

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

September 30, 1992

To: Board of Directors (Special Budget Committee--Information)

From: General Manager

Subject: 1993-94 Cost and Revenue Alternatives

Report

At the meeting of the Special Budget Committee held on September 22, 1992, staff presented updated cost projections and alternative methods of raising revenues for fiscal year 1993-94. A report was also made on the impact of cost cutting measures implemented last year and continuing into the current fiscal year.

After reviewing staff's updated cost projections, the Committee requested that alternatives be prepared of cost and revenue options that result in a basic water rate increase for 1993-94 in the range of 20 to 22 percent. Table 1 attached to this letter shows the results of staff's analysis. Under the various revenue alternatives, cost reductions ranging from \$18.4 million to \$89.4 million would be required to reduce the projected water rate increase from \$112 to \$57 per acre-foot (a 21 percent increase over the current untreated noninterruptible rate of \$269 per acre-foot).

Alternatives A and B reflect the Board's objective of raising \$50 million in firm revenues. Specifically, these alternatives assume that no revenue will come from connection fees in 1993-94; that either a standby charge of \$10 per acre or parcel less than an acre, or a service charge will generate \$50 million; that property taxes will be levied at the same tax rate as in 1992-93; and that cost reductions of \$64.4 million would be achieved. All the alternatives assume full use of water rate stabilization funds by the end of 1993-94. The resulting water rate increase for each alternative is \$57 per acre-foot for untreated noninterruptible service.

It should be noted that if the cost reductions are achieved by decreasing pay-as-you-go construction, the financial projections for future years will be adjusted to compensate so that over a number of years the Board's objective of financing 20 percent of the capital program from current revenues will be accomplished. This is the assumption used to prepare the 10-year rate projections shown on Table 2. In accordance with the Committee's request, Table 2 also reflects a rebuilding of the Water Rate Stabilization Fund beginning in 1996-97. Table 3 shows the estimated effect at the retail level of a \$57 per acre-foot water rate increase, together with the projected \$13 per acre-foot increase in the water treatment surcharge. On average, the increased cost to a household would be about \$1.46 per month. For each 100 gallons of water the increased cost would be about \$0.02.

Regarding the cost cutting measures implemented last year, the Special Budget Committee members expressed concern that the cost reductions could have undesirable long-range effects on the operations and maintenance of the District. To address this issue, the 1993-94 budget will include a plan outlining the timing and method of accomplishing deferred activities. Staff will continue to develop and implement methods which increase the effectiveness and efficiency of District operations.

Over the past several years, it has been possible to improve the efficiency of the District and manage the growth in personnel through procedural changes, reorganizations and automation. Examples include development and implementation of a maintenance management system for the chemical feed equipment at all filtration and pump plants, implementation of automated drafting systems, development of standard specifications, use of automated survey equipment, automation of the purchasing process and development of a draft system, new procedures for acquiring and managing the District's vehicle fleet, coordination of invoice tracking to reduce the average invoice payment time, and electronic processing of federal and state payroll tax deposits. The 1993-94 budget will incorporate a comprehensive discussion of efficiencies which have been achieved over the past three years.

Board Committee Assignments

This letter is referred to the Special Budget Committee for information pursuant to its authority to review information that affects the annual budget under Administrative Code Section 2531.

Recommendation

SPECIAL BUDGET COMMITTEE

For information only.


Carl Boronkay

CGP/MCF:jg

TABLE 1

ALTERNATIVES FOR SETTING WATER RATES FOR 1993-94 (1)(2)

ALTERNATIVES								
	A	B	C	D	E	F	G	H
CONNECTION FEES	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$17M (4)
STANDBY CHARGES	\$10 PER PARCEL (\$50M)	\$0	\$5 PER PARCEL (\$25M)	\$10 PER PARCEL (\$50M)	\$0	\$17 PER PARCEL (\$85M)	\$17 PER PARCEL (\$85M)	\$10 PER PARCEL (\$50M)
SERVICE CHARGES (3)	\$0	\$50M	\$0	\$0	\$85M	\$0	\$0	\$0
TAXES	SAME .0089% (\$94M)	SAME .0089% (\$94M)	SAME .0089% (\$94M)	INCREASE TO .0117% (\$105M)	SAME .0089% (\$94M)	SAME .0089% (\$94M)	INCREASE TO .0117% (\$105M)	SAME .0089% (\$94M)
COST REDUCTIONS/ SHIFTS TO BOND FUNDING	\$64.4M	\$64.4M	\$89.4M	\$53.4M	\$29.4M	\$29.4M	\$18.4M	\$47.4M
USE OF STABILIZATION FUNDS	\$66M	\$66M	\$66M	\$66M	\$66M	\$66M	\$66M	\$66M
UNTREATED NONINTERRUPTIBLE RATE INCREASE PER ACRE-FOOT	\$57/AF	\$57/AF	\$57/AF	\$57/AF	\$57/AF	\$57/AF	\$57/AF	\$57/AF

Notes:

- 1) Cost and revenue projections are the same as those used for the 1992 Revenue Bond Issue Official Statement with the exception of power costs on the CRA and SWP.
- 2) Cost and revenue projections will be updated for the November 1992 draft water revenue requirements Board letter.
- 3) Service charges would be imposed directly on member agencies and can be allocated based on water deliveries, service connection capacity; acreage; property parcels; population, and assessed valuation, or a combination thereof.
- 4) Assumes one-half year of collections from connection fees.

