

Proposed Biennial Budget and Continued Suspension of §124.5 AV Tax Limit for Fiscal Years 2016/17 and 2017/18, Water Rates and Charges for 2017 and 2018, and Ten-Year Forecast

**Finance and Insurance Committee
Item 8-1
April 11, 2016**



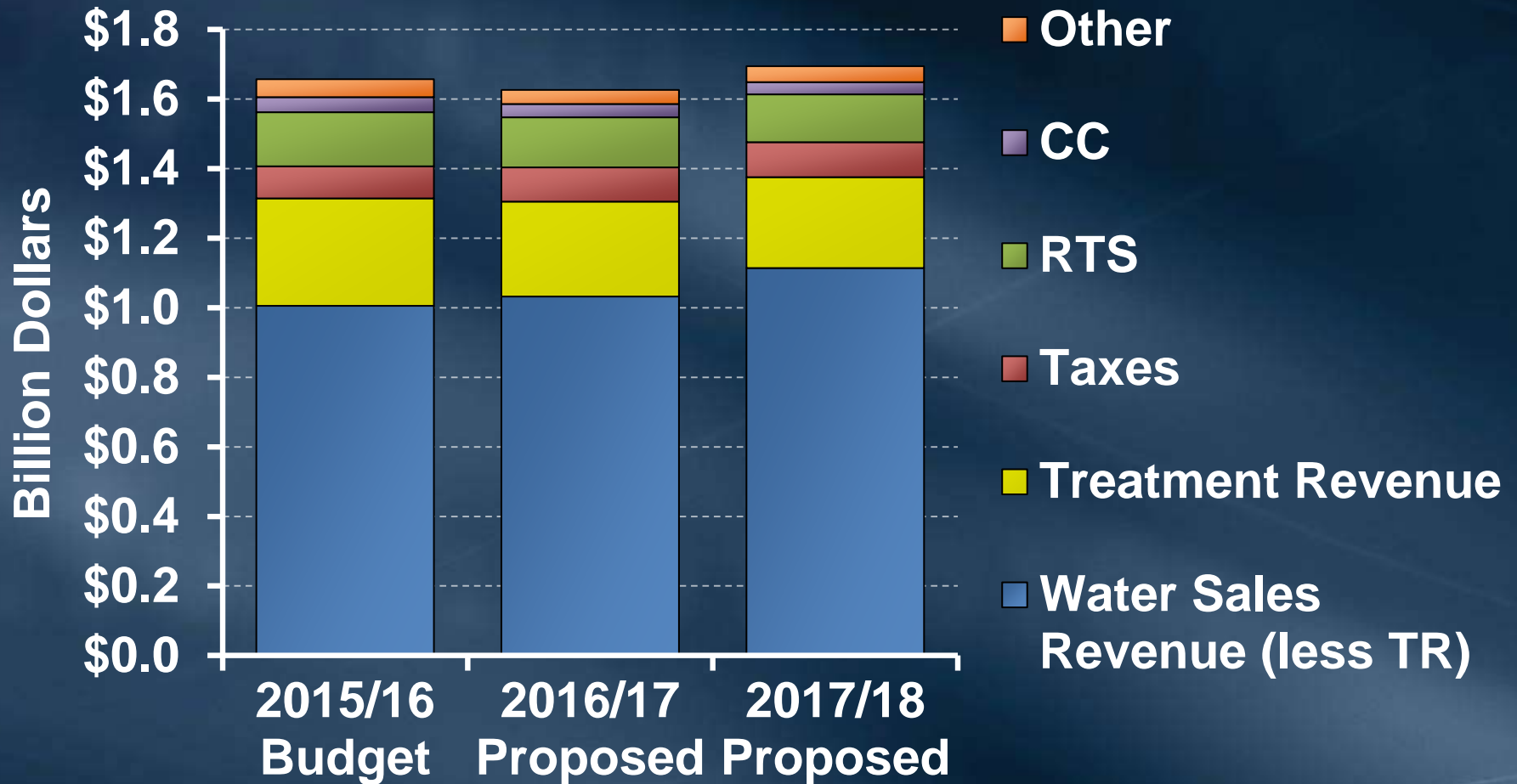
Review of Budget and Rates Process

- Documents distributed
 - January 28: board letter 9-2
 - February 5: Departmental Budget, CIP, 10-year forecast
 - March 2: board letter 9-2
 - March 16: COS report, revised CIP
 - March 30: board letter 8-1
- Board Presentations, Workshops and Discussions
 - January 11, February 8, February 23, March 7, March 22
- Public Hearing
 - March 8
- Approve Biennial Budget, Ten-Year Forecast, Revenue Requirements, and Water Rates and Charges
 - April 11, 2016: F&I Committee
 - April 12, 2016: Board

Proposed Biennial Budget and
Continued Suspension of §124.5
AV Tax Limit for Fiscal Years
2016/17 and 2017/18, Water
Rates and Charges for
2017 and 2018

