

Proposed Biennial Budget for FYs 2020/21 and 2021/22; Proposed Water Rates and Charges for Calendar Years 2021 and 2022; Overview of Rates & Charges; Ten-Year Financial Forecast

Workshop #1

Finance & Insurance Committee
Item 9-2
February 10, 2020



Proposed Biennial Budget Workshop #1

Presentation Overview

- Overview
 - Policies
 - Strategic Priorities
 - Process
 - Key Assumptions
 - Budget Highlights
- Proposed Biennial Budget
- Overview of Rates & Charges
- Ten-Year Financial Forecast
- Q&A & Discussion
- Next Steps

Overview

Financial Policies & Goals

- Achieve/Maintain coverage ratios

Coverage Ratio	Target	Projected FY 2019/20	Proposed FY 2020/21	Proposed FY 2021/22
Revenue Bond*	2.0	1.5	1.5	1.6
Fixed Charge	1.2	1.4	1.5	1.6

**Target of 2.0 met by FY 2024/25*

- PAYGO funding

- Anticipate 60 percent of CIP funded from current revenues over biennial period

- Integral to maintaining coverage targets and supporting high credit ratings

- Provides financial flexibility

Financial Policies & Goals

- Maintain high credit ratings
 - S&P - AAA
 - Fitch - AA+
 - Moody's - Aa1
- Reduce debt service costs
 - Decreases by \$24M from FY 2019/20 budget to FY 2021/22 budget due to favorable refundings

GM's Strategic Priorities

● Resiliency

- Emergency preparedness & business continuity:
 - Succession planning
 - Capital expenditures to build infrastructure reliability & redundancy

● Sustainability

- Charting long-term course addressing challenges:
 - 2020 Integrated Water Resources Plan Update
 - Delta Conveyance
 - Regional Recycled Water Program

● Innovation

- Creatively solving difficult challenges:
 - Employee training and engagement

Biennial Budget and Rates Process Has Several Objectives

- Support General Manager's Strategic Priorities
- Adopt a two-year budget, which includes CIP, covering fiscal years 2020/21 and 2021/22
- Adopt rates and charges for calendar years 2021 and 2022
- Consider applicability of Section 124.5 limits on tax rates
- Update a ten-year forecast (Ten-Year Financial Forecast), including the biennial period

Important Underlying Assumptions

Fiscal Year Ending	2021	2022
Overall increase January 2021 & 2022	5.0%	5.0%
Water Transactions*	1.60 MAF	1.60 MAF
State Water Project Allocation	50%	50%
Colorado River Aqueduct Diversions	0.75 MAF	0.73 MAF
CIP	\$250 M	\$250 M
PAYGO	\$135 M	\$135 M

* Includes water sales, exchanges and wheeling.

Overall Rate Increases Since 2013



Biennial Budget Highlights

- O&M expenditures

- Maintenance budget

- Full-time regular positions remain at 1,907
 - Negotiated labor increases, allowable merit adjustments, and benefit increases incorporated
 - Key non-labor increases – chemicals, software licensing & support, security including Cybersecurity, and environmental and regulatory compliance & monitoring

- Funds for succession planning

- Regional Recycled Water Program

- Funding for planning costs at \$30M over biennium

- Delta Conveyance

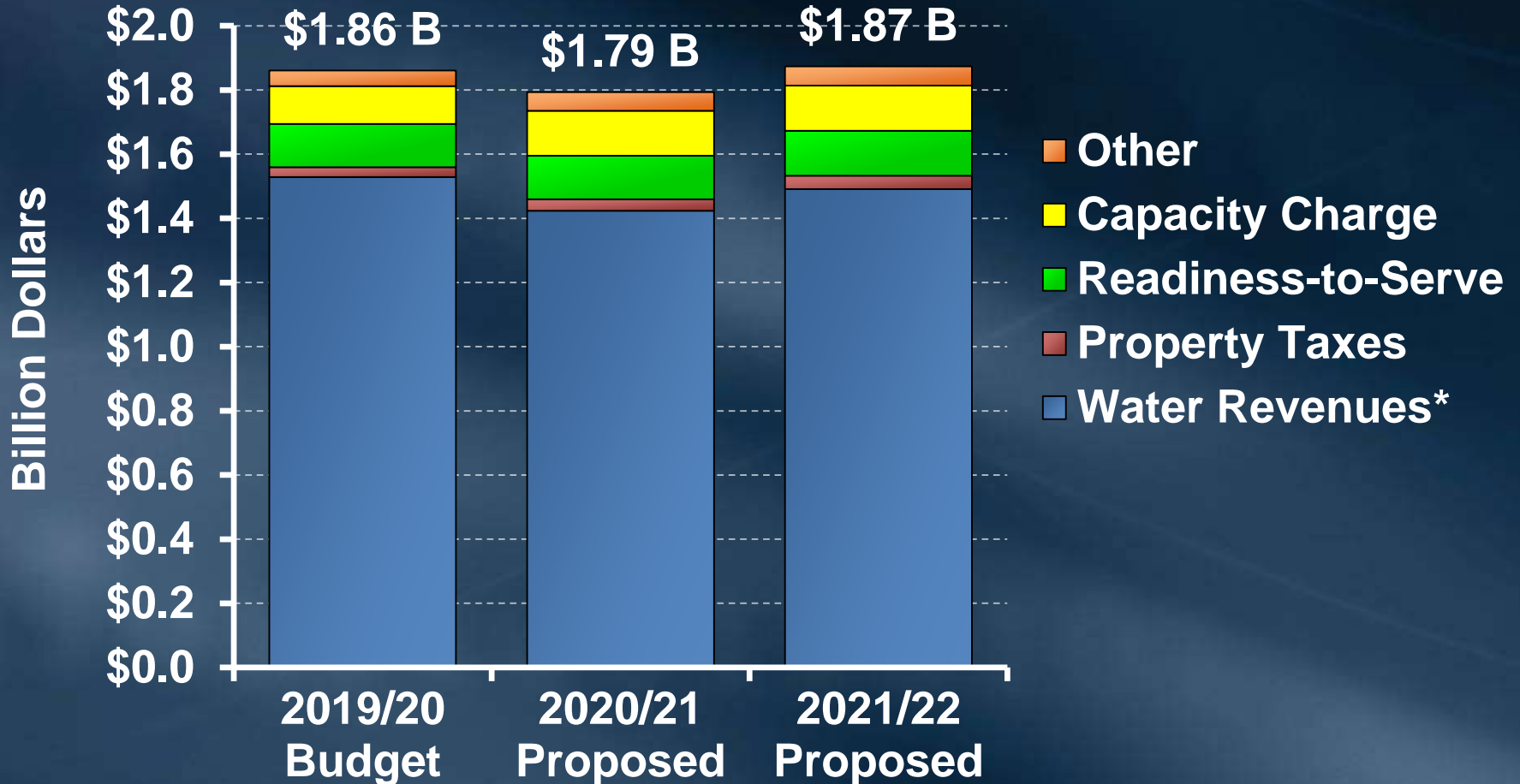
- Metropolitan's planned contribution for planning costs of \$50M over the biennium

Biennial Budget Highlights

- Continued support for demand management programs
 - Conservation Program appropriated at \$43M per year
 - Local Resources Program expected to be lower
 - No Water Stewardship Rate
 - Demand management funded from Water Stewardship Fund balance
- Capital Investment Plan
 - Planned spending of \$500M over biennium to be appropriated
 - Estimated expenditures of \$450M - 90% of planned spending

Proposed Biennial Budget

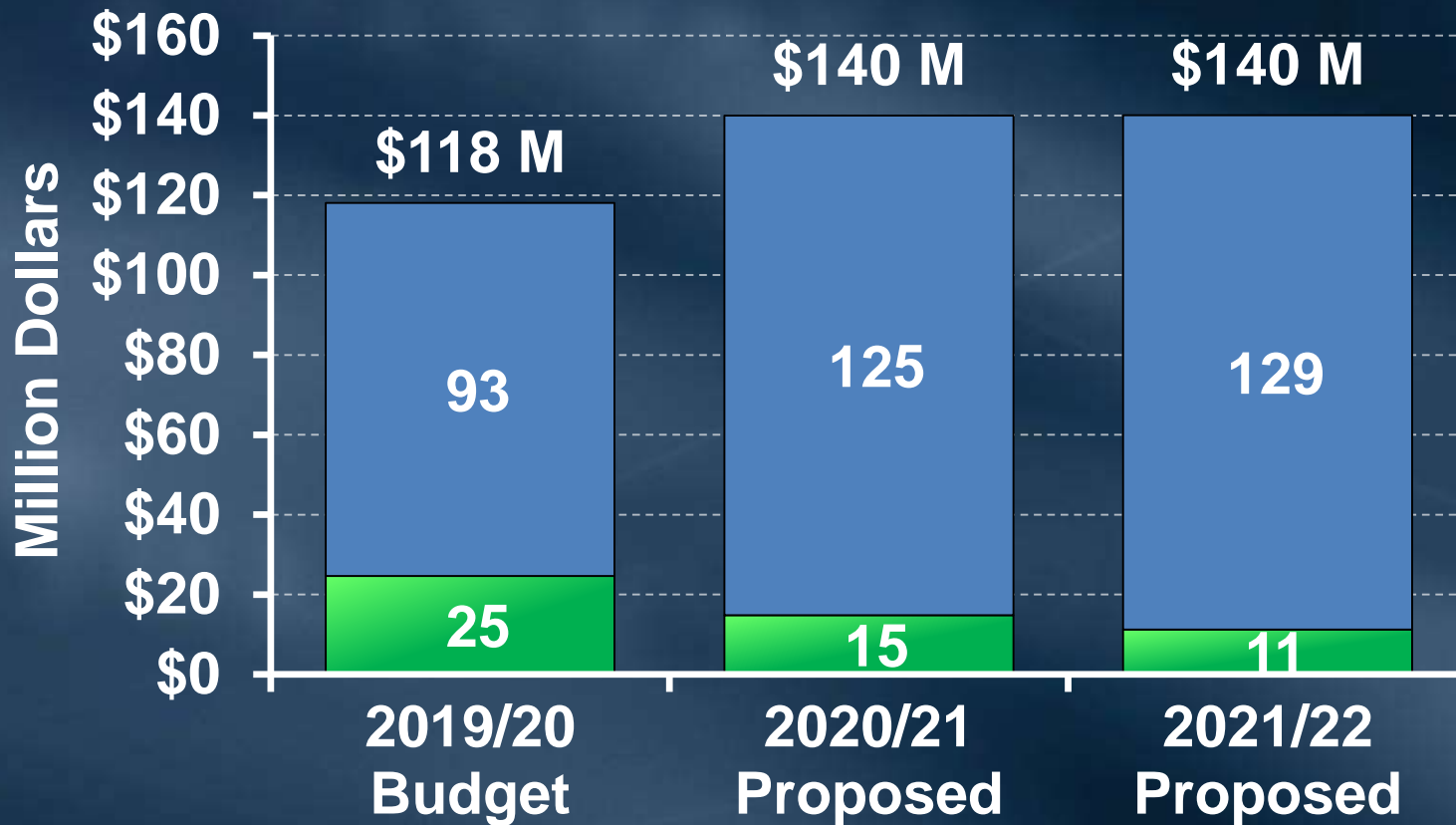
Revenue Trend



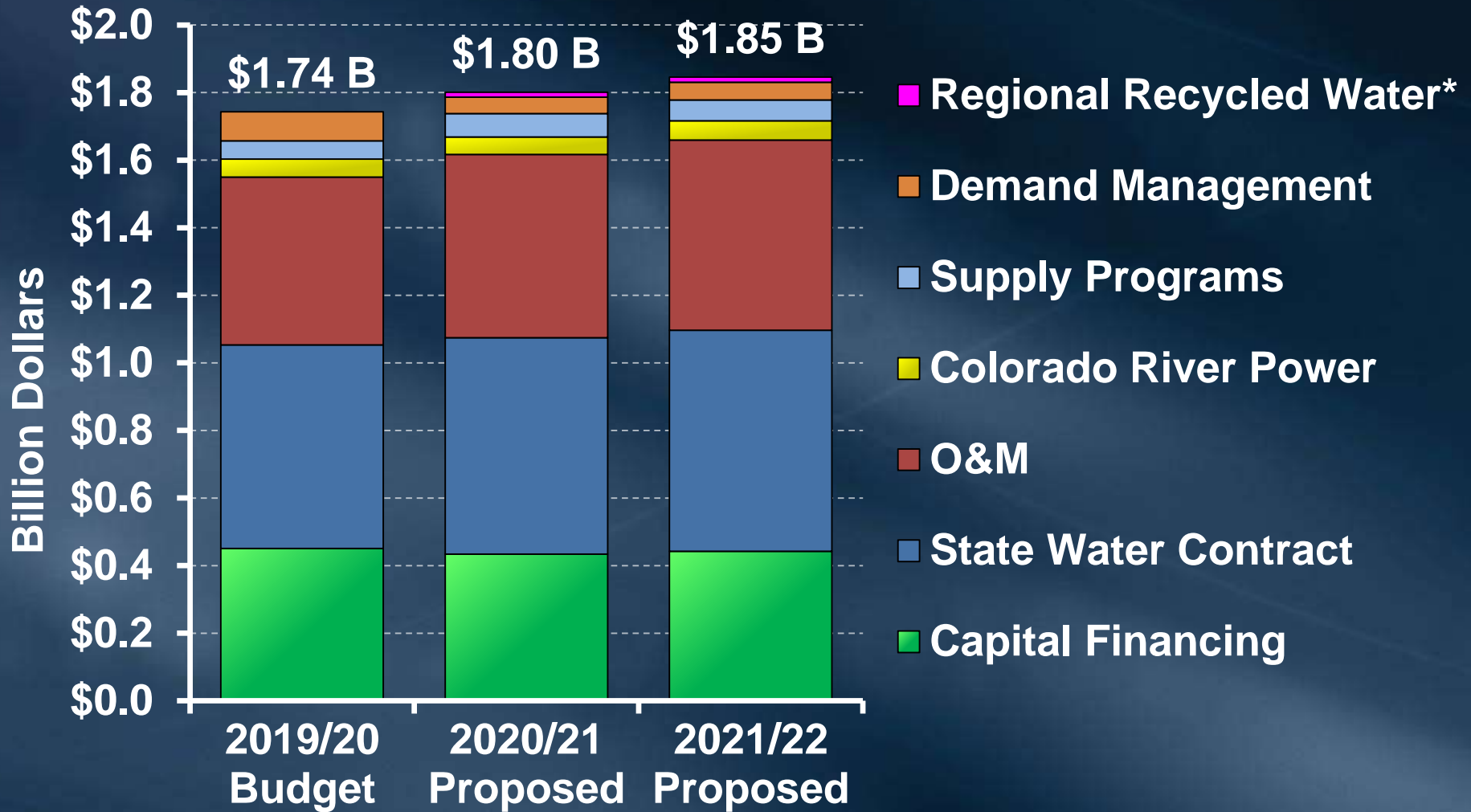
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Property Tax Revenue

