



Item 8 - 4

Proposed Biennial Budget

Fiscal Years 2011/12 and 2012/13

Finance and Insurance Committee

April 11, 2011

Overview

- Schedule
- Rolling 2-Year Budget
- Key Assumptions
- Water Sales Forecasts
- Proposed Budget at 1.8 MAF
- Monetizing Water Inventory
- Options and Recommendations

Budget Review Schedule

- January 10: Finance and Insurance Committee
 - Reviewed draft budget proposal
- January 25: Board Budget Workshop #1
 - Considered proposed district-wide budget and rates assuming reduced water sales from 2.0 MAF to 1.8 MAF
- February 7th & 8th: Committee Meetings
 - Reviewed group budgets in each committee

Budget Review Schedule

- March 7: Finance and Insurance Committee
 - Reviewed budget process
- March 22: Board Budget Workshop #2
 - Considered reduced revenues & expenditures
 - Reviewed discretionary vs. non-discretionary expenditures
- April 12
 - Board consideration and action

Rolling 2-Year Budget



(A) Required for fiscal year beginning July 1; rates effective January 1
 (B) Final approval in April 2012

Key Assumptions 2012/13

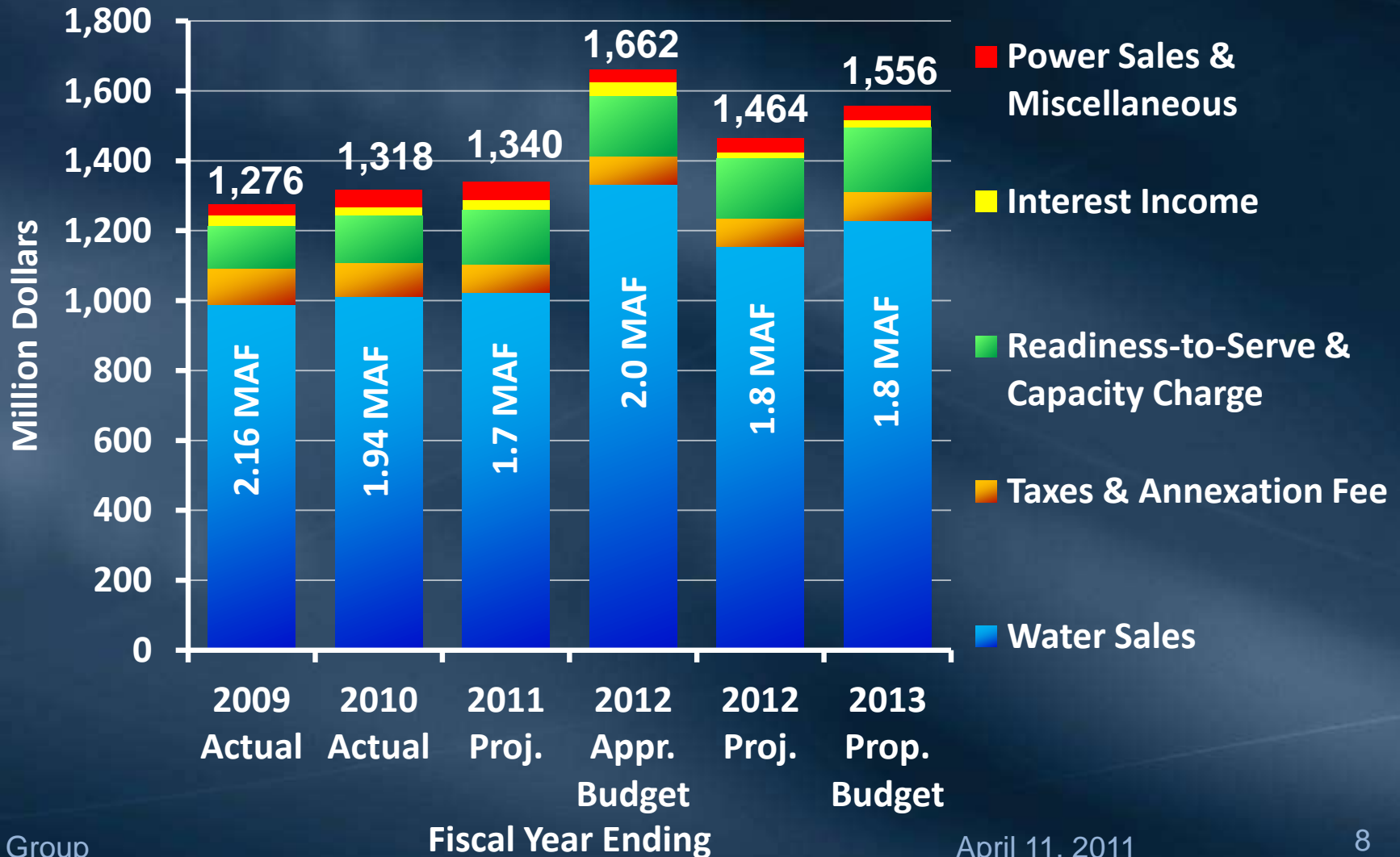
- SWP Allocation 45%
- Colorado River Aqueduct deliveries 1.0 MAF
- Total Water Sales and Exchanges 1.8 MAF
- Rate increase January 2013 5.0%
- Interest Income Rate 1.83%
- Inflation Rate 3.5%
- New Debt Interest Rate: Fixed 5.0%
- New Debt Interest Rate: Variable 0.8%
- Employee salary adjustment No COLA