Proposed Revenues

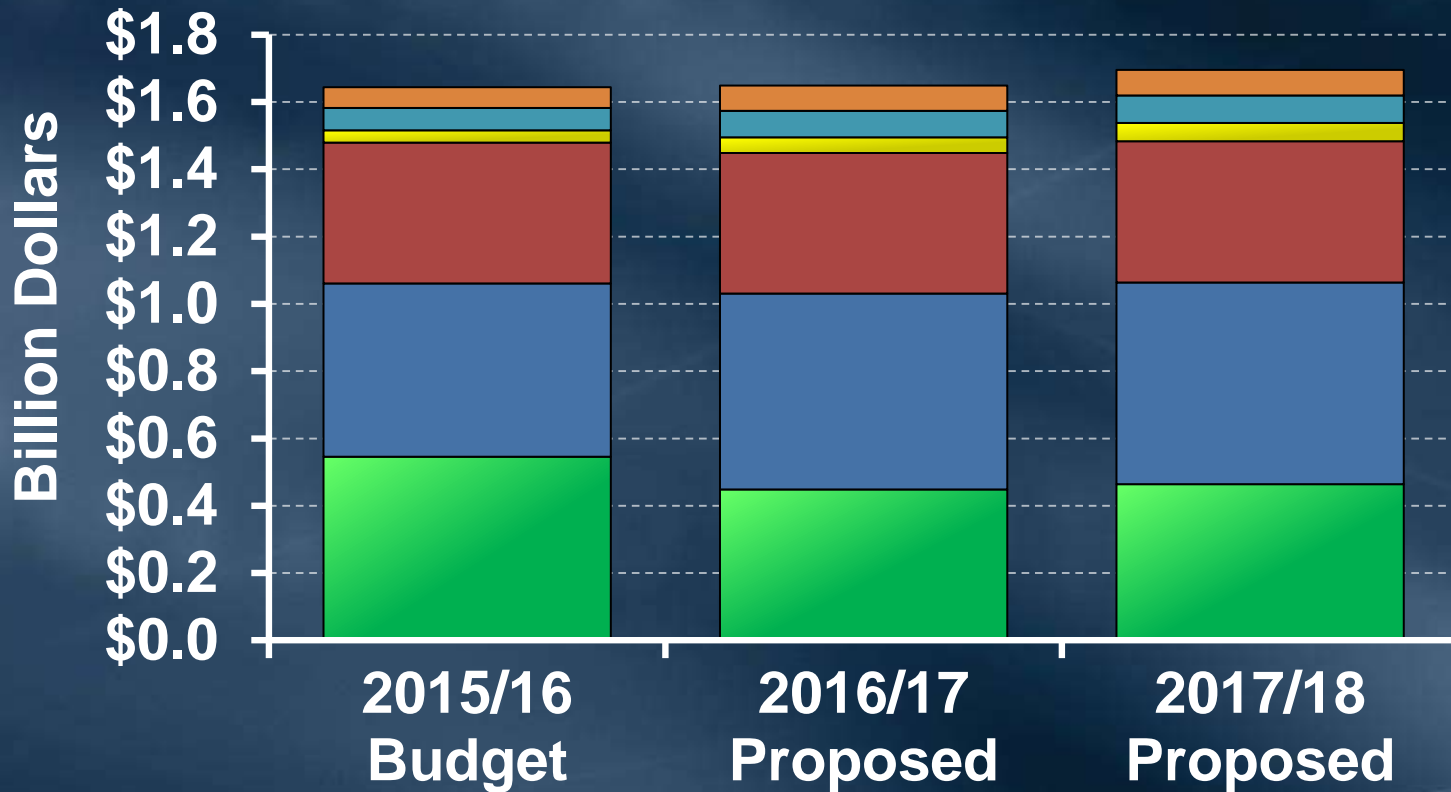
FYs 2016/17 and 2017/18



Proposed Expenditures

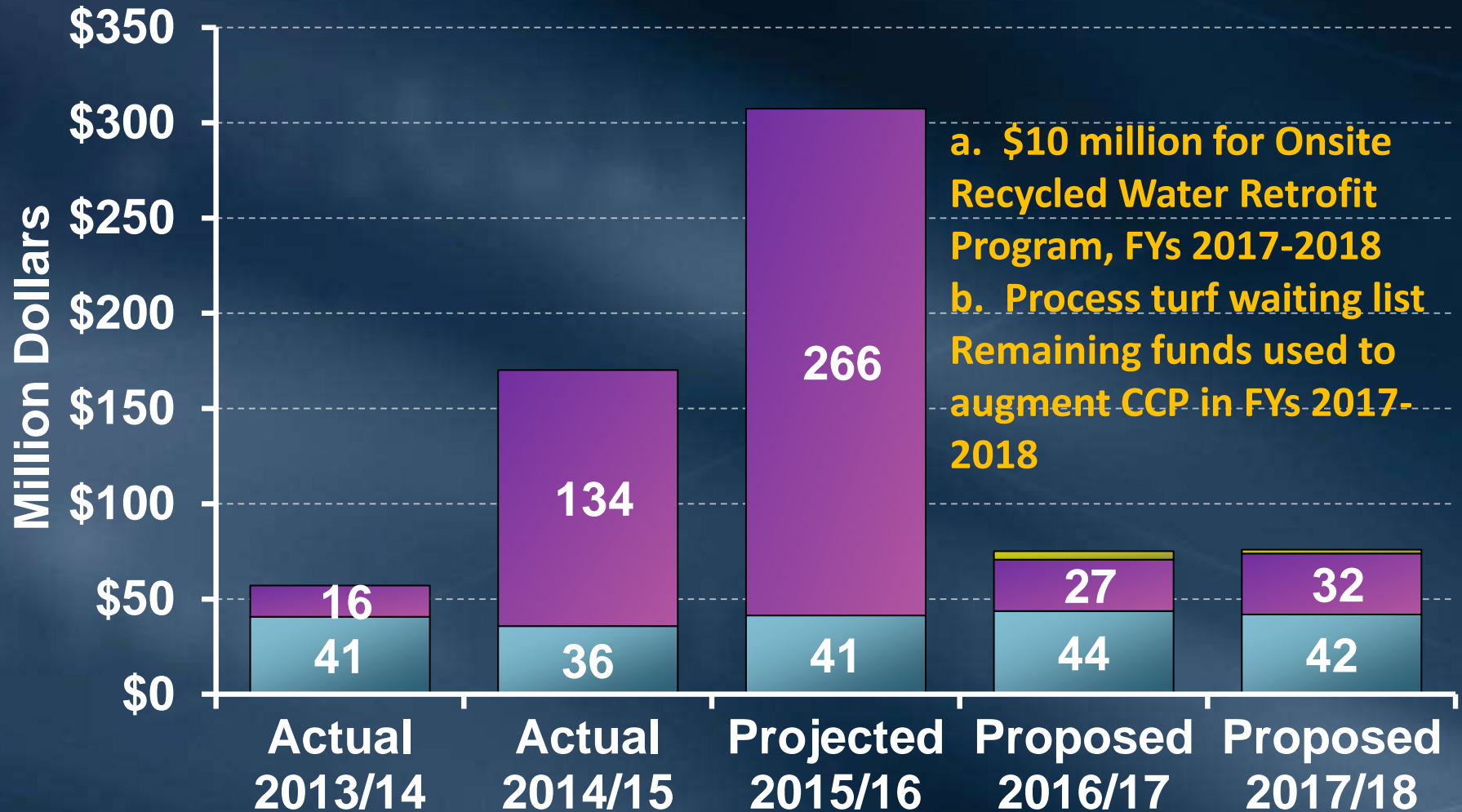
FYs 2016/17 and 2017/18

- Demand Management
 - Colorado River Power
 - State Water Contract
- Supply Programs
 - O&M
 - Capital Financing



