

# Estimated Revenue Requirements, Fiscal Years 2016/17 and 2017/18, and Water Rates and Charges, Calendar Years 2017 and 2018: Workshop #2

Finance & Insurance Committee  
February 23, 2016



## Proposed Biennial Budget Workshop Presentation Overview

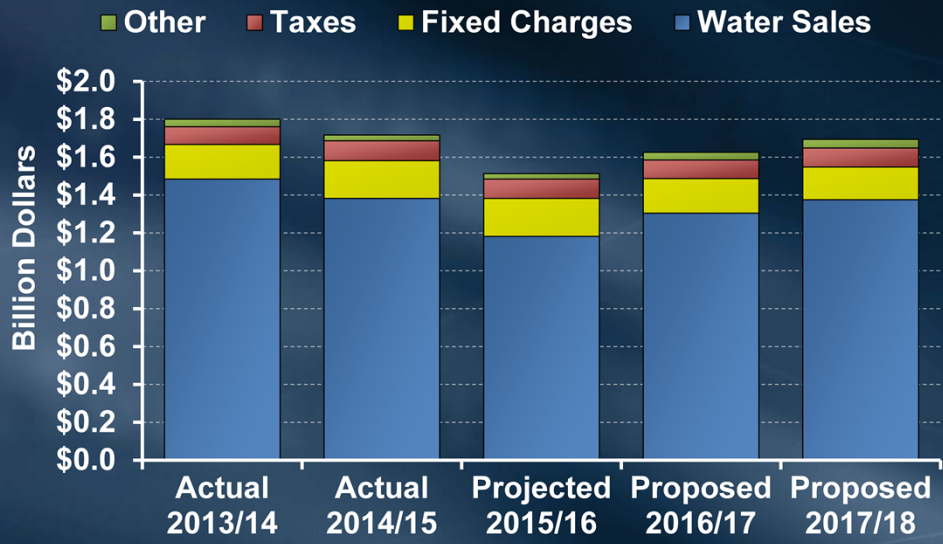
- Follow up from Workshop #1
- Overview of Rates and Charges
  - Revenue Requirement
  - Estimated Rates and Charges
- Treated Water Cost Recovery
- Next Steps

# Follow up from Workshop #1

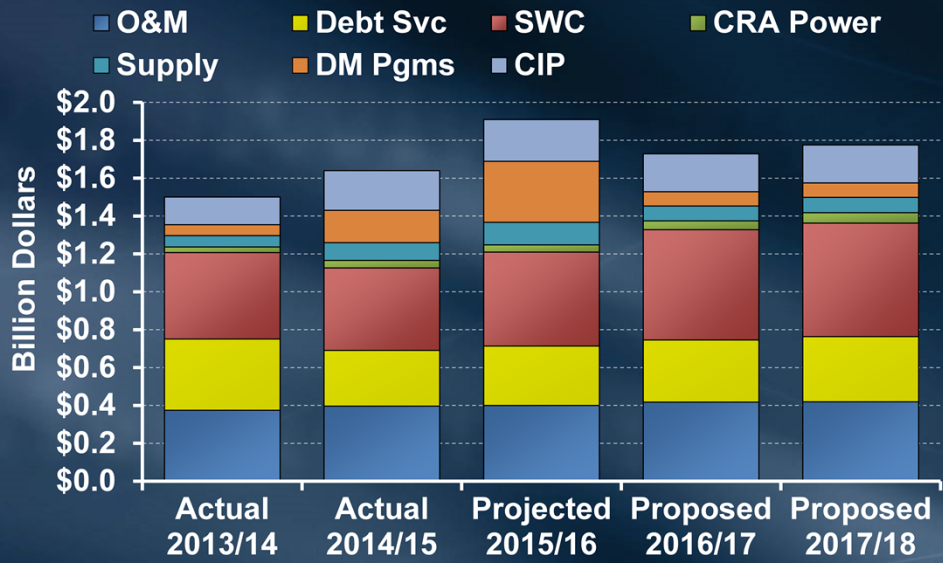
# Question #1: Actuals and Budget Trends



