



**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

REVISED: November 20, 1992  
December 2, 1992

October 19, 1992

Finance and Insurance Committee (Action)  
Water Problems Committee (Information)  
To: Special Budget Committee (Information)

From: General Manager

Subject: Revenue Requirements for Fiscal Year 1993-94

### Report

In accordance with Administrative Code Section 4304(a) estimates have been prepared of the total revenues and the revenues to be derived from water sales required during fiscal year 1993-94. The estimates are based on the latest information available and have been made in accordance with all applicable Board policies. Total revenues required during 1993-94 are \$955.8 million. Gross revenues required from water sales are projected to be \$765.1 million. It is estimated that approximately \$88.8 million will be available for use from the Water Rate Stabilization Fund; therefore, the net water revenue requirement for 1993-94 is projected to be \$676.3 million. The cost estimates are shown on Table 1, and projected revenues from all sources are shown on Table 2. Tables 1 and 2 have been updated to reflect changes in projected costs and revenues since the October 19 version of this letter was prepared.

The cost estimates reflect savings, from previous estimates made in 1991, achieved through austerity measures first implemented in 1991-92, that are continuing this year and will impact 1993-94. Table 3 shows the actual and projected savings by category during 1991-92, 1992-93 and 1993-94. Over the three-year period total savings are expected to be about \$186.1 million. It is estimated that total savings in 1993-94 will be approximately \$47.5 million.

Total 1993-94 payments under the State Water Project supplies will be approximately \$334.5 million (net of projected credits and based on projected water deliveries). This is the best estimate of State contract payments available at this time, however, experience has shown that such payments can vary as much as plus or minus \$40 million depending on water supply availability and State Project operations. About \$24 million has been included in the estimates for potential water transfers, purchases and

estimates for potential water transfers, purchases and exchanges of up to 100,000 acre-feet. An additional \$25 million has been designated for further water transfers, purchases and exchanges, or to increase working capital if additional water is not needed.

The cost estimates also reflect the District's increasing commitment to water conservation, local projects development and groundwater recovery. Total funding for these water management programs will increase \$9.6 million (37 percent) in 1993-94 to a total of \$35.9 million.

Table 4 shows the three cost/revenue alternatives resulting from staff discussion with and input from the Special Budget Committee. The alternatives have been updated to reflect the revised cost estimates shown in Table 1. The water revenue requirement of \$676.3 million recommended in this letter is consistent with Alternatives A and B and a projected untreated noninterruptible water rate increase of \$57 per acre-foot (21 percent). Alternative C maintains a \$5 standby charge and would require water revenue of \$701.3 million and a rate increase of \$72 per acre-foot.

Should your Board adopt the recommendation in this letter it will be necessary to determine the source from which \$50 million in firm revenue is to be raised during 1993-94. Alternative A calls for an increase in the water standby charge to \$10 per acre or per parcel if less than an acre. Alternative B calls for a \$50 million availability of service charge to be collected directly from the member agencies. In analyzing legal risks, which were outlined in the General Counsel's letter dated October 31, 1991, the service charge is less likely to be subject to successful legal challenge than the standby charge. For example, while the 1992 standby charge process is well underway, it should be observed that in the future the District's authority to collect the standby charge through the county tax collector could be challenged.

Table 5 shows a ten-year projection of untreated noninterruptible water rates and the surcharge for water treatment. Table 6 shows the retail impact of the projected \$57 per acre-foot untreated rate increase together with the projected \$13 per acre-foot increase in the water treatment surcharge. The cost of water to the average household would increase by approximately \$1.46 per month. The cost of 100

gallons of District delivered water would increase about two cents.

The recommendations made in this letter are exempt from the California Environmental Quality Act because they can have no possible effect on the environment.

#### Committee Assignments

This letter is being referred to:

The Special Budget Committee because of its authority to review and make recommendations on proposed annual budgets pursuant to Administrative Code Section 2531;

The Finance and Insurance Committee because of its authority to study, advise and make recommendations with regard to the determination of revenues to be obtained through sales of water, water standby or availability of service charges and the levying of taxes pursuant to Administrative Code Section 2441(e); and

The Water Problems Committee because of its authority to study, advise and make recommendations with regard to policies affecting the selling prices of water and policies regarding water standby and availability of service charges within the District pursuant to Administrative Code Section 2481(d), (e) and (f).

