



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 #3

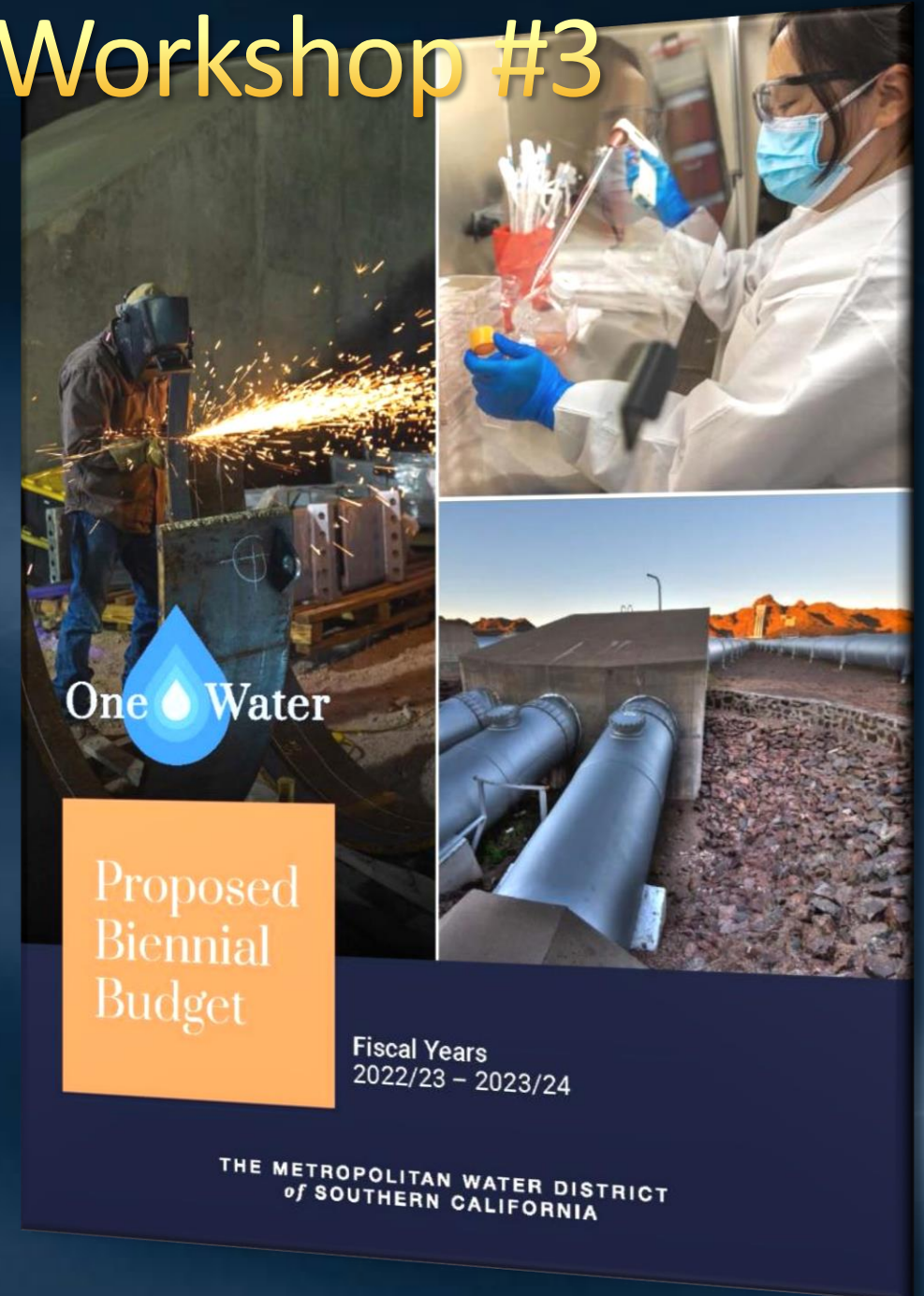
Finance & Insurance Committee

Item 6a

March 7, 2022

Proposed Biennial Budget - Workshop #3

- Overview
 - Follow-up from Workshop #2
 - Response to Question in SDCWA Letter
- Next Steps



