



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Pending

10-1

April 21, 1998

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

From: *for* General Manager

Edward J. McArthur III

Subject: 1998-99 Proposed Annual Budget

RECOMMENDATIONS

1. Approve the 1998-99 Annual Budget;
2. Approve the identification of funding for the 1998-99 Annual Capital Expenditure Plan;
3. Appropriate \$547.4 million for District O&M and State Water Project (SWP) operations, maintenance, power and replacement costs; SWP capital charges; operations and maintenance cost associated with the Metropolitan/Imperial Irrigation District I Agreement; and Business Development activities;
4. Appropriate, as continuing appropriations, \$245.0 million for debt service on District general obligation and revenue bonds and interest payments on commercial paper;
5. Appropriate, as continuing appropriations, \$9.7 million for operating equipment and inventory supplies;
6. Allocate \$24 million for deposit into the Water Transfer Fund;
7. By a two-thirds vote, authorize expenditures subject to the amounts appropriated by the Board as detailed in the 1998-99 Annual Budget for the protection of Metropolitan rights and properties;
8. Find that the actions recommended in this letter are not subject to the California Environmental Quality Act either because the actions proposed herein are (i) exempted by Section 15301 of the State CEQA Guidelines as simply providing for the continued operation of existing facilities with no expansion of use beyond that previously existing; or (ii) exempted by Section 15378(b)(5) of the State CEQA Guidelines as constituting the creation of government funding mechanisms or other government fiscal activities which do not involve commitment to any specific project which may result in a potentially significant physical impact on the environment; and
9. Consider the recommendation of the Committee on Communications and Legislation to increase the community outreach effort by \$1.25 million.

EXECUTIVE SUMMARY

The proposed 1998-99 Annual Budget serves as the blueprint to achieve Metropolitan's goals and objectives. Management, through this budget, will focus on three key goals of Metropolitan: reliability, affordability, and water quality.

The budget also addresses Metropolitan's outreach programs, as well as its competitiveness through business development, grant acquisition, business process improvements, integrated technology systems, and investment in employee training.

In 1996, Metropolitan made a commitment to hold rates within the Rate Refinement parameters, eliminate 300 positions over a three-year period, maintain a level departmental O&M budget through productivity improvements and cost cutting, and design and construct the Capital Improvement Program (CIP) consistent with the goals of the Integrated Resources Plan (IRP).

The budget, transmitted herewith, meets this commitment. Estimated receipts total \$878.2 million. This, coupled with the proposed \$129 million reimbursement from the Metropolitan Water District Asset Financing Authority Corporation for the construction of the Union Station Headquarters Building and \$40 million from carry over pay-As-You-Go (PAYG) funds, should be sufficient to meet estimated obligations, excluding debt-financed CIP expenditures, of \$1.047 billion. The annual Capital Expenditure Plan for 1998-99 is estimated to be \$650.9 million.

MWD's basic commodity rates for water remain unchanged for 1998-99 at \$349 per acre-foot for untreated water and \$431 per acre-foot for treated water. Water sales are projected to be 1.708 million acre-feet (MAF), an increase of approximately 80,000 AF from 1997-98 projected actual.

DETAILED REPORT

Metropolitan is committed to keeping the cost of water as low as possible while meeting reliability, affordability, and water quality goals. Fiscal year 1998-99 promises to provide many opportunities to address specific initiatives as well as excel in core functions. Our goal is to manage costs so that the effective MWD rate for water services does not exceed \$430 per acre-foot in the year 2005. This rate target is well below the \$500 per acre-foot set just a few years ago and is the direct result of management's continuing commitment to improve efficiencies and lower costs at Metropolitan. The 1998-99 Proposed Annual Budget is consistent with this commitment.

For 1998-99, specific initiatives that will be addressed include rate and cost discipline, planning and strategic alignment, resource management, water quality, and communications. Major accomplishments for 1997-98 and initiatives for 1998-99 are outlined in Attachment A.

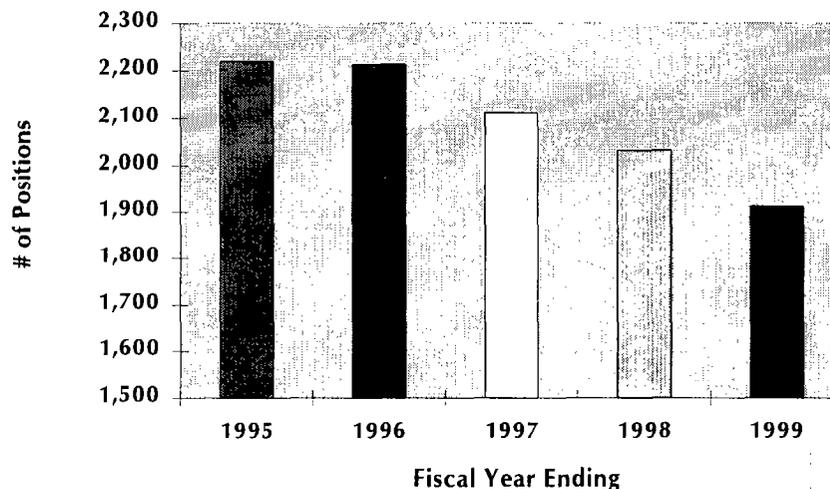
Staffing Trend and Reorganization

The proposed personnel complement for 1998-99 is 1,913 positions. The personnel complement is broken down as follows:

	1997-98	1998-99	Change
General Manager Department	1,991	1,868	-123
General Counsel Department	33	35	2
Audit Department	10	10	0
Total	2,034	1,913	-121

Over the three-year period from 1996/97 to 1998/99, 300 positions have been eliminated from the budget. This has been accomplished through the use of automation, process re-engineering, and elimination of non-value-added activities. The reductions have resulted from the elimination of vacant positions and attrition, and have been accomplished in cooperation with Metropolitan's bargaining units.

