



Finance, Audit, Insurance, and Real Property Committee

Mid-Cycle Budget Review

Item 6a

September 12, 2023

Biennial Budget FY 2022/23 & 2023/24

Key Goals and Underlying Assumptions

- Balance between funding Metropolitan's current strategic priorities, addressing drought conditions, maintaining financial robustness, and moderating rate impacts
- Fund capital expenditures with emphasis on replacement and refurbishment
 - \$600M appropriation for the biennium
- Financial Targets:
 - Revenue bond coverage = 2.0x (budget est. was 1.5x FY23 and 1.4x FY24)
 - Fixed charge coverage = 1.2x (budget est. was 1.5x FY23 and 1.4x FY24)
 - Ratings AAA/AA+/Aa1 for Senior Lien
- FY2023/24 Budgeted transactions of 1.54 MAF
 - SWP allocation: 40% 2023 and 50% 2024
 - CRA Diversions of 923 TAF

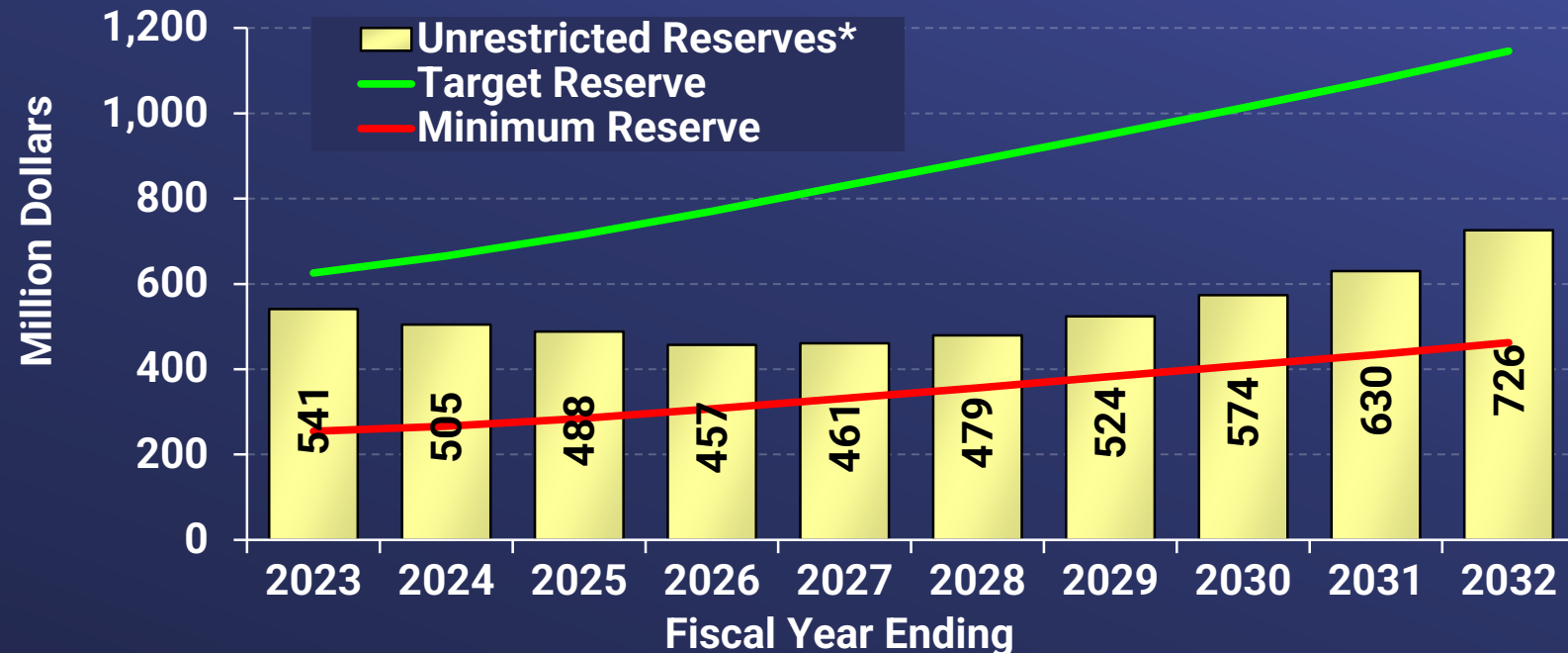
Biennial Budget FY 2022/23 & 2023/24

Key Goals and Underlying Assumptions

- Delta Conveyance Project
 - Metropolitan's planned contribution for planning costs of \$99M over the biennium
 - Funded by California WaterFix Fund (\$4.5M in FY 2022/23, \$30M in FY 2023/24) and operating revenues (\$30M in FY 2022/23 and \$34.5M in FY 2023/24)
- Bond financing for AVEK High Desert Program
 - To reduce the short-term rate impacts
- Continued support for demand management programs
 - Annual Conservation Program funding increasing \$18M to \$43M
 - To limit rate impacts, the additional \$18M per year was proposed to be bond funded
 - FY 2022/23 Demand Management is funded in part from the remaining Water Stewardship Fund balance (\$56M)