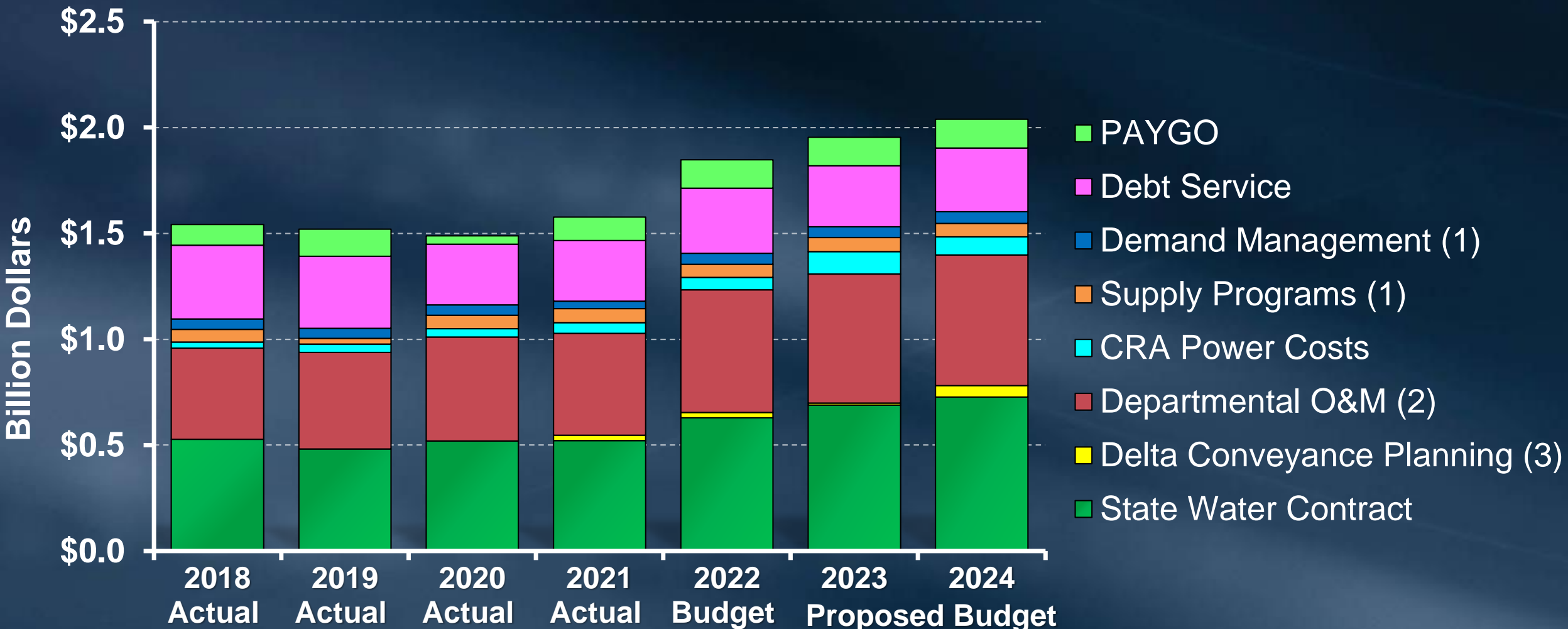
Historical and Projected Expenditures

| Fiscal Year Ending | 2018 Actual | 2019 Actual | 2020 Actual | 2021 Actual | 2022 Budget | 2023 Proposed Budget | 2024 Proposed Budget |
|--|----------------|----------------|----------------|----------------|----------------|-------------------------|-------------------------|
| State Water Contract - Capital | 172.3 | 177.0 | 181.9 | 180.4 | 211.9 | 203.7 | 218.8 |
| State Water Contract - Min. OMP&R | 242.3 | 208.4 | 233.7 | 271.1 | 275.2 | 304.2 | 305.7 |
| State Water Contract - On-Aqueduct Power | 153.8 | 127.5 | 134.0 | 118.3 | 208.8 | 243.4 | 253.5 |
| State Water Contract - Off-Aqueduct Power | 2.7 | 3.6 | 2.5 | 4.3 | 3.5 | 5.1 | 5.0 |
| State Water Contract - Credits | (43.8) | (34.2) | (33.2) | (52.4) | (70.1) | (67.8) | (56.3) |
| State Water Contract - subtotal | 527.3 | 482.2 | 518.9 | 521.8 | 629.4 | 688.7 | 726.7 |
| Delta Conveyance Planning - cash funded | | | | 25.0 | 25.0 | 10.0 | 54.5 |
| Delta Conveyance Planning - paid from CWF refund | | | | | | 24.5 | 10.0 |
| Departmental O&M (1) | 430.9 | 454.8 | 490.8 | 481.2 | 579.9 | 608.9 | 616.7 |
| CRA Power Costs | 29.1 | 39.3 | 39.6 | 50.5 | 57.6 | 105.9 | 85.6 |
| Supply Programs - cash funded | 59.0 | 27.1 | 64.2 | 66.2 | 61.2 | 66.7 | 64.1 |
| Supply Programs - bonded (AVEK High Desert) | | | | | | 38.4 | 46.0 |
| Conservation Program - cash funded | 15.6 | 16.6 | 25.7 | 16.6 | 25.0 | 25.0 | 25.0 |
| Conservation Program - bonded | | | | | | 18.0 | 18.0 |
| Local Resources Program & Future Supply Actions | 34.6 | 31.8 | 22.4 | 18.1 | 27.5 | 25.8 | 29.9 |
| Debt Service | 347.1 | 340.2 | 287.2 | 287.1 | 307.0 | 288.0 | 301.0 |
| PAYGO | 98.4 | 128.0 | 38.9 | 110.0 | 135.0 | 135.0 | 135.0 |
| Total Expenditures | 1,542.1 | 1,520.3 | 1,487.8 | 1,576.5 | 1,847.5 | 2,034.9 | 2,112.6 |

FYE 2018 to 2022 is based on modified accrual, FYE 2023 & 2024 are based on cash

(1) includes Operating Equipment & Regional Recycled Water Program Planning Costs

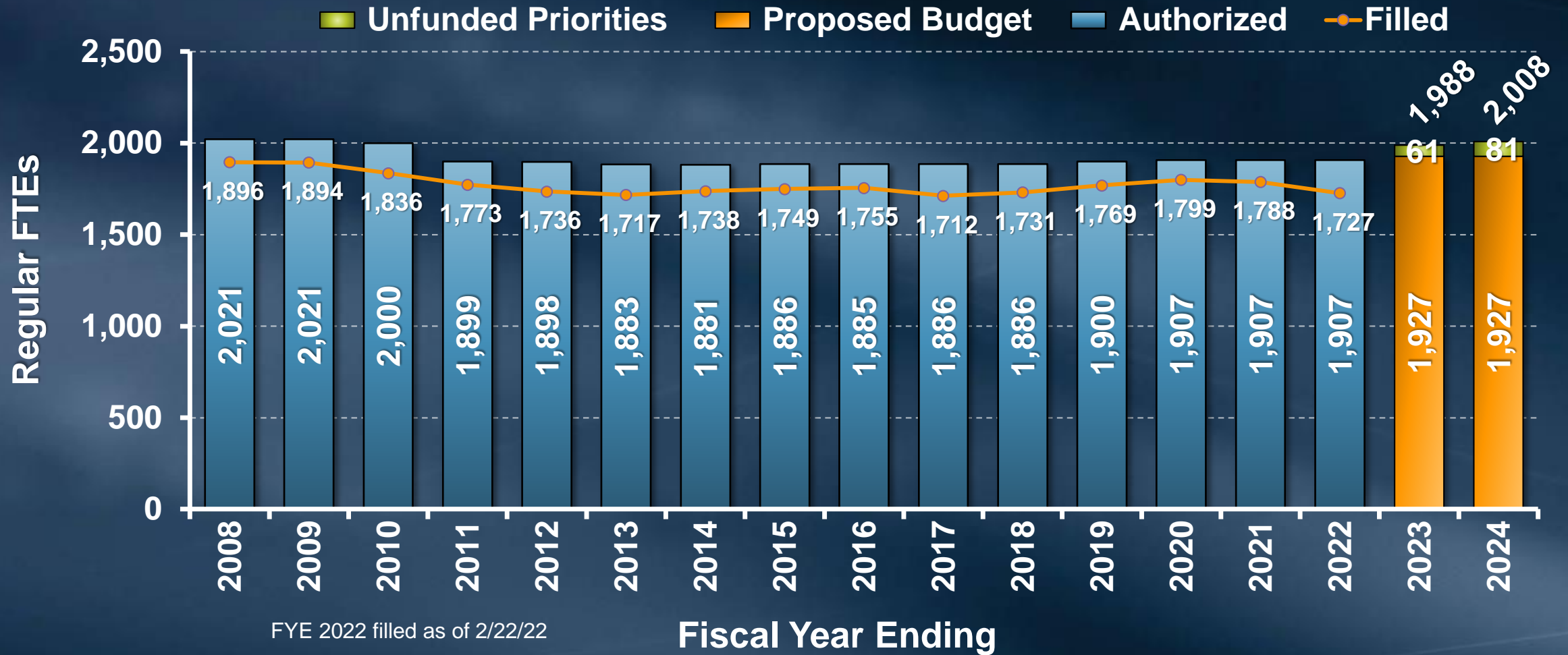
Historical and Projected Expenditures



FYE 2018 to 2022 is based on modified accrual, FYE 2023 & 2024 are based on cash
(1) only includes cash funded portion
(2) includes Operating Equipment & Regional Recycled Water Program Planning Costs
(3) net of CWF refund

