

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

July 23, 1992

To: Board of Directors (Finance and Insurance Committee--Action)
From: General Manager
Subject: Working Capital Policy

Report

Because of the accumulation of monies in the Water Rate Stabilization Fund, the required level of working capital was set at \$130 million by the Board in April 1989. It was anticipated that the \$130 million level would be adequate for 5 years or more based on projections of the use of stabilization funds. Prior to this change, the Board's long-standing policy was to hold working capital in the amount equal to 25 percent of fixed costs to be paid from variable revenues.

Actual drawdown of the stabilization funds, however, has been more rapid than projected. Since the stabilization funds will be greatly reduced by the end of 1992-93 and fully depleted by the end of 1993-94, your Board, in discussions leading to adoption of water rates for 1992-93, recognized the need to adjust working capital to provide financial protection should water sales revenues fall below estimates.

Consequently, the adopted 1992-93 Annual Budget reflects an increase in the District's working capital to a total of \$175 million. This working capital amount, together with the remaining stabilization funds, approximates the amount called for under the previous policy (the 25 percent level) and approaches the amount recommended by Black & Veatch in the Revenue Design Study, and is considered prudent under current financial conditions.

Attachment A to this letter amends the MWD Administrative Code to reflect the revised working capital policy contained in the 1992-93 Annual Budget adopted by your Board in June 1992. Attachment B shows new text marked by underlining and deleted text marked by strikeover.

Upon approval of the recommendation in this letter, \$45 million will be transferred from the Water Rate Stabilization Fund to the Revenue Remainder Fund to accomplish the adjustment in working capital.

The recommended action is exempt from the California Environmental Quality Act because it can have no possible effect on the environment.

Board Committee Assignment

This letter was referred to the Finance and Insurance Committee pursuant to its authority regarding the finances of the District under Administrative Code Section 2441.

Recommendation

FINANCE AND INSURANCE COMMITTEE FOR ACTION

It is recommended that the Board of Directors amend Section 5202(a) of the MWD Administrative Code to read as shown in Exhibit A.

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Carl Boronkay

ATTACHMENT A

§ 5202. Working Capital.

The minimum cash and securities to be held in the various ledger funds as of June 30 of each year shall be as follows:

(a) For the Revenue Remainder Fund and the General Fund, working capital shall be equal to the sum of \$25 million for emergency repairs and claims against the District, and \$150 million for general purposes to be used in the event that revenues are insufficient to pay the costs of the District.

ATTACHMENT B

§ 5202. Working Capital.

The minimum cash and securities to be held in the various ledger funds as of June 30 of each year shall be as follows:

(a) For the Revenue Remainder Fund and the General Fund, working capital shall be equal to the sum of \$25 million for emergency repairs and claims against the District, and ~~\$105~~ \$150 million for general purposes to be used in the event that revenues are insufficient to pay the costs of the District.