



Proposed Biennial Budget for FYs 2022/23 and 2023/24;
Proposed Water Rates and Charges for Calendar years 2023
and 2024; Overview of Rates and Charges; Ten-Year Forecast

Workshop #3

Finance & Insurance Committee

Item 6a

March 7, 2022

Proposed Biennial Budget - Workshop #3

- Overview
 - Follow-up from Workshop #2
 - Response to Question in SDCWA Letter
- Next Steps



One Water

Proposed
Biennial
Budget

Fiscal Years
2022/23 – 2023/24

THE METROPOLITAN WATER DISTRICT
of SOUTHERN CALIFORNIA

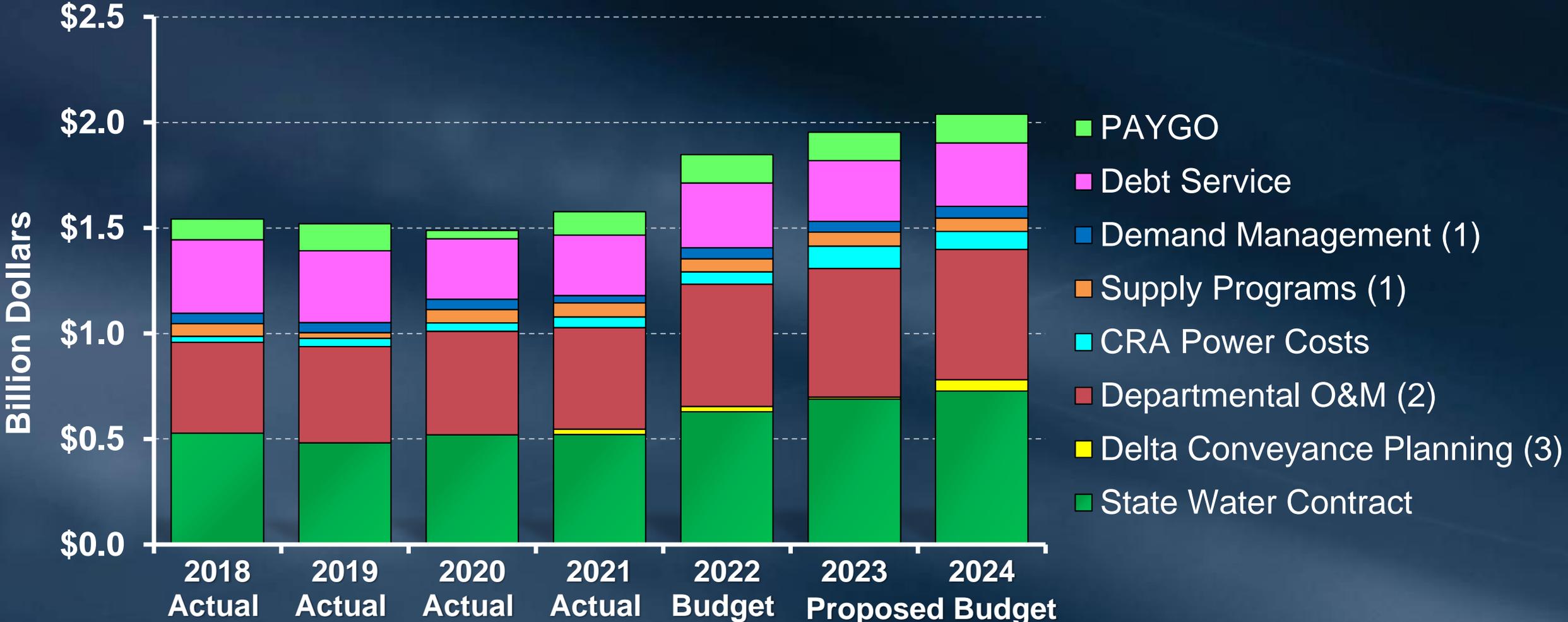
Historical and Projected Expenditures

Fiscal Year Ending	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Budget	2023 Proposed Budget	2024 Proposed Budget
State Water Contract - Capital	172.3	177.0	181.9	180.4	211.9	203.7	218.8
State Water Contract - Min. OMP&R	242.3	208.4	233.7	271.1	275.2	304.2	305.7
State Water Contract - On-Aqueduct Power	153.8	127.5	134.0	118.3	208.8	243.4	253.5
State Water Contract - Off-Aqueduct Power	2.7	3.6	2.5	4.3	3.5	5.1	5.0
State Water Contract - Credits	(43.8)	(34.2)	(33.2)	(52.4)	(70.1)	(67.8)	(56.3)
State Water Contract - subtotal	527.3	482.2	518.9	521.8	629.4	688.7	726.7
Delta Conveyance Planning - cash funded				25.0	25.0	10.0	54.5
Delta Conveyance Planning - paid from CWF refund						24.5	10.0
Departmental O&M (1)	430.9	454.8	490.8	481.2	579.9	608.9	616.7
CRA Power Costs	29.1	39.3	39.6	50.5	57.6	105.9	85.6
Supply Programs - cash funded	59.0	27.1	64.2	66.2	61.2	66.7	64.1
Supply Programs - bonded (AVEK High Desert)						38.4	46.0
Conservation Program - cash funded	15.6	16.6	25.7	16.6	25.0	25.0	25.0
Conservation Program - bonded						18.0	18.0
Local Resources Program & Future Supply Actions	34.6	31.8	22.4	18.1	27.5	25.8	29.9
Debt Service	347.1	340.2	287.2	287.1	307.0	288.0	301.0
PAYGO	98.4	128.0	38.9	110.0	135.0	135.0	135.0
Total Expenditures	1,542.1	1,520.3	1,487.8	1,576.5	1,847.5	2,034.9	2,112.6

FYE 2018 to 2022 is based on modified accrual, FYE 2023 & 2024 are based on cash

(1) includes Operating Equipment & Regional Recycled Water Program Planning Costs