Biennial Budget FY 2022/23 & 2023/24

Projected Rate Increases & Financial Metrics



Overall Rate Inc.	5.0%	5.0%	7.0%	6.0%	6.0%	6.0%	6.0%	5.0%	5.0%	5.0%
Water Transactions (MAF)**	1.59	1.54	1.54	1.51	1.53	1.53	1.54	1.55	1.55	1.57
Rev. Bond Cvg	1.5	1.4	1.6	1.6	1.7	1.7	1.8	1.8	1.8	1.8
Fixed Chg Cvg	1.5	1.4	1.6	1.6	1.7	1.7	1.7	1.7	1.7	1.7
PAYGO, \$M	135	135	175	175	175	175	200	200	200	200

* Revenue Remainder and Water Rate Stabilization Fund

** Includes water sales, exchanges and wheeling

Metropolitan's Water Transactions



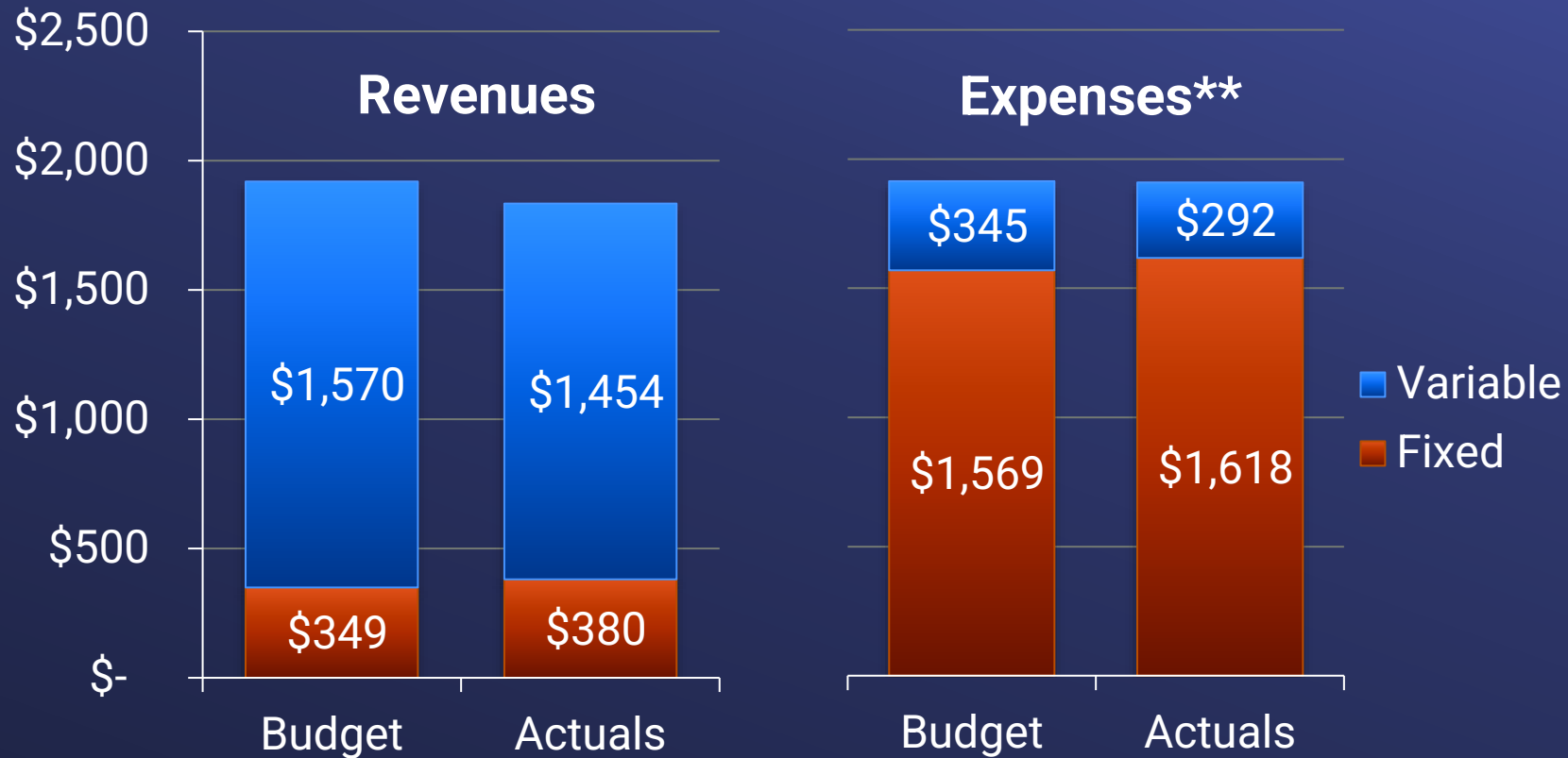
*Water Transactions for member agencies only