Demand Management Expenses

LRP CCP FSA



Ad Valorem Taxes

- Board to set tax rate in August when tax rolls are received from the County Assessors
- Maintaining the tax rate at the current level of .0035 percent of assessed valuation requires suspension of the tax rate restriction in §124.5 of the MWD Act
- If the tax rate restriction is not suspended, revenue from ad valorem taxes will be \$111 million lower over the biennial budget period
 - Would require rate increases in both fiscal years that are 3 percent higher than proposed

Overall Rate Increase



Estimated Overall Rate Impacts By Service Type, CY 2017



4-Year Impact of Rates and Charges

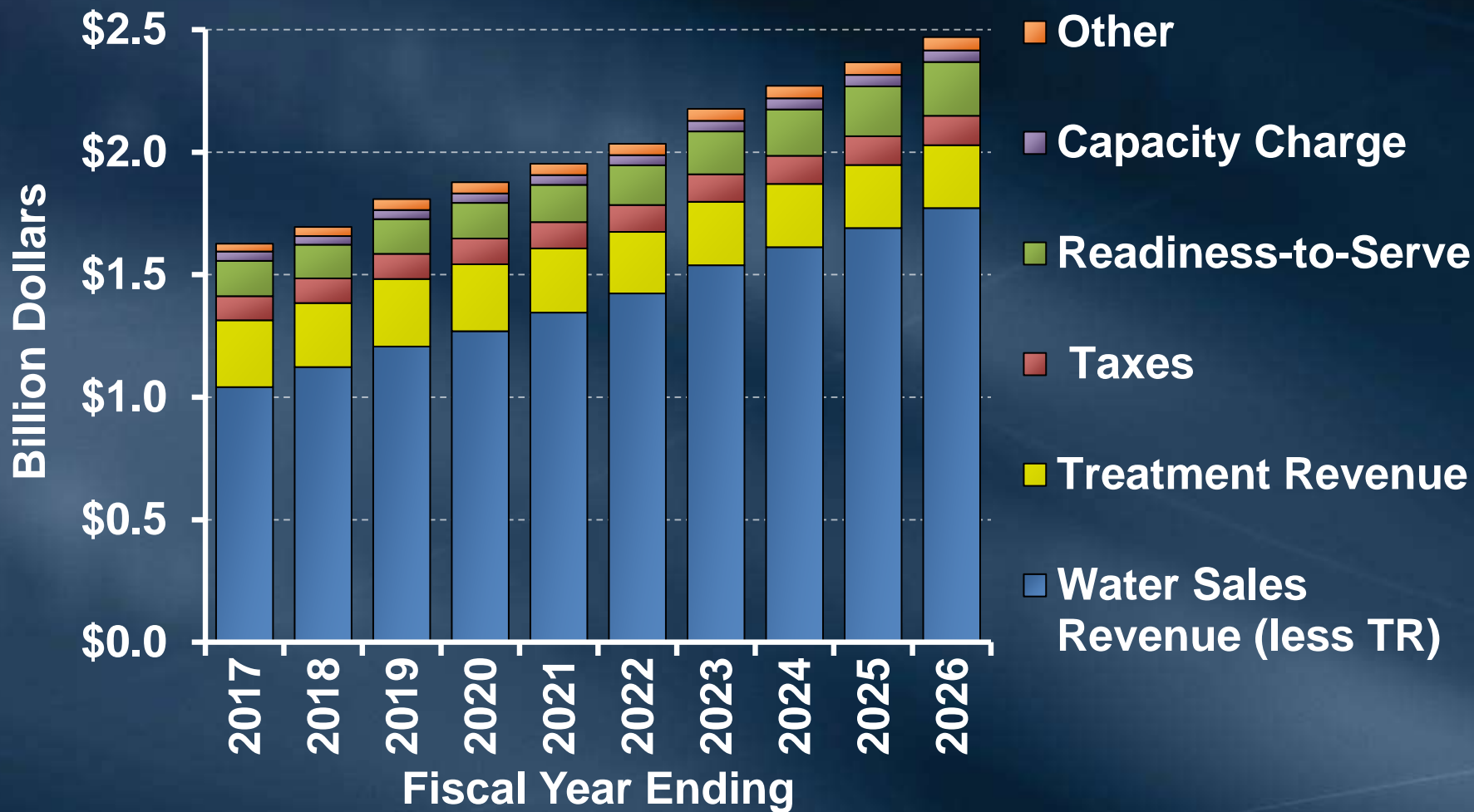
Water Rates and Charges	Jan 1 2014	Jan 1 2015	Jan 1 2016	Jan 1 2017	Jan 1 2018	Average Annual Increase
Full Service Untreated (\$/Acre Foot)	593	582	594	666	695	4.0%
Full Service Untreated Exchange Cost* (\$/Acre Foot)	445	424	438	465	486	2.2%
Full Service Treated **(\$/Acre Foot)	890	923	942	979	1,015	3.3%
Readiness-To-Serve Charge (\$M)	166	158	153	135	140	-4.2%
Capacity Charge (\$M)	30.7	43.7	42.9	33.7	36.6	4.5%

* Exchange agreement price term is based on System Access Rate, System Power Rate, and Water Stewardship Rate