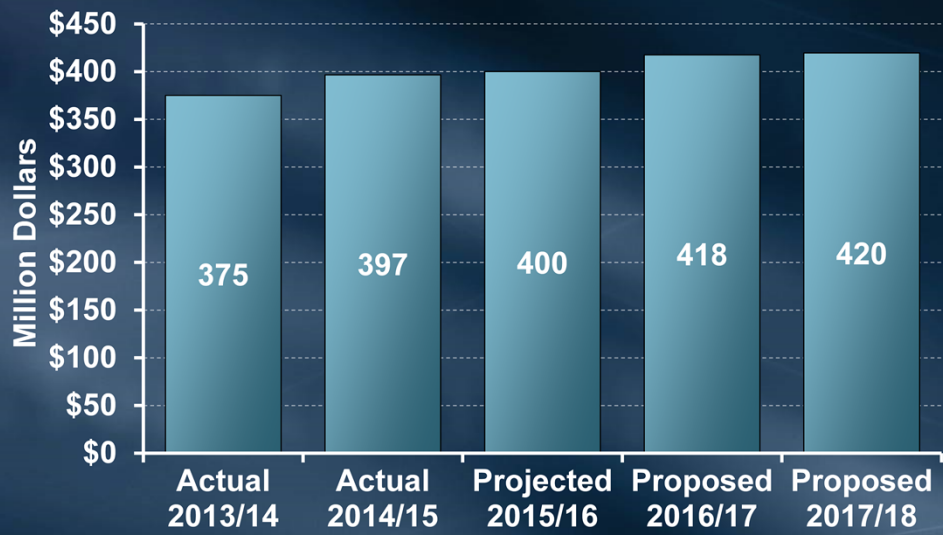
# Revenue Trend



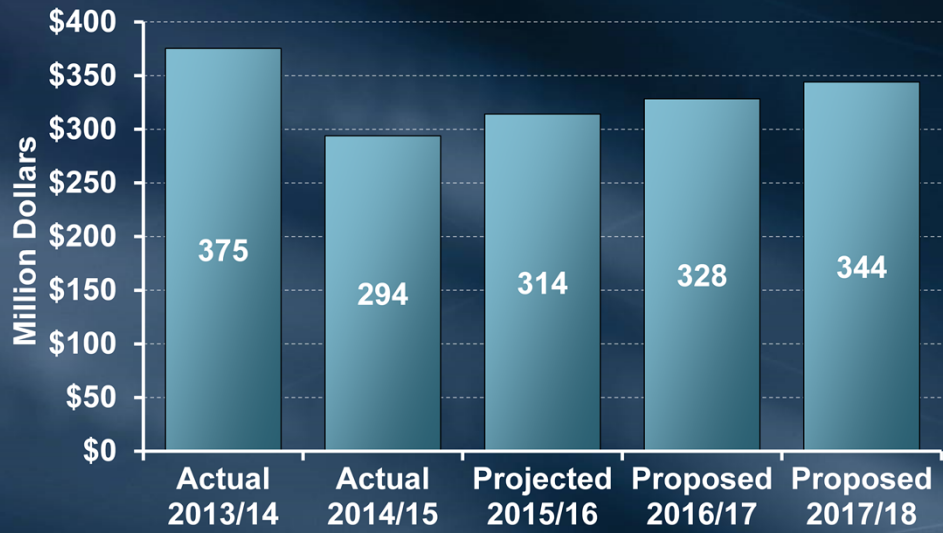
# Expenditure Trend



# O&M Expenses



## Debt Service Expenses\*



\* \$34M shifted from FY2015 to FY2014; early payment as part of refunding.

