

Public Hearing

Options for Rates and Charges

Fiscal Years 2014/15 and 2015/16

Board Meeting
March 11, 2014

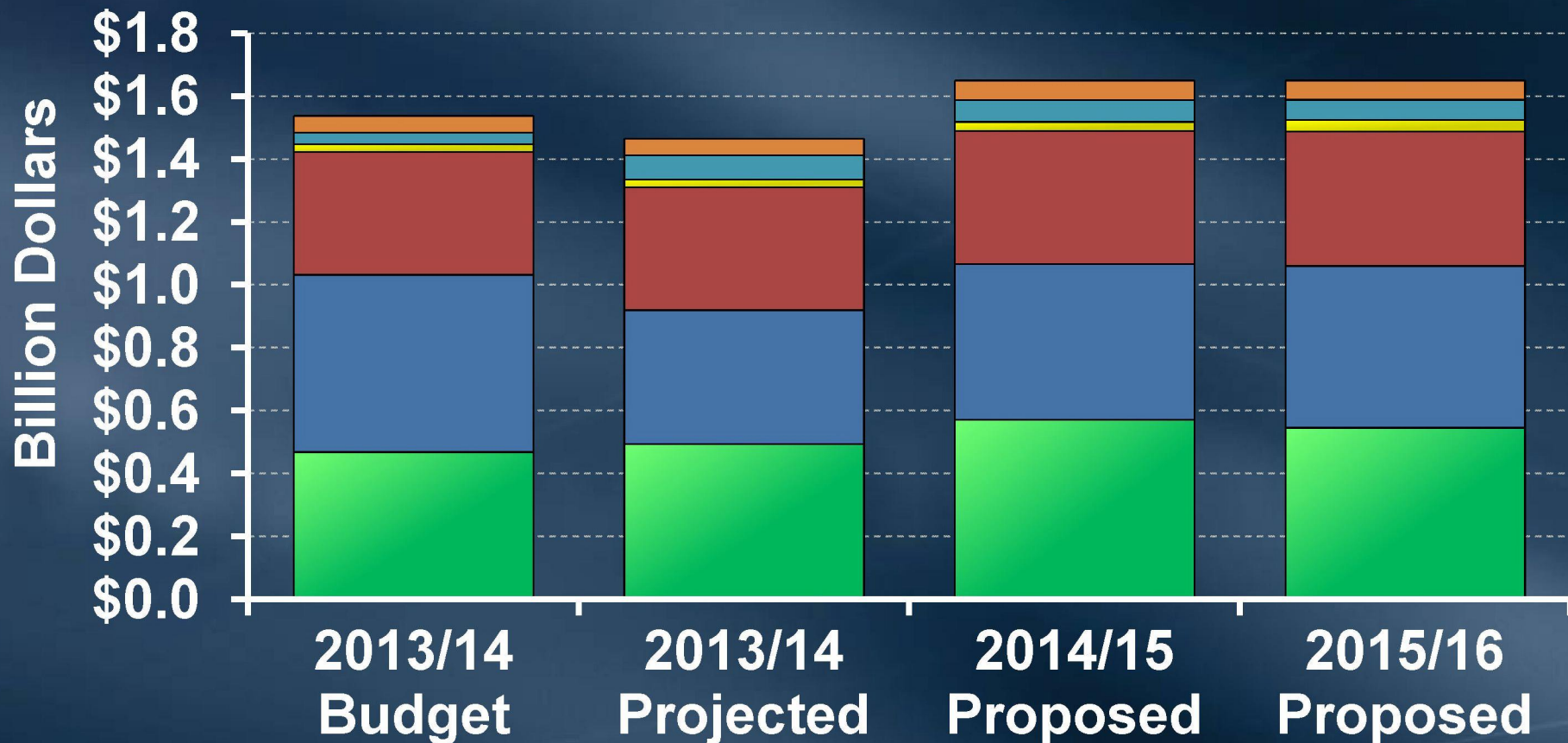


- Option 1 – was Scenario A
