Mitigated Negative Declaration for the Pipelines 3 & 4 Relining Project – Pipeline 4: State Route 52 to Lake Murray, and Pipeline 3: 30-inch Interconnect to Lake Murray Control Valve

Water Planning Committee
January 27 2011
Regional Location

Project Site
Project Components/Objectives

- Reline a 3-mile segment of Pipeline 4 from SR-52 through Mission Trails Regional Park to Lake Murray

- Reline a half-mile portion of Pipeline 3 along Lake Shore Drive, south of Jackson Drive, in the community of San Carlos and city of La Mesa

- Rehabilitate pipelines to ensure a safe and reliable water supply for our region’s future
Environmental Impacts

Biological Resources: Diegan coastal sage scrub, non-native grassland, and chaparral habitats

Least Bell’s vireo, coastal California gnatcatcher, and various protected raptor species

Noise: Temporary noise impact to closest residences

Temporary noise impact affecting sensitive biological resources mentioned above

All impacts are avoided or reduced to below a level of significance
Public Comment

• 5 comment letters were received
  • 2 from regulatory agencies, and
  • 3 from local agencies and organizations

• Comments focused on:
  • Biological impacts and refinement of mitigation efforts;
  • Avoidance of cultural resource impacts;
  • Construction traffic; and
  • Construction drainage and storm water control

• No comments at the September 23, 2010 public hearing on the Draft MND
Administrative Actions

September 3, 2010  Notice of Completion sent to State Clearinghouse; Public Notice of Intent posted at County and published in Union Tribune newspaper; Draft MND distributed; Public comment period started

September 23, 2010  Public Hearing held

October 2, 2010  Public comment period ended

January 27, 2011  Recommendation for adoption of Final MND and MMRP presented to Board of Directors
Staff Recommendation

It is recommended the Board adopt a Resolution that:

• Approves the Final MND, confirming that it has been completed in compliance with CEQA and State CEQA Guidelines, and reflects the independent judgment of the Board;

• Adopts a Mitigation Monitoring and Reporting Program (Attachment A to the Resolution);

• Approves the project proposed in the Final MND Project Description as the selected project; and

• Authorizes the filing of a Notice of Determination.
Water Supply Conditions

Water Planning Committee
January 27, 2010
State Water Project Table A Allocation
Calendar Year 2011

- 60% Table A allocation
  - 25% Initial allocation on November 22, 2010
  - Increased to 50% on December 17, 2010
  - Increased to 60% on January 21, 2011

- CY 2010 Table A allocation
  - 5% Initial allocation
  - 50% Final allocation
  - Hydrologic conditions near normal
Statewide Snow Water Equivalents
January 24, 2011

<table>
<thead>
<tr>
<th>Region</th>
<th>Inches</th>
<th>% Average</th>
<th>% April 1 Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Sierra</td>
<td>19</td>
<td>117</td>
<td>66</td>
</tr>
<tr>
<td>Central Sierra</td>
<td>23</td>
<td>136</td>
<td>76</td>
</tr>
<tr>
<td>Southern Sierra</td>
<td>26</td>
<td>188</td>
<td>97</td>
</tr>
<tr>
<td>Statewide</td>
<td>22</td>
<td>144</td>
<td>79</td>
</tr>
</tbody>
</table>

Data provided by the California Cooperative Snow Surveys
Storage in Oroville and San Luis Reservoirs in 2010 and 2011

January 23, 2010
- Oroville: 1.13 MAF
- San Luis: 1.05 MAF

January 23, 2011
- Oroville: 2.38 MAF
- San Luis: 1.85 MAF

Capacity average:
- San Luis: 56%
- Oroville: 108%
Colorado River Conditions
January 24, 2011

- Upper Colorado water year 2011 precipitation to date
  - 136% of average

- Current Basin Snowpack
  - 134% of average

- Unregulated inflow to Lake Powell forecast in January
  - 94% of normal
Local Precipitation

- Heavy storms throughout southern California in mid-December
- January has been dry

<table>
<thead>
<tr>
<th>Station</th>
<th>July 1, 2010 - January 25, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
</tr>
<tr>
<td>Lindbergh Field</td>
<td>8.37”</td>
</tr>
<tr>
<td>Ramona Airport</td>
<td>15.65”</td>
</tr>
</tbody>
</table>
Total Local Reservoir Storage*

1/25/11:
350,800 AF
126% of Average
↑ 69,000 AF from 1/25/10

*Includes about 37 TAF of Water Authority carryover storage
Summary

- WY 2011 off to a great start
  - Above average precipitation, snowpack, and reservoir storage
  - 60% SWP Table A allocation
- But, it is still early in the season
  - La Niña conditions are expected to last through Spring 2011
  - Outlook is for below average precipitation in the southwest
La Niña develops when stronger than normal trade winds push warm water farther west.
MWD Water Supply Update

Water Planning Committee

January 27, 2011
Background

- 2008 - Water Supply Allocation Plan adopted
  - MWD currently in 2\textsuperscript{nd} year of Level 2 allocation

- 2010 - Storage and supply portfolio improved
  - Levels increased due to favorable supply conditions statewide and lower than anticipated demands
Background – cont.

