

Estimated Revenue Requirements FYs 2018/19 and 2019/20, Rates and Charges CYs 2019 and 2020, and Cost of Service:

Workshop #2 (Budget, Rates and Charges)

Finance & Insurance Committee
Item 8
February 27, 2018



Proposed Biennial Budget Workshop #2

Presentation Overview

- Overview of Rates and Charges
 - Revenue Requirement
 - Cost of Service
 - Proposed Rates and Charges
- Follow up from Workshop #1
- Next Steps

Overview of Rates and Charges

Proposed Water Rates and Charges

- Proposed water rates and charges support estimated Revenue Requirements
 - Based on Proposed Biennial Budget
- Developed using the current Cost of Service methodology for functionalizing, allocating, and distributing costs to rate elements

The Cost of Service Process

Develop Budget



Develop Revenue Requirement



Functionalize Costs



Allocate Costs



Distribute Costs to Rate Elements

FY2018/19 and FY2019/20 Proposed Budget Expenditures (\$M)

	2017/18 Adopted	2018/19 Proposed Budget	2019/20 Proposed Budget
O&M	395	450	469
Variable Treatment	25	27	28
SWC (w/o Variable Power)	447	407	434
SWC Variable Power	153	160	169
CRA Power	54	46	53
Supply Programs	82	61	54
Demand Management	76	89	86
Debt Service	344	332	331
PAYGO	120	120	120
Total	1,695	1,692	1,743

2018/19 and 2019/20 Estimated Revenue Requirements (\$M)

	2017/18 Adopted	2018/19 Proposed Budget	2019/20 Proposed Budget
Total O&M	\$ 420	\$ 478	\$ 496
State Water Contract	599	567	603
Colorado River Power	54	46	53
Supply Programs	82	61	54
Demand Management	76	89	86
Debt Service	344	332	331
PAYGO	120	120	120
Incr. in Required Reserves	25	32	41
Sub-total expenditures	1,721	1,724	1,784
Revenue Offsets	146	165	166
Total Revenue Requirement	1,574	1,559	1,618

Totals may not foot due to rounding.

2018/19 and 2019/20 Estimated Revenue

Increase for MOUs, benefits, and other O&M expenses

Increase for MOUs, benefits, and inflation

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2018/19 and 2019/20 Estimated

Revenue

Reduced capital and OMP&R

Increased OMP&R, offset by decreasing Transportation capital costs

	2018/19 Adopted	2019/20 Budget	2019/20 Target
Total O&M	\$ 420	\$ 478	\$ 496
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2018/19 and 2019/20 Estimated Revenue Requirements

Lower diversions, and favorable operating agreement

Increasing diversions

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Increased Conservation incentives, and messaging

Lower LRP costs

Totals may not foot due to rounding.

2018/19 and 2019/20 Estimated Revenue Requirements (\$M)

	Adopted	2018/19	2019/20
Total O&M	\$ 420	420	420
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Colorado River Power	54	46	53
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Decreasing payments as debt matures, and recent restructuring

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60% PAYGO Board target

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2018/19 and 2019/20 Estimated Revenue

	Adopted	2018/19 Proposed	2019/20 Proposed
Total O&M	\$		96
State Water Contract			03
Colorado River Power			53
Supply Programs	82	61	54
Demand Management	76	89	86
Debt Service	344	332	331
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			2019/20 Proposed Budget
Total O&M		8	\$ 496
State Water Contract			603
Colorado River Power	54		53
Supply Programs	82		54
Demand Management	76	89	86
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Higher ad valorem taxes,
and interest income,
offset by lower hydro
generation

Higher ad valorem
taxes

Totals may not foot due to rounding.