- Option 2 – was Scenario B

Expenditure Trend

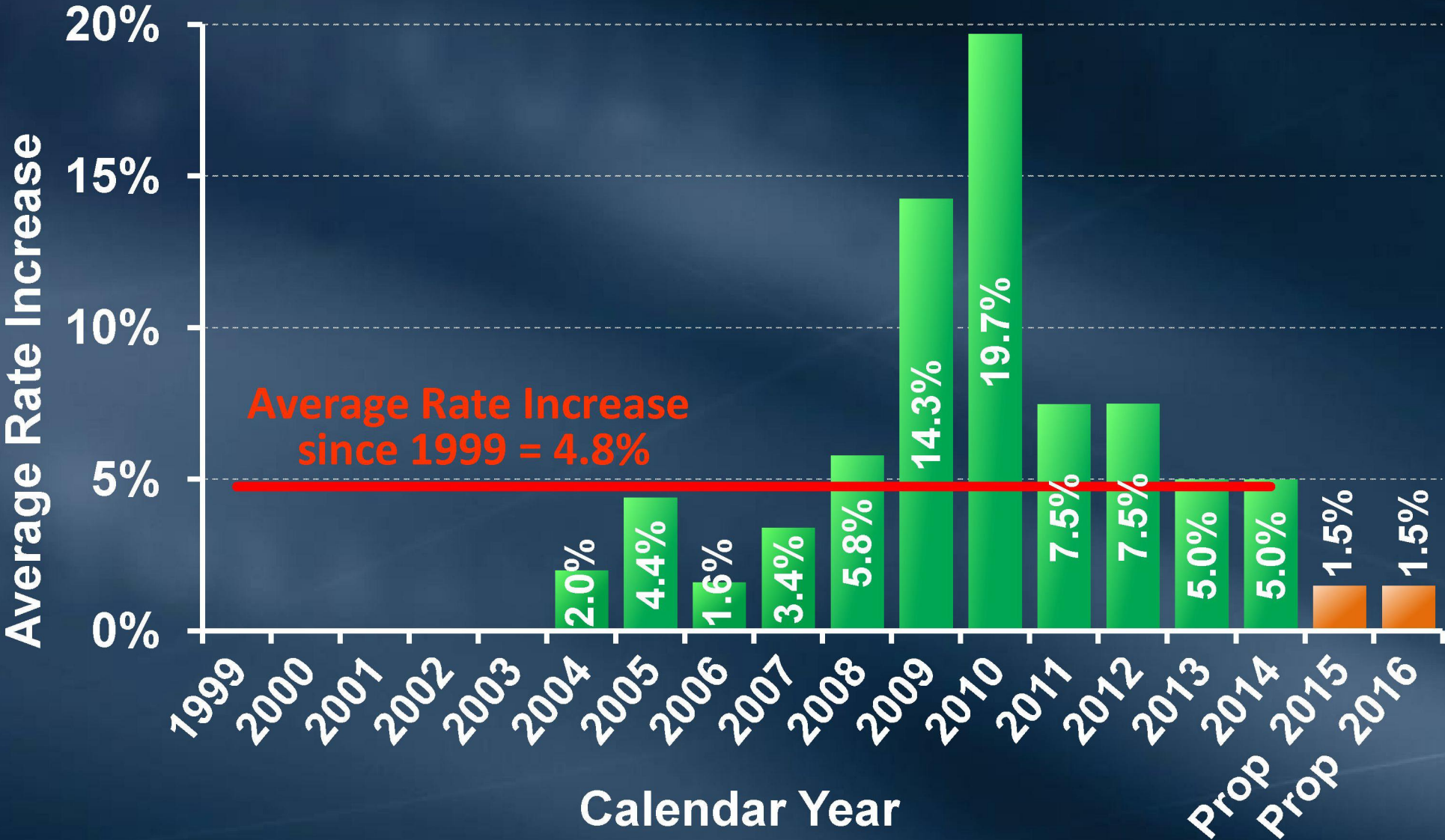
Option 1

- Demand Management
- Colorado River Power
- State Water Contract
- Supply Programs
- O&M
- Capital Financing



