



Finance, Audit, Insurance, and Real Property
Committee

Overview of Metropolitan's Finances

Item 7a

July 11, 2023

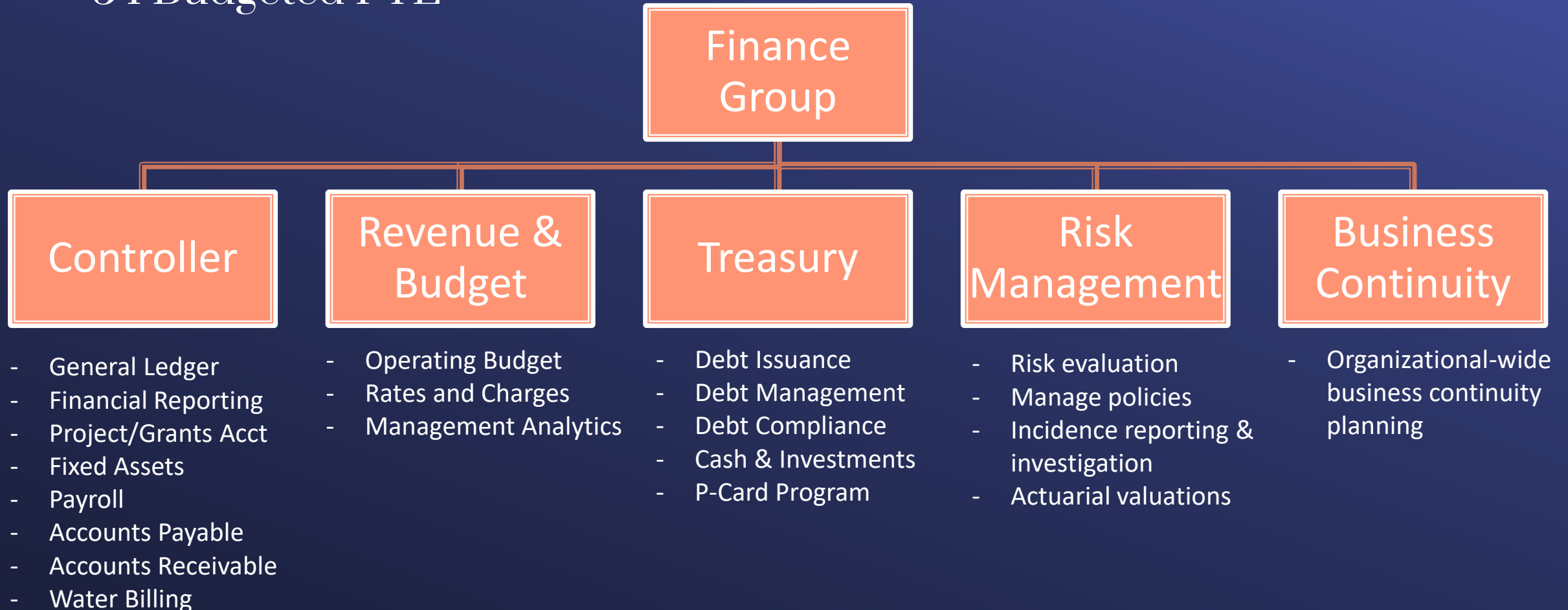
Agenda

- Financial Overview
- Unrestricted Reserves
- Rate Structure
- Cost-of-Service Process
- Debt profile

Financial Overview

Organizational Chart

~54 Budgeted FTE



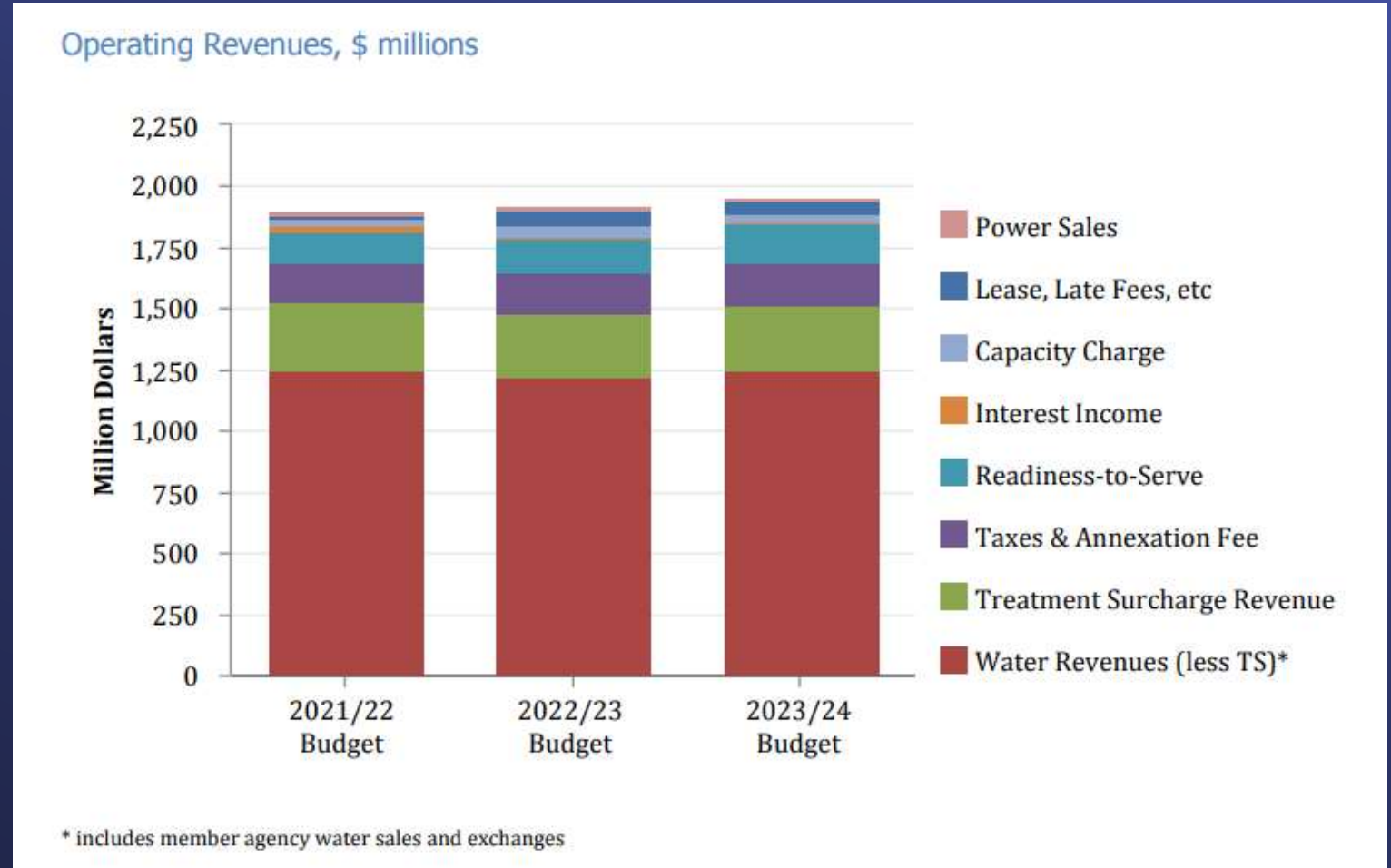
Financial Structure

Enterprise Fund Accounting

- Metropolitan operates as a utility enterprise in accordance with generally accepted accounting principles (GAAP) for proprietary funds as required by Governmental Accounting Standards Board (GASB).
- Metropolitan is a single enterprise fund, which GASB labels as a business-type activity (BTA)
- MWD's enterprise (purpose) under the MWD Act is to develop, store, and distribute water, at wholesale, to its member public agencies for domestic and municipal purposes. This is unlike an all-purpose city or county, that engages in various general government and enterprise activities and keeps separate funds for each of those activities, including utilities.
- All operating revenues – unless restricted by Administrative Code – are available to support MWD's enterprise-wide activities.

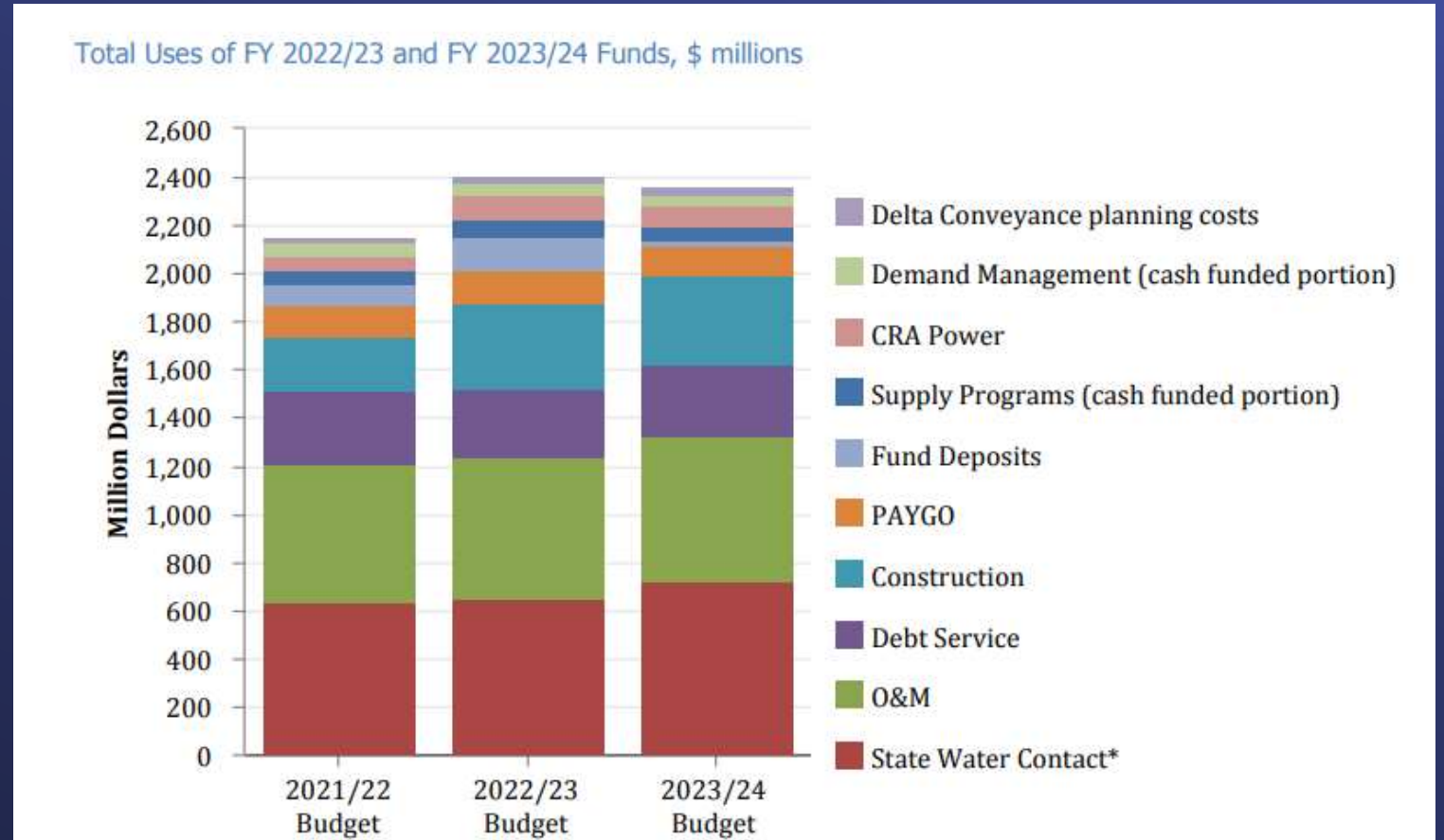
Operating Revenues - Budget

- Water revenues (including exchanges) make up a significant majority of MWD's operating revenues, followed by water treatment surcharge revenues and property taxes.



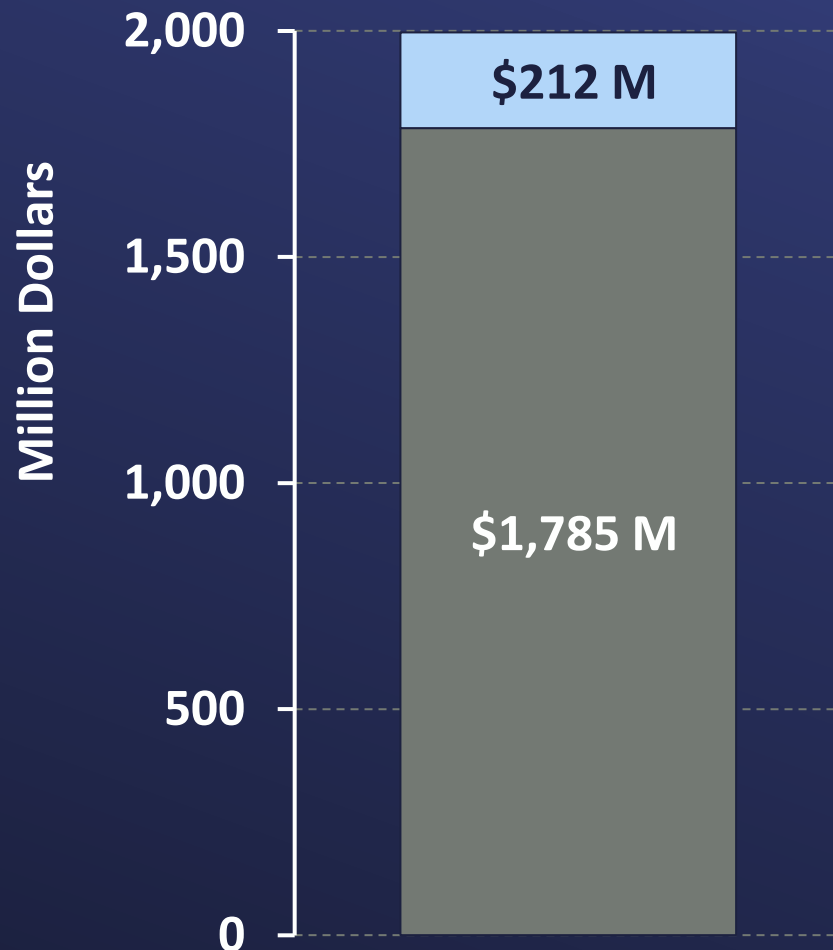
Uses of Funds – Budget (including CIP)

- MWD's major uses of funds include expenditures for the State Water Contract, Operations & Maintenance, debt service, and capital construction.



Non-Discretionary Expenditures

2022/23 Budget Expenditures



Discretionary

- PAYGO Funding
- Conservation Credits
- Delta Conveyance Project planning costs
- Future Supply Actions & Stormwater Pilot

Non-discretionary

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

What are Met's Funds?

June 30, 2022 - \$1.56 B



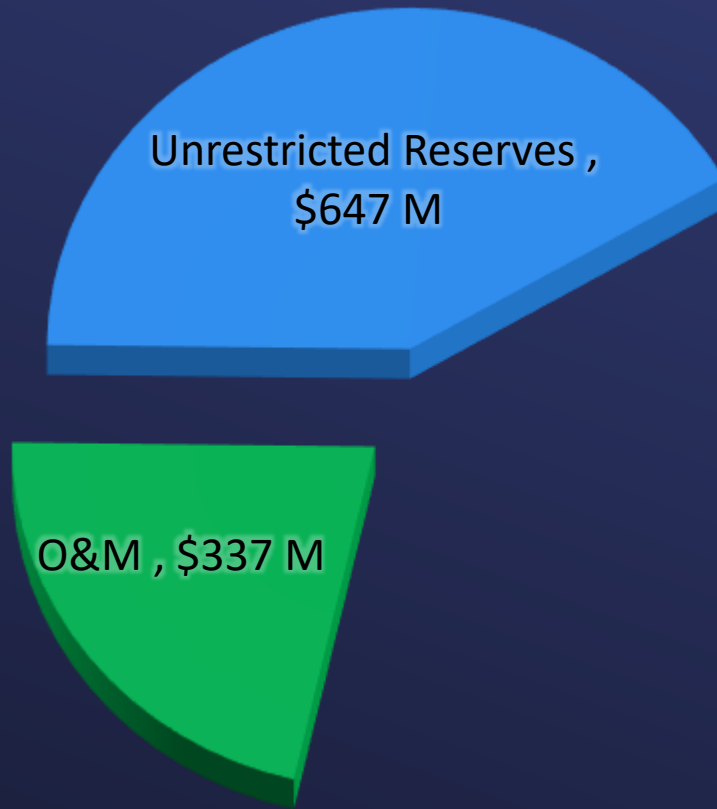
Unrestricted Reserves

Set up pursuant to Board policy to help provide stable & predictable water rates.

- Revenue Remainder Fund
- Water Rate Stabilization Fund

What are Met's Funds?