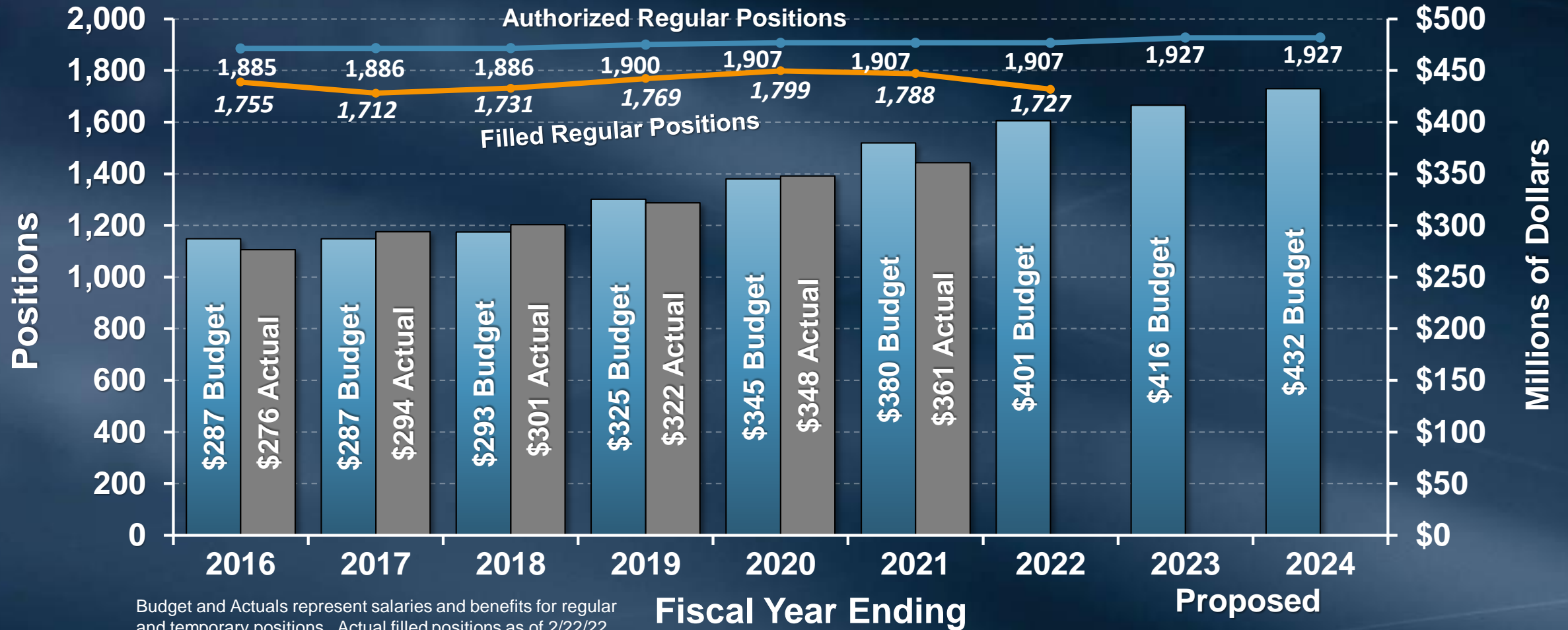
Historic Staffing Levels

Regular FTEs



Historic Staffing Levels

Positions and Dollars



Ethics' Department Budgeted Salary

| Proposed Budget | FY 2022/23 | FY 2023/24 |
|-----------------|---------------|---------------|
| 5 FTEs | \$1.8 million | \$1.9 million |

| Additional Request | FY 2022/23 | FY 2023/24 |
|--------------------|---------------|---------------|
| Additional 4 FTEs | \$1.1 million | \$1.2 million |

Information on Debt & Principal Amortization

Metropolitan's Bond Ratings

| Rating Agency | Metropolitan Lien and Mode | Rating Assigned | Rating Outlook |
|-------------------------------|---|-----------------|----------------|
| S&P Global Ratings | General Obligation Bonds | AAA (highest) | Stable |
| | Senior Lien—Long-Term Bonds | AAA (highest) | Stable |
| | Subordinate Lien—Long-Term Bonds | AA+ | Stable |
| | Short-Term Obligations—Senior and Subordinate Liens | A-1+ (highest) | Stable |
| Moody's Ratings | General Obligation Bonds | Aaa (highest) | Stable |
| | Senior Lien | Aa1 | Stable |
| Fitch Ratings | General Obligation Bonds (2014A) | AA+ | Stable |
| | Senior Lien and Subordinate Lien | AA+ | Stable |
| | Short-Term Obligations | F1+ (highest) | Stable |

Metropolitan's Projected Coverage

- Error was discovered that changed some revenue & fixed charge coverage numbers +/- 0.1 over the 10-year projection
- Over the biennium the only number affected was FY2023/24 Revenue Bond Coverage. The corrected value is 1.4x not 1.5x
- All coverage numbers in this presentation have been corrected.
- Revenue Bond Coverage Target = 2.0x
- Fixed Charge Coverage Target = 1.2x

| Fiscal Year Ending | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|
| Revenue Bond Coverage | 1.4 | 1.4 | 1.8 | 1.7 | 1.8 | 1.7 | 1.7 | 1.7 | 1.8 | 1.7 |
| Fixed Charge Coverage | 1.4 | 1.4 | 1.8 | 1.7 | 1.8 | 1.7 | 1.7 | 1.7 | 1.7 | 1.6 |

CIP Revenue Bonds Assumptions

- 30-year fixed rate bonds (Tax-Exempt) at current ratings

| FYE Issued | Principal (\$M) | Rate (%) |
|------------|-----------------|----------|
| 2023 | 170 | 2.75 |
| 2024 | 160 | 2.75 |
| 2025 | 200 | 3.00 |
| 2026 | 210 | 3.00 |
| 2027 | 300 | 3.25 |
| 2028 | 670 | 3.25 |
| 2029 | 850 | 3.50 |
| 2030 | 990 | 3.50 |
| 2031 | 1,010 | 3.50 |
| 2032 | 640 | 3.50 |

