

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

May 25, 1993

(Finance and Insurance Committee--Action)

To: Board of Directors (Executive Committee--Action)

From: General Manager

Subject: Transmittal of the 1993-94 Annual Budget

Report

This letter transmits the Annual Budget for fiscal year 1993-94. Changes from the April 2, 1993 transmittal of the Proposed 1993-94 Annual Budget have been underlined. Estimated receipts from water sales, taxes, interest, power recoveries, and other income total \$768.0 million. Estimated expenditures total \$804.4 million, resulting in an estimated revenue shortfall of \$36.4 million to be funded from the Water Rate Stabilization Fund (WRSF). Transfers of \$51.3 million to restricted reserves to comply with bond covenants and Board policies will be satisfied by WRSF draws. The total draw from the WRSF is projected to be \$87.7 million during the year. Total expenditures plus transfers to reserves for 1993-94 are estimated to be \$855.7 million, excluding construction costs of \$351.1 million to be financed from bond proceeds.

A meeting of the Special Budget Committee was held to consider the Proposed Annual Budget on April 19 and 20, 1993. The Committee examined in detail each division's budget, including divisional summary sheets, operating equipment, and supporting documents. As a result of that meeting, staff reviewed the proposed budget with a goal of reducing professional services and purchases of materials, supplies (excluding water treatment supplies) and operating equipment by 10 percent. A second meeting of the Committee was held on May 18, 1993, to review the changes to the budget.

The revised estimate of expenditures, as a result of the review, has been reduced by \$10.9 million from the Proposed Budget. Estimated expenditures for District operations and maintenance (O&M) declined \$7.7 million, exceeding the ten percent reduction goal of \$5.9 million by \$1.8 million. Other changes include a reduction of \$2.2 million in estimated State Water Contract payments, and a \$1.0 million reduction in commercial paper interest expense.

These reductions are offset in part by a decrease in the estimate of interest, power recoveries, and miscellaneous income by \$8.0 million. Water sales receipts are estimated to be \$3.9 million higher than shown in the Proposed Budget. The net effect of these changes, and a \$1.0 million reduction in reserve transfers, reduces the estimated draw on the WRSF during 1993-94 by \$7.8 million from the Proposed Budget amount of \$95.6 million. All changes are described in the body of the letter.

Included in this letter is a discussion of 1994-95 and 1995-96 revenues and costs. This is the first step in implementing a three-year rolling budget.

California's six-year drought ended in March 1993. Statewide rainfall to date is about 180 percent of average. Local supplies available to the member agencies have also improved significantly so that the need for supplemental water deliveries from Metropolitan will be reduced in 1993-94. Sales are expected to be approximately 1.8 million for 1993-94, down from sales of 1.91 million acre-feet in 1992-93, and 711,000 acre feet below Metropolitan's record of 2,511 million acre feet set in 1989-90.

To address financial challenges which developed in 1991 due to the continuing drought and reduced supplies from the State Water Project, Metropolitan implemented a cost containment program in October 1991. The program included freezing 79 vacant O&M positions; reducing purchases of materials, supplies, and operating equipment; reducing travel expenditures and consultant use; and maintaining the conservation credits program at the 1991 level. As a result, costs were reduced by \$40.0 million in 1991-92 and an estimated \$43.6 million in 1992-93. Faced with lower than expected water demands in 1993-94, operations and maintenance (O&M) needs have been carefully examined and prioritized, and

the 1993-94 proposed O&M budget is \$9.6 million less than the 1992-93 O&M budget and \$25.7 million less than the estimate identified in the revenue requirements letter dated December 2, 1992. In order to accomplish the required work load while containing costs, each division has focused on productivity improvements and innovation.

1992-93 MAJOR ACCOMPLISHMENTS

The District's primary objectives have been (1) to effectively manage Southern California's existing resources; (2) to increase dependable water supplies; (3) to develop programs to address more complex and stringent environmental regulations in the areas of water and air quality as well as hazardous materials; (4) to proceed with design and construction of water storage and distribution facilities required to serve the increasing water demands in our service area; (5) to maintain or upgrade existing facilities to preserve system delivery capability and reliability; and (6) to automate work activities and re-engineer business processes for more operational efficiency. Progress has been made in each of these areas. Some of the major accomplishments in the current fiscal year are explained below.

Manage Existing Resources

- Metropolitan, in conjunction with its member agencies, developed and implemented a series of conservation programs included in the Urban Water Conservation Management Practices Agreement. Approximately 1.6 million low-flow showerheads were distributed and 50,000 ultra-low-flush toilets installed. Metropolitan provided support and funding for 22 projects with member agencies and subagencies, many of which involved cost-sharing from the private sector as well as community based organization participation.

- Eleven reclamation projects were evaluated and, by the end of the year, it is anticipated that agreements will be executed. These projects will ultimately yield 31,600 acre-feet of water per year. The District's financial contribution for all local projects during the year is estimated to be \$6.9 million.