Budgeted Position Trend

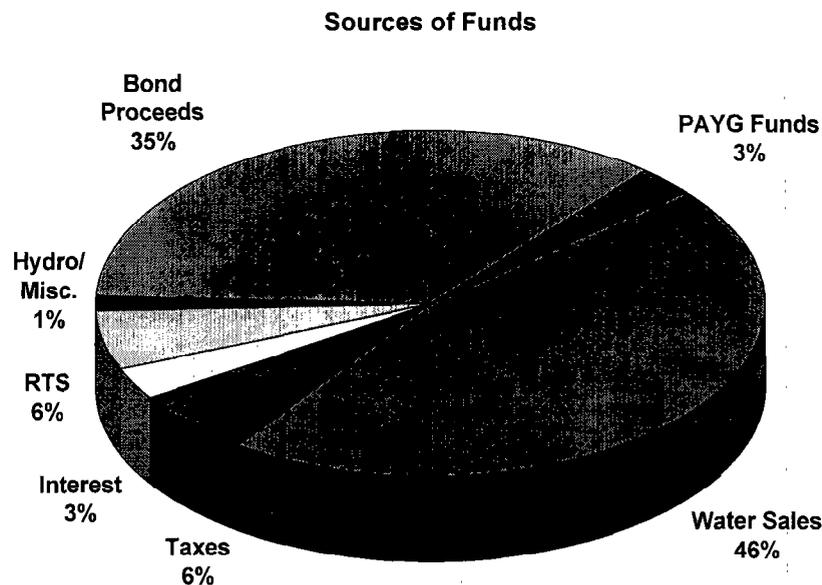


The General Manager's Department was reorganized to consolidate all legislative and public affairs activities to better coordinate and enhance Metropolitan's outreach efforts. At the same time, water conservation was transferred from Public Affairs to Planning & Resources to consolidate the water management programs. Additionally, there were numerous positions transferred within and between divisions and departments to better match the functional responsibilities. Transfers between divisions and departments included:

Positions	To	From
16	Communications	GM Office
3	Communications	Planning & Resources
1	Communications	GC Department
1	Communications	Finance & Bus. Serv.
12	Planning & Resources	Communications
1	Environmental Comp.	Human Resources
6	Operations	Water Quality

Sources of Funds

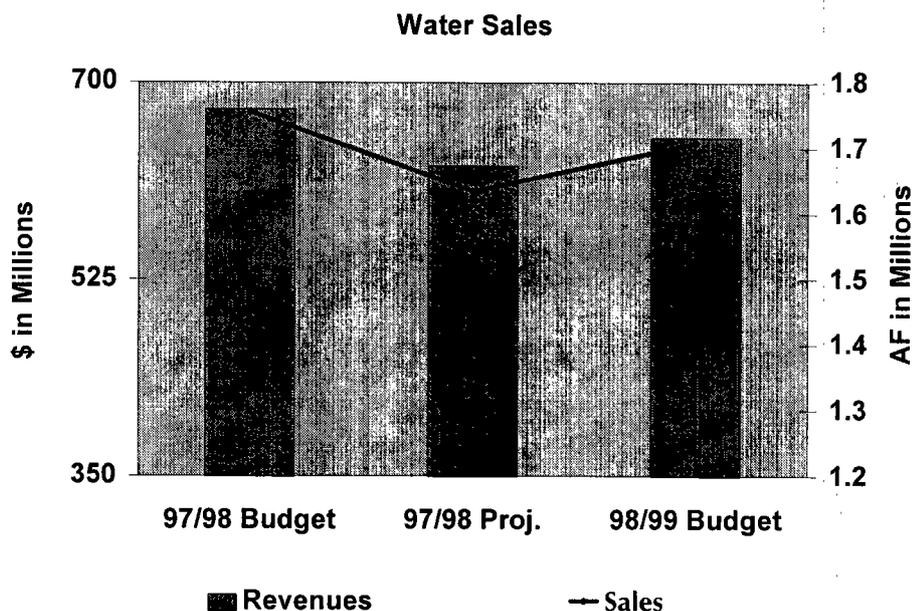
Estimated receipts from water sales, readiness-to-serve charges, taxes, interest, power recoveries, business development, and other income are projected to be \$878.2 million for Fiscal Year 1998-99. This is \$22.2 million less than the 1997-98 budget, but \$28.4 million more than projected actual. The variances are primarily due to projected water sales.



