

REVISED: November 17, 1993



**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

November 2, 1993

(Finance and Insurance Committee--Action)  
(Water Problems Committee--Information)  
(Special Budget Committee--Information)  
To: Board of Directors (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 CategoriesState 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. 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<br><u>Budget</u> | Projected<br><u>Actual</u> | Projected<br><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              | (\$ <u>65.3M</u> )  |
| -Colorado River Aqueduct Supplies | ( <u>25.6M</u> )    |
| -Adjustments in Reserves          | ( <u>42.1M</u> )    |
| -Other Changes                    | ( <u>.4M</u> )      |
| Total Change:                     | ( <u>\$133.4M</u> ) |

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

An alternative revenue structure has been proposed as a result of the Financial Structure Study and is being considered for approval by your Board. The alternative structure is described in detail in the General Manager's letter entitled "Financial Structure Study Recommendations of Rate Structure and Additional Revenue Sources" dated October 26, 1993.

Under the alternative structure the water standby (parcel) charge would not be imposed in 1994-95. A readiness-to-serve charge would substantially replace the standby charge and be set at approximately \$44 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 1994-95 to collect a portion of the costs associated with maintaining each agency's service connections. Total collections under this charge for 1994-95 are estimated to be approximately \$7.0 million.

The proposal also includes a capacity acquisition charge on growth and a treated peaking charge, but these charges would not go into effect during 1994-95 and do not affect the 1994-95 water revenue requirement.

Under the proposed 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), a readiness-to-serve charge, the connection maintenance charge, interest, power recoveries, and miscellaneous sources are projected to be \$187.4 million. Gross revenues required from water sales are projected to be \$668.7 million. To hold the base water rate constant (and to mitigate the effects at the retail level in transitioning from a parcel charge to a readiness-to-serve charge) it is estimated that approximately \$40.8 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 \$627.9 million. The fiscal impact under this alternative is estimated to be approximately 9.6 percent at the member agency level, offset by an 8.0 percent savings at the retail level from eliminating the standby charge.

Table 4 shows the estimated net retail effect of the proposed readiness-to-serve and connection maintenance charges on average households in each member agency after accounting for the elimination of the \$50 million water standby charge in 1994-95. While the readiness-to-serve charge is on member agencies and the standby charge is directly on the property tax bills, this table reflects that the overall impact at the retail level is minimal.

#### Alternate Structure

The Financial Structure Study process has involved close cooperation between District staff and a team of member agency managers. While general agreement has been reached on the elements of the proposed new financial structure outlined above, there is an issue as to the timing of implementation. Staff prefers implementation of the new readiness-to-serve and connection maintenance charges in 1994-95, with elimination of the standby charge in 1994-95. Some agency managers have expressed interest in imposing the standby charge for one more year and delaying the implementation of the readiness-to-serve and the connection maintenance charges until 1995-96.

Those agency managers feel that additional time is needed in order to develop methods of collecting the new charges from their subagencies and/or retail customers. They would also increase the District's ad valorem property tax levy to the legal maximum in 1995-96 to partially offset the elimination of the standby charge. Under this alternative \$23.1 million would be needed from the Water Rate Stabilization Fund in order to limit the fiscal impact to 5 percent at the member agency level. As shown on Table 3, under this proposal the net water revenue requirement would be \$646.4 million.

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 \$40.8 million from the Water Rate Stabilization Fund to pay a portion of fiscal year 1994-95 costs in order to hold the base water rate at its current level and to mitigate the effects at the retail level in transitioning from a parcel charge to a readiness-to-serve charge;

2) Make a determination that the water standby charge be discontinued for 1994-95 and that a readiness-to-serve charge be imposed;

3) Make a determination that \$43.8 million in revenues be generated from a readiness-to-serve charge;

4) Make a determination that \$7.0 million in revenues be collected from a connection maintenance charge;

5) Make a determination that revenues required from water sales during fiscal year 1994-95 should not be less than \$627.9 million; and

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

Alternate Recommendations

**FINANCE AND INSURANCE COMMITTEE FOR ACTION.**

It is recommended that the Finance and Insurance Committee:

1) Approve the use of up to \$23.1 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;

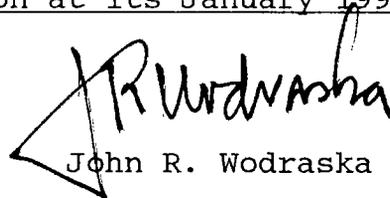
2) Make a determination that the water standby charge be continued for one more year at the same rates imposed in 1993-94;