Overall Rate Increases Since 1999

Option 1



Metropolitan's Credit Ratings

AAA / Aa1 / AA+

- Rating outlook of Stable
- Strong and experienced management team
- Board demonstrated willingness and ability to implement water rate increases
- Well managed financial operations with financial policies, reserve balances, and financial ratios at levels generally consistent with high grade credit ratings
- Well established long-term capital planning capability and execution

Rate Options

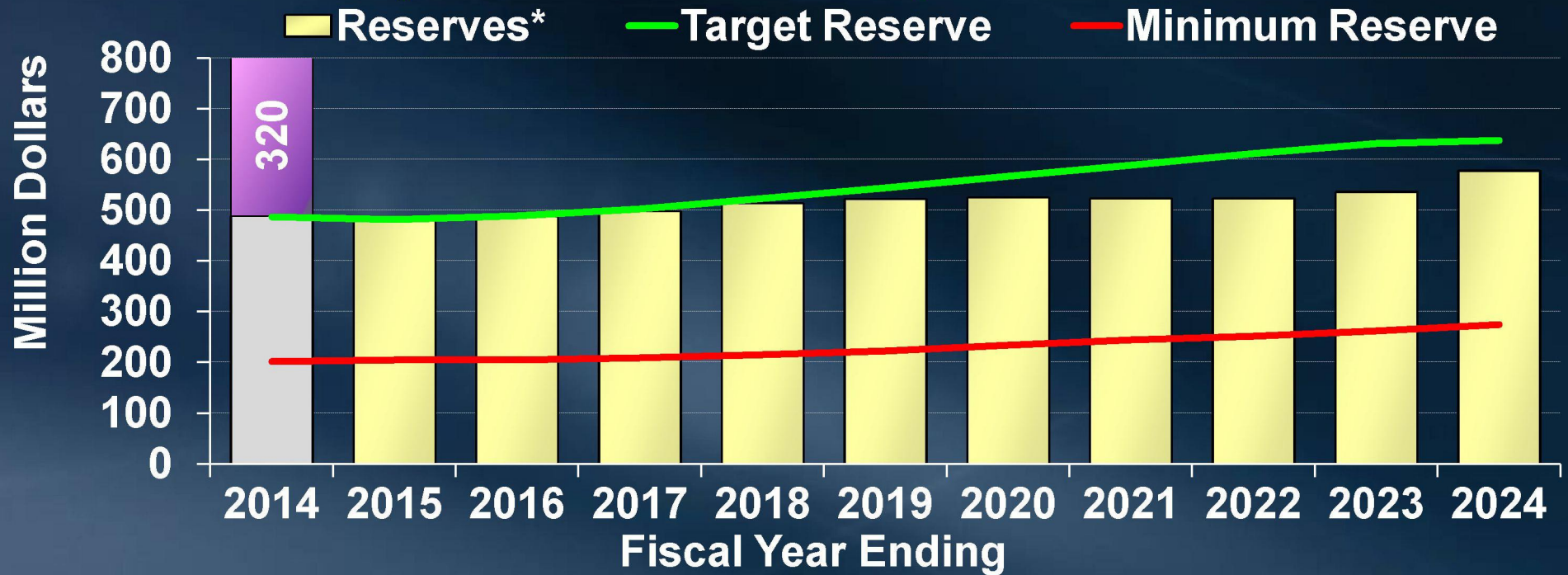
January 1, 2015 and January 1, 2016

- Option 1: 1.5% / 1.5%
- Option 2: 0% / 1.5%
- All options substantially meet financial policies
- Options 1 provide higher reserve levels and lower rate increases in later years

Option 1: 1.5% / 1.5%

- Staff Recommendation
- Average rate increase of 1.5% January 1, 2015
- Average rate increase of 1.5% January 1, 2016
- Rate increases in the 3% to 5% range in later years

