

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

Member Agency Managers Meeting
February 12, 2016



Proposed Biennial Budget

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

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

Overall Rate Increases Since 2007

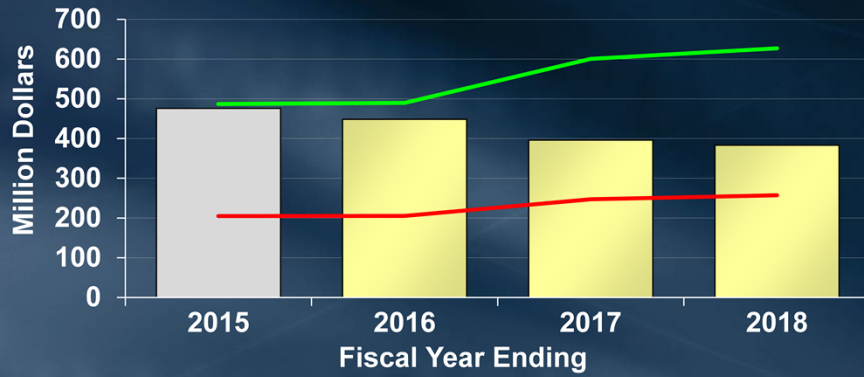


Important Underlying Assumptions

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

Projected Rate Increases & Financial Metrics

■ Unrestricted Reserve — Target Reserve — Minimum Reserve



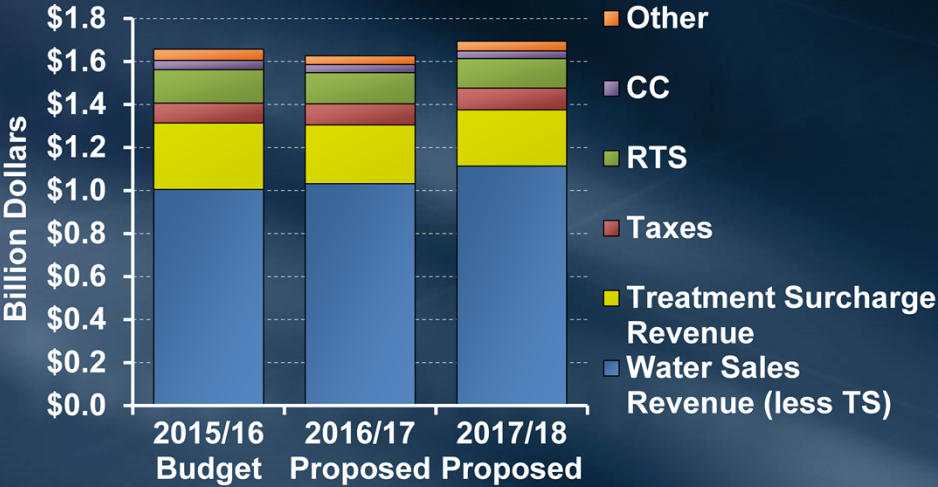
Overall Rate Inc.	1.5%	1.5%	4.0%	4.0%
Sales, MAF	1.90	1.63	1.70	1.70
Rev. Bond Cvg	2.7	1.5	1.6	1.6
Fixed Chg Cvg	2.4	1.3	1.3	1.3
PAYGO, \$M	210	99	120	120

Estimated Full Service Costs and Charges

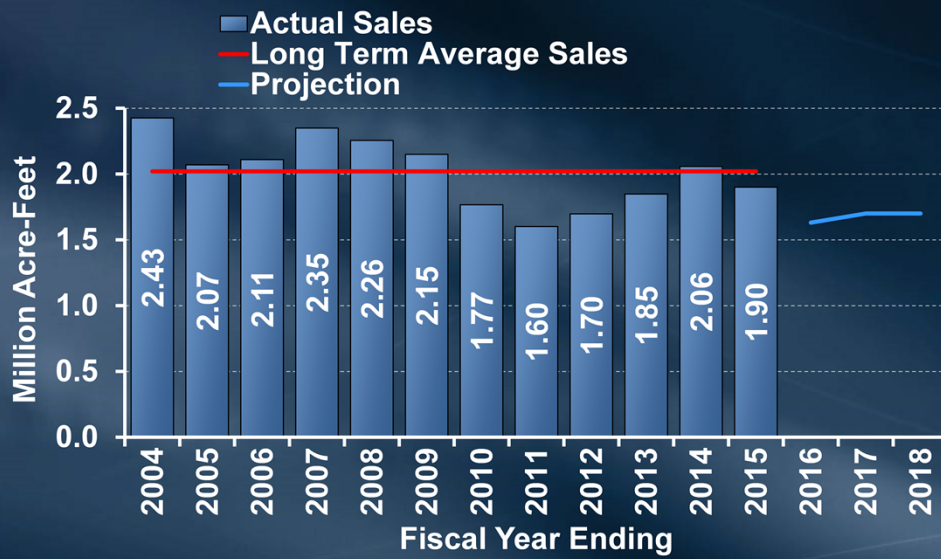
Rate Type	2016 Approved	2017 Estimated	% Increase (Decrease)	2018 Estimated	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$594	\$666	12.1%	\$695	4.4%
Tier 2	\$728	\$760	4.4%	\$781	2.8%
Treatment Surcharge*	\$348	\$313	(10.1%)	\$320	2.2%
Full Service Treated Volumetric 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%