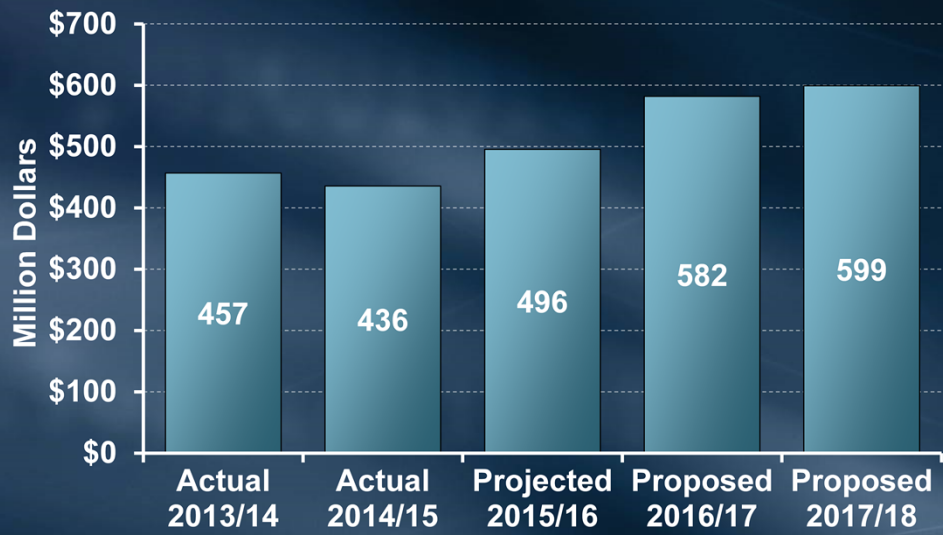
F&I Committee

8

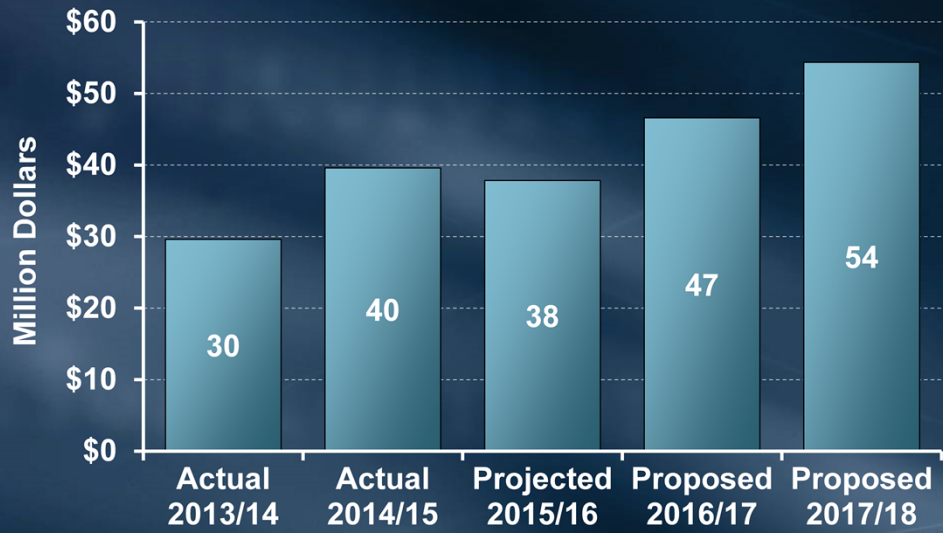
February 23, 2016

\$34M July 1, 2014 payment made as part of May 2014 refunding

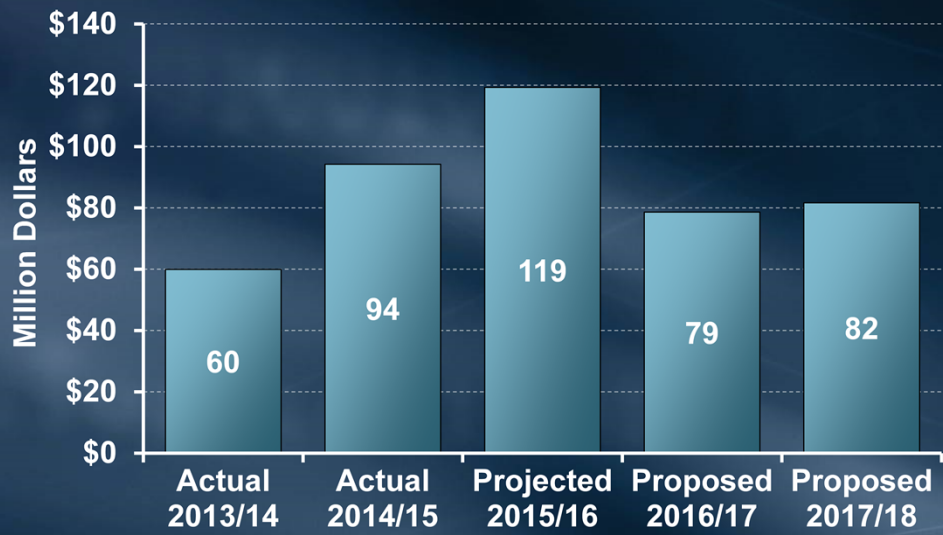
# SWC Expenses



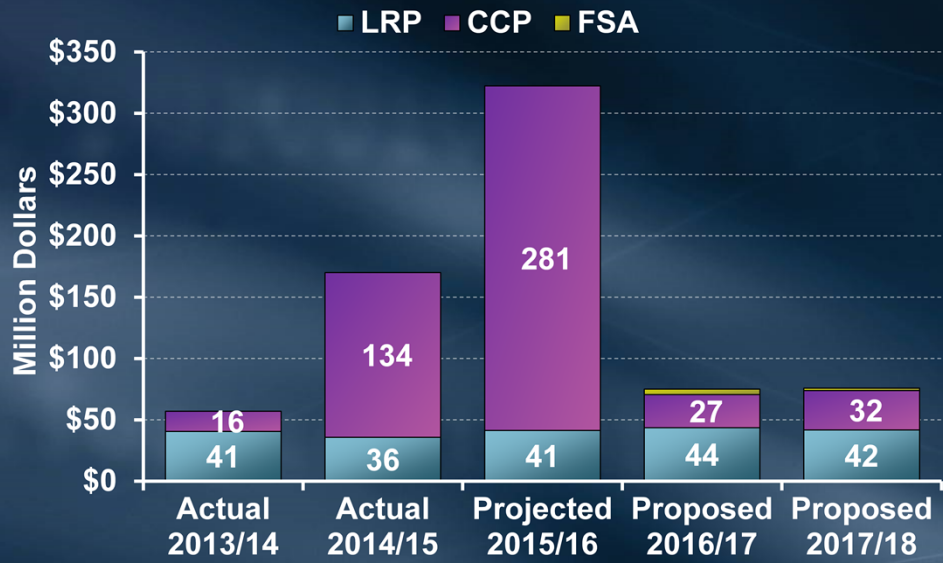
# CRA Power Expenses



# Supply Programs Expenses

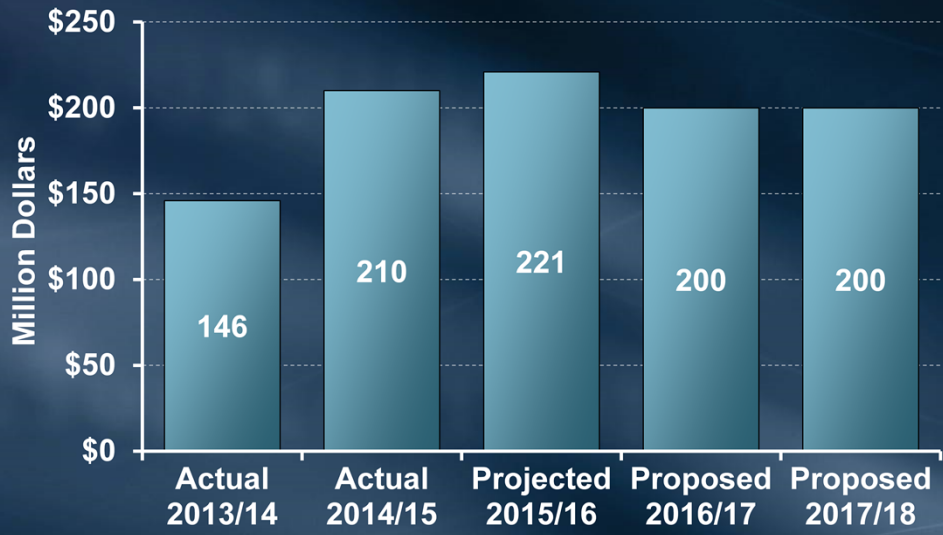


# Demand Management Expenses



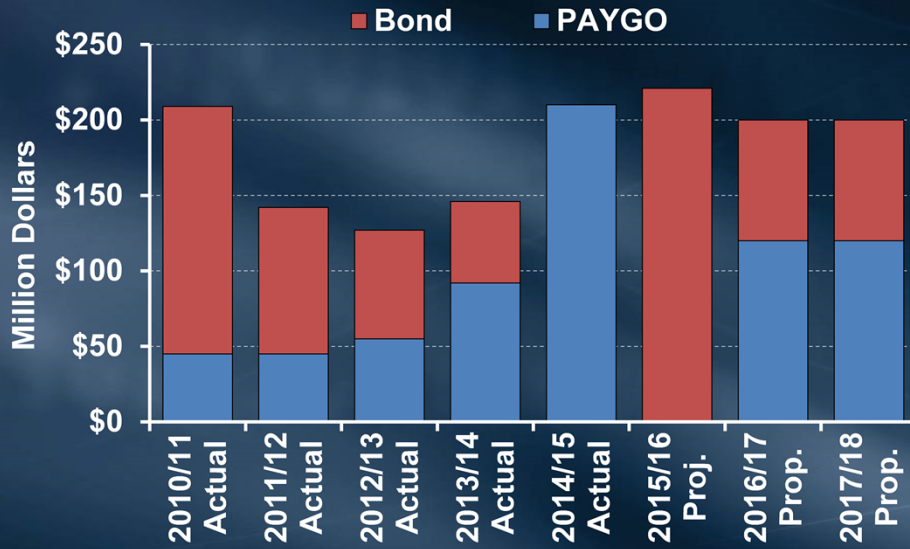


# CIP Expenses

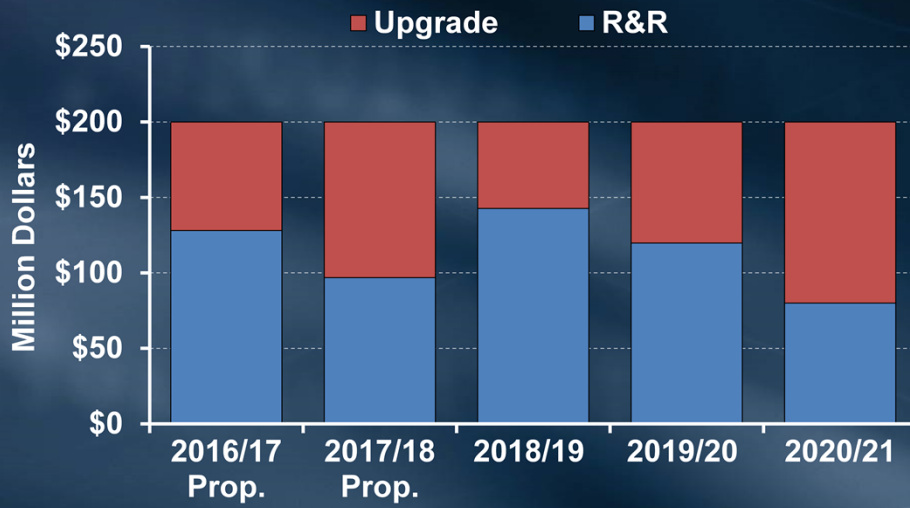


## Question #2: PAYGo

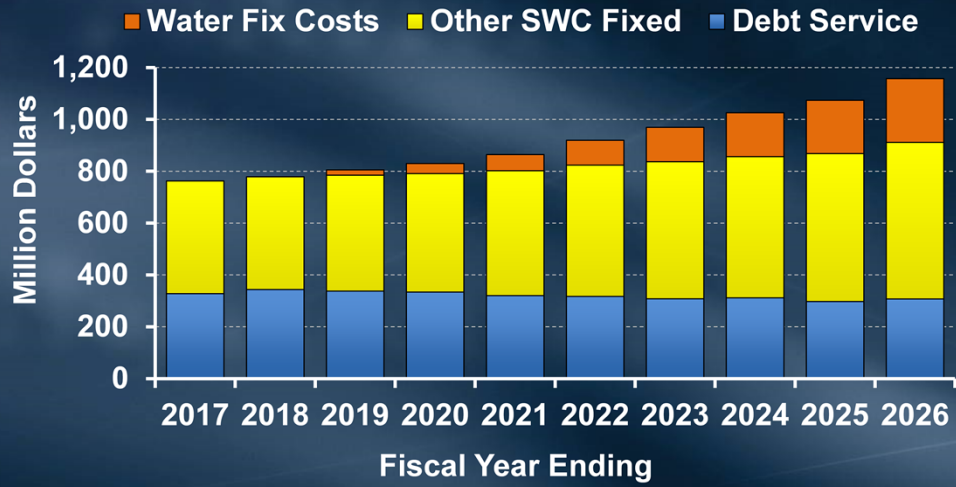
# Capital Investment Plan Funding



# Capital Investment Plan



# Fixed Costs will Increase with California Water Fix



## Question #3: RTS Charge and Capacity Charge

## Readiness-to-Serve Charge

- Recovers the capital costs of providing emergency service and available capacity
  - includes the costs of emergency storage, and available capacity on the conveyance and distribution systems to reliably deliver supplies during emergencies and major outages
  - decreasing by \$18M in 2017 due to lower PAYGo, which outweighs the increase in SWC Transportation costs
- Increasing by \$5M in 2018 due to lower draws from Reserves

## Capacity Charge

- Recovers the capital costs of the system necessary to meet peak demands on Metropolitan's Distribution system
- Decreasing by \$9M in 2017 due to lower PAYGo, and lower peak demands
- Increasing by \$3M in 2018 due to lower draws from Reserves