** 100% volumetric Treatment Surcharge

Ten-Year Financial Plan

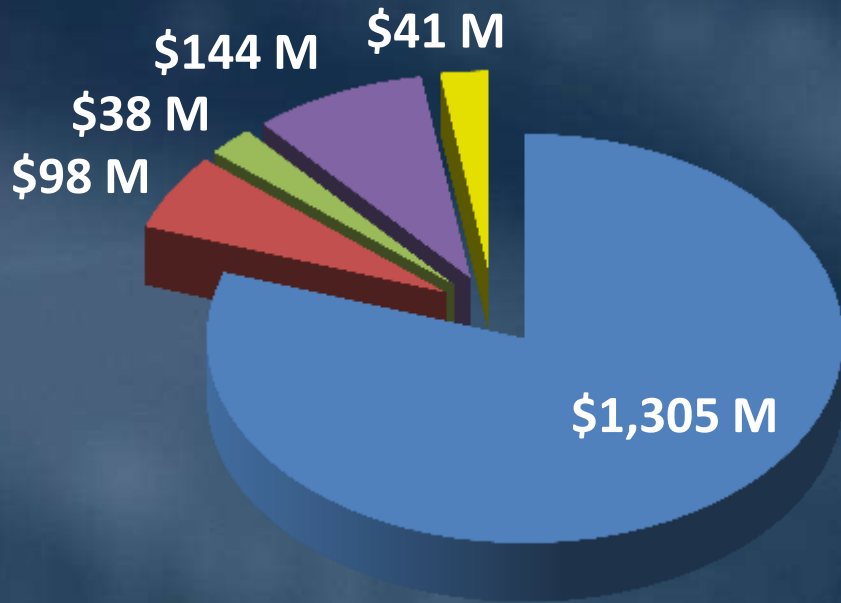
Revenues Forecast Ten-Year Financial Plan



