

Proposed Biennial Budget and Revenue Requirements, Fiscal Years 2016/17 and 2017/18; and Ten-Year Forecast

Finance & Insurance Committee
Item 8a & 8b
February 8, 2016



Proposed Biennial Budget Workshop Presentation Overview

- Overview
- Major Expenditures
- Reserves
- Ten-Year Financial Forecast
- SDCWA exchange agreement set-aside
- Next Steps

Proposed Biennial Budget

Biennial Budget and Rates Process Has Several Objectives

- Adopt a two-year budget, covering fiscal years 2016/17 and 2017/18
- Adopt rates and charges for calendar years 2017 and 2018
- Update ten-year forecast, including the biennial period
 - Water Sales
 - Expenditures
 - Revenues

Summary of Financial Policies

- Maintain AAA/AA+/Aa1 ratings
- Achieve/Maintain coverage ratios
 - Debt service coverage = 2.0
 - Fixed charge coverage = 1.2
- PAYGO funding
 - 60 percent per year
 - Integral to maintaining coverage targets
 - Provides financial flexibility

Overall Rate Increases Since 2007

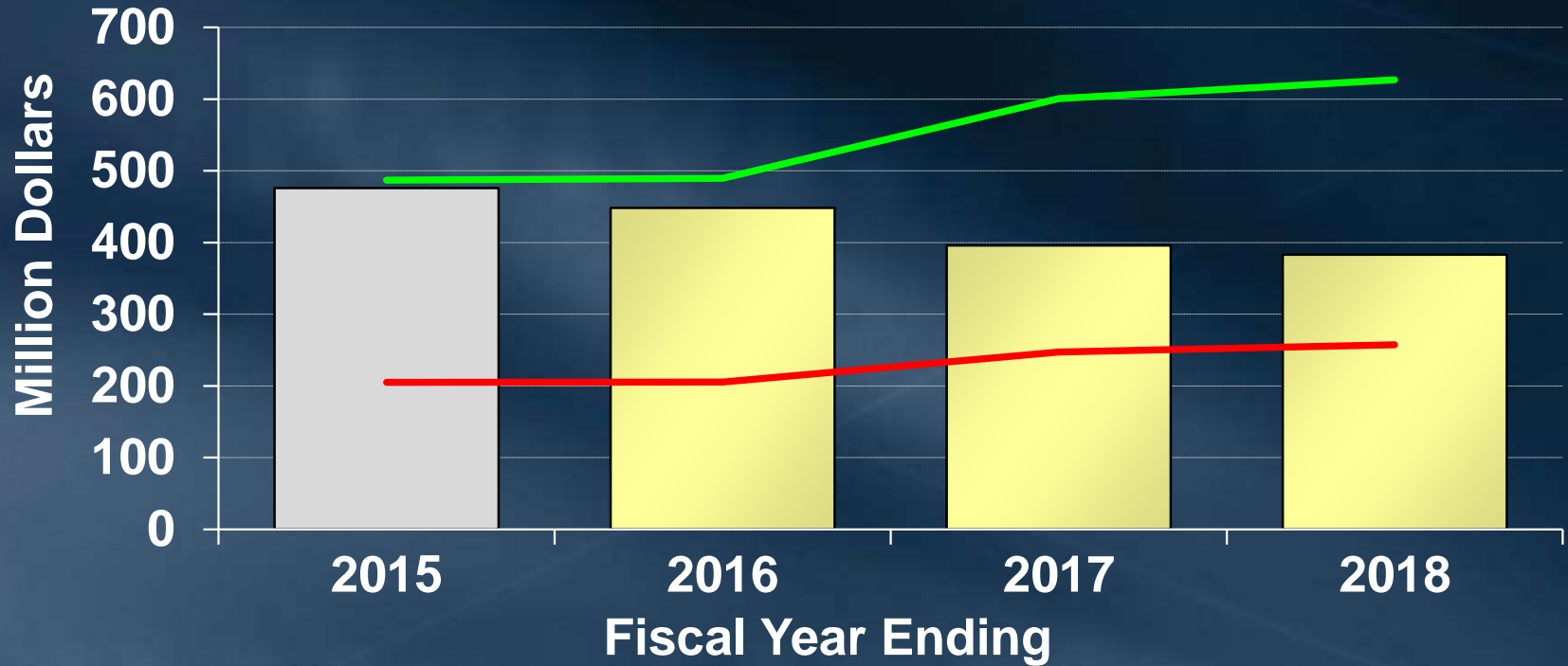


Important Underlying Assumptions

Fiscal Year Ending	2017	2018
Overall increase January 2017 & 2018	4.0%	4.0%
Total Water Sales and Exchanges	1.70 MAF	1.70 MAF
State Water Project Allocation	50%	50%
Colorado River Aqueduct Diversions	1.01 MAF	1.04 MAF
Capital Investment Plan	\$200 M	\$200 M
PAYGO	\$120M	\$120M

Projected Rate Increases & Financial Metrics

■ Unrestricted Reserve
 — Target Reserve
 — Minimum Reserve



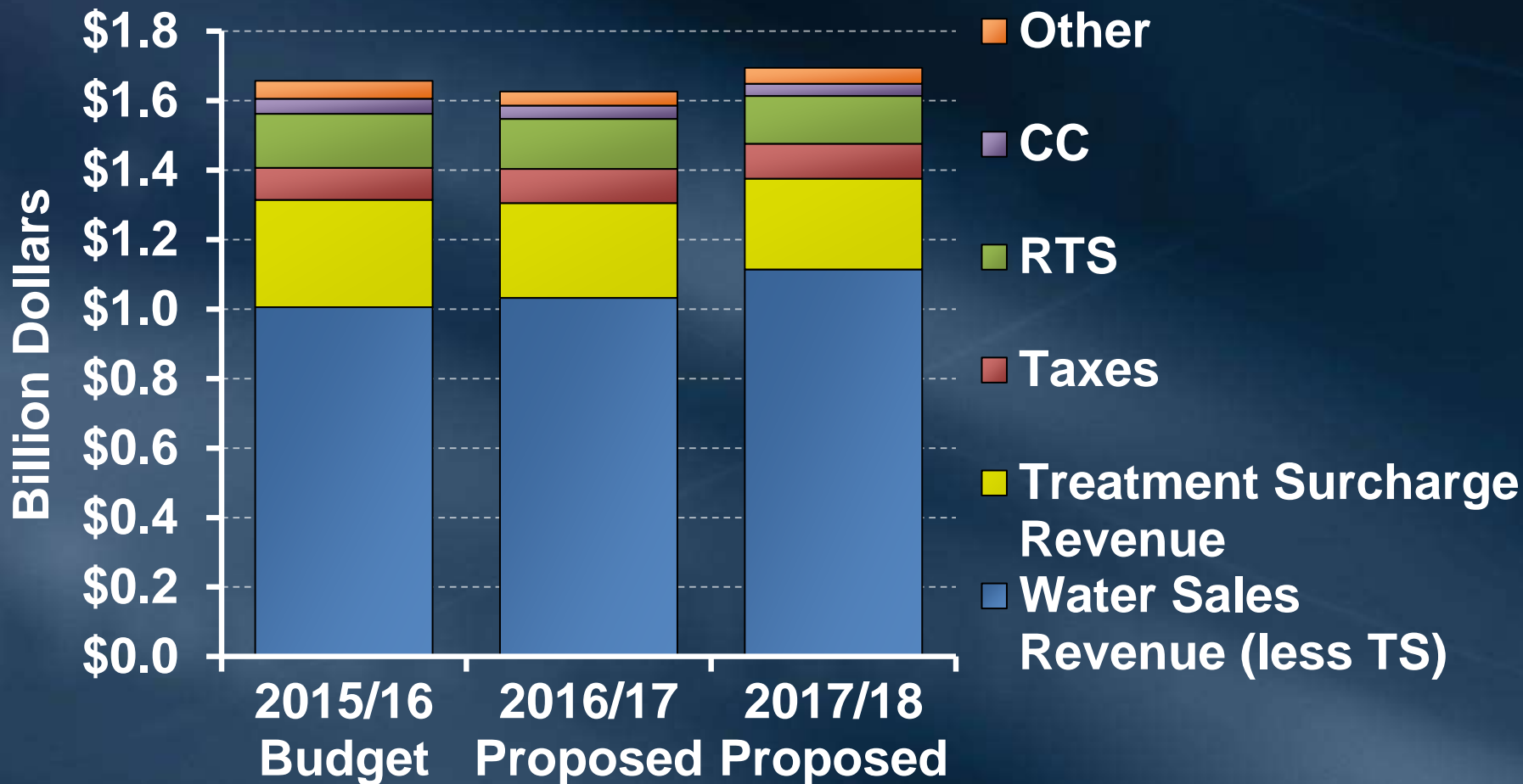
Overall Rate Inc.	1.5%	1.5%	4.0%	4.0%
Sales, MAF	1.90	1.63	1.70	1.70
Rev. Bond Cvg	2.7	1.5	1.6	1.6
Fixed Chg Cvg	2.4	1.3	1.3	1.3
PAYGO, \$M	210	99	120	120

Estimated Full Service Costs and Charges

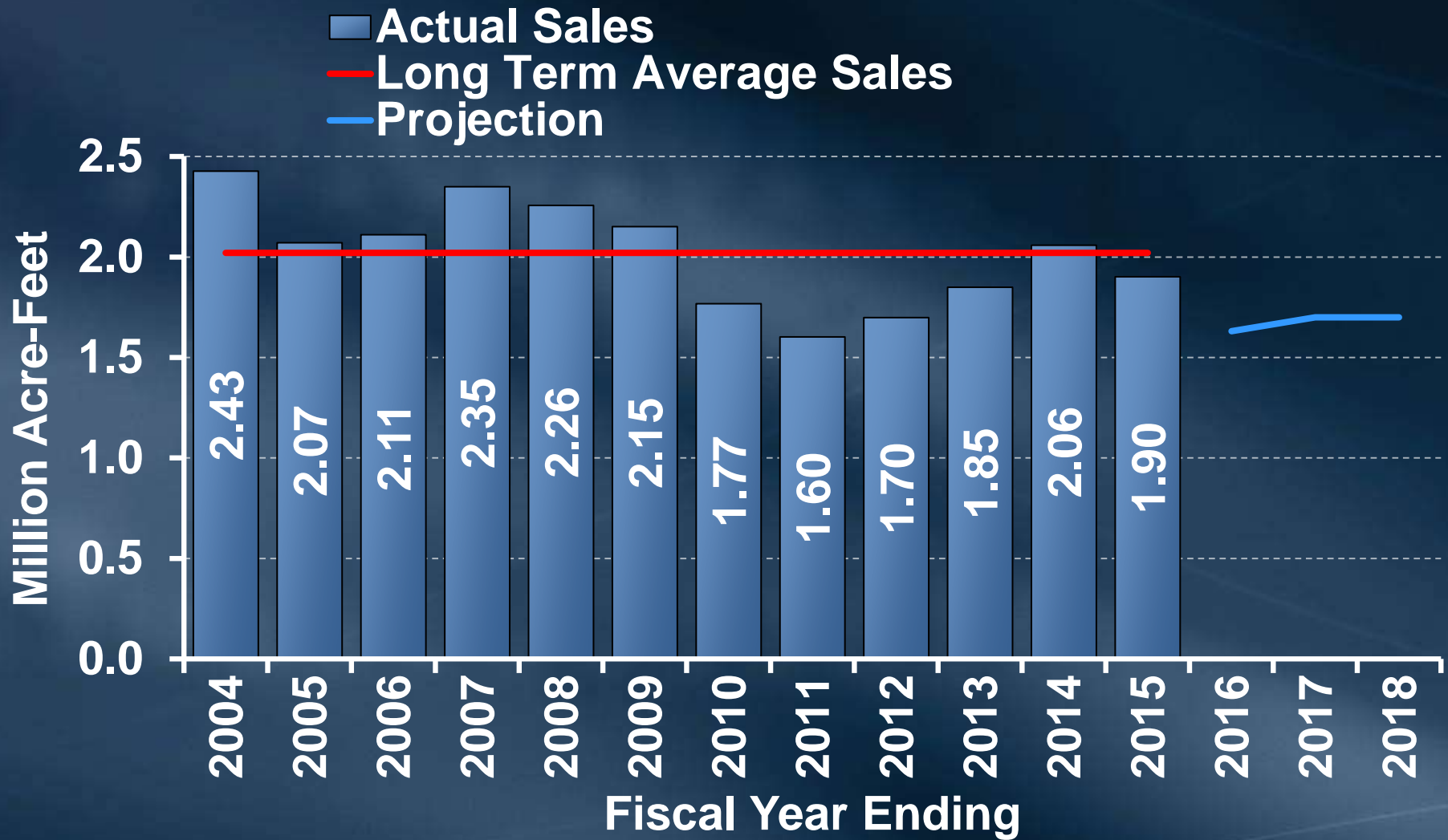
Rate Type	2016 Approved	2017 Estimated	% Increase (Decrease)	2018 Estimated	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$594	\$666	12.1%	\$695	4.4%
Tier 2	\$728	\$760	4.4%	\$781	2.8%
Treatment Surcharge*	\$348	\$313	(10.1%)	\$320	2.2%
Full Service Treated Volumetric Cost (\$/AF)*					
Tier 1	\$942	\$979	3.9%	\$1,015	3.7%
Tier 2	\$1,076	\$1,073	(0.3%)	\$1,101	2.6%
RTS Charge (\$M)	\$153	\$135	(11.8%)	\$140	3.7%
Capacity Charge (\$M)	\$43	\$34	(21.5%)	\$37	8.8%

*A proposal will be presented to the Board for consideration to address fixed cost recovery of Treatment costs which are currently only recovered through a volumetric rate.

Revenue Trend



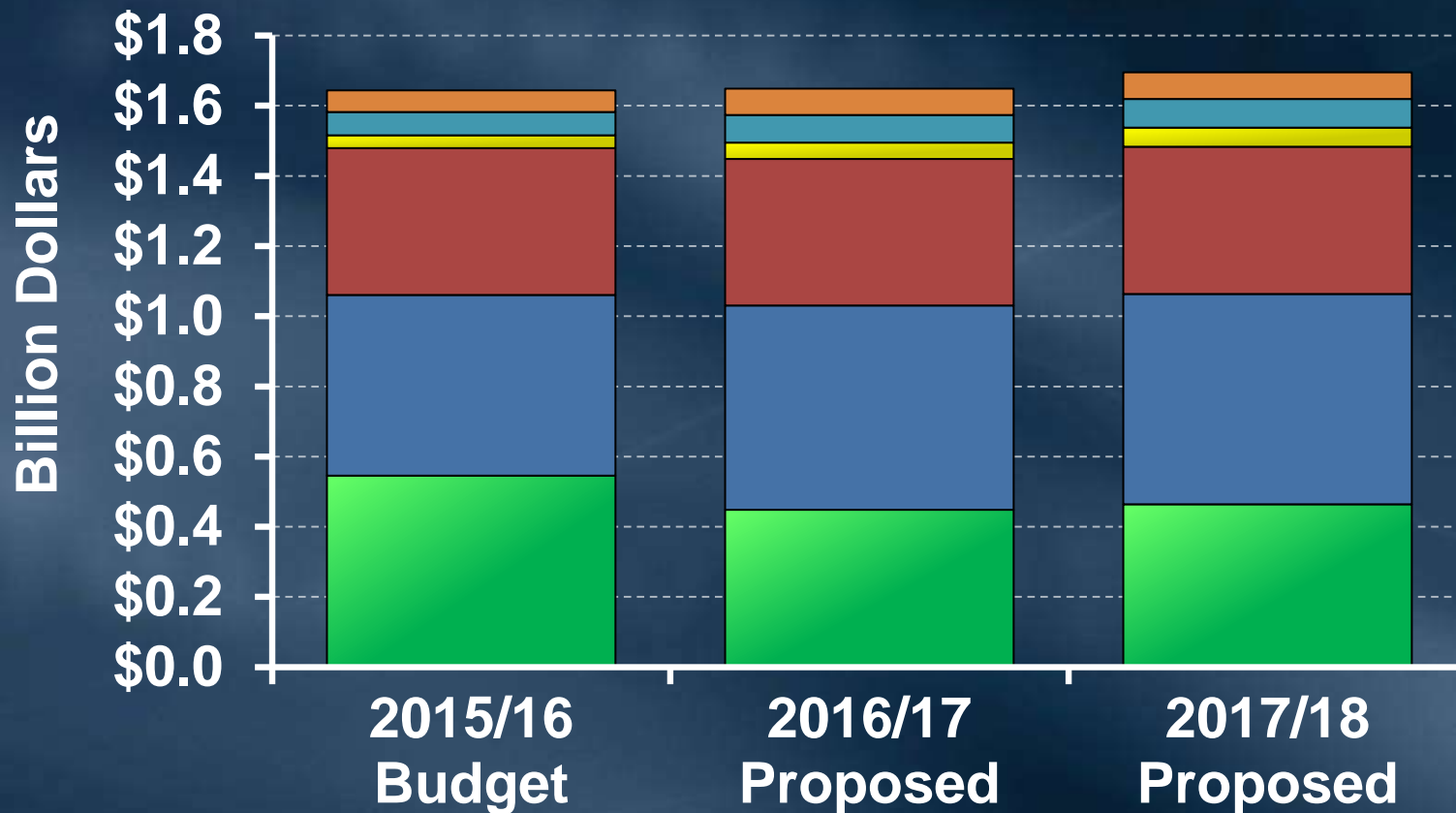
Water Sales*



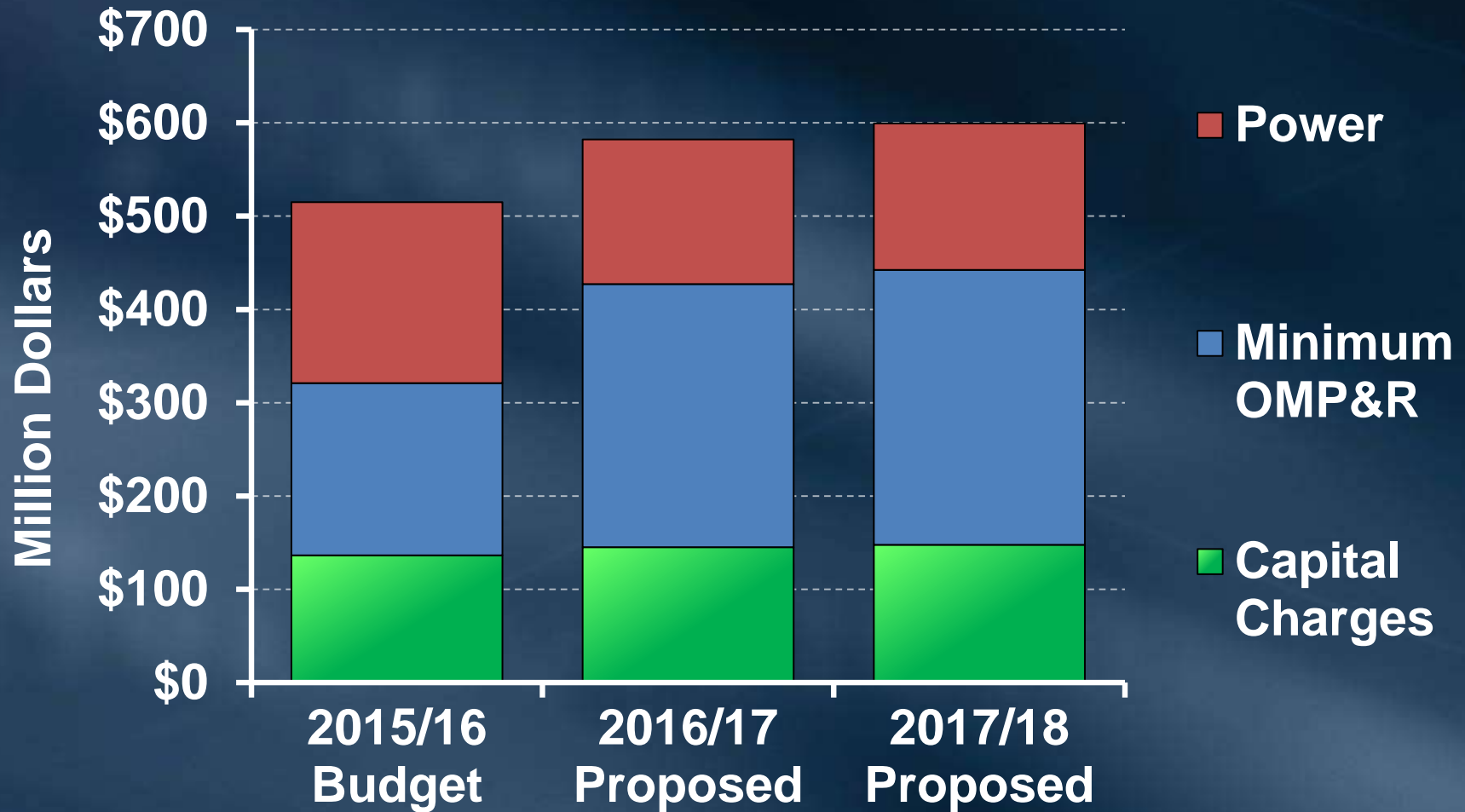
* Includes Exchange

Expenditure Trend

- Demand Management
- Colorado River Power
- State Water Contract
- Supply Programs
- O&M
- Capital Financing