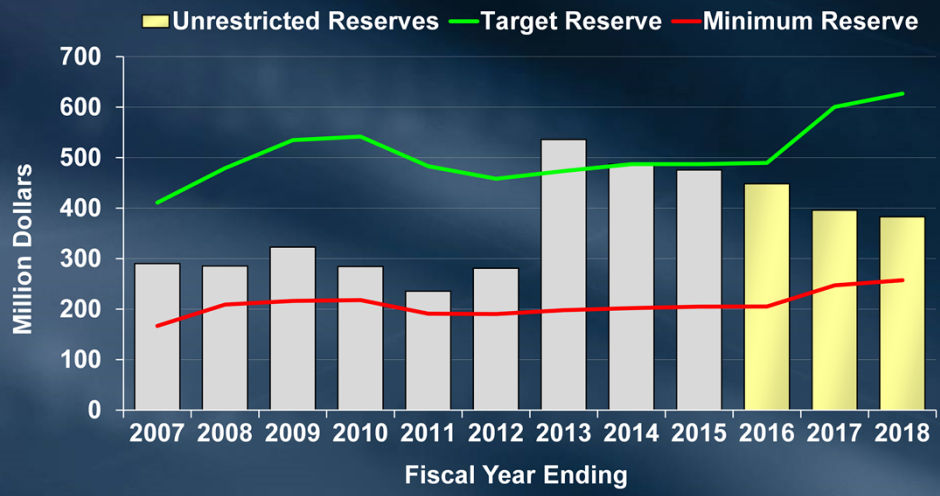


## Question #4: Unrestricted Reserves Policy

## Unrestricted Reserves Policy: Water Rate Stabilization Fund

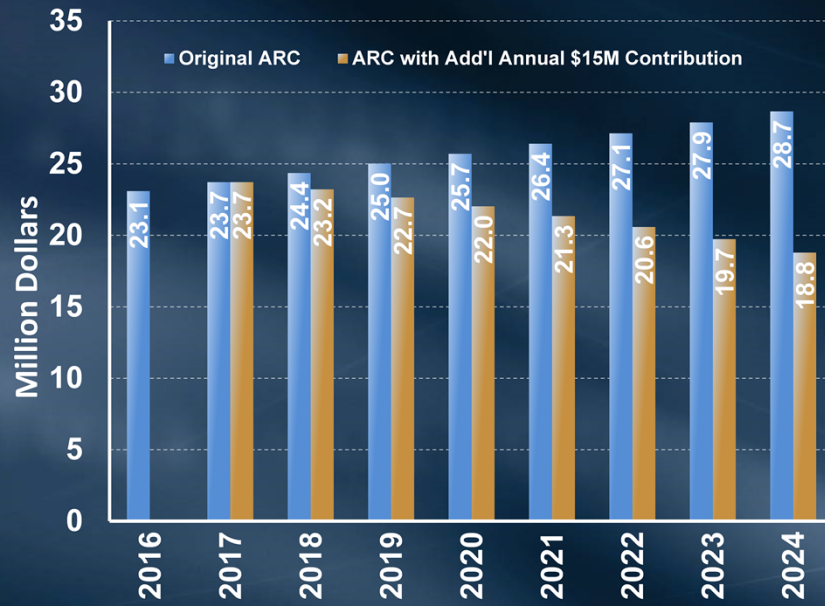
Section 5202(e) Amounts in the Water Rate Stabilization Fund shall be held for the principal **purpose of maintaining stable and predictable water rates and charges**. The amount to be held in the Water Rate Stabilization fund shall be **targeted** to be equal to the **portion of the fixed costs** of the District estimated to be recovered by water sales revenues **during the two years immediately following the eighteen-month period** referenced in Section 5202(a). **Funds in excess of such targeted amount shall be utilized** for capital expenditures of the District **in lieu of the issuance of additional debt**, or for the redemption, **defeasance or purchase of outstanding bonds** or commercial paper of the District as determined by the Board. Provided that the District's **fixed charge coverage ratio is at or above 1.2 amounts** in the Water Rate Stabilization Fund **may be expended for any lawful purpose** of the District, as determined by the Board of Directors, provided that any funds distributed to member agencies shall be allocated on the basis of all water sales during the previous fiscal year, such sales to include sales under the Interim Agricultural Water Program, Replenishment Service Program and all Full Service water sales.

# Unrestricted Reserves



## Question #5: OPEB Prefunding

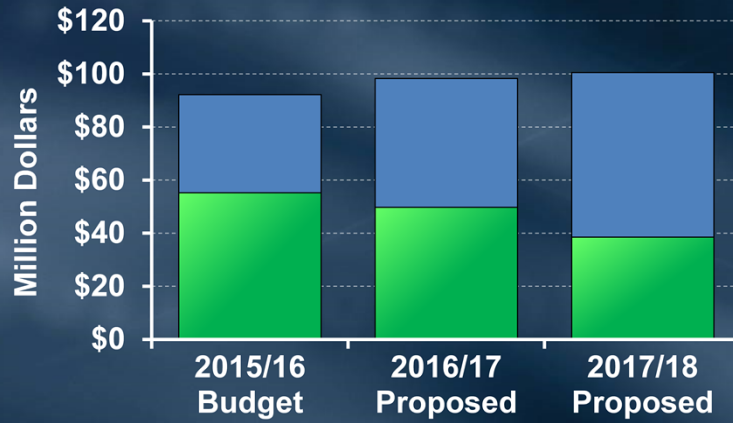
# OPEB Annual Required Contribution (ARC)



## Question #6: Ad Valorem Tax

# Tax Collected

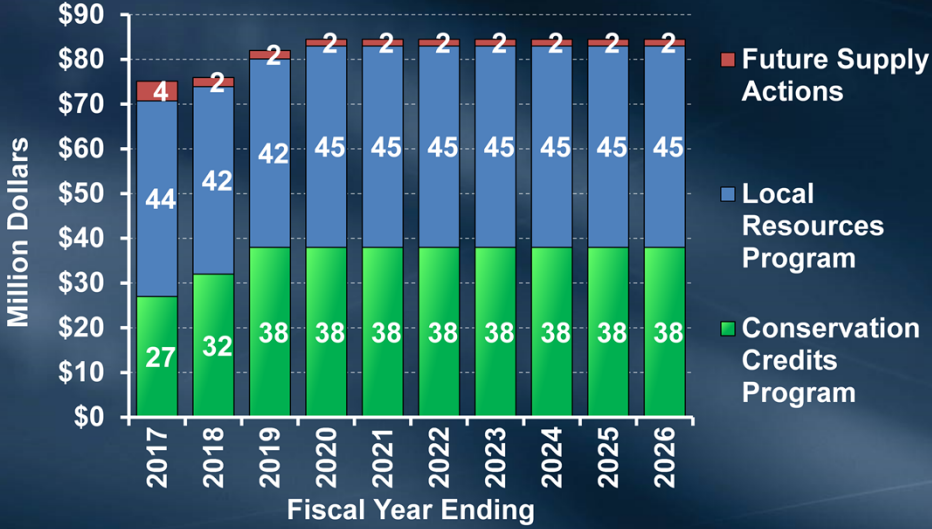
- Tax collected to fund SWC costs
- Tax collected for GO and Burns Porter bonds



# Question #7: Demand Management Program

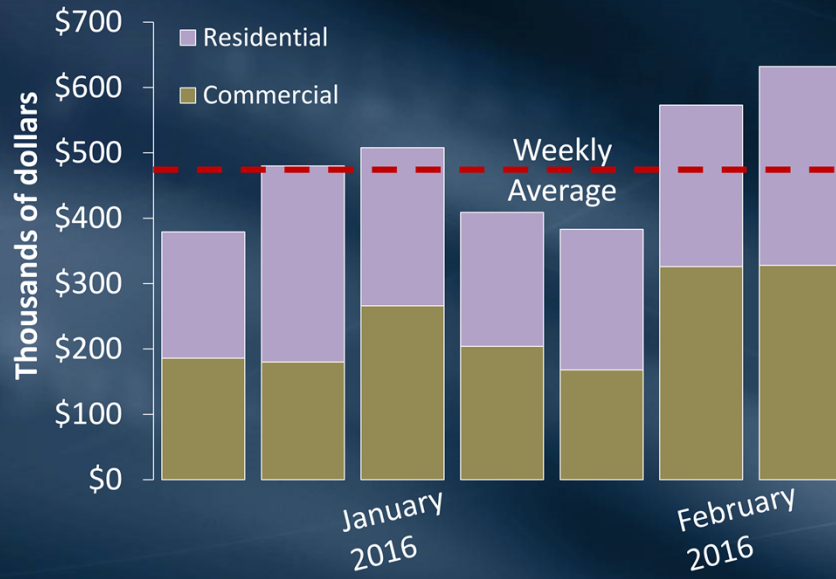


# Demand Management



# Conservation Credits Program

# Weekly Device Rebate Requests



## Proposed Conservation Budget Would Allow For Continued High Level of Device Activity

- Budget includes enough funding for the current high pace of device rebates
- \$27M in 2016/17 and \$32M in 2017/18
  - Includes the cost of administering the regional program
- Second year of budget allows additional funds for potential changes:
  - Increased rebate activity
  - More landscape training classes
  - New indoor or outdoor rebates