- 2011 – MWD will begin the year with ~1.7 MAF in storage
  - Nearly 700 TAF more than previous year
  - 1/3 of total available WSDM dry-year storage capacity of 5.2 MAF
  - Still lower than start of 2007 storage of 2.2 MAF
Colorado River Aqueduct – 2011 supplies  (as of January 2011)

<table>
<thead>
<tr>
<th>Colorado River Aqueduct supplies</th>
<th>Acre-Feet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Apportionment</td>
<td>550,000</td>
</tr>
<tr>
<td>Other CR Programs and Transfers</td>
<td>291,000</td>
</tr>
<tr>
<td>Water Exchanged with SDCWA (IID Transfer &amp; Canal Lining projects)</td>
<td>161,000</td>
</tr>
<tr>
<td><strong>Subtotal available CRA supplies</strong></td>
<td><strong>1,002,000</strong></td>
</tr>
<tr>
<td>Demands and Obligations</td>
<td>(155,000)</td>
</tr>
<tr>
<td><strong>Total CRA System Available Supplies</strong></td>
<td><strong>847,000</strong></td>
</tr>
</tbody>
</table>
State Water Project – 2011 supplies (as of January 2011)

<table>
<thead>
<tr>
<th>State Water Project supplies</th>
<th>Acre-Feet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table A (60 percent allocation)</td>
<td>1,147,000</td>
</tr>
<tr>
<td>Other SWP Programs and Transfers</td>
<td>147,000</td>
</tr>
<tr>
<td><strong>Subtotal available SWP supplies</strong></td>
<td><strong>1,294,000</strong></td>
</tr>
<tr>
<td>Demands and Obligations</td>
<td>(74,000)</td>
</tr>
<tr>
<td><strong>Total SWP System Available Supplies</strong></td>
<td><strong>1,220,000</strong></td>
</tr>
</tbody>
</table>
MWD 2011 Supply/Demand Outlook

Demands Assumption (WSAP Level 2)

Demands - Current Trend

SWP
1.22 MAF
(60% Allocation)

CRA
847 TAF

CY 2011
Next Steps

- MWD Board to consider WSAP action for FY 2012 in April

- Staff will continue to monitor MWD’s supply and demand conditions
• Vision for California water
• Objectives to help achieve vision
• Recommendations for decision-makers
• Reports specific to each hydrologic region
• 3 baseline scenarios for state in 2050
  • Incorporates uncertainty, risk, sustainability
• Two over-arching initiatives:
  – Support integrated water management
  – Ensure reliable water supplies through 2050
• Foundational actions support initiatives
• 27 resource management strategies support supply development
Water Plan Update 2013

- Process has begun
- New update will include many familiar elements
- Probably will again emphasize regional planning and local supply development
- Manage resources with supply reliability and ecosystem health as equal goals
Water Plan Update 2013 (continued)

• Several enhancements proposed
  – Increased emphasis on water quality, flood management and groundwater
  – Include information from UWMPs and identify linkages to land use planning
  – Clarify state’s role in water planning and management
  – Improve data management and sharing
  – Estimate need for “environmental water” beyond regulatory requirements
Questions for Update 2013 process

• Specific Delta solutions?
  • 2009 Update:
    • Strategies include CALFED storage and Delta conveyance
    • “Manage a sustainable California Delta”
    • Potential impact of climate change on Delta

• Estimating “environmental water” needs?

• What are Water Authority’s priorities?
  • Plan should provide tools we can use to help maintain reliable water supplies and good water quality
  • Plan should support local supply development, as identified in Urban Water Management Plan
Opportunities for involvement

- Public Advisory Committee
- Regional forums
- Interest-based caucuses
- South Coast regional report
Development of Fiscal Years 2012 and 2013 Multi-Year Budget
Agenda

- Budget Context
- 2012/2013 Look Ahead
- Understanding the Water Authority’s Key Budget Drivers
  - External
  - Organizational
- Schedule
Regional Water Supply Diversification

1991

- Metropolitan Water District: 95%
- Imperial Irrigation District Transfer: 5%
- All American & Coachella Canal Lining: 13%
- Conservation: 5%

2011 (Allocation Year)

- Metropolitan Water District: 48%
- Imperial Irrigation District Transfer: 3%
- All American & Coachella Canal Lining: 14%
- Conservation: 12%
- Local Surface Water: 5%
- Recycled Water: 5%
- Seawater Desalination: 3%
- Groundwater: 22%

2020

- Metropolitan Water District: 23%
- Imperial Irrigation District Transfer: 10%
- All American & Coachella Canal Lining: 9%
- Conservation: 7%
- Local Surface Water: 6%
- Recycled Water: 6%
- Seawater Desalination: 7%
- Groundwater: 17%
Budget Development Context

- Reduced water sales/revenue
- Transition from “building” to “operating/maintaining” type of organization
- Overall economy of the region
- Escalating water costs
- Heightened scrutiny/demand for increased transparency
2012 & 2013 Look Ahead

- Uncertain water sales volumes
- Key Programmatic Challenges
  - QSA litigation
  - MWD lawsuit
  - San Vicente Dam Raise
  - Carlsbad Desalination Project
  - Bay Delta fix
    - Continuing Allocations
- Organizational Structure
  - Prioritization of services
  - Staffing reductions
Water Authority Costs: 2-Year Budget