Option 1: 1.5%/1.5%



Ave Rate Inc.	5%	1.5%	1.5%	3%	3%	3.5%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	245	221	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	2.0	2.0	2.1	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0	1.6	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.4	1.4
Inflation	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
AV Taxes, \$M	81	90	92	94	96	99	101	103	105	108	110
BDCP, \$M				15	24	46	91	148	204	259	302

* Revenue Remainder & WRSF

Option 1

Rate Elements

Rates and Charges Effective January 1			
	2014	2015	2016
	Approved	Proposed	Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$158	\$156
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$257	\$259
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$126	\$138
Treatment Surcharge (\$/AF)	\$297	\$341	\$348
Readiness-to-Serve Charge (\$M)	\$166	\$158	\$153
Capacity Charge (\$M)	\$31	\$44	\$43

Option 1

Full Service, Exchange and Charges

Rate Type	2014 Approved	2015 Proposed	% Increase (Decrease)	2016 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$593	\$582	-1.9%	\$594	2.1%
Tier 2	\$735	\$714	-2.9%	\$728	2.0%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$890	\$923	3.7%	\$942	2.1%
Tier 2	\$1,032	\$1,055	2.2%	\$1,076	2.0%
Full Service Untreated Exchange Cost (\$/AF)	\$445	\$424	-4.7%	\$438	3.3%
RTS Charge (\$M)	\$166	\$158	-4.8%	\$153	-3.2%
Capacity Charge (\$/cfs)	\$8,600	\$11,100	29.1%	\$10,900	-1.8%

Option 2: 1.5% / 1.5%

- Average rate increase of 1.5% January 1, 2015
- Average rate increase of 1.5% January 1, 2016
- Lowered revenue-funded capital (PAYGO)
 - \$7 million in FY 2014/15 to \$238 M
 - \$21 million in FY 2015/16 to \$200 M
- Increased draw on R&R Fund by same amount
- Rate increases in the 3.5% to 5% range in later years

Option 2: 0%/1.5%



Ave Rate Inc.	5%	0%	1.5%	3.5%	3.5%	4%	5%	5%	5%	5%	5%
Sales, MAF	1.97	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
CIP, \$M	200	245	268	275	281	284	293	304	312	317	313
PAYGO, \$M	125	238	200	200	204	201	176	182	187	190	188
Rev. Bond Cvg	2.7	2.0	2.0	1.9	2.0	2.0	2.2	2.4	2.6	2.7	2.9
Fixed Chg Cvg	2.0	1.6	1.6	1.5	1.5	1.6	1.5	1.5	1.5	1.4	1.4
Inflation	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
AV Taxes, \$M	81	90	92	94	96	99	101	103	105	108	110
BDCP, \$M				15	24	46	91	148	204	259	302

* Revenue Remainder & WRSF

Option 2: Proposed Rate Elements

Rates and Charges Effective January 1			
	2014 Approved	2015 Proposed	2016 Proposed
Tier 1 Supply Rate (\$/AF)	\$148	\$155	\$154
Tier 2 Supply Rate (\$/AF)	\$290	\$290	\$290
System Access Rate (\$/AF)	\$243	\$253	\$257
Water Stewardship Rate (\$/AF)	\$41	\$41	\$41
System Power Rate (\$/AF)	\$161	\$125	\$137
Treatment Surcharge (\$/AF)	\$297	\$335	\$339
Readiness-to-Serve Charge (\$M)	\$166	\$155	\$148
Capacity Charge (\$M)	\$31	\$43	\$41

Option 2: Proposed Full Service, Exchange & Charges

Rate Type	2014 Approved	2015 Proposed	% Increase (Decrease)	2016 Proposed	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$593	\$574	-3.2%	\$589	2.6%
Tier 2	\$735	\$709	-3.5%	\$725	2.3%
Full Service Treated Volumetric Cost (\$/AF)					
Tier 1	\$890	\$909	2.1%	\$928	2.1%
Tier 2	\$1,032	\$1,044	1.2%	\$1,064	1.9%
Full Service Untreated Exchange Cost (\$/AF)	\$445	\$419	-5.8%	\$435	3.8%
RTS Charge (\$M)	\$166	\$155	-6.6%	\$148	-4.5%
Capacity Charge (\$/cfs)	\$8,600	\$10,900	26.7%	\$10,500	-3.7%

