

**Proposed Biennial Budget,
Revenue Requirements, and
Water Rates and Charges
Fiscal Years 2016/17 and 2017/18**

**MWDOC Board Workshop
February 3, 2016**

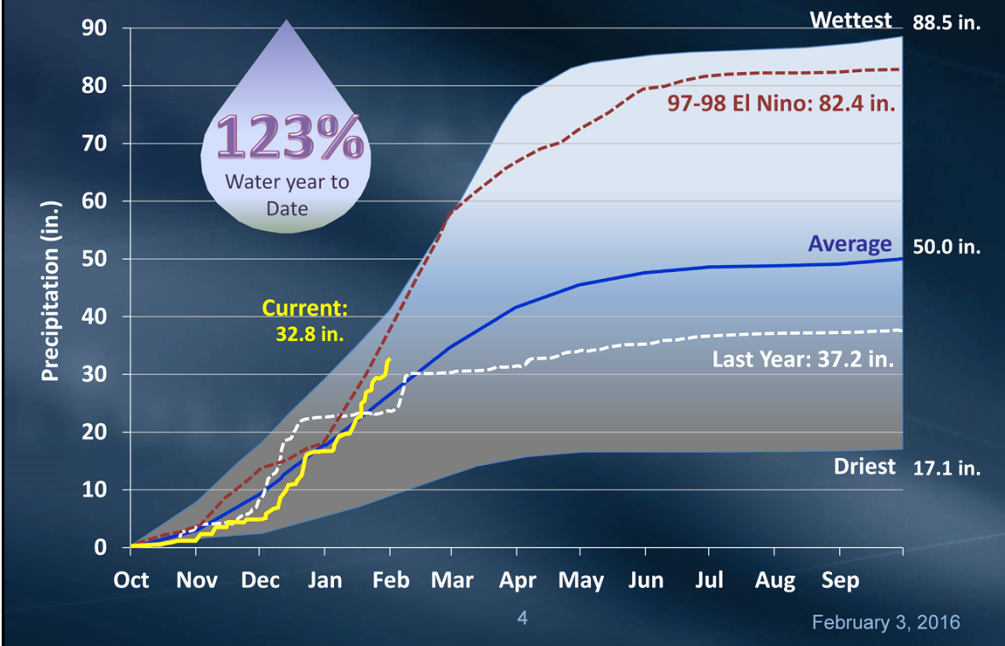


Proposes Biennial Budget Workshop Presentation Overview

- Water supply update
- Proposed Biennial Budget and Rates
- Ten-Year Financial Forecast
- Next Steps

Current Year Update

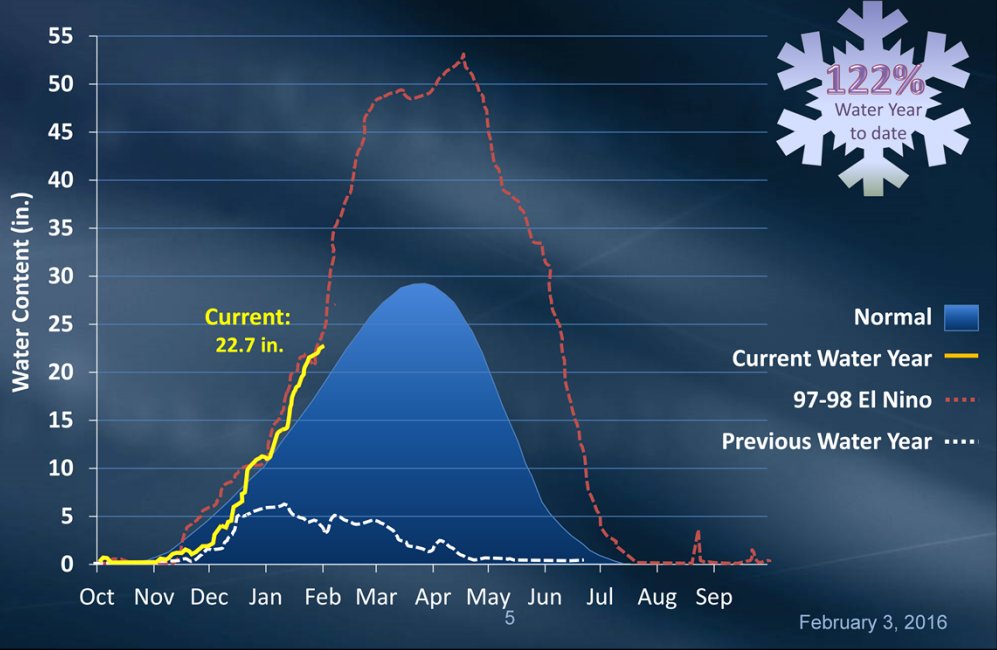
Northern Sierra Precipitation - Cumulative



