

July 19, 1999

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

**From:** General Manager \_\_\_\_\_

**Submitted by:** Lambertus H. Becker  
Chief Financial Officer \_\_\_\_\_

**Subject:** June 1999 Variance Report

## RECOMMENDATION

For information only.

## REPORT

### **Year-End Variance Report**

The budget versus actual variance report for the year ending June 30, 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.

#### Sources of Funds

Receipts totaled \$799.4 million. This was \$44.2 million, or 5.2 percent under budget primarily due to lower water sales. Water sales totaled 1.478 million acre-feet (MAF). This was 122,000 acre-feet under the budget estimate of 1.6 MAF. The extremely low water sales were 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 resulted in substantially lower water sales for 1998-99 and, consequently, lower revenues. Tax receipts totaled \$94.4 million which was \$8.4 million over budget. This reflects the Southern California's thriving economy that has resulted in the collection of delinquent taxes. Interest income was under budget by \$5.7 million. This was primarily due to the fact that during the year the return on the portfolio decreased from 5.99 percent to 5.64 percent.

Other sources of funds included \$497.1 million in debt proceeds and \$15 million in prior year Pay-As-You-Go (PAYG) funds for construction. Additionally, approximately \$65.5 million in rate stabilization funds were used to meet the shortfall between receipts and expenditures.

Total sources of funds amounted to approximately \$1.377 billion for the year.

## ❑ Uses of Funds

Expenditures, excluding construction financed through debt and PAYG reserves, totaled \$858.0 million. This was substantially over the budgeted amount of \$761.2 million. The budget assumed that the Metropolitan Water District Asset Financing Corporation 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.

State Water Project (SWP) costs of \$243.8 million were slightly over the budget estimate of \$240.3 million. During the year there were overruns associated with 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. However, most of the overrun was offset by the receipt of unanticipated credits. A total of \$75 million in credits was received as compared to the budget estimate of \$63.7 million. The additional credits were 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.

The budget for Water Transfers was \$24 million. It was estimated that \$5.1 million would be spent on water transfer payments and \$18.9 million would be deposited into the Water Transfer Fund. While the overall budget was not exceeded, \$12.6 million was paid for water transfer expenses and \$11.4 million was deposited into the Fund. The additional expenditures were primarily associated with water deliveries under the Semi-Tropic Storage Agreement. Metropolitan was able to store 158,600 acre-feet of water in the Semi Tropic and Arvin Edison basins as supplies from the State Water Project in southern San Joaquin Valley were available during 1998-99. To date, Metropolitan has stored 170,000 acre-feet of water under these agreements.

There were several components of the 1998-99 budget that were under budget. Colorado River supplies totaled \$25.8 million which was \$9.8 million under budget. The under run was primarily associated with delay of initial feasibility and environmental work in connection with off stream storage development. Debt service payments of \$234.4 million were about \$10.6 million under budget. This reflects lower than anticipated variable interest rates, savings realized from the revenue bond and general obligation bond refundings conducted in September 1998, and lower year-end funding requirements in the revenue bond interest and principal funds. MWD O&M costs totaled \$207.4 million which was \$15.9 million under budget. Lower personnel, materials, supply, and utility costs and reduced consulting expenses contributed to the under run. The Local Resources Program net expenses were \$10.6 million. This was \$8.6 million under the budget estimate and reflects delays in starting up new projects and slower than anticipated recycled water customer hookups for existing projects.

Construction expenditures financed from debt proceeds and PAYG reserves totaled \$512.1 million. This is approximately \$46.5 million over the budget estimate. The variance was mainly attributable to construction work that is ahead of schedule on the Inland Feeder Project. Even though the project is experiencing delays on the Arrowhead East Tunneling contract due to significant groundwater inflows, construction of 6.8 miles of pipe on the Riverside South Pipeline

is expected to be completed in July 1999 seven months ahead of schedule and construction of 6.3 miles of pipe on the Riverside North Pipeline is expected to be completed in late 1999 six months ahead of schedule. In addition progress on the Arrowhead West Tunnel and the Riverside Badlands Tunnel contracts are ahead of the original plan for fiscal year 1998-99.

☐ Reserve Balances

As of June 30, 1999, cash and investments totaled \$921 million. As shown on the table below, the balance in the Water Rate Stabilization Fund was \$138 million. Total reserves (WRSF and Revenue Remainder Fund) amounted to \$266 million. This is above the projected minimum reserve requirement of \$128 million and below the maximum reserve requirement of \$298 million.

