

# Long Range Finance Plan Rate Refinement Discussions

Meeting #4  
Member Agency Managers Meeting  
October 14, 2011

## List of Issues - Categorized

- Issues related to fixed revenue:
  - Fixed revenue generation
  - Tier 1 limit / trading Tier 1 limits
  - Fixed commitment to pay for the system (contracts)
  - Purchase Order status, Compton
  - Review of financial policies
- Issues related to specific programs:
  - Replenishment (report at WP&S)
  - Aligning the WSAP and T1/T2 rates
- Issues related to cost causation
  - Growth charge for infrastructure
  - Treated water cost recovery
  - Look back period for Capacity Charge

## Issues to Move Forward

- Compton Purchase Order
  - Board Action in November
- Align Water Supply Allocation Plan and Tier 1/ Tier 2 calculation
  - Option: Tier 2 calculation performed on a fiscal year basis, not calendar year
  - Transition to be worked out

## Compton's Purchase Order Request

- Compton has asked to withdraw its Purchase Order
  - Compton's Tier 1 limit will be lower
  - Compton will potentially be subject to Tier 2 Supply Rates based on the lower limit, both retroactively and going forward
  - No water purchased at Tier 2 through December 31, 2010
- Board Action letter in November
  - Options for Board consideration

## Aligning the WSAP and Tier 1/ Tier 2

- Supply Allocation Plan on a fiscal year basis; Rates and Charges, including Tier 1/Tier 2, on a calendar year basis
- Option #1: WSAP implementation moves up to January 1 from July 1
- Option #2: Tier 2 calculation performed on a fiscal year basis, not calendar year
- Option #3: Effective Date for rate changes moves up from January 1 to July 1 of the prior year

## Aligning the WSAP and Tier 1/ Tier 2: Option #2 Transition

- Calendar year calculation in effect for 2012, fiscal year calculation begins FY 2013/14
  - 6-month gap
- Calendar year calculation in effect for 2012, fiscal year calculation begins FY 2012/13
  - 6-month overlap
  - Tier 2 usage calculated in July – December 2012 credited against Tier 2 usage calculated in January – June 2013

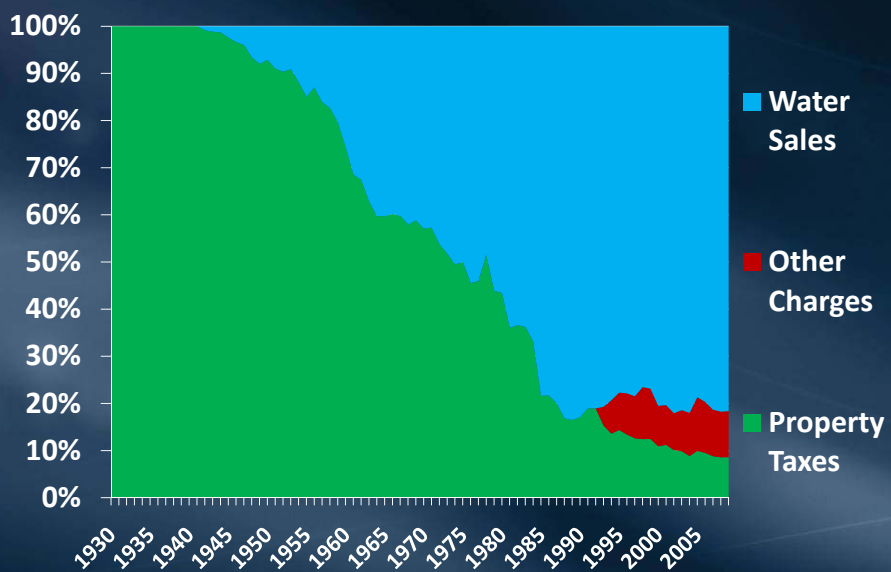
# Framing the Discussions: Background Information

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## Historical Revenue Sources

