



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 #1

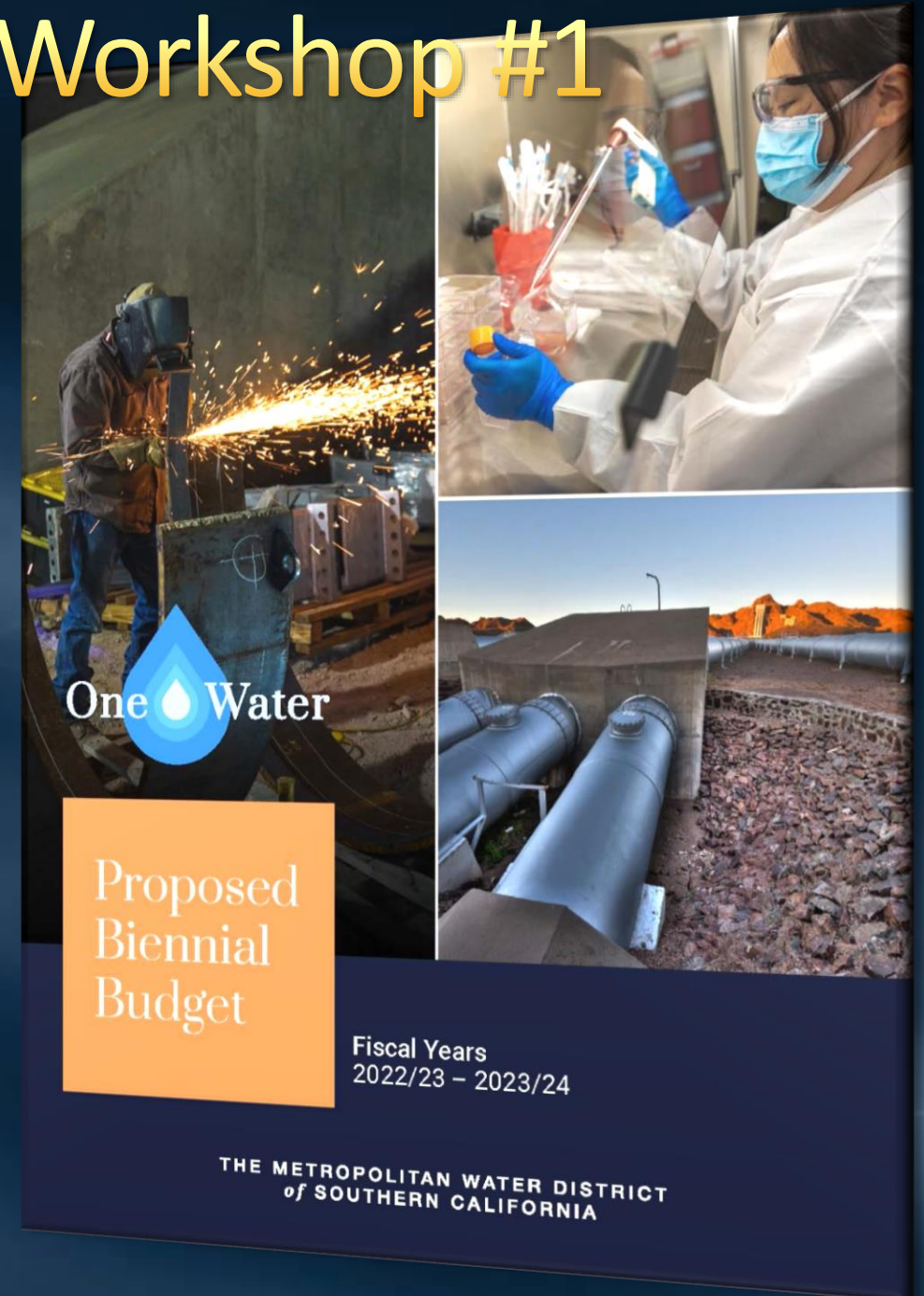
Finance & Insurance Committee

Item 9-2

February 7, 2022

Proposed Biennial Budget - Workshop #1

- Overview
 - Strategic Priorities
 - Transitionary Budget Highlights
 - Financial Policies & Goals
 - Projected Water Transactions
- Budget Development
 - Proposed Budget Actions
 - Rate Impact
- Proposed Biennial Budget
- Ten-Year Financial Forecast
- Next Steps
- Q&A and Discussion



GM's Proposed Strategic Priorities

- **Empower** the workforce and promote diversity, equity, and inclusion
- **Sustain** Metropolitan's mission with strengthened business model
- **Adapt** to changing climate and water resources
- **Protect** public health, regional economy, and Metropolitan's assets
- **Partner** with stakeholders and the communities we serve

Transitional Biennial Budget

- Within the next year Metropolitan is engaging in the following:
 - 2020 Integrated Resources Plan
 - Rate Refinement process
 - Develop a long-term financial plan
 - Implement key strategic priorities-determine MWD Business Plan for the next 25 years
 - Complete an Organizational Structure Study
- The proposed budget strikes a balance between funding Metropolitan's current strategic priorities, addressing drought conditions, maintaining financial robustness, and moderating rate impacts.

Biennial Budget Highlights

- 5% catch-up for the loss of WSR revenue
- Lower water transactions
 - 1.59 MAF FY 2022/23
 - 1.54 MAF FY 2023/24
 - Downward trending to 1.51 MAF by FY 2025/26
- To mitigate the rate impacts, the proposed budget includes actions to reduce the projected cost increases to 3% per year (well below the rate of inflation) while still adding 20 FTE positions to perform necessary work.
 - Workshop #2 - review unfunded priorities
- In total, the proposed annual overall rate increase for 8% for CY 2023 and 2024
- The ten-year forecast projects overall rate increases of 5% annually

Biennial Budget Highlights (continued)

- O&M expenditures
 - \$20M Regional Recycled Water Program planning costs over biennium
 - Departmental labor budgets reflect proposed negotiated labor increases and allowable merit adjustments as well as increased benefit costs such as pension and medical.
 - Key non-labor increases – enhanced security, land management and maintenance efforts, and inflationary pressure on fuels and materials
- State Water Project Allocation
 - 25% for CY 2022, 40% for CY 2023, 50% for CY 2024 and beyond
- Colorado River Aqueduct Diversions
 - 1.01 MAF for FY 2022/23, 0.92 MAF for FY 2023/24

Biennial Budget Highlights (continued)

- Delta Conveyance Project
 - Metropolitan's planned contribution for planning costs of \$99M over the biennium partially funded by California WaterFix refund
- 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 is proposed to be bond funded.
 - FY 2022/23 DM is funded in part from the remaining Water Stewardship Fund balance

Biennial Budget Highlights (continued)

- Capital Investment Plan

- \$600M over biennium
- Budget assumes 100% of planned CIP to be spent (previously 80%)
- The CIP reflects the focus on addressing aging infrastructure, drought response, and compliance with regulatory requirements.
- The capital expenditures for the full RRWP are not included in the biennium but are included in the projections starting in FY 2024/25 as part of the Ten-Year Financial Forecast.

Financial Policies & Goals

- Coverage ratios

	Target	Projected FY 2021/22	Proposed FY 2022/23	Proposed FY 2023/24
Revenue Bond*	2.0	1.6	1.4	1.5
Fixed Charge	1.2	1.4	1.4	1.4
*Projected maximum coverage of 1.9x in FY 2029/30				

- Revenue bond coverage below the 2.0x target during biennium and ten-year forecast period
- Maintain high credit ratings
 - S&P – AAA, Fitch - AA+, Moody's - Aa1
- High ratings reduce debt service costs
 - Decreased by \$19 M from FY 2021/22 budget to FY 2022/23 budget due to favorable refundings and lower rates.

Recommended Financial Reporting Change

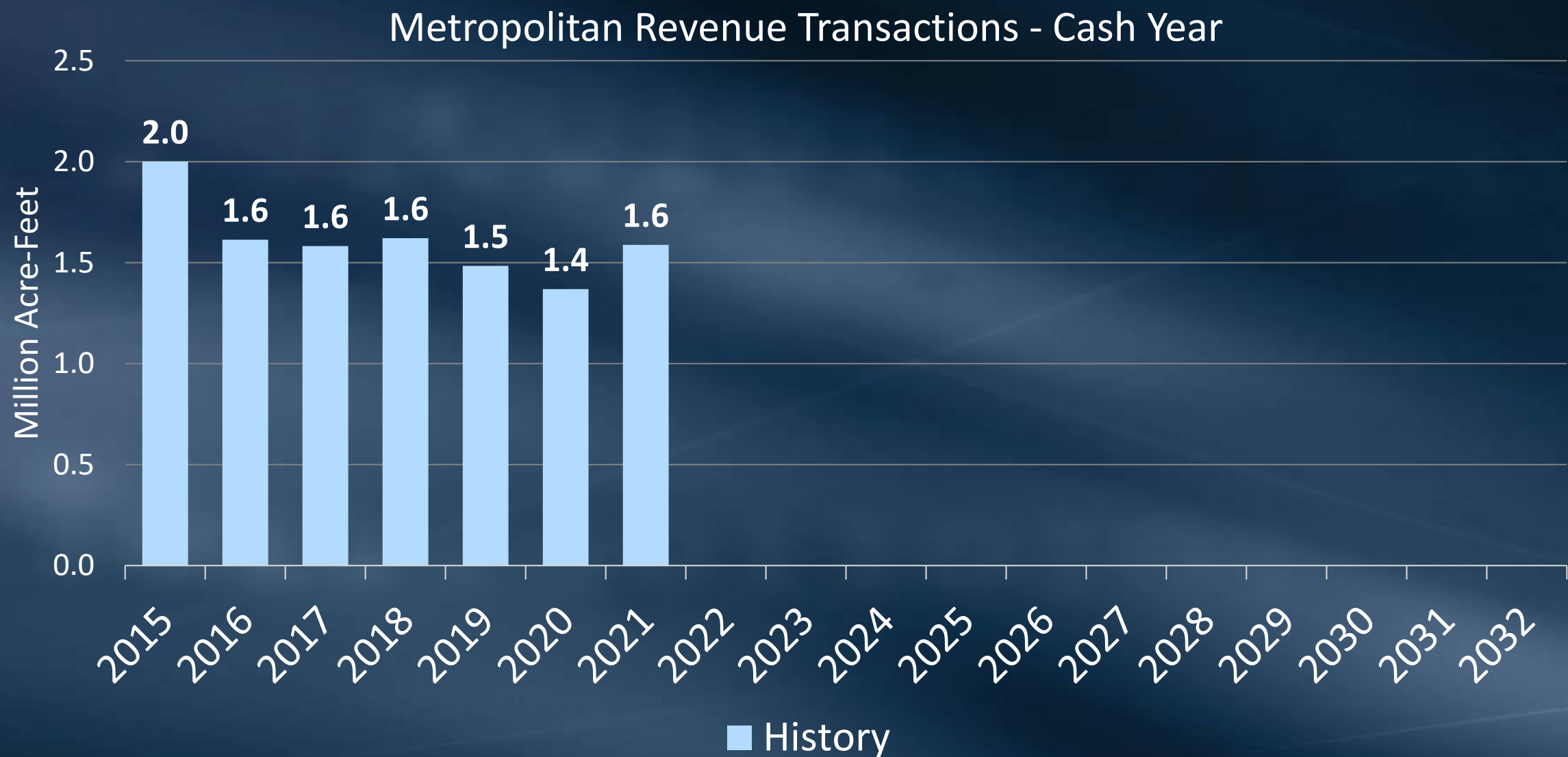
- The Proposed Biennial Budget has been prepared on a cash basis instead of a modified-accrual basis. This change has no effect on the proposed rate increases.
- Financial reports will continue to be prepared on a full-accrual basis of accounting in accordance with Governmental Accounting Standards Board and Generally Accepted Accounting Principles.
- The staff has reviewed the impacts of budgeting and reporting on a modified-accrual basis over the last nine years and has determined that the benefits expected to be achieved did not manifest as thought. Rather than saving a significant amount of staff time, the modified accrual basis of accounting increased the amount of staff time.
- Reporting against the cash-based budget provides the most accurate representation of available unrestricted reserves cash position.
 - The modified-accrual based unrestricted reserves balance on June 30, 2021 = \$590 M
 - The actual unrestricted reserves cash balance on June 30, 2021 = \$463 M (\$127M less)
- The minimum and target reserve levels are based on cash and securities on hand per admin code section 5202. As such, reporting cash-based reserves provides the most relevant metric for evaluating fiscal compliance.

