Proposed Biennial Budget for FYs 2020/21 and 2021/22; Proposed Water Rates and Charges for Calendar Years 2021 and 2022; Overview of Rates & Charges; Ten-Year Financial Forecast

Workshop #3

Finance & Insurance Committee
Item 6a
March 9, 2020

Proposed Biennial Budget Workshop #3 Presentation Overview

- Follow-up from Workshop #1 & 2
- Q&A Discussion
- Next Steps

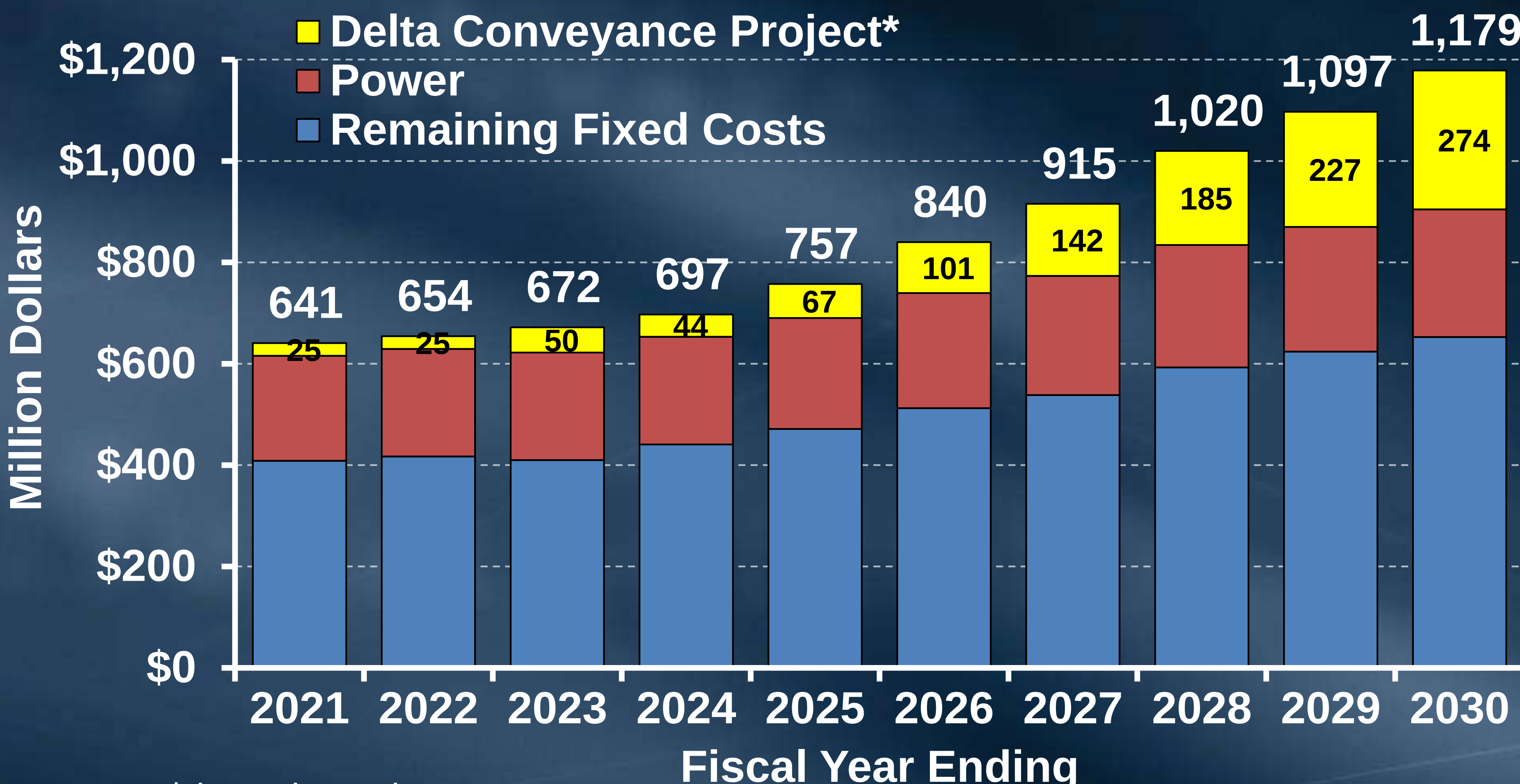
hypothetical

Impact of Delta Conveyance Project

- Costs estimated from WaterFix Project
- 6,000 CFS, single tunnel
- Completion date: end of 2035
- Capital Costs: $12.1B in 2020 Dollars ($11B in 2017$)
- Assuming 65% Metropolitan Share
- MWD Capital Share: $7.9B in 2020 Dollars
- Financed: 40-year term, 4% fixed rate debt