TABLE 2

PROJECTED WATER RATES 1992-93 TO 2002-03 (\$ IN THOUSANDS)											
	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
PROJECTED WATER SALES (1,000 AF)	2,014	2,058	2,192	2,306	2,317	2,363	2,410	2,456	2,495	2,525	2,550
REQUIRED WATER REVENUE (1)	\$636,800	\$742,772	\$890,778	\$1,129,746	\$1,189,463	\$1,243,795	\$1,291,462	\$1,323,443	\$1,393,597	\$1,380,621	\$1,495,859
(USE)/BUILD-UP OF STABILIZATION FUNDS	(\$96,122)	(\$66,000)	\$0	\$0	\$8,000	\$9,500	\$9,700	\$19,800	\$4,800	\$47,000	\$1,200
UNTREATED NONINTERRUPTIBLE WATER RATE (PER ACRE-FOOT) (2)	\$269	\$326	\$395	\$479	\$494	\$504	\$504	\$504	\$514	\$516	\$537
INCREASE OVER PRIOR YEAR	\$47	\$57	\$69	\$84	\$15	\$10	\$0	\$0	\$10	\$2	\$21
TREATMENT SURCHARGE (PER ACRE FOOT)	\$53	\$66	\$84	\$84	\$87	\$92	\$107	\$118	\$126	\$128	\$134
INCREASE OVER PRIOR YEAR	\$14	\$13	\$18	\$0	\$3	\$5	\$15	\$11	\$8	\$2	\$6
ADDITIONAL REVENUE	\$25,000	\$50,000	\$85,000	\$95,000	\$105,000	\$115,000	\$125,000	\$125,000	\$125,000	\$125,000	\$125,000
COST REDUCTIONS	\$0	\$64,400	\$19,300	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
PAYG ADJUSTMENTS (3)	\$0	\$0	\$0	\$38,100	\$25,200	\$0	\$19,900	\$29,600	\$0	\$0	\$0
PROJECTED DEBT/EQUITY	.53	.50	.71	.75	.81	.90	.93	.92	.91	.87	.87
(1) NET OF ADDITIONAL REVENUES, COST REDUCTIONS, AND PAYG ADJUSTMENTS IN SPECIFIED YEARS.											
(2) ASSUMES A 21.17 PERCENT ANNUAL RATE INCREASE FOR 1993-94, 1994-95, AND 1995-96.											
(3) ASSUMES ANNUAL PAYG EXPENDITURES BELOW 20 PERCENT OF THE CAPITAL IMPROVEMENT PROGRAM ARE MADE UP IN LATER YEARS.											

ASSUMPTIONS

NO INTERRUPTIBLE SALES

SEASONAL RATE HAS A CONSTANT DIFFERENTIAL OF \$101/AF

SEASONAL SALES REPRESENT 25 PERCENT OF TOTAL SALES

MINOR DIFFERENCES ARE DUE TO ROUNDING

TABLE 3

**ESTIMATED RETAIL EFFECT OF A \$57 PER ACRE-FOOT MWD WATER RATE INCREASE
AND A \$13 PER ACRE-FOOT INCREASE IN THE WATER TREATMENT SURCHARGE**

30-Sep-92

MEMBER AGENCIES	Percent of Water Supply Purchased From MWD	Increased Cost to Average Household Per Month	Increased Cost per 100 Gallons of Water
Average for All Member Agencies	50%	\$1.46	\$0.02
LOS ANGELES CO.			
Beverly Hills	100%	\$2.92	\$0.02
Burbank	100%	2.92	0.02
Central Basin	36%	1.05	0.02
Compton	53%	1.55	0.02
Foothill MWD	60%	1.75	0.02
Glendale	80%	2.33	0.02
Las Virgenes	100%	2.92	0.02
Long Beach	60%	1.75	0.02
Los Angeles	46%	1.34	0.02
Pasadena	60%	1.75	0.02
San Fernando	25%	0.73	0.02
San Marino	10%	0.29	0.02
Santa Monica	50%	1.46	0.02
Three Valleys	60%	1.75	0.02
Torrance	85%	2.48	0.02
Upper San Gabriel	5%	0.15	0.02
West Basin	80%	2.33	0.02
ORANGE CO.			
Anaheim	30%	\$0.88	\$0.02
Coastal	98%	2.86	0.02
Fullerton	30%	0.88	0.02
Santa Ana	30%	0.88	0.02
MWD of Orange Co.	60%	1.75	0.02
RIVERSIDE CO.			
Eastern MWD	80%	\$2.33	\$0.02
Western MWD	24%	0.70	0.02
SAN BERNARDINO CO.			
Chino Basin MWD	30%	\$0.88	\$0.02
SAN DIEGO CO.			
San Diego CWA	90%	\$2.63	\$0.02
VENTURA CO.			
Calleguas MWD	76%	\$2.22	\$0.02