

FILED  
by the Board of Directors of  
The Metropolitan Water District  
of Southern California  
at its meeting held

JUN 13 1995

*Karen E. Duff*  
EXECUTIVE SECRETARY



**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

May 30, 1995

**To:** Board of Directors (Special Budget Committee--Info.)  
(Finance and Insurance Committee--Info.)

**From:** General Manager

**Subject:** Responses to Special Budget Committee Recommendations Made at the 1995-96 Budget Workshop

**RECOMMENDATION:**

For information only.

John R. Wodraska  
General Manager

Submitted by:

*Lambertus H. Becker*  
Lambertus H. Becker  
Chief Financial Officer

Concur:

*JR Wodraska*

John R. Wodraska  
General Manager

MCF:jg  
96sbrec

**EXECUTIVE SUMMARY:**

During the review of the 1995-96 Annual Budget by the Special Budget Committee and the review of the 1995-96 Capital Program by the Engineering & Operations and Finance & Insurance Committees, a number of issues were raised and questions asked. There were 26 issues/recommendations made. Of that total, responses are provided for 21. The balance of the items require additional study and research and responses will be provided to your Board over the next several months.

**DETAILED REPORT:**

At its 1995-96 budget review workshop held on May 1-2, 1995, the Special Budget Committee made a number of recommendations for staff consideration. There were also several requests for additional information regarding the capital program from the May 29, 1995 joint meeting of the Engineering & Operations Committee and the Finance and Insurance Committee. This report summarizes the proposed action by management based on the recommendations from both meetings.

1. It was recommended that the approval and assignment process for vehicles, furniture, fax machines, laptops, etc. be reviewed and revised as necessary to ensure proper utilization of equipment.

The approval and assignment process for vehicles, furniture, faxes machines, laptops, etc. is currently under review. Prior to purchasing equipment of this type, detailed policies and procedures will be readdressed and revised as necessary to ensure proper utilization of equipment.

2. It was recommended that a plan be developed to provide the Board with electronic access to MWD correspondence such as board letters.

The District is planning a series of projects that will provide Board members with greater electronic access to information. These include the installation of an Electronic Mail package (E-Mail) and a Document Management system and the implementation of the Water Information System (WINS). These projects are part of Phase Two of the Information Systems Strategic Plan (ISSP). When the ISSP was recently updated, Board member input was obtained through the Information Systems (IS) Ad Hoc Committee. With the exception of WINS which is already underway, E-Mail and Document Management will begin, following Board approval, in fiscal year 1995-96. These projects will address distribution of information (including Board letters) in electronic form. Board member access to this information can be provided through an expansion to the MWD Internet Home Page.

At the Special Budget Committee meeting, a request was also made to educate Board members on computing and technology projects in general. This education can be delivered to Board members through a series of Board Information Exchange seminars

provided by IS professionals and sponsored by the IS Ad Hoc Committee. These seminars can cover a variety of topics including: Understanding the Information Needs and Supporting Technology Requirements at MWD, Questions to Ask About Technology Applications, Structuring Successful IS Projects, and The Latest Trends in Technology. This education series will be discussed at the next IS Ad Hoc Committee meeting.

3. It was recommended that the labor budget should not include potential funding for negotiated labor settlements.

The 1995-96 budget has been restated and no longer includes any funding for salary adjustments that may result from labor negotiations. It is understood that after negotiations with AFSCME have been completed that the budget will be revised as necessary.

4. It was requested that the level of service being provided by the Washington D.C. office be evaluated.

The level of service being provided by the Washington D.C. operations will be evaluated during the year to determine budget requirements for subsequent years.

5. It was recommended that programmatic budgets be provided for major programs/projects such as DVRP, Bay/Delta, and the Union Station Long-Term Headquarters Facility.

Programmatic budgets for major programs/projects will be provided in future budgets.

6. It was requested that the budget process/calendar be reviewed to determine ways to provide more opportunities for Board policy input and structure the review/evaluation process to better utilize the skills and time of the Board.

A review of the Board's role in the budget process will be conducted and recommendations for enhancements will be made to the Special Budget Committee for consideration at its next meeting.

7. It was requested that in future years, budget tiers be evaluated on gross revenues less cost to deliver water.

Evaluation of future budget tiers will incorporate gross revenues less cost to deliver water analyses.