#### Recommendations

##### **FINANCE AND INSURANCE COMMITTEE FOR ACTION.**

It is recommended that the Finance and Insurance Committee:

1) Approve the use of up to \$89 million from the Water Rate Stabilization Fund to pay a portion of fiscal year 1993-94 costs;

2) Make a determination that \$50 million in firm revenues will be raised during fiscal year 1993-94 from either a water standby charge or an availability of service charge;

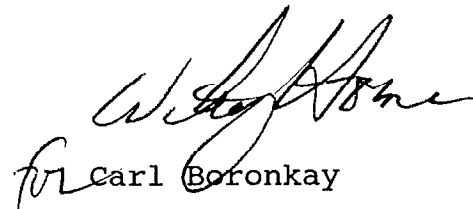
Finance and Insurance Committee  
Water Problems Committee  
Special Budget Committee

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3) Make a determination that revenues required from water sales during fiscal year 1993-94 should not be less than \$676.3 million; and

4) Forward these determinations to the Water Problems Committee for consideration at its January 1993 meeting.

  
for Carl Boronkay

CGP/KRN:lg  
93-94Rev.lg

Attachments

TABLE 1

<p style="text-align: center;"><b>PROJECTED COSTS</b> (Cash Basis -- \$ in Thousands)</p>			
	1992-93	1993-94	1994-95
STATE WATER PROJECT PAYMENTS	<u>\$309,239</u>	<u>\$334,542</u>	\$379,468
WATER TRANSFERS/PURCHASES/EXCHANGES	394	<u>24,000</u>	48,000
COLORADO RIVER SUPPLIES	<u>77,280</u>	<u>99,820</u>	<u>133,618</u>
WATER MANAGEMENT PROGRAMS			
LOCAL PROJECTS RECLAIMED WATER	4,400	<u>6,900</u>	9,700
GROUNDWATER RECOVERY	600	<u>4,000</u>	9,100
CONSERVATION CREDITS PROGRAM	21,263	<u>25,000</u>	28,000
MWD CAPITAL PROGRAM			
DEBT SERVICE	108,033	<u>110,363</u>	162,562
PAY AS YOU GO	8,650	<u>64,876</u>	<u>81,305</u>
MWD OPERATIONS AND MAINTENANCE	192,622	<u>215,268</u>	239,631
OPERATING EQUIPMENT PURCHASES	9,211	<u>18,000</u>	18,000
TOTAL COSTS	<u>\$731,692</u>	<u>\$902,769</u>	\$1,109,384
WORKING CAPITAL INCREASE OR ADDITIONAL WATER TRANSFERS/PURCHASES/EXCHANGES		<u>25,000</u>	25,000
ADJUSTMENTS IN RESERVES	<u>50,059</u>	<u>28,072</u>	<u>49,969</u>
TOTAL OBLIGATIONS	<u>\$781,751</u>	<u>\$955,840</u>	<u>\$1,184,354</u>

\* Changes from previous letter have been underlined.

TABLE 2

<p style="text-align: center;"><b>PROJECTED RECEIPTS</b> (Cash Basis -- \$ in Thousands)</p>			
	1992-93	1993-94	1994-95
WATER SALES	<u>\$547,808</u>	<u>\$676,290</u>	<u>\$985,604</u> *
TAXES	82,310	90,000	94,500
STANDBY/SERVICE CHARGE	25,000	50,000	50,000
INTEREST ON INVESTMENTS	31,379	30,000	31,000
POWER RECOVERIES	18,860	20,000	22,500
MISCELLANEOUS	699	750	750
TOTAL RECEIPTS	<u>706,056</u>	<u>867,040</u>	<u>1,184,354</u>
PROJECTED USE OF STABLIZATION FUNDS	75,695	88,800	0
TOTAL USE OF FUNDS	<u>\$781,751</u>	<u>\$955,840</u>	<u>\$1,184,354</u>

\* Does not reflect the cost reductions required to hold the water rate increase to \$69/AF as shown on Table 5.

\*\* Changes from previous letter have been underlined.