Proposed Water Rates and Charges

Rate Structure Elements

Rates and Charges Effective January 1

	2018 Approved	2019 Proposed	2020 Proposed
Tier 1 Supply Rate (\$/AF)	\$209	\$209	\$208
Tier 2 Supply Rate (\$/AF)	\$295	\$295	\$295
System Access Rate (\$/AF)	\$299	\$326	\$346
Water Stewardship Rate (\$/AF)	\$55	\$69	\$65
System Power Rate (\$/AF)	\$132	\$127	\$136
Treatment Surcharge (\$/AF)	\$320	\$319	\$323
Readiness-to-Serve Charge (\$M)	\$140	\$133	\$136
Capacity Charge (\$M revenues)	\$37	\$31	\$32

Overall Observations

- Proposed overall rate increase in 2019 reflects higher O&M costs, offset by lower SWC, Capital Financing, Supply programs, and CRA power costs
- Proposed overall rate increase in 2020 mainly reflects increasing Departmental O&M costs
- Water transactions levels affect overall rate increases
- Progress towards meeting financial policies

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, and in-basin programs
- Staying flat in 2019, and decreasing by \$1/AF in 2020 due to lower Supply Programs costs, and lower SWC Delta charges

Tier 2 Supply Rate

- Reflects the cost of purchasing water transfers north of the Delta
- Staying flat in calendar years 2019 and 2020 reflecting the costs of the Yuba Accord agreement
 - Water delivered in all water-year types
 - Prices established in the agreement

System Access Rate

- Recovers the costs of Conveyance and Distribution systems, including capital costs associated with average demands, and O&M
 - Includes costs of the applicable facilities on the CRA and SWP, Distribution, and Storage.
- Increasing by \$27/AF in 2019 because of higher Departmental O&M costs, which outweighs decreases in Capital Financing and SWC Transportation Capital costs
- Increasing by \$20/AF in 2020 due to increasing Departmental O&M and SWC OMP&R costs

Water Stewardship Rate

- Recovers the costs of the Conservation Credits Program and the Local Resource Programs, including the departmental labor, and vendor administration costs for these programs
- Increasing by \$14/AF in 2019 because of increasing CCP expenditures and messaging
- Decreasing by \$4/AF in 2020 due to decreasing LRP costs

System Power Rate

- Recovers the costs of power to pump the water on the CRA and the SWP
 - Includes CRA Power and Dept. O&M, SWC Variable Power and Off-Aqueduct Power Facilities
- Decreasing by \$5/AF in 2019 due to:
 - Lower CRA Power costs
 - Offset by higher SWP Variable Power costs because of higher diversions
- Increasing by \$9/AF in 2020 due to:
 - Higher CRA Power costs
 - Higher SWP Variable Power costs

Treatment Surcharge

- Recovers the costs of the five water treatment plants, Capital and Departmental O&M
 - Users of treated water service pay the TS
- Decreasing by \$1/AF in 2019 due to:
 - Lower Capital Financing costs assigned to Treatment, partially offset by higher Departmental O&M and higher Variable Treatment costs
- Increasing by \$4/AF in 2020 due to higher O&M costs

Readiness-to-Serve Charge

- Recovers the capital costs of providing emergency service and available capacity
 - Includes the costs of emergency storage and available capacity on the conveyance and distribution systems to reliably deliver supplies during emergencies and major outages
- Decreasing by \$7M in 2019 due to lower Debt Service and lower SWC Transportation Capital costs
- Increasing by \$3M in 2020 consistent with the overall rate increase

Capacity Charge

- Recovers the capital costs of the system necessary to meet peak demands on Metropolitan's Distribution system
- Decreasing by \$6M in 2019 due to lower capital costs allocated to maximum day system use, reflecting recent Member Agency peak demands
- Increasing by \$1M in 2020 consistent with the overall rate increase

Proposed Full Service Costs and Charges

Rate Type	2018 Approved	2019 Proposed	% Increase (Decrease)	2020 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$695	\$731	5.2%	\$755	3.3%
Tier 2	\$781	\$817	4.6%	\$842	3.1%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$1,015	\$1,050	3.4%	\$1,078	2.7%
Tier 2	\$1,101	\$1,136	3.2%	\$1,165	2.6%
RTS Charge (\$M)	\$140	\$133	(5.0%)	\$136	2.3%
Capacity Charge (\$M)	\$37	\$31	(15.7%)	\$32	2.3%

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 System Power Rate, the Water Stewardship Rate, and if applicable the Treatment Surcharge for treated water service.