*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



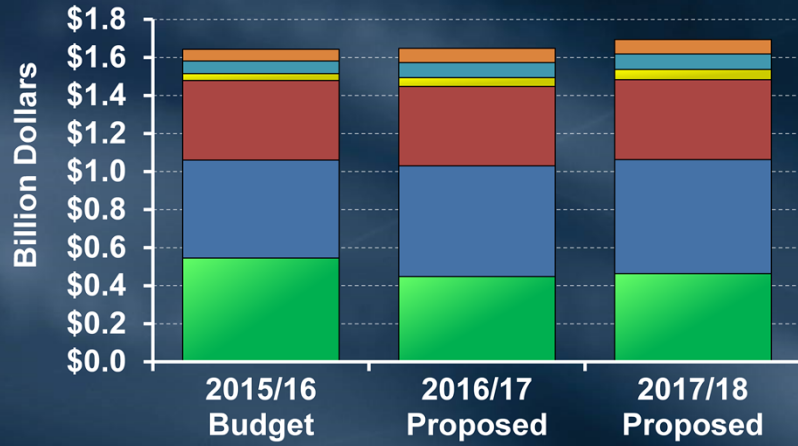
Water Sales*



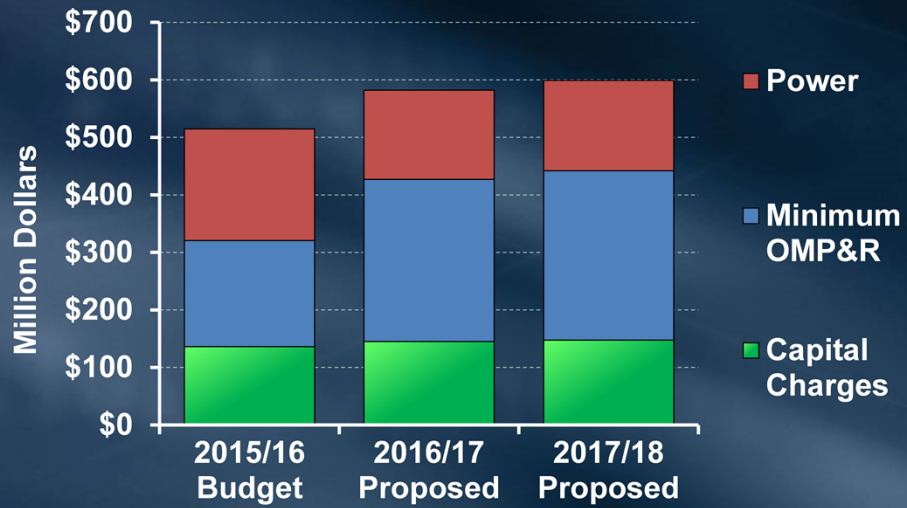
* Includes Exchange

Expenditure Trend

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

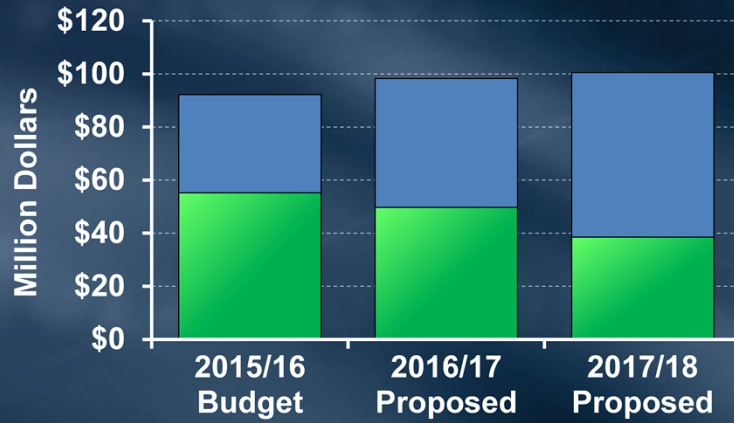


State Water Contract

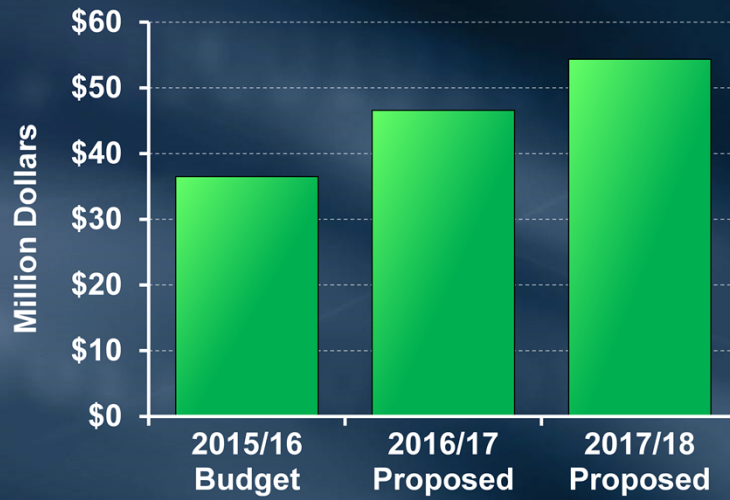


Tax Collected

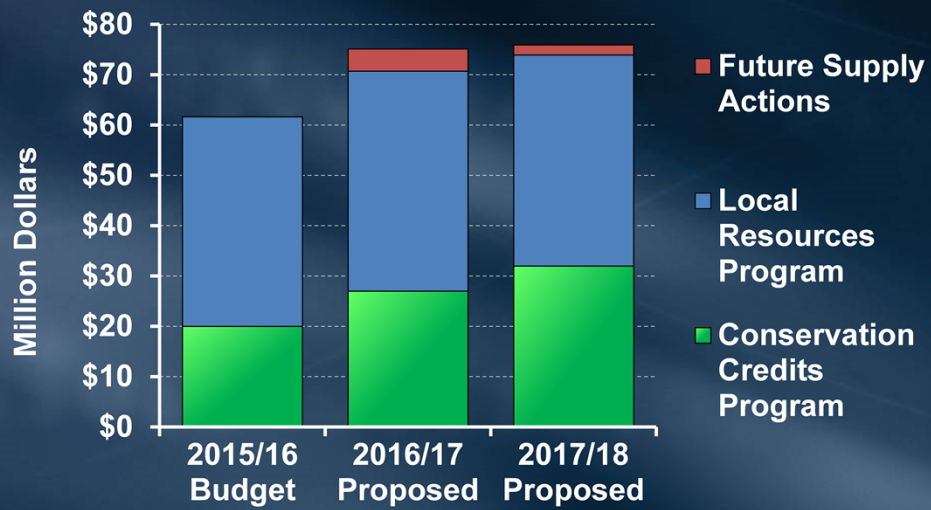
- Tax collected to fund SWC costs
- Tax collected for GO and Burns Porter bonds