Water Sales, Wheeling and Exchange



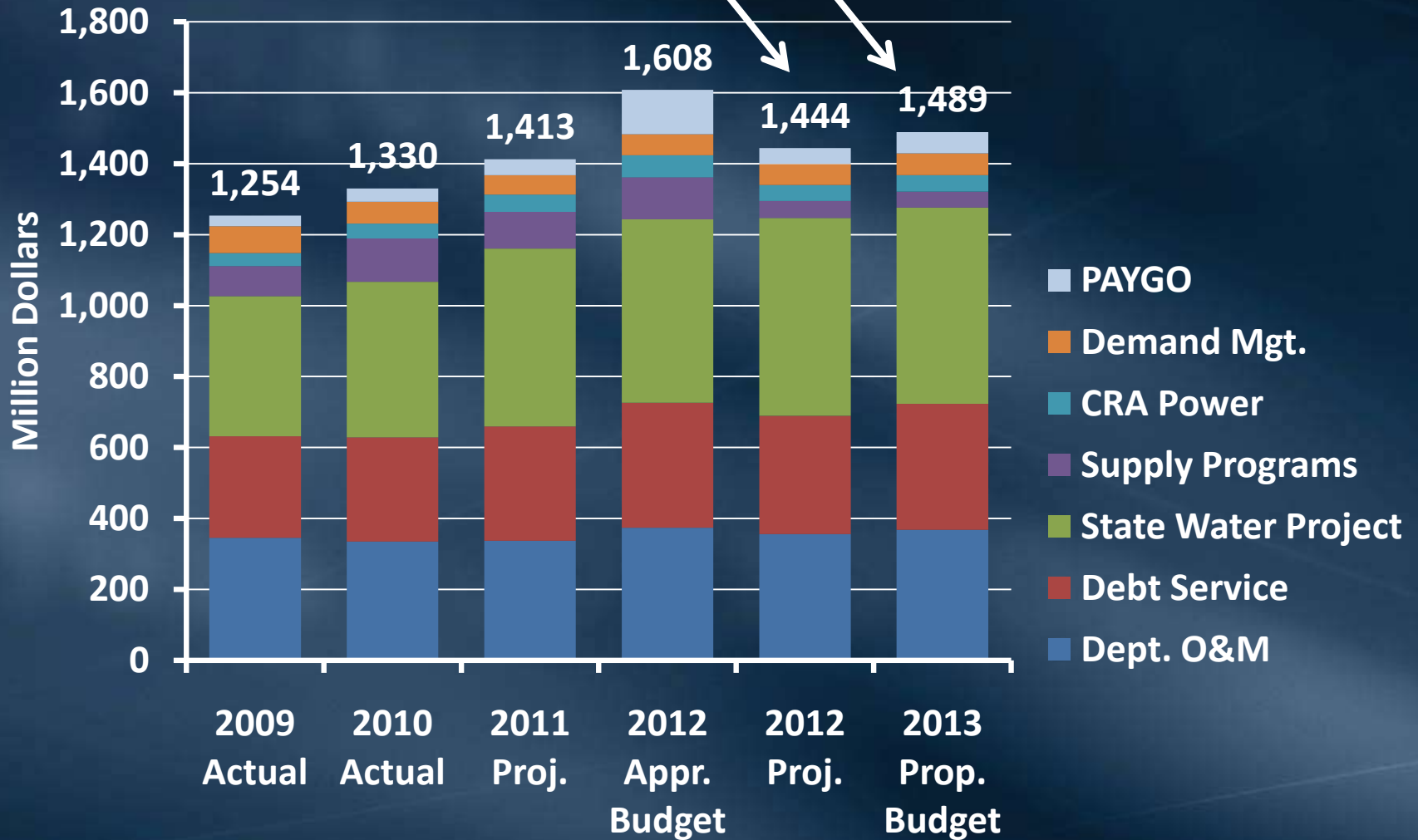
Receipts

Rate Increases of 7.5% in 2012 and 5% in 2013



Expenditures

Reflecting 1.8 MAF Sales Forecast



2012/13 Proposed Expenditures



Expenditures

Millions of Dollars	2011/12 Approved	2011/12 Projected	2012/13 Proposed	2012/13 vs. 2011/12 Approved
State Water Contract	\$517.1	\$557.5	\$552.7	\$35.6
Supply Programs	119.1	47.5	45.4	(73.7)
Colorado Power	61.5	45.4	46.5	(15.0)
Debt Service	351.9	332.8	355.3	3.4
Demand Management	59.1	59.1	60.7	1.6
O&M	374.0	356.2	368.0	(6.0)
Subtotal Expenditures	1482.7	1,398.5	1,428.6	(54.1)
CIP—PAYGO Funded	125.0	45.0	60.0	(65.0)
Appropriation Subtotal	1,607.7	1,443.6	1,488.7	(119.0)