8. It was recommended that the method of allocating overhead be reviewed and revised if appropriate.

A study will be conducted to review current overhead allocation methodology and revisions will be recommended if appropriate. It is anticipated that this study will be completed by the end of 1995.

9. It was requested that the assumptions used to develop the 10-year forecast be provided.

The Long-Range Finance Plan includes a chapter on cost projections which will be revised to expand the discussion on the assumptions for the 10-year estimates.

10. It was recommended that a reporting mechanism for capital project variances be developed.

A mechanism will be developed to provide variance reporting on capital projects. The report will be produced semi-annually, with the first report available in January 1996.

11. It was recommended that before proceeding with the multi-purpose building, warehouse, and tool crib expansion, and auto and heavy equipment shop projects slated for Lake Mathews, a study be prepared to determine if Lake Mathews is the best location for these facilities.

A study has been initiated to determine the best location for these facilities. The study should be completed within the next six months. These projects will be deferred pending the outcome of the study.

12. It was requested that information on how much has been spent on desalination and how much it will cost, by division, in the future be provided.

A report will be prepared on desalination costs and projections and submitted to the Ad Hoc Committee on Energy and Desalination and the Engineering and Operations Committee. It is anticipated that the report will be completed by September 1995.

13. It was requested that more information on "other" expenditures be provided in future budgets.

More detailed information on "other" expenditures will be provided in future budgets.

14. It was requested that information be provided in future budgets that identifies staffing shifts, e.g., project to project, capital to O&M, etc.

Staffing shifts will be clearly identified in future budgets.

15. It was requested that information be provided as to how the San Luis Rey Indian Water Rights Settlement relates to the Regional Water Supply Solution.

A Regional Water Supply Solution to ensure adequate dependable supplies, in particular for urban users of Colorado River water, is under consideration by a Technical Committee of Arizona, California, Indian Tribes, and United States representatives. A solution being discussed includes guidelines for surplus and shortage declarations, interstate water transfers, accounting for overuse of river water, and banking (storage) in Colorado River storage facilities. To date, the technical representatives have not reached consensus on certain aspects of a regional solution. For example, representatives of Arizona hold the view that conserving seepage from the All American Canal would not be extraordinary conservation as the Central Arizona Project's canals and distribution systems are concrete lined. As such, Arizona representatives do not believe that water conserved by the all American Canal Lining Project should be eligible for banking in Lake Mead.

Metropolitan's proposal to facilitate implementation of the San Luis Rey Indian Water Rights Settlement includes a provision which, if accepted by the Department of the Interior, would permit Metropolitan to bank in Lake Mead water conserved by the All American Canal Lining Project as well as all of the water conserved by the Water Conservation Program with the Imperial Irrigation District. It would also permit Metropolitan to bank the water saved by the Test Land Following Program with the Palo Verde Irrigation District for a longer period of time until it was used by Metropolitan or spilled due to flood control releases. The Chair of the Federal San Luis Rey Water Rights Settlement Team informed Metropolitan by letter dated May 3, 1995, that the Federal Team will wait for the Technical Committee's recommendations on a water banking proposal that reflects a consensus among Lower Basin states and lower Colorado River Indian tribes. Thus, at present, implementation of the San Luis Rey Indian Water Rights Settlement is dependent upon a consensus being reached with respect to banking in the Regional Solution discussions.

16. It was requested that the 3-Year Outlooks identify substantive issues and objectives instead of focusing on inflation assumptions.

The 3-Year Outlooks in the final budget will incorporate substantive issues and objectives.

17. It was recommended that Administrative Services objectives be restated to include the Union Station Long-Term Headquarters Facility in the 1.7 MAF tier.

The facilities objectives which include the Long-Term Headquarters Facility have been incorporated into the 1.7 MAF tier budget.

18. It was requested that the mail services procedures be evaluated so that same day mailings can be consolidated.

The mail services procedures are currently being reviewed. New procedures are being developed to ensure that the Board mailing is consolidated on a daily basis while adhering to the mailing requirements included in the Administrative Code.

19. It was requested that a report be prepared outlining the District's policies and procedures for disposal of old computer equipment.

Procedures are in place to dispose of surplus District Personal Property including trade-ins, sale of scrap, surplus stock, automobiles and trucks, raw materials, furniture and office machines, and salvage for parts. Specific procedures for disposal of computer equipment are being developed and should be finalized by September 1995.

