



**MWD**  
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

DEC 12 1995

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REVISED

*Harold E. Duff*  
EXECUTIVE SECRETARY

November 28, 1995

**To:** Board of Directors (Finance and Insurance Committee--Action)  
(Water Planning and Resources Committee-Information)  
(Special Budget Committee--Information)

**From:** General Manager *JR Woodraska*

**Submitted by:** Lambertus H. Becker  
Chief Financial Officer *Lambertus H. Becker*  
*for Bert Becker*

**Subject:** Revenue Requirements for Fiscal Year 1996-97

### RECOMMENDATION(S)

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It is recommended that the Finance and Insurance Committee:

- 1) Approve the use of up to \$ 37.6 million from the Water Rate Stabilization Fund to pay a portion of fiscal year 1996-97 costs in order to mitigate the fiscal impact of increases in rates and charges on member agencies;
- 2) Make a determination that revenues required from water sales during fiscal year 1996-97 should not be less than \$ 631.2 million; and
- 3) Forward these determinations to the Water Planning and Resources Committee for consideration at its January 1996 meeting.

### EXECUTIVE SUMMARY

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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 1996-97. The estimates are based on the latest information available and have been made in accordance with all applicable Board policies. Total revenues required during 1996-97 are estimated to be \$ 879.1 million. The cost estimates are shown on Table 1, and projected revenues from all sources under the new revenue structure are shown on Table 2. The projected costs and required revenues are described in the detailed report section of this letter. The net revenue requirement from the sale of water is projected to be \$ 631.2 million.

## DETAILED REPORT

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### Major Cost Categories for 1996-97:

#### State Water Project

As shown on Table 1, total costs for 1996-97 under the State Water Project (SWP) are estimated to be approximately \$ 284.7 million (net of projected credits and based on projected water deliveries of 477,000 acre-feet). Experience has shown that such costs can vary as much as plus or minus \$40 million depending on water supply availability and operations of the State Water Project. In addition, SWP costs for 1996-97 could be reduced by approximately \$15 million if the Department of Water Resources returns additional replacement reserves and retires additional debt.

The total estimate is an increase of \$ 27.6 million over projected actual for the current fiscal year. The increase is mainly the result of revisions to the calendar year 1995 off-aqueduct billing for cost adjustments for reduced water deliveries to the District which reduced off-aqueduct costs for fiscal year 1995-96, and because of increases in variable power unit rates and SWP deliveries. In addition, projections for 1996-97 include additional costs for construction of a new tower at Silverwood Reservoir and increased OMP&R costs due to reservoir operations.

#### Water Transfers

A total of \$ 24 million has been included in the estimates for 1996-97 for potential water transfers, purchases and/or exchanges from other users of Colorado River, State Water Project, or the Central Valley Project water supplies. The \$ 24 million will be deposited into the Water Transfer Fund, and used to fund water transfers and to provide funding for filling the Eastside Reservoir Project.

#### Water Management Programs

The cost estimates reflect the District's ongoing commitment to water conservation, local projects development and groundwater recovery. Total funding in 1996-97 for these water management programs will increase \$ 10.5 million over current year projections to a total of \$ 39.2 million due to increases in the Local Projects Program contractual commitment to member agencies from \$ 8.9 million to \$11.1 million and increases in the incentive rate for certain projects from \$154 per acre-foot to \$250 per acre-foot. The estimates shown for the water management programs were developed through the Integrated Resources Planning (IRP) process and are consistent with efforts to manage regional water supplies in cooperation among the District, its member agencies and subagencies. In addition, \$1.0 million has been included in 1996-97 for cost estimates for the North Los Posas Groundwater Basin Conjunctive Use Program.

#### Colorado River Supplies

It is anticipated that deliveries through the Colorado River Aqueduct (CRA) during 1996-97, net of transportation losses, will be approximately 1.2 million acre-feet. Payments for power are estimated to be \$ 35.9 million. It is projected that approximately \$ 4.0 million will be

spent for the Imperial Irrigation District Phase I Agreement (IID) during 1996-97. In addition, it is anticipated that the All American Canal Lining project will be debt financed, and not paid from operating revenues.