In December 1997, staff presented to your Board the estimated revenue requirements for the 1998-99 fiscal year. At that time, 1998-99 water sales were estimated to be 1.823 MAF. Water sales for 1998-99 are now estimated to be 1.708 MAF. This reduction is due to the unusually high precipitation experienced in the first quarter of calendar 1998 that has filled surface water reservoirs and groundwater basins in Southern California. Full local surface and groundwater reservoirs coupled with the projected supplies that will be available to the City of Los Angeles from the Los Angeles Aqueduct have resulted in substantially lower water sales estimates for both 1997-98 and 1998-99 and, consequently, lower estimated revenues.

Receipts from water sales for 1998-99 are estimated to be \$650.8 million based on water sales of 1.708 MAF. For 1997-98, water sales receipts were budgeted to be \$676.6 million based on

sales of 1.755 MAF. Water sales for 1997-98 are expected to be 1.635 MAF generating \$625.9 million.



The 1998-99 water sales mix includes 1.343 MAF of full service sales, 266,000 AF of seasonal storage sales, and 99,000 AF of agricultural sales. Treated sales are estimated to be 1.221 MAF. Water rates, as adopted by the Board, for fiscal year 1998-99 are shown on the table below.

Full Service		Long-Term Seasonal		Seasonal Shift		Agricultural	
Untreated	Treated	Untreated	Treated	Untreated	Treated	Untreated	Treated
\$349	\$431	\$233	\$290	\$255	\$312	\$236	\$294

Receipts from taxes and annexation fees, which will be used to pay voter-approved debt service on general obligation bonds and a portion of the capital costs of the State Water Contract, are estimated to be \$85.9 million based on the same tax rate used for the 1997-98 tax levy (.0089%). This rate has been in effect since fiscal year 1991-92. Tax receipts are projected to be \$1.7 million more than the current year's budget. Assessed valuations are estimated to increase by approximately two percent.

Readiness-to-Serve (RTS) charge receipts for 1998-99 are estimated to be \$80 million as compared to \$76 million in 1997-98. The additional \$4 million reflects the action your Board took in March 1997 to increase the RTS by \$8 million effective January 1998. One-half of the additional \$8 million in RTS collections was reflected in the 1997-98 budget and the other half is included in the 1998-99 budget. As approved by your Board in March 1998, the RTS will remain at \$80 million for 1999.

The RTS is set to recover a portion of the principal and interest payments on non-tax supported debt service that has been or will be issued to fund capital improvements necessary to meet the continuing reliability and water quality needs associated with current demands.

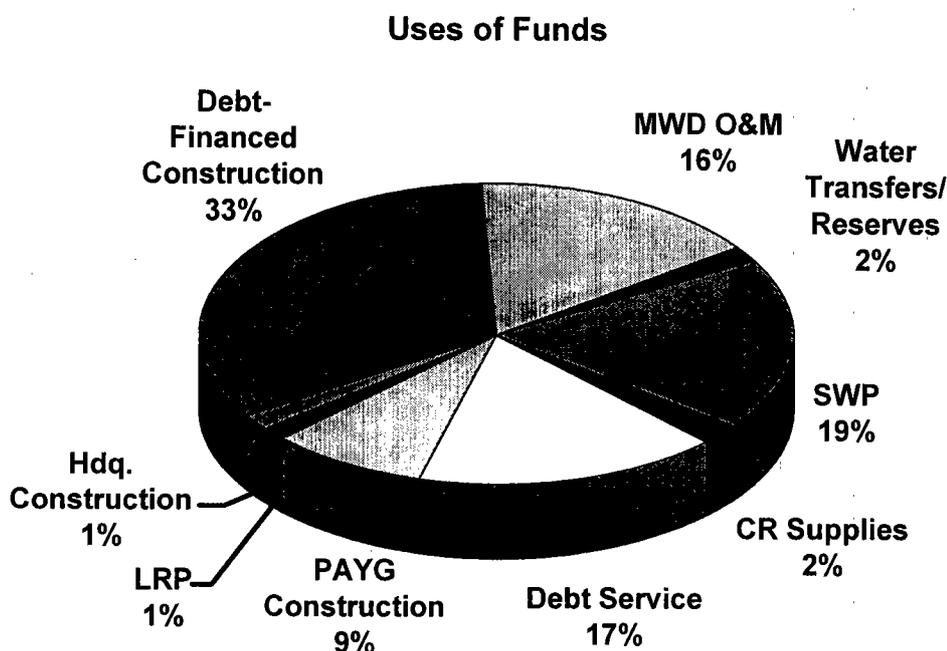
Interest earnings are estimated to total \$41.4 million, excluding trust accounts and construction funds. Receipts from power recoveries, connection maintenance charges, and other miscellaneous sources are estimated to be approximately \$16.7 million. Business Development revenues are projected to be \$3.3 million.

Other sources of funds include \$498.5 million from bond proceeds and \$40 million of carryover funds from the PAYG Fund.

In total, \$1.417 billion will be available for expenditures and other obligations. Of that amount, \$58.7 million is projected to be transferred into the Water Rate Stabilization Fund (WRSF). A further discussion of transfers to the WRSF is included under Uses of Funds.

