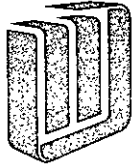


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**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

*Karen E. Duff*  
EXECUTIVE SECRETARY

December 27, 1991

To: Board of Directors (Finance and Insurance Committee--Information)  
(Water Problems Committee--Action)

From: General Manager

Subject: Recommended Water Rates to Become Effective July 1, 1992

Report

Administrative Code Section 4304(c) requires that the General Manager present to the Water Problems Committee recommendations for water rates for the next fiscal year based on the Finance and Insurance Committee's determination of required water revenues. By letter dated November 27, 1991, as revised December 16, 1991, the General Manager presented his determination of the revenues to be derived from water sales during 1992-93 to the Finance and Insurance Committee for consideration at its special meeting on December 19, 1991.

As explained in the General Manager's letter dated October 17, 1991, the General Manager proposed a five-point program to reduce expenditures, raise \$50 million in firm revenue from a water standby or availability of service charge, and defer selected capital projects to minimize the required increase in water rates. However, information was requested by your Board to further reduce the required increase in water rates for 1992-93. In the November 27, 1991 letter of the General Manager information was provided to further reduce the projected water rate increase by making additional changes in assumptions that include additional cost reductions and deferrals for 1991-92 and 1992-93, a reduction in the use of Pay-As-You-Go funding, use of all available monies in the Water Rate Stabilization Fund (WRSF) during 1992-93, and to have taxes for 1992-93 levied at the same rate as the tax levy for 1991-92.

The water revenue requirement was determined to be \$619.9 million with the availability of \$50 million from a firm revenue source during 1992-93. This assumes Board approval of a firm revenue source(s) as was directed by the

action taken at the joint meeting of the Finance and Insurance, Engineering and Operations, and Special Budget committees. If the \$50 million of firm revenue is not ultimately adopted by the Board, the revenue requirement would have to be increased by that amount and approximately \$31 per acre-foot would have to be added to the noninterruptible rates. With the use of \$70 million from the WRSF to pay a portion of the projected 1992-93 costs, the net water revenue requirement should not be less than \$549.9 million. The water rates recommended in this letter are sufficient to produce the required water revenue based on projected water sales of 2.0 million acre-feet during 1992-93. Table 1 shows the required rate increase for untreated noninterruptible service to become effective on July 1, 1992.

The remaining funds in the WRSF are being used to offset depressed water sales due to the drought and to prevent an even higher rate increase to consumers that are conserving water in the District's service area. Without monies available in the WRSF, current water rates would need to be in the range of \$360 to \$370 per acre-foot instead of \$222 per acre-foot.

In addition, if water sales are 1.8 million acre-feet during 1992-93 (a reduction of 200,000 acre-feet) approximately \$45 to \$50 million would have to be used from working capital reserves to cover expenditures. This assumes that the recommended rate increase is approved, and the seasonal storage program remains in effect during the year with the same rate differential to the noninterruptible rate as is recommended. A draw on working capital reserves would cause non-compliance with District policy unless a mid-year rate increase was approved, and would result in a substantial reduction in revenue bond debt service coverage for 1992-93.

Due to increasing capital and O&M costs of water treatment it will be necessary to increase the surcharge for water treatment by \$14 per acre-foot. Certain treatment projects that were deferred in order to reduce the projected increase in the treatment surcharge from \$17/AF to \$14/AF have been added back to the 1992-93 projections based on the direction given to staff at the special Engineering and Operations Committee meeting of December 17, 1991. Any additional debt service payments attributable to construction

of treatment facilities from a new sale of bonds will be capitalized, therefore, the applicable increase in the treatment surcharge increase over and above the recommended increase of \$14/AF may be deferred to later years. The projected increase in the treatment surcharge is consistent with the Board's policy that all costs pertaining to the treatment of water be recovered through the treatment surcharge.

The recommended seasonal storage rate has been calculated to reflect 80 percent of the increase in the untreated noninterruptible rate. This increases the seasonal storage rate differential to the noninterruptible rate by \$9 per acre-foot, from \$92 an acre-foot to \$101 per acre-foot. The seasonal storage differential will continue to be examined by staff to determine if the differential needs to be reduced in the future. A rate for the interruptible class of service has not been recommended in this letter due to the ongoing analysis of the merger of the Interruptible Water Service and Seasonal Storage Service programs as discussed in a letter to your Board on November 5, 1991. A letter is being prepared which addresses the issue and recommends changes in the Administrative Code. No change is recommended for the reclaimed water rate. The emergency water rate will continue to be triple the untreated noninterruptible rate.

A graph is attached which shows historical water rates as well as projects noninterruptible rates reflected in Tables 1 and 2.

#### 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).

Recommendations

1) That the Water Problems Committee set a time for a meeting of the Committee at which time interested parties may present their views regarding the General Manager's recommendation that the water rates for fiscal year 1992-93 be set by the Board as follows:

<u>Class of Service</u>	<u>Rates in Dollars per Acre-foot</u>
Noninterruptible	
Untreated	269
Treated	322
Emergency Water	
Untreated	807
Treated	860
Reclaimed Water	84
Seasonal Storage	
Untreated	168
Treated	203

2) That the Board supplement its action setting water rates effective July 1, 1992, by adopting the written findings set forth in Attachment A.

  
Carl Boronkay

KRN/lg  
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## ATTACHMENT A

FINDINGS OF THE BOARD OF DIRECTORS OF  
THE METROPOLITAN WATER DISTRICT OF  
SOUTHERN CALIFORNIA

The Board finds that the establishment and approval of water rates as set forth in the General Manager's letter to this Board dated December 27, 1991, are for the purposes of meeting operating expenses, including employee wage rates and fringe benefits; purchasing or leasing supplies, equipment, or materials; meeting financial reserve needs and requirements; and obtaining funds for capital projects necessary to maintain service within existing service areas. For these reasons, the Board finds that its action taken pursuant to the above letter is statutorily exempt from the provisions of the California Environmental Quality Act.

