

# Proposed Biennial Budget for FYs 2020/21 and 2021/22, Water Rates and Charges for CYs 2021 and 2022, Ten-Year Forecast, and Applicability of §124.5 AV Tax Limit for FYs 2020/21 and 2021/22

Finance & Insurance Committee  
Item 8-1  
April 13, 2020



# Process

January 31, 2020	Information Board Letter
February 10, 2020	Workshop #1
February 12, 2020	Notice to Member Agencies of Proposed Rates & Charges, and Public Hearing
February 24, 2020	Notice to Legislature of Public Hearing
February 25, 2020	Workshop #2
March 9, 2020	Workshop #3
March 10, 2020	Public Hearings
April 5, 2020	Action Board Letter with Updated Recommendation
April 13, 2020	Review and Updated Recommendation by Finance and Insurance Committee
April 14, 2020	Board Action

# Changed Circumstances

- The World Health Organization declared a COVID-19 pandemic on March 11
- Significant and far reaching financial impact to our region and on CIP project schedules
- Updated demand projections related to PFAS
- Metropolitan updated its recommended rate proposal in response to director and member agency requests, as well as updated circumstances
- Changed circumstances affect certain assumptions previously made in proposed biennial budget

# Originally Proposed

- Overall rate increases of 5% for both CYs 2021 & 2022
- Water transactions projected at 1.6 MAF for each fiscal year
- CIP planned spending of approx. \$500 M projected over biennial period; CIP expenditures projected at 90% or \$450 M
- PAYGO at 60% over the biennial period

Fiscal Year	Appropriation	% Completed	Expenditure
2020/21	\$250 M	90%	\$225 M
2021/22	\$250 M	90%	\$225 M
<b>Biennium</b>	<b>\$500 M</b>		<b>\$450 M</b>

- Revenue Bond coverage and fixed charge coverage are 1.5 times or higher in biennial period; Revenue Bond coverage target of 2.0 times met in FY 2024/25

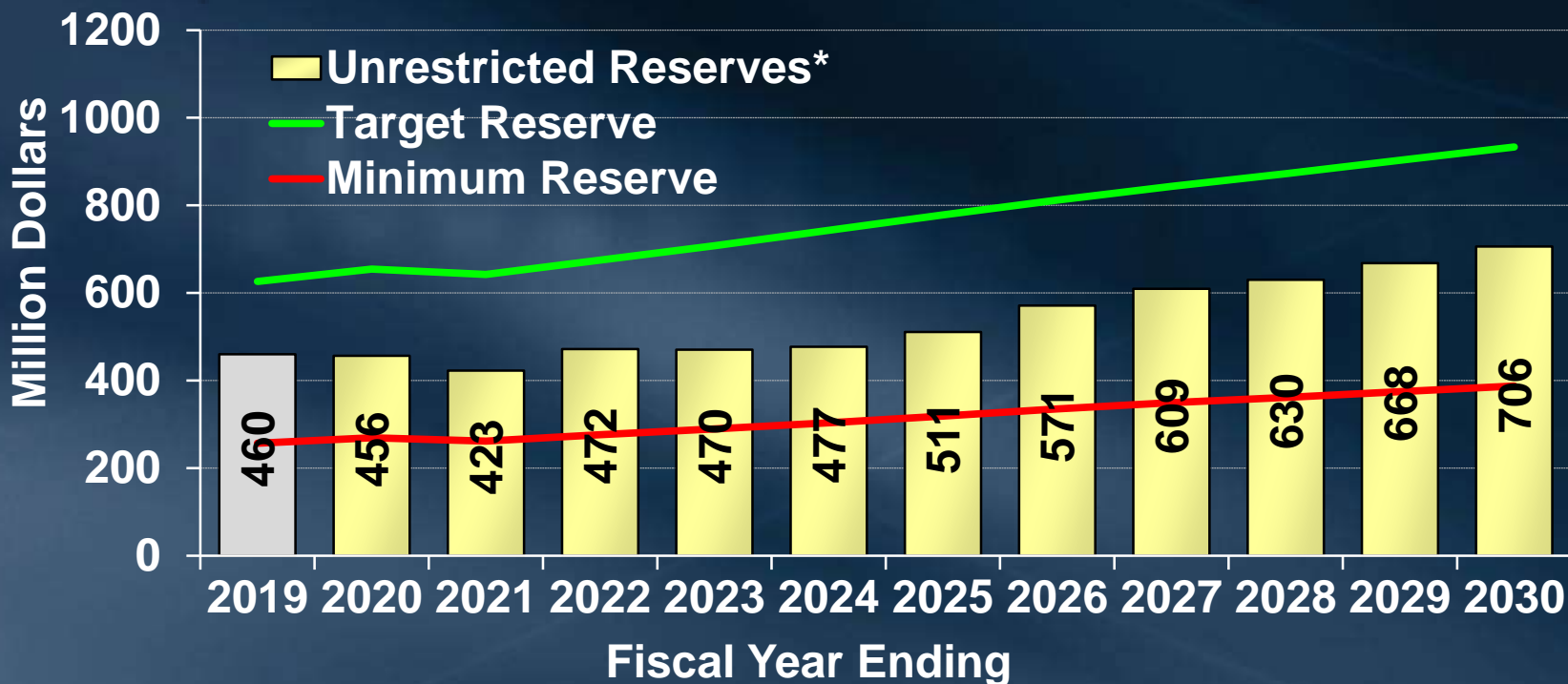
# Originally Proposed Proposed Full Service Rates & Charges