Next Steps

February 10, 2014	F&I Committee, presentation
February 11, 2014	Board Action, set public hearings
February 20, 2014	Notice to Legislature
February 25, 2014	Workshop #2
March 10, 2014	Workshop #3
March 11, 2014	Public Hearings
March 25, 2014	Additional Workshop, if needed
April 7, 2014	F&I Committee, Approve Biennial Budget and Water Rates and Charges
April 8, 2014	Board, Approve Biennial Budget and Water Rates and Charges

Discussion



Suspend Tax Rate Restrictions of Section 124.5 of the MWD Act for FY 2014/15

Board Meeting

Item _____

March 11, 2014

Discussion Overview

- Review of property taxing authority
- Metropolitan Water District Act Section 124.5 provisions
- Resolution Finding that Maintaining the Ad Valorem Tax Rate for Fiscal Year 2014/15 is Essential to the Fiscal Integrity of the District
 - Findings needed to maintain tax rate
 - Factors to consider to support findings

Ad Valorem Tax Background

- MWD Act authorizes property taxes
- By Proposition 13, voters set limits for ad valorem property taxes
- Proposition 13 included an exception to allow agencies to repay certain indebtedness
- Metropolitan's share of SWP costs are within the exception for indebtedness
- Metropolitan's general obligation bonds are within the exception for indebtedness

Provisions of Metropolitan Water District Act Section 124.5

- Enacted by the Legislature in 1984 with Metropolitan support
- Restricts ad valorem taxes to the amount necessary to cover debt service for Metropolitan's General Obligation bonds and Burns-Porter bonds
- Authorizes suspending the tax limit if the Board finds that doing so is "essential to the fiscal integrity of the district"
 - Must hold a public hearing
 - Must notify the Speaker of the Assembly and the President pro Tempore of the Senate at least 10 days prior to the date of the hearing

Current Ad Valorem Tax Rate

- .0035% of assessed valuations
- Averaged assessed value of a single-family residence in Los Angeles County is \$300,000
 - Results in AV tax assessment of \$10.50 per year
- Proposal to maintain the rate for FY 2014/15

