

Proposed Biennial Budget, Revenue Requirements, and Water Rates and Charges Fiscal Years 2012/13 and 2013/14

Finance and Insurance Committee
Item 8-1
January 9, 2012



Overview

Proposed 2012/13 and 2013/14 Budget

- Lower water sales assumption
- Biennial (two-year) budget and rates approval
- Conservative budget
- Change to modified accrual reporting basis
- Initiate OPEB funding
- Meet financial targets

Important Underlying Assumptions

Fiscal Year Ending	2013	2014
Rate increase January 2013 and 2014	7.5%	5.0%
Total Water Sales and Exchanges	1.70 MAF	1.70 MAF
State Water Project Allocation	65% / 60%	60% / 50%
Colorado River Aqueduct Deliveries	0.73 MAF	0.89 MAF
Interest Income Rate	1.49%	1.53%
New Debt Interest Rate - Fixed	4.50%	4.50%
- Variable	0.45%	0.50%

Water Sales & Exchange\Wheeling



Summary

Proposed Biennial Budget

- Total expenditure budget
 - \$1.70 billion in 2012/13 (1% decrease from 2011/12)
 - \$1.73 billion in 2013/14 (2% increase from 2012/13)
- \$552 million for CIP
 - \$257 million in 2012/13
 - \$294 million in 2013/14
 - PAYGO funding increases to \$125 million in 2013/14
 - Biennial expenditure plan reduced by \$165 million
 - Continue to reflect deferral of major facility expansion / growth-related projects while focusing on necessary R&R of aging infrastructure.

Summary

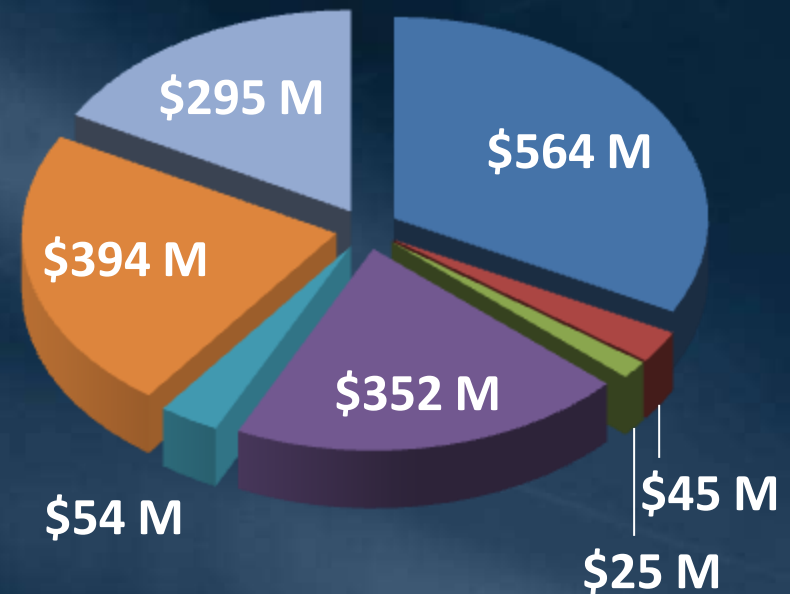
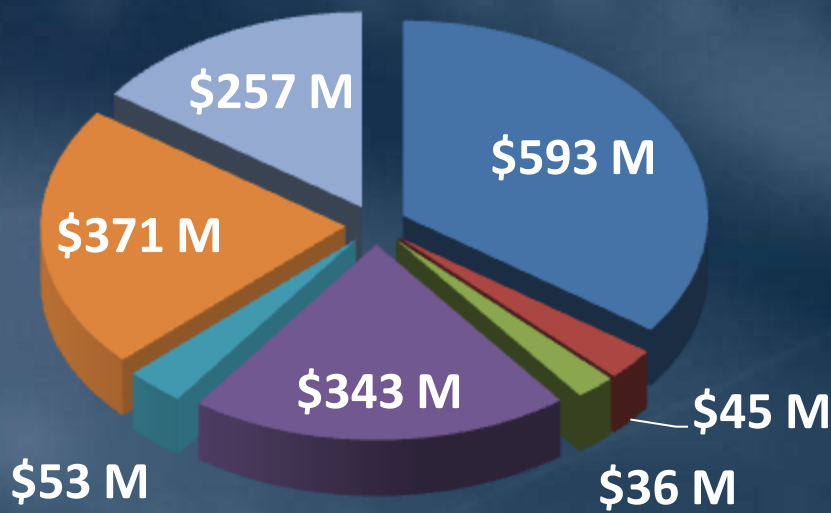
Proposed Biennial Budget