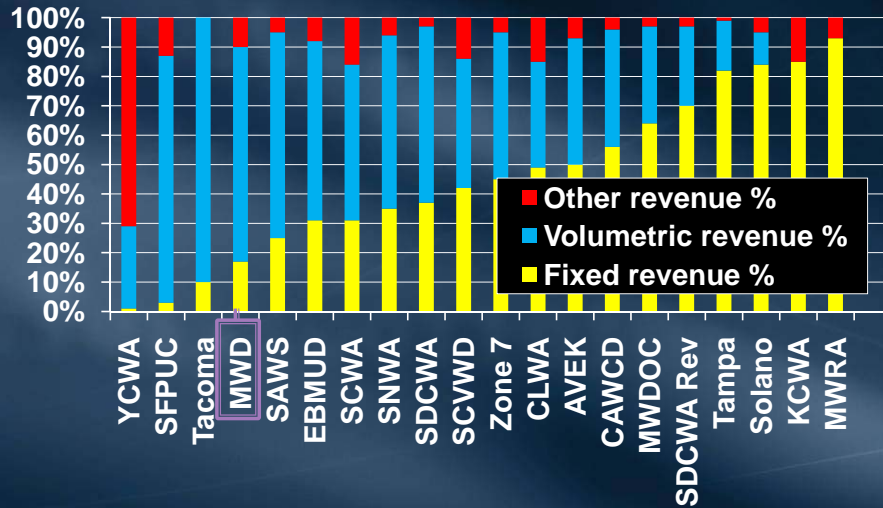


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## Metropolitan's Fixed Revenues Are Lower Than Most Other Agencies



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## Projected Costs and Revenues

2019/20 data from Draft 2010 LRF

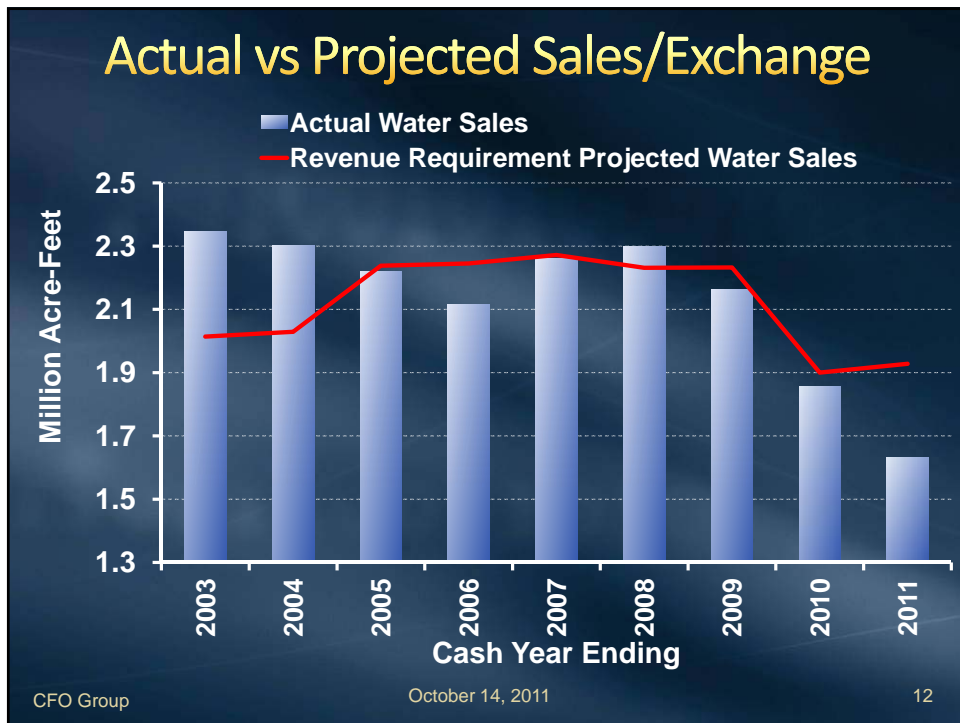
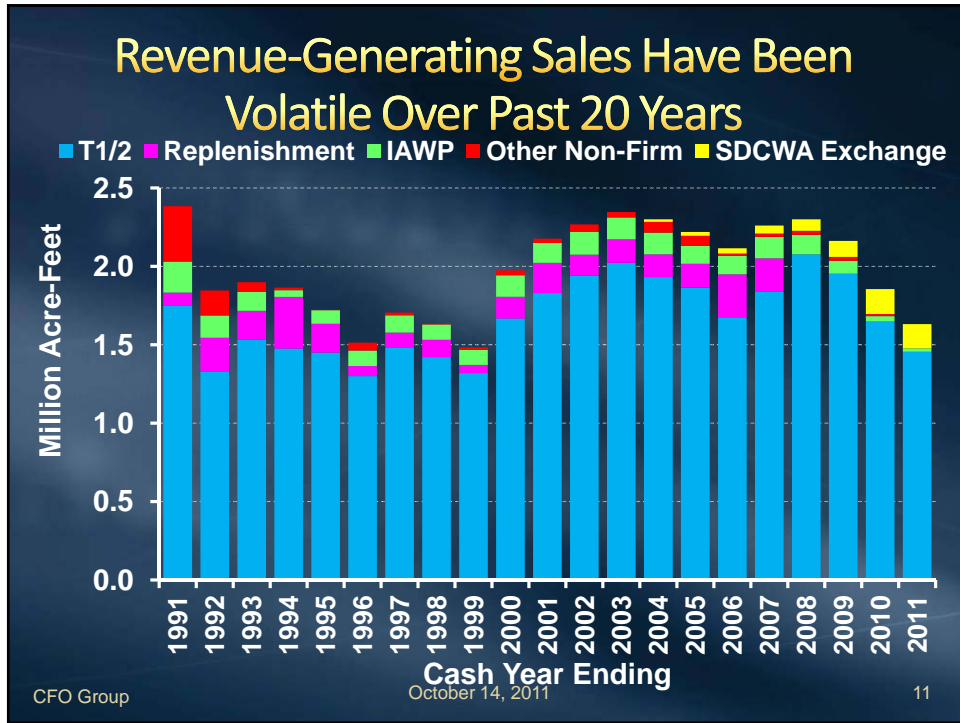


