

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

November 24, 1992

*To:* Board of Directors (Water Problems Committee--Information)  
Board of Directors (Finance & Insurance Committee--Information)

*From:* General Manager

*Subject:* Revenue Design Study Action Plan

**Report**

Transmitted herewith is an action plan to consider the recommendations contained in the Revenue Design Study prepared earlier this year by Black and Veatch, et al. The study responded to the need to review Metropolitan's revenue and rate policies which coincided with legislation (AB 1794) introduced by Assemblywoman Gwen Moore. In addition to the issues in the legislation, the study addressed financial conditions brought on by the drought and the on-going capital improvement program.

The study provided an objective framework from which staff has developed an action plan to address the District's revenue structure. There were 41 recommendations contained in the report. The action plan lists each recommendation, the work scheduled to be performed, and an anticipated completion date.

The main sections of the study examined revenues and the revenue program, capital financing, alternative water rate structures, and water management policies. The revenue/capital financing recommendations will be analyzed as part of an update of the Long-Range Finance Plan (LRFP) which is scheduled to be completed in May 1993. As the modified sections are completed, they will be brought to your Board for consideration before inclusion into the LRFP.

The other major component of the study addressed alternative rate structures. A task force has been established to examine the water rate structure. This task force will also be reviewing the District's water management programs. It is anticipated that a rate reform package will be ready for Board consideration by February 1994. As part of this process, input from the member agencies will be solicited. A separate Board letter entitled Water Rate Structure discusses this effort in more detail.

Board Committee Assignments

This letter was referred to:

The Finance and Insurance Committee pursuant to its authority to determine revenues to be obtained through sales of water under Administrative Code Section 2441(e).

The Water Problems Committee pursuant to its authority to determine the selling prices of water under Administrative Code Section 2481(c).

Recommendation

For information only.

  
Carl Boronkay

AMA:MCF/JG

Attachment

## REVENUE DESIGN STUDY ACTION PLAN

### Recommendation

### Action Plan / Due Date

#### Background Section

1. Evaluate each water management program objective.
2. Analyze success of water management programs.
3. Evaluate level of incentives of water management programs and consider long-term impact on rates.
4. Explore use of dedicated funding sources for each water management program.

For items 1 through 4, (1) a technical memorandum will be prepared outlining criteria for evaluating and measuring water management programs. This criteria will be applied to each water management program.

**Due Date: June 1993**

(2) Evaluations will be conducted as part of the water rate structure analysis.

**Due Date: February 1994**

#### Water Demand and Supply

1. Use of Probability matrix for forecasting water supply and demand.

The probability matrix is already being used in forecasts. Regional demands are adjusted to reflect climatic variability and probability of occurrence, based on a 64-year record of climate. Projections for local supplies and their associated probabilities of occurrence are based on historic data, long-term hydrology and regulatory constraints. The demands on Metropolitan and their associated probabilities are estimated by incorporating Metropolitan's projected Colorado River and State Project water. **Due Date: Already Completed**

Recommendation

Action Plan / Due Date

2. Use of mass diagram approach to size a component of working capital.

This issue is being addressed as part of an on-going study that will address the appropriate level of working capital. A service-area water demand and supply model to project water sales volumes which can be converted to dollars at current rates for estimating a component of the working capital fund will be examined.

**Due Date: May 1993**

3. Base a working capital reserve on a 500,000 acre-foot shortfall in sales.

Issue is being addressed as part of an on-going study that will address the appropriate level of working capital.

**Due Date: May 1993**

Revenue Sources

1. Minimize emphasis on fixed and variable revenue. The price of water should reflect the cost.

The appropriate emphasis on fixed and variable revenue is being evaluated and will be addressed in the update to the Long-Range Finance Plan.

**Due Date: May 1993**

2. Achieve revenue stability through revenue diversity, rate structuring, and Rate Stabilization funds.

These issues will be addressed as part of the update of the Long-Range Finance Plan and the rate structure task force report.

**Due Date: May 1993/June 1994**

3. Working capital reserves should consist of funds for emergency repairs and claims, a shortfall in water sales, and normal utility working capital.

This issue is being addressed as part of an on-going study that will determine the appropriate level of working capital.

**Due Date: May 1993**

Recommendation

4. Do not budget for restoration of the stabilization funds. Up to \$100 million could be reserved.
5. Revise PAYGO policy. Funding should be provided by a dedicated revenue source, not water rates.
6. Adopt a policy which requires new development to pay for new facilities.
7. Seek legal authority to require connection charges to be paid.
8. Maximum legal connection charge should be calculated based on the cost of a program to provide capacity for new development.
9. Set connection charge after consideration of the legal maximum amounts, the cost of additional capacity, its planned facility construction program, alternative funding sources, and the burden of the fees on new development.

Action Plan / Due Date

This issue is being addressed in the update of the Long-Range Financial Plan and will form the basis for recommending a policy for Board adoption. **Due Date: May 1993**

The PAYGO policy is currently being examined as part of the update of the Long-Range Finance Plan. A dedicated revenue source is one of the options being examined.

**Due Date: May 1993**

Preliminary financial policy principles are currently being drafted for the Board's consideration. One principle proposes that Metropolitan seek authority for a capital facility fee which would be paid by new development to support facility construction required to meet the needs of projected growth. Final financial policy principles will be recommended for the Board's adoption.

**Due Date: May 1993**

For items 7 through 11, these issues are pending before the Special Committee on Legislation.

**Due Date: Pending**

Recommendation

Action Plan / Due Date

10. Connection charges are paid at the time of, and as a condition of, connection to a water system. The charge should be based on the size of the water meter installed.
11. A mechanism to collect the connection charges should be established.
12. All available revenue sources should be utilized for next several years.

