

Finance, Audit, Insurance & Real Property 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 #1

Item 9-4

February 12, 2024

# Proposed Biennial Budget

Item 9-4

## 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 #2 Feb 27, 2024

# Proposed Biennial Budget Workshop #1

## Overview

- Strategic Priorities
- Challenges
- Cost Containment
- Key Rate Drivers
- Budget Highlights
- Financial Policies & Goals

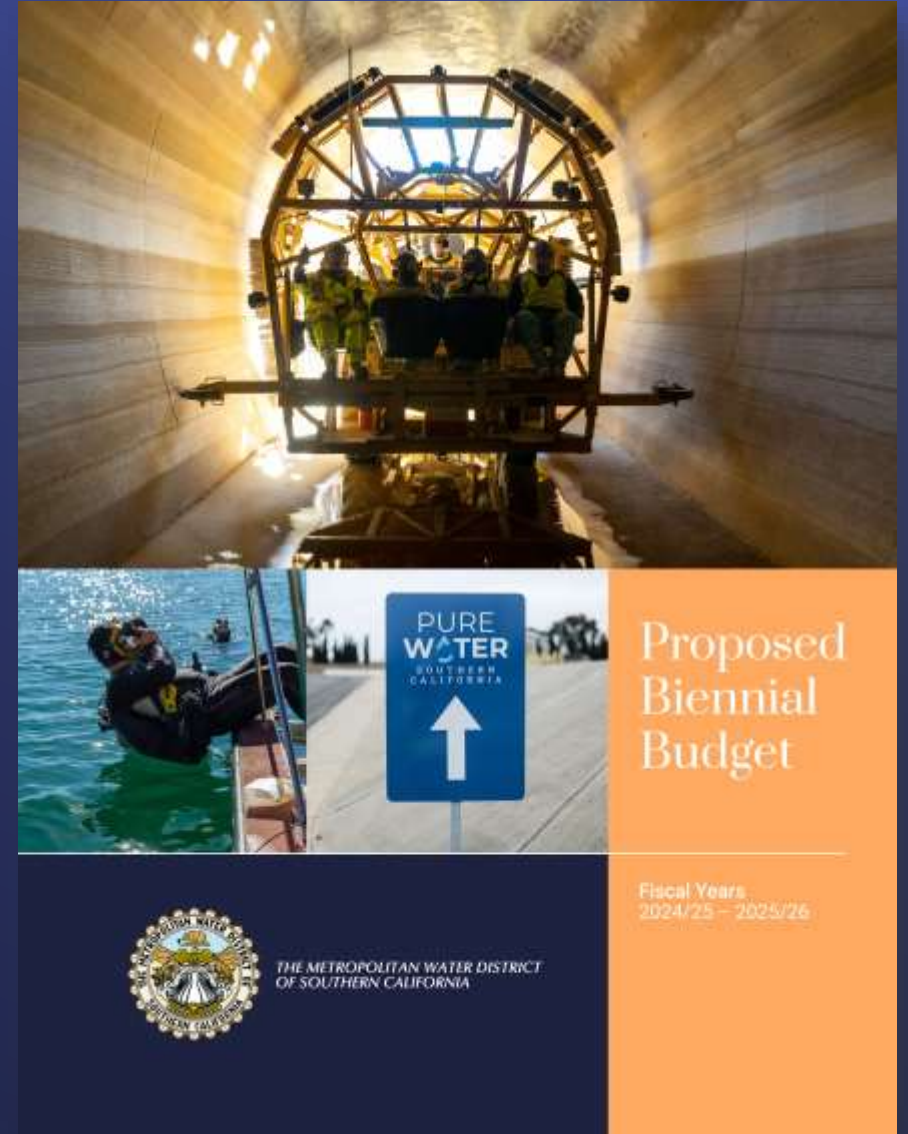
## Budget Development

## Proposed Biennial Budget

## Ten-Year Financial Forecast

## Next Steps

## Q&A and Discussion



# FY 2023/24 Cost Reductions

Account Category	Total
Temp Labor and other labor	\$ (4,536,482)
Professional Services	(1,557,869)
Non-Professional Services	(929,300)
Subsidies & Incentives	(298,000)
Non-essential Materials & Supplies	(1,968,047)
Non-essential Repairs & Maintenance	(634,002)
Utilities	(2,472,700)
Travel, Training, and Conferences	(551,859)
Communications	(195,000)
Rent & Leases	(141,257)
Insurance	(250,000)
Advertising	(123,000)
Memberships and Subscriptions	(84,000)
Community Outreach	(20,000)
Sponsorships	(196,000)
Taxes & Permits	(127,000)
Other Expenses	(119,629)
<b>Total FY2023/24 Cost Reductions</b>	<b>\$ (14,204,144)</b>

- On December 4, 2023, the General Manager called for FY 2023/24 cost reductions from all Groups
- \$4.5M reduction identified in *Temp Labor and Other Labor* with less agency and district temporary positions requested
- \$1.5M reduction in *Professional Services* impacting lower research project spending, project deferrals, reducing agreements and scope and moving more projects in-house
- \$1.9M reduction in *Materials and Supplies* with less non-treatment chemicals anticipated and fuels trending lower
- \$2.5M reduction in *Utilities* due to lower trends in costs and hazardous waste costs moved to capital projects
- \$0.5M reduction in *Travel, Training and Conferences* with focus on critical travel expenses in the second half of the year



# GM's Proposed Strategic Priorities

## Empower

- Empower the workforce and promote diversity, equity, and inclusion

## Sustain

- Sustain Metropolitan's mission with strengthened business model

## Adapt

- Adapt to changing climate and water resources

## Protect

- Protect public health, regional economy, and Metropolitan's assets

## Partner

- Partner with stakeholders and the communities we serve

# Biennial Budget Highlights

## Lower water transactions

- FY 2022/23 1.42 MAF – 11% lower than 1.59 MAF budgeted
- Projected FY 2023/24 1.17 MAF – 24% decline from budgeted 1.54MAF
- Biennial Budget Water Transactions:
  - FY 2024/25 – 1.44 MAF
  - FY 2025/26 – 1.44 MAF

## SWP Allocation

- 51% allocation in 2024, 49% in 2025 and 48% in 2026

## CRA Diversion

- 830 TAF in FY 2024/25
- 845 TAF in FY 2025/26

# Challenges for Metropolitan

## Current Challenges for Metropolitan

- Facing historic inflation pressures
- Costs of maintaining critical and aging infrastructure for operational integrity
- Impacts of increasingly extreme climate conditions require investments in new infrastructure and projects
- Use of one-time resources (i.e., reserves) is no longer available to support future ongoing needs, both known and unknown

**Metropolitan has used reserves to keep rate increases as low as possible and maintain operations in the current fiscal year. It is imperative to increase rate revenue to maintain minimum levels of reserve funding**

# Key Budget Drivers



# Biennial Budget Key Rate Drivers

## Lower Projected Water Transactions

- FY 2023/24 budget: 1.54 MAF
- Due to record precipitation in 2023, projected water transactions for FY 2023/24 are trending toward 1.17 MAF, the lowest Metropolitan has experienced over the last 50 years
- The FY 2024/25 and FY 2025/26 proposed budget is based on 1.44 MAF of water transactions, which is 100,000 acre-feet lower than the FY 2023/24 budget and prior forecasts

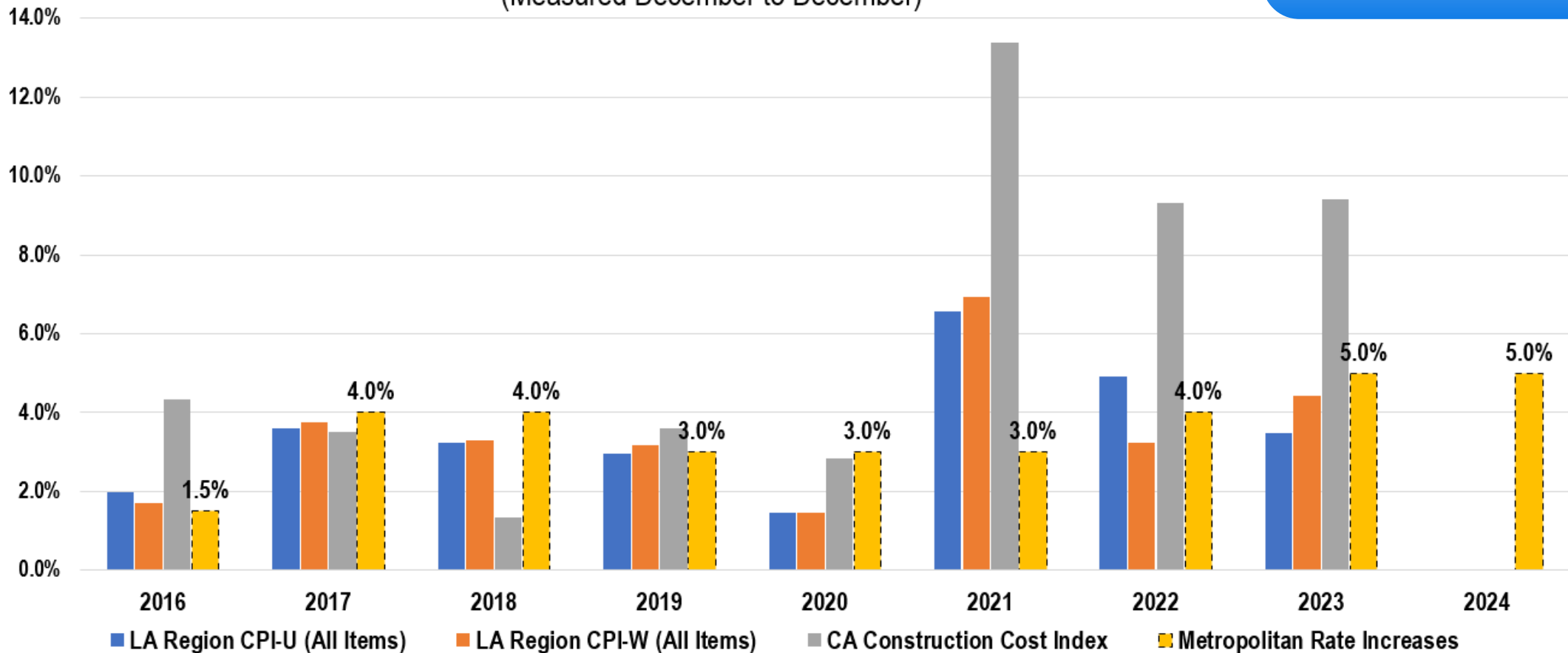
**The revenue declines require an approximate 7% increase in rates and charges over the two-year budget**

# Biennial Budget Key Rate Drivers

External pressures add to increased costs

CPI increased ~9% for FY 2021/22 and was much higher for energy, chemicals and equipment

**Metropolitan Rate Increases v. Inflation**  
Los Angeles CPI-U, Los Angeles CPI-W, and California Construction Cost Index  
(Measured December to December)



# Biennial Budget Key Rate Drivers

## External pressures add to increased costs

- O&M expenditures capture the growth in personnel costs, including the addition of 19 new full-time equivalent positions (FTEs) and increases due to wages, pension, and benefits
- Capital financing costs are projected to increase due to higher debt service for AVEK, conservation, and the \$100 million debt financing in-lieu of PAYGO in FY 2023/24
- CRA power costs are increased due to higher market power rates and anticipated rules changes for Resource Adequacy obligations
- LRP expenditures are increasing as a result of ramping up of existing agreements (no new agreements are currently anticipated to be funded; applications still accepted)

**Expenditures are expected to increase about 7% over the biennial budget, about 3.5% per year.**

# Biennial Budget Key Rate Drivers

## Impact of 2024 rates not fully recovering costs and low water transactions

- FY 2023/24: **1.17 MAF water transaction**
  - Projected \$247 million draw from unrestricted reserves to support operations
  - Anticipate ending reserves at the minimum level required by Board policy
- FY 2023/24: Adopted rates did not fully recover costs
  - FY 2023/24 budget included a \$37 million draw from unrestricted reserves, with continued drawdown anticipated through FY 2025/26
- Proposed Biennial Budget
  - Reflects proposed rate increases that recover costs and maintain at least the minimum reserve level, which adds significant financial risk if water transactions come in less than budget over the biennium

**The impact of 2024 rates not recovering costs and maintenance of the minimum reserve levels results in an approximate ~7% rate increase**

# Proposed FY 2024/25 & FY 2025/26 Budget

## Summary of Key Drivers

Rate Driver	Biennial Rate Impact
1. Lower projected water transactions	7%
2. Increased costs/expenditures	7%
3. Carryforward impact of 2024 rates not fully recovering costs (~\$37M use of reserve) and impact of maintaining minimum reserve levels	7%
<b>Overall Rate increase over the biennium (13%, 8%)</b>	<b>21%</b>

**Inflation** was about 9% for FY 2021/22 and much higher for items such as energy, chemicals, and vehicles, which are now being reflected in the budget. **For example, variable treatment costs are up 39% despite lower volumes.**

MWD actions such as negotiating federal Sisk Dam cost share agreement, securing IRA funding, and obtaining grant funding, among others, buffered the needed rate increase. **Without these actions, rates would have been ~7% higher.**



# Biennial Budget Highlights (cont.)

## O&M expenditures

- Departmental labor budgets reflect negotiated wage increases and allowable merit adjustments, as well as increased benefit costs such as pension, active medical and other post-employment benefits (OPEB)
- Inflationary pressure on chemicals, energy, vehicles, etc.
- Use of \$80M SWRCB grant for PWSC planning costs of \$28.9M and \$25.1M are included in FY 2024/25 and FY 2025/26 respectively

## New Grants

- Assume \$20M annually in new grants to offset O&M in FY 2024/25 through FY 2033/34, which have yet to be secured

## IRA Bucket 1 Funding

- \$47.3 M/yr FY 2023/24 through 2025/26 to offset PVID and Bard Water District following program costs

# Biennial Budget Highlights (cont.)

## Capital Investment Plan (CIP)

- \$637M over the biennium
- The CIP reflects the focus on building infrastructure and energy resiliency; addressing drought and seismic vulnerabilities; meeting all regulatory requirements; and replace and refurbish aging infrastructure
- The capital expenditures for the full PWSC are not included in the biennium but are included in the projections starting in FY 2026/27 as part of the Ten-Year Financial Forecast

## Delta Conveyance Project (DCP)

- Planning costs at \$11.6 million in FY 2024/25

## Bond financing AVEK High Desert Program

- Captures Board approved cost increases
- Assumes longer amortization for debt service resulting in reduced near-term rate impacts

# Biennial Budget Highlights (cont.)

## No new LRP agreements assumed for the biennium

- Increase in LRP expenditures result from ramping up of existing agreements

## Conservation Program funding

- Metropolitan was awarded over \$40M in conservation grants and continues to pursue other grant opportunities. Most of these grants require 50% matching funds, which contributes to the proposed budget increase for conservation
  - \$54 million in FY 2024/25
  - \$44 million in FY 2025/26
- To limit rate impacts, \$48.2 million of conservation spending over the biennium is proposed to be debt financed

# Biennial Budget Highlights (cont.)

## Purchase Order & Tier 2

- On November 14, 2023, at the FAIRP meeting, staff presented to the Board the status of the 2014 Purchase Order, which will end on December 31, 2024
- At the time, staff proposed to not renew the 2014 Purchase Order
- As a result, the Tier 2 rate is not included in the proposed budget and rates (does not have a budgetary impact)
- Metropolitan can revisit Purchase Order commitments and structure as needed during the business model review through the CAMP4W process

# Financial Policies & Goals

## Coverage ratios

- Revenue bond coverage below the 2.0x target during biennium and ten-year forecast period

	Target	Projected FY 2023/24	Proposed FY 2024/25	Proposed FY 2025/26
Revenue Bond	2.0	1.1	1.4	1.8

## Maintain high credit ratings

- S&P – AAA
- Fitch - AA+
- Moody's - Aa1
- High ratings reduce debt service costs



# Biennial Budget

## Proposed Biennial Budget limits the rate increases necessary to recover Metropolitan's costs while maintaining existing service levels

- The proposed budget includes some limited strategic investments in critical areas of the organization, including Metropolitan's apprenticeship training program and CIP infrastructure improvements and upgrades
- **19 new positions** were added to support critical functions, including Equal Employment Opportunity, the Office of SRI, cybersecurity, and grants management

Group	# of Positions	Job Descriptions / Justifications
Equal Employment Opportunity Office	1	Support critical EEO Reporting process
Office of Sustainability Resilience & Innovation	2	Grant coordinator and budget management support
Engineering Services	5	Increased CIP project management, condition assessment/risk management, and business support
Office of Safety Security and Protection	1	Safety and technical training
Information Technology	1	Core cybersecurity function
Human Resources	4	Support existing and new programs for benefits, employee relations, compensation and recruitment, and medical accommodations
Finance and Administration	3	Grant accounting, financial systems support, and inventory control
Office of the General Auditor	2	IT Audit coverage and administrative support
<b>Total</b>	<b>19</b>	

# Cost Containment Actions

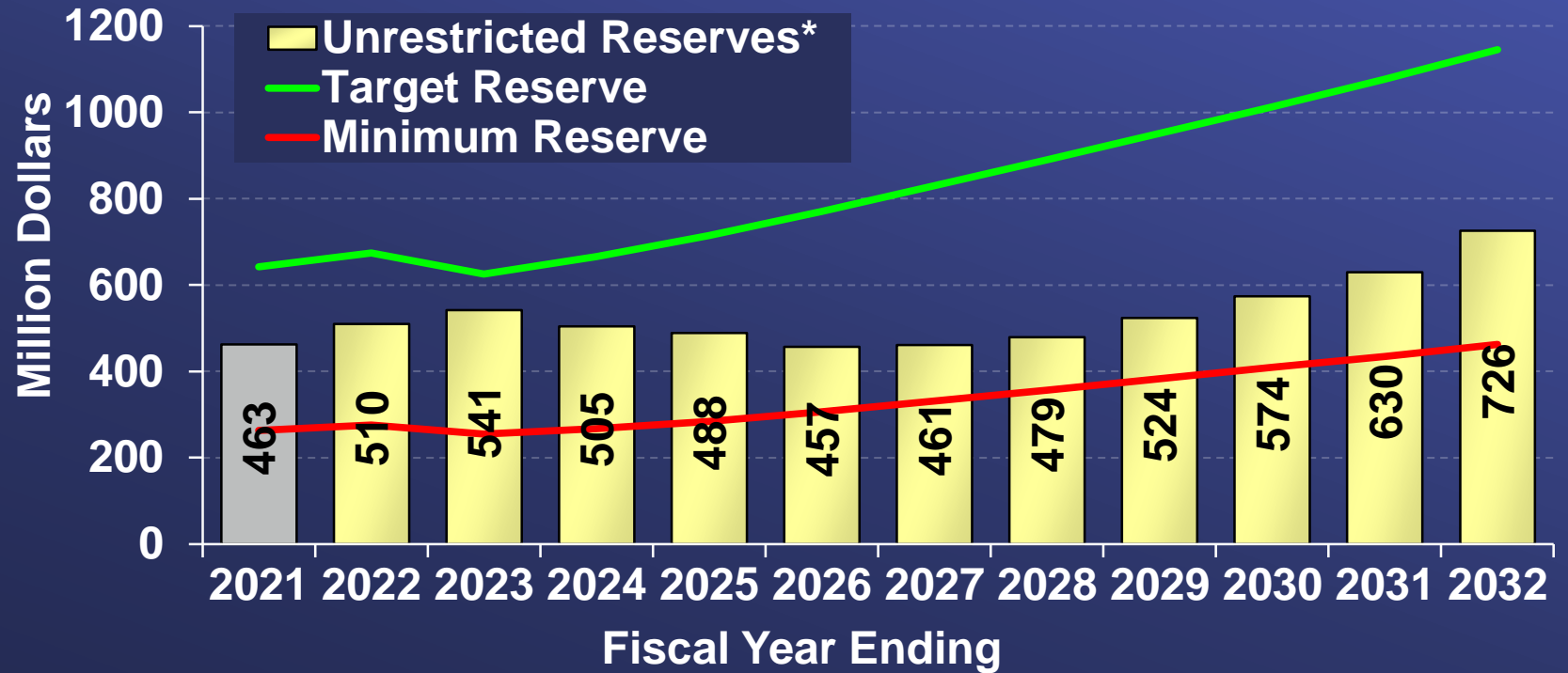
<b>Pre-Cost Containment – 2025 and 2026 Rate Increases Needs</b>		<b>~28%</b>
<b>Unfunded Budget Request</b>		
104 FTE	\$22 million	
Various Departmental O&M	\$7 million	
Operating Equipment	\$6 million	
<b>Subtotal Unfunded Budget Request</b>	<b>\$35 million</b>	<b>~2%</b>
<b>MWD Actions to generate revenues and save costs</b>		
Negotiate Sisk Dam federal cost savings (annual estimate)	\$28 million	
IRA Bucket 1 Funding	\$47 million	
Additional Grant Funding (to be determined)	\$20 million	
<b>Subtotal New Fundings/ Cost Savings</b>	<b>\$95 million</b>	<b>~5%</b>
<b>Total Unfunded Request and Cost Savings</b>	<b>\$130 million</b>	<b>~7%</b>
<b>Proposed Biennial Budget FY 2024/25 and FY 2025/26 Rate Increases</b>		<b>21%</b>