Projected Water Transactions

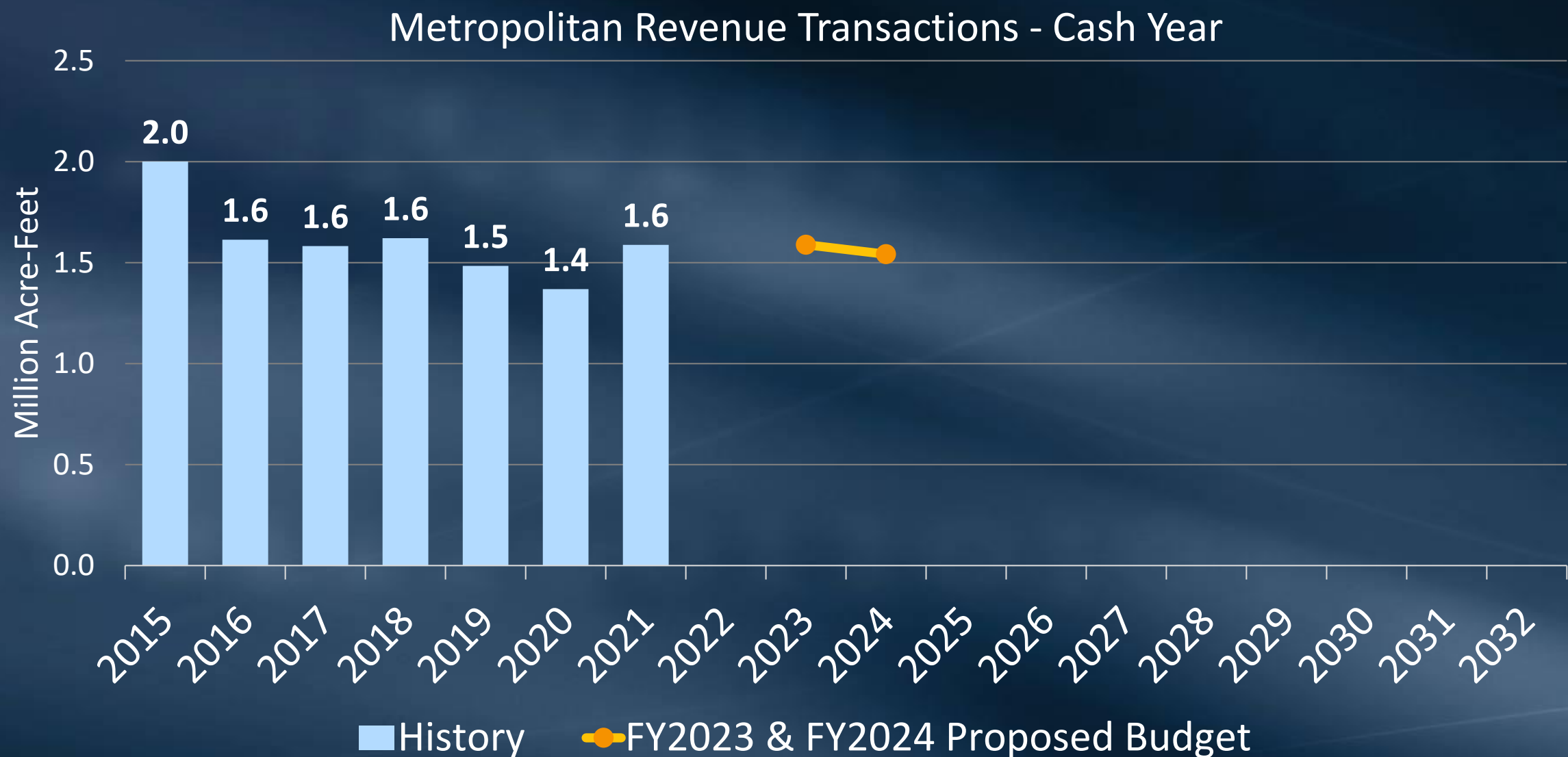
Key assumptions for 10-year projection

- Reflects permanent water use efficiencies gained since the last drought
- Demographic growth consistent with the IRP demand expert feedback
- Accounts for new local supplies being brought on by member agencies in the next ten years
- Early years of projection are consistent with recent range in demands

Recent deliveries range from 1.4 - 1.6 MAF per year

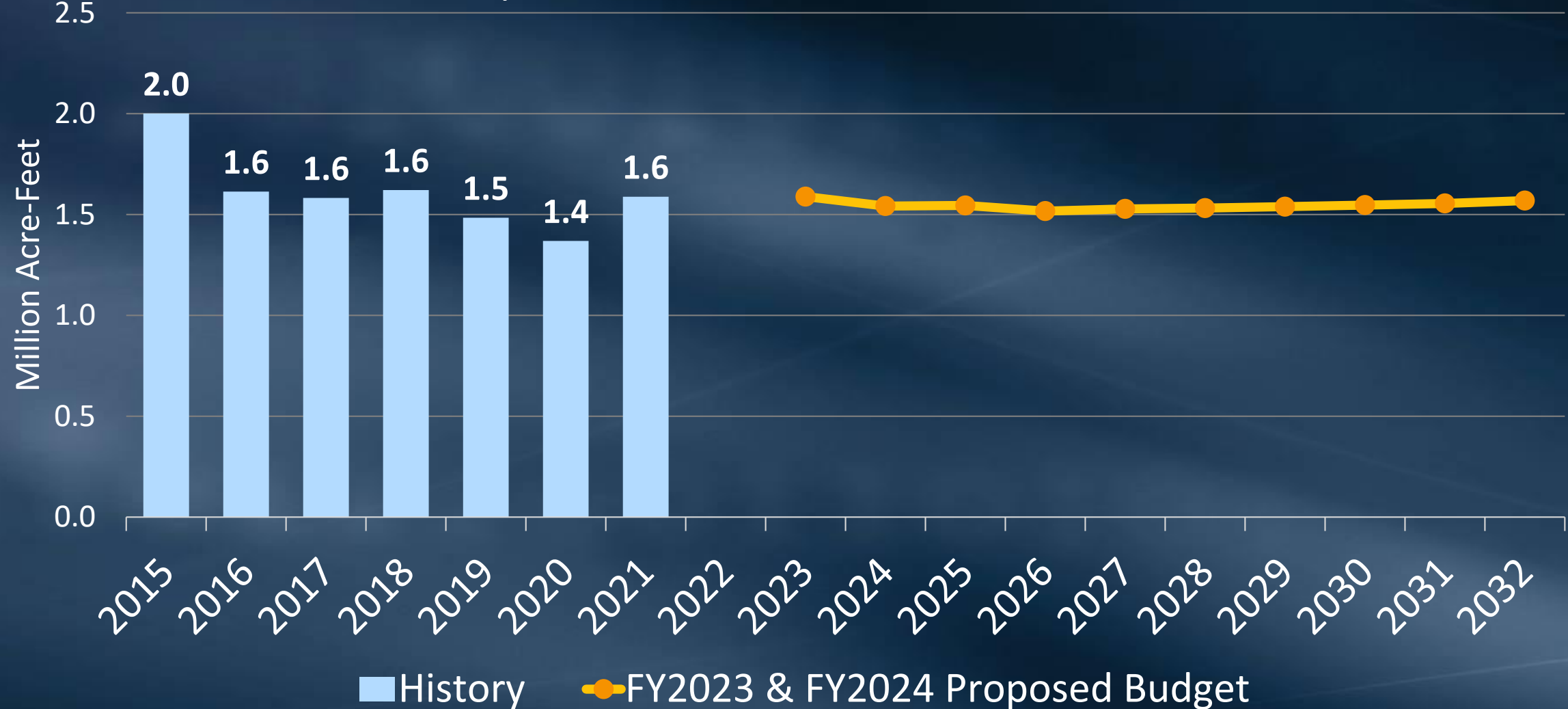


Forecast Reflects Recent Gains in Water Use Efficiencies



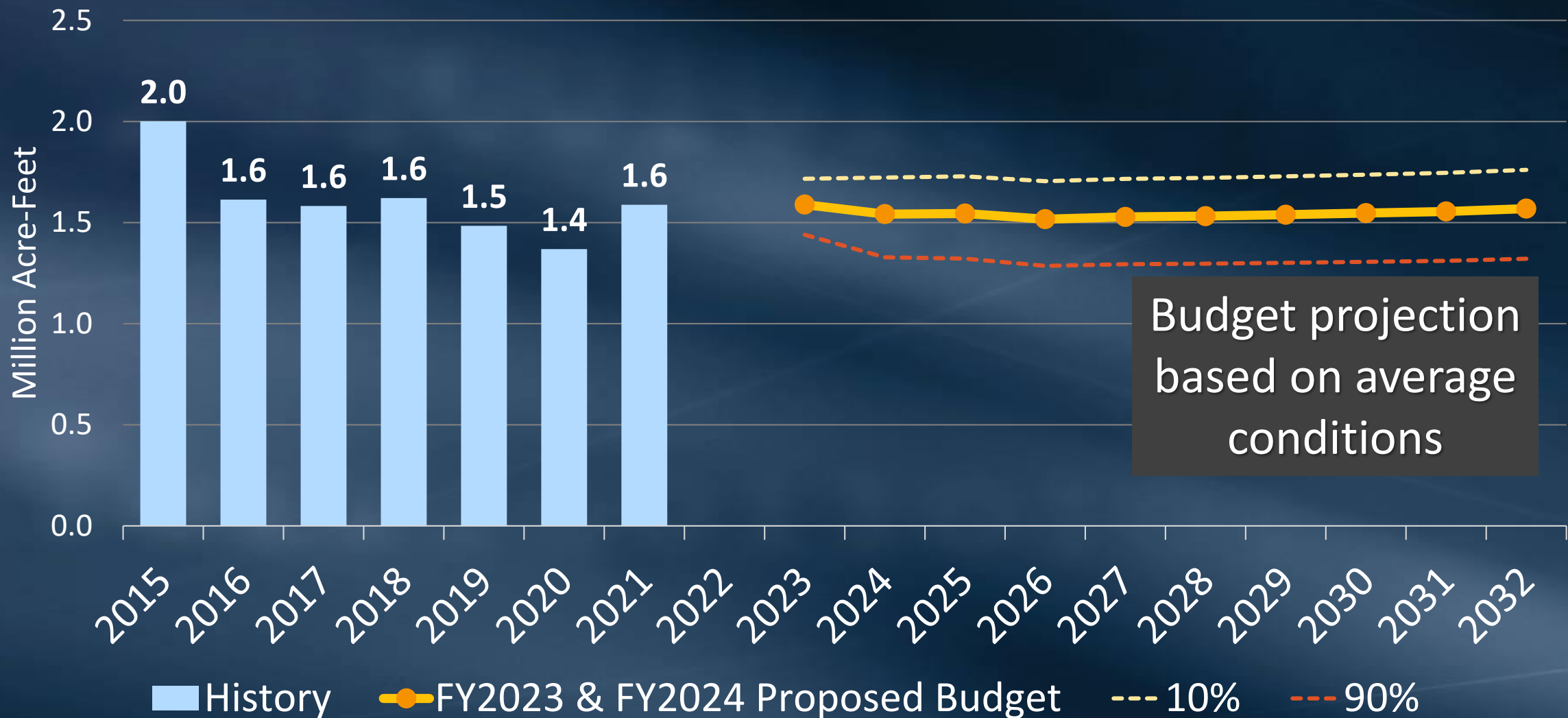
10-year Projection Reflects Population Gains Offset by Additional Local Supplies Coming Online

