

- **Board of Directors**
Communications, Outreach and Legislation Committee

March 13, 2001 Board Meeting

9-9

Subject

Senate Bill 350 (Alpert)

Description

Senate Bill 350 ([Attachment 1](#)) (Alpert-Coronado) would amend the Metropolitan Water District Act to require Metropolitan to do the following:

- Establish a shorter-term reserve fund for operating purposes and the payment of principal and interest on debt.
- Set a maximum amount for all reserves by a 2/3 vote of the Board of Directors.
- Not later than October 31 of each year, refund any “surplus funds remaining from net operating revenues after satisfaction of reserve fund requirements” to the member agencies in proportion to the revenues contributed by each member agency.
- Metropolitan would be able to retain these “surplus funds” only after a public hearing and a determination that it was necessary to retain the funds to maintain the fiscal integrity of the District.
- Not later than August 31 of each year, Metropolitan would be required to prepare a report detailing the size and purpose of each reserve fund, payments made from each reserve fund during the previous fiscal year, the plan for expenditure from each reserve fund for the ensuing fiscal year, the amount of any surplus moneys remaining from operating revenues after the payment of operating expenditures, repairs and maintenance, charges for property, principal on bonded debt, and the amount of refund that will be provided to each member agency. This report would be submitted to the member agencies, the State Auditor and the offices of the Speaker of the Assembly and the President pro Tempore of the Senate.

SB 350 places additional reporting requirements on Metropolitan, while limiting the Board’s discretion to determine the best use of funds for the member agencies it represents. Further, such limitations on financial options are not imposed on other local agencies, leaving these policy calls to the local governing body. Metropolitan has only faced the circumstances addressed in the legislation two times in a ten year period. Metropolitan’s existing reserve policies were adopted by the Board of Directors only after a significant amount of debate and discussion among the Board members and the member agencies. The adopted policy provides the Board with the flexibility to determine the appropriate use of funds above the established maximum levels. Last year, these funds were used to buy down long-term debt. In 1997, the funds were credited to the member agencies in proportion to water sales revenues, excluding treatment surcharge revenues. The proposed rate structure due for implementation in 2002 addresses the issue of long-term revenues above maximum reserve requirements by rebating, or, crediting appropriate Tier II revenues

Policy

SB 350 would affect Metropolitan’s reserve policies and discretion of use of funds. Metropolitan’s existing reserve policy is outlined in Metropolitan Water District Administrative Code, Section 5202.

Board Options/Fiscal Impacts

Option #1

Oppose SB 350.

Option #2

Watch.

Staff Recommendation

Option #1. Oppose SB 350.



Brian G. Thomas
Chief Financial Officer

3/8/2001

Date



Ronald R. Foster
General Manager

3/8/2001

Date

Attachment 1 – SB 350

BLA #

Introduced by Senator Alpert

February 20, 2001

An act to add Section 125.5 to the Metropolitan Water District Act (Chapter 209 of the Statutes of 1969), relating to water.

LEGISLATIVE COUNSEL'S DIGEST

SB 350, as introduced, Alpert. Metropolitan water districts.

(1) The Metropolitan Water District Act grants to a metropolitan water district formed under the act various powers, including the authority to invest surplus funds in accordance with prescribed requirements.

This bill would authorize a district to establish reserve funds for operating purposes and payment of principle and interest on bonds or other debt instruments issued by the district and would require the maximum amount of reserve funds to be established by a resolution that is approved by at least a 2/3 vote of the board of directors. The bill would require a district, not later than October 31 of each year, to cause surplus funds remaining from net operating revenues, as specified, to be distributed to each member public agency in proportion to the amount contributed by each such agency to the total revenues of the district during the previous fiscal year, but would authorize the district to retain the surplus funds if the board determines that funds are necessary to the fiscal integrity of the district. The bill would require a district to prepare a prescribed report regarding reserve funds and to submit the report to member public agencies, the State Auditor, and the Legislature, as specified. By imposing requirements on a district with regard to the maintenance and refund of reserve funds, the bill would impose a state-mandated local program.

(2) The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement, including the creation of a State Mandates Claims Fund to pay the costs of mandates that do not exceed \$1,000,000 statewide and other procedures for claims whose statewide costs exceed \$1,000,000.

This bill would provide that, if the Commission on State Mandates determines that the bill contains costs mandated by the state, reimbursement for those costs shall be made pursuant to these statutory provisions.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: yes.

The people of the State of California do enact as follows:

1 SECTION 1. Section 125.5 is added to the Metropolitan
2 Water District Act (Chapter 209 of the Statutes of 1969), to read:
3 125.5. (a) A district may reasonably establish reserve funds
4 for operating purposes and payment of principle and interest on
5 bonds or other debt instruments issued by the district. The
6 maximum amount of all reserve funds shall be established by a
7 resolution that is approved by not less than a two-thirds vote of the
8 board of directors.

9 (b) Not later than October 31 of each year, a district shall cause
10 surplus funds remaining from net operating revenues after
11 satisfaction of reserve fund requirements, as established by
12 resolution of the board of directors, to be distributed to each of its
13 member public agencies in proportion to the amount contributed
14 by each member public agency to the total revenues of the district
15 during the previous fiscal year. A district may retain the surplus
16 funds if the board of directors of the district, following a public
17 hearing for which 30 days' notice is provided to each member
18 public agency, determines that the retention of the surplus moneys
19 is necessary to the fiscal integrity of the district.

20 (c) Each year, a district at the time of the approval of its
21 operating and capital budgets for a fiscal year, shall prepare a
22 report regarding the size and purpose of each reserve fund,
23 payments made from each reserve fund during the previous fiscal
24 year, the plan for expenditure from each reserve fund for the



1 ensuing fiscal year, the amount of any surplus moneys remaining
2 from operating revenues after the payment of operating
3 expenditures, repairs and maintenance, charges for property,
4 services or other rights acquired by the district, and interest and
5 principal on bonded debt, and the amount of refund that will be
6 provided to each member public agency from the surplus. Not later
7 than August 31 of each year, the district shall submit copies of the
8 report to member public agencies, the State Auditor and the offices
9 of the Speaker of the Assembly and the President pro Tempore of
10 the Senate.

11 SEC. 2. Notwithstanding Section 17610 of the Government
12 Code, if the Commission on State Mandates determines that this
13 act contains costs mandated by the state, reimbursement to local
14 agencies and school districts for those costs shall be made pursuant
15 to Part 7 (commencing with Section 17500) of Division 4 of Title
16 2 of the Government Code. If the statewide cost of the claim for
17 reimbursement does not exceed one million dollars (\$1,000,000),
18 reimbursement shall be made from the State Mandates Claims
19 Fund.

