



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

REVISED: December 1, 1993

REVISED: November 17, 1993

November 2, 1993

To: Board of Directors (Finance and Insurance Committee--Action)
(Water Problems Committee--Information)
(Special Budget Committee--Information)
(Special Committee on Financial Policy--Information)

From: General Manager

Subject: Revenue Requirements for Fiscal Year 1994-95

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 1994-95. The estimates are based on the latest information available and have been made in accordance with all applicable Board policies. Total revenues required during 1994-95 are \$856.1 million. The cost estimates are shown on Table 1, and projected revenues from all sources are shown on Table 2.

As of September 1993 cost estimates for 1994-95 reflected reductions of \$234 million from previous estimates due to the General Manager's cost containment program which has been in effect since 1991-92. The cost estimates have been further reduced by \$51 million in preparing the revenue requirement for 1994-95.

Of the \$51 million reduction, projections for power costs on the State Water Project have been reduced by approximately \$31 million, reflecting staff's review of the State's assumptions for off-aqueduct and variable power charges. Projections for All-American Canal lining costs have been reduced by \$17 million, and O&M cost projections were reduced by \$2 million. Changes in required reserves produced an additional reduction of \$1 million.

As shown on Graph 1, total cumulative cost reductions for the period 1991-92 to 1999-00 are approximately \$2.4 billion.

Major Cost Categories

State Water Project and Water Transfers

As shown on Table 1, total 1994-95 costs under the State Water Project and for water transfers are estimated to be approximately \$306.2 million (net of projected credits and based on projected water deliveries of 534,000 acre-feet). Experience has shown that such costs can vary as much as plus or minus \$40 million depending on water supply availability and State Project operations. A total of \$24 million has been included in the estimates for potential water transfers, purchases and exchanges of up to 100,000 acre-feet. The total estimate is an increase of \$46.6 million over projected actual for the current fiscal year. The increase is the result of projected increases in variable power unit rates, additional costs for off-aqueduct power, and an additional \$12 million for potential water transfers.

Water Management Programs

The cost estimates reflect the District's increasing commitment to water conservation, local projects development and groundwater recovery. Total funding in 1994-95 for these water management programs will increase \$7.4 million (28 percent) over current year projections to a total of \$33.8 million. The increase reflects a ten percent increase in the conservation credits program, an additional 20,000 acre-feet of reclaimed water production, and the addition of four groundwater recovery projects with a projected net water production of 12,000 acre-feet.

Colorado River Supplies

It is anticipated that approximately 1.2 million acre-feet will be delivered through the Colorado River Aqueduct (CRA) during 1994-95. Payments for power are estimated to be \$37.4 million. It is projected that approximately \$39 million will be spent for the Imperial Irrigation District Agreement (IID), the All American Canal Lining Project, and the Palo Verde Irrigation District Test Land Following Project. The projected overall increase of \$14.2 million in costs over current year projections is mainly a result of a deferral of a portion of the capital expenditures for the IID Agreement from January 1994 to January 1995.

MWD Capital Program

Costs in 1994-95 for all outstanding debt issues, including the current Capital Improvement Program, are estimated to be \$207.7 million. This total includes \$78.9 million in debt service payments for revenue bonds, \$57.1 million for general obligation bonds, \$2.3 million for commercial paper, and \$69.4 million in pay-as-you-go expenditures. Projections indicate that costs will increase by \$36.1 million over 1993-94. Of the increase, \$30.2 million relates to discontinued capitalized bond interest payments under the junior lien bond resolution. Interest payments for the \$550 million revenue bonds sold in August 1992 were capitalized in order to reduce the increase in water rates during the drought.

MWD O&M and Operating Equipment

Projected Operation and Maintenance expenditures of \$211.5 million are \$11.1 million greater than the current year projection. The estimate is based on an assumed 4 percent cost escalation and scheduled increases of approximately \$3 million in lease payments.

Adjustments in Reserves

A reserve adjustment of \$20.6 million is required due to increases in debt service funds to service revenue bonds. This is an increase of \$11.4 million over the current year projection. The reserve requirements are calculated in accordance with revenue bond covenants and Board policies.

