

## Proposed Biennial Budget and Revenue Requirements, Fiscal Years 2016/17 and 2017/18; and Ten-Year Forecast

Finance & Insurance Committee  
Item 8a & 8b  
February 8, 2016



## Proposed Biennial Budget Workshop Presentation Overview

- Overview
- Major Expenditures
- Reserves
- Ten-Year Financial Forecast
- SDCWA exchange agreement set-aside
- Next Steps

## Proposed Biennial Budget

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## Biennial Budget and Rates Process Has Several Objectives

- Adopt a two-year budget, covering fiscal years 2016/17 and 2017/18
- Adopt rates and charges for calendar years 2017 and 2018
- Update ten-year forecast, including the biennial period
  - Water Sales
  - Expenditures
  - Revenues

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## Summary of Financial Policies

- Maintain AAA/AA+/Aa1 ratings
- Achieve/Maintain coverage ratios
  - Debt service coverage = 2.0
  - Fixed charge coverage = 1.2
- PAYGO funding
  - 60 percent per year
  - Integral to maintaining coverage targets
  - Provides financial flexibility

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## Overall Rate Increases Since 2007



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## Important Underlying Assumptions

Fiscal Year Ending	2017	2018
Overall increase January 2017 & 2018	4.0%	4.0%
Total Water Sales and Exchanges	1.70 MAF	1.70 MAF
State Water Project Allocation	50%	50%
Colorado River Aqueduct Diversions	1.01 MAF	1.04 MAF
Capital Investment Plan	\$200 M	\$200 M
PAYGO	\$120M	\$120M

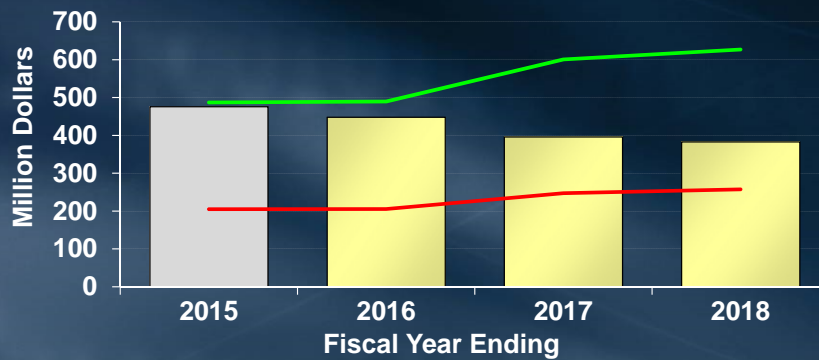
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## Projected Rate Increases & Financial Metrics

■ Unrestricted Reserve    — Target Reserve    — Minimum Reserve



Overall Rate Inc.	1.5%	1.5%	4.0%	4.0%
Sales, MAF	1.90	1.63	1.70	1.70
Rev. Bond Cvg	2.7	1.5	1.6	1.6
Fixed Chg Cvg	2.4	1.3	1.3	1.3
PAYGO, \$M	210	99	120	120

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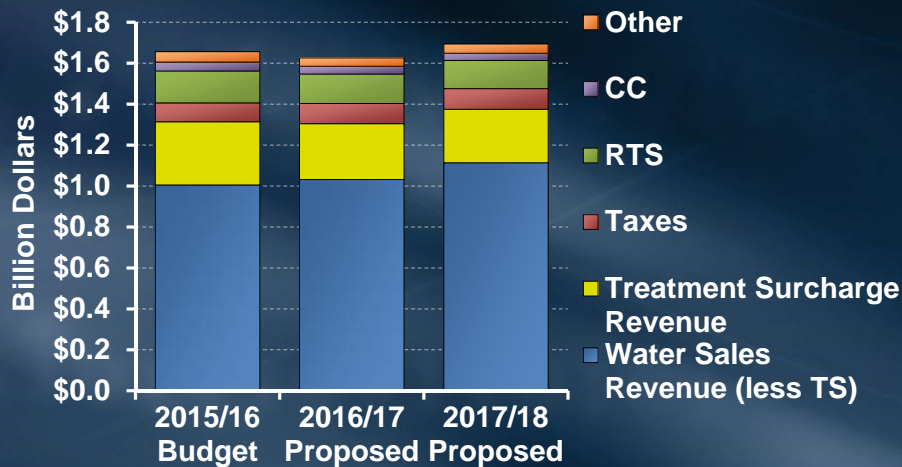
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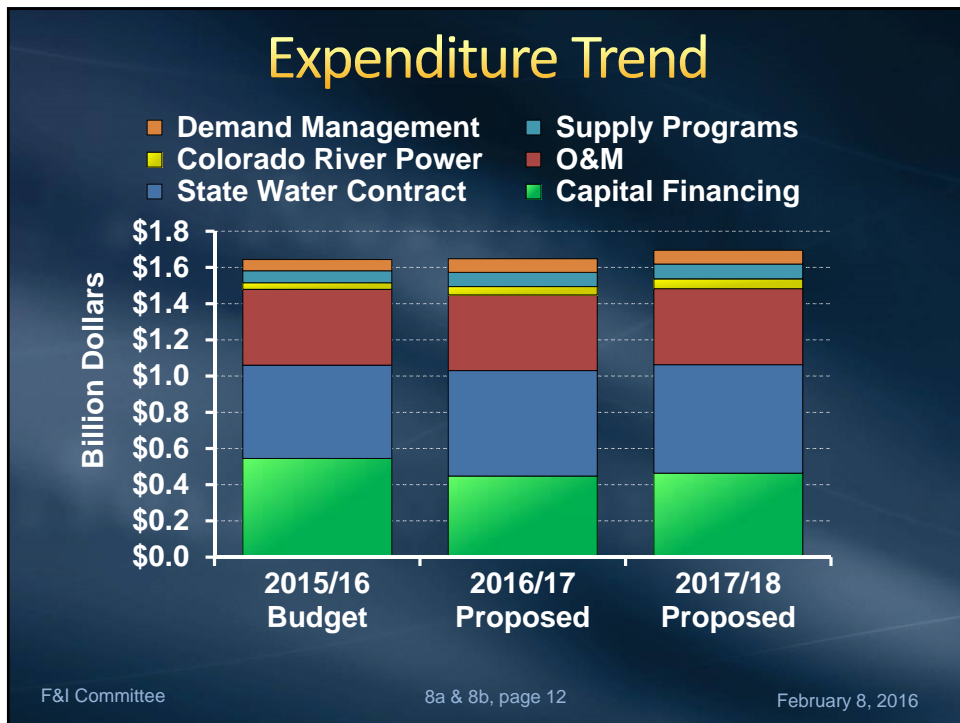
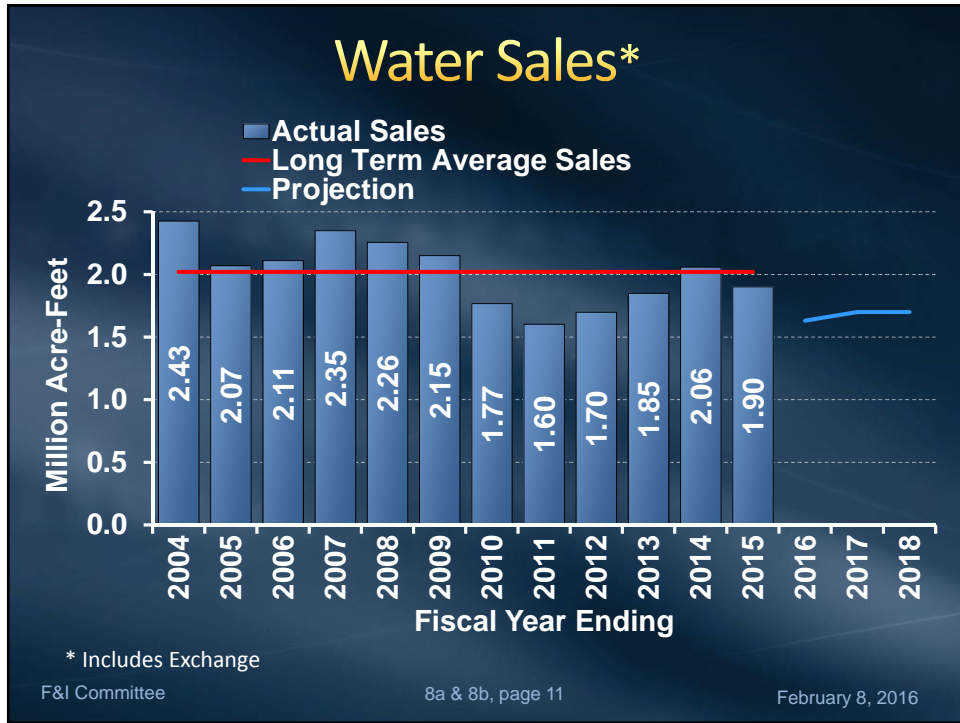
## Estimated Full Service Costs and Charges

