



**WEST BASIN MUNICIPAL WATER DISTRICT**  
17140 S. Avalon Blvd., Suite 210  
Carson, CA 90746

**AGENDA NO. \_\_\_\_\_**

**JANUARY 14, 2009 – Finance Committee**  
Gray (Chair), Smith  
**JANUARY 26, 2009 – Board Meeting**  
Prepared by: Mary-Ann Rexroad  
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Approved by: Rich Nagel

## INFORMATION CALENDAR

### FISCAL YEAR (FY) 2008-09 BUDGET MID-YEAR REVIEW

#### SUMMARY:

Each month a review is made of the budget versus actual analysis to identify variances to program expenditures and revenues. These variances are reviewed to determine if it is a result of timing or an actual impact to the overall year-end projections. As we approach mid-year, Finance staff met with each manager to discuss its current results and program expectations to estimate year-end projections. In addition, staff analyzed all water sales types to develop year-end sales projections.

The actual revenues and expenses for the first five months of FY 2008-09 have been favorable as compared to budget as a result of higher than anticipated imported and recycled water sales, and expenditures generally held within the anticipated pro-rated budget. The exception is the conservation program. The positive variance in public affairs (where conservation budget is maintained) essentially offsets the negative variance in other revenue (the incentives or grants for the conservation programs).

The unaudited actual net revenues for the period ending November 30, 2008 were \$2,899,866. This is \$989,368 higher than the budgeted net revenues for the same period. However, a review of the year-end projections is not as favorable. Listed below are explanations to the more notable variances.

#### **Imported Water Sales**

For budgeting purposes, West Basin assumes 95% of the 5-year average. This methodology has generally aided West Basin to budget conservatively and withstand the fluctuations from wet and dry years. However, this year the imported water sales have been trending lower than prior years' sales by approximately 800-1,000 acre-feet (AF) each month, with the month of November 2008 being over 1,500 AF less than November 2007. While some of the reduction of sales can be assumed for cooler weather in the recent months, staff expects that conservation messaging has played a part in reducing the acre-feet sales for imported water.

Staff has projected that the lower sales will continue through the end of the fiscal year and will result in an unfavorable variance of approximately \$420,000.

## **Recycled Water Sales**

Recycled water sales through November 2008 have exceeded sales from the prior year as well as budgeted sales for the same period. These sales are not typically affected by changes in the weather and are not negatively impacted from conservation messaging; however, the actual results have leveled due to the addition of the larger customer sales such as refineries or the Barrier.

Staff projects recycled water sales will continue at budgeted levels for the remaining seven months and expects the favorable variance of approximately \$1,500,000 at November 2008 to carry to year-end.

## **C. Marvin Brewer Desalter (Desalter) Sales**

During the first quarter, the Desalter was down as a result of bacterial issues. Staff budgeted sales at 100 AF per month, or 500 AF through November 2008; however, actual sales were only 121 AF. In early October 2008, the bacterial issues were corrected, and staff does anticipate that sales will continue at approximately 60 AF per month as it addresses other operation start-up issues.

For the fiscal year, anticipated sales are expected to be around 540 AF or approximately 45% less than the budgeted sales of 1,200 AF. This results in an unfavorable variance, as compared to budget, of \$533,000 for FY 2008-09.

## **Recycling Operations & Maintenance (O&M)**

Even with the higher recycled water sales, actual O & M expenses have only exceeded budget by \$177,300 for the period ended November 30, 2008. Unfortunately, this negative variance is expected to increase to approximately \$1,287,000 by the end of this fiscal year due to three primary areas:

- Electricity Costs – The cost of power has remained consistent over the last year with only small increases in prior years. At the time the FY 2008-09 Budget was being prepared in early 2008, power costs were not expected to increase dramatically. Staff did include a moderate increase; however, subsequent to the budget adoption, staff was informed that the rates for power, pending approval by the California Public Utilities Commission (CPUC), would increase by 15% – 20%. If the increase in power costs does materialize in 2009, the projected costs at fiscal year end are expected to exceed the budget by approximately \$300,000.
- Repairs & Maintenance Costs – During the first five months of the fiscal year, the cost of repairs and maintenance exceeded budget by approximately \$160,000 due to more than anticipated repairs for the aging infrastructure, but staff anticipates that it can maintain budget for the remaining seven months. Based on these factors, staff anticipates that the projected repairs and maintenance costs to exceed budget by approximately \$200,000.