CIP—Bond Funded	216.0	236.9	286.8	70.8
	\$1,823.7	\$1,680.5	\$1,775.5	(\$48.2)

Totals may not foot due to rounding

Provisional Approval

Adjustments to Proposed FY 2012/13 Expenditures

Millions of Dollars	January Committee 2.0 MAF	Change	2012/13 Proposed 1.8 MAF
State Water Contract	\$ 546.5	\$ 6.2	\$ 552.7
Supply Programs	92.5	(47.1)	45.4
Colorado Power	57.1	(10.6)	46.5
Debt Service	363.5	(8.2)	355.3
Demand Management	60.7	---	60.7
O&M	391.2	(23.2)	368.0
CIP – PAYGO funding	125.0	(65.0)	60.0
Total	\$ 1,636.6	(\$ 147.8)	\$ 1,488.7

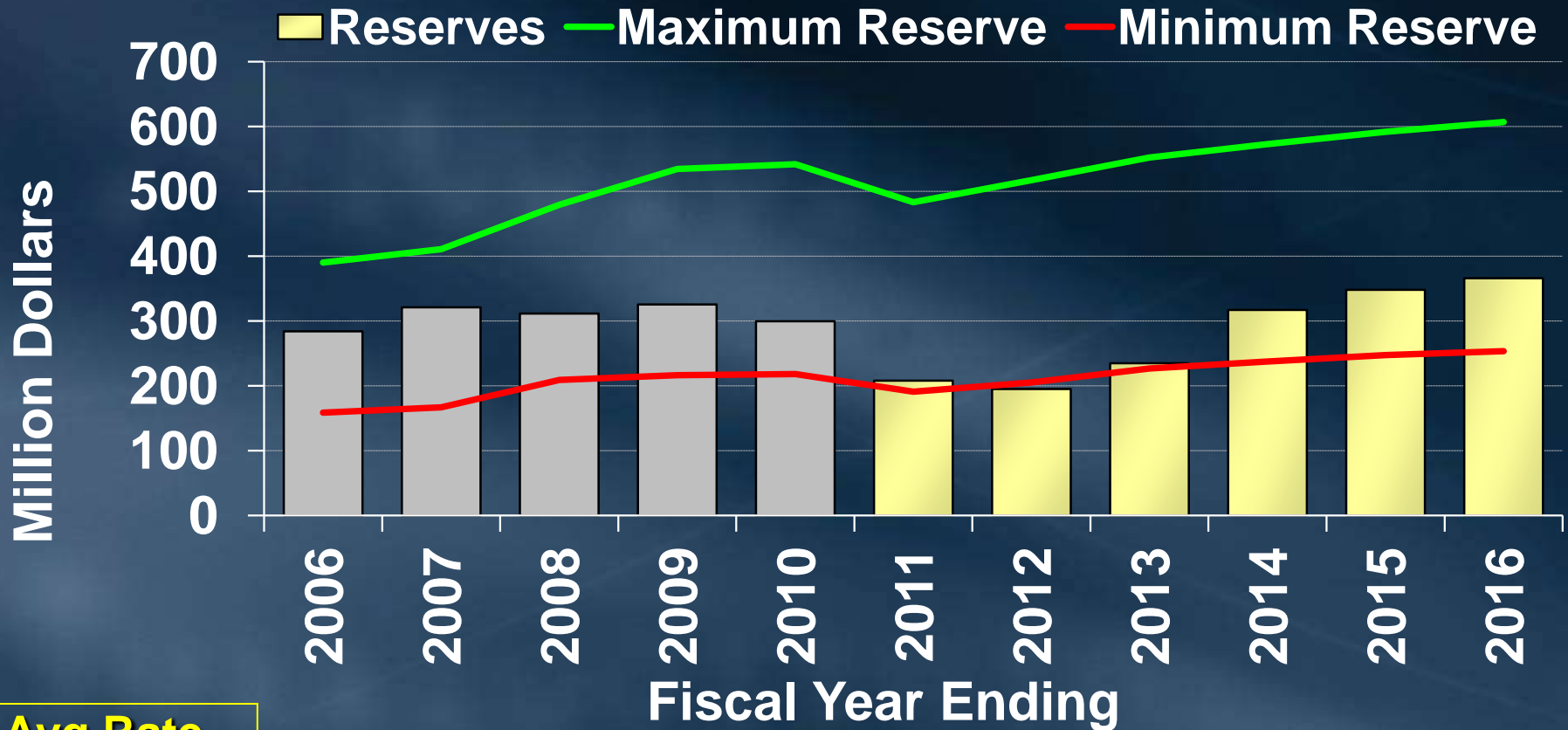
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FY 2012/13 – Expenditure Impacts