# Local Resources Program

## Local Resources Program Contracts Have A Specific Term

- 99 total LRP contracts have been signed
  - 23 contracts have run through their term
  - No further payments on these contracts
- 76 remaining active contracts
  - 59 recycled water projects
  - 17 groundwater recovery projects
- Budget includes funds for active contracts
  - 10-year forecast preserves funding level for future projects

# Local Resources Program



# Local Resources Program

- Funding Available for New Contracts/Programs
- Payments for Existing Contracts





# Future Supply Actions

## Potential Follow-Up To Foundational Actions Funding Program

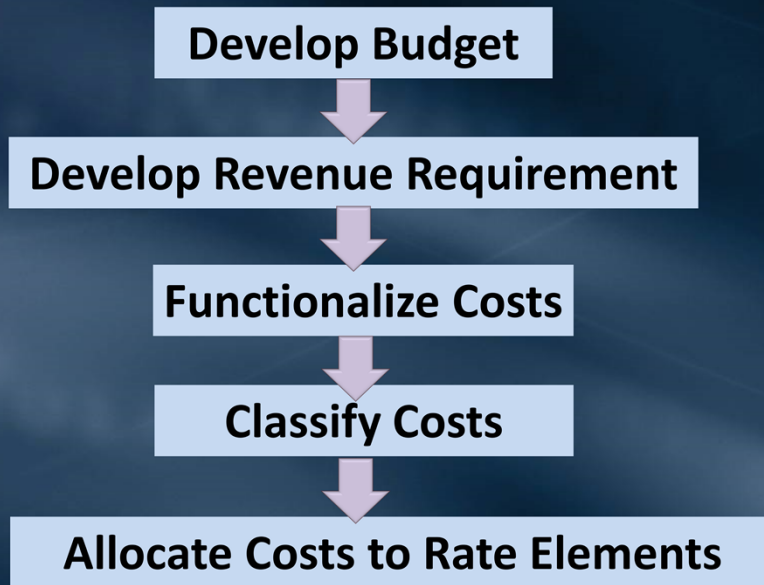
- Original program approved \$3.3M in funding
  - RFP was issued to member agencies
  - Projects were selected and approved by Board
  - Most projects scheduled to be complete in 2016
  - Follow-up report to Board later this year
- Funding included in budget for a new round of proposals
  - Subject to Board approval
  - Designed to encourage new concepts and innovations that could benefit multiple projects in the future
  - High interest among member agencies

# Overview of Rates and Charges

## Estimated Water Rates and Charges

- Estimated water rates and charges support estimated revenue requirements
  - Based on Proposed Biennial Budget
- Developed using the current Cost of Service methodology for functionalizing, classifying and allocating costs to rate elements
- Once board feedback is received on Proposed Biennial Budget expenditures and revenues, a Cost of Service Report will be prepared

# The Cost of Service Process



## FY2016/17 and FY2017/18 Proposed Budget Appropriations (\$M)

	2015/16 Adopted	2016/17 Proposed Budget	2017/18 Proposed Budget
Dept. & Other O&M	391	393	395
Variable Treatment	28	24	25
SWC (w/o Variable Power)	328	435	447
SWC Variable Power	187	147	153
CRA Power	37	47	54
Supply Programs	66	79	82
Demand Management	62	75	76
Debt Service	325	328	344
PAYGO	221	120	120
<b>Total</b>	<b>1,644</b>	<b>1,649</b>	<b>1,695</b>

Totals may not foot due to rounding.

## 2016/17 and 2017/18 Estimated Revenue Requirements (\$M)

	2015/16 Adopted	2016/17 Proposed Budget	2017/18 Proposed Budget
Total O&M	\$ 419	\$ 418	\$ 420
State Water Contract	515	582	600
Colorado River Power	37	47	54
Supply Programs	66	79	82
Demand Management	62	75	76
Debt Service	325	328	344
PAYGO	221	120	120
Incr. in Required Reserves	18	65	25
<b>Sub-total expenditures</b>	<b>1,661</b>	<b>1,714</b>	<b>1,721</b>
Revenue Offsets	150	139	146
<b>Total Revenue Requirement</b>	<b>1,511</b>	<b>1,575</b>	<b>1,574</b>

Totals may not foot due to rounding.

# 2016/17 and 2017/18 Estimated Revenue

Lower salaries/benefits and lower variable treatment

Merit increases, increased labor additives

	2015/16 Adopted	Proposed Budget	Proposed Budget
Total O&M	\$ 419	\$ 418	\$ 420
State Water Contract	515	582	600
Colorado River Power	37	47	54
Supply Programs	66	79	82
Demand Management	62	75	76
Debt Service	325	328	344
PAYGO	221	120	120
Incr. in Required Reserves	18	65	25
<b>Sub-total expenditures</b>	<b>1,661</b>	<b>1,714</b>	<b>1,721</b>
Revenue Offsets	150	139	146
<b>Total Revenue Requirement</b>	<b>1,511</b>	<b>1,575</b>	<b>1,574</b>

Totals may not foot due to rounding.



# 2016/17 and 2017/18 Revenue Requirement

Increased Delta Charges, Increased Transportation Charges, and increased Variable Power

	2015/16 Adopted	Proposed Budget	Proposed Budget
Total O&M	\$ 419	\$ 418	\$ 420
State Water Contract	515	582	600
Colorado River Power	37	47	54
Supply Programs	66	79	82
Demand Management	62	75	76
Debt Service	325	328	344
PAYGO	221	120	120
Incr. in Required Reserves	18	65	25
<b>Sub-total expenditures</b>	<b>1,661</b>	<b>1,714</b>	<b>1,721</b>
Revenue Offsets	150	139	146
<b>Total Revenue Requirement</b>	<b>1,511</b>	<b>1,575</b>	<b>1,574</b>

Totals may not foot due to rounding.