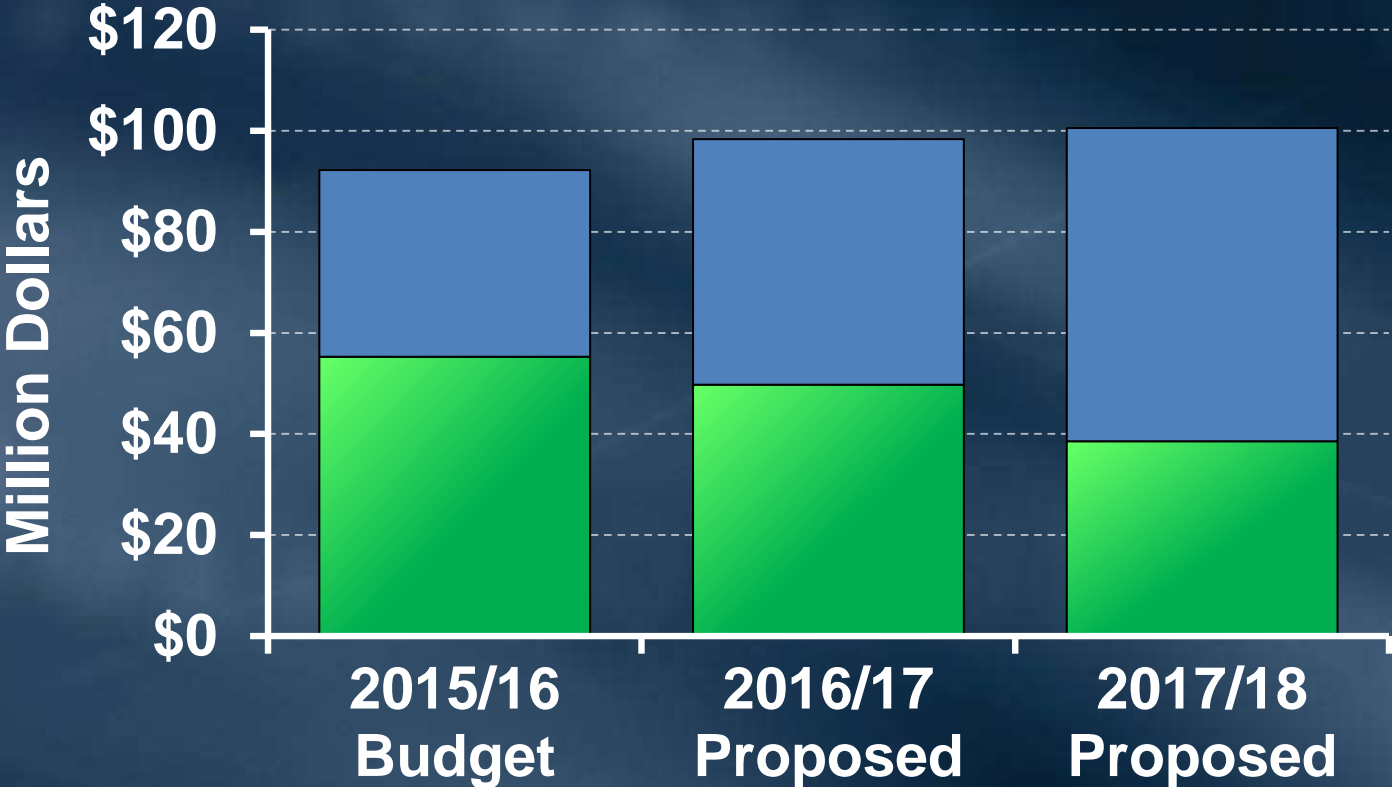


State Water Contract

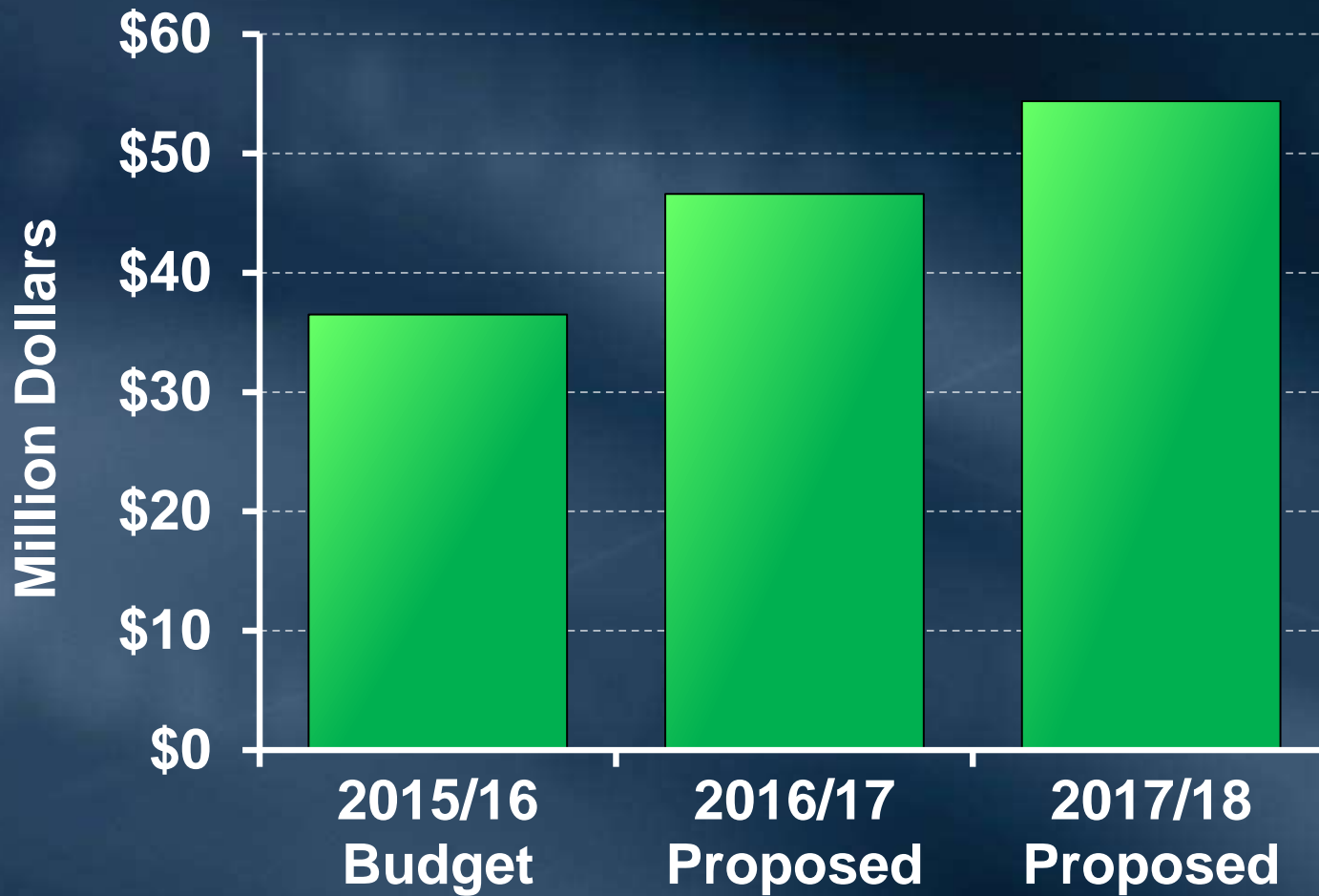


Tax Collected

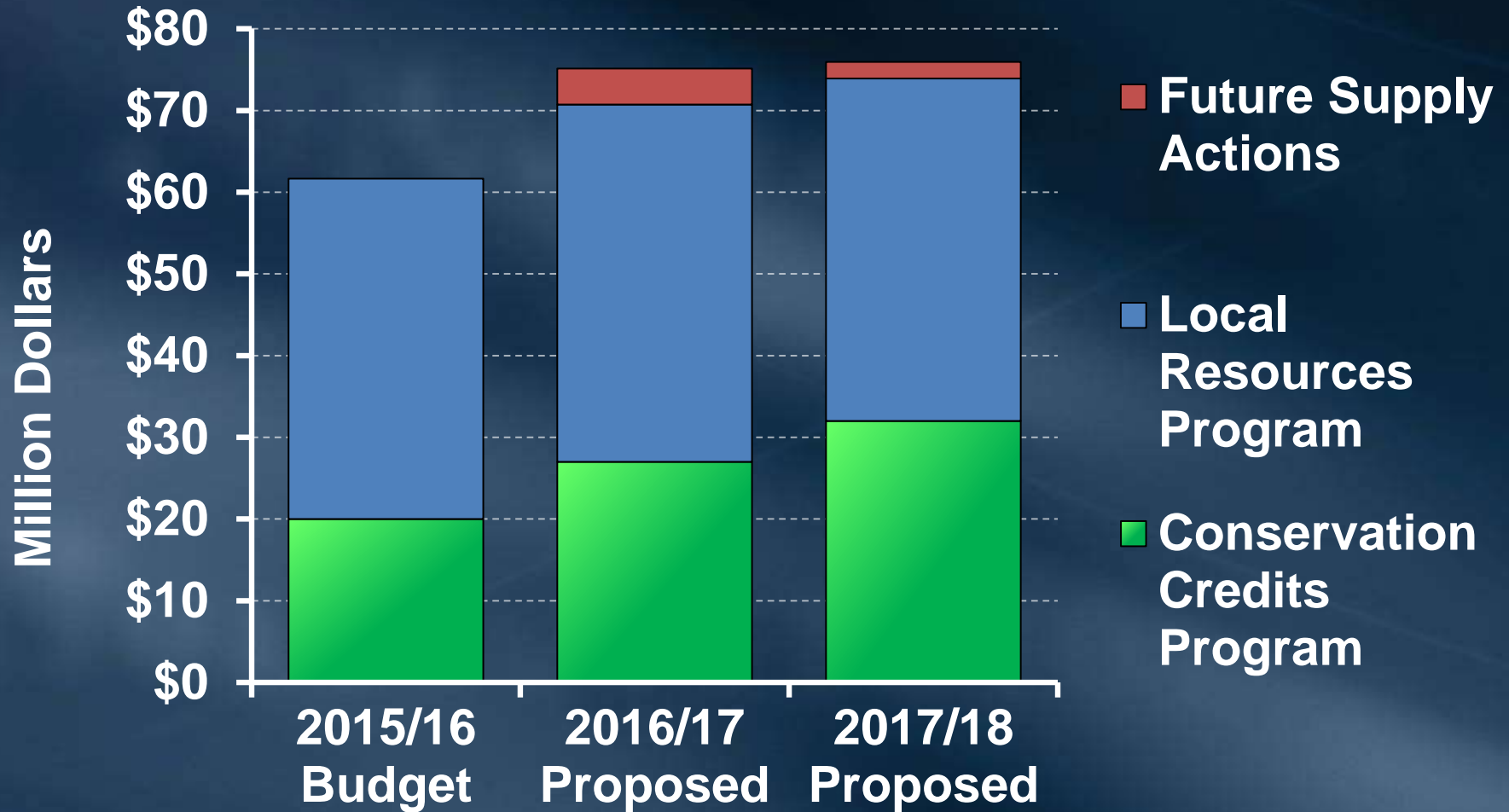
- Tax collected to fund SWC costs
- Tax collected for GO and Burns Porter bonds



