

Capital Investment Plan FYs 2018/19 and 2019/20 and Financial Policies:

Workshop #3 (Budget, Rates, and Charges)

Finance & Insurance Committee
Item 8
March 12, 2018



Proposed Biennial Budget Workshop #3

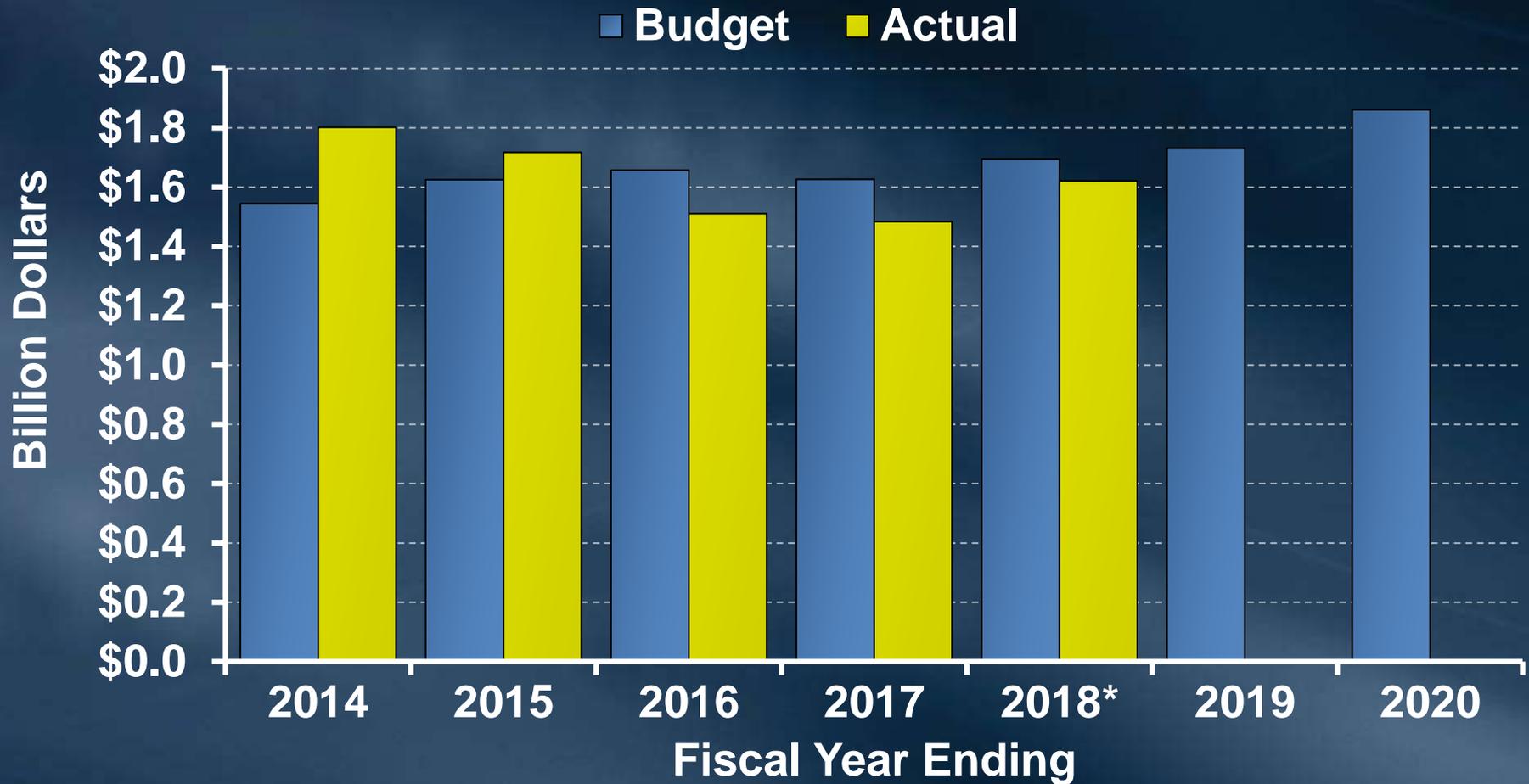
Presentation Overview

- Capital Investment Plan
- Follow up from Workshops #1 and #2
- Financial policies
 - Cost Recovery
 - Revenue Bond Coverage target
 - Reserves
- Next Steps

Capital Investment Plan

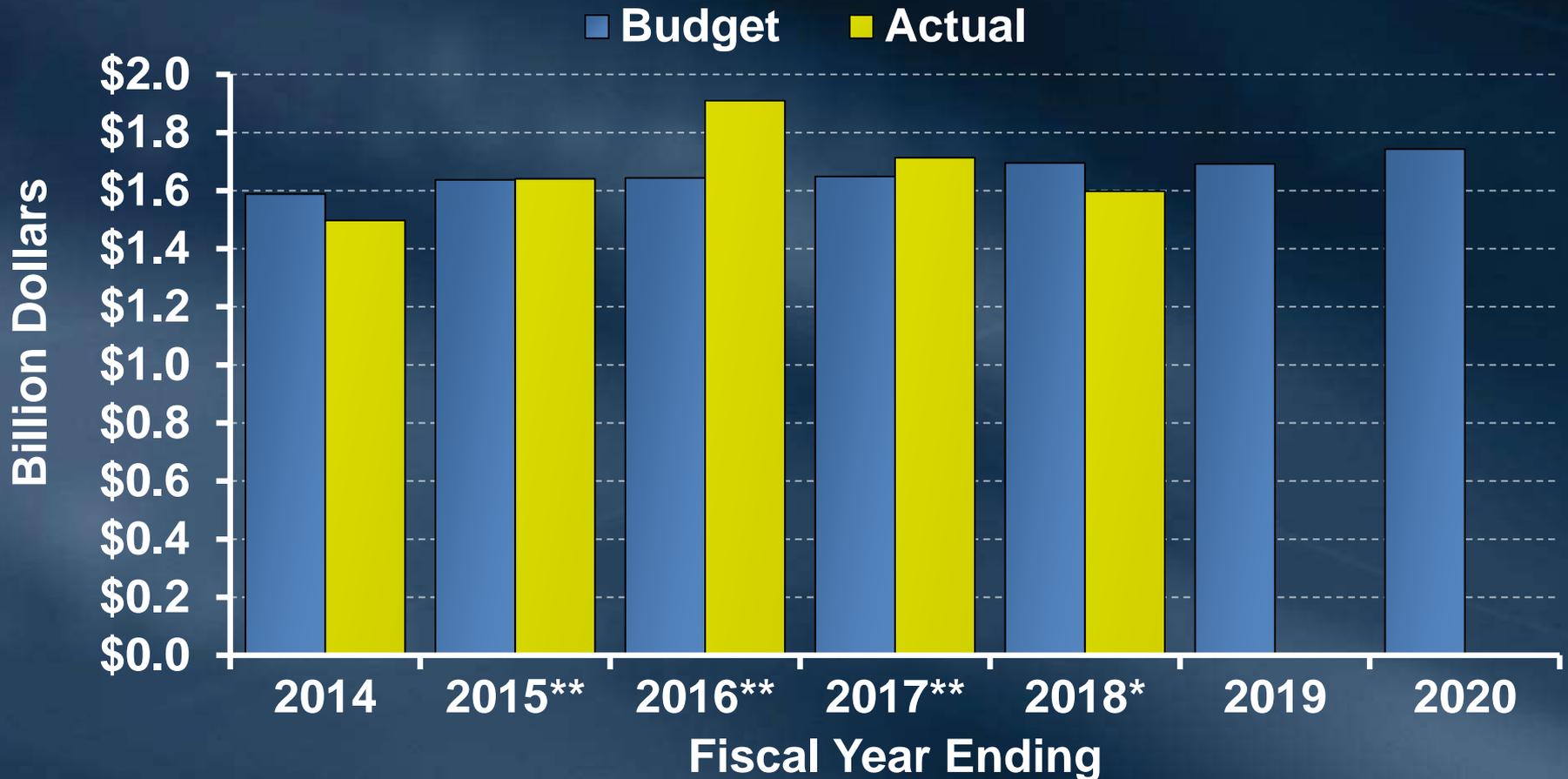
Follow-up questions from Workshops #1 and #2: Budget versus Actuals

