



Mid-cycle Biennial Budget Review and Recommendations for Use of Reserves over Target

Finance and Insurance Committee

Item 8-1

June 10, 2013

Presentation Overview

- Adopted Biennial Budget for FY 2012/13 and FY 2013/14
- FY 2012/13 Review
- FY 2013/14 Review
- Use of Reserves over Target
- Plans for next Biennial Budget

Goals of Biennial Budget

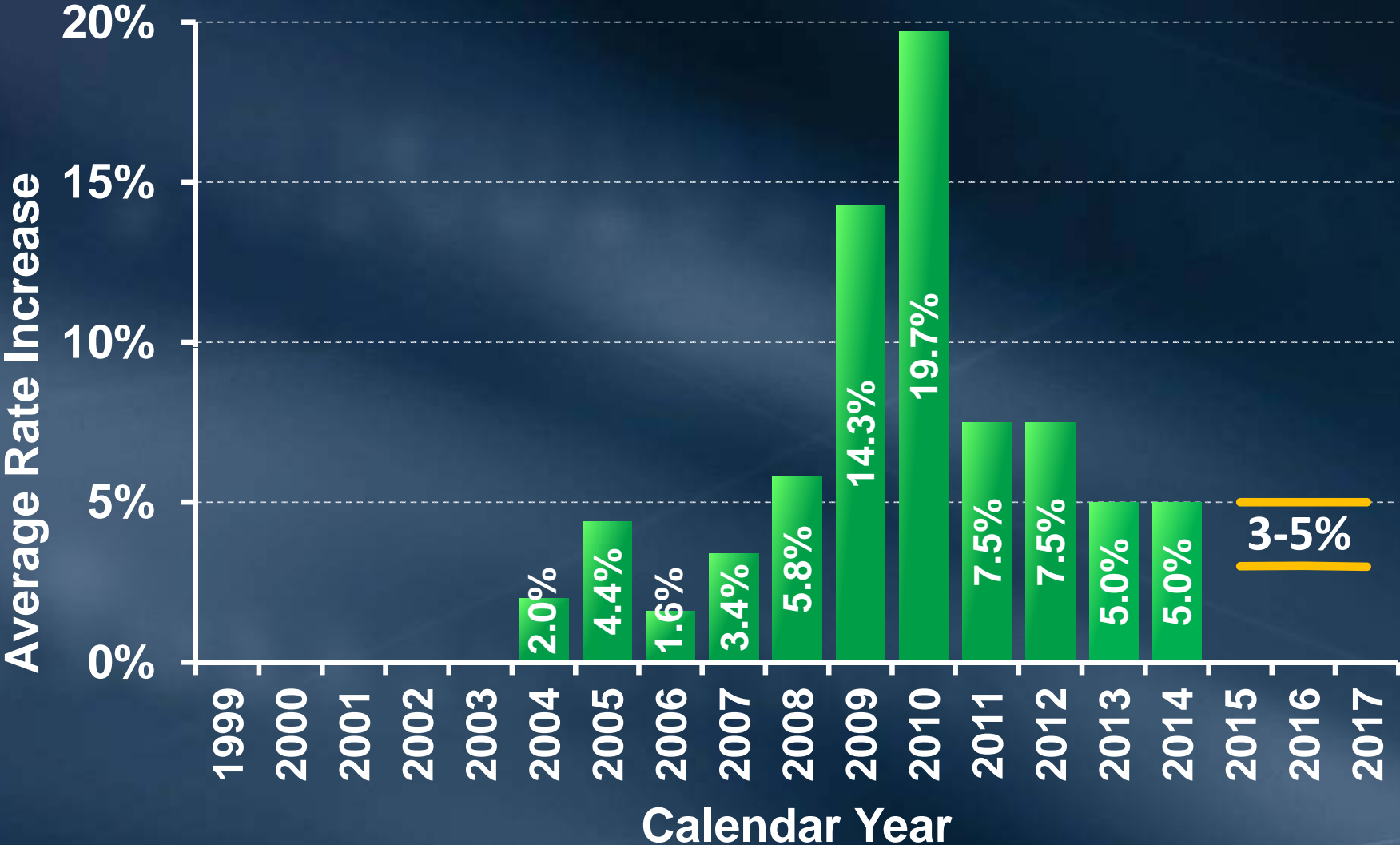
Adopted FY 2012/13 and 2013/14 Budget and Rate Setting

- Lower, more conservative water sales assumption
- Biennial (two-year) budget and rates approval
- Continued Rebuilding of Storage Accounts
- Continued Support for Conservation and Local Resource Program (LRP)
- Commitment to Bay Delta
- CIP Focused on Refurbishment and Replacement
- Initiate OPEB funding
- Meet financial targets

Important Underlying Assumptions

Fiscal Year Ending	2013	2014
Rate increase January 2013 and 2014	5.0%	5.0%
Total Water Sales and Exchanges	1.70 MAF	1.70 MAF
State Water Project Allocation	60% / 55%	55% / 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%
Capital Investment Plan	\$257.3M	\$294.6M