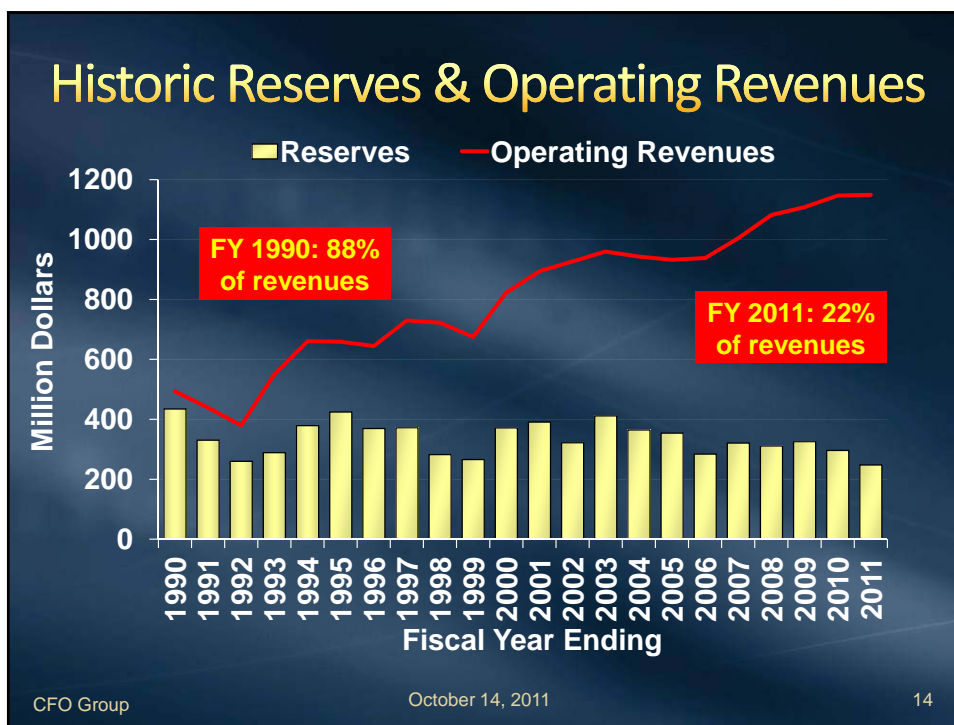
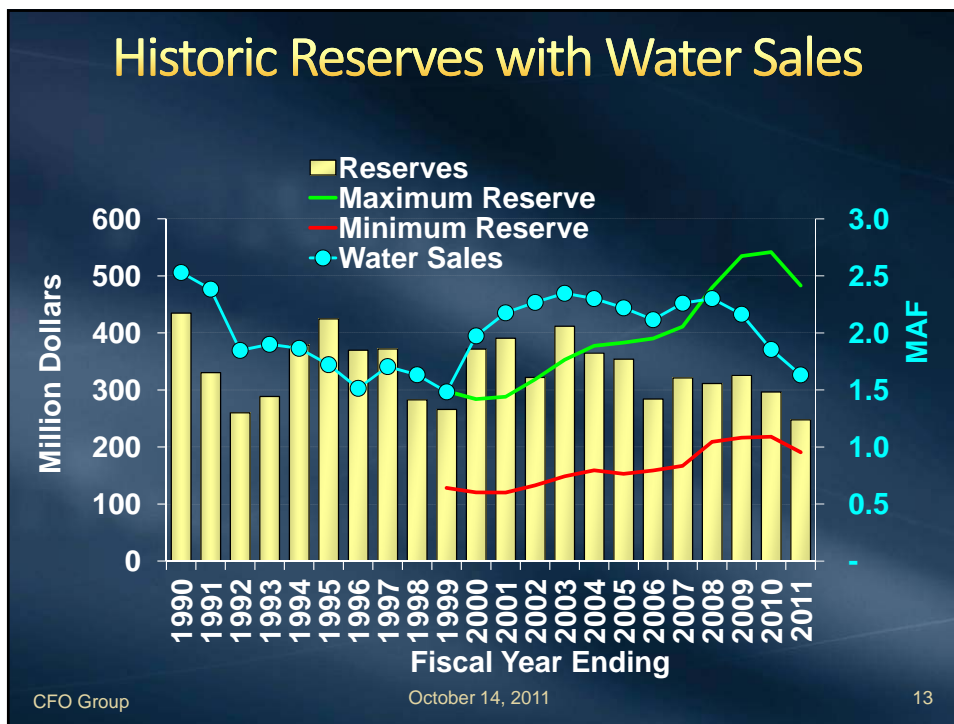
Variable Costs include SWP Variable Power, CRA Power, Variable Treatment, & Supply Programs  
 Fixed Revenues include RTS, CC, and Taxes/Annexations

