

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

June 12, 2001 Board Meeting

9-1

Subject

Approve increase in the fiscal year 2000-01 budget appropriations

Description

The electricity crisis has added more than \$100 million to Metropolitan's expenses for this fiscal year. Because of these unforeseen circumstances, Metropolitan must increase its annual budget appropriation for fiscal year 2001-02. Expenditures, excluding construction financed through debt proceeds, are estimated to be between \$1.0 billion and \$1.04 billion for fiscal year 2000-01. This is substantially over the approved amount of \$901.5 million. The variance is primarily related to power costs to pump water through the Colorado River Aqueduct and timing of payments to the Department of Water Resources (DWR) for the State Water Project (SWP).

Pumping costs on the Colorado River Aqueduct are projected to be \$92.5 million for fiscal year 2000-01 as compared to the budget estimate of \$34.9 million. Metropolitan Water District (Metropolitan) has long-term power contracts that provide, on average, 75 percent of the power needed to move water in the Colorado River Aqueduct. These long-term power contracts include contracts with the federal government for power from Hoover and Parker Dams, as well as a coordination agreement with Southern California Edison. This year these contracts will supply about 1.75 billion kilowatt-hours of energy, or 68 percent of the Colorado River Aqueduct's power requirement, sufficient to move about 880,000 acre-feet of water. These long-term contracts cost approximately \$14 million per year. The power for the remaining water moved through the Colorado River Aqueduct is purchased in the spot market. Last year (fiscal year 1999-00), purchases in the market totaled about \$12 million and averaged about \$40 per acre-foot. It is estimated that spot market purchases this fiscal year will total about \$78 million or about \$195 per acre-foot.

SWP payments are estimated to be between \$340.9 million and \$377.1 million for fiscal year 2000-01. The budget for fiscal year 2000-01 was \$294.6 million. The \$46.3 million variance between \$294.6 million and \$340.9 million reflects a \$22.5 million supplemental bill for variable power charges from calendar year 2000 and the possibility that approximately \$28 million in budgeted credits may not be received by June 30, 2001. This is offset by lower costs in other SWP components totaling \$4.2 million.

DWR has also indicated that it may request Metropolitan to pay a portion of its capital charges early to assist with cash flow problems they are experiencing. The cash flow situation is a result of the high power costs the state is paying. If Metropolitan makes its July 1, 2001 SWP capital payment of \$36.2 million in June 2001 and the credits are not received by June 30, 2001, SWP payments in fiscal year 2000-01 could total \$377.1 million.

These overruns will be somewhat offset by lower than budgeted expenditures for Metropolitan operations and maintenance (O&M) and water management programs.

In June 2000, the Board appropriated \$575.5 million to cover SWP operations, maintenance, power and replacement costs; SWP capital charges; Metropolitan O&M costs; Colorado River Aqueduct pumping costs; water management program costs; and O&M costs associated with the Metropolitan/Imperial Irrigation District I Agreement. In February 2001, the Board authorized an additional \$22.5 million for supplemental State Water Project supplies which in effect increased the annual budget appropriation (ABA) to \$598.0 million. Fiscal year 2000-01 costs are estimated to be as high as \$731.8 million. Based on these projections, an increase of \$133.8 million is needed in the 2000-01 ABA.

As described over the past year, expenditures for debt service on Metropolitan general obligation and revenue bonds are estimated to be \$233.0 million. This is \$8 million over the budget estimate. The higher cost reflects the timing of the debt defeasance. The budget assumed that \$75 million in debt would be defeased in June 2000. Since the defeasance did not take place until August 2000, Metropolitan had to make the July 2000 debt service payments from revenues. Therefore, it is necessary to appropriate \$8 million, as continuing appropriations, for debt service on Metropolitan revenue bonds for fiscal year 2000-01.

Attachment 1 shows the 2000-01 approved and 2000-01 projected expenditures.

The last time it was necessary to increase the ABA was in 1990-91. In that drought year, the ABA was increased \$65 million to fund emergency water purchases, conservation kits, and pump an additional 350,000 acre-feet of Colorado River water over the amount used to develop the budget.

