

October 27, 1998

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

From: General Manager _____

Submitted by: Lambertus H. Becker _____
Chief Financial Officer

Subject: Revenue Requirements for Fiscal Year 1999-00

RECOMMENDATIONS

It is recommended that the Budget and Finance Committee:

1. Make a determination that revenues required from water sales during fiscal year 1999-00 should not be less than \$686.8 million; and
2. Forward this determination to the Water Planning and Resources Committee for consideration at its January 1999 meeting.

EXECUTIVE SUMMARY

In accordance with Administrative Code Section 4304(a), estimates have been prepared of the total revenues required to fund all expenditures not financed from tax-exempt debt proceeds and the revenues to be derived from water sales required during fiscal year 1999-00. The estimates are based on the latest information available and have been made in accordance with all applicable Board policies. Total revenues required during 1999-00 are estimated to be \$916.0 million. Revenues required from water sales are projected to be \$686.8 million.

Projected expenditures and revenues from all sources (proceeds of tax-exempt debt are not defined as revenues for these purposes) are shown on Attachment A. Projected water rates and charges are shown on Attachment B. These projections are described in the detailed report section of this letter. It should be noted that the cost estimate increases for the Eastside Reservoir Project have been included in the capital financing costs included in this analysis

While water sales for 1999-00 are projected to increase about 200,000 acre-feet from the current year, sales projections for years 2000-01 through 2003-04 are cumulatively about 300,000 acre-feet lower than prior estimates. This is due to increased local water supplies from the recent above normal rainfall in the service area. As a result, projected water revenues for this period are over \$100 million lower than prior estimates. However, due to deferral of projected expenditures for Bay/Delta improvements, deferral of certain capital projects and other cost containment

efforts, projections indicate that water rates can be held below the level agreed to in the rate refinement process, consistent with the most recent projections made in August 1998. Based on the latest information available, no increase in water rates or the treatment surcharge is needed in fiscal year 1999-00. As agreed to in the rate refinement process, and approved by the Board in July 1996, an \$8 million increase in the Readiness-to-Serve Charge is scheduled for January 2000 (\$4 million of this increase will be collected during fiscal year 1999-00).

DETAILED REPORT

Each fiscal year, under Section 4304(a) of the Administrative Code, the General Manager presents his recommendation of the total revenues required to fund all expenditures not financed by debt proceeds and the revenues to be derived from water sales, for the following fiscal year, to the Budget and Finance Committee. The Budget and Finance Committee makes a determination of revenue requirements for the following fiscal year at its December meeting and forwards that determination to the Water Planning and Resources Committee for consideration at its January meeting.

Based on the best cost estimates available at this time, total revenues required during 1999-00 are projected to be \$916.0 million. Revenues from property taxes, readiness-to-serve charges, connection maintenance charges, interest, power recoveries, and miscellaneous are projected to be \$229.2 million. Revenues required from water sales are projected to be \$686.8 million.

Major Assumptions

The following are the major assumptions on which the expenditure and revenue requirements for fiscal year 1999-00 are based:

Water Sales Estimate	1.77 million acre-feet
Water to Storage & Losses	0.50 million acre-feet
Supplies – Colorado River	1.26 million acre-feet
State Water Project	1.01 million acre-feet
Capital Improvement Program Expenditures	\$632.4 million
Major Components:	
Eastside Reservoir Project	\$276.8 million
Inland Feeder Pipeline	\$186.9 million

PROJECTED COSTS FOR FISCAL YEAR 1999-00 **Total = \$916.0 million**

State Water Project **\$287.1 million**

Total costs for 1999-00 under the State Water Project (SWP) are estimated to be approximately \$287.1 million (net of projected credits and based on projected water deliveries of about 1.01 million acre-feet). This is an increase of \$29.8 million over projected actual SWP costs for the current year. Most of the increase, approximately \$19.2 million, is for power to deliver water to storage in the Eastside Reservoir Project. These delivery costs will be paid from the Water Transfer Fund.

The remaining increase is mainly due to higher power costs to meet projected increases in demands. The deregulation of the electrical power industry creates additional uncertainty about the cost of imported SWP water. Current estimates are the best available at this time and the situation will continue to be monitored closely.

It should be noted that future capital costs under the State Water Contract have been revised to reflect deferral of project improvements resulting from the CALFED process. As discussed during the past several months with various Board committees, the on-line date for an isolated delta facility is expected to be delayed beyond the year 2010 to 2015. Approximately \$300 million has been deferred over the next five years.

Colorado River Supplies **\$35.0 million**

Colorado River Aqueduct deliveries to the member agencies are expected to total 1.26 million acre-feet. Power costs for pumping are estimated to be \$26.1 million. The estimates also include \$8.9 million for CRA programs to secure additional water supplies. Annual costs for the existing conservation agreement between MWD and IID account for \$7.9 million of this total. Additional investments of \$1.0 million in off-stream storage and conservation programs are also included. The revenue and cost impacts of the recently concluded agreement between San Diego County Water Authority and the Imperial Irrigation District have been included in the projections shown in Attachment A. It is assumed that the transfer and exchange will commence in fiscal year 2003-04.