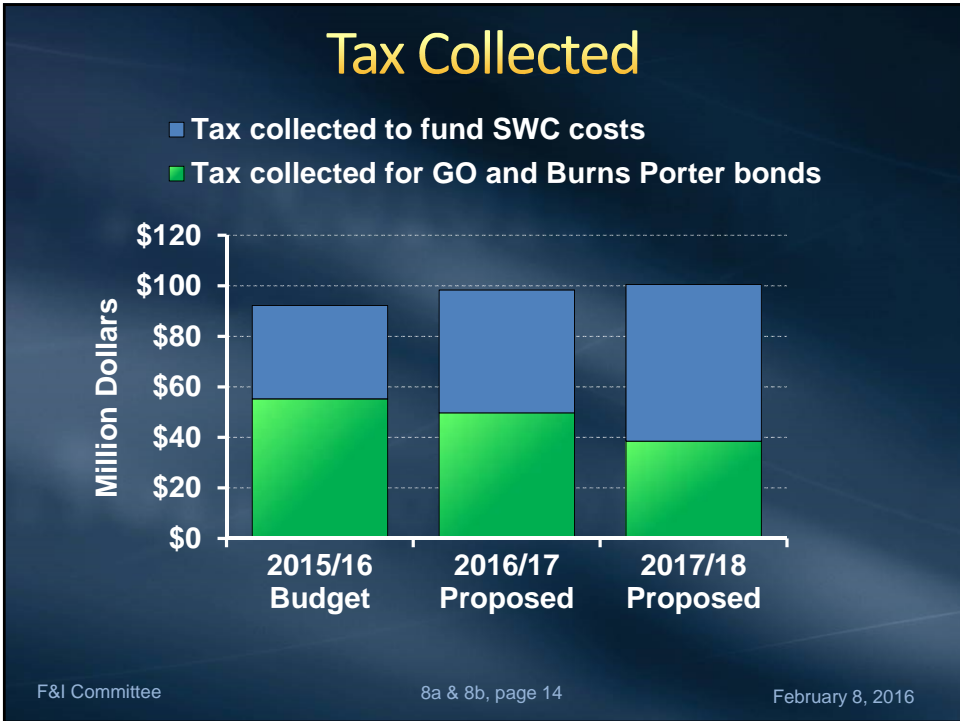
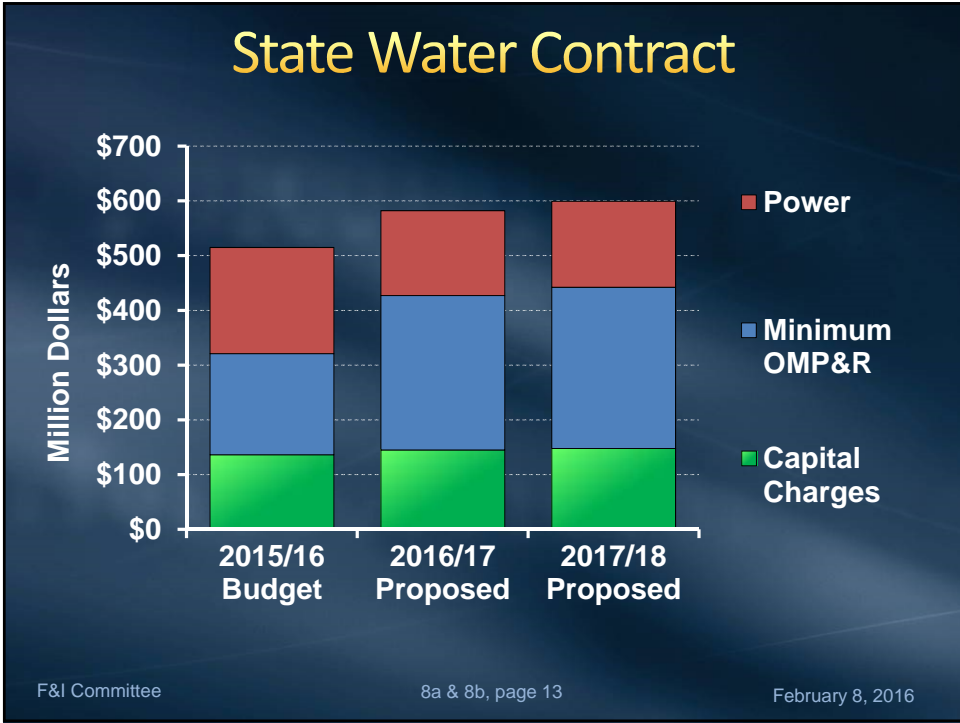
Rate Type	2016 Approved	2017 Estimated	% Increase (Decrease)	2018 Estimated	% Increase (Decrease)
<b>Full Service Untreated Volumetric Cost (\$/AF)</b>					
Tier 1	\$594	\$666	12.1%	\$695	4.4%
Tier 2	\$728	\$760	4.4%	\$781	2.8%
<b>Treatment Surcharge*</b>	<b>\$348</b>	<b>\$313</b>	<b>(10.1%)</b>	<b>\$320</b>	<b>2.2%</b>
<b>Full Service Treated Volumetric Cost (\$/AF)*</b>					
Tier 1	\$942	\$979	3.9%	\$1,015	3.7%
Tier 2	\$1,076	\$1,073	(0.3%)	\$1,101	2.6%
<b>RTS Charge (\$M)</b>	<b>\$153</b>	<b>\$135</b>	<b>(11.8%)</b>	<b>\$140</b>	<b>3.7%</b>
<b>Capacity Charge (\$M)</b>	<b>\$43</b>	<b>\$34</b>	<b>(21.5%)</b>	<b>\$37</b>	<b>8.8%</b>

\*A proposal will be presented to the Board for consideration to address fixed cost recovery of Treatment costs which are currently only recovered through a volumetric rate.

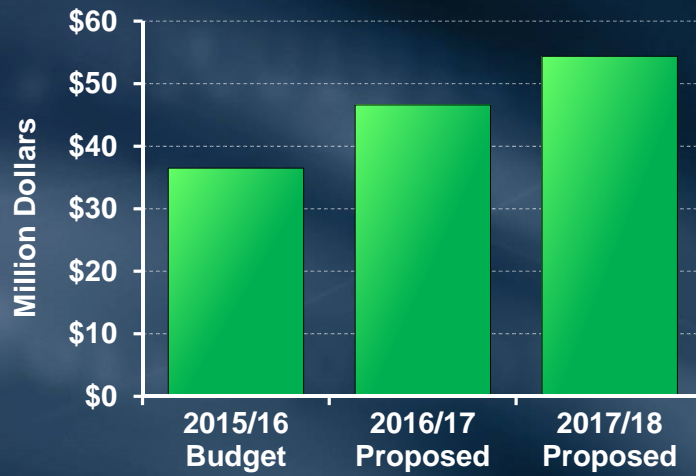
## Revenue Trend







## Colorado River Aqueduct Power

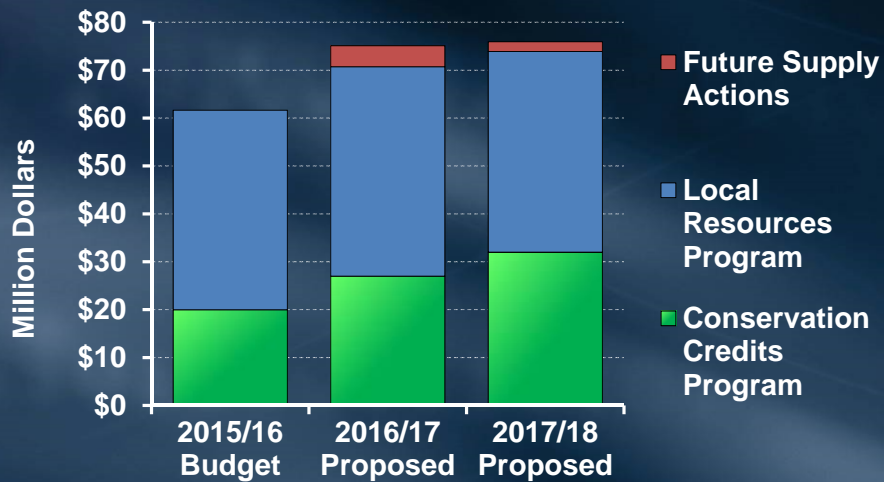


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## Demand Management Programs

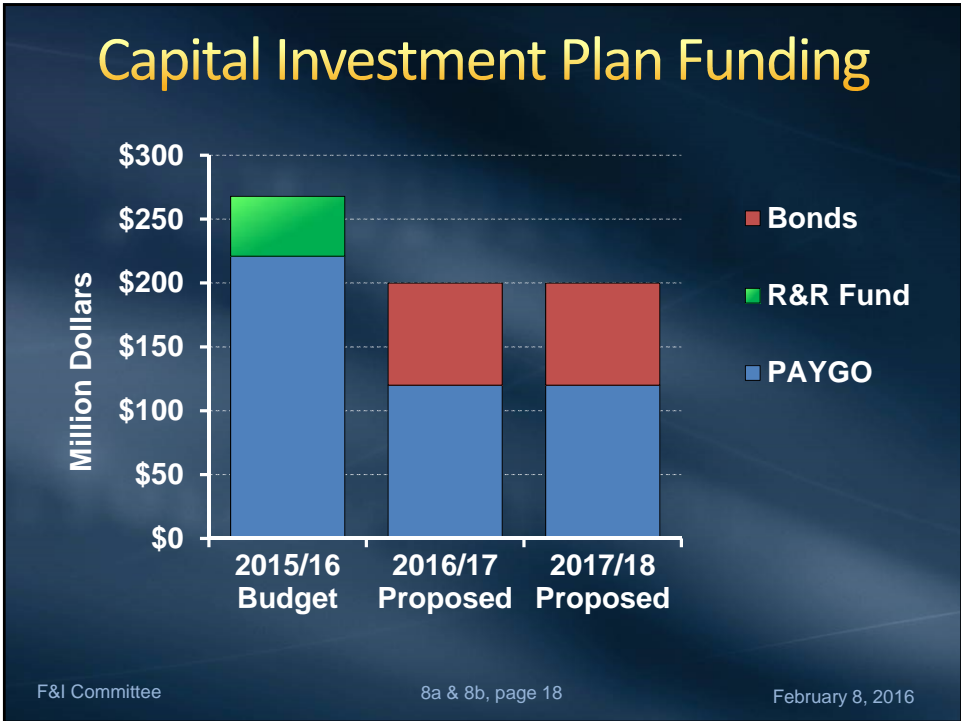
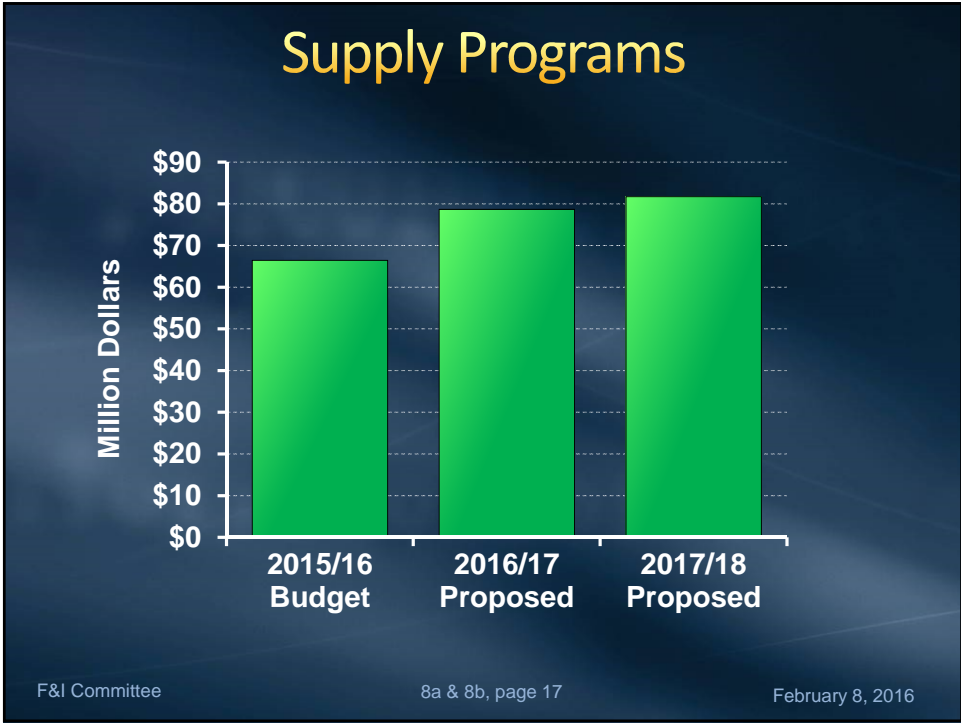