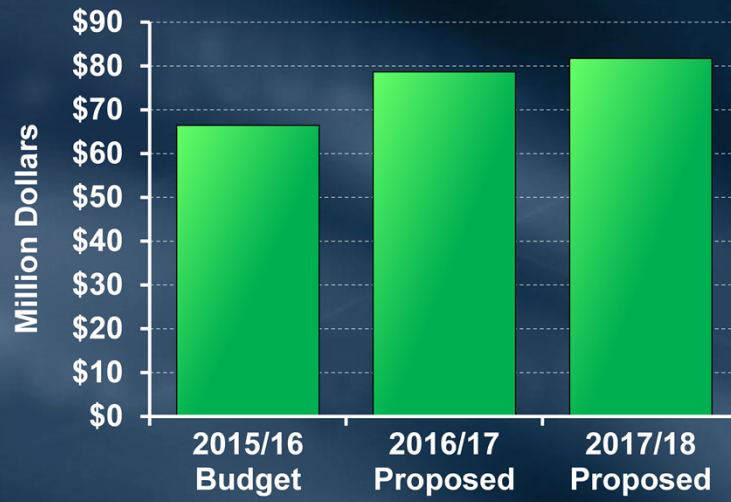
Colorado River Aqueduct Power



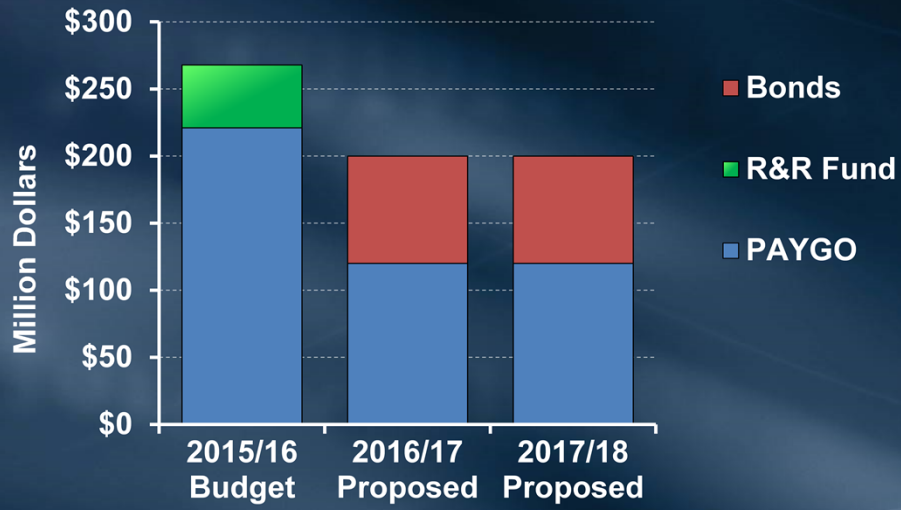
Demand Management Programs



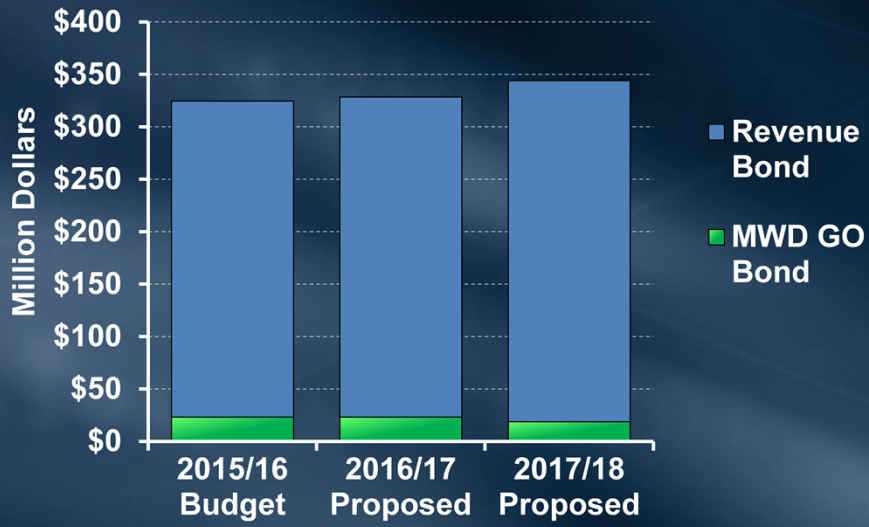
Supply Programs



Capital Investment Plan Funding

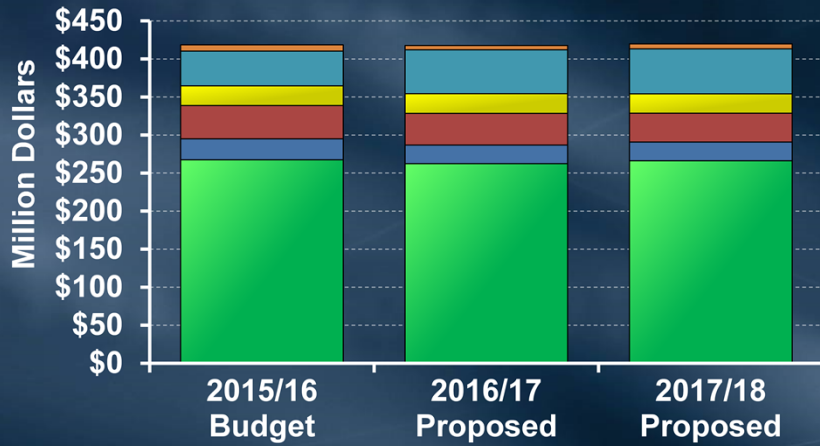


Debt Service



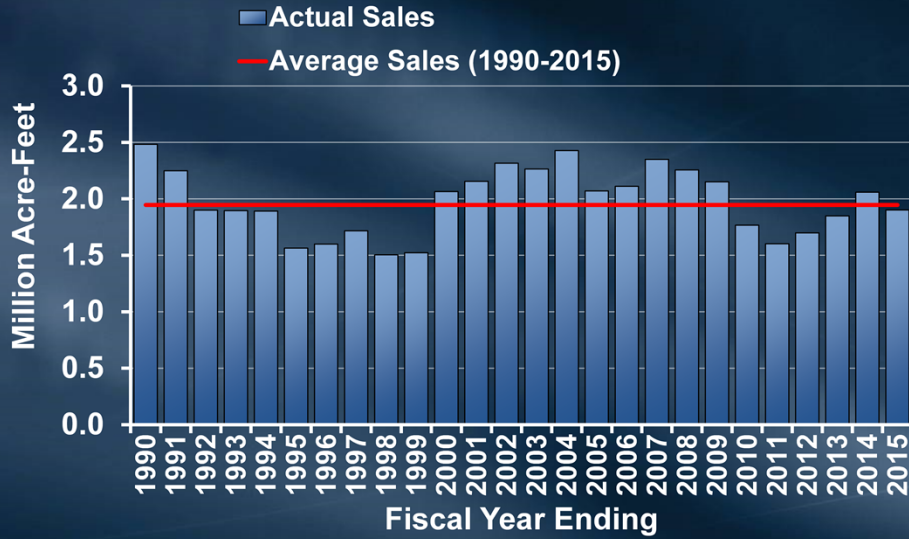
Proposed O&M Expenditure Budget

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



Unrestricted Reserve Policy Overview

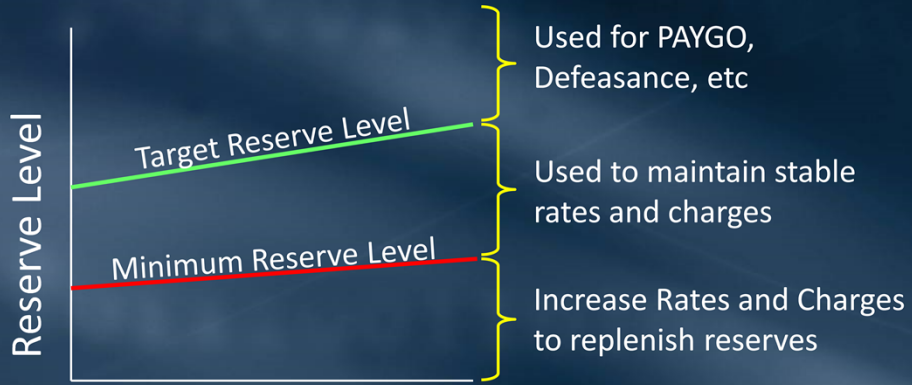
Metropolitan's Historic Water Sales are Variable



Unrestricted Reserve Policy

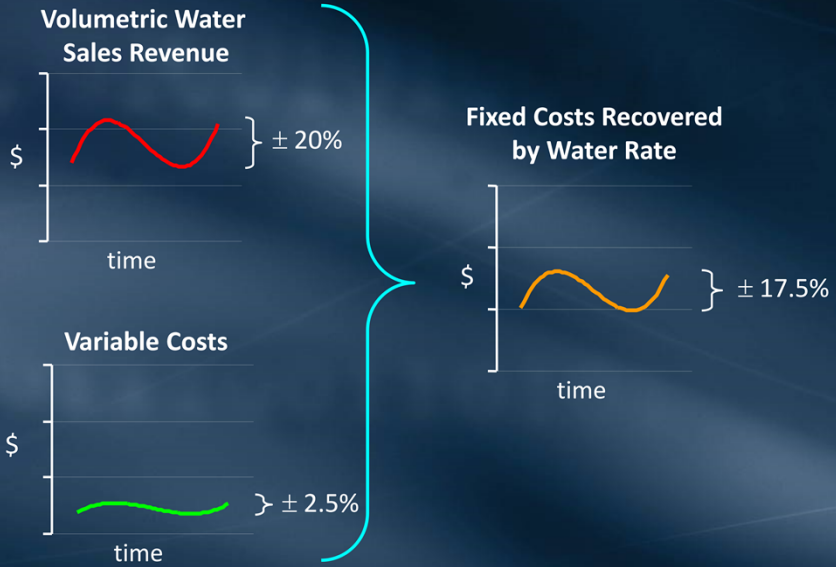