Updated 11/17/15

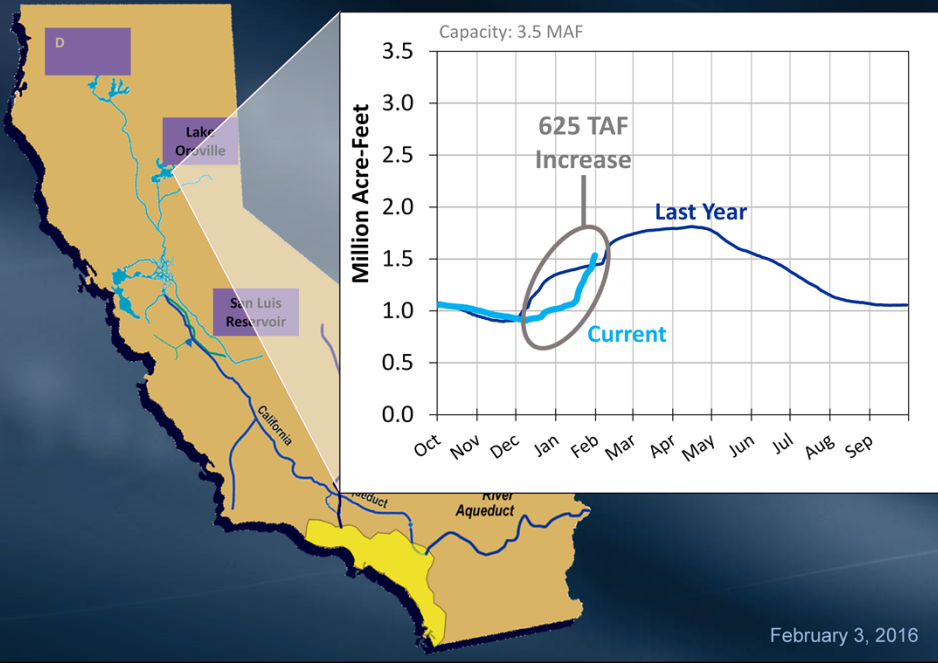
Difference btw this is year and last.. Better balance btw snow and rain