# Budget Development

# FY 2022/23 and FY 2023/24 Budget

As Adopted in April 2022

- Anticipated \$505M ending unrestricted reserve in FY 23/24
- \$37M drawdown on reserve in FY 23/24, from \$541M to \$505M (not full cost recovery)
- Use of reserves anticipated through FY 25/26 to arrive at 7%-6% increase in years 3 & 4 of forecast



<b>Overall Rate Inc.</b>	3.0%	4.0%	5.0%	5.0%	7.0%	6.0%	6.0%	6.0%	6.0%	5.0%	5.0%	5.0%
<b>Water Transactions (MAF)**</b>	1.52	1.60	1.59	1.54	1.54	1.51	1.53	1.53	1.54	1.55	1.55	1.57
<b>Rev. Bond Cvg</b>	2.0	1.6	1.5	1.4	1.6	1.6	1.7	1.7	1.8	1.8	1.8	1.8
<b>CIP, \$M</b>	255	242	300	300	372	381	475	838	1,045	1,191	1,202	842
<b>PAYGO, \$M</b>	110	135	135	135	175	175	175	175	200	200	200	200

\* Revenue Remainder and Water Rate Stabilization Fund

\*\* Includes water sales, exchanges and wheeling

# FY 2023/24 Projection (based on actuals through Nov 2023)

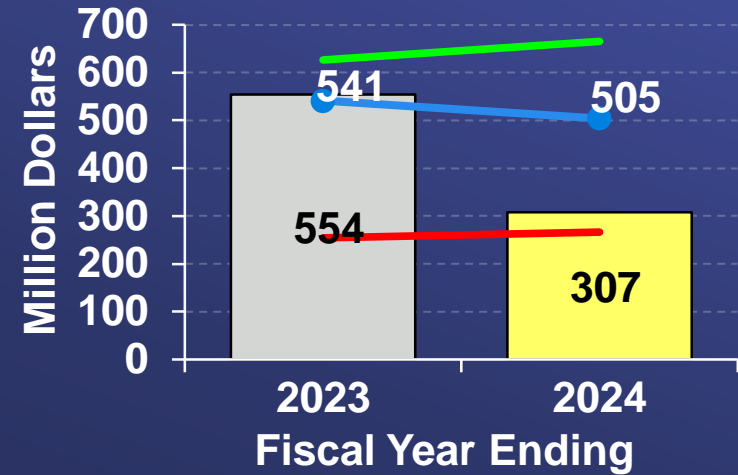
	Budget	Projected	Change
Water Transactions	1,538.3	1,196.0	(342.3)
RTS Charge & Capacity Charge	195.7	196.6	0.9
Taxes	168.3	187.9	19.6
Interest Income	9.6	34.2	24.7
IRA Bucket 1 Funding		47.3	47.3
Other	44.7	35.1	(9.6)
<b>Total Revenues</b>	<b>1,956.6</b>	<b>1,697.2</b>	<b>(259.4)</b>
State Water Contract	726.7	773.2	46.4
Delta Conveyance (1)	34.5	34.5	-
Departmental O&M & Operating Eq	599.3	599.3	-
CRA Power	85.6	44.8	(40.8)
Supply Programs	110.1	141.1	31.0
Demand Management	67.1	63.8	(3.3)
Debt Service	301.0	325.7	24.7
PAYGO	135.0	35.0	(100.0)
<b>Total Expenditures</b>	<b>2,059.4</b>	<b>2,017.3</b>	<b>(42.0)</b>
Increase in Required Reserves	(5.1)	23.7	28.8
Water Treatment SSF	3.1	-	(3.1)
AVEK & Conservation Debt Funded	(64.0)	(74.1)	(10.1)
O&M Funded by \$80M State Grant	-	(23.0)	(23.0)
<b>Total Fund Deposits (Withdraws)</b>	<b>(66.0)</b>	<b>(73.4)</b>	<b>(7.4)</b>
<b>Change in Unrestricted Reserves*</b>	<b>(36.8)</b>	<b>(246.8)</b>	<b>(210.0)</b>

A

B

C

= A-B-C

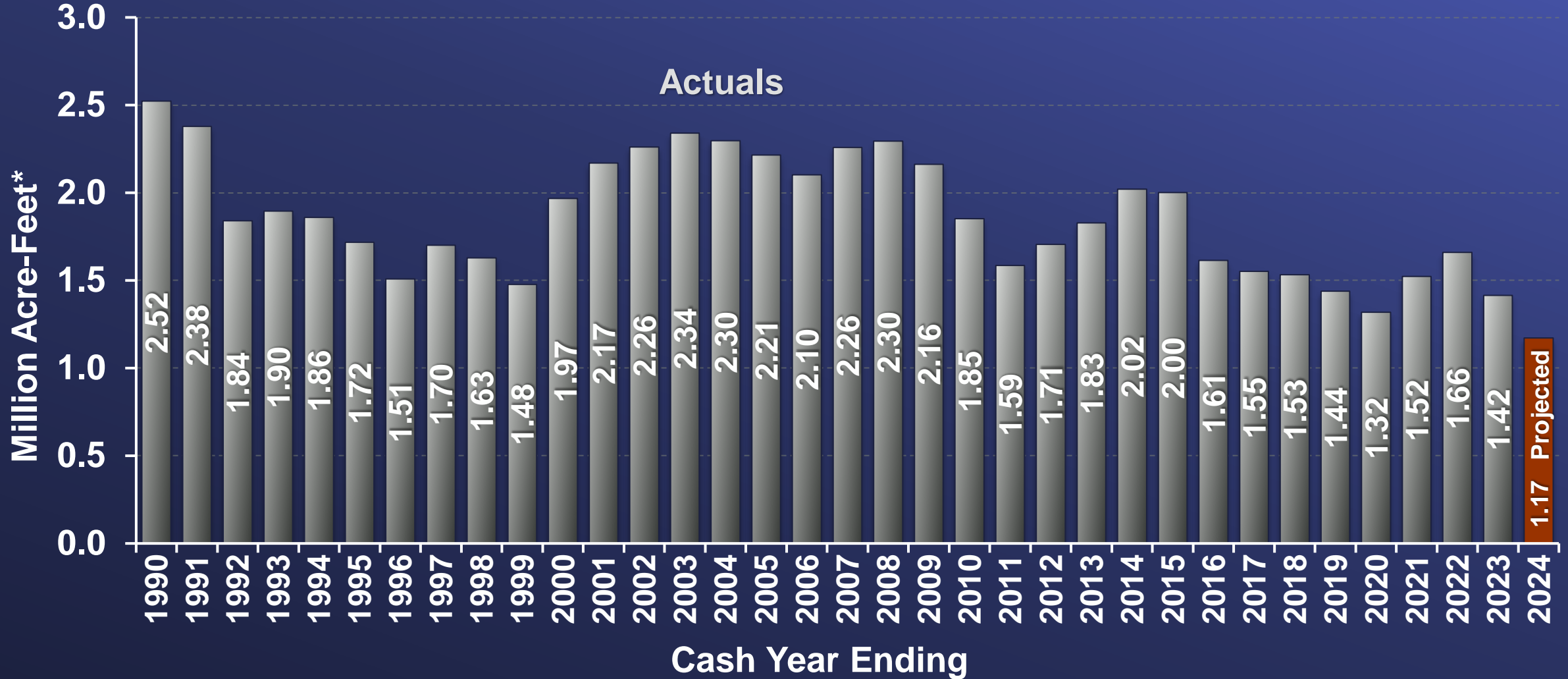


- Water transactions estimated at 1.17 MAF about 370 TAF below the budget of 1.54 MAF
- Net draw on unrestricted reserves estimate at \$247M
- Projected EOY unrestricted reserves at \$307M, 41M above minimum and \$359M below the target reserve

1) Net of \$30M funded from CA WaterFix refund  
 \* Revenue Remainder and Water Rate Stabilization Fund

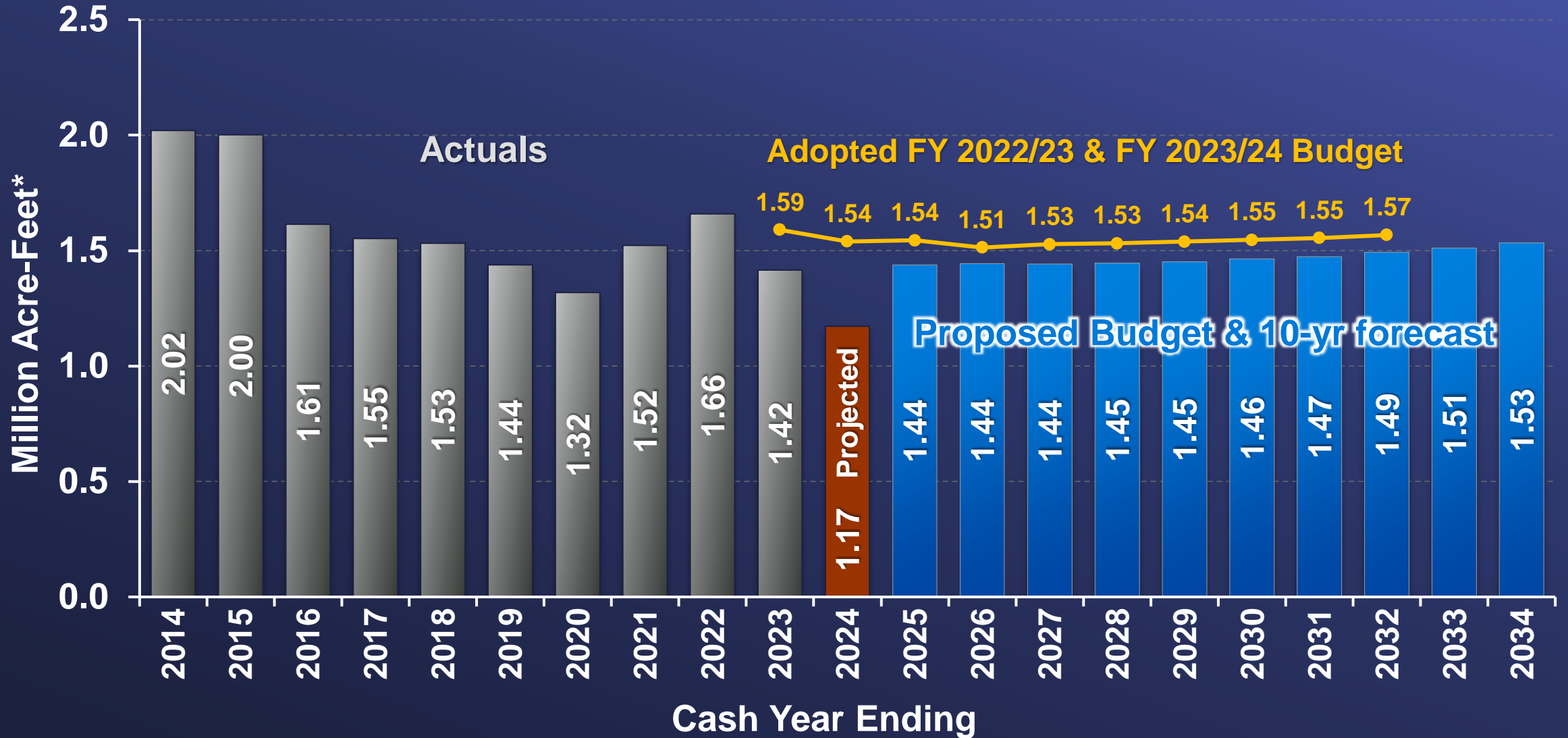


# Metropolitan's Water Transactions



\*Water Transactions for member agencies only  
cash year May through April generates revenues for the fiscal year July through June

# Metropolitan's Water Transactions



\*Water Transactions for member agencies only

# Proposed Biennial Budget Expenditures

in millions of dollars

Fiscal Year Ending	Budget	Proposed Biennial Budget		Increase from 2024 to 2026		
	2024	2025	2026	\$M	%	
State Water Contract	\$ 726.7	\$ 689.0	\$ 703.9	\$ (22.9)	-3%	1
Colorado River Aqueduct Power	85.6	90.8	99.8	14.1	16%	2
Departmental O&M & Operating Equipment*	599.3	672.0	701.2	101.9	17%	3
Supply Programs (net IRA funds & bond funded portion)	64.1	46.7	43.5	(20.6)	-32%	
Delta Conveyance Planning (net of CWF refund)	34.5	11.6	-	(34.5)	-100%	
Conservation Program (net of bond funded portion)	25.0	25.0	25.0	-	0%	
LRP & Future Supply Actions & Stormwater Pilot	24.1	33.6	36.1	12.0	50%	4
PAYGO	135.0	125.0	175.0	40.0	30%	5
Debt Service	301.0	341.0	355.9	54.9	18%	6
<b>Sub-total Expenditures</b>	<b>\$ 1,995.4</b>	<b>\$ 2,034.6</b>	<b>\$ 2,140.4</b>	<b>\$ 145.0</b>	<b>7%</b>	

\*net of portion funded from \$80M pure water grant

1. SWC – has stayed ~ flat as a result of actions like negotiating federal Sisk Dam cost share agreement and SWC extension
2. Colorado River Power - higher market power rates, and anticipated market rule changes for Resource Adequacy obligations
3. Departmental O&M & OE - Labor costs increases (wages, pension, OPEB, etc.), impact of inflation on chemicals for water treatment, utilities and repairs & maintenance
4. Local Resource Program - existing agreements, increase due to anticipated ramp up of SD Pure Water North City Project (Phase I)
5. PAYGO - higher projected PAYGO to fund CIP and build back revenue bond coverage (still below 2x policy target)
- 6: Debt Service - higher debt service rates and more debt issuance (to preserve cash in FY 2023/24 converted \$100M PAYGO to debt financing, debt for AVEK and conservation)

# Proposed Biennial Revenue Requirement

in millions of dollars

Fiscal Year Ending	Budget	Proposed Biennial Budget		Increase from 2024 to 2026	
	2024	2025	2026	\$M	%
State Water Contract	\$ 726.7	\$ 689.0	\$ 703.9	\$ (22.9)	-3%
Colorado River Aqueduct Power	85.6	90.8	99.8	14.1	16%
Departmental O&M & Operating Equipment*	599.3	672.0	701.2	101.9	17%
Supply Programs (net IRA funds & bond funded portion)	64.1	46.7	43.5	(20.6)	-32%
Delta Conveyance Planning (net of CWF refund)	34.5	11.6	-	(34.5)	-100%
Conservation Program (net of bond funded portion)	25.0	25.0	25.0	-	0%
LRP & Future Supply Actions & Stormwater Pilot	24.1	33.6	36.1	12.0	50%
PAYGO	135.0	125.0	175.0	40.0	30%
Debt Service	301.0	341.0	355.9	54.9	18%
<b>Sub-total Expenditures</b>	<b>\$ 1,995.4</b>	<b>\$ 2,034.6</b>	<b>\$ 2,140.4</b>	<b>\$ 145.0</b>	<b>7%</b>
Increase in Required Reserves	7.0	41.7	73.0	66.0	943%
Less (-) Property Taxes Revenues	(168.3)	(195.6)	(203.1)	(34.7)	21%
Less (-) Interest Income	(9.6)	(49.2)	(42.9)	(33.3)	347%
Less (-) New Grants Assumptions	(10.0)	(20.0)	(20.0)	(10.0)	100%
Less (-) Other Revenues	(50.9)	(48.2)	(45.1)	5.8	-11%
<b>Revenue Requirement (\$M)</b>	<b>\$ 1,763.6</b>	<b>\$ 1,763.3</b>	<b>\$ 1,902.4</b>	<b>\$138.7</b>	<b>8%</b>

\*net of portion funded from \$80M pure water grant

# Proposed Biennial Budget for FY 2024/25 and FY 2025/26

## Actions taken to limit the rate impact to 13% / 8%

### Actions limiting increase in expenditures

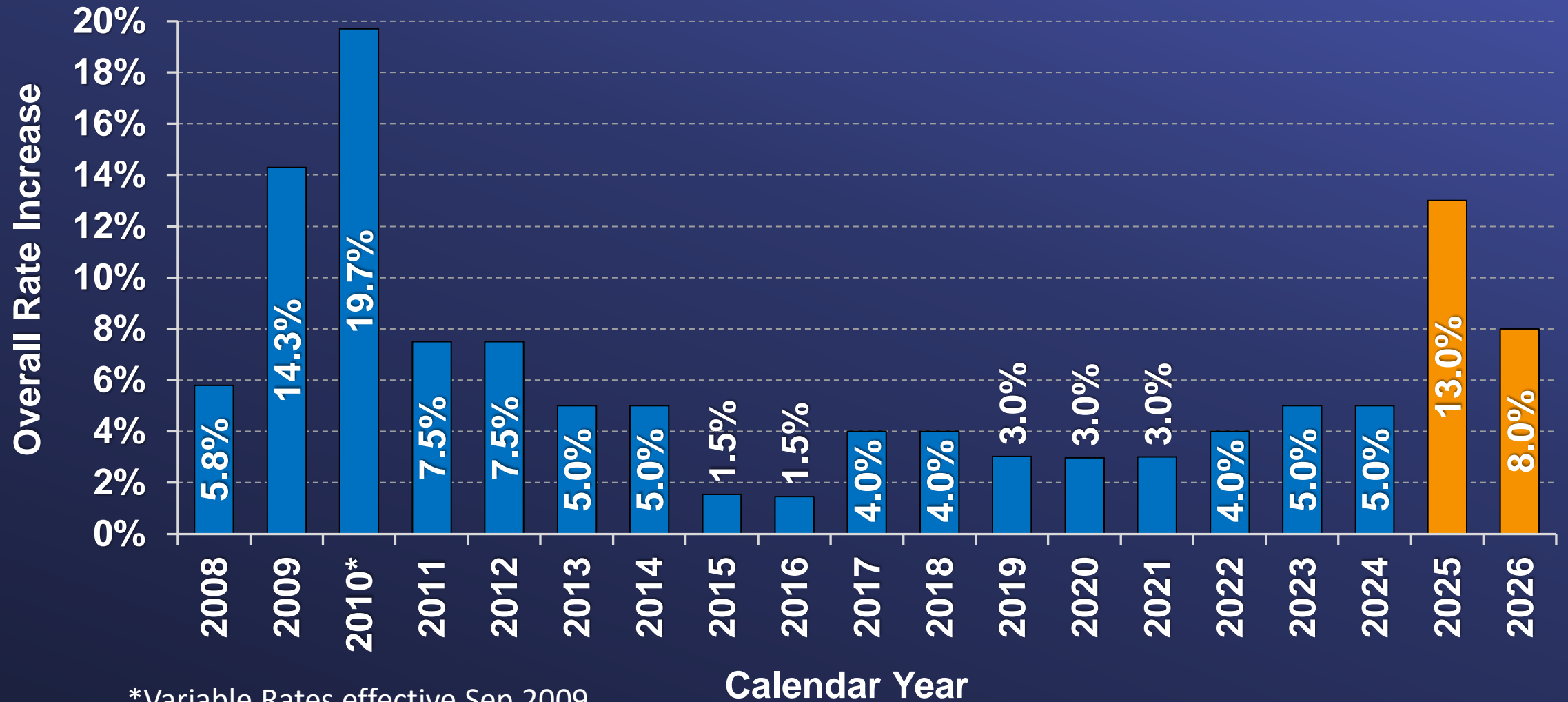
- ❑ Limited FTE increases to 19 essential positions
  - 123 FTEs requested; addition staffing needs remain
- ❑ No new Local Resource Project agreements for FY 2023/24 and FY 2024/25
- ❑ Debt funding conservation expenditures above \$25M per year
  - FY25 \$29M debt funded, FY26 \$19M debt funded
- ❑ Debt funded AVEK supply program
  - AVEK debt funding \$178M (increased from \$98M)
- ❑ Negotiating federal Sisk Dam cost share agreement

### Grants and other funding

- ❑ Reclamation's Lower Colorado River Basin Conservation and Efficiency Program (IRA Bucket 1) funding used to offset supply program expenditures
  - \$47M in FY24, \$47M in FY25, \$47M in FY26
- ❑ Drawing down \$80M State Grant for PWSC expenditures
  - Reduced increase in departmental O&M
- ❑ Assumed MWD would obtain \$20M per year in new grants to offset O&M (FY 2024/25 to FY 2033/34)



# Historic and Projected Overall Rate Increases



\*Variable Rates effective Sep 2009

# 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%
<b>Full Service Untreated Volumetric Cost (\$/AF)</b>	<b>\$903</b>	<b>\$1,006</b>	<b>11%</b>	<b>\$1,069</b>	<b>6%</b>
<b>Full Service Treated Volumetric Cost (\$/AF)</b>	<b>\$1,256</b>	<b>\$1,465</b>	<b>17%</b>	<b>\$1,587</b>	<b>8%</b>
RTS Charge (\$M)	\$167	\$167	0%	\$185	11%
Capacity Charge (\$/cfs)	\$11,200	\$10,800	(4%)	\$12,800	19%
<b>Overall Rate Increase</b>			<b>13.0%</b>		<b>8.0%</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