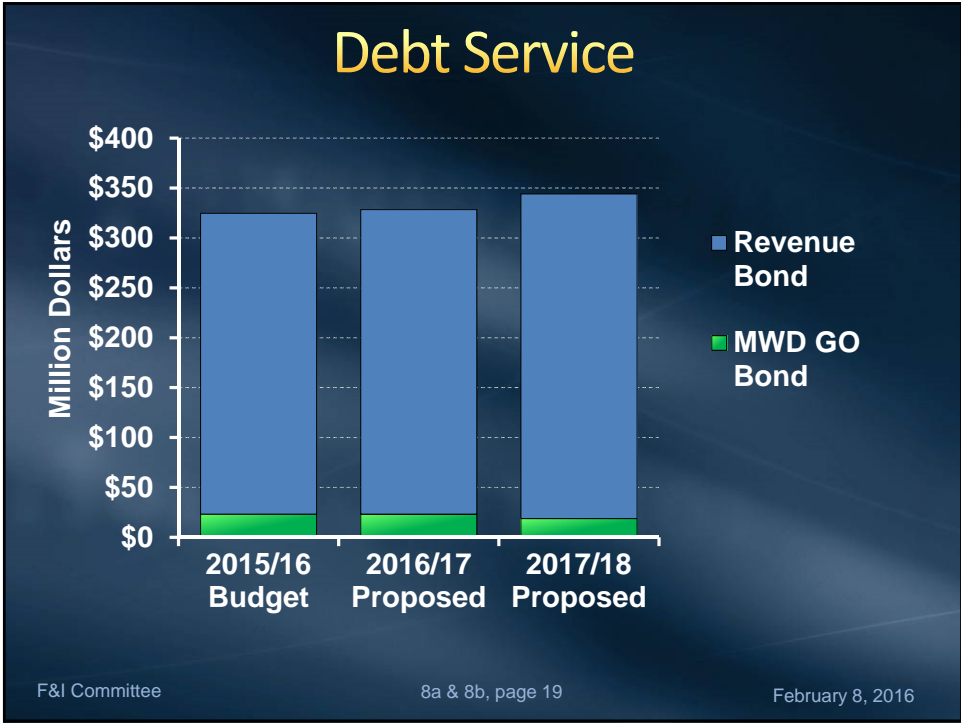
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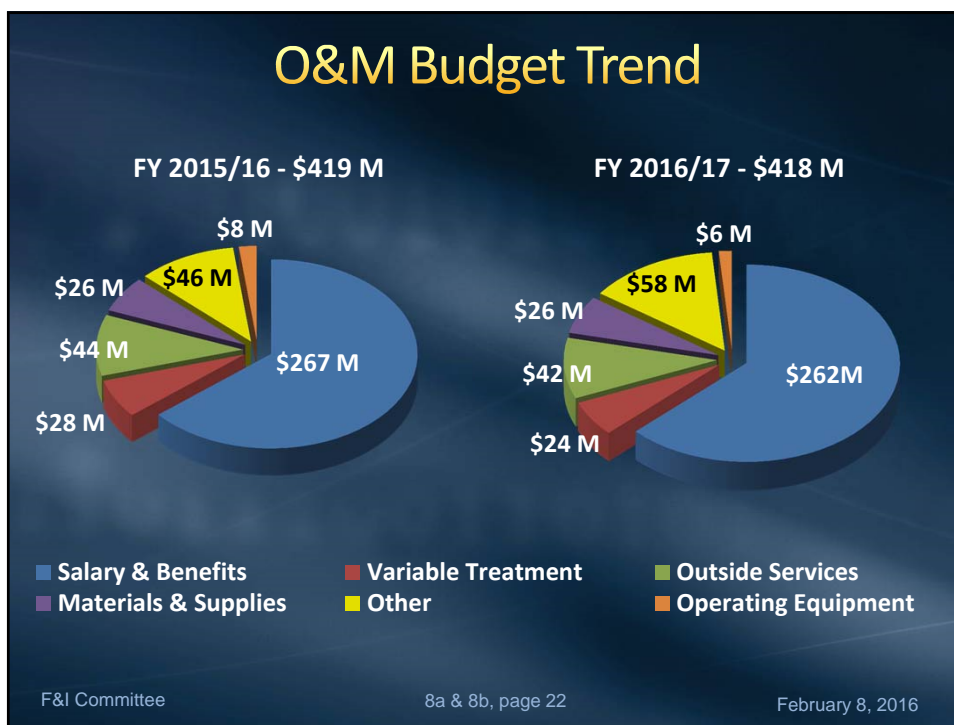
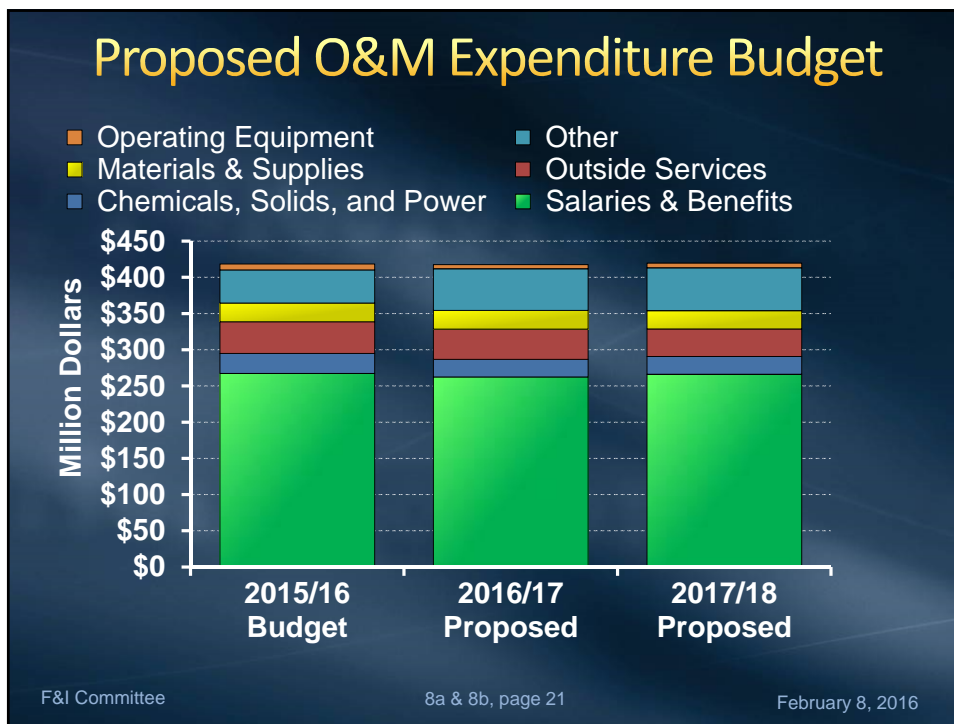


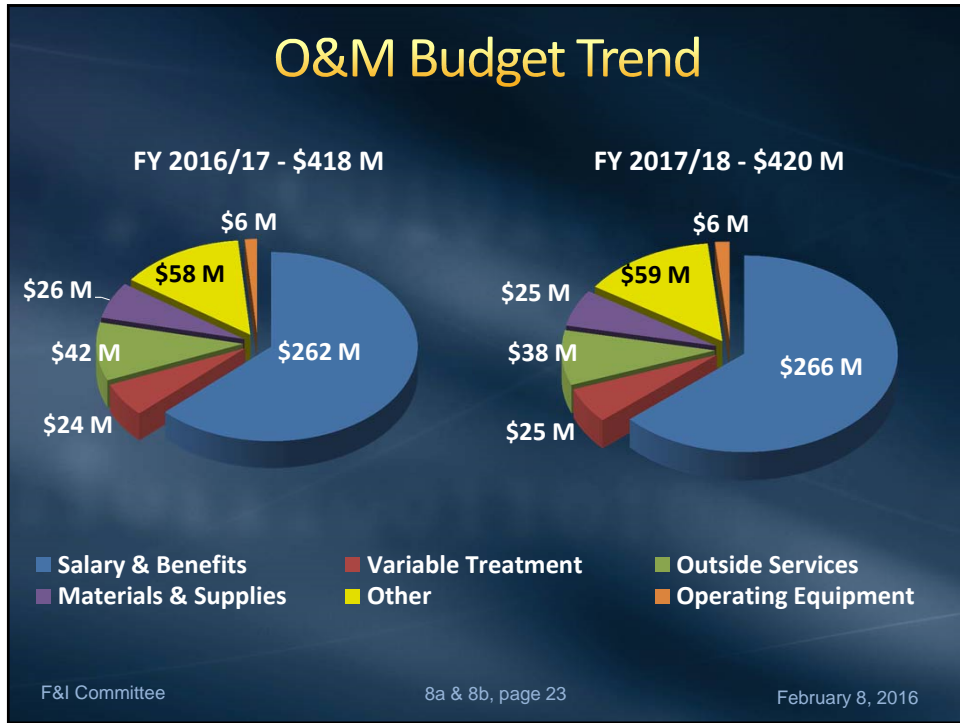




## Operating Budget

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### Budgeted Positions

	2015/16	2016/17	2017/18
Regular	1,885	1,886	1,886
Temporary	20	26	24
<b>Authorized Positions</b>	<b>1,905</b>	<b>1,912</b>	<b>1,910</b>
Unfunded positions/vacancy	(56)	(72)	(69)
<b>Total Funded Positions</b>	<b>1,849</b>	<b>1,840</b>	<b>1,841</b>

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# GM Department

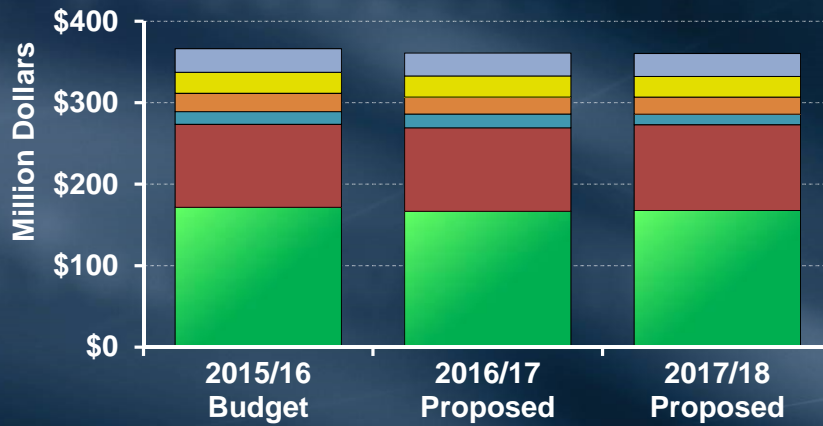
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## GM Department O&M Budget

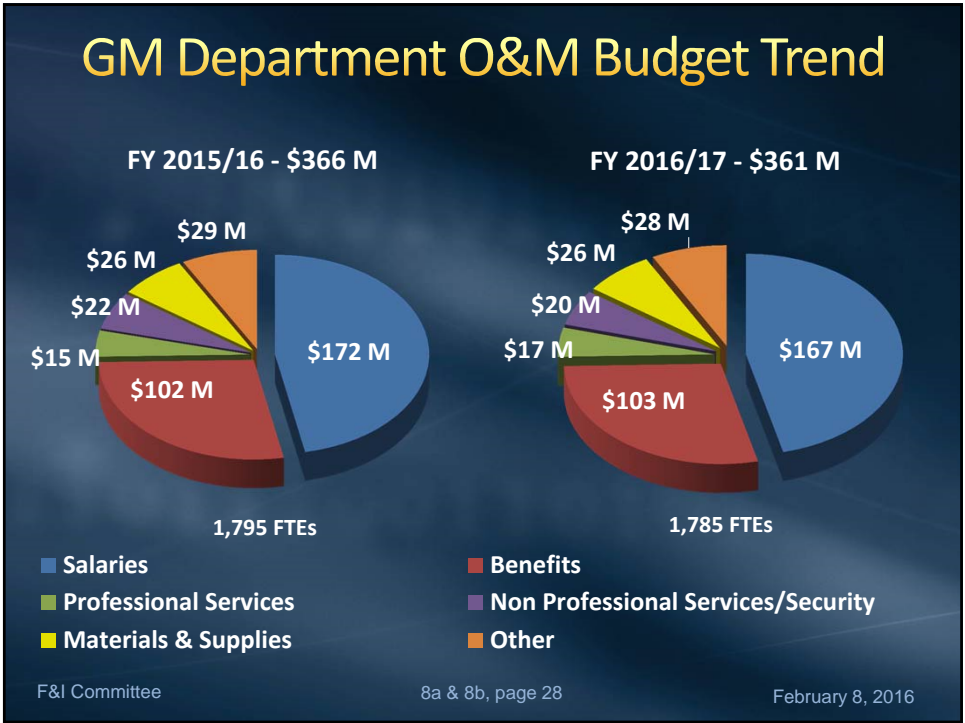
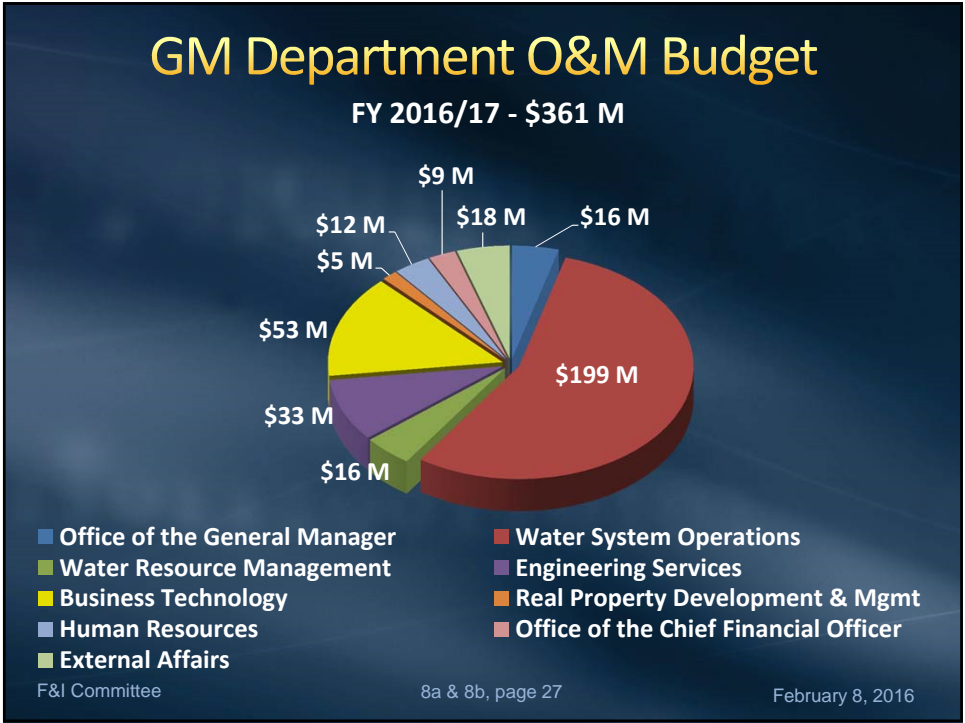
- Other
- Materials & Supplies
- Non Professional Services/Security
- Professional Services
- Benefits
- Salaries

