



WEST BASIN

Municipal Water District

*Fiscal Year 2024-25
Budget Workshop # 1*

Special Board Meeting
April 6, 2024

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Mission



Provide a **safe** and **reliable** supply of **high-quality water** to the communities we serve.

Workshop Agenda

1. Fiscal Year (FY) 2024-25 Budget Workshop Schedule
2. FY 2022-23 Actuals vs FY 2023-24 Projections
3. Key Budget Drivers
4. Expenses
5. Revenues
6. Proposed FY 2024-25 West Basin Reliability Service Charge
7. Next steps

Proposed FY 2024-25 Budget Workshop Schedule

Date	Time	Topic
April 6, 2024	9:00 AM	Financial Overview & Proposed FY 2024-25 West Basin Reliability Service Charge
April 27, 2024	10:00 AM	Review of FY 2024-25 Budget Revenues & Expenses
TBD	TBD	Customer Workshop
May 15, 2024	10:00 AM	CIP, R&R and Funding Options
May 30, 2024	10:00 AM	Budget Adoption/Rates & Charges

Budget Highlights (Challenges and Opportunities)

Challenges:

1. Potable water sales declined in FY 2022-23 and FY 2023-24 as the result of strong water conservation efforts
2. Recycled Water Operations & Maintenance (O&M) costs are increasing
3. Current Recycled Water Agreements are not recovering the costs
4. Current Net Revenues after paying off debt service is not sufficient to cover the Capital Improvement Program (CIP) and Rehabilitation & Replacement (R&R) projects

Opportunities:

1. Several major Recycled Water Agreements will be renewed in FY 2024-25, providing the opportunity to recover costs in the future
2. Cost of Service Study will be completed in FY 2023-24
3. Change the collection of MWD Readiness-To-Serve (RTS) Charge from a Commodity Rate to a Fixed Monthly Charge



Financial Overview
FY 2022-23 Actuals vs
FY 2023-24 Projections



Potable and Recycled Water Sales (AF)

- FY 2023-24 potable water sales are projected to be lower than FY 2022-23 actuals and FY 2023-24 budget. Numbers below include potable sales to Water Replenishment District (WRD) for Dominguez Gap Barrier

	FY 2022-23 Actual	FY 2023-24 Budget	FY 2023-24 Projection	FY 2023-24 Variance
Retail Customers	88,530	95,000	82,000	(13,000)
WRD Dominguez Gap Barrier	1,650	2,000	1,736	(264)
WRD West Coast Barrier	4,816	5,000	5,813	813

- FY 2023-24 recycled water sales are expected to be slightly higher than FY 2022-23 actuals, but lower than FY 2023-24 budget

	FY 2022-23 Actual	FY 2023-24 Budget	FY 2023-24 Projection	FY 2023-24 Variance
Recycled Water Sales	29,140	33,032	29,931	(3,101)

Potable Water Sales and Reliability Service Charge

As a result of reduced potable water sales, FY2023-24 Total Potable and Reliability Service Charge Revenues are projected to be lower than budget

	FY 2022-23 Actual	FY 2023-24 Budget	FY 2023-24 Projection	Variance
Retail Customer (AF)	88,530	95,000	82,000	(13,000)
WRD Dominguez Gap Barrier (AF)	1,650	2,000	1,736	(264)
Reliability Service Charge Revenues	\$23,176,260	\$26,675,000	\$23,027,263	(\$3,647,737)

Recycled Water Revenues and Costs Per AF

Aging infrastructure, inflation, increased chemical and energy costs, poor water quality from Hyperion, and unexpected shutdowns made sales unpredictable. Above average precipitation reduced the demand for irrigation water.