# Water Treatment Surcharge

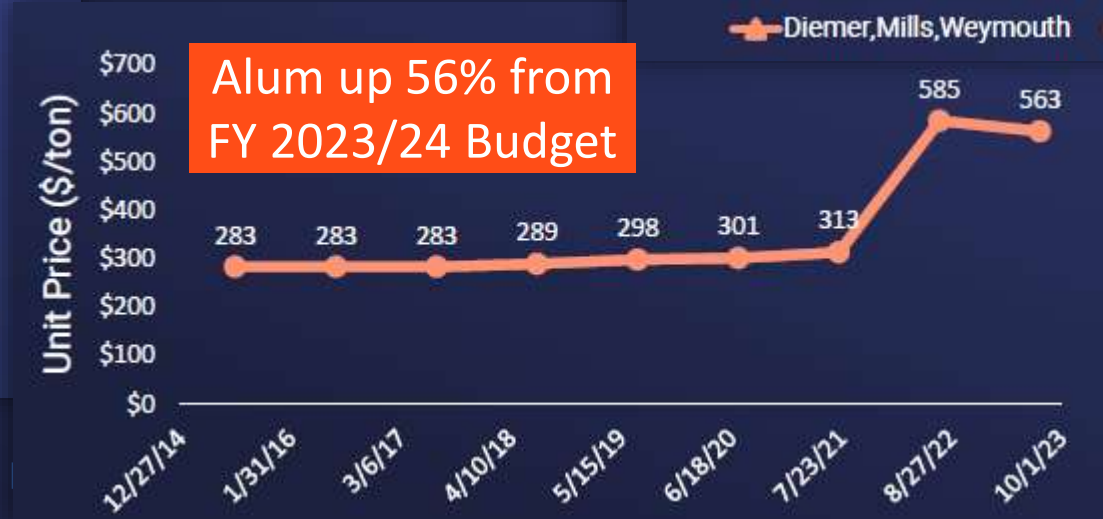
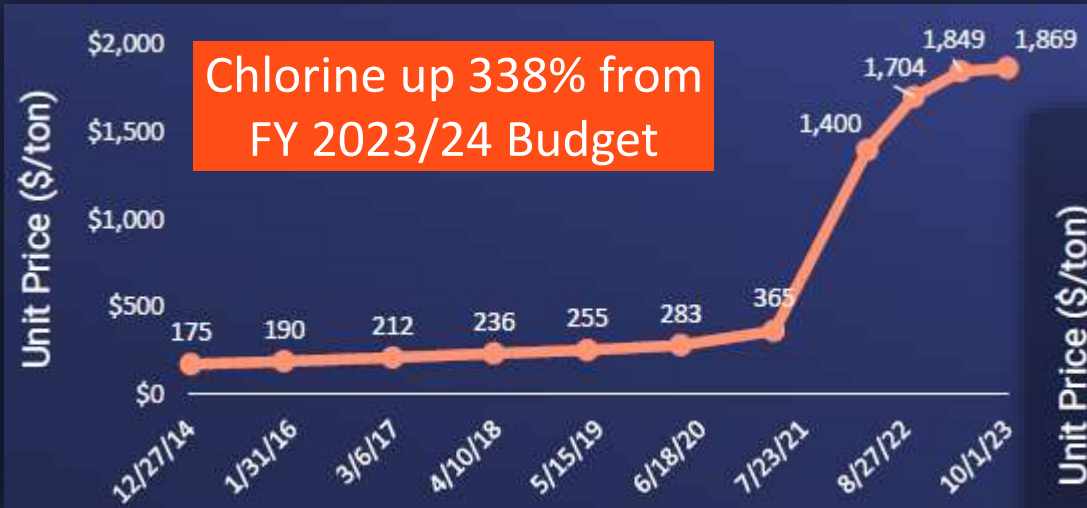
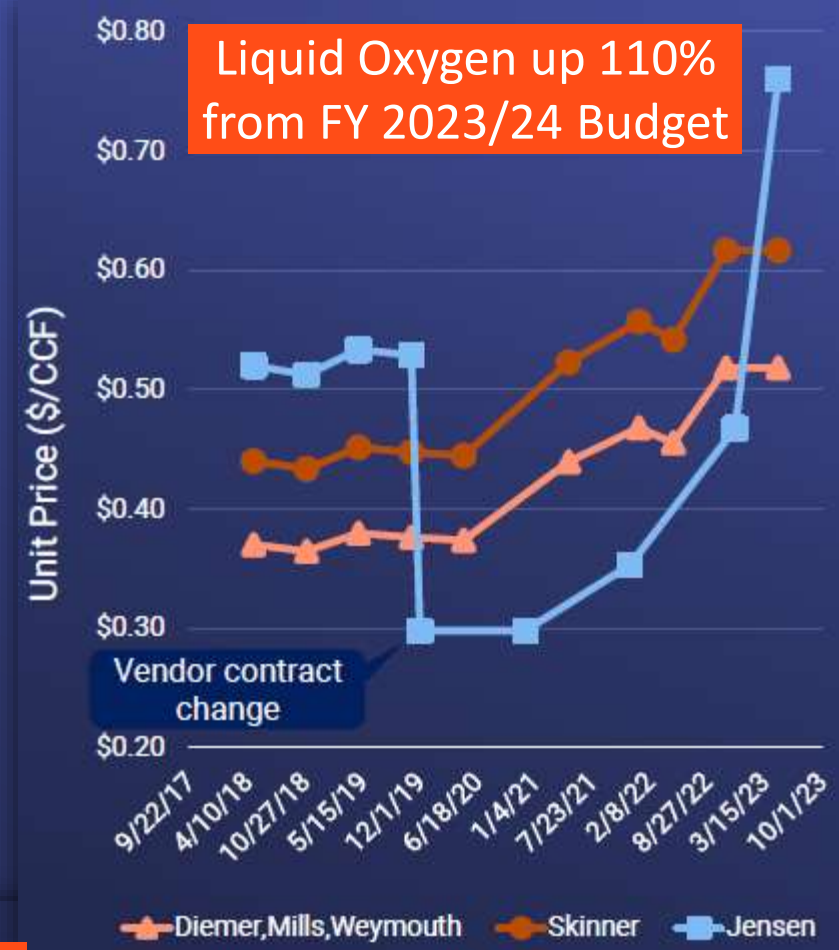
## Key Drivers of 30% increase in 2025 TS

### Higher Operating Maintenance Costs

- Increases costs of labor and benefits for treatment
- Increase cost of treatment chemicals
  - Variable treatment costs up 37% from FY 2023/24 Budget
  - Reflects higher cost of chemicals that we are current experiencing

### Lower Treatment volumes

- Accounts for ~6% of the increase in the TS

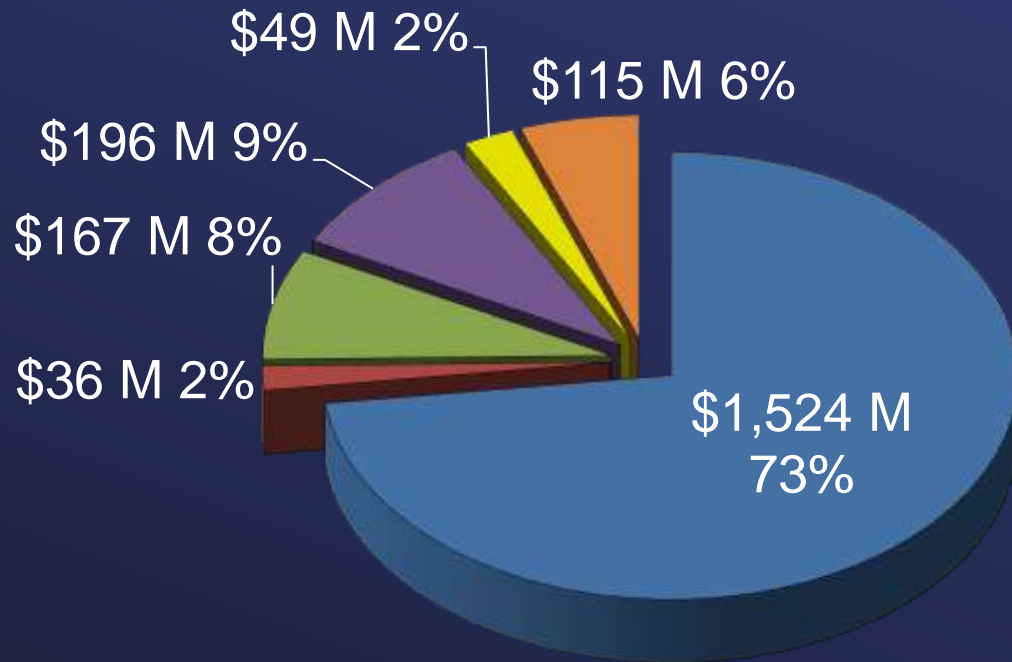


# Proposed Biennial Budget

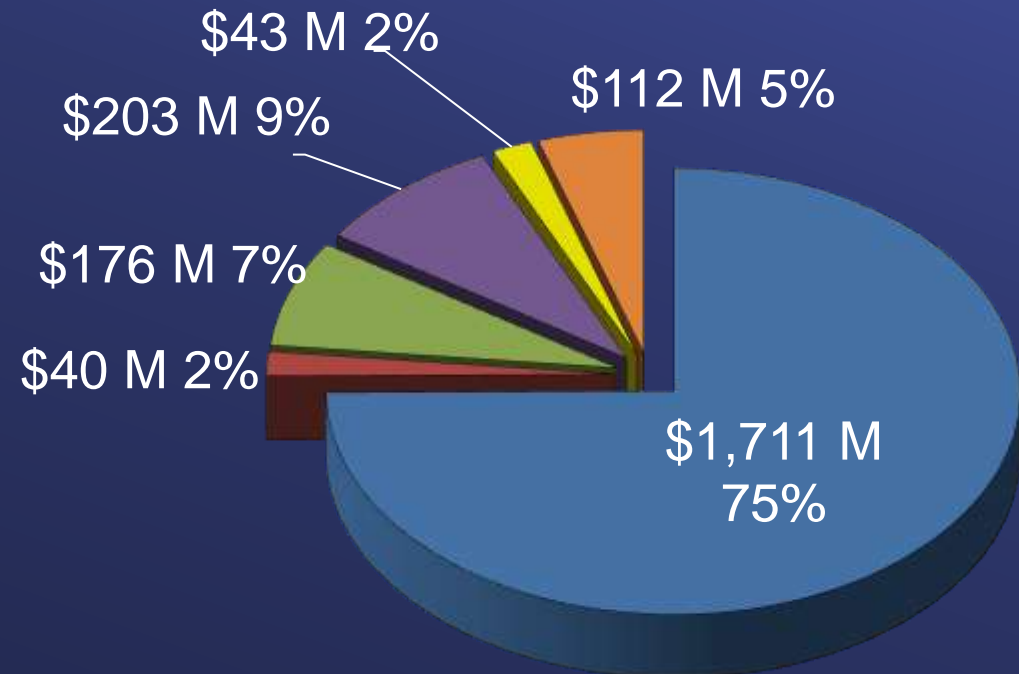
# Revenues

- Water Revenues\*
- Capacity Charge
- RTS Charge
- Property Taxes
- Interest Incomes
- Other Rev\*\*

**FY 2024/25 - \$2.09 B**



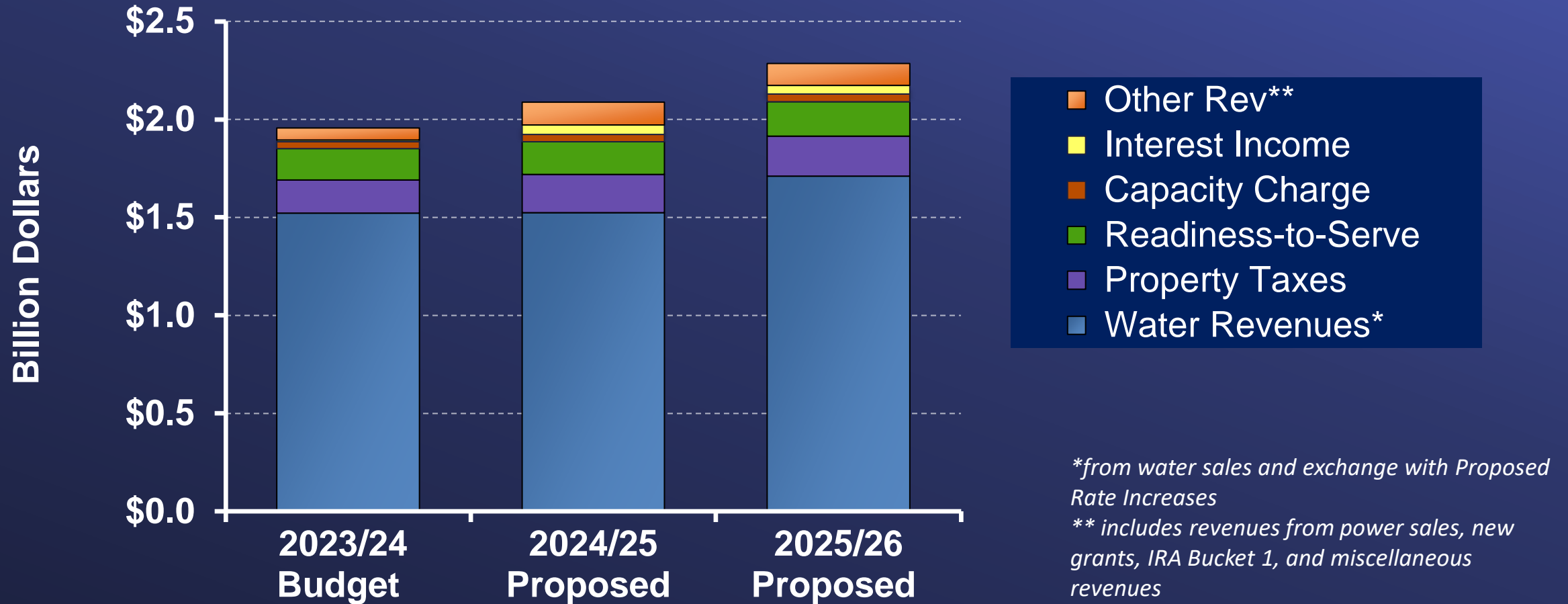
**FY 2025/26 - \$2.29 B**



*\*from water sales and exchange with Proposed Rate Increases*

*\*\* includes revenues from power sales, new grants, IRA Bucket 1, and miscellaneous revenues*

# Revenue Trend

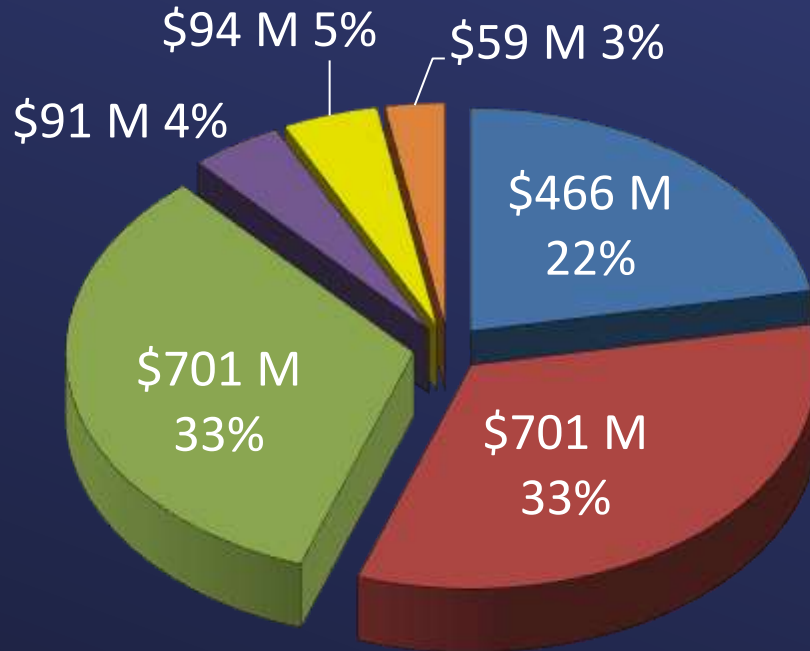




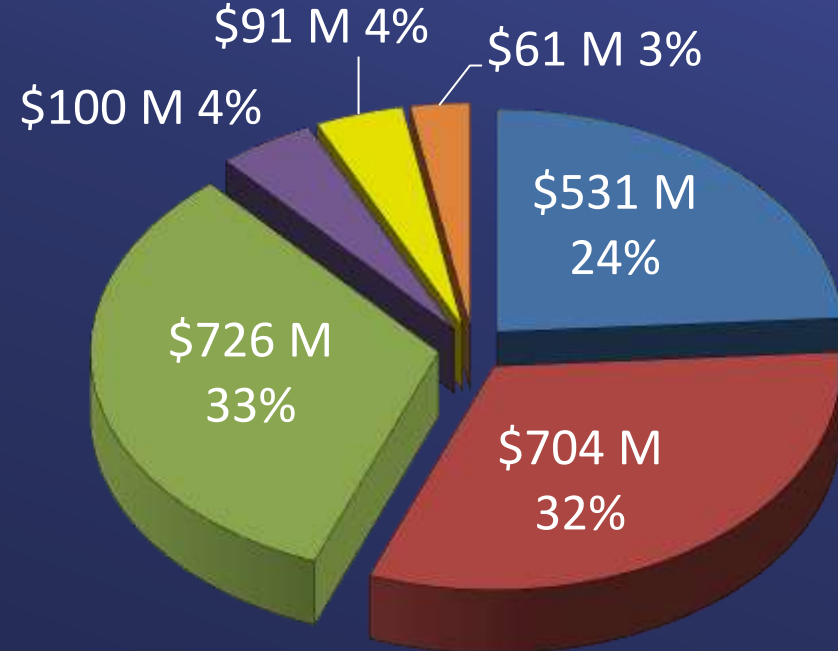
# Expenditures

- Capital Financing
- State Water Contract (1)
- O&M (3)
- Colorado River Power
- Supply Programs (2)
- Demand Management (2)

**FY 2024/25 - \$2.11 B**

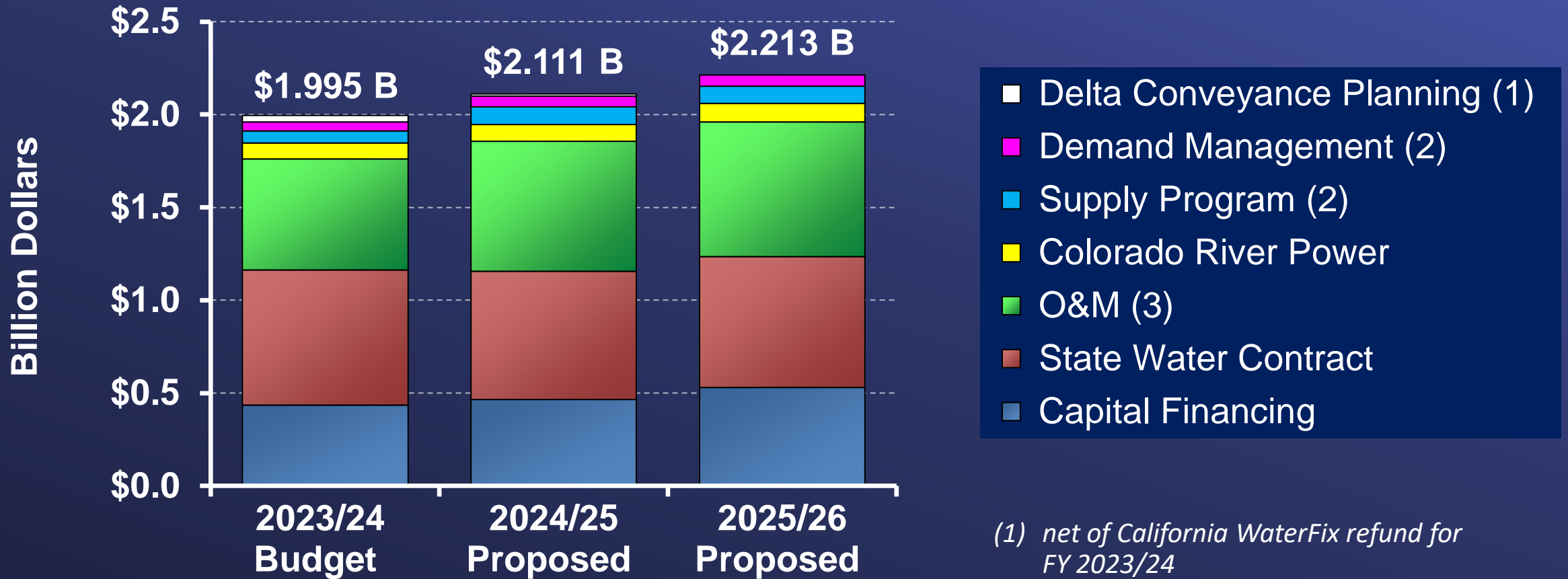


**FY 2025/26 - \$2.21 B**



- (1) with Delta Conveyance Project planning costs in FY 2024/25
- (2) cash funded portion
- (3) includes planning costs for PWSC (which is funded by \$80M SWRCB Grant)