Northern Sierra Snowpack



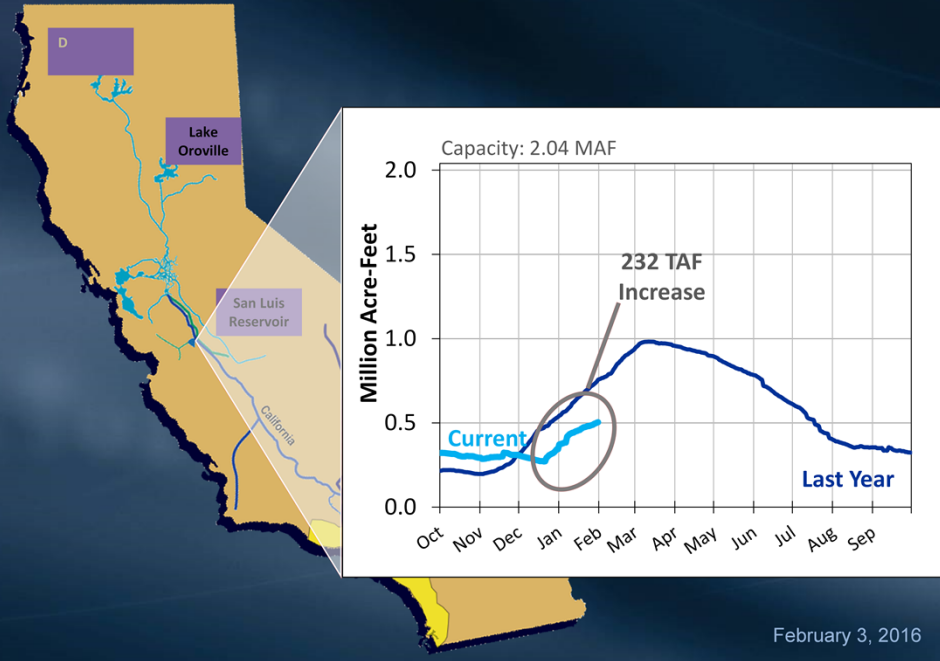
Updated 11/17/15

Oroville Storage



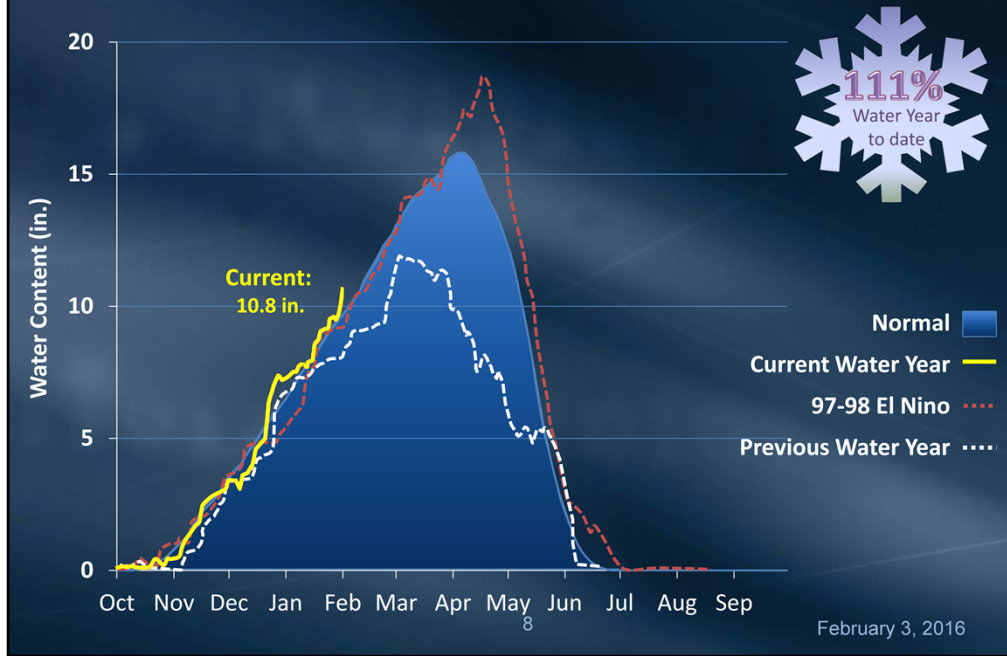
February 3, 2016

San Luis Reservoir Storage



February 3, 2016

Upper Colorado River Basin Snowpack

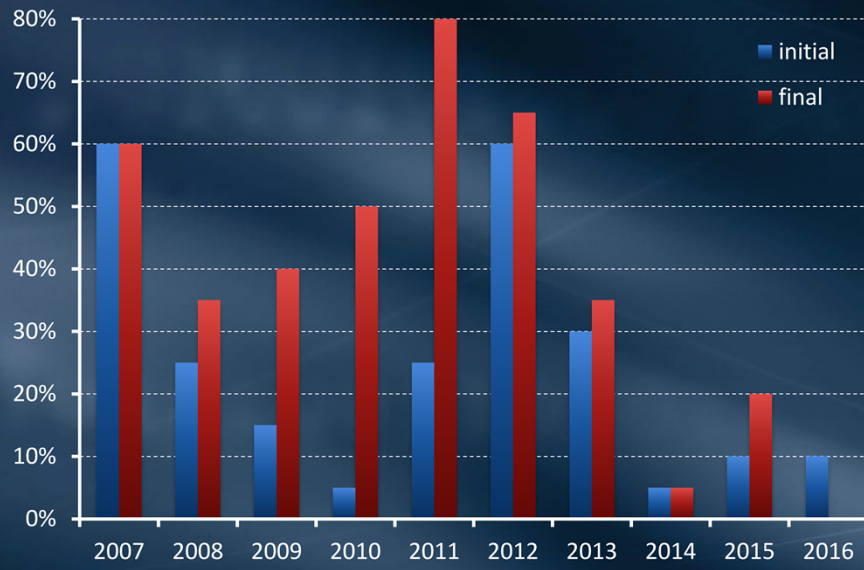


Updated 11/17/15

Metropolitan Current Operations

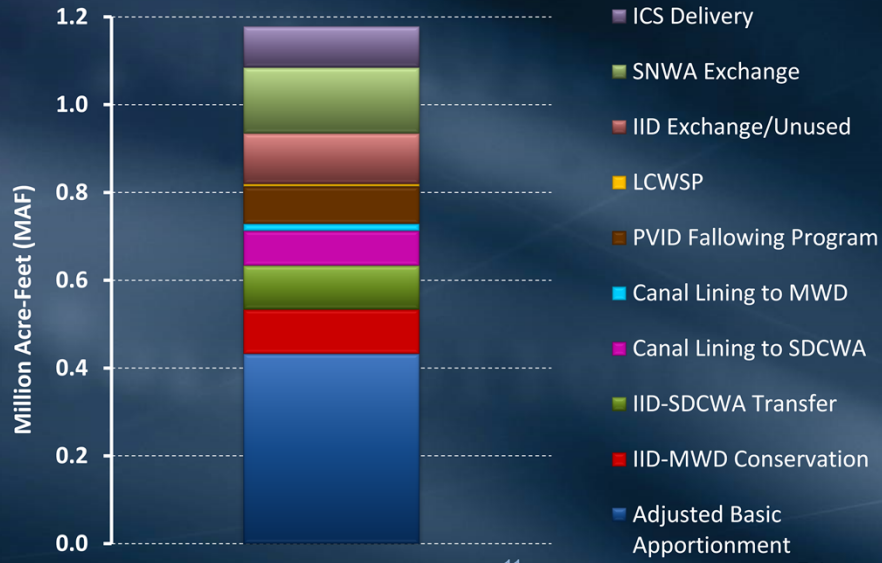
- 2016 SWP initial allocation of 10% increased to 15%
- December 2015 demands of 116 TAF were 17 TAF lower than December 2014
- Dry-year storage reserves ended 2015 at approximately 0.9 MAF