June 30, 2022 - \$1.56 B



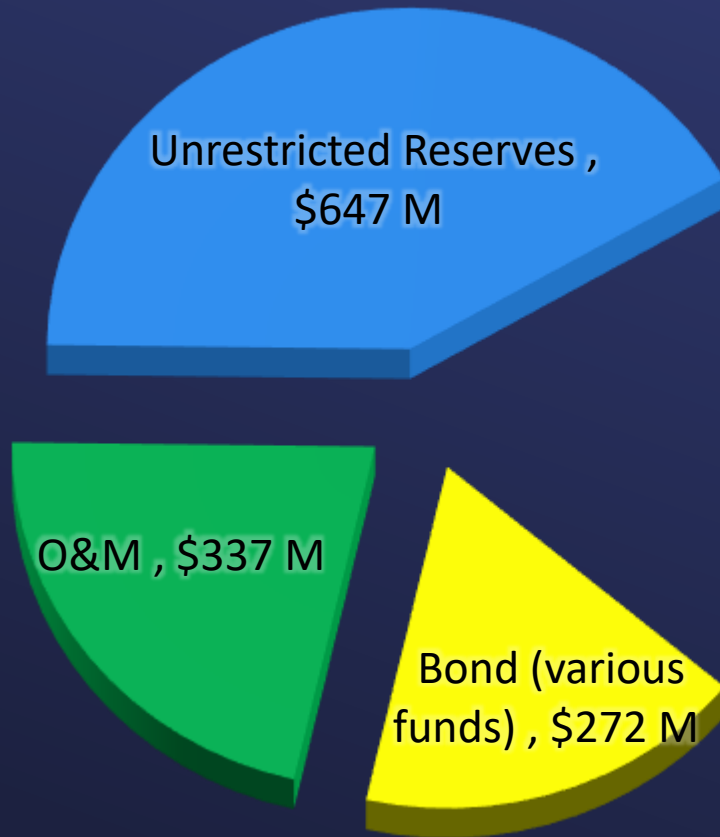
O&M Fund:

Set up pursuant to Master Senior Revenue Bond Resolution.

Required to maintain two months of Operation and Maintenance expenditures.

What are Met's Funds?

June 30, 2022 - \$1.56 B

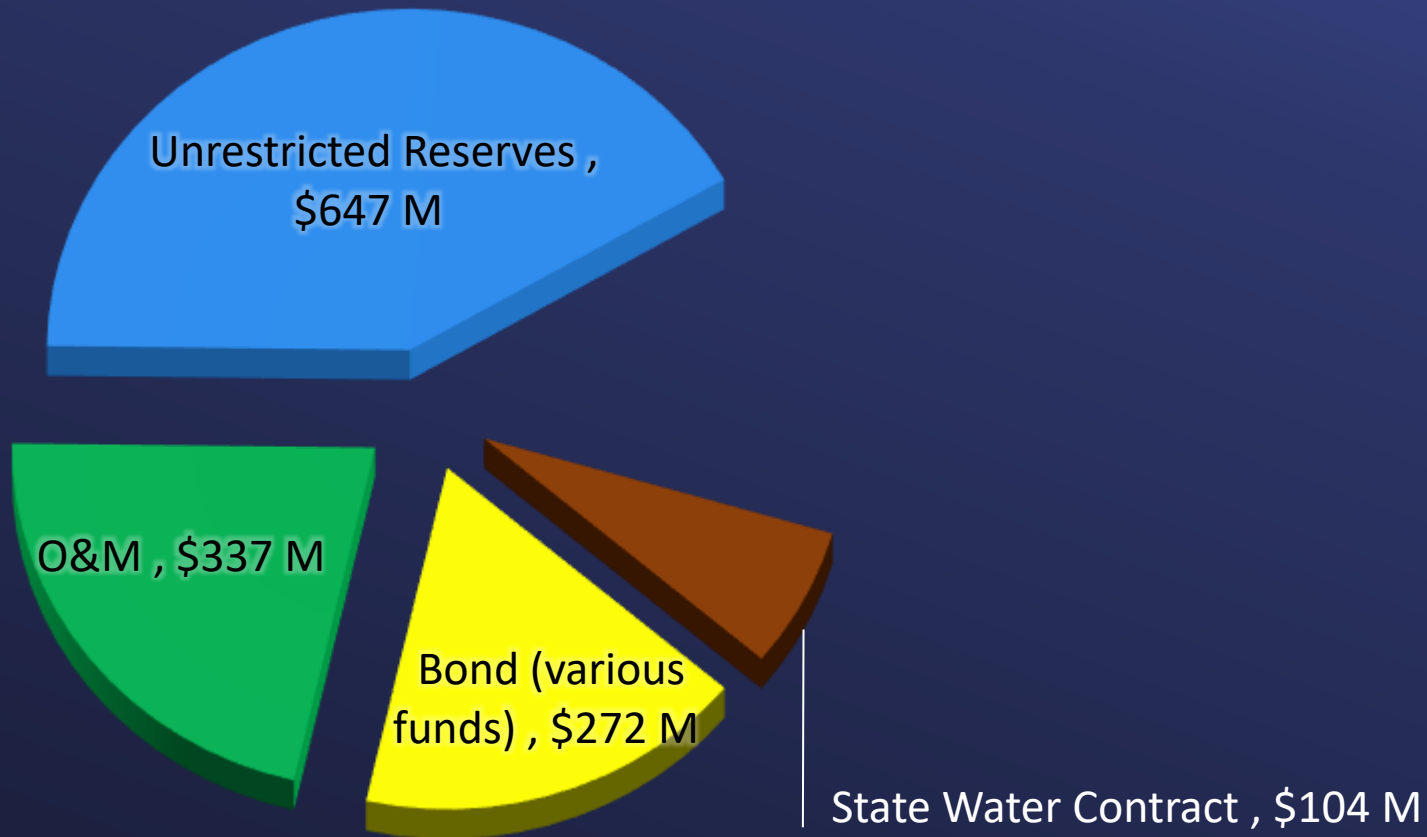


Bond Funds:

Set up pursuant to a bond or other legal obligation.

What are Met's Funds?

June 30, 2022 - \$1.56 B

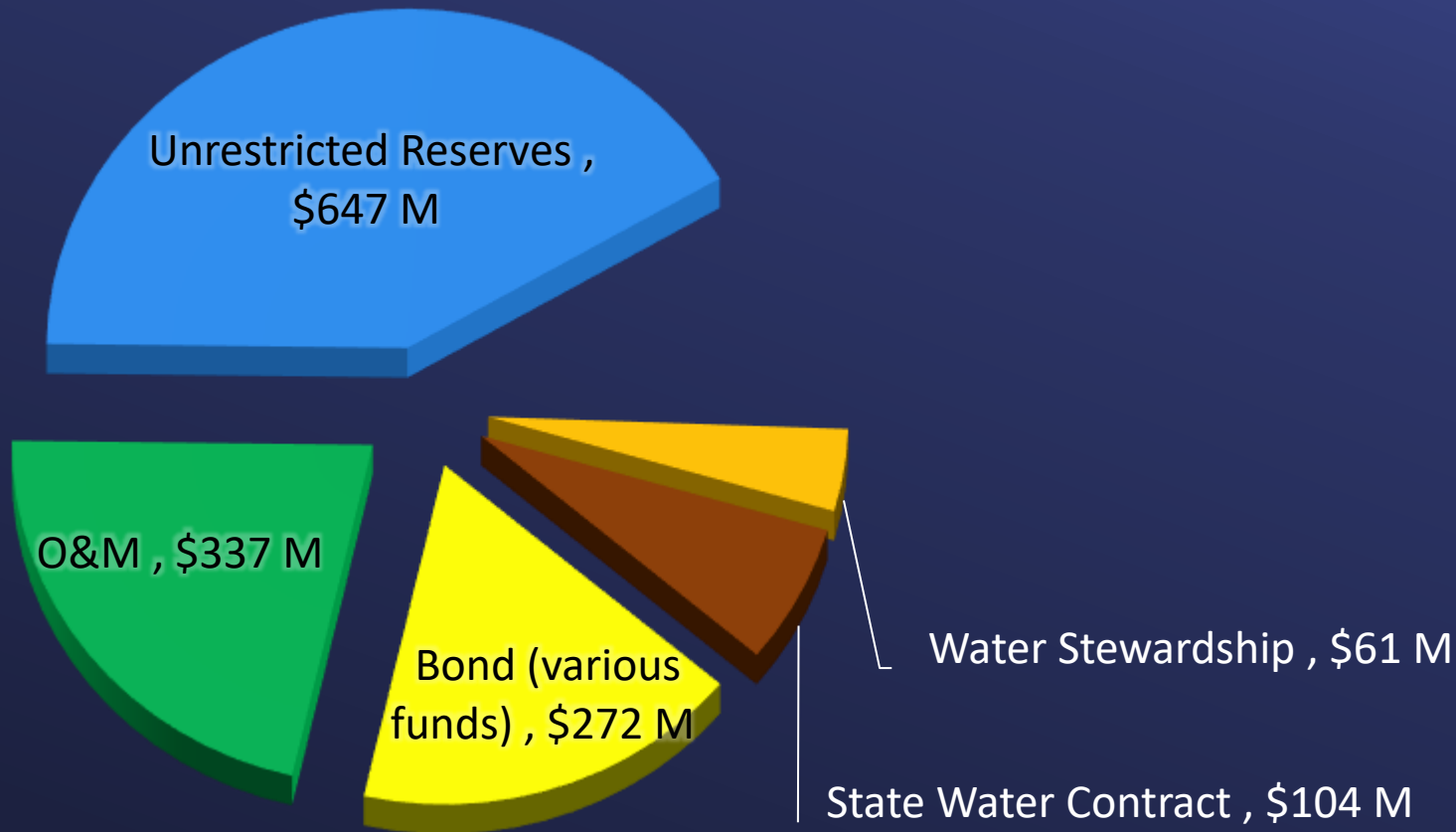


State Water Contract Fund:

Set up pursuant to Board policy to ensure adequate funds are available to make the July 1st and Jan 1st SWC capital payments.

What are Met's Funds?

June 30, 2022 - \$1.56 B



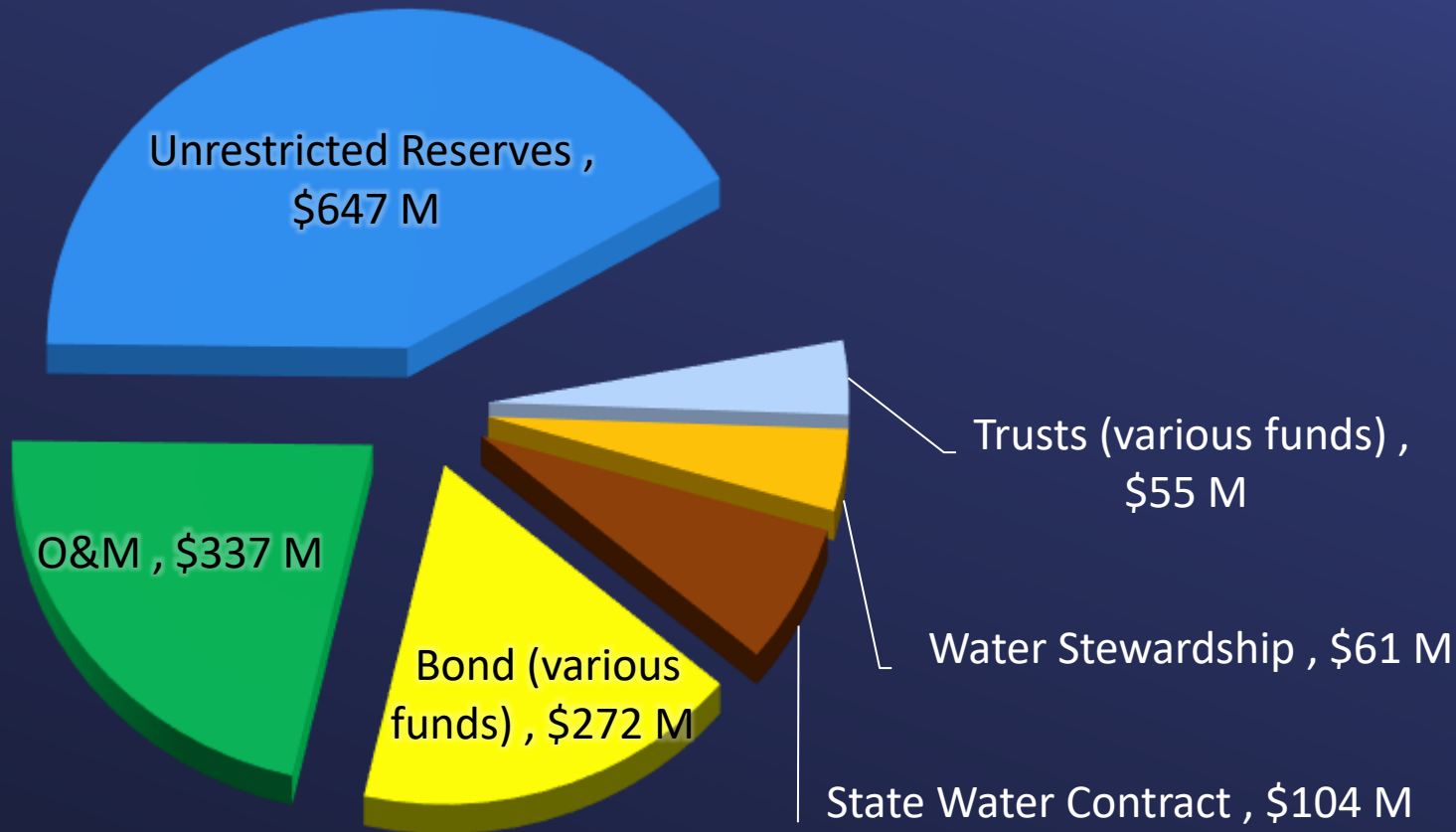
Water Stewardship:

Set up pursuant to Board policy.
Administrative Code Section to collect revenue from the Water Stewardship Rate and to pay demand management programs.

April 30, 2023 balance is \$0

What are Met's Funds?

June 30, 2022 - \$1.56 B

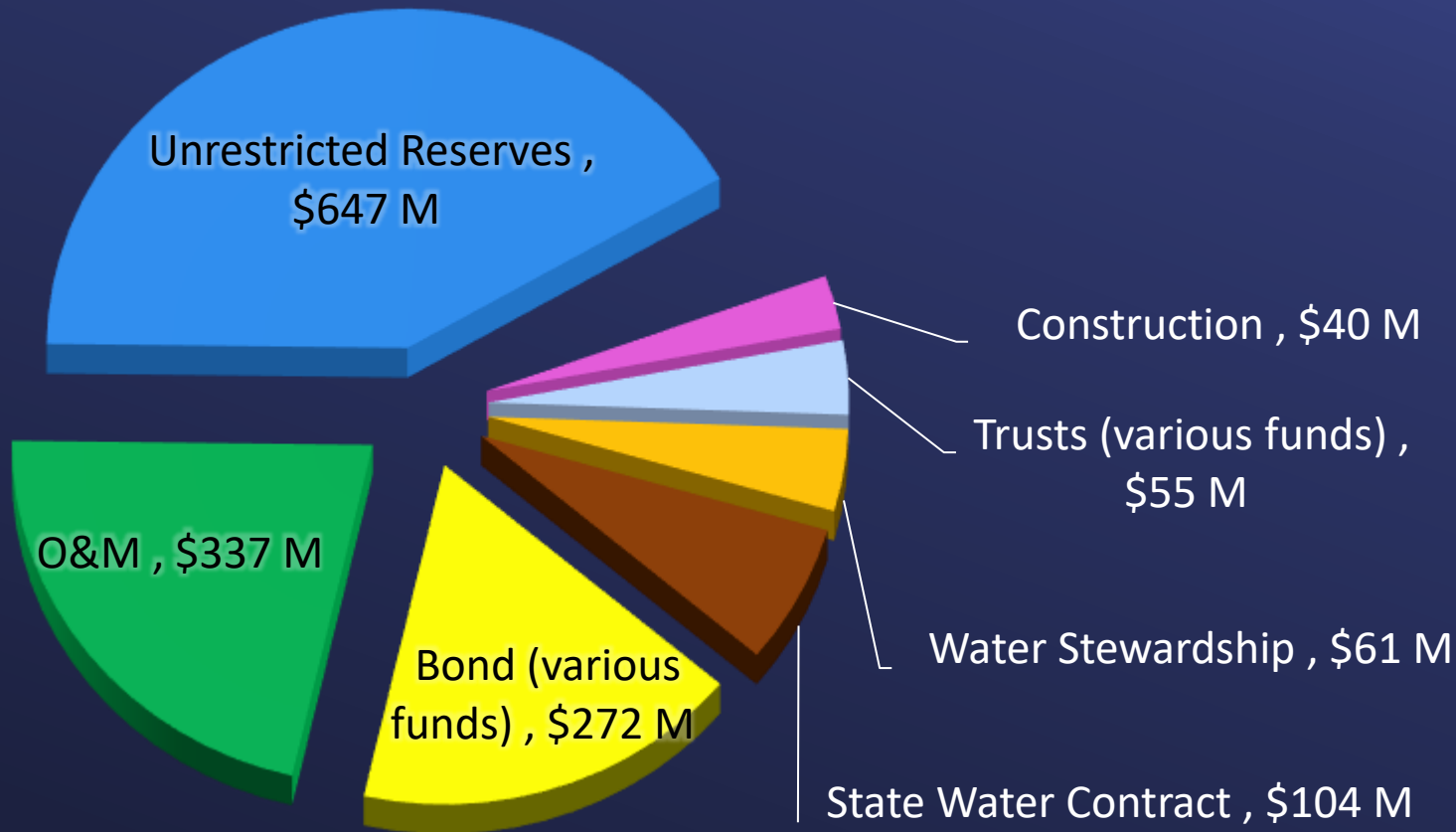


Trust Funds

Trust funds are monies held by Metropolitan in a trustee or custodial capacity pursuant to legal obligations.