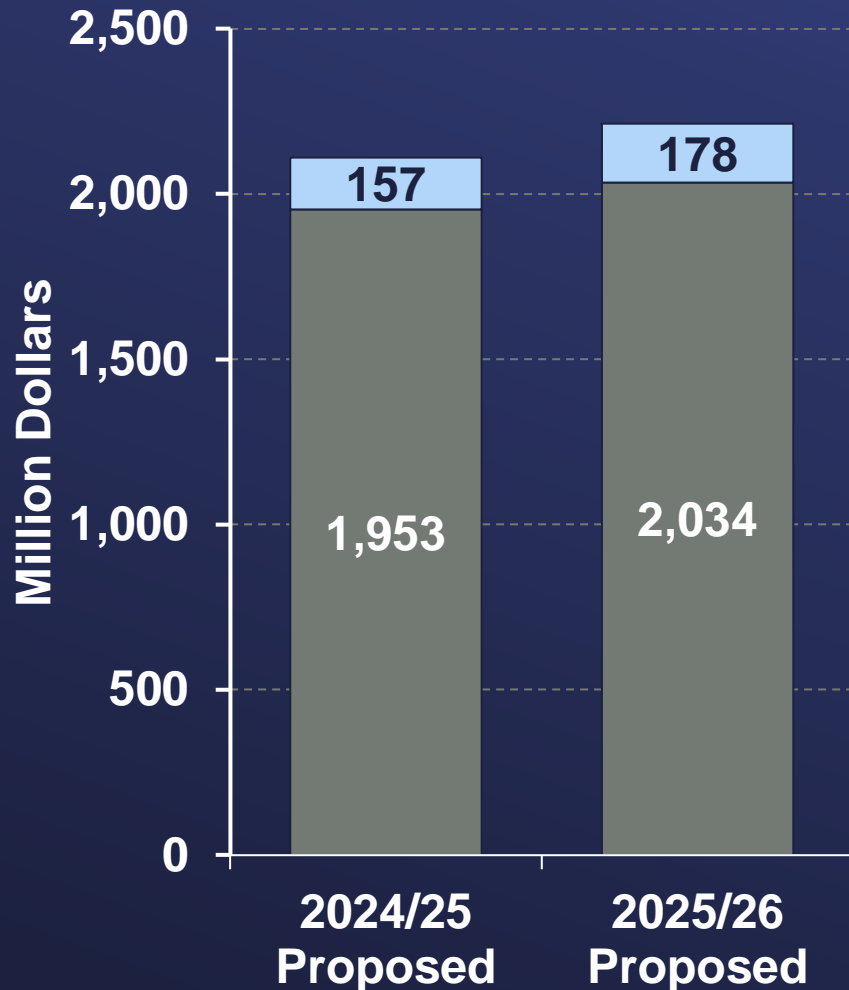
# Expenditure Trend



- (1) net of California WaterFix refund for FY 2023/24
- (2) cash funded portion
- (3) includes planning costs for PWSC (which is funded by \$80M SWRCB Grant)

# Non-Discretionary Expenditures

## Budget Expenditures



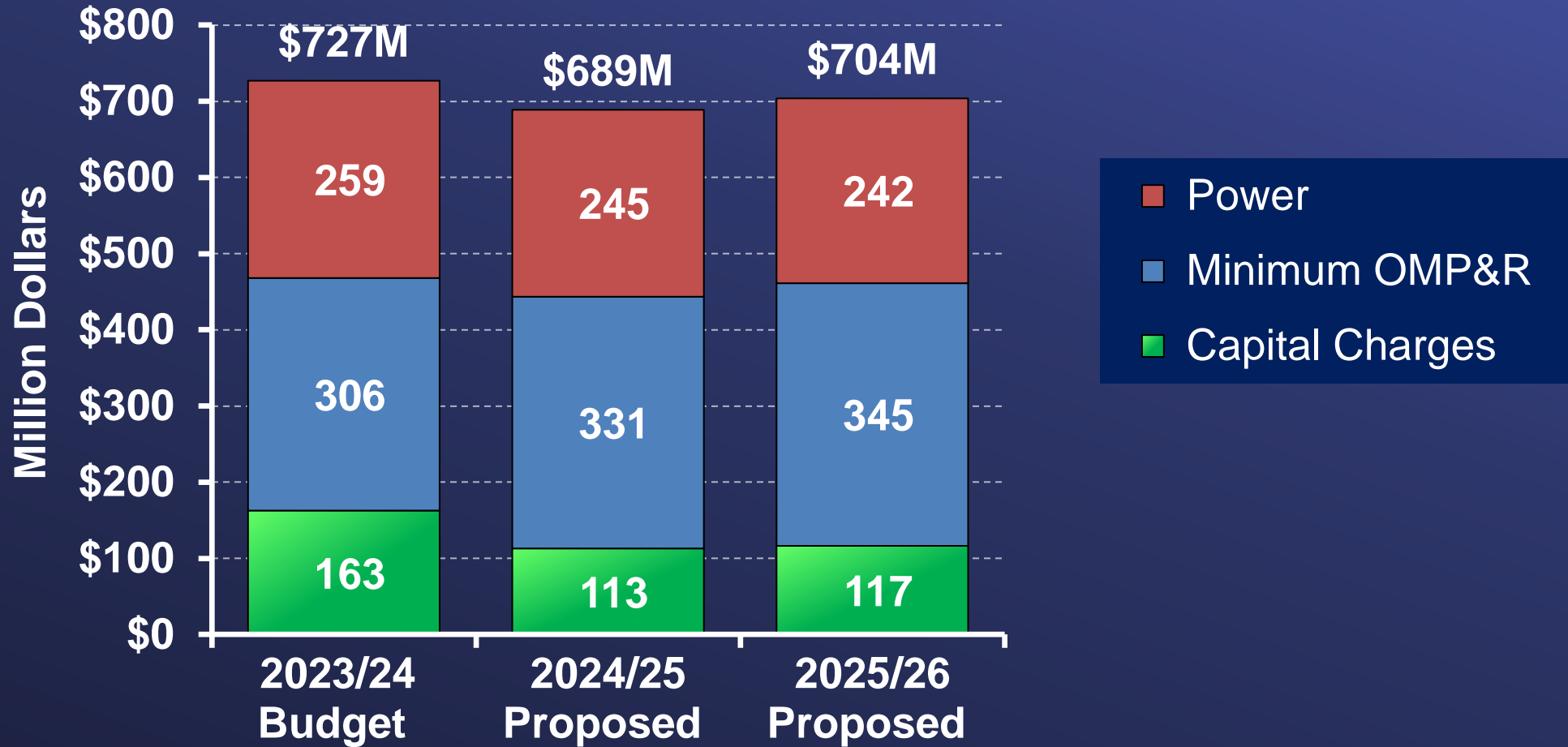
### Discretionary

- PAYGO Funding (debt finance instead)
- Non-committed Conservation
- Delta Conveyance Project planning costs
- Future Supply Actions & Stormwater Pilot

### Non-discretionary

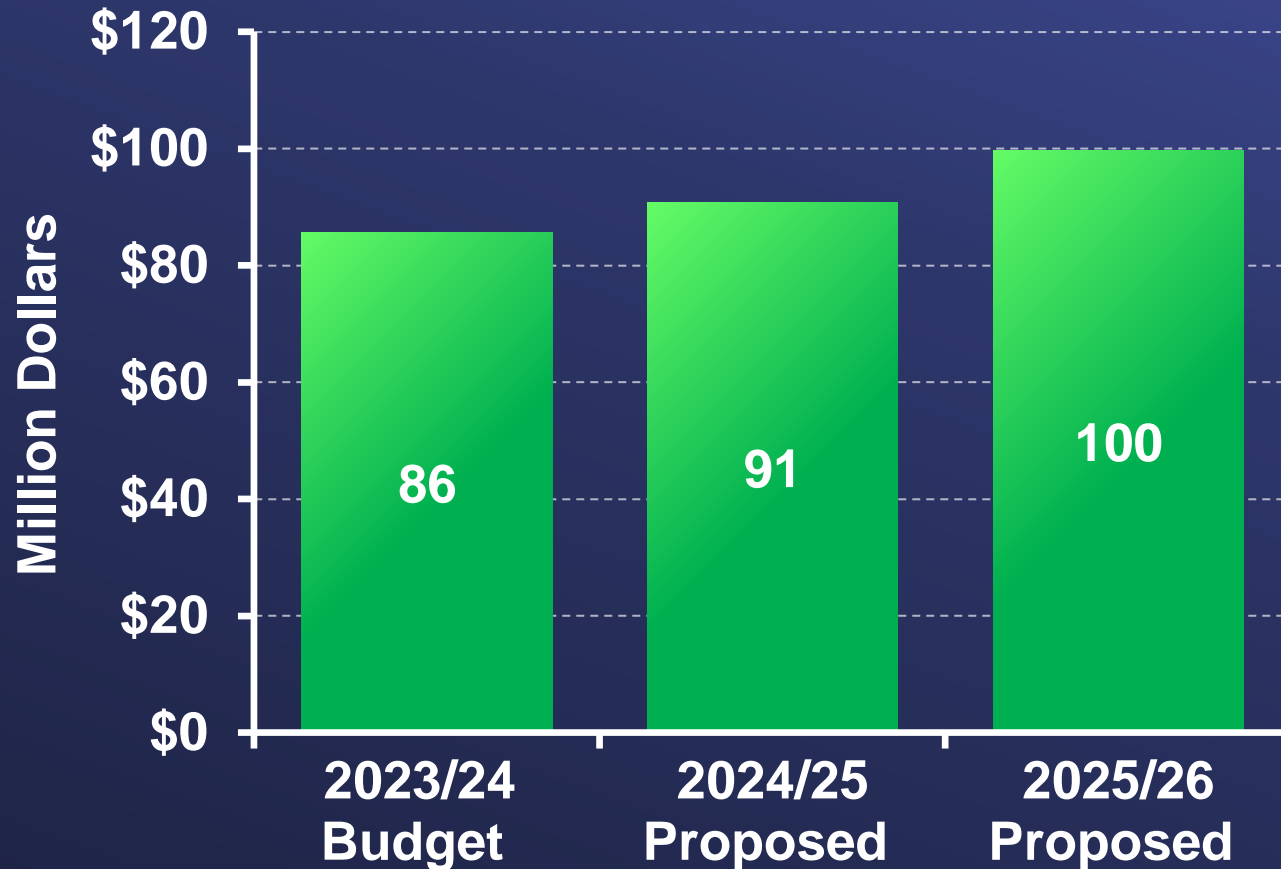
- O&M
- Committed Conservation
- State Water Contract
- CRA Power
- Debt Service & Debt Reserve
- Supply Programs
- LRP Incentive Contracts
- Required Reserve Increase

