

Finance and Asset Management Committee



Approve the Proposed Biennial Budget for FYs 2024/25 and 2025/26; Proposed Water Rates and Charges for Calendar years 2025 and 2026; Ten-Year Forecast

Item 8-7

April 9, 2024

# Budget Adoption

Item 8-7

## Subject

Approve the Proposed Biennial Budget for FYs 2024/25 and 2025/26;  
Proposed Water Rates and Charges for Calendar years 2025 and 2026;  
Ten-Year Forecast

## Purpose

Approve Proposed Biennial Budget for FYs 2024/25 and 2025/26;  
Proposed Water Rates and Charges for Calendar years 2025 and 2026;  
Ten-Year Forecast

## Next Steps

Board action regarding biennial budget and Calendar Year rates and charges on April 9, 2024

# Process

Feb 12, 2024	FAIRP Committee, Proposed 2024/25 and 2025/26 biennial budget; CIP; proposed water rates and charges for calendar years 2025 and 2026; ten-year forecast; and Cost of Service Report (Workshop #1)
Feb 27, 2024	Board of Directors Workshop #2
Mar 12, 2024	FAM Committee, Workshop #3
Mar 12, 2024	Public hearing on proposed rates and charges
Mar 26, 2024	Board of Directors Workshop #4
April 9, 2024	FAM Committee, Recommend Biennial Budget and Calendar Year rates and charges
April 9, 2024	Board <b><u>action</u></b> regarding biennial budget and Calendar Year rates and charges
May 13, 2024	Board <b><u>action</u></b> regarding continuation of Standby Charge for FY 2024/25
August 20, 2024	Board <b><u>action</u></b> regarding fixing ad valorem property taxes for FY 2024/25

# Options

	Water Transactions	Property Tax Rate	New Revenue (1)	Reduce Dept O&M (2)	Budget		Projected (3)		2-yr rate inc	4-yr rate inc
					2025	2026	2027	2028		
Proposed in Feb	1.44 MAF	0.0035%			13%	8%	12%	8%	21%	41%
Option 1	<b>1.34 MAF</b>	<b>0.0070%</b>	\$60M/yr	\$18M/yr	8.5%	8.5%	11.5%	11.5%	17%	40%
Option 2	<b>1.34 MAF</b>	<b>0.0099%</b>		\$18M/yr	6%	6%	11%	10%	12%	33%
Option 3	<b>1.34 MAF</b>	<b>0.0055%</b>	\$60M/yr	\$18M/yr	10.5%	10.5%	13%	9%	21%	43%

- (1) New Revenue: Assume \$60 million in new one-time revenue for FY 2024/25 and FY 2025/26
- (2) Department O&M: Reduce Proposed Departmental O&M Budget \$18 million for the FY 2024/25 and FY 2025/26
- (3) The estimated overall rate increase for 2027 and 2028 includes the full-scale PWSC project. Without the PWSC project the over rate increase would be approximal 6% less for 2027 and 4% less for 2028.

# Untreated Full-Service Rate (\$/AF)

	Water Transactions	Property Tax Rate	New Revenue (1)	Reduce Dept O&M (2)	2024*	Budget		% Increase	% Increase
						2025	2026	2025	2026
Proposed in Feb	1.44 MAF	0.0035%			\$903	\$1,006	\$1,069	11%	6%
Option 1	<b>1.34 MAF</b>	<b>0.0070%</b>	\$60M/yr	\$18M/yr	\$903	\$912	\$984	1%	8%
Option 2	<b>1.34 MAF</b>	<b>0.0099%</b>		\$18M/yr	\$903	\$895	\$940	-1%	5%
Option 3	<b>1.34 MAF</b>	<b>0.0055%</b>	\$60M/yr	\$18M/yr	\$903	\$955	\$1,036	6%	8%