- The San Gabriel Groundwater Basin Conjunctive-Use Feasibility Study was completed and a water storage and extraction agreement with the Main San Gabriel Basin Watermaster was negotiated. A model financial assistance agreement was developed for the groundwater recovery program,

and it is anticipated that six agreements with member agencies and subagencies will be executed by the end of the year that will ultimately produce 18,000 acre-feet of water per year. Work continued on the review of five additional projects that will have an expected yield of 25,000 acre-feet of water per year. The District's financial contribution for groundwater recovery projects during the year is estimated to be \$4.0 million.

Increase Dependable Water Supplies

- Metropolitan supported the passage of H. R. 429, the Central Valley Project Improvement Act which represents a major breakthrough in California water policy and has significantly enhanced Metropolitan's ability to acquire water from Central Valley Project (CVP) contractors. This act has substantially increased the amount of water available for water transfer and exchange programs.

- Metropolitan participated in the Bay/Delta Hearings including providing exhibits and testimony, preparing comments and analyses, and participating in a statewide urban water agency effort to provide comments to the State Water Resources Control Board on Interim Water Right Decision D-1630. However, on April 1, 1993, the Governor asked the State Board to stop work on interim standards and shift its focus to establishing permanent standards designed to protect the Delta. The proposed standards, had they been implemented, would have reduced supplies available to the State Water Project (SWP) and CVP and would have created an environmental restoration fund to address the decline in fishery resources in the estuary.

- An agreement was reached with the Central Arizona Water Conservation District to permit interstate underground storage of Colorado River water.

- In 1993, Metropolitan will have available 53,000 acre-feet of conserved water through the Imperial Irrigation District Water Conservation Agreement and 121,900 acre-feet of saved water from the test land fallowing program with Palo Verde Irrigation District.

- Work proceeded on Metropolitan's water transfer and exchange program. Negotiations were completed with the Semitropic Water Storage District for a short-term program to store and recover a portion of Metropolitan's 1992 State Water Project carryover in 1993. Under a long-term program currently being pursued, a minimum pumpback of 40,000-60,000

acre-feet per year would be guaranteed. Agreements are also being negotiated with Dudley Ridge Water District involving storage of 57,700 acre-feet.

- Metropolitan participated in a study to evaluate the feasibility of constructing and operating a desalination facility.

Environmental Regulations

- Metropolitan complied with all federal and State drinking water standards. Metropolitan supported the implementation of reasonable drinking water standards at the federal and State level.

- Operation of the oxidation demonstration project continued. The data gathered will provide the basis for the design full-scale ozone retrofits at each of Metropolitan's treatment plants.

- A risk management prevention plan for chlorine storage at the Jensen Filtration Plant was prepared in response to a request from local enforcement agencies, six health/safety/environmental internal audits were conducted, hazardous waste handling procedures were implemented, over 300 hazardous waste removals were directed, 34 facilities business plan updates were prepared, and written comments were presented to regulatory agencies to minimize impact to District operations and programs on over 30 proposals.

New Storage/Conveyance/Treatment Projects

- Final design and parcel acquisition for the Domenigoni Valley Reservoir continued, and mitigation plans were implemented. The 800,000 acre-foot reservoir will almost double the available surface water storage in Southern California.

- Detailed facility plans and/or environmental documents for the Inland Feeder, San Diego Pipeline No. 6, and Central Pool Augmentation and Water Quality Project were completed.

- Construction of the Etiwanda Pipeline and Control Facility was completed. Construction continued on the Etiwanda Power Plant and the Jensen Filtration Plant No. 1, and design of the Mills Filtration Plant Expansion No. 2 proceeded.

- Engineering and market study analysis reports for key sites for the Central Pool Augmentation and Water Quality Project were completed, and final draft technical feasibility reports were completed for the water treatment plant, pipeline alignments, and tunnel alignments.

- Work continued on four area studies which address the need to design and construct additional conveyance and treatment facilities within Metropolitan's service area.

Maintain and Upgrade Existing Facilities

- The Colorado River Aqueduct Pump Rehabilitation was substantially completed.

- Design and construction of chemical spill containment facilities at all filtration plants and other District facilities continued.

- Structural modifications of air vents to the San Diego Pipelines Nos. 1 and 2 to permit the pipelines to carry treated water were completed.

- Phases I and II of mercury flowmeter replacement/conversion program were completed.

- Design and implementation of a maintenance management system at filtration plants, pump plants, and the chemical unloading facility was completed; plans for Phase VI predictive Maintenance were completed; and a vibration monitoring program for selective plant equipment was implemented.

Automation/Work Procedures

- The design phase of the Information Systems Division Strategic Plan which included requirements analysis, application design, package selection, and implementation plans for 20 applications in the core business areas of Finance, Material Management, Human Resources, and Environmental Compliance was completed.

- Procurement of all micro computers, hardware, software, service, parts, and technical assistance was consolidated into a multi-year contract, shortening procurement time from four months to five days, freeing two full-time equivalents for other functions, and streamlining the payment process.

