



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

6/8/2010 Board Meeting

8-8

Subject

Approve adjustments to 2010/11 budget

Description

The 2010/11 budget was approved by board action on May 11, 2010, culminating over five months of significant input and participation by the Board and member agencies. As part of that approval, the Board requested that management restore cuts of \$2.1 million to the Conservation Credits Program and propose an alternative set of budget cuts that would ensure Metropolitan’s ability to meet its full cost of service objective within the board-adopted revenue requirement and water rates and charges structure.

As the approved 2010/11 adopted budget demonstrates, Metropolitan continues to manage its expenditure budget in order to be responsive to external cost pressures. As Table 1 shows, Metropolitan’s adopted 2010/11 budget is essentially flat as compared to 2008/09 actual expenditures despite a \$135 million increase in State Water Contract, Supply Program, and Colorado River Power costs.

Table 1. Budget Summary – Total Expenditures (Dollars in Millions)

	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget	2010/11 Revised Budget	2010/11 Budget vs. Revised
Expenditures						
State Water Contract	\$ 394.7	\$ 478.8	\$ 436.5	\$ 488.5	\$ 488.5	\$ -
Supply Programs	84.1	125.5	117.1	103.2	101.4	(1.7)
Colorado River Power	37.4	49.8	45.0	59.6	59.6	-
Debt Service	287.1	330.7	304.1	338.9	338.9	-
Demand Management	75.6	59.8	68.2	56.2	58.4	2.1
Departmental O&M	291.5	289.3	294.2	295.2	294.8	(0.4)
Treatment Chemicals, Solids & Power	28.4	32.8	29.5	26.5	26.5	-
Other O&M	24.8	18.7	15.8	15.3	15.3	-
Sub-total Expenditures	1,223.6	1,385.5	1,310.4	1,383.5	1,383.5	-
Capital Investment Plan	416.7	412.1	300.3	259.9	259.9	-
Total Expenditures	\$ 1,640.3	\$ 1,797.6	\$ 1,610.7	\$ 1,643.4	\$ 1,643.4	\$ -

Totals may not foot due to rounding.

Budget Reduction Alternatives

As a result of the Board’s direction to identify and propose alternatives to reductions of \$2.1 million to the Conservation Credits Program, staff again reviewed the budget and the underlying assumptions used in its preparation and identified the following options:

- a. **Reduce Water Transfers** – The initial budget includes \$103.2 million in funding for water transfers on the Colorado and State Water Project (SWP). This funding was included in the budget to reflect an

anticipated reduction in the SWP allocation. In light of the upward revision of Metropolitan's SWP allocation, reducing water transfer expenditures to reflect higher pumping of Table A is appropriate.

- b. Reduce Operations & Maintenance (O&M)** – Before any further reductions, the O&M budget is \$7.6 million less than 2008/09 actual expenditures and \$2.4 million less than projected for 2009/10. In addition to the reduction in water supply, the following cuts were made:
- **Reduce travel expenditure by \$200,000** – All travel expenses have been reviewed, and cuts in inspection trips and other travel and meeting-related travel expenses throughout Metropolitan totaling \$200,000 have been made. This reduces the travel related expenses to \$2.2 million.
 - **Reduce consulting costs by \$200,000** – A variety of contracts will be reduced including information technology, financial services, real property services, and employee recruiting costs.

Policy

Metropolitan Water District Administrative Code Section 5107: Annual Budget

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2:

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 the creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines). For those anticipated projects listed in the budget that may require subsequent board approval, a CEQA review will be carried out and, if appropriate, environmental documentation for such projects will be prepared and processed in accordance with CEQA and 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.

Board Options

Option #1

Adopt the CEQA determination and reduce the 2010/11 budget expenditures as outlined in this letter.

Fiscal Impact: \$2.1 million in fiscal year 2010/11 for water transfers and consulting services

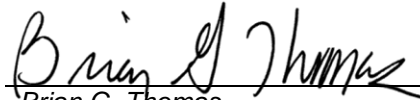
Business Analysis: Funding action necessary for the continuing business operations of Metropolitan to meet its full cost of service objective

Option #2

Adopt the CEQA determination and direct staff to take other action to manage the 2010/11 budget.

Staff Recommendation

Option #1



Brian G. Thomas
Chief Financial Officer

5/27/2010

Date



Jeffrey Kightlinger
General Manager

5/27/2010

Date

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