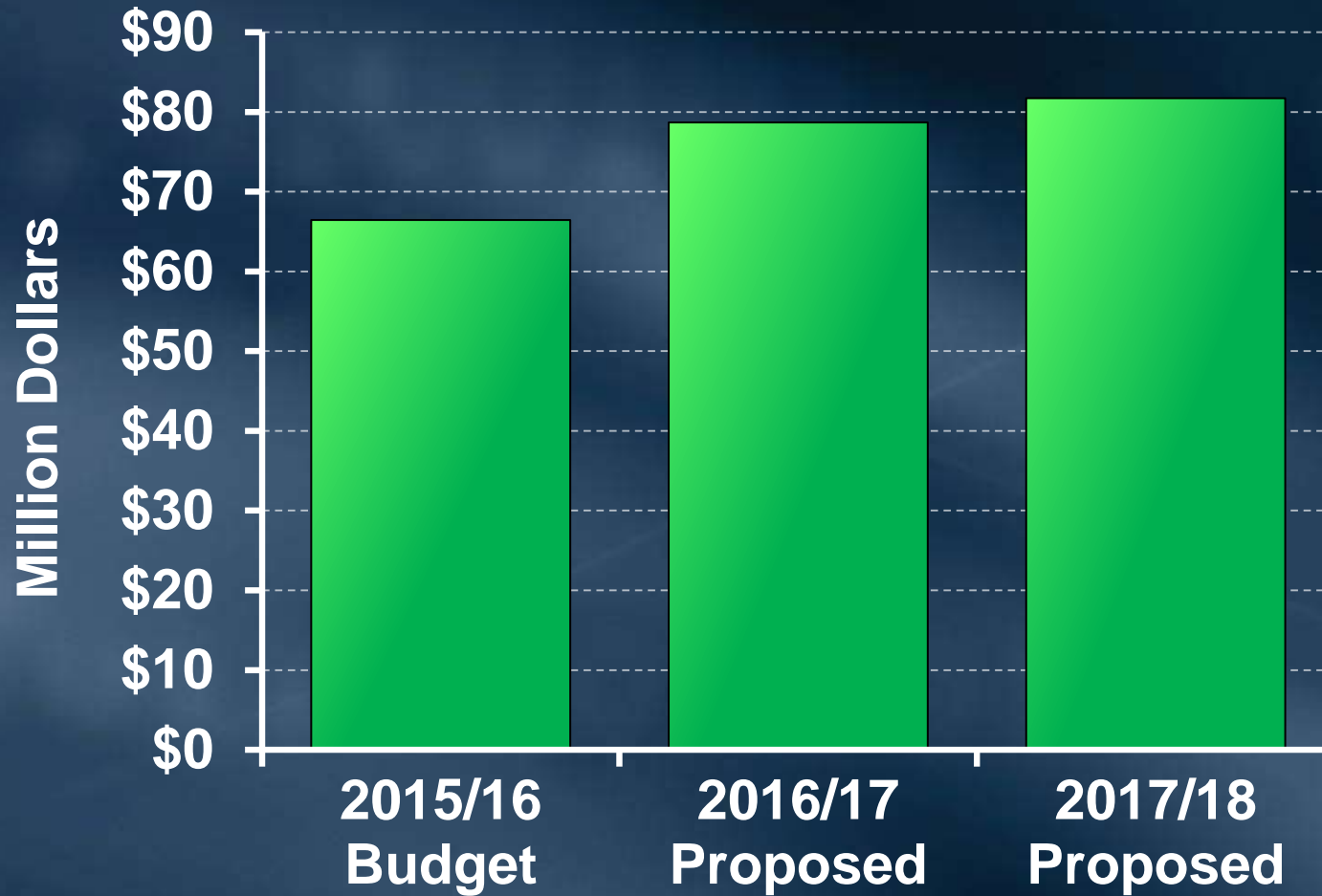
Colorado River Aqueduct Power



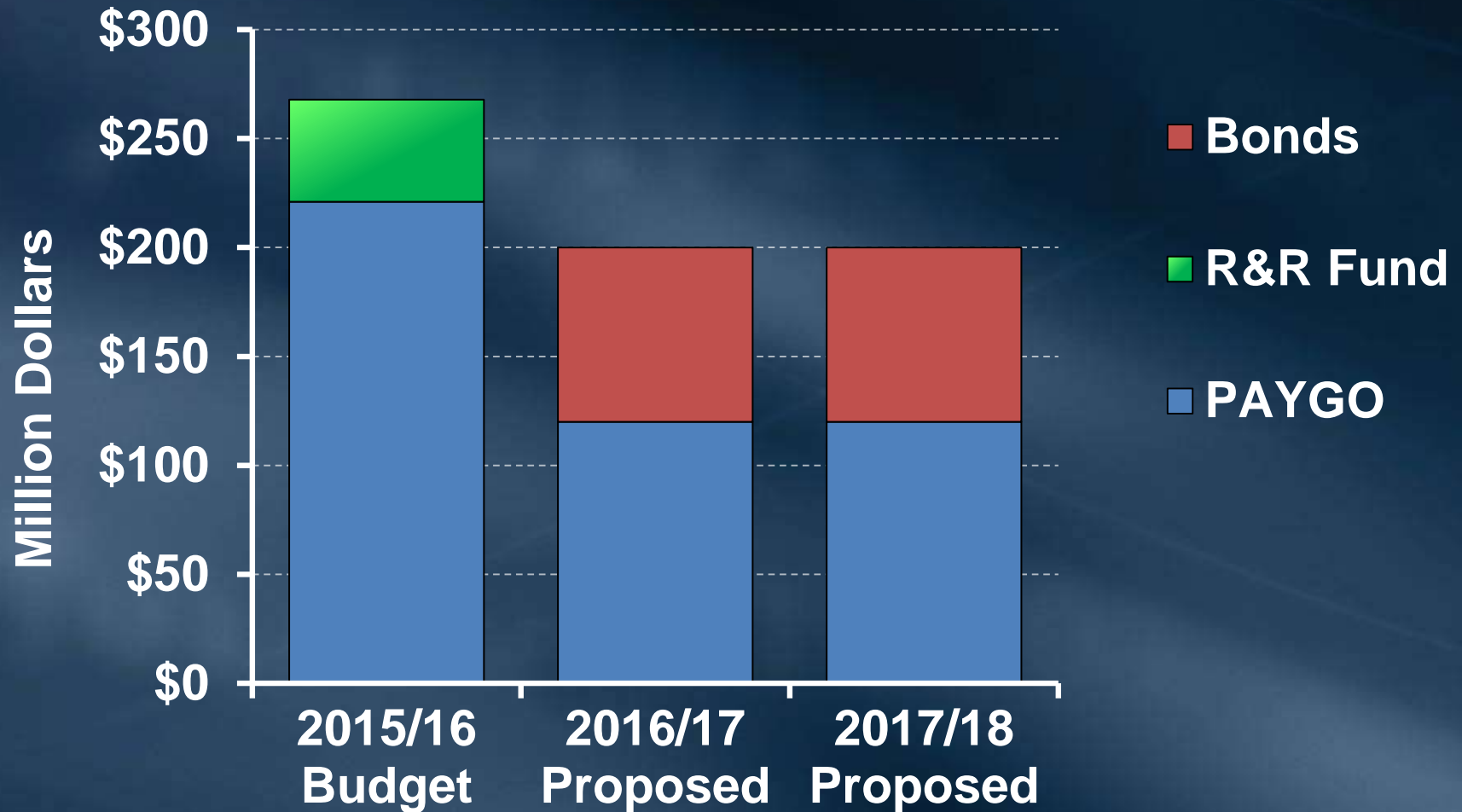
Demand Management Programs



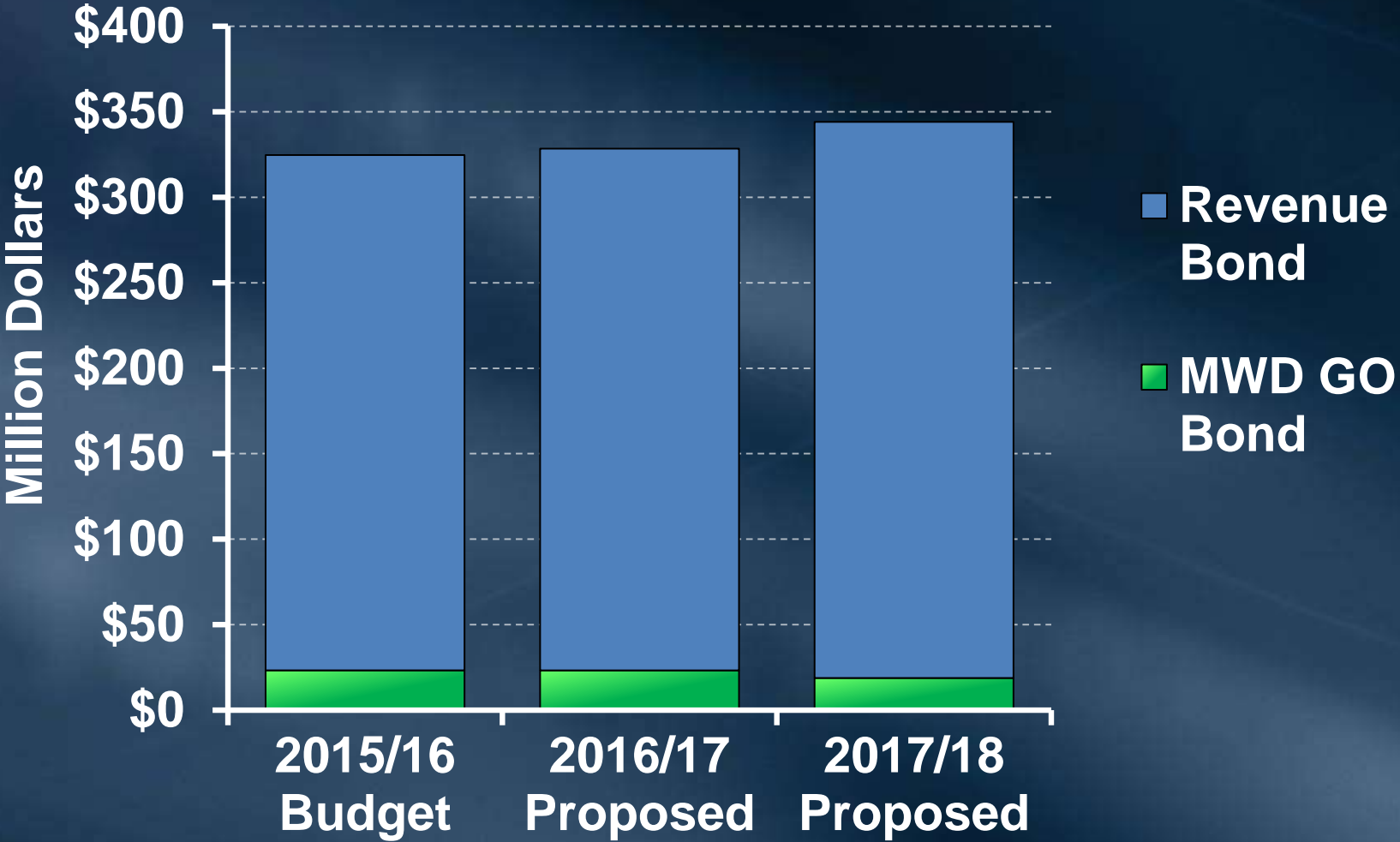
Supply Programs



Capital Investment Plan Funding



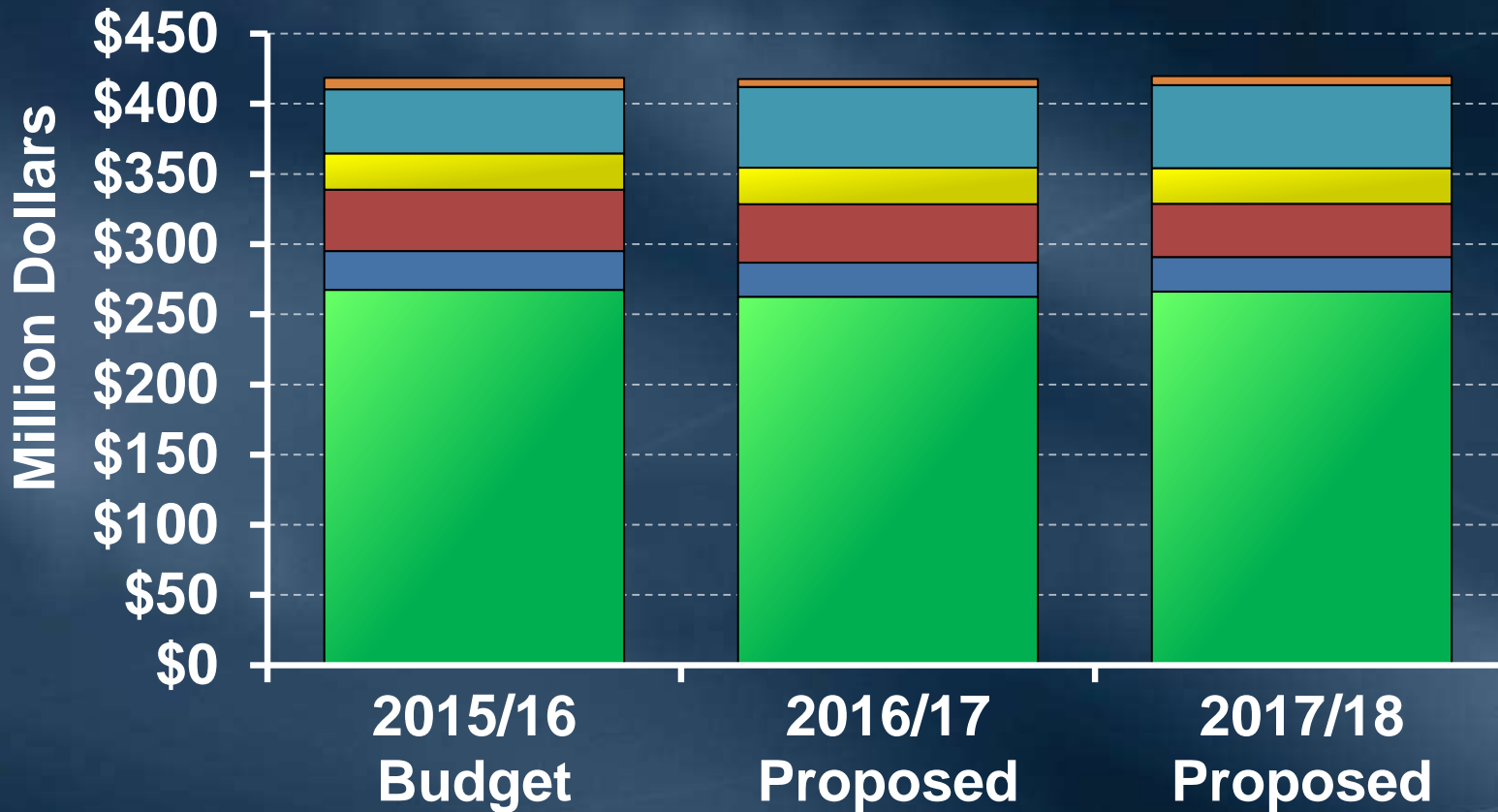
Debt Service



Operating Budget

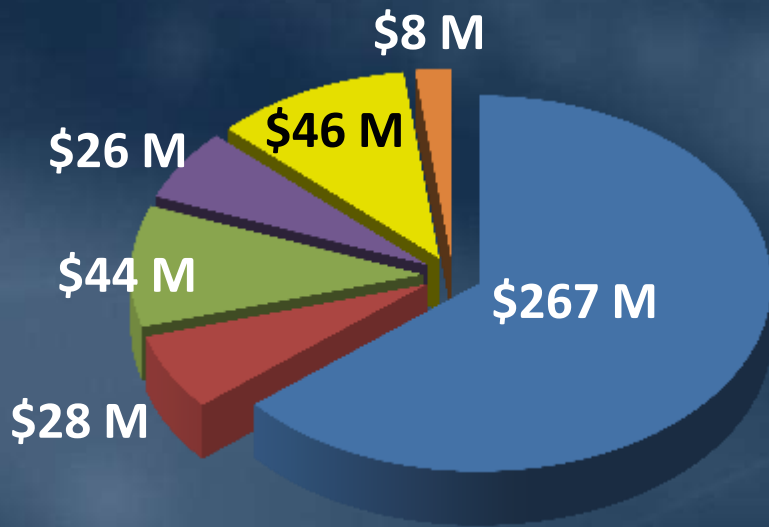
Proposed O&M Expenditure Budget

- Operating Equipment
- Materials & Supplies
- Chemicals, Solids, and Power
- Other
- Outside Services
- Salaries & Benefits

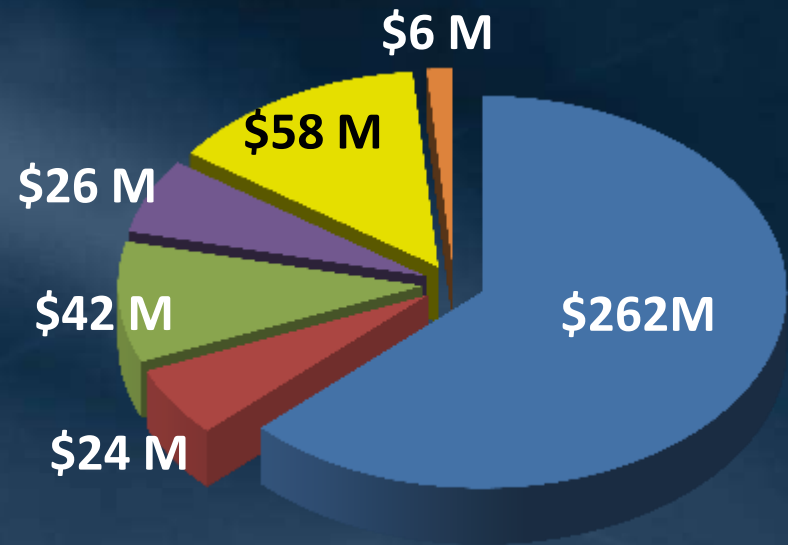


O&M Budget Trend

FY 2015/16 - \$419 M



FY 2016/17 - \$418 M



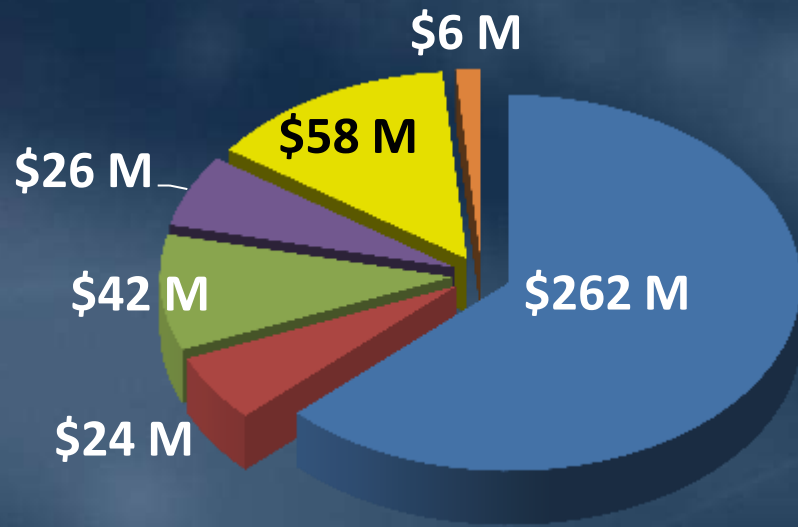
■ Salary & Benefits
■ Materials & Supplies

■ Variable Treatment
■ Other

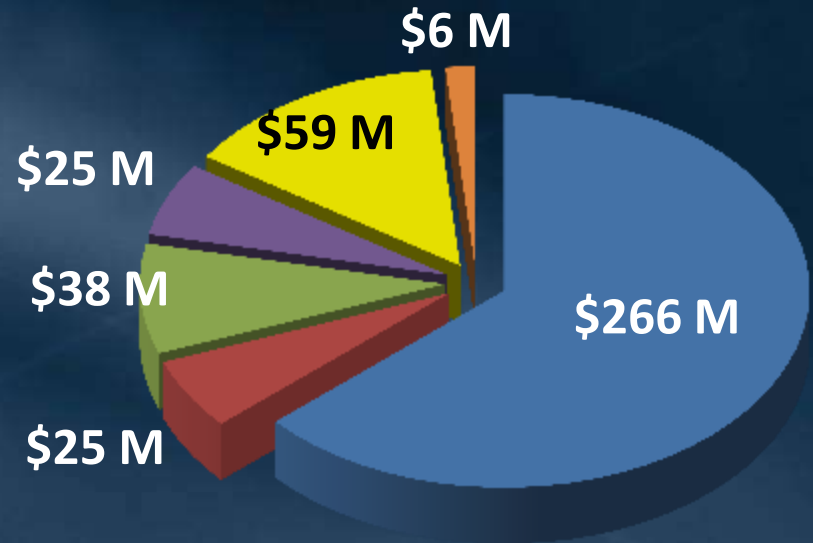
■ Outside Services
■ Operating Equipment

O&M Budget Trend

FY 2016/17 - \$418 M



FY 2017/18 - \$420 M



■ Salary & Benefits
■ Materials & Supplies

■ Variable Treatment
■ Other

■ Outside Services
■ Operating Equipment

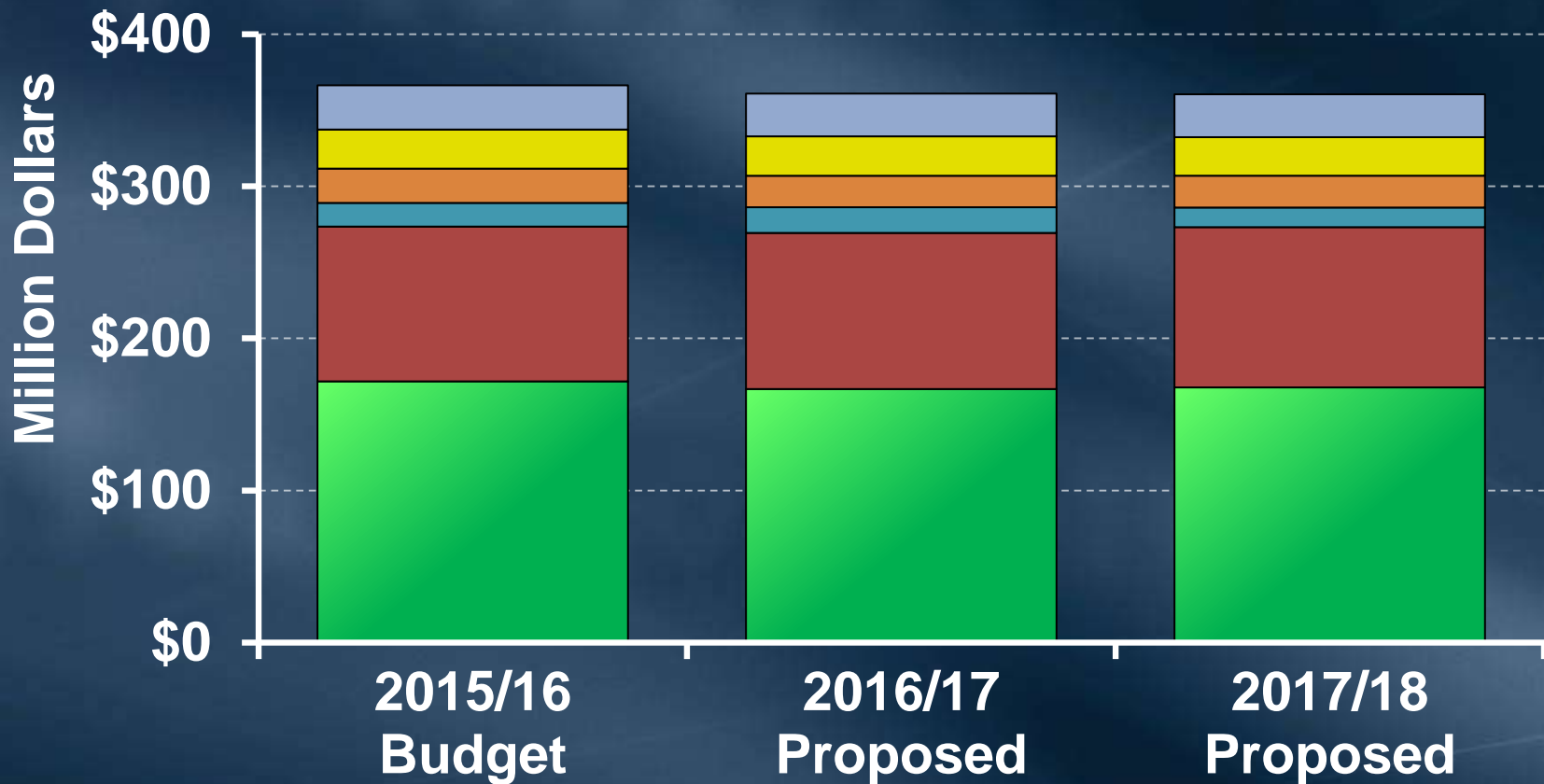
Budgeted Positions

	2015/16	2016/17	2017/18
Regular	1,885	1,886	1,886
Temporary	<u>20</u>	<u>26</u>	<u>24</u>
Authorized Positions	1,905	1,912	1,910
Unfunded positions/vacancy	<u>(56)</u>	<u>(72)</u>	<u>(69)</u>
Total Funded Positions	1,849	1,840	1,841

