

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

**Board Workshop #3
March 10, 2014**



Proposed Biennial Budget Workshop #2

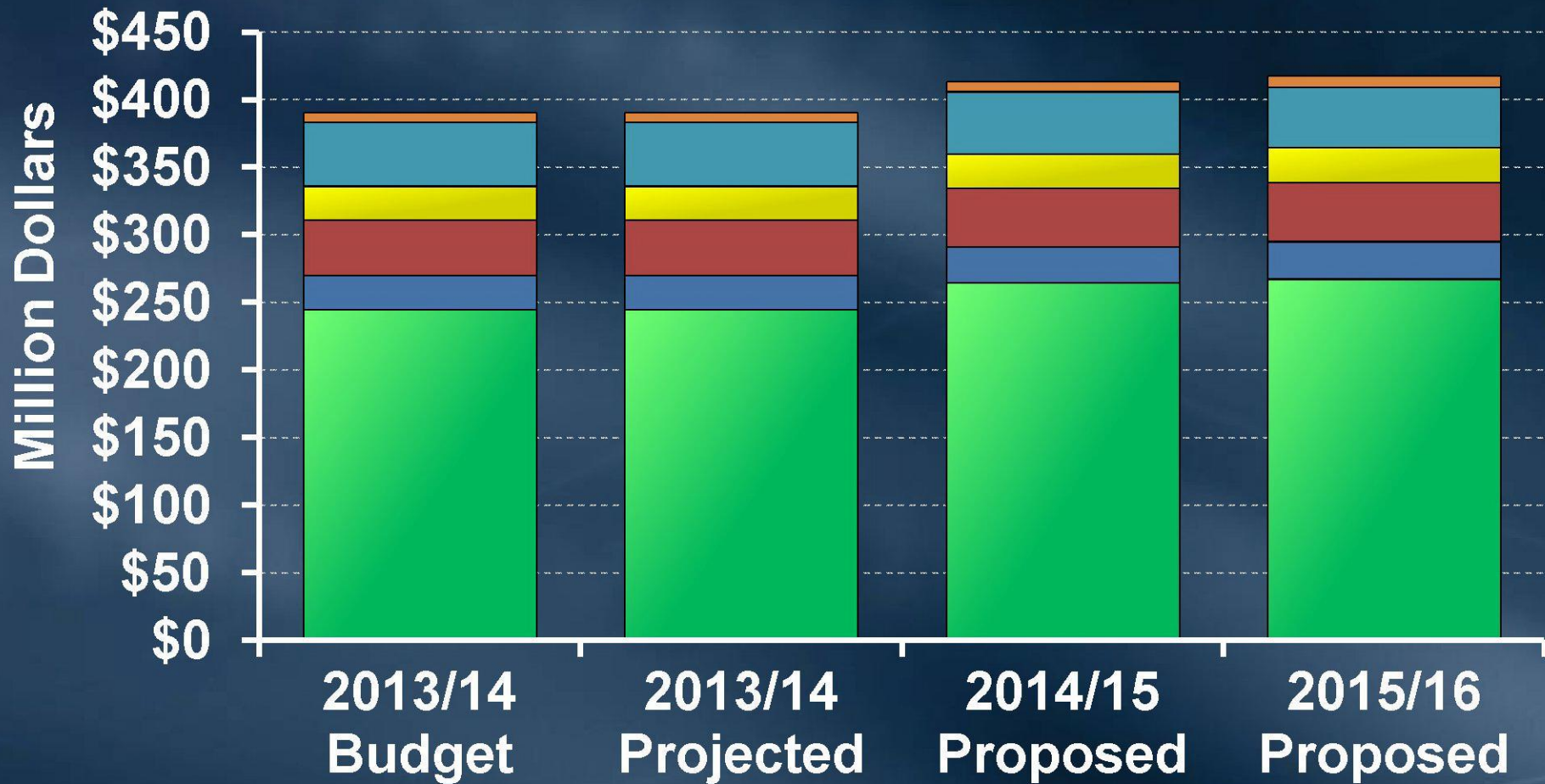
Presentation Overview

- Operating Budget
- Response to Questions from Workshop #2
- Rate Scenarios
- Next Steps

Operating Budget

Proposed O&M Expenditure Budget

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

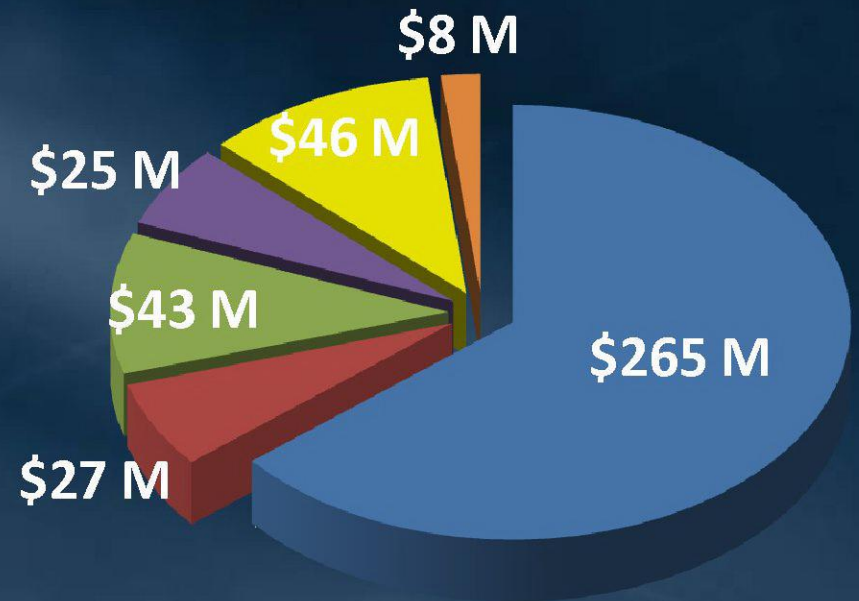


O&M Budget Trend

FY 2013/14 - \$390 M



FY 2014/15 - \$414 M



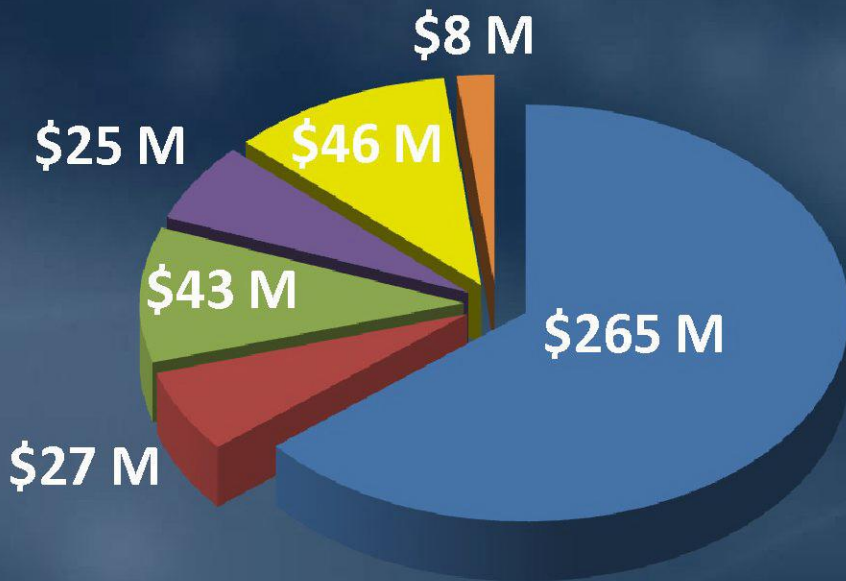
■ Salary & Benefits
■ Materials & Supplies

■ Variable Treatment
■ Other

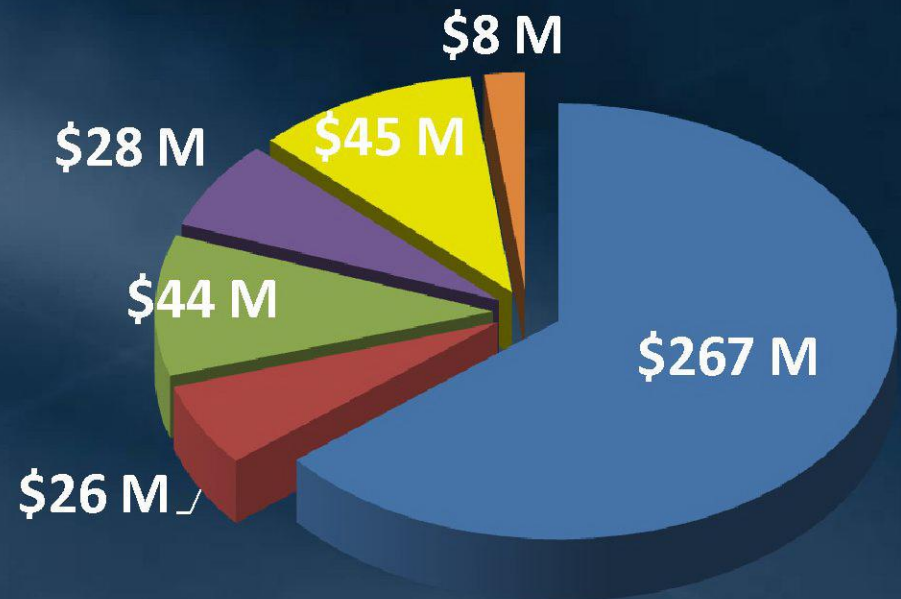
■ Outside Services
■ Operating Equipment

O&M Budget Trend

FY 2014/15 - \$414 M



FY 2015/16 - \$418 M



■ Salary & Benefits

■ Variable Treatment

■ Outside Services

■ Materials & Supplies

■ Other

■ Operating Equipment

Reasons for O&M Cost Increases

FY 2013/14 to FY 2014/15

● Salaries: Merit, MOUs, Succession	\$6.7 M
● OPEB	\$4.2 M
● PERS retirement	\$5.9 M
● Other benefits	\$0.5 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	\$23.2 M

Reasons for O&M Cost Increases

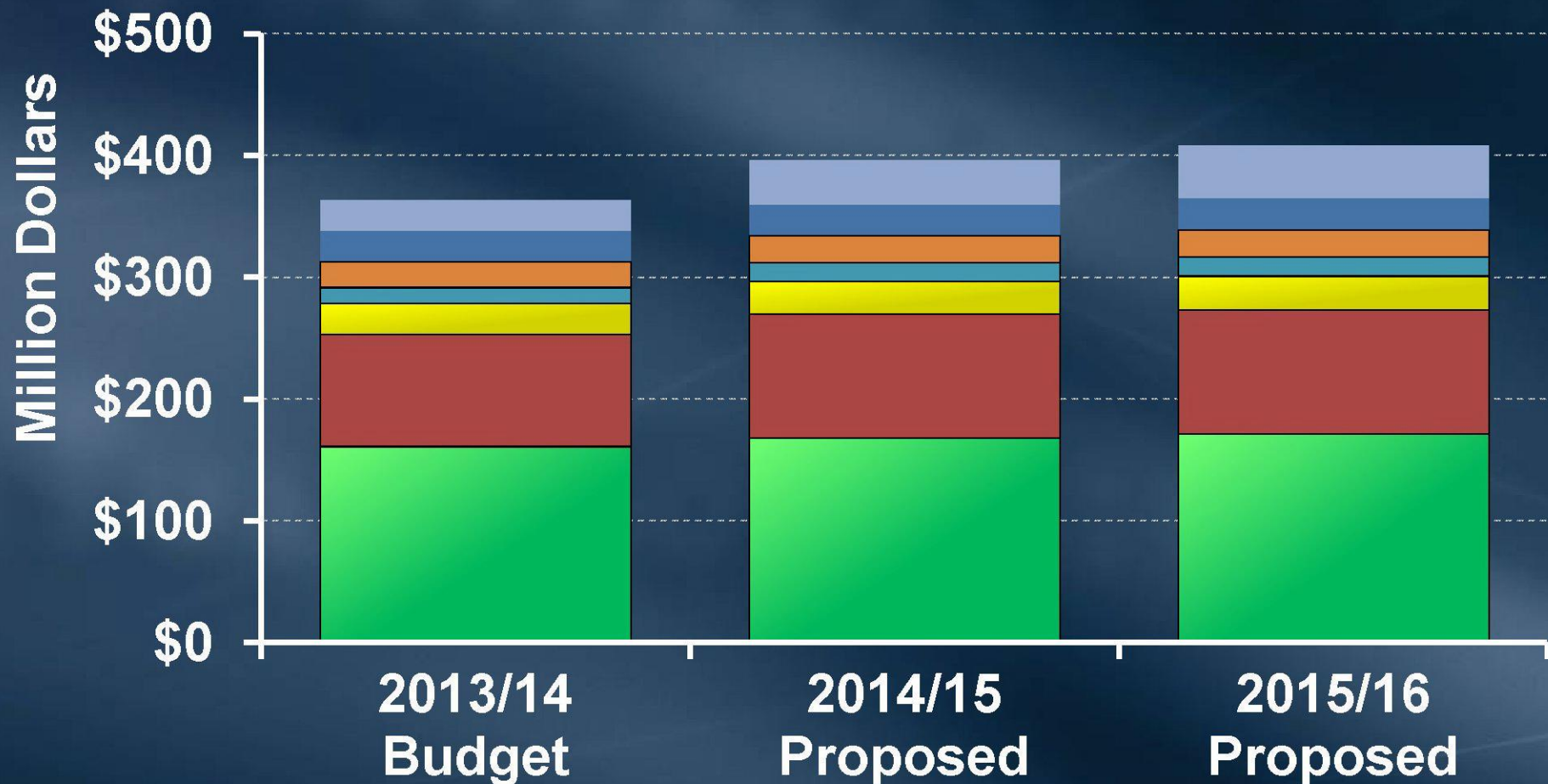
FY 2014/15 to FY 2015/16

● Salaries: Merits & COLA	\$3.7 M
● PERS retirement	\$4.5 M
● Medical insurance	\$2.4 M
● OPEB	(\$7.5 M)
● Other Benefits	\$0.3 M
● Treatment Chemicals & Power	\$1.1 M
● Other	<u>(\$0.6 M)</u>
Total	\$3.9 M

GM Department

GM Department O&M Budget

- Salaries
- Chemicals, Solids, and Power
- Non Professional Services/Security
- Other
- Benefits
- Professional Services
- Materials & Supplies



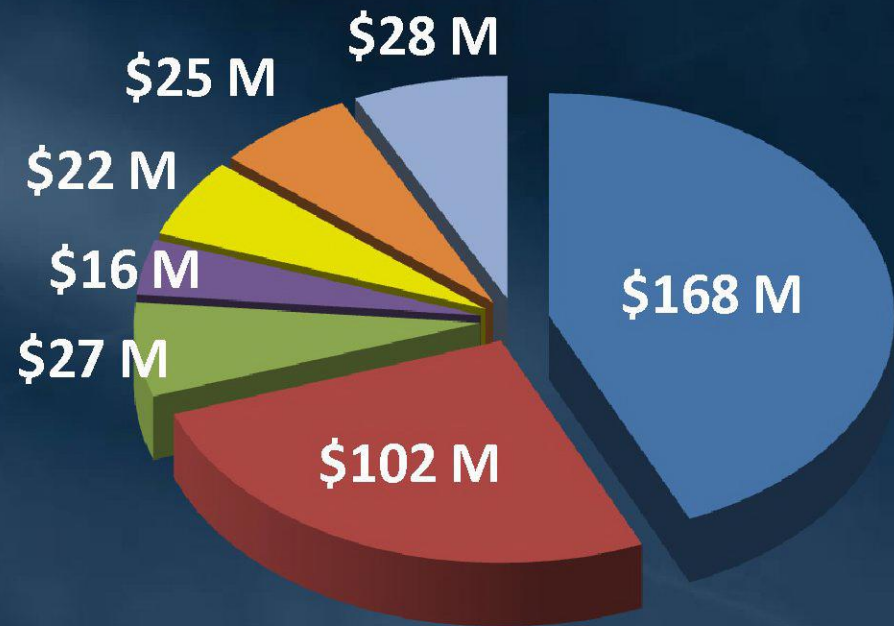
GM Department O&M Budget Trend

FY 2013/14 - \$363 M



1,733 FTEs

FY 2014/15 - \$388 M



1,776 FTEs

- Salaries
- Chemicals, Solids, and Power
- Non Professional Services/Security
- Other

- Benefits
- Professional Services
- Materials & Supplies

GM Department O&M Budget Trend

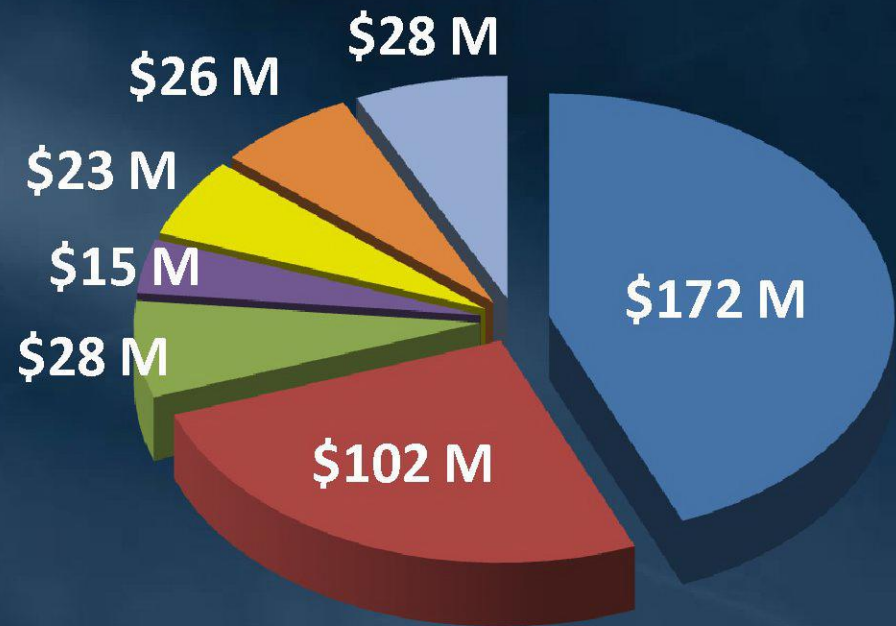
FY 2014/15 - \$388 M



1,776 FTEs

- Salaries
- Chemicals, Solids, and Power
- Non Professional Services/Security
- Other