	FY 2022-23 Actual	FY 2023-24 Budget	FY 2023-24 Projection
Recycled Water Sales (AF)	29,140	33,032	29,931
Operating Revenues	\$38,096,891	\$46,866,144	\$44,251,062
Operating Expenses	\$49,238,746	\$57,519,100	\$56,798,991
Net Loss	(\$11,141,855)	(\$10,652,956)	(\$12,547,929)
Average Cost/AF	\$1,690	\$1,741	\$1,898

Water Use Efficiency Programs (Expenses and Cost Recovery)

West Basin’s Water Use Efficiency Programs support the District’s long-term strategy to reduce potable water demand, increase local water resiliency, and provide support to retailers, cities, and unincorporated communities in the service area

	FY 2022-23 Actual	FY 2023-24 Budget	FY 2023-24 Projection
Operating Expense	\$741,966	\$1,661,100	\$875,128
West Basin Labor/Benefits/Overhead	\$1,713,691	\$1,489,355	\$1,027,324
Total Costs	\$2,455,657	\$3,150,455	\$1,902,452

Funding for this program is supported through West Basin’s Reliability Service Charge, State and Federal Grants, and the Metropolitan Water District’s Member Agency Administered Program. These funding sources partially offset the cost of the WUE programs

	FY 2022-23 Actual	FY 2023-24 Budget	FY 2023-24 Projection
Grants & External Funding	\$189,911	\$560,600	\$560,600

Investment Income

- In 2022, the Federal Reserve initiated a series of rate hikes to combat inflation. Yields on treasury notes, agency bonds and money market funds began to rise
- More than 50% of West Basin’s funds are allocated to these asset classes
- Interest income is projected to be \$1M higher in FY 2023-24 than in FY 2022-23

	FY 2022-23 Actual	FY 2023-24 Budget	FY 2023-24 Projection
Investment Income	\$1,820,318	\$2,846,200	\$2,846,200

Other Revenues

- Standby Revenue will be phased out after FY 2029-30 per terms of settlement
- \$4M in partner funding from California Water Services for JMM Carson Facility Phase II may be delayed to FY 2024-25
- Torrance Refinery contract was extended to August 2024

	FY 2022-23 Actual	FY 2023-24 Budget	FY 2023-24 Projection
Standby Revenue	\$6,218,532	\$5,879,000	\$5,879,000
CWS Partner Funding for JMM Carson Facility Phase II	\$4,336,056	\$8,379,550	\$4,417,515
Refinery Fixed Charge	\$8,312,800	\$5,848,924	\$8,312,800

Other Expenses

Public Information & Education and Water Policy expenses are expected to be covered through West Basin’s Fixed Service Charge. Some projects in the FY 2023-24 Technical Planning budget will be postponed.

	FY 2022-23 Actual	FY 2023-24 Budget	FY 2023-24 Projection
Public Information & Education	\$4,614,527	\$4,859,793	\$3,289,203
Water Policy	\$2,079,585	\$1,326,106	\$1,860,150
Technical Planning	\$2,729,509	\$5,215,398	\$1,215,398
Water Quality Monitoring	\$54,677	\$60,502	\$60,502

Debt Coverage

- **The Target Debt Coverage Ratio is 1.75 per the West Basin Strategic Plan.**
The legally required debt coverage is 1.20 per loan agreement with the State of California for the PV lateral project
- Debt coverage for FY 2023-24 is projected to be lower than FY 2022-23 Actual and FY 2023-24 Budget. This is due to FY 2023-24 projected potable water sales being more than 10,000 AF lower than FY 2023-24 Budget and the \$4M contribution from Cal Water Service potentially being delayed to FY 2024-25

	FY 2022-23 Actual	FY 2023-24 Budget	FY 2023-24 Projection
Net Revenues	\$25,383,368	\$31,112,281	\$27,335,421
Debt Payment	\$18,519,669	\$20,903,900	\$20,903,900
Debt Coverage	1.36	1.49	1.31



Actions Taken to Control FY 2023-24 Expenses



Actions Taken to Control FY 2023-24 Expenses

- Potable water sales are affected by external factors outside of the control of West Basin, including hydrological conditions, statewide conservation regulations, and regional messaging. Over the past few years, these factors have reduced demand for potable water, which has reduced District revenues.
- Staff has proactively implemented cost-saving actions in the areas below to reduce FY 2023-24 expenses and CIP/R&R spending.