GM Department

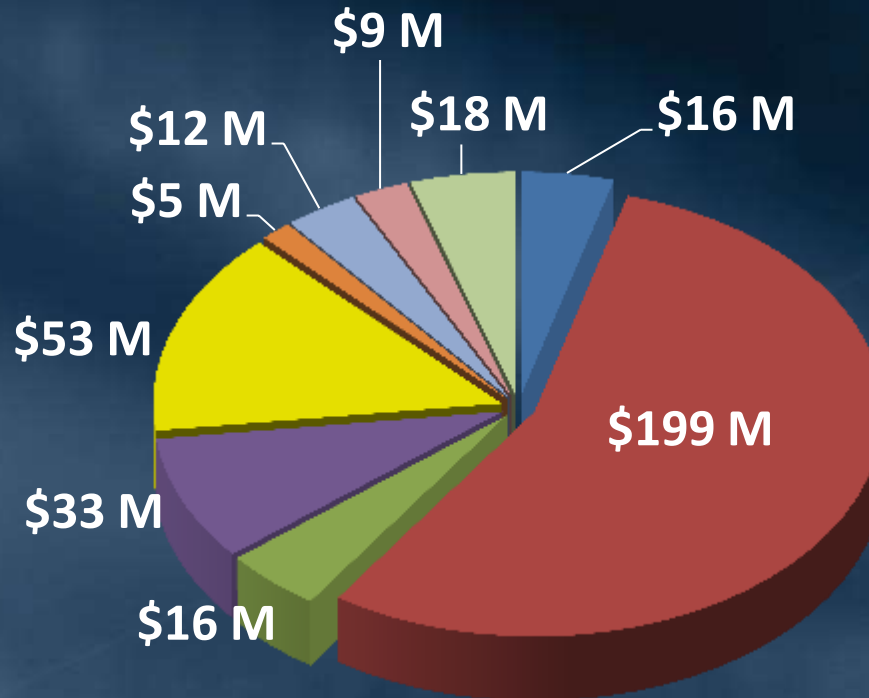
GM Department O&M Budget

- Other
- Materials & Supplies
- Non Professional Services/Security
- Professional Services
- Benefits
- Salaries



GM Department O&M Budget

FY 2016/17 - \$361 M

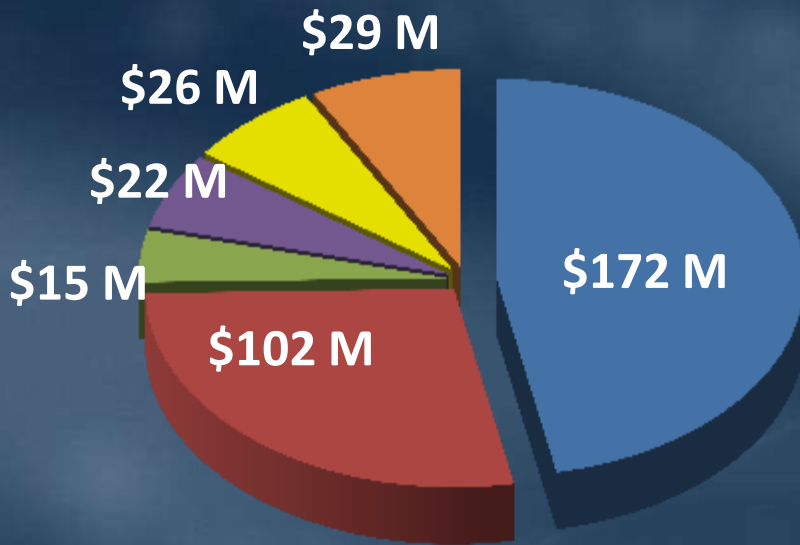


- Office of the General Manager
- Water Resource Management
- Business Technology
- Human Resources
- External Affairs

- Water System Operations
- Engineering Services
- Real Property Development & Mgmt
- Office of the Chief Financial Officer

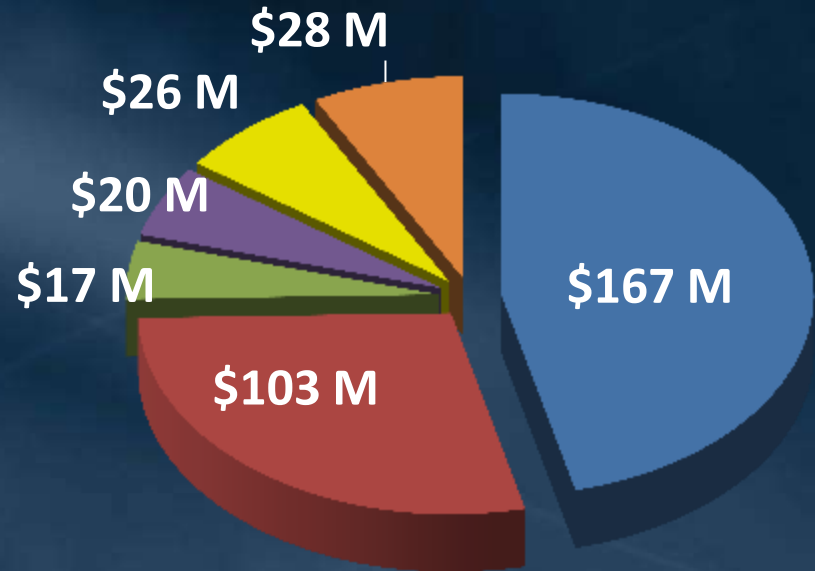
GM Department O&M Budget Trend

FY 2015/16 - \$366 M



1,795 FTEs

FY 2016/17 - \$361 M



1,785 FTEs

■ Salaries

■ Professional Services

■ Materials & Supplies

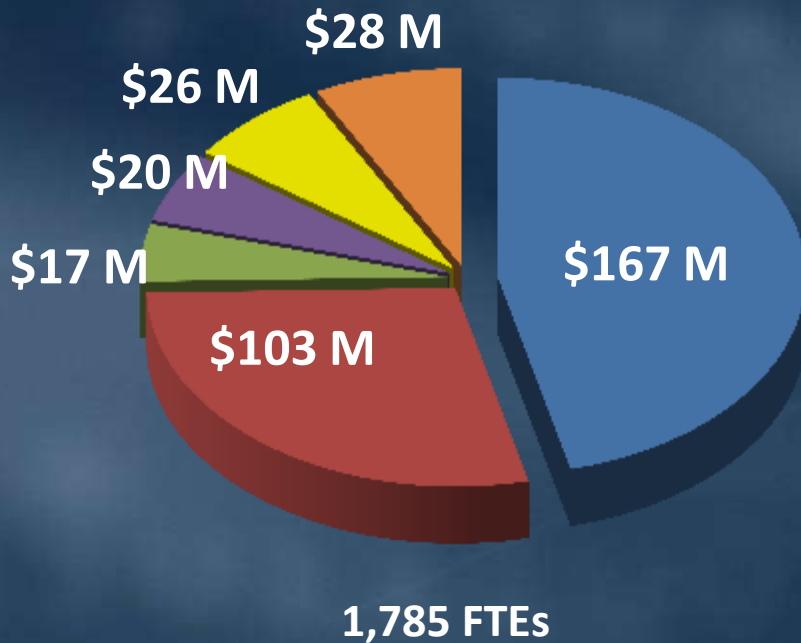
■ Benefits

■ Non Professional Services/Security

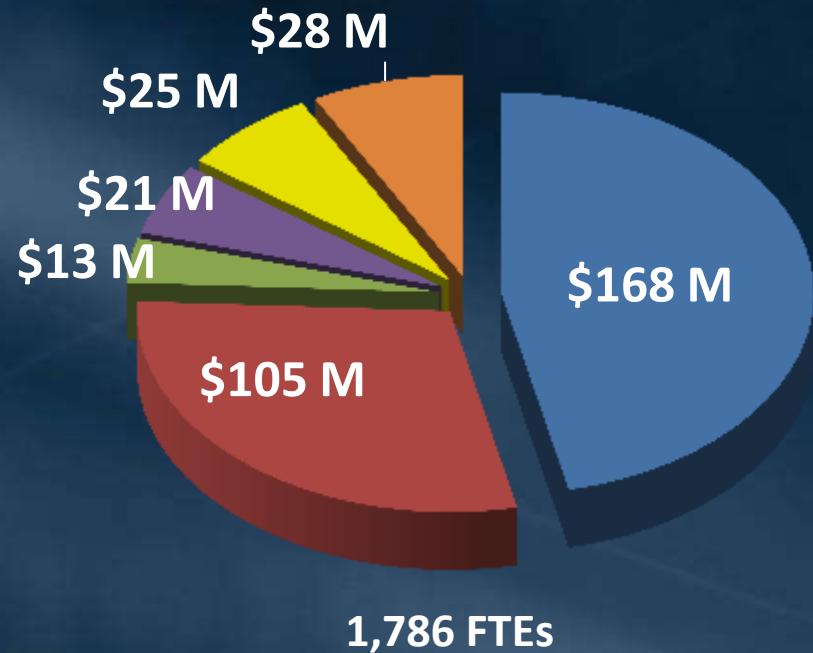
■ Other

GM Department O&M Budget Trend

FY 2016/17 - \$361 M



FY 2017/18 - \$361 M



Salaries

Professional Services

Materials & Supplies

Benefits

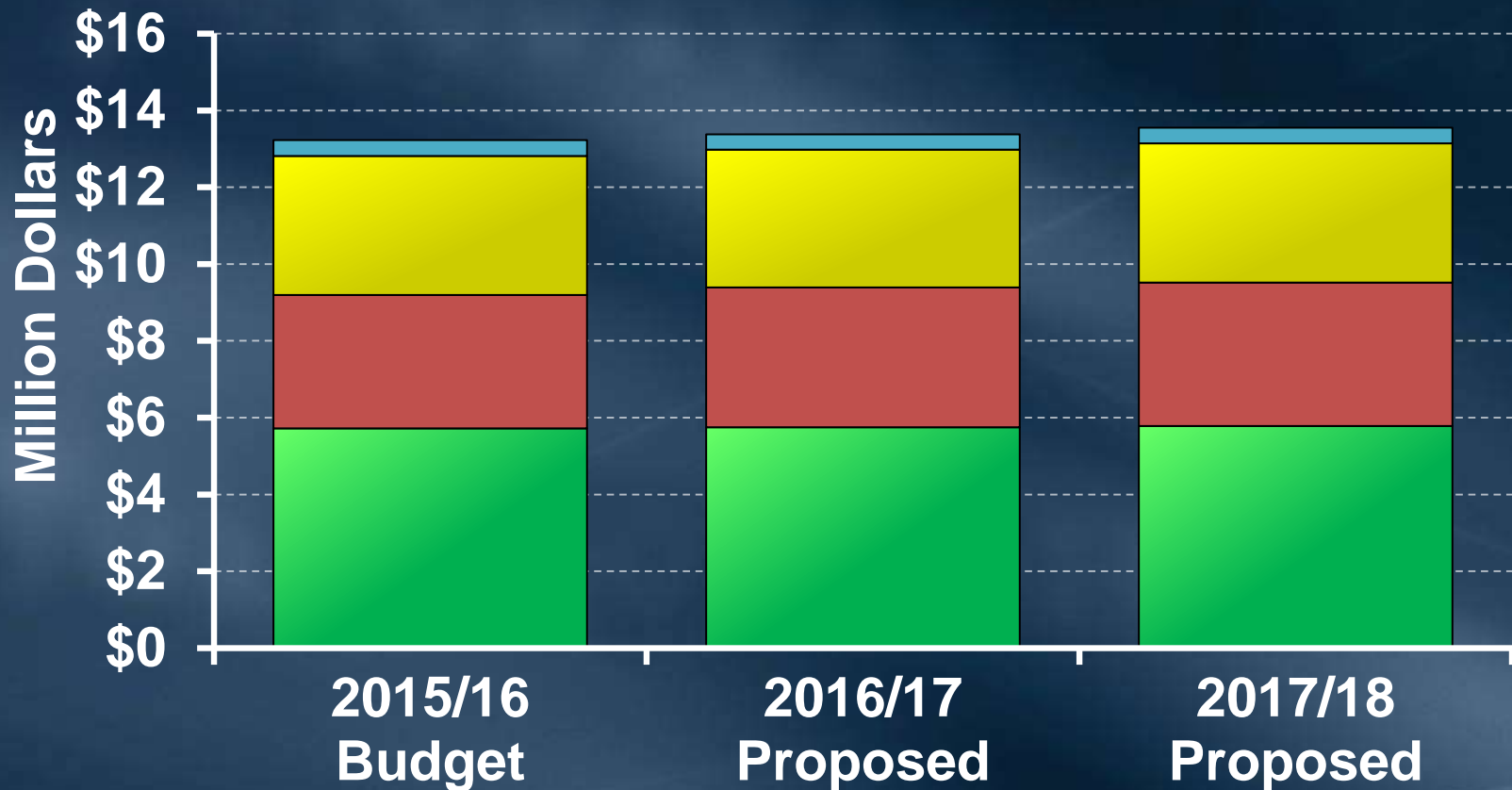
Non Professional Services/Security

Other

Legal Department

Legal Department O&M Budget

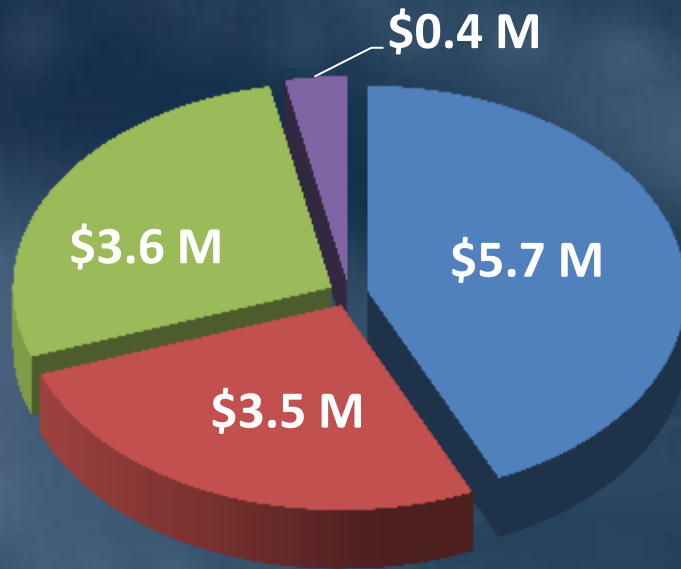
■ Salaries ■ Benefits ■ Professional Services ■ Other