FY 2022/23 Actual vs. Budget

(in Thousands \$)	Budget	Preliminary Actuals	Variance (Actual - Budget)	
Water Sales, Wheeling & Exchange	1,485.3	1,322.7	(162.5)	
Capacity Charge & Connection Charges	38.7	37.8	(0.8)	
Readiness-to-Serve Charges	147.0	144.4	(2.6)	
Taxes & Annexation Income	163.1	197.8	34.7	
Power Sales	16.7	5.9	(10.8)	
Interest	6.5	21.0	14.5	
Other (including \$80M Grant)	61.9	104.5	42.6	
Total Revenues	\$1,919.1	\$1,834.1	(\$85.0)	A
State Water Contract	651.7	577.5	(74.2)	
Delta Conveyance	34.5	34.5	-	
CRA Power	105.9	161.9	56.1	
O&M	586.1	556.1	(30.0)	
Supply Programs (cash & debt funded)	105.1	135.6	30.5	
Demand Management (cash & debt funded)	68.8	59.8	(9.0)	
Debt Service	288.0	300.7	12.6	
PAYGO	135.0	135.0	0.0	
Total Expenditures	\$1,975.1	\$1,961.1	(\$14.0)	B
Net Revenue	(\$56.0)	(\$127.0)	(\$71.0)	C = A - B
Increase in Required Reserves	(\$26.3)	(\$17.5)	\$8.8	D
Other Deposits or Withdrawals	\$113.5	\$51.9	(\$61.6)	E
Change in Unrestricted Reserves	\$31.2	(\$92.6)	(\$123.8)	F = C + D + E

Revenues & Expenses – Budget vs Actual

FY 2022/23 (\$ in Millions)



* 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.

** Expenses excludes bond funded amount assumed for supply program, demand management and uses of Cal Water Fix fund for Delta Conveyance

Grant Funding

Budget Assumption

- Assumed MWD obtains \$10 million per year in grant funding to offset O&M expenditures

FY 2022/23 Activity

State Funding

- Awarded \$80 million to accelerate Pure Water Southern California planning & design
- Awarded \$50 million for drought emergency mitigation projects and currently reviewing funding agreement
- Awarded \$38 million from 2022 DWR Urban Drought Relief Program
- Awarded \$4.5 million from 2021 DWR Urban Drought Relief Program
- Awarded \$1 million from SWRCB for PWSC membrane bioreactor pilot project

Other

- The Public Finance Initiative (Non-Profit Organization) - Awarded \$50,000 to perform further research on affordability

Grant Funding continued...

