

# Proposed Biennial Budget, Revenue Requirements, and Water Rates and Charges Fiscal Years 2014/15 and 2015/16

**Finance and Insurance Committee  
Item 8-1  
February 10, 2014**



# Proposed Biennial Budget Workshop Presentation Overview

- Budget and Rates Overview
  - Proposed use of FY2013/14 reserves over target
  - Proposed rate increases
- Operating Budget
- Capital Investment Plan
- Ten-Year Forecast
- Water Rates and Charges
- Next Steps

# Proposed Budget and Rates Overview

# Biennial Budget and Rates Goals

- Fund key priorities while keeping water rates low
- Propose use of FY 2013/14 projected reserves over target to:
  - Reduce liabilities
  - Establish a Water Management Fund
  - Lower need for future water rate increases
- Comprehensive Capital Investment Plan (CIP) with emphasis on replacement and refurbishment
- Minimize future reliance on debt to fund CIP
- Present ten-year financial forecast
- Meet financial targets

# Important Underlying Assumptions\*

Fiscal Year Ending	2015	2016
Overall increase January 2015 & 2016	1.5%	1.5%
Full Service Treated Tier 1 Cost	3.9%	2.3%
Total Water Sales and Exchanges	1.75 MAF	1.75 MAF
State Water Project Allocation	50%	50%
Colorado River Aqueduct Deliveries	0.88 MAF	0.88 MAF
Interest Income Rate	1.15%	2.0%
New Debt Interest Rate – Fixed	4.5%	4.5%
– Variable	0.20%	0.35%
Ad Valorem Tax Revenues	\$90.2 M	\$92.2 M
Capital Investment Plan Funding	100% PAYGO	100% PAYGO & R&R Fund

\*Assumes average conditions

# Reserve Fund Balance

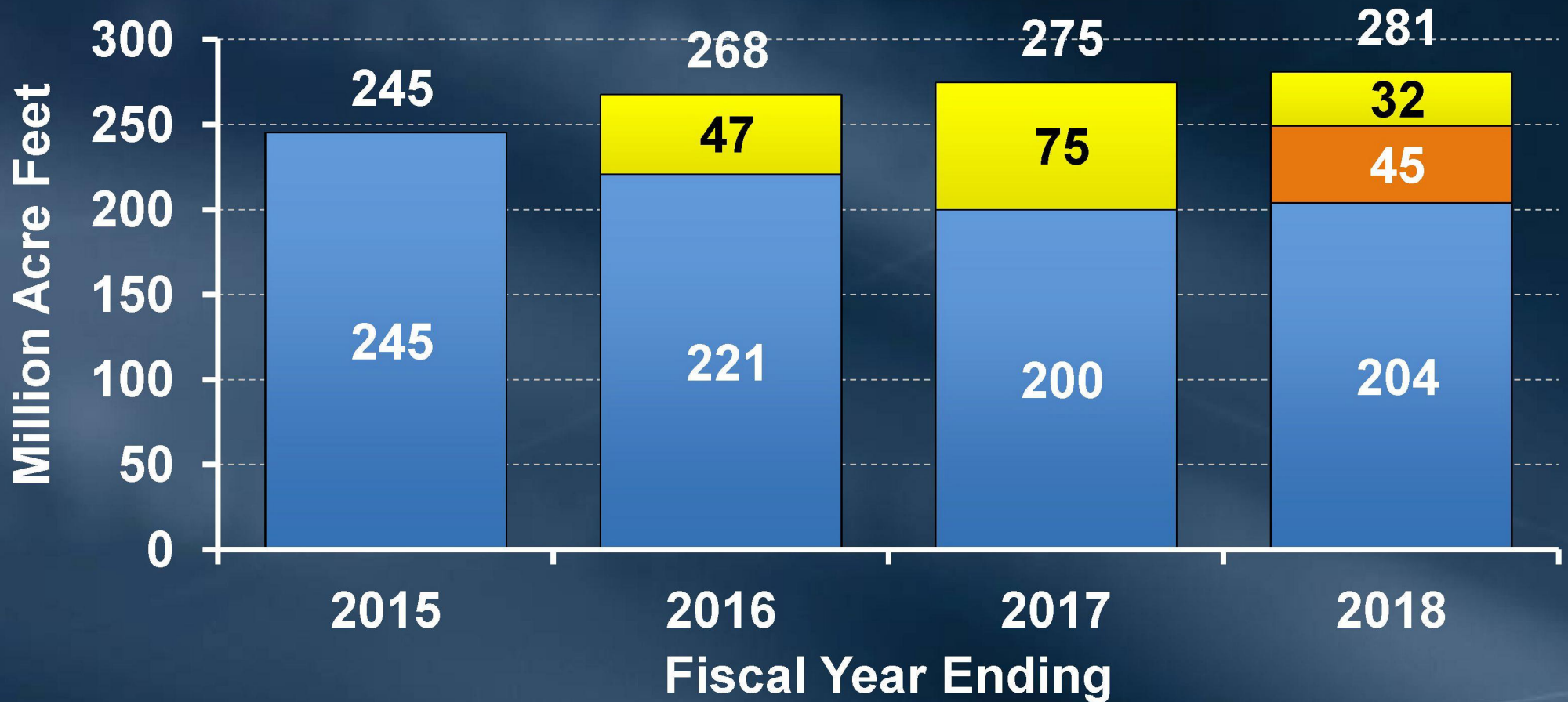


# Use of Reserves over Target

- Proposed use of estimated \$320M over the target
  - \$100M deposit to Replacement and Refurbishment (R&R) Fund
  - \$100M deposit to OPEB Trust
  - Approximately \$120M to a newly established Water Management Fund

# Capital Investment Plan Funding

■ R&R Fund    ■ Bonds    ■ PAYGO

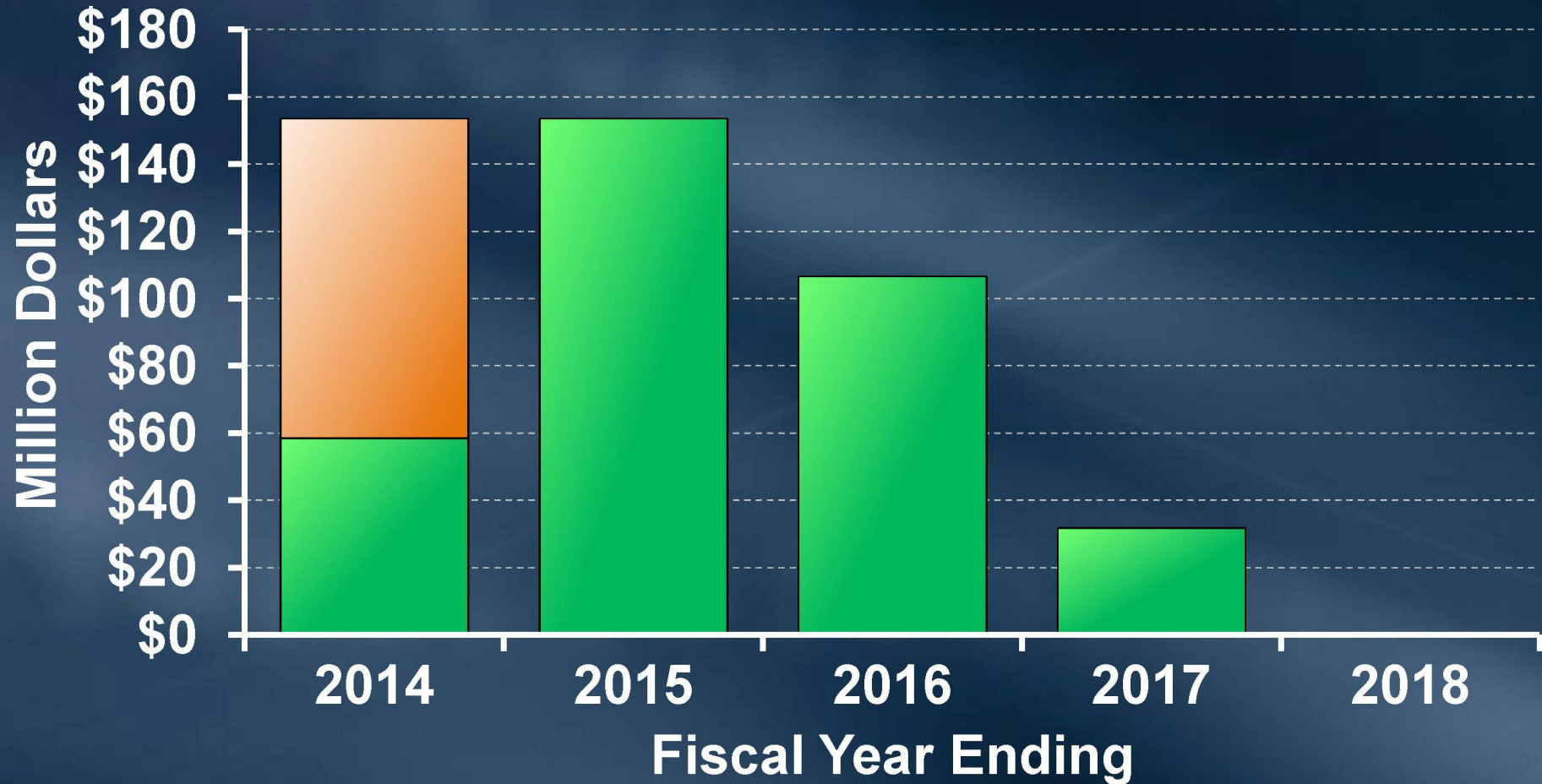




# Replacement and Refurbishment (R&R) Fund

■ R&R Deposit

■ R&R Fund Balance

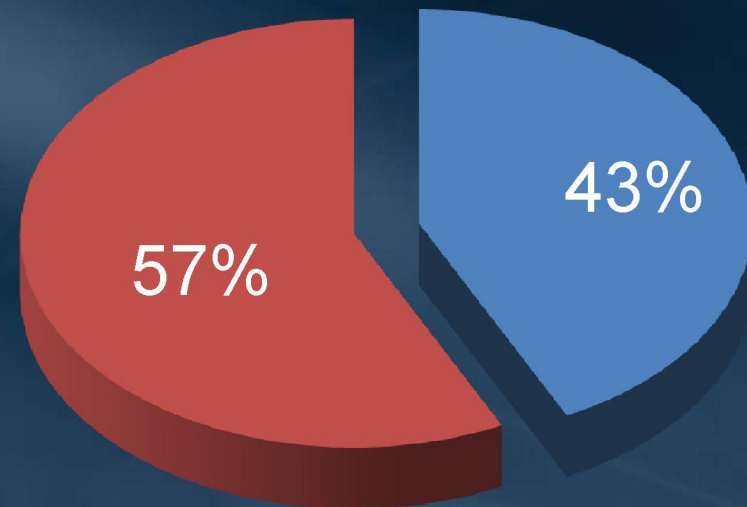
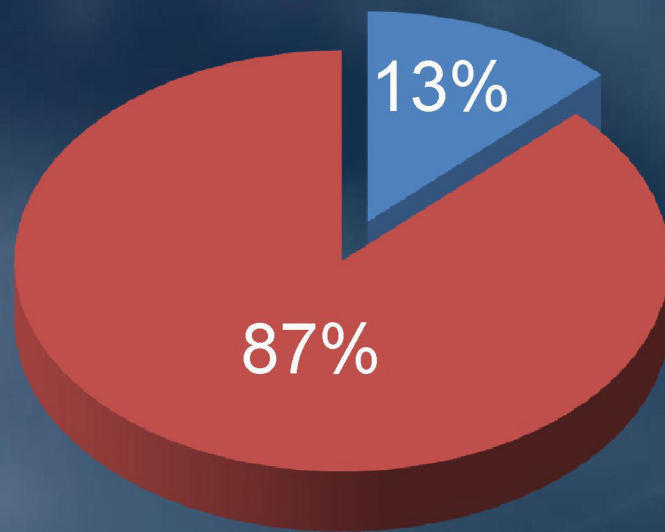


