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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

EXECUTIVE SECRETARY

August 24, 1994

To: Board of Directors (Finance and Insurance Committee--Information)
From: General Manager
Subject: Budgetary Status of Imperial Irrigation District-
Metropolitan Water Conservation Program

Report

On July 26, 1994, the Special Audit Committee (Committee) reviewed the year-end status of the Imperial Irrigation District (Imperial)-Metropolitan Water Conservation Program (Program). The Committee requested that staff report to the Finance and Insurance Committee on the following question:

"Is the project within budget, and how is inflation included in the project cost?"

In brief, the Program requires Metropolitan to pay actual costs, as those costs increase over time. However, the Program also contains cost controls, which have resulted in the Program remaining within its estimated total costs and unit cost of \$120 per acre-foot.

On December 22, 1988, your Board authorized the General Manager to execute an "Agreement for the Implementation of a Water Conservation Program and Use of Conserved Water" (Agreement) with Imperial. The terms of that Agreement were outlined in a November 15, 1988 letter to your Board. In that letter, details were provided on each of the proposed Agreement's Articles including Article II, Program Costs. The letter stated that the actual capital and direct costs of the Program would be paid by Metropolitan. The capital costs were estimated to total \$92 million in 1988 dollars, and the actual direct costs were estimated to total \$3.1 million annually upon full Program implementation.

In addition, the indirect costs of the Program were \$23 million and were paid by Metropolitan in five equal annual installments between 1990 and 1994. The indirect costs are compensation for loss of hydroelectric power and water sale revenue, and mitigation for any adverse impacts

on agriculture from an increase in the salinity concentration of Colorado River water. Also, the indirect funds are compensation for the costs of necessary environmental mitigation and litigation, if any, related to any impact of the Program on the Salton Sea, and New and Alamo Rivers, along with any unreimbursed liability claims related to operation and maintenance. In addition, the indirect funds can be used for public information activities, construction of pipelines to replace lateral canals, and modernization of the ancillary features of Imperial's water supply system.

The Agreement provides that should a subsequent feasibility-level capital cost estimate in 1988 dollars exceed the \$92 million estimate, Imperial is to substitute projects as necessary. This is to control costs such that the sum of the feasibility-level estimate of capital costs and the capital equivalent of the annual direct costs in 1988 dollars does not exceed the estimate contained in the Agreement. Alternatively, Imperial could request written approval from Metropolitan to proceed with the Program at a higher capital cost estimate.

In order to gain Coachella Valley Water District and Palo Verde Irrigation District's approval of the Agreement, on December 12, 1989, your Board authorized the General Manager to execute an Approval Agreement. The terms of the Approval Agreement were outlined in a December 1, 1989 letter to your Board. In that letter, details were provided on each of the proposed Approval Agreement's provisions, including a description of certain augmentation projects which would increase the amount of water conserved as well as project substitution and deletion. With the substitution of projects, the Conservation Program's capital cost estimate increased from \$92 million to \$97.8 million in 1988 dollars, and the direct cost estimate decreased from \$3.1 million to \$2.6 million annually in 1988 dollars. The Conservation Program's unit cost estimate did not change as the increase in capital costs was fully offset by the decrease in annual direct costs. Based on Metropolitan using 106,110 acre-feet of Conservation Program and Augmentation Program water, the unit cost in 1988 dollars was estimated to be \$120 per acre-foot.

Thus, inflation is handled through Metropolitan payment of actual costs, with controls provided on the impact of such inflation through provisions contained in the Agreement and Approval Agreement. In order to compare actual costs to the Program's 1988 dollar estimates established by the Agreement, the Program Coordinating Committee (PCC) approved the use of the U.S. Bureau of

Reclamation Construction Cost Trends Composite Index to deflate actual dollars to 1988 dollars. Table 1 (attached) provides a year-by-year breakdown of actual and projected (budgeted) costs converted to 1988 dollars, using the appropriate index values. Based on actual costs through 1993 and projected costs through 1996, we expect the capital and annual direct costs to remain within the budget and to not exceed the estimated costs in 1988 dollars reported to your Board prior to your authorization to execute the agreements. Based on actual and projected costs and conserving 106,110 acre feet of water, the projected unit cost of the Conservation and Augmentation Programs would be \$120 per acre-foot in 1988 dollars which is equal to the estimate indicated in the December 1, 1989 letter to your Board.

Based on paying actual costs, it has been contemplated that an increase in the capital appropriation would be required to account for escalation in construction costs. This has been brought to your Board's attention in Status Reports on the Conservation Program dated December 18, 1991, January 26, 1993, and February 16, 1994.

As detailed in the February 16, 1994 letter, completion of the Program has been delayed due to preparation of a focused Environmental Impact Report (EIR) for the Modified East Lowline and Trifolium Interceptors, and Completion Projects. The EIR has been completed and a Notice of Determination was filed in July 1994. At its July 22, 1994 meeting, the PCC directed Imperial staff to prepare a revised planning, design, and construction schedule and budget to complete the remaining projects in order to attain the conserved water goal of 106,110 acre-feet per year. We expect this effort to be completed within the next two months at which time a revised estimated cost to complete the Program will be established. We anticipate requesting your Board to consider increasing Appropriation No. 592 at your December 1994 meeting.

Our initial appraisal of a revised Program schedule has construction work on the remaining projects starting in January or February 1995 and being completed in December 1996. However, based on the requirement to put monitoring equipment in place to verify water savings from each project, completion of construction may be more realistically scheduled for March or April 1997.

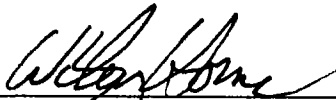
Recommendation

For information only.

John R. Wodraska
General Manager

By: Debra C. Man
Debra C. Man
Chief of Planning and Resources

Concur:



John R. Wodraska
General Manager

AKD:hah

Attachment

Table 1

Imperial-Metropolitan Water Conservation Program

<u>Year</u>	<u>Actual Costs</u>		<u>1988 Dollars</u>	
	(million dollars)		(million dollars)	
	<u>Capital</u>	<u>Annual Direct</u>	<u>Capital</u>	<u>Annual Direct</u>
1990	15.6	0.6	14.3	0.6
1991	27.2	1.5	24.3	1.3
1992	19.5	1.9	17.0	1.7
1993	<u>17.7</u>	2.2	<u>15.2</u>	1.9
Subtotal	80.0		70.8	
<u>Year</u>	<u>Projected Costs</u>		<u>1988 Dollars</u>	
	(million dollars)		(million dollars)	
	<u>Capital</u>	<u>Annual Direct</u>	<u>Capital</u>	<u>Annual Direct</u>
1994	9.7	2.4	8.1	2.0
1995	15.3	2.3	12.4	1.9
1996	8.0	2.6	6.4	2.0
1997	<u>----</u>	3.1	<u>----</u>	2.4
Subtotal	<u>33.0</u>		<u>26.9</u>	
Total	113.0		97.7	
Estimate Contained in Conservation Agreement as Modified by Approval Agreement			97.8	2.6/year
Indirect Costs		23 million dollars		
Projected Yield		106,110 acre-feet per year		
Projected Unit Cost		\$120 per acre-foot in 1988 dollars		