Water Transfer Fund **\$10.0 million**

The Water Transfer Fund was created to provide funding for the purchase of water transfers and to accrue funds to pay for the initial fill of the Eastside Reservoir Project. Current projections are that approximately \$10 million will be deposited in the Water Transfer Fund during fiscal year 1999-00. It is estimated that \$19.2 million will be expended from the fund during 1999-00 to begin filling the reservoir. The water to be imported to begin the reservoir fill is not included in the 1.77 million acre-feet of estimated water sales for 1999-00. The total cost of filling the Eastside Reservoir Project, which will be paid from the Water Transfer Fund, is estimated to be approximately \$50 to \$70 million. Depending on hydrologic conditions, it is projected that the reservoir fill will take from 2 to 4 years. The Water Transfer Fund is scheduled to sunset in the year 2004.

Withdrawal from Water Transfer Fund for ESRP Fill (\$19.2 million)

Filling of the Eastside Reservoir is scheduled to begin in November 1999. Monies will be drawn from the Water Transfer Fund to offset additional SWP costs associated with the fill.

Water Management Programs \$30.1 million

Total funding in 1999-00 for water management programs is expected to increase \$4.7 million over current year projections to a total of \$30.1 million. This increase is due to increases in Metropolitan's conservation credits program and to higher yields from current local reclamation projects and groundwater recovery projects. Projected expenditures reflect the District's ongoing commitment to water conservation, local recycling projects, and groundwater cleanup. These estimates are consistent with efforts to develop local water supplies in cooperation with the member agencies and other local agencies through the Integrated Resources Planning (IRP) process.

MWD Capital Financing Program \$354.1 million

Financing costs include \$201.7 million in revenue bond debt service. Also included are \$58.3 million in general obligation bond debt service and \$4.2 million in interest payments on outstanding commercial paper. The revenue bond debt service and commercial paper interest projections include effects of issuing long-term fixed-rate revenue bonds to retire \$180 million of currently outstanding commercial paper, in accordance with the General Manager's recommendation to the Board by letter dated October 27, 1998. As the Board has been informed, the projected cost of the Eastside Reservoir Project has increased by about \$220 million. This may result in increased revenue bond sales and increased future revenue bond debt service of about \$13 million per year. This assumes that the increased costs will be covered by bonded debt. Projections show that these increases can be covered from the Water Rate Stabilization Fund with no effect on water rates during the planning period.

The CIP is currently being reviewed to identify projects that can be removed or deferred. Expenditures for land acquisition are also being reexamined.

Cost estimates to finance the CIP for 1999-00 also include \$90.0 million of pay-as-you-go (PAYG) expenditures from current revenues. In addition, prior-year carry-over funds will be used for PAYG during 1999-00 as determined by the Board. The use of carry-over funds will not impact revenue requirements. The total recommended PAYG expenditures for 1999-00 will be consistent with the dynamic PAYG policy recommended in the proposed Long Range Finance Plan, if adopted by the Board, and are expected to be at least 21 percent of the total 1999-00 capital program expenditures. Total 1999-00 capital program expenditures for Metropolitan's CIP (which include payments from debt proceeds held in construction funds and payments from the PAYG Fund) are estimated to be \$632.4 million.

MWD O&M and Operating Equipment**\$214.7 million**

Projected base departmental Operation and Maintenance (O&M) expenditures of \$196.7 million are at the same level as the current fiscal year. The estimate is based on an assumed two percent cost escalation over the current year budget, offset by ongoing cost containment efforts.

Estimated operating equipment purchases and other O&M expenditures, such as leases, association dues and insurance, total \$18.0 million. A detailed breakdown of projected O&M expenditures will be provided later during the development of the 1999-00 budget.

ADJUSTMENTS TO PROJECTED COSTS**Adjustments in Reserves****\$4.1 million**

During fiscal year 1999-00, an increase in restricted reserve balances of \$4.1 million will be required in accordance with revenue bond covenants and Board policies contained in Metropolitan's Administrative Code.

Headquarters Building Expenditures and Reimbursement

As previously reported to the Board, the headquarters building project is being funded on a current basis from the General Fund. The building is being funded in this manner so that debt service payments from a long-term financing will not be paid during the period that Metropolitan is making lease payments for the Two Cal Plaza office space. Staff plans to bring a recommendation for financing the headquarters building to the Board within the next few months.

PROJECTED REVENUES FOR FISCAL YEAR 1999-00**Total = \$902.2 million**

Total revenues for Fiscal Year 1999-00 are projected to be \$902.2 million. Revenue from ad valorem property taxes, levied at the same rate as in 1998-99, is estimated to be \$87.7 million. Power recoveries, interest on investments, and miscellaneous revenues are projected to produce \$54.5 million.

Revenues from the readiness-to-serve charge are projected to be \$84.0 million, an increase of \$4.0 million over the current fiscal year, in accordance with the recommendations agreed to in the rate refinement process and approved by the Board in July 1996. Approximately \$3.0 million will be collected through the connection maintenance charge.

