

Proposed Biennial Budget for FYs 2020/21 and 2021/22; Proposed Water Rates and Charges for Calendar Years 2021 and 2022; Overview of Rates & Charges; Ten-Year Financial Forecast

Workshop #2

Finance & Insurance Committee
Item 6a
February 25, 2020



Proposed Biennial Budget Workshop #2

Presentation Overview

- Follow-up from Workshop #1
- Q&A Discussion
- Next Steps

Rate impact of higher Capital Investment Plan expenditures

CIP Appropriation	Percent Completed	CIP Expenditures	Overall Rate Increase 2021 and 2022
\$500 M	90%	\$450 M	5.0%, 5.0%
\$500 M	100%	\$500 M	6.0%, 6.0%

- Proposed Budget assumes CIP expenditures will be 90% of planned spending as recent changes in the capital appropriation process streamlined capital appropriations, expediting capital project expenditures.
- 60% PAYGO funding
- If 100% of the \$500M CIP could be completed, costs would increase ~\$16 M/yr, overall rates and charges would increase about 1% per year.

Potential Rate impact of increased costs

- \$100M increase in O&M costs
 - FY 2021 Revenue Requirement = \$1,644 M
 - $100/1644 = 6.1\%$ overall rate impact
- \$100M increase in capital costs
 - Financed with 30-yr, fixed rate debt at 4%
 - Annual debt service cost = \$5.8M
 - FY 2021 Revenue Requirement = \$1,644 M
 - $5.8/1644 = 0.35\%$ overall rate impact

When setting rates and charges many other factors should be considered including funding sources, debt limits, required reserves, COS and financial policies such as coverage targets.

Why is the Treatment Surcharge increasing from 2020 to 2021?

(part 1-3)

- Treatment Surcharge is proposed to increase from \$323/AF in 2020 to \$351/AF in 2021. An increase of 8.7%.

Treatment Surcharge (TS) Revenue Requirement (million of dollars)

Fiscal Year Ending	2020	2021	change
Variable Treatment Costs	\$ 28	\$ 32	\$ 4
Other Departmental O&M Costs	96	101	5
Capital	120	110	(10)
Operating Equipment	2	2	0
Administrative & General	28	29	2
Offsets	(6)	(4)	2
Net TS Revenue Requirement	\$ 267	\$ 270	\$ 3

- Overall the TS Revenue Requirement went up 1%
- Treated Transactions went down 10%
(884 TAF to 800 TAF)

Why is the Treatment Surcharge increasing from 2020 to 2021?

(part 2-3)

- Variable treatment costs per AF are projected to increase 26%

Variable treatment costs per AF

Fiscal Year Ending	2020	2021	Increase	% Increase	% of Total
Chemicals	\$22.3	\$27.8	\$5.6	25%	68%
Power	7.7	9.7	1.9	25%	24%
Sludge	1.2	1.8	0.6	50%	7%
Other	0.1	0.2	0.1	62%	1%
Total	\$31.4	\$39.5	\$8.2	26%	100%

Why is the Treatment Surcharge increasing from 2020 to 2021?

(part 3-3)

- Significant chemical commodity price increases observed after development of current 2018/19 & 2019/20 Biennial Budget
- Proposed budget reflects actuals plus 3.7% (5-year average increase)
- 3 chemicals make up the main drivers of the chemical cost increase
 - Caustic – restriction of global supply due to new environmental regulations in Europe, anti-pollution initiatives in China, and Hurricane Harvey
 - LOX – increases in power costs, largest expense for producers
 - PolyDADMAC – cost increase due to restricted availability of raw materials and higher transportation costs (fuel & labor)
- Power costs reflect estimate of rate increases from Edison, LADWP & Riverside PU
- Sludge disposal costs increasing due to higher disposal and transportation costs

Q&A Discussion

Next Steps

- March 9, 2020 F&I Committee, Workshop #3: follow up
- March 10, 2020 Public Hearings on proposed water rates and charges and applicability of the tax rate limit pursuant to Section 124.5 of the MWD Act
- March 24, 2020 F&I Committee, Workshop #4: if needed
- April 13, 2020 F&I Committee: Recommend Biennial Budget and Calendar Year rates and charges; Workshop #5, if needed
- April 14, 2020 Board Actions regarding Biennial Budget, Calendar Year rates and charges