TABLE 3

<b>METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA AUSTERITY PROGRAM SAVINGS*</b> (\$ in Thousands)			
	1991-92 ACTUAL SAVINGS	1992-93 PROJECTED SAVINGS	1993-94 PROJECTED SAVINGS
<b>DISTRICT O&amp;M</b>			
REDUCE CONSULTANT BUDGET BY 25%	\$6,609	\$8,500	\$8,500
REDUCE STAFF TRAVEL & EXPENDITURES BY 25%	500	500	500
REDUCE DIRECTOR TOURS BY 25%**	192	750	250
REDUCE DIRECTOR TRAVEL/CONFERENCE BY 25%	115	100	100
REDUCE MATERIALS & SUPPLIES BY 20%	100	3,200	3,250
FREEZE 79 O&M POSITIONS	4,419	4,800	5,100
OTHER O&M ADJUSTMENTS	0	6,900	10,000
<b>SUBTOTAL</b>	<b>\$11,935</b>	<b>\$24,750</b>	<b>\$27,700</b>
<b>OTHER COSTS</b>			
CONSERVATION PROGRAM ADJUSTMENTS	\$4,000	\$5,000	\$10,600
GROUNDWATER RECOVERY ADJUSTMENTS	0	275	2,300
OPERATING EQUIPMENT REDUCTIONS	8,000	4,000	4,000
ARVIN-EDISON O&M DEFERRALS	0	1,000	0
CAPITALIZE 18 MONTHS' INTEREST ON THE 1992 REVENUE BOND SALE	0	38,972	0
<b>SUBTOTAL</b>	<b>\$12,000</b>	<b>\$49,247</b>	<b>\$16,900</b>
<b>ADDITIONAL SAVINGS NOT IDENTIFIED IN AUSTERITY PROGRAM -</b>			
CRA SUPPLY PROGRAM DEFERRALS	0	18,000	2,900
OFFICE SPACE/PA CUTS/SALARY ADJUST/ETC	\$16,000	\$6,700	\$0
<b>TOTAL SAVINGS</b>	<b>\$39,935</b>	<b>\$98,697</b>	<b>\$47,500</b>

\*BASED ON PREVIOUS ESTIMATES DEVELOPED IN 1991

\*\*ASSUMES SUSPENSION OF DIRECTOR TOURS IN 1992-93

**TABLE 4**

<b>ALTERNATIVES FOR SETTING WATER RATES FOR 1993-94</b>			
	<b>A</b>	<b>B</b>	<b>C</b>
<b>STANDBY CHARGES</b>	<b>\$10 PER PARCEL</b> (\$50M)	<b>\$0</b>	<b>\$5 PER PARCEL</b> (\$25M)
<b>SERVICE CHARGES</b>	<b>\$0</b>	<b>\$50M</b>	<b>\$0</b>
<b>TAXES</b>	<b>SAME RATE</b> .0089% (\$90M)	<b>SAME RATE</b> .0089% (\$90M)	<b>SAME RATE</b> .0089% (\$90M)
<b>COST REDUCTIONS/ SHIFTS TO BOND FUNDING</b>	<b>\$33.2M</b>	<b>\$33.2M</b>	<b>\$33.2M</b>
<b>USE OF STABILIZATION FUNDS</b>	<b>\$88.8M</b>	<b>\$88.8M</b>	<b>\$88.8M</b>
<b>UNTREATED NONINTERRUPTIBLE RATE INCREASE PER ACRE-FOOT</b>	<b>\$57/AF</b>	<b>\$57/AF</b>	<b>\$72/AF</b>

**Notes:**

1. Service charges would be imposed directly on member agencies and can be allocated base service connection capacity; acreage; property parcels; population, and assessed valuation or a combination thereof.
2. Connection fees and other sources of firm revenue will be pursued in later years.