Metropolitan Revenue Transactions - Cash Year

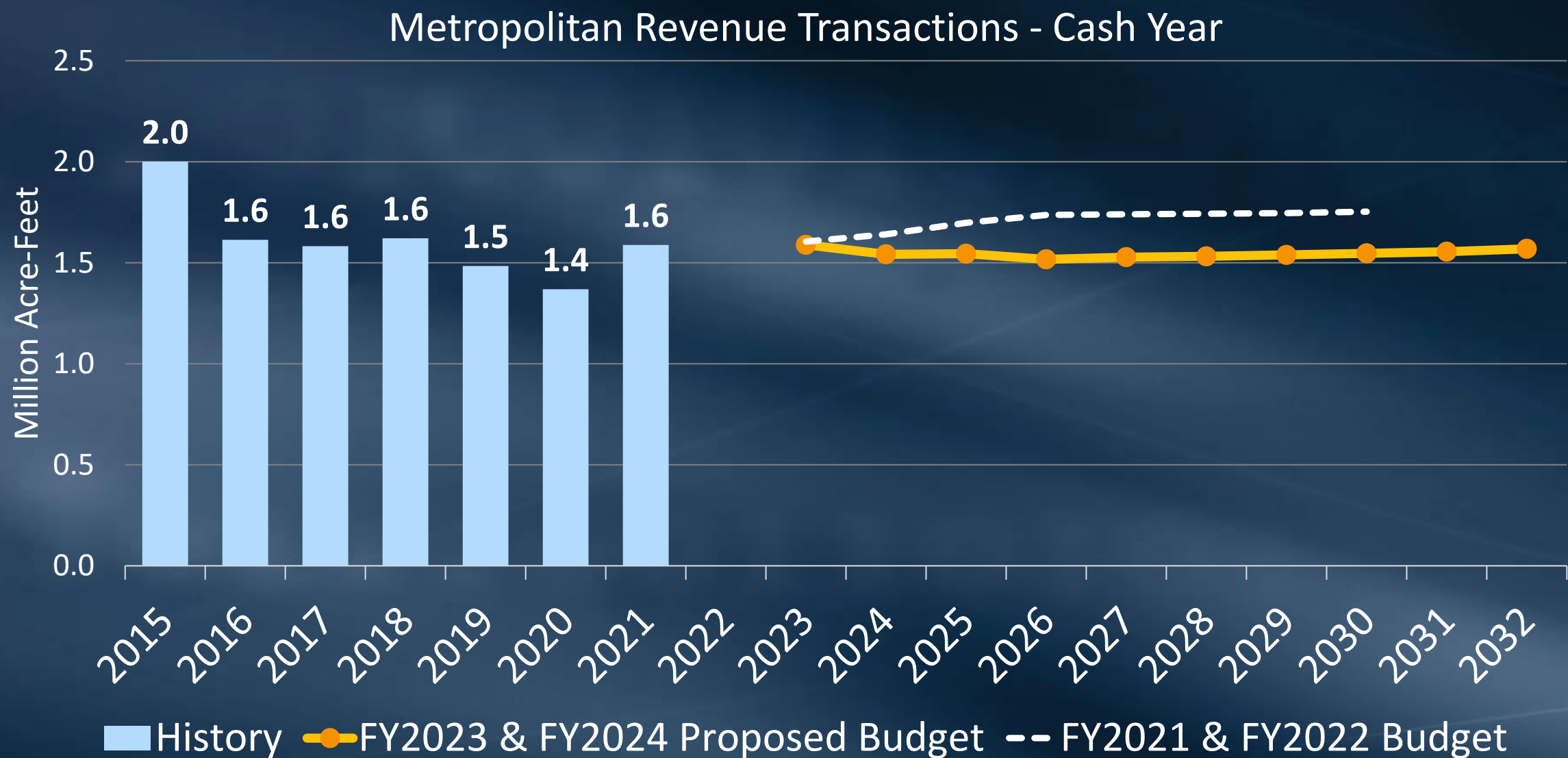


Projection Has a Range Depending on Wet or Dry Conditions

Metropolitan Revenue Transactions - Cash Year

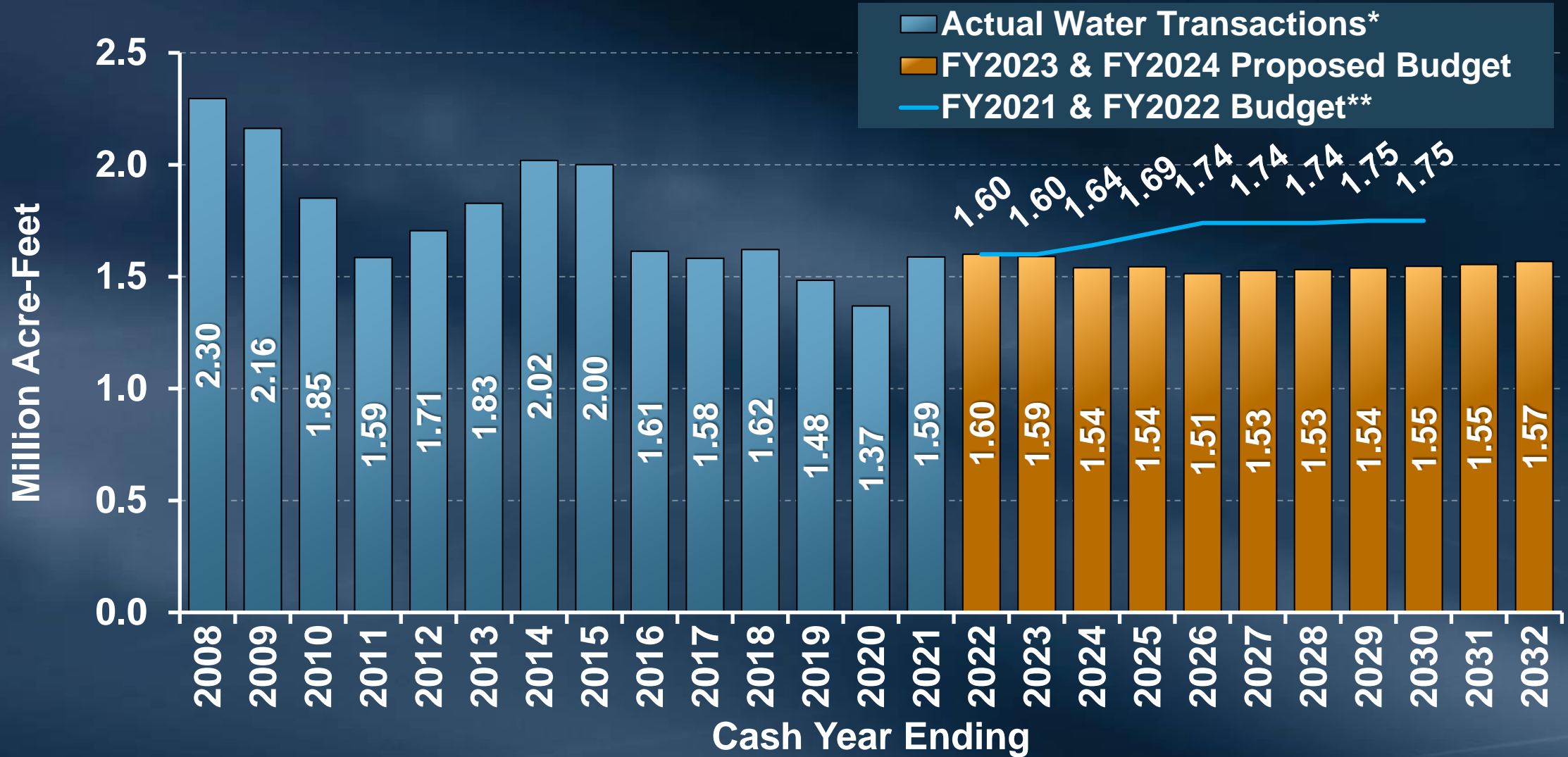


New Budget Projection is Lower Than Previous Budget Projection



Budget Development

Water Transactions



* Includes water sales, exchanges and wheeling

** Fiscal year ending

Initially Projected Expenditures

Fiscal Year Ending	Budget			Increase from 2022 to 2024	
	2022	2023	2024	\$M	%
State Water Contract Power	\$ 212.4	\$ 248.5	\$ 258.6	\$ 46.2	22%
Colorado River Aqueduct Power	57.6	105.9	85.6	28.0	49%
Departmental O&M	579.9	642.8	653.2	73.4	13%
State Water Contract OMP&R & Capital	417.0	440.1	468.2	51.2	12%
Supply Programs	61.2	105.1	110.1	48.9	80%
Delta Conveyance Planning	25.0	34.5	64.5	39.5	158%
Demand Management	52.5	68.8	72.9	20.4	39%
PAYGO	135.0	180.0	180.0	45.0	33%
Debt Service	307.0	285.8	295.3	(11.7)	-4%
Sub-total Expenditures	\$1,847.5	\$2,111.5	\$2,188.4	\$340.9	18%

Proposed Budget Actions

Proposed Reductions	FY 2022/23	FY 2023/24
Departmental O&M Cuts	\$ 33.9	\$ 36.6
Bond AVEK High Desert Program*	38.4	46.0
Use CA WaterFix Refund for Delta Planning Costs	24.5	10.0
Reduce PAYGO	45.0	45.0
Bond ramped-up Conservation Program*	18.0	18.0
Total Proposed Reductions	\$159.8	\$155.6

* Increases debt service costs

Proposed Budget Actions

- Departmental O&M cuts
 - Reduction of 121 requested FTE positions and non-labor expenditures
 - This results in unfunded priorities
- Bond financing for AVEK High Desert Program
 - Reduce supply program O&M expenditures over biennium by converting them to a debt service payment
- California WaterFix (CWF) refund
 - Apply \$34.5M CWF refund to Delta Conveyance planning costs
- Reduce PAYGO
- Bond financing for Conservation Program
 - Financing of increased investment in Conservation Program
 - Authorize bond financing up to full program budget for financial management flexibility

Proposed Biennial Budget Expenditures

Fiscal Year Ending	Budget 2022	Proposed Biennial Budget		Increase from 2022 to 2024	
		2023	2024	\$M	%
State Water Contract Power	\$ 212.4	\$ 248.5	\$ 258.6	\$ 46.2	22%
Colorado River Aqueduct Power	57.6	105.9	85.6	28.0	49%
Departmental O&M	579.9	608.9	616.7	36.8	6%
State Water Contract OMP&R & Capital	417.0	440.1	468.2	51.2	12%
Supply Programs (1)	61.2	66.7	64.1	2.9	5%
Delta Conveyance Planning (2)	25.0	10.0	54.5	29.5	118%
Demand Management (1)	52.5	50.8	54.9	2.4	5%
PAYGO	135.0	135.0	135.0	-	0%
Debt Service	307.0	288.0	301.0	(6.0)	-2%
Sub-total Expenditures	\$1,847.5	\$1,954.0	\$2,038.6	\$191.1	10%

(1) cash funded portion (2) net of CWF refund

Proposed Biennial Budget Expenditures

Fiscal Year Ending	Budget 2022	Proposed Biennial Budget		Increase from 2022 to 2024	
		2023	2024	\$M	%
Sub-total Expenditures	\$1,847.5	\$1,954.0	\$2,038.6	\$191.1	10%
Increase in Required Reserves	\$ 60.8	\$ 13.3	\$ (1.6)	\$ (62.4)	-103%
Property Taxes Revenues	140.1	163.1	168.3	28.3	20%
Other Revenues	60.5	71.9	57.0	(3.5)	-6%
Revenue Requirement (\$M)	\$1,707.7	\$1,732.3	\$1,811.6	\$103.9	6%

Proposed Biennial Budget Rate Increases

Rate Driver	Biennial Rate Impact
\$103.9 M higher Revenue Requirement	6%
60 TAF lower water transactions (1.60 MAF reduced to 1.54 MAF)	4%
Catch-up for loss of Water Stewardship Rate Revenues	5%
Increase to <u>partially</u> account for the fact that rate increases only in effect for half the fiscal year	1%
Rate increase over the biennium (8% in 2023 and 8% in 2024)	16%

- Results in \$84M draw from the Water Stewardship Fund and unrestricted reserves in FY 2022/23 and FY 2023/24
- Results in low revenue bond coverage of 1.4x for FY 2022/23 and 1.5x for FY 2023/24

Historic and Projected Overall Rate Increases



Proposed Rates & Charges

	2022 Approved	2023 Proposed	2024 Proposed
Tier 1 Supply Rate (\$/AF)*	\$243	\$328	\$348
Tier 2 Supply Rate (\$/AF)*	\$285	\$532	\$538
System Access Rate (\$/AF)	\$389	\$373	\$416
System Power Rate (\$/AF)	\$167	\$187	\$188
Treatment Surcharge (\$/AF)	\$344	\$364	\$370
Readiness-to-Serve Charge (\$M)	\$140	\$145	\$183
Capacity Charge (\$/CFS)	\$12,200	\$10,700	\$11,700

Rates and Charges Effective January 1

* includes demand management costs for 2023 and beyond

Proposed Full Service Rates and Charges

Rate Type	2022 Approved	2023 Proposed	% Increase (Decrease)	2024 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$799	\$888	11%	\$952	7%
Tier 2	\$841	\$1,092	30%	\$1,142	5%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$1,143	\$1,252	10%	\$1,322	6%
Tier 2	\$1,185	\$1,456	23%	\$1,512	4%
RTS Charge (\$M)	\$140	\$145	4%	\$183	26%
Capacity Charge (\$/cfs)	\$12,200	\$10,700	(12%)	11,700	9%

Rates and Charges Effective January 1st

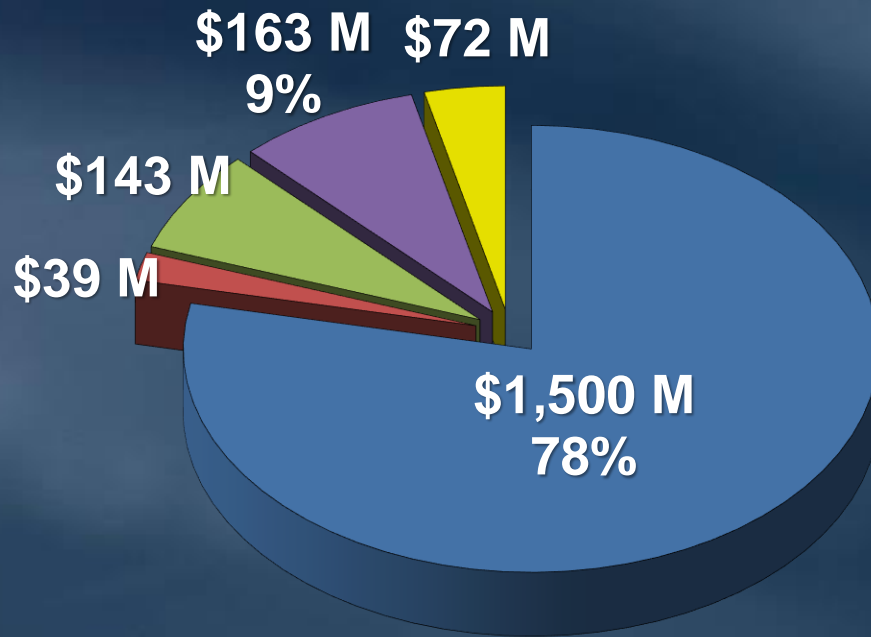
Full Service Cost means the Full Service Rate, consisting of the following rate components: the applicable Supply Rate, the System Access Rate, the System Power Rate, and if applicable the Treatment Surcharge for treated water service.

Proposed Biennial Budget

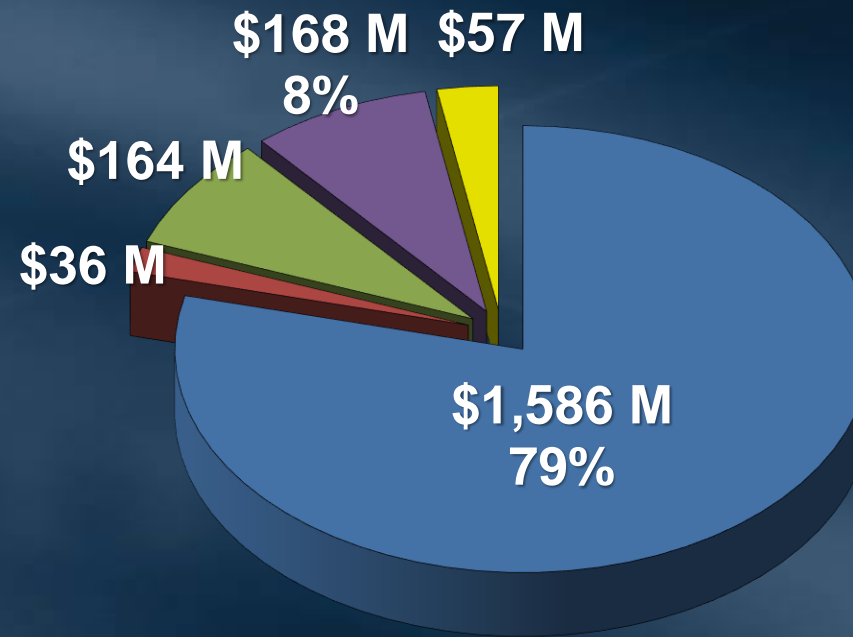
Revenues

■ Water Transactions* ■ Capacity Charge ■ RTS Charge ■ Property Taxes ■ Misc.