Expense Category	FY 2023-24 Budget	FY 2023-24 Projection	Budget Savings
Technical Planning	\$5,215,398	\$1,215,395	\$4,000,003
Labor and Benefits	\$10,530,956	\$8,310,881	\$2,220,075
CIP/R&R Costs	\$38,826,409	\$17,000,000	\$21,826,000



Key Budget Drivers



Key Budget Drivers

1. Lower demand for potable water resulted in lower revenue collection of West Basin's Reliability Service Charge
2. Recycled water sales and the costs of maintaining the aging recycled water facilities are difficult to predict
3. Recycled Water Agreements/Cost of Service Study
4. Standby Revenue
5. Decrease in West Basin Reserve Balance and Debt Coverage
6. Full Recovery of MWD RTS Charge
7. Net Revenue is not sufficient to cover CIP and R&R Costs

Key Budget Drivers: Reliability Service Charge

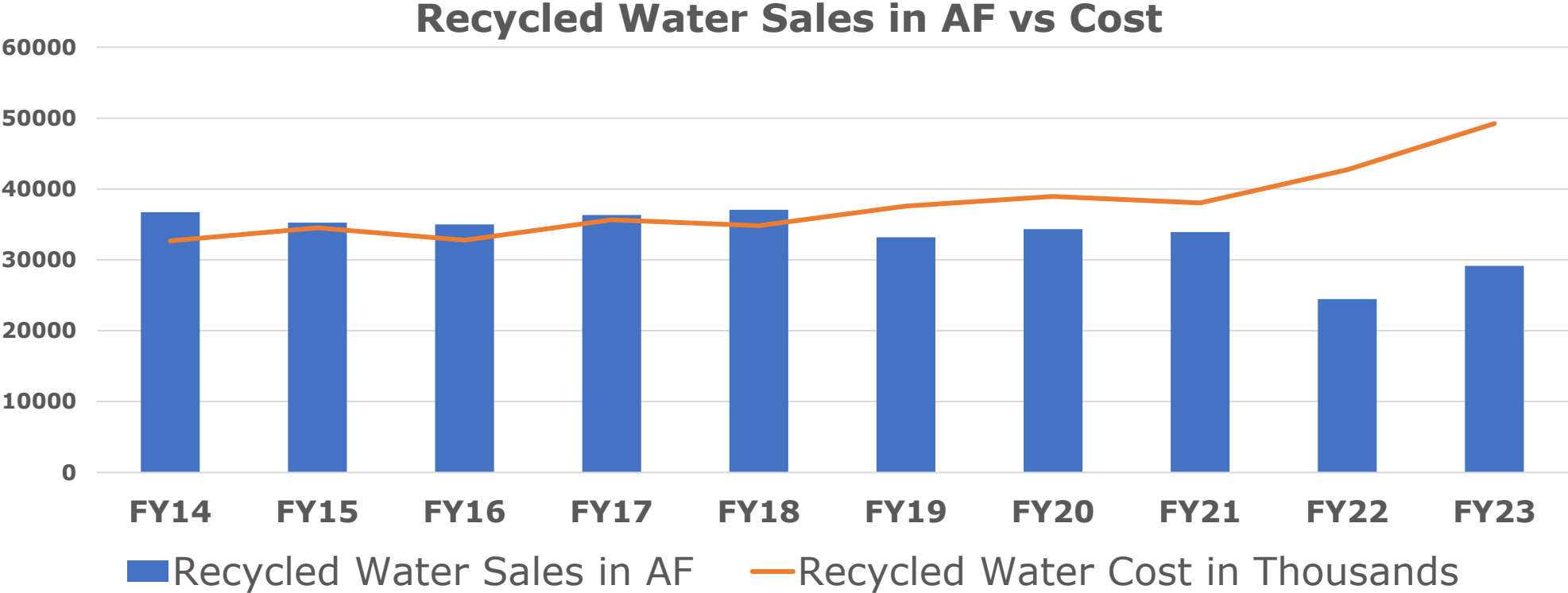
Reliability Service Charge (RSC) is the only volumetric source of revenue West Basin earns from potable water sales. Lower demand for potable water in FY 2022-23 and FY 2023-24 caused decreases in RSC revenues.

FY 2022-23	
Budget	\$27,242,000
Actual	\$23,176,260
Difference	(\$4,065,740)

FY 2023-24	
Budget	\$26,675,000
Projection	\$23,027,400
Difference	(\$3,647,600)

Key Budget Drivers: Recycled Water Sales and Costs

Recycled water sales and the costs of maintaining aging recycled water facilities have become more unpredictable



Key Budget Drivers: Recycled Water Agreements and Cost of Service Study

Several agreements are due to be renewed in FY 2024-25. West Basin Cost-of-Service Study is ongoing. The goal of the study is to determine the costs associated with providing recycled water service to customers and the equitable allocation of those costs to customers.

