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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

8-1

December 16, 1997

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

From: *for* General Manager

Submitted by: Debra C. Man, Chief
Planning and Resources

[Handwritten signature]

Brown & Thomas for

Subject: Recommended Water Rates for Fiscal Year 1998-99 and Resolution Giving
Notice of Intention to Impose Charges

RECOMMENDATION(S)

It is recommended that your Board

1. Set a time for a hearing of the Water Planning and Resources Committee at which interested parties may present their views regarding the General Manager's recommendation. The water rates and charges for the first six months of fiscal year 1998-99 will remain unchanged. It is recommended that the rates and charges effective January 1, 1999, be set by the Board as follows:

Effective January 1, 1999

<u>Class of Service</u>	<u>Rate or Charge</u>
Full Service--Untreated	\$349 per AF
Full Service--Treated	\$431 per AF
Agricultural--Untreated	\$236 per AF
Agricultural--Treated	\$294 per AF
Seasonal Storage, Long-Term--Untreated	\$233 per AF
Seasonal Storage, Long-Term--Treated	\$290 per AF
Seasonal Storage, Shift--Untreated	\$255 per AF
Seasonal Storage, Shift--Treated	\$312 per AF
Reclaimed	\$113 per AF
Wheeling--Firm (Member Agency only)	\$257 per AF
Wheeling--Non-firm (Member Agency only)	\$135 per AF

Effective January 1, 1999

<u>Class of Service</u>	<u>Rate or Charge</u>
Connection Maintenance Charge	\$50 per cubic feet per second of capacity per month, not to exceed a maximum charge per connection of \$5,000 per month

2. Approve the following resolutions:
 - a. Resolution of intention to impose the readiness-to-serve (RTS) charge in the form shown as Exhibit A to this letter, declaring the Board's intention (i) at its March 10, 1998, meeting to consider and act upon the General Manager's recommendation to impose an RTS charge at the current level, with an increase on January 1, 1999, and (ii) at its May 12, 1998 meeting to consider and act upon the General Manager's recommendation to impose standby charges within the territories of member agencies that have requested that charge as a means of collecting all or a portion of their RTS charge. This recommended increase is consistent with your Board policy guidelines adopted in July 1996. Alternative actions are described in this letter.
 - b. Resolution of intention to impose a new demand charge (NDC) at the current level and suspend collection of the charge for fiscal year 1998-99, in the form shown as Exhibit B to this letter.
3. Find that the setting of rates and charges recommended in this letter is exempt from the California Environmental Quality Act (CEQA) by Public Resources Code Section 21080(b)(8) since it is for the purposes of: (a) meeting operating expenses, (b) purchasing or leasing supplies, equipment or materials, (c) meeting financial reserve needs and requirements, and (d) obtaining funds for capital projects necessary to maintain service within existing service areas; and, additionally, it is exempt from CEQA under State CEQA Guidelines 15378 (b)(5) since it constitutes the creation of government funding mechanisms which does 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.

EXECUTIVE SUMMARY

Administrative Code Section 4304(c) requires the General Manager to present to the Water Planning and Resources Committee recommendations for water rates for the next fiscal year based on the Budget and Finance Committee's determination of required water revenues. In December 1997, the Budget and Finance Committee considered and approved the General Manager's determination of the revenues to be derived from water sales during fiscal year 1998-99 in Board Letter 8-7, entitled "Revenue Requirements for Fiscal Year 1998-99"

(Revenue Requirements Letter). Nevertheless, your Board raised issues regarding the revenue assumptions for the RTS charge used in the Revenue Requirements Letter. The Revenue Requirements Letter determines the amount of revenue that must be raised from the sales of water. The rates and charges that must be levied during the next fiscal year are then determined by the Board through the rate setting process that begins with this letter setting out the General Manager's recommendations for rates and charges in the coming fiscal year. In January, the Water Planning and Resources Committee sets the time for a hearing in February to receive public comments on the recommended rates and charges. In March, the Board adopts rates and charges to be effective on January 1, 1999.

Strong financial performance in the current fiscal year, resulting from Metropolitan's continued cost containment efforts, a favorable interest rate environment, and lower State Water Project costs, present the opportunity for your Board to choose among several water rate and charge alternatives. At the December Board meeting, a significant amount of debate occurred over the need to increase the RTS charge by \$8 million on January 1, 1999. Three alternatives are offered for consideration by your Board:

- **Alternative 1. Increase the RTS by \$8 million.** In July 1996, your Board adopted a five year rate plan and rate management objectives that set a cap on annual increases in rates and charges of 3 percent. In addition, your Board and the Rate Refinement Team recommended that Metropolitan increase fixed revenues over the five year period, since Metropolitan would be increasing its fixed obligations (principally debt service) as Metropolitan financed its ten year capital program. The plan adopted at that time included an increase of \$8 million in each of the next five years. The recommendation for rates and charges for fiscal year 1998-99 is consistent with the plan adopted in 1996. The RTS would increase by \$8 million on January 1, 1999 to \$88 million, with an additional \$4 million in revenue in fiscal year 1998-99.
- **Alternative 2. Increase the RTS and Reduce Water Rate.** Increases in the RTS are seen as increased cost of water for the ultimate consumer. Since Metropolitan is in a position to defer an increase in revenue as a result of increased sales and cost management, one alternative is to increase the RTS to reflect the need to increase fixed revenues as fixed costs increase, but offset the impact on the retail customer by lowering the water rate. Thus, Metropolitan's overall revenues would not increase. The \$4 million additional revenue included in the Revenue Requirements Letter can be funded from reserves.
- **Alternative 3. Defer the Increase in the RTS.** Although Metropolitan issued \$650 million of revenue bonds on November 19, 1997, plans to issue an additional \$100 million in variable rate revenue bonds in January 1998, and debt service in fiscal year 1998-99 is expected to increase by \$47.2 million, current financial conditions indicate that the additional \$4 million of RTS charges for fiscal year 1998-99, included in the Revenue Requirements Letter, can be funded from reserves. As a result, your Board could elect to delay the increase in the RTS by one year. Under this scenario, your Board would extend the

five year schedule of RTS increases by one year. Therefore, the RTS would rise to \$104 million in 2002, rather than 2001. This alternative has the least impact on the member agencies and minimal impact on Metropolitan's financial condition.

All other rates and charges, with the exception of the Seasonal Storage Shift rates and wheeling service rates, will remain unchanged. Consistent with the Board's five year plan to transition the Seasonal Storage Shift discount, it is proposed that the Seasonal Storage Shift rate be raised by \$11 per acre-foot on January 1, 1999. In addition, it is recommended that the rates for firm and non-firm wheeling service be reduced to \$257 per acre-foot and \$135 per acre foot respectively. This reduction in wheeling rates is a result of higher utilization of Metropolitan's conveyance and storage system, resulting in lower rates as more fully described in the Detailed Report.

A three-year projection of Metropolitan's costs, revenues and water sales is shown in Attachment A. In addition, forecasts of rates and charges are included in Attachment B. The increases in projected water rates are less than those included in the RRP Phase 1 recommendations, as no rates, except the Seasonal Storage Shift water rates, are forecast to increase through fiscal year 2000-01. Consistent with the July 1996 Board action, Attachment A includes the recommended \$8 million increase to the RTS charge effective January 1, 1999, with annual increases of \$8 million through 2001.

DETAILED REPORT

Administrative Code Section 4304(c) requires the General Manager to present to the Water Planning and Resources Committee recommendations for water rates for the next fiscal year based on the Budget and Finance Committee's determination of required water revenues. In December 1997, the Budget and Finance Committee considered and approved the General Manager's determination of the revenues to be derived from water sales during fiscal year 1998-99 in Board Letter 8-7, entitled "Revenue Requirements for Fiscal Year 1998-99" (Revenue Requirements Letter).

In January 1998, the Water Planning and Resources Committee will consider the General Manager's recommendations for water rates and charges for fiscal year 1998-99. Also in January, the Resolutions of Intent to impose the RTS (including the water standby charges) and the NDC (and suspend collection of the NDC) in fiscal year 1998-99 will be considered, and a public hearing on water rates and charges will be set.

In February, the Water Planning and Resources Committee will conduct a public hearing on the proposed water rates and charges. Adoption of the water rates and charges, other than the standby charge, will follow in March. A public hearing on the water standby charge would be held in April, and the Resolution to Impose the fiscal year 1998-99 water standby charge would be adopted in May, 1998.

The Revenue Requirements Letter shows that \$696.4 million of revenue must be raised from the sales of water. The rates and charges that must be levied during the next fiscal year to generate this required revenue are described below.

Readiness-to-Serve Charge

The RTS charge recovers a portion of the principal and interest payments on non-tax supported debt service that has been or will be issued to fund capital improvements necessary to meet the continuing reliability and water quality needs associated with current demands. The RTS charge is required to provide a portion of the revenue necessary to cover debt service payments associated with the construction of the Eastside Reservoir Project and rehabilitate Metropolitan's conveyance and storage system. From fiscal year 1996-97 to fiscal year 2000-01, non-tax supported debt service is projected to increase by \$96 million going from \$134 million to \$257 million respectively. Recognizing the need to increase fixed revenue and reduce the dependency on water sales revenues, the RRP Phase 1 recommendations, approved by your Board in July 1996, included a five year schedule of stepped increases in the RTS charge to develop fixed revenues of \$104 million by fiscal year 2000-01.

Although it is critical to maintain the objective of increasing the RTS, strong financial performance in the current fiscal year, resulting from Metropolitan's continued cost containment efforts, a favorable interest rate environment, and lower State Water Project costs, present the opportunity for your Board to choose among several water rate and charge alternatives. At the December Board meeting, a significant amount of debate occurred over the need to increase the RTS charge by \$8 million on January 1, 1999. Three alternatives are offered for consideration by your Board:

- **Alternative 1. Increase the RTS by \$8 million.** In July 1996, your Board adopted a five year rate plan and rate management objectives that set a cap on annual increases in rates and charges of 3 percent. In addition, your Board and the Rate Refinement Team recommended that Metropolitan increase fixed revenues over the five year period, since Metropolitan would be increasing its fixed obligations (principally debt service) as Metropolitan financed its ten year capital program. The plan adopted at that time included an increase of \$8 million in each of the next five years. The recommendation for rates and charges for fiscal year 1998-99 is consistent with the plan adopted in 1996. The RTS would increase by \$8 million on January 1, 1999 to \$88 million, with an additional \$4 million in revenue in fiscal year 1998-99. The RTS will increase by \$8 million, while debt service for the bonds sold in fiscal year 1997-98 will increase by \$47 million.
- **Alternative 2. Increase the RTS and Reduce Water Rate.** Increases in the RTS are seen as increased cost of water for the ultimate consumer. Since Metropolitan is in a position to defer an increase in revenue as a result of increased sales and cost management, one alternative is to increase the RTS to reflect the need to increase fixed revenues as fixed costs increase, but offset the impact on the retail customer by lowering the water rate. Thus, Metropolitan's overall revenues would not increase. The \$4 million

additional revenue of RTS charges for fiscal year 1998-99 included in the Revenue Requirements Letter can be funded from reserves.