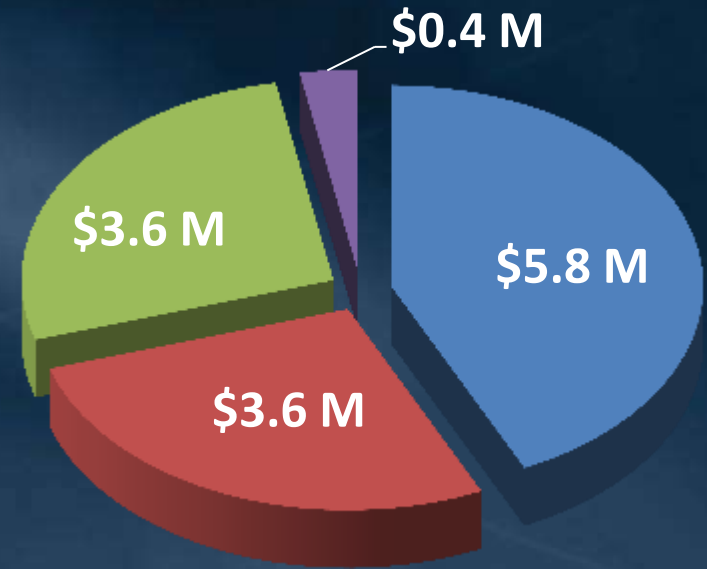
Legal Department O&M Budget Trend

FY 2015/16 - \$13.2 M

FY 2016/17 - \$13.4 M



38 FTEs



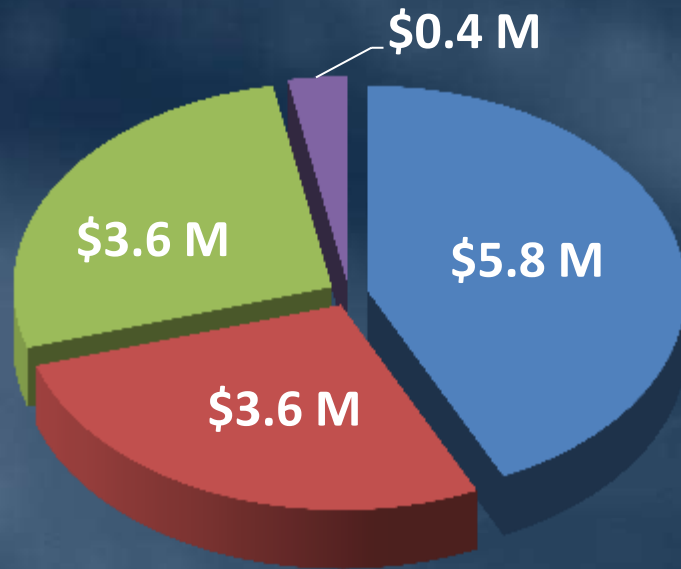
38 FTEs

■ Salaries ■ Benefits ■ Professional Services ■ Other

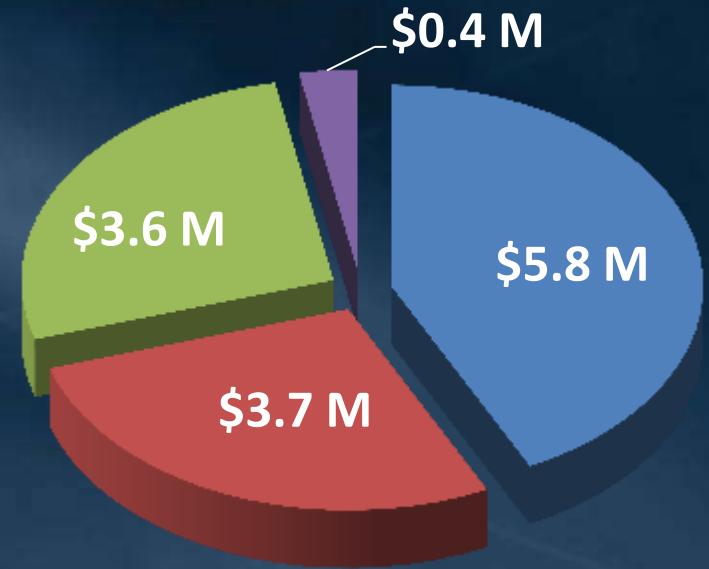
Legal Department O&M Budget Trend

FY 2016/17 - \$13.4 M

FY 2017/18 - \$13.6 M



38 FTEs



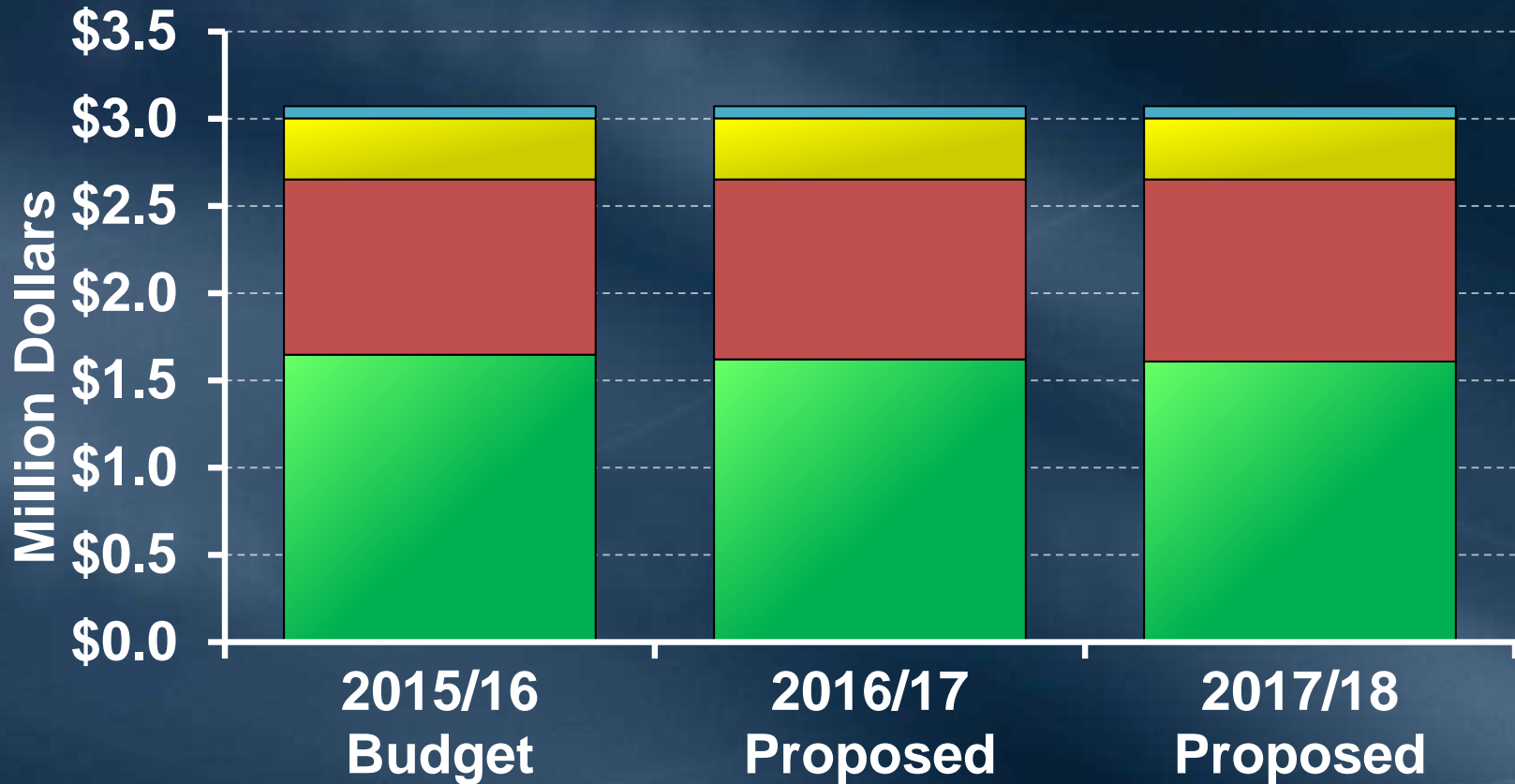
38 FTEs

■ Salaries ■ Benefits ■ Professional Services ■ Other

Audit Department

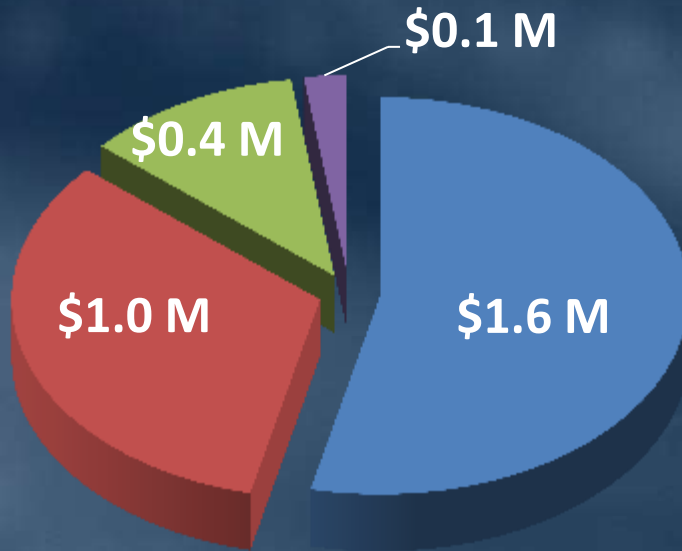
Audit Department O&M Budget

■ Salaries ■ Benefits ■ Professional Services ■ Other



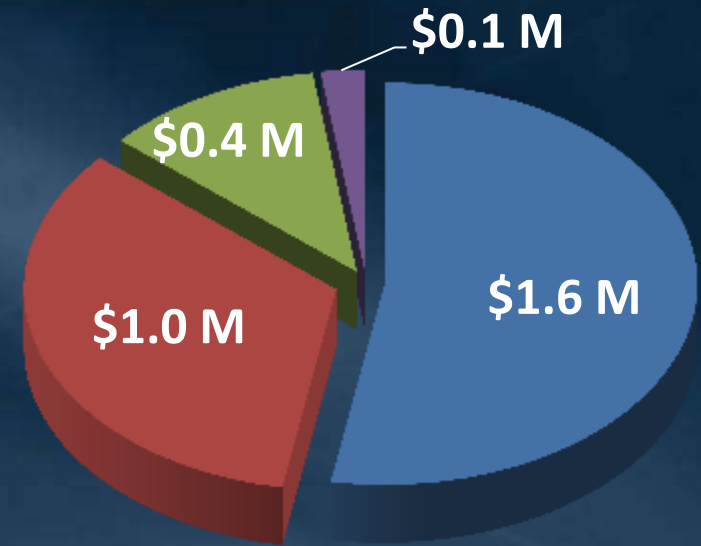
Audit Department O&M Budget Trend

FY 2015/16 - \$3.1 M



12 FTEs

FY 2016/17 - \$3.1 M

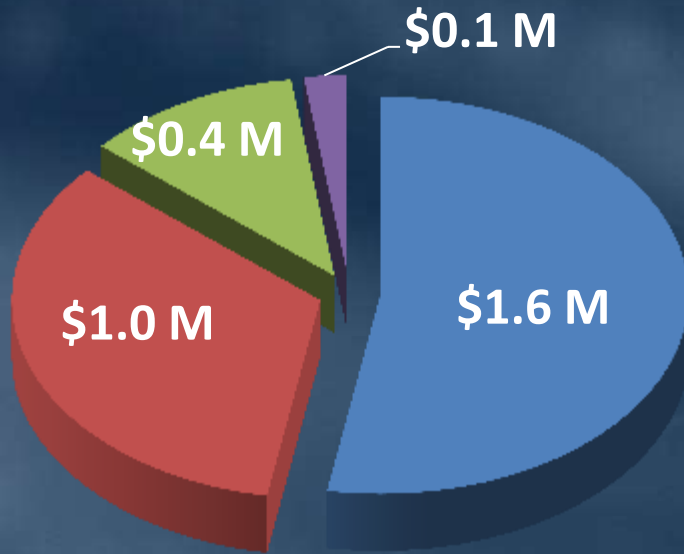


12 FTEs

■ Salaries ■ Benefits ■ Professional Services ■ Other

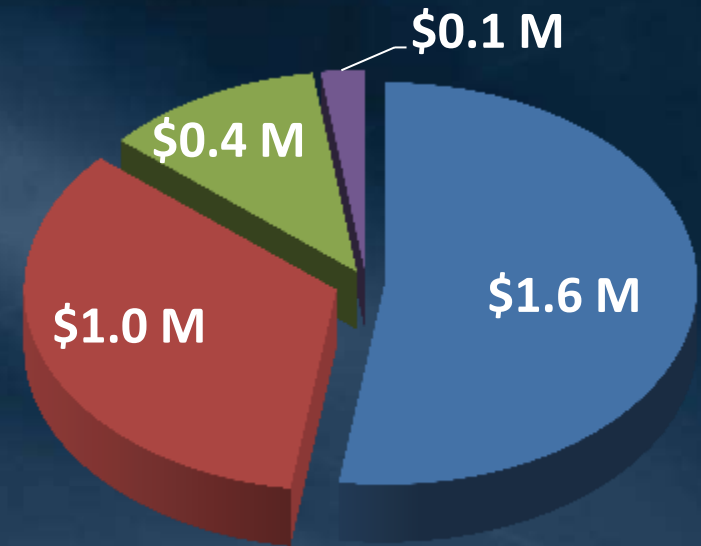
Audit Department O&M Budget Trend

FY 2016/17 - \$3.1 M



12 FTEs

FY 2017/18 - \$3.1 M



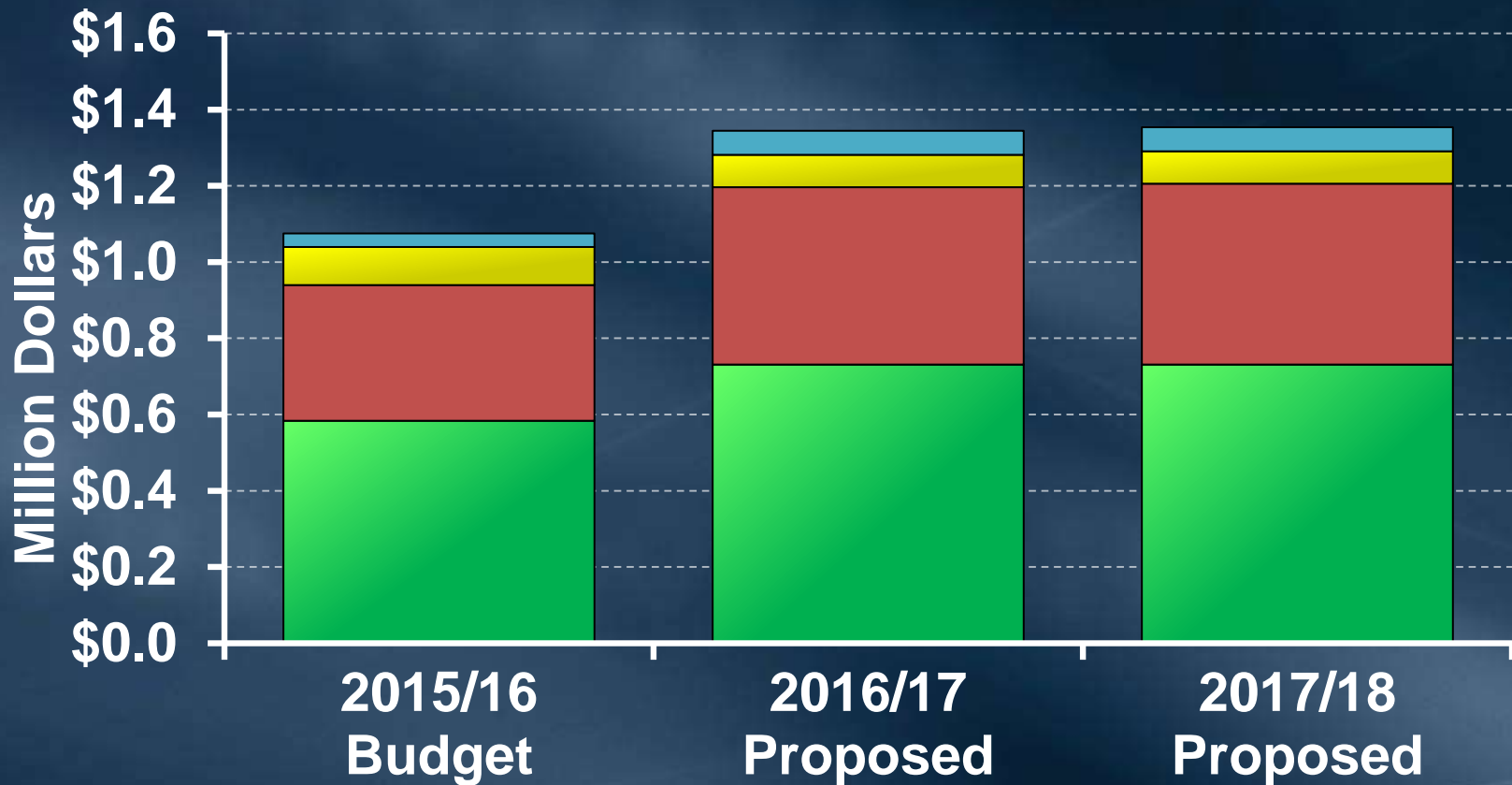
12 FTEs

■ Salaries ■ Benefits ■ Professional Services ■ Other

Ethics Department

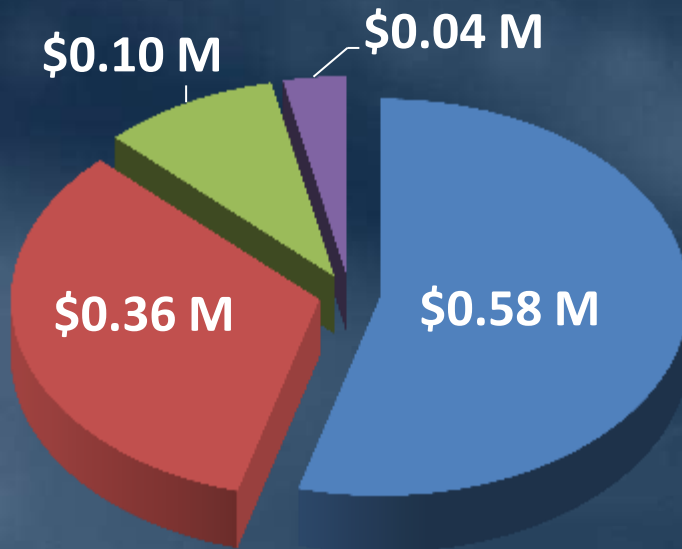
Ethics Department O&M Budget

■ Salaries ■ Benefits ■ Professional Services ■ Other