Total Revenues Budget vs Actuals



*Projected for FY 2017/18

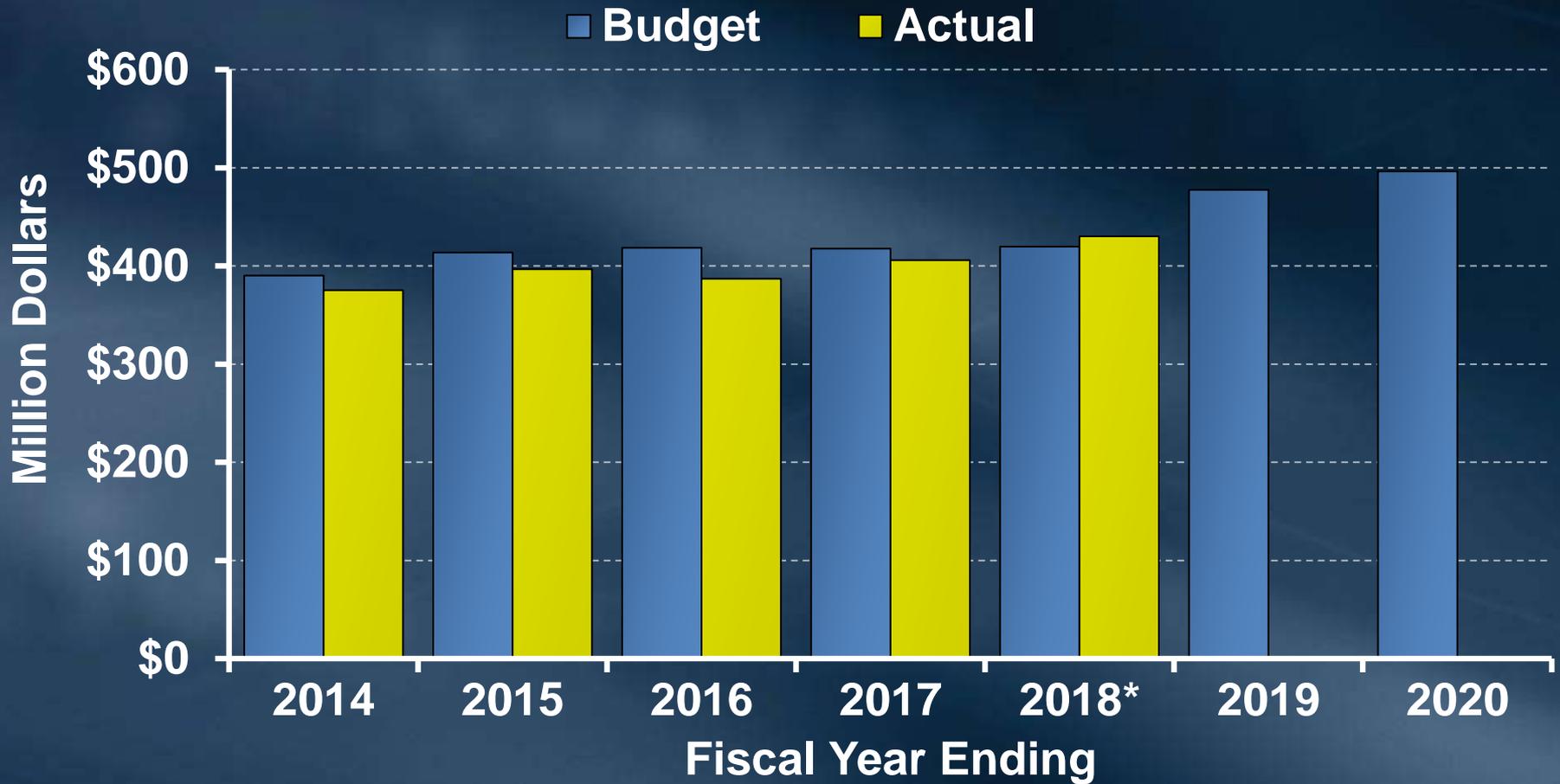
Total Expenditures Budget vs Actuals



*Projected for FY 2017/18

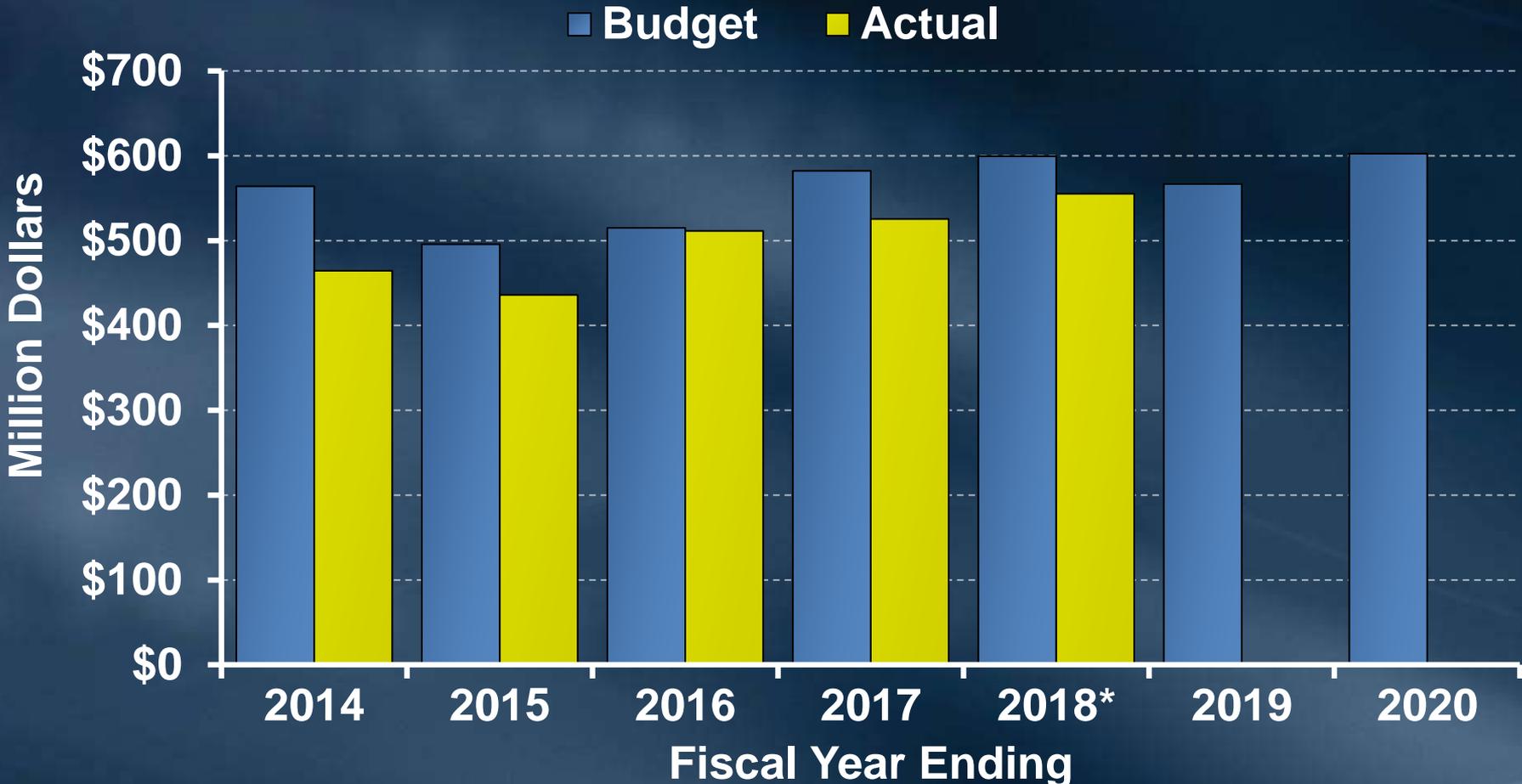
**Budget does not include subsequently approved expenditures

