



Items 8-1 & 8-2 Proposed 2010/11 Budget and Rates and Charges

**Business and Finance Committee
April 12, 2010**

2010/11 Budget and Rate Development Schedule

- December 11: Member Agency Managers
 - Preliminary budget and rates & charges first presented
- December 30 : Initial budget letter transmitted to the Board
- January 12: Business and Finance Committee
 - Reviewed draft budget proposal
 - Reviewed projected 2010/11 revenue requirement
 - Reviewed 2011 rate increase

2010/11 Budget and Rate Development Schedule

- January 26: Board Budget Workshop #1
 - Reviewed proposed district-wide budget and rates
 - Focus on sensitivities of rate scenarios
- February 8th & 9th: Committee Meetings
 - Reviewed group budgets in each committee
- February 16: Board Budget Workshop #2
 - Follow-up from first workshop on budget
 - Detailed review of Departmental O&M costs
 - Continued discussion of rate proposal

2010/11 Budget and Rate Development Schedule

- March 8th: Business and Finance Committee
 - Public hearing on proposed rates and charges
- March 23: Board Budget Workshop #3
 - Base case
 - Proposed budget – expenditures of \$1.5 billion funded from revenues
 - Rate increase of 12.4% in 2011
 - Scenario evaluations
 - Limit rate increases to 5% in 2011 and 3% thereafter
 - Rate increase of 9% in 2011
 - 200,000 acre-feet of lower sales

2010/11 Budget and Rate Development Schedule

- April 12th: Business and Finance Committee
 - Consideration and action on proposed 2010/11 budget and rates
- April 13th: Board meeting
 - Adoption of proposed 2010/11 budget and rates

Item 8-1: Proposed FY 2010/11 Budget

Budget Assumptions and Drivers

- Sales of 1.93 MAF in 2010/11
- SWP allocation of 35% in calendar 2010 and 40% in calendar 2011
- Colorado River diversions of 1.2 MAF
- 2010/11 Departmental O&M = \$338 million
- SWP costs = \$497 million
- 5-year CIP = \$1.8 billion
- Conservation Incentives at \$19.1 million (2009/10 level)
- Water supply costs of \$103 million

Summary of 2010/11 Budget

- Proposed budget expenditures – \$1.73 billion
 - Water sales of 1.93 MAF
 - Increased capital charges on SWP
 - Increased power to move water through SWP & CRA
 - Increased debt service
 - Increased Pay-As-You-Go funding of capital programs
 - Reduced capital program
 - Reduced departmental O&M
 - Reduced supply programs
- Proposed 2010/11 budget
 - \$83.5 million lower than projected in 2009/10
 - \$65.8 million lower than 2009/10 budget

Expenditures

2010/11 Proposed Budget

Millions of Dollars	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget	2010/11 Budget Compared to 2009/10 Budget
State Water Contract	\$ 394.7	\$ 478.8	\$ 452.7	\$ 497.3	\$ 18.5
Supply Programs	84.1	125.5	113.8	103.2	(22.3)
Colorado River Power	37.4	49.8	46.3	59.6	9.8
Debt Service	287.1	330.7	305.0	348.1	17.4
Demand Management	75.6	59.8	76.9	58.2	(1.6)
O&M	344.6	340.9	340.2	337.5	(3.4)
Sub-Total	\$1,223.6	\$1,385.5	\$1,334.9	\$1,403.9	\$ 18.4
CIP	416.7	412.1	346.7	327.8	(84.2)
Total Expenditures	\$1,640.3	\$1,797.6	\$1,681.6	\$1,731.8	\$ (65.8)

Totals may not foot due to rounding.

Receipts

2010/11 Proposed Budget

Millions of Dollars	2008/09 Actual	2009/10 Budget	2009/10 Projected	2010/11 Budget	2010/11 Budget Compared to 2009/10 Budget
Water Sales	\$ 988.1	\$ 1,078.6	\$ 1,068.7	\$ 1,215.6	\$ 137.0
Taxes & Annexations	105.2	91.4	92.1	81.8	(9.7)
Fixed Charges	119.7	136.3	136.4	158.4	22.1
Interest	36.4	34.2	31.5	36.0	1.8
Power & Misc.	30.9	32.9	53.6	41.6	8.7
Total Receipts	\$1,280.3	\$1,373.5	\$1,382.4	\$1,533.4	\$ 159.9

