



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 #2

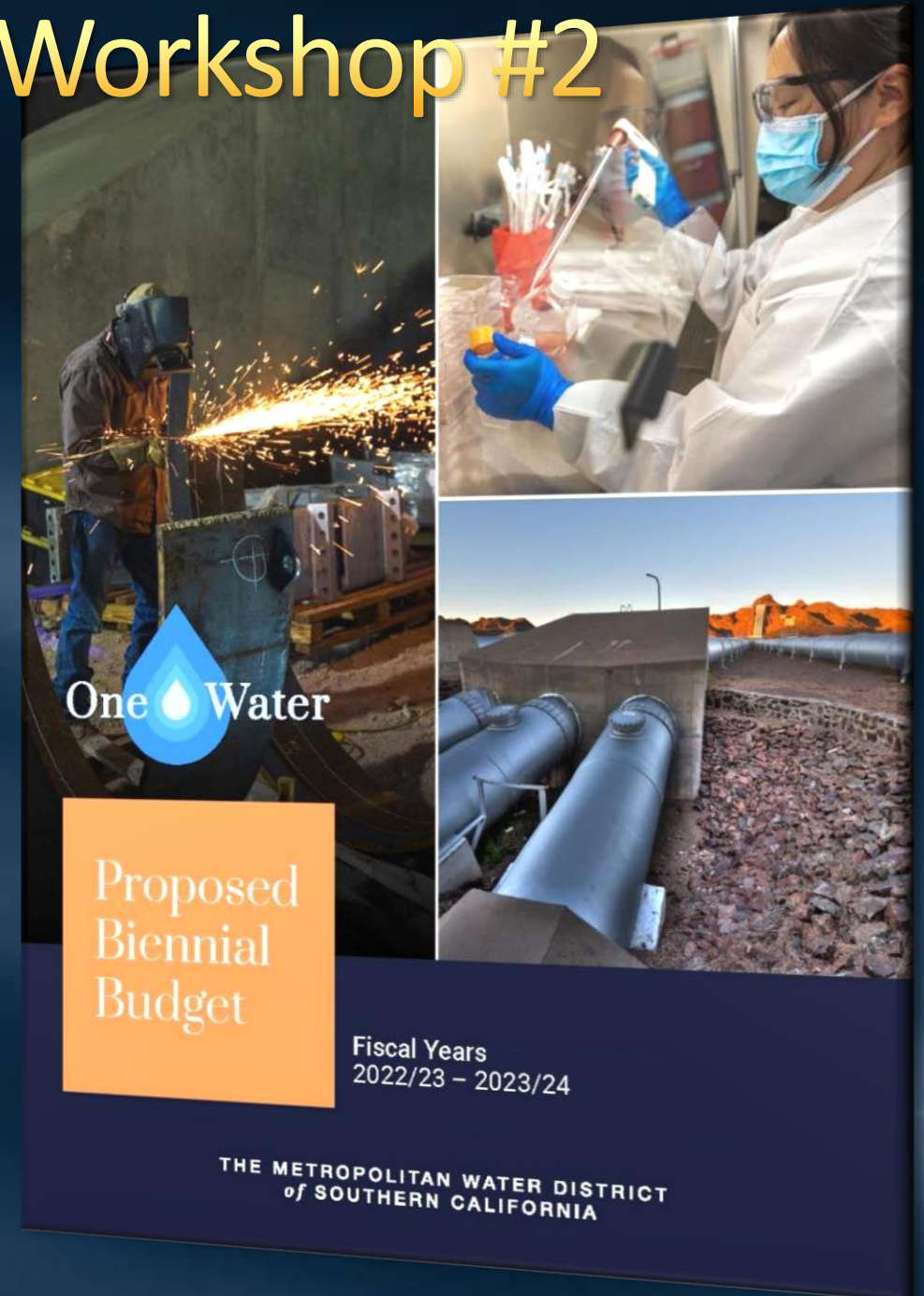
Finance & Insurance Committee

Item 2a

February 22, 2022

# Proposed Biennial Budget - Workshop #2

- Overview
  - Capital Investment Plan
  - Unfunded Priorities
    - Ethics Office
    - Office of the GM
  - Follow-up from Workshop #1
  - Q&A and Discussion
- Next Steps



# Capital Investment Plan

# Capital Investment Plan Presentation Overview

- CIP budget development process
- Overview of proposed CIP
- CIP highlights for next biennium
- Proposed CIP budget and planned board actions



