

May 21, 1999

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

From: General Manager _____

Submitted by: Lambertus H. Becker
Chief Financial Officer _____

Subject: Use of Water Rate Stabilization Fund

RECOMMENDATION

It is recommended that the Board of Directors approve the use of up to \$80 million to cover expenditures for Fiscal Year 1998-99 from the Water Rate Stabilization Fund (WRSF).

EXECUTIVE SUMMARY

The 1998-99 Annual Budget included a \$59 million increase to the WRSF. This was based, in part, on the assumption that the Metropolitan Water District Asset Financing Corporation (MWDAFC) would reimburse Metropolitan for a portion of the construction costs (\$129 million) of the Union Station Headquarters Building. However, as part of the adoption of the Long Range Finance Plan, the Board decided not to proceed with the reimbursement. This decision coupled with lower actual water sales and pending State Water Contract credits from the Department of Water Resources may result in the need to use up to \$80 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 \$80 million from the WRSF for fiscal year 1998-99.

DETAILED REPORT

The 1998-99 Annual Budget included a \$59 million increase to the WRSF. This was based, in part, on the assumption that the Metropolitan Water District Asset Financing Corporation (MWDAFC) would reimburse Metropolitan for a portion of the construction costs (\$129 million) of the Union Station Headquarters Building. However, as part of the adoption of the Long Range Finance Plan, the Board decided not to proceed with the reimbursement. This decision coupled with lower actual water sales and pending State Water Contract credits from the Department of Water Resources may result in the need to use up to \$80 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 \$80 million from the WRSF for fiscal year 1998-99.

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

\$804.6 million, a variance of \$39.0 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. Cash year (May - April) water sales were budgeted at 1.6 million acre-feet and actual sales are projected to be 1.48 million acre-feet, a reduction of approximately 120,000 acre-feet.

Expenditures, excluding construction financed through debt proceeds and PAYG reserves, are estimated to be \$879.4 million. This is substantially over the budgeted amount of \$761.2 million. The variance is related to the Union Station Headquarters financing assumptions as stated earlier.

Construction expenditures are projected to be \$34.2 million more than the 1998-99 estimate and will be financed with debt proceeds. 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 \$27.3 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.

Based on these estimates, it is expected that approximately \$68 million from the WRSF will be required to make up the shortfall between receipts and expenditures for fiscal year 1998-99. Per the 1998-99 Annual Budget, Metropolitan was scheduled to receive approximately \$63.7 million in State Water Contract credits from the Department of Water Resources (DWR) this fiscal year. To date, \$60.2 million have been received. Last month, Metropolitan received notification from DWR that, in addition to the \$63.7 million budgeted, an additional \$11.2 million in credits would be paid by June 30, 1999. The additional credits are primarily associated with the wet hydrology of 1998 which resulted in higher power sales and lower State Water Project unit power costs for Metropolitan and other contractors. However if for some unforeseen circumstances, Metropolitan does not receive all of the scheduled credits this fiscal year, it may be necessary to use up to \$80 million in WRSF to cover the shortfall between receipts and expenditures. Therefore, it is requested that the Board authorize the use of up to \$80 million from the WRSF this fiscal year.

The balance in the WRSF as of June 30, 1999, after the draw, is projected to be between \$135 million and \$147 million. Total reserves (WRSF and Revenue Remainder Fund) are projected to be between \$264 million and \$276 million. This is above the projected minimum reserve requirement of \$129 million and below the maximum reserve requirement of \$298 million.

MCF:mb

Attachment 9-2A

Attachment 9-2A

FINANCIAL SUMMARY
FISCAL YEAR 1998-99
(\$ in Thousands)
(Cash Basis)

	1998-99 Adopted Budget	1998-99 Projected Actual	Variance
Sources of Funds			
<u>Receipts</u>			
Water Sales	\$ 614,506	\$ 578,680	\$ (35,826)
Taxes	85,958	90,781	4,823
Readiness to Serve Charge (RTS)	80,000	80,000	0
Interest on Investments	43,519	39,419	(4,100)
Power Recovery and Miscellaneous	19,645	15,700	(3,945)
Total Receipts	\$ 843,628	\$ 804,580	\$ (39,048)
Projected Use of Stabilization Funds	0	67,966	67,966
Projected Use of Other Funds for Construction	465,600	499,774	34,174
Total Sources of Funds	\$ 1,309,228	\$ 1,372,320	\$ 63,092
Uses of Funds			
<u>Expenditures</u>			
State Water Project	\$ 240,255	\$ 244,532	\$ 4,277
Water Transfer Payments	5,100	7,877	2,777
Colorado River Supplies	35,650	26,413	(9,237)
Capital Financing Program			
Debt Service	245,050	242,494	(2,556)
PAYG Construction Funded from Current Year Receipts	90,000	90,000	0
Union Station Headquarters Construction	22,422	22,422	0
Reimbursement from MWDFAC	(129,000)	0	129,000
MWD O&M and Operating Equipment	222,847	219,868	(2,979)
Water Management Programs	28,876	25,745	(3,131)
Subtotal	761,200	879,351	118,151
Projected Use of Other Funds for Construction	465,600	499,774	34,174
Total Expenditures	1,226,800	1,379,125	152,325
Water Transfer Deposits	18,900	16,123	(2,777)
Adjustments in Reserves	4,395	(22,928)	(27,323)
Increase in Rate Stabilization Funds	59,133	0	(59,133)
Total Uses of Funds	\$ 1,309,228	\$ 1,372,320	\$ 63,092