

Finance and Asset Management Committee



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

Workshop #3

Item 9-2

March 12, 2024

Budget Workshop #3

Item 9-2

Subject

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

Purpose

Provide information to enable April Board action on Proposed Biennial Budget for FYs 2024/25 and 2025/26, Proposed Water Rates and Charges for Calendar years 2025 and 2026, and Ten-Year Forecast

Next Steps

- FAIRP Committee, Workshop #4, if needed on Mar 26, 2024
- FAIRP Committee, Recommend Biennial Budget and Calendar Year rates and charges on April 8, 2024
- Board **action** regarding biennial budget and Calendar Year rates and charges on April 9, 2024

Member Agency Manager Feedback

FY 2024/25 & FY 2025/26 Budget Alternatives

- Staff met with Member Agency Managers on **February 28** and **March 7** to get feedback on the Proposed Budget and Alternatives. A summary of the key themes and recurring comments is provided below and on the next few slides:
 - General recognition of Metropolitan's financial circumstances underscored by declining water transactions, drawdown on unrestricted reserves, and acute cost pressures
 - Member Agencies expressed concerns that one-time O&M reductions would not be material in solving the financial challenges Metropolitan faces over the biennium
 - Preference for long-term predictable and stable rate increases. This was particularly important for Member Agencies and their customers that set rates over a multi-year period

Member Agency Manager Feedback (Continued)

FY 2024/25 & FY 2025/26 Budget Alternatives

- Member Agency Managers rejected alternatives that relied on one-time solutions (revenues & expense reductions) to keep rates low in the biennium at the expense of higher rate increases in years 3 and 4 of the forecast
 - There's mixed support for keeping conservation funding at levels reflected in the Proposed Budget; however, there are concerns about debt financing conservation
- Member Agencies generally expressed a preference for budgeting to lower water transactions (1.34MAF) in recognition of current hydrologic conditions and Metropolitan's projected reserve levels
- There's general support, with some exceptions, for Alternatives that increase the property tax levy to recover an additional portion of State Water Contract costs
 - General recognition that Metropolitan's mix of fixed costs and volumetric revenues poses some unique challenges that must be addressed in the future

Rate Alternatives for Budget Workshop #3

	Water Transactions	Property Tax Rate	Reduce Conservation	Overall Rate Increase
Proposed Budget	1.44 MAF	0.0035%	No	13% / 8%
Alt 1 Double Ptax	1.44 MAF	0.0070%	No	7% / 6%
Alt 2 Low Sales, 7/6 & inc Ptax	1.34 MAF	0.0099%	No	7% / 6%
Alt 3 Low Sales, 5/5 & inc Ptax	1.34 MAF	0.0104%	No	5% / 5%
Alt 4 Low Sales, 5/5, cut Cons & inc Ptax	1.34 MAF	0.0100%	Yes (1)	5% / 5%

- (1) Reduce conservation program to \$17M for FY 2024/25 and \$5M/yr for FY 2025/26 and FY 2026/27 then back to \$30.5M/yr.

This would eliminate the need to issue an additional \$48M of debt during the biennium.

Metropolitan has been awarded over \$40M in recent grants and is continuing to pursue other grant opportunities. Most of these grants require 50% matching funds. As such, reductions to the conservation budget will disqualify MWD from most of the grant awards.

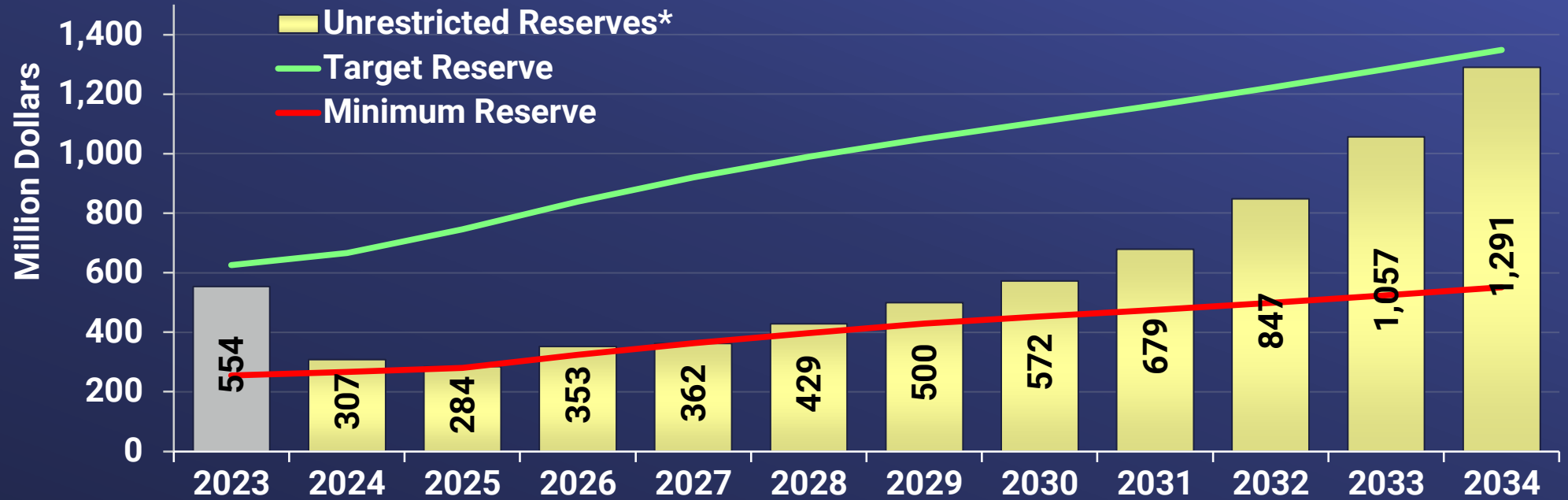
Budgeted Water Transactions



*Water Transactions for member agencies only

Proposed FY 2024/25 & FY 2025/26 Budget

Projected Rate Increases and Financial Metrics



* Revenue Remainder and Water Rate Stabilization Fund

** Includes water sales, exchanges and wheeling

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Overall Rate Inc.	5%	5%	13.0%	8.0%	12.0%	8.0%	5.0%	5.0%	4.0%	4.0%	4.0%	4.0%
Water Transactions (MAF)**	1.42	1.17	1.44	1.44	1.44	1.45	1.45	1.46	1.47	1.49	1.51	1.53
Rev. Bond Cvg	1.5	1.1	1.4	1.8	1.7	1.9	1.9	1.8	1.8	1.7	1.7	1.7
CIP, \$M	247	353	312	324	1,390	1,684	2,171	1,966	1,544	1,091	655	502
PAYGO, \$M	135	35	125	175	175	250	275	275	250	225	200	200