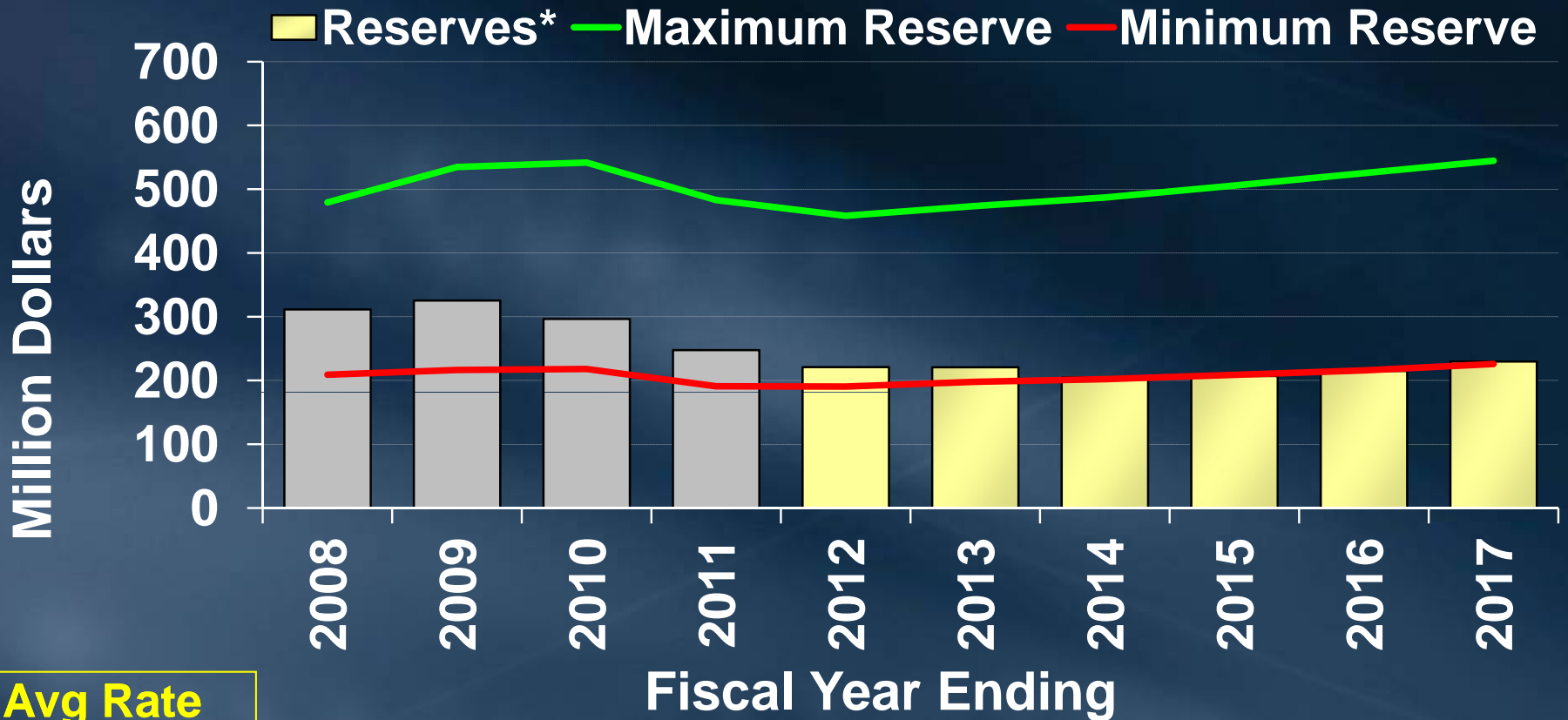
Overall Rate Increases Since 1999



1.7 MAF: A Conservative Figure For Budget Planning



FY2013 & FY2014 Budget



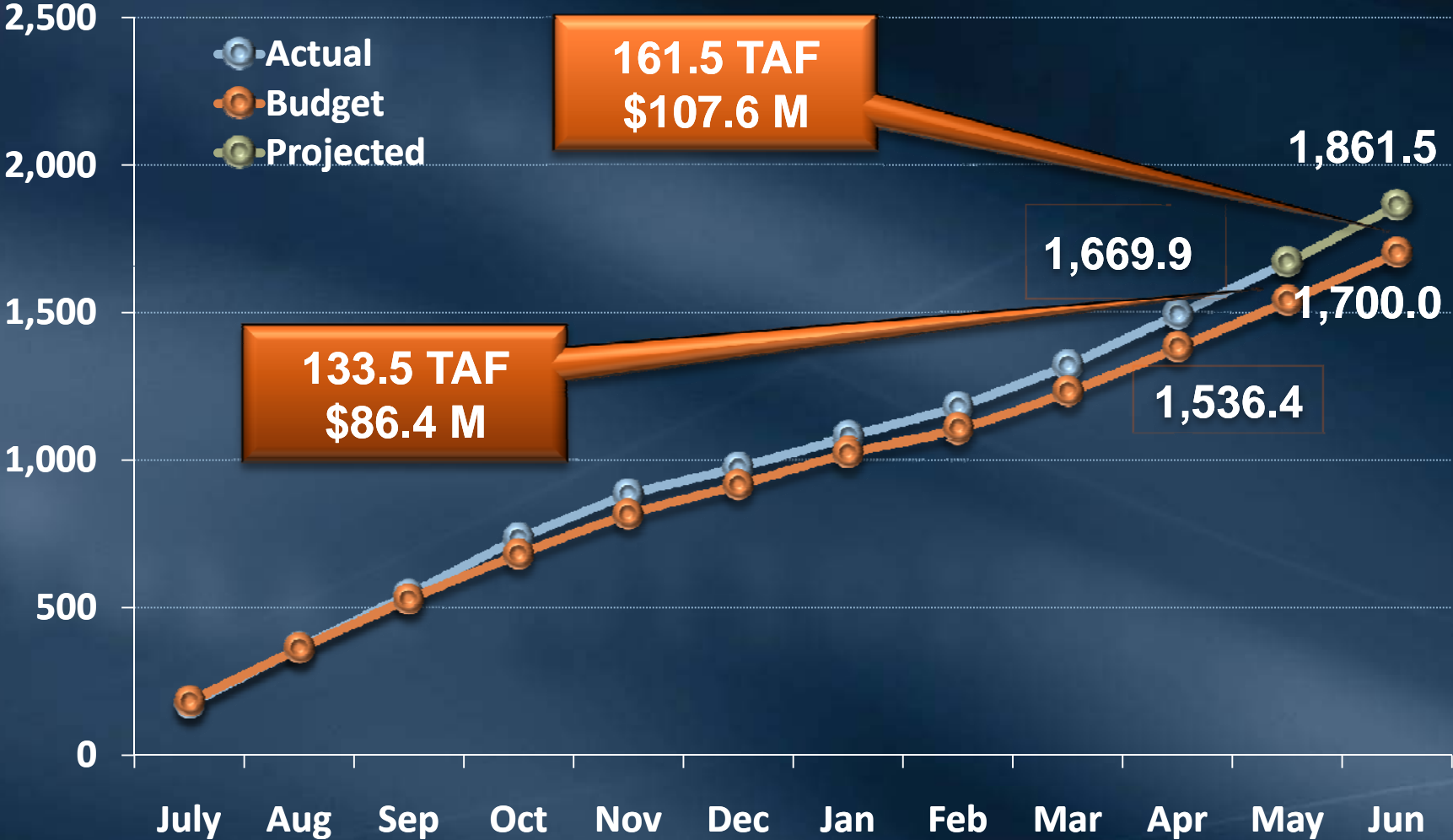
Avg Rate Increase	Fiscal Year Ending									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	6%	14%	20%	7.5%	7.5%	5%	5%	← 3% to 5% →		
Sales, MAF	2.3	2.2	1.8	1.7	1.7	1.7	1.7	1.75	1.75	1.75
PAYGO, \$M	43	30	37	45	45	55	125	125	125	125
Rev. Bond Cvg	1.8	1.8	1.6	1.5	1.5	1.6	1.9	1.9	2.0	2.0
Fixed Chg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

