

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

**Board Budget Workshop
January 24, 2012**



Proposed Biennial Budget Workshop Presentation Overview

- Budget and Rates Overview
- Water Supply and Demand Forecast
- Key Strategic Priorities
- Water Rates and Charges
- Next Steps

Budget and Rates Overview



Overview

Proposed 2012/13 and 2013/14 Budget

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

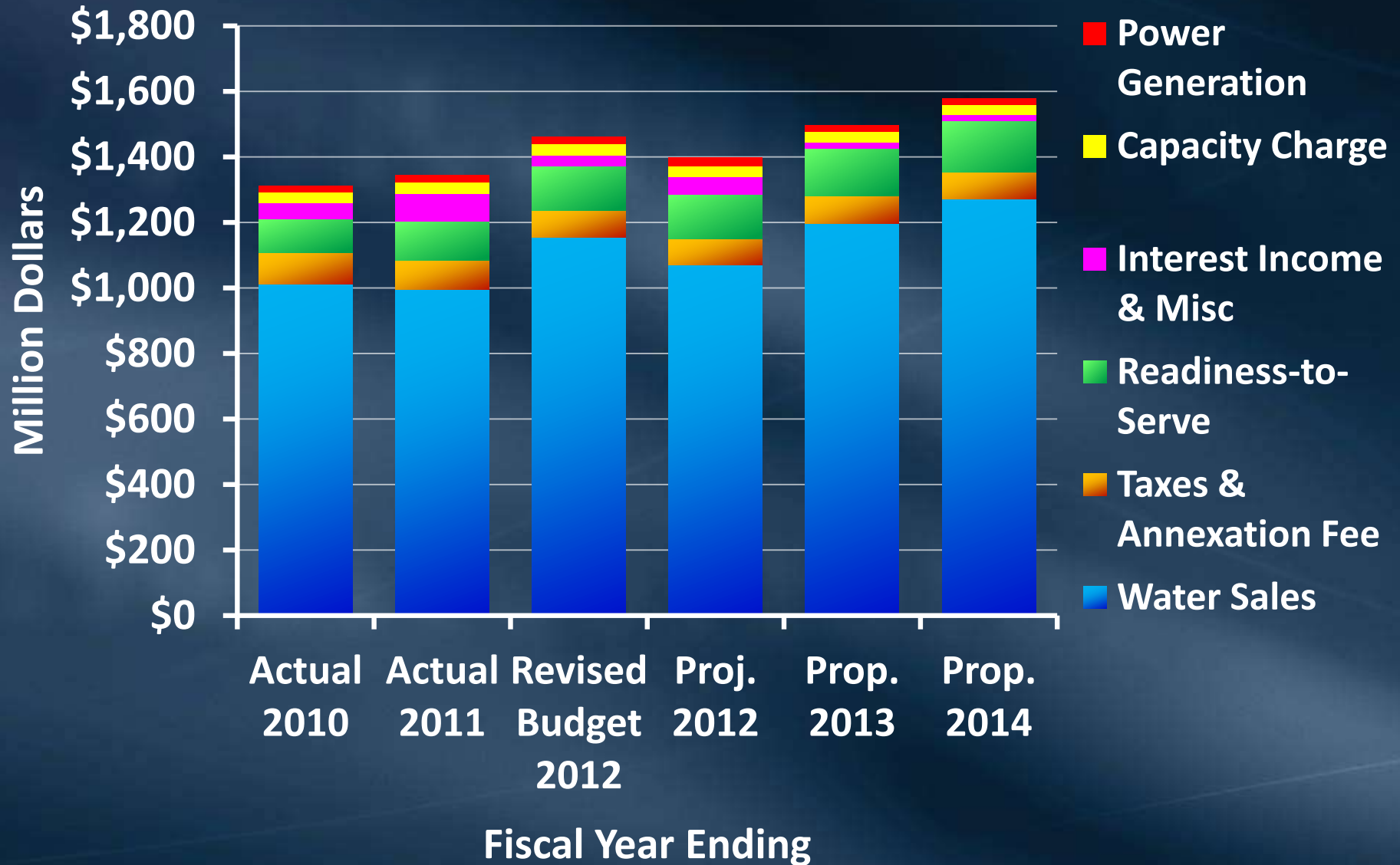
Important Underlying Factors

| 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 | 1.5% | 1.5% |
| New Debt Interest Rate - Fixed | 4.5% | 4.5% |
| - Variable | 0.45% | 0.50% |

