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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

March 4, 1993

To: Finance and Insurance Committee--Action
From: Subcommittee on Financial Policy
Subject: Water Rate Structure Objectives

Report

At its meeting of March 2, 1993, the Subcommittee on Financial Policy reviewed and considered the attached letter on Water Rate Structure Objectives (Item 9-8). These objectives will serve as the basis for a water rate and revenue design study to be conducted during 1993, and completed in early 1994 ahead of next year's rate setting. The Subcommittee voted to convey these objectives to the Water Problems and Finance and Insurance Committees for approval.

Board Committee Assignment

This letter is referred for action to the Water Problems Committee pursuant to its authority to advise and make recommendations with regard to policies for the sale of water under Administrative Code Section 2481(d), and for action to the Finance and Insurance Committee pursuant to its authority to advise and make recommendations on reports of its subcommittees under Code Section 2441(i).

Recommendation

The Finance and Insurance Committee recommends that the Board of Directors approve the objectives contained in the attached letter 9-8 as the basis for a water rate and revenue study to be conducted over the next year in coordination with the member agencies.

Wayne McMurray
Chairman, Subcommittee
on Financial Policy

Attachment

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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

February 23, 1993

To: Board of Directors (Water Problems Committee--Information)
 (Subcommittee on Financial Policy--Information)

From: General Manager

Subject: Water Rate Structure Objectives

At your December meeting, a letter was submitted with an attached chart illustrating tasks and their scheduled targets for reviewing and revising the water rate structure. The first task on the chart is to set the objectives that Metropolitan's water rate structure should meet.

Staff has developed the following set of objectives to measure alternative water rate plans. A version of these objectives were presented to the Member Agency Managers at a meeting that was held on January 15, 1993.

- Reliably generate needed revenue requirements. The water rate should generate total revenue requirements less receipts from interest, power recovery, taxes, and other revenue including revenue from parcel charges or service charges.
- Provide revenue stability from year to year. The water rate structure must provide a substantial base amount of assured revenue each year.
- Incorporate in revenue requirement determinations provisions for growth to pay its fair share. The water revenue determinations should recognize the additional costs of growth on Metropolitan's system.
- Maintain Metropolitan's and member agencies' strong financial ratings. The water rate structure should not negatively impact the borrowing capability of Metropolitan and its member agencies.
- Minimize rate shock. The water rate structure and reserves should be set up so that the amount of change in water rates each year follows a relatively even progression.
- Simple to administer, easy to implement. It should take a minimum amount of administration to calculate

and bill water deliveries. The transition from the current rate structure to the new rate structure should take a minimum amount of effort.

- Provide equity in rates for classes of service to member public agencies. The water rate structure should provide equal rates for the same class of service to all agencies.
- Provide system operating flexibility. The rate structure should encourage efficient use of the distribution system so that peaking on Metropolitan is discouraged and the capture of available water is maximized.
- Provide regional water resource management incentives. The water rate structure should stimulate member and local agencies to increase the use of regional water resources particularly during droughts.
- Lend itself to a conservation plan if necessary. The water rate structure should be easily convertible to a conservation plan and not conflict in any way with that plan.
- Encourage water conservation. Rates should be structured in such a way that they encourage the conservation of water.

In developing the objectives, the following Board or Act restraints are acknowledged:

Metropolitan Act Requirements

Section 133 - Fixing of Water Rates: "The board shall fix the rate or rates at which water shall be sold. Such rates, in the discretion of the board, may differ with reference to different sources from which water shall be obtained by the district. The board, under conditions and on terms found and determined by the board to be equitable, may fix rates for the sale and delivery to member public agencies of water obtained by the district from one source of supply in substitution for water obtained by the district from another and different source of supply, and may charge for such substitute water at the rate fixed for the water for which it is so substituted."

Section 134 - Adequacy of Water Rates; Uniformity of Rates: "The board, so far as practical, shall fix such rate or rates for water as will result in revenue which, together with revenue from any water stand-by or availability service charge or assessment, will pay the operating expenses of the district, provide for repairs and maintenance, provide for payment of the purchase price or other charges for property or services or other rights acquired by the district, and provide for the payment of the interest and principal of the bonded debt subject to the applicable provisions of this act authorizing the issuance and retirement of the bonds. Those rates, subject to the provisions of this chapter, shall be uniform for like classes of service throughout the district."

Board of Directors Policies

Provide and maintain sufficient reserves for a 500,000 AF shortage in one year, with a resulting annual water rate increase to meet revenue requirements of no more than 25 percent due to such shortage.

Recover the full cost of water treatment. (Report No. 864.)

The District shall fix water rates so that water sales revenues pay all of its annual operation and maintenance costs and that portion of its annual capital costs as the ratio of the quantity of water it has sold annually to its member public agencies bears to its total ultimate annual contractual entitlements to water. Tax and annexation charge revenues may be used to pay remaining costs. Other funds and revenues available may be allocated to reduce required water revenues or taxes as determined by the Board.

As the next step, staff will be developing alternatives and estimating their effects. These alternatives will be presented to your Board in the near future.

Board Committee Assignment

This letter is referred for information to the Water Problems Committee pursuant to its authority to study the selling prices of water under the Administrative Code Section 2481 (c) and the Subcommittee on Financial Policy pursuant to its authority to study the determination of revenues to be obtained through sales of water.

Board of Directors

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February 26, 1993

Recommendation

For information only.



Carl Boronkay

NT:bvf