- Property Tax to fund SWC costs
- Property Tax for GO and Burns Porter bonds

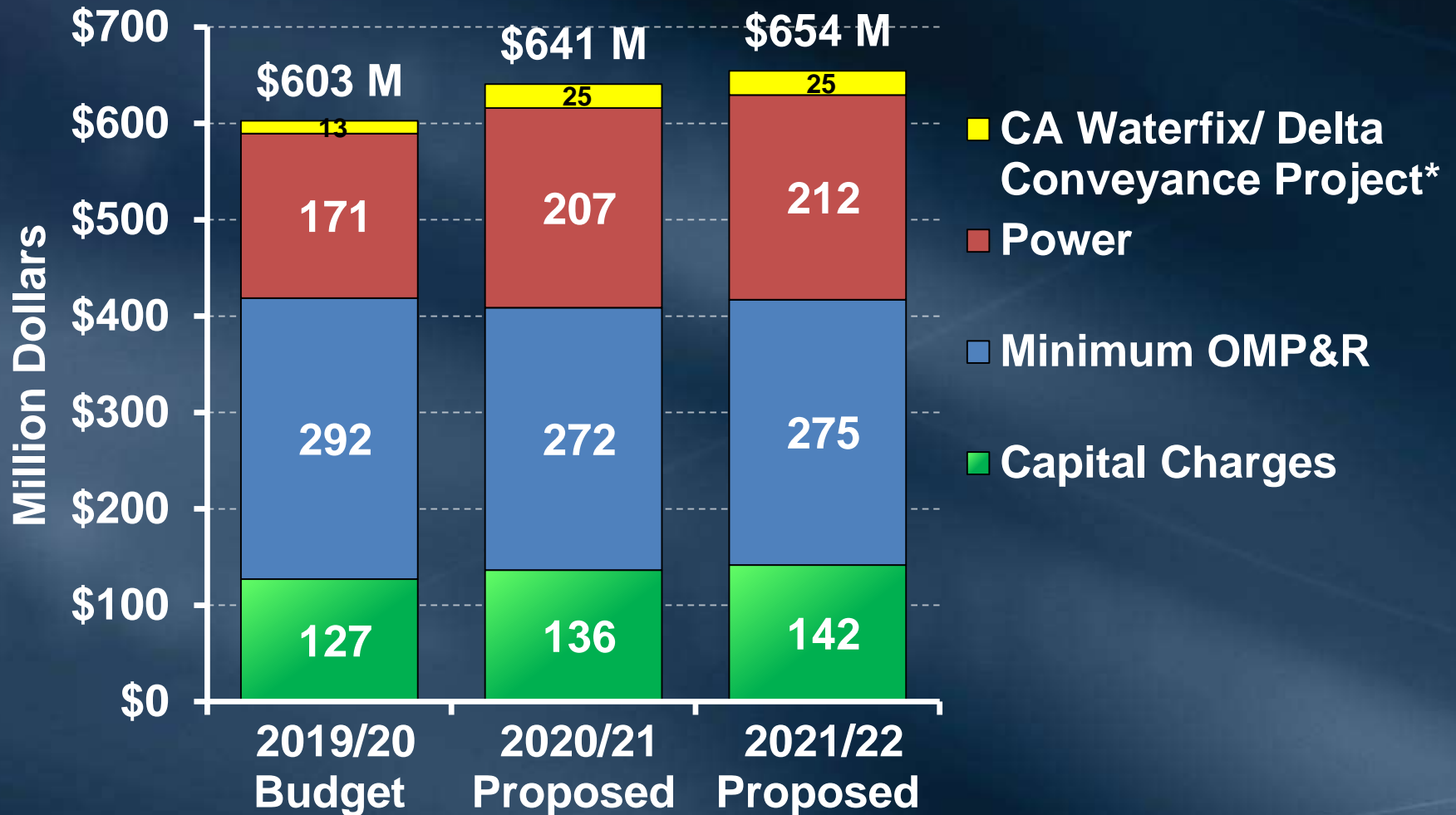


Expenditure Trend



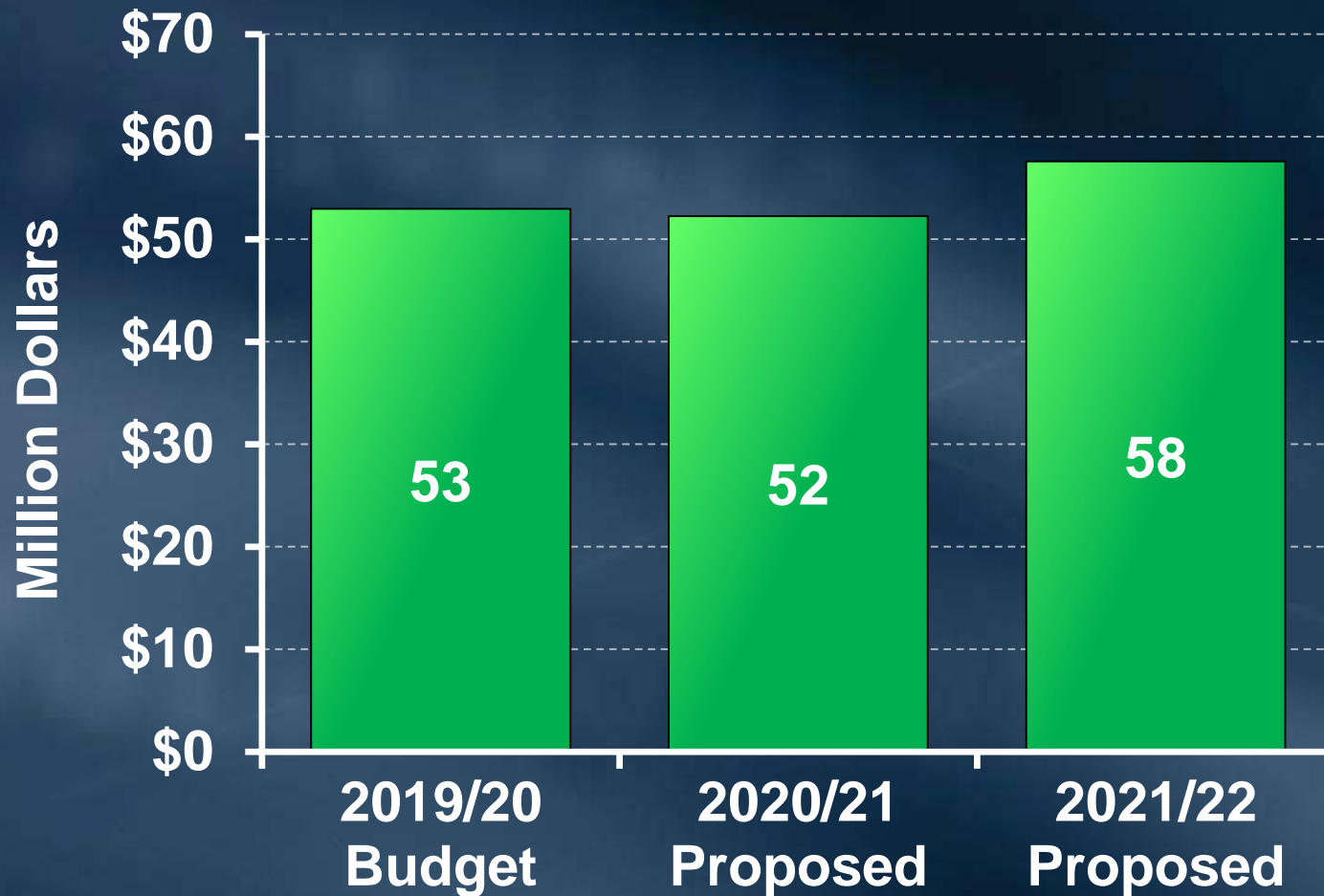
*Includes only planning costs

State Water Contract

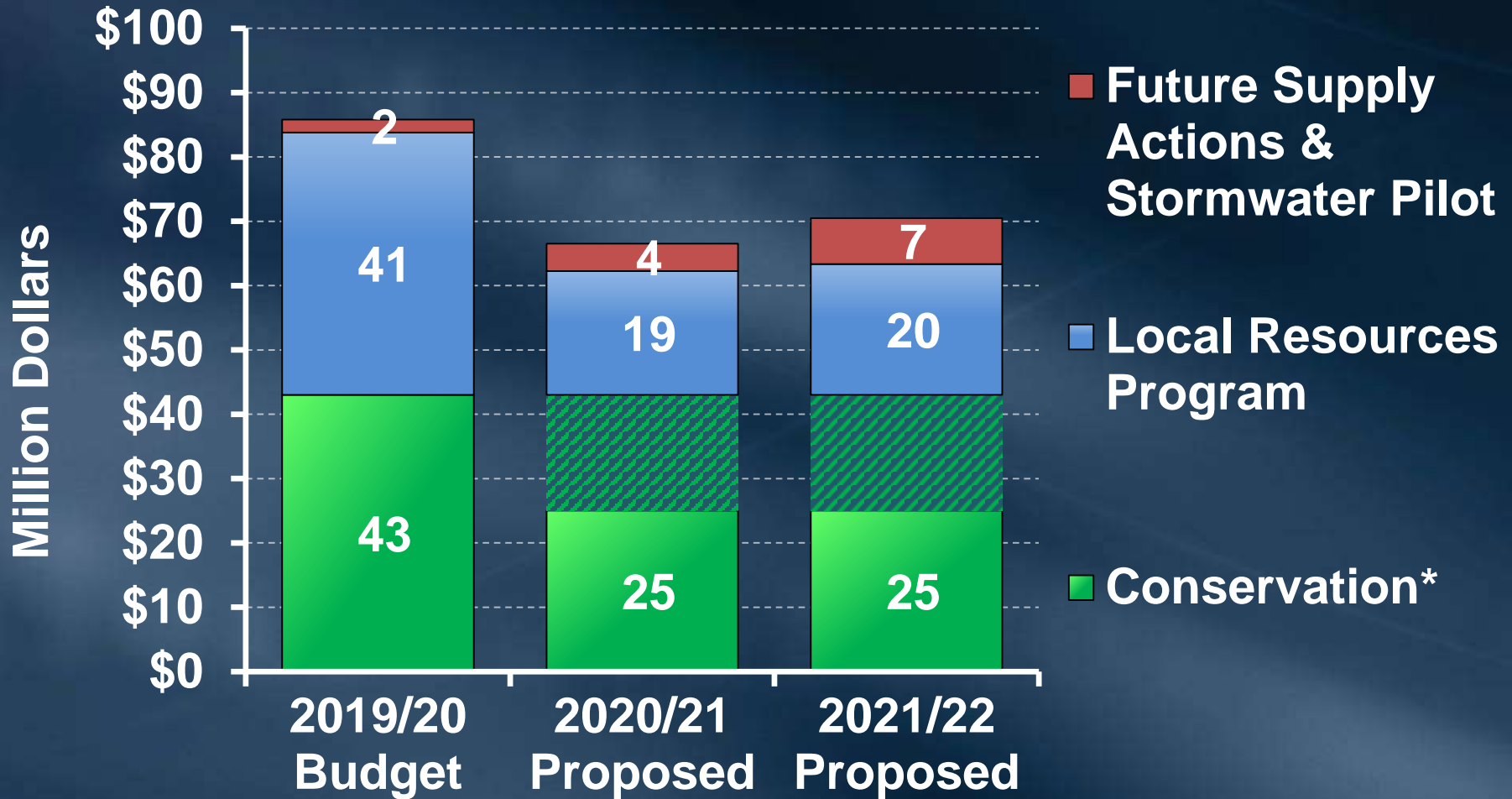


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Colorado River Aqueduct Power