FY 2015/16 - \$393 M



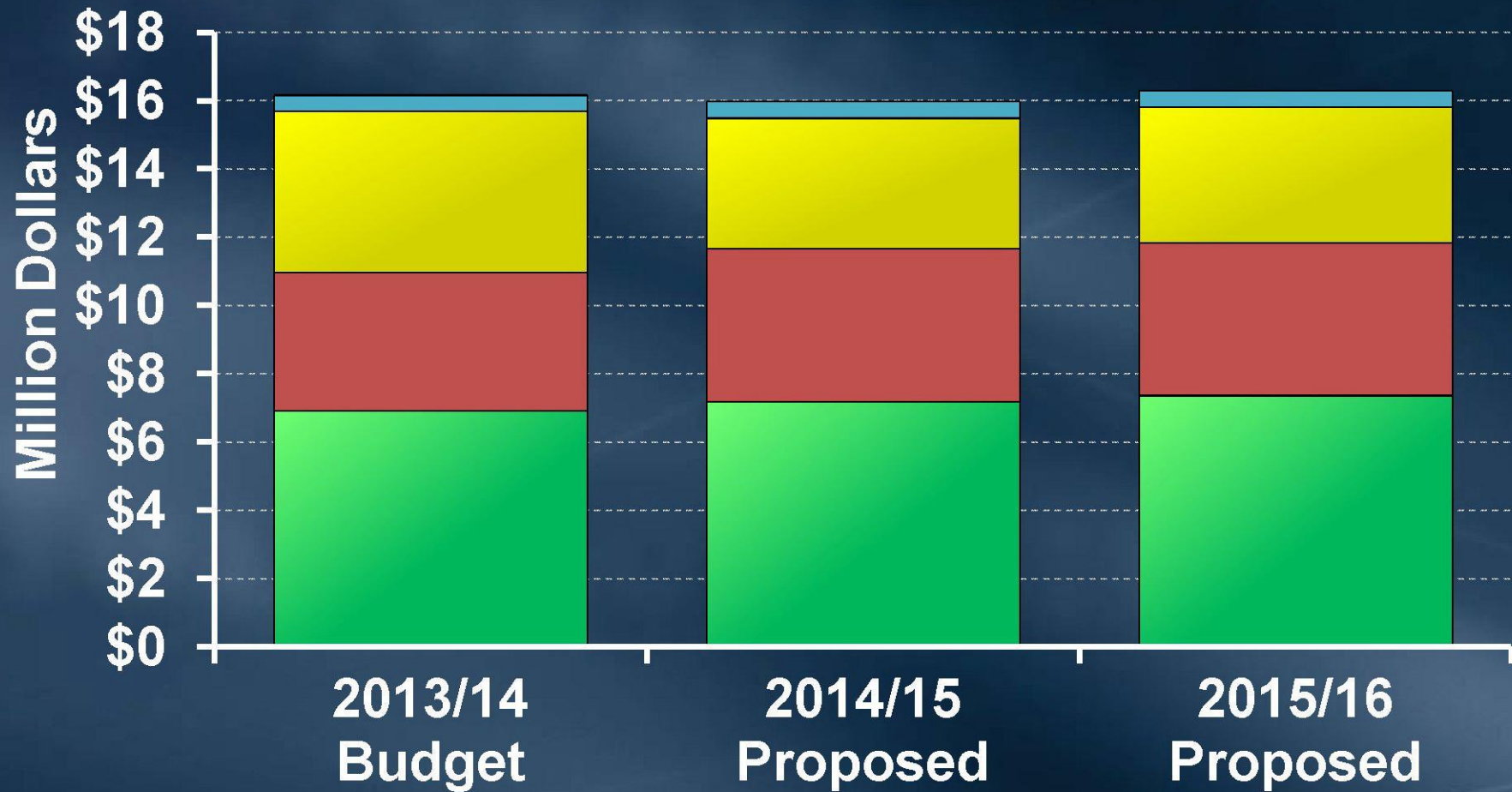
1,775 FTEs

- Benefits
- Professional Services
- Materials & Supplies

Legal Department

Legal Department O&M Budget

Salaries Benefits Professional Services Other



Legal Department O&M Budget Trend

FY 2013/14 - \$16.2 M

FY 2014/15 - \$16.0 M



35 FTEs



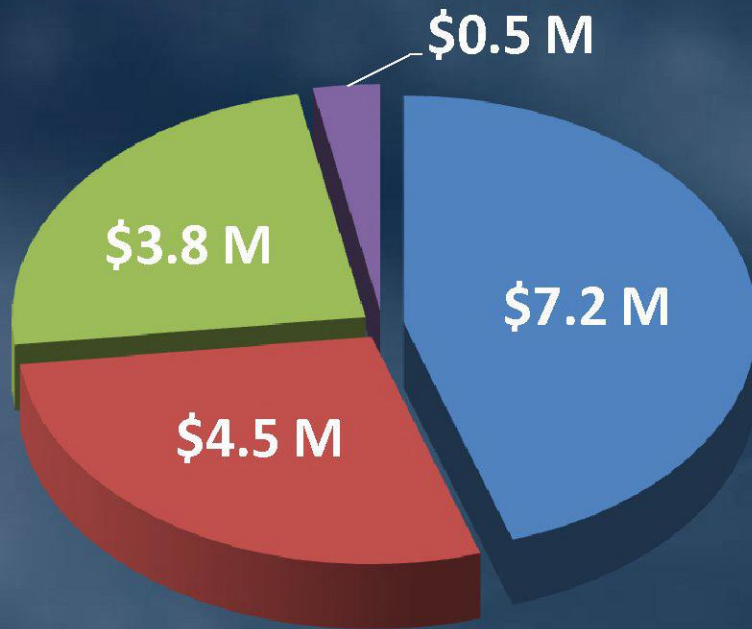
36 FTEs

■ Salaries ■ Benefits ■ Professional Services ■ Other

Legal Department O&M Budget Trend

FY 2014/15 - \$16.0 M

FY 2015/16 - \$16.3 M



36 FTEs



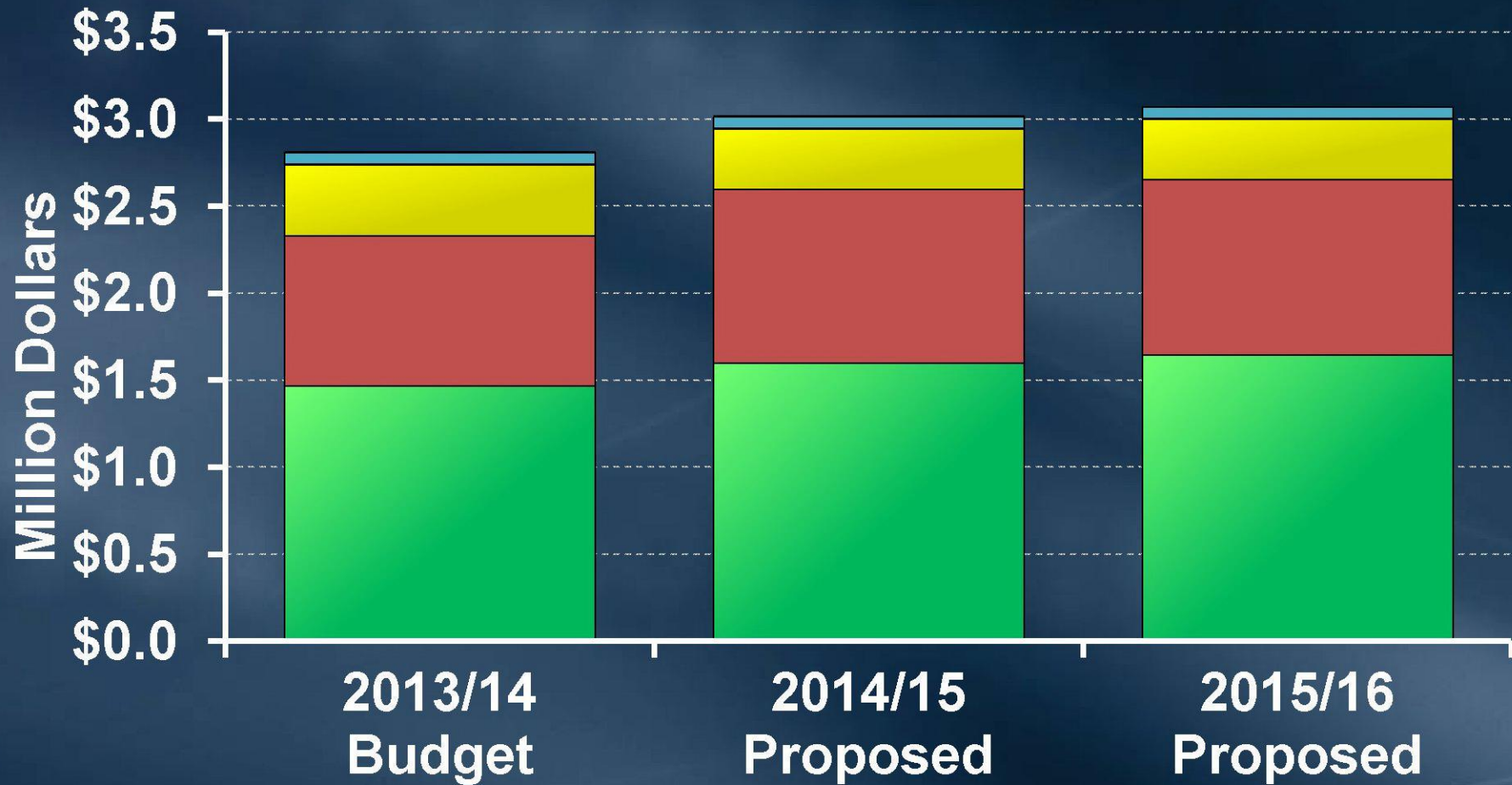
36 FTEs

■ Salaries ■ Benefits ■ Professional Services ■ Other

Audit Department

Audit Department O&M Budget

■ Salaries ■ Benefits ■ Professional Services ■ Other



Audit Department O&M Budget Trend

FY 2013/14 - \$2.8 M



12 FTEs

FY 2014/15 - \$3.0 M



12 FTEs

■ Salaries ■ Benefits ■ Professional Services ■ Other

Audit Department O&M Budget Trend

FY 2014/15 - \$3.0 M



12 FTEs

FY 2015/16 - \$3.1 M

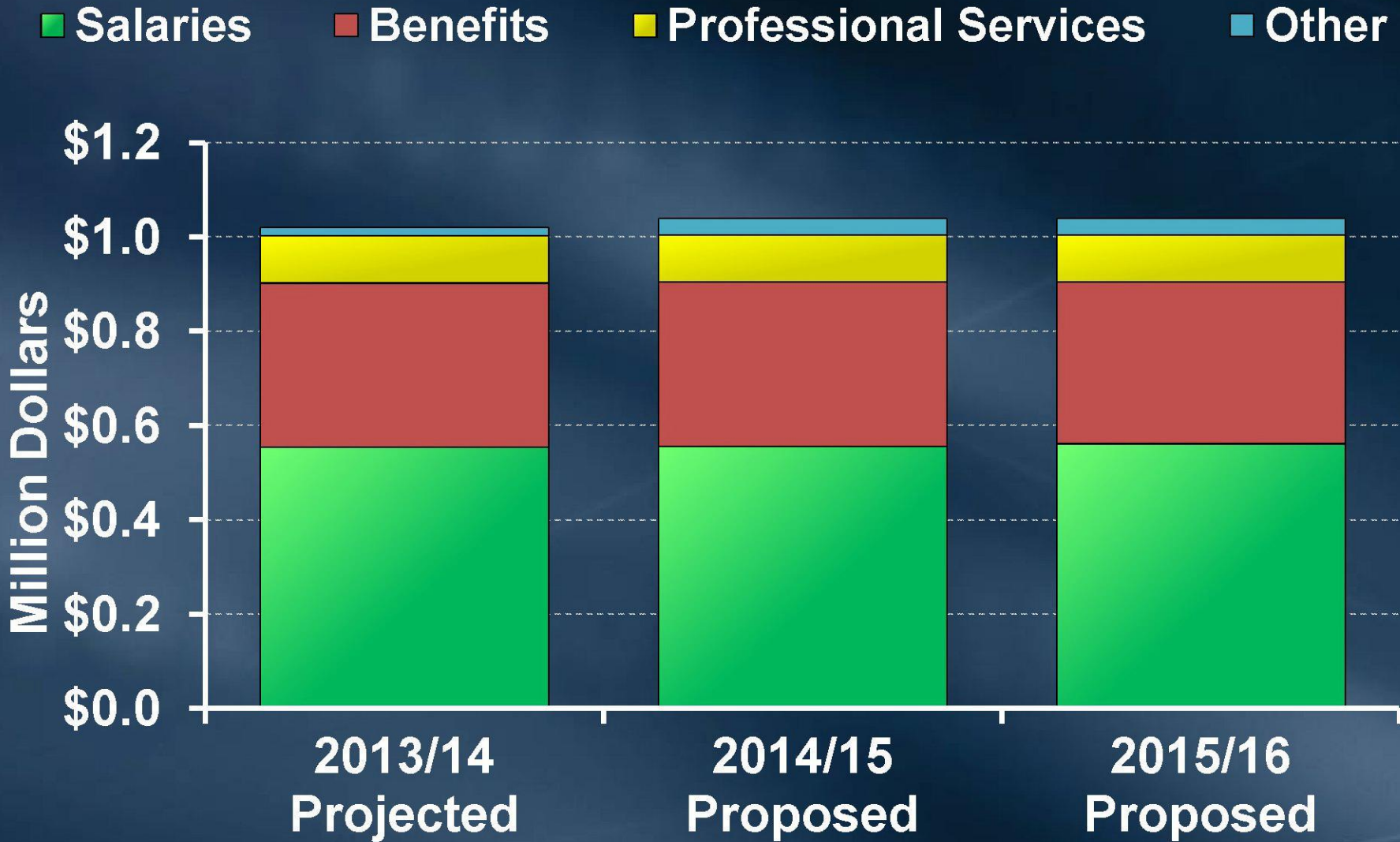


12 FTEs

■ Salaries ■ Benefits ■ Professional Services ■ Other

Ethics Department

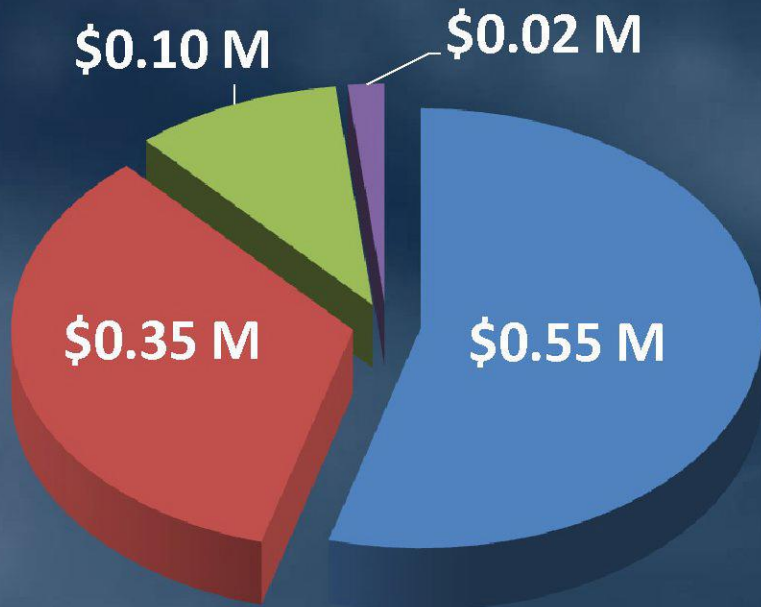
Ethics Department O&M Budget



Ethics Department O&M Budget Trend

FY 2013/14* - \$1.0M

FY 2014/15 - \$1.0M



4 FTES

4 FTES

■ Salaries ■ Benefits ■ Professional Services ■ Other

Projected

Ethics Department O&M Budget Trend

FY 2014/15 - \$1.0M



4 FTES

FY 2015/16 - \$1.0M



4 FTES

■ Salaries ■ Benefits ■ Professional Services ■ Other

Responses to Questions from Workshop #2

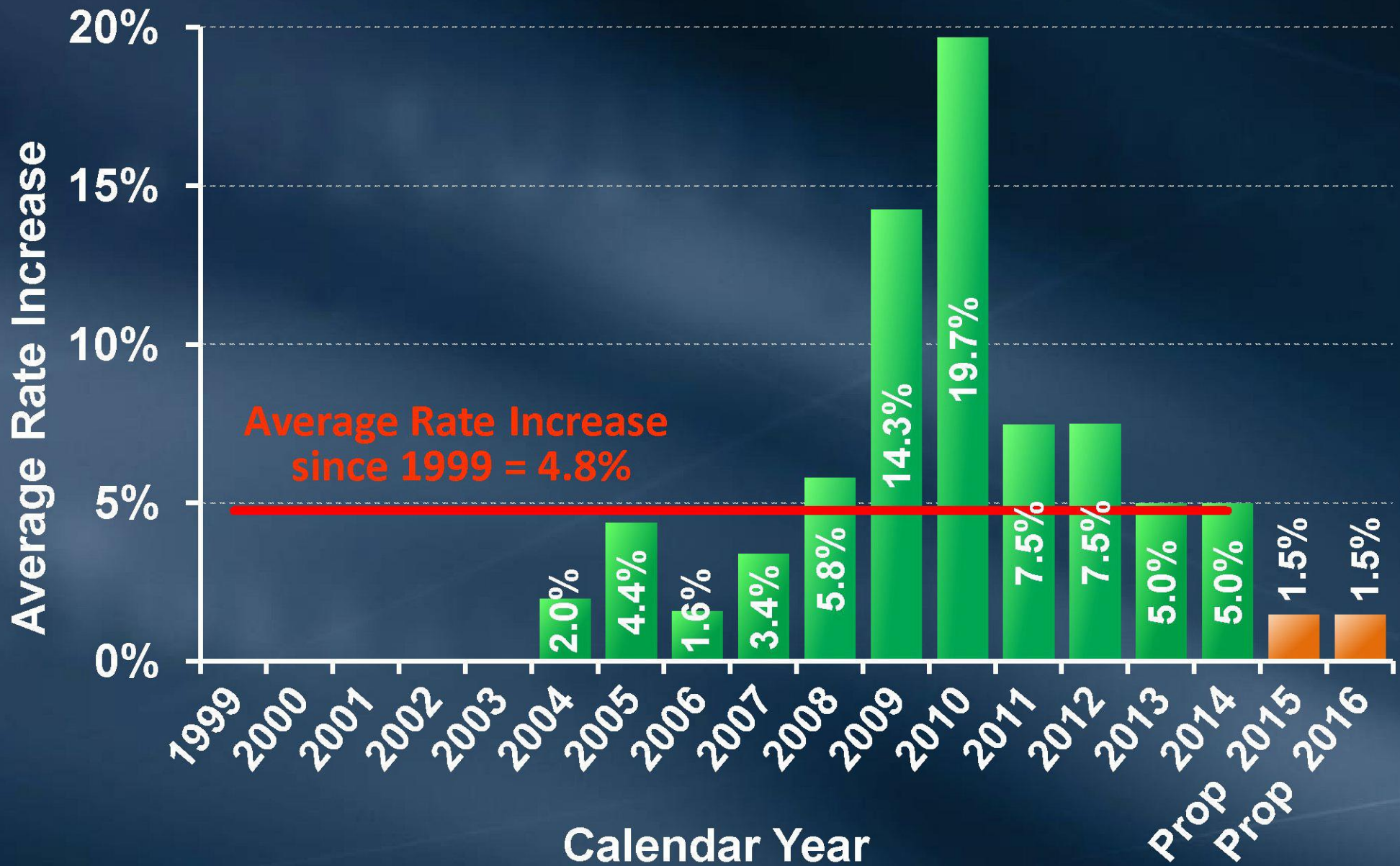
Rate Scenarios

- Scenario A: Staff Proposal: 1.5% / 1.5%
 - Smoothed supply program expenditures
 - Lowered OPEB annual required contribution by \$10 million based on updated actuarial report
- Scenario B: 0% / 1.5%
 - Lowered revenue-funded capital (PAYGO)
 - \$7 million in FY 2014/15 to \$238 M
 - \$21 million in FY 2015/16 to \$200 M
 - Increased draw on R&R Fund by same amount

Rate Scenarios (cont'd)

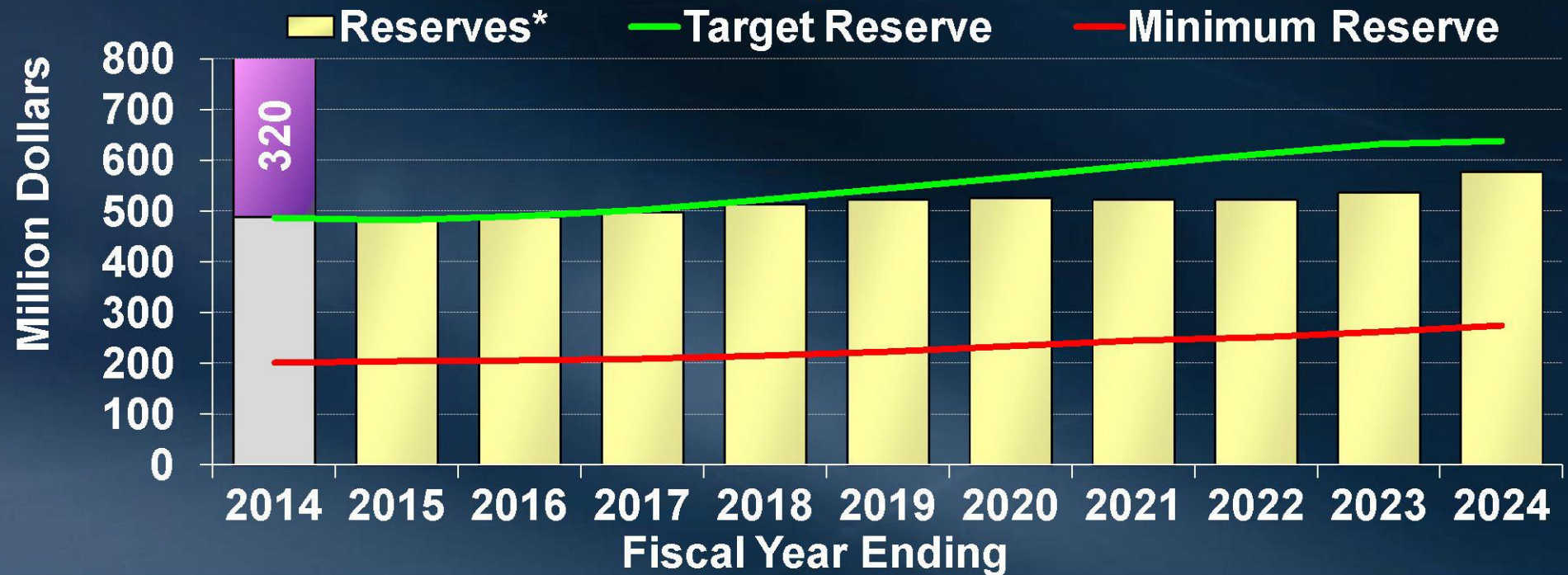
- Scenario C: Ad valorem tax rate not maintained
 - Decreases AV tax revenue by \$30 million in FY 2014/15 and \$35 million in FY 2015/16 due to decline in tax-funded debt service
 - Water rates have to be increased or costs reduced by a like amount to meet cost of service
 - By FY 2023/24, AV tax revenues will decline to \$3 million and water rates will be 5% to 6% higher

Overall Rate Increases Since 1999



Scenario A: 1.5% / 1.5%

Scenario A: Staff Proposal 1.5%/1.5%



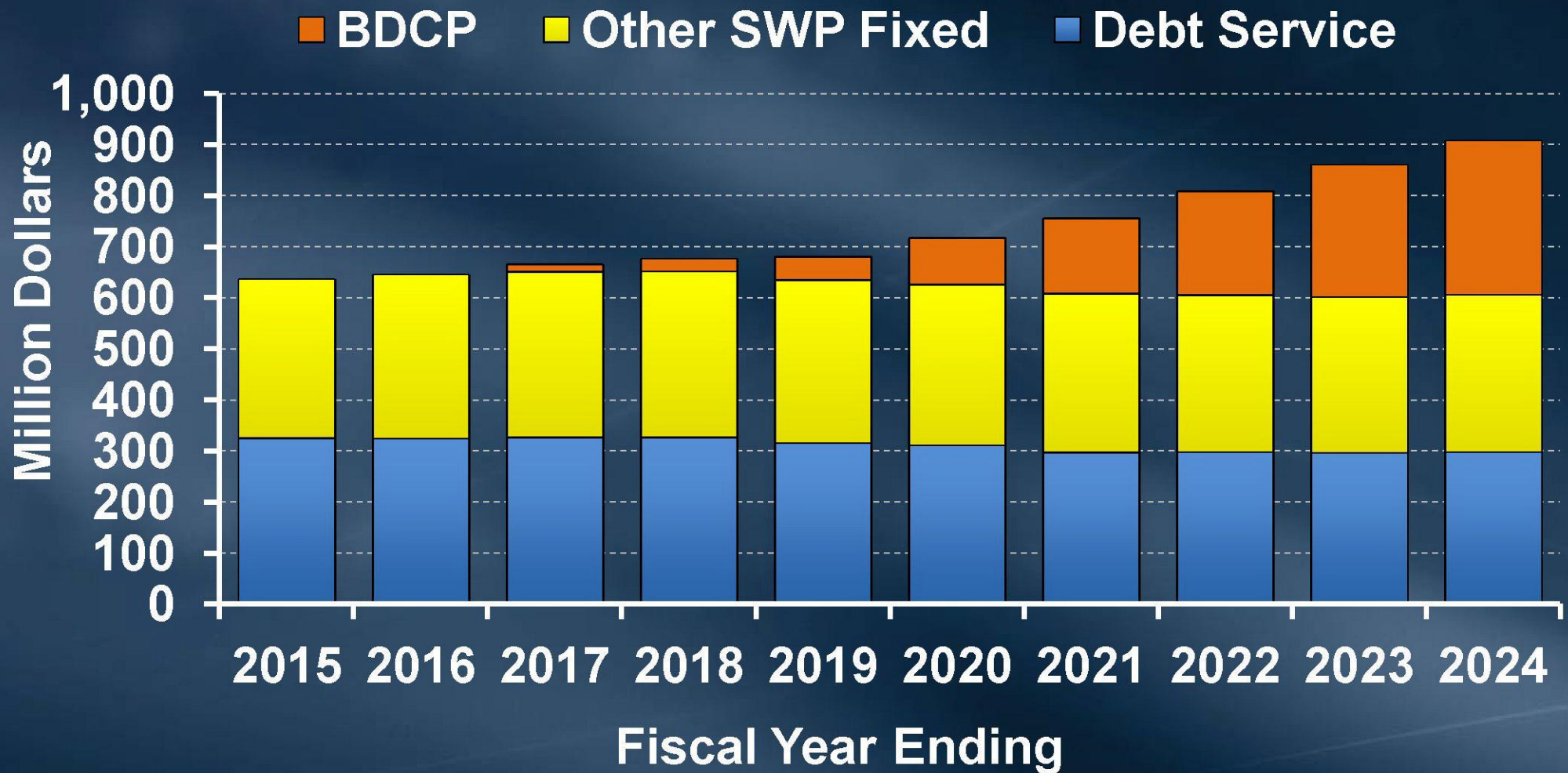
Ave Rate Inc.	5%	1.5%	1.5%	3%	3%	3.5%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	245	221	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	2.0	2.0	2.1	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0	1.6	1.6	1.6	1.6	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