Uses of Funds

Total obligations are estimated to be \$1.417 billion. Expenditures to be funded from current year receipts total \$878.2 million. Total expenditures and obligations, by major category are explained below.



District Operations and Maintenance

The target established in the 1996-97 budget was to hold MWD departmental Operations and Maintenance (O&M) budgets level over a three-year period. The 1998-99 budget meets this target. In fact, the departmental budget is \$5.0 million less than in 1996-97. The budget for the General Manager's Department, General Counsel's Department, and Auditor's Department total \$215.2 million. This is \$1.1 million less than the 1997-98 budget. The elimination of positions and other cost cutting measures have, for the most part, enabled Metropolitan departments and

divisions to remain flat and, in most cases, reduce costs. Salary adjustments associated with the Memoranda of Understanding with AFSCME Local 1902, the Management and Professional Association, the Supervisors Association, and the Association of Confidential Employees, merit increases, and cost increases for goods and services resulting from inflation have been absorbed. However, there are other costs which are higher. Approximately \$8.9 million has been included for initial start-up costs, purchases of operating equipment, and other expenses for the Union Station Headquarters Building. The budget also includes \$1.8 million for the 1998-99 portion of the Windows NT/Windows 95 Migration Project.

Total District O&M costs, including operating equipment, are budgeted at \$232.5 million. A more detailed discussion of O&M costs are presented in Attachment B.

It should be noted that the Committee on Communications and Legislation at its April 21, 1998 meeting recommended that the Communications Division O&M budget be increased from \$11.07 million to \$12.32 million. This \$1.25 million increase would be used to bolster Metropolitan's community outreach efforts (see Attachment C).

Colorado River Supplies

Colorado River Supplies are budgeted at \$34.7 million. Pumping costs on the Colorado River Aqueduct are estimated to be \$21.1 million, a \$3.7 million decrease from the 1997-98 budget but a \$1.8 million increase from projected actual. The increase from projected actual reflects increased diversions. Diversions are estimated to be 1.160 MAF for 1998-99 as compared to 1.151 MAF for 1997-98.

Estimated expenditures associated with the Imperial Irrigation District (IID) I Agreement total \$7.0 million. This is \$3.2 million more than the 1997-98 budget but \$267,000 less than projected actual. The increase over the 1997-98 budget is due to the timing of planned funding calls by the IID.

Other Colorado River supply costs are estimated to be \$6.6 million and are primarily associated with off-stream storage programs.

State Water Contract

Total payments under the State Water Contract are projected to be \$275.0 million. This is \$13.3 million less than the 1997-98 budget but \$16.3 million higher than the projected actual. The decrease from the 1997-98 budget is primarily due to the completion of Metropolitan's three-year commitment to provide advance funding for Bay Delta Category III projects.

The increase from projected actual is essentially due to the fact that credits for 1997-98 are projected to be substantially higher than those budgeted for 1998-99. Approximately \$70 million in credits are projected to be received in 1997-98. Of that amount, \$47.4 million were budgeted. Additional credits include power credits of \$13.8 million, replacement reserve credits of \$7.3 million, and \$3.8 million in excess interest earnings credits. The 1998-99 budget estimates \$35.5 million in credits.

Deliveries from the State Water Project for 1998-99 are estimated to be 689,000 AF, an increase of 114,000 AF from 1997-98 projected actual. This quantity of water will enable Metropolitan to

deliver a blend of water that has an average salinity concentration of 500 to 550 milligrams per liter at specified locations within Metropolitan's system during the months of April through September.

Local Resources Program

Metropolitan provides financial assistance to its Member Agencies for the development of local water recycling and groundwater recovery projects under the Local Projects Program (LPP) and the Groundwater Recovery Program (GRP).

Metropolitan has entered into LPP agreements to provide financial assistance to 42 water recycling projects. Thirty-three of these projects are in operation and the remaining nine projects are under design or construction. Metropolitan's contribution to 26 of these projects is fixed at \$154 per acre-foot and the remaining projects receive from \$0 to \$250 per acre-foot depending upon actual project cost. Recycling projects that receive Metropolitan contributions are expected to produce about 77,000 acre-feet of recycled water principally for landscape irrigation, nurseries, groundwater recharge and industrial uses in 1998-99 at a cost to Metropolitan of about \$16.5 million.

Metropolitan has entered into GRP agreements to provide financial assistance to 11 projects that recover contaminated groundwater. Metropolitan's contribution to these projects varies from \$0 to \$250 per acre-foot. Operating groundwater recovery projects are expected to produce about 22,000 acre-feet of mostly municipal water supplies in 1998-99 at a cost to Metropolitan of about \$5.0 million.

Debt Service

Debt service on Metropolitan's general obligation bonds, revenue bonds, and commercial paper is estimated to be \$245.1 million. This is \$40.5 million higher than the 1997-98 budget and \$44.7 million more than projected actual. The increase is mainly attributed to additional debt service payments associated with the \$650 million revenue bond sale conducted in November 1997 and the \$100 million variable rate revenue bond issue sold in March 1998. Staff is planning for a \$300 million revenue bond issue in 1999. The proceeds from debt issuances are used to fund Metropolitan's CIP.