Summary of Cash and Investments  
June 30, 1999  
(\$ in Millions)

	Restricted	Unrestricted	Total
<b>Operating Funds:</b>			
General and Revenue Remainder Funds		\$128	
Self-Insured Retention	\$25		
O&M Fund	84		
Water Transfer	51		
<b>Debt Service Funds:</b>			
Debt Service Interest & Principal	139		
Revenue Bond Reserve	15		
<b>Construction Funds:</b>			
Bonds and Commercial Paper	173		
Pay-As-You-Go		58	
<b>Other Funds:</b>			
Rate Stabilization Funds		138	
State Water Contract Fund	59		
Trust and Other Funds	51		
<b>Totals</b>	<b>\$597</b>	<b>\$324</b>	<b>\$921</b>

MCF:jg

**Attachment 10-7A**

**Attachment 10-7B**

Attachment 10-7A

BUDGET VS. COST REPORT

July 1, 1998 to June 30, 1999

CASH BASIS

( \$ in Thousands

FISCAL YEAR 1998-99	BUDGET		ACTUAL		VARIANCE		X-REF.
	ANNUAL BUDGET	THROUGH June 1999	THROUGH June 1999	DOLLARS	PERCENT		
<b>SOURCES OF FUNDS</b>							
<b>RECEIPTS</b>							
WATER SALES	\$ 614,506	\$ 614,506	\$ 571,909	\$ (42,597)	-6.9%		
TAXES	\$ 85,958	\$ 85,958	\$ 94,394	\$ 8,436	9.8%		
READINESS-TO-SERVE CHARGE (RTS)	\$ 80,000	\$ 80,000	\$ 79,870	\$ (130)	-0.2%		
INTEREST ON INVESTMENTS ( 1 )	\$ 43,519	\$ 43,519	\$ 37,824	\$ (5,695)	-13.1%		(a)
POWER RECOVERY AND MISCELLANEOUS	\$ 16,345	\$ 16,345	\$ 14,856	\$ (1,489)	-9.1%		
BUSINESS DEVELOPMENT	\$ 3,300	\$ 3,300	\$ 531	\$ (2,769)	-83.9%		(b)
<b>TOTAL RECEIPTS</b>	<b>\$ 843,628</b>	<b>\$ 843,628</b>	<b>\$ 799,384</b>	<b>\$ (44,244)</b>	<b>-5.2%</b>		
USE OF RATE STABILIZATION FUNDS	\$ -	\$ -	\$ 65,484	\$ 65,484	-100.0%		(c)
PROJECTED USE OF PRIOR YEAR PAYG FUNDS	\$ 15,000	\$ 15,000	\$ 15,000	\$ -	-		
PROJECTED USE OF DEBT PROCEEDS FOR CONSTRUCTION	\$ 450,600	\$ 450,600	\$ 497,080	\$ 46,480	10.3%		(d)
<b>TOTAL SOURCES OF FUNDS</b>	<b>\$ 1,309,228</b>	<b>\$ 1,309,228</b>	<b>\$ 1,376,948</b>	<b>\$ 67,720</b>	<b>5.2%</b>		
<b>USES OF FUNDS</b>							
<b>EXPENDITURES</b>							
STATE WATER CONTRACT	\$ 240,255	\$ 240,255	\$ 243,805	\$ (3,550)	-1.5%		
WATER TRANSFERS \ OPTIONS	\$ 5,100	\$ 5,100	\$ 12,624	\$ (7,524)	-147.5%		(e)
COLORADO RIVER SUPPLIES	\$ 35,650	\$ 35,650	\$ 25,834	\$ 9,816	27.5%		(f)
DEBT SERVICE	\$ 245,050	\$ 245,050	\$ 234,416	\$ 10,634	4.3%		
PAYG CONSTRUCTION FROM CURRENT YEAR RECEIPTS	\$ 90,000	\$ 90,000	\$ 89,918	\$ 82	0.1%		
UNION STATION HEADQUARTERS & OTHER ( 2 )	\$ 22,422	\$ 22,422	\$ 25,908	\$ (3,486)	-15.5%		(g)
REIMBURSEMENT FROM MWDAFC	\$ (129,000)	\$ (129,000)	\$ -	\$ (129,000)	100.0%		(h)
MWD O&M	\$ 223,252	\$ 223,252	\$ 207,363	\$ 15,889	7.1%		
OPERATING EQUIPMENT	\$ 9,211	\$ 9,211	\$ 7,453	\$ 1,758	19.1%		(i)
LOCAL RESOURCES PROGRAM - NET	\$ 19,260	\$ 19,260	\$ 10,634	\$ 8,626	44.8%		(j)
<b>SUBTOTAL</b>	<b>\$ 761,200</b>	<b>\$ 761,200</b>	<b>\$ 857,955</b>	<b>\$ (96,755)</b>	<b>-12.7%</b>		
PAYG CONSTRUCTION FUNDED FROM PAYG RESERVES	\$ 15,000	\$ 15,000	\$ 15,000	\$ -	-		
DEBT-FINANCED CONSTRUCTION EXPENDITURES	\$ 450,600	\$ 450,600	\$ 497,080	\$ (46,480)	-10.3%		(k)
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,226,800</b>	<b>\$ 1,226,800</b>	<b>\$ 1,370,035</b>	<b>\$ (143,235)</b>	<b>-11.7%</b>		
WATER TRANSFER DEPOSITS ( 3 )	\$ 18,900	\$ 18,900	\$ 11,376	\$ 7,524	39.8%		(l)
ADJUSTMENTS IN RESERVES	\$ 4,395	\$ 4,395	\$ (4,464)	\$ 8,859	201.6%		(m)
INCREASE IN RATE STABILIZATION FUNDS	\$ 59,133	\$ 59,133	\$ -	\$ 59,133	100.0%		(n)
<b>TOTAL USE OF FUNDS</b>	<b>\$ 1,309,228</b>	<b>\$ 1,309,228</b>	<b>\$ 1,376,948</b>	<b>\$ (67,720)</b>	<b>-5.2%</b>		

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.