Summary of Year Over Year Costs

The following year over year comparative summary of costs is detailed by component on Table 1:

	Current <u>Budget</u>	Projected <u>Actual</u>	Projected <u>1994-95</u>
Total Use of Funds	\$862.7M	\$729.3M	\$856.1M

The \$133.4 million decrease in costs from current budget to projected actual for 1993-94 is detailed below:

-State Water Project	(\$ 65.3M)
-Colorado River Aqueduct Supplies	(25.6M)
-Adjustments in Reserves	(42.1M)
-Other Changes	(.4M)
Total Change:	(\$133.4M)

The cost increase from the 1993-94 projected actual to 1994-95 is \$126.8 million. The specific increases are explained in the narrative above for each major cost category.

Recommended Revenue Structure

A two-year program of rates and charges has been proposed as a result of the Financial Structure Study and is being considered for approval by your Board. The new structure is described in detail in the General Manager's letter entitled "Financial Structure Study Recommendations of Rate Structure and Additional Revenue Sources" dated December 1, 1993.

Under the proposed revenue structure the water standby (parcel) charge would be imposed in 1994-95, and be discontinued thereafter. A readiness-to-serve charge would replace the standby charge in 1995-96, and be set at approximately \$66 million, an amount sufficient to recover non-tax supported debt service attributable to the portion of the Capital Improvement Program for reliability and quality needs of existing users. A connection maintenance charge would be imposed in 1995-96 to collect a portion of the costs associated with maintaining each agency's service connections. Total collections under this charge for 1995-96 are estimated to be approximately \$7.0 million.

The proposal also includes a "new demand charge" to help fund the cost of meeting new demands on MWD and a treated peaking charge. These charges would also go into effect during 1995-96, but would not produce revenues until 1996-97.

Under the recommended structure, total revenues required during 1994-95 will be \$856.1 million. Revenues from taxes (to be levied at the same rate as in 1993-94), the water standby charge, interest, power recoveries, and miscellaneous sources are projected to be \$186.6 million. Gross revenues required from water sales are projected to be \$669.5 million. To hold the combined fiscal impact of the increases in the base water rate and the water treatment surcharge to approximately 6.5 percent it is estimated that approximately \$15.3 million will be required from the Water Rate Stabilization Fund to cover the projected revenue deficit. Therefore, the net water revenue requirement for 1994-95 is reduced to \$654.2 million.

Table 3 shows the estimated net retail effect of the proposed rate increases of \$17 per acre-foot on the base rate and \$10 per acre-foot on the treatment surcharge.

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

Board 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(c), (e) and (f).

The Special Committee on Financial Policy because of its authority to study, advise and make recommendations with regard to financial policies of the District.

Recommendations

FINANCE AND INSURANCE COMMITTEE FOR ACTION.

It is recommended that the Finance and Insurance Committee:

1) Approve the use of up to \$15.3 million from the Water Rate Stabilization Fund to pay a portion of fiscal year 1994-95 costs in order to mitigate the fiscal impact of water rate increases at the retail level;

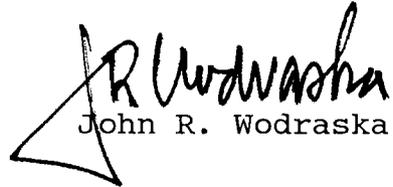
2) Make a determination that the water standby charge be continued for one more year at the same rates imposed in 1993-94;

3) Make a determination that a readiness-to-serve charge of approximately \$66 million be imposed in 1995-96 to replace the water standby charge and assure full coverage of non-tax supported debt service;

4) Make a determination that a connection maintenance charge of approximately \$7 million be imposed in 1995-96;

5) Make a determination that revenues required from water sales during fiscal year 1994-95 should not be less than \$654.2 million; and

6) Forward these determinations to the Water Problems Committee for consideration at its January 1994 meeting.