# State Water Contract

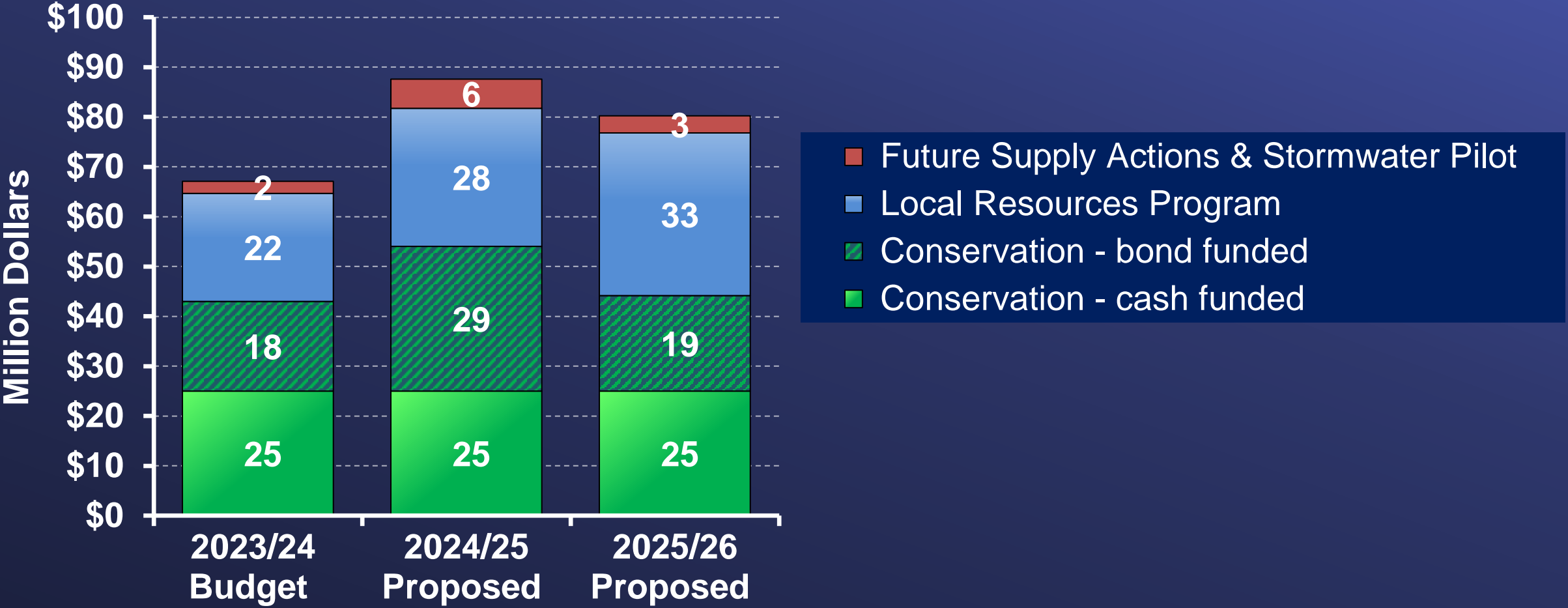


\* Totals may not foot due to rounding

# Colorado River Aqueduct Power

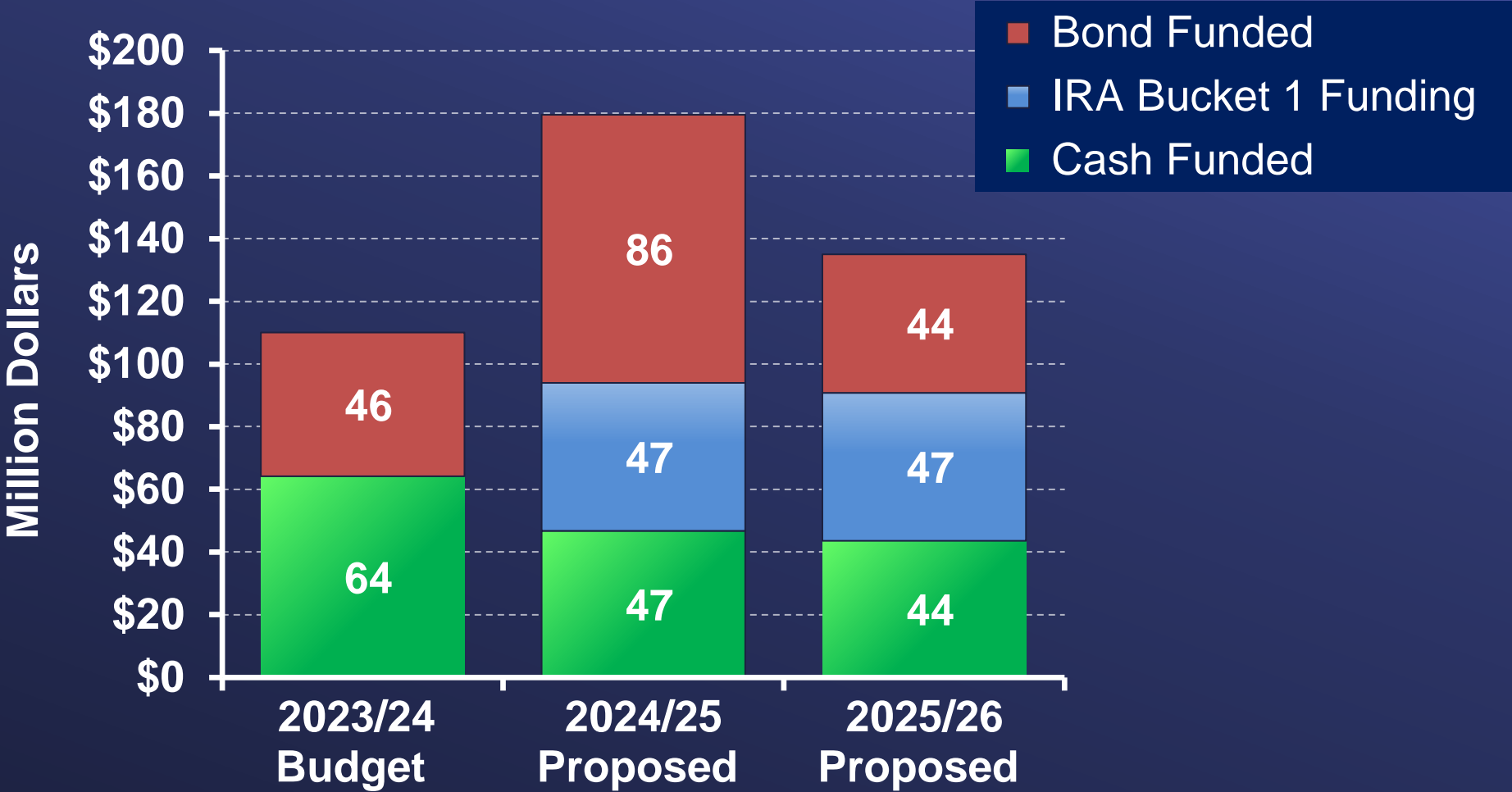


# Demand Management

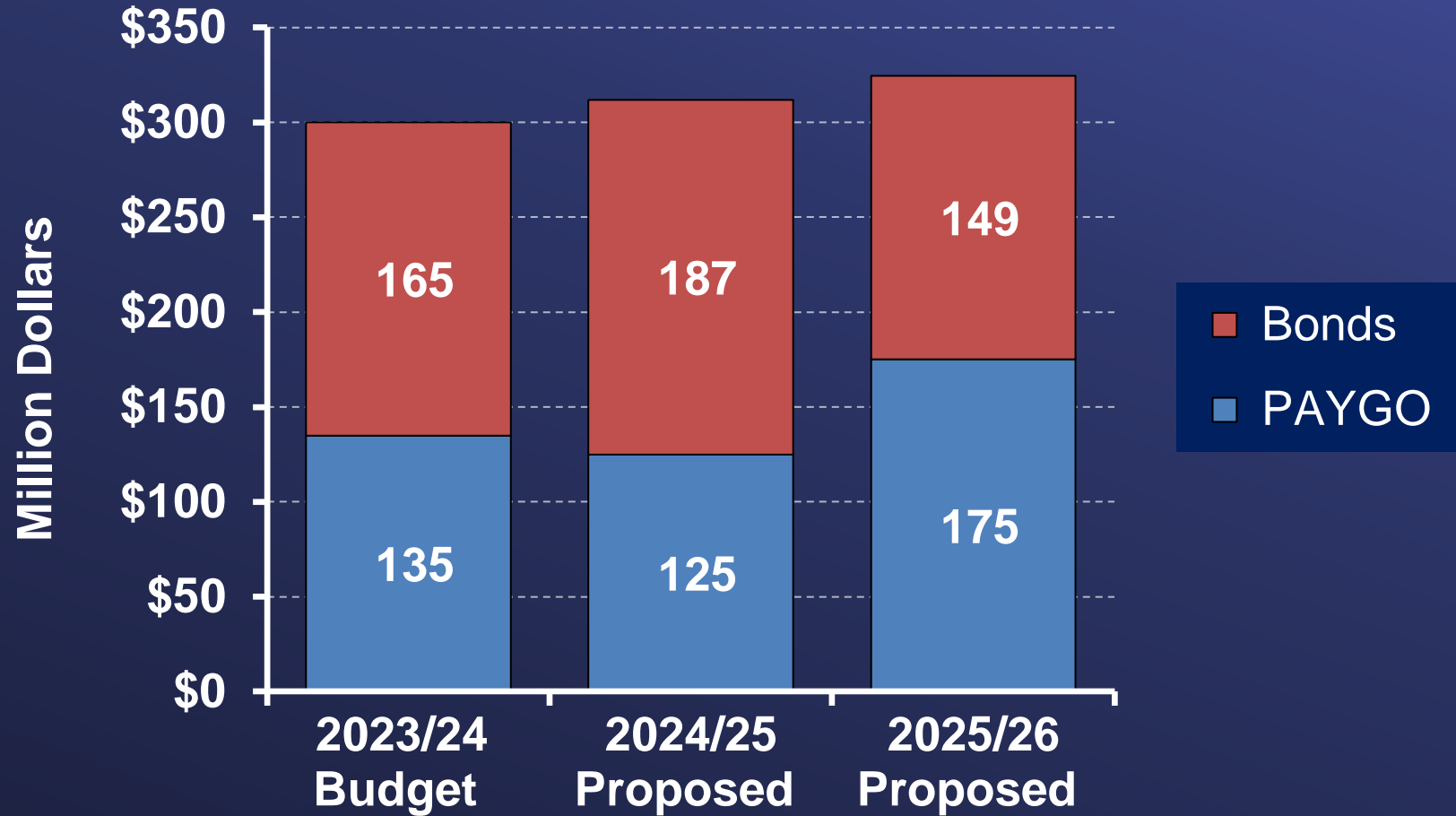




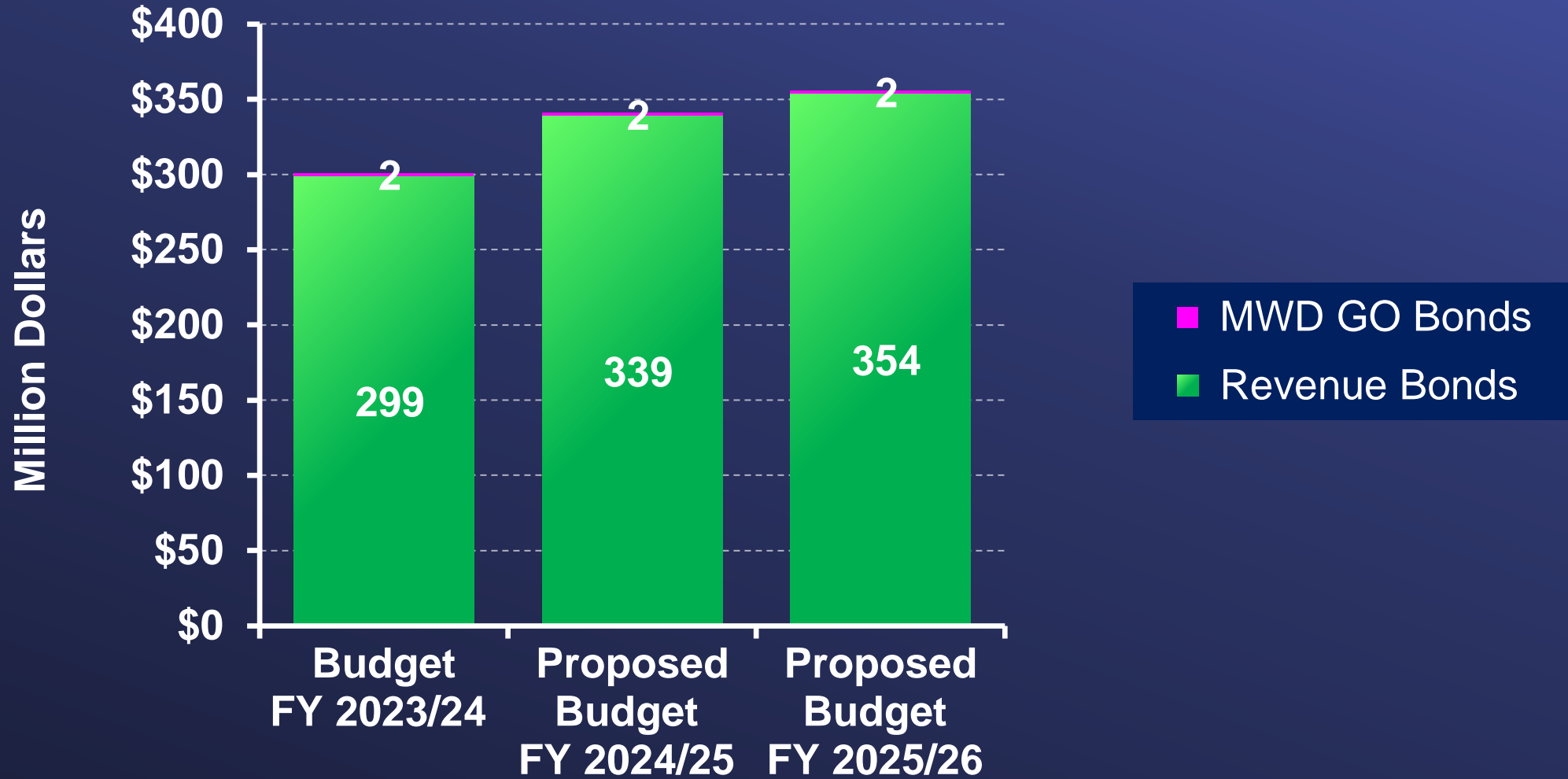
# Supply Program



# Capital Investment Plan Expenditures



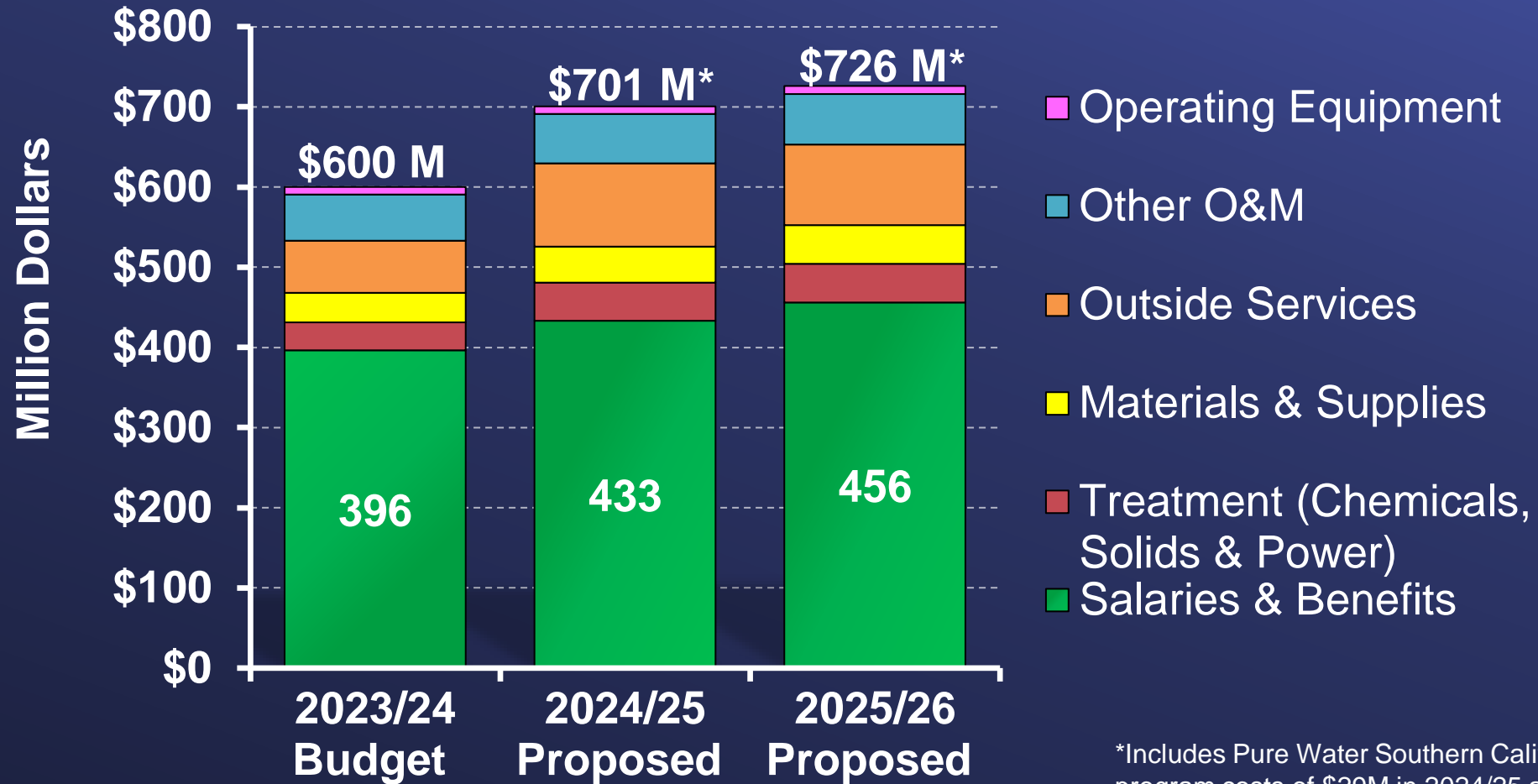
# Debt Service



*\* Totals may not foot due to rounding*

# O&M Expenditures

# O&M Expenditure Budget



\*Includes Pure Water Southern California program costs of \$29M in 2024/25 and \$25M in 2025/26.

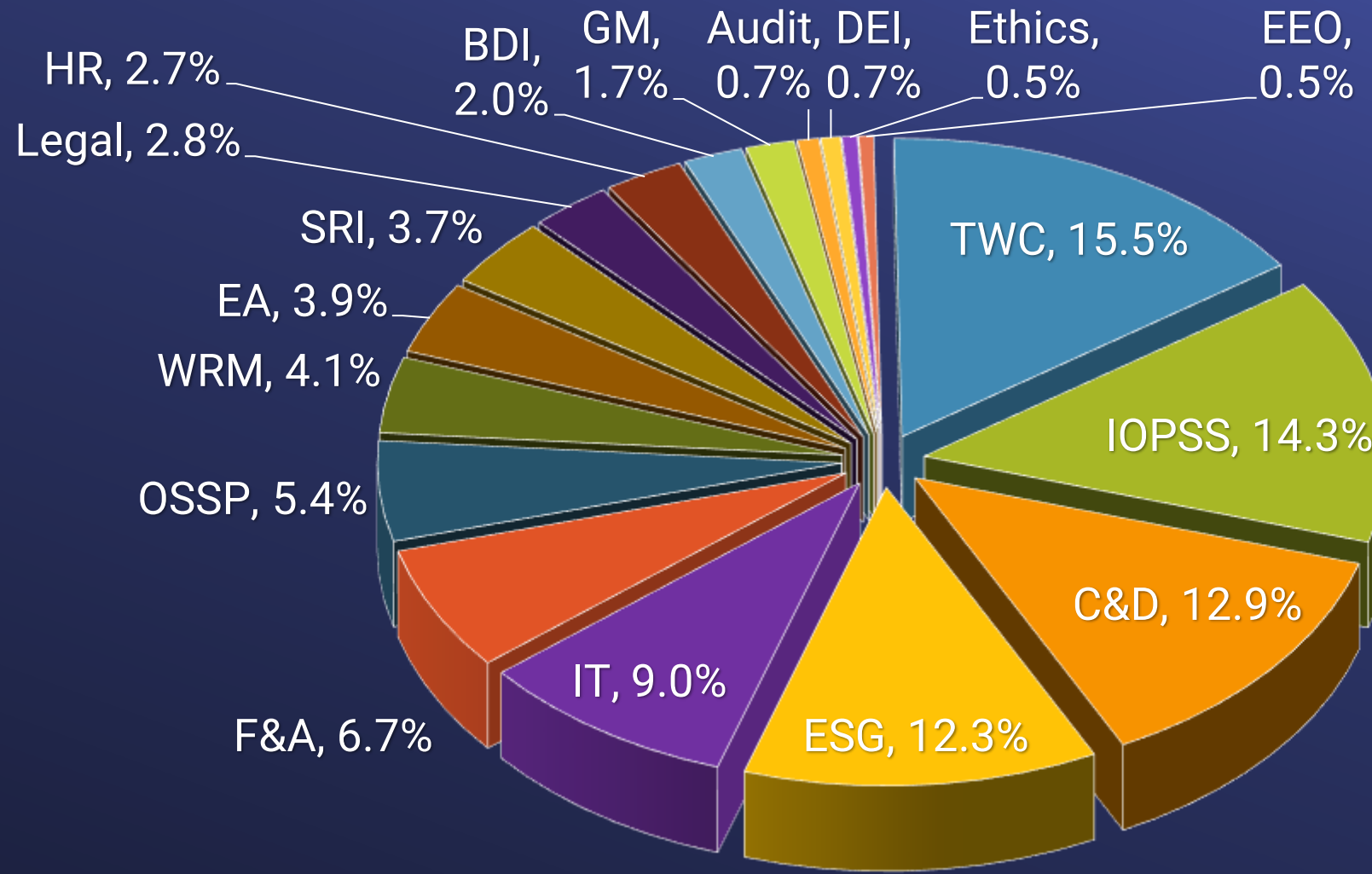
# O&M Expenditures

Account Categories (\$ in Millions)	2023/24 Budget	2024/25 Proposed	2025/26 Proposed	2024/25 Proposed vs 2023/24 Budget		2025/26 Proposed vs 2024/25 Proposed	
				\$M	%	\$M	%
Salaries & Benefits	\$ 396.1	\$ 433.0	\$ 456.1	\$ 36.9	9.3%	\$ 23.1	5.3%
Professional Services	30.4	62.9*	58.6	32.5*	106.7%	(4.2)	-6.7%
Treatment (Chemicals, Solids & Power)	34.9	47.7	48.5	12.8	36.7%	0.8	1.6%
Non-Prof Services / Repairs & Maint	34.8	40.9	41.7	6.1	17.5%	0.8	2.0%
Materials & Supplies	25.4	33.0	34.3	7.5	29.5%	1.3	4.0%
Insurance	9.6	9.8	10.3	0.2	2.5%	0.5	5.0%
Software Licensing & Support	11.4	12.3	13.9	0.9	8.3%	1.6	12.8%
Taxes & Permits	9.0	9.7	9.7	0.7	7.5%	(0.0)	-0.3%
Utilities	11.0	10.0	10.4	(0.9)	-8.6%	0.4	3.7%
Memberships & Subscriptions	7.6	8.7	8.9	1.1	14.2%	0.2	2.7%
Travel & Training	5.0	5.7	5.9	0.8	15.1%	0.2	3.3%
Communications	5.2	5.8	5.8	0.6	11.2%	0.0	0.0%
Subsidies & Incentives	3.3	3.6	3.6	0.3	10.6%	(0.0)	-0.1%
Rents & Leases	3.0	3.4	3.5	0.4	14.8%	0.1	1.9%
Advertising & Community Outreach	1.5	1.7	1.8	0.2	16.2%	0.1	4.4%
Other	2.9	3.1	3.3	0.2	6.8%	0.1	4.3%
Operating Equipment	8.8	9.6	10.1	0.8	8.6%	0.5	5.4%
<b>Total O&amp;M</b>	<b>\$ 599.8</b>	<b>\$ 700.9</b>	<b>\$ 726.3</b>	<b>\$ 101.1</b>	<b>16.9%</b>	<b>\$ 25.4</b>	<b>3.6%</b>

\*FY 2024/25 Professional Services includes \$23.9M grant funded PWSC planning costs

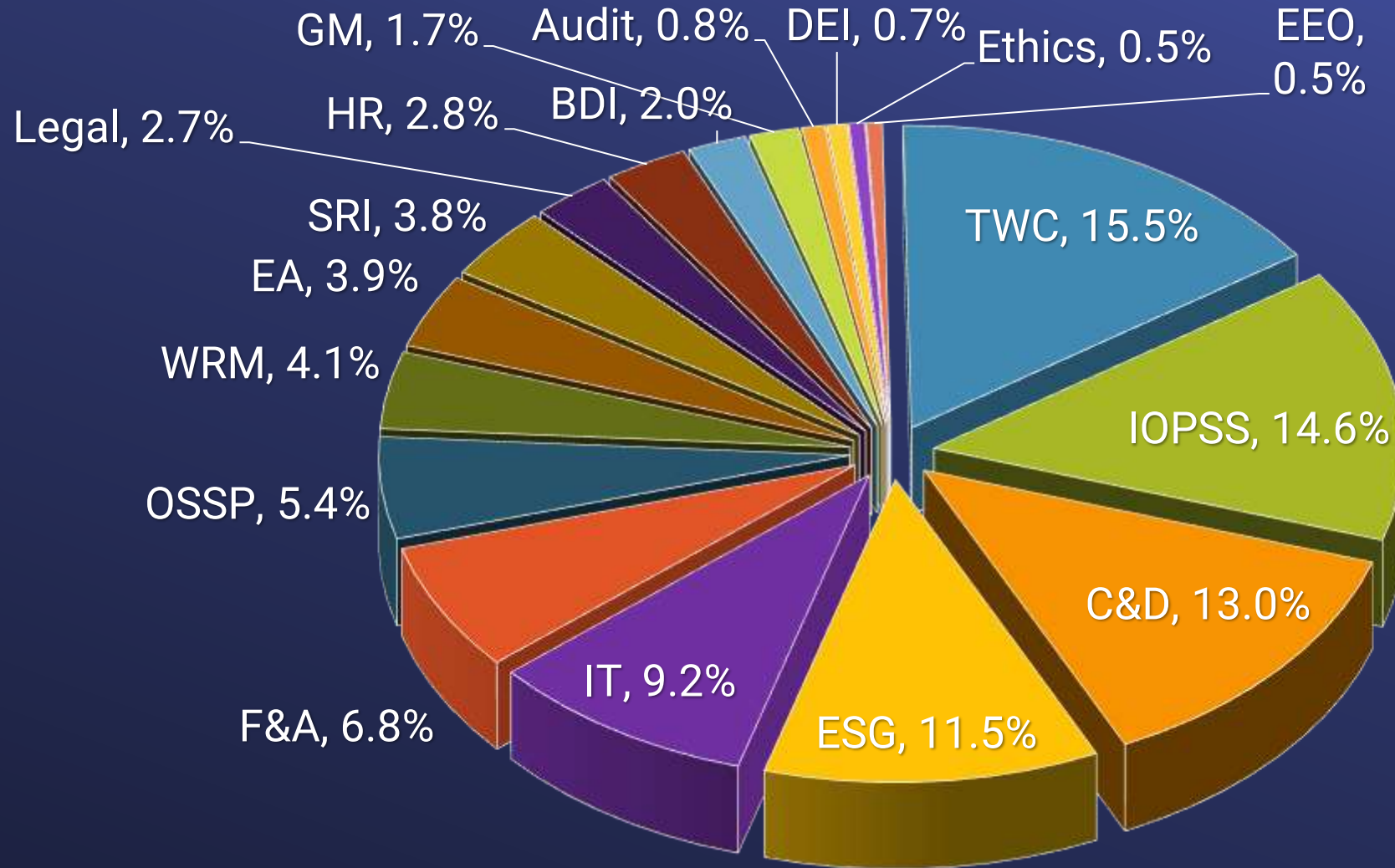


# FY 2024/25 O&M Budget by Organization



**1,965 Regular FTEs**

# FY 2025/26 O&M Budget by Organization



**1,965 Regular FTEs**

# O&M Budget by Organization

Departmental Units	2023/2024	2024/25	2025/26	2023/24 Budget vs		2024/25 Proposed vs	
	Budget	Proposed	Proposed	2024/25 Proposed	2024/25 Proposed	2025/26 Proposed	2025/26 Proposed
				\$M	%	\$M	%
Office of the General Manager*	10.8	11.1	11.5	0.3	3.0%	0.4	3.2%
Treatment and Water Quality w/o Variable Treatment	91.4	102.2	106.3	10.8	11.8%	4.2	4.1%
Integrated Operations Planning and Support Services	86.9	94.8	99.9	7.9	9.1%	5.1	5.4%
Conveyance and Distribution	75.0	85.2	89.3	10.2	13.6%	4.0	4.7%
Engineering Services	51.7	81.3	78.6	29.6	57.3%	(2.7)	-3.3%
Information Technology	52.4	59.7	63.1	7.3	13.9%	3.3	5.6%
Finance and Administration	43.6	44.4	46.7	0.8	1.8%	2.2	5.0%
Office of Safety, Security and Protection	33.3	35.7	37.0	2.4	7.2%	1.4	3.8%
Water Resource Management	25.9	27.1	28.1	1.2	4.7%	1.0	3.8%
External Affairs	25.6	25.7	26.9	0.1	0.5%	1.2	4.6%
Office of Sustainability, Resilience & Innovation	21.0	24.7	26.3	3.7	17.4%	1.7	6.8%
Human Resources	15.9	18.1	19.3	2.2	13.7%	1.3	7.0%
Bay Delta Initiatives	12.5	13.5	13.8	1.0	7.7%	0.3	2.1%
Office of Diversity, Equity & Inclusion	3.8	4.4	4.7	0.6	16.1%	0.3	6.8%
Equal Employment Opportunity Office	2.8	3.4	3.7	0.6	20.2%	0.3	9.8%
Board of Directors	1.8	2.6	2.7	0.8	46.2%	0.1	4.3%
<b>Total – GM's Department</b>	<b>\$554.4</b>	<b>\$634.0</b>	<b>\$658.0</b>	<b>\$79.5</b>	<b>14.4%</b>	<b>\$24.0</b>	<b>3.8%</b>
Ethic's Office	2.8	3.5	3.7	0.7	23.5%	0.2	6.1%
Office of General Auditor	4.5	5.0	5.4	0.4	8.9%	0.5	9.5%
Office of General Counsel	16.3	18.4	18.6	2.1	12.8%	0.3	1.5%
Overhead Credit from Construction	(22.0)	(17.2)	(18.1)	4.8	-21.7%	(0.9)	5.1%
<b>Total Department Budget</b>	<b>\$556.1</b>	<b>\$643.6</b>	<b>\$667.7</b>	<b>\$87.5</b>	<b>15.7%</b>	<b>\$24.1</b>	<b>3.7%</b>
Operating Equipment	8.8	9.6	10.1	0.8	8.6%	0.5	5.4%
Variable Treatment	34.9	47.7	48.5	12.8	36.7%	0.8	1.6%
<b>GRAND TOTAL</b>	<b>\$599.8</b>	<b>\$700.9</b>	<b>\$726.3</b>	<b>\$101.1</b>	<b>16.9%</b>	<b>\$25.4</b>	<b>3.6%</b>
Pure Water Southern California (PWSC) Program	-	28.9	25.1	28.9	100.0%	(3.8)	-13.0%
<b>GRAND TOTAL without PWSC</b>	<b>\$599.8</b>	<b>\$672.0</b>	<b>\$701.2</b>	<b>\$72.2</b>	<b>10.7%</b>	<b>\$29.2</b>	<b>4.3%</b>

\* FY 2023/24 Office of GM includes the Succession Planning Labor Pool budget of \$2M. Beginning in FY 2024/25, Succession Planning Labor Pool budget is distributed in multiple groups.