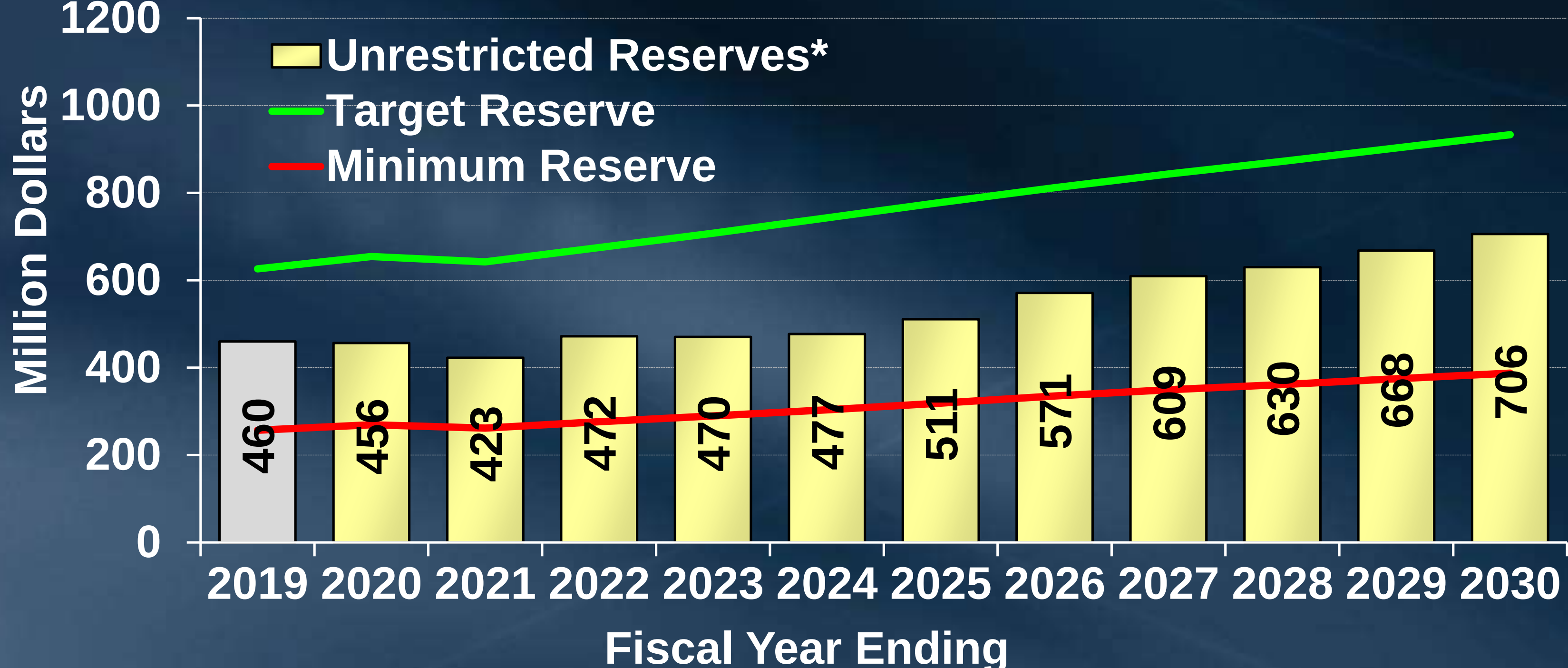
hypothetical

State Water Contract Forecast with Full Delta Conveyance Project



* hypothetical

Proposed 2020/21 & 2021/22 Budget

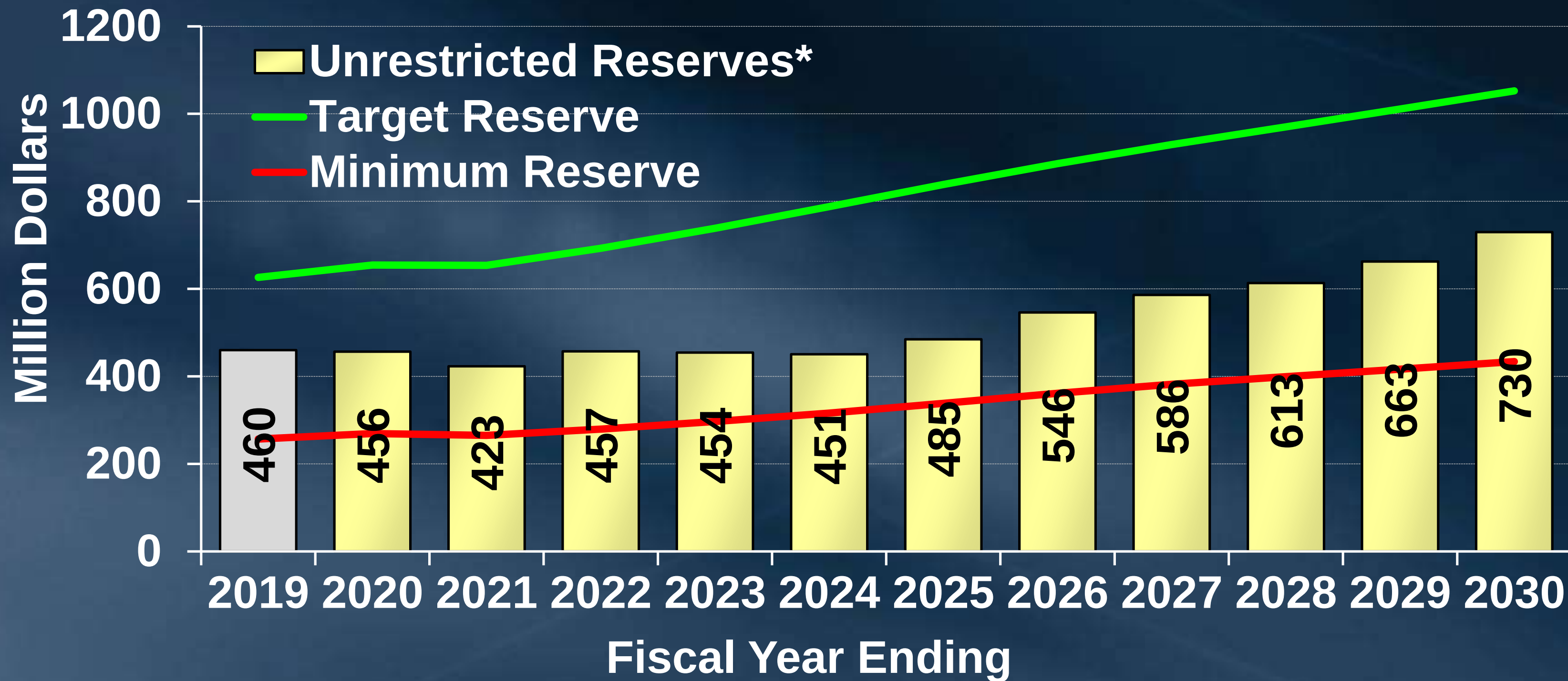


Overall Rate Inc.	3.0%	3.0%	5.0%	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Water Transactions (MAF)**	1.42	1.55	1.60	1.60	1.60	1.64	1.69	1.74	1.74	1.74	1.75	1.75
Rev. Bond Cvg	1.4	1.5	1.5	1.6	1.6	1.8	2.0	2.2	2.1	2.1	2.2	2.3
Fixed Chg Cvg	1.4	1.4	1.5	1.6	1.7	1.8	1.9	1.9	1.8	1.6	1.7	1.7
PAYGO, $M	126	30	135	135	180	210	210	210	210	210	210	210

* Revenue Remainder and Water Rate Stabilization Fund
** Includes water sales, exchanges and wheeling

hypothetical

Impact of Delta Conveyance Project



	3.0%	3.0%	5.0%	5.0%	5.0%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%	4.9%