Administrative Code change needed to remove current \$95M cap

# Retiree Medical Premiums (OPEB)

## Funding

After \$100 million  
deposit to OPEB Trust



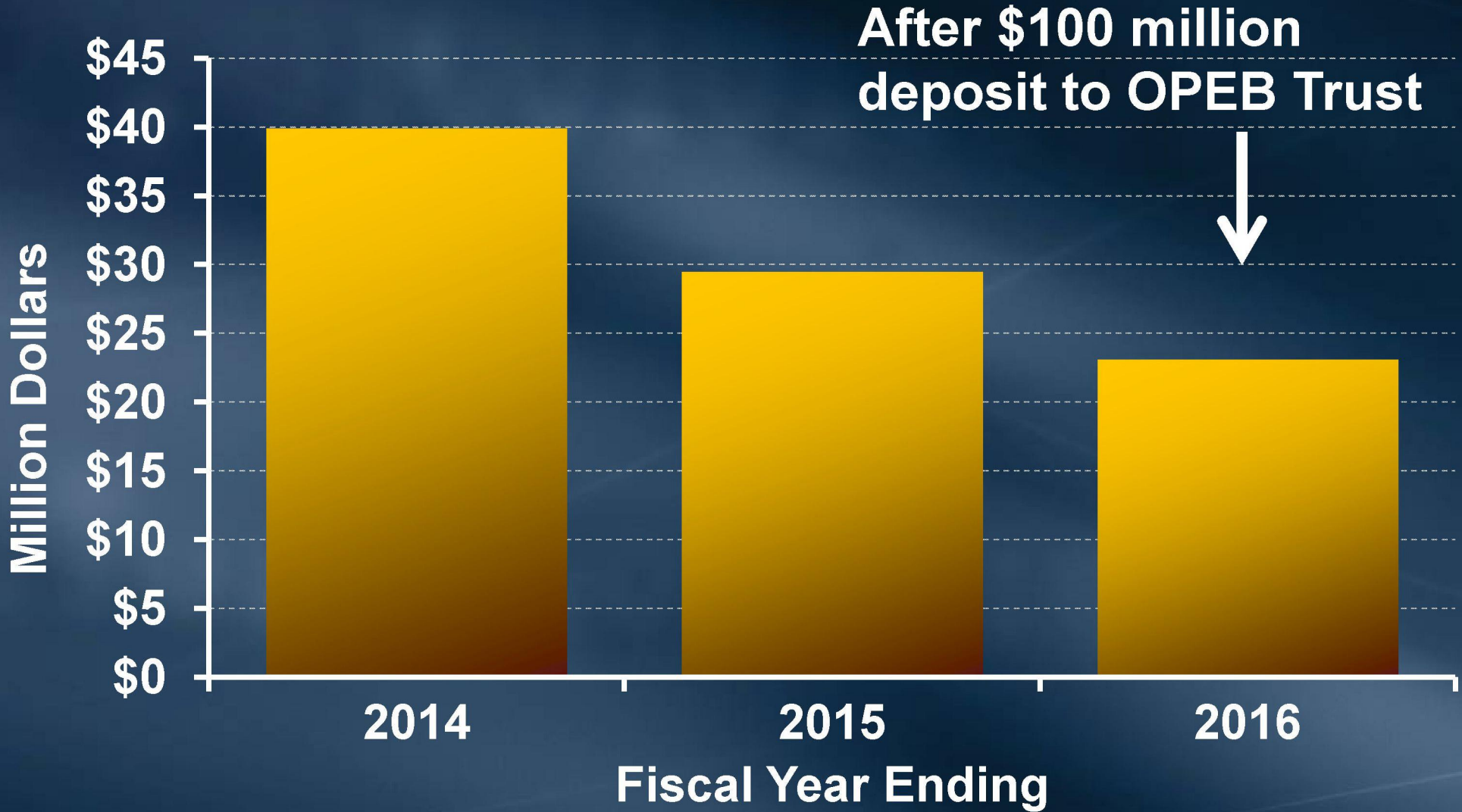
Projected OPEB Liability at 6/30/14 = \$333.1 million

■ Funded

■ Unfunded

# OPEB

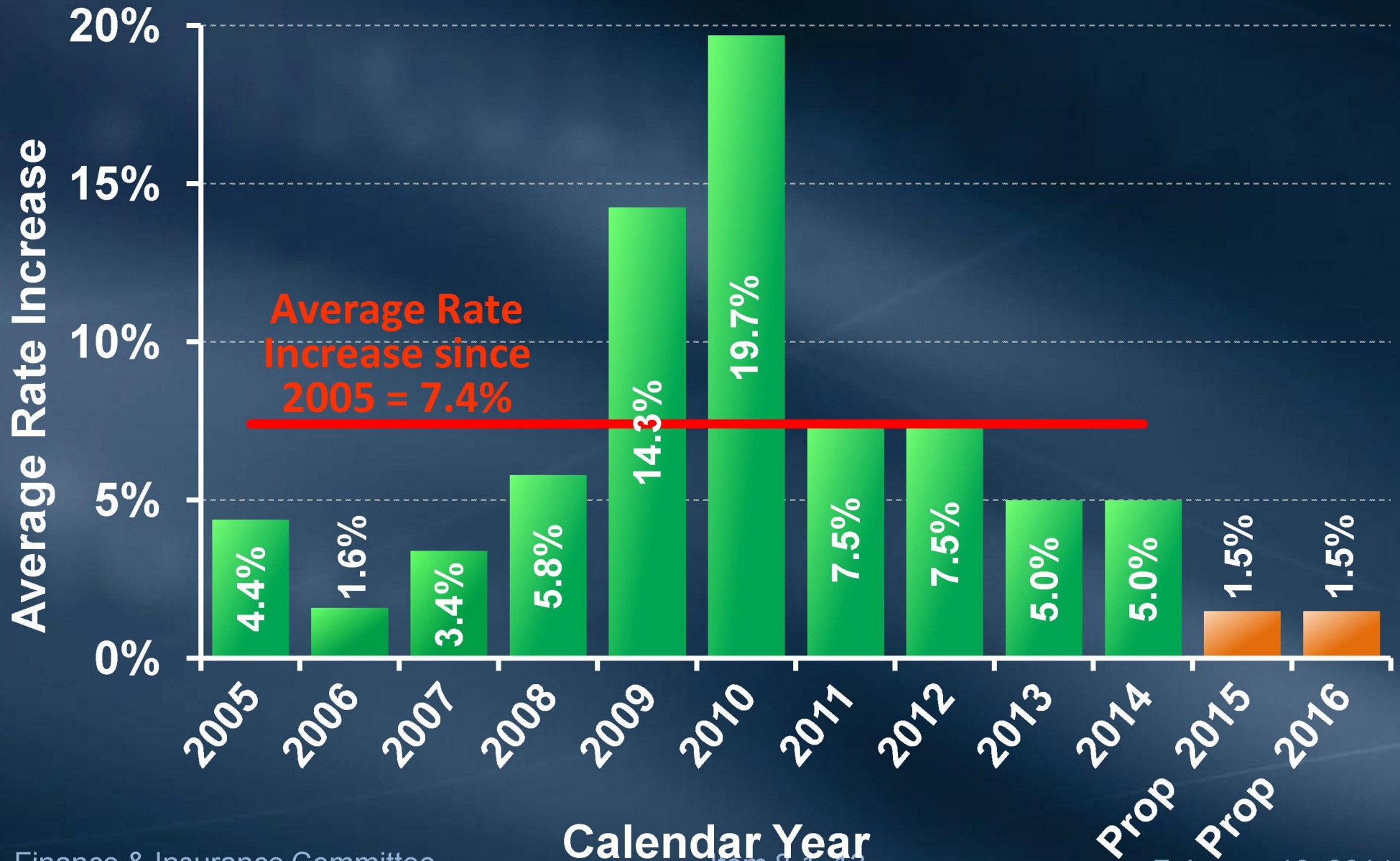
## Annual Required Contribution (ARC)



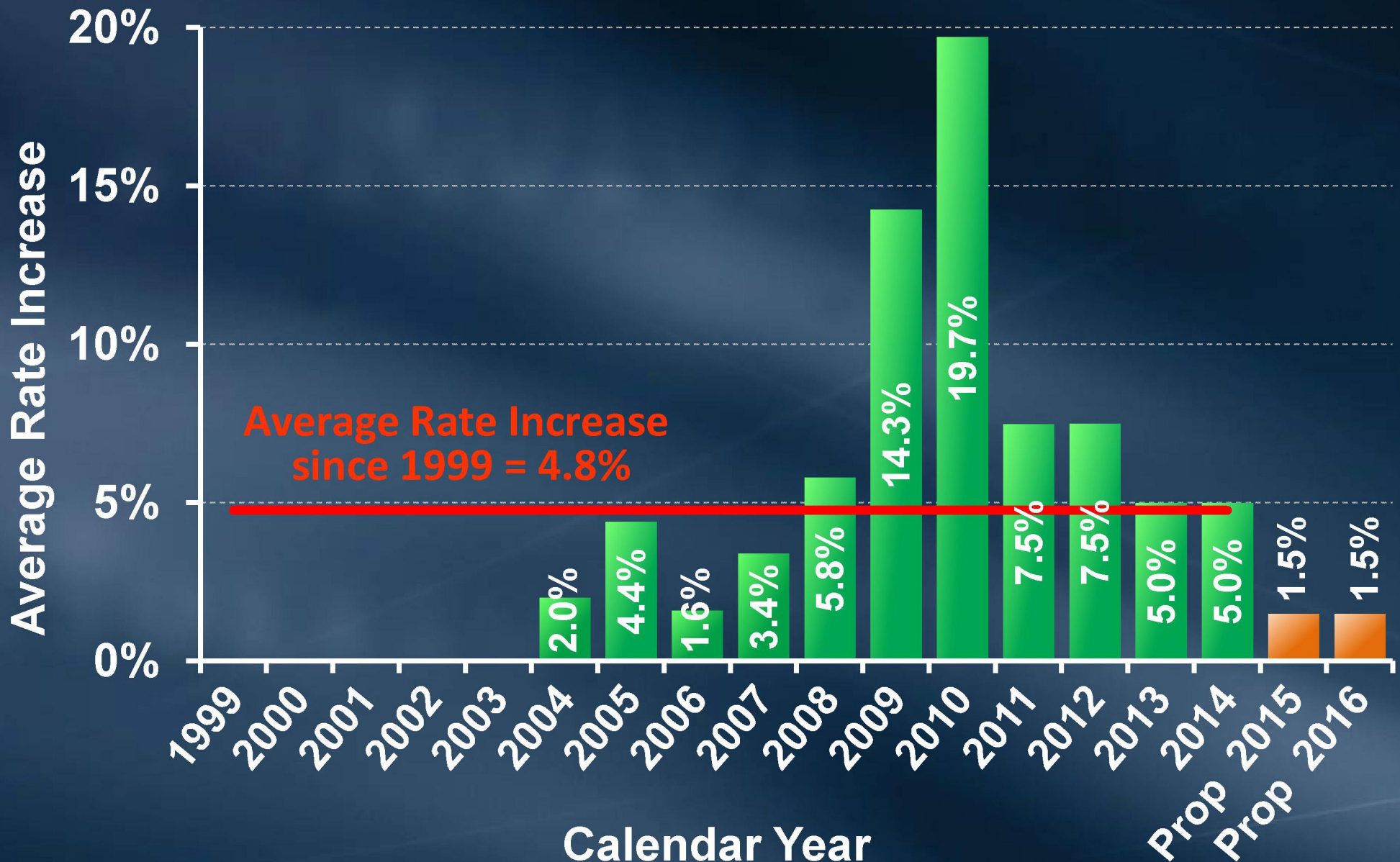
# Water Management Fund

- Replacement for Water Transfer Fund
  - Administrative Code change needed
- Deposit approximately \$120 M
- Covers cost associated with:
  - Replenishment of storage
  - Transfers
  - Drought response programs

