



Sp.F&I Committee

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**Special Finance and Insurance
Committee**

Meeting with Board of Directors *

February 22, 2022

12:00 p.m.

Teleconference meetings will continue until further notice. Live streaming is available for all board and committee meetings on mwdh2o.com ([Click Here](#))

A listen only phone line is also available at 1-800-603-9516; enter code: 2176868#. Members of the public may present their comments to the Board on matters within their jurisdiction as listed on the agenda via teleconference only. To participate call (404) 400-0335 and enter Code: 9601962.

**Tuesday, February 22, 2022
Meeting Schedule**

**09:30 am - A&E
10:30 am - Exec
11:30 am - Break
12:00 pm - Sp.F&I**

MWD Headquarters Building • 700 N. Alameda Street • Los Angeles, CA 90012

* The Metropolitan Water District's meeting of this Committee is noticed as a joint committee meeting with the Board of Directors for the purpose of compliance with the Brown Act. Members of the Board who are not assigned to this Committee may participate as members of the Board, whether or not a quorum of the Board is present. In order to preserve the function of the committee as advisory to the Board, members of the Board who are not assigned to this Committee will not vote on matters before this Committee.

1. Opportunity for members of the public to address the committee limited to the items listed on the committee's agenda (As required by Gov. Code Section 54954.3(a))

2. WORKSHOP/COMMITTEE ITEMS

- a. Proposed biennial budget, which includes the Capital Investment Plan and revenue requirements for fiscal years 2022/23 and 2023/24; proposed water rates and charges for calendar years 2023 and 2024 to meet revenue requirements for fiscal years 2022/23 and 2023/24; ten-year forecast; and Cost of Service Report.(Workshop #2)

[21-893](#)

Attachments: [02222022 FI 2a Presentation.pdf](#)

[SDCWA letter to MWD re Budget and Rates.pdf](#)

3. FOLLOW-UP ITEMS

NONE

4. FUTURE AGENDA ITEMS

5. ADJOURNMENT

NOTE: This committee reviews items and makes a recommendation for final action to the full Board of Directors. Final action will be taken by the Board of Directors. Agendas for the meeting of the Board of Directors may be obtained from the Board Executive Secretary. This committee will not take any final action that is binding on the Board, even when a quorum of the Board is present.

Writings relating to open session agenda items distributed to Directors less than 72 hours prior to a regular meeting are available for public inspection at Metropolitan's Headquarters Building and on Metropolitan's Web site <http://www.mwdh2o.com>.

Requests for a disability related modification or accommodation, including auxiliary aids or services, in order to attend or participate in a meeting should be made to the Board Executive Secretary in advance of the meeting to ensure availability of the requested service or accommodation.