# Budgeted Positions

	2021/22 Budget	2022/23 Budget	2023/24 Budget	2024/25 Proposed	2025/26 Proposed
Regular	1,907	1,929	1,946	1,965	1,965
District Temporary	37	47	49	59	56
Authorized Positions	1,944	1,976	1,995	2,024	2,021

# Unfunded Priorities

Group/Department	2023/24 Budget*	Original Request New Positions	New Positions Added	Unfunded Priorities
Water Resource Management	68	-	-	-
Treatment and Water Quality	386	8	-	8
Office of Sustainability, Resilience & Innovation	46	7	2	5
Office of Safety Security and Protection	64	8	1	7
Office of Diversity, Equity & Inclusion	11	1	-	1
Integrated Operations Planning & Support Services	259	26	-	26
Information Technology	131	2	1	1
Human Resources	43	5	4	1
Office of the General Manager	21	-	-	-
Finance and Administration	123	5	3	2
External Affairs	64	7	-	7
Equal Employment Opportunity Office	7	1	1	-
Engineering Services	379	25	5	20
Conveyance and Distribution	267	24	-	24
Board of Directors	5	-	-	-
Bay Delta Initiatives	16	2	-	2
<b>Subtotal - GM's Department</b>	<b>1,890</b>	<b>121</b>	<b>17</b>	<b>104</b>
Office of the General Auditor	12	2	2	-
Office of Ethics	7	-	-	-
General Counsel	37	-	-	-
<b>Total Regular Employees</b>	<b>1,946</b>	<b>123</b>	<b>19</b>	<b>104</b>

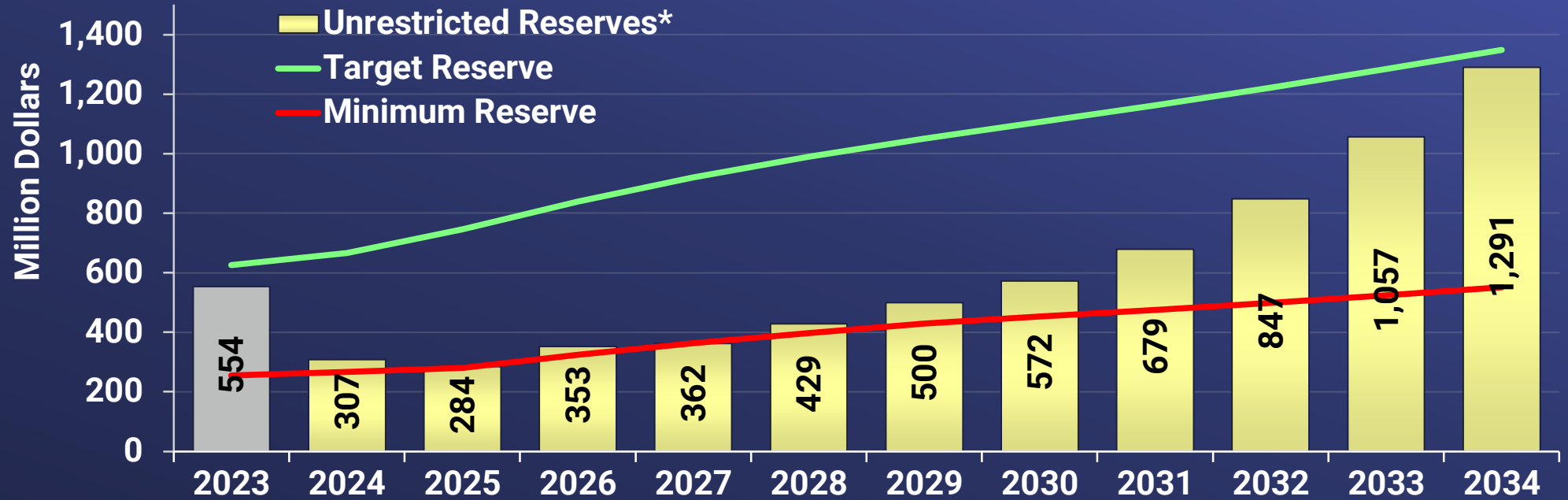
\* 2023/24 Budget includes 17 PWSC FTEs

# Ten-Year Financial Forecast



# 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
<b>Overall Rate Inc.</b>	5%	5%	13.0%	8.0%	12.0%	8.0%	5.0%	5.0%	4.0%	4.0%	4.0%	4.0%
<b>Water Transactions (MAF)**</b>	1.42	1.17	1.44	1.44	1.44	1.45	1.46	1.46	1.47	1.49	1.51	1.53
<b>Rev. Bond Cvg</b>	1.5	1.1	1.4	1.8	1.7	1.9	1.9	1.8	1.8	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

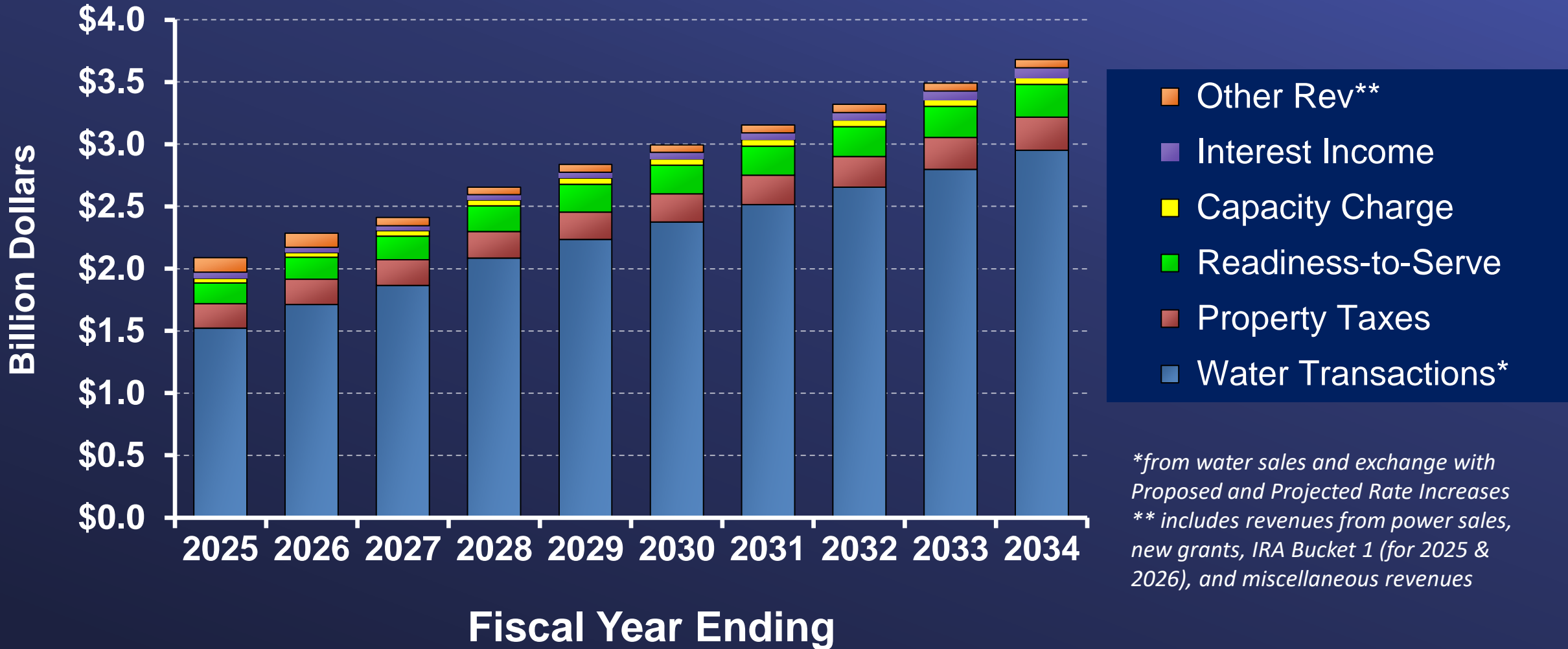
# Projected Water Rates and Charges

<b>Rates &amp; Charges Effective January 1st</b>	<b>2024*</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>	<b>2029</b>	<b>2030</b>	<b>2031</b>	<b>2032</b>	<b>2033</b>	<b>2034</b>
Supply Rate (\$/AF)	332	353	375	485	532	572	625	659	687	709	729
System Access Rate (\$/AF)	389	463	491	551	616	663	707	752	798	841	884
System Power Rate (\$/AF)	182	190	203	216	216	216	216	216	216	219	224
Treatment Surcharge (\$/AF)	353	459	518	518	518	518	518	518	522	543	560
<b>Full Service Untreated Volumetric Cost (\$/AF)</b>	<b>\$903</b>	<b>\$1,006</b>	<b>\$1,069</b>	<b>\$1,252</b>	<b>\$1,364</b>	<b>\$1,451</b>	<b>\$1,548</b>	<b>\$1,627</b>	<b>\$1,701</b>	<b>\$1,769</b>	<b>\$1,837</b>
<b>Full Service Treated Volumetric Cost (\$/AF)</b>	<b>\$1,256</b>	<b>\$1,465</b>	<b>\$1,587</b>	<b>\$1,770</b>	<b>\$1,882</b>	<b>\$1,969</b>	<b>\$2,066</b>	<b>\$2,145</b>	<b>\$2,223</b>	<b>\$2,312</b>	<b>\$2,397</b>
Readiness-to-Serve Charge (\$M)	\$167	\$167	\$185	\$194	\$220	\$228	\$231	\$235	\$246	\$255	\$271
Capacity Charge (\$/cfs)	\$11,200	\$10,800	\$12,800	\$13,200	\$15,300	\$15,600	\$15,600	\$15,600	\$15,800	\$15,800	\$15,900
<b>Overall Rate Increase</b>	<b>5%</b>	<b>13%</b>	<b>8%</b>	<b>12.0%</b>	<b>8.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>4.0%</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.

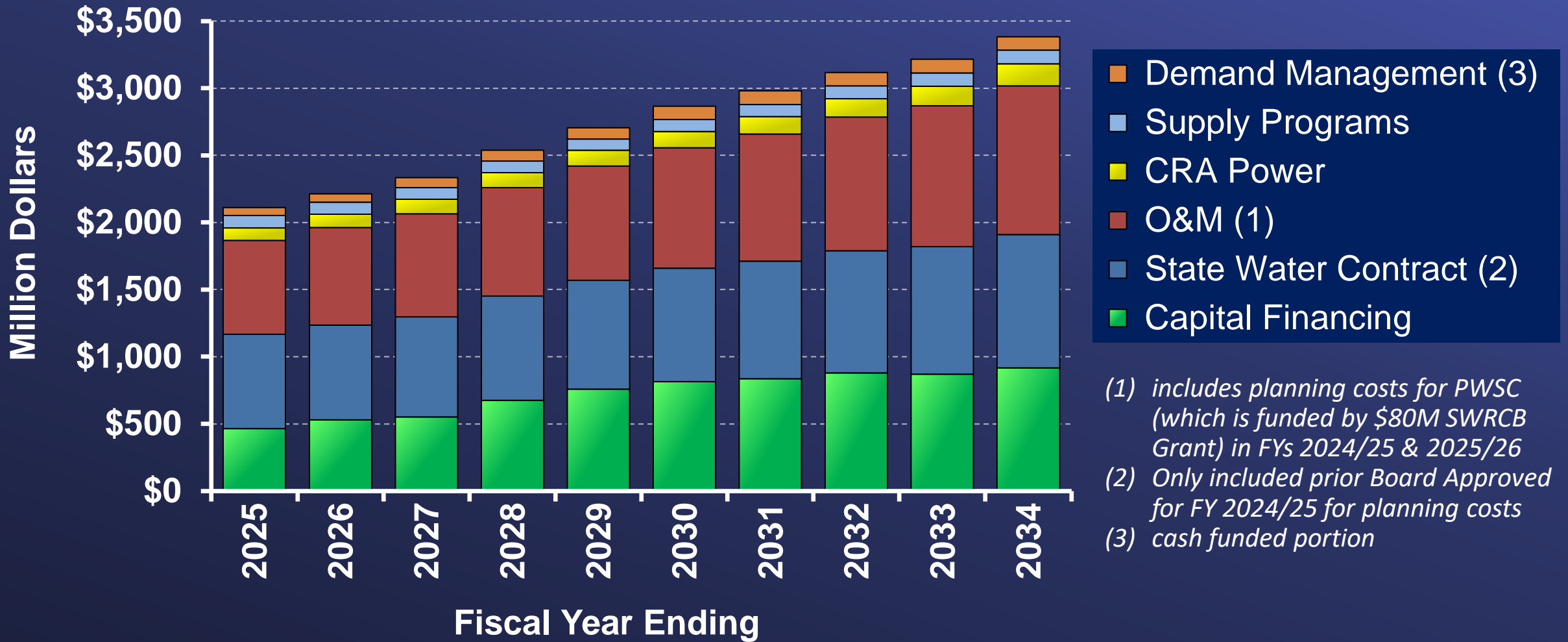
\* based on Tier 1 for 2024

# Revenue Trend



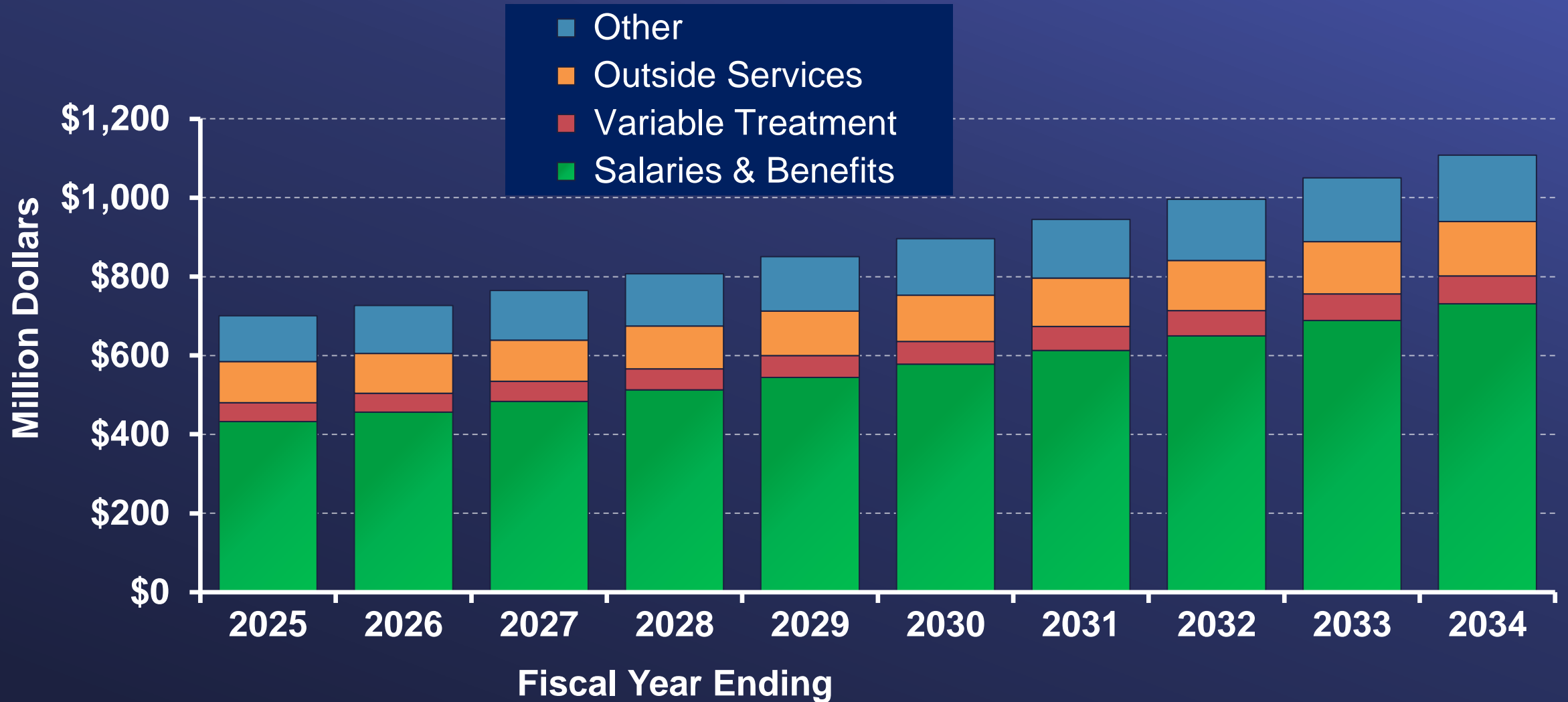
*\*from water sales and exchange with Proposed and Projected Rate Increases*  
*\*\* includes revenues from power sales, new grants, IRA Bucket 1 (for 2025 & 2026), and miscellaneous revenues*

# Expenditure Trend

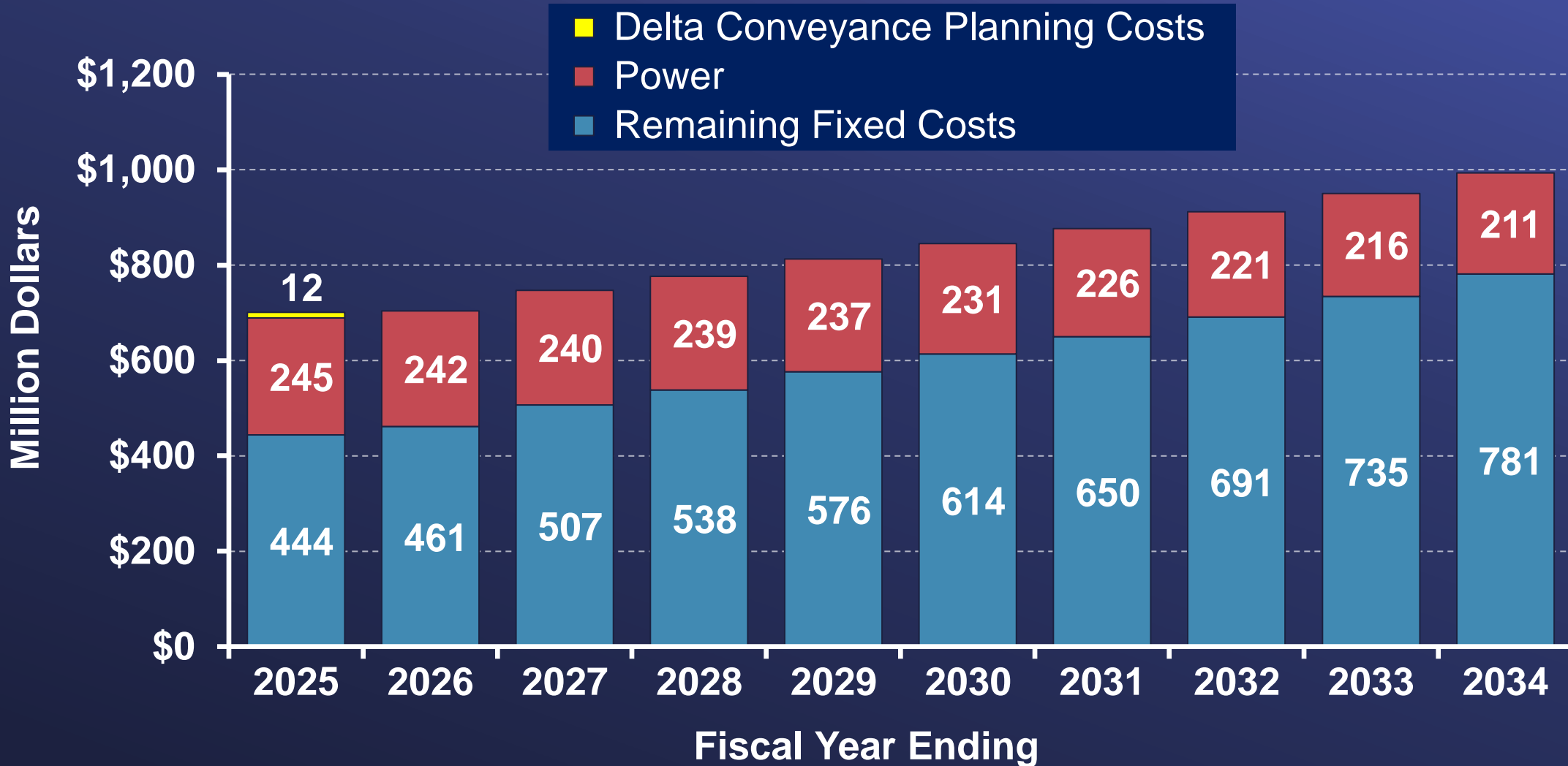


(1) includes planning costs for PWSC (which is funded by \$80M SWRCB Grant) in FYs 2024/25 & 2025/26  
 (2) Only included prior Board Approved for FY 2024/25 for planning costs  
 (3) cash funded portion