# Development of CIP – Closely linked to Metropolitan's Strategic Plan

## Empower

- Support staff's innovation and sustainability practices

## Sustain

- Implement Battery Energy Storage Projects

## Adapt

- Develop Drought Resiliency Projects

## Protect

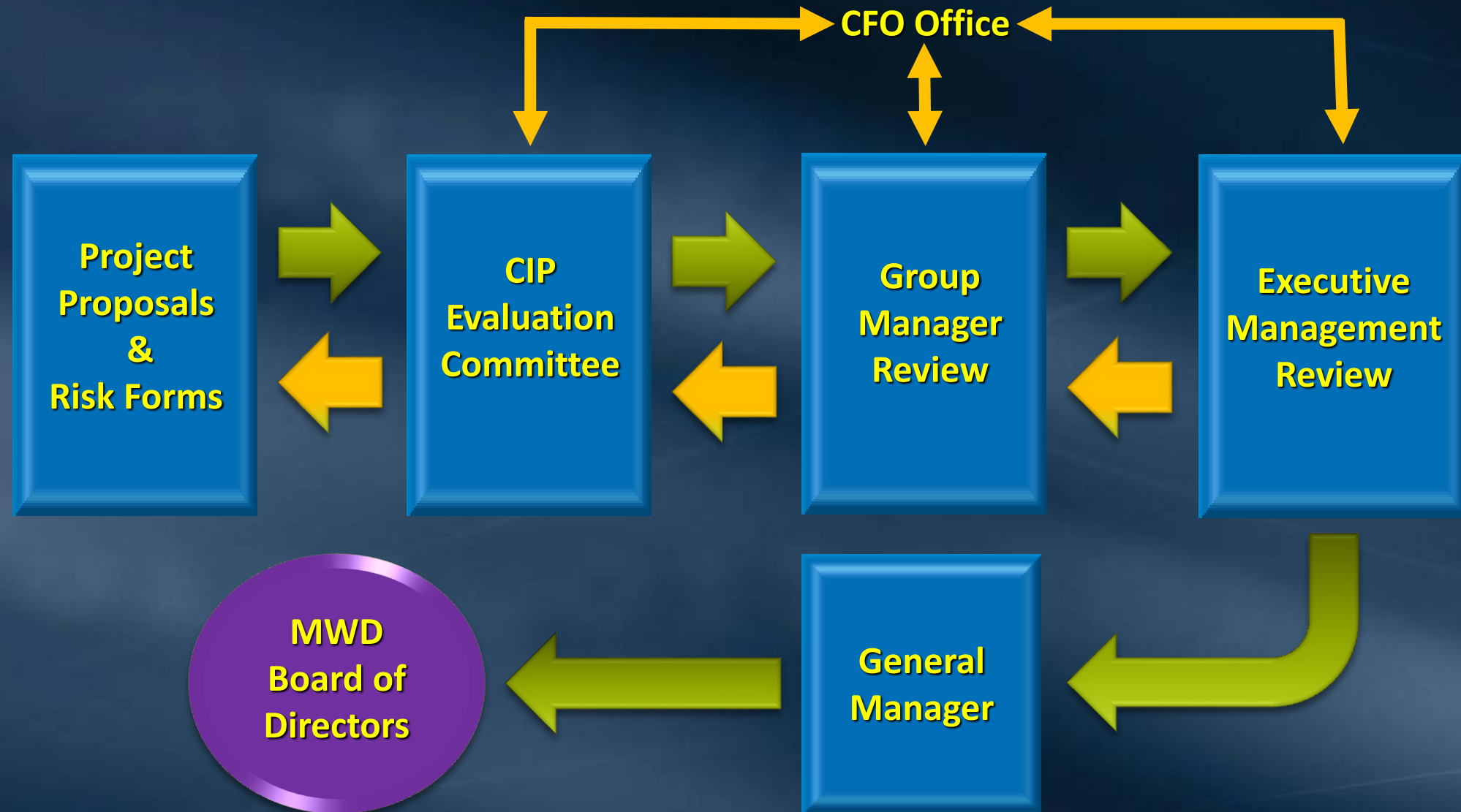
- Implement CIP R&R Projects

## Partner

- Develop Project Labor Agreement



# CIP Development Process

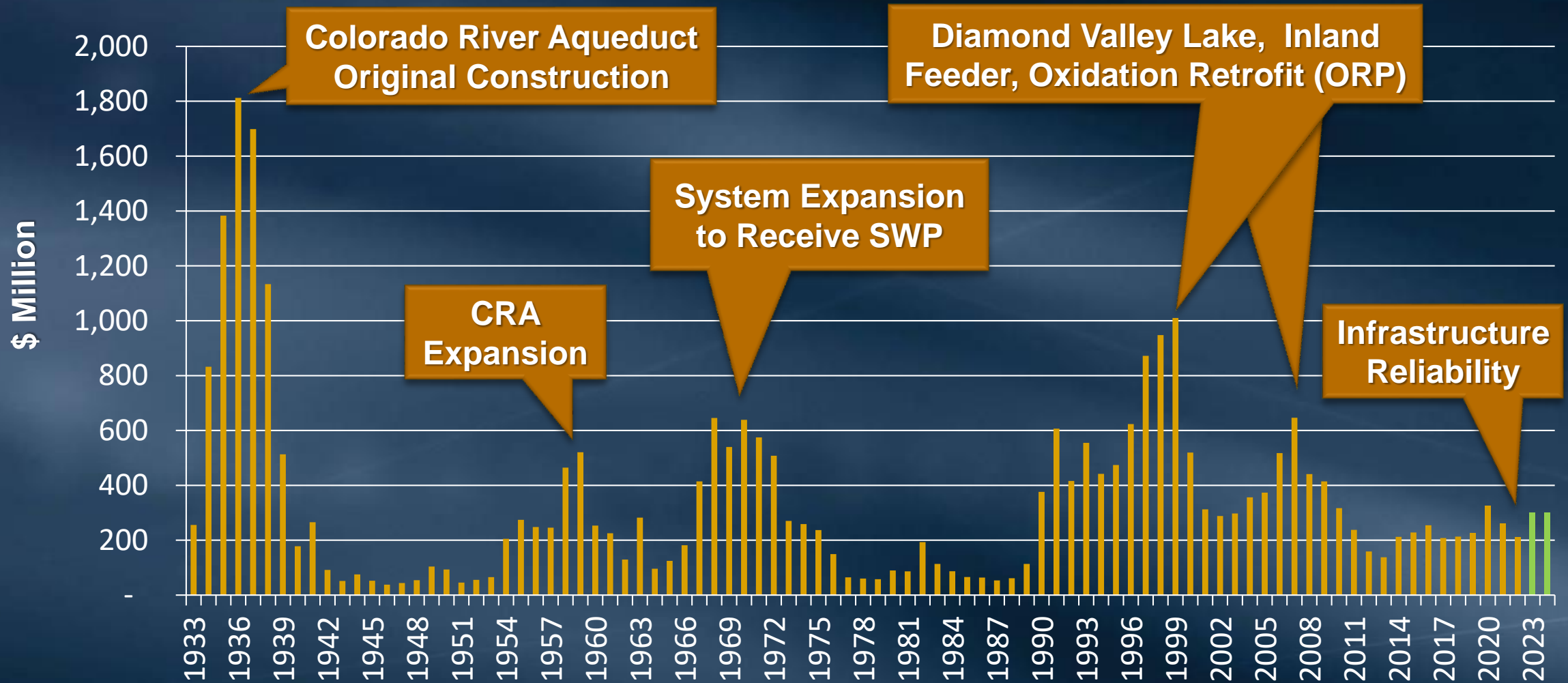


# Project Evaluation & Scoring

- Prioritizing projects primarily to meet service demands
  - Infrastructure/process reliability
  - Regulatory Compliance
  - Safety/Security
  - Equipment/Software Replacements
- Other projects
  - Cost efficiency & productivity (e.g., battery energy storage)
  - Stewardship (i.e., energy mgmt., DVL recreation, etc.)

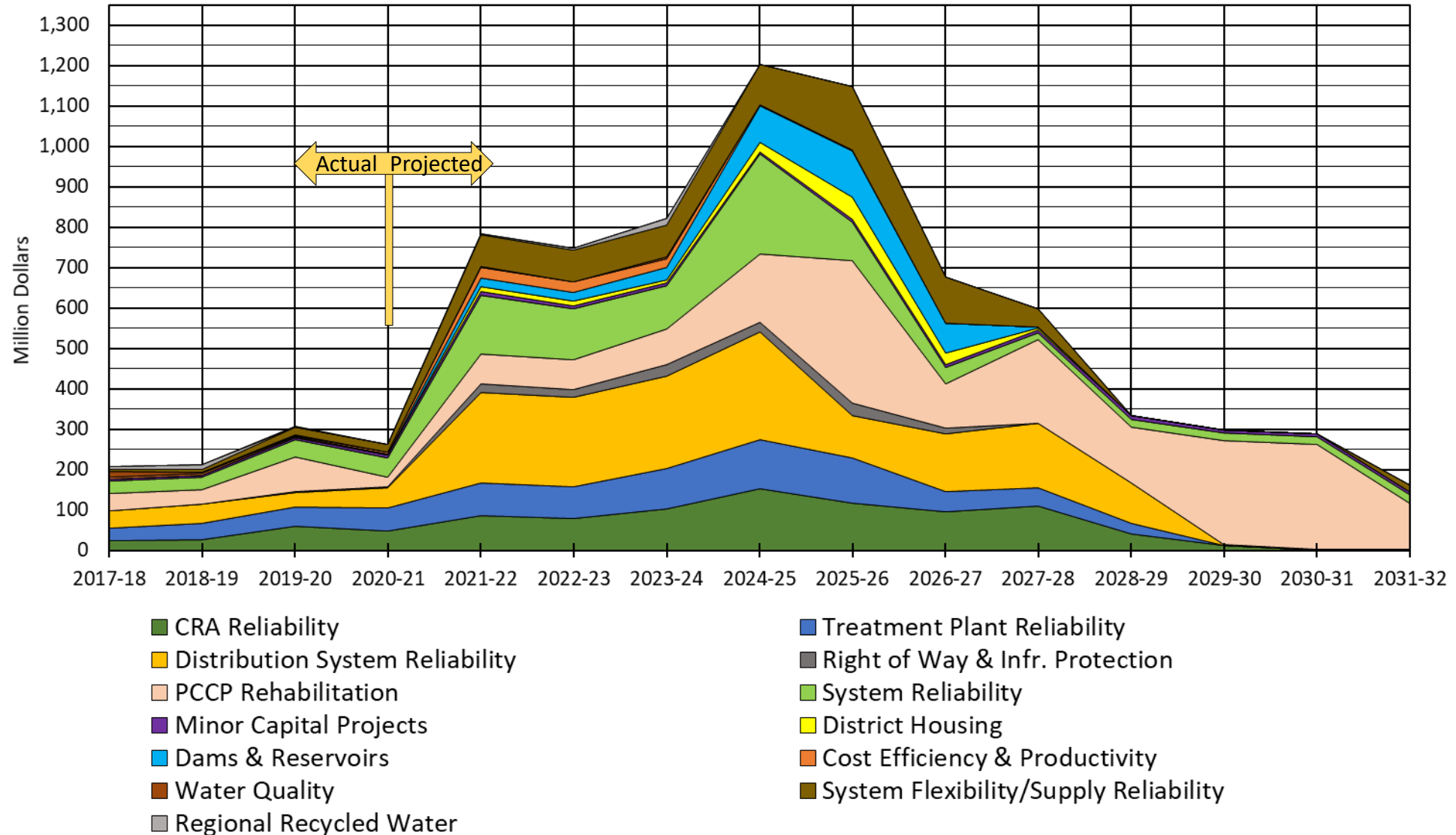
# Historical Capital Expenditures

(Adjusted to Current \$)