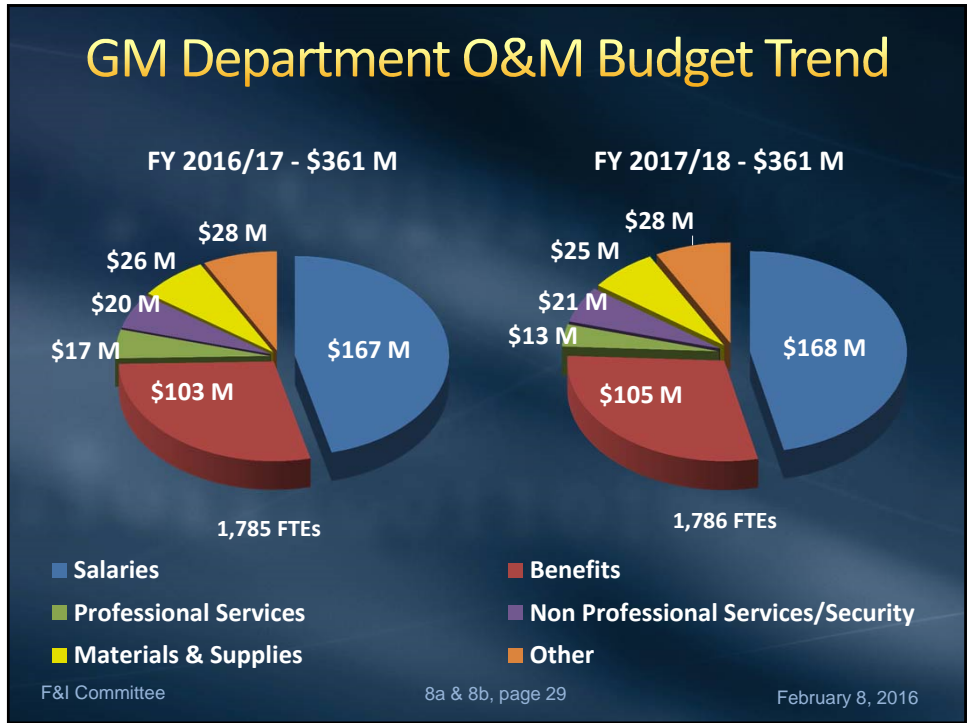


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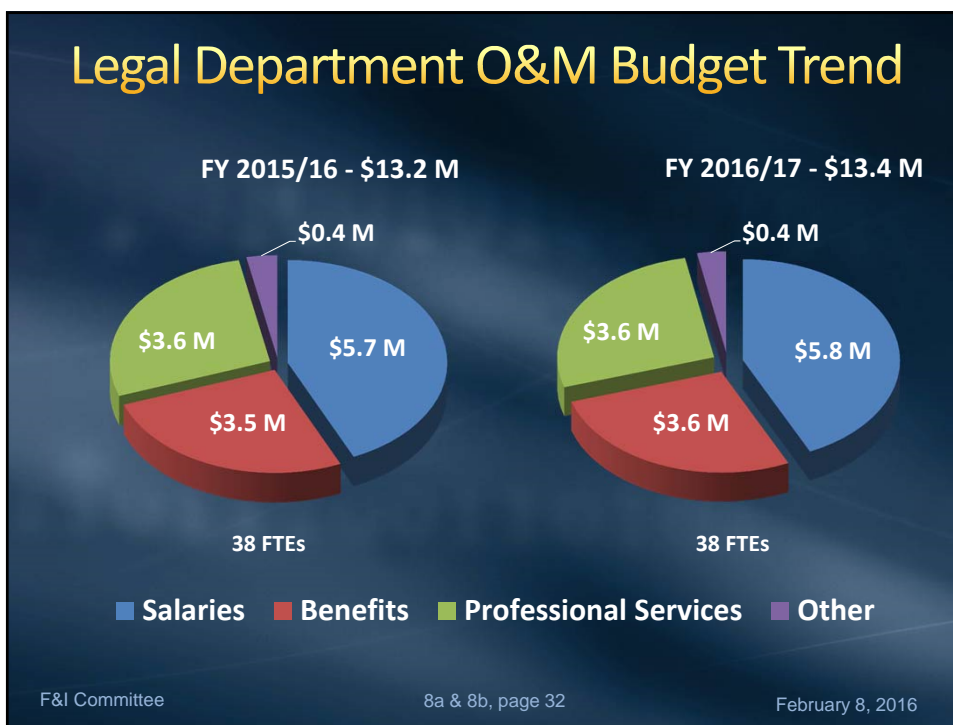
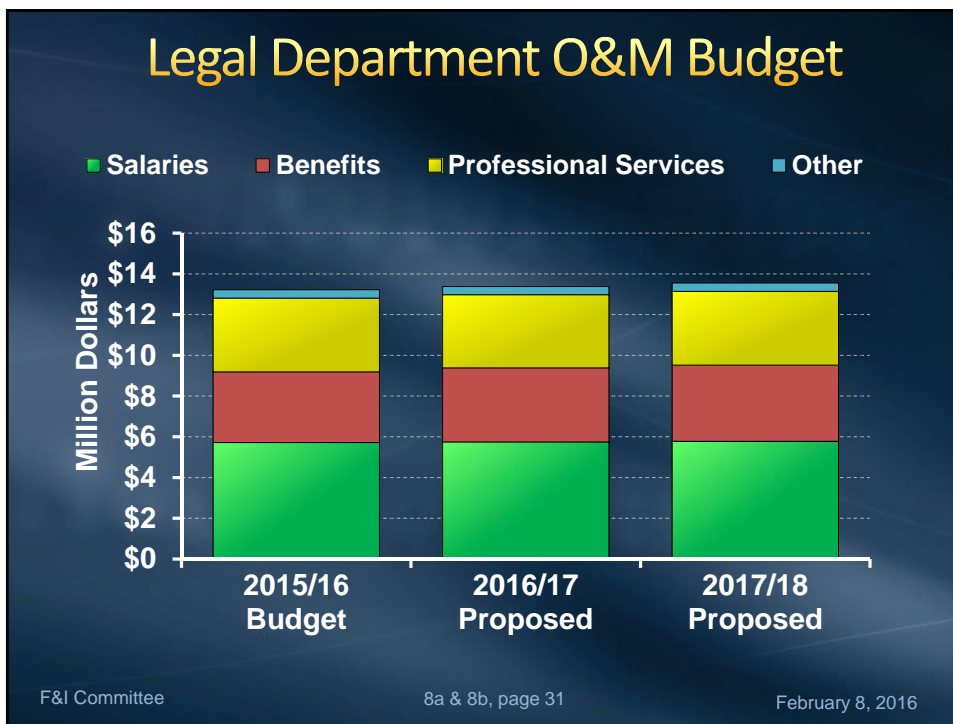
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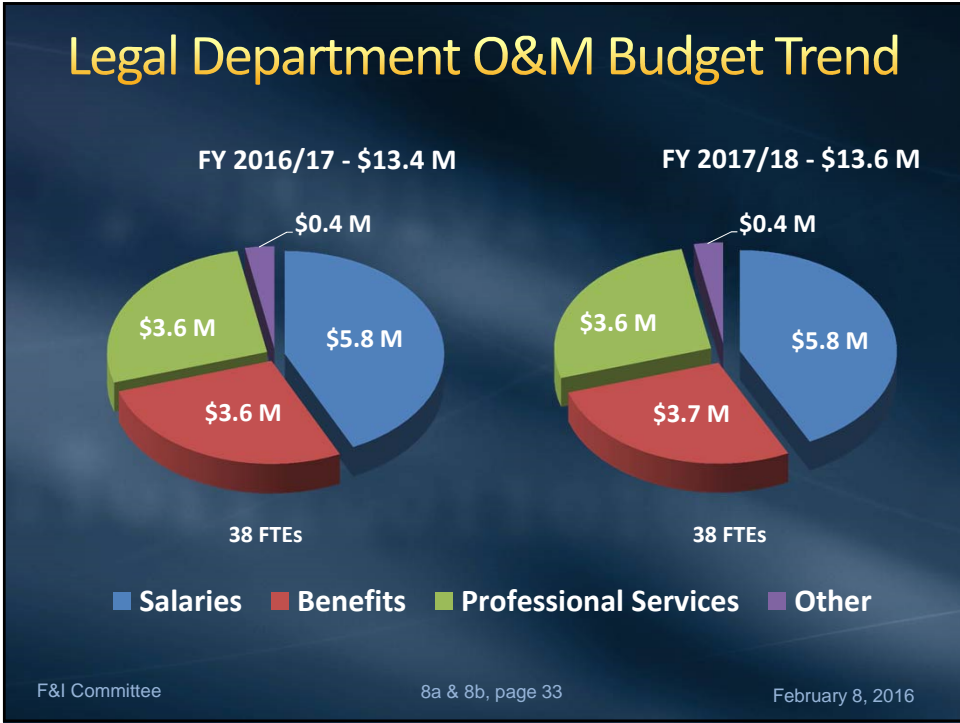