* Includes Water Stewardship Fund

FY 2012/13 Review

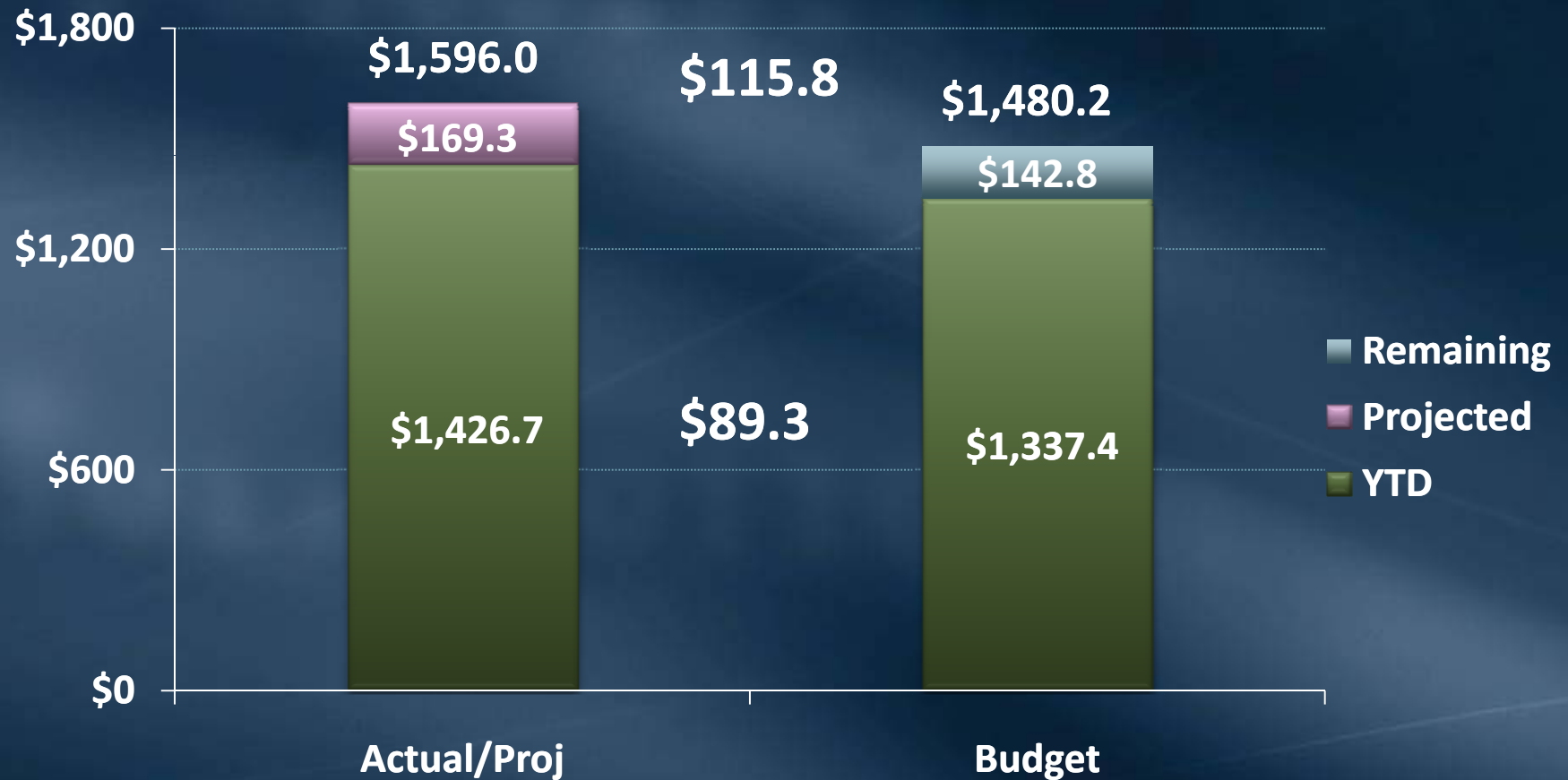
FY12/13 Water Sales/Exchange Volumes

May 31, 2013
(AF in thousands)