- **Alternative 3. Defer the Increase in the RTS.** Although Metropolitan issued of \$650 million of revenue bonds on November 19, 1997, plans to issue an additional \$100 million in variable rate revenue bonds in January 1998, and debt service in fiscal year 1998-99 is expected to increase by \$47.2 million per year, current financial conditions indicate that the additional \$4 million of RTS charges for fiscal year 1998-99, included in the Revenue Requirements Letter, can be funded from reserves. As a result, your Board could elect to delay the increase in the RTS by one year. Under this scenario, your Board would extend the five year schedule of RTS increases by one year. Therefore, the RTS would rise to \$104 million in 2002, rather than 2001. This alternative has the least impact on the member agencies and minimal impact on Metropolitan's financial condition.

The RTS charge is allocated to each member agency on the basis of the average of historic water purchases from Metropolitan, including sales for consumptive demands, agriculture, and storage. For fiscal years 1997-98 through 2000-01, an agency's share of the RTS is based on the average of Metropolitan sales in fiscal years 1993-94, 1994-95, and 1995-96, less certain long-term storage water as more particularly described in Exhibit A, Section 8. Table C shows the estimated RTS obligation by member agency and the estimated standby charge revenues that would be available at existing rates.

The proposed form of resolution of your Board declaring its intention to impose the RTS charge at the current level of \$80.0 million with an increase on January 1, 1999, to \$88.0 million and notifying the member agencies of this intention is attached as Exhibit A. An Engineer's Report explaining the basis for the charge and the allocation of the charge among member agencies is attached to this resolution.

Seasonal Storage Shift Rate

The Seasonal Storage Shift rate is proposed to increase by \$11 per acre-foot to \$255 per acre-foot for untreated water and \$312 per acre-foot for treated water. The RRP Phase 1 recommended that the Seasonal Storage Shift rate be more closely aligned with the benefits of shifting purchases from summer to winter. This recommendation was approved by your Board in July 1996, and is reflected in the proposed rate change.

Standby Charge

During the process to establish the rates and charges for fiscal year 1995-96, member agencies were provided the option to request that Metropolitan impose a standby charge on parcels of land in the agency's service area. Standby charge collections from member agencies who opted to retain the standby charge will be credited against the member's RTS charge obligation. Any standby charge revenues in excess of the member agency's RTS charge obligation will be credited to the agency's other obligations to Metropolitan or carried forward to next year. **Any member agency for whom Metropolitan currently imposes a standby charge and who no longer wishes to have the charge imposed must notify**

Metropolitan by letter, which must be delivered to the Chief of Planning and Resources no later than March 1, 1998.

The Water Planning and Resources Committee will hold a public hearing in February, 1998, on its intention to impose the RTS charge. This hearing will include the water rates and other charges to be levied for fiscal year 1998-99. Additionally, Metropolitan will provide the necessary notice or notices to the public in the areas where standby charges have been requested and your Board will hold a public hearing in April, 1998, for interested parties to present comments or protest the proposed water standby charge. It is anticipated that your Board will take action on the proposed standby charges at its meeting on May 12, 1998.

The resolution of intention to impose the RTS charge (and, within specified member agencies, standby charges to be used as credits against the RTS charge) also establishes the criteria under which certain lands may be exempt from the standby charge. Lands which were exempt from standby charges for prior years will continue to be exempt and those property owners will not be required to refile exemption requests.

Wheeling Rates

Effective January 1, 1999, the rate for firm wheeling service for member agencies in non-shortage periods is proposed to decrease to \$257 per acre-foot, plus power. The non-firm (interruptible) wheeling service for member agencies in non-shortage periods is proposed to decrease to \$135 per acre-foot, plus power. These rates are for short-term (one year or less) transactions only, and apply to all transactions that meet the requirement of the rate. These rates are calculated according to the methodology adopted by your Board in the Technical Report submitted as an attachment to Resolution 8520 on January 14, 1997, consistent with Water Code, Section 1810-1814, using current costs and other relevant data. This reduction in wheeling rates is a result of higher utilization of Metropolitan's conveyance and storage system, resulting in lower rates. Since almost all of Metropolitan's conveyance and storage costs are fixed and do not vary with increases in water demand, the unit cost per acre foot decreases as the volume of water moved over the Metropolitan system increases.

Other Rates and Charges

As cited earlier, the strong financial performance in the current year, resulting from continued cost containment efforts and other favorable conditions has resulted in a recommendation that the full service rate, agricultural rate, long-term seasonal storage rate, reclaimed water rate and treatment surcharge remain unchanged in fiscal year 1998-99. It is also recommended that the connection maintenance charge remain unchanged at \$50 per cubic foot per second.

A three-year projection of Metropolitan's costs, revenues and water sales is shown in Attachment A. In addition, forecasts of rates and charges are included in Attachment B. The increase in projected water rates is less than those included in the RRP Phase 1 recommendations, as no rates, except the Seasonal Storage Shift water rates, are forecast to increase through fiscal year 2000-01. Consistent with your Board's policy direction in July 1996, Attachment A includes the recommended \$8 million increase to the RTS charge

effective January 1, 1999. The impact of Alternatives 2 and 3 would be to reduce revenues by \$4 million in fiscal year 1998-99 and 1999-2000. Under Alternative 2, water rates would be increased as early as fiscal year 1999-2000. Under Alternative 3, the only impact would be to delay in the implementation of the RTS increase for one year. Current financial conditions indicate that the \$8 million reduction in RTS revenue over fiscal years 1998-99 and 1999-2000 proposed in Alternates 2 and 3 can be funded from existing reserves. All three alternative proposed rates and charges for fiscal year 1998-99 are sufficient to meet the projected 1998-99 revenue requirements.

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 recommend setting of rates and charges 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, it is exempt from CEQA under State CEQA Guidelines 15378 (b)(5) since it constitutes 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.

CMM:cl

Attachments

ATTACHMENT A
PROJECTED 1998-99 REVENUE REQUIREMENTS
 (Cash Basis: \$ in thousands)

	Actual 1996-97	Projected 1997-98	1998-99	1999-00	2000-01
Expenditures					
State Water Contract	\$ 258,005	\$ 276,826	\$ 280,750	\$ 281,267	\$ 286,755
Colorado River Aqueduct	32,635	33,388	36,691	44,357	45,817
Water Transfers	34,000	24,000	24,000	24,000	16,500
Water Management Programs	27,683	27,874	34,111	37,549	41,810
Capital Program	253,436	313,731	334,421	340,556	341,087
O&M and Operating Equipment	206,301	210,935	219,983	217,213	223,414
Sub-Total Costs	812,060	886,755	929,956	944,942	955,384
Adjustments					
Increase/(Decrease) in Required Reserves	(1,035)	5,206	801	2,363	16,332
Business Enterprise Development	-	3,255	-	-	-
PERS Unfunded Liability Payment	-	32,000	-	-	-
HQ Building Funding/(Reimbursement)	51,474	54,437	(105,911)	-	-
Total Obligations	862,498	981,653	824,846	947,305	971,716
Less Other Revenues					
Property Taxes	(86,647)	(84,272)	(85,958)	(87,677)	(89,431)
Interest Income	(51,823)	(44,483)	(47,714)	(53,230)	(54,280)
Power and Miscellaneous Revenue	(26,862)	(16,251)	(13,751)	(14,053)	(14,503)
Readiness to Serve Charge	(62,528)	(76,050)	(84,000)	(92,000)	(100,000)
Connection Maintenance Charge	(2,861)	(2,978)	(2,978)	(2,978)	(2,978)
Sub-Total Other Revenues	(230,721)	(224,035)	(234,401)	(249,938)	(261,192)
Total Water Revenue Requirement	631,777	757,618	590,445	697,367	710,524
Water Sales Revenue	651,460	714,899	696,374	708,831	752,225
Increase (Decrease) in WRSF Balance	-	(51,845)	51,845	-	-
Increase (Decrease) in WTSSF Balance	(1,364)	9,126	2,012	5,323	5,802
Increase (Decrease) in PAYG Balance	(78,566)	(50,000)	26,572	6,141	35,900
Water Sales (Cash Year TAF)					
Basic Treated	1,087	1,122	1,092	1,063	1,124
Basic Untreated	315	354	376	354	389
Seasonal Treated	87	122	89	125	125
Seasonal Untreated	117	196	165	231	239
Agricultural Treated	79	66	62	72	75
Agricultural Untreated	24	27	45	54	57
Total	1,709	1,888	1,829	1,898	2,009

ATTACHMENT B

PROJECTED RATES AND CHARGES (Effective January 1)

(Cash Basis: \$ in thousands)

	Projected	Budget	1999	2000	2001
	1997	1998			
Readiness to Serve Charge	\$72,100	\$80,000	\$88,000	\$96,000	\$104,000
Connection Maintenance Charge	2,861	2,978	2,978	2,978	2,978
<u>WATER RATES (\$/AF)</u>					
Basic Treated	\$431	\$431	\$431	\$431	\$431
Basic Untreated	\$349	\$349	\$349	\$349	\$349
Seasonal Long-Term Treated	\$290	\$290	\$290	\$290	\$290
Seasonal Shift Treated	\$290	\$301	\$312	\$323	\$334
Seasonal Long-Term Untreated	\$233	\$233	\$233	\$233	\$233
Seasonal Shift Untreated	\$233	\$244	\$255	\$266	\$277
Agricultural Treated	\$294	\$294	\$294	\$294	\$294
Agricultural Untreated	\$236	\$236	\$236	\$236	\$236

Note:

Rates are based on current cost projections and projections of increasing water sales. Variations in these projections could occur, but it is expected that future rates will remain within the objectives of Phase I of the Rate Refinement Process.

Table C
PRELIMINARY 1998-99 RTS CHARGE

Member Agency	3-Year Average Demands (Acre-Foot) ¹	RTS Share	RTS Charge-- 6 months of \$80 million	RTS Charge-- 6 months of \$88 million	Total RTS Charge Revenues	Estimated Gross Standby Charge Revenues At Existing Parcel Rates
Anaheim	18,709	1.24%	494,708	544,179	1,038,887	561,039
Beverly Hills	12,941	0.86%	342,189	376,408	718,597	
Burbank	16,523	1.09%	436,905	480,596	917,501	400,433
Calleguas	87,849	5.81%	2,322,926	2,555,219	4,878,145	2,434,709
Central Basin MWD	69,047	4.56%	1,825,759	2,008,335	3,834,094	3,532,748
Chino Basin MWD	34,369	2.27%	908,794	999,673	1,908,467	1,674,321
Coastal	39,958	2.64%	1,056,580	1,162,238	2,218,818	998,081
Compton	3,725	0.25%	98,497	108,347	206,844	160,883
Eastern	48,240	3.19%	1,275,575	1,403,132	2,678,707	2,618,226
Foothill	7,961	0.53%	210,507	231,558	442,065	309,952
Fullerton	7,457	0.49%	197,180	216,898	414,078	353,001
Glendale	26,456	1.75%	699,556	769,512	1,469,068	543,601
Las Virgenes MWD	18,014	1.19%	476,331	523,964	1,000,295	521,575
Long Beach	42,539	2.81%	1,124,827	1,237,310	2,362,137	1,073,964
Los Angeles	164,220	10.86%	4,342,348	4,776,583	9,118,931	
MWDOC	177,584	11.74%	4,695,722	5,165,295	9,861,017	5,972,547
Pasadena	14,824	0.98%	391,980	431,178	823,158	429,957
San Diego CWA	407,484	26.94%	10,774,798	11,852,278	22,627,076	12,218,620
San Fernando	106	0.01%	2,803	3,083	5,886	40,563
San Marino	1,327	0.09%	35,089	38,598	73,687	40,970
Santa Ana	12,633	0.84%	334,045	367,450	701,495	421,313
Santa Monica	5,008	0.33%	132,423	145,665	278,088	
Three Valleys MWD	58,267	3.85%	1,540,711	1,694,782	3,235,493	1,860,083
Torrance	20,311	1.34%	537,069	590,776	1,127,845	462,713
Upper San Gabriel	7,163	0.47%	189,406	208,346	397,752	1,934,784
West Basin MWD	153,155	10.12%	4,049,764	4,454,741	8,504,505	
Western MWD	56,860	3.76%	1,503,507	1,653,858	3,157,365	3,271,046
MWD	1,512,730	100.00%	\$ 40,000,000	\$ 44,000,000	84,000,000	41,835,130