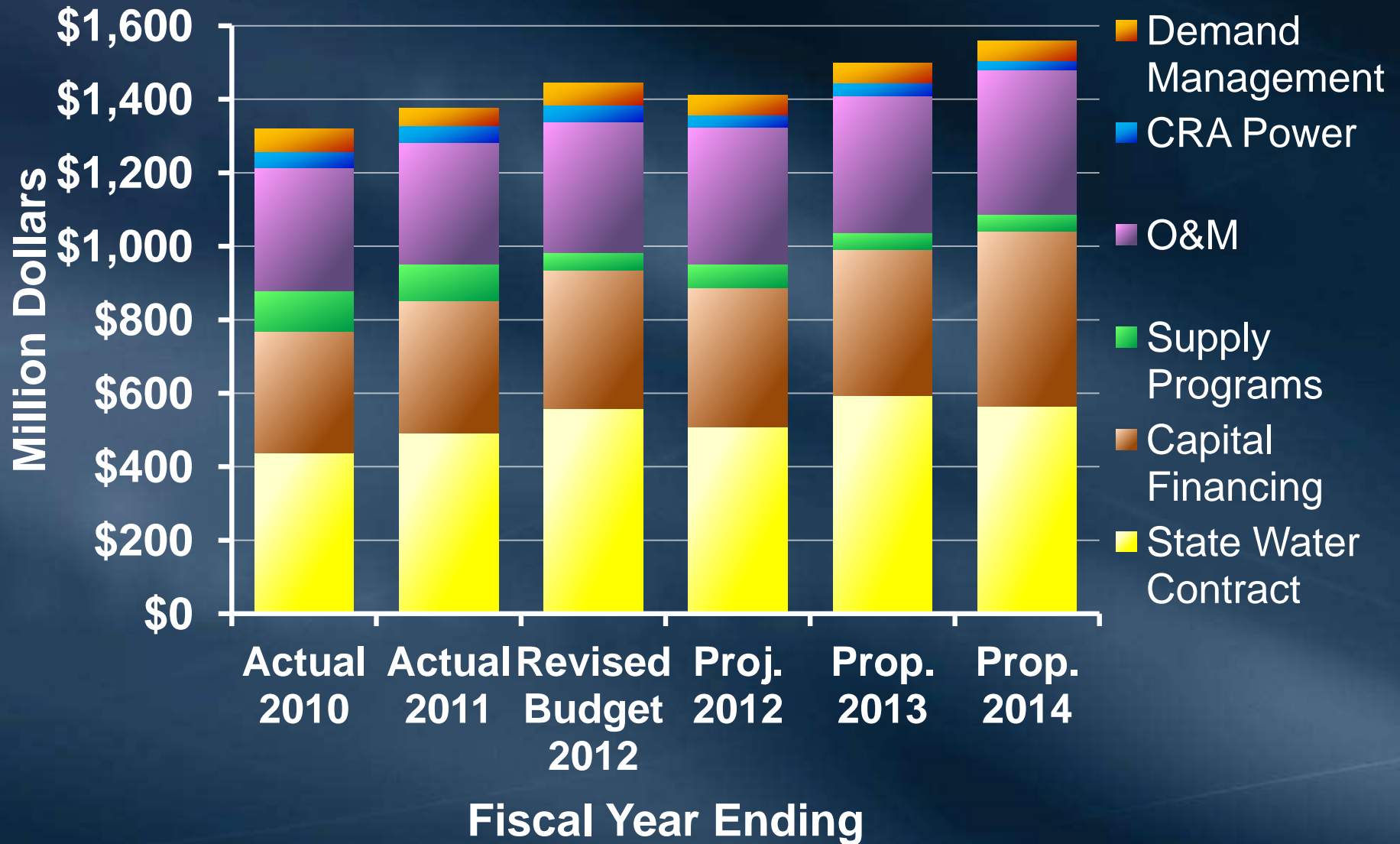
Overall Rate Increases Since 1999



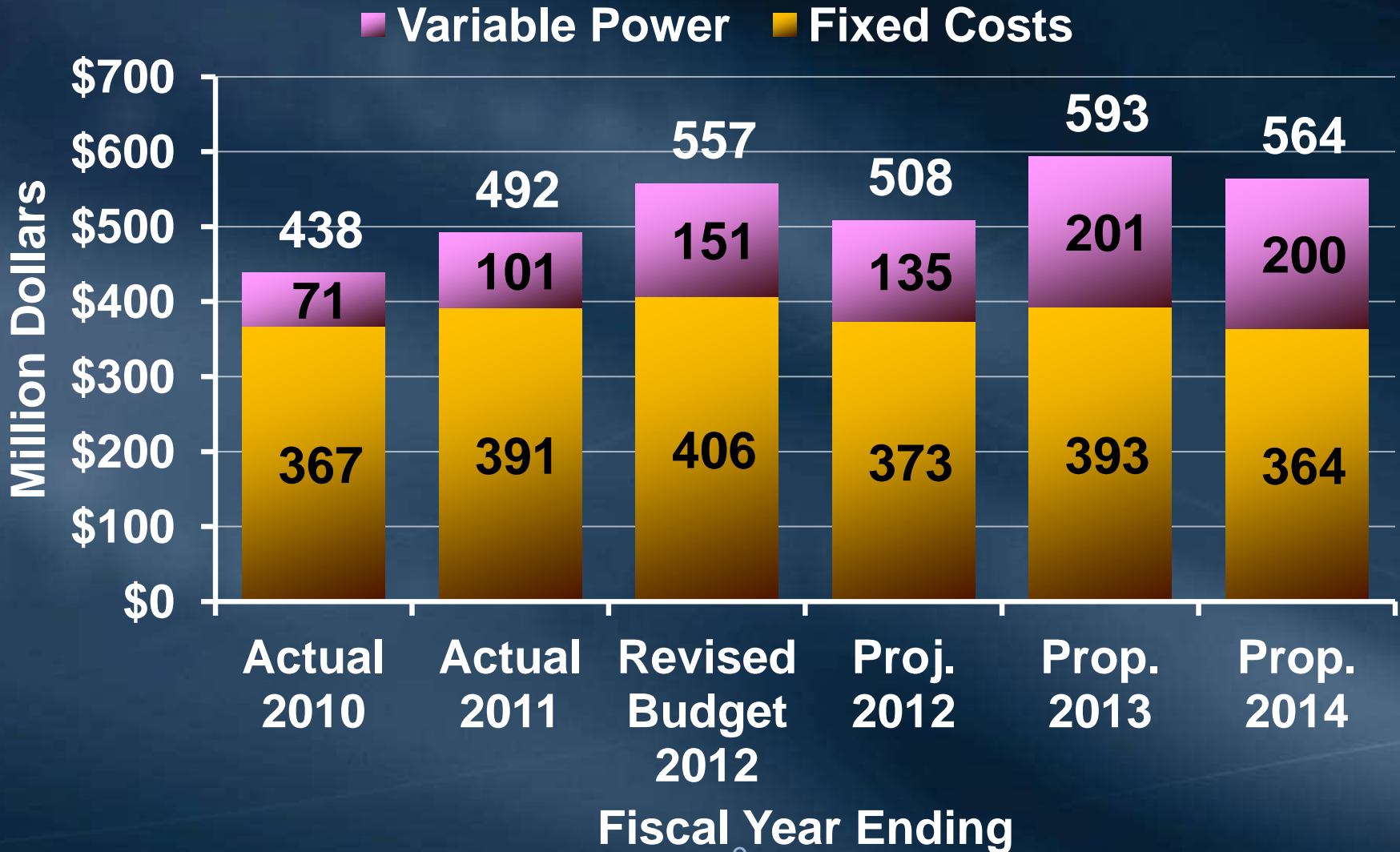
Revenue Overview



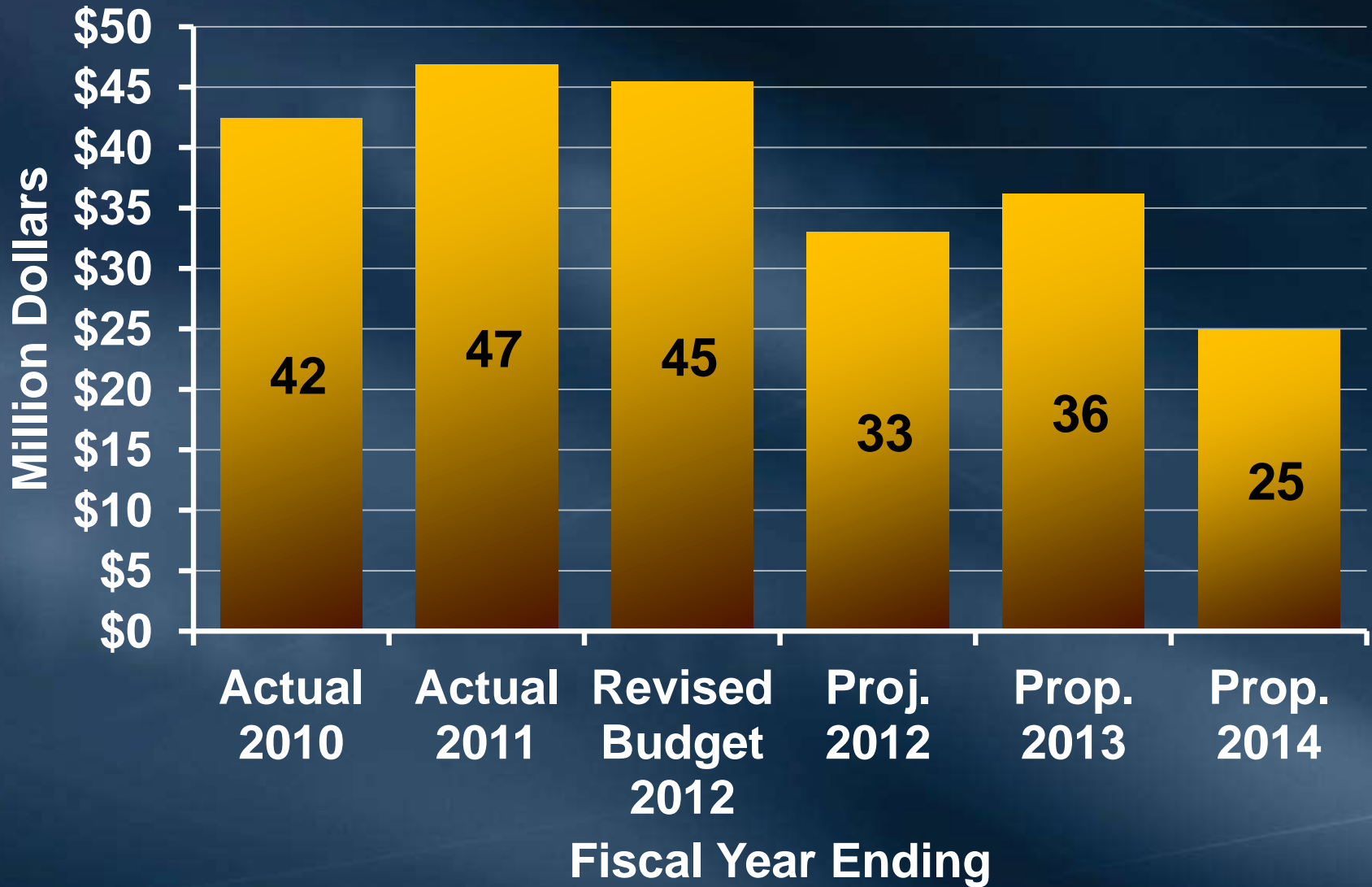
Expenditure Overview



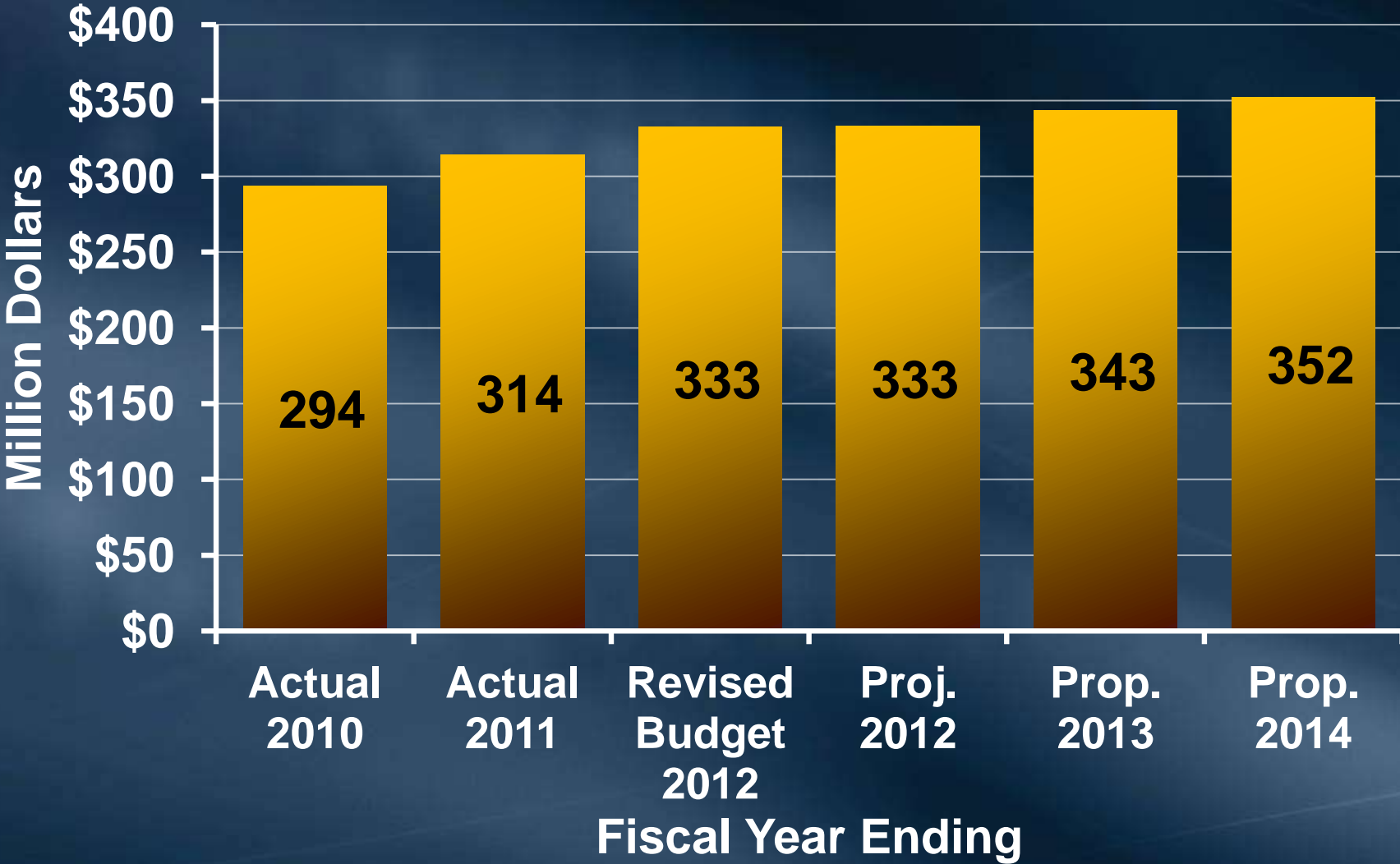
State Water Contract Costs



CRA Power Costs



Debt Service



O&M Cost Trend



O&M Budget by Expenditure Type



Reasons for O&M Cost Increases FY 2012/13

| | |
|-----------------------------|------------------|
| ● OPEB | \$5.0 M |
| ● Medical Insurance | \$3.1 M |