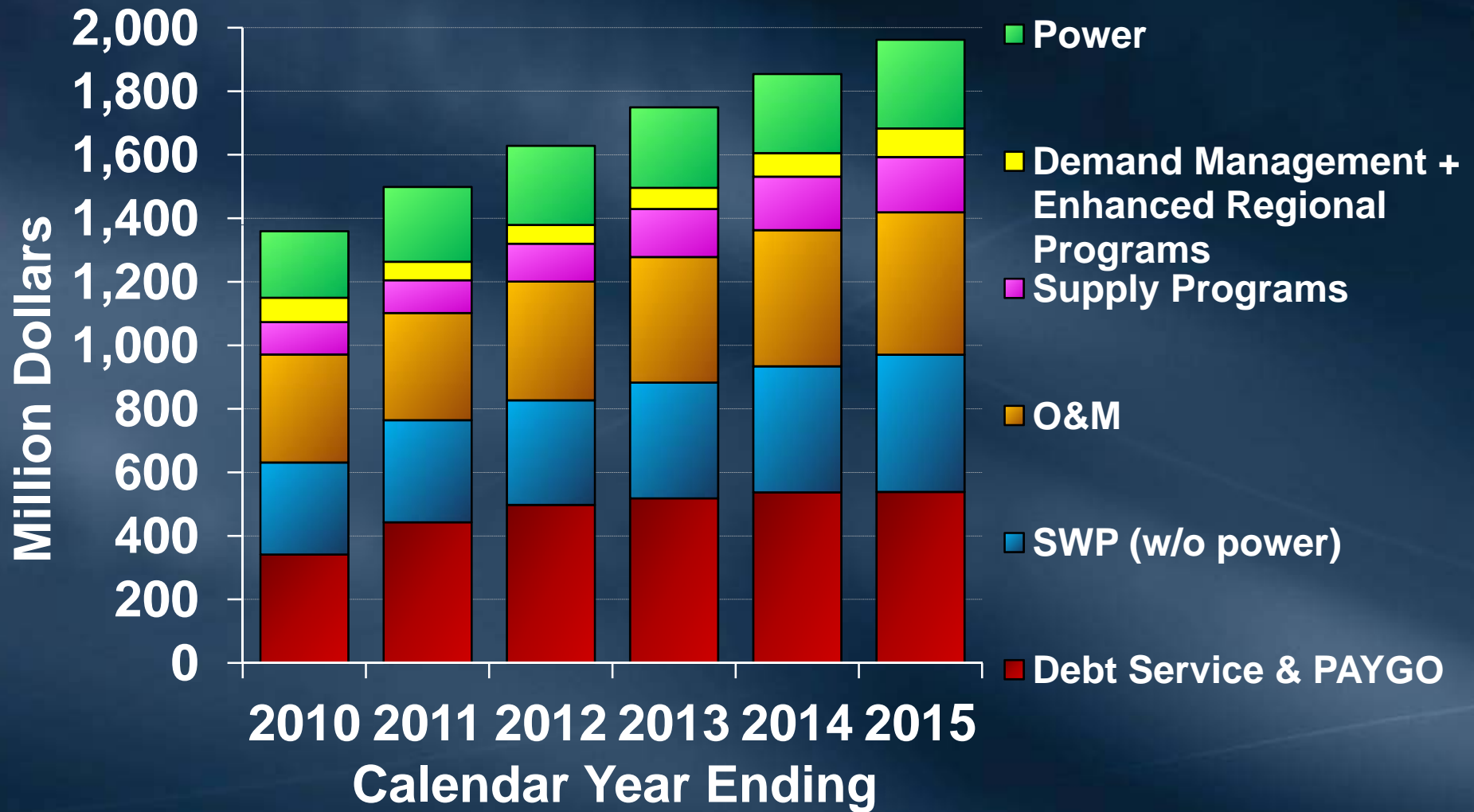
Totals may not foot due to rounding.

Key Assumptions

Five Year Forecast – 2010/11 to 2014/15

- Rate increases
 - 12.4% on January 1, 2011
 - 2.2% on January 1, 2012
- Water Sales
 - 1.93 MAF 2010/11
 - 2.0 MAF 2011/12 and 2012/13
 - 2.1 MAF 2013/14 and 2014/15
- CRA diversions average 1.2 MAF / year
- SWP deliveries increase 100 TAF in 2013 based on interim Delta improvements
- Departmental O&M increases
- PAYGO at \$95M in 2010/11 and \$125M in 2011/12