Three categories account for 98% of the total budget:

- Water Purchases and Treatment: $764 MM (46%)
- CIP and Debt Service: $766 MM (46%)
- Operating Departments: $91 MM (6%)

TOTAL: $1,654,650 (100.0%)
Water Authority Treated Water Rate: Where the Dollars Go

$1,026/AF

- MWD Costs: $564 (55%)
- Infrastructure (CIP): $287 (28%)
- Water Authority Treatment: $36 (3.5%)
- Operating Costs: $56 (5.5%)
- QSA Supplies: $82 (8%)
MWD Water Sales and Rates 2000-2020

- Actual Sales (excludes QSA & Canal Lining)
- Actual Full Service Treated Tier 1
- Average Rate Forecast from Dec. 1, 2010 Draft LRFP
External Drivers

- **Water Sales**
  - Reduced Demand from 2005 Urban Water Management Plan
  - 20% Reduction in Use by 2020

- **Water Purchases**
  - MWD Price Escalation
  - Continued MWD Cost Shift as IID Water Increases
  - Impact of Litigation
  - Bay-Delta Resolution
Organizational Drivers

- Transition from Building to Operations & Maintenance Organization
- Attain Fiscal Sustainability
- Achieve Water Reliability
  - Define level of service requirements
Operations Organization

- Ensure operational integrity
- Identify essential services
- Consolidate/reorganize
- Cost efficiencies in delivering services
- Adequately staff for new facilities coming on-line
- Comprehensive reliability and cost assessment (CRACA)
Fiscal Sustainability

- Seek to match firm expenses to firm revenue
- Ensure full transparency and accountability on rate setting and financials
- Explore opportunities for strategic rate modifications
- Maintain appropriate debt service coverage ratio (DSCR)
Water Reliability

- Implementation of QSA
- Desalination projects in three areas (Carlsbad, Pendleton, and Bi-National)
- Maintain conservation ethic
- Complete emergency storage suite of projects
- Enhance operational ability of transportation facilities
Schedule

- **February**
  - Board Presentation of Five-Year High/Low Rate Forecast (A&F) and Urban Water Management Plan (WP) efforts

- **May**
  - Board presentation of Recommended Budget
  - Notice of public hearing for 2012 Rates & Charges

- **June**
  - Special A&F Committee - Budget Workshops
  - Board consideration/adoption of Recommended Budget
  - Hold public hearing on 2012 Rates & Charges
Questions for Board

- Are there any other significant drivers that have not been identified?
- Where should the Authority’s efforts be focused?
- Are there any areas that should receive more or less attention?
- How should costs be balanced with service levels?
Completion of CRACA Process

Administrative & Finance Committee Meeting

January 27, 2011
Agenda

- What changed?
- What should we do about it?
- Re-prioritization
  - Re-evaluate some projects
  - Defer construction phase on others
- Impacts of re-prioritization
- Other issues to be worked
- Committee Recommendation
What changed?

- Economic downturn
- Prolonged drought and conservation
- Reduced water demands and revenue
- Transitioning to focus on asset management & systems operations
What’s our plan?

- **Re-prioritization**
  - Extends Board direction of January 2009 to defer some projects
  - Projects are not necessary to meet current demands
  - Allows time to sort out future demands and economic issues
  - Postpones debt and rate impacts

- **Defer 14 projects**
  - Refer half of them for re-evaluation
  - Defer construction phase other half
## Re-evaluate Projects

<table>
<thead>
<tr>
<th>Project</th>
<th>Re-evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Referred to Facilities Master Plan Update</strong></td>
<td></td>
</tr>
<tr>
<td>San Vicente 3rd Pump Drive</td>
<td>Re-examine scope and timing of project</td>
</tr>
<tr>
<td>North County Pump Stations</td>
<td>Swapping pipelines 3 &amp; 4 may drive new locations for pump stations</td>
</tr>
<tr>
<td>Pipeline 6</td>
<td>Evaluate ongoing need and/or timing for pipeline in view of current demands and potential of swapping pipelines 3 &amp; 4</td>
</tr>
<tr>
<td>Restore Untreated Water in LMSE</td>
<td>Re-examine the need for this project</td>
</tr>
<tr>
<td><strong>Referred to Asset Management Program</strong></td>
<td></td>
</tr>
<tr>
<td>Fallbrook 7/Rainbow 14 FCF’s</td>
<td>Evaluate against other Asset Management priorities</td>
</tr>
<tr>
<td>Fallbrook 8 FCF &amp; Deluz 1 SCADA</td>
<td>Evaluate against other Asset Management priorities</td>
</tr>
<tr>
<td>Operations Center Upgrade</td>
<td>Validate the need for this project</td>
</tr>
</tbody>
</table>
## Construction Phase Deferrals