Revenue Funded Capital (PayGo)

Fixed Costs will Increase with the BDCP

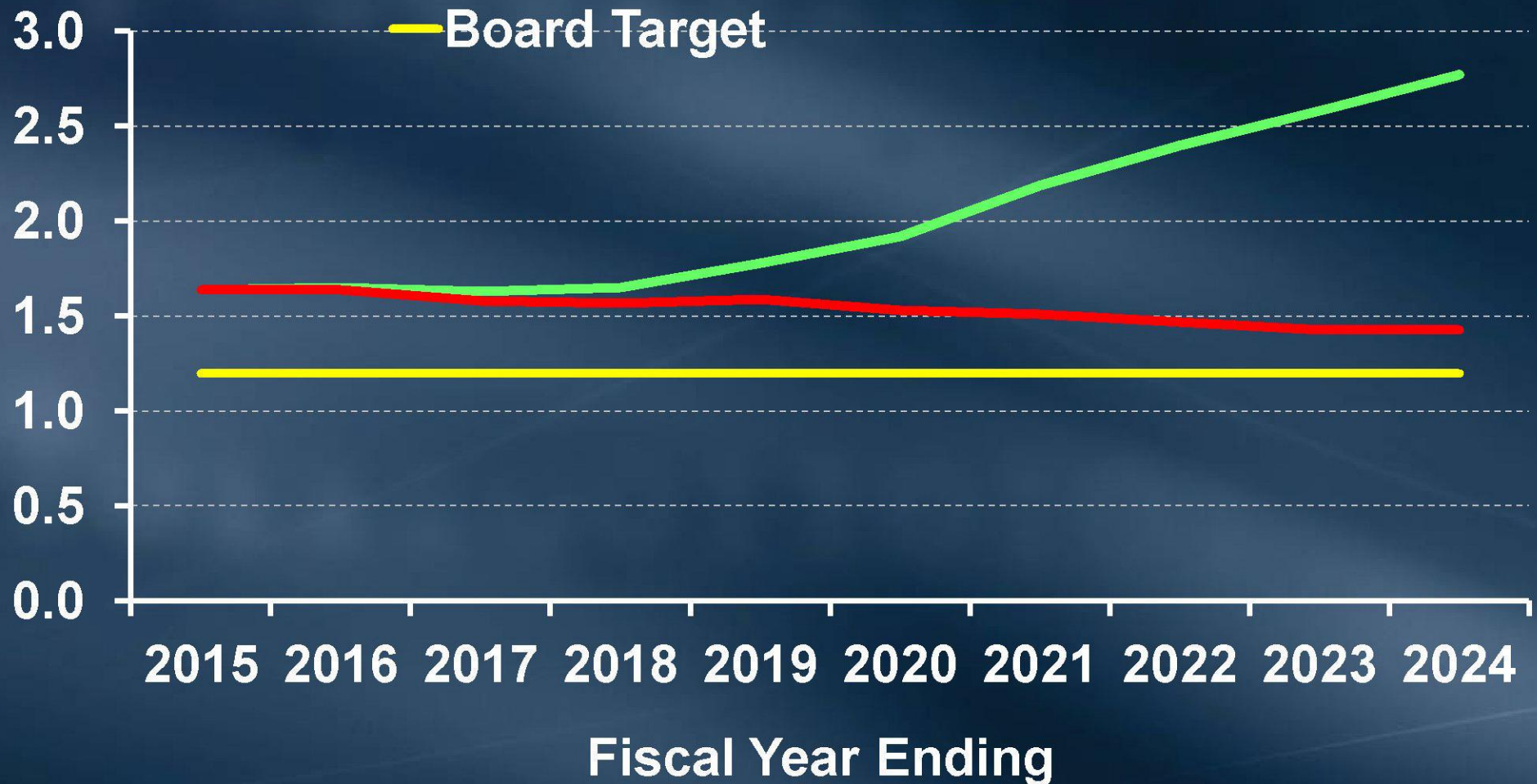
Scenario A: 1.5% / 1.5%



Fixed Charge Coverage

Scenario A: 1.5% / 1.5%

- Fixed Charge Coverage without BDCP
- Fixed Charge Coverage
- Board Target



Revenue-Funded Capital

● Pros

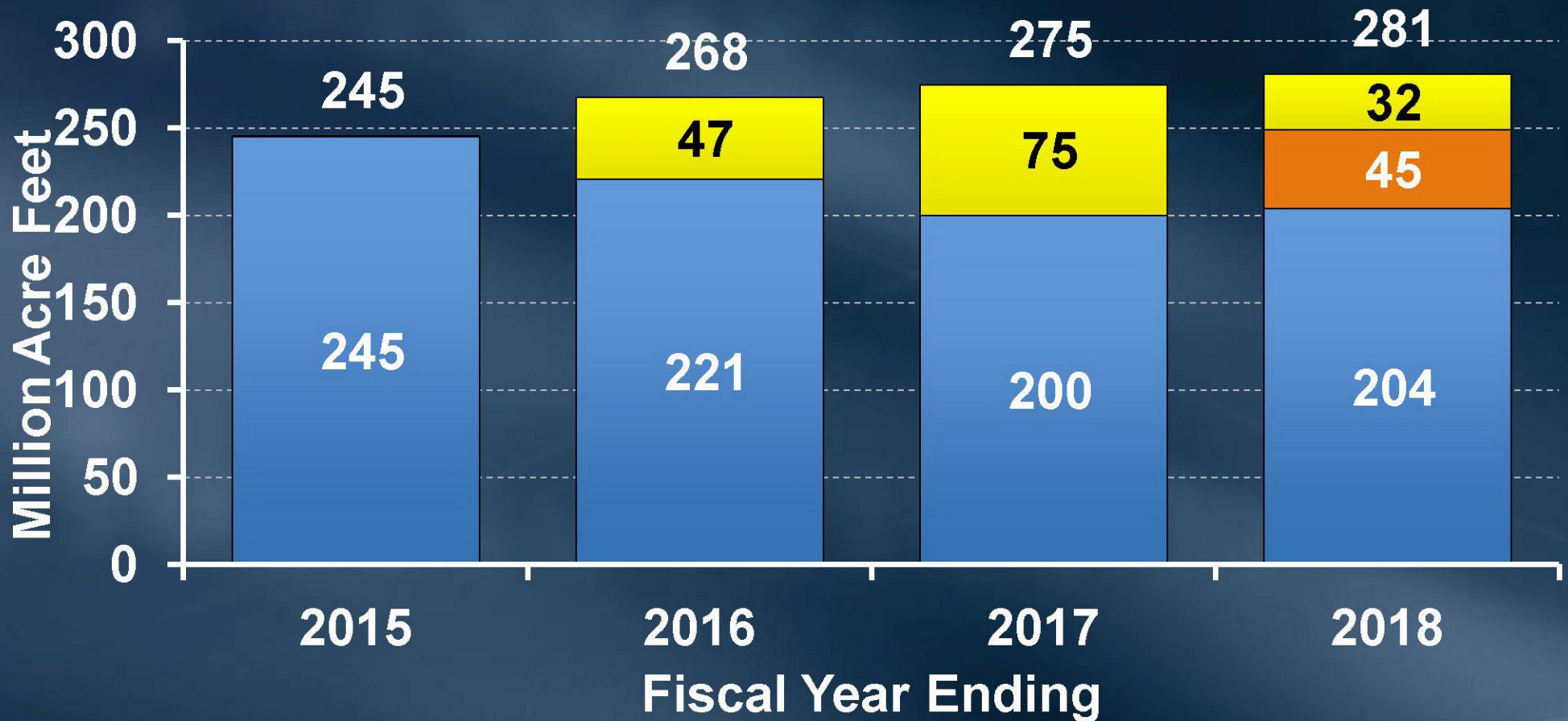
- Maintains debt capacity/financial flexibility
- Lowers borrowing costs
- Lowers long-term water rates
- Current users pay for majority of use of existing facilities (depreciation)

● Cons

- Higher water rates in the near term
- Intergenerational equity concerns

Scenario A: Capital Investment Plan Funding

■ R&R Fund ■ Bonds ■ PAYGO

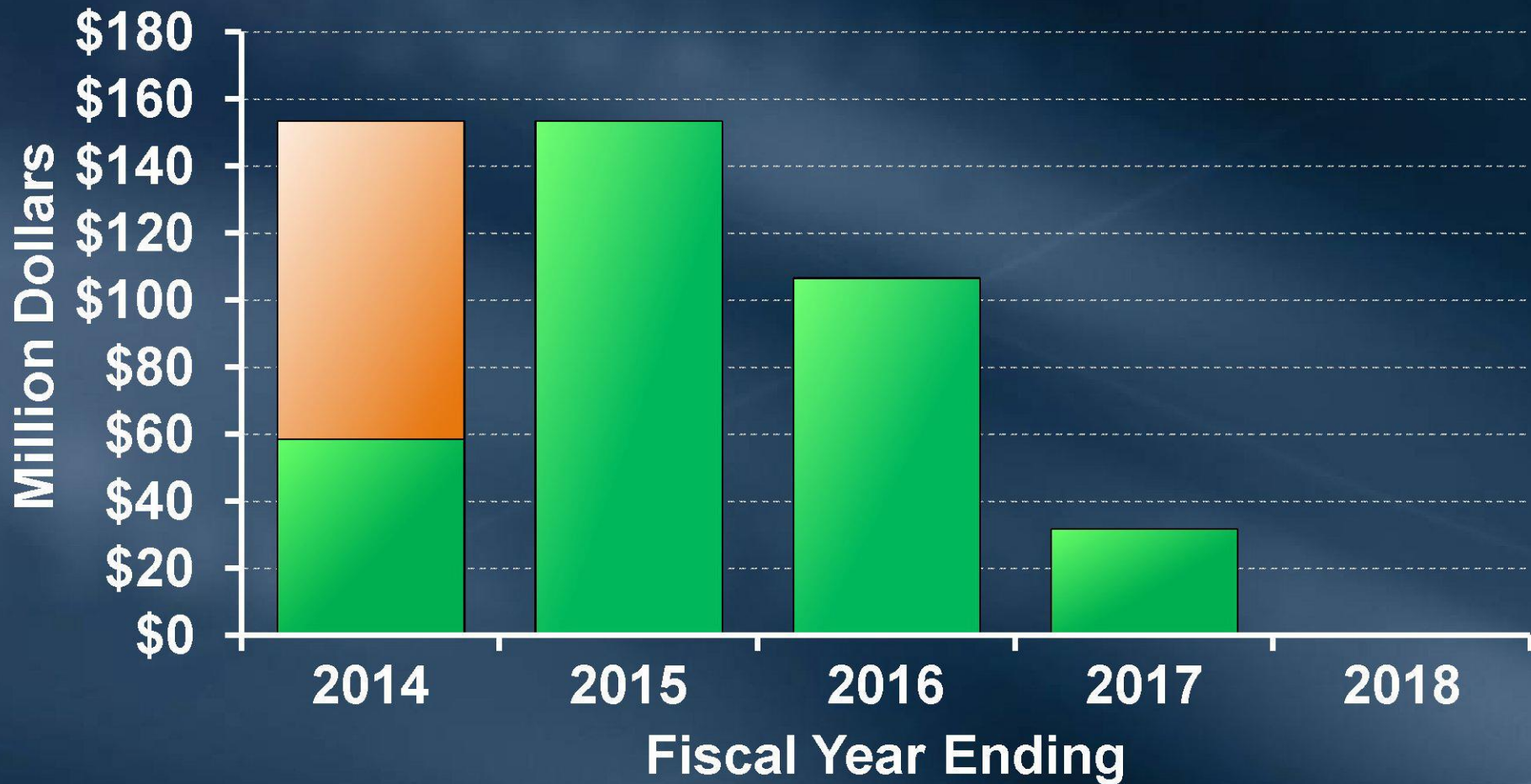


Scenario A:

Replacement and Refurbishment (R&R) Fund

■ R&R Deposit

■ R&R Fund Balance

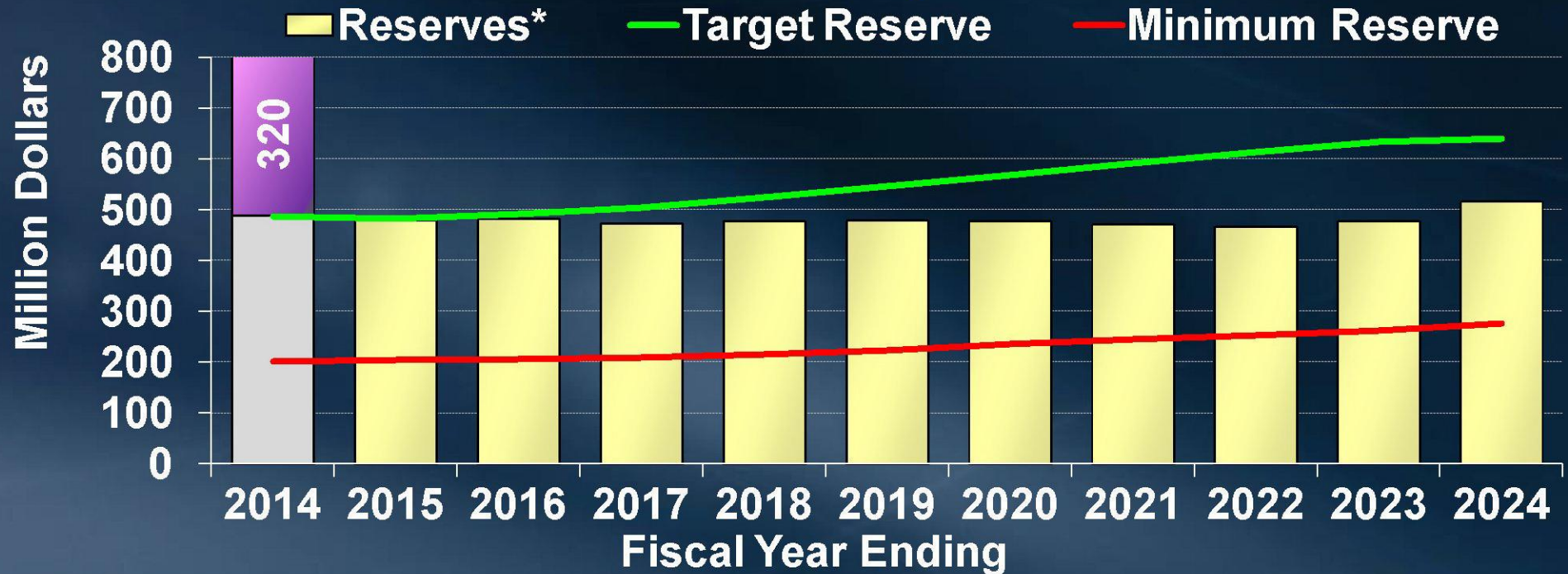


Scenario A: Staff Proposed Full Service, Exchange and Charges

Rate Type	2014 Approved	2015 Proposed	% Increase (Decrease)	2016 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$593	\$582	-1.9%	\$594	2.1%
Tier 2	\$735	\$714	-2.9%	\$728	2.0%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$890	\$923	3.7%	\$942	2.1%
Tier 2	\$1,032	\$1,055	2.2%	\$1,076	2.0%
Full Service Untreated Exchange Cost (\$/AF)	\$445	\$424	-4.7%	\$438	3.3%
RTS Charge (\$M)	\$166	\$158	-4.8%	\$153	-3.2%
Capacity Charge (\$/cfs)	\$8,600	\$11,100	29.1%	\$10,900	-1.8%

Scenario B: 0% / 1.5%

Scenario B: 0%/1.5%

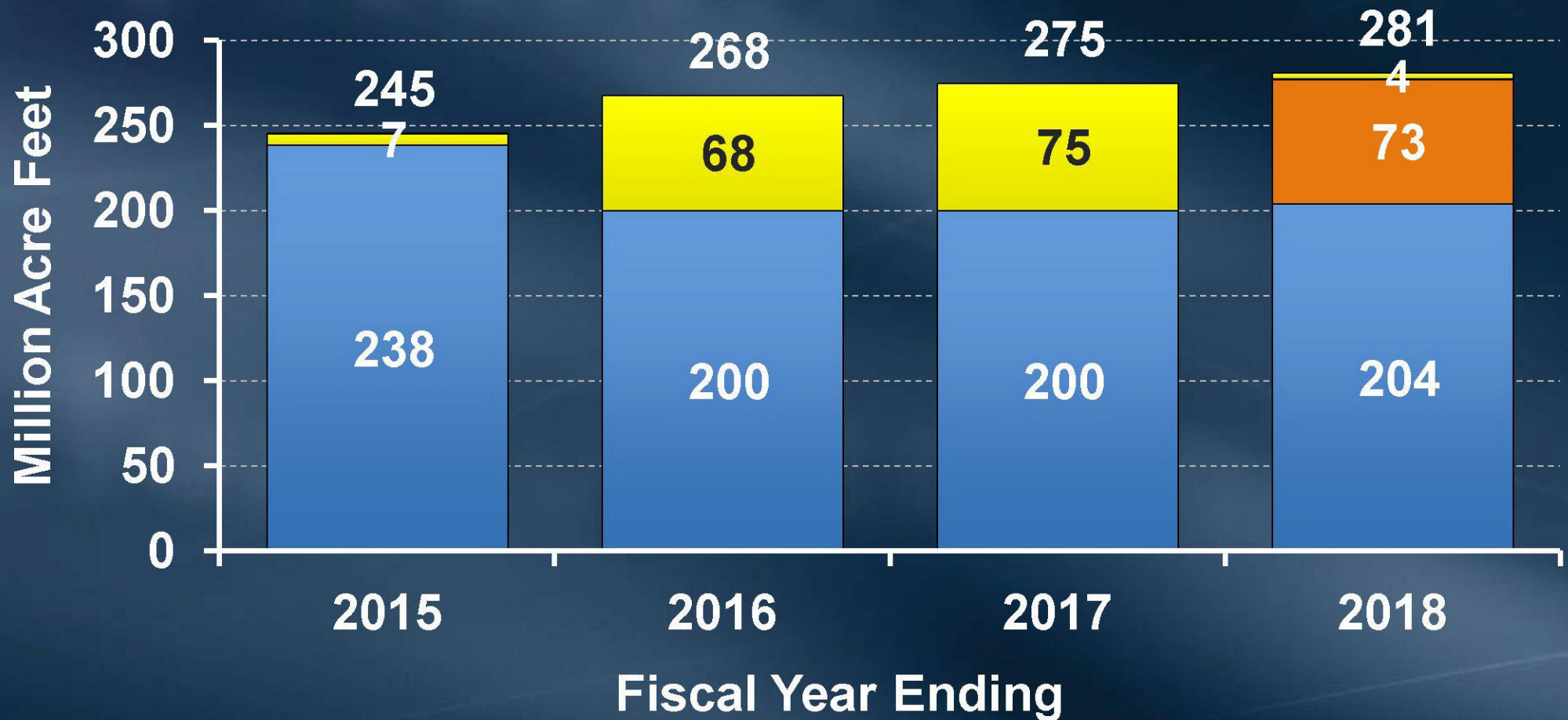


Ave Rate Inc.	5%	0%	1.5%	3.5%	3.5%	4%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	238	200	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	1.9	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0	1.6	1.6	1.5	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