FY 2022/23 - \$1.92 B

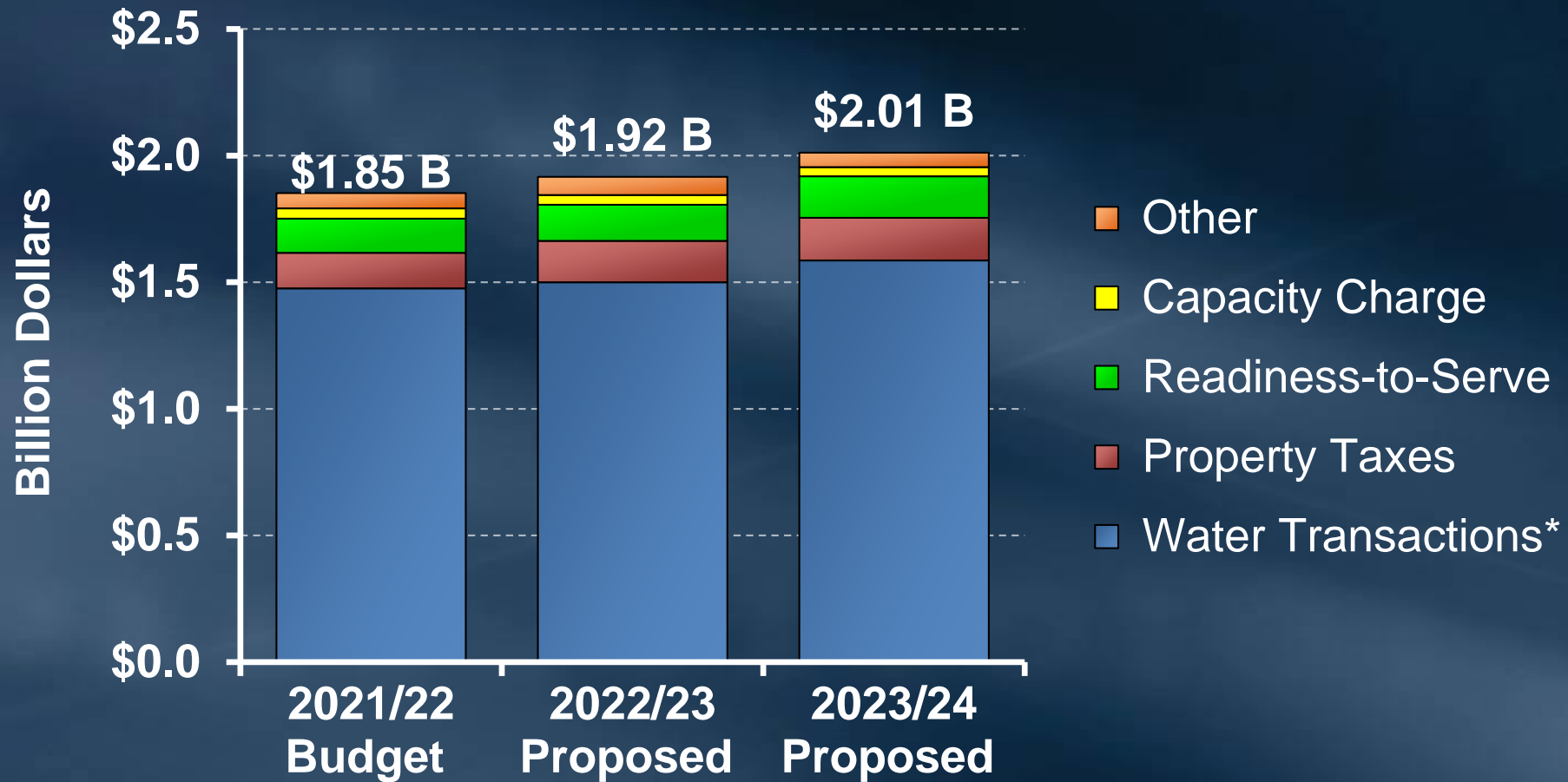


FY 2023/24 - \$2.01 B



*from water sales and exchange

Revenue Trend

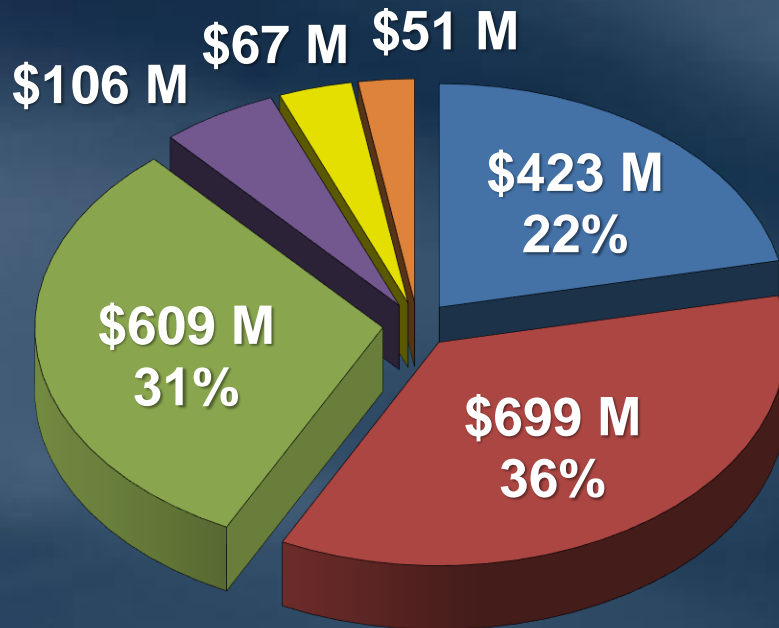


* Includes water sales and exchange

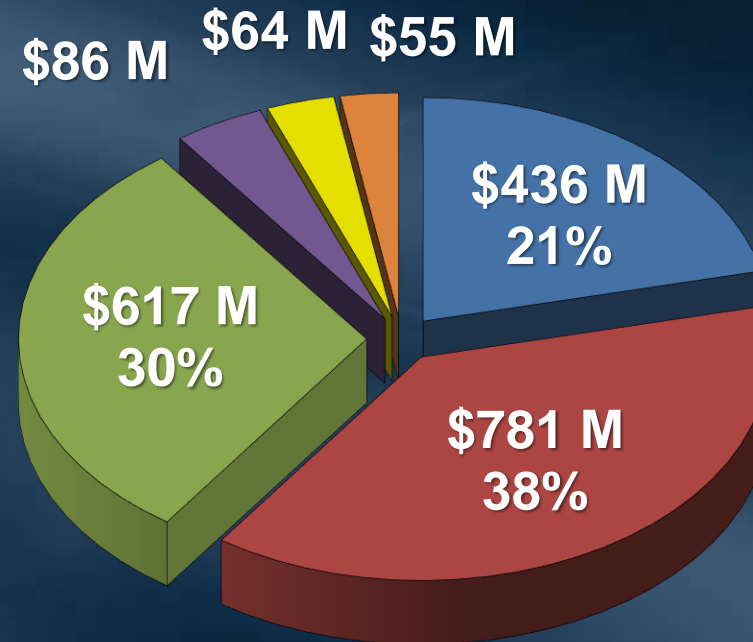
Expenditures

- Capital Financing
- Colorado River Power
- State Water Contract (1)
- Supply Programs (2)
- O&M (3)
- Demand Management (2)

FY 2022/23 - \$1.95 B

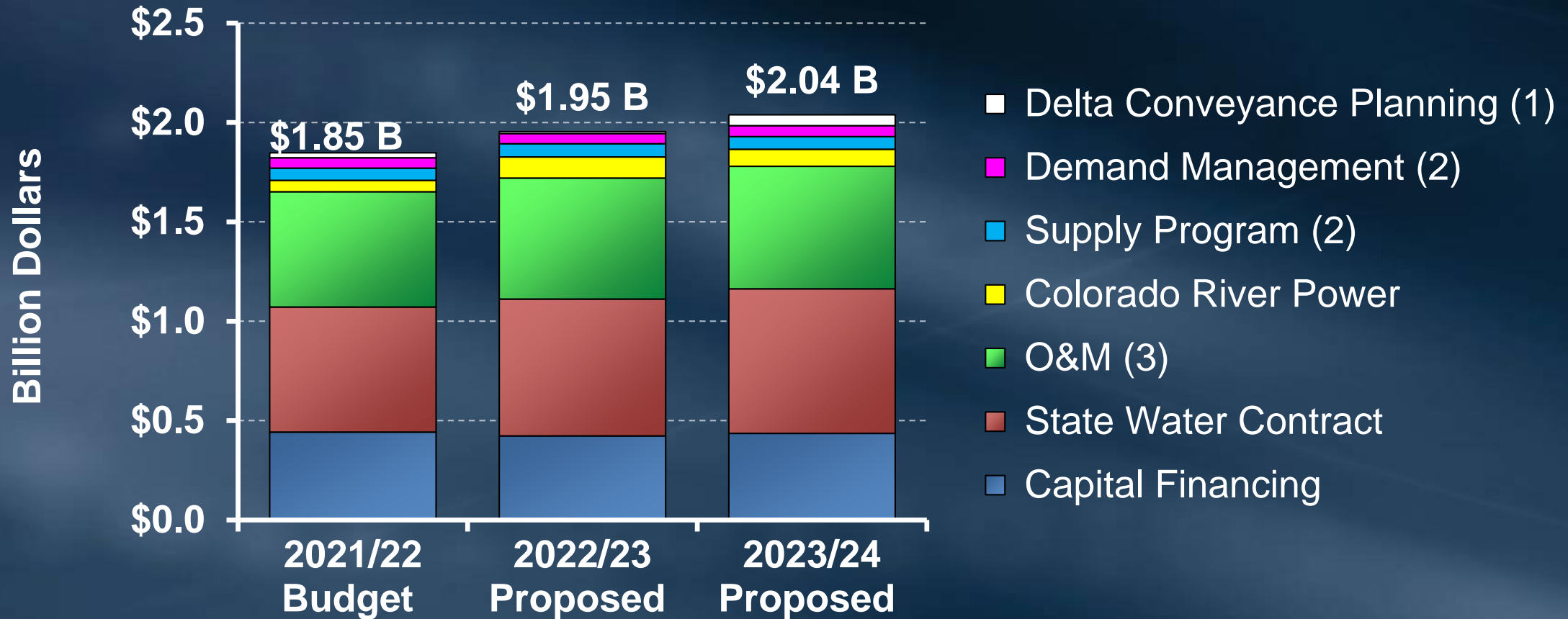


FY 2023/24 - \$2.04 B



- (1) with Delta Conveyance Project planning costs
- (2) cash funded portion
- (3) includes planning costs for RRWP

Expenditure Trend

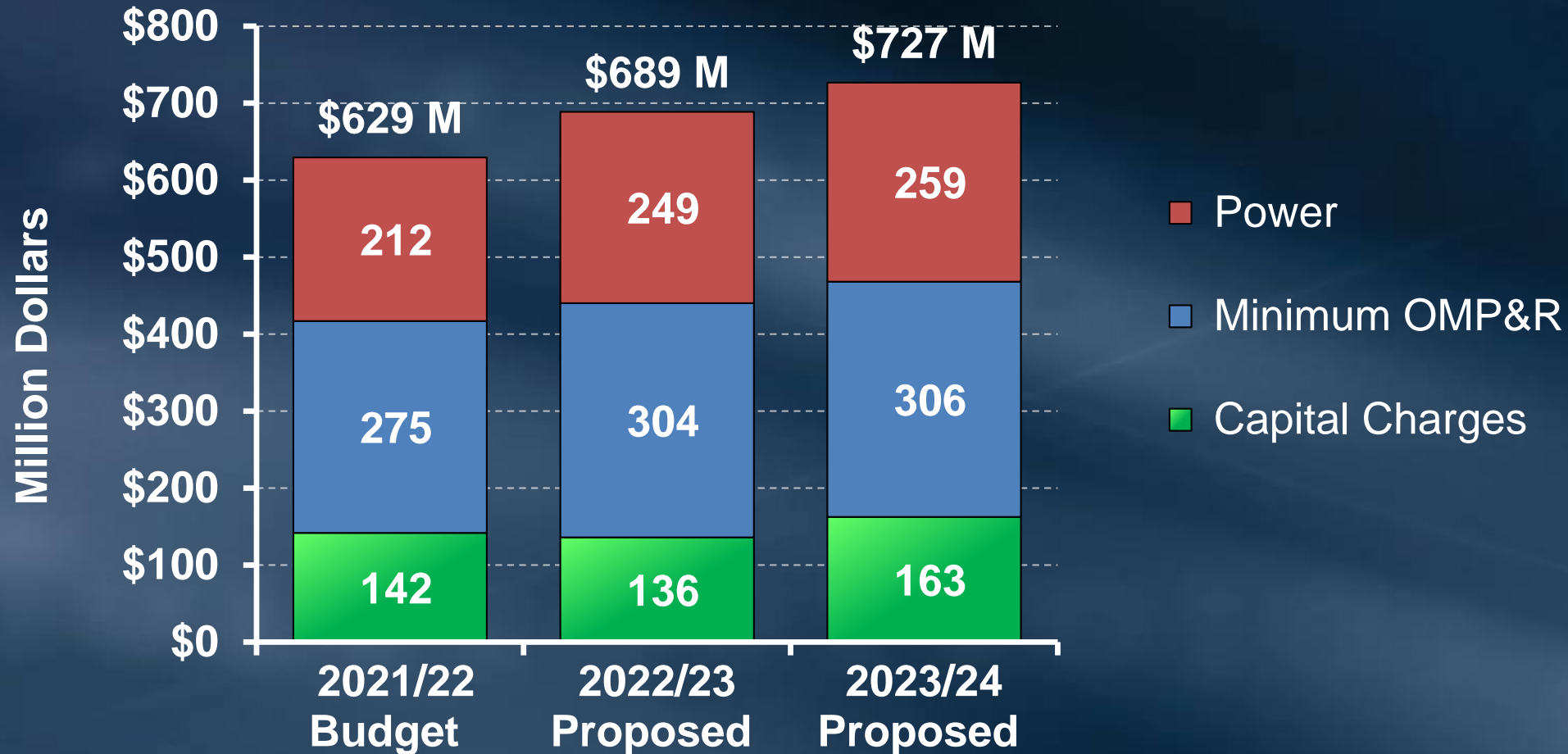


(1) net of California WaterFix refund

(2) cash funded portion

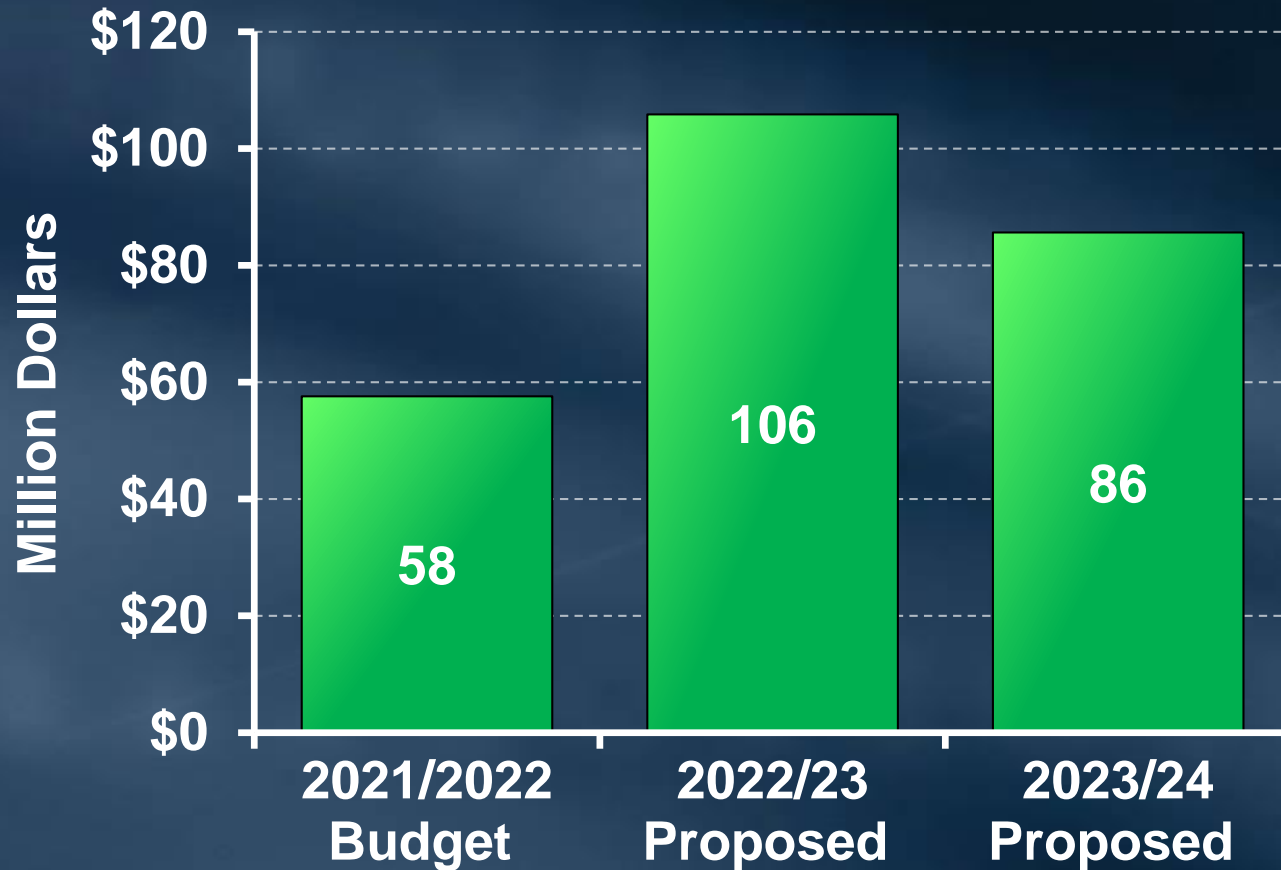
(3) Includes approximately \$20 million in planning costs for RRWP