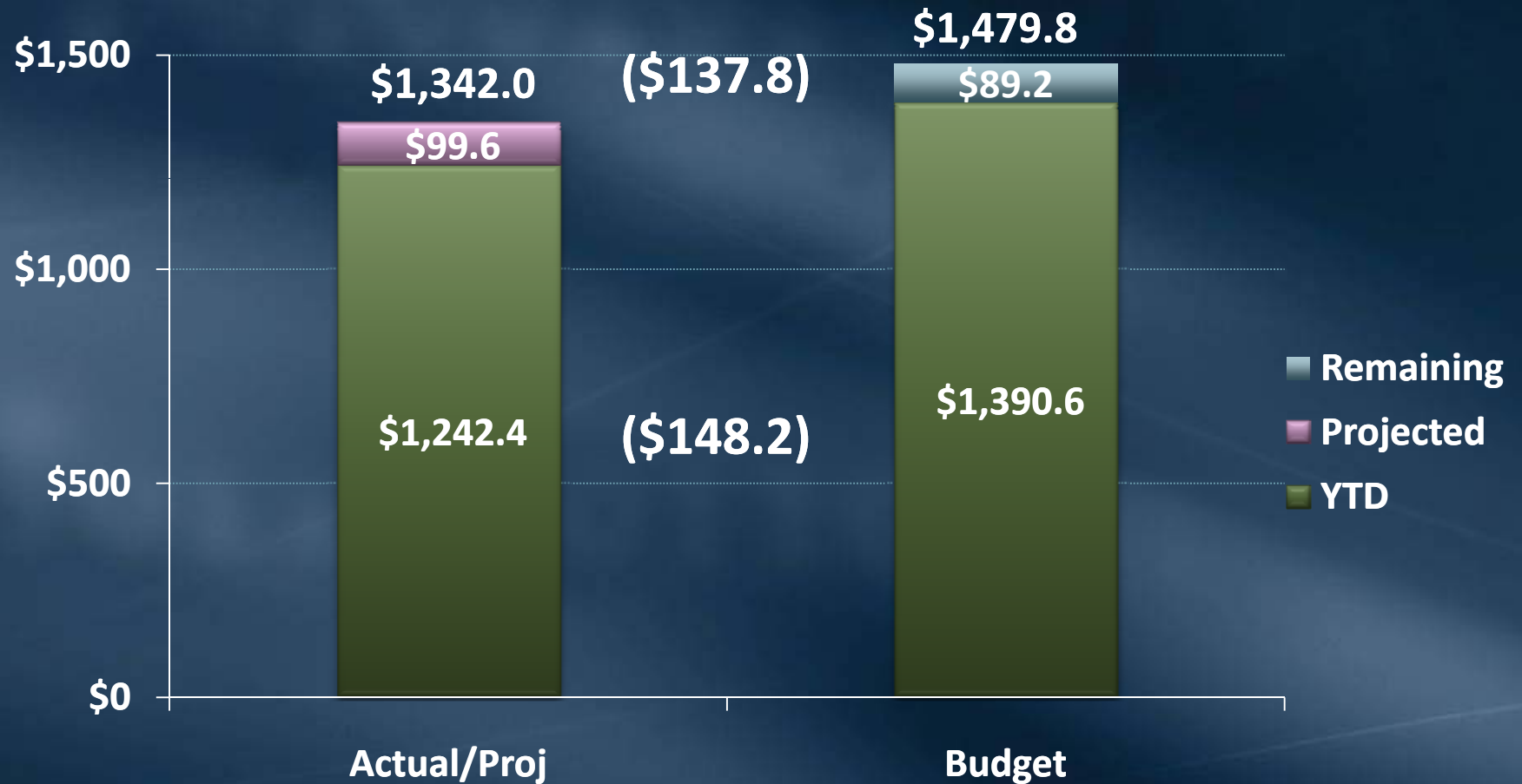
FY 2012/2013 Revenues

May 31, 2013
(\$ in millions)



FY 2012/2013 Expenses

May 31, 2013
(\$ in millions)



FY 2012/13 Forecast Expenditure Variances by Expenditure Category

Below Budget Expenditure Summary

\$91.9M	SWP Capital, OAPF, Variable Power, prior years' adjustments
\$16.3M	Lower CRA power costs; maximized use of Benefit Energy
\$ 7.8M	Lower debt service costs due to refinancings, lower debt administration costs, lower interest rates on variable rate debt
\$ 8.9M	Lower Conservation Credits Program spending; LRP on budget
\$10.0M	Under budget O&M expenditures due to management of advertising expenses, professional services, chemical costs and labor costs
\$ 2.1M	Other

FY 2012/13 Forecast Expenditure Variances

SWP

Below Budget Expenditure Items

\$22.5M	Result of DWR amending provisions of its General Bond Resolution relating to its Debt Service Account (“the Springing Amendment”); reduced the amount of reserves DWR is required to maintain
\$14.3M	SWP Rate Management Credits; result from a provision of the SWC that provides for the reduction of capital charges based on differences between DWR’s collections from Contractors and the actual amounts paid for capital related charges. Allocated to each Contractor in proportion to their total repayment of capital charges to DWR.
\$ 9.6M	SWP Off Aqueduct; reduced operating costs at Reid Gardner 4; DWR’s participation in the plant expires July 25, 2013
\$28.0M	Reduction to SWP variable energy costs as more SWP was moved to Central Valley storage programs rather than moving the water into the service area.
\$17.5M	Prior years’ adjustments

Current Forecast



Avg Rate Increase	Fiscal Year Ending									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	6%	14%	20%	7.5%	7.5%	5%	5%	← 3% to 5% →		
Sales, MAF	2.3	2.2	1.8	1.7	1.7	1.86	1.70	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	1.8	2.4	1.9	2.1	2.0	2.1
Fixed Chg Cvg	1.3	1.3	1.1	1.0	1.3	1.8	1.3	1.4	1.4	1.4

* Includes Water Stewardship Fund
 FY2013 and beyond are based on modified accrual