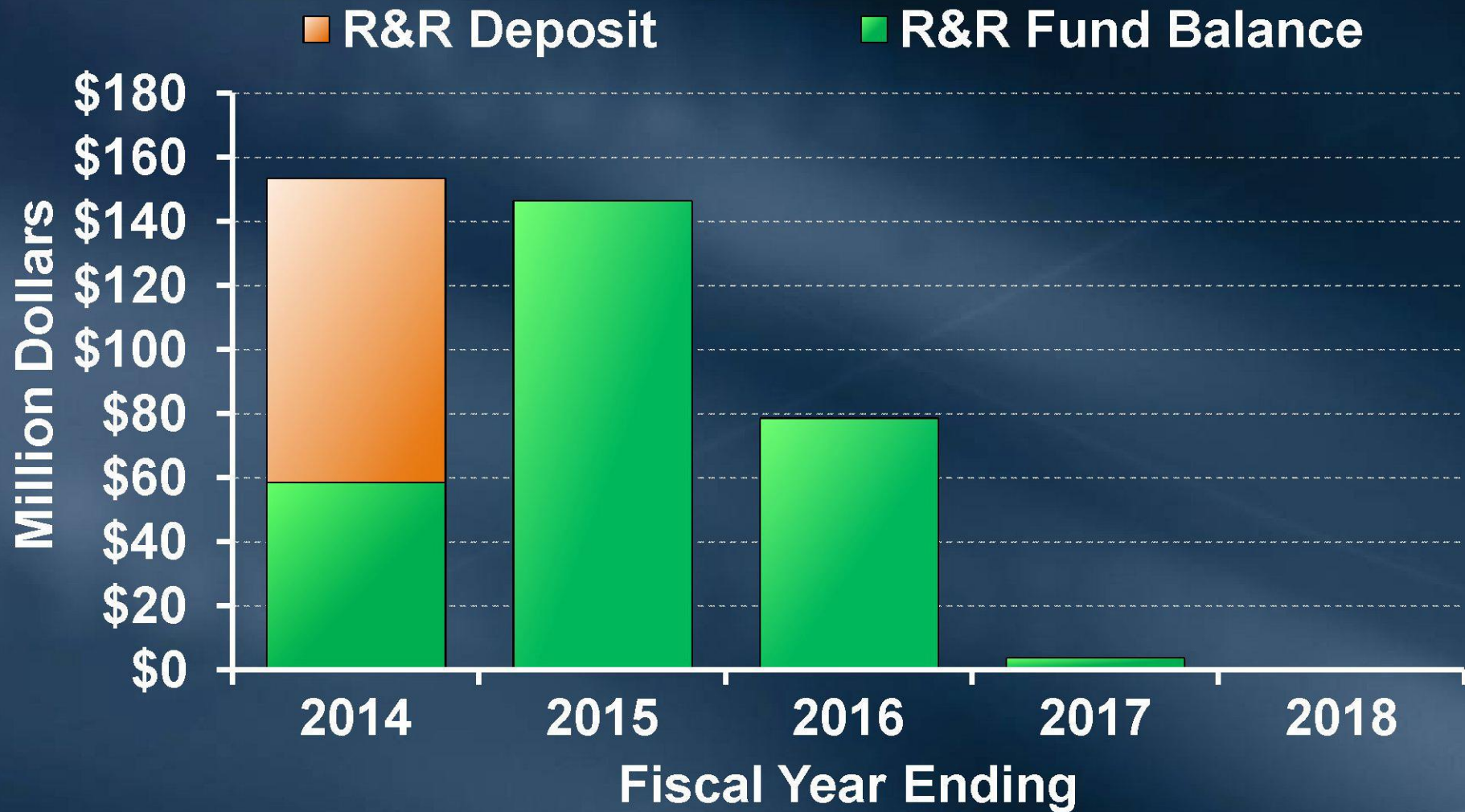
* Revenue Remainder & WRSF

Scenario B: Capital Investment Plan Funding

■ R&R Fund ■ Bonds ■ PAYGO



Scenario B: Replacement & Refurbishment (R&R) Fund



Scenario B: Proposed Full Service, Exchange and Charges

Rate Type	2014 Approved	2015 Proposed	% Increase (Decrease)	2016 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$593	\$574	-3.2%	\$589	2.6%
Tier 2	\$735	\$709	-3.5%	\$725	2.3%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$890	\$909	2.1%	\$928	2.1%
Tier 2	\$1,032	\$1,044	1.2%	\$1,064	1.9%
Full Service Untreated Exchange Cost (\$/AF)	\$445	\$419	-5.8%	\$435	3.8%
RTS Charge (\$M)	\$166	\$155	-6.6%	\$148	-4.5%
Capacity Charge (\$/cfs)	\$8,600	\$10,900	26.7%	\$10,500	-3.7%

Scenario C: AV Tax Rate Not Maintained

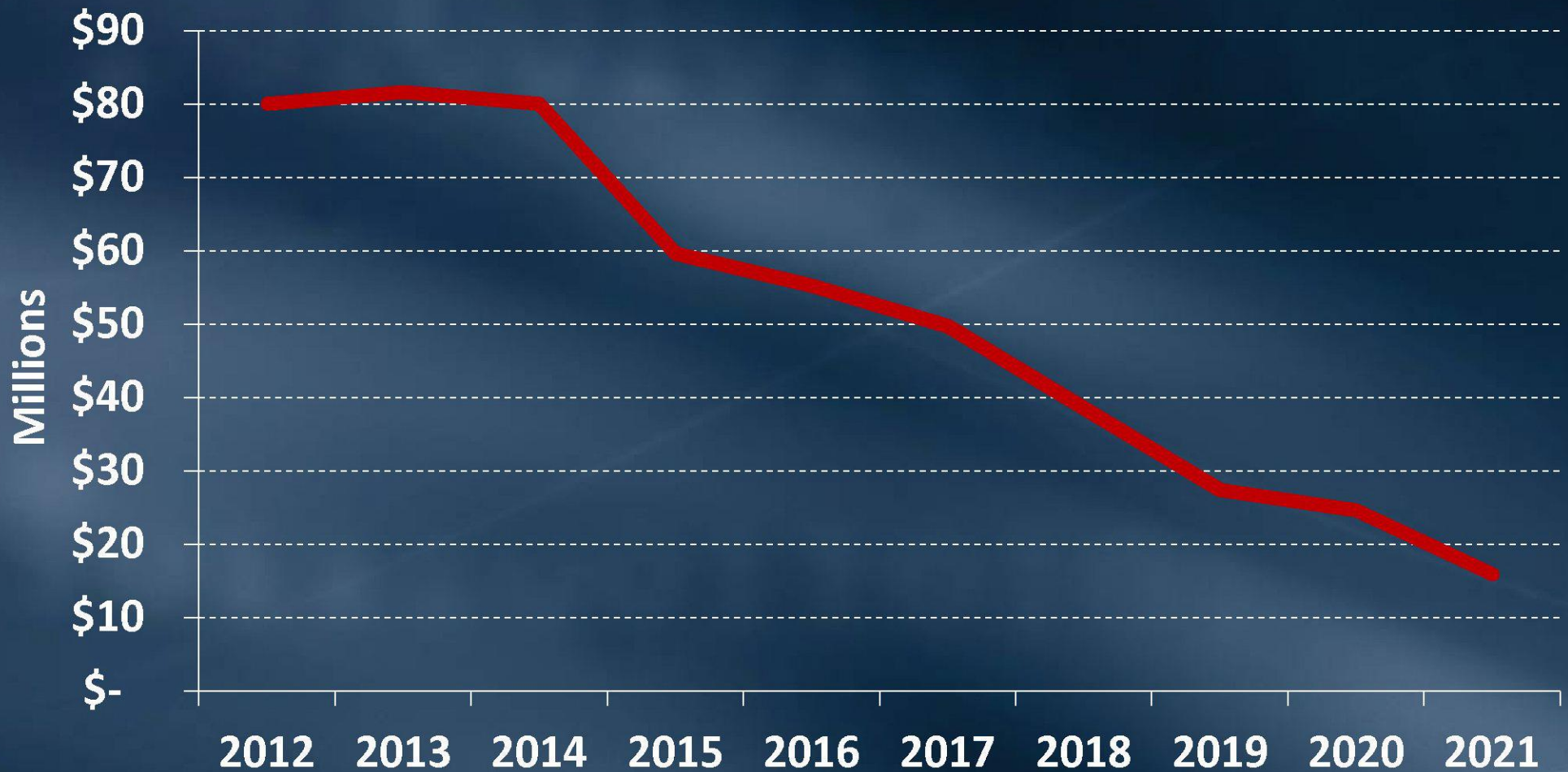
Ad Valorem Tax Background

- MWD Act authorizes property taxes
- By Proposition 13, voters set limits for ad valorem property taxes
- Proposition 13 included an exception to allow agencies to repay certain indebtedness
- Metropolitan's share of SWP costs are within the exception for indebtedness
- Metropolitan's general obligation bonds are within the exception for indebtedness

Provisions of Metropolitan Water District Act Section 124.5

- Restricts ad valorem taxes to the amount necessary to cover debt service for Metropolitan's General Obligation bonds and the Burns-Porter bonds
- Authorizes suspension of rate restriction if the Board finds that doing so is "essential to the fiscal integrity of the district"
 - Must hold a public hearing
 - Must notify the Speaker of the Assembly and the President pro Tempore of the Senate at least 10 days prior to the date of the hearing

Ad Valorem Tax Rate Projection



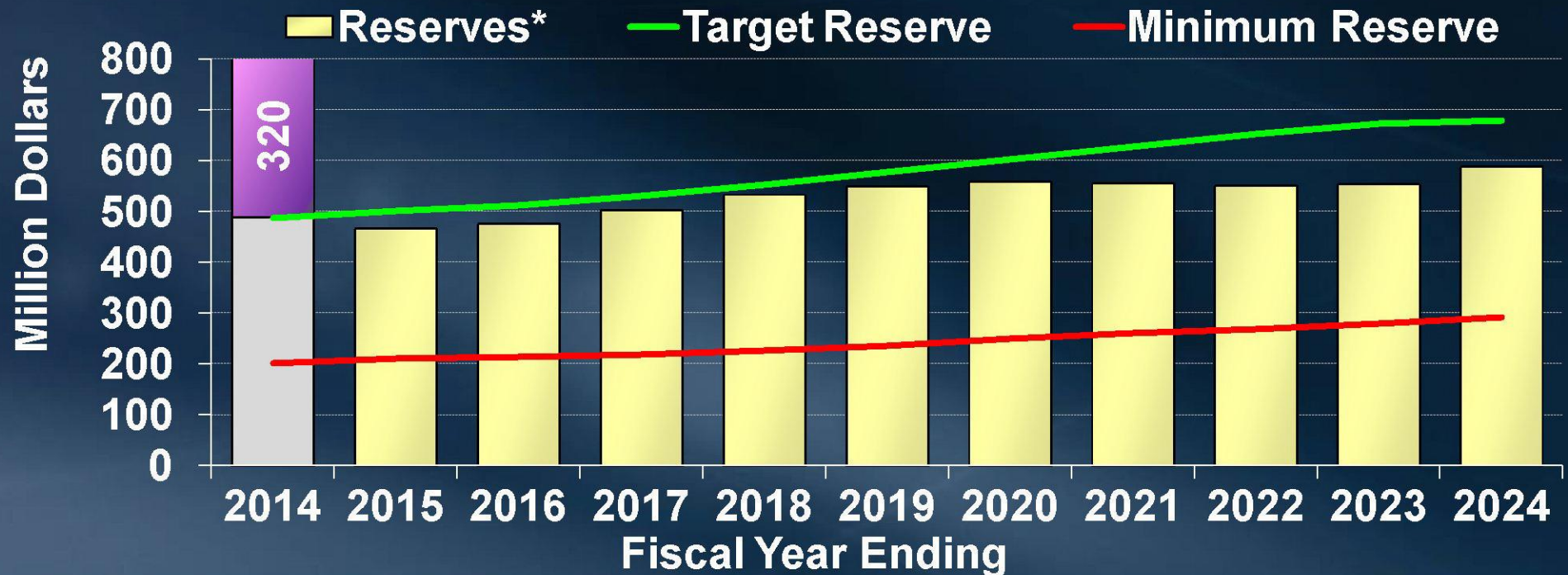
Current Ad Valorem Tax Rate

- .0035% of assessed valuations
- Averaged assessed value of a single-family residence in Los Angeles County is \$300,000
 - Results in AV tax assessment of \$10.50 per year
- Proposal to maintain the rate at the current level

Benefits of Maintaining the Ad Valorem Tax Rate

- Metropolitan ensures a reliable supplemental water supply to a broad service area; the region and its economy benefit from the availability of water
- Ad valorem taxes are a unique tool to ensure that the cost of Metropolitan's services are shared by all residences and businesses

Scenario C: AV Tax Rate not Maintained



Ave Rate Inc.	5%	3.5%	3.5%	3.5%	3.5%	3.5%	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	2.2	2.2	2.2	2.3	2.5	2.7	2.9	3.0	3.2
Fixed Chg Cvg	2.0	1.6	1.6	1.6	1.5	1.5	1.5	1.4	1.4	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	60	55	50	39	27	25	16	12	3	3
BDCP, \$M				15	24	46	91	148	204	259	302

* Revenue Remainder & WRSF

Scenario C: Proposed Full Service, Exchange and Charges

Rate Type	2014 Approved	2015 Proposed	% Increase (Decrease)	2016 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$593	\$592	-0.2%	\$617	4.2%
Tier 2	\$735	\$721	-1.9%	\$745	3.3%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$890	\$932	4.7%	\$969	4.0%
Tier 2	\$1,032	\$1,061	2.8%	\$1,097	3.4%
Full Service Untreated Exchange Cost (\$/AF)	\$445	\$431	-3.1%	\$455	5.6%
RTS Charge (\$M)	\$166	\$171	3.0%	\$170	-0.6%
Capacity Charge (\$/cfs)	\$8,600	\$11,200	30.2%	\$11,100	-0.9%

Next Steps

February 10, 2014	F&I Committee, presentation
February 11, 2014	Board Action, set public hearings
February 20, 2014	Notice to Legislature
February 25, 2014	Workshop #2
March 10, 2014	Workshop #3
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

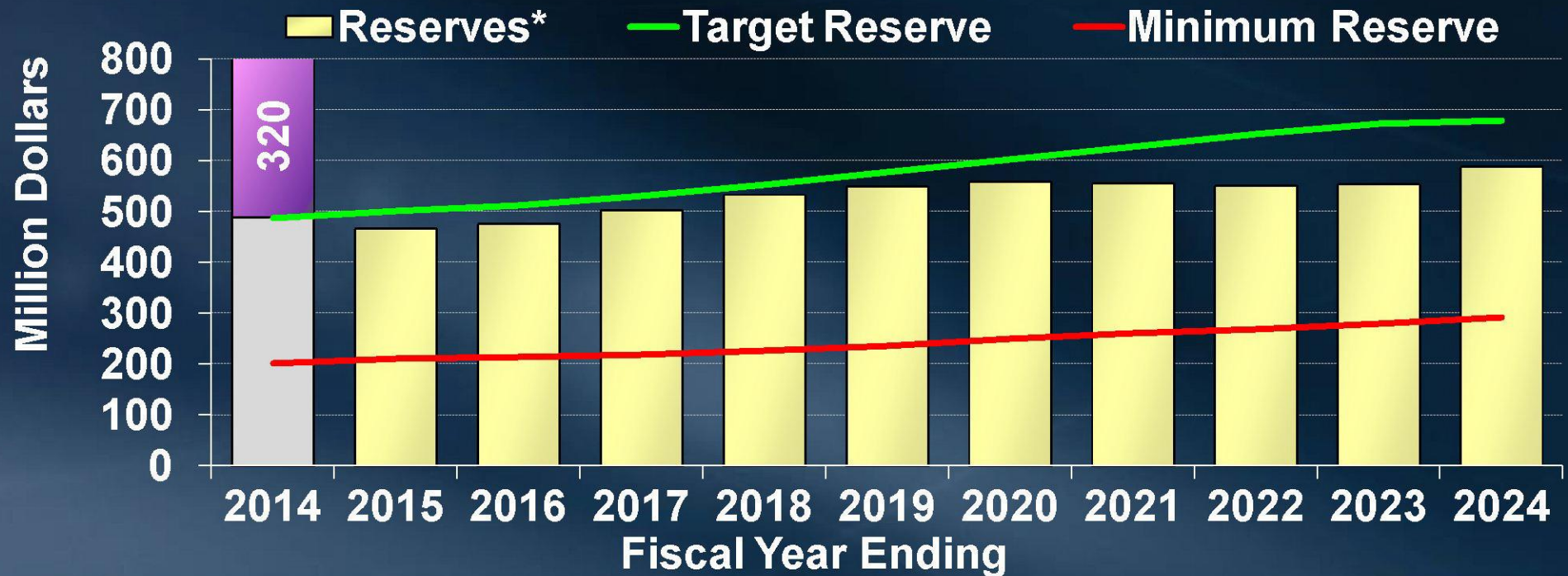
Backup

Rate Scenarios (cont'd)

- Scenario D: Ad valorem tax rate not maintained, rate increase capped at 1.5% in FY 2014/15 and FY 2015/16
 - Decreases AV tax revenue by \$30 million in FY 2014/15 and \$35 million in FY 2015/16 due to decline in tax-funded debt service
 - By FY 2023/24, AV tax revenues will decline to \$3 million
 - Lowered revenue-funded capital (PAYGO) to meet cost of service; must issue bonds for the CIP beginning in FY 2016/17
 - Higher projected rate increases through the remaining 8 years of the 10-year forecast

Scenario D: AV Tax Rate Not Maintained, 1.5%/1.5%

Scenario D: AV Tax Rate not Maintained



Ave Rate Inc.	5%	1.5%	1.5%	5%	5%	5%	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	210	185	175	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	2.0	2.1	2.3	2.5	2.7	2.9	3.0	3.2
Fixed Chg Cvg	2.0	1.5	1.5	1.4	1.5	1.5	1.5	1.4	1.4	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	60	55	50	39	27	25	16	12	3	3
BDCP, \$M	-	-	-	15	24	46	91	148	204	259	302

* Revenue Remainder & WRSF

Scenario D: Proposed Rate Elements

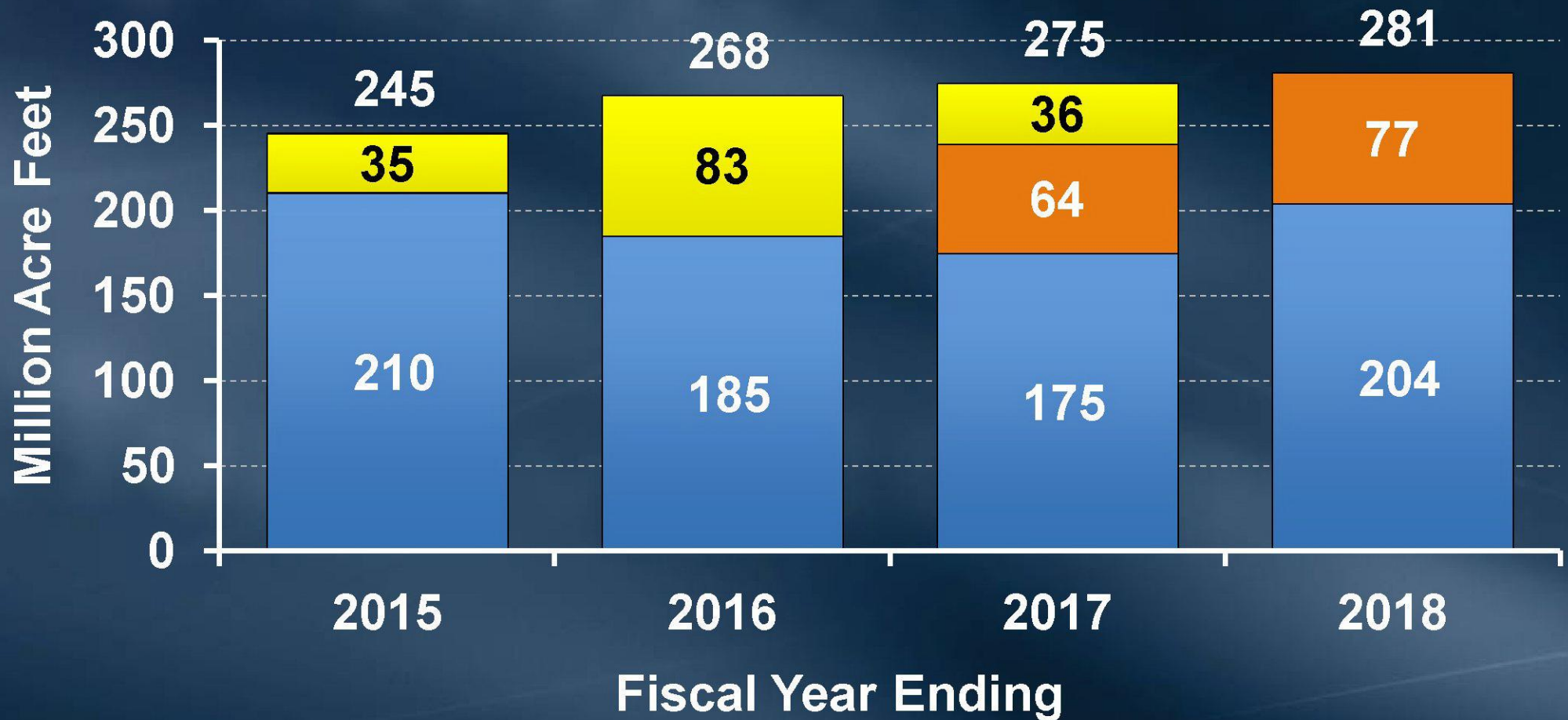
Rates and Charges Effective January 1			
	2014	2015	2016
	Approved	Proposed	Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$159	\$157
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$261	\$265
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$126	\$137
Treatment Surcharge (\$/AF)	\$297	\$329	\$333
Readiness-to-Serve Charge (\$M)	\$166	\$162	\$159
Capacity Charge (\$/cfs)	\$8,600	\$10,500	\$10,200