# Overall Rate Increases Since 2005



# Overall Rate Increases Since 1999



# Projected Rate Increases & Financial Metrics



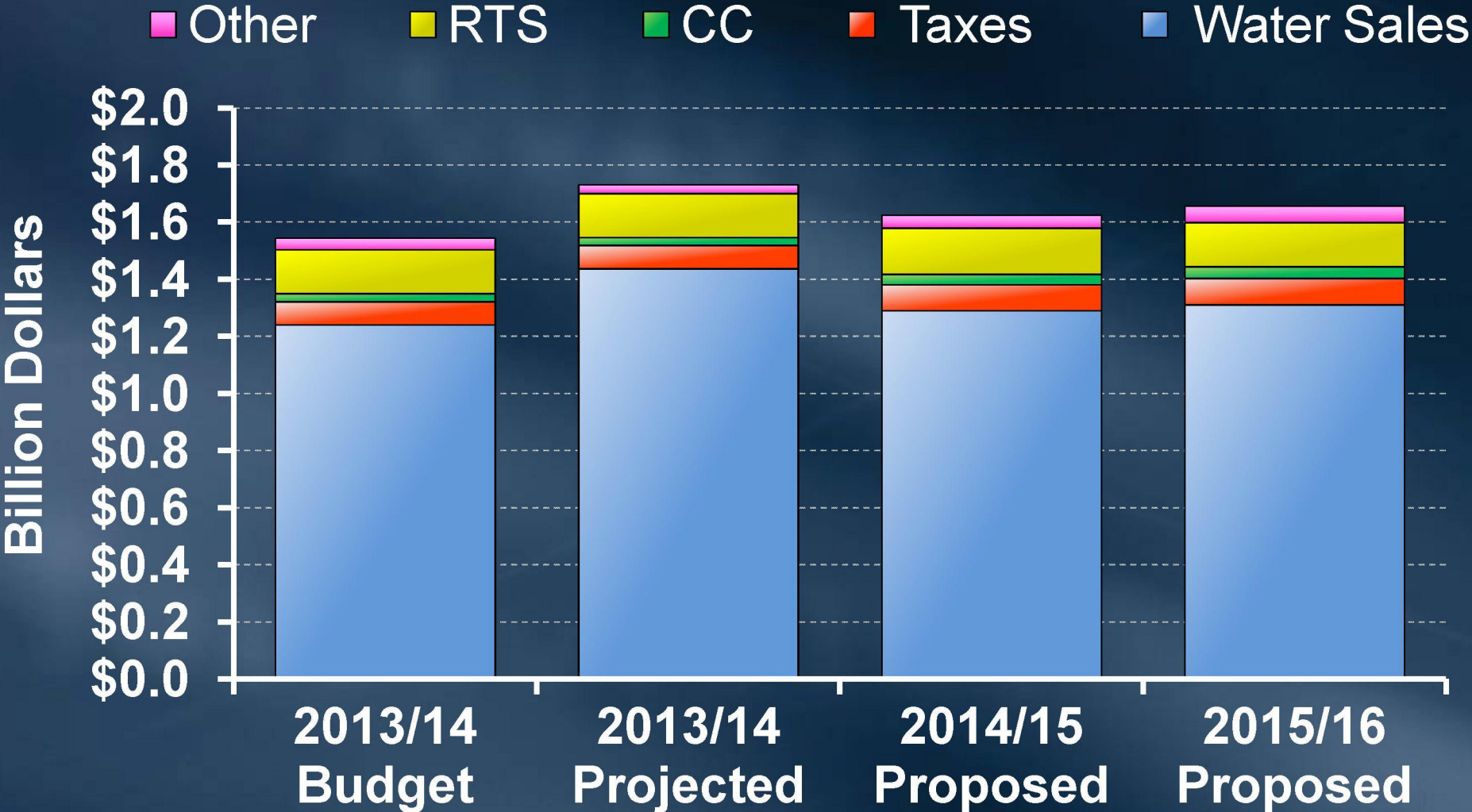
<b>Ave Rate Inc.</b>	5%	1.5%	1.5%	3%	3%	4%	5%	5%	5%	5%	5%
<b>Sales, MAF</b>	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
<b>CIP, \$M</b>	200	245	268	275	281	284	293	304	312	317	313
<b>PAYGO, \$M</b>	125	245	221	200	204	201	176	182	187	190	188
<b>Rev. Bond Cvg</b>	2.7	2.0	2.0	2.0	2.0	2.0	2.2	2.4	2.6	2.7	2.9
<b>Fixed Chg Cvg</b>	2.0	1.6	1.6	1.6	1.5	1.6	1.5	1.5	1.5	1.4	1.4
<b>Inflation</b>	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
<b>AV Taxes, \$M</b>	81	90	92	94	96	99	101	103	105	108	110
<b>BDCP, \$M</b>				15	24	46	91	148	204	259	302