Debt Financed Capital Construction

The majority of the CIP is financed through the issuance of a mixture of short- and long-term debt. In 1998-99, \$498.5 million from debt proceeds will be used to fund design, right of way, and construction of the CIP.

Pay-As-You-Go Capital Construction

Expenditures from the PAYG Fund for construction expenditures are estimated to be \$130 million. This is \$10 million less than the 1997-98 budget but \$15 million more than the 1997-98 projected actual. This level of expenditures will keep the cumulative PAYG amount within the District's policy of funding 20 percent of the CIP from operating revenues. \$90 million will be generated from 1998-99 operating revenues, and the balance represents PAYG Funds carried over from prior years.

Union Station Headquarters Construction Funding

Expenditures on the construction of the Union Station Headquarters Building are estimated to be \$22.4 million for 1998-99. Construction is scheduled for completion in October 1998. The total cost of the project is estimated to be approximately \$135 million. The General Fund has been used to fund the design and construction of the Union Station Headquarters Building. However, after the move to Union Station has been completed and the lease with Cal Plaza terminated, it is anticipated that the Metropolitan Water District Asset Financing Corporation (MWD AFC) will issue debt to generate approximately \$129 million in funds that will be used to reimburse the General Fund for the construction expenditures. The proceeds from the MWD AFC debt sale, coupled with \$6 million that was received from the sale of the Sunset Boulevard property, represent the funding sources for the project. The \$129 million debt financing is anticipated to be repaid to MWD AFC by Metropolitan as lease payments.

Water Transfer Payments/Deposits

Deposits to the Water Transfer Fund are budgeted at \$24.0 million, the same as in 1997-98. It is anticipated that approximately \$4.6 million will be used to fund the Arvin Edison Water Storage District program and \$500,000 has been earmarked for the development of additional programs. The balance, \$18.9 million, will be deposited in the Water Transfer Fund to provide funding to fill the Eastside Reservoir.

Reserve and Water Rate Stabilization Fund Transfers

Reserve transfers are projected to be \$3.5 million. The transfers will fund required restricted reserves and all bond covenants and Board policies regarding reserves will be complied with under the proposed budget.

It is anticipated that approximately \$92 million will be drawn from the Water Rate Stabilization Fund (WRSF) during fiscal year 1997-98 to cover expenditures. The balance in the WRSF is projected to be approximately \$105.7 million as of June 30, 1998. Based on the estimated receipts, expenditures and anticipated reimbursement from MWD AFC during 1998-99, it is projected that approximately \$58.7 million would be available at the end of fiscal year 1998-99 to be transferred to the WRSF. Coupled with interest earnings, the balance in the WRSF is projected to be approximately \$164.4 million on June 30, 1999. It should be noted that for the second straight year reserves are being used to finance the budget. If MWD AFC does not issue debt to reimburse Metropolitan, an additional \$70.5 million would be drawn from the WRSF during 1998-99 to meet obligations. This would result in a balance of approximately \$35.2 million in the WRSF as of June 30, 1999.

Table 1 shows sources and uses of funds for fiscal year 1998-99.

TABLE 1

1998-99 ANNUAL BUDGET SOURCES AND USES OF FUNDS (\$ in Thousands) (Cash Basis)						
	1997-98 Adopted Budget	1997-98 Projected Actual	1998-99 Annual Budget	Difference 1998-99 Annual Budget vs. Projected 1997-98 Actual Budget		
Sources of Funds						
Receipts						
Water Sales	\$ 676,600	\$ 625,900	\$ 650,782	\$ 24,882	\$ (25,818)	
Taxes	84,272	84,273	85,958	1,685	1,686	
Readiness to Serve Charge (RTS)	76,050	76,051	80,000	3,949	3,950	
Interest on Investments	44,277	44,184	41,444	(2,740)	(2,833)	
Power Recovery and Miscellaneous	15,684	15,687	16,729	1,042	1,045	
Business Development	3,545	3,609	3,300	(309)	(245)	
Total Receipts	\$ 900,428	\$ 849,704	\$ 878,213	\$ 28,509	\$ (22,215)	
Projected Use of Stabilization Funds	72,956	91,983	0	(91,983)	(72,956)	
Projected Use of Prior Year Year PAYG Funds	50,000	25,000	40,000	15,000	(10,000)	
Projected Use of Debt Proceeds for Construction	496,834	387,817	498,469	110,652	1,635	
Total Sources of Funds	\$ 1,520,218	\$ 1,354,504	\$ 1,416,682	\$ 62,178	\$ (103,536)	
Uses of Funds						
Expenditures						
State Water Project	\$ 288,320	\$ 258,764	\$ 275,041	\$ 16,277	\$ (13,279)	
Water Transfer Payments	21,800	21,800	5,100	(16,700)	(16,700)	
Colorado River Supplies	28,691	29,846	34,685	4,839	5,994	
MWD Capital Construction Financing Program						
- Debt Service	204,571	200,383	245,050	44,667	40,479	
- Pay As You Go Constructon (1)	140,000	115,000	130,000	15,000	(10,000)	
- Union Station Headquarters Construction	54,437	58,285	22,422	(35,863)	(32,015)	
- Reimbursement from MWDFAC	0	0	(129,000)	(129,000)	(129,000)	
Debt-Financed Construction Expenditures	496,834	387,817	498,469	110,652	1,635	
MWD O&M and Operating Equipment						
- Departmental Costs	216,348	210,017	215,216	5,199	(1,132)	
- Other Costs	34,412	32,205	7,568	(24,637)	(26,844)	
- Operating Equipment	8,111	8,001	9,739	1,738	1,628	
Local Resources Program	15,193	15,193	21,490	6,297	6,297	
Total Expenditures	\$ 1,508,717	\$ 1,337,311	\$ 1,335,780	\$ (1,531)	\$ (172,937)	
Water Transfer Deposits	2,200	2,200	18,900	16,700	16,700	
Adjustments in Reserves	9,301	14,993	3,524	(11,469)	(5,777)	
Increase in Rate Stabilization Funds	0	0	58,478	58,478	58,478	
Total Uses of Funds	\$ 1,520,218	\$ 1,354,504	\$ 1,416,682	\$ 62,178	\$ (103,536)	