# Treated Full-Service Rate (\$/AF)

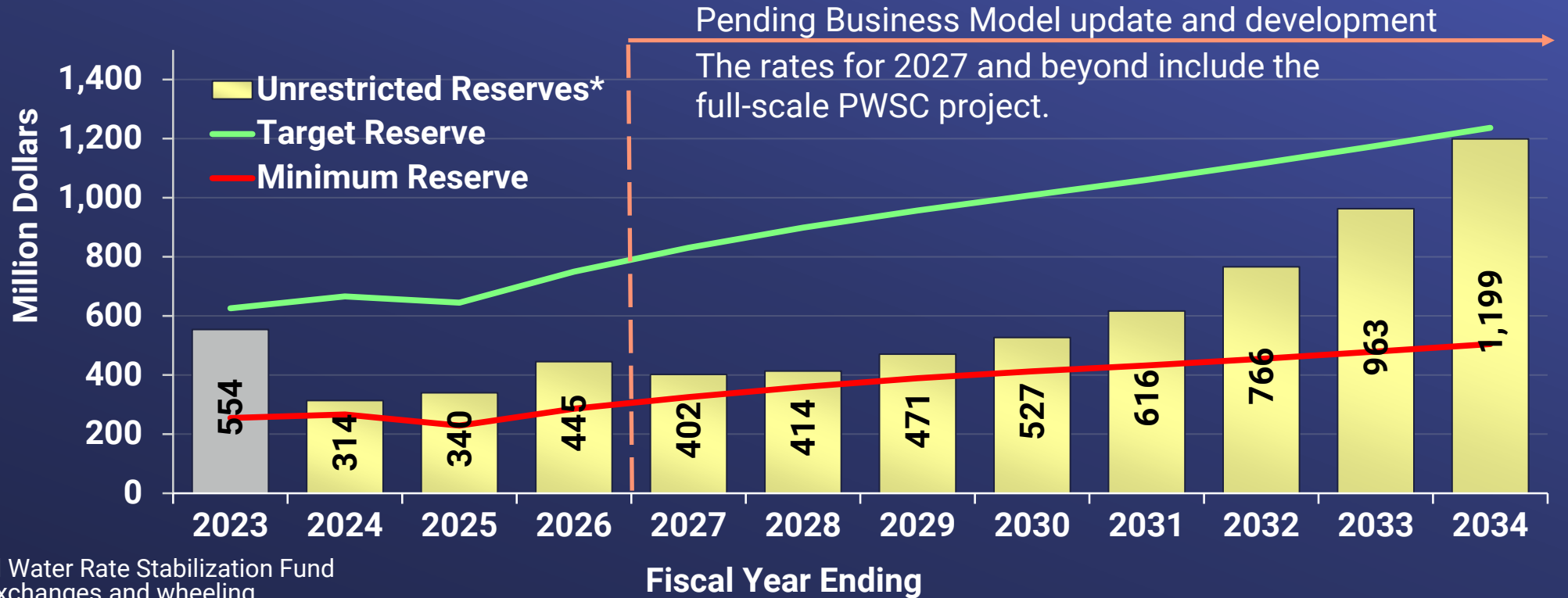
	Water Transactions	Property Tax Rate	New Revenue (1)	Reduce Dept O&M (2)	2024*	Budget		% Increase	% Increase
						2025	2026	2025	2026
Proposed in Feb	1.44 MAF	0.0035%			\$1,256	\$1,465	\$1,587	17%	8%
Option 1	<b>1.34 MAF</b>	<b>0.0070%</b>	\$60M/yr	\$18M/yr	\$1,256	\$1,395	\$1,528	11%	10%
Option 2	<b>1.34 MAF</b>	<b>0.0099%</b>		\$18M/yr	\$1,256	\$1,379	\$1,476	10%	7%
Option 3	<b>1.34 MAF</b>	<b>0.0055%</b>	\$60M/yr	\$18M/yr	\$1,256	\$1,426	\$1,580	14%	11%

Full Service Cost means the Full Service Rate, consisting of the following rate components: the applicable Supply Rate, the System Access Rate, the System Power Rate, and if applicable the Treatment Surcharge for treated water service.