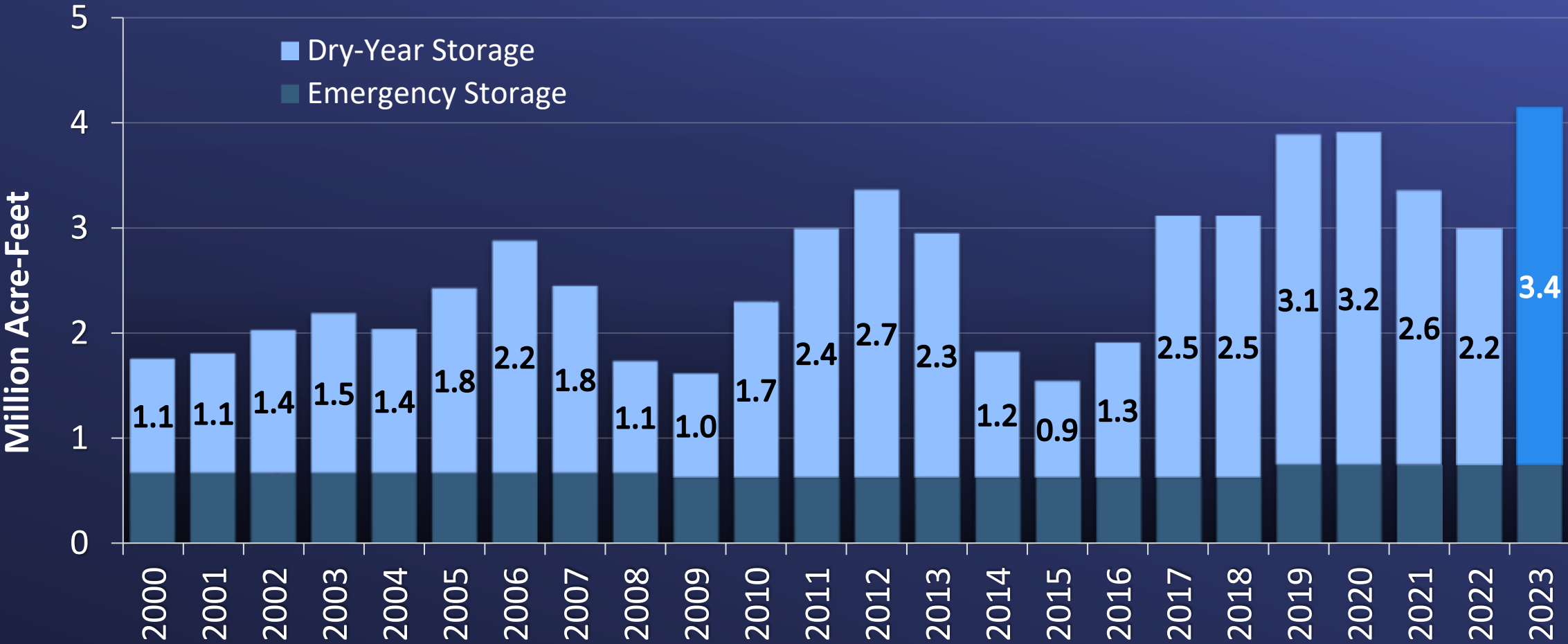
FY 2022/23 Activity

Federal Funding

- Bureau of Reclamation
 - **2022 WaterSMART Program:** Awarded \$2 million for public agency turf replacement
 - **2023 WaterSMART Program:** Awarded \$5 million for residential and CII turf replacement
 - **Large-Scale Recycled Water Grant Program:** submitted PWSC planning and feasibility study application requesting \$5 million – a requirement to be eligible to submit for a construction grant, which has not yet been released.
 - **Water Quality Program:** \$750,000 for water quality study of PWSC demonstration facility
- Federal Emergency Management Agency (FEMA)
 - Awarded \$150,000 under Hazard Mitigation Grant Program
- US Fish and Wildlife Service via California Department of Fish & Wildlife
 - \$328,000 from Endangered Species Conservation and Recovery Grant Program

Record-High Storage Projection for Metropolitan

End-of-Calendar Year Balances



Note:

2023 end-of-year balance is preliminary as they are subject to DWR adjustments and USBR final accounting.

Outlook and Challenges for FY 2023/24

- FY 2023/24 continues to experience low water sales
 - FY 2023/24 Budget is based on 1.54MAF
 - FY 2022/23 transaction at 1.39MAF (billed)
 - Initial forecast for FY 2023/24 transaction at 1.24MAF (~20% below budget)
- ➔ Lower water sales translate to lower water revenues
- High fixed costs
 - >80% of expenditures are fixed
- Continued inflationary pressures on capital and O&M
- High State Water Project power cost as a result of the 100% allocation for 2023

Outlook and Challenges for FY 2023/24 (cont.)

- Continue to monitor water sales & expenditures
- Continue to look for opportunities to reduce costs and obtain grants
- Anticipate actions to manage finances, including adjusting PAYGO expenditures and use of revolver loan
- More information will come at 1st Quarter report in November

Next Steps

- December FAIRP Committee: Review Proposed FY 2024/25 & FY 2025/26 Biennial Budget and Rates Process
- January 2024: Proposed Biennial Budget, Revenue Requirements and Water Rates & Charges Board letter posted
- February through March 2024 : Workshops on Biennial Budget & Rates and Charges in FAIRP Committee and MAMM
- April 2024 Board Meeting: Consider action on FY 2024/25 & FY 2025/26 Budget, 2025 and 2026 rates and 2025 charges