Rates and Charges	Current 2020	Proposed 2021	% Increase (Decrease)	Proposed 2022	% Increase (Decrease)
Tier 1 Supply Rate (\$/AF)	\$208	\$246	18%	\$247	0%
Tier 2 Supply Rate (\$/AF)	\$295	\$285	(3%)	\$285	0%
System Access Rate (\$/AF)	\$346	\$374	8%	\$397	6%
Water Stewardship Rate (\$/AF)	\$65	\$ -	(100%)	\$ -	
System Power Rate (\$/AF)	\$136	\$160	18%	\$170	6%
<b>Full Service Untreated Volumetric Cost (\$/AF)</b>					
Tier 1	\$755	\$780	3%	\$814	4%
Tier 2	\$842	\$819	(3%)	\$852	4%
Treatment Surcharge (\$/AF)	\$323	\$351	9%	\$369	5%
<b>Full Service Treated Volumetric Cost (\$/AF)</b>					
Tier 1	\$1,078	\$1,131	5%	\$1,183	5%
Tier 2	\$1,165	\$1,170	0%	\$1,221	4%
RTS Charge (\$M)	\$136	\$136	0%	\$144	6%
Capacity Charge (\$/cfs)	\$8,800	\$11,200	27%	\$12,500	12%
<b>Overall Rate Increase</b>			<b>5.0%</b>		<b>5.0%</b>

Rates and Charges Effective January 1<sup>st</sup>

Full Service Cost means the Full Service Rate, consisting of the following rate components: the applicable Supply Rate, the System Access Rate, the Water Stewardship Rate (not applicable for 2021 and 2022), the System Power Rate, and if applicable the Treatment Surcharge for treated water service.

# Originally Proposed Proposed 2020/21 & 2021/22 Budget



<b>Overall Rate Inc.</b>	3.0%	3.0%	5.0%	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
<b>Water Transactions (MAF)**</b>	1.42	1.55	1.60	1.60	1.60	1.64	1.69	1.74	1.74	1.74	1.75	1.75
<b>Rev. Bond Cvg</b>	1.4	1.5	1.5	1.6	1.6	1.8	2.0	2.2	2.1	2.1	2.2	2.3
<b>Fixed Chg Cvg</b>	1.4	1.4	1.5	1.6	1.7	1.8	1.9	1.9	1.8	1.6	1.7	1.7
<b>PAYGO, \$M</b>	126	30	135	135	180	210	210	210	210	210	210	210