| ● Water Treatment | \$2.6 M |
| ● Legal costs | \$2.2 M |
| ● Employee merit | \$1.6 M |
| ● PC Replacement | \$1.4 M |
| ● Shutdown support overtime | \$0.6 M |
| ● Operating Equipment | \$0.6 M |
| ● Positions cuts | <u>(\$2.4 M)</u> |
| | \$14.7 M |

Reasons for O&M Cost Increases FY 2013/14

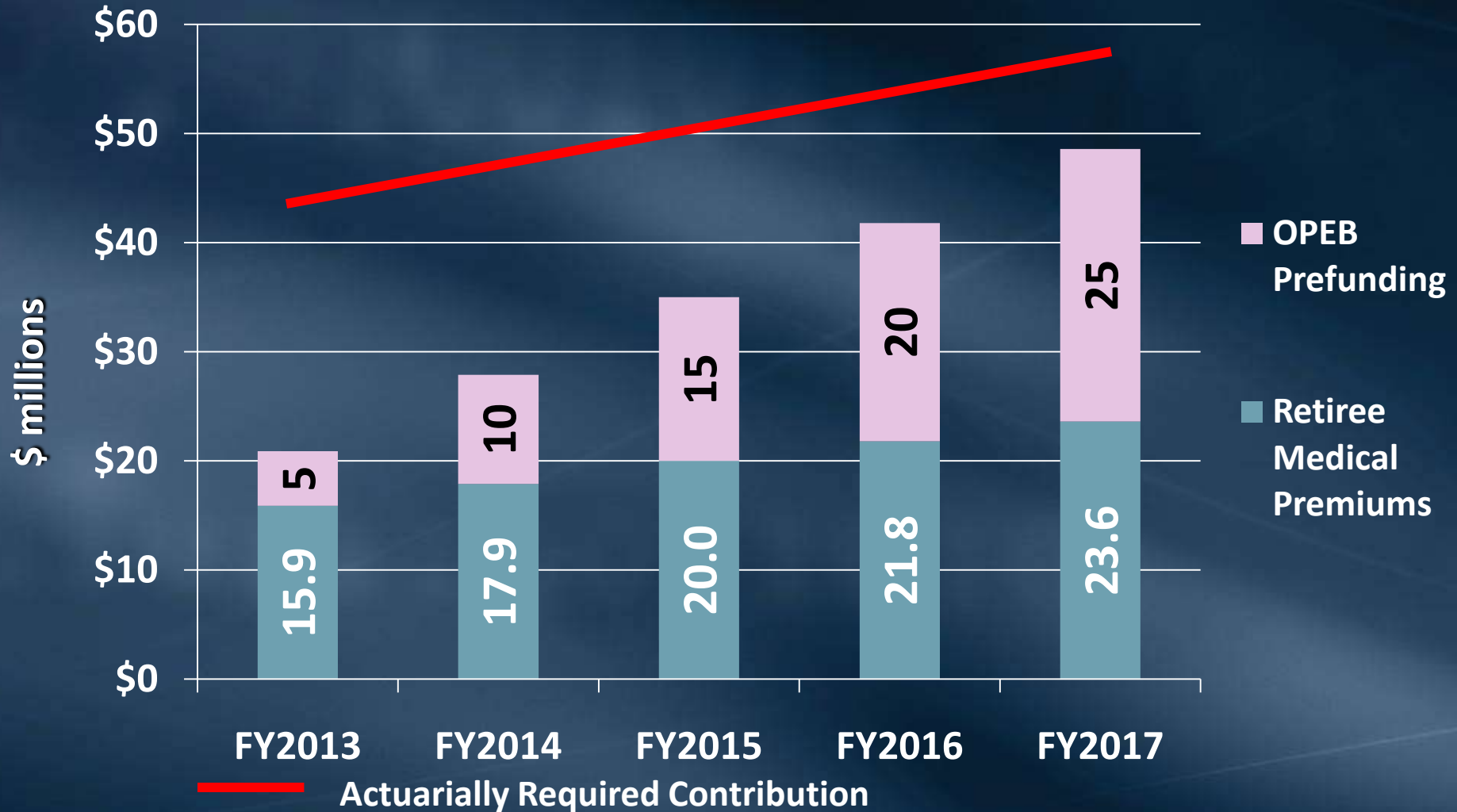
| | |
|-------------------|----------------|
| ● Employee merit | \$13.2 M |
| ● OPEB | \$5.0 M |
| ● PC Replacement | \$2.1 M |
| ● Water treatment | <u>\$0.9 M</u> |
| | \$21.2 M |

