

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

May 8, 2007 Board Meeting

9-4

Subject

Review of Metropolitan's rate structure and Long Range Finance Plan Update

Description

In February 2007, the Board requested that Metropolitan staff review and update the Long Range Finance Plan (LRFP), which was last adopted by the Board in October 2004. Specifically, the Board requested a review of financial policies, revenue enhancements, operating and maintenance cost containment initiatives, water supply alternatives, and water rate incentives.

Metropolitan staff met with member agency representatives on March 29, 2007 to initiate the review and update process. Staff and member agency managers intend to meet at least monthly while working through the LRFP update. As currently envisioned, the LRFP update process will be phased. Phase 1 of the process will consist of a review of Metropolitan's sales and costs forecasts, as well as identification of future risks and opportunities. Phase 2 will address financial policies and strategies, including reserve levels, debt policies, and capital financing strategies. Phase 3 will entail a review of revenue enhancements, such as leases, land sales, and grants.

The member agencies and the Board have also requested a review of Metropolitan's revenues. While Metropolitan's rate structure was last revised in 2003, member agencies would like to evaluate further refinements. Metropolitan's rates are based on cost of service. A fundamental concept of the cost-of-service approach is cost-causation—costs should be assigned to the member agencies that benefit from services or cause costs to be incurred. This ensures that rates and charges recover the appropriate costs and provide proper price signals to the users of the service. Metropolitan's cost-of-service study, prepared annually through the rate cycle process, ensures that costs are systematically categorized to result in rates that recover each unique service provided.

In conjunction with the 2007 LRFP update, the member agency representatives will be reviewing Metropolitan's cost-of-service methodology and resulting rates. Therefore, staff and member agency representatives propose that the LRFP update include a fourth phase to run concurrently with Phases 1 through 3, which will cover rates and charges, including options for recovery of system expansion costs, non-basic water program rates, and other rates or charges to cover different uses of Metropolitan's system.

The proposed schedule for the LRFP update is as follows:


- March: Overview/Planning
- April-May: Phase 1
- May-June: Phase 2
- July: Phase 3
- April-October: Phase 4
- November: Draft to Board
- December: Board Action

Policy

Metropolitan Water District Administrative Code Sections: 4401, Rates; 4402, Readiness-to-Serve Charge; 4403, Capacity Charge

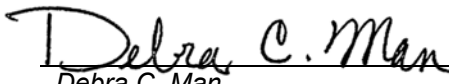
Fiscal Impact

Review of Metropolitan's rate structure should have no fiscal impact, as any proposal to change the rate structure should be revenue neutral.



Brian G. Thomas
Chief Financial Officer

4/20/2007
Date



Debra C. Man
for Jeffrey Kightlinger
General Manager

4/20/2007
Date

BLA #5405