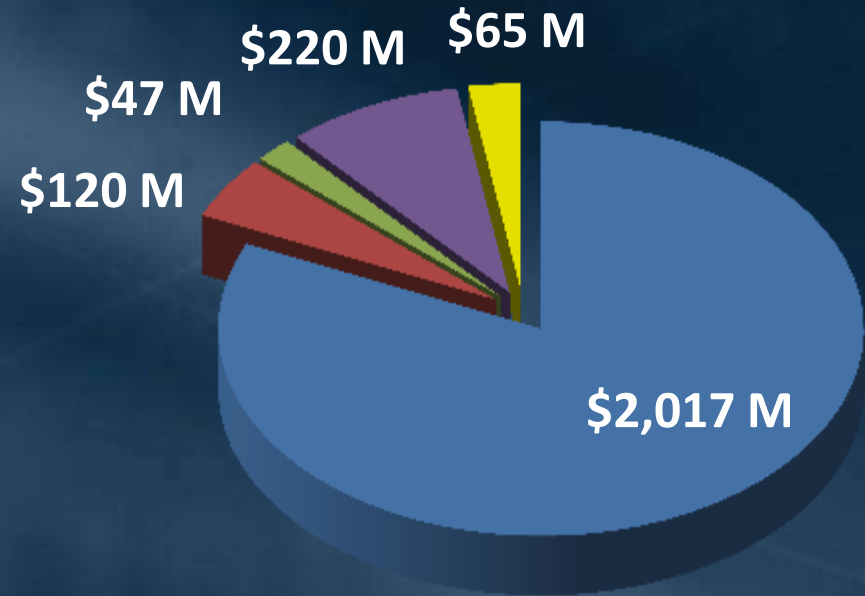
Revenue Trend

Ten-Year Financial Plan

FY 2016/17 - \$1,626 M



FY 2025/26 - \$2,469 M



■ Water Sales

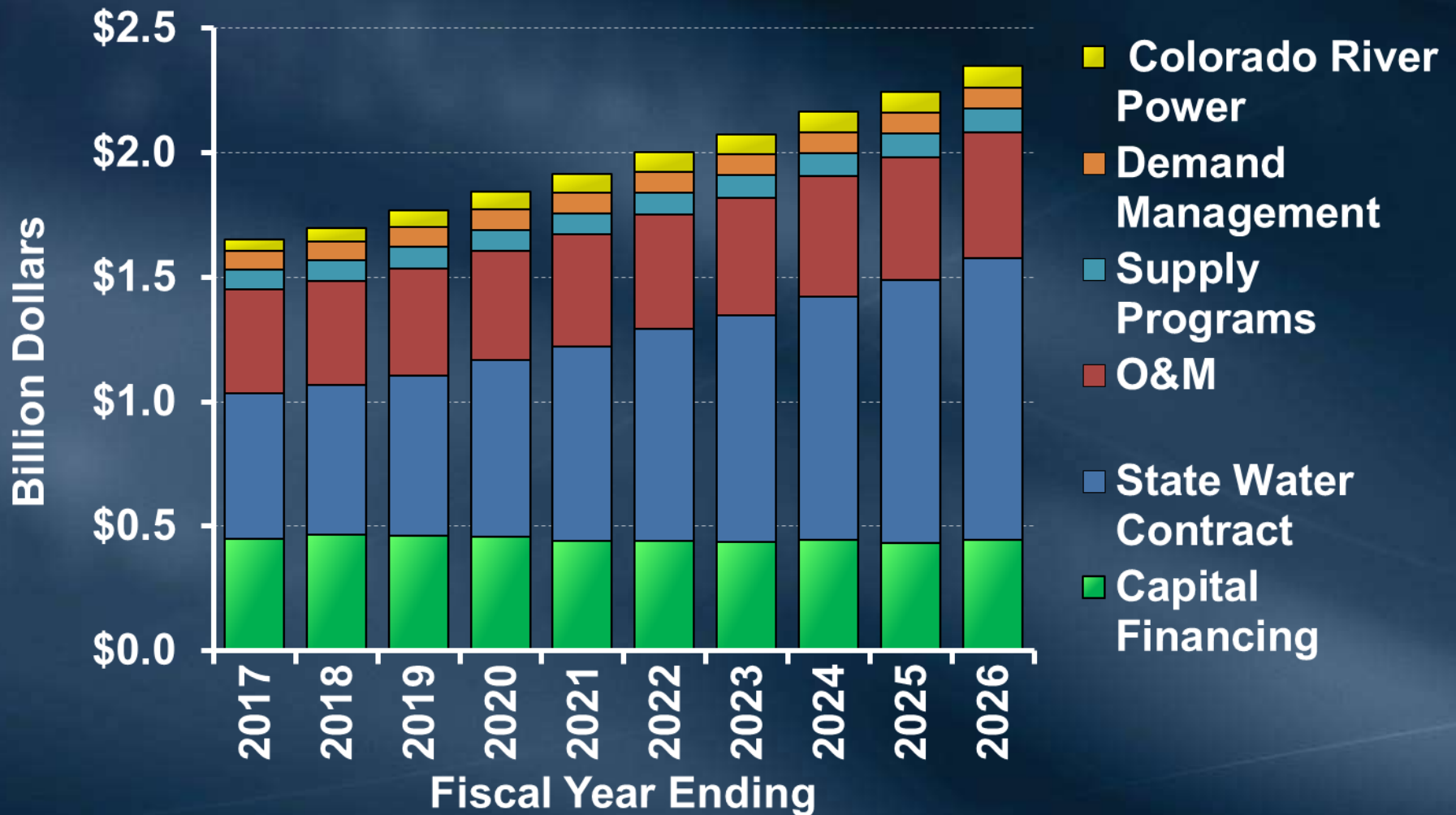
■ Taxes

■ CC

■ RTS

■ Other

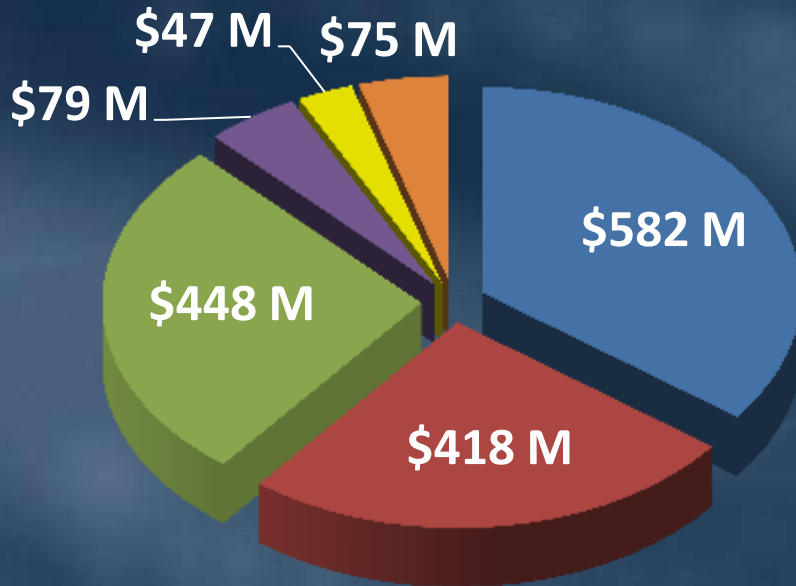
Expenditure Forecast Ten-Year Financial Plan



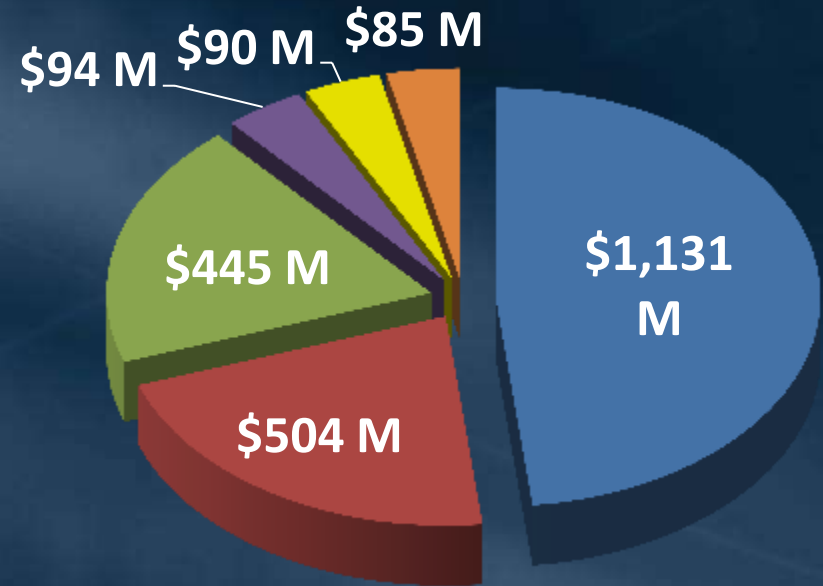
Expenditure Trend

Ten-Year Financial Plan

FY 2016/17 - \$1.65 B



FY 2025/26 - \$2.35 B



- State Water Contract
- O&M
- Capital Financing
- Supply Programs
- CRA Power
- Demand Management