Proposed Rates and Charges

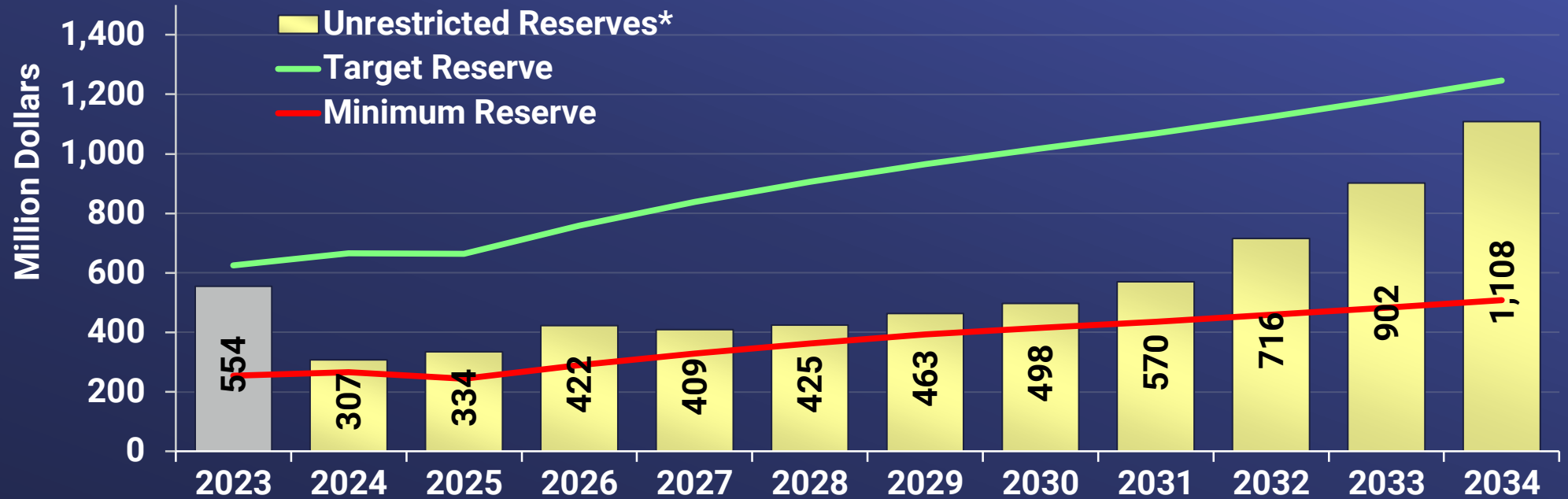
Rates & Charges Effective January 1st	Current 2024	Proposed 2025	% Increase (Decrease)	Proposed 2026	% Increase (Decrease)
Supply Rate (\$/AF)	\$332*	\$353	6%	\$375	6%
System Access Rate (\$/AF)	\$389	\$463	19%	\$491	6%
System Power Rate (\$/AF)	\$182	\$190	4%	\$203	7%
Treatment Surcharge (\$/AF)	\$353	\$459	30%	\$518	13%
Full Service Untreated Volumetric Cost (\$/AF)	\$903	\$1,006	11%	\$1,069	6%
Full Service Treated Volumetric Cost (\$/AF)	\$1,256	\$1,465	17%	\$1,587	8%
RTS Charge (\$M)	\$167	\$167	0%	\$185	11%
Capacity Charge (\$/cfs)	\$11,200	\$10,800	(4%)	\$12,800	19%
Overall Rate Increase			13.0%		8.0%

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

Alt 1: Double Ptax

1.44 MAF / 0.0070% Ptax Rate



* Revenue Remainder and Water Rate Stabilization Fund

** Includes water sales, exchanges and wheeling

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Overall Rate Inc.	5%	5%	7.0%	6.0%	10.0%	10.0%	5.0%	5.0%	5.0%	4.0%	4.0%	4.0%
Ptax Rate	.0035%	.0035%	.007%	.007%	.007%	.007%	.007%	.007%	.007%	.007%	.007%	.007%
Water Transactions (MAF)**	1.42	1.17	1.44	1.44	1.44	1.45	1.45	1.46	1.47	1.49	1.51	1.53
Rev. Bond Cvg	1.5	1.1	1.7	1.9	1.7	1.8	1.8	1.7	1.7	1.7	1.7	1.7
CIP, \$M	247	353	312	324	1,390	1,684	2,171	1,966	1,544	1,091	655	502
PAYGO, \$M	135	\$35	\$175	\$175	\$175	\$250	\$275	\$275	\$250	\$225	\$200	\$200