(1) \$90M per year of PAYG funded from water sales.

Attachment A to 10-1

Major Accomplishments and Initiatives

Reliability

First and foremost, Metropolitan met all of the water demands of its member agencies during 1997-98. On the supply side, Metropolitan obtained the concurrence needed for California's use of unused Arizona and Nevada water and surplus water to operate the Colorado River Aqueduct up to its full capacity in calendar year 1998. Metropolitan also supported the CALFED process through securing stakeholder agreement on components of the Bay-Delta solution and obtained an extension of the 1994 Bay-Delta Accord.

Additionally, Metropolitan concentrated on developing a consistent and fair process for procuring resources and storage to ensure reliable supplies through 2020. Numerous groundwater conjunctive use programs were implemented within Metropolitan's service area and California's Central Valley. Agreements to negotiate program principals for Colorado River Aqueduct off-stream water banking and dry-year supplies were also reached.

Construction of the Eastside Reservoir and Inland Feeder continued. At the Eastside Reservoir, the West Dam embankment fill is now above grade; the East Dam cutoff wall has been completed, the foundation preparation is nearing completion and embankment fill is proceeding; work is proceeding on the pressure control structure, secondary inlet, and north rim remediation; and the Recreation Master Plan has been completed and the entitlement process is underway.

By the end of fiscal 1998, final design on the Inland Feeder will be substantially completed and construction contracts for the majority of sections of pipeline will have been awarded. Also during the year, construction was completed on a 3,400-foot portion of pipeline adjacent to a Redlands Unified school.

Both projects are on schedule and within budget.

For 1998-99, objectives include (1) providing support to implement the CALFED plan, (2) participating in the development and/or implementation of the "California 4.4 Plan," whereby the state will live within its entitlement of Colorado River water, (3) concluding negotiations with the San Diego County Water Authority concerning the price at which water can be transferred through Metropolitan's system and establishing a precedent for future wheeling arrangements, (4) updating the elements of the Integrated Resources Plan including the use of a longer-range planning window and more effective communications with stakeholders throughout the region, and (5) proceeding with the design and construction of the Capital Improvement Program.

Affordability

The cornerstone of affordability is controlling O&M and capital expenses - consistently one of Metropolitan's highest priorities. Since 1996, 300 positions have been eliminated through re-engineering and technology driven efficiencies. The departmental operating budget has been reduced by 4.6 percent. Adjusting for inflation and negotiated salary adjustments, the effective reduction is 10 percent. This has been accomplished while improving services to our member agencies. As a result of increased efficiencies, Metropolitan will operate and maintain its expanding system in 1998-99 with the same departmental budget required in 1992-93.

On the capital side, Metropolitan conducted three debt sales during fiscal year 1997-98 to continue funding the Capital Improvement Program. In July 1997, \$100 million in commercial paper was sold at an initial interest rate of 3.15 percent. In November 1997, \$650 million in revenue bonds were sold at a true interest cost of 5.27 percent. This was over 10 basis points lower than Metropolitan's average cost of capital and was achieved, in part, because of Metropolitan's strong financial position. In March 1998, \$100 million in variable rate revenue bonds were sold at an initial interest rate of 3.05 percent. This compares favorably with other AA tax exempt issuers.

Turning to business development efforts, the Seawater Desalination Program, a Services-for-a-Fee Program, and Intellectual Property Sales/Leases Program were the focus in 1997-98. It is anticipated that this program will provide a contribution to fixed cost of over \$1 million in fiscal year 1997-98.

Striving to meet the Cost and Rate Discipline objectives for 1998-99, Metropolitan will (1) develop a new Strategic Plan that will address organizational issues taking into account industry trends, (2) implement recently developed management plans in the Engineering, Operations, and Finance & Business Services divisions, (3) implement a new information technology governance structure to optimally prioritize, fund and deploy resources to support information technology efforts and initiatives, and (4) complete several strategic automation projects.

Additionally, staff will be exploring alternative revenue structures to reduce variability of fixed cost recovery and to improve resource management price signals. Strategies to implement long-term rate structure reforms will be developed in conjunction with the Rate Refinement Task Force.