O&M Expenses Budget vs Actuals



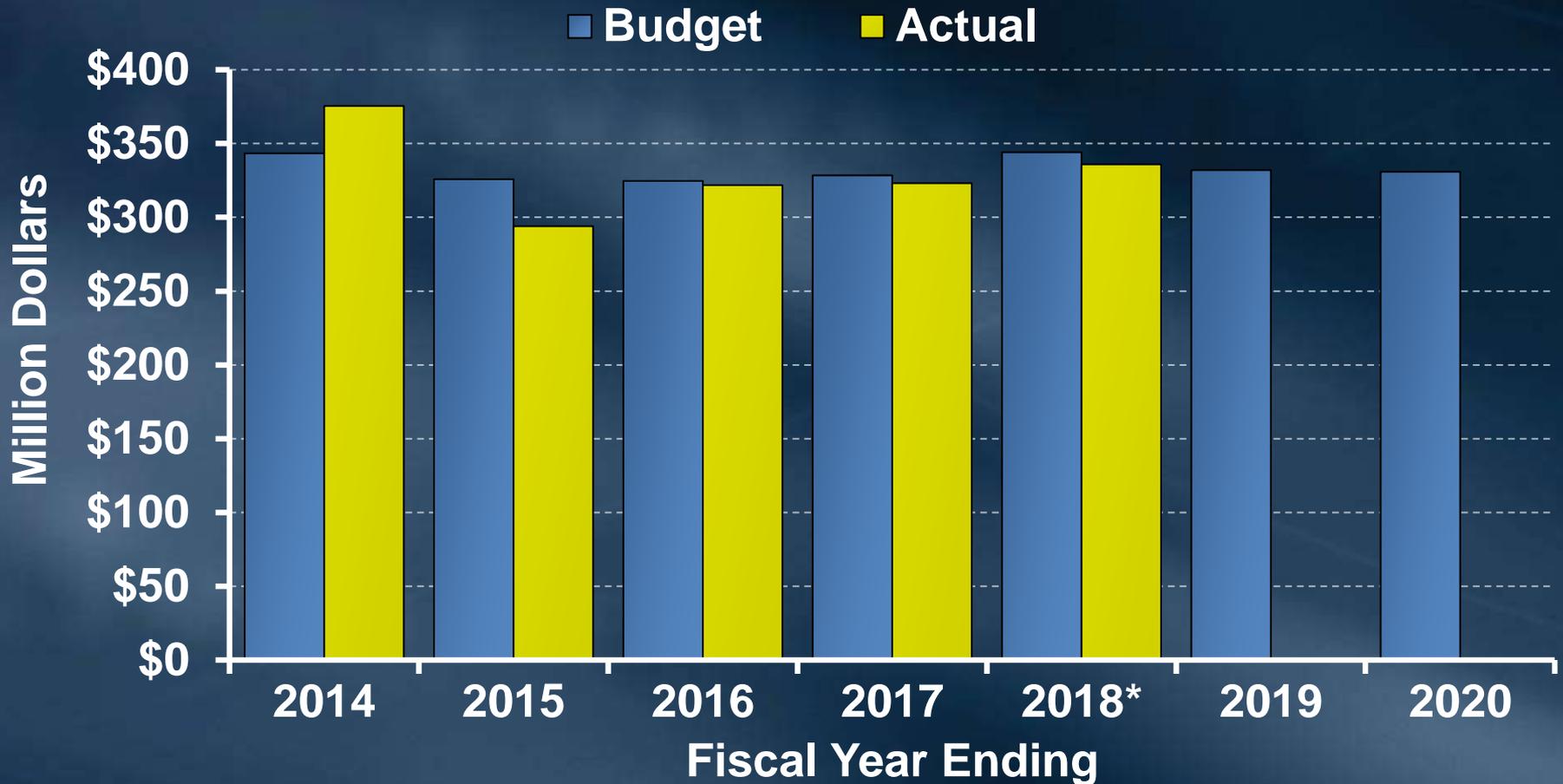
*Projected for FY 2017/18

SWC Expenses Budget vs Actuals



*Projected for FY 2017/18

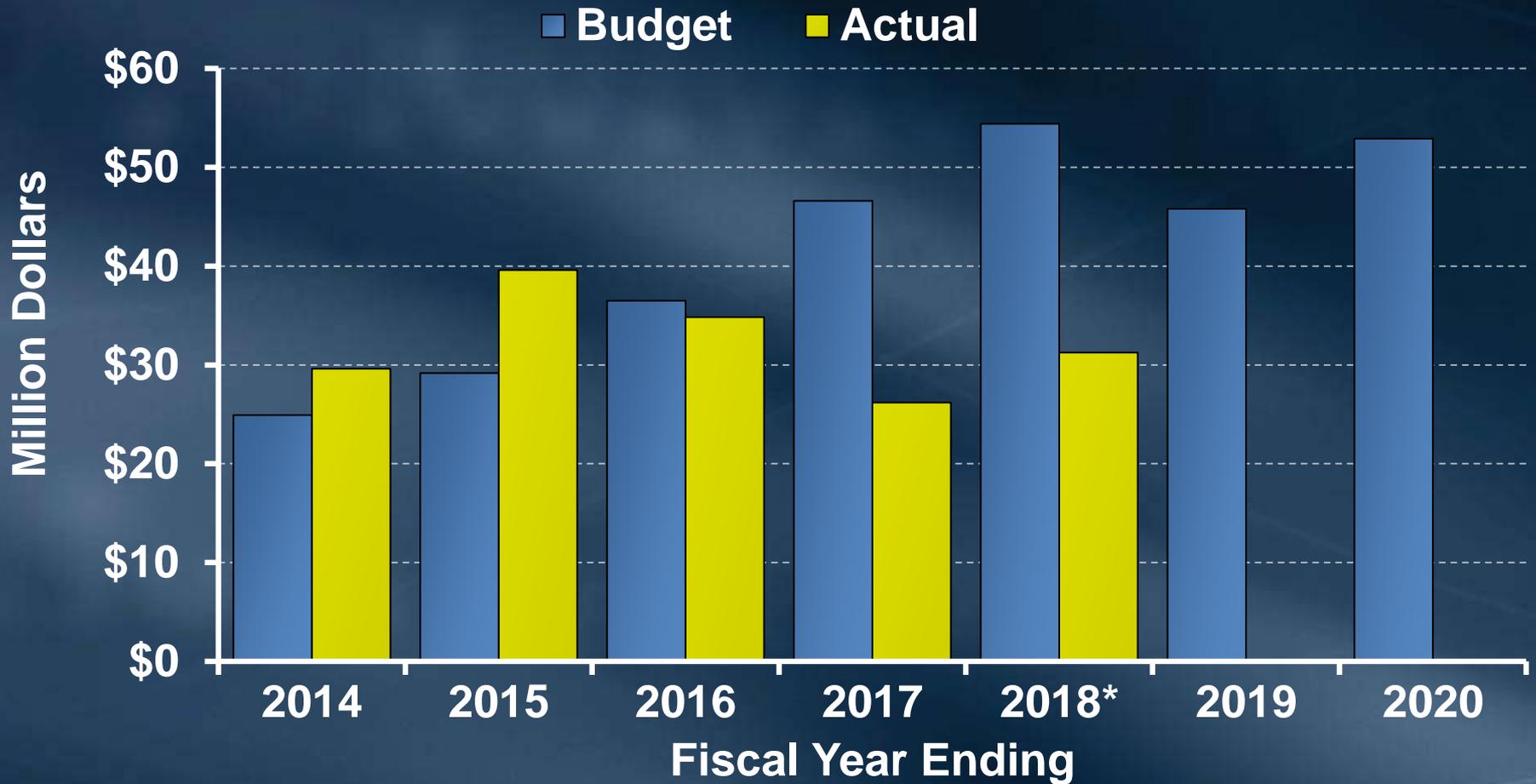
Debt Service Expenses Budget vs Actuals



