



- **Board of Directors**  
***Finance and Insurance Committee***

3/8/2016 Board Meeting

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9-2

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**Subject**

Proposed revenue requirements for fiscal years 2016/17 and 2017/18 and proposed water rates and charges for calendar years 2017 and 2018 to meet revenue requirements.

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**Executive Summary**

This letter presents the proposed revenue requirements for fiscal years 2016/17 and 2017/18 (FY 2016/17 and FY 2017/18) and proposed water rates and charges for calendar years 2017 and 2018 to meet the proposed biennial budget.

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**Description**

As we have informed the Board, the 2016 budget and rate setting process will consist of four workshops, with a fifth workshop available if the Board requests it, and one public hearing before the Board may take action on April 12, 2016, to adopt the biennial budget, rates and charges, and ten-year forecast. As of the date of this letter, the Finance and Insurance (F&I) Committee has held the first two workshops and will have held a third workshop before the Board holds the public hearing.

Prior to Workshop #1, held February 8, 2016, staff provided to the Board the proposed biennial budget and ten-year forecast containing revenue requirements and cost of service analysis. Staff also provided estimated rates and charges necessary to meet the revenue requirements contained in the biennial budget. To estimate rates and charges for 2017 and 2018, staff applied the revenue requirements to Metropolitan's current rate setting methodology. In other words, staff used the same rate structure Metropolitan's Board adopted in October 2001 and that has been in place since January 1, 2003.

At Workshop #1, staff made an extensive presentation regarding the estimated revenue requirements that form Metropolitan's projected costs of service. Following input from the Board at Workshop #1, staff made an additional presentation to the Board at Workshop #2, held on February 23, 2016.

At Workshop #2, staff addressed specific questions previously raised by the Board, provided further detail regarding the estimated revenue requirements in the proposed biennial budget, and provided an overview of Metropolitan's existing rate structure and the process of determining rate components under Metropolitan's existing rate structure. Raftelis Financial Consultants, Inc., an independent financial and rate consultant, also presented to the Board an alternative to the existing 100 percent volumetric Treatment Surcharge, one component of Metropolitan's existing rate structure. Raftelis recommended a treatment water rate with a fixed component, as well as a volumetric component. The Raftelis recommendation was preceded by a presentation to member agency managers by staff in September 2015, followed by a presentation by Raftelis to member agency managers on January 15, 2016, with input provided by the managers at that meeting. The Board provided further input regarding the new recommended treatment charge, as well as the proposed biennial budget and estimated rates and charges.

After holding two board workshops and receiving input on the proposed biennial budget and resulting revenue requirements, staff is proposing water rates and charges as shown in Table 1, which result from using the current methodology for developing water rates and charges.

**Table 1: Proposed Full Service Rates and Charges**

Rates & Charges Effective January 1st	2016	2017	% Change	2018	% Change
Tier 1 Supply Rate (\$/AF)	\$156	\$201	28.8%	\$209	4.0%
Tier 2 Supply Rate (\$/AF)	\$290	\$295	1.7%	\$295	0.0%
System Access Rate (\$/AF)	\$259	\$289	11.6%	\$299	3.5%
Water Stewardship Rate (\$/AF)	\$41	\$52	26.8%	\$55	5.8%
System Power Rate (\$/AF)	\$138	\$124	(10.1%)	\$132	6.5%
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$594	\$666	12.1%	\$695	4.4%
Tier 2	\$728	\$760	4.4%	\$781	2.8%
Treatment Surcharge (\$/AF) (1)	\$348	\$313	(10.1%)	\$320	2.2%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$942	\$979	3.9%	\$1,015	3.7%
Tier 2	\$1,076	\$1,073	(0.3%)	\$1,101	2.6%
Readiness-to-Serve Charge (\$M)	\$153	\$135	(11.8%)	\$140	3.7%
Capacity Charge (\$/cfs)	\$10,900	\$8,000	(26.6%)	\$8,700	8.8%
Overall rate increase			4.0%		4.0%

(1) A proposal was presented to the Board for consideration at Workshop #2 to address fixed cost recovery of Treatment costs, which are currently only recovered through a volumetric rate.

Overall rate increases of 4.0 percent effective January 1, 2017 and January 1, 2018 are appropriate to cover the costs in the proposed budget for FY 2016/17 and FY 2017/18, meet financial policy guidelines with the exception of revenue bond coverage, and maintain steady rates for the future. The revenue requirements for FY 2016/17 are estimated to be \$1.6 billion and for FY 2017/18 are estimated to be \$1.6 billion. As shown in Table 2, the revenue requirement for FY 2016/17 is about \$64 million more than the revenue requirement used to set rates for FY 2015/16.

**Table 2: Proposed Revenue Requirements for FY 2016/17 and FY 2017/18, \$ millions**

Fiscal Year Ending	2015/16 Adopted	2016/17 Proposed	2017/18 Proposed
Departmental and Other O&M	390	393	395
Variable Treatment	28	24	25
State Water Project (without Variable Power)	328	435	447
State Water Project Variable Power	187	147	153
CRA Power	37	47	54
Supply Programs	66	79	82
Demand Management	62	75	76
Debt Service	325	328	344
PAYGO	221	120	120
Change in Required Reserves	18	65	25
<b>Subtotal Expenditures</b>	<b>1,661</b>	<b>1,714</b>	<b>1,721</b>
Revenue Offsets	150	139	146
<b>Total Revenue Requirement</b>	<b>1,511</b>	<b>1,575</b>	<b>1,574</b>

The proposed biennial budget sets the foundation for consistent, reasonable rate increases over the ten-year forecast. Investments previously made to address underfunded liabilities resulted in lower labor costs, and combined with maintaining the ad valorem tax rate at its current level throughout the ten-year period and reduced CIP expenditures, help offset Metropolitan's forecasted share of the cost of the California WaterFix should that project move forward.

Detail on the proposed biennial budget and proposed water rates and charges is provided in the February 2016 board letter 9-2 and other materials posted on Metropolitan's website. Materials will continue to be posted to this website as they are available. In addition, the F&I Committee will hold Workshop #3 at its regularly scheduled meeting of March 7, 2016, and will hold Workshop #4 on March 22, 2016. An additional workshop may be held at the April 11, 2016 regularly scheduled F&I Committee meeting, if desired by the Board.

## **Policy**

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Metropolitan Water District Act Section 61: Ordinances, Resolutions and Orders

Metropolitan Water District Act Section 124.5: Ad Valorem Tax Limitation

Metropolitan Water District Act Section 130: General Powers to Provide Water Services

Metropolitan Water District Act Section 133: Fixing of Water Rates

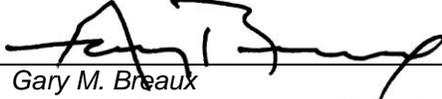
Metropolitan Water District Act Section 134: Adequacy of Water Rates; Uniformity of Rates

Metropolitan Water District Act Section 134.5: Water Standby or Availability of Service Charge

Metropolitan Water District Administrative Code Section 4304: Apportionment of Revenues and Setting of Water Rates

Metropolitan Water District Administrative Code Section 5107: Biennial Budget Process

Metropolitan Water District Administrative Code Section 5200(b): Funds Established

  
 \_\_\_\_\_ 3/1/2016  
 Gary M. Breaux Date  
 Assistant General Manager/Chief Financial Officer

  
 \_\_\_\_\_ 3/1/2016  
 Jeffrey Krontlinger Date  
 General Manager