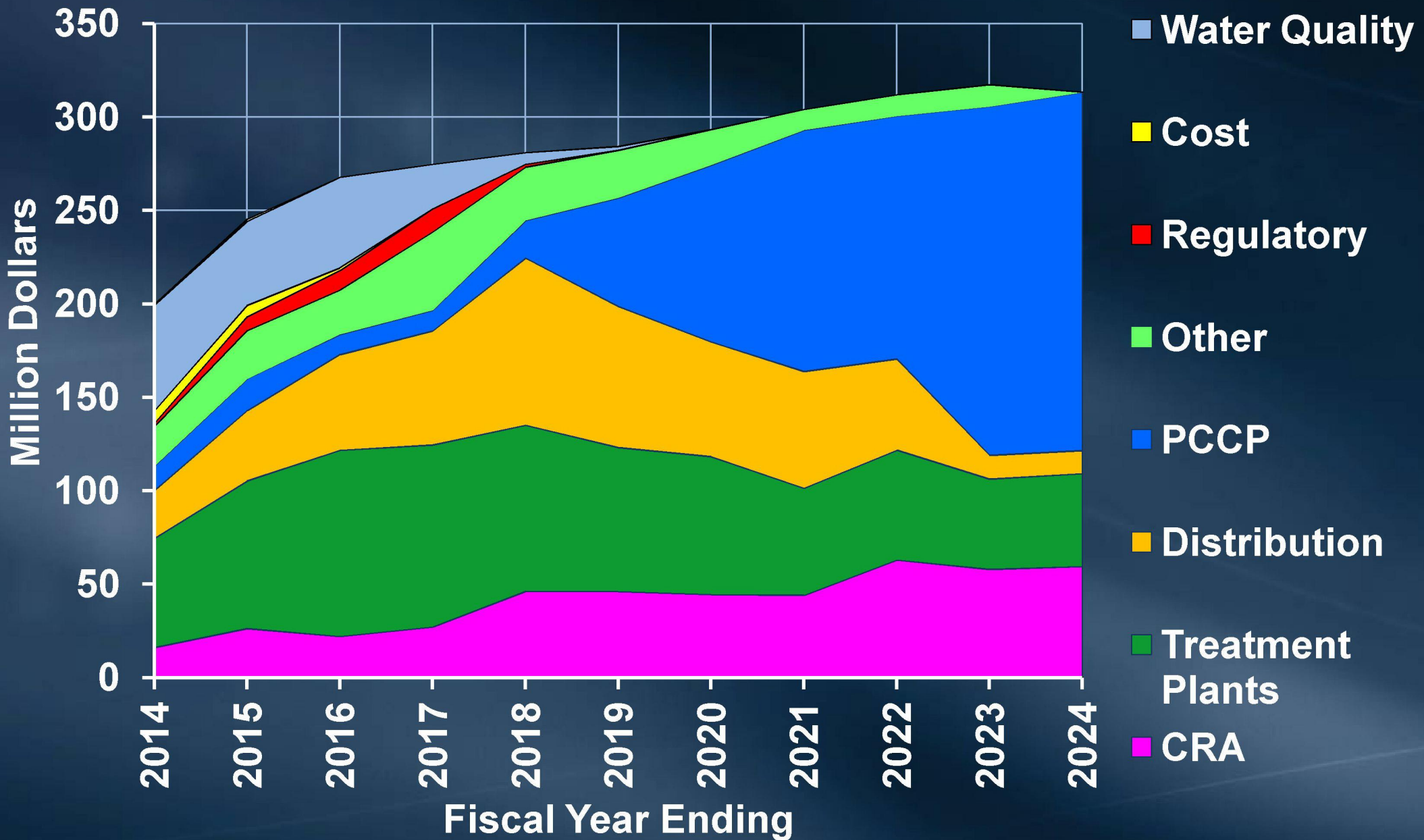


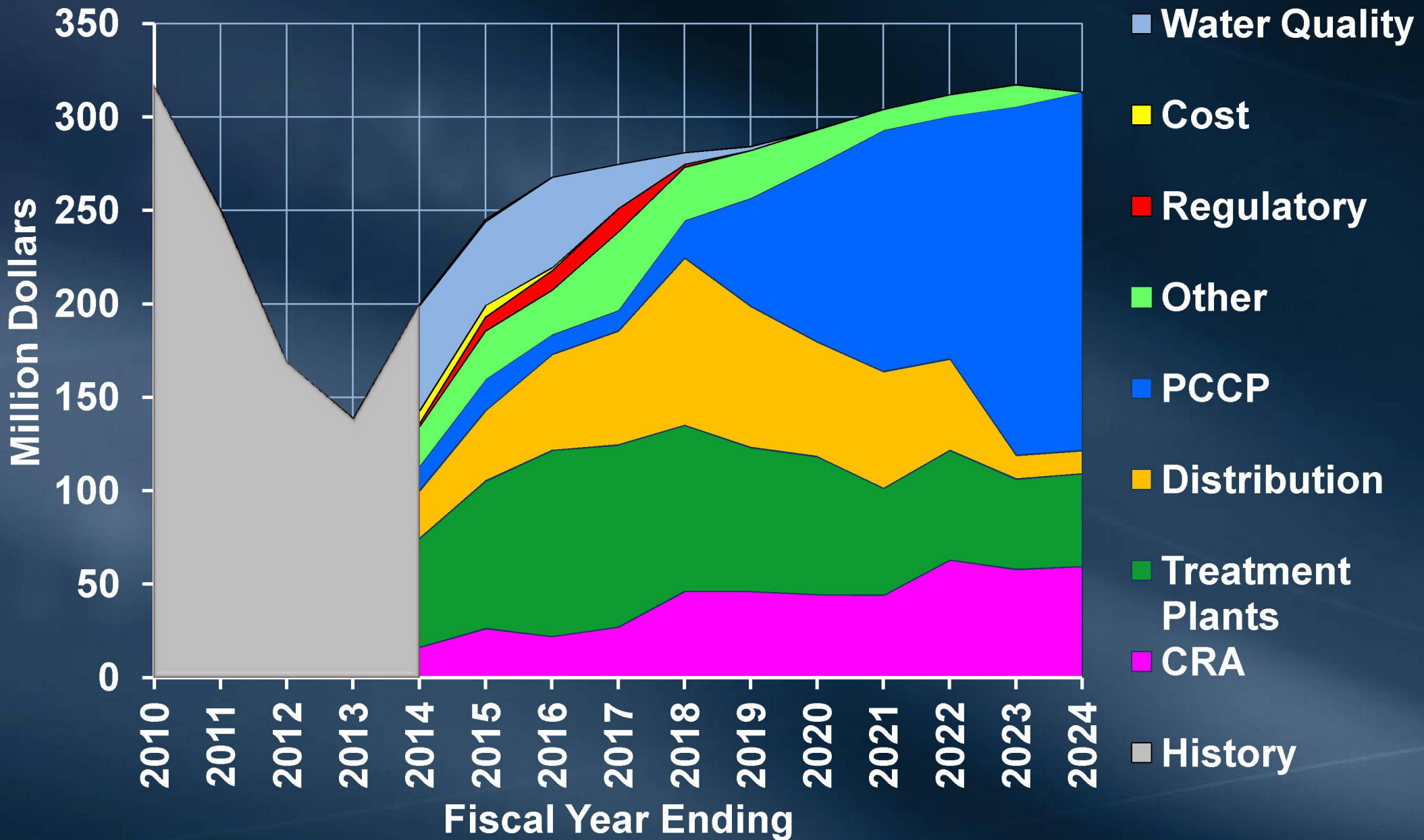
10 Year Capital Investment Plan

\$2.89 Billion Dollars (FY2015-FY2024)



10 Year Capital Investment Plan

\$2.89 Billion Dollars (FY2015-FY2024)



Option D: AV Tax Rate Not Frozen

Scenario D: AV Tax Rate not Frozen



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

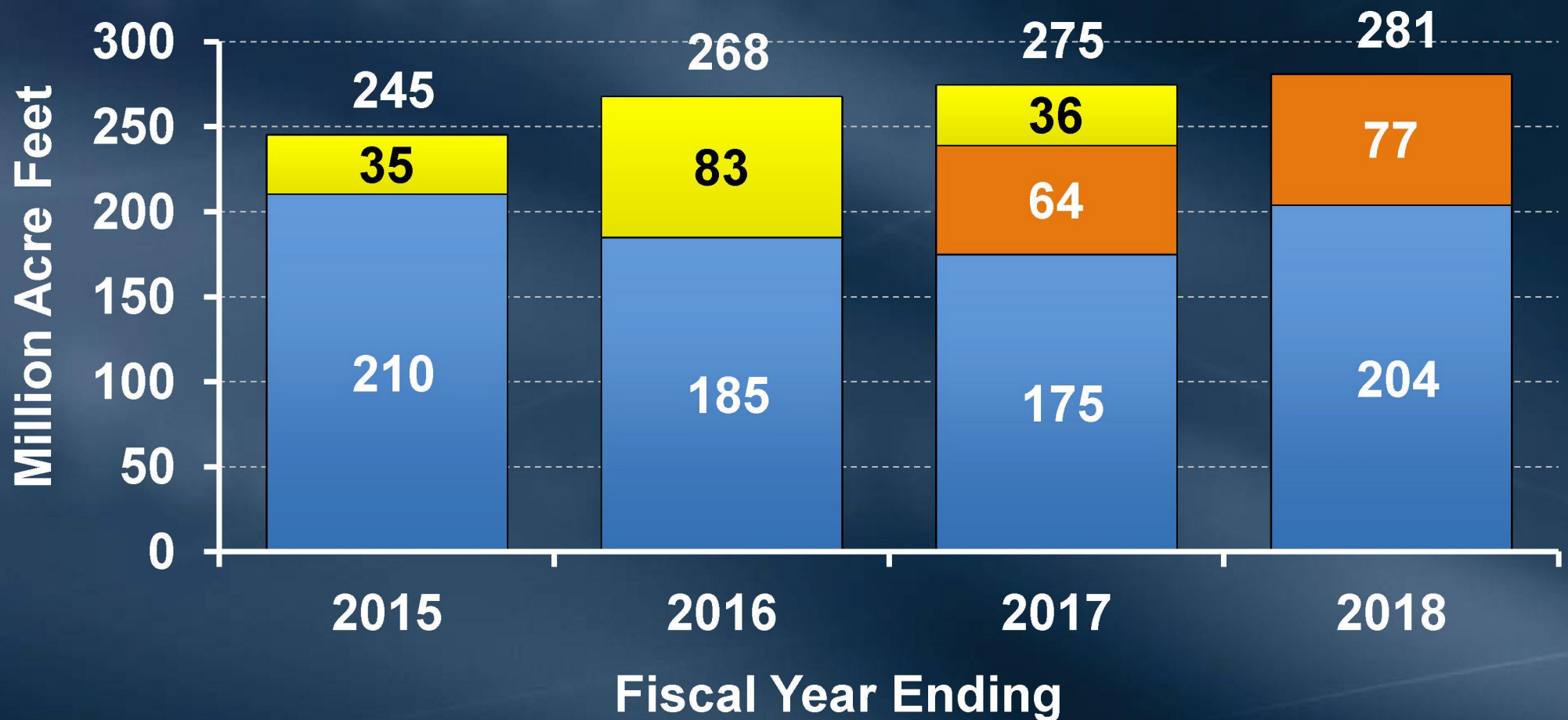
Rates and Charges Effective January 1			
	2014 Approved	2015 Proposed	2016 Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$159	\$157
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$261	\$265
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$126	\$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

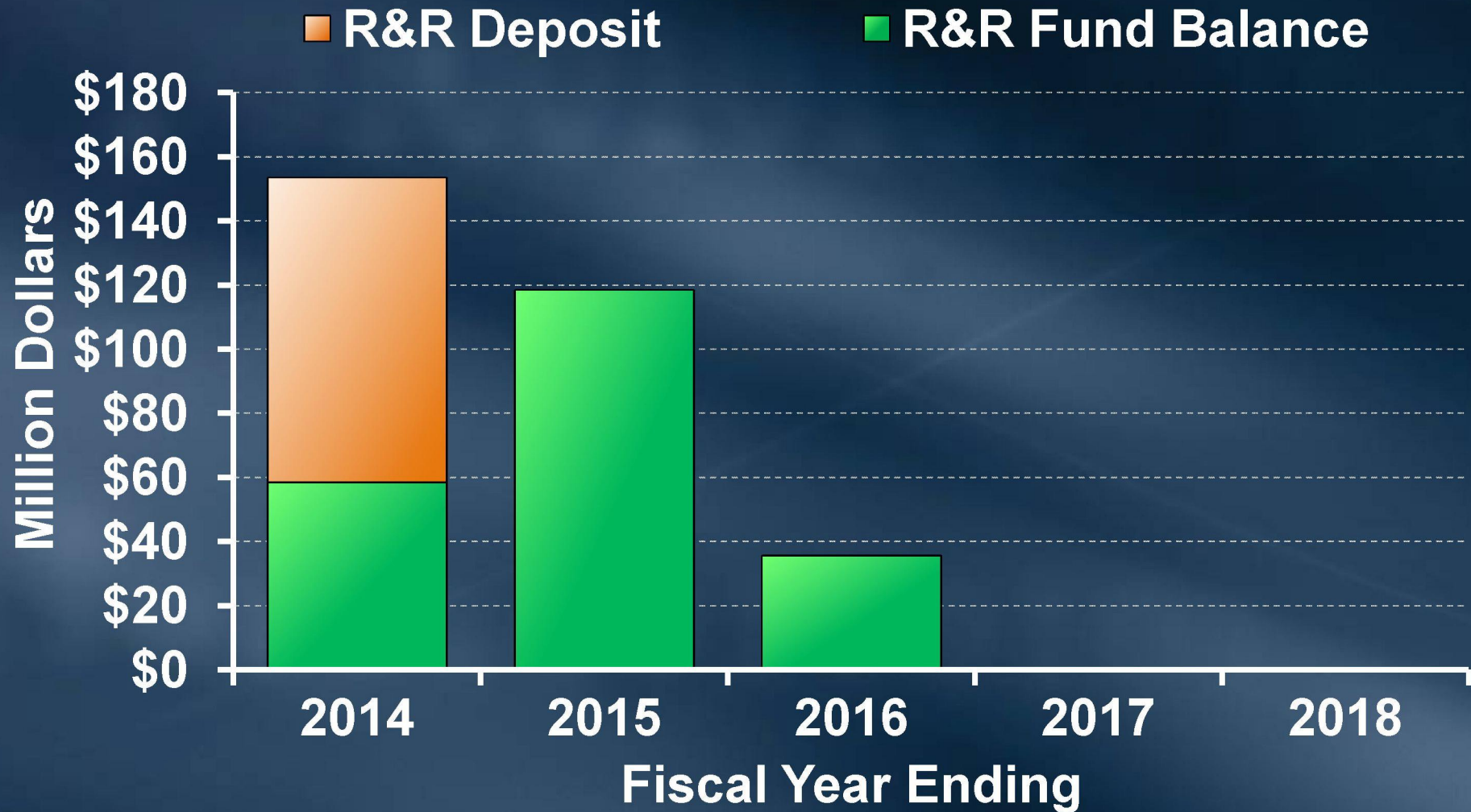
Rate Type	2014 Approved	2015 Proposed	% Increase (Decrease)	2016 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$593	\$587	-1.0%	\$600	2.2%
Tier 2	\$735	\$718	-2.3%	\$733	2.1%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$890	\$916	2.9%	\$933	1.9%
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



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

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

**Board Workshop #2
February 25, 2014**



Proposed Biennial Budget Workshop #2

Presentation Overview

- Rate Scenarios
- Response to Questions from Workshop #1
- Operating Budget
- Next Steps

Rate Scenarios

- Scenario A: Updated 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 capital funded from revenues (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

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
 - PAYGO reduced to meet cost of service
 - Projected rate increases through the remaining 8 years of at least 5% annually

Scenario A: 1.5% / 1.5%

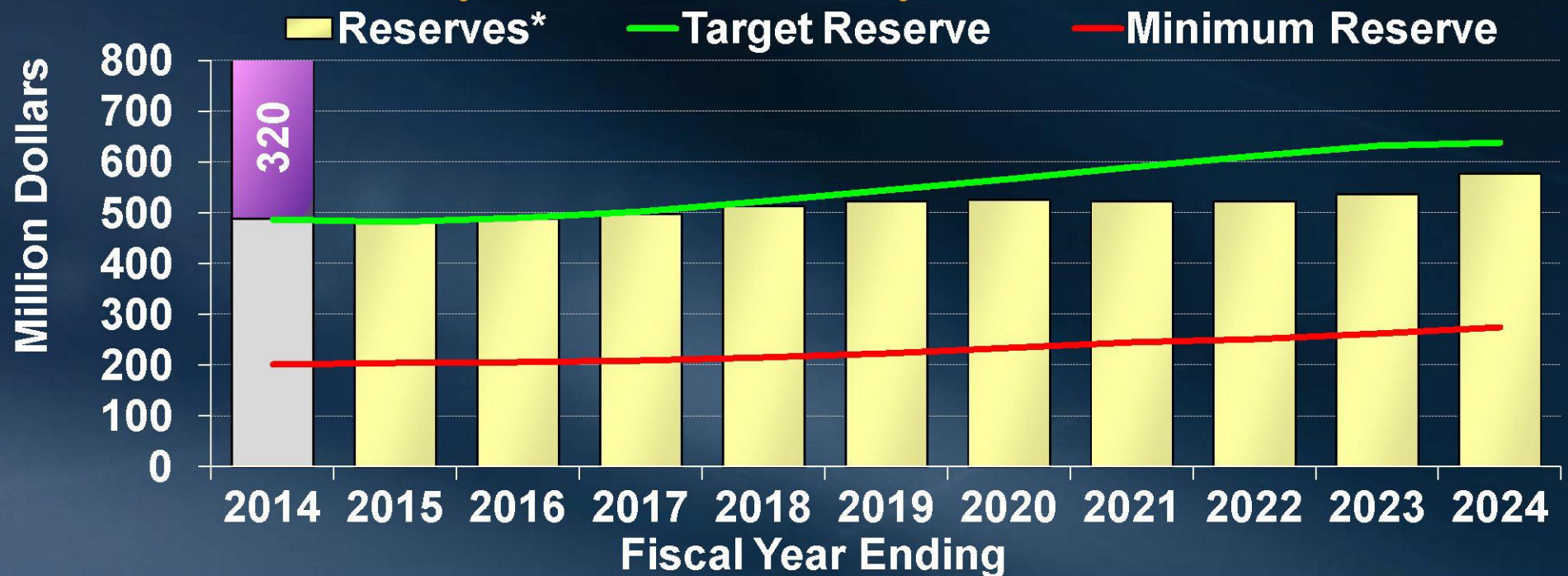
Scenario A: Original Proposal 1.5%/1.5%



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 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

Capital Investment Plan Funding

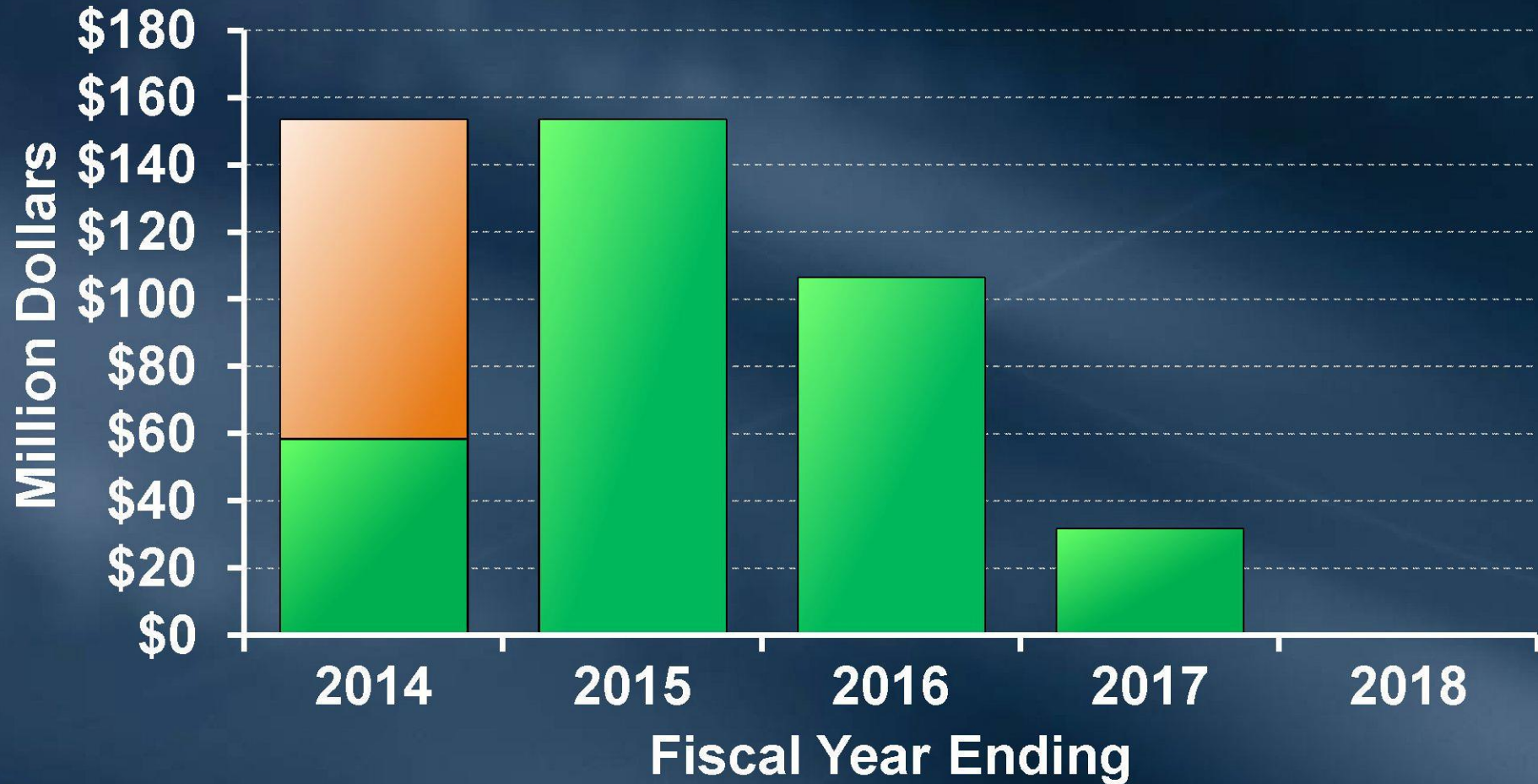
■ R&R Fund ■ Bonds ■ PAYGO



Replacement and Refurbishment (R&R) Fund

■ R&R Deposit

■ R&R Fund Balance



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 A: Updated Proposed Full Service, Exchange Charges

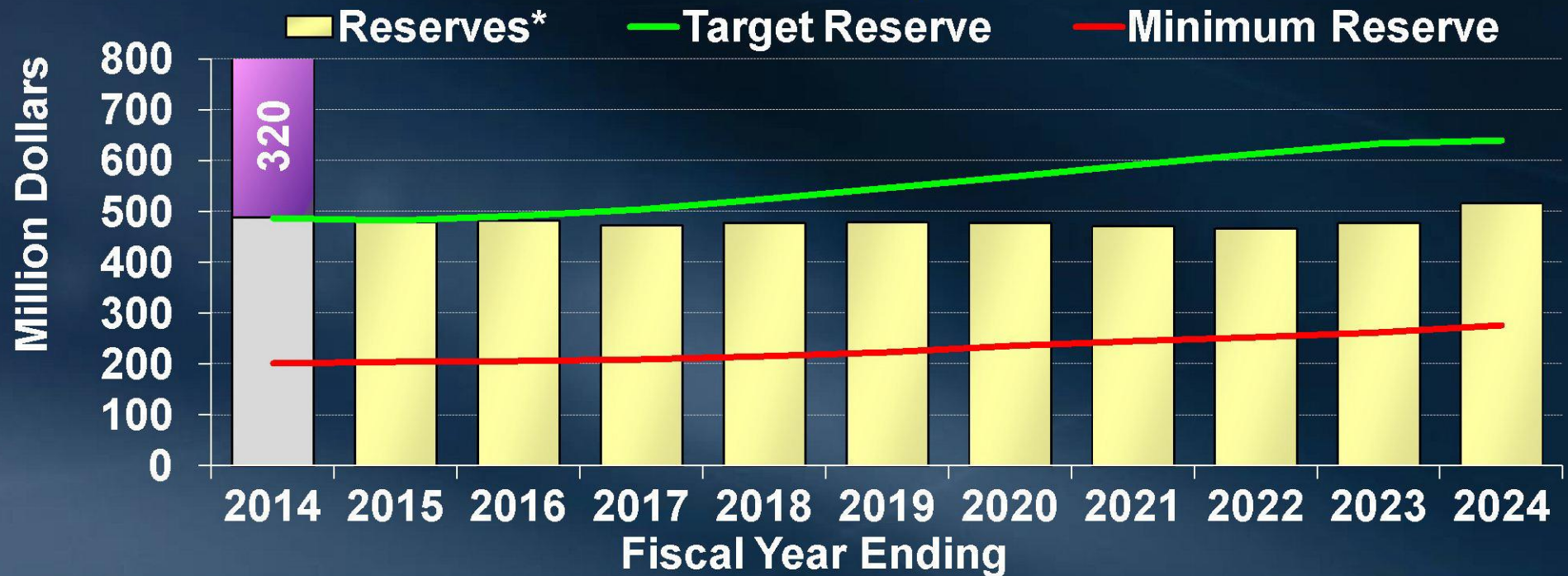
Tier 1 Untreated = Tier 1 Supply Rate + SAR + WSR + SPR + TS

Tier 1 Treated = Tier 1 Supply Rate + SAR + WSR + SPR + TS

Rate Type	2014 Approved	2015 Proposed	% Change	2016 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost					
Tier 1	\$593	\$604	2.1%	\$604	2.1%
Tier 2	\$735	\$748	2.0%	\$748	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%

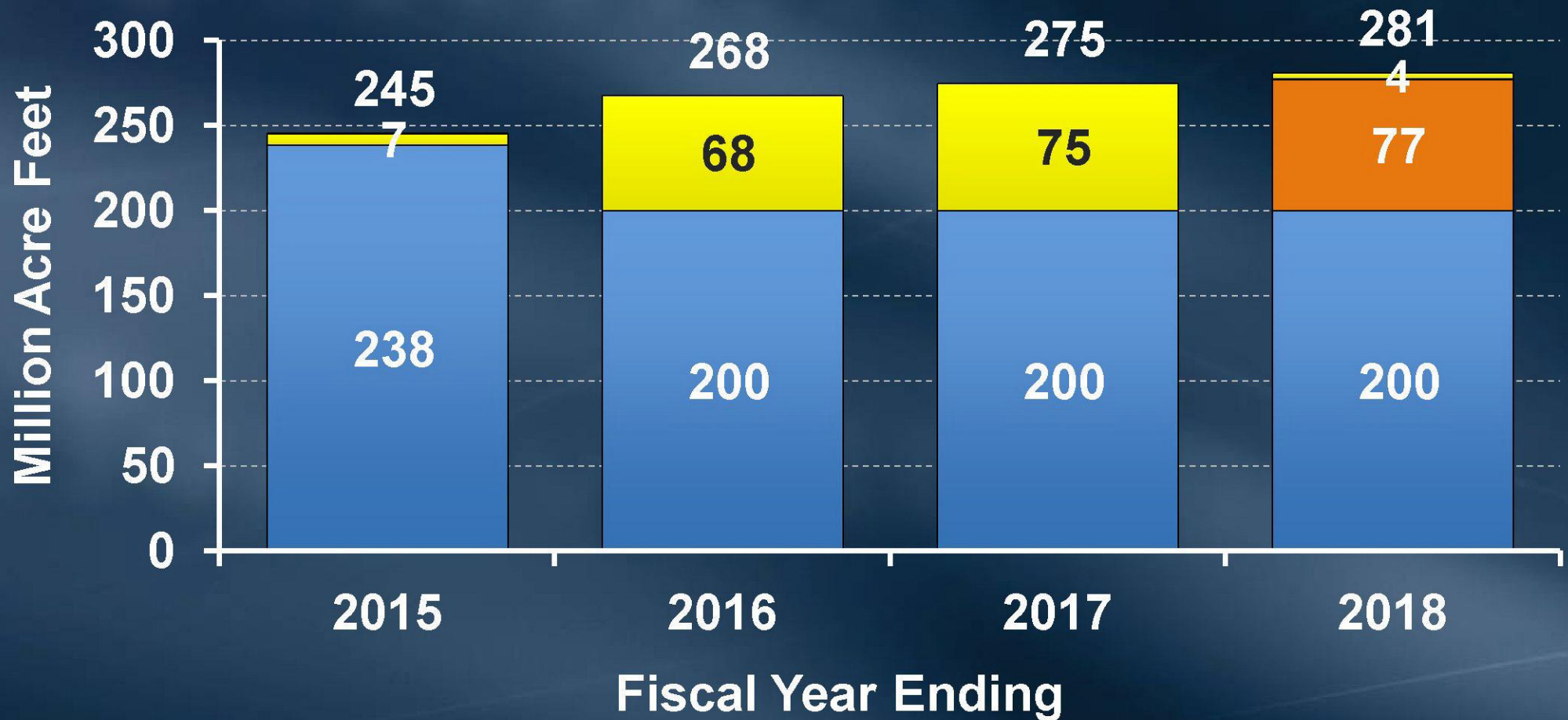


Ave Rate Inc.	5%	0%	1.5%	3.5%	3.5%	4%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	238	200	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	1.9	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0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

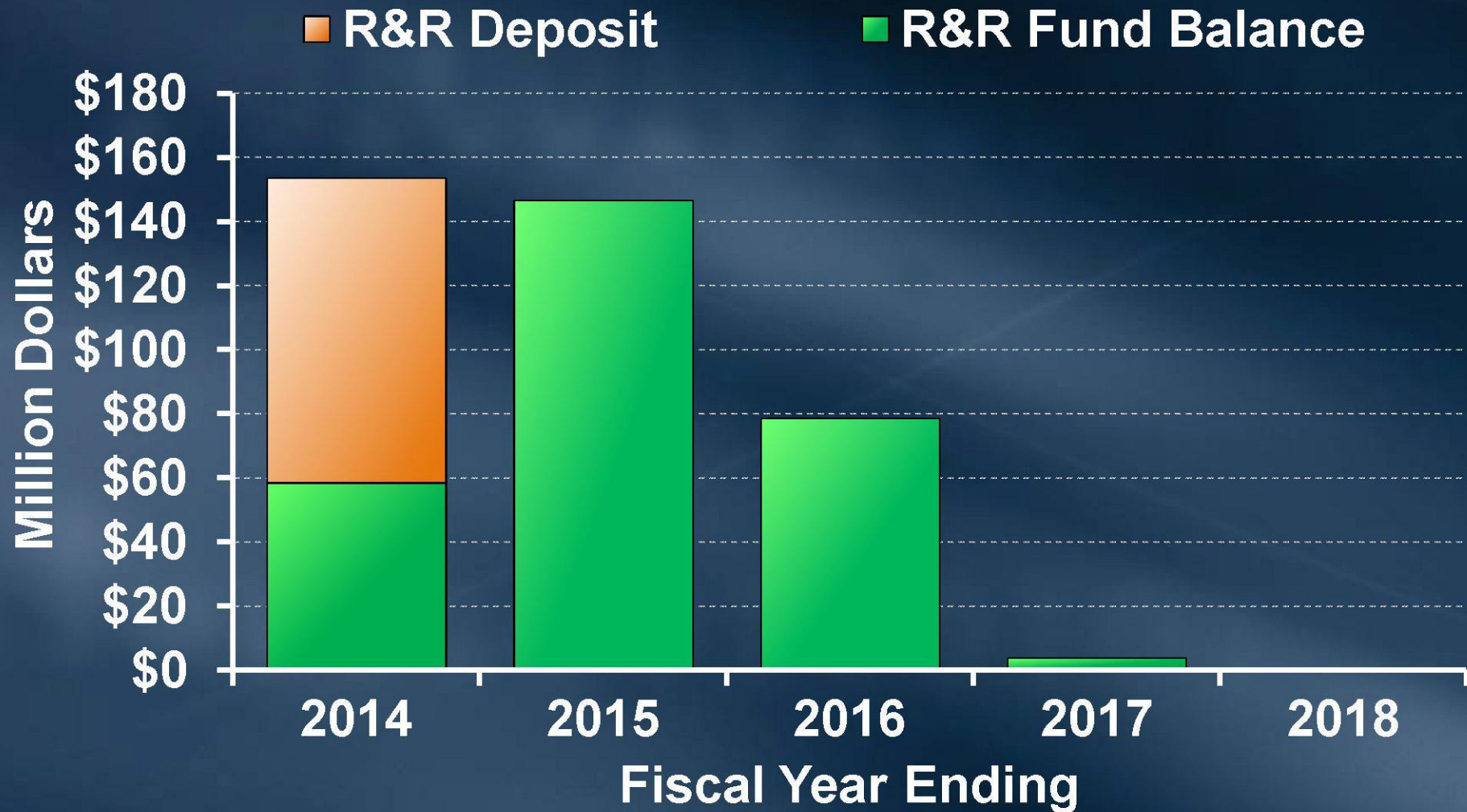
* Revenue Remainder & WRSF

Scenario B: Capital Investment Plan Funding

■ R&R Fund ■ Bonds ■ PAYGO



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



Scenario B: Proposed Rate Elements

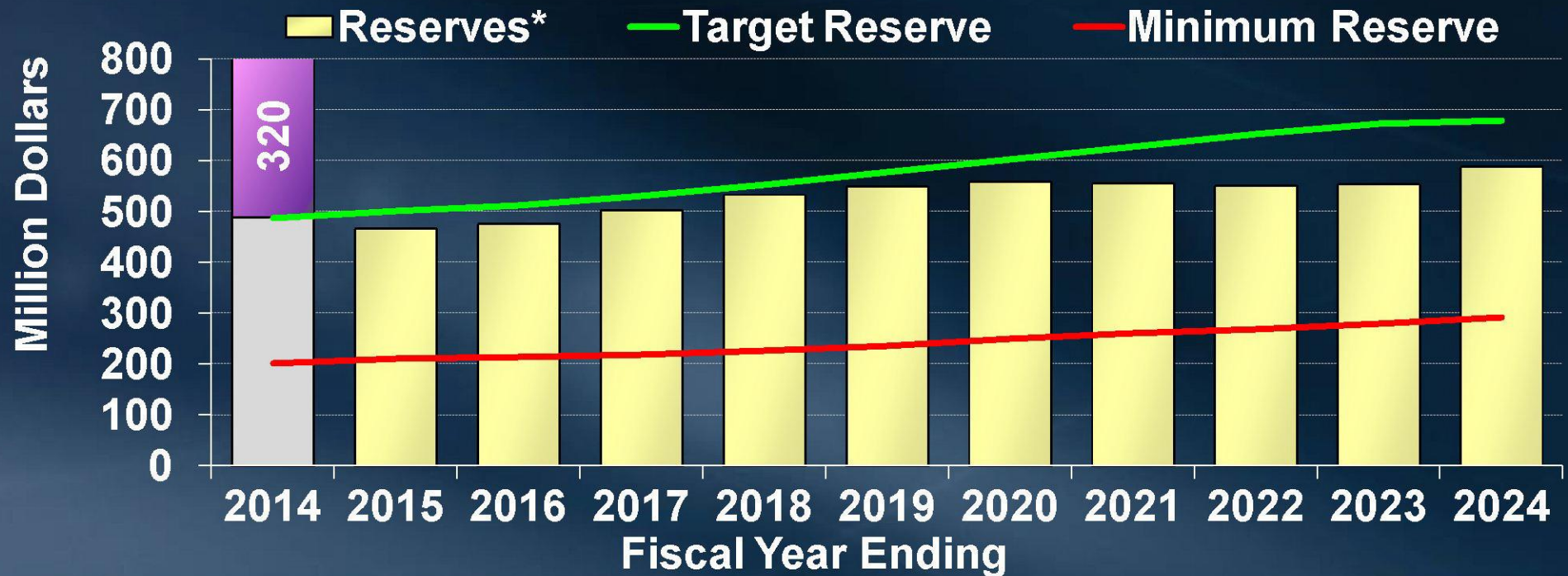
Rates and Charges Effective January 1			
	2014	2015	2016
	Approved	Proposed	Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$155	\$154
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$253	\$257
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$125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

Scenario 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%

Option C: AV Tax Rate Not Maintained

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 Rate Elements

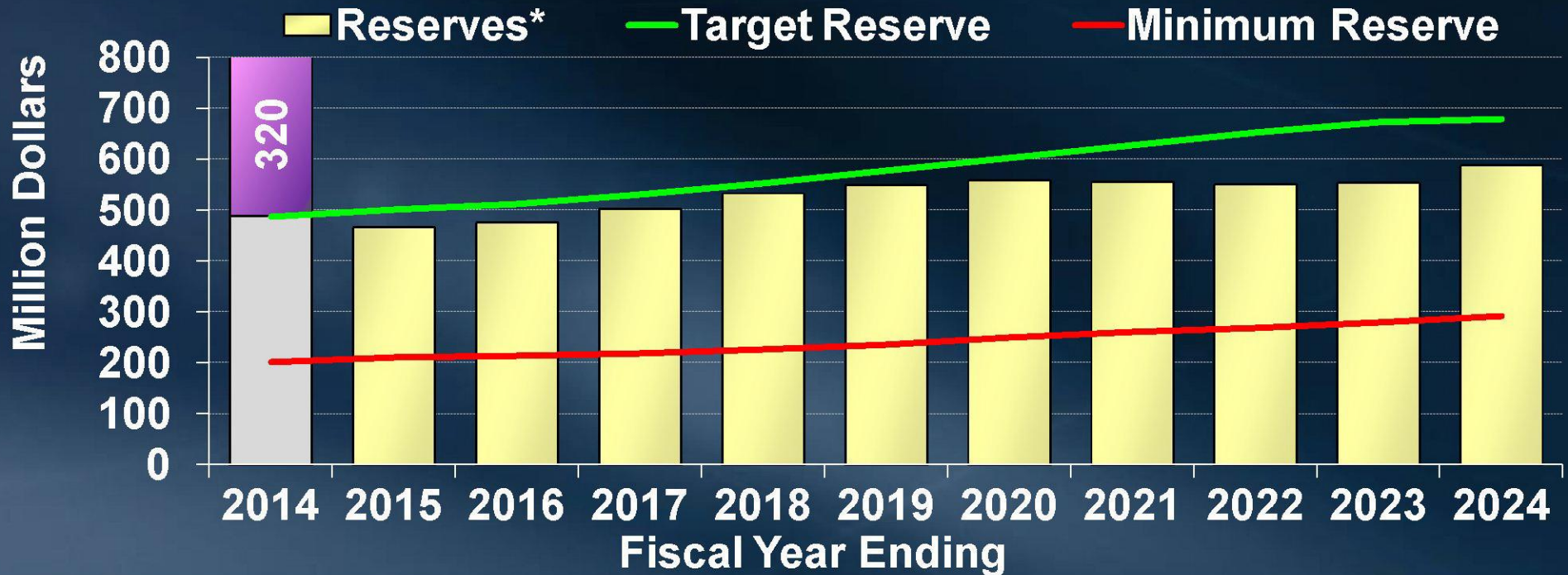
Rates and Charges Effective January 1			
	2014	2015	2016
	Approved	Proposed	Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$161	\$162
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$264	\$274
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$126	\$140
Treatment Surcharge (\$/AF)	\$297	\$340	\$352
Readiness-to-Serve Charge (\$M)	\$166	\$171	\$170
Capacity Charge (\$/cfs)	\$31	\$44	\$44

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%

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

Scenario D: AV Tax Rate not Frozen



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

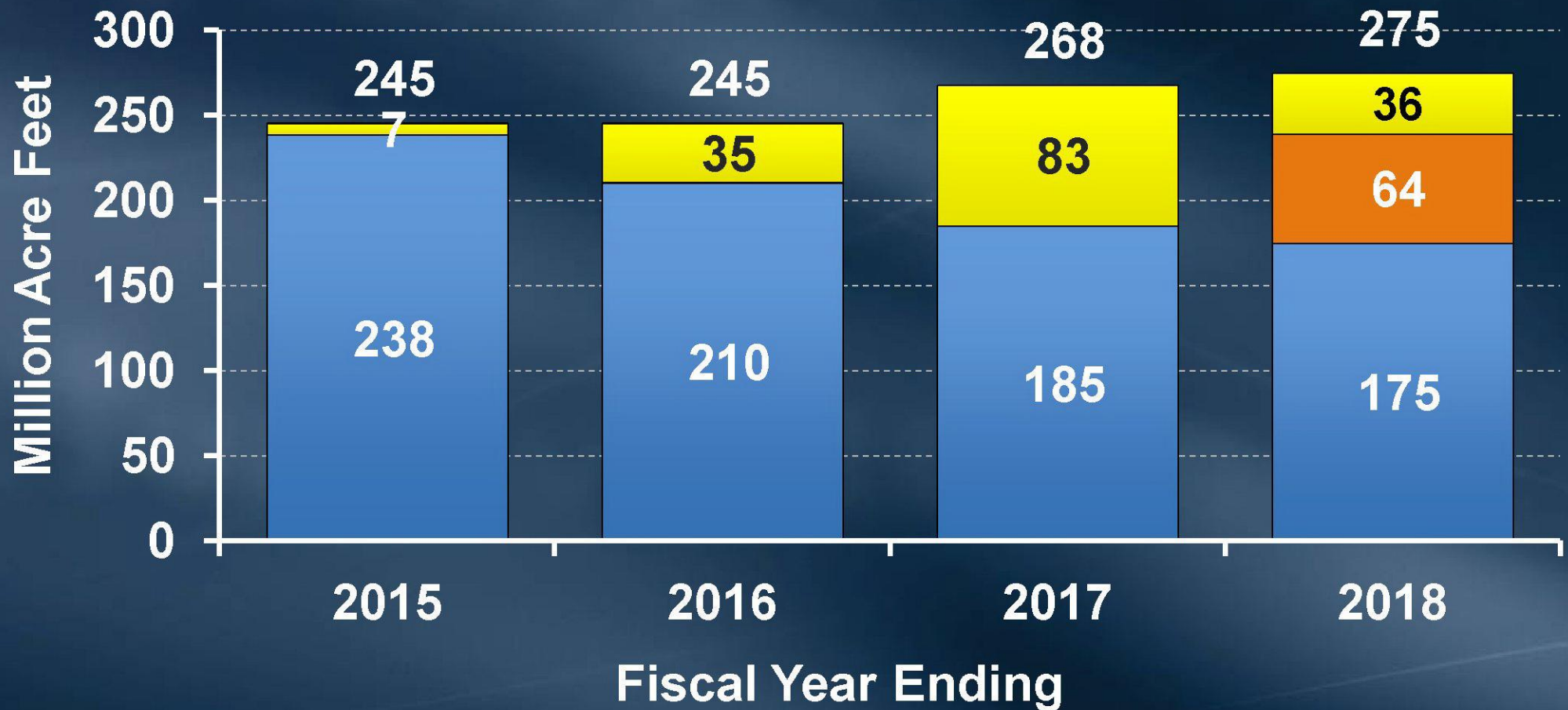
Rates and Charges Effective January 1			
	2014	2015	2016
	Approved	Proposed	Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$159	\$157
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
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Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$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

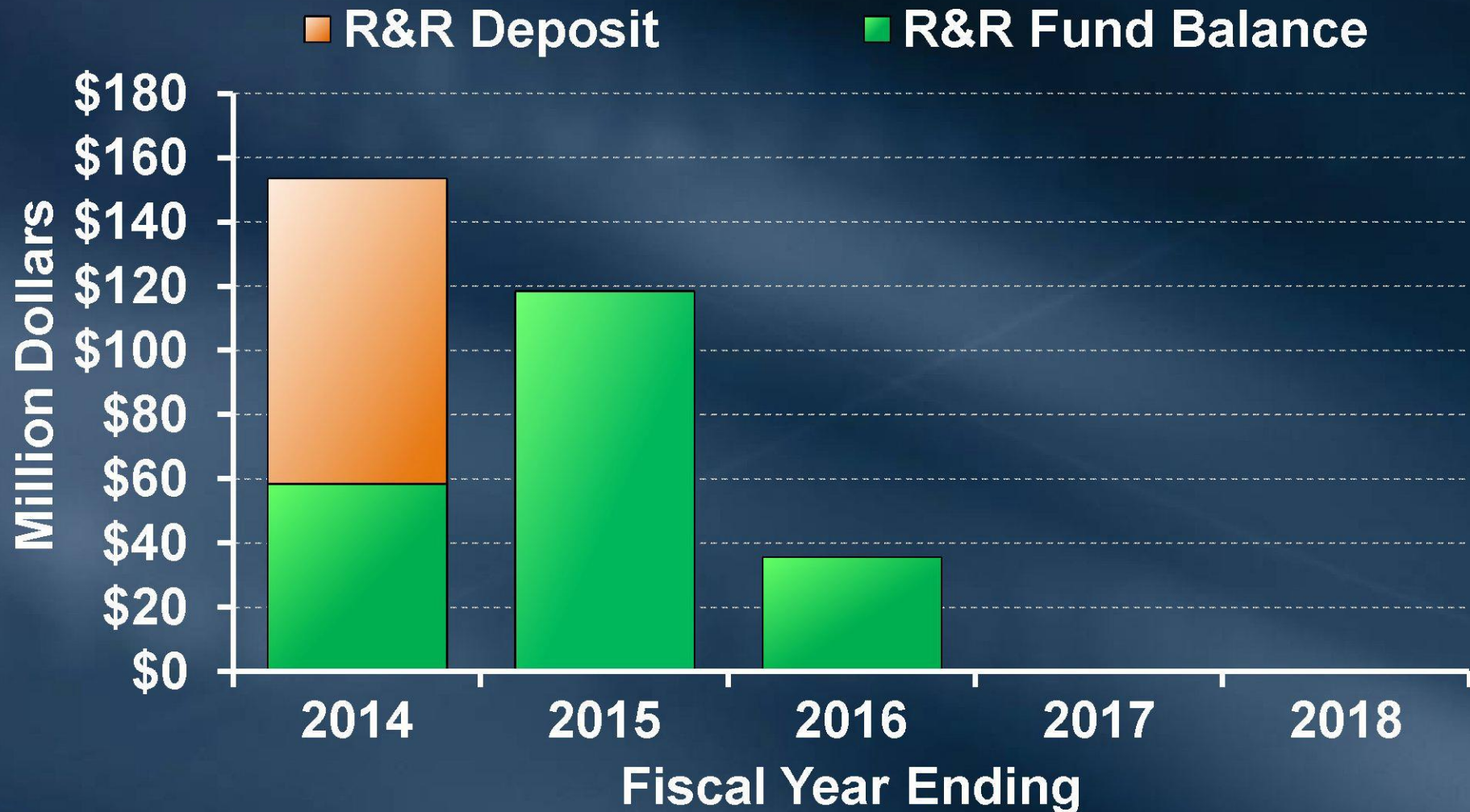
Rate Type	2014 Approved	2015 Proposed	% Increase (Decrease)	2016 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$593	\$587	-1.0%	\$600	2.2%
Tier 2	\$735	\$718	-2.3%	\$733	2.1%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$890	\$916	2.9%	\$933	1.9%
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



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

Response to Questions from Workshop #1

Impact of Supply Conditions on Power Costs

Assumptions

Calendar Year Ending	2014	2015
CRA pump load	8 pumps	7 pumps
CRA deliveries	1.185 MAF	.940 MAF
State Water Project Allocation	5%	25%

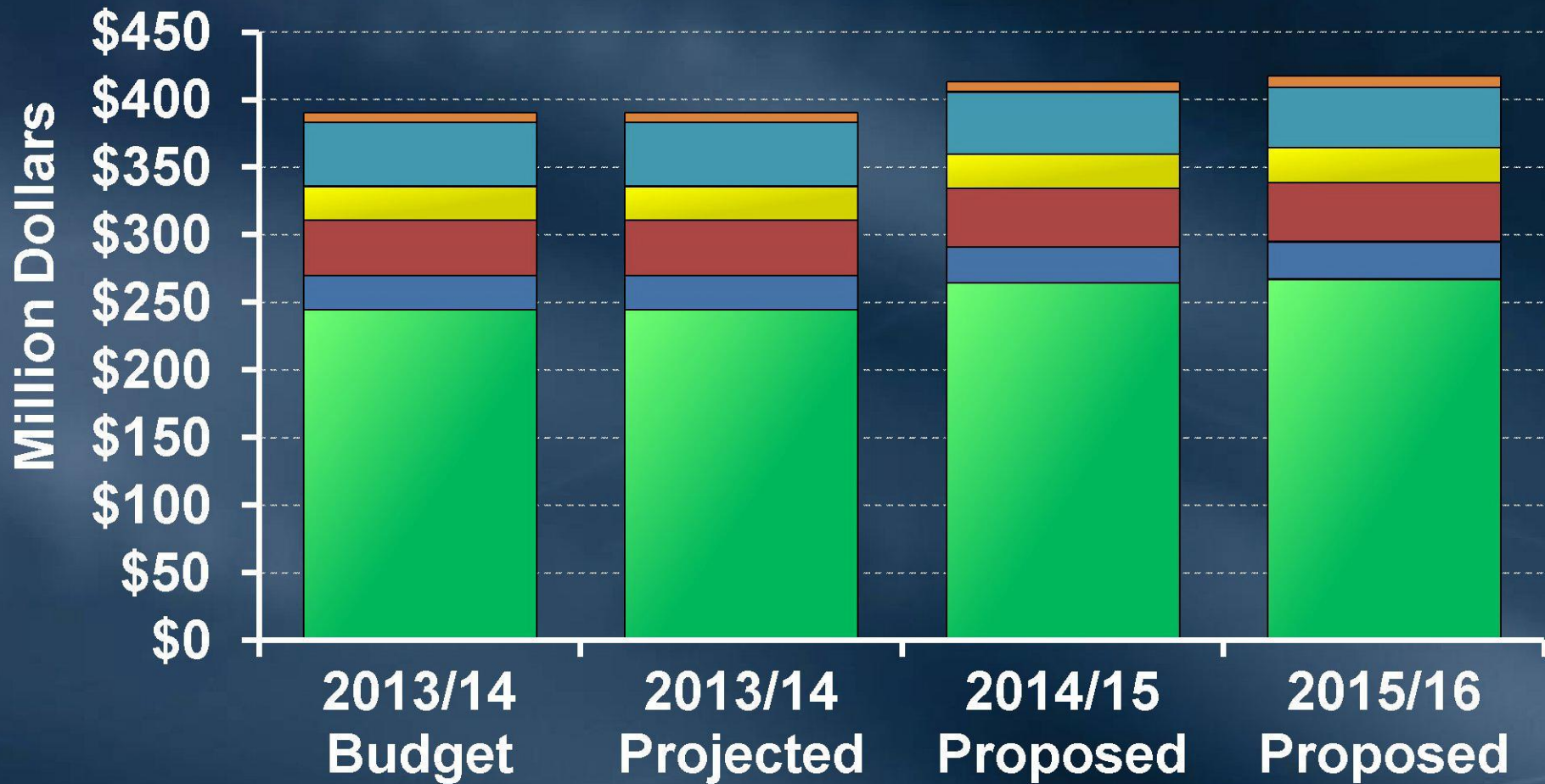
Results of Lower SWP Allocation

- Greater use of CRA to move water into the service area
- Continued use of Storage Programs in CY 2015
- In FY 2014/15 and FY 2015/16, SWP power costs are lower but CRA power cost are higher
 - FY 2014/15 reduction of approximately \$39M
 - FY 2015/16 reduction of approximately \$20M
- Costs to refill storage will be significant
- Costs less than budget could be set aside in the Water Management Fund to offset future storage refill costs

Operating Budget

Proposed O&M Expenditure Budget

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

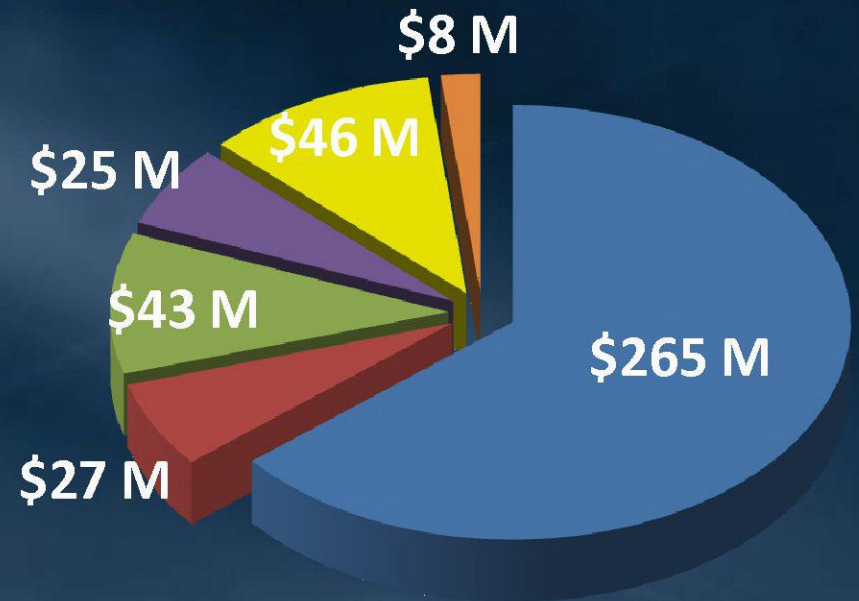


O&M Budget Trend

FY 2013/14 - \$390 M



FY 2014/15 - \$414 M



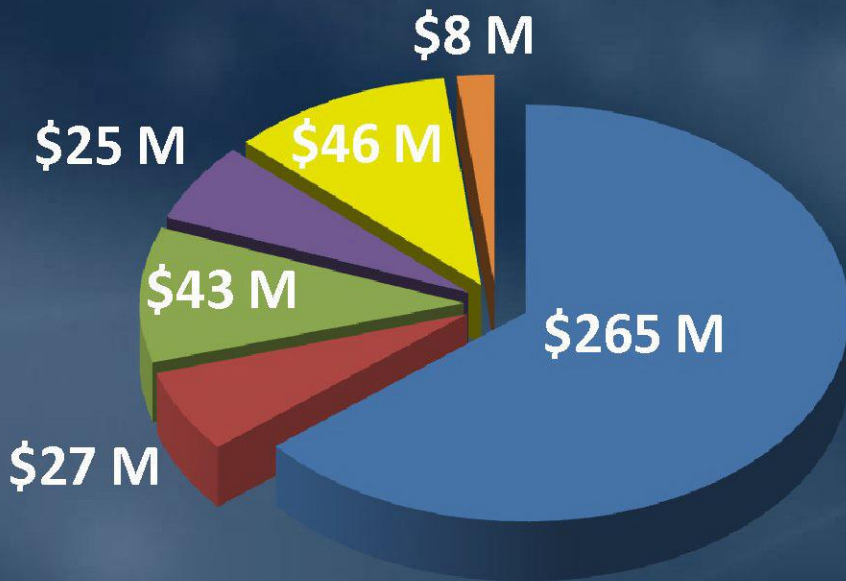
■ Salary & Benefits
■ Materials & Supplies

■ Variable Treatment
■ Other

■ Outside Services
■ Operating Equipment

O&M Budget Trend

FY 2014/15 - \$414 M



FY 2015/16 - \$418 M



■ Salary & Benefits
■ Materials & Supplies

■ Variable Treatment
■ Other

■ Outside Services
■ 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

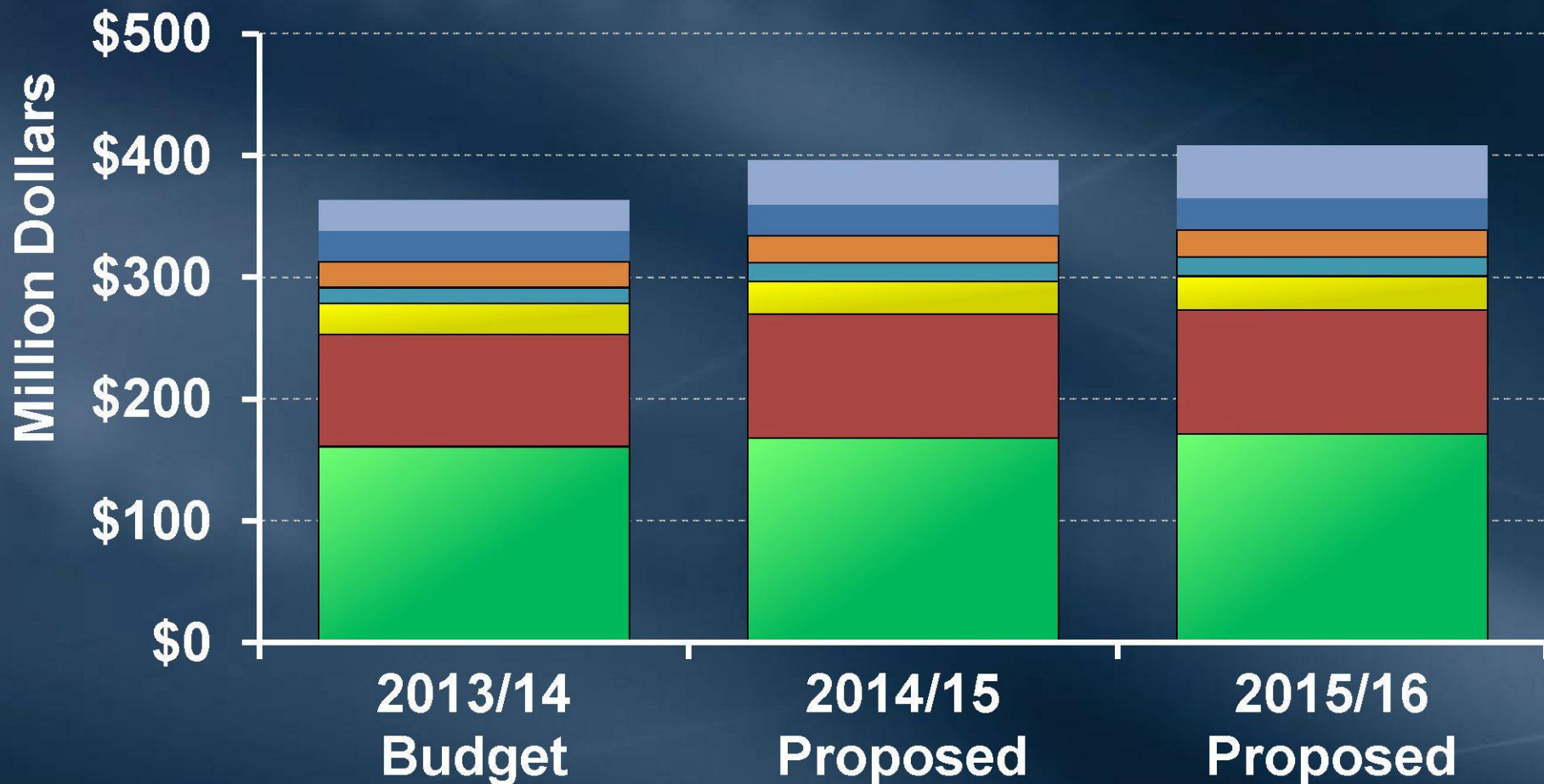
FY 2014/15 to FY 2015/16

● 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 Budget Trend

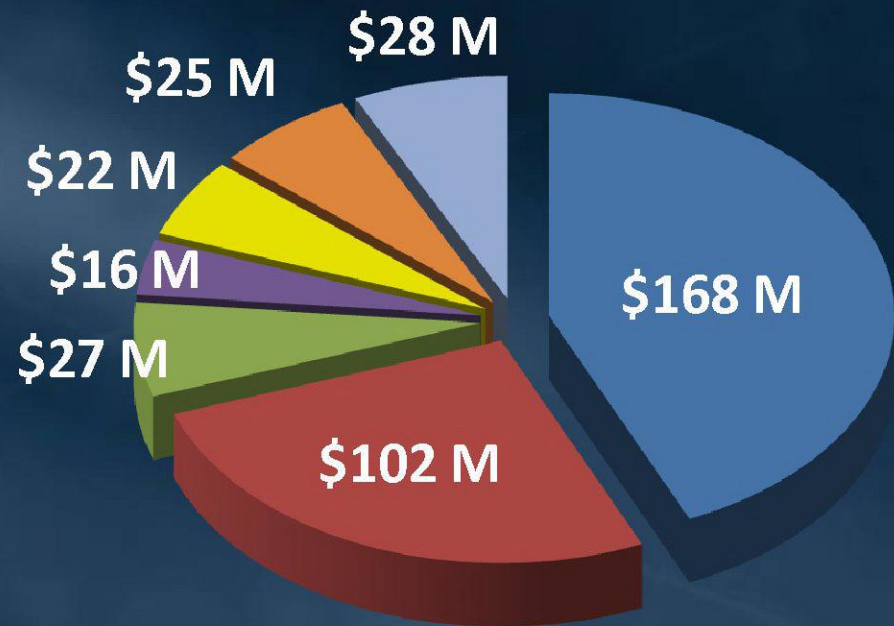
FY 2013/14 - \$363 M



1,733 FTEs

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

FY 2014/15 - \$388 M

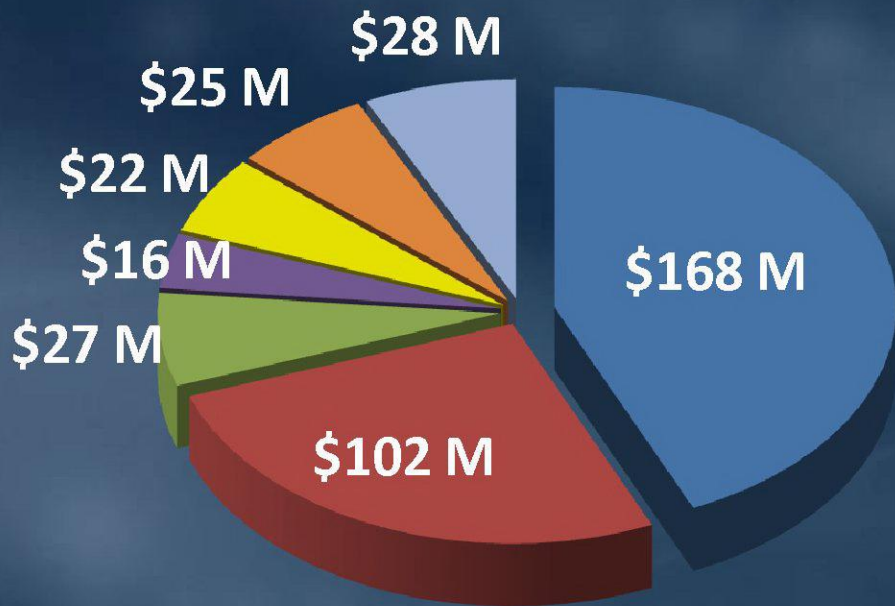


1,776 FTEs

- Benefits
- Professional Services
- Materials & Supplies

GM Department Budget Trend

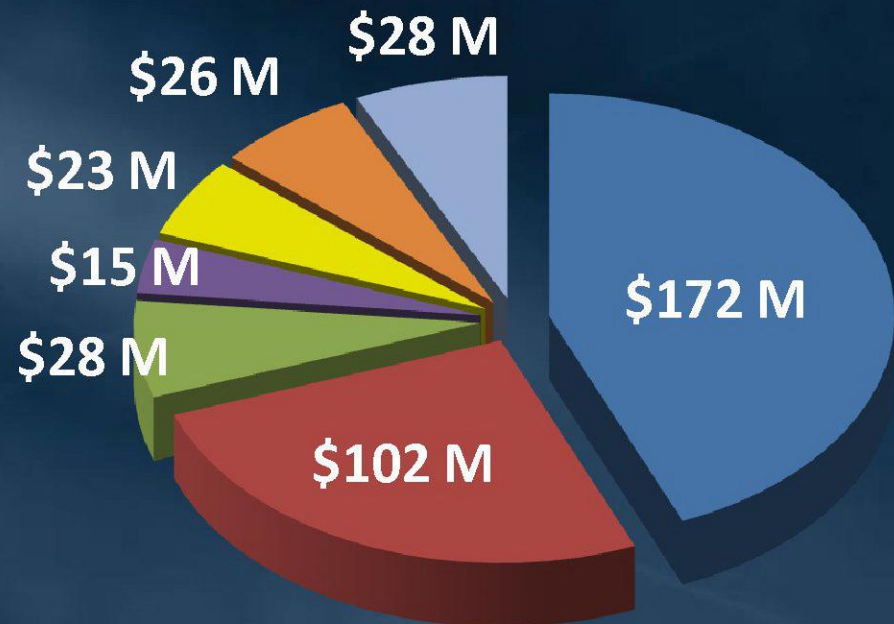
FY 2014/15 - \$388 M



1,776 FTEs

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

FY 2015/16 - \$393 M

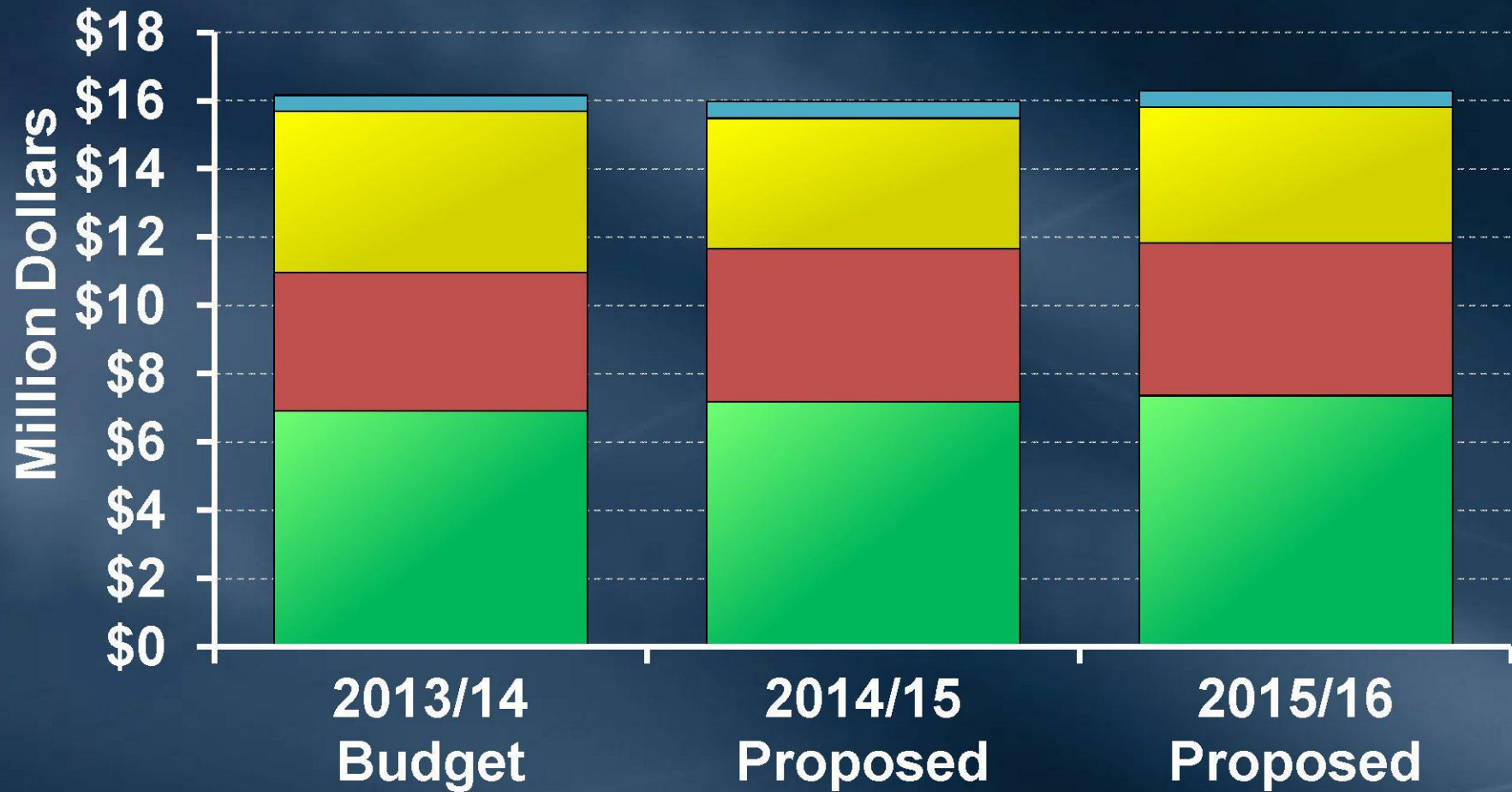


1,775 FTEs

Legal Department

Legal Department O&M Budget

Salaries Benefits Professional Services Other



Legal Department 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 Budget Trend

FY 2014/15 - \$16.0 M



36 FTEs

FY 2015/16 - \$16.3 M



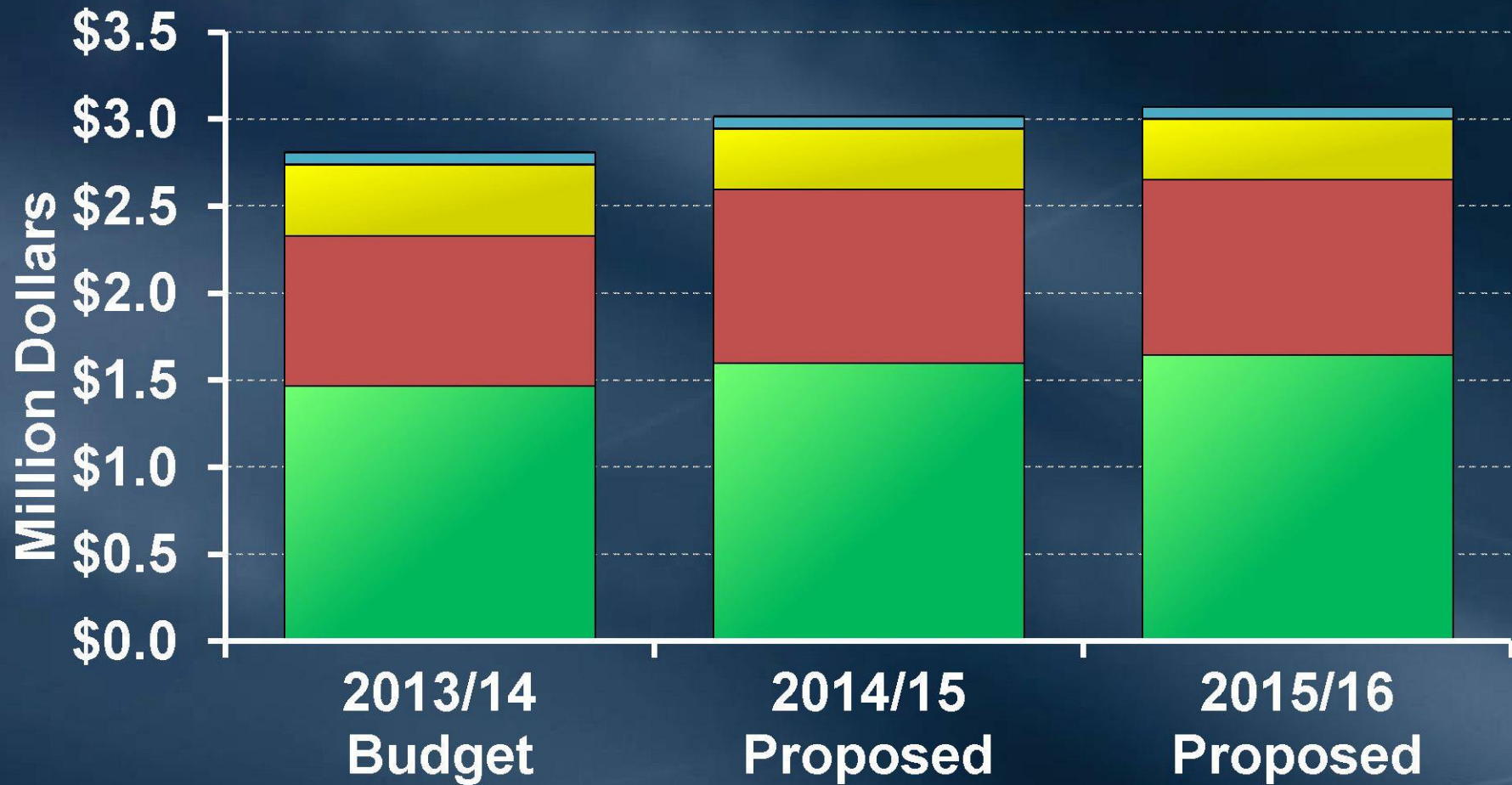
36 FTEs

■ Salaries ■ Benefits ■ Professional Services ■ Other

Audit Department

Audit Department O&M Budget

■ Salaries ■ Benefits ■ Professional Services ■ Other



Audit Department Budget Trend

FY 2013/14 - \$2.8 M



12 FTEs

FY 2014/15 - \$3.0 M

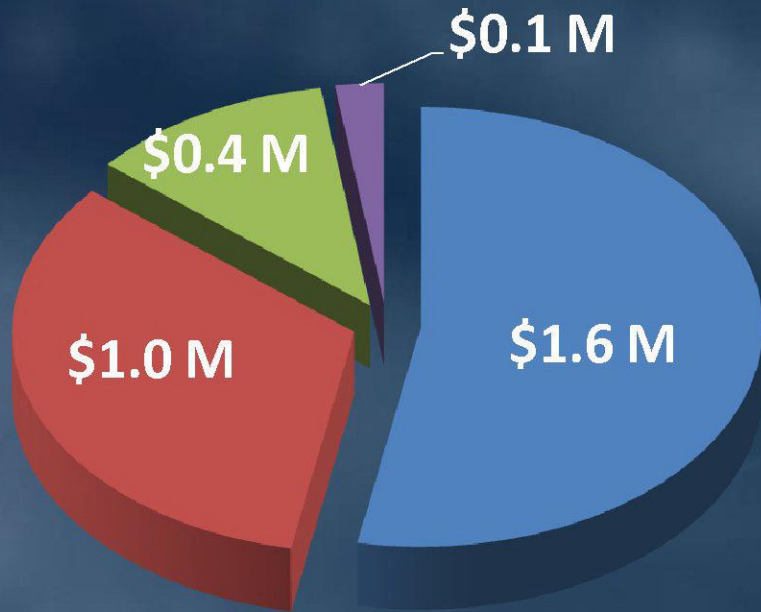


12 FTEs

■ Salaries ■ Benefits ■ Professional Services ■ Other

Audit Department Budget Trend

FY 2014/15 - \$3.0 M



12 FTEs

FY 2015/16 - \$3.1 M

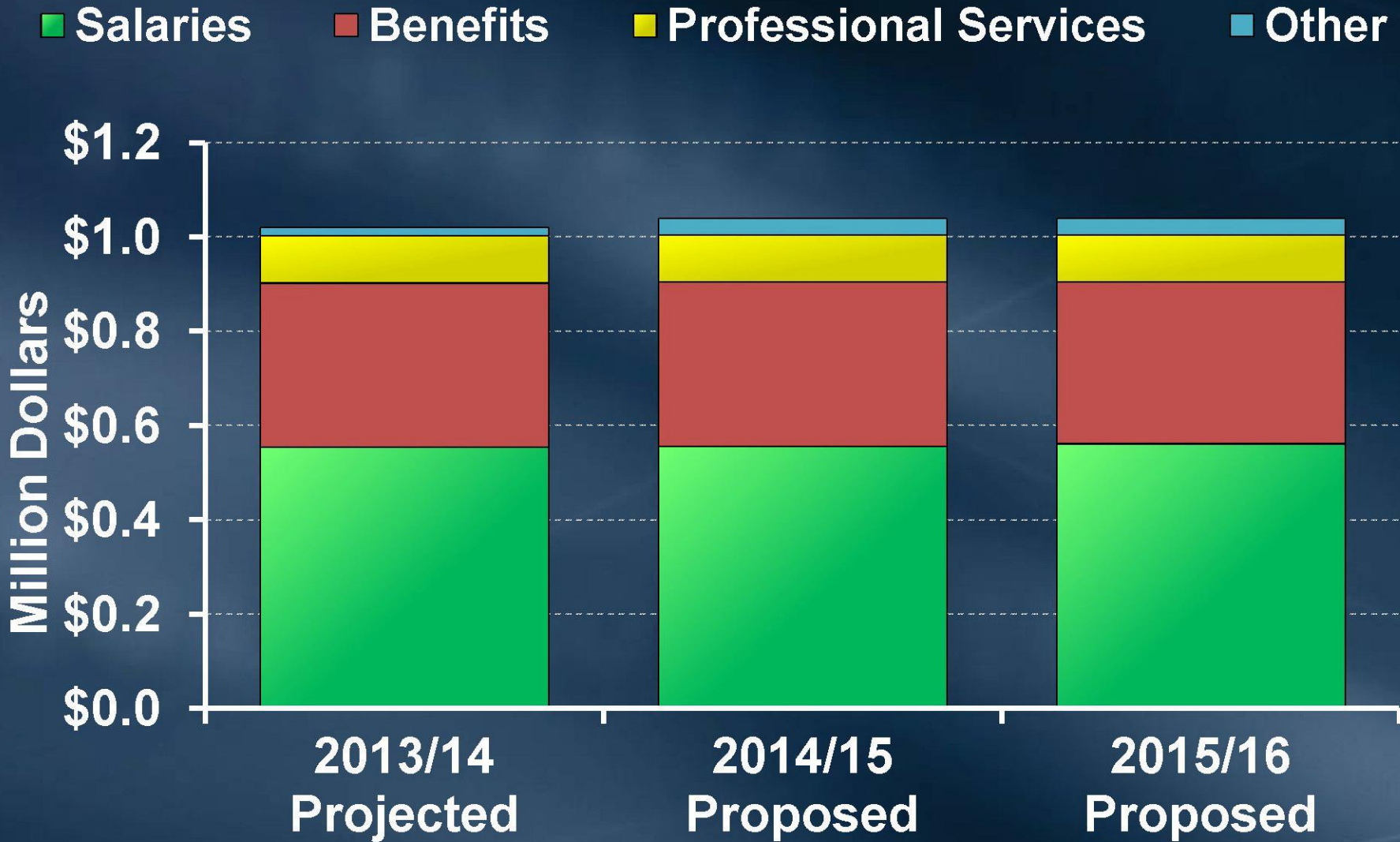


12 FTEs

■ Salaries ■ Benefits ■ Professional Services ■ Other

Ethics Department

Ethics Department O&M Budget



Ethics Department Budget Trend

FY 2013/14* - \$1.0M



4 FTES

FY 2014/15 - \$1.0M



4 FTES

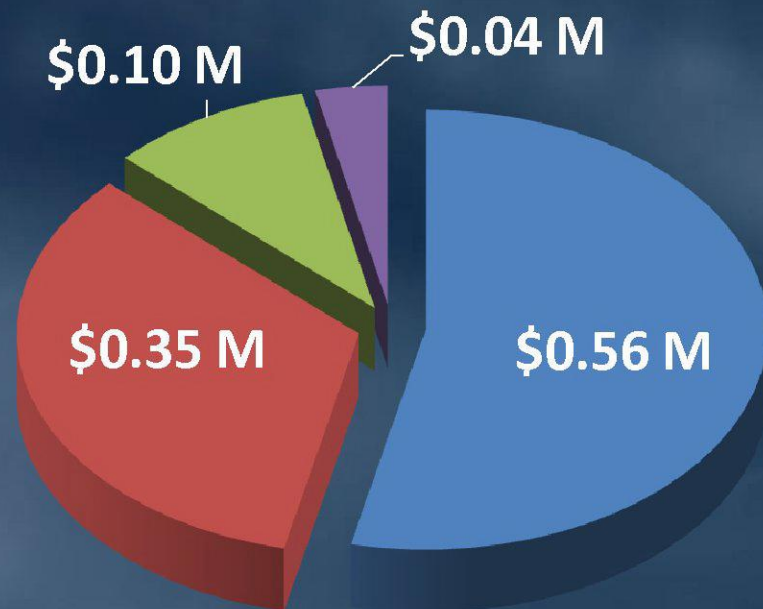
■ Salaries ■ Benefits ■ Professional Services ■ Other

Projected

Ethics Department Budget Trend

FY 2014/15 - \$1.0M

FY 2015/16 - \$1.0M



4 FTES



4 FTES

■ Salaries ■ Benefits ■ Professional Services ■ Other

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	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

Back-up Slides

O&M Bay Delta Conservation Plan (BDCP)

Actuals (in millions)	2010	2011	2012	2013	YTD 2014
Labor	\$0.4	3.0	5.4	6.9	3.5
Other*		1.5	3.4	3.0	1.3
Total	\$0.4	\$4.5	\$8.8	\$ 9.8	\$4.8
Costs to date					\$28.3
FTEs	2	13	23	28	28

* Professional Services, travel, inspection trips, other

O&M Bay Delta Conservation Plan (BDCP)

Budget (in millions)	2014	2015	2016
Labor	\$ 6.2	\$ 8.6	\$ 8.9
Other*	3.2	3.5	3.6
Total	<u>\$ 9.4</u>	<u>\$ 12.1</u>	<u>\$ 12.5</u>
Net increase		\$ 2.7	\$ 0.4
FTEs	28	35	35

* Professional Services, travel, inspection trips, other

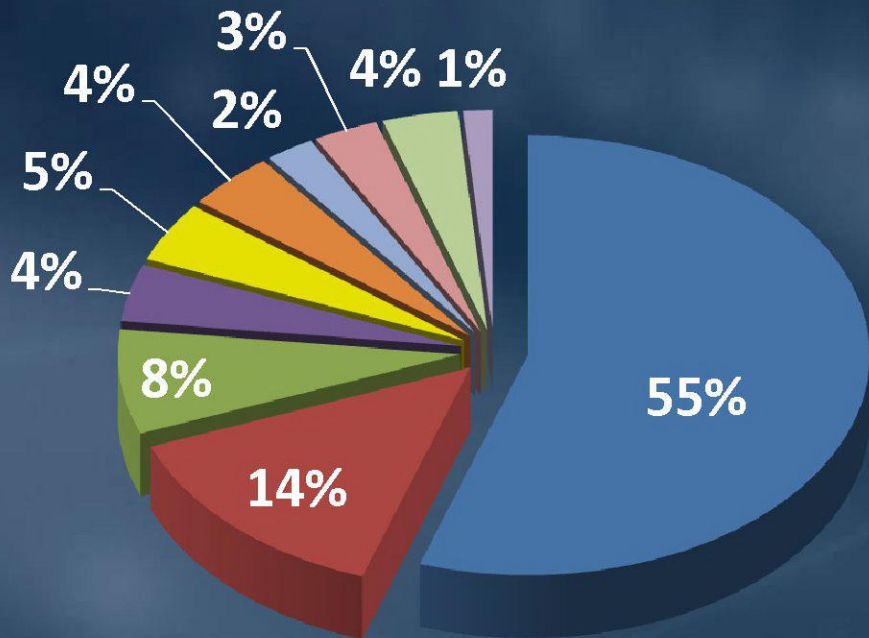
Budgeted Regular Positions

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

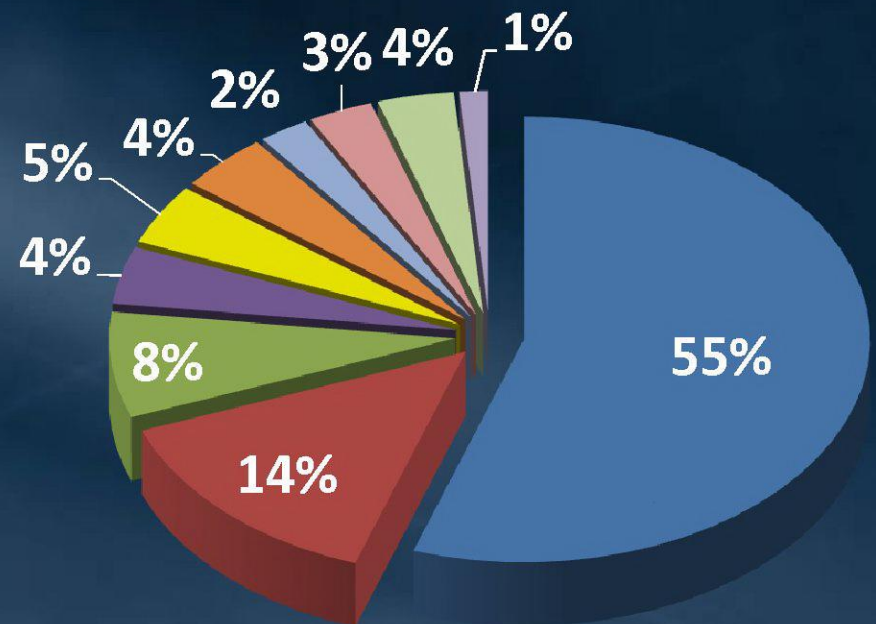
Departmental O&M

Departmental Budget Trend

FY 2014/15 - \$423 M



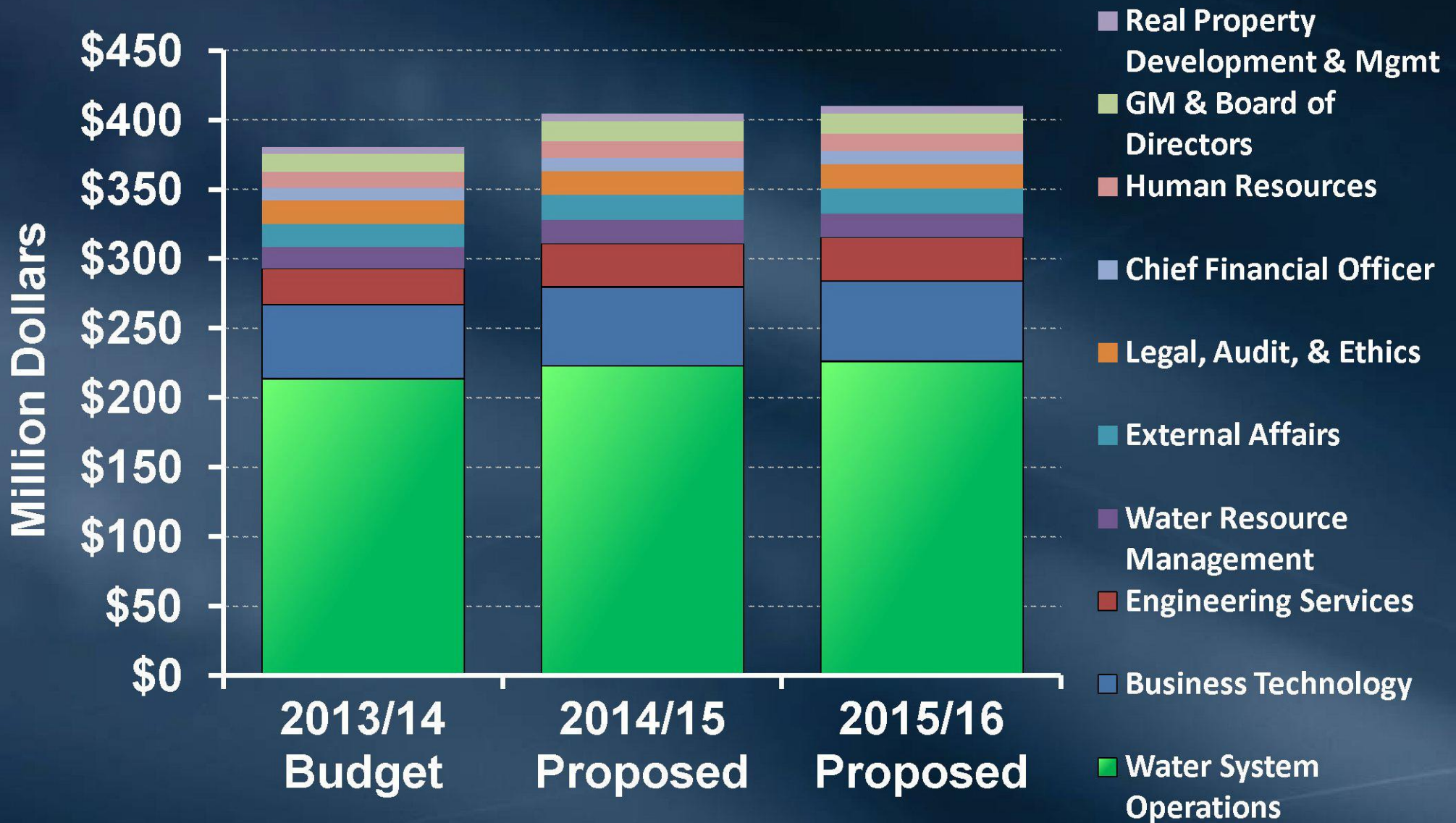
FY 2015/16 - \$427 M



- Water System Operations
- Engineering Services
- External Affairs
- Chief Financial Officer

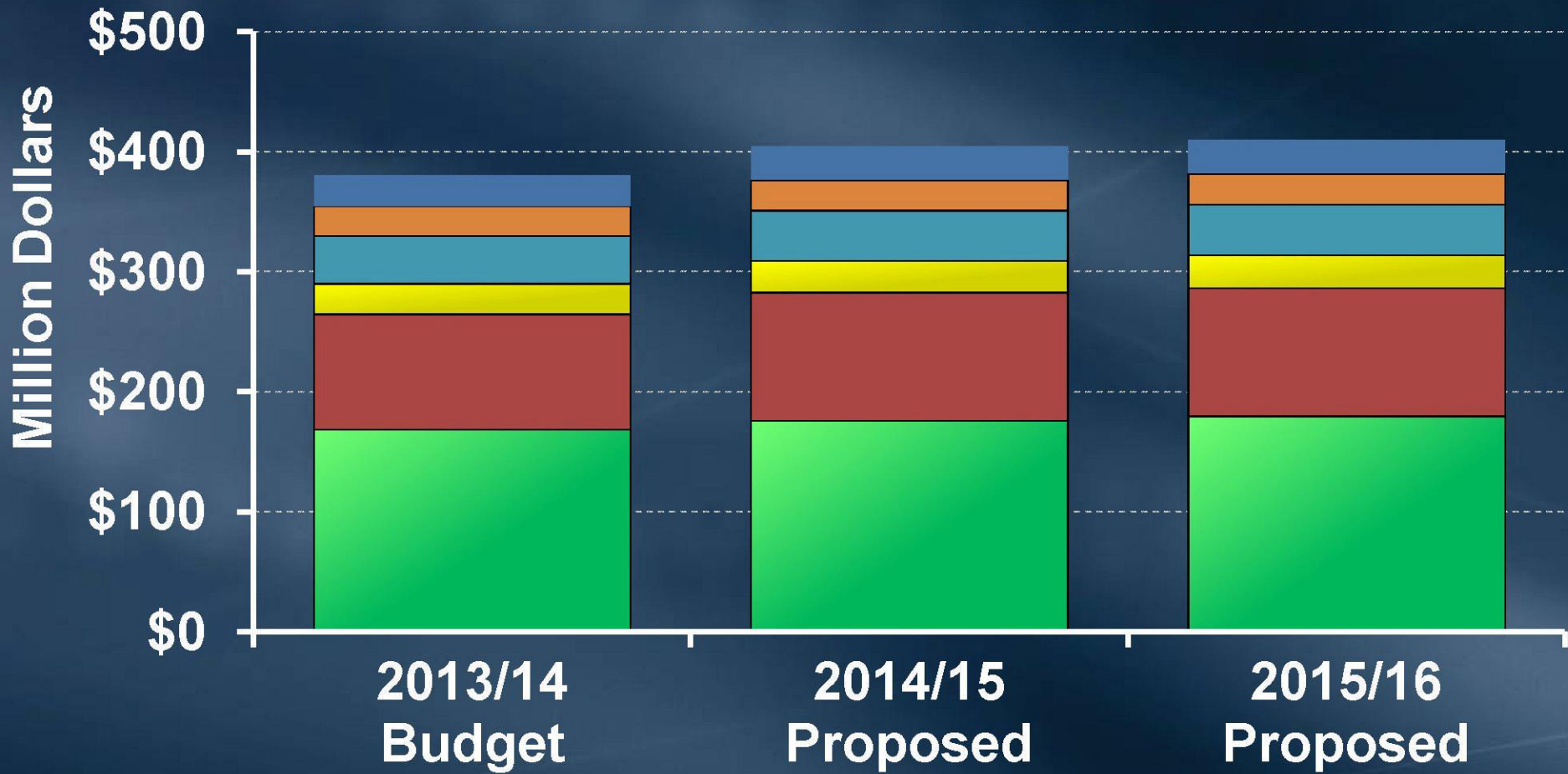
- Business Technology
- Water Resource Management
- Legal, Audit, & Ethics
- Human Resources