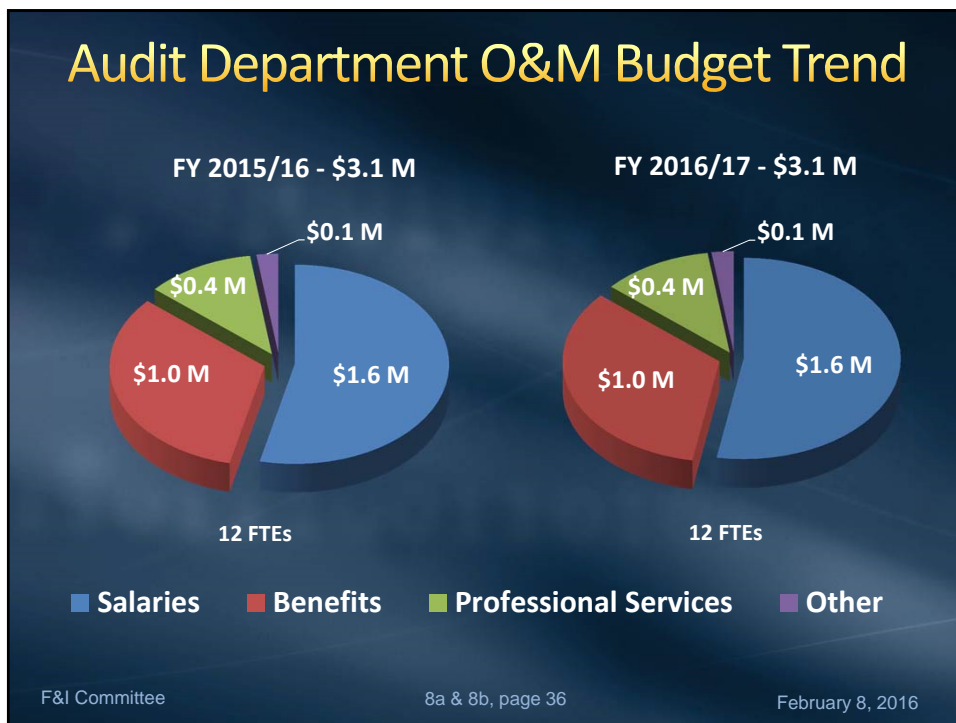
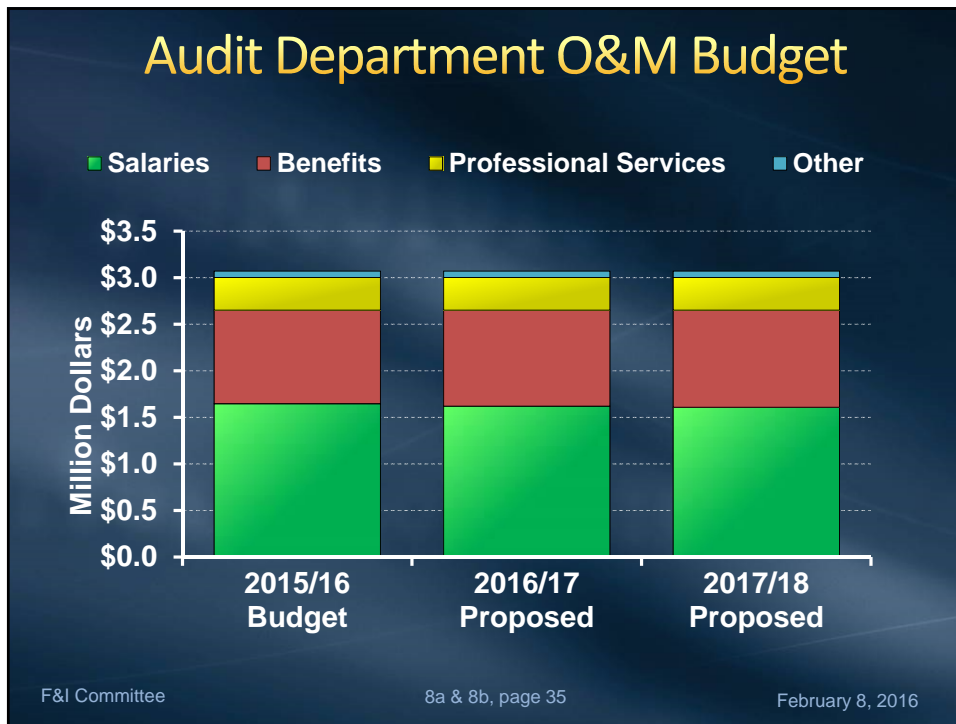
## Legal Department

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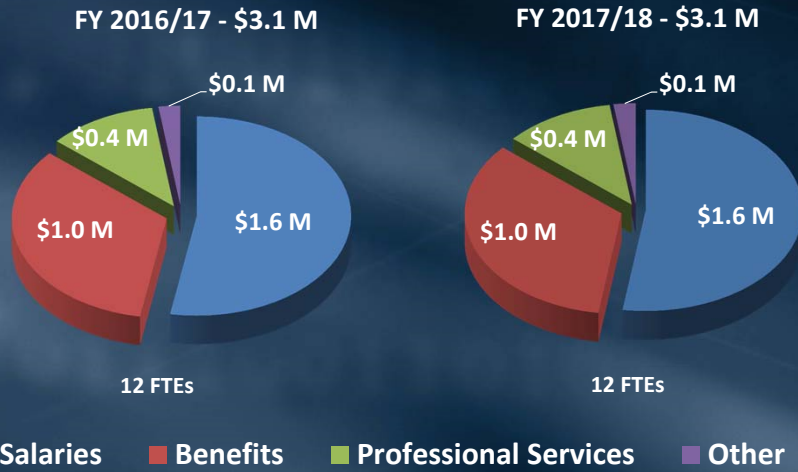








## Audit Department O&M Budget Trend



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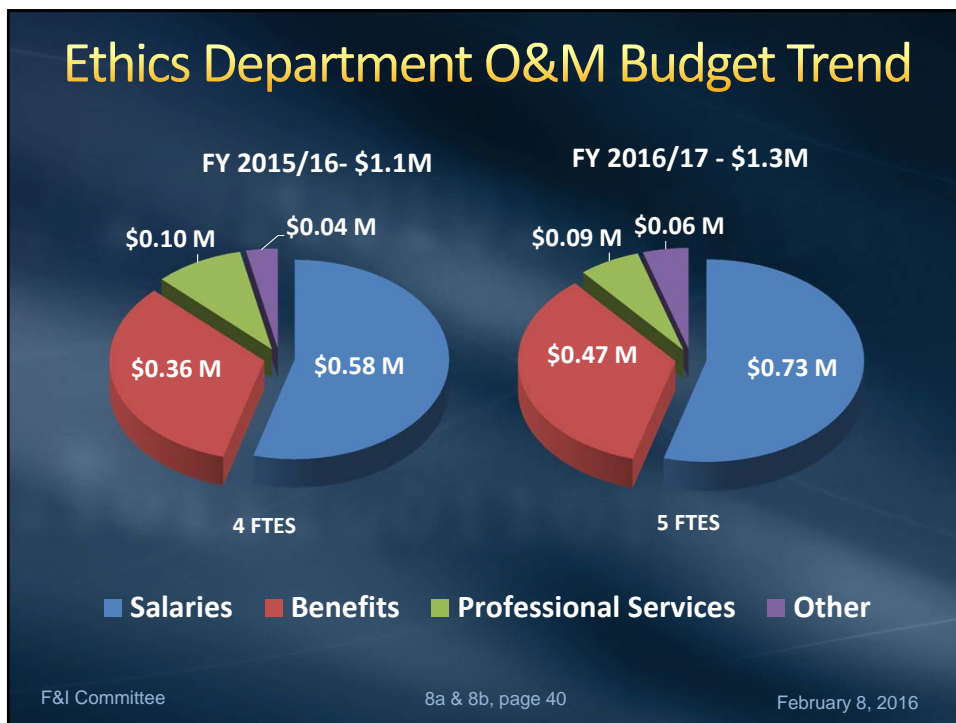
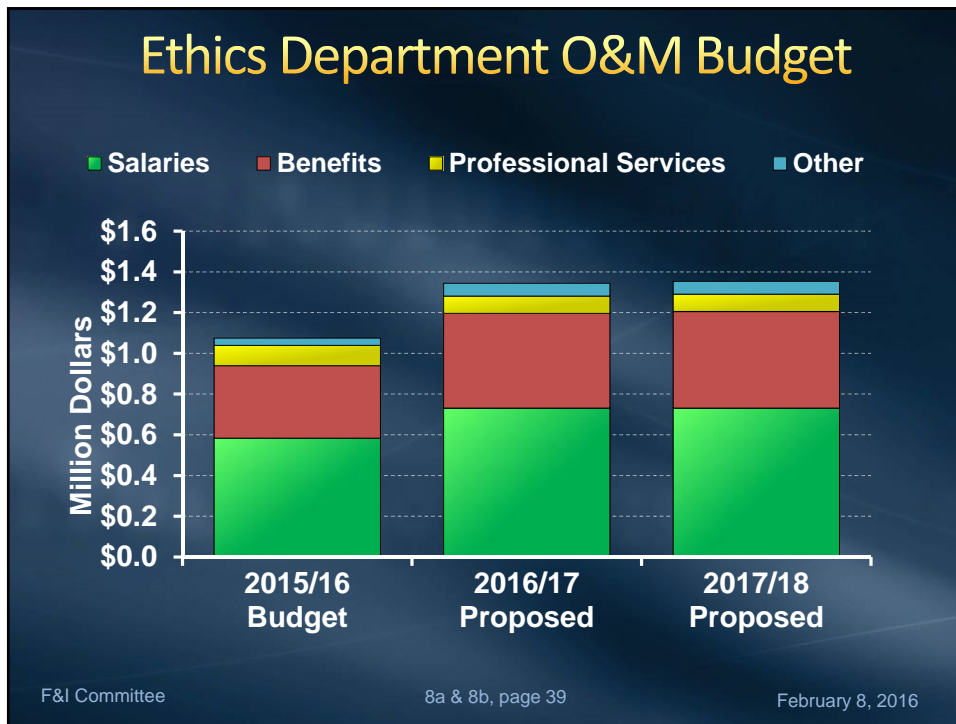
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## Ethics Department

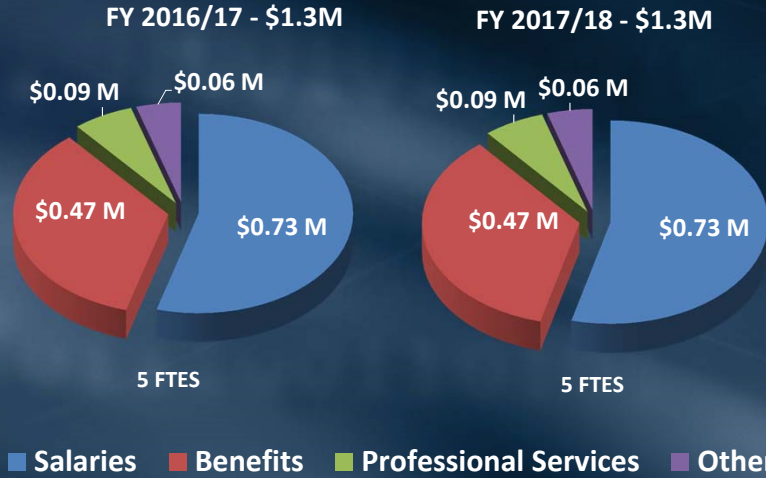
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## Ethics Department O&M Budget Trend