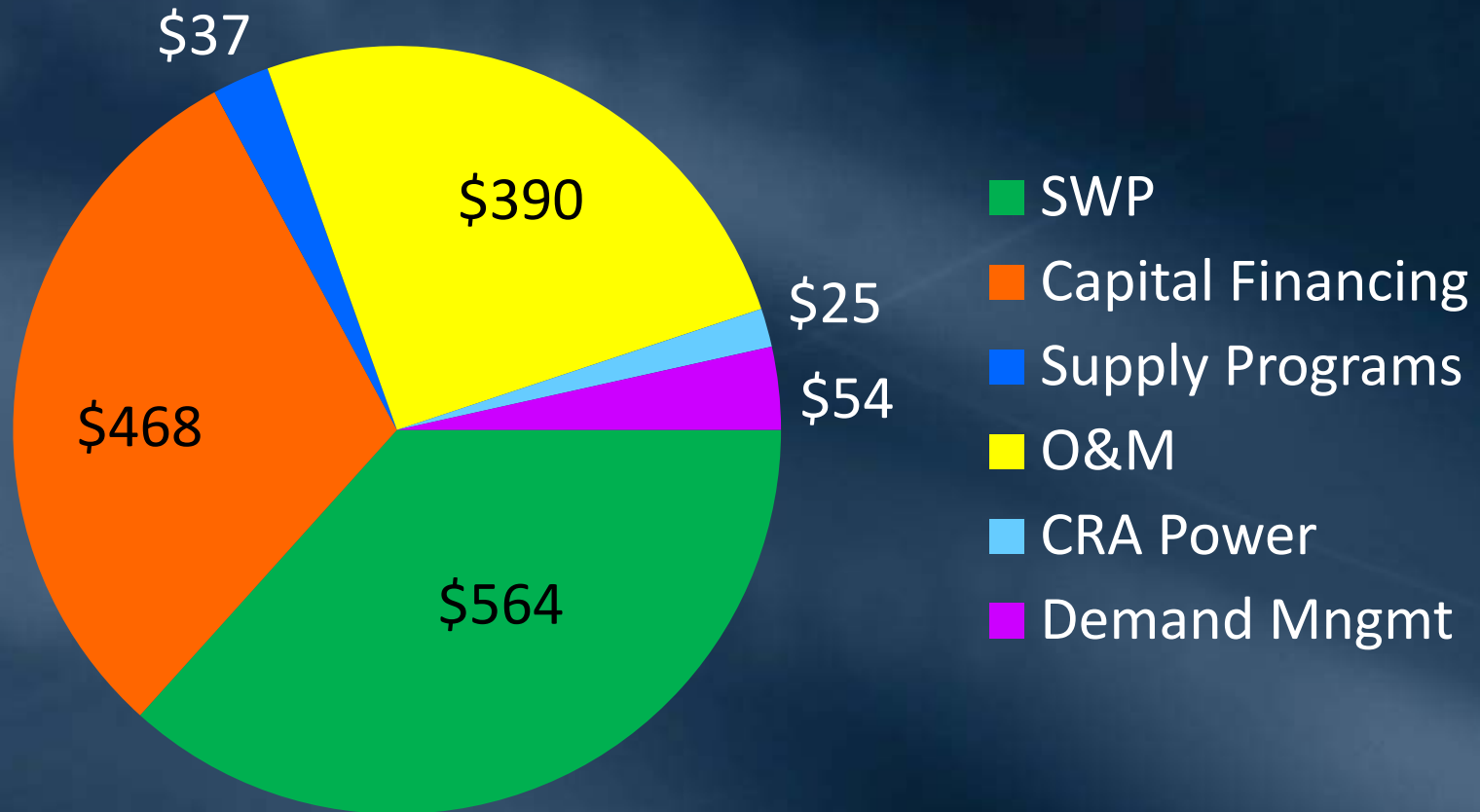
FY 2013/14 Review

Update to FY 2013/14 Revenues

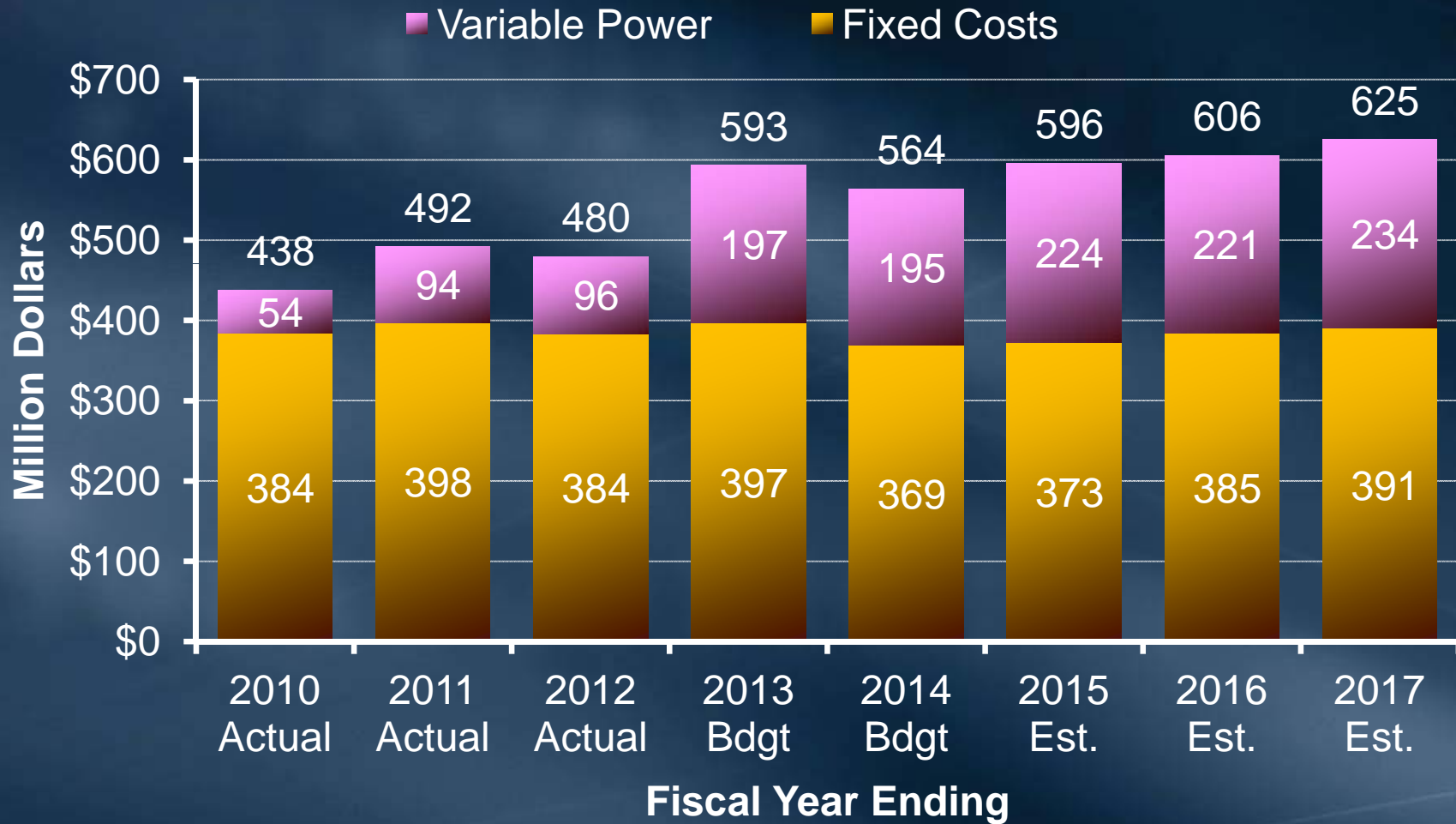
- First 6 months of calendar year 2013 have been warm and dry
- Forecast for summer 2013 is also warmer than normal and dry
- Water sales will be higher than 1.7MAF for the calendar year 2013
- Hydrology for Water Year 2014 is unknown