¹ Acre-Foot Sales used for purposes of calculating RTS shares

EXHIBIT A

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RESOLUTION _____

**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA
GIVING NOTICE OF INTENTION TO IMPOSE
READINESS-TO-SERVE CHARGE**

WHEREAS, at its meeting on December 14, 1993, the Board of Directors ("Board") of The Metropolitan Water District of Southern California ("Metropolitan") approved the rate structure and additional revenue sources described in the Board letter on the Financial Structure Study dated December 1, 1993, including a readiness-to-serve charge;

WHEREAS, providing firm revenue sources is a primary goal of such revenue structure;

WHEREAS, the amount of revenue to be raised by the readiness-to-serve charge shall be as determined by the Board and allocation of the readiness-to-serve charge among member public agencies shall be in accordance with the method established by the Board;

WHEREAS, the readiness-to-serve charge is a charge imposed by Metropolitan upon its member agencies, and is not a fee or charge imposed upon real property or upon persons as an incident of property ownership;

WHEREAS, Metropolitan has legal authority to impose such readiness-to-serve charge as a water rate pursuant to Section 134 of the Metropolitan Water District Act, as an availability of service charge pursuant to Section 134.5 of the Metropolitan Water District Act, and as a capital facilities fee pursuant to Section 54999.2 of the California Government Code;

WHEREAS, under authority of Sections 133 and 134 of the Metropolitan Water District Act, the Board has the authority to fix the rate or rates for water as will result in revenue which, together with other revenues, will pay Metropolitan's operating expenses and provide for payment of other costs, including payment of the interest and principal of Metropolitan's bonded debt;

WHEREAS, pursuant to Resolution 8329, adopted by the Board on July 9, 1991, proceeds of the readiness-to-serve charge and other revenues from the sale or availability of water are pledged to the payment of Metropolitan's outstanding revenue bonds issued and to be issued pursuant to Resolution 8329;

WHEREAS, under authority of Government Code Section 54999.2, Metropolitan may impose a capital facilities fee to pay the capital cost of facilities for the provision of water service;

WHEREAS, the readiness-to-serve charge is intended to recover the debt service, not paid from taxes, of expenditures for projects needed to meet the reliability and quality needs of existing users of Metropolitan's water;

WHEREAS, under authority of Section 134.5 of the Metropolitan Water District Act, a readiness-to-serve charge imposed as an availability of service charge may be collected from the member public agencies within Metropolitan, or may be imposed as a standby charge against individual parcels within Metropolitan;

WHEREAS, under such authority, the water standby charge may be imposed on each acre of land or each parcel of land less than an acre within Metropolitan to which water is made available for any purpose by Metropolitan, whether the water is actually used or not;

WHEREAS, certain member public agencies of Metropolitan have opted in prior fiscal years to provide collection of all or a portion of their readiness-to-serve charge obligation through a Metropolitan water standby charge imposed on parcels within those member agencies;

WHEREAS, Metropolitan is willing to comply with the requests of member public agencies opting to have Metropolitan continue to levy water standby charges within their respective territories, on the terms and subject to the conditions contained herein;

WHEREAS, the provisions of the Uniform Standby Charge Procedures Act (USCPA), sections 54984-54984.9 of the Government Code, are available to any local agency authorized by law to provide water or water service, and authorized to fix, levy, or collect any standby or availability charge or assessment in connection with the provision of that service; and

WHEREAS, the readiness-to-serve charge applicable to each member public agency, the method of its calculation, and the specific data used in its determination are as specified in the Engineer's Report dated December 1997, on file with Metropolitan, a copy of which is attached as Attachment 1;

NOW THEREFORE, the Board of Directors of The Metropolitan Water District of Southern California does hereby resolve, determine and order as follows:

Section 1. That the public interest and necessity require the District to develop a reliable source of revenues less susceptible to seasonal and annual variation, through imposition of a readiness-to-serve charge to be collected from the District's member public agencies.

Section 2. That said readiness-to-serve charge should be in an amount sufficient to provide for payment of the debt service, not paid from ad valorem property taxes, of capital expenditures for projects needed to meet the reliability and quality needs of existing users of the District's water; provided, however, that the amount of the readiness-to-serve charge shall be set by the Board while bearing in mind the rate management goals of Phase I of the Rate Refinement Process adopted by the Board on July 9, 1996.

Section 3. That such readiness-to-serve charge for July 1, 1998 through December 31, 1998, shall be a water rate equal to \$52.88 per acre-foot, and for January 1, 1999 through and including June 30, 1999 shall be a water rate equal to \$58.17 per acre-foot, which shall be charged on a historic basis for each acre-foot of water included in Metropolitan's average water deliveries to its member agencies for the three fiscal year period ending June 30, 1996. The aggregate readiness-to-serve charge for the period from July 1, 1998 through and including December 31, 1998 shall be \$40,000,000, and for January 1, 1999 through and including June 30, 1999 shall be \$44,000,000.

Section 4. That in the alternative, and without duplication, the readiness-to-serve charge for the period from July 1, 1998 through and including December 31, 1998 shall be a capital facilities fee in the aggregate amount of \$40,000,000, and for January 1, 1999 through and including June 30, 1999 shall be a capital facilities fee in the aggregate amount of \$44,000,000, which shall be allocated as provided in Section 8 below.

Section 5. That this Board finds that the proposed readiness-to-serve charge is necessary for the purpose of financing construction costs of public utility facilities furnished by Metropolitan, and does not exceed the proportionate share of the cost of the public utility facilities of benefit to each person or property being charged, based upon the proportionate share of use of those facilities, as shown in the attached Engineer's Report.

Section 6. That in the alternative, and without duplication, the readiness-to-serve charge shall be an availability service charge pursuant to Section 134.5 of the Metropolitan Water District Act.

Section 7. That notice is hereby given to the public and to each member public agency of The Metropolitan Water District of Southern California of the intention of Metropolitan's Board to consider and take action at its regular meeting to be held March 10, 1998, on the General Manager's recommendation to impose a readiness-to-serve charge for fiscal year 1998-99.

Section 8. That the readiness-to-serve charge shall be allocated among the member public agencies in proportion to the average of Metropolitan water sales (in acre-feet) to each member public agency initially during the three fiscal year period ending June 30, 1996. Long-term seasonal storage service, cyclic storage, and direct groundwater replenishment deliveries and water taken under the one-time drought storage agreement, Cooperative Storage Program through April 12, 1994, 1993 Demonstration Program and cooperative storage purchases paid for in fiscal year 1995-96 will be subtracted from the water sales calculation. Long-term seasonal storage service water is defined as water that a member public agency leaves in storage past the end of the fiscal year through avoided production during a period of availability (normally October 1 through April 30). Metropolitan sales of reclaimed water under the Local Projects Program and groundwater under the Groundwater Recovery Program are not included in the readiness-to-serve charge water sales calculation. The allocation of the readiness-to-serve charge among member agencies is based on sales data recorded by Metropolitan and shall be conclusive in the absence of manifest error.

The amount of the readiness-to-serve charge proposed to be imposed on each member agency for fiscal year 1998-99 is as follows:

PROPOSED 1998-99 READINESS-TO-SERVE CHARGE

Member Agency	Acre-Feet	RTS Share	RTS Charge-- 6 months of \$80 million	RTS Charge- 6 months of \$88 million	Total RTS Charge
Anaheim	18,709	1.24%	\$ 494,708	\$ 544,179	\$ 1,038,887
Beverly Hills	12,941	0.86%	342,189	376,408	718,597
Burbank	16,523	1.09%	436,905	480,596	917,501
Calleguas	87,849	5.81%	2,322,926	2,555,219	4,878,145
Central Basin MWD	69,047	4.56%	1,825,759	2,008,335	3,834,094
Chino Basin MWD	34,369	2.27%	908,794	999,673	1,908,467
Coastal	39,958	2.64%	1,056,580	1,162,238	2,218,818
Compton	3,725	0.25%	98,497	108,347	206,844
Eastern	48,240	3.19%	1,275,575	1,403,132	2,678,707
Foothill	7,961	0.53%	210,507	231,558	442,065
Fullerton	7,457	0.49%	197,180	216,898	414,078
Glendale	26,456	1.75%	699,556	769,512	1,469,068
Las Virgenes MWD	18,014	1.19%	476,331	523,964	1,000,295
Long Beach	42,539	2.81%	1,124,827	1,237,310	2,362,137
Los Angeles	164,220	10.86%	4,342,348	4,776,583	9,118,931
MWDOC	177,584	11.74%	4,695,722	5,165,295	9,861,017
Pasadena	14,824	0.98%	391,980	431,178	823,158
San Diego CWA	407,484	26.94%	10,774,798	11,852,278	22,627,076
San Fernando	106	0.01%	2,803	3,083	5,886
San Marino	1,327	0.09%	35,089	38,598	73,687
Santa Ana	12,633	0.84%	334,045	367,450	701,495
Santa Monica	5,008	0.33%	132,423	145,665	278,088
Three Valleys MWD	58,267	3.85%	1,540,711	1,694,782	3,235,493
Torrance	20,311	1.34%	537,069	590,776	1,127,845
Upper San Gabriel	7,163	0.47%	189,406	208,346	397,752
West Basin MWD	153,155	10.12%	4,049,764	4,454,741	8,504,505
Western MWD	56,860	3.76%	1,503,507	1,653,858	3,157,365
MWD	1,512,730	100.00%	\$40,000,000	\$44,000,000	\$84,000,000

Section 9. That the allocation of the readiness-to-serve charge among member agencies set forth in Section 8 above is consistent with the per-acre-foot water rates imposed pursuant to Section 3 above.

Section 10. That it is the intent of the Board that:

(a) For fiscal years 1997-98 through 2000-01, a member public agency's readiness-to-serve allocation will be based on the average of Metropolitan water deliveries eligible to be included in the readiness-to-serve charge calculation to each member public agency (as described in Section 8 above and below in this Section 10) during fiscal years 1993-94, 1994-95 and 1995-96. This intent supersedes any inconsistent intent previously expressed by the Board.

(b) Long-term seasonal storage service, cyclic storage, Cooperative Storage Program, direct groundwater replenishment and contractual long-term storage water deliveries will be excluded from the readiness-to-serve calculation during the year of delivery but will be included in the year of use. Member public agencies shall indicate the amount and year in which the long-term seasonal storage service, cyclic storage, Cooperative Storage Program, direct groundwater replenishment and contractual long-term storage water deliveries are used within seven years, including the year in which the water was delivered. Member public agencies overlying a common groundwater basin shall be allowed to account for their purchases as a single, common purchaser; provided that member public agencies which elect to pool their purchases for purposes of the new demand charge calculation must also pool their purchases for purposes of the readiness-to-serve charge.