Alt 1: Double Ptax

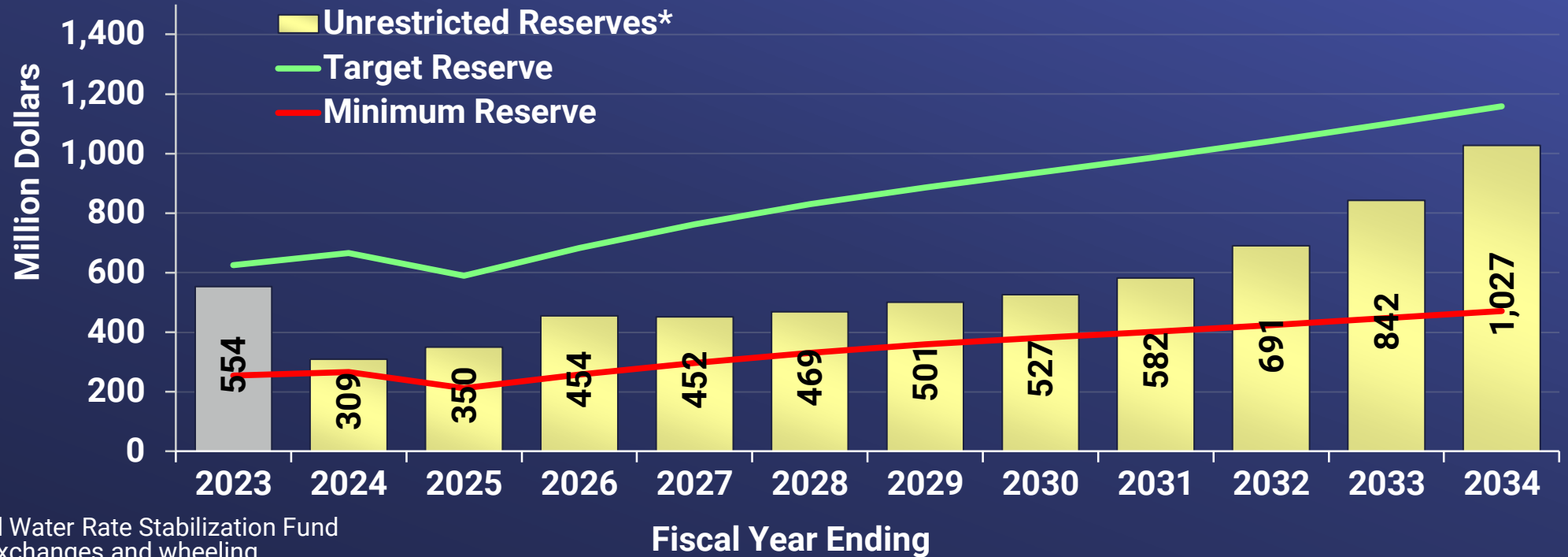
Rates & Charges Effective January 1st	Current 2024	Proposed 2025	Proposal 2026	Alt 1 2025	Alt 1 2026	Alt 1 2025	Alt 1 2026
						vs Proposed 2025	vs Proposed 2026
Supply Rate (\$/AF)	\$332*	\$353	\$375	\$327	\$342	(\$26)	(\$33)
System Access Rate (\$/AF)	\$389	\$463	\$491	\$434	\$454	(\$29)	(\$37)
System Power Rate (\$/AF)	\$182	\$190	\$203	\$155	\$169	(\$35)	(\$34)
Treatment Surcharge (\$/AF)	\$353	\$459	\$518	\$475	\$521	\$16	\$3
Full Service Untreated (\$/AF)	\$903	\$1,006	\$1,069	\$916	\$965	(\$90)	(\$104)
Full Service Treated (\$/AF)	\$1,256	\$1,465	\$1,587	\$1,391	\$1,486	(\$74)	(\$101)
RTS Charge (\$M)	\$167	\$167	\$185	\$175	\$179	\$8	(\$6)
Capacity Charge (\$/cfs)	\$11,200	\$10,800	\$12,800	\$11,700	\$12,900	\$900	\$100
Overall Rate Increase		13.0%	8.0%	7.0%	6.0%		

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

Alt 2: Low Sales, 7/6 & inc Ptax

1.34 MAF / 0.0099% Ptax Rate



* Revenue Remainder and Water Rate Stabilization Fund

** Includes water sales, exchanges and wheeling

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Overall Rate Inc.	5%	5%	7.0%	6.0%	10.0%	10.0%	5.0%	5.0%	4.0%	4.0%	4.0%	4.0%
Ptax Rate	.0035%	.0035%	.0099%	.0099%	.0099%	.0099%	.0099%	.0099%	.0099%	.0099%	.0099%	.0099%
Water Transactions (MAF)**	1.42	1.17	1.34	1.34	1.34	1.35	1.35	1.36	1.37	1.39	1.41	1.43
Rev. Bond Cvg	1.5	1.1	1.8	1.9	1.7	1.8	1.8	1.7	1.7	1.6	1.7	1.6
CIP, \$M	247	353	312	324	1,390	1,684	2,171	1,966	1,544	1,091	655	502
PAYGO, \$M	135	\$35	\$175	\$175	\$175	\$250	\$275	\$275	\$250	\$225	\$200	\$200

Alt 2: Low Sales, 7/6 & inc Ptax

Rates & Charges Effective January 1st	Current 2024	Proposed 2025	Proposal 2026	Alt 2 2025	Alt 2 2026	Alt 2 2025	Alt 2 2026
						vs Proposed 2025	vs Proposed 2026
Supply Rate (\$/AF)	\$332*	\$353	\$375	\$336	\$350	(\$17)	(\$25)
System Access Rate (\$/AF)	\$389	\$463	\$491	\$438	\$454	(\$25)	(\$37)
System Power Rate (\$/AF)	\$182	\$190	\$203	\$130	\$146	(\$60)	(\$57)
Treatment Surcharge (\$/AF)	\$353	\$459	\$518	\$491	\$542	\$32	\$24
Full Service Untreated (\$/AF)	\$903	\$1,006	\$1,069	\$904	\$950	(\$102)	(\$119)
Full Service Treated (\$/AF)	\$1,256	\$1,465	\$1,587	\$1,395	\$1,492	(\$70)	(\$95)
RTS Charge (\$M)	\$167	\$167	\$185	\$177	\$180	\$10	(\$5)
Capacity Charge (\$/cfs)	\$11,200	\$10,800	\$12,800	\$12,900	\$14,100	\$2,100	\$1,300
Overall Rate Increase		13.0%	8.0%	7.0%	6.0%		

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

Alt 3: Low Sales, 5/5 & inc Ptax

1.34 MAF / 0.0104% Ptax Rate



* Revenue Remainder and Water Rate Stabilization Fund

** Includes water sales, exchanges and wheeling

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Overall Rate Inc.	5%	5%	5.0%	5.0%	12.0%	11.0%	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Ptax Rate	.0035%	.0035%	.0104%	.0104%	.0104%	.0104%	.0104%	.0104%	.0104%	.0104%	.0104%	.0104%
Water Transactions (MAF)**	1.42	1.17	1.34	1.34	1.34	1.35	1.35	1.36	1.37	1.39	1.41	1.43
Rev. Bond Cvg	1.5	1.1	1.8	1.9	1.7	1.8	1.9	1.7	1.7	1.6	1.7	1.7
CIP, \$M	247	353	312	324	1,390	1,684	2,171	1,966	1,544	1,091	655	502
PAYGO, \$M	135	\$35	\$175	\$175	\$175	\$250	\$275	\$275	\$250	\$225	\$200	\$200