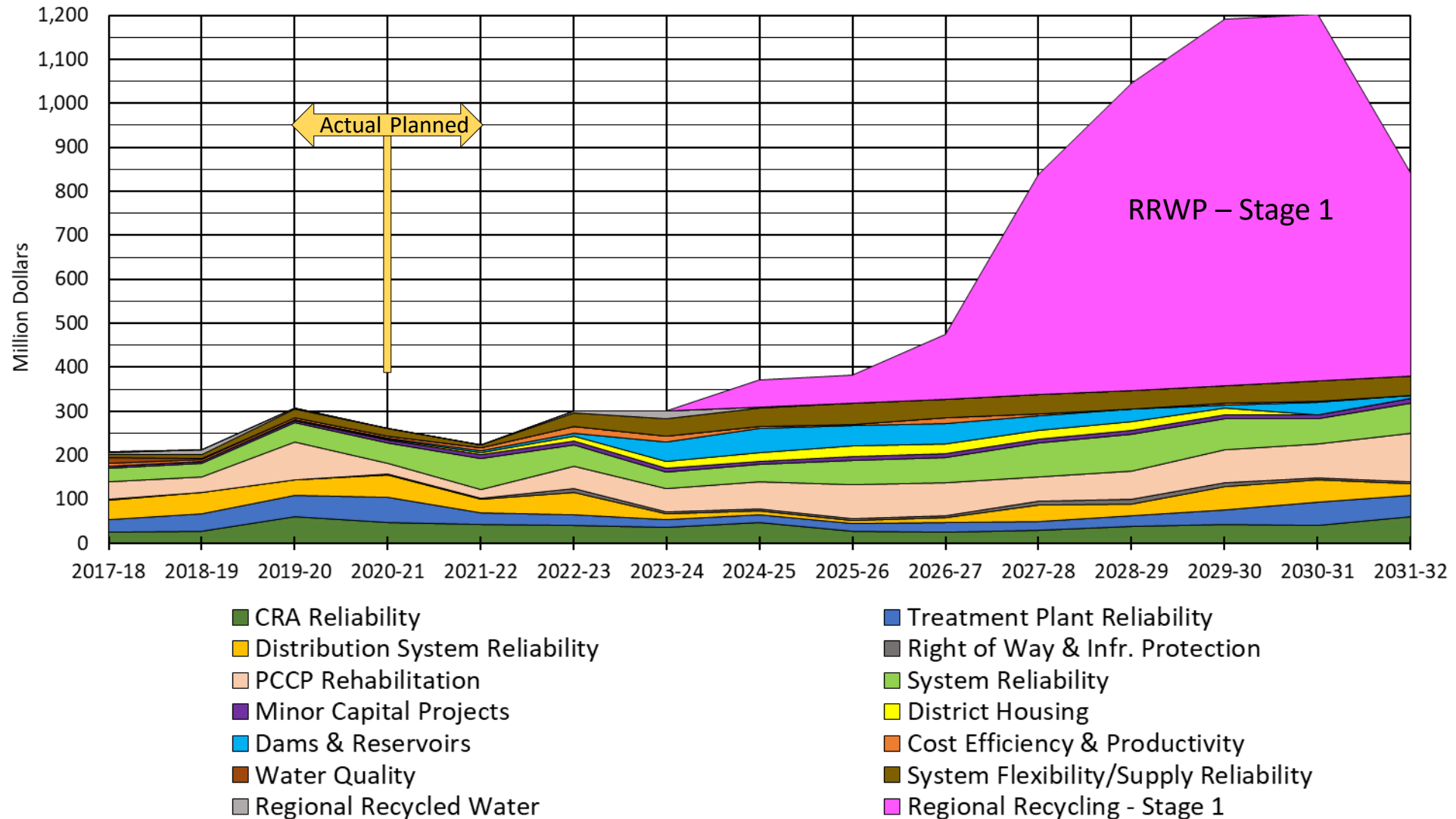




# Recent & Projected CIP Expenditures by Program



# Recent & Planned CIP Expenditures by Program



# Proposed CIP for FY 2022/23 - 2023/24 by Program

Programs

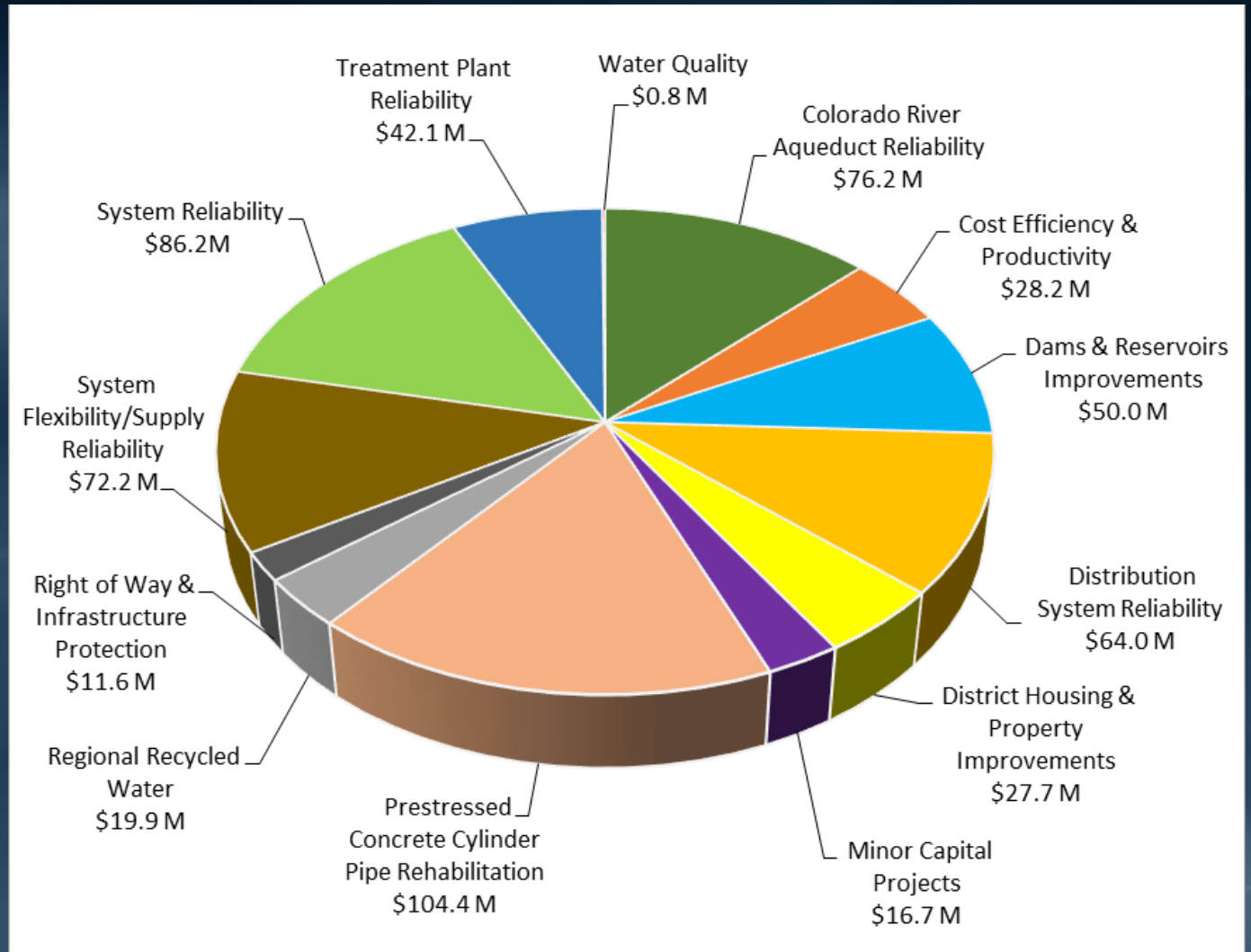
13



Projects

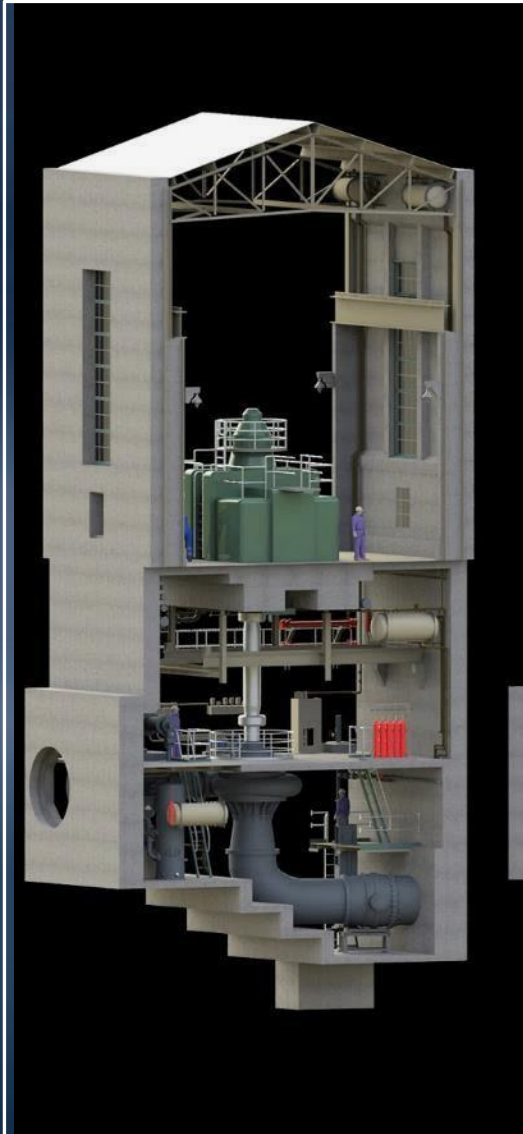
450\*

\* Excluding Minor Capital Projects





# CIP Highlights for Next Biennium





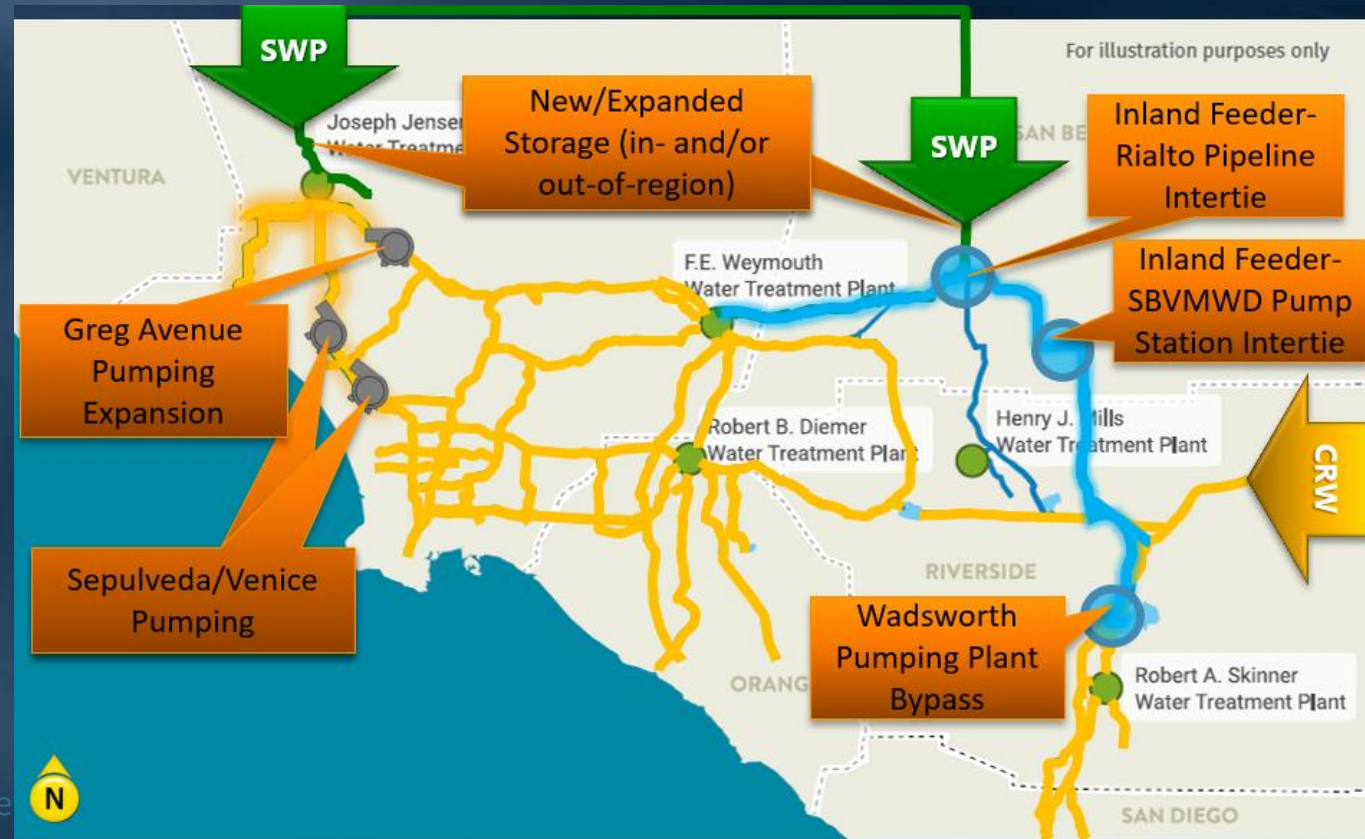
# System Flexibility/Supply Reliability

- Planned Construction
  - Wadsworth Pumping Plant Bypass
  - Inland Feeder-Rialto Pipeline Intertie

- Planning Efforts

- DVL to Rialto
  - West Area Improvements
  - Comprehensive supply reliability planning