(c) Notwithstanding the foregoing, in no event shall any member agency's readiness-to-serve charge be based on less than the following minimum sales (in acre feet) for each member public agency:

MEMBER AGENCY	MINIMUM RTS FLOOR (AF)	RTS %
City of Anaheim	8,386.9	1.09%
City of Beverly Hills	6,393.2	0.83%
City of Burbank	9,790.4	1.27%
Calleguas MWD	43,534.3	5.67%
Central Basin MWD	32,130.0	4.18%
Chino Basin MWD	15,200.9	1.98%
Coastal MWD	19,457.5	2.53%
City of Compton	2,512.9	0.33%
Eastern MWD	24,810.5	3.23%
Foothill MWD	3,920.4	0.51%
City of Fullerton	3,834.4	0.50%
City of Glendale	13,228.0	1.72%
Las Virgenes MWD	8,796.2	1.15%
City of Long Beach	18,902.9	2.46%
City of Los Angeles	113,942.2	14.83%
MWD of Orange County	79,695.8	10.38%
City of Pasadena	5,083.2	0.66%
San Diego CWA	203,910.3	26.55%
City of San Fernando	105.4	0.01%
City of San Marino	663.5	0.09%
City of Santa Ana	6,072.6	0.79%
City of Santa Monica	2,508.6	0.33%
Three Valleys MWD	28,908.1	3.76%
City of Torrance	10,155.7	1.32%
Upper San Gabriel VA	4,462.6	0.58%
West Basin MWD	74,669.7	9.72%
Western MWD of Riverside	27,033.7	3.52%
ALL MEMBER AGENCIES	768,109.6	100.00%

(e) In no event will deliveries of Metropolitan water which are in excess of a member agency's new demand charge base (as described in Resolution 8465, adopted by this Board on January 10, 1995) also be used in calculating such member agency's readiness-to-serve charge allocation.

Section 11. That the proposed readiness-to-serve charge and the amount applicable to each electing member public agency, the method of its calculation, and the specific data used in its determination are as specified in the Engineer's Report filed as Attachment 1 to this Resolution. The Engineer's Report, which forms the basis of the readiness-to-serve charge, is on file and available for review by interested parties at Metropolitan's headquarters.

Section 12. That except as provided in Section 16 below with respect to any readiness-to-serve charge collected by means of a Metropolitan water standby charge, the readiness-to-serve charge shall be due monthly, quarterly or semiannually as agreed upon by Metropolitan and the member agency.

Section 13. That such readiness-to-serve charge may, at the request of any member agency which elected to utilize Metropolitan's standby charge as a mechanism for collecting its readiness-to-serve charge obligation in fiscal 1996-97, be collected by reimposition of the Metropolitan water standby charge at the same rates imposed in fiscal 1996-97 upon land within Metropolitan's (and such member public agency's) service area to which water is made available by Metropolitan for any purpose, whether the water is actually used or not.

Section 14. That the rates of any standby charge proposed to be levied to collect all or a portion of a member public agency's readiness-to-serve charge, per acre of land, or per parcel of land less than an acre, as shown in the Engineer's Report, may vary by member public agency, and shall not exceed the amount of Metropolitan's 1995-96 standby charge for the member public agency. The proposed standby charge applicable to each electing member public agency, the method of its calculation, and the specific data used in its determination are as specified in the Engineer's Report attached as Attachment 1 to this Resolution. Only land within each electing member public agency with respect to which standby charges were imposed in fiscal 1996-97 will be subject to the reimposition of standby charges for fiscal 1998-99.

Section 15. That the proposed standby charge, per parcel or per acre, applicable to eligible land within each electing member public agency as allocated in the Engineer's Report shall be as follows:

Proposed 1998-1999 Standby Charge

<u>Member Agency</u>	<u>Amount</u>
Anaheim	\$ 8.55
Beverly Hills	-0-
Burbank	14.20
Calleguas MWD	9.58
Central Basin MWD	10.44
Chino Basin MWD	7.59
Coastal MWD	11.60
Compton	8.92
Eastern MWD	6.94
Foothill MWD	10.28
Fullerton	10.71
Glendale	12.23
Las Virgenes MWD	8.03
Long Beach	12.16
Los Angeles	-0-
MWD of Orange Co.	10.09
Pasadena	11.73
San Diego CWA	11.51
San Fernando	7.87
San Marino	8.24
Santa Ana	7.88
Santa Monica	-0-
Three Valleys MWD	12.21
Torrance	12.23
Upper San Gabriel Valley MWD	9.27
West Basin MWD	-0-
Western MWD of Riverside Co.	9.23

Section 16. That the proposed water standby charge, if imposed, shall be collected on the tax rolls, together with the ad valorem property taxes which are levied by Metropolitan for the payment of pre-1978 voter-approved indebtedness. Any amounts so collected shall be applied as a credit against the applicable member agency's obligation to pay a readiness-to-serve charge. After such member agency's readiness-to-serve charge allocation is fully satisfied, any additional collections shall be credited to other outstanding obligations of such member agency to Metropolitan or future readiness-to-serve obligations of such agency. Notwithstanding the provisions of Section 12 above, any member agency requesting to have all or a portion of its readiness-to-serve charge obligation collected through standby charge levies within its territory as provided herein shall pay any portion not

collected through net standby charge collections to Metropolitan within fifty days after Metropolitan issues an invoice for remaining readiness-to-serve charges to such member agency, as provided in Administrative Code Section 4507.

Section 17. That notice is hereby given to the public and to each member public agency of The Metropolitan Water District of Southern California of the intention of Metropolitan's Board to consider and take action at its regular meeting to be held March 10, 1998, on the General Manager's recommendation to impose a readiness-to-serve charge for fiscal year 1998-99 as provided in this Resolution. The Water Planning and Resources Committee of Metropolitan's Board will set a public hearing at which interested parties may present their views regarding the proposed readiness-to-serve charge prior to its regular March meeting pursuant to Section 4304(e) of Metropolitan's Administrative Code. Such hearing shall also satisfy the requirements of Section 4304(k) of the Administrative Code.

Section 18. That notice is hereby given to the public and to each member public agency of The Metropolitan Water District of Southern California of the intention of Metropolitan's Board to consider and take action at its regular meeting to be held May 12, 1998, on the General Manager's recommendation to impose a water standby charge for fiscal year 1998-99 under authority of Section 134.5 of the Metropolitan Water District Act and the USCPA on land within Metropolitan at the rates, per acre of land, or per parcel of land less than an acre, specified in Section 15 above. Any such water standby charge will be imposed as a means of collecting the readiness-to-serve charge.

Section 19. That the Board will meet in regular session at its meeting on April 14, 1998, to hold a public protest hearing at which interested parties may present their views regarding any proposed standby charges and the Engineer's Report. Any member of the public may submit a written protest or other comments either at a scheduled hearing or by mail to the Executive Secretary of The Metropolitan Water District of Southern California, at Post Office Box 54153, Los Angeles, California 90054-0153. All written protests and comments presented at the hearings or received by the Executive Secretary on or before April 14, 1998, which contain a description sufficient to identify the land owned by the landowner will be given due consideration by the Board before its final action on the proposed standby charge. The USCPA provides that if the Board receives written protests (which protests are not withdrawn at the time of determination by the Board) representing 40 percent of the parcels subject to the proposed standby charge, the matter must be tabled for at least one year. If the Board receives such protests representing 15 percent or more of the parcels subject to the proposed charge, the Board may still adopt the charge, but the charge will be ineffective until approved by a majority of the vote in a landowner election within the District.

Section 20. That it is the intent of the Board that the following lands shall be exempt from the water standby charge: (a) lands owned by the Government of the United States, the State of California, or by any political subdivision thereof or any entity of local government; (b) lands permanently committed to open space and maintained in their natural state that are not now and will not in the future be supplied water; (c) lands not included in (a) or (b) above, which the General Manager, in his discretion, finds do not now and cannot reasonably be expected to derive a benefit from the projects to which the proceeds of the water standby charge will be applied; and (d) lands within any member public agency, subagency, or city if the governing body of such public entity elects and commits to pay out of funds available for that purpose, in installments at the time and in the amounts established by Metropolitan, the entire amount of the water standby charge which would otherwise be imposed upon lands within those public entities. The General Manager may develop and implement additional criteria and guidelines for exemptions in order to effectuate the intent expressed herein.

Section 21. That the General Manager shall establish and make available to interested applicants procedures for filing and consideration of applications for exemption from the water standby charge pursuant to subsections (b) and (c) of Section 20 above. All applications for such exemption and documents supporting such claims must be received by Metropolitan in writing on or before December 31, 1998. The General Manager is further directed to review any such applications for exemption submitted in a timely manner to determine whether the lands to which they pertain are eligible for such exemption and to allow or disallow such applications based upon those guidelines. The General Manager shall also establish reasonable procedures for the filing and timing of the appeals from his determination, pursuant to Section 22 below.

Section 22. That an Ad Hoc Committee of the Board shall be appointed by the Chairman of the Board as necessary for the purpose of considering, in the Committee's discretion, appeals from determinations by the General Manager to deny or qualify an application for exemption from the water standby charge pursuant to Section 20 above. The Ad Hoc Committee shall consider such appeals and make recommendations to the Board to affirm or reverse the General Manager's determinations. The Board shall act upon such recommendations and its decision as to such appeals shall be final.

Section 23. That no exemption from the water standby charge shall reduce the applicable member agency's readiness-to-serve charge obligation, nor shall any failure to collect, or any delay in collecting, any standby charges excuse or delay payment of any portion of the readiness-to-serve charge when due. All amounts collected as water standby charges pursuant to this Resolution shall be applied solely as credits to the readiness-to-serve charge of the applicable member agency, with any excess collections being carried forward and credited against other outstanding obligations of such member agency to Metropolitan.

Section 24. That the readiness-to-serve charge is imposed by Metropolitan as a rate, fee or charge on its member agencies, and is not a fee or charge imposed upon real property or upon persons as incidents of property ownership, and the water standby charge is imposed within the respective territories of electing member agencies as a mechanism for collection of the readiness-to-serve charge. In the event that the water standby charge, or any portion thereof, is determined to be an unauthorized or invalid fee, charge or assessment by a final judgment in any proceeding at law or in equity, which judgment is not subject to appeal, or if the collection of the water standby charge shall be permanently enjoined and appeals of such injunction have been declined or exhausted, or if Metropolitan shall determine to rescind or revoke the water standby charge, then no further standby charge shall be collected within any member agency and each member agency which has requested imposition of Metropolitan water standby charges as a means of collecting its readiness-to-serve charge obligation shall pay such readiness-to-serve charge obligation in full, as if imposition of such water standby charges had never been sought.

Section 25. That the General Manager and the General Counsel are hereby authorized to do all things necessary and desirable to accomplish the purposes of this Resolution, including, without limitation, the commencement or defense of litigation.

Section 26. That this Board finds that the proposed readiness-to-serve charge and other charges provided in this Resolution are exempt from the provisions of the California Environmental Quality Act (CEQA) since they are rates and other charges which are for the purposes of meeting operating expenses; purchasing or leasing supplies, equipment or materials; meeting financial reserve needs and requirements; and 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 will have CEQA documentation in place prior to construction of any facility or facilities.

Section 27. That if any provision of this Resolution or the application to any member agency, property or person whatsoever is held invalid, that invalidity shall not affect other provisions or applications of this Resolution which can be given effect without the invalid portion or application, and to that end the provisions of this Resolution are severable.

Section 28. That the General Manager is hereby authorized and directed to take all necessary action to satisfy relevant statutes requiring notice by mailing or by publication.