Alt 3: Low Sales, 5/5 & inc Ptax

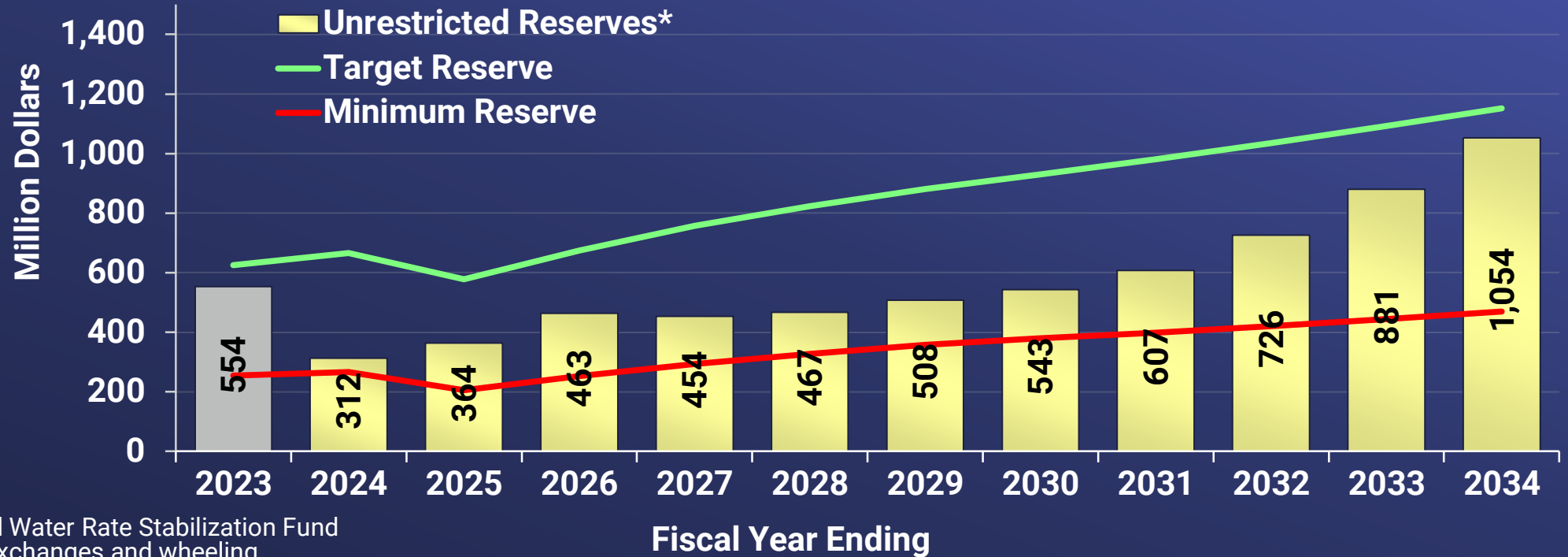
Rates & Charges Effective January 1st	Current 2024	Proposed 2025	Proposal 2026	Alt 3		Alt 3 2025	Alt 3 2026
				2025	2026	vs Proposed 2025	vs Proposed 2026
Supply Rate (\$/AF)	\$332*	\$353	\$375	\$330	\$339	(\$23)	(\$36)
System Access Rate (\$/AF)	\$389	\$463	\$491	\$429	\$441	(\$34)	(\$50)
System Power Rate (\$/AF)	\$182	\$190	\$203	\$124	\$138	(\$66)	(\$65)
Treatment Surcharge (\$/AF)	\$353	\$459	\$518	\$487	\$533	\$28	\$15
Full Service Untreated (\$/AF)	\$903	\$1,006	\$1,069	\$883	\$918	(\$123)	(\$151)
Full Service Treated (\$/AF)	\$1,256	\$1,465	\$1,587	\$1,370	\$1,451	(\$95)	(\$136)
RTS Charge (\$M)	\$167	\$167	\$185	\$174	\$176	\$7	(\$9)
Capacity Charge (\$/cfs)	\$11,200	\$10,800	\$12,800	\$12,800	\$13,900	\$2,000	\$1,100
Overall Rate Increase		13.0%	8.0%	5.0%	5.0%		

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

Alt 4: Low Sales, 5/5, cut Cons & inc Ptax

1.34 MAF / 0.0100% Ptax Rate / Conservation \$17M/\$5M/\$5M



* Revenue Remainder and Water Rate Stabilization Fund

** Includes water sales, exchanges and wheeling

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Overall Rate Inc.	5%	5%	5.0%	5.0%	12.0%	11.0%	6.0%	5.0%	4.0%	4.0%	4.0%	4.0%
Ptax Rate	.0035%	.0035%	.0100%	.0100%	.0100%	.0100%	.0100%	.0100%	.0100%	.0100%	.0100%	.0100%
Water Transactions (MAF)**	1.42	1.17	1.34	1.34	1.34	1.35	1.35	1.36	1.37	1.39	1.41	1.43
Rev. Bond Cvg	1.5	1.1	1.8	1.9	1.7	1.8	1.8	1.7	1.7	1.6	1.7	1.7
CIP, \$M	247	353	312	324	1,390	1,684	2,171	1,966	1,544	1,091	655	502
PAYGO, \$M	135	\$35	\$175	\$175	\$175	\$250	\$275	\$275	\$250	\$225	\$200	\$200

Alt 4: Low Sales, 5/5, cut Cons & inc Ptax

Rates & Charges Effective January 1st	Current 2024	Proposed 2025	Proposal 2026	Alt 4 2025	Alt 4 2026	Alt 4 2025	Alt 4 2026
						vs Proposed 2025	vs Proposed 2026
Supply Rate (\$/AF)	\$332*	\$353	\$375	\$322	\$318	(\$31)	(\$57)
System Access Rate (\$/AF)	\$389	\$463	\$491	\$433	\$450	(\$30)	(\$41)
System Power Rate (\$/AF)	\$182	\$190	\$203	\$128	\$143	(\$62)	(\$60)
Treatment Surcharge (\$/AF)	\$353	\$459	\$518	\$486	\$537	\$27	\$19
Full Service Untreated (\$/AF)	\$903	\$1,006	\$1,069	\$883	\$911	(\$123)	(\$158)
Full Service Treated (\$/AF)	\$1,256	\$1,465	\$1,587	\$1,369	\$1,448	(\$96)	(\$139)
RTS Charge (\$M)	\$167	\$167	\$185	\$173	\$177	\$6	(\$8)
Capacity Charge (\$/cfs)	\$11,200	\$10,800	\$12,800	\$12,700	\$13,900	\$1,900	\$1,100
Overall Rate Increase		13.0%	8.0%	5.0%	5.0%		