# 2016/17 and 2017/18 Estimated Revenue I

Increased supplemental power purchases

Increased supplemental power purchases

	2015/16 Adopted	Proposed Budget	Estimated Budget
Total O&M	\$ 419	\$ 418	\$ 420
State Water Contract	515	582	600
Colorado River Power	37	47	54
Supply Programs	66	79	82
Demand Management	62	75	76
Debt Service	325	328	344
PAYGO	221	120	120
Incr. in Required Reserves	18	65	25
<b>Sub-total expenditures</b>	<b>1,661</b>	<b>1,714</b>	<b>1,721</b>
Revenue Offsets	150	139	146
<b>Total Revenue Requirement</b>	<b>1,511</b>	<b>1,575</b>	<b>1,574</b>

Totals may not foot due to rounding.

# 2016/17 and 2017/18 Estimated Revenue

	2015/16 Adopted	2016/17 Proposed Budget	2017/18 Budget
Total O&M	\$ 419	\$ 418	\$ 420
State Water Contract	515	582	600
Colorado River Power	37	47	54
Supply Programs	66	79	82
Demand Management	62	75	76
Debt Service	325	328	344
PAYGO	221	120	120
Incr. in Required Reserves	18	65	25
<b>Sub-total expenditures</b>	<b>1,661</b>	<b>1,714</b>	<b>1,721</b>
Revenue Offsets	150	139	146
<b>Total Revenue Requirement</b>	<b>1,511</b>	<b>1,575</b>	<b>1,574</b>

Full call on PVID,  
AVEK exchange

Full call on PVID,  
AVEK exchange,  
AVEK storage

Totals may not foot due to rounding.

# 2016/17 and 2017/18 Estimated Revenue Requirements (\$M)

	2015/16 Adopted	2016/17 Estimated	2017/18 Estimated
Total O&M	\$ 419	\$ 418	\$ 420
State Water Contract	515	582	600
Colorado River Power	37	47	54
Supply Programs	66	79	82
Demand Management	62	75	76
Debt Service	325	328	344
PAYGO	221	120	120
Incr. in Required Reserves	18	65	25
<b>Sub-total expenditures</b>	<b>1,661</b>	<b>1,714</b>	<b>1,721</b>
Revenue Offsets	150	139	146
<b>Total Revenue Requirement</b>	<b>1,511</b>	<b>1,575</b>	<b>1,574</b>

Increased Conservation, and Future Supply Actions

Increased Conservation

Totals may not foot due to rounding.

## 2016/17 and 2017/18 Estimated Revenue Requirements (\$M)

	Adopted	2016/17	2017/18
Total O&M	\$ 419	\$ 418	\$ 420
State Water Contract	515	582	600
Colorado River Power	37	47	54
Supply Programs	66	79	82
Demand Management	62	75	76
Debt Service	325	328	344
PAYGO	221	120	120
Incr. in Required Reserves	18	65	25
<b>Sub-total expenditures</b>	<b>1,661</b>	<b>1,714</b>	<b>1,721</b>
Revenue Offsets	150	139	146
<b>Total Revenue Requirement</b>	<b>1,511</b>	<b>1,575</b>	<b>1,574</b>

Increased payments on new revenue

Increased payments on new revenue bonds

Totals may not foot due to rounding.

# 2016/17 and 2017/18 Estimated Revenue Requirements

	2015/16 Adopted	2016/17 Estimated	2017/18 Estimated
Total O&M	\$ 419	\$ 418	\$ 420
State Water Contract	515	582	600
Colorado River Power	37	47	54
Supply Programs	66	79	82
Demand Management	62	75	76
Debt Service	325	328	344
PAYGO	221	120	120
Incr. in Required Reserves	18	65	25
<b>Sub-total expenditures</b>	<b>1,661</b>	<b>1,714</b>	<b>1,721</b>
Revenue Offsets	150	139	146
<b>Total Revenue Requirement</b>	<b>1,511</b>	<b>1,575</b>	<b>1,574</b>

Totals may not foot due to rounding.

# 2016/17 and 2017/18 Estimated Revenue

	Adopted	2017/18
Total O&M	\$ 20	20
State Water Contract		00
Colorado River Power		54
Supply Programs	66	79
Demand Management	62	75
Debt Service	325	328
PAYGO	221	120
Incr. in Required Reserves	18	65
<b>Sub-total expenditures</b>	<b>1,661</b>	<b>1,714</b>
Revenue Offsets	150	139
<b>Total Revenue Requirement</b>	<b>1,511</b>	<b>1,574</b>

Totals may not foot due to rounding.

# 2016/17 and 2017/18 Estimated Revenue Requirements (M)

	Adopted	2017/18	2016/17
Total O&M	\$ 419		
State Water Contract	515		
Colorado River Power	37	47	54
Supply Programs	66	79	82
Demand Management	62	75	76
Debt Service	325	328	344
PAYGO	221	120	120
Incr. in Required Reserves	18	65	25
<b>Sub-total expenditures</b>	<b>1,661</b>	<b>1,714</b>	<b>1,721</b>
Revenue Offsets	150	139	146
<b>Total Revenue Requirement</b>	<b>1,511</b>	<b>1,575</b>	<b>1,574</b>

Lower Fund balances and Hydro generation, offset by higher ad valorem

Higher Hydro generation, and higher ad valorem taxes

Totals may not foot due to rounding.



# Estimated Water Rates and Charges

# Estimated Rate Elements

Rates and Charges Effective January 1			
	2016 Approved	2017 Proposed	2018 Proposed
Tier 1 Supply Rate (\$/AF)	\$156	\$201	\$209
Tier 2 Supply Rate (\$/AF)	\$290	\$295	\$295
System Access Rate (\$/AF)	\$259	\$289	\$299
Water Stewardship Rate (\$/AF)	\$41	\$52	\$55
System Power Rate (\$/AF)	\$138	\$124	\$132
Treatment Surcharge (\$/AF)*	\$348	\$313	\$320
Readiness-to-Serve Charge (\$M)	\$153	\$135	\$140
Capacity Charge (\$M revenues)	\$43	\$34	\$37

\*A proposal will be presented to the Board for consideration to address fixed cost recovery of Treatment costs which are currently only recovered through a volumetric rate.

