



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Daren E. Duff
Executive Secretary

January 28, 1992

To: Board of Directors (Finance and Insurance Committee--Information)
Board of Directors (Water Problems Committee--Information)
From: General Manager
Subject: Revenue Design Study

Report

A comprehensive study of Metropolitan's revenue structure has recently been commissioned. The study will address the District's water supply and demand forecasting methodology, revenue/reserve requirements, classes of service/rate structures, other revenue mechanisms, and the relationship of the Capital Improvement Program to operations and maintenance budgets. Staff has engaged the services of a team of consultants to perform the study. The team which is led by Black & Veatch also includes Price Waterhouse; Fieldman, Rolapp & Associates; Stradling, Yocca, Carlson & Rauth; Recht Hausrath & Associates; and E. W. Moon.

The study responds to financial challenges associated with the drought, the on-going capital improvement program, and legislation (AB 1794) introduced by State Assemblywoman Gwen Moore. The bill, as originally drafted, would have restricted the Board's discretion in fixing water rates and maintaining reserves. However, the legislation was amended and, in its present form, requires Metropolitan to conduct a study to investigate water supply and demand management strategies which will result in reliable water supplies at reasonable costs, consistent with the State's goals for environmental protection. The study is to address (1) rate design, including the impact of rate design on use and the development of alternative rate designs which provide stable revenues and encourage conservation; (2) methods of forecasting water supply and demand which enable the District to more accurately forecast water sales from year to year; and (3) the relationship among the District's capital improvement program, water demand forecasting, and the development of budgets and revenue requirements. The legislation calls for the study to be submitted to the California Legislature and Metropolitan's Board of Directors on or before June 30, 1992. It should be

noted that AB 1794 was introduced in March 1991 as a two-year bill and, to date, has not been approved by the Legislature.

Requests for proposals (RFP) were sought from 26 firms. Eight proposals were received. Attachment 1 lists the firms which responded to the RFP. The proposals were evaluated on (1) the experience of the firms in revenue and rate studies for the water industry, utilities and governmental agencies; (2) qualifications and depth of assigned staff, particularly in rate studies and water resource engineering; (3) approach to the study including use of subcontractors; (4) availability and accessibility of staff to accomplish the project in the timeframe required; and (5) cost effectiveness. Additionally, the firms were required to evidence affirmative action/equal opportunity plans.

The team headed by Black and Veatch was selected based on the depth of their experience and expertise. The project team is comprised of experts in the field of water utility management, financing, rates and law. Woman-owned and minority-owned business enterprises are part of the team. The cost of the study will not exceed \$240,000. Funds are available under the Annual Budget Appropriation.

Work has commenced, and one of the first items of work is to develop a questionnaire that will be sent to each director within the next few weeks. As part of the questionnaire, there will be a place to indicate if a director wishes to be interviewed for the study. Additionally, a member agency advisory committee will be established to provide input.

A task team consisting of representatives from the Finance, Planning, Resources, and Engineering divisions has been established to review the work of the consultants. It is anticipated that an initial draft of the study will be submitted to staff during April, and the final report will be submitted to your Board at its June 1992 meeting. As the study progresses, staff will provide updates to your Board.

Board Committee Assignments

This letter was referred to:

The Finance and Insurance Committee pursuant to its authority to determine revenues to be obtained through sales of water under Administrative Code Section 2441(e).

The Water Problems Committee pursuant to its authority to determine the selling prices of water under Administrative Code Section 2481(c).

Recommendation

For information only.


Carl Boronkay

MCF:lg
045MCF

Attachment

ATTACHMENT 1

Proposals for the revenue design study were received from the following firms:

1. Barakat & Chamberlin, Inc. in association with
Water Resources Management, Inc.
E. W. Moon
KPMG Peat Marwick
Seidler-Fitzgerald Public Finance
2. R. W. Beck and Associates in association with
Rauscher Pierce Refsnes, Inc.
3. Black and Veatch in association with
Price Waterhouse
Fieldman, Rolapp & Associates
Stradling, Yocca, Carlson & Rauth
Recht Hausrath & Associates
E. W. Moon
4. Cordoba Corporation in association with
Putnam, Hayes, & Bartlett
5. Deloitte & Touche
6. Ernst & Young in association with
James M. Montgomery, Inc.
Grigsby/Graves
7. Reiter Lowry Consultants
8. Spectrum Economics, Inc. in association with
Dames & Moore
E. W. Moon
Gilmore & Bell