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

Overall Rate Increase

Overall Rate Increase	Ptax Rate	Budget		Projected		2-yr	4-yr
		2025	2026	2027	2028	rate inc	rate inc
Proposed	0.0035%	13%	8%	12%	8%	21%	41%
Alt 1 - Double Ptax	0.0070%	7%	6%	10%	10%	13%	33%
Alt 2 - Low Sales, 7/6 & inc Ptax	0.0099%	7%	6%	10%	10%	13%	33%
Alt 3 - Low Sales, 5/5 & inc Ptax	0.0104%	5%	5%	12%	11%	10%	33%
Alt 4 - Low Sales, 5/5, cut Cons & inc Ptax	0.0100%	5%	5%	12%	11%	10%	33%

Untreated Full-Service Rate (\$/AF)

Rates Effective January 1st	2024*	2025	2026	% Increase 2025	% Increase 2026
Proposed	\$903	\$1,006	\$1,069	11%	6%
Alt 1 - Double Ptax	\$903	\$916	\$965	1%	5%
Alt 2 - Low Sales, 7/6 & inc Ptax	\$903	\$904	\$950	0%	5%
Alt 3 - Low Sales, 5/5 & inc Ptax	\$903	\$883	\$918	(2%)	4%
Alt 4 - Low Sales, 5/5, cut Cons & inc Ptax	\$903	\$883	\$911	(2%)	3%

Treated Full-Service Rate (\$/AF)

Rates Effective January 1st	2024*	2025	2026	% Increase 2025	% Increase 2026
Proposed	\$1,256	\$1,465	\$1,587	17%	8%
Alt 1 - Double Ptax	\$1,256	\$1,391	\$1,486	11%	7%
Alt 2 - Low Sales, 7/6 & inc Ptax	\$1,256	\$1,395	\$1,492	11%	7%
Alt 3 - Low Sales, 5/5 & inc Ptax	\$1,256	\$1,370	\$1,451	9%	6%
Alt 4 - Low Sales, 5/5, cut Cons & inc Ptax	\$1,256	\$1,369	\$1,448	9%	6%

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

Question: What would the Property Tax impact be for each member agency's service area?

Answer:

Note: Based on a sampling of median home values for cities located in each Member Agency service area (Source: American Community Survey, 5-Year Estimates, 2022)

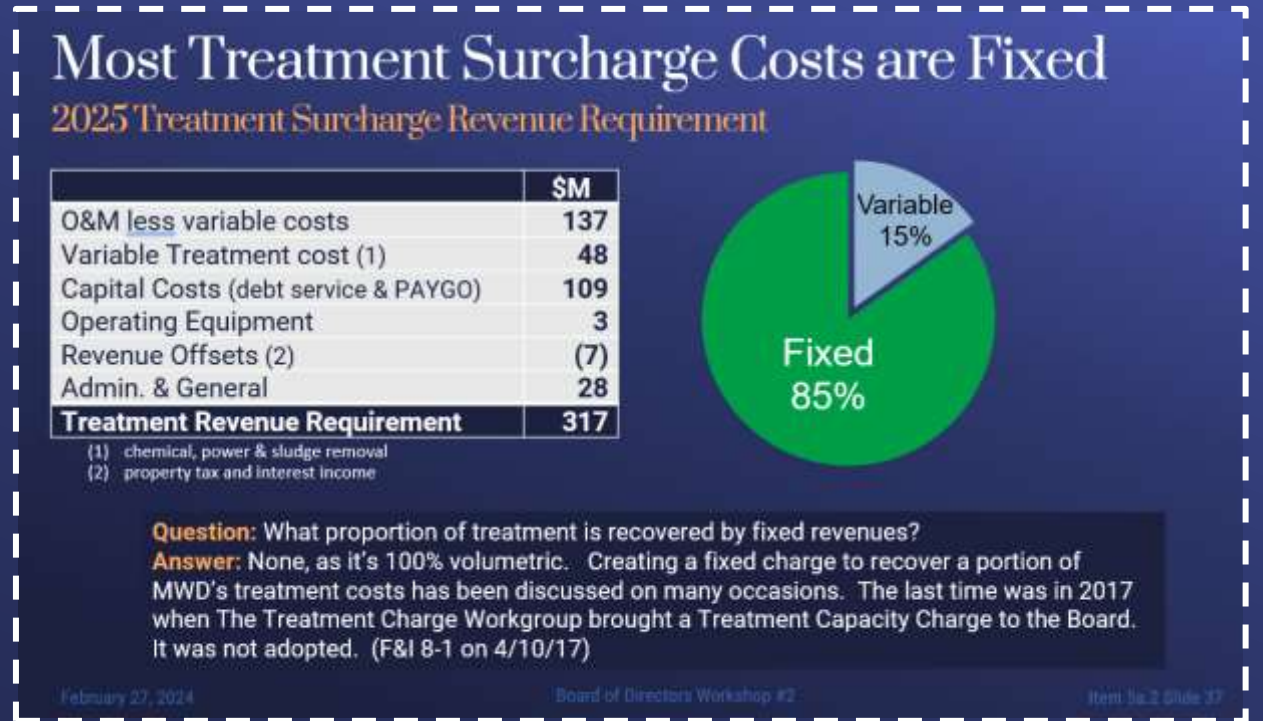
Member Agency	Median Home Value (\$ thousands)	Current Annual MWD Property Tax (@ 0.0035%)	Double MWD Property Tax (@ 0.007%)
Cities (Owner-Occupied)			
1 Anaheim	\$714	\$25	\$50
2 Beverly Hills	\$2,000	\$70	\$140
3 Burbank	\$960	\$34	\$67
4 Compton	\$489	\$17	\$34
5 Fullerton	\$791	\$28	\$55
6 Glendale	\$992	\$35	\$69
7 Long Beach	\$710	\$25	\$50
8 Los Angeles	\$823	\$29	\$58
9 Pasadena	\$982	\$34	\$69
10 San Fernando	\$604	\$21	\$42
11 San Marino	\$2,000	\$70	\$140
12 Santa Ana	\$624	\$22	\$44
13 Santa Monica	\$1,655	\$58	\$116
14 Torrance	\$962	\$34	\$67