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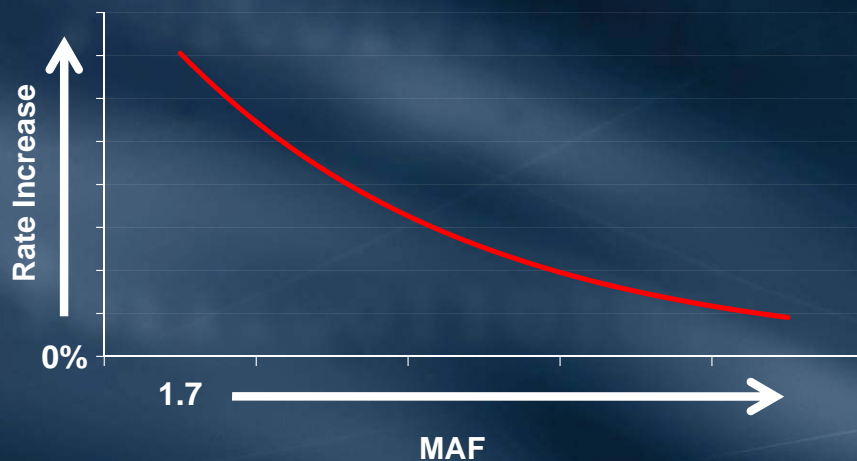
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## Volumetric Rate Structure: Lower Sales can Result in Higher Rate Increases



## Options for Addressing Revenue Volatility



## Options for Addressing Revenue Volatility

- Adjust Reserve Policies
- Rates Based on More Conservative Water Sales Estimates
- Adjust Purchase Order Terms
- Increase Fixed Revenues
  - Adjust Property Tax Rate
  - Adjust Existing Charges
  - New Charges/Fees
- Others

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## Options for Addressing Revenue Volatility