20. It was requested that the components and costs of Environmental Compliance projects contained in Phase 1 be provided.

The Health, Safety and Environmental component of the Phase One project was funded by the Board at \$2.83 million. The project plan was approved in November 1994. The project will establish a single health, safety and environmental database. The modules will address the areas of Permits and Tanks, Air Emissions and Hazardous Waste, Hazardous Materials Inventory, Environmental Auditing, and Job Hazard Analysis and

Employee Hazard Communication. The project is scheduled to be completed in January 1997. Expenditures are projected to be \$500,000 in 1994-95, \$1.3 million in 1995-96 and \$1.1 million in 1996-97. The 3-Year Outlook has been revised accordingly.

21. It was requested that in future budgets, personnel transfers between divisions be clearly identified.

Personnel transfers between divisions will be clearly identified in future budgets.

22. It was requested that the continued use of reel-to-reel tape recorders be evaluated.

The Executive Secretary is in the process of reviewing alternatives to reel to reel recording, such as cassette systems that offer continuous recording. Based on the review, the most cost effective equipment will be purchased.

23. It was requested that in future budgets the projected actual personnel complement reflect the average number of employees employed during the year to correspond with the projected actual labor amount.

Future budgets will indicate the average number of employees employed during the year for the projected actual personnel complement.

24. It was requested that Human Resources and Operations coordinate the review of job duties and the classification study of all classifications represented by AFSCME and ACE to avoid duplicative efforts.

The Operations Division is currently utilizing a consultant to study aspects of its organization structure. The Human Resources Division is concurrently conducting a District-wide study of the classifications represented by AFSCME and ACE. Any classification recommendations resulting from the Operations study will be referred to Human Resources for possible incorporation in the Human Resource's District-wide classification study. This will avoid any duplication of classification studies.

25. It was requested that a written report be prepared that discusses the relationship between the Readiness-to-Serve Charge and the Pay As You Go program.

The Readiness-to-Serve Charge (RTS) is designed to generate revenues equal to the annual debt service from non-tax supported debt that is issued to fund those portions of the Capital Improvement Program (CIP) necessary to meet the reliability and quality (with respect to blending requirements) needs at Metropolitan's existing normal demand levels. The estimate of normal demand levels includes agricultural and storage deliveries. Almost all of Metropolitan's major new projects will provide benefits for increased demands, as well as enhance reliability at existing demand levels. Metropolitan's Nexus Study in support of the New Demand Charge divides the expenditures in Metropolitan's 25 year CIP between new demands, existing demands, and treatment costs. The total expenditures over the 25 year period are estimated at \$7.2 billion. Of this amount, \$1.8 billion is allocated to treatment costs, which are recovered through the treatment surcharge. The remaining \$5.4 billion is allocated between reliability and quality needs at existing demand levels and new demands. The results of the Nexus Study indicate that 67 percent of these projects are for existing

demands. Therefore, 67 percent of the annual debt service on debt obligations issued to fund facilities other than treatment facilities is recovered through the RTS.

Metropolitan's goal is to fund 20 percent of the CIP through annual revenues. Projects funded with revenues (PAYG) include the costs of capital facilities totaling \$1 million or less, capital assets with estimated payback periods or useful lives shorter than the calculated average life of alternative long-term bond financing, CIP studies, and other lawful purposes as determined by your Board (Administrative Code Section 5109). Since the RTS and New Demand Charge allocations include such projects, the basic assumption underlying the calculation of the RTS amount in any given year is that over the 25 year planning period, PAYG projects will benefit new demands and existing demands at the same proportion as the total CIP. Given the joint use aspect of Metropolitan's facilities and the size of Metropolitan's CIP, this is a reasonable starting assumption. As expenditures occur, the assumption will be measured against experience, and as necessary, the allocation shares adjusted to reflect changing conditions.

For fiscal year 1995-96, the estimated non-tax supported debt service was estimated to be \$111 million. The debt service associated with treatment facilities is estimated to be about \$27 million, leaving \$84 million to be allocated between existing demands and new demands. Applying the 67 percent allocation factor yields a RTS obligation of about \$56 million.

26. It was requested that better visibility be provided for capital projects such as the Lining of the All American Canal which are not included in the Capital Improvement Program.

A table showing sources and uses of funds that identifies expenditures with respective funding sources will be included in the final budget as well as future budgets.