- A just-in-time ordering system for stock items and materials to reduce standing inventory space needs and streamline the payment process was implemented.

- Work proceeded on the development of standard specifications, design and drafting manuals, and standard details. Procedures for managing consulting contracts were developed and implemented.

Strategic Planning/Finance/Administrative Functions

- A strategic plan was drafted in concert with the mission statement and goals developed by the Board of Directors. Seven guiding principles were identified which addressed the following themes: partnership with member agencies, water, finance, facilities, environment, workforce, and cost. Objectives and strategies to meet the goals were also developed.

- A \$550 million revenue bond sale with a true interest cost of 5.94 percent was completed to provide financing for the capital improvement program.

- Two refunding bond issues totalling \$448 million were sold and resulted in a gross savings of \$35.6 million over the remaining lives of the bonds with net present value savings of \$17.9 million.

- A lease agreement for office space was executed and more than 800 employees were relocated, including communication instruments and personal computers.

- A Minority Business Enterprise/Women Business Enterprise (MBE/WBE) Program was established to ensure awareness of District procurement opportunities for MBE/WBE firms.

- Employee participation in District rideshare programs was increased resulting in average ridership of 1.51 persons per vehicle and exceeding the South Coast Air Quality Management District goal of 1.50 persons per vehicle.

1993-94 OBJECTIVES

The Proposed Budget includes over 500 divisional objectives that have been summarized into seven categories that correlate to the topics addressed in the Preliminary Draft Strategic Planning Study dated March 5, 1993. Significant objectives as they relate to the major sections in the study for 1993-94 are explained below.

Section 1.0 - Partnership

- Participate in a member agency study to assess opportunities to maximize local water resources development and enhance Metropolitan and local capital planning.

- Plan, coordinate and implement ongoing member agency/local official/community leader briefings and increase cooperative government relations activities with member agencies, including briefings and water facility inspections for community leaders.

- Conduct a survey of the member agencies to determine their level of satisfaction with the various services provided by Metropolitan including communications between the District and the member agencies.

Section 2.0 - Water

- Continue to negotiate agreements and operating plans for meeting Metropolitan's long-term goals for maximizing its Colorado River water supply.

- Negotiate and implement reclaimed water and groundwater programs designed to maximize the utility of local and regional water supplies.

- Continue negotiations for long-term exchange agreements with Arvin-Edison, Semitropic, and Dudley Ridge water districts. Negotiate contracts for the purchase of 50,000 acre-feet of core water and 200,000 acre-feet of option water from the Central Valley Project.

- Continue an aggressive statewide leadership role in ensuring that Best Management Principles (BMP) are implemented according to the terms of the Memorandum of Understanding (MOU) and any subsequent State decisions that might apply to the MOU.

- Develop conservation policies and marketing strategies in the implementation of BMPs through programs with member agencies and develop alternative methods of financing conservation programs.

- Develop a comprehensive integrated resources plan that balances least cost planning, environmental considerations, and risk and reliability factors to reach the appropriate mix of resources.

- Participate in State Water Resources Control Board and Department of Water Resources (DWR) efforts to develop comprehensive Bay/Delta protection plans and facilities which address drinking water quality, fisheries, and water supply reliability problems.

- Participate in major negotiations on State and federal legislation, water supply development, demand management, and DWR planning and operations.

- Maintain all microbiological and coliform compliance monitoring programs to meet current and new State and federal regulations.

- Continue implementation of the Surface Water Treatment Rule Action Plan (SWTR) to ensure that all Metropolitan facilities comply with the new regulations and participate in a pathogen removal study to ensure compliance with SWTR.

- Conduct a survey of customer attitudes and needs related to customer-based water quality criteria.

Section 3.0 - Finance

- Complete the development of a new water rate structure with input from the Board and member agencies.

- Prepare the 1993-94 Long Range Finance Plan to reflect revisions to the Capital Improvement Program, water sales projections, MWD costs, and State project costs; analyze working capital requirements and asset/liability management strategies; and develop a revised capital financing plan.

- Conduct security sales as necessary to provide financing for the capital improvement program and/or reduce the cost of outstanding debt.

- Design and implement an improved cash forecasting system and complete an investment study to enhance the return on the investment portfolio.

Section 4.0 - Facilities

- Proceed with the Capital Improvement Program. An overview of the 1993-94 program is provided in Section C of the budget.

- Complete the 1993 System Overview Plan which will update Metropolitan's plan for supply deliveries, major capital distribution facilities, and system operations to meet regional water needs.

- Maintain dependable delivery of water to member agencies through coordinated water operations of the aqueduct and distribution systems.

- Continue monitoring aging equipment throughout the distribution system and filtration plants and implement a maintenance management system for electrical and mechanical equipment along the Colorado River Aqueduct, distribution system pipelines, and raw water and treated water reservoirs.

Section 5.0 - Environment

- Prepare an outline of existing environmental policies and practices and their application to current District activities.

- Analyze environmental, safety and health laws and regulations and recommend or implement compliance activities.