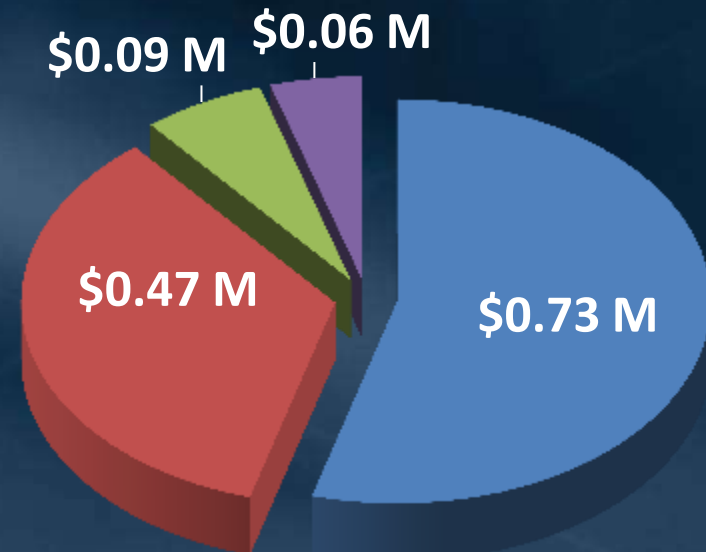
Ethics Department O&M Budget Trend

FY 2015/16- \$1.1M



4 FTES

FY 2016/17 - \$1.3M

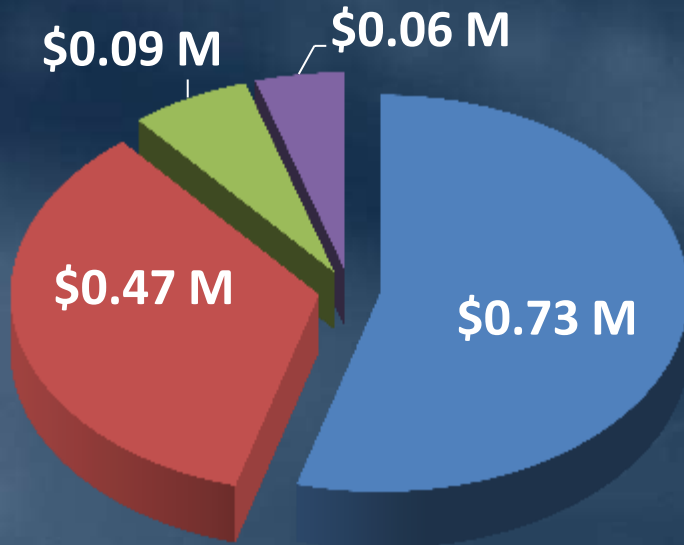


5 FTES

■ Salaries ■ Benefits ■ Professional Services ■ Other

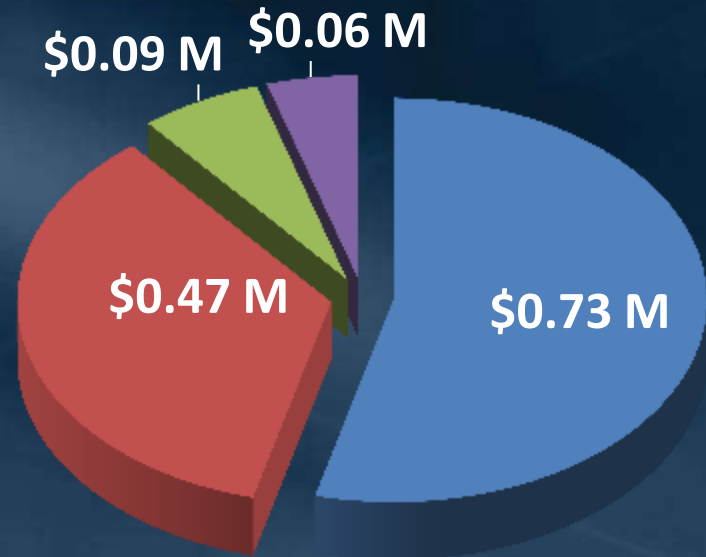
Ethics Department O&M Budget Trend

FY 2016/17 - \$1.3M



5 FTES

FY 2017/18 - \$1.3M

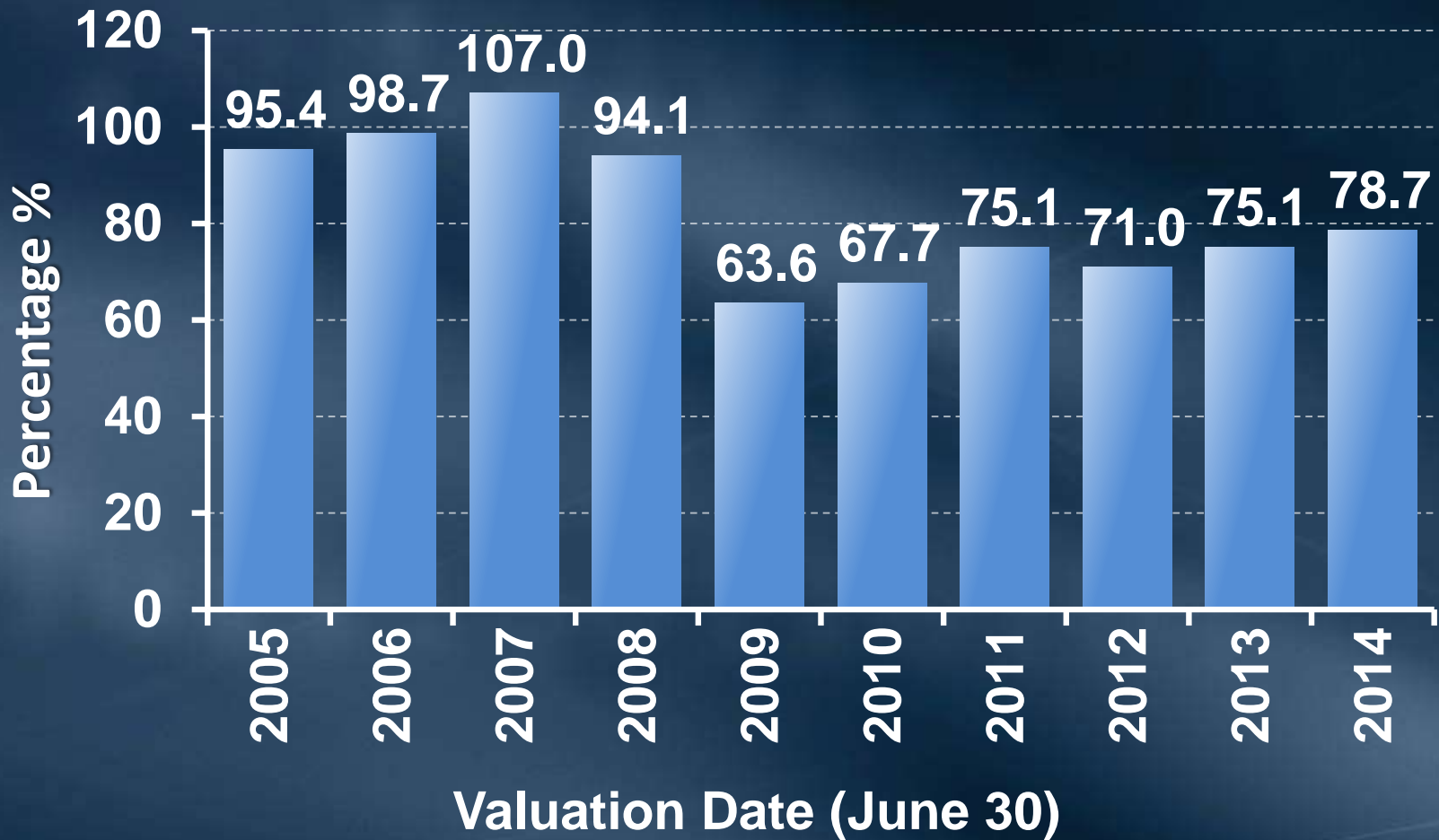


5 FTES

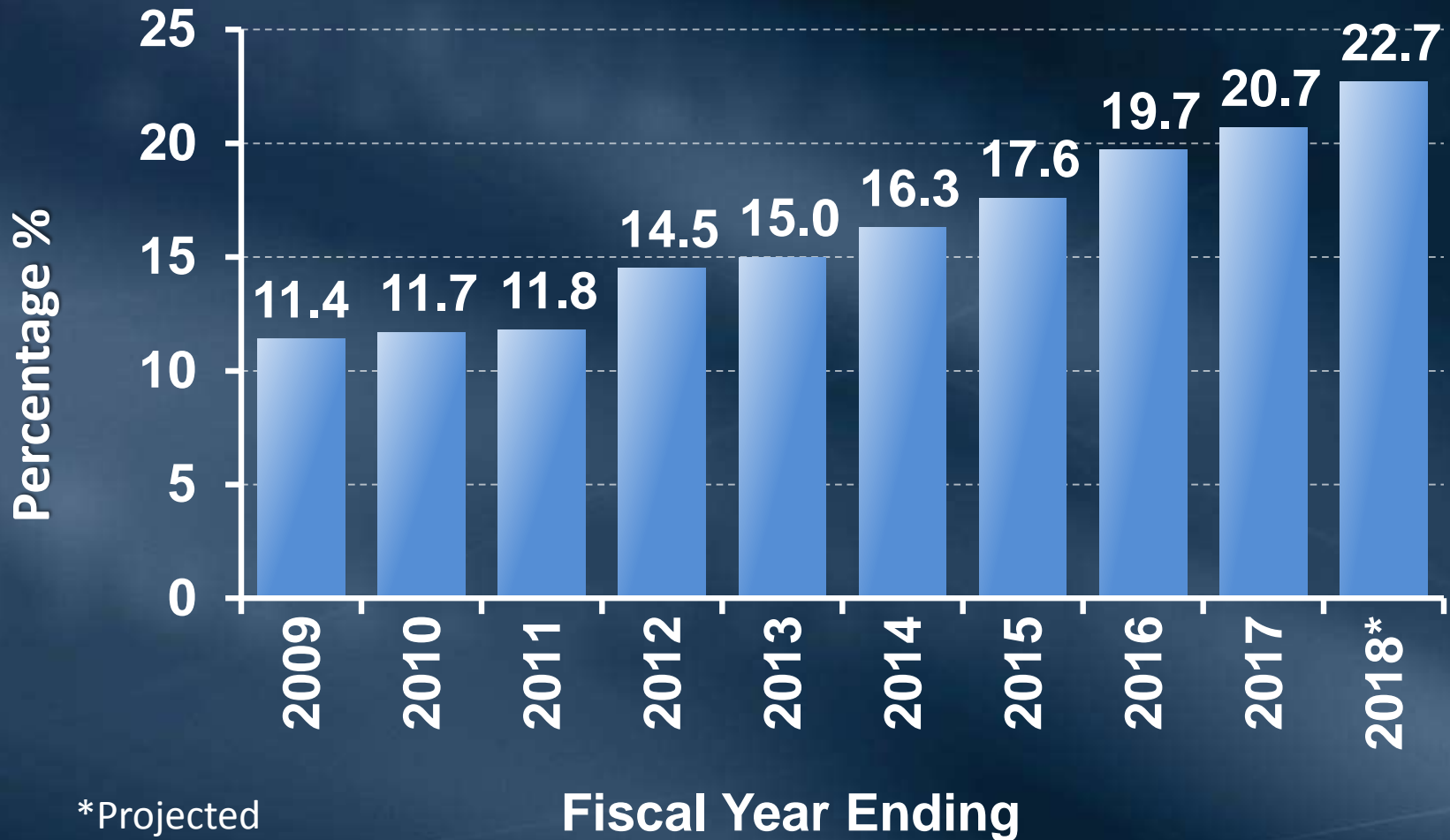
■ Salaries ■ Benefits ■ Professional Services ■ Other

Pension and Other Post- Employment Benefits (OPEB)

Pension Funded Ratio

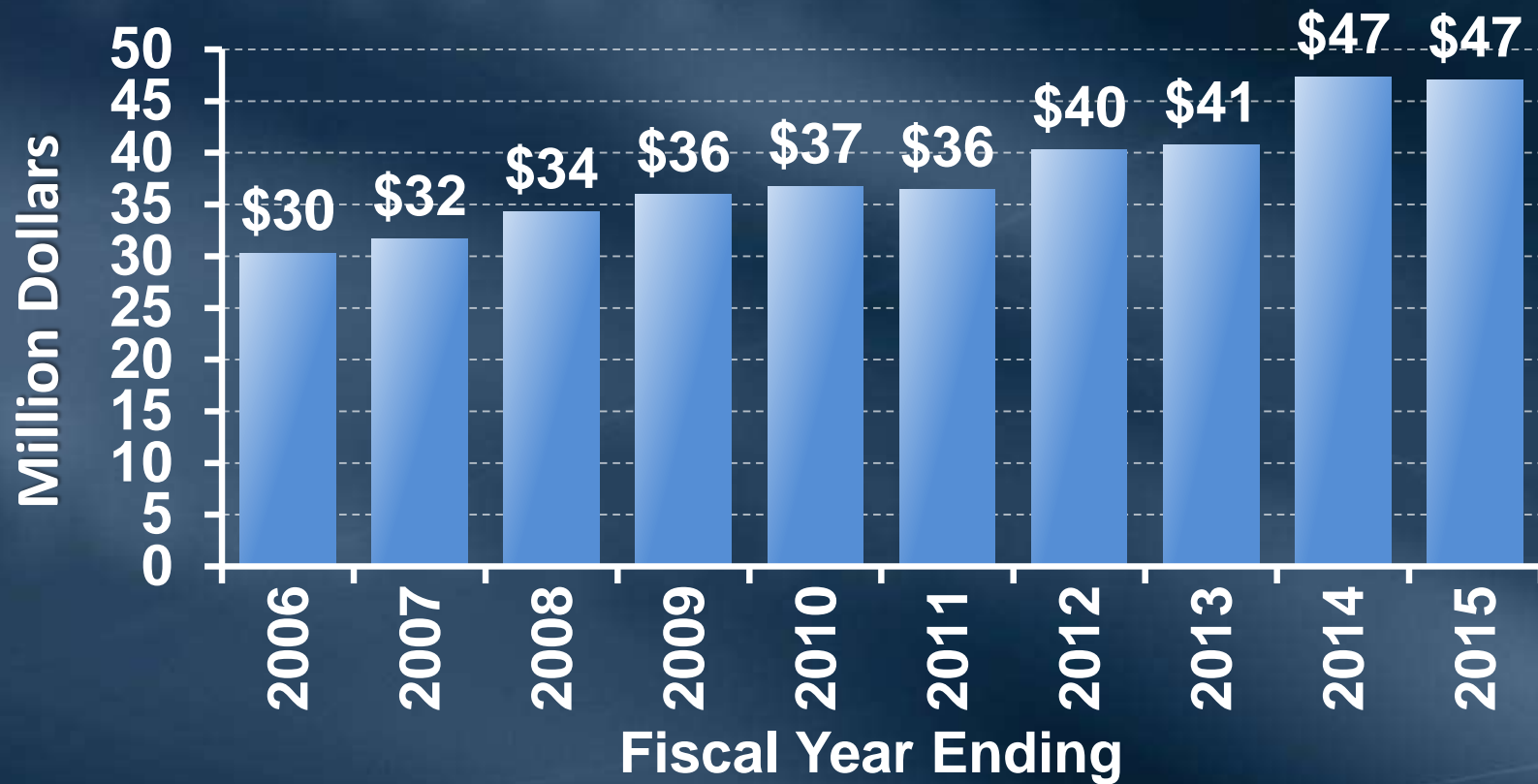


Pension Annual Contribution Rate



*Projected

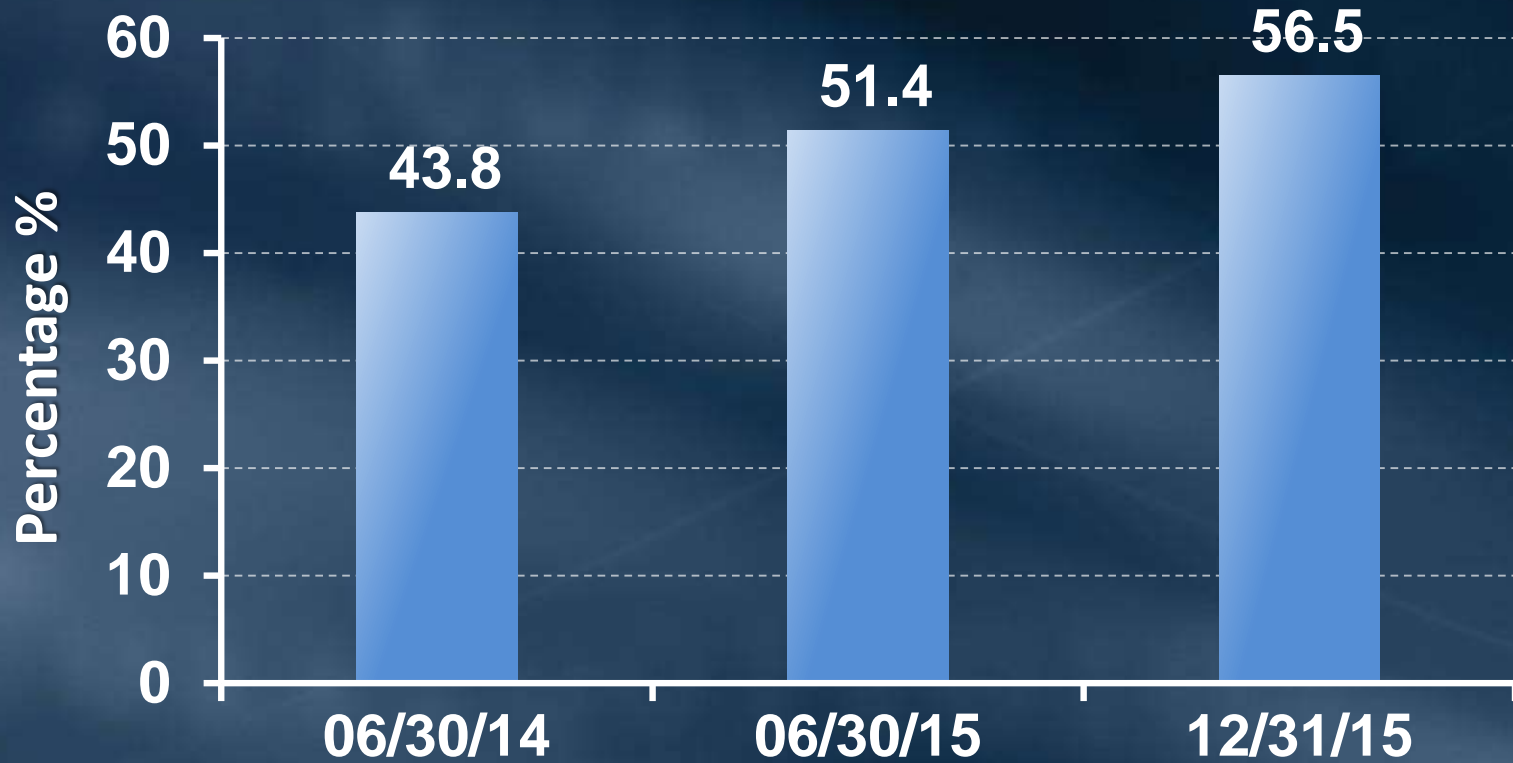
Pension Annual Required Contribution



CalPERS Actuarial Changes

- April 2013
 - Modified policy for “smoothing” investment returns. Effective fiscal 2015/16.
- February 2014
 - Modified demographic assumptions. Effective 2016/17.
- November 2015
 - Established mechanism for reducing the discount rate. Will be implemented over 21 years.

OPEB Funded Ratio

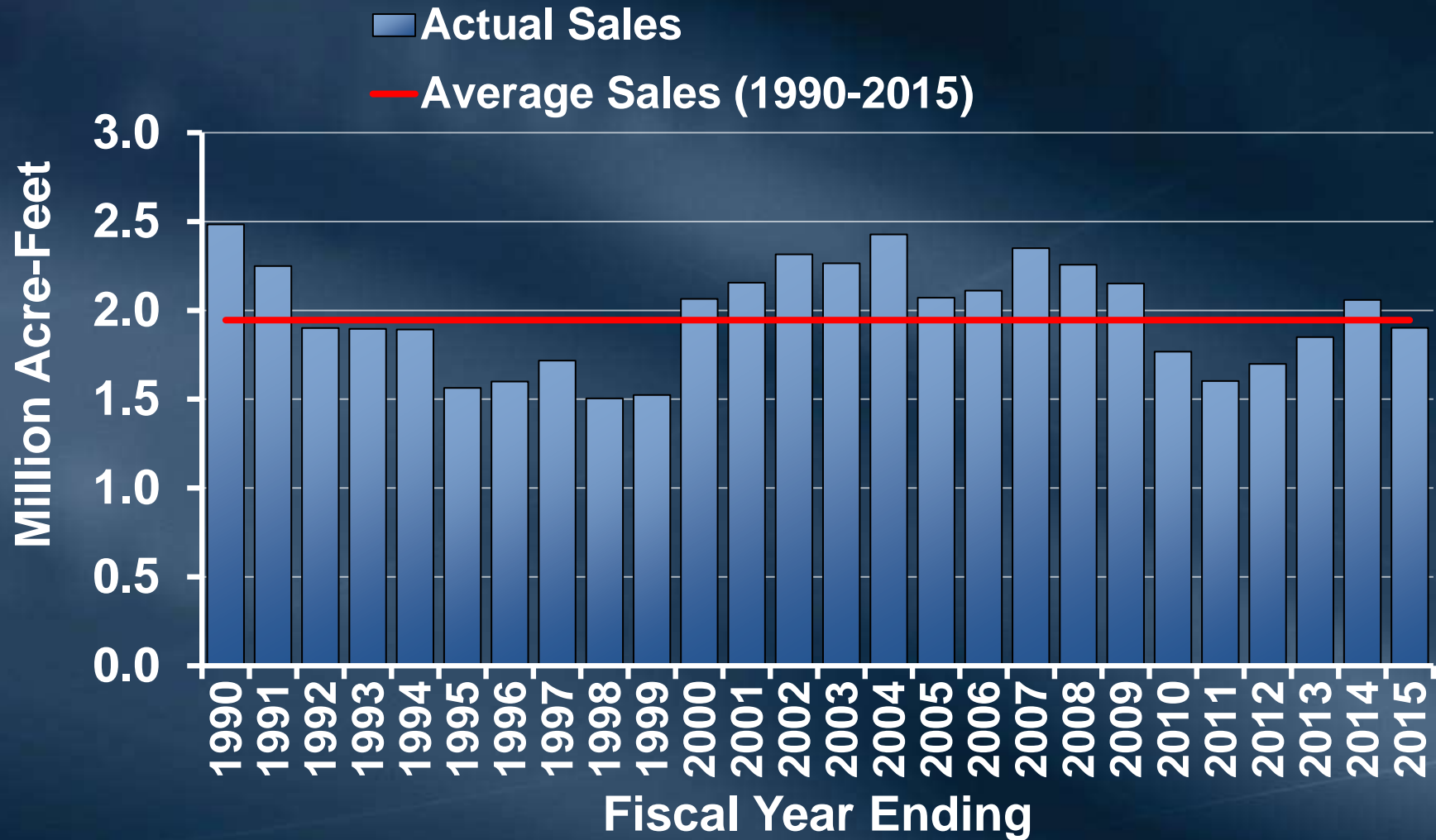


OPEB Annual Required Contribution



Unrestricted Reserve Policy Overview

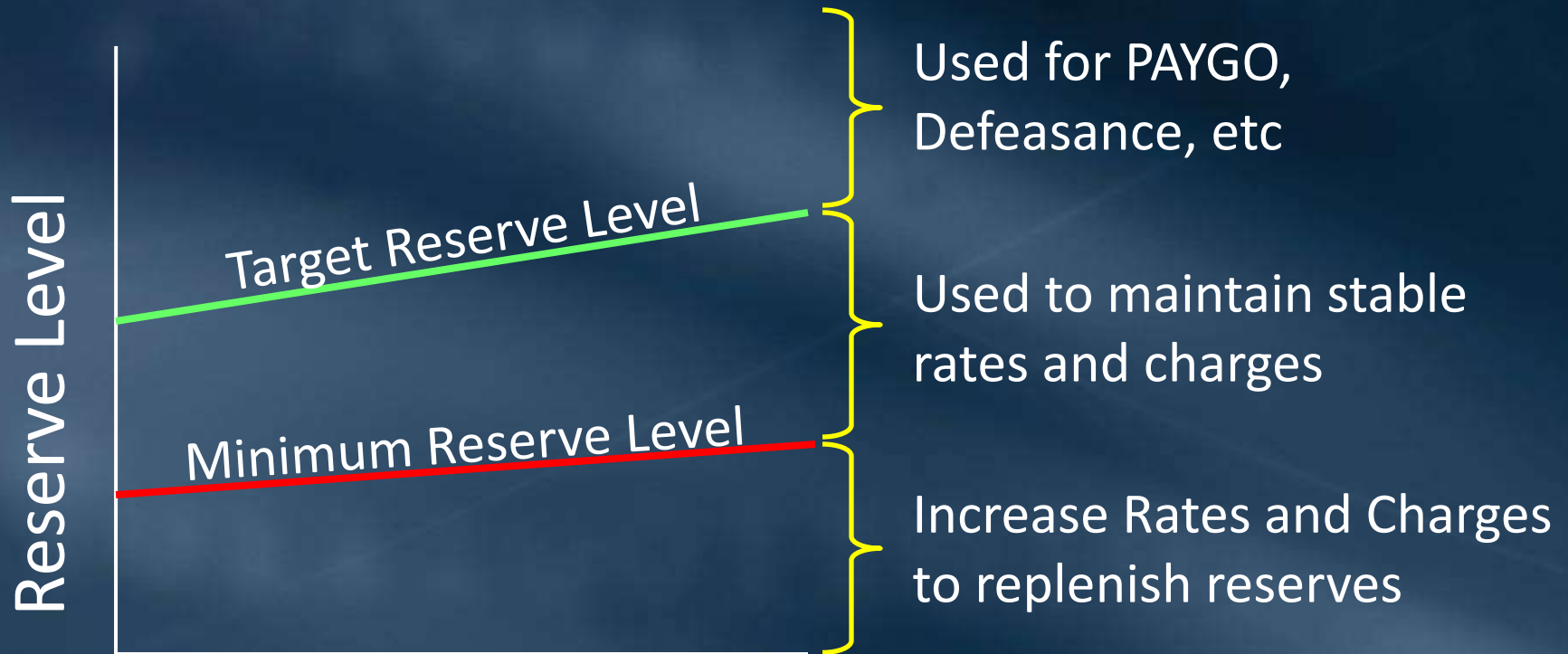
Metropolitan's Historic Water Sales are Variable