Water Quality

In 1997-98, Metropolitan was in 100 percent compliance with drinking water standards and the California Department of Health Services permit requirements for treatment and distribution facilities and monitoring programs. It is Metropolitan's goal to always meet or surpass all federal and state drinking water standards. Additionally, Metropolitan won the "Toast of the Tap" contest, establishing Metropolitan's water as the best tasting in the United States.

A number of proactive steps were taken to provide legislative and regulatory input for Source Water Protection and the Safe Drinking Water Act in 1997-98. Metropolitan also developed water quality objectives for the Bay-Delta CALFED process with other California urban water agencies. A pathogen monitoring program (including Cryptosporidium and Giardia) continued for Metropolitan's source waters and reservoirs and, in partnership with the Department of Water Resources, for the State Water Project.

Metropolitan provided comprehensive service on water quality regulatory, legislative and consumers issues to its member agencies through the Member Agency Water Quality Managers meetings and briefings. Workshops on emerging water quality issues were conducted and staff provided troubleshooting expertise to member agencies during water quality emergencies.

Activities for 1998-99 will center on developing long-term solutions for lowering average salinity levels in water deliveries to member agencies, continuing outreach efforts with and through member agencies to raise consumer awareness of the region's high quality of water, and continuing with the design of the ozone retrofit program at the Jensen and Mills treatment plants.

Outreach and Communications

In order to achieve our reliability, affordability, and water quality goals, Metropolitan must have the support of many stakeholder groups. To this end, a Communications Division was created during 1997-98 that consolidated the legislative and public affairs functions into one division and signified the increasing importance of effective outreach to Metropolitan's constituents. During 1998-99, coordinated programs designed to increase the awareness of Metropolitan's mission among its stakeholders, including member agency customers, retail consumers, the business community, and elected officials will be developed and implemented.

Attachment B to 10-1**MWD O&M****Union Station Headquarters Start-Up Costs**

The Union Station Headquarters building is scheduled for completion in October 1998, and the move-in process will begin shortly thereafter. The guiding principles for the move include (1) executing a transparent and seamless move; (2) utilizing existing staff to manage the move effort; (3) relocating all existing furniture and purchasing new furniture only as necessary to furnish the committee, conference, and training rooms, and cafeteria; and (4) purchasing the necessary shop tools and equipment to maintain the building. Moving costs are expected to be approximately \$1.3 million. Start-up costs are projected to be \$4.3 million. Included in this estimate is the telephone switch refurbishment; partition panel installation; and initial cafeteria, security and property management operations. Operating equipment purchases are estimated to be approximately \$1.1 million. Major items include approximately \$500,000 for furniture; \$150,000 for major equipment items such as a window washing platform, scissor lifter, and a trash compactor; and \$100,000 for audio visual and computer equipment.

The total move and start up costs, including expenditures of \$3.4 million made in fiscal year 1997-98, total \$10.1 million. In comparison, the move to Cal Plaza cost approximately \$14.2 million.

Additionally, \$2.2 million is required to fund on-going operational expenses such as utility charges, janitorial and elevator maintenance, and building engineering services for operating plant equipment such as the heating, air conditioning, and ventilation equipment.

Windows NT/Windows 95 Migration Project

This is the third and final year of the Windows NT/Windows 95 upgrade project. Metropolitan undertook this project to (1) stay current in the mainstream hardware and software markets in order to have access to the largest range of product choices, protect Metropolitan's investment in major production systems like Oracle and Peoplesoft, and take advantage of lower commodity prices in the mass market; (2) achieve greater employee productivity from fewer system failures and crashes as a result of a more stable environment; (3) implement security levels that are appropriate for each system/network while simplifying technical support; and (4) increase productivity through multi-tasking.

By the end of fiscal year 1998-99, it is estimated that a total of 1,300 professional workstations will have been replaced at a cost of approximately \$6 million.

Business Development

It is anticipated that \$2.1 million will be spent on Business Development Projects in 1998-99. Most of the projects will be in the Services-for-a-Fee Program. Examples include projects such as machine shop services for the Department of Water Resources, water quality lab services for Orange County Water District, and pipeline reliability work for Calleguas Municipal Water District. Revenues generated by these jobs will be greater than the costs.

Grants

It is anticipated that the Water Quality Division will garner approximately \$1 million in grants to leverage the cost of performing core functions. Grants are focused on microbial methods, taste and odor work, disinfection byproducts, source protection and desalination of Colorado River Water. The work will be done primarily by temporary employees and cooperative work/study students. It should be noted that hiring additional staff is contingent upon receiving firm commitment for revenues.

Attachment C to 10-1

Finance and Business Services
April 21, 1998
Page 1 of 4

Date: April 24, 1998
To: Chairman, Budget and Finance Committee
From: Chairman, Committee on Communications and Legislation
Subject: Modification to Fiscal Year 1998-1999 Communications Budget

RECOMMENDATION

The Committee on Communications and Legislation recommends the Communications Division Budget for Fiscal Year 1998-1999 be increased by \$1,250,000.