Section 6.0 - Workforce

- Provide training to assist District employees in reaching their full potential in the performance of their job duties and assist them in preparing for upward mobility.

- Develop a plan for job rotation among appropriate classes of employees.

- Develop and implement a program to stimulate employees to contribute ideas for improvements in productivity and cost savings.

- Implement new policies and procedures needed to meet the Business Outreach Program objectives, promote awareness of District procurement opportunities and practices for minority and women owned firms, and increase community and public awareness of the District's Business Outreach Program in procurement.

- Provide training necessary to protect health and safety and to comply with applicable regulations, identify modifications or additions to training through a combination of regulatory review, supervisory requests, and injury trends; and track incident investigations and develop means to report recommendations to prevent recurrence.

- Implement an employee recognition program.

Section 7.0 - Cost

- Implement approximately 20 key applications across four major business areas: Finance, Material Management, Human Resources, and Health/Safety/Environmental as part of Phase 1 of the Information Systems Strategic Plan.

- Establish performance targets and performance reporting, initiate re-engineering of cross-divisional work processes, and continue total quality management activities to improve productivity and efficiencies.

- Contain O&M costs in 1993-94 to no more than 1992-93 budgeted costs.

PERSONNEL TRENDS/PRODUCTIVITY IMPROVEMENTS

The proposed personnel complement for 1993-94 has not increased from 1992-93 and is broken down as follows:

		Change from 1992-93
Operations & Maintenance	1,219	+10
Capital Programs	495	-10
General & Administrative	<u>452</u>	<u>0</u>
Total	2,166	0

Capital

Over the past six years, the number of personnel required for capital programs has increased 90 percent. The attached map of the distribution system shows the new major facilities that are in either the design or construction phase. Without the addition of automated tools such as computer aided drafting equipment, standard specifications, and automated survey equipment that has increased productivity, the personnel increase would have been higher.

Some specific examples of improved productivity include:

<u>Improvement</u>	<u>Results</u>
Intergraph (CAE/CAD) system	Complete design projects under budget within compressed schedules. Improve coordination and increased flexibility among project teams. Reduce duplication of effort and helps improve the quality of the final product. Reduce costs and "extra work" during construction. Increase the number of alternatives that can be evaluated.
Information Handling Services Database	Eliminate the need for hard copies and microfilm tape cartridges on vendor information, industry standards, etc. Update information automatically. Reduce retrieval time.
Consultant Specifications	Reduce the number revisions of consultant-prepared specifications that do not meet Metropolitan's standard specifications.

Project Management System	Facilitate the handling of data pertaining to 200+ projects by automating activities previously accomplished manually.
Geographic Information System (GIS)	Reduce the time to plot land-use, population, and housing information for the evaluation of project environmental impacts.
Field Soils Lab	Speed reporting of test results.
Equipment/Computer Applications/ Instrumentation	Increase the number of calculations, and statistical and graphical analyses performed. Speed electrolysis monitoring. Eliminate time consuming procedures, and enable the survey section to complete tasks necessary with greater accuracy and in less time with two-thirds of the number of people.

Operation and Maintenance

The past 10 years have seen a 35 percent increase in personnel required to safely operate and maintain existing facilities and new facilities constructed during that period. Recently enacted regulations in the areas of water quality, air quality, hazardous materials, workers' compensation and safety have also contributed significantly to the need to increase staff. A further increase is expected to be necessary to operate and maintain the facilities planned to be constructed over the next 10 years, as well as meet anticipated environmental standards. Metropolitan's commitment to productivity improvements through re-engineering processes, streamlining procedures, and continued automation of manual systems is expected to have a positive impact on mitigating the need for additional personnel.

Examples of productivity improvement in O&M functions include:

<u>Improvement</u>	<u>Results</u>
Automated Water Quality Instrumentation/Technology	Reduce costs to produce samples and operate the lab 24 hours a day, seven days a week.
Flexible Work Crews/ Task Force Management	Reduce shutdown and repair/ refurbishment time and reduce response time for emergency repairs.
Maintenance Management FleetTracker Systems	Streamline scheduling of repair crews, reduce downtime due to breakdowns, and lengthen the life of equipment.
Technical Training	Improve employee performance related to water quality sampling, electrical work, emergency responses, and aqueduct system operations.
Electronic Processing Systems	Eliminate redundant processes and shorten approval time.
Master Computer Agreement	Reduce ordering time from four months to five days and reduce inventory.
Just-In-Time Ordering System	Reduce standing inventory space and streamline payment process.
Automated Applicant Tracking System	Enhance record keeping and improve human resources planning.
Invoice Tracking/ Expense Claim Systems	Reduce average number of days to pay vendor invoices and process expense claims.
Payroll System Enhancements	Automate printing, reduce cost, and improve quality of W-2 and 1099 forms.