Reserve Fund Principle:

Provide stable & predictable water rates



Unrestricted Reserve Calculation

Hydrologic Risk estimated per 1999 LRF



Unrestricted Reserve Calculation

for June 30th, 2017 in millions of dollars

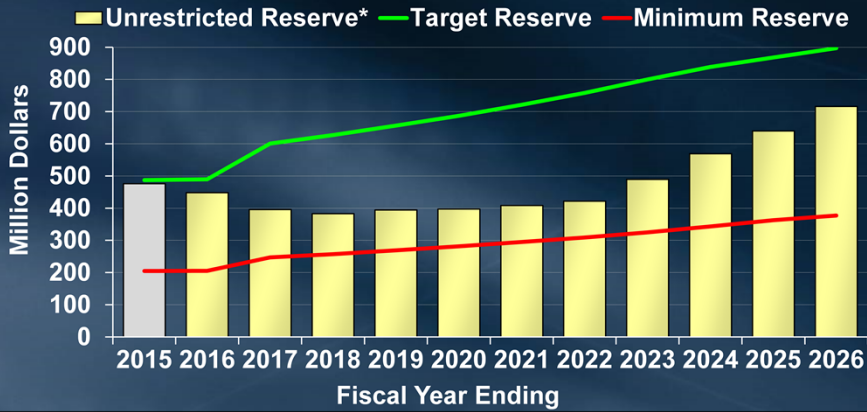
	2017/18 Budget	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast
Revenue Requirement	\$ 1,574	\$ 1,641	\$ 1,716	\$ 1,788
Less RTS Charge	138	142	146	152
Less Capacity Charge	35	37	39	40
Water Rate Revenue Requirements	\$ 1,402	\$ 1,463	\$ 1,532	\$ 1,596
Less Variable Costs				
Treatment Surcharge Rev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