State Water Contract

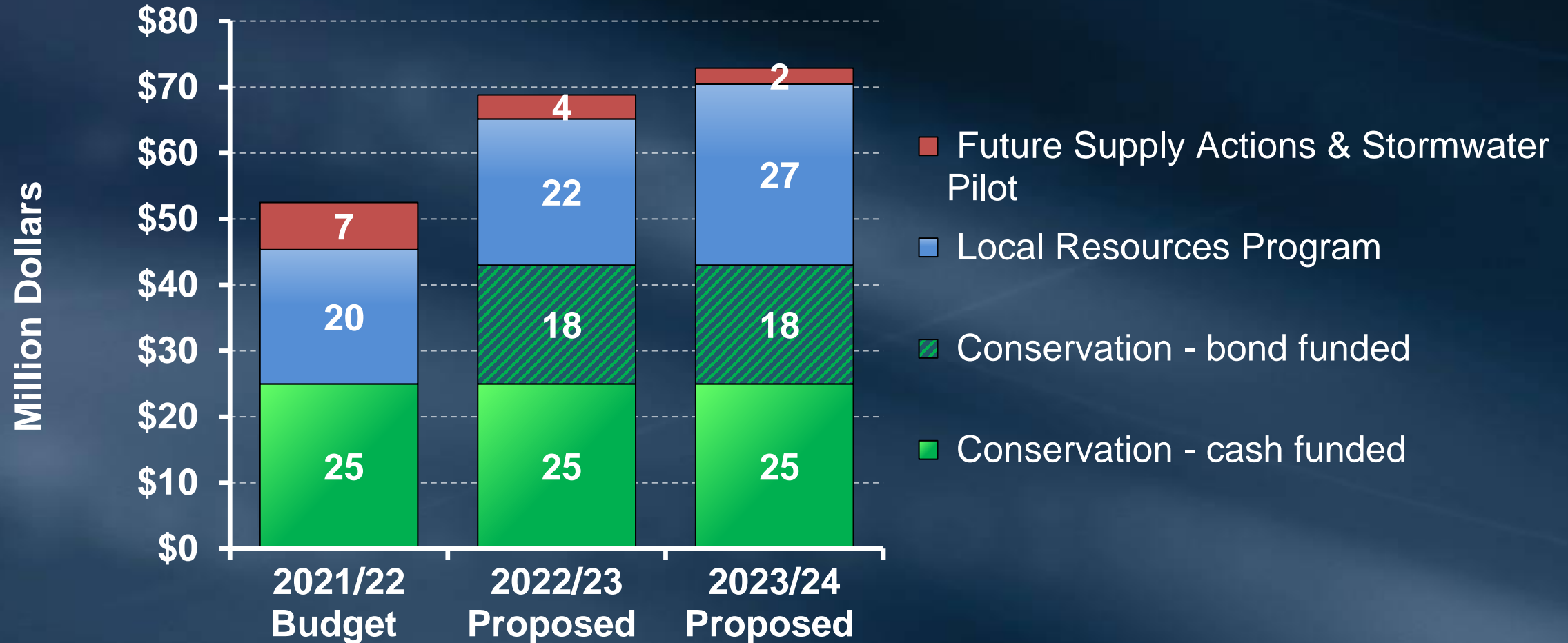


* Totals may not foot due to rounding

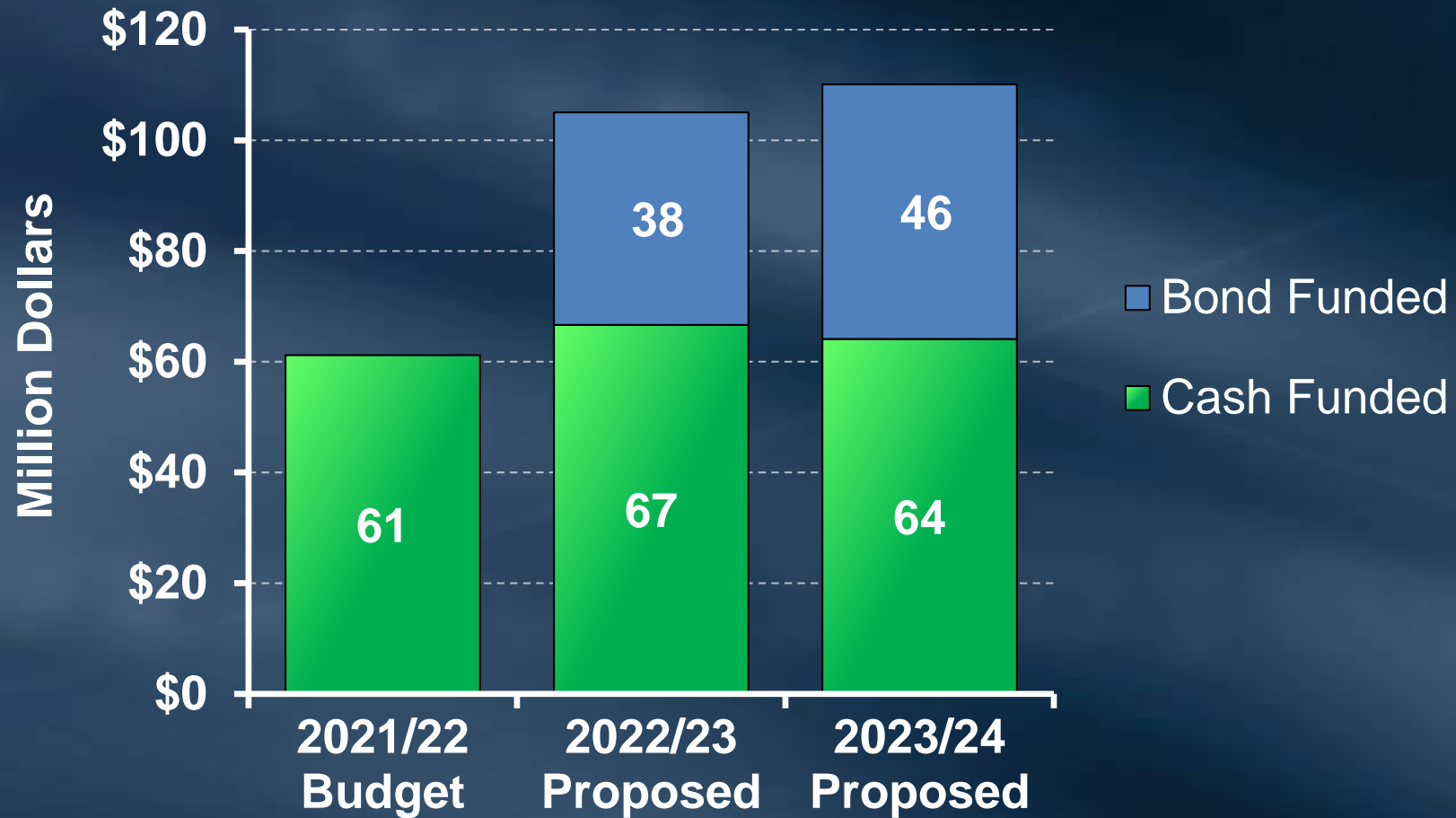
Colorado River Aqueduct Power



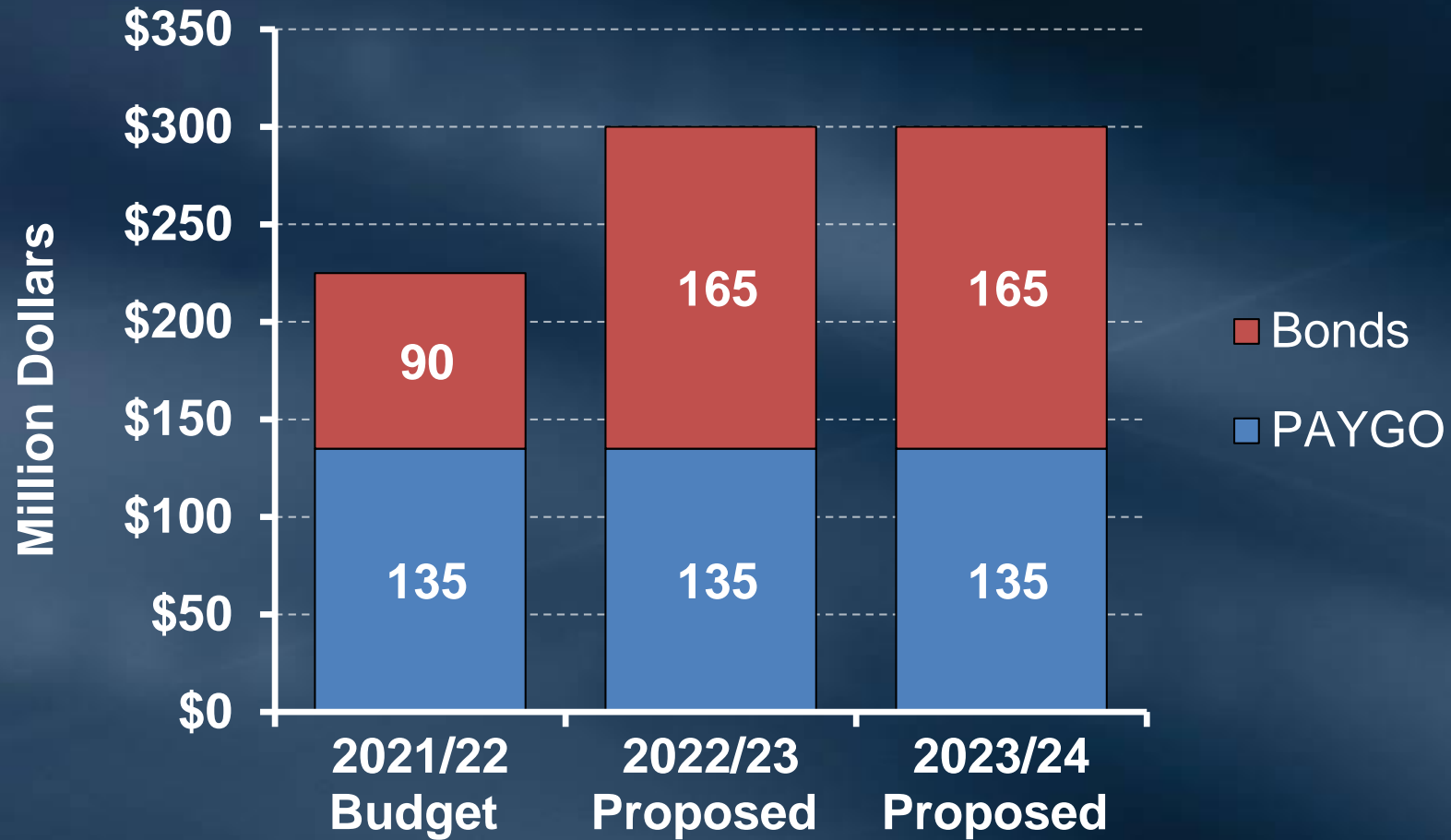
Demand Management



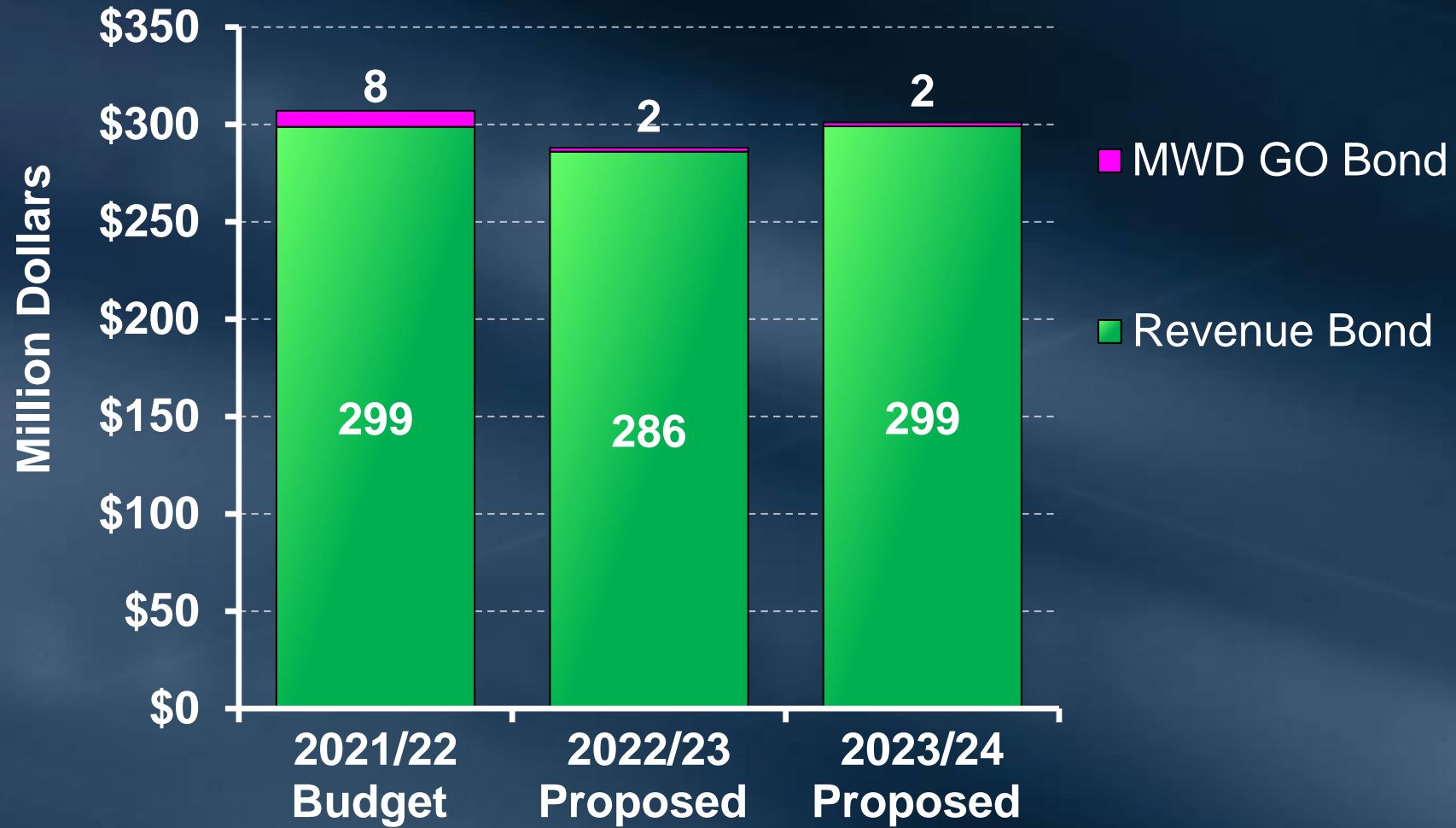
Supply Programs



Capital Investment Plan Expenditures

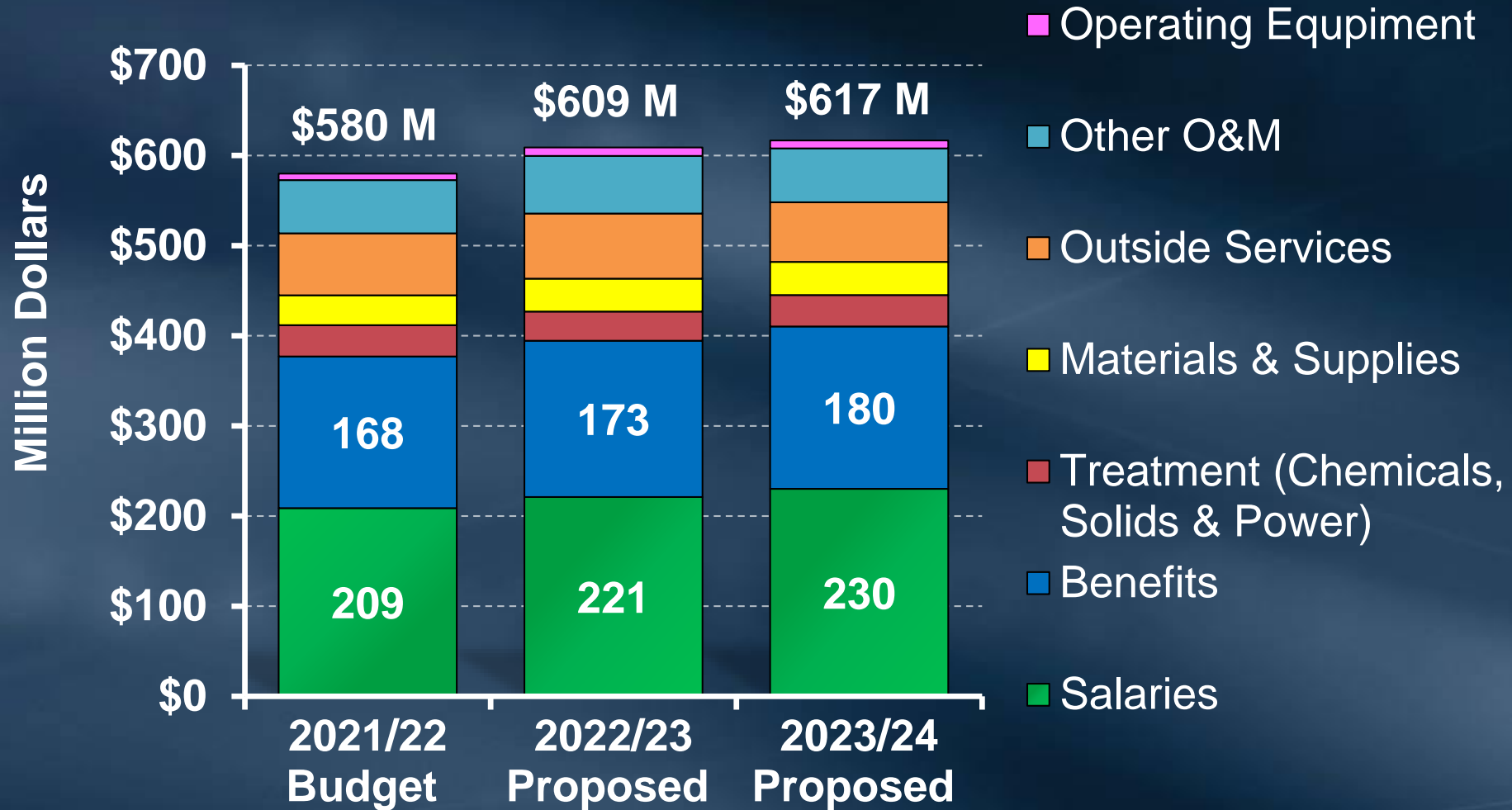


Debt Service



O&M Expenditure Budget

O&M Expenditure Budget



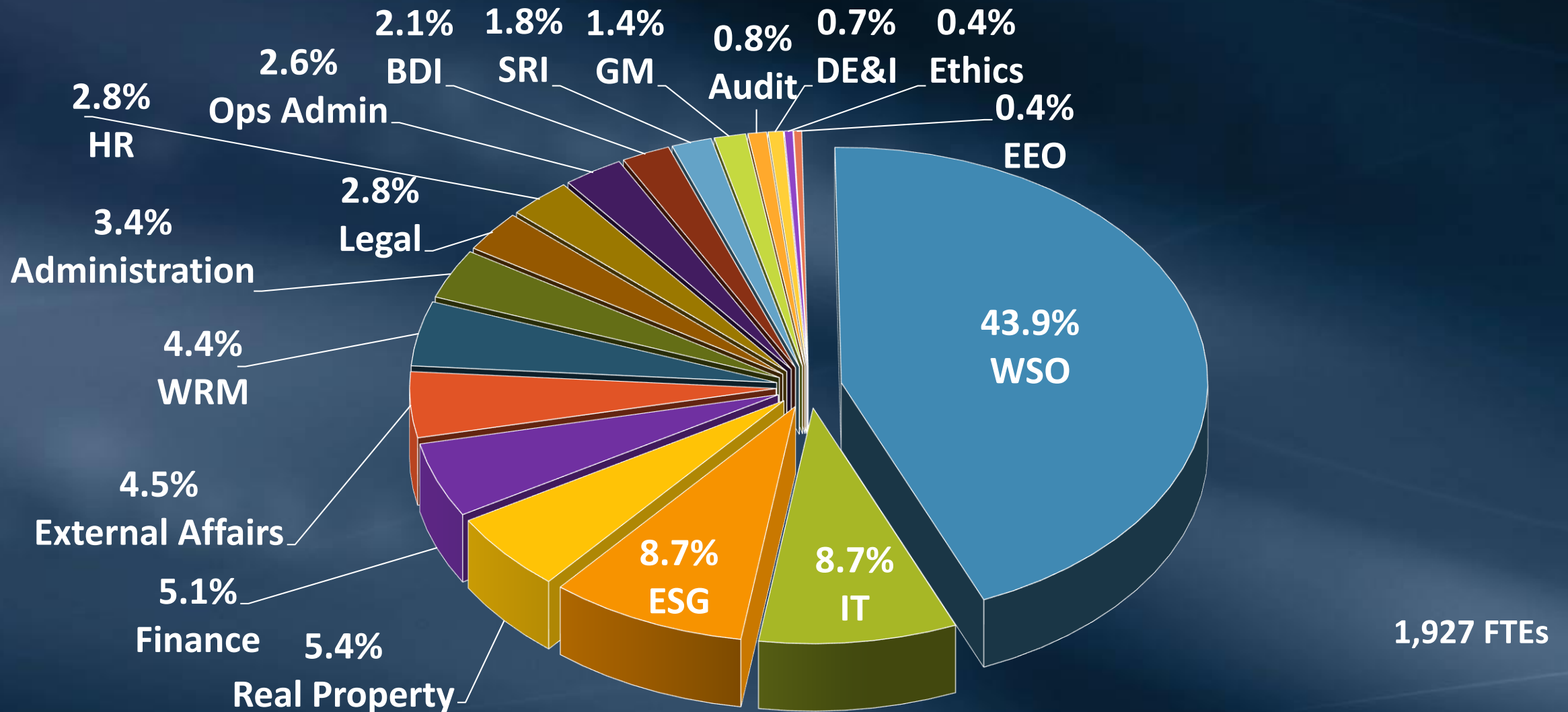
O&M Expenditures

Millions of Dollars	2021/22 Budget	2022/23 Proposed	2023/24 Proposed	2021/22 Budget vs 2022/23 Proposed		2022/23 Proposed vs 2023/24 Proposed	
				\$M	%	\$M	%
Salaries & Benefits	377.0	394.4	410.3	17.4	4.6%	15.9	4.0%
Professional Services	38.0	37.0	31.0	(1.0)	-2.7%	(6.0)	-16.2%
Treatment (Chemicals, Solids & Power)	34.8	32.5	34.9	(2.4)	-6.8%	2.4	7.5%
Non-Professional Services / Repairs & Maintenance	30.7	35.2	35.0	4.6	14.8%	(0.2)	-0.6%