- Chemicals – In early 2008, initial testing was performed at the Treatment Plant to test the viability of using less acid to optimize the pH levels of the recycled water. The testing had favorable results based on the water quality from Hyperion in early 2008. Unfortunately, as the fiscal year progressed, the quality of the water received from Hyperion deteriorated, which required the use of more acid to maintain acceptable pH levels. In addition, staff was aware that the cost of acid was increasing and budgeted for a 100% increase for this chemical in the FY 2008-09 Budget. Since the adoption of the FY 2008-09 Budget, the price of acid has increased more than five times and is expected to continue to increase. With the increase in the cost and quantities, staff expects costs to exceed budget by approximately \$700,000 to \$800,000 for FY 2008-09.

### **Debt Service**

Earlier in the calendar year, the Auction Rate Securities market saw unprecedented market uncertainty. The weekly interest rate resets sharply increased causing a significant impact to West Basin's overall financial performance. As a result, West Basin restructured its \$170 million of Auction Rate Securities in May 2008 to approximately \$130 million of fixed rate bonds and approximately \$40 million to Variable Rate Debt Notes. The anticipated costs for these restructurings were included in the FY 2008-09 Operating Budget. In particular, West Basin assumed a reasonable rate assumption for its variable rate bonds up to the swap rate of 3.6%.

For the first two months of FY 2008-09 the interest rates paid by West Basin were less than 2%, and well within the budget assumptions. However, beginning in mid-September 2008 the interest rates began to rise to over 5%. By the first week in October 2008 a significant portion of the variable debt was "put back" to West Basin's liquidity provider. As defined in the bond documents, West Basin's is to pay the liquidity provider 12% for the first 45 days and Prime plus 1% beginning on the 46<sup>th</sup> day. These "bank" bonds have remained at the liquidity provider bank and West Basin continues to pay Prime plus 1% (currently Prime is 3.25%) or 4.25%. For those bonds that continue to be remarketed, the rates have recently dropped to about 1.2% from a high of 8%.

In addition to the higher interest rate on the variable rate bonds, these bonds have an associated LIBOR based swap. West Basin pays a fixed rate of 3.662% and 3.515% and receives 65% of LIBOR. LIBOR has been decreasing since the beginning of the fiscal year thereby increasing the amount West Basin pays to its counter party each month.

Based on current market conditions, staff estimates that the projected actual costs for the senior debt service will exceed budget by approximately \$220,000.

### **Overall Results**

Taking into account all the issues discussed above, staff is currently projecting that net revenues will be approximately \$3,393,000, or \$714,000 less than budgeted for FY 2008-09 and the projected debt coverage will be 1.66 for senior, 1.49 for subordinate, and 1.15 overall.

## **Looking Ahead**

Staff will continue to monitor the budget versus actual revenues and expenses on a monthly basis, and update year-end projections as more information about program costs is known. As we prepare the budget for FY 2009-10, staff will draw upon these experiences to budget for the challenging times of water supply reliability, water quality and maintaining a solid financial result.

### **STRATEGIC BUSINESS PLAN IMPLEMENTATION:**

Goal 8, Finance – Manage finances to optimize the public’s investment return and minimize risk.

### **COMMITMENT STATEMENT:**

Sound Financial and Resources Management – West Basin is committed to efficient business operations, financial planning, and asset management.

### **FISCAL IMPACTS:**

Current bond coverage for both senior and subordinate debt levels will attain budgeted levels; however, total bond coverage is anticipated to decline from 1.19 to 1.15 as a result of the impacts described above.

### **ENVIRONMENTAL COMPLIANCE:**

Not applicable.

### **COMMITTEE STATUS:**

This item was reviewed at the Finance Committee on January 14, 2009 and agendized to the January 26, 2009 Board meeting as information for discussion.

### **RECOMMENDED MOTION:**

This item is for information only.

### **LIST OF EXHIBITS:**

Exhibit A – Budget vs. Actual (Through November 30, 2008)