RECEIPTS**\$768.0 million**

The estimated receipts for the fiscal year amount to \$768.0 million. Receipts from water sales are estimated to be \$588.2 million, based on fiscal year 1993-94 water rates adopted by your Board in March. Water sales receipts are \$3.9 million higher than the amount shown in the Proposed Budget. The change reflects a slight decrease in the projected sales of reclaimed and groundwater recovery water. The reason this results in an increase is because gross water sales are offset by the costs associated with reclaimed and groundwater sales. The non-interruptible water rate for 1993-94 is \$318 per acre-foot (AF), an increase of \$49 per AF; the seasonal storage rate is \$208 per AF, an increase of \$40 per AF; and the treatment surcharge rate is \$67 per AF, an increase of \$14 per AF. Water sales are estimated to be 1.80 million acre-feet, of which 270,000 acre-feet are projected to be sold at the seasonal rate. Treated water sales are estimated to be 1,080,000 acre-feet.

Receipts from taxes and annexation fees, which will be used to pay voter-approved debt service on general obligation bonds and a portion of the State Water Contract obligation, are estimated to be \$90.0 million based on the same tax rate used for the 1992-93 tax levy.

It is anticipated that \$50.0 million will be generated from the 1993-94 water standby charge. Interest earnings, receipts from power recoveries and other miscellaneous sources are estimated to be \$39.8 million, a decrease of \$8.0 million, reflecting current estimates of interest earnings.

EXPENDITURES**\$804.4 million**

Expenditures are estimated to be \$804.4 million, a \$138.6 million increase over 1992-93 projected expenditures and are approximately \$123.4 million less than the costs identified in the revenue requirements letter dated December 2, 1992. Total expenditures by major category are discussed below.

District Operations and Maintenance **\$219.8 million**

Projected expenditures for District operations and maintenance including operating equipment amount to \$219.8 million which is \$7.7 million, or 3.4 percent, less than the proposed budget and \$9.6 million, or 4.2 percent, less than the 1992-93 budget. The breakdown of the additional reductions that have been incorporated into the budget since the April 19-20 review by the Special Budget Committee is as follows:

<u>Category</u>	<u>Amount</u>
<u>Materials & Supplies</u>	<u>\$2.3 Million</u>
<u>Professional Services</u>	<u>2.8 Million</u>
<u>Other Expenses</u>	<u>1.9 Million</u>
<u>Subtotal</u>	<u>\$7.0 Million</u>
<u>Net reduction in operating equipment purchases</u>	<u>.7 Million</u>
<u>Total</u>	<u>\$7.7 Million</u>

Miscellaneous equipment, parts and supplies, and office supplies account for the majority of the reductions in materials and supplies.

Reductions in professional services include consultants for transfers and exchanges, some conservation activities, groundwater studies, development of a corporate geographical information system and an optical disk pilot program, O&M engineering support, and preparation of risk management prevention plans.

Other expenses that were reduced consist primarily of purchases and installation of office furniture and fixtures; and special public affairs activities, advertising, and some community relations activities.

Requests for operating equipment in the proposed budget amounted to \$11.8 million, with a net outlay of \$4.1 million. The net amount reflects total operating equipment purchases offset by charges to O&M and capital projects for the use of the equipment. After reviewing the proposed budget, requests for operating equipment total \$10.1 million, a savings of \$1.7 million. The net outlay will be \$3.3 million. These reductions were achieved by eliminating some equipment from the budget and revising estimated purchase prices as appropriate.

Of particular interest to the Special Budget Committee were personal computer purchases. The number of requests for personal computers total 607, a reduction of 56 computers from the proposed budget. These changes coupled with reductions in mainframe related equipment resulted in a decrease of \$1.0 million. Other changes include reductions in vehicles, communication equipment, office equipment, tractors, survey equipment, and power tools.

Other changes to the MWD O&M budget include transferring \$2.95 million to a contingency account from the State Water Project and Conservation Division and the Administrative Services Division budgets. The amounts that are being transferred represent \$1.95 million associated with conservation projects and \$1.0 million for potential legal fees associated with lease transactions. The total in the contingency account will be \$4.2 million for 1993-94. This represents approximately two percent of the departmental O&M budget.

While it is believed that the objectives contained within the budget can be achieved with these reductions, there may be consequences associated with the cutbacks. For example, reductions in consulting services could cause reassignment of staff from capital projects to critical O&M projects which could result in capital project delays, less money will be available for advertising and special public affairs programs, and implementation of a customer satisfaction action plan will be delayed. If unforeseen or emergency events do occur which exceed the \$4.2 million in contingency, it may be necessary to come back to your Board and request an increase in the Annual Budget Appropriation for 1993-94.

Colorado River Aqueduct Power **\$38.8 million**

Pumping costs on the Colorado River Aqueduct are estimated to be \$38.8 million, an increase of \$8.2 million over the projected actual for the current year. This increase is primarily due to projected changes in supplemental energy rates. Diversions are estimated to be 1.3 million acre-feet for 1993-94.