Customer/Type of RW	Prod Date	Start Date	Termination Date
Chevron - Nitrification	6/1/1995	9/12/2024	9/12/2024
Chevron - Boiler Feed	7/1/2001	8/1/2016	9/30/2027
Torrance - Nitrified	7/1/1997	3/1/2021	2/28/2021, New 8/31/23* Extended to 8/31/2024
Torrance - Boiler Feed	9/1/1998	9/1/1998	8/31/2023* Extended to 8/31/2024
Marathon - Nitrified	2/1/2000	11/17/1997	2/1/2025
Marathon - Boiler Feed	2/1/2000	11/17/1997	2/1/2025
WRD - Barrier	7/1/1997	4/1/2017	4/1/2037
LADWP - Irrigation	7/1/1997	7/1/1996	7/1/2026
NRG - Boiler Feed	7/1/2019	1/24/2011	4/1/2043

Key Budget Drivers: Standby Charge Revenue

- Standby Charge is scheduled to sunset in FY 2030-31. Standby revenue pays a portion of the annual debt service and is included in the annual debt coverage ratio calculation
- West Basin will be required to continue paying down \$107M of outstanding principal and interest from previous bond issuances between FY 2030-31 and FY 2041-42, following the elimination of the standby charge
- District should consider how to continue making debt payments once standby charge revenues are no longer available

FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	Total Revenue
\$5,879,000	\$5,751,000	\$7,631,947	\$7,631,947	\$7,631,947	\$7,631,947	\$7,631,947	\$0	\$49,789,735

Key Budget Drivers: Reserve Levels and Debt Coverage

West Basin’s Reserves (Total Cash & Investments) and Days Cash on Hand have both declined in the past three years

	FY 2022-21 Actual	FY 2021-22 Actual	FY 2022-23 Actual
Reserves	\$96,709,612	\$82,204,783	\$72,538,046
Average Daily Spending	\$862,411	\$807,886	\$945,723
Days Cash on Hand	112	102	77
Debt Coverage Ratio	1.84	1.47	1.36

*** The Target Debt Coverage Ratio is 1.75 per the West Basin Strategic Plan.**

Key Budget Drivers: MWD Readiness-To-Serve Charge

- MWD assigns and requires each member agency to collect a pre-calculated Readiness-to-Serve (RTS) Charge. Each member agency can decide how to collect the RTS fees from its customers. West Basin currently converts the total charge into a cost/AF metric and bills its retailers based on actual potable water sales.
- Lower than budgeted potable water sales in FY 2022-23 and FY 2023-24 resulted in under-collection of RTS charges from retailers
- Staff recommends converting the RTS to a Fixed Monthly Charge in FY 2024-25

	FY 2022-23 Actual	FY 2023-24 Projection
MWD Required Payment	\$11,788,885	\$12,828,354
\$ WB Total Collected	\$9,852,208	\$11,029,292
Under-collection of RTS	(\$1,936,677)	(\$1,799,063)

Key Budget Drivers: Funding of CIP and R&R Costs

- West Basin does not currently have a Capital Funding Policy in place
- Current Net Revenues after paying debt service is not sufficient to cover needed CIP and R&R projects
- West Basin has been using its cash reserves to cover the shortfall.

	FY 2021-22 Actual	FY 2022-23 Actual	FY 2023-24 Projection
Net Revenue	\$32,646,600	\$25,383,686	\$27,335,421
Debt Payment	\$17,379,377	\$18,519,669	\$20,903,900
Available Funding for CIP Spending (Net Revenue–Debt Payment)	\$15,487,393	\$6,864,199	\$6,431,520
Actual CIP/R&R Spending	\$20,459,831	\$21,645,396	\$17,000,000
CIP/R&R Funding Shortfall	(\$4,972,438)	(\$14,781,197)	(\$10,568,480)
Annual CIP/R&R Budget	\$59,689,000	\$45,614,598	\$38,826,409