Based on the projected expenditure estimates described above, total revenues required in 1999-00 are projected to be \$916.0 million. After accounting for the revenues projected from all other sources, required revenues from water sales are projected to be \$686.8 million. Based on the projected net use of \$13.7 million from rate stabilization funds (and actual water revenues of \$673.1 million), no increase in water rates or the treatment surcharge is needed in fiscal year 1999-00. As shown on Attachment B, no increase in the full service water rate is needed during the next three years.

ENVIRONMENTAL

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

CGP:mb

Attachment 10-1A

Attachment 10-1B

Attachment A

PROJECTED DRAFT 1999-00 REVENUE REQUIREMENTS
 (Cash Basis: \$ in thousands)

	<u>Projected</u> <u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>
Expenditures						
State Water Contract	\$ 257,337	\$ 287,103	\$ 298,970	\$ 289,136	\$ 285,174	\$ 280,269
Colorado River Aqueduct	26,504	35,009	44,775	48,174	47,872	49,793
Deposit to Transfer Fund	24,000	10,000	-	-	-	-
Withdrawal from Transfer Fund for ESRP Fill	-	(19,153)	(22,533)	(3,240)	-	-
Water Management Programs	25,417	30,106	36,659	42,791	44,702	45,457
Capital Program Financing	355,011	354,123	365,588	373,155	362,163	367,955
O&M and Operating Equipment	<u>220,500</u>	<u>214,671</u>	<u>218,925</u>	<u>223,263</u>	<u>227,688</u>	<u>238,332</u>
Sub-Total Costs	908,769	911,859	942,385	973,279	967,600	981,806
Adjustments						
Increase/(Decrease) in Required Reserves	<u>(25,755)</u>	<u>4,125</u>	<u>2,301</u>	<u>2,207</u>	<u>532</u>	<u>803</u>
Total Obligations	883,014	915,984	944,685	975,486	968,132	982,609
Less Other Revenues						
Property Taxes	(85,958)	(87,677)	(89,431)	(91,219)	(93,044)	(93,543)
Interest Income	(43,520)	(37,915)	(37,523)	(38,654)	(40,176)	(41,064)
Power and Miscellaneous Revenue	(16,648)	(16,603)	(17,053)	(17,362)	(17,486)	(17,813)
Contracts	-	-	-	-	-	(658)
Readiness to Serve Charge	(80,000)	(84,000)	(92,000)	(100,000)	(104,000)	(104,000)
Connection Maintenance Charge	<u>(3,001)</u>	<u>(2,978)</u>	<u>(2,978)</u>	<u>(2,978)</u>	<u>(2,978)</u>	<u>(2,978)</u>
Sub-Total Other Revenues	(229,127)	(229,173)	(238,985)	(250,213)	(257,684)	(260,056)
Total Water Revenue Requirement	653,887	686,811	705,701	725,273	710,448	722,553
Water Sales Revenue	600,035	673,045	704,933	757,261	786,206	803,464
Increase (Decrease) in Reserve Balances	(53,852)	(13,766)	(768)	31,989	75,758	80,911
Water Sales (Cash Year TAF)						
Basic Treated	1,005	1,047	1,073	1,147	1,175	1,193
Basic Untreated	294	332	331	358	377	382
Seasonal Treated	123	126	194	213	229	232
Seasonal Untreated	53	157	139	149	161	164
Agricultural Treated	61	85	101	109	110	109
Agricultural Untreated	<u>15</u>	<u>23</u>	<u>18</u>	<u>17</u>	<u>17</u>	<u>17</u>
Total	1,551	1,769	1,857	1,993	2,069	2,097

Note: If a financing for the Headquarters Building occurs, then the General Fund will be reimbursed.
 This will result in higher year end reserve levels.

Attachment B

PROJECTED RATES AND CHARGES (Effective January 1)
(Cash Basis: \$ in thousands)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Readiness to Serve Charge	\$ 80,000	\$ 88,000	\$ 96,000	\$ 104,000	\$ 104,000	\$ 104,000
Connection Maintenance Charge	\$ 3,001	\$ 2,978	\$ 2,978	\$ 2,978	\$ 2,978	\$ 2,978
 <u>WATER RATES (\$/AF)</u>						
Basic Treated	\$ 431	\$ 431	\$ 431	\$ 431	\$ 435	\$ 439
Basic Untreated	\$ 349	\$ 349	\$ 349	\$ 349	\$ 349	\$ 349
Seasonal Long-Term Treated	\$ 290	\$ 290	\$ 290	\$ 290	\$ 294	\$ 298
Seasonal Shift Treated	\$ 312	\$ 323	\$ 334	\$ 346	\$ 350	\$ 354
Seasonal Long-Term Untreated	\$ 233	\$ 233	\$ 233	\$ 233	\$ 233	\$ 233
Seasonal Shift Untreated	\$ 255	\$ 266	\$ 277	\$ 289	\$ 289	\$ 289
Agricultural Treated	\$ 294	\$ 294	\$ 294	\$ 294	\$ 298	\$ 302
Agricultural Untreated	\$ 236	\$ 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.