Member Agency	Median Home Value (\$ thousands)	Current Annual MWD Property Tax (@ 0.0035%)	Double MWD Property Tax (@ 0.007%)
Municipal Water Districts & Water Authority (Owner-Occupied)			
15 Calleguas MWD	\$704 - \$901	\$25 - \$32	\$49 - \$63
16 Central Basin MWD	\$472 - \$679	\$17 - \$24	\$33 - \$48
17 Eastern MWD	\$277 - \$568	\$10 - \$20	\$19 - \$40
18 Foothill MWD	\$991 - \$1,983	\$35 - \$69	\$69 - \$139
Inland Empire			
19 Utilities Agency	\$507 - \$776	\$18 - \$27	\$35 - \$54
20 Las Virgenes MWD	\$972 - \$2,000	\$34 - \$70	\$68 - \$140
21 MWDOC	\$863	\$30	\$60
22 Three Valleys MWD	\$525 - \$735	\$18 - \$26	\$37 - \$51
San Diego County			
23 Water Authority	\$725	\$25	\$51
Upper San Gabriel			
24 Valley MWD	\$553 - \$1,307	\$19 - \$46	\$39 - \$91
25 West Basin MWD	\$616 - \$2,000	\$22 - \$70	\$43 - \$140
26 Western MWD	\$384 - \$486	\$13 - \$17	\$27 - \$34

Member Agency Manager Feedback (Continued)

Water Treatment Surcharge

- In addition, several Member Agencies expressed concerns about the significant rate increases in the Water Treatment Surcharge
- They expressed a desire to include both near- and long-term solutions as part of Metropolitan's business model discussion, including revisiting the 2017 discussions around the Treated Capacity Charge (not approved by the Board)



Member Agency Manager Feedback (Continued)

Other Alternatives Not Recommended by Member Agencies

- Staff reviewed additional Alternatives with Member Agency Managers that would:
 - Add **\$60M per year** from the sale of stored water
 - Reduce departmental O&M by **\$18M per year** (service impacts not yet identified)
- These one-time revenue and expense actions would provide temporary rate relief over the biennium and would allow for further discussion and resolution on the long-term business model; however, these temporary actions will result in higher rate increases in Year 3 and beyond relative to the Proposed Budget and other Alternatives
 - A majority of member agencies recommended that any additional revenues/expense reductions be used to stabilize future rate increases, expedite reserve replenishment, improve coverage, and provide additional financial flexibility in the near-term

Questions & Answers

Question: What rates collect revenue to allocate to reserves (\$41.7M in 2025 and \$73M in 2026)?

Background info:

- The \$41.7M and \$73.0M are the required increases in reserves for FY2024/25 and FY2025/26, respectively. These are for various funds as required by Board policy (Admin Code), revenue bond requirements or other legal obligations and includes changes in minimum fund requirements for the: O&M fund, bond fund, State Water Contract fund, and minimum unrestricted reserves
 - For more details see FAIRP Committee meeting July 11, 2023 Item 7a

Answer:

- Increases in required reserve requirements are recovered by all rates and charges

Question: Why is IRA Bucket I included as revenue applied to Supply that suppresses the required Supply Rate increase rather than simply putting the IRA Bucket I revenue to reserves?

Answer:

- IRA Bucket 1 Revenues are federal funding under Reclamation's Lower Colorado Conservation Programs
- The funding is directly linked to the expenditures for the Palo Verde Irrigation District (PVID) land fallowing program and the Imperial Irrigation District/Metropolitan Conservation Program; and these expenditures are recovered by the supply rate.

Question: It appears about \$5 billion in Pure Water's implementation costs are assumed in years 3 through 10. What is assumed regarding receipt of Pure Water grant or “partnership” funding?

Answer:

- The cost of the full-scale PWSC project is not included in the biennium budget
- An estimate of the full-scale PWSC projects is included in FY 2026/27 to FY 2033/34 of the 10-year forecast.
 - The cost of the full-scale PWSC projects is based on the latest engineering estimate that was presented to the Board on November 28, 2023 PWSC Phase 1 project cost estimate presented to the Subcommittee on PWSC and Regional Conveyance
- Assuming the receipts of middle level for grants and contributions of \$2.3B (in 2023 \$)
 - Low – \$1.8B
 - High - \$2.8B

Question: Staff has applied for a \$125 million Pure Water federal grant that is expected to be announced shortly after the budget is adopted which requires \$375 million in matching funds. How has the budget anticipated or planned for this funding to be available should a grant be offered, and the board should decide to accept it?

Answer:

- All planning costs for the PWSC project are funded from the \$80 million SWRCB grant in the proposed budget.
- The exact timing and amount of any grant, if awarded, is unclear. Accordingly, Metropolitan has not included a budget for the matching funds in the biennium
- If MWD is awarded a grant under the program, staff will bring a discussion to the Board concerning the additional matching funds that would be required

Question: CARB regulatory requirements will require vehicles and capital facilities and you mentioned this is NOT included in the 2-year budget. Please confirm and include financial information regarding vehicles (and charging stations) that is included in the proposed CIP/O&M 2-year budget (for instance are we not including budget for vehicles because 50% need to be electric and we haven't developed the plan for this yet?)

