



● **Board of Directors**
Budget and Finance Committee

November 16, 1999 Board Meeting

11-2

Subject

Determination of water revenue requirements for fiscal year 2000-01.

Description

Water revenue requirements are used as the basis to set water rates and charges to be effective January 1, 2001. This is a pending letter for information. An action letter will be provided to the Board in December 1999.

In accordance with Administrative Code Section 4304(a), estimates have been prepared of the total revenues required to fund all expenditures not financed from debt proceeds and the revenues to be derived from water sales required during fiscal year 2000-01. The estimates are based on the latest information available and have been made in accordance with all applicable Board policies. Total revenues required during 2000-01 are estimated to be \$925.2 million. This is a decrease of \$3.6 million from the annual budget for the current fiscal year of \$928.8 million. Revenues required from water sales are projected to be \$694.8 million.

Projected expenditures and revenues from all sources (debt proceeds are not defined as revenues for these purposes) are shown on [Attachment 1](#). Projected water rates and charges are shown on [Attachment 2](#). Assumptions used to determine these projections are contained in this letter.

Water sales are projected to increase from 1.81 MAF in 2000-01 (an increase of 121,000 acre-feet over current year estimates) to 2.05 MAF in 2004-05. Cost estimates and changes in reserve balances contained in this letter are based on these water sales projections through 2004-05. Based on the latest information available, no increase in water rates is needed in fiscal year 2000-01. 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 2001 (\$4 million of this increase will be collected during fiscal year 2000-01).

However, variations in water sales from 2000-01 to 2004-05 will greatly impact reserve levels and changes in rates and charges. Should water sales be less than anticipated from 2000-01 to 2004-05, then the use of reserves over the period may accelerate, and reductions in costs and/or increases in rates and charges may be needed sooner than currently anticipated.

For 2000-01, sales are estimated to be 1.81 MAF. However, based on weather conditions this estimate could range from a low of about 1.60 MAF to high of about 2.00 MAF. Depending on the level of actual sales this variability could result in a draw on the reserves of about \$70 million, or an increase in the reserves of about \$100 million respectively.

MAJOR ASSUMPTIONS

The following are the major assumptions on which the expenditure and revenue requirements for fiscal year 2000-01 are based:

Water Sales Estimate	1.81 MAF
Water to Storage, Exchanges, and Losses	0.63 MAF
Supplies -- Colorado River	1.29 MAF
State Water Project	1.15 MAF

use and would not be readily available to provide additional funding of the CIP. The Water Rate Stabilization Fund although unrestricted as to use, was established by the Board to mitigate future increases in water rates, and to provide funding in periods when decreases in water revenues put pressure on the finances of the District. Based on the 1999 update of the Long Range Finance Plan, as approved by the Board, it is the policy of Metropolitan to fund the CIP with a combination of debt and pay-as-you-go (PAYG) funding. The revenue bond sales scheduled for November 1999 are consistent with this policy.

Estimates to finance the CIP for 2000-01 also include \$90.6 million of PAYG expenditures, which is a decrease of \$24.7 million of PAYG expenditures in the current fiscal year. PAYG expenditures for 2000-01 will be consistent with the PAYG policy approved by the Board through the adoption of the 1999 update to the Long Range Finance Plan. Total 2000-01 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 \$402.4 million.

MWD O&M and Operating Equipment

\$212.5 million

Projected Operation and Maintenance (O&M) and operating equipment expenditures of \$212.5 million are at approximately the same level as estimates for the current fiscal year. The flat O&M estimate for 2000-01 is a result of the re-organization, unfilled staffing vacancies, an anticipated decrease in the use of consultants, and a reduction in operating equipment purchases. Based on actual results of various cost reduction efforts, future O&M costs may be lower than projected in [Attachment 1](#). A detailed breakdown of projected O&M expenditures will be provided during the development of the 2000-01 annual budget.