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

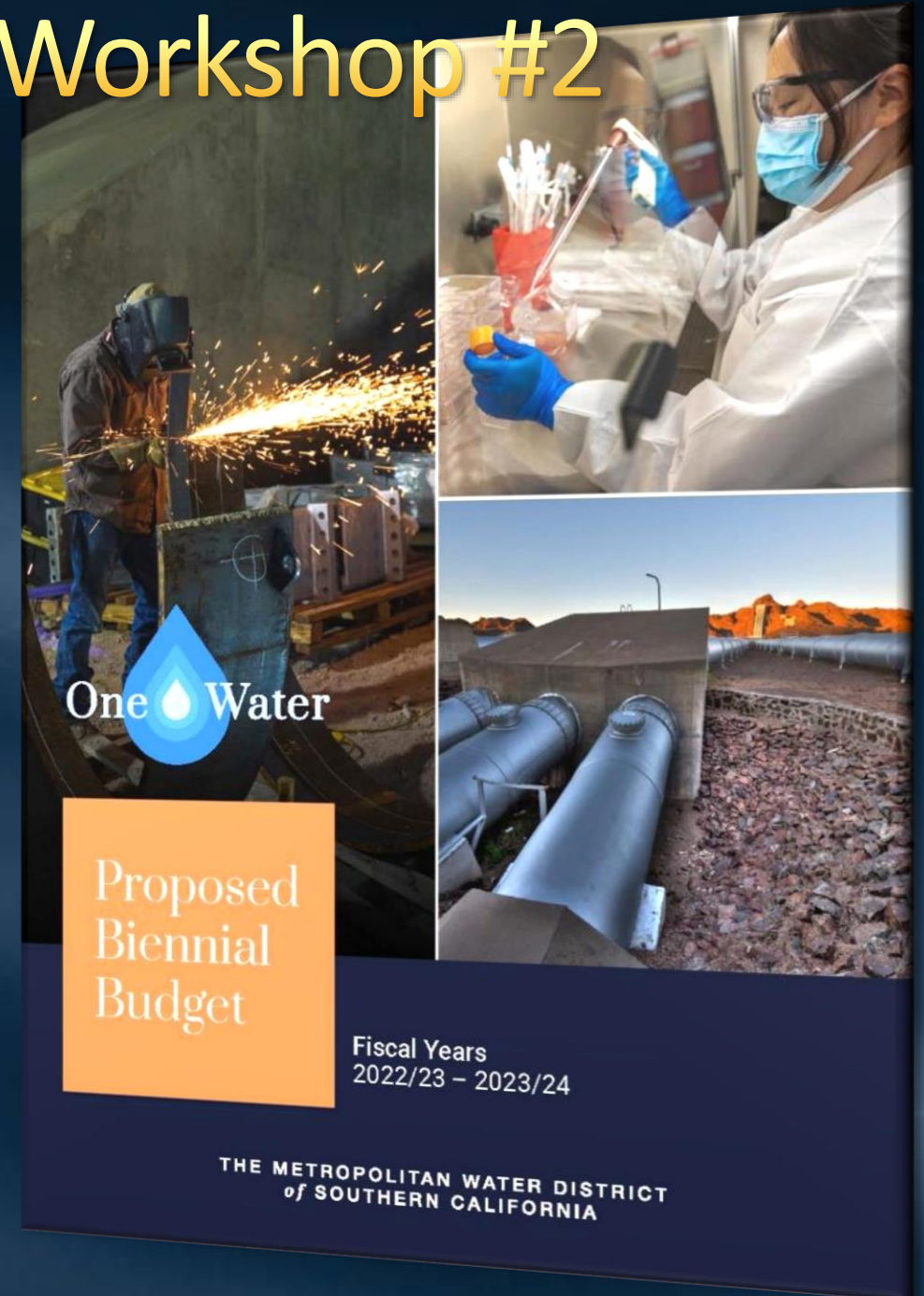
Finance & Insurance Committee

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

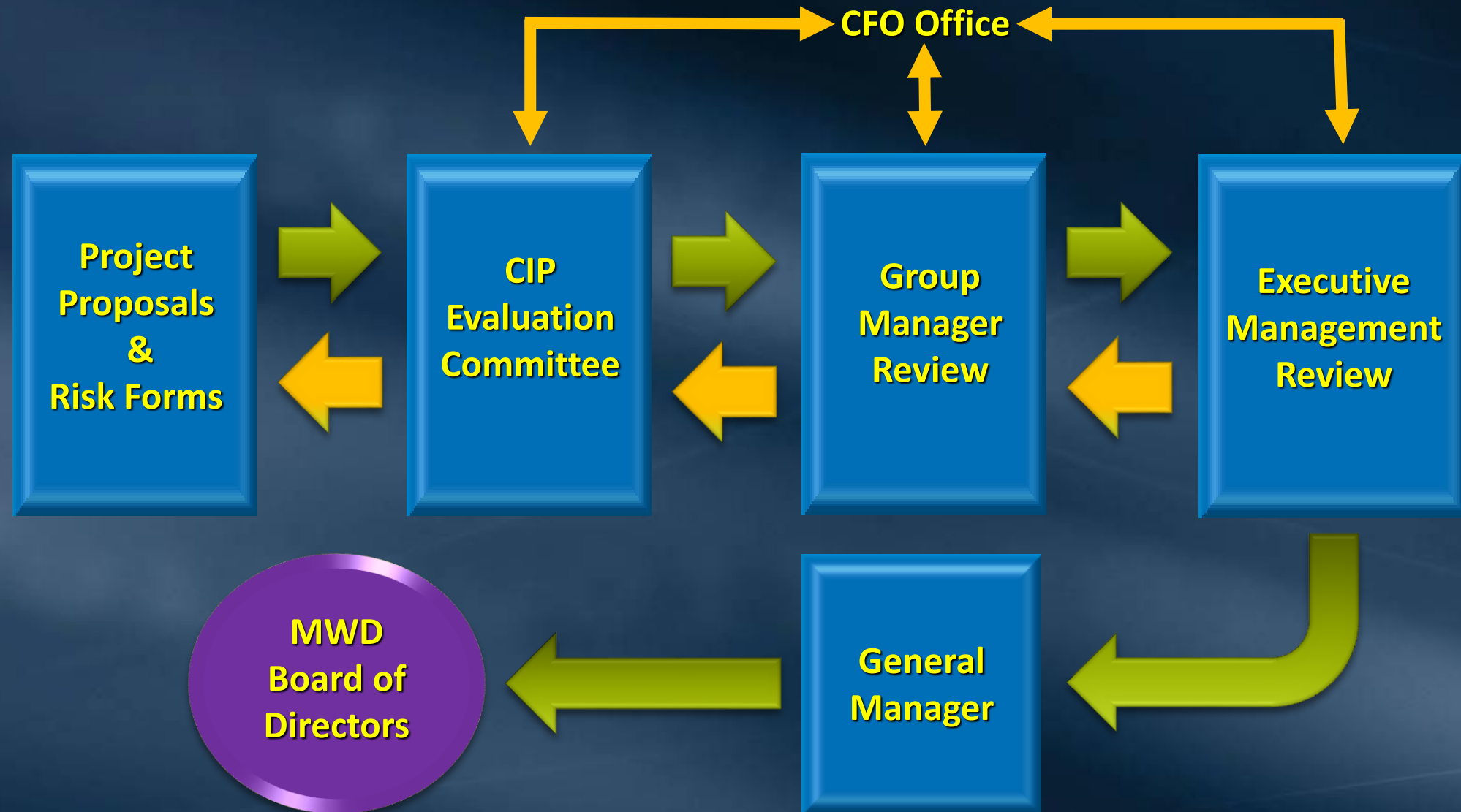
- Implement CIP R&R Projects

Partner

- Develop Project Labor Agreement



CIP Development Process

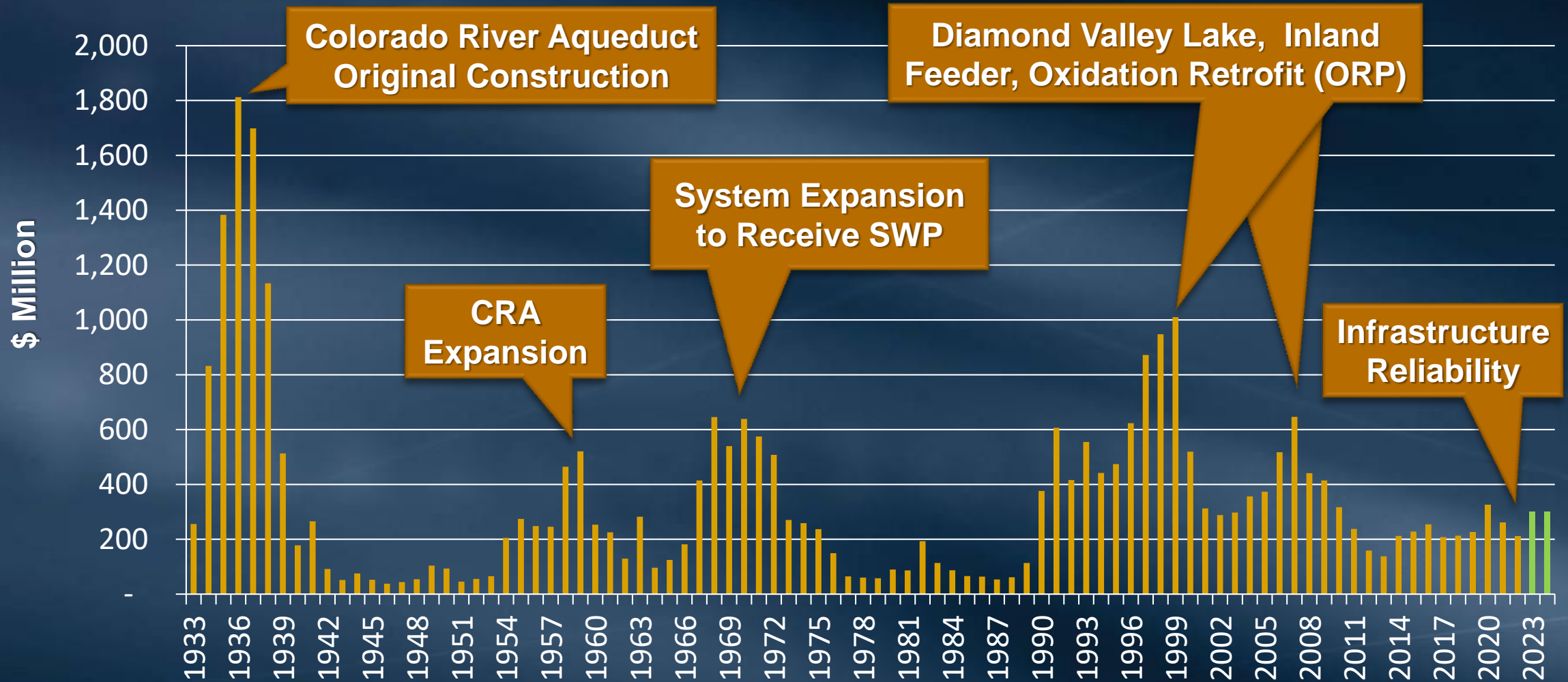


Project Evaluation & Scoring

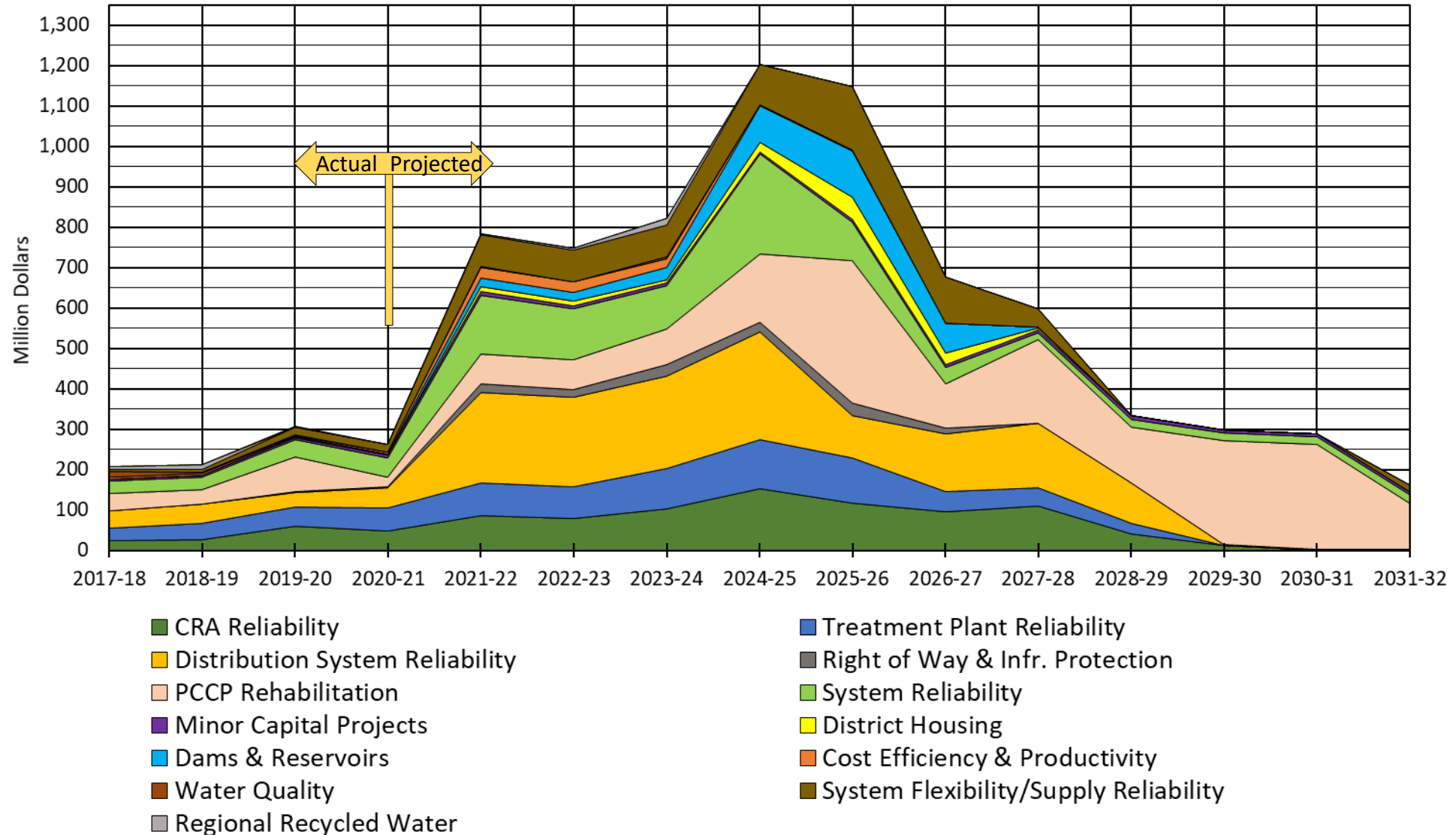
- Prioritizing projects primarily to meet service demands
 - Infrastructure/process reliability
 - Regulatory Compliance
 - Safety/Security
 - Equipment/Software Replacements
- Other projects
 - Cost efficiency & productivity (e.g., battery energy storage)
 - Stewardship (i.e., energy mgmt., DVL recreation,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