\* based on Tier 1 for 2024

# Option I: Ten-year Financial Projection

1.34 MAF / 0.0070% Ptax Rate / O&M Cut / New Rev



\* Revenue Remainder and Water Rate Stabilization Fund

\*\* Includes water sales, exchanges and wheeling

<b>Overall Rate Inc.</b>	5%	5%	8.5%	8.5%	11.5%	11.5%	5.0%	5.0%	4.0%	4.0%	4.0%	4.0%
<b>Ptax Rate</b>	.0035%	.0035%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%
<b>Water Transactions (MAF)**</b>	1.42	1.17	1.34	1.34	1.34	1.35	1.35	1.36	1.37	1.39	1.41	1.43
<b>Rev. Bond Cvg</b>	1.5	1.1	1.7	1.9	1.6	1.8	1.9	1.8	1.7	1.7	1.7	1.7
<b>CIP, \$M</b>	247	353	312	324	1,390	1,684	2,171	1,966	1,544	1,091	655	502
<b>PAYGO, \$M</b>	135	\$35	\$175	\$175	\$175	\$250	\$275	\$275	\$250	\$225	\$200	\$200

# Option I: Water Rates and Charges

1.34 MAF / 0.0070% Ptax Rate / O&M Cut / New Rev

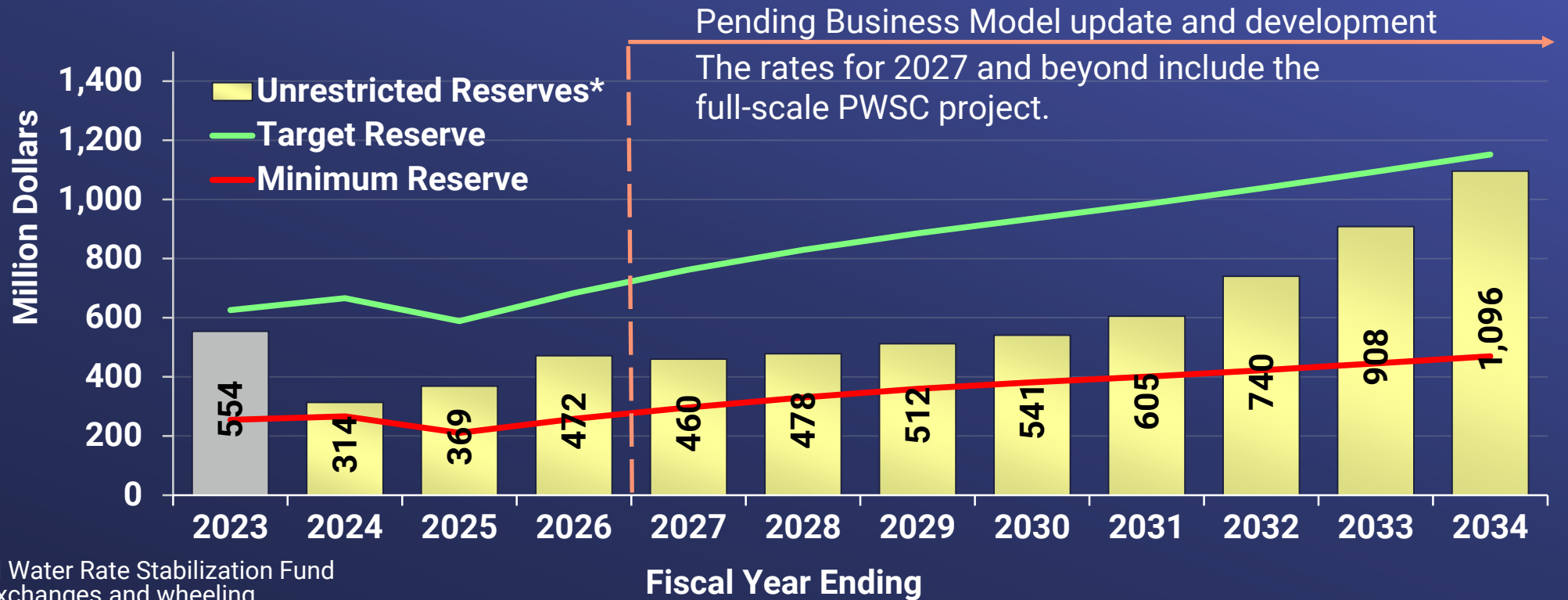
Rates & Charges Effective January 1st	Current 2024	Proposed 2025	% Increase (Decrease)	Proposed 2026	% Increase (Decrease)
Supply Rate (\$/AF)	\$332*	\$290	-13%	\$313	8%
System Access Rate (\$/AF)	\$389	\$463	19%	\$492	6%
System Power Rate (\$/AF)	\$182	\$159	-13%	\$179	13%
Treatment Surcharge (\$/AF)	\$353	\$483	37%	\$544	13%
<b>Full Service Untreated (\$/AF)</b>	<b>\$903</b>	<b>\$912</b>	<b>1%</b>	<b>\$984</b>	<b>8%</b>
<b>Full Service Treated (\$/AF)</b>	<b>\$1,256</b>	<b>\$1,395</b>	<b>11%</b>	<b>\$1,528</b>	<b>10%</b>
RTS Charge (\$M)	\$167	\$181	8%	\$188	4%
Capacity Charge (\$/cfs)	\$11,200	\$13,000	16%	\$14,500	12%
<b>Overall Rate Increase</b>			<b>8.5%</b>		<b>8.5%</b>