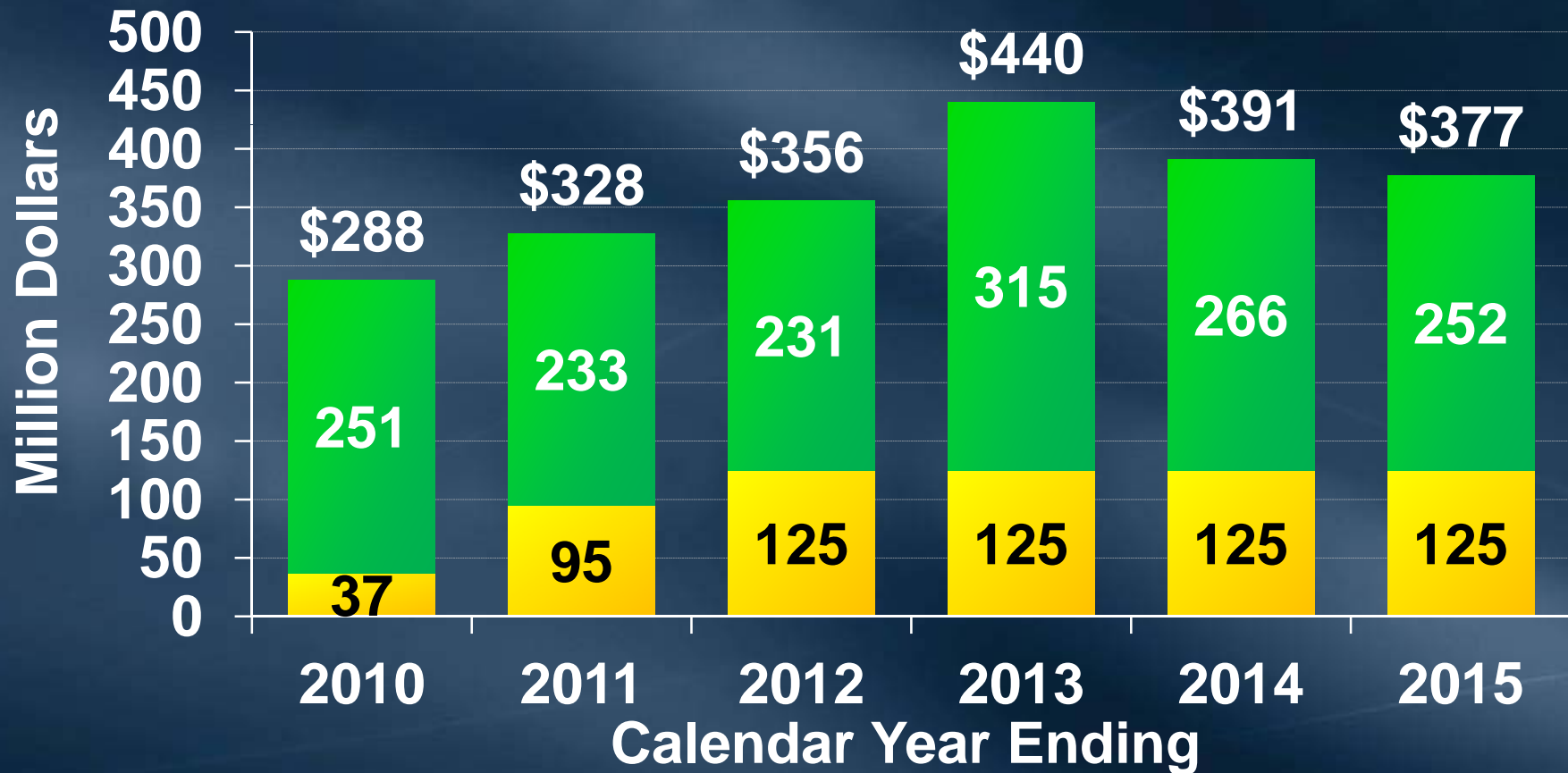
Five-Year Expenditure Forecast 2010/11 Proposed Budget