\* Revenue Remainder & WRSF

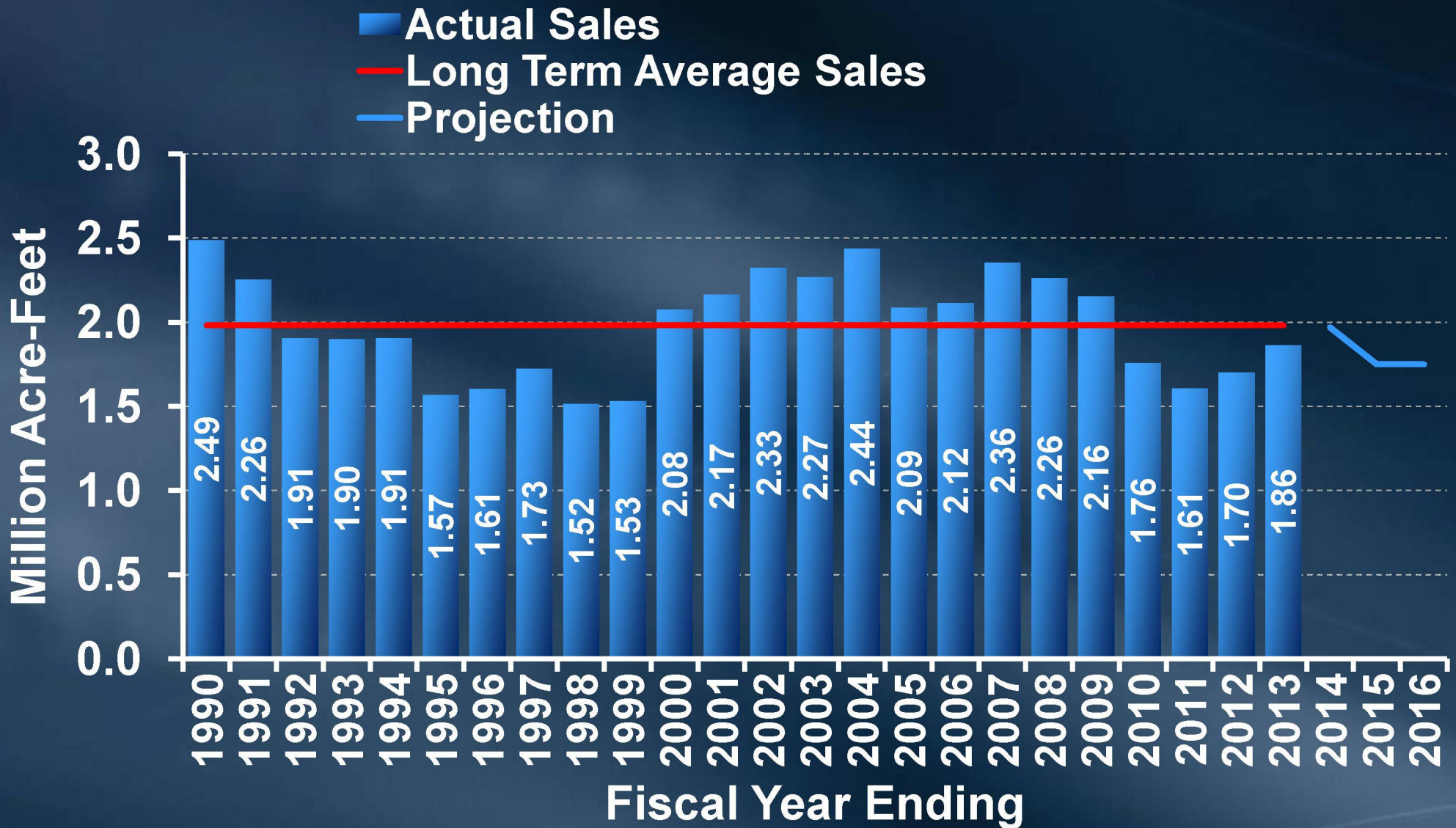
# Proposed Biennial Budget



# Revenue Trend



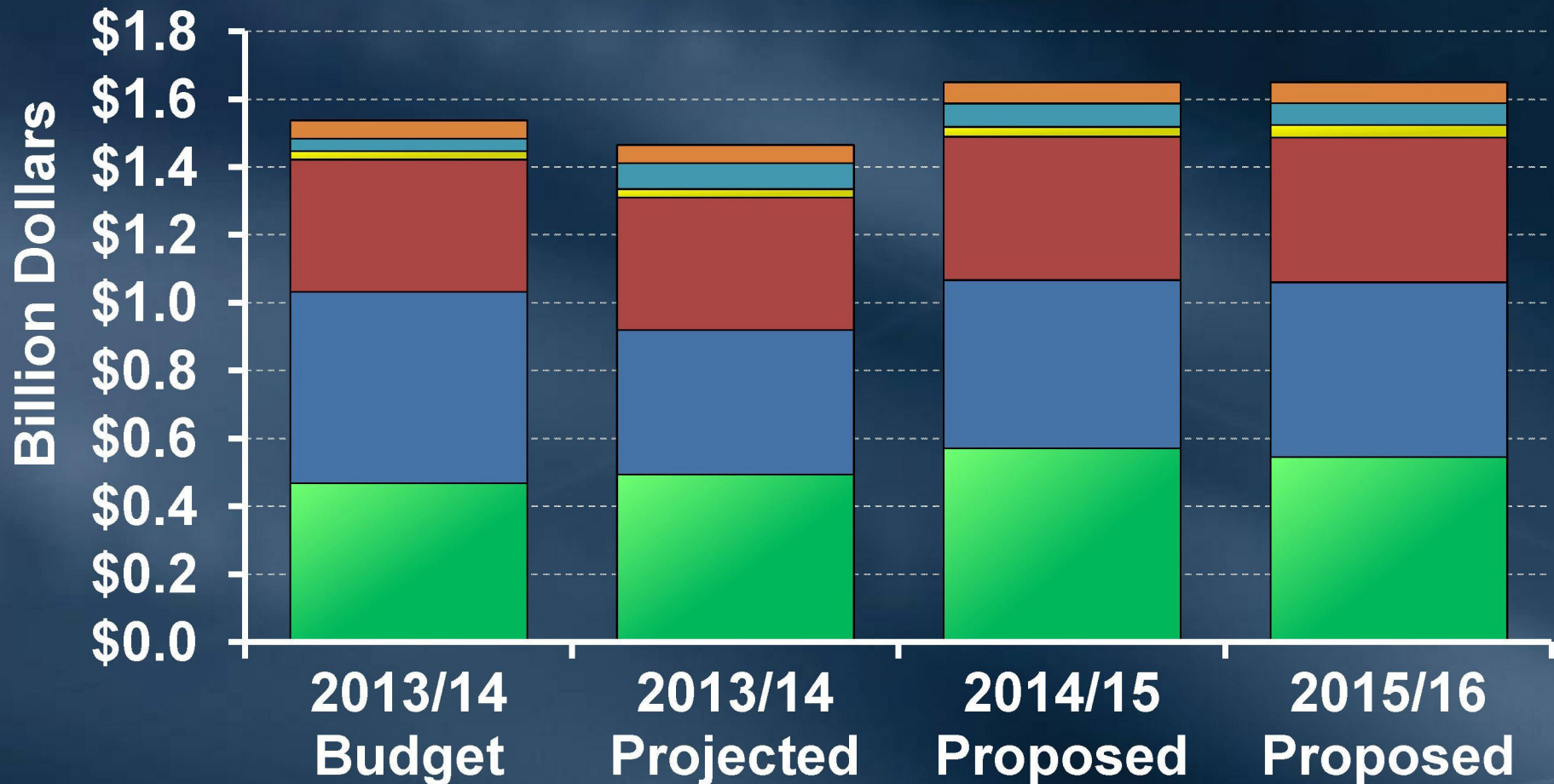
# Water Sales\*



\* Includes Exchange/Wheeling

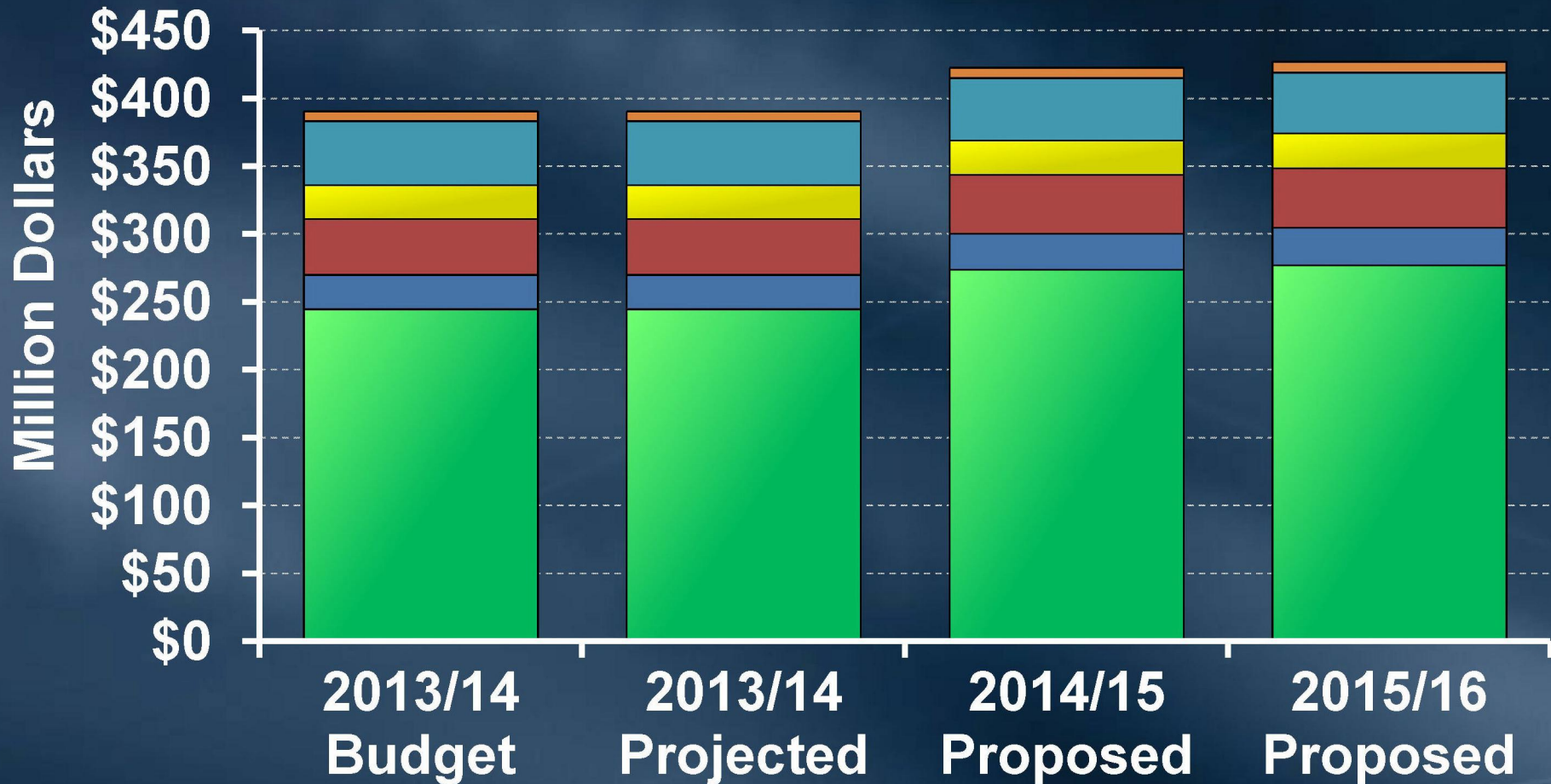
# Expenditure Trend

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



# Proposed O&M Expenditure Budget

- Operating Equipment
- Materials & Supplies
- Chemicals, Solids, and Power
- Other
- Outside Services
- Salaries & Benefits



# Reasons for O&M Cost Increases

## FY 2013/14 to FY 2014/15

● Salaries: Merit, MOUs, Succession	\$6.7 M
● OPEB planned increase	\$5.0 M
● OPEB full ARC	\$4.9 M
● PERS retirement	\$5.9 M
● Medical insurance	\$3.0 M
● Other benefits	\$0.9 M
● Overtime for shutdown support	\$0.8 M
● Maintenance outside services	\$2.2 M
● Treatment Chemicals & Power	\$1.1 M
● Other	<u>\$1.8 M</u>
Total	\$32.3 M

# Reasons for O&M Cost Increases

FY 2014/15 to FY 2015/16

● Salaries: Merits & COLA	\$3.7 M
● PERS retirement	\$4.5 M
● Medical insurance	\$1.5 M
● OPEB credit	(\$6.5 M)
● Treatment Chemicals & Power	\$1.1 M
● Other	\$0.1 M
Total	<u>\$4.4 M</u>

# Budgeted Regular Positions

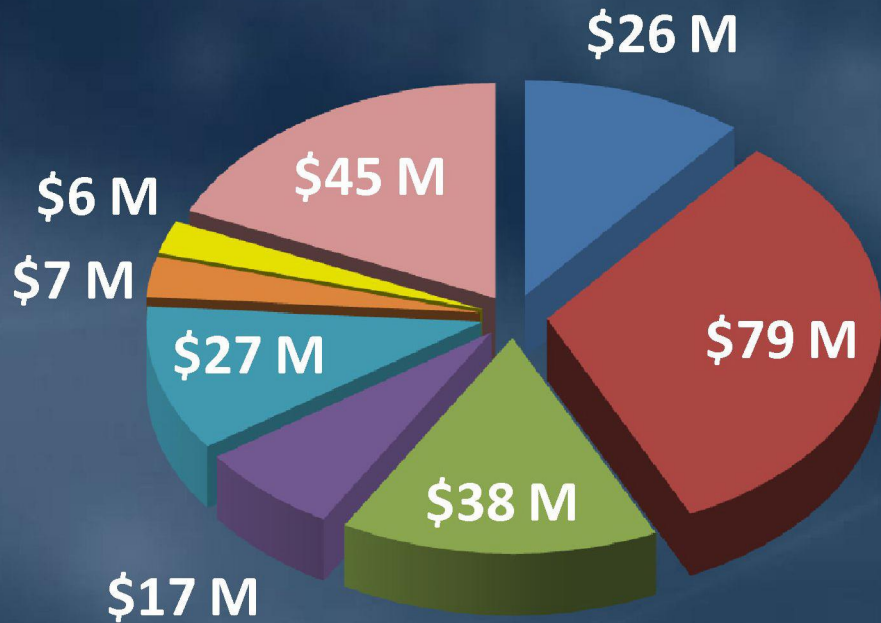
<b>2013/14 budgeted regular positions</b>	<b>1,784</b>
Capital Positions to be Filled	28
Succession Planning	11
Bay Delta Conservation Plan (BDCP)	2
WSO Engineers	3
	<hr/>
Total position increase	44
	<hr/>
<b>2014/15 budgeted regular positions</b>	<b>1,828</b>
Eliminated positions	(1)
	<hr/>
<b>2015/16 budget regular positions</b>	<b>1,827</b>

# Capital Investment Plan (CIP)

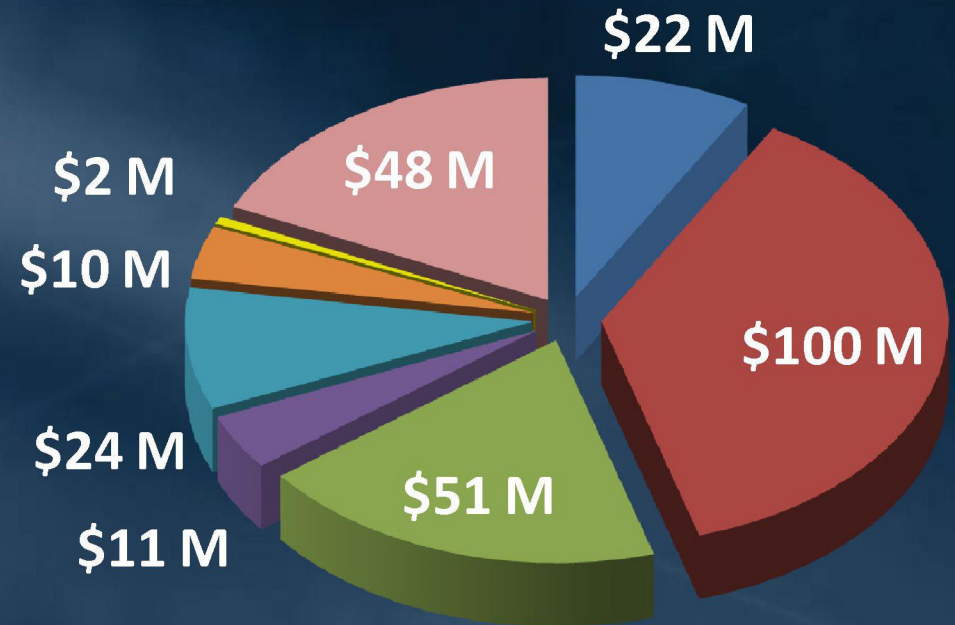


# Proposed CIP Budget

FY 2014/15 - \$245 M



FY 2015/16 - \$268 M



■ CRA

■ Treatment Plants

■ Distribution

■ PCCP

■ Other

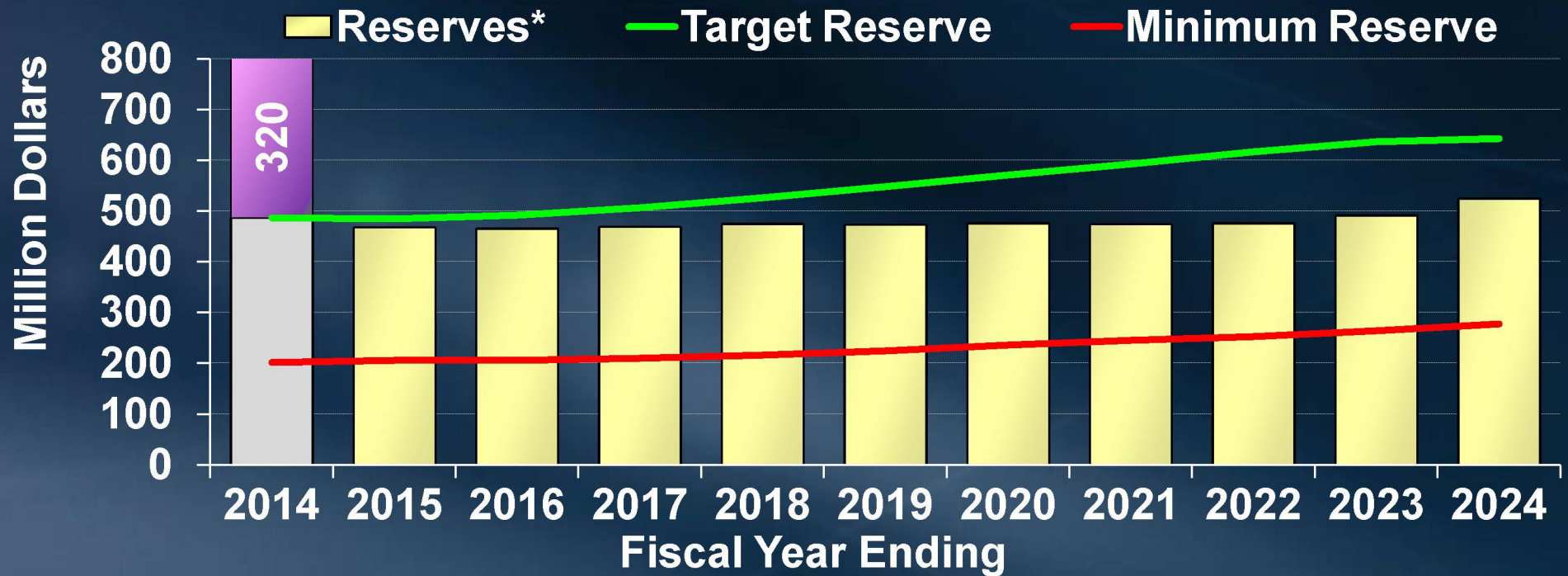
■ Regulatory

■ Cost

■ Water Quality

# Ten-Year Financial Forecast

# Projected Rate Increases & Financial Metrics



Ave Rate Inc.	5%	1.5%	1.5%	3%	3%	4%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	245	221	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	2.0	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0	1.6	1.6	1.6	1.5	1.6	1.5	1.5	1.5	1.4	1.4
Inflation	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
AV Taxes, \$M	81	90	92	94	96	99	101	103	105	108	110
BDCP, \$M				15	24	46	91	148	204	259	302