Budgeted Expenditures, FY 2013/14

\$ Millions



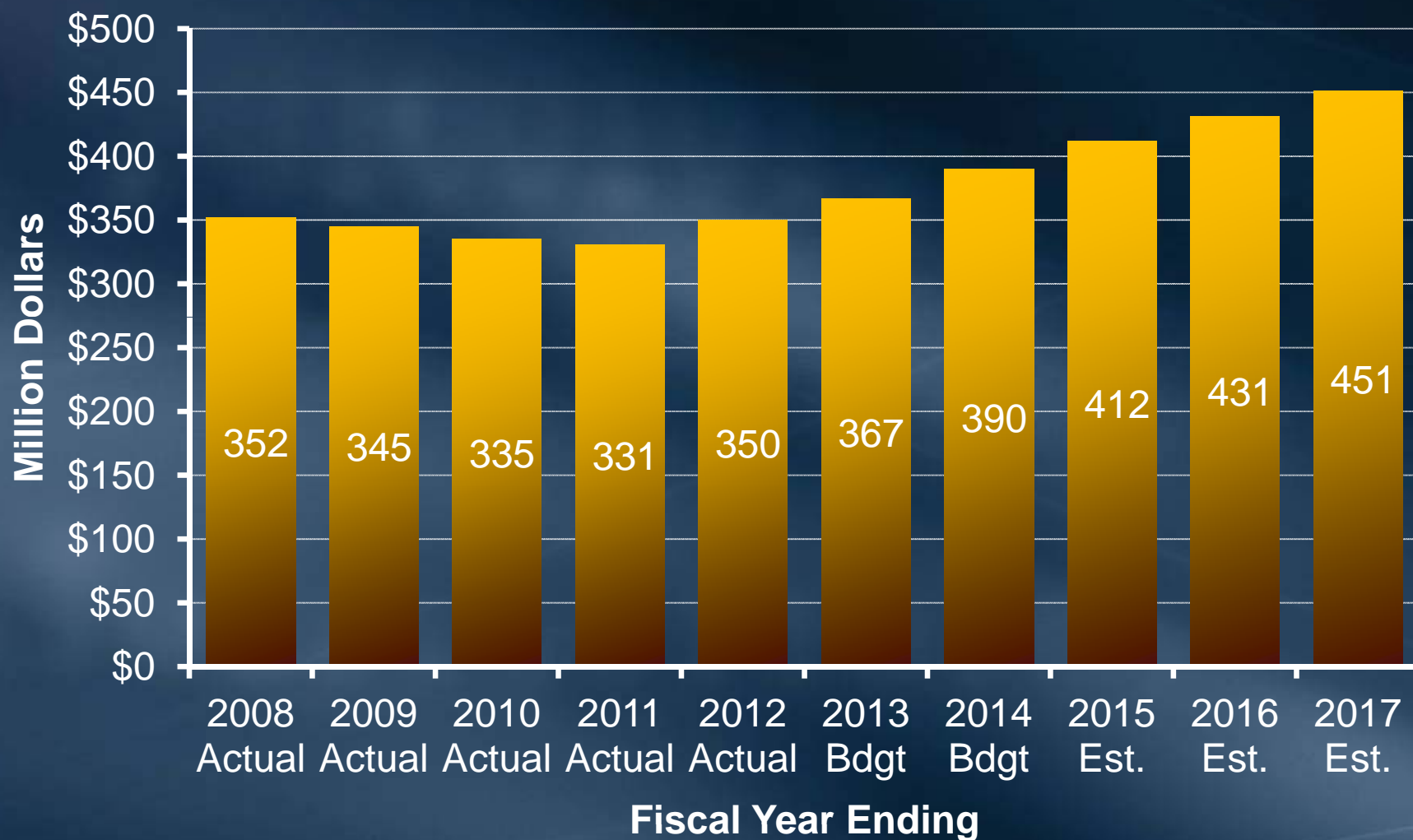
State Water Contract Costs



SWP Expenditures, FY 2013/14

- Many of the FY 2012/13 adjustments were unique to FY 2012/13 operations or one time
 - Storing in Central Valley
 - “Springing Amendment”
 - RG4 operating costs
- No changes in forecast for SWP in FY 2013/14
- SWP generally needs to buy power for Southern California operations, and energy markets are higher in calendar year 2013

O&M Cost Trend



O&M Expenditures, FY 2013/14

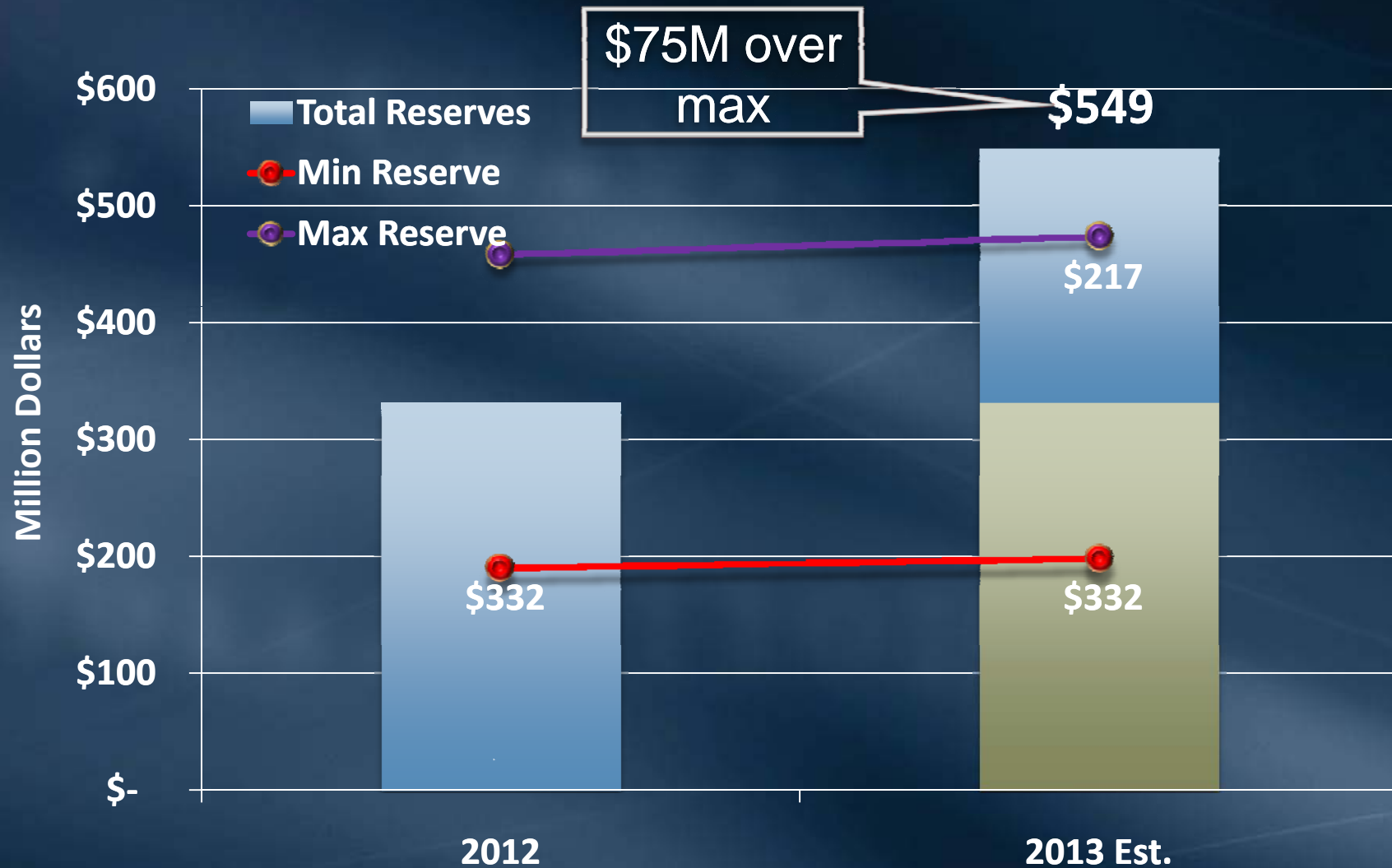
- Labor budgets will be managed
 - Employee merit increases
 - Cost impacts of the AFSCME class study
- Upward pressures from PERS retirement contribution rate increases
 - Changes to amortization and smoothing policies
- Upward pressures on benefit costs
 - Continued funding of OPEB