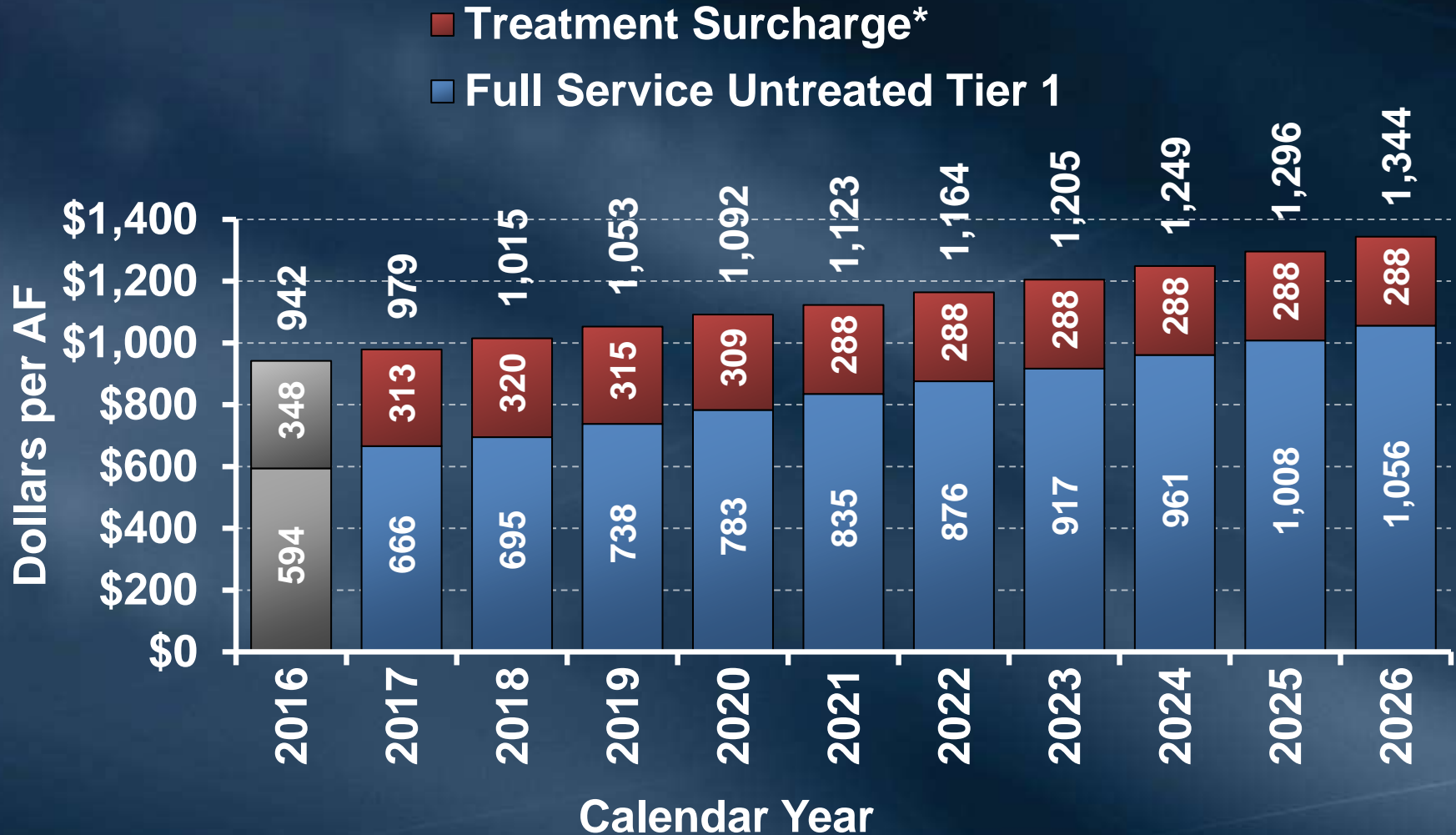
Ten-Year Financial Plan Summary



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	284	120	120	120	120	120	123	127	130	133	137

* Revenue Remainder & WRSF
 FY 2016 PAYGO includes PVID land purchase

Projected Volumetric Rates Ten-Year Financial Plan



* 100% Volumetric

Treated Water Fixed Charge

Objectives of Treated Water Fixed Charge

- Objective-Fixed Charge Concept
 - Cost of Service
 - Align charges with service level/investment
 - Cost recovery—revenue stability
- 38% of Total Treatment Revenue Requirement
 - Cost of Service based: sum of Treatment Demand and Standby costs
 - Align charges with service level/investment
 - Used to develop fixed or demand charge

Treated Water Fixed Charge Concept

- Metropolitan provides treated water service to Member Agencies
- Metropolitan service objective is to be capable of meeting average and peak week treated water demands of Member Agencies
- Investment in treatment capacity designed to meet the needs of Member Agencies
- Meet average and peak week demands AND provide on-demand and standby capacity

Treated Water Charge Revenue Requirement

FY 2016/17 Treatment Revenue Requirement		\$257 (100%)
Variable		\$24 (9%)
Fixed		\$233 (91%)
Commodity	\$135	<div style="border: 2px solid #0056b3; border-radius: 15px; padding: 10px; text-align: center; width: fit-content; margin: auto;"> 38% of Total </div>
Demand	\$41	
Standby	\$57	

Treated Water Fixed Charge Options

- Option 1 – Peaking and No Minimum
 - Standby costs based on most recent TYRA of treated water purchases
 - Demand costs based on most recent 3-year maximum CFS
- Option 2 – No Peaking and Minimum
 - Standby and Demand costs based on the greater of 1998-2007 OR most recent TYRA of treated water purchases

Both Options – 62% of costs in Volume Rate
– 38% of costs in Fixed Charge

Option 1: Treated Water Charge, CY 2017

	TYRA			2013 - 2015			Total
	2006 - 2015		Fixed	Maximum		Fixed	Treated Water
Member Agency	Treated Water Sales AF	% of Total	Availability Charge	Treated Peak (cfs)	% of Total	Demand Charge	Fixed Charge
Anaheim	12,126	1.08%	\$613,940	33.1	1.36%	\$556,851	\$1,170,791
Beverly Hills	11,386	1.02%	576,467	30.8	1.27%	519,181	1,095,648
Burbank	10,089	0.90%	510,823	22.6	0.93%	380,660	891,483
Calleguas	114,712	10.24%	5,808,002	244.3	10.08%	4,114,133	9,922,134
Central Basin	46,198	4.12%	2,339,056	73.6	3.03%	1,238,900	3,577,956
Compton	1,924	0.17%	97,431	2.9	0.12%	49,071	146,502
Eastern	73,323	6.54%	3,712,415	202.2	8.34%	3,404,746	7,117,161
Foothill	9,933	0.89%	502,894	19.9	0.82%	335,331	838,225
Fullerton	11,072	0.99%	560,567	22.2	0.92%	373,547	934,114
Glendale	19,585	1.75%	991,617	44.9	1.85%	755,512	1,747,129
Inland Empire	0	0.00%	0	0.0	0.00%	0	0
Las Virgenes	22,810	2.04%	1,154,886	52.4	2.16%	882,524	2,037,410
Long Beach	36,397	3.25%	1,842,793	67.8	2.79%	1,140,928	2,983,722
Los Angeles	87,950	7.85%	4,453,016	211.7	8.73%	3,563,772	8,016,788
MWDOC	204,975	18.30%	10,378,091	372.6	15.37%	6,273,362	16,651,454
Pasadena	21,181	1.89%	1,072,392	52.5	2.17%	884,582	1,956,974
San Diego CWA	156,458	13.97%	7,921,619	346.1	14.27%	5,826,764	13,748,383
San Fernando	206	0.02%	10,433	4.9	0.20%	82,434	92,867
San Marino	931	0.08%	47,128	7.3	0.30%	122,287	169,415
Santa Ana	13,331	1.19%	674,954	19.6	0.81%	330,459	1,005,413
Santa Monica	9,252	0.83%	468,459	22.7	0.94%	382,219	850,678
Three Valleys	41,833	3.73%	2,118,038	127.8	5.27%	2,152,454	4,270,493
Torrance	18,130	1.62%	917,946	34.1	1.41%	574,566	1,492,512
Upper San Gabriel	7,346	0.66%	371,937	21.1	0.87%	354,877	726,814
West Basin	125,668	11.22%	6,362,683	230.2	9.49%	3,875,743	10,238,427
Western MWD	63,538	5.67%	3,216,974	157.3	6.49%	2,647,940	5,864,913
Total	1,120,354	100.00%	\$56,724,561	2,424.5	100.00%	\$40,822,844	\$97,547,405