Historical Capital Expenditures

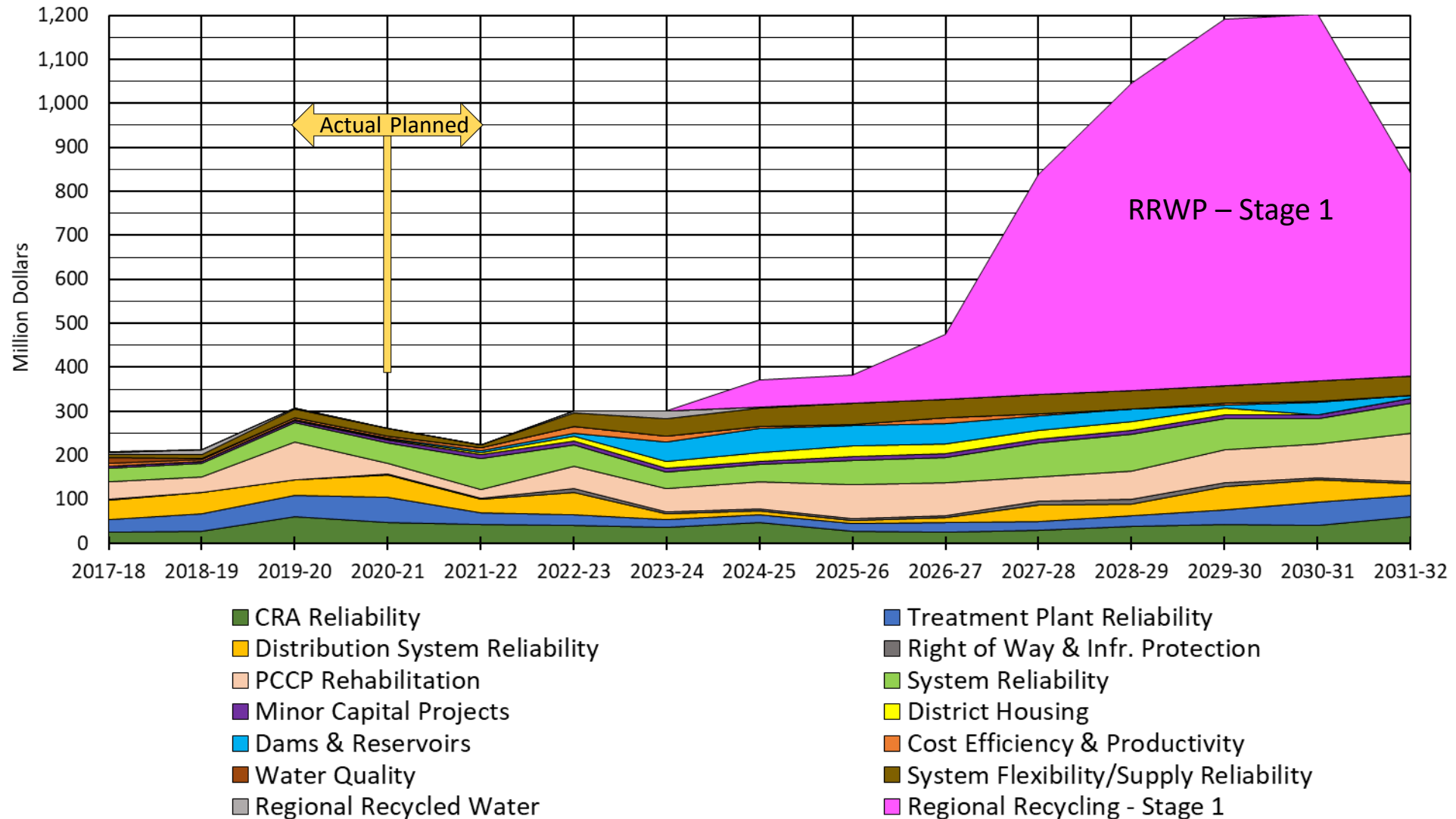
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Recent & Projected CIP Expenditures by Program



Recent & Planned CIP Expenditures by Program



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

Programs

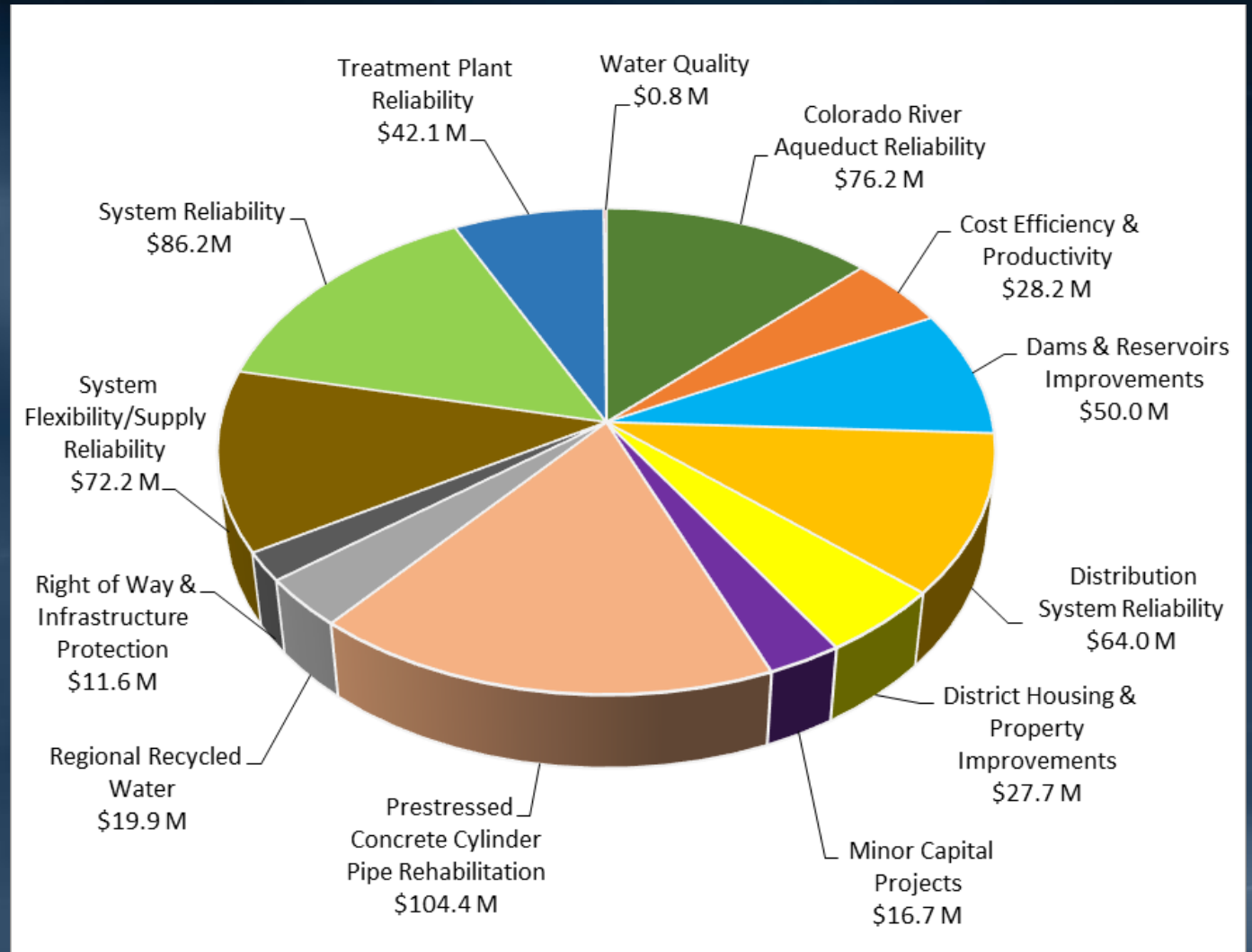
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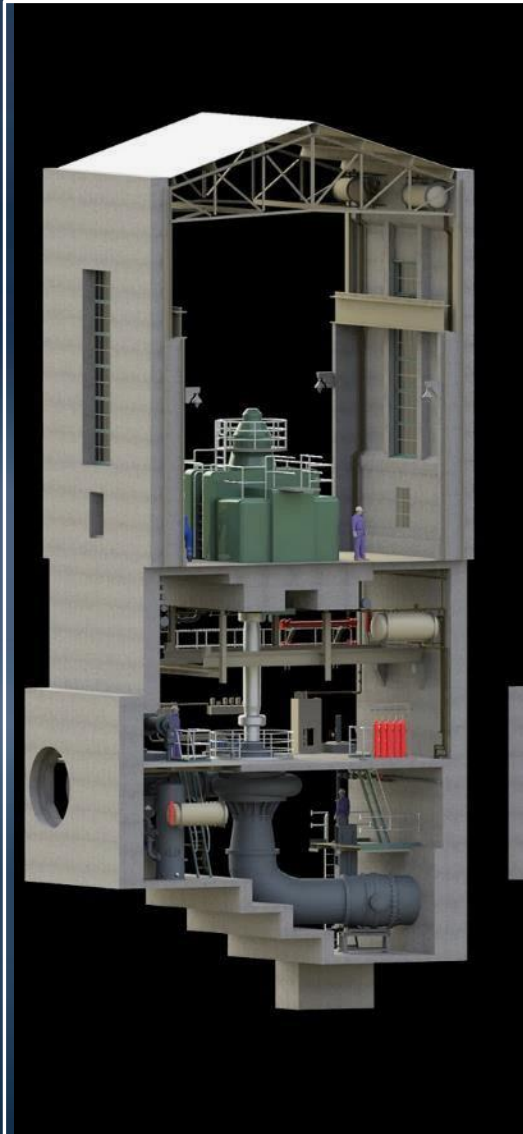
Projects