Conservation and Supply Program Bonds Assumptions

- Conservation

- 10-year fixed rate bonds (taxable) at current ratings

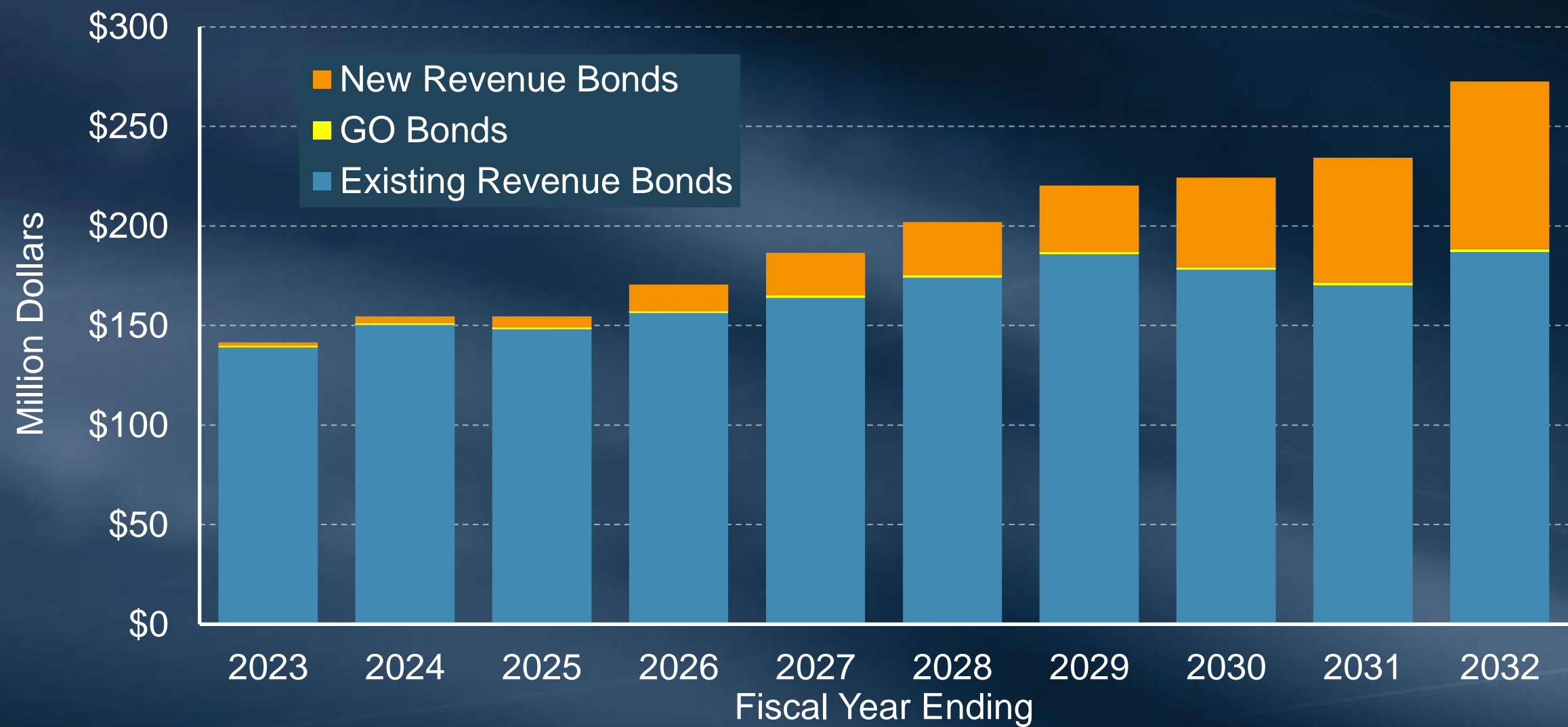
| FYE Issued | Principal (\$M) | Rate (%) |
|------------|-----------------|----------|
| 2023 | 36 | 2.25 |

- Supply Program

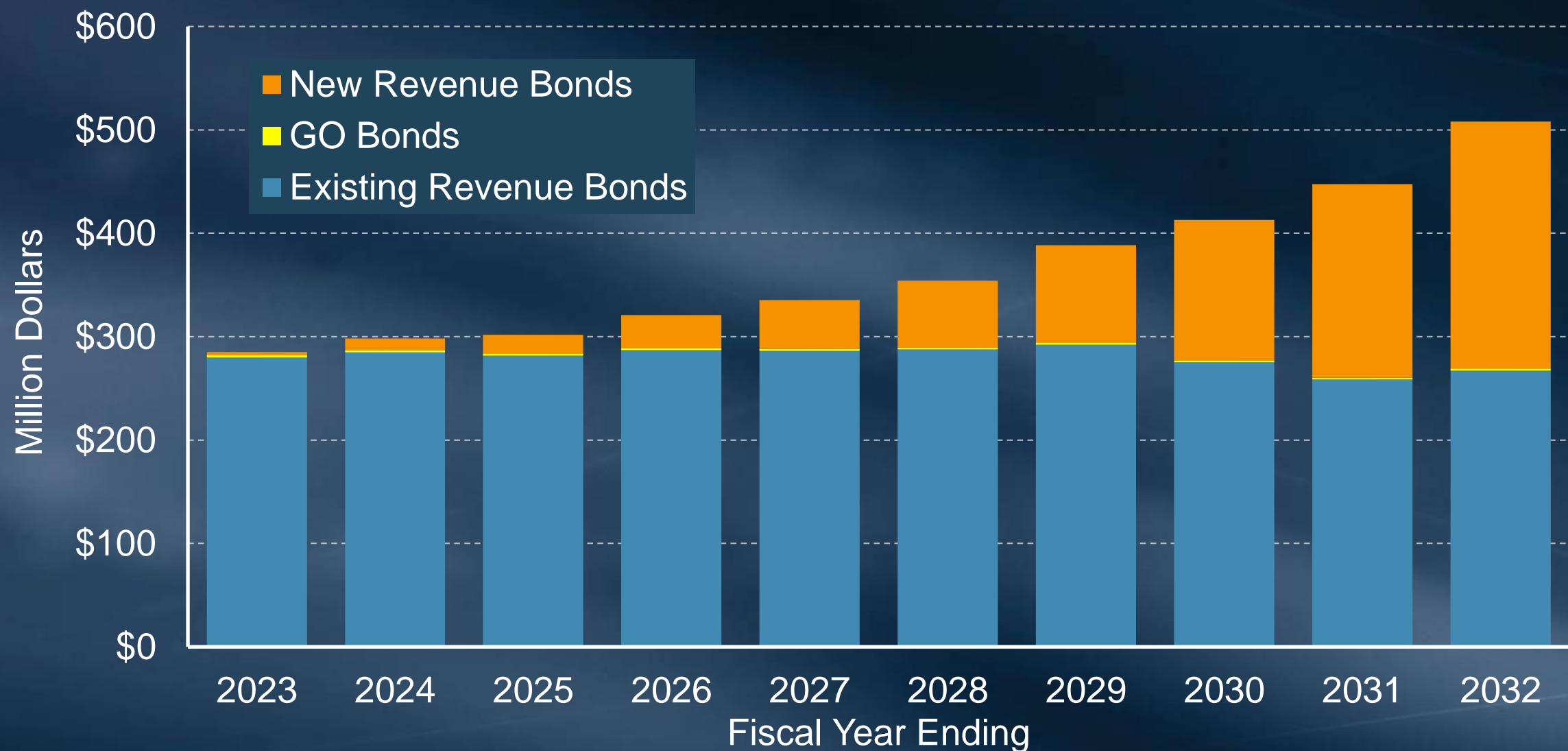
- 15-year fixed rate bonds (tax-exempt) at current ratings

| FYE Issued | Principal (\$M) | Rate (%) |
|------------|-----------------|----------|
| 2023 | 97.9 | 1.75 |

Principal Amortization Over 10-Year Forecast Period



Debt Service Over 10-Year Forecast Period



Question: New revenue sources being pursued

- Regional Recycled Water Program (RRWP) contributions
 - LA County Sanitation District, S. Nevada Water Authority and Central Arizona Water Conservation District
- Reverse-Cyclic Program
 - Preserve SWP supplies & maintains current year revenues
- License fee revenue from direct carbon capture in the Delta Islands
- Federal Grants
 - Bureau of Reclamation Large-Scale Recycled Water Program
 - Total Fund: \$450 M/5-years
 - Request amount pending eligibility criteria set to be released this summer
 - Water Infrastructure Finance and Innovation Act (WIFIA)
 - Bureau of Reclamation's WaterSMART
 - Tentatively proposing \$30M for expected RRWP planning, design, and DPR demo expenditures
 - Clean Water State Revolving Fund (CWSRF)
- State Grants
 - FY 2021-22 DWR Urban Drought Relief Funding
 - \$10M request for conservation (turf removal and retrofit program)
 - FY 2022-23 Budget Request
 - \$52M for emergency drought projects, \$500M for Regional Recycled Water Project

Question: How do the WRM and SRI programs differ?