# O&M Forecast



# State Water Contract Forecast

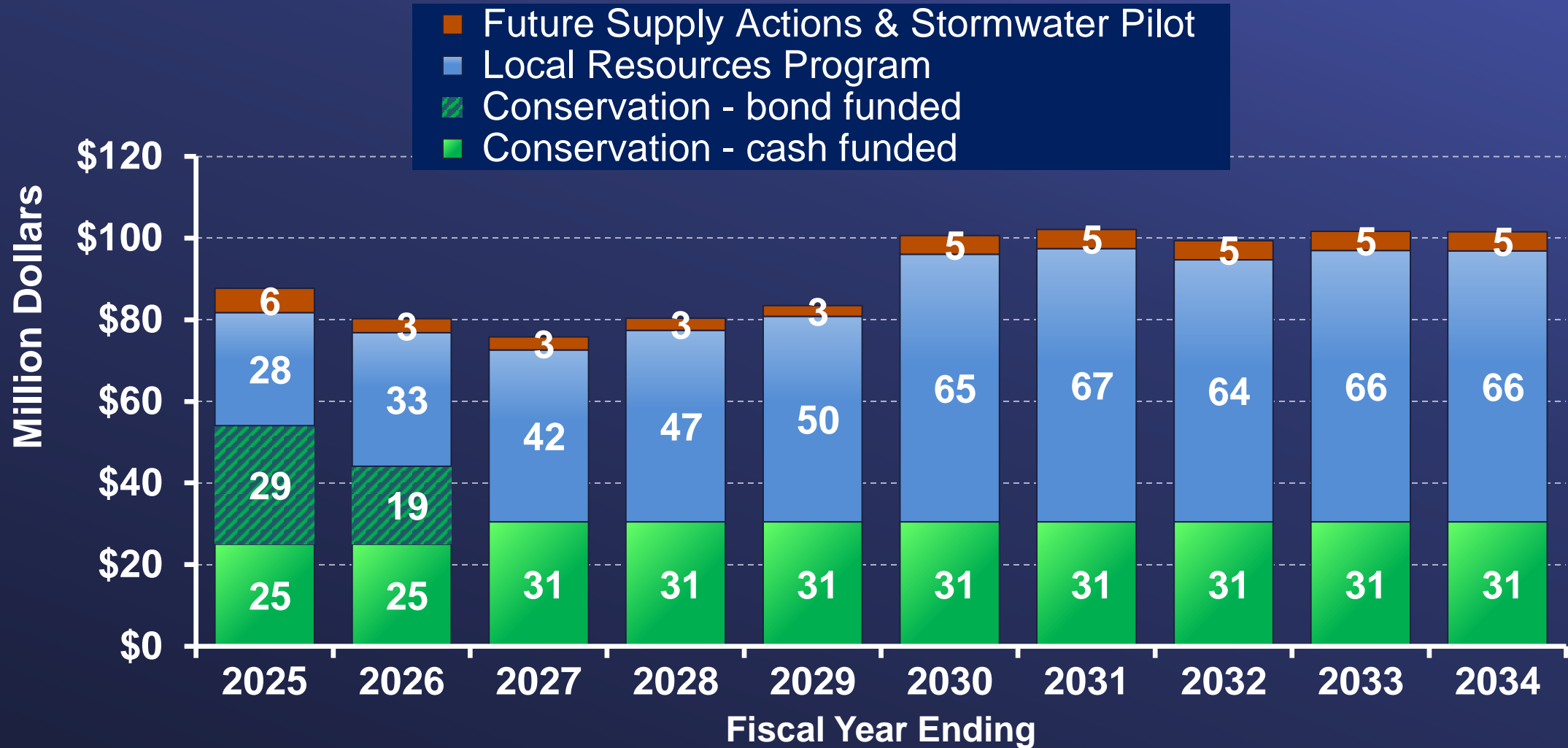




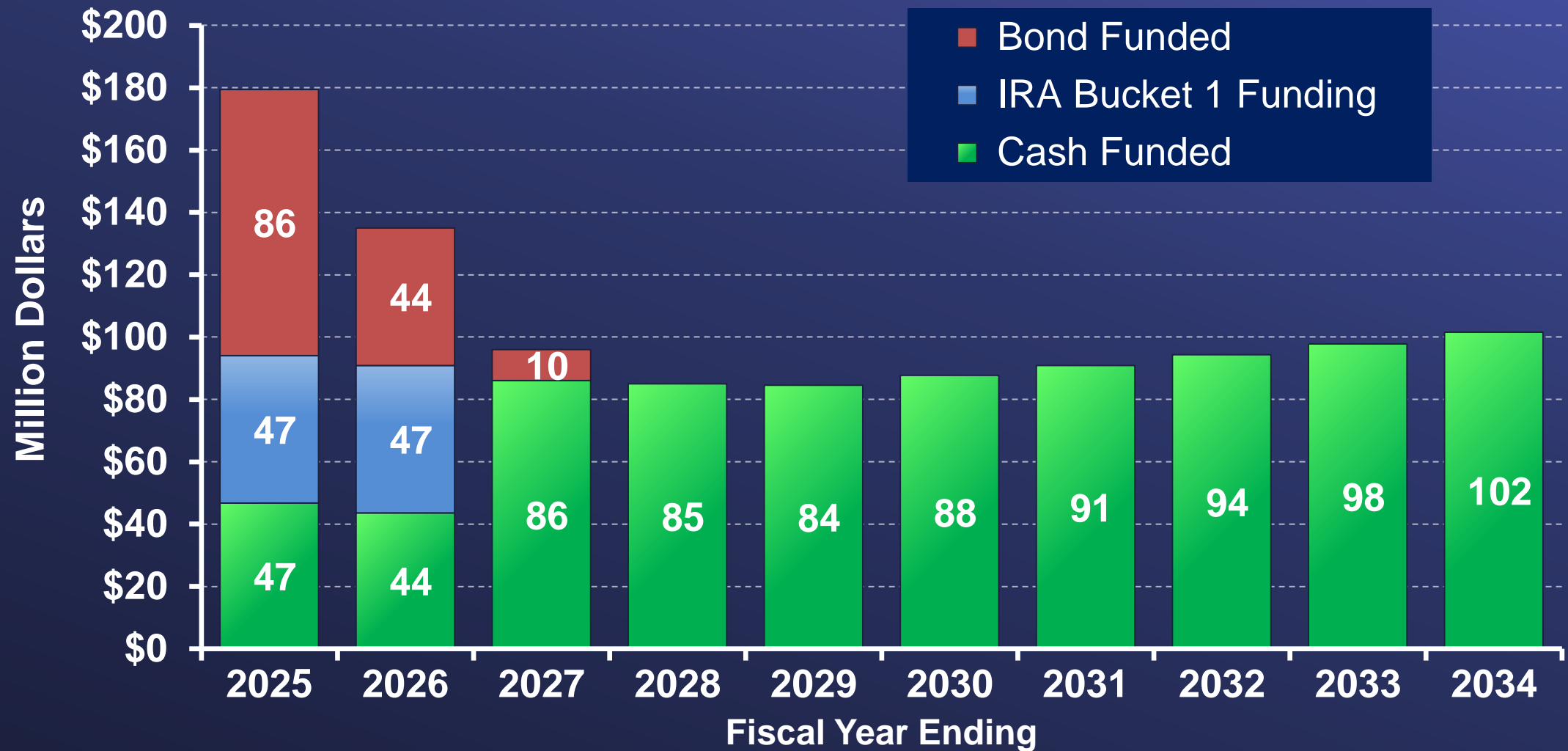
# Colorado River Aqueduct Power Forecast



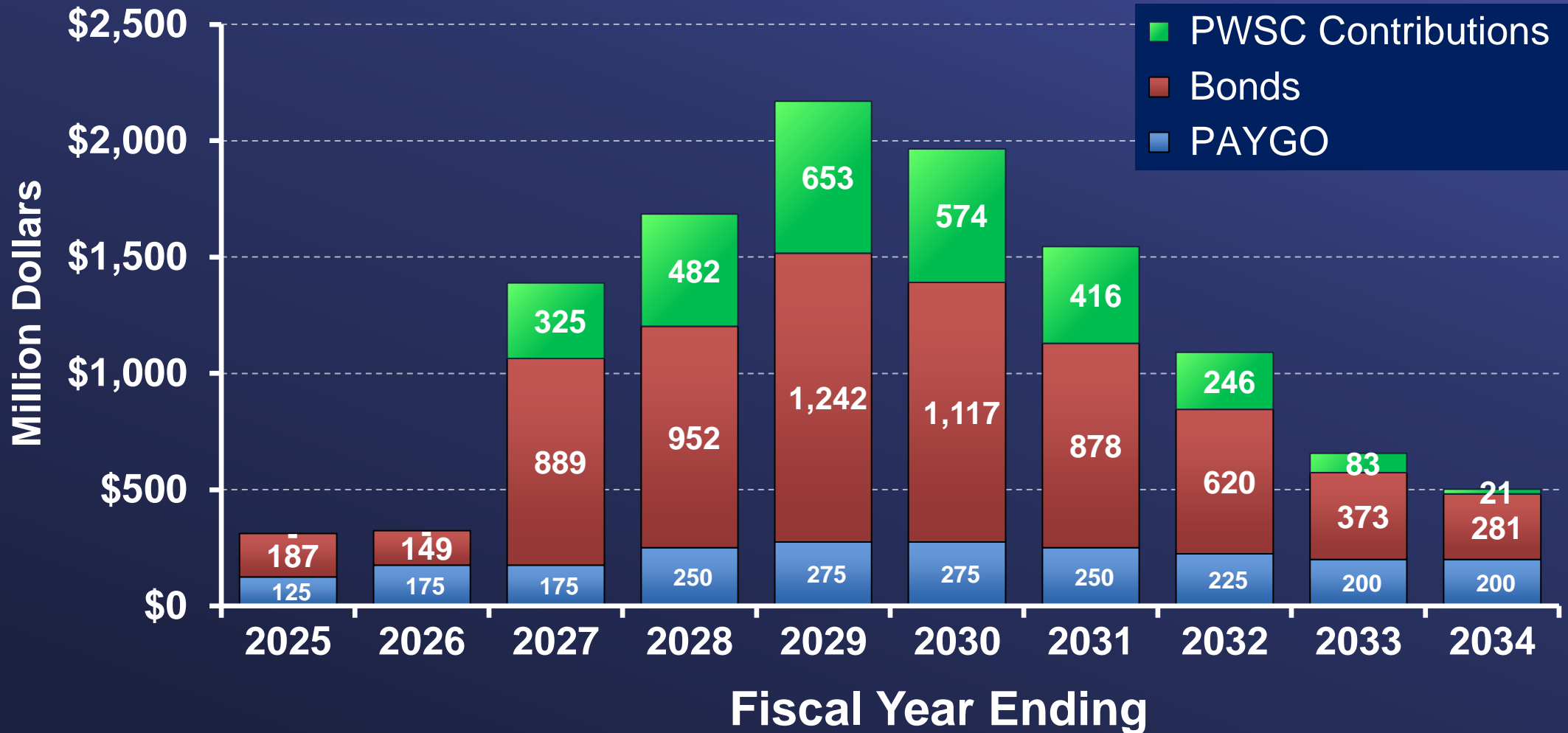
# Demand Management Forecast



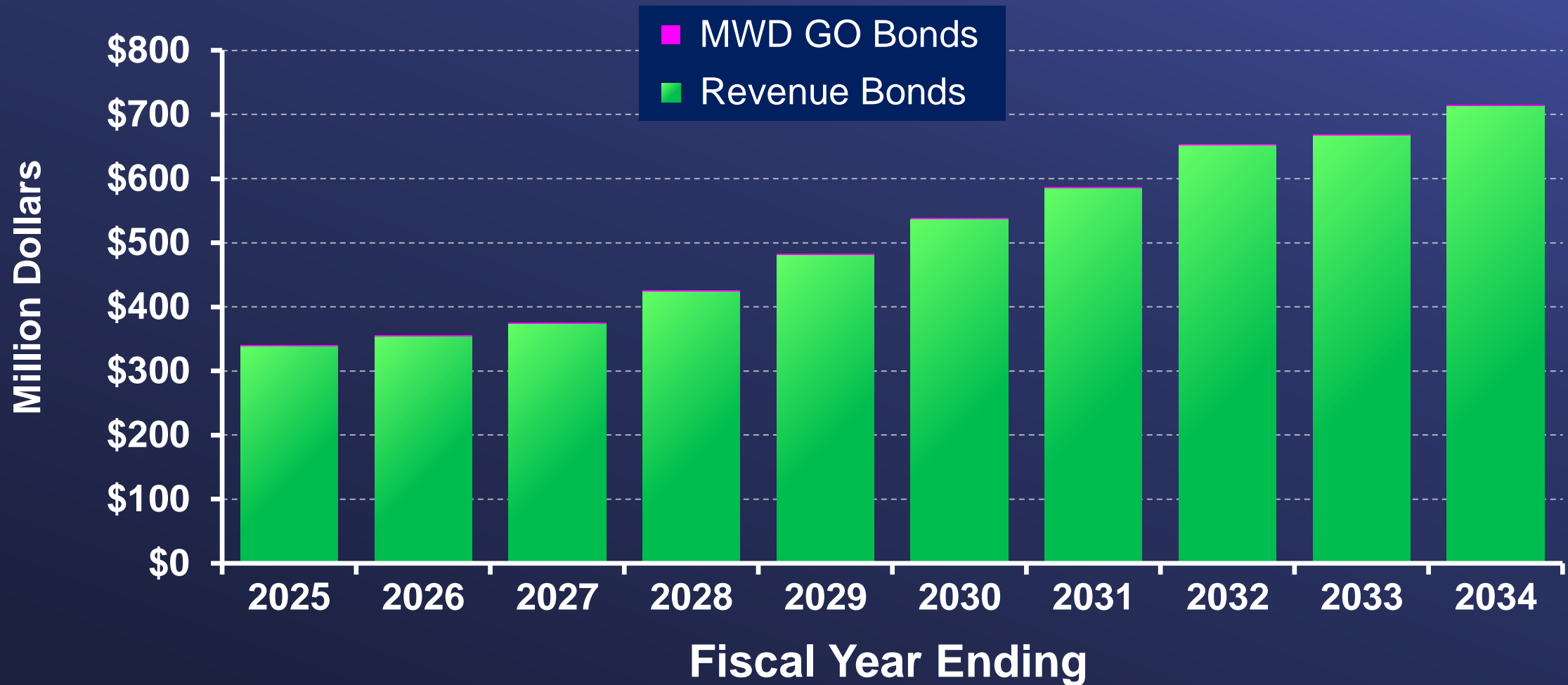
# Supply Program Funding



# Capital Investment Plan Funding

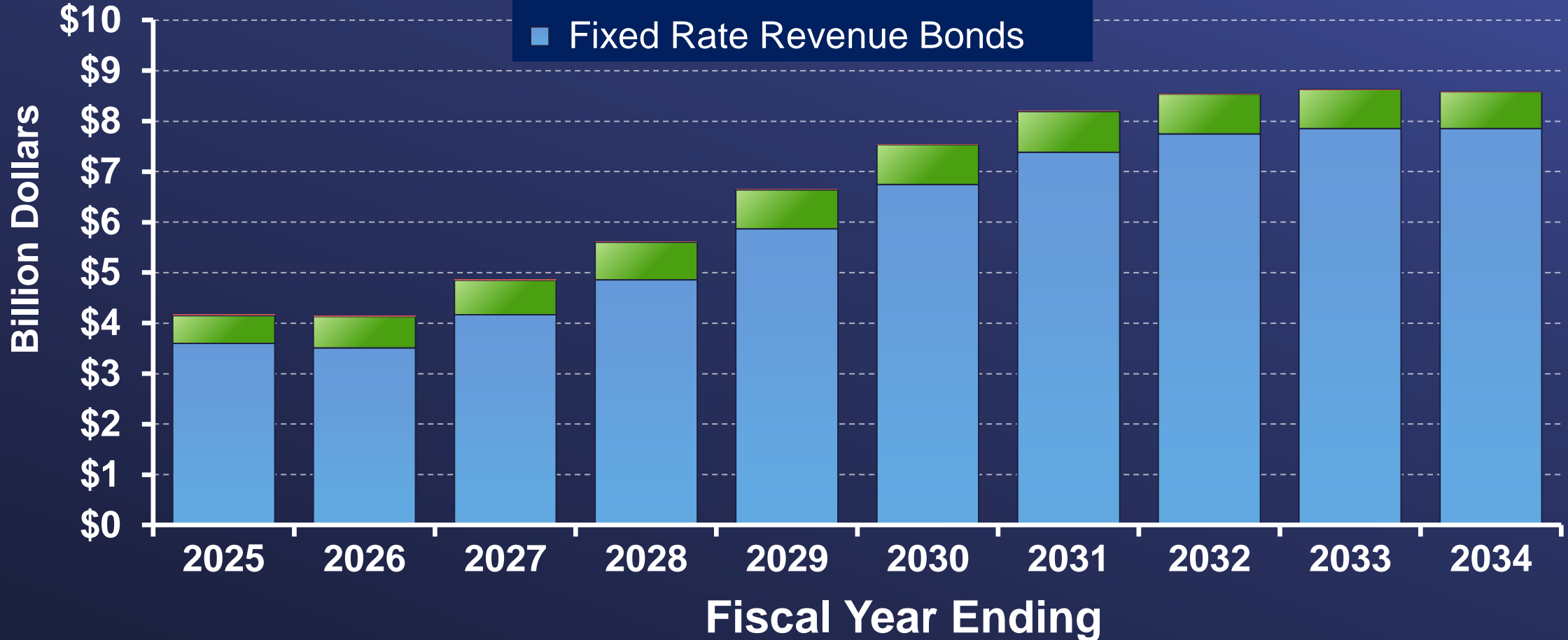


# Debt Service



# Outstanding Debts

- General Obligation Bonds
- Variable Rate Revenue Bonds
- Fixed Rate Revenue Bonds





# Alternative Rate Options

# Alternative rate option #1

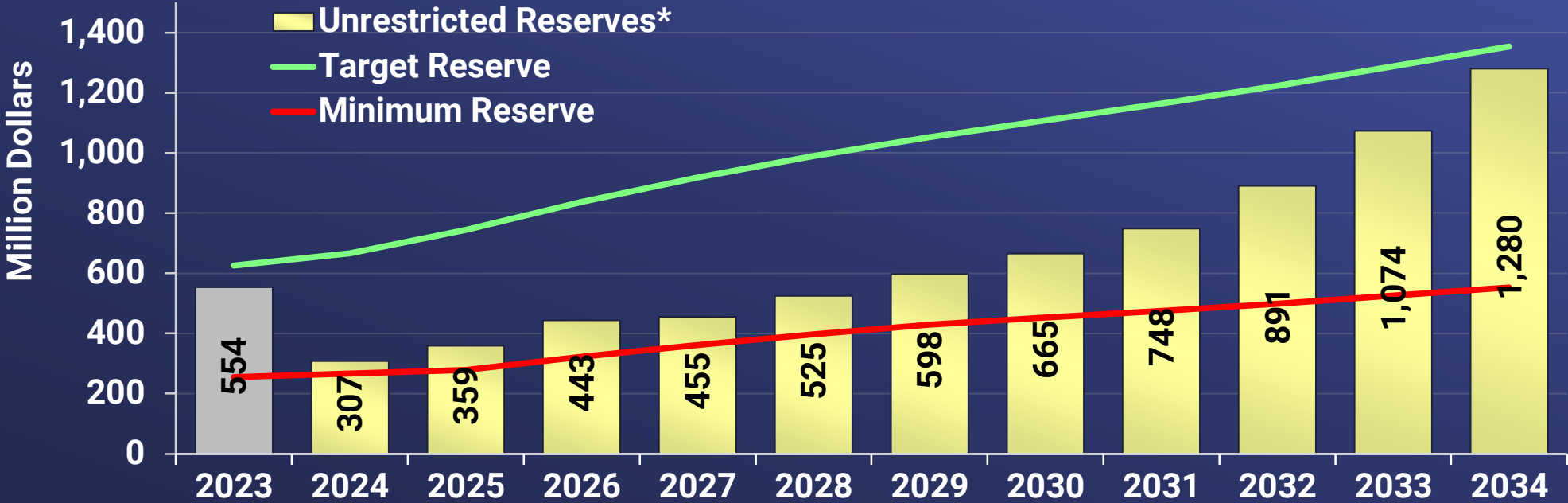
## **Alternative 1: Additional Rate increase in July 2024**

This alternative rate option would add an additional rate increase effective July 1, 2024, six months earlier than the regular schedule. This early rate increase would generate revenues earlier and limit the draws from unrestricted reserves resulting from low water transactions. In addition, the early rate increase will reduce the regular January rate increases for 2025 and 2026, down from 13% and 8% to 7% and 7%.