*Projected for FY 2017/18

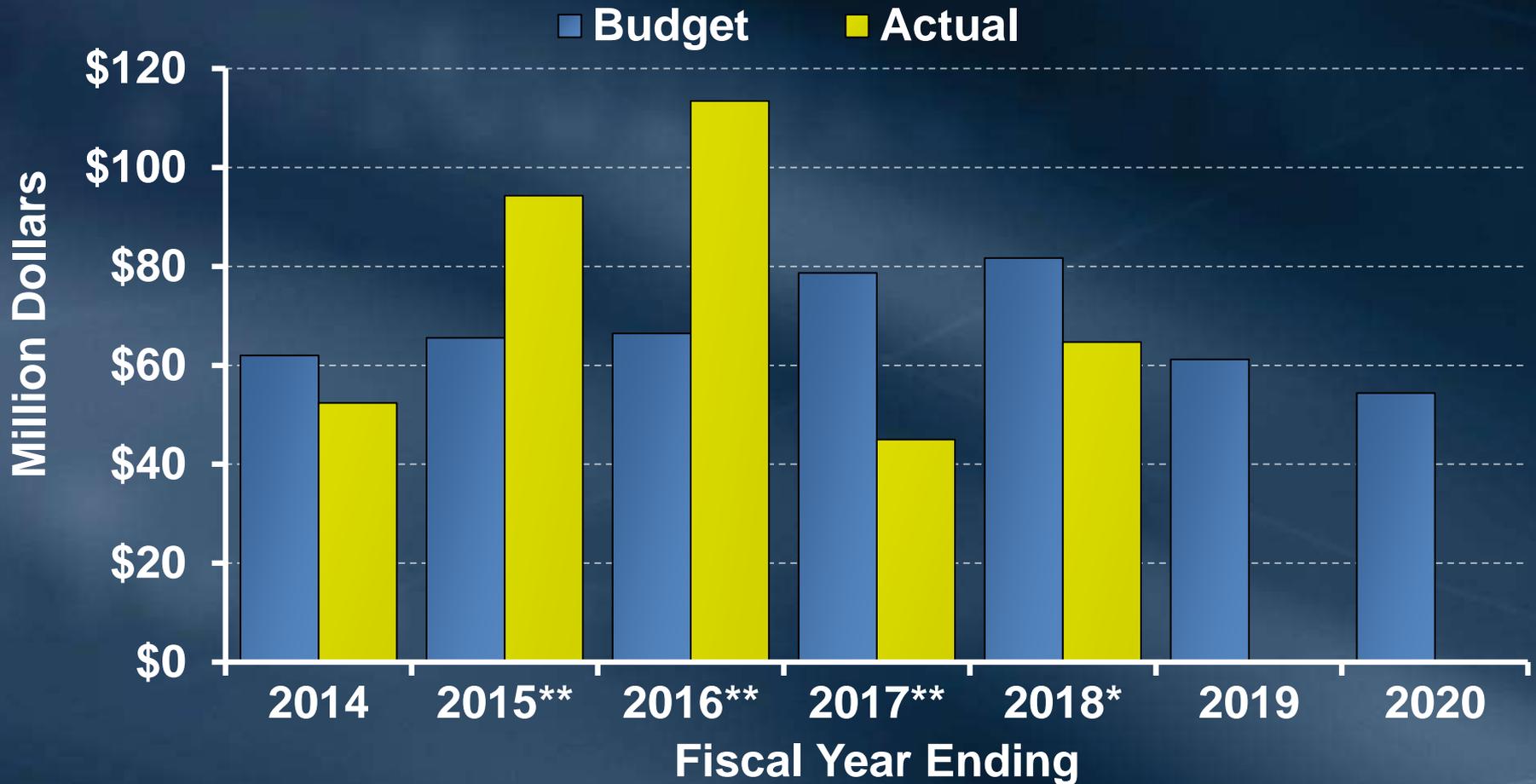
CRA Power Expenses

Budget vs Actuals



*Projected for FY 2017/18

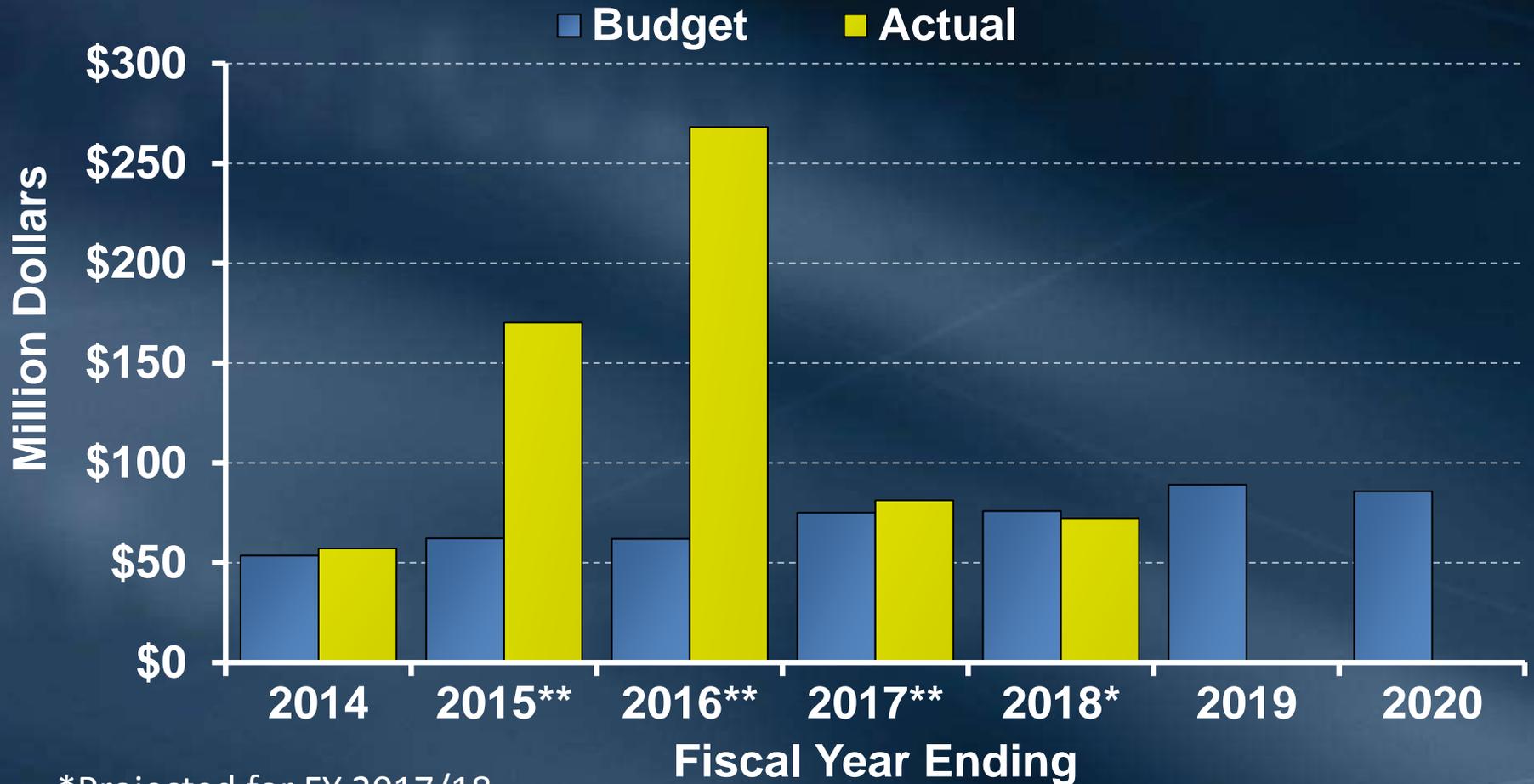
Supply Programs Expenses Budget vs Actuals