Adjustments in Reserves

\$24.5 million

During fiscal year 2000-01, an increase in reserve balances of \$24.5 million will be required in accordance with revenue bond covenants and Board policies contained in Metropolitan's Administrative Code. An increase of approximately \$15.9 million will be needed in the various revenue bond payment funds mainly due to the additional debt Metropolitan plans to issue over the next ten months. Ample funds need to be on hand (on July 1) to make interest and principal payments for outstanding and projected debt obligations due July 1, 2001, and to meet revenue bond covenant requirements for debt payments after July 2001. In addition, the minimum reserve balance will need to be increased by \$6.1 million (funds transferred from the Water Rate Stabilization Fund to the Revenue Remainder Fund) in accordance with reserve policies outlined in Metropolitan's Administrative Code. Other changes in fund balances for June 30, 2001 are projected to increase by \$2.5 million (includes State Water Contract Fund, Operations and Maintenance Fund, PAYG Fund, and other funds).

PROJECTED REVENUES FOR FISCAL YEAR 2000-01

Total = \$924.3 million

Total revenues for Fiscal Year 2000-01 are projected to be \$924.3 million. Revenue from ad valorem property taxes, levied at the same rate as in 1999-00, is estimated to be \$91.8 million. Power recoveries, interest on investments, and miscellaneous revenues are projected to produce \$51.8 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. In addition, approximately \$3.0 million will be collected from the Connection Maintenance Charge.

Based on the projected expenditure estimates described above, total revenues required in 2000-01 are projected to be \$925.2 million. After accounting for the revenues projected from all other sources, required revenues from water sales are projected to be \$694.8 million. The projected use of \$0.9 million from rate stabilization funds (and actual water revenues of \$693.9 million) assumes no increase in water rates or the treatment surcharge in fiscal year 2000-01. As shown on [Attachment 2](#), the full service treated water rate is not expected to increase until 2003.

MINIMUM/MAXIMUM RESERVE POLICY

At June 30, 2001, reserve balances are projected to be within the minimum/maximum reserve levels established and approved by the Board during the adoption of the 1999 update to the Long Range Finance Plan. At the end of fiscal year 2000-01, reserves are estimated to total \$250 million, which is anticipated to be between the minimum reserve level of \$133 million and the maximum reserve level of \$316 million. If this winter is extremely wet, sales for the current year and 2000-01 could decrease by over 430,000 acre-feet from projected levels. This situation would reduce

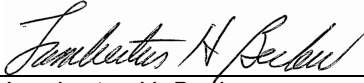

expected reserve levels by about \$142 million by the end of next year. Reserves would then be below the minimum reserve level by about \$20 million. Once reserves fall below the minimum level the Board would need to take action to replenish reserves by reducing costs and/or increasing rates.

Policy

As per 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 uses that determination for consideration of water rates and charges at its January meeting.

Fiscal Impact

The determination of water revenue requirements for 2000-01 impacts the Board's decision making process in consideration of water rates and charges to be effective January 1, 2001.

	10/28/99
Lambertus H. Becker Chief Financial Officer	Date
	11/3/99
General Manager	Date

Attachment 1: Projected 2000-01 Revenue Requirements

Attachment 2: Projected Rates and Charges (Effective January 1)

ATTACHMENT 1

PROJECTED 2000-2001 WATER REVENUE REQUIREMENTS

(Cash Basis: \$ in thousands)

