

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

January 9, 2001 Board Meeting

9-4

Subject

Authorize payments for State Water Project and Devil Canyon/Castaic contracts for 2001 statement of charges

Description

On July 1, 2000, the state Department of Water Resources (DWR) issued a statement of charges totaling \$371.1 million due calendar year 2001 under Metropolitan's State Water Service and Devil Canyon/Castaic contracts (State Water Project [SWP] contracts). Total charges for 2001 are \$16.2 million, or 4.2 percent, lower than 2000 charges. DWR has indicated it will issue a revised statement of charges in mid December that would decrease Metropolitan's charges.

Attachment 1 is a comparison of the 2000 and 2001 charges. East Branch Enlargement capital and operating charges increased in 2001 because DWR reallocated some 1991-94 Transportation capital and operating costs to SWP contractors sharing East Branch Enlargement costs. A summary and analysis of these charges were presented to the Special Audit Committee on July 18, 2000.

An independent auditor's report, verifying that the 2001 statement of charges complies with Metropolitan's SWP contracts, was completed. A copy of the summary report was forwarded to members of the Special Audit Committee for review. Copies of the summary and complete audit reports are available from the Executive Secretary.

The \$371.1 million in charges presented to Metropolitan do not include refunds and credits that typically range between \$60 - \$70 million annually. Furthermore, if Metropolitan takes delivery of less water than the amount DWR used to calculate power costs, then power charges may be lower than projected in this statement of charges. Recognizing these and other adjustments, Metropolitan budgeted \$294.6 million for fiscal year 2000-01 SWP charges.

In order to comply with the terms of its SWP contracts, Metropolitan would pay 2001 charges beginning January 2001. In case of default, the SWP contracts allow DWR to suspend SWP water deliveries and require that Metropolitan impose property taxes to recover unpaid charges.

A letter expressing the Board's concern with the value and cost of the SWP was delivered to DWR Director Hannigan in February 2000. During the past year, Metropolitan and DWR have engaged in productive dialogues regarding several issues. Metropolitan staff reported progress on efforts to increase the value of SWP assets to the Board in December 2000.

Policy

Metropolitan is committed to pay annual charges pursuant to the terms of its SWP contract. Board authorization is required for annual expenditures exceeding \$250,000. Historically, the Board has taken action to authorize the General Manager to approve and make all payments determined to be due and payable under the terms of the SWP contracts.

Staff Recommendations/Fiscal Impacts

Option #1

Authorize the General Manager to approve and make all payments determined to be due and payable under the terms of the State Water Service and Devil Canyon/Castaic contracts for the 2001 calendar year.

Fiscal Impact: Maximum payments in CY 2001 of \$371,085,556. Net calendar year payments should be lower than shown in the statement of charges because of credits, refunds, and adjustments that are not included in the annual statement. Sufficient funds are available in the fiscal year 2000-01 Operations and Maintenance Fund budget for January – June payments, and sufficient funds will be proposed in fiscal year 2001-02 for July – December payments.

Option #2

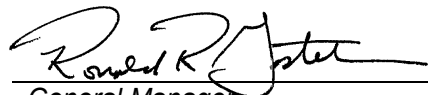
Do not authorize payments. Water deliveries to the service area and Metropolitan’s water quality blending objectives will be jeopardized because the State is permitted to suspend water deliveries as long as the default continues.

Fiscal Impact: Delay making payments of \$371,085,556. Metropolitan’s contract allows the State to compel Metropolitan to make payments by court action. Interest will be assessed on late payments at the State’s Pooled Money Investment Fund rate. Additional costs may be incurred associated with court proceedings and interest assessments.

Staff Recommendation

Option #1

	12/15/2000
Stephen N. Arakawa	<i>Date</i>
Manager, Water Resource Management	

	12/19/2000
Ronald R. Jester	<i>Date</i>
General Manager	

Attachment 1

BLA #332

**COMPARISON OF METROPOLITAN STATEMENTS OF CHARGES
FOR CYS 2001 and 2000
(\$ Thousands)**

	CY 2001	CY 2000	2001 Over/(Under) 2000	% Over/(Under) 2000
CAPITAL				
Delta Water	23,420	23,689	\$ (269)	-1.14%
Rate Reduction Credit	(6,013)	(4,538)	\$ 1,475	32.50%
Net Delta Capital	<u>\$ 17,407</u>	<u>\$ 19,151</u>	<u>\$ (1,744)</u>	<u>-9.11%</u>
Transportation with DCC	72,689	71,927	\$ 762	1.06%
Rate Reduction Credit	(12,694)	(9,573)	\$ 3,122	32.61%
Net Trans Capital	<u>\$ 59,995</u>	<u>\$ 62,354</u>	<u>\$ (2,359)</u>	<u>-3.78%</u>
EB Enlargement	42,640	27,883	\$ 14,757	52.92%
WSRB Surcharge	32,268	32,491	\$ (224)	-0.69%
TOTAL CAPITAL	<u>\$ 152,310</u>	<u>\$ 141,880</u>	<u>\$ 10,430</u>	<u>7.35%</u>
MIN OMP&R				
Delta	24,760	24,481	\$ 280	1.14%
Transportation with DCC	80,251	103,432	\$ (23,181)	-22.41%
EB Enlargement	13,032	2,950	\$ 10,083	341.85%
TOTAL MIN OMP&R	<u>\$ 118,044</u>	<u>\$ 130,862</u>	<u>\$ (12,818)</u>	<u>-9.80%</u>
POWER				
OAPF	68,636	69,887	\$ (1,251)	-1.79%
Variable Power	32,096	44,654	\$ (12,558)	-28.12%
TOTAL POWER	<u>\$ 100,732</u>	<u>\$ 114,541</u>	<u>\$ (13,810)</u>	<u>-12.06%</u>
TOTAL SWP CHARGES	<u>\$ 371,086</u>	<u>\$ 387,284</u>	<u>\$ (16,198)</u>	<u>-4.18%</u>