*Projected for FY 2017/18

**Budget does not include subsequently approved expenditures

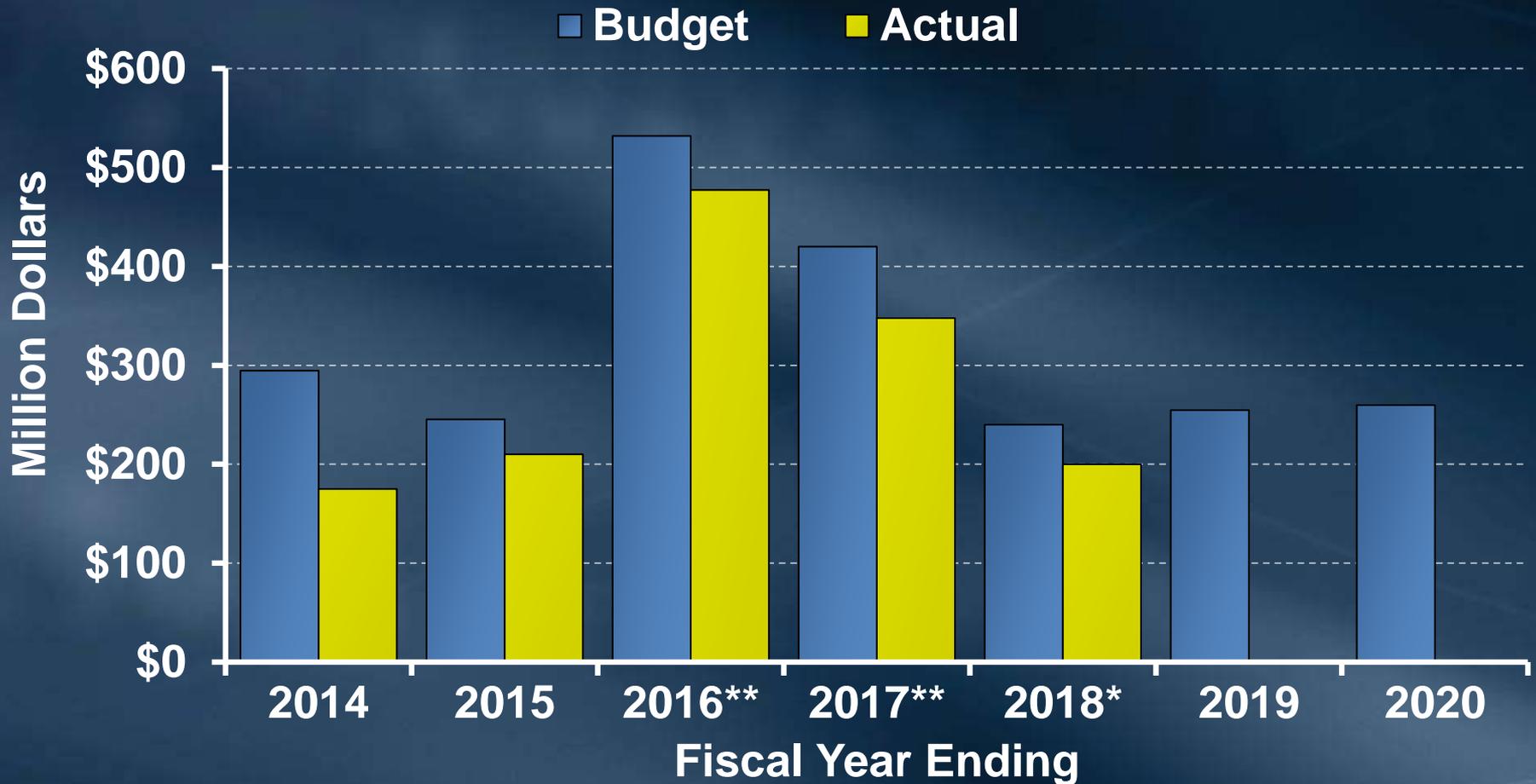
Demand Management Expenses Budget vs Actuals



*Projected for FY 2017/18

**Budget does not include subsequently approved expenditures

CIP Planned Spending Budget vs Actuals



*Projected for FY 2017/18

**With subsequently approved expenditures

Follow-up questions from Workshops #1 and #2:

Assumptions for Proposed Biennial Budget,
Estimated Revenue Requirements, and Proposed
Rates and Charges

Assumptions

ASSUMPTIONS FOR THE TEN-YEAR FORECAST

The following table summarizes key assumptions that underlie the ten-year forecast.

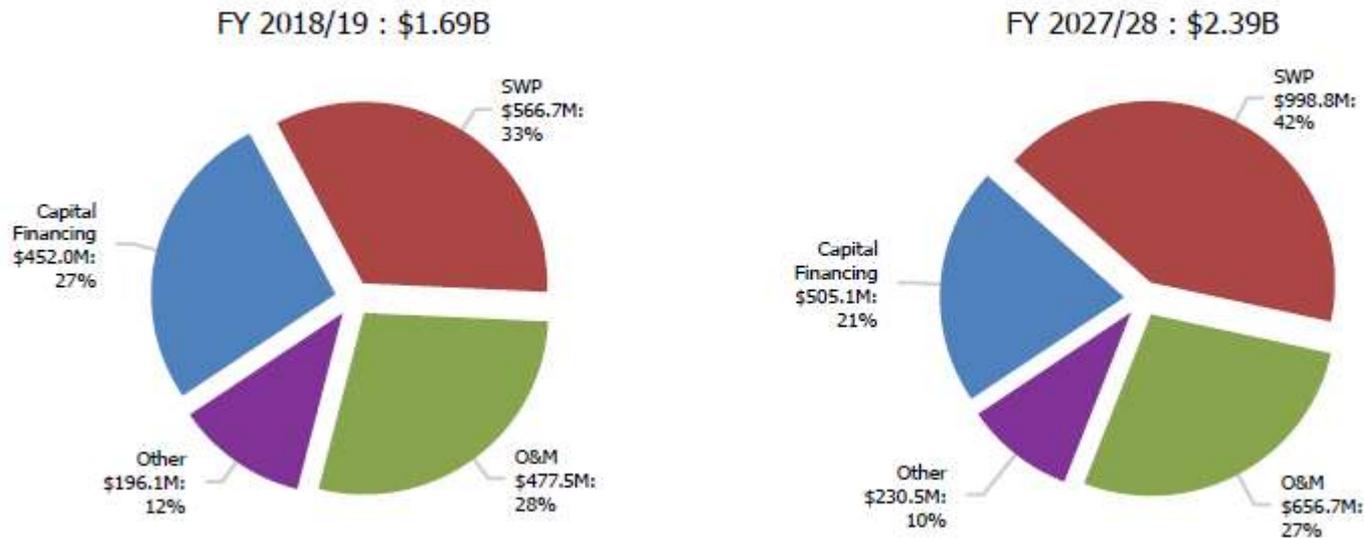
Fiscal Year Ending	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Water Transactions, MAF *	1.65	1.75	1.80	1.80	1.80	1.80	1.80	1.80	1.80	1.80
CRA diversions, TAF	838	916	917	898	891	894	894	884	880	876
SWP allocation, %	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
CIP, \$M	200	200	250	250	250	257	264	271	278	286
PAYGO, \$M	120	120	150	150	150	154	158	162	167	171
Conservation, \$M	43	43	43	43	43	43	43	43	43	43
CA Water Fix, \$M	4	13	25	42	66	97	128	159	193	230
Inflation, %	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Interest on investments, %	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Interest rate, fixed bonds, %	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Interest rate, variable bonds, %	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%	1.70%

