

Special Finance, Affordability, Asset Management and Efficiency Committee

Overview of Potential Drivers of the Next Biennium Budget

Item 6a June 23, 2025 Item 6a Overview of Potential Drivers of the Next Biennium Budget

Subject

 Overview of Potential Drivers of the Next Biennium Budget

Purpose

 Inform the Board on the Potential Drivers of the Next Biennium Budget

Known Financial Challenges and Potential Cost Drivers

Next Biennium FY 2026/27 & 2027/28 and 10-year Financial Forecast

- Additional CIP Expenditures
 - Higher CIP to maintain current system (Refurbishment & Replacement (R&R))
 - Drought Mitigation projects
- Possible new Major Capital Projects
 - Pure Water Southern California (PWSC)
 - Delta Conveyance Project (DCP)
 - Regional Conveyance Improvement (East-West Conveyance)
 - Surface Storage
 - Sites
- Funding Zero Emission Vehicles (ZEV)
- Staffing Challenges
- Other Potential Budget Drivers



- Information included in this presentation is *preliminary* and will change when more information is available
- Each item will be presented to the Board according to the project timeline and some are anticipated as part of the upcoming biennial budget process

Current Budget and 10-yr Financial Forecast

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Ten-year Financial Projection Adopted FY 2024/25 and FY 2025/26 Budget



* Revenue Remainder and Water Rate Stabilization Fund ** Includes water sales, exchanges and wheeling

Fiscal Year Ending

Overall Rate Inc.	5%	5%	8.5 %	8.5 %	11.5%	11.5%	5.0%	5.0%	4.0%	4.0%	4.0%	4.0%
Ptax Rate	.0035%	.0035%	<mark>.0070</mark> %	<mark>.0070</mark> %	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%
Water Transactions (MAF)**	1.42	1.17	1.34	1.34	1.34	1.35	1.35	1.36	1.37	1.39	1.41	1.43
Rev. Bond Cvg	1.5	1.1	1.7	1.9	1.6	1.8	1.9	1.8	1.8	1.7	1.7	1.7
CIP, \$M	247	353	312	324	1,390	1,684	2,171	1,966	1,544	1,091	655	502
PAYGO, \$M	135	35	175	175	175	250	275	275	250	225	230	240

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10-Year Forecast without PWSC Project

PWSC (net of contributions)

Base CIP



Ten-year Financial Projection without PWSC Project



* Revenue Remainder and Water Rate Stabilization Fund ** Includes water sales, exchanges and wheeling

Fiscal Year Ending

Overall Rate Inc.	5%	5%	8.5%	8.5%	7.5%	5.5%	4.0%	4.0%	4.0%	3.0%	3.0%	3.0%
Ptax Rate	.0035%	.0035%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%	.0070%
Water Transactions (MAF)**	1.42	1.17	1.34	1.34	1.34	1.35	1.35	1.36	1.37	1.39	1.41	1.43
Rev. Bond Cvg	1.5	1.1	1.7	1.9	1.6	1.7	1.8	1.8	2.0	2.0	2.1	2.0
CIP, \$M	247	353	312	324	337	351	365	380	395	411	427	444
PAYGO, \$M	135	35	175	175	175	180	190	200	210	220	230	240

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Additional CIP Expenditures

 Increased Refurbishment and Replacement (R&R) to Maintain Current System
 Drought Mitigation Projects

Presented to the Engineering, Operations & Technology Committee on Mar 10, 2025

Industry Benchmarks System R&R Rates

- 2020 survey for water transm. & distr. pipe networks serving > 0.5M people
- Values are for R&R only
- ERC = Estimated replacement cost



About 75% of the adopted CIP budget is for R&R projects or about \$239M/yr

Percentile of Respondents	25 th	Median	75 th	
R&R Spend as % of ERC	0.70%	1.1%	2.0%	
Equivalent Metropolitan Spend Based on \$46B ERC	\$322M	\$506M	\$920M	

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Estimated Impact of Increased R&R CIP Funding from \$239M to \$500M/yr

100% PAYGO	100% Debt Financing*
15.4%	
	1.5% / year
	100% PAYGO 15.4%

* 4%, 30yrs

- Pay-as-you-go ("PAYGO") financing results in a lower cost of capital compared to debt. However, it requires a significant 1-time rate increase to generate current year revenues (~15.4%). The optimal mix of PAYGO and debt to fund an increase in the R&R CIP will depend upon the financial conditions, financial metrics (e.g., coverage ratios), and other budget assumptions
- Implementation of increasing CIP funding will require additional staff
- Staff is currently in the process of determining the appropriate R&R needs for our current system
 - Anticipated as part of the upcoming biennial budget process