3) Make a determination that a readiness-to-serve charge 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 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 \$646.4 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**

| <b>PROJECTED COSTS</b><br>(CASH BASIS - \$ IN THOUSANDS) |                             |                                |                  |                  |                    |
|--|-----------------------------|--------------------------------|------------------|------------------|--------------------|
|  | ANNUAL<br>BUDGET<br>1993-94 | PROJECTED<br>ACTUAL<br>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             |
| <b>TOTAL OBLIGATIONS</b>                                 | <b>\$862,737</b>            | <b>\$729,272</b>               | <b>\$856,121</b> | <b>\$955,124</b> | <b>\$1,070,782</b> |

**TABLE 2**

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

|   | ANNUAL<br>BUDGET<br>1993-94 | PROJECTED<br>ACTUAL<br>1993-94 | 1994-95          | 1995-96          | 1996-97            |
|---|-----------------------------|--------------------------------|------------------|------------------|--------------------|
| WATER SALES                             | \$595,237                   | \$587,000                      | \$627,925        | \$717,119        | \$768,218          |
| TAXES                                   | 90,000                      | 84,000                         | 91,350           | 94,090           | 96,913             |
| WATER STANDBY CHARGES                   | 50,000                      | 50,000                         | 0                | 0                | 0                  |
| READINESS TO SERVE CHARGE               | 0                           | 0                              | 43,796           | 66,165           | 86,601             |
| CONNECTION MAINTENANCE CHARGE           | 0                           | 0                              | 7,000            | 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                |
| <b>TOTAL RECEIPTS</b>                   | <b>774,987</b>              | <b>762,900</b>                 | <b>615,321</b>   | <b>934,124</b>   | <b>1,009,482</b>   |
| PROJECTED USE OF<br>STABILIZATION FUNDS | 87,750                      | (33,628)                       | 40,800           | 21,000           | 61,300             |
| <b>TOTAL USE OF FUNDS</b>               | <b>\$862,737</b>            | <b>\$729,272</b>               | <b>\$856,121</b> | <b>\$955,124</b> | <b>\$1,070,782</b> |

NET WATER REVENUE REQUIREMENT

**\$627.9 MILLION**

**TABLE 3**

**ALTERNATE RECOMMENDATION: REVENUE STRUCTURE  
PROJECTED RECEIPTS  
(CASH BASIS-\$ IN THOUSANDS)**

|   | ANNUAL<br>BUDGET<br>1993-94 | PROJECTED<br>ACTUAL<br>1993-94 | 1994-95          | 1995-96          | 1996-97            |
|---|-----------------------------|--------------------------------|------------------|------------------|--------------------|
| WATER SALES                             | \$595,237                   | \$587,000                      | \$646,421        | \$717,637        | \$758,978          |
| TAXES                                   | 90,000                      | 84,000                         | 91,350           | 104,572          | 103,353            |
| 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                |
| <b>TOTAL RECEIPTS</b>                   | <b>774,987</b>              | <b>762,900</b>                 | <b>833,021</b>   | <b>945,124</b>   | <b>1,006,682</b>   |
| PROJECTED USE OF<br>STABILIZATION FUNDS | 87,750                      | (33,628)                       | 23,100           | 10,000           | 64,100             |
| <b>TOTAL USE OF FUNDS</b>               | <b>\$862,737</b>            | <b>\$729,272</b>               | <b>\$856,121</b> | <b>\$955,124</b> | <b>\$1,070,782</b> |

