

- **Board of Directors**
Budget and Finance Committee

April 11, 2000 Board Meeting

8-3

Subject

New Financial Reporting Formats

Description

One of the first items addressed by the Subcommittee on Financial Policies and Reporting was financial reporting formats. At its January meeting, staff presented new reporting formats for the Subcommittee to consider. Based on input from the Subcommittee, revised formats were developed and presented to the Subcommittee at its February meeting. At the February meeting, the Subcommittee voted to recommend that the Budget and Finance Committee approve the proposed financial report formats because they will be more responsive to the financial reporting needs of the Board of Directors, member agencies, and other Metropolitan stakeholders. This is also consistent with recommendations made by PricewaterhouseCoopers as part of their Budget Analysis Project. The reports will be provided on a quarterly basis. The implementation date will be July 1, 2000.

Currently the Board receives both “cash basis” financial reports as well as “accrual basis” financial reports. A summary cash basis budget versus actual financial report is presented to the Budget and Finance Committee each month. Accrual basis financial reports are also transmitted to the Board on a monthly basis. In order to alleviate confusion arising from the reporting of financial information on different basis of accounting, it is proposed that all comparative and budget versus actual reports be prepared using “accrual basis” accounting. By making this change, the Board will see quarterly reports that are consistent with the year-end audited financial statements. To implement this change, Administrative Code sections 2720 and 2740 must be amended to reflect the change from providing monthly cash basis reports to quarterly accrual basis reports. To supplement the accrual reports, schedules showing Metropolitan’s cash and investments and reserve levels will also be provided.

This change will impact the Annual Budget. The budget will now be an accrual budget as opposed to a cash budget. Although the Annual Budget will be accrual based, the Annual Revenue Requirements will continue to be based on estimated cash outlays for rate setting purposes. Setting rates and charges based on estimated cash outlays are a utility standard as is reporting financial performance on an accrual basis.

It should be noted that the quarterly reports may include estimates. Budget and Finance Committee meetings can occur as early as the seventh day of the month or as late as the 13th. If the meeting falls in the early part of the month, it will be necessary to estimate water sales and expenses for up to the last five days of the month.

Therefore these reports will be considered “Preliminary Flash Reports”. Since the reports are cumulative year to date reports, estimating a few days’ revenues and expenses will not have any material impact. The package will consist of a Comparative Statements of Operations, Comparative Balance Sheets, a Statement of Cash Receipts and Disbursements, a Cash and Investments/Reserve Levels schedule, an Estimate versus Actual – Construction Activities, a Budget versus Actual Statement of Operations, and an Operating Expense Breakdown. There will also be a one-page narrative summary of major changes year-to-year and budget versus actual variance explanations. A sample package is included as [Attachment 1](#).

Policy

Administrative Code sections 2720 and 2740 regarding the frequency of reports and the accounting basis used to report financial information.

Board Options/Fiscal Impacts

Option #1

Approve the amendments to Administrative Code sections 2720 and 2740 set forth in **Attachment 2** to change the frequency of financial reporting and the basis of accounting used to report financial information. **Attachment 3** shows the additions and deletions being made to the current sections.

Fiscal Impact: None

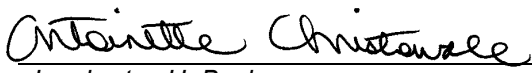
Option #2

Retain status quo. The financial reports the Board currently receives will remain the same.

Fiscal Impact: None

Staff Recommendation

Option #1.

 3/20/2000
for Lambertus H. Becker Date
Chief Financial Officer

General Manager Date

Attachment 1 – Sample package

Attachment 2 – Admin. Code sections

Attachment 3 – Admin. Code sections with additions/deletions



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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

**Quarterly Financial Report for the
Six Months Ended December 31, 1999**

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Quarterly Financial Report for the Six Months Ended December 31, 1999

Comparative Statement of Operations

Operating revenues through December 1999 total \$465.3 million, which is \$90.2 million greater than the same period last year, reflecting higher water sales. Water sales year-to-date total 1.077 million acre-feet (MAF) as compared to .843 MAF for the first six months of last year.

Operating expenses of \$196.2 million are \$3.3 million more than last year at this time primarily due to higher water and power costs associated increased deliveries offset by lower O&M costs achieved through the reorganization. Amortization expense is \$6.1 million higher than last year based on the latest cost projections from the Department of Water Resources for the State Water Contract.

Other Income (Expense) of \$32.3 million is relatively unchanged from last year.