Water Transactions (MAF)**	1.42	1.55	1.60	1.60	1.60	1.64	1.69	1.74	1.74	1.74	1.75	1.75
Rev. Bond Cvg	1.4	1.5	1.5	1.6	1.8	1.9	2.2	2.4	2.5	2.6	2.8	3.1
Fixed Chg Cvg	1.4	1.4	1.5	1.6	1.6	1.6	1.7	1.7	1.6	1.4	1.4	1.4
PAYGO, $M	126	30	135	135	180	180	180	180	180	180	180	180

* Revenue Remainder and Water Rate Stabilization Fund
** Includes water sales, exchanges and wheeling

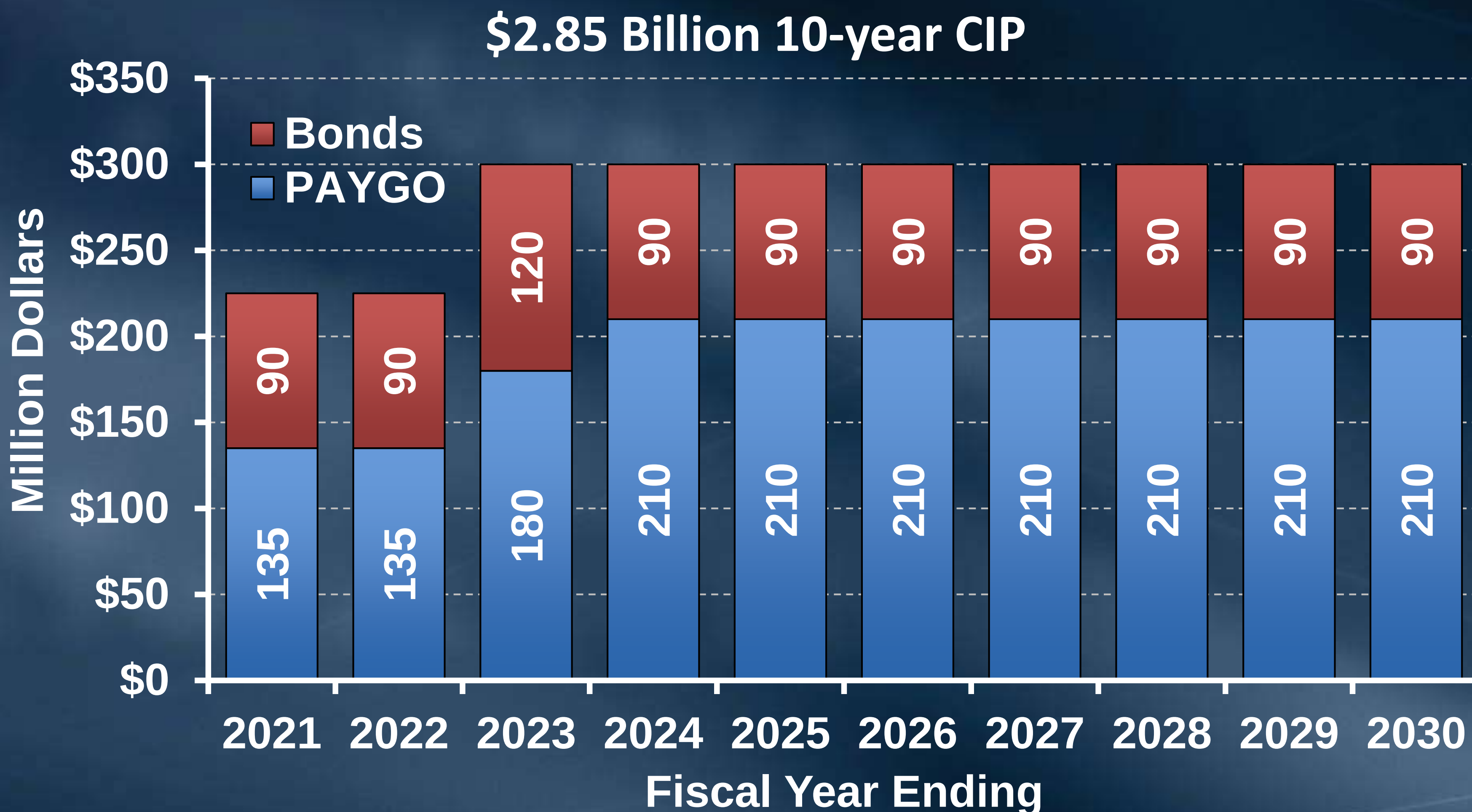
hypothetical

Impact of Regional Recycled Water Program

- Backbone System, Phase I
- 100 MGD (96 TAF)
- Completion date: end of 2032
- Capital Costs: $2.8B in 2020 Dollars ($2.6B in 2018$)
- Financed: 30-year term, 3.7-4.5% fixed rate debt
- Increased PAYGO funding to maintain 2.0x revenue bond cover in out years.
- Not considering potential WIFIA or other grant funding sources
  - Could provide funding for up to 49% of project