Full Service Cost means the Full Service Rate, consisting of the following rate components: the applicable Supply Rate, the System Access Rate, the System Power Rate, and if applicable the Treatment Surcharge for treated water service.

\* based on Tier 1 for 2024

# Option 2: Ten-year Financial Projection

1.34 MAF / 0.0099% Ptax Rate / O&M Cut



\* Revenue Remainder and Water Rate Stabilization Fund

\*\* Includes water sales, exchanges and wheeling

<b>Overall Rate Inc.</b>	5%	5%	6.0%	6.0%	11.0%	10.0%	5.0%	5.0%	5.0%	4.0%	4.0%	4.0%
<b>Ptax Rate</b>	.0035%	.0035%	.0099%	.0099%	.0099%	.0099%	.0099%	.0099%	.0099%	.0099%	.0099%	.0099%
<b>Water Transactions (MAF)**</b>	1.42	1.17	1.34	1.34	1.34	1.35	1.35	1.36	1.37	1.39	1.41	1.43
<b>Rev. Bond Cvg</b>	1.5	1.1	1.8	1.9	1.7	1.8	1.8	1.7	1.7	1.7	1.7	1.7
<b>CIP, \$M</b>	247	353	312	324	1,390	1,684	2,171	1,966	1,544	1,091	655	502
<b>PAYGO, \$M</b>	135	\$35	\$175	\$175	\$175	\$250	\$275	\$275	\$250	\$225	\$200	\$200



