

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

June 22, 1993

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

Report

On August 20, 1992, your Board adopted a set of goals and objectives that included a financial goal with a provision for maintaining "appropriate reserve funds sufficient to withstand a water sales shortfall of 500,000 acre-feet in one year". On June 15, 1993, your Board adopted the 1993-94 Annual Budget which provides for a transfer of \$25 million from the Water Rate Stabilization Fund to working capital. This transfer increases the District's working capital to \$200 million, which, based on water rates adopted for 1993-94, is the projected revenue shortfall if water sales are 500,000 acre-feet less than budgeted, plus \$25 million for emergency repairs or claims against the District.

It is proposed to amend the Administrative Code to revise the District's working capital policy to be based on a potential sales shortfall of 500,000, consistent with both your Board's adopted goal and the 1993-94 Annual Budget.

The recommended amendment to the Administrative Code to revise the working capital policy is shown in Attachment A. Attachment B shows new text marked by underlining and deleted text marked by strikeover. Adoption of this recommendation will return the District to a working capital policy based on a formula that adjusts to changing conditions and provides continuing financial security. The immediate effect will be to begin fiscal year 1993-94 with \$200 million in working capital, as provided in the budget. In the future, under this policy, working capital will continue to be calculated using the weighted average of the water rates most recently adopted by your Board. The weighted average will reflect the projected mix of treated and untreated noninterruptible and seasonal storage sales.

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

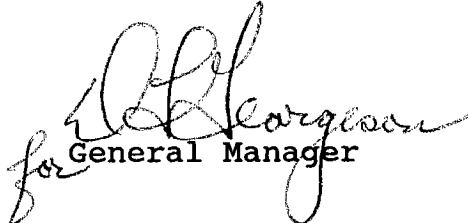
Board Committee Assignment

This letter is referred for action to the Finance and Insurance Committee because of its authority to study, advise and make recommendations with regard to the finances of the District, pursuant to 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.


for General Manager

CGP:lg
WorkCap

Attachments

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 an amount sufficient to withstand a water sales shortfall of 500,000 acre-feet in the next fiscal year, based on a weighted average of the water rates most recently adopted by the Board, 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 ~~\$150 million~~ an amount sufficient to withstand a water sales shortfall of 500,000 acre-feet in the next fiscal year, based on a weighted average of the water rates most recently adopted by the Board, for general purposes to be used in the event that revenues are insufficient to pay the costs of the District.