* includes water sales, exchanges and wheeling

- Board Letter 9-2, February 2018, Attachment 2, pp 2-3
- Proposed Biennial Budget and Cost of Service Report provide the data and information to support the estimated revenue requirements and resulting rates and charges

Ten-Year Financial Forecast, Expenditures

Expenditure Forecast, Contribution by Major Area



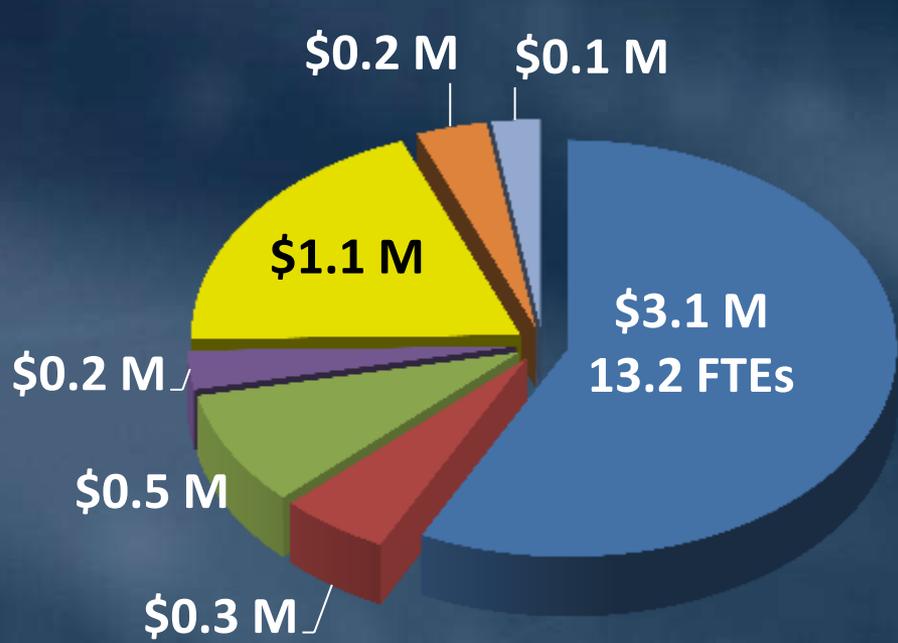
- Board Letter 9-2, February 2018, Attachment 2, page 7