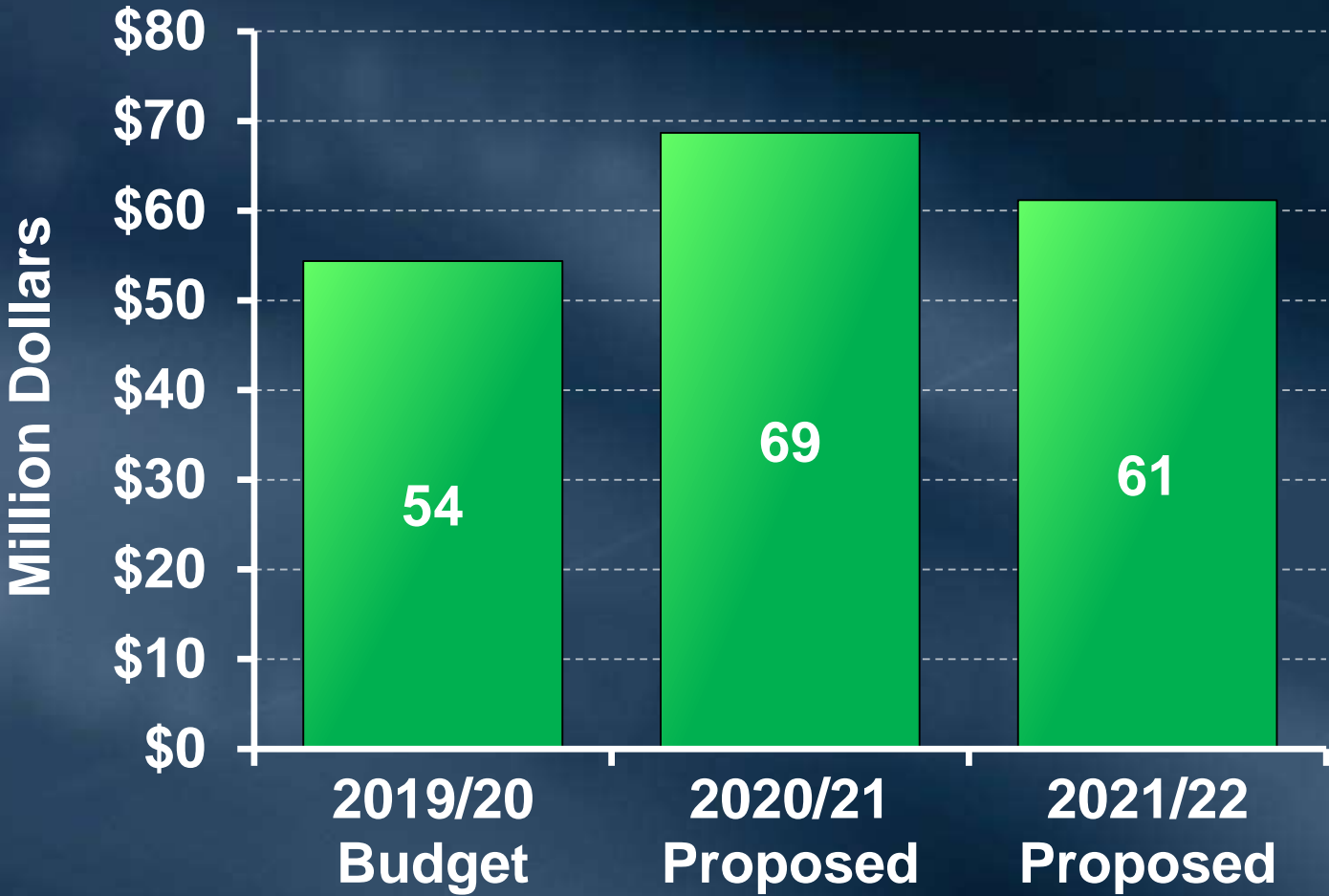


Demand Management

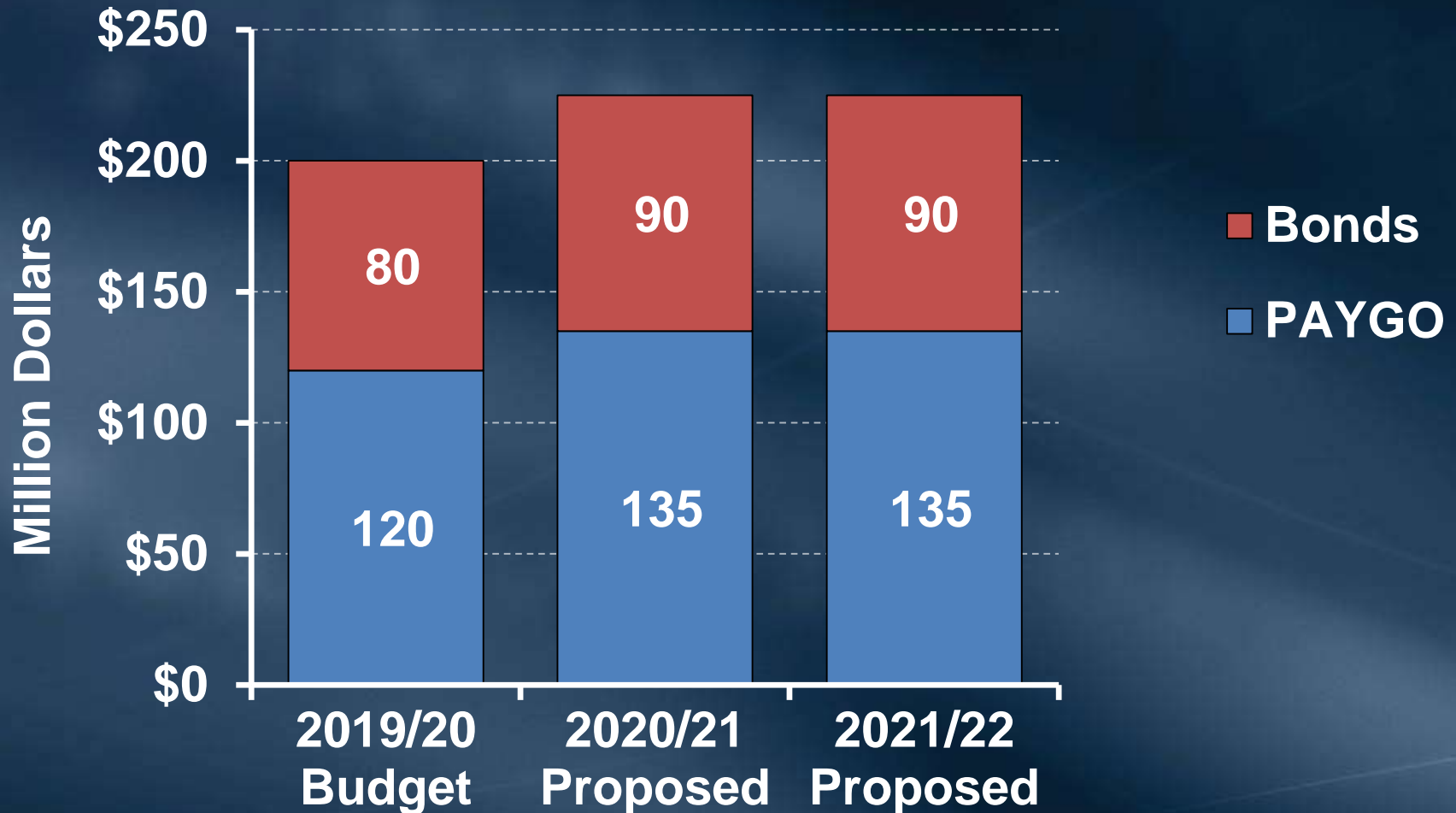


*For FY2021 and FY2022 conservation expenditures are estimated to be \$25M per year and are appropriated at \$43M per year.