\*\* Includes water sales, exchanges and wheeling

# Option 1 - Updated Recommendation

- Assume an additional 50 TAF sales converts from untreated to treated as a result of PFAS regulations from FY 2020/21 to FY 2024/25
- Reduce CIP expenditures in FY 2020/21

Fiscal Year	Appropriation	% Completed	Expenditure
2020/21	\$250 M	80%	\$200 M
2021/22	\$250 M	90%	\$225 M
<b>Biennium</b>	<b>\$500 M</b>		<b>\$425 M</b>

- Reduce PAYGO to 55% in FY 2020/21
- Reduce overall rate increase to 3% for CY 2021 and 4% for CY 2022
- Projected annual rate increase for CY 2024 & 2025 of 5%
- Revenue Bond coverage and fixed charge coverage are lower in biennial period at 1.5 times; Revenue Bond coverage target of 2.0 times met in FY 2024/25

# Option 1 - Updated Recommendation

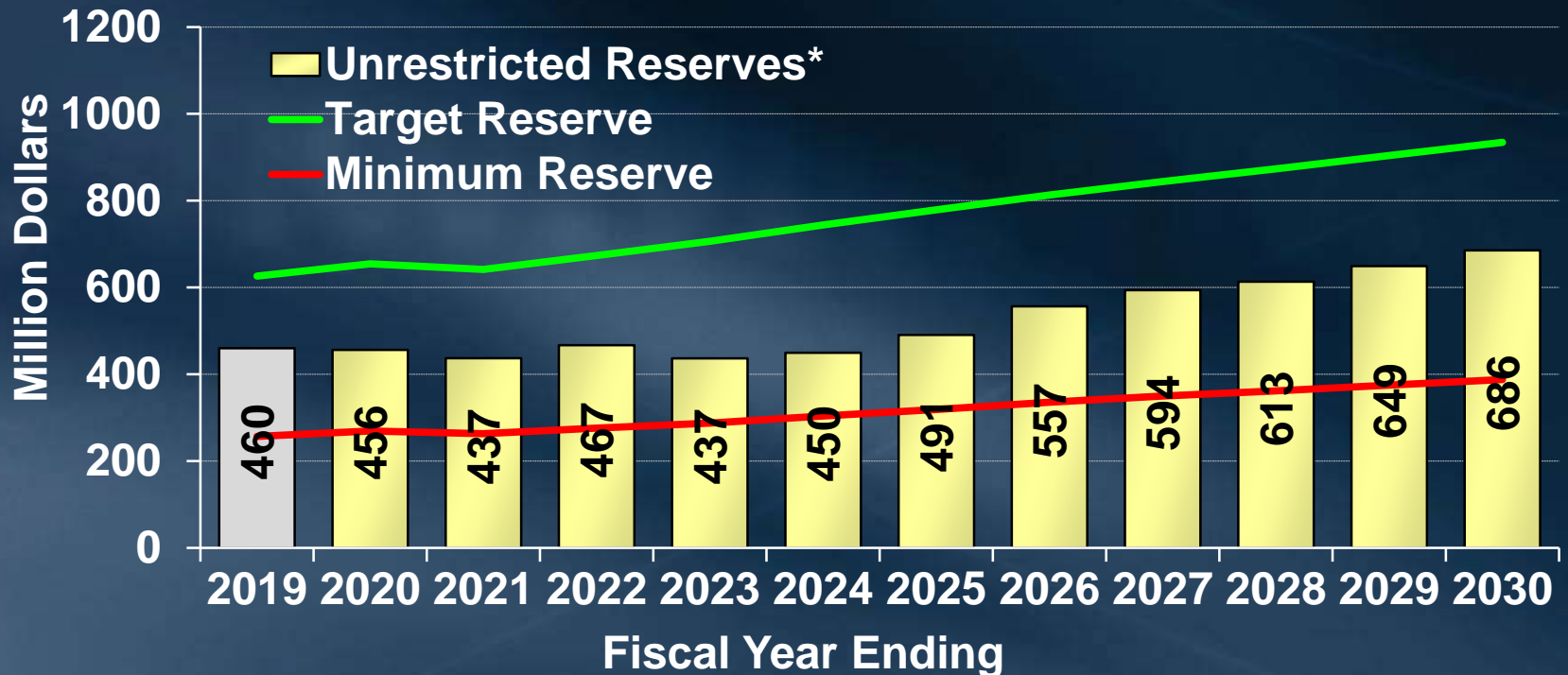
Rates and Charges	Current 2020	Proposed 2021	% Increase (Decrease)	Proposed 2022	% Increase (Decrease)
Tier 1 Supply Rate (\$/AF)	\$208	\$243	17%	\$243	0%
Tier 2 Supply Rate (\$/AF)	\$295	\$285	(3%)	\$285	0%
System Access Rate (\$/AF)	\$346	\$373	8%	\$389	4%
Water Stewardship Rate (\$/AF)	\$65	\$ -	(100%)	\$ -	
System Power Rate (\$/AF)	\$136	\$161	18%	\$167	4%
<b>Full Service Untreated Volumetric Cost (\$/AF)</b>					
Tier 1	\$755	\$777	3%	\$799	3%
Tier 2	\$842	\$819	(3%)	\$841	3%
Treatment Surcharge (\$/AF)	\$323	\$327	1%	\$344	5%
<b>Full Service Treated Volumetric Cost (\$/AF)</b>					
Tier 1	\$1,078	\$1,104	2%	\$1,143	4%
Tier 2	\$1,165	\$1,146	(2%)	\$1,185	3%
RTS Charge (\$M)	\$136	\$130	(4%)	\$140	8%
Capacity Charge (\$/cfs)	\$8,800	\$10,700	22%	\$12,200	14%
<b>Overall Rate Increase</b>			<b>3.0%</b>		<b>4.0%</b>