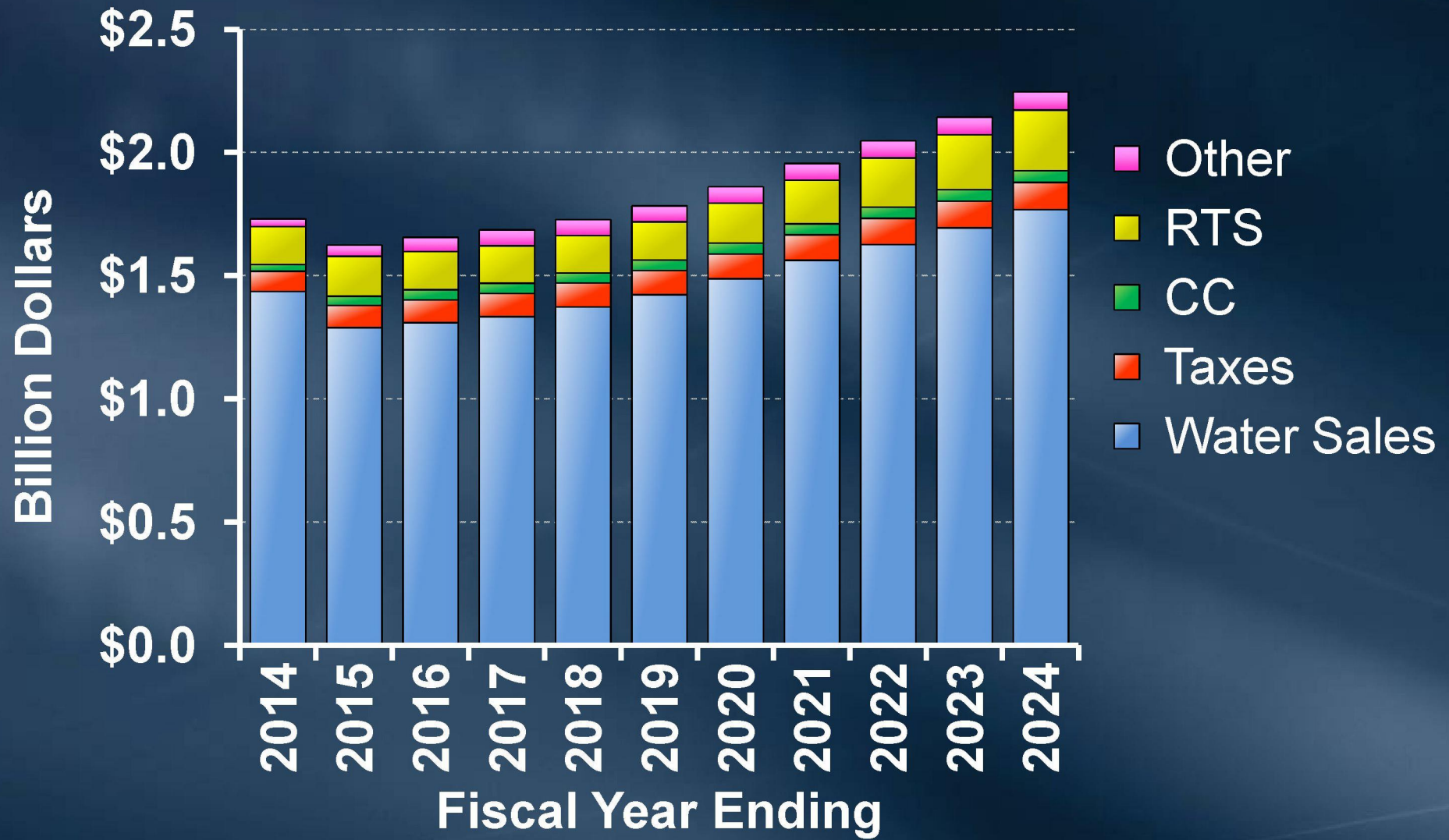
\* Revenue Remainder & WRSF

# Water Sales\*

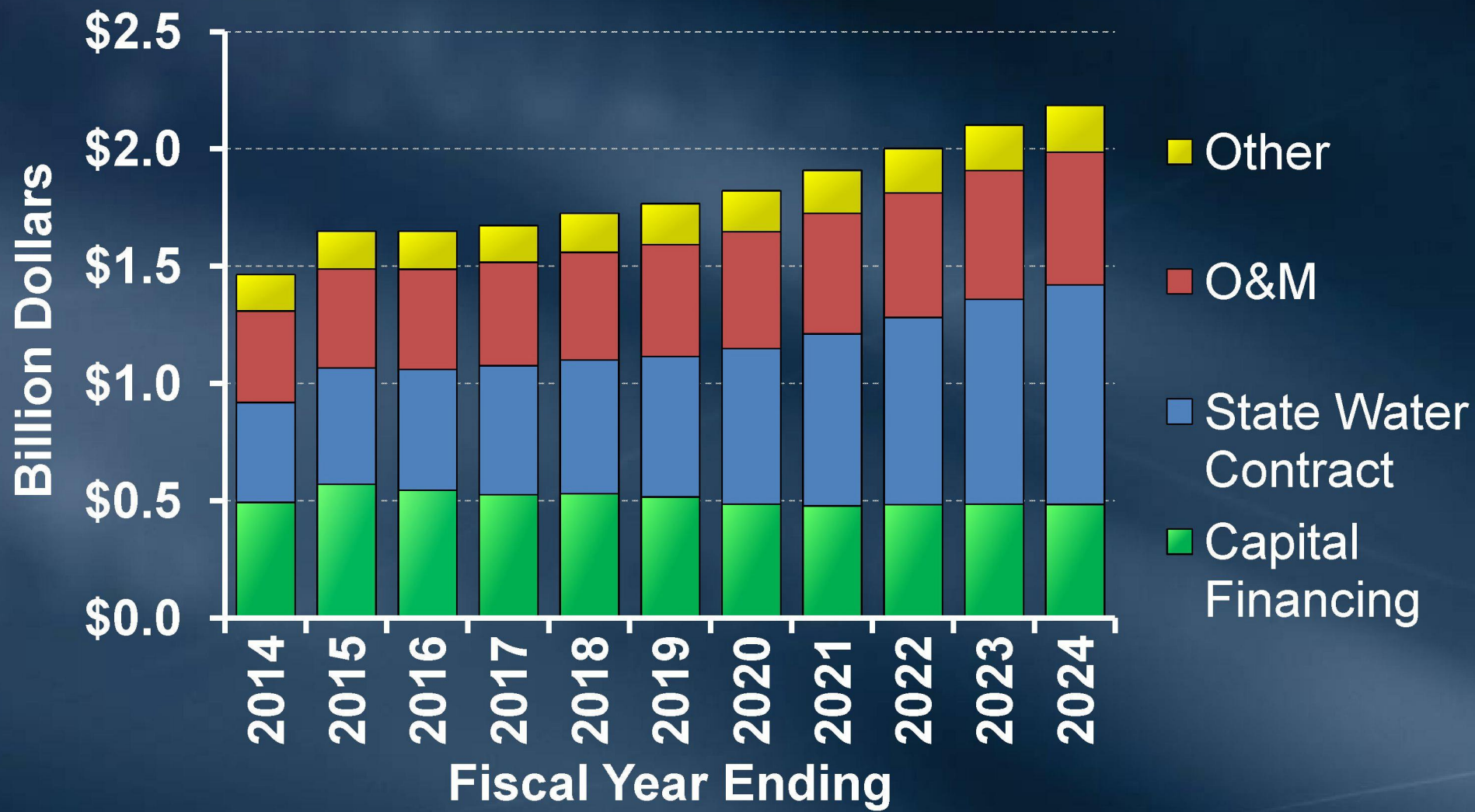


\* Includes Exchange/Wheeling

# 10-Year Revenue Trend



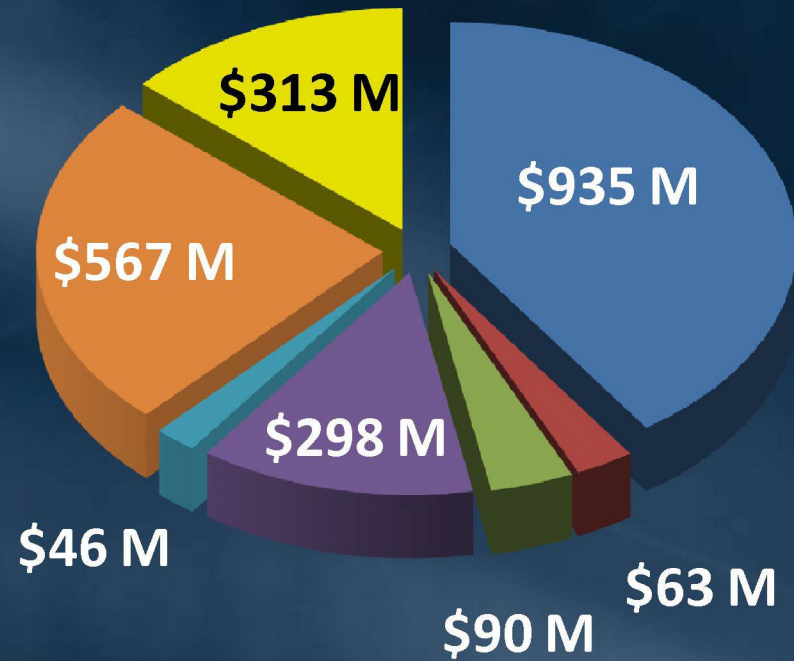
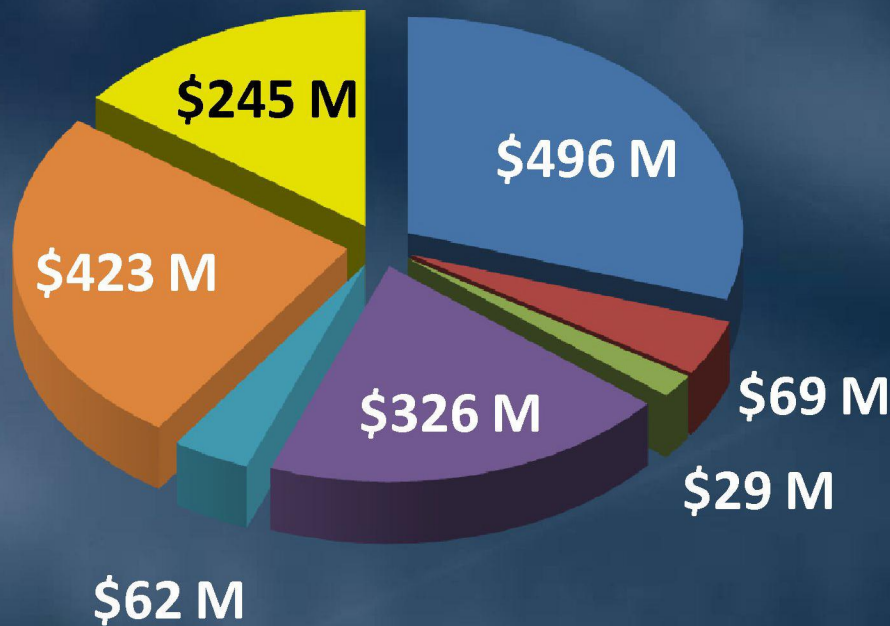
# 10-Year Expenditure Trend