Projected CIP Financing 2010/11 Proposed Budget

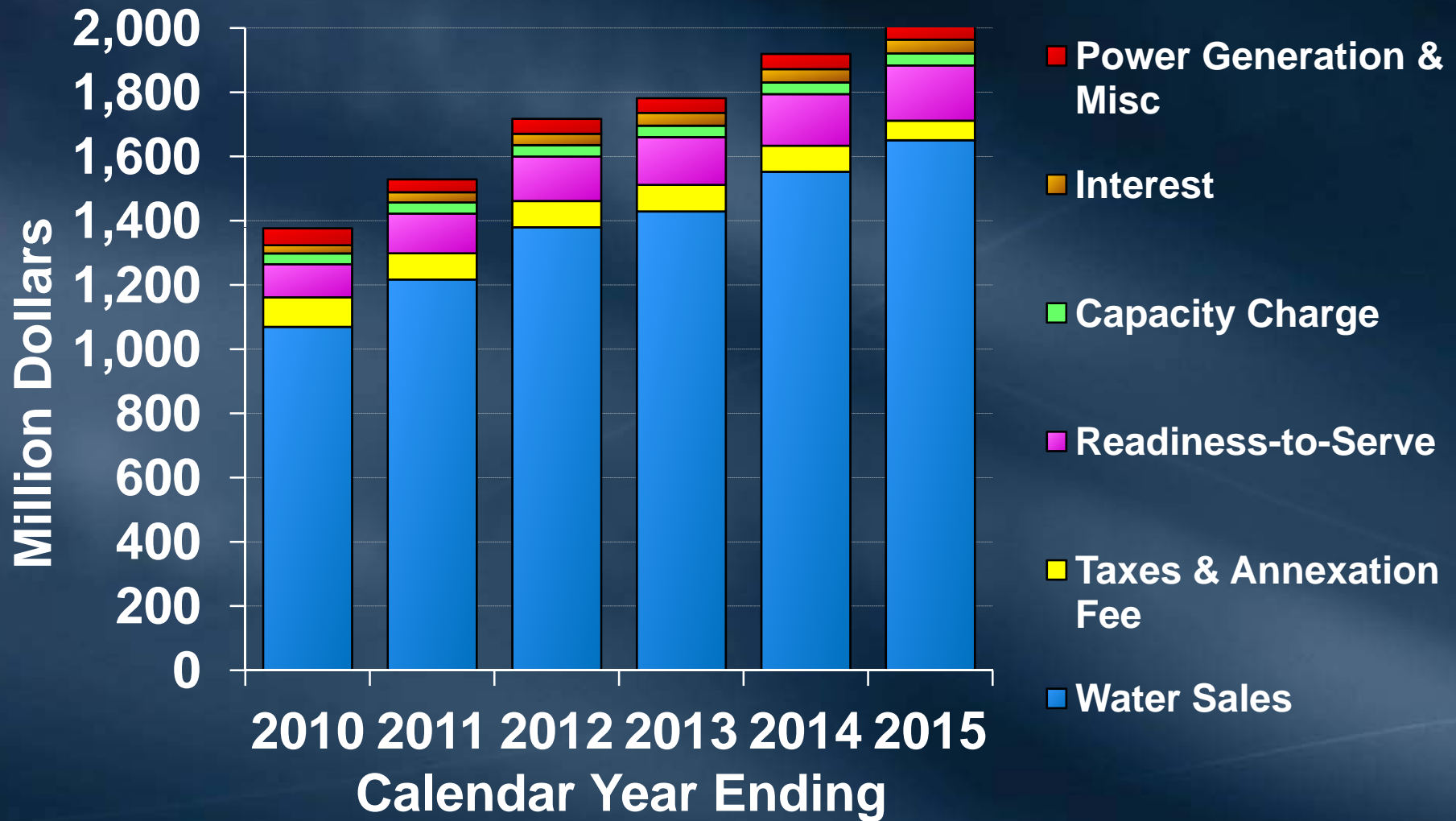
■ Bonds
■ PAYGO

29% Cumulative
PAYGO



Five-Year Revenue Forecast

2010/11 Proposed Budget



Summary

2010/11 Proposed Budget

- 1.93 MAF total sales
- \$1.73 billion total expenditure budget
 - \$328 million for CIP
- \$66 million decrease in expenditures compared to 2009/10 budget

Item 8-2: Proposed FY 2010/11 Revenue Requirement, Rates and Charges

Revenue Requirement 2010/11

	\$ Millions			2010/11 Change from:	
	2008/09 Actuals	2009/10 Projected	2010/11 Test Year	2008/09	2009/10
Departmental & Other O&M	\$ 316.2	\$310.7	\$311.0	\$(5.3)	\$0.2
Chemicals, Sludge & Power for Treatment	28.4	29.5	26.5	(1.9)	(3.0)
State Water Project (w/o Variable Power)	338.0	356.3	397.6	59.6	41.3
SWP Variable Power	56.7	96.4	99.7	43.0	3.3
CRA Power	37.4	46.3	59.6	22.2	13.3
Supply Programs paid from O&M	76.3	101.7	103.2	26.9	1.4
Demand Management	75.6	76.9	58.2	(17.4)	(18.6)
Debt Service	281.2	305.0	348.1	66.9	43.1
PAYGO	30.1	36.7	95.0	64.9	58.3
Change in Required Reserves	28.8	35.5	45.1	16.3	9.6
Sub-total expenditures	1,268.8	1,395.0	1,544.0	275.2	149.0
Revenue Offsets	168.3	171.3	154.9	(13.4)	(16.4)
Total Revenue Requirement	\$1,100.5	\$1,223.7	\$1,389.1	\$288.6	\$165.4