What are Met's Funds?

June 30, 2022 - \$1.56 B



Construction Funds:

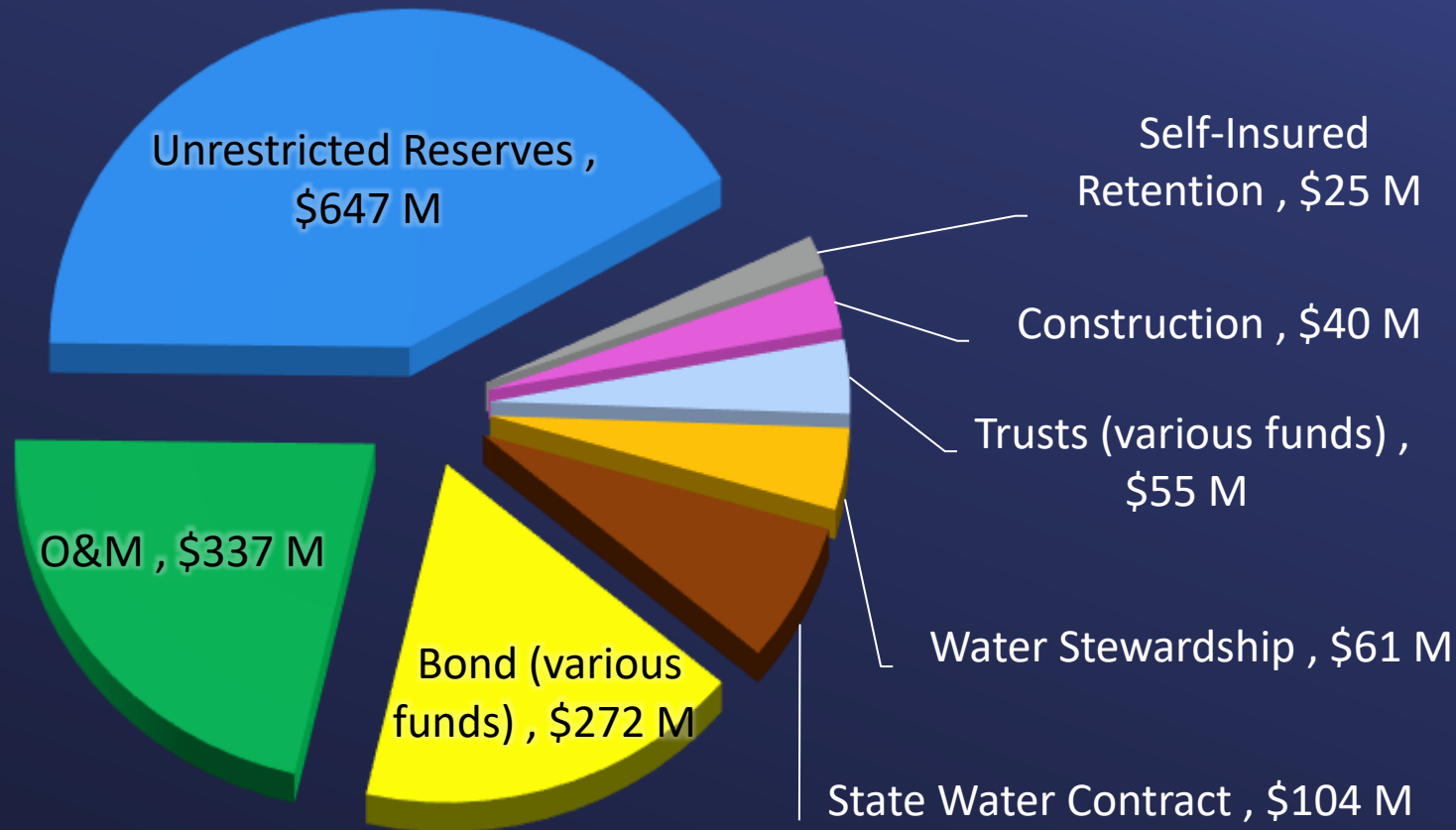
Set up pursuant to Board policy.

Administrative Code Section 5201(d)

Holds bond proceeds available for capital expenditures.

What are Met's Funds?

June 30, 2022 - \$1.56 B



Self-Insured Retention Fund:

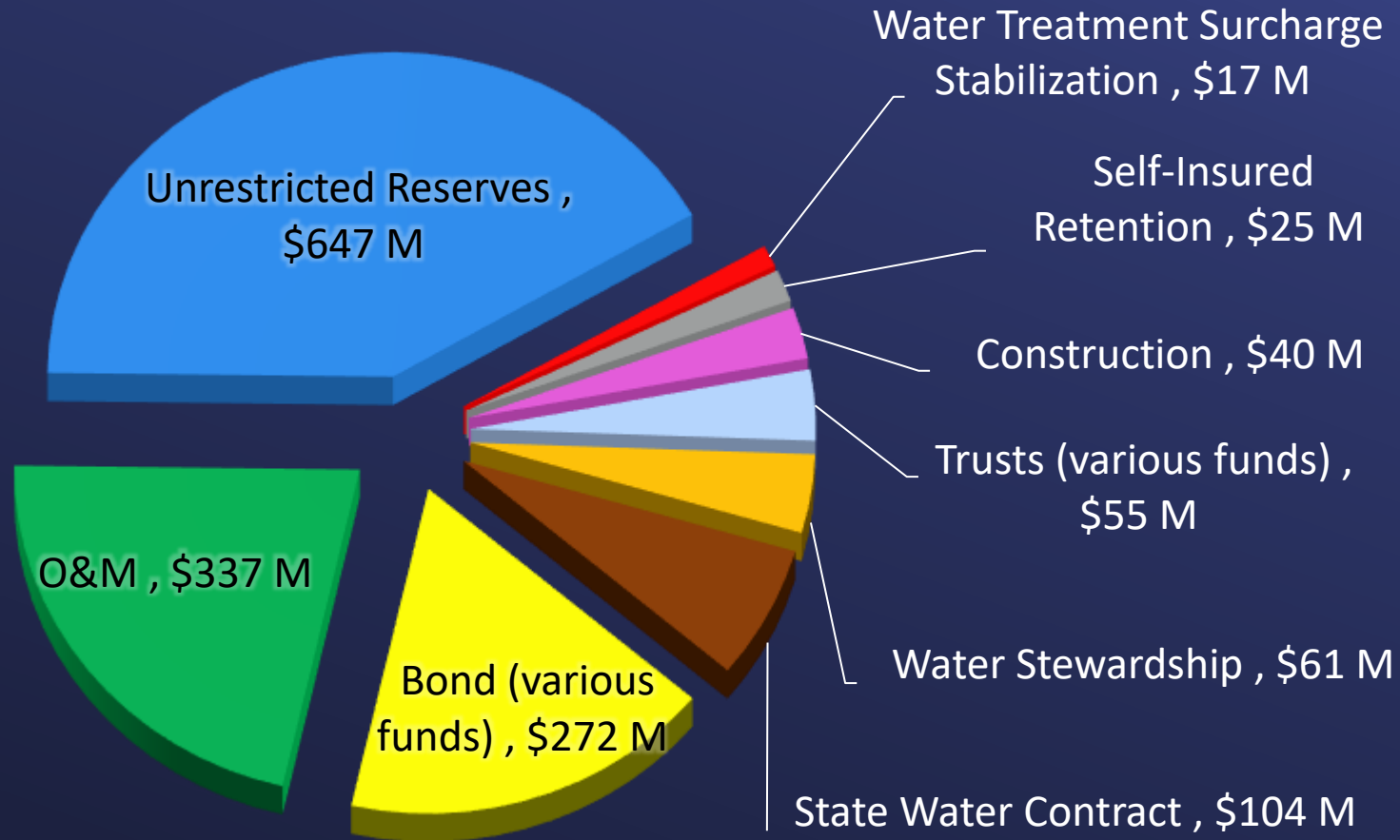
Set up pursuant to Board policy.

Administrative Code Section 5201(p):

\$25 million set aside for emergency repairs and claims against the District.

What are Met's Funds?

June 30, 2022 - \$1.56 B



Water Treatment Surcharge Stabilization Fund:

Set up pursuant to Board policy.
Administrative Code Section 5202(d)

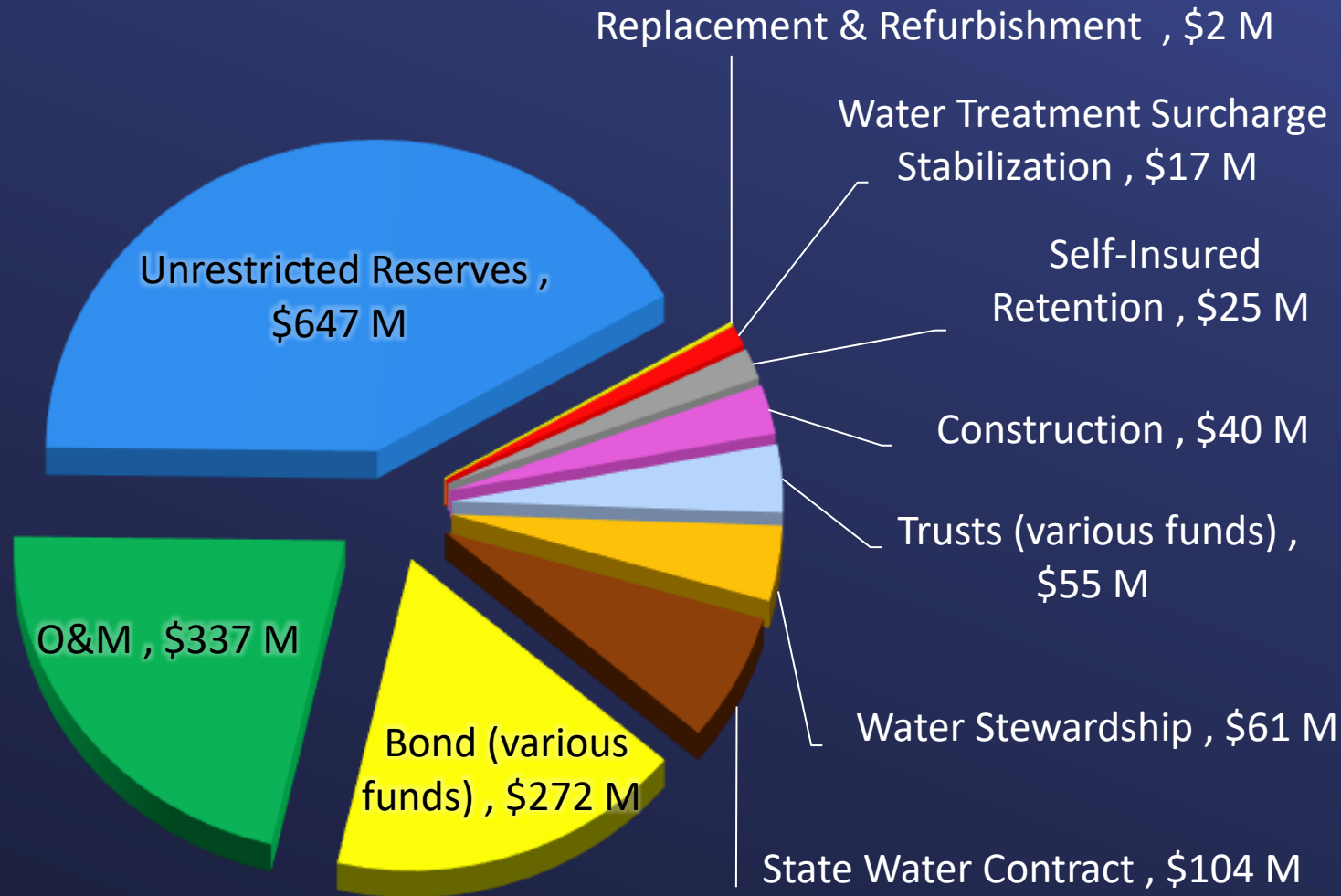
Holds treatment surcharge revenues in excess of water treatment costs.

Available for the principal purpose of mitigating required increases in the treatment surcharge.

Projected June 30, 2023 balance = \$0

What are Met's Funds?

June 30, 2022 - \$1.56 B



Replacement & Refurbishment:

Set up pursuant to Board policy.

Administrative Code Section 5202(d)

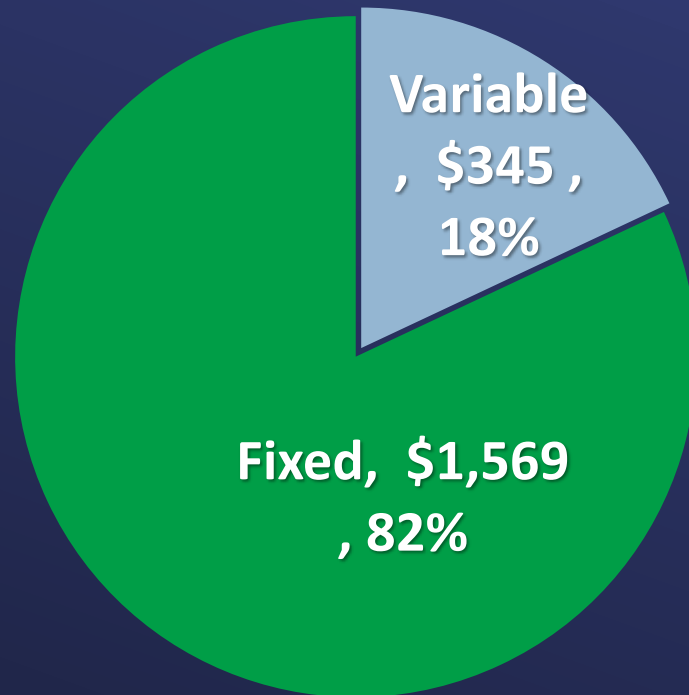
Funds available for capital expenditures

Projected June 30, 2023 balance = \$0

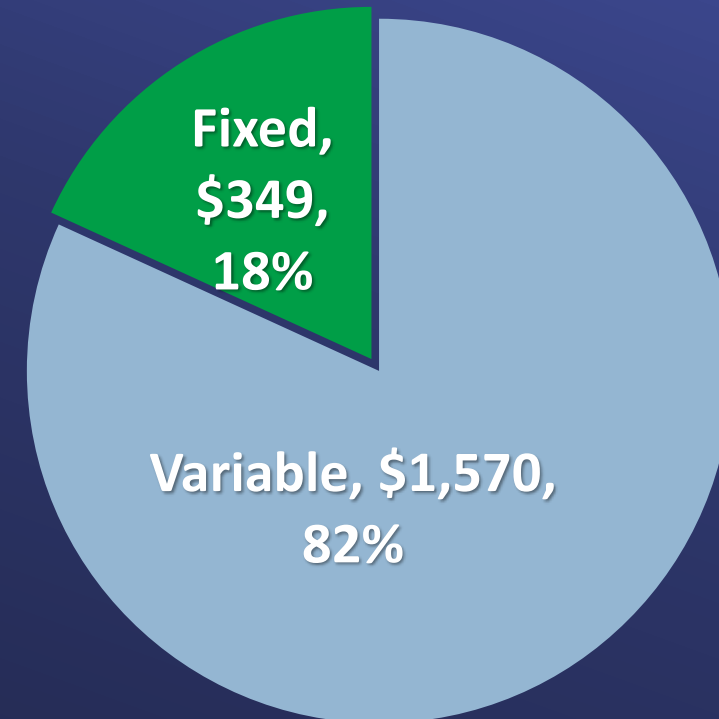
Challenge: Fixed Costs vs. Variable Revenues

2022/23 Budget (\$ in Millions)

