

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

October 14, 2003 Board Meeting

8-2

Subject

Approve change in rate cycle process and amend Administrative Code

Description

Currently, Metropolitan's Administrative Code requires the Budget, Finance and Investment Committee to make determination of the annual costs to be paid from rates in December. The Chief Executive Officer's recommendation regarding rates and charges is presented to the Board in the next month (January). The Budget, Finance and Investment Committee holds a public hearing in February, where public comment is invited regarding the proposed rates and charges. In March, the Board takes action on the Rates and Charges to be effective nine months later on January 1.

To initiate the rate setting process, staff historically provides an information letter in November. This means that the revenue requirement is estimated almost 16 months before the rates are to be effective.

In an effort to reduce the number of board letters and steps in the rate setting cycle, and improve the revenue requirement forecast, staff recommends that the revenue requirement be presented in January, along with the Chief Executive Officer's recommended rates and charges. In this way, the Budget, Finance and Investment Committee, the member agencies, the public and the Board of Directors will have a complete cost-of-service and rate report for consideration at the January meeting. As such, the Budget, Finance and Investment Committee will make its determination of revenue requirements to be paid from rates and a recommendation of the appropriate rates and charges at its March meeting. This change in schedule still provides the same notification to the member agencies regarding Metropolitan's rates and will not change the effective date of the rates. The change simplifies the rate setting process, while providing the same two-month period for member agencies and the public to provide input on the proposed rates and charges.

Policy

As per § 4304(a) of Metropolitan's Administrative Code, the Chief Executive Officer presents his recommendation to the Budget, Finance and Investment Committee of the total revenues required to fund all expenditures not financed by debt proceeds as well as the revenues to be derived from water sales for the following fiscal year. The Budget, Finance and Investment Committee determines the revenue requirements for the following fiscal year at its December meeting. It uses that determination for consideration of water rates and charges at its January meeting, with final action in March.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed actions are not defined as a project under CEQA, because they involve continuing administrative activities such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed actions are not subject to CEQA because they involve other government fiscal activities, which do not involve any commitment to any specific project that may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed actions are not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

CEQA determination for Option #2:

None required

Board Options/Fiscal Impacts

Option #1

Adopt the CEQA determination and

- a. Eliminate the November and December revenue requirements letters.
- b. Amend Metropolitan Water District Administrative Code § 4304 (**Attachment 1**).

Fiscal Impact: None

Option #2

Retain the November and December revenue requirements letters, with no changes to Metropolitan's Administrative Code.

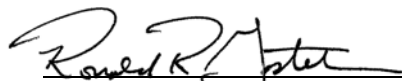
Fiscal Impact: None

Staff Recommendation

Option #1


 Brian G. Thomas
 Chief Financial Officer

9/17/2003
 Date


 Ronald R. Gastelum
 Chief Executive Officer

9/24/2003
 Date

Attachment 1 – Metropolitan Water District Administrative Code § 4304

§ 4304. Apportionment of Revenues and Setting of Water Rates and Charges to Raise Firm Revenue.

(a) Not later than at its ~~December~~ January meeting the Chief Executive Officer shall present to the Budget, Finance and Investment Committee of the Board (i) determinations of the revenue requirements and including cost of service analysis supporting the rates and charges total revenues and of the revenues to be derived from water sales and firm revenue sources, if any, required during the fiscal year beginning the following July 1 as determined by the Chief Executive Officer in accordance with current Board policies, and:

~~(b) Not later than at its December meeting the Budget, Finance and Investment Committee shall consider the Chief Executive Officer's determinations made pursuant to Section 4304(a):~~

~~(c) Not later than at its January meeting the Chief Executive Officer shall present to the Budget, Finance and Investment Committee (ii) recommendations of rates, including, but not limited to, the Ssystem Access Rate, Water Stewardship Rate, System Power Rate, Treatment Surcharge, and the Supply Rates, for the various classes of water service to become effective the following January 1. These recommended; ~~which~~ rates shall be the Chief Executive Officer's determination, made in accordance with current Board policies, of the rates necessary to produce substantially the revenues to be derived from water sales during the fiscal year beginning the following July 1. which the Budget, Finance and Investment Committee has determined to be necessary:~~