- Planned Expenditures:  
\$72 M

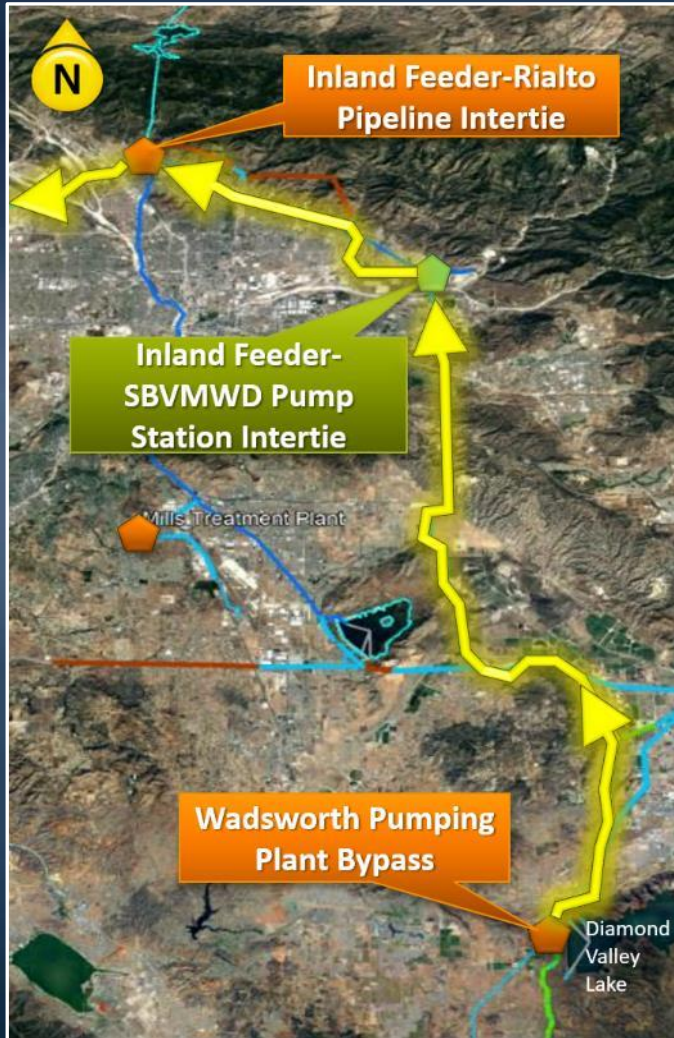




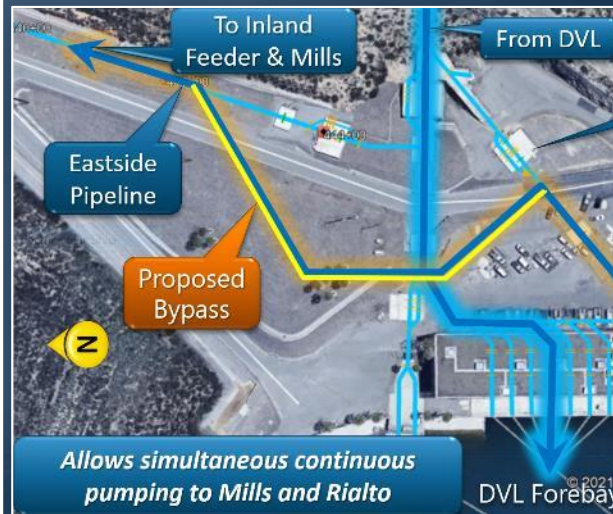
# Drought Action Planning and Development

## DVL to Rialto

- Improvements to existing facilities and new interconnections to deliver DVL water to SWP Dependent Area



Wadsworth Pumping Plant Bypass



Inland Feeder-Rialto Pipeline Intertie



Inland Feeder-SBVMWD Pump Station Intertie





# Drought Action Planning and Development

## West Area Water Supply Reliability Improvements

- Feasibility studies for increased Colorado River supply deliveries
  - Greg Avenue Pump Station Expansion
  - New Pump Stations at Sepulveda Feeder PCS & Venice PCS
- Comprehensive supply reliability planning
  - Storage options (surface and groundwater)
  - Interconnectivity opportunities
  - Programs and local sources





# Colorado River Aqueduct Reliability

- Planned Construction
  - CRA Sump System Rehab Completion
  - CRA Transformer Refurbishment
  - CRA Village Utilities & Paving
- Planned Expenditures:  
\$76 M

CRA Main Pump & Motor Rehabilitation



CRA Main Transformer Refurbishment

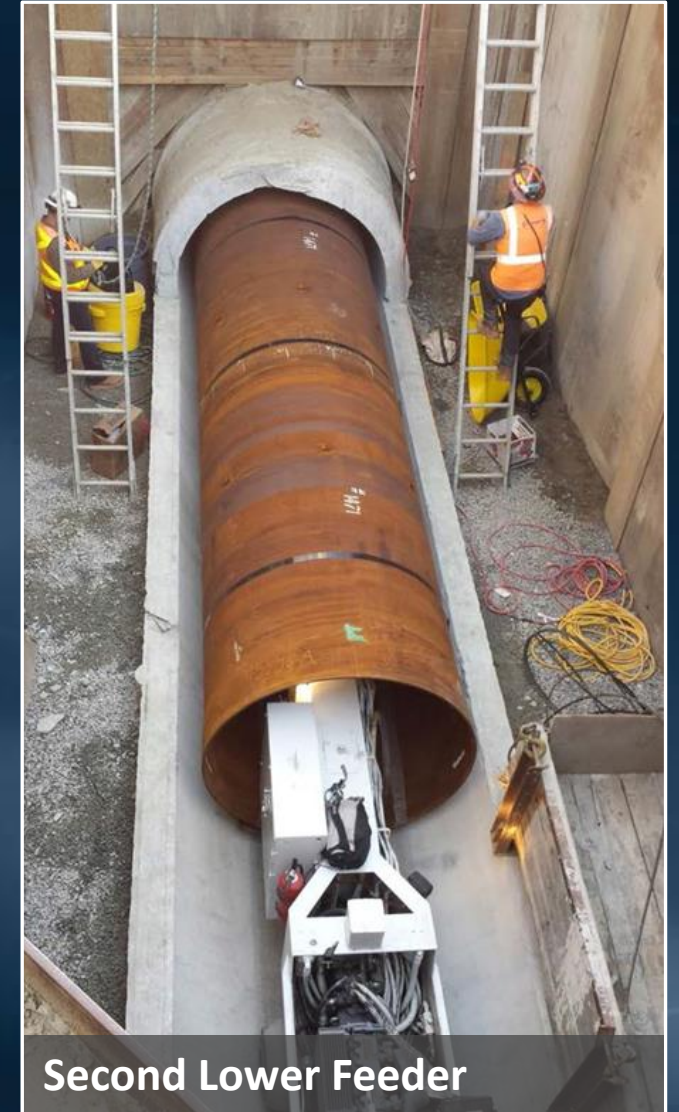


# PCCP Rehabilitation

- Planned Construction
  - Second Lower Feeder – Reach 3A
  - Second Lower Feeder – Reach 3B
- Planned Expenditures:  
\$104 M



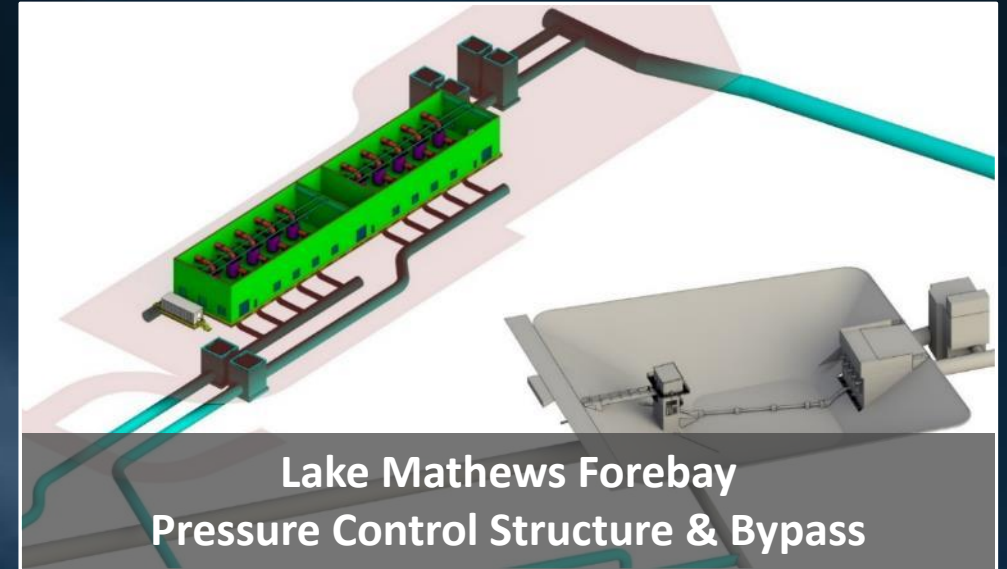
Sepulveda Feeder



Second Lower Feeder

# Distribution System Reliability

- Planned Construction
  - Orange County Feeder Relining
  - Etiwanda Pipeline Relining
  - Casa Loma Siphon No. 1 Seismic Upgrade
- Planned Expenditures:  
\$64M





# District Housing & Property Improvements

- Planned Construction
  - District Housing Improvements
  - Employee Village Enhancement
  - CRA Kitchen & Lodging Improvements
- Planned Expenditures:  
**\$28 M**



Eagle Mountain Village – Planned Improvements

# Proposed CIP for FYs 2022/23 - 2023/24

- 2-Year planned spending of \$600 million
  - \$300 million each year
  - Projects identified in the CIP Appendix
- March follow up at E&O Committee planned
- April Board actions
  - Appropriate \$600 M
  - Authorize GM authority
    - Initiate or proceed with work on planned capital projects identified in CIP Appendix
- ±90% expenditures proposed for Infrastructure Reliability work



# Future Capital Investment Plan Board Actions

- Contract awards greater than \$250K & property acquisitions
- Professional services agreements greater than \$250K
- Certification of CEQA documents
- Change orders greater than 5% of contract or \$250K, whichever is greater
- Unplanned project authorization