- Water Resource Management manages imported water supplies; advances water-use efficiency; provides supply and demand forecasts foundational for long-term resource planning; and develops and implements timely resource programs and projects.
 - Focus areas: Colorado River, groundwater storage program, regional resources and water conservation, state water project, desalination, water supply and system planning, and water transfers, exchanges, and storage programs
- Office of Sustainability, Resilience and Innovation (SRI) was established in 2021. Initial efforts include planning and preparation for the future through innovative and sustainable solutions in collaboration with key stakeholders.
 - Focus areas: climate action planning, regulatory compliance (e.g. CEQA), multi-species reserve management programs, and support proposed Delta improvements and development of water supplies

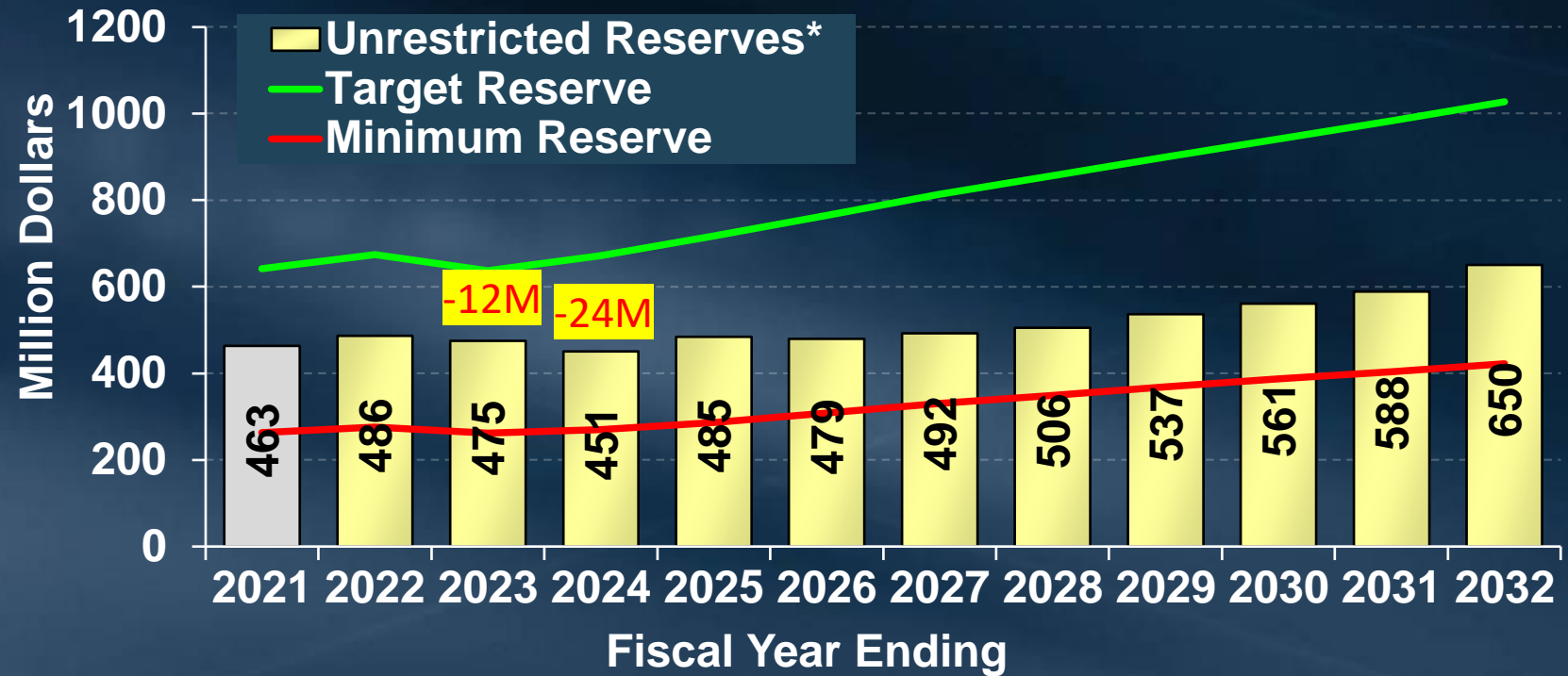
Question: What would be the reduction in rate increase (in % for each year 2023 and 2024) for a reduction of CIP expenditures of \$20 million in 2022/2023 and \$20 million in 2023/2024? Also show the resulting change in staff needs.

- Reducing the CIP \$20M/yr does not have a significant impact on the rates increases.
 - \$20M debt (2.75%, 30 year) = \$1m/yr debt service
 - For Oct 2023 issues, no principal payment until Jan 2026
- Staffing would remain unchanged as additional positions are requested to meet the \$300M/yr.
- Lowering the CIP will be achieved by reducing construction contract awards and/or reducing consultant expenditures

Question: What would be the reduction in rate increase for a use of \$20 M in reserves in 2023 and \$20 M in reserves in 2024? Also show the resulting debt coverage.

- The Proposed Budget already includes projected reserves draws greater than \$20M/yr.
 - \$49M draw of WSF in FY2022/23 (to zero)
 - \$12M draw on unrestricted reserves in FY2022/23
 - \$24M draw on unrestricted reserves in FY2023/24