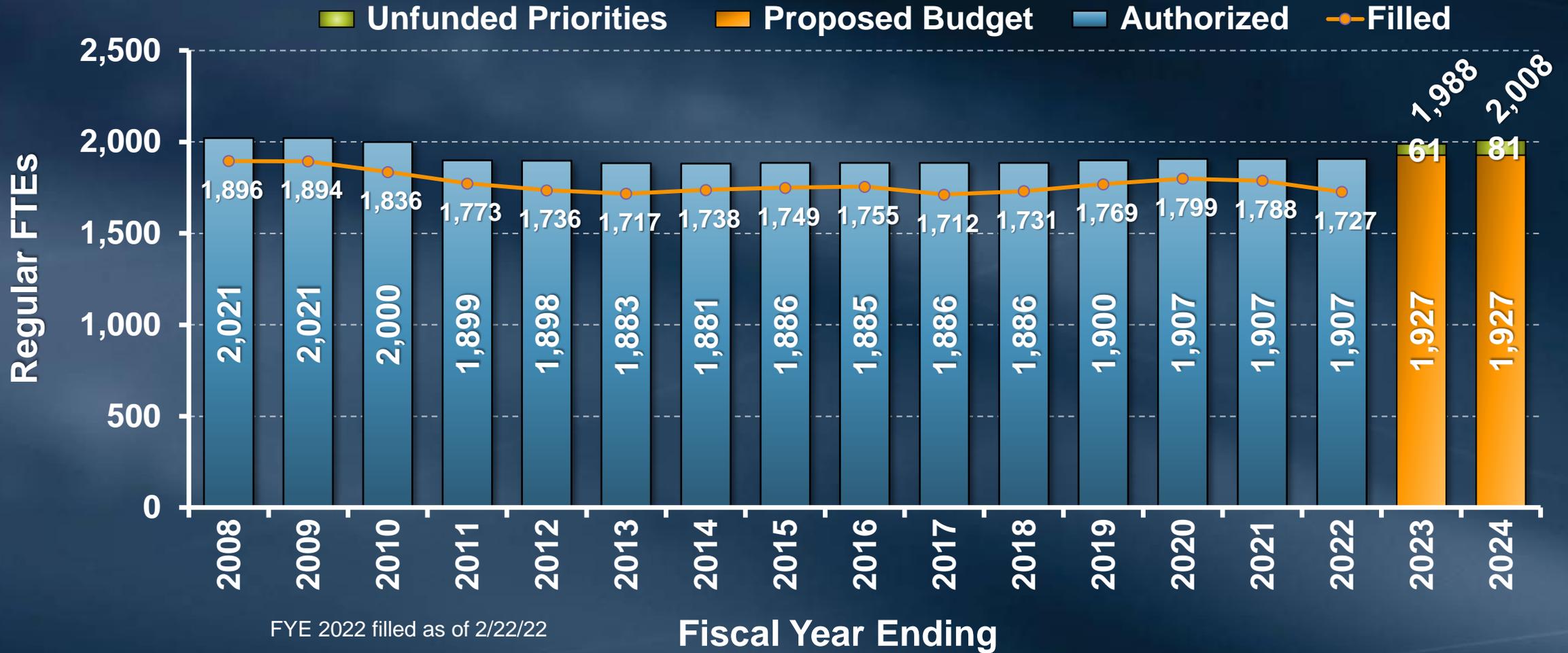
Historical and Projected Expenditures



FYE 2018 to 2022 is based on modified accrual, FYE 2023 & 2024 are based on cash
 (1) only includes cash funded portion
 (2) includes Operating Equipment & Regional Recycled Water Program Planning Costs
 (3) net of CWF refund

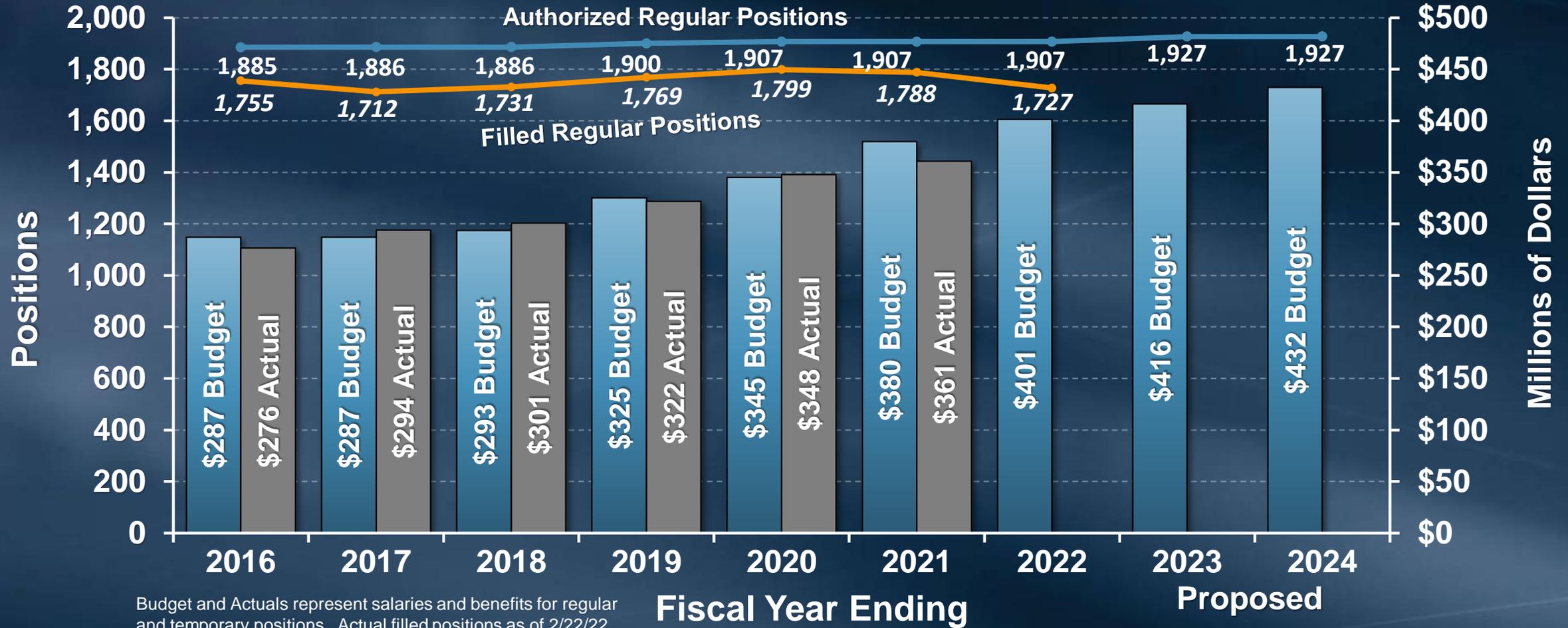
Historic Staffing Levels

Regular FTEs



Historic Staffing Levels

Positions and Dollars



Ethics' Department Budgeted Salary

Proposed Budget	FY 2022/23	FY 2023/24
5 FTEs	\$1.8 million	\$1.9 million

Additional Request	FY 2022/23	FY 2023/24
Additional 4 FTEs	\$1.1 million	\$1.2 million