450*

* Excluding Minor Capital Projects



CIP Highlights for Next Biennium



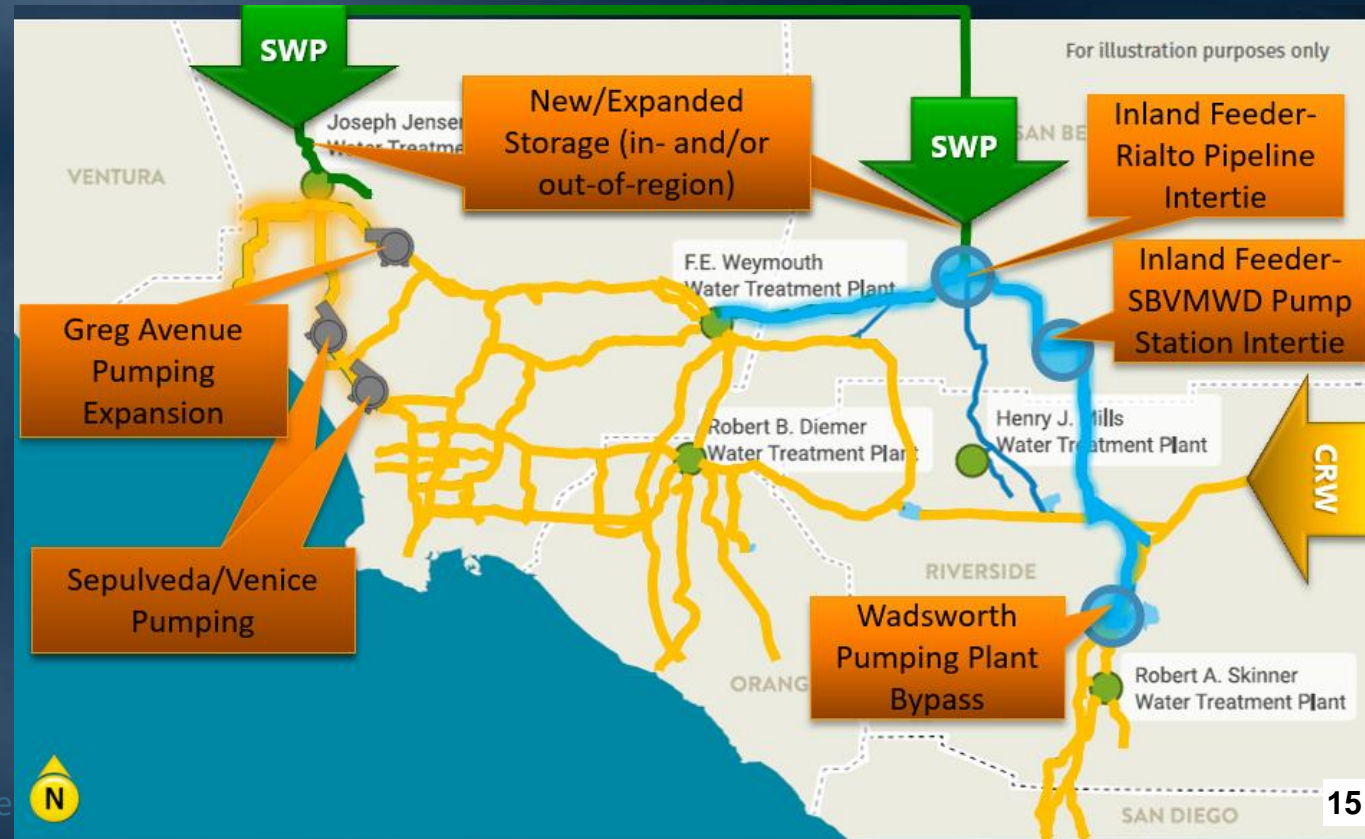
System Flexibility/Supply Reliability

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

- Planning Efforts

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

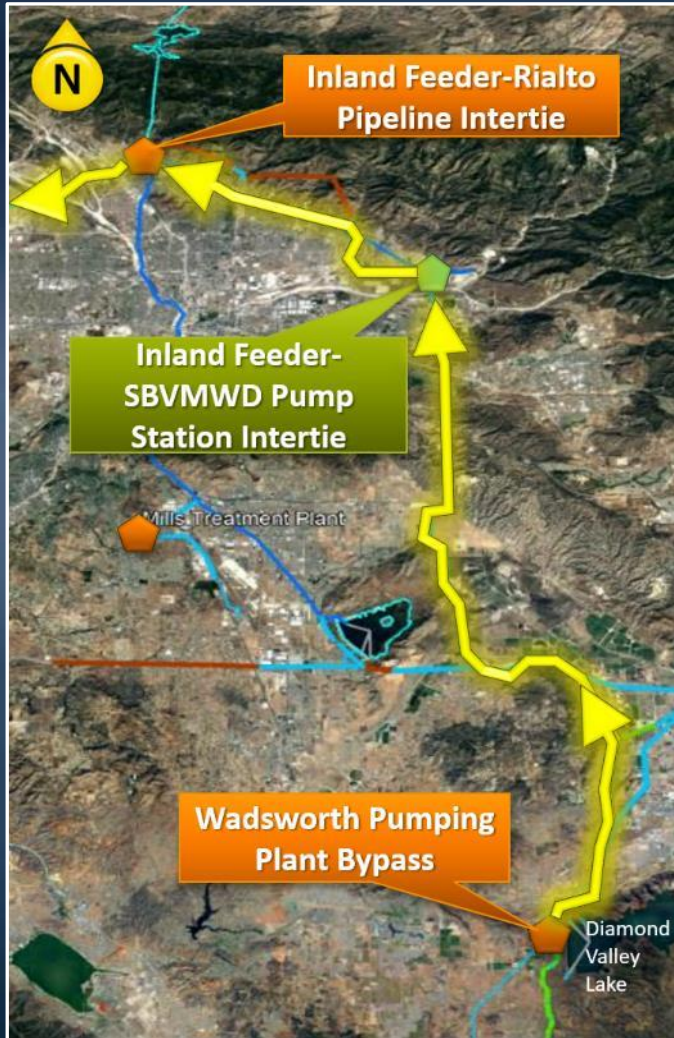
- Planned Expenditures:
\$72 M



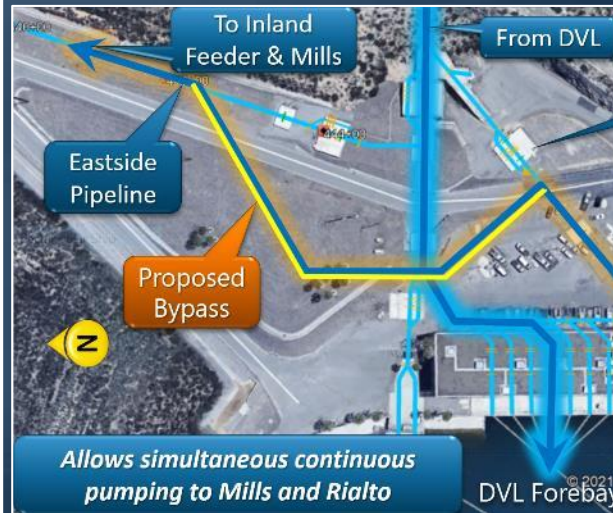
Drought Action Planning and Development

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



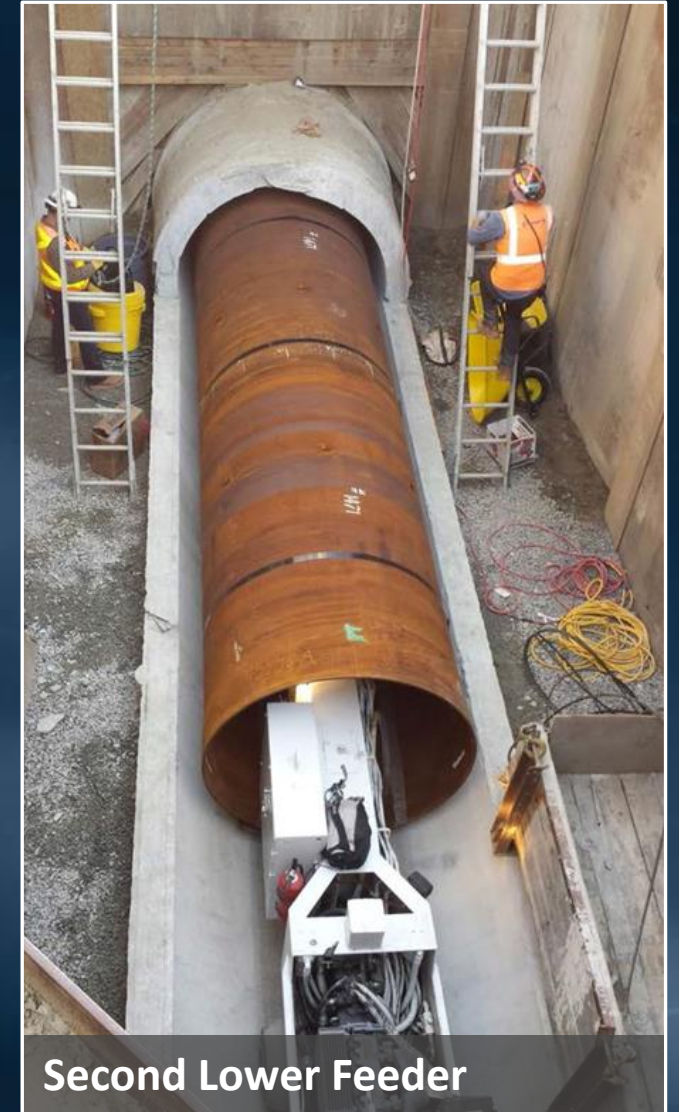
CRA Main Transformer Refurbishment

PCCP Rehabilitation

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



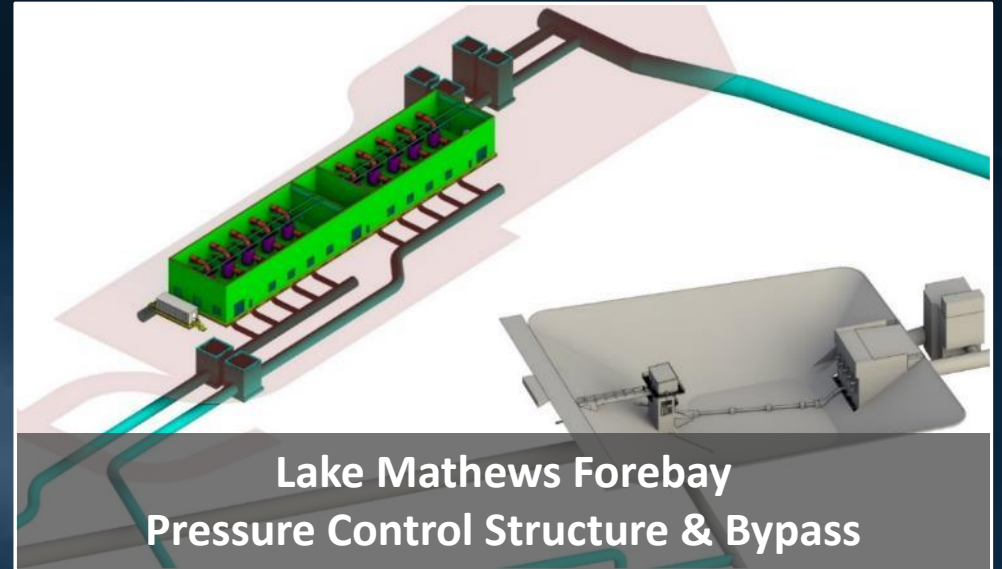