Balance Sheet

Assets total \$8.429 billion which is \$275.1 million more than in December 1998. Cash and investments are \$341.7 million less as bond proceeds have been spent on construction projects. Conversely, Property, Plant and Equipment, net, is \$492.6 million higher than last December reflecting construction progress on Diamond Valley Lake and Inland Feeder projects.

Liabilities total \$4.116 billion which is \$20.2 million less than in December 1998. Accrued interest costs were lower this year because of the timing of interest payments. Normally interest payments are made on January 2 of each year. This year, interest payments were made in late December (thus reducing accrued interest expense) to avoid any Y2K problems.

Estimate vs. Actual – Construction Activities

Construction activity expense totaled \$201.2 million, which is 30 percent under budget. Numerous projects are on hold pending Management's review of the Capital Improvement Program.

Budget vs. Actual for the Six Months Ended December 31, 1999 – Statement of Operations

Operating revenues are \$465.3 million or 13 percent higher than budget. Water sales are 135,000 acre-feet higher than the budget of 942,000 acre-feet.

Operating expenses are \$269.5 million which is nine percent below budget reflecting cost reductions associated with the reorganization, slightly lower unit power costs than budget estimates, and lower water management program expense. Numerous water management projects are on hold until the Board finalizes the strategic plan.

It is anticipated that year-end revenues will substantially exceed budget estimates due to the warm dry weather of the past few months. Year-end expenditures could be significantly under budget depending on the impact of the reorganization and the outcome of the strategic plan. Current estimates indicate that there is a possibility that reserves could exceed the maximum reserve level of \$307 million at year-end.

Metropolitan Water District of Southern California

Comparative Statements of Operations - Accrual Basis (Preliminary) (\$ in Millions)

	For the Six Months Ending December 31,	
	1999	1998
Operating Revenues:		
Water Sales	\$ 415.5	\$ 326.9
RTS	40.0	40.0
Hydroelectric Power and Other	9.8	8.2
Total Operating Revenues	465.3	375.1
Operating Expenses:		
Power & Water Costs	92.5	87.3
Operations & Maintenance	89.4	92.0
Water Management Programs, Net	13.7	13.4
Other	0.6	0.2
Operating Expenses	196.2	192.9
Depreciation & Amortization	73.3	65.6
Operating Income	195.8	116.6
Other Income (Expense):		
Net Taxes/Annexations	46.8	43.1
Interest Income	22.1	37.0
Bond Interest Expense	(27.9)	(46.2)
Research and Development	(8.5)	-
Other	(0.2)	(2.8)
Total Other Income - Net	32.3	31.1
Net Income	\$ 228.1	\$ 147.7

Sales Statistics:

Water Sales (TAF)	1,077.3	842.7
Hydroelectric Power Sales (TKwH)	189.5	139.9

Ratios:

Operating	42.2%	51.4%
Revenue Bond Debt Service Coverage (rolling 12 months)		
Revenue Bond & Commercial Paper		
Debt Service Coverage (rolling 12 months)	58.5%	53.4%
O&M as a % of Operating Expenses	45.6%	47.7%
Net Change in O&M to CPI	-5.1%	-7.2%

Metropolitan Water District of Southern California

Comparative Balance Sheets - Accrual Basis (Preliminary) (\$ in Millions)

	December 31,	
	1999	1998
Assets:		
Cash and investments at cost	\$ 965.7	\$ 1,307.4
Accounts Receivable	274.3	217.6
Property, Plant and Equipment, net	5,111.7	4,619.1
Participation Rights, net	1,784.3	1,703.0
Deferred Charges and Water Rights	228.9	236.8
Other	63.8	69.7
	\$ 8,428.7	\$ 8,153.6
Liabilities and Equity:		
Long-Term Debt	\$ 3,092.3	\$ 3,099.5
Commercial Paper Notes	350.0	300.0
Off-Aqueduct Power Facilities	118.0	126.4
Accounts Payable and Accrued Bond Interest	40.4	92.8
Deferred Income	91.1	93.6
State Water Project Obligations	337.7	334.2
Trust Funds and Other	86.4	89.6
	4,115.9	4,136.1
Total Liabilities	4,115.9	4,136.1
Equity	4,312.8	4,017.5
	\$ 8,428.7	\$ 8,153.6