Proposed Biennial Budget and 10-year Forecast

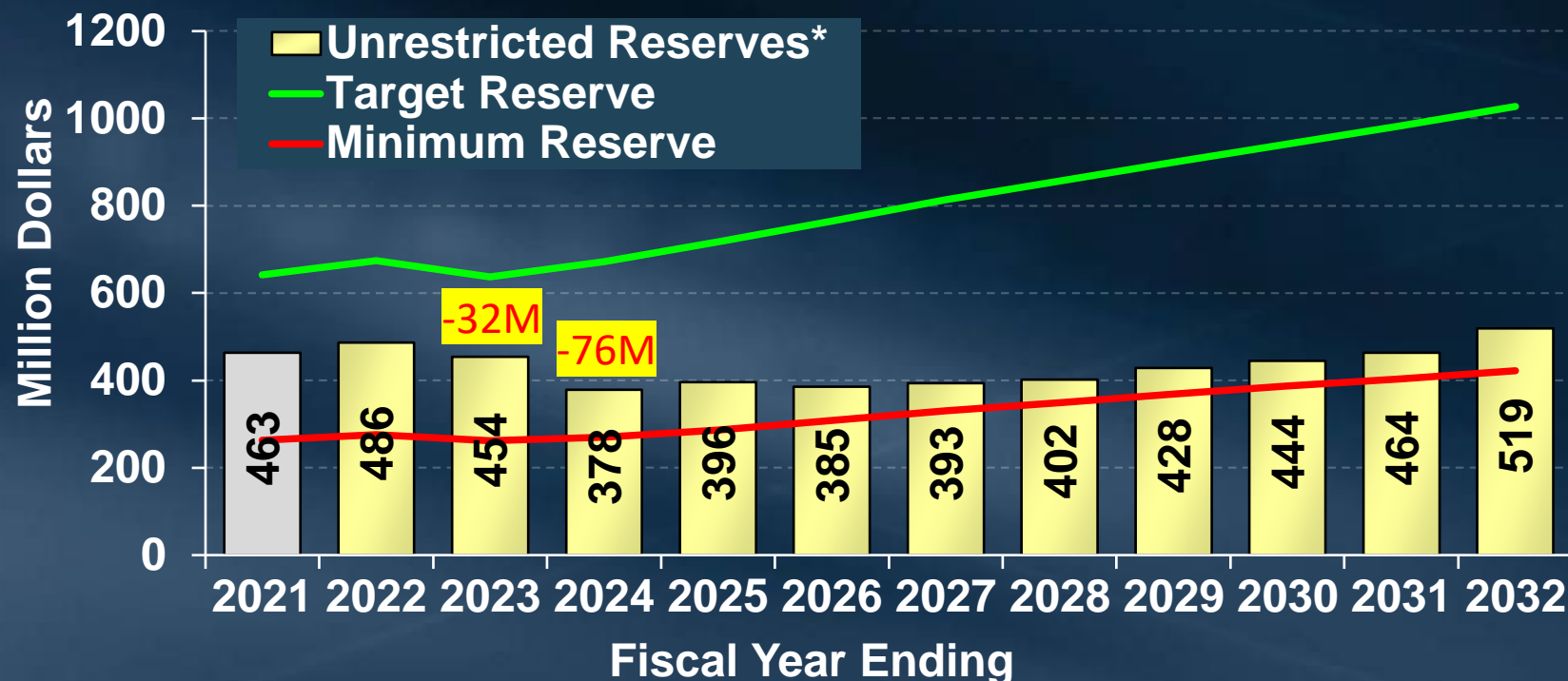


| Overall Rate Inc. | 3.0% | 4.0% | 8.0% | 8.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
|----------------------------|------|------|------|------|------|------|------|------|------|------|------|------|
| Water Transactions (MAF)** | 1.57 | 1.60 | 1.59 | 1.54 | 1.54 | 1.51 | 1.53 | 1.53 | 1.54 | 1.55 | 1.55 | 1.57 |
| Rev. Bond Cvg | 2.0 | 1.5 | 1.4 | 1.4 | 1.8 | 1.7 | 1.8 | 1.7 | 1.7 | 1.7 | 1.8 | 1.7 |
| Fixed Chg Cvg | 2.2 | 1.5 | 1.4 | 1.4 | 1.8 | 1.7 | 1.8 | 1.7 | 1.7 | 1.7 | 1.7 | 1.6 |
| 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

Scenario: Draw an additional \$20M in FY2022/23

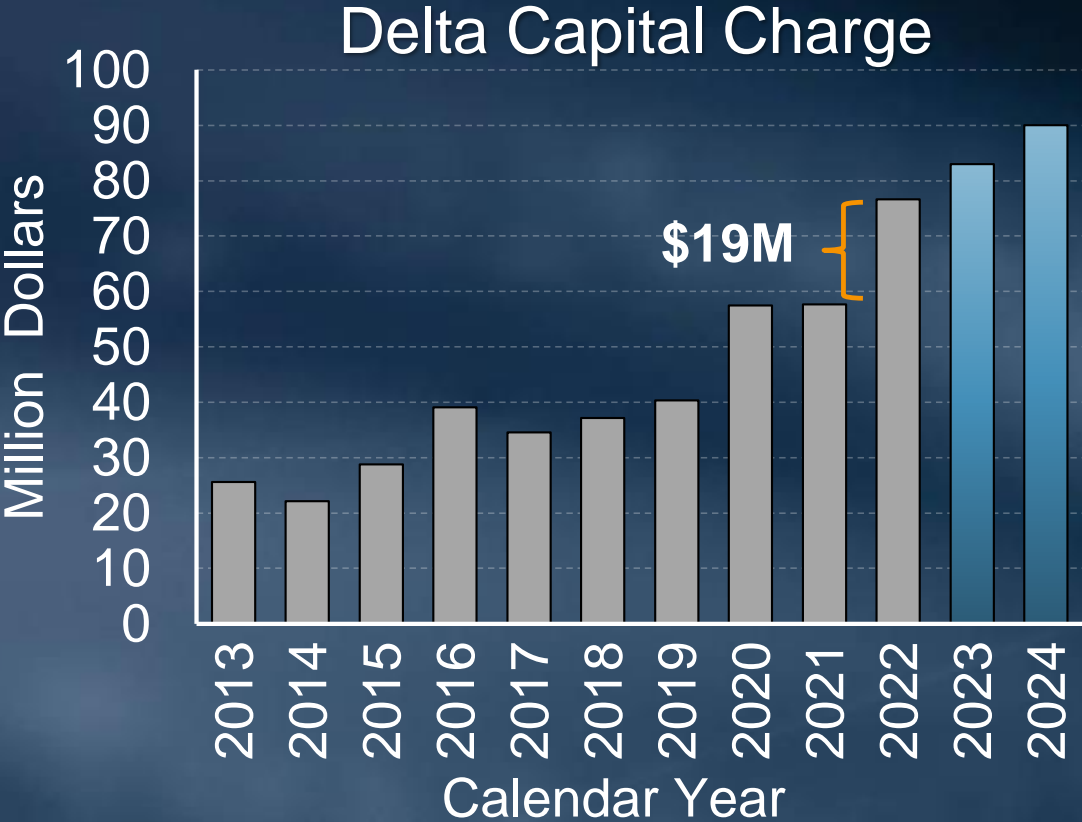


| | | | | | | | | | | | | |
|----------------------------|------|------|------|-------|------|------|------|------|------|------|------|------|
| Overall Rate Inc. | 3.0% | 4.0% | 2.8% | 13.2% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| Water Transactions (MAF)** | 1.57 | 1.60 | 1.59 | 1.54 | 1.54 | 1.51 | 1.53 | 1.53 | 1.54 | 1.55 | 1.55 | 1.57 |
| Rev. Bond Cvg | 2.0 | 1.5 | 1.3 | 1.2 | 1.8 | 1.6 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| Fixed Chg Cvg | 2.2 | 1.5 | 1.3 | 1.2 | 1.8 | 1.6 | 1.7 | 1.7 | 1.7 | 1.6 | 1.7 | 1.6 |
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Question: Details for the increase in the Delta capital Charge