Supply Costs, FY 2013/14

- FY 2012/13 is \$3.3 million over budget
 - San Bernardino Valley Water District purchase
- FY 2013/14 budget of \$37 million for supply costs represents Metropolitan's basic level of financial commitments to Supply programs
 - IID Conservation, PVID, other CRA supply programs
 - Northern California programs
- Water management actions expected in late 2013 may impact Supply Costs
 - Multi-year Water Pool Demonstration Program

Use of Reserves Over Target

Projected Reserve Fund Balance



Administrative Code Section 5202

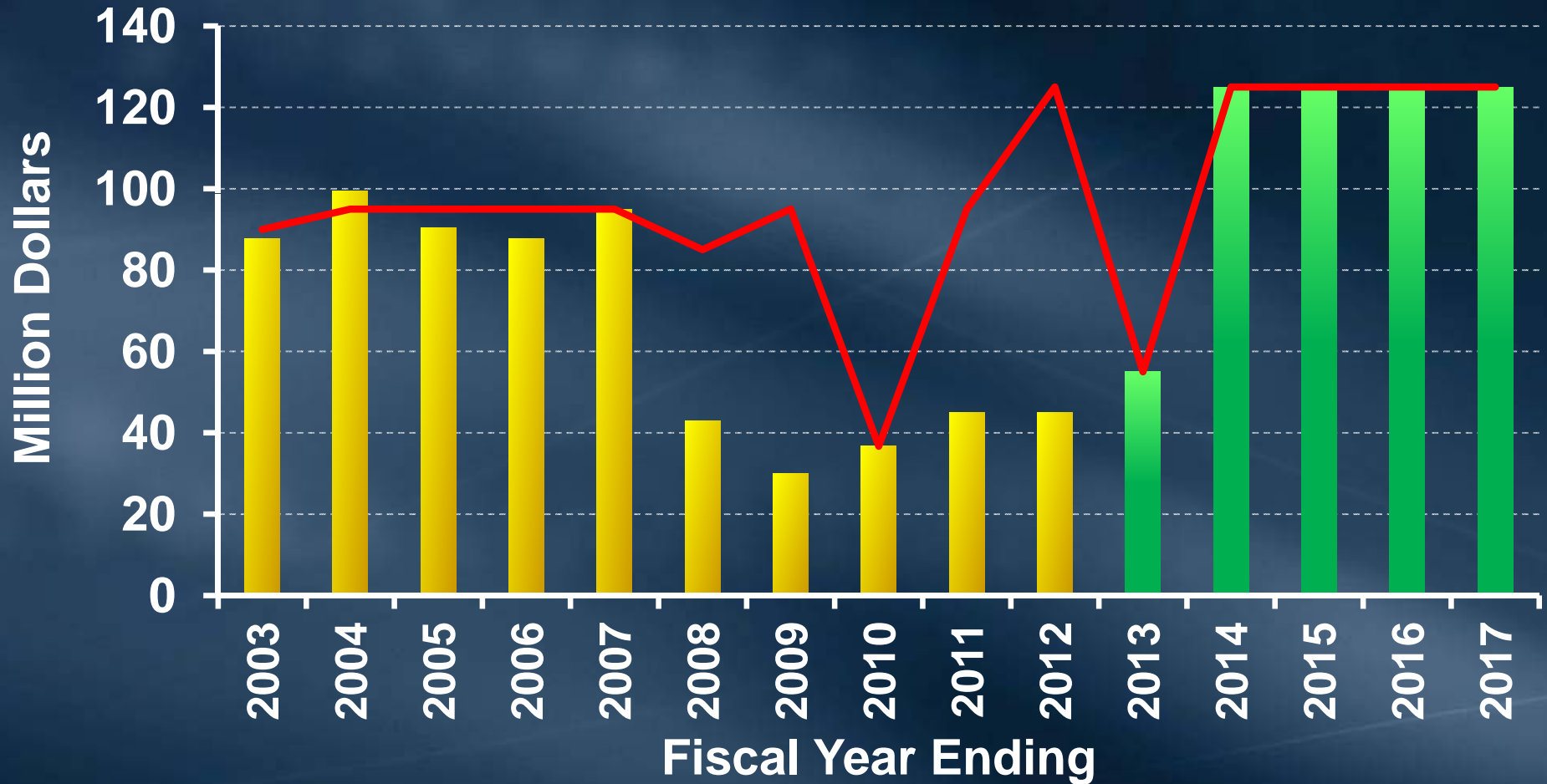
- Funds in excess of the reserve target shall be utilized for
 - Capital expenditures of the District in lieu of issuance of additional debt
 - Or to redeem or defease or purchase outstanding bonds or commercial paper
- Provided the District's fixed charge coverage is at or above 1.2 times funds in excess of the reserve target can be used for
 - Any lawful purpose of the District
 - Funds distributed to member agencies are allocated on the basis of all water sales during the previous fiscal year