<table>
<thead>
<tr>
<th>Project</th>
<th>Deferral Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Pipeline 3 Relining – Scripps Ranch to SR52</em></td>
<td>• Not necessary now with current demands.</td>
</tr>
<tr>
<td><em>Mission Trails FRS</em></td>
<td>• Linked to future regional untreated water demands south of Miramar WTP.</td>
</tr>
<tr>
<td><em>Lake Murray Control Valve</em></td>
<td></td>
</tr>
<tr>
<td><em>San Vicente Bypass Pipeline</em></td>
<td>Schedule to coincide with San Vicente Dam Raise completion and filling of reservoir</td>
</tr>
<tr>
<td>San Vicente Re-vegetation</td>
<td>Dependent upon completion of San Vicente Dam Raise suite of projects</td>
</tr>
<tr>
<td>San Diego 12 Expansion</td>
<td>Linked to future regional untreated water demands at Alvarado WTP &amp; execution of agreement with City of San Diego.</td>
</tr>
<tr>
<td>San Luis Rey River Mitigation</td>
<td>Linked to mitigation of SV Dam Raise carryover storage impacts.</td>
</tr>
</tbody>
</table>

*Italicized projects considered in opportunity to save on construction, as currently scheduled (See slide 8)*
Defers expenditure of $150 Million

![Bar chart showing original CIP forecast and re-prioritized CIP for 2011 to 2014.](chart.png)
Consequences

- **Cons**
  - May lose opportunity to save on construction as currently scheduled...potentially $8 million with $1/AF impact on rates

- **Pros**
  - Time to access future water demands and facility needs
  - Delays new debt issuance until next budget cycle (FY 2014-2015)
  - Defers $150 million in expenditures
  - Deferrals will reduce rate increases by $17-22/AF while projects are deferred (including FY 2012-2013)
Other Budgetary Issues

- Potential rate impacts from:
  - QSA litigation
  - MWD litigation
  - Construction claims
  - Lower water demands
  - Carlsbad Desalination
  - Other desalination (Pendleton & Rosarito Beach)
Direct staff to prepare Fiscal Years 2012 and 2013 Recommended CIP Budget based upon re-prioritized CIP and the deferral of 14 projects outlined in this report.
Enhanced Controller’s Report

January 27, 2011
Financial Reports Calendar

- **MONTHLY:** Attachments A-F are provided monthly to the A&F Committee

- **QUARTERLY:** Budget projections and further analysis are presented to the A&F Committee on a quarterly basis

- **ANNUALLY:** Audited financial statements are presented to the Audit Committee and Board of Directors on an annual basis

- **BI-ANNUALLY:** A biannual budget is prepared and approved by the Board
New Monthly Reporting Format

Main Staff Report: Budget Variance Analysis and Discussion

**Attachments**
A: Water Sales Volumes (Acre-Feet)
B: Water Sales Revenues (Dollars)
C: Water Purchases & Treatment Costs (Dollars)
D: Multi-Year Budget Status Report (Actuals)
E: Operating Department Expenditures
F: Schedule of Cash & Investments
ATTACHMENT A:

WATER SALES VOLUMES
Budget Versus Actual (in Acre-Feet)
for the 17 Months Ended November 30, 2010

Difference 701,395 - 905,985 = 204K AF 23%

Budget (a) Actual
ATTACHMENT B:

WATER SALES REVENUES
Budget Versus Actual (in Millions $)
for the 17 Months Ended November 30, 2010

Difference
$120.3M
18%

Budget (a) Actual
WATER PURCHASES AND TREATMENT COSTS
Budget Versus Actual (in Millions $)
for the 17 Months Ended November 30, 2010

Difference $102.2M 20%

Budget (a)  Actual

$522 $420

San Diego County Water Authority
### ATTACHMENT D:

#### Net Revenues

<table>
<thead>
<tr>
<th></th>
<th>FY 10 &amp; 11 Two-Year Amended Budget</th>
<th>FY 10 &amp; 11 Budget 17 Months Period-to-Date Amended Budget</th>
<th>FY 10 &amp; 11 Actual 17 Months Period-to-Date Actual</th>
<th>Variance with Period-to-Date Amended Budget Positive (Negative)</th>
<th>[B / A] % Actual/Amended Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Water Sales Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water sales</td>
<td>$ 964,292,000</td>
<td>$ 682,847,017</td>
<td>$ 565,526,267</td>
<td>$ (120,320,750)</td>
<td>58%</td>
</tr>
<tr>
<td>Water purchases &amp; treatment</td>
<td>(736,432,000)</td>
<td>(522,812,809)</td>
<td>(420,579,480)</td>
<td>102,233,329</td>
<td>57%</td>
</tr>
<tr>
<td>Total Net Water Sales Revenue</td>
<td>$ 227,860,000</td>
<td>$ 160,034,208</td>
<td>$ 141,946,787</td>
<td>$ (18,087,421)</td>
<td>62%</td>
</tr>
</tbody>
</table>