Information on Debt & Principal Amortization

Metropolitan's Bond Ratings

Rating Agency	Metropolitan Lien and Mode	Rating Assigned	Rating Outlook
S&P Global Ratings	General Obligation Bonds	AAA (highest)	Stable
	Senior Lien—Long-Term Bonds	AAA (highest)	Stable
	Subordinate Lien—Long-Term Bonds	AA+	Stable
	Short-Term Obligations—Senior and Subordinate Liens	A-1+ (highest)	Stable
Moody's Ratings	General Obligation Bonds	Aaa (highest)	Stable
	Senior Lien	Aa1	Stable
Fitch Ratings	General Obligation Bonds (2014A)	AA+	Stable
	Senior Lien and Subordinate Lien	AA+	Stable
	Short-Term Obligations	F1+ (highest)	Stable

Metropolitan's Projected Coverage

- Error was discovered that changed some revenue & fixed charge coverage numbers +/- 0.1 over the 10-year projection
- Over the biennium the only number affected was FY2023/24 Revenue Bond Coverage. The corrected value is 1.4x not 1.5x
- All coverage numbers in this presentation have been corrected.

- Revenue Bond Coverage Target = 2.0x
- Fixed Charge Coverage Target = 1.2x

Fiscal Year Ending	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Revenue Bond Coverage	1.4	1.4	1.8	1.7	1.8	1.7	1.7	1.7	1.8	1.7
Fixed Charge Coverage	1.4	1.4	1.8	1.7	1.8	1.7	1.7	1.7	1.7	1.6

CIP Revenue Bonds Assumptions

- 30-year fixed rate bonds (Tax-Exempt) at current ratings

FYE Issued	Principal (\$M)	Rate (%)
2023	170	2.75
2024	160	2.75
2025	200	3.00
2026	210	3.00
2027	300	3.25
2028	670	3.25
2029	850	3.50
2030	990	3.50
2031	1,010	3.50
2032	640	3.50

Conservation and Supply Program Bonds Assumptions

- Conservation

- 10-year fixed rate bonds (taxable) at current ratings

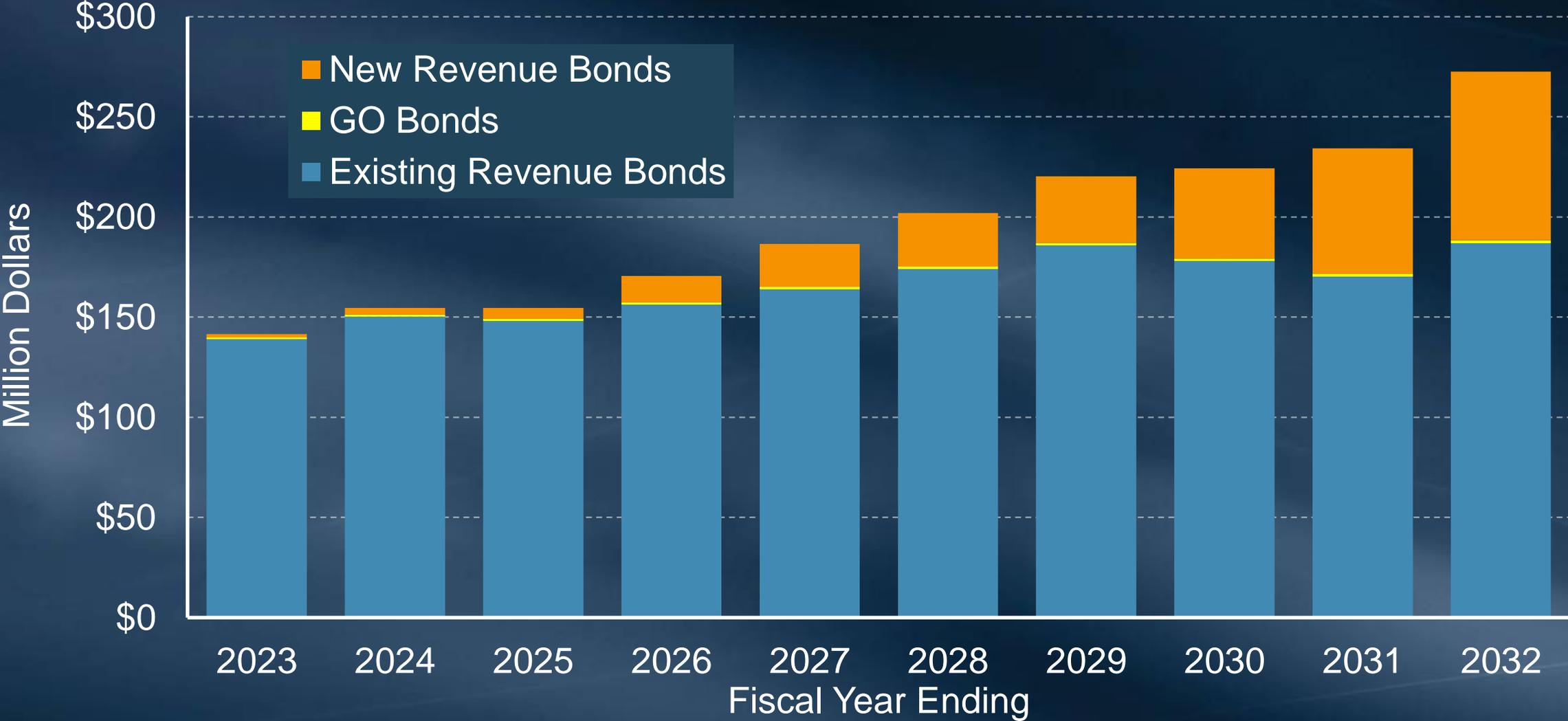
FYE Issued	Principal (\$M)	Rate (%)
2023	36	2.25