NET WATER REVENUE REQUIREMENT

**\$646.4 MILLION**

TABLE 4

| RETAIL IMPACT TO TYPICAL HOUSEHOLD*   |  |   |   |                       |                                    |
|---|--|---|---|-----------------------|------------------------------------|
|   | PERCENT OF WATER<br>SUPPLY NORMALLY<br>PURCHASED<br>FROM MWD | INCREASED COST TO<br>AVERAGE HOUSEHOLD<br>PER MONTH** | ANNUAL<br>STANDBY<br>CHARGE<br>ELIMINATED | MONTHLY<br>EQUIVALENT | NET<br>MONTHLY<br>RETAIL<br>EFFECT |
| <b>AVERAGE FOR ALL<br/>MEMBER AGENCIES</b>  | 50%  | \$1.04  | (\$10.11)                                 | (\$0.84)              | \$0.20                             |
| <b>LOS ANGELES COUNTY</b>   |  |   |   |                       |                                    |
| Beverly Hills   | 100%   | \$2.08  | (\$15.00)                                 | (\$1.25)              | \$0.83                             |
| Burbank   | 100%   | \$2.08  | (\$14.20)                                 | (\$1.18)              | \$0.90                             |
| Central Basin   | 36%  | \$0.75  | (\$10.44)                                 | (\$0.87)              | (\$0.12)                           |
| Compton   | 53%  | \$1.10  | (\$8.92)                                  | (\$0.74)              | \$0.36                             |
| Foothill MWD  | 60%  | \$1.25  | (\$10.28)                                 | (\$0.86)              | \$0.39                             |
| Glendale  | 80%  | \$1.67  | (\$12.23)                                 | (\$1.02)              | \$0.65                             |
| Las Virgenes  | 100%   | \$2.08  | (\$8.03)                                  | (\$0.67)              | \$1.41                             |
| Long Beach  | 60%  | \$1.25  | (\$12.16)                                 | (\$1.01)              | \$0.24                             |
| Los Angeles   | 46%  | \$0.96  | (\$8.68)                                  | (\$0.72)              | \$0.24                             |
| Pasadena  | 60%  | \$1.25  | (\$11.73)                                 | (\$0.98)              | \$0.27                             |
| San Fernando  | 25%  | \$0.52  | (\$7.87)                                  | (\$0.66)              | (\$0.14)                           |
| San Marino  | 10%  | \$0.21  | (\$8.24)                                  | (\$0.69)              | (\$0.48)                           |
| Santa Monica  | 50%  | \$1.04  | (\$13.07)                                 | (\$1.09)              | (\$0.05)                           |
| Three Valleys   | 60%  | \$1.25  | (\$12.21)                                 | (\$1.02)              | \$0.23                             |
| Torrance  | 85%  | \$1.77  | (\$12.23)                                 | (\$1.02)              | \$0.75                             |
| Upper San Gabriel   | 5%   | \$0.10  | (\$9.27)                                  | (\$0.77)              | (\$0.67)                           |
| West Basin  | 80%  | \$1.67  | (\$15.00)                                 | (\$1.25)              | \$0.42                             |
| <b>ORANGE COUNTY</b>  |  |   |   |                       |                                    |
| Anaheim   | 30%  | \$0.63  | (\$8.55)                                  | (\$0.71)              | (\$0.09)                           |
| Coastal   | 98%  | \$2.04  | (\$11.60)                                 | (\$0.97)              | \$1.08                             |
| Fullerton   | 30%  | \$0.63  | (\$10.71)                                 | (\$0.89)              | (\$0.27)                           |
| Santa Ana   | 30%  | \$0.63  | (\$7.88)                                  | (\$0.66)              | (\$0.03)                           |
| MWD of Orange Co.   | 60%  | \$1.25  | (\$10.09)                                 | (\$0.84)              | \$0.41                             |
| <b>RIVERSIDE COUNTY</b>   |  |   |   |                       |                                    |
| Eastern MWD   | 80%  | \$1.67  | (\$6.94)                                  | (\$0.58)              | \$1.09                             |
| Western MWD   | 24%  | \$0.50  | (\$9.23)                                  | (\$0.77)              | (\$0.27)                           |
| <b>SAN BERNARDINO COUNTY</b>  |  |   |   |                       |                                    |
| Chino Basin MWD   | 30%  | \$0.63  | (\$7.59)                                  | (\$0.63)              | (\$0.01)                           |
| <b>SAN DIEGO COUNTY</b>   |  |   |   |                       |                                    |
| San Diego CWA   | 90%  | \$1.88  | (\$11.51)                                 | (\$0.96)              | \$0.92                             |
| <b>VENTURA COUNTY</b>   |  |   |   |                       |                                    |
| Calleguas MWD   | 76%  | \$1.58  | (\$9.58)                                  | (\$0.80)              | \$0.79                             |
| * Estimated effect of a \$44 million readiness-to-serve charge, a \$7 million connection maintenance charge, a \$10 per acre-foot increase in the water treatment surcharge and elimination of the \$50 million water standby charge. |  |   |   |                       |                                    |
| ** Assumes Readiness-to-Serve Charge is passed through as a water rate increase and the average household uses 1/2 acre-foot per year.  |  |   |   |                       |                                    |

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