~~(d)~~ The Chief Executive Officer shall also present to the Budget, Finance and Investment Committee at its January meeting recommendations regarding the imposition of a water standby charge or an availability of service charge (such as the readiness-to-serve charge and capacity reservation charge) which charge shall be the Chief Executive Officer's determination, made in accordance with current Board policies, of the charge necessary to produce substantially the revenues to be derived from firm revenue sources, if any, exclusive of taxes, during the fiscal year beginning the following July 1 which the Budget, Finance and Investment Committee has determined to be necessary.

~~(e)~~ Not later than its January meeting the Budget, Finance and Investment Committee shall set a time or times for, and shall thereafter hold, one or more meetings of the Budget, Finance and Investment Committee to be held prior to its regular March meeting at which interested parties may present their views regarding the proposed water rates to said committee. The Budget, Finance and Investment Committee shall direct the Chief Executive Officer to cause the publication of a notice of such public hearing to be published in newspapers of general circulation within the District's service area. Such notice shall be published not less than 10 days prior to the public hearing.

~~(f)~~ The Budget, Finance and Investment Committee shall also make at its January meeting a preliminary determination of the type of firm revenue, if any, to be raised for the following fiscal year and recommend to the Board a form of resolution of intention to impose

either a water standby charge or an availability of service charge sufficient to raise such firm revenue, exclusive of taxes, to implement such determination. The committee shall also recommend to the Board that it (1) authorize and direct the Chief Executive Officer to satisfy all notice requirements for implementation of such charge and (2) set dates, times and locations for, and thereafter hold, prior to the regular April meeting, one or more adjourned meetings of the Board, for public hearings and consideration of the imposition of the charge, at which interested parties may present their views regarding the proposed charge.

(ge) At its regular March meeting the Budget, Finance and Investment Committee shall make its determination regarding the revenue requirement to be paid from water rates and the water rates to become effective the following January 1 and shall recommend said water rates to the Board at the Board's regular March meeting.

(hf) At its March meeting, the Board shall establish water rates for deliveries beginning the following January 1.

(ig) Not later than its regular May meeting, the Budget, Finance and Investment Committee shall make its final determination regarding the water standby charge or other firm revenue charge, if any, for the fiscal year beginning the following July 1, and shall recommend such charge, if any, to the Board at its regular May meeting.

(jh) Not later than its May meeting, the Board shall consider and take action upon the recommendations, if any, of the Budget, Finance and Investment Committee regarding a firm revenue source, exclusive of taxes, for the fiscal year beginning the following July 1.

(ki) Proposals for changes in water rates to become effective at times other than on January 1 shall require adequate notice to the public and a hearing before such proposals are acted upon by the Board, unless the Board finds that an immediate change in water rates is urgent.

Section 311.5 - M.I. 32924 - September 18, 1979, as clarified by M.I. 33059 - January 15, 1980; paragraph (g) [formerly Section 311.5.7] amended by M.I. 34867 - September 13, 1983. Section 311.5.7 repealed and Section 4304 adopted by M.I. 36464 - January 13, 1987, effective April 1, 1987; amended, new paragraphs (d), (f), (i) and (j) added and other paragraphs renumbered by M.I. 39976 - December 8, 1992; paragraphs (b) through (g), (i) and (j) amended by M.I. 41389 - May 9, 1995; paragraphs (a)-(d) amended by M.I. 42193 - December 10, 1996; paragraphs (b) through (g), and (i) and (j) amended by M.I. 43587 - June 8, 1999; paragraphs (a) through (k) amended by M. I. 44582 - August 20, 2001; paragraphs (a) - (g), (i), and (j) amended by M. I. 44812 - March 12, 2002.