Rates and Charges Effective January 1<sup>st</sup>

Full Service Cost means the Full Service Rate, consisting of the following rate components: the applicable Supply Rate, the System Access Rate, the Water Stewardship Rate (not applicable for 2021 and 2022), the System Power Rate, and if applicable the Treatment Surcharge for treated water service.



# Option 1 - Updated Recommendation



<b>Overall Rate Inc.</b>	3.0%	3.0%	3.0%	4.0%	5.0%	5.0%	4.0%	3.0%	3.0%	3.0%	3.0%	3.0%
<b>Water Transactions (MAF)**</b>	1.42	1.55	1.60	1.60	1.60	1.64	1.69	1.74	1.74	1.74	1.75	1.75
<b>Rev. Bond Cvg</b>	1.4	1.5	1.5	1.5	1.5	1.7	2.0	2.1	2.1	2.1	2.2	2.3
<b>Fixed Chg Cvg</b>	1.4	1.4	1.5	1.5	1.5	1.7	1.9	1.9	1.8	1.6	1.7	1.7
<b>PAYGO, \$M</b>	126	30	110	135	180	180	210	210	210	210	210	210

\* Revenue Remainder and Water Rate Stabilization Fund

\*\* Includes water sales, exchanges and wheeling

# Option 2: Delay Rate Increase

- Assume an additional 50 TAF sales converts from untreated to treated as a result of PFAS regulations from FY 2020/21 to FY 2024/25
- Reduce CIP expenditures in FY 2020/21

Fiscal Year	Appropriation	% Completed	Expenditure
2020/21	\$250 M	80%	\$200 M
2021/22	\$250 M	90%	\$225 M
<b>Biennium</b>	<b>\$500 M</b>		<b>\$425 M</b>