Regular Employee Count By Payroll Period



Estimated Retiree Medical Costs

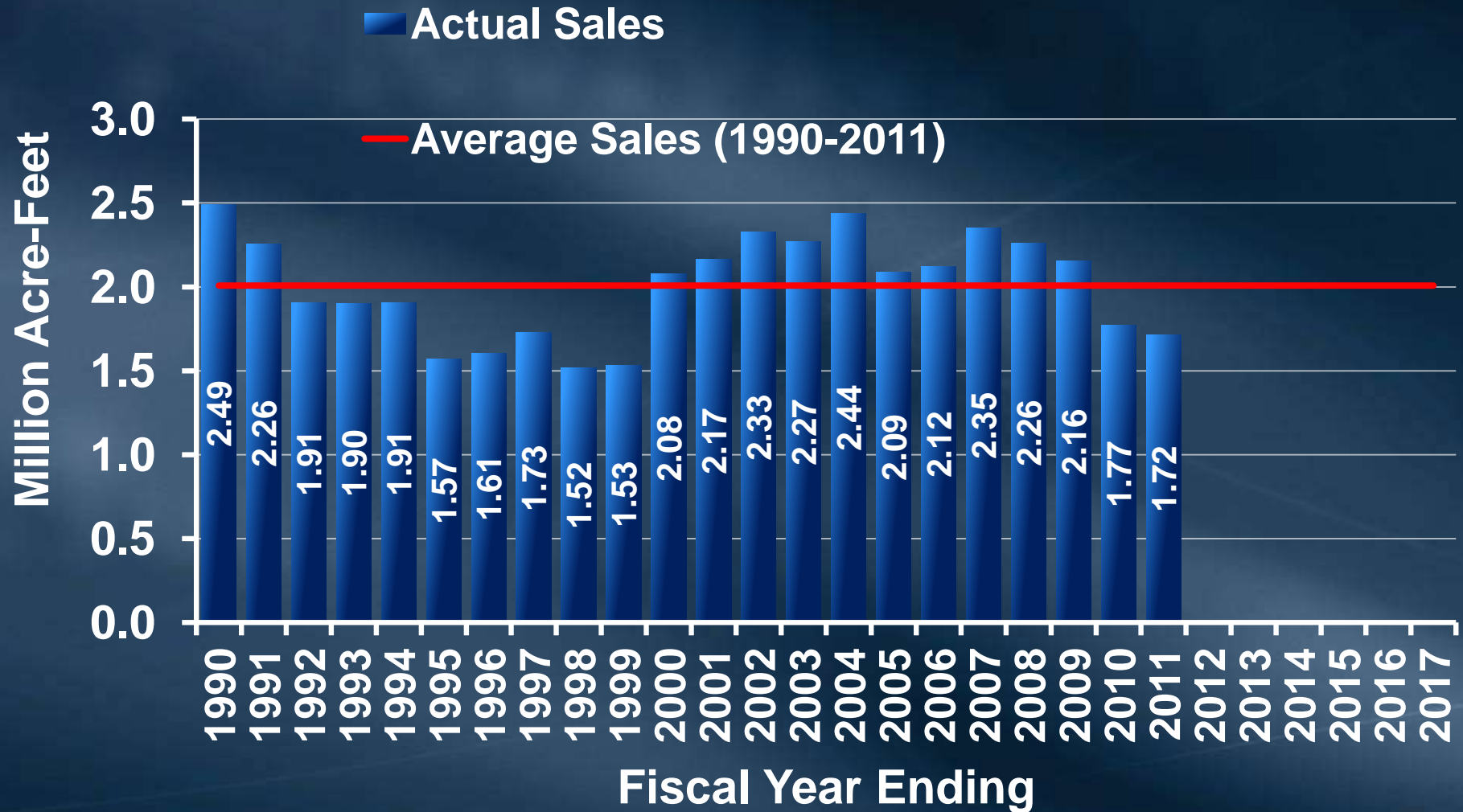
FY 2013 to FY 2017



Water Supply and Demand Forecast Overview



Metropolitan's Historic Sales/Deliveries Have Been Volatile



Forecasting Demands Under “Normal” Conditions

- Retail Demand: Forecast based on many factors
 - Demographics
 - Retail Price
 - Average Weather
- Other Demand
 - Agricultural, Replenishment, Seawater Barrier
- Conservation
- Local supply production
 - Assuming Normal Weather Conditions

Adjustments From A “Normal” Forecast

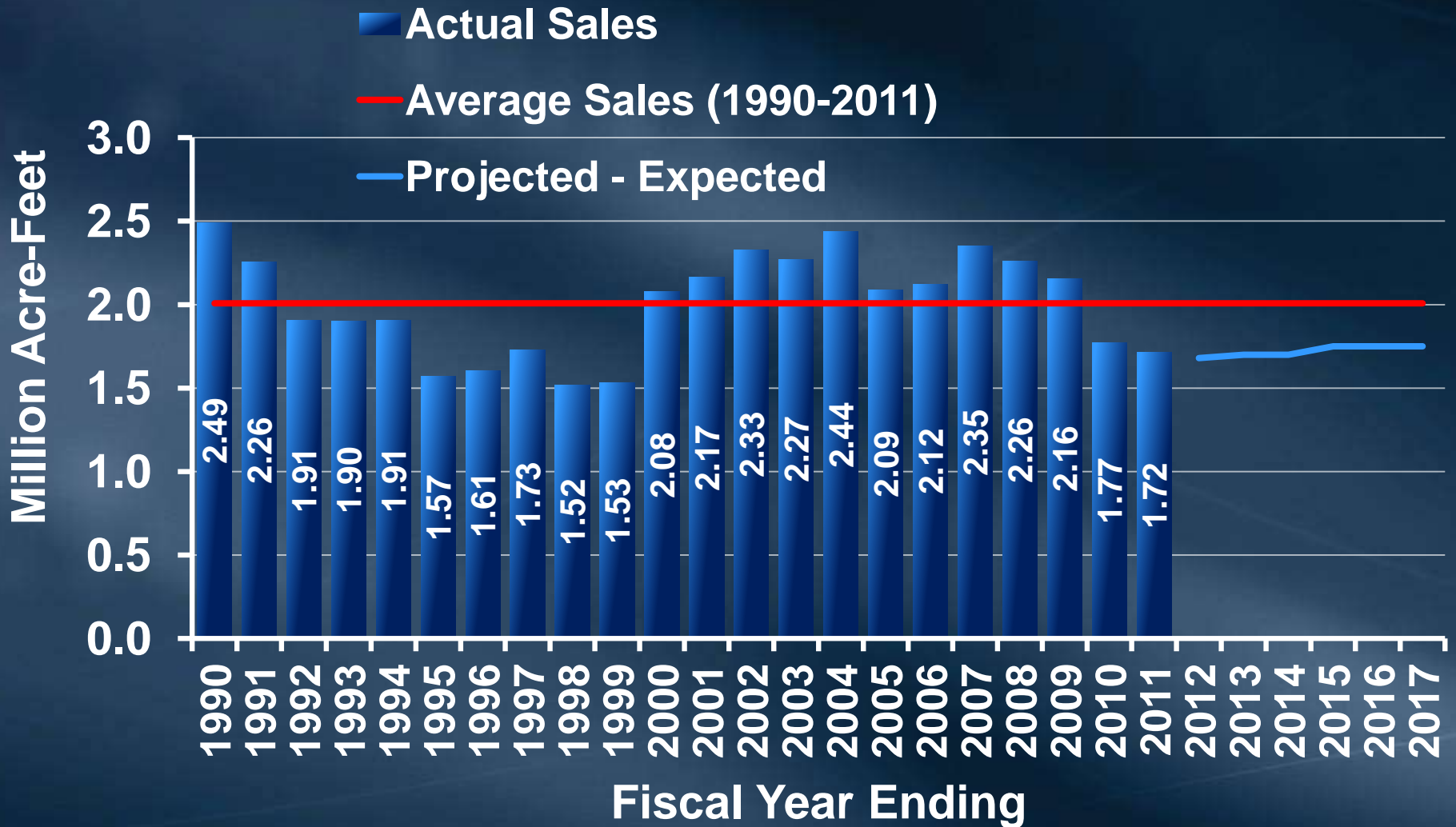
| Category | Impact on MWD Demand |
|---|----------------------|
| Local Supply: May be lower than normal due to dry conditions | ↑ |
| Economy: Continued reduced activity and reduced personal income | ↓ |
| Price: Retail increases that outpace inflation | ↓ |

Adjusted Demand on MWD is 1.78 MAF

Budgeting Based On A Conservative Estimate Of Water Sales/Deliveries

- 2012 Adjustments indicate a demand of 1.78 MAF
 - Under normal weather conditions
- Recent demand trends have been lower
 - Cool and wet weather
 - Local supplies have been healthy
 - Continued impact of previous calls for conservation
- Budgeting at 1.7 MAF is conservative and consistent with recent demand trends
 - 70% likelihood of exceedence

1.7 MAF: A Conservative Figure For Budget Planning



Key Strategic Priorities Funded in Proposed Biennial Budget



Key Strategic Priorities

- Continued Rebuilding of Storage Accounts
- Continued Support for Conservation
- Continued Support for Local Resource Program (LRP)
- Commitment to Bay Delta
- CIP Focused on Refurbishment and Replacement
- Meet Financial Policy Goals

Storage, Conservation and Local Resource Programs



Funding of Key Programs

- Conservation Program (\$20 M)
 - Maintains full funding for the conservation incentive program
 - Current expenditures trending toward \$16 M, with no advertising of the program
 - Grant activity by local agencies is likely to spur additional activity
 - Supports commitment to long-term water use efficiency goals

Funding of Key Programs

- Local Resources Program (\$33 M)
 - Reflects commitments to provide incentives through signed contracts
 - Incentives are only paid for water actually produced
 - Budget is lower than recent years due to observed lower production levels