Expenditures

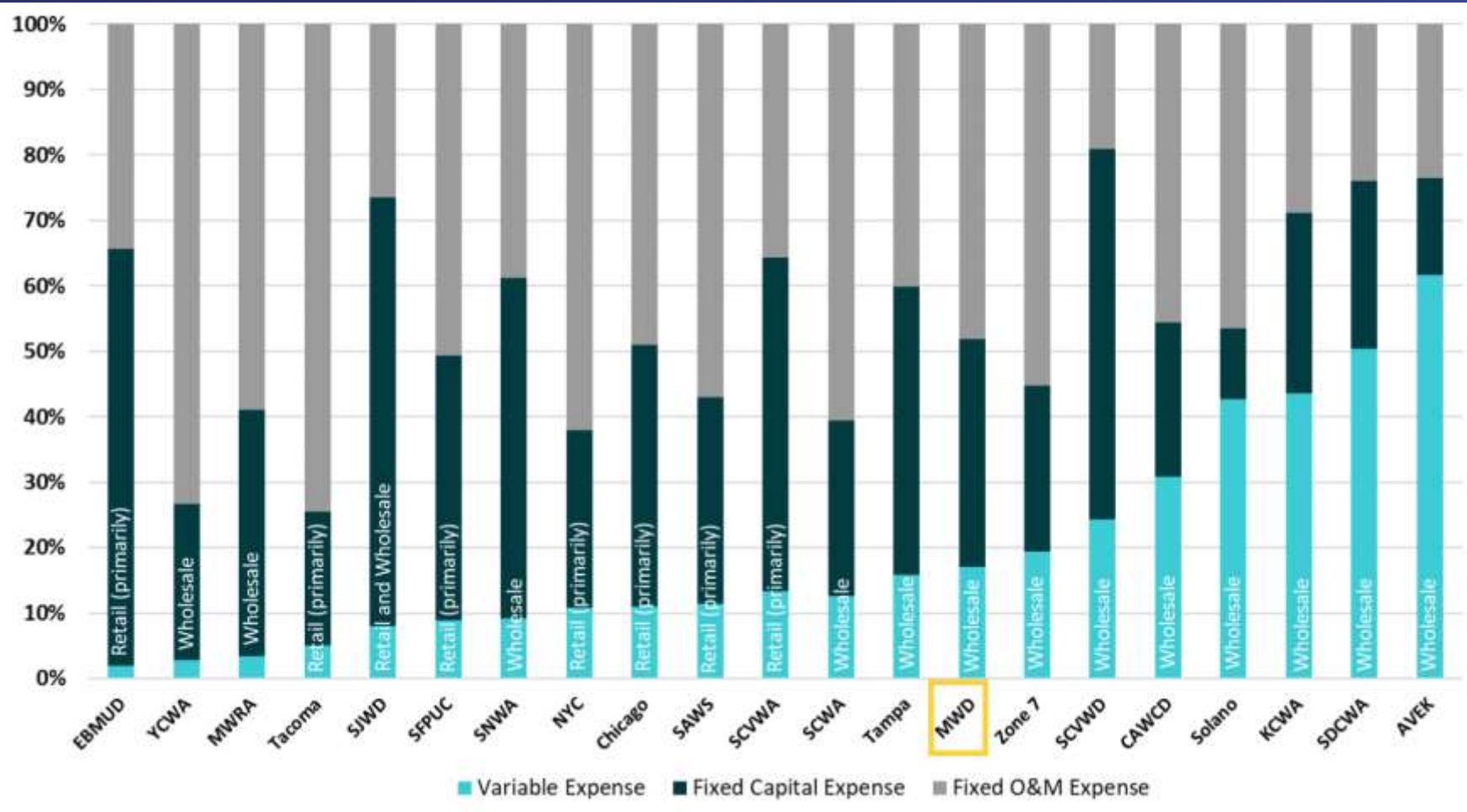


Revenues *



* For purposes of this presentation, variable revenues include all revenues that are dependent upon volumetric transactions over a one-year period (Sales, Wheeling and Exchanges), power sales, interest income and miscellaneous. This includes water sales to Member Agencies with Purchase Order commitments to purchase a designated amount of water over a 10-year period. Fixed revenues includes Readiness-to-Serve Charge, Capacity Charge, and property taxes.

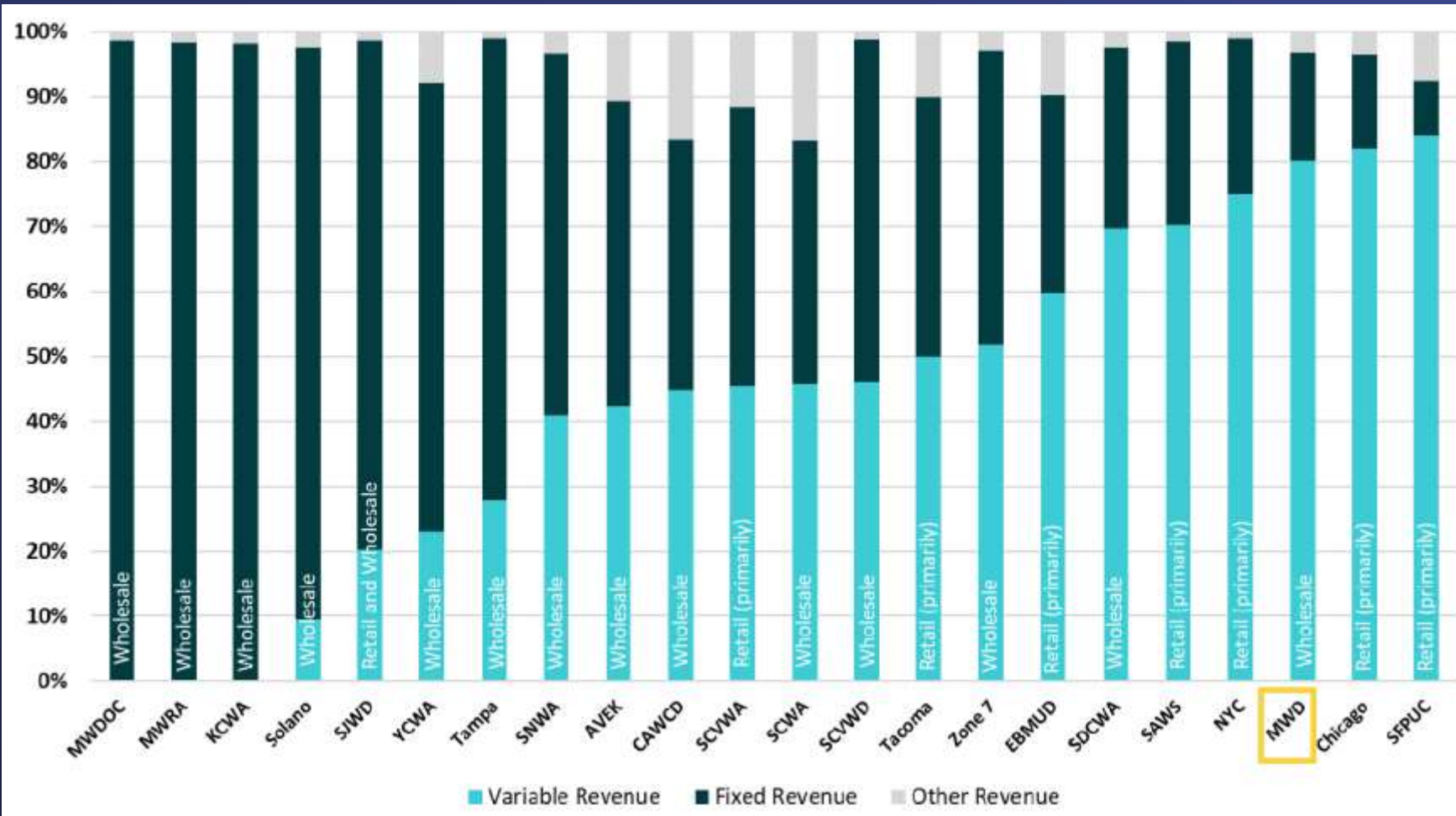
Fixed and Variable Expense Composition for Wholesale Water Agencies



- Antelope Valley East Kern Agency (AVEK)
- Central Arizona Water Conservation District (CAWCD)
- Chicago Water Department
- East Bay Municipal Utility District (EBMUD)
- Kern County Water Agency (KCWA)
- Massachusetts Water Resources Authority (MWRA)
- Metropolitan Water District of Orange County (MWDOC)
- Metropolitan Water District of Southern California (MWD)
- New York City Water Board
- San Antonio Water System (SAWS)
- San Diego County Water Authority (SDCWA)
- San Francisco Public Utilities Commission (SFPUC)
- San Juan Water District
- Santa Clara Valley Water District (SCVWA)
- Santa Clarita Valley Water Agency (SCV)
- Solano County Water Agency (Solano)
- Sonoma County Water Agency (SCWA)
- Southern Nevada Water Authority (SNWA)
- Tacoma Water
- Tampa Bay Water
- Yuba County Water Agency (YCWA)
- Zone 7 Water Agency

2023 survey conducted by Raftelis Financial Consultants

Fixed and Variable Revenue Composition for Wholesale Water Agencies



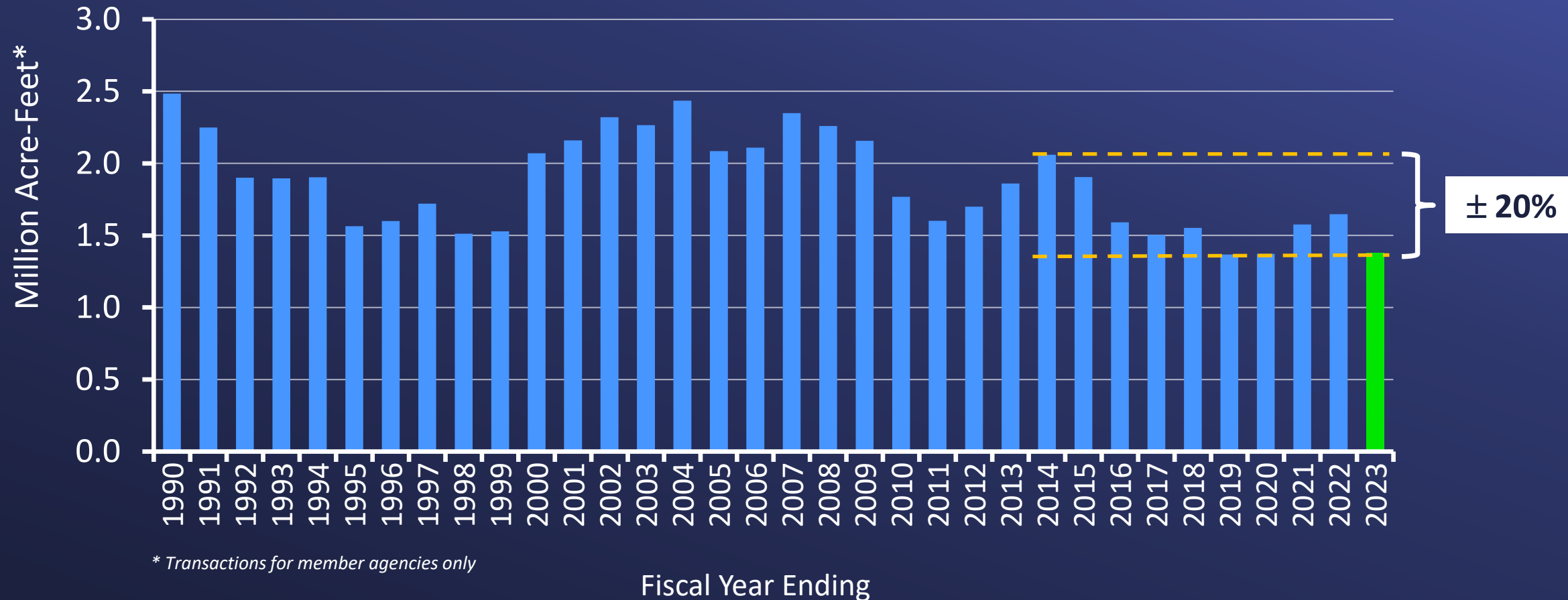
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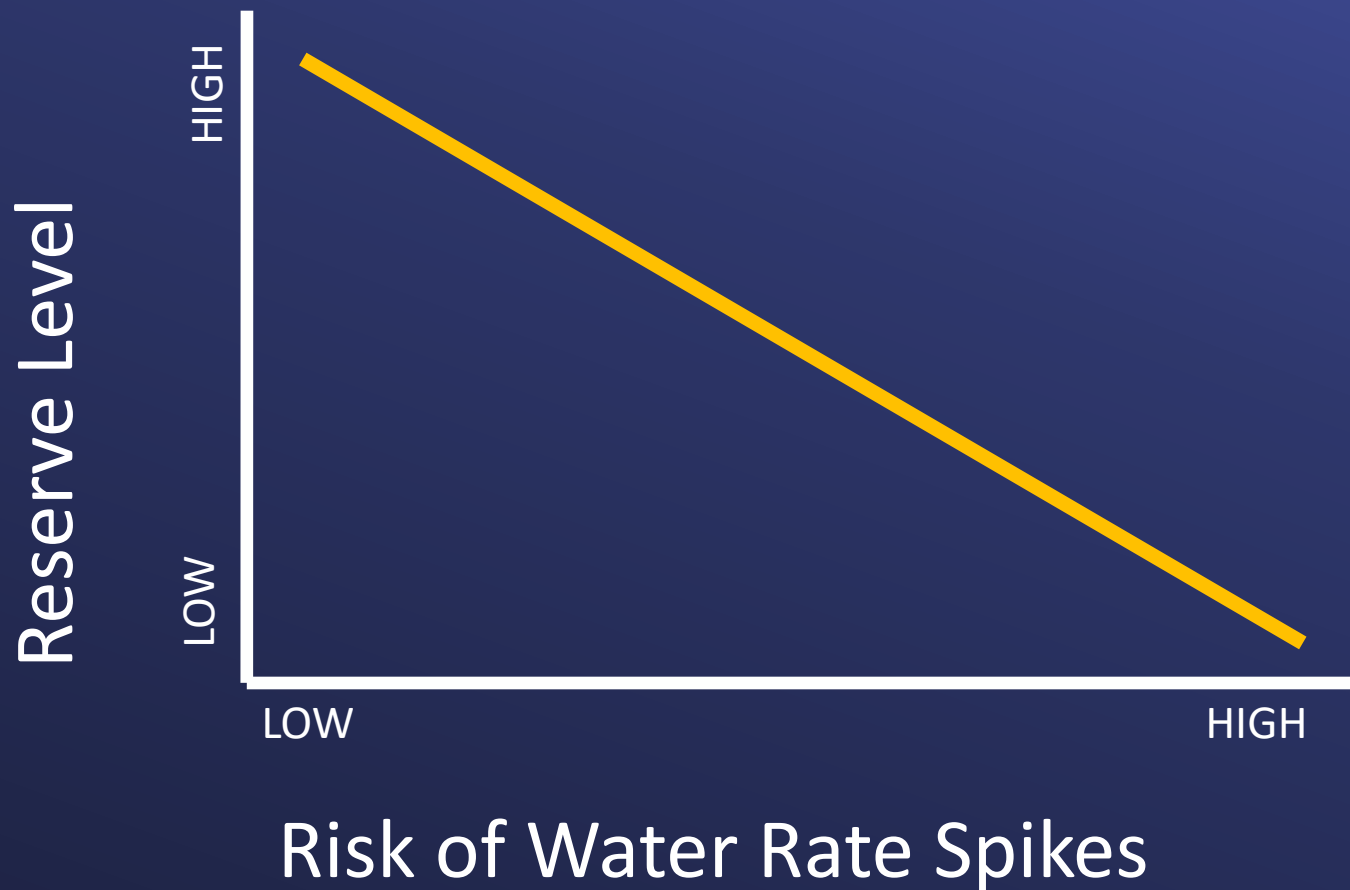
Unrestricted Reserves

Metropolitan's Historic Water Transactions

Water Transactions are Variable



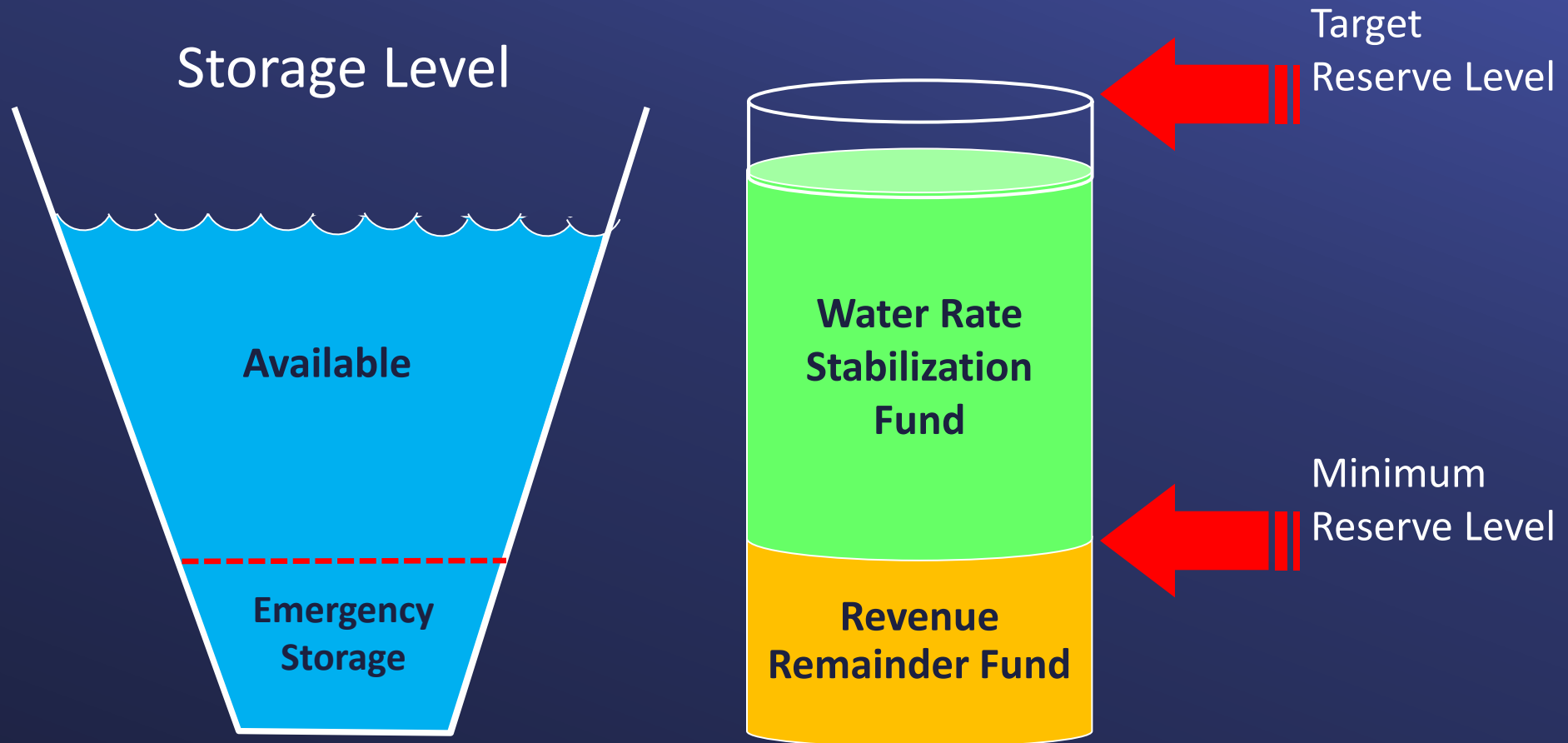
Unrestricted Reserve Level vs. Rate Spikes