Unrestricted Reserve Policy

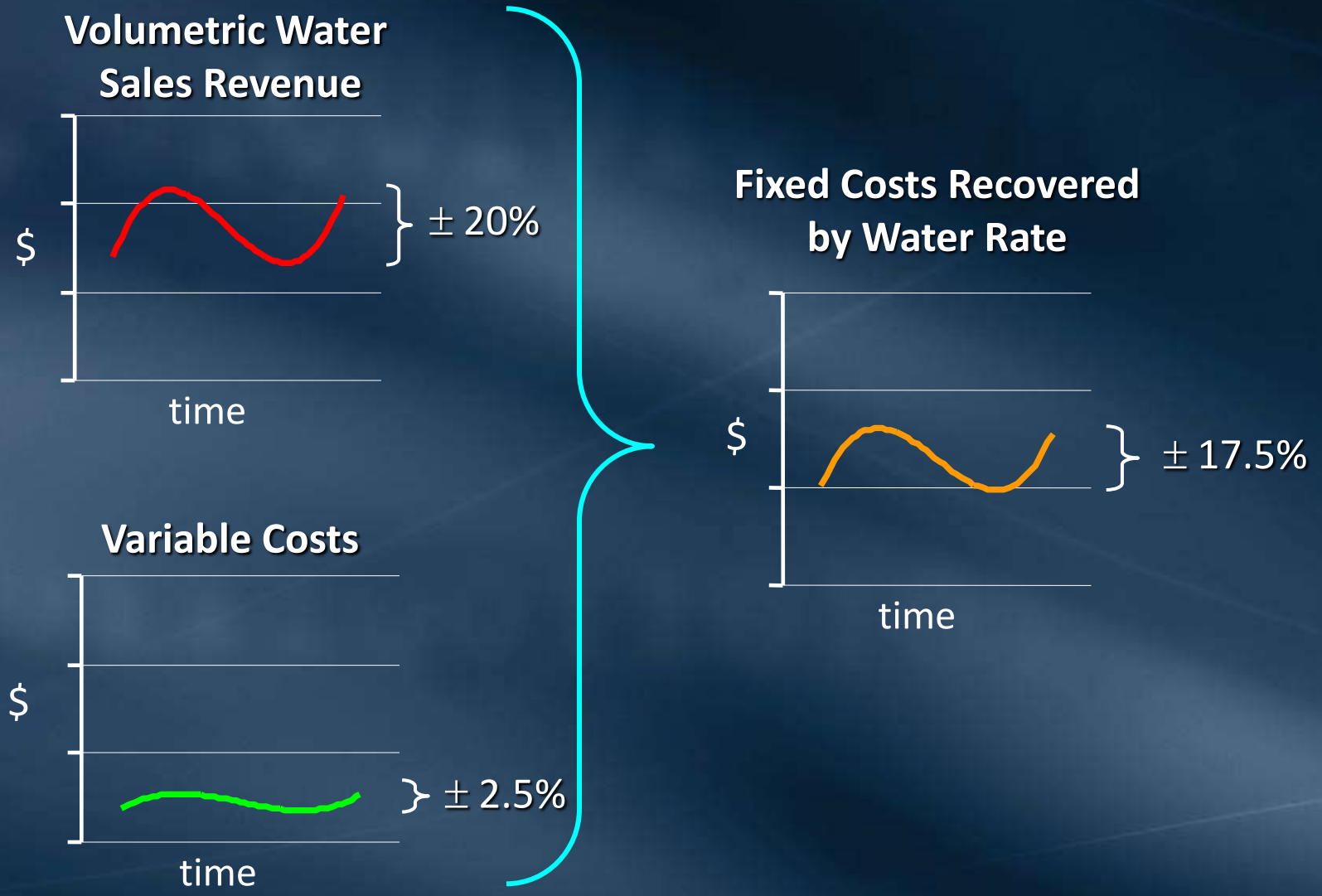
Reserve Fund Principle:

Provide stable & predictable water rates



Unrestricted Reserve Calculation

Hydrologic Risk estimated per 1999 LRF



Unrestricted Reserve Calculation

for June 30th, 2017 in millions of dollars

	2017/18 Budget	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast
Revenue Requirement	\$ 1,574	\$ 1,641	\$ 1,716	\$ 1,788
Less RTS Charge	138	142	146	152
Less Capacity Charge	35	37	39	40
Water Rate Revenue Requirements	\$ 1,402	\$ 1,463	\$ 1,532	\$ 1,596
Less Variable Costs				
Treatment Surcharge Rev Req.	265	265	263	260
SWC Variable Power Costs	153	168	189	209
CRA Power Costs	54	65	70	74
Fixed Costs Recovered by Water Rate	930	965	1,010	1,053
Percent Reserved	17.5%	17.5%	17.5%	17.5%
Annual Amount Reserved	\$ 163	\$ 169	\$ 177	\$ 184

Minimum Reserve Level = $163 + 169 / 2$ = **\$247.2 million**

Target Reserve Level = $163 + 169 + 177 + 184 / 2$ = **\$600.6 million**

Ten-Year Financial Forecast

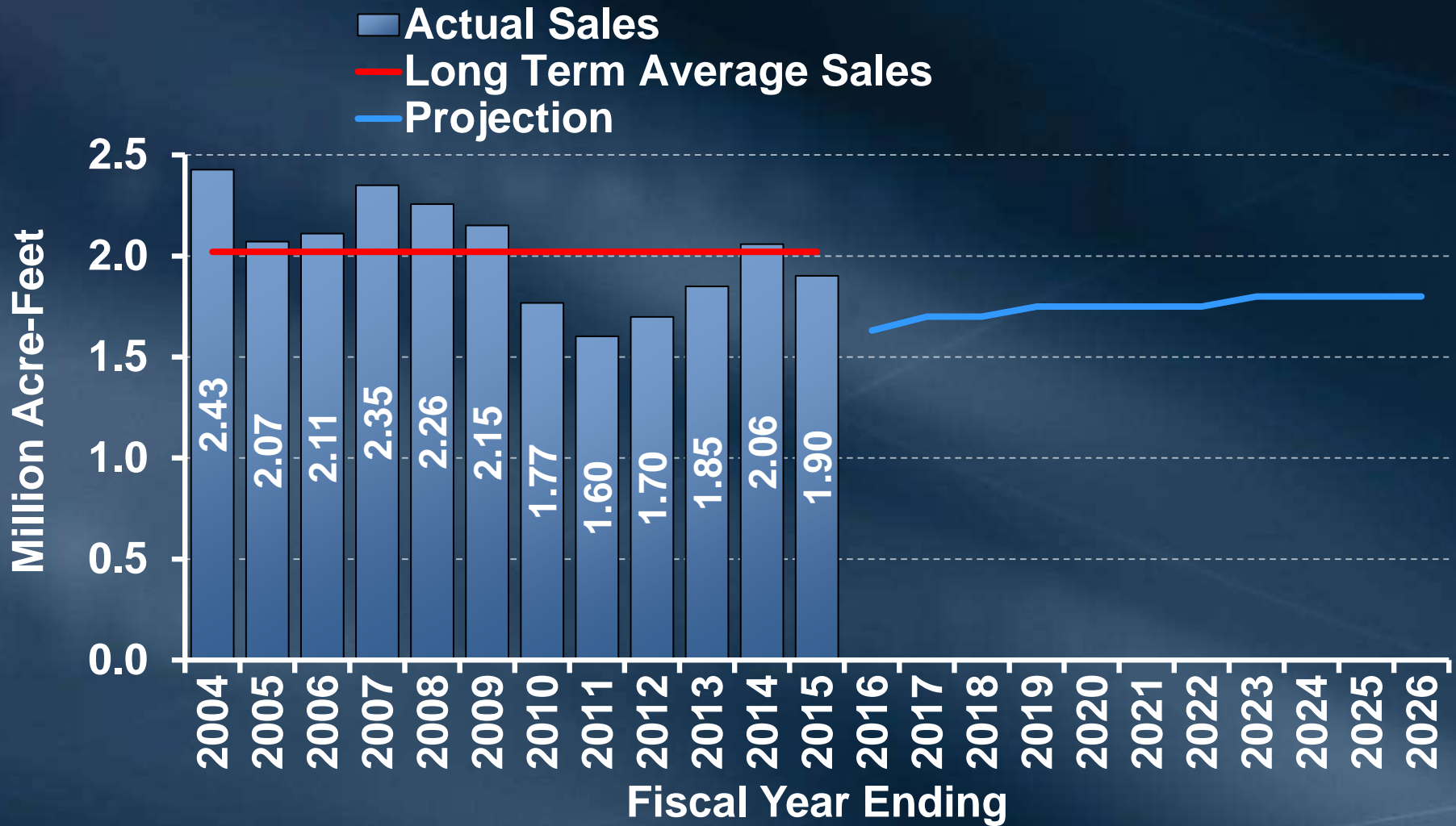
Projected Rate Increases & Financial Metrics



Overall Rate Inc.	1.5%	1.5%	4.0%	4.0%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Sales, MAF	1.90	1.63	1.70	1.70	1.75	1.75	1.75	1.75	1.80	1.80	1.80	1.80
Rev. Bond Cvg	2.7	1.5	1.6	1.6	1.7	1.8	1.9	2.0	2.3	2.4	2.6	2.7
Fixed Chg Cvg	2.4	1.3	1.3	1.3	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.5
PAYGO, \$M	210	99	120	120	120	120	120	123	127	130	133	137