Materials & Supplies	23.1	25.8	25.5	2.7	11.8%	(0.4)	-1.4%
Insurance	12.9	14.0	10.1	1.1	8.2%	(3.9)	-27.7%
Software Licensing & Support	10.0	10.6	11.4	0.6	6.0%	0.8	7.4%
Taxes & Permits	8.8	8.8	9.0	0.0	0.4%	0.2	2.4%
Utilities	8.7	12.1	11.0	3.4	39.3%	(1.1)	-9.3%
Memberships & Subscriptions	7.5	7.6	7.6	0.2	2.1%	0.0	0.3%
Travel & Training	6.3	5.9	6.1	(0.3)	-5.4%	0.1	2.4%
Communications	4.4	5.1	5.2	0.6	14.3%	0.1	2.9%
Subsidies & Incentives	3.2	3.3	3.3	0.1	3.6%	0.0	0.2%
Rents & Leases	2.9	2.6	2.8	(0.2)	-8.2%	0.2	5.8%
Advertising & Community Outreach	1.3	1.5	1.6	0.2	15.3%	0.2	10.8%
Other	3.2	3.1	3.1	(0.1)	-2.7%	(0.0)	0.0%
Operating Equipment	7.2	9.4	8.8	2.2	31.3%	(0.6)	-5.9%
Total O&M	\$ 579.9	\$ 608.9	\$ 616.7	\$ 29.1	5.0%	\$ 7.7	1.3%

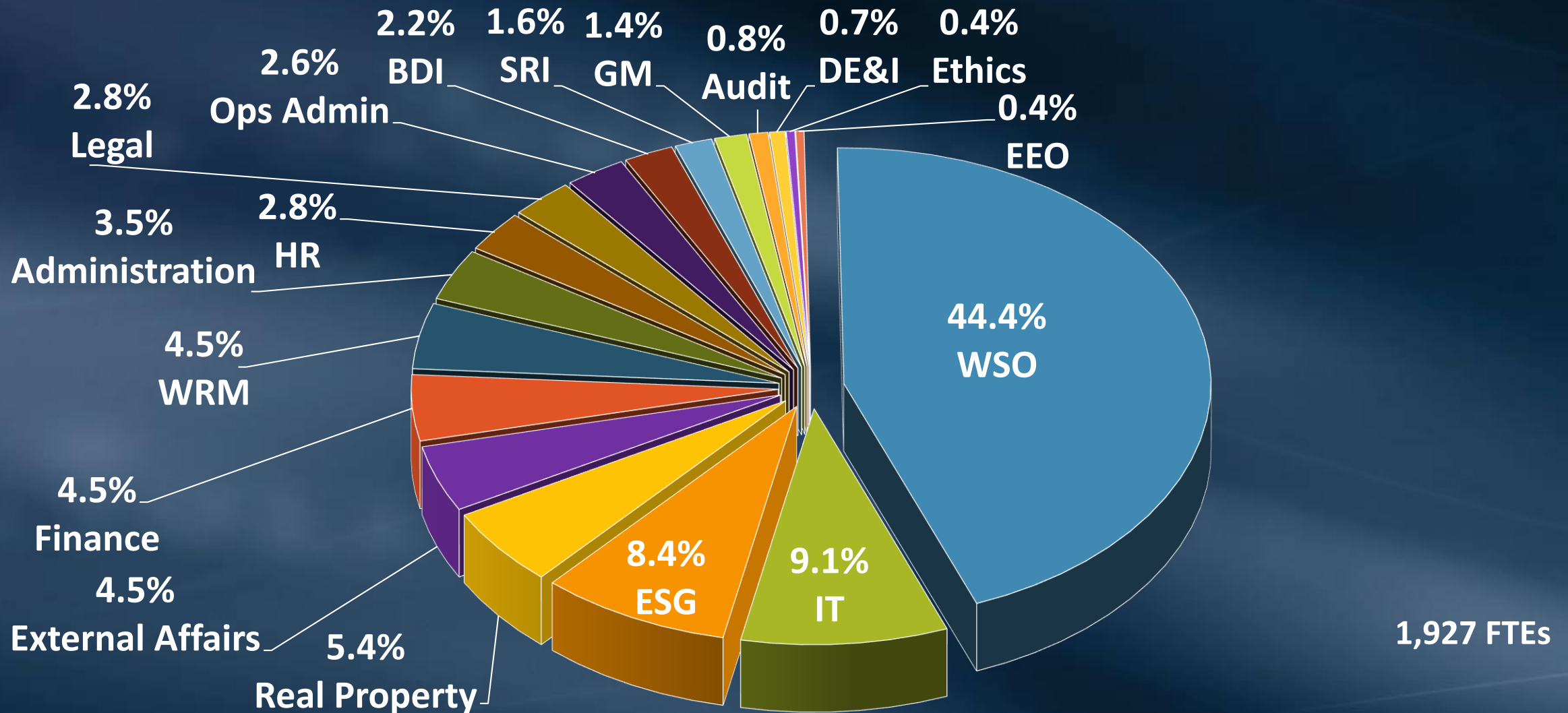
Budgeted Positions

	2019/20 Budget	2020/21 Budget	2021/22 Budget	2022/23 Proposed	2023/24
Regular	1,907	1,907	1,907	1,927	1,927
District Temporary	23	43	37	47	49
Authorized Positions	1,930	1,950	1,944	1,974	1,976