SWP Allocation History



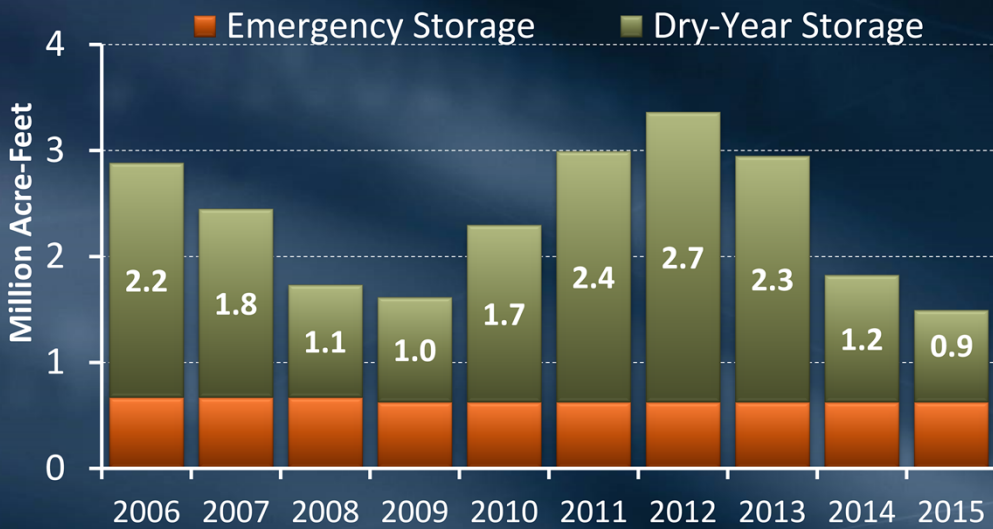
2015 Colorado River Aqueduct Supplies

1.18 MAF Net Diversion



Metropolitan Storage Reserves

End of Year Balances*



*Estimated actual storage balances, subject to change.

Take Capacity:
10%: 385 TAF 390
20%: 438 TAF 440
50%: 591 TAF 600

Proposed Biennial Budget and Rates

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
 - Risks

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
- Review Treatment cost recovery options

Overall Rate Increases Since 2007



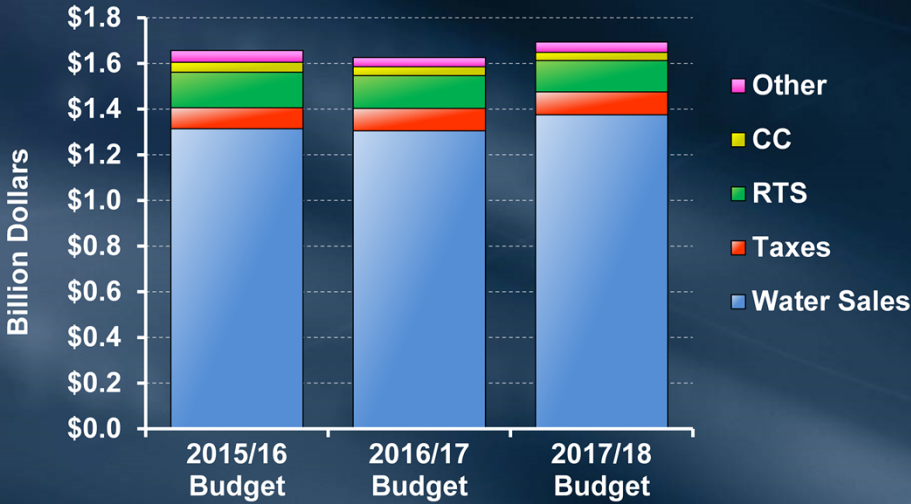
Important Underlying Assumptions

Fiscal Year Ending	2017	2018
Overall increase January 2015 & 2016	4.0%	4.0%
Total Water Sales and Exchanges	1.70 MAF	1.70 MAF
State Water Project Allocation	50%	50%
Colorado River Aqueduct Deliveries	1.01 MAF	1.04 MAF
CIP	\$200 M	\$200 M
PAYGO	\$120M	\$120M

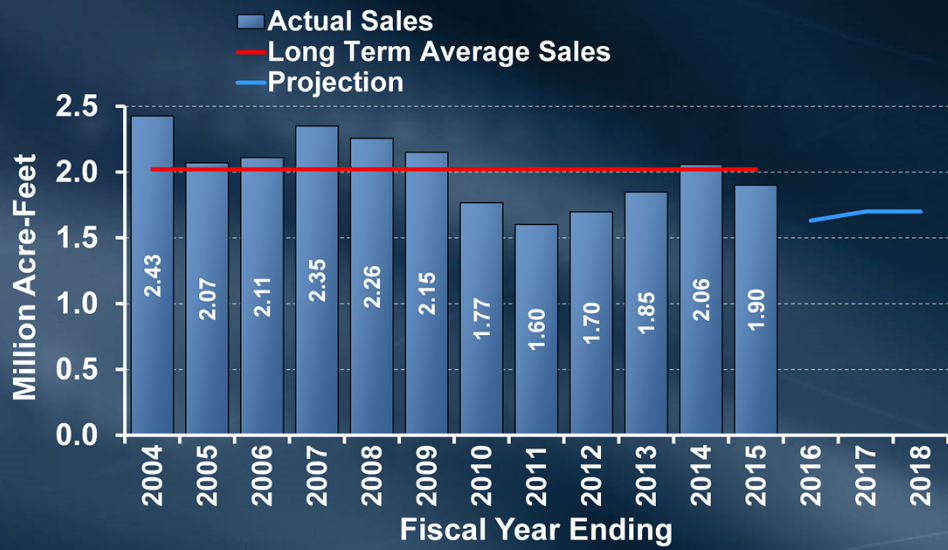
Full Service Costs and Charges

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%
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 (\$/cfs)	\$10,900	\$8,000	(26.6%)	\$8,700	8.8%