# Unfunded Priorities

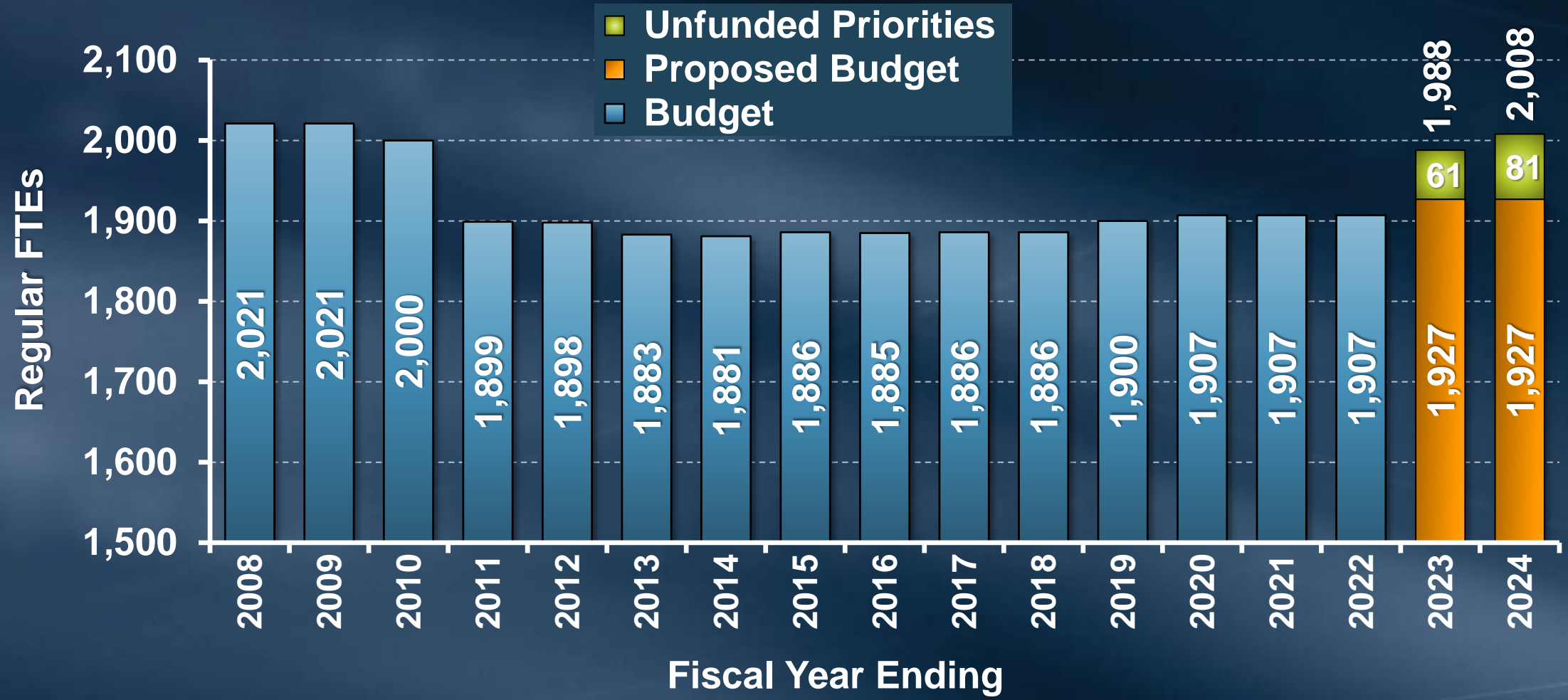
# Unfunded Priorities

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	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
<b>Subtotal - GM's Department</b>	<b>1,852</b>	<b>137</b>	<b>20</b>	<b>77</b>
Office of the General Auditor	13	-	-	-
Office of Ethics	5	4	-	4
General Counsel	37	-	-	-
<b>Total Regular Employees</b>	<b>1,907</b>	<b>141</b>	<b>20</b>	<b>81</b>

Adding these 81 positions to the budget will increase the over rate increase for CY 2023 by 1% for a total of 9% for CY 2023 and 8% for CY 2024

# Historic Staffing Levels

## Regular FTEs





# Ethics Office Staffing Resources



Current FTEs	Additional FTEs	Total FTEs
5	4	9
	Education, Advice, Compliance, Policy, Investigations	

# Engineering Services Group Unfunded Priorities

# Engineering Services Group: Mission Statement

*Engineering Services provides innovative and sustainable solutions that exceed our partners' expectations as the public-sector's leader for water engineering.*





# Staffing to Meet Current and Future Needs



Technical Experts



Best-in-class CIP  
leaders/managers



Strong Partners



Workforce Development  
Mentors/Coaches



Effective Collaborators



Proactive thinkers/doers

# ESG Priorities

## Protect

- Deliver \$600M in CIP expenditures for next biennium

## Adapt

- Progress RRWP
- Execute Drought Response Projects

## Partner

- Implement Project Labor Agreements

## Innovate

- Implement Alternative Delivery of CIP projects



# ESG's Staffing Strategy & Trends

## ● Staffing

- 355 FTEs currently authorized
  - Expertise developed and maintained in areas of core competencies
  - Net loss of 58 positions over last 15 years
- Robust recruitment efforts underway
  - 147 vacant positions filled over last 3.5 years
  - Vacancy rate at historical low of 4% in June 2021
- Utilize consultants to supplement in-house staff
  - Have averaged  $\pm$ \$20M/year in consultant expenditures in last 7 years
  - Plan to use  $\pm$  \$26M/year in consultants over next two years



# Challenges and Opportunities

- Implementation of Capital Investment Plan
  - 2-year expenditures on CIP have increased 33% in last 10 years
    - \$375M to \$500M
  - CIP expenditures planned to increase to \$600M with new budget
    - A 60% increase in CIP spending from 2011/2012
- Planned implementation of new board authorized initiatives
  - Regional Recycled Water – 9 FTEs moved to program planning
  - Drought response – plan, design and construct
  - Project Labor Agreements - develop and implement
  - Alternative Delivery Method – develop and implement

# Key Drivers for Additional Staffing



**Effectively manage planned CIP expenditures of \$600M, while achieving current O&M obligations**

**Perform facility assessments and system resiliency studies to identify potential system deficiencies**

**Inspect and manage \$310M in estimated construction and procurement contract expenditures**

**Plan, manage and oversee approximately \$52M in anticipated consultant invoice expenditures**

**Deploy key initiatives: Project Labor Agreements, Alternative Delivery & Drought Resilience**

**Implement innovative and sustainable practices into design/construction/operation of facilities**

# Additional Staffing Needs to Meet Current Commitments & Support New Initiatives

- 23 new positions requested
  - 6.5% staff increase over current levels
  - Hiring spread over biennium
  - 22 positions funded by CIP
  - 1 position funded by O&M

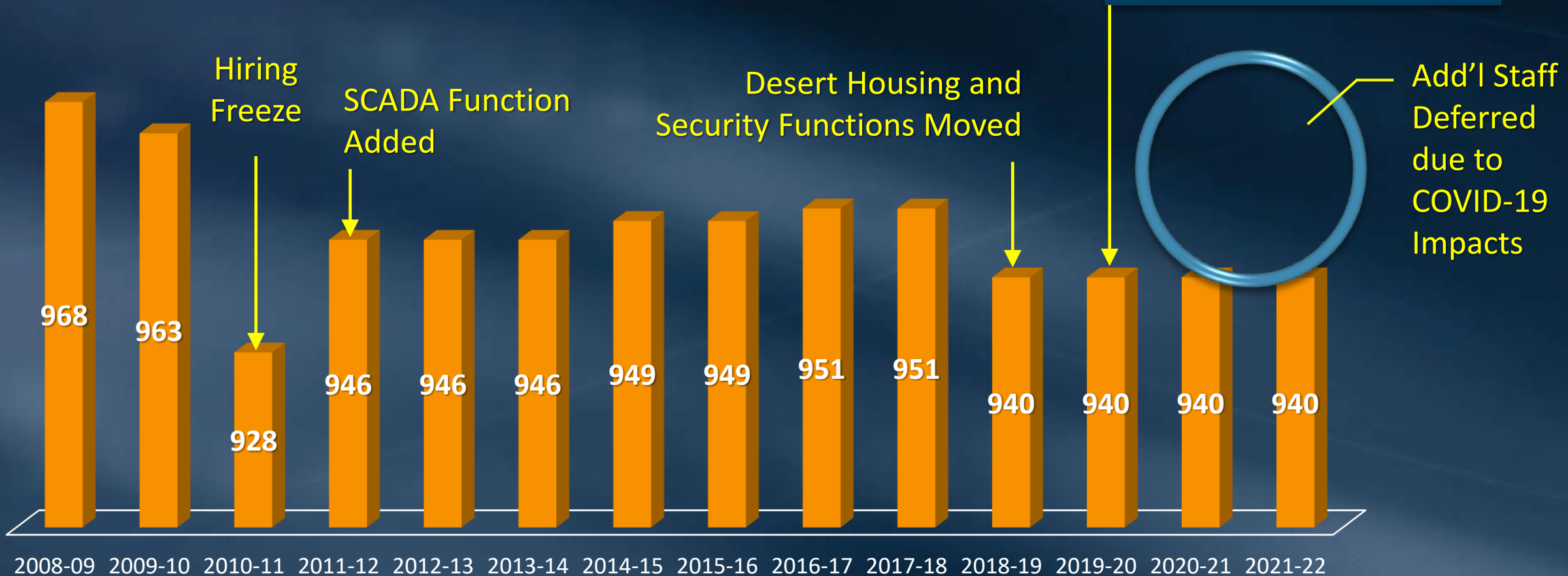
ESG Section	Additional FTEs Current Proposal
Design	5
Infrastructure & Const. Mgmt.	5
Planning & CIP Mgmt.	6
Project Mgmt.	7
<b>Total</b>	<b>23</b>



# Water System Operations Unfunded Priorities

# WSO Staffing Trends

Net loss of 33 positions over the past 14 years



*Staff have adapted to meet our mission, but this level of effort is not sustainable*