Proposed Use of Reserves Over the Target

- Currently estimated at \$75 million
- Increase funding of PAYGO by \$25 million
- Prefunding the OPEB trust by \$25 million
- Allocating \$25 million to the Water Transfer Fund
- Address financial objectives that have been underfunded or deferred over the past several years

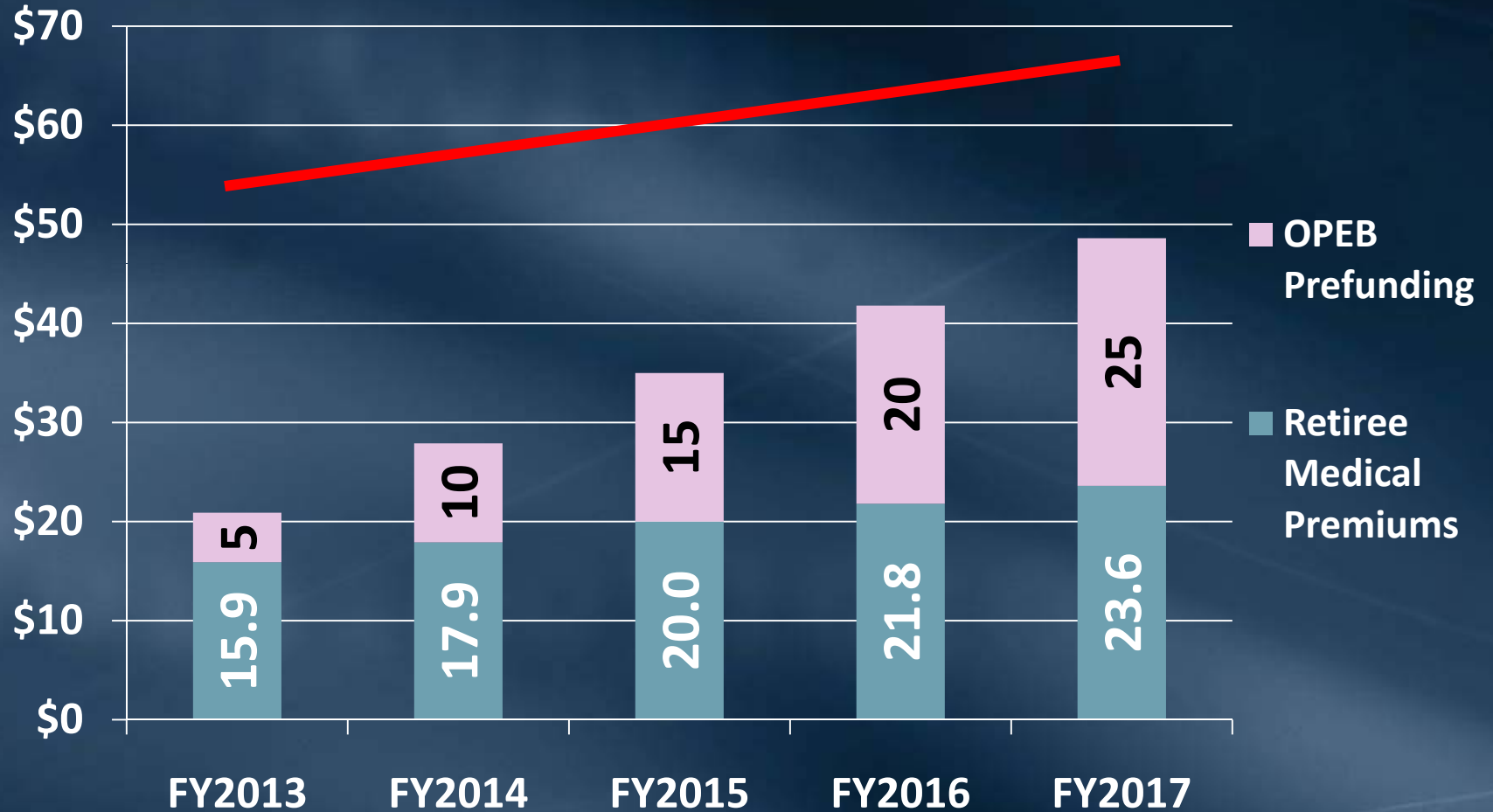
PAYGO

Actual PAYGO Estimated Budgeted PAYGO



Estimated Retiree Medical Costs

FY 2013 to FY 2017



Annual Required Contribution

MWD Storage Reserve Levels

With Range of 2013 Uncertainty

Emergency Storage Dry-Year Storage



Option to Reduce Rates by 2% in FY 2013/14

Option to Reduce January 1, 2014 Increase

- Reduction will be for Calendar Year 2014 only
- Would use \$28 million of \$75 million over the reserve target
- Achieve 3 percent rate effective rate increase 1/1/2014 by returning \$28 million to member agencies

Process to Achieve Effective 3% Rate Increase

- Return \$28 million in Calendar Year 2014 in accordance with Administrative Code Section 5202
 - To each member agency based on FY 2012/13 sales
- Effectively reduces overall rate increase from 5% to 3% for one year only
- Maintains rate structure
- Maintains future rate increases in the 3% to 5% range
- Remaining \$47 million over reserve target to fund PAYGO and OPEB

Board Options

- Option #1
 - Adopt the CEQA determination
 - Authorize use of reserves over the reserve target established in Administrative Code Section 5202, estimated at \$75 million, and transfer monies to the PAYGO fund, the OPEB Trust and the Water Transfer Fund for FY 2012/13, as specified by the Board
- Option #2
 - Adopt the CEQA determination
 - Effectively reduce the rate increase 1/1/2014 from 5 percent to 3 percent by returning \$28 million in 2014
- Option #3
 - Do not authorize use of reserves

Staff Recommendation

- Option #1 – Adopt CEQA determination and authorize use of reserves over the reserve target established in Administrative Code Section 5202, estimated at \$75 million, and transfer monies to the PAYGO fund, the OPEB Trust and the Water Transfer Fund for FY 2012/13, as specified by the Board

Plans for Next Biennial Budget

Biennial Budget, FY 2014/15 and FY 2015/16

- Management of costs
 - Keep rate increases reasonable and predictable
- Careful review of the CIP
- Review and update reserve targets
 - Reasonable
 - Consistent with modified accrual basis of accounting
- Incorporate 10-year forecast
- Proposals for increased fixed revenue sources
- Address expiration of the Purchase Orders