Annual Compound Growth Rate
2013-2022 = 13%
2018-2022 = 20%
Annual Growth 2022 = 33%
Projected Growth 2023 & 2024 ~8.5%

| 2022 Delta Capital Change Increase | \$M | % |
|------------------------------------|--------|-----|
| Power Revenues | 3.3 | 17 |
| True Up to Actual | (0.8) | (4) |
| Additional Spillway Repair | 13.4 | 71 |
| Future Costs | 3.1 | 16 |
| Total | \$19.0 | 100 |

| Emergency Spillway Repair Costs | \$M |
|---|-----------|
| Total Capital Spillway Cost | 1,182 |
| Total Spillway \$ in Contractors Charges | 529 |
| Emergency spillway \$ added to Delta Capital Charge Calculation in 2022 | 242 |
| 2022-2035 increased MWD Delta Capital Charge for Emergency Spillway Repairs | \$13.4/yr |

Question: OPEB & CalPERS Liability

- OPEB (Other Postemployment Benefits.. i.e. retiree medical)
 - MWD pays the full Actuarially Determined Contribution (ADC)
 - Started funding Section 115 trust in FY2013/14
 - June 30, 2021 Liability = \$165 M, Funded ratio 64%
 - Up from 61% on June 30, 2020
 - Estimated to be at 80% funded by FY2027/28
- CalPERS (i.e. pension)
 - MWD pays the full ADC
 - No current policy to accelerate Unfunded Accrued Liability (UAL) paydown
 - June 30, 2021 Liability = \$725 M, Funded ratio 72%
 - Down from 73% on June 30, 2020

Question:

Prepay CalPERS pension, rate impact & long-term savings

CalPERS Pension Liability – Payment Options

- For more information see Sept 10, 2019 Board information letter on Prefunding PERS and OPEB
- 2019 F&I Committee presentations: April 8, July 8, Aug 19, Sep 9
- Bartel Associates, actuarial consultant, presented accelerated repayment options for the District's UAL
 - Option 1 - Payments directly to CalPERS
 - Option 2 - Irrevocable Supplemental Pension Trust (ISPT)

| OBJECTIVE | MOST EFFECTIVE METHOD |
|---|----------------------------------|
| Pay down UAL* faster, save on interest | Direct payments to CalPERS |
| Reduce contributions in peak years | ISPT |
| Provide contribution flexibility, if needed | Direct payments to CalPERS, ISPT |
| Stabilize contribution rates | ISPT |

* Unfunded Actuarial Liability

CalPERS Prepayment – Rate Impact & Savings

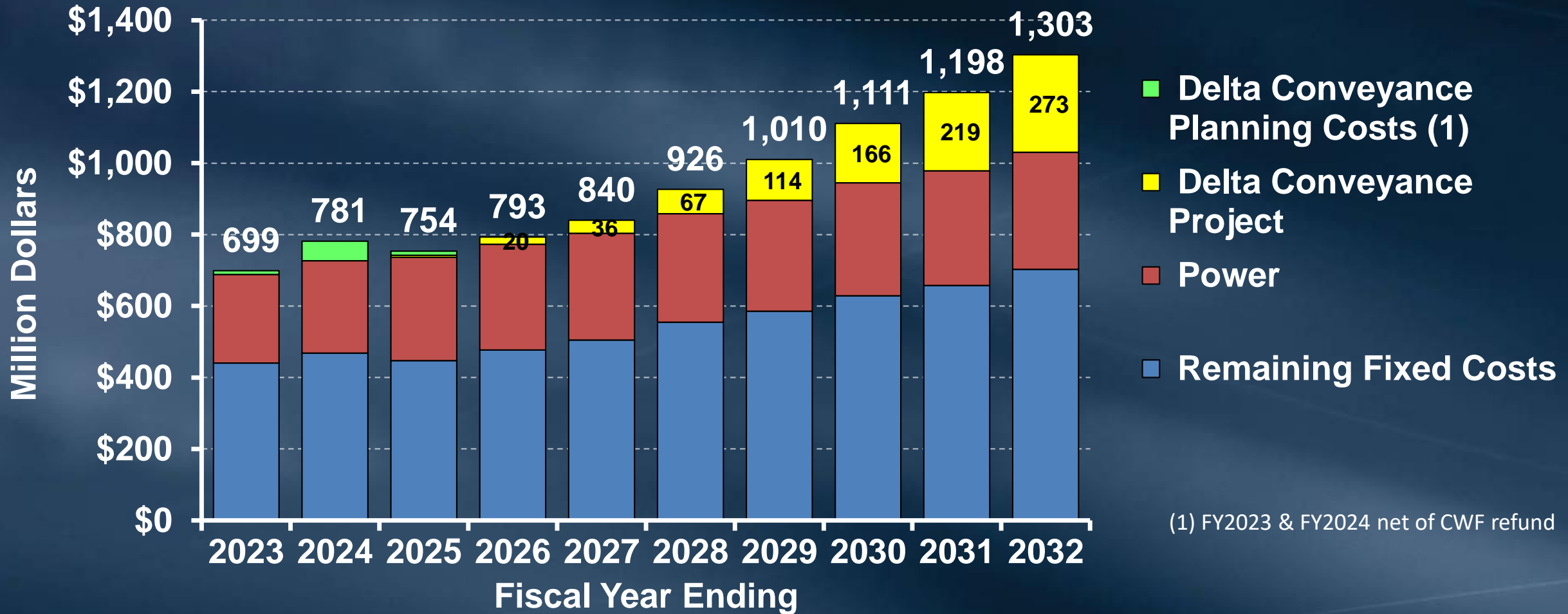
- In 2019 Bartel Associates determined that if Metropolitan funds an additional \$15M/year towards UAL pension obligations, the pension funded ratio would reach the 80% funded threshold by June 30, 2028.
 - Approximately 2 years earlier than the default payment schedule.
- Prefunding PERS at \$15M/year would require a one-time increase in overall rates and charges of about 1% in the year of initiating the additional payment
 - The rate impact could be smoothed out by adding the \$15M/yr over a period of years.
- As a point of reference, Bartel estimated that a \$100M direct payment to CalPERS would have produced present value savings ranging from \$22M to \$110M.