Revenue Trend

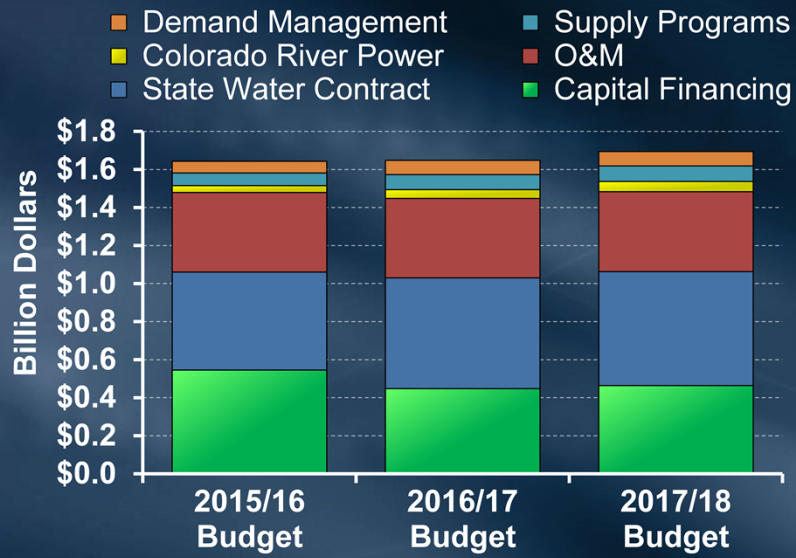


Water Sales*



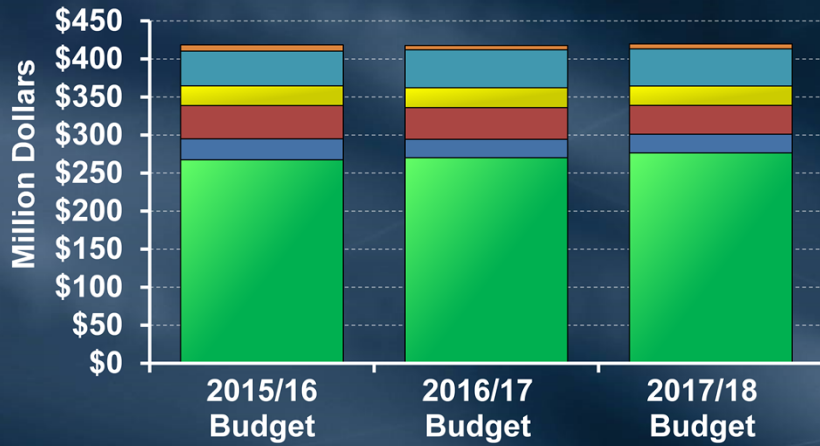
* Includes Exchange

Expenditure Trend



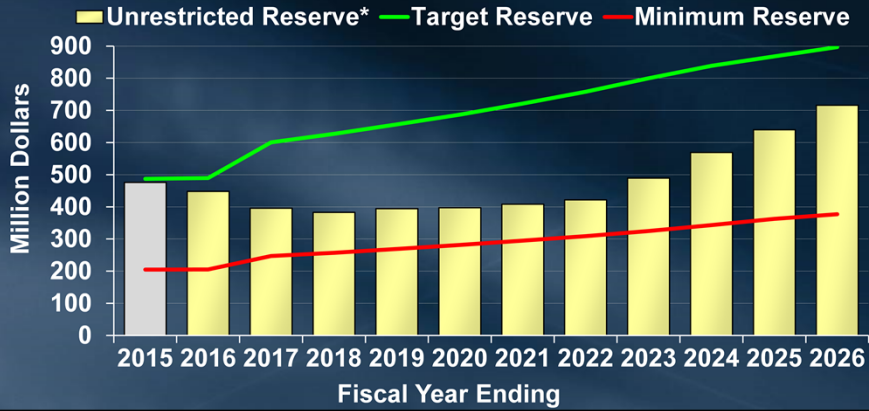
Proposed O&M Expenditure Budget

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



Ten-Year Financial Forecast

Projected Rate Increases & Financial Metrics

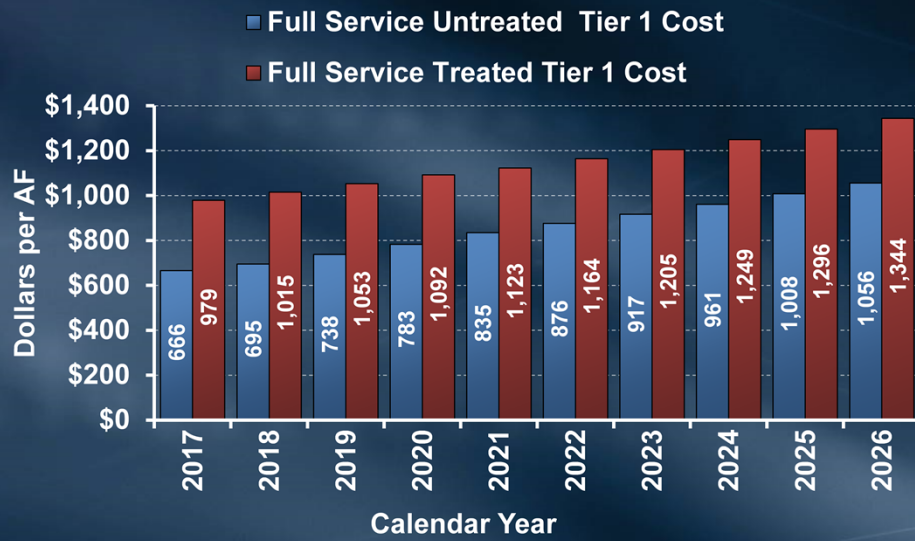


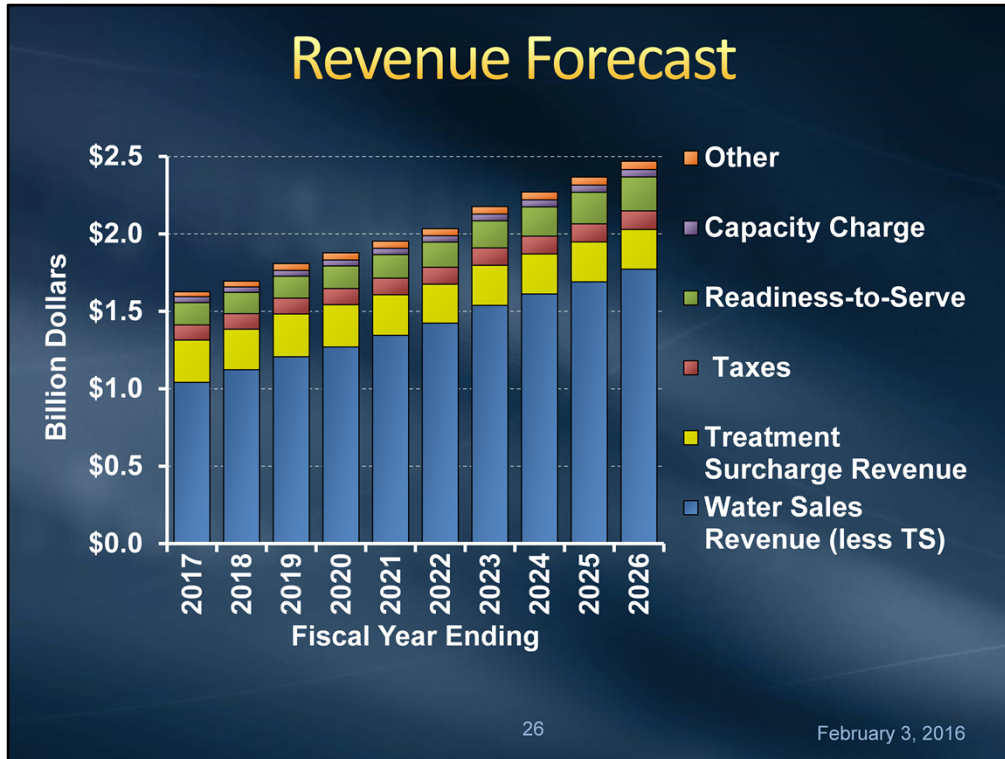
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Ave Rate Increase	1.5%	1.5%	4.0%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Sales, MAF	1.90	1.63	1.70	1.70	1.75	1.75	1.75	1.75	1.80	1.80	1.80	1.80
Rev. Bond Cvg	2.7	1.5	1.6	1.6	1.7	1.8	1.9	2.0	2.3	2.4	2.6	2.7
Fixed Chg Cvg	2.4	1.3	1.3	1.3	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

- FY2016 \$448
- FY2017 \$396 -52
- FY2018 \$383 -13
- FY2019 \$395 +12 ← higher water sales
- FY2020 \$397 +3