**Earlier increases would produce additional revenues within the fiscal year and reduce the draw down on unrestricted reserves**

# Alternative 1: Additional Rate increase in July 2024

7% July 2024, 7% Jan 2025, 7% Jan 2026



\* 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
<b>Overall Rate Inc.</b>	5%	5%	7%/7%	7.0%	12.0%	8.0%	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%
<b>Water Transactions (MAF)**</b>	1.42	1.17	1.44	1.44	1.44	1.45	1.46	1.46	1.47	1.49	1.51	1.53
<b>Rev. Bond Cvg</b>	1.5	1.1	1.6	1.9	1.7	1.9	1.9	1.8	1.7	1.6	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

# Alternative rate option #2

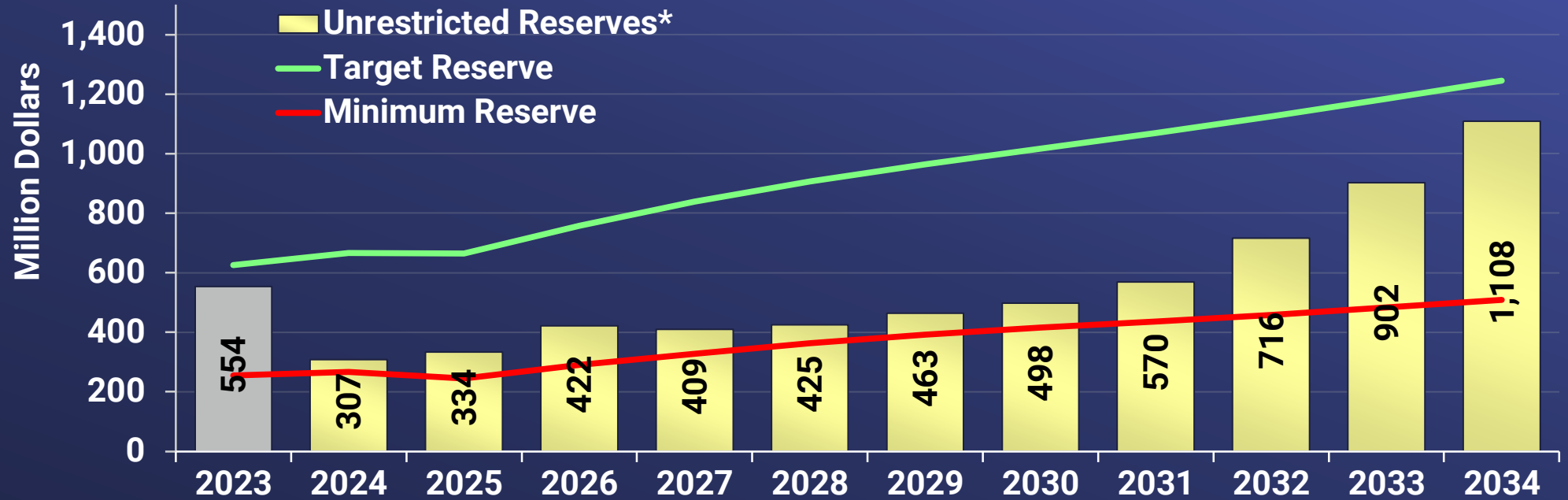
## **Alternative 2: Increase the existing Ad-Valorem Property Tax Rate**

This alternative rate option would increase the existing ad-valorem property tax rate from 0.0035% to 0.007% effective July 1, 2024. This would recover a larger share of State Water Contract (SWC) expenditures from property taxes and reduce the pressure on our volumetric rates and charges. At the increased rate, the property tax is estimated to generate \$317M in FY 2024/25, an increase of \$121M over the 0.0035% tax rate. This would enable the overall rate increase for Jan 2025 and Jan 2026 to be 7% and 6%, respectively, as was estimated in the previous budget cycle.

**Additional property tax revenues would cover a larger share of Metropolitan's fixed State Water Contract costs, reduce the fiscal impact of water transaction volatility, improve Metropolitan's financial sustainability, and better enable Metropolitan to invest in climate resiliency initiatives.**

# Alternative 2: Increase the existing Ad-Valorem Property Tax Rate

Increase FY2024/25 Ptax rate to 0.007% (100% increase from current 0.0035%)



\* 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
<b>Overall Rate Inc.</b>	5%	5%	7.0%	6.0%	10.0%	10.0%	5.0%	5.0%	5.0%	4.0%	4.0%	4.0%
<b>Water Transactions (MAF)**</b>	1.42	1.17	1.44	1.44	1.44	1.45	1.46	1.46	1.47	1.49	1.51	1.53
<b>Rev. Bond Cvg</b>	1.5	1.1	1.7	1.9	1.7	1.8	1.8	1.7	1.7	1.7	1.7	1.6
<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

# Alternative rate option #3

## Alternative 3: Reduce Conservation

This alternative rate option would lower the rate increase by reducing the conservation program for 3 years and then increasing it back to \$30.5M/yr. This would eliminate the need to issue an additional \$48M of debt during the biennium.

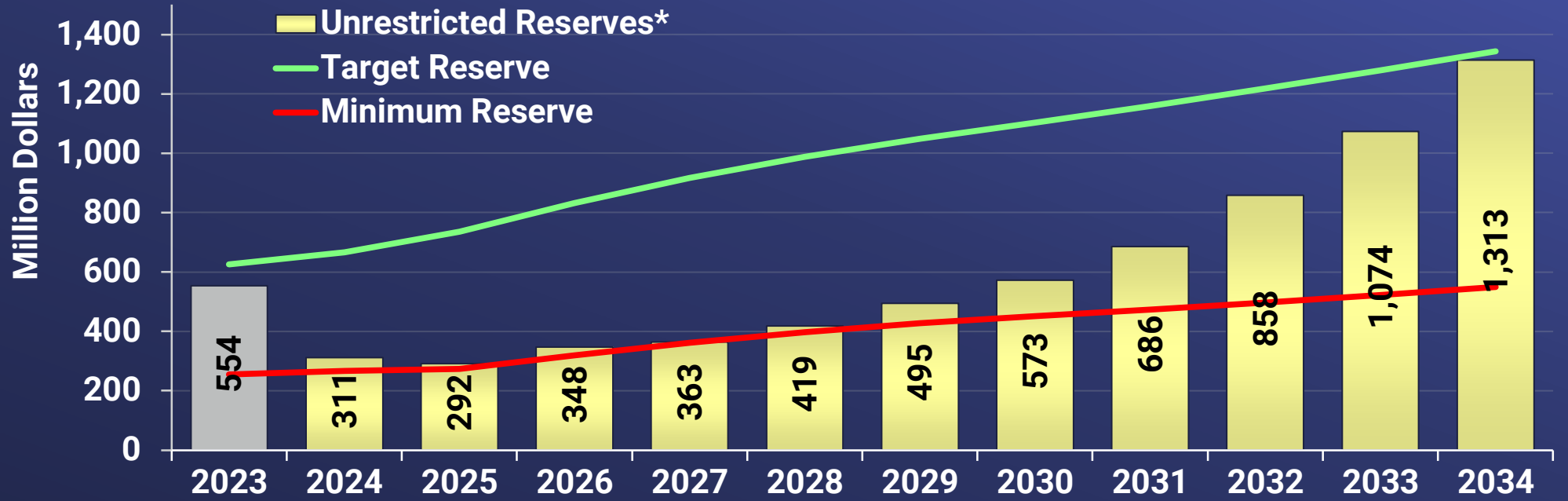
Fiscal Year Ending	Proposed Budget \$M	Alt #3 \$M
2025	54.1	15
2026	44.2	5
2027	30.5	5
2028	30.5	30.5
2029	30.5	30.5
2030	30.5	30.5
2031	30.5	30.5
2032	30.5	30.5
2033	30.5	30.5
2034	30.5	30.5

- Some of the conservation funds for the FY 2024/25 and FY 2025/06 budget are committed funds from prior years. The \$15M in FY2024/25 is expected to cover those expenditures.
- 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 down to only the committed expenditures will disqualify MWD from some of the grant awards.



# Alternative rate option #3

## Reduce the conservation program for 3 years



\* Revenue Remainder and Water Rate Stabilization Fund

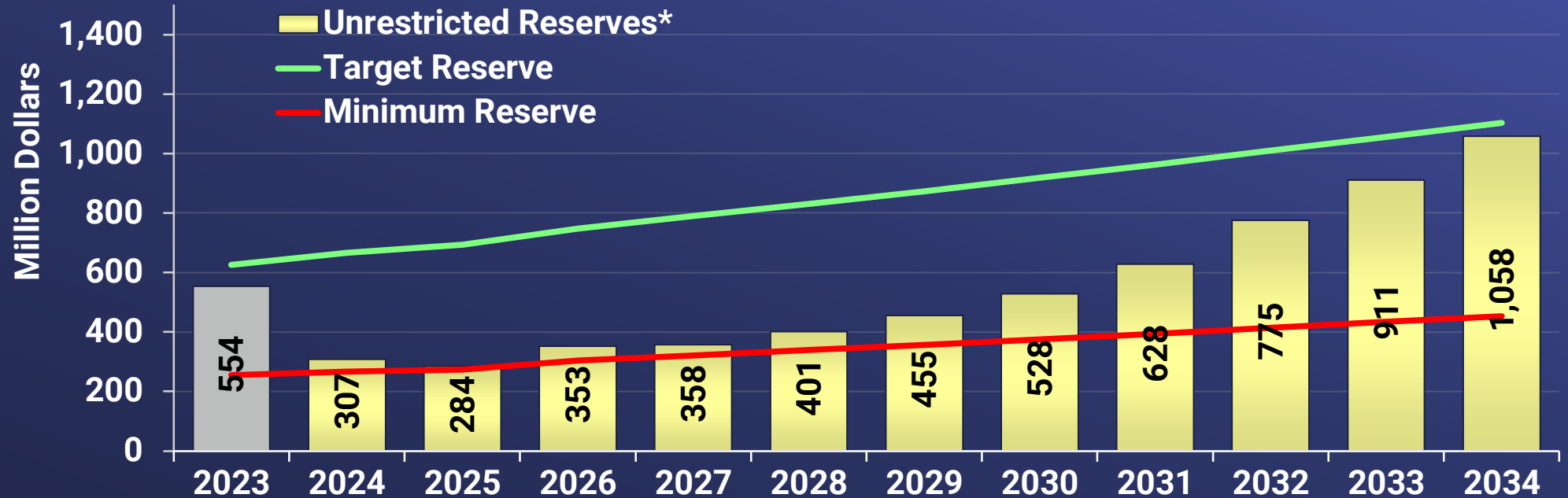
\*\* Includes water sales, exchanges and wheeling

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
<b>Overall Rate Inc.</b>	5%	5%	10.0%	10.0%	12.0%	9.0%	5.0%	5.0%	4.0%	4.0%	4.0%	4.0%
<b>Water Transactions (MAF)**</b>	1.42	1.17	1.44	1.44	1.44	1.45	1.46	1.46	1.47	1.49	1.51	1.53
<b>Rev. Bond Cvg</b>	1.5	1.1	1.4	1.8	1.8	1.9	1.9	1.8	1.8	1.7	1.8	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

# Scenario: 10-Year Forecast without PWSC

# FY 2024/25 & FY 2025/26 Budget without PWSC Project

## Projected Rate Increases and Financial Metrics

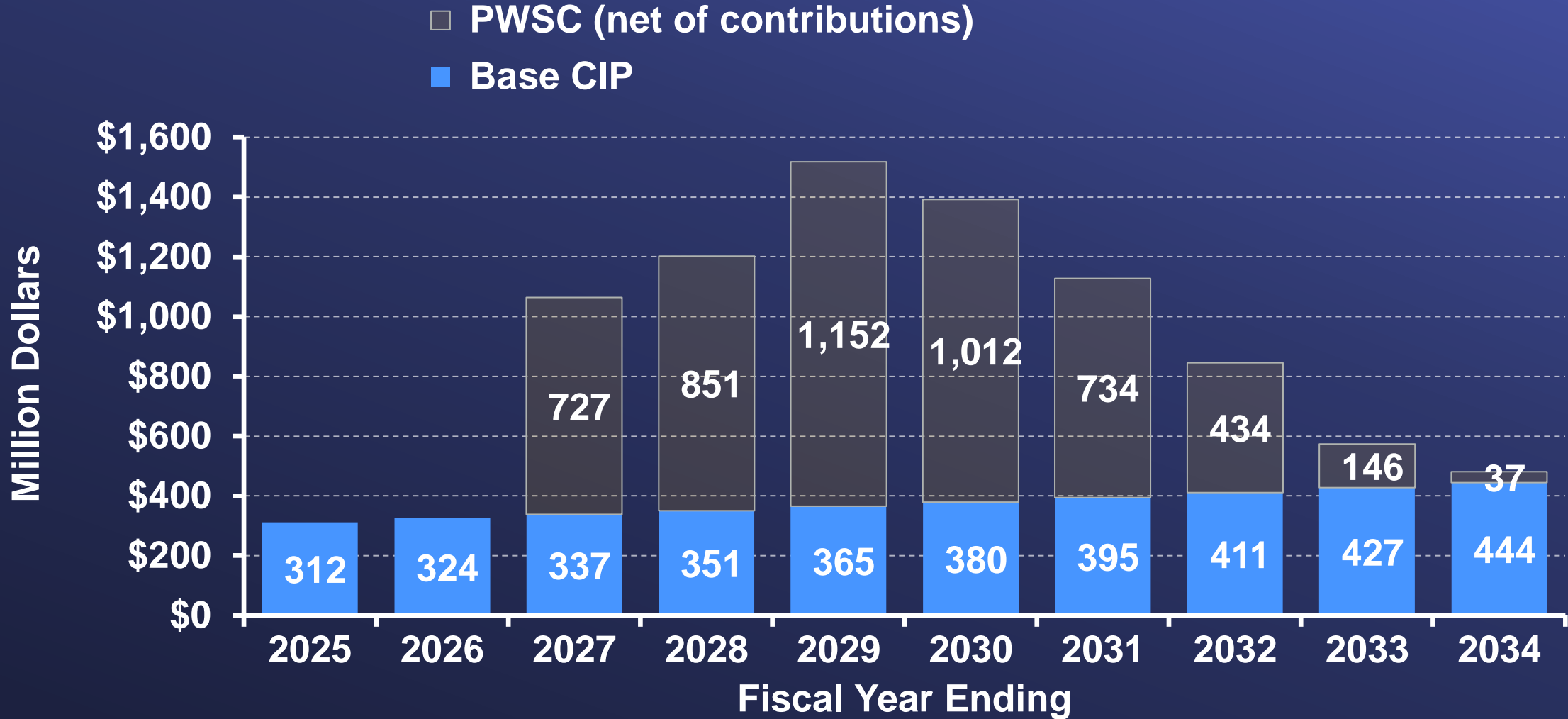


\* Revenue Remainder and Water Rate Stabilization Fund

\*\* Includes water sales, exchanges and wheeling

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
<b>Overall Rate Inc.</b>	5%	5%	13.0%	8.0%	6.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
<b>Water Transactions (MAF)**</b>	1.42	1.17	1.44	1.44	1.44	1.45	1.46	1.46	1.47	1.49	1.51	1.53
<b>Rev. Bond Cvg</b>	1.5	1.1	1.4	1.8	1.7	1.7	1.7	1.8	1.9	2.0	2.2	2.1
<b>CIP, \$M</b>	247	353	312	324	337	351	365	380	395	411	427	444
<b>PAYGO, \$M</b>	135	35	125	175	175	182	189	197	205	213	222	231

# 10-Year Forecast without PWSC Project



# 2020 IRP Needs Assessment

## Scenario Descriptions

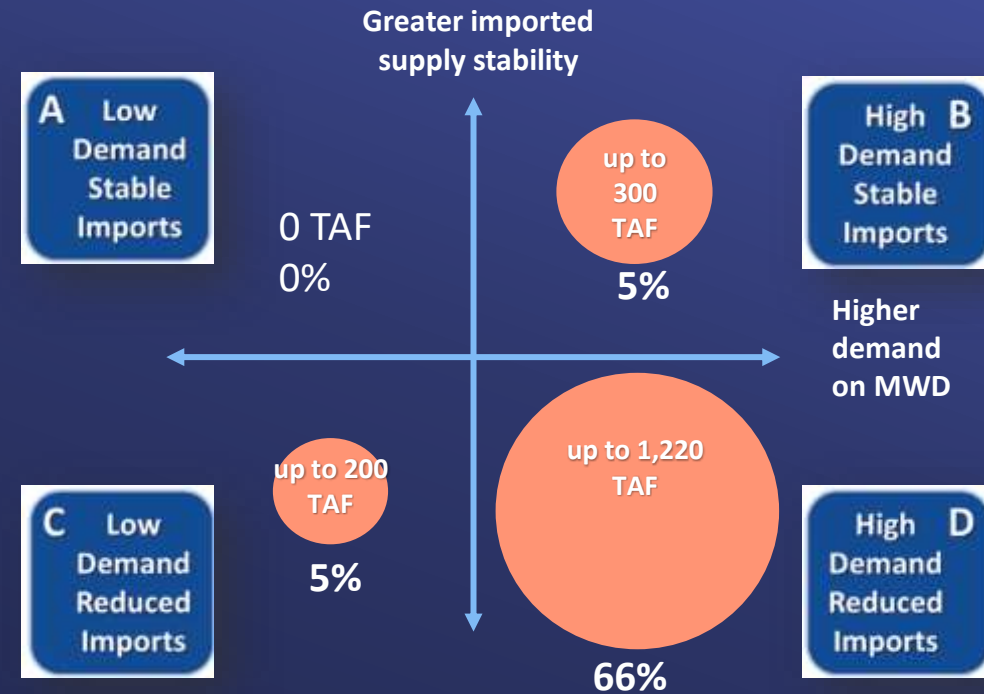
**Scenario A – Low Demand/Stable Imports:** Gradual climate change impacts, low regulatory impacts, and slow economic growth.

**Scenario B – High Demand/Stable Imports:** Gradual climate change impacts, low regulatory impacts, high economic growth.

**Scenario C – Low Demand/Reduced Imports:** Severe climate change impacts, high regulatory impacts, slow economic growth.

**Scenario D – High Demand/Reduced Imports:** Severe climate change impacts, high regulatory impacts, and high economic growth.

## Summary Matrix of IRP Scenario Results\*



*\*Max Magnitude of Supply Gap (TAF) and Frequency (%) of a Net Shortage in 2045*

# Next Steps

- 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)
- By Feb 23, 2024 Notice to member agencies regarding public hearing and proposed adoption of fixed charges
- Feb 27, 2024 FAIRP Committee, Workshop #2
- Mar 12, 2024 FAIRP Committee, Workshop #3
- Mar 12, 2024 Public hearing on proposed rates and charges
- Mar 26, 2024 FAIRP Committee, Workshop #4, if needed
- Apr 8, 2024 FAIRP Committee, Recommend Biennial Budget and Calendar Year rates and charges
- April 9, 2024 Board **action** regarding biennial budget and Calendar Year rates and charges
- May 13, 2024 Board **action** regarding continuation of Standby Charge for FY 2024/25
- August 20, 2024 Board **action** regarding fixing ad valorem property taxes for FY 2024/25





# Median Home Value

- The median home value for owner-occupied units in Metropolitan’s service area ranges from a low of \$504,400 in San Bernardino County to a high of \$940,900 in Orange County
- The annual property taxes paid under Metropolitan’s current property tax rate for the median home ranges from \$17.91 to \$33.40
- Under the alternative analyzed, the property taxes paid on a median valued home would increase to a range of \$35.31 to \$65.86 annually

County	Median Home Value[1]	Property Tax	
		Median Paid (.0035%)	Median Paid (.007%)
Los Angeles County	\$805,600	\$28.60	\$56.39
Orange County	\$940,900	\$33.40	\$65.86
Riverside County	\$555,400	\$19.72	\$38.88
San Bernardino County	\$504,400	\$17.91	\$35.31
San Diego County	\$846,600	\$30.05	\$59.26
Ventura County	\$796,300	\$28.27	\$55.74

[1] US Census Bureau, 2022 American Community Survey, 1-Year Estimates (Owner-Occupied Housing Units)