Follow-up questions from Workshops #1 and #2: Regional Recycled Water Program

Regional Recycled Water Program

FY 2018/19 - \$5.4 M

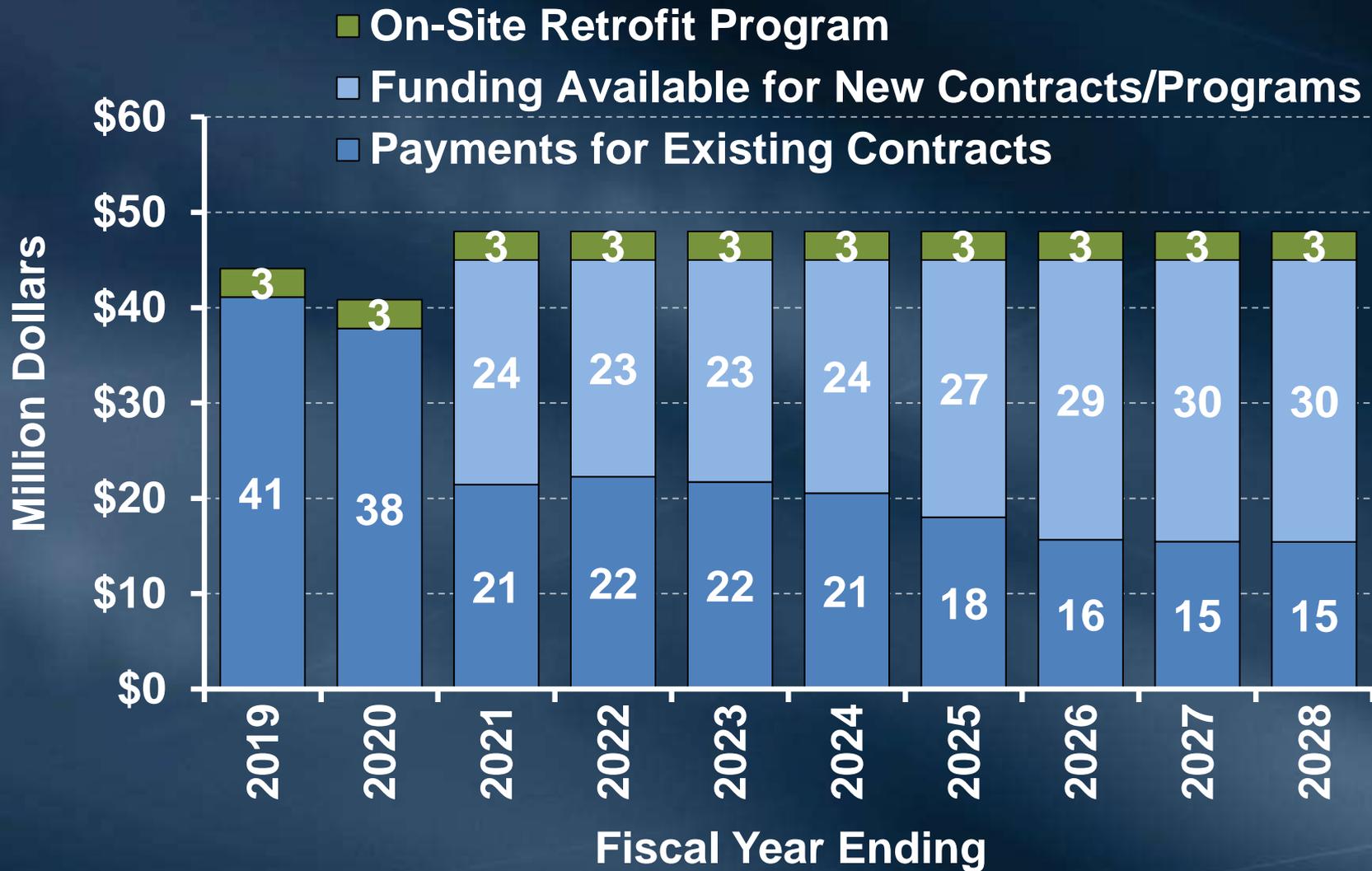
FY 2019/20 - \$5.0 M



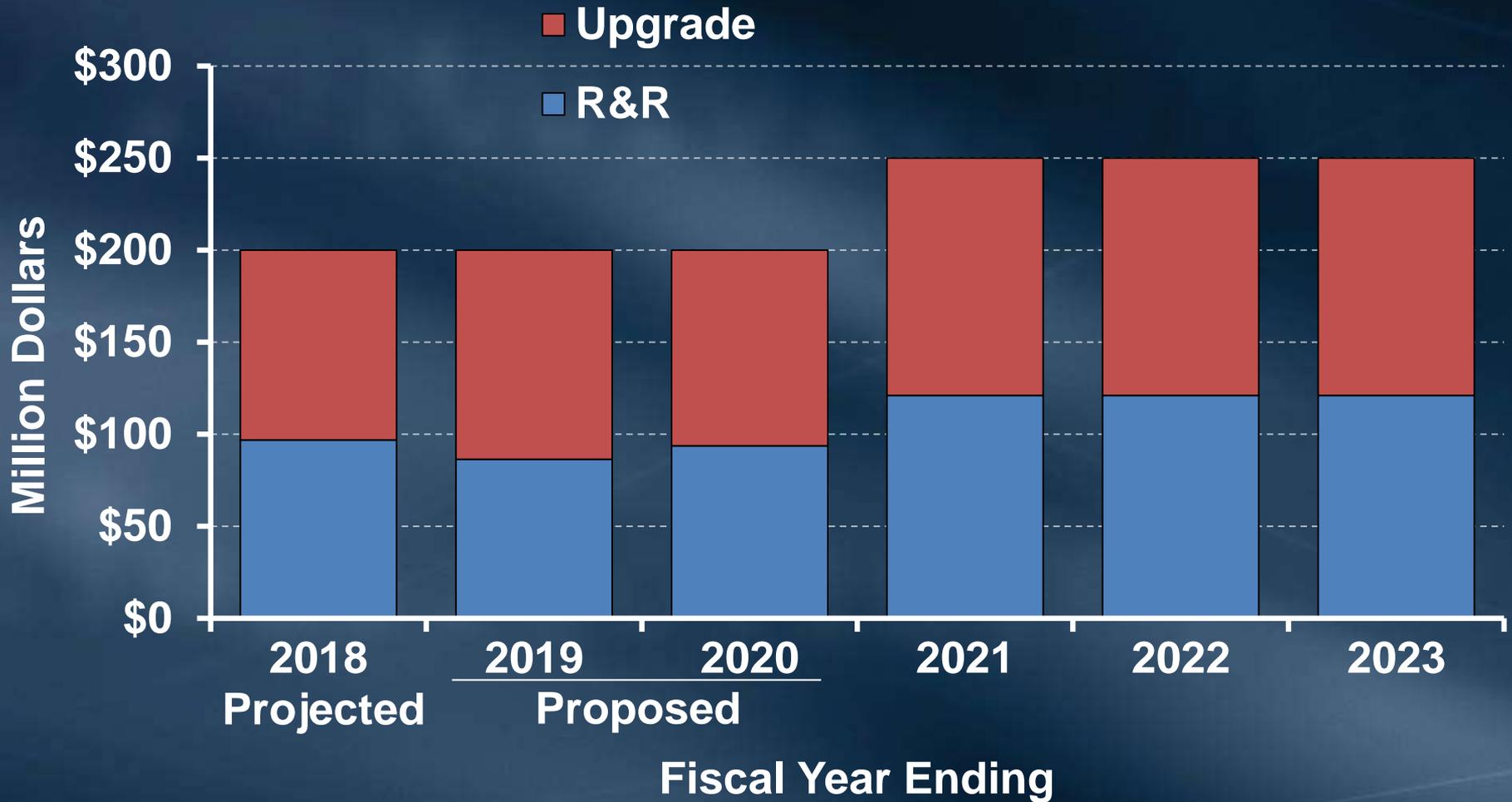
- Labor
- Lab Supplies & Gasses
- Professional Services
- Other
- Chemicals
- Other Materials & Supplies
- Operating Equipment

Follow-up questions from Workshops #1 and #2: LRP and Capital Expenditures

Local Resources Program



CIP Expenditures



Financial Policies

Financial Policies

- Cost Recovery
- Revenue Bond Coverage target
- Reserves

Summary of Financial Policies

- Proposed Biennial Budget, estimated revenue requirements, and proposed rates and charges supports financial policies
 - Revenues recover costs
 - Makes progress towards meeting Revenue Bond Coverage target; meets Fixed Charge Coverage target
 - Increases in unrestricted reserves ensure ability to meet expenditures during periods of revenue volatility
 - Unrestricted reserves are below the target during FYs 2018/19 and 2019/20
 - All rates and charges in CYs 2019 and 2020 contribute to increased reserve levels