Projected Volumetric Costs

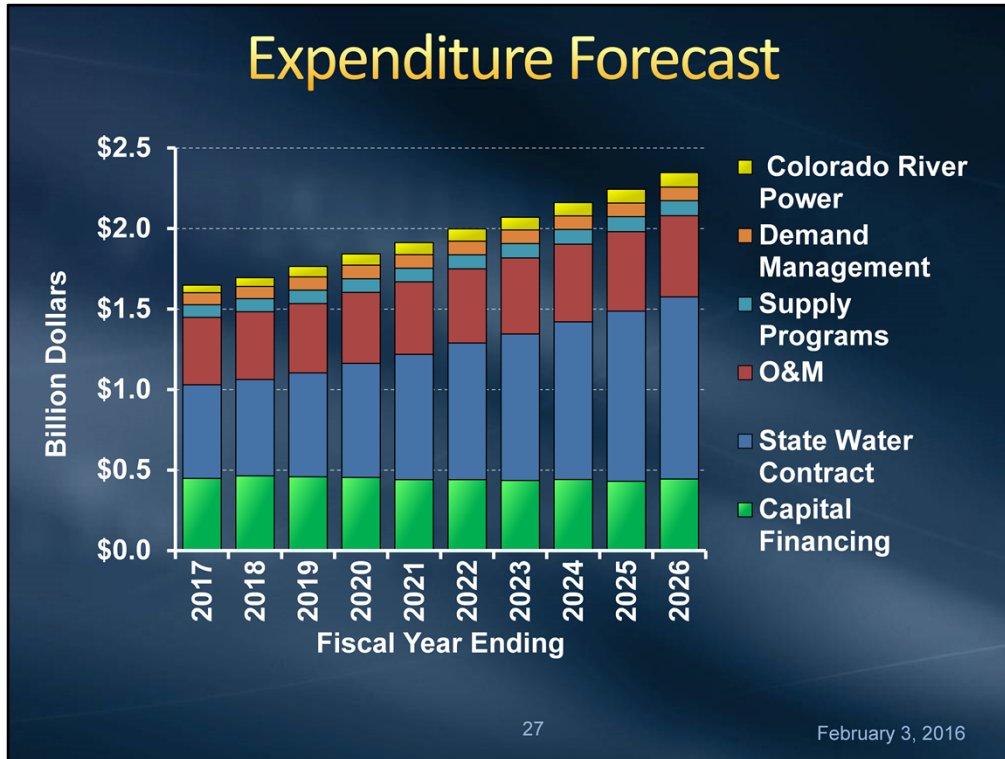




Through 2025/26, receipts from rates and charges, which include the RTS, Capacity Charge and water sales revenues, collected from the member agencies will account for over 90 percent of total revenues. The remained

Total revenues are projected to increase from about \$1.6 billion in 2016/17 to \$2.5 billion in 2025/26. This increase is almost entirely attributed to increases in water rates and charges.

ad valorem tax rate maintained at the current level of .0035 percent of assessed value. Increases over the 10 years results from the assumed 2.5% increase in Assessed valuations.



Expenses are grouped into 6 major categories:

Capital financing (debt service + PAYGO)

- decreasing as bonds are being paid off and only a limited amount of new debt is issued to fund the reduced the CIP.

State Water Contract – increasing primarily due to the California Water Fix costs.

O&M – including Salaries and Benefits, materials and supplies, variable treatment costs, outside services, operating equipment, and things like property taxes, associations dues and insurance.

- Increasing from at an average annual rate of about 2%

Other – including Conservation, Local Resources Program, Supply Programs and Colorado River Aqueduct Power Costs.