	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Expenditures						
State Water Contract	\$ 265,800	\$ 287,995	\$ 304,549	\$ 298,518	\$ 297,216	\$ 292,134
Colorado River Aqueduct	33,600	60,126	60,069	59,690	55,383	56,554
Deposit to Transfer Fund	10,000	-	-	-	-	-
Withdrawal from Transfer Fund for ESRP Fill	(2,246)	(28,216)	(19,210)	(3,633)	-	-
Water Management Programs	29,797	33,231	38,502	45,676	47,571	50,177
Capital Program Financing	354,700	335,129	347,395	364,270	364,598	373,791
O&M and Operating Equipment	<u>212,501</u>	<u>212,501</u>	<u>218,582</u>	<u>218,843</u>	<u>228,661</u>	<u>233,106</u>
Sub-Total Costs	\$ 904,152	\$ 900,765	\$ 949,887	\$ 983,364	\$ 993,429	\$ 1,005,763
Adjustments						
Increase/(Decrease) in Required Reserves	<u>(17,745)</u>	<u>24,453</u>	<u>8,741</u>	<u>4,130</u>	<u>11,771</u>	<u>15,634</u>
Total Obligations	\$ 886,407	\$ 925,218	\$ 958,628	\$ 987,493	\$ 1,005,200	\$ 1,021,396
Less Other Revenues						
Property Taxes	\$ (90,000)	\$ (91,800)	\$ (93,636)	\$ (93,430)	\$ (93,543)	\$ (93,547)
Interest Income	(36,700)	(38,021)	(38,905)	(38,956)	(40,836)	(43,916)
Power and Miscellaneous Revenue	(13,400)	(13,753)	(14,062)	(14,186)	(14,513)	(14,938)
Contracts	-	-	-	-	(658)	(2,673)
Readiness to Serve Charge	(80,000)	(84,000)	(92,000)	(100,000)	(104,000)	(104,000)
Connection Maintenance Charge	<u>(2,849)</u>	<u>(2,849)</u>	<u>(2,849)</u>	<u>(2,849)</u>	<u>(2,849)</u>	<u>(2,849)</u>
Sub-Total Other Revenues	\$ (222,949)	\$ (230,422)	\$ (241,451)	\$ (249,421)	\$ (256,398)	\$ (261,923)
Total Water Revenue Requirement	\$ 663,458	\$ 694,796	\$ 717,176	\$ 738,073	\$ 748,803	\$ 759,474
Water Sales Revenue	\$ 648,559	\$ 693,899	\$ 718,005	\$ 753,260	\$ 783,074	\$ 798,813
Increase (Decrease) in Reserve Balances	(14,899)	(898)	828	15,187	34,271	39,339
Water Sales (Cash Year TAF)						
Basic Treated	1,008	1,084	1,106	1,153	1,187	1,216
Basic Untreated	336	387	395	410	426	420
Seasonal Treated	156	98	146	158	168	168
Seasonal Untreated	88	128	130	142	155	157
Agricultural Treated	83	92	81	80	81	79
Agricultural Untreated	<u>14</u>	<u>17</u>	<u>12</u>	<u>12</u>	<u>12</u>	<u>12</u>
Total	1,686	1,807	1,870	1,955	2,029	2,052
Reserve Levels						
Maximum Reserve Level	\$ 307,877	\$ 315,653	\$ 320,005	\$ 322,735	\$ 330,514	\$ 348,477
Projected Reserve Level	\$ 244,776	\$ 250,014	\$ 255,040	\$ 268,491	\$ 304,728	\$ 348,801
Minimum Reserve Level	\$ 127,242	\$ 133,377	\$ 137,575	\$ 135,839	\$ 137,805	\$ 142,538

ATTACHMENT 2
PROJECTED RATES AND CHARGES (Effective January 1)
(Cash Basis: \$ in thousands)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Readiness to Serve Charge	\$ 80,000	\$ 88,000	\$ 96,000	\$ 104,000	\$ 104,000	\$ 104,000
Connection Maintenance Charge	\$ 2,849	\$ 2,849	\$ 2,849	\$ 2,849	\$ 2,849	\$ 2,849
WATER RATES (\$/AF)						
Basic Treated	\$431	\$431	\$431	\$433	\$435	\$437
Basic Untreated	\$349	\$349	\$349	\$349	\$349	\$354
Seasonal Long-Term Treated	\$290	\$290	\$292	\$294	\$296	\$302
Seasonal Shift Treated	\$323	\$334	\$348	\$350	\$352	\$359
Seasonal Long-Term Untreated	\$233	\$233	\$233	\$233	\$233	\$237
Seasonal Shift Untreated	\$266	\$277	\$289	\$289	\$289	\$294
Agricultural Treated	\$294	\$294	\$296	\$298	\$300	\$307
Agricultural Untreated	\$236	\$236	\$236	\$236	\$236	\$241

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.