as the result of the timing of expenditures relative to budget projections. Staff anticipates that expenditures for operating equipment will equal budget by the end of the fiscal year.
- (k) Net expenditures for the Local Resources Program are under budget through March by \$5.5 million due to the lag time associated with receiving invoices from the member agencies for production of recycled water. It is anticipated that costs will match budget at year end.
- (l) Debt Financed Construction Expenditures are 18.2 percent over budget through March 1999. The over budget variance is mainly attributable to construction work that is ahead of schedule on the Inland Feeder Project. The contractor has completed installation of all 6.3 miles of pipe on the Riverside South Pipeline and is expected to complete the project this fiscal year, approximately seven months ahead of schedule. Work is also ahead of schedule on the Riverside North Pipeline and the Arrowhead West Tunnel. These projects are currently estimated to be completed between three to eleven months earlier than planned.