Reducing Sales Forecast to 1.8 MAF

Action (Million \$'s)	
Increased SWC costs	\$ 6.2
Reduced supply program costs	(47.1)
Reduced Debt Service	(8.2)
Reduced power costs	(10.6)
Reduced conservation costs	---
Reduced O&M budget contingency	(4.9)
Reduced O&M treatment costs	(1.3)
Defer PC replacement one year (O&M)	(1.9)
Reduced OPEB funding (O&M)	(15.0)
Reduced PAYGO	(65.0)
Net change in expenditures	(\$ 147.8)

2012/13 Proposed Budget



Avg Rate Increase	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Avg Rate Increase	2%	3%	6%	14%	20%	7.5%	7.5%	5%	5%	5%	6%
PAYGO, \$M	88	95	43	30	37	45	45	60	125	125	125
Rev. Bond Cvg	1.8	2.2	1.8	1.8	1.6	1.4	1.7	1.9	2.2	2.0	2.1
Fixed Chg Cvg	1.3	1.7	1.3	1.3	1.1	0.9	1.2	1.3	1.5	1.4	1.3

Revenue Enhancement Tools

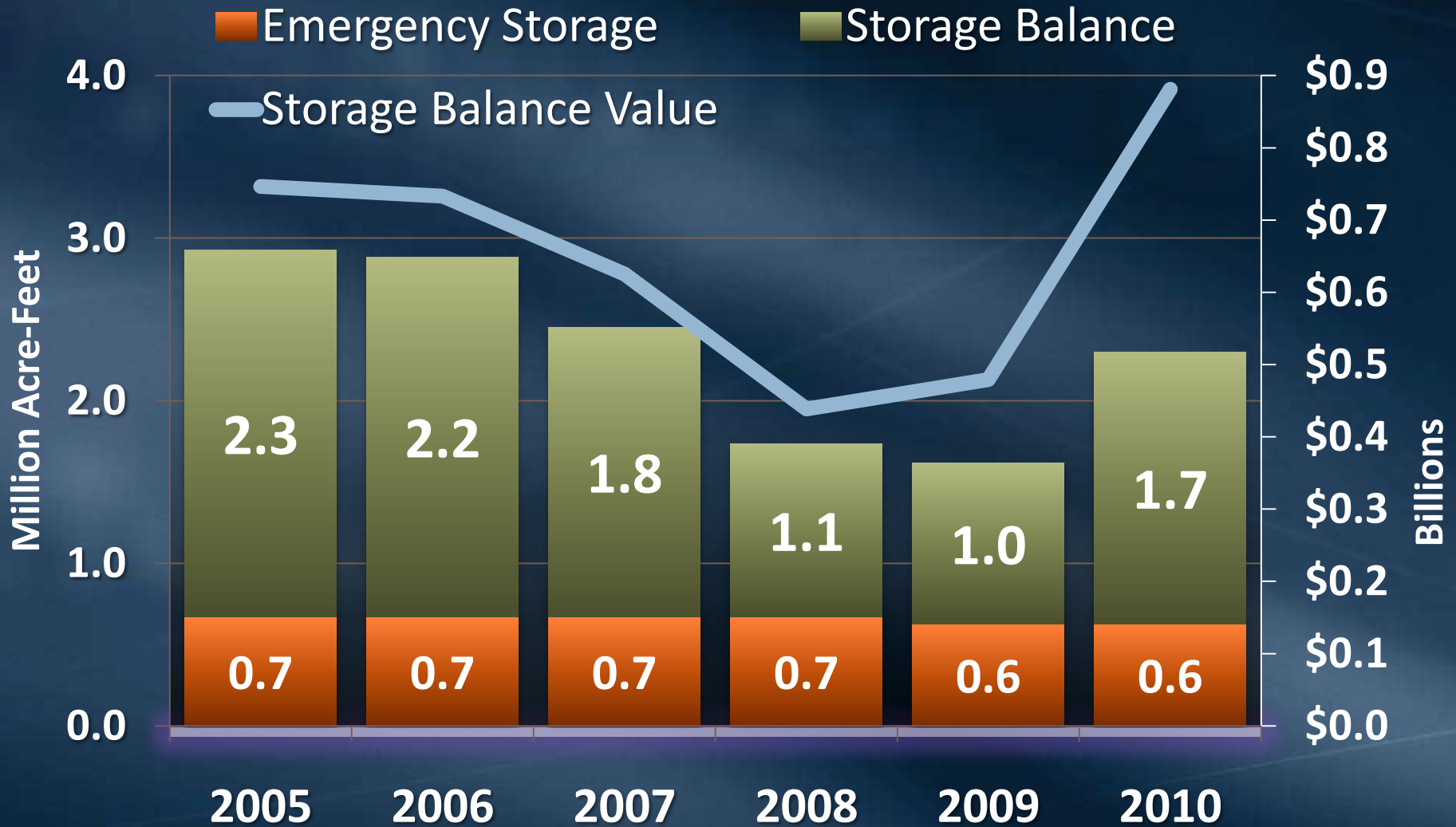
- Move January 1 rate increase to earlier month
- Increase water sales
- Sell/lease unused real estate, e.g. solar projects
- Redesign rates to provide higher contribution from fixed charges

Cost Management Tools

- Further reduce CIP and defer issuing new debt
- Further reduce PAYGO
- Continue to match water supply programs with demand
- Reduce salaries and benefits:
 - Eliminate positions
 - 139 budgeted positions eliminated since July 2008
 - 77 vacancies at 12/31/10
 - Cost sharing for employee benefits (MOU)