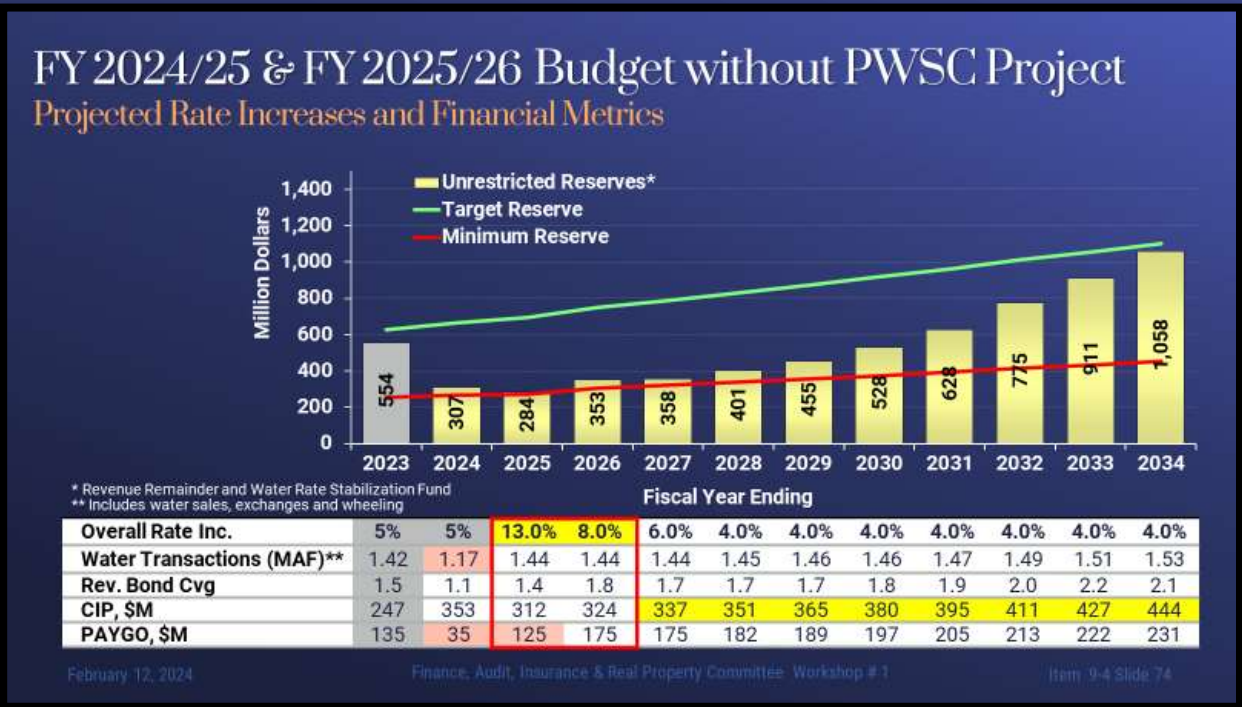
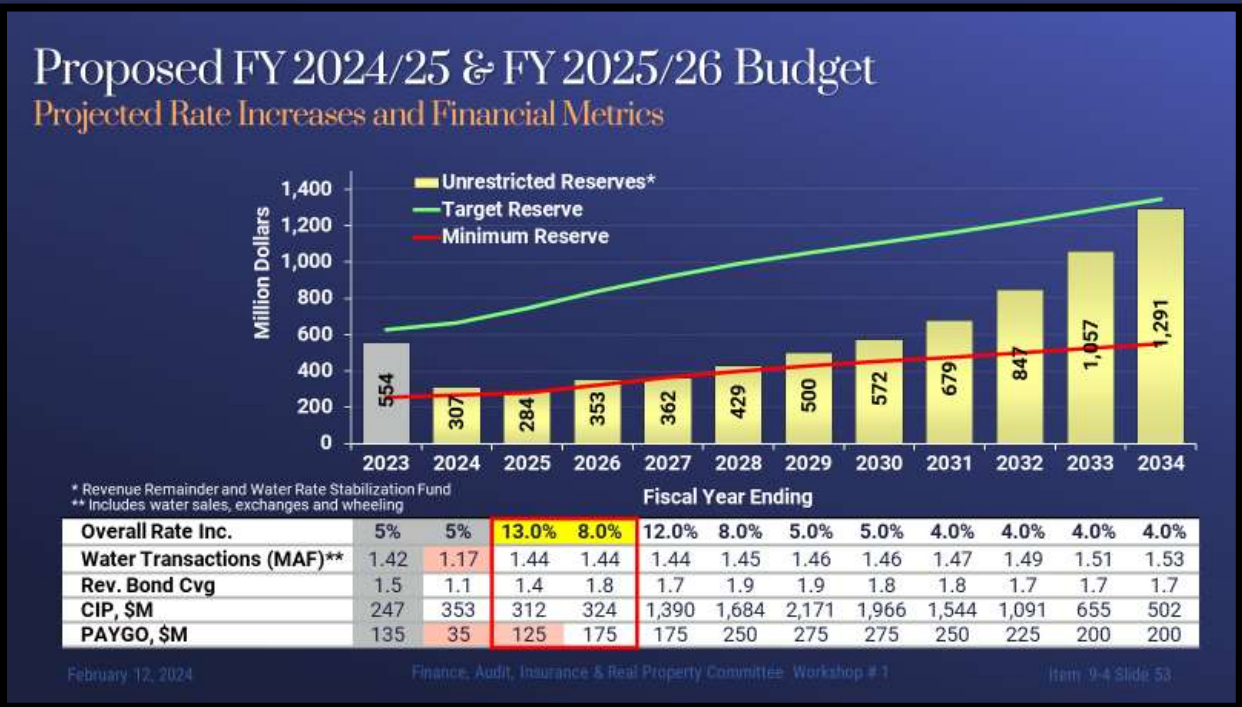
Answer:

- Charging Stations: The zero-emissions fleet infrastructure project is included in the current and the next biennial CIP. The objective for the next biennium is to complete the construction of zero-emission fleet pilot infrastructure and continue the design of the district-wide infrastructure
- Vehicle budget in FY 2024/25 and FY 2025/26 is \$7.6M and \$9.5M respectively (includes vehicles, trucks heavy equipment, and other non-fleet operating equipment)
- MWD is currently evaluating a Zero Emission Vehicle (ZEV) purchasing plan, including financing options to comply with the CARB regulations
 - Upon completion and approval of the ZEV purchasing plan by the Board, the FY 2024/25 and FY 2025/26 budget could be amended if additional appropriations are needed

Question: What factors account for the increase in the 10-year forecast from the current to the proposed CIP for PURE, SWPDA other CIP big ticket items (7%/6% to 12%/8%)?

Answer:

- The 10-yr forecast includes PWSC construction starting in FY 2027
 - No other CIP big ticket items are included in the 10-year forecast



Question: Property Tax - do we have a written legal opinion on our authority to raise taxes without a public vote? We have simply heard from staff that we have the ability to do it - I believe it is important for our legal staff to prepare a written legal opinion to refer to.

Answer:

- Legal has prepared and distributed a written opinion on Metropolitan's property tax levy

Question: In the 10-year Budget, I noticed some of the rates are flat in 2027-2031 such as the Power Rate and Treatment Surcharge. Why don't these include at least inflation?