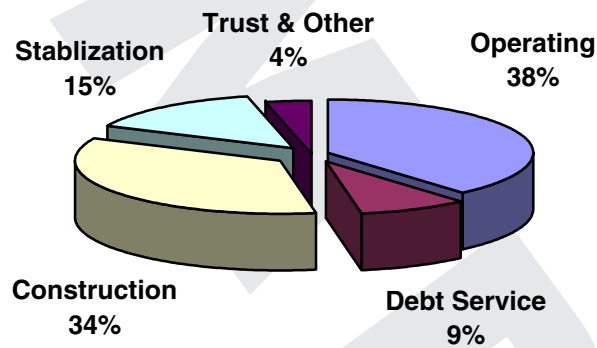
* Market value of cash and investments was \$969.4 million and \$1,174.2 million at 12-31-99 and 12-31-98 respectively

Debt as a percent of equity	71.7%	77.1%
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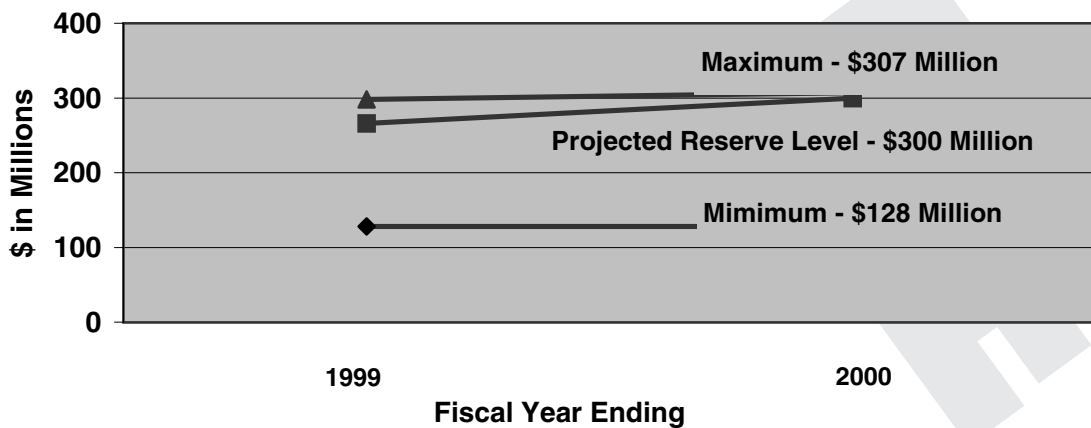
Metropolitan Water District of Southern California

Cash and Investments As of December 31, 1999 (\$ in Millions)

	Restricted		Unrestricted	Total
	Bond Covenants	Board		
Operating Funds	\$91.3	\$139.5	\$142.1	\$372.9
Debt Service Funds	49.1	34.7	0.0	83.8
Construction	244.7	0.0	89.0	333.7
Stablization Funds	0.0	0.0	141.0	141.0
Trust & Other Funds	34.3	0.0	0.0	34.3
Total	\$419.4	\$174.2	\$372.1	\$965.7



Minimum/Maximum Reserve Levels



Metropolitan Water District of Southern California

Statement of Cash Receipts and Disbursements (\$ in Millions)

	For the Six Months Ending December 31,	
	1999	1998
Cash Receipts:		
Cash received from water sales	\$ 391.5	\$ 342.3
Cash received from tax levy	44.3	41.5
Cash received from readiness-to-serve charges	32.2	31.6
Cash received from power recoveries	6.7	6.9
Interest on investments	21.1	45.3
Proceeds from new debt issuances	249.2	-
Proceeds from refunding debt issuances	-	259.4
Other	5.3	2.2
Total Cash Receipts	750.3	729.2
Cash Disbursements:		
Acquisition and construction of capital assets	207.6	342.8
Cash paid to Department of Water Resources	182.5	152.5
Principal and interest paid on long-term debt	175.9	128.7
Cash paid for operating and maintenance expenses	119.0	130.2
Cash paid for CRA power	10.4	10.1
Cash paid for Deferred Water Rights	9.4	4.7
Escrow, refunding debt	-	212.4
Other	0.8	2.3
Total Cash Disbursements	705.6	983.7
Net increase (decrease) in cash during period	44.7	(254.5)
Cash, at beginning of period	920.9	1,561.9
Cash, at end of period	\$ 965.6	\$ 1,307.4

Metropolitan Water District of Southern California

**Budget vs. Actual - Construction Activities
For the Six Months Ended December 31, 1999 (Preliminary)
(\$ in Millions - Accrual Basis)**