Section 29. That the Executive Secretary is hereby directed to transmit a certified copy of this Resolution to the presiding officer of the governing body of each member public agency.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California, at its meeting held on January 13, 1998.

Executive Secretary
The Metropolitan Water District
of Southern California

ATTACHMENT 1

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA ENGINEER'S REPORT

PROPOSED PROGRAM TO LEVY READINESS-TO-SERVE CHARGES, INCLUDING LOCAL OPTION FOR STANDBY CHARGES, DURING FISCAL YEAR 1998-99

December 1997

REPORT PURPOSES

The Metropolitan Water District of Southern California (Metropolitan) has built and is building major capital facilities and has implemented water management programs that provide water supplies and delivery throughout its service area. This report has two purposes: (1) to describe the water supply and delivery capital projects and programs, which provide benefits both locally and throughout the service area and will be financed in part by Metropolitan's readiness-to-serve (RTS) charge, including a local option to collect the RTS charge through the levy of a Metropolitan standby charge within certain member agencies, and (2) to address the method and basis for levying a standby charge on benefiting properties.

These facilities and programs consist of the State Water Project system, a major regional water storage reservoir, system-wide improvements and rehabilitation, water conservation projects, and financial assistance for water recycling facilities and groundwater recovery facilities. This combination of facilities and programs is an integral part of the region's and Metropolitan's strategic plan to maintain reliable water supplies and to insulate the service area from disruptions in water service during droughts and natural emergencies.

The RTS charge is imposed by Metropolitan on its member agencies to recover the debt service on bonds issued to finance capital facilities needed to maintain reliable service of good quality water to meet existing demands on Metropolitan's system. The standby charge is an existing charge levied on parcels of land within certain of Metropolitan's member agencies as a method of collecting part or all of the RTS charge obligation of the member agency containing the parcel. The RTS charge will partially pay for the value of the projects and programs described in this report. The standby charge, if levied as a method of collecting all or part of the member agency's RTS charge, will be utilized for capital payments, and debt service on capital projects.

The major source of Metropolitan's revenues is water sales. Ad valorem property taxes used to pay pre-1978 voter-approved indebtedness provide an additional limited revenue source. Major capital projects are financed largely by proceeds of revenue bond issues, which in turn are repaid over future years. These repayments are principally from water sales revenues. In December 1993, Metropolitan's Board of Directors approved a revenue structure that includes additional charges (including the RTS charge) to provide a more equitable method of allocating costs between existing and new demands, establish a commitment to Metropolitan's capital improvement program and provide revenue stability. The RTS charge will provide for payment of

debt service on revenue bonds. The standby charge is a mechanism for collection of the RTS charge to allow a member agency to equitably allocate its RTS costs among its water users and other beneficiaries of its service.

BACKGROUND

Delivery of water is one of the essential infrastructure services in an industrial economy. Like electrical energy, natural gas, transportation, and telecommunications, every household and virtually every business and industry in Southern California uses water. Because these services are so widespread in a modern economy, shortages can have far reaching and serious consequences.

Metropolitan imports supplemental water supplies for 16.1 million residents in portions of six counties: Los Angeles, Orange, Ventura, Riverside, San Bernardino, and San Diego. In Metropolitan's almost 5,200-square mile service area, nearly 60 percent of the water supplies are imported from the Colorado River and California's State Water Project (SWP). Metropolitan, a public agency, provides these water supplies as a supplement to local groundwater and surface water resources.

Growing Demand for Water

About one out of every two Californians lives in Metropolitan's service area. During the 1980's more than 300,000 people were added to the service area each year, as a result of a strong economy. Regional growth management plans project that Southern California's population will continue to grow by more than 230,000 people each year over the next 23 years -- increasing from the current 16.1 million in 1997 to over 21.5 million by 2020. Based on this projected growth, regional water demands under normal weather conditions are expected to increase from the current 3.6 million acre-feet to 4.9 million acre-feet by 2020. Above-normal demands, under hot and dry weather conditions, can be about seven to nine percent greater than normal-weather demands.

The ongoing competition for water to serve the urban, agricultural, and environmental needs of the Western states has resulted in the need to invest in infrastructure and operational improvement, to ensure the continued certainty of firm deliveries to Southern California from the Colorado River and the State Water Project. Coupled with the diverse and competing needs of locally developed water in the region, the problem of providing a reliable water supply becomes even more difficult. What is needed is a coordinated and balanced regional response to growing demands.

METROPOLITAN'S RESPONSE TO GROWING WATER DEMANDS

To respond to growing demands for water, Metropolitan and its member agencies collectively examined all of the available local and imported resource options in order to develop a least-cost plan that meets the reliability and quality needs of the region. The product of this intensive effort was a 25-year Integrated Resources Plan (IRP) that offers a realistic means of achieving a reliable and affordable water supply for Southern California into the next century.

The major objective for the IRP was developing a comprehensive water resources plan that ensures: (1) reliability, (2) affordability, (3) water quality, (4) diversity of supply, and (5) adaptability for the region, while recognizing the environmental, institutional, and political constraints to resource development.

As part of the IRP, Metropolitan is continuing its water supply program to maintain the reliability of its water supply and delivery system and to meet the needs of existing and potential consumers and land uses within its service area. This program includes the construction of capital facilities and implementation of water management programs. Capital facilities, representing substantial current expenditures, include the State Water Project aqueduct system, the Eastside Reservoir Project, and water distribution system improvements and rehabilitation. These facilities provide the storage and transmission of water required throughout Metropolitan's service area. The benefits of these capital projects are local and also system-wide, as the facilities directly increase water supplies and reliable delivery of water throughout Metropolitan's service area.

Water management programs include Metropolitan's participation in financing the construction of water recycling and groundwater recovery facilities, and conservation projects by local agencies. The water recycling and groundwater recovery programs provide new water supplies and help defer the need for regional transmission and storage facilities. The benefit of the water conservation program is the saving of existing water supplies. These programs have assisted in the construction of projects throughout the six-county area and benefit Metropolitan's water users both locally and system-wide. A summary of the estimated benefits of the water supply and water management programs is shown in Table 1. Also shown in Table 1 are the estimated sources of revenue to fund those benefits.

State Water Project

The State Water Project (SWP) is a major water source for Metropolitan. Metropolitan, one of twenty-nine agencies that have contracts for water service with the Department of Water Resources, is entitled to over 2 million acre-feet of the total SWP entitlements of 4.2 million acre-feet. The SWP transports water directly from the Sacramento-San Joaquin Delta and Feather River water released from Oroville Dam that has traveled to the Delta, south via the California Aqueduct to Metropolitan's service area. Currently, the State Department of Water Resources (DWR) cannot meet all of its contractors' demands for SWP entitlement water. DWR is planning additional facilities to increase the reliability of SWP supplies.

In 1960, Metropolitan contracted with DWR to receive SWP supplies. Under this contract Metropolitan pays allocable portions of the construction and operation and maintenance costs of the system through at least year 2035, regardless of the quantities of project water Metropolitan takes.

All Metropolitan member agencies benefit from SWP and State project water is distributed to existing consumers in all six counties within Metropolitan's service area. The potential benefit of the State Water Project in fiscal year 1998-99 is shown in Table 1.

Eastside Reservoir Project

The Eastside Reservoir Project, along with water transfers, comprehensive groundwater management, conservation, and recycling programs already implemented, is needed to ensure reliable water supplies and delivery to Metropolitan's consumers throughout the service area. This new reservoir will provide 800,000 acre-feet of storage capacity. Water from the Colorado River Aqueduct and SWP is scheduled for Eastside Reservoir Project storage and subsequent distribution throughout Metropolitan's service area.

Storage within Metropolitan's water supply is vital to regulate fluctuating sources of supply, to meet varying customer demands, and to ensure water service during droughts and earthquakes. The water sources available to Metropolitan are subject to extended droughts and to interruption from earthquakes, since both the California Aqueduct and the Colorado River Aqueduct cross major faults. The reservoir will permit Metropolitan to accumulate water from a variety of sources, to be held in storage or scheduled for replenishment delivery to groundwater basins. This stored water provides a reserve against shortages when supply sources are limited or disrupted. The reservoir also preserves Metropolitan's capability to deliver water during scheduled maintenance periods, when facilities must be removed from service for rehabilitation, repair, or maintenance. The potential benefit of the Eastside Reservoir Project in fiscal year 1998-99 is shown in Table 1.

Water Recycling

In 1981, Metropolitan initiated the Local Projects Program, which provides financial assistance to new local water recycling projects that reduce demands on imported supplies and thereby increase the total water resources available for the region. These projects recycle used water for non-potable uses, such as in industry and in irrigation of parks, greenbelts, cemeteries, and golf courses. In fiscal year 1998-99, 42 projects throughout the service area are projected to receive a financial incentive of \$154 per acre-foot from Metropolitan's Local Projects Program or higher payments of up to \$250 per acre-foot under the proposed Local Resources Program, and recycle approximately 77,000 acre-feet of water. In the future, the production of projects participating in the Local Resources Program, combined with water recycling in Metropolitan's service area that does not receive incentives from Metropolitan, is expected to increase to meet the IRP year 2000 target of 260,000 acre-feet per year of production. An estimate of potential water recycling payments is given in Table 2. No such payments will be made with proceeds of standby charges.

Water Conservation

Metropolitan actively promotes water conservation programs within its service area as a realistic strategy for ensuring the long-term reliability of supplies. Every gallon of water conserved is a gallon that need not be acquired, transported, or treated. Through programs such as the Conservation Credits Program and other financing mechanisms, Metropolitan reimburses local agencies for a share of their costs of implementing conservation projects. Since Fiscal Year 1994-95, Metropolitan has spent over \$60 million participating in local conservation projects.

In 1991, Metropolitan and many other urban water agencies in California agreed to implement conservation "Best Management Practices" (BMPs). By signing the Memorandum of Understanding Regarding Urban Water Conservation in California, these agencies committed to implement proven and reliable water conserving technologies and educational programs for conservation within their jurisdictions. The BMPs represent a giant step forward in uniting urban areas in reducing consumption through improved management of existing water supplies and cost-effective implementation of water-saving technology and water-wise policy.

Metropolitan's Conservation Credits Program represents one of the largest financial commitments to water conservation practices in the nation. The program is both comprehensive and flexible in addressing residential, commercial, industrial, institutional, and landscape water use. Metropolitan's Conservation Credits Program, in conjunction with other conservation efforts, is expected to save 400,000 acre feet in fiscal year 1998-99. By 2010, it is estimated that conservation practices will save 738,000 acre-feet, reducing total water demand by 14 percent. Conservation is a critical element of Metropolitan's demand management program, effectively increasing the reliability of existing water supplies and lessening the need to import additional water. An estimate of potential water conservation benefits is given in Table 2. No payments for water conservation will be made with proceeds of standby charges.

Groundwater Recovery Program

In 1987, it was estimated that 80,000 acre-feet of annual groundwater production within Metropolitan's service area was unusable because of mineral or organic contamination. More recently, it was found that 16 million acre-feet of minerally degraded water that is otherwise usable resides in the groundwater basins serving Metropolitan's member agencies. In addition, the dependable groundwater supplies in the region are threatened by spreading of mineral and organic constituents.

Because of the value of the region's groundwater resources, Metropolitan's Groundwater Recovery Program was established. Under this program, Metropolitan promotes development of groundwater by offering financial incentives to its member agencies to recover and treat contaminated supplies.