Totals may not foot due to rounding

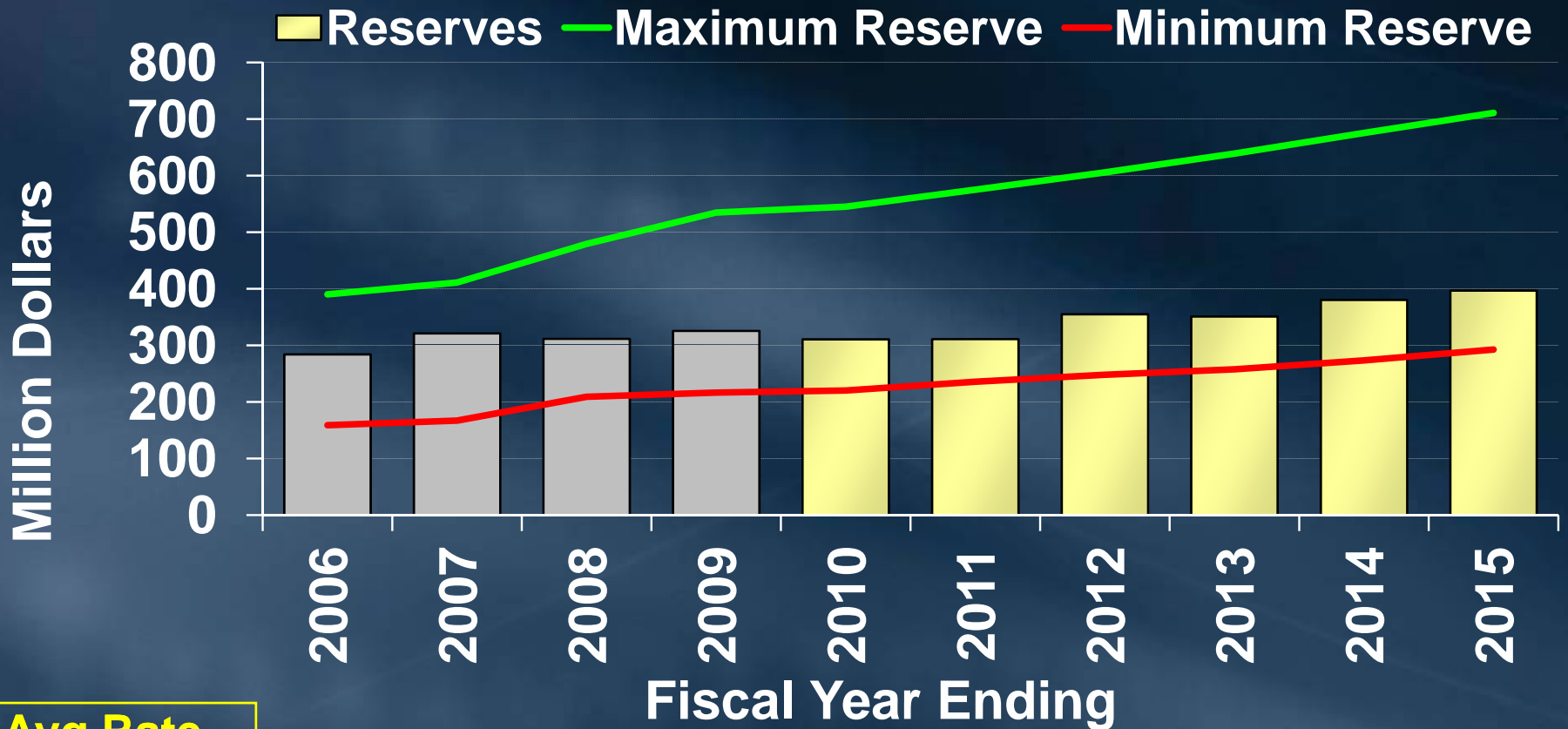
Rate Options

- Option 1: 12.4% increase on Jan. 1, 2011
 - Full cost of service in 2010/11
 - Revenue Bond Coverage of 1.9 in 2010/11
- Option 2: 8.9% increase on Jan. 1, 2011 and a reduction in 2010/11 expenditures by \$14M
 - Full cost of service in 2010/11
 - Revenue Bond Coverage of 1.9 in 2010/11

Rate Options (continued)

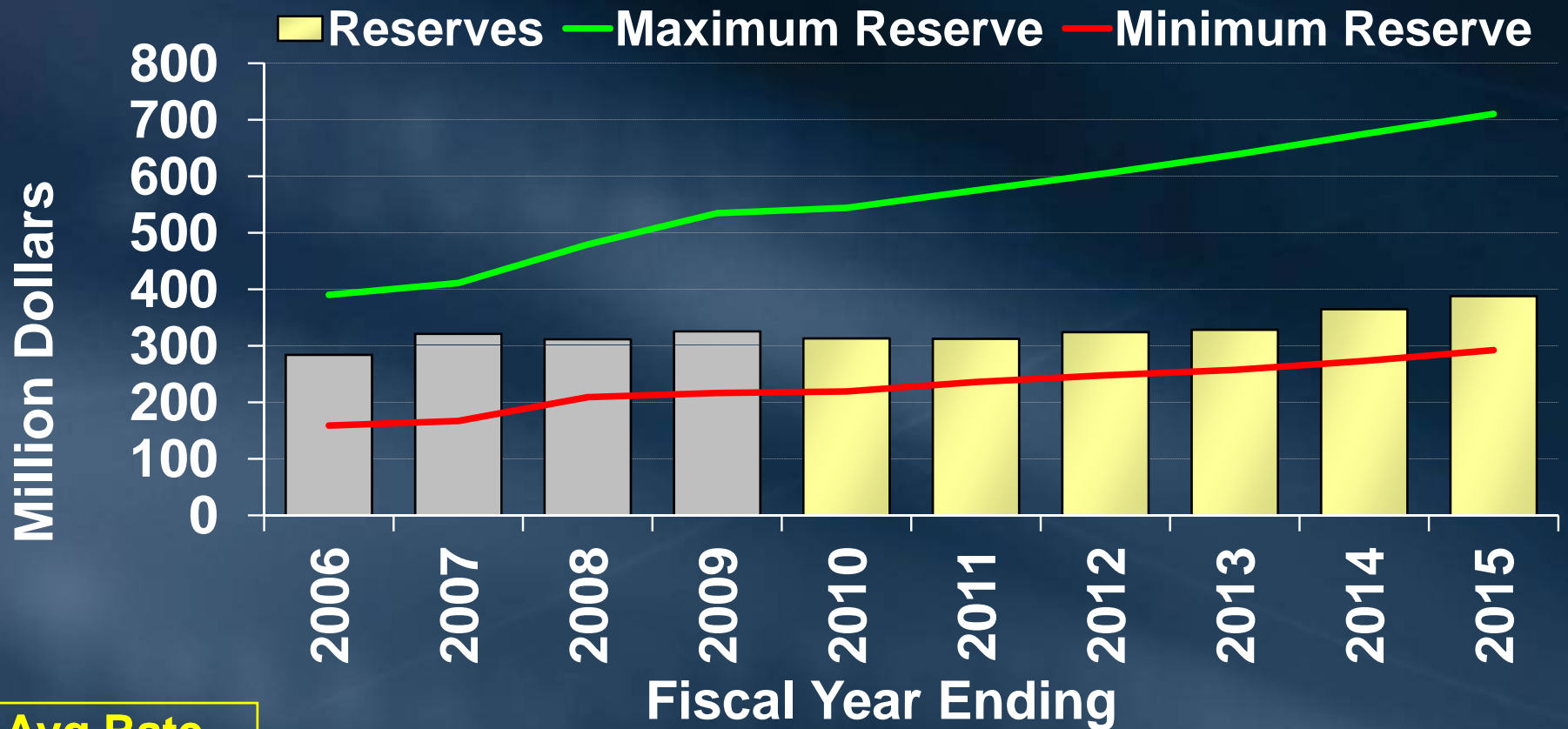
- Option 3: Two-year rate increases of 7.5% on Jan. 1, 2011, and 7.5% on Jan. 1, 2012
 - Does not recover the full cost of service in 2010/11.
 - \$20M Reserve withdrawal
 - Full cost of service in 2011/12
 - Revenue Bond Coverage of 1.8 in 2010/11 and 2.0 in 2011/12
- Option 4: 9.6% increase on Jan. 1, 2011 and cap property tax rate
 - Full cost of service in 2010/11
 - Revenue Bond Coverage of 1.9 in 2010/11 and 2.0 in 2011/12