Scenario D: Proposed Full Service, Exchange and Charges

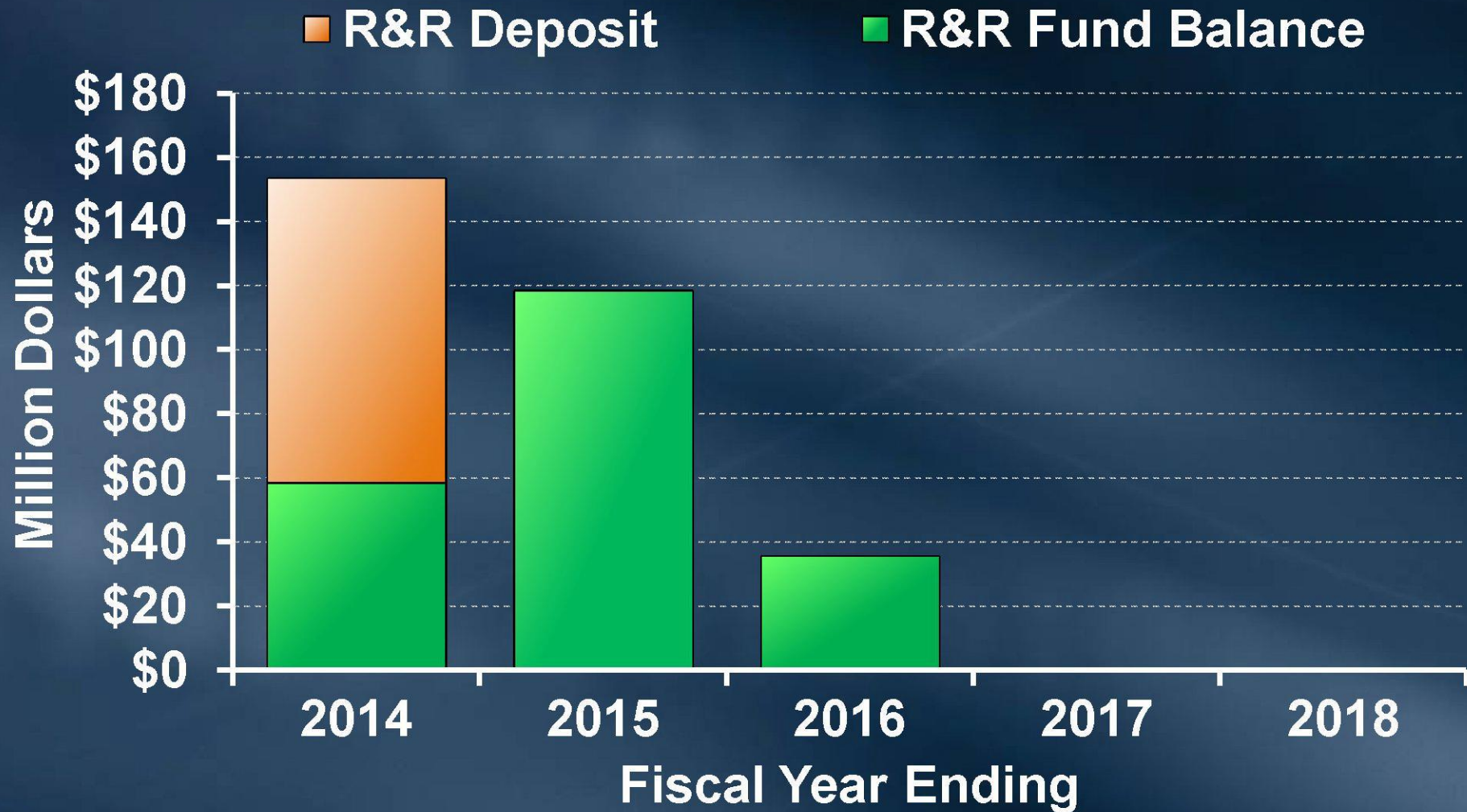
Rate Type	2014 Approved	2015 Proposed	% Increase (Decrease)	2016 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$593	\$587	-1.0%	\$600	2.2%
Tier 2	\$735	\$718	-2.3%	\$733	2.1%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$890	\$916	2.9%	\$933	1.9%
Tier 2	\$1,032	\$1,047	1.5%	\$1,066	1.8%
Full Service Untreated Exchange Cost (\$/AF)	\$445	\$428	-3.8%	\$443	3.5%
RTS Charge (\$M)	\$166	\$162	-2.4%	\$159	-1.9%
Capacity Charge (\$/cfs)	\$8,600	\$10,500	22.1%	\$10,200	-2.9%

Scenario D: Capital Investment Plan Funding

■ R&R Fund ■ Bonds ■ PAYGO



Scenario D: Replacement & Refurbishment (R&R) Fund



Scenario A: Original Proposal 1.5%/1.5%



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

Scenario A: Updated Proposed Rate Elements

Rates and Charges Effective January 1			
	2014 Approved	2015 Proposed	2016 Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$158	\$156
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$257	\$259
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$126	\$138
Treatment Surcharge (\$/AF)	\$297	\$341	\$348
Readiness-to-Serve Charge (\$M)	\$166	\$158	\$153
Capacity Charge (\$M)	\$31	\$44	\$43

Scenario B: Proposed Rate Elements

Rates and Charges Effective January 1			
	2014	2015	2016
	Approved	Proposed	Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$155	\$154
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$253	\$257
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$125	\$137
Treatment Surcharge (\$/AF)	\$297	\$335	\$339
Readiness-to-Serve Charge (\$M)	\$166	\$155	\$148
Capacity Charge (\$M)	\$31	\$43	\$41

Scenario C: Proposed Rate Elements

Rates and Charges Effective January 1			
	2014 Approved	Scenario A Proposed	Scenario C Proposed
		Scenario A	\$158/AF
Tier 1 Supply Rate (\$/AF)	\$14		
Tier 2 Supply Rate (\$/AF)	\$29	Scenario A	\$257/AF
System Access Rate (\$/AF)	\$243	\$264	\$274
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$16		
Treatment Surcharge (\$/AF)	\$29	Scenario A	\$158M
Readiness-to-Serve Charge (\$M)	\$166	\$171	\$170
Capacity Charge (\$/cfs)	\$31	\$44	\$44

Policy for Revenue-Funded Capital

- Background:
 - Historical actual revenue-funded capital has approximated 22% of capital expenditures
 - The Administrative Code specifies \$95 million (~40%) in revenue-funded capital
 - The current year budget specifies \$125 million in revenue-funded capital, or approximately 60% of CIP
- Fitch Rating Agency 2014 Medians
 - Overall median for revenue funded CIP is 68%
 - For AA rated entities median is 60% of CIP
- Large CA water utilities use 10% to 60%

Biennial Budget and Rates vs. Annual Budget and Rates Considerations

Biennial Budget Process

● Pro

- Allows Board to address planning and rates over a longer time horizon and average conditions
- Many member agencies and retail water agencies find it helpful for their planning and rate setting
- Board retains ability to adjust budget and rates annually if desired

● Con

- Possible delay in reacting to conditions that vary from those assumed in the adopted biennial budget and rates

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

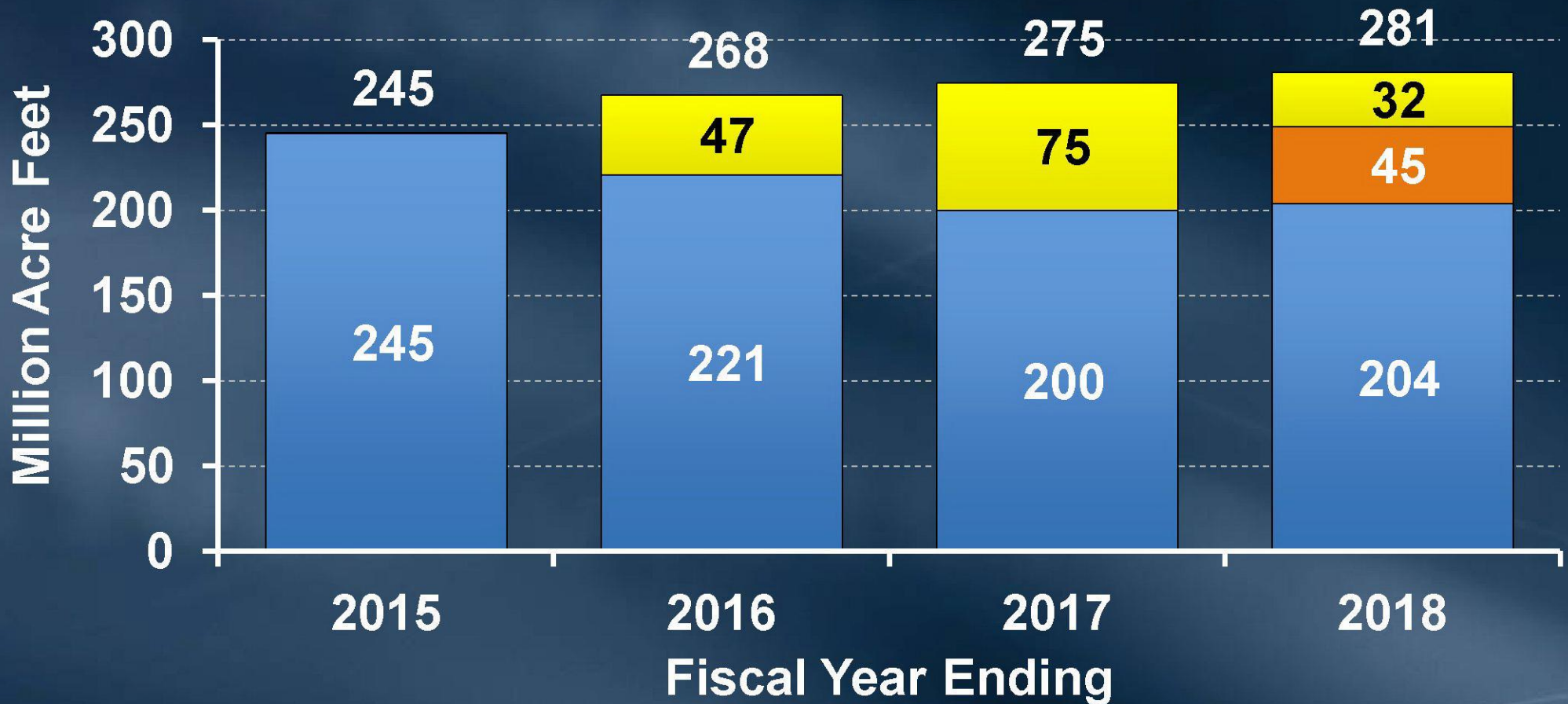


Use of Reserves over Target

- 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

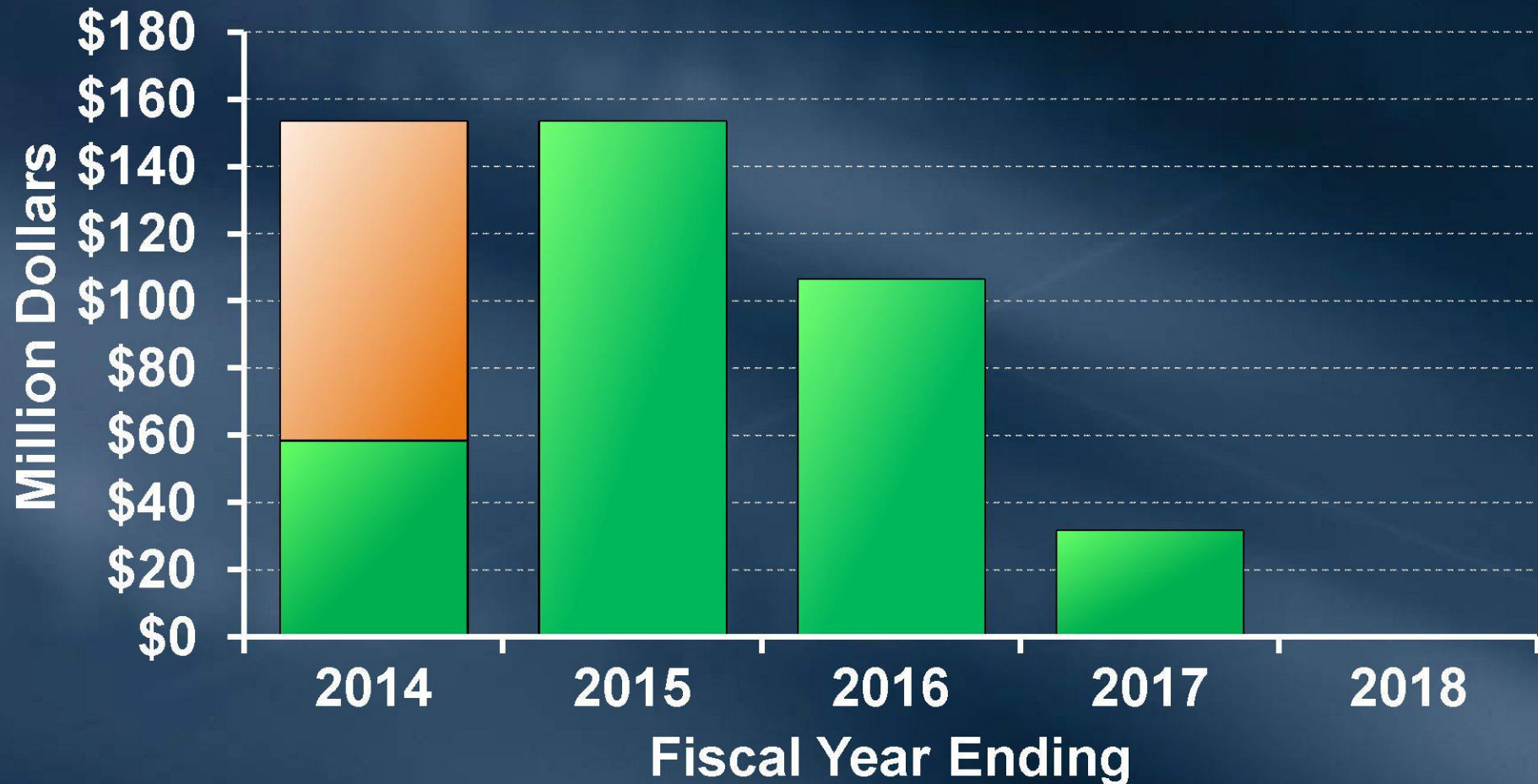
Capital Investment Plan Funding

■ R&R Fund ■ Bonds ■ PAYGO



Replacement and Refurbishment (R&R) Fund

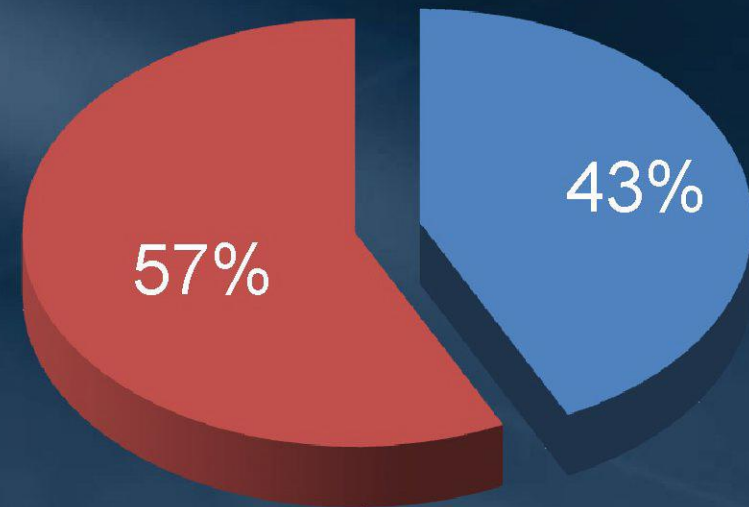
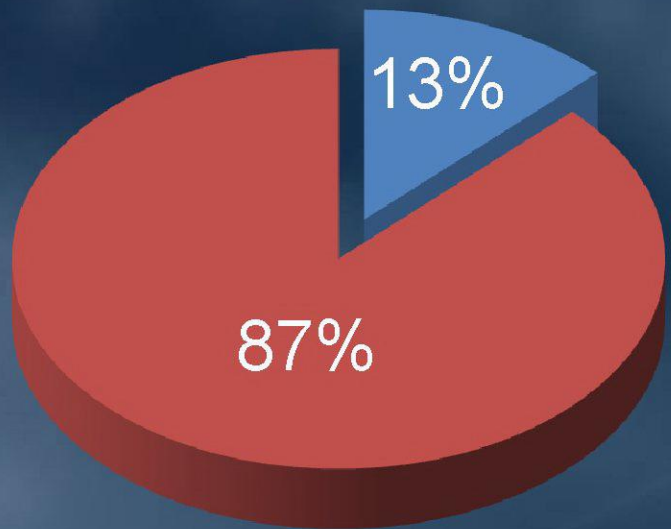
■ R&R Deposit ■ R&R Fund Balance



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

Retiree Medical Premiums (OPEB) Funding

After \$100 million
deposit to OPEB Trust



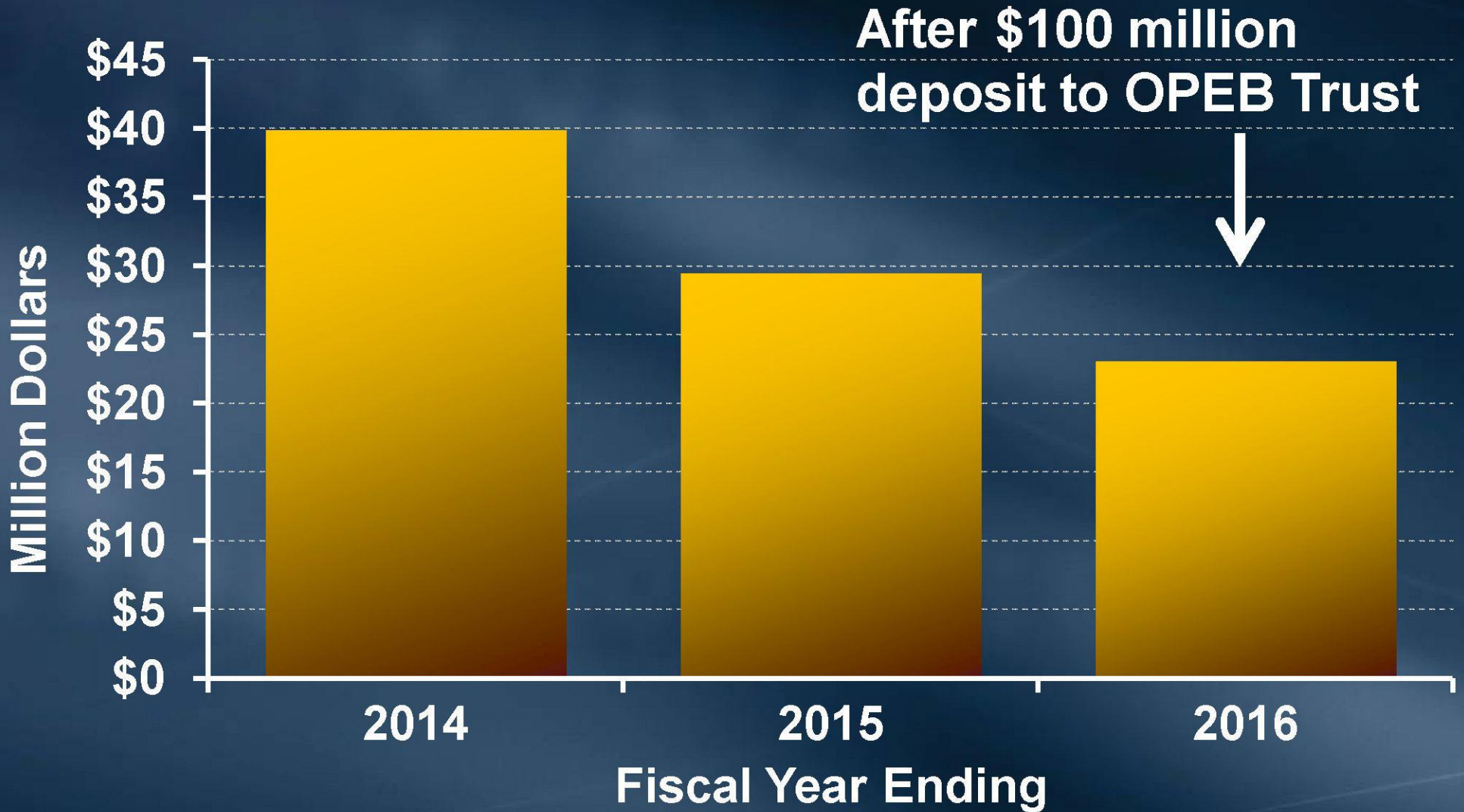
Projected OPEB Liability at 6/30/14 = \$333.1 million

■ Funded

■ Unfunded

OPEB

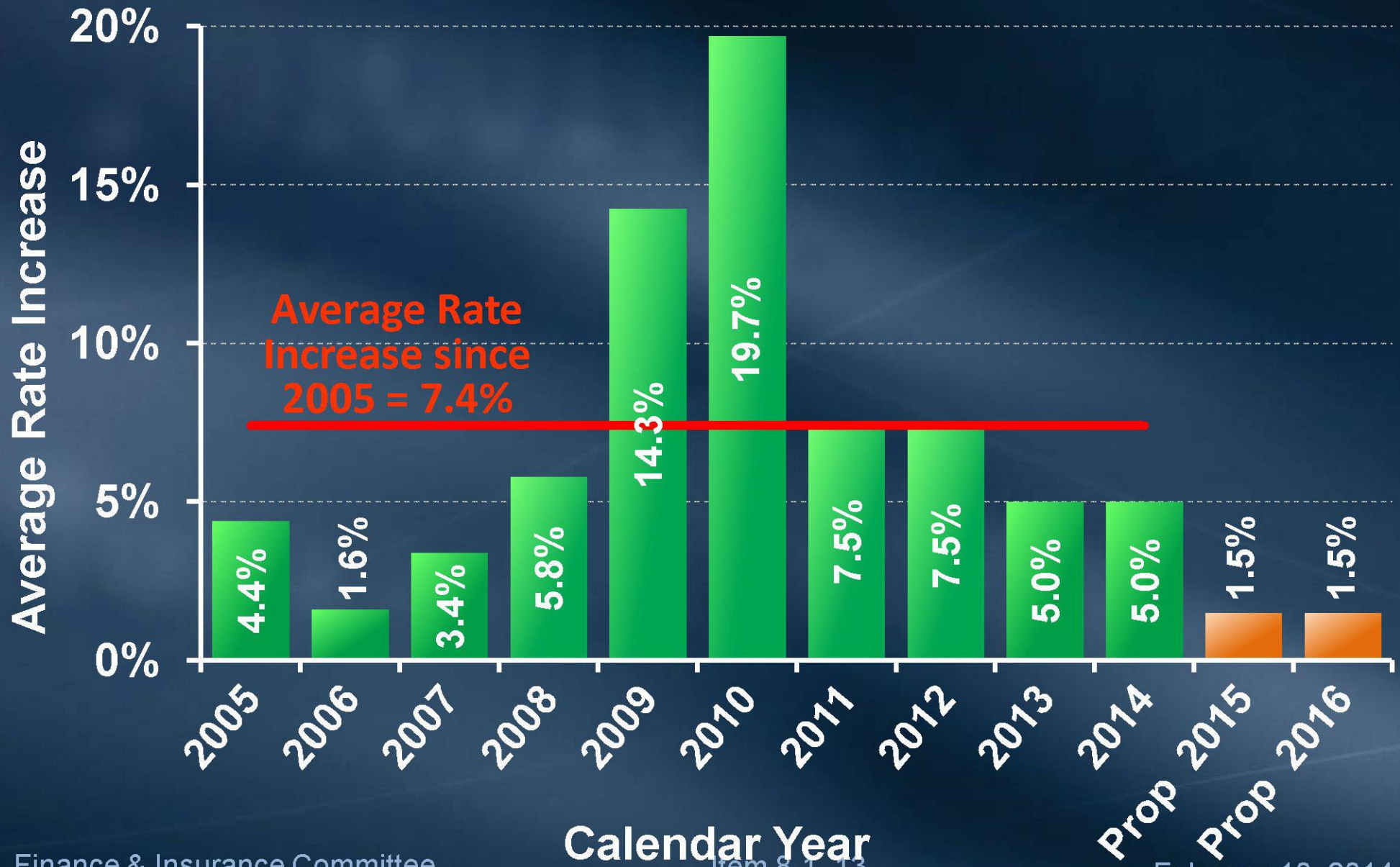
Annual Required Contribution (ARC)