Proposed Study of Demand Management Costs

- Transparent process working with the Board and Member Agencies to further study and determine most appropriate cost allocation of the Demand Management cost function
- Proposal to not bill the WSR on exchange agreement deliveries in CYs 2019 and 2020; forego collection during study period
- Additionally, suspend billing and collecting WSR on exchange agreement deliveries in CY 2018

	CY 2018	CY 2019	CY 2020	Total
Exchange Deliveries, AF	212,000	242,000	274,000	728,000
WSR Revenues on Exchange	\$11,660,000	\$16,698,000	\$17,810,000	\$46,168,000

Follow-up questions from Workshop #1

Biennial Budget, Proposed Regular Positions

GM Department	2017/18 Budget*	2018/19 Proposed	2019/20 Proposed	2018/19 vs 2017/18	2019/20 vs 2018/19
Office of the General Manager	35	37	37	2	-
<i>Office of GM</i>	13	13	13	-	-
<i>Bay Delta Initiatives</i>	17	18	18	1	-
<i>Board of Directors</i>	5	6	6	1	-
Water System Operations	951	948	948	(3)	-
<i>Power Operations & Planning</i>	11	12	12	1	-
<i>Conveyance & Distribution</i>	271	267	267	(4)	-
<i>Water Treatment</i>	285	285	285	-	-
<i>Operations Support Services</i>	130	130	130	-	-
<i>Water Quality</i>	93	93	93	-	-
<i>All other</i>	161	161	161	-	-
Water Resource Management	67	68	68	1	-
<i>Resource Implementation</i>	38	39	39	1	-
<i>Resource Planning & Development</i>	29	29	29	-	-
<i>Office of Manager</i>	13	13	13	-	-
Engineering Services	355	355	355	-	-
Office of Chief Admin Officer	98	97	98	(1)	1
<i>Administrative Services</i>	81	78	78	(3)	-
<i>Environmental Planning</i>	17	19	20	2	1
Office of the Chief Financial Officer	49	49	49	-	-

* FY 2017/18 budget restated to reflect internal group transfers in biennial budget

Biennial Budget, Proposed Regular Positions (cont'd)

GM Department	2017/18 Budget*	2018/19 Proposed	2019/20 Proposed	2018/19 vs 2017/18	2019/20 vs 2018/19
Information Technology	130	130	134	-	4
<i>Office of IT Group Manager</i>	2	2	6	-	4
<i>IT Infrastructure</i>	41	41	41	-	-
<i>Enterprise Water & Business Systems</i>	47	47	47	-	-
<i>Project Planning</i>	21	21	21	-	-
<i>All other</i>	19	19	19	-	-
Human Resources	38	42	42	4	-
<i>Employee Relations, Inclusion & Analytics</i>	10	11	11	1	-
<i>HR Services</i>	21	24	24	3	-
<i>Office of Manager</i>	7	7	7	-	-
Real Property	40	50	50	10	-
<i>Asset Management</i>	15	21	21	6	-
<i>Planning & Acquisition</i>	12	15	15	3	-
<i>Office of Manager</i>	13	14	14	1	-
External Affairs	70	71	71	1	-
<i>Member Services & Public Outreach</i>	9	10	10	1	-
<i>Conservation & Community Services</i>	11	11	11	-	-
<i>Media & Communications</i>	20	20	20	-	-
<i>Legislative Services</i>	14	14	14	-	-
<i>Business Outreach & Office of Manager</i>	16	16	16	-	-
Total GM Department	1,833	1,847	1,852	14	5

HR Staffing Trend



Next Steps

- February 27, 2018 F&I Committee, Workshop #2: Cost of Service, proposed rates and charges, follow up
- March 12, 2018 F&I Committee, Workshop #3: CIP, Financial Policies, follow up
- March 13, 2018 Public Hearings on proposed water rates and charges and continuing suspension of the AV tax limitation
- March 27, 2018 F&I Committee, Workshop #4: if needed
- April 9, 2018 F&I Committee: Recommend Biennial Budget, Calendar Year rates and charges, and Ten-Year Financial Forecast; Workshop #5, if needed
- April 10, 2018 Board Actions regarding Biennial Budget, Calendar Year rates and charges, and Ten-Year Financial Forecast