Base Case – Five Year Outlook



Avg Rate Increase	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Avg Rate Increase	2%	3%	6%	14%	20%	12.4%	2%	4%	6%	6%
PAYGO, \$M	88	95	43	30	37	95	125	125	125	125
Rev. Bond Cvg	1.8	2.2	1.8	1.8	1.6	1.9	2.1	2.0	2.0	2.0
Fixed Chg Cvg	1.3	1.7	1.3	1.3	1.1	1.3	1.5	1.3	1.4	1.3

Option 2: 8.9% increase with \$14M costs reduction



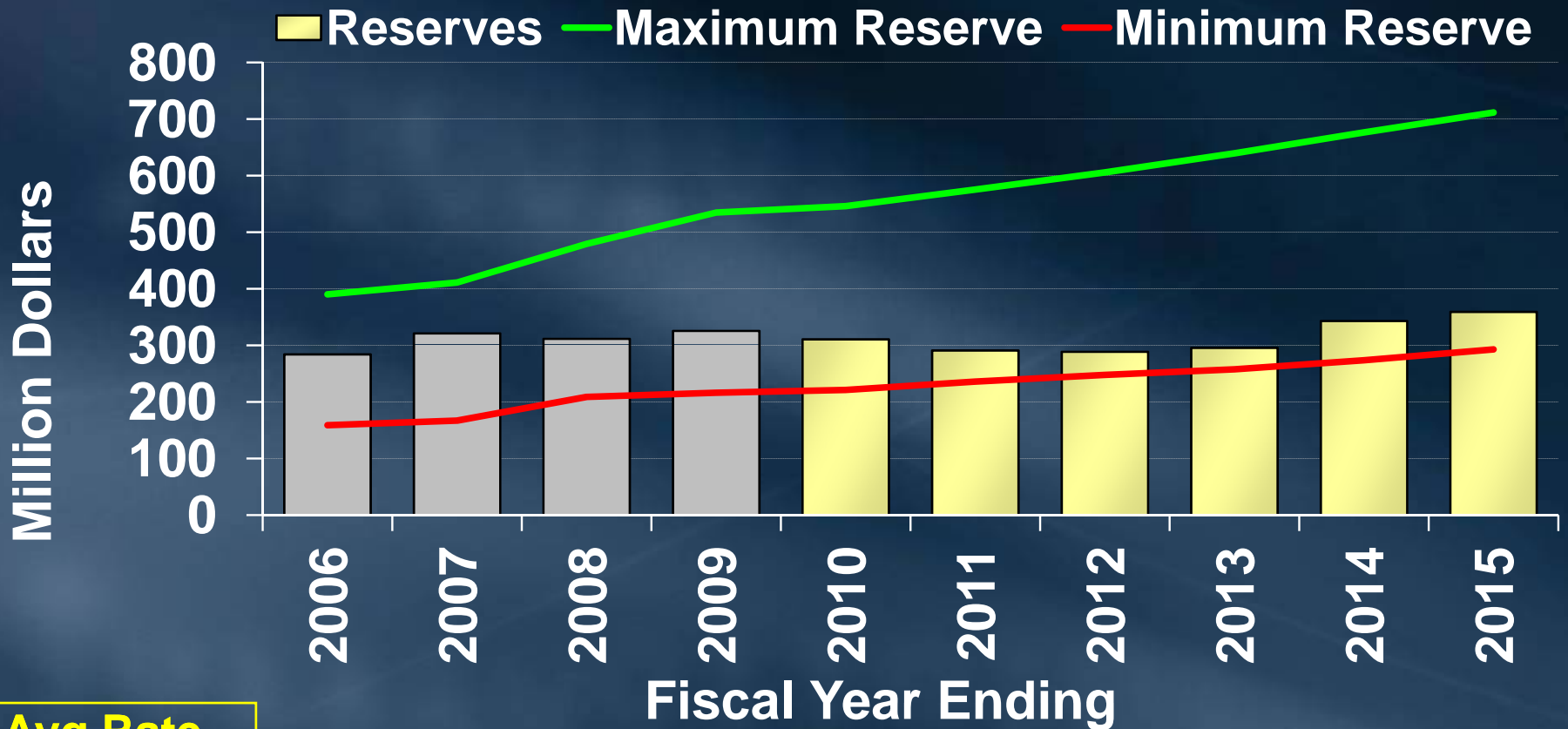
Avg Rate Increase	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Avg Rate Increase	2%	3%	6%	14%	20%	8.9%	6%	4%	6%	6%
PAYGO, \$M	88	95	43	30	37	95	125	125	125	125
Rev. Bond Cvg	1.8	2.2	1.8	1.8	1.6	1.9	2.1	2.0	2.1	2.0
Fixed Chg Cvg	1.3	1.7	1.3	1.3	1.1	1.3	1.4	1.4	1.4	1.3