Additional Colorado River Water Supplies **\$48.8 million**

Metropolitan is involved in five programs to increase its reliable Colorado River water supplies. Expenditures for these programs are estimated to be \$48.8 million, an increase over 1992-93 projected expenditures of \$15.1 million and \$8.0 million less than the budget target. Estimated expenditures are \$27.6 million for the Imperial Irrigation District Agreement, \$11.0 for the Palo Verde Irrigation District Test Land Fallowing Program, \$6.0 million for the Demonstration Program on Interstate Underground Storage of Colorado River Water in Arizona, \$4.2 million for the All American Canal and Coachella Branch Lining Projects.

State Water Contract **\$313.0 million**

Total payments under the State Water Contract are projected to be \$313.0 million, or \$51.5 million more than the current year's projected expenditures and \$2.1 million less than the proposed budget. The change reflects the deletion of Kern Water Bank expenditures. The budget is \$21.6 million under the revenue requirement estimate. The increase from the projected actual reflects additional power credits that were received in 1992-93 which exceeded the budgeted amount.

Water Transfers/Options **\$12.0 million**

Due to improved water supply conditions in Northern California, it is not anticipated that water purchases will be made during 1993-94. However, \$12.0 million has been budgeted for continuing efforts to secure long-term options to purchase water in future years.

Debt Service**\$107.2 million**

Debt service on District general obligation and revenue bonds is estimated to be \$105.0 million; payments for the Second Barrel of the First San Diego Aqueduct will be \$0.2 million; and interest payments for commercial paper are estimated to be \$2.0 million. Commercial paper debt service was reduced \$1 million from the proposed budget reflecting current market rates.

Pay-As-You-Go Construction**\$64.9 million**

Pay-as-you-go construction (PAYGO) is estimated to be \$64.9 million in 1993-94. This is less than the Board policy of funding 20 percent of the capital improvement program through PAYGO. The lower amount was budgeted in order to hold the base water rate increase for 1993-94 to \$49 per acre-foot.

RESERVE TRANSFER**\$51.3 million**

Reserve transfers are projected to be \$51.3 million from July 1, 1993 to July 1, 1994. This is \$1.0 million less than the Proposed Budget reflecting revised estimates of future costs. The transfers will fund required restricted reserves and will increase working capital to \$200 million, an amount estimated to be sufficient to offset a 25 percent deficiency in water sales. All bond covenants and Board policies regarding reserves will be complied with under the proposed budget.

CAPITAL CONSTRUCTION PLAN**\$457.2 million**

The construction program for next fiscal year totals \$457.2 million. Water supply projects represent \$230.4 million; water distribution facilities total \$51.9 million; treatment plant expansions and water quality upgrades account for \$144.1 million; \$16.0 million will be spent on information systems, control systems, and communications; capital betterments represent \$6.2 million; expenditures for power plant facilities total \$3.2 million; \$3.0 million will be spent on facilities planning; and \$2.4 million on studies. Approximately \$53.9 million of the costs are for consulting services to supplement the in-house staff.

Major projects in design and/or construction next year include the Domenigoni Reservoir, Inland Feeder, San Diego Pipeline No. 6, Central Pool Augmentation Tunnel and Pipeline, replacement of Type "M" flowmeters, Jensen Plant

Expansion No. 1, Mills Filtration Plant Expansion No. 2, chemical spill containment, replacement of area control systems, Etiwanda Power Plant, and the desalination demonstration project. Phase 1 of the Information Systems Strategic Plan will be implemented, and it is anticipated that site acquisition for the Perris and Central Pool Augmentation filtration plants will begin.

Projects that Metropolitan will participate in and provide funding for include Main San Gabriel Basin Groundwater Storage Program, Chino Basin Groundwater Storage Program, purchase of the Allen-McCoulloch Pipeline, and South County Pipeline. Funding for these projects total \$47.2 million and are included in the \$457.2 million estimate.

There are a number of projects that are subject to external factors included in the Capital Improvement Program. Because of uncertainties, it is estimated that only 50 percent of the amounts budgeted for these projects in 1993-94 will be expended. The reduced amounts are reflected in the \$457.2 million estimate. Major projects include land acquisition for the Perris Filtration Plant and Central Pool Augmentation Filtration Plant, purchase of the Allen McCoulloch Pipeline, and chemical containment for all filtration plants and the distribution system.

Expenditures for projects which already have an appropriation approved by your Board amount to \$400.9 million, and \$56.3 million is estimated to be expended on projects which are in preliminary stages and will be presented to your Board for an appropriation during the year. Expenditures for the proposed construction program will be funded from proceeds in the Revenue Bond Construction Fund and the Pay-As-You-Go Fund as approved by your Board.

THREE-YEAR ROLLING BUDGET

Costs are estimated to increase from \$804.4 million in 1993-94 to \$1.1 billion in 1995-96. The component with the largest increase is the MWD capital program. Debt service is estimated to be \$188.8 million in 1995-96, an increase of \$81.6 million from 1993-94. Of this increase, \$40 million is attributable to the debt service for the \$550 million revenue bond issue of 1992. The first three interest payments for this issue were paid from the bond proceeds. Beginning in 1994-95, the debt service will be funded from current revenues. The balance of the increase is associated with additional debt service which will result from a proposed revenue bond issue tentatively scheduled for early

1995. Pay As You Go is estimated to increase from \$64.9 to \$135.3 million, or \$70.4 million. This level of funding represents 20 percent of the capital improvement program.