# Expenditure Trend

FY 2014/15 - \$1.65 B

FY 2023/24 - \$2.31 B

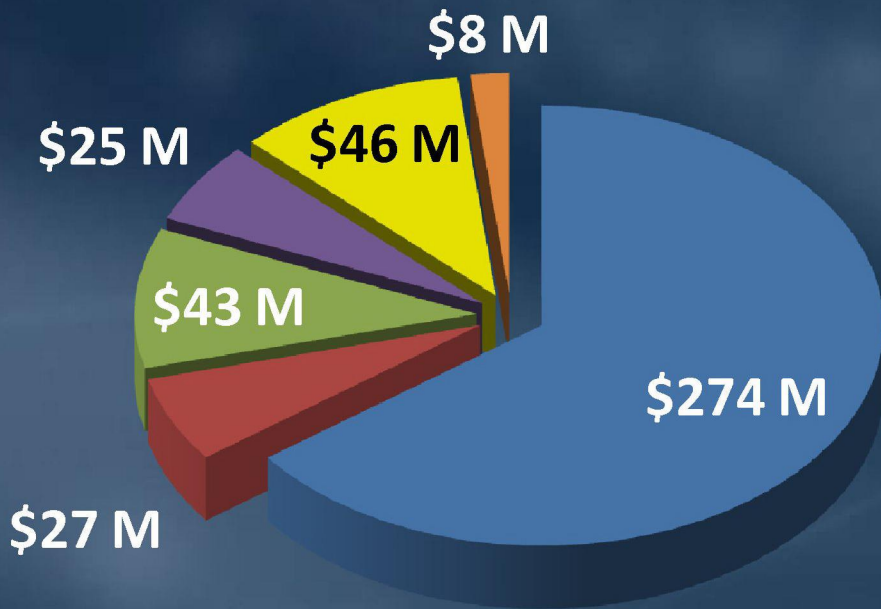


- State Water Contract
- Colorado River Power
- Demand Management
- CIP

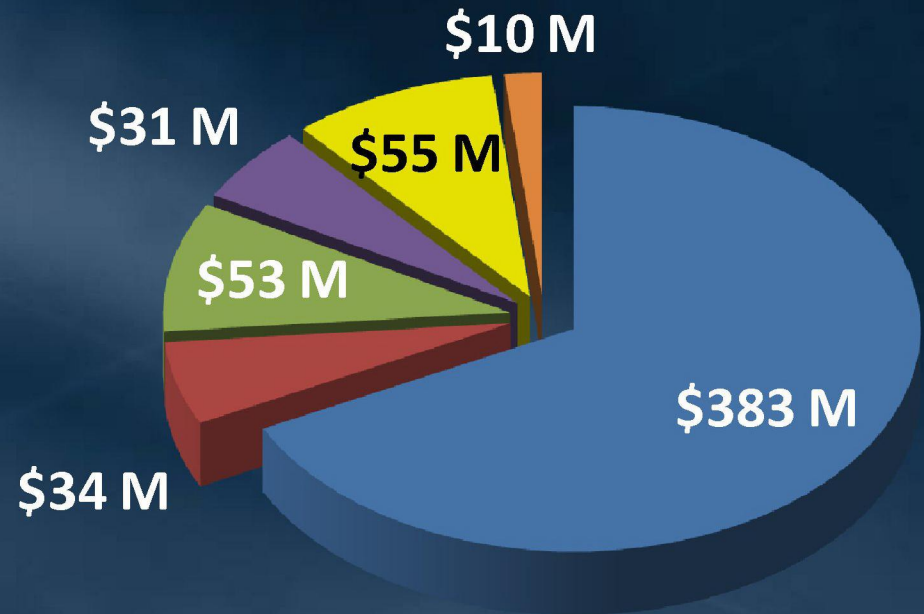
- Supply Programs
- Debt Service
- O&M

# O&M Budget Trend

FY 2014/15 - \$423 M



FY 2023/24 - \$567 M



■ Salary & Benefits

■ Variable Treatment

■ Outside Services

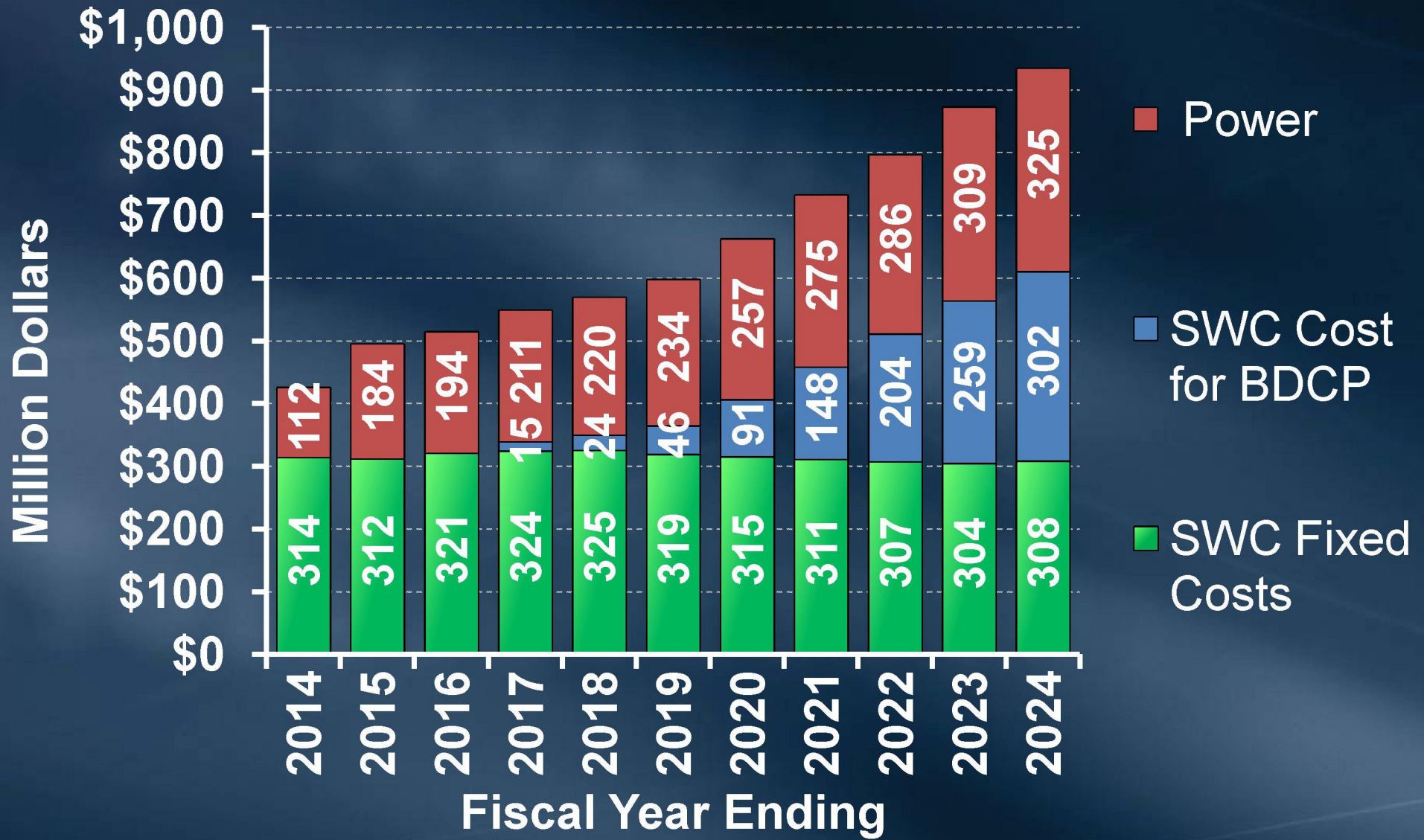
■ Materials & Supplies

■ Other

■ Operating Equipment

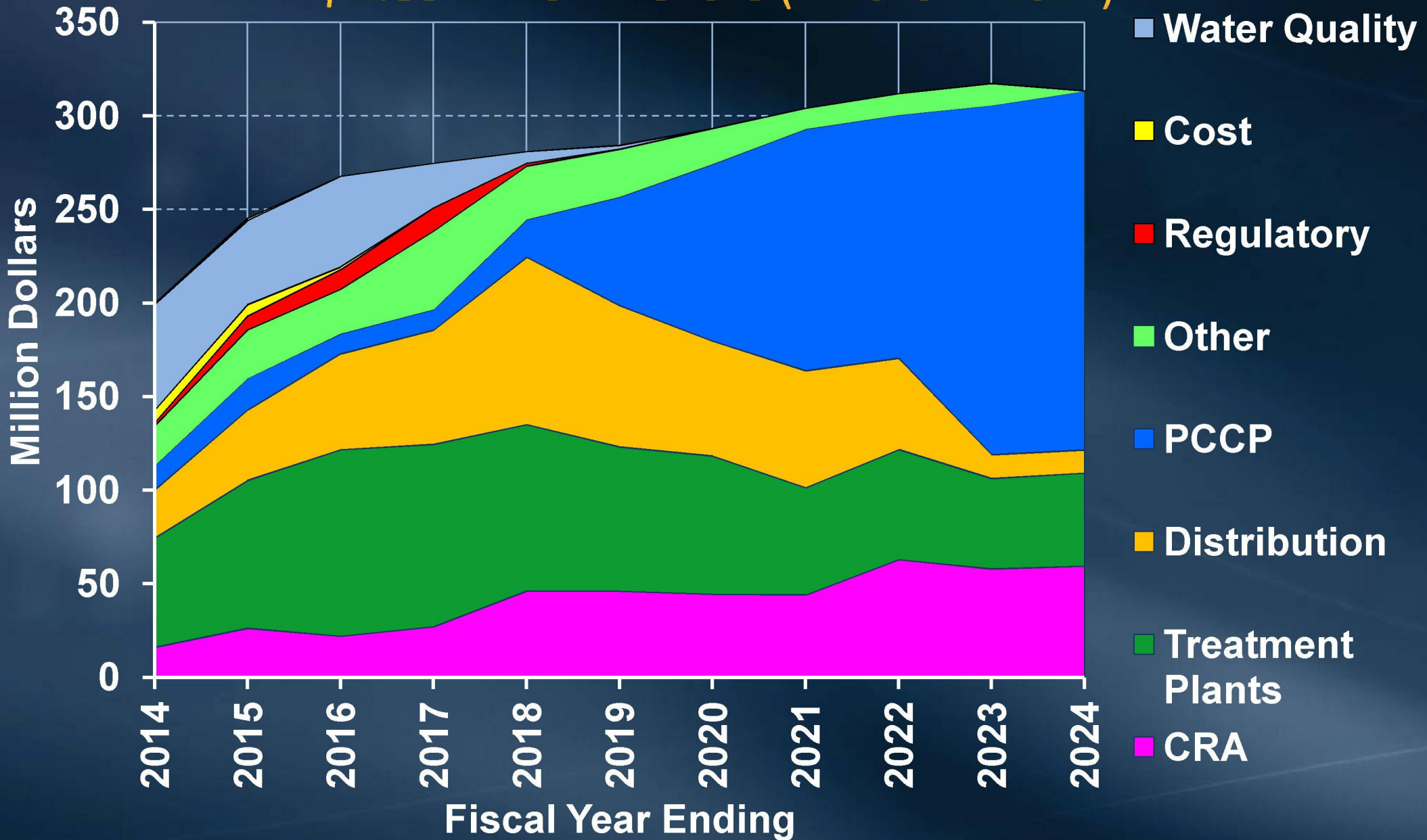


# SWC Forecast

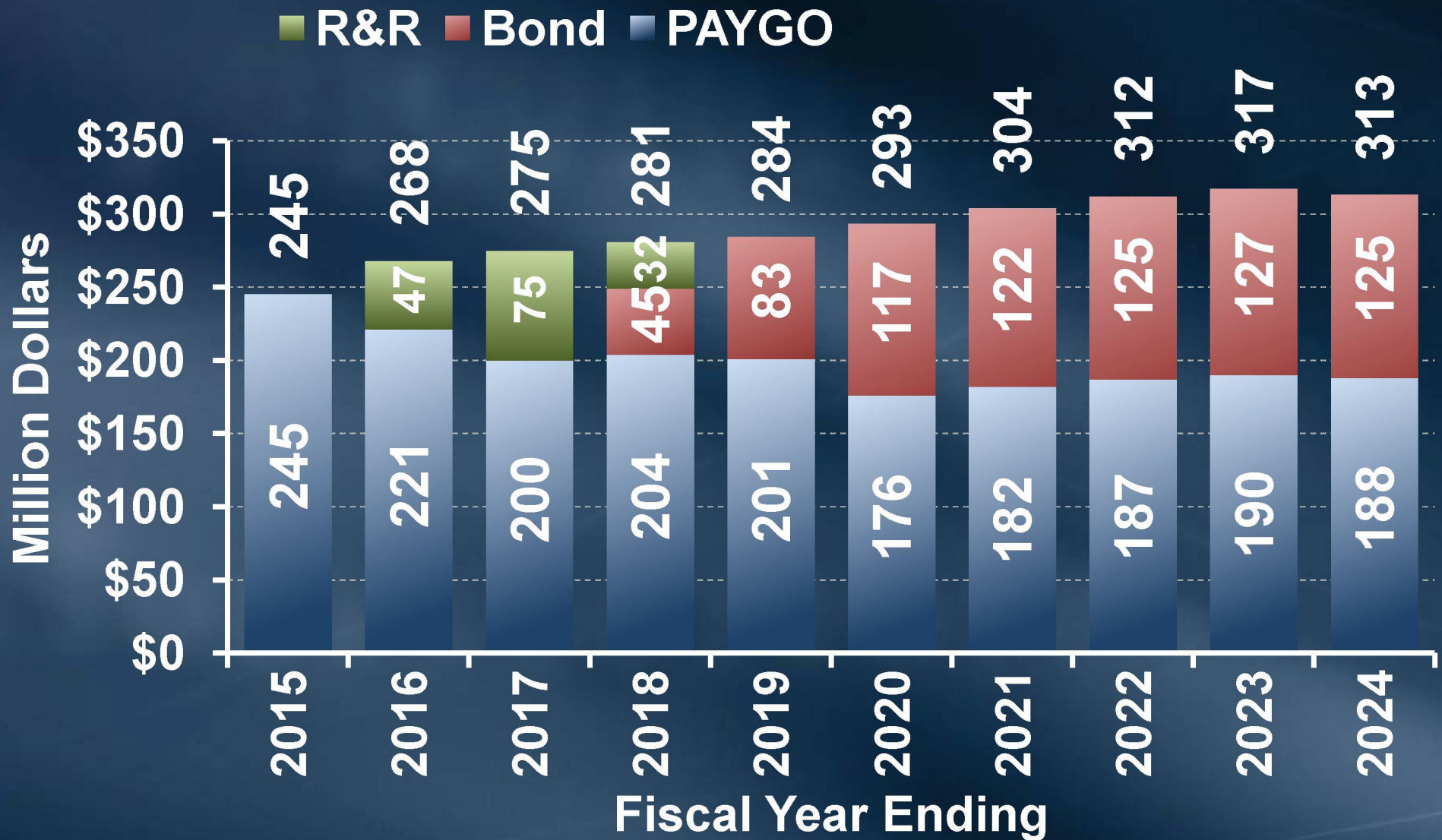


# 10 Year Capital Investment Plan

\$2.89 Billion Dollars (FY2015-FY2024)