Option 3: Revenue Requirement

	FY2010/11	FY2011/12
Departmental Operations & Maintenance	\$322,028,600	\$343,192,990
General District Requirements		
State Water Project	497,325,222	517,063,940
Colorado River Aqueduct Power	59,599,167	61,525,397
Water Transfers and Storage Programs	103,165,940	119,107,855
Demand Management	58,236,726	59,059,632
Capital Financing Program	443,120,428	497,771,891
Operating Equipment and Leases	15,436,100	30,769,001
Increase (Decrease) in Required Reserves	45,100,000	56,400,000
subtotal	1,221,983,584	1,341,697,716
Revenue Offsets	(154,880,952)	(167,999,623)
Net Revenue Requirements	\$1,389,131,232	\$1,516,891,083

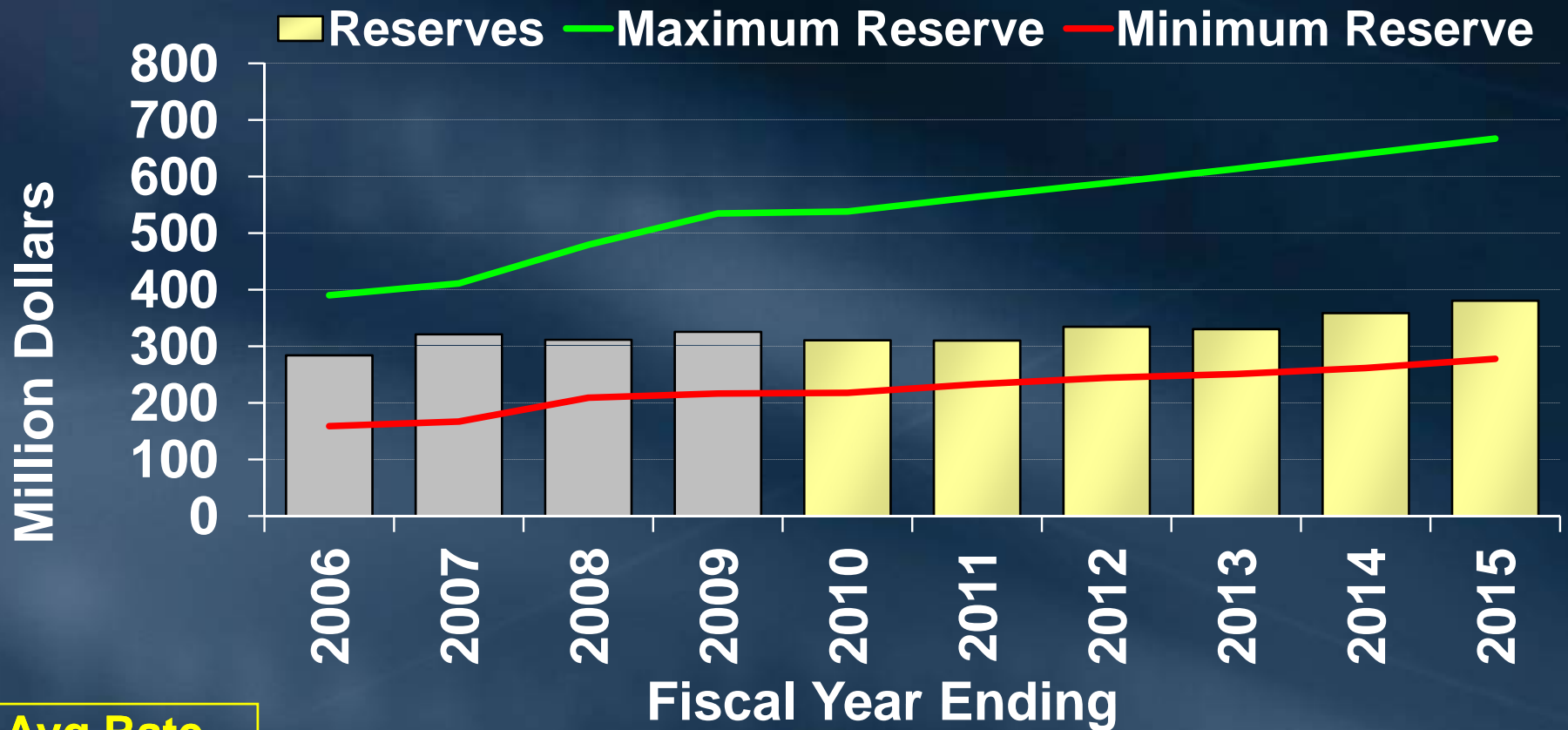
Totals may not foot due to rounding

Option 3: Two year increases of 7.5%



Avg Rate Increase	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Avg Rate Increase	2%	3%	6%	14%	20%	7.5%	7.5%	5%	5%	5%
PAYGO, \$M	88	95	43	30	37	95	125	125	125	125
Rev. Bond Cvg	1.8	2.2	1.8	1.8	1.6	1.8	2.0	2.0	2.1	2.0
Fixed Chg Cvg	1.3	1.7	1.3	1.3	1.1	1.3	1.4	1.4	1.4	1.3

Option 4: 9.6% increase and cap property tax rate



Avg Rate Increase	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Avg Rate Increase	2%	3%	6%	14%	20%	9.6%	4%	4%	5%	5%
PAYGO, \$M	88	95	43	30	37	95	125	125	125	125
Rev. Bond Cvg	1.8	2.2	1.8	1.8	1.6	1.9	2.0	1.9	2.0	1.9
Fixed Chg Cvg	1.3	1.7	1.3	1.3	1.1	1.3	1.4	1.3	1.4	1.3

Rates and Charges

		Option 1	Option 2	Option 3		Option 4
	Current Rates	Jan. 1, 2011	Jan. 1, 2011	Jan. 1, 2011	Jan. 1, 2012	Jan. 1, 2011
Tier 1 Supply Rate (\$/AF)	\$101	\$112	\$106	\$104	\$106	\$108
Delta Supply Surcharge (\$/AF)	\$69	\$51	\$51	\$51	\$58	\$51
Tier 2 Supply Rate (\$/AF)	\$280	\$280	\$280	\$280	\$290	\$280
System Access Rate (\$/AF)	\$154	\$217	\$207	\$204	\$217	\$206
Water Stewardship Rate (\$/AF)	\$41	\$43	\$41	\$41	\$43	\$42