Departmental O&M Budget



Departmental O&M Expenditure Budget

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

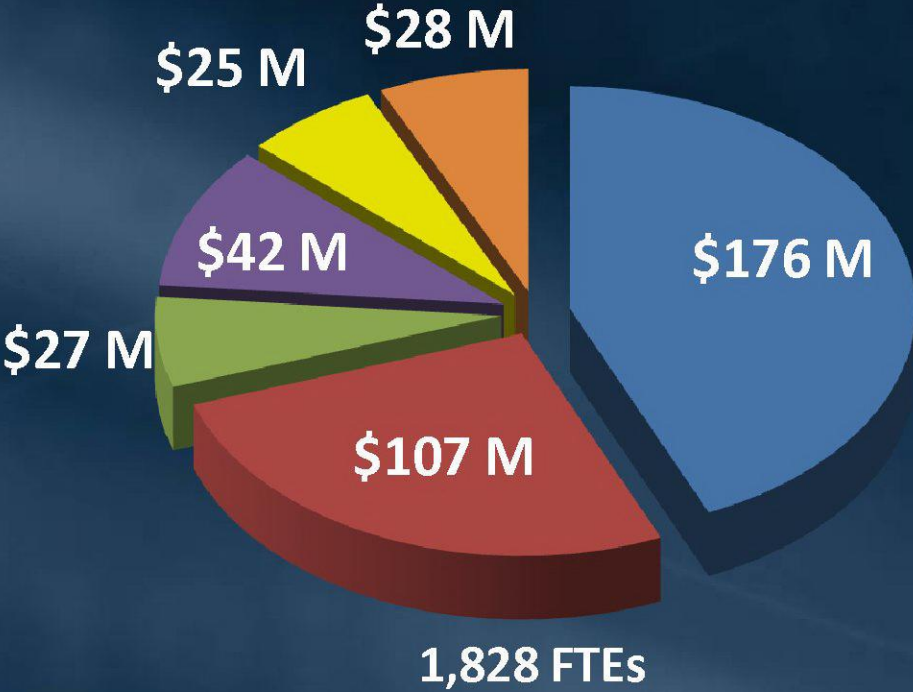


Departmental O&M Budget Trend

FY 2013/14 - \$381 M



FY 2015/16 - \$405 M



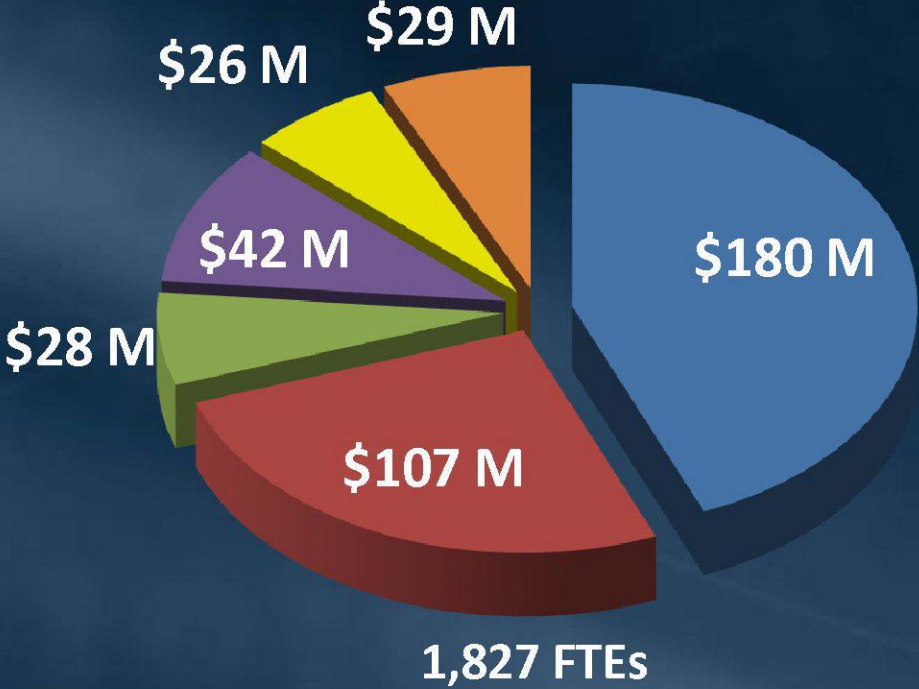
- Salaries
- Benefits
- Chemicals, Solids, and Power
- Outside Services
- Materials & Supplies
- Other

Departmental O&M Budget Trend

FY 2014/15 - \$405 M



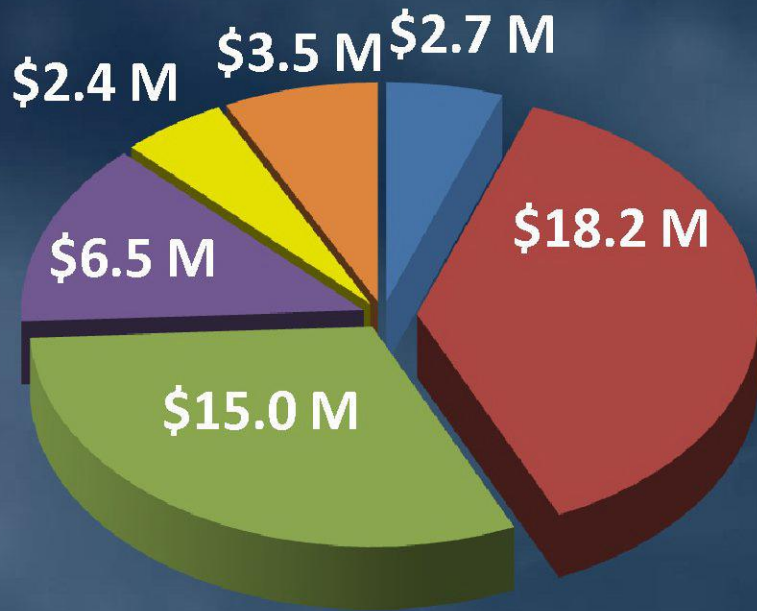
FY 2015/16 - \$411 M



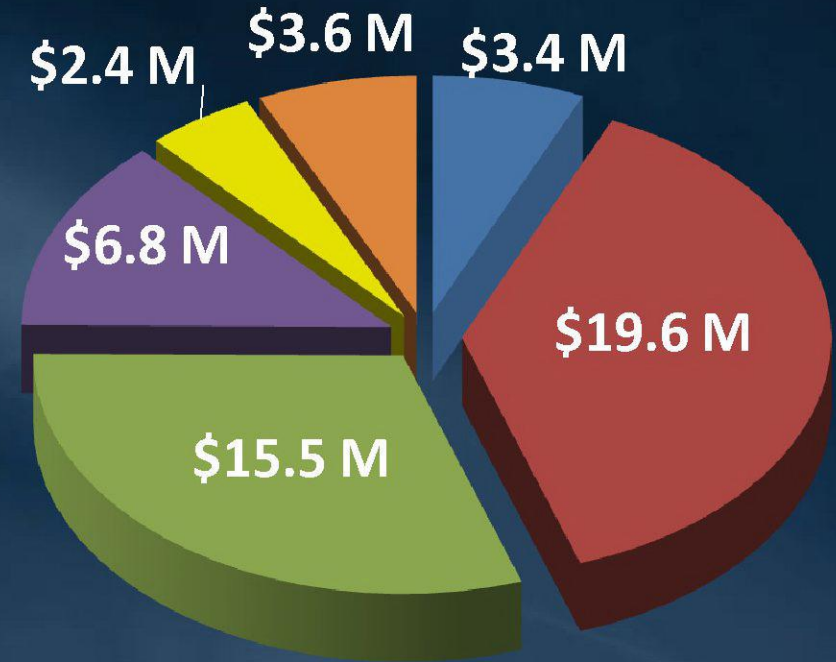
- Salaries
- Benefits
- Chemicals, Solids, and Power
- Outside Services
- Materials & Supplies
- Other

Departmental Budget Trend

FY 2013/14



FY 2014/15



Travel

Non Professional Services

Advertising

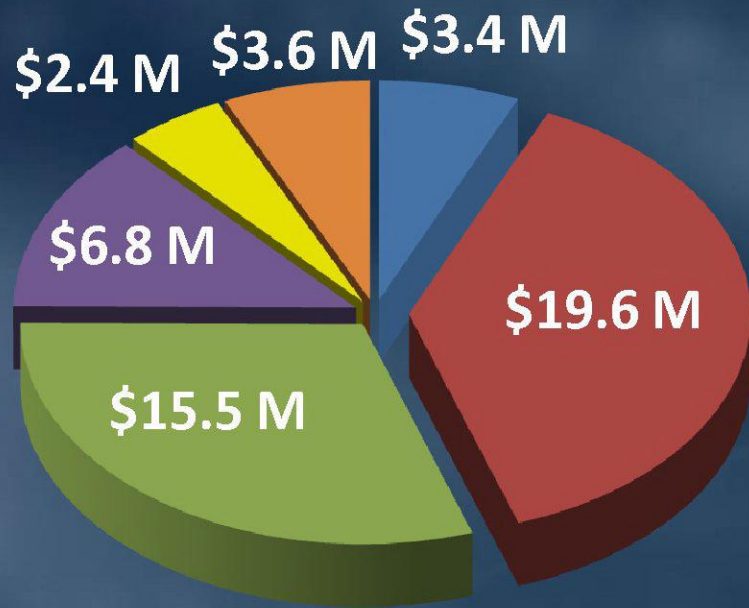
Professional Services

Security

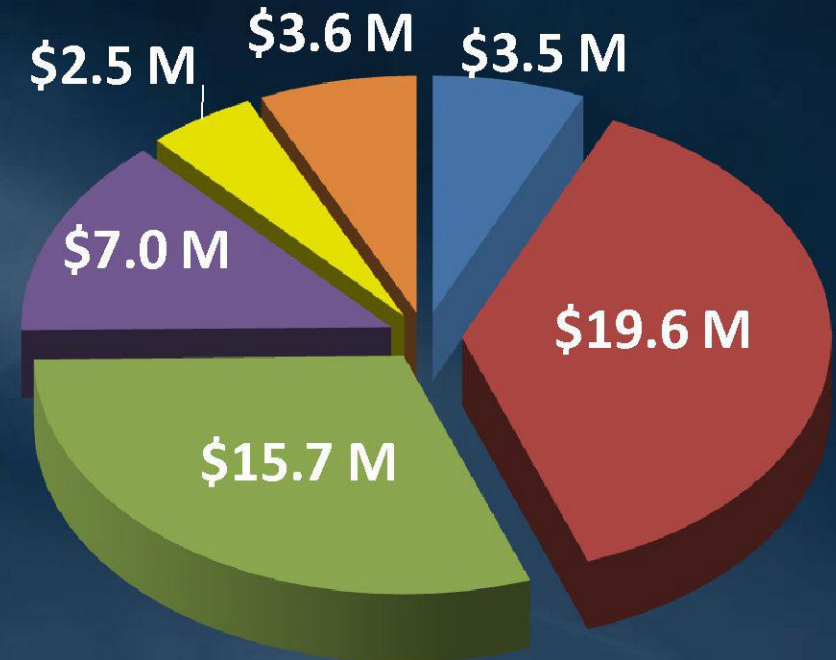
Communication Expenses

Departmental Budget Trend

FY 2014/15



FY 2015/16

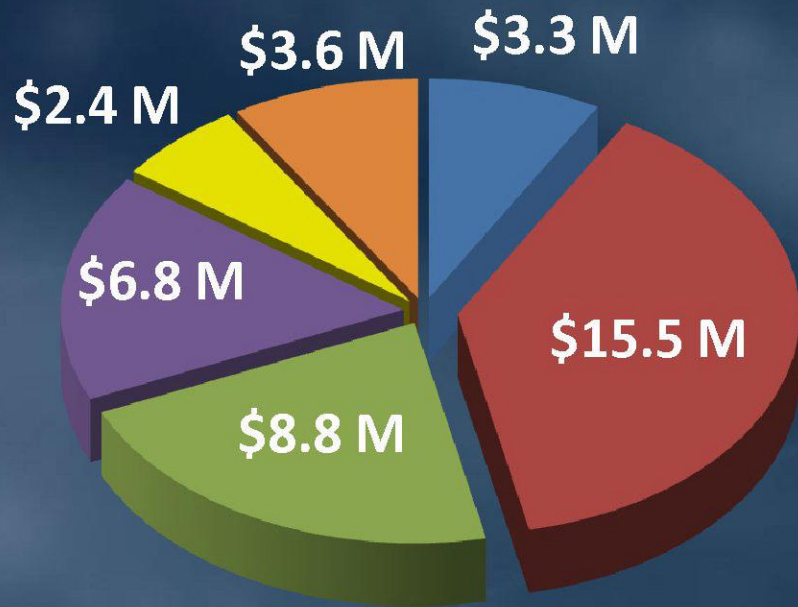


- Travel
- Non Professional Services
- Advertising

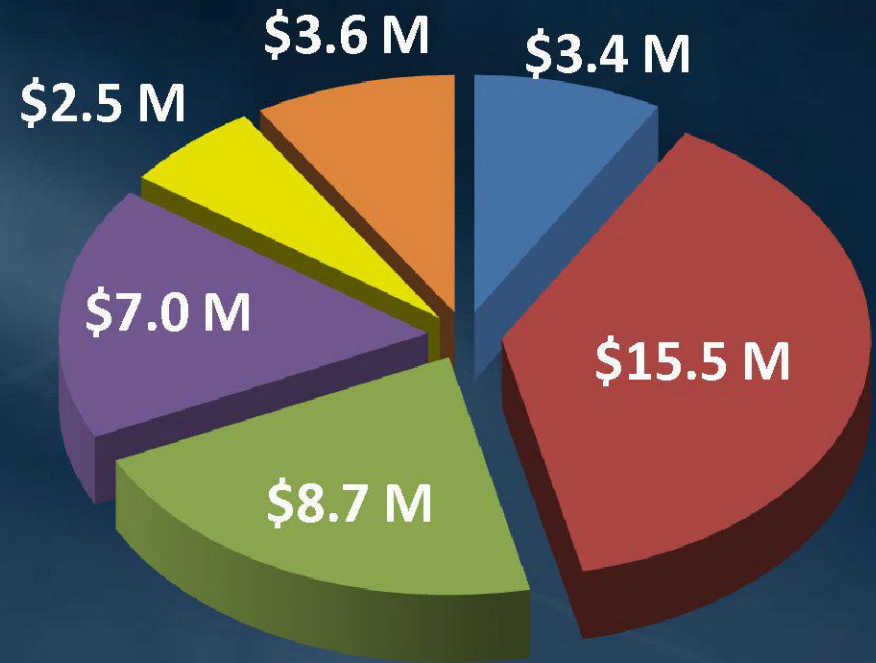
- Professional Services
- Security
- Communication Expenses

GM Department Budget Trend

FY 2014/15



FY 2015/16



- Travel
- Non Professional Services
- Advertising

- Professional Services
- Security
- Communication Expenses

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

**Board Workshop #2
February 25, 2014**



Proposed Biennial Budget Workshop #2

Presentation Overview

- Rate Scenarios
- Response to Questions from Workshop #1
- Operating Budget
- Next Steps

Rate Scenarios

- Scenario A: Updated 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)

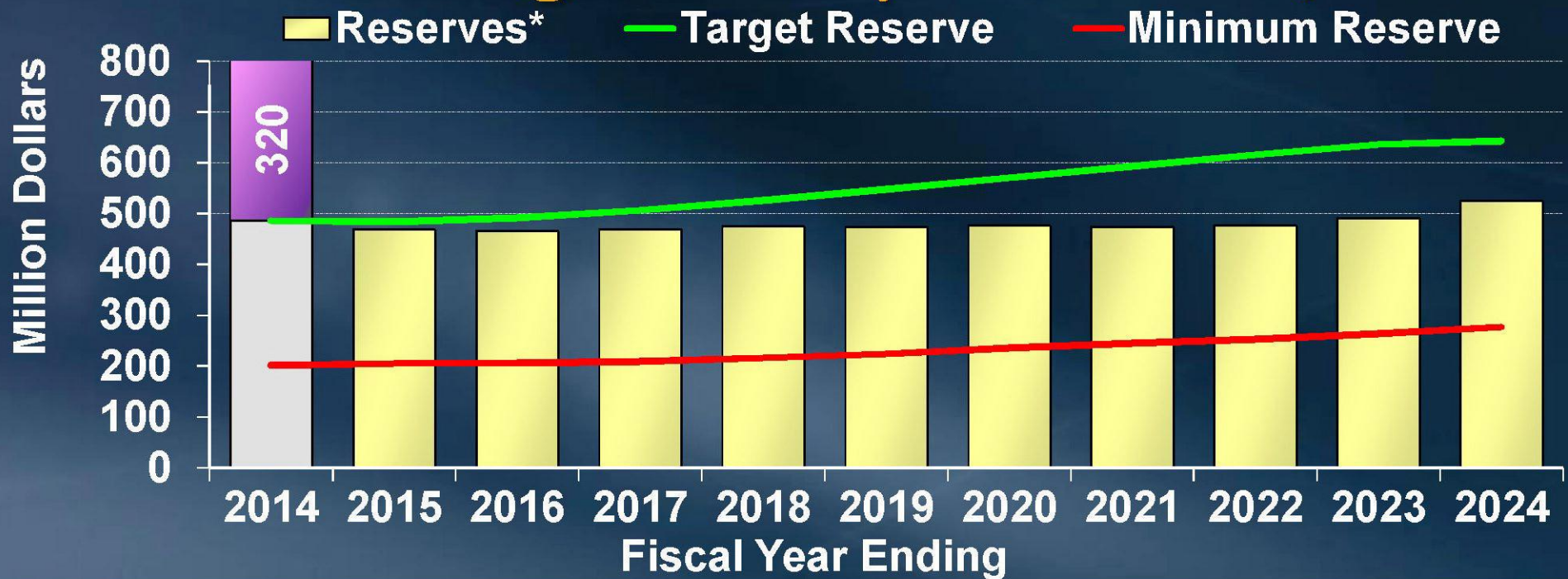
- Scenario C: Ad valorem tax rate not maintained
 - Decreases AV tax revenue by \$30 million in FY 2014/15 and \$35 million in FY 2015/16 due to decline in tax-funded debt service
 - Water rates have to be increased or costs reduced by a like amount to meet cost of service
 - By FY 2023/24, AV tax revenues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

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 A: 1.5% / 1.5%

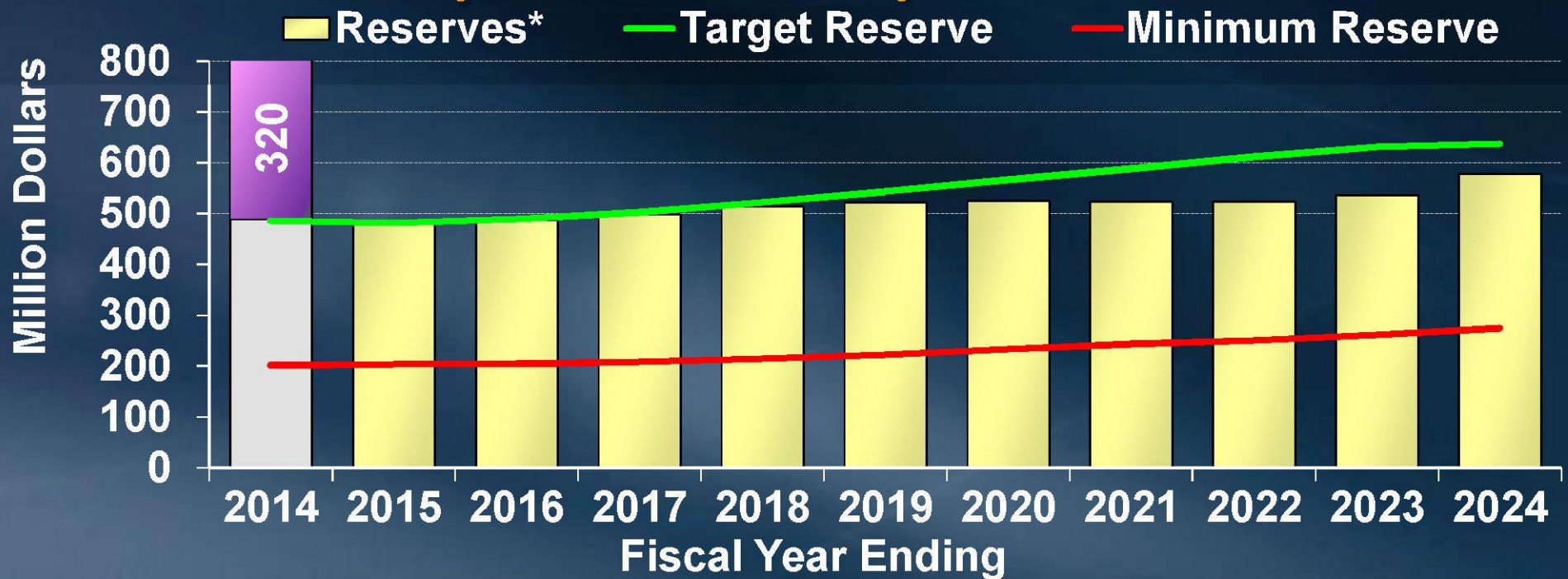
Scenario A: Original Proposal 1.5%/1.5%



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

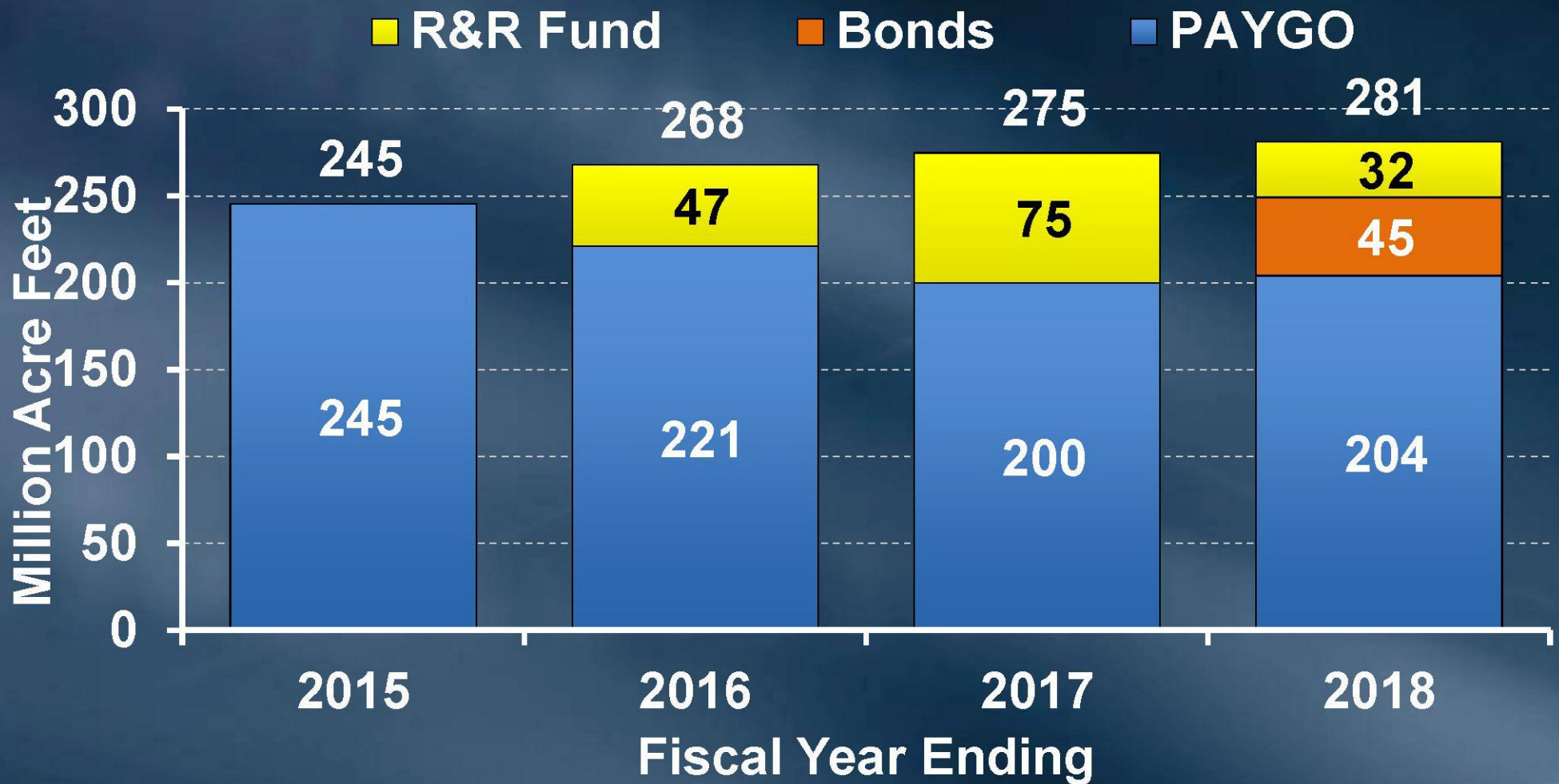
Scenario A: Updated Proposal 1.5%/1.5%



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

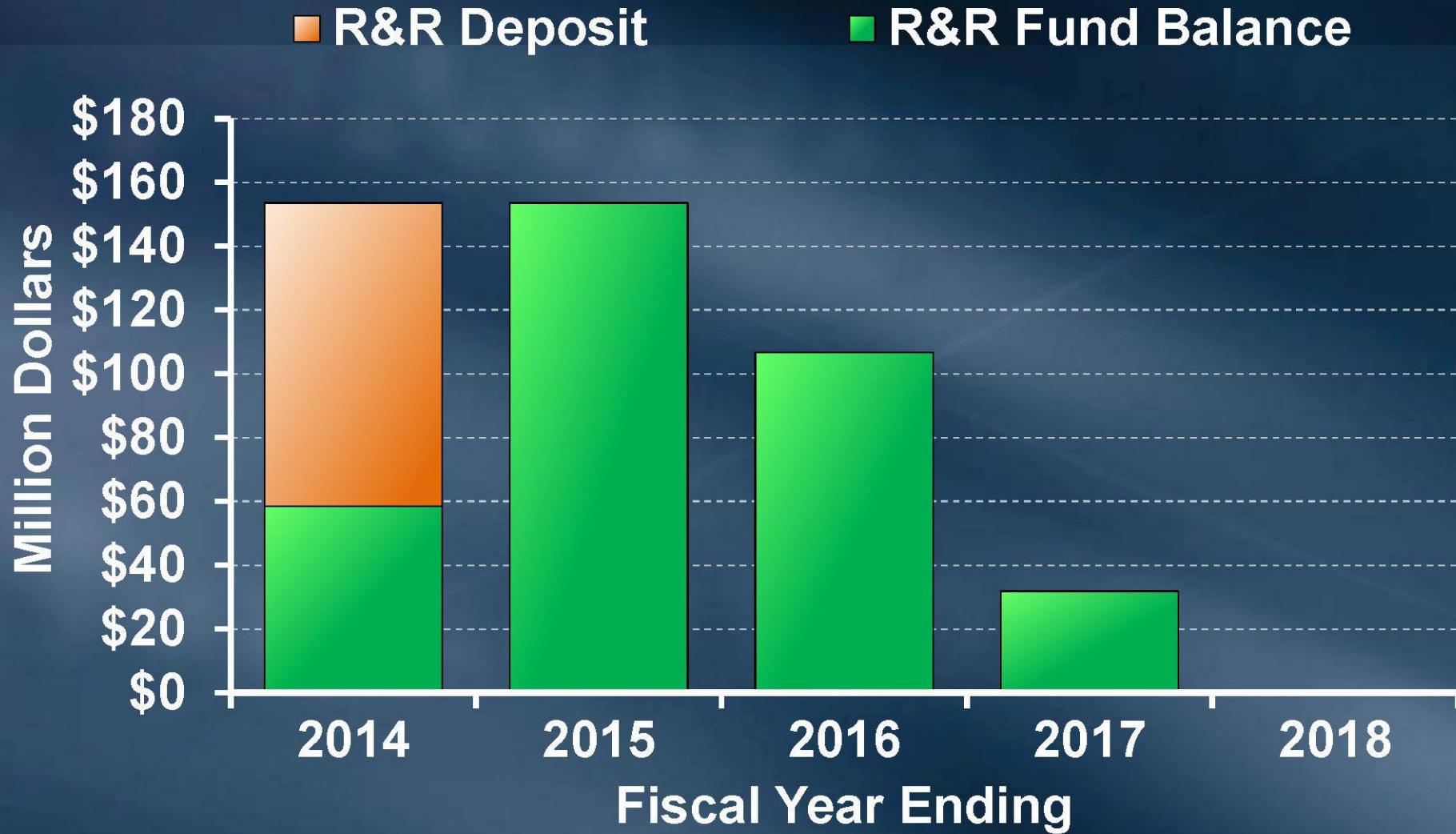
* Revenue Remainder & WRSF

Scenario A: Capital Investment Plan Funding



Scenario A:

Replacement and Refurbishment (R&R) Fund



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 A: Updated Proposed Full Service, Exchange Charges

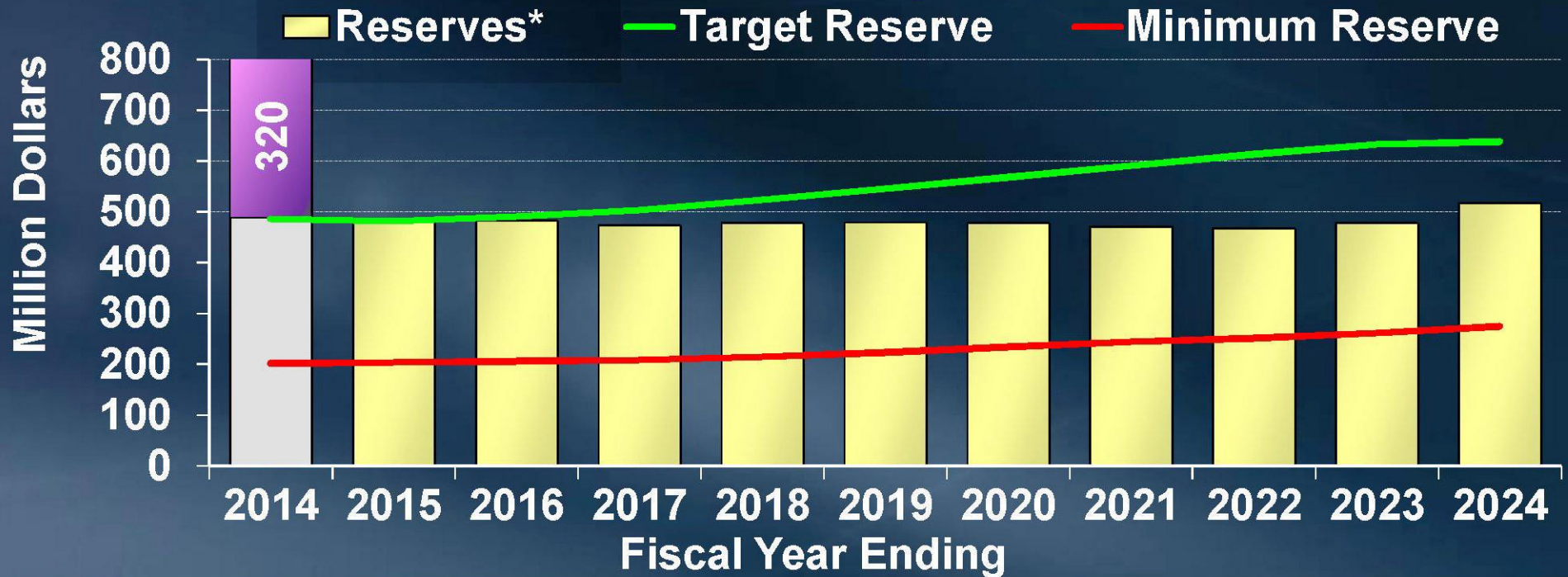
Tier 1 Untreated = Tier 1 Supply Rate + SAR +

Tier 1 Treated = Tier 1 Supply Rate + SAR + WSR + SPR + TS

Rate Type	2014 Approved	2015 Proposed	% Change	2016 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost					
Tier 1	\$593	\$604	1.0%	\$604	2.1%
Tier 2	\$735	\$749	1.9%	\$749	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%

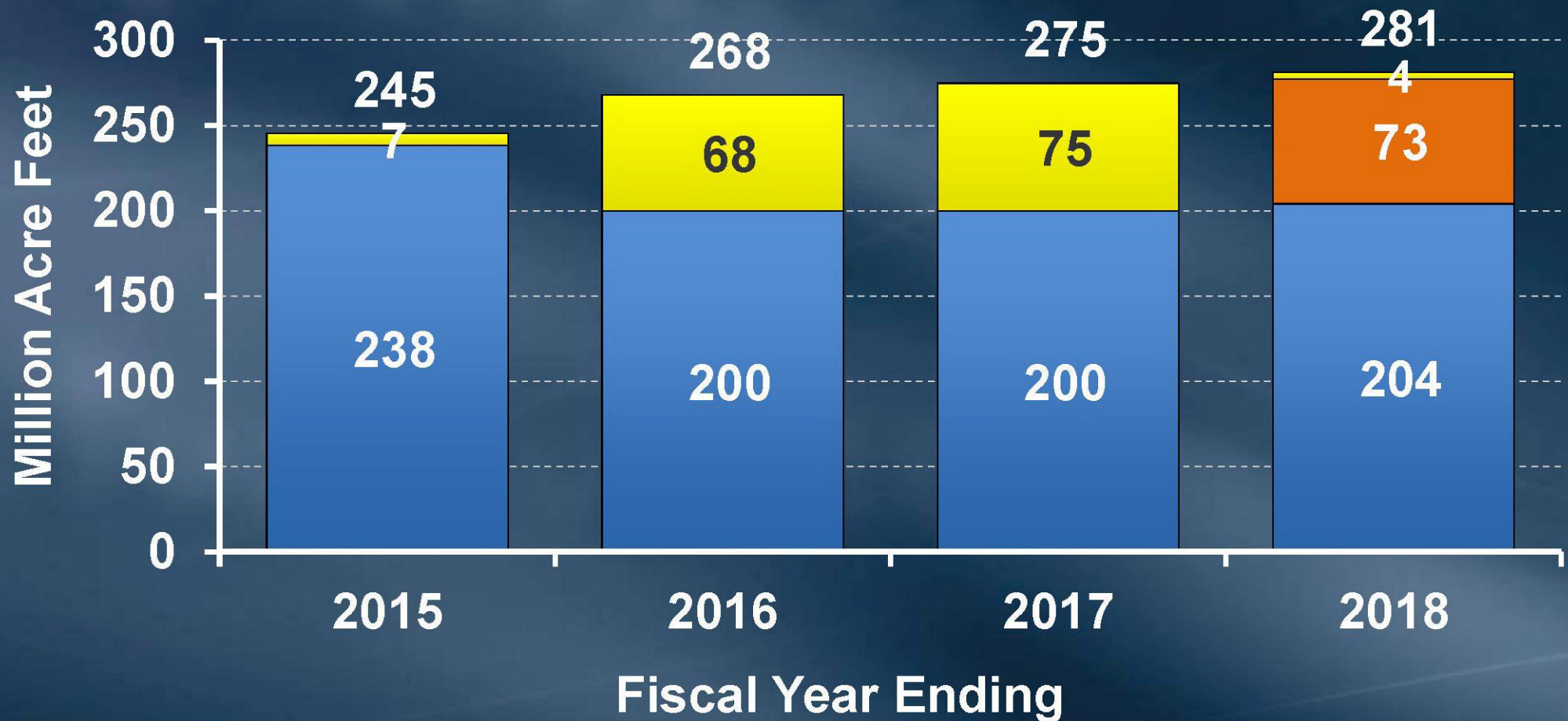


Ave Rate Inc.	5%	0%	1.5%	3.5%	3.5%	4%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	238	200	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	1.9	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0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

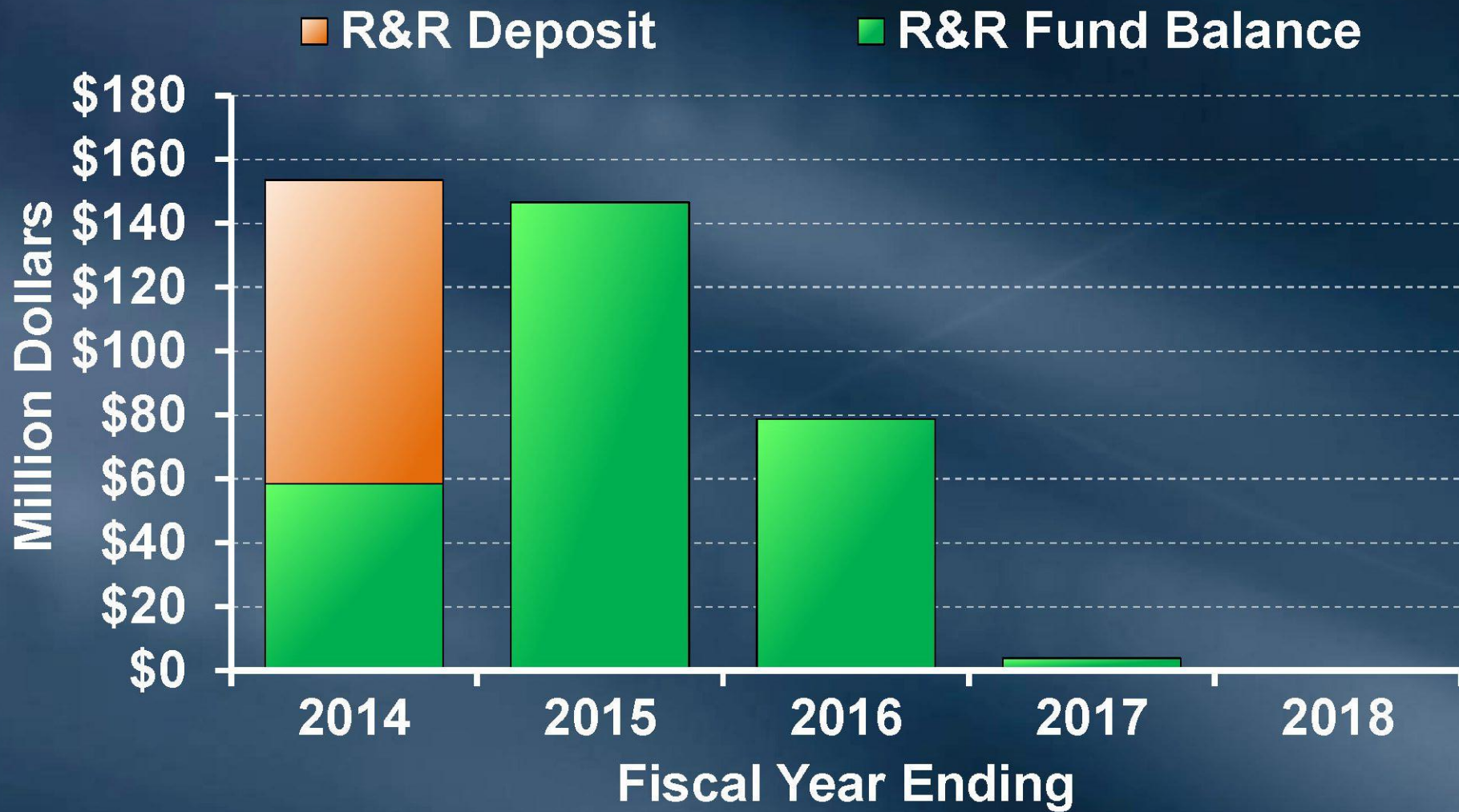
* Revenue Remainder & WRSF

Scenario B: Capital Investment Plan Funding

■ R&R Fund ■ Bonds ■ PAYGO



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



Scenario B: Proposed Rate Elements

Rates and Charges Effective January 1

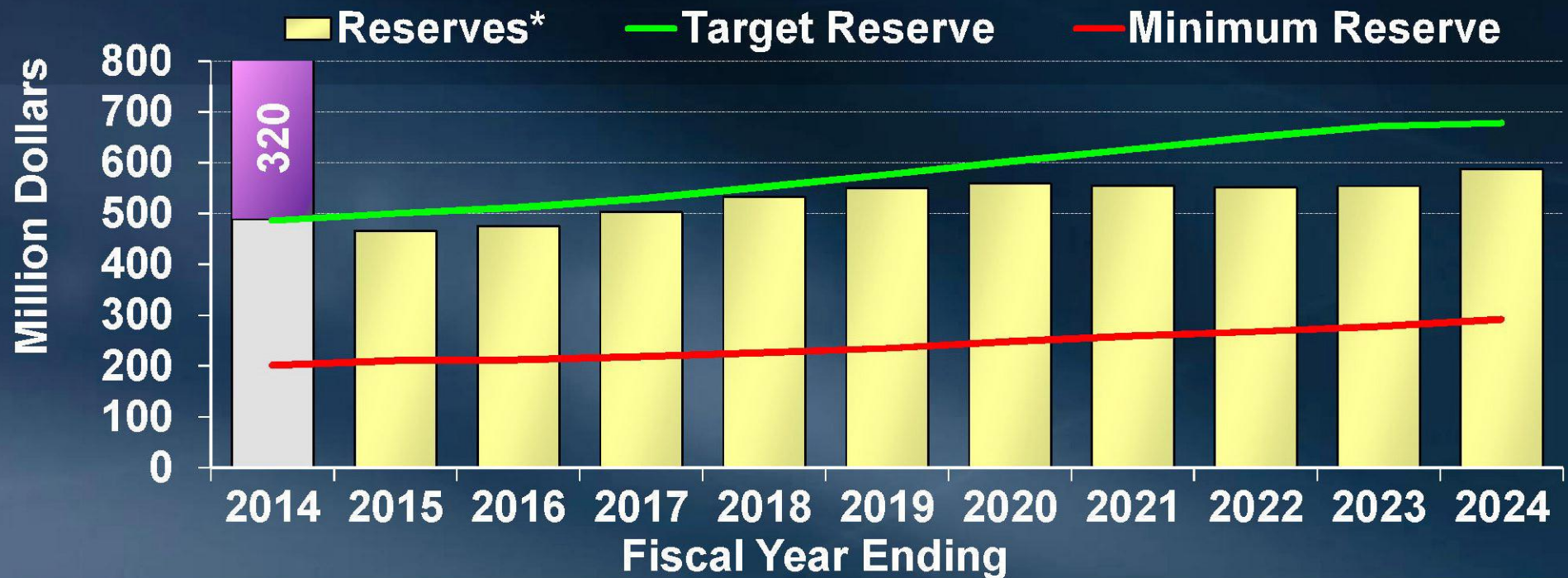
	2014 Approved	2015 Proposed	2016 Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$155	\$154
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$253	\$257
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$125	\$137
Treatment Surcharge (\$/AF)	\$297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

Scenario 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

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 Rate Elements

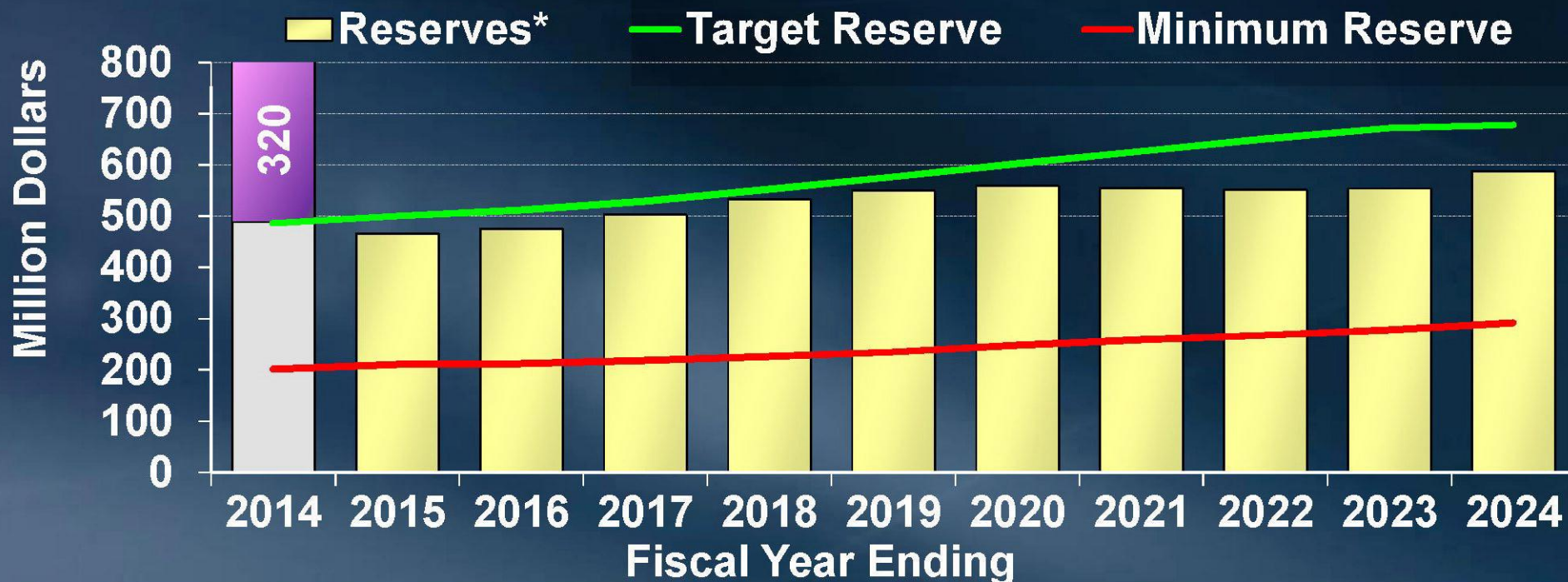
Rates and Charges Effective January 1			
	2014 Approved	2015 Proposed	2016 Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$161	\$162
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$264	\$274
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$126	\$140
Treatment Surcharge (\$/AF)	\$297	\$340	\$352
Readiness-to-Serve Charge (\$M)	\$166	\$171	\$170
Capacity Charge (\$/cfs)	\$31	\$44	\$44

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%

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

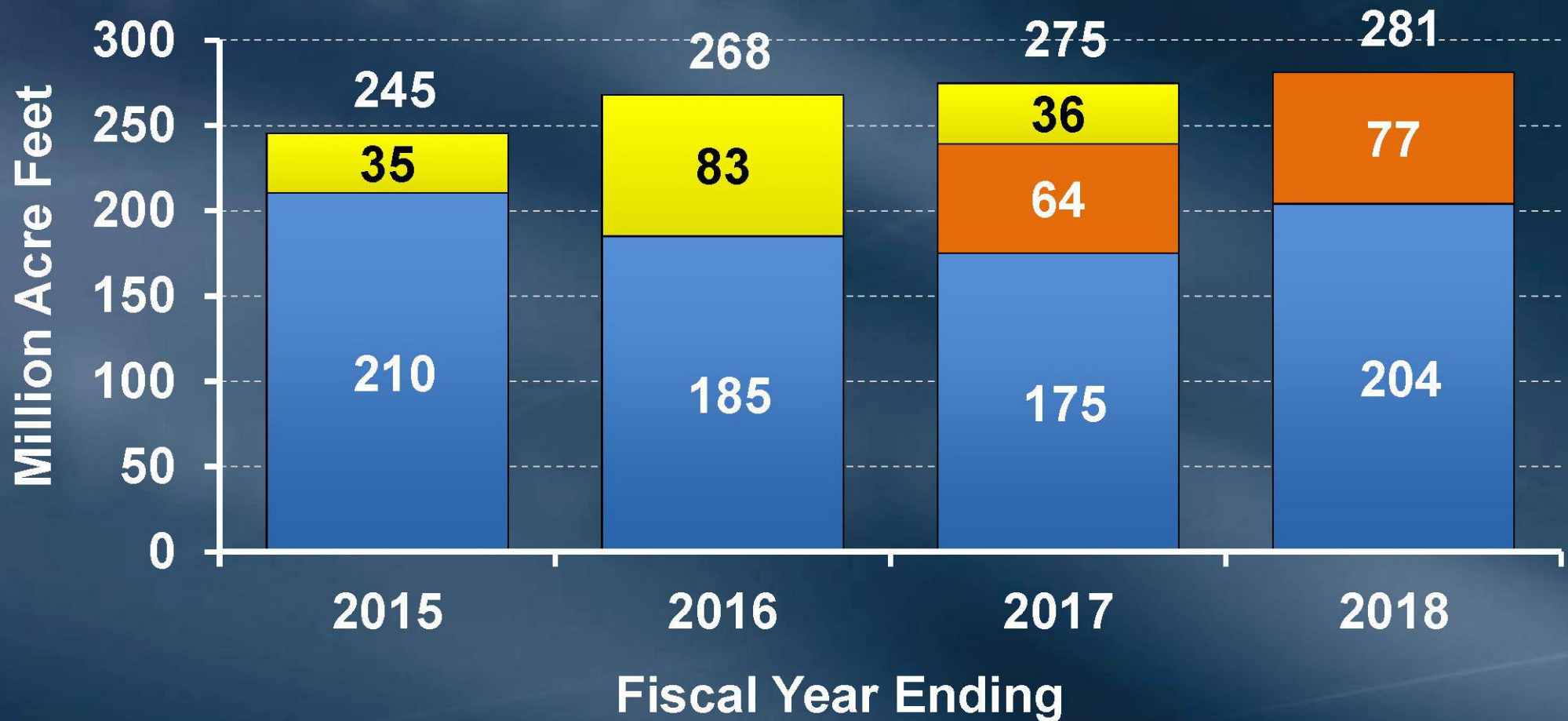
	2014 Approved	2015 Proposed	2016 Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$159	\$157
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$261	\$265
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$126	\$137
Treatment Surcharge (\$/AF)	\$297	\$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

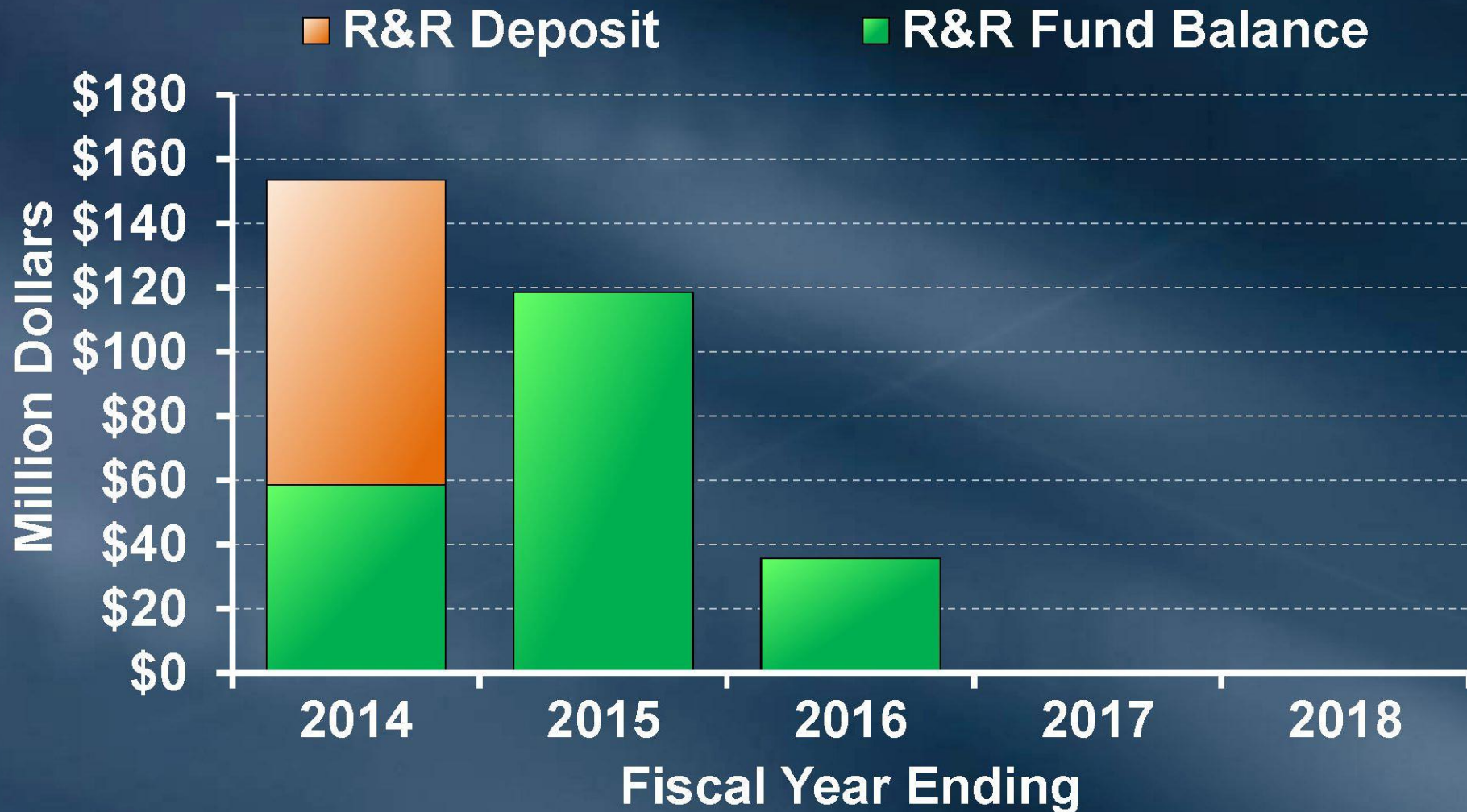
Rate Type	2014 Approved	2015 Proposed	% Increase (Decrease)	2016 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$593	\$587	-1.0%	\$600	2.2%
Tier 2	\$735	\$718	-2.3%	\$733	2.1%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$890	\$916	2.9%	\$933	1.9%
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



Response to Questions from Workshop #1

Impact of Supply Conditions on Power Costs

Assumptions

Calendar Year Ending	2014	2015
CRA pump load	8 pumps	7 pumps
CRA deliveries	1.185 MAF	.940 MAF
State Water Project Allocation	5%	25%

Results of Lower SWP Allocation

- Greater use of CRA to move water into the service area
- Continued use of Storage Programs in CY 2015
- In FY 2014/15 and FY 2015/16, SWP power costs are lower but CRA power cost are higher
 - FY 2014/15 reduction of approximately \$39M
 - FY 2015/16 reduction of approximately \$20M
- Costs to refill storage will be significant
- Costs less than budget could be set aside in the Water Management Fund to offset future storage refill costs

Comparison of Use of Reserves over Target to reduce Debt vs. OPEB Costs

Use of Reserves to Reduce Debt vs. OPEB Liability

- Deposit of \$100 million to R&R Fund reduces future annual debt costs by \$4 million
 - Assumes use of variable rate debt at a rate of 1% and 30 year amortization
 - Decreases future percentage of capital budget funded with debt
- Deposit of \$100 million to OPEB Trust reduces future annual contributions by \$6.5 million
 - Improves funded percentage from 13% to 43%
 - Pays down liability for benefits earned in prior years
 - Increases future percentage of capital budget funded with debt

Revenue Funded Capital (PayGo)

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%

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)

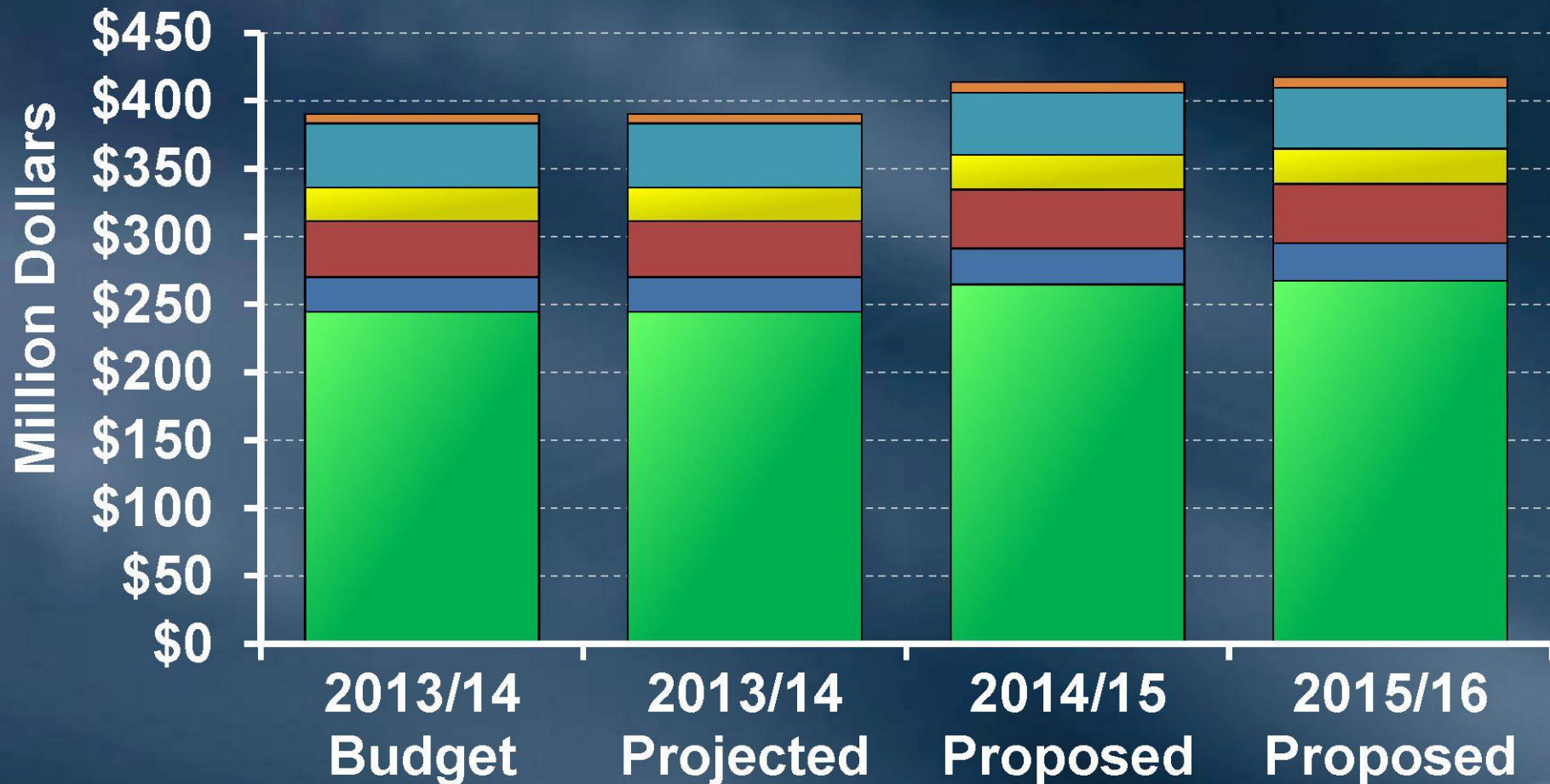
● Cons

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

Operating Budget

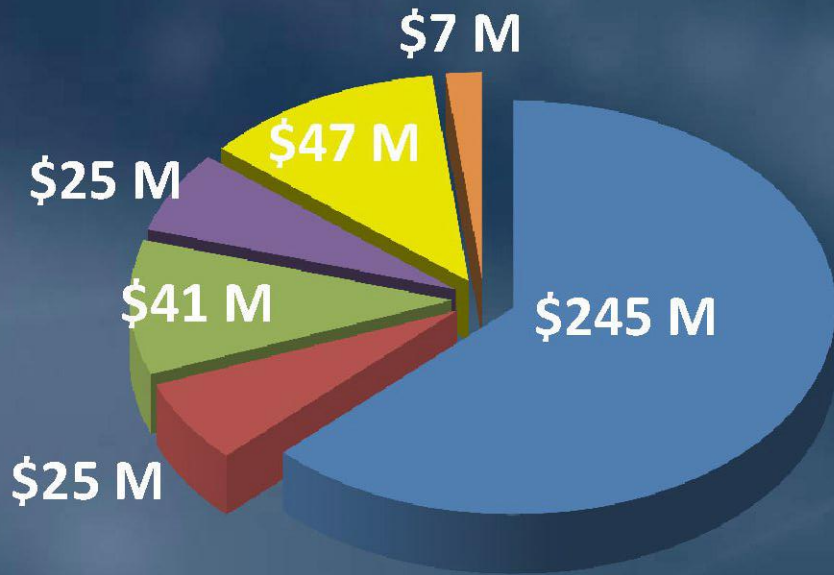
Proposed O&M Expenditure Budget

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

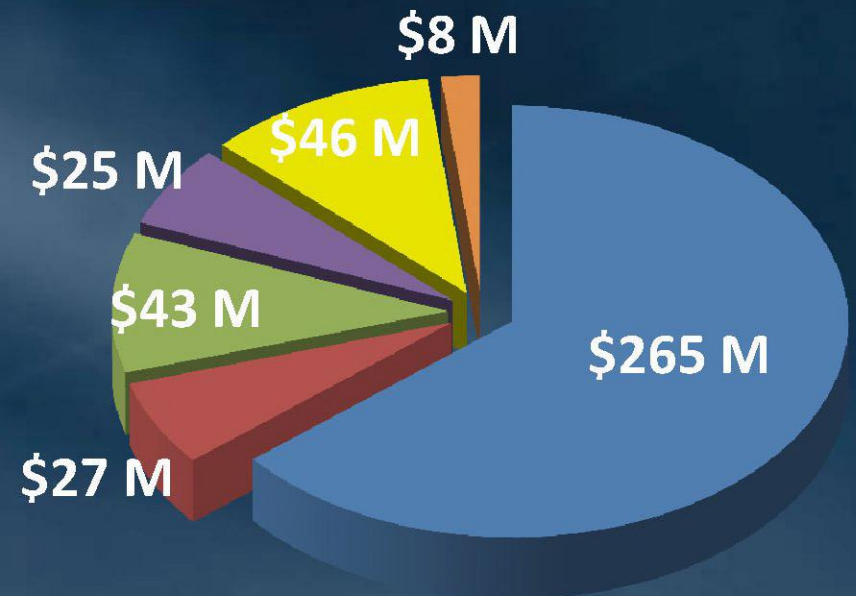


O&M Budget Trend

FY 2013/14 - \$390 M



FY 2014/15 - \$414 M



■ Salary & Benefits

■ Variable Treatment

■ Outside Services

■ Materials & Supplies

■ Other

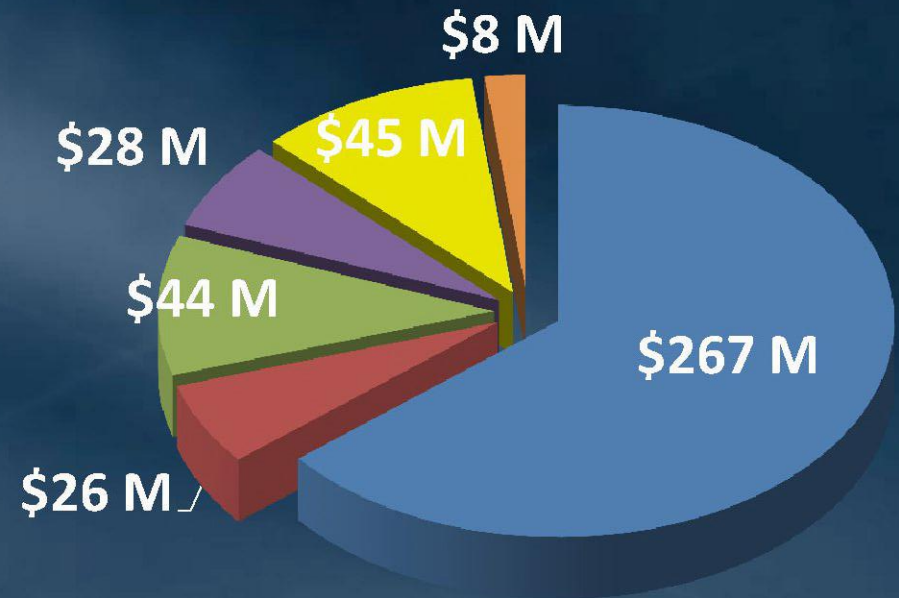
■ Operating Equipment

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

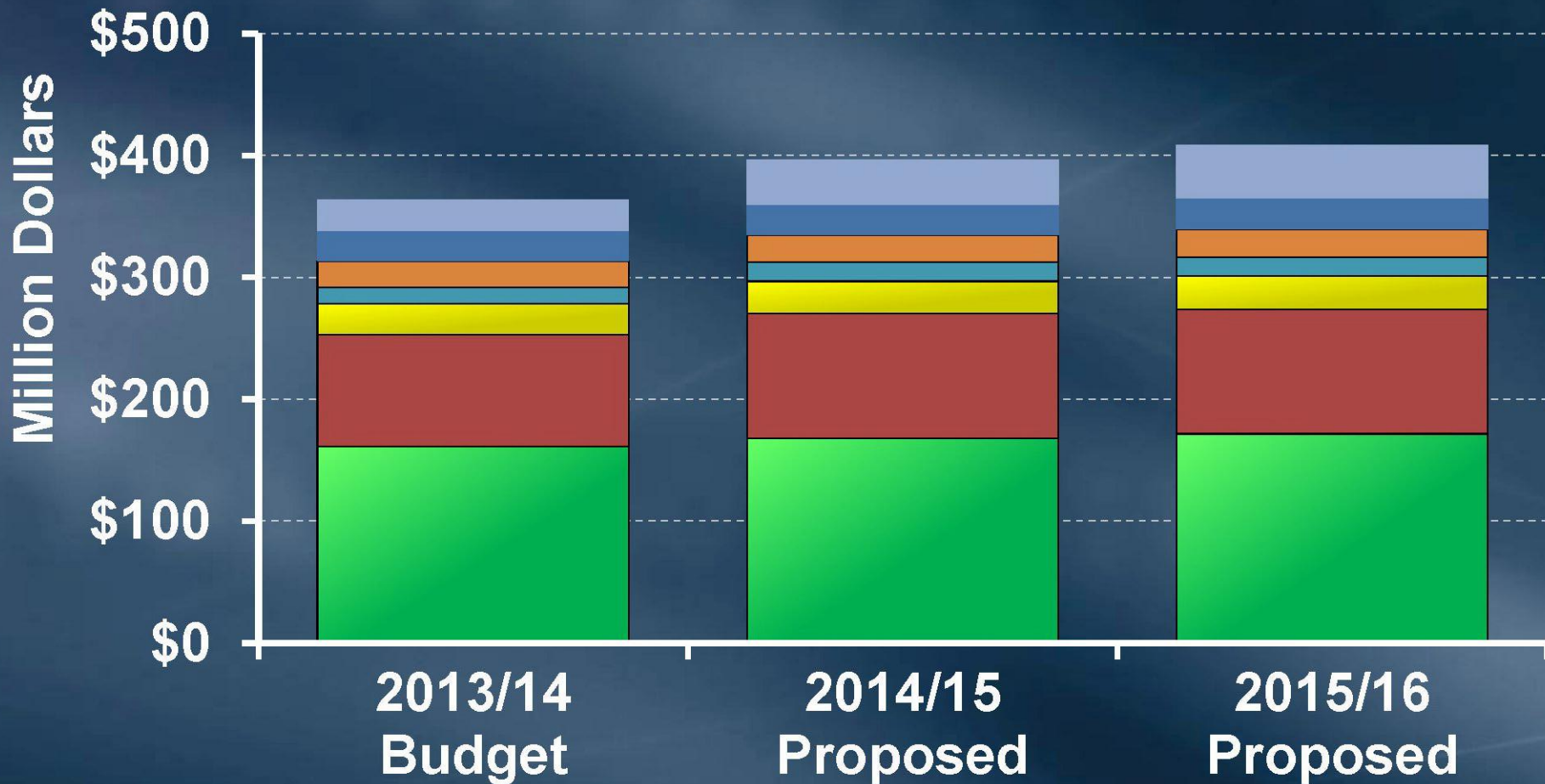
FY 2014/15 to FY 2015/16

● 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

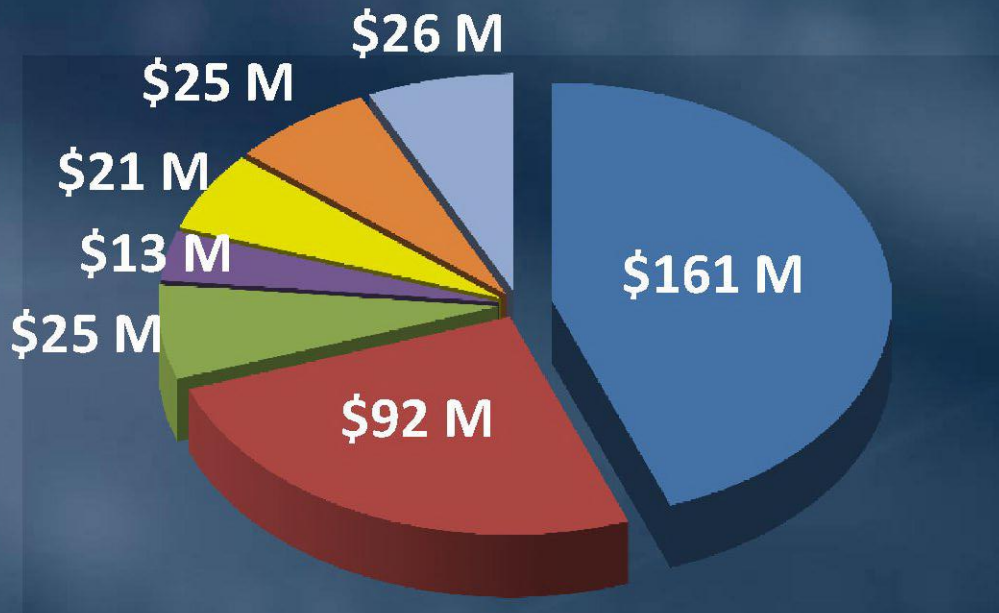
GM Department O&M Budget

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



GM Department O&M Budget Trend

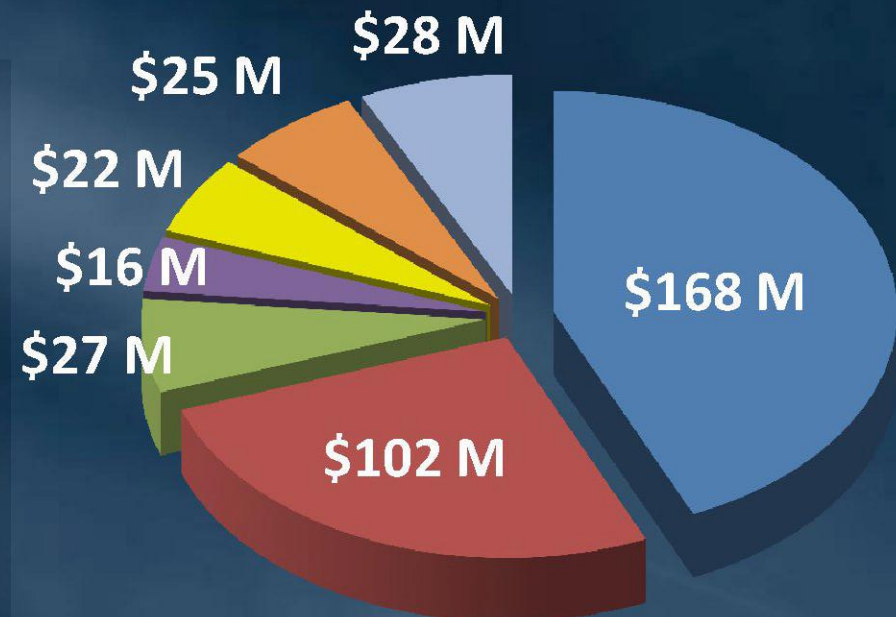
FY 2013/14 - \$363 M



1,733 FTEs

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

FY 2014/15 - \$388 M

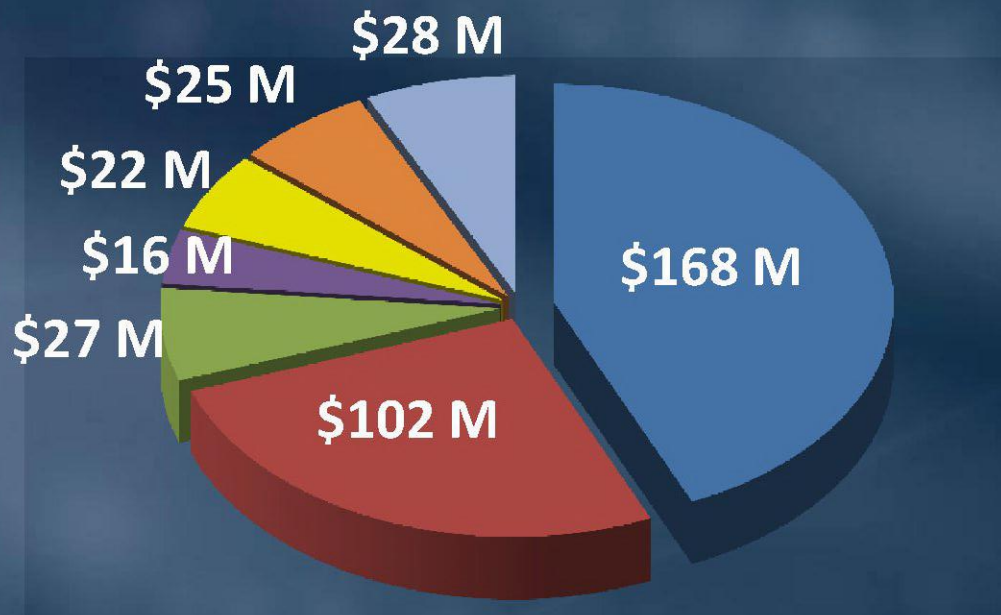


1,776 FTEs

- Benefits
- Professional Services
- Materials & Supplies

GM Department O&M Budget Trend

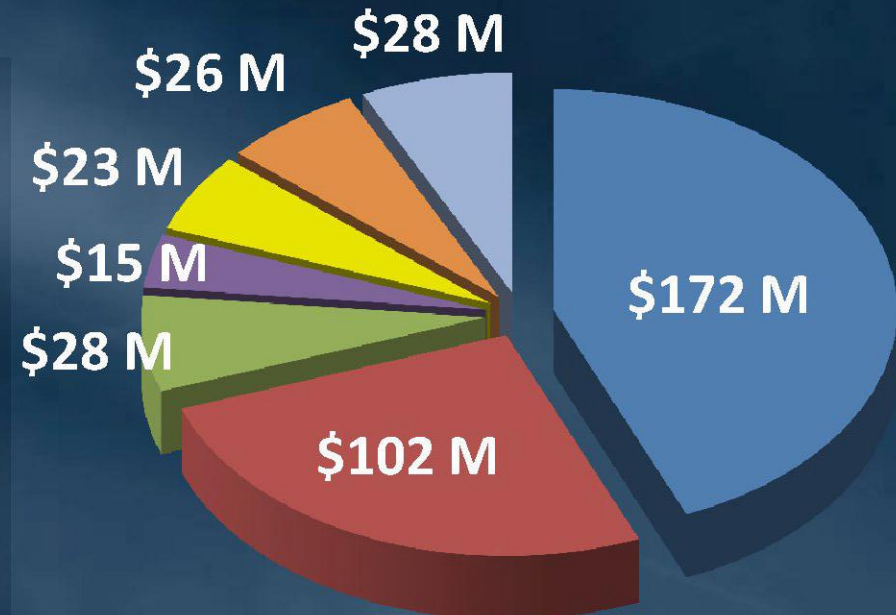
FY 2014/15 - \$388 M



1,776 FTEs

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

FY 2015/16 - \$393 M



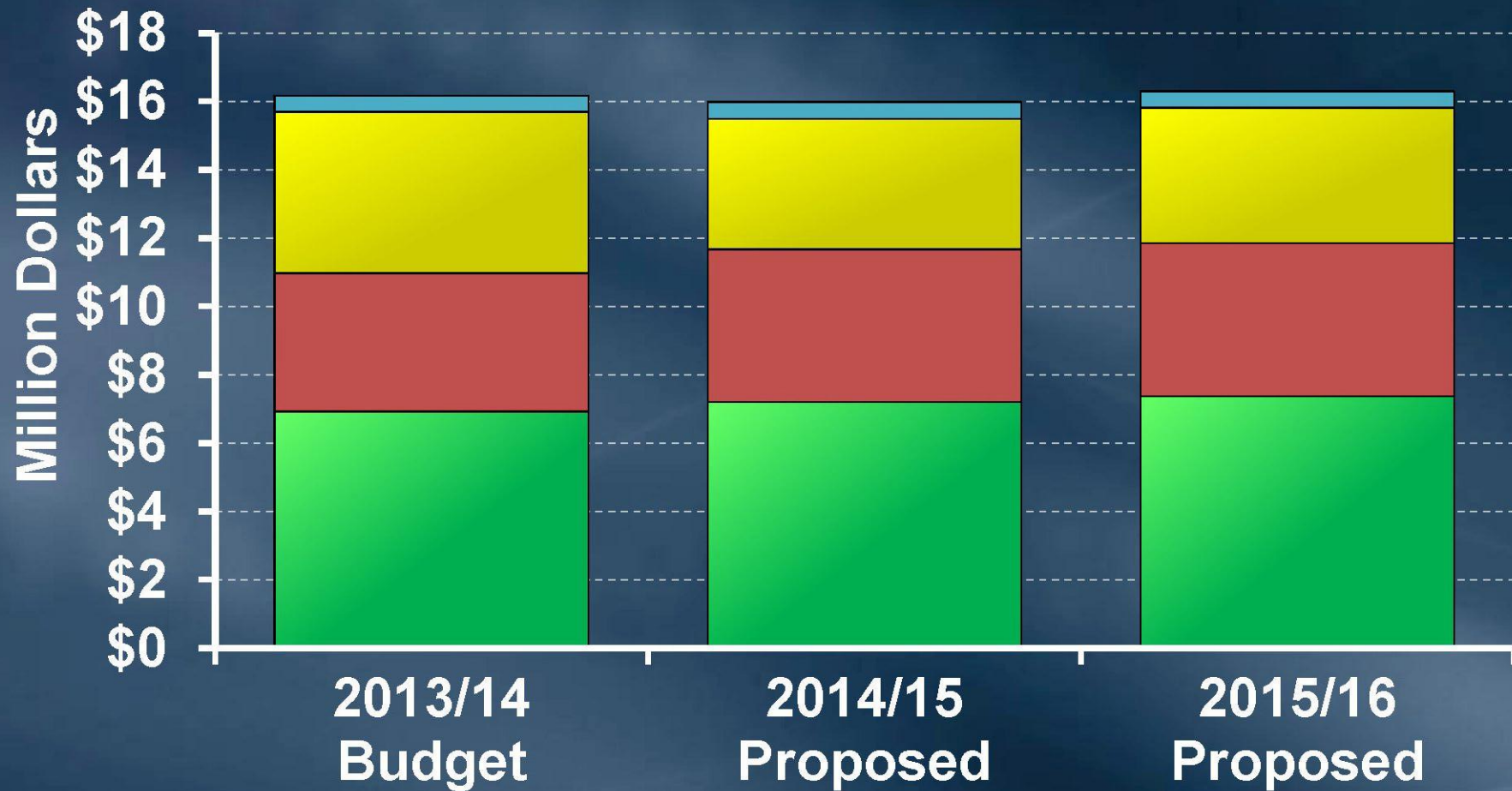
1,775 FTEs

- Benefits
- Professional Services
- Materials & Supplies

Legal Department

Legal Department O&M Budget

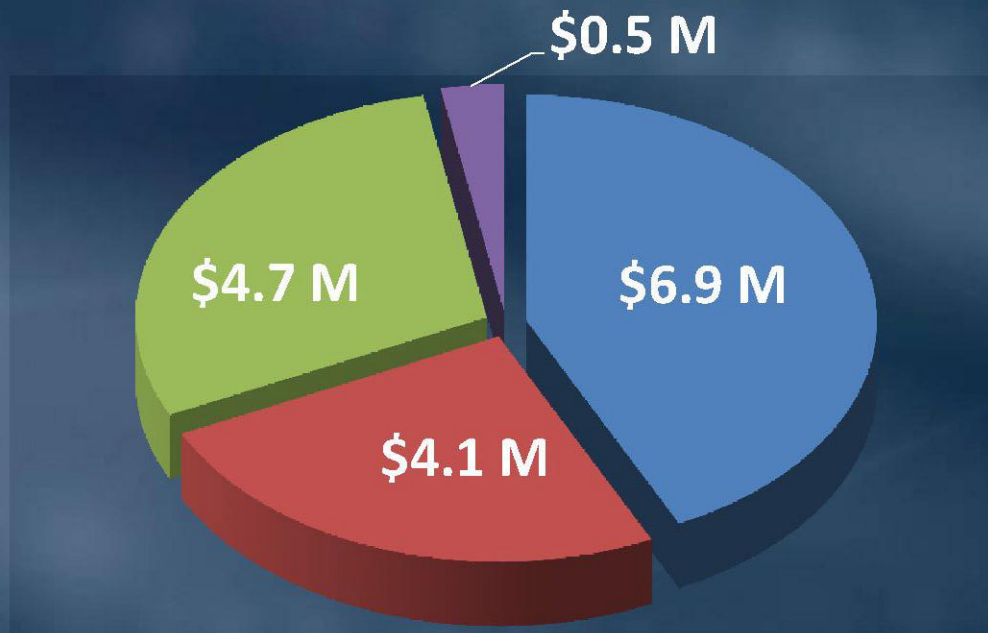
■ Salaries ■ Benefits ■ Professional Services ■ Other



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

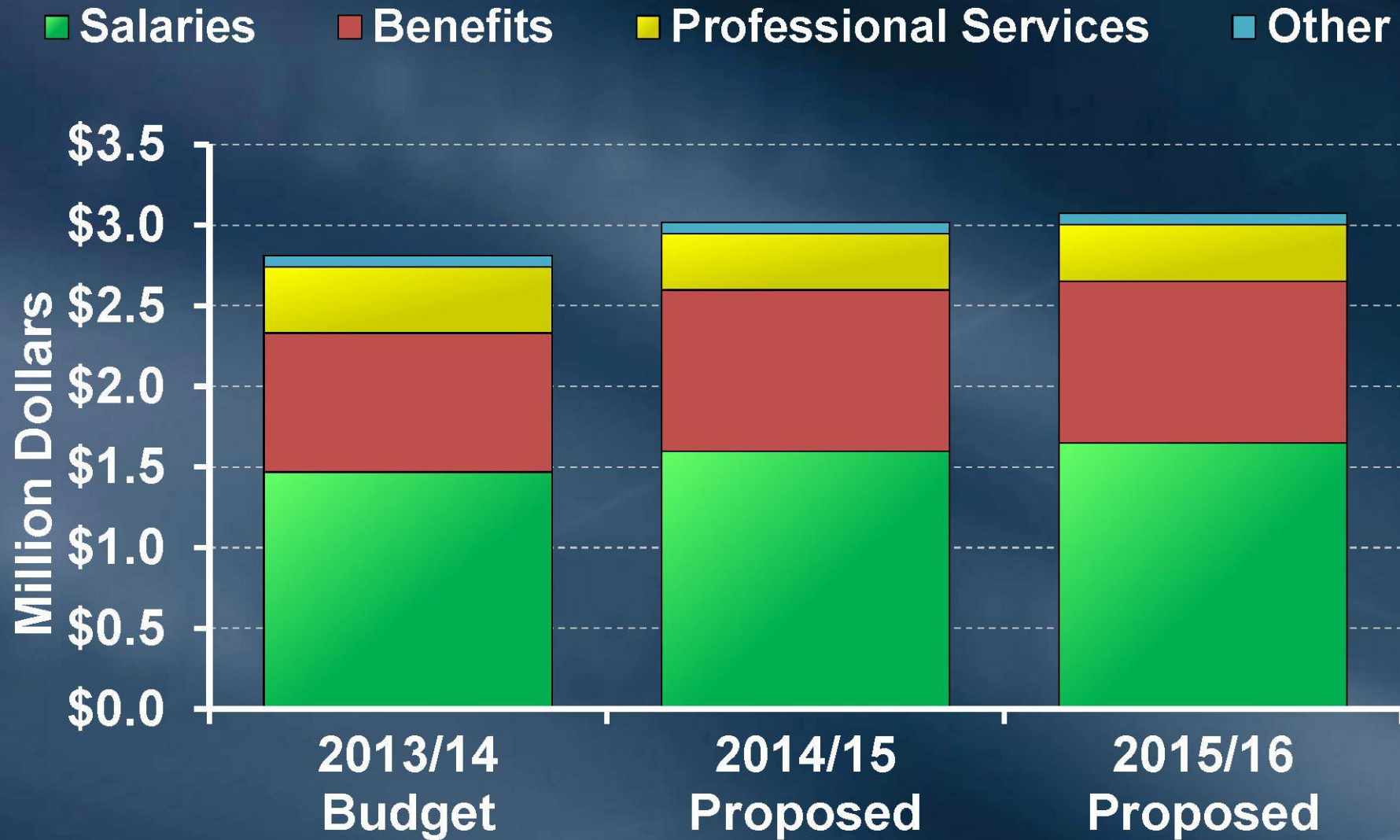


36 FTEs

■ Salaries ■ Benefits ■ Professional Services ■ Other

Audit Department

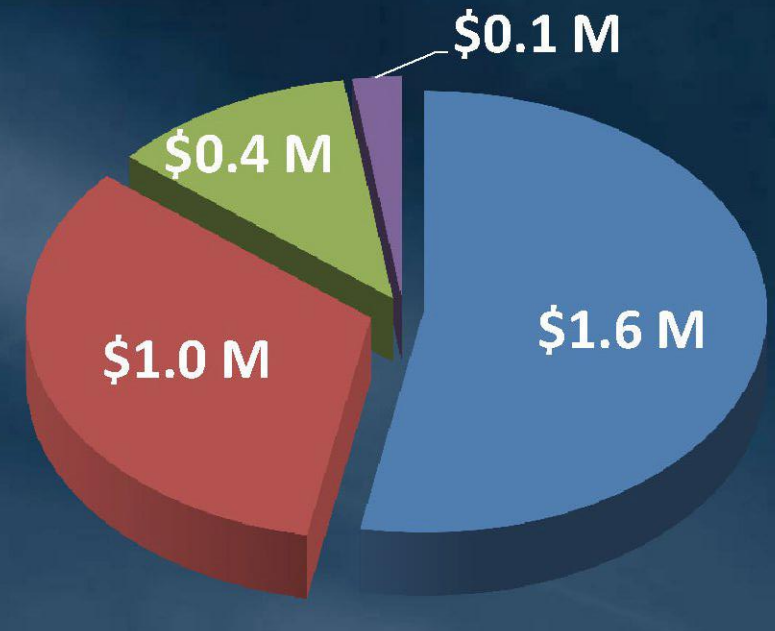
Audit Department O&M Budget



Audit Department O&M Budget Trend

FY 2013/14 - \$2.8 M

FY 2014/15 - \$3.0 M



12 FTEs

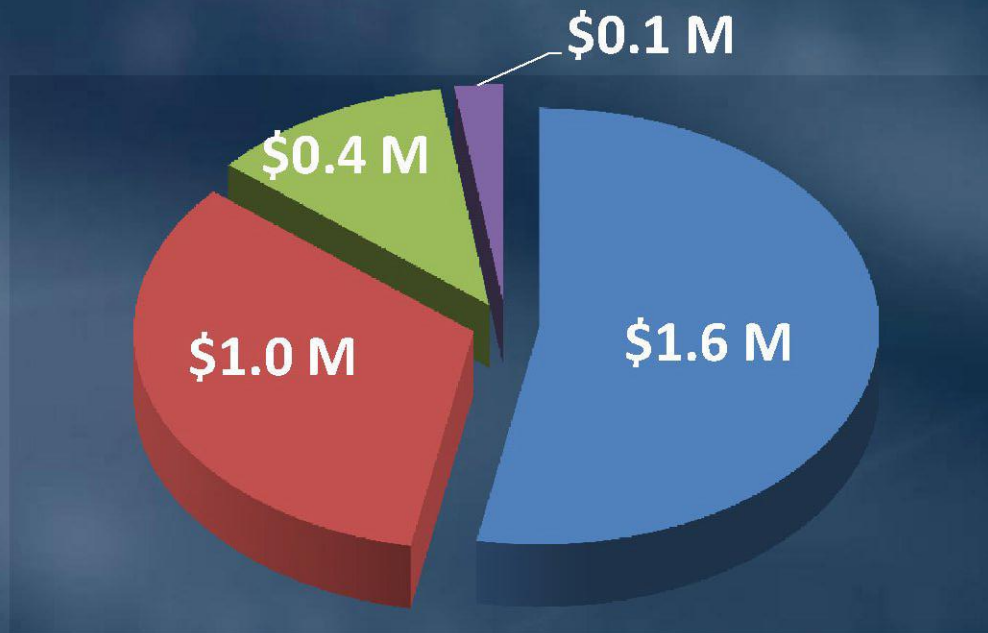
12 FTEs

■ Salaries ■ Benefits ■ Professional Services ■ Other

Audit Department O&M Budget Trend

FY 2014/15 - \$3.0 M

FY 2015/16 - \$3.1 M



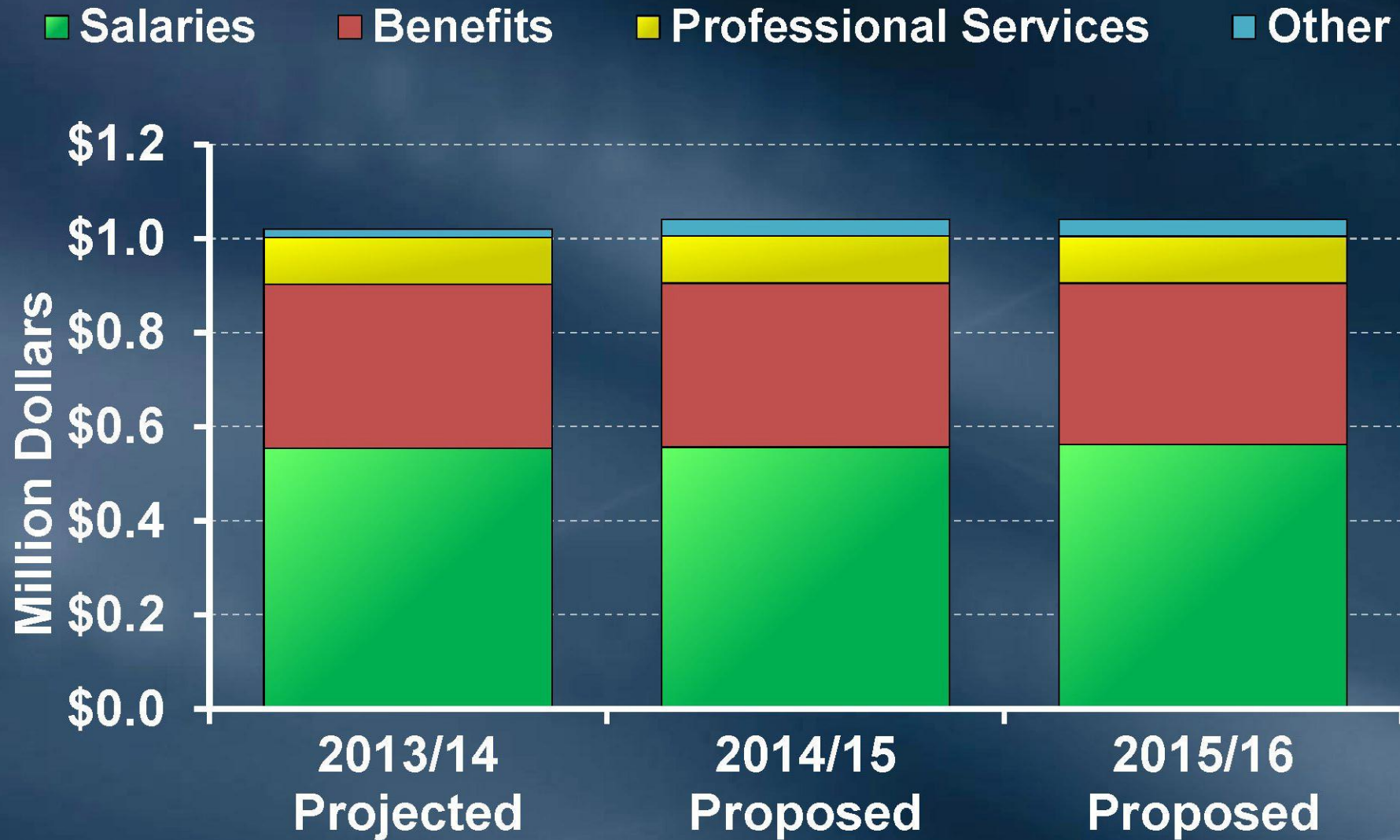
12 FTEs

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



4 FTES

FY 2014/15 - \$1.0M



4 FTES

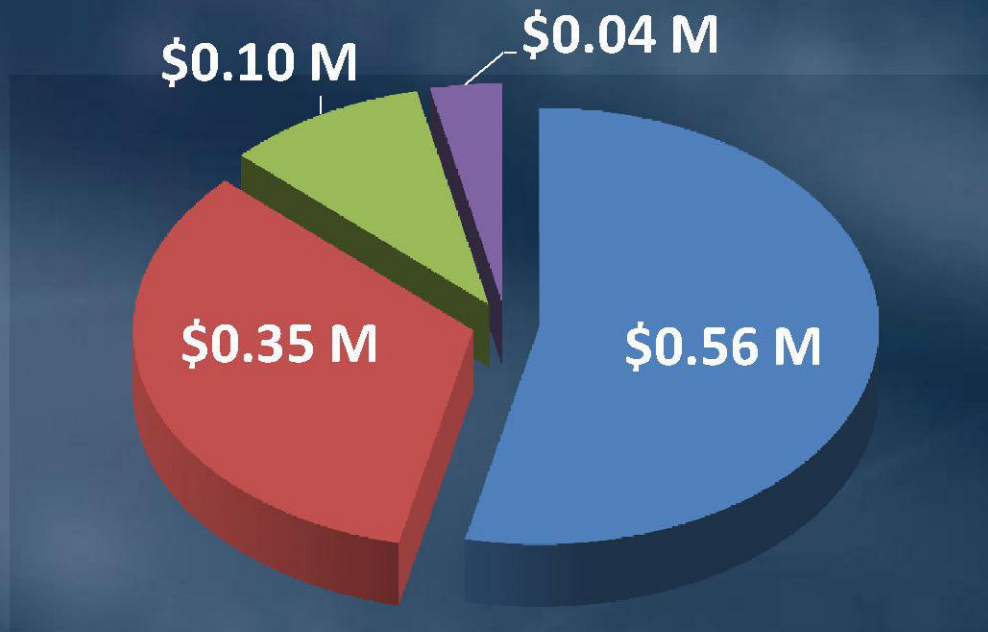
■ Salaries ■ Benefits ■ Professional Services ■ Other