FY 2022/23 O&M Budget by Organization



FY 2023/24 O&M Budget by Organization



O&M Budget by Organization

Departmental Units	2021/2022 Budget	2022/23 Proposed	2023/24 Proposed	2021/22 Budget vs 2022/23 Proposed		2022/23 Proposed vs 2023/24 Proposed	
				\$M	%	\$M	%
Office of the General Manager	6.3	8.1	8.4	1.9	29.8%	0.2	2.9%
Water System Ops w/o Variable Treatment	245.8	256.5	261.9	10.7	4.4%	5.3	2.1%
Information Technology	49.6	51.0	53.6	1.3	2.7%	2.7	5.2%
Engineering Services	49.3	50.8	49.4	1.5	3.0%	-1.5	-2.9%
Real Property	31.1	31.6	31.7	0.5	1.7%	0.0	0.1%
Finance	28.5	30.0	26.6	1.5	5.3%	-3.4	-11.3%
External Affairs	26.2	26.3	26.7	0.1	0.3%	0.4	1.7%
Water Resource Management	25.3	25.9	26.6	0.6	2.2%	0.7	2.6%
Administration	19.2	19.9	20.8	0.7	3.7%	0.9	4.5%
Human Resources	15.0	16.2	16.5	1.2	8.0%	0.3	1.7%
Operations Administration	13.6	15.4	15.6	1.9	13.7%	0.2	1.3%
Bay Delta Initiatives	9.7	12.5	12.9	2.8	28.7%	0.4	2.9%
Sustainability, Resilience & Innovation	7.1	10.3	9.7	3.2	45.4%	-0.6	-6.2%
Diversity, Equity & Inclusion	2.5	3.9	4.0	1.4	54.7%	0.1	3.3%
Equal Employment Opportunity	---	2.0	2.1	2.0	---%	0.1	4.8%
Total – GM's Department	\$529.3	\$560.6	\$566.5	\$31.3	5.9%	\$5.9	1.0%
Office of General Counsel	17.8	16.4	16.3	1.3	-7.5%	-0.1	-0.8%
Office of General Auditor	4.8	4.8	4.9	0.0	0.4%	0.1	3.0%
Ethic's Office	1.7	2.2	2.2	0.5	30.0%	0.1	2.3%
Overhead Credit from Construction	-24.2	-21.9	-22.0	2.3	-9.6%	-0.1	0.3%
Succession Planning Labor Pool	4.5	5.0	5.0	0.5	10.1%	0.0	0.0%
Total Department Budget	\$537.9	\$567.1	\$573.0	\$29.2	5.4%	\$7.7	1.0%
Operating Equipment	7.2	9.4	8.8	2.2	31.3%	-0.6	-5.9%
Variable Treatment	34.8	32.5	34.9	-2.4	-6.8%	2.4	7.5%
Grand Total	\$579.9	\$608.9	\$616.7	\$29.1	5.0%	\$7.7	1.3%

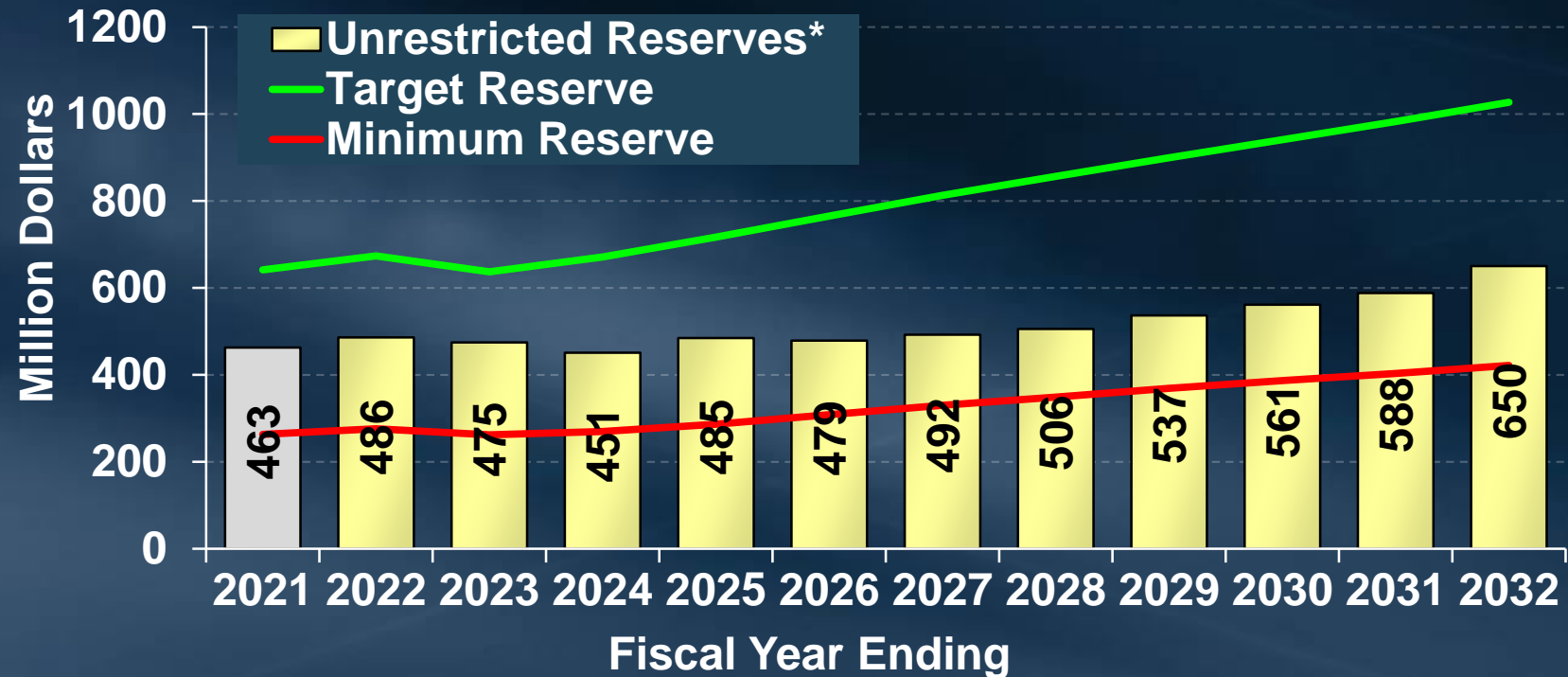
Unfunded Priorities

Group/Department	2021/22 Budget	Original Request New Positions	New Positions Added*	Unfunded Priorities
Water System Operations	940	62	(1)	43
Water Resource Management	68	1	-	-
Sustainability, Resilience & Innovation	20	3	5	-
Real Property	53	12	2	2
Operations Administration	11	-	-	-
Information Technology	130	7	1	-
Human Resources	44	6	-	2
Office of the General Manager	13		4	-
Finance	51	6	2	2
External Affairs	62	4	1	1
Equal Employment Opportunity	-	2	6	1
Engineering Services	355	23	-	23
Diversity, Equity & Inclusion	7	3	2	1
Bay Delta Initiatives	17	-	(1)	-
Administration	81	8	(1)	1
Subtotal - GM's Department	1,852	137	20	76
Office of the General Auditor	13	-	-	-
Office of Ethics	5	4	-	4
General Counsel	37	-	-	-
Total Regular Employees	1,907	141	20	80

* Reflects intergroup transfers

Ten-Year Financial Forecast

Projected Rate Increases & Financial Metrics



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	1.6	1.4	1.5	1.8	1.6	1.8	1.8	1.8	1.9	1.9	1.8
Fixed Chg Cvg	2.2	1.4	1.4	1.4	1.9	1.7	1.7	1.6	1.6	1.6	1.6	1.5
PAYGO, \$M	110	135	135	135	175	175	175	175	200	200	200	200

* Revenue Remainder and Water Rate Stabilization Fund

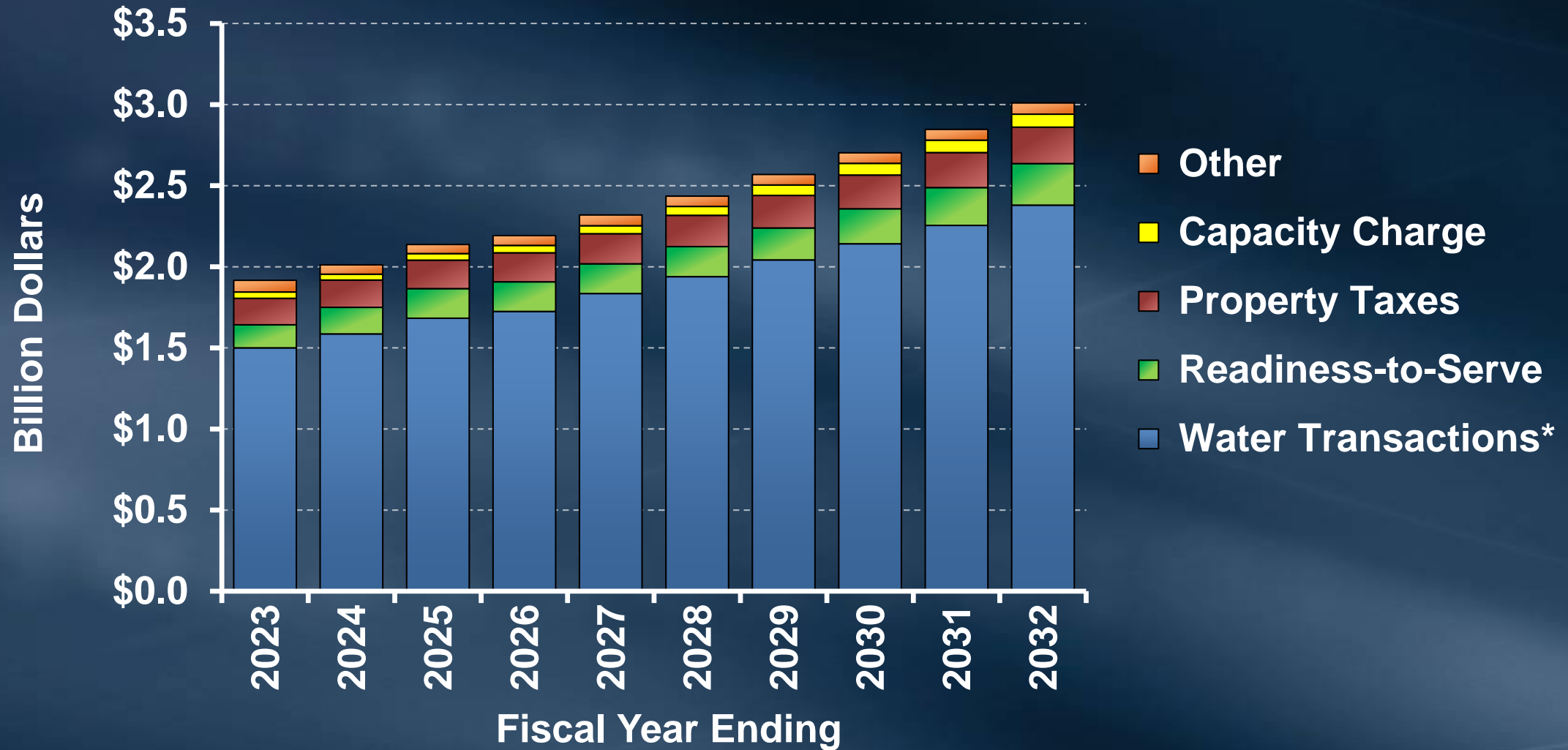
** Includes water sales, exchanges and wheeling

Projected Water Rates and Charges

Rates & Charges											
Effective January 1st	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Tier 1 Supply Rate (\$/AF)	\$243	\$328	\$348	\$371	\$403	\$427	\$455	\$473	\$491	\$510	\$520
Tier 2 Supply Rate (\$/AF)	\$285	\$532	\$538	\$573	\$603	\$627	\$652	\$671	\$688	\$705	\$723
System Access Rate (\$/AF)	\$389	\$373	\$416	\$429	\$442	\$470	\$502	\$533	\$564	\$598	\$635
System Power Rate (\$/AF)	\$167	\$187	\$188	\$201	\$210	\$219	\$223	\$227	\$240	\$253	\$257
Full Service Untreated Volumetric Cost (\$/AF)											
Tier 1	\$799	\$888	\$952	\$1,001	\$1,055	\$1,116	\$1,180	\$1,233	\$1,295	\$1,361	\$1,412
Tier 2	\$841	\$1,092	\$1,142	\$1,203	\$1,255	\$1,316	\$1,377	\$1,431	\$1,492	\$1,556	\$1,615
Treatment Surcharge (\$/AF)	\$344	\$364	\$370	\$394	\$421	\$436	\$443	\$453	\$463	\$473	\$503
Full Service Treated Volumetric Cost (\$/AF)											
Tier 1	\$1,143	\$1,252	\$1,322	\$1,395	\$1,476	\$1,552	\$1,623	\$1,686	\$1,758	\$1,834	\$1,915
Tier 2	\$1,185	\$1,456	\$1,512	\$1,597	\$1,676	\$1,752	\$1,820	\$1,884	\$1,955	\$2,029	\$2,118
RTS Charge (\$M)	\$140	\$145	\$183	\$183	\$183	\$183	\$188	\$207	\$225	\$241	\$271
Capacity Charge (\$/cfs)	\$12,200	\$10,700	\$11,700	\$13,600	\$14,700	\$16,000	\$18,200	\$21,600	\$22,900	\$24,500	\$25,600
Overall Rate Increase	4.0%	8.0%	8.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