Sepulveda Feeder



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

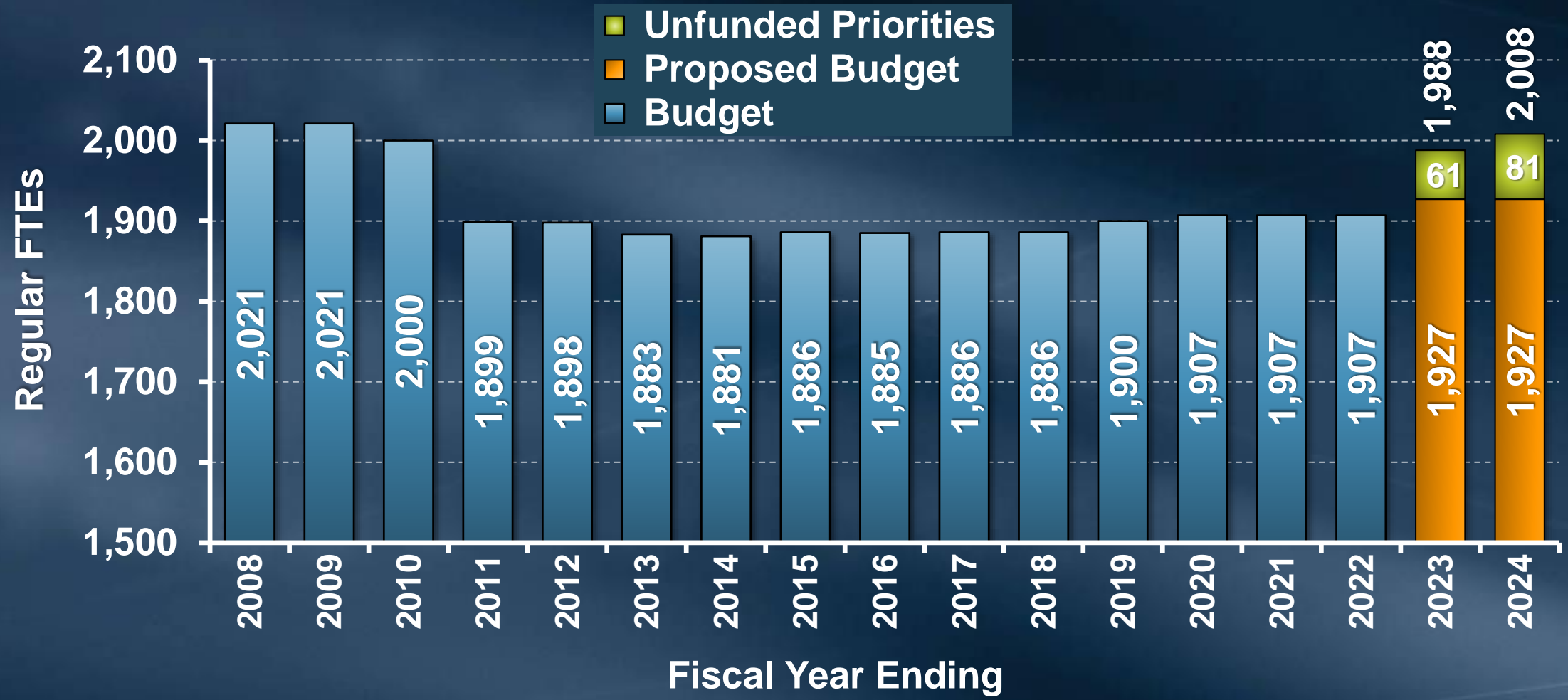
Unfunded Priorities

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

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

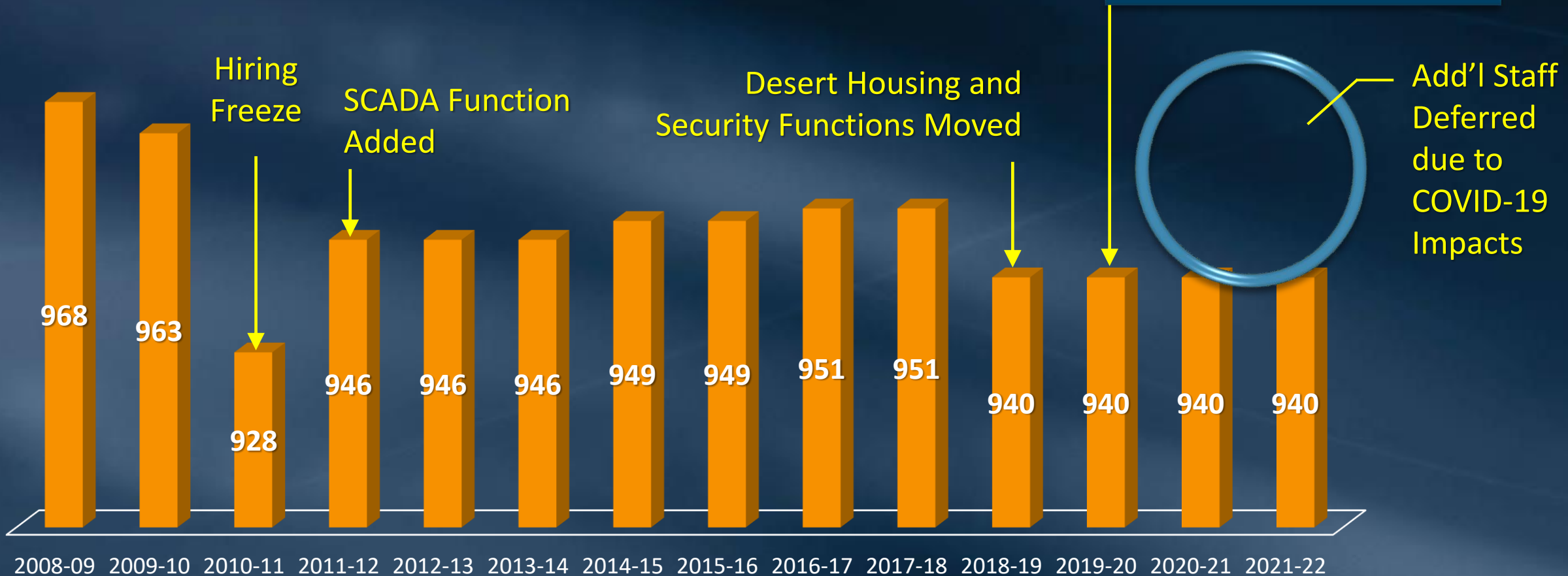
- 23 new positions requested
 - 6.5% staff increase over current levels
 - Hiring spread over biennium
 - 22 positions funded by CIP
 - 1 position funded by O&M

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

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.

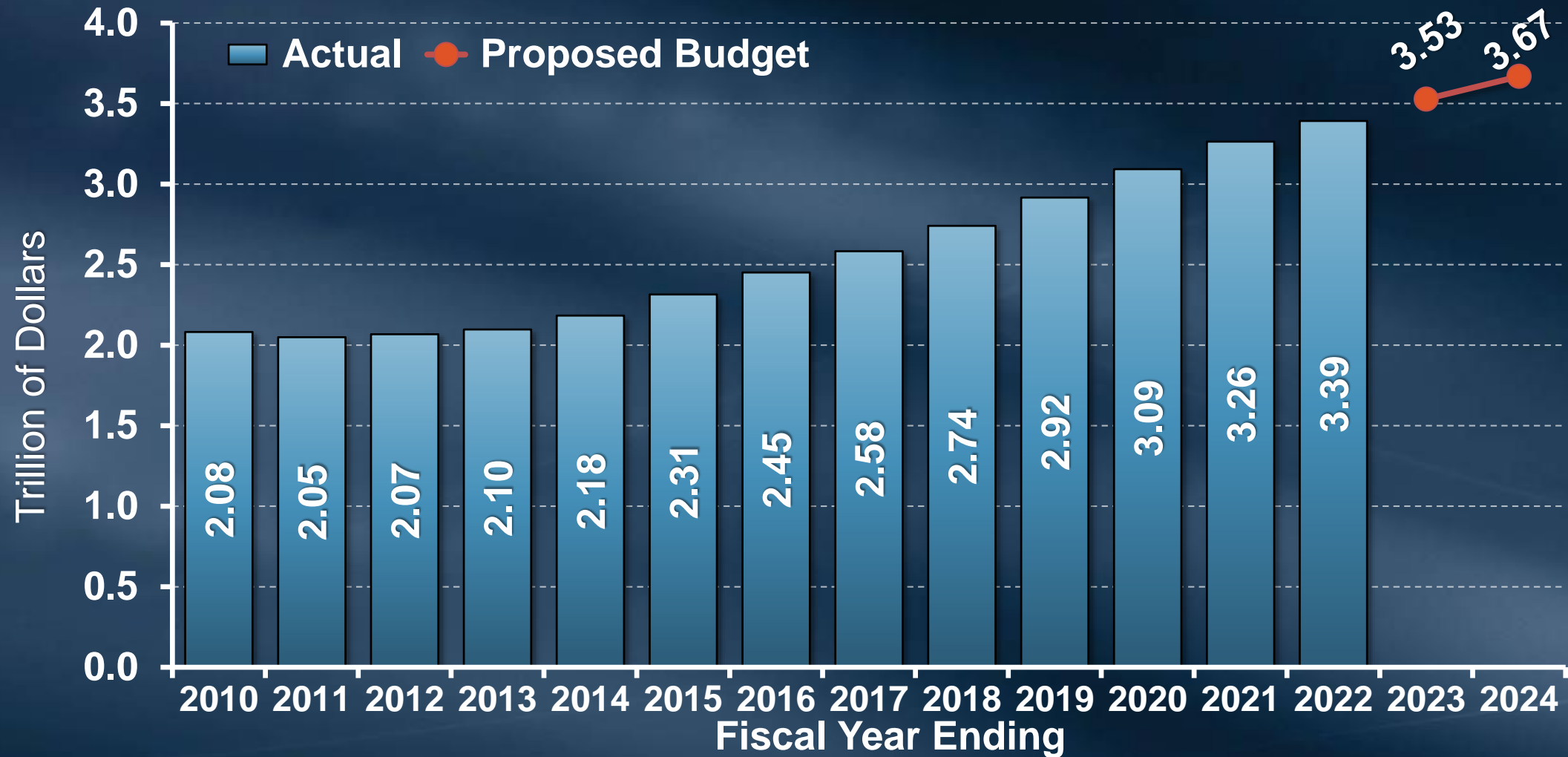
The target reserve level provides an additional 2 years of rate protection.