Projected

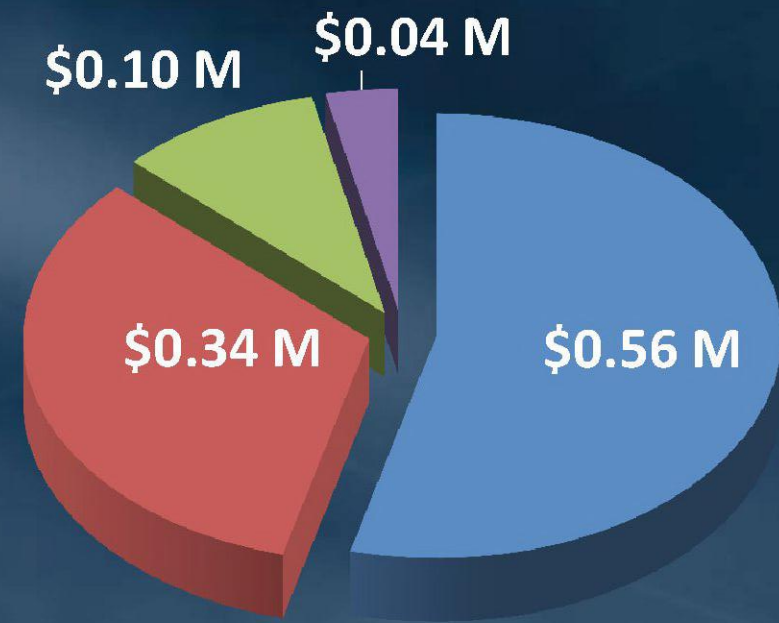
Ethics Department O&M Budget Trend

FY 2014/15 - \$1.0M

FY 2015/16 - \$1.0M



4 FTES



4 FTES

■ Salaries ■ Benefits ■ Professional Services ■ Other

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	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

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

**Board Workshop #2
February 25, 2014**



Proposed Biennial Budget Workshop #2

Presentation Overview

- Rate Scenarios
- Response to Questions from Workshop #1
- Operating Budget
- Next Steps

Rate Scenarios

- Scenario A: Updated 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

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 A: 1.5% / 1.5%

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 Proposal 1.5%/1.5%

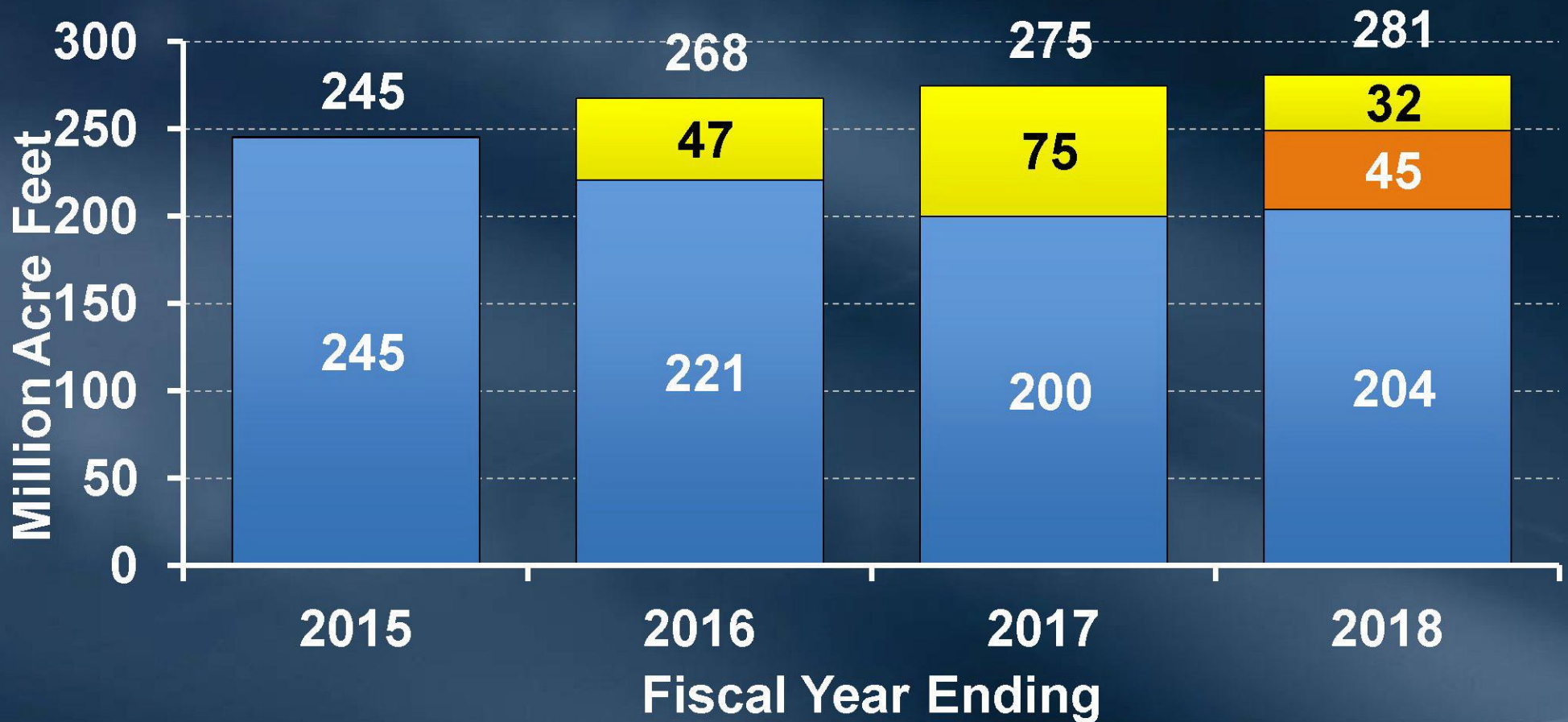


Ave Rate Inc.	5%	1.5%	1.5%	3%	3%	3.5%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	245	221	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	2.0	2.0	2.1	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0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

Scenario A: Capital Investment Plan Funding

■ R&R Fund ■ Bonds ■ PAYGO

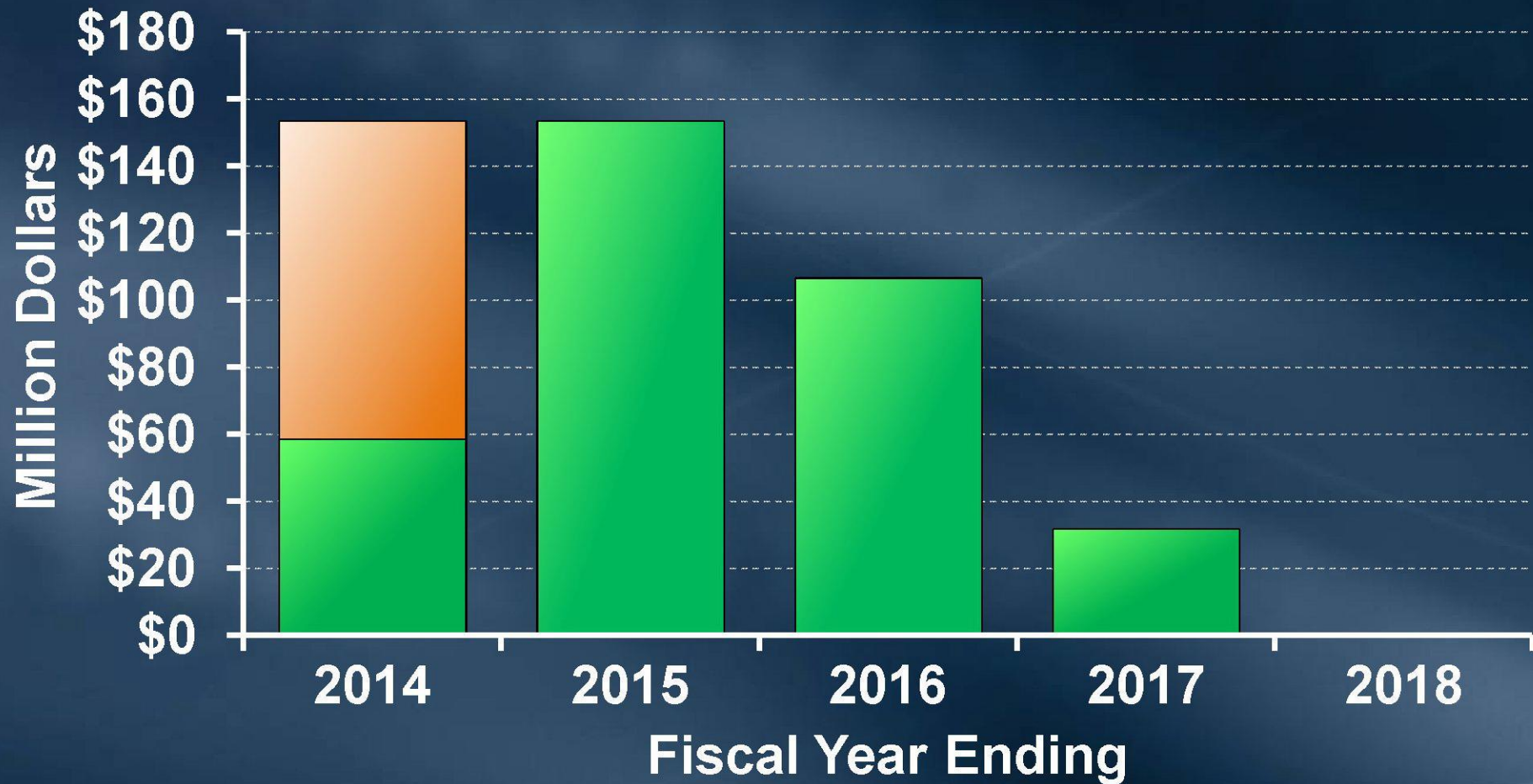


Scenario A:

Replacement and Refurbishment (R&R) Fund

■ R&R Deposit

■ R&R Fund Balance



Scenario A: Updated Proposed Rate Elements

Rates and Charges Effective January 1			
	2014	2015	2016
	Approved	Proposed	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 A: Updated Proposed Full Service, Exchange Charges

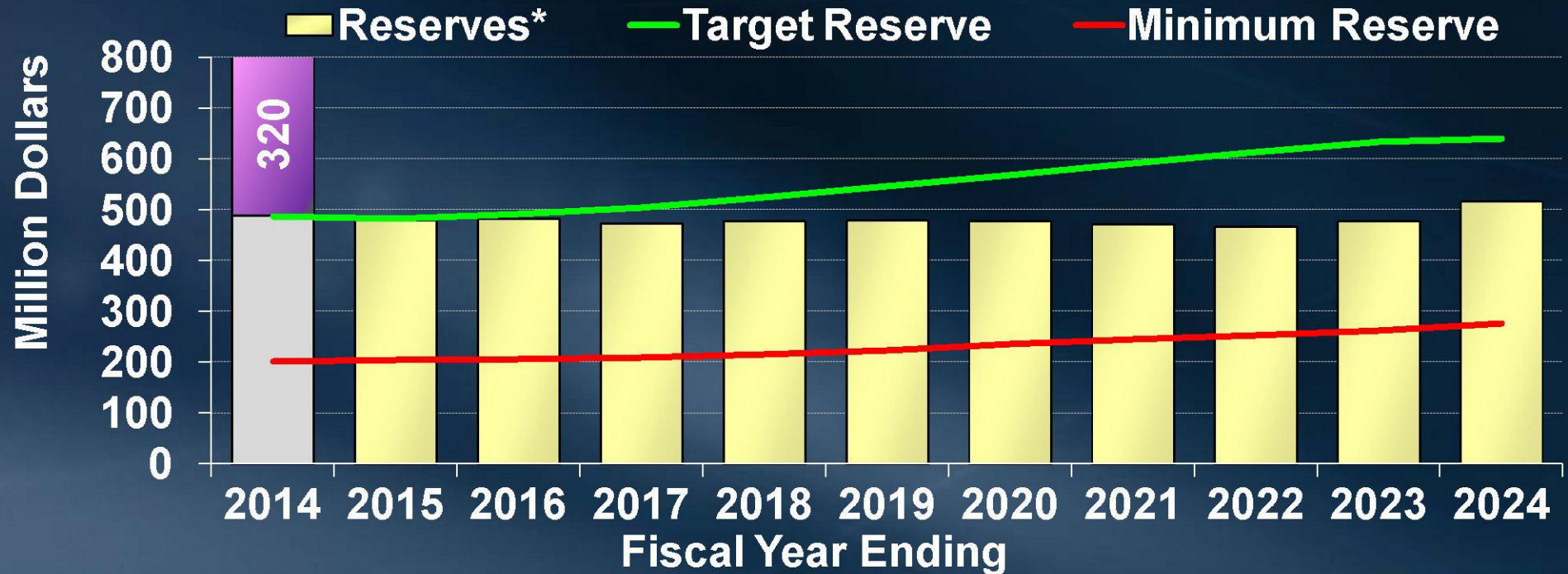
Tier 1 Untreated = Tier 1 Supply Rate + SAR + WSR + SPR + TS

Tier 1 Treated = Tier 1 Supply Rate + SAR + WSR + SPR + TS

Rate Type	2014 Approved	2015 Proposed	% Change	2016 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost					
Tier 1	\$593	\$604	2.1%	\$604	2.1%
Tier 2	\$735	\$748	2.0%	\$748	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%

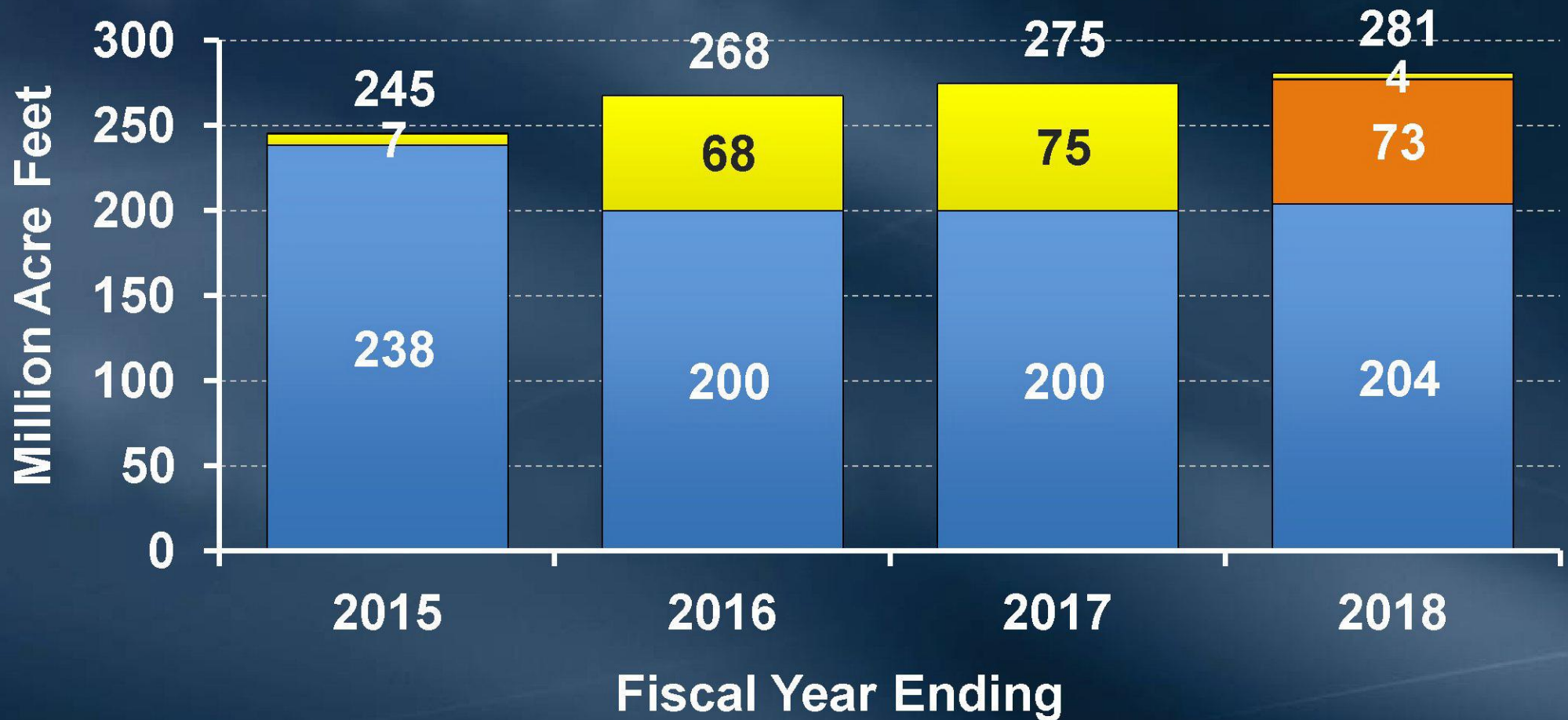


Ave Rate Inc.	5%	0%	1.5%	3.5%	3.5%	4%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	238	200	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	1.9	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0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

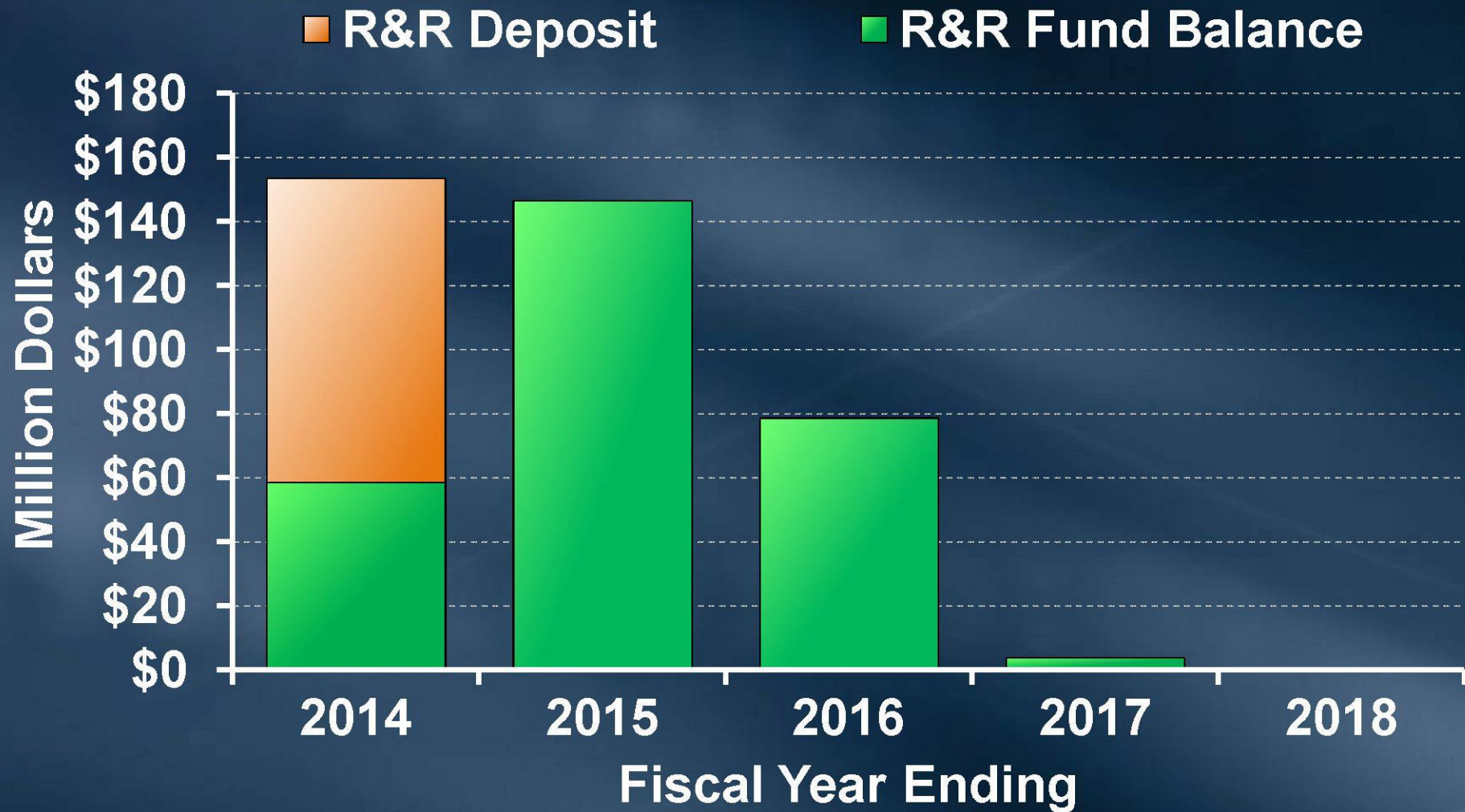
* Revenue Remainder & WRSF

Scenario B: Capital Investment Plan Funding

■ R&R Fund ■ Bonds ■ PAYGO



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



Scenario B: Proposed Rate Elements

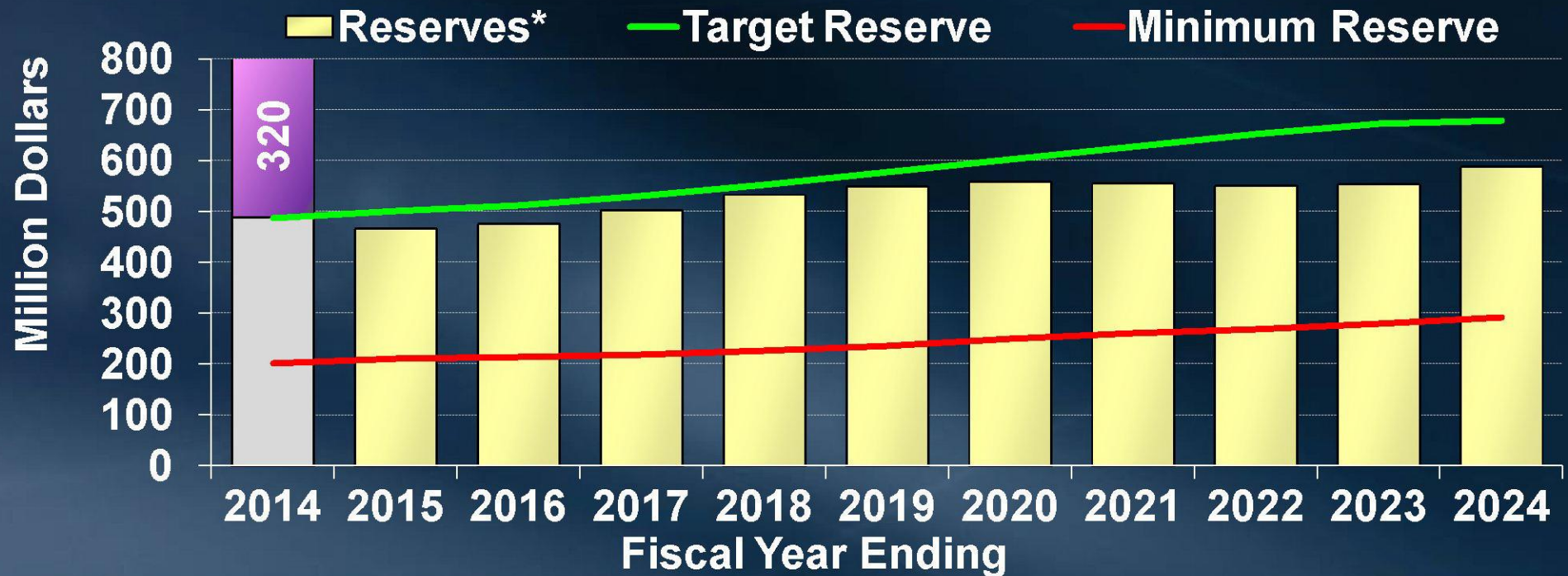
Rates and Charges Effective January 1			
	2014	2015	2016
	Approved	Proposed	Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$155	\$154
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$253	\$257
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$125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

Scenario 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

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 Rate Elements

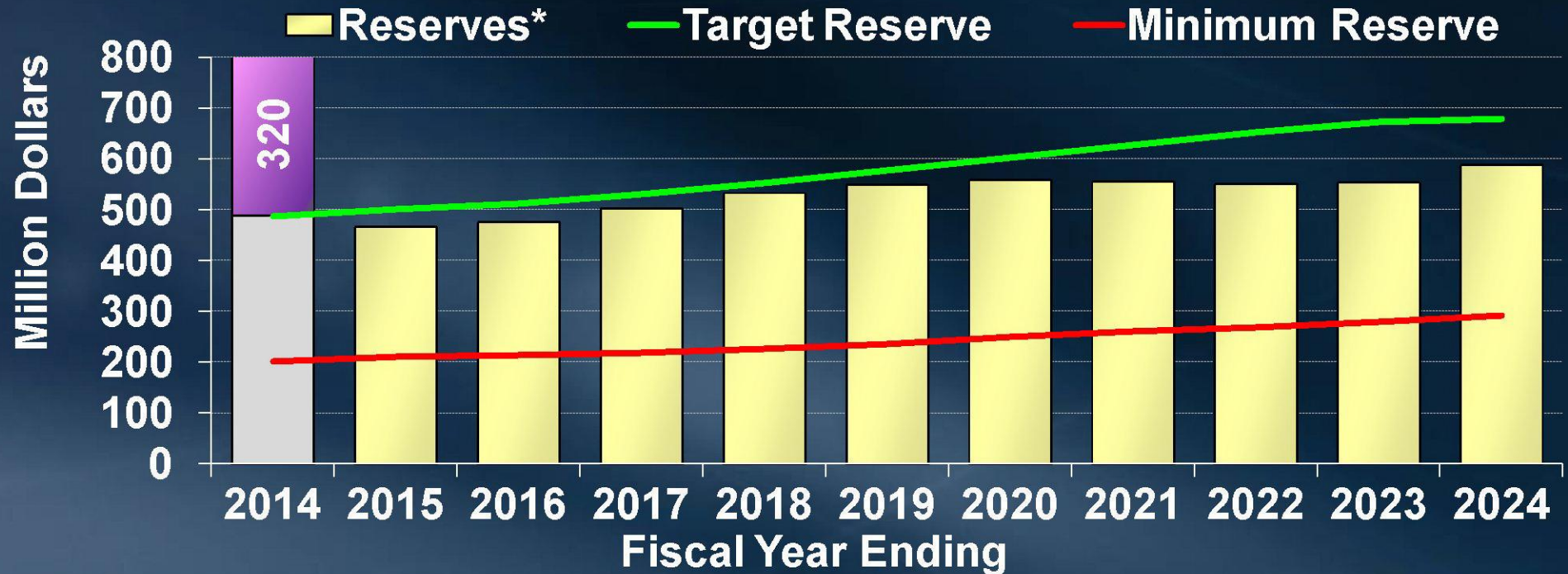
Rates and Charges Effective January 1			
	2014 Approved	2015 Proposed	2016 Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$161	\$162
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$264	\$274
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$126	\$140
Treatment Surcharge (\$/AF)	\$297	\$340	\$352
Readiness-to-Serve Charge (\$M)	\$166	\$171	\$170
Capacity Charge (\$/cfs)	\$31	\$44	\$44

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%

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

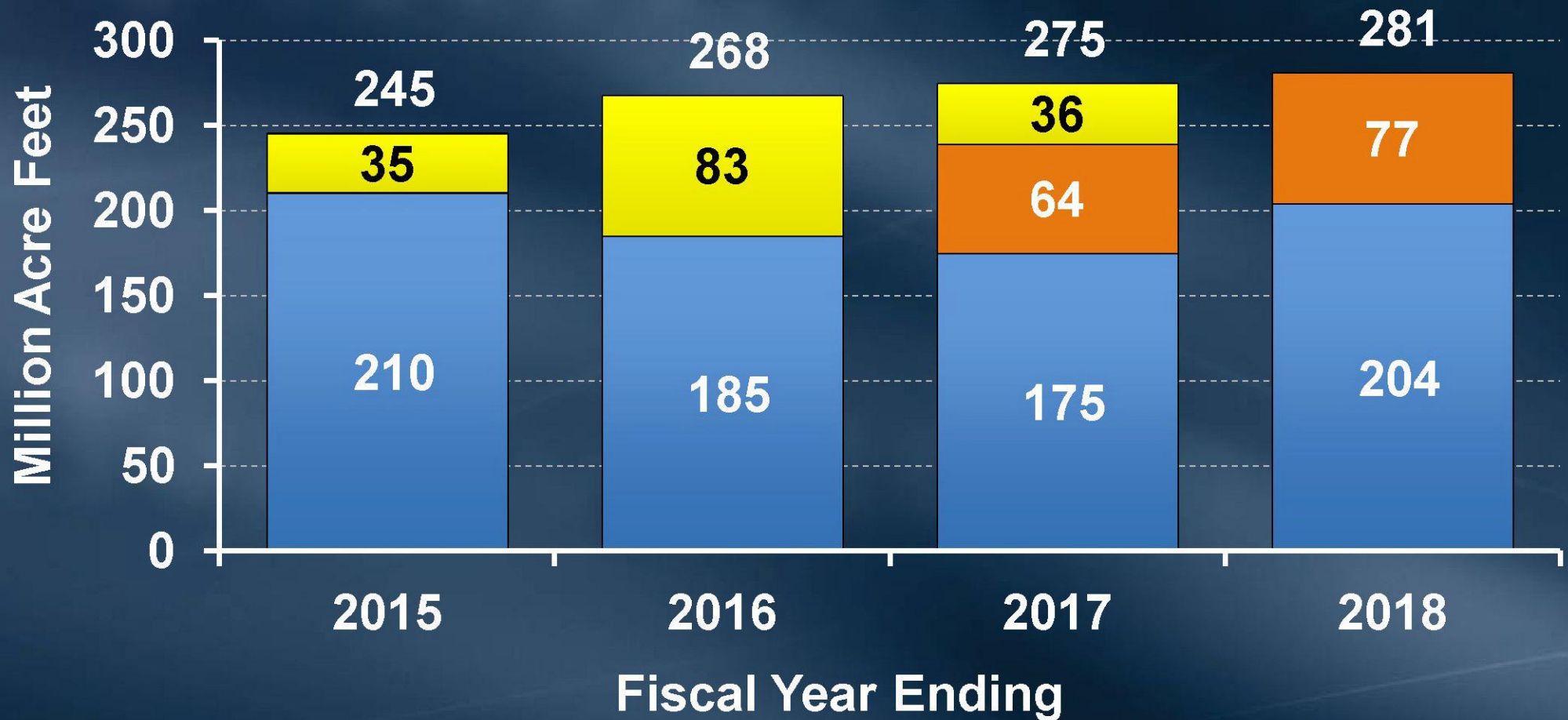
Rates and Charges Effective January 1			
	2014	2015	2016
	Approved	Proposed	Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$159	\$157
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$261	\$265
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$126	\$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

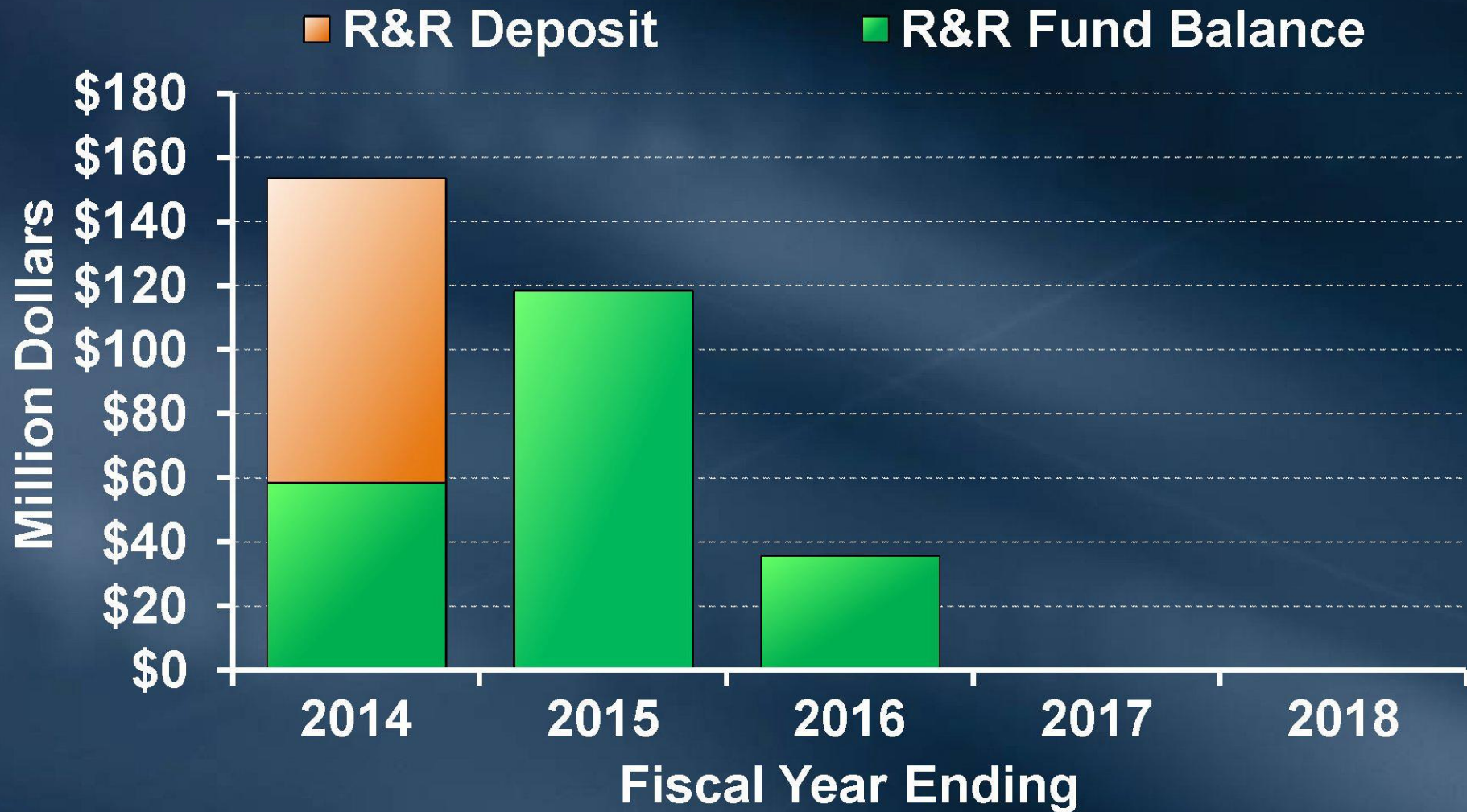
Rate Type	2014 Approved	2015 Proposed	% Increase (Decrease)	2016 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$593	\$587	-1.0%	\$600	2.2%
Tier 2	\$735	\$718	-2.3%	\$733	2.1%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$890	\$916	2.9%	\$933	1.9%
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



Response to Questions from Workshop #1

Impact of Supply Conditions on Power Costs

Assumptions

Calendar Year Ending	2014	2015
CRA pump load	8 pumps	7 pumps
CRA deliveries	1.185 MAF	.940 MAF
State Water Project Allocation	5%	25%

Results of Lower SWP Allocation

- Greater use of CRA to move water into the service area
- Continued use of Storage Programs in CY 2015
- In FY 2014/15 and FY 2015/16, SWP power costs are lower but CRA power cost are higher
 - FY 2014/15 reduction of approximately \$39M
 - FY 2015/16 reduction of approximately \$20M
- Costs to refill storage will be significant
- Costs less than budget could be set aside in the Water Management Fund to offset future storage refill costs

Comparison of Use of Reserves over Target to reduce Debt vs. OPEB Costs

Use of Reserves to Reduce Debt vs. OPEB Liability

- Deposit of \$100 million to R&R Fund reduces future annual debt costs by \$4 million
 - Assumes use of variable rate debt at a rate of 1% and 30 year amortization
 - Decreases future percentage of capital budget funded with debt
- Deposit of \$100 million to OPEB Trust reduces future annual contributions by \$6.5 million
 - Improves funded percentage from 13% to 43%
 - Pays down liability for benefits earned in prior years
 - Increases future percentage of capital budget funded with debt

Revenue Funded Capital (PayGo)

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%

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)

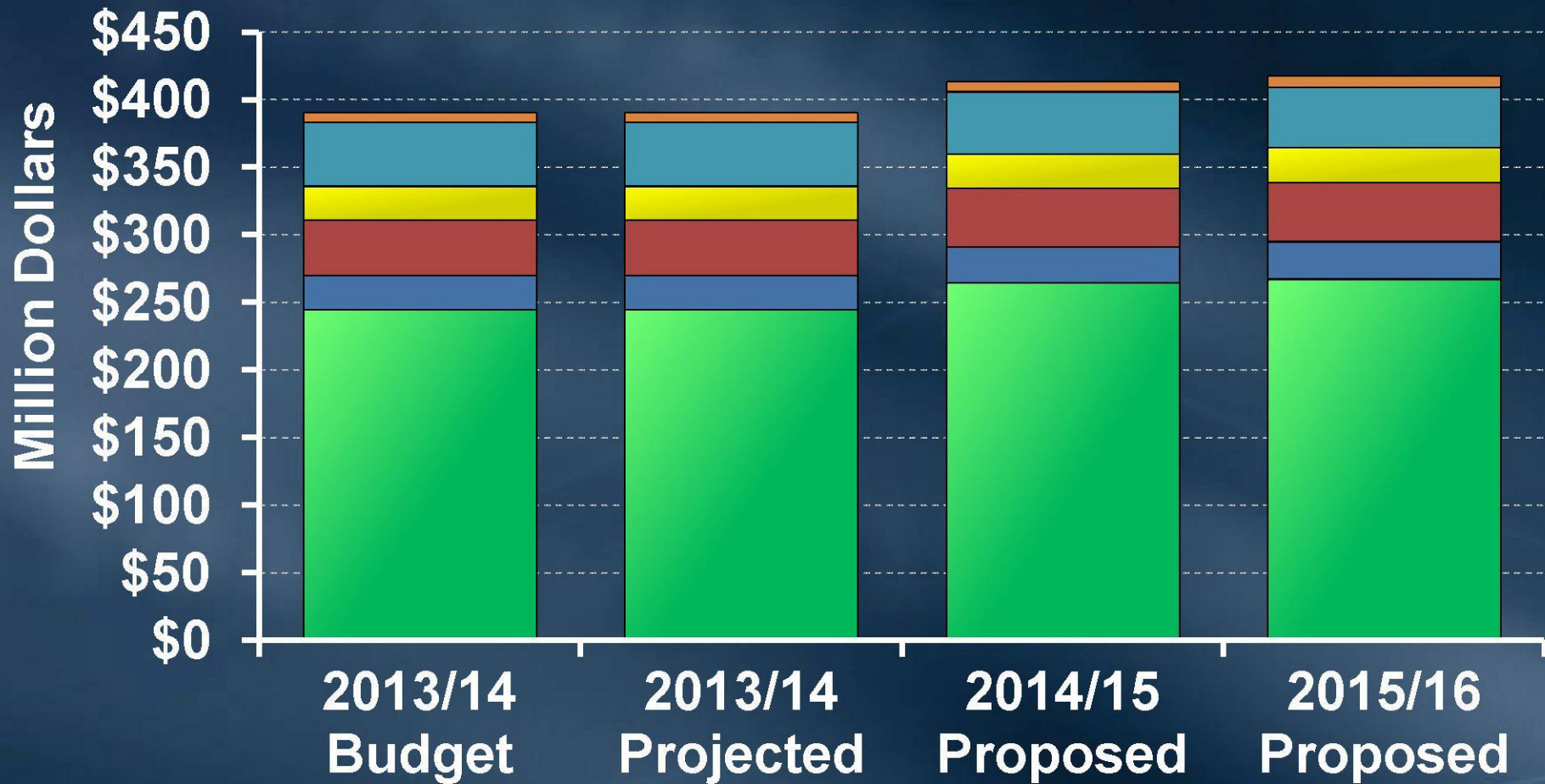
● Cons

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

Operating Budget

Proposed O&M Expenditure Budget

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

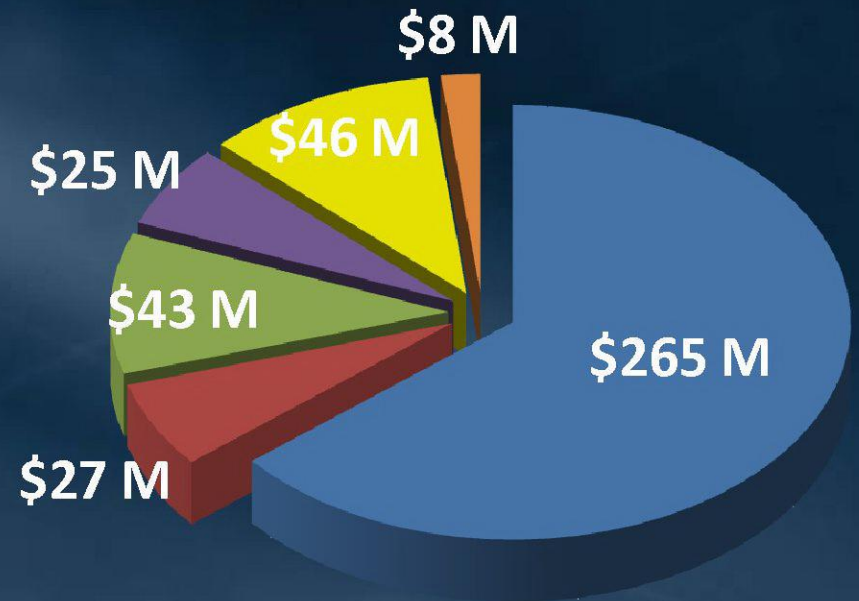


O&M Budget Trend

FY 2013/14 - \$390 M



FY 2014/15 - \$414 M



■ Salary & Benefits
■ Materials & Supplies

■ Variable Treatment
■ Other

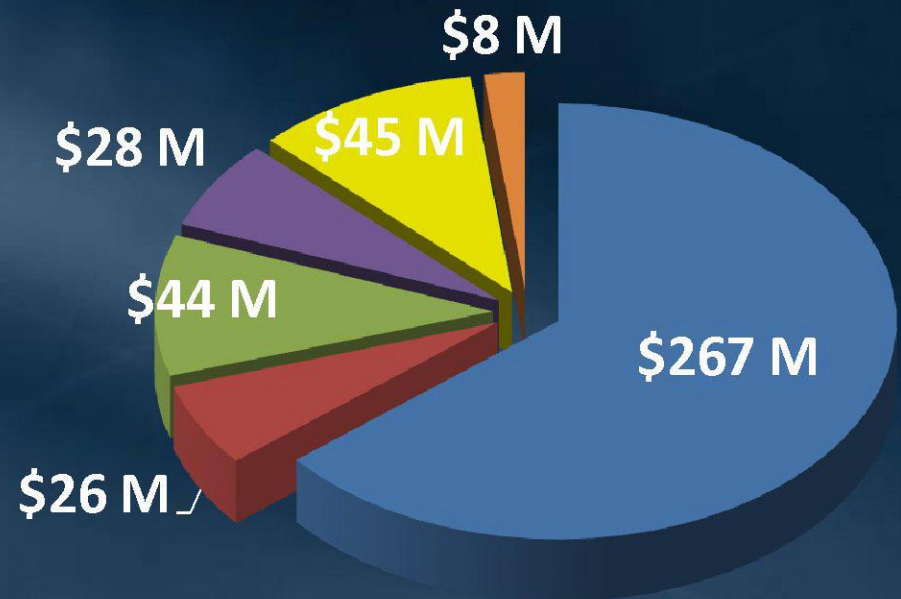
■ Outside Services
■ Operating Equipment

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

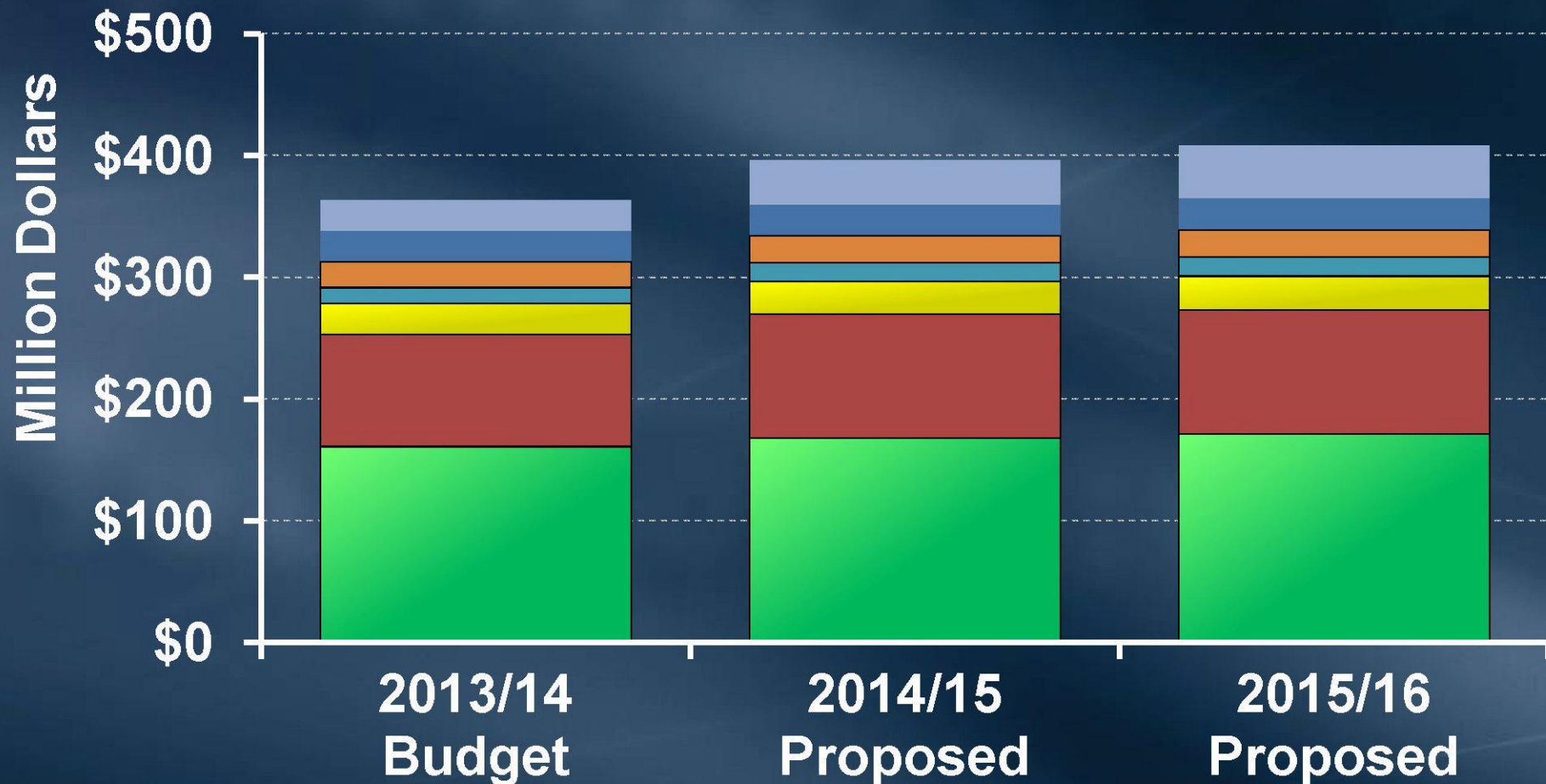
FY 2014/15 to FY 2015/16

● 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



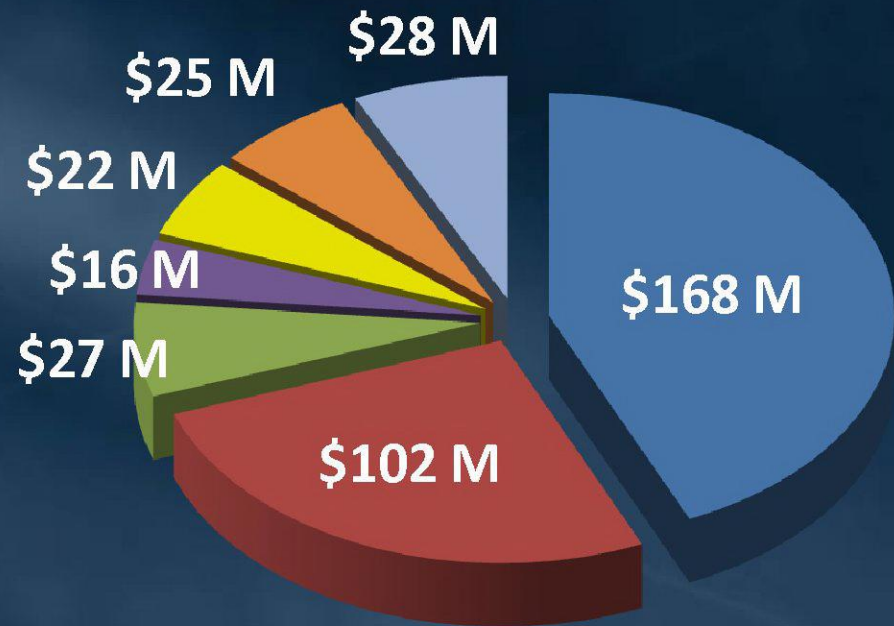
GM Department O&M Budget Trend

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

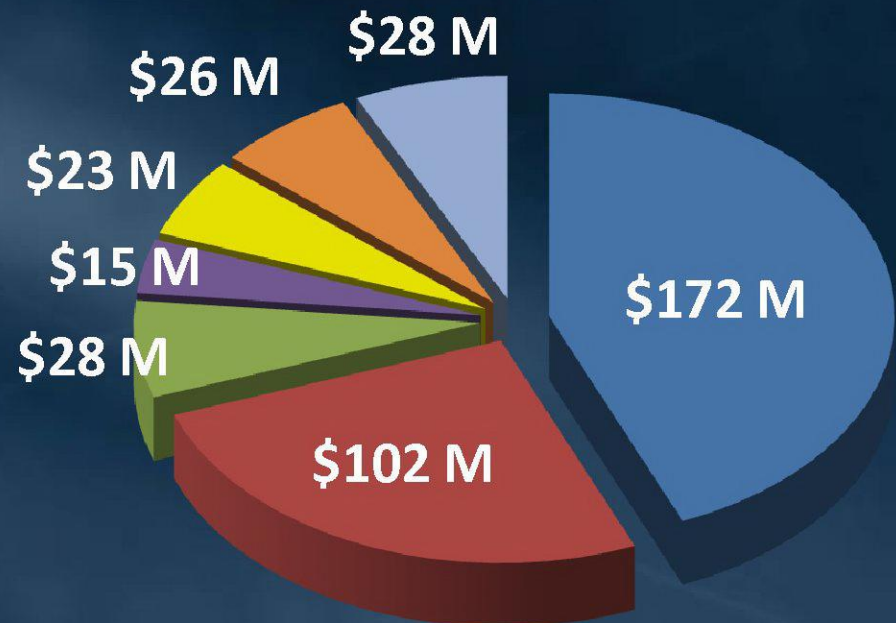
FY 2014/15 - \$388 M



1,776 FTEs

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

FY 2015/16 - \$393 M



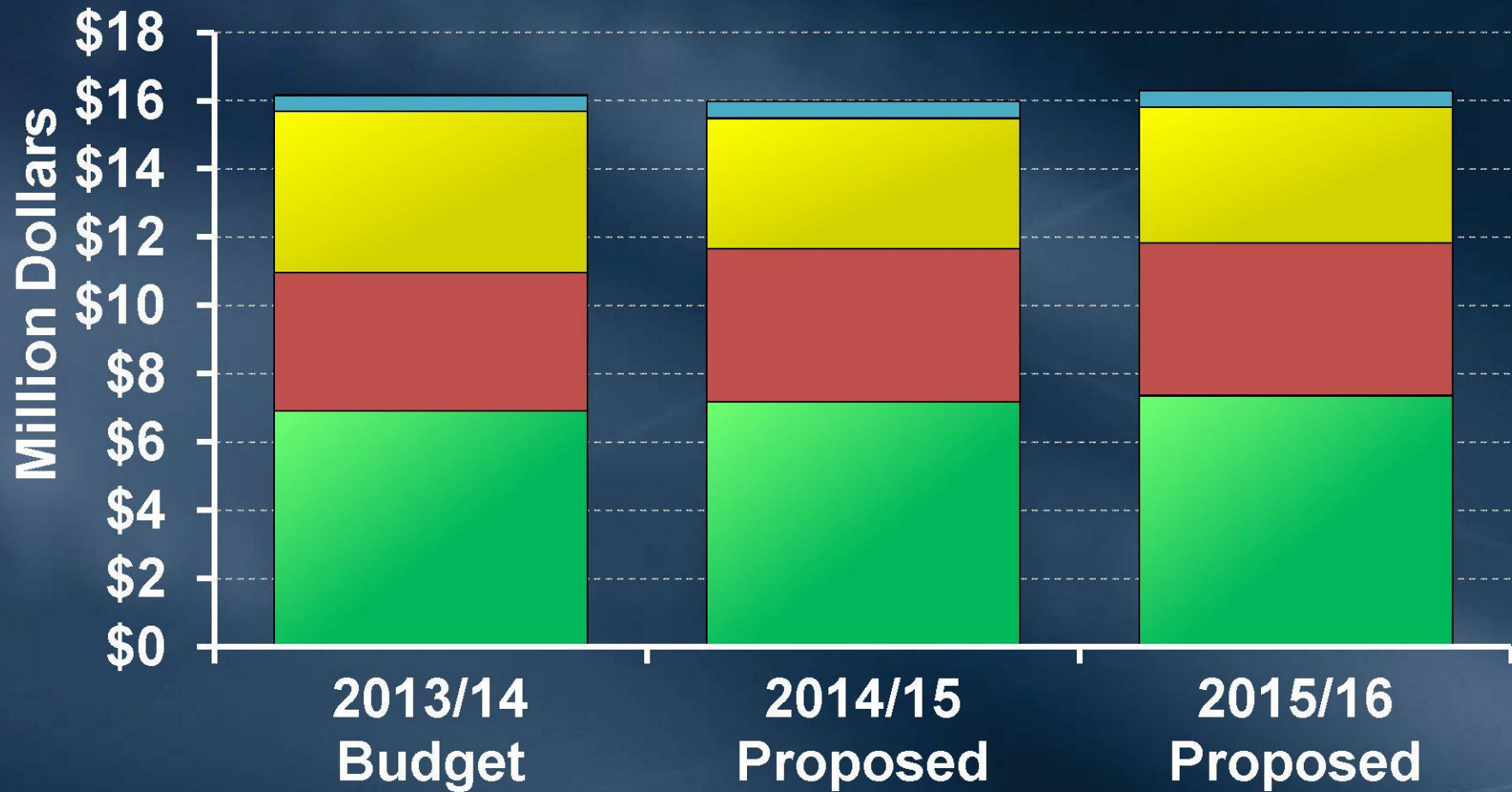
1,775 FTEs

- Benefits
- Professional Services
- Materials & Supplies

Legal Department

Legal Department O&M Budget

■ Salaries ■ Benefits ■ Professional Services ■ Other



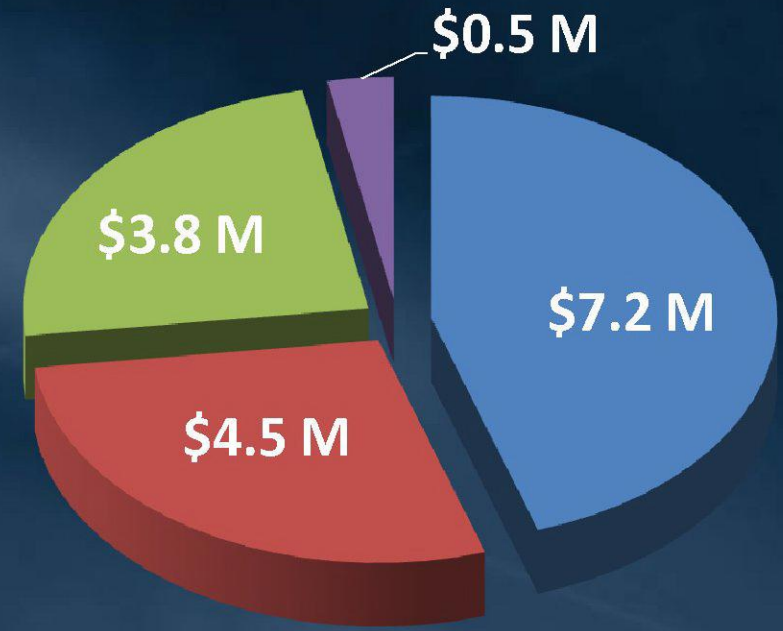
Legal Department O&M Budget Trend

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



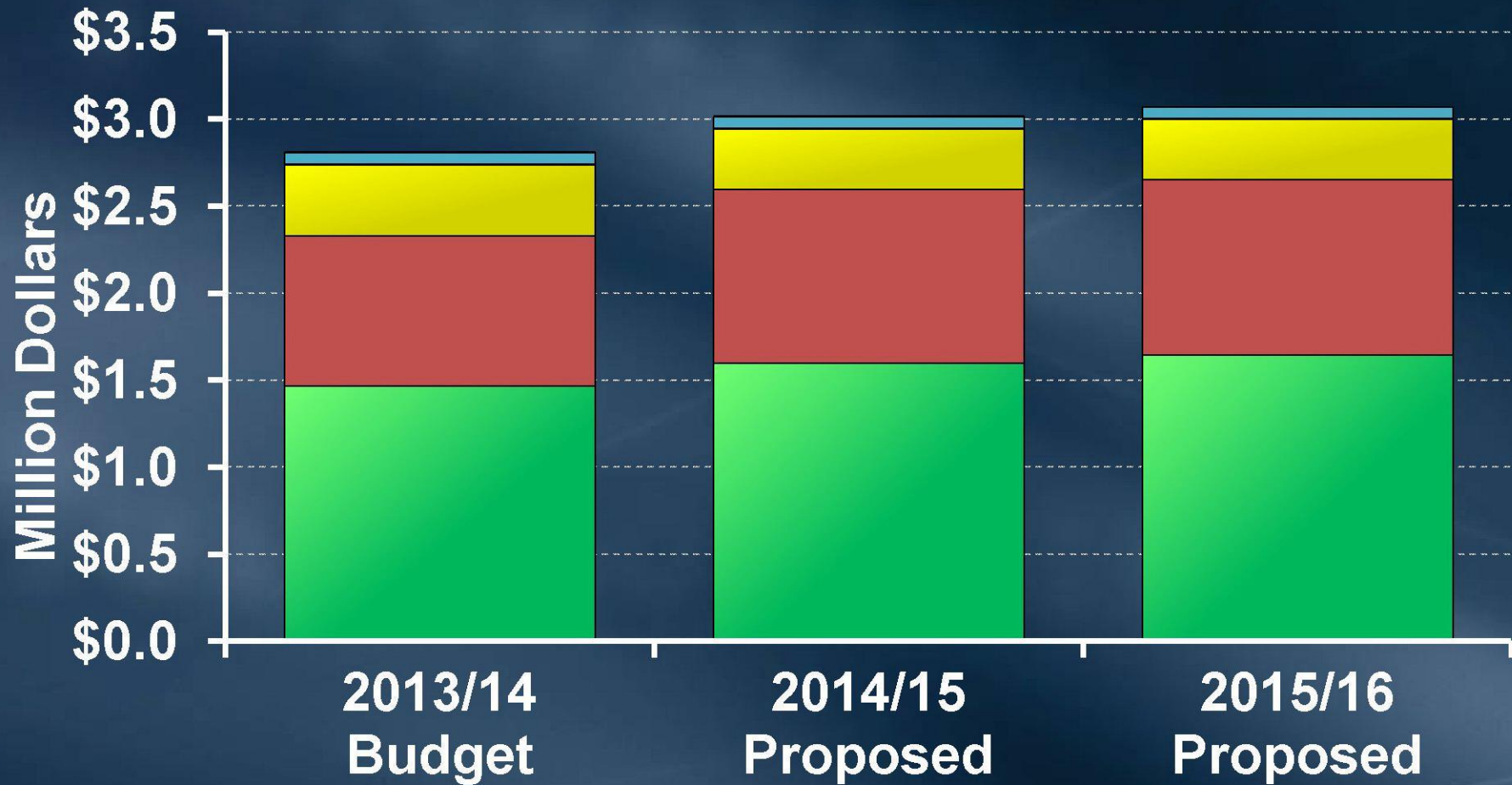
36 FTEs

■ 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

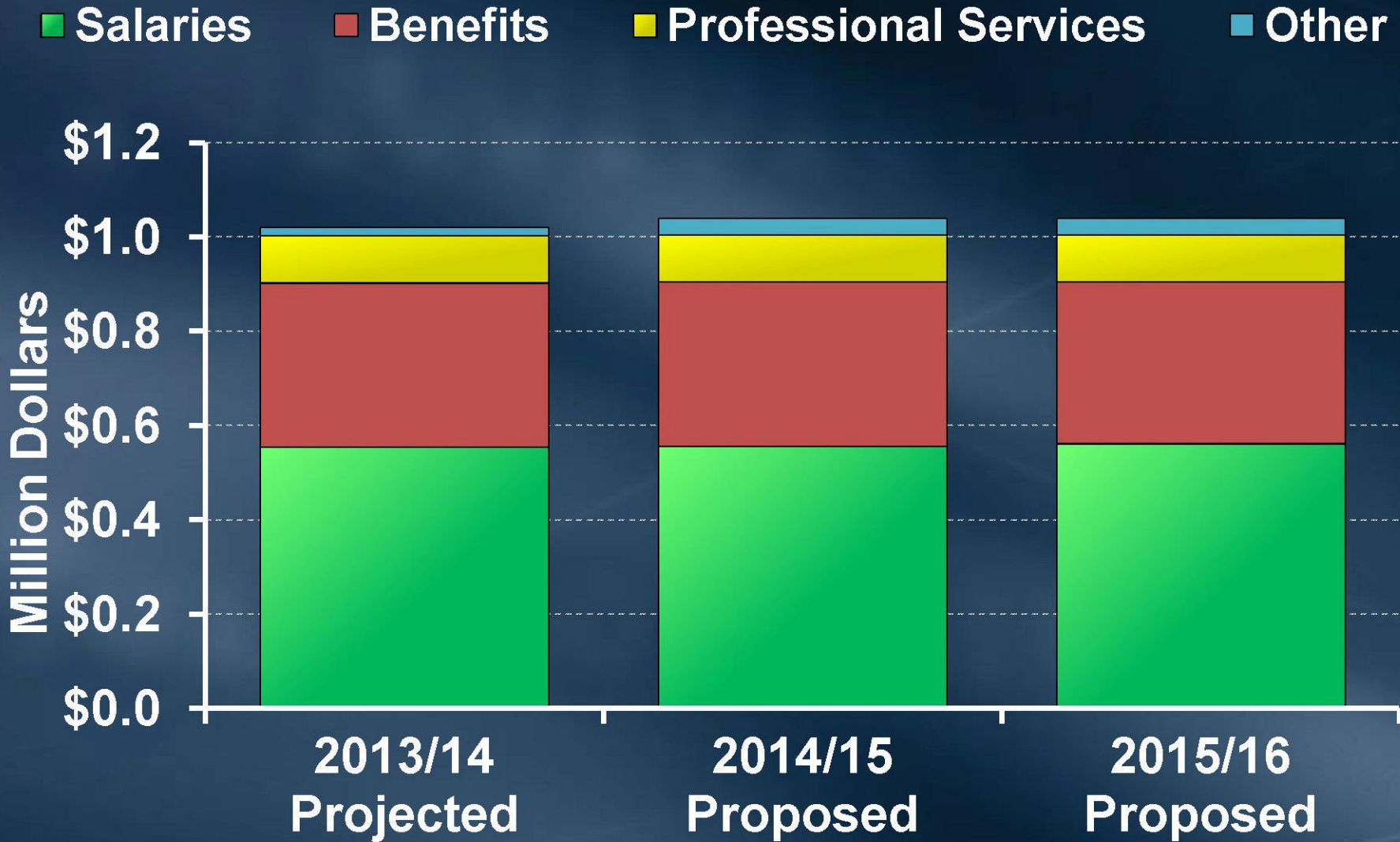


12 FTEs

■ Salaries ■ Benefits ■ Professional Services ■ Other

Ethics Department

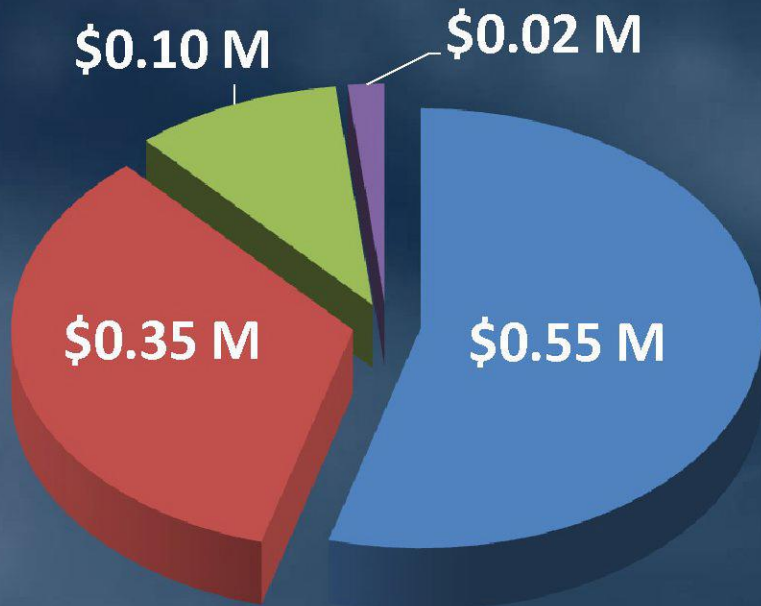
Ethics Department O&M Budget



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

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	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

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

**Board Workshop #2
February 25, 2014**



Proposed Biennial Budget Workshop #2

Presentation Overview

- Rate Scenarios
- Response to Questions from Workshop #1
- Operating Budget
- Next Steps

Rate Scenarios

- Scenario A: Updated 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

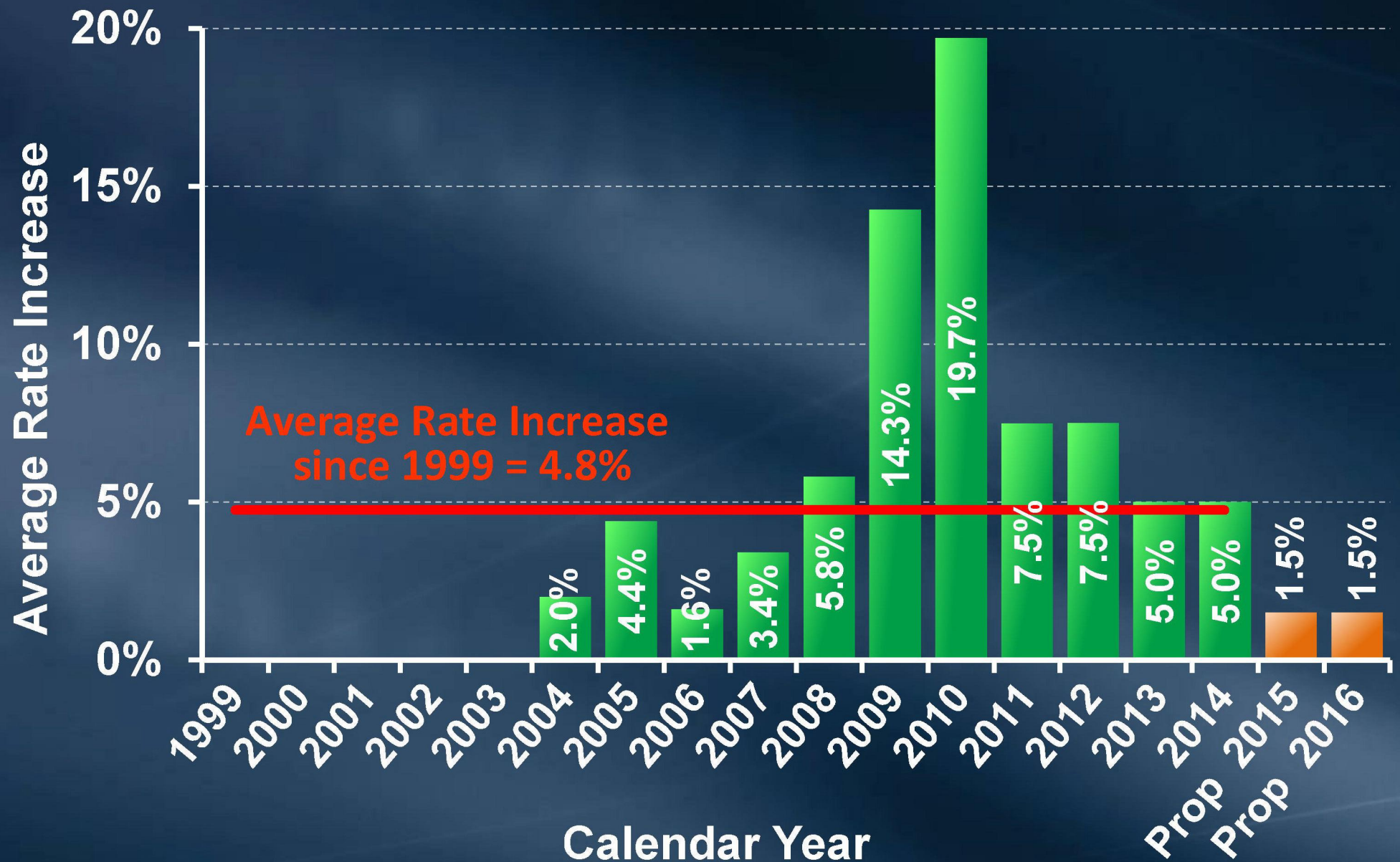
Rate Scenarios (cont'd)

- 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

Rate Scenarios (cont'd)

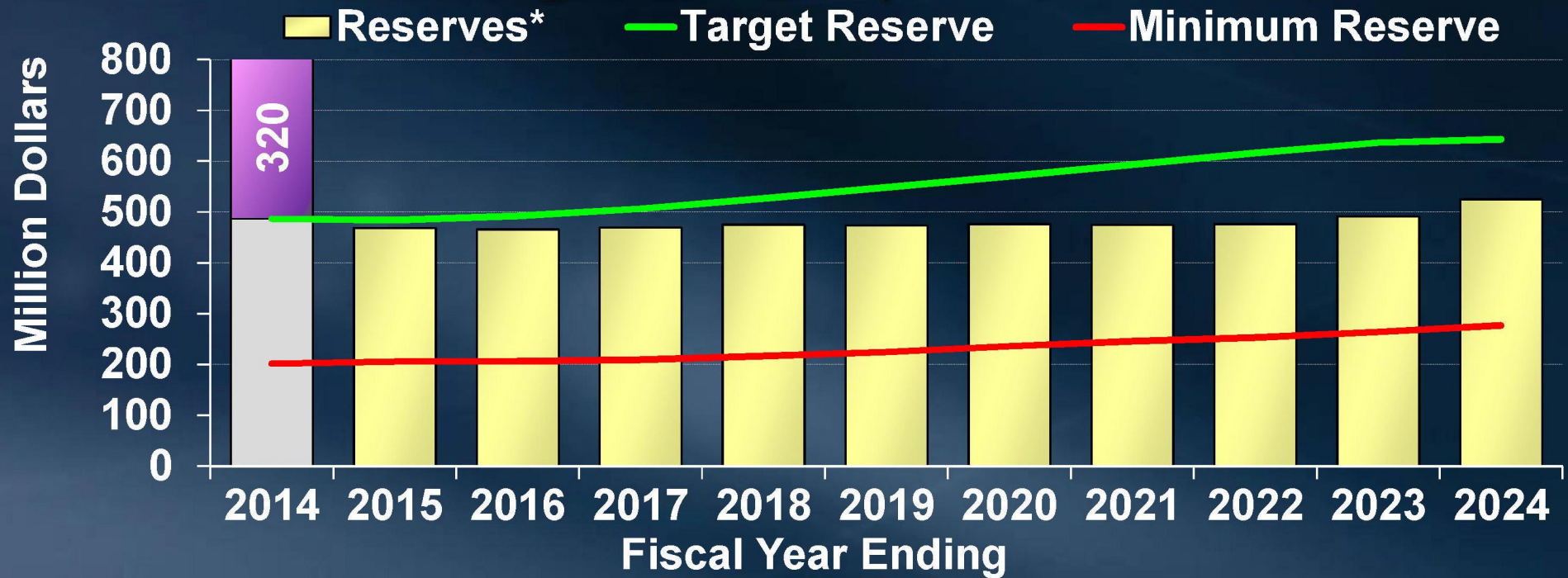
- Scenario D: Ad valorem tax rate not maintained, rate increase capped at 1.5% in FY 2014/15 and FY 2015/16
 - Decreases AV tax revenue by \$30 million in FY 2014/15 and \$35 million in FY 2015/16 due to decline in tax-funded debt service
 - By FY 2023/24, AV tax revenues will decline to \$3 million
 - 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

Overall Rate Increases Since 1999



Scenario A: 1.5% / 1.5%

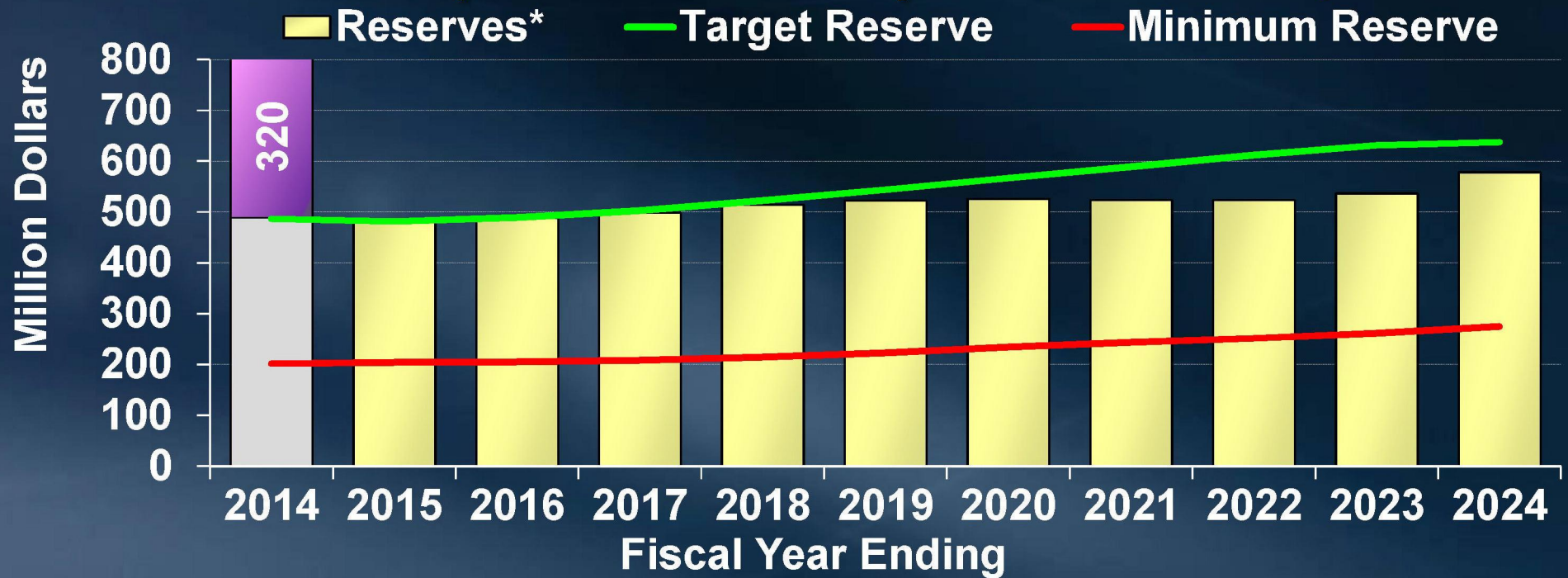
Scenario A: Original Proposal 1.5%/1.5%



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

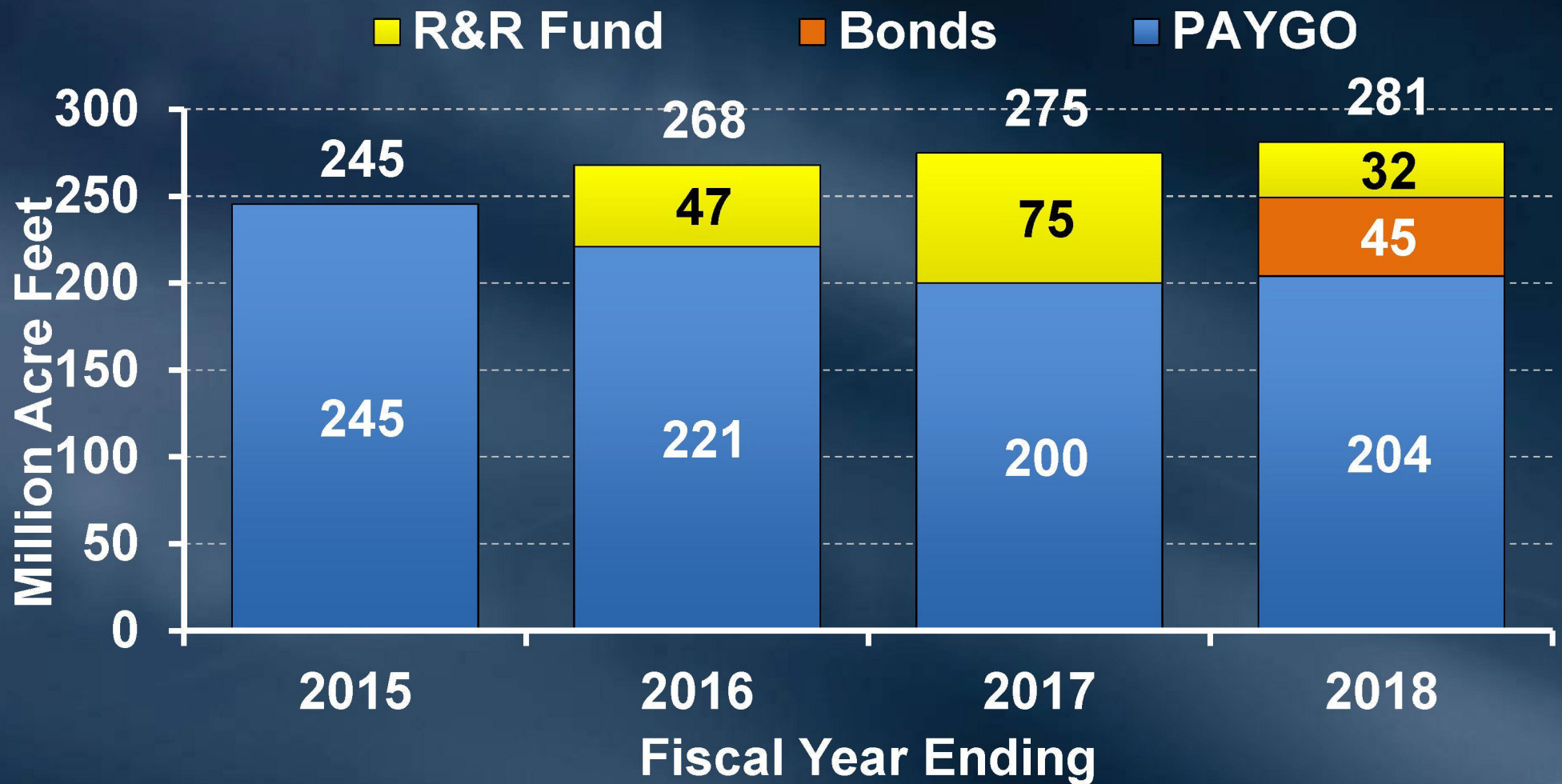
Scenario A: Updated Proposal 1.5%/1.5%



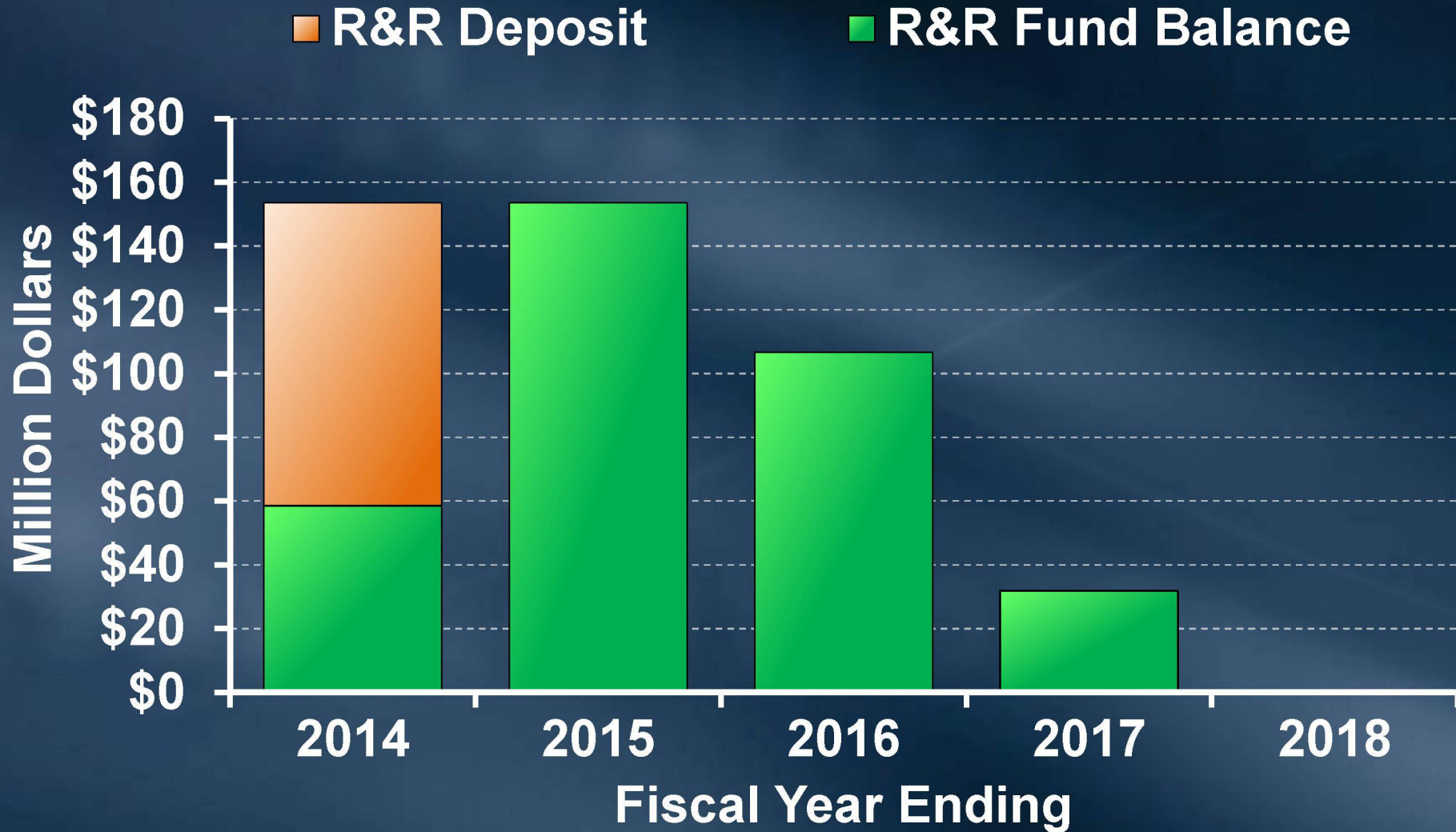
Ave Rate Inc.	5%	1.5%	1.5%	3%	3%	3.5%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	245	221	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	2.0	2.0	2.1	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0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

Scenario A: Capital Investment Plan Funding



Scenario A: Replacement and Refurbishment (R&R) Fund



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 A: Full Service, E

Proposed Charges

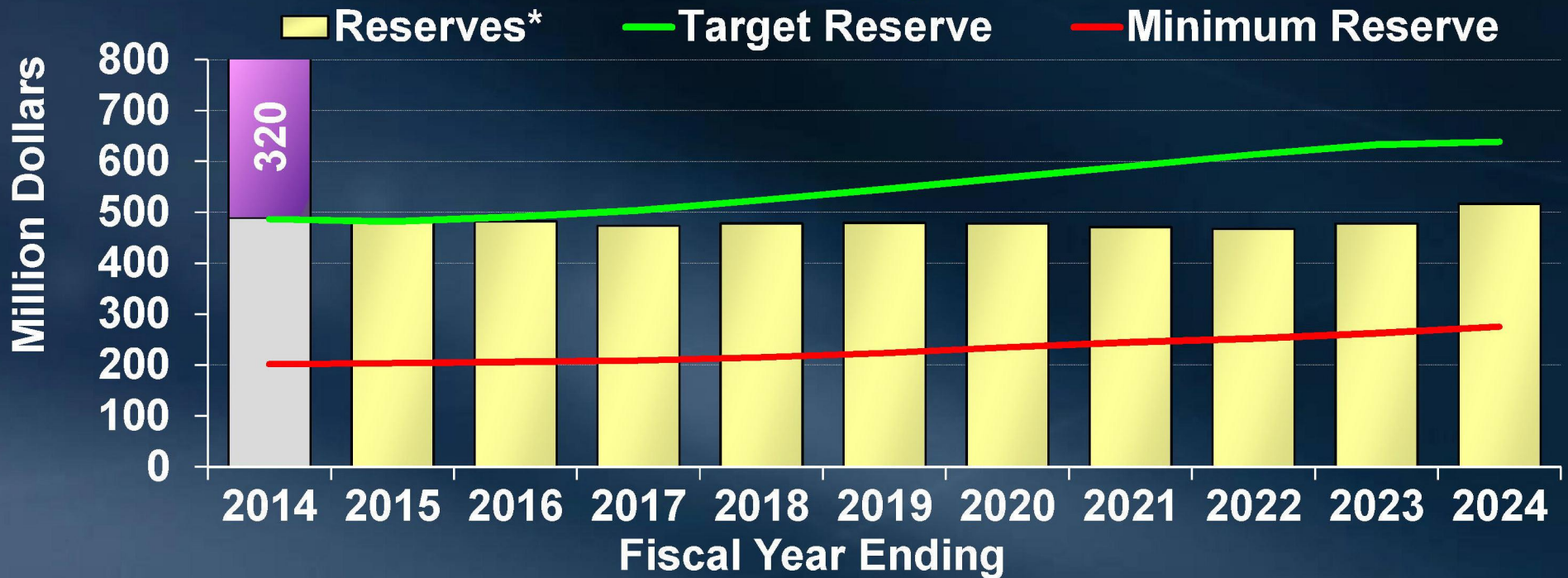
T1 Supply **\$158/AF**
SAR **\$257/AF**
T1 Supply **\$158/AF**
SAR **\$257/AF**
WSR **\$41/AF**

SAR **\$257/AF**
WSR **\$41/AF**
SPR **\$126/AF**

Rate Type	2014 Approved	2015 Proposed	% Increase (Decrease)	2016 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric					
Tier 1	\$593	\$594	2.1%	\$594	2.1%
Tier 2	\$735	\$728	2.0%	\$728	2.0%
Full Service Treated Volumetric C					
Tier 1	\$890	\$942	2.1%	\$942	2.1%
Tier 2	\$1,032	\$1,076	2.0%	\$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%

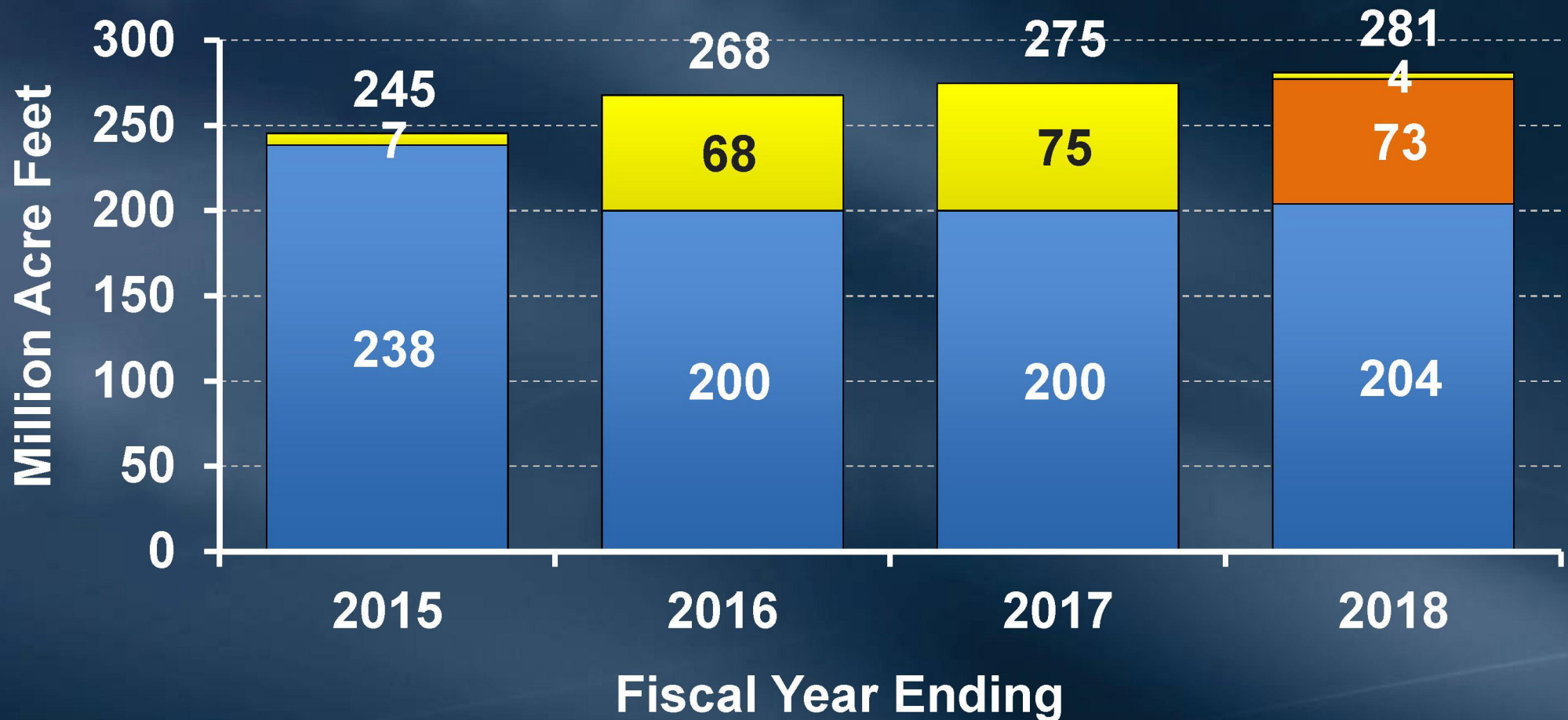


Ave Rate Inc.	5%	0%	1.5%	3.5%	3.5%	4%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	238	200	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	1.9	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0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

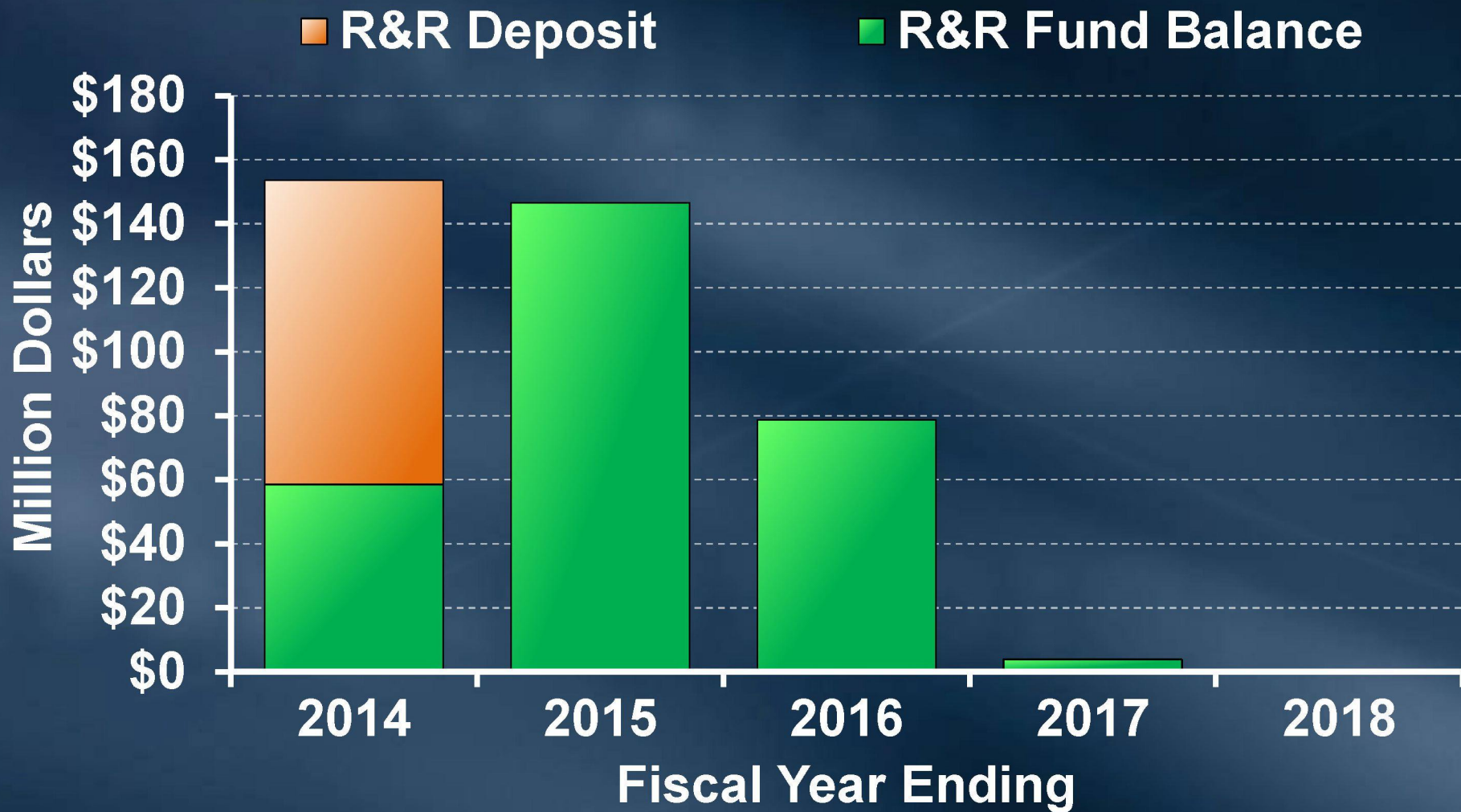
* Revenue Remainder & WRSF

Scenario B: Capital Investment Plan Funding

■ R&R Fund ■ Bonds ■ PAYGO



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



Scenario B: Proposed Rate Elements

Rates and Charges Effective January 1			
	2014 Approved	2015 Proposed	2016 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 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