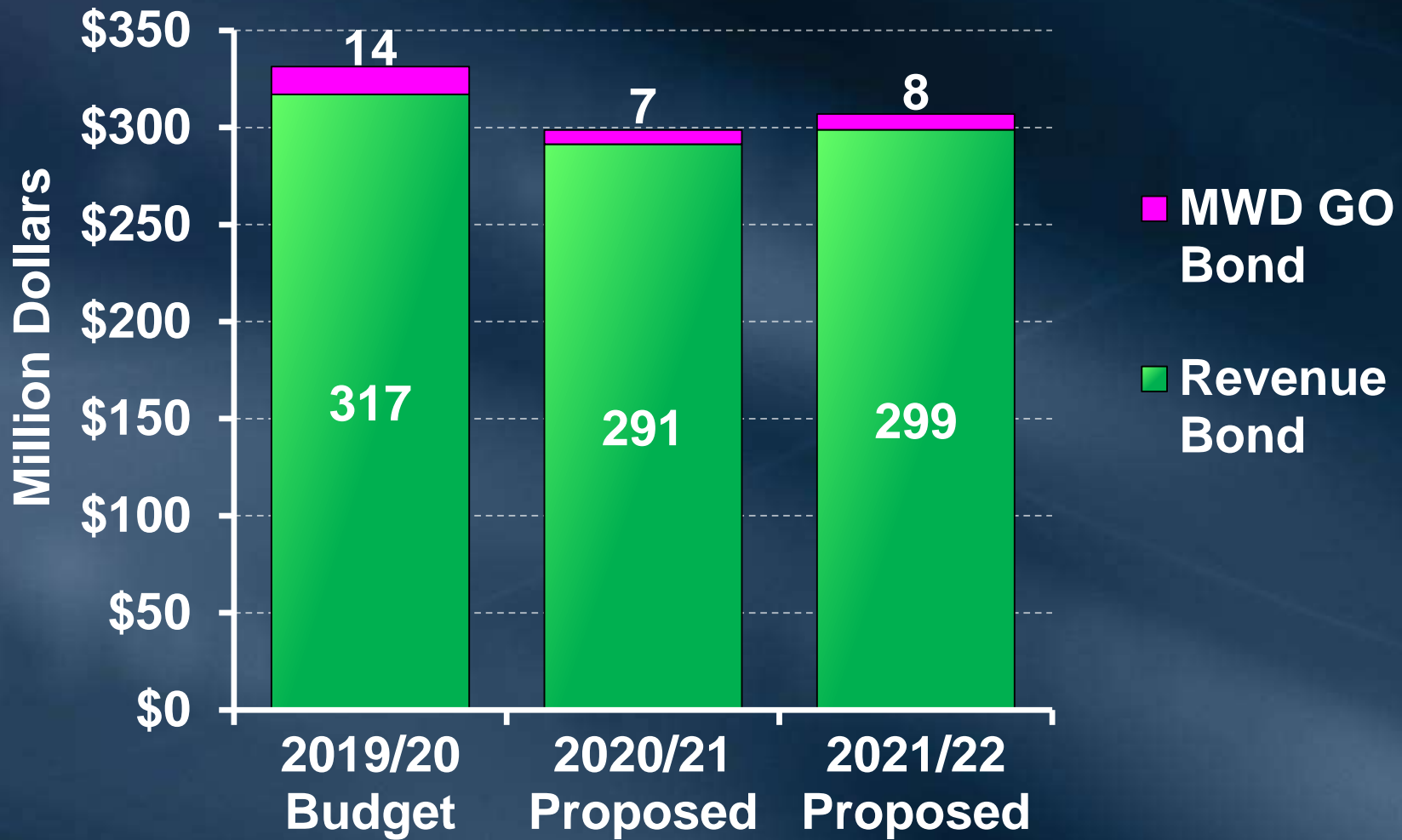
Supply Programs



Capital Investment Plan Expenditures

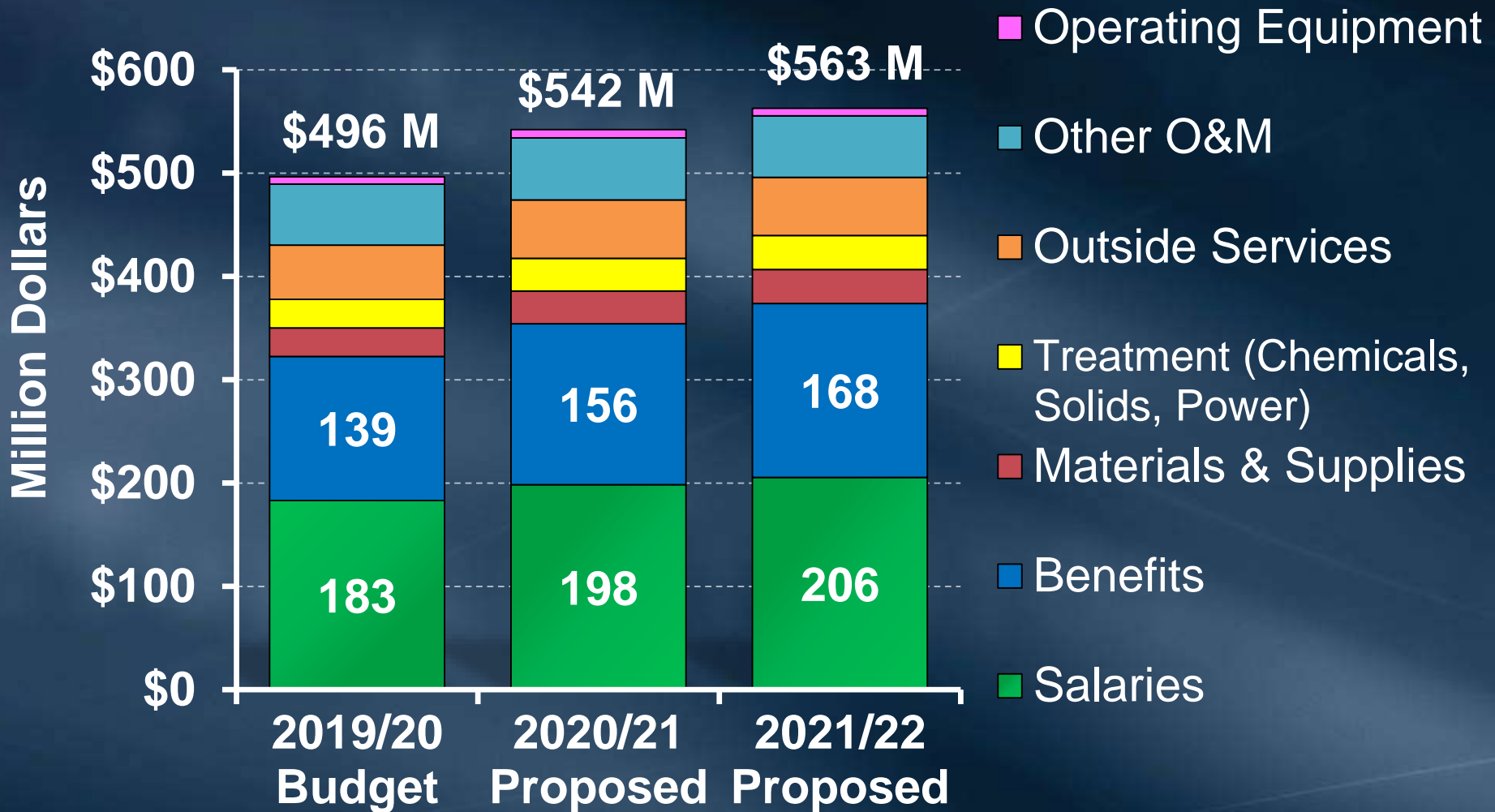


Debt Service



O&M Expenditure Budget

O&M Expenditure Budget

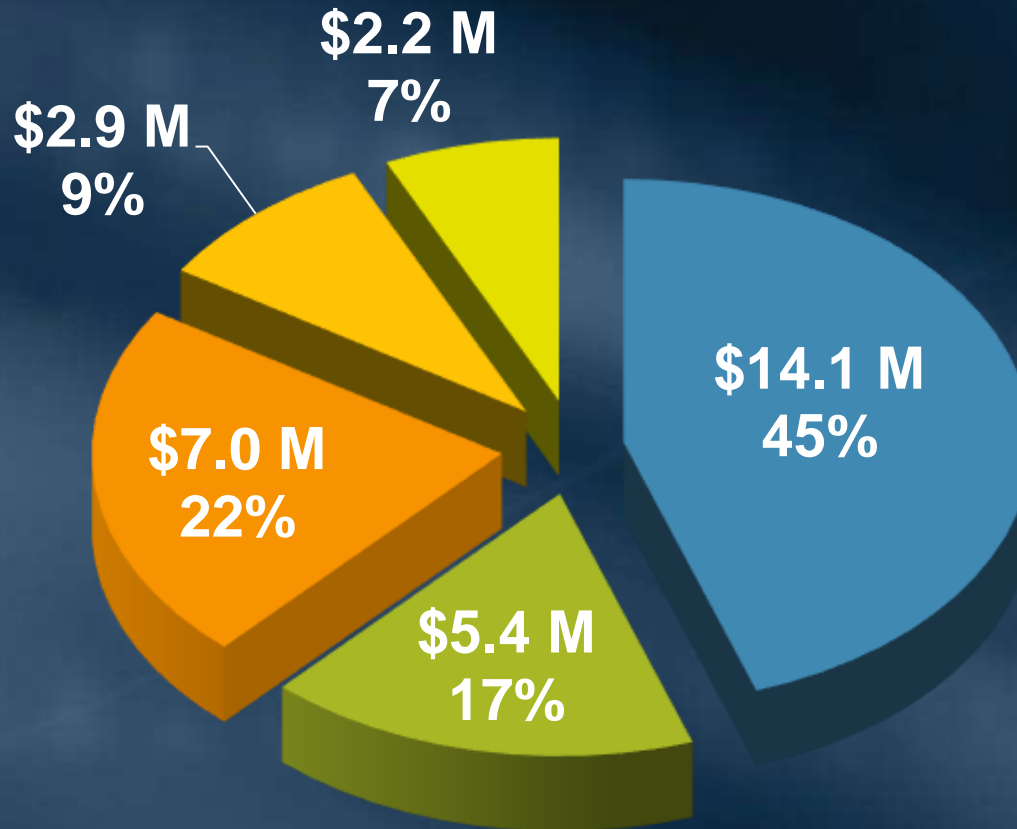


O&M by Expenditure Type

Millions of Dollars	2019/20 Budget	2020/21 Proposed	2021/22 Proposed	2019/20 Budget vs 2020/21 Proposed	% Change	2020/21 Proposed vs 2021/22 Proposed	% Change
Salaries & Benefits	322.6	354.2	373.8	31.5	9.8%	19.7	5.6%
Chemicals, Solids and Power	27.7	31.6	32.8	3.9	14.2%	1.1	3.6%
Professional Services	22.8	25.3	25.8	2.5	10.8%	0.5	1.9%
Non-Professional Services/ Security & R&M	29.8	31.3	30.7	1.4	4.8%	(0.6)	-1.9%
Software Licensing & Support	6.7	9.2	10.0	2.5	36.7%	0.8	8.4%
Other Materials & Supplies	20.8	22.5	23.1	1.7	8.3%	0.6	2.5%
Communications	4.1	4.3	4.4	0.3	6.4%	0.1	3.0%
Travel & Training	5.8	6.3	6.3	0.5	9.3%	-	-0.6%
Utilities	8.4	8.5	8.7	0.1	1.6%	0.2	2.1%
Insurance/Premiums	12.8	13.2	13.4	0.3	2.6%	0.2	1.8%
Taxes & Permits	7.7	8.5	8.8	0.8	10.9%	0.3	3.3%
Rents & Leases	2.5	2.8	2.9	0.3	13.3%	-	1.1%
Memberships & Subscriptions	8.2	7.4	7.5	(0.8)	-9.3%	0.1	0.7%
Other	9.5	9.2	7.6	(0.4)	-3.8%	(1.5)	-16.8%
Operating Equipment	7.0	7.9	7.2	0.9	13.3%	(0.7)	-9.2%
Total O&M	\$496.4	\$542.2	\$562.8	\$45.8	9.2%	\$20.6	3.8%

FY 2020/21 O&M Labor Increase

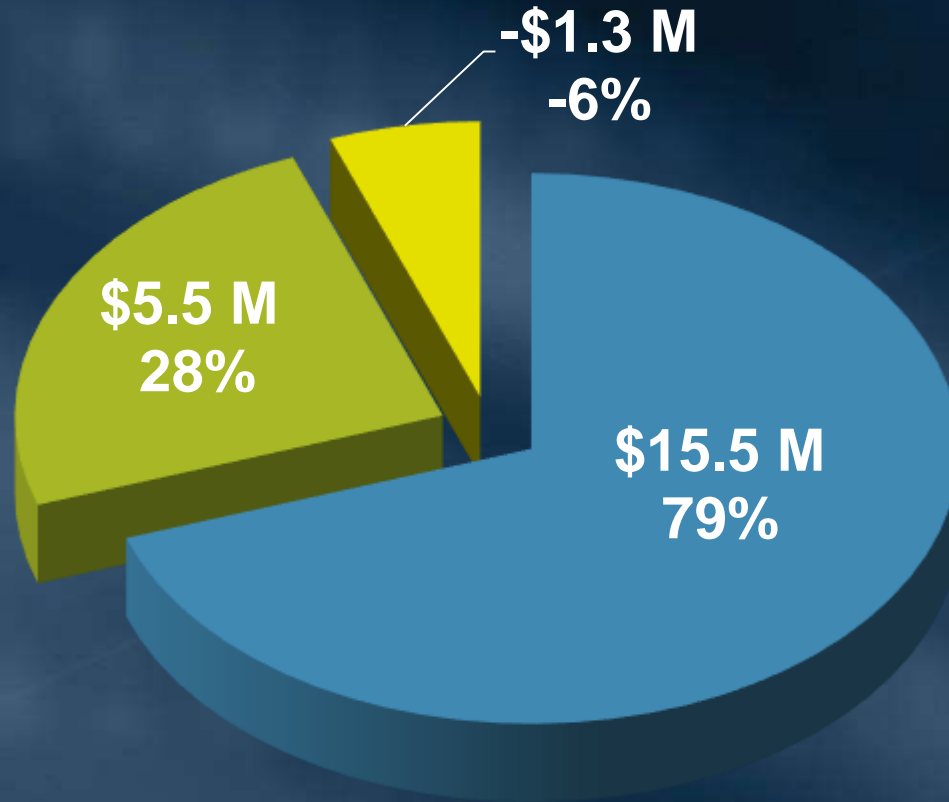
\$31.5 M increase from FY 2019/20



- COLA related salary & benefits
- Succession Planning Labor Pool
- Other
- Benefits cost increase
- Temporary Labor

FY 2021/22 O&M Labor Increase

\$19.7 M increase from FY 2020/21



■ COLA related salary & benefits ■ Benefits cost increase ■ Other

Budgeted Positions

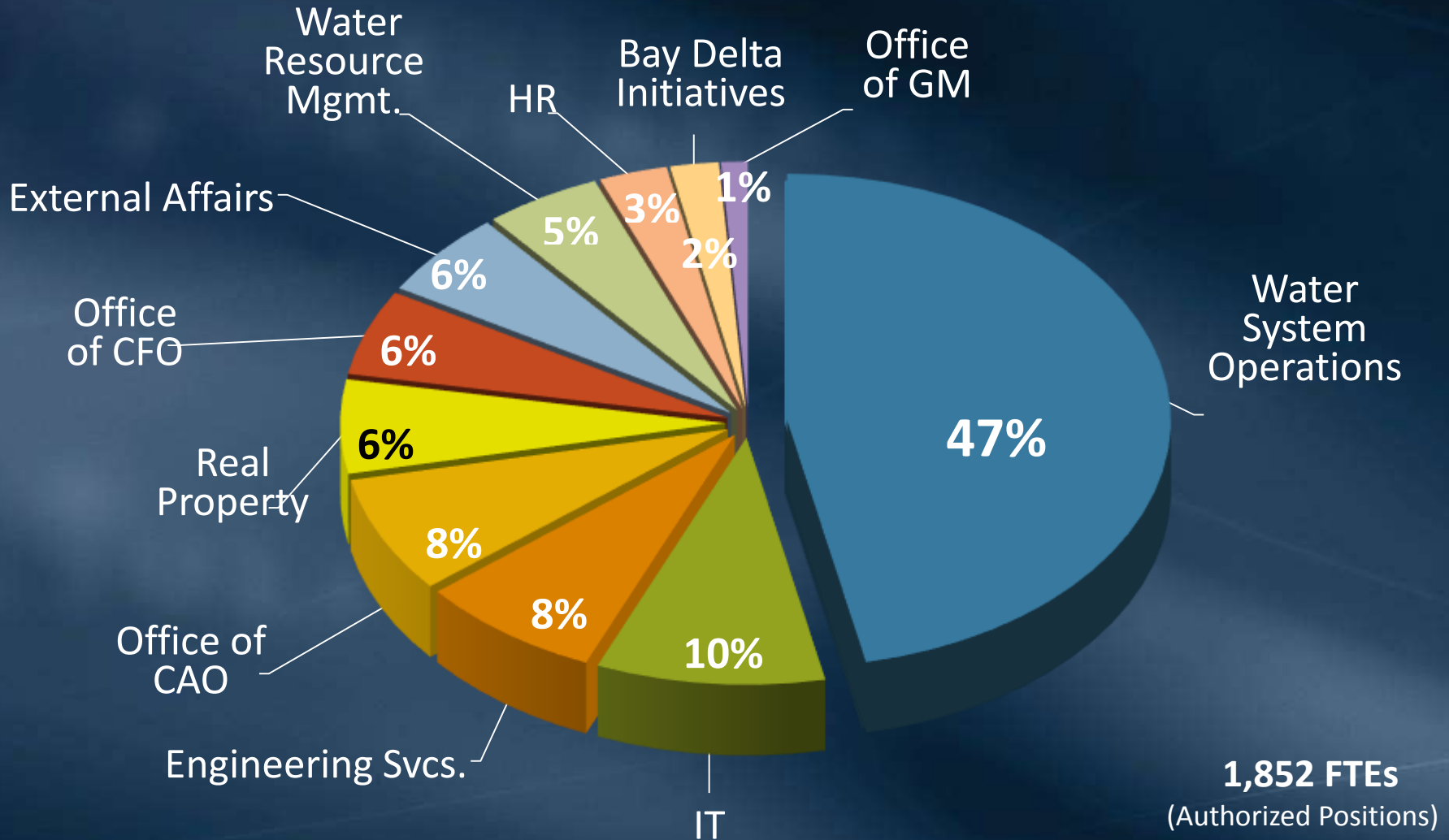
	2017/18	2018/19	2019/20	2020/21	2021/22
Regular	1,886	1,900	1,907	1,907	1,907
District Temporary	20	22	23	43	37
Authorized Positions	1,906	1,922	1,930	1,950	1,944

Departmental Budgets

- GM Department
- Legal
- Audit
- Ethics

GM Departmental O&M Budget

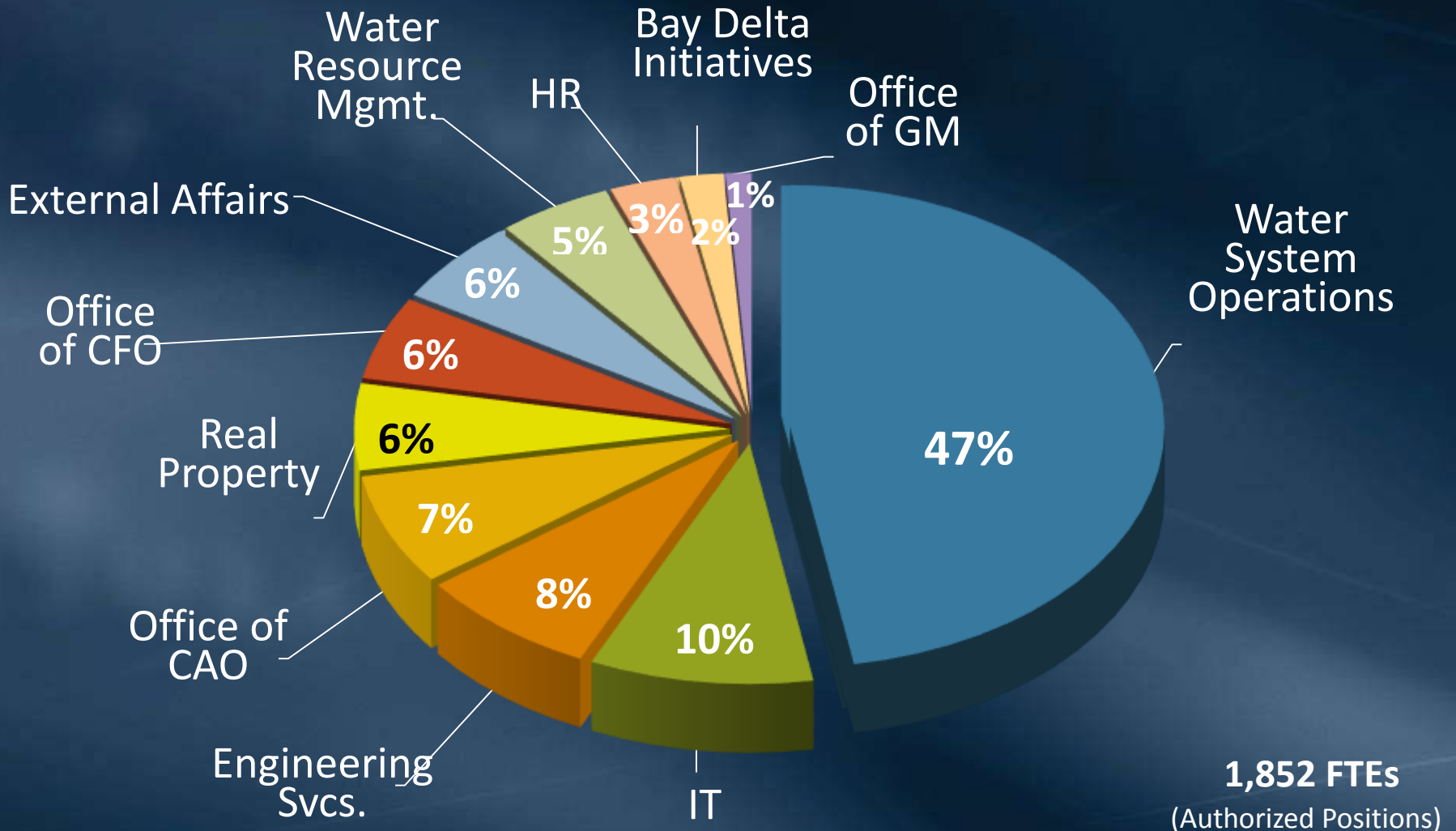
FY 2020/21 - \$497 M



1,852 FTEs
(Authorized Positions)