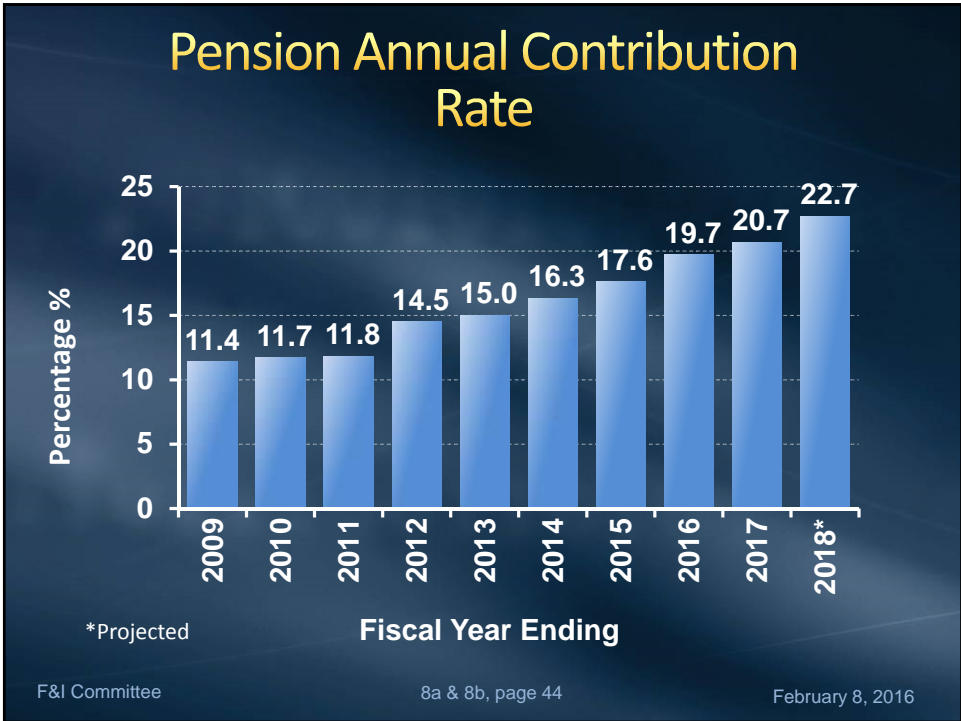
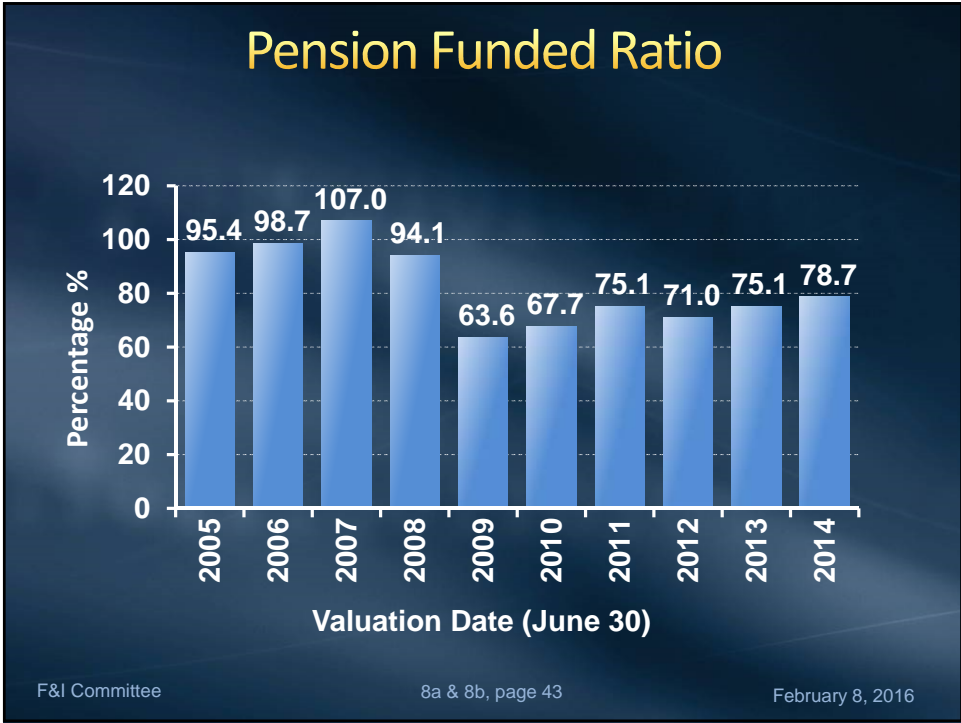


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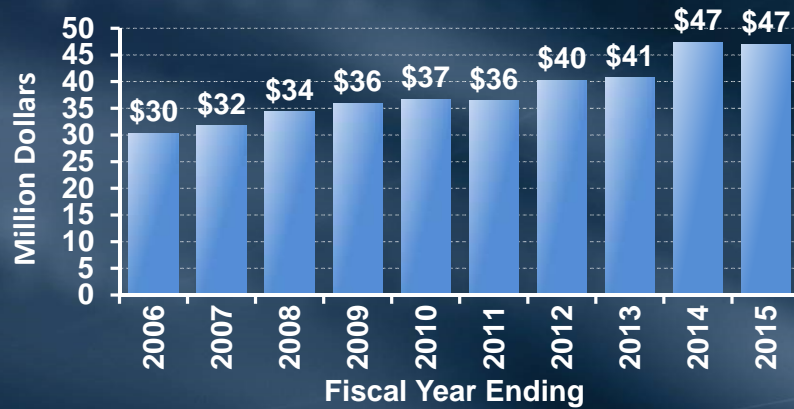
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## Pension and Other Post-Employment Benefits (OPEB)



## Pension Annual Required Contribution



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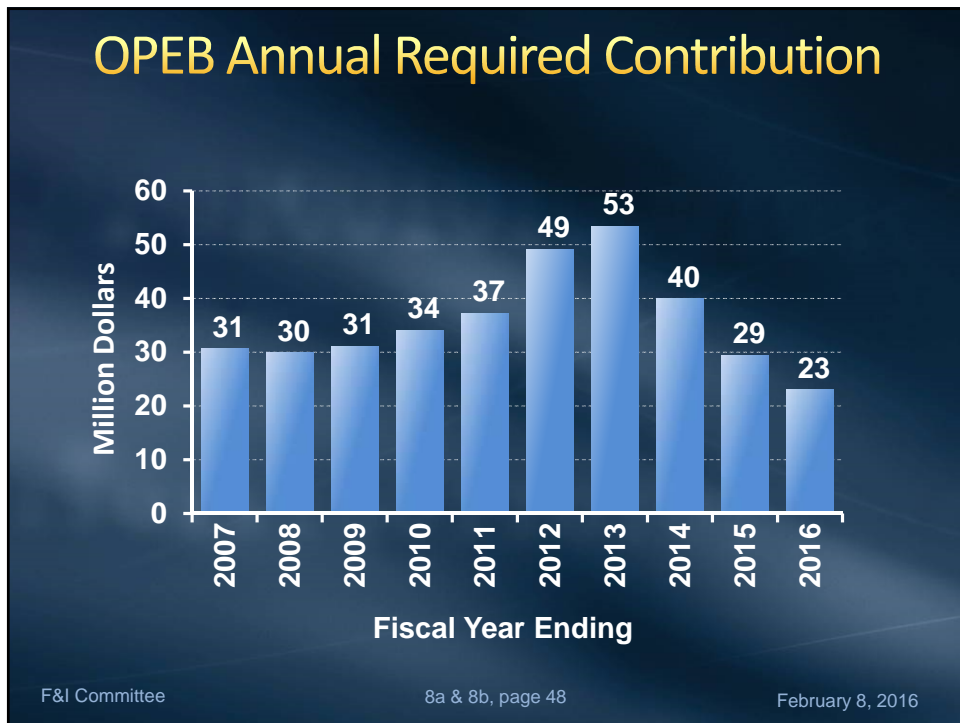
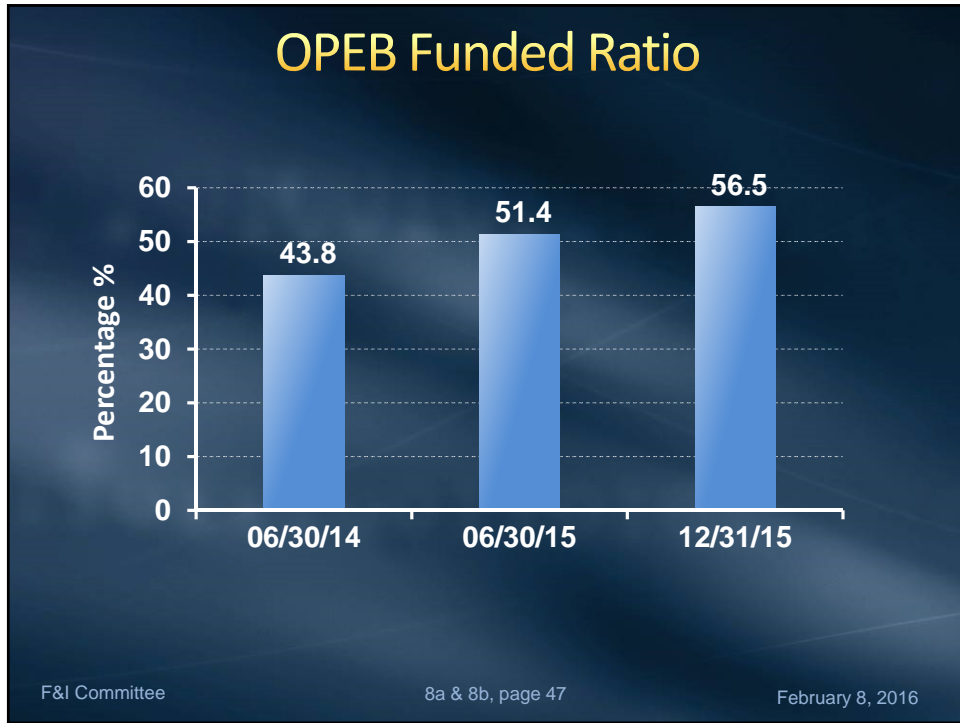
## CalPERS Actuarial Changes

- April 2013
  - Modified policy for “smoothing” investment returns. Effective fiscal 2015/16.
- February 2014
  - Modified demographic assumptions. Effective 2016/17.
- November 2015
  - Established mechanism for reducing the discount rate. Will be implemented over 21 years.

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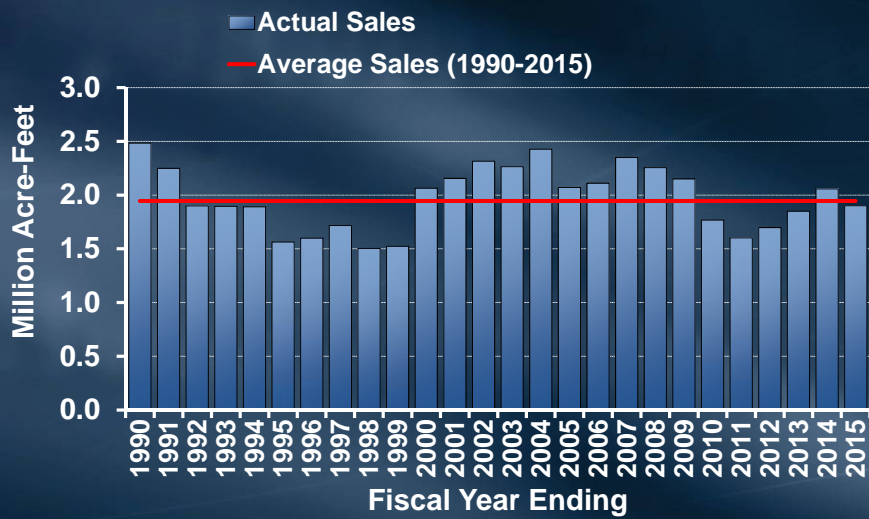
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## Unrestricted Reserve Policy Overview