- Supply Program

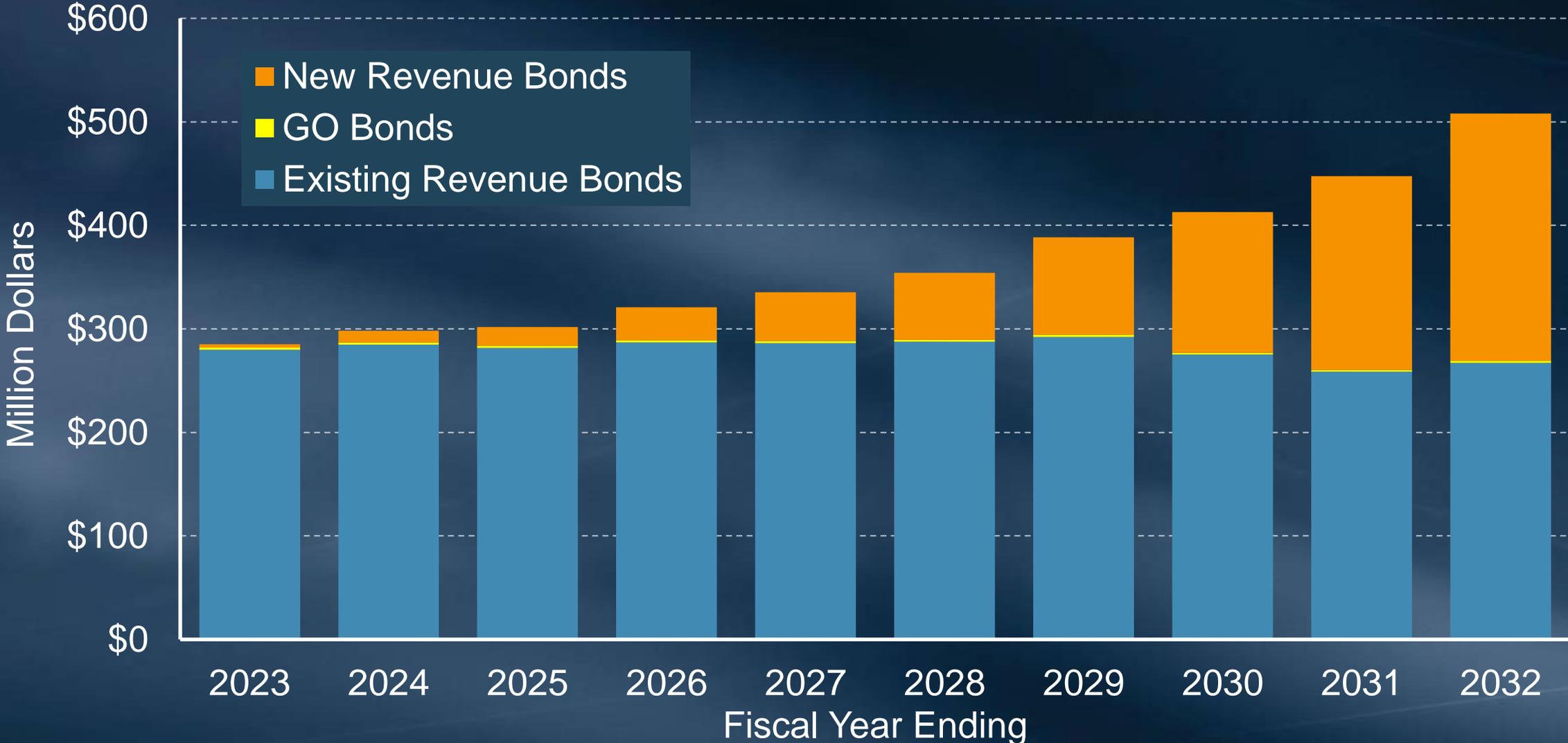
- 15-year fixed rate bonds (tax-exempt) at current ratings

FYE Issued	Principal (\$M)	Rate (%)
2023	97.9	1.75

Principal Amortization Over 10-Year Forecast Period



Debt Service Over 10-Year Forecast Period



Question: New revenue sources being pursued

- Regional Recycled Water Program (RRWP) contributions
 - LA County Sanitation District, S. Nevada Water Authority and Central Arizona Water Conservation District
- Reverse-Cyclic Program
 - Preserve SWP supplies & maintains current year revenues
- License fee revenue from direct carbon capture in the Delta Islands
- Federal Grants
 - Bureau of Reclamation Large-Scale Recycled Water Program
 - Total Fund: \$450 M/5-years
 - Request amount pending eligibility criteria set to be released this summer
 - Water Infrastructure Finance and Innovation Act (WIFIA)
 - Bureau of Reclamation's WaterSMART
 - Tentatively proposing \$30M for expected RRWP planning, design, and DPR demo expenditures
 - Clean Water State Revolving Fund (CWSRF)
- State Grants
 - FY 2021-22 DWR Urban Drought Relief Funding
 - \$10M request for conservation (turf removal and retrofit program)
 - FY 2022-23 Budget Request
 - \$52M for emergency drought projects, \$500M for Regional Recycled Water Project

Question: How do the WRM and SRI programs differ?

- Water Resource Management manages imported water supplies; advances water-use efficiency; provides supply and demand forecasts foundational for long-term resource planning; and develops and implements timely resource programs and projects.
 - Focus areas: Colorado River, groundwater storage program, regional resources and water conservation, state water project, desalination, water supply and system planning, and water transfers, exchanges, and storage programs
- Office of Sustainability, Resilience and Innovation (SRI) was established in 2021. Initial efforts include planning and preparation for the future through innovative and sustainable solutions in collaboration with key stakeholders.
 - Focus areas: climate action planning, regulatory compliance (e.g. CEQA), multi-species reserve management programs, and support proposed Delta improvements and development of water supplies