# Option 2: Water Rates and Charges

1.34 MAF / 0.0099% P<sub>tax</sub> Rate / O&M Cut

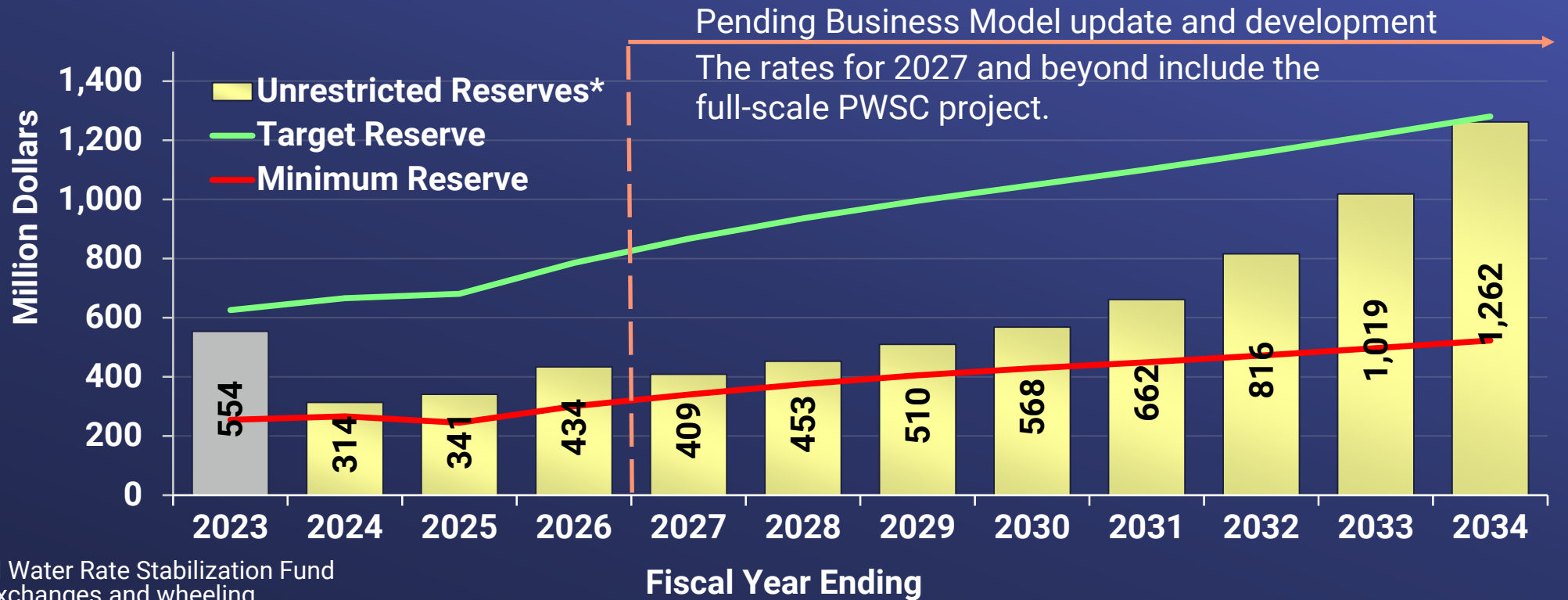
Rates & Charges Effective January 1st	Current 2024	Proposed 2025	% Increase (Decrease)	Proposed 2026	% Increase (Decrease)
Supply Rate (\$/AF)	\$332*	\$334	1%	\$347	4%
System Access Rate (\$/AF)	\$389	\$431	11%	\$447	4%
System Power Rate (\$/AF)	\$182	\$130	-29%	\$146	12%
Treatment Surcharge (\$/AF)	\$353	\$484	37%	\$536	11%
<b>Full Service Untreated (\$/AF)</b>	<b>\$903</b>	<b>\$895</b>	<b>-1%</b>	<b>\$940</b>	<b>5%</b>
<b>Full Service Treated (\$/AF)</b>	<b>\$1,256</b>	<b>\$1,379</b>	<b>10%</b>	<b>\$1,476</b>	<b>7%</b>
RTS Charge (\$M)	\$167	\$177	6%	\$180	2%
Capacity Charge (\$/cfs)	\$11,200	\$13,000	16%	\$14,200	9%
<b>Overall Rate Increase</b>			<b>6.0%</b>		<b>6.0%</b>

Full Service Cost means the Full Service Rate, consisting of the following rate components: the applicable Supply Rate, the System Access Rate, the System Power Rate, and if applicable the Treatment Surcharge for treated water service.