## Metropolitan's Historic Water Sales are Variable



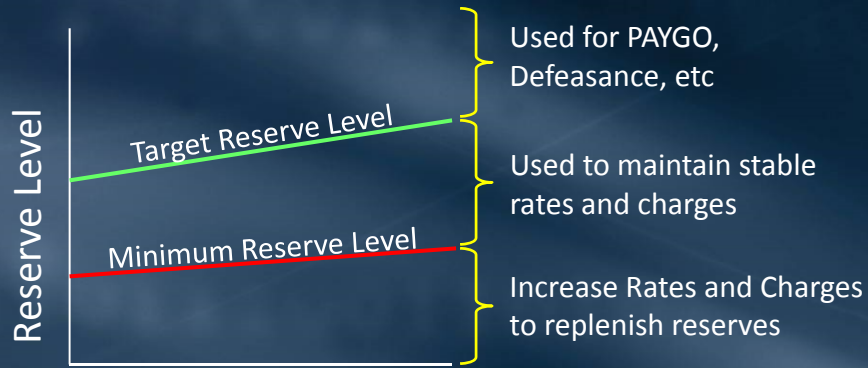
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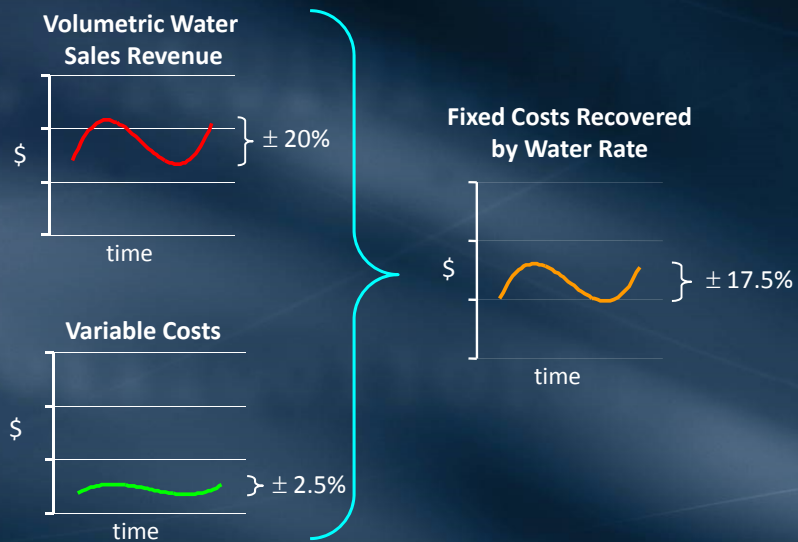
# Unrestricted Reserve Policy

Reserve Fund Principle:  
Provide stable & predictable water rates



# Unrestricted Reserve Calculation

Hydrologic Risk estimated per 1999 LRF



## Unrestricted Reserve Calculation

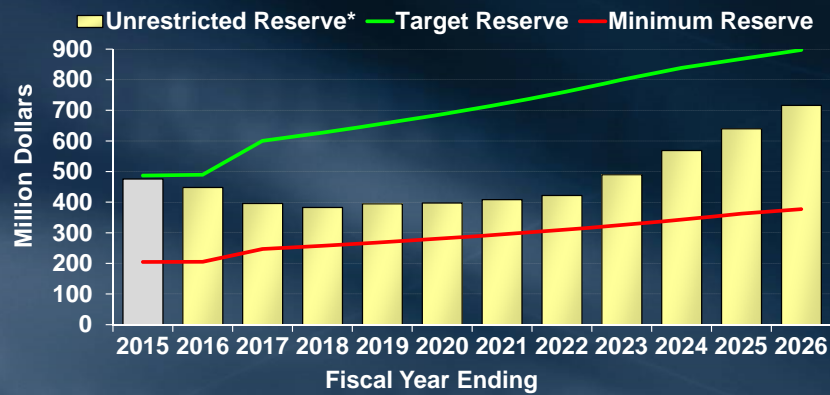
for June 30<sup>th</sup>, 2017 in millions of dollars

	2017/18 Budget	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast
Revenue Requirement	\$ 1,574	\$ 1,641	\$ 1,716	\$ 1,788
Less RTS Charge	138	142	146	152
Less Capacity Charge	35	37	39	40
Water Rate Revenue Requirements	\$ 1,402	\$ 1,463	\$ 1,532	\$ 1,596
Less Variable Costs				
Treatment Surcharge Rev Req.	265	265	263	260
SWC Variable Power Costs	153	168	189	209
CRA Power Costs	54	65	70	74
<b>Fixed Costs Recovered by Water Rate</b>	<b>930</b>	<b>965</b>	<b>1,010</b>	<b>1,053</b>
Percent Reserved	17.5%	17.5%	17.5%	17.5%
<b>Annual Amount Reserved</b>	<b>\$ 163</b>	<b>\$ 169</b>	<b>\$ 177</b>	<b>\$ 184</b>

$$\begin{aligned} \text{Minimum Reserve Level} &= 163 + 169 / 2 &&= \text{\$247.2 million} \\ \text{Target Reserve Level} &= 163 + 169 + 177 + 184 / 2 &&= \text{\$600.6 million} \end{aligned}$$

## Ten-Year Financial Forecast

## Projected Rate Increases & Financial Metrics



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Overall Rate Inc.	1.5%	1.5%	4.0%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Sales, MAF	1.90	1.63	1.70	1.70	1.75	1.75	1.75	1.75	1.80	1.80	1.80	1.80
Rev. Bond Cvg	2.7	1.5	1.6	1.6	1.7	1.8	1.9	2.0	2.3	2.4	2.6	2.7
Fixed Chg Cvg	2.4	1.3	1.3	1.3	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.5
PAYGO, \$M	210	99	120	120	120	120	120	123	127	130	133	137

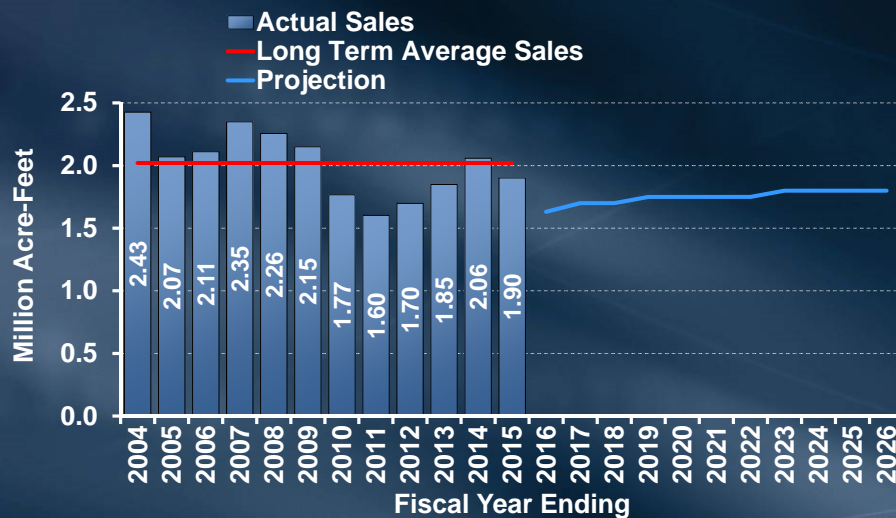
\* Revenue Remainder & WRSF

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## Water Sales\*

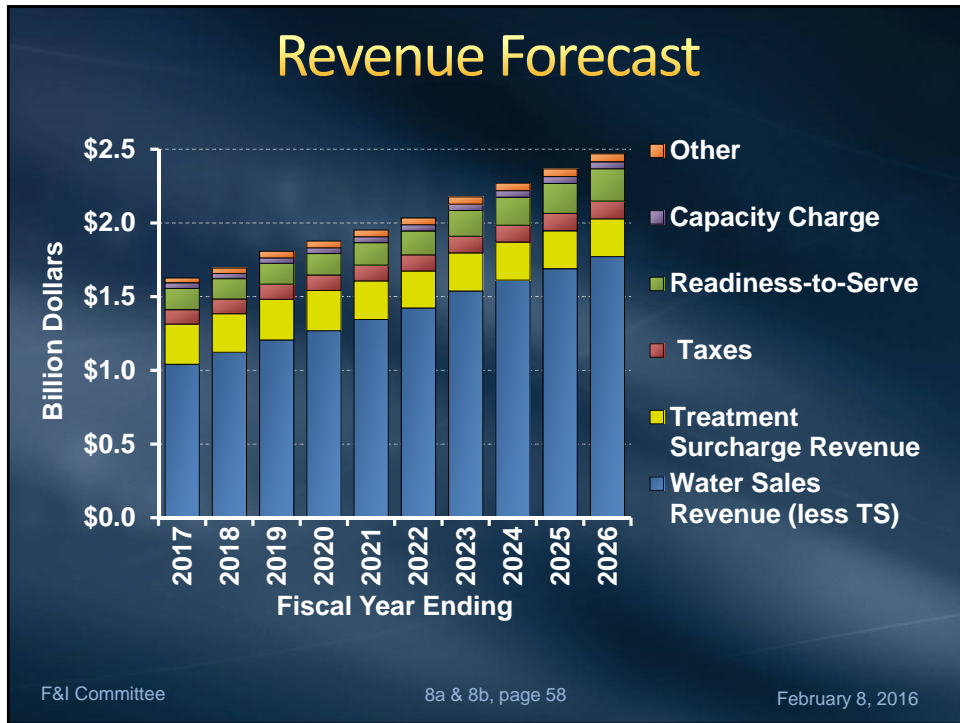
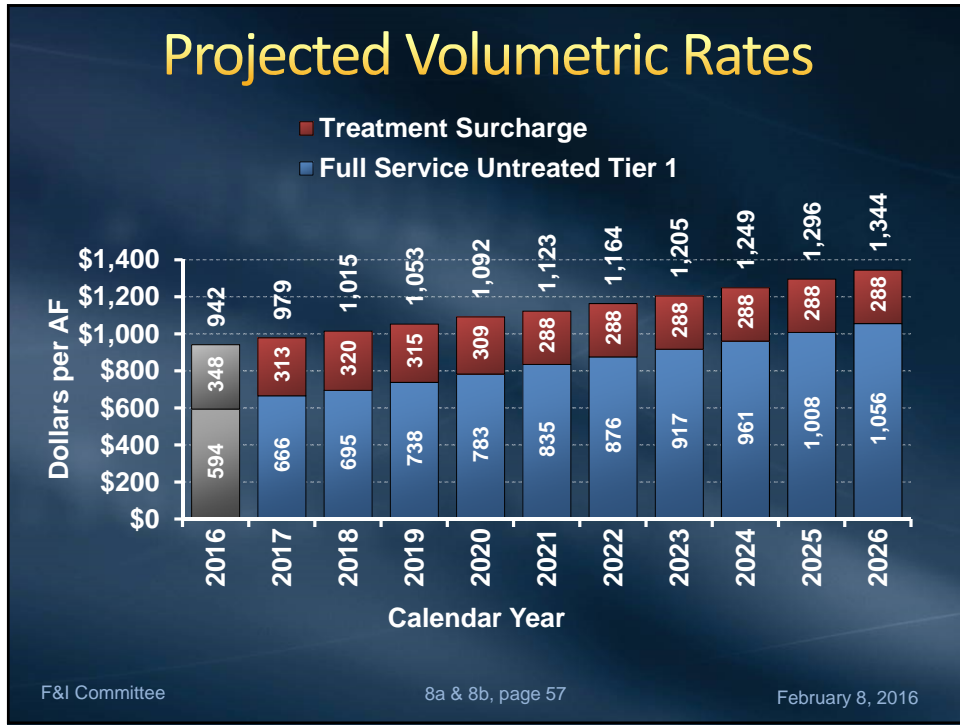