**Net Water Sales Revenue**
## Operating Departments/Program Details

<table>
<thead>
<tr>
<th>Department</th>
<th>FY 10 &amp; 11 Amended Budget</th>
<th>FY 10 &amp; 11 Budget 17 Months (71%)</th>
<th>Variance with Period-to-Date Actual/Amended Budget</th>
<th>[B / A] %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Services</td>
<td>$ 11,019,018</td>
<td>$ 7,823,503</td>
<td>$ 7,538,345</td>
<td>68%</td>
</tr>
<tr>
<td>Colorado River Program</td>
<td>2,880,763</td>
<td>2,045,342</td>
<td>1,472,253</td>
<td>51%</td>
</tr>
<tr>
<td>Engineering</td>
<td>1,786,459</td>
<td>1,268,386</td>
<td>993,893</td>
<td>56%</td>
</tr>
<tr>
<td>Finance</td>
<td>4,731,650</td>
<td>3,359,472</td>
<td>2,837,056</td>
<td>60%</td>
</tr>
<tr>
<td>General Counsel</td>
<td>5,491,425</td>
<td>3,898,912</td>
<td>3,040,967</td>
<td>55%</td>
</tr>
<tr>
<td>General Manager/Board of Directors</td>
<td>5,183,340</td>
<td>3,680,171</td>
<td>3,374,647</td>
<td>65%</td>
</tr>
<tr>
<td>Human Resources</td>
<td>2,317,017</td>
<td>1,645,082</td>
<td>1,441,688</td>
<td>62%</td>
</tr>
<tr>
<td>MWD Program</td>
<td>2,859,859</td>
<td>2,030,500</td>
<td>1,587,992</td>
<td>56%</td>
</tr>
<tr>
<td>Operations &amp; Maintenance</td>
<td>28,647,084</td>
<td>20,339,430</td>
<td>16,686,999</td>
<td>58%</td>
</tr>
<tr>
<td>Public Affairs</td>
<td>4,270,498</td>
<td>3,032,054</td>
<td>2,674,663</td>
<td>63%</td>
</tr>
<tr>
<td>Right of Way</td>
<td>5,704,234</td>
<td>4,050,006</td>
<td>3,422,143</td>
<td>60%</td>
</tr>
<tr>
<td>Water Conservation Program</td>
<td>10,215,370</td>
<td>7,252,913</td>
<td>3,110,066</td>
<td>30%</td>
</tr>
<tr>
<td>Water Resources</td>
<td>9,344,098</td>
<td>6,634,310</td>
<td>5,589,424</td>
<td>60%</td>
</tr>
<tr>
<td><strong>Total Operating Departments/Programs</strong></td>
<td><strong>$ 94,450,815</strong></td>
<td><strong>$ 67,060,081</strong></td>
<td><strong>$ 53,770,136</strong></td>
<td><strong>57%</strong></td>
</tr>
</tbody>
</table>
## Cash and Investments

<table>
<thead>
<tr>
<th>Fund</th>
<th>November</th>
<th>October</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Fund</td>
<td>$75,813,621</td>
<td>$63,522,310</td>
<td>$67,000,000</td>
</tr>
<tr>
<td>Stored Water Fund</td>
<td>28,166,594</td>
<td>28,166,594</td>
<td></td>
</tr>
<tr>
<td>Equipment Replacement Fund</td>
<td>9,281,109</td>
<td>9,464,693</td>
<td></td>
</tr>
<tr>
<td>Rate Stabilization Fund</td>
<td>43,456,187</td>
<td>43,456,187</td>
<td>55,100,000</td>
</tr>
<tr>
<td><strong>Total Unrestricted Funds</strong></td>
<td>156,717,511</td>
<td>144,609,784</td>
<td></td>
</tr>
<tr>
<td>Pay As You Go Fund</td>
<td>129,535,153</td>
<td>129,354,851</td>
<td></td>
</tr>
<tr>
<td>CIP/Bond Construction Funds</td>
<td>487,888,297</td>
<td>498,431,610</td>
<td></td>
</tr>
<tr>
<td>Debt Service Reserve Funds</td>
<td>69,435,176</td>
<td>69,427,948</td>
<td></td>
</tr>
<tr>
<td><strong>Total Restricted Funds</strong></td>
<td>686,858,626</td>
<td>697,214,409</td>
<td></td>
</tr>
<tr>
<td><strong>Total Cash and Investments</strong></td>
<td>$843,576,137</td>
<td>$841,824,193</td>
<td></td>
</tr>
</tbody>
</table>
Conclusion

- This user friendly, enhanced version of the monthly financial statements will be provided each month.
- The main indicator of financial health in these statements are the *Net Revenues from Water Sales*, which demonstrates the impact of variations in water sales.
- The Quarterly Budget Update will be provided next to provide context on the forecasted numbers and future outlook.
Update on the current Fiscal Years 2010 and 2011 Budget

January 27, 2011
Agenda

- Budget status
- Net Water Sales Revenue
  - Reduced water sales volumes
  - Financial Impact
- Identify mitigation strategies
<table>
<thead>
<tr>
<th></th>
<th>Amended Budget</th>
<th>Projected FYs 10&amp;11</th>
<th>Variance $</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Net Water Sales Revenue</td>
<td>227.9</td>
<td>201.8</td>
<td>(26.1)</td>
<td>-11.4%</td>
</tr>
<tr>
<td>+ Revenues and Other Income</td>
<td>183.5</td>
<td>175.5</td>
<td>(8.0)</td>
<td>-4.4%</td>
</tr>
<tr>
<td>- Expenditures</td>
<td>402.4</td>
<td>351.8</td>
<td>(50.6)</td>
<td>-13.9%</td>
</tr>
<tr>
<td>- Capital Improvements Program (CIP)</td>
<td>555.7</td>
<td>381.7</td>
<td>(174.0)</td>
<td>-31.3%</td>
</tr>
<tr>
<td>Net Impact on Fund Withdraws</td>
<td>(546.7)</td>
<td>(356.2)</td>
<td>(190.4)</td>
<td>-34.8%</td>
</tr>
</tbody>
</table>