Question #2

More information on property tax revenues

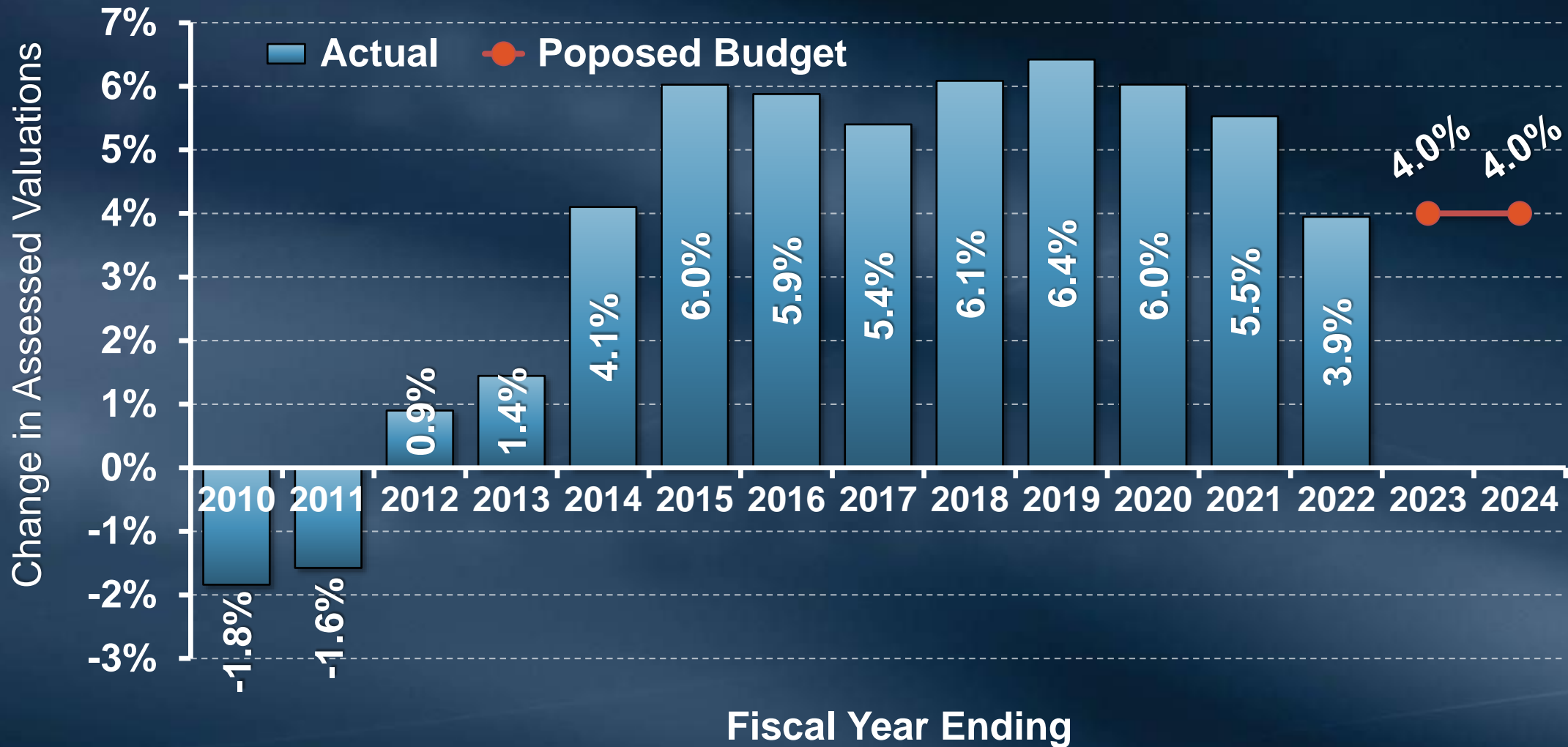
- Last year's actual property taxes collection was \$161 M.
- The proposed budget includes estimated property taxes of \$163 M for FY2023 and \$168M for FY2024.
- Prior budgets included a conservative estimated increase in assessed valuation of 2.5% per the direction of the 2012 Rate Refinement Group.
- 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

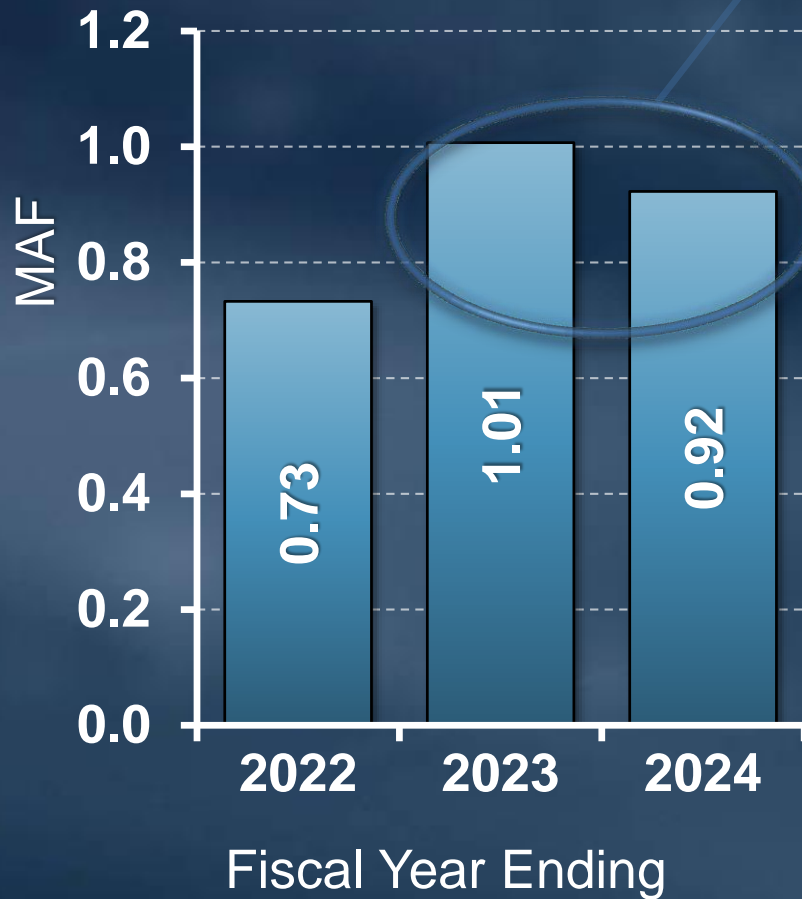
FYE	Diversions (TAF)	Hoover, Parker & Fixed Costs (\$M)	Supplemental Power & Variable Costs (\$M)	Total (\$M)
2022	733	23.9	\$33.7	57.6
2023	1,007	23.1	82.8	105.9
2024	923	24.1	61.5	85.6