- Maintain conservation and local resource funding
- SWC costs/allocation variability
 - \$36 million increase in 2012/13
 - \$30 million decrease in 2013/14
- Conservative O&M budget
 - Initial \$5.0 million funding of OPEB increasing to \$10 million
 - Merit and medical insurance increases partially offset by position reductions
 - Supports Bay-Delta initiatives, responds to legal challenges, and replaces outdated computer equipment
 - Holds all other expenses to modest inflation rate or lower

Proposed Expenditure Budget FY 2011/12 and FY 2012/13

FY 2012/13 - \$1.70 B

FY 2013/14 - \$1.73 B



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

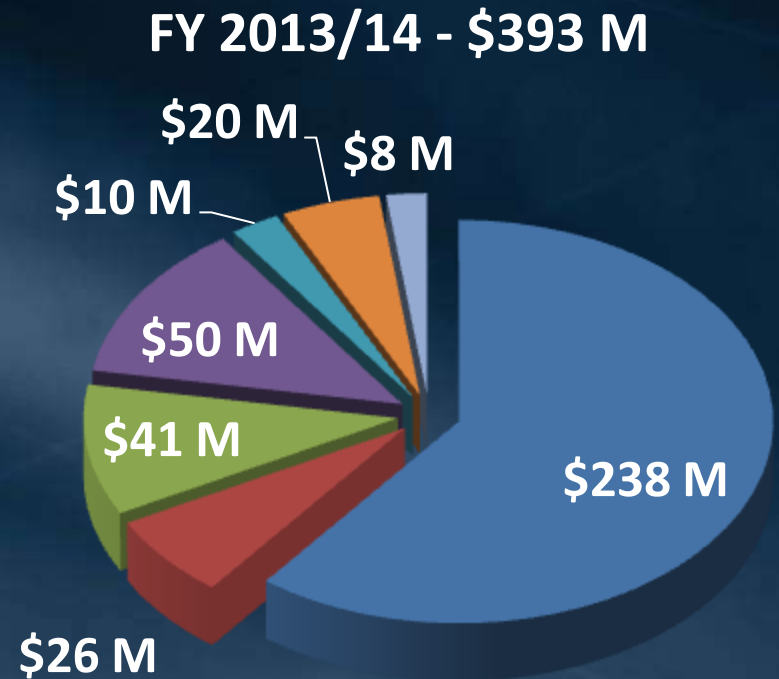
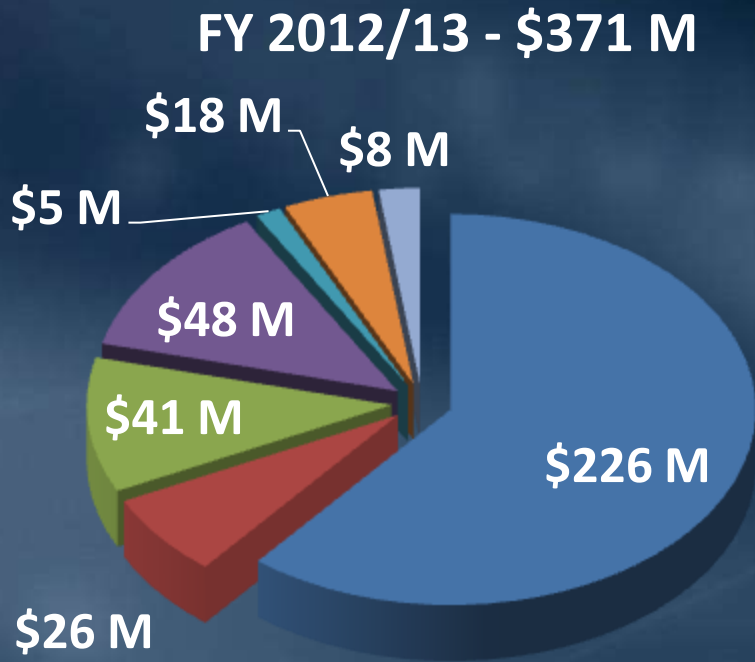
- Supply Programs
- Debt Service
- O&M