State Water Project payments are estimated to increase from \$313.0 to \$365.0 million. This is a \$52.0 million, or 17 percent, increase. The proposed increase is mainly due to projected increases in unit rates for variable power and estimated water deliveries, coupled with the costs associated with an energy tax contained in the President's budget proposal that is being considered by the Congress. The tax would apply to the energy used to transport water through the State Water Project. Water transfers/options are assumed to increase from \$12.0 million to \$24.0 million.

Colorado River power and supplies are estimated to increase from \$87.7 million to \$98.1 million, a 12 percent increase. Projects included in these estimates are the Imperial Irrigation District Agreement Phase I, Palo Verde Irrigation District Test Land Fallowing Program, Demonstration Program on Interstate Underground Storage of Colorado River Water in Arizona, and All-American and Coachella Canal Lining Projects. In addition to the \$98.1 million to be funded from operating revenues, it is estimated that approximately \$13.2 million will be funded through revenue bond financing. Approximately \$6.6 million is also included for the energy tax that, if passed by Congress, would be associated with pumping water through the Colorado River Aqueduct.

Local Projects and groundwater recovery programs are estimated to increase from \$7.0 million to \$24.7 million. This is a 253 percent increase. This reflects staff's best estimates of the projects that will be undertaken by our member agencies, or their subagencies, during this period.

MWD Departmental O&M is estimated to increase from \$219.8 million to \$247.5 million. This increase is consistent with the budget objective included in the Strategic Plan to limit increases in future years to inflation, as measured by changes in the Consumer Price Index, adjusted for costs related to new facility and regulatory requirements, while meeting productivity and level of service objectives.

The untreated water rates for 1994-95 and 1995-96 necessary to support the projected expenditures are estimated to be \$359 and \$400 per acre-foot, respectively. This represents an average annual increase of 12 percent per year.

The cost and revenue structures are being evaluated with a view toward reducing rate impacts while maintaining financial integrity and water system reliability and quality.

Table 2 attached to this letter shows the projected receipts and expenditures.

AUTHORITY TO EXPEND BUDGETED FUNDS

Unless otherwise instructed, the General Manager will expend such budgeted amounts for the purposes identified in the budget or for District purposes that he may identify in the course of the year, subject to the constraints and guidelines contained in the Administrative Code.

For an overview of budgeted cash flows, a schedule of Estimated Receipts and Disbursements is provided on Table 1.

An Annual Budget Appropriation of \$629.0 million is needed to continue payments for State Water Contract operations, maintenance, power, and replacement costs, State project capital charges, State project and Colorado River Aqueduct power costs, District operation and maintenance, water transfers/options, and operation and maintenance costs associated with additional Colorado River water supplies. Also required are continuing appropriations of \$107.2 million for debt service on District general obligation and revenue bonds, interest payments on the outstanding commercial paper notes, and payments for the Second Barrel of the First San Diego Aqueduct; and \$3.3 million for operating equipment and inventory supplies.

Board Committee Assignments

This letter is referred for action to:

The Finance and Insurance Committee pursuant to its authority to study, advise, and make recommendations with regard to preparation of budgets under Administrative Code Section 2441(a).

The Executive Committee because of its authority to study, advise, and make recommendations with regard to public information regarding matters affecting the District's interests under Administrative Code Section 2417(b).

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

It is recommended that the Board of Directors:

- 1) Approve the proposed 1993-94 Budget totalling \$804.4 million;
- 2) Appropriate \$629.0 million for District O&M and State Water Project operations, maintenance, power and replacement costs; Colorado River Aqueduct power costs; State Water Project capital charges; and operations and maintenance costs associated with additional Colorado River water supplies;
- 3) Appropriate, as a continuing appropriation, \$107.2 million for debt service on District general obligation and revenue bonds; interest payments on the outstanding commercial paper notes; and payments for the Second Barrel of the First San Diego Aqueduct;
- 4) Appropriate, as a continuing appropriation, \$3.3 million for operating equipment and inventory supplies.

EXECUTIVE COMMITTEE FOR ACTION.