Projects currently authorized under Metropolitan's Groundwater Recovery Program are expected to recover about 24,000 acre-feet in Fiscal Year 1998-99. To meet this goal, additional replenishment from imported and recycled water sources will be required to sustain basin production levels for some projects. An estimate of potential payments for groundwater recovery projects is given in Table 2. Not such payments will be made with proceeds of standby charges.

System Improvements

Metropolitan has an ongoing commitment, through physical system improvements, to maintain the reliable delivery of water throughout the entire service area. System improvement projects include additional conveyance facilities to increase dependable water supplies, provide alternative system delivery capacity, and enhance system operations. It also includes projects to upgrade obsolete facilities or equipment, or to rehabilitate or replace spent facilities or equipment. These

projects are needed to enhance system operations, comply with new regulations, and maintain a reliable distribution system. A list of distribution system improvement projects is given in Table 3.

LONG-RANGE FINANCIAL PLANNING

The development and delivery of a reliable water supply comes at a cost. Since passage of Article XIII A of the California Constitution (Proposition 13 of 1978), Metropolitan has necessarily relied more on water sales revenue than on ad valorem property taxes for the payment of construction debt. Water sales have become the dominant source of revenue, not only for operation and maintenance of the vast network of facilities supplying water to Southern California's coastal plains, but also for replacement and improvement of capital facilities.

The increased reliance on highly variable water sales revenue increases the probability of substantial rate swings from year to year mainly resulting from changing weather patterns and has placed an increasing burden on current rate payers, which might more equitably be paid in part by assessments on land that in part derives its value from the availability of water.

Readiness-To-Serve Charge

The RTS charge is a component of the rate structure intended to recover costs associated with water supply and system reliability, and water quality for existing users. The estimated potential benefits that could be paid by an RTS charge are shown in Table 1. Potential benefits are estimated to be \$248,278,101 in fiscal year 1998-99.

Although the RTS charge could be set to recover the entire potential benefit amount, the General Manager is recommending that the RTS charge only recover a portion of the non-tax supported debt service that has been or will be issued to fund capital improvements associated with meeting the reliability and quality needs of existing users. For fiscal year 1998-99, this is estimated to be \$80,000,000 (see Table 4). The capital projects considered for the RTS charge are shown in Table 3. These funds, when melded with Metropolitan's overall financial resources, will result in greater water rate stability for all users throughout the Metropolitan service area.

The RTS charge for fiscal year 1998-99 is allocated to each member agency on the basis of a three-year average of historic water purchases from Metropolitan for fiscal years 1993-94, 1994-95, 1995-96, including sales for consumptive demands, agriculture, and storage. Basing the charge on historic usage more equitably apportions the charges. The RTS charge for each member agency is shown in Table 4. The RTS charge ensures that all member agencies pay a share of the fixed costs to meet their reliability and quality needs.

Standby Charge Option

Metropolitan's standby charge is authorized by the State Legislature and has been levied by Metropolitan since fiscal year 1992-93. It represents an acknowledgment that ad valorem property taxes and revenues from water rates and charges imposed on Metropolitan's member agencies do not necessarily represent the fairest and most equitable way of recovering debt service for capital improvements from benefiting properties.

The standby charge recognizes that there are economic benefits to lands that have access to a water supply, whether or not such lands are using it. The charge transfers from water rates and ad valorem taxes some of the burden of maintaining the capital infrastructure for a water system to all the benefiting properties within the service area. There is much unimproved land that enjoys the benefits of belonging to Metropolitan and has legal access to water. A fraction of the value of this benefit and of the cost of providing it can be effectively recovered, in part, through the imposition of a standby charge. The projects to be supported in part by a standby charge are capital projects that are of both local and Metropolitan-wide benefit to existing water users, as well as current landowners. The estimated potential benefits system-wide are several times the amount to be recovered by means of the standby charge.

Standby charges will be levied by Metropolitan only within the areas served by member agencies which requested that standby charges be utilized as a means of collecting that agency's RTS obligation. Under the local option to levy standby charges during fiscal year 1998-99, the standby charge for each acre or parcel of less than an acre will vary from member agency to member agency, as permitted under the legislation establishing Metropolitan's standby charge. The charge for each member agency requesting to use this option will be at the same level as Metropolitan's fiscal year 1996-97 standby charge for such member agency.

The estimated potential benefits of Metropolitan's water supply program, that could be paid by a standby charge, is approximately \$248,278,101 for fiscal year 19989-99, as shown in Table 1. An average total standby charge of \$59.74 per acre of land or per parcel of less than one acre would be necessary to pay for the total potential program benefits. Table 5 shows that the distribution of standby charge revenues from the various counties and agencies would provide a net revenue flow of approximately \$42 million for fiscal year 1998-99. This total amount is less than projected collections from the RTS charge. Metropolitan will use other revenue sources, such as water sale revenues, readiness-to-serve charge revenues (except to the extent collected through standby charges, as described above), interest income, and revenue from sales of hydroelectric power, to pay for the remaining program benefits. Thus, the benefits of Metropolitan's investments in water supply, transmission and storage projects far exceed the recommended standby charge.

Equity

The RTS charge is a firm revenue source from Metropolitan's perspective. The revenues to be collected through this charge will not vary with sales volumes in the current year. This charge is levied on Metropolitan's member agencies and is not a fee or charge upon real property or upon persons as an incident of property ownership. It ensures that agencies which only occasionally purchase water from Metropolitan but receive the reliability benefits of Metropolitan's system pay a greater share of the costs to provide that reliability. Within member agencies that elect to pay the RTS charge through Metropolitan's standby charges, the standby charge results in lower water rates than would otherwise be necessary due to the amount of revenue collected from lands which benefit from the availability of Metropolitan's water supply. With the standby charge, these properties are now contributing a more appropriate share of the cost of importing water to Southern California.

Metropolitan's water supply program increases the availability and reliable delivery of water throughout Metropolitan's service area. Increased water supplies benefit existing consumers and land uses through direct deliveries to consumers and properties, and through the replenishment of groundwater basins and reservoir storage as reserves against shortages due to droughts, natural emergencies, or scheduled facility shut-downs for maintenance. The benefits of reliable water supplies from the State Water Project, Colorado River, Eastside Reservoir Project, and system improvements accrue to more than 250 cities and communities within Metropolitan's six-county service area. Metropolitan's regional water system is interconnected, so water supplies from the State Project and Eastside Reservoir Project can be used interchangeably throughout most of the service area and benefit water users and properties system-wide.

Additional Metropolitan deliveries required in the coming fiscal year due to the demands of property development will be reduced by the implementation of water management projects, including water conservation, water recycling, and groundwater recovery projects. As with the State Water Project supplies and infrastructure improvements, these water management projects are essential in increasing the future reliability of water supplies and provide system-wide benefits by increasing the amount of imported water available to serve all other areas and also help defer construction of transmission and storage facilities. However, the abilities of each member agency to implement these projects under Metropolitan's financial assistance programs vary and are generally represented by the historic use of imported Metropolitan water.

A major advantage of a firm revenue source, such as a RTS charge, is that it contributes to revenue stability during times of drought or low water sales. It affords Metropolitan additional security, when borrowing funds, that a portion of the revenue stream will be unaffected by drought or by rainfall. This security will help maintain Metropolitan's historically high credit rating, which results in lower interest expense to Metropolitan, and therefore, lower overall cost to the residents of its service area.

SUMMARY

The foregoing and the attached tables describe the current benefits provided by the projects listed as mainstays to the water supply system for Metropolitan's service area. Benefits are provided to both water users as well as property. The projects represented by this report provide both local benefits as well as benefits throughout the entire service area. It is recommended, for fiscal year 1998-99, that the RTS charge be imposed with an option for local agencies to request that a standby charge be imposed on lands within Metropolitan's service area as a credit against such member agency's readiness-to-serve charge, up to the standby charge per acre or parcel of less than one acre levied by Metropolitan within the applicable member agency for fiscal year 1995-96. The maximum standby charge would not exceed \$15 per acre of land or per parcel of less than one acre. The benefits described in this Engineer's Report far exceed the recommended charge. A listing of all parcels in the service area and the proposed 1998-99 standby charge for each is available in the office of the Chief Financial Officer.

TABLE 1

**ESTIMATED DISTRIBUTION OF BENEFITS OF WATER SUPPLY
 PROGRAM THAT COULD BE PAID BY RTS CHARGE**

Water Transmission Storage and Supply Program	Estimated Potential Program Benefits FY 1998-99	\$ Per Acre or \$ Per Parcel Less Than 1 Acre
Net Capital Payments to State Water Project (Less Portion Paid by Property Tax Revenue)	\$85,029,750	\$20.46
Debt Service for Water Storage Including the Eastside Reservoir Project	\$90,440,089	\$21.76
Debt Service for System Improvements (less Portion Paid by Treatment Surcharge)	\$38,697,262	\$9.31
Sub-Total Capital and Debt Service Payments	\$214,167,101	\$51.53
less Estimated Standby Charge Revenues ¹	(\$41,835,130)	(\$10.07)
Remaining Capital and Debt Service Costs Recovered by RTS, Water Sales, Interest Income and Hydro-Electric Revenues	\$172,331,971	\$41.46
Water Management Programs: Water Recycling, Groundwater Recovery and Water Conservation Projects ²	\$34,111,000	\$8.21
Sub-Total Capital, Debt Service and Water Management Programs Costs not Paid by Standby Charge Revenues	\$206,442,971	\$49.67
Total Costs: Capital, Debt Service and Water Management Programs	\$248,278,101	\$59.74

¹ From TABLE 5.

² From TABLE 2

Note: The number of parcels used as divisor (4,156,143) is from TABLE 5.

TABLE 2

WATER RECYCLING, GROUNDWATER RECOVERY
 AND CONSERVATION PROJECTS

Project Name	F.Y. 1998-99 Payment
Water Recycling Projects	\$14,942,000
Burbank Reclaimed Water System Expansion Project	
Calabasas Reclaimed Water System Expansion	
Carbon Canyon Reclamation Project	
Century Reclamation Program	
Cerritos Reclaimed Water Expansion Project	
Eastern Reach 1, Phase II Water Reclamation Project	
Eastern Regional Reclaimed Water System	
Encina Basin Water Reclamation Project Phase I	
Encina Water Pollution Control Facility Reclamation Project	
Escondido Regional Reclaimed Water Project	
Fallbrook Reclamation Project	
Glendale Water Reclamation Expansion Project	
Glendale Verdugo-Scholl Canyon Reclaimed Water Project	
Glendale Brand Park Reclaimed Water Project	
Green Acres Reclamation Project	
Irvine Ranch Reclamation Project	
Lakewood Water Reclamation Project	
Las Virgenes Reclamation Project	
Long Beach Reclamation Project	
Long Beach Reclaimed Water Master Plan Phase 1	
Los Angeles Greenbelt Project	
Moulton Niguel Water Reclamation Project	
North City Water Reclamation Project	
Oak Park/North Ranch Reclaimed Water Distribution System	
Oceanside Water Reclamation Project	
Otay Water Reclamation Project	
Padre Dam Reclaimed Water System Phase I	
Rancho California Reclamation Expansion Project	
Rancho Santa Fe Reclaimed Water System	
Rio Hondo Water Reclamation Program	
San Clemente Water Reclamation Project	
San Elijo Water Reclamation System	
San Pasqual Water Reclamation Project	
Santa Margarita Water Reclamation Expansion Project	
Ramona/Santa Maria Water Reclamation Project	
Sepulveda Basin Water Reclamation Project	
Shadowridge Water Reclamation Project	
South Laguna Reclamation Expansion Project	
South Laguna Reclamation Project	
Trabuco Canyon Reclamation Expansion Project	
Walnut Valley Water Reclamation Expansion Project	
West Basin Water Reclamation Project	
Groundwater Recovery Projects	\$6,488,000
Oceanside Desalter (No. 1)	
Burbank Lake Street Plant	
West Basin (No. 1)	
Tustin Desalter Project	
Santa Monica GW Treatment Plant	
Glenwood Nitrate Water Reclamation Project	
Arlington Basin Groundwater Desalter Project	
Conservation Projects	\$12,681,000
Ultra-low-flush Toilet Retrofits	
Showerhead Retrofits	
Landscape Water Conservation	
Commercial and Industrial Water Evaluations and Retrofits	
Water and Energy Conservation Partnership	
Indoor and Outdoor Residential Water Audits	
Governmental and Institutional Water Audits	
Conservation Pricing Pilot Program and Studies	
Pilot Projects for "Potential" Best Management Practices	
Total	\$34,111,000