Proposed Budget Expenditures 2012/13 and 2013/14

Millions of Dollars	2011/12 Revised 1.8 MAF Budget	2011/12 Projected	2012/13 Proposed	2013/14 Proposed	2013/14 Proposed Compared to 2012/13 Proposed
State Water Contract	\$557.5	\$508.3	\$593.4	\$563.8	(\$29.7)
Supply Programs	47.5	64.0	45.1	44.9	(0.2)
Colorado Power	45.4	33.0	36.2	24.9	(11.3)
Debt Service	332.8	333.3	343.3	352.3	9.0
Demand Management	59.1	55.1	53.2	53.6	0.4
O&M	356.2	372.8	371.3	393.8	22.5
CIP	281.9	192.5	257.3	294.6	37.3
Total	\$1,680.5	\$1,558.9	\$1,699.9	\$1,727.9	\$28.1

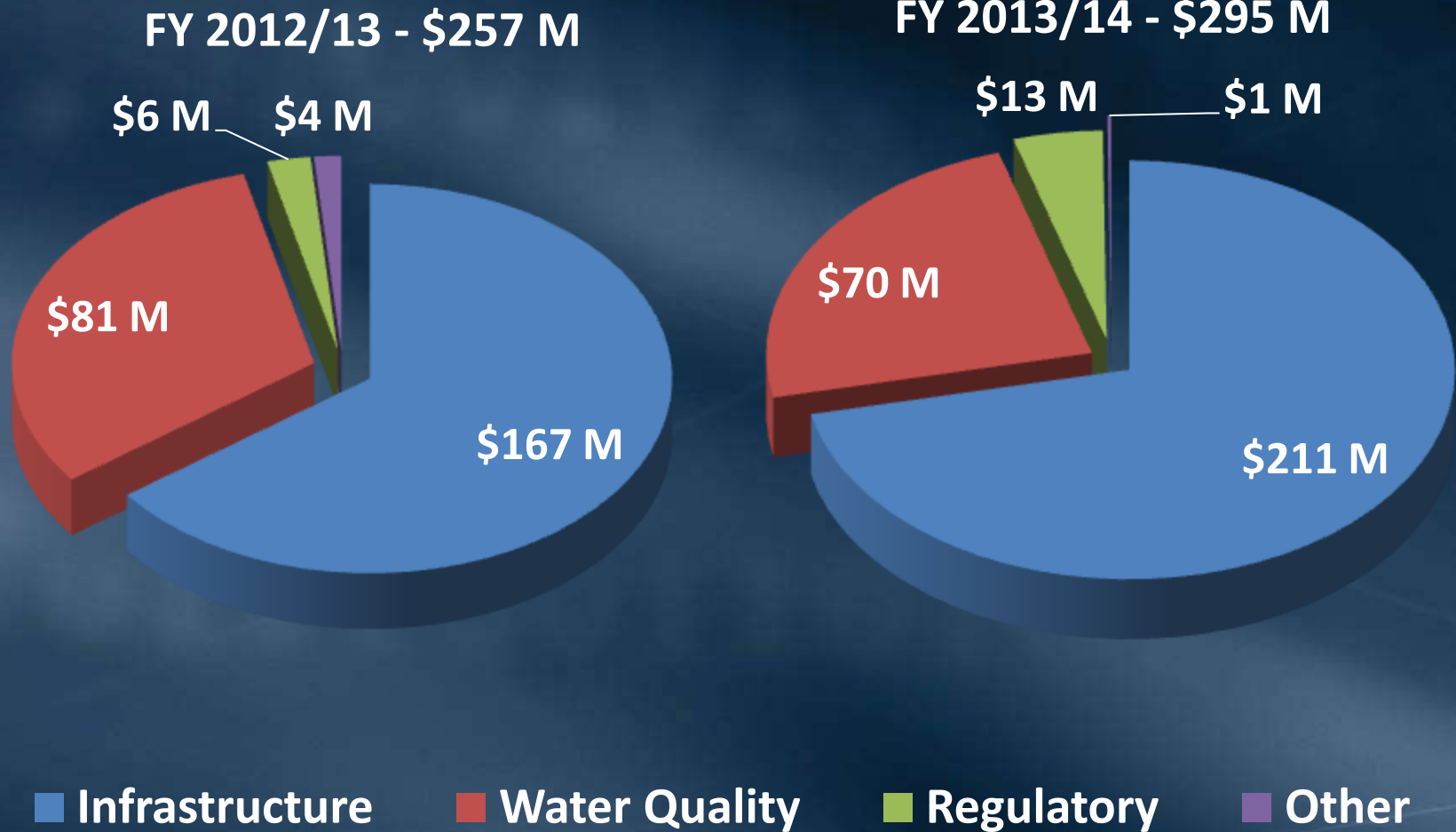
Totals may not foot due to rounding.