For items 7 through 11, these issues are pending before the Special Committee on Legislation.

**Due Date: Pending**

This matter is being addressed in the update to the Long-Range Finance Plan.

**Due Date: May 1993**

CAPITAL FINANCING

1. Legally determine that issuance of COP's is not subject to revenue bond debt/equity limitations.
2. Consider Board adoption of long-term (10 years or longer) CIP.
3. Metropolitan should maintain its continuing dialogue with the rating agencies as the CIP plan is implemented.
4. Consider the use of surety policies in place of fully funded debt service reserve funds.

The District has been advised by the bond counsel that COP's are not subject to revenue bond debt/equity limitations.

**No action necessary**

Policy principles for implementing capital projects and the timing of such implementation are currently being drafted for the Board's consideration.

**Due Date: May 1993**

This process is in effect and will be maintained.

**On-going**

This is a standard practice of the District.

**On-going**

Recommendation

Action Plan / Due Date

5. Consider shortening the maturity on some future debt issues to 20 or 25 years.
6. Metropolitan should retain its current general obligation bonding capacity unless additional G.O. approval is obtained.

Each bond sale is analyzed to determine market conditions and appropriate yield curve, used to establish bond maturity dates. The last sale included serial bonds that had a 17 year maturity and term bonds with maturities ranging from 21 - 28 years.

**On-going**

This has been the District's policy for quite sometime.

**No additional action necessary**

Revenue Program

1. Increase level of integration of its financial planning models to cover a ten-year period and link CIP planning to financing and rate requirements.
2. Financial information presented to the Board should clearly demonstrate the short-term and long-term water rate impacts of alternatives.
3. Working capital reserve with a balance based on a potential decrease in sales totalling 500,000 acre-feet, adequate emergency reserves, and a routine working capital allowance should be established.

The link between financial planning and CIP planning is being addressed in the update to the Long-Range Finance plan.

**Due Date: May 1993**

This is a common practice on the part of staff. However, increased emphasis will be placed on clearly showing the short-term and long-term water rate impacts of financial alternatives presented to the Board.

**On-going**

This issue is being addressed as part of an on-going study that would address the appropriate level of working capital for the District.

**Due Date: May 1993**

Recommendation

Action Plan / Due Date

4. Closely monitor revenues and expenditures until working capital reserves can be fully funded.
5. Rate setting should not be tied strictly to annual revenue requirements. Efforts should be made to use reserves to smooth rate adjustments, not avoid their need.

This is an on-going process and will be more closely examined in the analysis of annual revenue requirements and the update to the Long-Range Finance plan.

**Due Date: May 1993**

This issue is being addressed in the update to the District's Long-Range Financial Plan.

**Due Date: May 1993**

Alternative Rate Structures

1. Metropolitan should explore implementation of a rate form which recognizes both the volume of water purchased and the peak demand placed on its system.
2. A detailed cost allocation study should be undertaken to determine appropriate, cost-based commodity-demand rate structures.
3. Commodity demand rates should be phased in.

For items 1 thru 3, (1) prepare two technical memoranda that would explore alternative rate structures such as commodity-demand rate structures, the applicability of the the rates for Metropolitan, and their effect on member agencies.

**Due Date: December 1993**

(2) A task force has been established to develop a water rate structure that will provide for a stable water rate while securing revenues and retaining operating flexibility.

**Due Date: February 1994**

Equity Consideration

1. The policy for amortizing on-aqueduct costs of the State Water Project should be evaluated.

The Controller will review existing amortization policy and take necessary steps, based on result of the analysis and input from internal and external auditors.

**Due Date: June 1993**



Recommendation

2. Participation Rights of the Santa Margarita Project should be amortized using a straight-line basis.
3. The current procedures for tracking and evaluating land inventory should be refined. Assets which are of lesser or marginal use should be considered for sale, lease, or other alternative use.

Budgeting

1. Metropolitan should prepare for adoption of a formal ten-year financial plan which includes both operating expenditures and capital projects.
2. Managers should be kept informed regarding regulatory requirements affecting worker productivity and personnel requirements.
3. Maintenance procedures should be reviewed and the budget revised to increase preventive and predictive maintenance activities.

Action Plan / Due Date

Controller will review and recommend changes as necessary.

**Due Date: June 1993**

Currently using J. M. Montgomery as consultant, to enhance land tracking procedures. Project will result in an automated land management system. Retained Marmac, Inc. to help dispose surplus items acquired through current capital projects. Working on a detailed action plan to evaluate existing surplus land.

**Due Date: January 1993**

As part of the update to the Long-Range Finance Plan, it is proposed to develop a formal ten-year financial and capital improvement plan that would measure the impact of capital projects on operating expenditures and rate structures.

**Due Date: May 1993**

Identify, evaluate, monitor and communicate pertinent requirements of impacts and compliance strategies for proposed and existing environmental, safety and health laws and regulations. Promote and facilitate compliance through development of policies, procedures and presentations to District staff.

**Due Date: Inventory - March 1993**

Complete survey of all equipment under the Maintenance Management System. Survey will determine what needs to be maintained and how it should be maintained. Survey will serve as a basis for determining staff needs for maintenance. Five filtration and pumping plants have been completed. **Due: December 1993**

Recommendations

4. The budget process should continue to be automated to facilitate its preparations within the required time constraints.
  
5. Divisions should be encouraged to submit requests to Engineering for capital projects as their need is identified.

Action Plan / Due Date

On-going participation in the ISD Phase Zero project should ensure a comprehensive system that will meet the long-term budget needs of MWD.

**On-going**

The Engineering Division distributes an annual memo requesting all division heads to identify any new capital projects by September of each year. This is discussed periodically at division manager meetings, as required.

**Due Date: Annually**

(revedespln)