EXECUTIVE SUMMARY

On April 21, 1998, the Committee on Communications and Legislation met to receive and discuss the budget proposal for the Communications Division for Fiscal Year 1998-1999. Based on comments and in response to questions expressed by the members of the committee, the committee voted to recommend an increase in the Fiscal Year 1998-1999 Communications Division budget by \$1,250,000. The proposed increase would be allocated as follows:

• Communications Strategic Message Plan and Implementation Program	\$ 250,000
• Manpower/Human Resources (Internal and External)	300,000
• Upgraded Facilities Inspection Trips	250,000
• Travel, Overtime, Expenses for Speakers Bureau, etc.	<u>200,000</u>
	Subtotal \$1,000,000
Unspecified Contingency	<u>250,000</u>
	Total Increase \$1,250,000

In direct response to questions by the committee members, staff indicated that the Fiscal Year 1998-1999 budget included increases in the legislative areas of the Communications Division. However to comply with the General Manager's directive to submit a "flat" budget, other activity areas either had to be reduced or remain at existing levels, and new activities could not be undertaken. In discussion with committee members during the presentation, it was apparent

that there are additional performance expectations for the strategic communications and community outreach areas. As a result, an increase in the Division's budget is proposed in order to enhance the level of activities, programs and effectiveness of the communications and community outreach areas, similar to those increases reflected in the legislative areas.

DETAILED REPORT

In August of 1997 the Board authorized the General Manager to create the division of Communications headed by the Chief of Communications. This organizational change was based on identified increased Board of Directors' expectations in performance and effectiveness in both internal and external communications and legislative activities. As a result of this organizational change, the resulting staff included a combination of existing personnel from the Public Affairs and Legislative Affairs units, some recommended and implemented promotions, transfer of other personnel from the Office of the General Manager, Office of the General Counsel and the divisions of Planning and Resources, Finance and Business Services, and Engineering, and the appointment of an Interim Chief.

In preparing the Fiscal Year 1998-1999 budget, emphasis was placed on maintaining recent enhancements of external resources providing assistance to the legislative affairs portion of the Division's activities and focus. Additionally in the legislative unit promotions and a new position were also provided in the budget to balance the internal resources needed to fully maximize the benefits of the added external resources. As a result, the legislative portion of the budget is considered adequate to address the significant expectations shared by the Board of Directors.

The other two work units in the Division include the traditional Public Affairs group which includes media relations, publications and educational programs, and the newly created Community Affairs group which includes ongoing community outreach and special programs such as the Bay-Delta outreach group transferred from Planning and Resources. Some additional expectations were identified by committee members for these other working units, including:

- Upgrading the level of inspection trips for Board of Directors and key opinion makers; expanding those trips to feature special focus trips for the Bay-Delta and Colorado River and California Plan issues.
- Allocating additional funds for the Speakers Bureau to allow trained personnel from other Metropolitan work areas to continue to perform speaking engagements within their own communities and have the expenditures charged appropriately to the Communications Division.
- Developing enhanced community outreach programs to communicate better with all interests in Metropolitan's diverse service area.

- Developing a specific outreach effort targeted at “business opinion leaders,” such as corporate Chief Operating Officers, who have substantial business operations within Metropolitan’s service area. Objectives would include not only education in water policy issues, and how these conditions affect companies’ “bottom lines,” but also ally development.
- Developing a Communications Strategic Message Plan and implementation program to ensure effective, coordinated and strategic communications throughout Metropolitan, with its member agencies, and the public.
- Providing funds for external and temporary staffing necessary to implement the strategic communications plan.
- Providing unspecified contingency for new or currently unanticipated legislative and communications issues which may emerge, or increased levels of activity required for anticipated activities.

The communications assistance programs which are anticipated during the Fiscal Year 1998-1999 in the communications portion of the Division include:

- Bay-Delta and CALFED outreach
- California Plan outreach and its importance to the entire service area
- Metropolitan Strategic Plan, including Rate Structure and Governance issues

The Communications staff in Public Affairs and Community Affairs will provide direct assistance for the other divisions in Metropolitan engaged in these important resource management issues. The ability of Metropolitan to continue to provide adequate water supplies at the least possible cost and meet its operational goals depends in part on our ability to communicate the Board’s policies and programs effectively to appropriate, diverse audiences. The proposed increases in the budget, the Committee on Communications and Legislation has identified, will ensure Metropolitan’s effectiveness in meeting these goals and will help meet the expectations of the committee members.

As a result, on behalf of the Committee on Communications and Legislation, a proposal to increase the Fiscal Year 1998-1999 Communications Division budget by \$1,250,000 is recommended to the Budget and Finance Committee for approval.

In addition to the budget increase recommendation for Fiscal Year 1998-1999, the three-year projection for the Communications Division budget would be expected to increase by approximately \$750,000 for the second year and \$500,000 for the third year, from the amounts currently included in the budget documents.

Further comments from members of the committee were related to the use of the term "other" in the generalized budget charts located on page B-05-11. Following the same budget presentation templates used by the other divisions in Metropolitan, the Communications budget was organized into Salaries & Additives, Professional Services, and Other. The "Other" classification includes all supplies and materials, travel and expenses, promotional and educational products and similar non-staff salary expenses. These classifications mirror exactly the groupings used by the other divisions and reflect the same kinds of expenses that may be incurred by others throughout Metropolitan.

Phillip J. Pace, Chairman
Committee on Communications
and Legislation

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