- 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

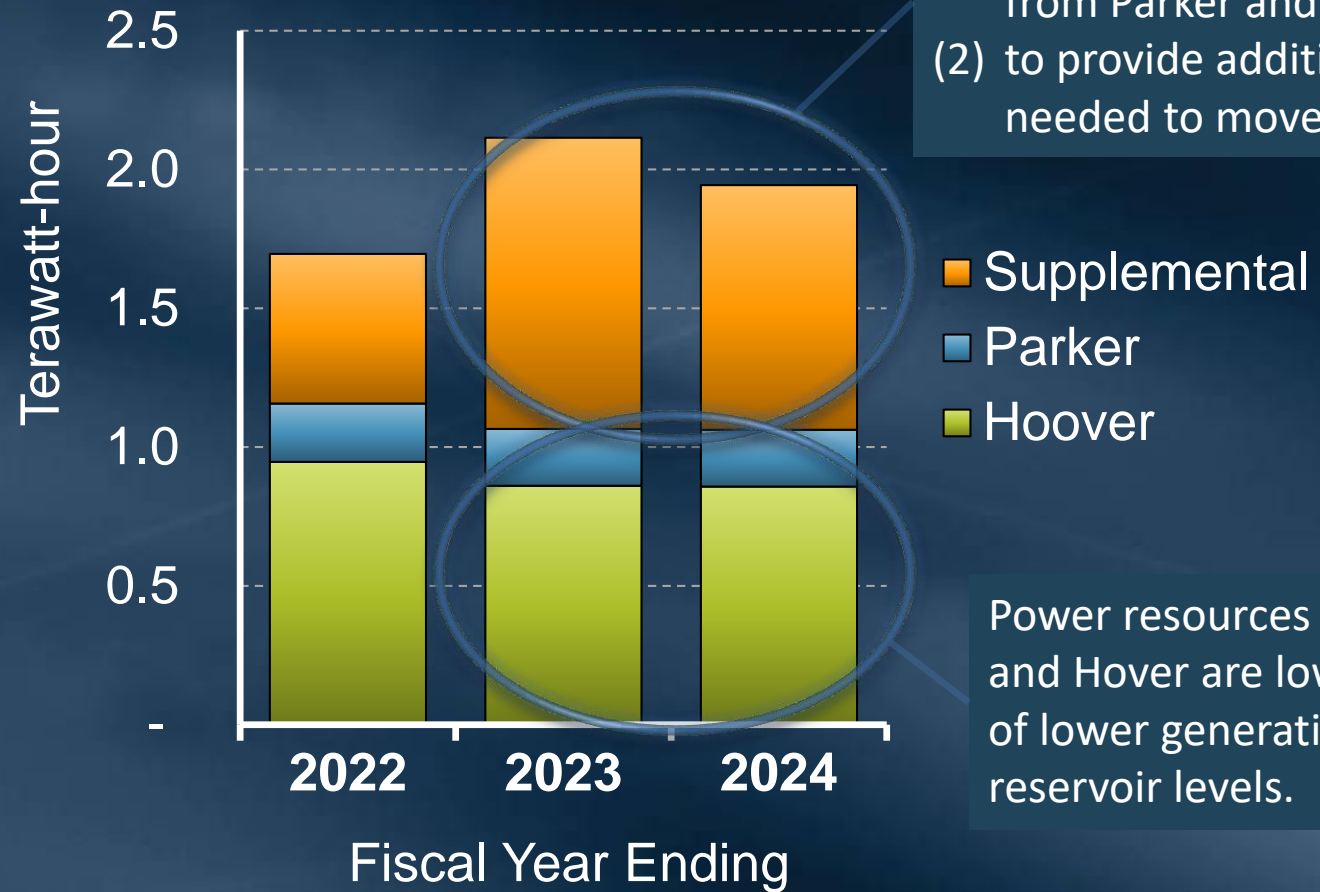
CRA Power

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

Diversions



Power Resources



Supplemental resources increase (1) to make up for lower supplies from Parker and Hoover (2) to provide additional power needed to move high diversions

Power resources from Parker and Hoover are lower as a result of lower generation due to low reservoir levels.

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
Transactions by Treatment Type		
Treated Firm Transactions	770	780
Untreated Firm Transactions	541	482
Untreated Exchange	279	278
Total Transactions	1,590	1,540
Firm Transactions by Type		
Tier 1	1,311	1,262
Tier 2	-	-
Total Firm Transactions	1,311	1,262

- 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



February 19, 2022

MEMBER AGENCIES

Carlsbad
Municipal Water District
City of Del Mar
City of Escondido
City of National City
City of Oceanside
City of Poway
City of San Diego
Fallbrook
Public Utility District
Helix Water District
Lakeside Water District
Olivenhain
Municipal Water District
Otay Water District
Padre Dam
Municipal Water District
Camp Pendleton
Marine Corps Base
Rainbow
Municipal Water District
Ramona
Municipal Water District
Rincon del Diabolo
Municipal Water District
San Dieguito Water District
Santa Fe Irrigation District
South Bay Irrigation District
Vallecitos Water District
Valley Center
Municipal Water District
Vista Irrigation District
Yuima
Municipal Water District

**OTHER
REPRESENTATIVE**

County of San Diego

Katano Kasaine
 Assistant General Manager, Finance and Administration
 Metropolitan Water District of Southern California
 P.O. Box 54153
 Los Angeles, CA 90054-0153

RE: MWD's Proposed biennial budget for fiscal years 2022/23 and 2023/24; proposed water rates and charges for calendar years 2023 and 2024

Dear Katano:

As discussed at last month's finance committee meeting, attached are our initial questions and comments on the proposed 2023 and 2024 budget and rates. In addition to these comments, Director Miller requested that the budget document include actuals for fiscal year 2020/21 and projected actuals for fiscal year 2021/2022 in all summary tables comparing what is proposed for fiscal years 2022/23 and 2023/24 to the 2021/22 budget. This information will be extremely helpful in assessing our recent trends and how past budget projections compare to actuals.

We also requested at the last board meeting that the General Manager provide a schedule for the strategic planning meetings referenced in the budget transmittal (top of p. 4)¹ including Integrated Resources Plan, rate refinement and cost of service and long-term financial plan. Director Fong Sakai suggested that we add to this list MWD's Climate Action Plan, which should also be integrated with these other planning processes. We hope this schedule will be available by Tuesday so that we have the benefit of better understanding as we deliberate the budget how management will integrate these processes and the timeline for doing so.

Thank you very much and we look forward to our workshop next week.

Sincerely,



Lois Fong Sakai
 Director



S. Gail Goldberg
 Director

//S//

Marty Miller
 Director



Tim Smith
 Director

cc: Adel Hagekhalil, MWD General Manager

¹ All references in this letter and attachment are to the February 8, 2022 Board Memo 9-2 unless otherwise indicated.

Water Authority MWD Delegation's Initial Budget and Rates Questions

Actions to Reduce Expenditures and Short-Term Rate Impacts

- 1) It is our understanding from the budget memo (Table 2: Initially Projected Expenditures at p. 6) that there is no proposed reduction of the previously adopted budget; rather, the “cuts” described (Table 3: Proposed budget actions to reduce rate impacts) are solely to reduce the amount of the increases staff would have presented, i.e., from an 18% increase to a 10% increase. Was there any effort taken to identify actions that could be done to reduce expenditures authorized by the board in the last adopted budget? If so, please provide the details of that effort and potential cost savings that were identified but not recommended by management. Also, the Board approved a “no unfunded cost increase” requirement in last year’s budget; please provide a list of all unfunded costs that were incurred for the current budget.
- 2) The budget memo states that the Board requested staff to budget and set rates “at a level lower than full cost recovery” during the last budget cycle (bottom of p. 7). What requests are being referred to by this comment? We are aware that staff recommended that the Board not impose the Water Stewardship Rate and instead recover demand management costs from reserves rather than allocate and recover those costs as a supply charge. Was there any other action taken by the board or requests of staff to set rates at a level that would not ensure full cost recovery? If so, please identify those actions.
- 3) We do not recall the board being advised that staffing levels were inadequate or that management believed our operations had become “too reliant on overtime and temporary employees” (top of p. 8). In fact, during the last discussion we had while searching for potential cost savings due to COVID, we were told that the annual \$7 million in “succession planning” included employing two people in some positions for an extended period. Your memo states that it is “clearly apparent that there is a need for additional staff” (top of p.8). Please provide the details of management’s assessment supporting this statement and need for 141 new positions as well as a breakdown of the positions between: 1) the 20 new positions and 12 new temporary positions included in the draft budget; 2) the 80 new positions recommended by the General Manager to be added to the budget; and 3) the remaining 41 positions (leaving aside the temporary positions) management is not recommending be filled at this time. Also advise and provide analysis on how the addition of the new positions will reduce overtime and number of temporary employees. We assume there is documented management review and assessment supporting these recommendations, and we would appreciate receiving this as soon as possible since it is a very important and impactful issue in our consideration of the proposed budget.
- 4) The memo states that succession planning is “ongoing;” please identify the costs of that program included in the proposed budget and whether it still involves having more than one employee filling any position for a period longer than 60-days.
- 5) Most of the budget actions to reduce rate impacts propose to use debt to finance expenditures that were initially planned to be funded with current rates, including supply program (would have been funded by supply rates), conservation programs (historically funded by water stewardship rate and now supply rates), and Capital Investment Plan (CIP) (reducing pay-as-you-go funding level). Similarly, using the WaterFix refund reserves to fund the tunnel project does not actually represent any cost reduction, just a change in how it is paid for. While these actions will provide current rate relief, they also increase the cost of these projects over the long run, and that cost

should be reported in the budget analysis and taken into account in terms of long-term impacts on future budget and rates.

- 6) The reduced use of PAYGo funding has a similar impact of shifting current costs to future generations. We are anxious to begin work on a long-range finance plan so that the board can better understand the impacts of current decision-making on future generations, including long-term rate impacts. For now, please identify where PAYGo was set in the last budget and how that PAYGo was applied. As you know, in many prior years PAYGo that was collected and planned to be used to pay current CIP costs was later needed and used to pay current operating costs, with the differential necessary to pay CIP costs being made up by the issuance of unplanned debt (again, increasing the long-term cost of these projects).
- 7) We strongly support the continued emphasis on the water Conservation Program; however, it is not accurate to describe that MWD is *increasing* the spending this year. The current budget already included funding at \$43 million annually and for the ten-year forecast. Footnote 3 of the Fund Summary table from the [current budget](#) expressly states that Demand Management “includes conservation estimated expenditures of \$25M. The conservation appropriation is \$43M.” The only change is that now, staff is proposing to pay these current supply costs by borrowing money rather than reducing expenditures. Our concern is that if we are having difficulty paying for these and other programs now out of current revenues, it does not bode well for future budgets and planned projects. We are concerned for the same reason about asking to potentially shift an additional \$7 million in conservation costs to debt financing and would again ask that staff instead explore ways to reduce other expenditures to pay for these vital conservation measures.