Drought Mitigation Projects

Presented on Feb 12, 2024 to Engineering, Operations and Technology Committee

Drought Mitigation Actions Portfolio Cost-Effective Projects Providing Timely Relief (for Implementation)



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Drought Mitigation Projects for Further Consideration

Presented on Feb 12, 2024 to Engineering, Operations and Technology Committee



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Pure Water Southern California (PWSC)

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Presented at Subcommittee on Pure Water Southern California and Regional Conveyance on Jan 22, 2025

Overview of Updated Program Costs

- Based on program costs presented in November 2023
 - Phase 1 115 MGD
 - Upsized pipeline for LADWP PWLA Program
 - All treatment facilities MBR, RO, UV-AOP, etc.
- Modifications since 2023
 - Agreement with LACSD assigns construction costs of pretreatment facilities (MBR etc.) to LACSD

Metropolitan Staging Cost Comparisons



January 22, 2025

Subcommittee on Pure Water Southern California and Regional Conveyance

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Estimated PWSC Financial Impact and Unit Cost

in 2023 dollars Phase 1 with no upsizing, w/o LACSD Scope, and w/o out-of-area contributions.

PWSC Project	115 MGD	75 MGD	45 MGD
Capital Construction Cost	\$4.3B	\$3.6B	\$1.5B
Annual Capital Financing Costs*	\$249M	\$206M	\$88M
Annual O&M Cost	\$139M	\$104M	\$60M
Annual R&R Cost	\$68M	\$38M	\$20M
Production Yield	118,500 AF	77,300 AF	46,400 AF
Construction Period	10 years	10 years	9 years
Point-in-Time Unit Cost	\$3,300/AF	\$4,000/AF	\$3,200/AF
Lifecycle Unit Cost	\$2,000/AF	\$2,200/AF	\$2,000/AF
Overall Melded Cost Increase***	25%	20%	10%
Avg Annual Cost Increase Over Construction Period**	2.5% / yr	2.0% / yr	1.1% / yr

Point-in-Time Unit Cost assumes all debt is issued at once in year one and the project is in full operation in year one.

Lifecycle Unit Cost estimates the average unit cost over the 100year project life and includes needed replacements and refurbishments (R&R).

- * Assuming 100% debt financed for this analysis at 4% rate / 30-year term
- ** Note this calculation assuming the project is 100% debt financed. If the project is partially funded by PAYGO it will increase the short-term rate impact

*** Based on Metropolitan's 2024/25 Revenue Requirement of \$1,550 M

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PWSC Design/Construction Costs in 2023 dollars



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PWSC Cash Flows Phase I Option 2 - 75 MGD, No Upsizing, w/o LACSD Scope, in 2023 dollars



PWSC Lifecycle Cost Analysis Phase I Option 2 - 75 MGD, No Upsizing, w/o LACSD Scope, in 2023 dollars



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Future Updates

- Engineering staff is currently working to revise the program costs in 2025 dollars to be presented to the Board in Fall 2025
- Adoption of Final PEIR and potential Board action for project approval in January 2026

Delta Conveyance Project

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Metropolitan's Share of DCP Planning Costs* Approved by the Board on December 9,2024

Metropolitan's Share of DCP Planning Costs in millions of dollars

	FY 2025/26	FY 2026/27	FY 2027/28	Total	CY 2027 Rate Impact ¹
Planning Costs – no refund offset	\$25.7	\$74.7	\$41.3	\$141.6	6%
Planning Costs net of \$75M refund	\$0.0	\$25.3	\$41.3	\$66.6	3%

(1) Overall calendar year 2027 rate increase needed to generate additional revenues for DCP planning and preconstruction costs on a cash basis by June 30, 2028

December 9, 2024

One Water and Stewardship Committee

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* \$75M refund will be applied to ongoing SWC costs. The refund is being shown for purposes of providing the entire scope of upcoming costs only

Estimated DCP Financial Impact and Unit Cost* in 2023 dollars → Updated Project Costs Expected in 2026-2027