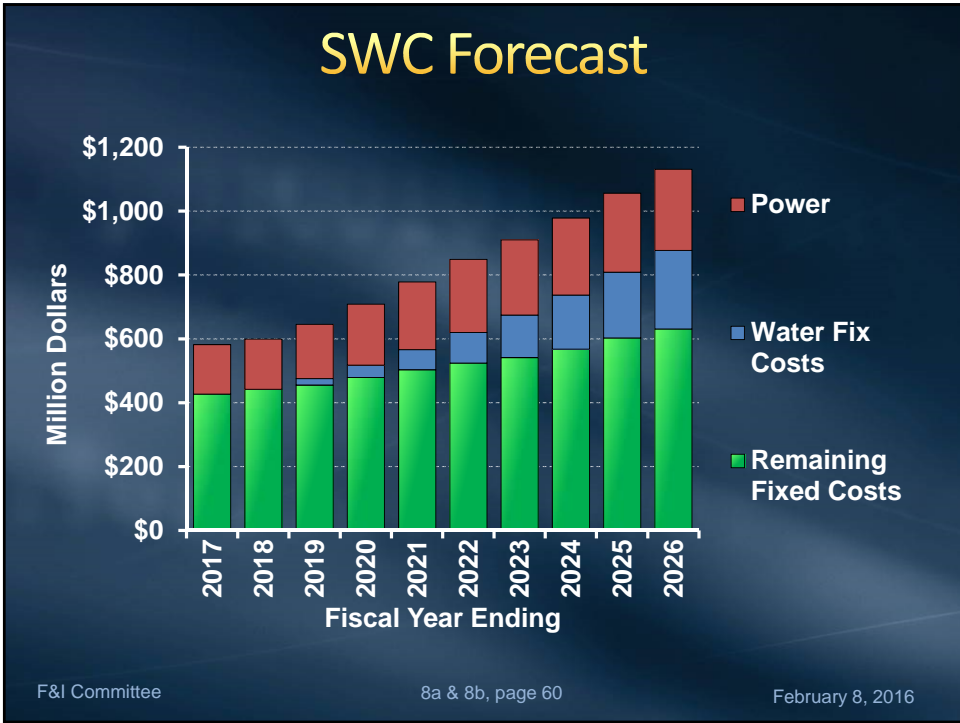
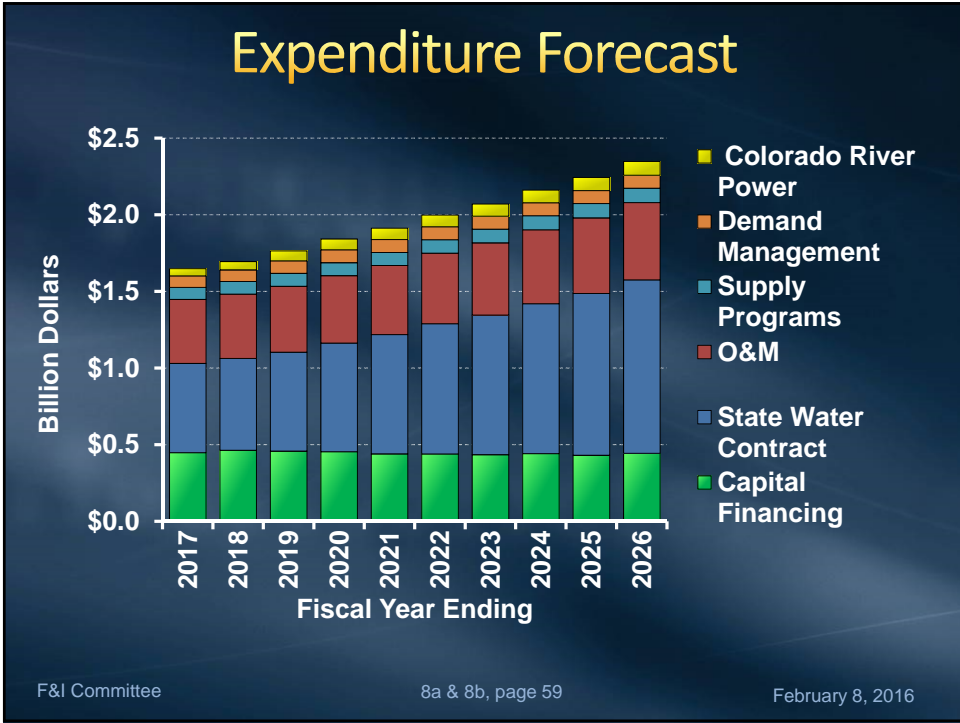
\* Includes Exchange

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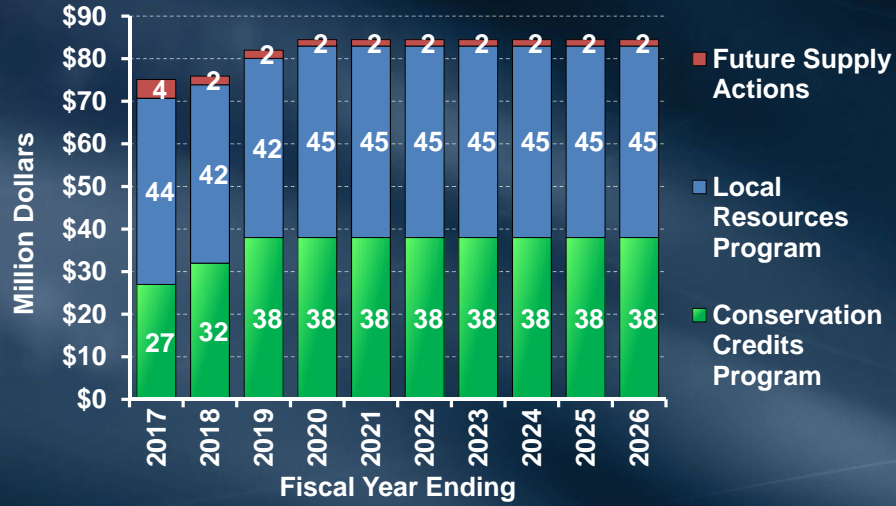
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## Demand Management

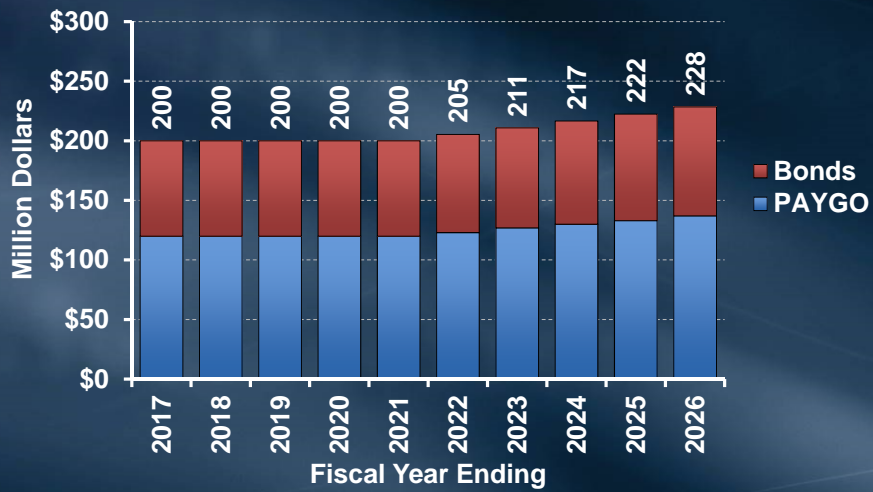


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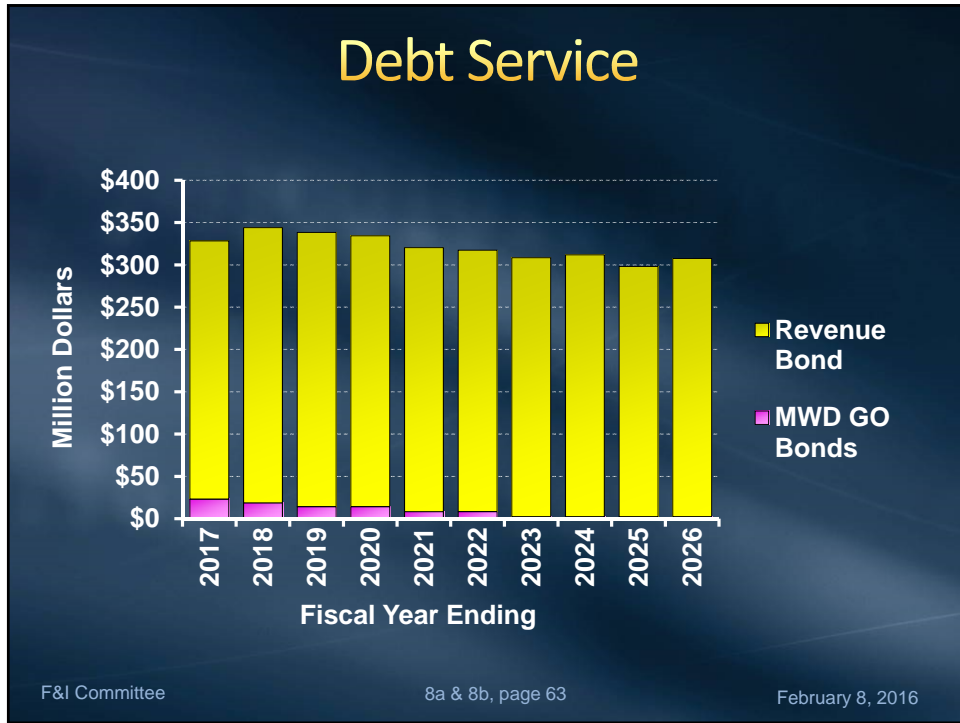
## Capital Investment Plan Funding



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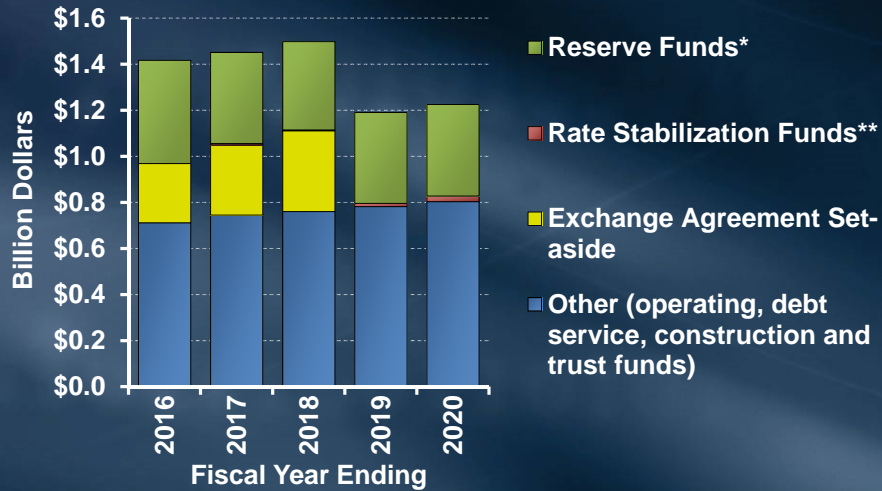


## SDCWA Exchange Agreement Set-aside

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## End of Year Fund Balances



\* Includes Water Rate Stabilization Fund and Revenue Remainder Fund  
 \*\* Includes Water Stewardship Fund and Treatment Surcharge Stabilization Fund

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## Next Steps

- |                   |  |
|-------------------|--|
| February 9, 2016  | Board Action, set public hearings                                  |
| February 23, 2016 | Workshop #2  |
| February 26, 2016 | Notice to Legislature  |
| March 7, 2016     | F&I Committee, Workshop #3   |
| March 8, 2016     | Public Hearings  |
| March 22, 2016    | Workshop #4  |
| April 11, 2016    | F&I Committee, Approve Biennial Budget and Water Rates and Charges |
| April 12, 2016    | Board, Approve Biennial Budget and Water Rates and Charges         |

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