- **Budgetary (“cash”) Basis** – expenditures are decreasing more than revenues
Net Water Sales Revenue
Multi-Year Budget Timeline

- **June 2009**: Adopted budget 600,754 AF (FY10)
- **Dec 2009**: Board update on water sales volumes; implement budget reductions 512,198 AF (FY 10)
- **June 2010**: Board update on water sales volumes 522,334AF (FY10)
- **Dec 2010**: Board adopts mid-term budget and rates 512,198 AF (FY 11)
- **June 2011**: Board update on Water Sales and Mitigation Strategies
FY 2011 Water Sales Volumes

- Mid-Term Projection (512,198 AF)
- High Forecast (470,168 AF)
- Mid Forecast (439,961 AF)
- Expected Forecast (410,320 AF)

- Sales volumes expected to be 91,878 AF below mid-term projections
### Fiscal Year 2011 Scenarios & Impacts

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Volume (AF)</th>
<th>%</th>
<th>Net Water Sales ($m)</th>
<th>Variance $</th>
<th>%</th>
<th>DSCR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mid-Term Projection</td>
<td>512,198</td>
<td></td>
<td>$117.7</td>
<td></td>
<td></td>
<td>1.45x</td>
</tr>
<tr>
<td>High Forecast</td>
<td>470,168</td>
<td>(8%)</td>
<td>$113.3</td>
<td>($4.4)</td>
<td>(4%)</td>
<td>1.37x</td>
</tr>
<tr>
<td>Mid Forecast</td>
<td>439,961</td>
<td>(14%)</td>
<td>$109.3</td>
<td>($8.4)</td>
<td>(7%)</td>
<td>1.33x</td>
</tr>
<tr>
<td>Expected Forecast</td>
<td>410,320</td>
<td>(20%)</td>
<td>$105.3</td>
<td>($12.4)</td>
<td>(11%)</td>
<td>1.29x</td>
</tr>
</tbody>
</table>

**Notes:**
- All scenarios assume $10.7 million Rate Stabilization Fund (RSF) withdraw (as planned in 2011 rates)
- Debt Service Coverage Ratio (DSCR) Target: 1.5x
- DSCR as stated in Bond Covenants: 1.2x
# Fiscal Year 2011 Debt Service Coverage Ratio (DSCR)

<table>
<thead>
<tr>
<th></th>
<th>Mid-Term Projection</th>
<th>Current Projection</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Revenue</td>
<td>$519.2</td>
<td>$447.6</td>
<td>($71.6)</td>
</tr>
<tr>
<td>Operating Expenditures</td>
<td>− $366.1</td>
<td>− $311.0</td>
<td>($55.1)</td>
</tr>
<tr>
<td>Net Revenue Available for Debt Service</td>
<td>$153.1</td>
<td>$136.6</td>
<td>($16.5)</td>
</tr>
<tr>
<td>Sr. Lien Debt Service</td>
<td>$105.7</td>
<td>$105.7</td>
<td>--</td>
</tr>
<tr>
<td>Sr. Lien Debt Service Coverage Ratio</td>
<td>1.45x</td>
<td>1.29x</td>
<td>--</td>
</tr>
</tbody>
</table>

*2011 Rates and Charges include a planned Rate Stabilization Fund (RSF) withdraw of $10.7 million
Mitigation Strategies

- Use of Rate Stabilization Fund
- Reductions in operating expenses
- Reduce net debt service (capitalize interest)
- Achieve lower debt service coverage ratio (DSCR)
## Potential Mitigation Strategies: Impacts

<table>
<thead>
<tr>
<th>Action</th>
<th>Potential Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Reductions in Fiscal Year 2011</td>
<td>$3.6m</td>
</tr>
<tr>
<td>Anticipated:</td>
<td></td>
</tr>
<tr>
<td>Operating Savings – Personnel</td>
<td>$0.9m</td>
</tr>
<tr>
<td>Operating Savings – Non-Personnel</td>
<td>$0.5m</td>
</tr>
<tr>
<td><strong>Total Operational Savings</strong></td>
<td><strong>$5.0m</strong></td>
</tr>
<tr>
<td>Carryover Storage Withdraws (Increase Net Revenue)</td>
<td>$0.7m</td>
</tr>
<tr>
<td>Capitalized Interest</td>
<td>$2.0m</td>
</tr>
<tr>
<td><strong>Total Funds All Mitigation Strategies</strong></td>
<td><strong>$7.7m</strong></td>
</tr>
</tbody>
</table>

- Combined, these strategies would increase the estimated DSCR to 1.37x
Debt Service Coverage Ratio Impact