- Reduce PAYGO to 55% in FY 2020/21
- Delay January 2021 increase in rates and charges until July 2021
- Extend 2020 rates and charges through June 30, 2021 with exception of Water Stewardship Rate, which will not be extended beyond December 31, 2020 per prior Board approval.
- As a result of delay, water rates would be lower for first six months of 2021, while costs continue to increase, resulting in a \$79 M draw on unrestricted reserves in FY 2020/21
- Revenue Bond coverage & fixed charge coverage drop below 1.3 times in FY 2020/21; Revenue Bond coverage target met in FY 2024/25

# Option 2

## Delay 2021 rate increase until July

Rates and Charges	Current 2020	Proposed Jan 2021	Proposed July 2021	% Increase (Decrease)	Proposed 2022	% Increase (Decrease)
Tier 1 Supply Rate (\$/AF)	\$208	\$208	\$250	20%	\$250	0%
Tier 2 Supply Rate (\$/AF)	\$295	\$295	\$285	(3%)	\$285	0%
System Access Rate (\$/AF)	\$346	\$346	\$379	10%	\$400	6%
Water Stewardship Rate (\$/AF)	\$65	\$ -	\$ -	(100%)	\$ -	
System Power Rate (\$/AF)	\$136	\$136	\$164	21%	\$172	5%
<b>Full Service Untreated Volumetric Cost (\$/AF)</b>						
Tier 1	\$755	\$690	\$793	5%	\$822	4%
Tier 2	\$842	\$777	\$828	(2%)	\$857	4%
Treatment Surcharge (\$/AF)	\$323	\$323	\$333	3%	\$354	6%
<b>Full Service Treated Volumetric Cost (\$/AF)</b>						
Tier 1	\$1,078	\$1,013	\$1,126	4%	\$1,176	4%
Tier 2	\$1,165	\$1,100	\$1,161	(0%)	\$1,211	4%
RTS Charge (\$M)	\$136	\$136	\$132	(3%)	\$145	10%
Capacity Charge (\$/cfs)	\$8,800	\$8,800	\$10,900	24%	\$12,600	16%
<b>Overall Rate Increase</b>				<b>5.0%</b>		<b>5.0%</b>

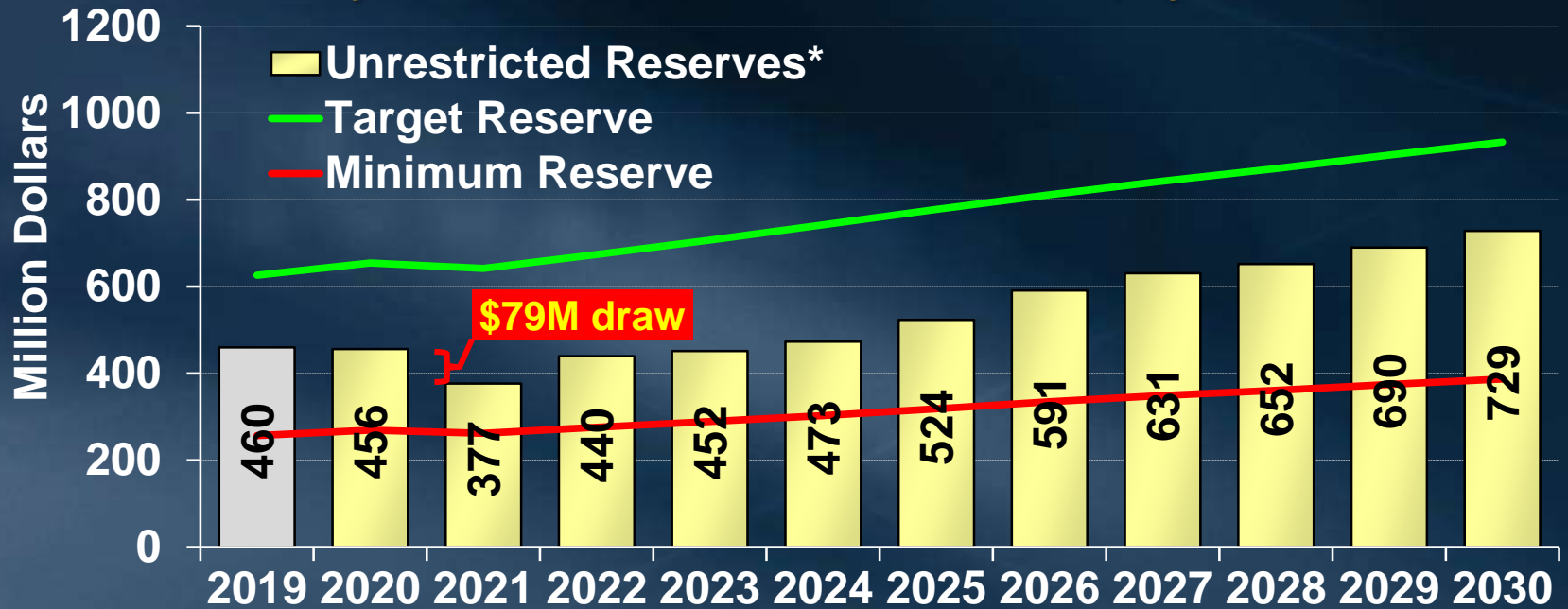
2021 Rates and Charges Effective January 1<sup>st</sup> and July 1<sup>st</sup> as indicated