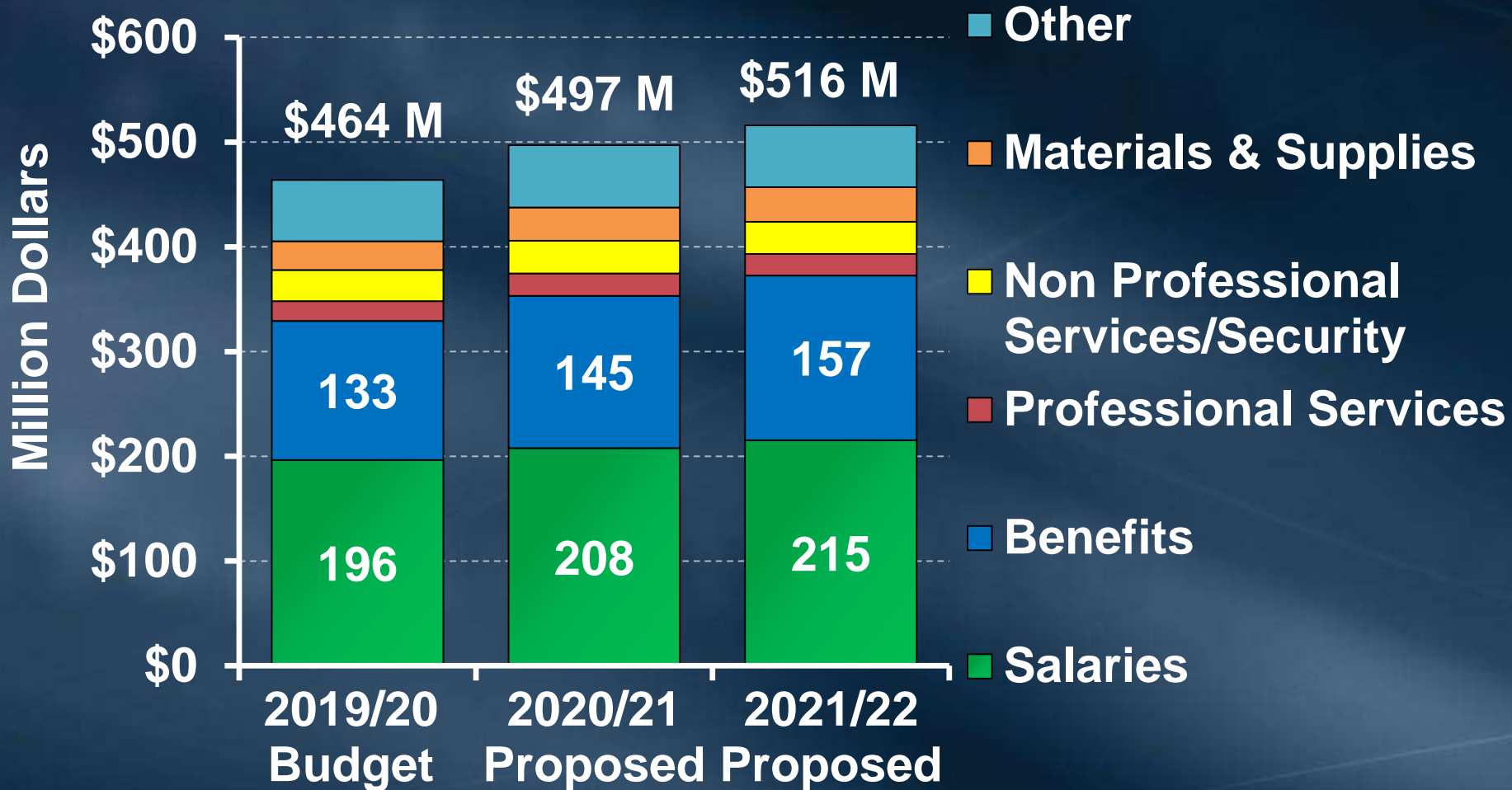
GM Departmental O&M Budget

FY 2021/22 - \$516 M



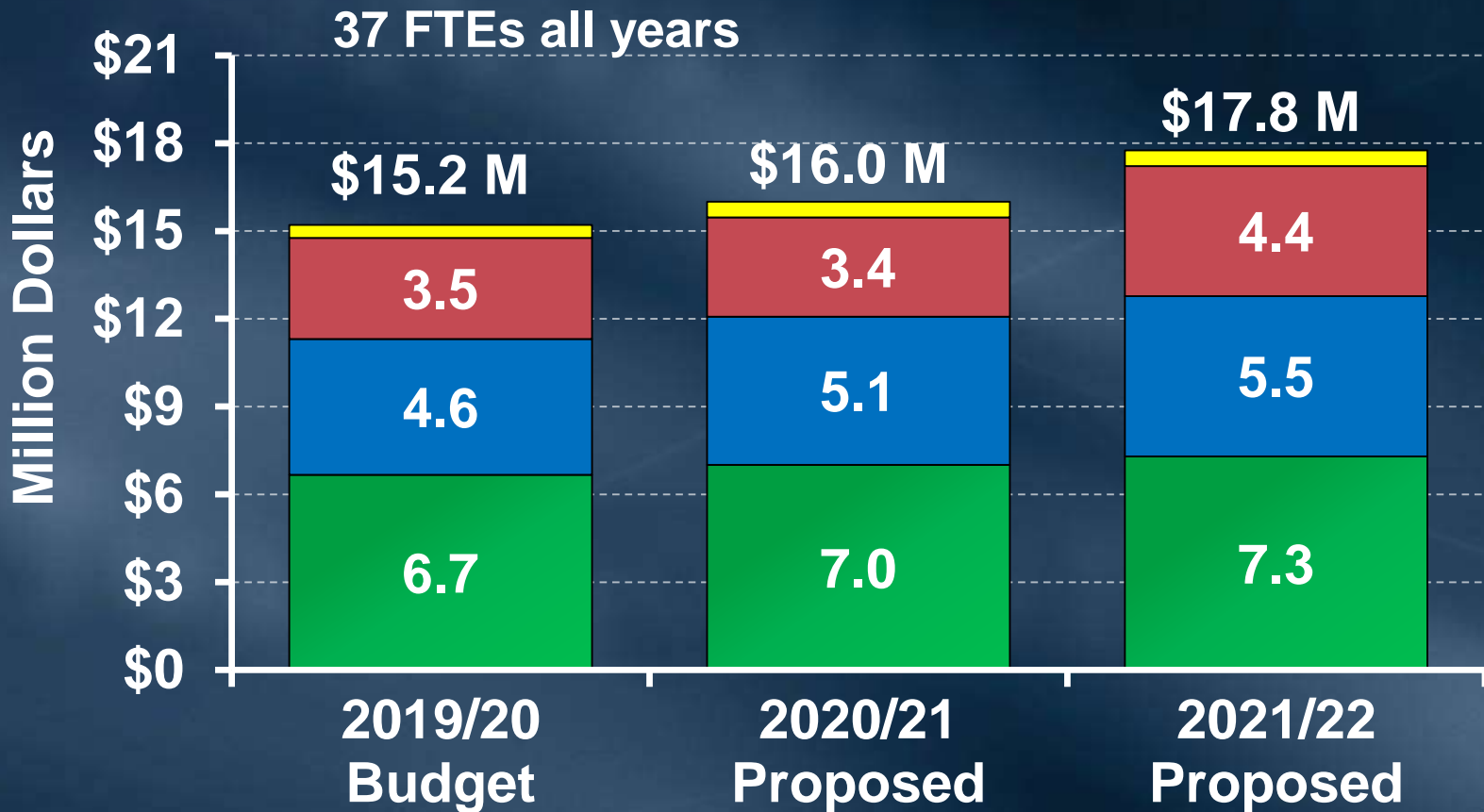
1,852 FTEs
(Authorized Positions)