Minimum Reserve Level = $163 + 169 / 2$ = **\$247.2 million**

Target Reserve Level = $163 + 169 + 177 + 184 / 2$ = **\$600.6 million**

Ten-Year Financial Forecast

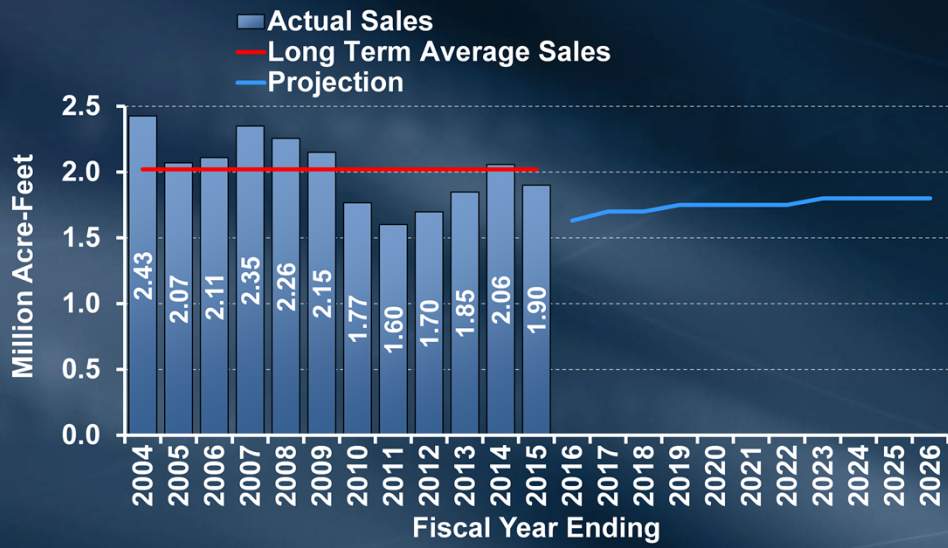
Projected Rate Increases & Financial Metrics