Proposed 2020/21 & 2021/22 Budget

Capital Investment Plan Expenditures

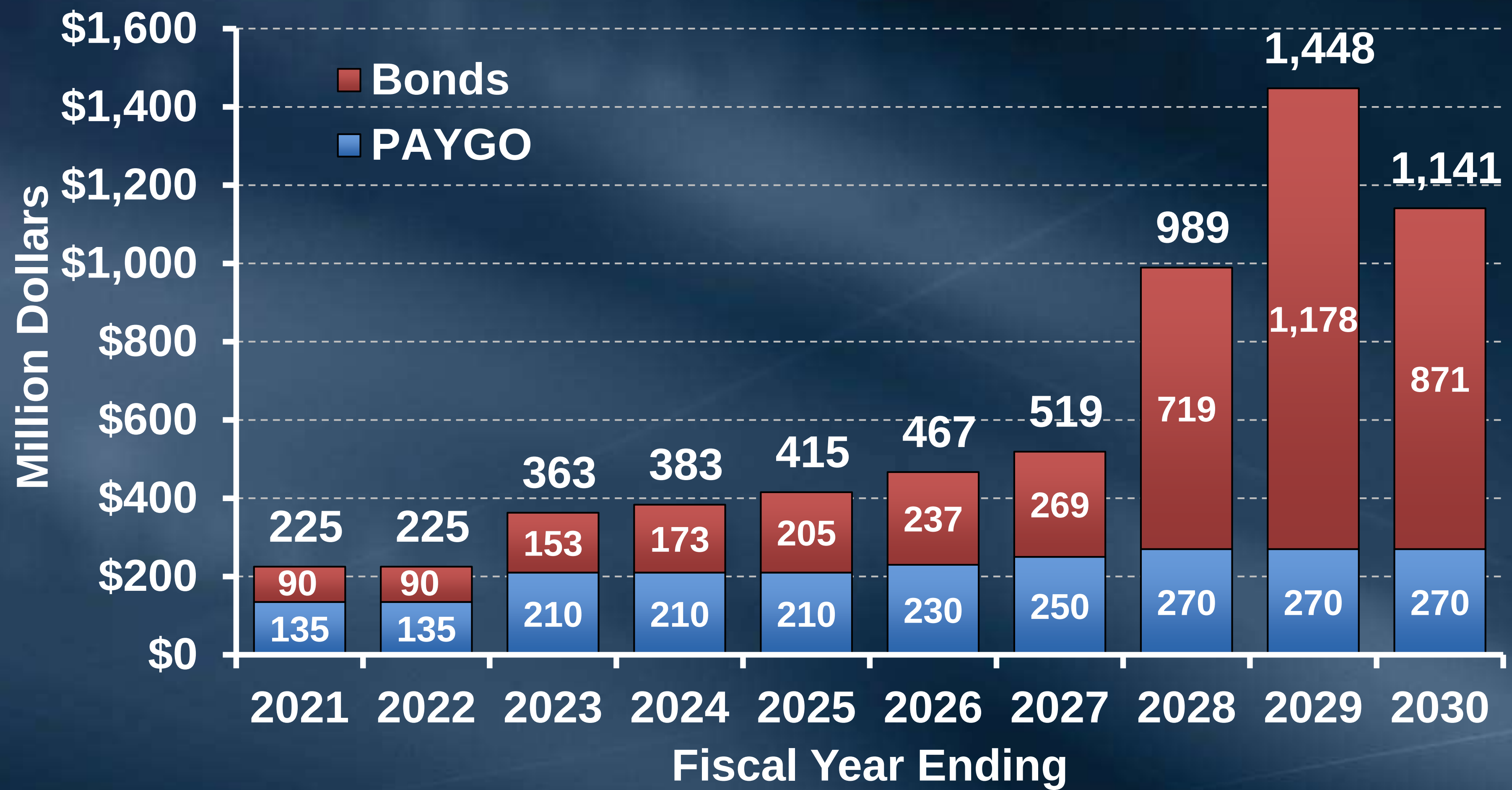


hypothetical

Impact of Regional Recycled Water Program

Capital Investment Plan Expenditures

$6.18 Billion 10-year CIP



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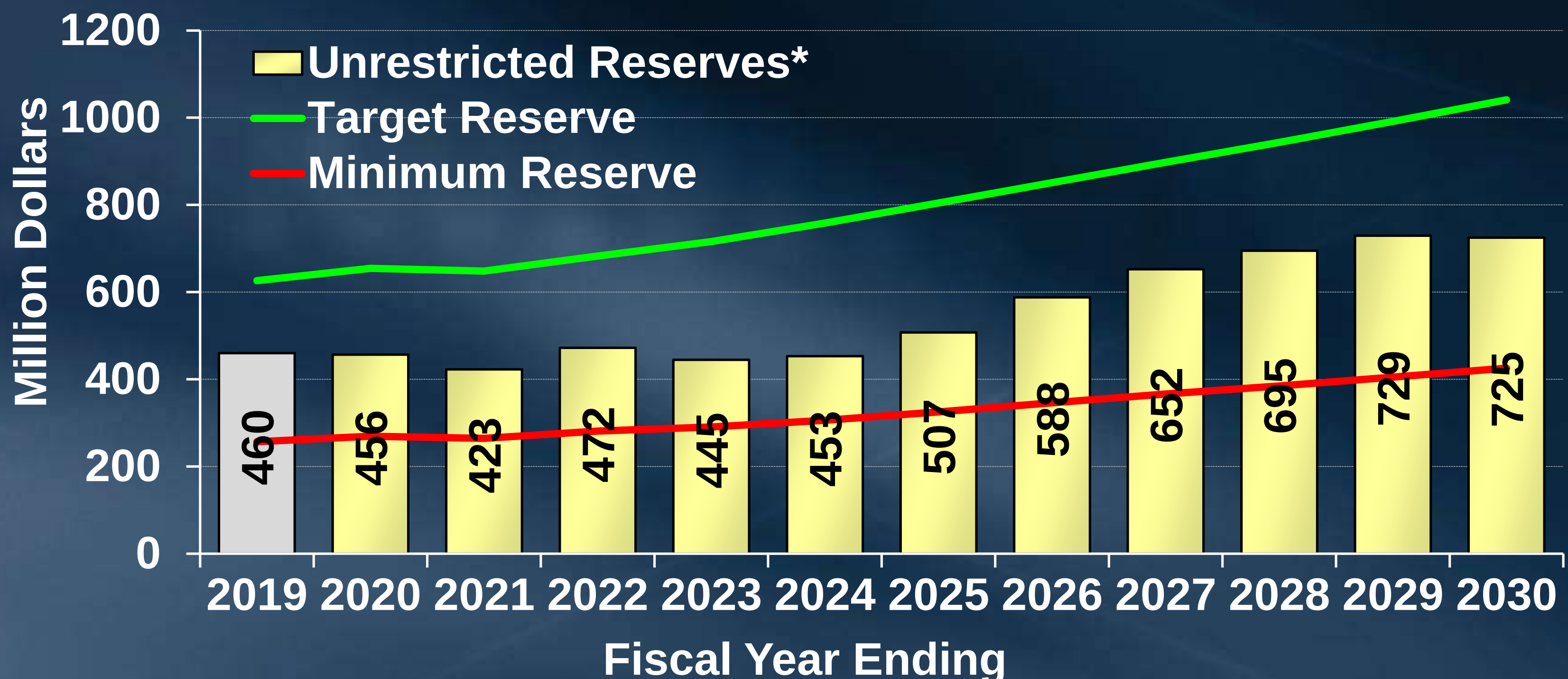
Impact of Regional Recycled Water Program