# WSO: Staffing to Meet Current and Future Needs

Reduced original staffing request to the most essential positions within five key areas

**1**

**Desert Workforce and  
CRA Rehab**

**2**

**Safe Workplace and  
Regulatory  
Compliance**

**3**

**System/Drought  
Resilience & Member  
Agency Support**

**4**

**Regional Recycled  
Water**

**5**

**Workforce  
Development and  
Succession Planning**



# 1. Desert Workforce and CRA Rehab

Ensuring a resilient workforce and reliable infrastructure for Southern California's water lifeline

- Reliance on CRA operations, especially in drought
- Implementing the most capital improvements in several generations
- Need to reduce unscheduled outages of aging equipment
- Turnover of 13 of 15 (over 86%) Desert managers in the past five years



## 2. Safe Workforce and Regulatory Compliance

Keeping our workforce safe and reliably meeting all water quality, power, and environmental regulations

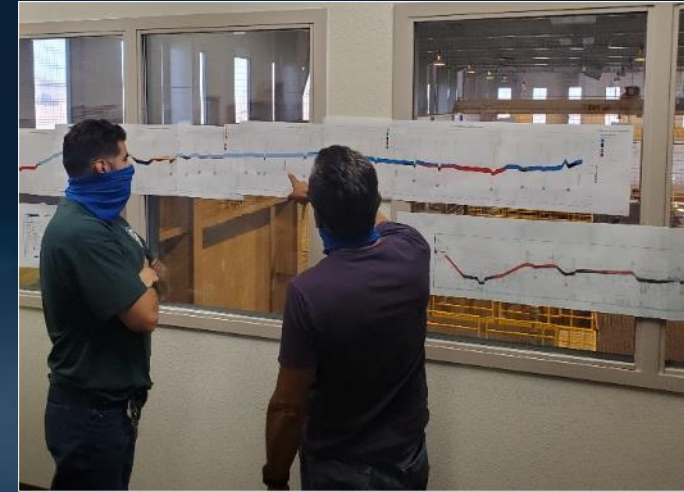
- Aging system and increasing shutdown/O&M complexity requires increased safety focus
- New, stringent laboratory accreditation standards require additional lab functions
- Complex and volatile power regulations pose vulnerabilities identified in third-party reviews/internal audits
- Environmental compliance, quagga mussel control, and execution of the Climate Action Plan are efforts in need of additional resources



### 3. System/Drought Resilience and MA Support

Adapting to volatile changes to ensure our system is reliable and the region is prepared for the future

- Emergency Management Program requires more than just one current dedicated staff
- Solving SWP dependent area operational challenges and limitations, including planning for future system upgrades
- Increased member agency coordination to manage longer and increasingly complex shutdowns, as well as service connection/revenue meter issues
- Significant acceleration of system-wide SCADA upgrade in the next biennium





## 4. Regional Recycled Water

Advancing innovative research for expeditious permitting of the program

- DPR development requires dedicated focus, in addition to current MBR/AWT testing
- Significant maintenance and repair needs for this complex testing facility
- Laboratory staff spread thin performing both recycled water and drinking water analysis – requires dedicated RRWP resources
- Must start building bench now for future program needs, including training for certified advanced water treatment operators



# 5. Workforce Development and Succession Planning

Ensuring water system reliability by preparing our employees for the future

***\*DEFERRED***

- About 50 to 70 staff (up to 8%) in WSO retire each year— including many > 30-year managers and technical, highly tenured staff
- Continued advancement of Asset Management Program required to optimize growing CIP and O&M efforts
- Training needs for Apprenticeship Program and keeping a skilled O&M workforce current and safe
- Address span of control and geographical challenges for field O&M teams





# Summary – Critical WSO Staffing Needs

43 new positions (~4.5% increase) spread over biennium

*Proposed staffing will allow WSO to meet critical O&M needs, advance Board-directed initiatives, and ensure continued safe and reliable water deliveries to the region*





# Other Groups Unfunded Priorities

# Unfunded Priority Positions: Real Property

## (2) Property Maintenance Technicians

- These two positions are needed to support the following:
  - ~100 houses are distributed over 120 miles and located in four Desert villages
  - Urgent corrective maintenance requires onsite staff coverage seven days per week
  - Limited-service provider availability in the Desert region
  - Projected work backlog of up to 75 work orders for housing
  - New recreational facilities added to maintenance responsibilities
- There were six (6) Property Maintenance Technicians originally requested and two were included as part of the proposed budget.

# Unfunded Priority Positions: External Affairs

## **(1) Public Affairs Rep II – Community Relations**

- This position is needed to support the increased outreach efforts of the Regional Recycled Water Program at the Carson facility.
- Without this position, Metropolitan will not be able to meet the important and imminent demand for tours and outreach to educate the public on the growing operations at the recycled water facility.



# Unfunded Priority Positions: IT

## (1) IT Cloud Security Administrator

- Required to address significant gaps in cloud security administration, process & control, and governance across multiple cloud environments (high level of complexity)
- Resident expert providing critical day-to-day cloud administration duties and functions
- Support Cloud First technology strategy and initiatives to enhance security, reliability and resiliency
- Dedicated resource to optimize usage
- Recommended by Federal Security Partners to fill gaps that currently exist in Metropolitan's ability to respond to cyber threats

# Unfunded Priority Positions: Finance

## **(1) Principal Administrative Analyst – Controller Section**

- Required to identify grant opportunities Metropolitan is eligible for that align with its mission and goals.
- Grants management at Metropolitan is decentralized and one of the few organizations that do not have a central point of contact is Finance. A central point of contact in Finance is essential to assist in writing grant applications, negotiating final grant agreements, developing effective program tracking, and ensuring compliance to grant terms and conditions to avoid potential audit findings.
- This position will also provide needed guidance in adhering to timelines, financial reporting and performance requirements, and coordinating grants training for Metropolitan staff.
- Without this position, Metropolitan is losing out on monies that could be used to offset costs currently funded by O&M or capital funds and miss out on opportunities to start essential programs/projects that lack funding.
- Cost of FTE could potentially be recovered by grant moneys received.

# Unfunded Priority Positions: Finance

## **(1) Principal Administrative Analyst – Treasury Section**

- Needed to expand modeling and analytic capacity to support development of the District's Long-Range Financial Plan, coordinating with other areas of Finance and the organization. Development of a new LRFP is a key strategic goal highlighted by senior management to analyze and develop a new business model for Metropolitan.
- Required also to create and enhance various work products that generate business insights across the Treasury section, including but not limited to debt analytics, P-Card program reporting, and financial asset-liability management.
- Without this position, Metropolitan is at risk of increasing short-term business operational inefficiencies in Treasury given expanding responsibilities. Moreover, without this support to create the proposed LRFP, there is a heightened risk of delay or non-completion, causing a long-term degradation of Metropolitan's financial resilience. Metropolitan's long-term financial planning efforts require the coordination, documentation and assessment of Metropolitan's external financial risk factors, governing financial policies and available financing tools.



# Unfunded Priority Positions: Administration

## **(1) Administrative Assistant III – Board of Directors Unit**

- This position will support Board travel arrangements, BOD Database, purchasing of equipment and supplies, onboarding of new board members, pCard reconciliation, catering, and Boardroom set-up and organization.
- Board of Directors (BOD) meetings will continue to provide three new services for hybrid meetings and customer service purposes: Zoom, listen only line, and teleconference line for public comment.
- Upcoming projects include replacing the current Board Document Management System (BDMS) and the BOD database to cloud-based mobile-friendly applications accessible to staff off-network.

# Unfunded Priority Positions: Human Resources

## **(1) Principal Employee Relations Specialist – Employee Relations**

- Findings and recommendations of the Shaw Law Group concluded:
  - Staffing in Employee Relations Section is currently insufficient to keep pace with an expanding workload.
  - Section would benefit from the addition of two (2) staff.
  - Human Resources agrees due to anticipated staff turnover within the next 1-2 years.
- Duties: Assume high level responsibilities, including extensive interactions with bargaining unit representatives, analyzing highly complex employee relations cases, and providing training to managers and supervisors.
- Failure to add this position will hinder the Employee Relations Section's ability to provide the optimal level of service and support to managers and supervisors across the District. It would also run contrary to the recommendations of the Shaw Law Group, which appropriately identified this staffing need.

# Unfunded Priority Positions: Human Resources

## **(1) Sr. Administrative Analyst – Organizational Development & Training**

- Findings and recommendations of the Shaw Law Group concluded:
  - Staffing in Training is currently under-resourced, considering the District's size, to keep pace with an expanding workload
  - ODT would benefit from the addition of two (2) staff.
  - Human Resources Group concurs with this recommendation.
- Duties: Help analyze training effectiveness and conduct a Needs Assessments to determine training needs at the Group, Section, and Team levels.
- Assist with Team Building analysis and co-design. This position will be our Leadership Academy facilitator (preparing employees for future management opportunities). Position will also oversee Dashboard management (training metrics).



# Unfunded Priority Positions: EEO and D, E & I

## **(1) Principal EEO Specialist – EEO**

- Position needed to support new Equal Employment Opportunity Office.
- This position will assist the EEO Office with investigative services.

## **(1) Program Manager – D, E & I**

- Position needed to support new Office of Diversity, Equity & Inclusion.
- This position will provide analytical expertise in support of D, E & I initiatives.

# Follow-up from Workshop #1

# Question #1

Why do we use avg conditions in the assumptions for water sales?

- MWD water transactions are influenced by many factors such as weather, the regional economy, member agency supplies and operations, and the effects of climate change, leading to wide variation in annual water transactions and making them difficult to project.
- Within that wide range of variability, staff estimates water transactions based on average expected conditions.
- The average expected water transactions are the basis for the biennial budget and rate-setting processes and relies on water storage and cash reserves to buffer changes in water demand, revenue and cost volatility.
- Changes in water transactions +/- 20% are accounted for in the reserve policy.
- This approach of using an average condition for water transactions is supported by industry guidelines.
- See additional informing on the following slides.