#### MWD Capital Program

Costs in 1996-97 for funding the District's capital improvement program are estimated to be \$267.8 million. Costs for outstanding debt issues are estimated to be \$ 161.3 million. This total includes \$ 99.1 million in debt service payments for outstanding revenue bonds, \$ 56.3 million for outstanding general obligation bonds, and \$ 5.9 million for outstanding commercial paper.

Cost estimates for 1996-97 include additional revenue bond debt service of \$ 16.5 million for an anticipated \$ 400 million revenue bond issue scheduled for the spring of 1996.

Cost estimates for 1996-97 also include \$90 million of pay-as-you-go expenditures. The \$90 million is less than the policy target of 20 percent of the anticipated capital program in 1996-97 in order to minimize the need to raise water rates. In order to achieve the Board's goal of funding 20 percent of the total capital program over time on a pay-as-you-go basis, the 1996-97 shortfall of approximately \$ 70.6 million will have to be made up in subsequent years.

#### MWD O&M and Operating Equipment

Projected Operation and Maintenance expenditures of \$ 205.3 million are \$ 5.5 million greater than the current year projection. The estimate is based on an assumed 3 percent cost escalation over the current year budgeted amount. A more detailed estimate of 1996-97 O&M expenditures will be developed through the budget process.

#### Adjustments in Reserves

During fiscal year 1996-97 an increase in total reserve balances of \$ 18.2 million will be required in accordance with revenue bond covenants and Board policies to fund increases in debt service funds, the O&M Fund, and other funds of the District.

#### **Required Revenues for 1996-97:**

As shown on Table 2, it is estimated that \$ 72.1 million will be collected through the readiness-to-serve charge in 1996-97. This is based on the current and projected debt service, not paid from taxes, of capital expenditures for projects added to meet the reliability and quality needs of existing demand levels. This includes a portion of the projected debt service payments for the \$ 400 million revenue bond sale scheduled for the spring of 1996. Twenty-three member agencies have elected to have all or a portion of the readiness-to-serve charge collected through the District's water standby charge, estimated to total \$42.0 million, leaving \$30.1 million to be collected directly from the member agencies.

Approximately \$ 3.0 million will be collected through the new Connection Maintenance Charge to cover a portion of the costs associated with maintaining agency service connections. Revenue from ad valorem property taxes, levied at the same rate as in 1995-96, is estimated to be \$ 82.9 million. Power recoveries, interest on investments and miscellaneous revenues are projected to total \$ 52.3 million.

Based on the cost estimates described earlier in this letter, total revenues required in 1996-97 are projected to be \$ 879.1 million. After accounting for revenues projected from all other sources, as described above, gross revenue required from water sales is projected to be \$ 668.8 million. It is projected that the increase in the District's base untreated water rate required for July 1, 1996 will be \$5 per acre-foot (1.5 percent). There is no increase projected for the water treatment surcharge. The combined fiscal impact on the member agencies of an increase in the base untreated water rate, imposition of the Readiness-To-Serve Charge, and the Connection Maintenance Charges will be on average approximately 3.3 percent by using \$37.6 million from the Water Rate Stabilization Fund (WRSF) to pay a portion of the 1996-97 costs. Therefore, the net revenue required from the sale of water is projected to be \$ 631.2 million.

Operations Planning has prepared a water sales forecast for fiscal year 1996-97 that estimates sales at low, expected, and high levels which are based on recent trends and member agency projections. Sales for 1996-97 are expected to be 1.663 million acre-feet. The following table details the impact low, expected, and high cash year demands could have on use of stabilization funds for fiscal year 1996-97:

<u>Water Sales</u> <u>(1,000 AF)</u>	<u>Rate</u> <u>Change</u>	<u>Increase(Decrease)</u> <u>in WRSF</u>
1,464 (Low)	\$ 5/AF	(\$ 108.3 Million)
1,663 (Expected)	\$ 5/AF	(\$ 37.6 Million)
1,965 (High)	\$ 5/AF	\$ 60.1 Million

The recommendations made in this letter are exempt from the California Environmental Quality Act (CEQA) by Public Resources Code Section 21080(b) (8) since they make recommendations affecting revenues for the purposes of: 1) meeting operating expenses, 2) purchasing or leasing supplies, equipment or materials, 3) meeting financial reserve needs and requirements, and 4) obtaining funds for capital projects necessary to maintain service within existing service areas; and, additionally, since they constitute the creation of government funding mechanisms which do not involve commitment to any specific project which may result in a potentially significant physical impact on the environment or which will be used to fund projects which have CEQA documentation or which will have CEQA documentation in place prior to construction of any facility or facilities.