TABLE 3

DISTRIBUTION SYSTEM IMPROVEMENTS PROJECT BENEFITS

Distribution System Improvement
All Plants - Replace Power Supply System
All Plants - Replace Water Flowmeter Instruments
All Pump Plants 230KV External Heat Exchangers
Allen-McColloch Pipeline Purchase
Auld Valley Pipeline #1
Box Springs Feeder - Schedule 316
Central Pool Augmentation Project
Centralized Control System - Eagle Rock Area
Centralized Control System - General Design
Centralized Control System - Hdqtrs Monitoring
Chemical Unloading Facility
Chlorination Structure - Foothill Feeder
Chlorination System at Reservoirs
Colorado River Aqueduct - Gene Plant Heat Exchanger
Colorado River Aqueduct - Hinds Pump Plant, Modify Pump Impeller
Colorado River Aqueduct - Install Water Level Alarm System
Colorado River Aqueduct - Modification of Blowoff Structure
Colorado River Aqueduct - Replace Circuit Breakers
Colorado River Aqueduct - Replace Gene Pump Plant Station Service
Colorado River Aqueduct - Replace Transformer Bank No. 1
Colorado River Aqueduct - Water Storage
Colorado River Aqueduct - Intake Pump Plants, Replace Sta Service
CRA Lakeview Siphon - Repair Deteriorated Joints in 1st Barrel
Desalination Demonstration Project
Distribution System - Replace Flowmeter Instruments
District Reservoirs - Aqueous Ammonia Feed
Dist. System Improvements - Chemical Unloading
Eagle Mountain, Hinds - Service Facilities
Eagle Mountain, Hinds - Modify Pumps
Eagle Mountain, Hinds - Pump Modifications
Eagle Mountain, Hinds Rehabilitate 2 Main Transformer
Eagle Mountain, Hinds - Replace Vibration Monitors
East Valley Feeder - Relocate at Hollywood
East Valley Feeder - Structural Modifications
Enlarge Foothill Feeder Control Structure
Enlargement of Chemical Unloading Facility
Etiwanda Pipeline
Foothill Area Study
Foothill Feeder - Devil Canyon Power Plant
Foothill Feeder - Rialto Pipeline
Foothill Feeder - San Dimas Facilities
Foothill Feeder - San Fernando Tunnel
Foothill Feeder - San Fernando Tunnel
Garvey Reservoir Junction Structure
Garvey Reservoir Junction Structure - Replace Valves
Garvey Reservoir - Floating Cover
Garvey Reservoir - Inlet & Outlet Conduit
Garvey Reservoir - Junction Structure
Garvey Reservoir - Modify Desilting Basins

TABLE 3

DISTRIBUTION SYSTEM IMPROVEMENTS PROJECT BENEFITS

Distribution System Improvement
Gene Pump Plant - Mechanical Maintenance Shop
Gene Pump Plant - Replace 230KV Circuit Breaker
Gene Pump Plant - Replace Power Cable
Gene Pumping Plants - Testing Lab Addition
Hinds - Rehabilitation Bank 1 Main Transformer
Hinds - Replace 230V Circuit Breakers
Inland Feeder R/W (BSF, Lakeview, SD 4 & 5)
Inland Feeder System - Perris Control Facility
Inland Feeder
Install Chlorine & Ammonia Analyzers
Intake Pumping Plant - Replace Standby Generator
La Verne Facility - Machine Shop
La Verne Facility - Maintenance Shop
La Verne Facility - Paint Drying Facility
La Verne Facility - Replace Machine Shop
La Verne Facility - Wheeler Ave Entrance
La Verne Maintenance Facility Expansion
Lake Mathews - Chlorination Facility
Lake Mathews - Control Tower - Replace Valves
Lake Mathews - Dike #1 - Install Piezometers
Lake Mathews - Forebay Outlet Structure
Lake Mathews - Outlet Tower - Maintenance
Lake Mathews - Domestic Water System
Lake Mathews - Electrical System
Lake Mathews - Lumber Storage Building
Lake Mathews - Propane Storage Tank
Lake Mathews - Rehabilitate Electrical System
Lake Mathews - Replace Electrical Service
Lake Mathews - Replace Howell-Bunger Valve
Lake Mathews - Replace Southerly Security Fence
Lake Mathews - Seepage Alarms
Lake Perris Bypass Pipeline
Lake Perris Pumpback Expansion
Lake Perris Pumpback Facility
Lake Skinner
Lake Skinner - Install Aeration System
Lake Skinner - Propane Storage Tank
Lake View Pipeline - Install Cathodic Protection
Live Oak Reservoir - Foothill Feeder System
Live Oak Reservoir - Improvements
Lower Feeder - Relocation in Imperial Hwy
Lower Feeder - Replace/Protect Imperial Highway
Mathews & Diemer - Modify Chlorine Tanks
Microwave Communication System
Microwave Communication System - ROW
Mills Filtration Plant - Service Connection
Modify Control System
MWD Share Design & Construction LA-35
Oak St Pressure Control Station - Valve Replacement

TABLE 3

DISTRIBUTION SYSTEM IMPROVEMENTS PROJECT BENEFITS

Distribution System Improvement	
OC Reservoir - Modify Electrical Control Center	
Orange County Feeder Relocation	
Orange County Feeder - Pressure Relief Structure	
Orange County Feeder - Relocation at Kimber	
Orange County Feeder - Service Connection PM-1	
Orange County Reservoir - Floating Cover	
Orange County Reservoir - Replace Chlorination Equipment	
PABX Communication System	
Palos Verdes Feeder - Modifications of L.A. City	
Palos Verdes Feeder - Relocation (MWD's Portion)	
Palos Verdes Feeder - Washington	
Palos Verdes Reservoir - Bypass Pipelines	
Pump Plants - Rehabilitate Main Pumps	
Pumping Plants - Replace Recorders	
Replace 75 Underground Storage Tanks	
Replace Flowmeters on Service Connections	
Rialto Pipeline - Delivery Facilities	
San Diego Aqueduct Rep San Jacinto	
San Diego Canal Enlarge Phase 2	
San Diego Pipe #5 - Schedule SD-17	
San Diego Pipeline Nos. 2, 3 - Modifications	
San Diego Pipeline No. 5 Schedule SD-16	
San Diego Pipeline No. 6	
Santa Ana River Crossing - Seismic	
Santa Monica Feeder - Modify Control Structure	
Santa Monica Feeder - Repair/Retrofit 28 Manhole Risers	
Sepulveda Feeder System, West Valley Feeder No. 2	
Sepulveda Feeder System - Calabasas Feeder	
Sepulveda Feeder - Balboa Inlet	
Sepulveda Feeder - Sepulveda Canyon Control	
Skinner Filtration Plant - Area Maintenance Center	
Soto Street Maintenance Center - Propane Storage	
South (Orange) County Pipeline - Joint Participation & Purchase	
Supervisory Control of Copper Basin Facility	
Upgrading Communication System	
West Orange County Feeder - Relocation	
West Valley Area Study	
West Valley Feeder No. 1 - Modifications	
West Valley Feeder No. 2	
White Water Siphon Delivery Structure	
Yorba Linda Feeder	
Other System Reliability/Rehabilitation Projects	
Estimated Fiscal Year 1998-99 Benefit	\$38,697,262

TABLE 4
FISCAL YEAR 1998-99
READINESS-TO-SERVE CHARGE
ESTIMATED REVENUE

Member Agency	Amount
Anaheim	1,038,887
Beverly Hills	718,597
Burbank	917,501
Calleguas Municipal Water District	4,878,145
Central Basin MWD	3,834,094
Chino Basin Municipal Water District	1,908,467
Coastal Municipal Water District	2,218,818
Compton	206,844
Eastern Municipal Water District	2,678,707
Foothill MWD	442,065
Fullerton	414,078
Glendale	1,469,068
Las Virgenes Municipal Water District	1,000,295
Long Beach	2,362,137
Los Angeles	9,118,931
Municipal Water District of Orange County	9,861,017
Pasadena	823,158
San Diego County Water Authority	22,627,076
San Fernando	5,886
San Marino	73,687
Santa Ana	701,495
Santa Monica	278,088
Three Valleys Municipal Water District	3,235,493
Torrance	1,127,845
Upper San Gabriel Valley Municipal Water District	397,752
West Basin Municipal Water District	8,504,505
Western Municipal Water District of Riverside Co.	3,157,365
Total	84,000,000

TABLE 5
FISCAL YEAR 1998-99
STANDBY CHARGE
ESTIMATED REVENUE

Member Agencies	Total Parcel Charge	Estimates, see Notes a & b	
		Number Of Parcels Or Acres	Gross Revenues
Beverly Hills			
Burbank	\$14.20	28,200	\$400,433
Central Basin MWD	\$10.44	338,386	\$3,532,748
Compton	\$8.92	18,036	\$160,883
Foothill MWD	\$10.28	30,151	\$309,952
Glendale	\$12.23	44,448	\$543,601
Las Virgenes MWD	\$8.03	64,953	\$521,575
Long Beach	\$12.16	88,319	\$1,073,964
Los Angeles			
Pasadena	\$11.73	36,654	\$429,957
San Fernando	\$7.87	5,154	\$40,563
San Marino	\$8.24	4,972	\$40,970
Santa Monica			
Three Valleys MWD	\$12.21	152,341	\$1,860,083
Torrance	\$12.23	37,834	\$462,713
Upper San Gabriel Valley MWD	\$9.27	208,715	\$1,934,784
West Basin MWD			
Los Angeles County Total		1,058,164	\$11,312,226
Anaheim	\$8.55	65,619	\$561,039
Coastal MWD	\$11.60	86,041	\$998,081
Fullerton	\$10.71	32,960	\$353,001
MWD of Orange County	\$10.09	591,927	\$5,972,547
Santa Ana	\$7.88	53,466	\$421,313
Western MWDRC in Orange County	\$9.23	29	\$270
Orange County Total		830,043	\$8,306,251
Eastern MWD	\$6.94	377,266	\$2,618,226
Western MWD of Riverside Co.	\$9.23	354,364	\$3,270,776
Riverside County Total		731,630	\$5,889,003
Chino Basin MWD	\$7.59	220,596	\$1,674,321
San Bernardino County Total		220,596	\$1,674,321
Calleguas MWD	\$9.58	254,145	\$2,434,709
Ventura County Total		254,145	\$2,434,709
San Diego CWA	\$11.51	1,061,566	\$12,218,620
San Diego County Total		1,061,566	\$12,218,620
TOTAL	\$10.07	4,156,143	\$41,835,130

Notes:
 a. The revenues and parcels are only estimates. Actual revenue collected could be less than projected due to tax payment delinquencies.
 b. Based on estimates provided 10/28/97 by Reiter-Lowry Consultants.