# Historic Water Transaction Projected vs. Actual



Includes water sales, exchanges and wheeling (occur period)

- Actuals - Non-Member Agency Demands
- Actuals - Member Agency Demands
- Budgeted Member Agency Demands

## Background Information

Budgeted water transactions only included Member Agency demands. Non-Member Agency transactions consist mostly of agreements with the Coachella Valley Water District and San Luis Rey. For the budget, revenues for these non-member agency agreements are included in miscellaneous revenues and are not included as AF on the transactions line.

For the most accurate comparison the non-member agency demands have been separated out of the historic actuals.

# Historic Unrestricted Reserves



\* Revenue Remainder and Water Rate Stabilization Fund (cash basis)

The effect of water transactions over/under budget can be seen on unrestricted reserves. When water transaction are below budget reserves are drawn down and when water transaction are above budget reserves increase.

Changes in expenditures also have a large impact like in FY 2020/21 when a low SWP allocation resulted in low SWC power costs increasing the unrestricted reserves while drawing down in-region water storage.

# Reserve Policy – Admin Code § 5202

## Reserve Fund Principle:

Provide stable & predictable water rates



\* if fixed charge coverage ratio > 1.2x

The Reserve Policy was established in 1999 to help provide stable and predictable water rates by providing a cushion to buffer rate impacts from fluctuations in water demands.

The minimum reserve level provides 18 months of rate protection from a 20% reduction in water demands.

The target reserve level provides an additional 2 years of rate protection.

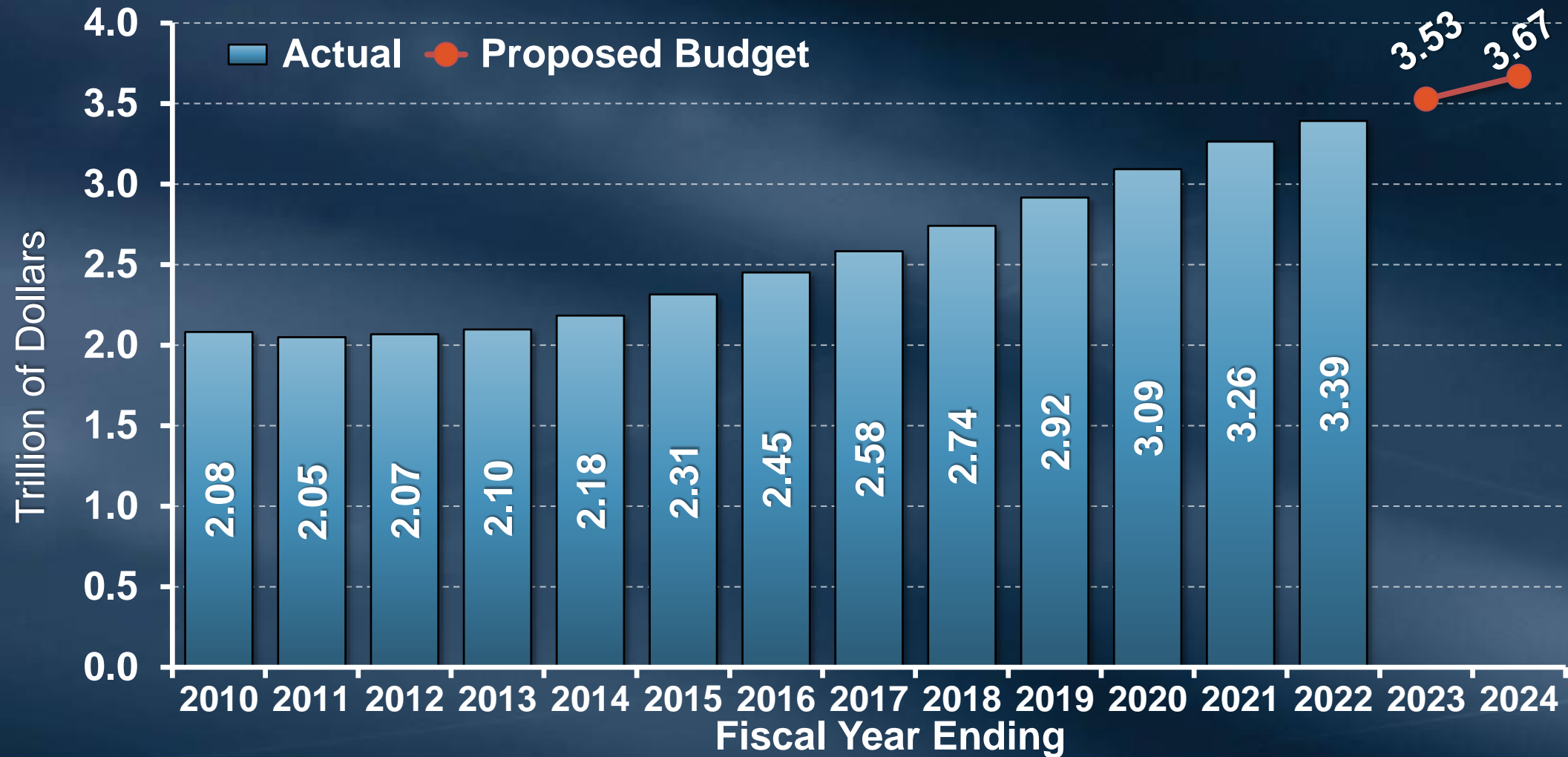


# Question #2

## More information on property tax revenues

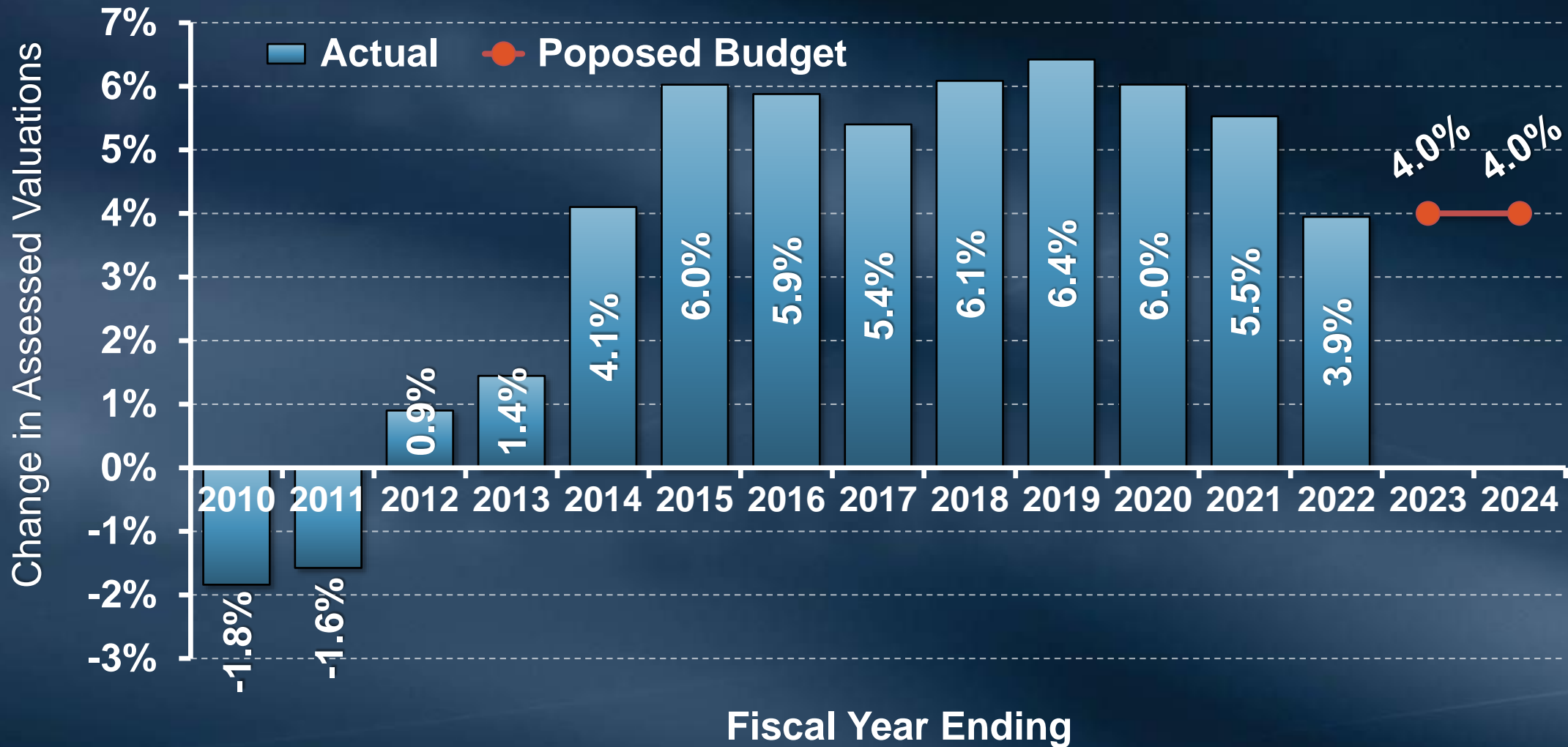
- Last year's actual property taxes collection was \$161 M.
- The proposed budget includes estimated property taxes of \$163 M for FY2023 and \$168M for FY2024.
- Prior budgets included a conservative estimated increase in assessed valuation of 2.5% per the direction of the 2012 Rate Refinement Group.
- Based on Board feedback, the proposed budget updated that assumption to 4.0% to reflect the most recent data (3.9% change for FY2021/22)
- With this updated assumption the budgeted property taxes revenues should be close to actual.
- See additional information on the following slides.