Delta Conveyance Project		
Capital Cost	\$20.1B	Debt issued by DWR @ 4% rate, 40-year term
Annual O&M Cost	\$29.1M	At full operation, excl. Capital Equipment Refurbishment & Replacement (R&R)
Annual Capital Equipment R&R Cost	\$23.6M	After full operation, for major Capital Equipment R&R, est. by DCA
Average additional deliveries	403,000 AF	2070 median w/1.8' sea level rise w/o adaptation measures
Construction Period	20 years	Assumed operational in 2045

Metropolitan's assumed 47.13% Share	
MWD Capital Cost	\$9.5B
MWD Annual O&M Cost	\$13.7M
MWD Annual Capital Equipment R&R Cost	\$10.3M
MWD Average additional deliveries	189,915 AF
Deint in Time Unit Cent	¢2.000/ΔΓ
Point-in-Time Unit Cost*	ŞZ,900/AF
Lifecycle Unit Cost*	\$1,000/AF
Overall Melded Cost Increase**	37%
Avg annual cost increase over construction period	1.8% / yr

<u>Point-in-Time Unit Cost</u> assumes all debt is issued at once in year one and the project is in full operation in year one.

<u>Lifecycle Unit Cost</u> estimates the average unit cost over the 100-year project life and includes needed replacements and refurbishments.

* Based on average additional deliveries, for illustrative and comparative purposes: MWD obligations are based on participation percentage, not quantity of water

** Based on Metropolitan's 2024/25 Revenue Requirement of \$1,550 M

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DCP Design/Construction Costs Total \$20.1 billion in 2023 dollars



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DCP Cash Flows – Metropolitan Share



DCP Lifecycle Cost Analysis for MWD Unit costs* in 2023 dollars



* based on average additional deliveries, for illustrative and comparative purposes: MWD obligations are based on participation percentage, not quantity of water

\$1,000/AF = Lifecycle Unit Cost in 2023 \$ assuming 100-year useful life

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Regional Conveyance Improvement & New Surface Storage

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Regional East/West Conveyance Improvements

- Bi-directional pipeline
 - Drought operation
 - Surplus operation
- Potential Supply sources
 - SWP
 - CRA
 - DVL storage
 - Purified water
- 300 CFS capacity
- Conceptual-level estimated construction cost: \$ 4.5 B (for planning purposes only)



Estimated Costs & Impacts for East West Conveyance in 2024 Dollars

	East West Conveyance
Capital Construction Cost	\$4.5B
Annual Capital Financing Costs*	\$398M
Construction Period	15 yrs
Overall Melded Cost Increase**	26%
Avg Annual Cost Increase Over Construction Period**	1.7% / yr

* Assuming 100% debt financed for this analysis at 4% rate / 30-year term

** Based on Metropolitan's 2024/25 Revenue Requirement of \$1,550 M. Note this calculation assuming the project is 100% debt financed. If the project is partially funded by PAYGO it will increase the short-term rate impact.

Surface Water Storage Study - Phase 2 Presented on May 12, 2025, to Engineering, Operations and Technology Committee



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Estimated Costs & Impacts for Surface Storage in 2024 Dollars

	Lower Bound	Upper Bound
Capital Construction Cost*	\$0.96B	\$3.88B
Annual Capital Financing Costs**	\$85M	\$343M
Storage Capacity (TAF)	334 TAF	646 TAF
Capital Cost / Storage Capacity (\$/AF)	\$2,900/AF	\$6,100/AF
Overall Melded Cost Increase***	5%	22%

- * Concept-level total capital cost estimate for relative comparison only
- ** Assuming 100% debt financed for this analysis at 4% rate / 30-year term.
- *** Based on Metropolitan's 2024/25 Revenue Requirement of \$1,550M. Note this calculation assuming the project is 100% debt financed. If the project is partially funded by PAYGO it will increase the short-term rate impact.

Sites Reservoir Project

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Presented to One Water and Stewardship Committee on Feb 10, 2025



- Recent information:
 - The Sites Project is a multibenefit project being developed according to the beneficiary pays principle
 - Based on Amendment 3, MWD will have a 22% share of total storage, resulting in an estimated average annual yield of 40-50 TAF
 - Updated cost estimate expected in Jul-Aug 2025

Sites Cost Analysis Update

- Project provides both water supply and water storage benefits
 - Increases in storage lead to increases in expected average annual yield
 - Ongoing analysis to refine unit-cost methodology for project
- 2023 Plan of Finance
 - Did not include a schedule of future R&R costs, which is essential for lifecycle cost comparability
 - Considers multiple financing strategies, each with different short- and longterm impacts on rates:
 - PAYGO
 - Financing annual capital costs
 - Capitalizing Interest during construction