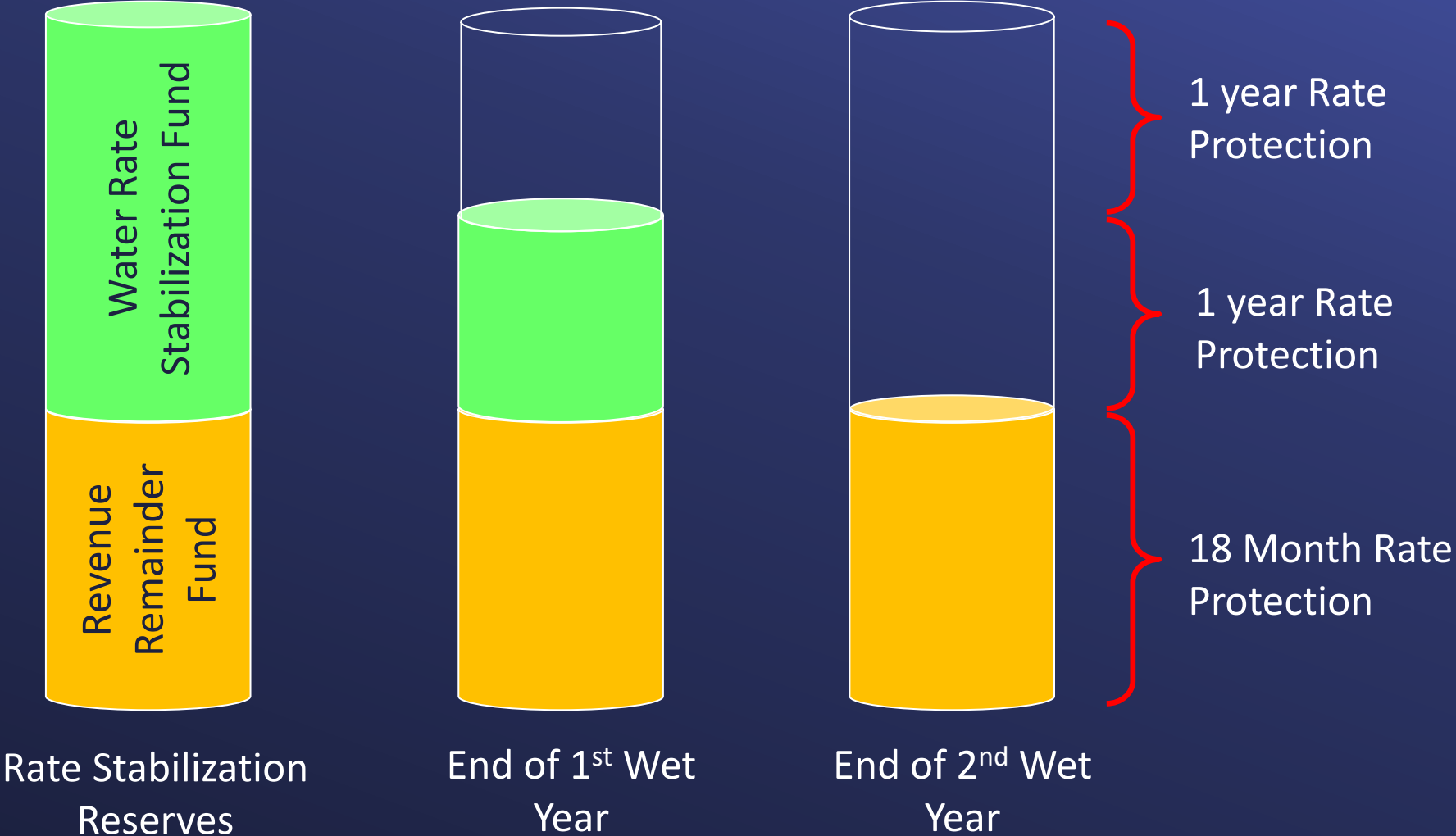
Unrestricted Reserve Fund Principles

- Current method was adopted with the 1999 Long Range Finance Plan
- MWD Administrative Code § 5202
 - Established to smooth out and/or mitigate future water rate increases
 - Provides funds to cover revenue shortfall resulting from 20% reduction in water sales
 - Minimum fund level provides 18 months of rate protection
 - Target fund level provides additional 2 years of rate protection for a total of 3.5 years
 - Provide stable & predictable water rates
 - Provide stable rates for local water resource investment planning
 - MWD rate used as a benchmark

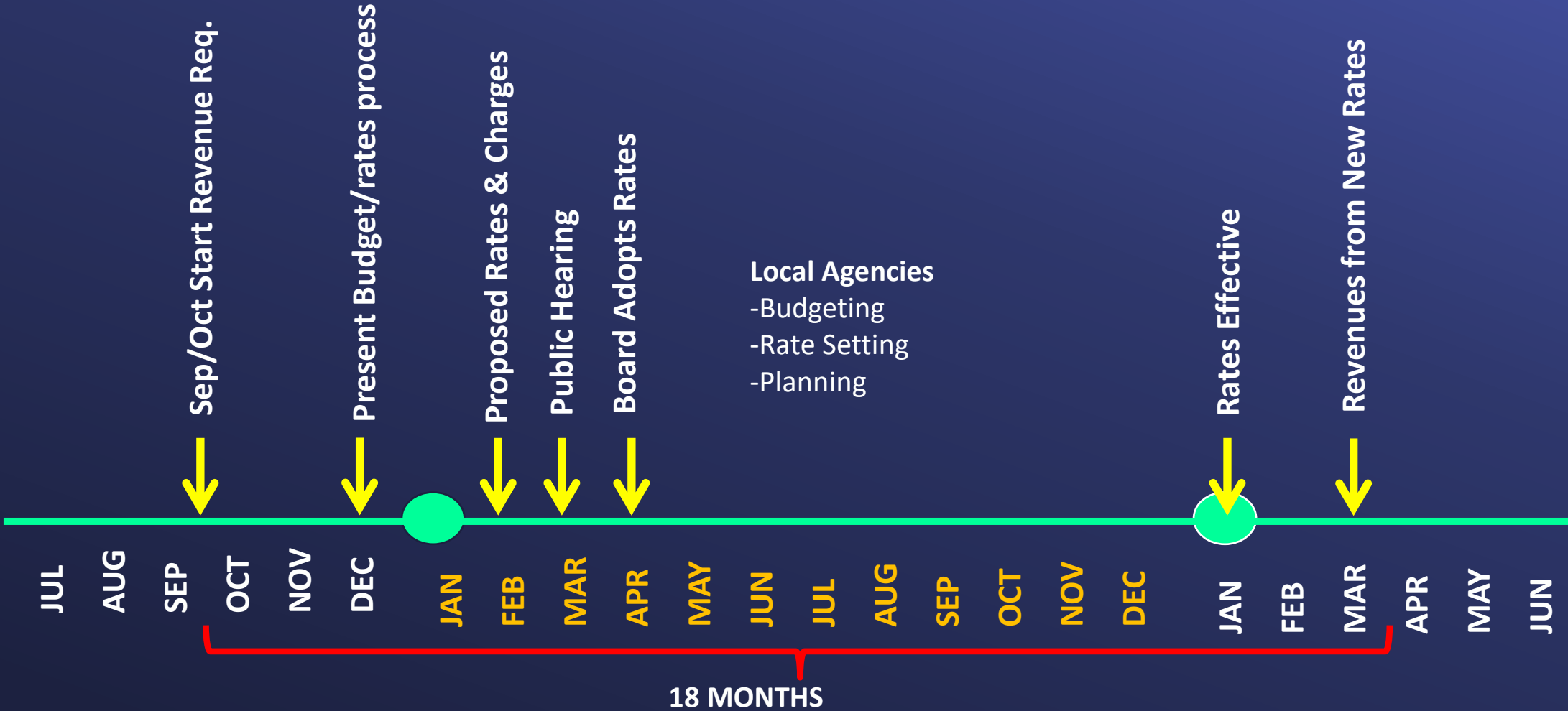
Unrestricted Reserve Fund



Use of Unrestricted Reserve Fund



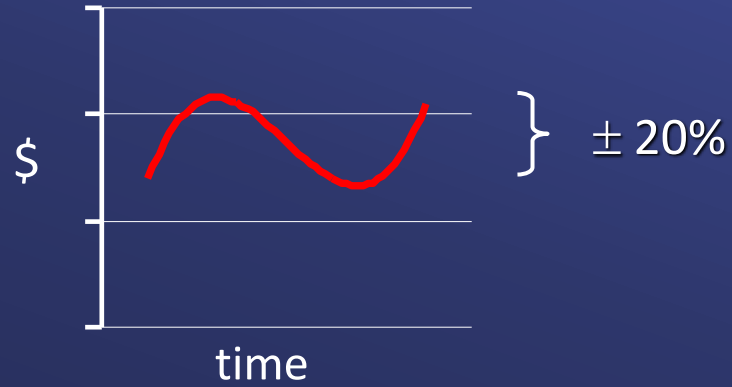
Rate Setting Timeline



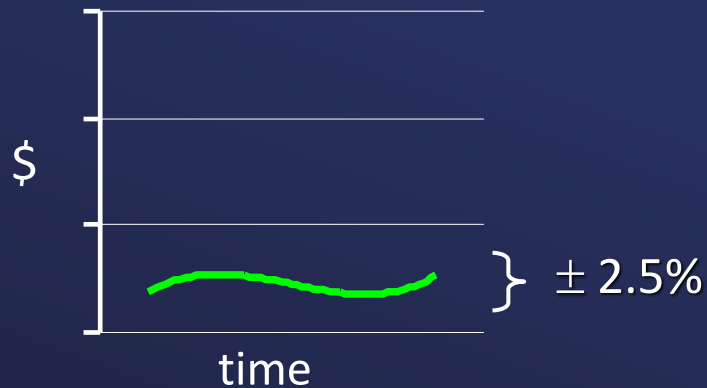
Unrestricted Reserve Calculation

Hydrologic Risk estimated per 1999 LRF

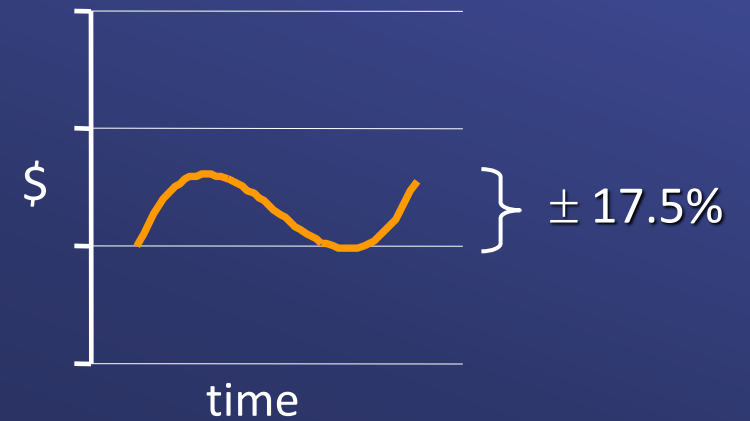
Volumetric Water Sales Revenue



Variable Costs



Fixed Costs Recovered by Water Rate



Unrestricted Reserve Calculation

for June 30th, 2023 in millions of dollars

	2023/24 Budget	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast
Revenue Requirement	\$1,764	\$1,862	\$1,941	\$2,038
Less RTS Charge	161	167	167	167
Less Capacity Charge	35	39	43	46
Water Rate Revenue Requirements	1,568	1,656	1,731	1,825
Less Variable Costs				
Treatment Surcharge Rev Req.	273	298	303	310
SWC Variable Power Costs	254	287	295	299
CRA Power Costs	86	75	77	79
Fixed Costs Recovered by Water Rate	956	996	1,055	1,137
Percent Reserved	17.5%	17.5%	17.5%	17.5%
Annual Amount Reserved	\$167	\$174	\$185	\$199

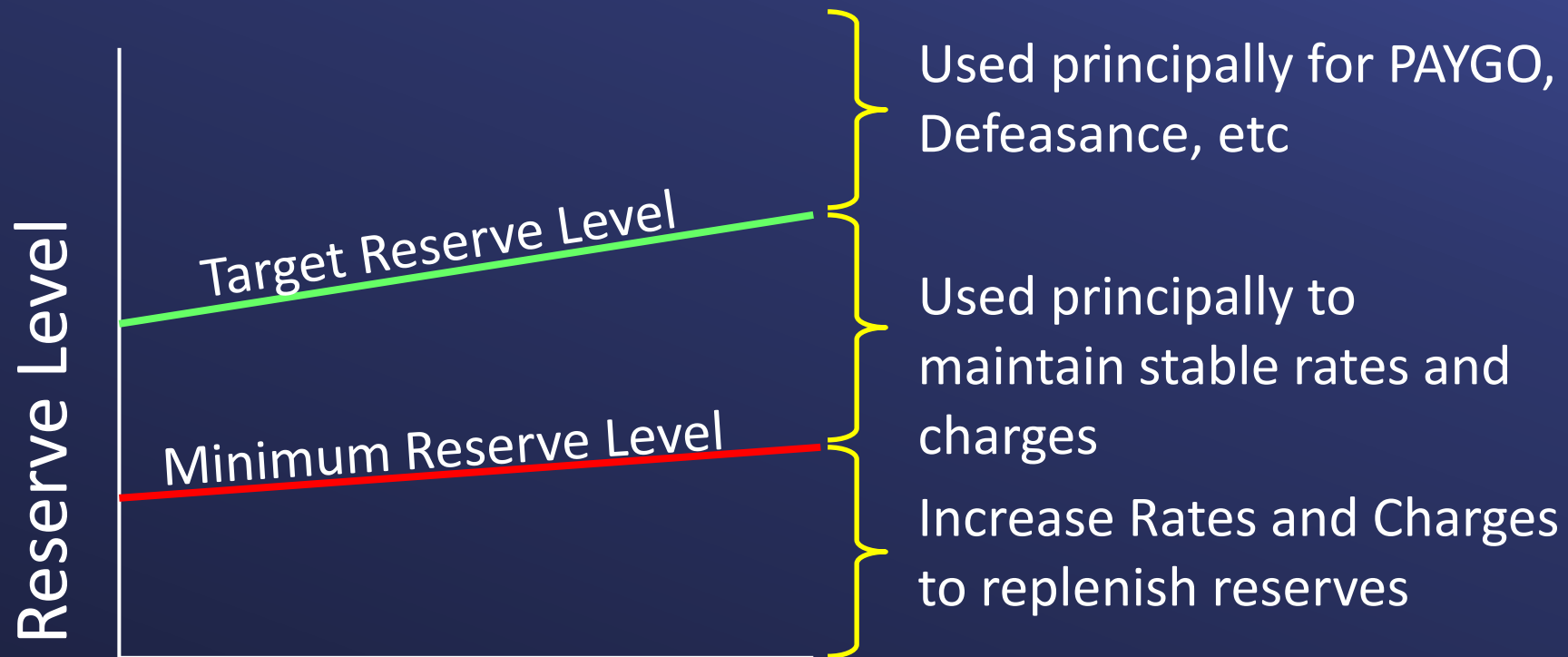
Minimum Reserve Level = $167 + 174 / 2$ = **\$254.5 million**

Target Reserve Level = $167 + 174 + 185 + 199 / 2$ = **\$625.8 million**

Unrestricted Reserve Policy

Reserve Fund Principle:

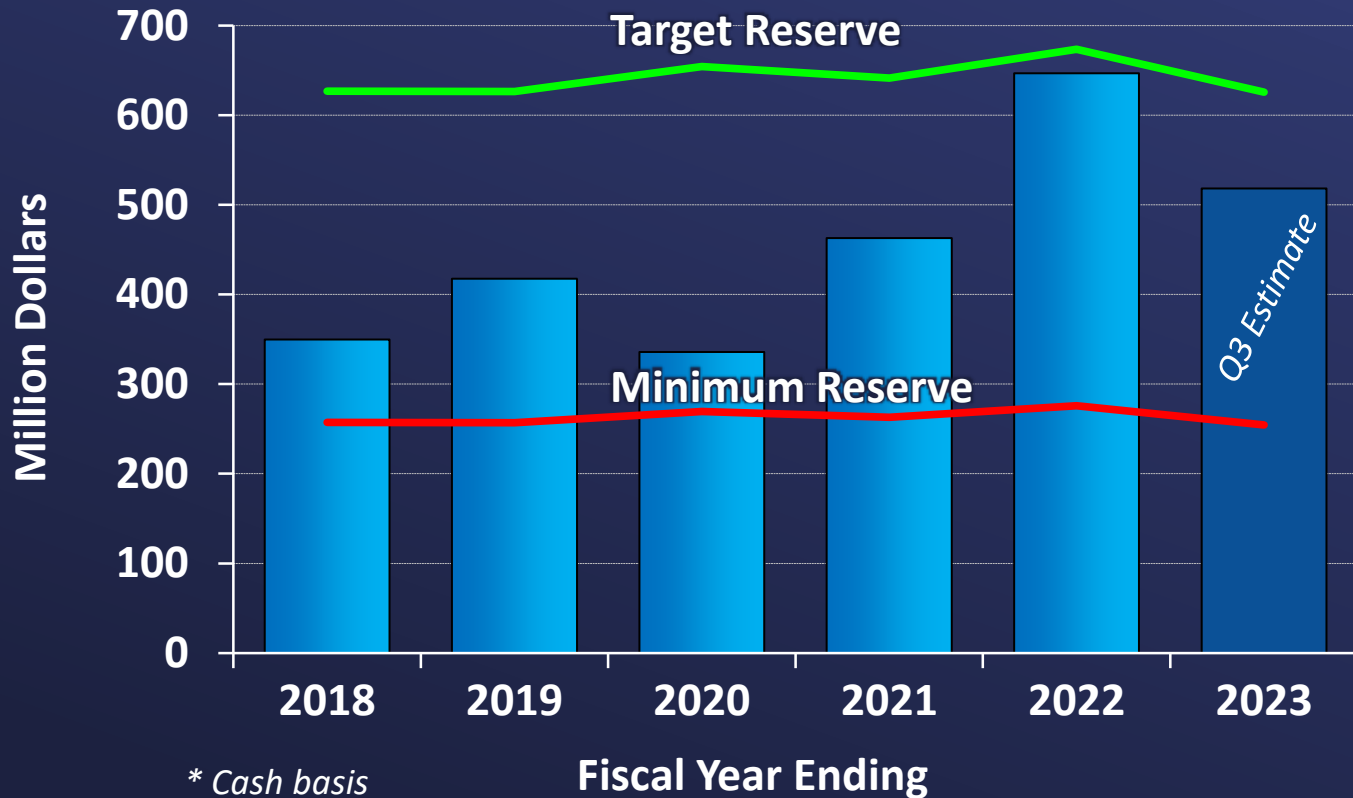
Provide stable & predictable water rates



Unrestricted Reserves

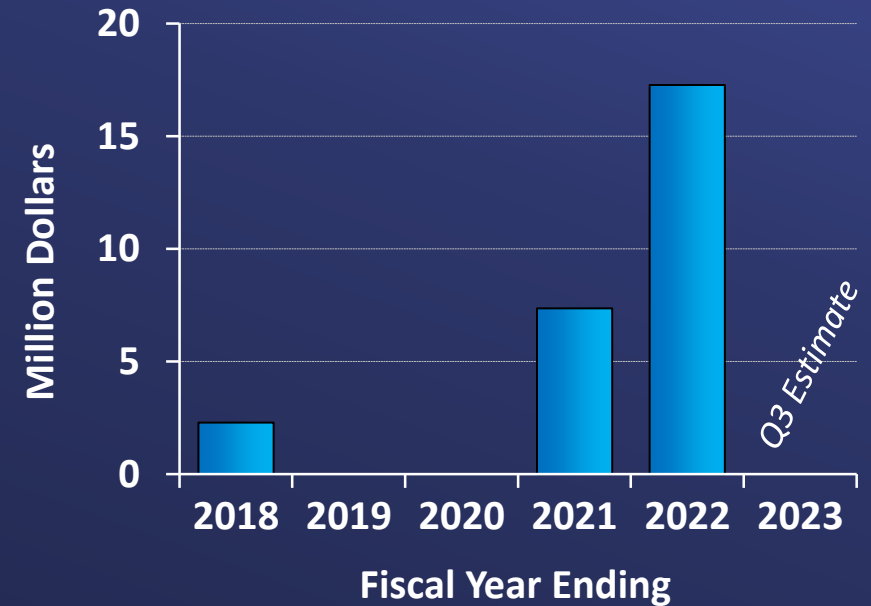
5-Year Historical Perspective

Unrestricted Reserves*



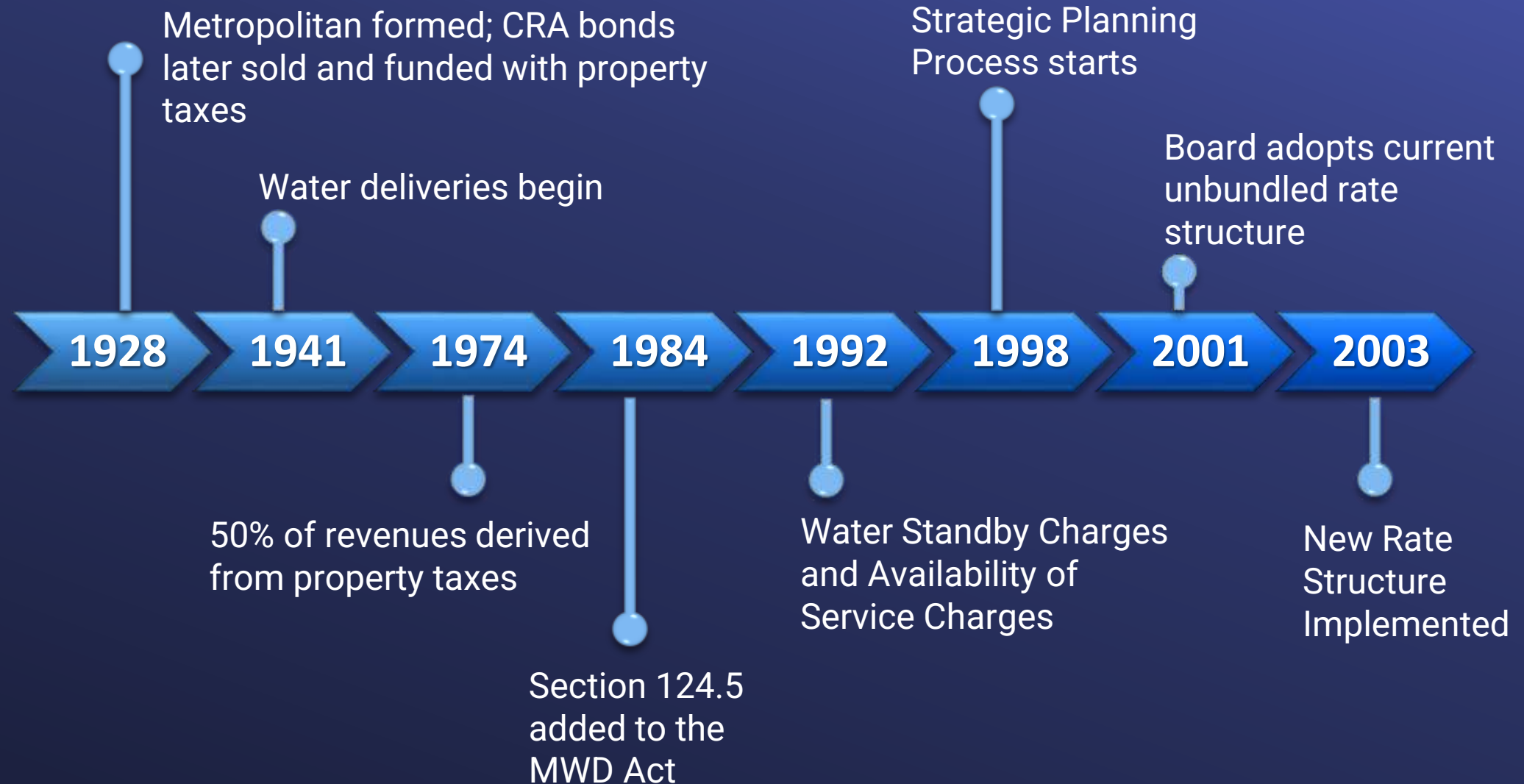
* Cash basis

Water Treatment Surcharge Stabilization Fund*



Rate Structure

History of Rate Structure



Metropolitan Water Service

Full-Service Untreated Water Service

Unbundled rates and charges apply

Rate Elements	Charges
Supply Rate (Tier 1/ Tier 2)	RTS Charge (Standby Charge offset)
System Access Rate	Capacity Charge
System Power Rate	

Full-Service Treated Water Service

Unbundled rates and charges apply

Rate Elements	Charges
Supply Rate (Tier 1/ Tier 2)	RTS Charge (Standby Charge offset)
System Access Rate	Capacity Charge
System Power Rate	
Treatment Surcharge	

Wheeling and Exchanges

Set by agreement

Rate Elements and Charges Overview

Tier 1 Supply Rate – recovers the cost of developing and maintaining a reliable water supply.

Tier 2 Supply Rate – set at Metropolitan's cost of purchasing water transfers north of the Delta. The Tier 2 Supply Rate encourages the maintenance of existing local supplies and the development of cost-effective local supply resources and conservation.

System Access Rate – recovers costs associated with the interconnected regional delivery network necessary to deliver water to meet member agencies' average annual demands. Included are the costs of conveyance and distribution facilities.

System Power Rate – recovers Metropolitan's power costs for pumping supplies to Southern California.

Rate Elements and Charges Overview (cont'd)

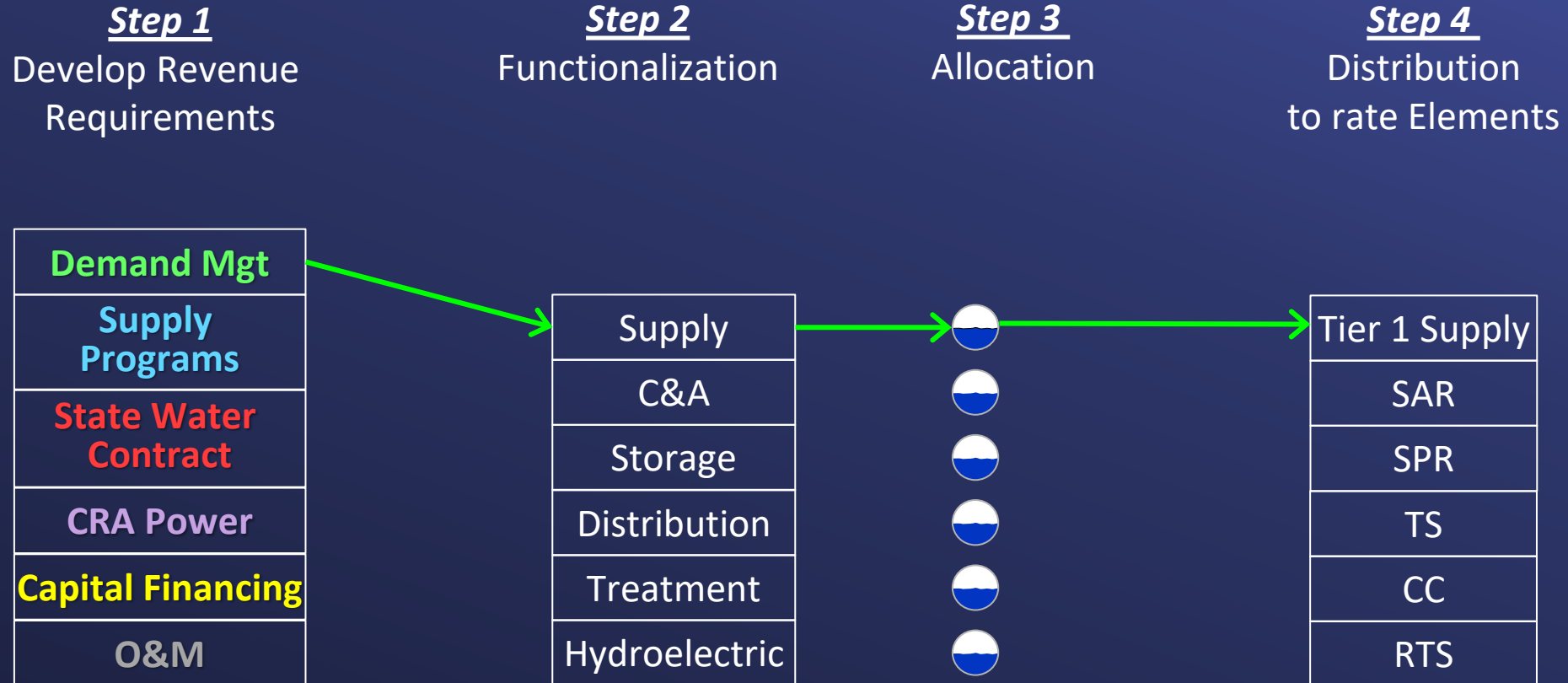
Treatment Surcharge – recovers the costs of treating imported water.

Readiness-to-Serve Charge – a fixed charge that recovers the capital costs of providing emergency service and available capacity to meet outages, emergencies and hydrologic variability. The Standby Charge collection for 22 participating member agencies offsets their RTS Charge obligation.

Capacity Charge – the Capacity Charge recovers the capital cost of providing peaking capacity within the distribution system which Metropolitan owns or has the right to use.

