



WEST BASIN MUNICIPAL WATER DISTRICT
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AGENDA NO. 5

AUGUST 13, 2010 – Water Resources
Little (Chair), Gray
AUGUST 23, 2010 – Board Meeting
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INFORMATION CALENDAR

METROPOLITAN WATER DISTRICT ACTIVITIES REPORT

SUMMARY:

This report on Metropolitan Water District of Southern California (MWD) issues is intended to brief the Board on activities and issues relevant to West Basin Municipal Water District (West Basin) and its customer agencies. The first section, "On-Going Issues," is a status update on current studies, reports, and/or policy work groups that staff is involved with. The second section, "Current Month's Issues," is a report on noteworthy items that are being covered at the current month's MWD Board meeting. The last section, "Upcoming Issues," is a preview of forthcoming issues important to West Basin. This format is intended to keep the Board informed about current and future items at MWD in order to provide direction to staff and its MWD representatives in a timely manner, if required.

ON-GOING ISSUES

Water Supply Update and Allocation Plan

Background: The Water Supply Allocation Plan (WSAP) policy was adopted by the MWD Board in February 2008. In April 2009, the Board took action to declare a regional shortage and implement the WSAP at a Regional Shortage Level 2 for Fiscal Year (FY) 2009-10. Reductions in retail demands in the MWD service area exceeded expectations during over the course of the first allocation period. The Board voted again in April 2010 to continue the State 2 allocation for another year, effective July 1, 2010.

Update: MWD's WSAP remains in effect for the current FY at Stage 2, although MWD is projecting that 300,000-500,000 acre-feet and potentially more will be placed in regional storage accounts including Diamond Valley Lake. In August, the MWD Board will consider approval of several changes to the WSAP, effective beginning this allocation period. The proposed changes include:

- Including the Retail Impact Adjustment in Regional Shortage Levels 1 & 2 (previously only applied to Levels 3 and above);
- Revising the Extraordinary Supply methodology;
- Including a minimum per capita water-use threshold;
- Excluding seawater barrier deliveries from the WSAP formula and allocate separately;

- Changes in terminology, including removal of references to both “gains and losses of local supply” and “Regional Shortage Percentage.”

These proposed changes would not adversely impact West Basin’s allocation from MWD; rather, the changes would likely increase our allocation and help simplify the implementation of the WSAP.

Two-Year Budget Process

Background: During the recent Board deliberations over the FY 2010-11 Budget and the two-year rate increase (2011 & 2012), MWD’s Chief Financial Officer (CFO) was directed to transition to a two-year budget cycle.

Update: On July 27, the Board held a workshop where the CFO presented a preliminary Calendar Year (CY) 2011-12 Budget and Assumptions as a first step towards a two-year budget. Typically, the budgeting process begins in December; however, since the Board adopted two consecutive annual rate increases in April, staff is able to project revenue through 2012 given water sales assumptions, and structure a preliminary budget much earlier in the year. The preliminary FY 2011-12 Budget is based on the following assumptions:

- \$1.84 billion in total expenditures;
- \$341 million capital program;
- Two-million acre-feet of sales;
- Operations and Maintenance Budget includes no Cost-of-Living Adjustment (COLA) and 3.5% inflation;
- \$10 million of Other Post Employment Benefits (OPEB);
- PAYGO funding of capital program at \$125 million; and
- Meets cost-of-service and debt coverage targets.

The adoption of the consecutive 7.5% rate increases was contingent upon water sales staying within a certain range over the next two years. The CFO’s analysis shows that a dip in water sales of 10% (1.8 million acre-feet [MAF]) below budget in 2011-12 could be mitigated by drawing from reserves. If 1.8 MAF were to be the norm over the next five years, higher rate increases than the 5% projected for 2013–15 will need to be considered.

According to the CFO’s proposed schedule, FY 2011-12 and 2012-13 will be a transition period, with the first true two-year budget cycle beginning in January 2013 for the FY 2013-14 and 2014-15 Budgets.

Integrated Resources Plan (IRP) Update

Background: The original Integrated Resources Plan (IRP) was developed in 1994 and has served as a blueprint for long-term water resource planning for MWD and its member agencies. The 1994 Plan was updated but not re-evaluated in 2003. The 2009/10 IRP, which will not be completed until Fall

2010, will be a new plan that addresses a set of challenges to imported water sources not present in 1994. The 2010 Update is scheduled for Board consideration and approval in October.

Update: The draft 2010 IRP was released in late July. A second round of Stakeholder Forums is scheduled for August and the local forum is August 12 at MWD's headquarters in Los Angeles. In addition to setting resource development targets for MWD and the member agencies over the next 25 years, the adoption of this IRP is significant because it is based on an "enhanced regional" role for MWD that calls for direct involvement in local resource development where necessary. This role for MWD could go beyond merely providing financial incentives to local agencies, and include capital financing of projects, solely or in partnership with other agencies, and ownership of the resource. While this role for MWD certainly can be accommodated within the 1952 "Laguna Declaration" policy of being responsible for meeting the needs of the region, it would nonetheless be an enhancement of the current practice.

CURRENT MONTH'S ISSUES

The following key items will be heard at the July Committee and Board meetings:

- Review Rate Structure Integrity provisions of conservation and Local Resources Program funding agreements with San Diego County Water Authority and consider initiation of termination proceedings;
- Authorize one-year water exchange agreement with Westlands Water District;
- Authorize water transfer agreement with San Luis Water District and Westlands Water District;
- Authorize the program to store water with member agencies during the FY 2011-12 allocation; and
- Approve adjustments to MWD's WSAP.

UPCOMING ISSUES

The following key items have been identified as upcoming issues at MWD's Committee and Board meetings:

- Review opt-in/opt-out approach for MWD's Conservation Program;
- Report on development of Bi-National Water Management Proposal;
- Policy principles on implementing Article 15(d) of MWD's State Water Contract; and
- Review and consider action on Long-Term Conservation Program.

STRATEGIC BUSINESS PLAN IMPLEMENTATION:

Goal 1: Water Reliability – West Basin is committed to innovative planning and investments to provide water supply reliability and drought protection.

Goal 5: Environmental Stewardship – West Basin is committed to sustainable and environmentally-friendly business practices.

FISCAL IMPACTS:

Not applicable.

ENVIRONMENTAL COMPLIANCE:

Not applicable.

COMMITTEE STATUS:

This item was reviewed by the Water Resources Committee on August 13, 2010 and agendized to the August 23, 2010 Board meeting under Metropolitan Water District Activities Update.

RECOMMENDED MOTION:

This item is for information only.

LIST OF EXHIBITS:

None.

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