	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

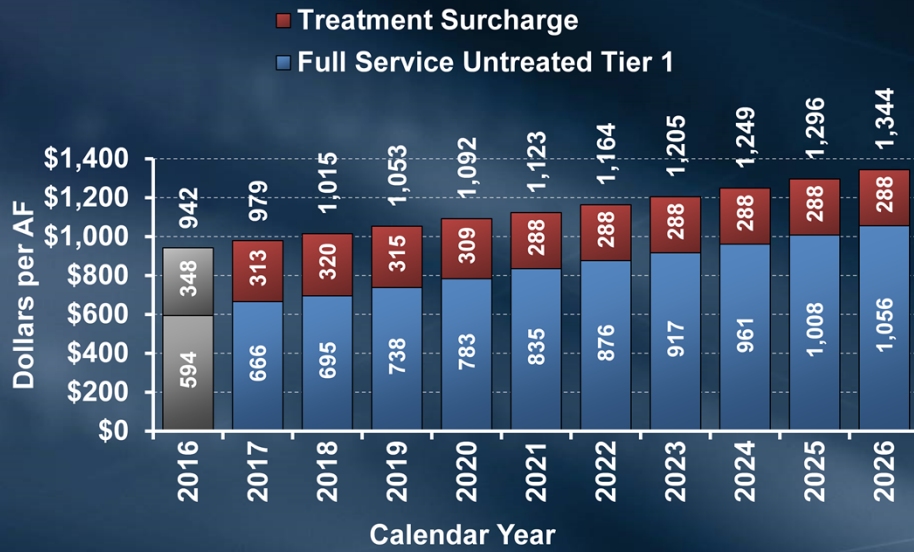
* Revenue Remainder & WRSF

Water Sales*

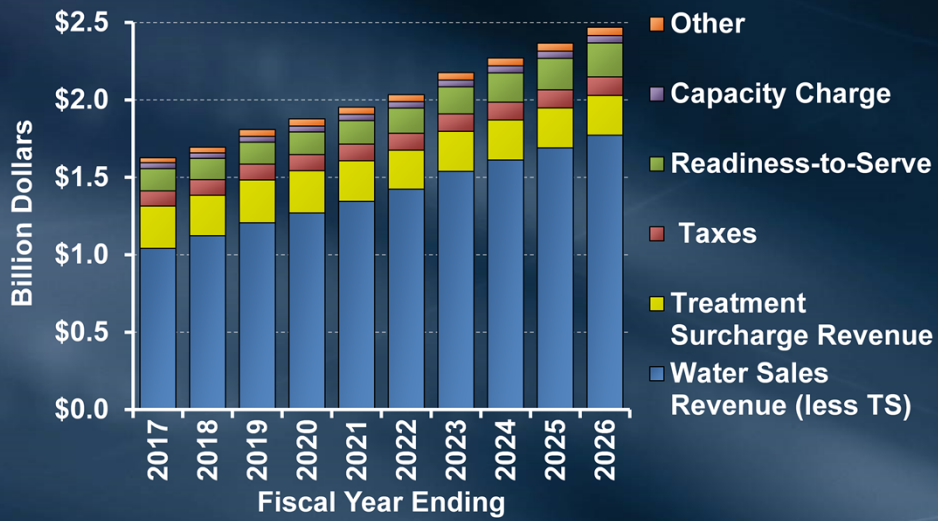


* Includes Exchange

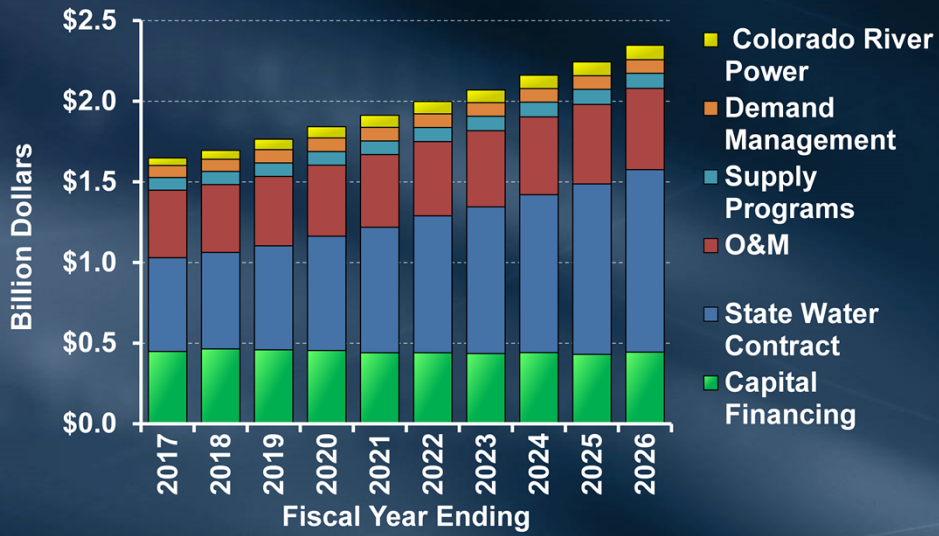
Projected Volumetric Rates