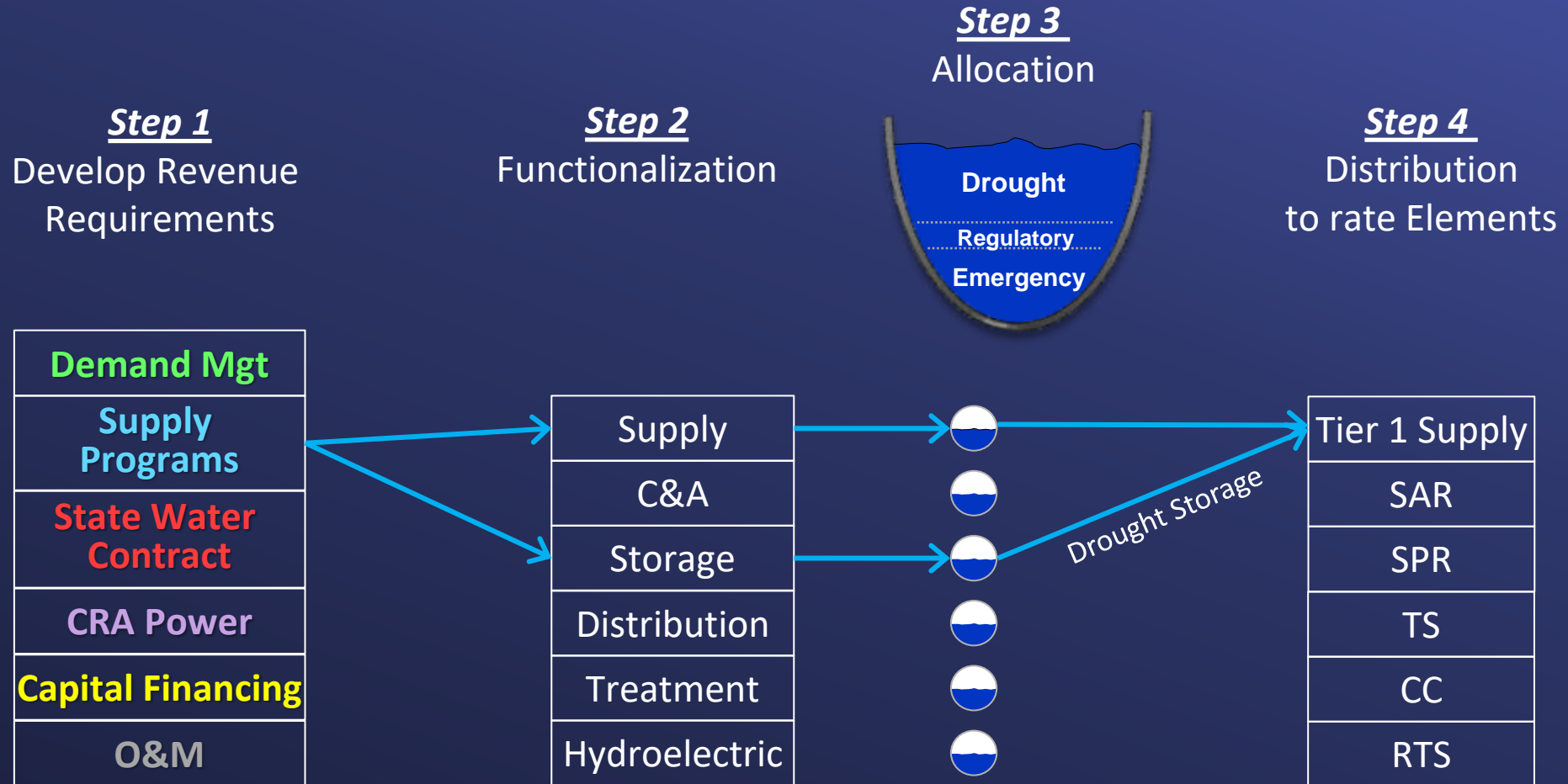
Cost-of-Service Process

Simplified Metropolitan COS Process



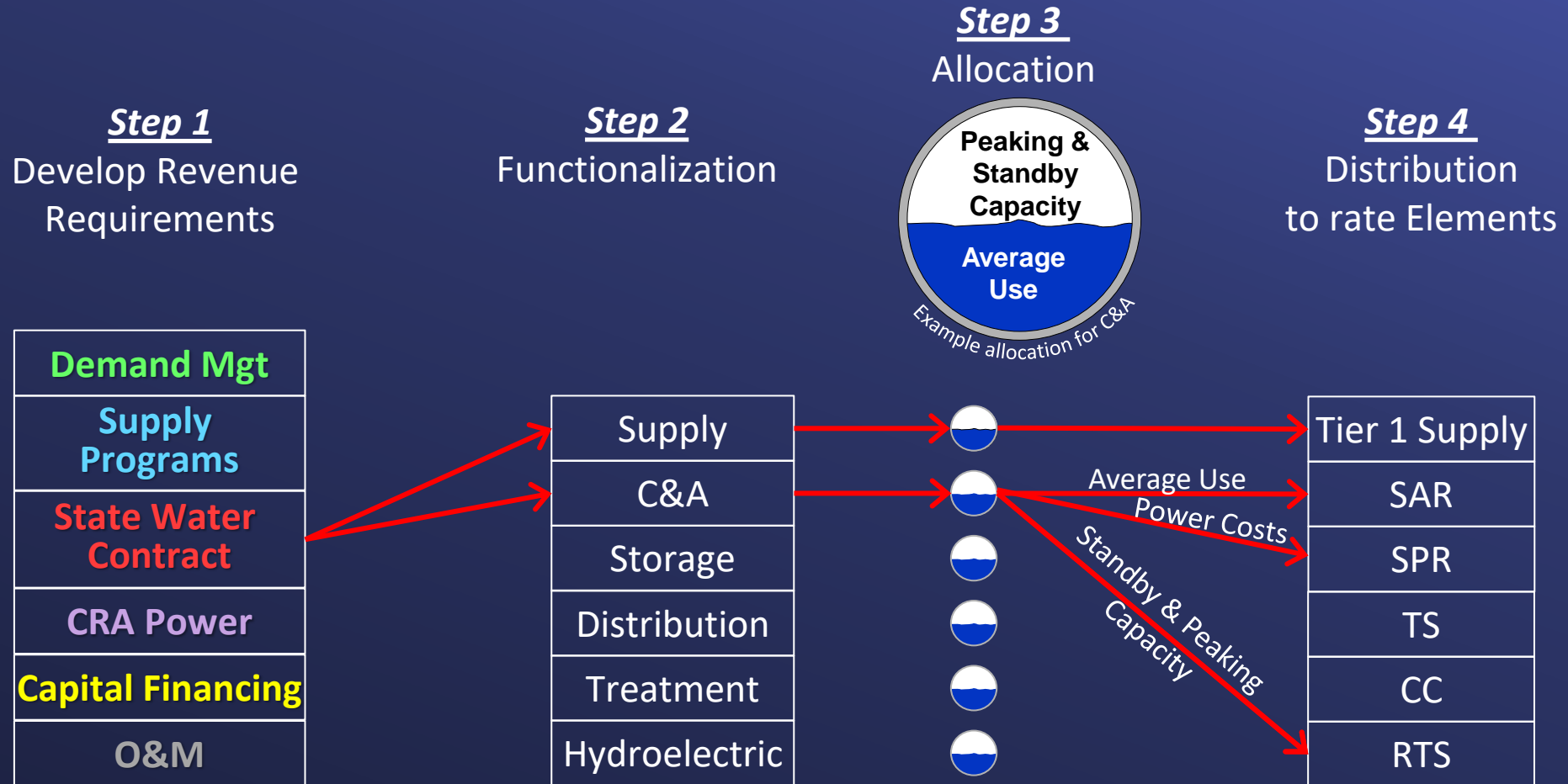
Ignoring A&G and Revenue Offsets (property tax, etc)

Simplified Metropolitan COS Process



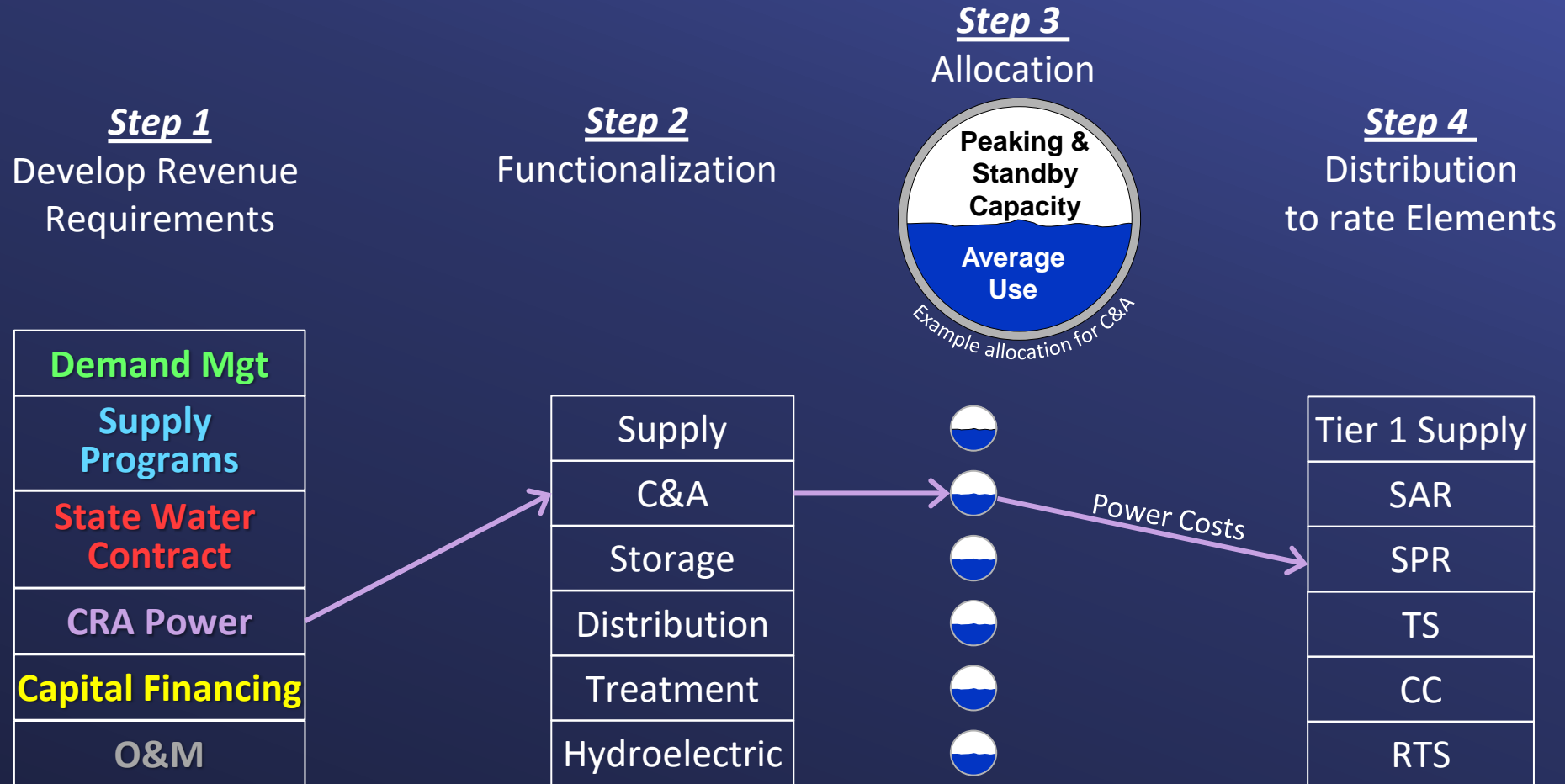
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Simplified Metropolitan COS Process



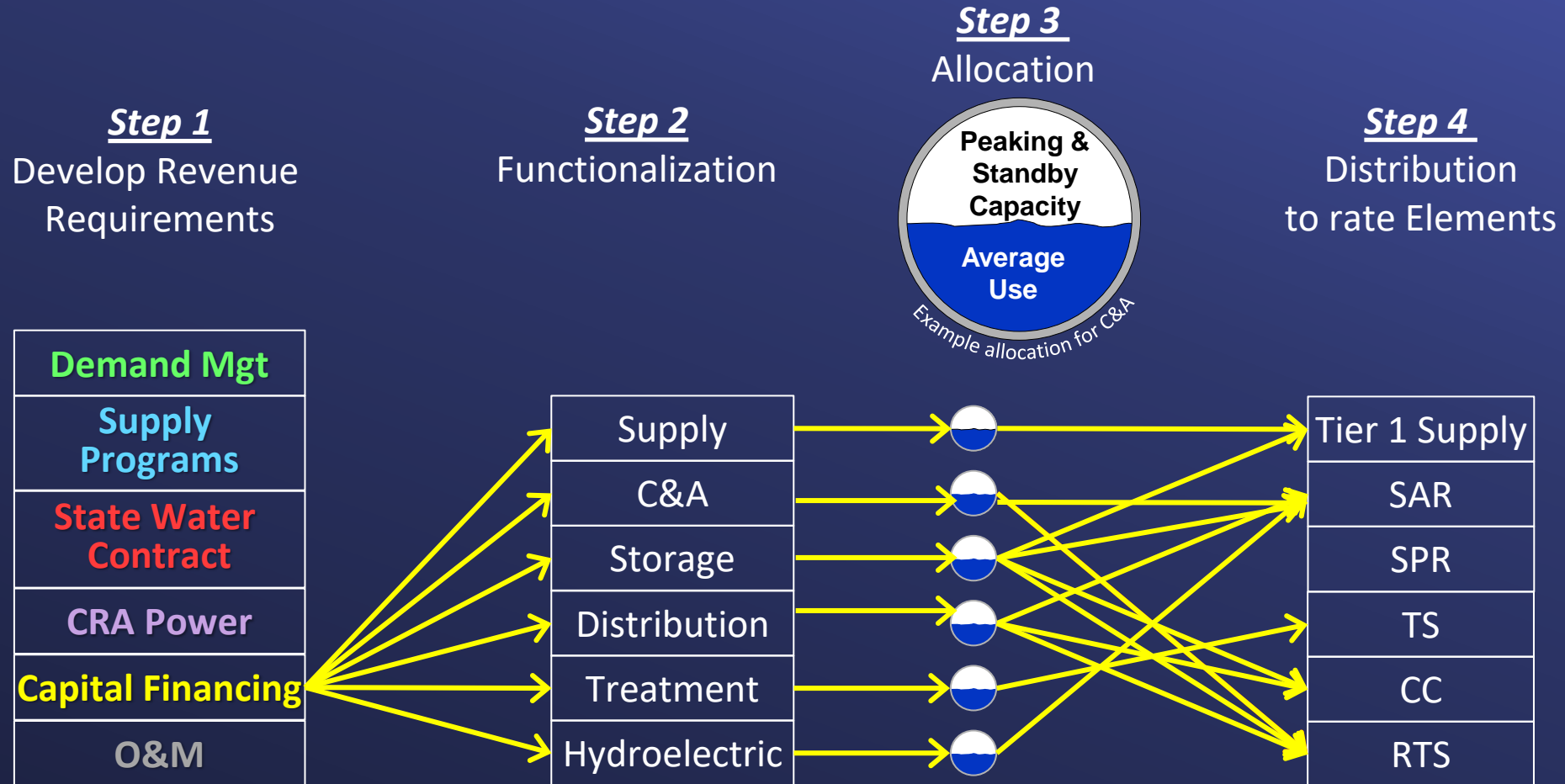
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Simplified Metropolitan COS Process



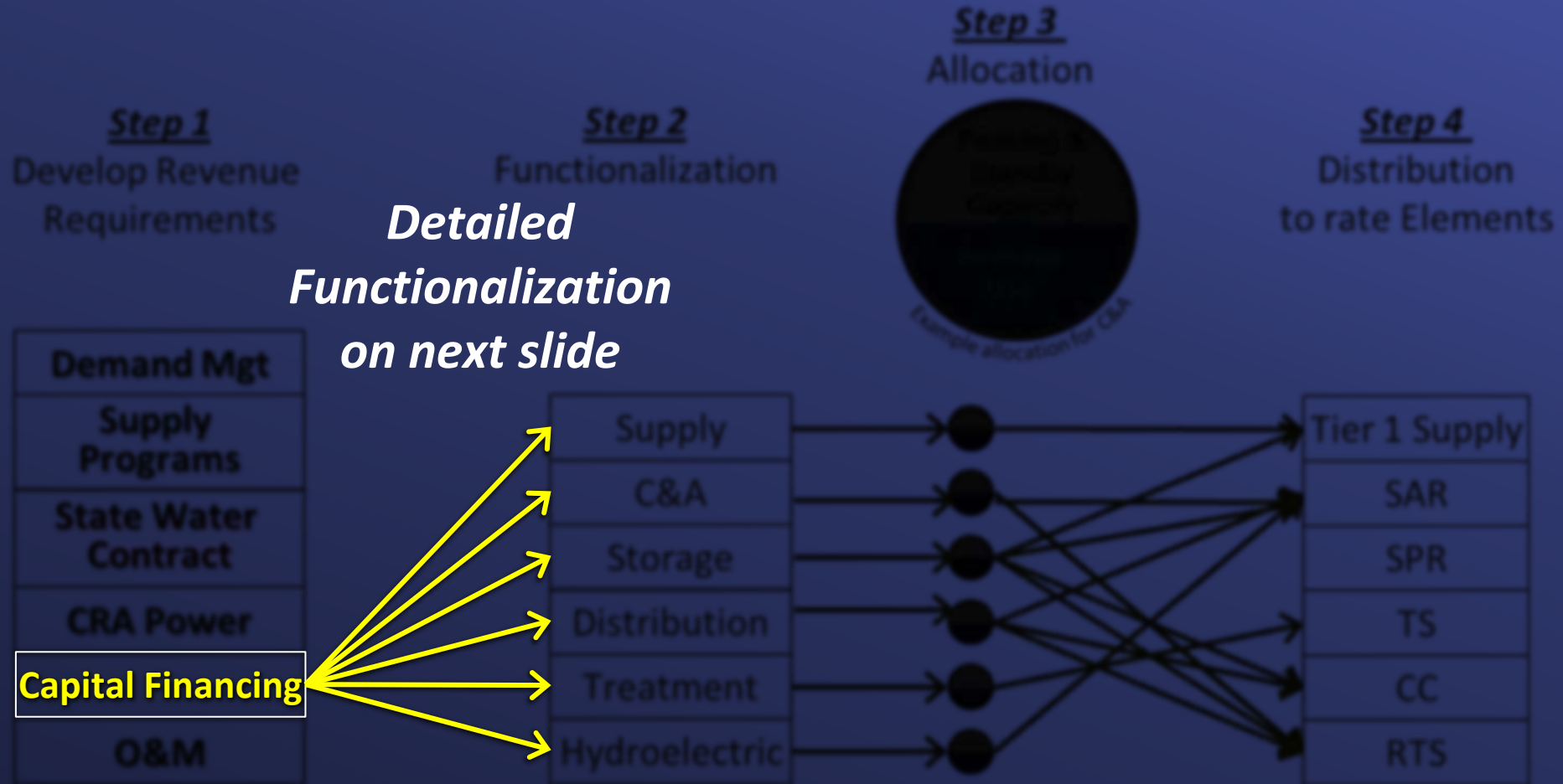
Ignoring A&G and Revenue Offsets (property tax, etc)

Simplified Metropolitan COS Process



Ignoring A&G and Revenue Offsets (property tax, etc)