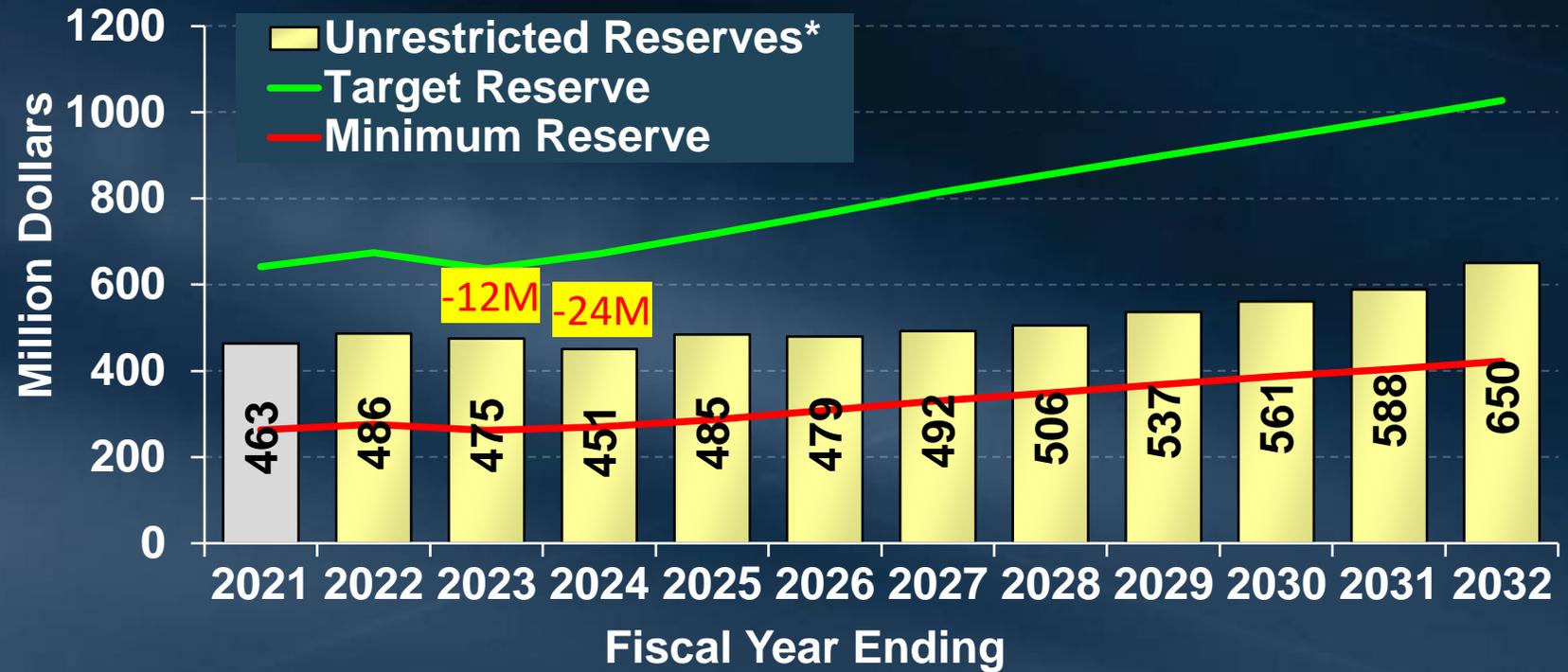
Question: What would be the reduction in rate increase (in % for each year 2023 and 2024) for a reduction of CIP expenditures of \$20 million in 2022/2023 and \$20 million in 2023/2024? Also show the resulting change in staff needs.

- Reducing the CIP \$20M/yr does not have a significant impact on the rates increases.
 - \$20M debt (2.75%, 30 year) = \$1m/yr debt service
 - For Oct 2023 issues, no principal payment until Jan 2026
- Staffing would remain unchanged as additional positions are requested to meet the \$300M/yr.
- Lowering the CIP will be achieved by reducing construction contract awards and/or reducing consultant expenditures

Question: What would be the reduction in rate increase for a use of \$20 M in reserves in 2023 and \$20 M in reserves in 2024? Also show the resulting debt coverage.

- The Proposed Budget already includes projected reserves draws greater than \$20M/yr.
 - \$49M draw of WSF in FY2022/23 (to zero)
 - \$12M draw on unrestricted reserves in FY2022/23
 - \$24M draw on unrestricted reserves in FY2023/24