2022 Rates and Charges Effective January 1<sup>st</sup>

Full Service Cost means the Full Service Rate, consisting of the following rate components: the applicable Supply Rate, the System Access Rate, the Water Stewardship Rate (not applicable for 2021 and 2022), the System Power Rate, and if applicable the Treatment Surcharge for treated water service.

# Option 2

## Delay 2021 rate increase until July



	Fiscal Year Ending											
			July									
Overall Rate Inc.	3.0%	3.0%	5.0%	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Water Transactions (MAF)**	1.42	1.55	1.60	1.60	1.60	1.64	1.69	1.74	1.74	1.74	1.75	1.75
Rev. Bond Cvg	1.4	1.5	1.26	1.7	1.6	1.9	2.1	2.2	2.1	2.1	2.2	2.3
Fixed Chg Cvg	1.4	1.4	1.25	1.6	1.7	1.8	1.9	1.9	1.8	1.7	1.7	1.7
PAYGO, \$M	126	30	110	135	180	210	210	210	210	210	210	210

\* Revenue Remainder and Water Rate Stabilization Fund

\*\* Includes water sales, exchanges and wheeling

# Biennial Budget Recommendation

## ● Option 1:

- a) Approve the FY 2020/21 and FY 2021/22 Proposed Biennial Budget document, with the following modifications:
  - Revise FY 2020/21 budget to fund the CIP pursuant to a 55/45 PAYGO/debt ratio and change sales projections by shifting 50 TAF of untreated water sales projections to treated water projections; and
  - Revise projected FY 2020/21 CIP expenditures to 80 percent of planned spending in FY 2020/21;
- b) Appropriate \$2,810.9 million for Metropolitan O&M and operating equipment, power costs on the Colorado River Aqueduct, SWC operations, maintenance, power and replacement costs and SWC capital charges; demand management programs including the local resources and Conservation Credits Program; and costs associated with supply programs, for FYs 2020/21 and 2021/22;
- c) Appropriate as a continuing appropriation, \$605.7 million for FY 2020/21 and FY 2021/22 debt service on Metropolitan general obligation and revenue bonds;
- d) Authorize the use of \$245 million in operating revenues to fund the Capital Investment Plan (CIP) for FYs 2020/21 and 2021/22;
- e) Determine that the revenue requirements to be paid from rates and charges are \$1,622 million in FY 2020/21 and \$1,708 million in FY 2021/22;
- f) Approve the Ten-Year Financial Forecast, as shown in Figure 3 of the Letter;
- g) Approve water rates effective January 1, 2021, and January 1, 2022, as shown in Table 4 of the Letter;