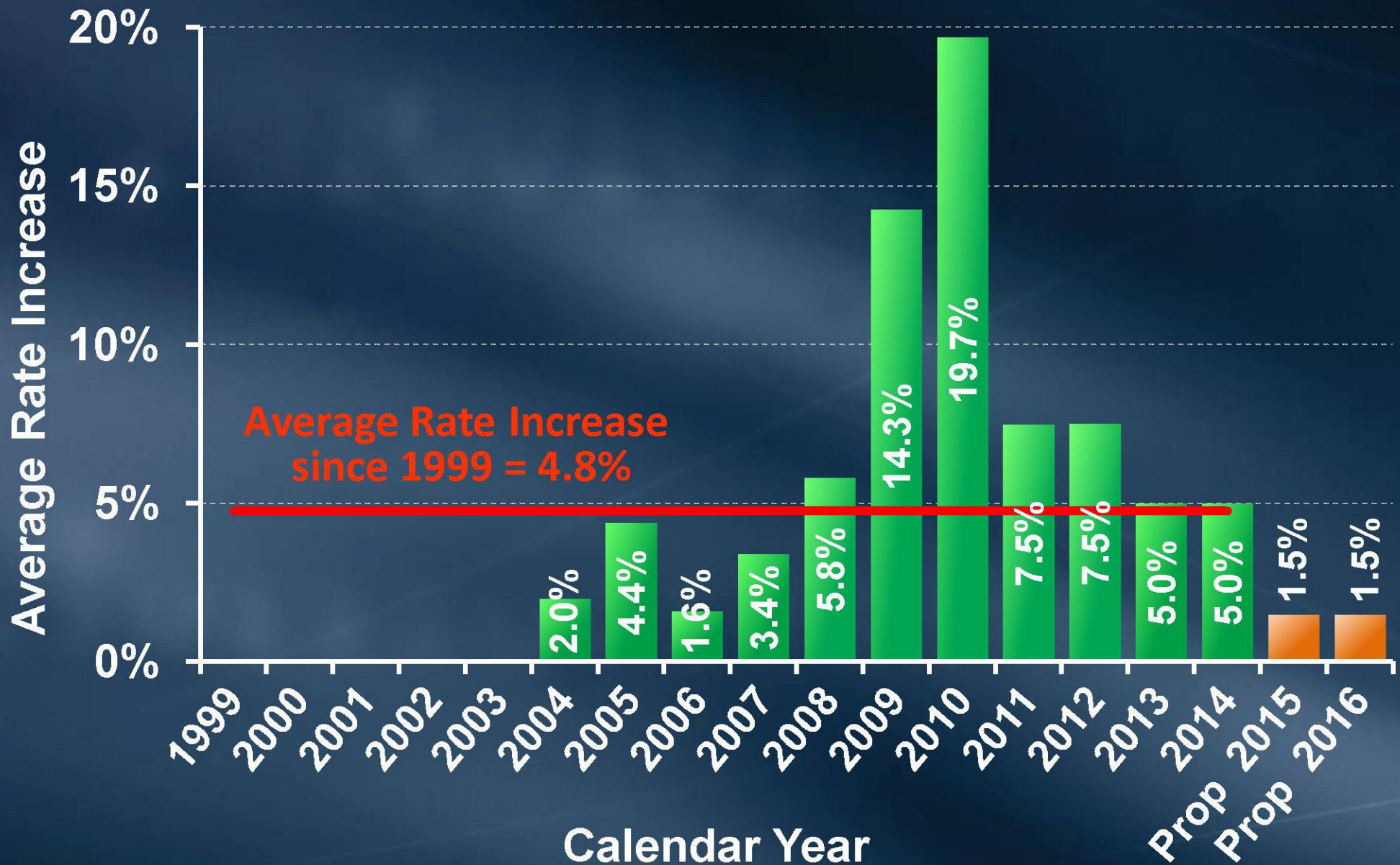
Water Management Fund

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

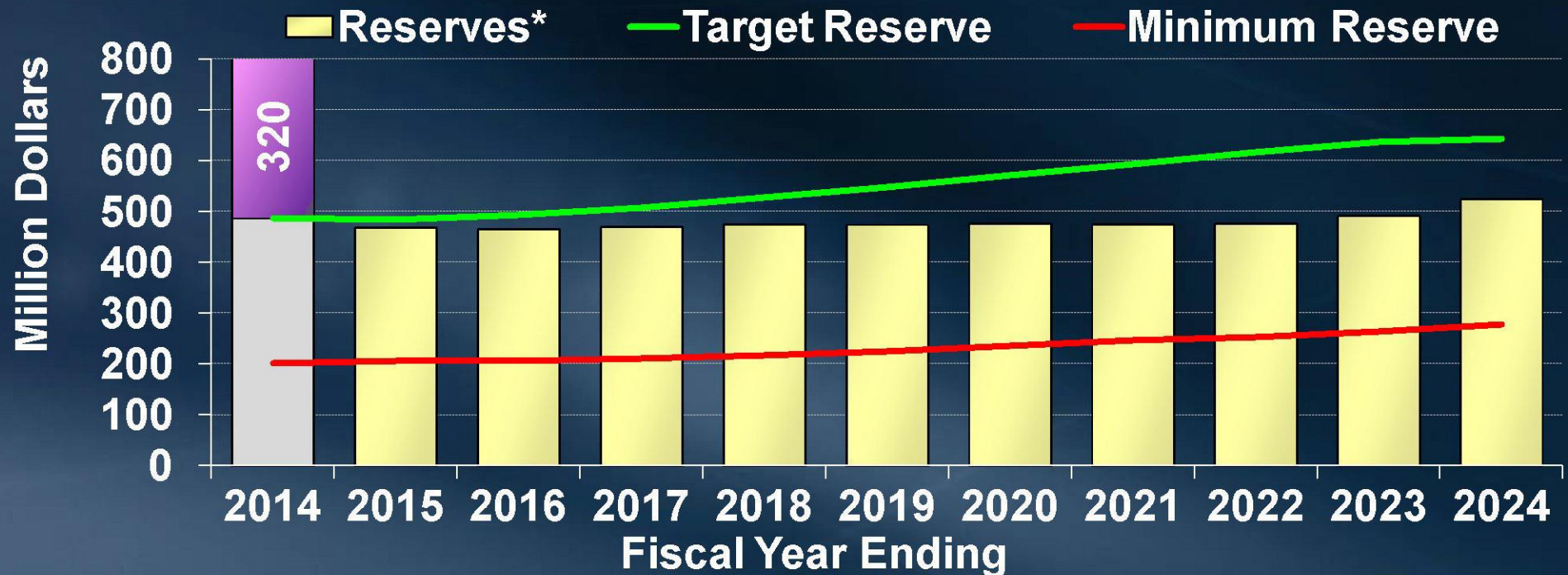
Overall Rate Increases Since 2005



Overall Rate Increases Since 1999



Projected Rate Increases & Financial Metrics

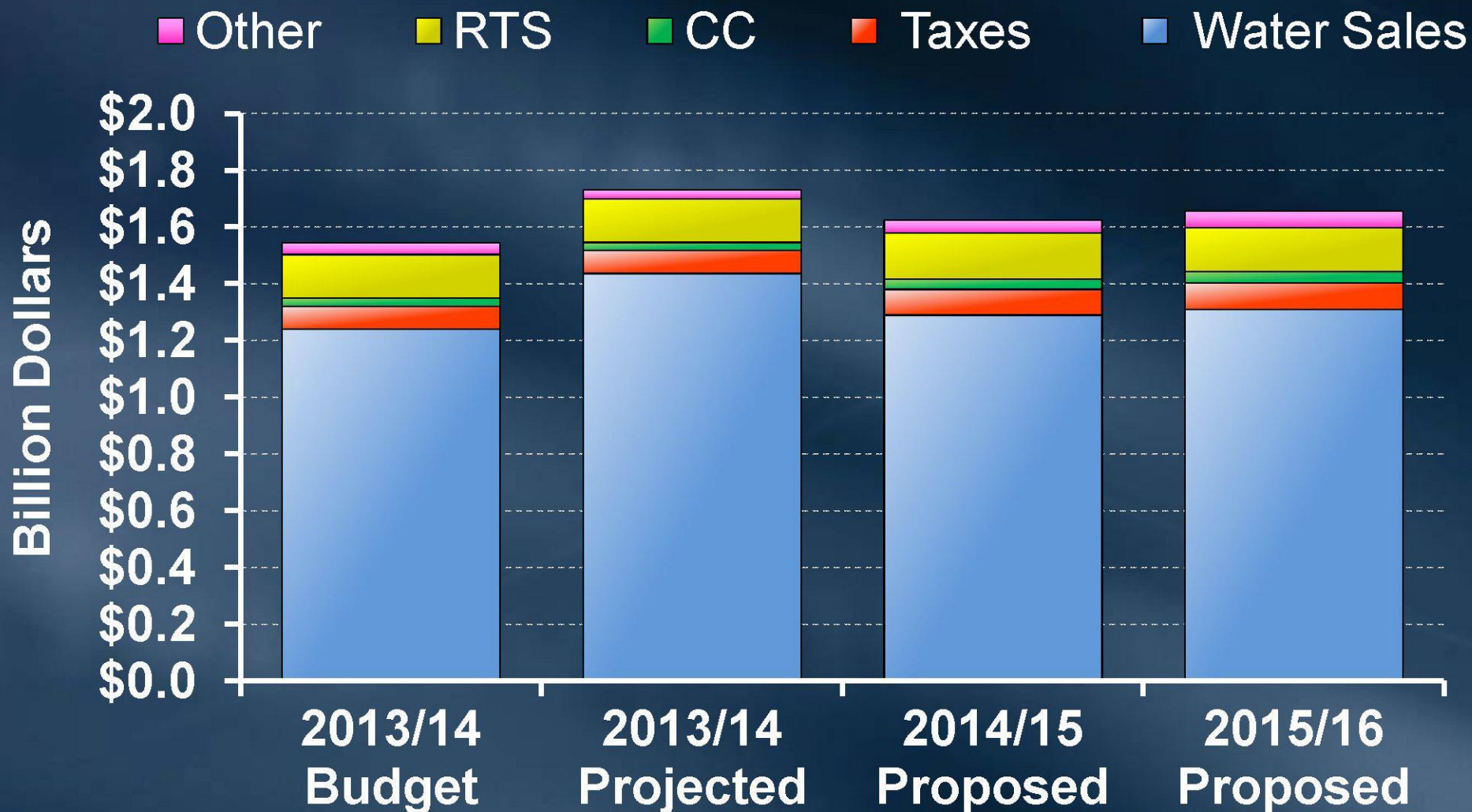


Ave Rate Inc.	5%	1.5%	1.5%	3%	3%	4%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	245	221	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	2.0	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0	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