Proposed Biennial Budget and 10-year Forecast

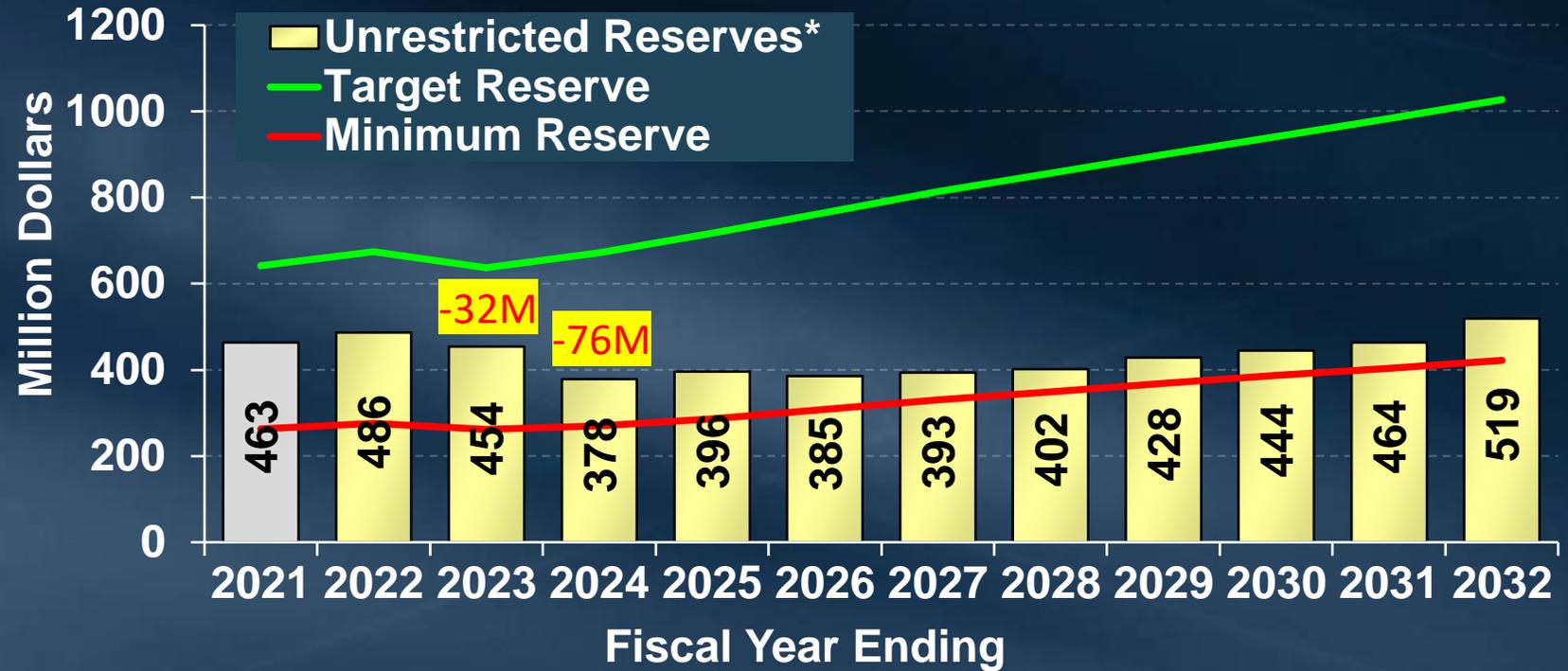


Overall Rate Inc.	3.0%	4.0%	8.0%	8.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Water Transactions (MAF)**	1.57	1.60	1.59	1.54	1.54	1.51	1.53	1.53	1.54	1.55	1.55	1.57
Rev. Bond Cvg	2.0	1.5	1.4	1.4	1.8	1.7	1.8	1.7	1.7	1.7	1.8	1.7
Fixed Chg Cvg	2.2	1.5	1.4	1.4	1.8	1.7	1.8	1.7	1.7	1.7	1.7	1.6
PAYGO, \$M	110	135	135	135	175	175	175	175	200	200	200	200

* Revenue Remainder and Water Rate Stabilization Fund

** Includes water sales, exchanges and wheeling

Scenario: Draw an additional \$20M in FY2022/23

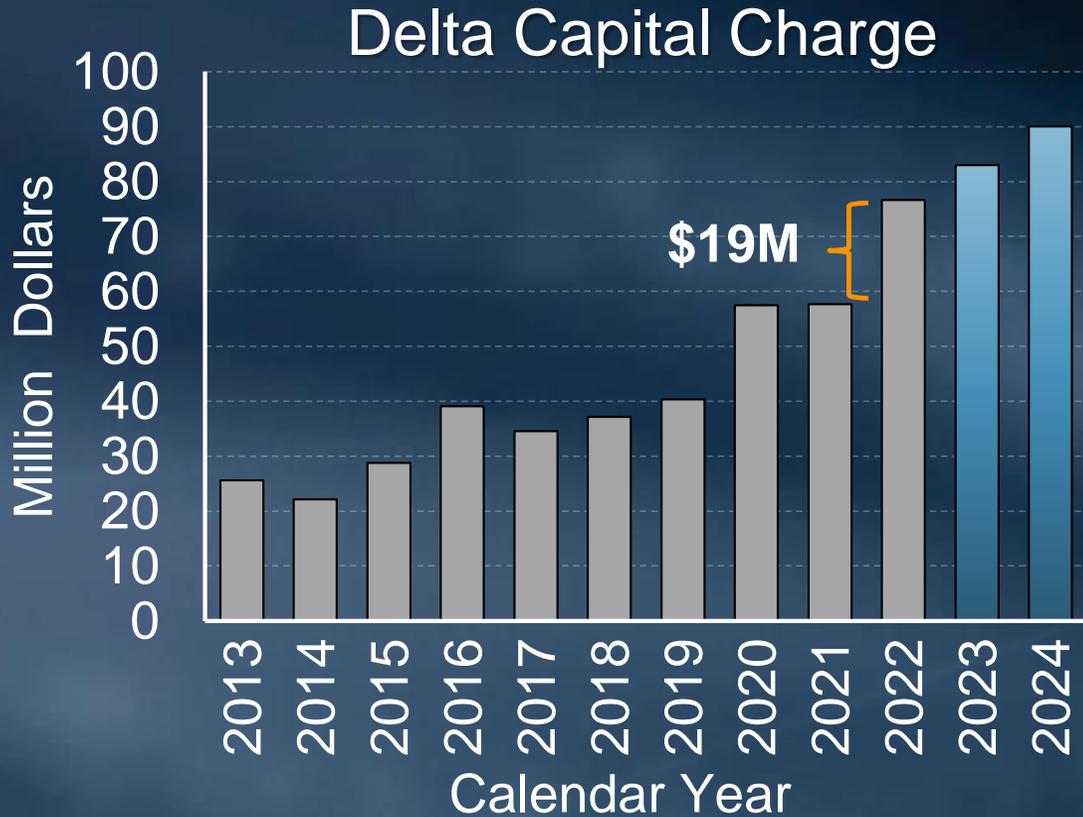


Overall Rate Inc.	3.0%	4.0%	2.8%	13.2%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Water Transactions (MAF)**	1.57	1.60	1.59	1.54	1.54	1.51	1.53	1.53	1.54	1.55	1.55	1.57
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Question: Details for the increase in the Delta capital Charge



Annual Compound Growth Rate
 2013-2022 = 13%
 2018-2022 = 20%
 Annual Growth 2022 = 33%
 Projected Growth 2023 & 2024 ~8.5%

2022 Delta Capital Change Increase	\$M	%
Power Revenues	3.3	17
True Up to Actual	(0.8)	(4)
Additional Spillway Repair	13.4	71
Future Costs	3.1	16
Total	\$19.0	100

Emergency Spillway Repair Costs	\$M
Total Capital Spillway Cost	1,182
Total Spillway \$ in Contractors Charges	529
Emergency spillway \$ added to Delta Capital Charge Calculation in 2022	242
2022-2035 increased MWD Delta Capital Charge for Emergency Spillway Repairs	\$13.4/yr

Question: OPEB & CalPERS Liability

- OPEB (Other Postemployment Benefits.. i.e. retiree medical)
 - MWD pays the full Actuarially Determined Contribution (ADC)
 - Started funding Section 115 trust in FY2013/14
 - June 30, 2021 Liability = \$165 M, Funded ratio 64%
 - Up from 61% on June 30, 2020
 - Estimated to be at 80% funded by FY2027/28
- CalPERS (i.e. pension)
 - MWD pays the full ADC
 - No current policy to accelerate Unfunded Accrued Liability (UAL) paydown
 - June 30, 2021 Liability = \$725 M, Funded ratio 72%
 - Down from 73% on June 30, 2020

Question:

Prepay CalPERS pension, rate impact & long-term savings

CalPERS Pension Liability – Payment Options

- For more information see Sept 10, 2019 Board information letter on Prefunding PERS and OPEB
 - 2019 F&I Committee presentations: April 8, July 8, Aug 19, Sep 9
 - Bartel Associates, actuarial consultant, presented accelerated repayment options for the District's UAL
 - Option 1 - Payments directly to CalPERS
 - Option 2 - Irrevocable Supplemental Pension Trust (ISPT)

OBJECTIVE	MOST EFFECTIVE METHOD
Pay down UAL* faster, save on interest	Direct payments to CalPERS
Reduce contributions in peak years	ISPT
Provide contribution flexibility, if needed	Direct payments to CalPERS, ISPT
Stabilize contribution rates	ISPT

* Unfunded Actuarial Liability

CalPERS Prepayment – Rate Impact & Savings

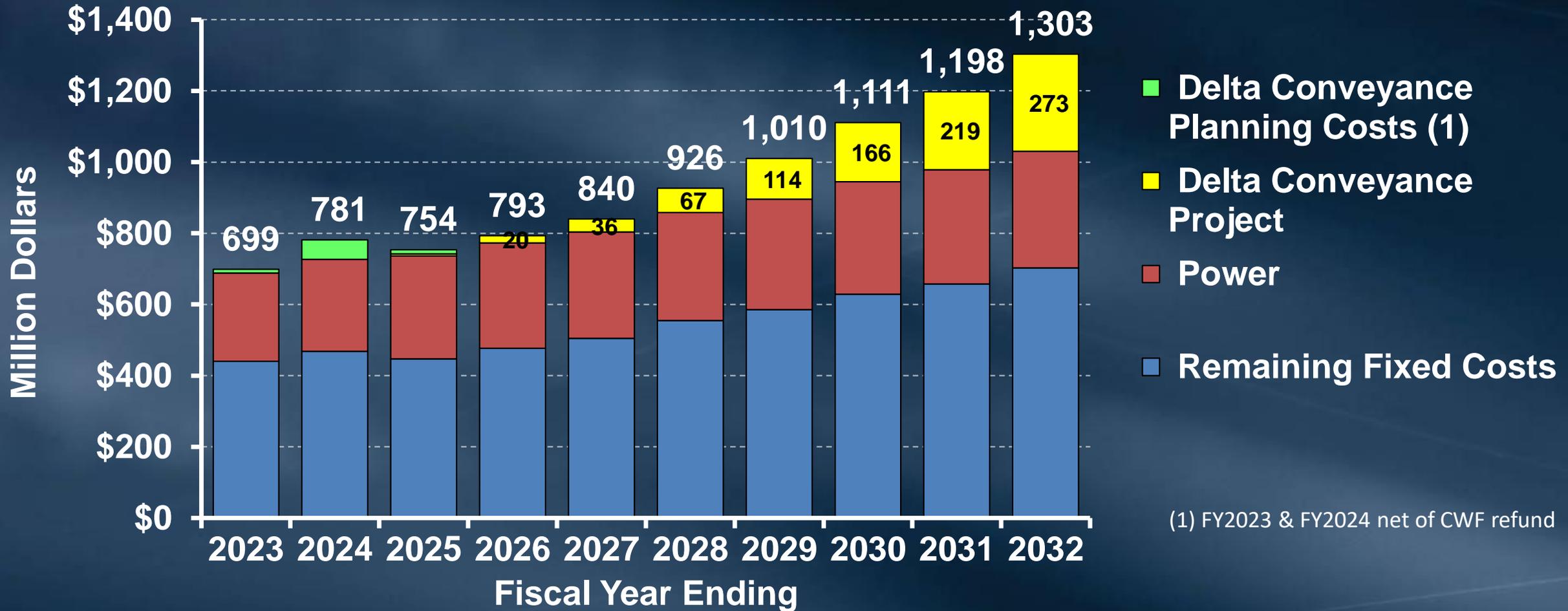
- In 2019 Bartel Associates determined that if Metropolitan funds an additional \$15M/year towards UAL pension obligations, the pension funded ratio would reach the 80% funded threshold by June 30, 2028.
 - **Approximately 2 years earlier than the default payment schedule.**
- Prefunding PERS at \$15M/year would require a one-time increase in overall rates and charges of about 1% in the year of initiating the additional payment
 - **The rate impact could be smoothed out by adding the \$15M/yr over a period of years.**
- As a point of reference, Bartel estimated that a \$100M direct payment to CalPERS would have produced present value savings ranging from \$22M to \$110M.

Rate Scenario with Hypothetical Delta Conveyance Project

- Based on Aug 2020 DCA costs assessment
- Cost Assessment based on 6,000 cfs, single tunnel
- Estimated operation date: 2042
- Capital Costs: preliminary est. \$15.9B in 2020 Dollars*
- Assuming 47.2% Metropolitan Share
- MWD Capital Share: \$7.5B in 2020 Dollars
- Financed: 40-year term, 4.5% fixed rate debt

