



**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

8-17

June 2, 1998

**To:** Board of Directors (Committee on Communications and Legislation--Action)  
 (Budget and Finance Committee--Information)

**From:** *for* General Manager Edgar de Mesa

**Submitted by:** Chief of Communications J. Maloy

**Subject:** Oppose Amendment to SB 1391 (Senate Budget Bill)

**RECOMMENDATION**

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That your Board oppose the amendment submitted by Senator Steve Peace (El Cajon) made to SB 1391, the Senate budget bill, restricting use of Metropolitan reserves.

**EXECUTIVE SUMMARY**

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Senator Steve Peace successfully secured an amendment to the Senate budget bill (SB 1391) which would prohibit Metropolitan from (i) expending funds from reserves without a declaration from the Governor or completion of a state audit, and (ii) collecting revenues at a level which adds to reserves. (Attachment 1.) The Senate passed SB 1391, with this amendment, on May 28.

The Assembly budget bill (AB 1656--Ducheny) does not include similar language, which means that this item will be considered by the Senate and Assembly budget conference committee. The budget conferees will begin reconciling differences between the Senate and Assembly versions of the budget beginning on June 8.

Staff recommends that your Board oppose the Peace amendment to SB 1391.

**DETAILED REPORT**

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Senator Steve Peace successfully secured an amendment to the Senate budget bill (SB 1391) which would prohibit Metropolitan from (i) expending funds from reserves without a declaration from the Governor or completion of a state audit, and (ii) collecting revenues at a level which adds to reserves. (Attachment 1.) The Senate passed SB 1391, with this amendment, on May 28.

Under the amendment, the California Auditor General is required to perform a financial and operational audit of Metropolitan for the purpose of assuring that Metropolitan's financial practices are sound, that reserves are at minimum levels consistent with sound financial practice and that expenditures comply with state law. Until the audit is completed, Metropolitan may not collect revenues which add to reserves and may not expend funds from any reserve. However, expenditures of reserves may be made before the audit is completed if the Governor declares that Metropolitan will be unable to carry out its responsibilities.

This amendment, if allowed to remain in the final budget, would have immediate adverse impacts upon Metropolitan. Metropolitan's expenditures for 1997-98 require a \$89 million drawdown from the Water Rate Stabilization Fund, but use of these funds would be prohibited under the amendment. Debt service reserve funds and working capital reserves, which must be maintained pursuant to covenants with the holders of Metropolitan's water revenue bonds, could not be utilized without permission from the Governor. The amendment does not specify which funds are considered to be reserves, so other expenditures (such as construction funding in the Pay-As-You-Go Fund and moneys set aside for transfers in the Water Transfer Fund) also could be halted.

At the same time that these expenditures are restricted, collection of revenues would be curtailed under the amendment's last sentence. It is impossible to set rates which recover exactly the amount necessary to recover expenses for the year, because actual receipts vary according to sales, which in turn are affected by weather, conservation and other factors. By prohibiting Metropolitan from collecting any revenues in excess of our requirements, the amendment could make the Board set rates too low--without any allowances for variables, like the weather, which the Board cannot control. And if unanticipated revenues come in (such as a credit under the State Water Contract which is larger than anticipated), accepting those revenues would violate this amendment.

Inclusion of the amendment in the final budget would impose severe financial constraints on Metropolitan. It would undermine the Metropolitan's credit rating, which in turn anchors the credit ratings of the California Department of Water Resources and Metropolitan's member agencies.

Item	Amount
2 (o) Amount payable from the Sacra-	
3 mento Valley Water Management	
4 and Habitat Protection Subaccount	
5 (Item 3860-001-0544) .....	-353,000
6 (p) Amount payable from the 1984	
7 State Clean Water Bond Fund (Item	
8 3860-001-0740).....	-10,000
9 (q) Amount payable from the 1986 Wa-	
10 ter Conservation and Water Quality	
11 Bond Fund (Item 3860-001-0744)..	-343,000
12 (r) Amount payable from the 1988 Wa-	
13 ter Conservation Fund (Item 3860-	
14 001-0790).....	-343,000
15 (s) Amount payable from the Federal	
16 Trust Fund (Item 3860-001-0890) ..	-5,222,000
17 (t) Amount payable from the Renew-	
18 able Resources Investment Fund	
19 (Item 3860-001-0940) .....	-650,000
20 Provisions:	
21 1. The amounts appropriated in Items 3860-001-	
22 0001 to 3860-001-0940, inclusive, shall be trans-	
23 ferred to the Water Resources Revolving Fund	
24 (0691) for direct expenditure in such amounts as	
25 the Department of Finance may authorize, includ-	
26 ing cooperative work with other agencies.	
27 * 2. <i>The Metropolitan Water District shall not expend</i>	
28 <i>any funds from any reserve unless the Governor</i>	
29 <i>specifically declares that the district will be un-</i>	
30 <i>able to carry out its responsibilities, or until the</i>	
31 <i>Bureau of State Audits completes an audit of the</i>	
32 <i>district. The Auditor General shall perform a fi-</i>	
33 <i>nancial and operational audit of the Metropolitan</i>	
34 <i>Water District of Southern California. The pur-</i>	
35 <i>pose of the audit is to ensure that MWD's finan-</i>	
36 <i>cial practices are sound, that their financial re-</i>	
37 <i>serves are the minimum necessary consistent with</i>	
38 <i>sound financial practice, and that their expendi-</i>	
39 <i>tures are consistent with state law. Until the audit</i>	
40 <i>is completed, MWD may not collect revenues at a</i>	
41 <i>level which adds to the reserves.</i>	
42 3860-001-0140—For support of Department of Water	
43 Resources, for payment to Item 3860-001-0001, pay-	
44 able from the California Environmental License	
45 Plate Fund.....	751,000
46 3860-001-0144—For support of Department of Water	
47 Resources, for payment to Item 3860-001-0001, pay-	
48 able from the California Water Fund.....	12,121,000