FY 2024-25 Expenses



FY 2024-25 Expenses

Details of each expense category will be discussed in Workshop #2

Category	FY 2024-25 Budget
Recycled Water Costs (excludes WB labor benefit and overhead costs)	\$52,249,733
WB Labor and Benefits	11,178,495
Information Technology (IT)	2,197,628
Board Service (Includes all director costs)	1,501,868
Overhead without IT	1,179,370
Conservation	1,018,000
Public Information and Education	849,565
Technical Planning	450,000
Water Policy	435,400
DLD Building	401,550
Loss on WRD West Coast Basin Barrier Potable	367,625
Human Resources	288,150
Finance and Procurement	235,300
Monitoring	11,850
Total Budget Expenses	\$72,364,534



FY 2024-25 Revenues



FY 2024-25 Revenues

Details for each revenue category will be discussed in Workshop #2.

Category	Revenue
Recycled Water Sales	\$50,850,999
WB RSC from Potable water	\$23,237,500
Standby Revenue	\$5,751,000
Fixed Service Charge - Public Information & Education	\$5,049,994
Grants	\$4,651,092
Fixed Payment-Refineries	\$3,625,504
Investment Income	\$2,500,000
Fixed Service Charge - Water Policy	\$2,359,406
Water Conservation	\$410,750
Water recycling revenue from Torrance O&M Reimbursement	\$198,761
Monitoring revenue	\$5,700
Total Revenue	\$98,640,706



FY 2024-25 Proposed Reliability Service Charge



Methodology Used in the FY 2024-25 Proposed Reliability Service Charge

1. 82,000 AF budgeted retail potable water sales for FY 2024-25
2. 2,500 AF budgeted potable water sales to WRD for Dominguez Gap Barrier
3. 4,250 AF budgeted potable water sales to WRD for West Coast Barrier
 - Projected loss of more than \$300,000 due to current agreement
4. MWD's current proposed Tier I rate increase of 17% (to \$1,465/AF) as the base to calculate the proposed total revenue. Revenue projection will need to be adjusted after MWD formally adopts the rate for FY 2024-25.
5. 5% staff salary increase is included in the total expenses

Projected Pass-Through Revenues and Expenses between West Basin and MWD

Below are pass-through revenues and expenses between West Basin and MWD. The revenues and expenses are included in West Basin's Financial Statements. However, they are not the factors used to determine West Basin Reliability Service Charge.

	Projected Revenues (WB Collected)	Projected Expenses (WB's Payment to MWD)	Difference	Reason for the Difference
Potable Water	\$119,451,554	\$119,816,938	(\$365,384)	WB collects \$1,274/AF for the potable water from WRD West Coast Barrier per agreement.
Capacity Charge	\$2,446,000	\$2,446,000	—	WB pays \$1,465/AF to MWD for this water.
Readiness to Serve (RTS) Charge	\$13,445,000	\$13,445,000	—	
Total	\$135,342,554	\$135,707,938	(\$365,384)	

FY 2024-25 Proposed Reliability Service Charge

Below are the four staff proposed options for this workshop

	FY 2024-25 Proposed Budget (No increase in RSC, no cut in exp.)	Option #1 (No increase in RSC, reduce exp. by \$7.8M)	Option #2 (5% increase in RSC, reduce exp. by \$6.5M)	Option #3 (10% increase in RSC, reduce exp. by \$5.2M)	Option #4 (15% increase in RSC, reduce exp. by \$3.9M)
Total Revenues	\$98,640,707	\$98,640,707	\$99,974,795	\$101,261,237	\$102,571,502
Total Expenses	\$72,364,534	\$64,564,534	\$65,864,534	\$67,164,534	\$68,464,534
Debt Coverage Ratio	1.16	1.50	1.50	1.50	1.50
RSC FY 2024-25 Rate	\$275	\$275	\$289	\$302.50	\$316.25
FY 2024-25 RSC \$ Increase	-	-	\$14	\$27.50	\$41.25
FY 2024-25 RSC % Increase	0%	0%	5%	10%	15%

West Basin’s FY 2023-24 RSC rate is \$275 per AF



Next Steps



Next Steps

Workshop / Meeting	Date (Subject to change)	Time
Workshop #2	April 27, 2024	10:00 AM
Workshop #3	May 15, 2024	10:00 AM
Customer Workshop	TBD	TBD
Adopt Water Rates and Charges	May 30, 2024	10:00 AM
Adopt Budget	May 30, 2024	10:00 AM