It is recommended that the Board of Directors, by two-thirds vote, find it necessary for the protection of District rights and properties to disseminate information concerning such rights and properties, and authorize expenditures subject to the amounts appropriated by the Board as detailed by fund type in the 1993-94 Annual Budget.


for General Manager

MCF:jg

Attachments

94budget

TABLE 1

1993-94 PROPOSED ANNUAL BUDGET															
ESTIMATED RECEIPTS & DISBURSEMENTS BY FUND															
Excluding Bond Construction, Trust & Employees' Deferred Compensation Funds															
(\$ In Thousands)															
	TOTAL	WATER REVENUE/ STANDBY	O&M	REV BOND	REV BOND	WATER REV	GENERAL	COMM	PAYG	WATER	TREATMENT	SPECIAL	S.W.C.	1931 G.O.	1966 G.O.
	ALL FUNDS	FUNDS	FUND	I&P FUND	RESERVE	REMAINDER	FUND	PAPER	FUND	RATE	SRCHGE	TAX FUND	FUND	I&R FUND	I&P FUND
CASH & SECURITIES: 7/1/93	580,049		81,429	23,000	16,953	192,500	8,800	1,000	50,000	108,618	0		57,477	150	20,122
REQUIRED RESERVES: 7/1/93	445,950		79,929	21,965	16,953	192,500	7,500	1,000	50,000	0	0		56,977	4	19,122
ESTIMATED RECEIPTS:															
Taxes	90,000											7,277	27,643	201	54,879
Water Sales	595,237	595,237													
(less Water Reclamation)	(7,000)	(7,000)													
Interest	20,000	75	2,818	821	605	6,245	314	36	1,786	4,508	0	15	2,053	5	719
Other Revenue	750						750								
Power Recovery	19,000		19,000												
Water Standby Charges	50,000	50,000													
TOTAL EST. RECEIPTS	767,987	638,312	21,818	821	605	6,245	1,064	36	1,786	4,508	0	7,292	29,696	206	55,598
INTER-FUND TRANSFERS:	0	(638,312)	378,951	60,651	(605)	18,754	43,360	1,964	63,090	(87,750)	0	(7,292)	167,188	0	0
TOTAL FUNDS AVAILABLE:	1,328,035	0	482,198	84,472	16,953	217,499	53,224	3,000	114,876	25,376	0	0	254,361	356	75,720
EST. EXPENDITURES:															
O&M (incl.inv.& op.equip)	200,376		197,041				3,335								
Conservation Programs	19,400		19,400												
IID O&M & Indirect	6,672		6,672												
IID Capital	20,953						20,953								
CRA Power	38,823		38,823												
Additional CRA Supplies	21,207						21,207								
SWC Variable Power	6,831		6,831												
SWC Capital	130,924												130,924		
SWC Minimum OMP&R	87,482		87,482												
Off-Aqueduct Facilities	107,676		42,432										65,244		
SWC Credits	(20,000)		(20,000)												
Water Transfers/Options	12,000		12,000												
Commercial Paper Interest	2,000							2,000							
Bond Interest	75,533			37,848										6	37,879
Bond Redemption	29,455			9,680										250	19,525
Other Long-Term Debt	204						204								
PAYG Construction	64,876								64,876						
TOTAL EST. EXPENDITURES	804,412		390,681	47,528	0	0	45,699	2,000	64,876	0	0	0	196,168	256	57,204
CASH & SECURITIES: 7/1/94	523,623		91,518	36,944	16,953	217,500	7,525	1,000	50,000	25,376	0	0	58,192	100	18,516
REQUIRED RESERVES: 7/1/94	497,275		90,768	36,846	16,953	217,500	7,500	1,000	50,000	0	0	0	58,192	0	18,516

TABLE 2

PROJECTED RECEIPTS AND EXPENDITURES (Cash Basis -- \$ in Thousands)			
	1993-94	1994-95	1995-96
RECEIPTS:			
WATER SALES (90% Exceedence)	\$595,237	\$765,634	\$880,266
LESS LOCAL PROJECTS RECLAIMED WATER	(6,000)	(8,900)	(11,700)
LESS GROUNDWATER RECOVERY	(1,000)	(4,000)	(13,000)
SUB-TOTAL	588,237	752,734	855,566
TAXES	90,000	94,500	99,225
STANDBY CHARGES	50,000	50,000	50,000
INTEREST ON INVESTMENTS, POWER RECOVERIES AND MISCELLANEOUS INCOME	39,750	45,250	49,750
TOTAL RECEIPTS	767,987	942,484	1,054,541
PROJECTED USE OF STABILIZATION FUNDS	87,750	11,000	15,000
TOTAL FUNDS AVAILABLE	\$855,737	\$953,484	\$1,069,541
EXPENDITURES:			
STATE WATER PROJECT PAYMENTS	\$312,913	\$350,923	\$364,955
WATER TRANSFERS/OPTIONS	12,000	24,000	24,000
COLORADO RIVER POWER & SUPPLIES	87,655	95,919	98,083
MWD CAPITAL PROGRAM:			
DEBT SERVICE	107,192	139,448	188,795
PAY AS YOU GO	64,876	86,769	135,310
MWD O&M AND EQUIPMENT (NET)	191,620	202,699	212,584
LEASE OBLIGATIONS	8,756	12,189	11,467
CONSERVATION CREDITS PROGRAM	19,400	21,340	23,474
SUB-TOTAL	219,776	236,228	247,525
TOTAL EXPENDITURES	804,412	933,287	1,058,668
ADJUSTMENTS IN RESERVES	51,325	20,197	10,873
TOTAL OBLIGATIONS	\$855,737	\$953,484	\$1,069,541