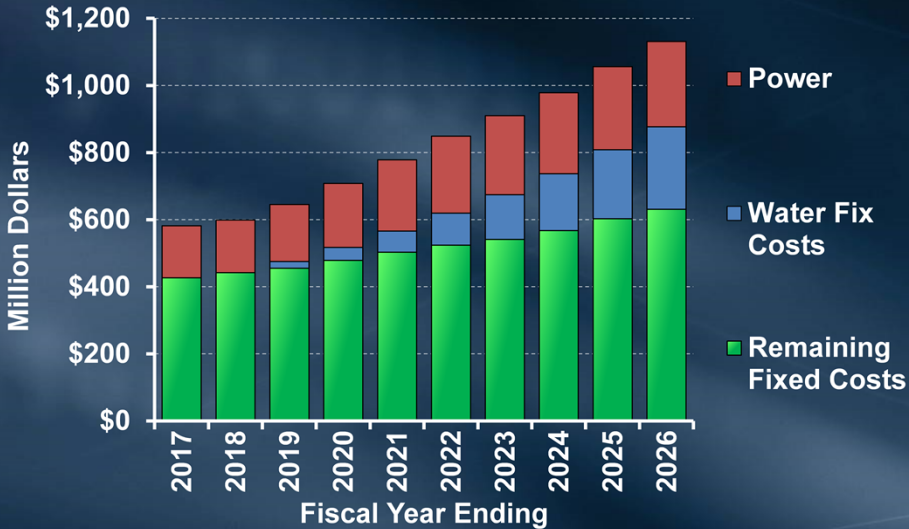
Revenue Forecast



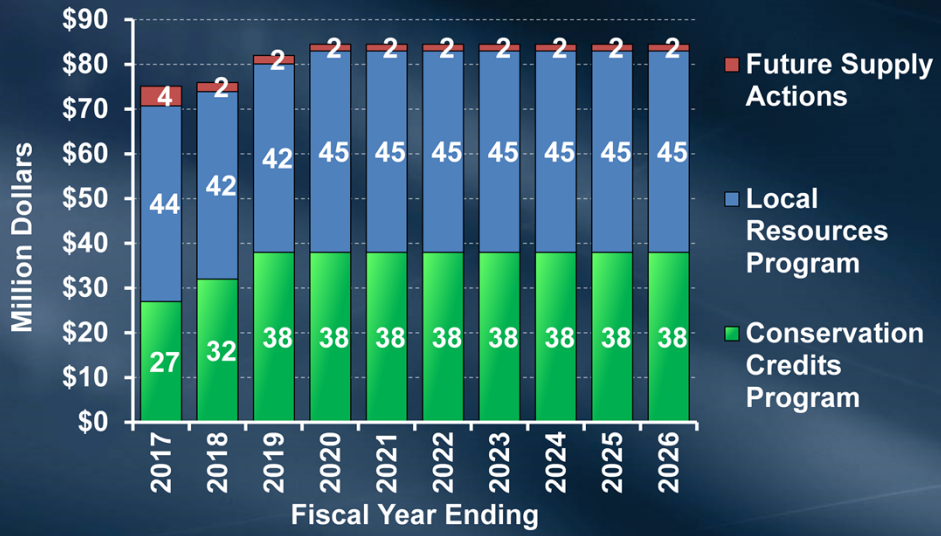
Expenditure Forecast



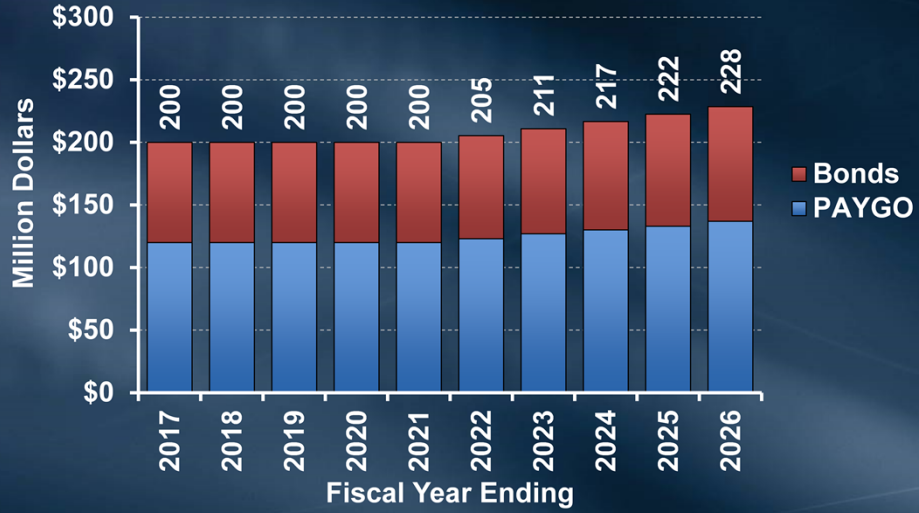
SWC Forecast



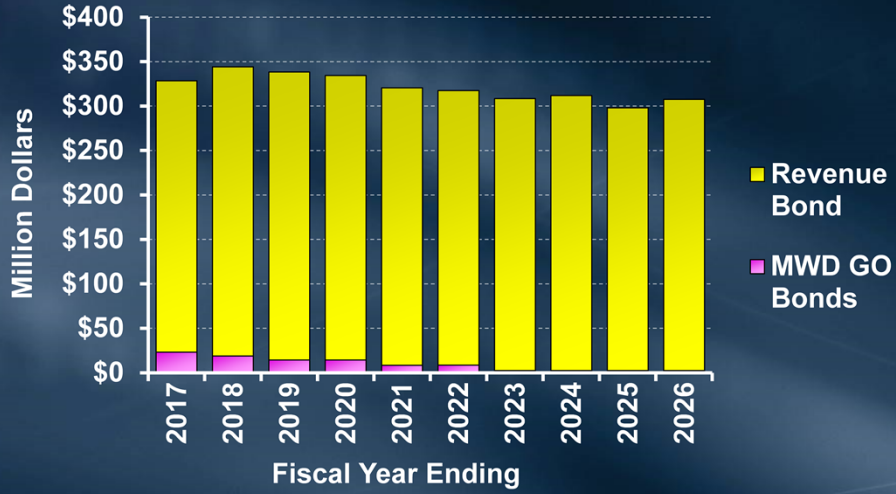
Demand Management



Capital Investment Plan Funding

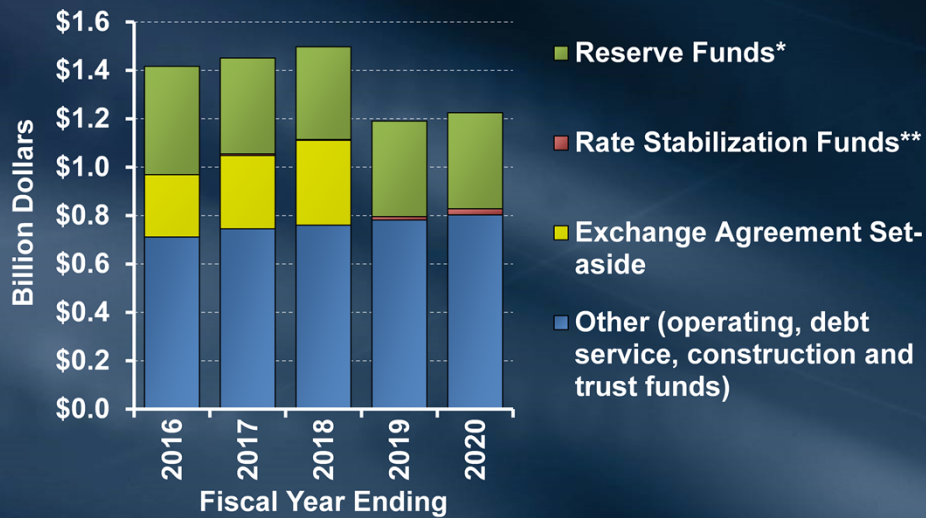


Debt Service



SDCWA Exchange Agreement Set-aside

End of Year Fund Balances



* Includes Water Rate Stabilization Fund and Revenue Remainder Fund

** Includes Water Stewardship Fund and Treatment Surcharge Stabilization Fund

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