TABLE 5

PROJECTED WATER RATES  
1992-93 TO 2002-03  
(\$ IN THOUSANDS)

	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
PROJECTED WATER SALES (1,000 AF)	2,014	2,058	2,192	2,306	2,317	2,363	2,410	2,456	2,495	2,525	2,550
REQUIRED WATER REVENUE, NET OF AUSTERITY MEASURES (1)	\$626,780	\$765,100	\$890,837	\$1,129,854	\$1,256,532	\$1,330,051	\$1,405,054	\$1,438,497	\$1,541,976	\$1,542,111	\$1,648,442
(USE)/BUILD-UP OF STABILIZATION FUNDS	(\$75,695)	(\$88,800)	\$0	\$0	\$0	\$0	\$0	\$40,100	\$2,800	\$56,100	\$0
UNTREATED NONINTERRUPTIBLE WATER RATE (PER ACRE-FOOT) (2)	\$269	\$326	\$395	\$479	\$524	\$537	\$549	\$561	\$573	\$585	\$595
INCREASE OVER PRIOR YEAR	\$47	\$57	\$69	\$84	\$45	\$13	\$12	\$12	\$12	\$12	\$10
TREATMENT SURCHARGE (PER ACRE FOOT)	\$53	\$66	\$84	\$84	\$87	\$92	\$107	\$118	\$126	\$128	\$134
INCREASE OVER PRIOR YEAR	\$14	\$13	\$18	\$0	\$3	\$5	\$15	\$11	\$8	\$2	\$6
ADDITIONAL REVENUE	\$25,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
COST ADJUSTMENTS (3)	(\$48,400)	(\$33,168)	(\$95,390)	(\$14,800)	\$35,800	\$33,800	\$43,700	\$84,900	\$89,600	\$103,700	\$84,600
PROJECTED DEBT/EQUITY	0.53	0.50	0.71	0.75	0.78	0.80	0.80	0.80	0.80	0.77	0.77

(1) NET OF ADDITIONAL REVENUES AND COST/PAYG ADJUSTMENTS IN SPECIFIED YEARS.

(2) ASSUMES A 21.17 PERCENT ANNUAL RATE INCREASE FOR 1993-94, 1994-95, AND 1995-96.

(3) ASSUMES PAYG EXPENDITURES BELOW 20 PERCENT OF THE CAPITAL IMPROVEMENT PROGRAM IN ANY YEAR ARE MADE UP IN LATER YEARS.

ASSUMPTIONS

SEASONAL RATE HAS A CONSTANT DIFFERENTIAL OF \$101/AF

SEASONAL SALES REPRESENT 25 PERCENT OF TOTAL SALES

MINOR DIFFERENCES ARE DUE TO ROUNDING

TABLE 6

**ESTIMATED RETAIL EFFECT OF A \$57 PER ACRE-FOOT  
MWD WATER RATE INCREASE AND A \$13 PER ACRE-FOOT  
INCREASE IN THE WATER TREATMENT SURCHARGE**

MEMBER AGENCY	PERCENT OF WATER SUPPLY PURCHASED FROM MWD	INCREASED COST TO AVERAGE HOUSEHOLD PER MONTH	INCREASED COST PER 100 GALLONS OF WATER
<b>AVERAGE FOR ALL MEMBER AGENCIES</b>	50%	\$1.46	\$0.02
<b>LOS ANGELES COUNTY</b>			
Beverly Hills	100%	\$2.92	\$0.02
Burbank	100%	2.92	0.02
Central Basin	36%	1.05	0.02
Compton	53%	1.55	0.02
Foothill MWD	60%	1.75	0.02
Glendale	80%	2.33	0.02
Las Virgenes	100%	2.92	0.02
Long Beach	60%	1.75	0.02
Los Angeles	46%	1.34	0.02
Pasadena	60%	1.75	0.02
San Fernando	25%	0.73	0.02
San Marino	10%	0.29	0.02
Santa Monica	50%	1.46	0.02
Three Valleys	60%	1.75	0.02
Torrance	85%	2.48	0.02
Upper San Gabriel	5%	0.15	0.02
West Basin	80%	2.33	0.02
<b>ORANGE COUNTY</b>			
Anaheim	30%	\$0.88	\$0.02
Coastal	98%	2.86	0.02
Fullerton	30%	0.88	0.02
Santa Ana	30%	0.88	0.02
MWD of Orange Co.	60%	1.75	0.02
<b>RIVERSIDE COUNTY</b>			
Eastern MWD	80%	\$2.33	\$0.02
Western MWD	24%	0.70	0.02
<b>SAN BERNARDINO COUNTY</b>			
Chino Basin MWD	30%	\$0.88	\$0.02
<b>SAN DIEGO COUNTY</b>			
San Diego CWA	90%	\$2.63	\$0.02
<b>VENTURA COUNTY</b>			
Calleguas MWD	76%	\$2.22	\$0.02