	Budget to Date	Actual to Date	Variance		Fiscal Year Budget	Projected Year-End	Variance		
			\$	%			\$	%	
Sources of Funds									
Bond Construction Funds	\$ 230.6	\$ 151.2	\$ (79.4)	-34%	\$ 461.1	\$ 334.2	\$ (126.9)	-28%	
PAYG Funds	57.7	50.2	(7.5)	-13%	115.3	115.3	-	0%	
Total	\$ 288.2	\$ 201.3	\$ (86.9)	-30%	\$ 576.4	\$ 449.5	\$ (126.9)	-22%	
Program Expenditures									
Diamond Valley Lake	\$ 140.2	\$ 117.3	\$ (22.9)	-16%	\$ 280.4	\$ 176.2	\$ (104.2)	-37%	
Inland Feeder	81.4	59.9	(21.5)	-26%	162.7	141.9	(20.8)	-13%	
Local Groundwater Projects	15.7	1.9	(13.8)	-88%	31.3	26.4	(4.9)	-16%	
Oxidation Retrofit Program	14.9	4.0	(10.9)	-73%	29.7	22.9	(6.8)	-23%	
Lake Mathews Outlet Facilities	2.7	1.0	(1.7)	-63%	5.4	6.3	0.9	17%	
Other	33.5	17.2	(16.3)	-49%	66.9	75.8	8.9	13%	
Total	\$ 288.2	\$ 201.3	\$ (86.9)	-30%	\$ 576.4	\$ 449.5	\$ (126.9)	-22%	

Major Program Statistics

	Program Estimate	Project to-Date Dec.-99	% Spent	% Complete	Projected Program Total	Projected Program Variance
Diamond Valley Lake	\$ 2,087.1	\$ 1,879.8	90%	95%	\$ 1,976.0	\$ 111.1
Inland Feeder	1,188.0	406.8	34%	30%	926.5	261.5
Oxidation Retrofit Program	263.0	48.5	18%	19%	240.9	22.1
Local Groundwater Projects	210.0	17.1	8%	7%	210.0	-
Lake Mathews Outlet Facilities	94.9	9.4	10%	10%	82.2	12.7

Metropolitan Water District of Southern California

Statement of Operations
Budget vs. Actual (Accrual Basis)
For the Six Months Ended December 31, 1999 (Preliminary)
(\$ in Millions)