John R. Wodraska

CGP/KRN:jg

Attachments

94-95REV

TABLE 1

PROJECTED COSTS (CASH BASIS - \$ IN THOUSANDS)					
	ANNUAL BUDGET 1993-94	PROJECTED ACTUAL 1993-94	1994-95	1995-96	1996-97
STATE WATER PROJECT	\$312,913	\$247,569	\$282,213	\$304,724	\$322,865
WATER TRANSFERS	12,000	12,000	24,000	24,000	24,000
COLORADO RIVER SUPPLIES	87,655	62,018	76,216	86,333	94,694
WATER MANAGEMENT PROGRAMS	26,400	26,400	33,840	43,774	57,121
MWD CAPITAL PROGRAM	172,068	171,668	207,743	261,027	320,995
MWD O&M AND OPER. EQUIPMENT	200,376	200,376	211,473	220,716	230,138
ADJUSTMENTS IN RESERVES	51,325	9,241	20,636	14,550	20,969
TOTAL OBLIGATIONS	\$862,737	\$729,272	\$856,121	\$955,124	\$1,070,782

TABLE 2

**RECOMMENDED REVENUE STRUCTURE
PROJECTED RECEIPTS
(CASH BASIS-\$ IN THOUSANDS)**

	ANNUAL BUDGET 1993-94	PROJECTED ACTUAL 1993-94	1994-95	1995-96	1996-97
WATER SALES	\$595,237	\$587,000	\$654,221	\$717,719	\$758,818
TAXES	90,000	84,000	91,350	94,090	96,913
WATER STANDBY CHARGES	50,000	50,000	50,000	0	0
READINESS TO SERVE CHARGE	0	0	0	66,165	86,601
CONNECTION MAINTENANCE CHARGE	0	0	0	7,000	7,000
INTEREST ON INVESTMENTS	20,000	20,000	22,000	24,000	25,000
POWER RECOVERIES	19,000	21,000	22,500	25,000	25,000
MISCELLANEOUS	750	900	750	750	750
TOTAL RECEIPTS	774,987	762,900	940,821	934,724	1,000,082
PROJECTED USE OF STABILIZATION FUNDS	87,750	(33,628)	15,300	20,400	70,700
TOTAL USE OF FUNDS	\$862,737	\$729,272	\$856,121	\$955,124	\$1,070,782

NET WATER REVENUE REQUIREMENT	\$654.2 MILLION
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Table 3

**ESTIMATED RETAIL EFFECT OF A \$17 PER ACRE-FOOT
MWD WATER RATE INCREASE AND A \$10 PER ACRE-FOOT
INCREASE IN THE WATER TREATMENT SURCHARGE**

MEMBER AGENCY	PERCENT OF WATER SUPPLY NORMALLY PURCHASED FROM MWD	INCREASED COST TO AVERAGE HOUSEHOLD PER MONTH
AVERAGE FOR ALL MEMBER AGENCIES	50%	\$0.56
LOS ANGELES COUNTY		
Beverly Hills	100%	\$1.13
Burbank	100%	\$1.13
Central Basin	36%	\$0.41
Compton	53%	\$0.60
Foothill MWD	60%	\$0.68
Glendale	80%	\$0.90
Las Virgenes	100%	\$1.13
Long Beach	60%	\$0.68
Los Angeles	46%	\$0.52
Pasadena	60%	\$0.68
San Fernando	25%	\$0.28
San Marino	10%	\$0.11
Santa Monica	50%	\$0.56
Three Valleys	60%	\$0.68
Torrance	85%	\$0.96
Upper San Gabriel	5%	\$0.06
West Basin	80%	\$0.90
ORANGE COUNTY		
Anaheim	30%	\$0.34
Coastal	98%	\$1.10
Fullerton	30%	\$0.34
Santa Ana	30%	\$0.34
MWD of Orange Co.	60%	\$0.68
RIVERSIDE COUNTY		
Eastern MWD	80%	\$0.90
Western MWD	24%	\$0.27
SAN BERNARDINO COUNTY		
Chino Basin MWD	30%	\$0.34
SAN DIEGO COUNTY		
San Diego CWA	90%	\$1.01
VENTURA COUNTY		
Calleguas MWD	76%	\$0.86

GRAPH 1
**REDUCTIONS IN COST PROJECTIONS
 THROUGH YEAR 2000**