 - No cola (MOU)
 - Other actions (e.g. furloughs)
 - Defer OPEB funding

Monetizing Water Inventory

End of Calendar Year Balances



Monetizing Water Inventory

December 31, 2010

- Expressing the value of stored water

	MAF	Tier 1 Rate (untreated)	Monetized (\$ Billions)
Storage Balance	1.672	\$527	\$ 0.88
Emergency Storage	<u>0.626</u>	\$527	<u>0.33</u>
	2.298		\$1.21

If Water Sales Exceed 1.8 MAF

- Recommendations include:
 - Begin to fund OPEB to \$10 million
 - Increase PAYGO up to \$125 million

Board Budget Options and Recommendation

- Option #1 – Adopt CEQA determination and provisionally approve the 2012/13 Budget;
 - \$1.49 billion for O&M, operating equipment, CRA power costs, SWP cost, demand management, supply programs, debt service, and operating revenues to fund Replacement and Refurbishment expenditures;
 - Up to \$10 million to fund OPEB and up to \$125 million to fund Replacement and Refurbishment expenditures from operating revenues if waters sales exceed 1.8 million acre-feet; and
 - Staff to submit updated 2012/13 budget for final approval in April 2012.

Board Budget Options and Recommendation (cont.)

- Option #2 – Adopt CEQA determination and provisionally approve a Budget with changes as recommended by the Board
- Recommendation – Option #1

Questions