Funding of Key Programs

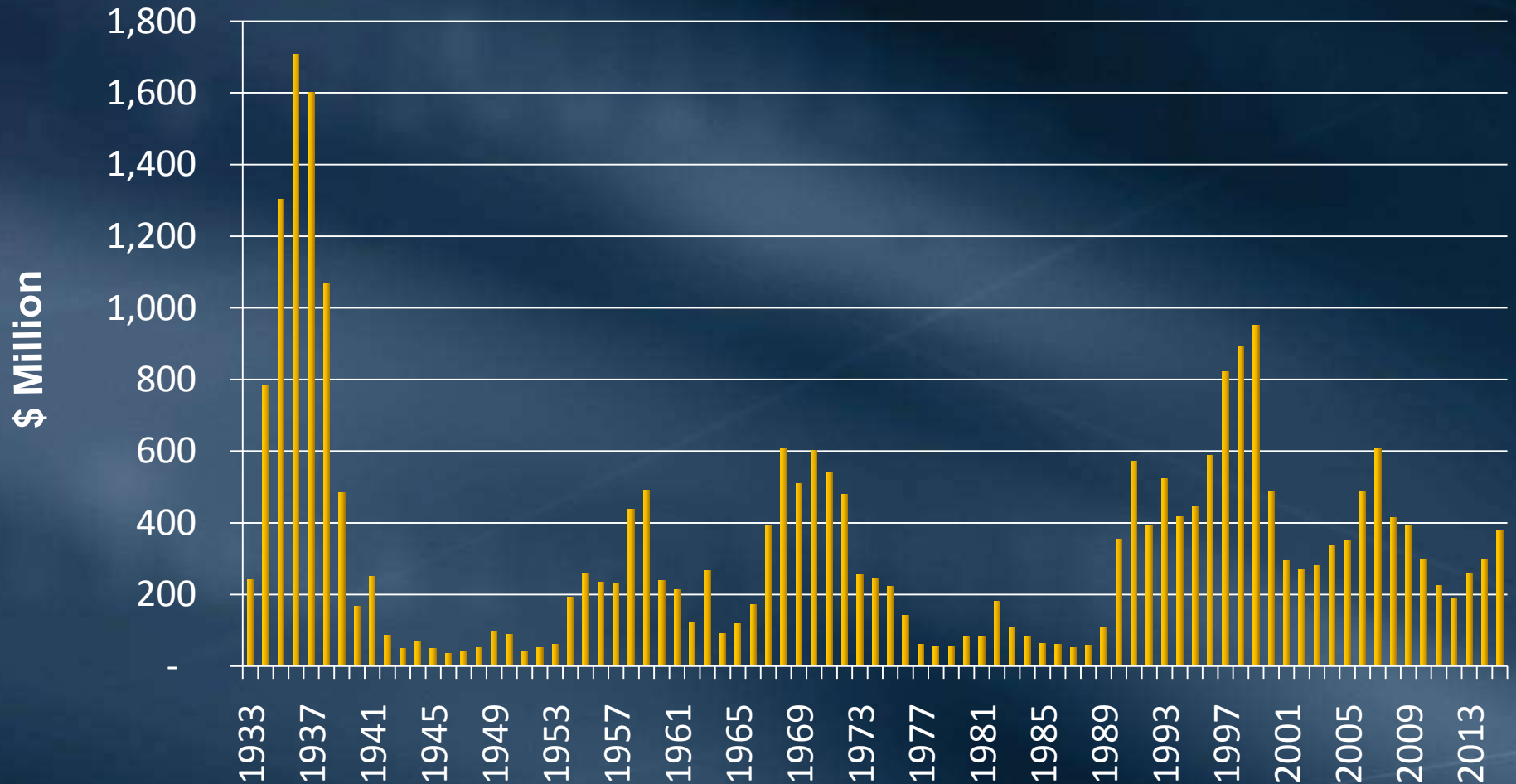
- **Water Supply Programs (\$45 M)**
 - **Funding of on-going Colorado Programs (\$31 M)**
 - IID/MWD Conservation Agreement
 - PVID Land Management Program
 - Lower Colorado Multi Species Conservation Program
 - **Funding for Storage Programs (\$14 M)**
 - Budget for storage of 180 TAF in Central Valley in 2012
 - Colorado system storage does not incur storage fees
 - **Acquisition of additional transfer supplies is not included in this budget**

Capital Investment Plan FY 2012/13 and 2013/14



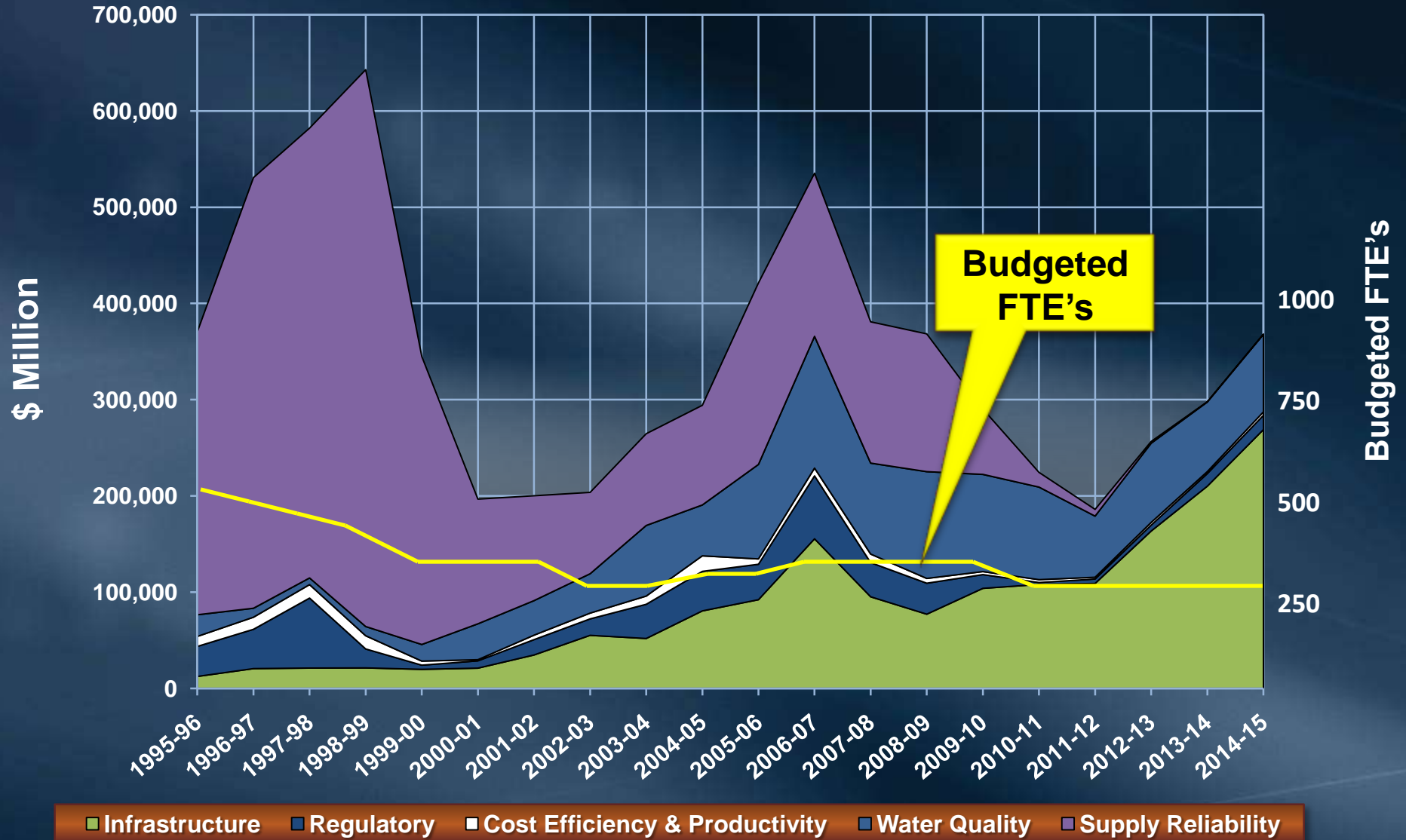
Metropolitan Water District of Southern California Annual Capital Expenditures

(adjusted to 2011)



Capital Investment Plan FY 12/13 – 13/14

20 - Year Period: 1995/96 – 2014/15



Criteria Used for Evaluations

- Project Necessity
 - Critical infrastructure refurbishment/replacement/upgrade
 - Reduced performance
 - End of service life
 - No vendor support
 - Best management practice
 - Water Quality
 - Water supply/capacity expansions

Criteria Used for Evaluations

- Project Mandate
 - Regulatory/code requirement
 - Environmental permit/mitigation
 - Previous Board action
 - Contract award
- Disruption of service
 - Business/Water system operations
- Cost efficiency/productivity
 - Cost/benefit analysis

Criteria Used for Evaluations

- Risk assessment
 - Urgency
 - Safety
 - Not meeting service demands
 - Increased future costs
 - Lost opportunity
 - Outside funding
 - Scheduled shutdown