# Property Tax Assessed Valuations



# Property Tax

## Change in Assessed Valuations



# Question #3

More information about energy costs and assumptions

- See information on the following slides



# SWP On-Aqueduct Power

FYE	SWP Deliveries That Incur Power (TAF)	Mill Rate (\$/mwh)	SWC On-Aqueduct Power (\$M)
2022	953	\$66.80	\$208.8
2023	604	126.28	243.4
2024	777	100.00	253.5

- State Water Contractors provides cost estimates for the Mill Rate
- The Mill Rate is increasing as a result of:
  - Lower reservoir levels resulting in lower energy generation from SWP power generation facilities
  - Fixed CAISO Charges that are now recovered on reduced flows

# CRA Power

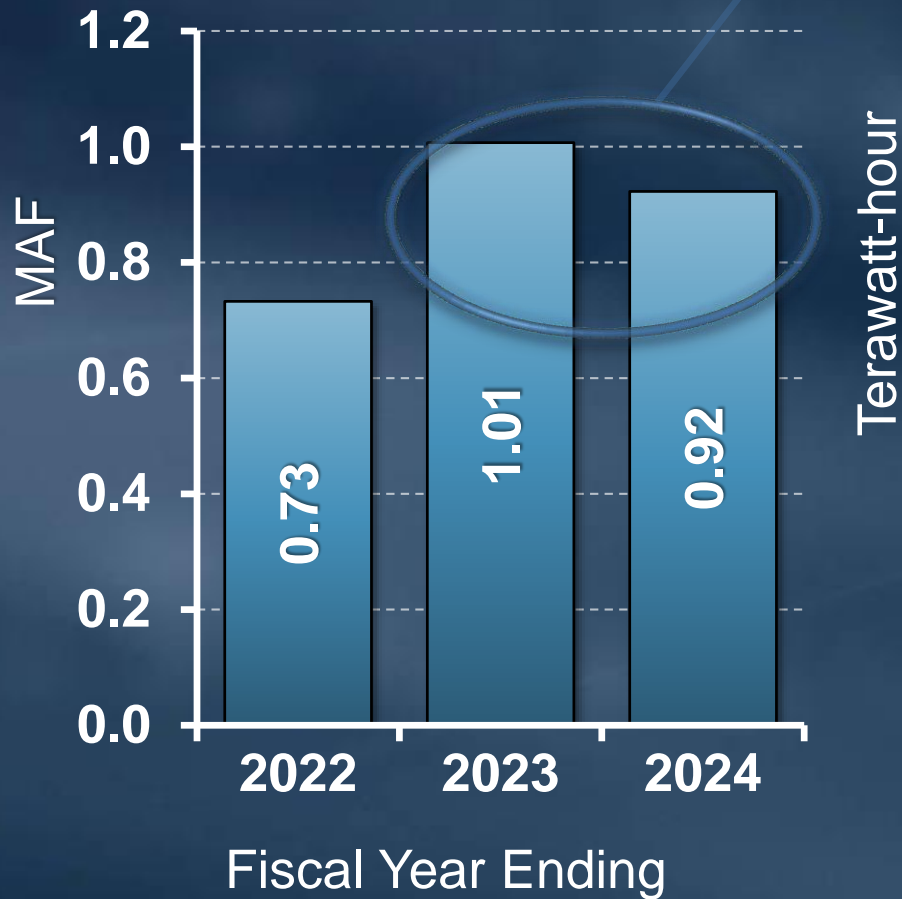
FYE	Diversions (TAF)	Hoover, Parker & Fixed Costs (\$M)	Supplemental Power & Variable Costs (\$M)	Total (\$M)
2022	733	23.9	\$33.7	57.6
2023	1,007	23.1	82.8	105.9
2024	923	24.1	61.5	85.6

- CRA power costs rely on forecasts from external sources such as Western Area Power Administration (WAPA), United States Bureau of Reclamation (USBR) and Intercontinental Exchange (ICE)
- Supplemental power is assumed to be purchased at forecasted SP 15 rates
- Fixed and variable costs escalated at ~3% for biennial budget period

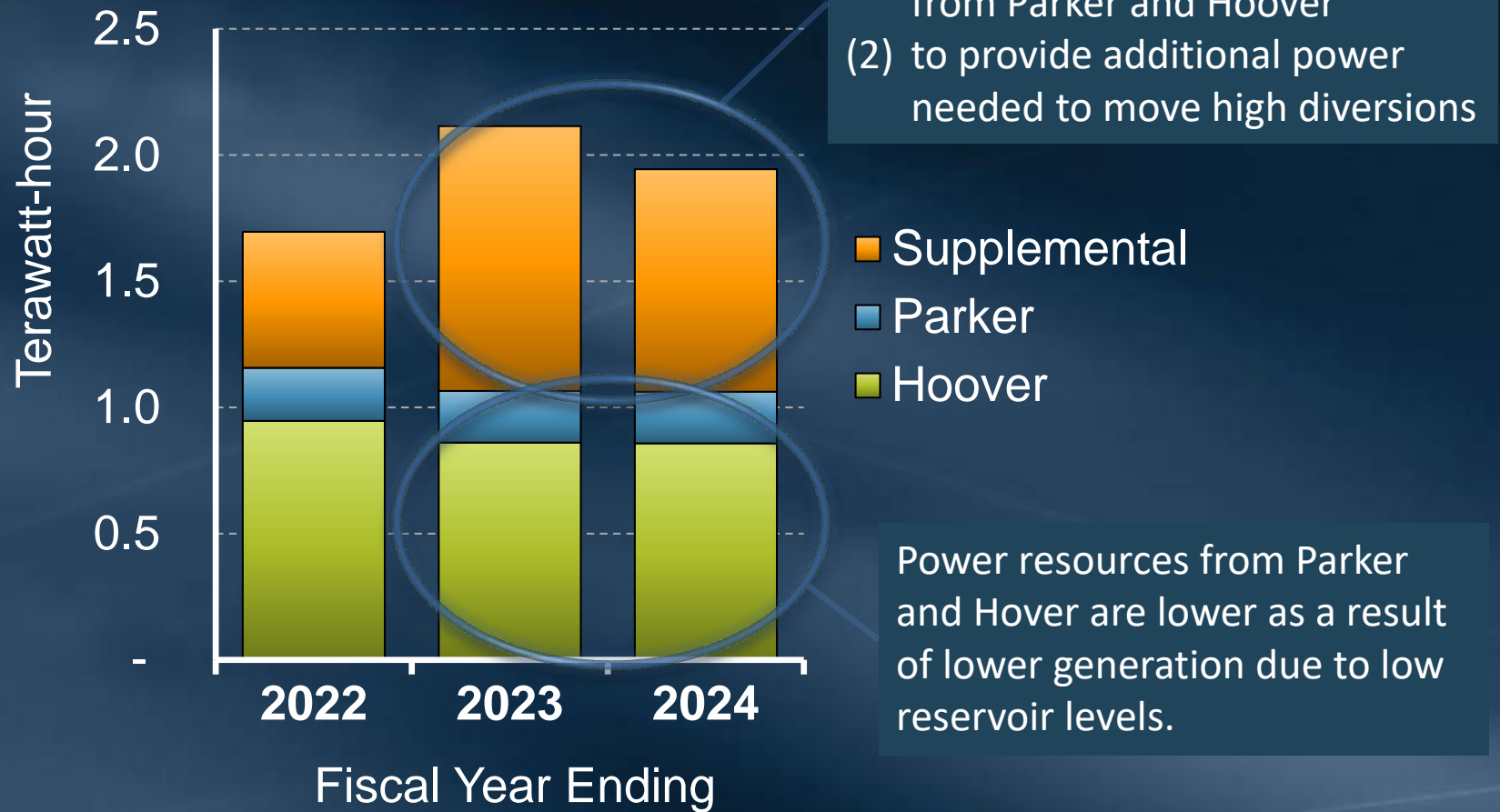
# CRA Power

Higher CRA diversions reflect high reliance on CRA resulting from low SWP allocation.

## Diversions



## Power Resources



# Question #4

What can Metropolitan do to control the rate of growth of energy costs?

- To increase power revenues MWD schedules CRA assets from Parker and Hoover during high priced CAISO hours.
- To limit CRA power costs MWD limits 8-pump flow particularly during the summer peak period (July-Sept) unless it is absolutely necessary to meet demands.
- MWD is evaluating integrating new energy storage and renewable assets to provide supplemental energy and greater flexibility/independence for the CRA.



# Question #5

What is the impact of variability in water transactions on the budget?

- A 100 TAF decrease in water sales reduces revenues by approximately \$90 M over 12 months.
- If rates were set based on 100 TAF lower water transactions rates would have to increase roughly an additional 6.5%.

# Question #6

Information about water sales vs water transactions particularly in our discussion on firm transactions on schedule 23 of the report.

Schedule 23: Cash Year Transactions, by Type

Cash Year Ending	2023	2024
<b>Transactions by Treatment Type</b>		
Treated Firm Transactions	770	780
Untreated Firm Transactions	541	482
Untreated Exchange	279	278
<b>Total Transactions</b>	<b>1,590</b>	<b>1,540</b>
<b>Firm Transactions by Type</b>		
Tier 1	1,311	1,262
Tier 2	-	-
<b>Total Firm Transactions</b>	<b>1,311</b>	<b>1,262</b>

- Budgeted water transactions include member agency volumetric water sales and the SDCWA exchange.
- Firm transactions refers to water sales subject to the calculation of the RTS Charge and to the calculation of Base Firm Demand for applicability of Tier 2 supply rate.

# Question #7

Clarification on revenues from Tier 2 and the inclusion of Demand management.

- The Budget does not include any Tier 2 transactions or revenues.
- More information on the following slide.

# Tier 2 Supply Rate

- 2021 Board took action to functionalize Demand Management (DM) to the supply function
- The DM cost component has been included in the Tier 1 and Tier 2 Supply Rate
- DM component is recovered by the supply component in the following volumetric rates:
  - Tier 1 Full Service Untreated (\$/AF)
  - Tier 2 Full Service Untreated (\$/AF)
  - Tier 1 Full Service Treated (\$/AF)
  - Tier 2 Full Service Treated (\$/AF)
- Tier 2 purchases are driven by the Purchase Orders (POs) (set to expire on Dec 31, 2024)
  - Water sold during the 10-year PO term greater than the Tier 1 maximum will be sold at the Tier 2 supply rate.
  - Based on historic water transactions trends no member agency is expected to purchase water at the Tier 2 rate through the end of the contract.



# Q&A

# Next Steps

February 25, 2022	Member Agency Managers Meeting
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 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