Overall Rate Inc.	3.0%	3.0%	5.0%	5.0%	5.0%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%
Water Transactions (MAF)**	1.42	1.55	1.60	1.60	1.60	1.64	1.69	1.74	1.74	1.74	1.75	1.75
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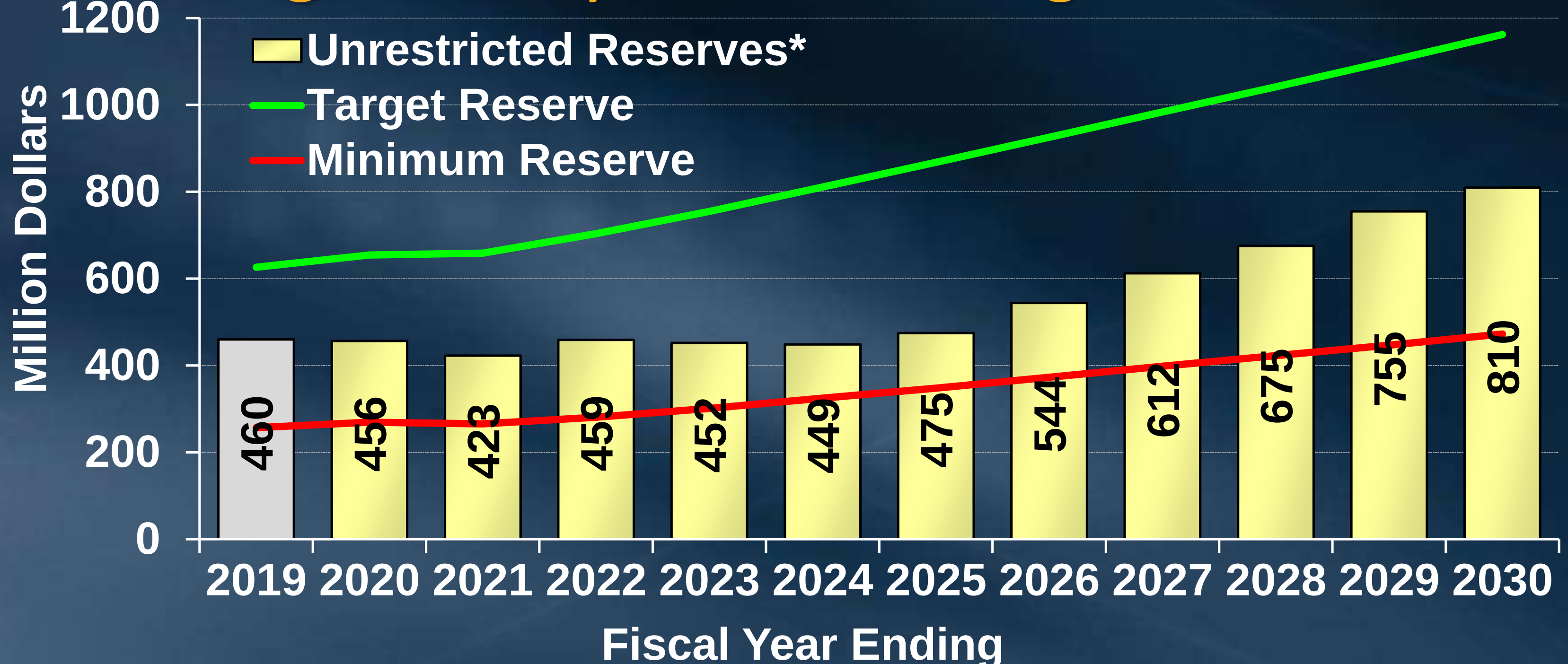
Fixed Chg Cvg	1.4	1.4	1.5	1.6	1.6	1.8	1.9	2.0	1.9	1.8	1.7	1.6
PAYGO, $M	126	30	135	135	210	210	210	230	250	270	270	270