\* based on Tier 1 for 2024

# Option 3: Ten-year Financial Projection

1.34 MAF / 0.0055% Ptax Rate / O&M Cut / New Rev



\* Revenue Remainder and Water Rate Stabilization Fund

\*\* Includes water sales, exchanges and wheeling

<b>Overall Rate Inc.</b>	5%	5%	10.5%	10.5%	13.0%	9.0%	5.0%	5.0%	4.0%	4.0%	4.0%	4.0%
<b>Ptax Rate</b>	.0035%	.0035%	.0055%	.0055%	.0055%	.0055%	.0055%	.0055%	.0055%	.0055%	.0055%	.0055%
<b>Water Transactions (MAF)**</b>	1.42	1.17	1.34	1.34	1.34	1.35	1.35	1.36	1.37	1.39	1.41	1.43
<b>Rev. Bond Cvg</b>	1.5	1.1	1.6	1.9	1.7	1.9	1.9	1.8	1.7	1.7	1.7	1.7
<b>CIP, \$M</b>	247	353	312	324	1,390	1,684	2,171	1,966	1,544	1,091	655	502
<b>PAYGO, \$M</b>	135	\$35	\$125	\$175	\$175	\$250	\$275	\$275	\$250	\$225	\$200	\$200

# Option 3: Water Rates and Charges

1.34 MAF / 0.0055% Ptax Rate / O&M Cut / New Rev

Rates & Charges Effective January 1st	Current 2024	Proposed 2025	% Increase (Decrease)	Proposed 2026	% Increase (Decrease)
Supply Rate (\$/AF)	\$332*	\$302	-9%	\$330	9%
System Access Rate (\$/AF)	\$389	\$475	22%	\$511	8%
System Power Rate (\$/AF)	\$182	\$178	-2%	\$195	10%
Treatment Surcharge (\$/AF)	\$353	\$471	33%	\$544	15%
<b>Full Service Untreated (\$/AF)</b>	<b>\$903</b>	<b>\$955</b>	<b>6%</b>	<b>\$1,036</b>	<b>8%</b>
<b>Full Service Treated (\$/AF)</b>	<b>\$1,256</b>	<b>\$1,426</b>	<b>14%</b>	<b>\$1,580</b>	<b>11%</b>
RTS Charge (\$M)	\$167	\$170	2%	\$192	13%
Capacity Charge (\$/cfs)	\$11,200	\$11,900	6%	\$14,600	23%
<b>Overall Rate Increase</b>			<b>10.5%</b>		<b>10.5%</b>

Full Service Cost means the Full Service Rate, consisting of the following rate components: the applicable Supply Rate, the System Access Rate, the System Power Rate, and if applicable the Treatment Surcharge for treated water service.

\* based on Tier 1 for 2024

# Estimated Property Tax Revenue

Fiscal Year Ending	Property Tax Rate	Estimated Property Tax Revenue (\$M)		Estimated % Fixed Revenues*	
		2025	2026	2025	2026
Option 1	0.0070%	\$317	\$334	25%	25%
Option 2	0.0099%	\$417	\$442	29%	29%
Option 3	0.0055%	\$265	\$278	22%	22%

\*Fixed revenues include Readiness-To-Serve Charge, Capacity Charge and Property Taxes. These figures represent total fixed revenues as a percentage of total revenues.

# Revenue Opportunities Given Record Storage

- Metropolitan is also pursuing new revenues through management of stored water to help shore up our financial reserves
  - Options 1 and 3 assume \$60M per year in additional miscellaneous revenues during the biennium (FY 2024/25 and FY 2025/26).
  - Preliminary discussions and negotiations for generating revenues from stored water in the Colorado River system are ongoing; however, staff believes this revenue assumption is reasonable considering recent actions that have produced net revenues under similar, albeit not exact, circumstances.
  - Given the variable nature of water needs, the \$60M annual revenue assumption may not happen evenly across the two fiscal years, rather more or less could happen in a specific fiscal year.