EXHIBIT B

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RESOLUTION _____

**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA
GIVING NOTICE OF INTENTION TO IMPOSE
AND SUSPEND COLLECTION OF
NEW DEMAND CHARGE**

WHEREAS, at its meeting on December 14, 1993, the Board of Directors (“Board”) of The Metropolitan Water District of Southern California (“Metropolitan”) approved the rate structure and additional revenue sources described in the Board letter on the Financial Structure Study dated December 1, 1993, including a new demand charge, with implementation of these charges to begin in fiscal year 1995-96;

WHEREAS, providing firm revenue sources is a primary goal of such revenue structure;

WHEREAS, the amount of revenue to be raised by the new demand charge shall be as determined by the Board and allocation of such charge among member public agencies shall be in accordance with the method established by the Board;

WHEREAS, the new demand charge is a charge imposed by Metropolitan upon its member agencies, and is not a fee or charge imposed upon real property or upon persons as an incident of property ownership;

WHEREAS, Metropolitan has legal authority to impose such new demand charge as a water rate pursuant to Section 134 of the Metropolitan Water District Act, as a capital facilities fee pursuant to Section 54999.2 of the California Government Code and as an availability of service charge pursuant to Section 134.5 of the Metropolitan Water District Act;

WHEREAS, under authority of Sections 133 and 134 of the Metropolitan Water District Act, the Board has the authority to fix the rate or rates for water as will result in revenue which, together with other revenues, will pay Metropolitan's operating expenses and provide for payment of other costs, including payment of the interest and principal of Metropolitan's bonded debt;

WHEREAS, pursuant to Resolution 8329, adopted by the Board on July 9, 1991, proceeds of the readiness-to-serve charge, new demand charge and other revenues from the sale or availability of water are pledged to the payment of Metropolitan's outstanding revenue bonds issued and to be issued pursuant to Resolution 8329;

WHEREAS, under authority of Government Code Section 54999.2, Metropolitan may impose a capital facilities fee to pay the capital cost of facilities for the provision of water service;

WHEREAS, the new demand charge is intended to recover the debt service of expenditures for projects needed to satisfy anticipated new demands on Metropolitan, as shown in the Nexus Study dated March 1996, prepared by Metropolitan in support of the new demand charge:

WHEREAS, under authority of Section 134.5 of the Metropolitan Water District Act, an availability of service charge may be collected from the member public agencies within Metropolitan;

WHEREAS, Metropolitan and its member agencies have engaged in a collaborative process (the "Rate Refinement Process") designed to further refine Metropolitan's rate structure and revenue sources;

WHEREAS, the Rate Refinement Process Phase I recommendations were approved by the Board on July 9, 1996; and

WHEREAS, such Phase I recommendations included suspension of collection of the new demand charge while other alternatives are being pursued, with collection to resume if normal system demands exceed 2.2 million acre-feet per year and no alternative has been implemented, as further provided in this Resolution.

NOW, THEREFORE, the Board of Directors of The Metropolitan Water District of Southern California does hereby resolve, determine and order as follows:

Section 1. That the public interest and necessity require Metropolitan to develop firm net revenues, exclusive of ad valorem property taxes, through imposition of a new demand charge on all sales representing new demands on Metropolitan, as described

below, to be imposed on Metropolitan's member public agencies; provided, however, that collection of such charge shall be suspended until the occurrence of the events described in Section 15 below.

Section 2. That such new demand charge should be in an amount sufficient to provide for payment of the debt service, not paid from ad valorem property taxes, of capital expenditures for projects needed to serve anticipated increases in demands on Metropolitan.

Section 3. That such new demand charge for 1998-99 shall be a water rate of \$1,000 per acre-foot for all new demands by a member agency on Metropolitan, determined as provided in Section 8 below.

Section 4. That in the alternative, and without duplication, the new demand charge shall be a capital facilities fee in the amount of \$1,000 per acre-foot of new demand on Metropolitan, determined as provided in Section 8 below.

Section 5. That this Board finds that the proposed new demand charge is necessary for the purpose of financing construction costs of public utility facilities furnished by Metropolitan, and does not exceed the proportionate share of the cost of the public utility facilities of benefit to each person or property being charged, based upon the proportionate share of use of those facilities.

Section 6. That in the alternative, and without duplication, the new demand charge shall be an availability service charge pursuant to Section 134.5 of the Metropolitan Water District Act.

Section 7. That notice is hereby given to the public and to each member public agency of The Metropolitan Water District of Southern California of the intention of Metropolitan's Board to consider and take action at its regular meeting to be held March 10, 1998, on the General Manager's recommendation to impose a new demand charge of \$1,000 per acre-foot of water on all sales representing new demands on Metropolitan in fiscal year 1997-98. The Water Planning and Resources Committee of Metropolitan's Board will set a public hearing at which interested parties may present their views regarding the proposed new demand charge prior to its regular March meeting pursuant to Section 4304(c) of Metropolitan's Administrative Code.

Section 8. That the new demand charge shall be incurred by a member public agency when the average of the member public agency's purchases (in acre feet) from Metropolitan in the four most recent years, including fiscal year 1998-99, after adjustment for long-term storage water, exceed such member agency's new demand charge base. Long-term seasonal storage deliveries, seasonal storage deliveries during May through September 1993 and May and June 1994, cyclic storage, direct groundwater replenishment deliveries, and

water taken under one-time drought storage agreements, Cooperative Storage Program through April 12, 1994, the 1993 Demonstration Program and Cooperative Storage purchases paid for in fiscal year 1995-96 are subtracted from the water sales calculation through the fiscal year period ending June 30, 1994. Beginning with fiscal year 1994-95, long-term seasonal storage service water is defined as water that a member public agency leaves in storage past the end of the fiscal year through avoided production during a period of availability (normally October 1 through April 30). Long-term seasonal storage service, cyclic storage, Cooperative Storage Program, direct groundwater replenishment and contractual long-term storage water deliveries will be excluded from the new demand charge calculation during the year of delivery but will be included in the year of use. Member public agencies shall indicate the amount and year in which the long-term seasonal storage service, cyclic storage, Cooperative Storage Program, direct groundwater replenishment and contractual long-term storage water deliveries are used within seven years, including the year in which the water was delivered. Member public agencies overlying a common groundwater basin shall be allowed to account for their purchases as a single, common purchaser; provided that member public agencies which elect to pool their purchases for purposes of the readiness-to-serve charge calculation must also pool their purchases for purposes of the new demand charge. Metropolitan sales of reclaimed water under the Local Projects Program and groundwater under the Groundwater Recovery Program shall not be included in the new demand charge calculation.

Section 9. That each member public agency's new demand charge base (in acre-feet) will be determined on the largest of three averages: 1) the average of its purchases from Metropolitan in the three fiscal years 1989-90 through 1991-92, excluding one-time drought storage sales; 2) the average of its purchases from Metropolitan in the four fiscal years 1989-90 through 1992-93, excluding one-time drought storage agreement sales and long-term seasonal storage deliveries attributable to May and June 1993; or 3) its readiness-to-serve charge allocation for fiscal year 1995-96. Each member public agency's new demand charge base is as follows:

New Demand Charge Base

<u>Member Agency</u>	<u>Base Amount (AF)</u>
Anaheim	24,944
Beverly Hills	13,614
Burbank	20,446
Calleguas MWD	99,025
Central Basin MWD	115,834
Chino Basin MWD	76,265
Coastal MWD	41,441
Compton	5,026

Eastern MWD	55,603
Foothill MWD	9,610
Fullerton	12,262
Glendale	26,456
Las Virgenes MWD	18,525
Long Beach	42,539
Los Angeles	358,504
MWD of Orange Co.	243,828
Pasadena	22,638
San Diego CWA	559,247
San Fernando	903
San Marino	1,327
Santa Ana	15,840
Santa Monica	8,889
Three Valleys MWD	69,664
Torrance	20,311
Upper San Gabriel MWD	71,899
West Basin MWD	167,634
Western MWD of Riverside Co.	78,177

TOTAL 2,180,451

Section 10. That this Board finds and determines that such new demand charge base is a reasonable approximation of each member agency's current demands on Metropolitan's system. The calculation of the new demand charge base is based on sales data recorded by Metropolitan and shall be conclusive in the absence of manifest error.

Section 11. That upon payment of any new demand charge by a member agency, that member agency's new demand charge base shall be increased by an amount equal to the quantity of water on which the new demand charge was paid.

Section 12. That the new demand charge shall be incurred upon Metropolitan's determination that a member agency's historic average deliveries of Metropolitan water in the immediately preceding four fiscal years have exceeded such member agency's new demand charge base. New demand charges are incurred on the basis of the amount of water purchased by the member agency and are not imposed upon real property or upon a person as an incident of property ownership. The determination of new demand charges for Metropolitan water delivered in 1998-99 shall be made early in fiscal year 1999-2000. In no event shall a new demand charge be incurred for water delivered in any fiscal year after 1994-95 if in such year the member agency has not purchased Metropolitan water in an amount at least equal to its initial new demand charge base.

Section 13. That such new demand charge shall be due and payable in the fiscal year following the year in which Metropolitan determines that the new demand charge has been incurred. Such new demand charge may be paid, without penalty, in equal monthly installments over a period of up to fifteen (15) years, provided that amounts subject to deferred payment shall bear interest at a rate determined by Metropolitan (which shall be equal to Metropolitan's weighted average cost of funds at the time of such determination), from the date due until payment is received by Metropolitan.

Section 14. That the new demand charge and the new demand charge base for each member public agency, the method of its calculation, and the project costs, cost allocations and other data used in its determination are as specified in the Nexus Study dated March 1996, which is on file and available for review by interested parties at Metropolitan's headquarters.

Section 15. That notwithstanding the foregoing, the Board hereby suspends collection of all new demand charges which may be incurred for fiscal year 1998-99, pending imposition by Metropolitan of an area-wide fee based on new development or other alternative charge; provided, however, that if the General Manager shall determine and certify that normal system demands have reached levels in excess of 2.2 million acre-feet, collection of the new demand charge shall resume. It is the intent of the Board that if collection of the new demand charge resumes, a new Nexus Study will be prepared, including revised new demand charge base figures for the member agencies, and such collection shall not retroactively include new demand charges incurred prior to the date that the General Manager certifies that normal system demands exceed 2.2 million acre-feet.

Section 16. That the General Manager and the General Counsel are hereby authorized to do all things necessary and desirable to accomplish the purposes of this Resolution, including, without limitation, the commencement or defense of litigation.

Section 17. That this Board finds that the proposed new demand charge is exempt from the provisions of the California Environmental Quality Act (CEQA) since it constitutes 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.

Section 18. That the General Manager is hereby authorized and directed to take all necessary action to satisfy relevant statutes requiring notice by publication.

Section 19. That the Executive Secretary is hereby directed to transmit a certified copy of this Resolution to the presiding officer of the governing body of each member public agency.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California, at its meeting held on January 13, 1998.

Executive Secretary
The Metropolitan Water District
of Southern California