# Capital Investment Plan Funding



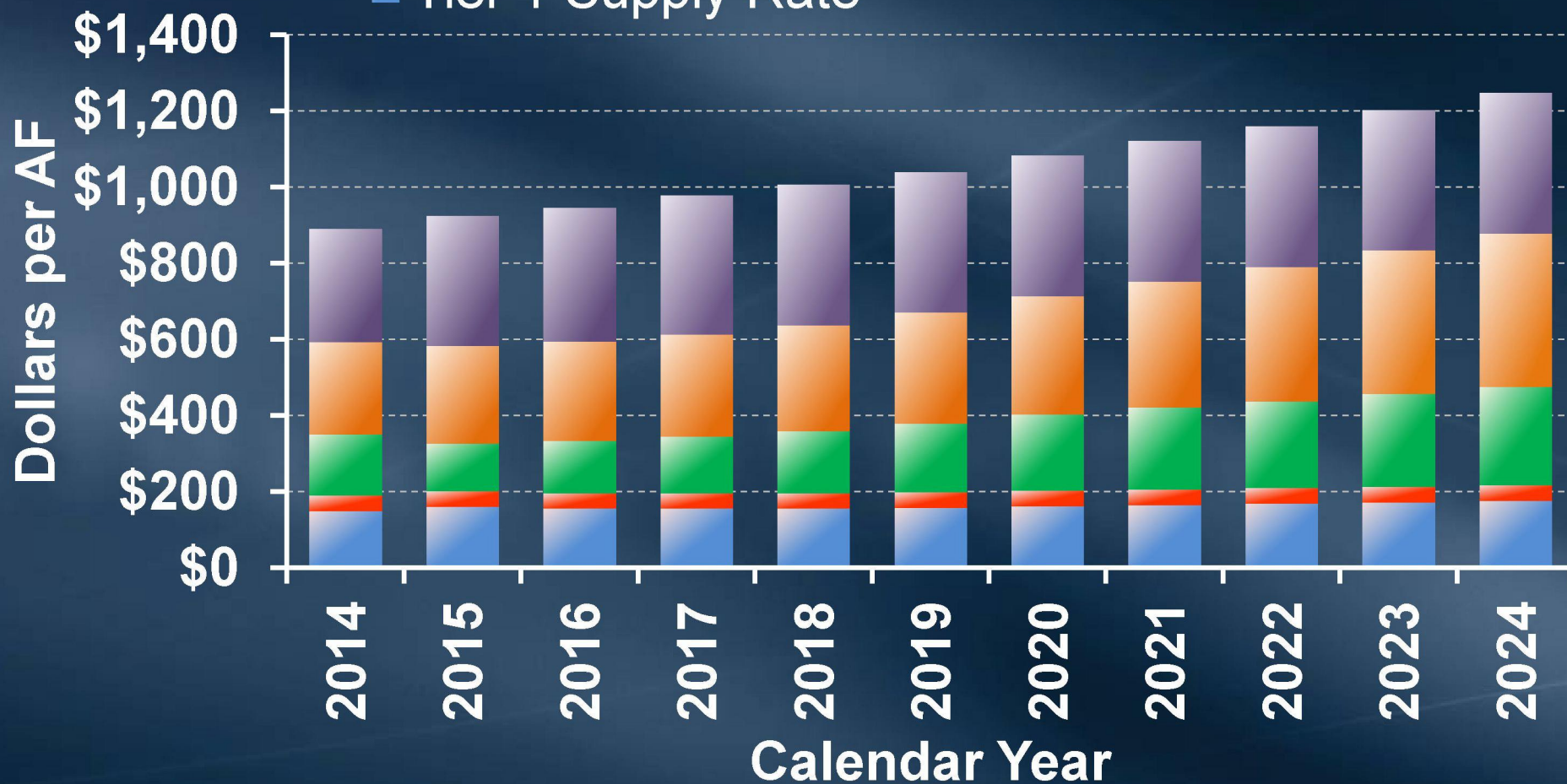
# MWD Debt Service

- Revenue Bond Debt Service
- MWD GO Bonds



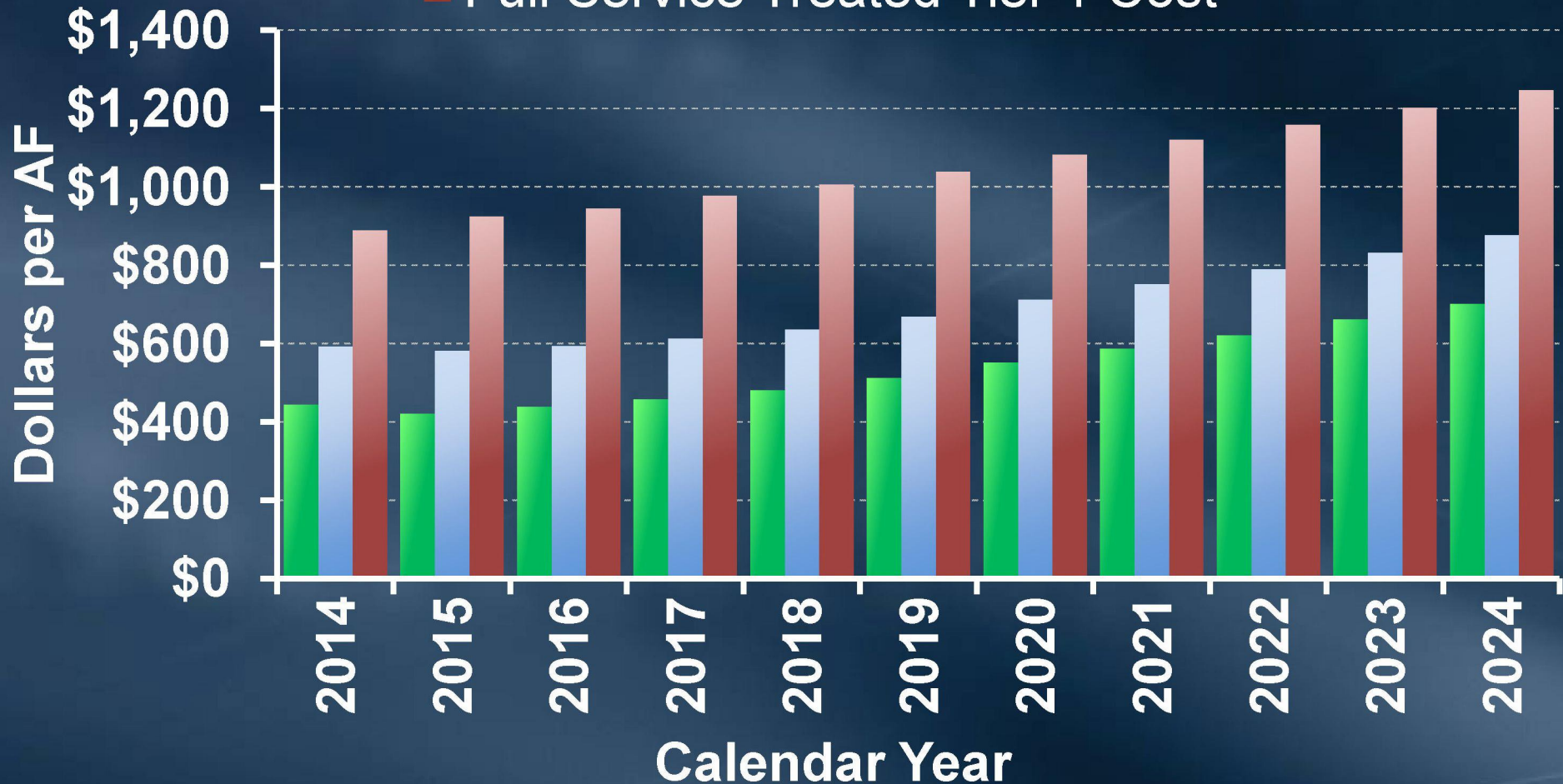
# Projected Volumetric Rate Elements

- Treatment Surcharge
- System Access Rate
- System Power Rate
- Water Stewardship Rate
- Tier 1 Supply Rate



# Projected Volumetric Costs

- Full Service Exchange Cost
- Full Service Untreated Tier 1 Cost
- Full Service Treated Tier 1 Cost



# Rates and Charges January 1, 2015 & 2016

# 2014/15 and 2015/16 Proposed Revenue Requirements

Millions of Dollars	2013/14 Adopted	2014/15 Proposed Budget	2015/16 Proposed Budget
O&M	\$ 390.2	\$ 422.8	\$ 427.2
State Water Contract	564.3	495.7	515.0
Supply Programs	37.0	69.3	64.6
Colorado River Power	24.9	29.2	36.5
Debt Service	343.4	325.8	324.7
Demand Management	53.6	62.2	61.7
PAYGO	125.0	245.4	221.0
Incr. in Req. Reserves	26.1	11.2	18.2
<b>Sub-total expenditures</b>	<b>1,564.5</b>	<b>1,661.5</b>	<b>1,668.9</b>
Revenue Offsets	121.2	135.7	149.6
<b>Total Revenue Requirement</b>	<b>1,443.2</b>	<b>1,525.8</b>	<b>1,519.3</b>

Totals may not foot due to rounding.