# Biennial Budget Recommendation (continued)

## ● Option 1:

- h) Adopt the Resolution Fixing and Adopting Water Rates To Be Effective January 1, 2021 and 2022 for Table 4, in the form of Attachment 3;
- i) Adopt the Resolution Fixing and Adopting A Readiness-To-Serve Charge Effective January 1, 2021 as shown in Table 4, in the form of Attachment 4;
- j) Adopt the Resolution Fixing and Adopting A Capacity Charge Effective January 1, 2021 as shown in Table 4, in the form of Attachment 5; and
- k) Adopt the Resolution Finding that for FYs 2020/21 and 2021/22 the Ad Valorem Property Tax Rate Limitation in Section 124.5 of the Metropolitan Water District Act is not applicable because it is Essential to Metropolitan's Fiscal Integrity to Collect Ad Valorem Tax Rate in Excess of that Limitation, in the form of Attachment 6.

# Biennial Budget Recommendation

## ● Fiscal Impact of Option 1:

- The proposed budget, rates, and charges, as modified, are projected to produce the revenue required to meet Metropolitan's expenses
- Revenue bond coverage and fixed charge coverage are lower in FYs 2020/21 through FY 2023/14
- Metropolitan anticipates delays in CIP projects due to the COVID-19 pandemic will reduce projected CIP expenditures in FY 2020/21

# Biennial Budget Recommendation

## ● Option 2:

- a) Approve the FY 2020/21 and FY 2021/22 Proposed Biennial Budget document, with the following modifications:
  - Draw of unrestricted reserve in the amount of \$79 million to offset the revenue deficit caused by the delay in the collection of increased rates and charges;
  - Revise FY 2020/21 budget to fund the CIP pursuant to a 55/45 PAYGO/debt ratio and change sales projections by shifting 50 TAF of untreated water sales projections to treated water projections; and
  - Revise projected FY 2020/21 CIP expenditures to 80 percent of planned spending in FY 2020/21;
- b) As detailed in the Letter, for FYs 2020/21 and 2021/22:
  - Appropriate \$2,810.9 million for Metropolitan operating budget and \$605.7 million for debt service
  - Authorize the use of \$245 million in operating revenues to fund the CIP
- c) Determine that the revenue requirements to be paid from rates and charges are \$1,621 million in FY 2020/21 and \$1,709 million in FY 2021/22;
- d) Approve the Ten-Year Financial Forecast, as shown in Figure 4 of the Letter;
- e) Extend the currently applicable rates and charges, with the exception of the Water Stewardship Rate, to June 30, 2021 and approve water rates effective January 1, 2021, and January 1, 2022, as shown in Table 5 of the Letter;
- f) As detailed in the Letter, adopt the Resolutions in the form of Attachments 3, 4, 5 and 6 and as modified in the Letter



# Biennial Budget Recommendation

## ● Fiscal Impact of Option 2:

- Significant draw on unrestricted reserves in the amount of \$79 million to offset revenue deficit caused by the delay in the collection of increased rates and charges
- Revenue bond coverage and fixed charge coverage drop below 1.3 times in FY 2020/21
- Metropolitan anticipates delays in CIP projects due to the COVID-19 pandemic will reduce projected CIP expenditures in FY 2020/21

# Biennial Budget Recommendation

## ● Option 3:

- Do not approve the Proposed Biennial Budget, the revenue requirements, rates, charges, or the Section 124.5 determination; and
- Waive the requirement of Administrative Code Section 4304 to adopt rates by April for staff to revise the budget, rates and charges, consistent with Board direction, and present revisions to the Board in May or June of 2020.

# Biennial Budget Recommendation

## ● Fiscal Impact of Option 3:

- The fiscal impact of any revisions to the proposals in this board letter must be evaluated when made
- Board must adopt budget, approve rates and charges, and appropriate funds as indicated in the budget by June 2020 or put Metropolitan's operations, its payments to the State and other contractors at risk

# Staff Recommendation

- Option 1