Rate Scenario with Hypothetical Delta Conveyance Project

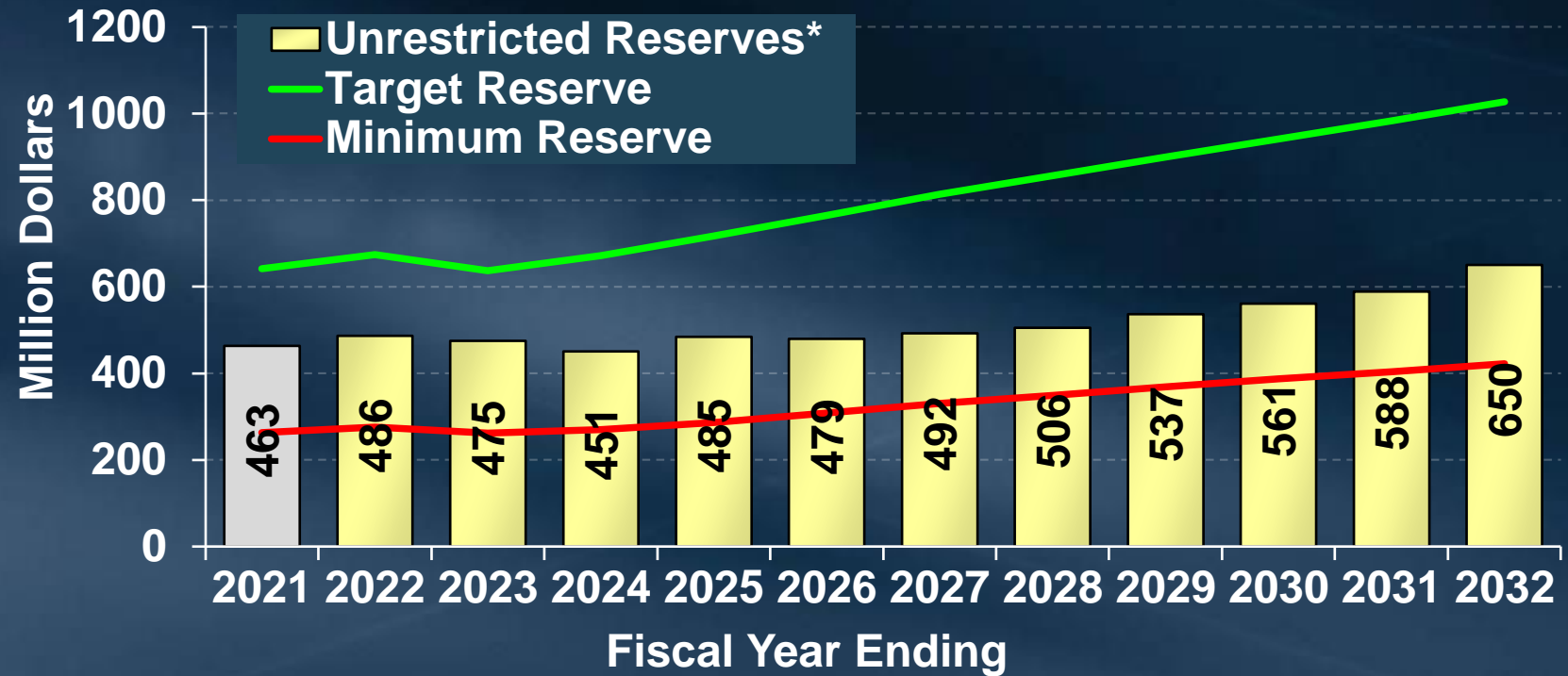
- Based on Aug 2020 DCA costs assessment
- Cost Assessment based on 6,000 cfs, single tunnel
- Estimated operation date: 2042
- Capital Costs: preliminary est. \$15.9B in 2020 Dollars*
- Assuming 47.2% Metropolitan Share
- MWD Capital Share: \$7.5B in 2020 Dollars
- Financed: 40-year term, 4.5% fixed rate debt

*Delta Conveyance Design and Construction Authority's preliminary cost information developed in August 2020 based on assumed facilities and capacity. A cost estimate will be prepared closer to project approval.

State Water Contract Forecast with Hypothetical Delta Conveyance Project



Proposed Biennial Budget and 10-year Forecast

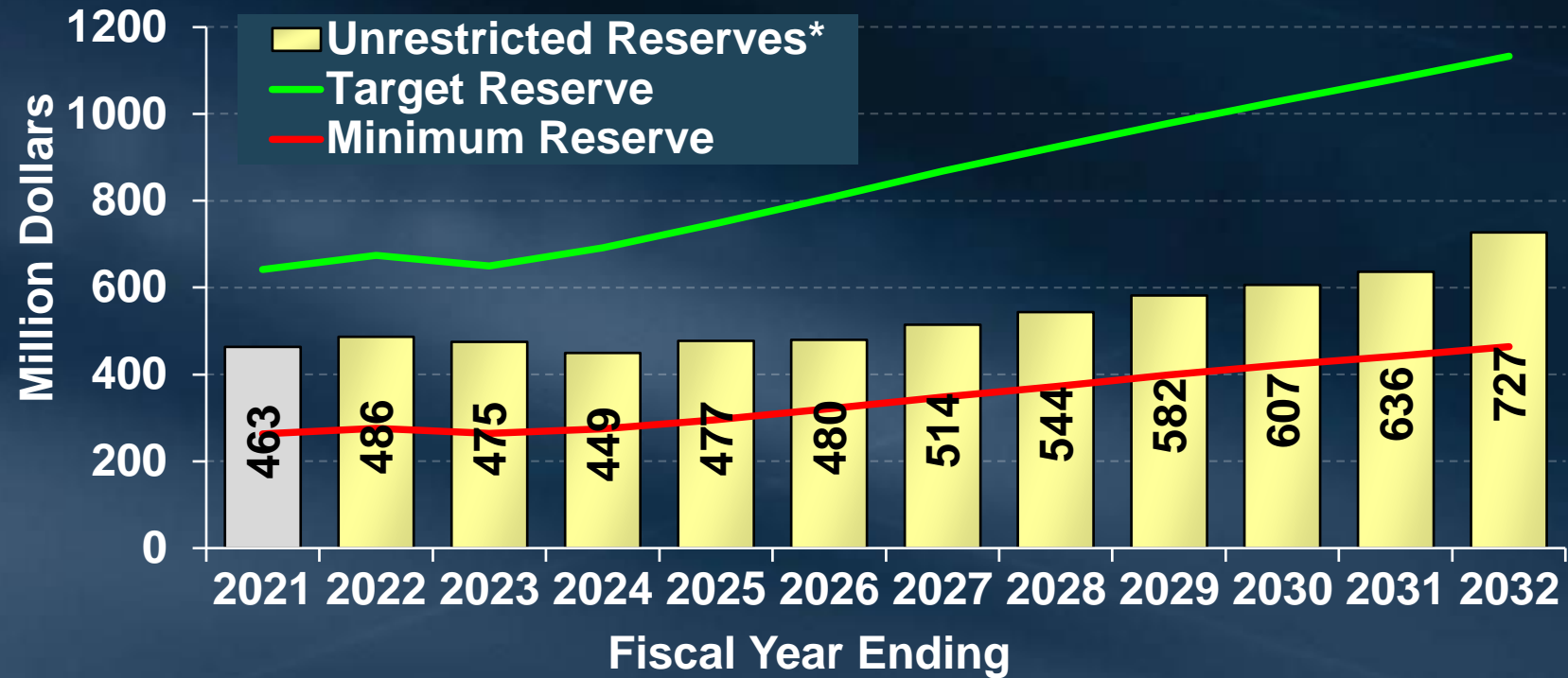


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** Includes water sales, exchanges and wheeling

Rate Scenario w/ Hypothetical Delta Conveyance Project



| Overall Rate Inc. | 3.0% | 4.0% | 8.0% | 8.0% | 6.5% | 6.5% | 6.5% | 6.5% | 6.5% | 6.5% | 6.5% | 6.5% |
|----------------------------|------|------|------|------|------|------|------|------|------|------|------|------|
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| Fixed Chg Cvg | 2.2 | 1.5 | 1.4 | 1.4 | 1.8 | 1.7 | 1.8 | 1.7 | 1.6 | 1.5 | 1.5 | 1.4 |
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Next Steps

| | |
|----------------|---|
| 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 |

Q&A