# Additional Expenditure Reductions

## Strategy for Managing \$18 million Expenditure Reduction

- \$18M reduction in expenditures in year fiscal year
- These reductions will be prioritized to minimize the impact on Metropolitan's core mission of providing high-quality water to its member agencies.
- Expenditure reductions will be prioritized to minimize the impact on Metropolitan's core mission of providing high-quality water to its member agencies.

# Treatment Surcharge Considerations

- During the budget review process, several member agencies expressed concerns about the significant increases in the Water Treatment Surcharge (TS).
- Included in the Board action is direction for Metropolitan to work with member agency staff and the CAMP4Water Task Force to understand and analyze the treatment surcharge and specifically address issues that arise from that analysis including but not limited to modifying the way the charge is calculated. A final method will be prioritized as part of the new business model discussion and recommended for adoption as soon as possible thereafter but no later than approval of the new business model.

# Option 1

- a. Approve the FY 2024/25 and FY 2025/26 Biennial Budget with overall rate increases of 8.5% in CY 2025 and 8.5% in CY 2026, which includes:
  - i. Appropriation of \$3,453.2M for Metropolitan O&M and operating equipment, power costs on the Colorado River Aqueduct (CRA), SWC operations, maintenance, power and replacement costs and SWC capital charges, including Delta Conveyance Planning costs, demand management programs including the local resources and Conservation Program, and costs associated with supply programs, for FYs 2024/25 and 2025/26;
  - ii. A continuing appropriation of \$693.9M for FY 2024/25 and FY 2025/26 for debt service on Metropolitan general obligation and revenue bonds;
  - iii. Bond financing \$48.2M of the budgeted Conservation Program over the biennium; and,
  - iv. Bond financing \$129.6M of the budgeted Supply Program over the biennium.
- b. Authorize the use of \$350M in operating revenues to fund the Capital Investment Plan for FYs 2024/25 and 2025/26;
- c. Determine that the revenue requirements to be paid from rates and charges are \$1,549.5M in FY 2024/25 and \$1,692.6M in FY 2025/26;
- d. Approve the Ten-Year Financial Forecast, as summarized in Figure 2;
- e. Approve water rates and charges effective January 1, 2025, and January 1, 2026, as shown in Table 5;



# Option 1 (continued)

- f. Adopt the Resolution Fixing and Adopting Water Rates To Be Effective January 1, 2025, and 2026, in the form of Attachment 5;
- g. Adopt the Resolution Fixing and Adopting A Readiness-To-Serve Charge Effective January 1, 2025, in the form of Attachment 6; and,
- h. Adopt the Resolution Fixing and Adopting A Capacity Charge Effective January 1, 2025, in the form of Attachment 7
- i. Metropolitan will work with member agency staff and the CAMP4Water Task Force to understand and analyze the treatment surcharge and specifically address issues that arise from that analysis including but not limited to modifying the way the charge is calculated. A final method will be prioritized as part of the new business model discussion and recommended for adoption as soon as possible thereafter but no later than approval of the new business model.

# Option 2

- a. Approve the FY 2024/25 and FY 2025/26 Biennial Budget with overall rate increases of 6% in CY 2025 and 6% in CY 2026, which includes:
  - i. Appropriation of \$3,453.2M for Metropolitan O&M and operating equipment, power costs on the Colorado River Aqueduct, SWC operations, maintenance, power and replacement costs and SWC capital charges, demand management programs including the local resources and Conservation Program, and costs associated with supply programs, for FYs 2024/25 and 2025/26;
  - ii. A continuing appropriation of \$693.9M for FY 2024/25 and FY 2025/26 for debt service on Metropolitan general obligation and revenue bonds;
  - iii. Bond financing \$48.2M of the budgeted Conservation Program over the biennium; and,
  - iv. Bond financing \$129.6M of the budgeted Supply Program over the biennium;
- b. Authorize the use of \$350.0M in operating revenues to fund the Capital Investment Plan for FYs 2024/25 and 2025/26;
- c. Determine that the revenue requirements to be paid from rates and charges are \$1,490.5M in FY 2024/25 and \$1,633.5M in FY 2025/26;
- d. Approve the Ten-Year Financial Forecast, as summarized in Figure 3;
- e. Approve water rates and charges effective January 1, 2025, and January 1, 2026, as shown in Table 6;

