

WEST BASIN MUNICIPAL WATER DISTRICT

OCTOBER 16, 2003 - Finance

Little, Kwan

OCTOBER 27, 2003 - Board Meeting

Prepared by: Fernando Paludi

Submitted by: Paul E. Shoenberger

Approved by: Darryl G. Miller

ACTION CALENDAR

MWD FY 2002-03 EXCESS REVENUES
ALTERNATIVE PROPOSAL FOR DISPOSITION

SUMMARY:

The Metropolitan Water District (MWD) collected \$36.3 million above its maximum reserve levels as a result of higher than budgeted water sales during fiscal year 2003-04. MWD's Board of Directors has discretion over the disposition of such "excess revenues", and action will be considered at the Board's November meeting.

MWD Board options (see Exhibit "A") are consistent with past actions regarding the same issue: 1) pay down existing debt to reduce rate increases over the next four years; 2) pay for capital projects instead of issuing new debt; or 3) return funds to member agencies as a credit on their water bills. MWD's staff recommendation is to pay down existing debt.

The Northern Caucus of member agency managers have proposed an alternative concept for inclusion as a fourth option for consideration by the Board. The Northern Caucus includes Calleguas MWD, Las Virgenes MWD, Foothill MWD, Upper San Gabriel Valley MWD, Three Valleys MWD, Inland Empire Utilities Agency, and the Cities of Burbank, Pasadena, Glendale, and San Marino. They propose that MWD hold each member agency's pro-rata share of the excess revenues in individual accounts that can be accessed for "long-term water resource projects" that will contribute to the development of local resources and thus, regional reliability. One possible way for MWD to administer these accounts would be to release funds to a member agency from their account contingent upon receipt of a certified letter or resolution from the member agency's governing body listing the project(s) that the funding would be applied to. The Northern Caucus has requested the Districts support for this "Local Resources Option" at MWD.

Staff Analysis

The Local Resources Option provides an acceptable method for ensuring that money collected from water ratepayers returns to something relevant within their service areas. Among the issues that member agencies, particularly the cities, have with crediting water bills are: 1) credits result in general fund budget savings that are not earmarked for specific projects or purposes or even a water function; and 2) the amount of credit to each individual ratepayer (if the retail agency passes it through) is trivial. Through the proposed member agency accounts, the excess revenues would provide desperately needed funding for more local resource development that benefits current and future ratepayers locally and regionally.

Debt reduction would provide a benefit through smaller MWD rate increases over the next four years. However, the estimated \$4 per acre-foot reduction could be as little as 20% of the average rate increase projected over this period. There is also disagreement among member agencies as to the equity in using current revenues to reduce service on debt used for projects that mostly benefit future generation of ratepayers.

It appears that the Local Resource Option will be supported, at a minimum, by Los Angeles, San Diego and all members of the Northern Caucus except Las Virgenes MWD -- representing adequate voting strength on the MWD Board to garner approval.

Should the MWD Board approve this alternative, the District would have several options for applying the funds in its account towards local resource development to improve both local drought-proofing and regional supply reliability. Among these options are recycled water system improvements, new and/or existing conservation program seed money, and conjunctive use feasibility studies.

FISCAL IMPACTS:

The District's share of the total MWD fiscal year 2002-03 revenue in excess of maximum reserves is 7.3%, or approximately \$2.65 million.

ENVIRONMENTAL COMPLIANCE:

Not applicable.

COMMITTEE STATUS:

This item was reviewed by the Finance Committee on October 16, 2003 and recommended for approval at the October 27, 2003 Board meeting.

RECOMMENDED MOTION:

That the Board directs its representatives of the Metropolitan Water District to support an option for disposition of FY 2003-04 revenues above maximum reserves that holds each member agency's pro-rata share in individual accounts intended for funding of local resource projects.

LIST OF EXHIBITS:

Exhibit "A" - Pending Letter 11-1