



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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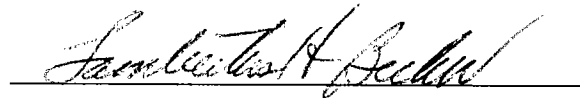
February 25, 1997

To: Board of Directors (Budget and Finance Committee--Information)

From: General Manager



Submitted by: Lambertus H. Becker
Chief Financial Officer



Subject: Status Report on the MWD/Member Agency Finance Work Group

RECOMMENDATION(S)

For information only.

EXECUTIVE SUMMARY

In order to promote better communication of Metropolitan's financial planning and reporting activities to its member agencies, the MWD/ Member Agency Finance Work Group was established in October 1996. The Work Group is comprised of interested Member Agency Managers, their staff and Metropolitan staff. Metropolitan's Chief Financial Officer, Bert Becker, coordinates and chairs meetings of the Work Group.

The initial focus of the Work Group has been on the recent financial assessments performed by KPMG Peat Marwick and the Barrington-Wellesley Group. The Work Group is studying the reports to identify positive and useful aspects that can be incorporated, as appropriate, into Metropolitan's financial policies and capital financing plans. The Work Group will also provide active input to the update of Metropolitan's Long Range Finance Plan, with emphasis on reserves and pay-as-you-go policies.

To date the Work Group has met four times. The detailed report contains additional information on the conduct of the meetings.

DETAILED REPORT

The MWD/Member Agency Finance Work Group was established in October 1996 to improve communication of Metropolitan's financial planning and reporting activities to the member agencies and to bring them into the process of reviewing and discussing financial policies as appropriate. The Work Group is comprised of interested Member Agency Managers, their staff and Metropolitan staff. Metropolitan's Chief Financial Officer, Bert Becker, coordinates and chairs meetings of the Work Group.

The initial focus of the Work Group has been on the recent financial assessments of Metropolitan performed by KPMG Peat Marwick (KPMG) and the Barrington-Wellesley Group (BWG). The Work Group is studying the reports to identify positive and useful aspects that can be incorporated, as appropriate, into Metropolitan's financial policies and capital financing plans.

To date the Work Group has met four times, all at the offices of the Municipal Water District of Orange County (MWDOC). Representatives of the following member agencies have attended at least one or more of these meetings:

- City of Los Angeles
- San Diego County Water Authority
- Calleguas MWD
- MWD of Orange County
- City of Pasadena
- City of Glendale

- City of Burbank
- City of Anaheim
- Eastern MWD
- City of Torrance
- City of Long Beach
- Central Basin MWD
- West Basin MWD
- Three Valleys MWD
- City of Fullerton
- City of Santa Ana

The **first meeting** was held on October 30, 1996. At that meeting the basic strategy of the group was discussed and it was agreed that the main focus would be on the KPMG and BWG reports. A report was given on Metropolitan's restricted and unrestricted reserve levels as of June 30, 1996. It was determined that a report would be prepared for Metropolitan's Board and the member agencies to present the Work Group's assessment of the KPMG and BWG reports. It was also agreed that the Work Group would provide active input to the update of Metropolitan's Long Range Finance Plan, with emphasis on reserves and pay-as-you-go policies. The group was informed of Metropolitan's proposal to return approximately \$70 million in revenues from 1995-96 to the member agencies or to use the monies for additional pay-as-you-go construction, a revolving loan program or some combination of these options. Discussion centered on the allocation method to be used if monies were distributed to the member agencies. The group was assured that the final allocation method would be determined by consensus between Metropolitan and the member agencies. To provide background information and to share information to enhance the group process, it was agreed that a finance survey would be sent to all the member agencies requesting information on financial condition and financial policies and practices.

The **second meeting** was held on November 20, 1996. At this meeting Metropolitan's proposed revenue requirements for fiscal year 1997-98 were presented and discussed. The Work Group was provided an update of the alternatives being considered for the proposed use of \$70 million in revenues from fiscal year 1995-96. The Legal Department led a discussion of the potential impacts of the recently passed Proposition 218, the "Right to Vote on Taxes" initiative. The Work Group was also briefed on the progress of Metropolitan's business development program which is being designed to generate revenue through expanded utilization of Metropolitan assets.

The **third meeting** was held on January 8, 1997. There was a detailed discussion of the proposed allocation method to be used if Metropolitan's Board voted to distribute \$70 million of revenues from fiscal year 1995-96 back to the member agencies. Early returns from the Finance Survey were presented and discussed. It was agreed that the Work Group would invite representatives from KPMG and BWG to the next meeting to participate in a discussion of their financial assessment reports. It was requested that Metropolitan staff make a presentation on the 1995 Long Range Finance Plan to provide a context to lead into the discussion of the KPMG and BWG reports. A representative of MWDOC presented a pay-as-you-go policy alternative. It was based on the calculation of a unit rate component of Metropolitan's water rate that would allocate pay-as-you-go costs to the agencies in proportion to their use of the system. The Work Group agreed to consider this alternative as part of the overall discussion of the pay-as-you-go policy. At this meeting a schedule for completion and implementation of the group's activities was developed. A report on the KPMG and BWG financial assessments would be prepared by late spring. Revised chapters of the Long Range Finance Plan would be prepared by early summer.

The **fourth meeting** was held on February 12, 1997. At the morning session Metropolitan staff made a presentation to the group on the contents of the 1995 Long Range Finance Plan. The presentation covered the following topics:

- Background information
- 10-Year Water sales projections
- 10-Year Cost/Revenue Projections
- Cost Containment Efforts

- Working Capital Policy
- Rate Stabilization Fund
- Water Transfer Fund/ Reservoir Fill
- Pay-As-You-Go Construction Fund
- Debt Management
- Capital Financing Strategy
- Investments

The afternoon session was devoted to presentations by Mr. John DiRenzo from KPMG and Mr. John Heaton from BWG on their respective financial assessment reports on Metropolitan, with questions, answers and discussion between the Work Group and KPMG and BWG.

The work plan for upcoming meetings will focus on developing a Work Group report on the KPMG and BWG financial assessments. The current schedule calls for a draft report to be available in the spring, with a final report available shortly thereafter. Draft revised chapters of the Long Range Finance Plan will be discussed with the Work Group and then presented to the Budget and Finance Committee of the Board beginning in the summer.