* Revenue Remainder and Water Rate Stabilization Fund

** Includes water sales, exchanges and wheeling

hypothetical

Impact of Delta Conveyance Project and Regional Recycled Water Program



Overall Rate Inc.	3.0%	3.0%	5.0%	5.0%	5.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
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PAYGO, $M	126	30	135	135	180	180	210	210	210	210	210	210

* Revenue Remainder and Water Rate Stabilization Fund

** Includes water sales, exchanges and wheeling

Impact of OPEB/PERS Prefunding

- 9/10/2019 F&I “Prefunding PERS and OPEB”
  - Bartel has determined that if Metropolitan annually funds an additional $15 M towards its pension obligations, Metropolitan’s pension funded ratio could reach the 80% funded threshold by June 30, 2030.
  - OPEB: based on current projections, Metropolitan is on track to reach the 80 percent funded threshold by June 30, 2029.
- Prefunding PERS at $15M/yr would increase overall rates and charges about 1%.

What is the impact of adding State Water Project subsidence to the 10-year forecast?

- The SWP aging infrastructure projections include: dam remediation, Sisk dam seismic upgrades, subsidence, pump and electrical generating equipment rehabilitation and replacement, pre-stressed concrete cylindrical pipe replacement, and other infrastructure repairs.
- Long term costs are expected to range from $1-2 billion.
- Metropolitan is working with DWR on a financing plan
- DWR is experiencing delays in their ability to issue long term revenue bonds.
- The latest aging infrastructure projections were provided by DWR in the fall of 2019 and are included in the proposed budget/10-year forecast.

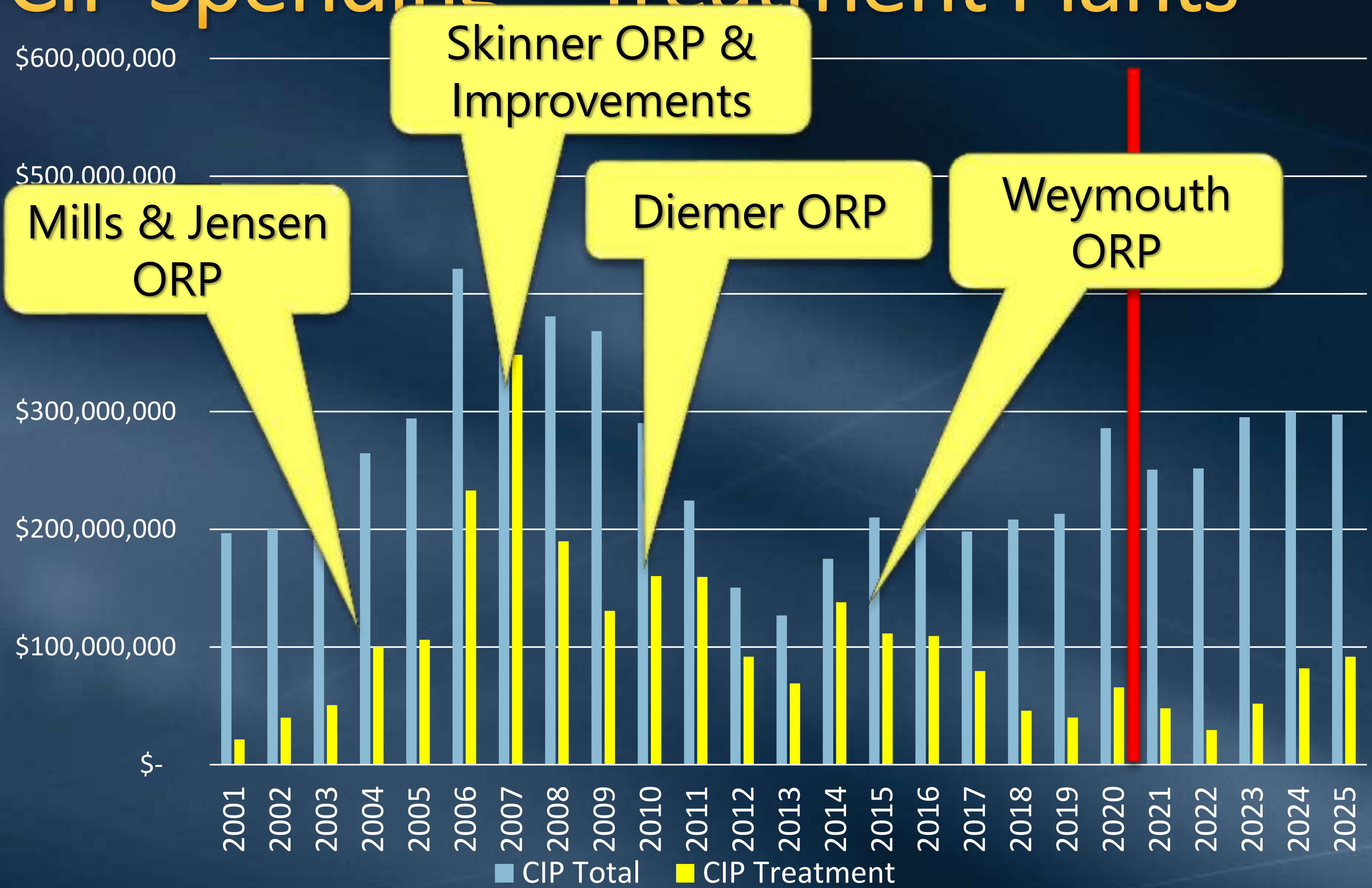
Impact of change in Capital Investment Plan expenditures