Table 1

JULY 1ST RATE INCREASE

NO INTERRUPTIBLE SALES

SEASONAL STORAGE RATE INCREASES  
80% OF NONINTERRUPTIBLE INCREASE

CURRENT AND PROJECTED WATER RATES  
with FIRM REVENUE SOURCE OF \$50M PER YEAR  
(\$ in thousands)

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
PROJECTED WATER SALES (1,000 AF)	2,395	1,844	2,000 =====	2,000	2,000	2,000	2,250
REQUIRED WATER REVENUE	\$561,000	\$705,735	\$619,854	\$786,578	\$876,556	\$1,013,494	\$1,158,580
USE OF RATE STABILIZATION FUNDS	\$122,000	\$266,000	\$70,000 †	\$0	\$0	\$0	\$0
UNTREATED NONINTERRUPTIBLE WATER RATE (PER ACRE-FOOT)	\$197	\$222	\$269	\$394	\$418	\$491	\$470
INCREASE OVER PRIOR YEAR	\$0	\$25	\$47	\$125	\$24	\$73	(\$11)
TREATMENT SURCHARGE (PER ACRE-FOOT)	\$33	\$39	\$53	\$71	\$77	\$88	\$97
=====							
PROJECTED REVENUE BOND DEBT SERVICE COVERAGE:							
Senior Lien Revenue Bonds:		0.79	7.46	11.31	12.03	15.66	20.00
Junior Lien Revenue Bonds:		5.51	7.85	7.09	4.43	3.49	3.00

† Use of all monies in WRSF.

Notes:

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- 1) Includes a \$110M transfer from the RCF to the WRSF in FY 1991-92.
  - 2) Cost assumptions from Alternative 5.
  - 3) Should rates from 1995-96 to 1999-00 remain at \$491 per AF, approximately \$114 million in surplus revenues will be generated.

Table 2

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JULY 1ST RATE INCREASE

NO INTERRUPTIBLE SALES

CURRENT AND PROJECTED WATER RATES  
with FIRM REVENUE SOURCE OF \$50M PER YEAR  
(\$ in thousands)

SEASONAL STORAGE RATE INCREASES  
80% OF NONINTERRUPTIBLE INCREASE

## RATE INCREASES OF \$44AF PER YEAR AND PROJECTED DEFICIT OR SURPLUS

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
PROJECTED WATER SALES (1,000 AF)	2,395	1,844	2,000	2,000	2,000	2,000	2,250	2,500	2,500	2,500
REQUIRED WATER REVENUE	\$561,000	\$705,735	\$619,854	\$786,578	\$876,556	\$1,013,494	\$1,158,584	\$1,267,713	\$1,294,182	\$1,325,541
Deficit\Surplus (Each Year) **			\$0	(\$129,000)	(\$125,000)	(\$164,000)	(\$89,000)	\$31,000	\$114,000	\$194,000
USE OF RATE STABILIZATION FUNDS	\$122,000	\$266,000	\$70,000 *	\$0	\$0	\$0	\$0	\$0	\$0	\$0
UNTREATED NONINTERRUPTIBLE WATER RATE (PER ACRE-FOOT)	\$197	\$222	\$269	\$313	\$357	\$401	\$445	\$489	\$533	\$577
INCREASE OVER PRIOR YEAR	\$0	\$25	\$47	\$44	\$44	\$44	\$44	\$44	\$44	\$44
TREATMENT SURCHARGE (PER ACRE-FOOT)	\$33	\$39	\$53	\$71	\$77	\$88	\$97	\$103	\$105	\$108
=====										
PROJECTED REVENUE BOND DEBT SERVICE COVERAGE:										
Senior Lien Revenue Bonds:		0.79	7.38	6.51	7.43	9.57	16.86	22.53	24.97	25.53
Junior Lien Revenue Bonds:		5.51	9.30	4.84	2.63	1.79	2.11	2.25	2.18	2.14
Projected Debt/Equity Ratio (MWD Act limit= 1.00)		0.32	0.37	0.58	0.84	1.17	1.41	1.48	1.48	1.38
=====										

\* Use of all available funds in the WRSF during FY 1992-93.

\*\* Assumptions used to increase/decrease water revenue requirement each year to 2000:

(\$ in Millions)

CHANGES TO ALTERNATIVE 5 ASSUMPTIONS	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
PROJECTED PAY-AS-YOU-GO	0	(\$76.3)	(\$118.0)	(\$169.2)	(\$136.3)	(\$5.8)	\$0.0	\$91.2
PROJECTED REVENUE BOND DEBT SERVICE	0	3.3	11.6	23.9	36.9	46.8	42.9	38.9
CHANGE IN WORKING CAPITAL AND RESERVE REQUIREMENTS	0	(56.0)	(27.2)	(38.7)	(4.3)	(10.0)	71.1	63.9
CHANGE IN REVENUE REQUIREMENT, DUE TO CHANGE IN TAX LEVY	0	N/A	8.6	20.0	14.7	N/A	N/A	N/A
Deficit\Surplus (Each Year)	\$0.0	(\$129.0)	(\$125.0)	(\$164.0)	(\$89.0)	\$31.0	\$114.0	\$194.0
PROJECTED BALANCE IN WORKING CAPITAL FUNDS (EOY)	\$175.0	\$115.7	\$75.5	\$39.6	\$39.6	\$40.6	\$136.6	\$228.0

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# MWD WATER RATES (Non-Interruptible Service)