## Overall Observations

- Lower projected sales in both fiscal years will result in higher volumetric rates
- Draw on Reserves in FY 2016/17 lowers rates
  - Using Reserves to mitigate rate increase in the first year
  - Consistent with Reserve policy
  - Results in higher rates in the second year even if costs and sales volumes are unchanged as the use of Reserves is reduced

## Tier 1 Supply Rate

- Recovers the costs of maintaining and developing supplies to meet member agency demands
  - Includes the costs of water facilities and programs on the SWP, the CRA, and in-basin programs
- Increasing by \$45/AF in 2017 and \$8/AF in 2018 due to increasing SWC Delta Charges and increasing supply programs costs

## Tier 2 Supply Rate

- Reflects the cost of purchasing water transfers north of the Delta
- Increasing by \$5/AF in calendar year 2017 to reflect the costs of the Yuba Accord agreement; rate unchanged for calendar year 2018
  - Water delivered in all water-year types
  - Prices established in the agreement

## System Access Rate

- Recovers the costs of Conveyance and Distribution systems, including capital costs associated with average demands, and departmental O&M
  - Includes costs of the applicable facilities on the CRA and SWP, Distribution, and Storage.
- Increasing by \$30/AF in 2017 because of higher SWC Transportation costs, which outweighs PAYGo decrease
- Increasing by \$10/AF in 2018 due to lower draws from Reserves

## Water Stewardship Rate

- Recovers the costs of the Conservation Credits Program and the Local Resource Programs, including the departmental labor, and vendor administration costs for these programs
- Increasing by \$11/AF in 2017 because of additional CCP expenditures, Future Supply Actions expenditures, and allocated A&G, and no draws from the WSF
- Increasing by \$3/AF in 2018 due to lower draws from Reserves

## System Power Rate

- Recovers the costs of power to pump the water on the CRA and the SWP
  - Includes CRA power and dept. O&M, SWC variable power and Off-Aqueduct Power Facilities
- Decreasing by \$14/AF in 2017 due to:
  - lower SWC variable power costs
    - favorable markets for natural gas and renewable energy
  - partially offset by higher supplemental costs on the CRA
- Increasing by \$8/AF in 2018 due to:
  - higher SWC Variable power
  - higher CRA supplemental power purchases



## Treatment Surcharge

- Recovers the costs of the five water treatment plants, capital and departmental O&M
  - Users of treated water pay the TS
- Decreasing by \$35/AF in 2017 due to:
  - Lower PAYGo
  - Lower capital and O&M costs attributed to treatment through more accurate functionalization
- Increasing by \$7/AF in 2018 due to lower draws from Reserves
- A proposal to address recovery of fixed Treatment costs is being provided

## Readiness-to-Serve Charge

- Recovers the capital costs of providing emergency service and available capacity
  - includes the costs of emergency storage and available capacity on the conveyance and distribution systems to reliably deliver supplies during emergencies and major outages
  - decreasing by \$18M in 2017 due to lower PAYGo, which outweighs the increase in SWC Transportation costs
- Increasing by \$5M in 2018 due to lower draws from Reserves

## Capacity Charge

- Recovers the capital costs of the system necessary to meet peak demands on Metropolitan's Distribution system
- Decreasing by \$9M in 2017 due to lower PAYGo, and lower peak demands
- Increasing by \$3M in 2018 due to lower draws from Reserves

## Estimated Full Service Rates and Charges

Rate Type	2016 Approved	2017 Estimated	% Increase (Decrease)	2018 Estimated	% Increase (Decrease)
<b>Full Service Untreated Volumetric Cost (\$/AF)</b>					
Tier 1	\$594	\$666	12.1%	\$695	4.4%
Tier 2	\$728	\$760	4.4%	\$781	2.8%
<b>Treatment Surcharge*</b>	<b>\$348</b>	<b>\$313</b>	<b>(10.1%)</b>	<b>\$320</b>	<b>2.2%</b>
<b>Full Service Treated Volumetric Cost (\$/AF)*</b>					
Tier 1	\$942	\$979	3.9%	\$1,015	3.7%
Tier 2	\$1,076	\$1,073	(0.3%)	\$1,101	2.6%
<b>RTS Charge (\$M)</b>	<b>\$153</b>	<b>\$135</b>	<b>(11.8%)</b>	<b>\$140</b>	<b>3.7%</b>
<b>Capacity Charge (\$M)</b>	<b>\$43</b>	<b>\$34</b>	<b>(21.5%)</b>	<b>\$37</b>	<b>8.8%</b>

\*A proposal will be presented to the Board for consideration to address fixed cost recovery of Treatment costs which are currently only recovered through a volumetric rate.

Treated Water Cost Recovery:  
Presentation by Raftelis Financial  
Consultants  
(provided separately)

## Next Steps

March 7, 2016	F&I Committee, Workshop #3
March 8, 2016	Public Hearing
March 22, 2016	F&I Committee, Workshop #4
April 11, 2016	F&I Committee, Recommend Biennial Budget and calendar year rates and charges Workshop #5, if needed
April 12, 2016	Board Action, Approve Biennial Budget and Water Rates and Charges



# Status of Current Conservation Budget



# 2014/15 -15/16 Conservation Budget: \$450M

	<b>Paid*</b> FY 14/15 – 15/16	<b>Approved*</b>	<b>Outstanding Requests*</b>
<b>Devices</b>	\$57.0M	\$14.9M	N/A
<b>Member Agency</b>	\$44.2M	\$25.0M	N/A
<b>Turf Removal</b>	\$198.8M	\$43.9M	\$3.8M
<b>Other</b>	\$6.3M	\$1.2M	N/A
<b>TOTAL</b>	<b>\$306.3M</b>	<b>\$85.0M</b>	<b>\$3.8M</b>

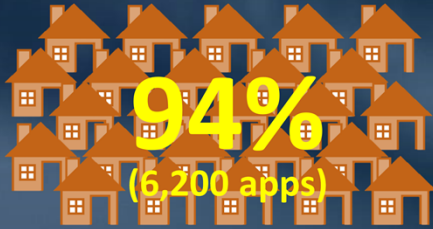
\*As of February 1, 2016 and includes admin fees

**Current Pace of Devices  
Would Add Another \$10M  
Total Estimate: \$405M**

Approved:  
Applications and member agency requests approved to proceed

Outstanding Requests:  
Applications requesting funds submitted by customers

## Waiting List for Turf (~\$23M)



Residential Customers

**\$17.5M**



Commercial Customers

**\$5.3M**

\*Includes admin fees