	Six Months Ended December 31, 1999							Fiscal Year End							
	Dec. 31,	Budget	Actual	Variance from		Variance from		June 30,	Annual	Projected	Variance from		Variance from		
	1998			to Date	to Date	Budget*	%				Prior Year	Actual*	Actual	Budget	Year-End
	Actual			\$	%	\$	%	Actual	Budget	Year-End	\$	%	\$	%	
Operating Revenues															
Water Sales	\$ 326.9	\$ 360.8	\$ 415.5	\$ 54.7	15%	\$ 88.6	27%	\$ 617.8	\$ 666.0	\$ 718.2	\$ 52.2	8%	\$ 100.4	16%	
RTS	40.0	40.0	40.0	-	0%	0.0	0%	80.1	80.0	80.0	-	0%	(0.1)	0%	
Hydroelectric Power & Misc.	8.2	9.8	9.8	-	0%	1.6	20%	11.0	19.6	19.6	-	0%	8.6	78%	
Total Operating Revenues	\$ 375.1	\$ 410.6	\$ 465.3	\$ 54.7	13%	\$ 90.2	24%	\$ 708.9	\$ 765.6	\$ 817.8	\$ 52.2	7%	\$ 108.9	15%	
Operating Expenses															
Operations & Maintenance	\$100.2	\$ 101.5	\$ 89.4	\$ 12.1	12%	\$ (10.8)	-11%	\$ 182.5	\$ 208.2	\$ 193.2	\$ 15.0	7%	\$ 10.7	6%	
Power & Water Costs	92.0	102.8	92.5	10.3	10%	0.5	1%	210.9	201.6	192.0	9.6	5%	(18.9)	-9%	
Water Mgt. Programs	13.4	18.0	13.7	4.3	24%	0.3	2%		35.9	32.2	3.7	10%	32.2		
Depreciation & Amortization	65.6	75.1	73.3	1.8	2%	7.7	12%	150.1	150.1	150.1	-	0%	0.0	0%	
Other	0.2	-	0.6	(0.6)		0.4	200%	0.6	-	0.6	(0.6)		0.0	0%	
Total Operating Expenses	\$ 271.4	\$ 297.3	\$ 269.5	\$ 27.8	9%	\$ (1.9)	-1%	\$ 544.1	\$ 595.8	\$ 568.1	\$ 27.7	5%	\$ 24.0	4%	
Operating Income	\$ 271.4	\$ 113.3	\$ 195.8	\$ 82.5	73%	\$ (75.6)	-28%	\$ 164.8	\$ 169.8	\$ 249.7	\$ 79.9	47%	\$ 84.9	52%	
Other Income/(Expenses)															
Net Taxes/Annexations	\$ 43.1	\$ 44.5	\$ 46.8	\$ 2.3	5%	\$ 3.7	9%	\$ 88.1	\$ 89.0	\$ 93.6	\$ 4.6	5%	\$ 5.5	6%	
Interest Income	37.0	24.0	22.1	(1.9)	-8%	(14.9)	-40%	64.2	48.0	45.0	(3.0)	-6%	(19.2)	-30%	
Bond Interest Expense	(46.2)	(33.2)	(27.9)	5.3	16%	18.3	-40%	(94.5)	(66.4)	(55.8)	10.6	16%	38.7	-41%	
Research and Development	-	-	(8.5)	(8.5)		(8.5)		-	-	(12.5)	(12.5)		(12.5)		
Other	(2.8)	-	(0.2)	(0.2)		2.6	-93%	(8.8)	-	(0.2)	(0.2)		8.6	-98%	
Subtotal	\$ 31.1	\$ 35.3	\$ 32.3	\$ (3.0)	-8%	\$ 1.2	4%	\$ 49.0	\$ 70.6	\$ 70.1	\$ (0.5)	-1%	\$ 21.1	43%	
Net Income	\$ 302.5	\$ 148.6	\$ 228.1	\$ 79.5	54%	\$ (74.4)	-25%	\$ 213.8	\$ 240.4	\$ 319.8	\$ 79.4	33%	\$ 106.0	50%	
Sales Statistics															
Water Sales (TAF)	842.7	942.0	1,077.3	135.3	14%	\$ 234.6	28%	1,595.0	1,739.0	1,874.3	135.3	8%	\$ 279.3	18%	

*A positive number is a favorable variance; a negative number is an unfavorable variance.

Metropolitan Water District of Southern California

**Fiscal Year 1999-2000 Budget vs. Actual (Accrual Basis)
Operating Expense Breakdown
(\$ in Millions)**

For the Six Months Ended December 31, 1999 (Preliminary)

	Dec. 31, 1998		Budget to Date	Actual to Date	Variance from Budget*		Variance from Prior Year Actual*		
	Actual				\$	%	\$	%	
Operations & Maintenance									
Labor	\$ 40.6	\$	42.2	\$ 40.5	\$ 1.7	4%	\$ 0.1	0%	
Additives	18.7		19.2	15.9	3.3	17%	15.4	82%	
Materials & Supplies	8.7		11.1	7.6	3.5	32%	5.2	60%	
Professional Services	7.5		9.8	7.8	2.0	20%	5.5	73%	
Outside Non-Professional Services	2.4		5.6	3.7	1.9	34%	0.5	21%	
Utility Costs	2.2		3.1	3.0	0.1	3%	2.1	95%	
Other	20.1		15.8	15.4	0.4	3%	19.7	98%	
Total	\$ 100.2	\$	101.5	\$ 89.4	\$ 12.9	13%	\$ 87.3	87%	
Power and Water Costs									
Power and Water	\$ 92.6	\$	102.8	\$ 97.3	\$ 5.5	5%	\$ 87.1	94%	
SWP Prior Year Adjustments	2.6		-	(4.8)	4.8		7.4	285%	
Total	\$ 95.2	\$	102.8	\$ 92.5	\$ 23.2	23%	\$ 72.0	76%	

*A positive number is a favorable variance; a negative number is an unfavorable variance.

Ratio Definitions

Operating Ratio:

Operating Expense divided by Operating Revenue

This ratio measures the comfort margin between annual recurring costs and revenues

Revenue Bond Debt Service Coverage:

Net revenues divided by annual revenue bond principal and interest requirements

An indicator of credit quality, with the highest coverage ratios normally equating to highest credit quality

Revenue Bond & Commercial Paper Debt Service Coverage:

Net revenues divided by annual revenue bond principal and interest and commercial paper interest requirements

An indicator of credit quality, with the highest coverage ratios normally equating to highest credit quality

O&M as a % of Operating Expense:

Operations and Maintenance Expense divided by Operating Expenses

An indicator of an organization's efficiency

Net Change in O&M to CPI:

Percent change in annual O&M costs compared to annual change in CPI

An indicator of increases/decreases in productivity

Debt as a percent of equity:

Long-Term Debt divided by Equity

This ratio indicates the relative debt load of an organization.