Attachments

96-97REV.DOC

TABLE 1

**PROJECTED COSTS**  
(Cash Basis: \$ in thousands)

	<b>ANNUAL BUDGET</b>	<b>PROJECTED ACTUAL</b>			
	<u>1995-96</u>	<u>1995-96</u>	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>
<b>STATE WATER CONTRACT</b>	\$301,414	\$257,131	<b>\$284,747</b>	\$304,708	\$294,614
<b>WATER TRANSFERS</b>	\$14,000	\$14,000	<b>\$24,000</b>	\$10,000	\$7,500
<b>COLORADO RIVER SUPPLIES</b>	\$47,717	\$42,678	<b>\$39,924</b>	\$39,935	\$41,620
<b>WATER MANAGEMENT PROGRAMS</b>	\$28,819	\$28,706	<b>\$39,216</b>	\$50,785	\$60,859
<b>MWD CAPITAL PROGRAM</b>	\$249,825	\$245,443	<b>\$267,835</b>	\$322,254	\$375,961
<b>MWD O&amp;M AND OPER. EQUIP.</b>	<u>\$198,081</u>	<u>\$199,695</u>	<b>\$205,254</b>	<u>\$211,074</u>	<u>\$222,459</u>
<b>SUBTOTAL - COSTS</b>	\$839,856	\$787,653	<b>\$860,976</b>	\$938,756	\$1,003,013
<b>ADJUSTMENTS IN RESERVES</b>	<u>\$14,487</u>	(\$13,489)	<b>\$18,156</b>	<u>\$28,471</u>	<u>\$29,615</u>
<b>TOTAL OBLIGATIONS</b>	\$854,343	\$774,164	<b>\$879,132</b>	\$967,227	\$1,032,627

**TABLE 2**  
**NEW REVENUE STRUCTURE**  
**PROJECTED RECEIPTS**  
(Cash Basis: \$ in thousands)

	<b>ANNUAL BUDGET 1995-96</b>	<b>PROJECTED ACTUAL 1995-96</b>	<b>1996-97</b>	<b>1997-98</b>	<b>1998-99</b>
<b>WATER SALES</b>	\$622,741	\$601,213	<b>\$631,192</b>	\$679,246	\$732,192
<b>TAXES</b>	\$81,000	\$81,285	<b>\$82,911</b>	\$84,569	\$86,260
<b>READINESS TO SERVE CHARGE</b>					
- COLLECTED BY WATER STANDBY	\$41,984	\$41,984	<b>\$41,984</b>	\$41,984	\$41,984
- COLLECTED BY RTS	\$14,016	\$14,016	<b>\$30,131</b>	\$57,716	\$84,138
<b>CONNECTION MAINTENANCE CHARGE</b>	\$5,775	\$2,978	<b>\$2,978</b>	\$2,978	\$2,978
<b>NEW DEMAND CHARGE</b>	\$0	\$0	<b>\$0</b>	\$10	\$645
<b>INTEREST ON INVESTMENTS</b>	\$33,000	\$37,000	<b>\$38,000</b>	\$39,000	\$40,000
<b>POWER RECOVERIES</b>	\$13,356	\$11,260	<b>\$13,561</b>	\$12,706	\$13,001
<b>MISCELLANEOUS</b>	<u>\$750</u>	<u>\$750</u>	<b><u>\$750</u></b>	<u>\$750</u>	<u>\$750</u>
<b>TOTAL RECEIPTS</b>	\$812,622	\$790,486	<b>\$841,507</b>	\$918,959	\$1,001,948
<b>PROJECTED INCREASE (USE) OF STABILIZATION FUNDS</b>	(\$41,721)	\$16,323	<b>(\$37,625)</b>	(\$48,267)	(\$30,679)
<b>TOTAL USE OF FUNDS</b>	\$854,343	\$774,163	<b>\$879,132</b>	\$967,226	\$1,032,627
<b>NET WATER REVENUE REQUIREMENT 1996-97</b>			<b>\$631,192</b>		