Mitigated DSCR

1.37

1.2x
Bond Covenant

1.29
Unmitigated DSCR

1.45
2011 Rates

1.5x
Board Target

1.2x
Bond Covenant

1.5x
Board Target
Timeline

- June 2011 estimated revenue gap provided to the Board
- July 2011 seek Board approval on all mitigation actions
Presentation to

San Diego County Water Authority Board

Fixed Rate versus Variable Rate Debt Discussion

January 27, 2011
The Basics

- Optimizing the CIP financing mix to minimize the cost of funds
  - Understanding the risk/reward trade-offs

- Expiring liquidity facilities - $350 million expires in November
Water Authority’s Debt Policies and Objectives

Policies:

• Outstanding short-term debt (including variable rate demand obligations, authorized amount of commercial paper, and short-term notes) will not exceed 30% of its total outstanding debt

• Debt Service Coverage Metrics:
  ➢ Senior lien (COPs, BABs) debt service coverage target is 1.50 times
  ➢ Subordinate lien (CP) debt service coverage requirement is 1.00 times

Objectives:

• Minimize the overall cost of funds

• Asset/liability matching – Minimize interest rate risk

• Structure debt to achieve level debt service on an aggregate basis
What do Credit Rating Agencies Think?

- The rating agencies do not limit the amount of “prudent” variable rate debt

- Focus on management requirements to maintain variable rate debt

Variable Rate Debt Peer Comparison

- SDCWA: 19%
- Metropolitan Water District of Southern California: 41%
- East Bay Municipal Utility District: 32%
- Irvine Ranch Water District: 79%
- San Jose-Santa Clara Clean Water Financing Authority: 0%
Current Variable Rate Debt

- The Commercial Paper program was established in 1995
  ➢ $460 million currently outstanding

- Commercial paper program performance
  - 11-year average CP cost of funds 1.85% compared to 4.60% for fixed rate

- The Water Authority currently has three liquidity facilities in place from various providers that expire in 2011 and 2013.

<table>
<thead>
<tr>
<th>Overview of Existing Variable Rate Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series</td>
</tr>
<tr>
<td>--------</td>
</tr>
<tr>
<td>Series 1</td>
</tr>
<tr>
<td>Series 2</td>
</tr>
<tr>
<td>Series 3</td>
</tr>
</tbody>
</table>
Performance of Fixed and Variable Rates

Fixed Rate versus Variable Rate Comparison since October 1997

<table>
<thead>
<tr>
<th></th>
<th>Variable Rate</th>
<th>Fixed Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum</td>
<td>5.480%</td>
<td>6.030%</td>
</tr>
<tr>
<td>Minimum</td>
<td>0.150%</td>
<td>3.690%</td>
</tr>
<tr>
<td>Average</td>
<td>2.300%</td>
<td>4.730%</td>
</tr>
</tbody>
</table>
Estimated Annual Debt Service Savings

Historical Benefit of TECP vs Fixed Rate Bonds

- Present value of savings approximately $53 million
Financial Impact of Eliminating the CP Program

- Higher interest rates on fixed rate debt
  - Currently estimated to be $29/AF

- Meeting the senior lien debt service coverage target of 1.50 times
  - The rate impact of the required additional net revenues is approximately $27/AF

$56/AF Cost Increase

<table>
<thead>
<tr>
<th>Impact of Additional Interest Costs</th>
<th>$29/AF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact of Coverage Target</td>
<td>$27/AF</td>
</tr>
</tbody>
</table>
Limiting Interest Rate Risk Exposure

Water Authority's Asset Liability Mix

- Return on investments and interest rates move together
  - Investment earnings increase and offset increases in the CP program rates

- CP interest rate exposure is mitigated by investment balances
• High level of demand for new liquidity facilities:
  ➢ Put upwards pressure on the facility cost
  ➢ More desirable banks will likely be the first to max out their capacity

#### Quarterly Breakdown of LOC Expires Between 4Q 2010 and 4Q 2012

![Bar chart showing the quarterly breakdown of LOC expirations between 4Q 2010 and 4Q 2012.](chart.png)

- General Municipal LOC Expirations
- Healthcare LOC Expirations
Next Steps

• Evaluate liquidity facility pricing
  ➢ Issued RFP 1/6/2011
  ➢ Receive proposals 2/2/2011

• Working with the Financial Advisors to develop a short-term debt portfolio strategy
  ➢ Strategy will include commercial paper

• Strategy will be presented to the Board in February
Barriers to use of artificial turf

- Existing law prohibits property owners’ associations from enforcing rules against the use of low water use or native plants in landscaping.
- This bill would prohibit property owners’ associations from enforcing rules against the installation of artificial turf in landscaping.
- But it would authorize property owners associations to develop and enforce design standards for the installation of artificial turf in landscaping.
Barriers to use of artificial turf (cont.)