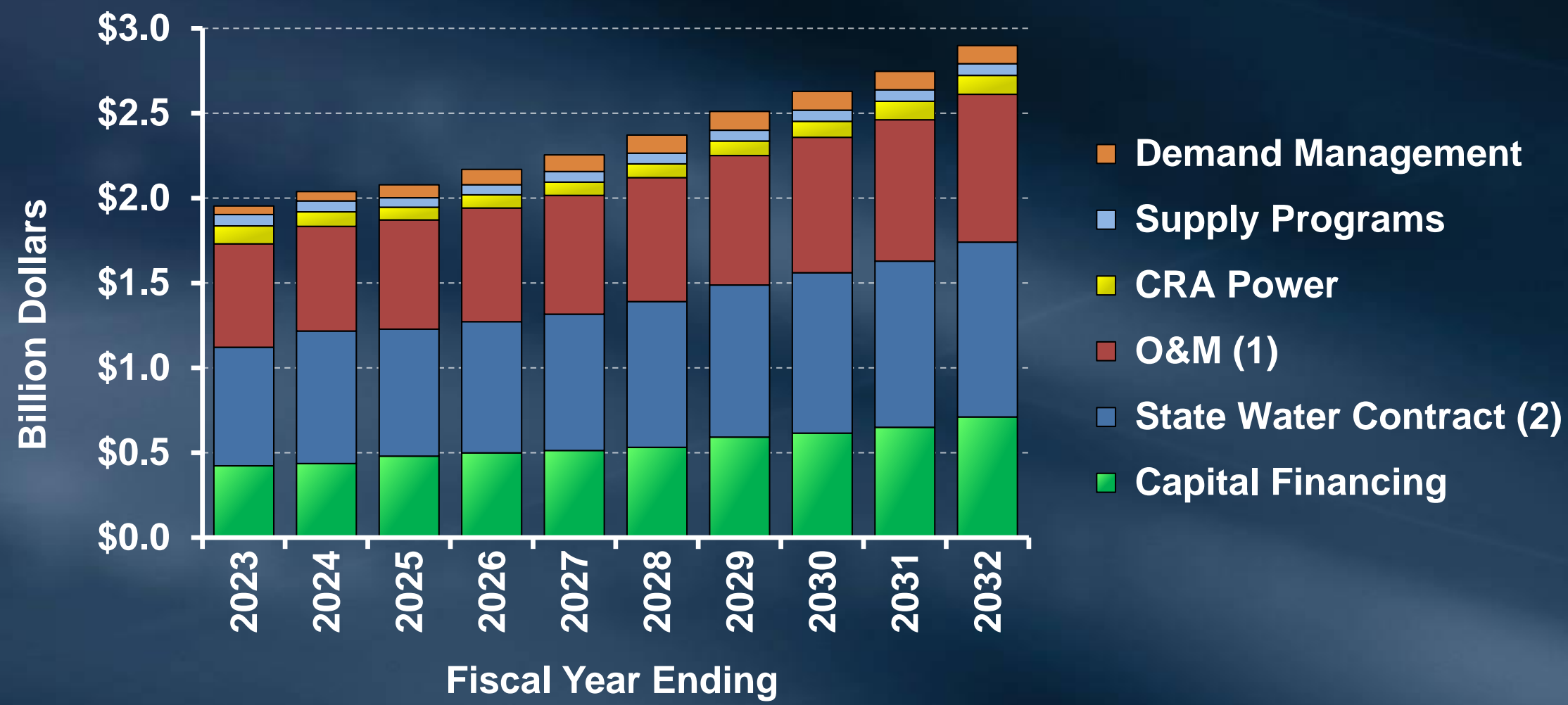
Full Service Cost means the Full Service Rate, consisting of the following rate components: the applicable Supply Rate, the System Access Rate, the System Power Rate, and if applicable the Treatment Surcharge for treated water service.

Revenue Forecast



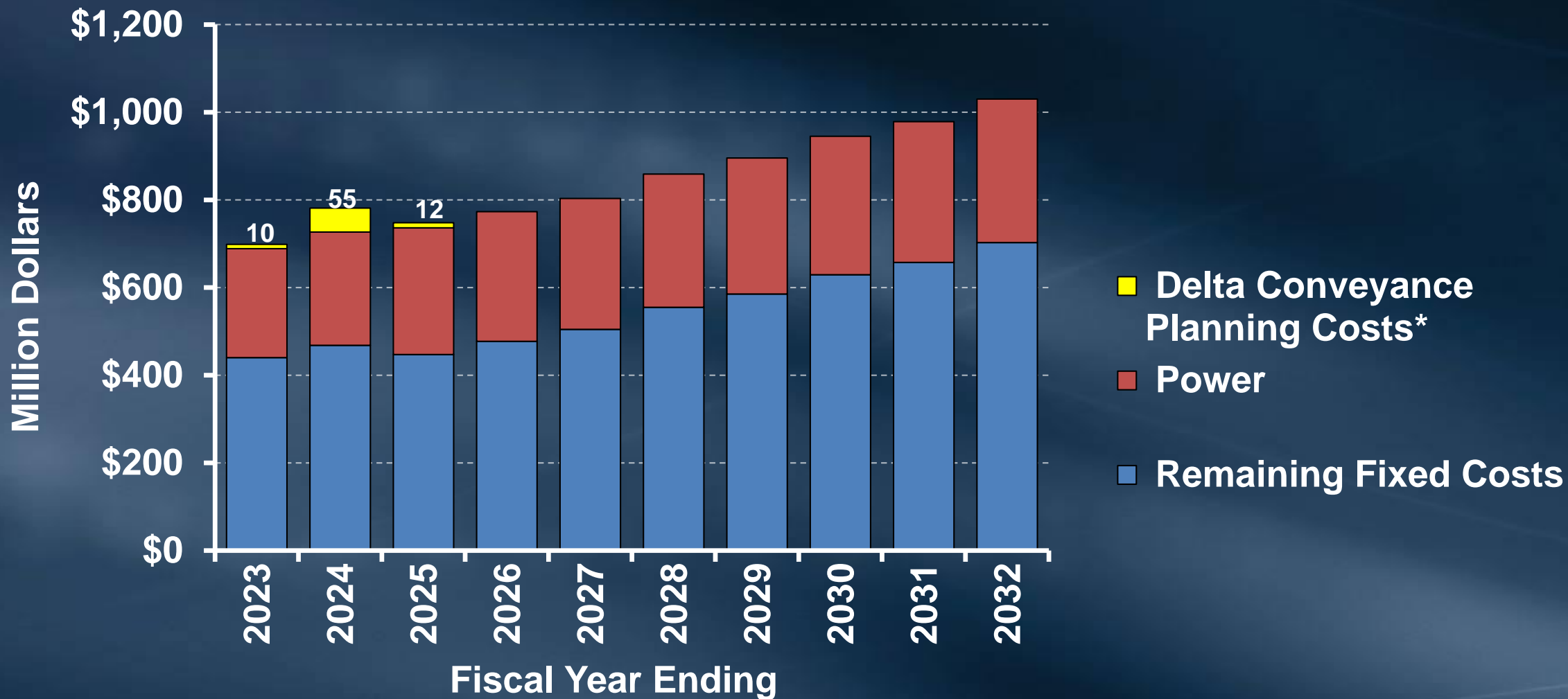
* Includes water sales and exchange

Expenditure Trend



(1) includes Regional Recycled Water Program planning costs
(2) Includes Delta Conveyance planning costs

State Water Contract Forecast

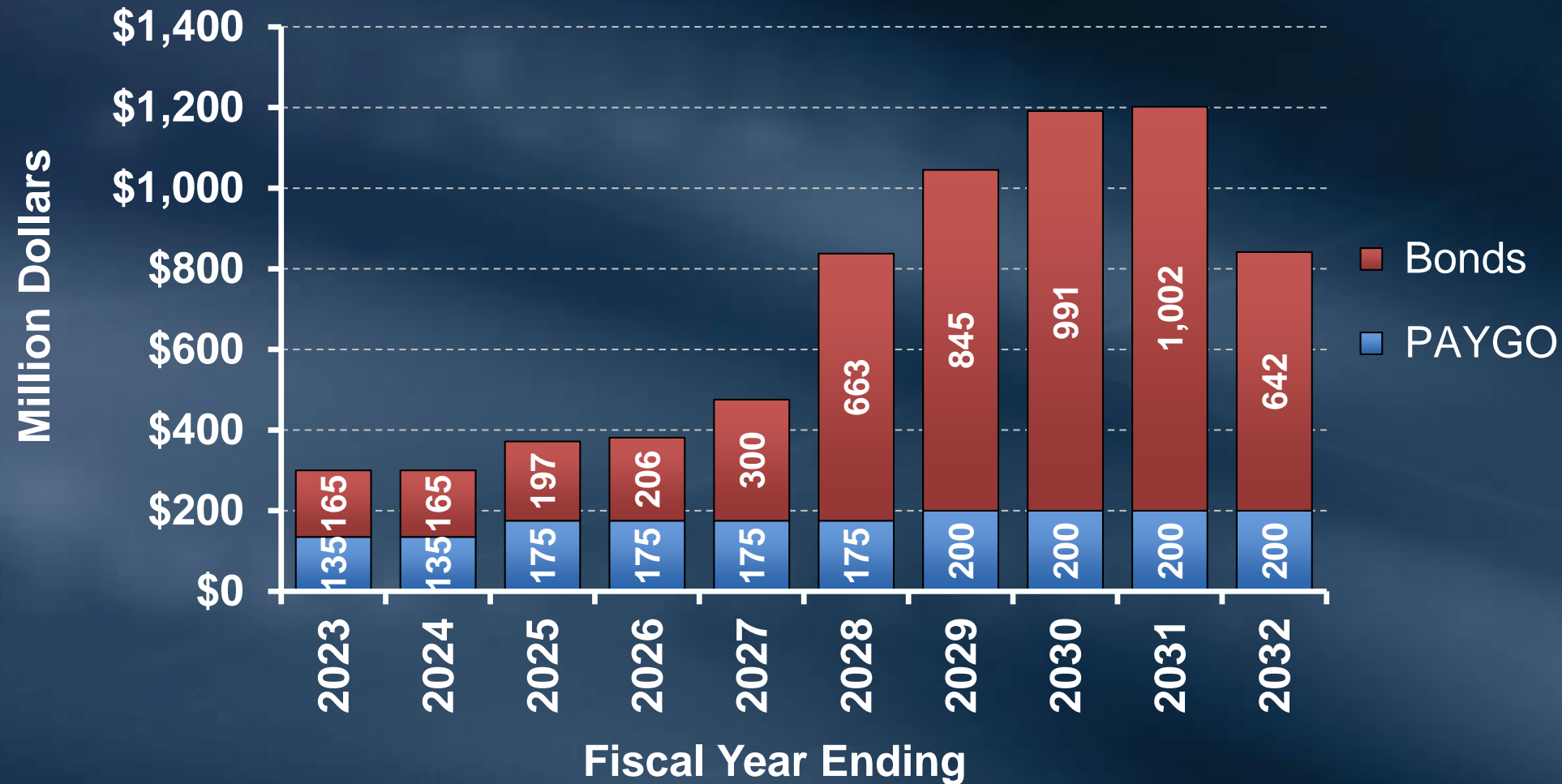


* net of CWF refund

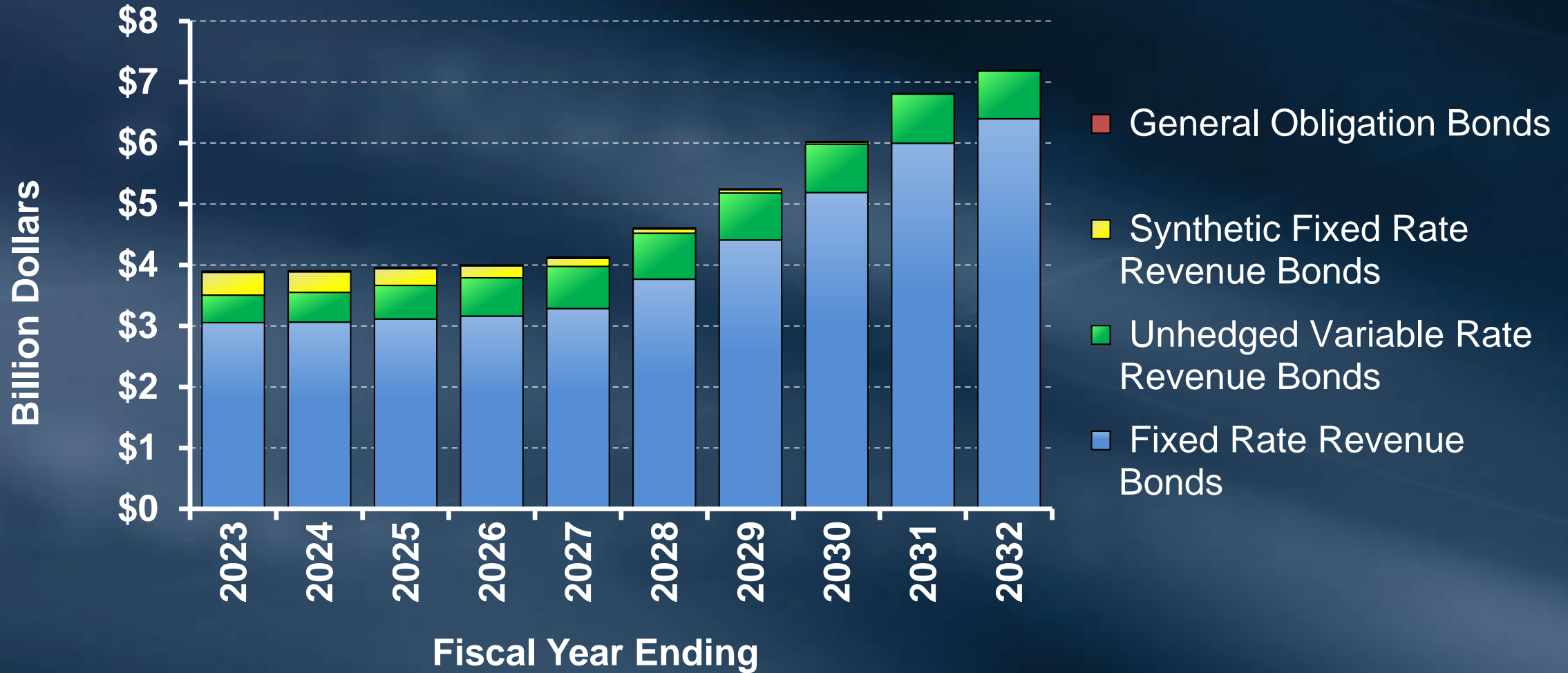
Demand Management



Capital Investment Plan Expenditures



Outstanding Debt



Debt Service



Next Steps

Workshop #2 – Feb 22, 2022

- Capital Investment Plan
- Unfunded Priorities
 - Ethics unfunded priorities
 - GM unfunded priorities
- Q&A and Discussion

Next Steps

February 22, 2022	F&I Committee, Workshop #2
By February 25, 2022	Notice to Legislature; notice to member agencies regarding public hearing and proposed adoption of fixed charges
March 7, 2022	F&I Committee, Workshop #3
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 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