CIP Appropriation	Percent Completed	CIP Expenditures	Overall Rate Increase 2021 and 2022
$500 M	80%	$400 M	4.0%, 4.0%
$500 M	90%	$450 M	5.0%, 5.0%
$500 M	100%	$500 M	6.0%, 6.0%

- Proposed Budget assumes CIP expenditures will be 90% of planned spending as recent changes in the capital appropriation process streamlined capital appropriations, expediting capital project expenditures.
- 60% PAYGO funding
- If 80% of the $500M CIP was completed, costs would decrease ~$16 M/yr, overall rates and charges could decrease about 1% per year.
  - Increases costs in future years
- If 100% of the $500M CIP could be completed, costs would increase ~$16 M/yr, overall rates and charges would increase about 1% per year.

Capital expenditures for treatment

CIP Spending – Treatment Plants

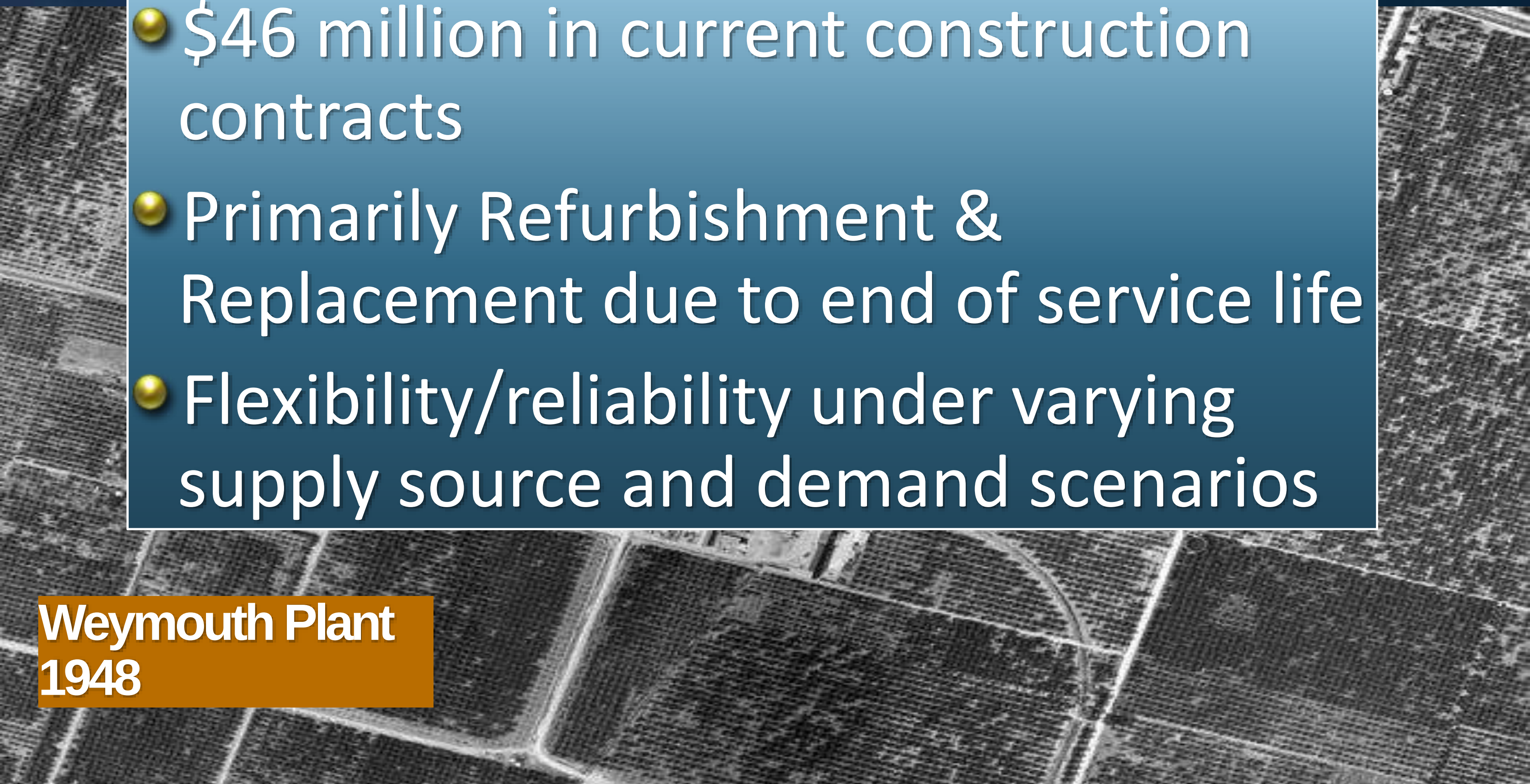


Treatment Plant Reliability

FY 2020/21 Estimate - $48.6 M

FY 2021/22 Estimate - $27.6 M

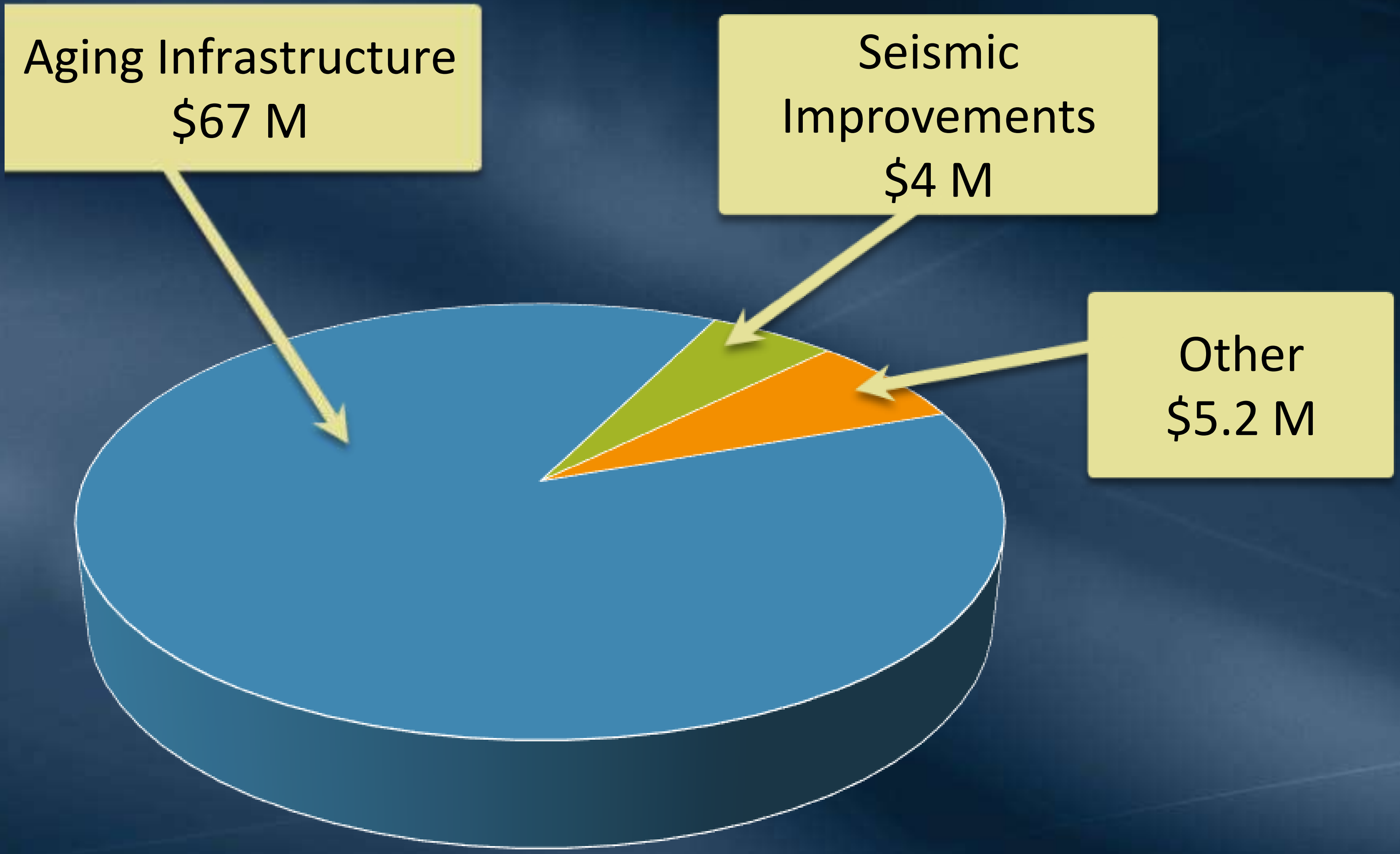
- $46 million in current construction contracts
- Primarily Refurbishment & Replacement due to end of service life
- Flexibility/reliability under varying supply source and demand scenarios



Weymouth Plant 1948

Treatment Plant Reliability

Planned biennial spending



Proposed CIP for FY 2020/21 - 2021/22
Regulatory related projects

- Treatment facilities, floating reservoir covers, etc. are required to meet water quality regulations