§ 2720. General Manager's Quarterly Reports.

The General Manager shall quarterly make the following reports:

(a) To the Engineering and Operations Committee:

(1) On service connections approved by the General Manager pursuant to Sections 4700-4708 with the estimated cost and approximate location of each;

(2) On the execution of any relocation agreements involving an amount in excess of \$100,000 under the authority of Section 8118(a);

(3) On the execution of any contract authorized pursuant to Section 8121; and

(4) On the status of the Local Projects Program, including the execution of any Local Projects Program agreements under the authority of Section 4516.

(b) To the Subcommittee on Real Property and Asset Management:

(1) Deeds or grants accepted during the preceding quarter;

(2) Easements, or similar rights, granted during the preceding quarter under the authority of Section 8220, and shall also include in such report any relocation or protection agreement made in connection therewith;

(3) All leases made during the preceding quarter under the authority of Sections 8222 and 8223;

(4) The details of any transactions during the preceding quarter in which an improvement was disposed of in such a manner as to make the improvement available for subsequent use by a party other than the District; and

(5) Property sold pursuant to the authority granted by Section 8240 et seq.

(6) The status of all information technology projects throughout the organization

(c) To the Legal and Claims Committee, jointly with the General Counsel, the exercise of any power delegated to them by Sections 6431, 6433 and 6434.

(d) To the Subcommittee on Organization and Personnel on the employment of any consultant, the extension of any consulting agreement, and on the exercise of authority under Section 8103(k) and 8117 during the preceding calendar quarter. The report covering the last calendar quarter of the year may be combined with and included in the annual report. Each such report shall indicate when a consultant is a former employee of the District.

(e) To the Water Planning and Resources Committee on the status of the Local Projects Program, including the execution of any Local Projects Program agreements under the authority of Section 4516.

(f) To Budget and Finance Committee a summary of financial performance including Comparative Statements of Operations and Comparative Balance Sheets and variances thereof from estimates.

§ 2740. General Manager's Monthly Reports.

(a) The General Manager shall monthly report to the Board the execution of any power or transmission contract authorized by Section 8118(c) and any transaction made under such contract.

2720. General Manager's Quarterly Reports.

The General Manager shall quarterly make the following reports:

(a) To the Engineering and Operations Committee:

(1) On service connections approved by the General Manager pursuant to Sections 4700-4708 with the estimated cost and approximate location of each;

(2) On the execution of any relocation agreements involving an amount in excess of \$100,000 under the authority of Section 8118(a);

(3) On the execution of any contract authorized pursuant to Section 8121; and

(4) On the status of the Local Projects Program, including the execution of any Local Projects Program agreements under the authority of Section 4516.

(b) To the Subcommittee on Real Property and Asset Management:

(1) Deeds or grants accepted during the preceding quarter;

(2) Easements, or similar rights, granted during the preceding quarter under the authority of Section 8220, and shall also include in such report any relocation or protection agreement made in connection therewith;

(3) All leases made during the preceding quarter under the authority of Sections 8222 and 8223;

(4) The details of any transactions during the preceding quarter in which an improvement was disposed of in such a manner as to make the improvement available for subsequent use by a party other than the District; and

(5) Property sold pursuant to the authority granted by Section 8240 et seq.

(6) The status of all information technology projects throughout the organization

(c) To the Legal and Claims Committee, jointly with the General Counsel, the exercise of any power delegated to them by Sections 6431, 6433 and 6434.

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(e) To the Water Planning and Resources Committee on the status of the Local Projects Program, including the execution of any Local Projects Program agreements under the authority of Section 4516.

(f) To Budget and Finance Committee a summary of financial performance including Comparative Statements of Operations and Comparative Balance Sheets and variances thereof from estimates.

§ 2740. General Manager's Monthly Reports.

~~(a) The General Manager shall monthly make a report to the Board providing a summary of receipts and expenditures and variances thereof from estimates.~~

(b) The General Manager shall monthly report to the Board the execution of any power or transmission contract authorized by Section 8118(c) and any transaction made under such contract.