System Power Rate (\$/AF)	\$119	\$135	\$131	\$127	\$136	\$133
Treatment Surcharge (\$/AF)	\$217	\$217	\$217	\$217	\$234	\$217
Readiness-to-Serve Charge (\$M)	\$114	\$133	\$127	\$125	\$146	\$129
Capacity Charge (\$/cfs)	\$7,200	\$7,200	\$7,200	\$7,200	\$7,400	\$7,200

Bundled Rates (\$/AF)

			Option 1	Option 2	Option 3		Option 4
		Current rates	Jan.1, 2011	Jan. 1, 2011	Jan. 1, 2011	Jan. 1, 2012	Jan. 1, 2011
Full Service Untreated							
	Tier 1	\$484	\$558	\$536	\$527	\$560	\$540
	Tier 2	\$594	\$675	\$659	\$652	\$686	\$661
Replenishment Untreated		\$366	\$440	\$418	\$409	\$442	\$422
Agricultural Water Untreated		\$416	\$513	\$491	\$482	\$537	\$495
Full Service Treated							
	Tier 1	\$701	\$775	\$753	\$744	\$794	\$757
	Tier 2	\$811	\$892	\$876	\$869	\$920	\$878
Replenishment Treated		\$558	\$632	\$610	\$601	\$651	\$614
Agricultural Water Treated		\$615	\$718	\$696	\$687	\$765	\$700

Board Budget Options and Recommendation

- Option #1 – Adopt CEQA determination and
 - Approve the 2010/11 Budget;
 - Appropriate \$1.06 billion for the projected annual cash outlays for O&M, operating equipment, CRA power costs, SWP cost, and demand management and supply programs;
 - Appropriate as continuing appropriations, \$348.1 million for 2010/11 debt service; and
 - Authorize the use of \$95 million in operating revenues to fund R&R and General Fund construction during 2010/11.

Board Budget Options and Recommendation (cont.)

- Option #2 – Adopt CEQA determination and
 - Approve the 2010/11 Budget with changes as recommended by the Board

- Recommendation – Option #1

Rates and Charges Recommendation

- Option #1 – Adopt CEQA determination and
 - Determine 2010/11 revenue requirement \$1.389B
 - Approve the 2011 rates and charges
 - Adopt resolution to impose the RTS Charge
 - Adopt resolution to impose the Capacity Charge
- Recommendation – Option #1



Questions