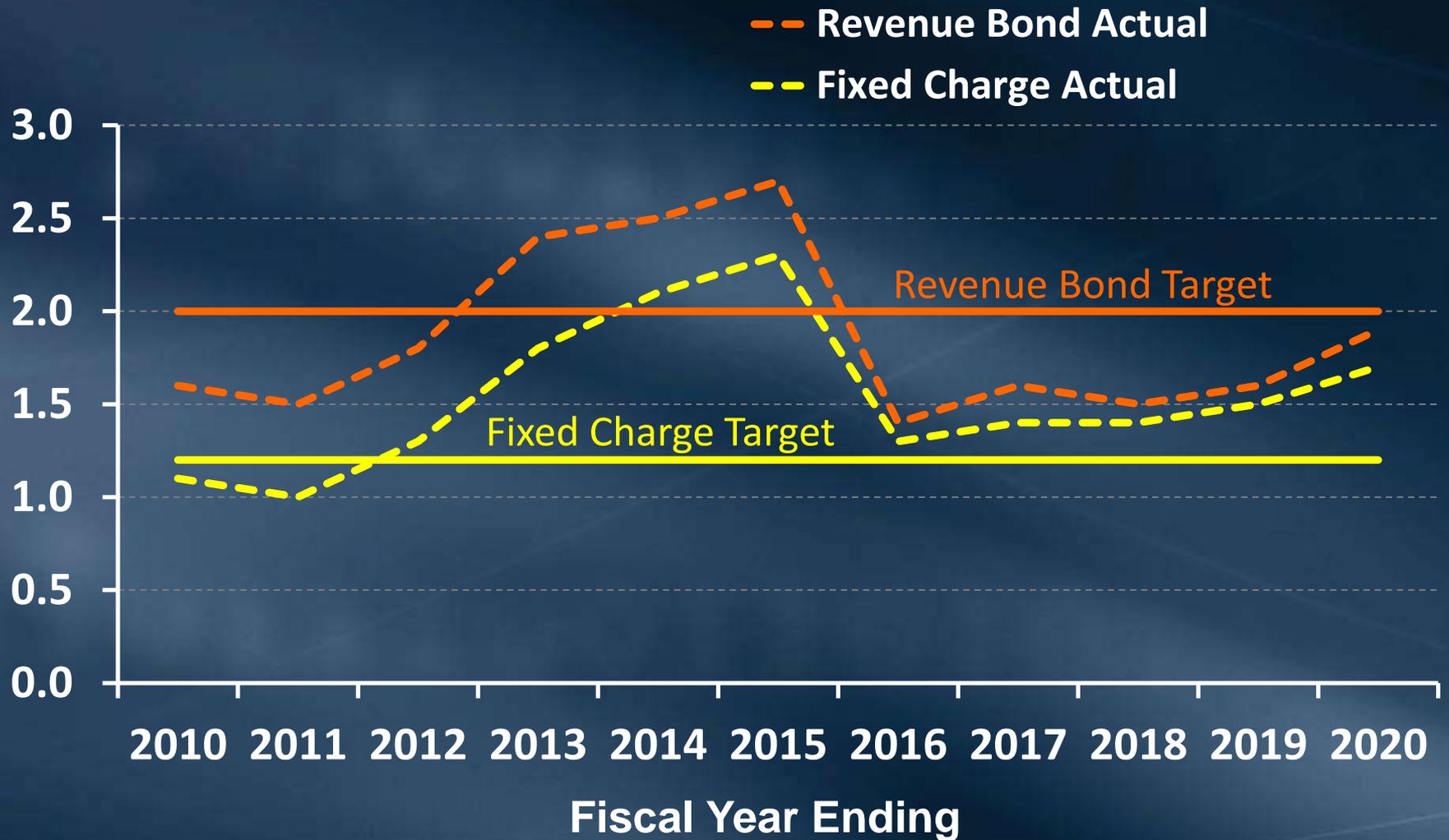
Revenue Bond Coverage Target

- Proposed Biennial Budget, estimated revenue requirements, and proposed rates and charges make progress towards Revenue Bond Coverage Target of 2.0x
 - Revenues meet all operating expenses and debt service and other parity obligations plus an additional multiple of that debt service
 - Does not include SWC Capital payments
 - Provides assurance to bondholders that Metropolitan can fund operating expenditures and debt service costs with ample coverage
- Fixed Charge Coverage target of 1.2x is met
 - A financially sound utility consistently demonstrates an ability to fund all recurring costs

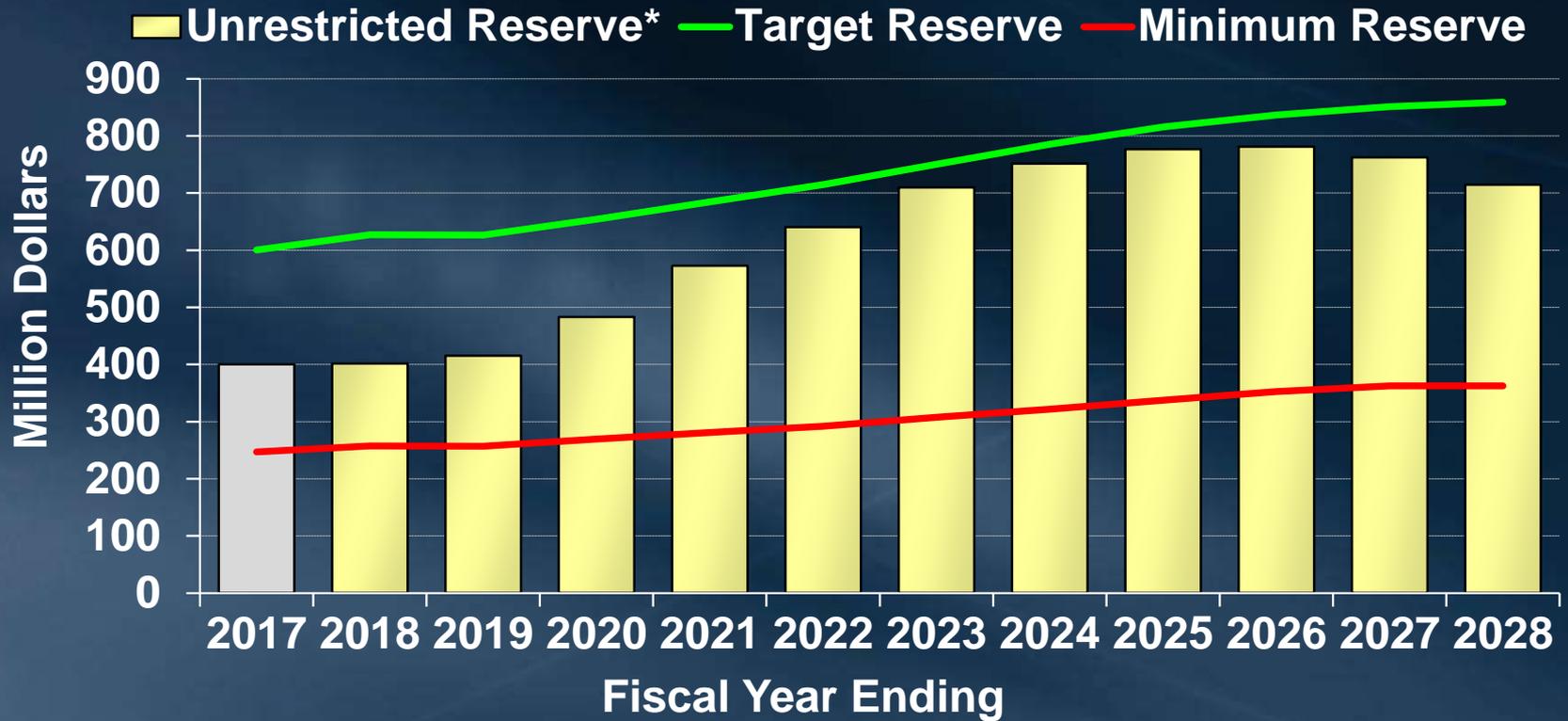
Revenue Bond Coverage Target of 2x

- Metropolitan retains or attains high bond ratings with correspondingly lower interest costs on bonds
 - Also impacts cost of liquidity, rates for Variable debt, Direct Placement notes, and potential for lowering of Swap collateral thresholds
- 2x coverage is in line with high-grade municipal utilities
 - 2x Revenue Bond Coverage supports Fixed Charge Coverage in Metropolitan's flow of funds
 - Revenues available to fund future capital projects, non-cash items, and reserves

Coverage Targets and Actual Results



Scenario: Rev. Bond Cvg with lower Rate Increases



Overall Rate Inc.	4.0%	4.0%	3.0%	3.0%	3.0%	2.5%	2.5%	3.0%	3.0%	3.0%	3.0%	3.0%
Water Transactions (MAF)**	1.54	1.55	1.65	1.75	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Rev. Bond Cvg	1.6	1.5	1.6	1.9	2.1	2.0	2.0	2.0	2.2	2.1	2.1	2.1
Fixed Chg Cvg	1.4	1.4	1.5	1.7	1.9	1.7	1.7	1.6	1.5	1.4	1.4	1.3
PAYGO, \$M	132	108	120	120	150	150	150	154	158	162	167	171

* Revenue Remainder and Water Rate Stabilization Fund

** Includes water sales, exchange and wheeling

Unrestricted Reserves

- Proposed Biennial Budget, estimated revenue requirements, and proposed rates and charges results in increases to unrestricted reserves
 - Current unrestricted reserves are towards the lower end of the range between Minimum and Target
 - Moves unrestricted reserves levels higher
 - Strong cash reserves provide a high degree of financial flexibility that helps mitigate variable water transactions
 - Ensures Metropolitan can meet expenditures during these periods
- Fixed Charge Coverage target of 1.2X is met

Unrestricted Reserves



Total Variable Revenues* vs. Unrestricted Reserves



*Revenues excluding the Capacity Charge, Readiness-to-Serve Charge and Ad Valorem Taxes

Next Steps

- February 27, 2018 F&I Committee, Workshop #2: Cost of Service, proposed rates and charges, follow up
- March 12, 2018 F&I Committee, Workshop #3: CIP, Financial Policies, follow up
- March 13, 2018 Public Hearings on proposed water rates and charges and continuing suspension of the AV tax limitation
- March 27, 2018 F&I Committee, Workshop #4: if needed
- April 9, 2018 F&I Committee: Recommend Biennial Budget, Calendar Year rates and charges, and Ten-Year Financial Forecast; Workshop #5, if needed
- April 10, 2018 Board Actions regarding Biennial Budget, Calendar Year rates and charges, and Ten-Year Financial Forecast