Answer:

- The projected Power Rates in the 10-year forecast (FY2027-2031) are flat because the projected increases in CRA Power costs are offset by the projected decreases in SWP Power costs due to trending down the SWP allocation from 51% to 38% by 2034
- Projected Treatment Surcharges in the 10-year forecast (FY2027-2031) are flat because the projected increases in treatment costs are offset by projected increases in treated water sales

Question: What is the basis for staff's State Water Project allocation assumptions (51% in CY 2024, 49% in CY 2025, and 48% in CY 2026), you mentioned due to the use of RCP-8.5, but in the past we have made assumptions of 40% in our last biannual budget?

Answer:

- On September 12, 2023, the Board approved the use of climate information and modeling under Representative Concentration Pathway (RCP) 8.5 as a basis for planning purposes in CAMP4W
 - This action further recognizes the need to adaptively plan towards generally accepted outcomes of a more severe climate change future → expected lower allocation long-term
- SWP allocation assumptions in the current biennial budget:
 - 2023 – 40%
 - 2024 and beyond – 50%

Question: The proposed rates are intentionally set to collect 7% more than needed to cover projected revenue requirements, apparently to fill the depleted reserves. The reserves began to rapidly increase starting year 6 and reaching almost at maximum level in year 10. Is there a way for us to smoothen the earlier rate increases? Or refill the reserves in a slower pace?

Answer:

- The Cost-of-Service Report shows that the proposed rates are set to collect ~7% more than the revenue requirements because the calendar year rates are only in affect for part of the fiscal year revenue requirement. This mismatch would not occur if Metropolitan had fiscal year rate increases (July 1) or calendar year revenue requirements (January 1)
- The Proposed Budget sets rates to maintain the minimum reserve level pursuant to Board policy
- The magnitude of the current use of reserves (~\$250M) underscores the importance of maintaining sufficient and flexible reserve levels. It is not recommended that rates intentionally be set lower as it poses a risk to Metropolitan's long-term financial stability

Question: Explain 1) how SWP costs are paid if the allocation is higher than projected; and 2) what happens to revenue collected to pay SWP expenses if allocation is lower than projected.

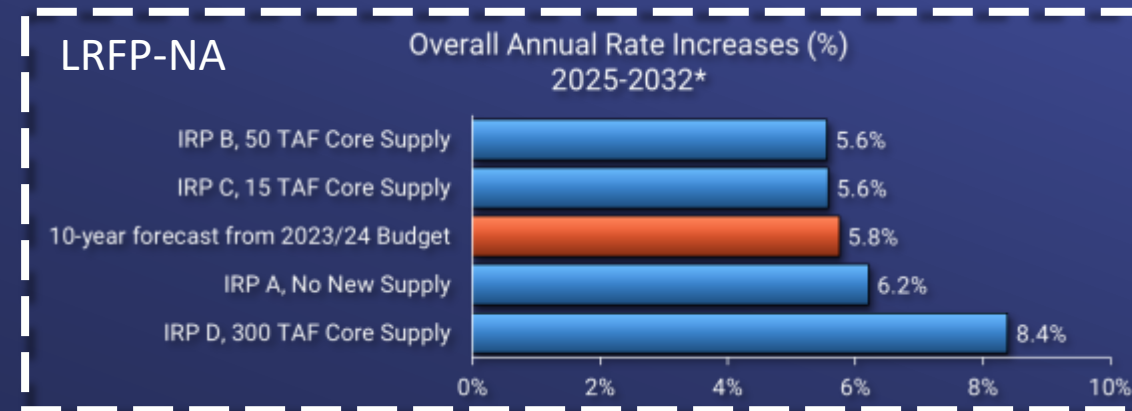
Answer:

- If the SWP allocation is higher than projected, the SWP power costs will be higher. The higher power costs will be funded from operating revenues or from unrestricted reserves, as needed.
- If the SWP allocation is lower than projected, the SWP power costs will decrease. If operating revenue exceed expenditures, any excess funds will go to unrestricted reserves.
- The flow of funds and use of the unrestricted reserves is consistent with the Board-adopted rate structure and administrative policy.

Question: This budget described as “status quo” proposes a 13% rate increase followed by an 8% increase; these rate increases do not include any investments in the billions of dollars in supply reliability and climate resilience projects to be discussed in the CAMP process. How do these rate increases square with those forecasted in the LRFPA-NA that making \$5.5 billion to \$6 billion in reliability investments through 2032 would result in rate increases of about 6.7% per year, which is much less than currently being proposed?

Answer:

- The LRFPA-NA was based on the assumptions in the current approved 10-year financial forecast and IRP. The proposed budget reflects an updated financial projection based on the most recent cost and inflation data available
- Despite those fundamental differences, the current forecast is in the bounds of the LRFPA-NA. The water demands in the proposed budget are in the range of the IRP
- The amount of resources development in the proposed budget includes the 118 TAF PWSC project and is also in the range of the IRP, somewhere between IRP B (50 TAF) and IRP D (300 TAF). The (simple) average annual rate increase in the proposed budget and 10-yr forecast is **6.7% per year** and is in the range average annual rate increases presented in the LRFPA-NA (ranging from 5.6% to 8.4%)



Question: For the next year, we could be delivering 10 - 20% out of reservoirs that's operational water not drought or emergency water. What would that do to the power costs and power rates?

Answer:

If we planned to draw 200 TAF (14% of water demands) out of DVL for FY 2024/25 it could reduce SWC power costs by \$52M. This could allow the 2025 rates to be ~3% lower. However,

1. Higher rates for 2026
 - This rate decrease would have to be made up in the following year so the 2026 rates would be ~3% higher
2. Risk future rate spikes
 - Rates and charges are normally set on average hydrologic conditions so that on average costs are recovered, and any over/under collections are managed with MWD's unrestricted reserve policy.
 - However, if rates are set lower based on selling water out of storage, then there will be a higher chance of a revenue deficit and a higher chance of having an emergency rate increase if reserve drop below the minimum
3. Increase risk of future shortage
 - MWD system is normally operated to minimize system shortage.
 - This means storing as much water as possible when there is surplus water in preparation for the next drought. Drawing water out of in-region storage – our most reliable source of water – when there are available supplies will reduce system reliability

Questions?

Questions and comments on the FY 2024/25 & FY 2025/26 Proposed Budget can be e-mailed to the Finance & Administration Group at:

MWDBudget@mwdh2o.com