Option 2: Treated Water Charge, CY 2017

	Average 1998 - 2007	TYRA 2006 - 2015			Total
Member Agency	Treated Water Sales , AF	Treated Water Sales, AF	Greater Of	% of Total	Treated Water Fixed Charge
Anaheim	13,134	12,126	13,134	0.98%	\$954,911
Beverly Hills	13,008	11,386	13,008	0.97%	945,725
Burbank	12,816	10,089	12,816	0.96%	931,758
Calleguas	112,585	114,712	114,712	8.55%	8,340,091
Central Basin	67,191	46,198	67,191	5.01%	4,885,071
Compton	3,514	1,924	3,514	0.26%	255,451
Eastern	73,423	73,323	73,423	5.47%	5,338,173
Foothill	11,623	9,933	11,623	0.87%	845,074
Fullerton	11,513	11,072	11,513	0.86%	837,031
Glendale	25,094	19,585	25,094	1.87%	1,824,421
Inland Empire	0	0	0	0.00%	0
Las Virgenes	22,106	22,810	22,810	1.70%	1,658,376
Long Beach	44,267	36,397	44,267	3.30%	3,218,416
Los Angeles	79,762	87,950	87,950	6.56%	6,394,377
MWDOC	244,203	204,975	244,203	18.20%	17,754,580
Pasadena	21,779	21,181	21,779	1.62%	1,583,398
San Diego CWA	251,381	156,458	251,381	18.74%	18,276,450
San Fernando	387	206	387	0.03%	28,135
San Marino	1,041	931	1,041	0.08%	75,664
Santa Ana	15,788	13,331	15,788	1.18%	1,147,853
Santa Monica	12,627	9,252	12,627	0.94%	918,014
Three Valleys	49,467	41,833	49,467	3.69%	3,596,498
Torrance	21,052	18,130	21,052	1.57%	1,530,565
Upper San Gabriel	13,963	7,346	13,963	1.04%	1,015,173
West Basin	145,421	125,668	145,421	10.84%	10,572,734
Western MWD	61,511	63,538	63,538	4.74%	4,619,464
Total	1,328,654	1,120,354	1,341,701	100.00%	\$97,547,405

CY 2017 Comparison, Pro Forma with 2015 Sales

Member Agency	Option 1	Option 2	Status Quo (Option 3)
Anaheim	\$1,938,655	\$1,722,775	\$1,236,208
Beverly Hills	3,082,526	2,932,602	3,198,735
Burbank	2,127,710	2,167,985	1,990,241
Calleguas	27,227,242	25,645,198	27,860,023
Central Basin	9,013,566	10,320,681	8,750,956
Compton	146,555	255,505	87
Eastern	17,477,333	15,698,345	16,679,159
Foothill	2,289,889	2,296,738	2,337,078
Fullerton	2,420,474	2,323,392	2,392,937
Glendale	4,800,440	4,877,732	4,915,618
Inland Empire	0	0	0
Las Virgenes	5,989,741	5,610,707	6,362,979
Long Beach	11,231,573	11,466,268	13,278,470
Los Angeles	19,904,000	18,281,589	19,137,588
MWDOC	44,140,525	45,243,652	44,255,500
Pasadena	5,310,949	4,937,373	5,399,667
San Diego CWA	32,672,978	37,201,045	30,467,286
San Fernando	110,708	45,976	28,723
San Marino	300,429	206,678	210,923
Santa Ana	1,964,334	2,106,774	1,543,796
Santa Monica	1,613,329	1,680,665	1,227,816
Three Valleys	11,399,499	10,725,505	11,477,206
Torrance	4,395,266	4,433,319	4,673,233
Upper San Gabriel	2,351,389	2,639,748	2,615,453
West Basin	30,460,636	30,794,944	32,556,355
Western MWD	15,109,607	13,864,158	14,883,317
Total	\$257,479,354	\$257,479,354	\$257,479,354

Treated Water Charge Recommendation

● Option 1

- Cost-based
- Incorporates Member Agency's ability to develop local resources and incentivize conservation
- Development of charge is similar to current fixed charges on the untreated system

● Option 2

- Cost-based
- Recognizes significant investment in treatment assets, which are long lived and have costs associated with them today

● Both improve revenue stability for Treatment costs

Board Options

Biennial Budget Options

Item	Option #1	Option #2	Option #3
Approve Biennial Budget	✓	✓	✓
Expenditures	\$2,431.4M	\$2,431.4M	\$2,431.4M
Debt Service	\$672.6M	\$672.6M	\$672.6M
PAYGo	\$240M	\$240M	\$240M
10-Year Forecast	✓	✓	✓
Suspend §124.5	✓	✓	✓
Exchange Agreement Set-Aside Fund	✓	✓	✓
Conservation Funding	✓	✓	✓