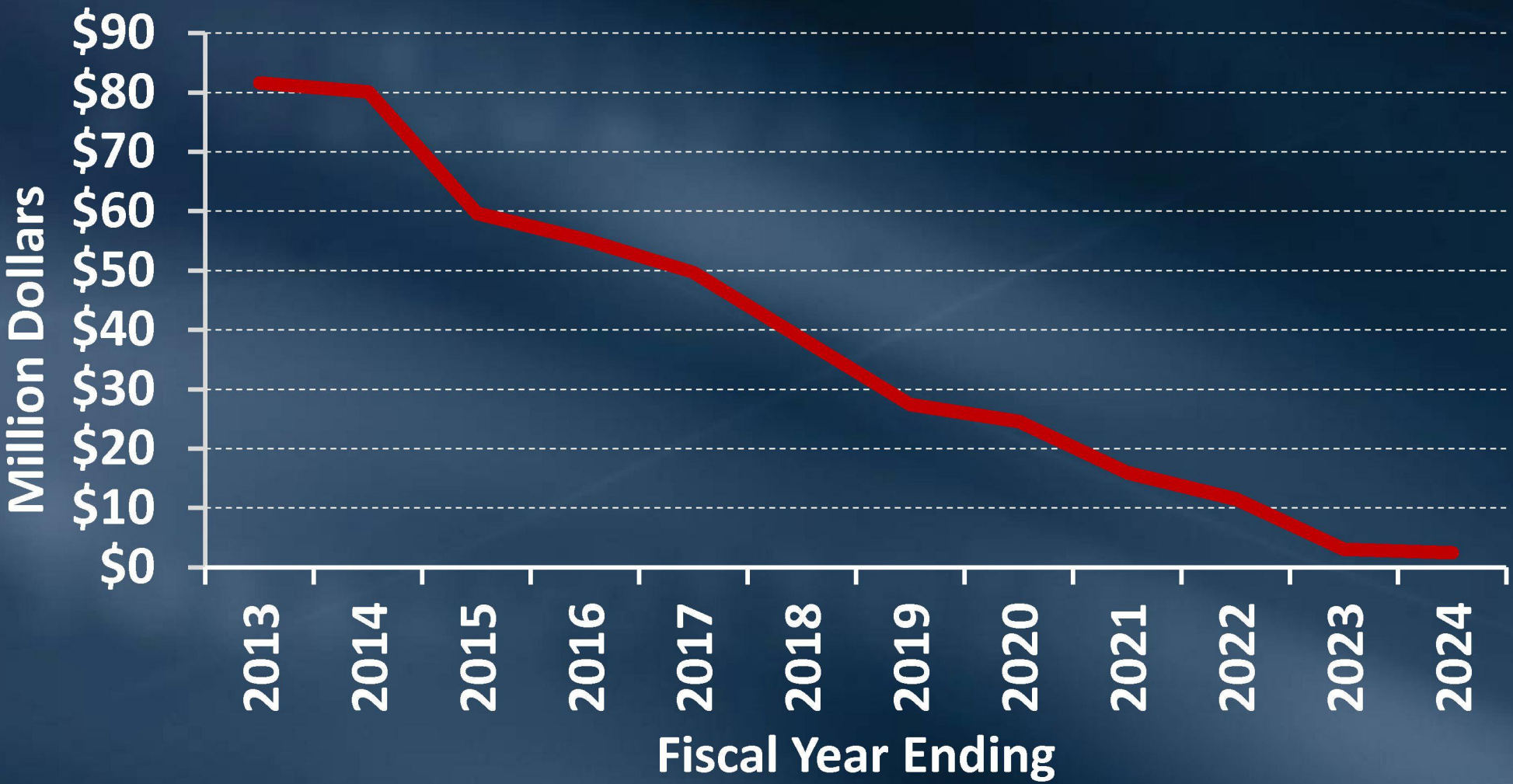
Reasons to Maintain the Ad Valorem Tax Rate

- SWC obligations have steadily increased and are expected to continue to increase
 - ~30 percent of budgeted expenditures; the single largest cost category
 - Absent freeze, taxes will continue to decrease
- Ad valorem taxes help ensure a fair and appropriate balance between fixed costs and fixed revenues
 - ~85 percent of Metropolitan's costs are fixed, yet only 18 percent of revenues are fixed
 - ~65 percent of SWC obligations are fixed, yet ad valorem taxes on Burns-Porter bonds are only 7 percent of the SWC costs

Benefits of Maintaining the Ad Valorem Tax Rate

- Metropolitan ensures a reliable supplemental water supply to a broad service area; the region and its substantial economy benefit from the availability of water
- Ad valorem taxes are a unique tool to ensure that the cost of Metropolitan's services are shared by all residences and businesses