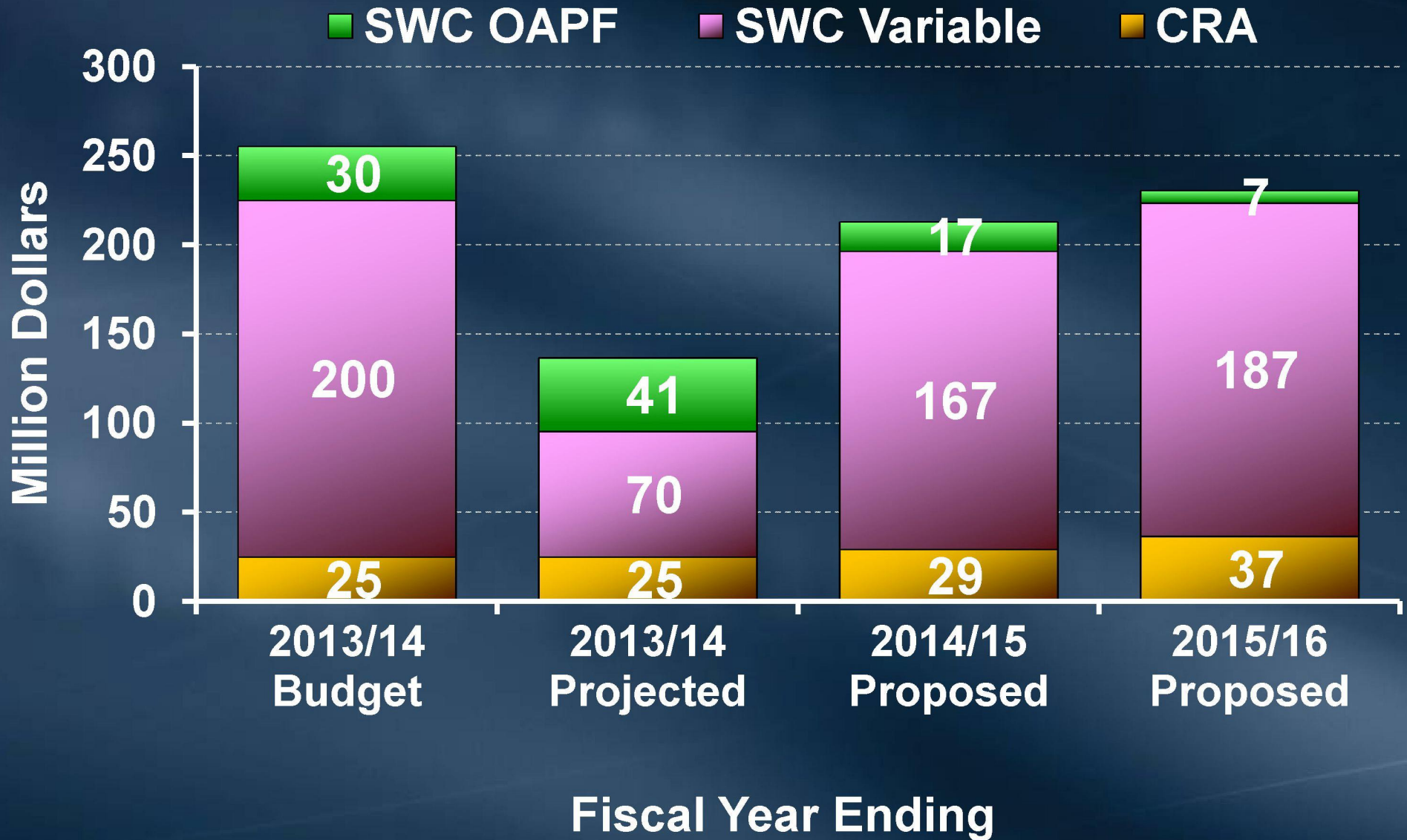
# Proposed Rate Elements

<b>Rates and Charges Effective January 1</b>			
	<b>2014 Approved</b>	<b>2015 Proposed</b>	<b>2016 Proposed</b>
<b>Tier 1 Supply Rate (\$/AF)</b>	\$148	\$160	\$155
<b>Tier 2 Supply Rate (\$/AF)</b>	\$290	\$290	\$290
<b>System Access Rate (\$/AF)</b>	\$243	\$256	\$261
<b>Water Stewardship Rate (\$/AF)</b>	\$41	\$41	\$41
<b>System Power Rate (\$/AF)</b>	\$161	\$125	\$137
<b>Treatment Surcharge (\$/AF)</b>	\$297	\$343	\$352
<b>Readiness-to-Serve Charge (\$M)</b>	\$166	\$158	\$152
<b>Capacity Charge (\$/cfs)</b>	\$8,600	\$10,700	\$10,300

# Full Service and Exchange Costs and Charges

Rate Type	2014 Approved	2015 Proposed	% Increase (Decrease)	2016 Proposed	% Increase (Decrease)
<b>Full Service Untreated Volumetric Cost (\$/AF)</b>					
Tier 1	\$593	\$582	(1.9%)	\$594	2.1%
Tier 2	\$735	\$712	(3.1%)	\$729	2.4%
<b>Full Service Treated Volumetric Cost (\$/AF)</b>					
Tier 1	\$890	\$925	3.9%	\$946	2.3%
Tier 2	\$1,032	\$1,055	2.2%	\$1,081	2.5%
<b>Full Service Untreated Exchange Cost (\$/AF)</b>	\$445	\$422	(5.2%)	\$439	4.0%
<b>RTS Charge (\$M)</b>	\$166	\$158	(4.8%)	\$152	(3.8%)
<b>Capacity Charge (\$/cfs)</b>	\$8,600	\$10,700	24.4%	\$10,300	(3.7%)

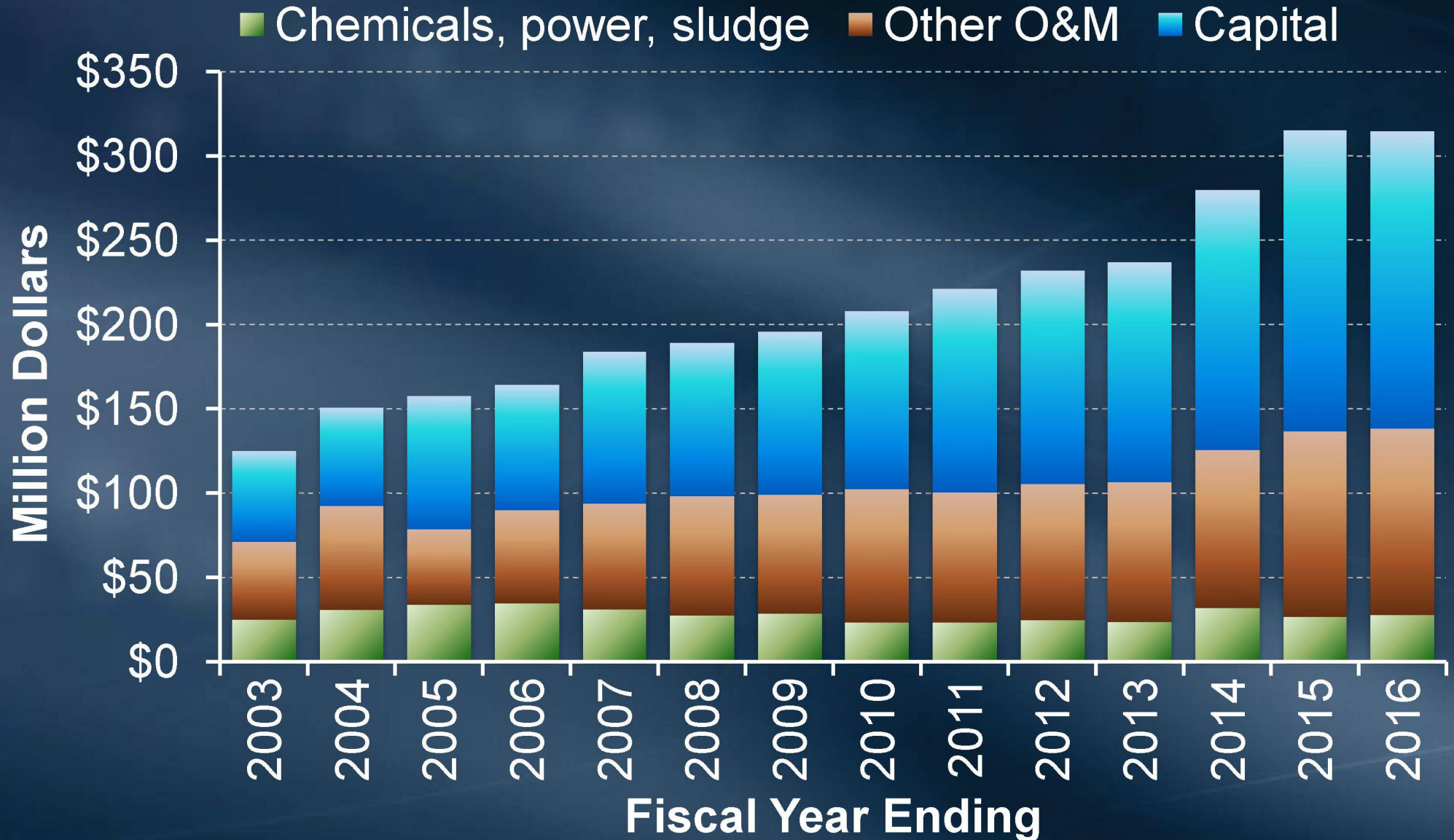
# Power Costs



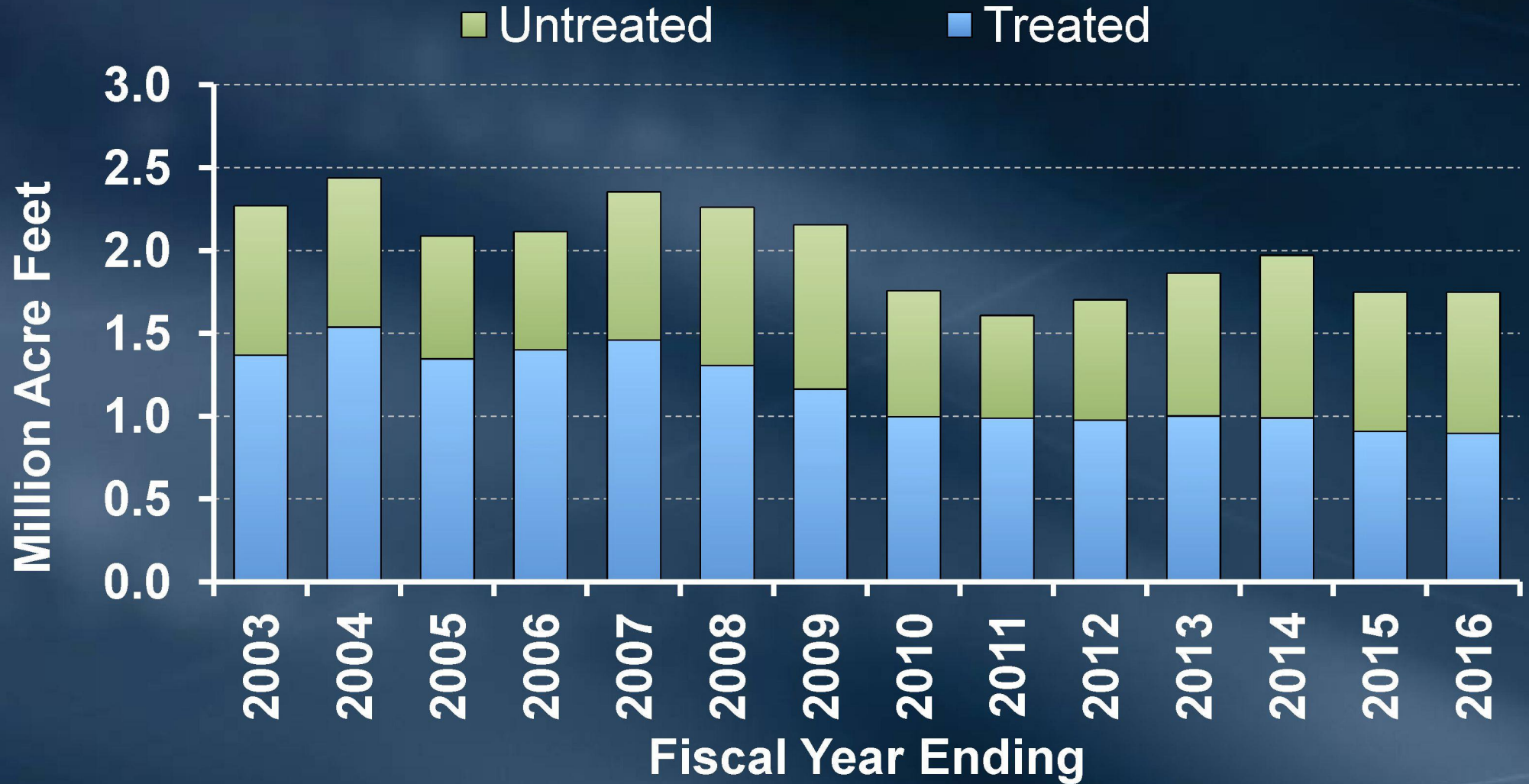
# Sum of Member Agency Peak Day Demands



# Treated Water Costs Continue to Increase Comprise $\approx 20\%$ of Revenue Requirements



# Treated Sales/Exchange are Decreasing



% Treated 60% 63% 65% 66% 62% 58% 54% 57% 61% 57% 54% 50% 52% 51%

# Treatment Surcharge Trend is Upward



# Next Steps

February 10, 2014	F&I Committee, presentation
February 11, 2014	Board Action, set public hearings
February 25, 2014	Workshop
February 28, 2014	Notice to Legislature
March 10, 2014	Additional Workshop, if needed
March 11, 2014	Public Hearings
March 25, 2014	Additional Workshop, if needed
April 7, 2014	F&I Committee, Approve Biennial Budget and Water Rates and Charges
April 8, 2014	Board, Approve Biennial Budget and Water Rates and Charges