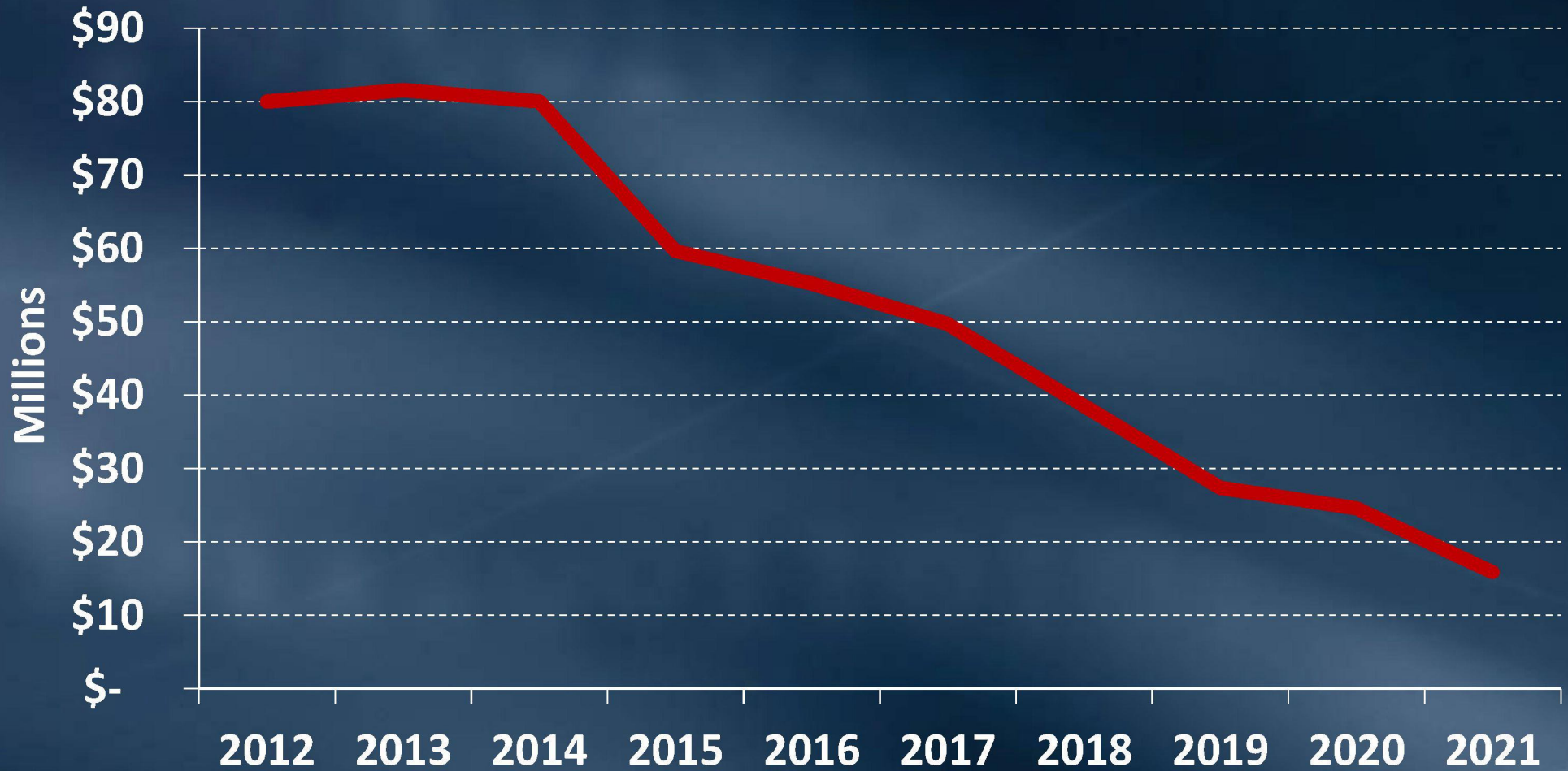
Ad Valorem Tax Background

- 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



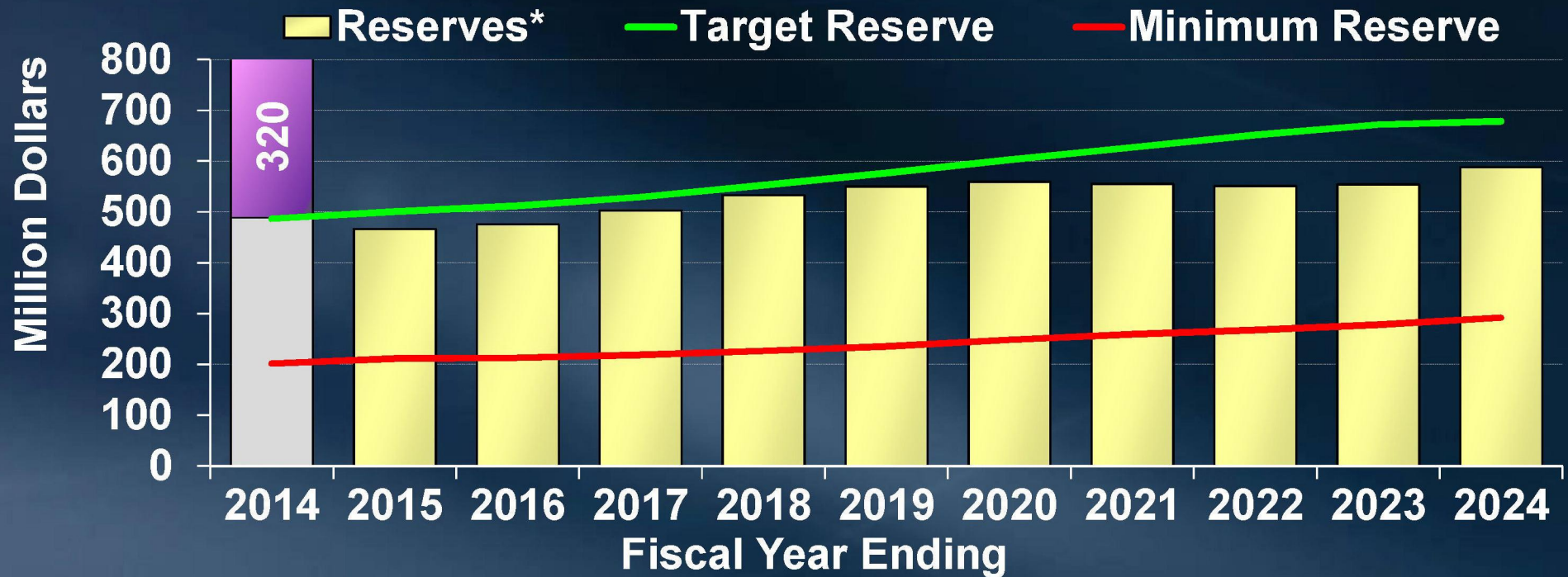
Current Ad Valorem Tax Rate

- .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 Rate Elements

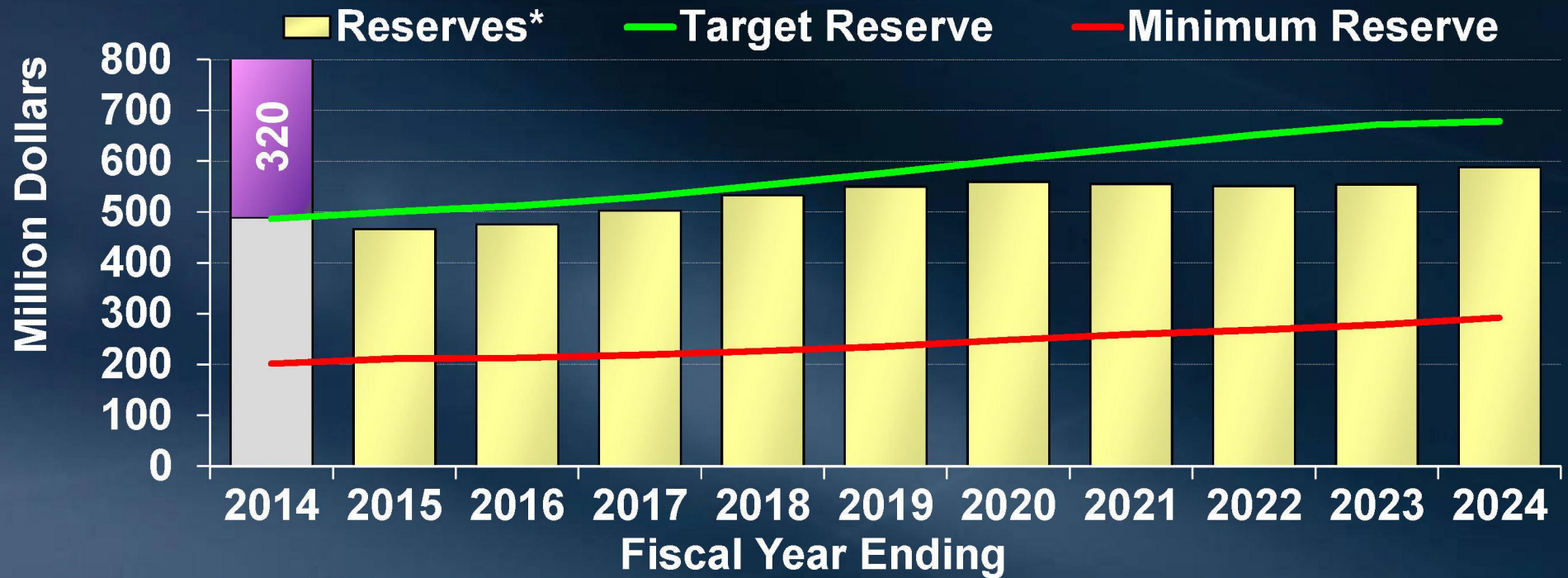
Rates and Charges Effective January 1			
	2014 Approved	Scenario A Proposed	Scenario C Proposed
		Scenario A	\$158/AF
Tier 1 Supply Rate (\$/AF)	\$14		
Tier 2 Supply Rate (\$/AF)	\$29	Scenario A	\$257/AF
System Access Rate (\$/AF)	\$243	\$264	\$274
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System 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

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%

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

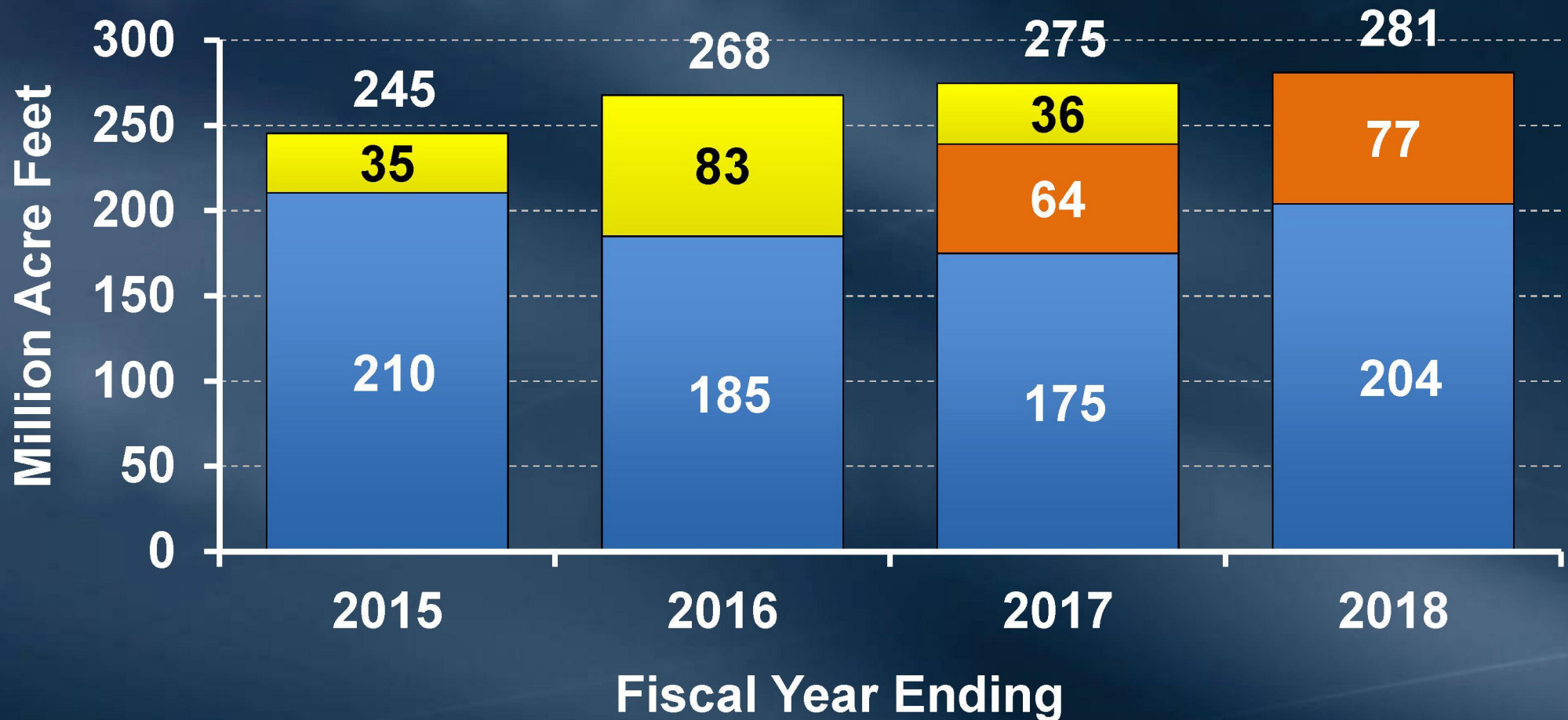
Rates and Charges Effective January 1			
	2014 Approved	2015 Proposed	2016 Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$159	\$157
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$261	\$265
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$126	\$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

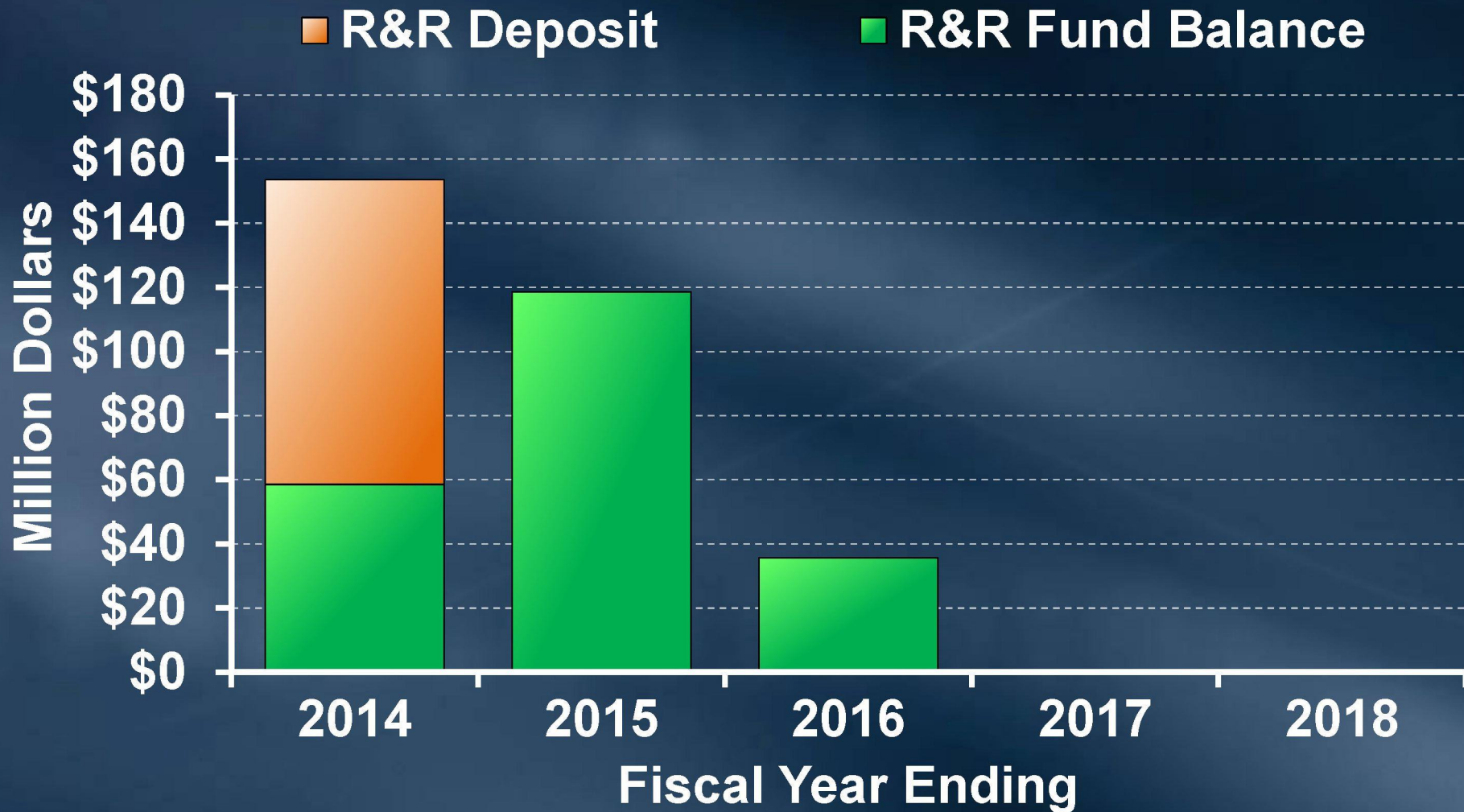
Rate Type	2014 Approved	2015 Proposed	% Increase (Decrease)	2016 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$593	\$587	-1.0%	\$600	2.2%
Tier 2	\$735	\$718	-2.3%	\$733	2.1%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$890	\$916	2.9%	\$933	1.9%
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



Responses to Questions from Workshop #1

Impact of Supply Conditions on Power Costs

Assumptions

Calendar Year Ending	2014	2015
CRA pump load	8 pumps	7 pumps
CRA deliveries	1.185 MAF	.940 MAF
State Water Project Allocation	5%	25%

Results of Lower SWP Allocation

- Greater use of CRA to move water into the service area
- Continued use of Storage Programs in CY 2015
- In FY 2014/15 and FY 2015/16, SWP power costs are lower but CRA power cost are higher
 - FY 2014/15 reduction of approximately \$39M
 - FY 2015/16 reduction of approximately \$20M
- Costs to refill storage will be significant
- Costs less than budget could be set aside in the Water Management Fund to offset future storage refill costs

Comparison of Use of Reserves over Target to reduce Debt vs. OPEB Costs

Use of Reserves to Reduce Debt vs. OPEB Liability

- Deposit of \$100 million to R&R Fund reduces future annual debt costs by \$4 to \$6 million
 - Range reflects use of variable vs. fixed rate debt at a rate of 1% to 4.5% and 30 year amortization
 - Decreases future percentage of capital budget funded with debt
- Deposit of \$100 million to OPEB Trust reduces future annual contributions by \$6.5 million
 - Improves funded percentage from 13% to 43%
 - Pays down liability for benefits earned in prior years
 - Increases future percentage of capital budget funded with debt

Revenue Funded Capital (PayGo)

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%

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

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

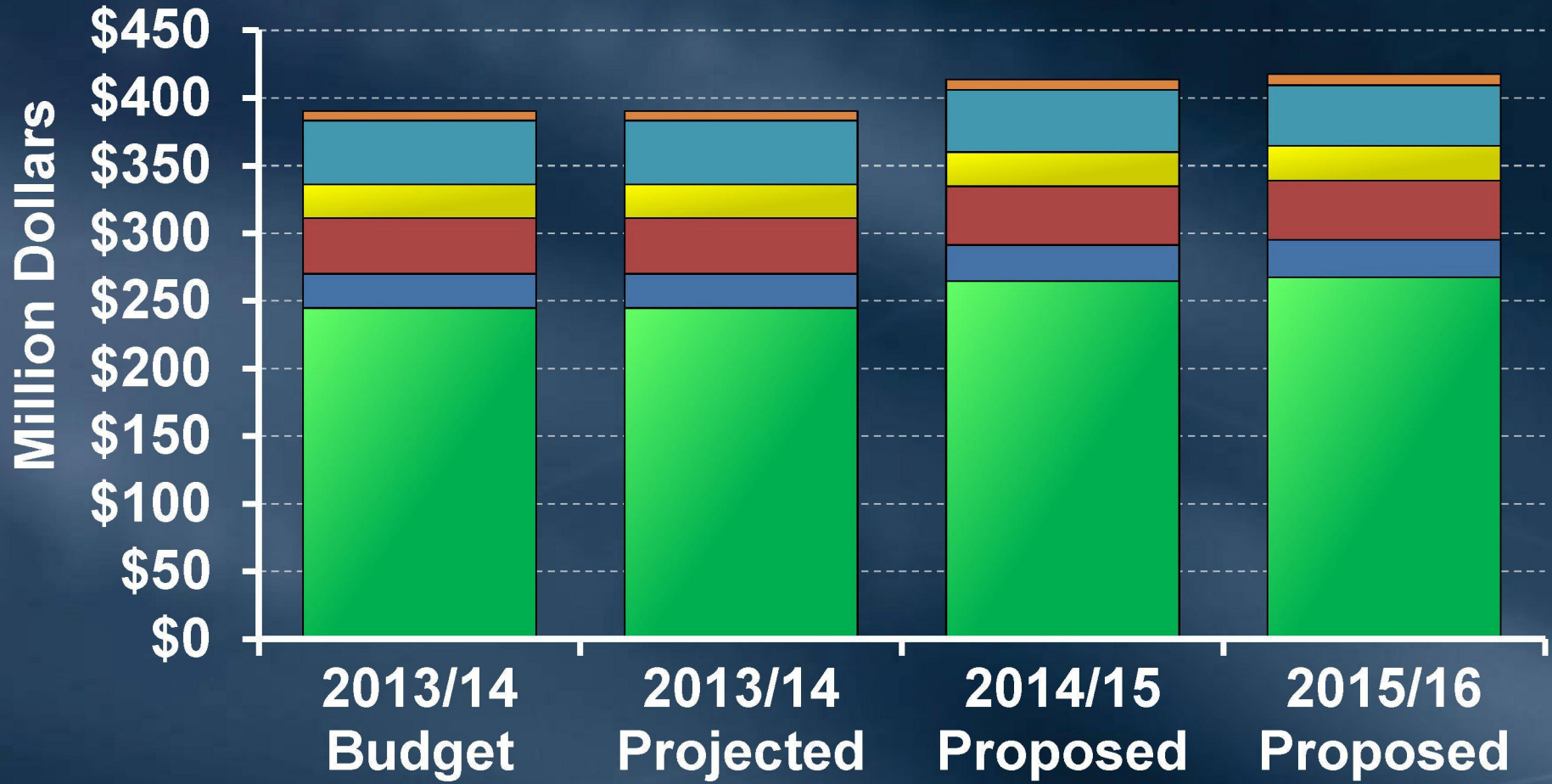
● Con

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

Operating Budget

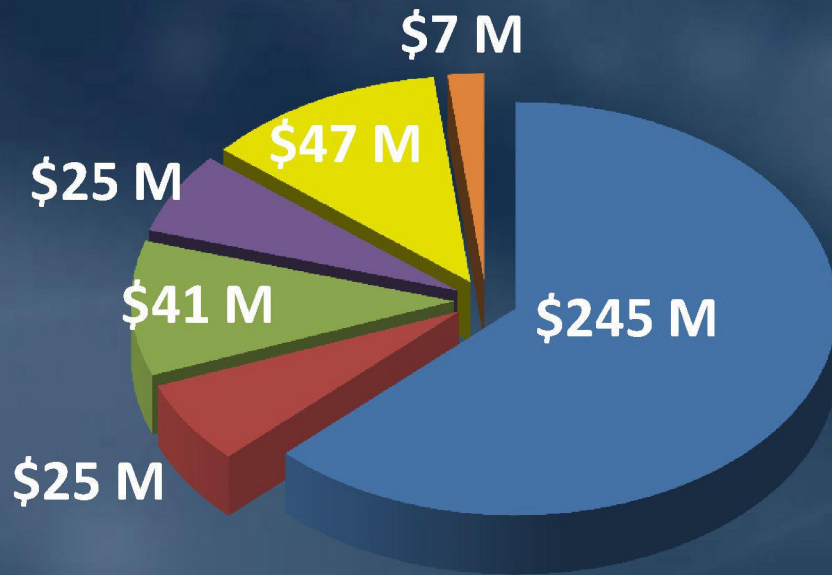
Proposed O&M Expenditure Budget

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

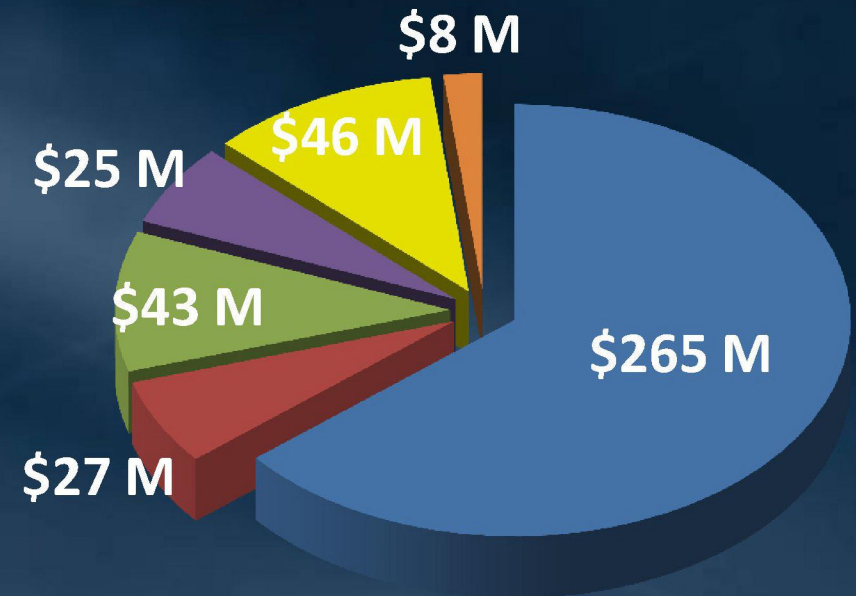


O&M Budget Trend

FY 2013/14 - \$390 M



FY 2014/15 - \$414 M



■ Salary & Benefits

■ Variable Treatment

■ Outside Services

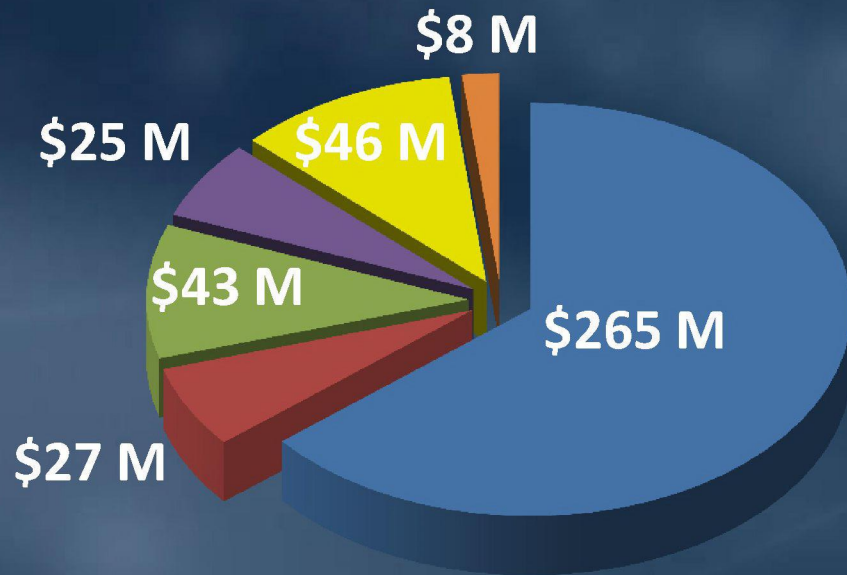
■ Materials & Supplies

■ Other

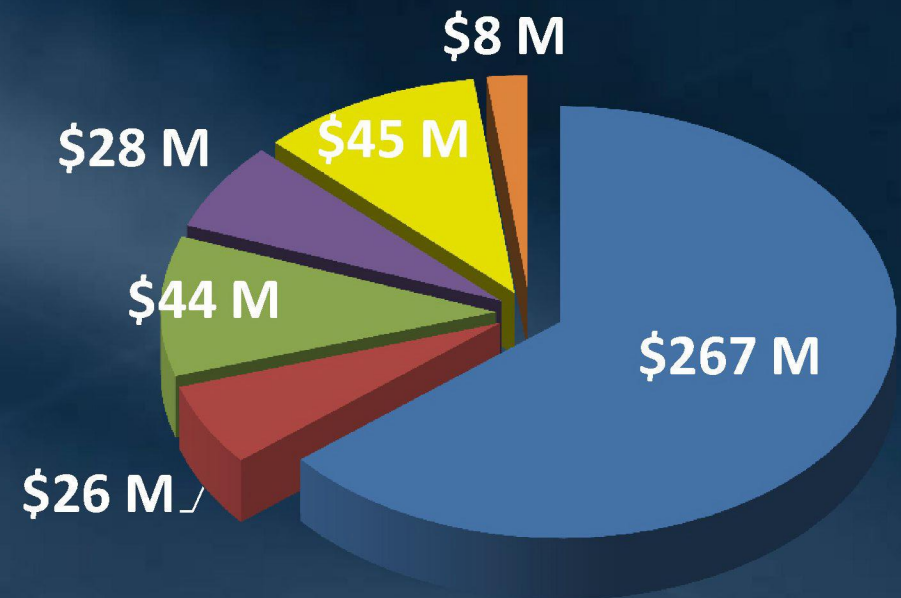
■ Operating Equipment

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

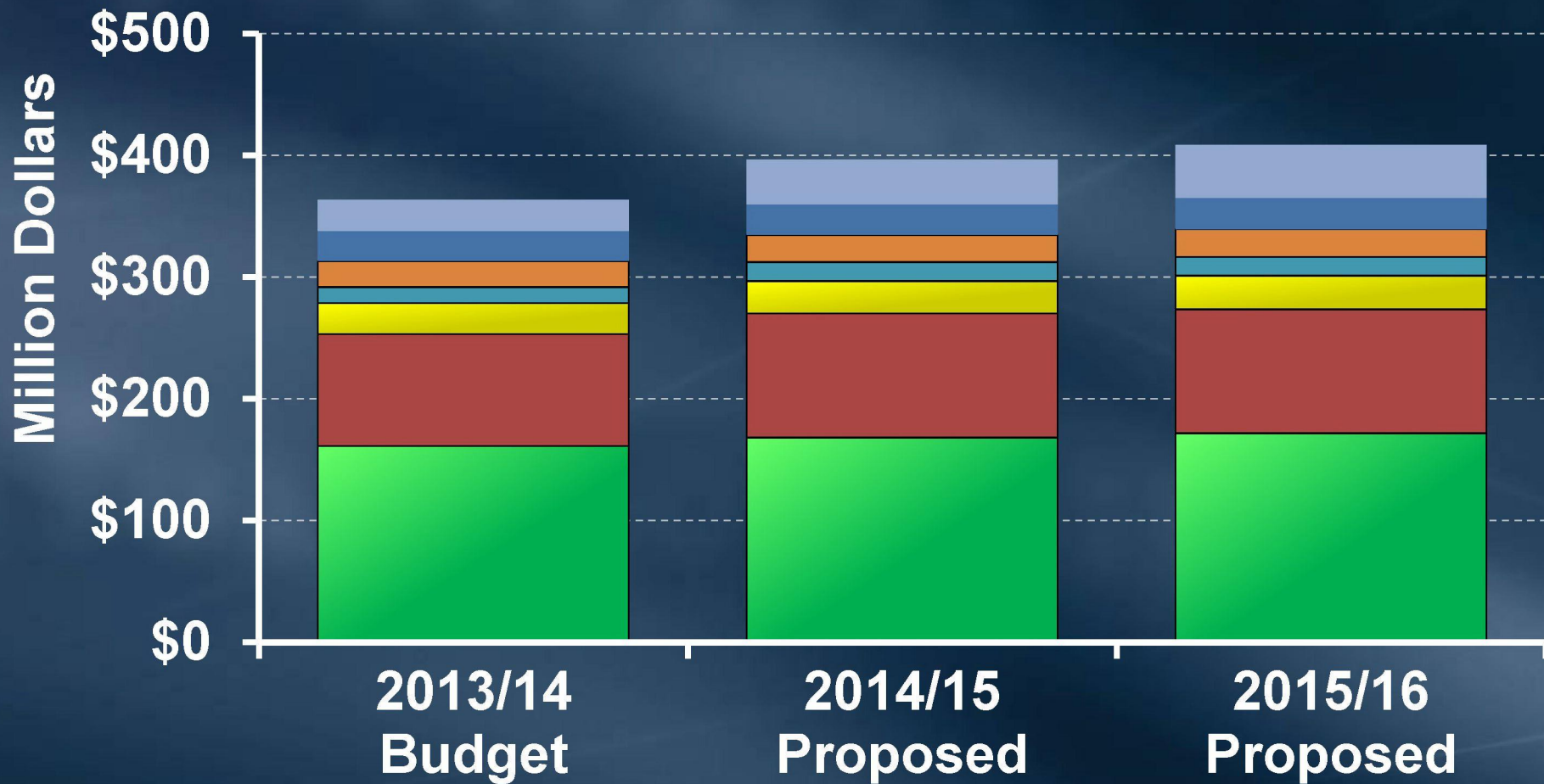
FY 2014/15 to FY 2015/16

● 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

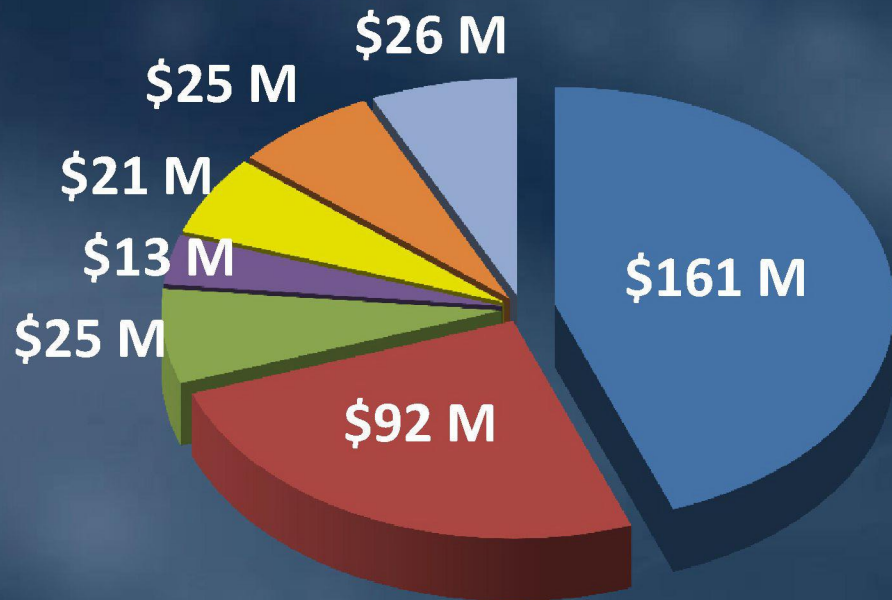
GM Department O&M Budget

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



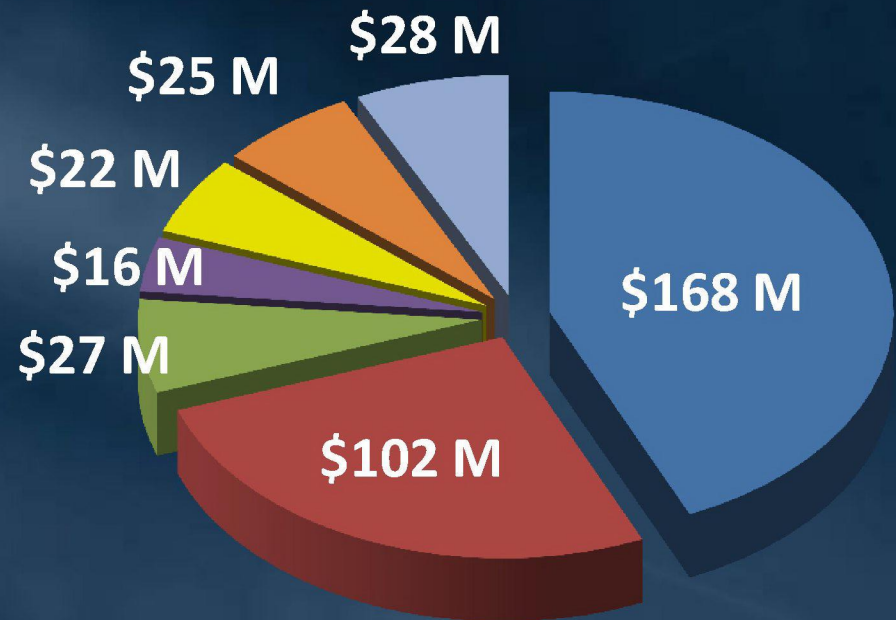
GM Department O&M Budget Trend

FY 2013/14 - \$363 M



1,733 FTEs

FY 2014/15 - \$388 M



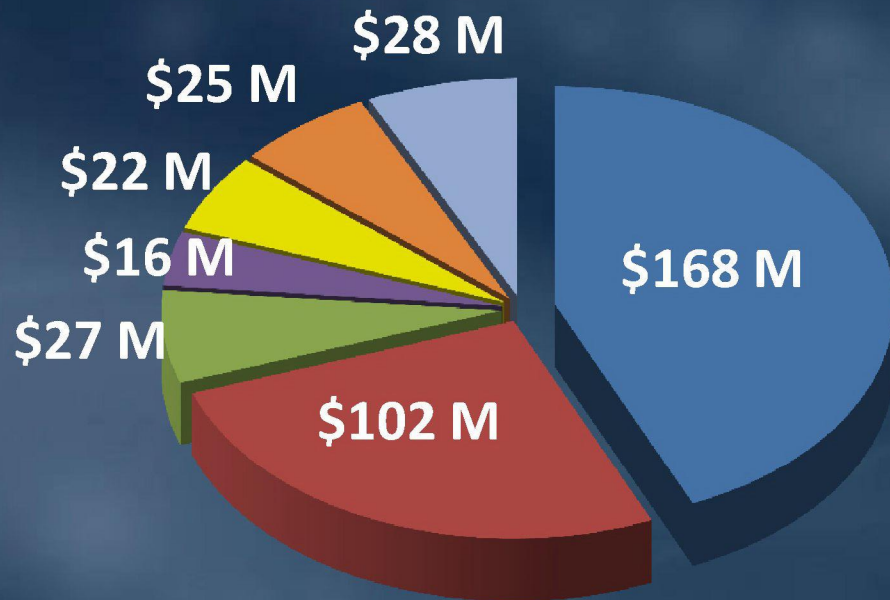
1,776 FTEs

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

- Benefits
- Professional Services
- Materials & Supplies

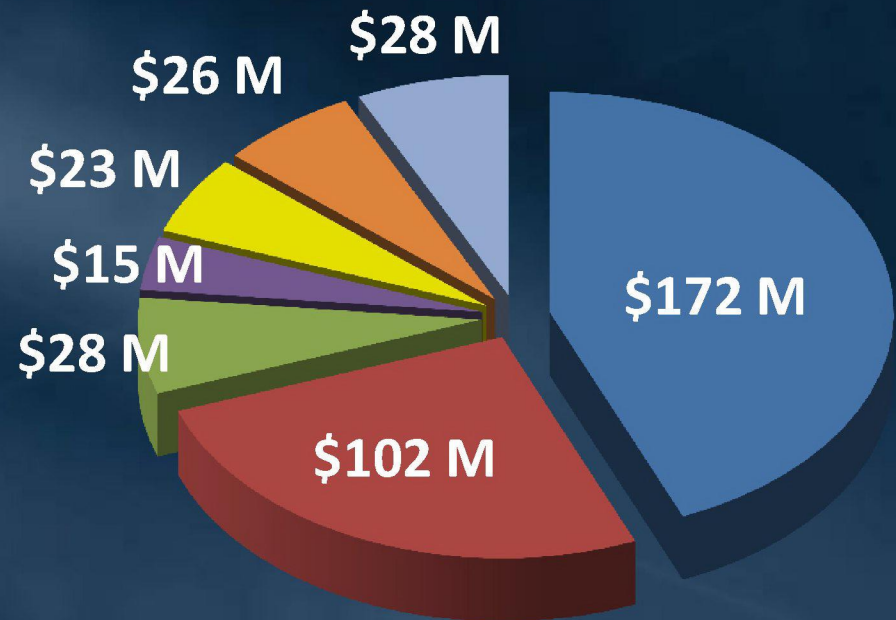
GM Department O&M Budget Trend

FY 2014/15 - \$388 M



1,776 FTEs

FY 2015/16 - \$393 M



1,775 FTEs

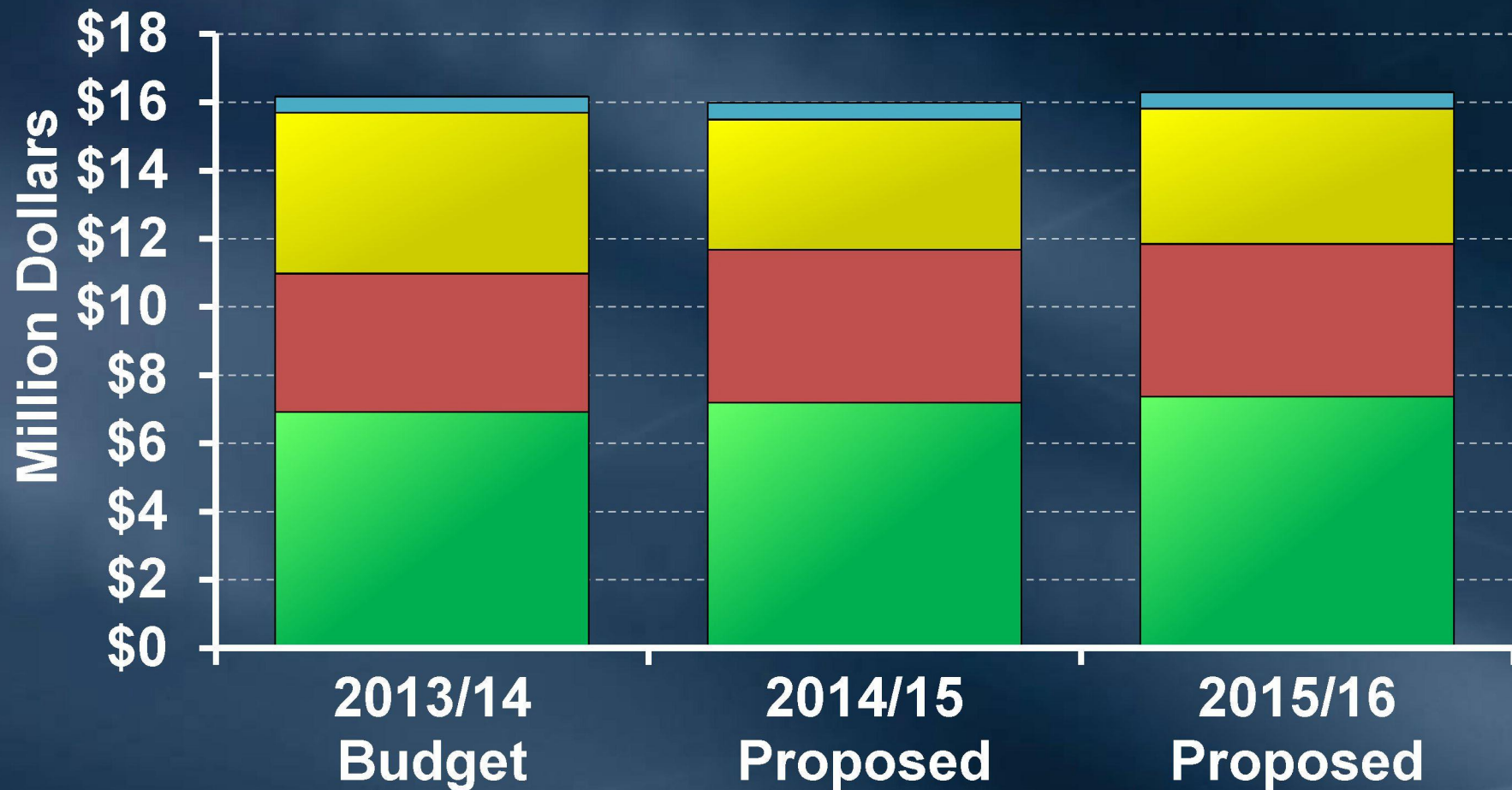
- Salaries
- Chemicals, Solids, and Power
- Non Professional Services/Security
- Other

- Benefits
- Professional Services
- Materials & Supplies

Legal Department

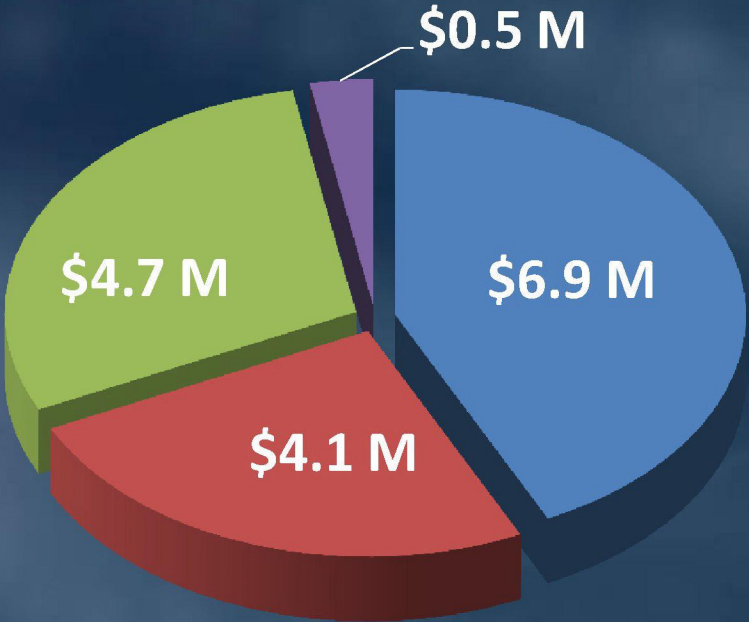
Legal Department O&M Budget

■ Salaries ■ Benefits ■ Professional Services ■ Other



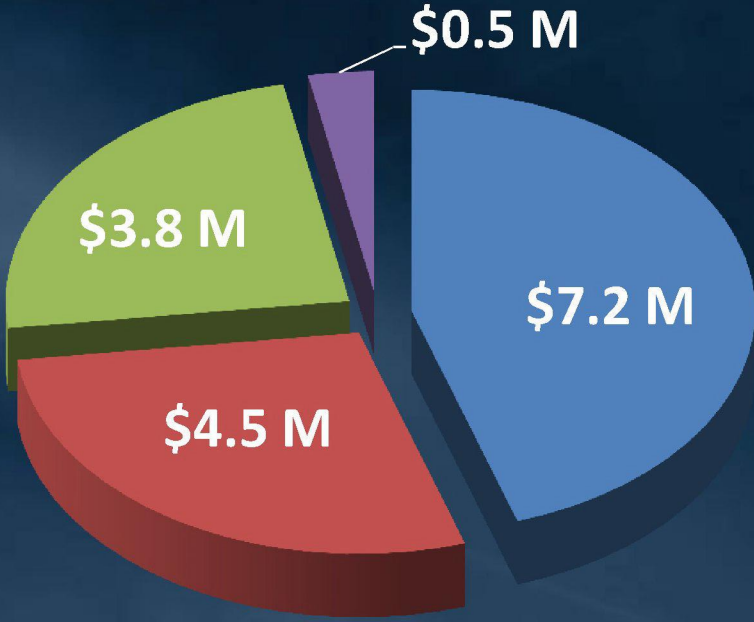
Legal Department O&M Budget Trend

FY 2013/14 - \$16.2 M



35 FTEs

FY 2014/15 - \$16.0 M

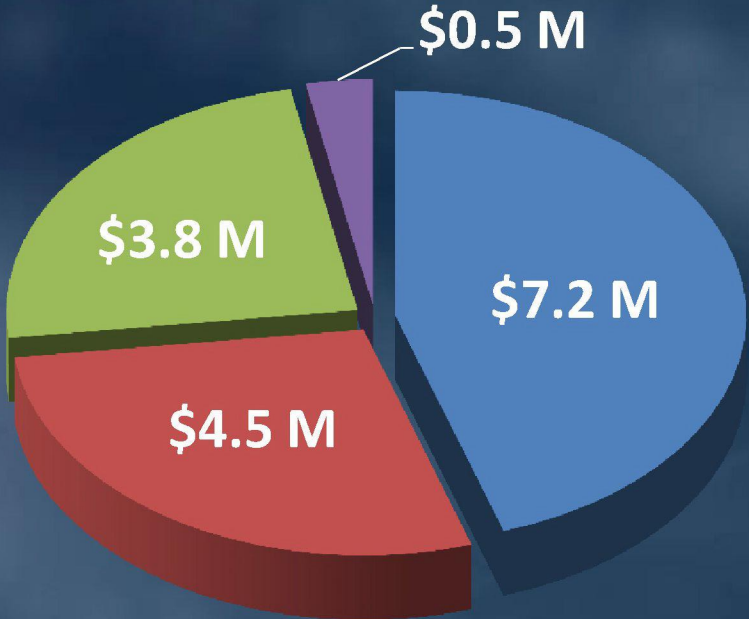


36 FTEs

■ Salaries ■ Benefits ■ Professional Services ■ Other

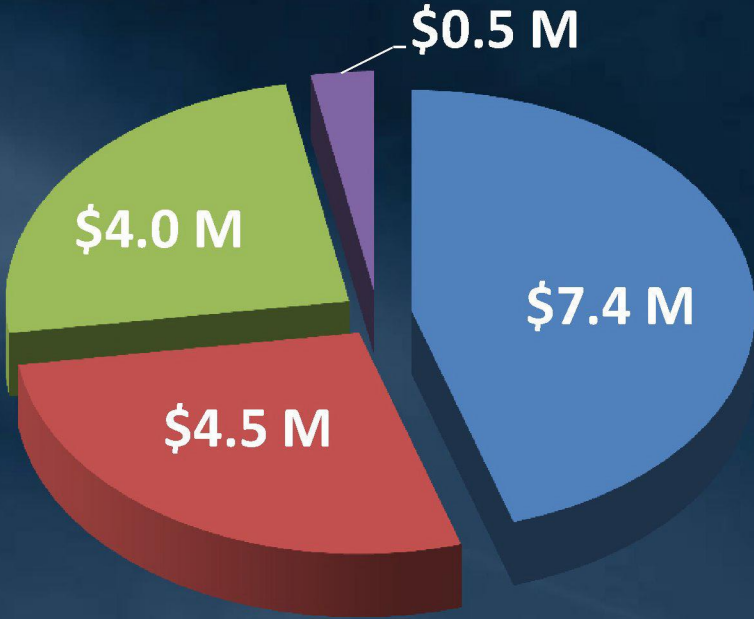
Legal Department O&M Budget Trend

FY 2014/15 - \$16.0 M



36 FTEs

FY 2015/16 - \$16.3 M



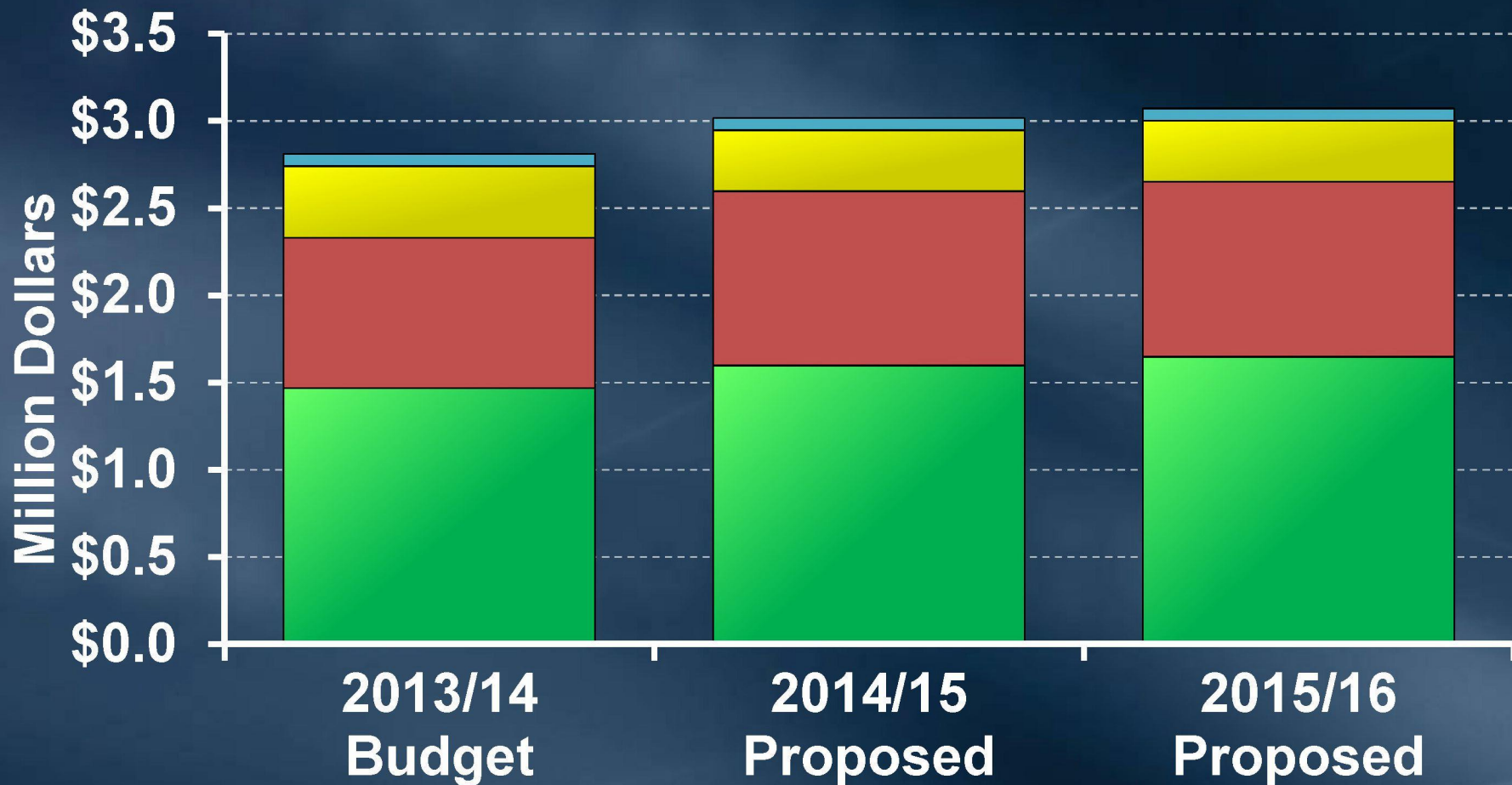
36 FTEs

■ Salaries ■ Benefits ■ Professional Services ■ Other

Audit Department

Audit Department O&M Budget

■ Salaries ■ Benefits ■ Professional Services ■ Other



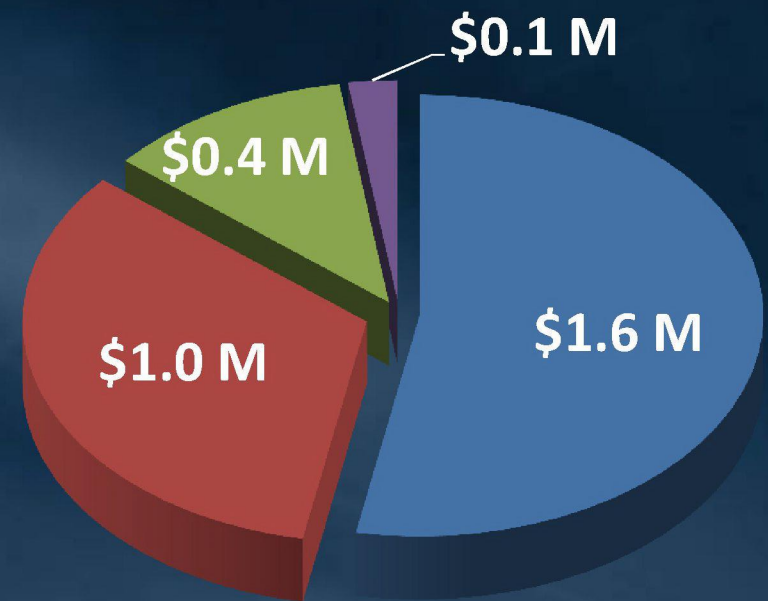
Audit Department O&M Budget Trend

FY 2013/14 - \$2.8 M



12 FTEs

FY 2014/15 - \$3.0 M

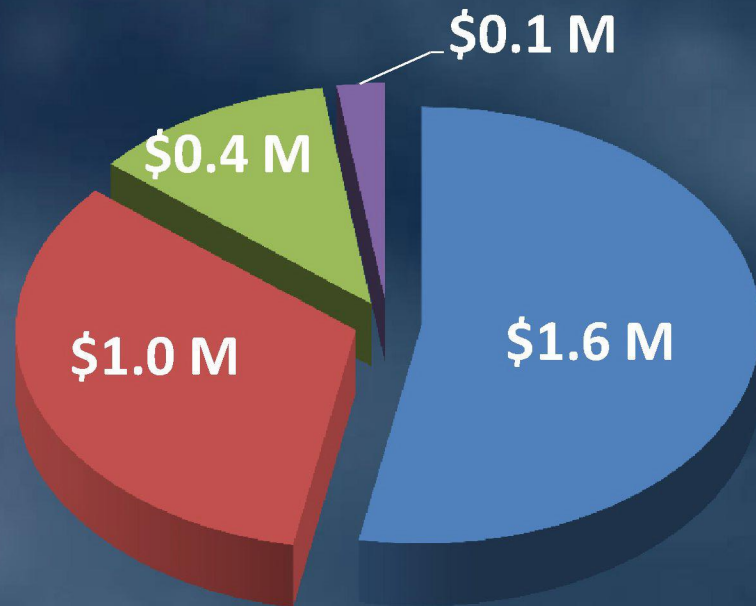


12 FTEs

■ Salaries ■ Benefits ■ Professional Services ■ Other

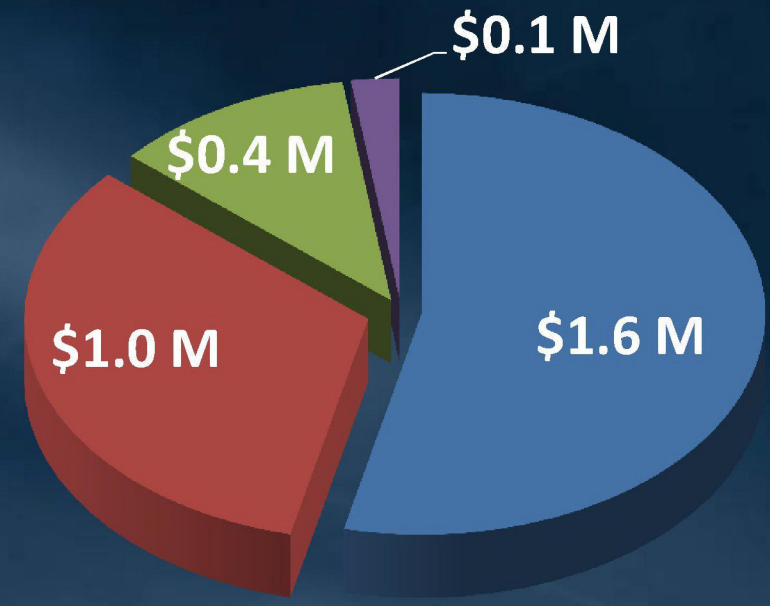
Audit Department O&M Budget Trend

FY 2014/15 - \$3.0 M



12 FTEs

FY 2015/16 - \$3.1 M



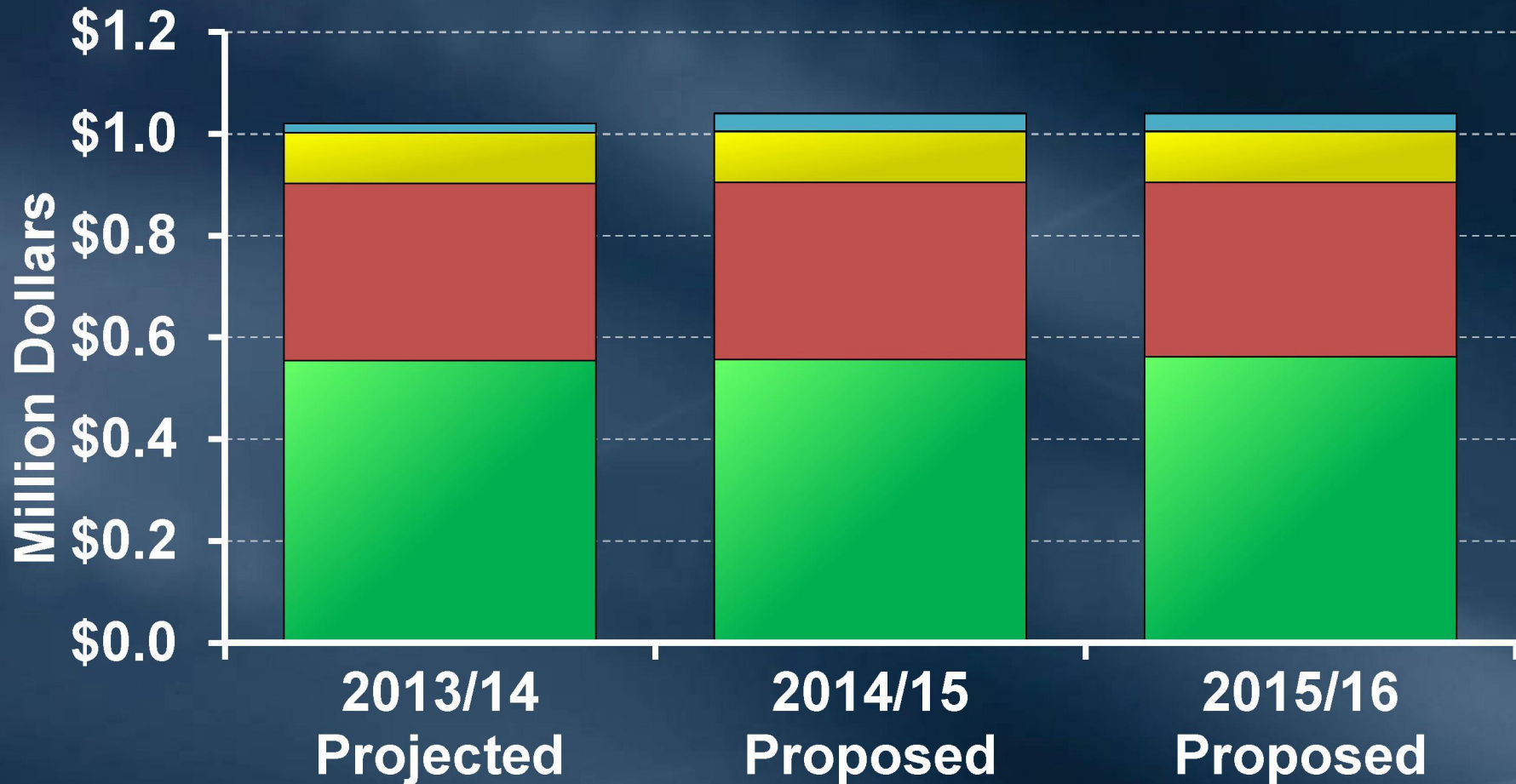
12 FTEs

■ Salaries ■ Benefits ■ Professional Services ■ Other

Ethics Department

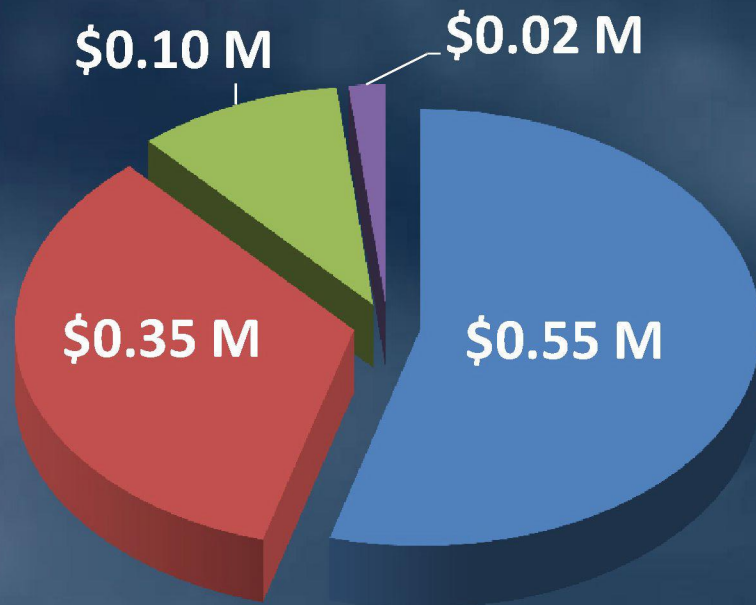
Ethics Department O&M Budget

■ Salaries ■ Benefits ■ Professional Services ■ Other



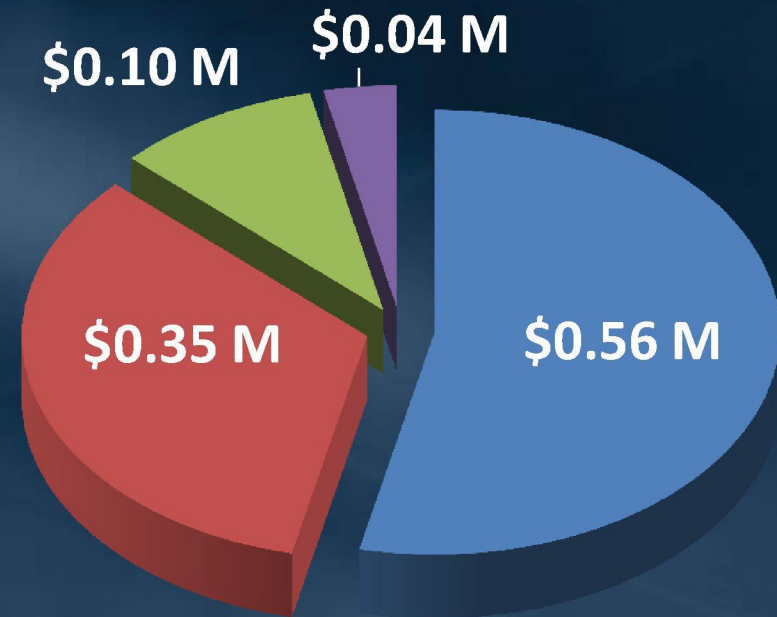
Ethics Department O&M Budget Trend

FY 2013/14*- \$1.0M



4 FTES

FY 2014/15 - \$1.0M



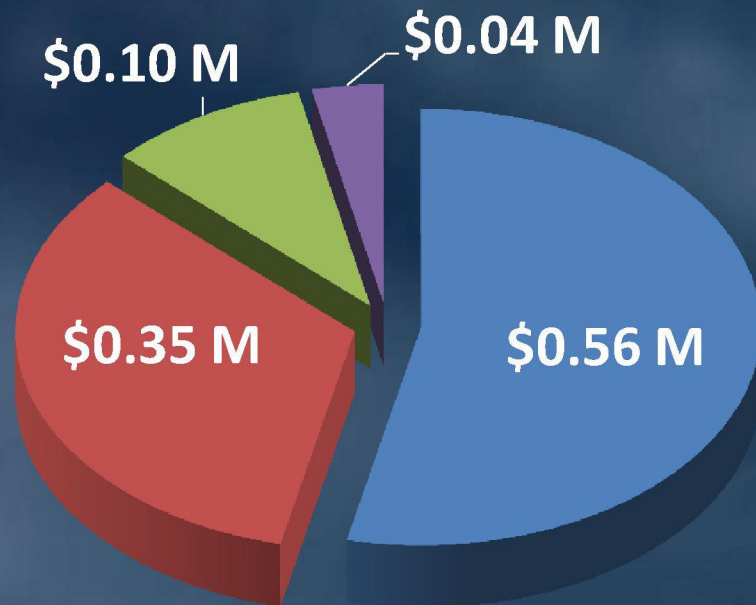
4 FTES

■ Salaries ■ Benefits ■ Professional Services ■ Other

Projected

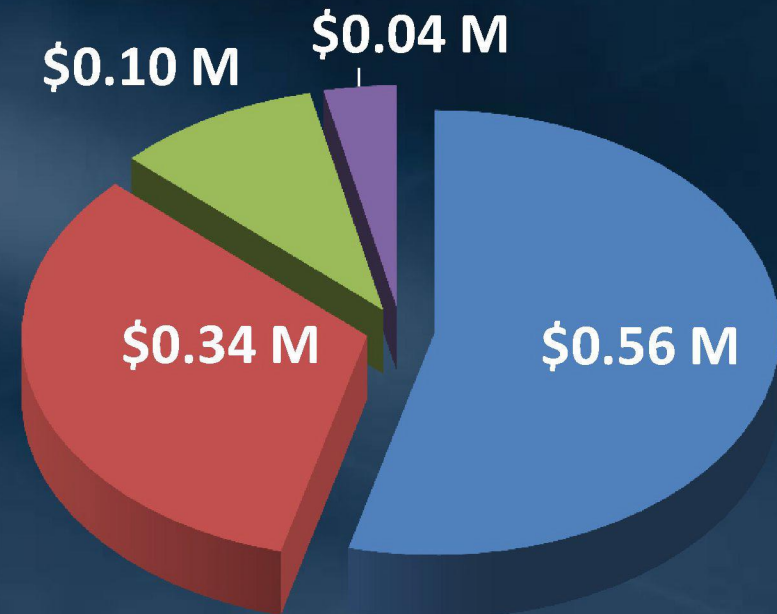
Ethics Department O&M Budget Trend

FY 2014/15 - \$1.0M



4 FTES

FY 2015/16 - \$1.0M



4 FTES

■ Salaries ■ Benefits ■ Professional Services ■ Other

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	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

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

**Board Workshop #2
February 25, 2014**



Proposed Biennial Budget Workshop #2

Presentation Overview

- Rate Scenarios
- Response to Questions from Workshop #1
- Operating Budget
- Next Steps

Rate Scenarios

- Scenario A: Updated 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

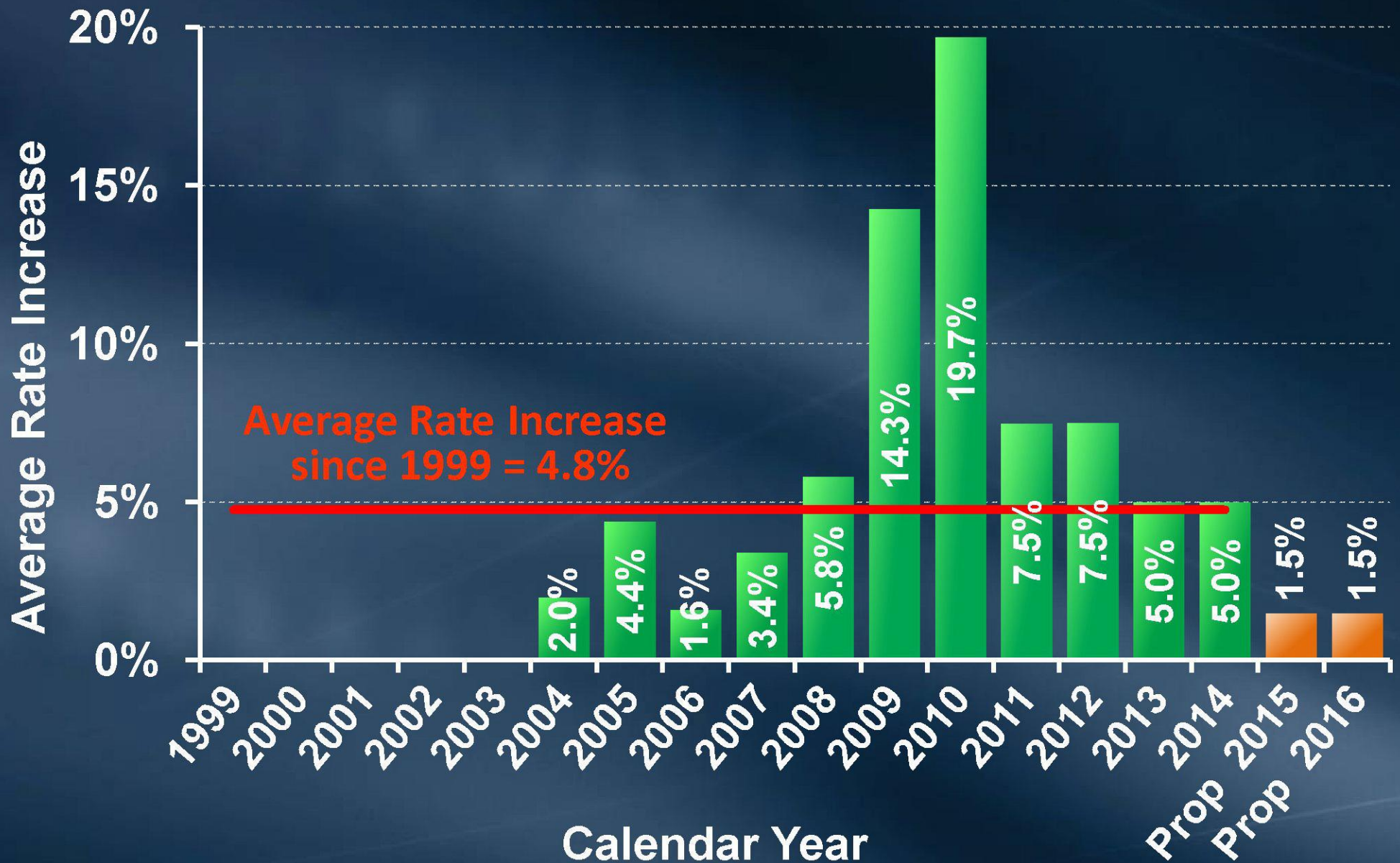
Rate Scenarios (cont'd)

- 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

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

Overall Rate Increases Since 1999



Scenario A: 1.5% / 1.5%

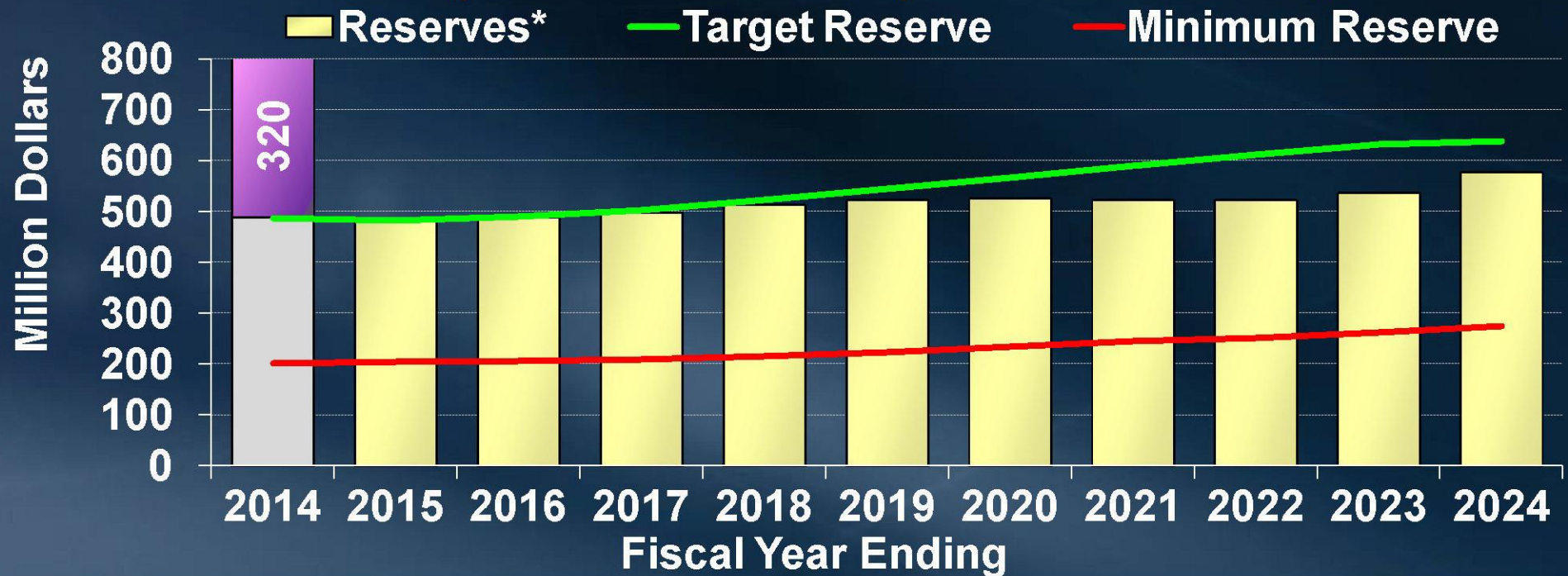
Scenario A: Original Proposal 1.5%/1.5%



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 Proposal 1.5%/1.5%

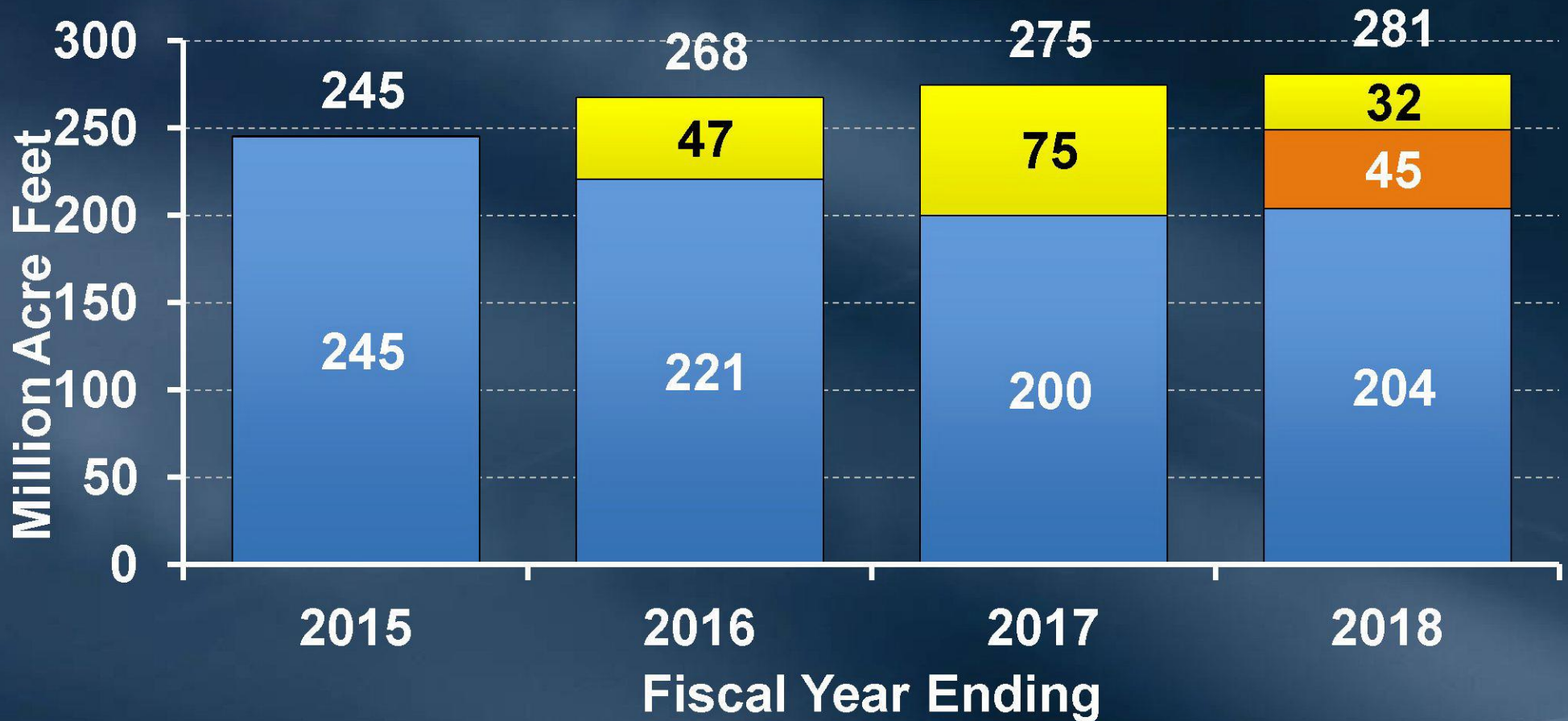


Ave Rate Inc.	5%	1.5%	1.5%	3%	3%	3.5%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	245	221	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	2.0	2.0	2.1	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0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

Scenario A: Capital Investment Plan Funding

■ R&R Fund ■ Bonds ■ PAYGO

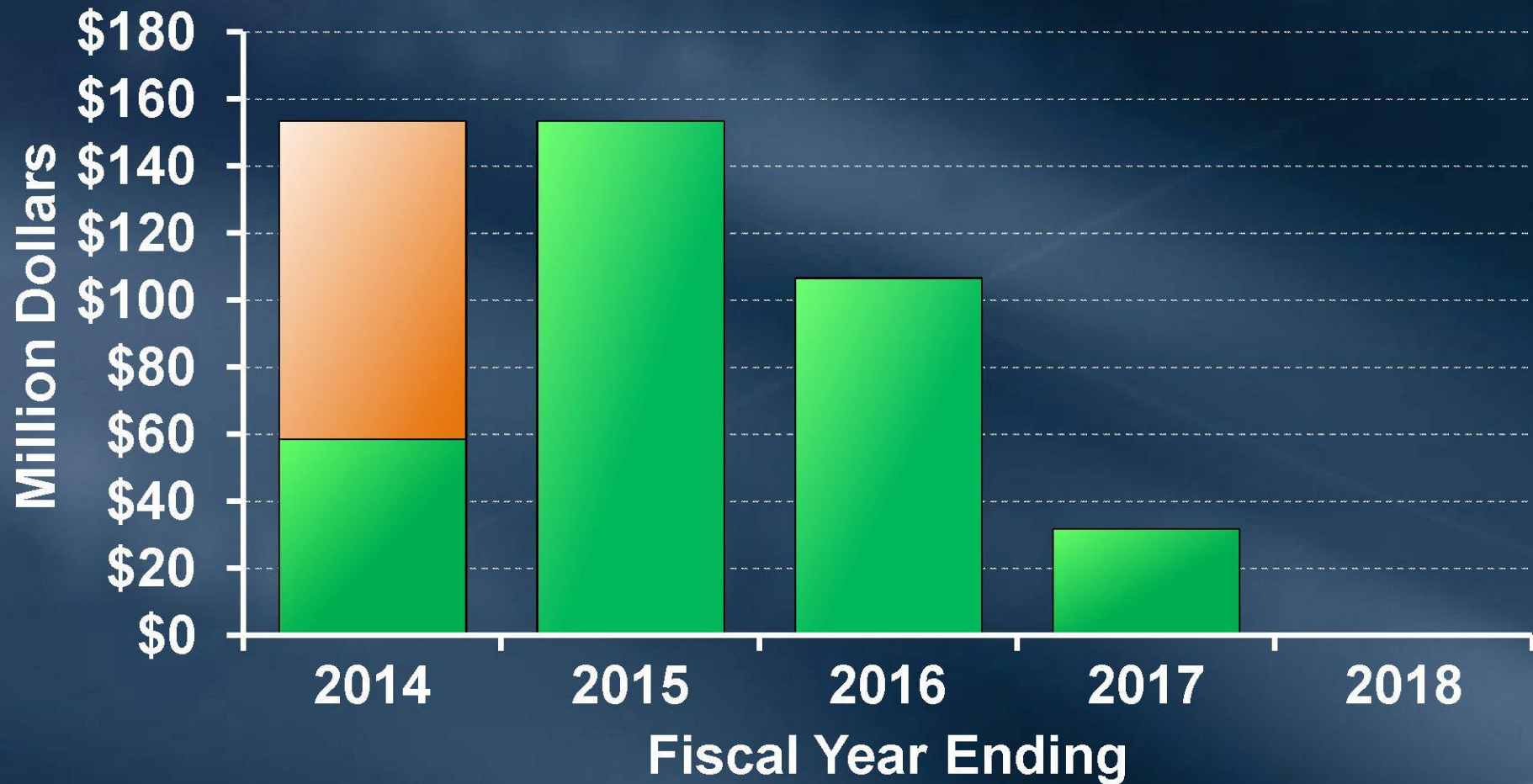


Scenario A:

Replacement and Refurbishment (R&R) Fund

■ R&R Deposit

■ R&R Fund Balance



Scenario A: Updated Proposed Rate Elements

Rates and Charges Effective January 1			
	2014	2015	2016
	Approved	Proposed	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 A: Full Service, E

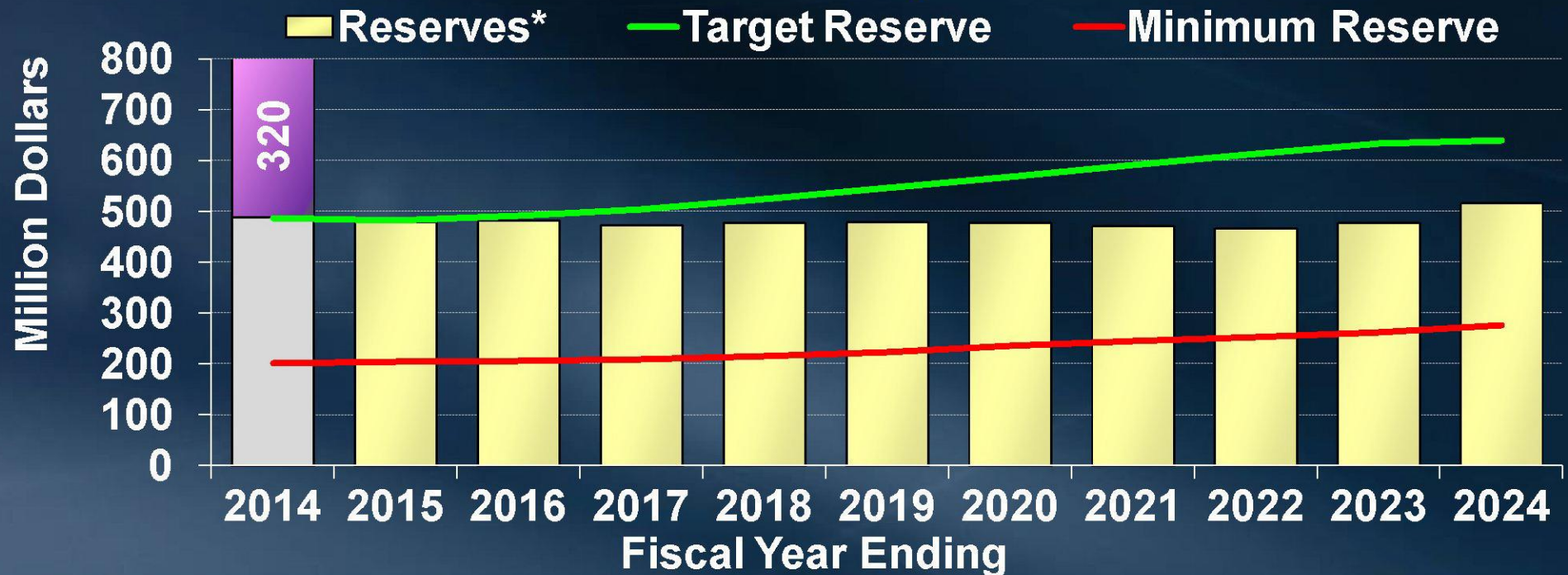
Proposed Charges

Rate Type	2014 Approved	2016 Proposed	% Increase (Decrease)		
Full Service Untreated Volumetric					
Tier 1	\$593	\$594	2.1%		
Tier 2	\$735	\$728	2.0%		
Full Service Treated Volumetric C					
Tier 1	\$890	\$942	2.1%		
Tier 2	\$1,032	\$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%

T1 Supply SAR \$158/AF
T1 Supply SAR \$257/AF
T1 Supply SAR \$158/AF
SAR \$257/AF
WSR \$41/AF
SAR \$257/AF
WSR \$41/AF
SPR \$126/AF

Scenario B: 0% / 1.5%

Scenario B: 0%/1.5%

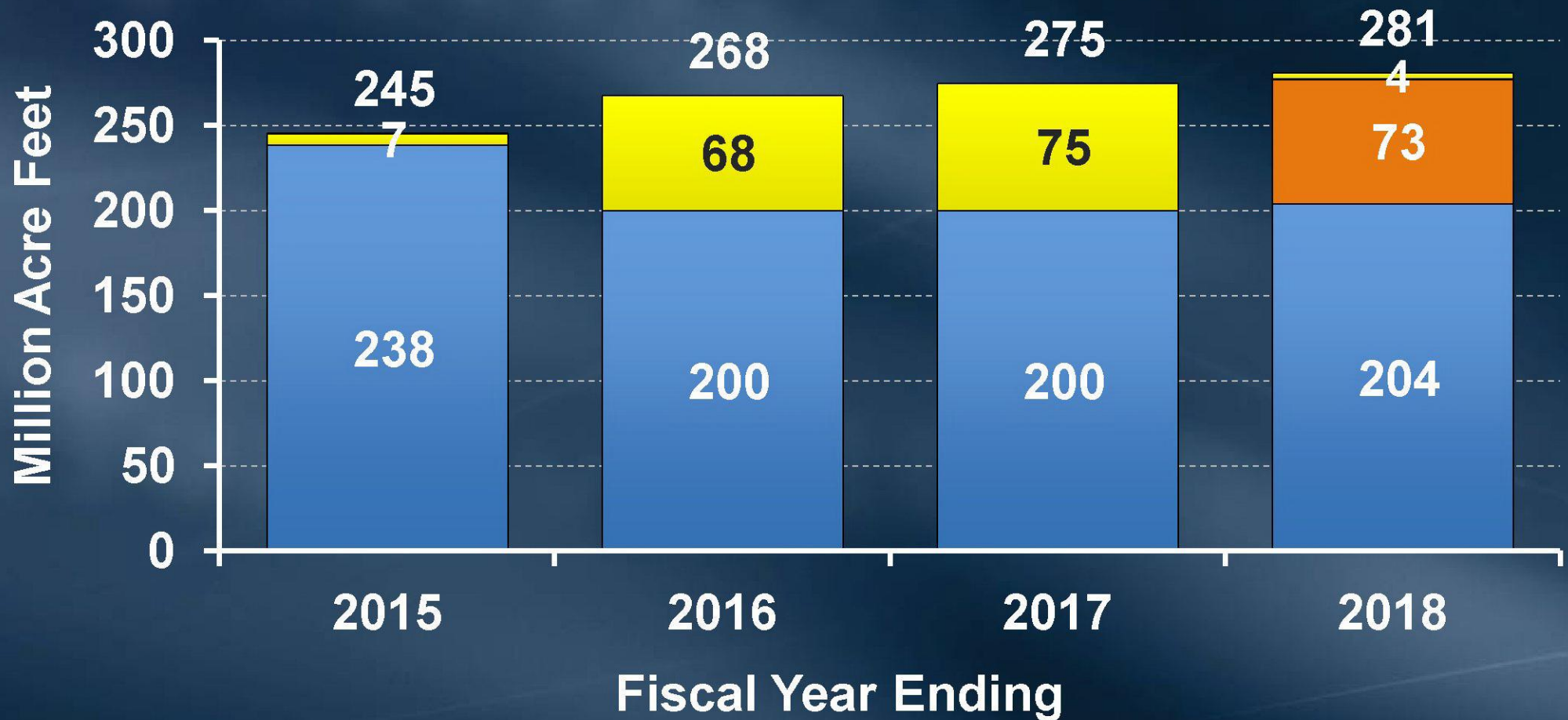


Ave Rate Inc.	5%	0%	1.5%	3.5%	3.5%	4%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	238	200	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	1.9	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0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