Proposed O&M Budget

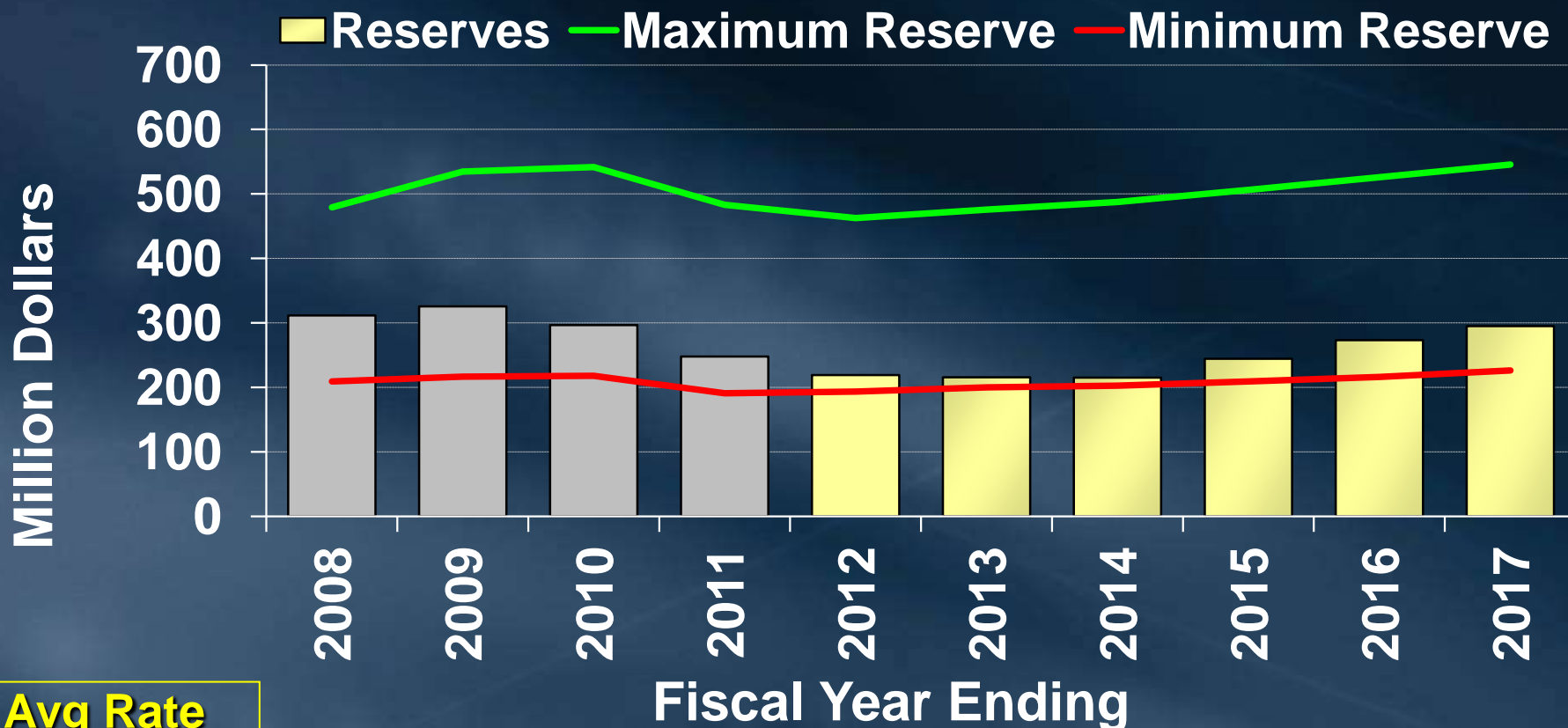


- Salary & Benefits
- Variable Treatment
- Outside Services
- Materials & Supplies
- OPEB
- Other
- Operating Equipment

Proposed CIP Budgets FY 2012/13 and FY 2013/14



Financial Performance Metrics*



Avg Rate Increase	Fiscal Year Ending									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Avg Rate Increase	6%	14%	20%	7.5%	7.5%	7.5%	5%	3%	3%	3%
Sales, MAF	2.3	2.2	1.8	1.7	1.7	1.7	1.7	1.75	1.75	1.75
PAYGO, \$M	43	30	37	45	45	55	125	125	125	125
Rev. Bond Cvg	1.8	1.8	1.6	1.5	1.5	1.6	1.9	2.0	2.0	2.0
Fixed Chg Cvg	1.3	1.3	1.1	1.0	1.1	1.2	1.4	1.4	1.4	1.3