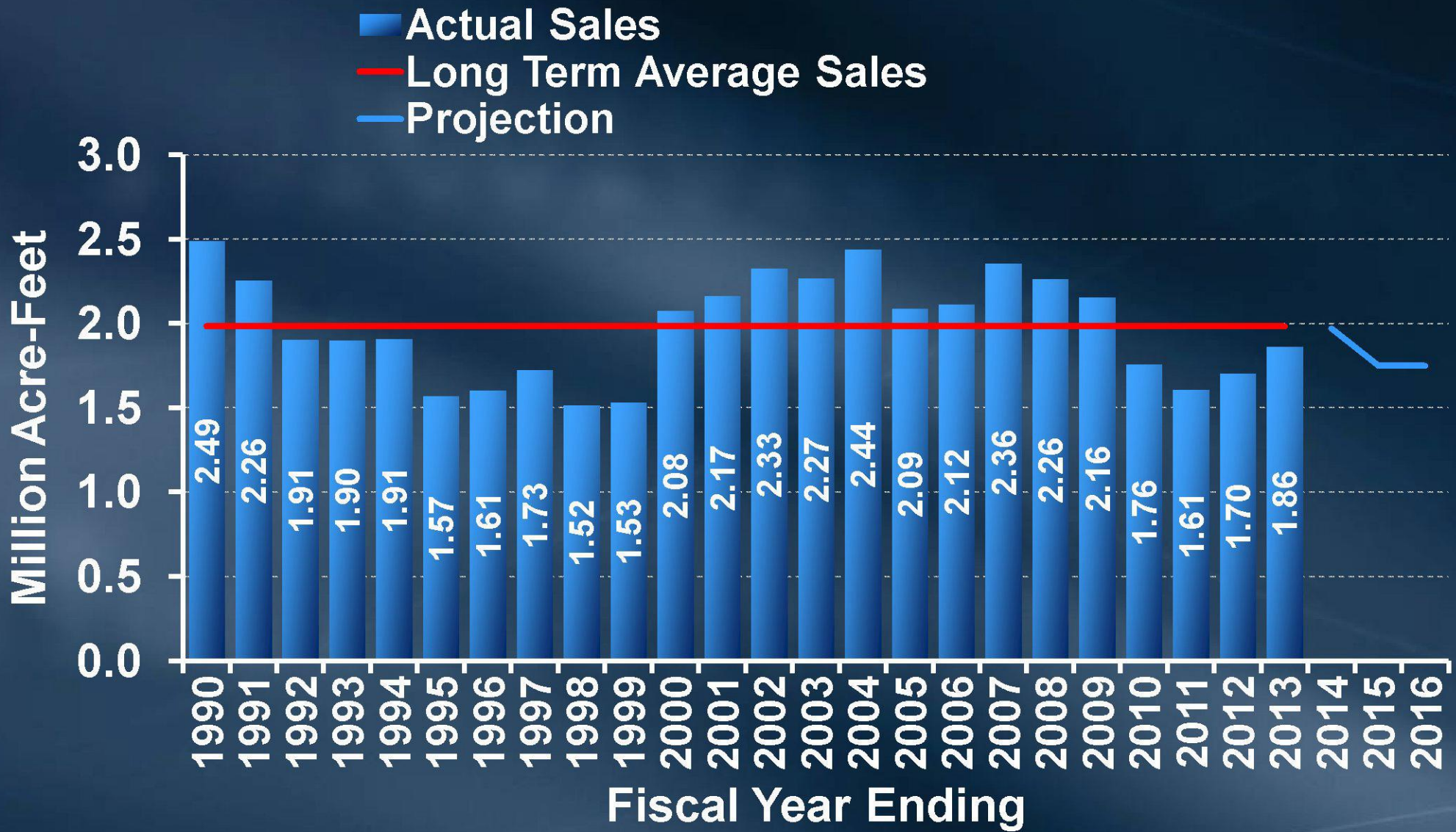
* Revenue Remainder & WRSF

Proposed Biennial Budget

Revenue Trend



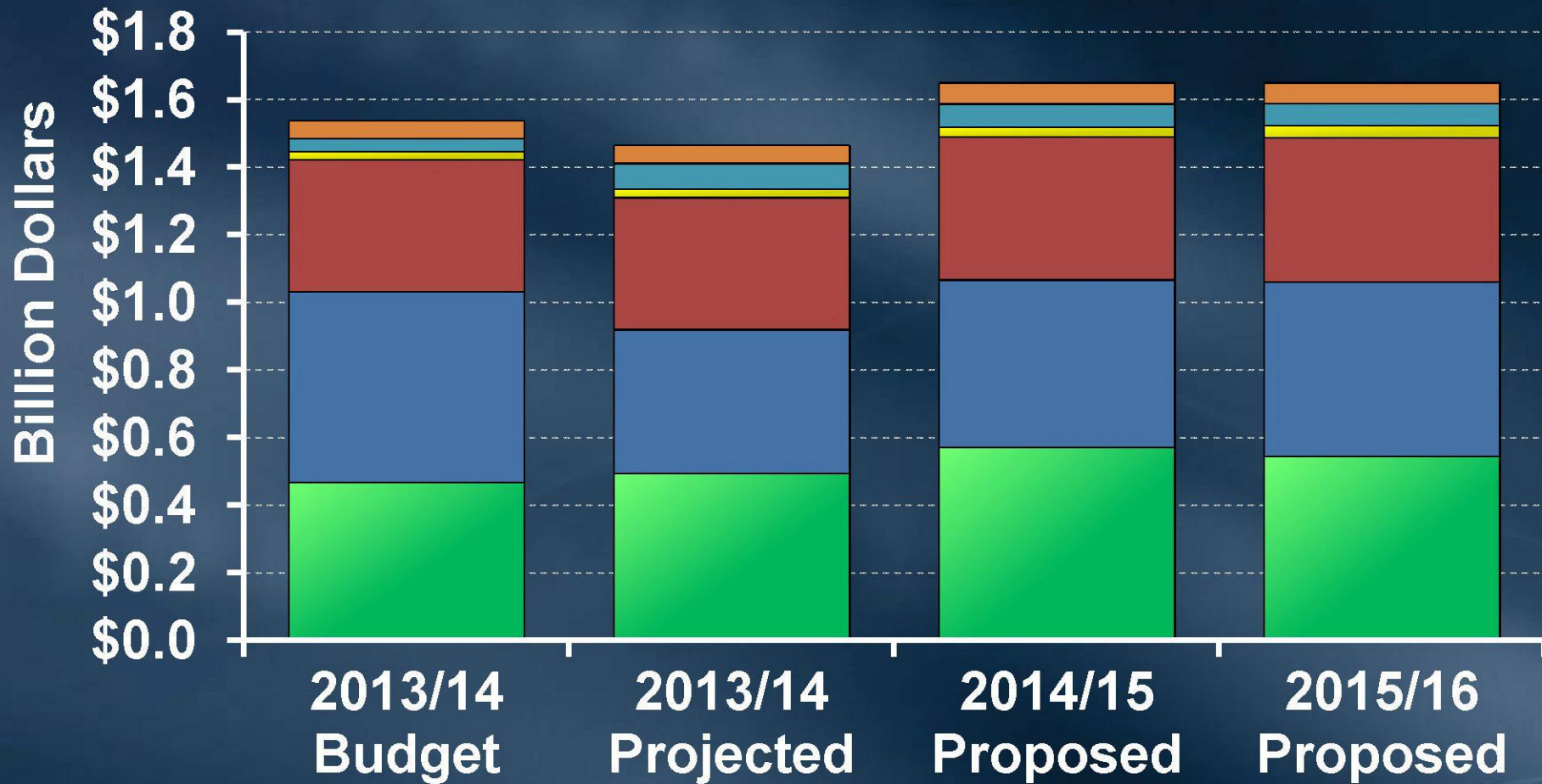
Water Sales*



* Includes Exchange/Wheeling

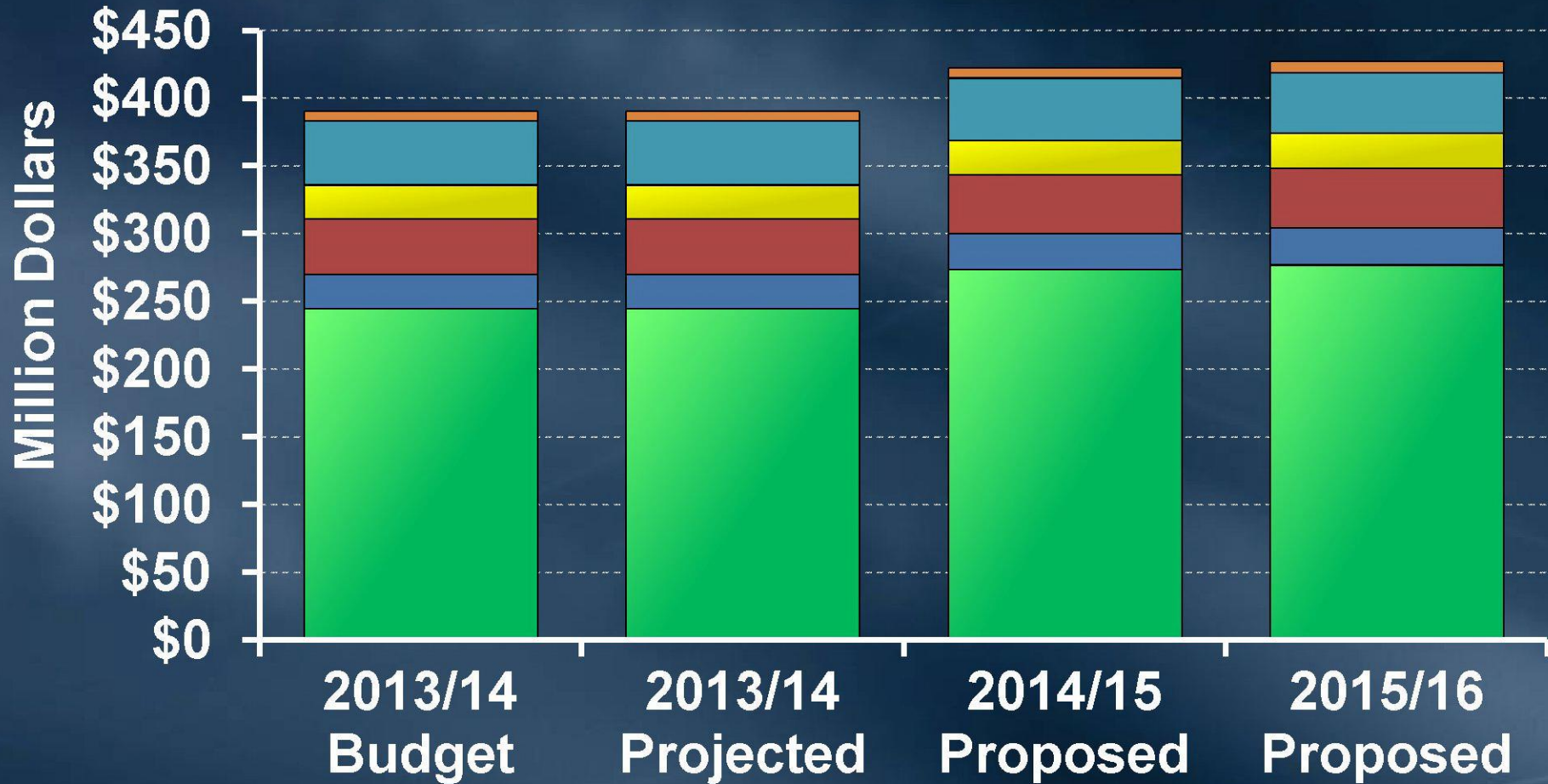
Expenditure Trend

- 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>

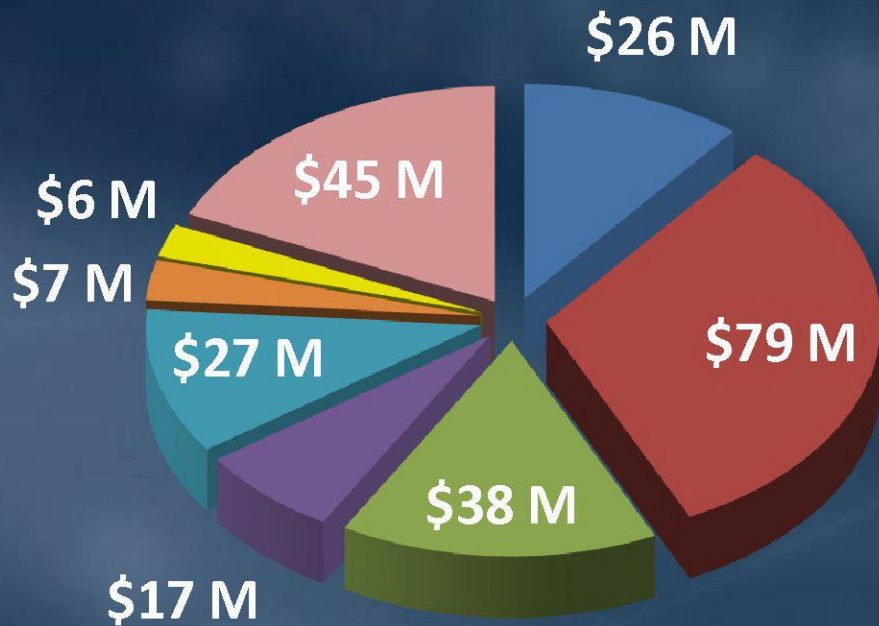
Budgeted Regular Positions

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

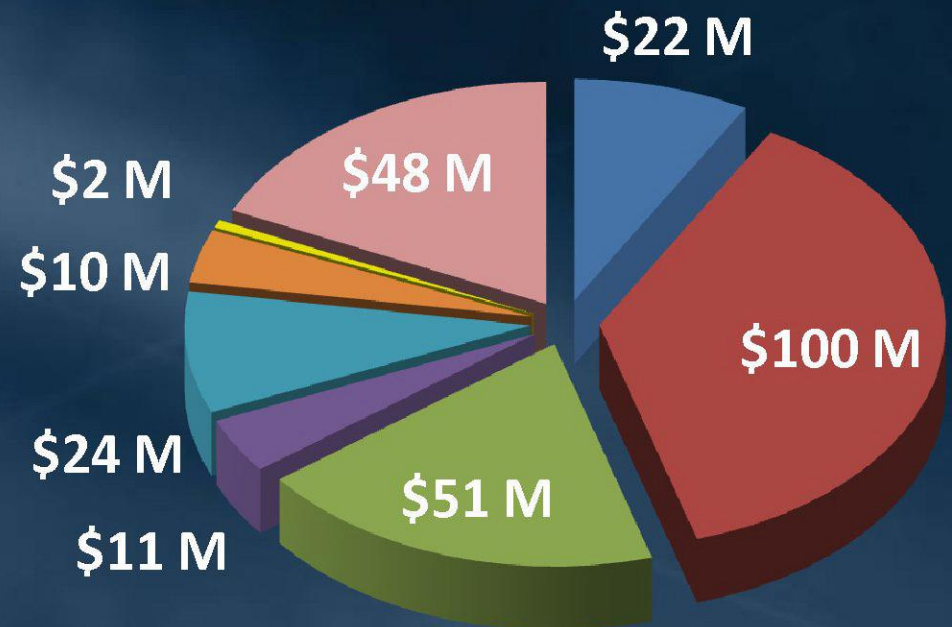
Capital Investment Plan (CIP)

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
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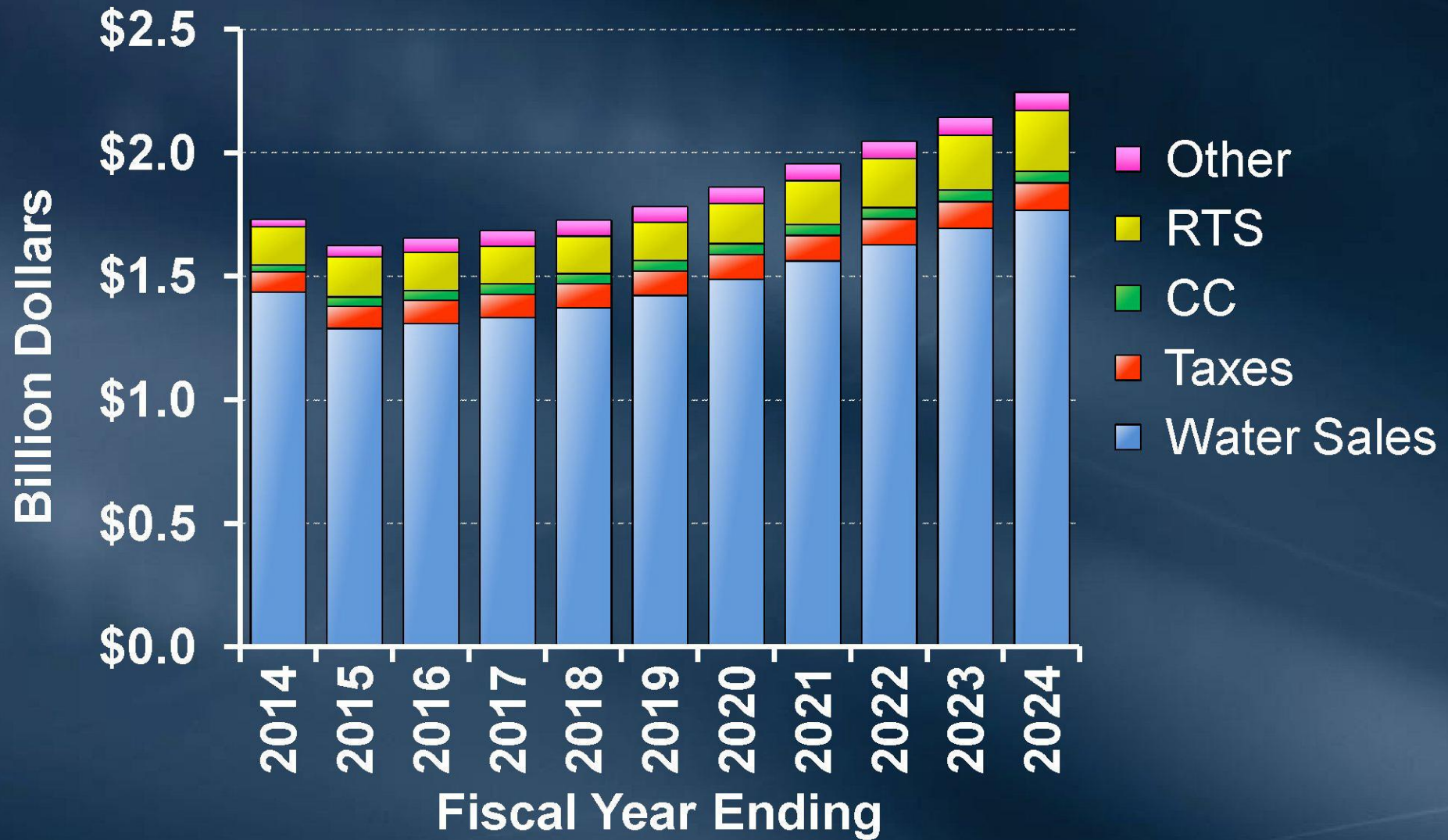
* Revenue Remainder & WRSF