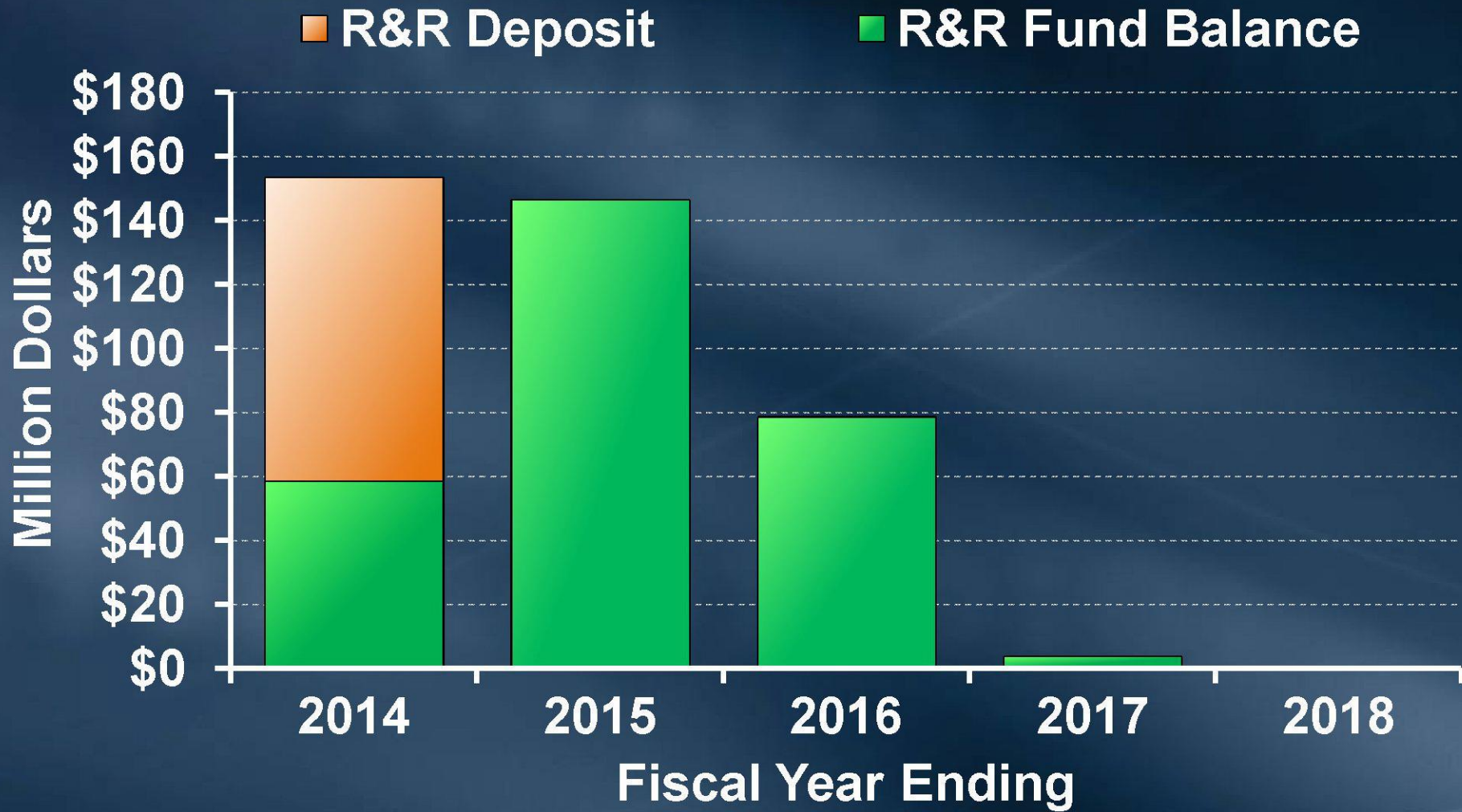
* Revenue Remainder & WRSF

Scenario B: Capital Investment Plan Funding

■ R&R Fund ■ Bonds ■ PAYGO



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



Scenario B: Proposed Rate Elements

Rates and Charges Effective January 1			
	2014 Approved	2015 Proposed	2016 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 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

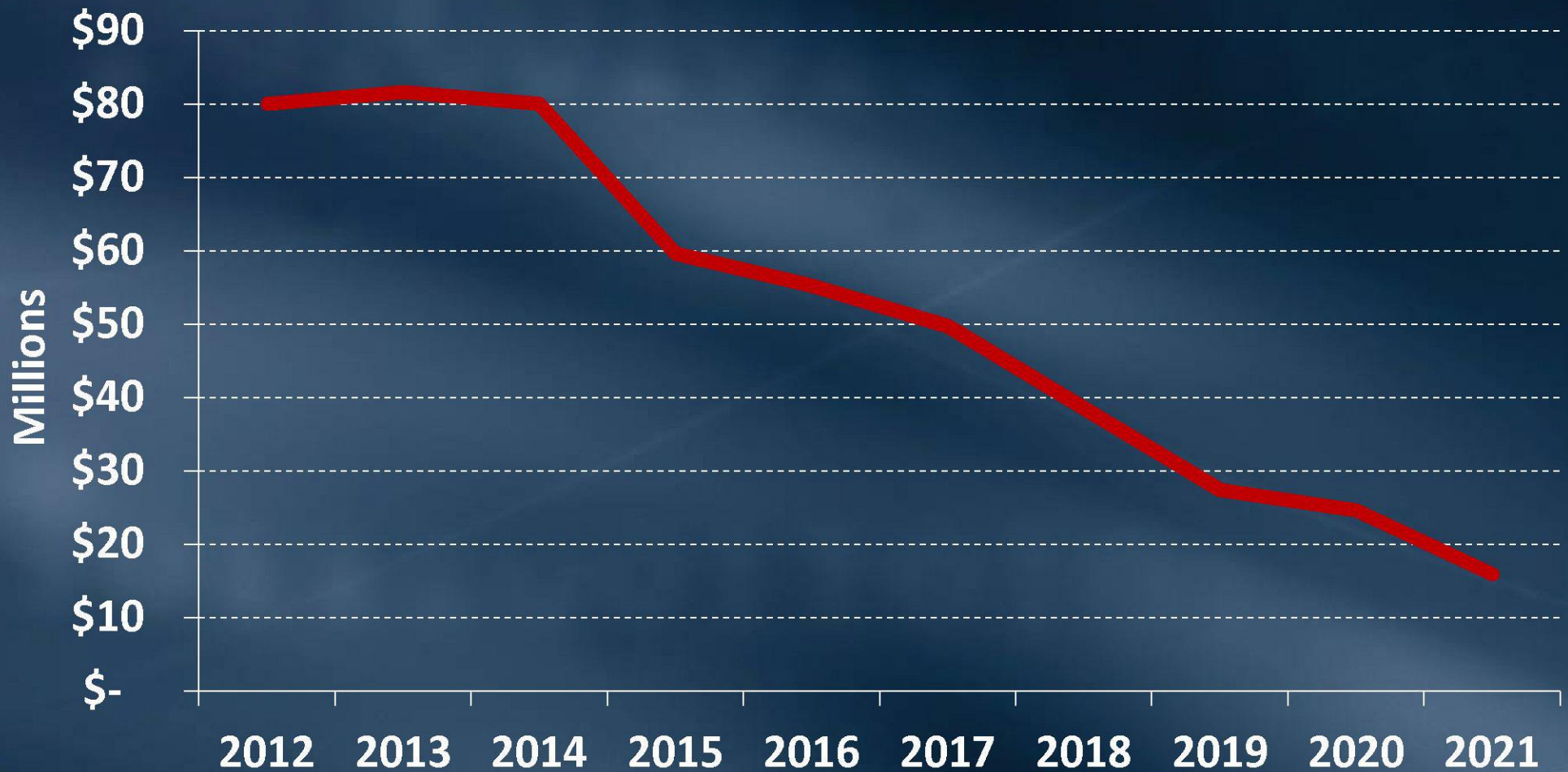
Ad Valorem Tax Background

- 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



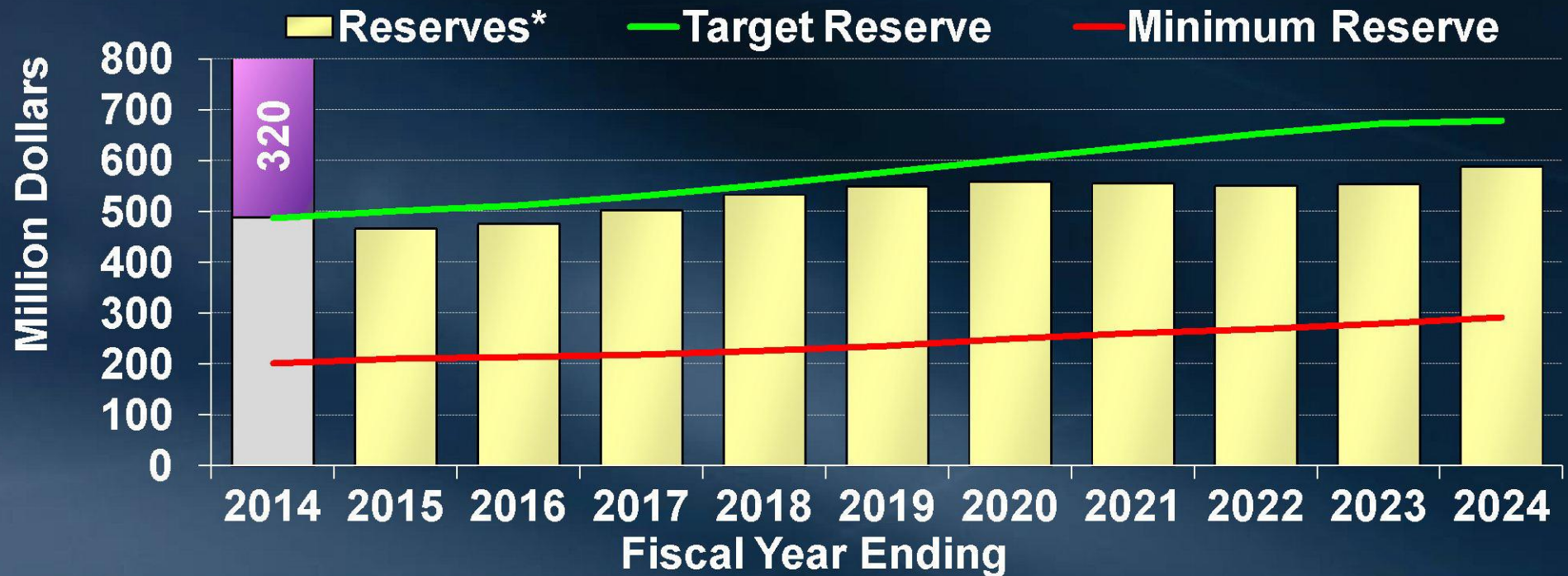
Current Ad Valorem Tax Rate

- .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 Rate Elements

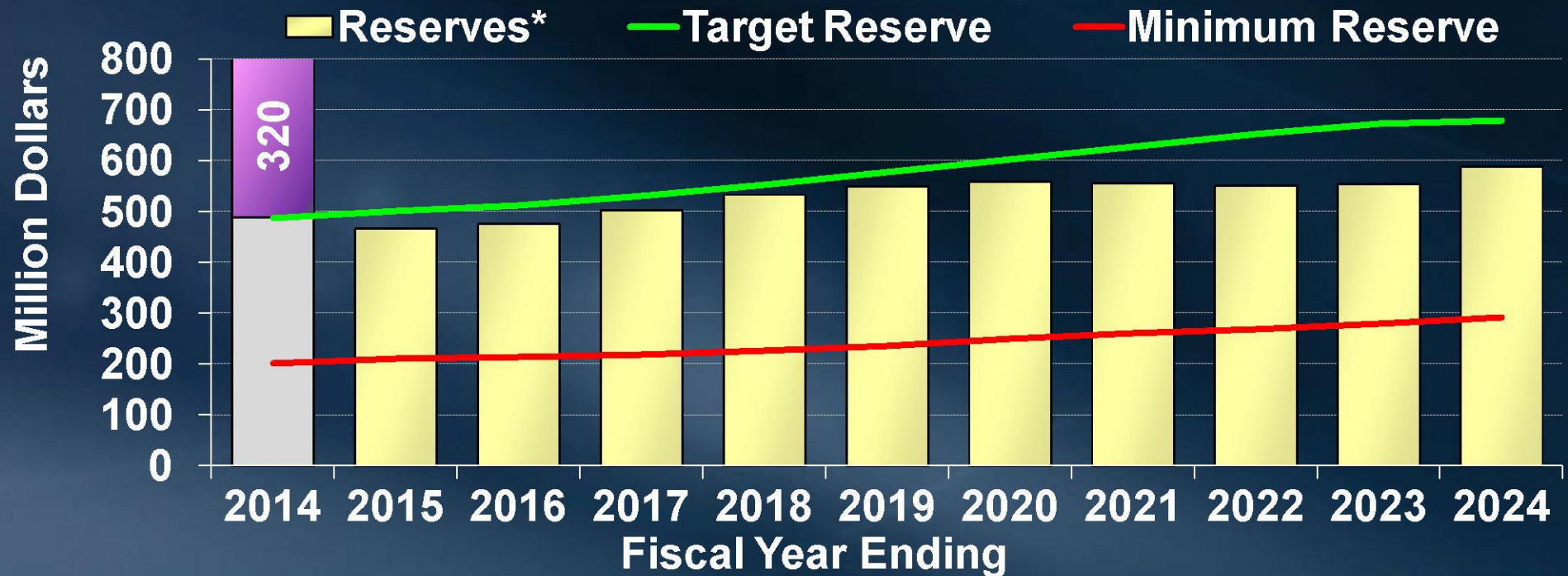
Rates and Charges Effective January 1			
	2014 Approved	Scenario A Proposed	Scenario C Proposed
		Scenario A	\$158/AF
Tier 1 Supply Rate (\$/AF)	\$14		
Tier 2 Supply Rate (\$/AF)	\$29	Scenario A	\$257/AF
System Access Rate (\$/AF)	\$243	\$264	\$274
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System 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

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%

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

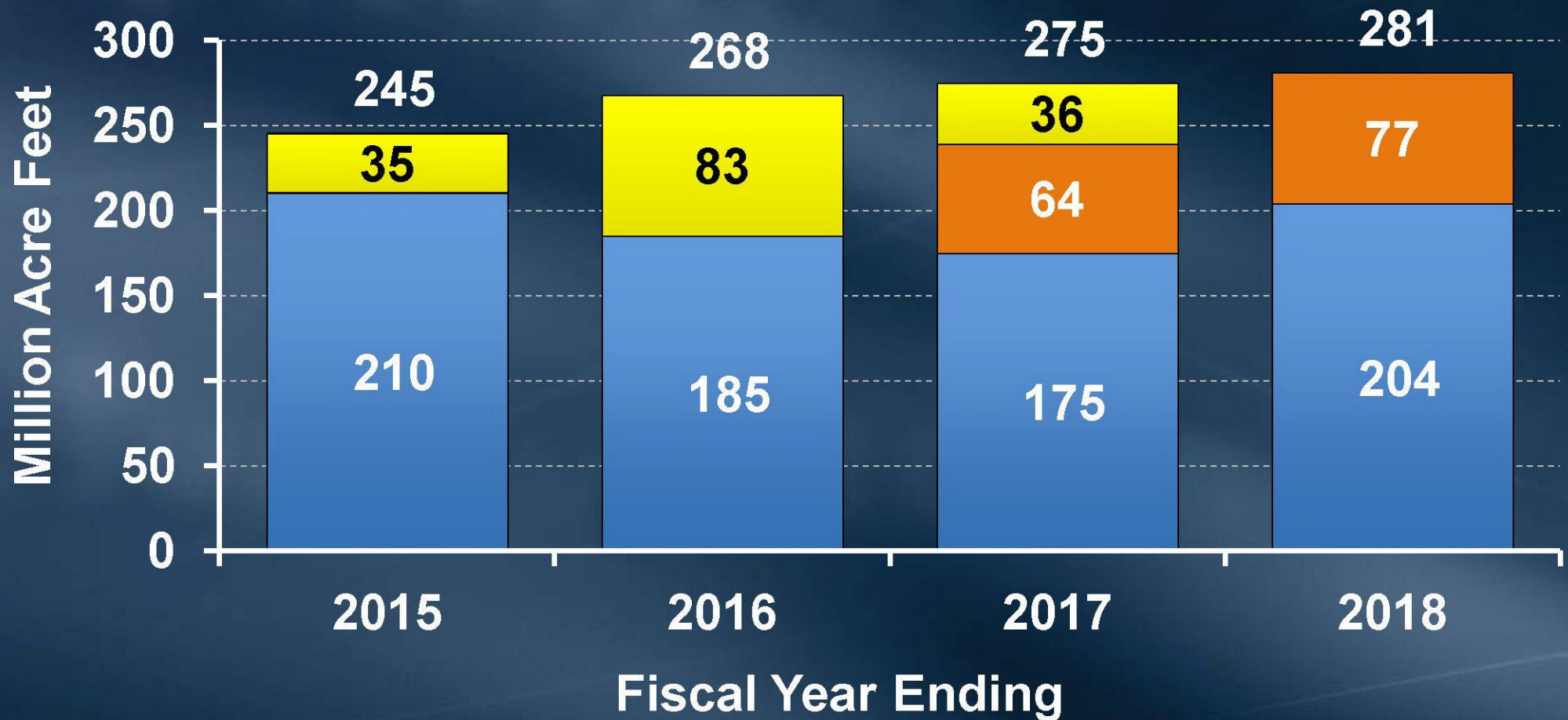
Rates and Charges Effective January 1			
	2014	2015	2016
	Approved	Proposed	Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$159	\$157
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$261	\$265
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$126	\$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

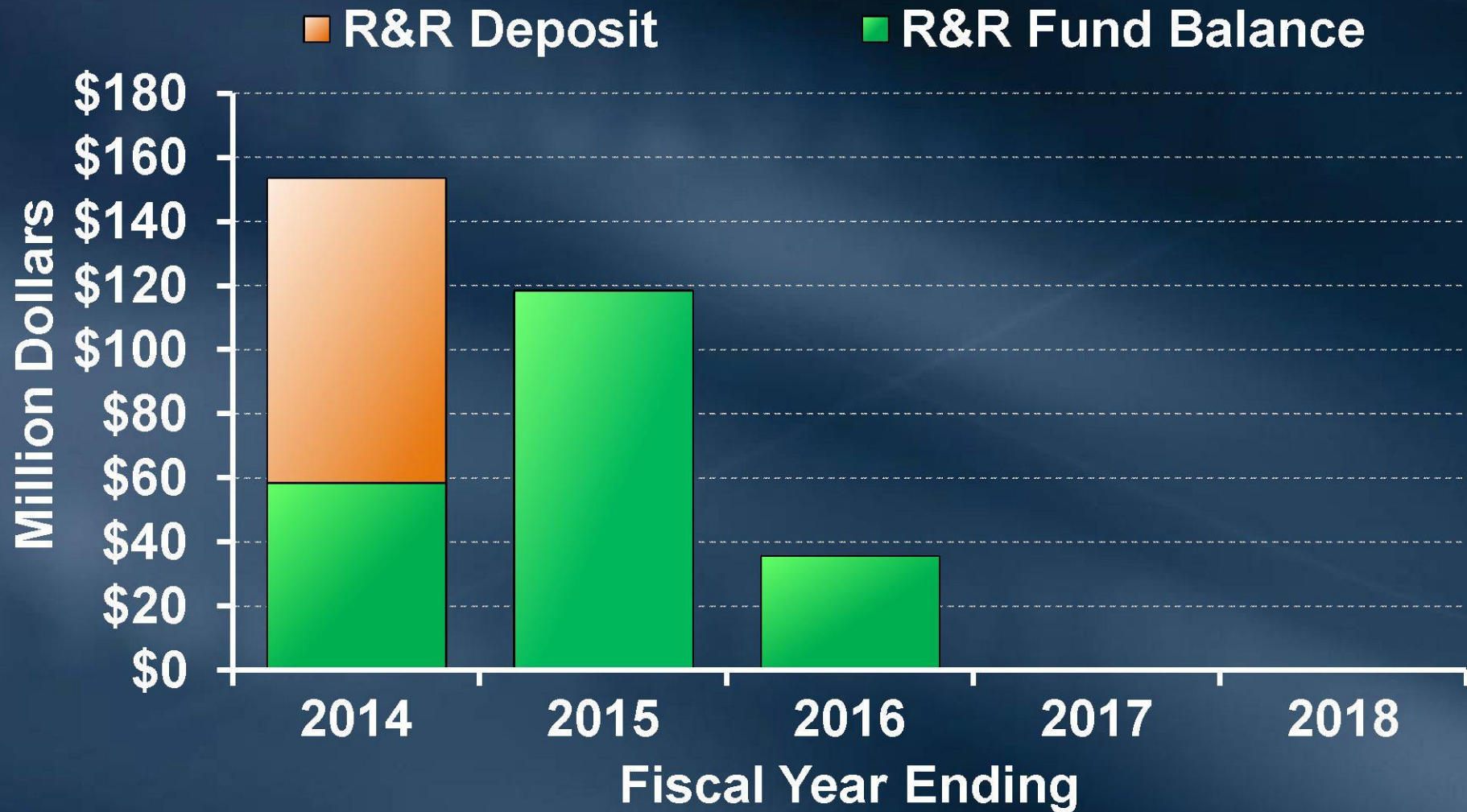
Rate Type	2014 Approved	2015 Proposed	% Increase (Decrease)	2016 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$593	\$587	-1.0%	\$600	2.2%
Tier 2	\$735	\$718	-2.3%	\$733	2.1%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$890	\$916	2.9%	\$933	1.9%
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



Responses to Questions from Workshop #1

Impact of Supply Conditions on Power Costs

Assumptions

Calendar Year Ending	2014	2015
CRA pump load	8 pumps	7 pumps
CRA deliveries	1.185 MAF	.940 MAF
State Water Project Allocation	5%	25%

Results of Lower SWP Allocation

- Greater use of CRA to move water into the service area
- Continued use of Storage Programs in CY 2015
- In FY 2014/15 and FY 2015/16, SWP power costs are lower but CRA power cost are higher
 - FY 2014/15 reduction of approximately \$39M
 - FY 2015/16 reduction of approximately \$20M
- Costs to refill storage will be significant
- Costs less than budget could be set aside in the Water Management Fund to offset future storage refill costs

Comparison of Use of Reserves over Target to reduce Debt vs. OPEB Costs

Use of Reserves to Reduce Debt vs. OPEB Liability

- Deposit of \$100 million to R&R Fund reduces future annual debt costs by \$4 to \$6 million
 - Range reflects use of variable vs. fixed rate debt at a rate of 1% to 4.5% and 30 year amortization
 - Decreases future percentage of capital budget funded with debt
- Deposit of \$100 million to OPEB Trust reduces future annual contributions by \$6.5 million
 - Improves funded percentage from 13% to 43%
 - Pays down liability for benefits earned in prior years
 - Increases future percentage of capital budget funded with debt

Revenue Funded Capital (PayGo)

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%

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

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

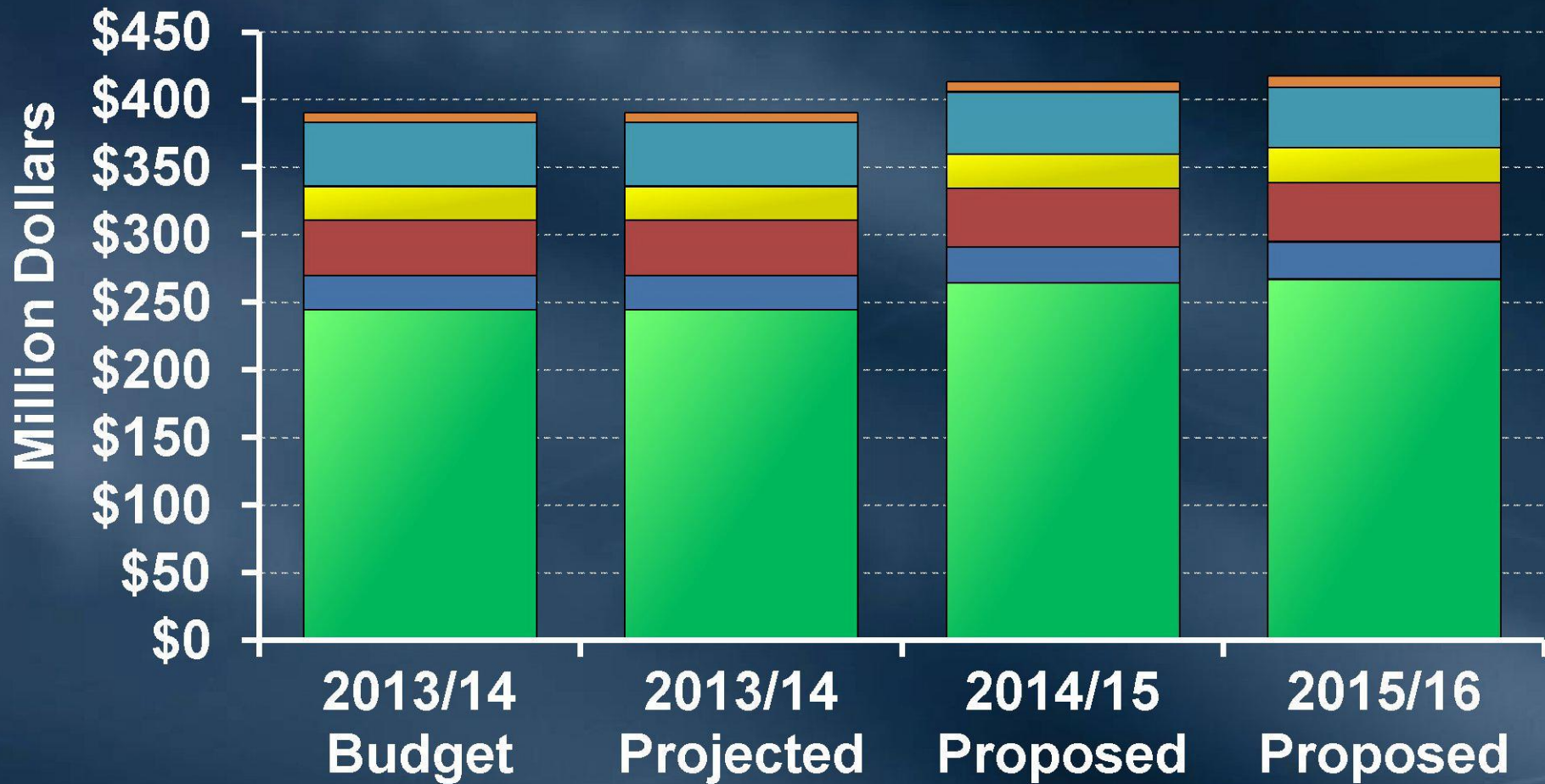
● Con

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

Operating Budget

Proposed O&M Expenditure Budget

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

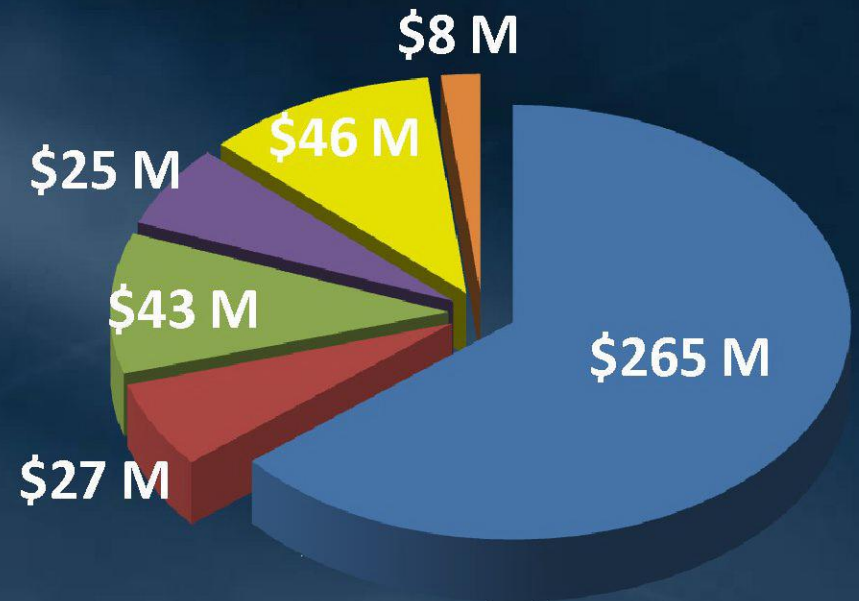


O&M Budget Trend

FY 2013/14 - \$390 M



FY 2014/15 - \$414 M



■ Salary & Benefits
 ■ Materials & Supplies

■ Variable Treatment
 ■ Other

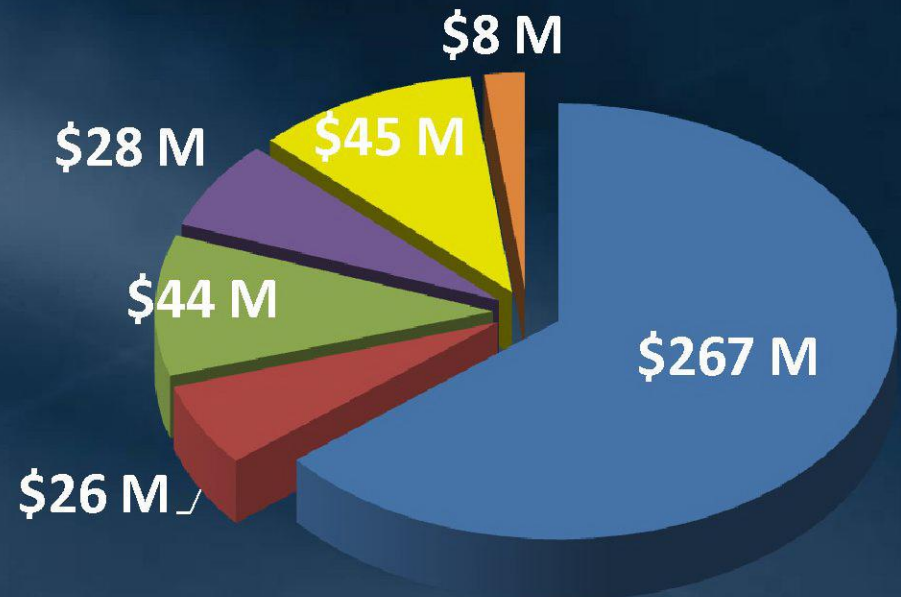
■ Outside Services
 ■ Operating Equipment

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

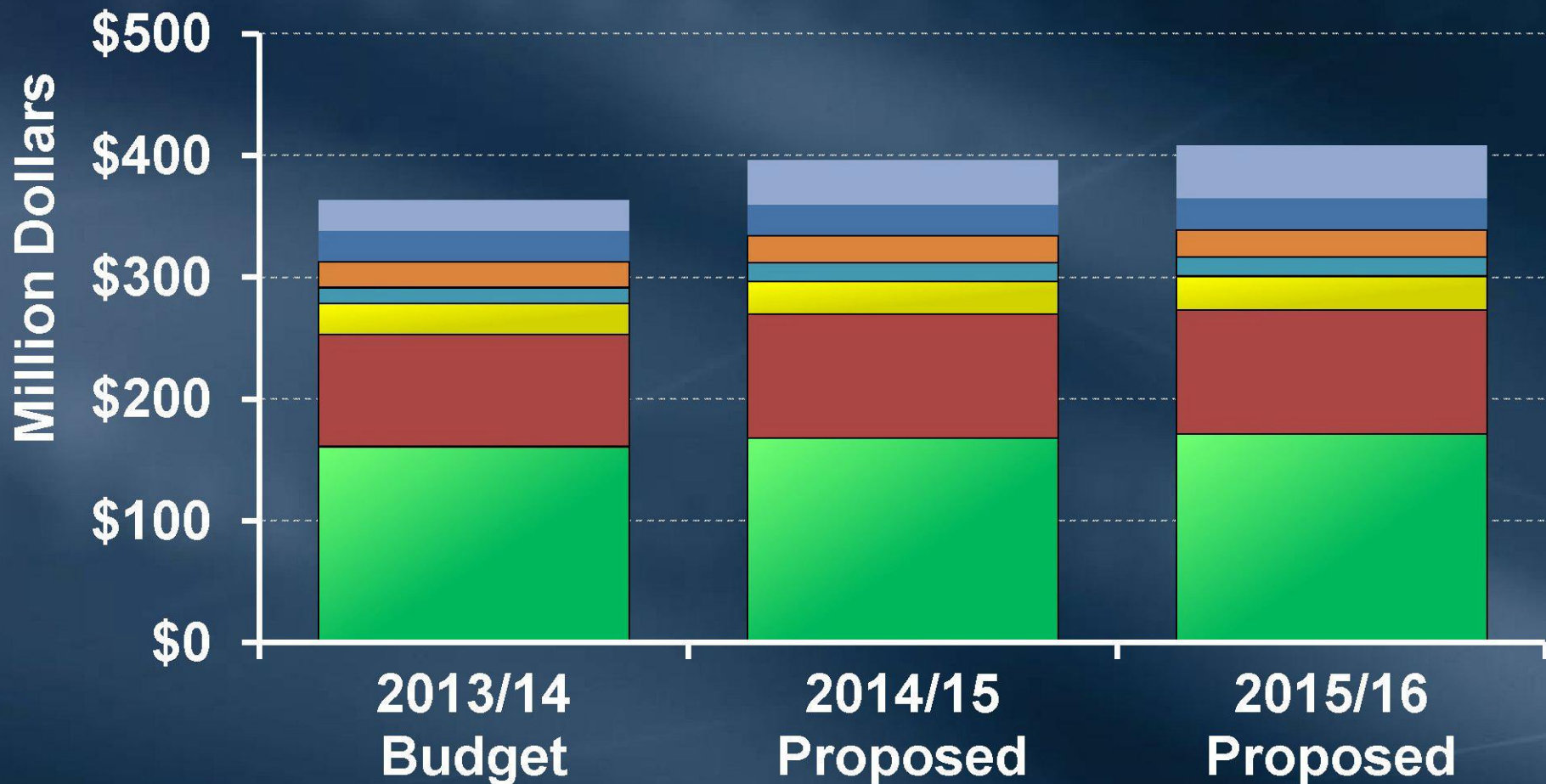
FY 2014/15 to FY 2015/16

● 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

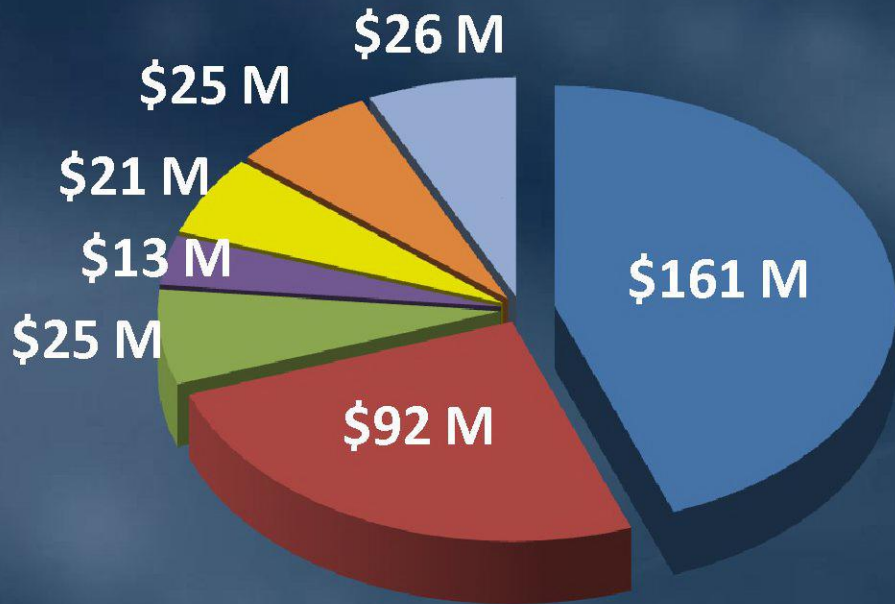
GM Department O&M Budget

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



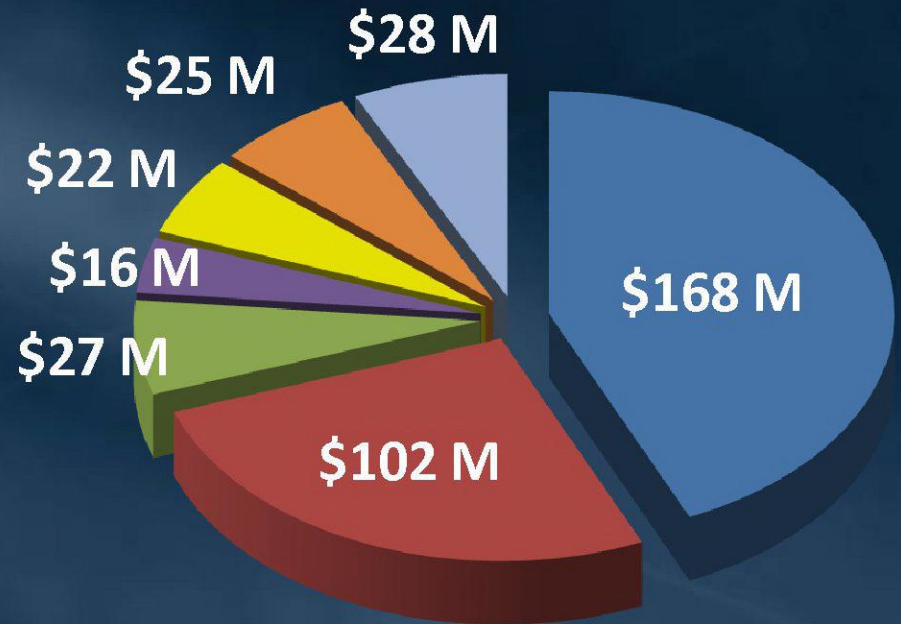
GM Department O&M Budget Trend

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

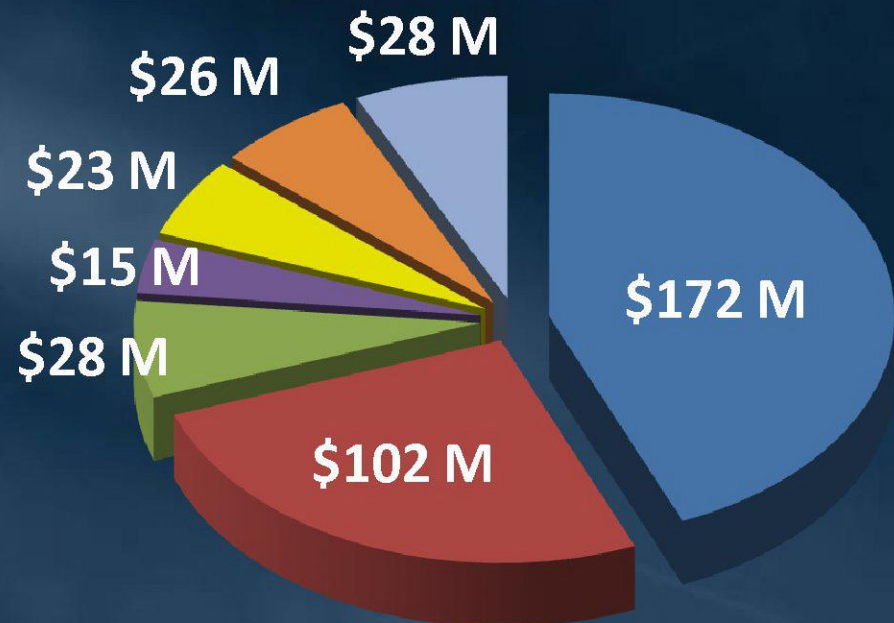
FY 2014/15 - \$388 M



1,776 FTEs

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

FY 2015/16 - \$393 M



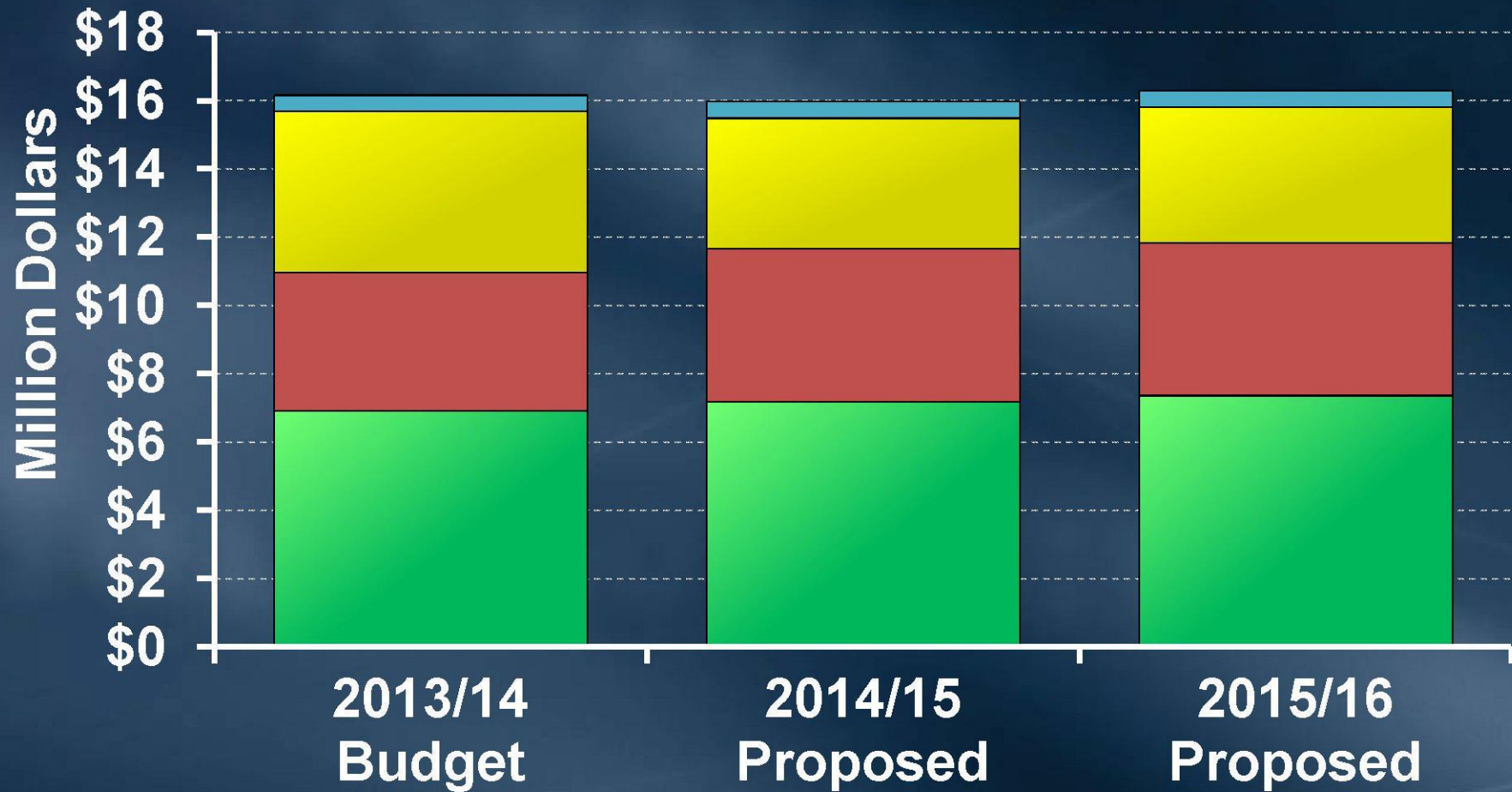
1,775 FTEs

- 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



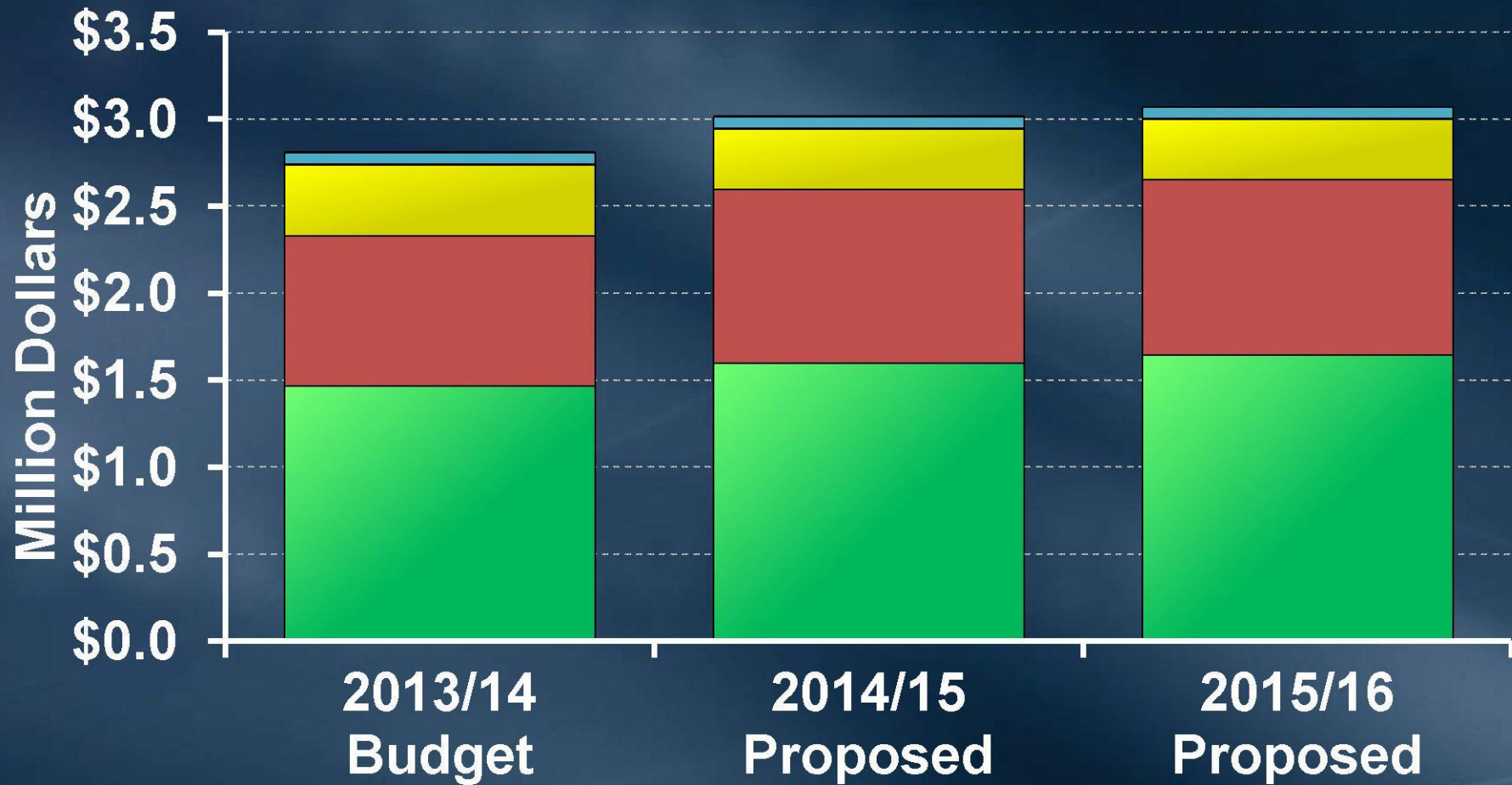
36 FTEs

■ 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

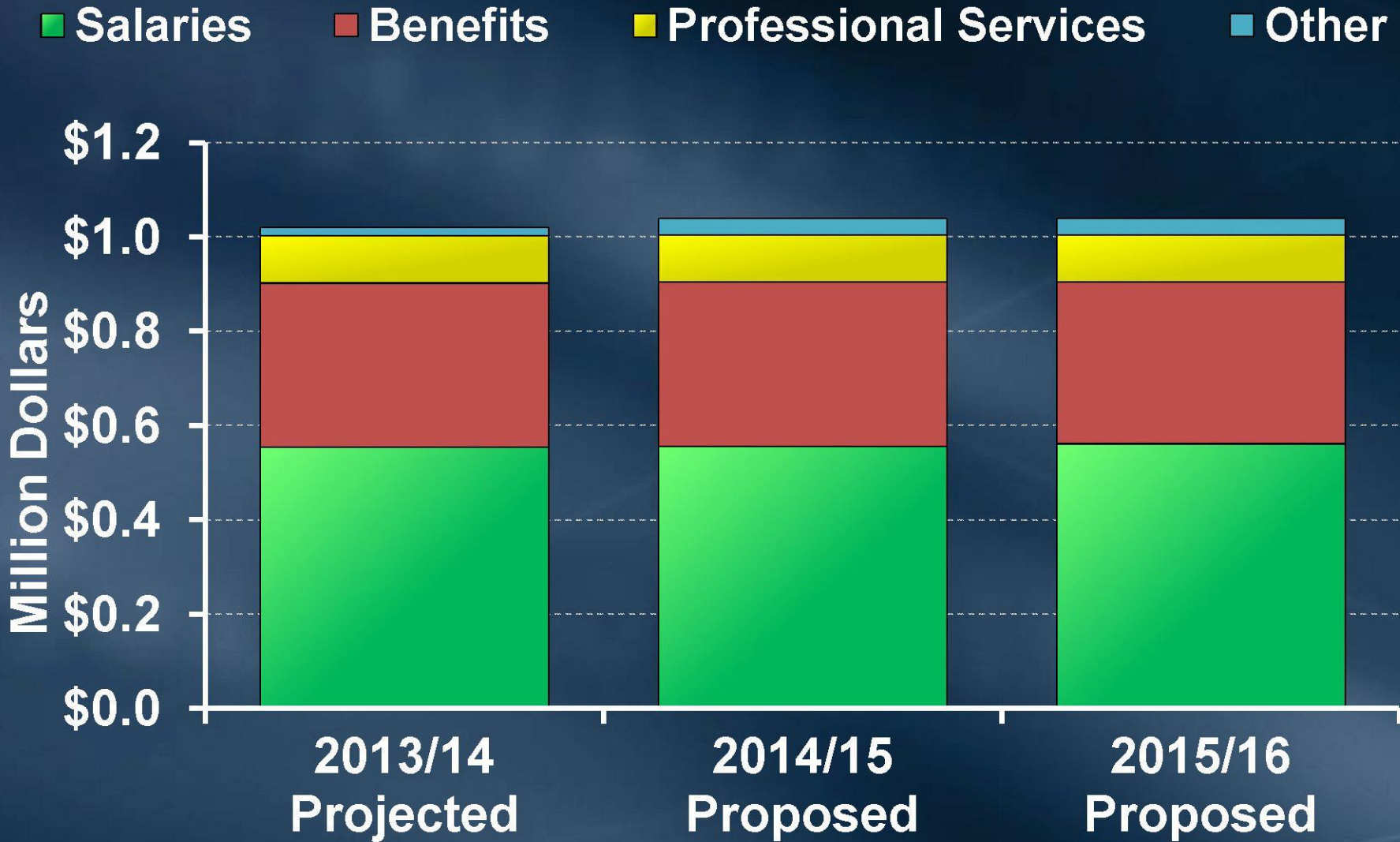


12 FTEs

■ Salaries ■ Benefits ■ Professional Services ■ Other

Ethics Department

Ethics Department O&M Budget



Ethics Department O&M Budget Trend

FY 2013/14* - \$1.0M



4 FTES

FY 2014/15 - \$1.0M



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

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	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

Rate Scenarios

- Updated Proposed: 1.5% / 1.5%
 - Smoothed supply program expenditures
 - Lowered retiree medical due to updated actuarial
- Scenario 1: 0% / 1.5%

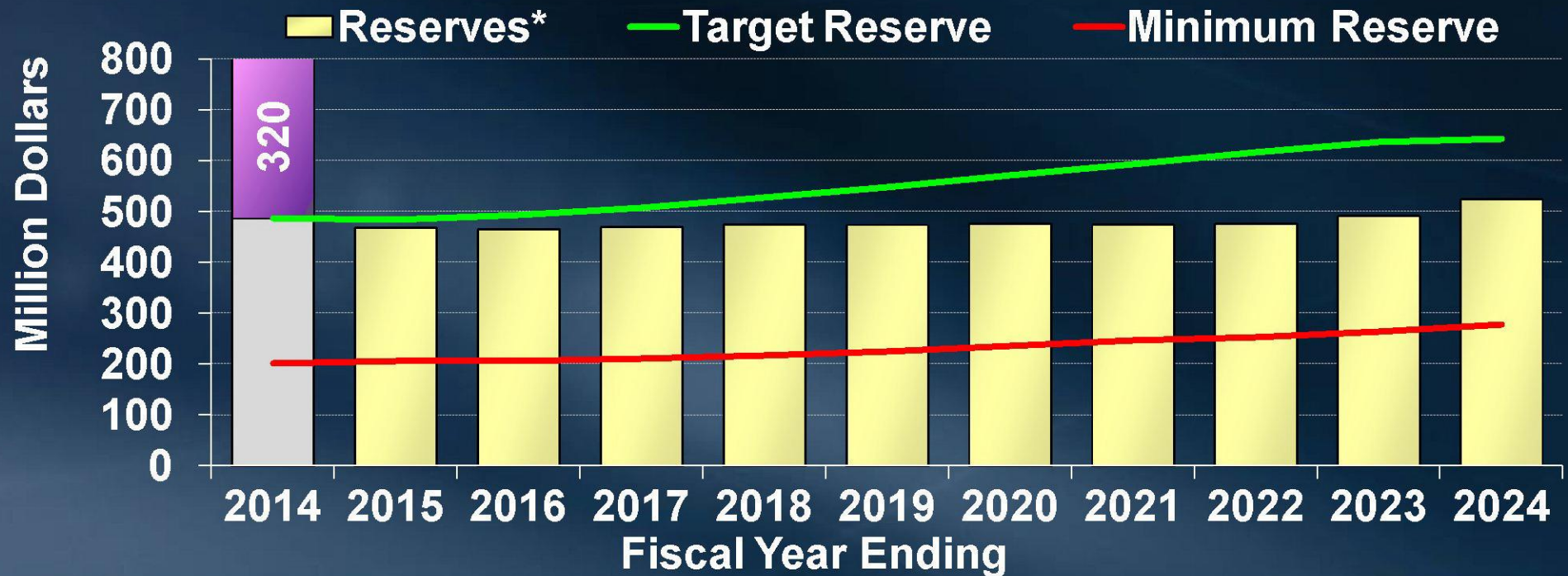
Updated Proposed Rate Elements

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 (\$/cfs)	\$8,600	\$11,100	\$10,900

Updated 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%

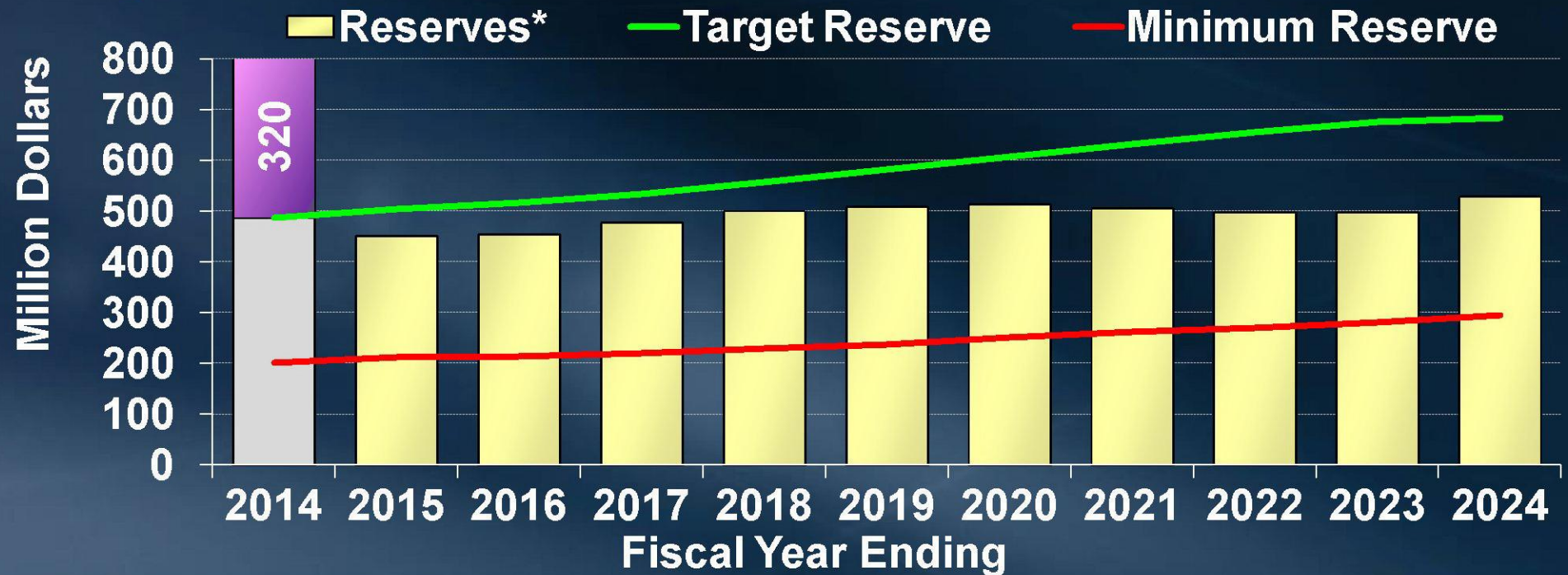
Proposed



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

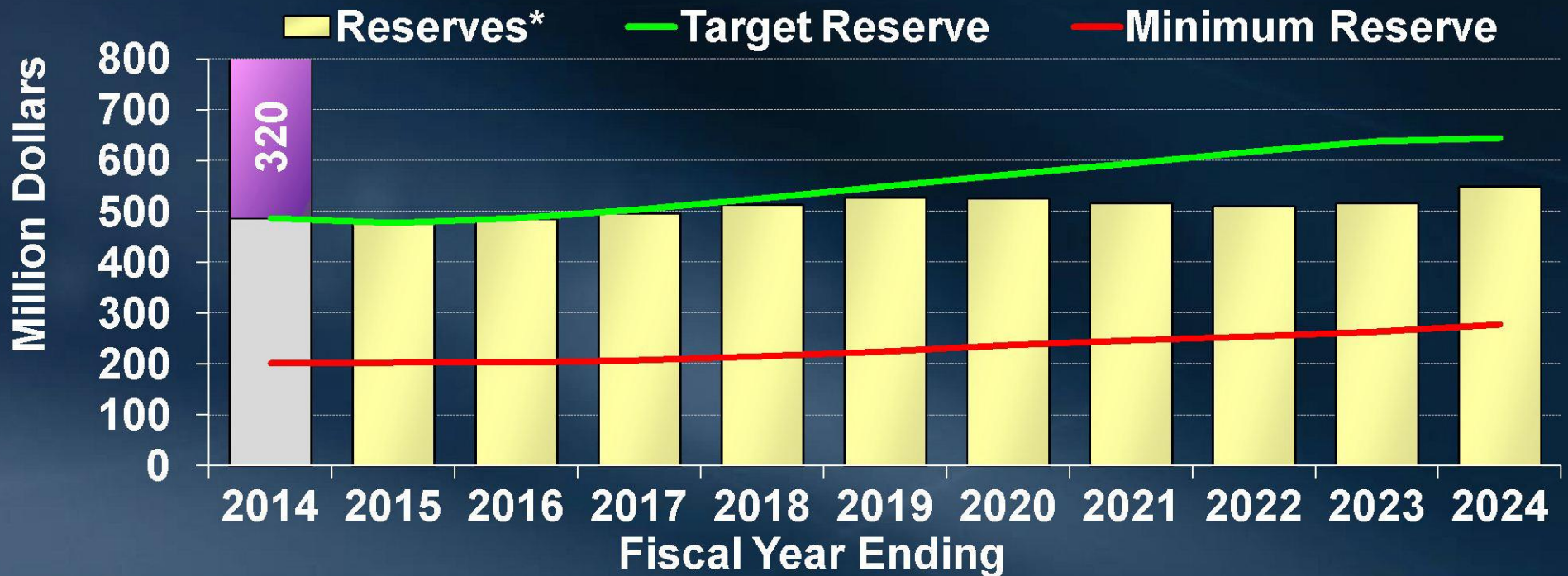
Projected Rate without Fixed AV Tax Rate



Ave Rate Inc.	5%	3.5%	3.5%	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	245	221	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.1	2.2	2.2	2.3	2.5	2.7	2.9	3.0	3.2
Fixed Chg Cvg	2.0	1.5	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 – no net rate increase in 2015



Ave Rate Inc.	5%	0%	1.5%	3%	3.5%	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	225	186	170	169	171	176	182	187	190	188
Rev. Bond Cvg	2.7	1.9	1.9	1.9	1.9	2.0	2.2	2.4	2.5	2.6	2.8
Fixed Chg Cvg	2.0	1.6	1.6	1.5	1.5	1.5	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

BACKUP

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 refurbishment and replacement
- 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%
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

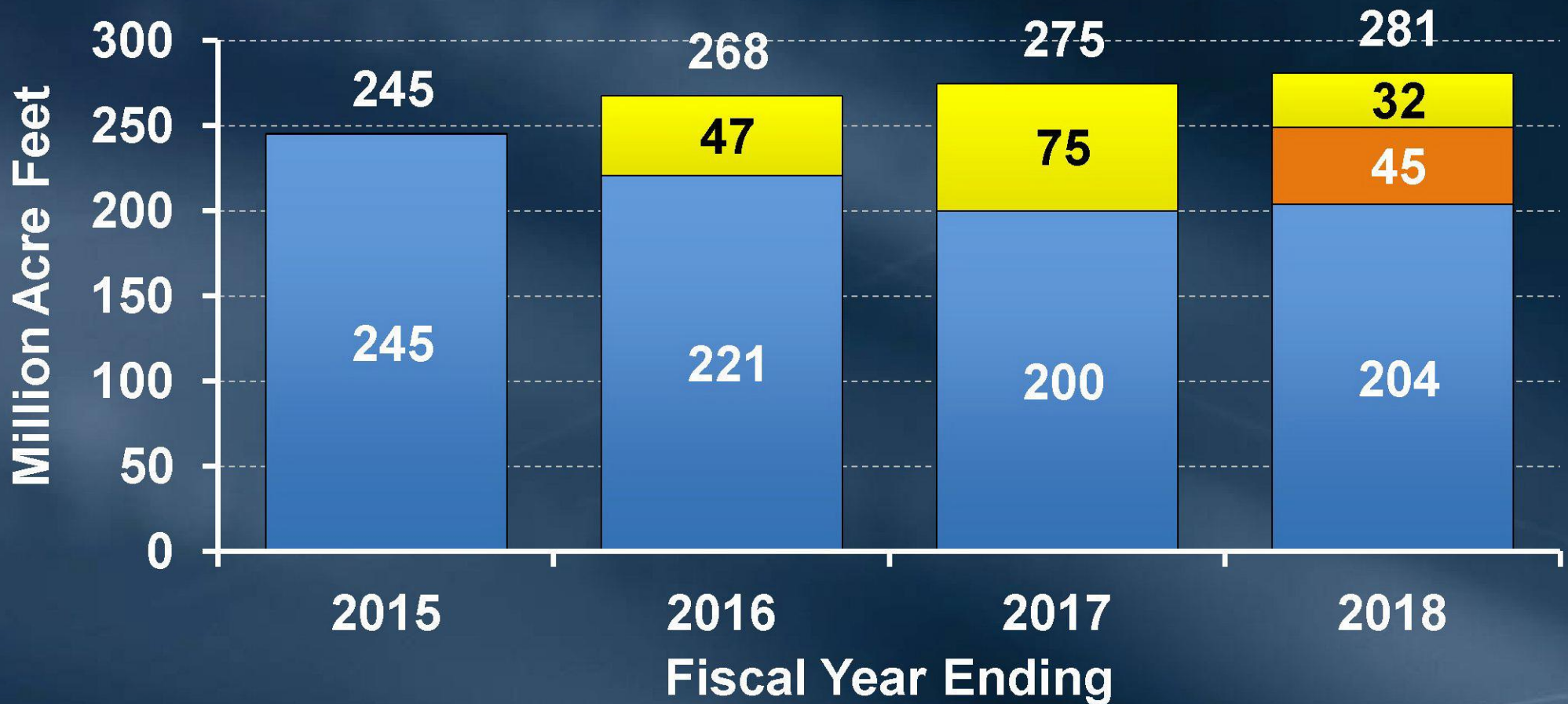


Use of Reserves over Target

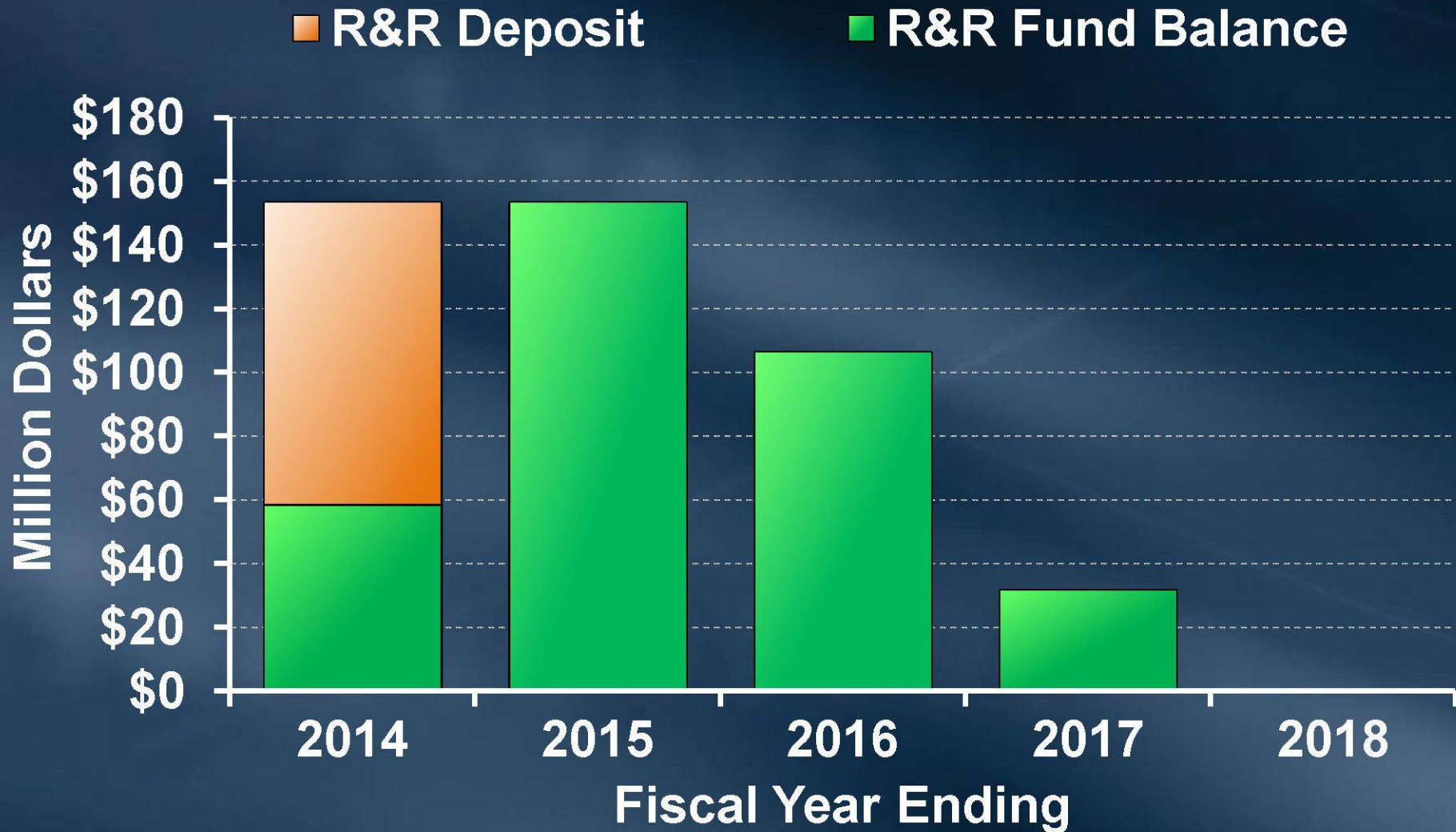
- Proposed use of estimated \$320M over the target
 - \$100M deposit to Refurbishment and Replacement (R&R) Fund
 - \$100M deposit to OPEB Trust
 - Approximately \$120M to a newly established Water Management Fund

Capital Investment Plan Funding

■ R&R Fund ■ Bonds ■ PAYGO



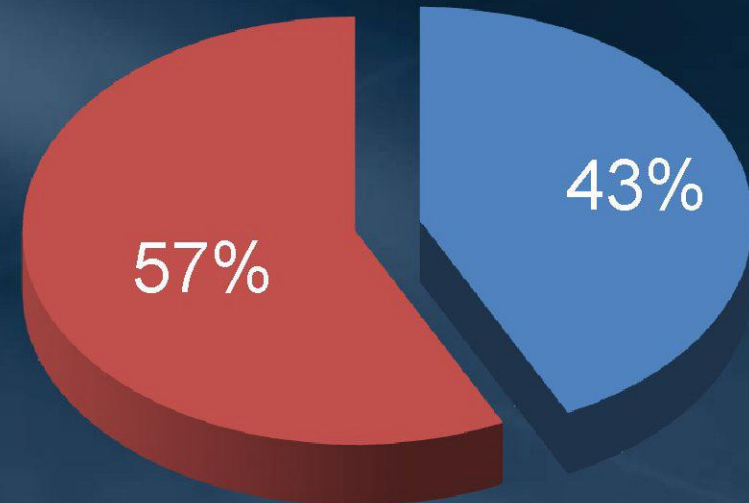
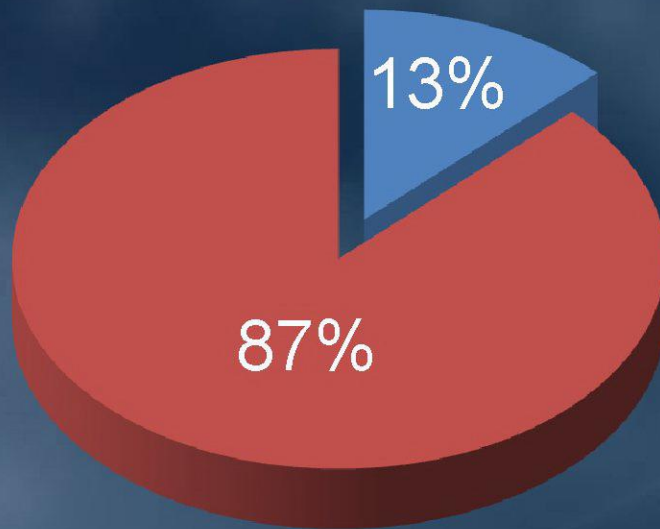
Repair & Replacement (R&R) Fund



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

Retiree Medical Premiums (OPEB) Funding

After \$100 million
deposit to OPEB Trust



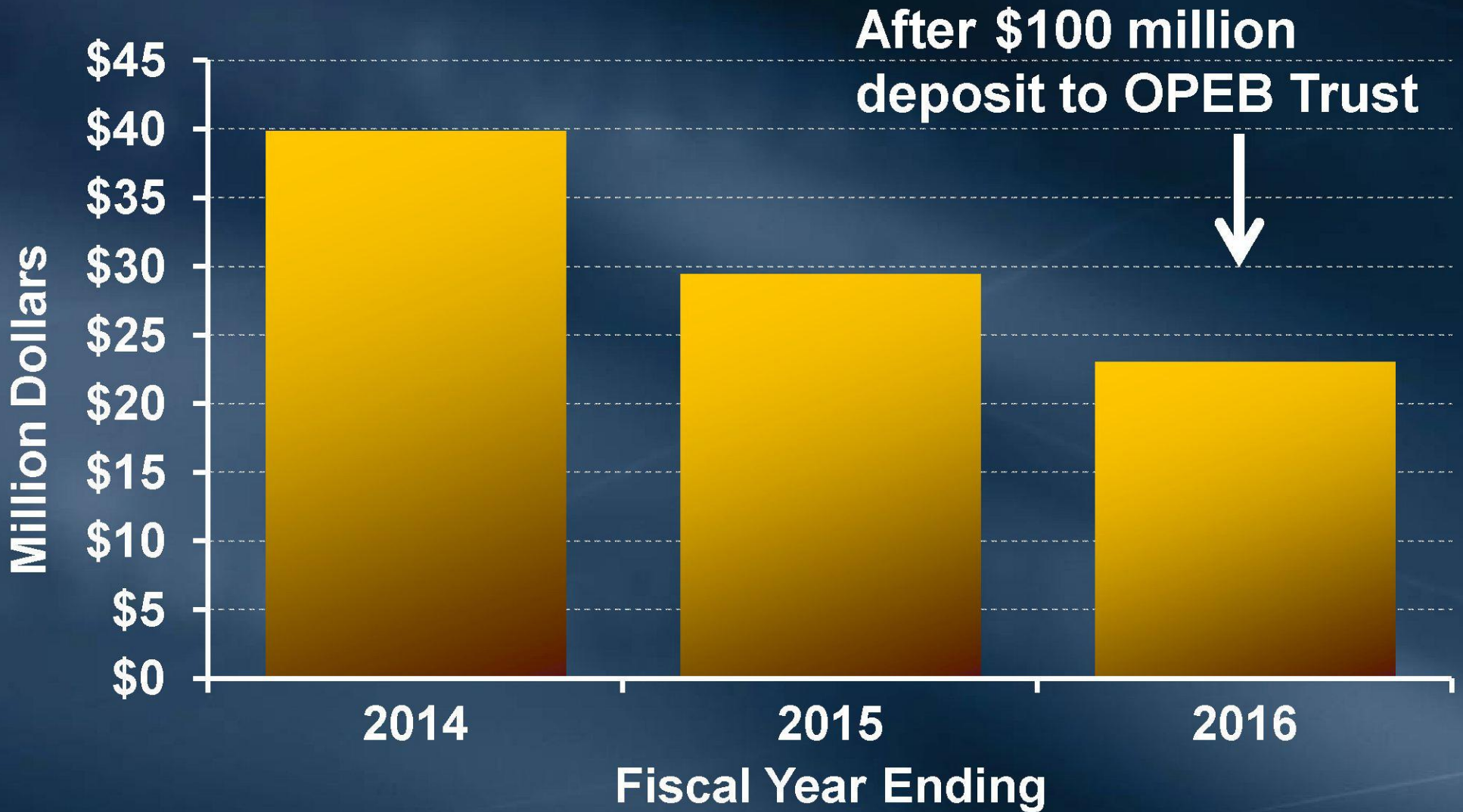
Projected OPEB Liability at 6/30/14 = \$333.1 million

■ Funded

■ Unfunded

OPEB

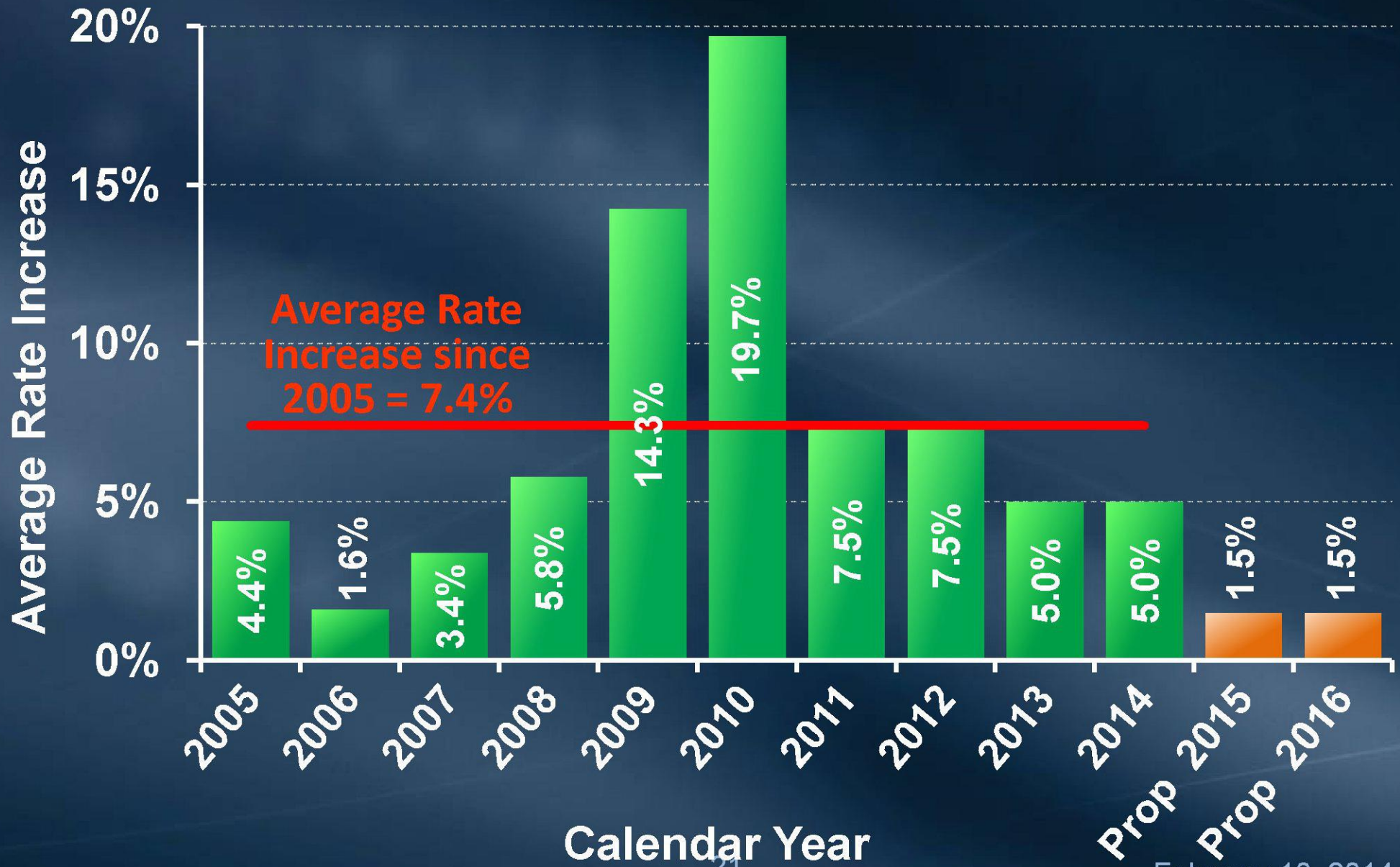
Annual Required Contribution (ARC)



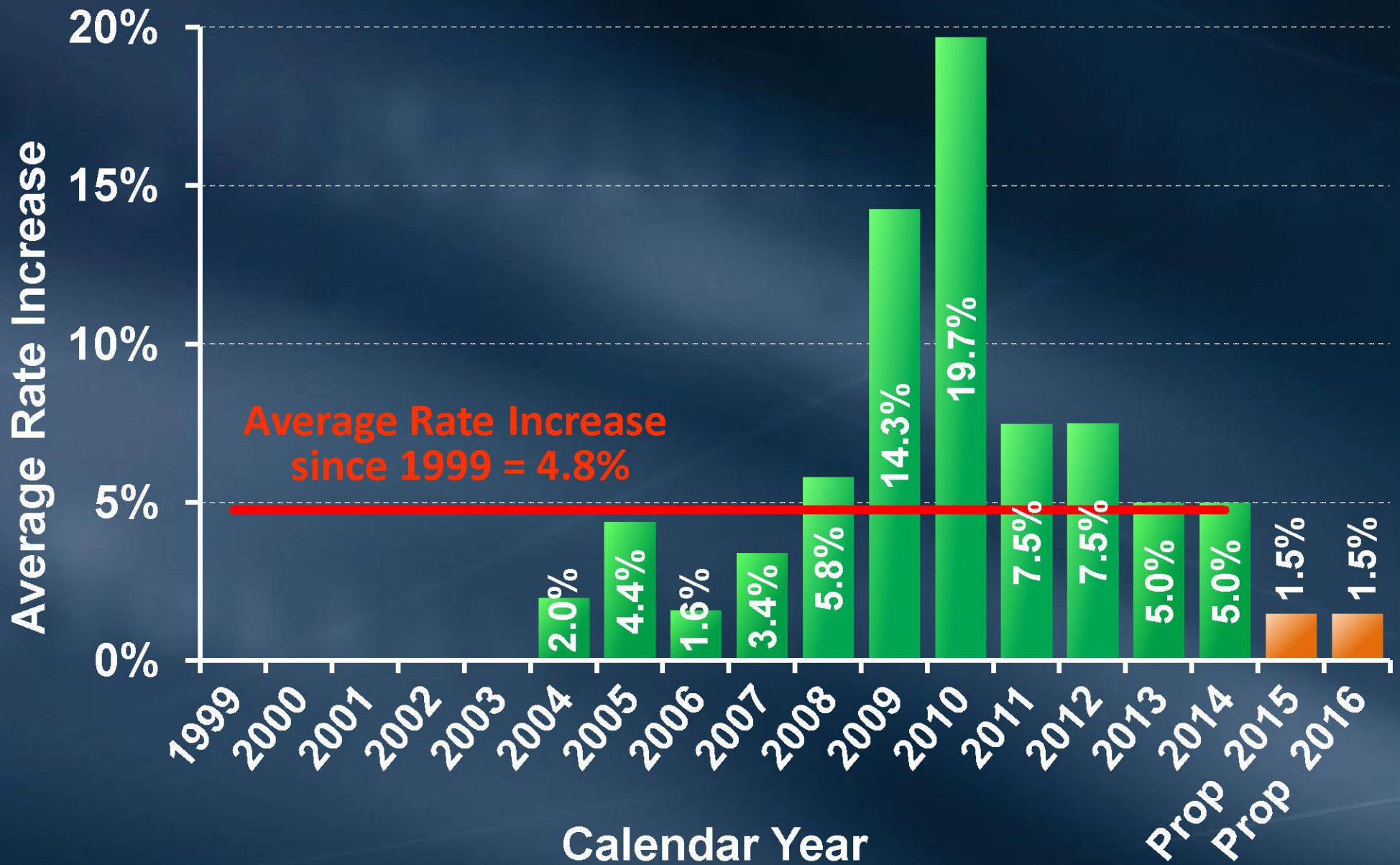
Water Management Fund

- 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

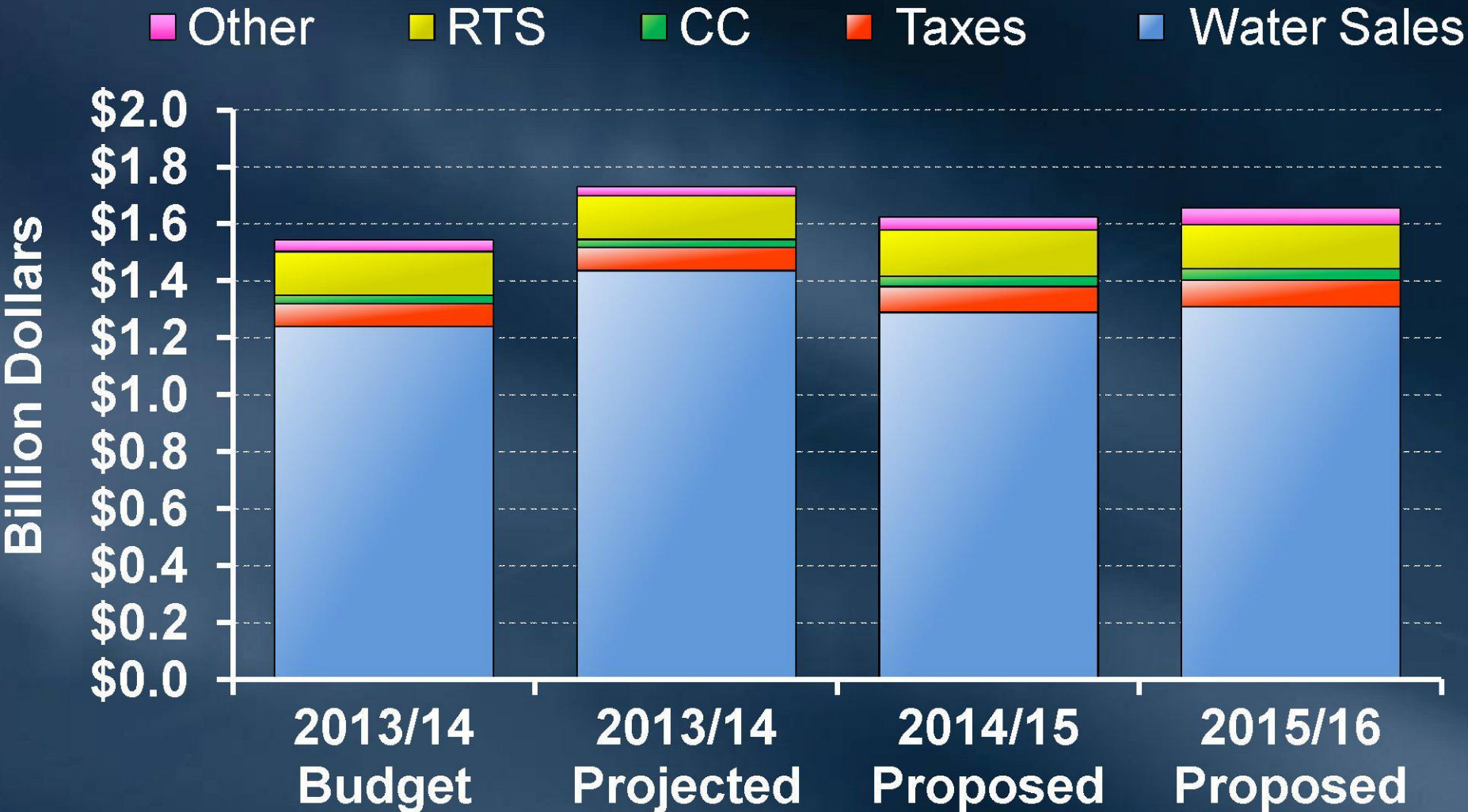


Ave Rate Inc.	5%	1.5%	1.5%	3%	3%	4%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	245	221	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	2.0	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0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

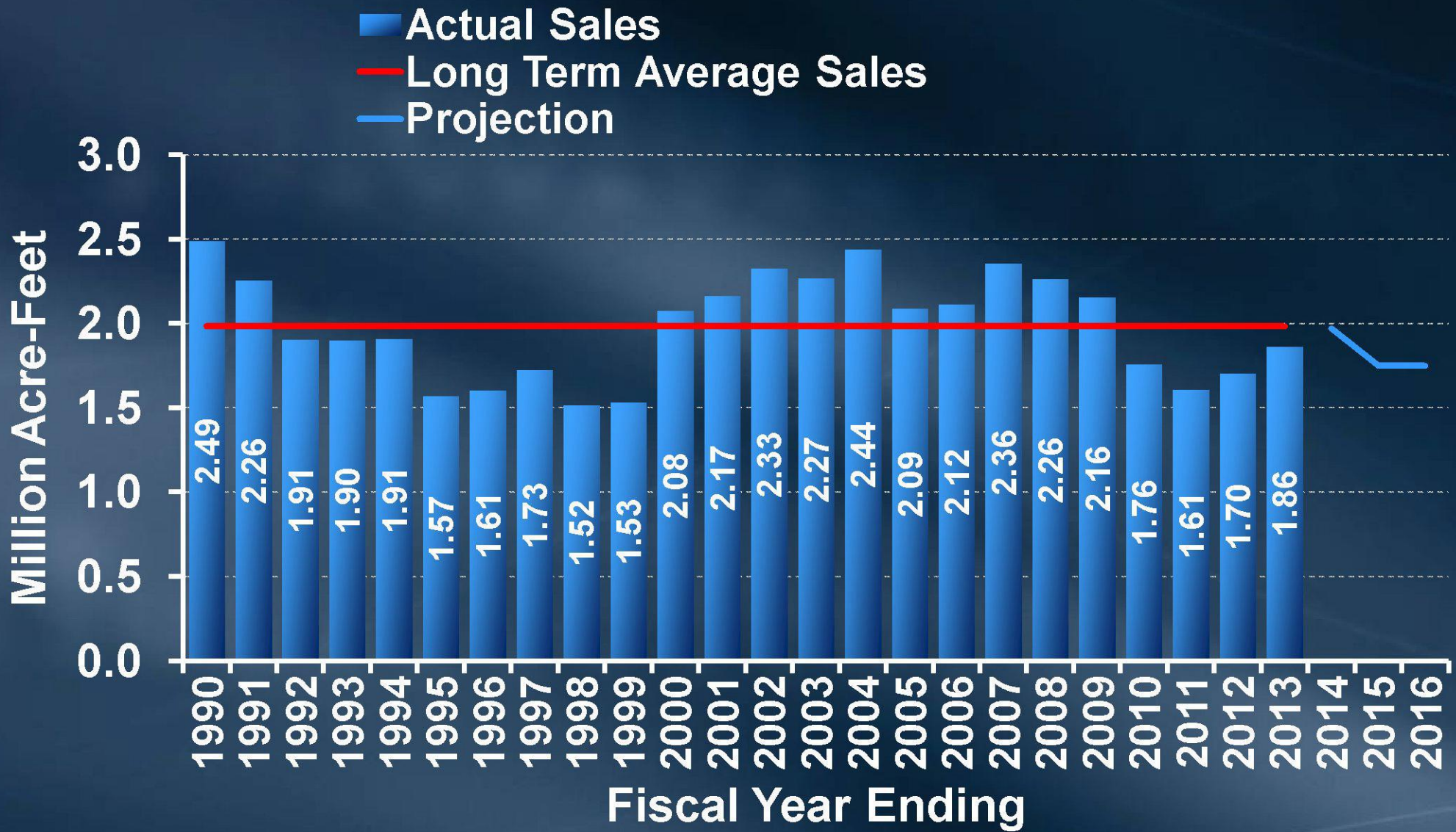
* Revenue Remainder & WRSF

Proposed Biennial Budget

Revenue Trend



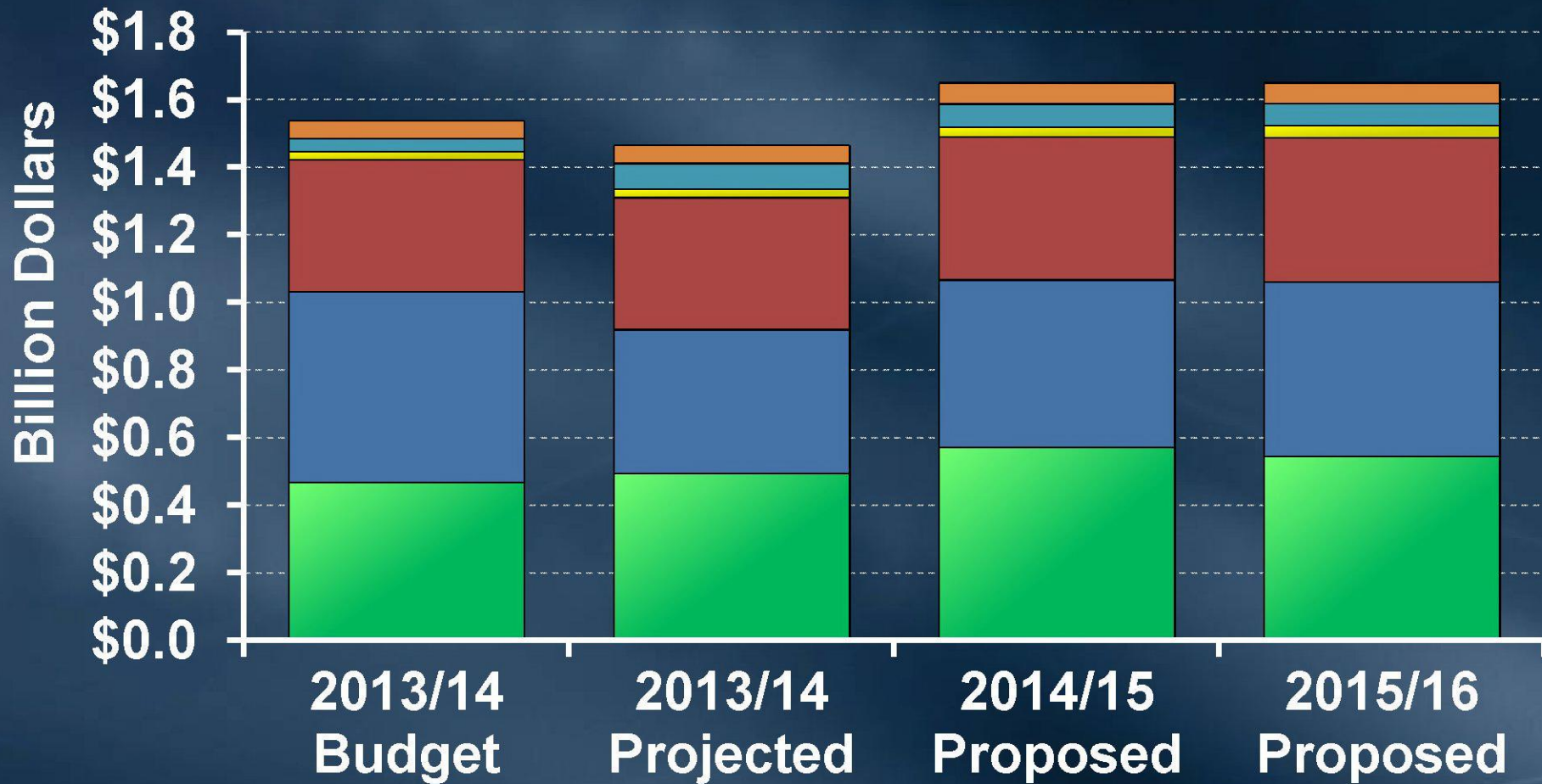
Water Sales*



* Includes Exchange\Wheeling

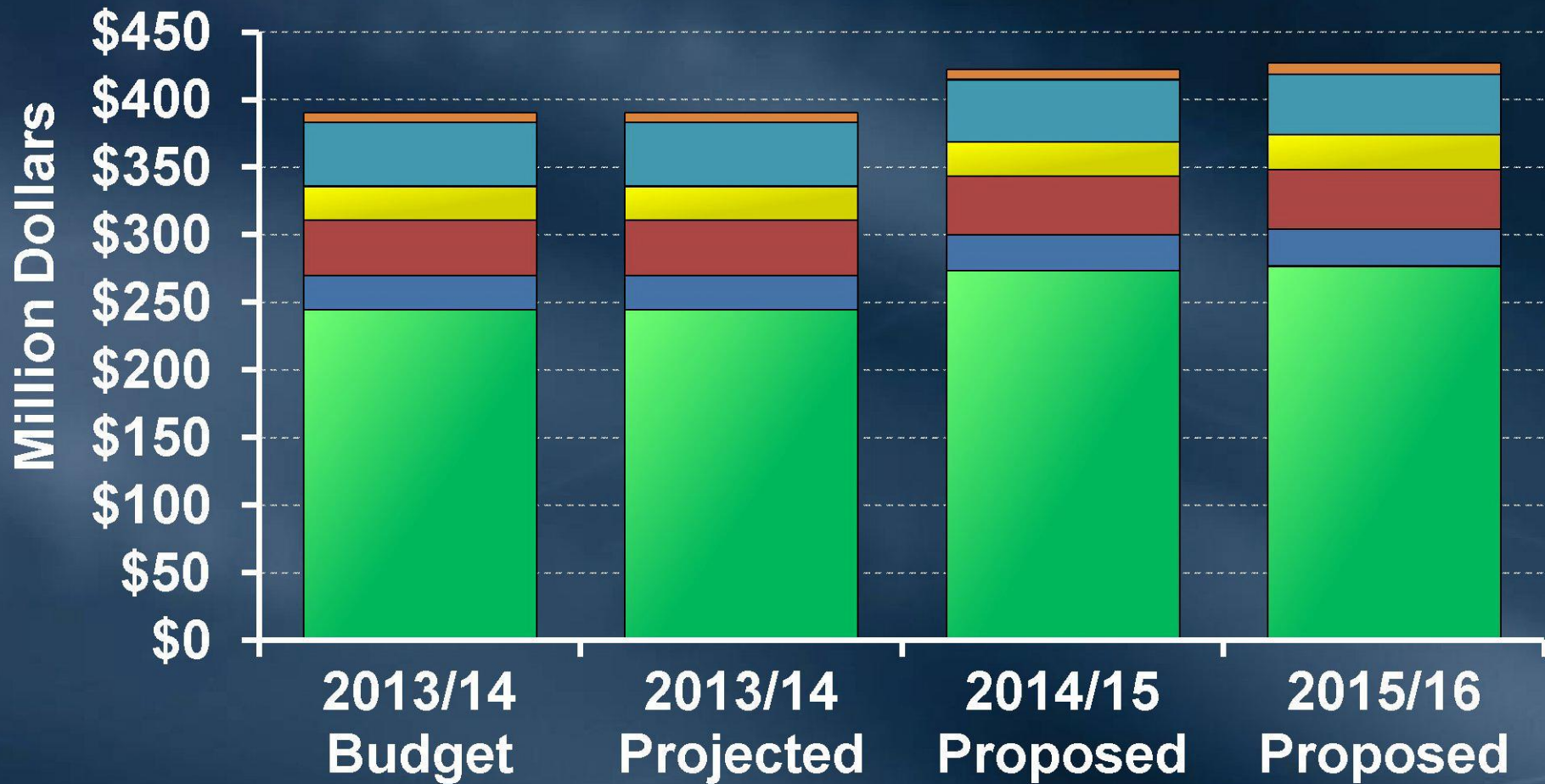
Expenditure Trend

- 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

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

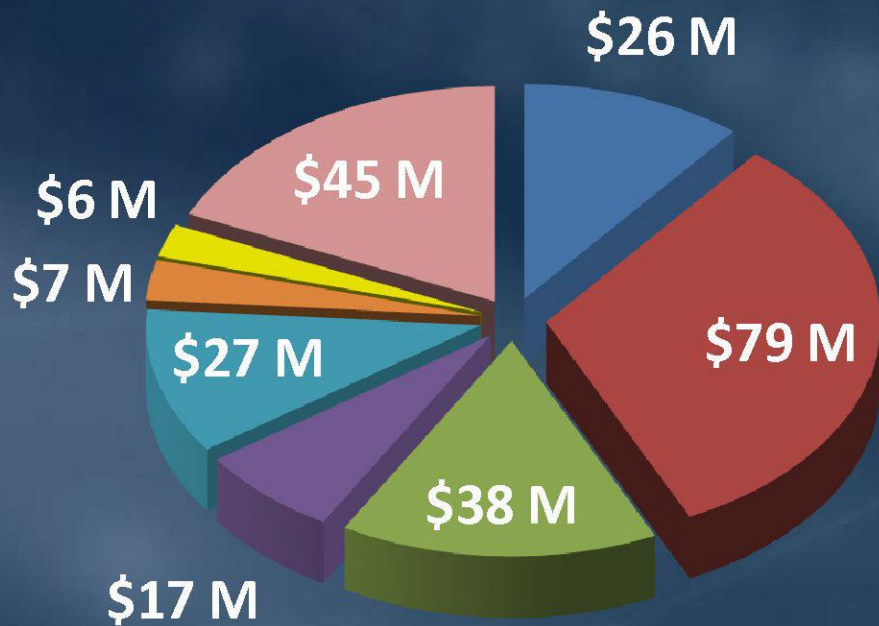
Budgeted Regular Positions

2013/14 budgeted regular positions	1,780
Capital Positions to be Filled	28
Succession Planning	11
Bay Delta Conservation Plan (BDCP)	2
WSO Engineers	3
	<hr/>
Total position increase	44
	<hr/>
2014/15 budgeted regular positions	1,828
Eliminated positions	(1)
	<hr/>
2015/16 budget regular positions	1,827