Water Sales Trends

One of the key budget assumptions (middle of p. 5) states that, “[w]ater transactions include water sales, exchanges and wheeling, which can be greatly impacted by hydrologic conditions.” While this statement is true about MWD’s volumetric sale of water, it is not true as related to its delivery of the Water Authority’s exchange water, which is based on a fixed, agreed-upon schedule. We have requested many times that MWD reverse the change it made in its financial reporting to begin describing water “transactions” as opposed to its earlier practice of reporting MWD water sales.¹ While water wheeling and exchange deliveries are an important source of revenue for MWD, there are important differences between MWD water sales revenue and wheeling/exchange revenue, including that wheeling revenues under the Exchange Agreement are for all practical purposes a fixed source of revenue for MWD.

We appreciate that staff has adjusted for the downward trend in projected demand for MWD water. However, it is important to bear in mind in reviewing the budget that the “water demand” numbers for FY 2023 and 2024 include 280,000 AF of Water Authority water; adjusting for this factor, demand for MWD water would more accurately be stated as 1.31 and 1.26 MAF, respectively. This

¹ Prior to 2016, staff distinguished between water sales revenue and other revenue, but beginning in FY 2016 staff combined MWD water sales revenue with the Water Authority’s water delivery revenue as MWD “sales.” In FY 2018, MWD staff changed the reporting to describe “transactions,” combining water sales and delivery revenues and in FY 2019 it began to at least break out the categories included as “transactions.” MWD had taken the position in litigation that its delivery of water to the Water Authority constituted the sale of MWD water, but that contention has now been finally adjudicated. Revenue received by MWD for the delivery of the Water Authority’s exchange water is just that, payment for transportation not the sale of water by MWD.

fact is especially important not only when comparing current to historical water sales, but also when planning for long term trends which will hopefully be part of the ongoing IRP and long-range financial planning efforts. These trends are also very important when assessing the overall budget including consideration of how it might be reduced rather than increased to better match anticipated long term trends. We appreciate that the General Manager has identified this budget as a “transition” budget, but we must all be wary of increasing costs and expenditures at the same time we are projecting lower water sales in the future and with what we are transitioning to not yet known or established by the board of directors.²

State Water Contract (SWC) Costs

We appreciate State Water Project costs in the budget draft better reflect recent hydrologic conditions than presented in prior budgets. Related to the costs associated with the SWC on page 171 of the [updated proposed budget dated February 10](#), the per acre-foot SWC power costs for FY 2022/23 are 84% higher than those assumed in the fiscal year 2021/22 budget and almost 190% higher than they actually were in FY 2020/21. This increase is being attributed to higher market prices; *please provide the data relied on to support this power cost trend and budget request*. Director Sutley also asked this question at last month’s committee meeting when the budget was first presented.

The SWC budget also includes almost a 35% increase for Delta Water Charge capital costs, which includes non-reimbursable Oroville Spillway repair expenditures. What are the details causing the increase in Delta Water Charge capital costs and what share (in dollars and percent) of the increased costs are due to the repair expenditures?

Shift of Current Supply Costs to Debt

Has staff reviewed with bond counsel its proposal (including the complete list of projects) to bond finance conservation and other current water supplies, and if so, did bond counsel provide any guidance or express any concern?

What is the assumed life of the conservation and other water supply programs that are proposed to be bond funded? How does this useful life compare to the term of the proposed bond issuance? Also, please confirm that funding these water supply programs by debt instead of current revenue will not have any impact on how MWD allocates and recovers these costs in its rates.

² This is by no means a criticism of MWD; indeed, the Water Authority board and staff and member agencies have devoted substantial time and effort over the past two years to identify and take cost reduction measures to address the reduced demand for water in the Water Authority’s service area. Per capita potable water use in the Water Authority’s service area has declined from 235 gpcd in 1990 to 124 gpcd in 2017. Sales to our member agencies declined from over 600,000 AF in 2008 to about 365,000 AF in 2020, or by almost 40%. The projected drop in demand for MWD water could in fact be greater than projected in the current budget proposal consistent with the continued downward trend we have been seeing for many years and which will be increasingly difficult to manage in the future. For a thoughtful discussion of the challenges facing both Water Authority and MWD see [Report to San Diego LAFCO, Fallbrook and Rainbow MWD Wholesaler Reorganization, Professor Michael Hanemann, December 31, 2021](#). This report was prepared in response to pending proposals to annex two Water Authority member agencies into Eastern MWD in Riverside County and contains extensive discussion about the “governance” and rate challenges both Water Authority and MWD are and will be facing.

Capital Investment Plan (CIP)

First, we appreciate the change in this proposed budget to plan to fund 100% of planned CIP spending in order to (hopefully) avoid further unplanned debt issuance such as has frequently occurred with past budgets when rates were set at 80% of CIP spending.

Second, while we appreciate and fully support the need to implement projects to reduce system constraints for the State Water Project exclusive areas, the budget document does not explain why the proposed biennium CIP is increasing by \$100 million, or 20%, or how this number relates to the SWP exclusive area.³

We suggest that management establish accounting mechanisms so that, if MWD is successful in securing outside funding, current and future rates may be adjusted in a manner that is transparent and fair to all ratepayers.

Has a value engineering analysis been conducted on MWD's plan to address aging infrastructure? Given an ongoing and increased focus on repair and refurbishment over the past few budget cycles, we request an update on what has been accomplished so far and at what cost, along with an estimate of the total remaining work and the time period over which that work is planned to be completed.

Has MWD performed a risk-based, cost/benefit analysis on its CIP to ensure it is working on its most critical projects? If so, please provide the criteria used in this analysis. Based on MWD's analysis in whatever form, has staff considered whether some projects could be deferred in order to prevent a 20% increase to this biennial CIP? Leaving aside the SWP exclusive area as presenting an extraordinary circumstance that was neglected in the past (although unknown to many board members), it is unlikely that all of the projects in the CIP present the same level of urgency. Again, we request staff analysis so that we can better understand the thinking given the impact on rates and affordability.

The proposed budget only includes planning costs for the Regional Recycled Water Program (RRWP), while the 10-year rate forecast includes the sum of projected capital and O&M costs for the implementation of the RRWP. Please add the specific O&M and capital costs (in dollar amounts) to the 10-year forecast summary table on page 216 of the updated proposed budget dated February 10.

What costs are included in the Capital Investment line item in the summary tables on pages 20 and 21 of the updated proposed budgets dated February 10? These costs (\$381.4 million and \$389.0 million for FYs 2022/23 and 2023/24, respectively) do not add up to the proposed annual CIP costs of \$300 million, the addition of debt funding annually \$18 million of conservation programs and the debt funding costs for the High Desert Water Bank (\$38.4 million and \$46.0 million for FYs 2022/23 and 2023/24).

Operations and Maintenance (O&M) Cost

Has management done an assessment of current positions to determine if some existing positions might be repurposed to support current priorities? Are the positions being requested under the

³ Our December 2021 action authorized \$24.5 million in funding and MWD's December 10, 2021, letter to Governor Newsom stated that \$52 million of the \$552 million funding request was to address SWP system constraints.

proposed budget and the pending additional 80 positions described on page 8 of the board letter needed in order to meet long-term, rather than short-term needs? Are there any outside professional services that will be reduced as a result of the new FTEs under either of these staffing levels? Also, how many of the proposed positions are requested in anticipation of implementation of the Delta tunnel and RRWP?

MWD's current staffing level is around 1,855 employees—almost 120 employees below the proposed budget and about 20 employees less than at the close of the last biennial budget. What is the assumed vacancy rate in the budget and how is that reflected in the proposed salary and benefit costs? Does management have a recruitment plan on how it plans to fill the proposed budgeted 1,974 positions and if approved, the 80 additional positions? Given known factors affecting this employment market, we believe it will be difficult if not impossible to fill staffing at this level even if approved by the board; when does the budget assume these positions will be filled?

Rates and Charges

The proposed budget states, “all demand management costs are functionalized as supply and collected on the Tier 1 and Tier 2 supply.” What amount (in dollars) of demand management costs is allocated to the Tier 2 supply rate? If no Tier 2 sales occur, as is assumed in the budget, how will these demand management costs be recovered? If there are no demand management costs allocated to the Tier 2 supply rate, then please update the budget and cost of service report to correctly reflect that demand management costs are being fully allocated and recovered in the Tier 1 supply rate.

Staff indicates that 1% of the proposed 2023 “overall” rate increase is driven by the proposed rate increases being implemented in the second half of FY 2022/23. Staff reported that we closed fiscal year 2020/21 with net revenues of \$193.7 million—in a stronger position than planned in our current biennial budget. Earlier this month, staff reported that expenditures and revenues are tracking on budget for this fiscal year. What has changed that requires this 1% catch-up? This is a material factor that should be accounted for to potentially avoid the additional 1% rate increase.

10-Year Forecast

We appreciate the commitment of the General Manager to begin work on a long-range finance plan as part of the integrated planning processes described in the board memo. In the meantime, we request a section be added to the current proposed 10-Year Forecast for “Debt Structure and Principal Amortization,” with 1) information and charts showing long-term outstanding debt and best service payment schedules; 2) “Significant Debt Program Assumptions”; and 3) “Schedule for Future Debt Issuance.” This was requested last budget cycle, but was not implemented; we think this would be especially helpful now as the board considers increasing debt in lieu of necessary rate increases to pay costs originally expected to be paid from current revenues. This information is readily available and will increase transparency of our budget deliberations.