- Vetoed by Governor Schwarzenegger in 2010
- Governor Brown and Natural Resources Secretary Laird may be more likely to sign the bill
Consistent Fluoride Standards

- Existing law mandates the addition of fluoride to drinking water
- Basin plan standards for fluoride in recycled water or wastewater are sometimes less than drinking water standards
- This bill would require regional water quality control boards to reconcile basin plan standards for recycled water and wastewater with Department of Public Health standards for drinking water
Sponsor legislation that:

- Requires homeowners associations to permit the use of artificial turf if it meets certain design standards; and

- Reconciles basin plan standards for fluoride in recycled water and wastewater with drinking water standards
2011 Public Opinion Poll
Legislation, Conservation, and Outreach Committee
January 27, 2011
Background

- Biennial poll
- Survey residents countywide
- Measure progress toward Board’s Strategic Plan goals and targets
- Schedule:
  - Conduct survey March 2011
  - Share results April 2011
Tentative Subject Areas:
Points of Emphasis in 2011

- Factors driving reduced water use
- Rate tolerance and acceptance
- Public willingness to pay for improved water reliability
  - Changed vs. previous surveys?
  - Attitudes regarding a local general obligation bond to fund additional desalination or other supply projects
  - Value of agriculture to the region
Tentative Subject Areas:
Strategic and Business Plan

- Attitudes toward the Water Authority’s supply diversification strategy
- Conservation awareness and perception of conservation as a civic duty
- Indirect potable reuse awareness and acceptance
Tentative Subject Areas: Standard Topics

- Attitudes and opinions about general news/current event issues
- Attitudes and perceptions concerning water reliability
- Attitudes on growth and water supply management
MWD’s Draft 2010 Long Range Finance Plan
Imported Water Committee
January 27, 2011
MWD Long Range Finance Plan - Background

- First adopted in 1986; most recent update in 2004
- Latest update began in 2007 when rates were trending higher than projected in 2004 LRFP
  - Process delayed to address rate management due to unprecedented supply challenges
  - Cost of service methodology reviewed, but modification discussions deferred until IRP completion
2010 Draft Long Range Finance Plan

- Draft issued followed 2010 IRP update
- Sales & exchanges based on implementation of 20x2020 at “regional” (MWD) level
- But, includes no expenditures to support expanded resource strategies described in 2010 IRP
  - Current level of expenditures for subsidy programs
    - $20M/yr for conservation
    - LRP based on up to $250/af for water produced
    - No funding assumed to develop up to 500 taf of buffer supplies articulated in 2010 IRP
Water Sales and Wheeling

Actual Sales
Average Sales (1990-2010)
Projected - High
Projected - Expected
Projected - Low

Million Acre-Feet

Cash Year Ending

Source: MWD LRFP
Presentation 1/5/2011
Average Annual Rate Increases
~ 6% Over Ten Years

Source: MWD LRFP Presentation 1/5/2011

2010/11 Budget for PAYGO is $95M
Water Supply Increases vs. System Access Rate Increases

![Graph showing water supply and system access trends over calendar years.]

- **Tier 1 Supply**: Steady increase from $150 to $350 per AF between 2010 and 2020.
- **System Access**: Rapid increase from $50 to $400 per AF, with spikes of 35% and 147% in 2014 and 2016, respectively.

**Calendar Year**: 2010 to 2020

**$/AF**

- 2010: $150
- 2020: $350

**Water Authority**: San Diego County Water Authority
Water Sales, Wheeling and Exchange

- Actual Sales
- Average Sales (1990-2010)
- Projected

Million Acre-Feet vs. Cash Year Ending

Source: MWD Budget Presentation 1/25/2011
Reserves at Minimum Targets

<table>
<thead>
<tr>
<th>Avg Rate Increase</th>
<th>Fiscal Year Ending</th>
</tr>
</thead>
<tbody>
<tr>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>6%</td>
<td>14%</td>
</tr>
<tr>
<td>20%</td>
<td>7.5%</td>
</tr>
<tr>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>6%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PAYGO, $M</th>
<th>88</th>
<th>95</th>
<th>43</th>
<th>30</th>
<th>37</th>
<th>45</th>
<th>75</th>
<th>90</th>
<th>125</th>
<th>125</th>
<th>125</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rev. Bond Cvg</td>
<td>1.8</td>
<td>2.2</td>
<td>1.8</td>
<td>1.8</td>
<td>1.6</td>
<td>1.5</td>
<td>1.8</td>
<td>1.9</td>
<td>2.3</td>
<td>2.1</td>
<td>2.1</td>
</tr>
<tr>
<td>Fixed Chg Cvg</td>
<td>1.3</td>
<td>1.7</td>
<td>1.3</td>
<td>1.3</td>
<td>1.1</td>
<td>1.0</td>
<td>1.2</td>
<td>1.3</td>
<td>1.5</td>
<td>1.4</td>
<td>1.3</td>
</tr>
</tbody>
</table>

2010/11 Budget for PAYGO is $95M
Concerns

- Faulty assumptions render rate forecast not meaningful nor usable
- Does not reconcile with expanded 2010 IRP resources strategy
  - No additional funding assumed, both to support expanded role for MWD and buffer supply development
- Potential water sales projected to be as low as 1.3 maf in 2020, yet high rate forecast based on 1.7 maf
  - “Expected” sales assumption seem high for next few years
Next Steps

• Water Authority staff provided feedback
• Draft LRFP to MWD Finance & Insurance Committee in February, with action sought in March
• 2011 to review rate structure