Sites Estimated Cost & Overall Rate Impact

in 2023 dollars*

Total Project Capital Costs	\$4.20B
State and Federal Contributions	\$1.12B
Net Participant Capital Costs	\$3.08B
MWD Share of Capital Costs	30.4%
Construction Period	6 Years
Net MWD Capital Costs	\$936M
Annual Capital Financing Costs**	\$54M
Annual O&M Costs	\$6M
Overall Melded Cost Increase***	4.0%
Average Annual Cost Increase Over Construction Period***	0.6%

* Figures are approximate, and totals may not foot due to rounding.

** Assuming 100% debt financed for this analysis at 4% rate / 30-year term. Interest is not capitalized during construction.

*** Based on Metropolitan's 2024/25 Revenue Requirement of \$1,550M. Note this calculation assuming the project is 100% debt financed. If the project is partially funded by PAYGO it will increase the short-term rate impact.

Sites Draft Timeline – Subject to Change & Modification



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Funding Zero Emission Vehicle (ZEV)

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Fleet Operating Equipment Budget

- Fleet Operating Equipment with ZEV is part of the Operating Equipment in the Adopted Budget
- Items include:
 - Portion of Construction / Shop / Maintenance Equipment
 - Heavy Equipment
 - Automobiles, Trucks & Utility Vans

Approved Budget	FY 2024/25	FY 2025/26
Fleet Operating Equipment	\$7.9M	\$8.5M
Other Operating Equipment	\$1.7M	\$1.6M
Total Operating Equipment	\$9.6M	\$10.1M

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Fleet Operating Equipment Budget with Zero Emission Vehicles (ZEV)

- Zero Emission Transition Program: \$35M
 - December 10, 2024, Board approved additional program funding of \$35M
 - Replace aging high-critical vehicles
 - Reduce operational risk
 - Ensure compliance with CARB and CAP



Allocation of Funds	
Approved Operating Equipment Budget	
Vehicle Purchases FYs 24/25 & 25/26 ¹	\$(13,800,000)
Additional Financing (Current Board Action)	
Additional Findnoing (camera	44,000,000
Vehicle Replacement Needs	1,900,000
Debt Service for FY 23/20	2,900,000
Remaining/Contingency Budget	al \$35,000,000
 Portion of Approved Operating Budget for Vehicle Purchases of Accumes that additional funding is debt financed. 	nly.
Z. Assumeet	

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Fleet Operating Equipment (OE) with ZEV Board Approved the \$35M Debt Financed of the Initial Increases in Fleet OE

To fund on-going annual fleet OE needs, the OE needs to increase about \$12M/yr resulting in a one-time overall rate increase of ~0.8%



Staffing Challenges

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Staffing Needs Analysis: Steps Taken

- MWD is currently conducting a detailed staffing analysis by Group to determine:
 - Current/future staffing needs and operational risks/challenges
 - Financial strategies for funding new position requests in upcoming budgets
- Metropolitan staff will bring a multi-year/budget cycle staffing plan to the Board for discussion in the Fall 2025. Staff will incorporate the Board's feedback into the next biennium budget (released in January 2026)
- Consistent with prior budget requests (see table below) as well as feedback received from MWD's employee engagement survey, we anticipate significant position requests from various groups

Position Build	FY20 Budget	FY21 Budget	FY22 Budget	FY23 Budget	FY24 Budget	FY25 Budget	FY26 Budget
Beginning Positions (FY20 Budget)	1907						
New Positions Added		0	0	22	22	19	19
Pure Water Positions Added		0	0	0	17	0	0
Total Positions	1,907	1,907	1,907	1,929	1,946	1,965	1,965
Unfunded Position Requests		35	35	81	81	104	104

Other Drivers

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Other Potential Budget Drivers

- Continuing lower water sales trends
- Additional treatment costs for AVEK High Desert Water Bank Program (e.g., nitrate, arsenic)
- Macro-economic drivers (e.g., tariffs, inflation, interest rates)
- Labor costs (e.g., wages, pension, active & retiree medical)
- O&M cost increases (e.g., chemicals)

Next Steps

- Various updated cost estimates are anticipated in the coming months as the budget is developed
- The financial analysis will also be part of CAMP4W evaluative criteria for major projects to facilitate Board deliberations