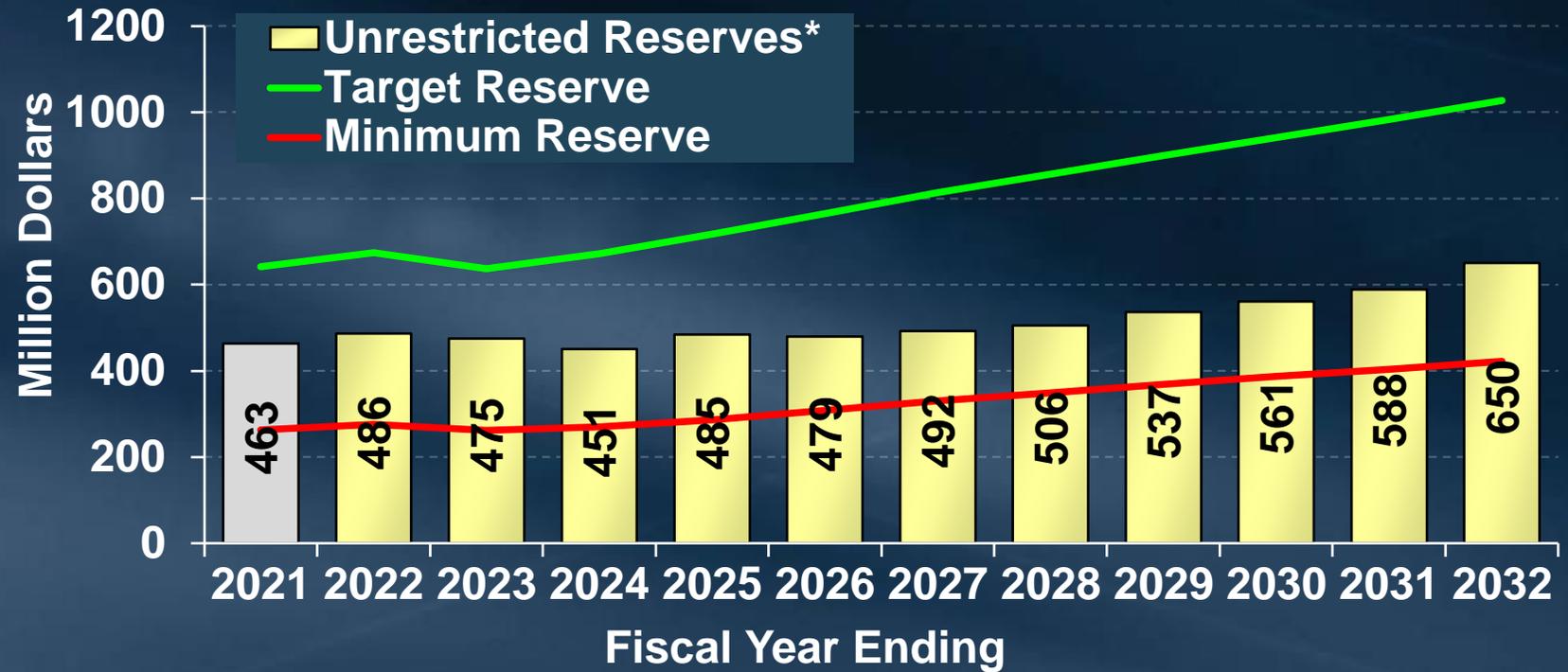
*Delta Conveyance Design and Construction Authority's preliminary cost information developed in August 2020 based on assumed facilities and capacity. A cost estimate will be prepared closer to project approval.

State Water Contract Forecast with Hypothetical Delta Conveyance Project



(1) FY2023 & FY2024 net of CWF refund

Proposed Biennial Budget and 10-year Forecast

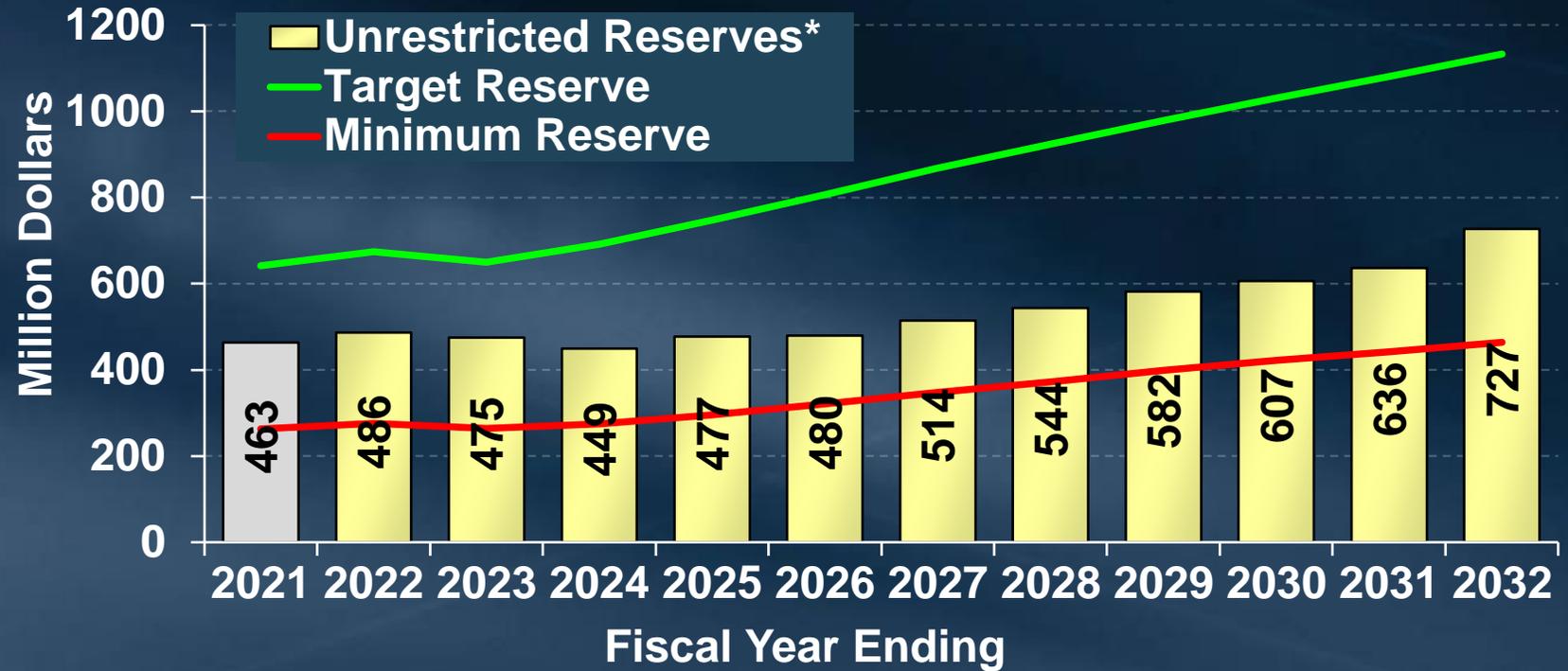


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Rate Scenario w/ Hypothetical Delta Conveyance Project



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Next Steps

- | | |
|----------------|---|
| March 8, 2022 | Public hearing on proposed water rates and charges and applicability of the tax rate limit pursuant to Section 124.5 of the MWD Act |
| March 22, 2022 | F&I Committee, Workshop #4, if needed |
| April 1, 2022 | Member Agency Managers Meeting |
| April 11, 2022 | F&I Committee, Recommend Biennial Budget and Calendar Year rates and charges; Workshop #5, if needed |
| April 12, 2022 | Board action regarding Biennial Budget, Calendar Year rates and charges, and applicability of Section 124.5 limit |

Q&A