Water Sales*

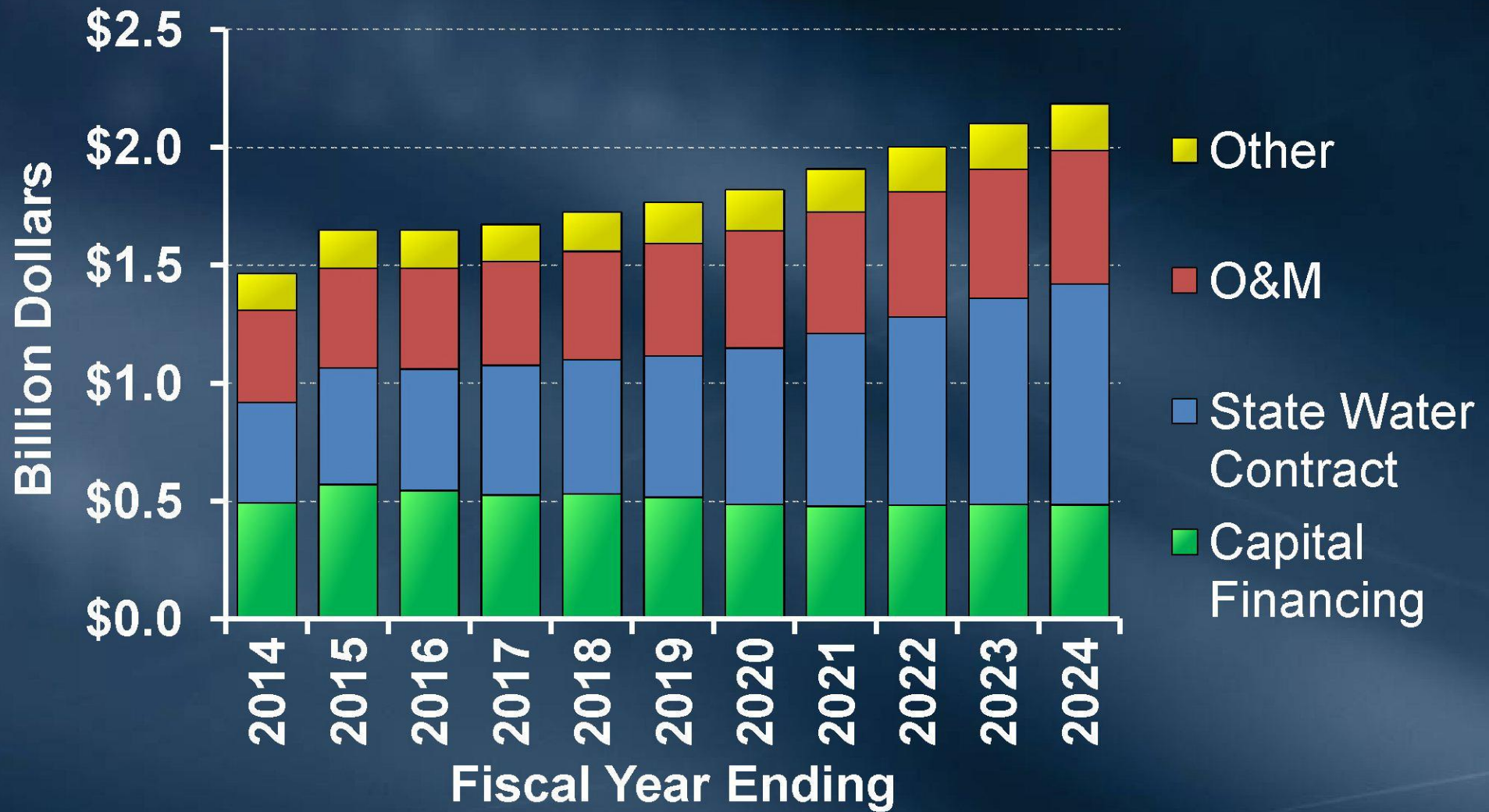


* Includes Exchange/Wheeling

10-Year Revenue Trend



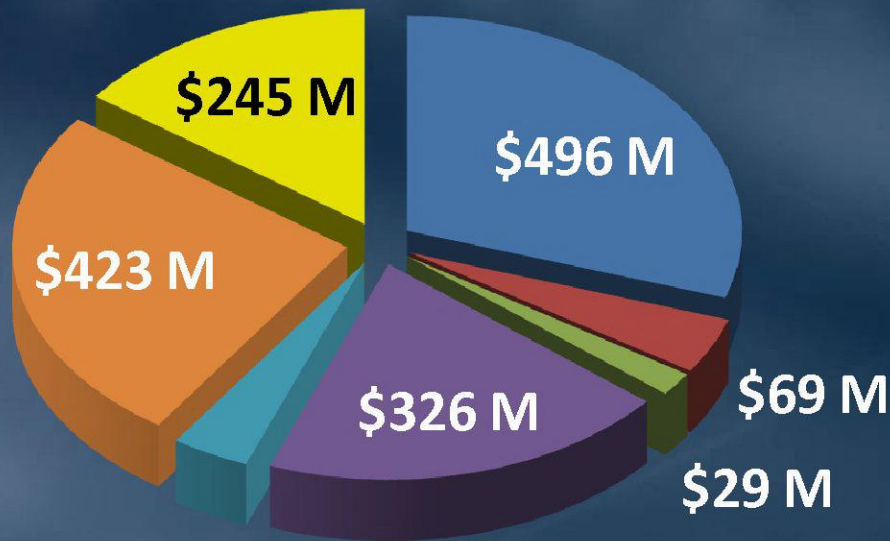
10-Year Expenditure Trend



Expenditure Trend

FY 2014/15 - \$1.65 B

FY 2023/24 - \$2.31 B

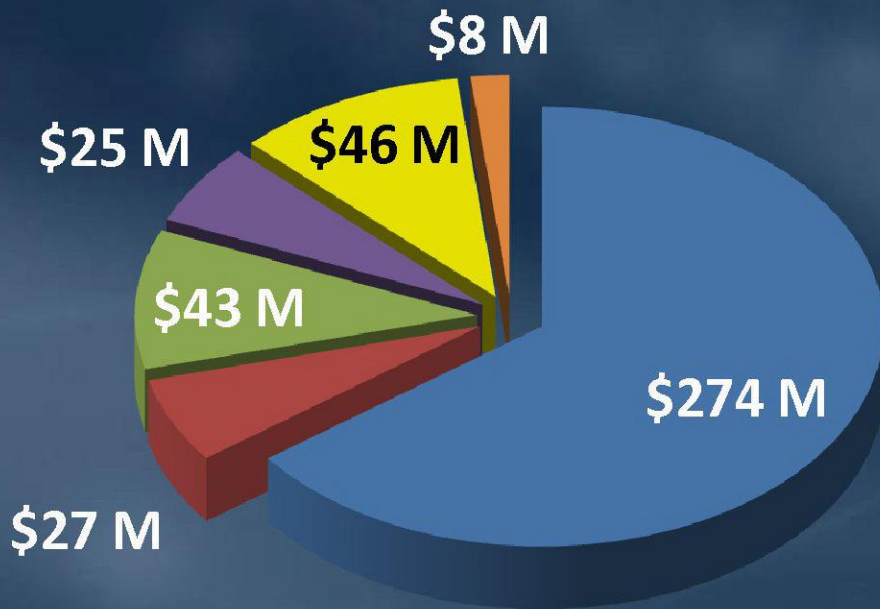


- State Water Contract
- Colorado River Power
- Demand Management
- CIP

- Supply Programs
- Debt Service
- O&M

O&M Budget Trend

FY 2014/15 - \$423 M



FY 2023/24 - \$567 M



Salary & Benefits

Variable Treatment

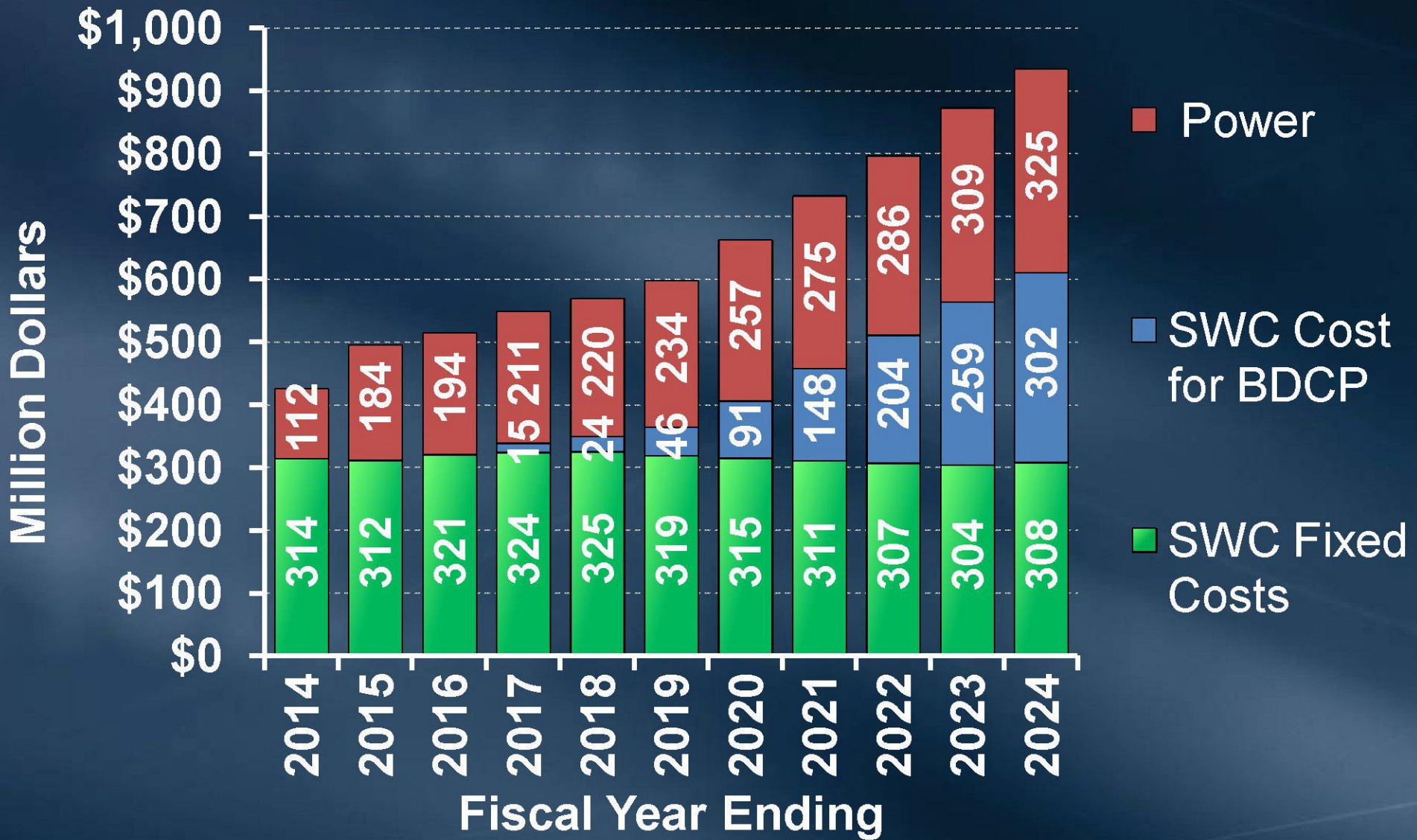
Outside Services

Materials & Supplies

Other

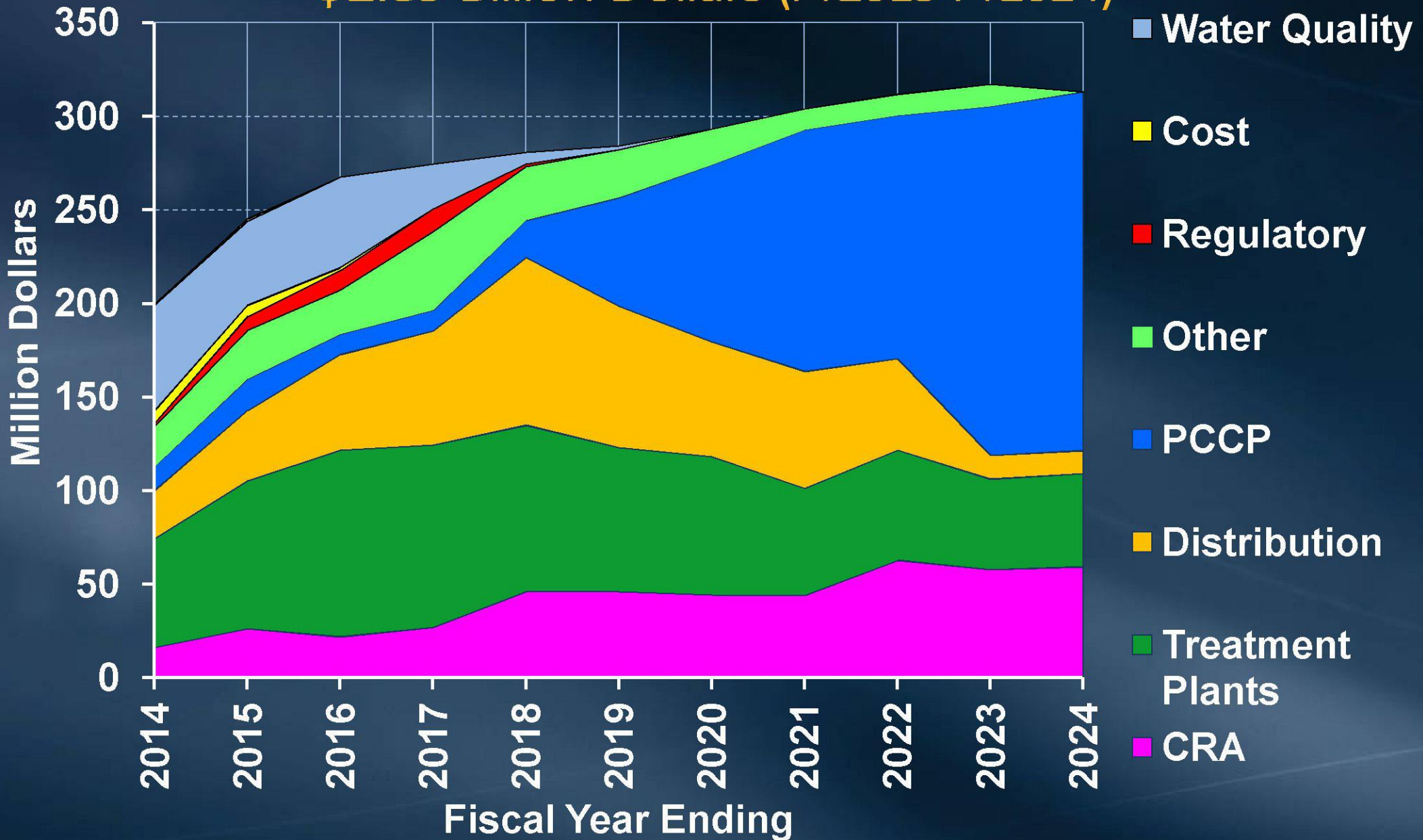
Operating Equipment

SWC Forecast

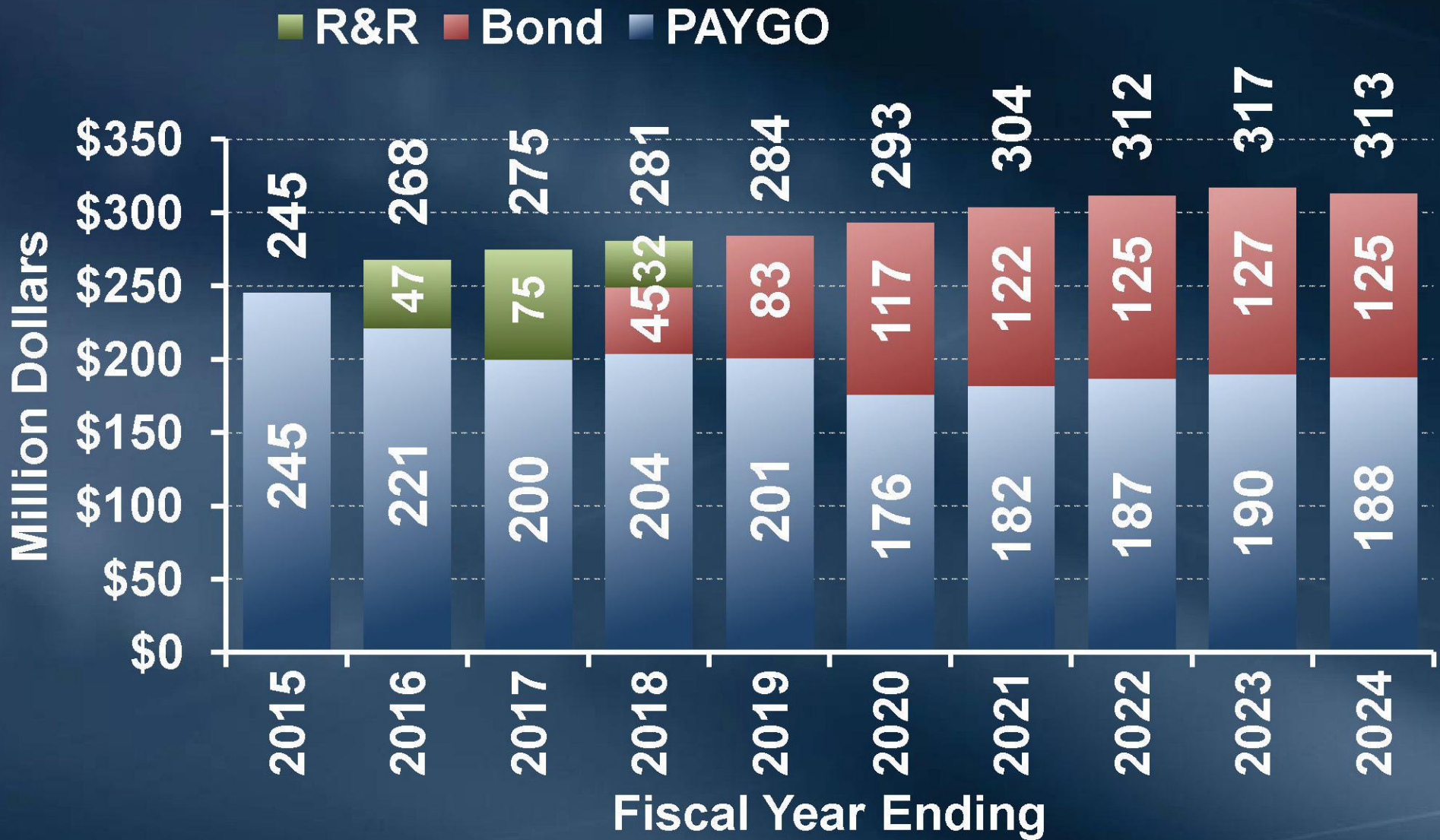


10 Year Capital Investment Plan

\$2.89 Billion Dollars (FY2015-FY2024)



Capital Investment Plan Funding



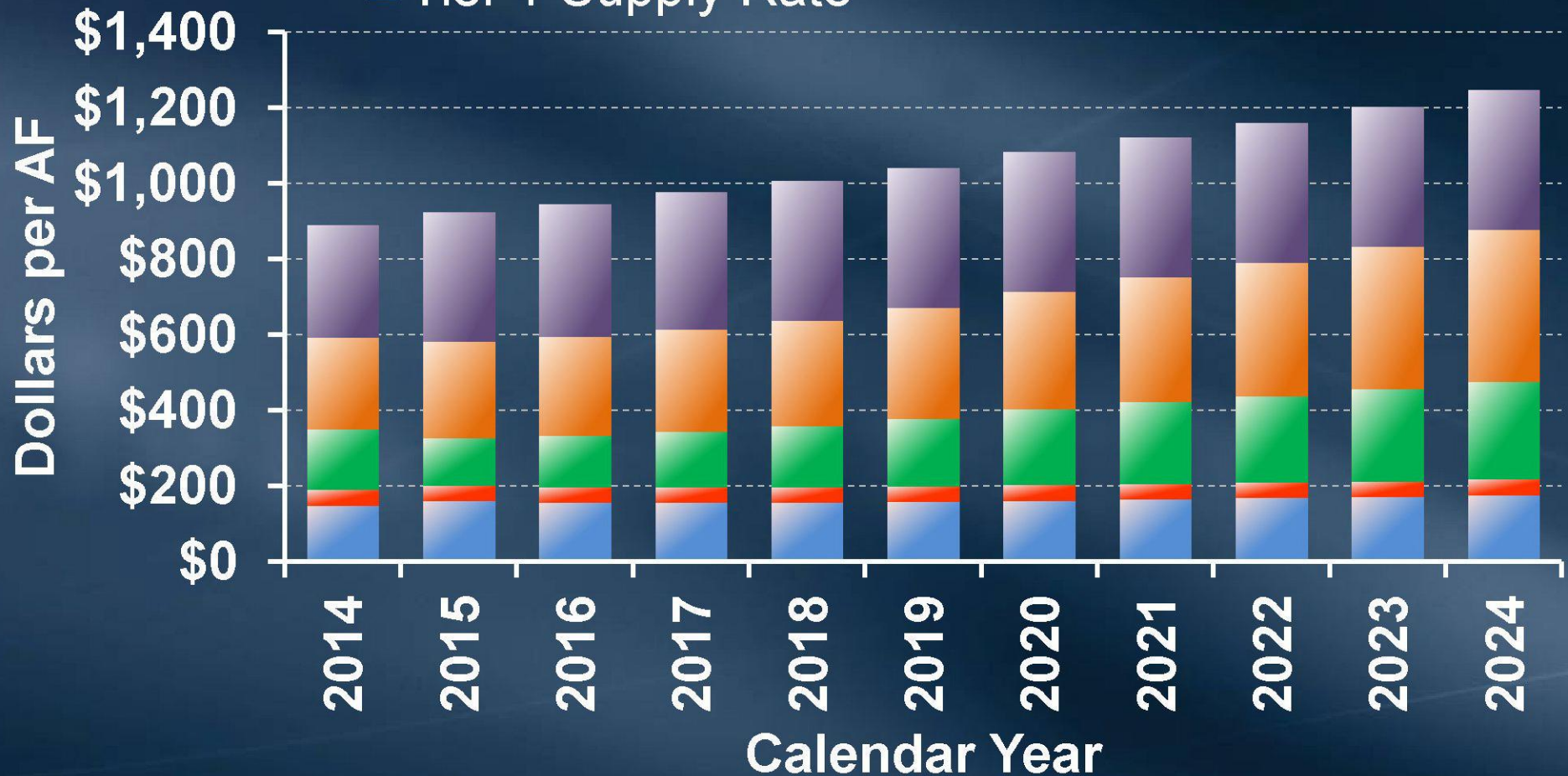
MWD Debt Service

- 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
Sub-total expenditures	1,564.5	1,661.5	1,668.9
Revenue Offsets	121.2	135.7	149.6
Total Revenue Requirement	1,443.2	1,525.8	1,519.3

Totals may not foot due to rounding.

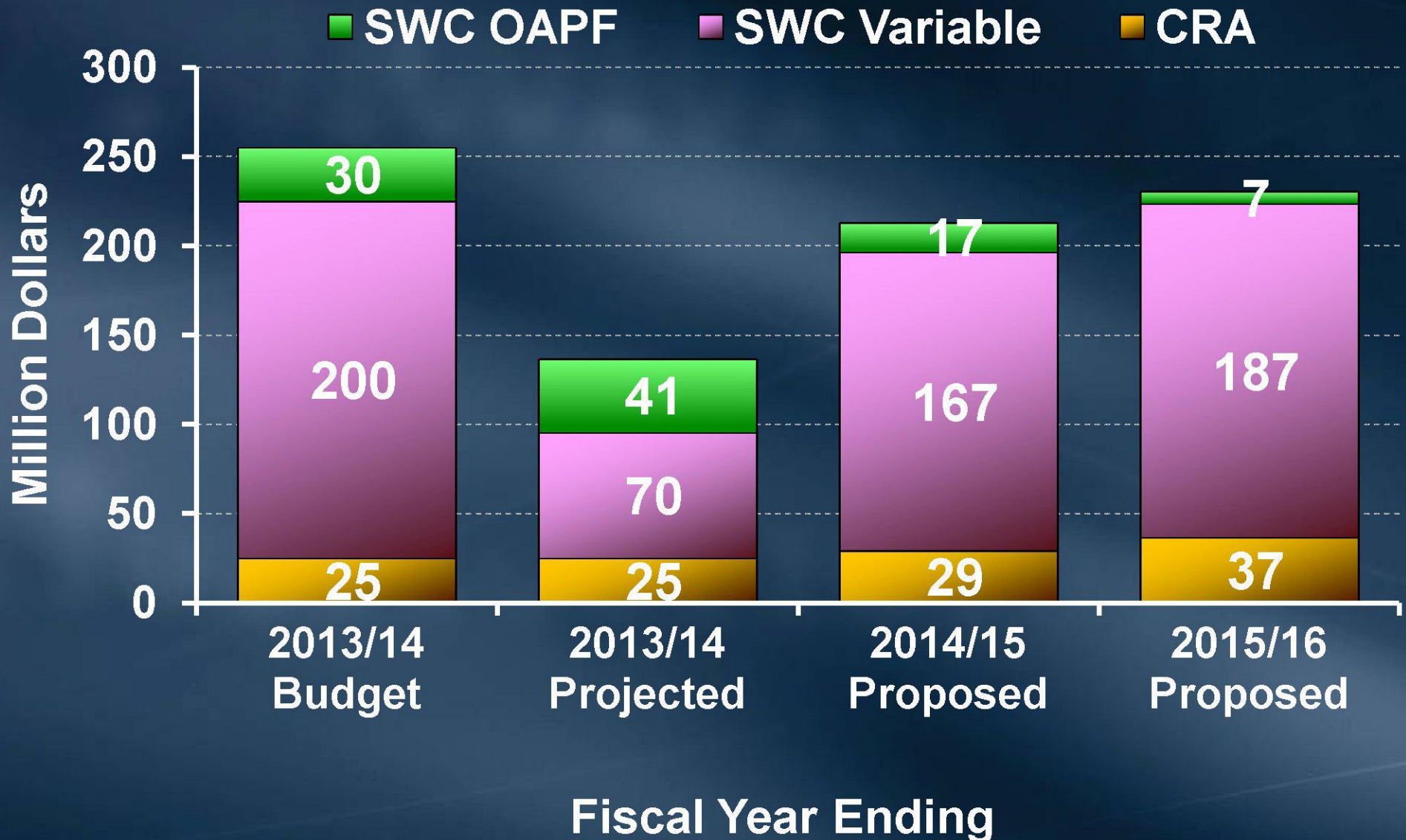
Proposed Rate Elements

Rates and Charges Effective January 1			
	2014 Approved	2015 Proposed	2016 Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$160	\$155
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Treatment Surcharge (\$/AF)	\$297	\$343	\$352
Readiness-to-Serve Charge (\$M)	\$166	\$158	\$152
Capacity Charge (\$/cfs)	\$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)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$593	\$582	(1.9%)	\$594	2.1%
Tier 2	\$735	\$712	(3.1%)	\$729	2.4%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$890	\$925	3.9%	\$946	2.3%
Tier 2	\$1,032	\$1,055	2.2%	\$1,081	2.5%
Full Service Untreated Exchange Cost (\$/AF)	\$445	\$422	(5.2%)	\$439	4.0%
RTS Charge (\$M)	\$166	\$158	(4.8%)	\$152	(3.8%)
Capacity Charge (\$/cfs)	\$8,600	\$10,700	24.4%	\$10,300	(3.7%)

Power Costs



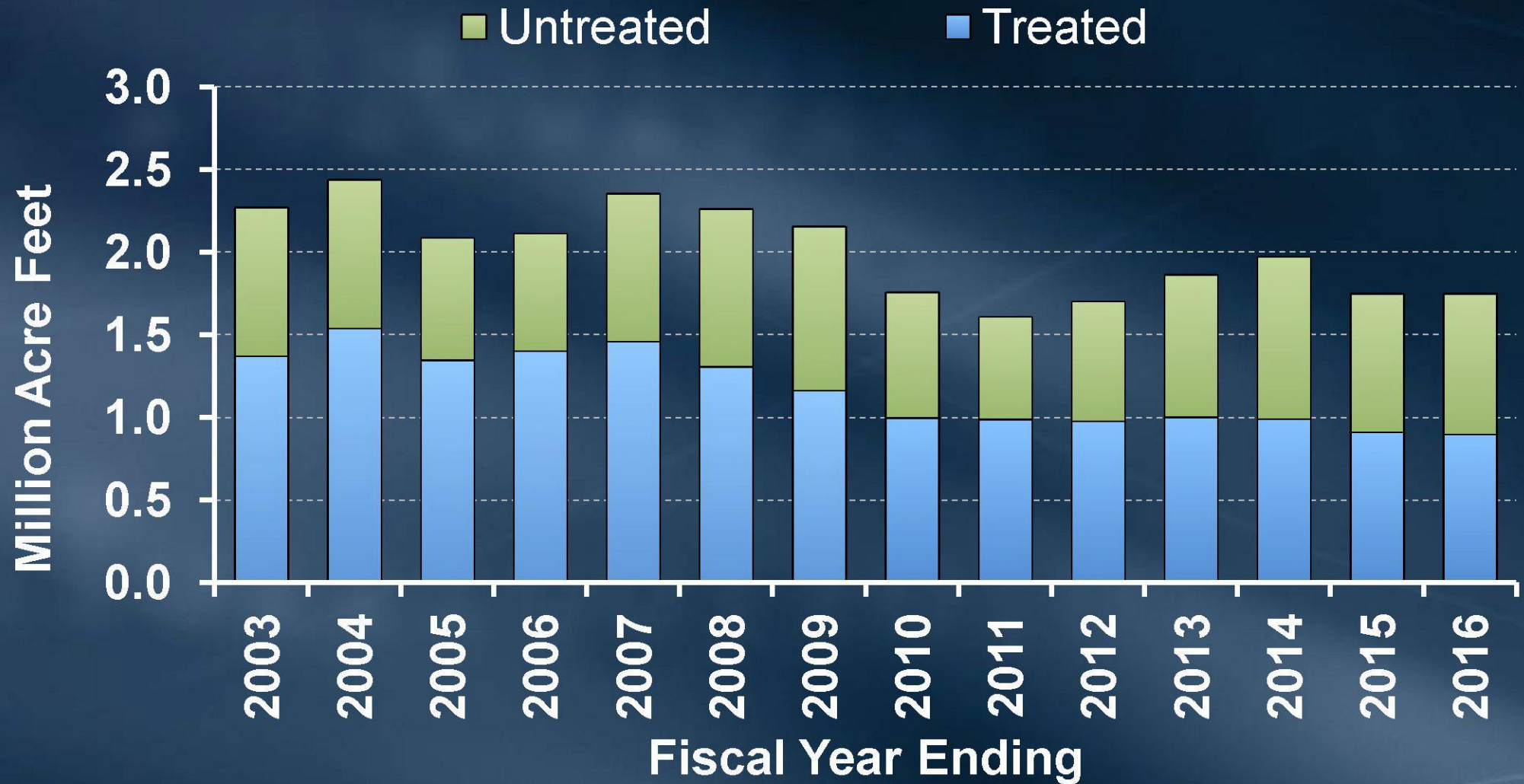
Sum of Member Agency Peak Day Demands



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

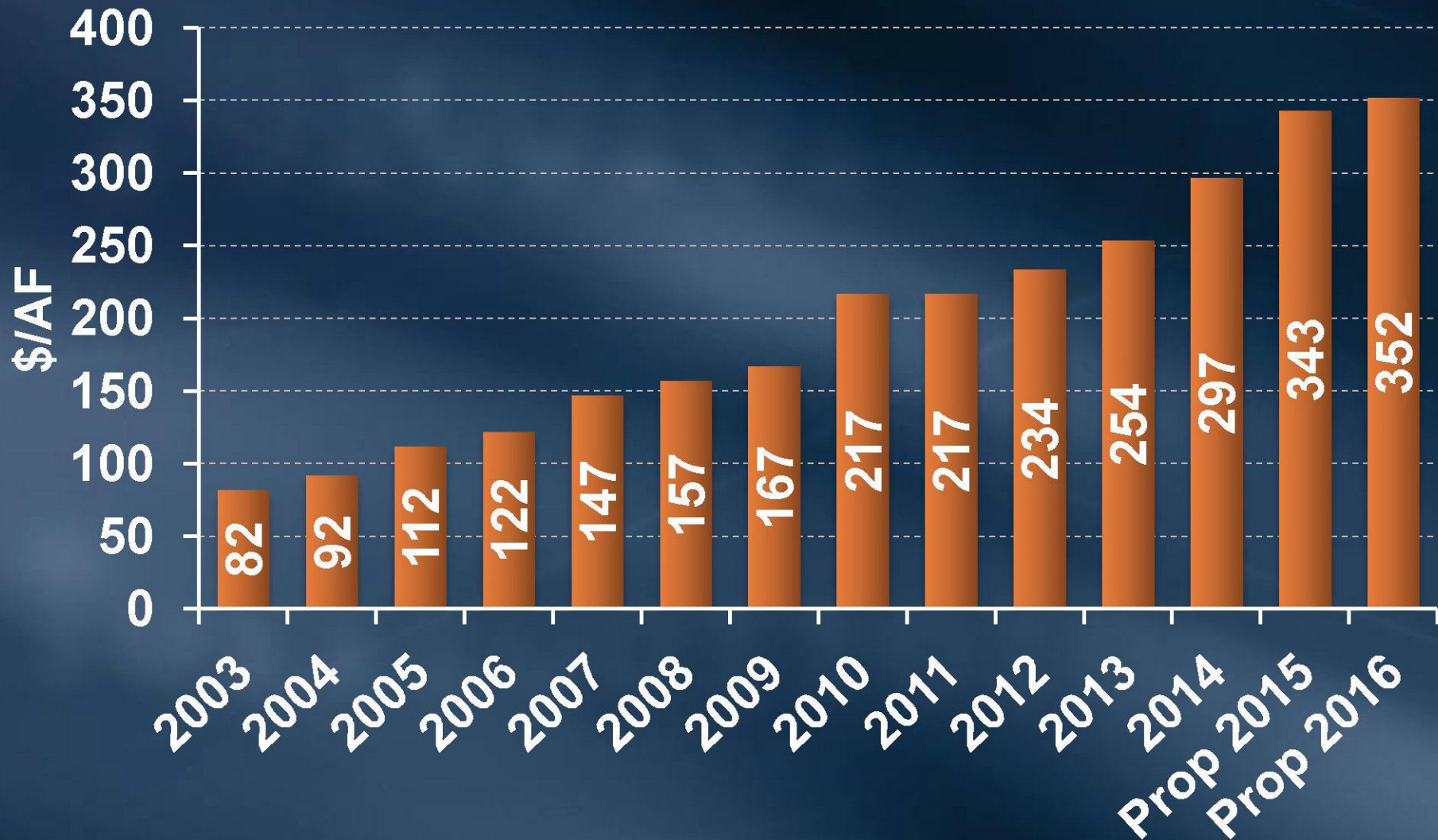


Treated Sales/Exchange are Decreasing



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

Treatment Surcharge Trend is Upward



Effective January 1

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