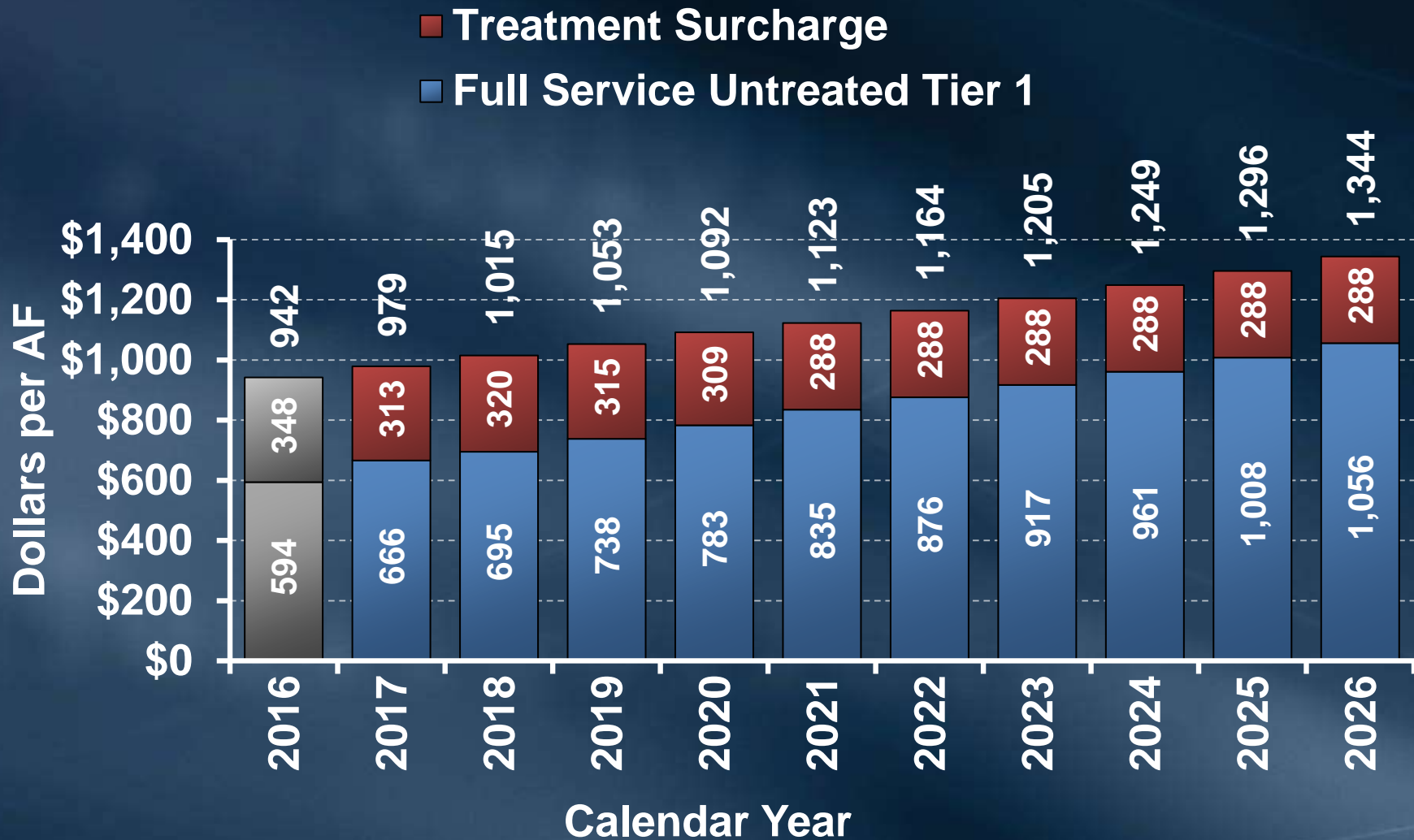
* Revenue Remainder & WRSF

Water Sales*

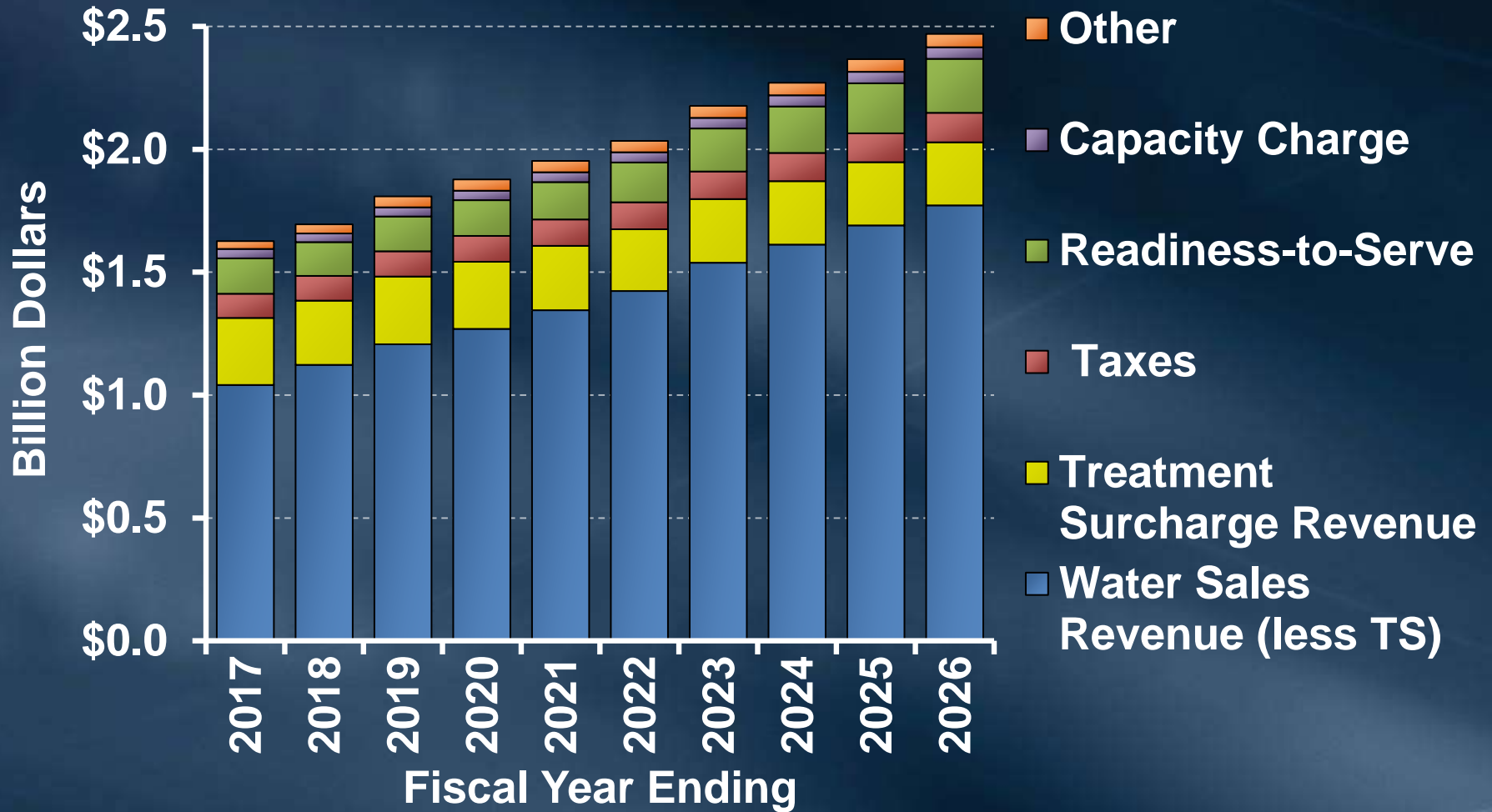


* Includes Exchange

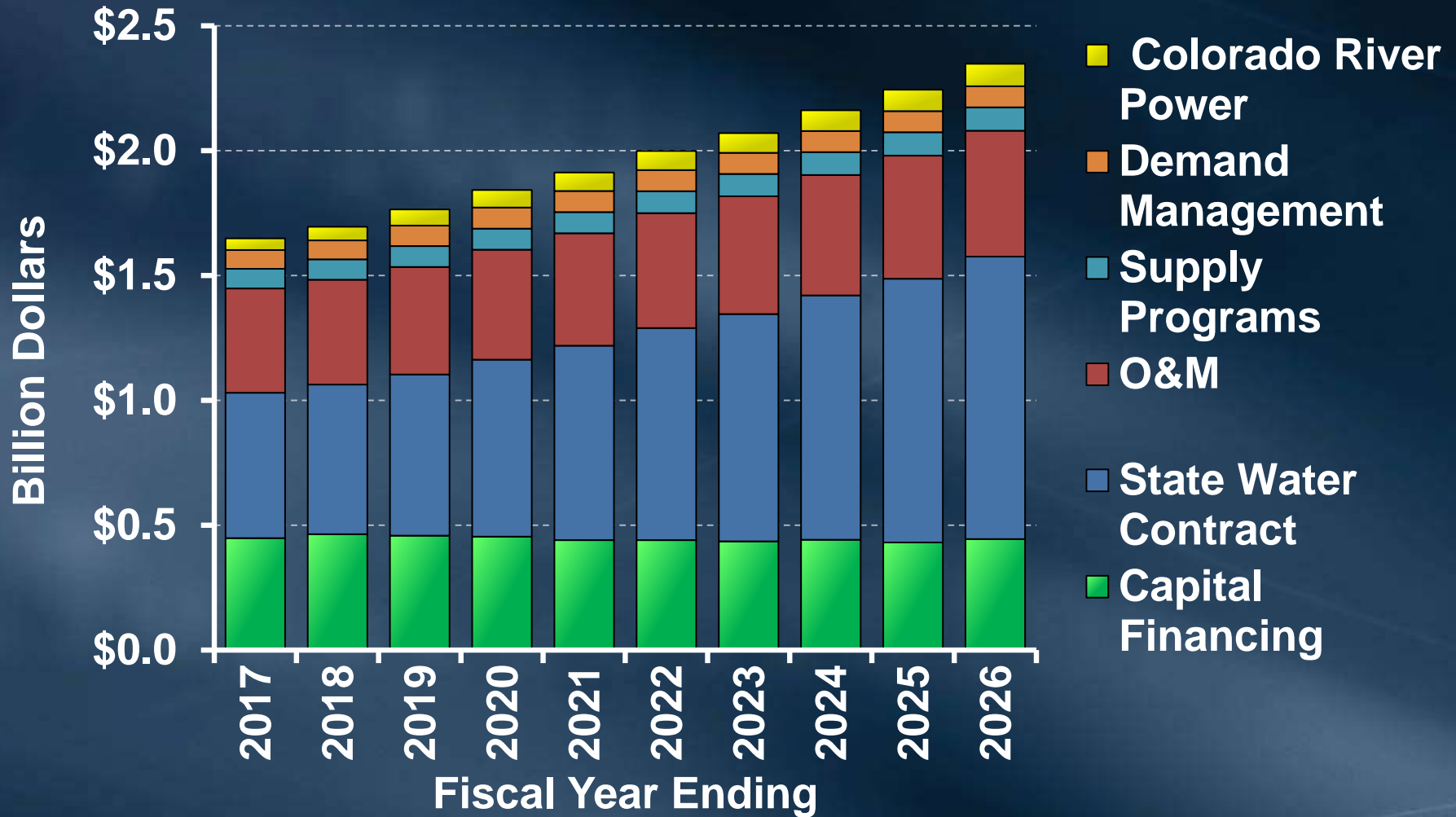
Projected Volumetric Rates



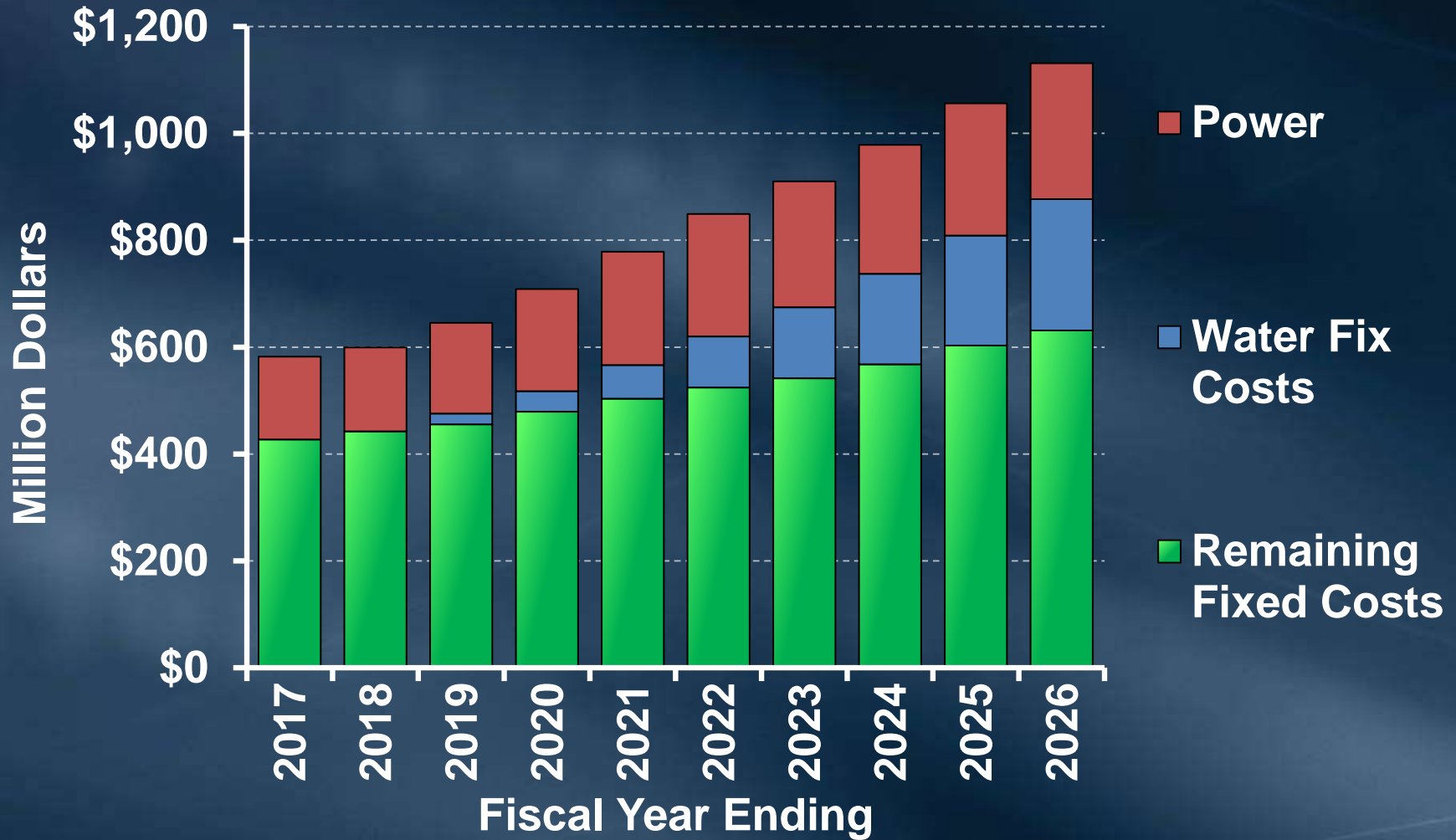
Revenue Forecast



Expenditure Forecast



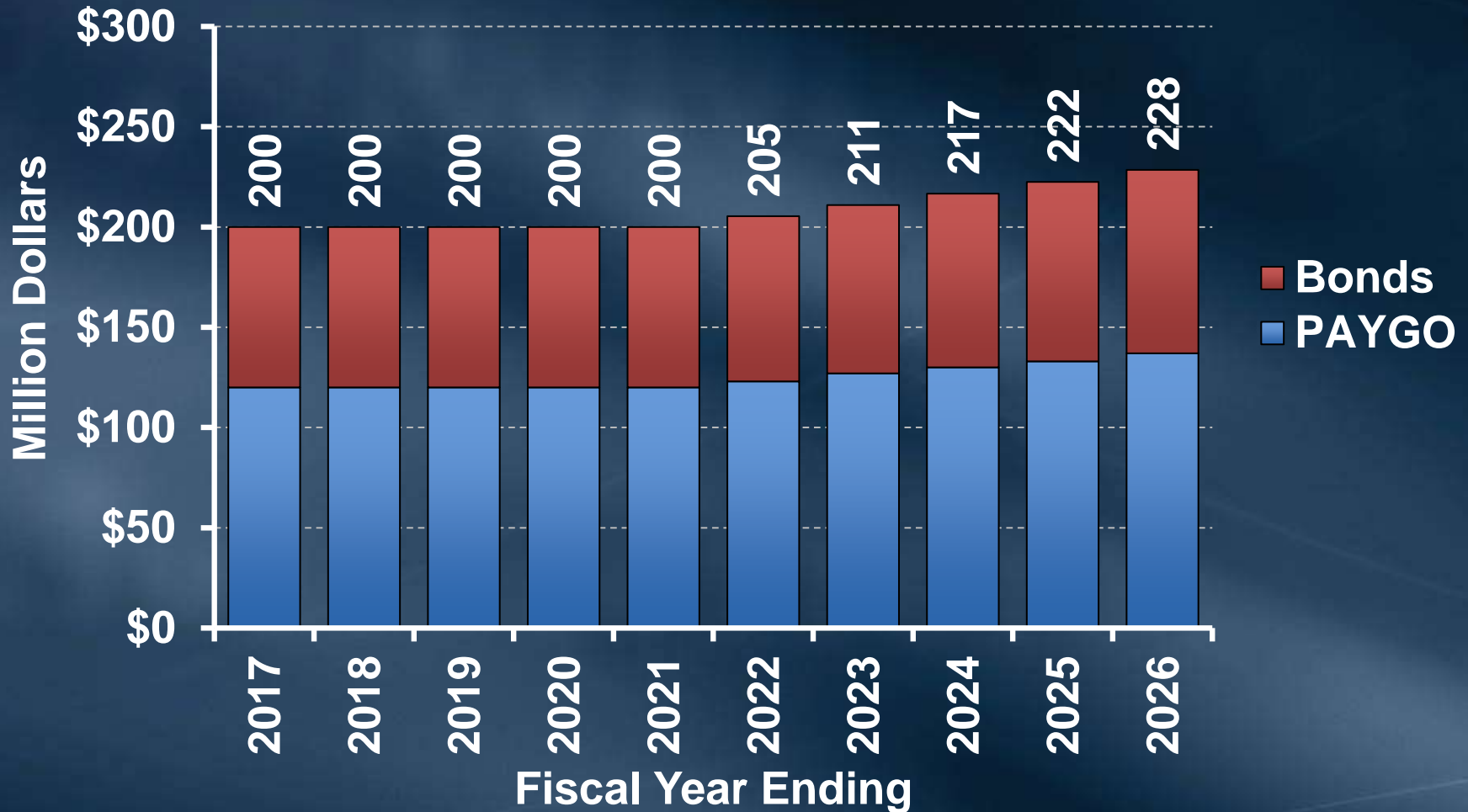
SWC Forecast



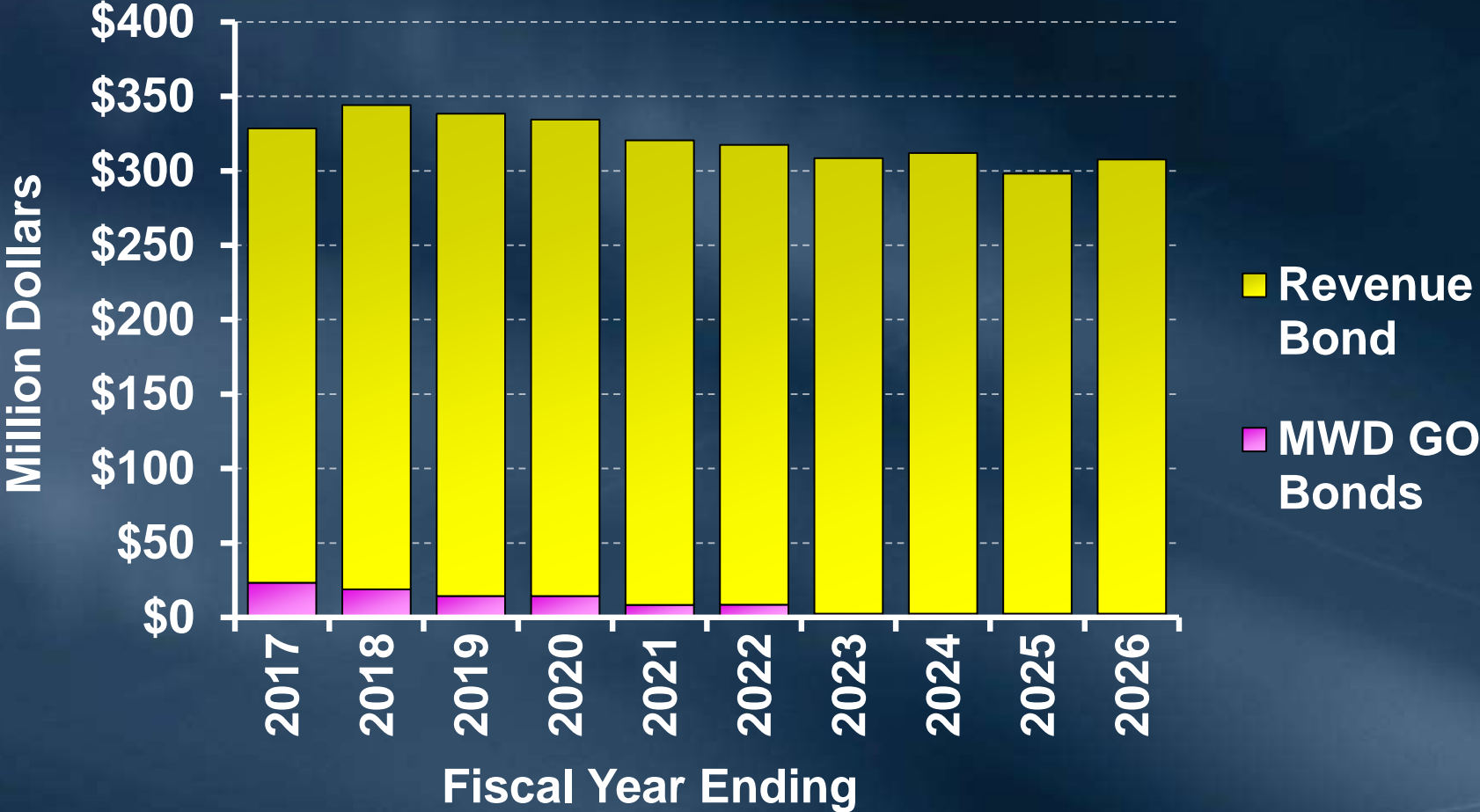
Demand Management



Capital Investment Plan Funding

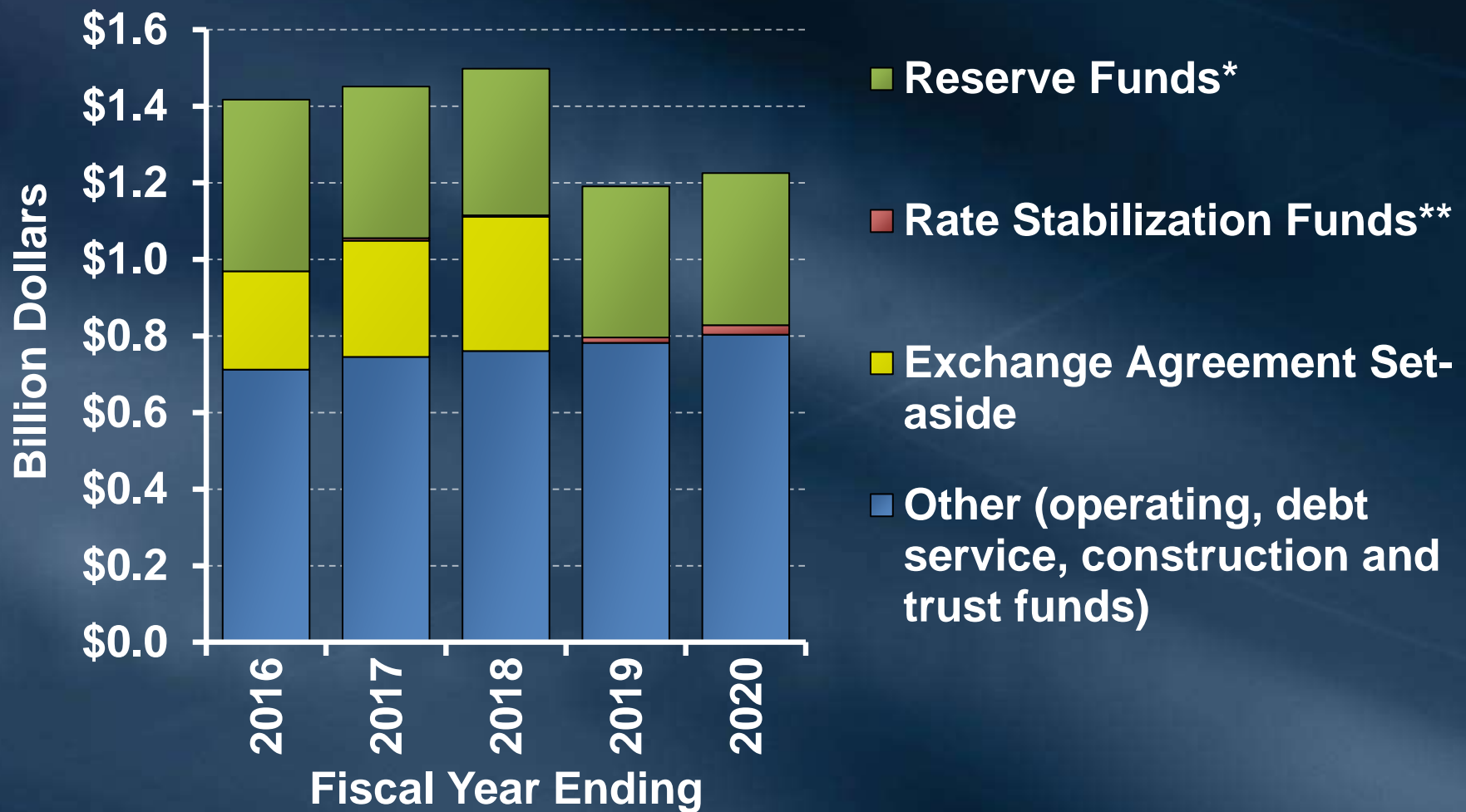


Debt Service



SDCWA Exchange Agreement Set-aside

End of Year Fund Balances



* Includes Water Rate Stabilization Fund and Revenue Remainder Fund

** Includes Water Stewardship Fund and Treatment Surcharge Stabilization Fund

Next Steps

February 9, 2016	Board Action, set public hearings
February 23, 2016	Workshop #2
February 26, 2016	Notice to Legislature
March 7, 2016	F&I Committee, Workshop #3
March 8, 2016	Public Hearings
March 22, 2016	Workshop #4
April 11, 2016	F&I Committee, Approve Biennial Budget and Water Rates and Charges
April 12, 2016	Board, Approve Biennial Budget and Water Rates and Charges