**Attachment 10-7B****CASH BASIS SUMMARY****VARIANCE EXPLANATIONS****Through June 30, 1999***Criteria: (plus or minus) \$500,000 and 10 percent variance***RECEIPTS:**

- a) Interest on investments were under budget by \$5.7 million for the fiscal year due to lower interest rates on investments than budgeted as the monthly return on the portfolio decreased from 5.99 percent to 5.64 percent during the year.
- b) Business Development revenues were \$2.8 million under budget. Certain projects expected to be classified as Business Development were reclassified as reimbursable projects.
- c) The 1998-99 Annual Budget assumed that the Metropolitan Water District Asset Financing Corporation (MWD AFC) 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 adoption of the Long Range Finance Plan, the Board decided not to proceed with the reimbursement. As a result of that decision, there was a shortfall of approximately \$66 million between receipts and expenditures that was bridged by the use of rate stabilization funds.
- d) Use of debt proceeds for construction. *(see explanation for item (k))*

**EXPENDITURES:**

- e) The budget for Water Transfers was \$24 million. It was estimated that \$5.1 million would be spent on water transfer payments and \$18.9 million would be deposited into the Water Transfer Fund. While the overall budget was not exceeded, \$12.6 million was paid for water transfer expenses and \$11.4 million was deposited into the Fund. The additional expenditures were primarily associated with water deliveries made under the Semi-Tropic Storage Agreement. Metropolitan was able to store 158,600 acre-feet of water in the Semi Tropic and Arvin Edison basins as supplies from the State Water Project in southern San Joaquin Valley were available during 1998-99. To date, Metropolitan has stored 170,000 acre-feet of water under these agreements.
- f) Colorado Rivers Supplies were \$9.8 million under budget. The primary factor for the under run was delays of initial feasibility and environmental work in connection with off stream storage development. Other contributing factors included lower than expected CRA water diversions; a higher than expected allocation of Parker power plant generation which resulted in lower economy energy purchases; and deferment to FY 1999-2000 of payments to Imperial Irrigation District for a portion of the 1999 annual direct costs associated with the IID/MWD Conservation Program.

- g) Expenditures for construction of the Union Station Headquarters Building were under budget, however other General Fund activity resulted in an unfavorable variance. Funds remaining in some conservation reimbursable projects were transferred to the O&M Fund and resulted in a charge to the General Fund. Conversely, this transfer contributed to the favorable variance in operations and maintenance expenditures.
- h) 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.
- i) Operating equipment was under budget by approximately \$1.8 million as a result of increased cost containment efforts.
- j) Net expenditures for the Local Resources Program were approximately \$8.6 million under Budget for the year. This is primarily due to delays in starting up new projects and slower than anticipated recycled water customer hookups for existing projects. Examples of projects with delayed startups include the Sweetwater Desalter and recycling projects by Eastern MWD. Examples of existing projects with slower than anticipated recycled water customer hookups include projects with the Inland Empire UA, Otay Water District, Santa Margarita Water District, Central Basin MWD, West Basin MWD and several others. Additionally the Arlington Desalters had mechanical problems and cool spring weather may have affected recycled water irrigation demands. Some of these experiences may carry into Fiscal Year 1999-00 and are currently being investigated as the year-end data is received from the participating agencies.
- k) Debt financed construction expenditures were 10.3 percent over budget for the fiscal year. The over budget variance is mainly attributable to construction work that is ahead of schedule on the Inland Feeder Project. Even though the project is experiencing delays on the Arrowhead East Tunneling contract due to significant groundwater inflows, construction of 6.8 miles of pipe on the Riverside South Pipeline is expected to be completed in July 1999 seven months ahead of schedule and construction of 6.3 miles of pipe on the Riverside North Pipeline is expected to be completed in late 1999 six months ahead of schedule. In addition, progress on the Arrowhead West Tunnel and the Riverside Badlands Tunnel contracts are ahead of the original plan for fiscal year 1998-99.
- l) Deposit to the Water Transfer Fund (*see explanation for item (e)*)
- m) Adjustments in reserves were \$8.3 under budget based on based on fund balances and the requirements for restricted reserves as set forth in bond covenants and Board policies.
- n) Increase in Rate Stabilization Funds. The 1998-99 Annual Budget included a \$59 million increase to the Water Rate Stabilization Fund. This was based, in part, on the assumption that the MWDFAC would reimburse Metropolitan for a portion of the construction costs (\$129 million) of the Union Station Headquarters Building. However since the Board decided not to proceed with the financing, there was draw on the fund instead of an increase. (*see explanation for item (c)*)