* includes Water Stewardship Fund and SDCWA litigation account

** FY2013 and beyond are based on modified accrual

Financial Reporting Recommendation

- Modified Accrual Basis
 - Recognizes revenues and expenses when incurred
 - Not dependent on timing of cash receipts and disbursement
 - In accordance with GAAP
- Impact of implementation
 - Provides better match of revenues and expenses
 - Reduces staff time maintaining accounting records
 - Recognizes full 6 months of revenue of implemented rate changes

2012/13 and 2013/14 Estimated Revenue Requirement

Millions of Dollars	2011/12 Projected	2012/13 Proposed Budget	2013/14 Proposed Budget
O&M	\$ 372.8	\$ 371.3	\$ 393.8
State Water Contract	508.3	593.4	563.8
Supply Programs	64.0	45.1	44.9
Colorado River Power	33.0	36.2	24.9
Debt Service	333.3	343.3	352.3
Demand Management	55.1	53.2	53.6
PAYGO	45.0	55.0	125.0
Inc. in Req. Reserves	18.2	11.0	24.2
Sub-total expenditures	1,429.7	1,508.6	1,582.5
Revenue Offsets	158.6	125.0	121.0
Total Revenue Requirement	1,271.1	1,383.6	1,461.0

Totals may not foot due to rounding.

Proposed Rate Elements

Rates and Charges Effective January 1			
	2012	2013	2014
Tier 1 Supply Rate (\$/AF)	\$95	\$149	\$157
Delta Supply Surcharge (\$/AF)	\$69	*	*
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$217	\$228	\$247
Water Stewardship Rate (\$/AF)	\$43	\$41	\$42
System Power Rate (\$/AF)	\$136	\$190	\$164
Treatment Surcharge (\$/AF)	\$234	\$260	\$302
Readiness-to-Serve Charge (\$M)	\$146	\$146	\$169
Capacity Charge (\$/cfs)	\$7,400	\$6,600	\$8,900

*** The Delta Supply Surcharge will be suspended after 2012**

Proposed Rates and Charges

Rates and Charges Effective January 1				
		2012	2013	2014
Full Service Untreated Volumetric Cost (\$/AF)				
	Tier 1	\$560	\$608	\$610
	Tier 2	\$686	\$749	\$743
Replenishment Water Rate Untreated (\$/AF)		\$442	*	*
Interim Agricultural Water Program Untreated (\$/AF)		\$537	**	**
Full Service Treated Volumetric Cost (\$/AF)				
	Tier 1	\$794	\$868	\$912
	Tier 2	\$920	\$1,009	\$1,045
Replenishment Water Rate Treated (\$/AF)		\$651	*	*
Interim Agricultural Water Program Treated (\$/AF)		\$765	**	**

* Under review

** IAWP discontinued after 2012

Budget and Rate Review Schedule



MWD Board

Budget Review Schedule

- January 9: Finance and Insurance Committee
 - Proposed revenue requirements, biennial budget, and water rates and charges
 - Set date for public hearing
- January 24: Board Budget Workshop #1
 - Proposed district-wide budget and rates
- February 13 & 14: Committee Meetings
 - Review group budgets in home committees
- February 28: Board Budget Workshop #2
 - Address Board issues and questions raised at prior workshop and committee presentations

MWD Board

Budget Review Schedule

- March 12: Public hearing
 - Water rates and charges
- April 9: Finance and Insurance Committee
 - Consideration and action on proposed biennial budget and rates
- April 10: Board meeting
 - Consideration and action on proposed biennial budget and rates

Board Budget Options and Recommendation

- Option #1 – Adopt CEQA determination and
 - Set a public hearing for the March 2012 meeting of the Finance and Insurance Committee at which interested parties may provide input regarding Metropolitan's rates and charges to be effective January 1, 2013 and January 1, 2014; and
 - Approve the modified-accrual basis of accounting as described in Board letter.

Board Budget Options and Recommendation

- Option #2 – Adopt CEQA determination and
 - Set a public hearing for the March 2012 meeting of the Finance and Insurance Committee at which interested parties may provide input regarding Metropolitan's rates and charges to be effective January 1, 2013 and January 1, 2014; and
 - Do not approve the modified-accrual basis of accounting as described in Board letter.

Board Budget Options and Recommendation

- Option #3 – Take no action

- Staff Recommendation
 - Option #1

Questions