## Option 2 (continued)

- f. Adopt the Resolution Fixing and Adopting Water Rates To Be Effective January 1, 2025, and 2026, in the form of Attachment 5, as will be updated to reflect the calculations and resulting rates pursuant to Option 2;
- g. Adopt the Resolution Fixing and Adopting A Readiness-To-Serve Charge Effective January 1, 2025, in the form of Attachment 6, as will be updated to reflect the calculation and resulting RTS Charge pursuant to Option 2; and,
- h. Adopt the Resolution Fixing and Adopting A Capacity Charge Effective January 1, 2025, in the form of Attachment 7, as will be updated to reflect the calculation and resulting Capacity Charge pursuant to Option 2.
- i. Metropolitan will work with member agency staff and the CAMP4Water Task Force to understand and analyze the treatment surcharge and specifically address issues that arise from that analysis including but not limited to modifying the way the charge is calculated. A final method will be prioritized as part of the new business model discussion and recommended for adoption as soon as possible thereafter but no later than approval of the new business model.

# Option 3

- a. Approve the FY 2024/25 and FY 2025/26 Biennial Budget with overall rate increases of 10.5% in CY 2025 and 10.5% in CY 2026, which includes:
  - i. Appropriation of \$3,453.2M for Metropolitan O&M and operating equipment, power costs on the Colorado River Aqueduct, SWC operations, maintenance, power and replacement costs and SWC capital charges, demand management programs including the local resources and Conservation Program, and costs associated with supply programs, for FYs 2024/25 and 2025/26;
  - ii. A continuing appropriation of \$696.9M for FY 2024/25 and FY 2025/26 for debt service on Metropolitan general obligation and revenue bonds;
  - iii. Bond financing \$48.2M of the budgeted Conservation Program over the biennium; and,
  - iv. Bond financing \$129.6M of the budgeted Supply Program over the biennium;
- b. Authorize the use of \$300M in operating revenues to fund the Capital Investment Plan for FYs 2024/25 and 2025/26;
- c. Determine that the revenue requirements to be paid from rates and charges are \$1,569.2M in FY 2024/25 and \$1,750.3M in FY 2025/26;
- d. Approve the Ten-Year Financial Forecast, as summarized in Figure 4;
- e. Approve water rates and charges effective January 1, 2025, and January 1, 2026, as shown in Table 7;

## Option 3 (continued)

- f. Adopt the Resolution Fixing and Adopting Water Rates To Be Effective January 1, 2025, and 2026, in the form of Attachment 5, as will be updated to reflect the calculations and resulting rates pursuant to Option 3;
- g. Adopt the Resolution Fixing and Adopting A Readiness-To-Serve Charge Effective January 1, 2025, in the form of Attachment 6, as will be updated to reflect the calculations and resulting RTS Charge pursuant to Option 3; and,
- h. Adopt the Resolution Fixing and Adopting A Capacity Charge Effective January 1, 2025, in the form of Attachment 7, as will be updated to reflect the calculations and resulting Capacity Charge pursuant to Option 3.
- i. Metropolitan will work with member agency staff and the CAMP4Water Task Force to understand and analyze the treatment surcharge and specifically address issues that arise from that analysis including but not limited to modifying the way the charge is calculated. A final method will be prioritized as part of the new business model discussion and recommended for adoption as soon as possible thereafter but no later than approval of the new business model.

# Staff Recommendation

- Option 1