- Projects in these areas are driven primarily by need to replace aging/end of service life components, not due to new regulations
- Homeland Security Directive 7 – Owners of critical infrastructure strengthen security/resilience

Proposed CIP for FY 2020/21 - 2021/22
Regulatory driven projects

- Past project examples:
  - Oxidation Retrofit
  - Chlorine/Chemical Containment
  - Underground Storage Tanks
- Current/planned project examples
  - Gene and Copper Basin Discharge Valve Replacements - DSOD
  - Lake Mathews and Lake Skinner Spillway assessments - DSOD
  - Lake Mathews Above Ground Storage Tank – EPA
  - Various security enhancements

Q&A Discussion

Next Steps

February 10, 2020	F&I Committee, Workshop #1
February 25, 2020	F&I Committee, Workshop #2: CIP, follow up
March 9, 2020	F&I Committee, Workshop #3: follow up
March 10, 2020	Public Hearings on proposed water rates and charges and applicability of the tax rate limit pursuant to Section 124.5 of the MWD Act
March 24, 2020	F&I Committee, Workshop #4: if needed
April 13, 2020	F&I Committee: Recommend Biennial Budget and calendar year rates and charges; Workshop #5, if needed
April 14, 2020	Board Actions regarding Biennial Budget, calendar year rates and charges

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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