Water Rates and Charges Options

Item	Option #1	Option #2	Option #3
Revenue Requirement	\$1,575.0M/ \$1574.3M	\$1,575.0M/ \$1574.3M	\$1,575.0M/ \$1574.3M
Untreated Rates: SAR, WSR, SPR, Supply Rates	✓ 1/1/2017 1/1/2018	✓ 1/1/2017 1/1/2018	✓ 1/1/2017 1/1/2018
Adopt Rates Resolution: TS (\$/AF)	\$195/\$197	\$195/\$197	\$313/\$320
RTS Resolution	\$135M/\$140M	\$135M/\$140M	\$135M/\$140M
Capacity Charge Resolution	\$8,000/cfs ; \$8,700/cfs	\$8,000/cfs ; \$8,700/cfs	\$8,000/cfs ; \$8,700/cfs
Treatment Fixed Charge	\$98M/\$102M TYRA + Peaking	\$98M/\$102M Minimum	NA

Options 1 and 2: 4.0 % / 4.0%

Rate Elements

Rates and Charges Effective January 1			
	2016 Approved	2017 Proposed	2018 Proposed
Tier 1 Supply Rate (\$/AF)	\$156	\$201	\$209
Tier 2 Supply Rate (\$/AF)	\$290	\$295	\$295
System Access Rate (\$/AF)	\$259	\$289	\$299
Water Stewardship Rate (\$/AF)	\$41	\$52	\$55
System Power Rate (\$/AF)	\$138	\$124	\$132
Treatment Surcharge (\$/AF)	\$348	\$195	\$197
Readiness-to-Serve Charge (\$M)	\$153	\$135	\$140
Capacity Charge (\$/cfs)	\$10,900	\$8,000	\$8,700
Treated Water Fixed Charge (\$M)		\$98	\$102

Options 1 and 2: 4.0% / 4.0%

Full Service and Charges

Rate Type	2016 Approved	2017 Estimated	% Increase (Decrease)	2018 Estimated	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$594	\$666	12.1%	\$695	4.4%
Tier 2	\$728	\$760	4.4%	\$781	2.8%
Treatment Surcharge	\$348	\$195	N/A	\$197	1.0%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$942	\$861	(8.6%)	\$892	3.6%
Tier 2	\$1,076	\$955	(11.2%)	\$978	2.4%
RTS Charge (\$M)	\$153	\$135	(11.8%)	\$140	3.7%
Capacity Charge (\$M)	\$43	\$34	(21.5%)	\$37	8.8%
Treated Water Fixed Charge (\$M)		\$98	N/A	\$102	4.0%

Option 3: 4.0% / 4.0%

Rate Elements

Rates and Charges Effective January 1			
	2016 Approved	2017 Proposed	2018 Proposed
Tier 1 Supply Rate (\$/AF)	\$156	\$201	\$209
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Option 3: 4.0% / 4.0%

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Treatment Surcharge	\$348	\$313	(10.1%)	\$320	2.2%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$942	\$979	3.9%	\$1,015	3.7%
Tier 2	\$1,076	\$1,073	(0.3%)	\$1,101	2.6%
RTS Charge (\$M)	\$153	\$135	(11.8%)	\$140	3.7%
Capacity Charge (\$M)	\$43	\$34	(21.5%)	\$37	8.8%

Biennial Budget Recommendation

(Same for all options)

- Option #1 - Adopt the CEQA determination, and
 - a. Approve Biennial Budget
 - b. Appropriate \$2,431.4 million for Metropolitan expenditures for FY 2016/17 and FY 2017/18;
 - c. Appropriate \$672.6 million for debt service on Metropolitan general obligation and revenue bonds for FY 2016/17 and FY 2017/18;
 - d. Authorize \$240.0 million in operating revenues to fund Replacement and Refurbishment for FY 2016/17 and FY 2017/18;
 - k. Approve ten-year financial forecast;
 - l. Adopt the Resolution Finding that Continuing an Ad Valorem Property Tax Rate is Essential to the Fiscal Integrity of the District and Suspending the Ad Valorem Tax Rate Restriction for FY 2016/17 and FY 2017/18;
 - m. Authorize establishment and use of the Exchange Agreement Set-Aside Fund; and,
 - n. Authorize use of unspent conservation funding, including the extension of the Onsite Recycled Water Retrofit Program.

Water Rates and Charges Recommendation (Same for all options, except f., g., and j.)

- Option #1 - 4.0% / 4.0%:
 - e. Determine that the revenue requirements to be paid from rates and charges are \$1,575.0 million in FY 2016/17 and \$1,574.3 million in FY 2017/18
 - f. Approve water rates effective January 1, 2017 and January 1, 2018, as shown in Option #1a
 - g. Adopt resolution fixing and adopting water rates effective January 1, 2017 and January 1, 2018, as shown in **Option #1a**
 - h. Adopt resolution fixing and adopting the RTS
 - i. Adopt resolution fixing and adopting the Capacity Charge
 - j. Adopt resolution fixing and a Treated Water Fixed Charge effective January 1, 2017 as set forth in Section 6, **Option #1a (TYRA and Peaking)**

Water Rate Options

(Treatment Charge and Surcharge Change)

- Option 2: 4.0% / 4.0%
 - **Treated Water Fixed Charge** based on the **higher of the average treated water sales for FY 1998 through 2007, or the average of the most recent ten fiscal years (ten-year rolling average) sales**, for member agencies with treated water sales; a **minimum charge**
 - **Remainder of Treatment Revenue Requirement recovered through a volumetric rate**
- Option 3: 4.0% / 4.0%
 - **Treatment Surcharge is 100 percent volumetric rate**

Option #4

- Do not adopt the CEQA determination
- Do not adopt the Proposed Biennial Budget, Ten-Year Forecast, CIP, revenue requirements, and proposed water rates and charges
- Provide staff direction
- Waive Administrative Code Section 4304

Staff Recommendation

- Option #1