GM Department O&M Budget



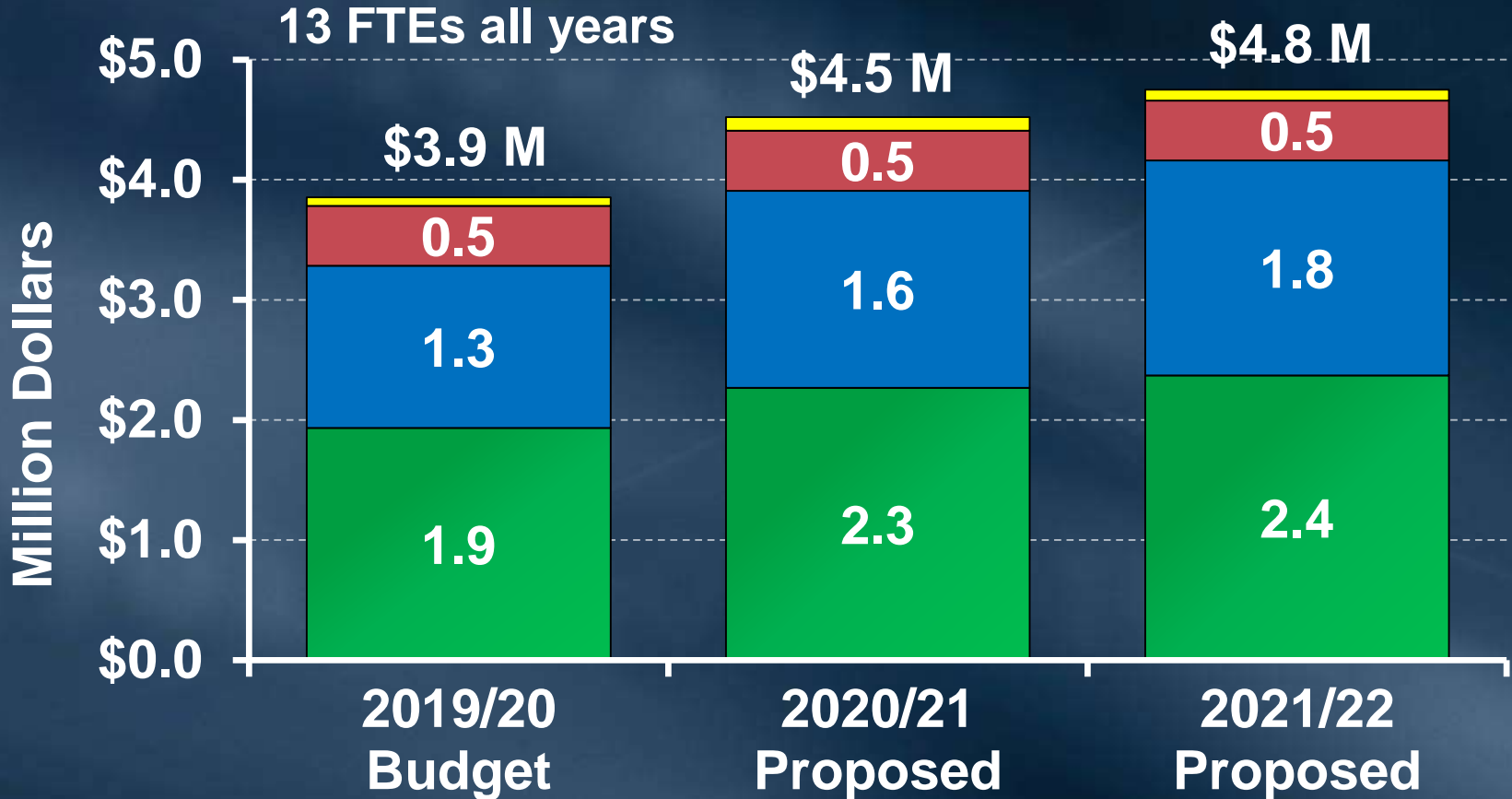
Legal Department O&M Budget

■ Salaries ■ Benefits ■ Professional Services ■ Other



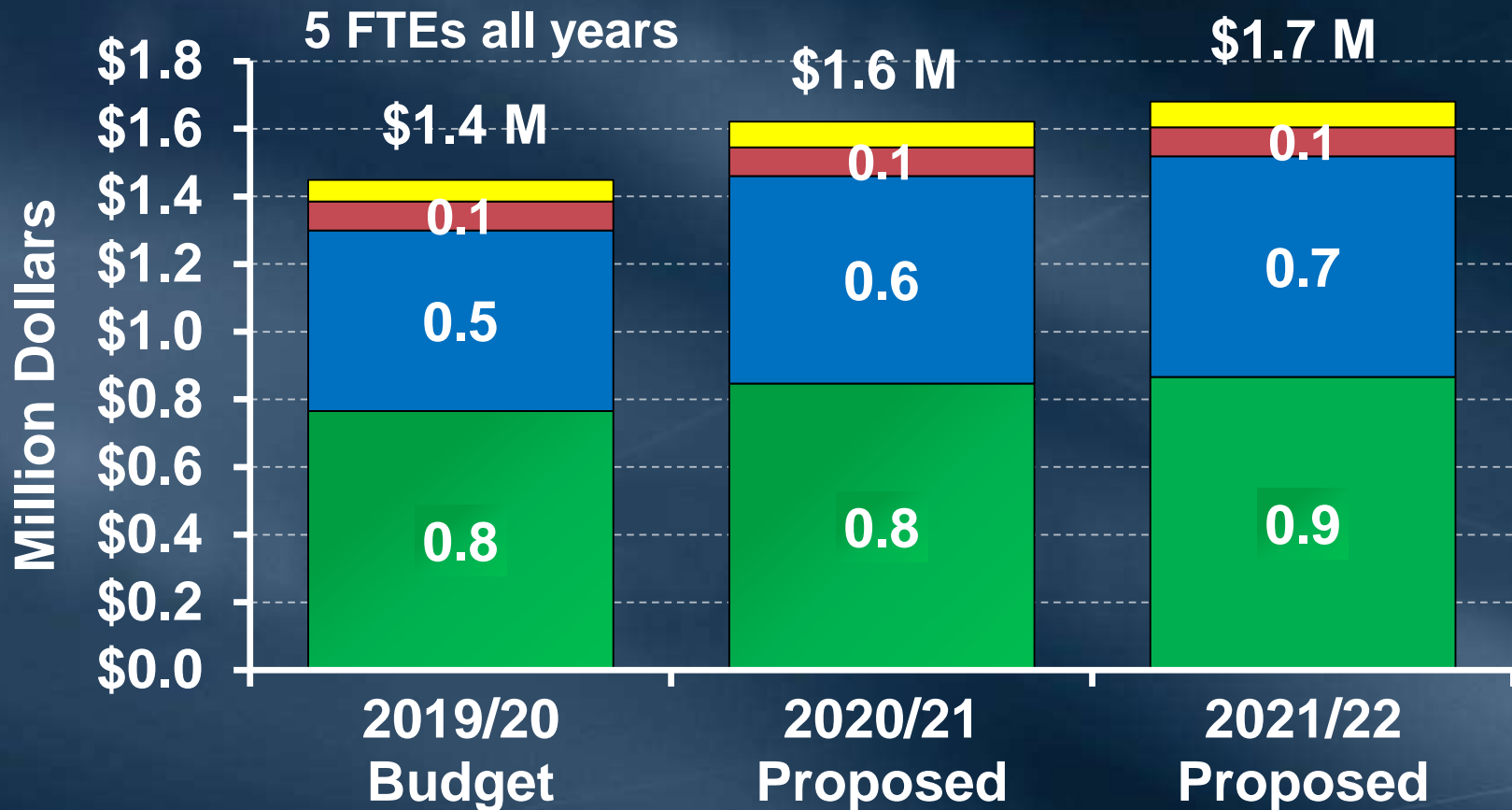
Audit Department O&M Budget

■ Salaries ■ Benefits ■ Professional Services ■ Other



Ethics Department O&M Budget

■ Salaries ■ Benefits ■ Professional Services ■ Other



Overview of Rates and Charges

The Cost of Service Process

Develop Budget



Develop Revenue Requirement



Functionalize Costs



Allocate Costs



Distribute Costs to Rate Elements

2020/21 Estimated Revenue Requirements (\$M)

	2019/20 Adopted	2020/21 Proposed Budget	Change
Total O&M	\$ 496	\$ 542	\$ 46
State Water Contract	603	641	38
Colorado River Power	53	52	(1)
Supply Programs	54	69	14
Regional Recycled Water Pgm.	-	15	15
Demand Management	86	49	(37)
Debt Service	331	299	(32)
PAYGO	120	135	15
Incr. in Required Reserves	41	41	-
Sub-total expenditures	\$1,784	\$1,842	\$ 58
Revenue Offsets	166	198	32
Total Revenue Requirement	\$1,618	\$1,644	\$ 26

Totals may not foot due to rounding.

2021/22 Estimated Revenue Requirements (\$M)

	2020/21 Proposed Budget	2021/22 Proposed Budget	Change
Total O&M	\$ 542	\$ 563	\$ 21
State Water Contract	641	654	14
Colorado River Power	52	58	5
Supply Programs	69	61	(7)
Regional Recycled Water Pgm.	15	15	-
Demand Management	49	52	4
Debt Service	299	307	8
PAYGO	135	135	-
Incr. in Required Reserves	41	63	21
Sub-total expenditures	\$1,842	\$1,908	\$ 66
Revenue Offsets	198	200	2
Total Revenue Requirement	\$1,644	\$1,708	\$ 64

Totals may not foot due to rounding.

Proposed Rate Elements & Charges

Rates and Charges Effective January 1			
	2020 Approved	2021 Proposed	2022 Proposed
Tier 1 Supply Rate (\$/AF)	\$208	\$246	\$247
Tier 2 Supply Rate (\$/AF)	\$295	\$285	\$285
System Access Rate (\$/AF)	\$346	\$374	\$397
Water Stewardship Rate (\$/AF)	\$65	-	-
System Power Rate (\$/AF)	\$136	\$160	\$170
Treatment Surcharge (\$/AF)	\$323	\$351	\$369
Readiness-to-Serve Charge (\$M)	\$136	\$136	\$144
Capacity Charge (\$M revenues)	\$32	\$40	\$44

Tier 1 Supply Rate

- Recovers the costs of maintaining and developing supplies to meet member agency demands
 - Includes the costs of water facilities and programs on the SWP, the CRA, in-basin programs, and drought storage
- Increasing by \$38/AF in 2021 due to lower projected sales, higher supply programs costs, and higher SWC Delta capital charges; increase slight in 2022 by \$1/AF

Tier 2 Supply Rate

- Reflects the cost of purchasing water transfers north of the Delta
- Decreasing by \$10/AF in calendar years 2021 and 2022 reflecting the costs of the Yuba Accord agreement
- There are no Tier 2 sales or revenues in the budget

System Access Rate

- Recovers the costs of conveyance, distribution, and portions of regulatory & emergency storage, including capital costs associated with average demands and O&M
 - Includes costs of the applicable facilities on the CRA and SWP, distribution, and portions of storage
- Increasing by \$28/AF in 2021 because of lower projected water transactions and higher departmental O&M
- Increasing by \$23/AF in 2022 due to increasing departmental O&M

Water Stewardship Rate

- Per the Board's December 2019 direction
 - There is no Water Stewardship Rate for 2021 and 2022
 - The Water Stewardship Fund balance will fund all demand management costs in the biennium

System Power Rate

- Recovers the costs of power to pump water on the CRA and the SWP
 - Includes CRA Power and Dept. O&M, SWC Variable Power and Off-Aqueduct Power Facilities
- Increasing by \$24/AF in 2021 due to increasing SWC variable power costs reflecting higher diversions and higher power rates
- Increasing by \$10/AF in 2022 due to increasing SWC variable power costs, and increasing CRA supplemental power for new greenhouse gas charge

Treatment Surcharge

- Recovers capital and O&M costs of the five water treatment plants
 - Purchasers of treated water pay the TS
- Increasing by \$28/AF in 2021 due to:
 - Lower projected treated sales
 - Higher departmental O&M and higher chemicals prices, which outweigh decreasing capital financing costs assigned to treatment
- Increasing by \$18/AF in 2022 due to higher O&M costs

Readiness-to-Serve Charge

- Recovers the capital costs of providing emergency storage and available capacity on the conveyance and distribution systems
- Remains unchanged in 2021
- The total RTS Charge increased by \$8M in 2022 due to increasing capital financing costs and increasing SWC Transportation capital costs
- Each Member Agency pays a share of the total RTS Charge based on a ten-year rolling average of firm sales

Capacity Charge

- Recovers the capital costs of the system necessary to meet peak demands on Metropolitan's distribution system
- The total charge increasing by \$8M in 2021 due to higher capital costs allocated to maximum day system use, reflecting recent member agency peak demands
- The total charge increasing by \$4M in 2022 due to increasing capital financing costs associated with distribution
- The capacity charge per CFS is \$11,200 for 2021 and \$12,500 in 2022

Proposed Full Service Rates and Charges

Rate Type	2020 Approved	2021 Proposed	% Increase (Decrease)	2022 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$755	\$780	3%	\$814	4%
Tier 2	\$842	\$819	(3%)	\$852	4%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$1,078	\$1,131	5%	\$1,183	5%
Tier 2	\$1,165	\$1,170	0%	\$1,221	4%
RTS Charge (\$M)	\$136	\$136	0%	\$144	6%
Capacity Charge (\$/cfs)	\$8,800	\$11,200	27%	\$12,500	12%

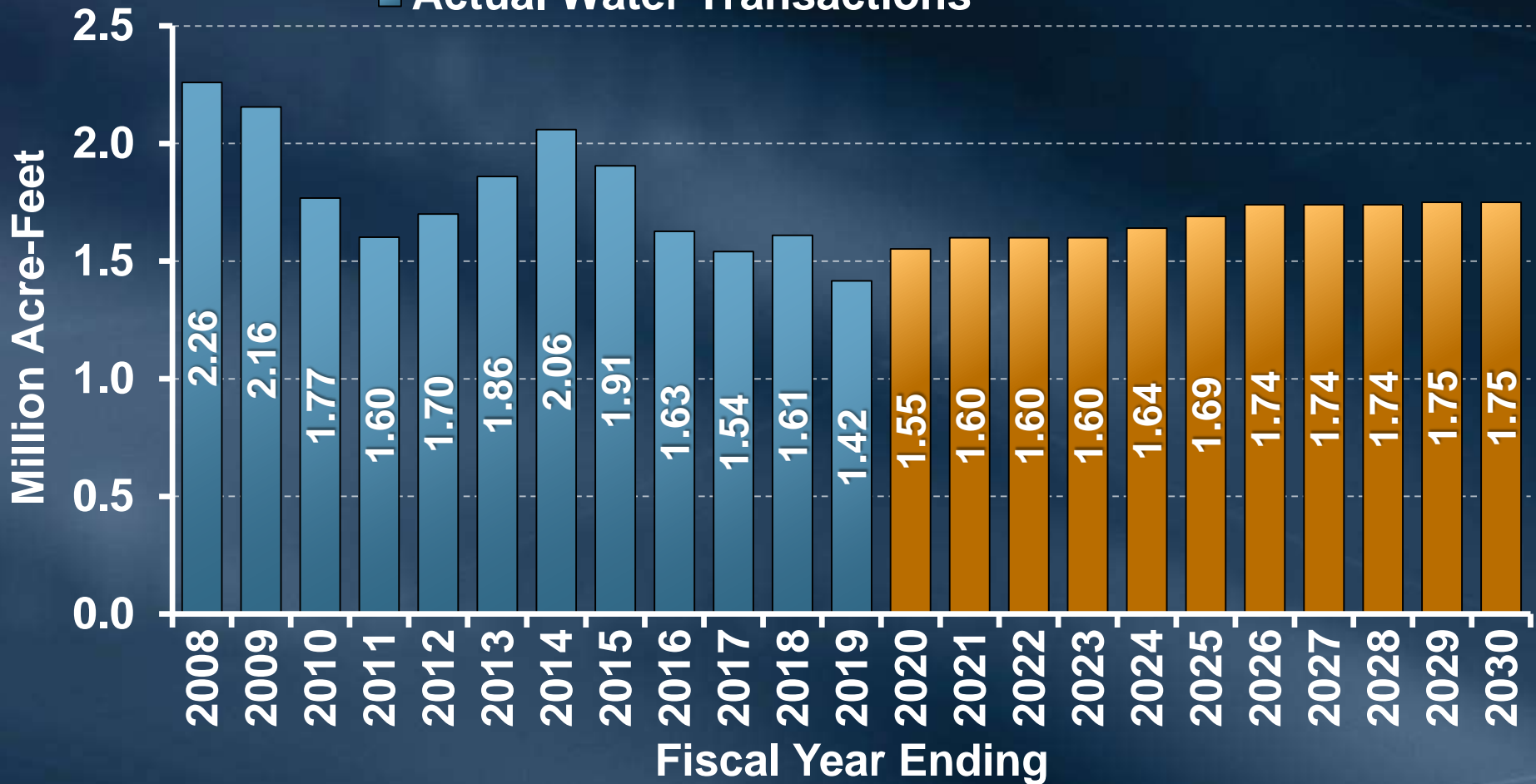
Rates and Charges Effective January 1st

Full Service Cost means the Full Service Rate, consisting of the following rate components: the applicable Supply Rate, the System Access Rate, the Water Stewardship Rate (not applicable for 2021 and 2022), the System Power Rate, and if applicable the Treatment Surcharge for treated water service.

Ten-Year Financial Forecast

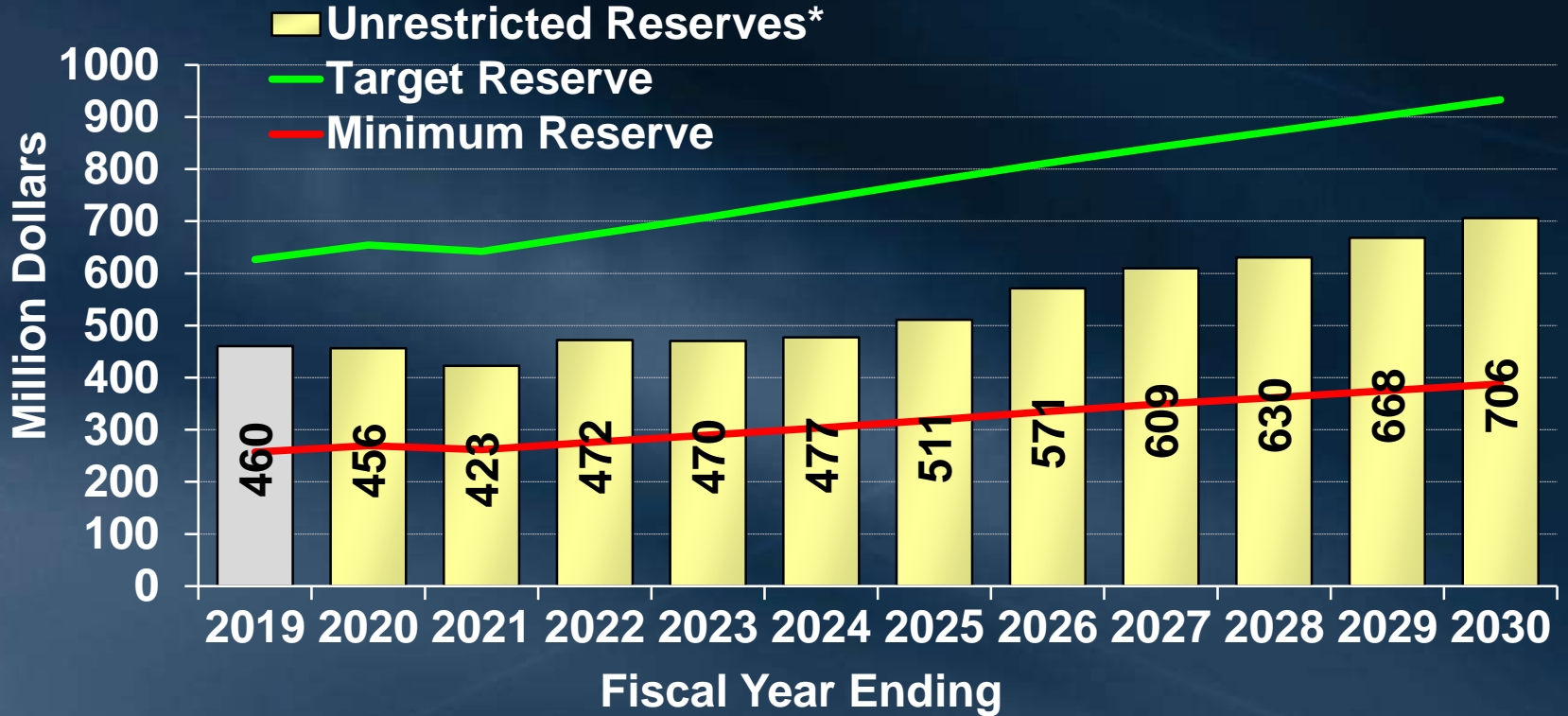
Water Transactions

■ Projection
■ Actual Water Transactions*



* Includes water sales, exchanges and wheeling

Projected Rate Increases & Financial Metrics



Overall Rate Inc.	3.0%	3.0%	5.0%	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Water Transactions (MAF)**	1.42	1.55	1.60	1.60	1.60	1.64	1.69	1.74	1.74	1.74	1.75	1.75
Rev. Bond Cvg	1.4	1.5	1.5	1.6	1.6	1.8	2.0	2.2	2.1	2.1	2.2	2.3
Fixed Chg Cvg	1.4	1.4	1.5	1.6	1.7	1.8	1.9	1.9	1.8	1.6	1.7	1.7
PAYGO, \$M	126	30	135	135	180	210	210	210	210	210	210	210