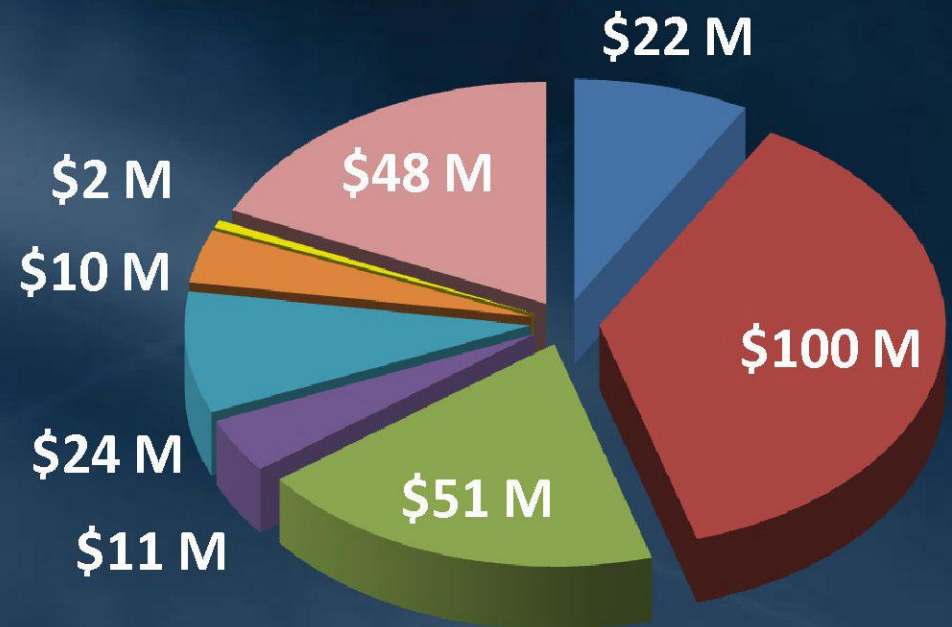
Capital Investment Plan (CIP)

Proposed CIP Budget

FY 2014/15 - \$245 M



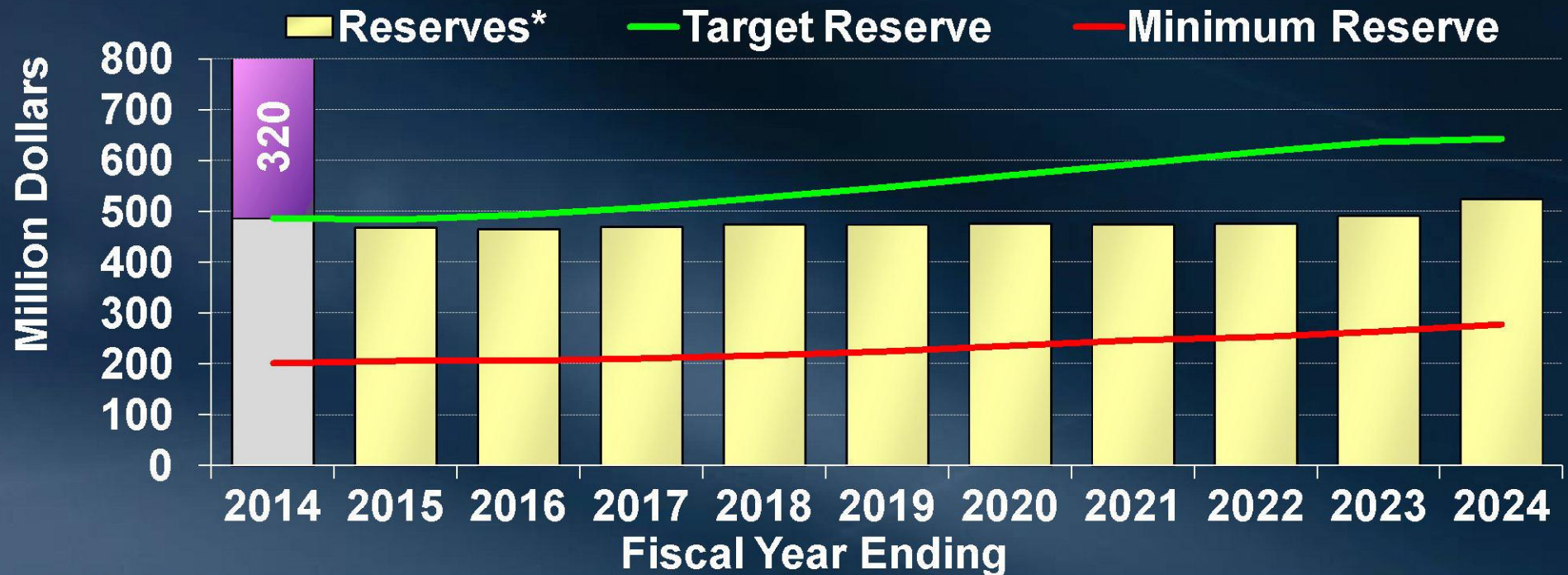
FY 2015/16 - \$268 M



- CRA
- PCCP
- Cost
- Treatment Plants
- Other
- Water Quality
- Distribution
- Regulatory

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

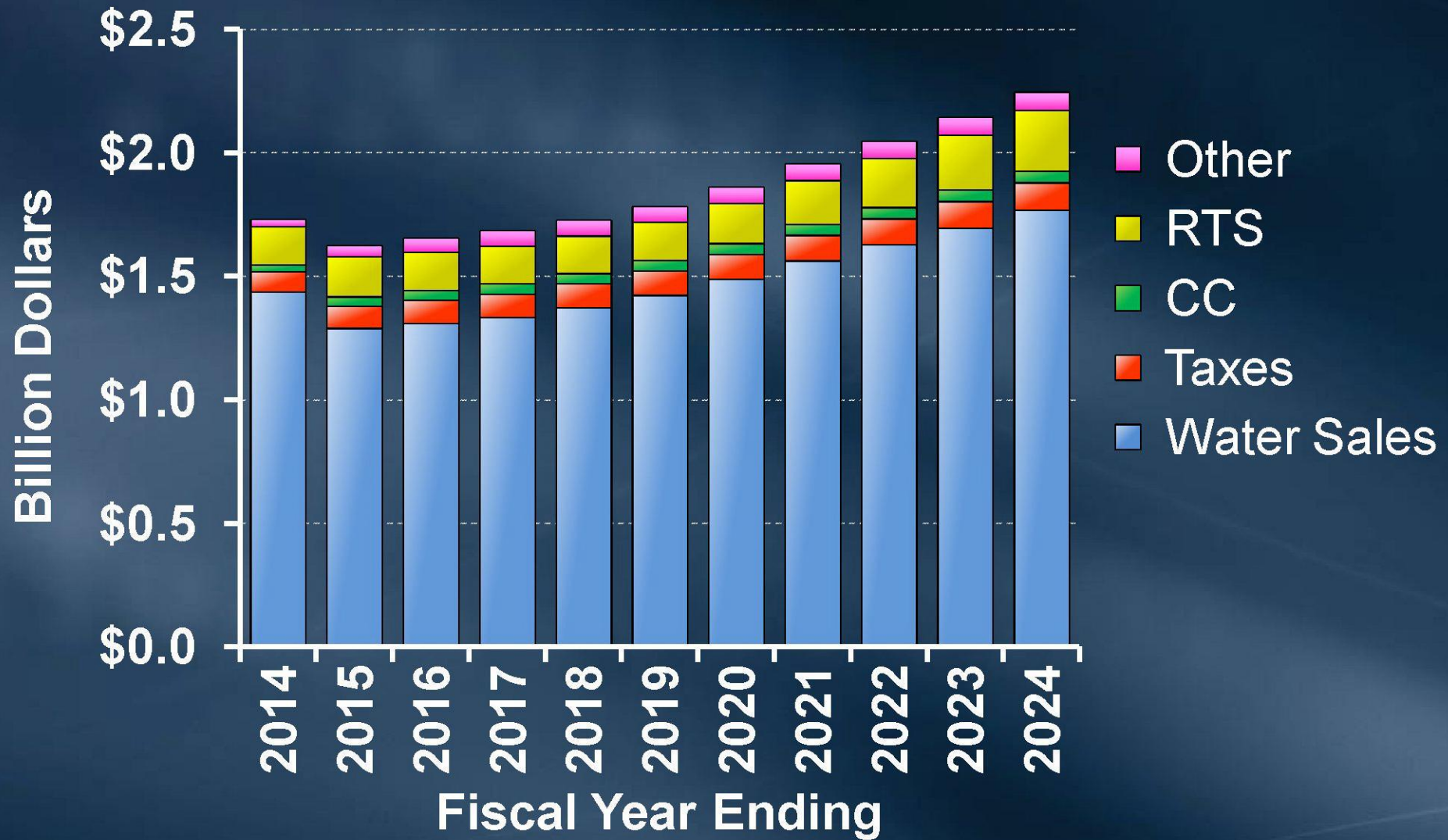
* Revenue Remainder & WRSF

Water Sales*

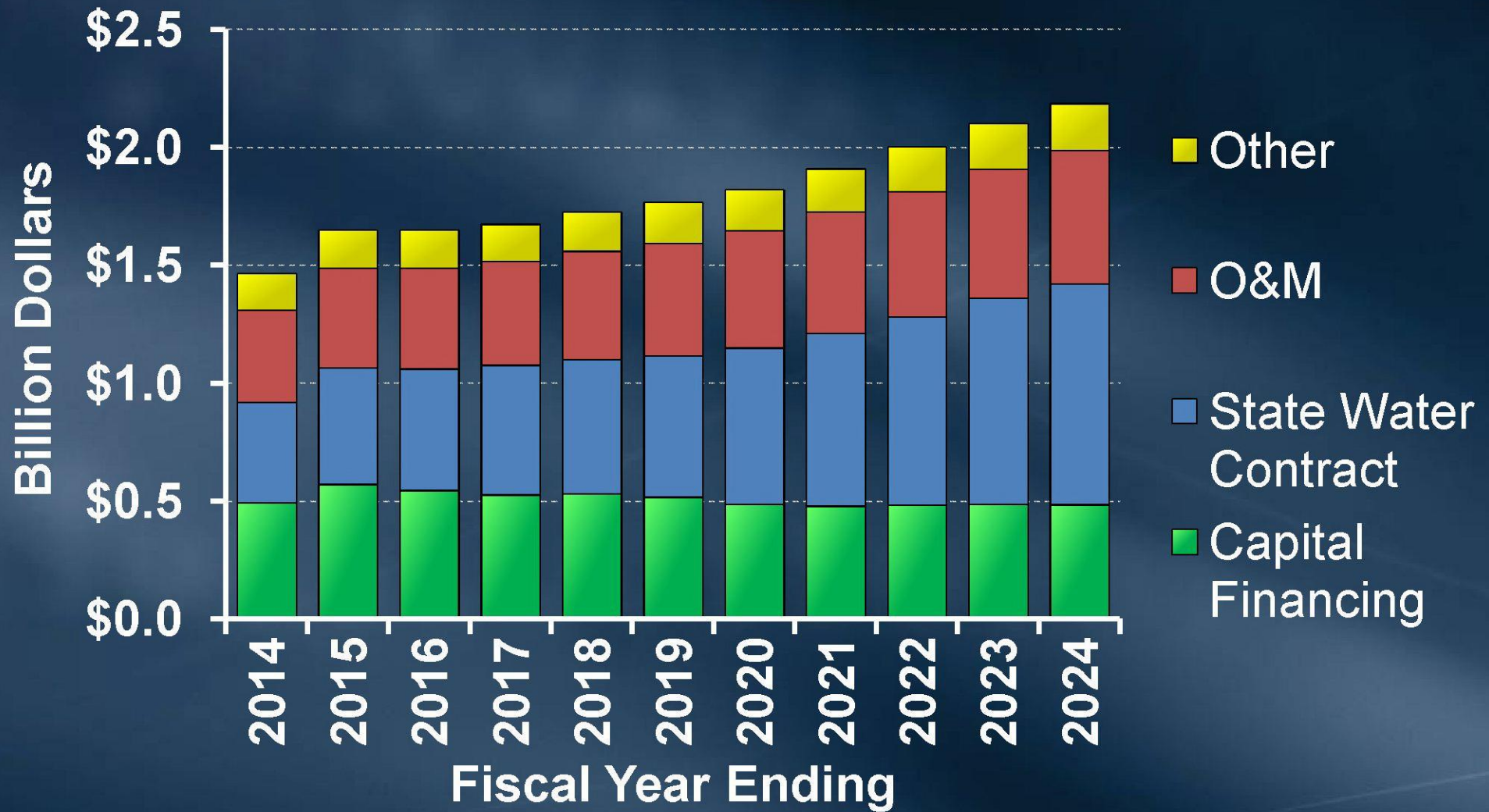


* Includes Exchange\Wheeling

10-Year Revenue Trend



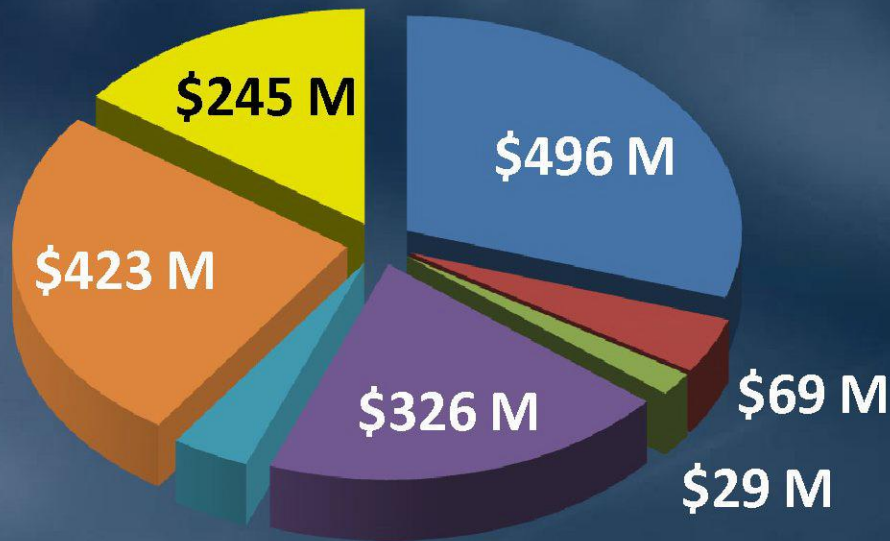
10-Year Expenditure Trend



Expenditure Trend

FY 2014/15 - \$1.65 B

FY 2023/24 - \$2.31 B

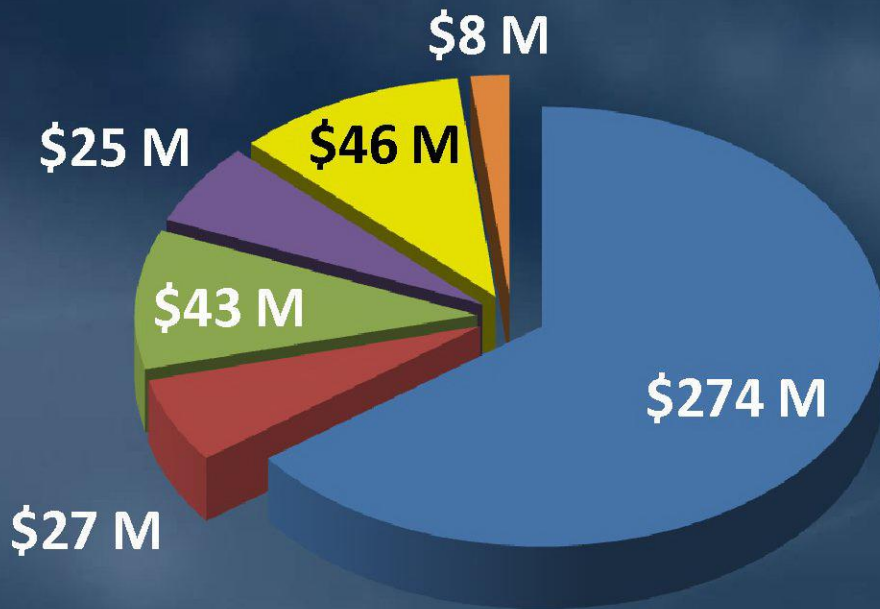


- State Water Contract
- Colorado River Power
- Demand Management
- CIP

- Supply Programs
- Debt Service
- O&M

O&M Budget Trend

FY 2014/15 - \$423 M



FY 2023/24 - \$567 M



Salary & Benefits

Variable Treatment

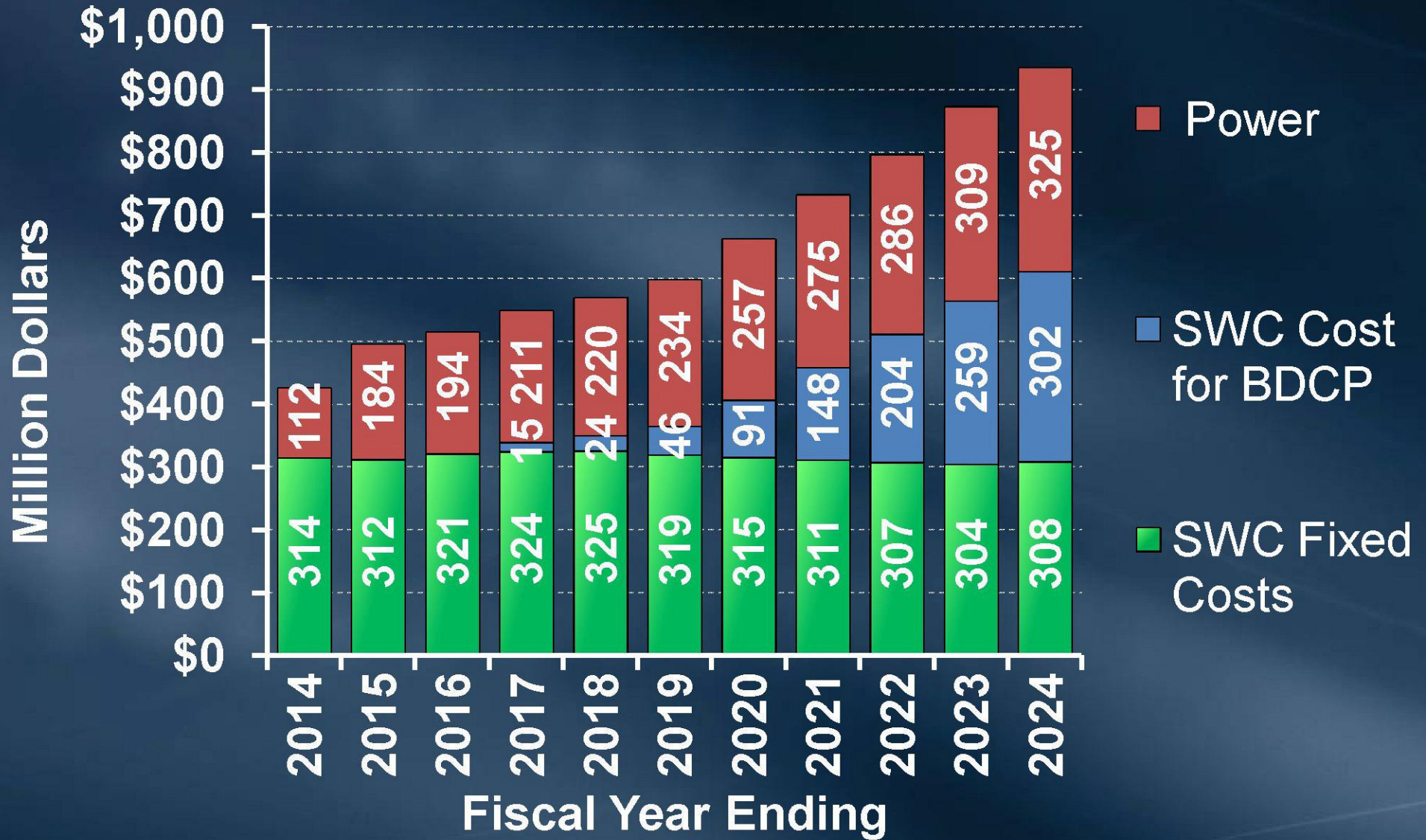
Outside Services

Materials & Supplies

Other

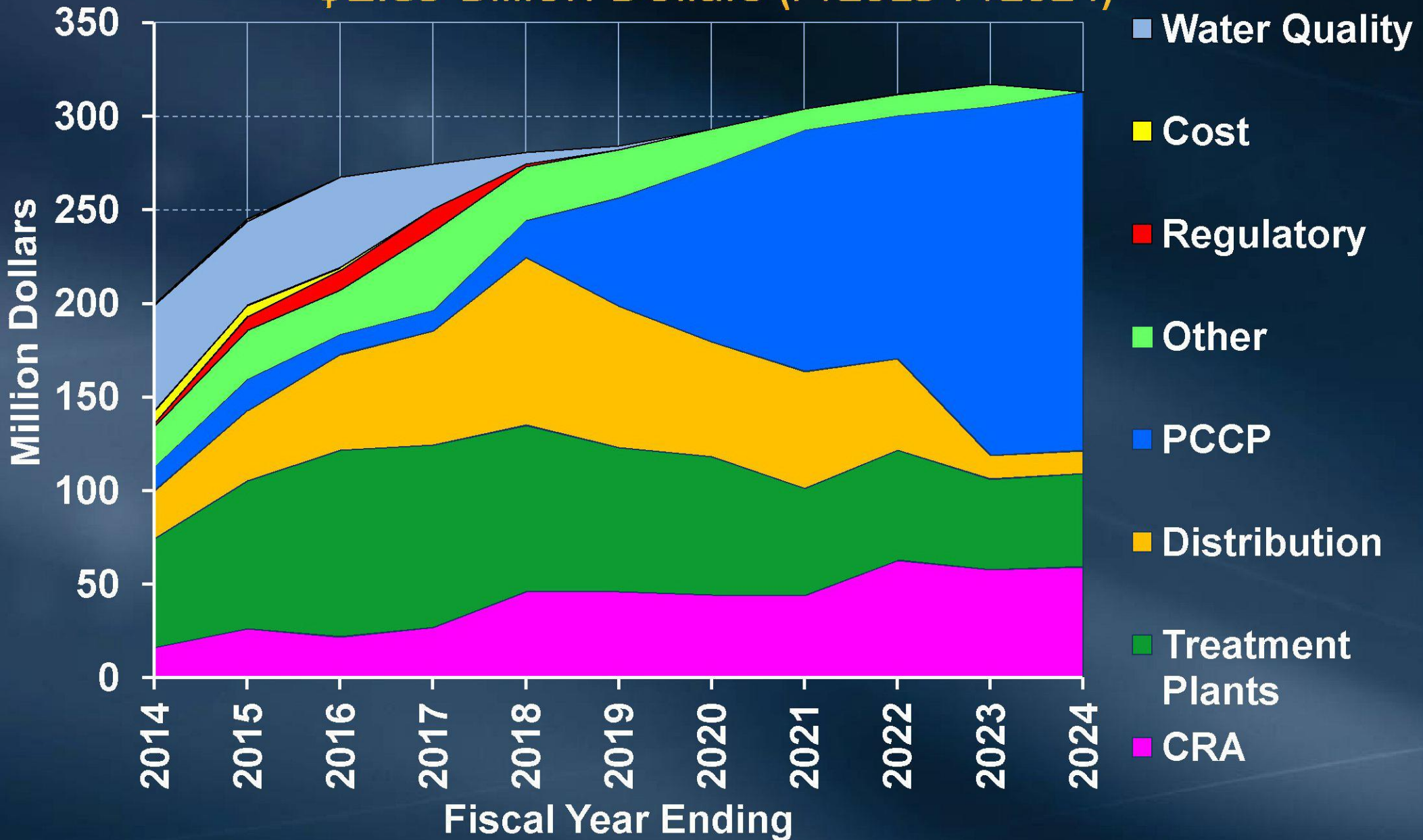
Operating Equipment

SWC Forecast

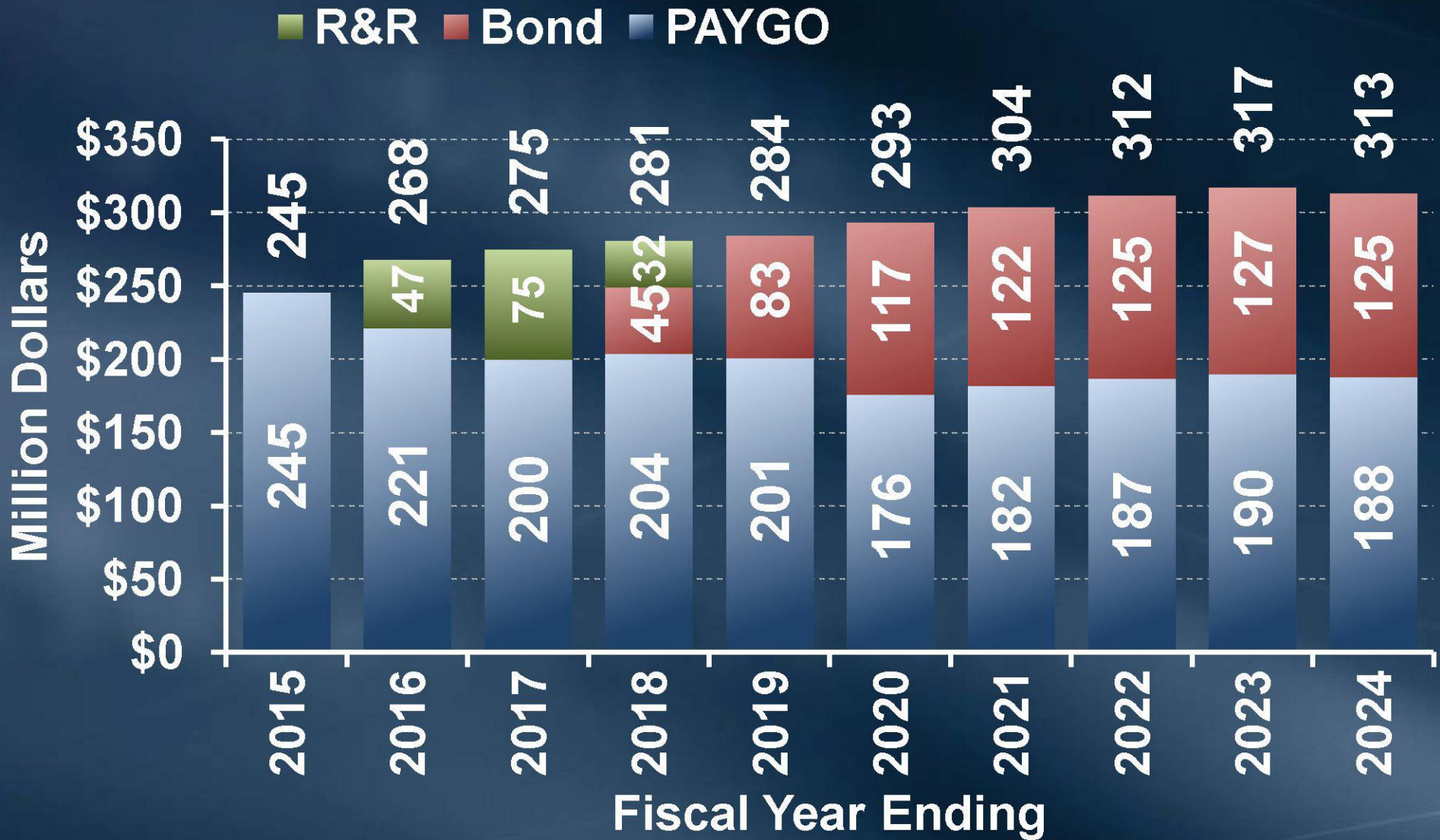


10 Year Capital Investment Plan

\$2.89 Billion Dollars (FY2015-FY2024)



Capital Investment Plan Funding



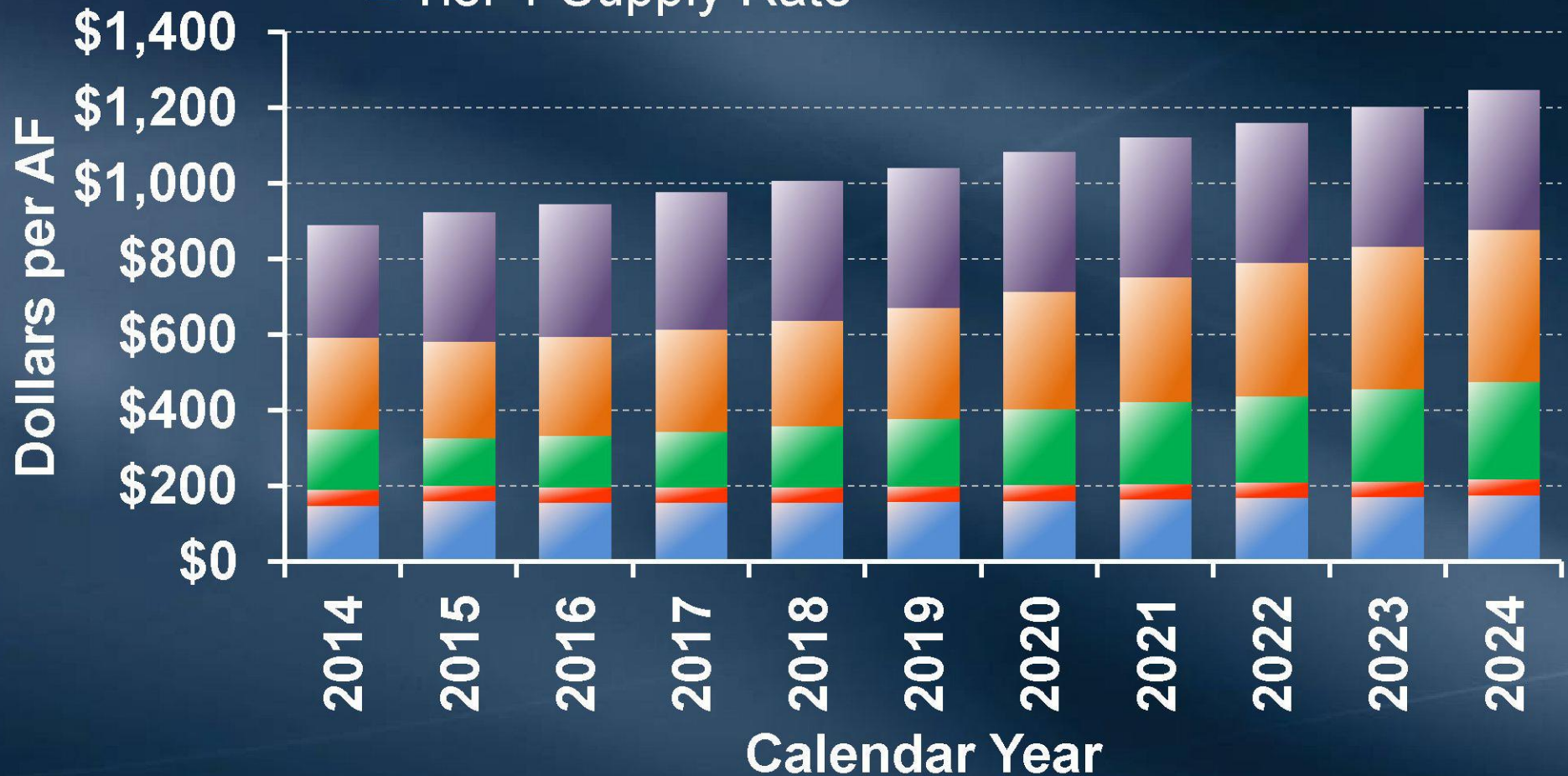
MWD Debt Service

- Revenue Bond Debt Service
- MWD GO Bonds



Projected Volumetric Cost 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.

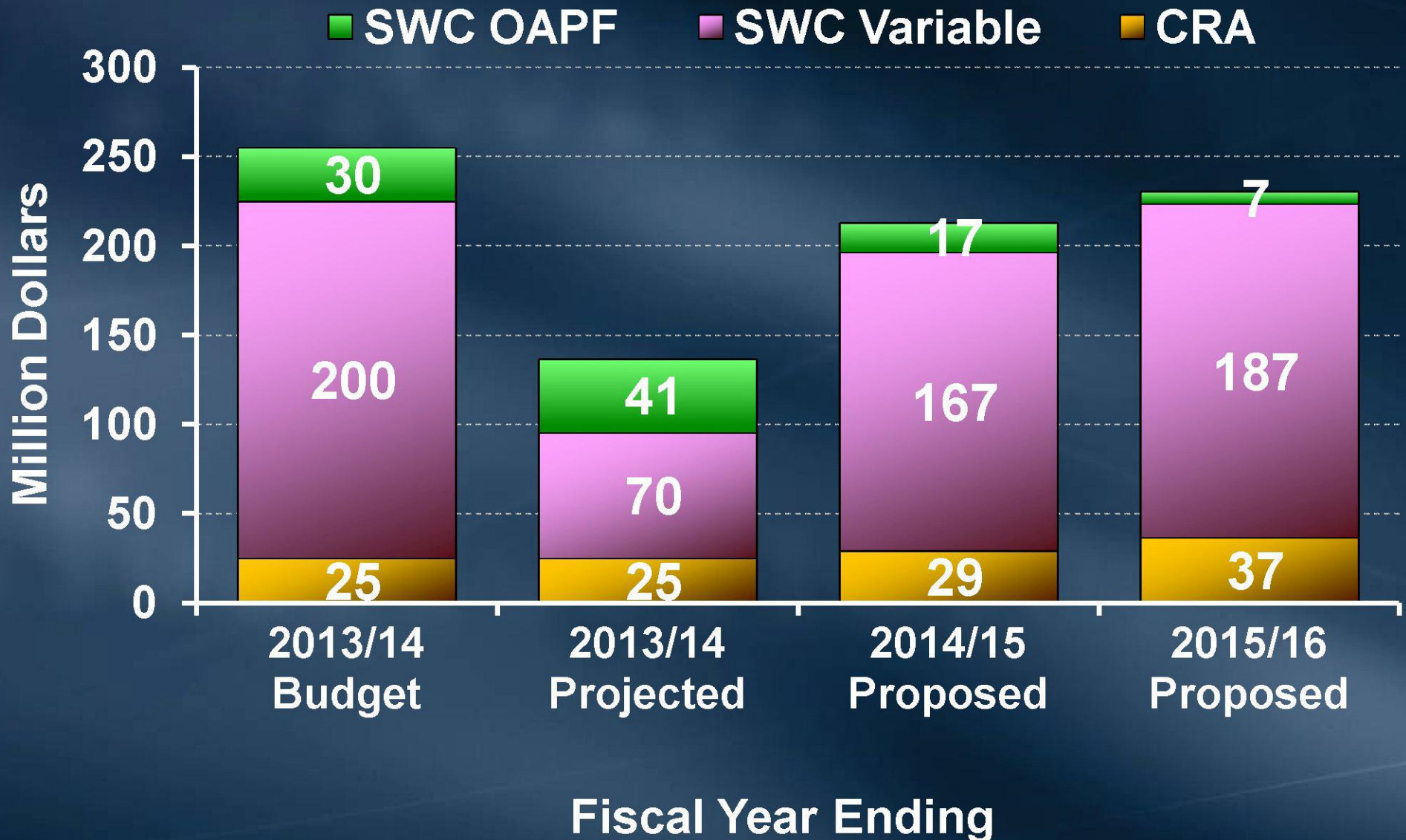
Proposed Rate Elements

Rates and Charges Effective January 1			
	2014 Approved	2015 Proposed	2016 Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$160	\$155
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$256	\$261
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$125	\$137
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%)

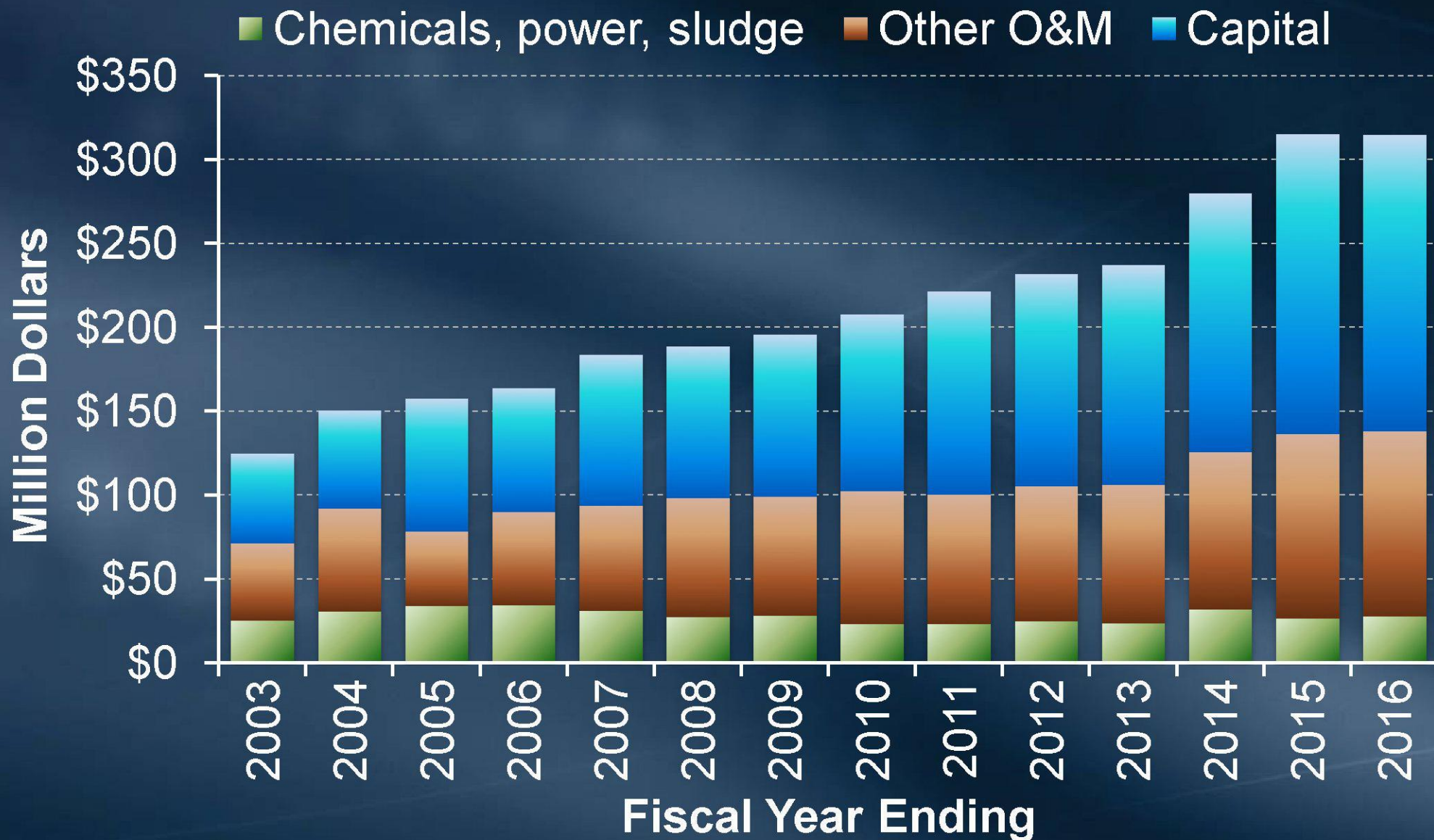
Power Costs



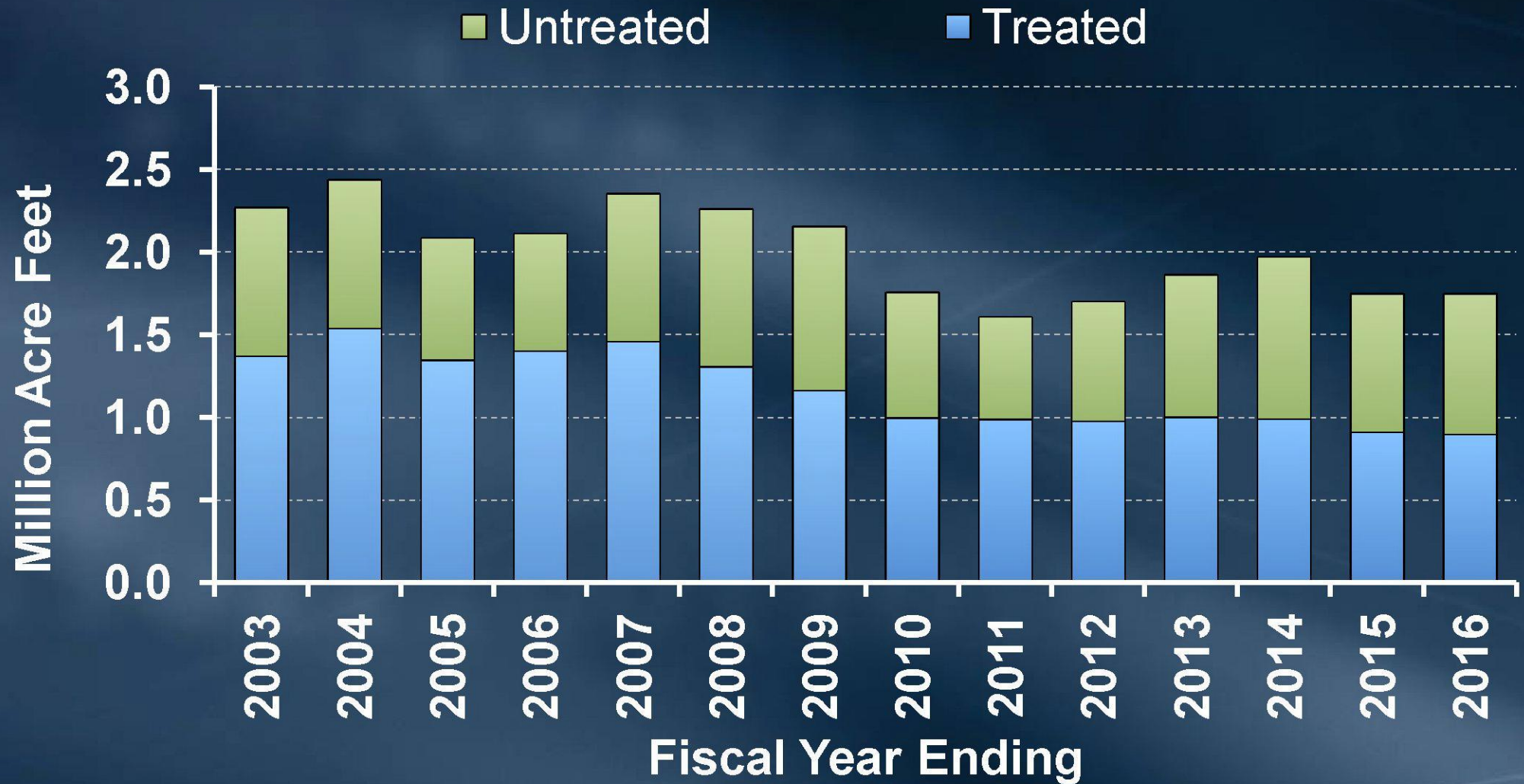
Sum of Member Agency Peak Day Demands



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

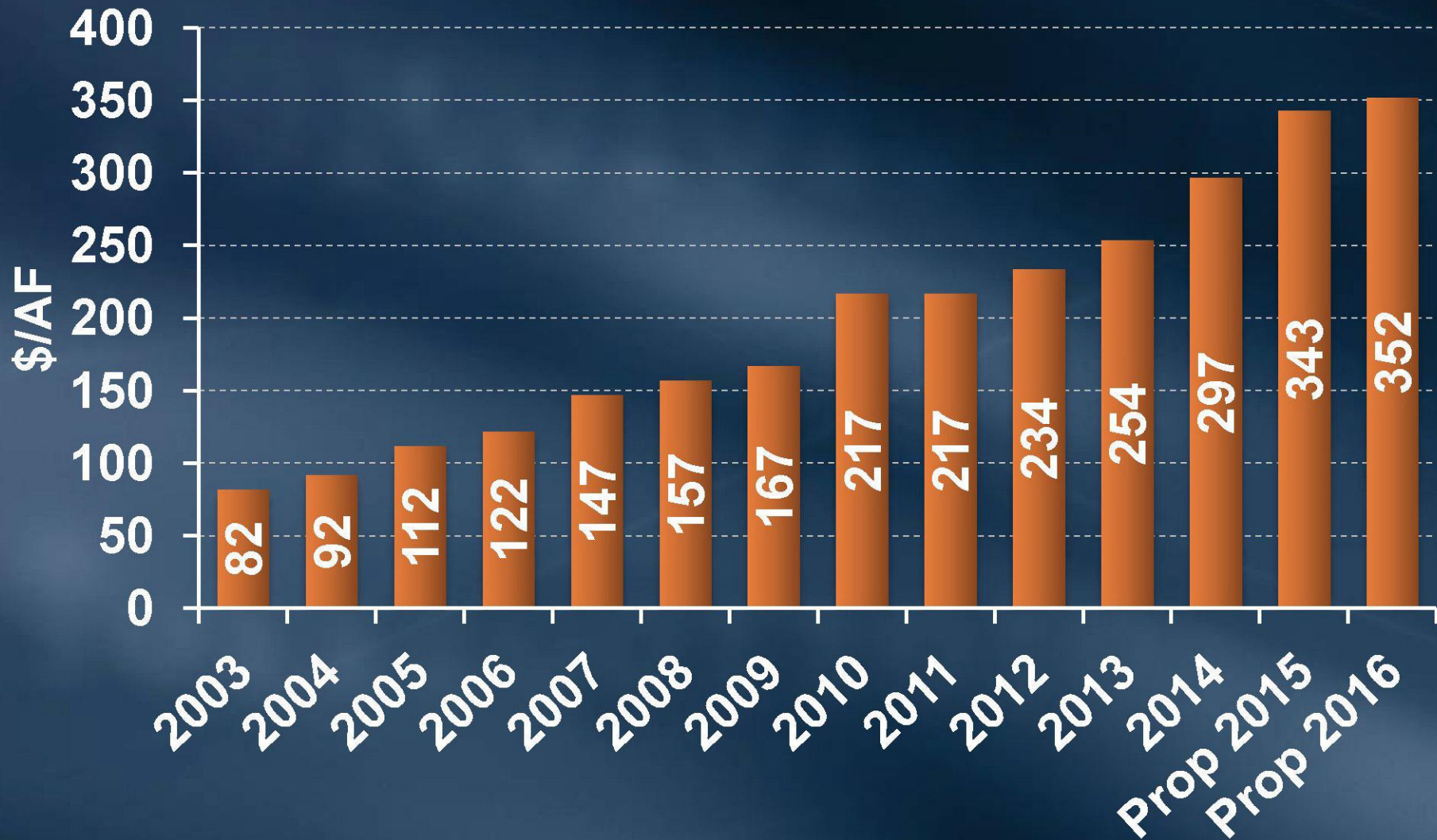


Treated Sales/Exchange are Decreasing



% 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

Rate Scenarios

- Updated Proposed: 1.5% / 1.5%
 - Smoothed supply program expenditures
 - Lowered retiree medical due to updated actuarial
- Scenario 1: 0% / 1.5%
 - Lowered rate funded capital (PayGo)
 - \$7 M in FY2015 to \$238 M
 - \$21 M in FY2016 to \$200 M
 - Increased draw on R&R Fund by same amount

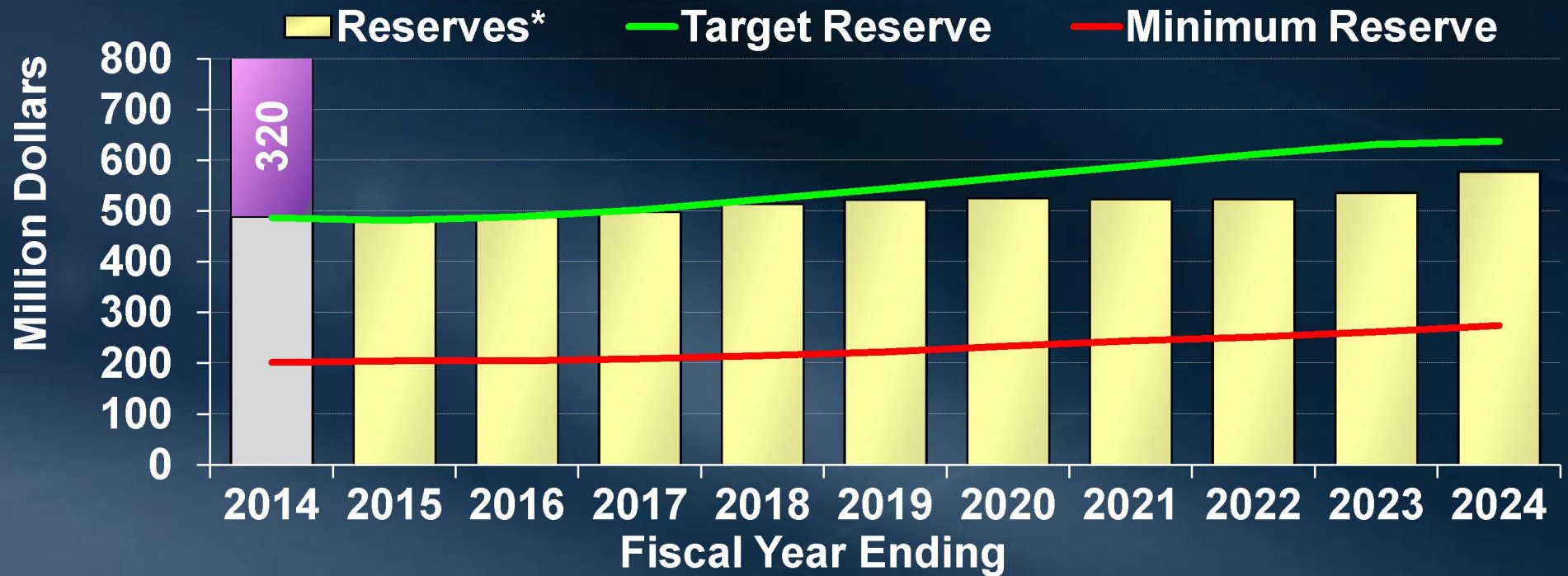
Proposed



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

Updated Proposed



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

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 (\$/cfs)	\$8,600	\$11,100	\$10,900

Updated 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 1: 0% / 1.5%

Scenario 1

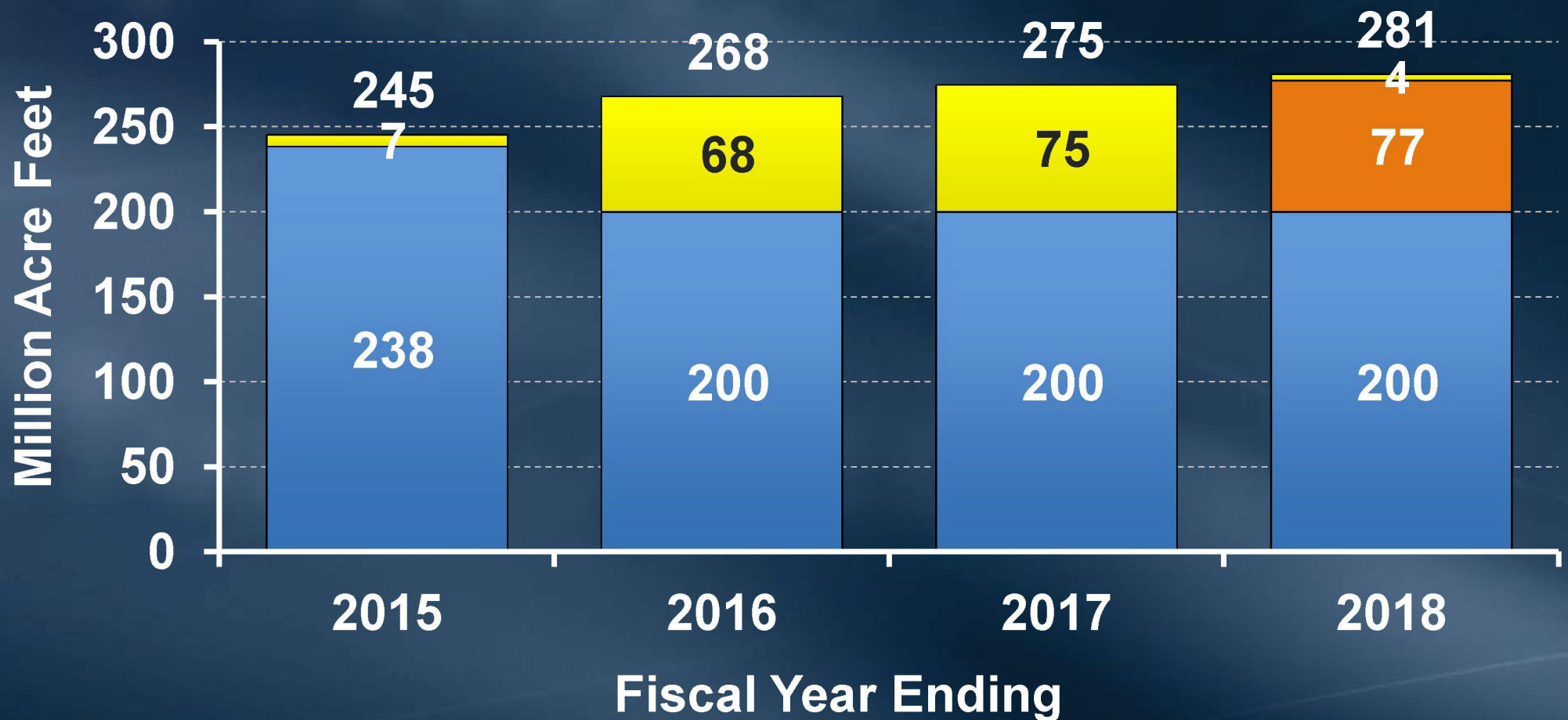


Ave Rate Inc.	5%	0%	1.5%	3.5%	3.5%	4%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	238	200	200	200	200	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	1.9	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0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

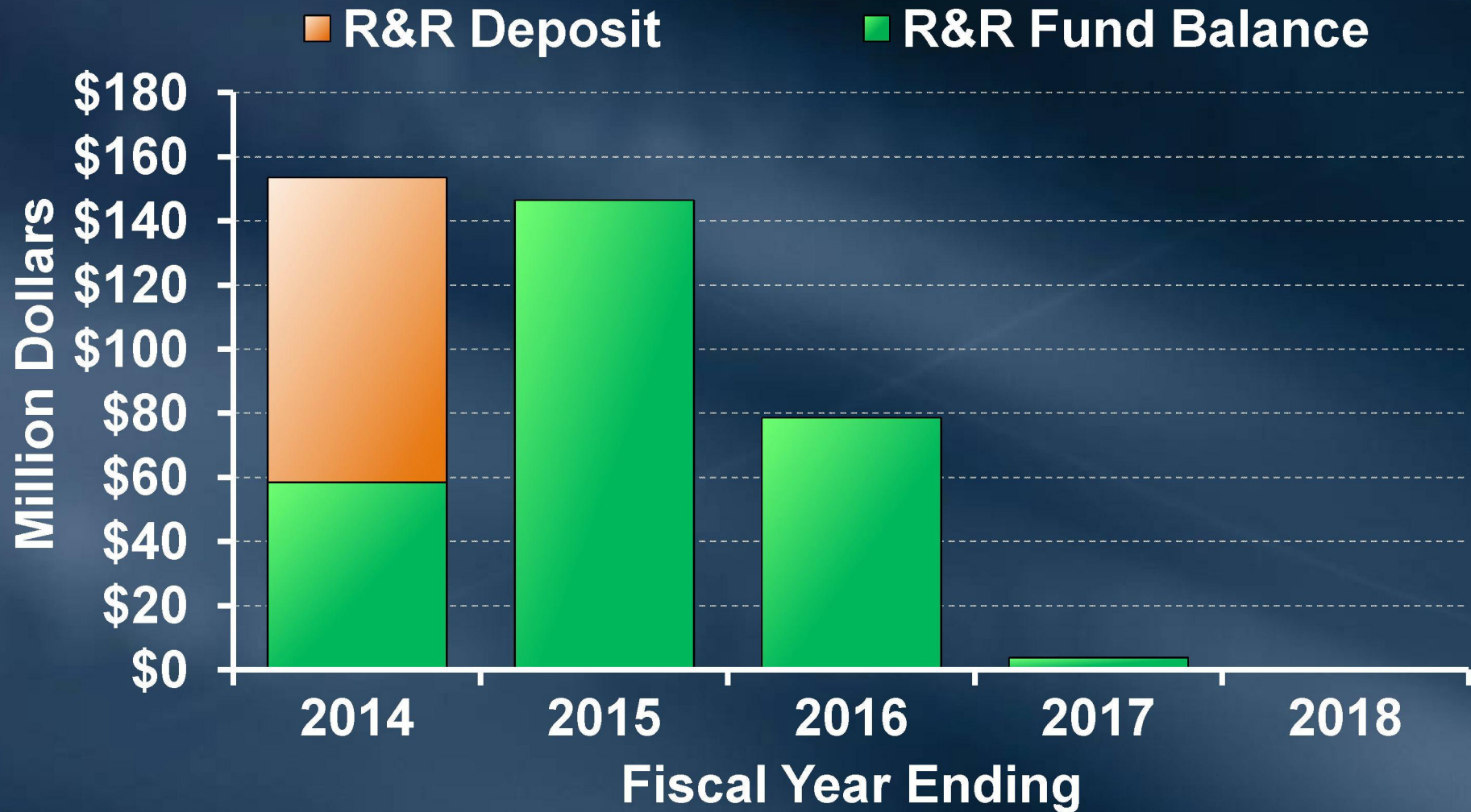
* Revenue Remainder & WRSF

Scenario 1: Capital Investment Plan Funding

■ R&R Fund ■ Bonds ■ PAYGO



Scenario 1: Replacement & Refurbishment (R&R) Fund



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

Updated Proposed Rate Elements

Rates and Charges Effective January 1			
	2014 Approved	2015 Proposed	2016 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 (\$/cfs)	\$8,600	\$10,900	\$10,500

Updated 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%

Rate Alternatives

- Option 1: Updated Proposed: 1.5% / 1.5%
 - Smoothed supply program expenditures
 - Lowered retiree medical due to updated actuarial
- Option 2: do not fix AV Tax rate
- Option 3: 0% / 1.5%
 - Lowered rate funded capital (PayGo)
 - \$7 M in FY2015 to \$238 M
 - \$21 M in FY2016 to \$200 M
 - Increased draw on R&R Fund by same amount

Proposed



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

Updated Proposed



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

Updated Proposed Rate Elements

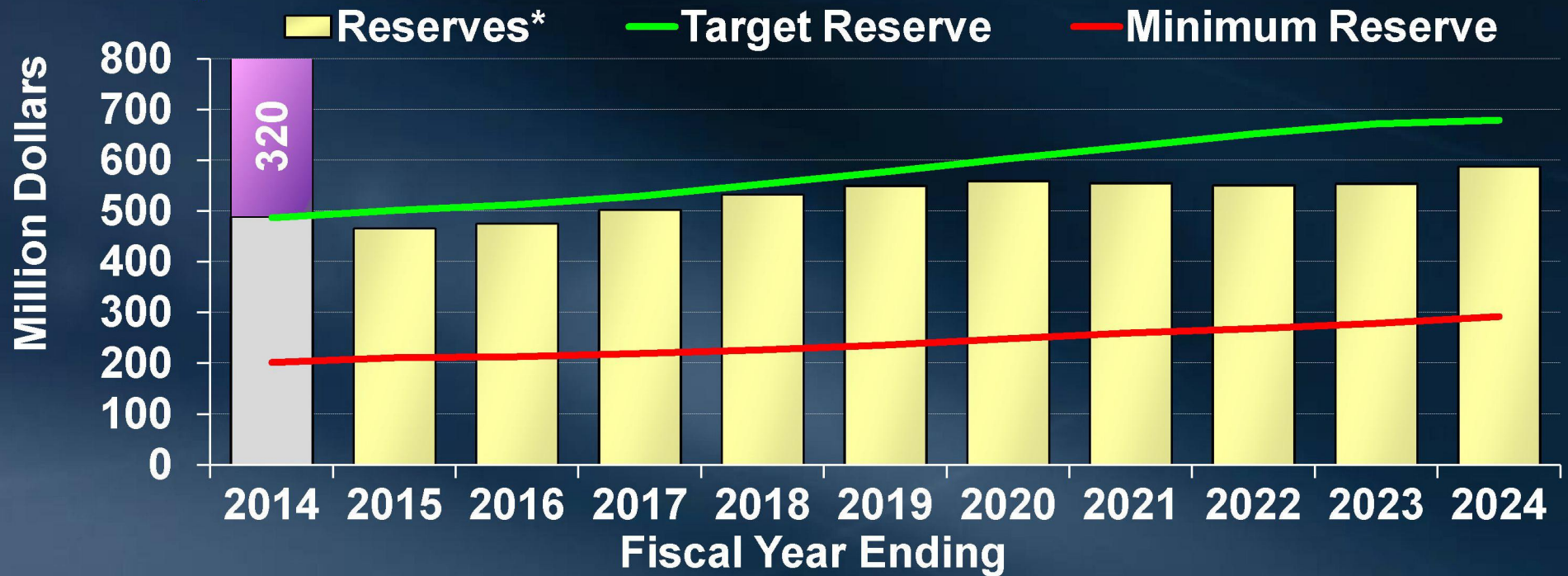
Rates and Charges Effective January 1			
	2014 Approved	2015 Proposed	2016 Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$158	\$156
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$257	\$259
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$126	\$138
Treatment Surcharge (\$/AF)	\$297	\$341	\$348
Readiness-to-Serve Charge (\$M)	\$166	\$158	\$153
Capacity Charge (\$/cfs)	\$8,600	\$11,100	\$10,900

Updated 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%

Option 2: do not fix AV Tax rate

Option 2: do not fix AV Tax rate



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

Option 2: do not fix AV Tax rate

Rate Elements

Rates and Charges Effective January 1			
	2014 Approved	2015 Proposed	2016 Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$161	\$162
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$264	\$274
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$126	\$140
Treatment Surcharge (\$/AF)	\$297	\$340	\$352
Readiness-to-Serve Charge (\$M)	\$166	\$171	\$170
Capacity Charge (\$/cfs)	\$8,600	\$11,200	\$11,100

Option 2: do not fix AV Tax rate

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%

Option 3: 0% / 1.5%

Option 3: 0% and 1.5%

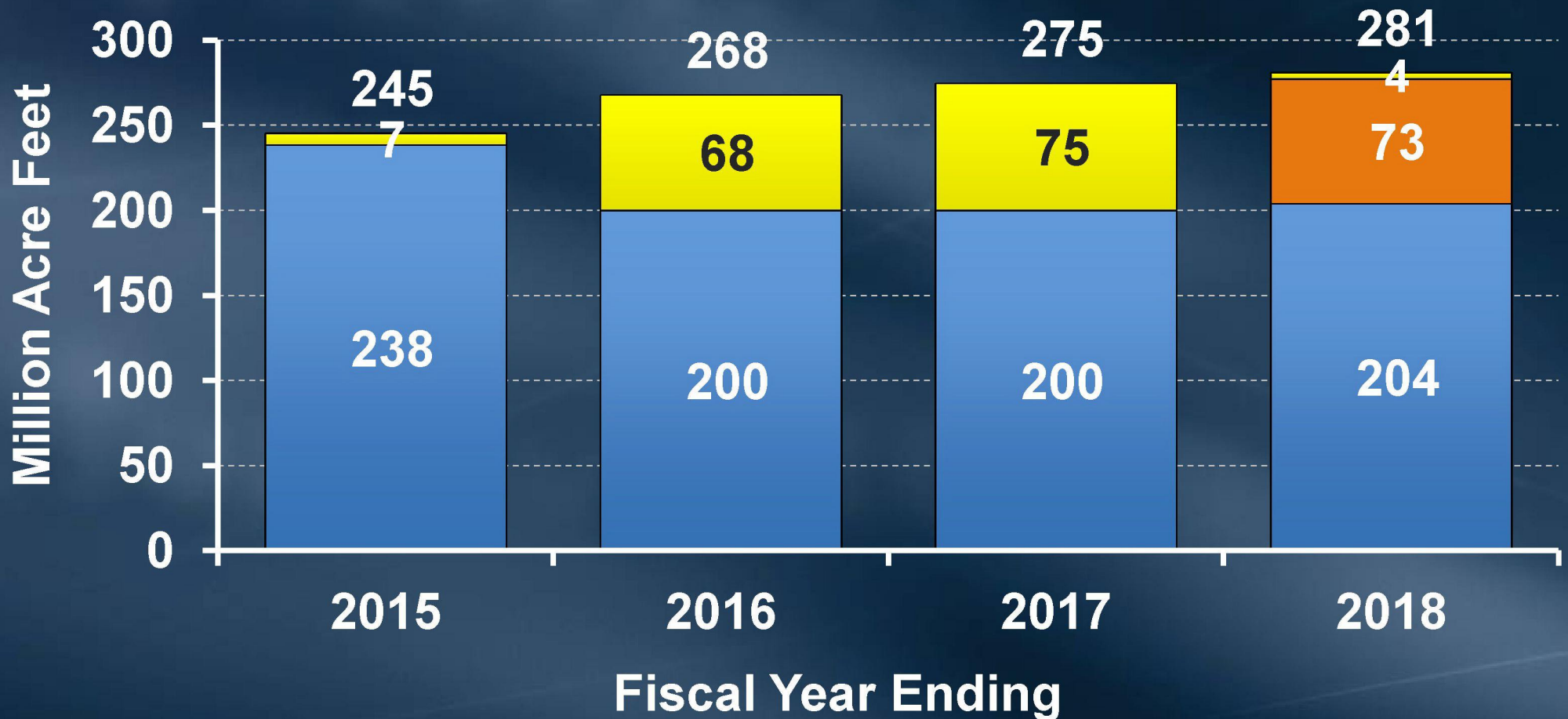


Ave Rate Inc.	5%	0%	1.5%	3.5%	3.5%	4%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	238	200	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	1.9	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0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

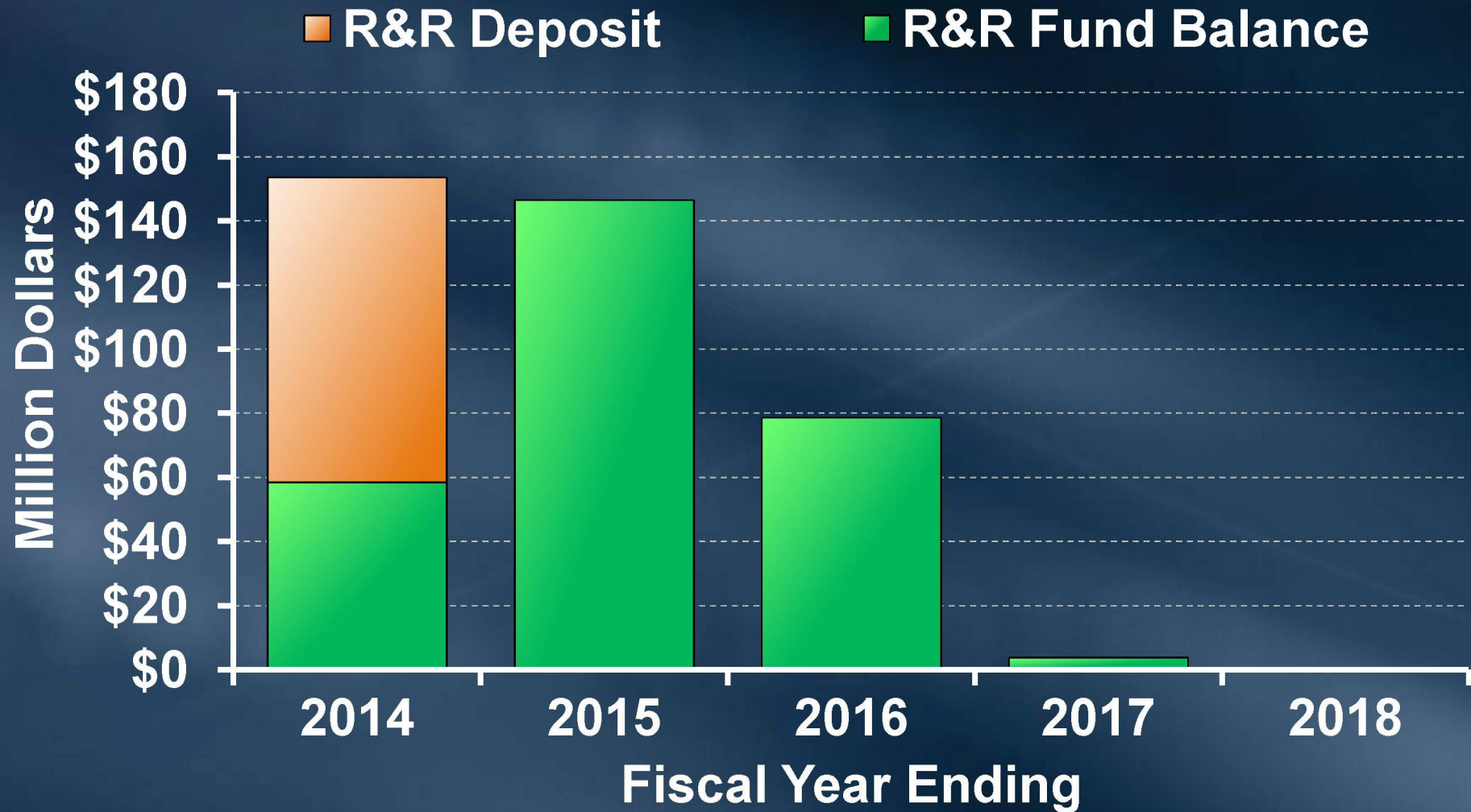
Option 3: 0% and 1.5% Capital Investment Plan Funding

■ R&R Fund ■ Bonds ■ PAYGO



Option 3: 0% and 1.5%

Replacement & Refurbishment (R&R) Fund



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

Option 3: 0% and 1.5% Rate Elements

Rates and Charges Effective January 1			
	2014 Approved	2015 Proposed	2016 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 (\$/cfs)	\$8,600	\$10,900	\$10,500

Option 3: 0% and 1.5%

Full Service, Exchange and Charges

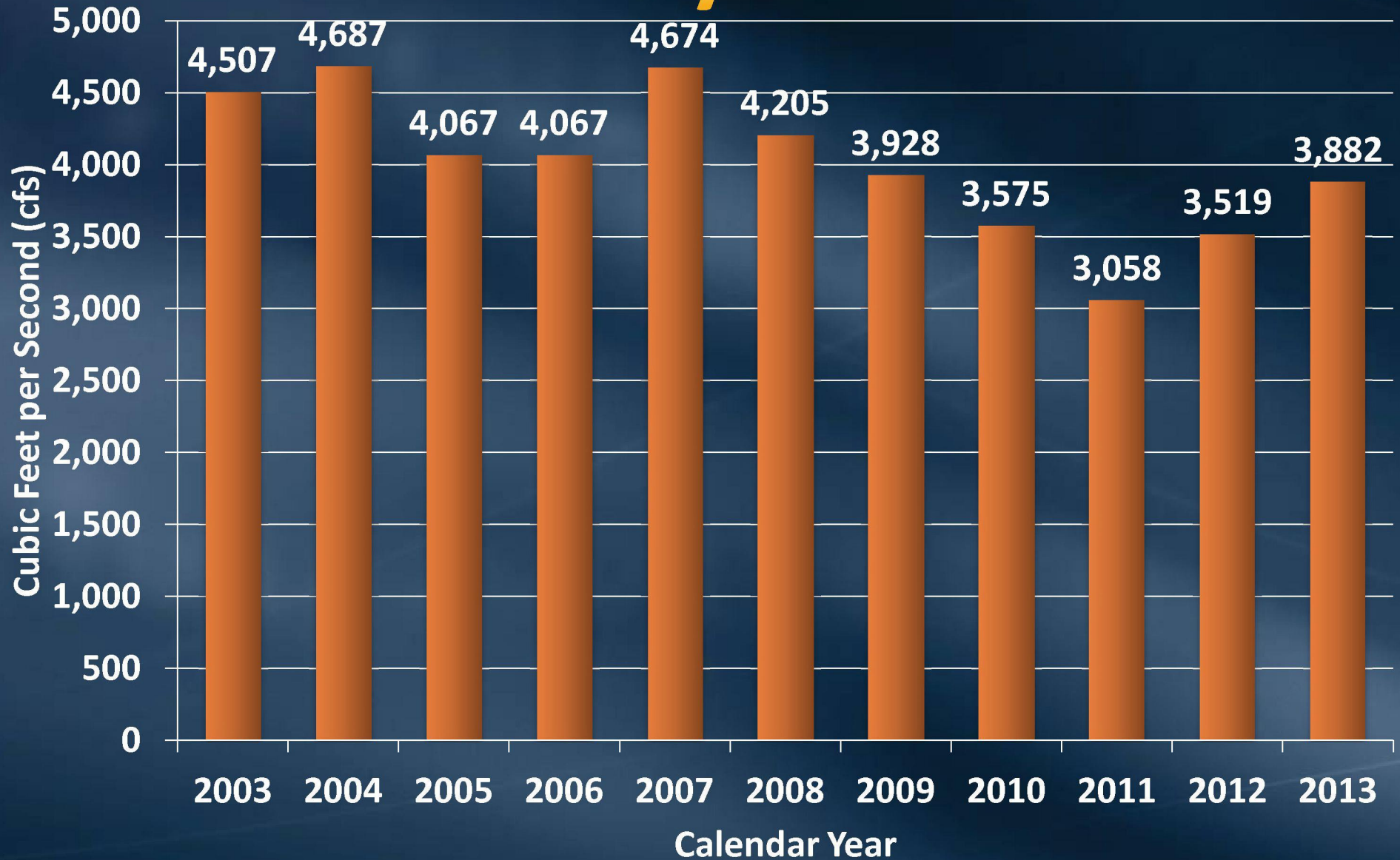
Rate Type	2014 Approved	2015 Proposed	% Increase (Decrease)	2016 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$593	\$574	-3.2%	\$589	2.6%
Tier 2	\$735	\$709	-3.5%	\$725	2.3%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$890	\$909	2.1%	\$928	2.1%
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%

Treated Full Service Rate



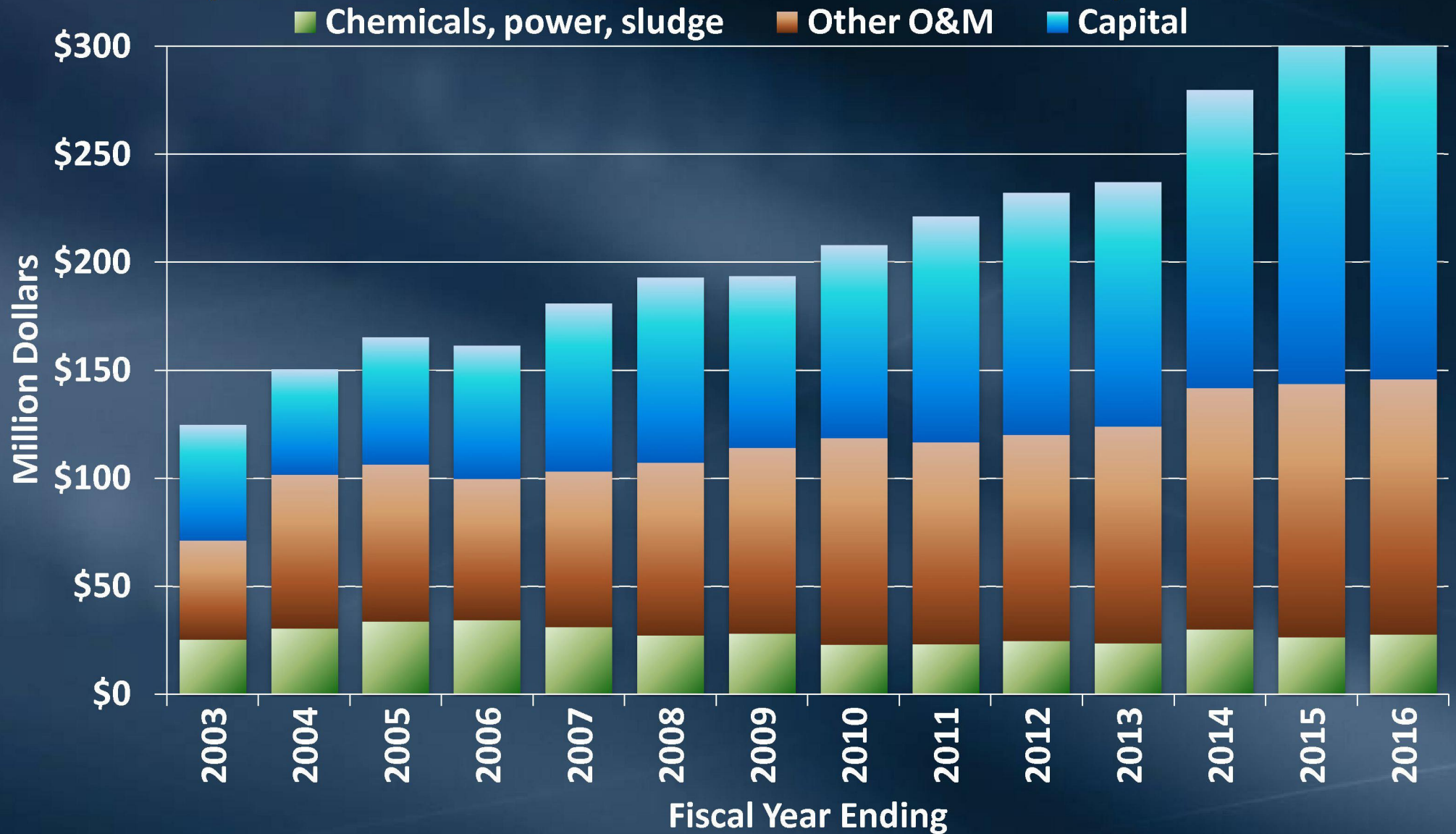
2003 and beyond depict the new rate structure with the Full Service T-1 treated rate. The volumetric rates are lower as a result of the added Capacity Charge. There was no net rate increase in 2003.