Proposed CIP Budgets for FY 12/13 and FY 13/14

FY 2012/13 – 13/14
\$552 M

Water Quality – \$154 M

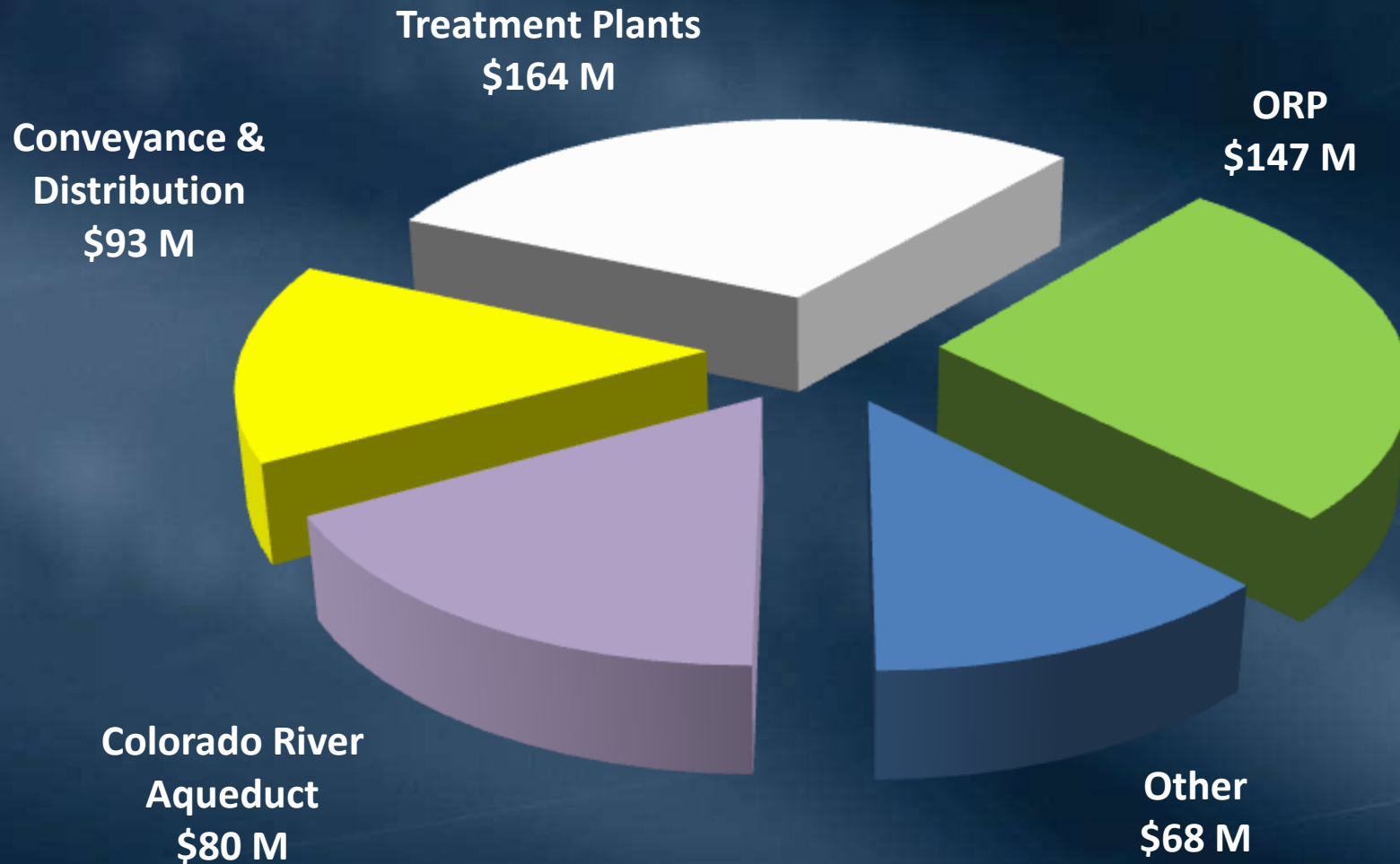


Infrastructure Reliability – \$374 M

■ Infrastructure ■ Water Quality ■ Regulatory ■ Other

FY 12/13 – 13/14 Capital Investment Plan

2 – Year Estimate = \$552 Million



CIP Budget Comparisons

| FY Budget | 2012/13 | 2013/14 | TOTAL |
|---|----------------|----------------|----------------|
| 2011/12 (Baseline) | \$347 M | \$370 M | \$717 M |
| 2012/13 - 2013/14 (Proposed) | \$257 M | \$295 M | \$552 M |

- 2-year Reduction CIP - \$165 M

FY 2012/13 – 13/14 CIP Summary

- Thorough and rigorous review of all projects
- Prioritized to maintain reliability and regulatory compliance
- Reduced 2 - year plan by \$165 M
- Increasing investments in Infrastructure Reliability
 - Over next 2 years, Infrastructure Reliability investment of \$374 million; 68% of CIP

Financial Policies



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

Review of Reserve Policies

- Administrative Code has established 14 funds totaling \$459 million at 6/30/11
- Master Bond Resolution has established 7 funds totaling \$667 million as of 6/30/11
- Alternatives will be presented to F&I Committee in February 2012
- Focus on harmonizing all reserve requirements
- Proposed guidelines on use of reserve balances when they are above the “target” level will be presented

Water Rates and Charges

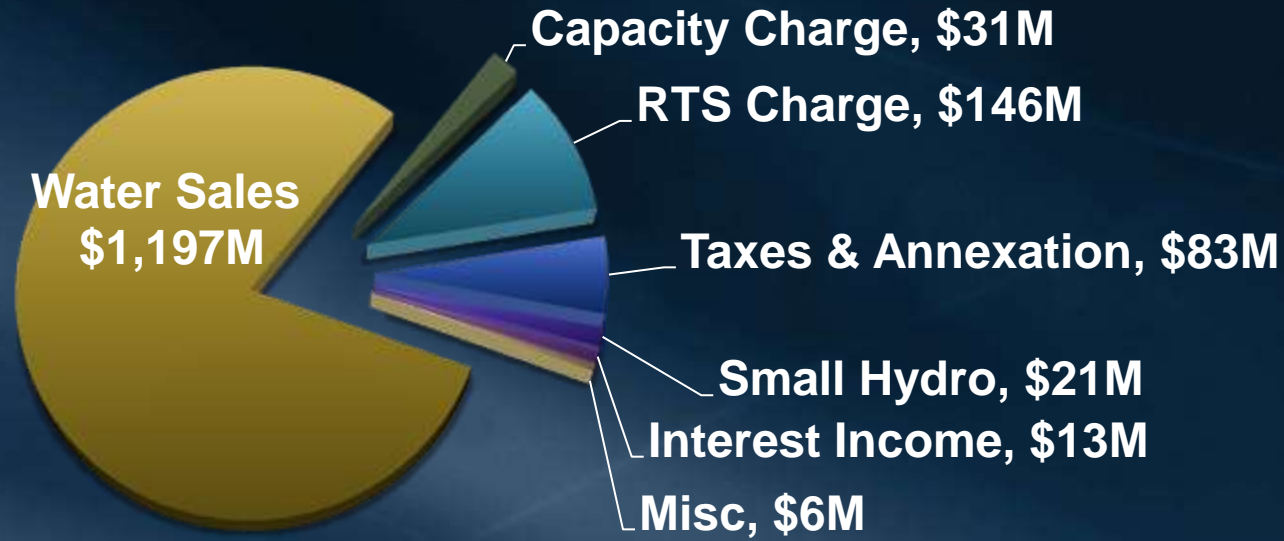


Development of Rates and Charges

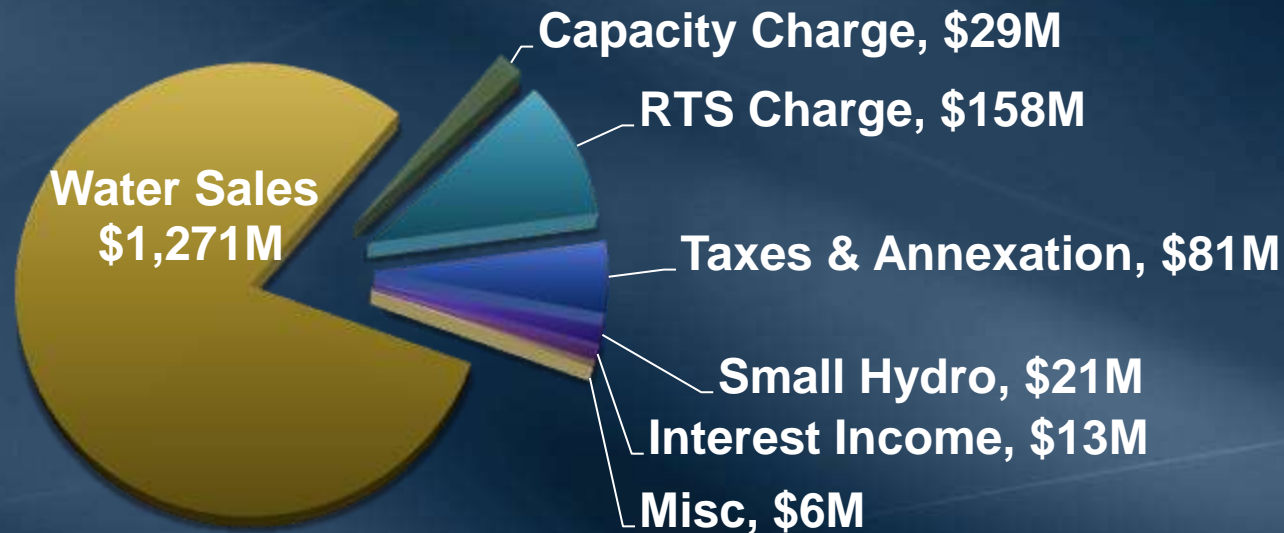
- Current Rate Structure adopted by the Board in October 2001 and implemented for rates effective January 1, 2003
- Cost of Service study determines the allocation of costs to services Metropolitan provides to develop unbundled rates and charges
 - Developed by outside consultant and provided to the Board in June 2002
 - Updated as needed to support Board rate actions; included in the January 2012 board letter
 - Provides the link between costs and water rates and charges

Projected Revenues

2012/13



2013/14



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.