APR

Capital Financing 0%

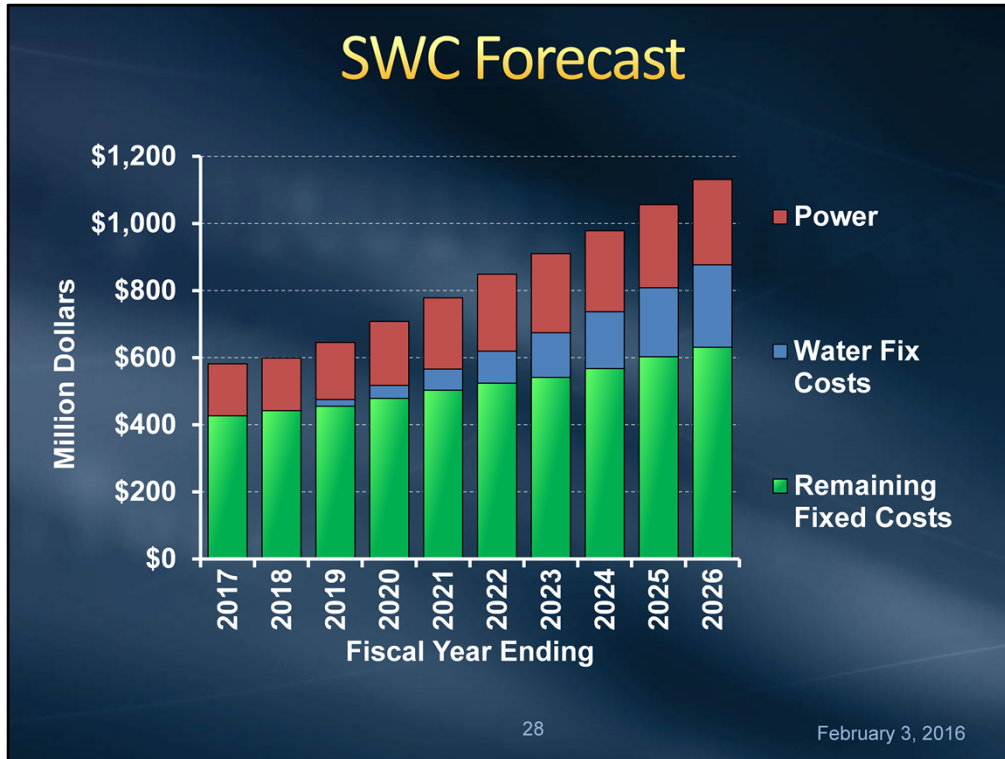
State Water Contract 8%

O&M 2%

Colorado River Power 8%

Supply Programs 2%

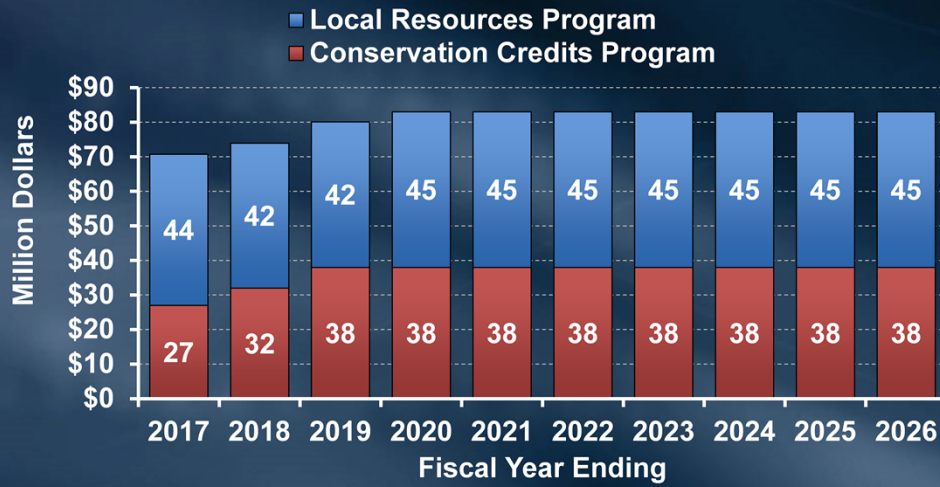
Demand Management 1%



State Water Contract - including power, will increase from \$582 million in FY 2016/17 to \$1,131 million in 2015/26. SWC costs account for 35 percent of Metropolitan's expenditures in FY 2016/17, growing to 47 percent in FY 2025/26, primarily due to the California Water Fix costs.

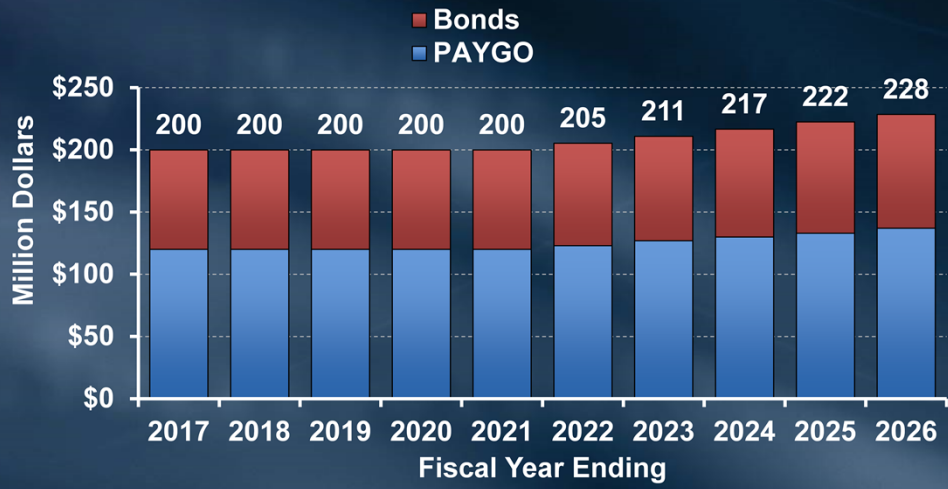
Water supply benefits from the California Water Fix are realized outside the ten-year period of the forecast, as are operations, maintenance and energy costs. The remainder of the fixed costs is based upon information provided by the Department of Water Resources, and is associated with Transportation Capital and Minimum Operations & Maintenance, and the Delta Water Supply Capital and Minimum Operations & Maintenance. Variable SWP power costs are projected to gradually increase over the ten-year period.

Demand Management

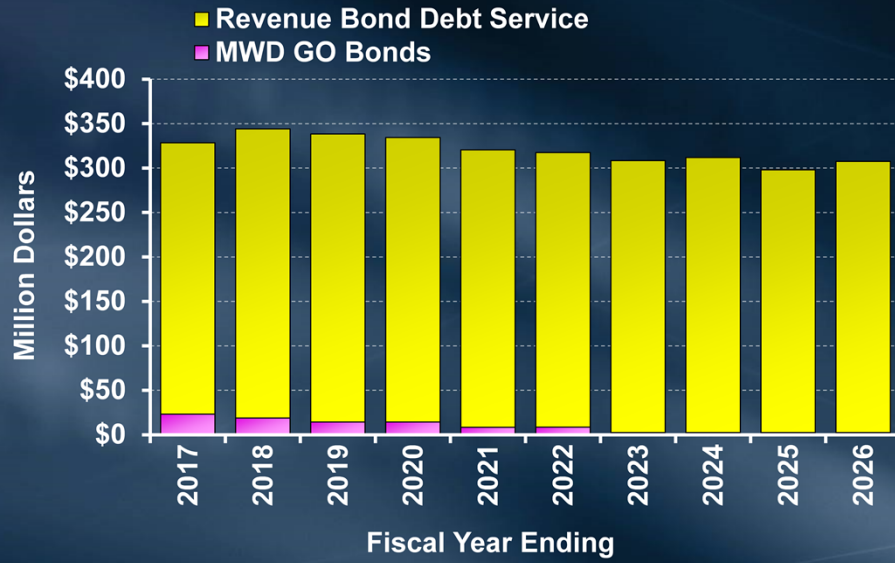


The LRP costs are projected to be fairly flat over the ten-year period at about \$45.0 million per year. As the yield from existing LRP projects receiving incentives decreases, new projects are expected to receive funding. The CCP costs are projected to increase from \$27.0 million in FY 2016/17 to \$38 million in FY 2018/19, and remain flat through the remainder of the ten-year period. This program provides continued funding of residential, commercial, and outdoor conservation programs.

Capital Investment Plan Funding



MWD Debt Service



Next Steps

February 8, 2016	F&I Committee, Workshop #1
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