Sum of Member Agency Peak Day Demands



Treated Water Costs Continue to Increase

Comprise $\approx 20\%$ of Revenue Requirements



Treated/Untreated Sales/Exchanges are Decreasing



Treated as
a % of Total

60%	63%	64%	66%	62%	58%	54%	56%	58%	58%	59%	58%	52%	51%
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Treatment Surcharge Trend is Upward



Effective January 1

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

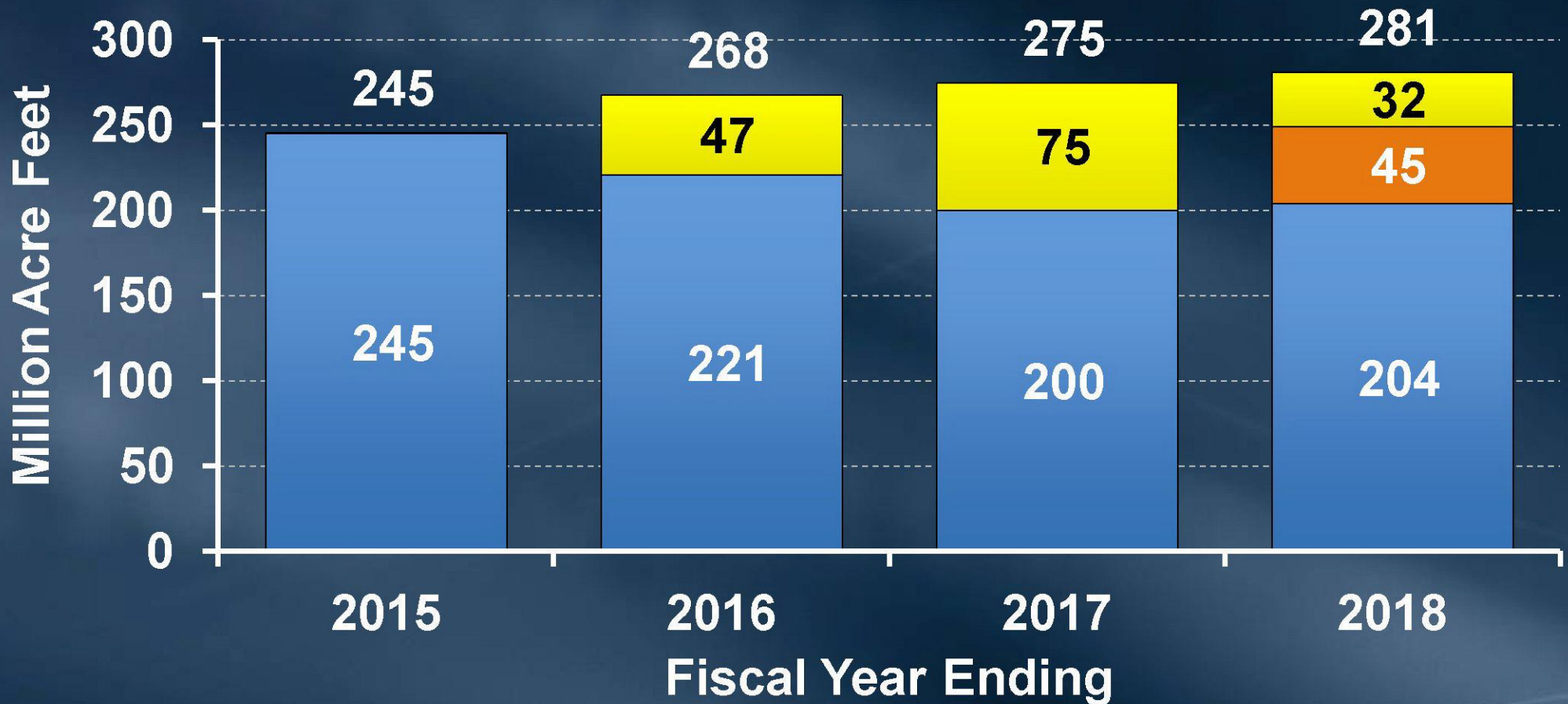


Use of Reserves over Target

- 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

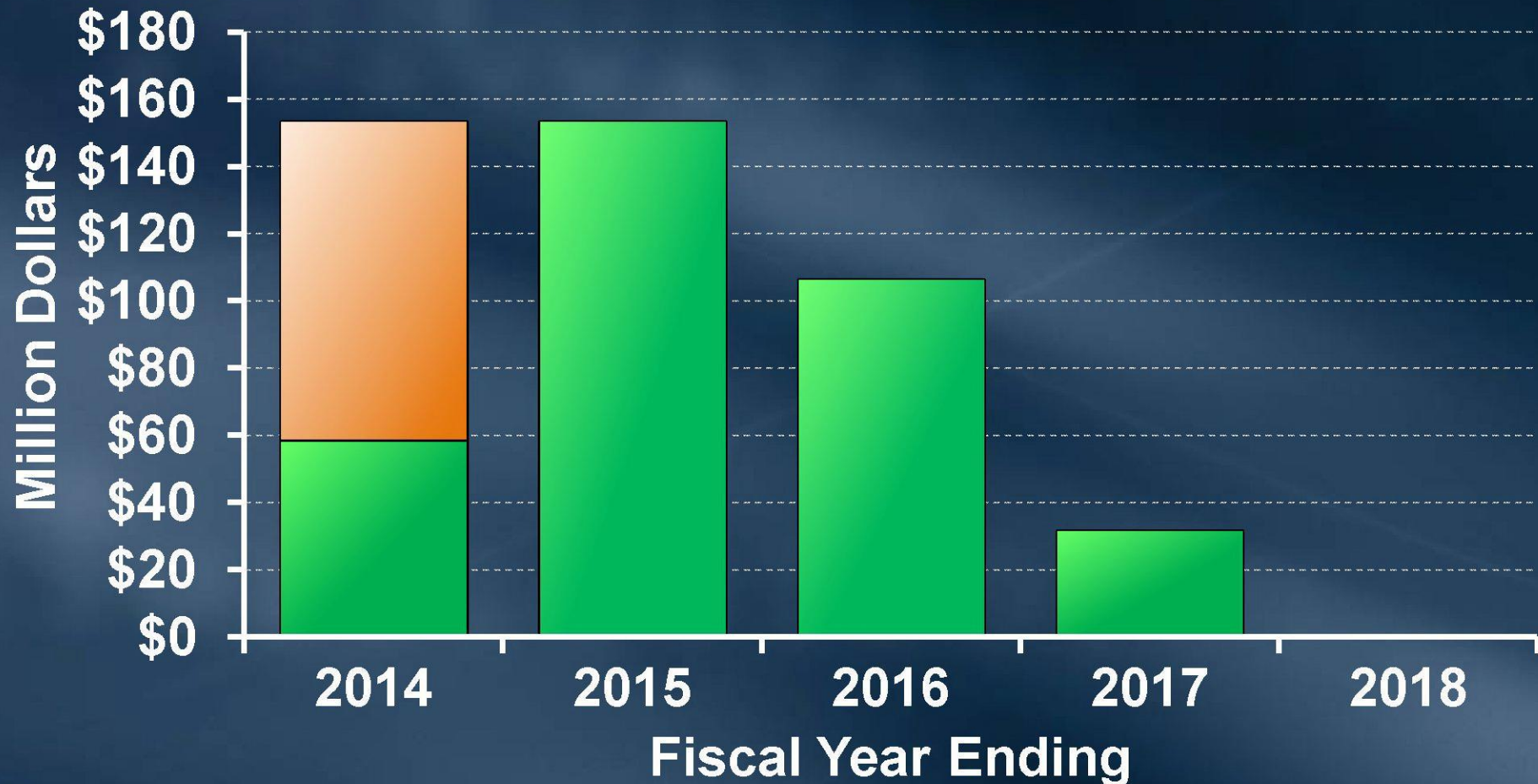
■ R&R Fund ■ Bonds ■ PAYGO



Replacement and Refurbishment (R&R) Fund

■ R&R Deposit

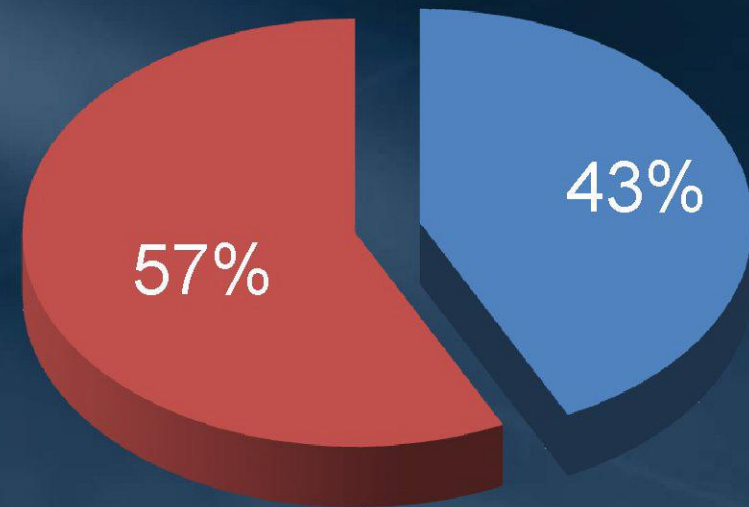
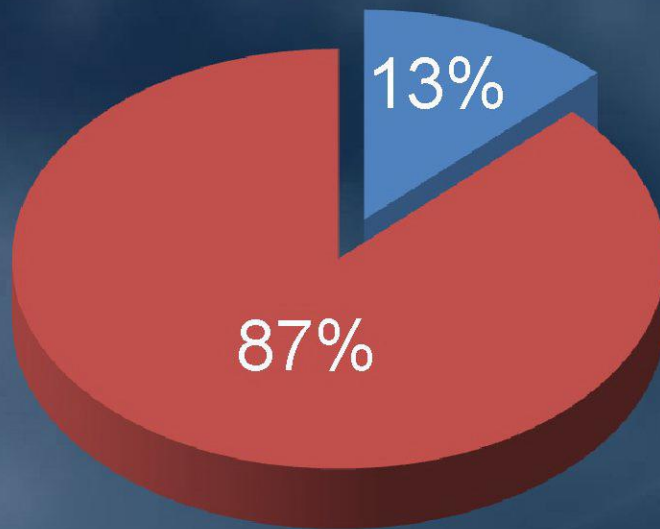
■ R&R Fund Balance



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

Retiree Medical Premiums (OPEB) Funding

After \$100 million
deposit to OPEB Trust



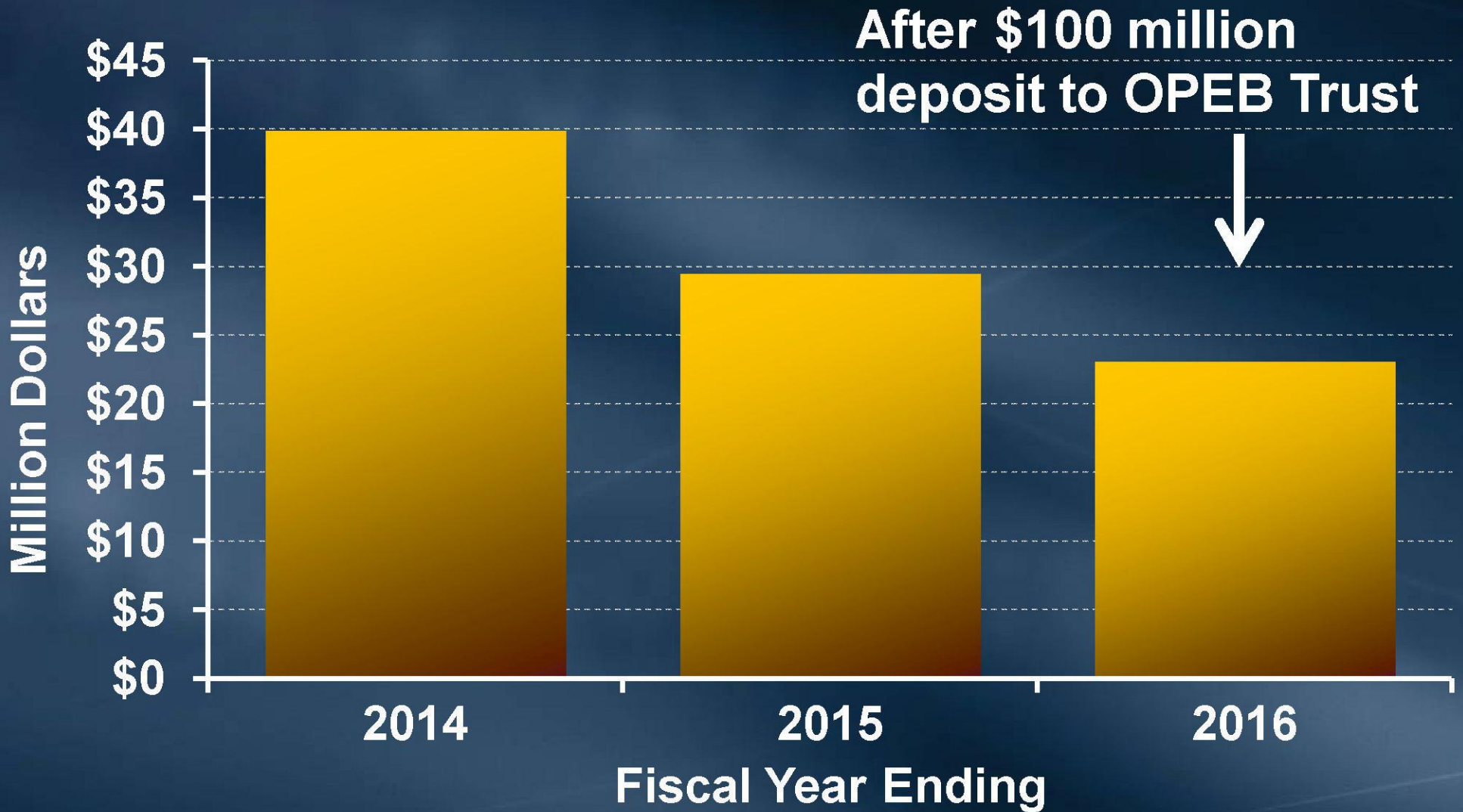
Projected OPEB Liability at 6/30/14 = \$333.1 million

■ Funded

■ Unfunded

OPEB

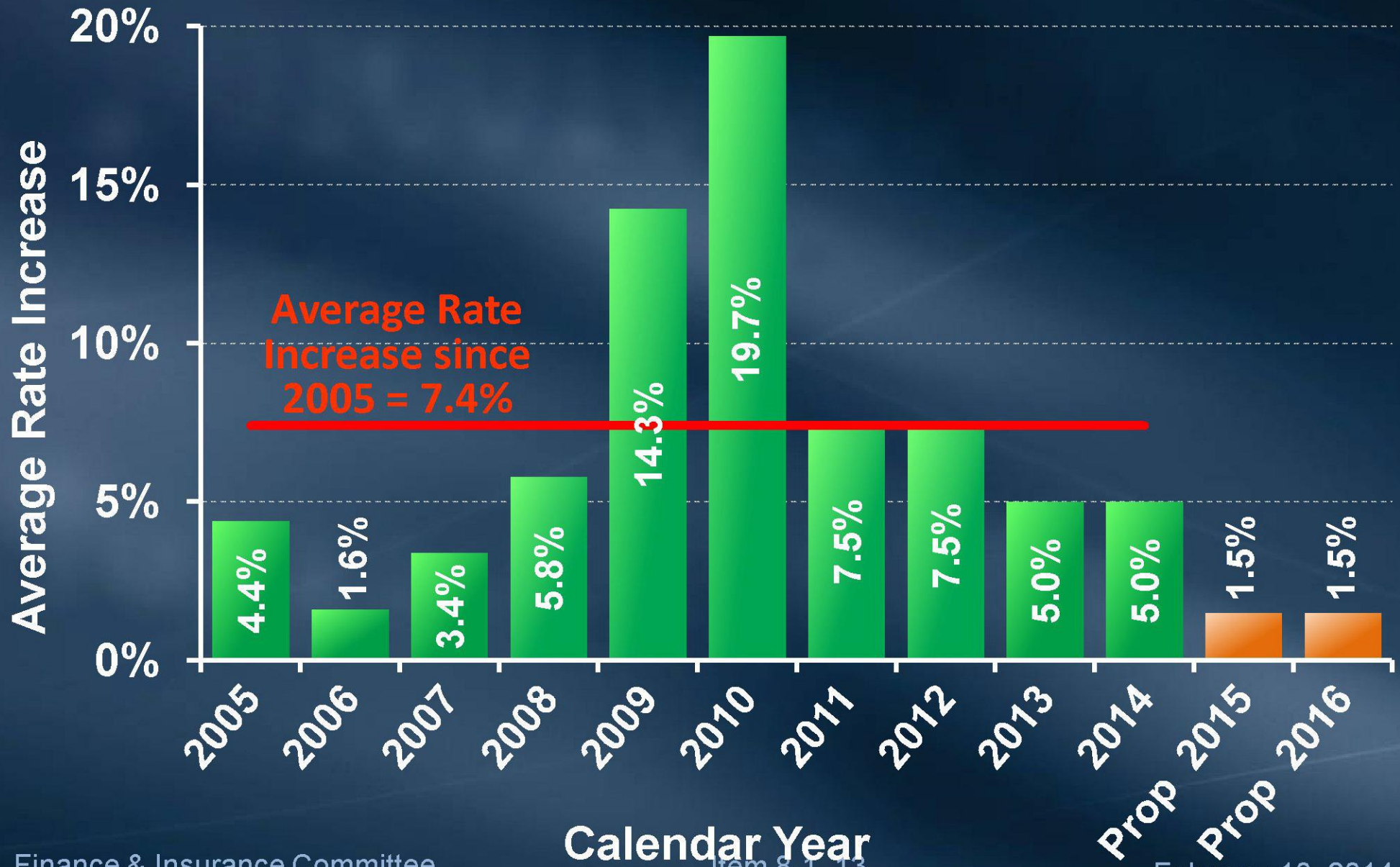
Annual Required Contribution (ARC)



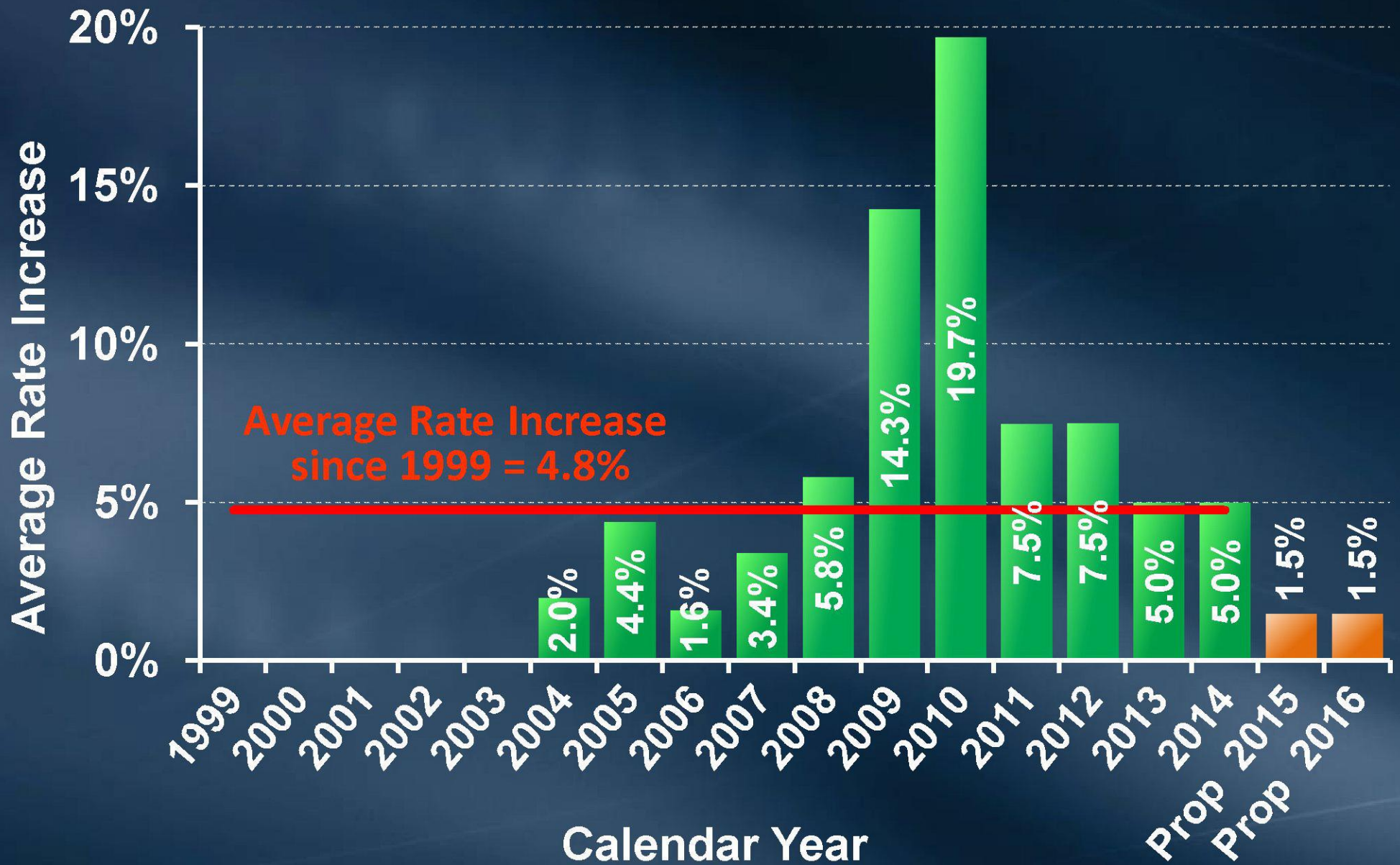
Water Management Fund

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

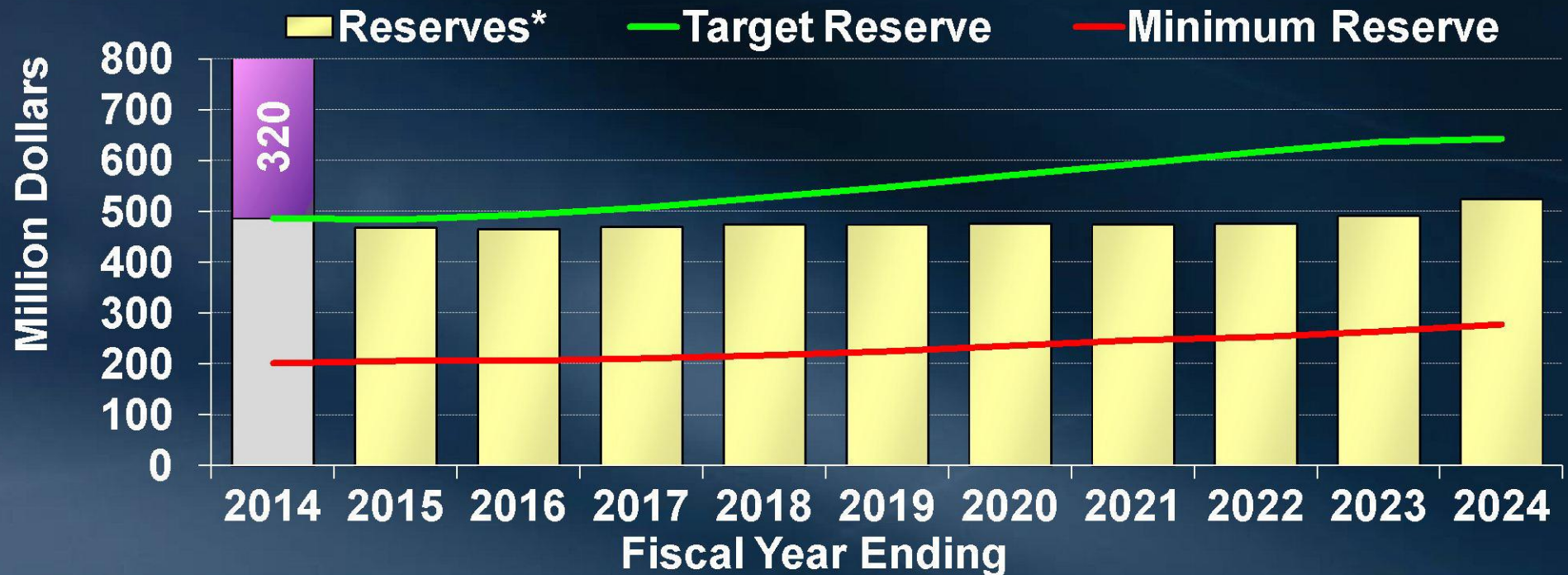
Overall Rate Increases Since 2005



Overall Rate Increases Since 1999



Projected Rate Increases & Financial Metrics

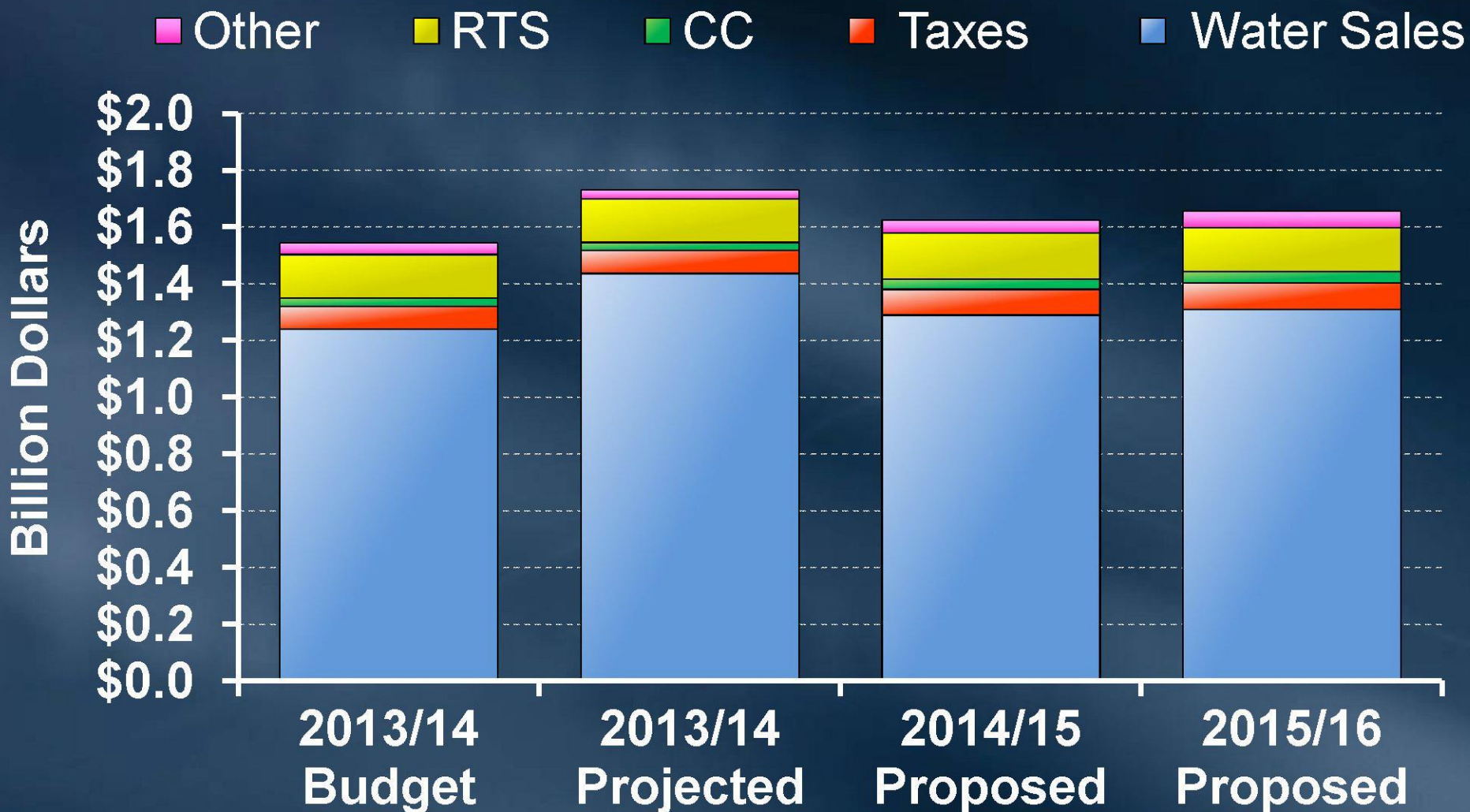


Ave Rate Inc.	5%	1.5%	1.5%	3%	3%	4%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	245	221	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	2.0	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0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

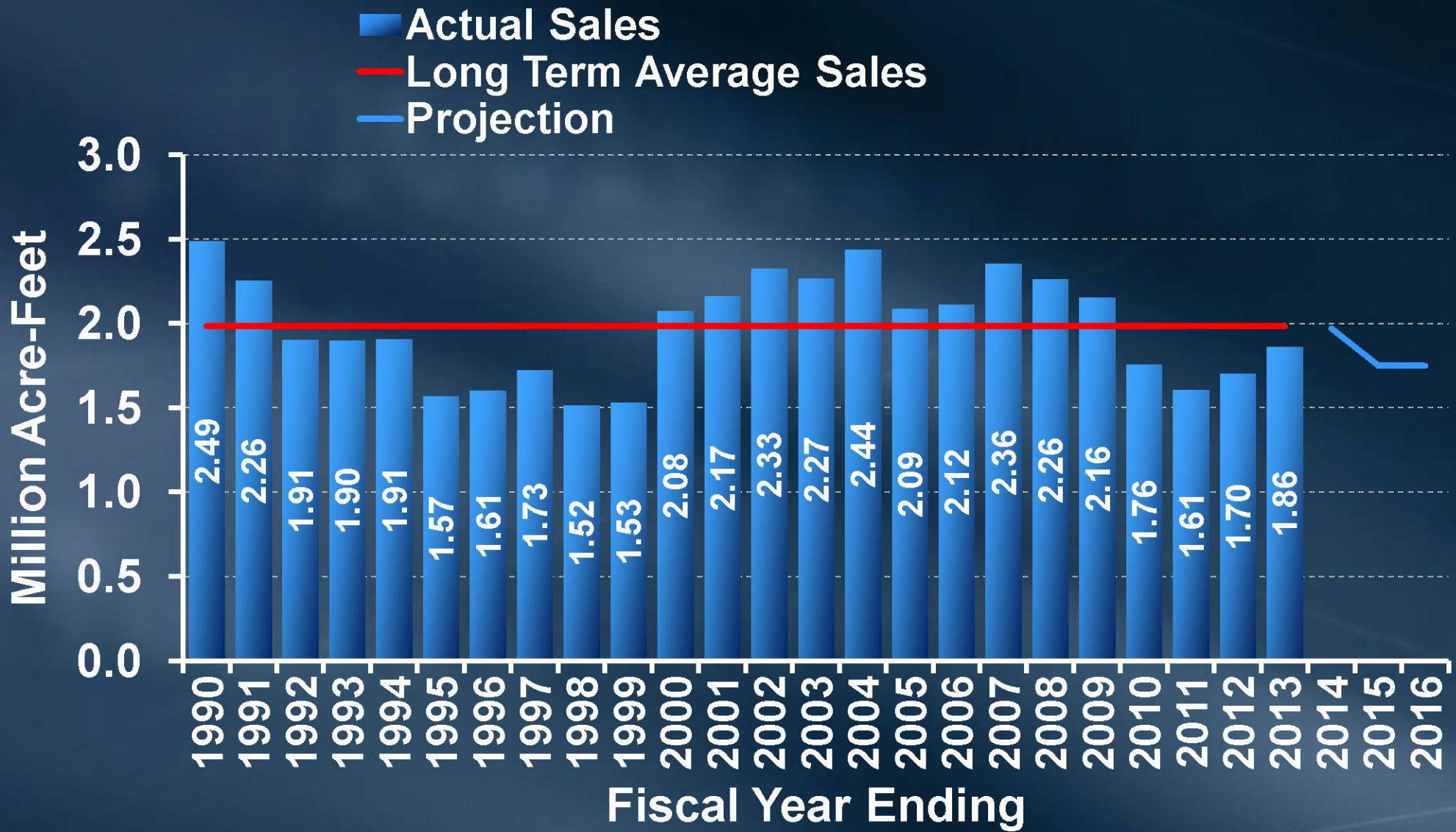
* Revenue Remainder & WRSF

Proposed Biennial Budget

Revenue Trend



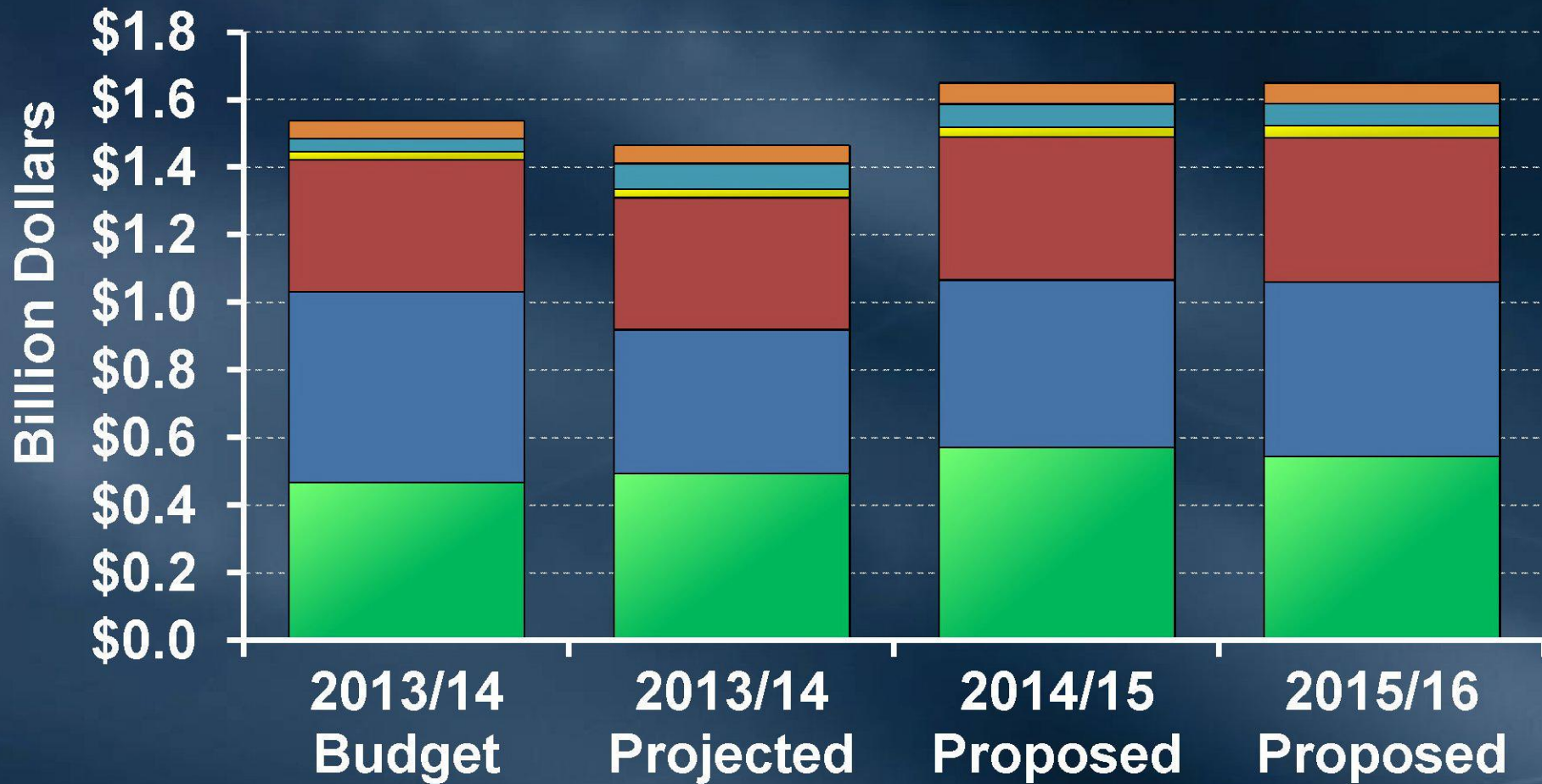
Water Sales*



* Includes Exchange/Wheeling

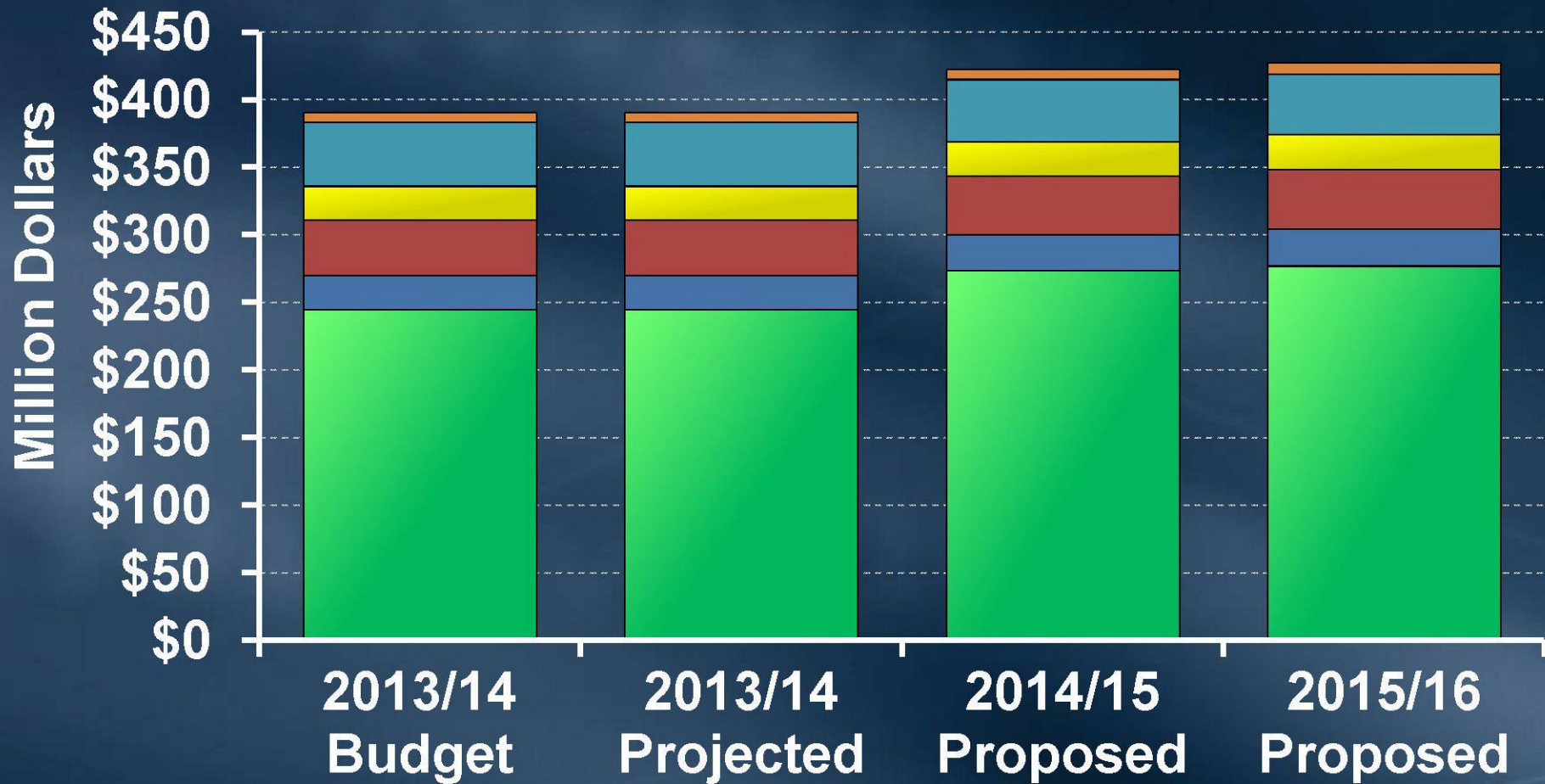
Expenditure Trend

- 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>

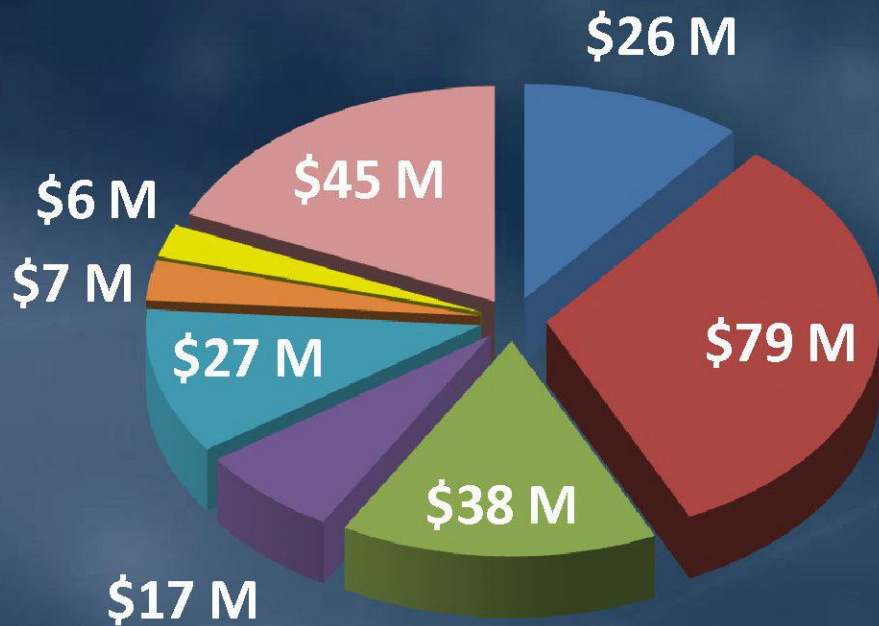
Budgeted Regular Positions

2013/14 budgeted regular positions	1,780
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

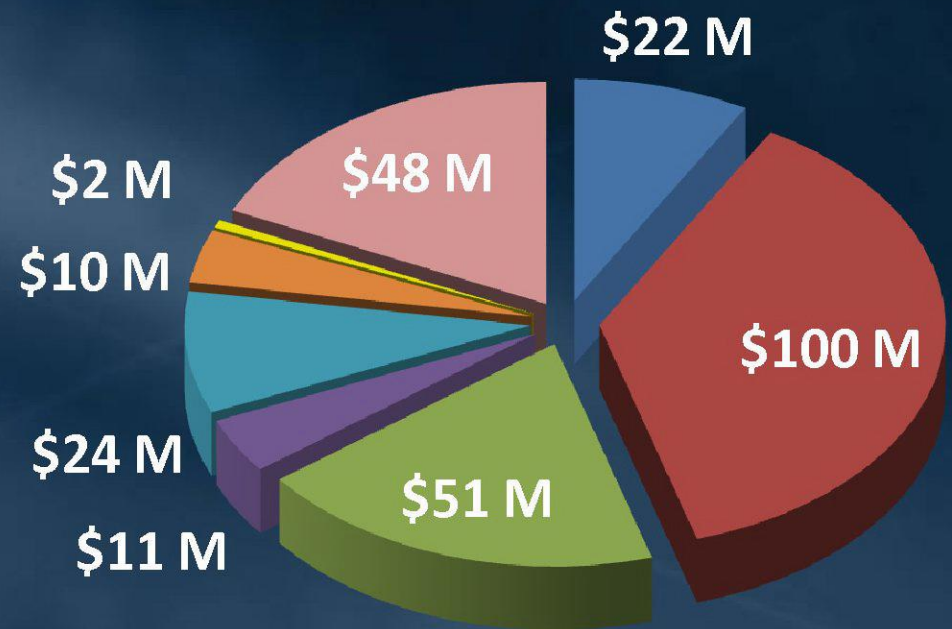
Capital Investment Plan (CIP)

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

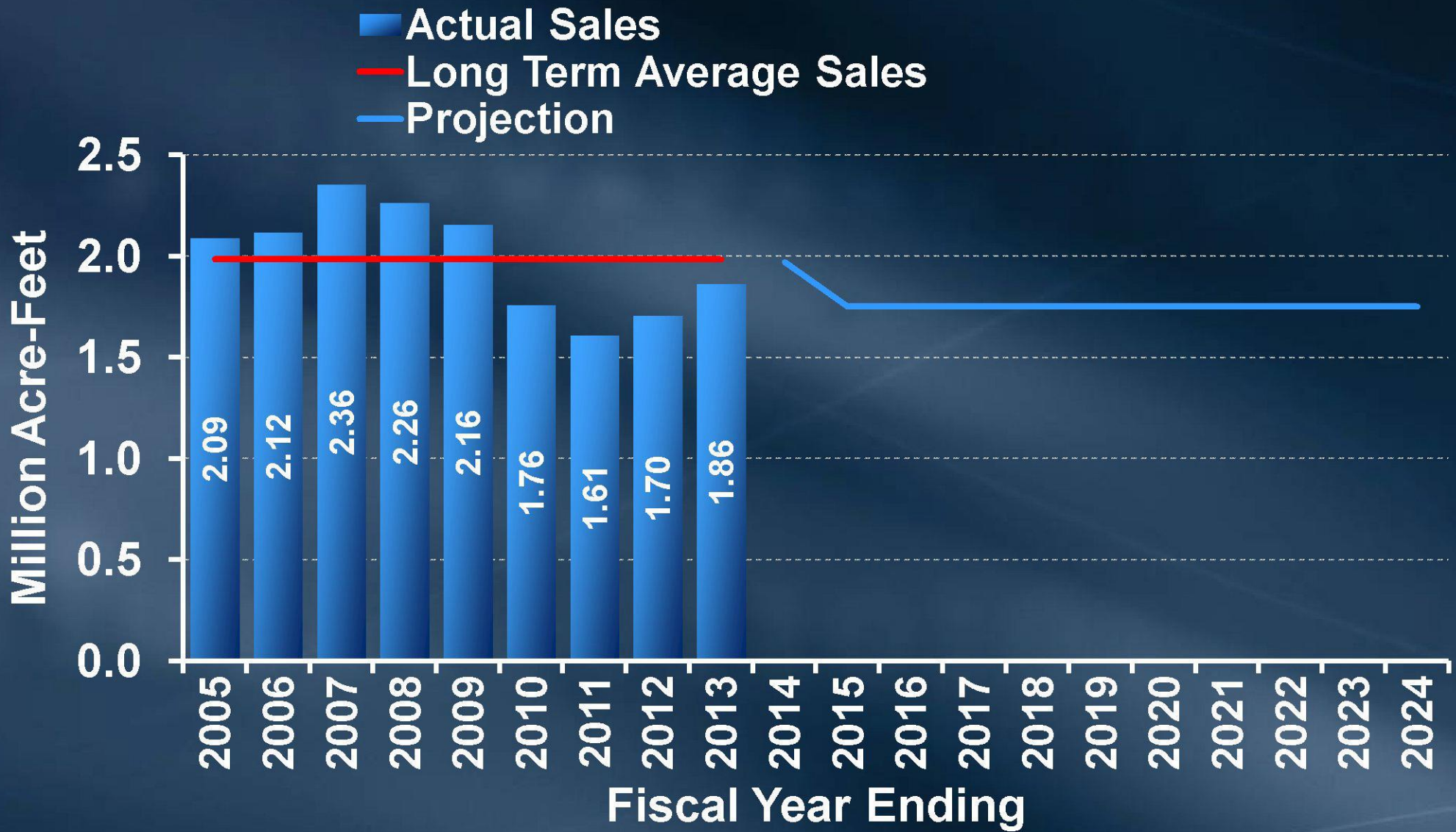
Projected Rate Increases & Financial Metrics



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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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%
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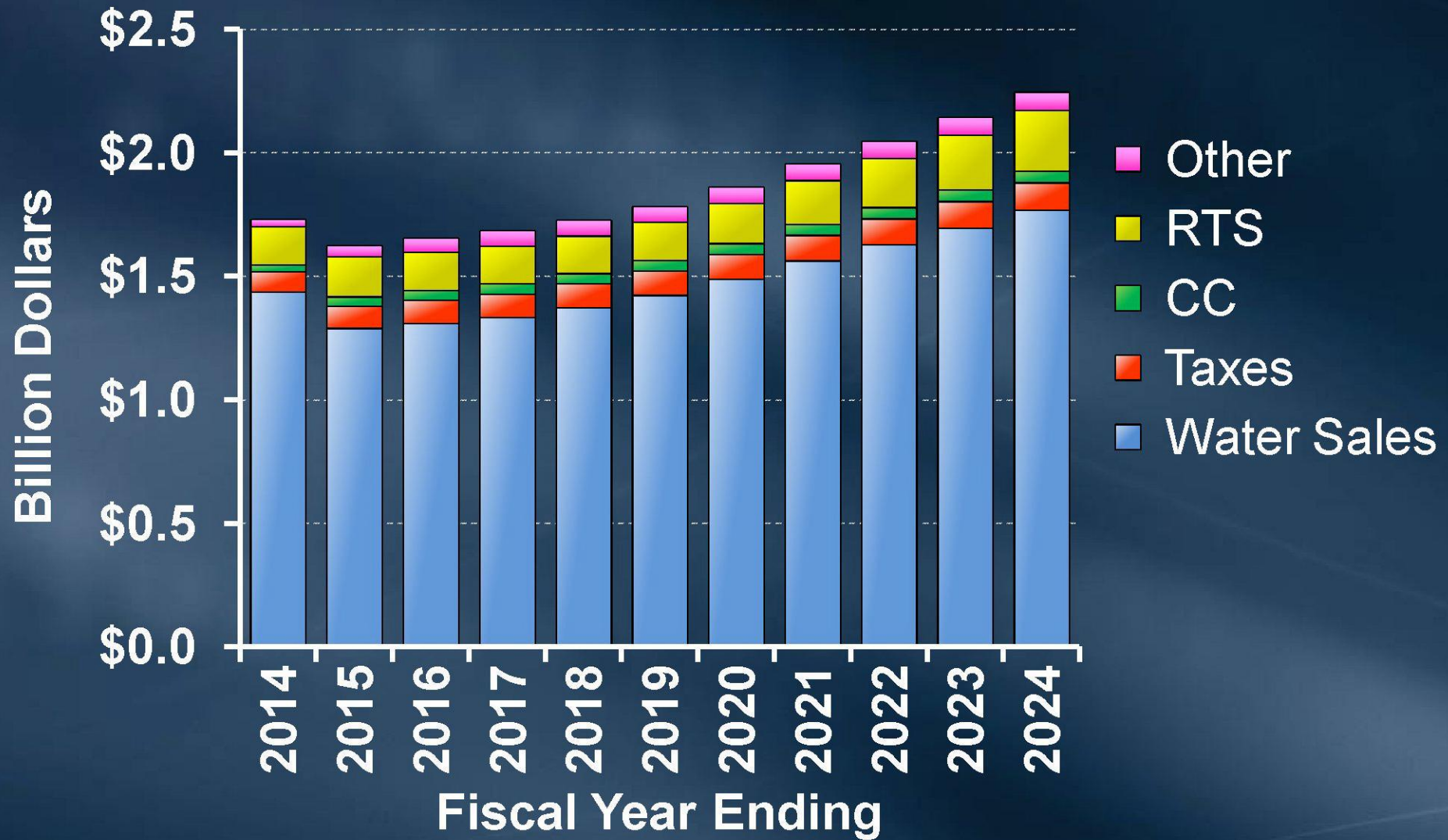
* Revenue Remainder & WRSF

Water Sales*

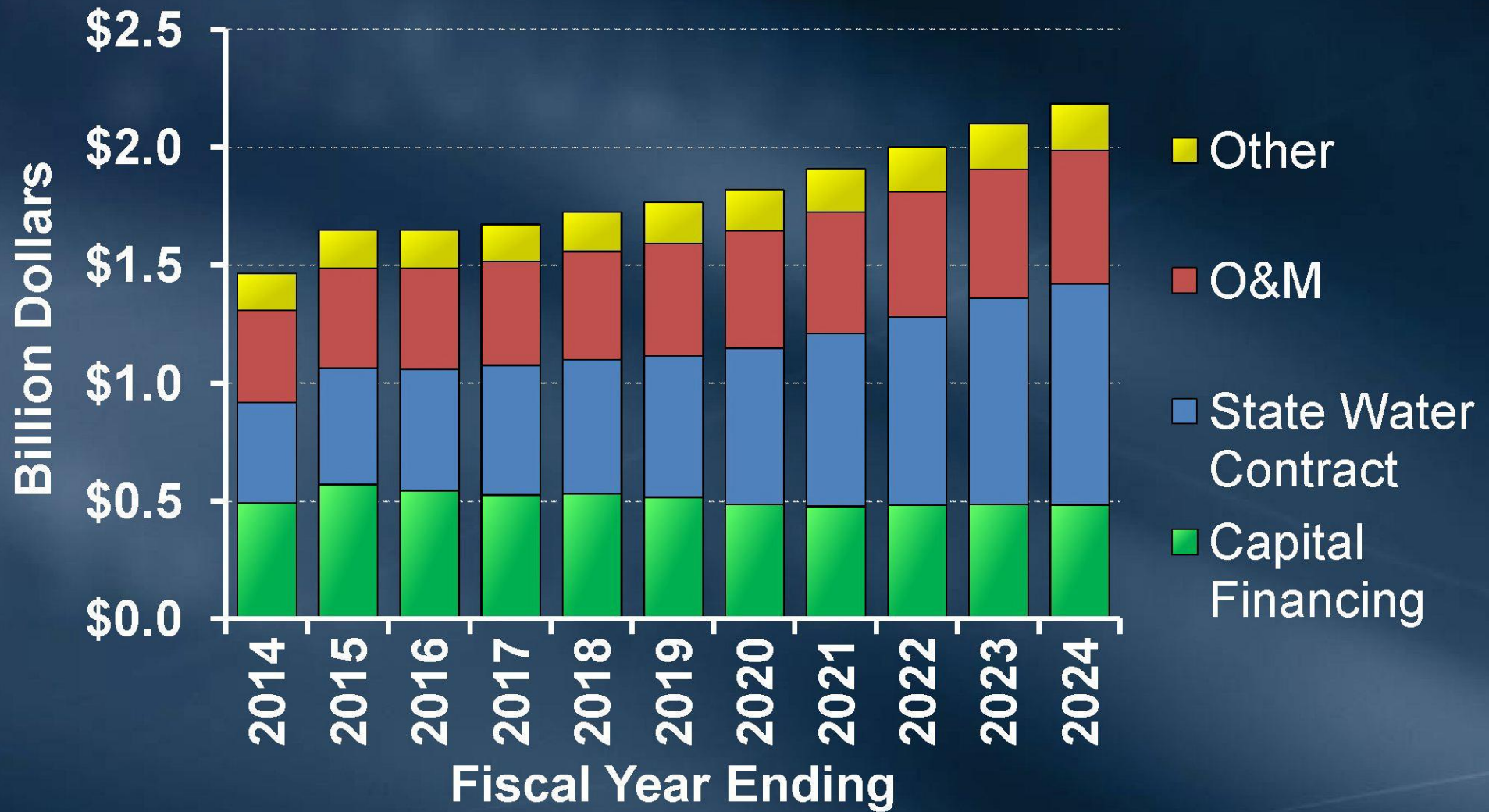


* Includes Exchange/Wheeling

10-Year Revenue Trend



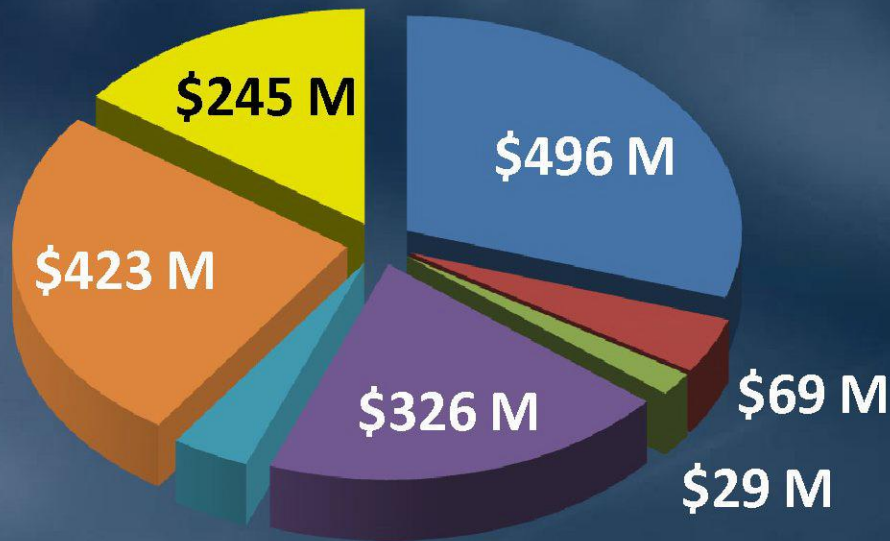
10-Year Expenditure Trend



Expenditure Trend

FY 2014/15 - \$1.65 B

FY 2023/24 - \$2.31 B

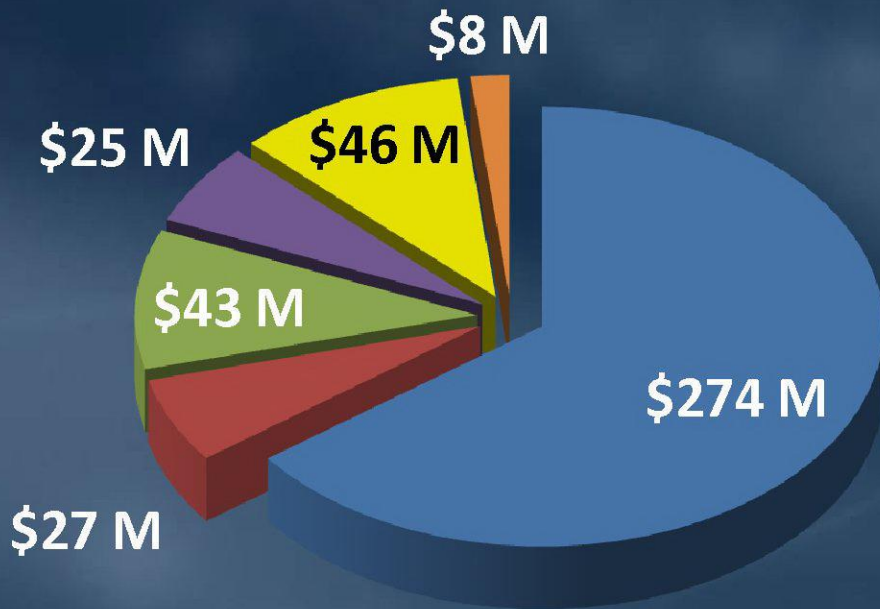


- State Water Contract
- Colorado River Power
- Demand Management
- CIP

- Supply Programs
- Debt Service
- O&M

O&M Budget Trend

FY 2014/15 - \$423 M



FY 2023/24 - \$567 M



Salary & Benefits

Variable Treatment

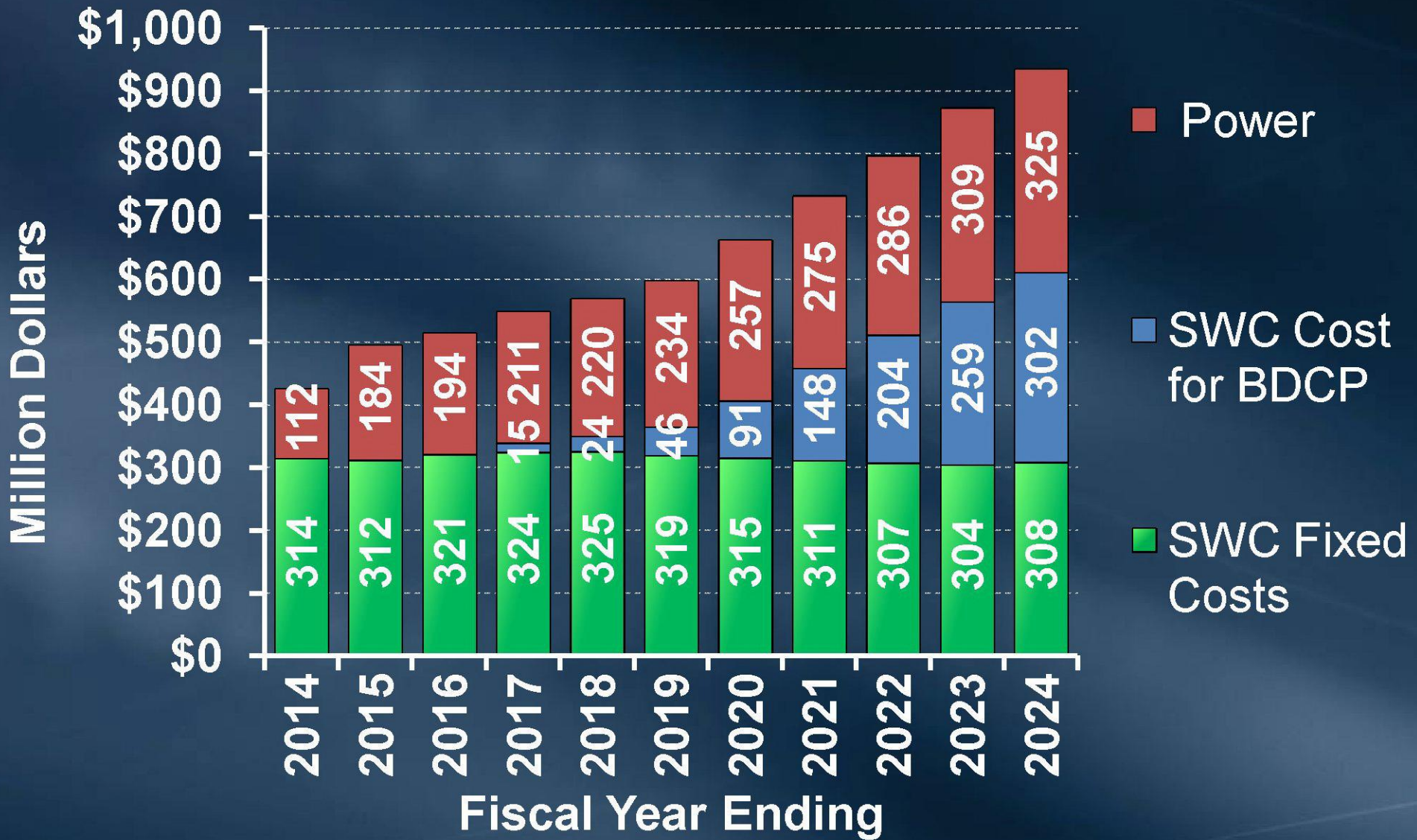
Outside Services

Materials & Supplies

Other

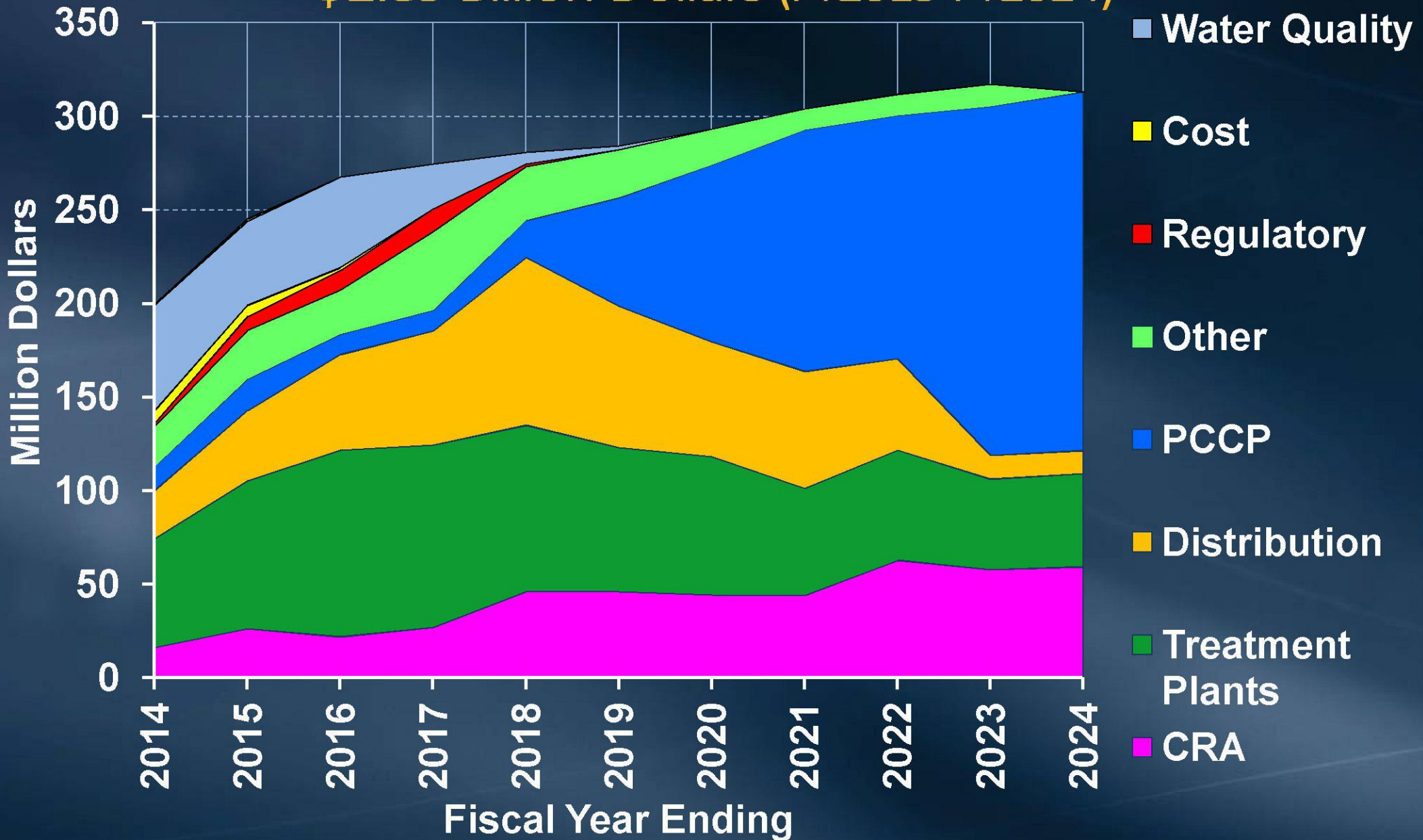
Operating Equipment

SWC Forecast

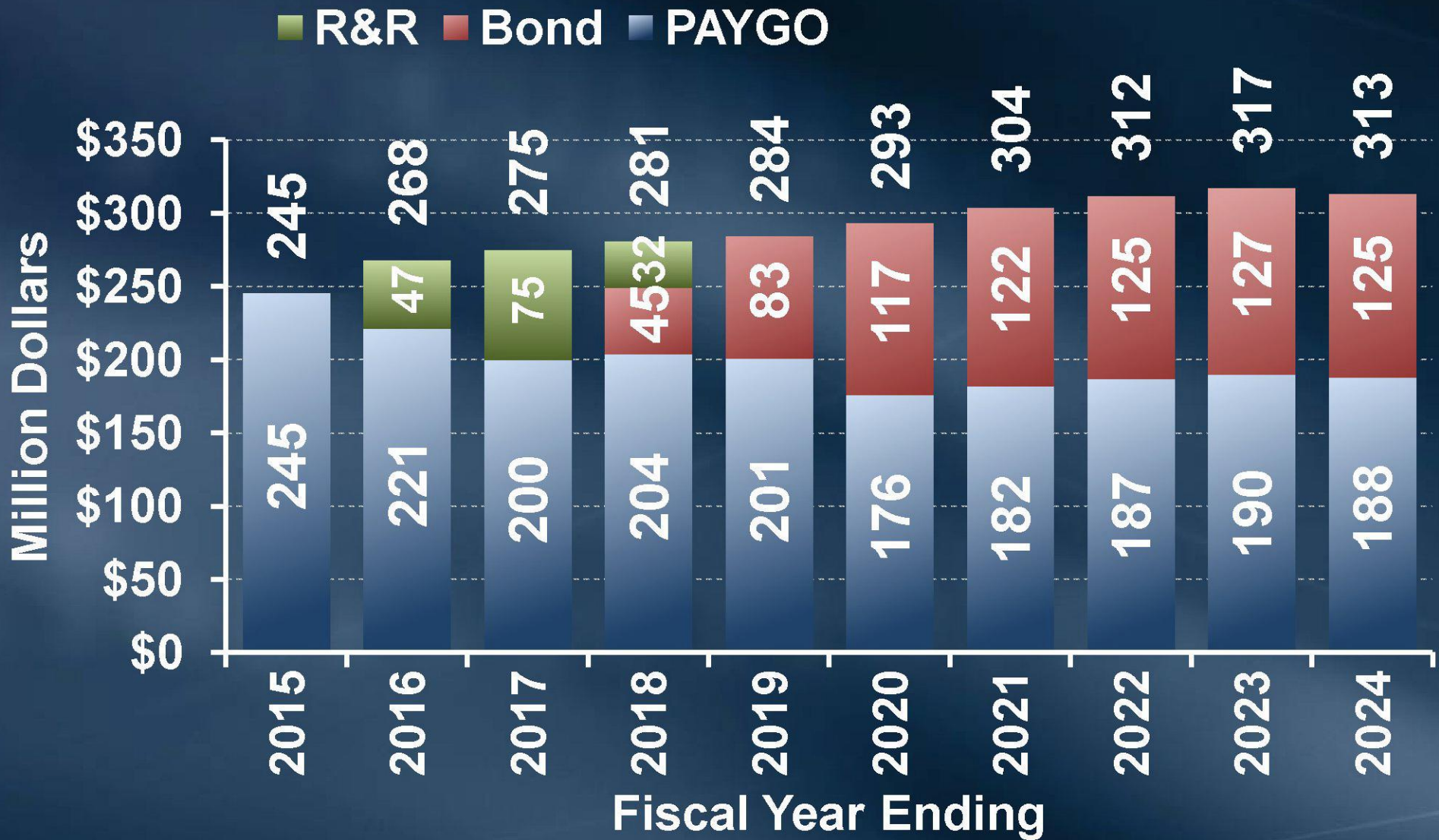


10 Year Capital Investment Plan

\$2.89 Billion Dollars (FY2015-FY2024)



Capital Investment Plan Funding



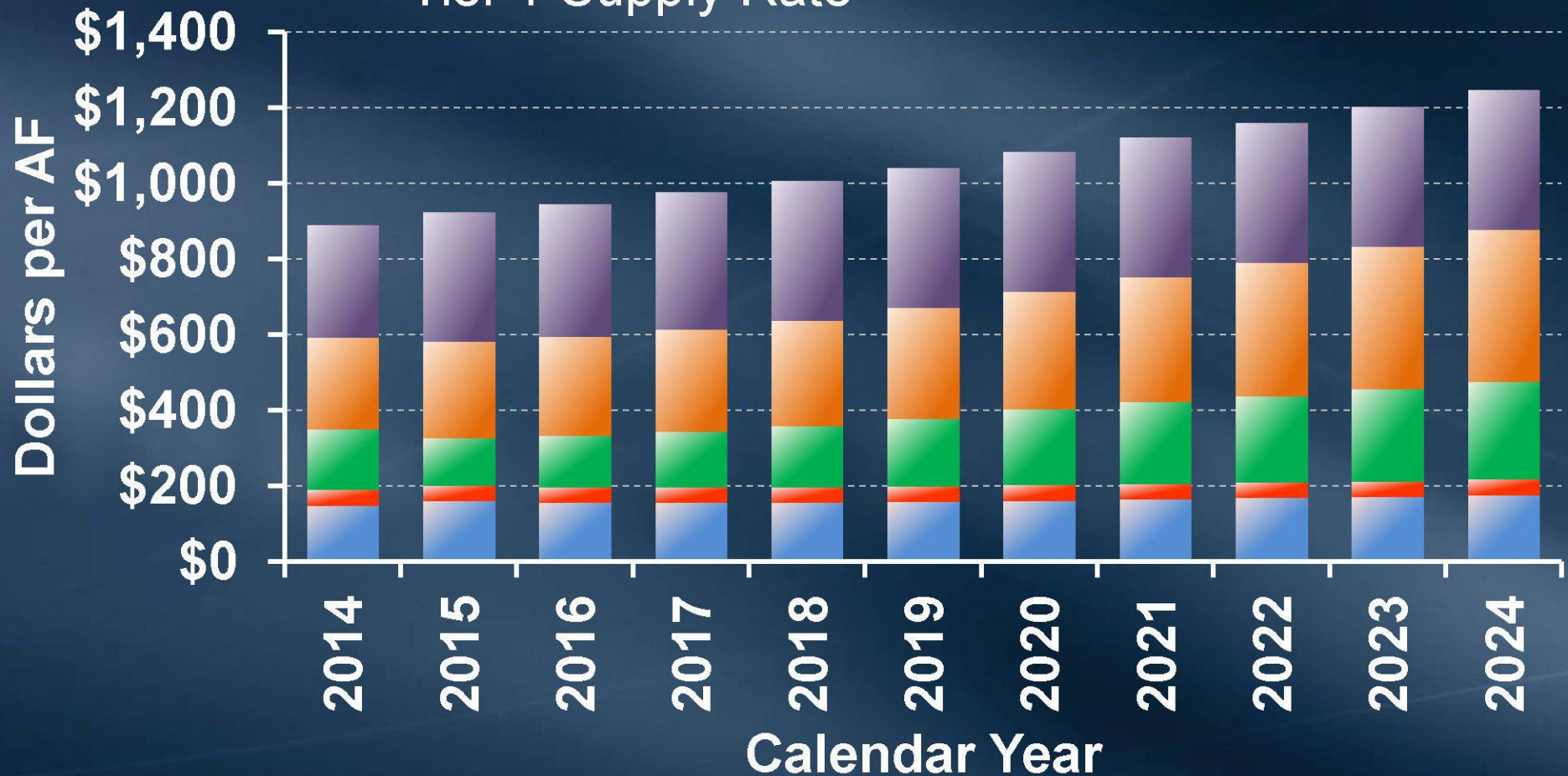
MWD Debt Service

- 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.

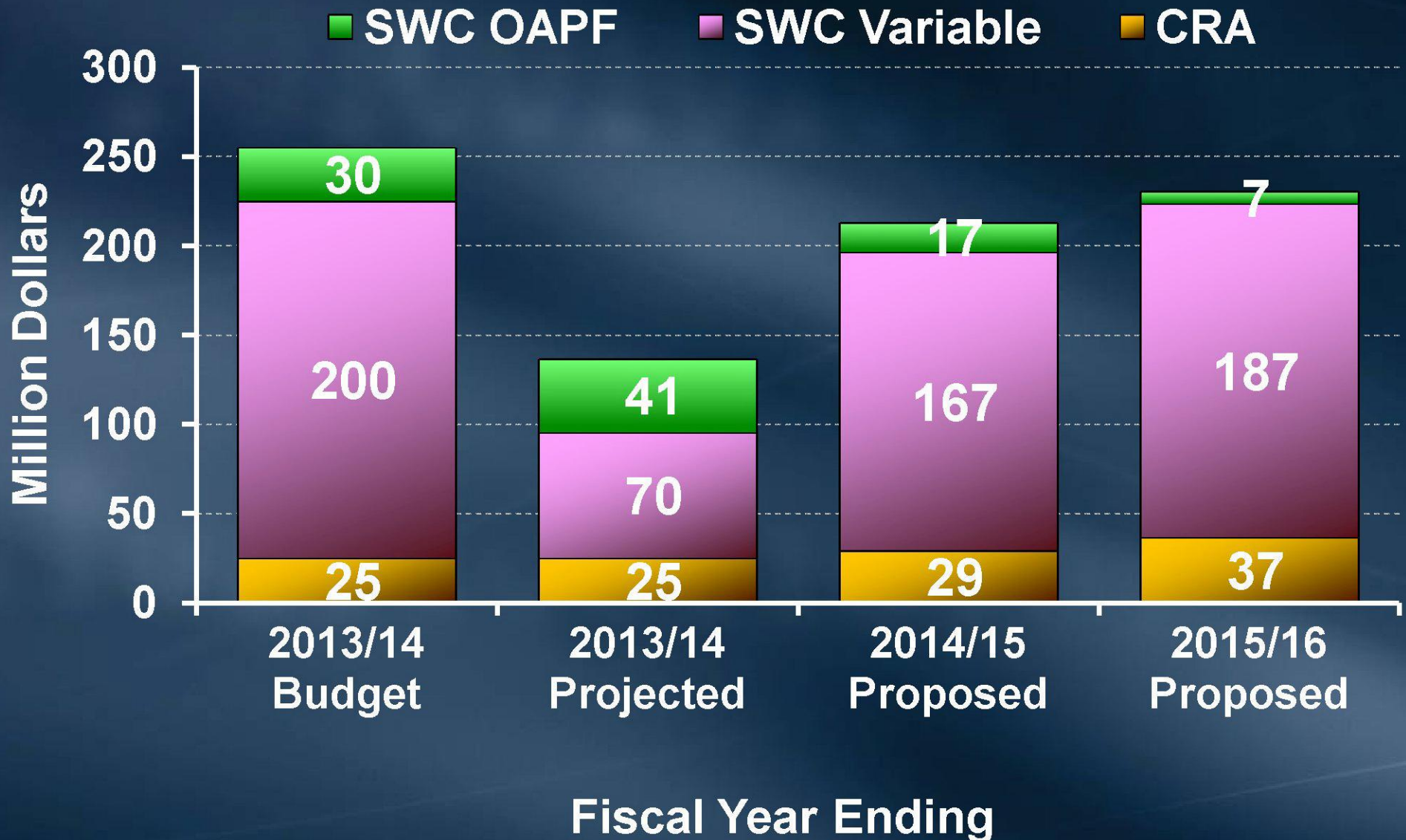
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Treatment Surcharge (\$/AF)	\$297	\$343	\$352
Readiness-to-Serve Charge (\$M)	\$166	\$158	\$152
Capacity Charge (\$/cfs)	\$8,600	\$10,700	\$10,300

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%)

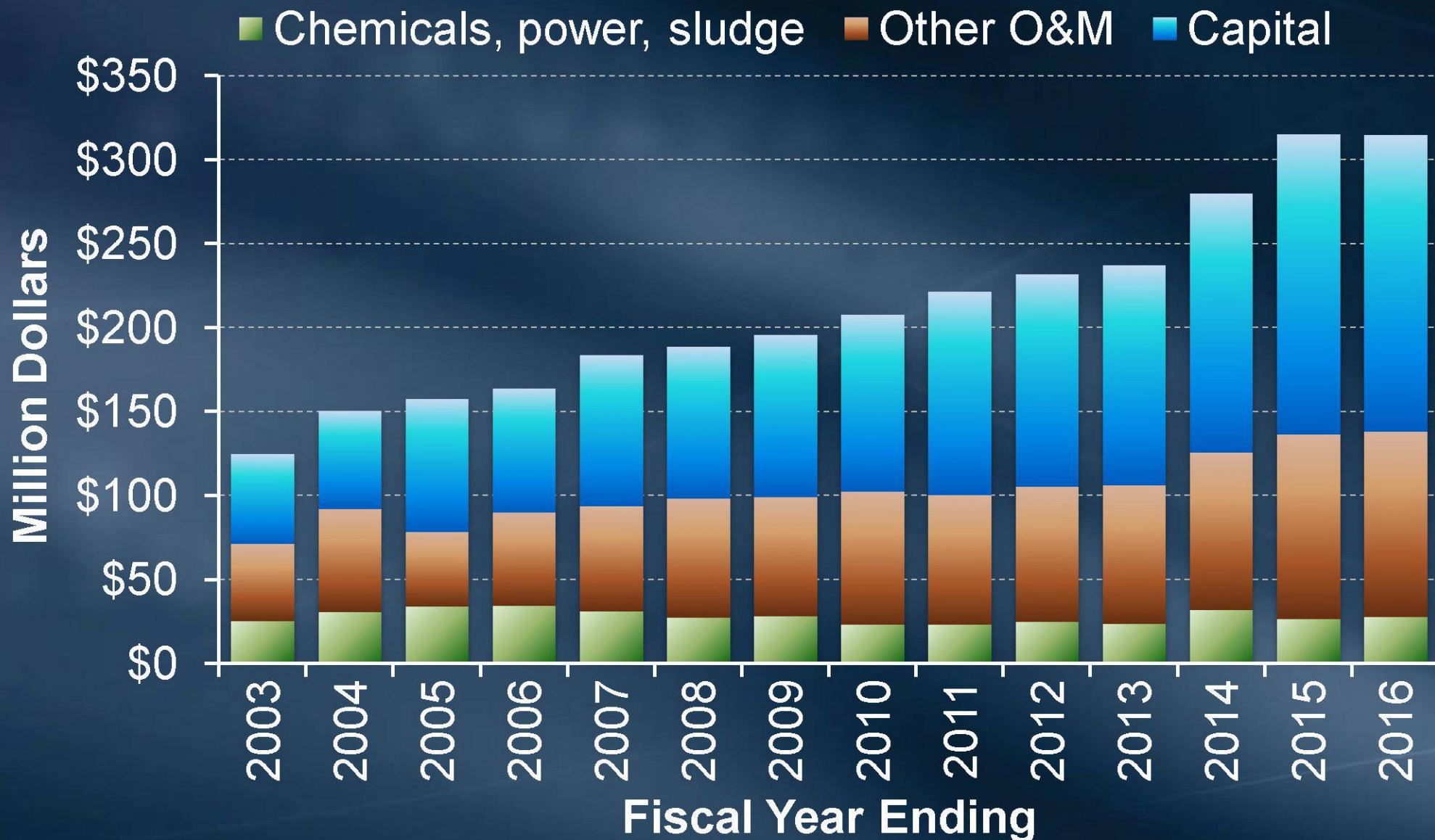
Power Costs



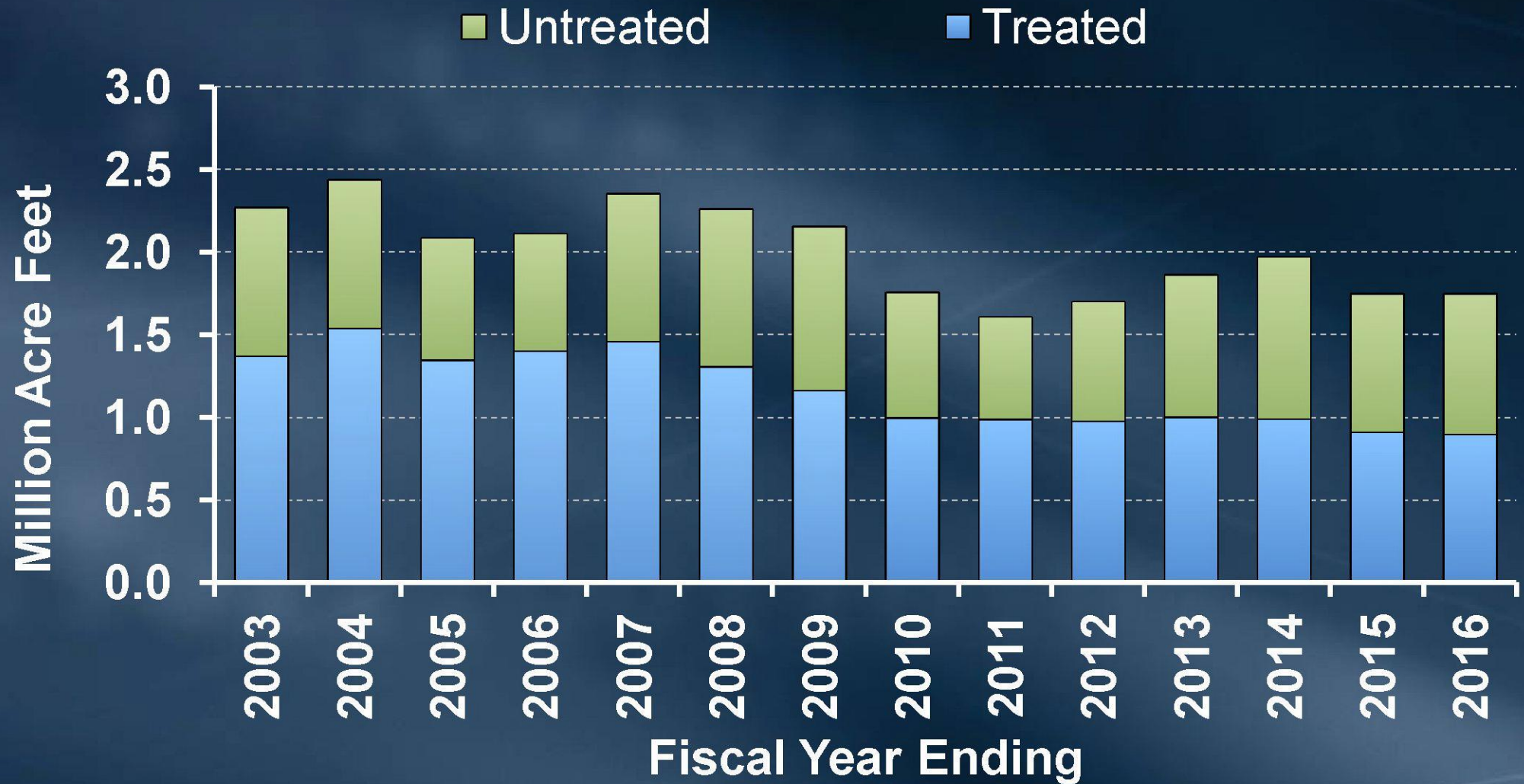
Sum of Member Agency Peak Day Demands



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

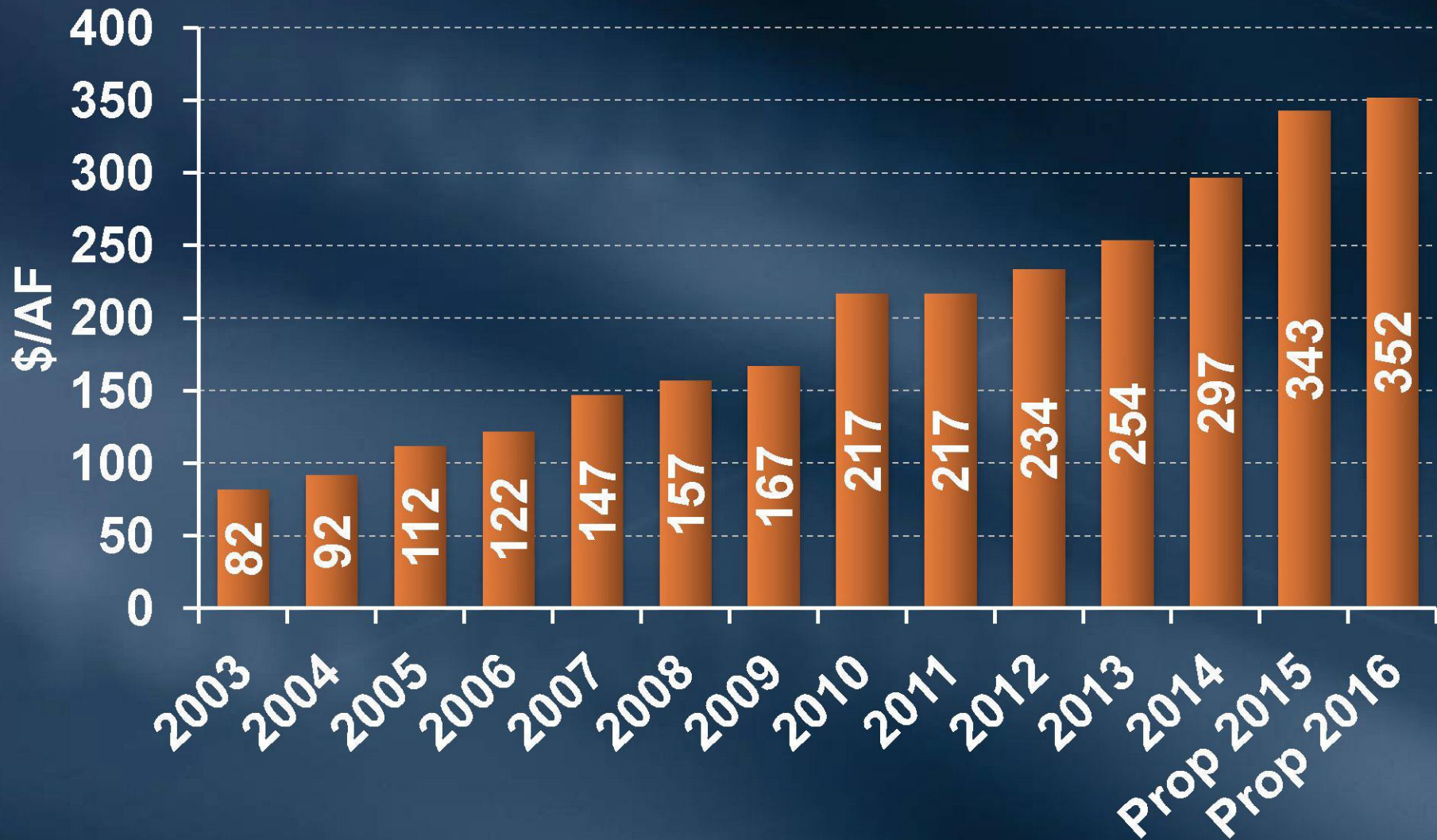


Treated Sales/Exchange are Decreasing



% 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

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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

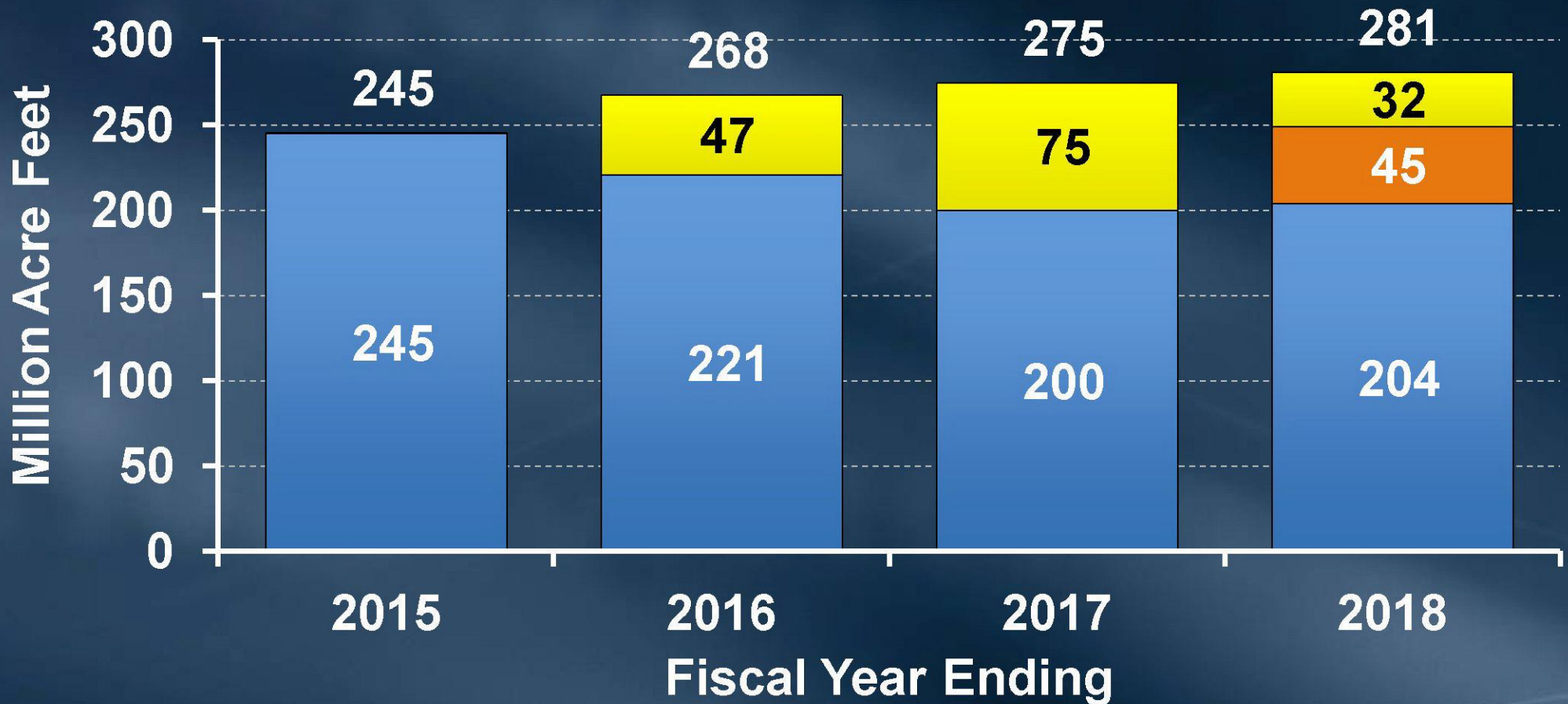


Use of Reserves over Target

- 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

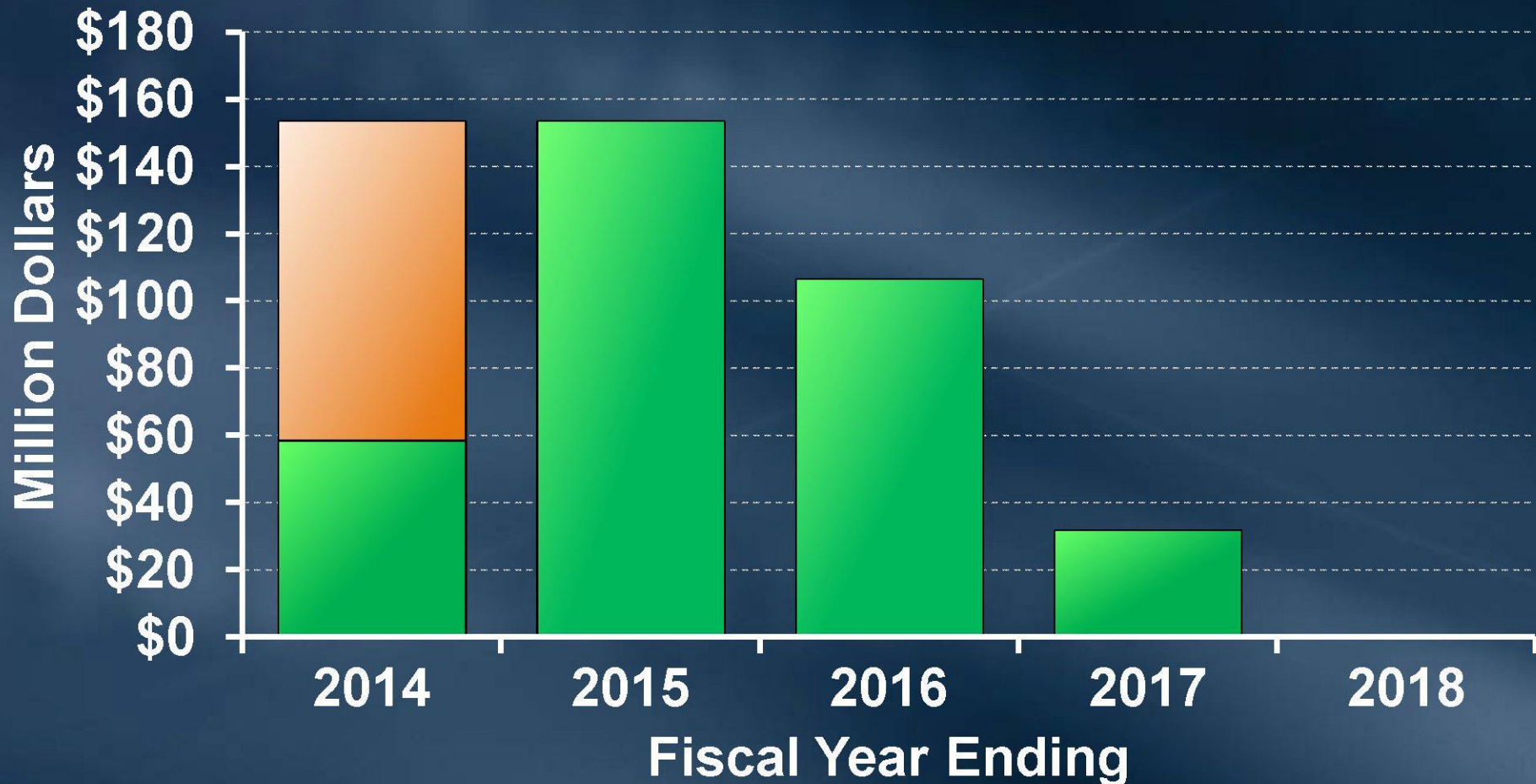
Capital Investment Plan Funding

■ R&R Fund ■ Bonds ■ PAYGO



Replacement and Refurbishment (R&R) Fund

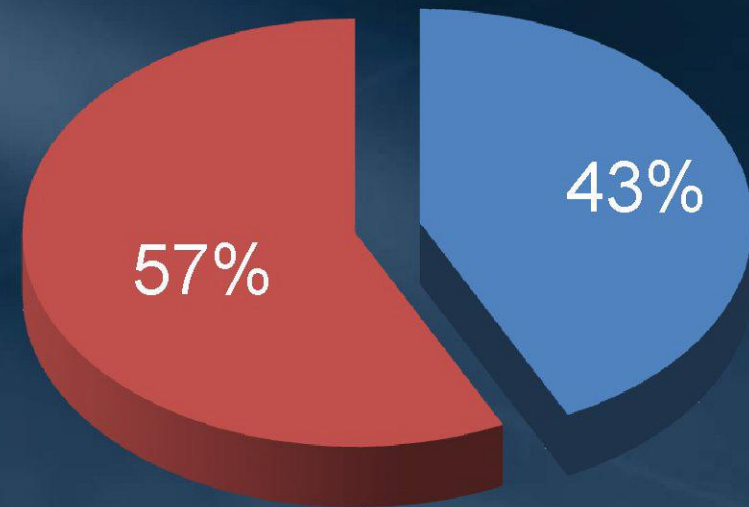
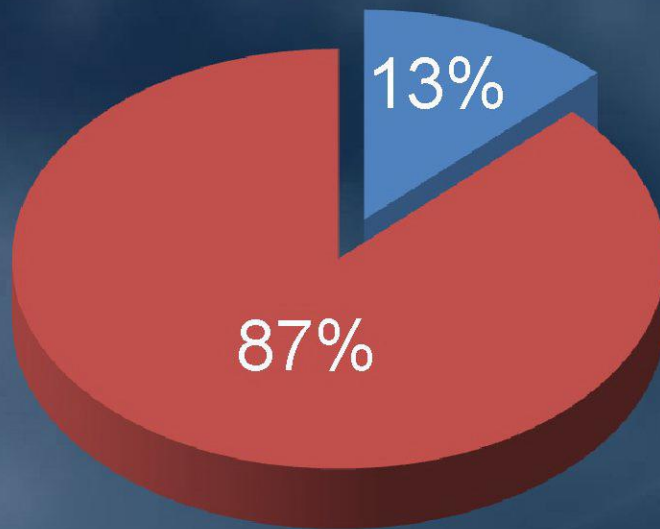
■ R&R Deposit ■ R&R Fund Balance



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

Retiree Medical Premiums (OPEB) Funding

After \$100 million
deposit to OPEB Trust



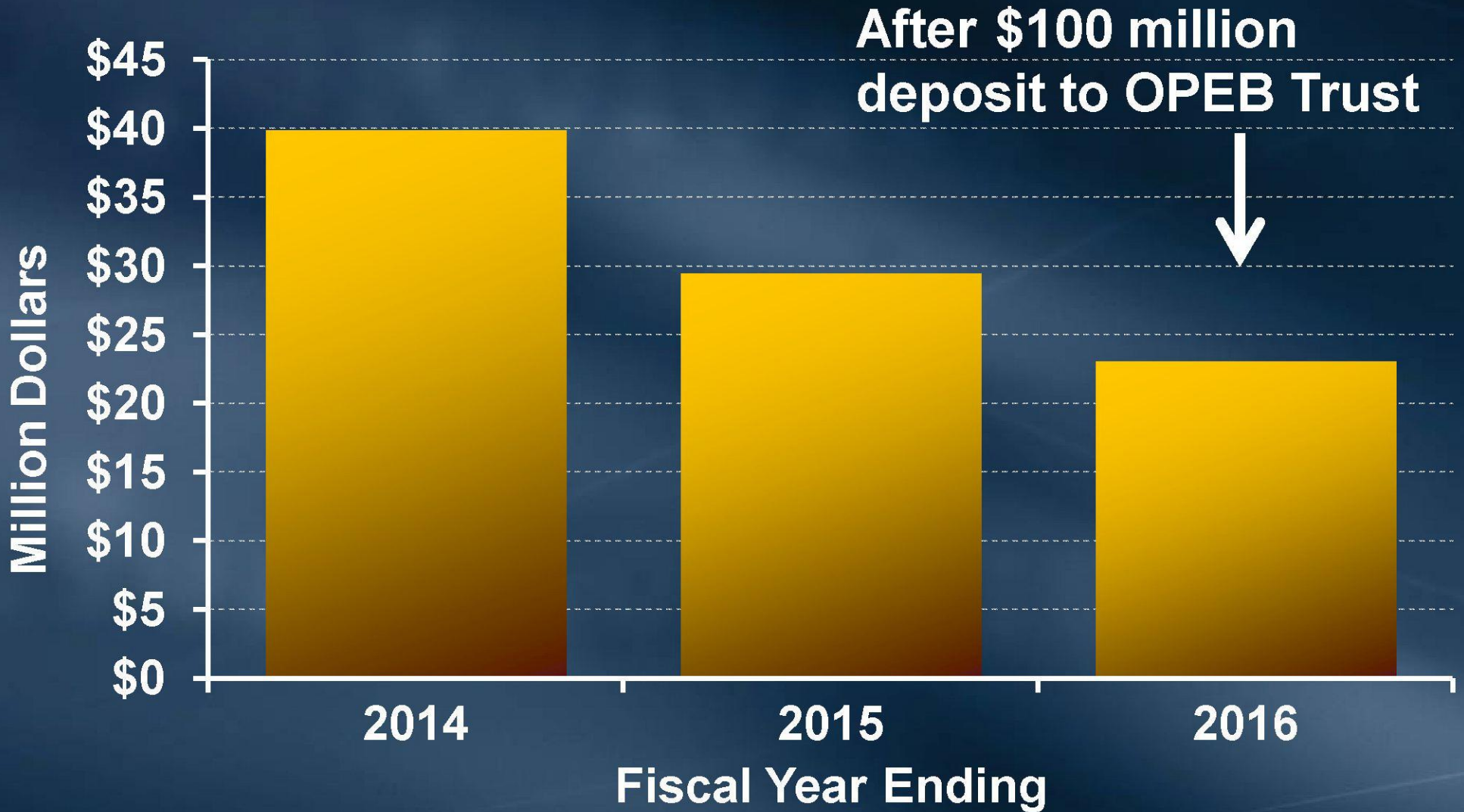
Projected OPEB Liability at 6/30/14 = \$333.1 million

■ Funded

■ Unfunded

OPEB

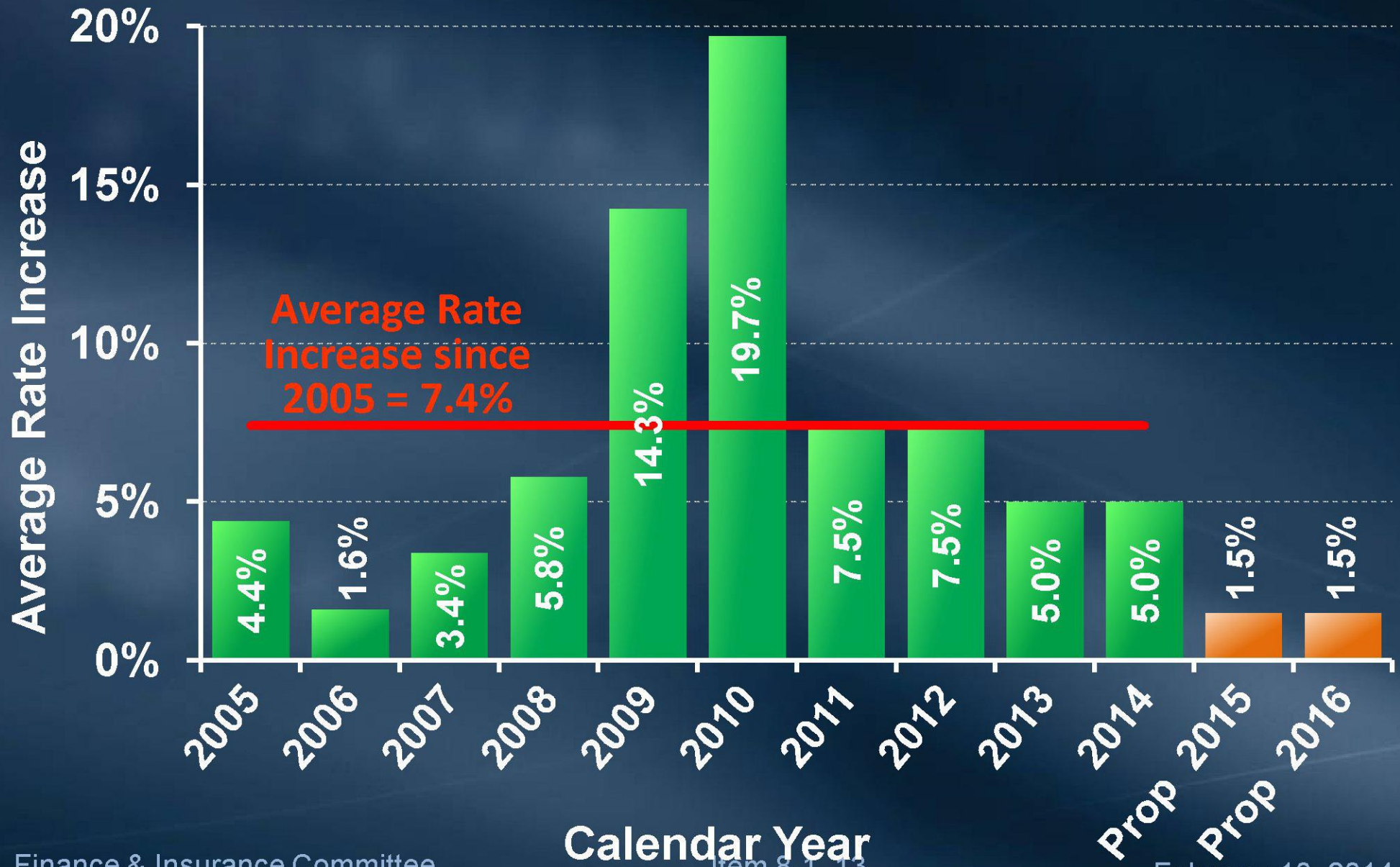
Annual Required Contribution (ARC)