Proposed Rate Elements

| Rates and Charges Effective January 1 | | | |
|---------------------------------------|---------|---------|---------|
| | 2012 | 2013 | 2014 |
| Tier 1 Supply Rate (\$/AF) | \$106 | \$149 | \$157 |
| Delta Supply Surcharge (\$/AF) | \$58 | * | * |
| 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 Rate Elements: Adjusted

| Rates and Charges Effective January 1 | | | |
|---------------------------------------|---------|----------------|---------|
| | 2012 | 2013 | 2014 |
| Tier 1 Supply Rate (\$/AF) | \$106 | \$149 | \$157 |
| Delta Supply Surcharge (\$/AF) | \$58 | * | * |
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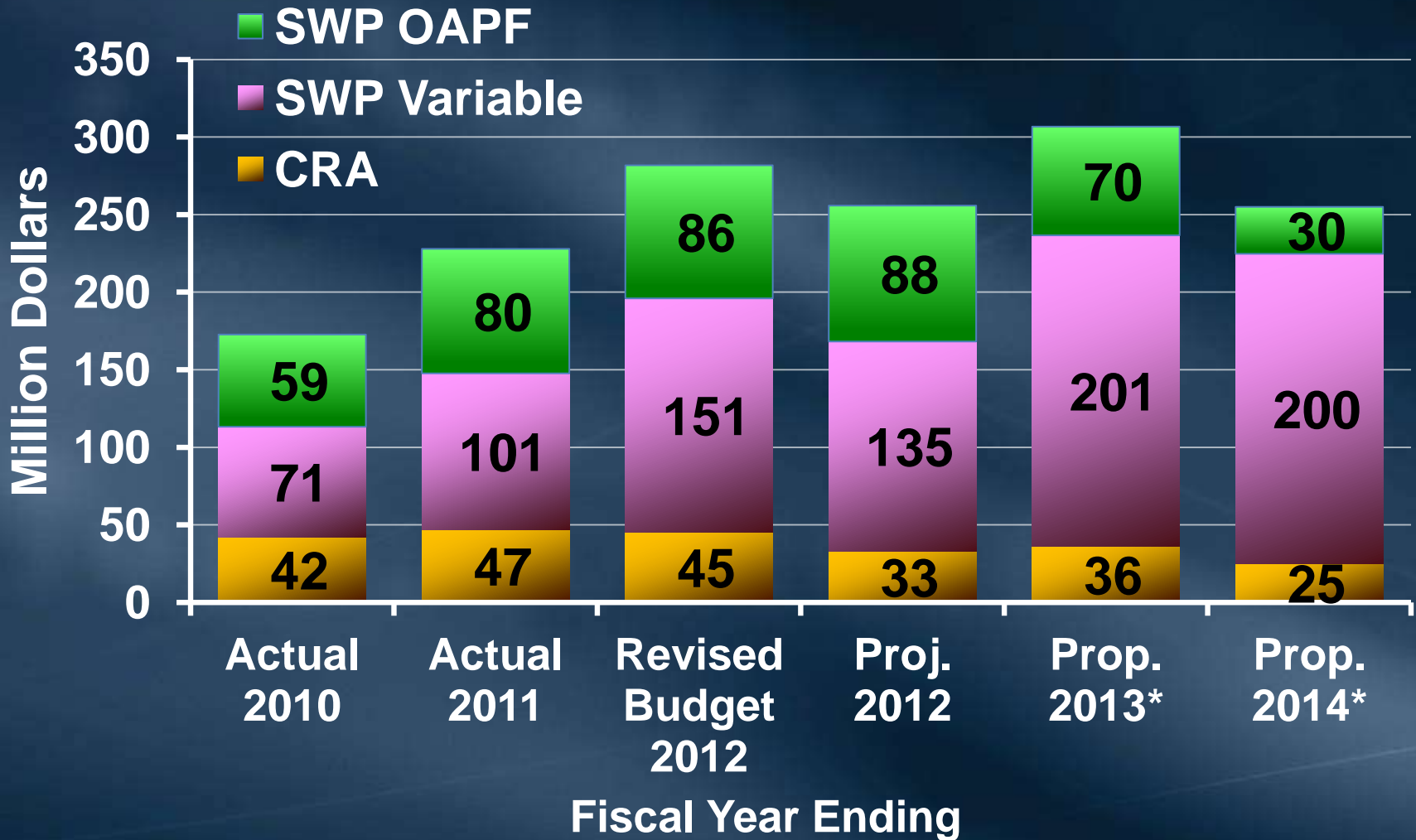
Proposed Bundled Rates