Option	Potential Change(s)	Pros	Cons
Adjust Reserve Policies	<ul style="list-style-type: none"> <li>• Increase reserve requirements</li> <li>• Clarify purpose of reserves, e.g., mitigate against decline in water sales</li> <li>• Further define required actions associated with Reserve Policy</li> </ul>	<ul style="list-style-type: none"> <li>• Does not require changes to rate structure</li> <li>• Could increase revenues</li> <li>• Does not require action by State legislature</li> </ul>	<ul style="list-style-type: none"> <li>• Will take rate increases to increase reserves</li> <li>• Subject to annual rate setting process</li> </ul>
Rates Based on More Conservative Water Sales Estimate	<ul style="list-style-type: none"> <li>• Reduce assumed water sales levels as part of annual rate setting process (e.g., IRP LT Sales Forecast)</li> </ul>	<ul style="list-style-type: none"> <li>• Same as above</li> <li>• Any excess revenues could add to reserves or fund PayGo</li> </ul>	<ul style="list-style-type: none"> <li>• Will increase level of rate increases</li> <li>• Board has been willing to adjust annually</li> </ul>

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## Options for Addressing Revenue Volatility

Option	Potential Change(s)	Pros	Cons
Adjust Purchase Order Terms	<ul style="list-style-type: none"> <li>Establish annual purchase commitments by the member agencies</li> </ul>	<ul style="list-style-type: none"> <li>Does not require changes to rate structure</li> <li>Could decrease revenue volatility</li> <li>Does not require action by State legislature</li> </ul>	<ul style="list-style-type: none"> <li>May require rate structure adjustments by member agencies (i.e., How do member agencies "flow through" the commitment)</li> </ul>
<b>New Fixed Revenues Options</b>			
Adjust Property Tax Rate	<ul style="list-style-type: none"> <li>Maintain/increase tax rate through a change to MWD Act</li> </ul>	<ul style="list-style-type: none"> <li>Stable form of revenue</li> <li>Low administrative cost</li> </ul>	<ul style="list-style-type: none"> <li>Cost of water "muted" – possibly reduces conservation signal</li> <li>Changing MWD Act requires action by State legislature</li> </ul>

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## Options for Addressing Revenue Volatility

Option	Potential Change(s)	Pros	Cons
Adjust Existing Charges	<ul style="list-style-type: none"> <li>Increase costs recovered through RTS/Standby Charge and/or Capacity Charge</li> </ul>	<ul style="list-style-type: none"> <li>Does not require change to rate structure</li> <li>Will increase fixed revenues</li> <li>Does not require action by State legislature</li> </ul>	<ul style="list-style-type: none"> <li>Potentially reduces price signal for local resource development</li> <li>Requires Prop 218 notice process for Standby Charge</li> <li>Could lose grandfathering of existing Standby Charge</li> </ul>
Add to Existing Charges	<ul style="list-style-type: none"> <li>Additional charge on property tax bills other than Standby Charge or Ad Valorem tax</li> </ul>	<ul style="list-style-type: none"> <li>May not require change to rate structure</li> <li>Will increase fixed revenues</li> </ul>	<ul style="list-style-type: none"> <li>Must be within authority to impose</li> <li>Must be compatible with Prop 218 (able to define the special benefit provided) and Prop 26</li> </ul>

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## Options for Addressing Revenue Volatility

Option	Potential Change(s)	Examples
New Charges/Fees  May require action by the State Legislature	<ul style="list-style-type: none"> <li>Addition of one or more charges or fees</li> </ul>	<ul style="list-style-type: none"> <li>Treated Water Capacity Charge</li> <li>Delta Charge</li> <li>Retail Meter Charge (MWDOC)</li> <li>Meter Maintenance Charge (SFPUC)</li> <li>Regional Connection Charge (SNWA)</li> <li>Seismic Surcharge (EBMUD)</li> <li>Water Supply Replacement Charge (El Paso)</li> <li>Environmental Charge (Phoenix)</li> <li>Fixed Availability Fee (Charlotte)</li> <li>Customer Service Charge (SDCWA)</li> <li>Revenue Stability Fee (Austin Water)</li> <li>Other</li> </ul>

## Next Steps

- Work through Options
  - Both presented and proposed
  - More in-depth analysis
- Consensus to remove or add Options
- Next meetings
  - November 14, pm
  - December 5