Policy

Metropolitan Water District Administrative Code Section 5107, Annual Budget

CEQA Compliance Statement

Options #1 and #2

The proposed action is not defined as a project under the California Environmental Quality Act (CEQA), because the proposed action involves the creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination for Options #1 and #2 is: Determine that the proposed action is not subject to CEQA per Section 15378(b)(4) of the State CEQA Guidelines.

Board Options/Fiscal Impacts

Option #1

- a. Adopt the CEQA determination;
- b. Approve a \$133.8 million increase in the fiscal year 2000-01 annual budget appropriation for a total appropriation of \$731.8 million for the projected annual cash outlays for Metropolitan O&M, including power costs on the Colorado River Aqueduct; SWP operations, maintenance, power and replacement costs, and SWP capital charges (including a portion of the July 2001 capital invoice); water management programs; and O&M costs associated with water transfer programs; and
- c. Appropriate an additional \$8 million, as continuing appropriations, for debt service on Metropolitan revenue bonds.

Fiscal Impact: \$141.8 million


Option #2

- a. Adopt the CEQA determination;
- b. Approve a \$97.6 million increase in the fiscal year 2000-01 annual budget appropriation for a total appropriation of \$695.6 million for the projected annual cash outlays for Metropolitan O&M, including power costs on the Colorado River Aqueduct; SWP operations, maintenance, power and replacement costs, and SWP capital charges (excluding the payment for the July 2001 capital invoice); water management programs; and O&M costs associated water transfer programs; and
- c. Appropriate an additional \$8 million, as continuing appropriations, for debt service on Metropolitan revenue bonds.

Fiscal Impact: \$105.6 Million

Staff Recommendation

Option #1



Brian Thomas
Chief Financial Officer

5/21/2001

Date



Ronald R. Oster
President & Chief Executive Officer

5/22/2001

Date

Attachment 1 – Projected Expenditures Fiscal Year 2000-01

BLA #1076

Metropolitan Water District of Southern California
Projected Expenditures
Fiscal Year 2000-01
(\$ in Millions)

With SWP Capital Payment*				
	2000-01	2000-01	Difference	
	Approved	Projected		
State Water Project	\$ 294.6	\$ 377.1	\$	82.5
Colorado River Aqueduct Power	34.9	92.5		57.6
MWD O&M	206.1	202.0		(4.1)
Water Management Programs	31.8	30.5		(1.3)
Water Transfer Programs	30.6	29.7		(0.9)
Subtotal	<u>598.0</u>	<u>731.8</u>		<u>133.8</u>
Debt Service Appropriations	225.0	233.0		8.0
Operating Equipment	3.5	3.5		-
PAYG Construction	75.0	75.0		-
Total Expenditures	<u>\$ 901.5</u>	<u>\$ 1,043.3</u>	<u>\$</u>	<u>141.8</u>

Without SWP Capital Payment*				
	2000-01	2000-01	Difference	
	Approved	Projected		
State Water Project	\$ 294.6	\$ 340.9	\$	46.3
Colorado River Aqueduct Power	34.9	92.5		57.6
MWD O&M and Operating Equipment	206.1	202.0		(4.1)
Water Management Programs	31.8	30.5		(1.3)
Water Transfer Programs	30.6	29.7		(0.9)
Subtotal	<u>598.0</u>	<u>695.6</u>		<u>97.6</u>
Debt Service Appropriations	225.0	233.0		8.0
Operating Equipment	3.5	3.5		-
PAYG Construction	75.0	75.0		-
Total Expenditures	<u>\$ 901.5</u>	<u>\$ 1,007.1</u>	<u>\$</u>	<u>105.6</u>

* "With SWP Capital Payment" assumes that MWD will be making its biannual capital payment in the current fiscal year, rather than on July 31.

"Without SWP Capital Payment" assumes that the payment will be made as usual and will be accounted in the 2001-02 fiscal year.