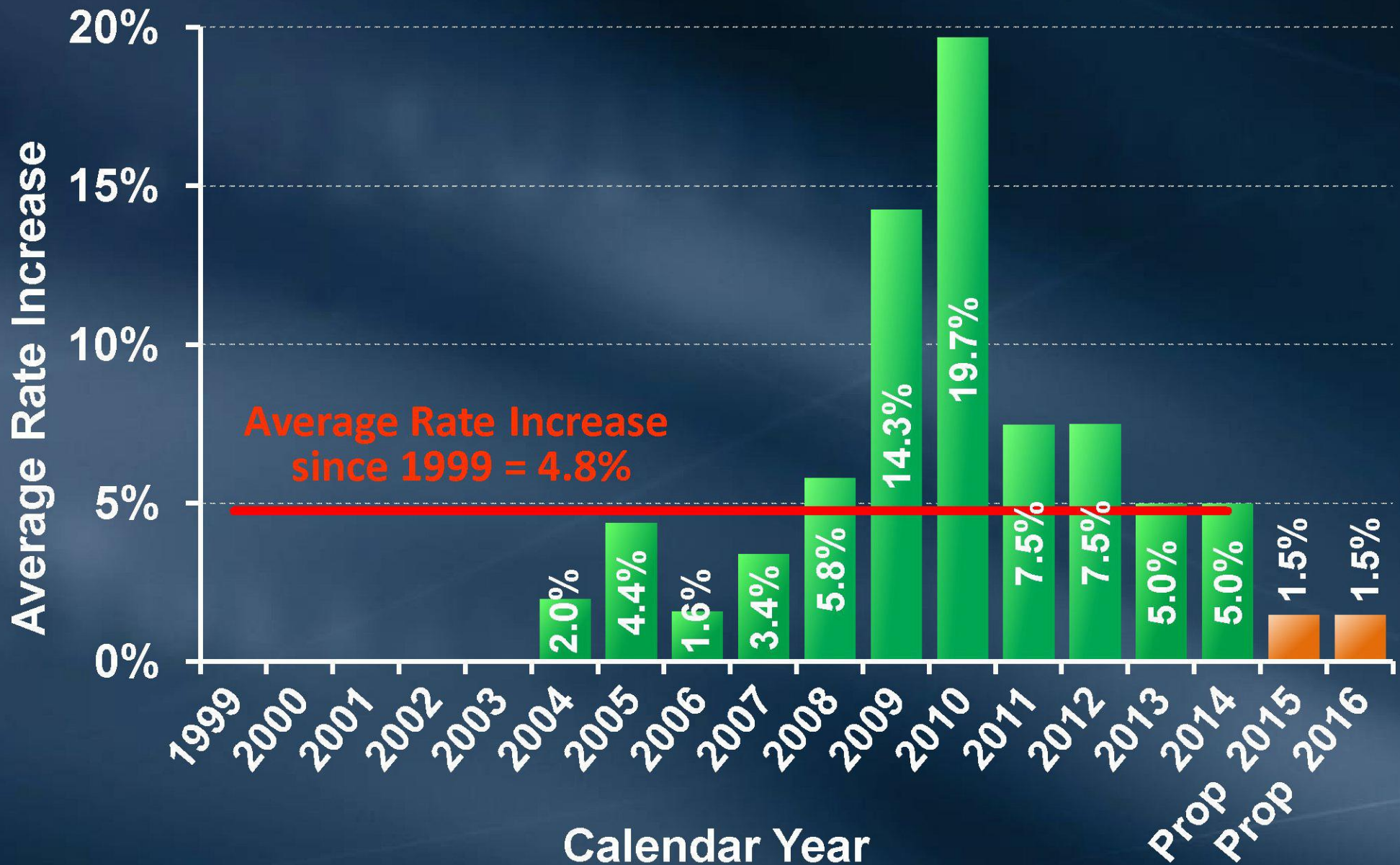
Water Management Fund

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

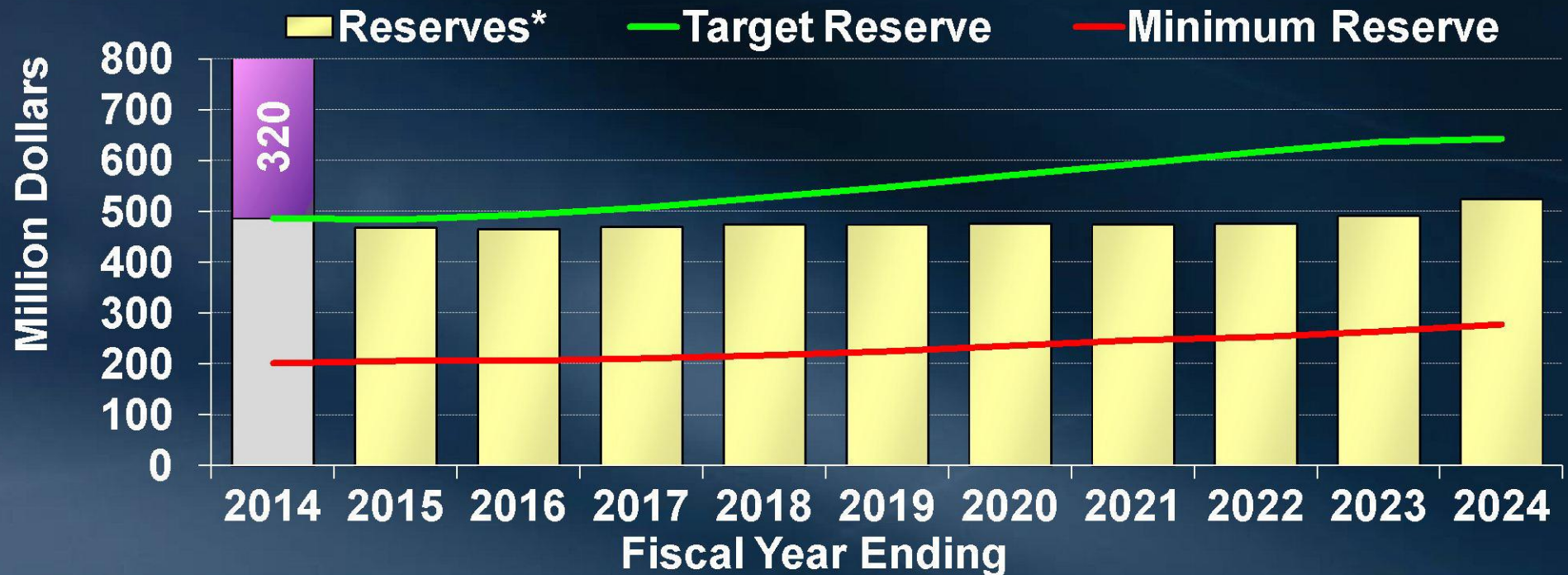
Overall Rate Increases Since 2005



Overall Rate Increases Since 1999



Projected Rate Increases & Financial Metrics

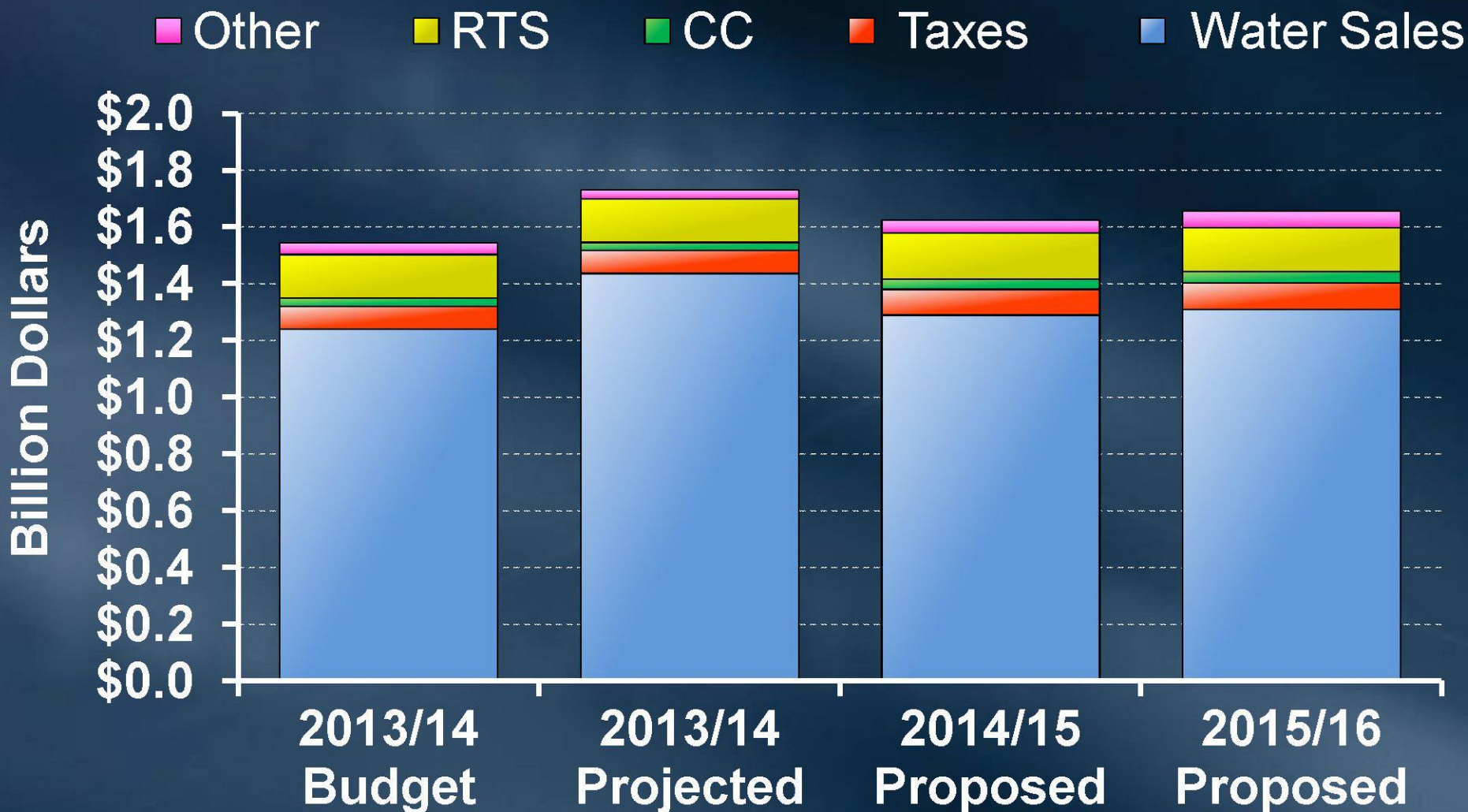


Ave Rate Inc.	5%	1.5%	1.5%	3%	3%	4%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	245	221	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	2.0	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0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

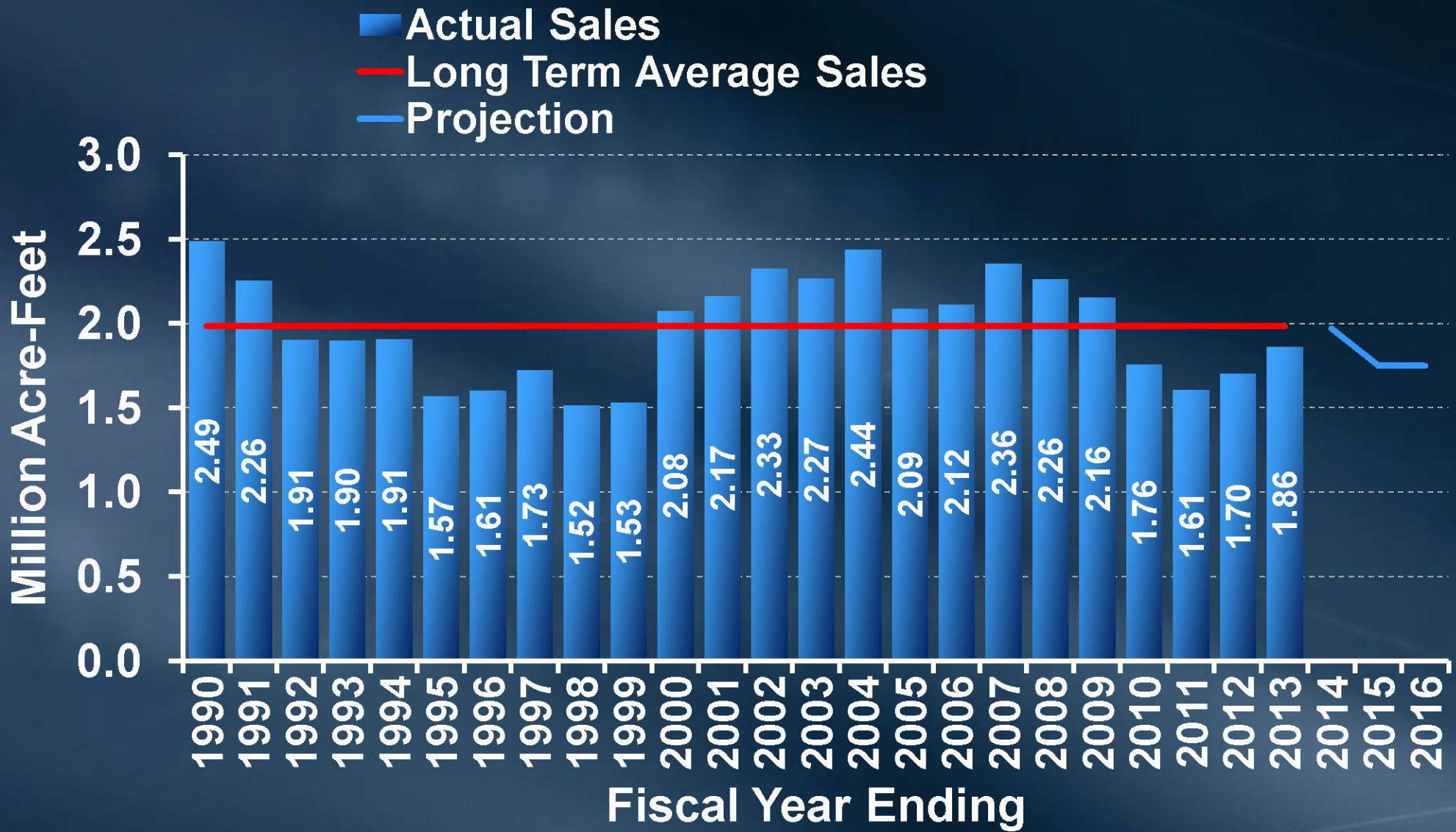
* Revenue Remainder & WRSF

Proposed Biennial Budget

Revenue Trend



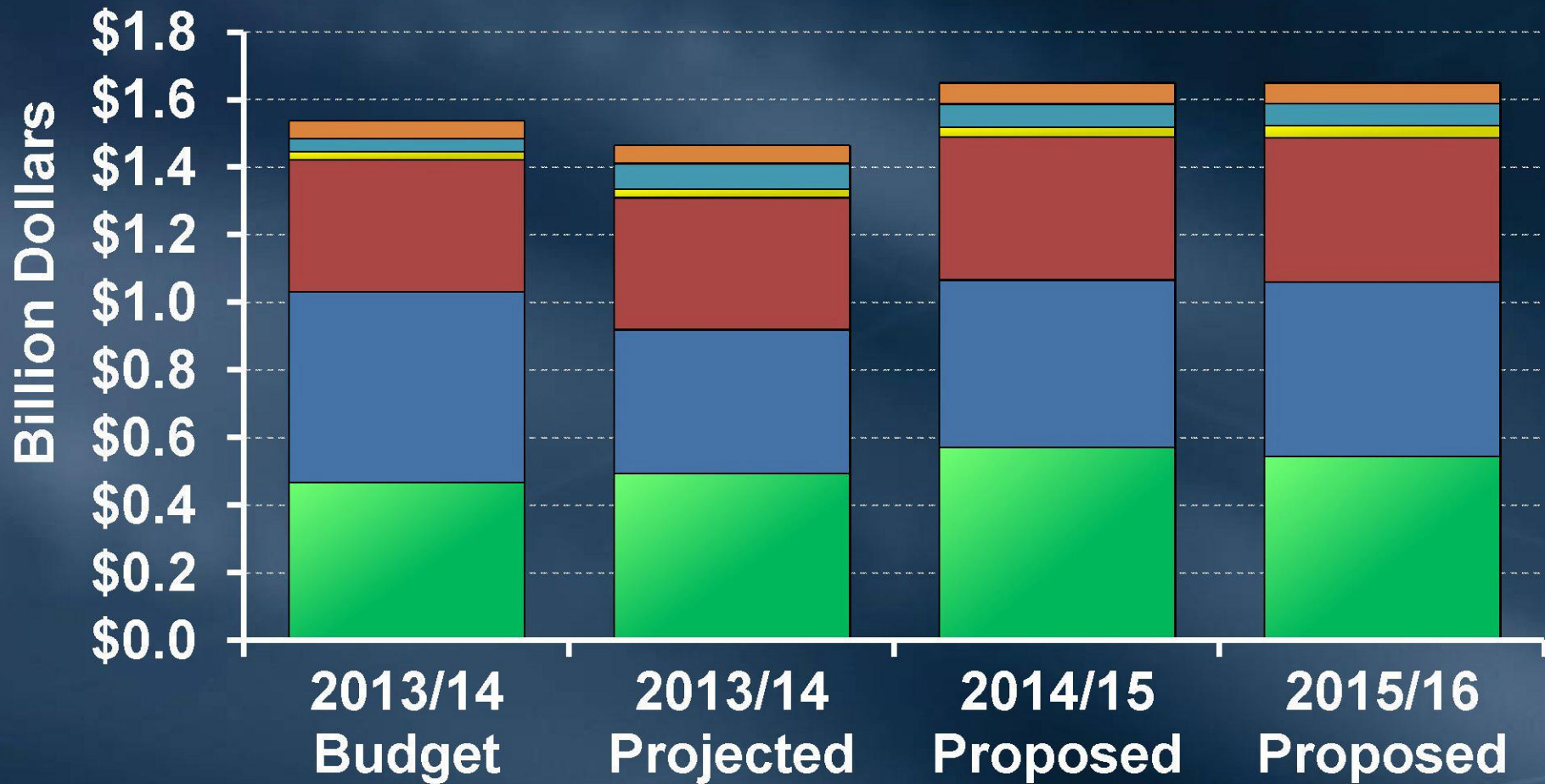
Water Sales*



* Includes Exchange/Wheeling

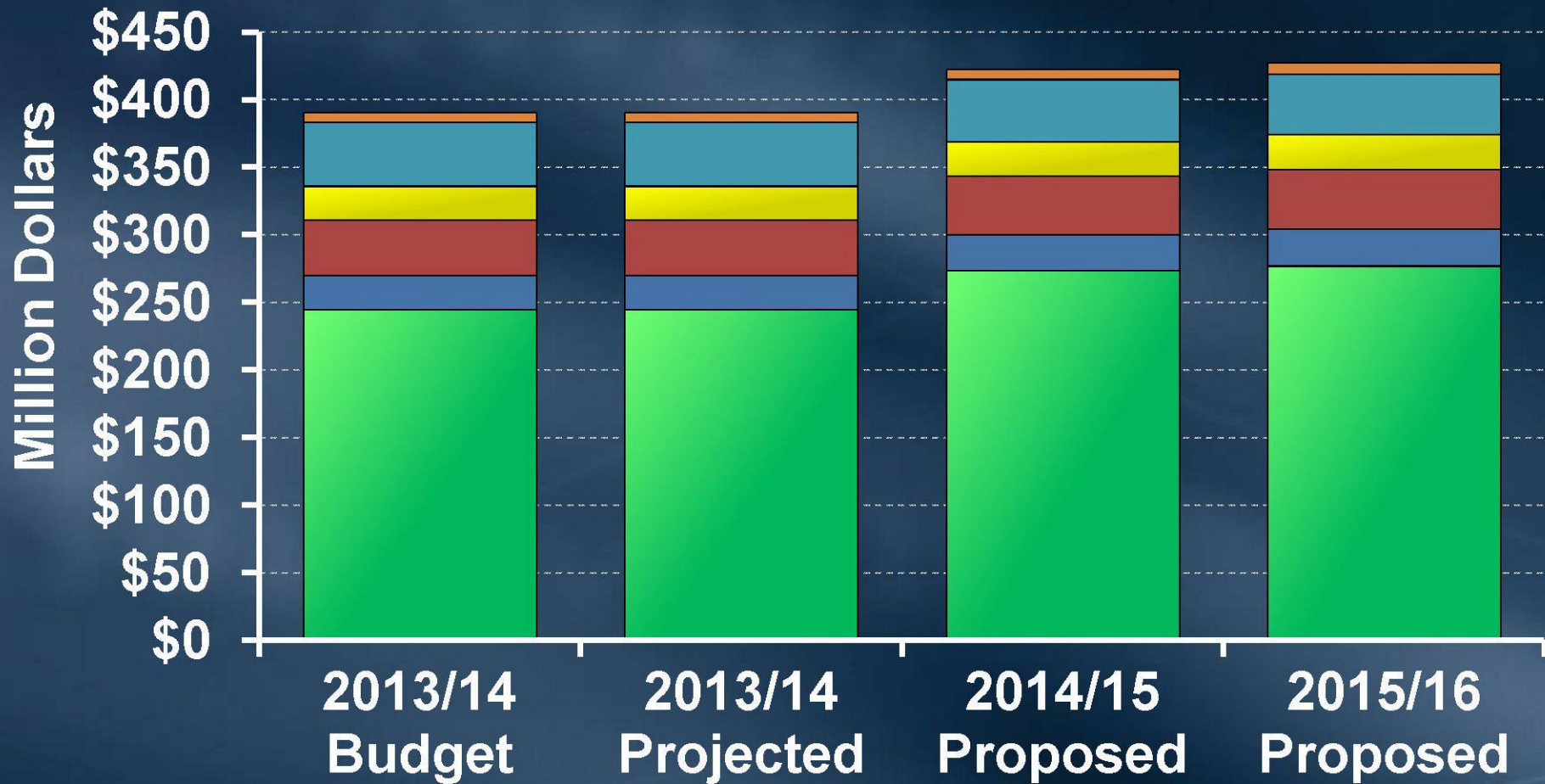
Expenditure Trend

- 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>

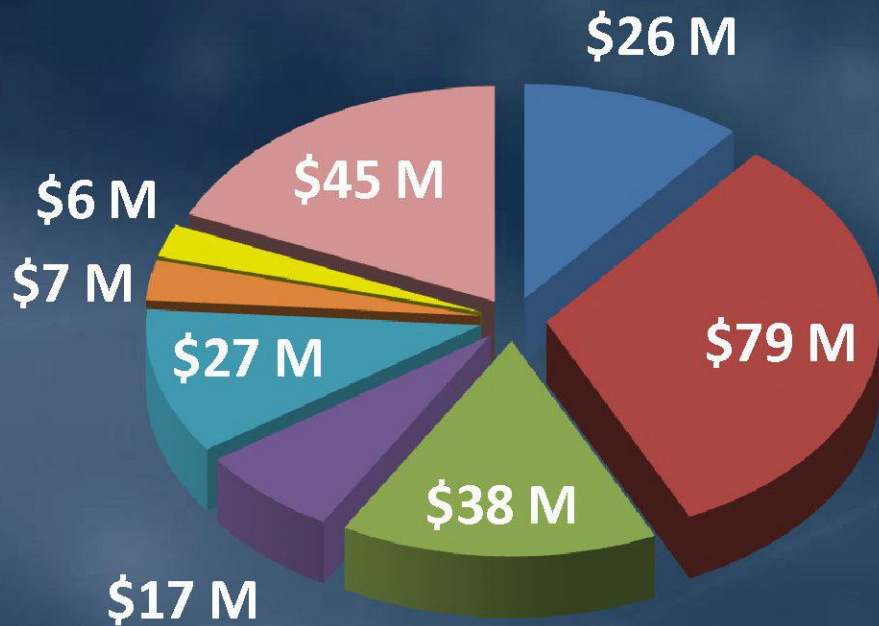
Budgeted Regular Positions

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

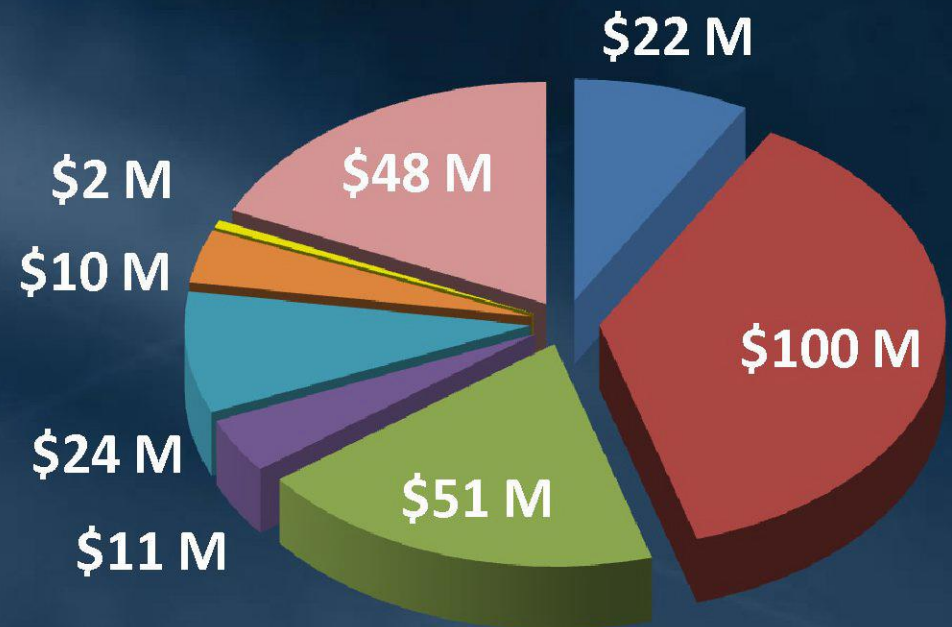
Capital Investment Plan (CIP)

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

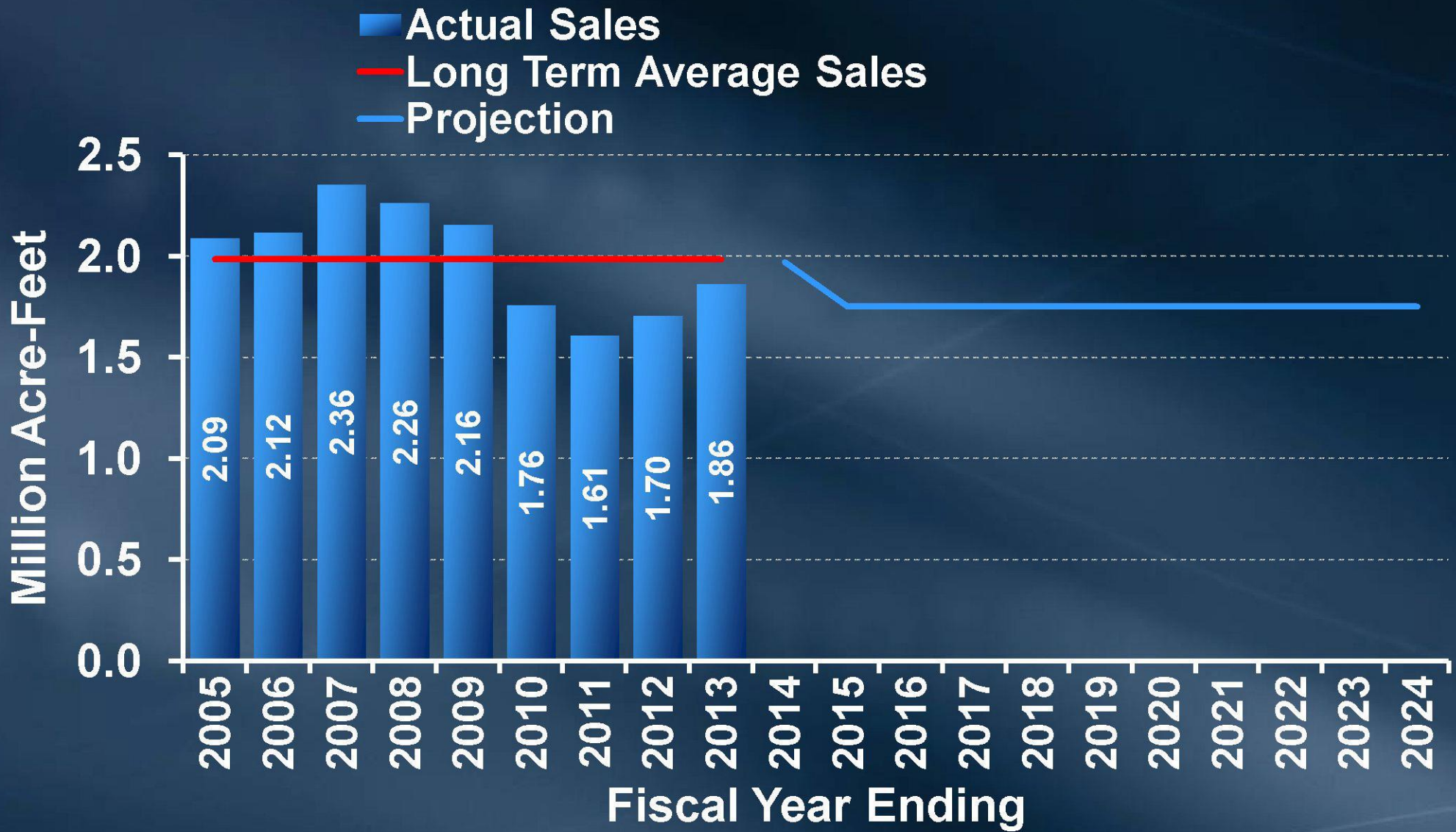
Projected Rate Increases & Financial Metrics



Ave Rate Inc.	5%	1.5%	1.5%	3%	3%	4%	5%	5%	5%	5%	5%
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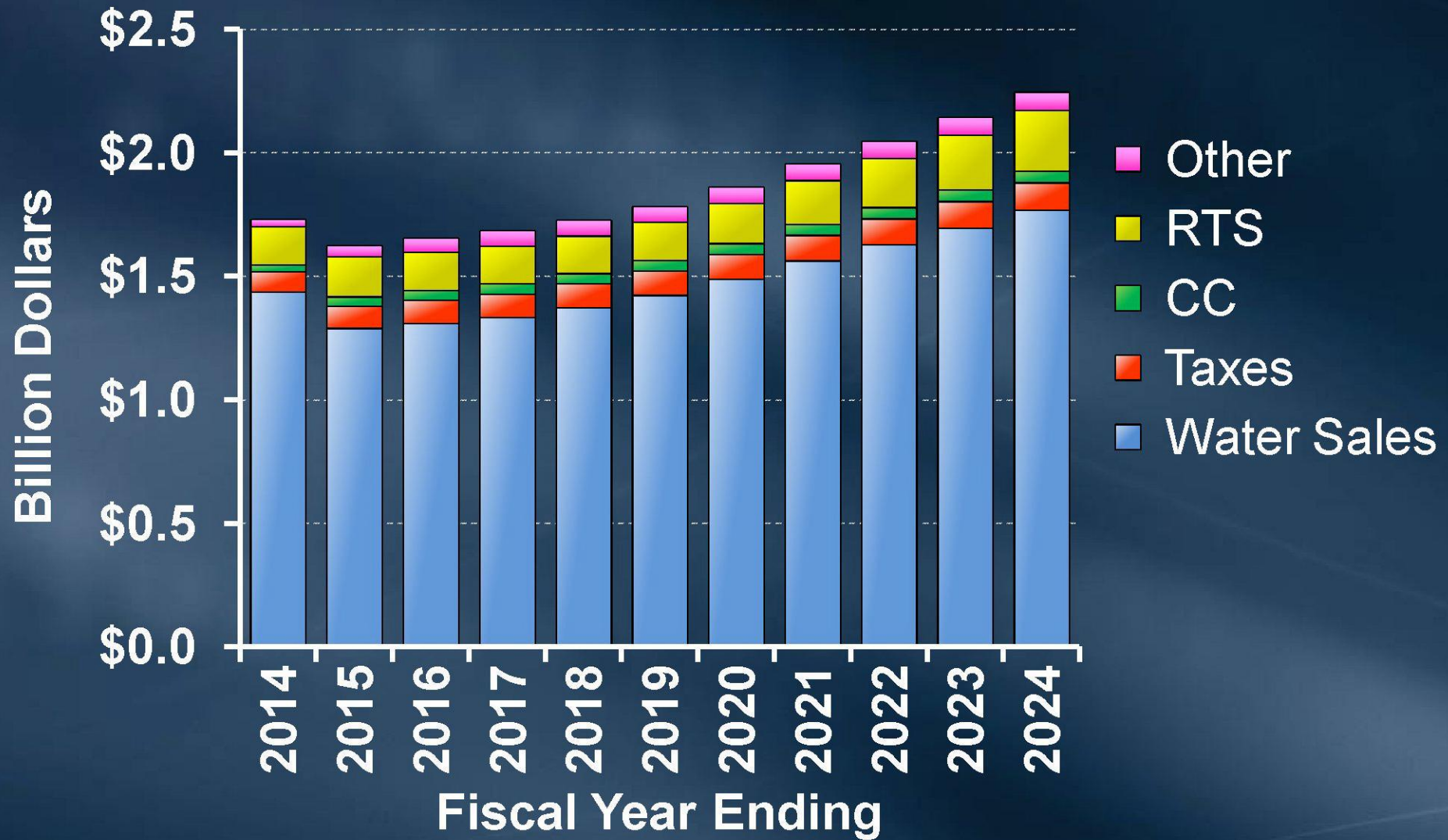
* Revenue Remainder & WRSF

Water Sales*

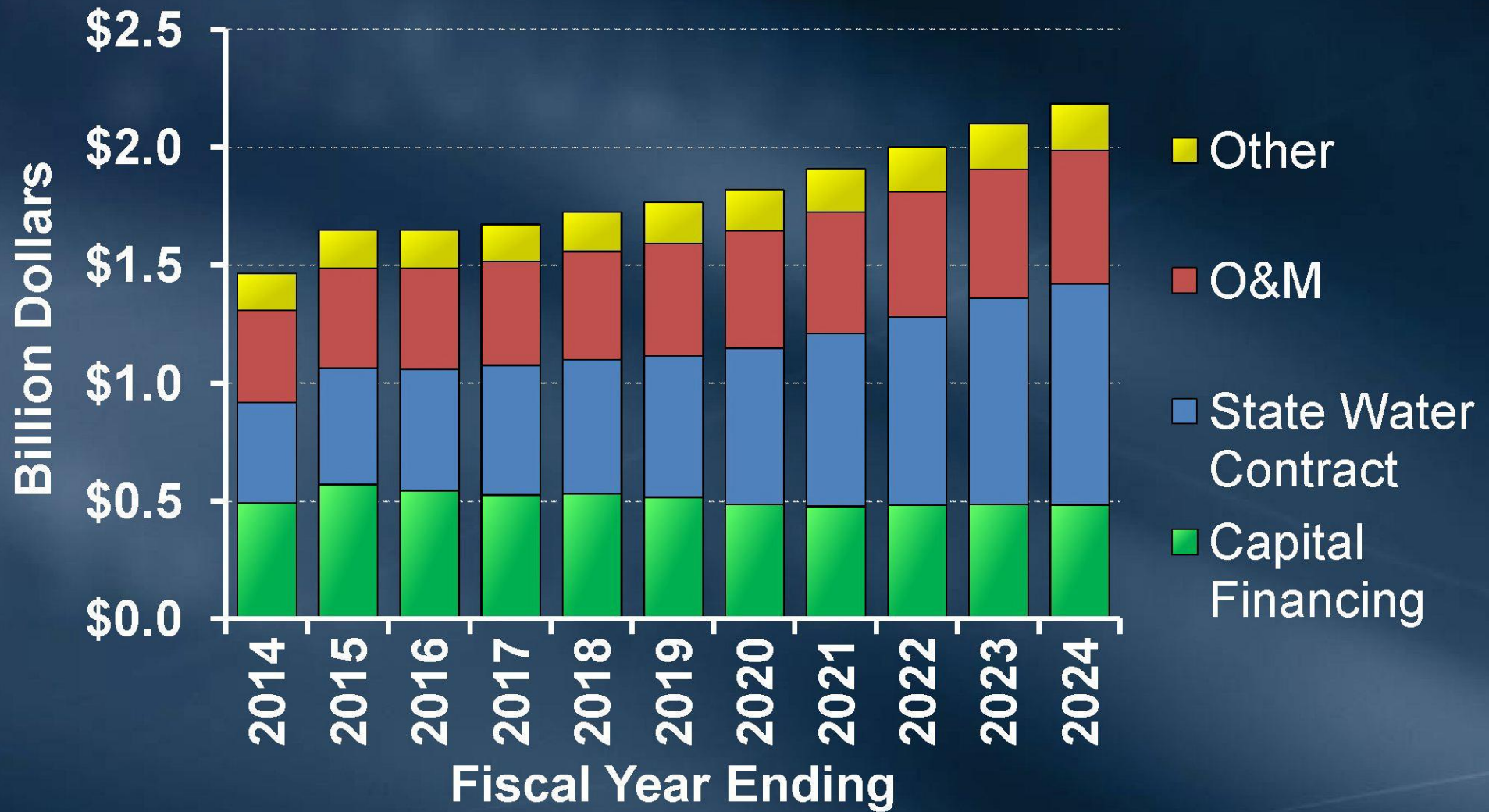


* Includes Exchange/Wheeling

10-Year Revenue Trend



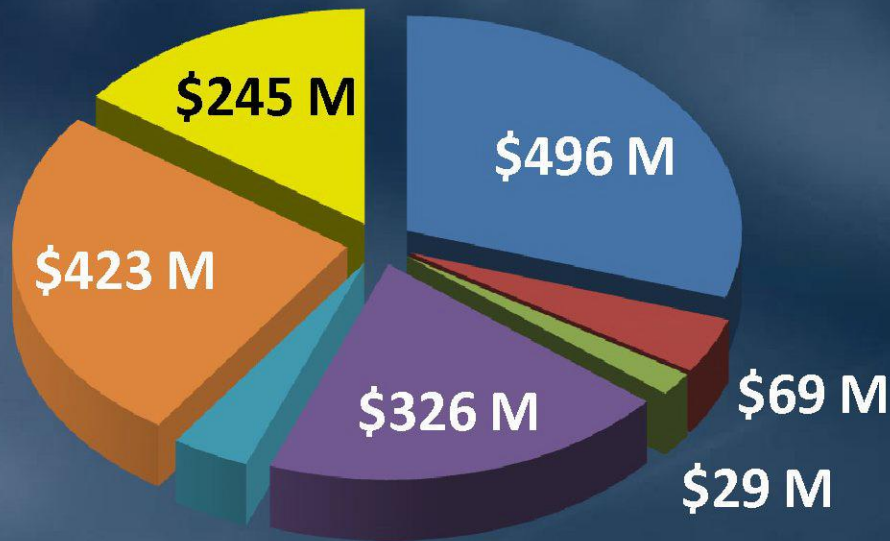
10-Year Expenditure Trend



Expenditure Trend

FY 2014/15 - \$1.65 B

FY 2023/24 - \$2.31 B

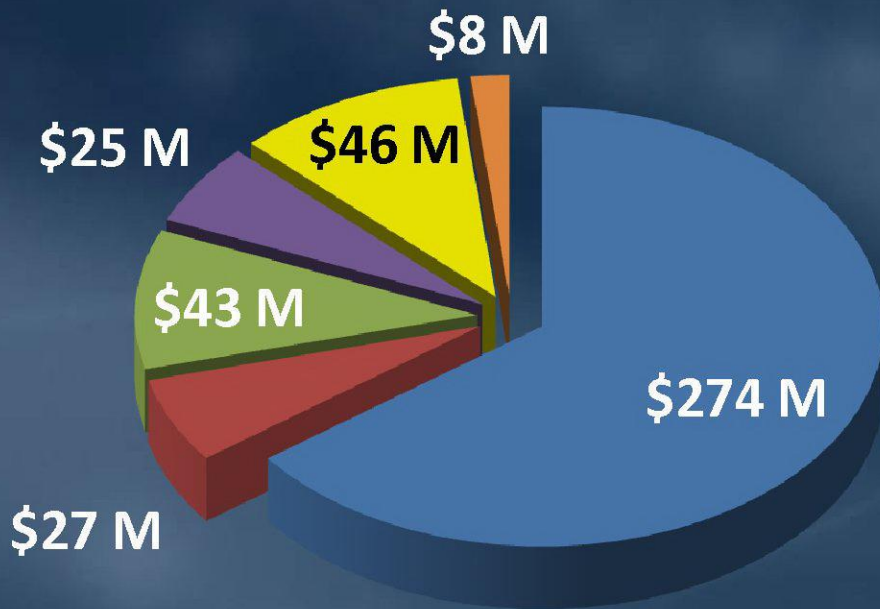


- State Water Contract
- Colorado River Power
- Demand Management
- CIP

- Supply Programs
- Debt Service
- O&M

O&M Budget Trend

FY 2014/15 - \$423 M



FY 2023/24 - \$567 M



■ Salary & Benefits

■ Variable Treatment

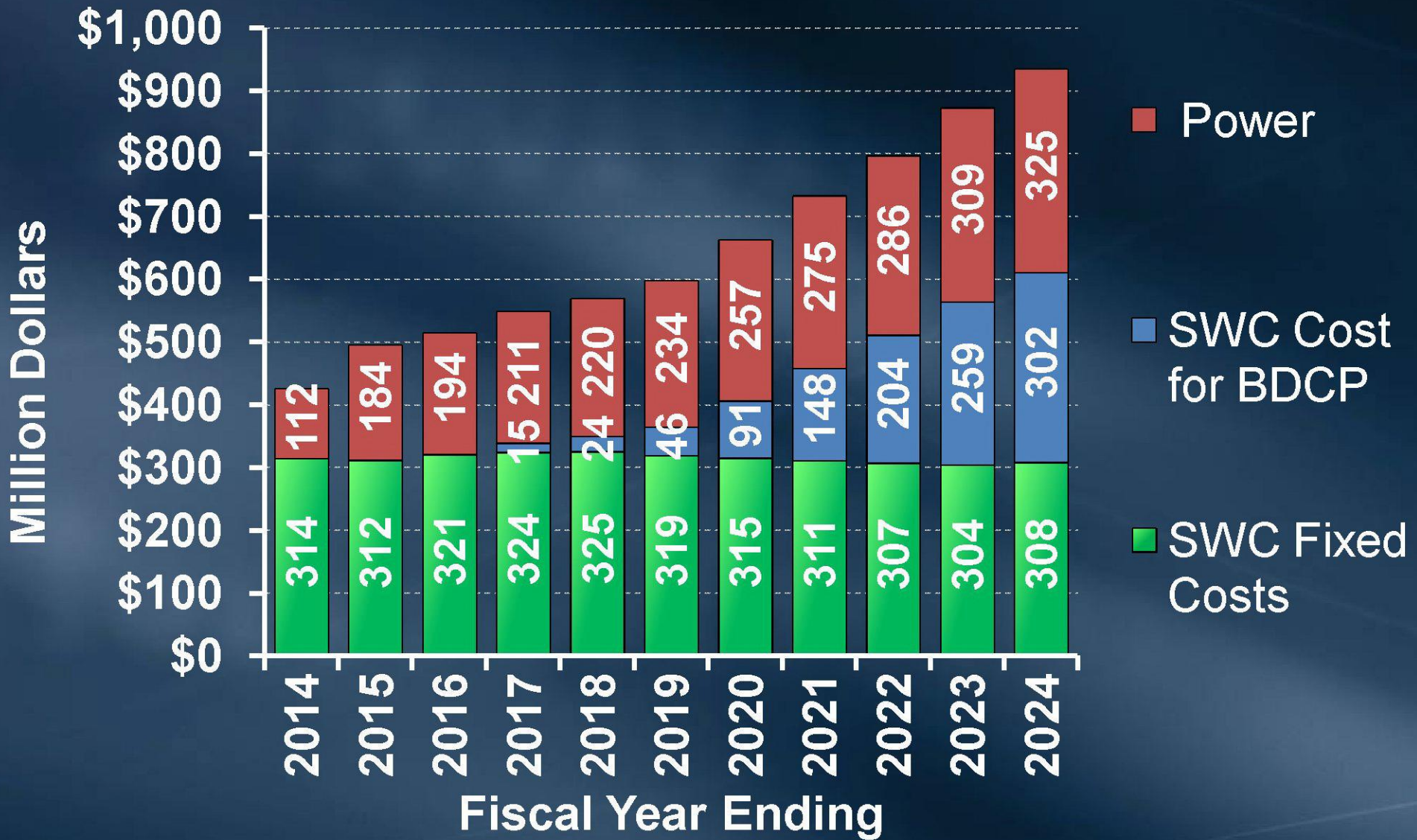
■ Outside Services

■ Materials & Supplies

■ Other

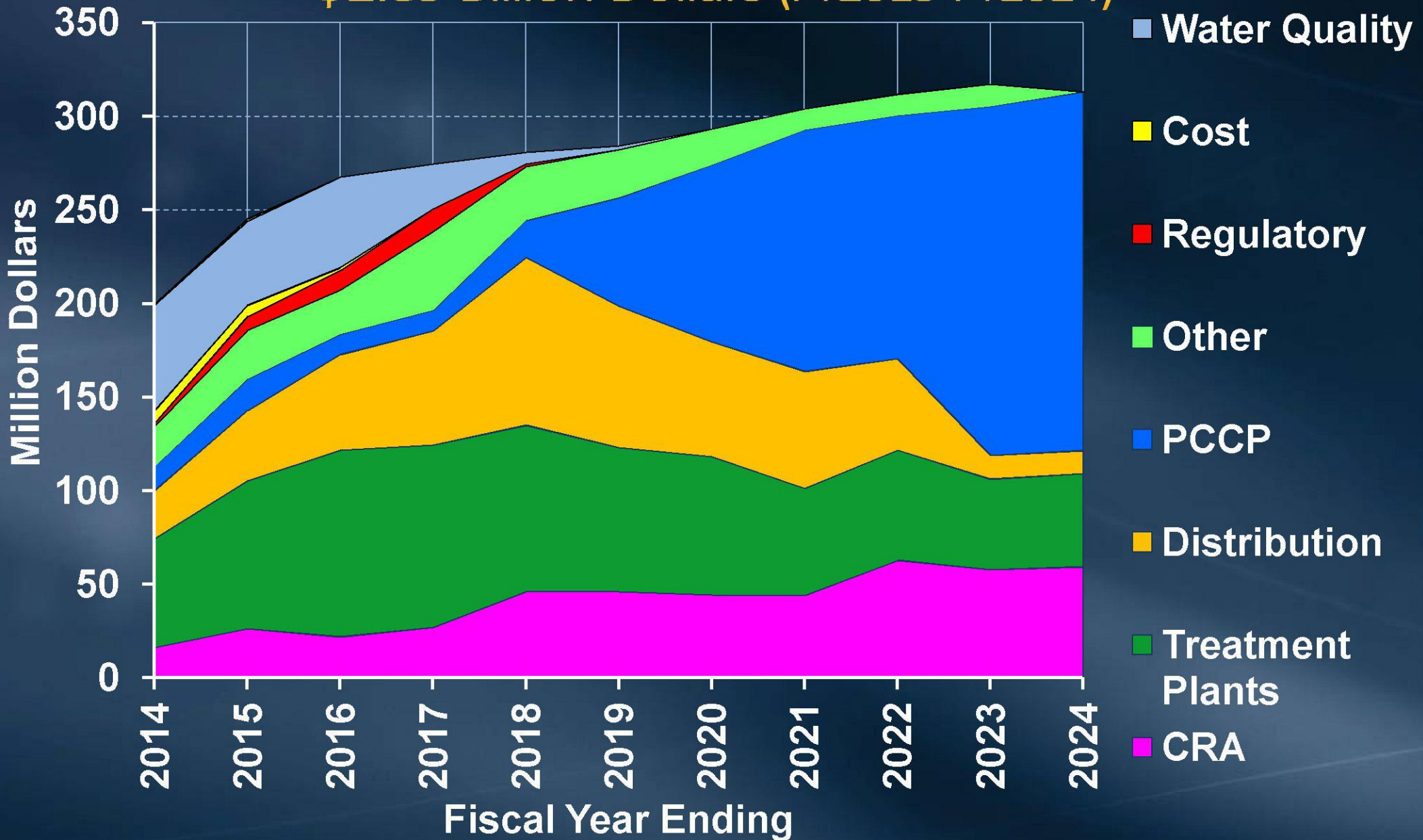
■ Operating Equipment

SWC Forecast

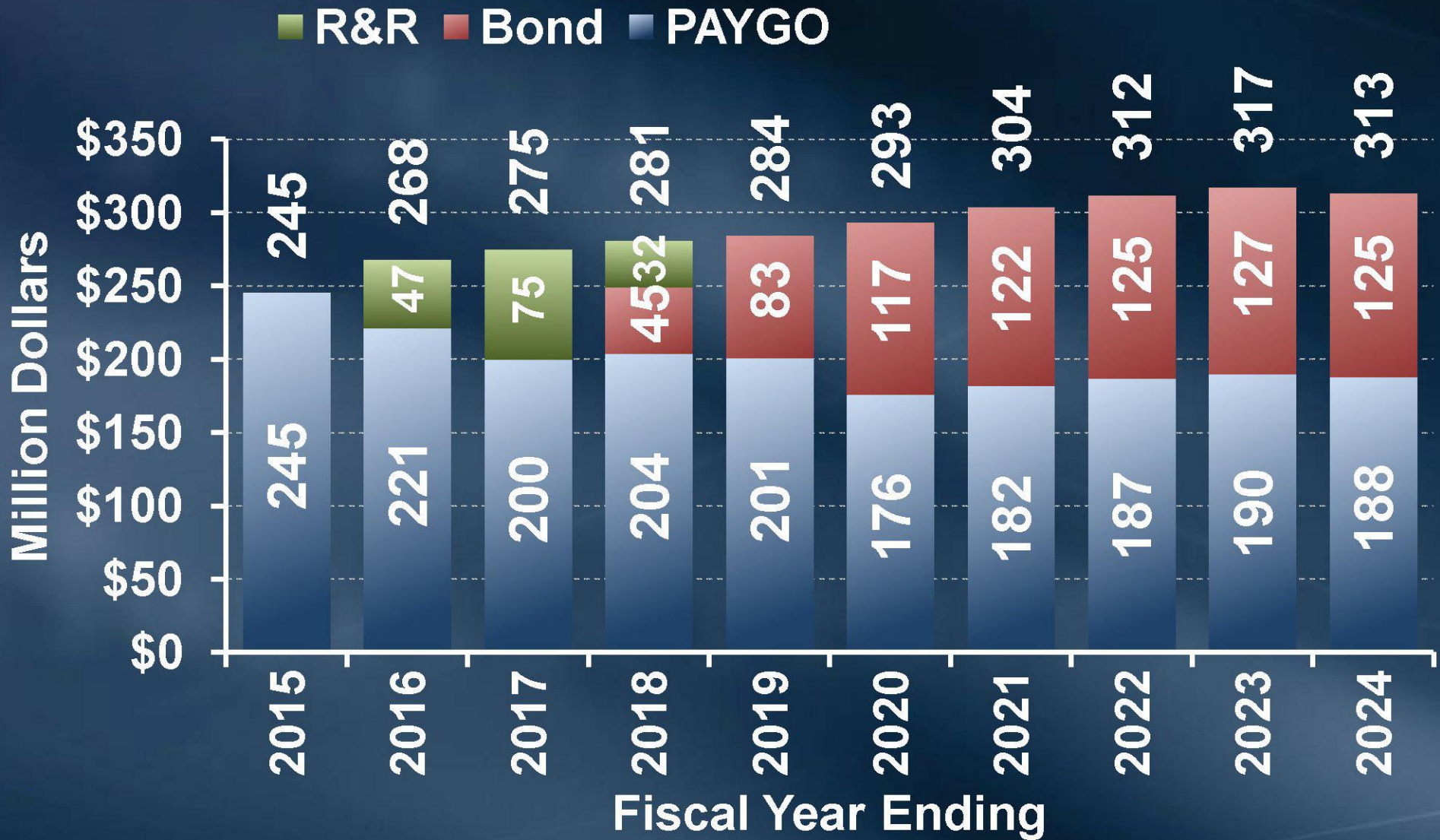


10 Year Capital Investment Plan

\$2.89 Billion Dollars (FY2015-FY2024)



Capital Investment Plan Funding



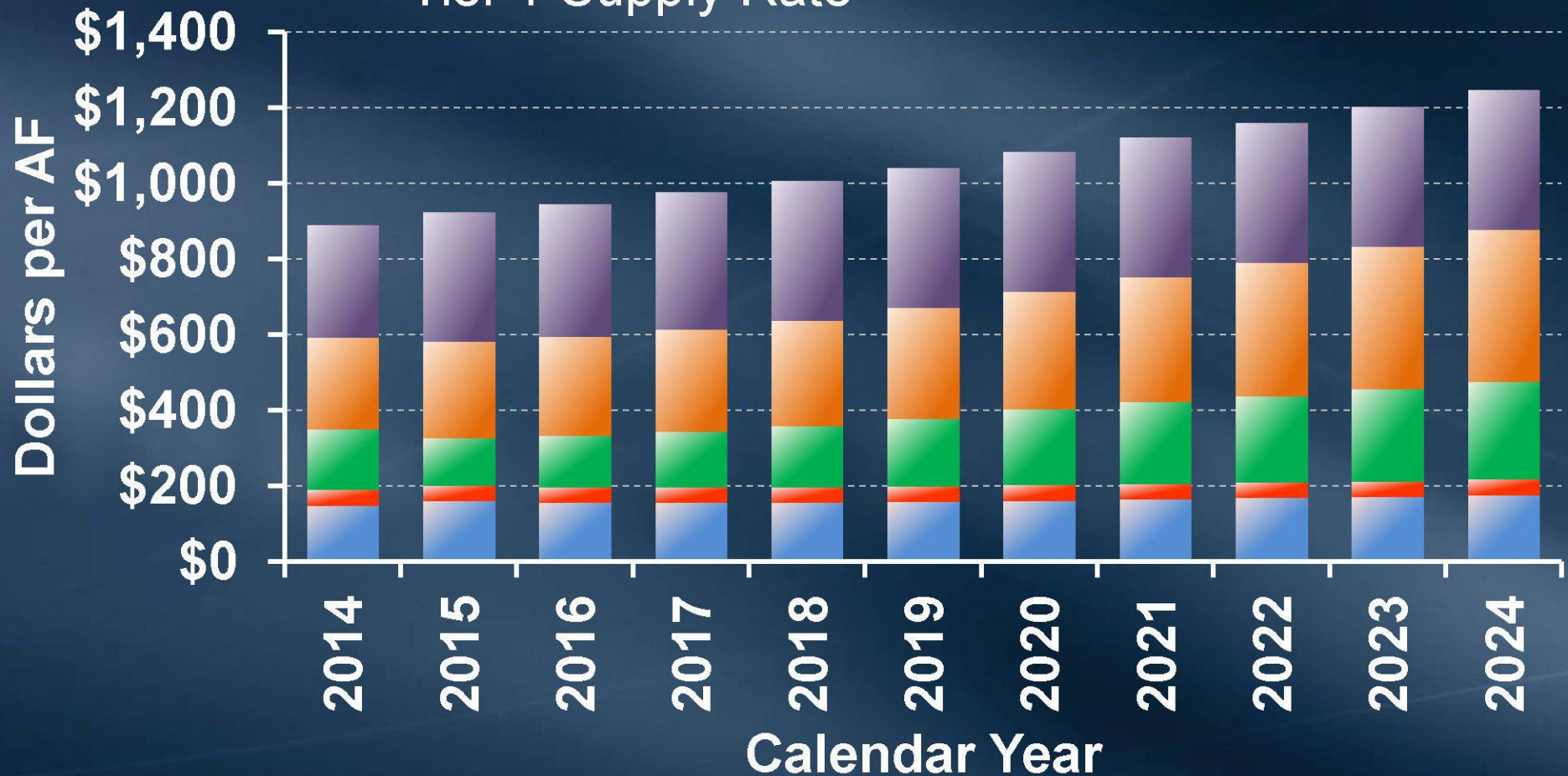
MWD Debt Service

- 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.

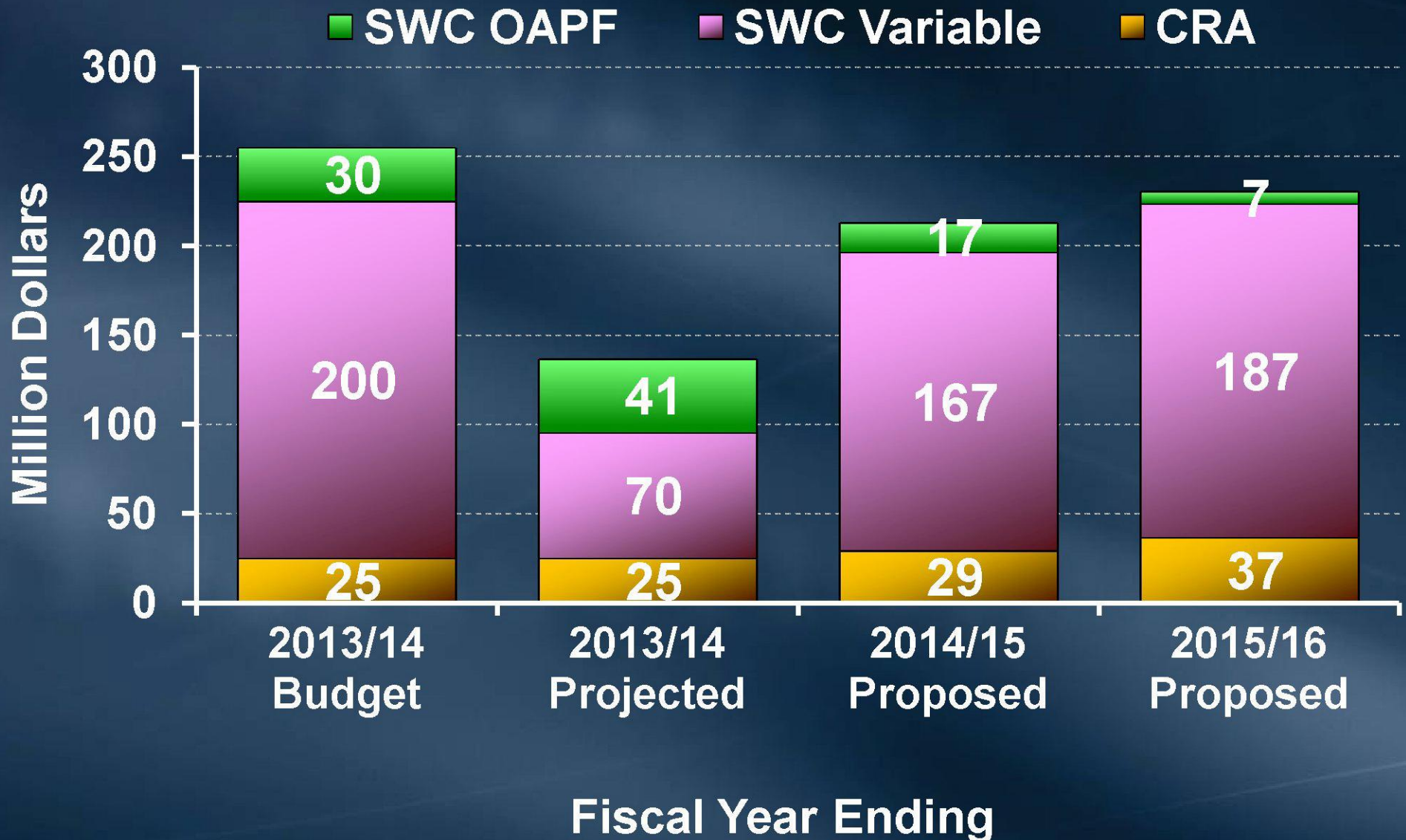
Proposed Rate Elements

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

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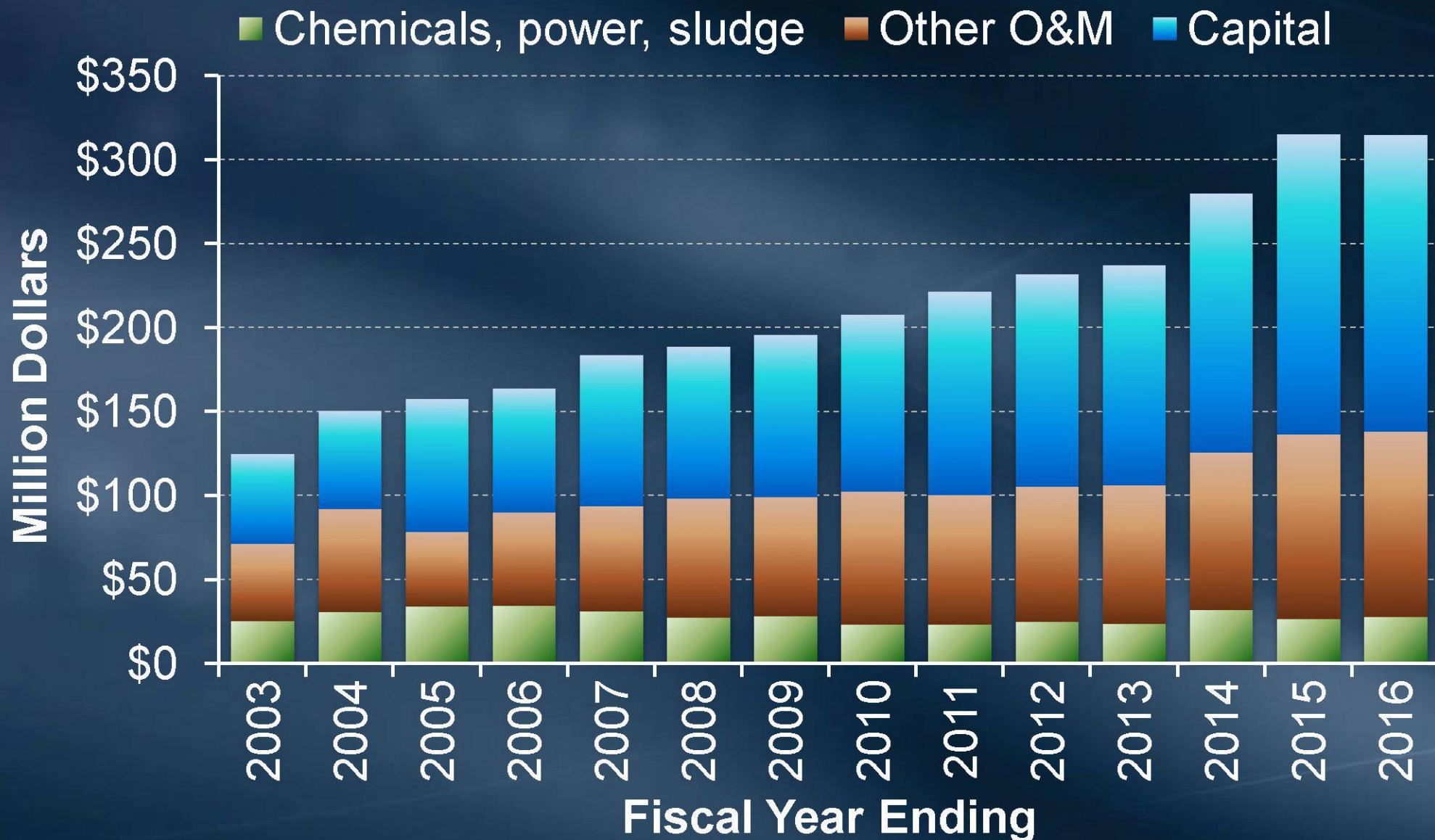
Power Costs



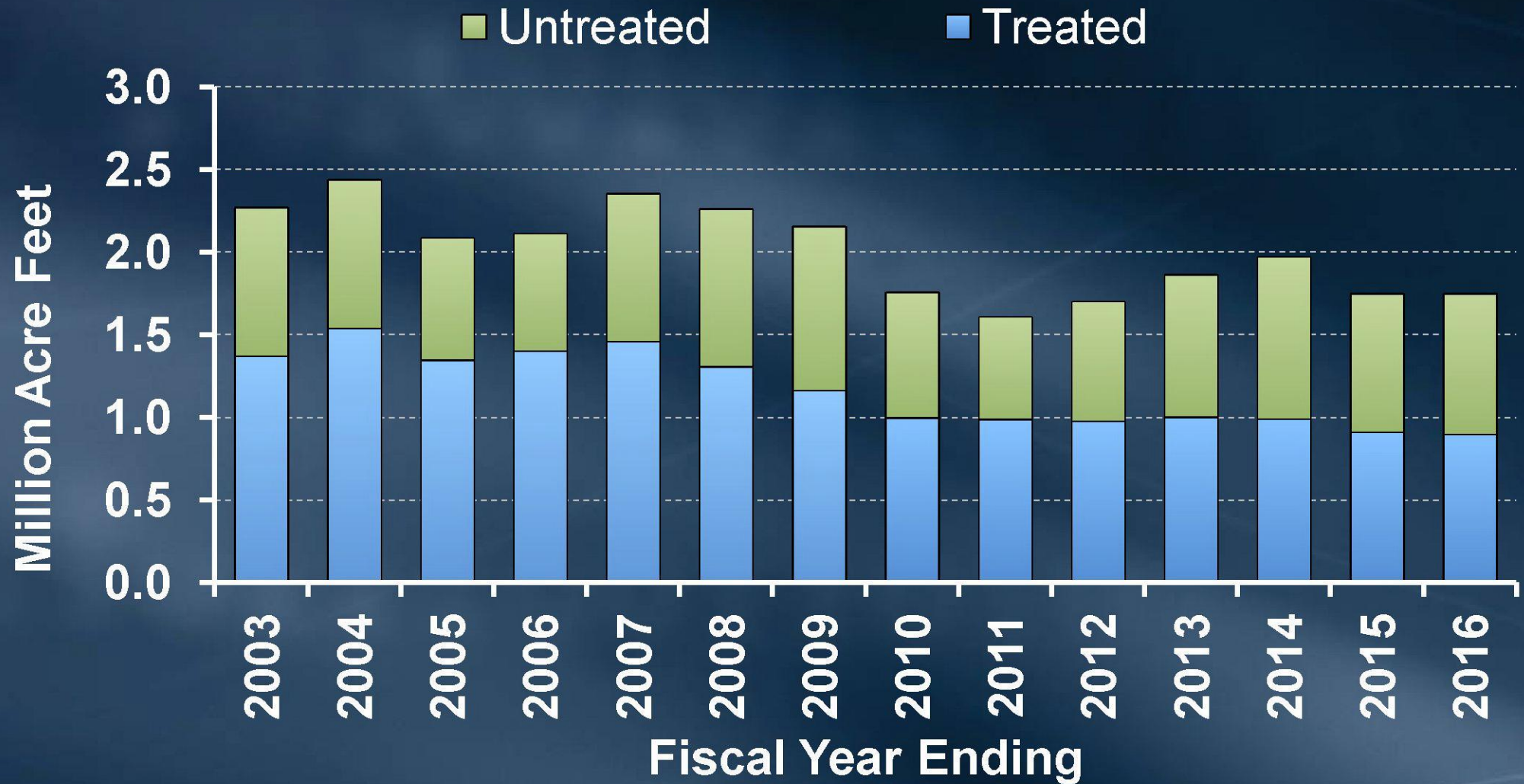
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Treated Water Costs Continue to Increase Comprise $\approx 20\%$ of Revenue Requirements

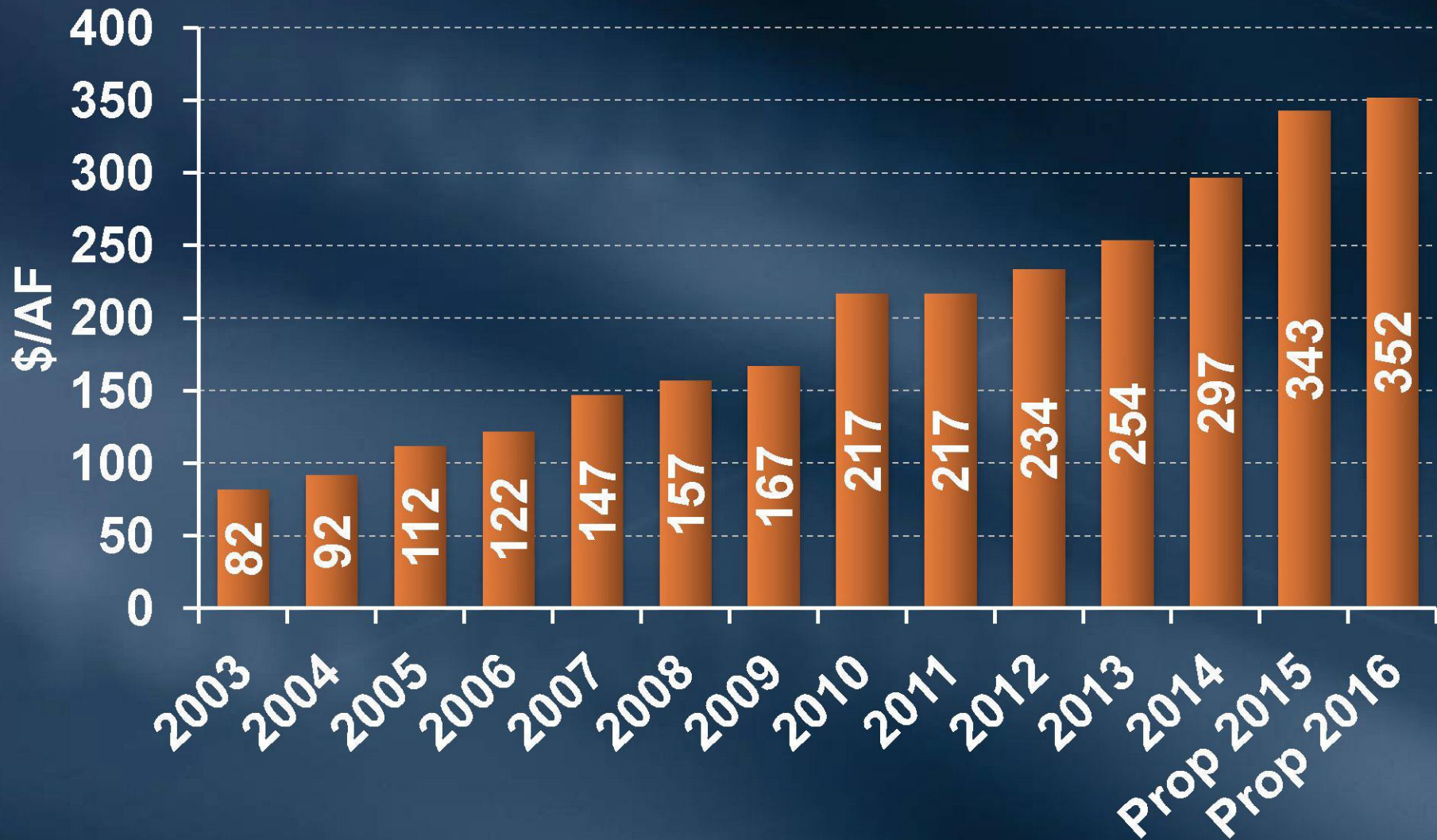


Treated Sales/Exchange are Decreasing



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

Treatment Surcharge Trend is Upward



Effective January 1

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Budgeted Regular Positions

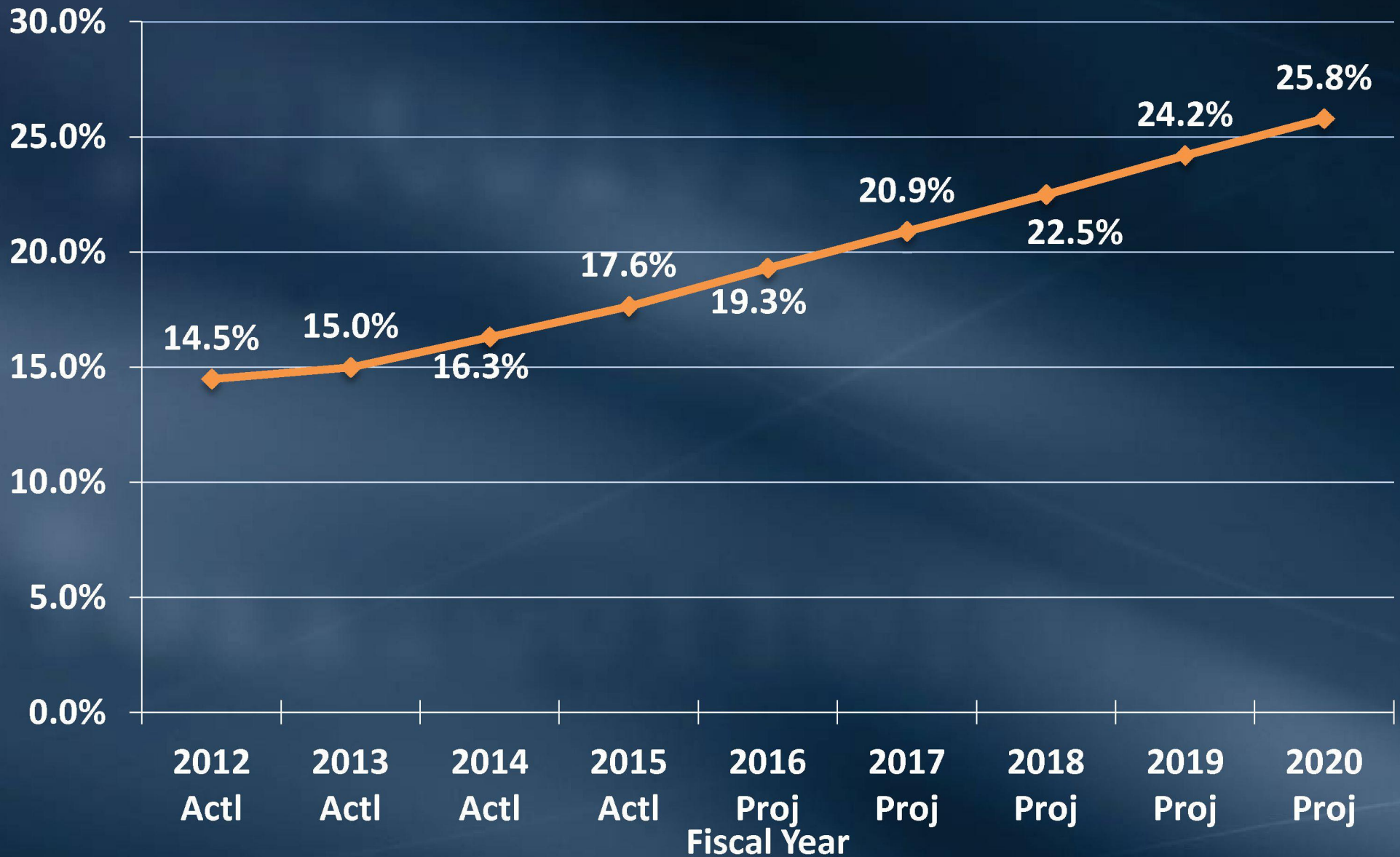
2013/14 budgeted regular positions	1,780
Refunded Capital Positions	28
Succession Planning	11
Bay Delta Conservation Plan (BDCP)	2
WSO Engineers	3
	<hr/>
Total position increase	44
	<hr/>
2014/15 budgeted regular positions	1,828
Eliminated positions	(1)
	<hr/>
2015/16 budget regular positions	1,827

O&M Bay Delta Conservation Plan (BDCP)

Budget (in millions)	2014	2015	2016
Labor	\$ 6.2	\$ 8.6	\$ 8.9
Other*	3.2	3.5	3.6
Total	<u>\$ 9.4</u>	<u>\$ 12.1</u>	<u>\$ 12.5</u>
Net increase		\$ 2.5	\$ 0.5
FTEs	28	35	35

* *Professional Services, travel, inspection trips, other*

PERS Employer Contribution Rate

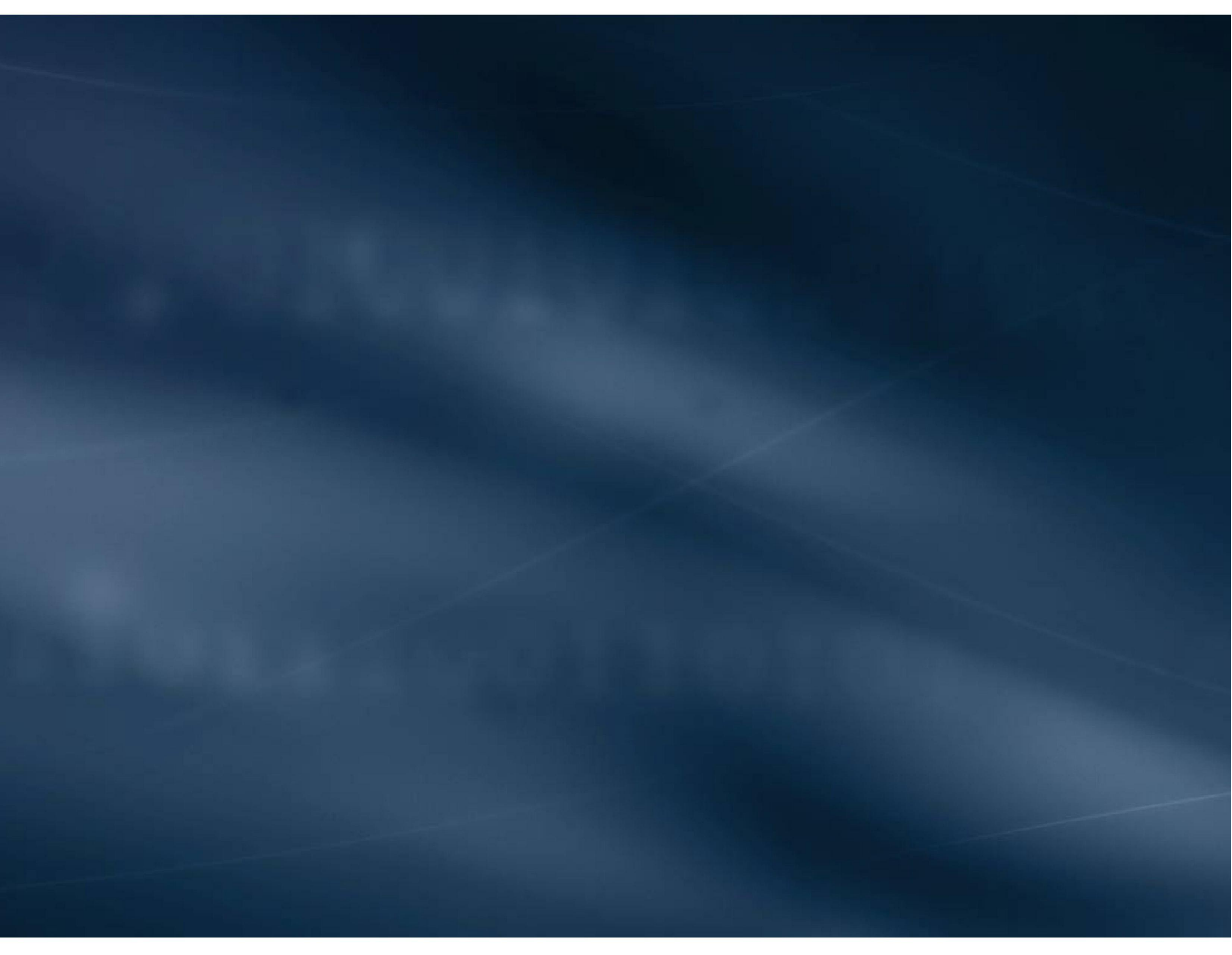




BACK UP SLIDES

Personnel Budget Status

Personnel Type	2014	2015	2016
Authorized Personnel	1,904	1,905	1,904
Less: Temporary Employee FTEs	(23)	(19)	(19)
Authorized Regular Employee Positions	1,881	1,886	1,885
Less: Unfunded Positions	(27)	(3)	(3)
Vacant Capital Positions	(28)	-	-
O&M Vacancy Rate	(46)	(54)	(54)
Subtotal of unfunded regular positions	(101)	(57)	(57)
Net budgeted regular positions	1,780	1,828	1,827
Increase in budgeted positions		44	



Impact of Supply Conditions on Power Costs

Assumptions

Calendar Year Ending	2014	2015
CRA pump load	8 pumps	7 pumps
CRA deliveries	1.185 MAF	.940 MAF
State Water Project Allocation	5%	25%

Results of Lower SWP Allocation

- Greater use of CRA to move water into the service area
- Continued use of Storage Programs in CY 2015
- In FY 2014/15 and FY 2015/16, SWP power costs are lower but CRA power cost are higher
 - FY 2014/15 reduction of approximately \$39M
 - FY 2015/16 reduction of approximately \$20M
- Costs to refill storage will be significant
- Costs less than budget could be set aside in the Water Management Fund to offset future storage refill costs

Rate Alternatives

- Option 1: Updated Proposed: 1.5% / 1.5%
 - Smoothed supply program expenditures
 - Lowered retiree medical due to updated actuarial
- Option 2: do not fix AV Tax rate
- Option 3: 0% / 1.5%
 - Lowered rate funded capital (PayGo)
 - \$7 M in FY2015 to \$238 M
 - \$21 M in FY2016 to \$200 M
 - Increased draw on R&R Fund by same amount

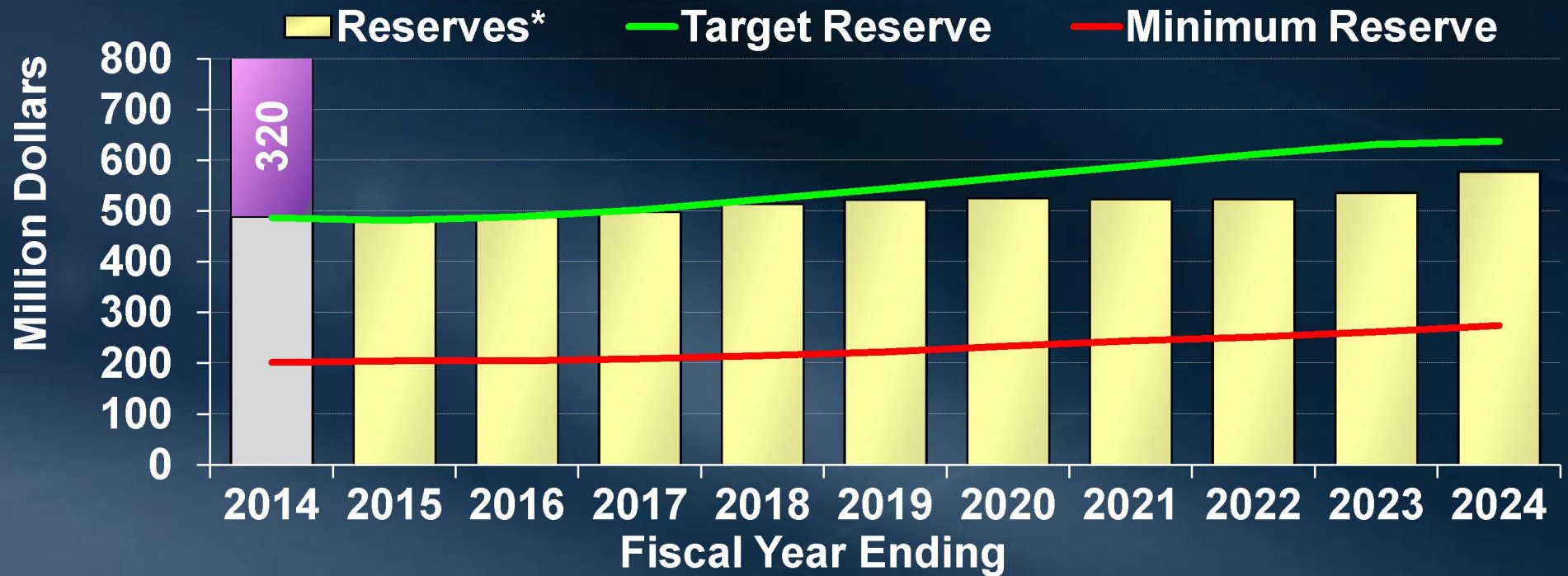
Proposed



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
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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

Updated Proposed



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
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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

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 (\$/cfs)	\$8,600	\$11,100	\$10,900

Updated 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%

Option 2: do not fix AV Tax rate

Option 2: do not fix AV Tax rate

Rate Elements

Rates and Charges Effective January 1			
	2014	2015	2016
	Approved	Proposed	Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$161	\$162
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$264	\$274
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$126	\$140
Treatment Surcharge (\$/AF)	\$297	\$340	\$352
Readiness-to-Serve Charge (\$M)	\$166	\$171	\$170
Capacity Charge (\$/cfs)	\$8,600	\$11,200	\$11,100

Option 2: do not fix AV Tax rate

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%

Option 3: 0% / 1.5%

Option 3: 0% and 1.5%

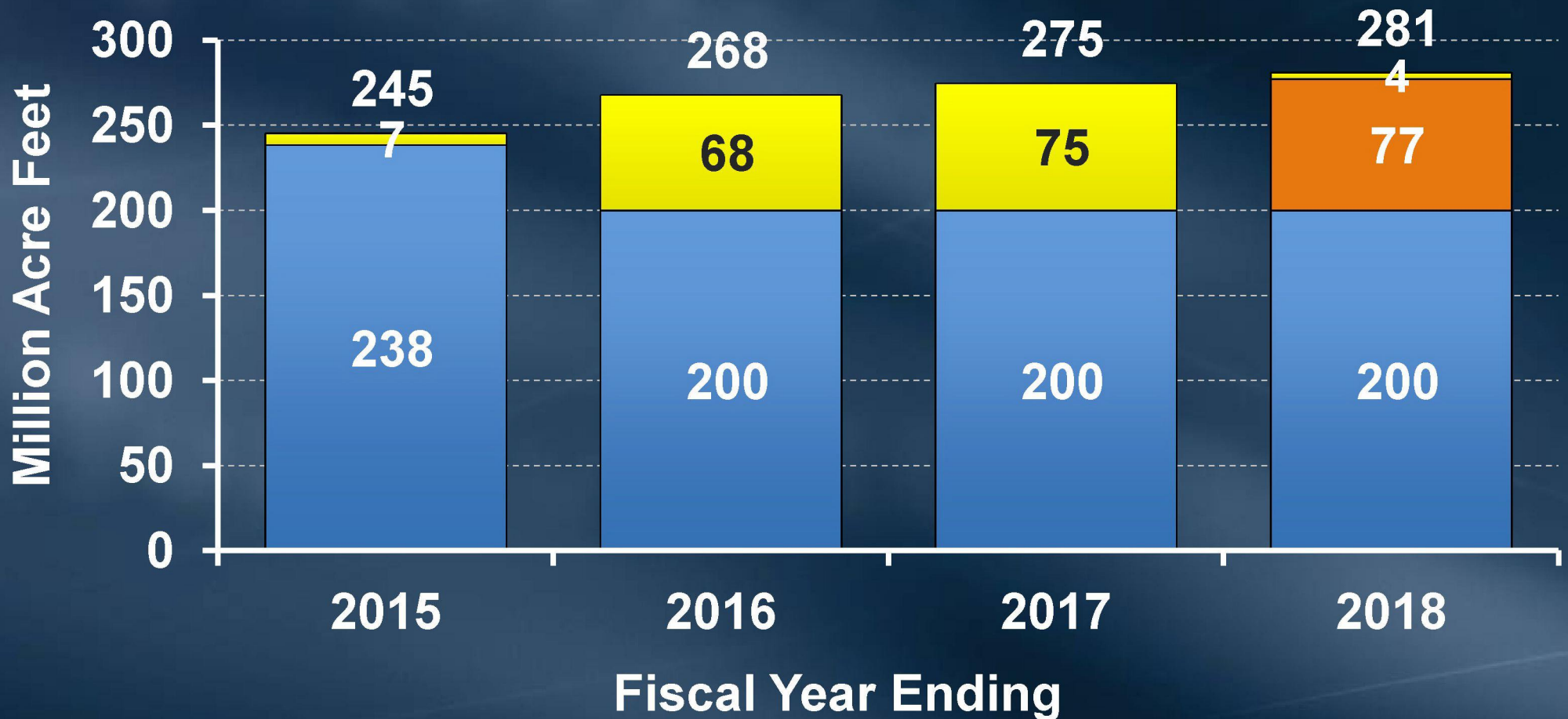


Ave Rate Inc.	5%	0%	1.5%	3.5%	3.5%	4%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	238	200	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	1.9	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0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

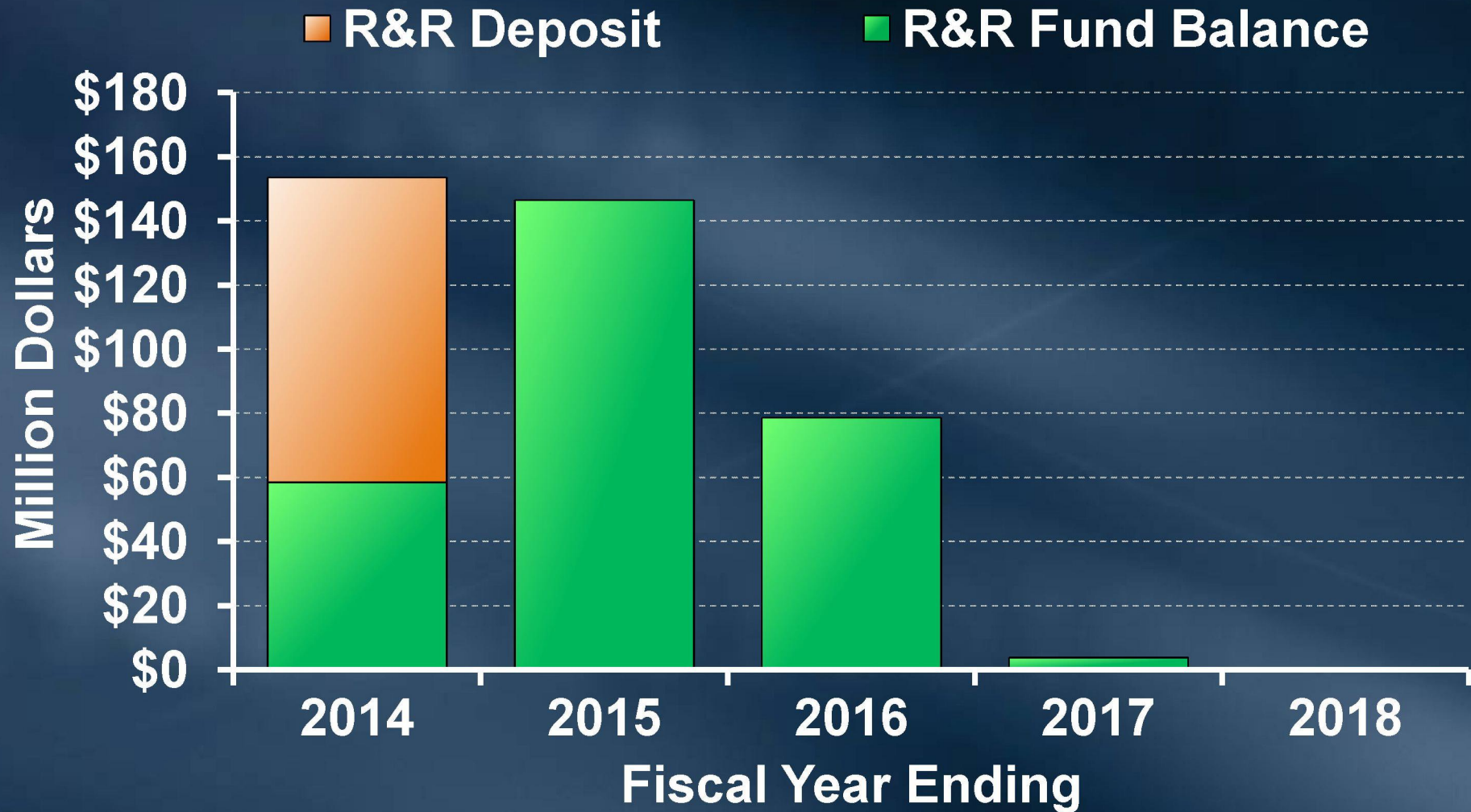
Option 3: 0% and 1.5% Capital Investment Plan Funding

■ R&R Fund ■ Bonds ■ PAYGO



Option 3: 0% and 1.5%

Replacement & Refurbishment (R&R) Fund



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

Option 3: 0% and 1.5% Rate Elements

Rates and Charges Effective January 1			
	2014 Approved	2015 Proposed	2016 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 (\$/cfs)	\$8,600	\$10,900	\$10,500

Option 3: 0% and 1.5%

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%