| 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 | ** | ** |

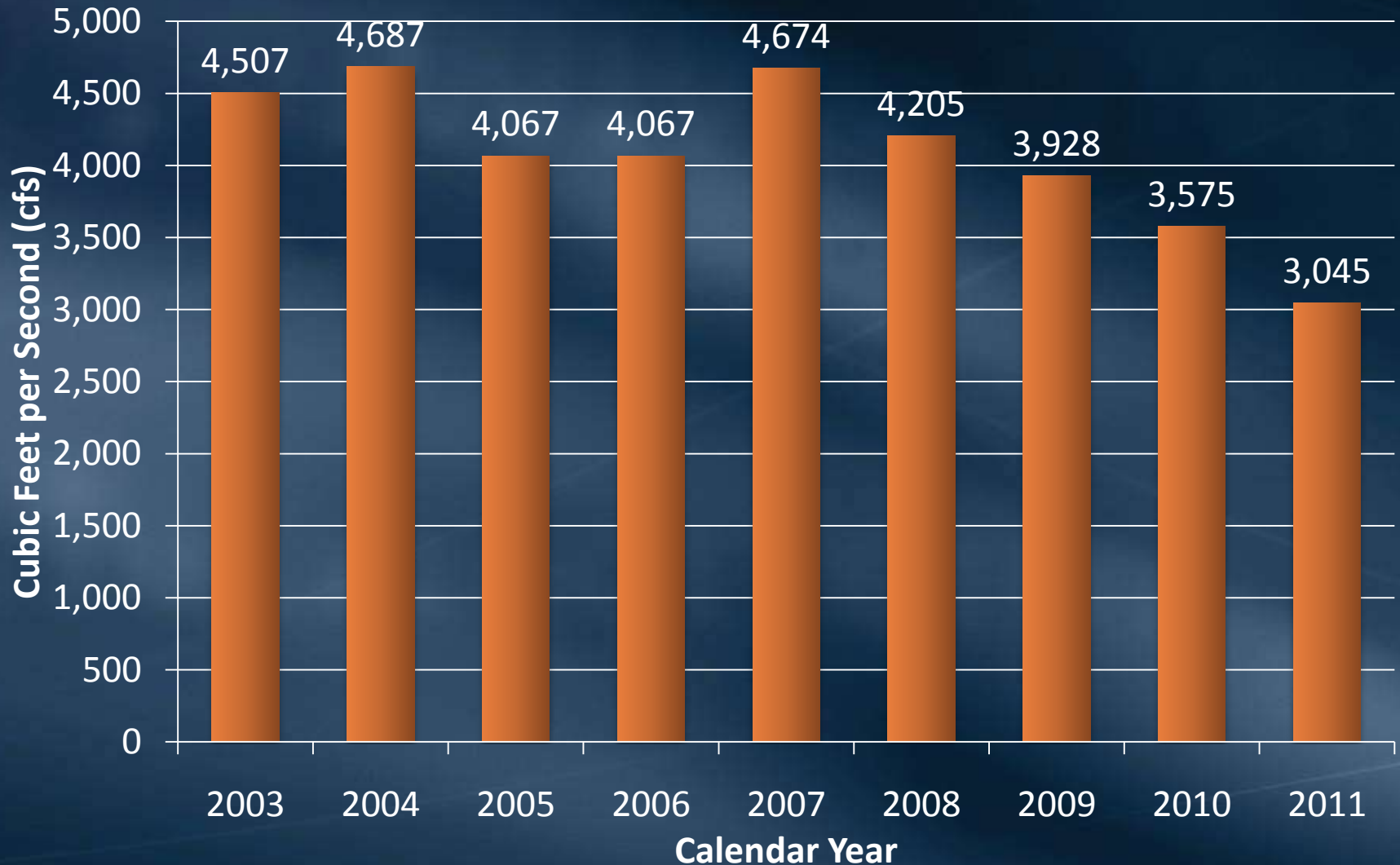
* Under review

** IAWP discontinued after 2012

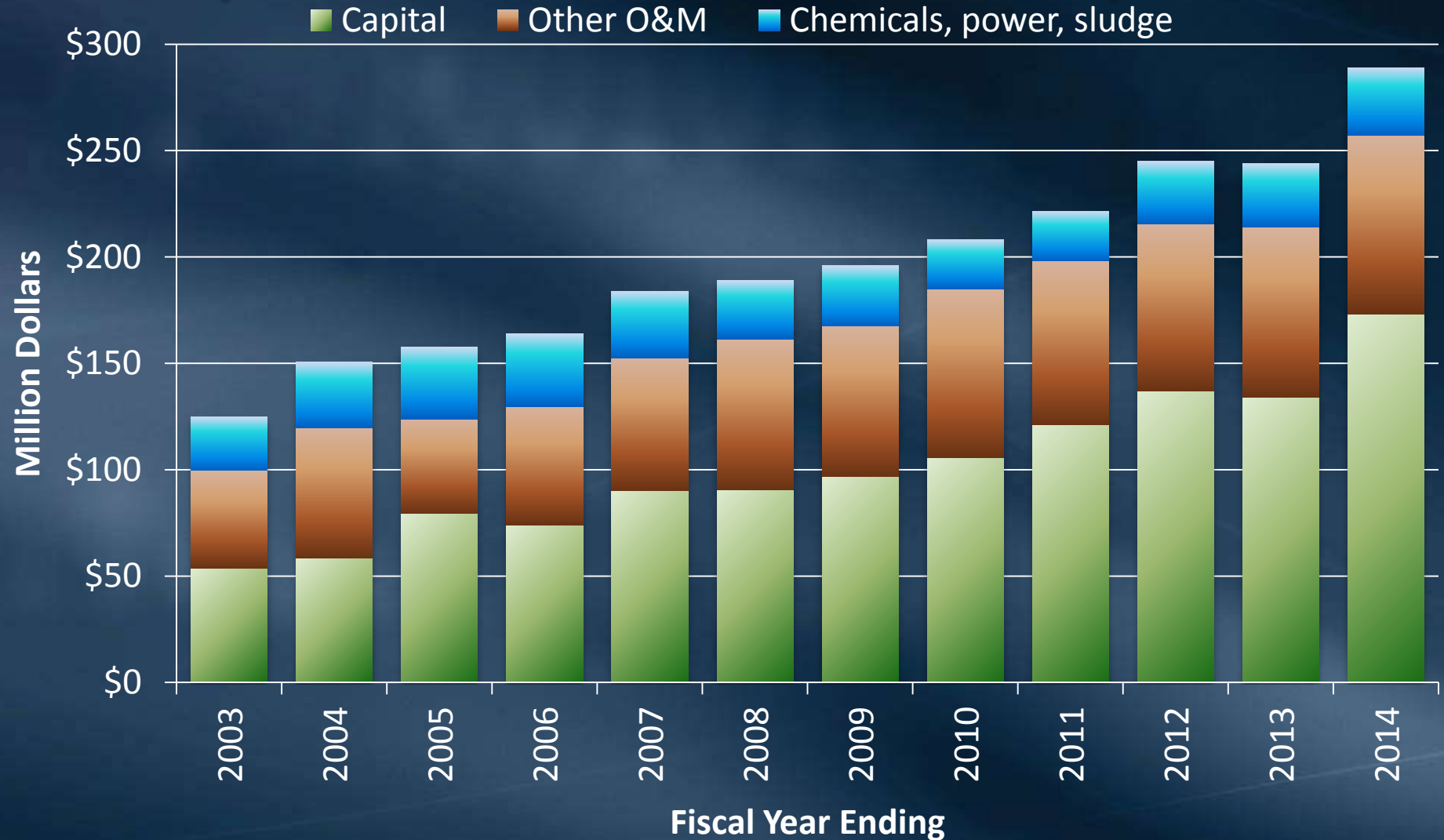
Power Costs



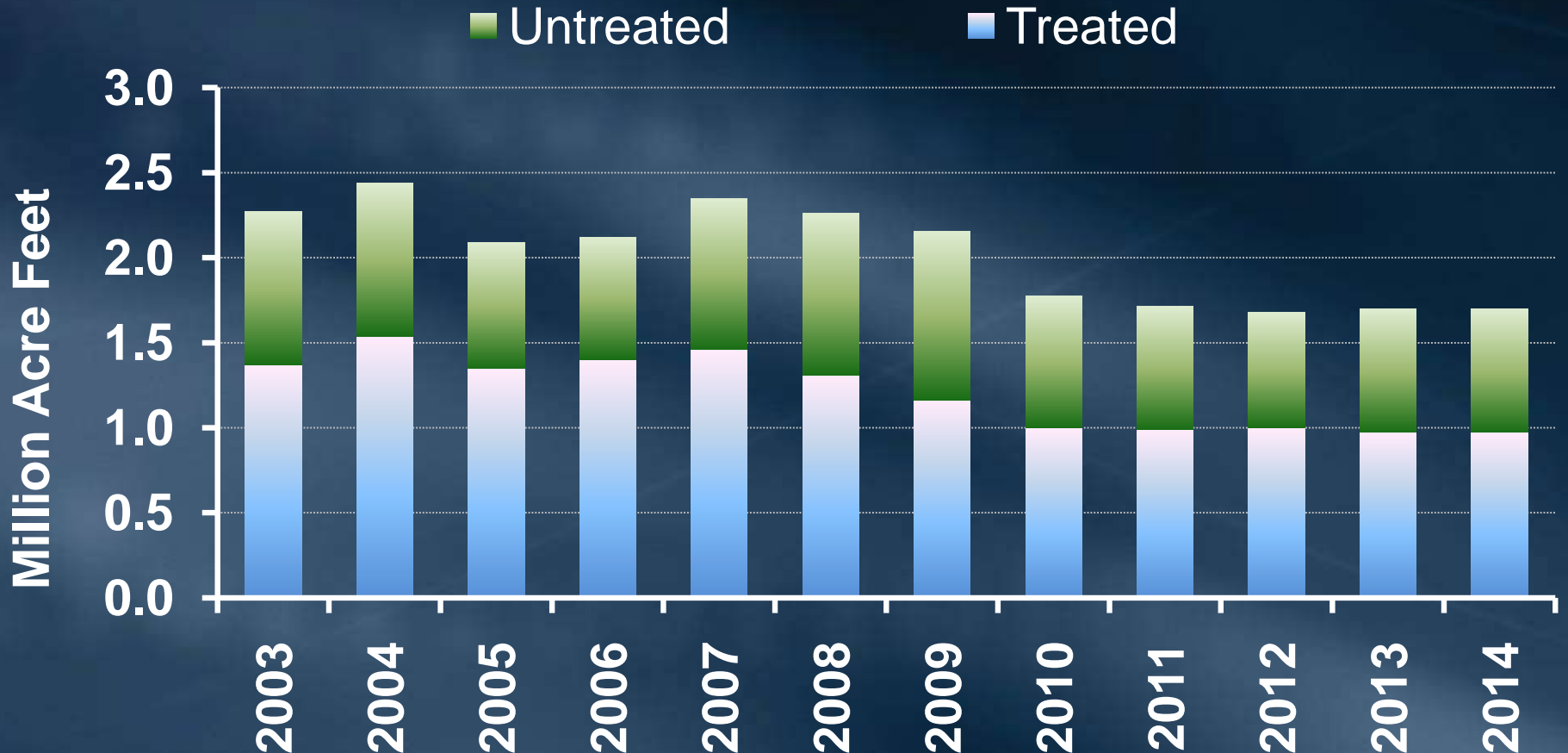
Sum of Member Agency Peak Day Demands



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



Treated / Untreated Sales/Exchange are Decreasing



Fiscal Year Ending

Treated as a % of Total

60% 63% 64% 66% 62% 58% 54% 56% 58% 59% 57% 57%

Treatment Surcharge Trend is Upward



Next Steps



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

Questions