* Revenue Remainder and Water Rate Stabilization Fund

** Includes water sales, exchanges and wheeling

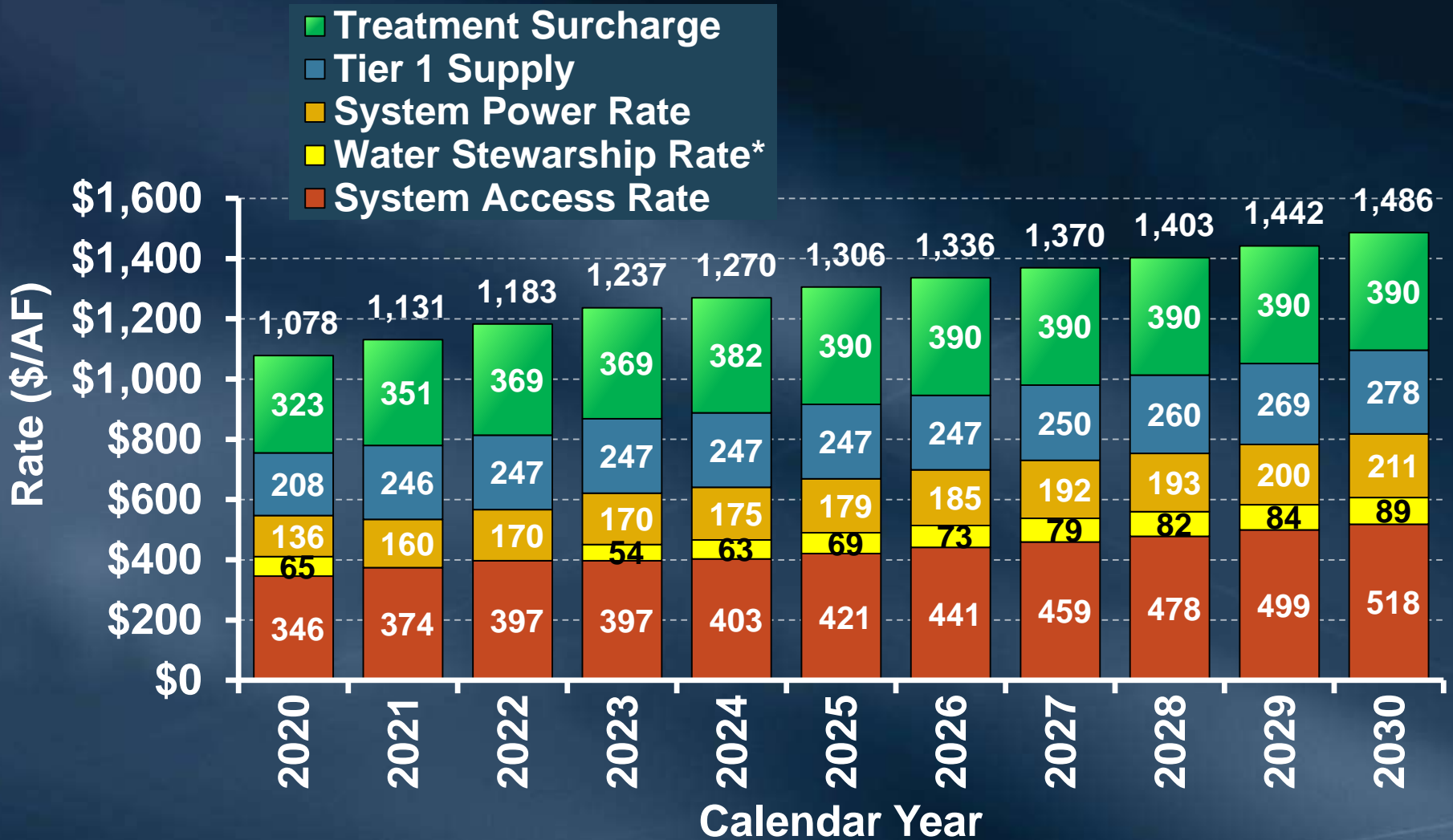
Projected Water Rates and Charges

Rates & Charges Effective January 1st	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Tier 1 Supply Rate (\$/AF)	\$208	\$246	\$247	\$247	\$247	\$247	\$247	\$250	\$260	\$269	\$278
Tier 2 Supply Rate (\$/AF)	\$295	\$285	\$285	\$285	\$285	\$285	\$285	\$285	\$285	\$285	\$285
System Access Rate (\$/AF)	\$346	\$374	\$397	\$397	\$403	\$421	\$441	\$459	\$478	\$499	\$518
Water Stewardship Rate (\$/AF)*	\$65	\$ -	\$ -	\$54	\$63	\$69	\$73	\$79	\$82	\$84	\$89
System Power Rate (\$/AF)	\$136	\$160	\$170	\$170	\$175	\$179	\$185	\$192	\$193	\$200	\$211
Full Service Untreated Volumetric Cost (\$/AF)											
Tier 1	\$755	\$780	\$814	\$868	\$888	\$916	\$946	\$980	\$1,013	\$1,052	\$1,096
Tier 2	\$842	\$819	\$852	\$906	\$926	\$954	\$984	\$1,015	\$1,038	\$1,068	\$1,103
Treatment Surcharge (\$/AF)	\$323	\$351	\$369	\$369	\$382	\$390	\$390	\$390	\$390	\$390	\$390
Full Service Treated Volumetric Cost (\$/AF)											
Tier 1	\$1,078	\$1,131	\$1,183	\$1,237	\$1,270	\$1,306	\$1,336	\$1,370	\$1,403	\$1,442	\$1,486
Tier 2	\$1,165	\$1,170	\$1,221	\$1,275	\$1,308	\$1,344	\$1,374	\$1,405	\$1,428	\$1,458	\$1,493
RTS Charge (\$M)	\$136	\$136	\$144	\$144	\$148	\$153	\$163	\$166	\$177	\$179	\$179
Capacity Charge (\$/cfs)	\$8,800	\$11,200	\$12,500	\$12,500	\$15,000	\$15,100	\$15,300	\$16,000	\$16,000	\$16,000	\$16,000
Overall Rate Increase	3.0%	5.0%	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

Full Service Cost means the Full Service Rate, consisting of the following rate components: the applicable Supply Rate, the System Access Rate, the System Power Rate, the Water Stewardship Rate, and if applicable the Treatment Surcharge for treated water service.

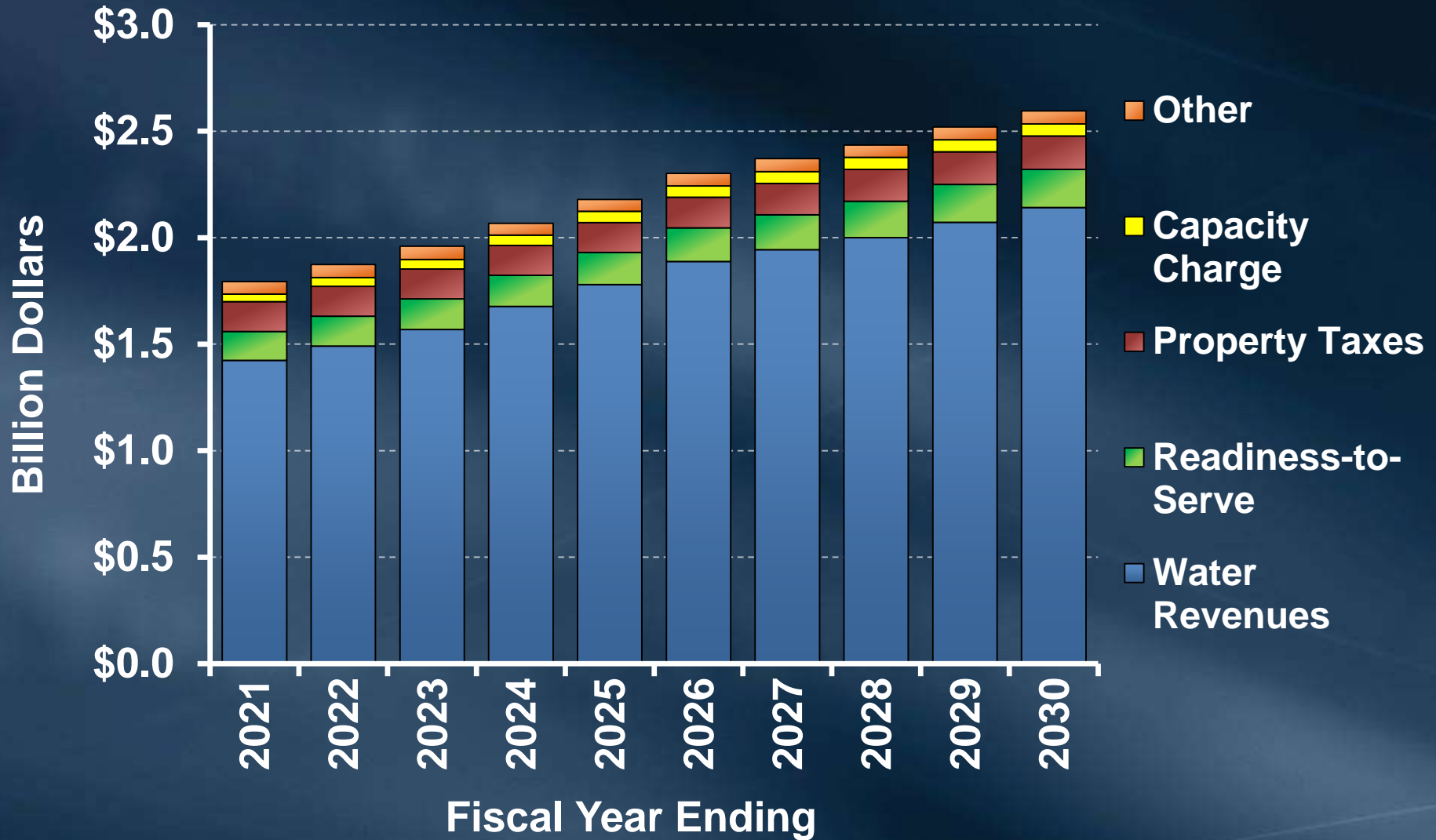
* The volumetric rates shown for CYs 2023-2030 represent only a placeholder until the Board approves a method to recover demand management costs.