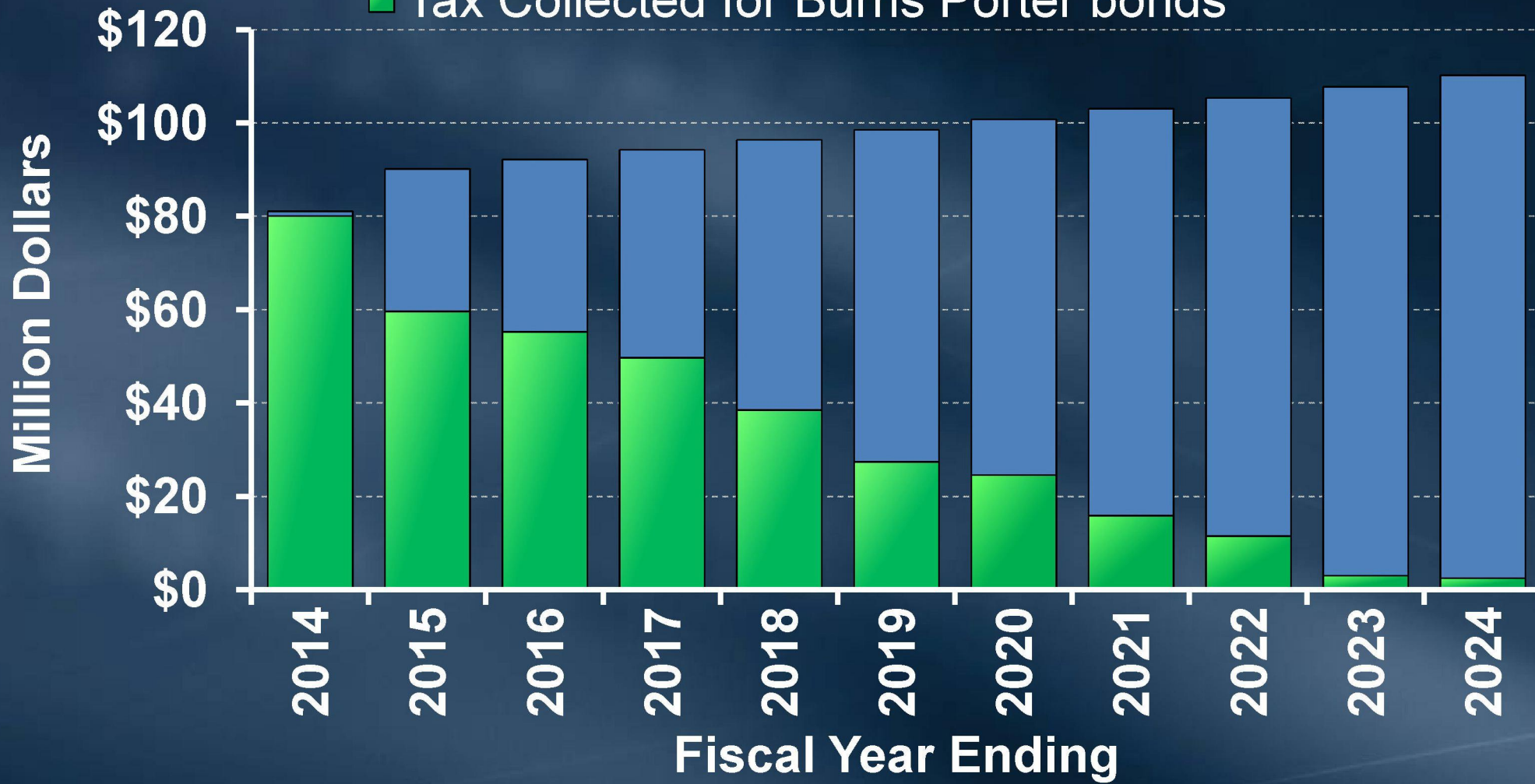
Tax Collected for Burns Porter Bonds



March 11, 2014

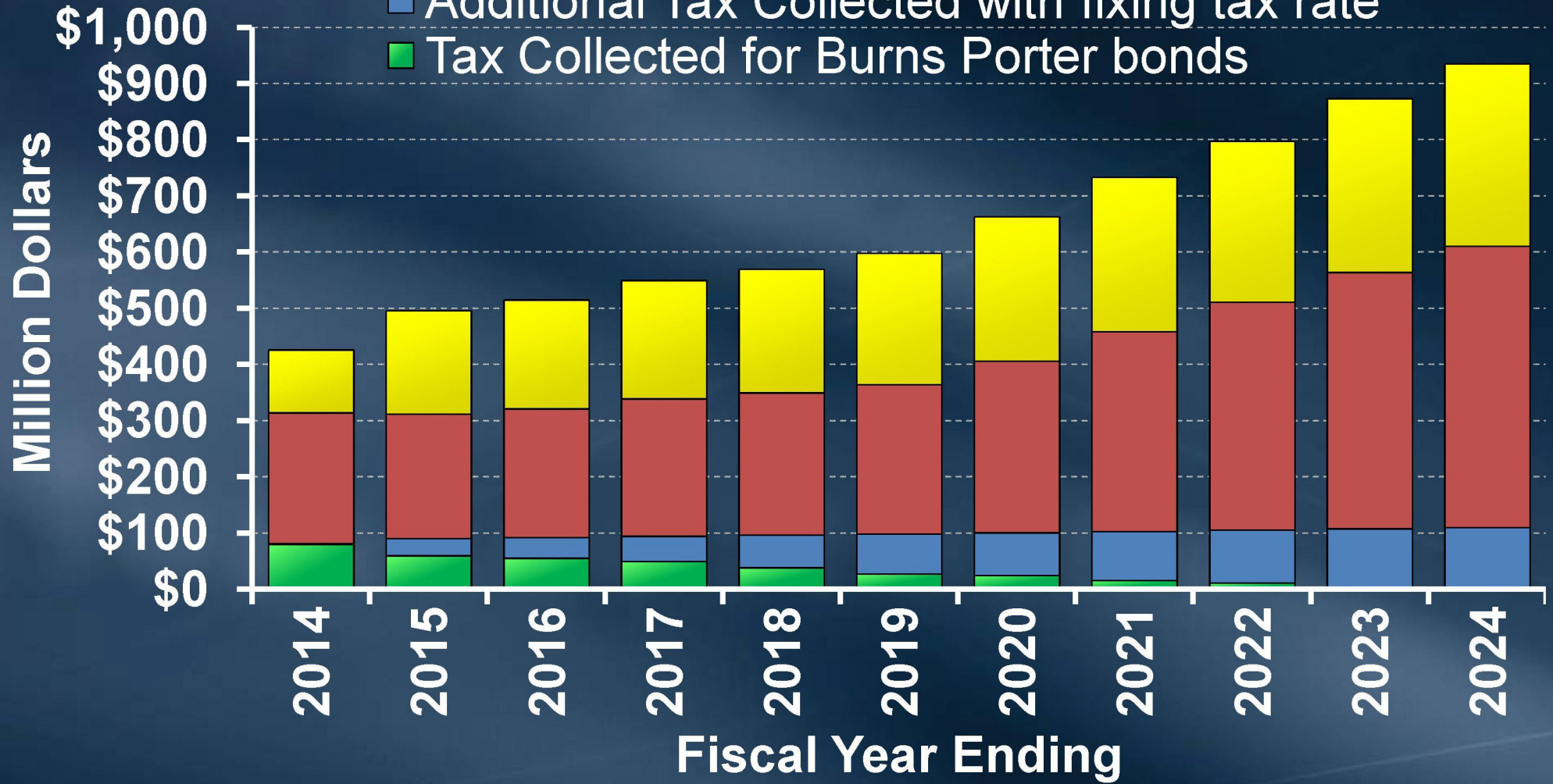
Tax Collected

- Additional Tax Collected with fixing tax rate
- Tax Collected for Burns Porter bonds



State Water Contract Costs

- Variable Power
- Remaning Fixed Costs
- Additional Tax Collected with fixing tax rate
- Tax Collected for Burns Porter bonds



Process

- May 13: F&I made recommendation to Board to set a Public Hearing to freeze the ad valorem tax rate restriction for FY 2014/15
- Feb 11: Board set the Public Hearing
- Feb 20: Notice to Legislature
- June 10: F&I to recommend Action
- June 11: Public Hearing

Board consideration of Resolution Finding that Maintaining the Ad Valorem Tax Rate for Fiscal Year 2014/15 is Essential to the Fiscal Integrity of the District

Board Options

- Option #1
 - Adopt the CEQA determination
 - Adopt the Resolution Finding that Maintaining the Ad Valorem Tax Rate for Fiscal Year 2014/15 is Essential to the Fiscal Integrity of the District
- Option #2
 - Take no action

Staff Recommendation

- Option #1 – Adopt CEQA determination and adopt the Resolution Finding that Maintaining the Ad Valorem Tax Rate for Fiscal Year 2013/14 is Essential to the Fiscal Integrity of the District

March 11, 2014



March 11, 2014