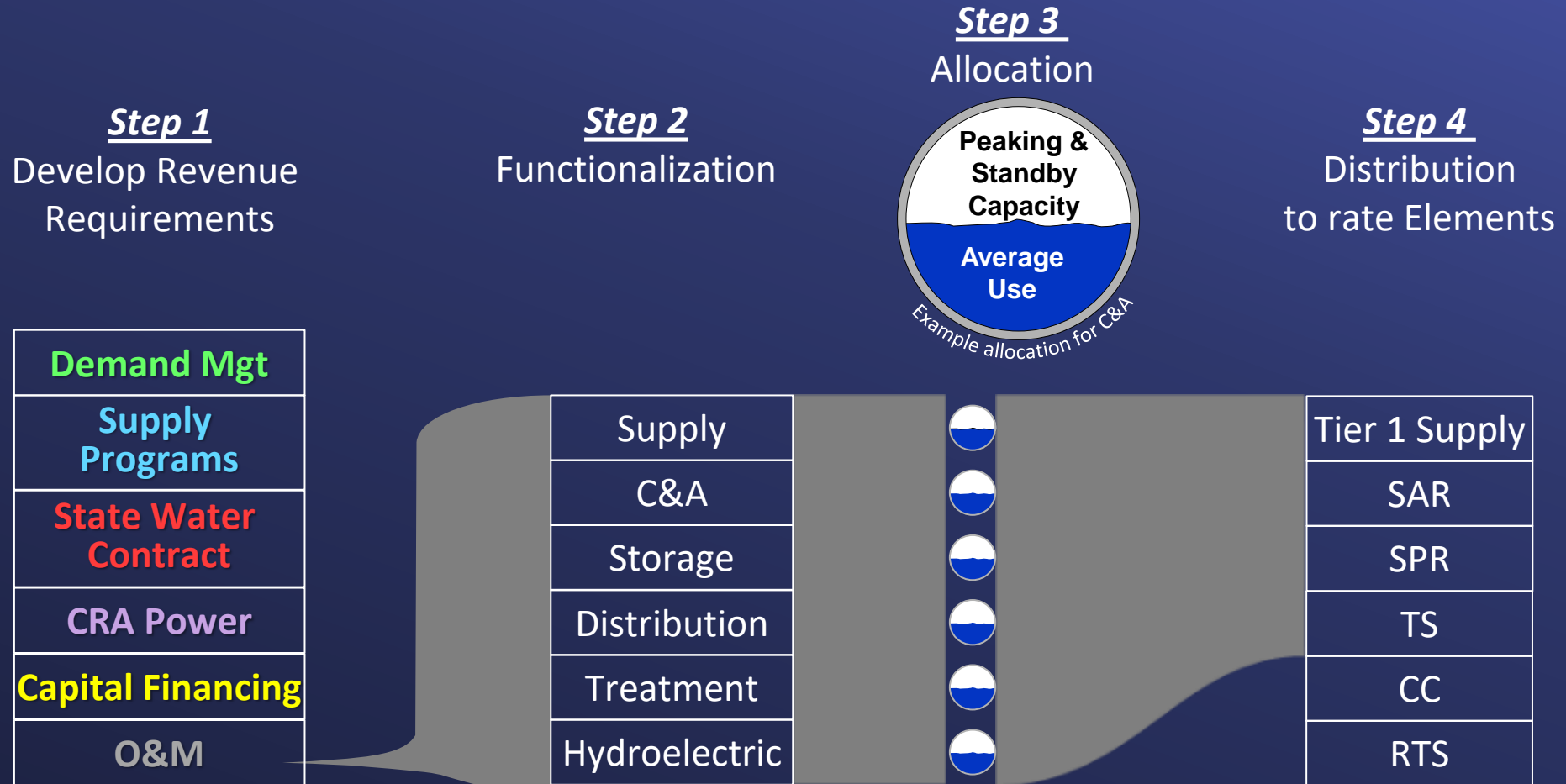
Simplified Metropolitan COS Process



Functionalization of Capital Assets



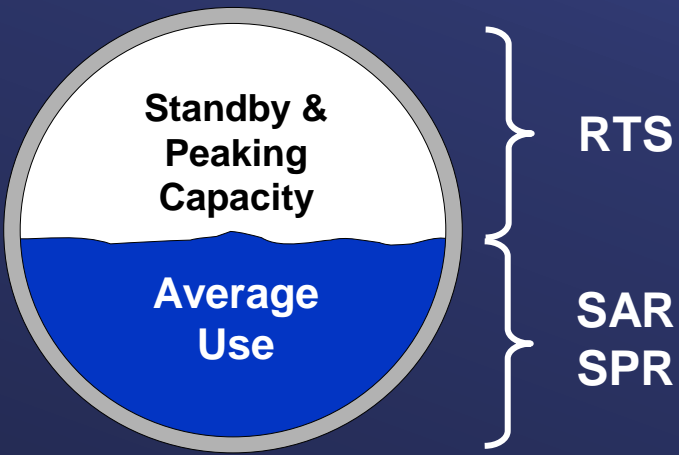
Simplified Metropolitan COS Process



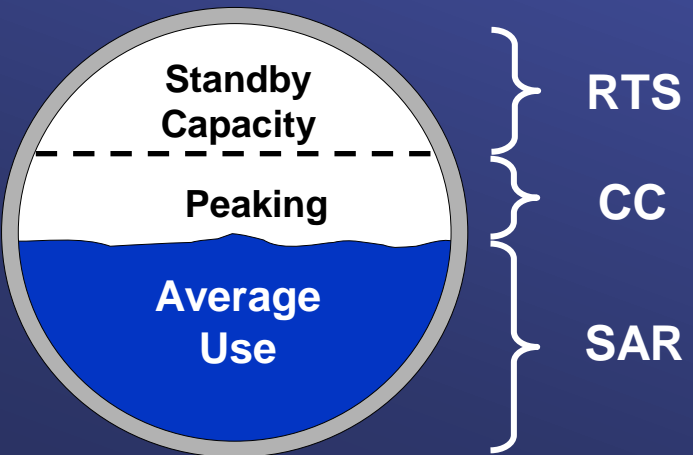
Ignoring A&G and Revenue Offsets (property tax, etc)

Metropolitan COS Allocation

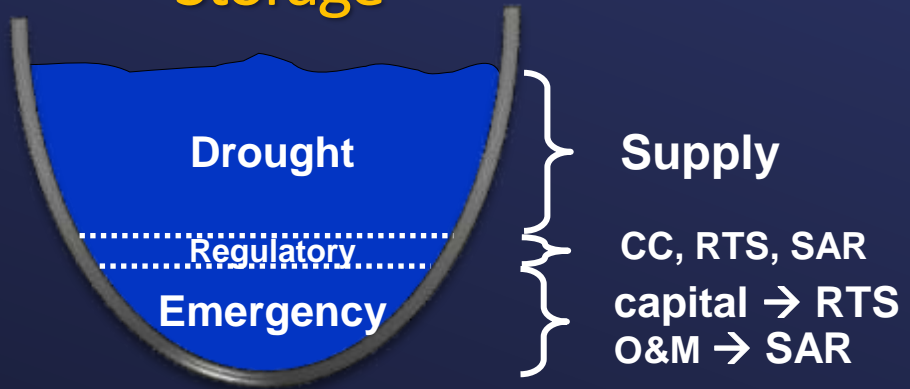
Conveyance & Aqueduct



Distribution System



Storage



Other Functions

- Supply → Tier 1 Supply Rate
- Treatment → TS
- Demand Management → Tier 1 Supply Rate

Adopted 2023 and 2024 Water Rates and Charges

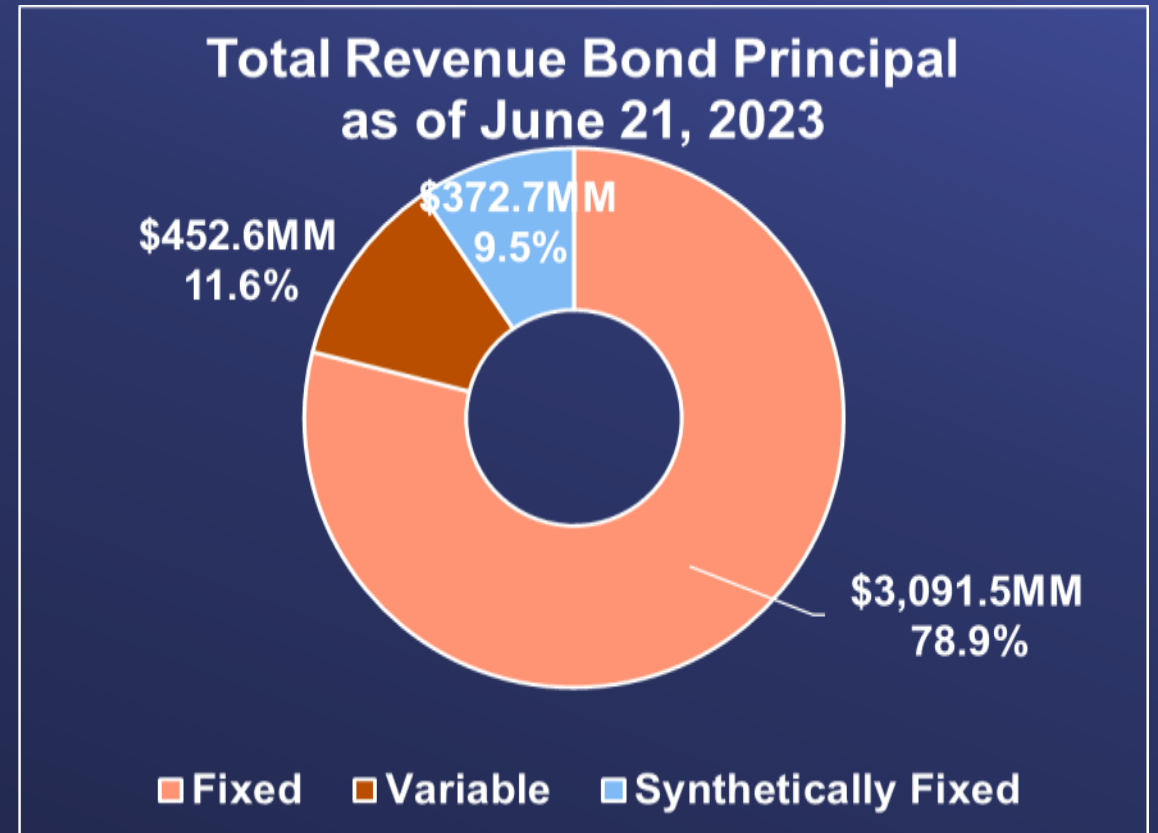
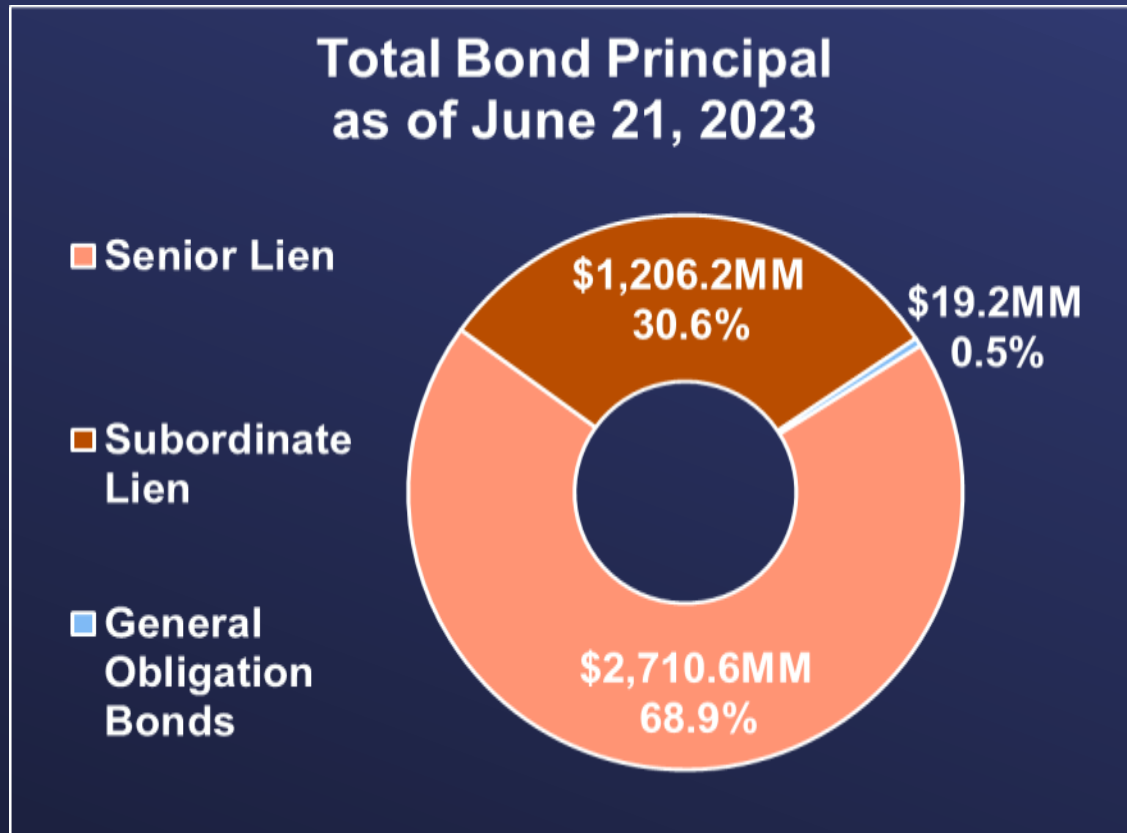
Rates & Charges Effective January 1st	2022	2023	% Increase (Decrease)	2024	% Increase (Decrease)
Tier 1 Supply Rate (\$/AF)	\$243	\$321	32%	\$332	3%
Tier 2 Supply Rate (\$/AF)	\$285	\$530	86%	\$531	0%
System Access Rate (\$/AF)	\$389	\$368	(5%)	\$389	6%
System Power Rate (\$/AF)	\$167	\$166	(1%)	\$182	10%
Treatment Surcharge (\$/AF)	\$344	\$354	3%	\$353	(0%)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$799	\$855	7%	\$903	6%
Tier 2	\$841	\$1,064	27%	\$1,102	4%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$1,143	\$1,209	6%	\$1,256	4%
Tier 2	\$1,185	\$1,418	20%	\$1,455	3%
RTS Charge (\$M)	\$140	\$154	10%	\$167	8%
Capacity Charge (\$/cfs)	\$12,200	\$10,600	(13%)	\$11,200	6%
Overall Rate Increase			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.

Debt Profile

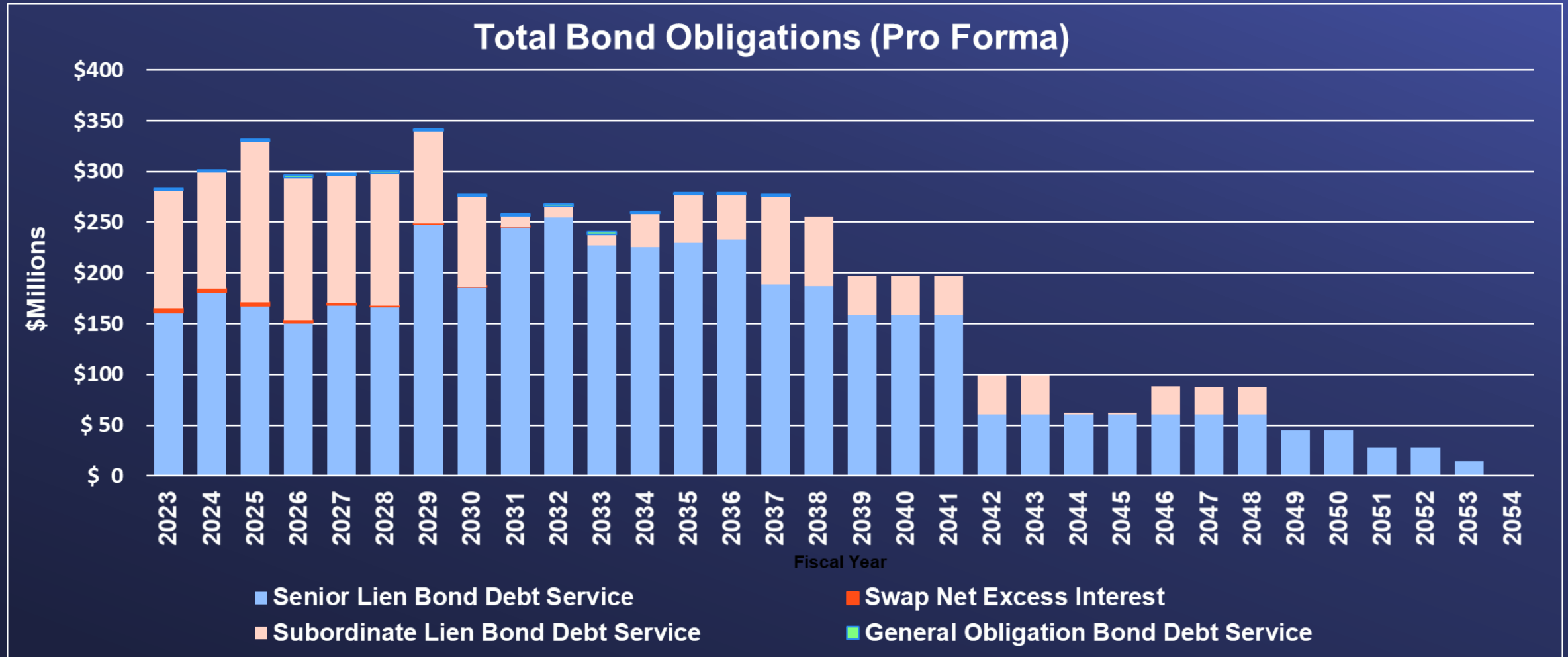
Debt Profile

Outstanding Debt by Type



Debt Profile

Debt Service by Fiscal Year



Third Quarter Financial Report

- The Quarterly Financial Review (Q3 2023) was presented to the FAIRP Committee in May 2023. In addition to the Quarterly Financial Review, staff produces a quarterly basic financial statement as part of Metropolitan's continuing disclosure requirements.
- As requested by the Board, Finance staff is providing a link to the Basic Financial Statements (Unaudited) for the Nine (9) Months Ended March 31, 2023:
 - <https://www.mwdh2o.com/media/ketfucvs/mar-23-quarterly-bfs-final.pdf>