Projected Volumetric Rates

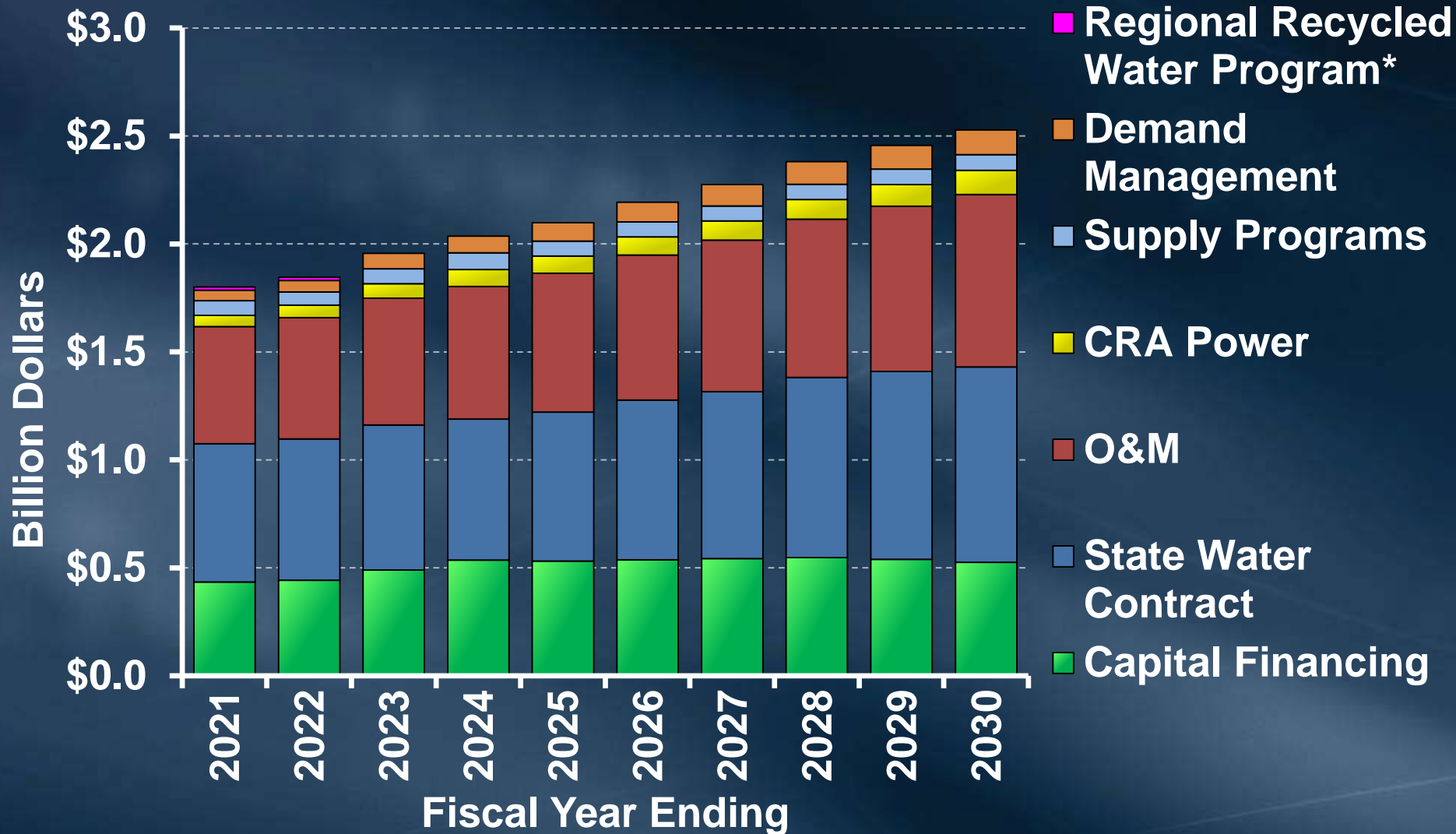


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Revenue Forecast

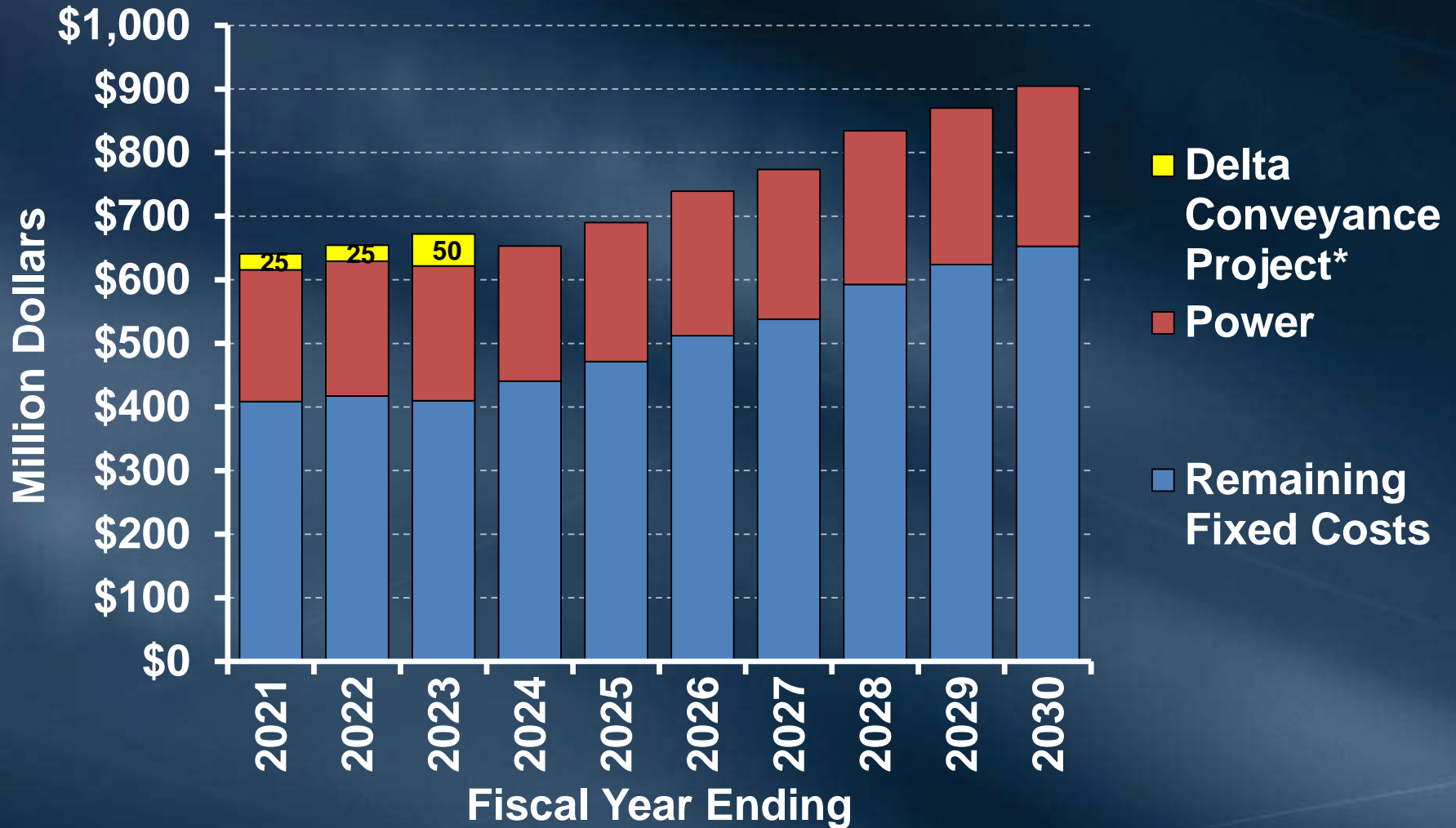


Expenditure Trend



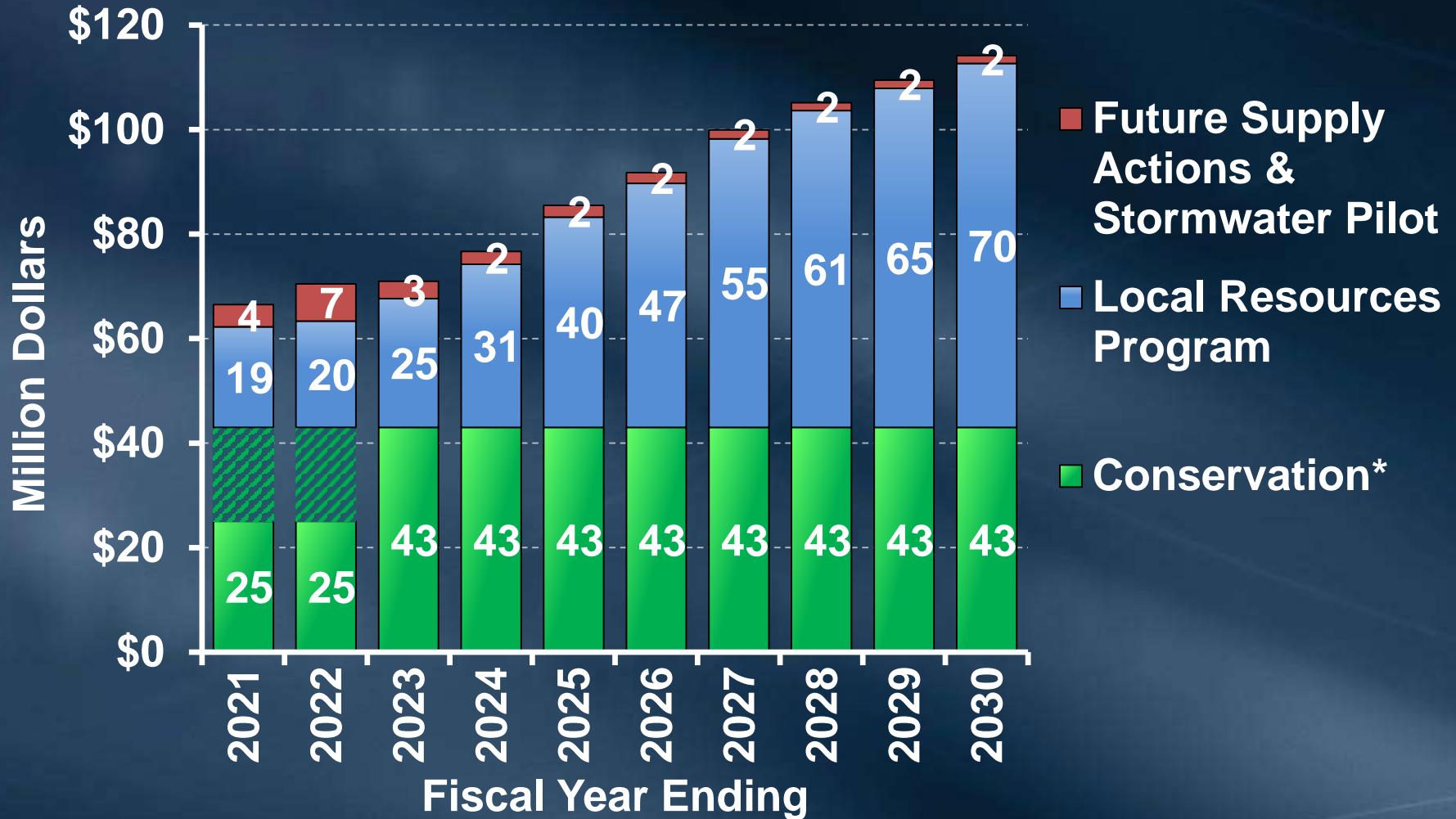
*Includes only planning costs

State Water Contract Forecast



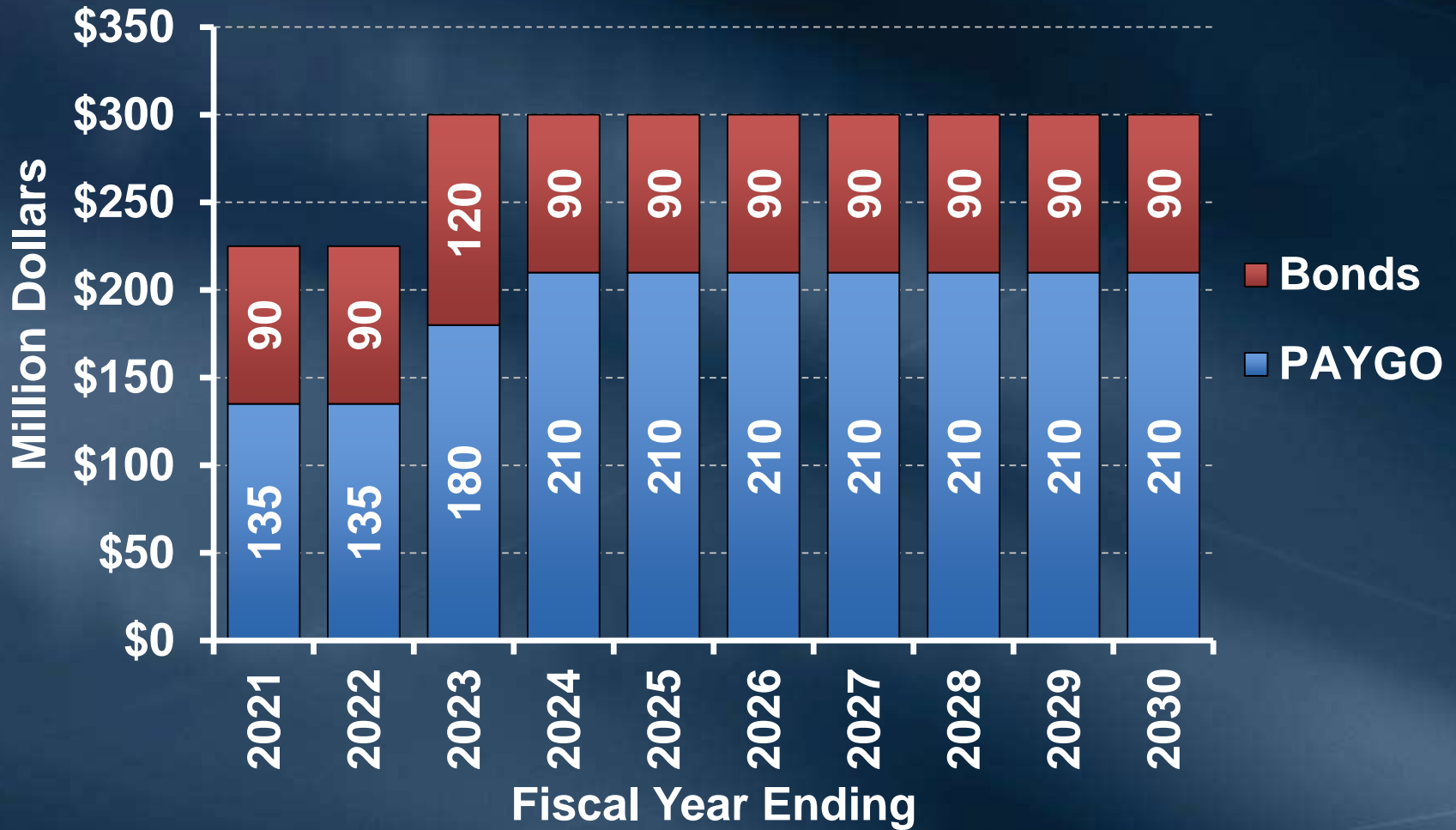
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Demand Management



*For FY2021 and FY2022 conservation expenditures are estimated to be \$25M per year and are appropriated at \$43M per year.

Capital Investment Plan Expenditures



Outstanding Debt



Debt Service



Q&A

Next Steps

- | | |
|-------------------|--|
| February 25, 2020 | F&I Committee, Workshop #2: CIP, follow up |
| March 9, 2020 | F&I Committee, Workshop #3: follow up |
| March 10, 2020 | Public Hearings on proposed water rates and charges and applicability of the tax rate limit pursuant to Section 124.5 of the MWD Act |
| March 24, 2020 | F&I Committee, Workshop #4: if needed |
| April 13, 2020 | F&I Committee: Recommend Biennial Budget and Calendar Year rates and charges; Workshop #5, if needed |
| April 14, 2020 | Board Actions regarding Biennial Budget, Calendar Year rates and charges |

